Hospitality in 2021: Reasons to be Cheerful

AHV Associates Research Report
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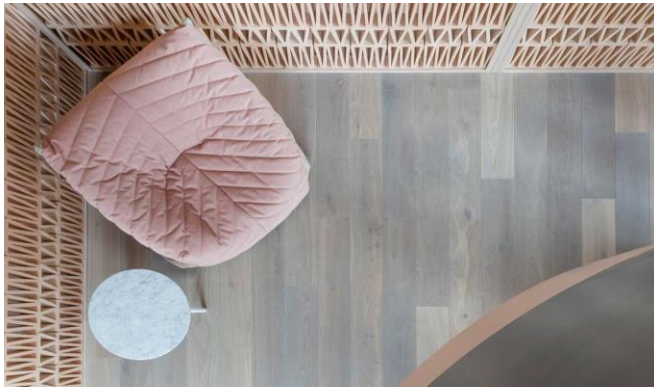

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AHV Associates: An Introduction

Founded in 2001 by Andrew Harrington, AHV Associates LLP (AHV) is an award-winning boutique investment bank focused on advising private companies across a range of M&A and advisory assignments

AHV Associates LLP

Mergers & Acquisitions

- Buy-side advisory
- Sell-side advisory
- Joint ventures
- Management buyouts

Board Advisory

- Strategic options assessment
- Independent valuations

Capital Raising

- Corporate debt / equity
- Acquisition finance
- Growth capital
- Real estate finance

AHV specializes in hospitality and has worked with companies that own and/or operate hotels, apart-hotels, serviced apartments, hostels and mixed-use resorts

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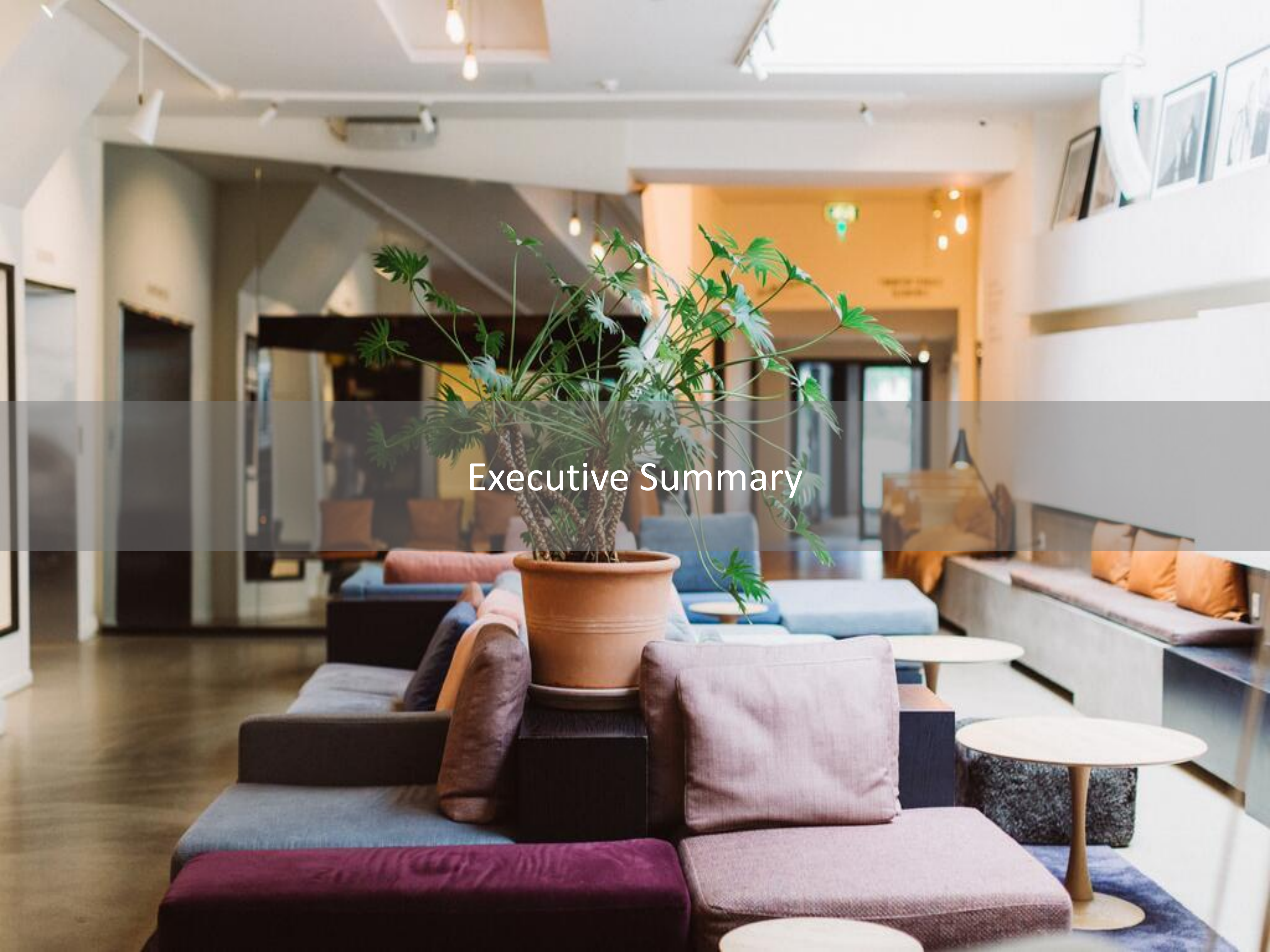
Executive Summary



Executive Summary: Reasons to be Cheerful

- In our July 2020 report, we highlighted the differences between the 2020 Covid-19 crisis and the Global Financial Crisis of 2008 to 2010. Specifically, in 2020 there has been substantial and rapid government support, improved capital reserves of banks and high levels of dry powder in private equity/debt funds. We also argued that hospitality would emerge stronger and more efficient, and that long terms trends in business and leisure travel would quickly reassert themselves
- Four months have passed, and there is now strong evidence that supports our July assessment:
  - Governments have continued to provide support to the economy through further Covid interventions
  - The IMF and several investment banks have substantially improved their forecasts for the global economy following a much better than expected summer rebound. Many economic forecasters now expect a V-shaped economic recovery in 2021
  - Hotel operators have highlighted the resilience of some segments of business travel, the strength of leisure travel over the summer, permanent reductions in operating costs and strong demand in certain sectors, such as aparthotels, resorts and budget hotels
  - The recent announcements of the imminent arrival of one or more vaccines have boosted investor confidence with stock indices of quoted hospitality and travel companies now trading at a 15% to 20% discount to their January level, up from a 50% discount in April
- There is now a very positive scenario emerging for 2021:
  - We expect confidence to improve rapidly and that the first part of 2021 will see a significant increase in travel and hotel bookings
  - Hotel operating metrics will show a strong improvement
    - Operating margins will increase due to the efficiency gains made during the Covid-19 crisis
    - ADRs will rebound due to reduced competition as marginal players withdraw from the market and new developments are delayed
    - The relation between operators and real estate owners will improve and there will be widespread acceptance of hybrid leases
  - The recovery is supported by low interest rates, well-capitalised banks and large amounts of dry powder in private equity/debt funds
  - Lenders will continue to be very supportive of hotels as the period of covenant waivers and repayment holidays ends
  - We expect distressed sales to be limited and valuations overall to be only marginally impacted relative to 2019
  - There will be strong activity in hospitality capital raising and M&A transactions

Macroeconomic Outlook

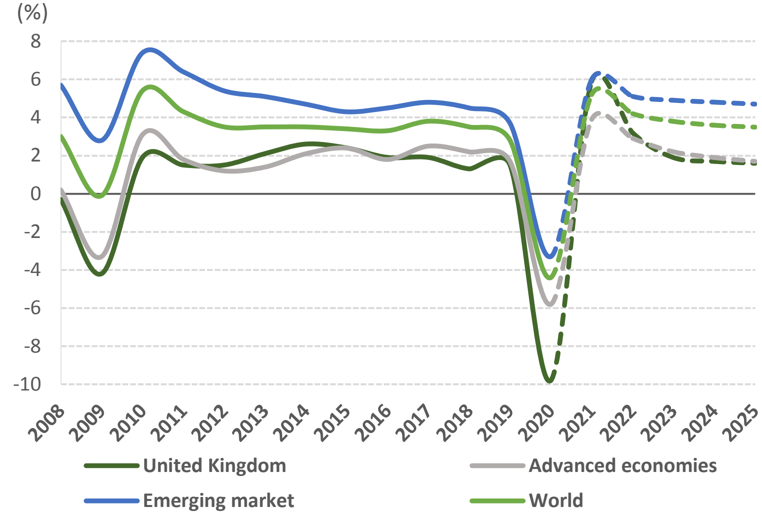
Macroeconomic Outlook Overview: Attractive Scenario for Investment in Private Businesses

