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Pandox AB (PNDX.B.SE)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Pandox Q4 2021 Report Webcast. At this time, all participants are on a listen-only mode. After the speakers' presentation, there'll be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded, Thursday, the 10th of February 2022. [Operator Instructions] I would now like to hand the conference over to your speaker today, Anders Berg. Please go ahead, sir.

Anders Berg

Senior Vice President, Head-Communications & Investor Relations, Pandox AB

Thank you very much and welcome everyone to this presentation of Pandox fourth quarter and full year 2021. I'm here with Liia Nõu, our CEO; and Anneli Lindblom, our CFO. And also in line with our tradition through this pandemic, we have an external guest with us from STR today represented by Natalie Weisz, Director, R&D and Analysis at STR. And Natalie represents, as you know, a leading independent research firm focused on the hotel market and she will share STR's view on this market at the end of this presentation. And a kind reminder is that the views expressed by STR are completely separate from Pandox and the presentation is offered only as a service to Pandox stakeholders.

Please note that Natalie's presentation will be held after we have completed our earnings presentation including the Q&A. This report presentation is divided into three parts. First of all, Liia, Anneli, and myself will present the business update with financial highlights for the fourth quarter followed by the Q&A session. And after that, Natalie, as I said, will provide the external hotel market update.

Next page, please. And I now hand over to Liia Nõu, CEO of Pandox.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anders. And welcome, everyone. Pandox has a well-diversified property portfolio. After our recent acquisition in Edinburgh, we now have 157 hotel properties with approximately 35,500 rooms in 15 countries, 90 cities. And with a property market value of more than SEK 62.5 billion. Pandox is divided into two business segments, Property Management and Operator Activities. In Property Management, we lease hotels to strong and well-known operators under long revenue-based agreements often with a minimum guarantee level. This segment makes up for 83% of our property market value. In Operator Activities, we operate the hotels ourselves under different operating models, franchise, management agreements or independent brands. Operator Activities makes up for 17% of our property market value.

Next page, please. Pandox has one of the strongest networks of brands and partners in the hotel industry. As you can see in this picture, we work together with several well-known operators. For example, Scandic in the Nordics, Jurys Inn in the UK, and Leonardo Hotels in Germany. We also have long relationship with strong international brands such as Hilton, Holiday Inn, Radisson Group, et cetera. We have also recently added Motel One, as well as Adagio Aparthotel to our network.

In our Operator Activities segment, we have also some independent brands created by Pandox. for example, Hotel Berlin, Berlin, which is our largest hotel with over 700 rooms.

Next page, please. Hotel demand increased in all markets in the fourth quarter, supported by increased business travel, stable leisure travel, and a good average price development. The underlying drivers of demand were high economic activity, limited government restrictions in the first half of the quarter and people returning to the offices, which is the first step towards a normalization in business travel.

Towards the end of the quarter, however, new restrictions were imposed to lower the spread of the Omicron variant, and this had a dire negative effect on occupancy levels in our market, and dampened deposits [ph] trend (00:04:37) we saw earlier in the quarter. Luckily [indiscernible] (00:04:40), the new restrictions coincided with a generally weak season for the hotel market.

All in all, the development in the fourth quarter is a clear indication that underlying demand is strong and that there's a substantial pent-up demand among both leisure and business travelers to travel and meet in person, and with many reasons for this optimism.

Pandox is in an attractive position, at about 80% of all our rooms are in regional and domestic cities, and therefore, we have high exposure to domestic demand, which is the main driver of the hotel market recovery.

Let's now look, have a quick look at the numbers. Pandox total revenue and net operating income increased by 42% and 37% respectively, compared with the fourth quarter, previous year. For comparable units, the increase was 49% and 32% respectively, adjusted for currency effects. Like-for-like Property Management increased net operating income by 14%. Our relationship with our banks are strong, and we have close to SEK 3.6 billion in cash and unutilized credit facilities at the end of the quarter after having completed the acquisition of Aparthotel Adagio in Edinburgh for approximately £40 million. At the same time, our loan to value has a solid 49.8%. Return on equity measured by annualized growth in EPRA NRV turned positive for the first time in six quarters and was approximately 4%, and remember, we are comparing 2021 with four quarters in the pandemic versus the year 2020 with the first quarter in 2020 was still under normalized circumstances.

