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$Pandox\ AB\ (\texttt{PNDX.B.SE})$

Q2 2022 Earnings Call

CORPORATE PARTICIPANTS

Anders Berg

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Pandox Q2 2022 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Anders Berg. Please go ahead.

Anders Berg

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

Thank you very much and welcome, everyone, to this presentation of Pandox second quarter and half year report for 2022. I'm Anders Berg, obviously, Head of IR at Pandox, and I'm here together with Liia Nõu, our CEO; and Anneli Lindblom, our CFO. And also in line with our tradition over the past years, we have STR with us today represented by Thomas Emanuel, Senior Director at STR, and Thomas represents, as you all know, by now, a leading independent research firm focused on the hotel market. And he will share STR's view on this market later during this call.

Please remember that the views expressed by STR are completely separate from Pandox and the presentation is offered only as a service to Pandox stakeholders. And Thomas's presentation will be held after we, that is Pandox, have completed our earnings presentation including the Q&A. And this report presentation is divided into three parts. First of all, Liia, Anneli, and myself will present a business update with financial highlights for the second quarter 2022, followed by a Q&A session. And after that, Thomas will provide the external hotel market update.

Next page, please. And with that, I hand over to Liia.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anders, and welcome, everyone. I'm really happy to report the strongest results for Pandox in a very long time. The strong progress in the hotel market confirms our own research about how the recovery could be shaped. The strong earnings improvement is explained by increased revenue-based rent and improvement in own operations which in turn confirms the power and performance of Pandox business model. It also reflects the strong execution and value of the Pandox team and our unique corporate spirit. So well done, everyone.

Next page, please. We have a well-diversified hotel property portfolio. We have 156 hotel properties with approximately 35,500 rooms in 15 countries, in 90 cities, and with a property market value of close to SEK 66 billion. We are divided into two business segments, Property Management and Operating Activities. In Property Management, we lease hotels to strong and well-known operators and along revenue-based agreements. This segment makes up for some 83% of our property market value. In Operating Activities, we operate hotels ourselves under different operating models. And Operating Activities makes up for some 17% of our property market value.

Next page, please. We have one of the strongest networks of brands and partners in the hotel property industry. As you can see in this picture, we work together with several well-known operators. For example, Scandic and Nordic Choice in the Nordics, Jurys Inn in UK, and Leonardo Hotels in Germany, among others.

We also have long relationships with strong international brands such as Hilton, Holiday Inn, and Radisson Group, to name a few. In our Operating Activities segment, we also have some independent brands created by Pandox. For example, our newly renovated Hotel Berlin, Berlin, which is Pandox's largest hotel with over 700 rooms.

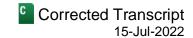
Next page, please. No one is happier than me to report such strong numbers this quarter, after more than two years negatively affected by COVID-19. It feels good to finally talk about the positive, profitable side of our business model. If we take a look at the hotel market, it developed very strongly in the second quarter, with rising occupancy and high average prices in all our markets. The main drivers of a strong pent-up demand, in particular among leisure travelers, but the business segment also contributed more and more during weekdays. As before, domestic and regional hotel markets developed the best, but largest cities saw the steepest raise in RevPAR and are now at the highest level since the outbreak of the pandemic.

The longer the quarter progressed, the stronger this trend became. And this is especially important for operators – Operating Activities segment, which has a larger exposure towards larger, more international cities like Brussels, Berlin and Montréal.

Now, a look at the numbers. In the quarter, our net sales and total net operating income increased by 108%, respectively, year-on-year. For comparable units, the increase was 99% and 84%, respectively, adjusted for currency effects. Like-for-like, Property Management, increased net operating income by 39%. Our relationship with the banks remained strong and we had almost SEK 4.1 billion in cash and unutilized credit facilities at the end of the quarter. At the same time, loan-to-value declined to 47.8%, compared with 49.8% at year-end 2021. Return on equity, measured by annualized growth and EPRA NRV was approximately 13%.

Next page, please. In the second quarter, the hotel market recovered strongly in all markets. This confirms the belief we have had all through the pandemic that demand would come back strong once jurisdictions were remote. Here we see a comparison of the occupancy levels for our business segment Property Management from 2019 until today. The numbers are on a comparable basis. As you can see, 2022 started weak due to travel

Q2 2022 Earnings Call



restrictions, but saw a strong bounce-back during the spring and early summer. The comparison to 2020 and 2021 is gradually becoming less relevant as the current performance is now much more in line with 2019.