- Although GDP has been dramatically hit this year around the world, the latest IMF forecasts for economic growth revised in October have significantly improved since our last research report published in July 2020
- Economies have been extensively supported via fiscal and monetary measures implemented by both governments and central banks, who have reacted swiftly to the crisis. This prompt reaction from public institutions is in marked contrast to the delayed actions during the Global Financial Crisis in 2008
- As a result of the massive fiscal stimulus issued, debt to GDP ratios have skyrocketed. Yet IMF economists have argued that debt will be sustainable in the future and those measures should be maintained as long as uncertainty due to Covid-19 persists
- The net effect is that a V-shaped economic recovery looks likely. According to several forecasters, rapid recovery is typical after natural disasters, especially when governments are extremely supportive. The recent news that vaccines could be released from December 2020 support this view and is likely to outweigh the impact of the recent further restrictions that have been imposed in many countries
- Financial markets dramatically collapsed in March but have today regained most of the losses experienced. Benchmark interest rates are very low, with some government bonds now having negative yields. Corporate bond yields are likewise heading lower thanks to massive bond-buying programmes adopted by several central banks
- These factors, together with high levels of dry powder, are very supportive for investment in private businesses, which we expect to increase significantly in the next 6 months

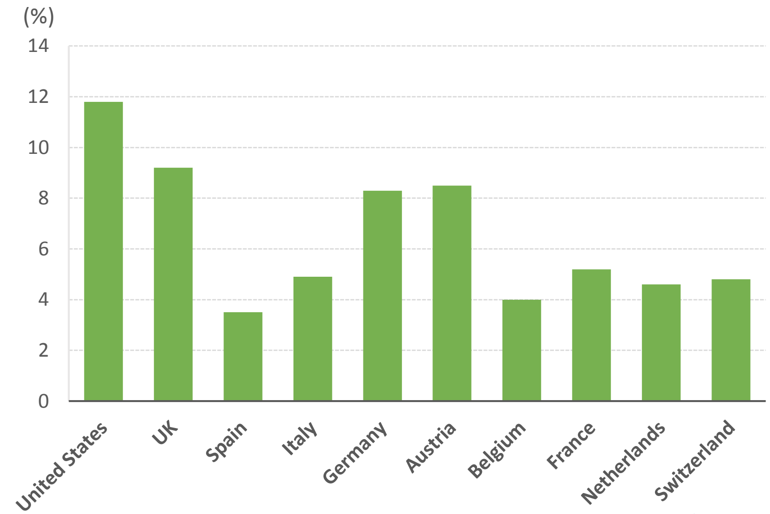
Macroeconomic Trends: Much Better Outlook than Previously Anticipated

- After collapsing in the first half of the year, economic output started to recover during summer as countries gradually eased measures
- GDP forecasts for 2020 from the IMF report updated in October are significantly higher than was anticipated in their June outlook:
  - Global GDP: Oct. - 4.4% vs. June -4.9%
  - Europe: Oct. - 7.2% vs. June -10.2%
  - Advanced Economies: Oct. -5.8% vs. June -8%
  - China: Oct. +1.9% vs. June +1%
- Total global fiscal stimulus is now c.$11.7 trillion, close to 12% of global GDP, while in our July ‘20 research report it was at a 9% level. Support is around six times higher than global stimulus spending in 2009, and has been implemented much quicker
- The IMF has urged countries to maintain fiscal stimulus for as long as necessary, has remained relaxed about the level of debt that governments have incurred and encouraged governments to avoid austerity measures
- In addition to these positive trends, the IMF is predicting a V-shaped recovery, which is a typical path for economies after natural disasters, as opposed to financial crises
- Furthermore, the recovery has been further supported by the recent news of the viability of a number of vaccine candidates and is unlikely to be impacted by the recent adoption of restrictive measures in response to the second wave of infections

Real GDP – IMF Forecasts



Fiscal Stimulus as % of GDP – IMF Forecasts

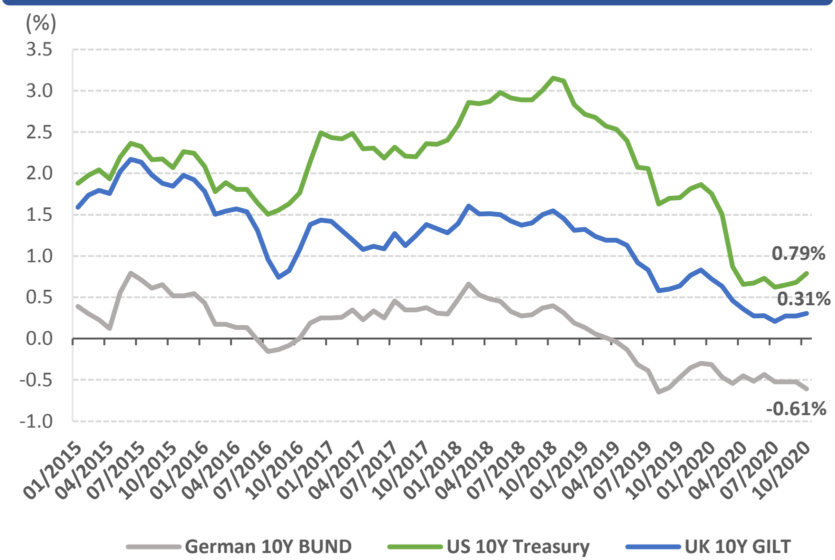


Source: IMF “World Economic Outlook Update” (June and October 2020), AHV Research Report July ‘20

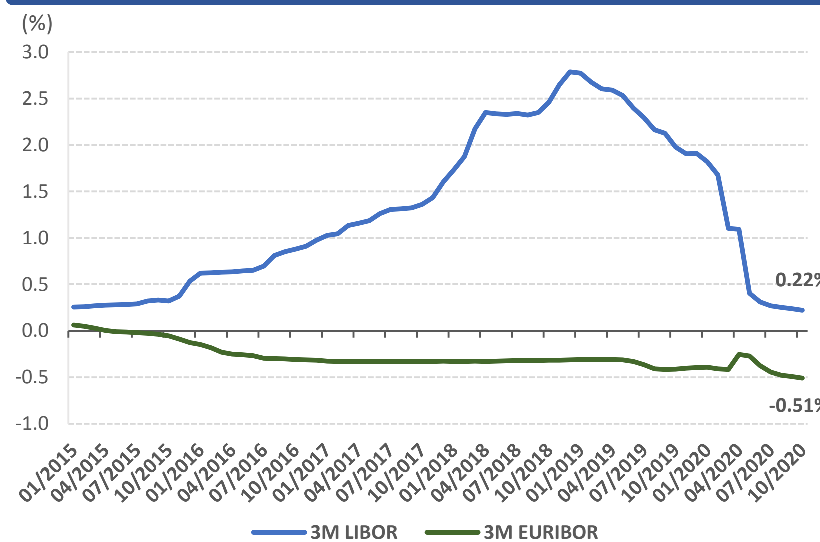
Interest Rates Outlook: Very Low Borrowing Costs

- Sovereign bond yields have fallen sharply, supported by aggressive measures by central banks: the rate of return of the 10Y US Treasury is c.0.6%, while the rate of return of the 10Y German BUND is about – 0.5%. After credit spreads widened in March, central banks have started to buy corporate bonds and corporate yields have also fallen
- Central banks have promptly responded to this unprecedented shock, slashing interest rates to almost zero and setting a context of low interest rate environment: ECB (- 0.50%), FED (0.25%), Bank of England (0.10%) and Bank of Japan (- 0.10%). Additionally, during the latest meetings of several central banks, they have remarked their intention to keep interest rates at low levels for some time in an effort to support a stronger economic recovery
- In the current low interest rates environment, borrowing costs are very low, making it cheaper to get loans from banks which are in a far better position than in the GFC and have extensive capital reserves available to be deployed