Next page, please. Here was the comparison of the occupancy levels for our business segment, Property Management from 2019 until today. The numbers are on a comparable basis and include 135 hotels in almost 90 destinations. As you can see, occupancy is currently in between the strong 2019 and the very weak 2020. In Q4

2020 and Q4 2021, Europe saw a rapid increase in COVID infection rates and new restrictions. However, Q4 2021 started from a much higher base compared with Q4 the previous year.

The end of the fourth quarter is general, it was a weak season for the hotel market. Going into Q1 2022, prospects for the hotel market are [ph] markedly (00:07:23) stronger than in Q1 2021 and we see good prospects for it to recover the ground it lost in the end of Q4 2021. All in all, the hotel market still [ph] resist (00:07:34) on a much steadier ground.

Next page, please. Here, we see Pandox portfolio in Property Management categorized based on the type of location with occupancy index versus 2019. As you can see, small cities in the states are leading the recovery with a lot more domestic demand, which is explained again by both leisure and business domestic demand. We can also see that large cities which are more dependent on international demand have had a slower development. However, large cities are likely to catch up as international travel becomes easier and the recovery regains its momentum.

Next page, please. On this slide, we have divided our portfolio in Property Management into four different categories indexed to fourth quarter 2019. It shows that in the fourth quarter 2021, 35% of the hotels in the portfolio had recovered to at least 90% of the corresponding occupancy level in Q4 2019. 21% were between 75% and 89%. 28% were between 50% and 75%. And lastly, 17% were below 50% of the Q4 2019 RevPAR levels. Next page, please.

Now, I would like to highlight some important business events in the fourth quarter. First out is Holiday Inn Brussels Airport, a hotel in our own operations in which we recently completed a major renovation and upgrade. It now has a nice and modern feeling with a local and sustainable touch. Lamps, marbles are recycled from nhow Brussels Bloom and another Pandox hotel in Brussels. The renovation included all of the 310 rooms, public areas, and meeting facilities, and it's now ready for business. The hotel was closed for the majority part in Q4 for the renovation. And we have great guest reviews. Next page, please.

Next up is the ongoing renovation of Quality Grand Borås. Together with the operator, Nordic Choice, Pandox will invest approximately SEK 140 million in a comprehensive rebuild, renovation, and new concept for this hotel. Previously unused space will be converted to approximately 60 new hotel rooms and will give the hotel a total of approximately 220 rooms. The hotel has already strong position in the market, and we now see the great opportunity to create a leading hotel in Borås. Next page, please.

On December 21, we announced our first acquisition during the pandemic, Adagio Edinburgh, with 146 rooms for just over £40 million. The hotel is an extended stay and is centrally located in Edinburgh, which is a dynamic high-RevPAR market with diversified demand. The lease is revenue-based with a minimum guarantee rent, with a remaining term of 15 years. And this acquisition gives us exposure towards the extended stay segment, which we hope will grow over time as part of our portfolio. Next page, please.

And with that, I hand over to Anneli Lindblom, our new CFO.

Anneli Elisabet Lindblom

Chief Financial Officer, Pandox AB

Thank you, Liia. So, my name is Anneli Lindblom, and I'm the new CFO of Pandox since the 1st of December. For the last 20 years, I have been working as a CFO, mostly in listed companies. I have been in various industries like the IT industry, the staffing industry, and healthcare to name a few. I have also had board assignments in listed

property owners such as Hemfosa and Amasten, in both of those as the Chairman of the Audit Committee. And as most CFOs, I have been in an audit firm for a few years back going back. Next page, please.

Even though new restrictions were imposed in Pandox markets towards the end of the year, which affected occupancy levels negatively, the fourth quarter was strong. Revenues and earnings continued to improve in both business segments, with the most immediate effect in Operator Activities. In the quarter, we had SEK 144 million in revenue-based rent in Property Management in line with the level in Q3 2021. We received government support of SEK 28 million in Operator Activities and SEK 8 million in Property Management. A total of SEK 59 million of deferred rent was repaid from operators and partners in the fourth quarter. Next page, please.

