Q1 2021 Report

Tuesday, 27 April 2021

Introduction

Anders Berg

Head of Investor Relations

Welcome, everyone, to this presentation of Pandox's first quarter report for 2021. I am Anders Berg, Head of Investor Relations at Pandox; and with me in this room I have Anders Nissen, our CEO, and Liia Nõu, our CFO, and in line with our tradition, through this pandemic, we also have an internal guest with us and that is Robin Rossmannn, who is Managing Director International at STR. And as you all know well by now, Robin represents a leading independent research firm focused on the hotel market and he will share their view on this market. And as always, we are very happy to have him on board for this presentation.

As we always do, we divide the presentation into three parts. We start with Anders and Liia going through the business update and the financial highlights for the quarter, and then we let Robin talk about the external hotel market view. And as a final step, we open for questions.

So with that, I hand over to you, Anders.

Q1 Performance

Anders Nissen

Chief Executive Officer

Well, thank you very much Anders, and welcome also from my side to this Q1 report for 2021. We start with a short update about Pandox.

A Well-Diversified Portfolio

Pandox is one of Europe's largest hotel property company. Our main strategy is to buy underperforming hotel and sign long term revenue-based lease agreement with the best operated together with our partner developed hotel. If that strategy if not in place, we can choose to operate hotels itself.

At the moment, we own 156 hotel properties with 35,000 rooms in 15 countries and in 90 destinations. 136 of these is linked to what we what we call the property management meaning the leased portfolio, representing 84% of the property value. And 20 hotels are operator activity. That means our own operators. That representing 16% of the property market value.

A Strong Network of Brands and Partners

As you all know who are follow us, Pandox has a world-class strong network of brands and partners which are very strong to have in all market conditions, maybe specifically in these days.

Another Tough Quarter

Just a few words about the quarter for my side before I hand over to Liia. Another tough quarter for the hotel industry and even for Pandox. The negative trend from Q4 continues.

As you all remember, the hotel market 2020 was a really much a roller coaster; starting very strong, there was a collapse en masse when the COVID-19 arrived. Good comeback over summer period and a promising start after the summer, and then new restrictions was imposed again, and the markets substantially decreased, and we are still in that their business environment.

With that said, we are still profitable and we still have a strong financial position in Pandox. And we see a positive develop in the market outside of Europe; we will come back to these later on. And there we have an attractive position in the recovery phase by having most of our hotels in the in the regional and domestic markets.

And some numbers: the return on equity estimated is 9%. And growth in total net operating income is -34%. Like for like growth in property management -14%; as you'll remember we had a good start in last year, January February, so we compare numbers from a very strong performing market even in this quarter.

And liquid funds and credit facilities SEK4.6 billion so we have a strong financial position. With that I hand over to Liia.

Q1 Financial Performance

Liia Nõu

Chief Financial Officer

Yes, thank you Anders.

Covid-19 Effects on Pandox

Yes, as Anders just said, demand in the hotel market followed the trend from the fourth quarter with very difficult business conditions in the hotel market. As a consequence, contractual minimum rent fixed rent were Pandox's main sources of income in the quarter. As you know, this income covers all Pandox's operating costs, including interest payments.

Cash flow in the quarter was impacted by an increase in the trade account receivables as well as investments. End of quarter trade account receivables related to new payment terms amounted to some SEK566 million, which is an increase compared with Q4 which were SEK439. We report negative unrealised value changes in the property management which reflects lower expected cash flows. I will come back to that later in the presentation.

Revenue Model Which Limits Fluctuations

Pandox's revenue base is diversified with revenues from different operational modes and agreement types. Currently minimum rent and fixed rent are Pandox's main source of revenue; these amount almost SEK2 billion per year, or slightly less than SEK500 million per quarter.

In the first quarter revenue-based rent amounted to SEK31 million. No reductions in hotel rooms have been given. In the first quarter revenue from operating activities amounted to SEK92 million.

Balanced Revenue Mix

On this slide, you can see our portfolio split per operational model measured in number of rooms. As you can see 36% of fully viable from first unit of rent or revenue. 58% are fully variable only above the minimum guarantee level. And 7% is fixed.

Protects Downside, May Limit Early-Stage Growth

In our revenue base leases with minimum guaranteed rent, the rent is variable but cannot fall below a certain minimum level. For variable rent to materialise, the accumulated term rent must exceed the accumulated minimum level during a certain period. This is normally a calendar year.

While it offers protection in a weak market, it can also limit Pandox's revenue growth in the first phase of recovery that starts from very low level. The occupancy rates required for variable rent to materialise in Pandox revenue base leases with a minimum rent differ between markets. This is due to market practice, commercial considerations, and also contract age. Generally the minimum level is lower in the Nordic region. At the end of this presentation, you can find more information about this facility.

Valuations Based on Established Method

In the first quarter Pandox valued the property portfolio according to the same method and same model we use since the IPO, 2015. Values have been adjusted downward due to lower anticipated cash flows mainly as a result of COVID-19. Yields are again largely unchanged due to still inconclusive transaction evidence. As we learn more about the effects of COVID-19 crisis, we expect to be able to estimate both yields and cash flows with greater precision.