Sovereign Bond Yields



3M EURIBOR and 3M LIBOR Interbank Rates

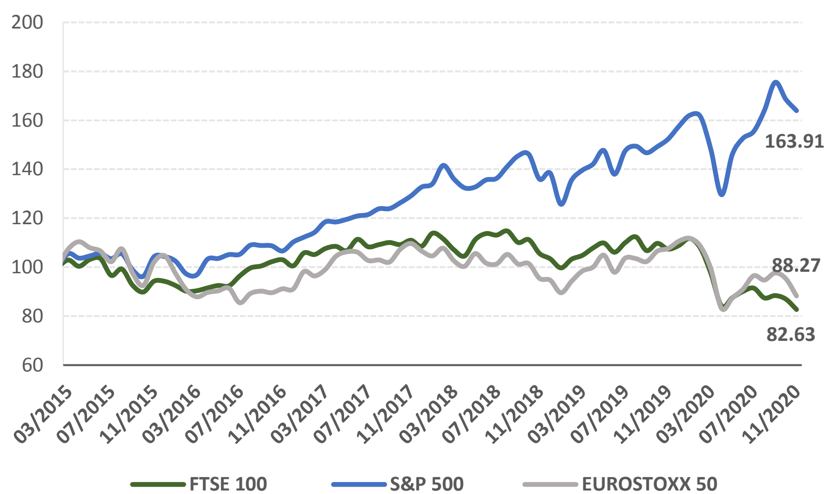


Source: ECB, FED

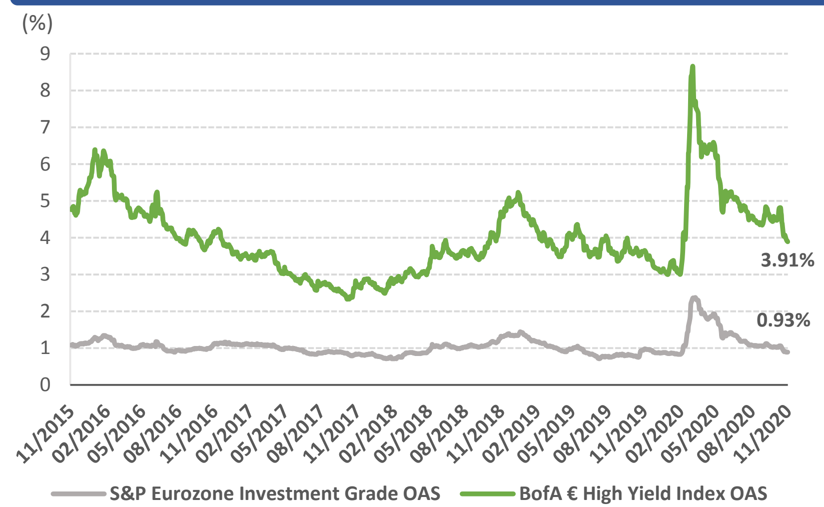
Financial Markets: Very Supportive of Investment in Private Assets and Businesses

- Low yields on publicly traded corporate bonds and highly valued equity markets make privately owned assets and businesses very attractive from an investment perspective as they can potentially deliver much higher returns, albeit for higher risk
- After peaking at a spread of almost 9% in March 2020, the high yield corporate bond index for the Eurozone has fallen sharply and is now around a 4% spread. The investment-grade spread has followed a similar path; it peaked in March 2020 at more than 2%, but it has quickly lowered to 1% as of November 2020
- Equity indices regained most of the losses experienced in the first half of the year, with 23rd March 2020 being the worst day with a fall of c.30%. After the recent news of vaccine efficacy, indices have strongly rebounded, and some, e.g. S&P 500, are now at an all time high
- Furthermore, investments in private assets and businesses are set to attract strong interest from private equity and private debt funds, which, despite the current crisis, have raised substantial amounts of capital in the first nine months of 2020

Major Indices Cumulative Returns



Eurozone Option Adjusted Spread Corporate Bond Index



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Source: Capital IQ, FED Database

Operational and Tourism Outlook

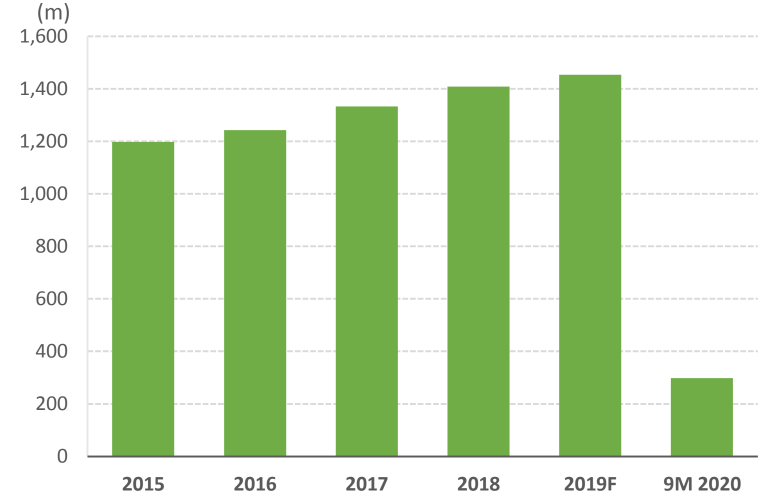
Operational and Tourism Outlook Overview: Reasons for Optimism

- The outbreak of this Pandemic has forced countries to shut down their borders. Tourism and travel almost halted for the first half of 2020, causing extensive operational and financial damage to many companies in the hospitality industry
- As people have been forced to stay at home and hotels were shut down, hotel bookings data from UNWTO have showed a significant decline across the year compared to the same period in 2019
- China and other Asian regions have reopened ahead of the rest of the world and tourism statistics, as reported from STR and UNWTO, have quickly improved. Hotel bookings rebounded strongly, driven mainly by 'staycations' and domestic travel, and hotel operators have also noticed strong signs of recovery in occupancy rates and ADR
- Europe and the US have also seen a recovery after lockdowns were eased in June. 'Staycation' has been a major trend in Europe and the US, where tourists have mainly travelled in their home country to avoid quarantine restrictions, while US hoteliers have also seen a rebound in business travel from blue-collar workers. These trends, together with demand from keyworkers, have supported significant outperformance from aparthotels, budget hotels and out of town resorts
- These trends show that people, in general, want to travel again and stay in hotels. They currently have preferences concerning locations and type of accommodation to stay in, with a focus on hygiene and space. However, the trends also suggest that hotel performance generally is set to rebound significantly as restrictions on travel are abandoned, perception of risk continues to decline and confidence is restored
- International hotel companies are set to benefit as well, as independent hotel owners tend to gravitate to trusted brands in uncertain times. Indeed, the large franchisors have been aggressively expanding their footprint during the last 6 months
- As stressed by the CEO of Wyndham Hotel and Resorts during the release of Q3 2020 report, some areas of business travel have significantly recovered and, as outlined by several CEOs of international hotel chains, hotel groups have worked over the last 6 months to make significant permanent improvements in efficiency
- Therefore, we expect the hotel industry to recover strongly in 2021, while well capitalised and major international brands will bounce back earlier and stronger. We also expect operating margins to improve, primarily driven by gains resulting from cost cuts implemented during 2020, and ADRs to strengthen, driven by reduced competition

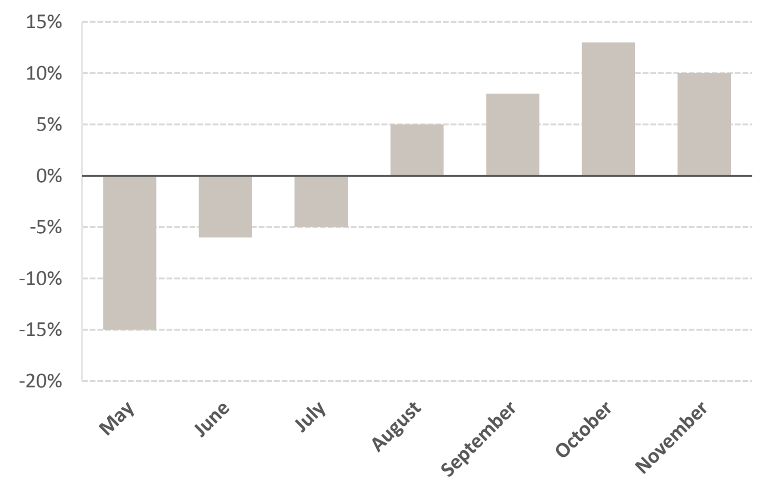
Tourism Trends: Big Rebound when Confidence Improves