In the second quarter, recovery was strong in most markets, both in terms of occupancy and average price development. The UK, Denmark and Norway, which lifted the coronavirus restrictions earlier in the first quarter, saw a stronger development in the second quarter than Germany and Finland where reopening took place somewhat later and the recovery only really ramped up towards the end of the quarter – end of the second quarter. Hotel demand in many larger cities increased significantly, while smaller and regional cities continue to develop well.

Next page, please. Here we see Pandox total portfolio categorized based on the type of location with occupancy index versus 2019. As you can see, segments are now closing in on the 2019 level and the strong development in larger cities in the last two months is particularly encouraging.

You can also see that the spread in performance between the different segments is currently the smallest since the start of the pandemic. And this is a clear signal that the hotel market is under normalization.

Next page, please. In the second quarter, we extended 15 lease agreements with Scandic in the Nordics. The extensions include a joint investment program of around SEK 700 million for product development, repositioning and increased guest comfort. We are really happy about our partnership with Scandic and this agreement shows that we have a strong relationship with a common commercial perspective.

Next page, please. And with that, I hand over to Anneli Lindblom, our CFO.

Anneli Elisabet Lindblom

Chief Financial Officer, Pandox AB

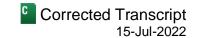
Thank you, Liia. Yes. As Liia said, we saw a strong recovery across all our markets. However, with some difference depending on when in time the restriction were eased. In general, the UK and the Nordics performed strongly in the full quarter while, for example, Germany had a slower ramp-up but with a strong ending. All in all, we saw strong development for Pandox in revenue and earnings in the second quarter. It shows really how profitable we are when we have the market on our side.

Revenues and earnings continue to improve in both business segments with the largest effect in Operator Activities given our full exposure to the P&L. Please note that we did receive SEK 56 million more in government support in the second quarter than in the second quarter last year. In Property Management we received SEK 68 million compared to SEK 2 million in the corresponding quarter last year, and that is shown as part of the revenue in Property Management.

In Operator Activities we received SEK 88 million compared with SEK 98 million in the corresponding quarter last year, and that is shown as a reduced cost in Operator Activities. So as you can see, it's different levels that – different lines that is affected by this supporting package. This package was for previous financial years and the late payment is explained by long processing times, particularly in Germany and in Canada. And we have also repayment of deferred rent that was made according to plan.

Next page, please. Okay. On this slide, we can see a comparison of the variable rent in our leases over the past six quarters. All-in-all, we have 96 leases with revenue-based rent and with the minimum contractual rent; and 32 leases, which are purely revenue-based without any minimum rent. And on top of this, we also have eight leases that are fixed. In the second quarter, total variable rent amounted to SEK 258 million. The number of minimum

Q2 2022 Earnings Call



leases generating variable rent continued to increase and reached SEK 54 million, as you can see on the graph on the right side of the slide. These leases are mainly located in the Nordics and in UK. It is reasonable to expect that this number will increase in the coming quarters.

Next page, please. Pandox performs internalization of its hotel properties each quarter. Approximately 98% of the properties have been externally valued during these 12 months – across 12 months, and the valuations are in line with our internal valuations. Value changes were positive in the period, primarily explained by higher expected cash flow. In the first six-month total changes in value amounted to a positive SEK 1 billion, of which a positive SEK 667 million for investment properties and a positive SEK 381 million for operating properties.

Investment properties are recognized at fair value. And according to IFRS, unrealized changes in value for our operating properties are only reported for information purpose and is included in the EPRA NRV. End-of-period, the average valuation yield for investment properties was 5.41%, and for operating properties it was 6.38%.

Next page, please. Cumulative changes in value in our property portfolio since the start of the pandemic. During the most uncertain phase of the pandemic, we had a negative change in value in six quarters, mainly due to lower cash flows. From the third quarter 2021, based on gradually improving cash flows, changes in value have been positive.

Next page, please. Pandox has two sources of financing. We have equity and we have bank loans secured by underlying properties. We have no market financing in the form of bonds and no external rating requirements. Given our business model, which focus on hotels and variable rent, this has proven to be the most efficient and predictable financing over time. On the right, we highlighted our capital structure at the end of the period. And based on the closing price yesterday, Pandox is valued at a discount to EPRA NRV at almost 40%.

Next page, please. In total, Pandox refinanced loans to around SEK 4.6 billion during the second quarter, mainly at a maturity of 3 to 4 years, and stable credit margins. We increased the number of lenders from 11 to 13, adding Swedbank and AMF Tjänstepension as new lenders. Loan-to-value amounted to 47.8% while EPRA LTV was 47.0%. Cash and long-term unutilized credit facilities amounted to SEK 4.1 billion. Credit facilities maturing in less than one year amounted to SEK 12.1 billion, of which the majority in the first and second quarter next year. Positive dialogues about [indiscernible] (15:31) refinancing are ongoing regarding all of these credit maturities and the intention is, of course, to refinance this in good time before contracts expires. Pandox also have some commercial paper program that are used to optimize Pandox financial costs via interest rate arbitrage. At any given time, they are fully covered by Pandox RCF.

