Pandox Q2 2021 Report

Friday, 16 July 2021

Introduction

Anders Berg

Head of IR, Pandox

Welcome

Thank you very much. Welcome, everyone, to this presentation of Pandox Second Quarter for 2021. As you already heard, I am Anders Berg, Head of IR at Pandox. And I am here together with Liia Nõu, our CFO and Acting CEO.

And in line with our tradition through this pandemic, we have an external guest with us also today, Robin Rossmann, Managing Director, International, at STR. And as you know, Robin represents the leading independent research firm focused on the hotel markets, and he will share STR's view on the hotel market for us. And we are very happy to have him on board for this presentation.

Agenda

The report presentation is divided into three parts. First of all, Liia and myself will present a business update with financial highlights for the second quarter followed by the external update from Robin. And then we wrap everything up with a Q&A session. Next page, please.

And with that, I hand over to you, Liia.

Opening Remarks

Liia Nõu

CFO & Acting CEO, Pandox

Thank you. As you all probably know by now, on 30th May, our CEO, Anders Nissen, tragically passed away after short period of illness. The loss of Anders is immeasurable on many levels. Anders had a big heart and a genuine interest in making the people around him grow. He was fearless, honest and a great source of inspiration for everyone he met. So, we lost an exceptional leader, a close colleague and above all a dear friend.

I have had the privilege of working with Anders Nissen for over 14 years as CFO of Pandox. And it makes the sorrow around us expressed there. I respect for the assignment as Acting CEO and I am very motivated to continue to develop this strong company. Together with a close-knit organisation with competent entrepreneurial employees and a clear game plan, I feel optimism for the future. Next page, please, the page with our portfolio.

Strategic Position

A well-diversified portfolio

Pandox has a well-diversified hotel property portfolio. In total, we have 156 hotel properties with more than 35,000 rooms in 15 countries and 90 cities, and with a property market value close to SEK61 billion.

Pandox is divided into two business segments: Property Management and Operating Activities. In Property Management, we lease hotels to strong and well-known operators under long revenue-based agreements. This segment makes up for 84% of our property market value. In Operating Activities, we operate the hotels ourselves on a different operating models. Operating Activities makes up for 16% of the property market value. Next page, please.

A strong network of brands and partners

Pandox has one of strongest networks of brands and partners in the hotel industry. As you can see in the picture, we work together with several well-known operators, for example, Scandic in the Nordics, Jurys Inn in the UK and Leonardo Hotels in Germany. We also have long relationship with strong international brands such as Hilton, Crowne Plaza and Radisson Group.

In our Operating Activities segment, we also have some independent brands created by Pandox, for example, Hotel Berlin, Berlin, which is Pandox's largest hotel with over 700 rooms. Next page, please.

Q2 2021 in brief

Positive market signals

Hotel demand increased in all markets in the second quarter. But the development in April and May remained weak due to extensive restrictions remaining in place and delayed reopening in many markets. However, supported by strong recovery in the UK and improvements in other markets, particularly in June, Pandox saw positive growth in revenue and earnings in both business segments.

Our relationship with our banks are strong and we have had close to SEK4.4 billion in cash and unutilised credit facilities at the end of the quarter. At the same time, our loan-to-value was a strong 49.7%. Economic recovery in Pandox's market is currently strong. This, combined with an increased vaccination rates and eased restrictions, is creating good underlying growth potential in hotel markets.

Progress in Europe and other large hotel markets, such as the US, indicates that there is a considerable pent-up demand for travel, which is quickly converted into occupancy once the restrictions are reduced and travel becomes easier.

Pandox is in an attractive position as around 80% of all our rooms are in regional and domestic cities. And therefore, we have high exposure to domestic demand, which would lead the recovery in the hotel market. Currently, contractual minimum rents and fixed rents are expected to make up the majority of our total revenue.

And to sum up this slide, just a quick look at the numbers for the second quarter. Total net operating income increased by 32%. Like-for-like Property Management increased with 11%. Return On Equity, measured by annualised growth in EPRA NRV was approximately minus 5%. Next page, please.