- According to UNWTO data, international tourist arrivals dropped by almost 80% during the first three quarters of the year
- The Asia Pacific region has started to recover ahead of the rest of the world, as they were first hit by the Pandemic. Across Asia, China has outperformed other markets. This can be seen by the substantial increase in airline seat capacity from August
- The impressive rebound in Asia Pacific countries, which is ahead of the rest of the world and where bookings are growing strongly, shows that when confidence in public health is restored, tourism will swiftly recover
- North American states saw an impressive recovery during the summer period, benefitting from a big rebound in domestic travel
- Europe has recovered slowly, and many countries have seen a boom in 'staycation' as tourists have travelled within their home country to avoid quarantine measures. In the UK, Savills reports that many traditional UK summer resorts recorded occupancy rates of over 90% throughout August
- Hotel bookings dropped dramatically, yet the 'Travel Sentiment Survey' published by Oliver Wyman, a management consulting firm, has found that tourists are willing to restart travelling but are hesitating because of the potential for further restrictions following a new surge in cases. Thus bookings are often happening within 7 days of stay

International Tourism Arrivals – Global Perspective



Chinese Domestic Market Airline Seat Capacity ('20 vs. '19)



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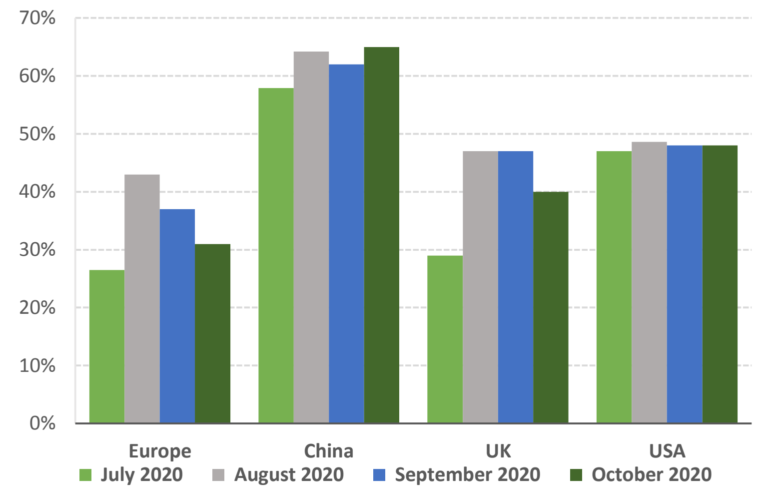
Source: 'UNWTO Tourism Recovery Tracker', Savills, OAG, Oliver Wyman 'Traveler Sentiment Survey'

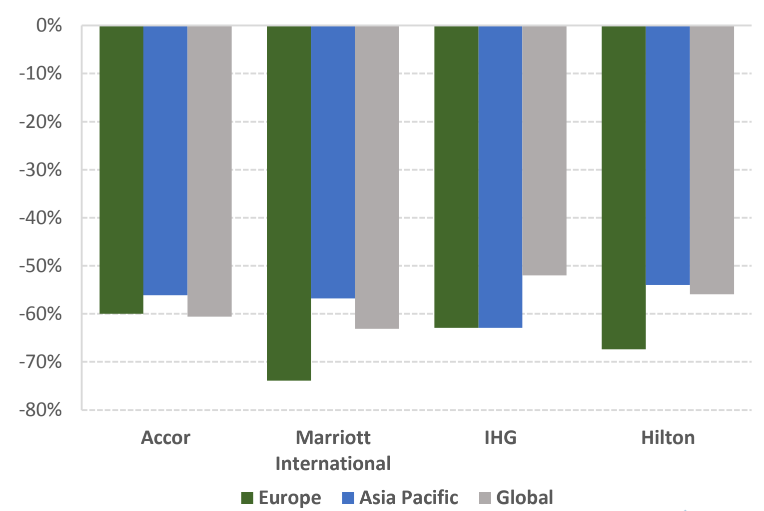
Operational Trends: Further Expansion of Established Brands

- Since June, Asia Pacific regions have seen continued growth in occupancy rates; China is leading the recovery, having reached 90% occupancy during the holiday period in the first week of October:
  - Occupancy Rate (China – July '20): 58%
  - Occupancy Rate (China – Aug '20): 64%
  - Occupancy Rate (China – Sep '20): 62%
  - Occupancy Rate (China – Oct '20): 65%
- Despite challenges posed in the last six months for the hospitality industry, many established brands, which can count on their position of strength and leadership, have expanded their global portfolio over the first three quarters of 2020:
  - Accor signed 14 new developments in the UK, Ireland, Netherlands and Belgium
  - IHG opened 90 new hotels and 181 new projects were signed
  - Whitbread added 15 new hotels to the Germany portfolio
  - Wyndham Hotels & Resorts signed 59 new properties in the APAC region
- In the short-term, hotel businesses have adapted to the new normality and often formed strategic alliances with third parties (e.g. Hilton and Mayo Clinic, Radisson and SGS, Accor and Bureau Veritas) to demonstrate their commitment to cleanliness and to restore consumer trust. However, many of these measures will be abandoned when the perception of risk disappears

Occupancy Rates Major Economies



Decline in RevPAR Major Hotel Companies (YTD)



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Source: STR, 'UNWTO Tourism Recovery Tracker', Companies' reports

The View from Operators: Business Travel Still There, Long Term Efficiency Gains in Prospect

- With the release of Q3 reports, several hospitality operators have publicly stressed some interesting trends, which have additionally been supported by private conversations between AHV and a wide range of international hoteliers. For example:

1. Several segments within business travel have endured the crisis better than expected and this area of travel will generally improve much quicker as the economy rebounds