Next page, please. Okay. On this slide, we show how some important balance sheet metrics have developed since the beginning of 2016. With the exception of the interest coverage ratio, these metrics have remained relatively stable over the period. But just a few highlights: Loan-to-value declined to 47.8% in the second quarter, which is actually lower than before the pandemic; the interest coverage ratio is now improving from low pandemic levels although the 4.7 times recorded this quarter is a bit out of the ordinary on the positive side.

And with that, I will hand over to Anders, Head of IR, to guide us to what happened in the hotel market in this quarter.

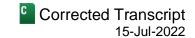
Anders Berg

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

Thank you very much, Anneli. Both Anneli and Liia have been talking already about some of the dynamics of the hotel market in the second quarter. We introduced this slide that you now see exactly two years ago to illustrate



Q2 2022 Earnings Call



the faces and segments, which we expected to drive the recovery in the hotel market. We think it has been a useful model for understanding how demand is gradually built up in the market. And as you know by now, the course of the pandemic, our markets have moved largely between Phase 1 and 4, depending on the level of restrictions in each market.

When we entered into the second quarter, restrictions had been removed in all our markets. However, some countries like the UK, Denmark and Norway were a bit earlier in lifting their restrictions in the first quarter than Germany and Finland. And as a consequence, the first countries also experienced a quick recovery. Germany started the second quarter slow, but demand ramped up strongly towards the end of the quarter.

In total, the hotel market, as we see it, recovered strongly throughout the second quarter. And that put it solidly in Phase 4, with some signs of international and group travel as well. And we think that in the final phases of the recovery, we expect the lines between the different demand segments to come a bit more mixed than before. That said, domestic demand is expected to remain the strongest driver also in the coming quarters.

Next page, please. The second quarter is still strong in broad-based recovery. And as we said earlier, hotel demand was largely driven by domestic leisure, but gradually with increasing support from domestic business as the quarter progressed. ADR continued to develop strongly, which together with a positive occupancy trend made RevPAR year-to-date for 2022 exceed 2019 levels in a few markets. We also saw a continued strong relative recovery in larger cities versus regional cities, which further illustrates the ongoing normalization of the hotel market.

Next page, please. With the recovery of hotel market now entering into a more mature phase, we would like to introduce six new charts which track average daily rate, occupancy, and RevPAR for Nordic regional, Nordic capitals, Germany, Frankfurt, UK regional and London, and how they compare to 2019. The data points are monthly and year-to-date.

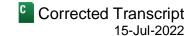
The bars on the charts are indexed to occupancy and ADR for 2019, and the lines are nominal RevPAR in local currency except for Nordic regional and Nordic capital where RevPAR are in Swedish kronor.

So I start with Nordic regional. And as restrictions were eased in the second half of the first quarter, demand came back quickly and ADR began to rise from an already relatively solid level. We have talked about this before. The resilience in average daily rate has been strong all through the pandemic, and 2022 RevPAR crossed over 2019 levels in March and have trended above 2019 since then. And year-to-date, 2022 RevPAR is also marginally higher than 2019. The recovery is broad, but Norway stands out as a particularly strong performer.

Next page, please. As you know, it has been a general trend that larger cities with high dependence on international demand have seen a slower development than smaller and regional cities all through the pandemic. But during the second quarter, Nordic capital cities recovered strongly both in occupancy and ADR, and 2022 RevPAR touched 2019 levels in both April and June, but it's still trailing 2019 by almost 20% on a year-to-date basis.

Next page, please. Restrictions in Germany, as we said earlier, were not lifted until late in the quarter. That was more exact on the 20th of March, which meant it entered into the second quarter on a lower comparable level than most of the Nordic countries. But as you clearly can see, occupancy and ADR improved steadily as the quarter progressed, with 2022 RevPAR actually exceeding 2019 levels in June. However, year-to-date, Germany has still some catching up to do, being some 32% below comparable 2019 levels.

Q2 2022 Earnings Call



Next page, please. Frankfurt is a good illustration of the rapid recovery in larger and more international destinations in the second quarter. Starting in April, both occupancy and ADR improved strongly throughout the quarter, with RevPAR exceeding 2019 levels in June. But also here, year-to-date, 2022 RevPAR is almost 40% below 2019 levels.