Pandox revenue base is diversified revenues from different operational models and agreement types. Currently, minimum rent and fixed rent in Property Management are Pandox main source of revenue. These amount to more than SEK 1.9 billion per year or more than SEK 475 million per quarter. In the fourth quarter, revenue-based rent amounted to SEK 144 million. Marginal variable rent was recorded in 16 agreements with minimum rent in the fourth quarter compared to 11 agreements in the third quarter. And revenue from Operator Activities amounted to SEK 326 million. Next page, please.

In the fourth quarter, Pandox valued the property portfolio according to the same method and model used since the IPO in 2016. Value changes were slightly negative for 2021 as a whole but slightly positive in the fourth quarter primarily due to changes in cash flow. 98% of the properties have been externally valued during the past 12 months and are, on average, some 1 percentage point below Pandox internal valuations. In the fourth quarter, 77 external valuations were carried out, which were on average some 1 percentage point above Pandox internal valuations. We also had two reclassifications and one acquisition during the quarter.

In the fourth quarter, total unrealized changes in value amounted to a positive SEK 74 million, of which a positive SEK 97 million for investment properties and a negative SEK 3 million for operating properties. And please note that according to IFRS, unrealized changes in value for the operating properties are only reported for information purpose, and it's included in our EPRA NRV. End of period, the average valuation yield for investment properties was 5.44%. The operating properties, it was 6.38%. Next page, please.

Okay. On this slide, you can see the value change of our portfolio per quarter as well as the total value change on the start of the pandemic in Q1 2020. The total negative value change over this period amounts to 4.9% for all of that portfolio. And there is, as you probably know, a high correlation between restrictions in demand in the hotel market. When restrictions goes down, demand goes up and vice versa. There is proof from Pandox markets and other markets of a strong recovery in hotel demand when restriction are eased. Banks are supportive, liquidity is strong, and we see that the transaction market is showing signs of improvement. Pandox has an established and proven valuation process, and we know our hotel properties better than anyone else. We do have individual business plans for every property, and we have a detailed understanding of the specific demand and revenue drivers for each asset. Next page, please.

So, financing and capital structure. Let's take a quick look at our EPRA NRV and financial position. End of period, EPRA NRV per share amounted to SEK 173.5. This correspond to an increase of approximately 4% on an annualized basis. Loan to value amounted to 49.8%. Cash and long-term unutilized credit facilities amounted to SEK 3.6 billion after the acquisition of Adagio in Edinburgh in late December. Credit facilities maturing in less than one year amounted to SEK 5.9 billion, of which the majority in the fourth quarter 2022. Pandox refinancing transactions during the quarter amounted to the equivalent [ph] number (00:18:01) of around SEK 2.3 billion. In the fourth quarter, lenders have given waivers in individual credit agreements. And it is also worth mentioning that

appetite for our commercial paper program continues to increase. And we had SEK 2.2 billion outstanding at the end of the quarter. Next page, please.

And with that, I hand over to Anders Berg, Head of Investor Relations, to guide us through what happened in the hotel market in the quarter.

Anders Berg

Senior Vice President, Head-Communications & Investor Relations, Pandox AB

Thank you very much, Anneli. As you know, we expect the hotel market recovery to take place in phases where different segments are gradually building up demand in the hotel market. Over the course of the pandemic, our markets have moved largely between phase one and four depending on the level of restrictions in each market. In the beginning of the fourth quarter, demand in our markets was strong, and all hotel markets were clearly in phase four with stable leisure demand and increasing demand from the business segment. From the beginning of November, demand weakened as restrictions were reintroduced. Currently, the hotel market is mainly in phase three with some elements of business demand. We think the prospects for it to rapidly regain the ground it has lost in the last few months is good.