Our target is to have 100% of the property portfolio externally valued each year as a reference point. Currently, approximately 50% of the properties have been externally valued during the last 12 months. External valuations exhibit large dispersions both within and between markets. External valuations are on average 5% below Pandox's internal valuations. The valuation difference is smaller in the Nordics, and larger outside the Nordics.

In the first quarter, total unrealised changes in value amounted to a negative SEK344 million of which a negative SEK351 million for investment properties and a positive SEK7 million for operating properties. Please note that according to IFRS, unrealised changes in value for operating properties are only reported for information purpose but is included in the [inaudible] calculation.

End of period, the average valuation yield for investment properties was 5.46%; and for operating properties, it was 6.38%.

Fact-Based Approach

On this slide, we can see the value change over our portfolio per quarter as well as accumulated value change from the start of the pandemic in Q1 2020. For the total portfolio, the accumulated negative value change over this period amounts to negative 4.9%. Our approach to property valuation is fact-based and rests on a combination of external and internal factors and considerations. As said, we see high correlation between restrictions and demand in the hotel market. When restrictions go up, demand goes down and vice versa.

We saw it in Europe during last summer. And we have seen recently in major hotel markets outside Europe such as the US.

When restrictions go down, demand go up, driven by domestic travellers, which benefits hotels with a domestic and regional demand exposure, just like Pandox's portfolio. Furthermore, transactions relevant for Pandox indicates resilient valuation.

The jury is still out how the world will look like after the pandemic, of course, but so far, demand is clearly linked to restrictions, not change of behaviour. In addition, we have a well-developed, bottom-up approach to our valuations. We know our hotel properties better than anyone else. We have individual business plans for each and every property, and we have a detailed understanding of the specific revenue drivers for each asset.

Yes, the pandemic has a negative short-term effect on the cash flows in the hotel properties. But we question assumptions of a negative long-term yield effect.

Financing and Capital Structure

Again, let's take a quick look at our EPRA NRV and financial position. End of period, EPRA NRV per share amounted to around SEK870. This corresponds to a decrease of approximately 9% on annualised basis. Loan to value amounting to 49.5%; cash and cash equivalents and long-term unutilised credit facilities amounted to approximately SEK4.7 billion.

Credit facilities maturing in less than one year amounted to approximately SEK5.5 billion of which approximately SEK3.8 will mature in December 2021. Pandox has a positive and closed dialogue with all of its lenders on new financing, refinancing, as well as adjustments of terms and covenants in existing credit agreements with consideration to COVID-19. In the past quarter, lenders have given waivers in individual credit agreements.

And with that, I hand back to Anders again.

Pandox and COVID-19

Anders Nissen

Chief Executive Officer

Thank you very much, Liia. So let's then move over to market presentation. And we have chosen three areas to create more insight for 2021. The first is then recap and an update on market in Pandox's business areas. The second part will be taking a look at market here of Europe, what sort of pattern do we see. And finally, a guiding for markets and FX for Pandox.

Three Focus Areas…

So let's start on the three focus areas which we have had since the pandemic started. And we call it the working methodology: respond, restart, and reinvent.

The response is how we manage this acute phase of the crisis, where we basically change business model over the weekend from an active investor and operator in large international operations to secure liquidity and daily contact with banks and our partners. We are still in that phase but we are spending more and more time on 'Restart' with is the plan for recovery and what sort of action do we need to take to be ready and reinvent what is next for this our industry.

…to Get Back to Full Performance

To get back to full performance if you start there, we think we need different development levels. It of course, starts with the country and cities open up and activity starts. After that the hotel will open and then we will see domestic leisure return. After that we will see domestic business return and then we will call international meetings and the group return.

And that is basically how the market also had react over this recovery phase in market ahead of Europe or as it was in Europe over the summer period.

Recap

A quick recap. So, everybody starts from the same point. As you remember, COVID-19 arrived in Northern Europe in March. Society closed down; economic activity decreased. But when restriction was lifted in June and July, recovery started across Europe, with domestic leisure as main driver. After the holiday period, the local business travel returned and Q4 looked quite promising. And then in October, new restrictions were imposed; demand decreased substantially across all segments. And this low business environment are continuing to Q1 2021. And now we'll be all waiting for this vaccine programme will gain confidence again.

Nordic Regional Occupancy

If you look at the numbers, here in Nordic regional markets, we saw a strong start in 20 collapse in March as good recovery over summer, a good platform in September, before these new restrictions was implemented. Since then, it has been a very slow market.

Nordic Regional Rolling Seven Day Trend: Occupancy

You can see now rolling seven days trend in the Nordic regionals. A small uplift but very slow; still, everything is linked to this, that restrictions has not easier yet.

Stockholm: Occupancy

If we then move over to Stockholm, you also see a strong start in the last year, the same with a substantial decrease in March, and then market, as all large city has been slowed, and regional and domestic markets has been. So even Stockholm, and it is still weak market in stock.

Germany: Occupancy

Looking at Germany occupancy, and you see also a good start, a collapse in March and then we were in an okay after-summer period. But since then Germany, it is perhaps one of those countries who have the hardest restrictions: you have not been allowed to travel and stay in hotel so of course they had no demand. And we cannot expect anything happened in Germany before the easing of the restrictions.

UK Regional: Occupancy

But if you come to UK, that is more optimistic view. You see here again, a good start in 20. And you see in March and April things came down, and after restriction was easier in June/August, it was a quite a strong regional market, which came down also when new restrictions was implemented.