Next page, please. Again, UK regional remained the best performing market in the second quarter. The UK's open early strategy meant that UK regional really hit the ground running in the second quarter, already at that time being at relatively high occupancy and ADR levels. And with the exception of January, 2022 RevPAR in UK regional has actually exceeded 2019 every month this year, and year-to-date RevPAR is approximately 15% higher than 2019.

Next page, please. We talked about Frankfurt earlier. London is also in the same category, although it's a mega city, of course, and it has also progressed well so far this year with 2022 RevPAR trending largely in line with 2019 measured from March onwards. But as you can see from the chart, it had a slow start to the year and that was explained by restrictions, closed offices and limited international travel which means that year-to-date RevPAR is still some 6% below 2019 levels.

Next page, please. So to summarize, we currently see the hotel market solidly in Phase 4, with some clear elements of international meeting as well as group demand. And we also think that in this phase of the hotel market recovery, our focus is shifting more towards the two [indiscernible] (24:33) segments, which should help drive further demand in larger, more international cities such as Brussels. And we also see that from a relative perspective that hotel markets are converging towards a more common performance level. But still, Germany and Finland have some way to go before catching up to the leading markets.

Next page, please. And with that, I hand over to Liia again.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anders. We are now in a completely different market stage compared to how the year started. Remember, in January, we had only 14%, 1-4-percent, occupancy in our Property Management business segment. In June, we had close to 70%, 7-0-percent. The RevPAR in UK regional and Nordic regional is higher year-to-date 2022 than in 2019. We see high ADR in all of our markets. A large percentage of Pandox revenue is viable, which offers protection against both increased cost and higher interest rates. And we, therefore, have a good starting point in terms of growth and profitability as we head into future quarters.

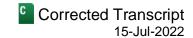
With the rising cost [ph] of input goods (25:49) and more expensive financing, we focus on investment projects and acquisitions with high value creation potential. So, all in all, we expect good growth in revenues and earnings for 2022.

Next page, please. We now move over to the Q&A. And operator, we are now ready for questions. And please don't forget to hand the call back to us afterwards for Thomas presentation.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Fredrik Stensved with ABG. Please go ahead. Fredrik Stensved Analyst, ABG Sundal Collier AB Thank you, and afternoon, everyone. Congrats on a great quarter. And a couple of questions from me. First of all, the sort of COVID relief money that you received and you recognized in this quarter, which related to the previous periods, how should we think of these type of payments going forward? Are there any one lends that you have applied for or are they – are everyone down here, if you will? Liia Nõu Chief Executive Officer, Pandox AB Yes. Yes, we are still waiting for some more money. That will come in Q3... Anneli Elisabet Lindblom Chief Financial Officer, Pandox AB Hopefully. Liia Nõu Chief Executive Officer, Pandox AB ...hopefully, because it seems to be very long payment term, so that was - but we're still waiting for some. So we will have the last... [indiscernible] (27:43) Liia Nõu Chief Executive Officer, Pandox AB Yes. Fredrik Stensved Analyst, ABG Sundal Collier AB [indiscernible] (27:47) quantify the amount that you're waiting for or hoping... Liia Nõu Chief Executive Officer, Pandox AB No. Fredrik Stensved Analyst, ABG Sundal Collier AB ...hoping to receive.

Q2 2022 Earnings Call



Liia Nõu

Chief Executive Officer, Pandox AB

No, I can't really quantify it. It's a bit less than we have received for this year, but it seems to be very uncertain, uncertain figures. But we're supposed to have it all in the Q3.

Fredrik Stensved

Analyst, ABG Sundal Collier AB

All right. Understood. Then, I have a question on the Operator segment margin which was very strong here in the quarter. And I appreciate that there is COVID relief payment in there and Q2 is seasonally strong, but how should we think about sort of the NOI margin and Operator segment margin going forward? I was kind of expecting a lower margin in a rebound after COVID, a bit hard to get all the employees back to the hotels, et cetera, et cetera. Are we targeting pre-pandemic levels or is it possible to get it higher than that as you did here in Q2?

Liia Nõu

Chief Executive Officer, Pandox AB

Well, I think – and yes, I think the target is to gradually achieve a higher NOI target. And – but then, of course, this – the recovery pattern, there has been – as you see in the high ADR, there is a possibility of getting sort of the cost through has been very good. And they have – there is some challenges to get people in place. And so, – and I think the cost will increase gradually. But we will – we expect to see the modest we had prior to the pandemic or slightly above, also due to the fact that we have learnt and become more efficient.