Also, with the pandemic moving into a new stage, demand should gradually become more stable and predictable with more demand segments added to the mix. Most countries where Pandox is active have now announced a date of the relaxation of COVID rules. And some of them, such as Denmark, Sweden, and the UK, have already relaxed them. The fact that several countries have dropped their mandatory rules to work from home is positive for business demand. And eased rules for international travel to the UK and Sweden, for instance, is also positive. Next page, please.

The fourth quarter started well with a continued improvement in hotel demand driven by stable domestic leisure and growing business demand. As restrictions started to be reintroduced in many markets in the beginning of November, especially in Germany, demand started to weaken. Despite the setback towards the end, there were many positive signals pointing to strong underlying demand in the quarter, not the least from the business segment. ADR remained firm. And occupancy in larger cities were at relatively higher level than before the pandemic. Next page, please.

The following six slides summarize the ebb and flow of demand throughout the pandemic in Nordic regional, Nordic capitals. Germany, Germany regional versus international, UK regional, and London. The chart on the left is based on monthly occupancy data, and the chart on the right is based on weekly data. I'll start with Nordic regional to illustrate a pattern which you are quite familiar with by now and which is largely the same in all markets. And I'm now describing the chart to the left. The recovery that started in the second quarter 2021 continued at a good pace in October and most of November, with occupancy in line with or above 2019 supported by increased business demand. But as you know, reintroduced restrictions meant that the seasonal downturn which normally occurs in the second half of December came both earlier and stronger than we had hoped. So far, in 2022, occupancy has been negatively affected by restrictions. The main driver of improvement in the Nordic region so far has been Denmark which took away their COVID restrictions on the 1st of February. Next page, please.

It has been a general trend that larger cities with a high dependence on international demand have seen a slower development than smaller and regional cities throughout the pandemic. During the fourth quarter up until November, larger cities, however, saw a stronger relative occupancy improvement compared with regional cities on the back of increased demand from both leisure and business. In November 2021, Nordic capitals recorded their highest occupancy since the pandemic started. However, a combination of seasonal weakness and

reintroduced restrictions pushed them lower again in December. So far, in 2022, occupancy has been negatively affected by restrictions. But just as the regional cities with relaxations of COVID rules now implemented or coming soon, demand is expected to improve. In Sweden, in particular, the relaxed restrictions for international incoming travelers is also a positive factor. Next page, please.

As you know, restrictions in Germany have generally been tougher than in many other countries, which is also then reflected in the absolute occupancy numbers. The trend in Germany remained positive through October with increased business demand and a more active trade fair calendar. But in line with the country's more cautious COVID approach, restrictions were reintroduced early in November, leading to a lower demand in both November and through December. So far, in 2022, demand has only recovered slightly, and Germany has still not expressed any firm dates for relaxation of the current COVID restrictions. Next page, please.

Here you can see the relative difference in weekly occupancy between a regional city like Hamburg and a more international city like Frankfurt, which is then more dependent on international demand. And you can see where Hamburg is clearly benefiting from more stable domestic demand, Frankfurt is struggling since important demand segments are still missing. Next page, please.

Among Pandox markets, UK regional remained the brightest spot also in the fourth quarter. The UK's more open COVID policy meant that regional UK's (sic) [UK regional's] (00:24:37) occupancy, although it suffered somewhat in the fourth quarter, remained at a substantially high level than in other countries where Pandox is active. And so far, in 2022, occupancy has started to improve with a relatively good pace. Next page, please.

London is one of the world's largest and most international cities, and it has been suffering from closed offices, travel restrictions in general and, of course, no international demand through large parts of the pandemic. The positive occupancy trend which started in February 2021 was broken in December, as working-from-home requirements were introduced and international travel stalled due to the Omicron virus. But with COVID rules now relaxed, occupancy has started to recover, as you can see in the chart. And we expect the coming relaxation of COVID entry requirements for international travelers on the 11th of February – well, it's tomorrow – to be a [ph] tangible (00:25:38) and positive demand driver going forward for the city. Next page, please.