UK Regional Rolling Seven-Day Trend: Occupancy

But if you look at the next page 20, you will see that the rolling trend start to move. I know that is just a week, but ahead of this I see business on the book gradually coming up. So with very small change or positive of restrictions was easier, the market has in regional market come and start to come down. It is all start to lift up again and you will see that the market for the summer is starting to look very promising.

So UK is the one who is leading the Europe train out of the back-end recovery.

London Occupancy

And if then just quick in London the same as in Stockholm, large market are week and that will take longer time for these sort of market to come back compared to regional and domestic markets

Same Pattern Everywhere

And I am now moving over for market who is ahead of Europe, trying to see what can we see and what sort of pattern is there. You can see that the same pattern everywhere: strong recovery drives domestic demand. And there is a strong correlation between restrictions and demand in this market.

China

Let's start with China. China is first out in the recovery phase and the driver is domestic leisure and then also domestic business that open up. We see an improve in meeting segment. We see also large convention are taking place in the market: very positive and very interesting. Large city like Shanghai and Beijing are start to moving. And that is the first sign since the pandemic started that large markets start to increase the demand and they are coming now very in a strong speed up to close to 2019 year's level very soon.

And that is of course very promising also for Europe, that you can see that the first market has a large market are also coming back to that one who is the first in line. And super interesting: strong domestic demand trend compensates for lack of international travellers, something we have talked about a lot in Pandox, that we believe that the domestic market will be stronger than ever, and the driver for this recovery will be domestic demand.

China: Occupancy

You can see, since that restriction was easier in the February, March of last year, there have been a strong growth in market. And you can see in September, October, November, they were more or less up to 2019 years level in occupancy. And you see also now a strong underlying trend. The decrease in January, February was temporary restriction was implemented due to Chinese New Year Eve. As many of you know, it is a mega market with 100 million people travelling back to the small cities where they came from; they do not want to spread the virus, so they have a temporary restrictions there, but when that was easier, the market came back immediately. And you see a strong basis on the books in China. So this is super promising.

USA

And if you look over go over to US, that is the runner-up market at the moment, a very successful vaccination roll out had led to travel conference. And now also here, you see that demand is driving by domestic leisure and local business. These two segments are fully back in US as well. And you see an early sign of meeting and event; however, still in low levels.

We tried to calculate it; we think the market on these two segments are around 20% of 2019 year's levels. Despite of that, the occupancy is around 80% of 2019 year's level, which of course is sensational, because meeting demand lower activity as said, now international demand and big and large corporations have not started to travel yet. So US are really coming very strong and again, as I said, domestic less or local business are fully back in this large hotel market.

USA Occupancy

In numbers you see in US has been a strong start and then it came down in March and April, promising summer and now it is back in 55% occupancy again. So they in one or two quarter, they are probably back in 2019 year's level in terms of occupancy. And then you need to gain rate, of course that will come in with it last 25 big cities will start to come back with the same trend as beginning in Shanghai. That, we're waiting for.

...to Get Back to Full Performance

To get back to full performance. Now are US and China on level 4. And I will say China are very much on the way up to level number 5. And in Europe after the summer we were at number 3 and 4. And it is likely that Europe will come back to number three and four quite immediately here when restrictions were easier.

It All Depends on the Restrictions

And so some sort of outlook. Of course, again, I very emphasise this, that everything depends on the restrictions. That is out of our control. But given this, that the recovery restrictions will ease here in the same rate as in US, we are about a quarter behind US or probably a little more.

That means that the recovery will start in Q2 this year. We already in Q2 and the one who will take the train there is UK and then hopefully the summer will be strong. In autumn, after the summer, the market will establish around level 4 which are something around at least 50% occupancy, and that is supported by domestic leisure and local regional business. And of course Pandox has an attractive position here with 80% of rooms in domestic and regional markets.

Contact Structure Gives Different Revenue Exposures

What does this mean for Pandox? The contract structure give different revenue exposure as Liia was into before and this is just a repeat of what had already been said. Full and immediate impact coming from operator activities, and revenue base lease agreement without a minimum level, that is representing 36% of the company's number of room stock. And then you have the gradual impact for market recovery. It is representing 64% of the revenue-based leases with minimum guarantee rent.

And to give you some guidelines here, to give them the hotel market, weak start to the year and of the sign of the agreement where we are strong protection downside and only limited variable revenue is expected in lease with a minimum guaranteed rent in 2021. But of course, it is very good for our partner, if market will be stronger and they will coming back to a positive cash position.

High Prices, No Distress

So, before I hand over to Robin, I would also like to jump on a very interesting area of transactions which we have discussed here before. And in fact, the transactions market had gradually opened over this quarter that had been done 15 major single acquisitions who has this relevant for Pandox to follow. That of course be doing more acquisitions or transactions, but 15 of them are relevant to us.

And the seller operators sell because they need to increase or strengthen their financial position. Very strong interest from buyer. So far, the acquisitions confirm Pandox's valuations. And we do not see any distress prices and we do not see any distressed assets as we speak. It might happen further here, but not today.

And a few examples: a large hotel in Stockholm was sold by approximately €320,000 per room. And that is in line with or above what we have in our books. In Copenhagen, a sensational high price of €520,000 per room, which is very much above our valuations. You have one in Berlin, a very good hotel, I will say, and €170 million per room. It is a fantastic hotel and this is also in line with what we have with our hotel in Berlin.