Fredrik Stensved

Analyst, ABG Sundal Collier AB

All right. Thank you. Next question is on the average interest rate, which was flat Q-on-Q. You did some refinancing and you mentioned there were similar terms as previously. But I mean, the sort of the three-month [indiscernible] (30:13) from end of March to end of June. And you're still at [ph] 2.5% (30:21) on average. And I guess it has some effect on the floating part of the debt. Can you add any color on margins or discussions with the banks as of today?

Liia Nõu

Chief Executive Officer, Pandox AB

Before I let a word over to Anneli, because I'm still in my old CFO role [indiscernible] (30:42) sometimes – remember that 30% of our portfolio which is Swedish kronor. We have a lot of different currencies, of course. You can – you have to also [indiscernible] (30:53) we are sometimes in a sweet spot in the sense that where you have negative EURIBOR margins or whatever, and when you hedge exactly in a sweet spot. So even though the interest rates are increasing back to zero, then because the financing agreements typically have zero floors, so you actually have an increase in the underlying interest rate. But it doesn't actually hurt you as a business. And in the opposite side, if you have hedging derivatives, you actually get a positive one.

So as we've seen in our balance sheet, we have SEK 1.5 billion worth of derivatives. These are, of course, a dampener on this one. There is a dampener in the sense that [indiscernible] (31:40). So, yeah, and Anneli?

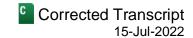
Anneli Elisabet Lindblom

Chief Financial Officer, Pandox AB

Yeah. That's basically what you're going to say. Sorry.

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Q2 2022 Earnings Call



Fredrik Stensved

Analyst, ABG Sundal Collier AB

And bank margins, if we talk about sort of bilateral bank margins rather than the underlying EURIBOR or [indiscernible] (32:01). Is that a similar – is it flat Q-on-Q or year-on-year?

Liia Nõu

Chief Executive Officer, Pandox AB

Yes, it's still on the same level, you can say. So it's not changed.

Fredrik Stensved

Analyst, ABG Sundal Collier AB

Thank you. Yeah, sounds good. Thank you. And then, last question related to the – you sent out a press release a couple of weeks back after you signed new lease agreements with Scandic. And I remember back in the beginning of COVID, there were a lot of discussions about operators wanting to sort of shift towards 100% turnover basically says rather than a mix of fixed rent and turnover rent and this or these signed lease agreements obviously prove that your stance is correct in terms of the Nordic. And I'm wondering if there are any sort of geographical differences here. Are negotiations or discussions similar in Germany or the UK, or are there any differences?

Liia Nõu

Chief Executive Officer, Pandox AB

When I think, well, the – as you know, one of the agreements which we done in the late transactions have been outside in Nordics, so these are long-term agreements which have another 10, 15, 20 years on them before we're actually going to renegotiate them. These 15 leases which we did with Scandic, these are – these have been sort of renewed at existing terms, and I think there – as you know before – the normal contract is turnover-based contract with a minimum floor. The ones we have had without a minimum floor comes from historically the first Pandox model. So the standard generally is to have a minimum floor, and we see in that – we have had some few new renegotiations where we did [indiscernible] (34:16) last year and that was, again, [indiscernible] (34:20).

Fredrik Stensved

Analyst, ABG Sundal Collier AB

Understood. Thank you. That's all for me.

Operator: [Operator Instructions] Our next question comes from Fredric Cyon with Carnegie. Please go ahead.

Fredric Cyon

Analyst, Carnegie Investment Bank AB

Good afternoon, and congratulations to a great quarter. A few questions, starting off with the government support within Property Management. Which regions have been positively impacted in the second quarter?

Liia Nõu

Chief Executive Officer, Pandox AB

Especially Germany.

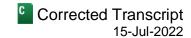
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Anneli Elisabet Lindblom Chief Financial Officer, Pandox AB	A
Germany and Canada.	
Liia Nõu	А
Chief Executive Officer, Pandox AB Yeah. But [indiscernible] (35:04)	, ,
[indiscernible] (35:07)	
Liia Nõu	Α
Chief Executive Officer, Pandox ABmainly in Germany. And some in Belgium, but the big portion is in Germ	any.
Fredric Cyon Analyst, Camegie Investment Bank AB	Q
Okay. And the	
Liia Nõu Chief Executive Officer, Pandox AB	A
[indiscernible] (35:16) the government support. Yeah, generally.	
Fredric Cyon Analyst, Camegie Investment Bank AB	Q
Yeah. And the money you were still waiting for, is that also with regards p	rimarily to Germany?
Liia Nõu Chief Executive Officer, Pandox AB	A
Yeah. Germany and some in Canada. But the big portion is in Germany b Slow but good.	ecause they have been very, very slow.
Anders Berg Senior Vice President, Head-Communications & Investor Relations, Pandox AB	A
General	
Liia Nõu Chief Executive Officer, Pandox AB	A
Generally slow.	
Fredric Cyon Analyst, Camegie Investment Bank AB	Q
I see. It usually is tedious, those processes. Looking at generally the conslittle bit sour now. Have you seen any indication of that hurting demand in	

lesser segment, or is it early days to speculate about that?