COVID-19 effects on Pandox

Positive growth was reported in the second quarter in all of our countries where Pandox has operations, partly explained by the increased demand due to eased restrictions and partly a weak comparison quarter in 2020. For the first time since the start of the pandemic, Pandox reports a positive earnings growth. This includes government support of around SEK100 million, of which SEK98 million in Operating Activities.

Currently, contractual minimum rents and fixed rents remains our main source of income. And as you know, this income covers all Pandox operating costs, including our interest payments. We report modest unrealised value changes in the Property Management in the quarter, and I will come back to this later in the presentation.

And the quarter trade account receivables related to new payment terms amounted to some SEK640 million, which is an increase compared to the previous quarter, which was SEK566 million. Next page, please.

New products

h27

During the quarter, we have finalised the renovation of h27. It is spelled with a small h, in Central Copenhagen. h27 or *h-tu-sju* in Swedish, former name was Hotel 27 is hotel which we overtook operations of in the beginning of the pandemic in 2020. All rooms in the lobby area and other common areas have been decorated with a focus on Danish design from the 50s and 60s. Total investment for Pandox was approximately SEK35 million. Next page, please.

Scandic Luleå

Another beautiful hotel, Scandic Luleå. Another large project that was finalised during the quarter is the expansion of Scandic Luleå. The expansion includes a new hotel building with nine floors and 119 net new rooms. In addition, we have renovated the conference rooms, restaurant, gym and hotel rooms and existing hotel building. Total investment was approximately SEK150 million. Next page, please.

Current revenue

Revenue model which limits fluctuations

Pandox revenue base is diversified with revenue from different operation models and agreement types. Currently, minimum rent and fixed rent in Property Management are a main source of revenue. This amounts to almost SEK2 billion per year or slightly less than SEK500 million per quarter.

In the second quarter, revenue-based rents amounted to some SEK51 million. And revenue from Operator Activities amounted to SEK146 million. Next page, please.

Impact on Pandox

Contract structure gives different revenue exposures

Our different contract structures in operational models give different revenue exposure measured in a number of rooms, where we have full and immediate impact from market recovery is 35%, out of which 16 percentage points comes from our own operations and 19% from revenue-based leases without any minimum guarantee rent.

The remaining 65%, there is a gradual impact from the market recovery. Main course is our revenue-based leases with minimum guarantee rent. Next page, please.

Property Portfolio

Valuations based on established model

In the second quarter, Pandox valued their property portfolio according to the same method and model we have used since the IPO in 2015. Value changes in the second quarter were modestly negative, mostly explained by reduced cash flow due to COVID-19. Deals are largely unchanged due still to inconclusive transaction evidence. Approximately 70% of the properties have been externally valued during the last 12 months.

External valuations exhibited large dispersion within them, between markets. External valuations are on average some 6% below our internal valuations. The valuations difference is small in the Nordics and larger outside the Nordics. The 22 external valuations were down 21 in Nordics and one in Switzerland carried out in the second quarter, are approximately 2% above Pandox's internal valuation in the second quarter.

In the quarter, total unrealised and realised changes in value amounted to a negative SEK109 million, of which negative SEK105 million for Investment Properties and remaining SEK4 million for Operating Properties. And again, please note, that according to IFRS, unrealised changes and value for Operating Properties are only reported for information purposes and is not included in the EPRA NRV.

End of period average valuation yield for Investment Properties, 5.46%, and for Operating Properties, 6.38%. Next page, please.

Pandox's approach

On this slide, we can see the value changes of portfolio per quarter, as well as accumulated value change from the start of the pandemic Q1 2020. Well, the total portfolio have accumulated negative value change over this period amounts to some 5.1%. And the quarter's high correlation between restrictions and demand in the hotel market. When restrictions go down, demand goes up and vice-versa.

Developments in markets ahead of Europe in the recovery, such as USA and China, are very encouraging. When restrictions go down, demand go up, driven by domestic travellers, which benefit hotels with domestic and regional demand exposure, just like Pandox portfolio.

Furthermore, transaction relevant for Pandox indicates resilient valuation. And banks are accommodating. Liquidity is strong and transactions relevant to Pandox are supporting our property valuation.