There are two hotels in Munich in the line with what we have, and you have one in Dublin and that price is above what we have in our books.

So, so far, high prices, no distress. And what they complete is confirming Pandox's valuations.

So with that, I hand over to Robin Rossmann. Thank you very much. And welcome, Robin.

STR

Robin Rossmann

Managing Director, STR

Thank you, Anders. Great to be here. This agenda is basically exactly what we were saying in January this year. Q1 has very much played out as we expected, certainly in Europe where we knew it was going to be a tough quarter and that is certainly what it was. And when we look at what we are seeing and expecting for the rest of the year and beyond, if I am honest, not much has changed from what we last shared three months ago, but what we do have is, you know, some more data, some more trends that help either validate or course correct some of the things that we have been saying.

So just talking through that briefly, I will go through some of these quite quickly, as I am sure you have seen many of them before. I will just really focus on the ones that I think are most pertinent.

Occupancy Rising in Three of Five Regions

Something hopefully you have all seen before, indexing occupancy across the world back to 2019 levels. And really the things I would point out here that are new is some really positive trends over the last three months in China, which has bounced back from the dip that they had back to now about 80% of 2019 levels. But perhaps more impressively the US, steadily recovering to about 80% of 2019 levels. And the Middle East after peaking quite significantly over the sort December/January period of dipped back, as restrictions on international travel have been necessitated by the recent wave of COVID cases we are seeing across the world.

But certainly, those three regions, showing us some strong recovery patterns to 60-80%, of 2019 occupancy levels. Whereas, as we will know, in Europe, restrictions mean that occupancies are now very low, about 20% of what we would normally have at this time of year.

One last thing on this page that I will reference if you can remember for later on, and that is the China line. And what I will just pull out there is, if you go back and look at last year, when China dipped down, its recovery started in Q2 2020, from a very low base. And you can see it steadily climbed at that sort of 45-degree angle, up to a point in mid-July, where it was 60% of 2019 occupancies. And then it continued to climb thereafter and by Q4 was actually 90-95% of 2019 occupancy levels.

And then it dipped down again after that, and the reason for the dip down is a lot of that spike up was pent up demand, which was released, created a spike, and then it dipped down. And we saw that sort of plateau where international, or the lack of international travel, were restricting some markets. And then as Anders mentioned the recent number of cases and Chinese New Year has meant it dipped down but it recovered again quite quickly.

So just keep that in the back of your mind: from starting a recovery in Q2 was pretty much up to 90% or more in Q4. Because I think that will be relevant for Europe.

Mainland China, Middle East Race to Recover Rates

Just looking at average rates, this one has always been a surprise to me, certainly for the Middle East and for China, where you can see that average rates indexed to 2019 are pretty much back at 2019 levels. I personally had expected that they would be sitting more at around the 80% mark, kind of where sort of the rest of the world is and Europe is sitting a bit lower at around about 70%. But what that does say is rate has the potential to recover maybe far faster than we might otherwise have thought, given those markets are still only at 80% of 2019 occupancy levels.

So some positive trends there in terms of the rate at which rate can recover even when the market is not fully recovered from an occupancy perspective.

Recovery Out of View Across Europe

So just very briefly on Europe, looking at Q1 on slide 36, no surprises: the grey line, occupancy, is well below, prior levels.

Full-Month Lockdown vs. Partial Month Lockdown

Moving on to slide 37, you can see from March in particular, March was when the lockdown started last year, sort of partially; March to March this year is certainly still worse than last year in most places except for Italy.

Apples-To-Apples, Things are Better

And then if we go to slide 30, here you go. That is what we call a bad data slide. Because it is showing fantastic improvements year over year, April month to date, and 2021 is huge growth on 2020. Just ignore the Y axis and the percentage levels, because then all the cadent[?] is removed.

But nonetheless, things are getting better and the comparables are going to get better as we go forward. So let's just talk about Q2. We have here just a snapshot of looking across Europe. At the beginning February, if you looked two weeks out how much occupancy was already on the books – so in other words, how many rooms had been sold as a potential percentage of available rooms for the next two weeks as at 8th February – you can see that the numbers range from 4% to 7%. So very low.

And how much were we picking up? In other words over the last week, how much did we solve for the next two weeks? The answer was 'nothing', pretty universally. Why only two weeks? Well, the reality is the lead time for many reservations are so short at the moment that about two weeks is all that is really robust in terms of timeframes to look at how business on the books will play out to actual.

But long story short, we knew early on in Q1 that it was going to be pretty dire and the data played out as such.

We Knew Q1 was Going to be Tough – But What About Q2?

When we look at business on the books now, on April 19th, on slide 41, you can see it is definitely much more positive. We are seeing occupancies in double digits, particularly in the UK, 15%, Switzerland 15%. And we are seeing that that is growing each week. So picking up about four percentage points each week.

So, much better; still relatively low numbers, but much better.

…Forward STAR shows recovery starting….

So what does that mean as we go through the rest of the quarter? Well, interestingly, you would expect UK to be showing much higher here, then say Switzerland, but it is not. It looks pretty similar. And the reason for that is if you go into slide 42, that certainly it for the next month, still, hotels are really still restricted from being fully reopened, cannot do any kind of vision travel. And I would still say there is a push against business travel at the moment.