With the pandemic now entering a new phase, high economic activity, strong corporate earnings, and companies again reopening their offices, we expect demand for business meetings and travel to increase. The business demand trend was positive before the restrictions were reintroduced in the fourth quarter, and we expect it to be restored. One reason is that pent-up demand has been rising for each new round of restrictions over the past two years. A positive indication is an increasing number of requests for meetings and events in Operator Activities. We think that hotel spend is likely to increase its share of company's total travel spend. Businesses may decide to make fewer business trips, but are likely to stay longer at their destinations, meaning increased demand for hotel nights per trip. Next page, please.

So, to summarize, we currently see the hotel market in phase three with some elements of business demand. From a [ph] relative (00:26:45) perspective, UK currently is the strongest market, with Denmark as a close second. Apart from Germany, Canada, to some extent, COVID restrictions in Pandox markets are now either lifted or are planned to be lifted in a relatively near future, which will support demand going forward. Next page, please.

And with that, I hand over to Liia again.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anders. So, despite the recent new round of restrictions, we see improved conditions for growth now that countries are opening up again. We base this on higher economic activity, as Anders said, and pent-up demand for travel from both leisure and business. We are now entering a phase in the pandemic where demand should become more predictable and stable. We are entering 2022 at a higher level than 2021 as a good prospect to recover the lost ground at the end of 2021 relatively quickly. Meeting requests have also picked up in January as a clear sign that business are looking to travel and meet again. Just as a [ph] time to (00:27:53) remember, please remember that the first quarter is seasonally the weakest of the year. Next page, please.

We now move over to Q&A. And, operator, we are now ready for questions. Please do not forget to hand the call back to us afterwards for Natalie's presentation.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first phone question today comes from Chris Fremantle from Morgan Stanley. Please go ahead. Your line is open.

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

Q

Hi. Good morning. I had some more detailed questions and some bigger-picture ones. The detailed questions were just on the impact of new investments and refurbishments on rental income in 2022. I appreciate you've given the detail on the acquisitions, but just on the refurbishments, how material do you expect that impact to be on 2022, please? And the second detailed question was more on the deferred rent which I think is still at SEK 590 million. Can you give us some more color, please, on how quickly you expect to receive that deferred rent, please?

Liia Nõu

Chief Executive Officer, Pandox AB

A

Yes. Hi, Christopher.

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

Q

And then...

Liia Nõu

Chief Executive Officer, Pandox AB

A

Yeah.

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

Q

Sorry. Do you want to pause there?

Liia Nõu

Chief Executive Officer, Pandox AB

A

I have to remember all the questions in a row. So, I'll start with them first.

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

Q

Okay.

Liia Nõu

Chief Executive Officer, Pandox AB

A

I'll start with the second one, but I can't – but [indiscernible] (00:29:42) to remember. Deferred rents have been [indiscernible] (00:29:47) with about 60, 70 – SEK 60 million. And all this with the repayment plan are in line. This payment plan has [ph] from the start (00:30:00) been – or up to 12, 18 months so we expect them to sort of [indiscernible] (00:30:07) in the same pace gradually go down until 2023, I think. So, this is the plan. And, yeah, these are basically all related to Germany where the restriction has been both harder and larger.

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

Q

Right.

Liia Nõu

Chief Executive Officer, Pandox AB

A

When – yeah.

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

Q

But you would expect that SEK 590 million to be completely paid back by the end of 2023?

Liia Nõu

Chief Executive Officer, Pandox AB

A

Yeah. There may be some extremely marginal tail in the first quarter of 2024.

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

Q

Yeah.

Liia Nõu

Chief Executive Officer, Pandox AB

A

But we also very [indiscernible] (00:30:43).

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

Q

Quite substantially, yeah.

Liia Nõu

Chief Executive Officer, Pandox AB

A

Substantially, it will be. And also some part of this is actually – this is just the mere fact that we have sort of gone in the four quarters of paying quarterly in advance to monthly in [indiscernible] (00:31:01), so it's not only a long-term payment, but this is also an effect which we expect to sort of stop now when we see the restrictions being released.

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

Q

Great.

Liia Nõu

Chief Executive Officer, Pandox AB

A

So, a bigger bulk in the first half of the year and then slowly up to 2023.

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

Q

Great. And then on the refurbishment...