So the jury is still out how the world will look after the pandemic, of course. But so far, demand is clearly linked to restrictions, not change of behaviour. Having established and proven valuation process, 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. And, yes, the pandemic has negative short-term effects on the cash flows in our hotel properties, but we do not expect long-term deals to be affected in the same way. Next page, please.

Financial position

Financing and capital structure

And then let us take a look at our EPRA NRV and financial position. End-of-period EPRA NRV per share amounted some SEK169. This corresponds to a Group decrease of approximately minus 5% on an annualised basis. Loan-to-value 49.7%. Cash, cash equivalents and long-term unutilised credit facilities amounted to approximately SEK4.4 billion, which is all stable and strong picture since many, many quarters we had still with this pandemic.

Credit facilities maturing in less than one year amounts approximately SEK5.8 million, of which approximately SEK3.8 million will mature in December 2021. We have a positive close dialogue with our lenders on new financing and refinancing as well as an adjustment of terms on covenants, if needed an existing credit agreement with consolidation of COVID-19.

And during the second quarter, we also completed refinancing of approximately SEK900 million. Lenders have given waivers in individual credit agreements where needed. A positive thing is that we also saw increased appetite for our commercial paper programme, under which we have some SEK647 million outstanding at the end of the second quarter. Next page, please.

And I will now hand over to Anders Berg, who will talk about our path of getting back to full performance.

Performance Overview

Anders Berg

Head of IR, Pandox

Pandox and COVID-19

Three focus areas

Thank you, Liia. That is a challenging task, but I will try to do my best. As you know, this is the sixth consecutive quarter now affected by the COVID-19 pandemic. And from the beginning, we have organised our work around three focus areas: Respond, Restart, Reinvent.

And to be honest, most of our work has been and is centred around Respond and Restart. And that is keeping the ship in good order and being able to capitalise on the market recovery. Next page, please.

Six development levels

To get back to full performance

We expect the hotel market recovery to take place in phases with different segments are gradually building up demand in the hotel market. Over the course of the pandemic, our markets have moved largely between phase one and four depending on the level of restrictions in each market.

The key driver in early phases is domestic demand, particularly domestic leisure, with some support from domestic business. Next page, please.

Hotel market development during COVID-19

Gradual improvement in Q2

The second quarter, as Liia said earlier, saw a weak start as restrictions were still tough in most of Pandox's markets. High vaccination rates and lower infection rates led to a gradual easing of restrictions and gradual improvements in demand in all of Pandox's markets as the quarter progressed.

Particularly in the UK, there was an immediate and tangible uplift in hotel demand after the reopening on 17th May. As before, the main demand driver was domestic leisure, but domestic business also contributed with tensioned demand and demand for smaller meetings. International demand, however, will stay low. Next page, please.

Nordic regional: Monthly and weekly occupancy

The following slide summarises basically the ebb and flow of demand throughout the pandemic in Nordic regional, Germany, UK regional and the individual cities: Stockholm and London. The chart on the left is based on monthly occupancy data and the chart on the right is based on weekly data.

I start with Nordic regional just to illustrate a pattern which is largely the same in all markets, and I am describing the chart to the left. After a strong start in January and February 2020, harsh restrictions were imposed and hotel demand fell sharply to its lowest level ever in April 2020.

In May 2020, some restrictions were eased and countries and cities opened up and hotel demand returned. Demand then increased gradually in June, July, August and September 2020 followed by a plateau in September. In the Nordics, which had a relatively light restriction situation, the summer was particularly strong.

From October, when restrictions were re-imposed again, hotel demand decreased quickly, and it remained weak all through the fourth quarter 2020 and the first quarter 2021. The occupancy rates for Nordic region in the second quarter 2021 was approximately 40% with additional improvements in the first weeks of July. With the support of a strong economic recovery and rapidly increasing vaccination rates, the upturn we are currently seeing is hopefully, I underline hopefully, more robust than last year. Next page, please.

Stockholm: Monthly occupancy

It is a general trend across our markets that larger cities with a high dependence on international demand have seen a slower development than regional cities. Stockholm is no exception. However, during the second quarter, occupancy improved steadily, and there have been further improvements in the first week of July. Next page, please.