And then it is really only from the designated opening date, I think 17th May, where things are more open for people to travel and hotels can fully open for leisure. And so that is where we are starting to see these certainly weekend sparks of business on the books at 25% and beyond.

UK Ramping Up Significantly When Allowed to Fully Re-Open

And the interesting thing, when you look at this, is usually you would expect business on the books to tail down from the left to the right-hand side of the axis. So more business on the books today than three months in the future, whereas what we are seeing is confidence is building as we go into the future. So positive signs there.

…Irish are Betting they'll Re-Open 2-3 Weeks Later than UK

But what about the UK versus other markets around the world? Well, on slide 43, we can see that Ireland, even though there is no definitive planned reopening date, there is optimism that is coming back, and an expectation that by the beginning June, things will start to reopen, and people are starting to book for that.

So we are seeing it ramped up and get pretty close. Obviously, they also had the hope of the euros being hosted, or some of the euro games being hosted there; that has unfortunately now been cancelled. So it will be interesting to see how much of an impact that has on business in the books; I suspect not that much, to be honest, because those are all Saturday peaks going through into the future.

Gap Between UK and Rest of Europe is Clear… and Cause for Hope

On slide 44, is where it gets, I think quite interesting to see the difference between the UK, France, Belgium and Italy, which really can be put down to the vaccination gap between the different countries.

And it shows really, I think, good cause for hope, that as soon as cases are down, as soon as there is more certainty around the ability to travel, that there is no reason why France, Belgium and Italy and other countries in Europe would not bounce back quite quickly to the levels of business and books that we are seeing in the UK because that is really all underpinned by high levels of vaccination and certainty over reopening dates.

Netherlands And Switzerland Looking Stronger than F.B.I.

Slide 45 shows that certainly Switzerland/Netherlands doing a bit better than France, Belgium and Italy, but still quite well below the UK business on the books. So what is those numbers actually mean?

UK Hotel Forward Occupancy Improving Each Week and Stronger Further Out

I mean, going up to slide 46, what can we take away from looking at future business on the book that shows business at this level? And it is really difficult to make any definitive conclusions at the moment because lead times to actual bookings, between booking and people staying are still very low, as I said, mostly within two weeks of staying. And we are outside that window.

But what we can tell in slide 46, this shows business on the books forward into the future, from when the announcement took place that hotels would reopen to where we are now on 19th April. And really the key takeaway is that as you move forward, the green line gets darker, and the darker green lines are always above the lighter green. And so every week, hotels are picking up more business into the future. We are not seeing cancellations, we are seeing it grow. And we are seeing that growth accelerate.

If you look in recent weeks, on those Saturday peaks, the UK market as a whole is picking up three to five percentage points of occupancy every week, and that is likely to accelerate. So looking at this data, and assessing it from a high level, you would say that this should translate to occupancies of over 50% on the weekends, really from the moment that the market reopens, and that should continue to improve as we go through July and into the summer.

Regional UK Weekend Peaks are Clearly Visible Post-17th May

Slide 47 shows regional UK; similar story; just a bit higher percentages versus London on slide 48, which is tracking about five percentage points behind the UK average, which is actually a bit more robust than I had expected. And I think that speaks to what Andrew has mentioned earlier, and with the lack of international travel, I think we will see some displacement where that will be replaced by domestic travel that will maybe like myself take the opportunity to do a staycation in London, go and stay at a lovely hotel, eat at a fantastic restaurant, and feel like you are in a different world all together.

Recovery Will Differ by Type of Demand

So that takes me to Q3, and Q4 quite briefly, and I will breeze through this because it is very much similar to what we have been saying before, very much similar to what Anders mentioned earlier on slide 50. The profile of recovery will be leisure, then business, then events in groups, and that will be blended between domestic person and international later on.

China's Recovery was Phased and Throughout 2020

Going back to slide 51, I just wanted to bring back what I referred to earlier on, in terms of China: clearly very different market to Europe, but nonetheless, I think a good benchmark of what is likely to happen. And again, recovery starting in Q2, and by Q4 was up to 90%-plus of 2019 levels, and it really did start with those Saturday weekend leisure peaks. And that is what we are seeing when we look at business on the books for the UK at the moment and I personally see no reason why this the trend across the UK and the rest of Europe would not look a little bit like this, although perhaps – and this is my personal view – I actually think the bounce back is likely to be stronger, really down to pent up demand.

In the same way that if you take a bottle of champagne out of the fridge, and you leave it out getting warm and you open it after one hour, maybe the cork goes out a little faster than you expected it to; but if you take that bottle of champagne, and instead of leaving it out for an hour, you leave it out for a whole year in the sun then the moment you undo that metal wiring around the top, that cork is going to fly out and champagne is going to go everywhere.

And I think that is much more likely what you will see in Europe, given this extreme state of pent-up demand, certainly from a leisure perspective, as I perceive around the region.

Expect Strong Demand in Leisure Locations in the Summer

And so on slide 52, it's no surprise that many people around the industry are expecting that in the summer, we will have a strong bounce back that we look at other verticals, we're seeing significant rate growth year on year for any kind of appealing leisure destination. So I think we will see that come back quite strongly. Then we may have a tail-off like we did in China, when the reliance on domestic business demand came back, but certainly continued growth in the long term.