Q2 2022 Earnings Call



Liia Nõu

Chief Executive Officer, Pandox AB

It's early days to speculate about that. And no, we haven't seen that yet. But there's still this very much pent-up demand. Everyone you speak to are planning to travel maybe not for this year, but also for next year. And people are willing to pay quite a lot for actually traveling and living on hotels.

And – but then, in combination then that, of course, that it will also be a segment mix in the sense that today we have a large proportion of the hotel spend, which is the leisure, even though there may be a dampening effect or not, then we are still missing the international big meeting events, et cetera.

Fredric Cyon

Analyst, Carnegie Investment Bank AB

And then, on the gross operating profit margin within Operating Activities, if I try to strip out the impact from government support, I get to a gross operating profit margin of about 24% for the second quarter, which is not far from the levels that we saw in 2018-2019, thereabout.

Liia Nõu

Chief Executive Officer, Pandox AB

Yeah.

Fredric Cyon

Analyst, Carnegie Investment Bank AB

I understand that probably efficiency has increased due to staffing not being at the same level, but I would imagine that you're looking to staff up. Is the 24% margin, at least the number I look to, is that kind of unrealistic to maintain the short-term or do you think pent-up demand will support similar margins in the next 12 months or so?

Liia Nõu

Chief Executive Officer, Pandox AB

We believe that they will be supported, coming back, closing back to 2019 levels.

Fredric Cyon

Analyst, Carnegie Investment Bank AB

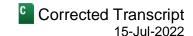
Perfect. And then the final question. Anything we should bear in mind, looking at rental income from Property Management, Q-on-Q, Q2 versus Q3, any seasonality impacts adjusting for the government support that we should be aware of?

Liia Nõu

Chief Executive Officer, Pandox AB

Q3 is – Q2 is typically the strongest quarter in the normalized world, but all the occupancies back and all additional normalization pattern is back, then Q2 is normally the strongest quarter. So having that in mind, then Q2 should be a stronger quarter than Q3. Then again, we have markets coming back later when it comes to Germany, Finland, we have when we look at what we have on our books, which probably is also sort of represented to some extent also for the Property Management, then, of course, bigger meetings announced, et cetera, are being on the sort of 2019 levels for the second half of 2019. So it's – the seasonal patterns are getting there. The expected effect of quarter-on-quarter – would tell you next quarter, but it's getting more and more normalized.

Q2 2022 Earnings Call



Fredric Cyon

Analyst, Carnegie Investment Bank AB

Thank you. I understand there are many moving parts. Those are all my questions.

Liia Nõu

Chief Executive Officer, Pandox AB

Great. Thank you.

Anneli Elisabet Lindblom

Chief Financial Officer, Pandox AB

Thank you.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to management. Please go ahead.

Anders Berg

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

Okay. Thank you very much for this. We will now hand over to Thomas Emanuel for the external market presentation, and thank you for your questions, and being active on the call. We really appreciate it.

Thomas Emanuel

Senior Director, STR

Thank you very much, Anders. Good afternoon, ladies and gentlemen. Pleasure to be with you this afternoon. Thank you to Pandox for the invitation. As was mentioned, I'm going to talk to you about the performance data that we're seeing, we'll have a look at a global level, but we'll really drill down our focus on Europe. I'll touch on obviously occupancy rates, average rates, as well as demand and some forward looking data as well.

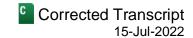
So if we can firstly move to the next slide, which is slide 28 in your pack, we have got here occupancy on a rolling 28-day basis indexed to 2019 for four major regions around the globe. And you can see actually the Europe, the US and the Middle East are all really rather aligned in terms of their recovery trajectory. The latest data we have available, Europe is 94% recovered, when indexed back to 2019. You can see there, China lags a little bit behind, but that is really as a result, of course, of the zero-COVID policy there.

If we move down now to the next slide, please. We can see there that weekend occupancy has recovered a little bit more strongly than weekday occupancy, which is still about 10% behind. But we are seeing, as you can see on this chart, very much an upward trajectory as we move towards the present day. But, of course, weekend demand has been a little bit stronger as much of the recovery thus far has been driven by the leisure sector. But we are increasingly seeing corporate demand return to those mid-weeks.

But if we look and think about what's really holding us back – if we then move to the next slide, please – you will see that it is group demand and that was referenced previously, it's still around 40% behind where it was in 2019. If you compare that to transient demand, we have been now fully back up above 2019 levels for some time now.