Germany: Monthly and weekly occupancy

Occupancy in Germany has largely followed the pattern I described earlier. However, restrictions in Germany have generally been tougher than in many other countries, which is reflected in the lower comparable absolute occupancy numbers. Starting from 15% in April this year, estimated occupancy in June was approximately 30% for the total German market. And also here, the recovery has continued in July. Next page, please.

UK Regional: Monthly and weekly occupancy

UK Regional was the brightest spot in the second quarter. Occupancy rose immediately after the reopening, 17th May, and reaching approximately 65% in June. The trend has remained largely intact in the first two weeks in July. And UK illustrates well the direct correlation between restrictions and demand, as well as the pent-up demand for travel and experiences. Next page, please.

London: Monthly occupancy

London is, as you know, one of the world's largest among international cities and it has been suffering from closed offices, corporate travel, restrictions in general and of course the low international demand. However, starting in February 2021, occupancy has been increasing now to five consecutive months and supported by the Euro 2020 event, July also got off to a good start. Next page, please.

Hotel markets ahead of Europe

Same pattern everywhere

Clearly, we see the same pattern everywhere. Restrictions and demand are negatively correlated. But when you allow to travel, leisure demand picks up immediately followed by domestic business demand, particularly for small and mid-sized companies. Next page, please.

Business travel

Companies are preparing to start travelling again

Talking about companies, one open question is what will happen with business travel? We, earlier in this month, did a survey of corporate clients in Pandox Operator Activities, which indicate a cautious transition to business travel in September and October. Key considerations for companies are infection rates, vaccination rates and restrictions. It appears that many companies will revise their travel policies during the summer or early autumn.

We know that there is a strong economic recovery in most countries and corporate profitability is high, which is positive for the corporate travel outlook in general. An indicative conclusion from our talks is that fewer business trips could well be balanced by longer stays. And therefore, more hotel nights while you travel. Next page, please.

Hotel markets ahead of Europe

Strong signals from USA

Looking at markets ahead of Europe and the recovery, particularly the USA, trends continue to be encouraging. Leisure demand is strong and business travel is picking up. In the final week of June, occupancy in the United States was approximately 70%, which is impressive considering that bigger meetings and events are still only at 50% of their 2019 levels. Large corporations still have travel restrictions in place. And international travel is generally very low. Next page, please.

Hotel markets outside Europe

USA: Monthly occupancy

As you can see from the chart, the recovery in the US has been strong with June estimated being the sixth consecutive month of improving occupancy. Next page, please.

Summary

So to summarise, we currently see most of Pandox's markets being in various stages of phase three. From a relative perspective, the UK is the strongest market and Germany the weakest. However, all markets are showing improving occupancy. The USA and China are further ahead with early signs of increasing international demand and increasing demand for larger meetings. Next page, please.

And now, Liia, over to you again.

Operational Review

Liia Nõu

CFO & Acting CEO, Pandox

Market outlook

Promising underlying growth conditions

Thank you, Anders. We see promising underlying growth conditions. We have followed economic recovery and increased the vaccination rates. There is a pent-up demand for travel and demand picks up immediately after restrictions are eased. Domestic and leisure demand continues to be the strongest driver short-term. However, we hope to see improving domestic business demand from September and onwards. Main uncertainty is the Delta variant and reimposed restrictions. Next page please.

And now, I would like to hand over to our guest speaker, Robin Rossmann, for hotel market updates. And again as Anders said, please remember that this is a good but independent research separate from Pandox. So please go ahead, Robin.

Hotel Market Update

Robin Rossmann

Managing Director, STR

Thank you so much, Liia, and thank you, Anders. It is very good to be with you all this morning.

Agenda

So I will take over and sort of moving on to slide 29, really start with just reflecting on where we are at. There is obviously a lot of data that we will go through here that has been used by Pandox in the presentation already, and I will try and focus on the key points that have not really been talked about. And then move on to the outlook and finish with some conclusions. So next page on to page 31.

Thank you, Anders

And I just wanted to say my own personal word on Anders, a man who really was so special in terms of the way he leaded Pandox, the industry, but also the way that he made you, as an individual feel whenever you had the chance to meet him because it is very rare that you come across somebody that makes you more self-confident about yourself. And Anders was one of those people.