Moving to the long term, I think if you look at our forecasts – and these are just forecasts – you know, beyond two weeks, it is very difficult to really have any kind of certainty at the moment. But we do expect business travel will take longer to recover and that is ultimately what will hold back full recovery of the markets to something like 2024 from the RevPAR perspective.

Demand Close to the Peak by Q42022 – Surprised?

But going to Q4 over to slide 55, I think it is important to recognise that, because of that, that that pent up demand because of that recovery, we think things will get back to 2019 levels from a demand perspective pretty quickly in the sense that by Q4 2022, most will be at 90% of 2019 levels of demand. And that when you when you look at rates and assume that won't be quite back yet on slide 56 that RevPAR will be – you know, at the moment we're forecasting around about 80% to 90% of 2019 levels by Q4 2022.

Business Travel Will Take Time to Recover…

Now that is on a quarterly basis. So when you go to annualise and you assume that the final 10% of recovery will take a bit longer, that is why you see on an annualised basis, us forecasting full recovery are more towards 2024/25. However, you know very much these are caveated; as I said before, it is really quite hard to call. A lot does depend on the shape of the economic recovery and how much longer there will be meaningful restrictions on international travel.

And so with that, I will stop and hand back to Anders.

Q&A

Anders Berg: thank you very much, Robin, for this run through. And now operator, we are ready for questions.

Simen Mortensen (DNB Markets): Hi gents. Do you hear me?

Anders Berg: We hear you.

Simen Mortensen: Good. Thank you. I have a few questions; four actually. To start off, in terms of transactions in the market, Liia said there had been no evidence of transactions when it comes to the yield evolution of the stocks. But clearly, later on, Anders you have showed us some well-known transactions in the market. Can you please just clarify on what you actually meant by in that association, because you communicated differently for the view?

Anders Nissen: What?

Simen Mortensen: Liia, when she showed the yields and transactions, she said that it was not that liquid marking off many transactions being done. But we saw the Grand Hotel in Stockholm has been sold and we saw the Choice Hotel in Copenhagen. How is it…?

Liia Nõu: Okay, you mean that we should actually decrease our yields? Well, I think, we are not in a position yet. But I think I said that our yields are resilient. And I think Anders confirmed that the transactions that have been done have, if anything, been more aggressive than anything we have seen before. So we will not for time being decrease our yields.

Anders Nissen: Interesting view Simen; that why I did not understood your question, but I understood it now. Well, very, very promising levels, if I may say so; we will see if that continue.

Simen Mortensen: Okay, thank you. The other one is, there will be some waivers on individual loan agreements. Is there anything you would clarify on that? And implications if there are any implications, other than that?

Liia Nõu: Well, nothing is different from the previous year. 2020/21 of course started the same way up to 2020. So there are individuals given in some credit facilities, but we have all the waivers in place.

Simen Mortensen: Okay. And my third, most concerning questions is, the deferred rent payments in the quarter; you have not touched upon this, but when you go into the balance sheet now we see it is SEK566 million in deferred rent payments. Some of them are long term some of them are short term, but when you compare just again in Q1, I can easily see it is SEK127 million more now in Q1 than it was at the beginning of the quarter. This is a sum that based on my calculations corresponds to roughly actually 24% of the net rent in the operator activities paid in Q1. Does that actually mean that 24% of the rents from the operators are not being paid the quarter? Or can you please elaborate a bit on these figures?

Liia Nõu: What are the 566, this is the accumulated delayed payment terms. And this is about 120 more than in Q4. And this is, of course, an effect of both that we in the end of 2020 we entered into some agreements. For example, there was a postponement, especially Germany, where like 50% of the of the rents paid up also for Q1 and Q2 will be delayed over a period of up to a year or more.

I said before that I did not expect this amount to be more than 500. Now it is obviously 566, and it will unfortunately be maybe 5,000 more, but this is a consequence of the fact that we have not seen the recovery as we expected as quickly. However, these are again with operators; it is a few operators where we have bank guarantees and corporate guarantees. So this is a liquidity help we are giving them. We do not give [inaudible]; I've said it 100 times and I am saying it 100 times more. And we don't see this as any danger. But obviously this is the way for the for the operators to manage their liquidity.

Simen Mortensen: Yeah, but these sums, actually, it mostly refers then to the operator activities. And the assumption is that it is –

Liia Nõu: This is not the operating activities. This is only the…

Simen Mortensen: I am sorry, the operators, I am sorry. To external operators; my fault. But it is more than 20% of the rents, which is including P&L every quarter so far, right?

Liia Nõu: Well, it is also sometimes agreements. In the end of that the increase is not only related to the Q1, but it is also how the payments have been for Q4 2020.

Simen Mortensen: And that has come to other parts of the questions you touched upon the regional levels. Is this mostly in Germany? Is it in the UK, or in the Nordics? Because you have three large operators, and pretty much everyone knows who they are?

Liia Nõu: Well, it is outside the Nordics. And this is, again, a typical consequence that the lockdown has been much worse, more severe outside the Nordics; also, that we entered into agreements, the more recently signed agreements outside the Nordics, where the minimum rent is maybe like 90% of the turnaround, which is quite hard, because again, we did quite a lot of transactions in 2017/18/19. So of course, this is with operators outside the Nordic. In the Nordic, these are old agreements, which again, it is about a much lower level, which should not be a problem for the operators to pay.