So groups are lagging, but we are starting to see that shift. So if you move to the next slide, please, you will be able to see that, we're just taking the selection of four European markets and looked at business on the books as

Q2 2022 Earnings Call



of the beginning of this month for the next 180 days. And we can already see it's festivals, it's concerts, it's equestrian shows, even in Vienna, all clearly showing that this event business is starting to return.

And then, if we move to the next slide, please, you'll see even in Germany, I think this is really important for the health of the European hotel industry, German markets have relied for many years on big events, the big masses, of course, and we can see that we've got the European Championships Athletics (sic) [European Athletics Championships] (42:37) in Munich, but then you've got those typical corporate mass events clearly being visible from a business on the books perspective. So the good news is, those corporate events are coming back and it's people's expectations that they will attend those and get back to normality effectively.

If we move to the next slide, please, you'll be able to see leisure is also very similar, a positive trajectory here. I've taken Edinburgh as the example. Lots of leisure demand, of course, into Edinburgh, particularly in the summer months with the Fringe Festival and other events. And we can see here that actually 2022 versus 2019 business on the books is effectively tracking at the same level. So that leisure driven event demand very much back to where it was pre-pandemic. So groups are starting to improve.

Let's move now to the next slide, please, and drill down on a country level. And what we have here is, again, rolling 28-day occupancy indexed to 2019 for some major European countries. Now, there is some variance in performance. We can see there Ireland leading the way, followed by Poland and the UK. The laggards as such Belgium, Austria and, of course, Russia, as you would expect to see. But what is quite interesting I think is that we have seen relatively little movement in the last few months, so pretty much recovered to a good extent to 90%-plus in most markets. But just waiting for that last little nudge to take it back over to above 2019 levels on a country level there.

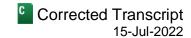
But if we scroll now to the next slide, please, and this is just looking at the month of May. This map is looking at all the hotels that submit their data to STR. And we've indexed occupancy for the month of May versus the month of May in 2019. You can see there's still a lot of red on this chart. There's still a lot of markets that are behind. You can make out some countries still lagging a little bit further behind. But we have got a lot of positives here as well. You can see there in the UK, in France, and also a lot of coastal markets as well across Spain, across Turkey, across Cyprus as well. So we're starting to see some clear pockets of recovery in those markets.

And if you move to the next slide, please, you will see this quite clearly with our business on the books stage. And I think these are some quite impactful slides really. Firstly, you've got the staycation market. So we've taken Devon and Cornwall in the southwest of England, which is very much a leisure-driven market, of course. And you can see here business on the books this year versus the same time last year, and it's very much in line. So even though people are able to travel a lot more, it's a lot more open as such, we're still seeing strong demand for staycation markets, and I think that will be another positive summer for those markets this year.

Looking to the other side of the chart, we've got the Balearics Islands. And I think this is where you see a big difference between this year and the same time last year, significantly more business on the books this year than last year. People are able to travel for the first time in three years confidently, although, of course, we are seeing some challenges at airports which may help our staycation markets. But generally speaking, very much people are encouraged and feel positive about being able to take those long-awaited holidays. So confidence very much returning.

If we can move now to the next slide, please, and you'll see May -again, the month of May indexed on 2019 for our major globe – our major European gateways. And it's a pretty positive chart. I think some markets already recovered fully from an occupancy perspective, there you can see Paris, Warsaw, Istanbul as well. And those that

Q2 2022 Earnings Call



haven't quite, they're quite close in most cases. We've got a few outliers, Prague and Budapest, I think a bit more challenged due to the lack of group business yet to recover fully. And then, of course, the further east you go in Russia and the Ukraine, for obvious reasons, occupancy somewhat softer.

Moving then to the next slide, please, and we've taken a selection of those key European markets and looked at occupancy on a rolling 7-day basis right up to Sunday, just gone. And actually, it's a more positive picture. And I think for these markets, you're going to see more positivity in June and again subsequently in July. And if we look on a rolling 7-day basis, for the last available week that we have, so effectively looking at the last calendar week, Berlin, Lisbon, Madrid, Paris, Warsaw, Rome, all above 2019 levels. So some real positivity coming through there when we look at our key European markets as we move closer to present day.

So if you could please now forward to the next slide, and we're going to change tact and we're going to have a look at average rate, which, as previously mentioned, has really been rather strong. And this is showcasing, again, average rate on a rolling 28-day basis indexed to 2019. And you can see there the US and Europe very closely aligned at about 20% above where we were in 2019.