And I think what was said earlier by Liia that he had a genuine interest in helping people to grow themselves is so true. So thank you, Anders. And thank you to the Pandox team for continuing his great work.

The first half of the year has been tough

So onto page 32. There is no doubt that this year has been pretty tough. Certainly, the weather over here in the UK has not been anywhere near as sunny as it was last year. But the good news is that the outlook is certainly much better now.

The recovery was underway for some

Moving onto slide 33. Even though in Europe it was a pretty tough year, what we saw is that elsewhere in the world there is still the good examples of recovery. And certainly, China continuing to recover. North America, the US referred to earlier having some good recovery. Middle East, strong recovery. Australia and Oceania, strong recovery.

Throughout our presentation we talk about two different types of occupancy. There is the standard occupancy, which is the occupancy of open hotels. But then we also do for completeness show what occupancy would be if you added back all of those temporary closed hotels. So that is total room inventory occupancy.

And you can see for the markets on slide 33 that there is not really much of a difference. Certainly, in North America, the vast majority of hotels having reopened.

But others still bouncing along the bottom

However, when you go to slide 34, two things you can see. Number one, and a lot of these other regions and the rest of the world in Africa, in Central South America, and of course in Europe, occupancy is much lower at around 30% in Europe and even lower when you add back those temporary closures down to just above 20%. More on that in a bit though.

The US has overtook China as the benchmark of recovery

But coming back to the US on slide 35, really it is interesting, a year ago at this time, we were looking at China as the example of the strongest recovery and the strongest benchmark of what recovery could look like. But the US has certainly overtaken that now because of its more robust vaccine programme. So less subject to having to lockdown for outbreaks like has been the case in China in the last couple of months.

And I think a more resilient consumer base willing to travel to spots any perceived risks that they may still be around COVID. And so we have seen in the US some remarkable recovery in recent weeks. Demand indexed to 2019 levels is now trending at well over 90%. In fact, in recent weeks, it has been 95% of 2019. That was quite remarkable given there really is still not that much recovery in business yet. So this is a lot of leisure-driven demand.

That being said, you can see how strong it is coming back. What is not on this slide but I will add to it is that from an average rate perspective, ADR, nominal ADR is now back to the same level it was in 2019. So rates are back in the US. And on a real basis, so adjusting for inflation, it is only 5% below 2019 levels. And then when you look at the breakdown of hotels in the US, nearly half of all hotels have RevPAR that at or above their previous peak RevPAR on a 28-day rolling average. So more than half of hotels are already trading at above their pre-pandemic levels.

Whilst performance was bleak across Europe

Now, this is more regional markets, more leisure hotels. And if you look at those larger urban hotels, they are still behind but they are recovering. So really strong signs from the US, which is encouraging to see, particularly going on to slide 36 because in Europe, obviously, it has been a lot tougher throughout the year, although we have seen some recovery starting to come through towards the end of June in a similar way to what we saw as things were easing out of lockdowns last year at this time.

In some cases a bit stronger, like in the Nordics, and in some cases a bit weaker, like in Germany, where the lockdowns have lasted further than they did in 2020.

But UK, Turkey & Russia open hotels' occ has bounced to 60%

But looking at some benchmarks of stronger performance in Europe, if you go to slide 37, you can see very clearly that the UK, Turkey, and Russia all having much stronger performance at an occupancy level than Europe as a whole for different reasons. Russia and Turkey had lower cases and were reopening until the Delta variant has come along and causing some challenges there. But certainly, the UK, even with the Delta variant really quite rampant in terms of cases, because of the high vaccination levels, the UK is still set to continue its reopening path. And we are seeing occupancies bounce up above 60% for the UK as a whole.

TRI UK occupancy drops to c.55% but that's still a big recovery

Adding back those temporary closures, if you move on to slide 38, the UK occupancy on a total room inventory basis dropped to about 55%. But that is still a big recovery in a really short amount of time. And, again, mostly driven by leisure.