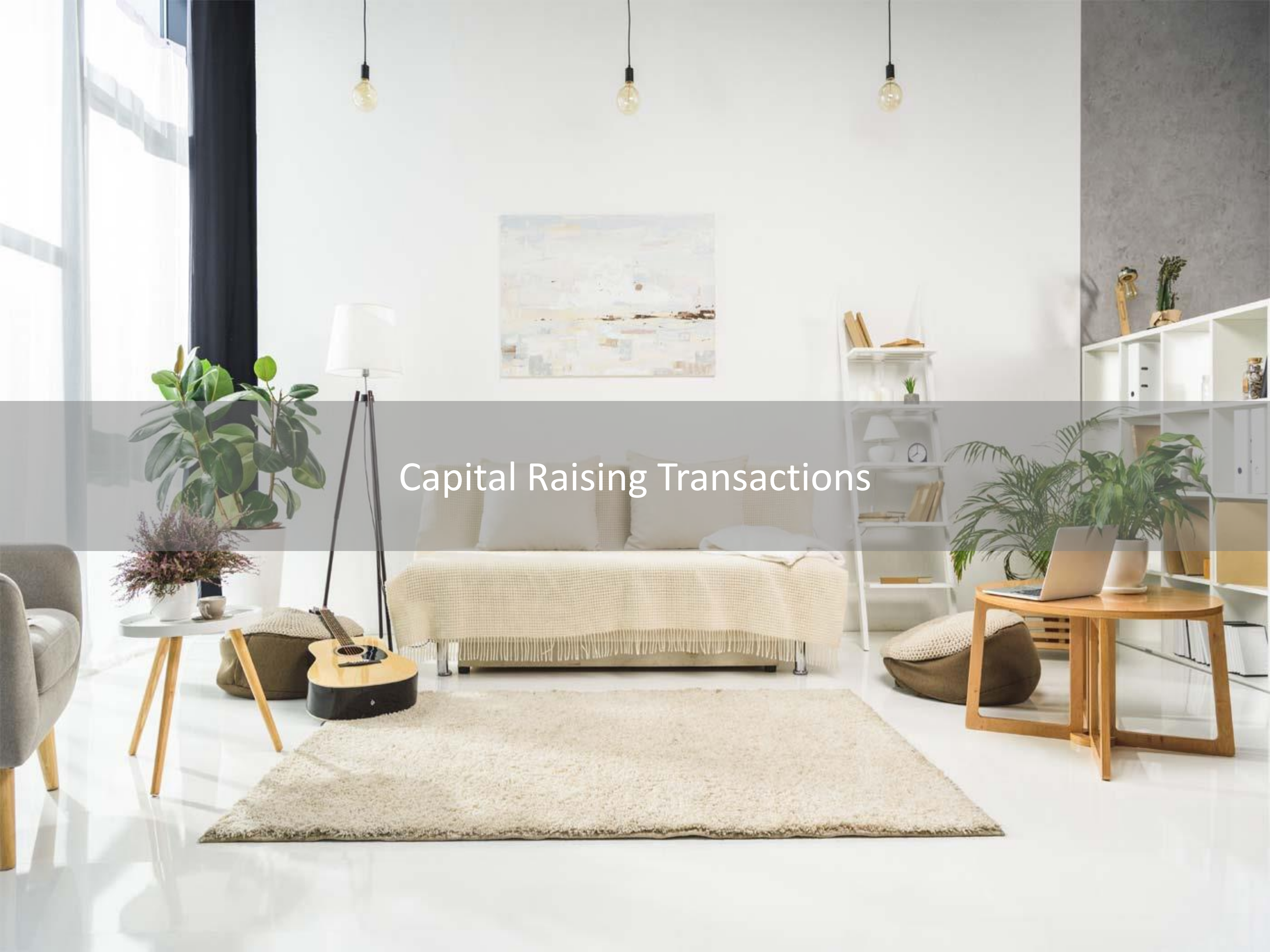
   - The Host Hotels & Resorts CEO, James F. Risoleo, stressed that demand from business travellers will recover in line with broader economic growth because he argues that the ROI generated for businesses is enormous
   - The Wyndham Hotels & Resorts CEO, Geoffrey A. Ballotti, claimed that travel demand from blue collars workers, mainly those from infrastructure or logistic industries, has been strong during Q3 ’20

2. As a result of hotel shut downs and decline in revenues, many hoteliers have focussed on cutting costs, thus making the operations of the businesses more efficient. The gains in efficiency will have long term positive implications for breakeven RevPARs and ultimately profitability

   - Hilton CEO, Cristopher J. Nassetta, claimed that, depending on the brand, breakeven occupancy has been reduced by 3% to 5%
   - Hyatt hotels have reduced SG&A expenses by 25%, IT costs by 15% and marketing fees by 50%; and
   - Marriott’s cost cutting programmes have primarily targeted sales, marketing and IT expenses. On average, general and administrative costs are likely to be 20% lower in 2021 than they were in the past years

3. Anecdotally, individual hotels are also cutting costs through the introduction of Bluetooth door entry, online check-in and software platforms for more efficient management of back of house operations. Many also expect to see paid-for housekeeping services in mid-market and budget hotels, with frequency-dependent on customer requirements, and fewer reception staff throughout the industry. These changes will permanently reduce operating costs and increase operating margins

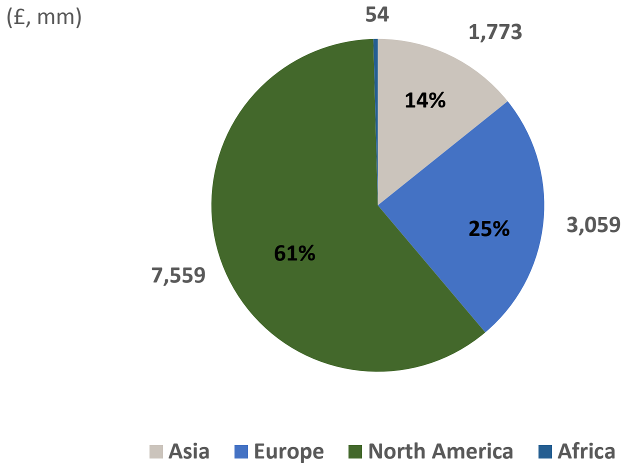
Capital Raising Transactions



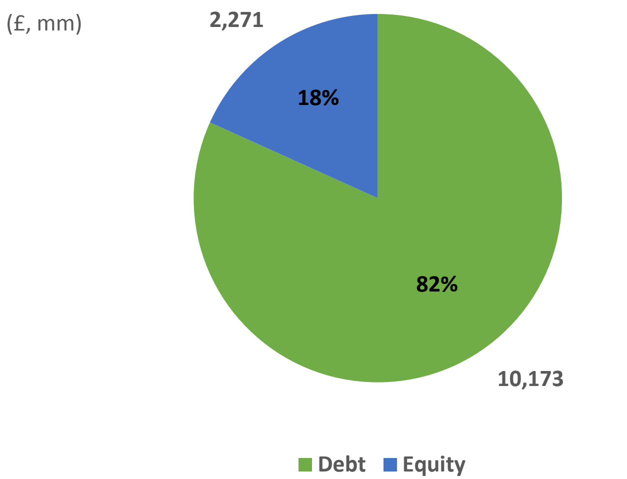
Capital Raising Overview: Large Amounts of Unspent Capital to Support the Recovery in Hospitality

- During the worst of the Pandemic, hotels have seen their revenues fall dramatically and both public and private companies have relied on debt or equity issuance to cover cash outlays
- The Debt and Equity markets have remained open and many large quoted hotel companies have been able to borrow or raise equity
- Debt raised from hotel firms on public markets since March 2020 amounted to c.£10 billion with the use of funds generally stated to be to maximise their liquidity position, repay debt outstanding or for general corporate purposes
- Equity issuance reached more than £2 billion and have been used mostly to strengthen balance sheets, fund capex investments and working capital needs or expand the business into new locations as Whitbread is planning to do in the UK and Germany
- Furthermore, lenders have been very receptive to negotiating amendments to existing credit facilities so as to enable their clients to navigate the crisis. We expect this to continue in 2021, supported by the positive outlook for hospitality in 2021 (see page 11)
- Bank capital remains very high and liquidity very strong both from banks and private investors. Private equity and debt funds have large amounts of dry powder and many new funds have raised capital from investors with the specific aim of acquiring hotel properties globally

Capital Raised by Hospitality Firms on Public Markets since March '20 (by location)



Capital Raised by Hospitality Firms on Public Markets since March '20 (by type of security)



Source: Capital IQ

Debt Capital Market Activity: Strong Demand for Public Debt Issued by Hotel Companies

- The current pandemic has forced many hotels to shut down and revenues have consequently fallen dramatically. Many large companies have been able to source capital from the debt markets to navigate this crisis:

Company	Date	Security	Location	Amount (in mm)	Yields at Issuance	Latest Yield*	Capital Uses
Marriott International	14/04/2020	Bond	USA	$1,583	5.75%	2.06%	▪ General corporate purposes ▪ Working Capital ▪ Repayment of debt
Hilton Hotels & Resorts	16/04/2020	Bond	USA	£385	5.75%	3.80%	▪ General corporate purposes
	16/04/2020	Bond	USA	£385	5.38%	3.15%	▪ General corporate purposes
Hyatt Hotels & Resorts	21/04/2020	Bond	USA	$450	5.38%	2.53%	▪ Repay debt ▪ Other general corporate purposes
	21/04/2020	Bond	USA	$450	5.75%	3.35%	▪ Repay debt ▪ Other general corporate purposes
Huazhu Hotels Group Ltd.	07/05/2020	Bond	Asia	£362	3.19%	-	▪ Repurchase existing convertible note and repayment of debt
Park Hotels & Resorts	18/05/2020	Bond	USA	£531	7.14%	4.58%	▪ Repay revolving credit facility and general corporate purposes

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Latest yield refers to 12/11/2020

Debt Capital Market Activity (cont'd)