Liia Nõu

Chief Executive Officer, Pandox AB

A

And when it comes to – yeah.

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

Q

...contribution?

Liia Nõu

Chief Executive Officer, Pandox AB

A

Well, we have during 2021 done quite a few refurbishment. The Holiday Inn has – in Holiday Inn in Brussels was basically completely closed in Q4. So, of course, this will, together with just the ramp-up in the recovery, be positive. We have Maritim Nürnberg which will come back in the business in the end of next year. We have also made extensive renovations in Crowne, DoubleTree Brussels. We have had one hotel in Canada under strike for the last five months. So, there's lot of different pieces in here, together with the fact that the market's ramping up.

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

Q

But are we talking low tens of millions of SEK or something more substantial than that?

Anders Berg

Senior Vice President, Head-Communications & Investor Relations, Pandox AB

A

I think it depends. I mean, we have been quite active in our investments through both 2020 and 2021. I think from a relative perspective, we have probably done more tangible things in the Operator Activities segment. So, there, we have a very strong lineup, I would say, product-wise going into 2022. Difficult to pinpoint an exact number

what that will bring, but the portfolio is very competitive as it looks right now; in a good moment when the market comes back.

In the Property Management segment, for instance, we have repositioned and sort of renovated all our NH hotels basically, and we have new rooms in [indiscernible] (00:33:18), so I mean, there are bits and pieces.

Liia Nõu

Chief Executive Officer, Pandox AB

Yeah.

A

Anders Berg

Senior Vice President, Head-Communications & Investor Relations, Pandox AB

But I would say, I mean, both product-wise, we're talking a couple of tens of millions I guess in the Property Management segment. And then, potentially more to have on the Operator Activities side.

A

Liia Nõu

Chief Executive Officer, Pandox AB

Yeah.

A

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

Okay. Thank you. And then my final question – I'll let somebody else have a go. I just wanted to ask about the dividend. How is the board and how are you thinking about the resumption of dividend?

Q

Liia Nõu

Chief Executive Officer, Pandox AB

Yeah. Well...

A

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

What do you do with a certain threshold of earnings? Are you – is it balance sheet measures? Can you just explain how we should think about that, please.

Q

Liia Nõu

Chief Executive Officer, Pandox AB

Well, as we said, there's no dividend for 2021. And these are – there are partly three reasons for this. This is, of course, one [ph] partly due that we are receiving (00:34:11) governmental support in different jurisdictions. And then also, we are still in a recovery phase. So, cash earnings was SEK 712 million versus the normalized 2019 with more than SEK 2 billion. And we have in 2021, for example, invested SEK 990 million in value-creating investments yielding more than 8% to 12%. We have done the Adagio Edinburgh acquisition with a yield [ph] of around (00:34:40) 5%. So – and we have a great pipeline going forward of more value-creating investments because the SEK 1.3 billion [ph] has already decided (00:34:48). So, there are, of course, these different partial forces in place. Then, of course, when you go into a more normalized years with more [ph] paying (00:35:02) cash flows, then we'll take another look at it.

A

Christopher Fremantle

Analyst, Morgan Stanley & Co. International Plc

Okay. Thank you.



Operator: Thank you. [Operator Instructions] Currently, there are no further phone questions. I will hand the call back for web questions.

Liia Nõu

Chief Executive Officer, Pandox AB

Okay. We have two web questions. I'm looking on the computer. One comes from Simen Mortensen. It says how has booking KPIs been Q1, given many restrictions, are still present in the first half of Q1?



As we said, bookings and requests increased really, really rapidly as soon as it's communicated that restrictions are being released. We look at the requests for, for example, meetings and events in Belgium and also, actually, in Germany. It wasn't a good level even in December. In January, [ph] this have been (00:36:30) even stronger. And I think we are seeing a good push because people are not cancelling their events and meetings, but they're actually postponing it into Q2 or when they see the restrictions are being eased. So, good pipeline. Again, Q1 is seasonally weak; Q2 is seasonally strong, and you see that also in the bookings.