UK TRI Occupancy now 35% lower than 2019

If you move on to slide 39, if you index that to 2019, it shows us that UK total room inventory occupancy is now about a third lower than it was in 2019. So not quite yet the strong recovery that we are seeing in the US. More group travel already happening in the US, more business happening in the US, and a stronger leisure market less reliant on international as well. The UK is in that 90%, 95% market.

And ADR recovered from 40% below to 20% at the same time

From a rate perspective, also moving on to slide 40, we are seeing recovery. And if you look at the UK as a benchmark again, you could see that it immediately jumped from being about 40% below 2019 levels to close on 20% below 2019 levels after the reopening. But it has stayed at that level. And we do expect it to recover. But the full recovery will obviously be reliant on return of international travel and business travel, particularly in London.

Europe overall Occ +60% lower than 2019 but expected to bounce

So moving back to Europe. And if you look on slide 41, you can see that it is beginning to recover. And we do expect that bounce to come back and be stronger than what it was in last year summer with more pent-up demand, more resilience underpinned by the vaccine rollout. But as that vaccine rollout is not fully complete in many countries, there is, of course, the risk that the Delta variant could slow that recovery down.

The outlook is improving significantly

So moving at slide 42 and the outlook. It is definitely improving and flipping over to looking at some of our forward data. So this is looking at business on the books.

At the beginning of May we knew the outlook was not good

Slide 43 shows what business on the books look like for the next two weeks as at the 10^{th} May. And at that stage, it was really only the UK that was having any kind of positive trend. So having some growth and had the highest occupancy on the books plus pick up, in other words, the rooms that have been sold in the last week for the next two weeks.

At the beginning of June UK&I much better, rest of Europe not yet

And so slide 43, the UK was definitely leading the way at 22% on the books and everybody else was below that.

If you move on to slide 44, then occupancy on the books as at the beginning of June was much, much better in the UK, about 32% on the books, picking up 7% each week and it was well ahead of what we are seeing everywhere else in Europe, underpinned by that earlier opening in the middle of May, that sort of immediate bounce back of consumer confidence, and that really was not the case in the rest of Europe yet.

Start of July UK&I even better, rest of Europe is getting there

And as we move on to slide 45, we see where we are now on 5th July. Looking forward, the UK even stronger, so 40% on the books picking up 7% each week, which is, if you add that 7% for two weeks in a row, slice a bit more, you get to that 55%, 60% occupancy.

And you can see that Ireland is pretty much caught up. Spain is pretty much caught up. And we expect Spain to do a lot more strongly as the key leisure season comes in now. But the rest of Europe still a good 20 percentage points behind the UK. So probably still a month or two to catch up to those UK levels and rely on the continued vaccine rollout.

Germany cities are slowly starting to climb

And certainly when you look at German cities on slide 46, you can see that really only starting to slowly climb now as they come out of the pandemic of the lockdown.

Focus on UK recovery

So just a few more slides on the UK recovery because it is such a strong benchmark of what we expect to happen in the rest of Europe. And spitting it out a bit more between the regional markets and London, London, obviously, most significantly impacted.

Regional markets at 60%, London at 40%

As you can see on slide 48, regional markets on a total room inventory basis occupancy up at 60%, whereas London is down, trending at 40%. And as you look onto slide 49 into the future, this shows your business on the books into the future, you can see that the regional UK is likely to continue to outperform London well into Q3 and probably into Q4 because of that less reliance on international and business. But the gap is closing.

Regional UK improving each week, both weekends and weekdays

And the best way to see that gap is closing is on slide 50 and the momentum that is being built in the market. This shows you that same business on the books into the future but it is tracked each week, going back to just before the reopening on 17th May. And the important thing to look out for here is as you move forward to where we are now on 5th July, which is that red line, you can see that each week of data shows how the business on the books into the future is building each week.

So the darker green line is above the lighter green line, which means that we should continue to see performance improvement as the weeks go on in the regional UK. And very importantly, the lines to really watch out for are those dips because the dips are the midweek, you got the weekend peaks and the dips. And what we are seeing is the weekend peaks are staying high, but the midweek dips are catching up. And so usually in the regional

UK, you would see the midweek being above the weekend. At the moment, the midweek is lower because of the reliance on business, but we are seeing that catch-up and that momentum going up into the future.