Company	Date	Security	Location	Amount (in mm)	Yields at Issuance	Latest Yield	Capital Uses
PARK HOTELS & RESORTS	27/05/2020	Bond	USA	$750	7.50%	4.58%	▪ Repay term loan and revolving credit facility
Marriott INTERNATIONAL	28/05/2020	Bond	USA	$987	4.70%	2.85%	▪ General corporate purposes ▪ Working Capital ▪ Repayment of debt
WYNDHAM HOTELS & RESORTS	10/08/2020	Bond	USA	£382	4.38%	3.84%	▪ Repay existing debt
Marriott INTERNATIONAL	12/08/2020	Bond	USA	$986	3.57%	2.69%	▪ General corporate purposes ▪ Working Capital ▪ Repayment of debt
HYATT HOTELS & RESORTS	26/08/2020	Bond	USA	£569	3.24%	1.74%	▪ Increase liquidity
PARK HOTELS & RESORTS	15/09/2020	Bond	USA	£564	5.88%	4.88%	▪ Repay term loan and revolving credit facility
IHG®	08/10/2020	Bond	Europe	£396	3.38%	2.56%	▪ General corporate purposes
	08/10/2020	Bond	Europe	£453	1.63%	1.19%	▪ General corporate purposes

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Latest yield refers to 20/11/2020

Equity Capital Market Activity: Strong Demand for Equity Investments in Hotel Companies

- Many other public hotel firms have decided to rely on equity issuance to increase liquidity and shield their balance sheet to tackle the losses that occurred as a result of the shutdown:

Company	Date	Security	Location	Amount (in mm)	Capital Uses
WHITBREAD	21/05/2020	Follow-on Offering	Europe	£980	▪ Ensure that the company emerges from Covid-19 with a strong Balance Sheet and support expansion in the UK and Germany
Scandic	1/06/200	Follow-on Offering	Europe	$188.69	▪ The proceeds of the issue will be deployed for general corporate purposes and working capital uses
fabilia HOTELS & RESORTS	7/08/2020	IPO	Europe	€1.73	▪ The IPO will support the company to expand the business domestically and internationally
DALATA HOTEL GROUP PLC	1/09/2020	Follow-on Offering	Europe	£84	▪ Management wants to strengthen the balance sheet and provide competitive advantage in securing long term leases
Jin Jiang International 锦江国际	2/09/2020	Follow-on Offering	Asia	£550	▪ Jin Jiang will fund the refurbishment of its hotels and the repayment of loans
HUAZHU HOTELS GROUP LTD.	9/09/2020	Follow-on Offering	Asia	£602.2	▪ 40% to fund capex and expenses to strengthen the network of hotels ▪ 30% to repay part of the debt ▪ 20% to enhance its technology platform ▪ 10% for corporate purposes

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Notable Capital Raising Deals for Private Companies

- Despite the crisis, many private companies in the hospitality industry have been able to raise capital from investors and very often funds were targeted for expansion plans or development and completion of new hotels:

Company	Date	Security	Location	Amount (in mm)	Capital Uses
SONDER Short-rental company	24/06/2020	Series E funding	Global	$170	▪ Expand units in more locations targeting distressed independent hotels to be renovated
MANDARIN ORIENTAL THE HOTEL GROUP Luxury hotel company	28/07/2020	Senior secured financing	Vienna	€120	▪ The loan will fund the development of a 5-star hotel in a prime location, providing 150 rooms and 17 luxury apartments
AMANO GROUP excellion capital Joint Venture	13/10/2020	Development Loan	London	£49	▪ Manex Properties received planning consent to convert an office building into a 141 keys Amano Garden Hotel and Leumi UK has financed the conversion
staycity APARTHOTELS Aparthotel operator	20/11/2020	Debt and equity refinancing		£63	▪ The Ireland Strategic Investment Fund has taken a 13% stake in the business and a £30m loan was provided by OakNorth to ensure the company will be fully capitalised to continue its expansion and to repay debt

Major Funds Raised for Hotel Investments

- Private equity and private debt funds have been broadly active across 2020, they have raised new money from their investor to target valuable opportunities in the hospitality sector:

apg / AZORA

Name of the fund:
European Hotel & Lodging

Capital raised:
€680m

APG has backed the fund managed by Azora that will achieve around €1.5bn investment firepower and will focus on acquiring hotels in sun and beach destinations together with urban lodgings across Europe. Investors have confidence in the long term performance of the tourism industry

CGI Merchant Group

Name of the fund:
Fund to acquire distressed hotels

Capital raised:
€500m

CGI's fund plans to acquire approximately 20 properties in North America and the Caribbean regions and to rebrand them as Hilton hotels. CEO of CGI has a very bullish view with regard to the future of hospitality and intends to take advantage of actual buying opportunities arisen with the Pandemic

Destination Capital / MFC Asset Management plc. / ktbst SEC

Name of the fund:
Fund to revive Hospitality

Capital raised:
THB 1.5bn

Destination Capital aims to acquire 12/15 assets in Thailand over the next 18 months. The Bangkok-based PE firm's strategy is to source prime-located freehold hotels and resorts of c.200 rooms positioned in key urban and resort locations and add value to repositioning and rebranding to generate meaningful returns

Driftwood Capital

Name of the fund:
Mezzanine lending fund

Capital raised:
$100m

Driftwood Capital, specialized in hospitality investments, intends to provide capital to struggling hotel businesses via mezzanine loans and preferred equity as they expect many properties will need an injection of capital in the aftermath of the Pandemic. They target high-quality boutique hotels and resorts across the US

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Major Funds Raised for Hotel Investments (cont'd)

Name of the fund:
European Hospitality Fund

Capital raised:
€50m

Limestone Capital, a joint venture of several family offices, is looking to invest directly in real estate assets across Europe and acquire them at attractive entry-level prices as A. Schutz, general partner, has highlighted that many properties are now in a distressed position

Name of the fund:
Acquire Hotels

Capital raised:
$250m

Twenty 14 Holdings, the hospitality arm of Lulu Group, is on the lookout to acquire hotels in Europe and India as part of its expansion plans to create a mixture of city and resorts properties. The group has confidence that the hospitality sector will bounce back in the next 24 to 36 months

Name of the fund:
European Operating Hotels I

Capital raised:
€425m

Schroders Real Estate is expected to raise a total dry powder of €800m (including leverage) and invest it in the European real estate sector. The Group wants to take advantage of attractive opportunities and create a high-quality, diversified portfolio of hotels across Western Europe

Name of the fund:
Alta Hospitality Fund Asia

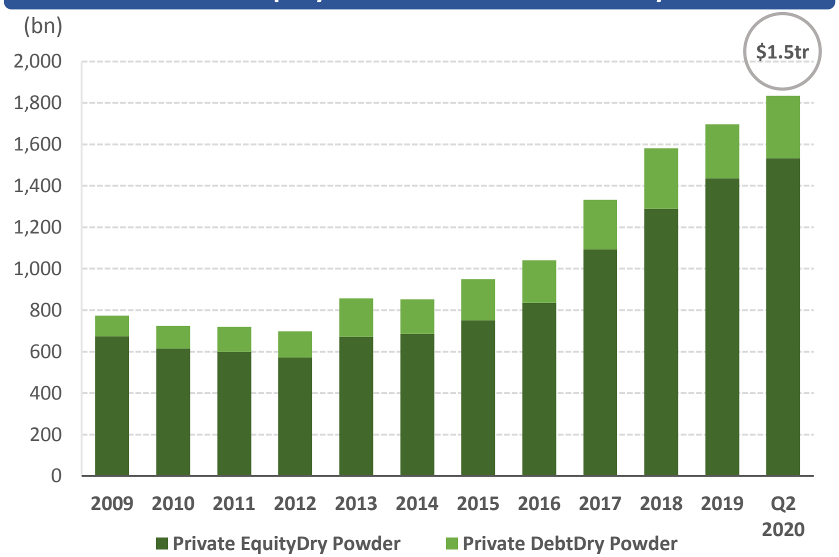
Capital raised:
$50m

Alta Capital Real Estate, a private equity firm, launched its first hospitality fund, which is expected to generate an IRR of between 15% and 25% over a six year period. The focus will be on undervalued boutique hotels, wellness retreats and villas with 50 to 150 keys and will be repositioned and rebranded