The second question comes also from Simen Mortensen. He's been active. It says TUI travel agency guided earlier this week, bookings [ph] then (00:37:03) leisure has passed the bookings in levels for the summer 2022. Is this something you recognize? What are Pandox's take on this?

Anders, do you want to have a go on this or – well, anyway, we do see, it was a very good and stable leisure recovery in opening 2021. And we see this as well as people are longing for sun or skiing. So, we do expect a good continued leisure domestic regional demand going forward also in the summer. Of course, [ph] we are (00:37:44) in different markets, we are in different segments. So, there is still some space to go or go before the international travel, big meetings are back in full. So, of course, it's more reflection of our segments mix than anything else.

And, of course, we do see ADRs strongly – ADRs have during all this time both in 2021 and going forward been strongly. We see actually better prices in, for example, UK and Norway than within 2019. If we were to compare to US where we don't have any hotels, it's the all-time high. So, the willingness of paying an [indiscernible] (00:38:28) have been very stable and actually support it. Anneli, do you want to add anything to it?

Anneli Elisabet Lindblom

Chief Financial Officer, Pandox AB

I think we are fine.



Liia Nõu

Chief Executive Officer, Pandox AB

Okay. Now, I would like to hand over to our guest speaker, Natalie Weisz from STR for hotel market update. Please remember that Natalie's presentation is totally separate and independent from Pandox. And it is arranged as a service to Pandox stakeholder. So, please go ahead, Natalie.

Natalie Weisz

Director-R&D & Analysis, Pandox AB

Thank you very much. Hello, everyone. Thank you for having me here today. I'm Natalie Weisz, Director of R&D and Analysis at STR. And I'll be taking you through some European hotel performance update. Just want to check that we're on the cover slides.

Okay. I'll assume that's a yes. Can we go on to the next slide, please? Okay. So, here's our agenda for today. I'm going to start with current status then I'll provide some details on performance and expectations for leisure and business travel. And then finally, I'll share our thoughts on the future.

Next slide, please. First, current status.

Next slide, please. Looking at some of the key regions, we started to see robust recovery in 2022 which has mostly been underpinned by leisure travel. If you could please click for the animation, you'll see in that top box meaningful recovery for the US from May onwards which has been maintained to present day. Middle East has also seen robust recovery this year. Dubai, in particular, benefited over the summer as it was one of the only markets open and Expo has helped to boost the market in the final quarter of 2021 and into 2022.

If you look at the bottom box, Europe has had a strong summer, August onwards, as restrictions started to lift. China, however, has seen some fluctuations on recovery as it saw on and off restrictions due to its zero COVID policy. From November, as cases increase due to the discovery of the Omicron variant, key markets started to see the impact. This graph shows that Europe, in particular, saw recovery slow while China was also impacted. US and Middle East, however, saw little impact. What's been great to see is that for the most part, Omicron has been a blip and markets have been resilient.

And if we move on to the next slide, please, and look at our selection of European countries, we can see that most of them are already starting to bounce back from December. And increase in boosters and reduced restrictions gave rise to short and medium more international travel. Russia and the UK saw the strongest recovery in the last few weeks, thanks to relaxed restrictions and strong domestic substitution.

Next slide, please. ADR has been the star of the show for most markets. December data shows that most regions saw ADR levels recover. The Middle East topped the charts here, 32% ahead of 2019 levels, thanks to the expo being hosted in Dubai. High rate recovery can be attributed to positive factors such as effective revenue management and a focus on high rated segments such as transient leisure. It is, however, important to note that most regions are seeing high inflation, supply chain issues and labor shortages. Our partners at Oxford Economics believe inflation has reached its peak, however, and will start cooling off for the rest of the year.

Next slide, please. Well, it's obviously important to consider its profitability. And this graph shows GOPPAR index to 2019 levels for 2021 from our monthly profitability program. All regions have trended up throughout the year. Middle East and Africa have seen some astounding results, thanks to the region's rate recovery with GOPPAR 29% of 2019 levels for December 2021.

Next slide, please. Now, over to leisure, pent-up or post travel.