Simen Mortensen: Is there any cost for you to delay payments? Or is it the interest rate free? Or how do you solve that?

Liia Nõu: Well, typically, there may be some interest but you know, very low interest. It is not one standard, but if there is an interest somewhere in the industry, but it is on a very low interest.

Anders Nissen: Okay, so it's not like normal delayed payments interest terms.

Liia Nõu: Exactly.

Simen Mortensen: Okay, my last question is a bit more on a positive note. The UK vaccination has been quite leading[?] and come the farthest of the markets you cover for our industry. How do you see the bookings are transcending there versus the rest of the markets you are in? Because you spoke about the performance of RevPAR forward, so I assume we still have overviews of booking into Q2 and what you can tell is how much is actually the vaccination driving bookings as you can see.

Anders Nissen: There is a strong correlation between successful vaccination programme, which leads to easier restrictions and demand growth. It is the very strongest processes that you can find in the industry today. And UK had been probably the most successful in terms of vaccination programme. And you see now that the confidence is coming back, even if the restrictions are still quite hard, they start to book over summer, they already did that in Q4 last year, but that continue. I believe today, tough to get a hotel room in Brighton for July, August already. And I know all how it seem in southern or in resort destinations UK is also very high. Very, very strong trend on in terms of booking.

What we now see for the last couple of weeks, there is also some sort of improvement for Q2. But there we wait for more data before we can say that the trend are there. But as it looks now, UK will be the one, as I said before, who will take lead of the recovery in Europe. And that is based on restriction, they will ease their restriction for us.

Simen Mortensen: Have you seen the same large bookings? Because last year also the summer was very good in the Nordics with a lot of people staying at home.

Anders Nissen: Yes.

Simen Mortensen: You are saying it was full in Brighton in the UK, etc. Are you seeing the same in the Nordics?

Anders Nissen: No, we do not. We see some sort of positive movement over summer. But that has not really started yet in the Nordic, and Norway are still very much in lockdown and even in Finland, so restrictions had to easier before we will also see that in Nordic. But again, if this come and expect to come here in Q2 then immediately you will see it in all resort cities. You will see it also in the domestic and regional destination in Scandinavia will take a lead. And our forecast is that the summer will be stronger this year compared to last year, basically because it will start earlier.

Simen Mortensen: Thank you for taking my questions, and I hope to meet you guys soon.

Anders Nissen: Remember that last year, it was even above 2019 year's level at Kristiansund and in Lillehammer. And so you see that Norway was the best market in Europe in July last year.

Simen Mortensen: Okay, thank you for taking my questions both of you, and hope to meet you soon.

Anders Nissen: Thank you.

Liia Nõu: Thank you.

Fredric Cyon (Carnegie): Good morning. Yes, a couple of questions. So starting off, you made some remarks and clarifications in the quarterly report, regarding the weak start of the year and the sign of the rental agreements, and that will have an adverse impact on revenue recognition during the coming quarters. Why did you feel obliged to mention that? Did you look at estimates and felt like investors did not understand the mix, or what was the rationale behind mentioning that?

Anders Nissen: Well, the major reason was that we want to give you good guidelines how we see the market is coming. And of course when we in one hand have a positive view about the market outcome then, of course, on the other hand, when we have mechanism in our lease agreement, and we think we should tell you all so it will not come as a surprise.

Fredric Cyon: Yes, I understand that the start of the year has been tougher than last year. But on the other hand, the outlook for the second quarter looks better. Those two factors are moving in opposite directions. But I would imagine that you still expect a gradual recovery year on year on top line for Pandox. And I am thinking about the property management partner.

Anders Nissen: Yeah. But coming back for having to come above the minimum level, the minimum rent in other market outside Europe, with the start of the year have been very slow for example in Germany, then you need a very, very good Q3 and Q4 and we do not want to, we don't want to give you that expectations.

Fredric Cyon: Yeah, that's clear. And then you mentioned behavioural changes. So of course, they are still out there. And who knows how it will look like. But in your internal model that you use for your property valuation have you assumed any behavioural changes long term? Or is this purely driven by the cash flow impact during 2020 and the start of 2021?

Anders Nissen: No, we do not see any consumer trends; it is people who normally have not have so much experience about hotel business to talk about it. And when that had been in all crisis, it is my fifth crisis. So we always talk about big change in the market that you will never come back and the panel can close the hotel and no business travellers will be there. Yes, this maybe will happen this time, but we do not see it and that why we do not also take any other views in our valuations that we have done before.

So let's wait and see. What we see in market head of Europe is that we very, very – see very small change in consumer behaviour. But what we see is that restrictions holding back demand. And so let's wait for the reception of that issue and see what is coming out.

Fredric Cyon: And then one question on projects; generally in the market, of course, a crisis leads to lower new supply. How are you looking at the supply situation across Europe? I know it is very much a 50:50 nature, but generally, are you seeing that new projects are put on hold and that could have a positive impact on situation two years out, or something like that?

Anders Nissen: Yes, I will say most of the hotels who was published will be built, sad to be said because there was already in the contract. But you do not see any new hotel project development coming up of course. So, we will need a recovery phase; some markets like Copenhagen will have a tougher than other because of new supply. But from let's say 2023 or something like that the most of the new capacity has coming in, and then we have to take it from there. It is always the same and new player coming into the market when the market is peaking out, then the new supply coming in and make things even worse.