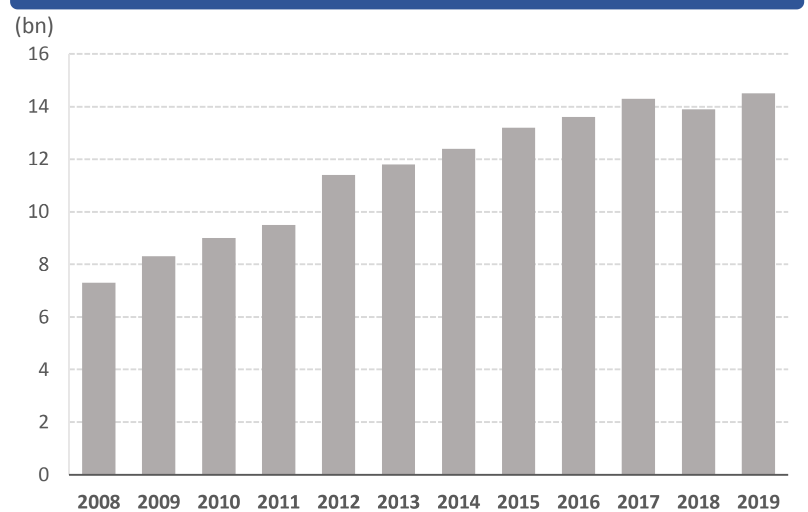
Availability of Capital: Bank Capital Very Strong and Fund Dry Powder Very High

- Capital is extensively available from mainstream banks, as they are in a much better position than in the GFC. Since then, they have increased their capital reserves, with their Common Equity Tier 1 (CET1) ratio, which measures the amount of equity they have compared to risk-adjusted assets, almost double 2008 levels. Up until recently, they have been focussed only on supporting their existing clients. We expect that to change
- Substantial amount of capital is extensively available from challenger banks that are very keen to expand their portfolio of clients and gain more market share and they are also willing to lend money to hospitality businesses (e.g. OakNorth Bank and Staycity transaction)
- Private Equity dry powder has reached very high levels, reaching c.$1.5tr at the end of Q2 2020. Likewise, Private Debt dry powder is also at very high levels and currently stands at $300bn. These funds are ready to be deployed in financing operating businesses and real estate assets
- Many funds that target hotel assets want to take advantage of the current disruption and make opportunistic bets; investors are mainly focussed on assets in prime cities or resort locations, but will look at any opportunity

Global Private Equity and Private Debt Funds Dry Powder



CET1 Ratio



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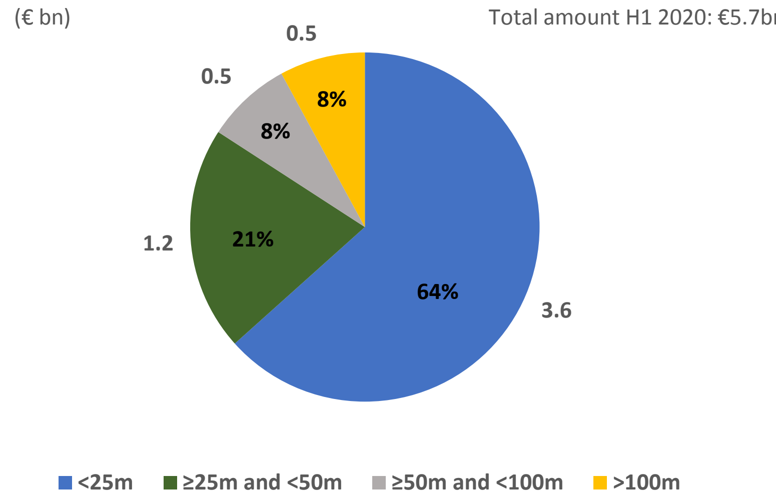
Source: Preqin, ECB

Transactions

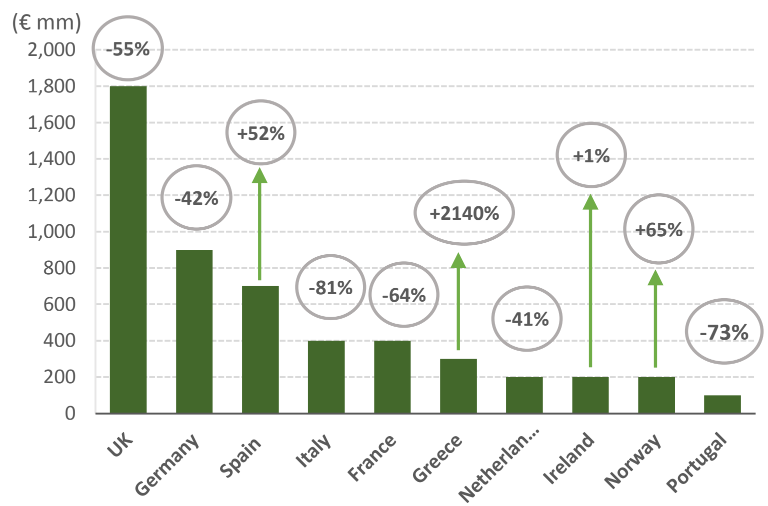
Transactions Overview: Few Transactions in 2020

- There has been a drop of 56% in European hotel transactions in the first six months of 2020, compared to the same period in 2019, but it still reached €5.7bn. Approximately 75% of the transactions completed, were agreed before the Pandemic was declared
- Transaction activity has stalled for some months, with the main hurdle being the difficulty in obtaining debt for hotel investments, a factor which is likely to change significantly as confidence improves. It is clear that investors are very interested in the hotel sector and more deals are expected to come back as the Pandemic is under control, likely in the first months of 2021
- In Europe, few transactions have involved a portfolio of assets, with most of the deals being single assets with a size below €25m
- Assets in prime locations in core cities together with leisure properties have remained attractive because of the resiliency of these key markets (e.g. prime assets in London like The Ritz Hotel), with the UK showing once again that it is the most liquid market for hotel investments. This trend has cemented even more the leading position of cities like London, Paris and Berlin, although these markets have all been amongst the most badly affected by the Pandemic
- We expect the number of transactions to rebound in 2021 as confidence returns and operating trends show signs of significant improvement
- Assets that were marginal before the crisis are the most likely to be distressed once government support ends, and may well be sold at a discount. Apart from that, we do not expect valuations to be significantly different from 2019, due to the very low level of interest rates, and the high level of capital availability

European Hotel Transactions H1 2020 (by deal size)



Top 10 European Markets by Transaction Volume (H1 2020)



Source: HVS, Cushman and Wakefield

% Changes in transaction volumes are compared to H1 2019

Relevant Portfolio Transactions

HENDERSON PARK

Hines

→ **Portfolio of 5 Greek Hotels**

- **Date:** June 2020
- **N. Of keys:** 5 hotels (1,094 rooms)
- **Location:** Crete (Greek Island)
- **Price:** Undisclosed
- **Comments:** All the hotels in the portfolio have a strong track record of occupancy levels and offer a significant potential to create value through renovation, brand repositioning and proactive management**.** The transaction has allowed buyers to capitalize on a distressed situation, acquiring high quality assets at an attractive price

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HIGHGATE → Colony Capital

- **Date:** September 2020
- **N. Of keys:** 197 hotels (22,676 rooms)
- **Location:** Global
- **Price:** $2.8bn
- **Comments:** With this transaction Colony Capital has almost exited the hospitality sector, selling six of seven portfolio properties to Highgate, which remains bullish on the sector. This transaction is likely to be the largest distress-driven transaction in the sector since the beginning of the pandemic

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COVIVIO

→ **Portfolio of 8 hotels across Europe**

- **Date:** September 2020
- **N. Of keys:** 8 hotels (1,115 rooms)
- **Location:** Europe
- **Price:** € 573m
- **Comments:** The portfolio includes high-end properties in prime locations such as '*Palazzo Naiadi'* in Rome and other properties in Nice, Prague, Budapest, Florence and Venice and will be leased to NH Hotel. Covivio highlights its confidence in the long term fundamentals of the hotel industry and its capacity to recover

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Relevant Portfolio Transactions (cont'd)

Portfolio of 3 French Hotels

- **Date:** October 2020
- **N. Of keys:** 3 hotels (309 rooms)
- **Location:** France
- **Price:** Undisclosed
- **Comments:** Les Hotels d'en Haut, acquired by KSL Capital Partners in 2019, operates 5 luxury boutique hotels and with this transaction the company will expand its portfolio, adding three additional premium properties in outstanding location in the Provence region