The Middle East again, fully recovered, we've got some flexing of that line, but that's due to the shift in Ramadan. And China, again, lagging behind because of zero COVID. But certainly a good news story from a rate perspective in Europe. This is, however, nominal.

So if you could move to the next slide, you can see that we've actually looked at real ADR index from 2019 as well. And you can see that the positive there is effectively we are recovered in real terms when stripping out inflation as well.

So, of course, inflation is helping to increase average rates as we are today. But when we look at real ADR, it is still a fully recovered metric. And we believe that this will continue.

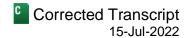
If you move to the next slide, you'll see here weekday versus weekend, again, weekend has recovered that much more strongly. But ultimately, if you look at the trajectory towards present day of weekday average rates, percentage change, it's growing. And as we've seen in those key markets, we're starting to see more and more corporate demands come back, more and more group demand as well. So expect this trend to continue.

Moving to the next slide, please, and we're looking then at country level rolling average daily rate, 28 days indexed to 2019 positive across the board. The Russian number I think is very much inflation-driven, about 17% inflation in Russia at the moment. But if we discount that market, you can see other European countries are all significantly above where they were in 2019.

And if we move to the next slide, again, please, that's the same slide as we saw but for occupancy, you'll see the difference. So, the sea of green, all of those green dots pretty much universally across Europe. It's a really positive picture.

If we can move on now to the next slide, I'd just like to touch on staycations again. And this is a slide that shows summer 2021 average rate indexed on 2019. And you can see there right across the continent, all of these markets that are driven predominately by leisure demand, really strong average rate growth. We would expect that to continue this year, but we'd also expect to see the introduction of those fly-to markets as that sector, international leisure demand recovers more strongly as well.

Q2 2022 Earnings Call



Moving on to the next slide, please, and you can see here luxury hotels continue to lead the way and average rates change this year. This is May year-to-date. So indexing very, very well compared to 2019, of course, less pricing sensitivity at the top end of the market. But we are seeing a slight case perhaps of the squeezed middle. And we will be looking at that ever more closely as we move forward, and average rates continue to be positive.

Moving to the next slide, and just drilling down and having a look at key European markets indexed on 2019. This is just for the month of May again. But again, it's a sea of green. Most markets above and in some cases significantly above where they were pre-pandemic and those that aren't, as you can see in the 1990s very much close to getting back to where they were.

And if we move to the next slide, again, echoing what was previously said, it's not just the gateways, it is our regional markets. I've taken the UK here as the example. You can see here across the United Kingdom, in our secondary and tertiary cities, average rates again for the month of May indexed to 2019 significantly above where we were previously.

And again, we do expect that to continue. If you move to the next slide, please, you will see business on the books, again, just underlying the returning demand. You've got concerts there, of course, in Birmingham, the Commonwealth Games are upcoming, which is going to be a major demand driver. And then if you're a wrestling fan, you will struggle to get a room in Cardiff in September. So again, underlying the events coming back not just to the big cities, but the secondary, tertiary markets as well.

Moving to the next slide and just one slide on GOPPAR here, you can see again it's positive despite rising costs, of course, for hotels, those average rates are really helping to drive forward the bottom line along with the efficiencies that were mentioned previously.

So looking at the next slide then, the sun is shining at the moment, and it's certainly our belief that the forecast for the rest of this year is universally a positive one. It should be good. But we do need to bear in mind that it was mentioned by one of the questions previously, if you move to the next slide, this is data from our traveler panel, the biggest barrier to future travel is now all about cost. It's not COVID, it's cost. And you can see that that is the biggest concern. So we do say enjoy the sunshine at the moment and we do have to consider that potentially there are some more challenging times ahead.

If you move to the next slide, I have to say I'm not a Game of Thrones fan, but I have it on good authority that this is very applicable, that winter may be coming 2023, we may see some more challenges because of the cost of living crisis. But if we move to the next slide, I think we do have to say we've got to remember we've come an awful long way. Things are very positive at the moment. And, of course, winter will not last forever.

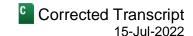
So I think we end on a positive note that ultimately the industry is in a good spot and we will ultimately enjoy it while it lasts. And with that, the last slide, just a thank you to you all for your attention and again to the Pandox team for the invitation. Thank you very much, indeed.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Thomas, for this hotel market update and for your formidable weather update as well. This is all, folks, and thank you for participating in this call. We really appreciate your time and interest in Pandox. Our interim report for Q3 is published on the 27th of October. So thank you. Have a great summer, everyone. Stay at our hotels and enjoy life. Goodbye.

Q2 2022 Earnings Call



Anneli Elisabet Lindblom

Chief Financial Officer, Pandox AB

Goodbye.

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