Hopefully, we can buy a view of these hotels.

Fredric Cyon: That is the usual economical cycle when it comes to construction real estate. Then find the follow up on the deferred rent that that you mentioned. It increased somewhat in the first quarter. Liia, how do you foresee that line going forward to Q2/Q3? Do you expect it to be at a similar level or continue upward?

Liia Nõu: No, I think it will be on the similar or slightly above in Q2 due to the fact that we are in Q2 now and the restrictions are hitting hard. I expect we have split it between the long term and short term so you can see that nothing was 270 which is long term, and the rest is short term, i.e. within 12 months. So I do expect it to peak maybe after another 650 million or so and then diminish unless there is eighth or tenth wave of this horrific pandemic.

Fredric Cyon: I hope not. Thank you for taking my questions.

Liia Nõu: Thank you.

Stefan E Andersson (SEB): Thank you. Two questions from me. First, on the valuation side. Curious there looking at external values. Seems like you are closer to them this quarter now and it is a 12-month rolling number I understand. Then in the last quarter and in Q4, you also had Q1 valuations included. I think the external ones were 6% below them, and now it is 5%.

So my question is, first, have you seen, if you don't look at the long-term development, 12 months rolling, but just look from Q4 to Q1 now, have you seen the external valuers becoming more positive? Or is it just the effect of your negative revaluations of the quarter? And then connected to this I think last quarter in the Nordics, you are agreeing and this quarter, you say that you have the external values a bit lower. So my question is then also, has there been a change in tone for some reason in the Nordics? Why such a big difference between other regions?

Liia Nõu: Okay, let me start. Well, when it comes to the undertone from the external valuations, there are practical limitations to doing a lot of valuations, and of course, practically every bad quarter you leave means that actually it is getting better and better. My personal view is that valuators are cautious people, and that there may be getting more confidence and looking at more sort of how it is going, we are not all going to die.

They take a more realistic long-term view on yields, long term yields, etc., especially when you see other property assets, where the yields go down so there is no reason why there should be such a yield gap between hotels and other property assets.

When it comes to between the regions, I think still, maybe I was not clear, I think on average is 5%. If anything, the Nordics are in line with what we see. And sometimes even more positive: we do have external relations where the value is higher than what we have. But especially when you look at Germany, and maybe UK, and where we have done some excellent evaluations, they are initially a larger gap than the Nordics still, which is in my personal view a reflection of the uncertainties of transaction market, the lockdowns, and all of the bad things.

Stefan E Andersson: Okay, thank you. And then the second question relates more philosophical but see what you can and cannot say on the contract side. We are speaking to some of your operators. Given the situation, of course, everyone is trying to improve their situation, for the long term. And my impression is when talking to some of them is that, it is not helpful to just get the lower price, which could be one discussion; it is more focused on a bigger flexibility, meaning that you can leave some of the upside to the property owner and get some more help on the other side. Of course, you are already in that space in the Nordics.

But my question is, really, do you think that your contracts in the Nordics could become even more flexible than they are today? And the second question, do you think that your model, which is not as common outside of Nordic, could gain traction, that you could actually have some more valuable contracts also, in other parts?

Anders Nissen: Whatever. I think the model we have is what people are talking about that they would like to achieve, and a revenue-based model, where you have a minimum level, you invest together, you have frequently a dialogue about how to improve the hotel. That is rare in our industry; it is normal property company who don't have any specific understanding or lack of understanding hotel business and you want to have some [inaudible] as possible.

So I think things are moving in our direction. So we see that what we are doing today is where most of the operator wants to go. So we do not see any big things there. Then, of course, and investment, as we speak, is something that some of the operator has not liquidity to do. And then we of course, we can support them. And that I will say have two positive effect. One is that we are ready are things are coming back. And the other thing is that will strengthen our partnerships. So that is only positive. So our knowledge in the hotel industry and the model we have to be an active investor, has never worked better than it works at the moment.

Stefan E Andersson: And on that investment, could you see a situation where you take more of the upside in a strong market, and then give away even more in a downside when that happens? Or are you very, very happy with where you're at?

Anders Nissen: Well, let's see what's coming up in discussions, when new contract will be signed; we have nothing in 2021. We will come in a portfolio with Scandic in 2022. And of course, I will say our position is that we want to have more guarantees, we want to have higher minimum level. And they want to have opposite. That is, not something who is special for this crisis has always been, but they are strong partners normally come to agreement because we know it is better to cooperate than fight.

Stefan E Andersson Sorry for having a follow up on that, but would there be a limitation from your finance bank? So when it comes to having more flexibility or lower guarantees?

Liia Nõu: Well, typically not. I think if we think we are doing a good deal than the bank is actually confident that we are securing their interest as well.

Stefan E Andersson: Thank you very much.

Anders Nissen: Thank you. Well, ladies and gentlemen, thank you very much. Thank you very much, Robin. And again, remember that Robin is an independent researcher and very professional one but very independent. What he say is nothing that we talked about before.

So thank you for listening to us. And hope to meet you in mid-July with a more stronger market. And I what I can promise you is that Q2 will be better this year compared to last year. Thank you very much, and goodbye and have a good day.

[END OF TRANSCRIPT]