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- **Date:** October 2020
- **N. Of keys:** 3 hotels (589 rooms)
- **Location:** Croatia
- **Price:** Undisclosed
- **Comments:** Tui has acquired a 33.3% ownership stake previously owned by Fortenova Group. Karisma Hotel Adriatic (KHA) includes four-star hotels recently refurbished. TUI has been selected by Fortenova Group as the ideal partner to take forward the business and generate higher returns in the future

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- **Date:** November 2020
- **N. Of keys:** 73 hotels
- **Location:** Global
- **Price:** Undisclosed
- **Comments:** Accor and Ennismore will create the largest operator of lifestyle hotels, a sector that is experiencing a strong growth. An independent and fully asset-light entity will emerge from the merger and will bring together 12 brands and 73 hotels, to which 110 more properties will be added as commitments have already be signed

Notable Single Asset Transactions

- Over the year, volume of transactions has significantly decreased and most of the deals have involved just one property, often a prime asset located in core markets or key cities:

Acquirer(s)	Type of Investor	Location of buyer	Target	Location	N. Of keys	Price
Deka	Real estate investor	DE	Clayton Hotel	Dublin, Ireland	187	€65m
EOS Investors	Investment firm	US	Viceroy L'Ermitage	Los Angeles, USA	-	$100m
European Property Holdings	Real estate investor	CH	Nhow	Berlin, Germany	304	Undisclosed
SIGNA Prime	Investment firm	US	Hotel Bauer	Venice, Italy	210	Undisclosed
Axcel Hospitality	Hotel investor	UK	Lansdown Grove Hotel	Bath, UK	61	£8m
Mercer Family	Private investor	UK	Patshull Park Hotel, Golf and Country club	Pattingham, UK	49	Undisclosed
Seven Capital	Property investment group	UK	Royal Angus Hotel	Birmingham UK	186	Undisclosed
Belfont Hotels	Joint venture	UK	The Cosmopolitan	Leeds, UK	89	Undisclosed
AJ Capital Partners	Real estate company	US	The Marine Hotels	Troon, UK	89	Undisclosed
Apartment Group	Real estate operator	UK	Whitwoth Hall Hotel and Runa Farm Hotel	County Durham, UK	-	Undisclosed
CHE and Extendam	Swiss family office	CH	Holiday Inn Porte de Clichy	Paris, France	262	Undisclosed

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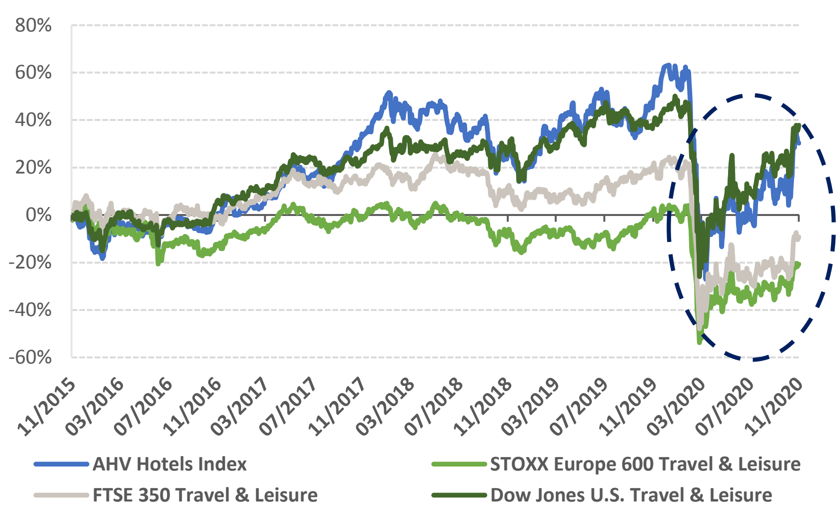
Public Markets & Valuations

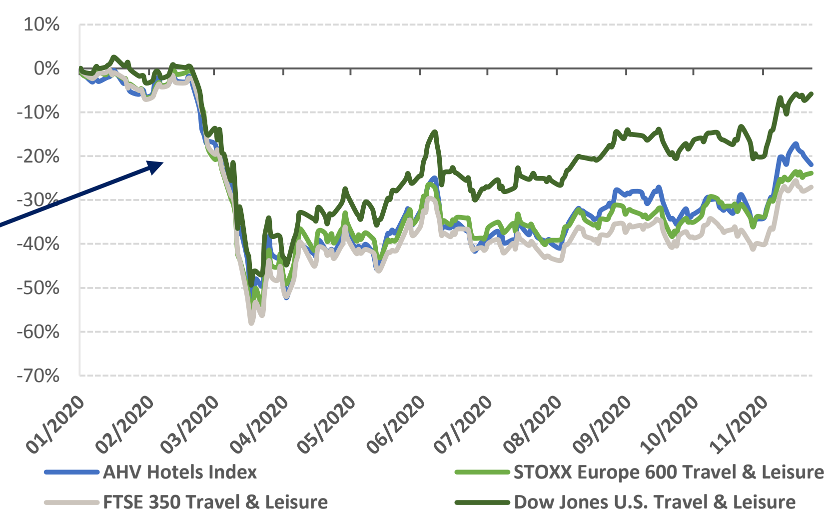
Market Indices Performance

- Share prices have dramatically declined since March, as a consequence of the restriction on travel. However, as tourists and business people have started to travel again, share prices began to rise
- The news that a number of successful vaccines have been developed has accelerated the rebound in stock values
- Investor sentiment has dramatically improved recently as they expect the disruption due to the Pandemic will end earlier than originally projected
- The Asia Pacific hotel industry has reported continued performance improvement since the lows when the COVID-19 outbreak started thanks to strong domestic demand. International hotel chains that have a wide range of hotels in China (Accor, IHG or Hilton) have reached very high occupancy rates in the region compared to the rest of the world, pushing up their operating performance

Hospitality Indices Performance (Last 5 Years)



Hospitality Indices Performance (Last 6 Months)



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Source: Capital IQ. AHV Index includes 18 hotel companies shown in the table on pg. 30

Performance of Major Public Hotel Companies

- Listed hotel companies were hit hard initially, but they recovered some of their losses once the news of the vaccine was released. Hotel shares rose on average 30% that same day and they are approximately 15% to 20% on average below the peak in January 2020:

Company	Currency	Price Change (YTD)	Market Cap (mm)	TEV (mm)	EBITDA Margin 2020A	EBITDA Growth (LTM)	TEV/ Revenue (LTM)	TEV/ EBITDA (LTM)
Accor	€	(30%)	7,563	8,737	(6%)	NM	3x	NM
Dalata Hotel Group	€	(30%)	806	1,550	26%	(40%)	5x	16x
Hilton Worldwide	$	(7%)	28,521	36,822	30%	(66%)	17x	47x
IFA Hotel & Touristik	€	(30%)	222	253	(5%)	NM	4x	NM
Fattal Holdings	₪	(52%)	4,156	20,461	10%	(62%)	5x	21x
IHG	£	(14%)	8,152	NM	17%	(47%)	NM	NM
Les Hôtels Baverez	€	(10%)	129	134	(29%)	NM	11x	NM
Mandarin Oriental International	$	1%	2,311	2,909	10%	(77%)	8x	91x
Marriott International	$	(20%)	39,280	49,662	38%	(56%)	17x	40x
Meliá Hotels International	€	(40%)	1,054	3,412	(33%)	NM	4x	NM
NH Hotel Group	€	(22%)	1,429	4,079	2%	NM	5x	NM
Pandox	Kr	(34%)	26,291	60,426	7%	(33%)	15x	29x
Pierre et Vacances	€	(36%)	125	3,344	7%	NM	2x	9x
PPHE Hotel Group	£	(28%)	569	1,513	25%	(44%)	6x	21x
Safestay	£	(40%)	13	86	(4%)	NM	6x	37x
Scandic Hotels Group	Kr	(72%)	5,455	36,559	1%	(97%)	3x	14x
Whitbread	£	(37%)	6,139	8,912	(3%)	NM	7x	128x
Wyndham Hotel & Resorts	$	(12%)	5,149	7,328	37%	(27%)	7x	18x
Average							**7x**	**39x**
Median							**6x**	**25x**

As of 20/11/2020

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