Next slide, please. As I said so far, it's been all about leisure. European staycation markets were particularly strong around the summer months in 2021. Many of them seeing levels equal to 2019, as you can see, in the pink box.

Next slide, please. Fly to destinations such as some of the Spanish islands, the Algarve, and the Turkish Riviera did, however, struggle to recover to the same levels.

Next slide, please. Results from a sentiment survey conducted by our insights team show that sentiment is still negative when looking at leisure travel in the current COVID situation. And this is particularly true for international travel, where travelers 58% less likely to travel during this current COVID situation.

Next slide, please. However, on the positive side, consumers indicate they will travel more for leisure post pandemic, and this is consistent across both domestic and international travel.

Next slide, please. And with saving rates high across regions, consumers are able to spend on travel which will continue to support a boost in occupancy and ADR across markets.

Next slide, please. We can already see this coming into play when looking at our forward [ph] STR (00:44:38) data. If we look at the green bars, staycation destination Cornwall and Devon [ph] looked set (00:44:44) to have a much stronger H1 this year compared to the same time last year which is that blue line.

Next slide, please. Fly to destination, Balearic Islands, should also have a strong summer with longer lead times showcasing increased consumer confidence.

Next slide, please. Now over to business, is it Zoom or resume?

Next slide, please. Business travel is slightly more challenging, as we all know. Our recent survey results show that in the current climate, travelers are 56% less likely to travel for business, and once the pandemic is over, they are 30% and less likely to travel. We've already started to see a shift in the way business travelers operate with a rise in mixed business and leisure travel or pleasure travel, a reduction in trips and also sustainability has a part to play in the desire to travel. This survey suggests that this is likely to continue.

Next slide, please. Cities relying on business travel struggled to recover in 2021, with many of them remaining in the 26% to 50% occupancy range. In particular, European cities struggle due to lengthy lockdowns and reliance on international and business travel. Rome, Paris, Madrid, Berlin and London also occupancy sits below 40% for the year.

Next slide, please. However, the US demonstrated in Q4 of 2021 that recovery is possible, with the country seeing weekday demand in that middle graph, you can see that it reached 92% of 2019 levels.

Next slide, please. And we were already seeing early signs of recovery across major European cities towards the end of 2021, with market seeing occupancy reach 70% to 80% of 2019 levels for the weekday. Loosening of restrictions and the return of some events and some business travel, as well as previously mentioned, helped to boost performance.

Next slide, please. And weekday rates recovered to 80% to 100%-plus of 2019 levels, with Paris leading the way from a rate perspective.

Next slide, please. Now, a quick look ahead.

Next slide, please. Hotel demand is highly correlated with economic activity, particularly, real GDP, which is shown in this graph.

Next slide, please. Encouraging signs for GDP recovery indicates that hotel demand is likely to follow suit.

Next slide, please. While group has taken longer to recover, the US again shows that it is possible with group demand over 70% recovered by the end of 2021.

Next slide, please. Furthermore, forward-looking data suggests there are some green shoots for events in Europe this year, including Six Nations and the Fringe Festival (sic) [Festival Fringe] (00:48:06) in Edinburgh and IBC in Amsterdam. And we're continuing to see our forward-looking data moving up and up as the weeks progress.

Next slide, please. And if we look at our forecast, the US is set to recover in 2022, while the remaining regions, which are aggregates of our city forecast, are expected to see 90% recovery by the end of 2022. Obviously, it's important to note that these are city aggregates, and if we were to include the regional destinations within these regions, performance would be much stronger. Next slide, please.

Finally, some key takeaways. Firstly, demand has and will continue to recover and grow past 2019 levels. Secondly, pent-up is not spent up and will enable ADR growth. Inflation will, however, challenge profitability. And finally, if we are able to reach escape velocity from COVID, 2022 will be a very strong year across the globe.

Next slide, please. And that is it from me. Thank you very much.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Natalie, for this hotel market update. It was great. Thanks, all, folks, and thank you for participating in this call. We really appreciate your time and interest in Pandox. Our next interim report for Q1 2022 is published on April 27. So, thank you. Stay safe. Stay at our hotels and enjoy life. Good-bye.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.

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