London improving too, but tracking behind Regional UK by 10-20pp

And the same applies for London if you look on slide 51. You can see that it is improving, in particularly the midweek is improving.

However Balearic Islands are at risk of losing "green list" status

So there are definitely are still reasons to be cautious. And if you move on to slide 53, this is looking at forward data and comparing two quite comparable markets, Balearic Islands, Canary Island, both leisure demand. The main difference between these is a change or warning of a change in status certainly in the UK and coming off a green list, which has immediately resulted in a much bigger decline in the Balearic Islands and forward booking cancellations coming through this at Canary Islands.

So an important reminder that recovery of the hotel sector is reliant on that restrictions are removed and stay away and consumers has confidence to book again both from a business and a leisure perspective.

Conclusions

So going back to conclusions. We are not here to forecast what is going to happen scientifically from that. But certainly, from what we have seen in the US now is a really good benchmark and really a much more similar tough economies than China from a benchmark for European perspective.

It is very positive to see that strong recovery there. I will go back to those numbers I referenced. Demand Indexed 2019 trending well above 90% already. ADR already back at 2019 levels on a nominal basis, 5% behind on a real basis. And when you look at individual hotels, over half of hotels already recovered their RevPAR back to pre-pandemic levels.

And that is without much international travel at all, pretty much zero. That is certainly with some business happening and some group happening. The Group is back about 50% of what it would be. But even without those fully recovering that pent-up demand really driving strong rapid recovery across the country.

And certainly, that will be the market to watch as we head into August and September to see how business travel picks up there as they are ahead of the year from a vaccination perspective.

So from that point, I will hand back to you, Liia.

Conclusion

Liia Nõu

CFO & Acting CEO, Pandox

Thank you, Robin, for this fantastic hotel market update. And this concludes the presentation part. We are now moving over to Q&A. But please remember that Robin is also on the line.

So if you have any questions for him, then it will be greatly appreciated. So, operator, we are now ready for questions.

Q&A

Simen Mortensen (DNB Markets): I just had a question in terms of the deferred rental payments, which seems to be growing in the quarter Q-on-Q. In Q1, I think it was worth SEK295 million. Now it is SEK364 million on the long-term basis. Can you just give us a comment on the payments if you are giving more discounts or at what level the payments are coming in? And give us any flavouring also on which markets we are talking about these deferred rental payment plans are now increasing in size?

Liia Nõu: Absolutely. Thank you, Simen. Like we said on the last call, we do not give any rebates on the minimum rent. But we have given repayment plans, changed repayment plans. This has increased exactly according to plan. These are related to Germany, Andy. And the increase is then for German operators there, as Germany has those [inaudible] through the presentation has been hit pretty hardly. Restrictions are easing more slowly. And also the governmental sort of rights of not paying sort of immediately have been stronger there. So it's according to plan, but we think it is peaking out now. And the repayments of these will be starting in basically end of Q3.

Simen Mortensen: And just do you think it is peaking out now or during Q3?

Liia Nõu: We think it will be peaking out now. There will maybe be some smaller ones in Q3. But in all substance, they are peaking out now. We hope.

Simen Mortensen: Okay. Fair and great, I guess, a bit of colouring on that. In terms of refinancing, it has been a while since you have refinanced your debt and it comes more and more near term. Do you have any expectations of when you are going to refinance the debt? And how do you think the pandemic or the situation now might impact that situation and the cost of refinancing, given what we have behind us and what are we looking forward for us?

Liia Nõu: Yeah. Well, as we always do at Pandox, we thought also because of the pandemic, we started discussions with our banks, long nine months, six months before, anything is due. Everything that is actually due in 2021 is basically finalised. But we do, of course, have the refinancing done in Q4.

So things that are due for 2022 we have something to have this in, of this patience. Generally, again, like all this pandemic, banks have been very supportive. We have refinanced the same amount before. And even though LTVs, of course, have had changed a little bit. And all in all, basically same conditions except for the fact that its shorter maturities and some 25, 30 basis points above what was expected before. That is also one of the reasons why we rose our refinancing on the shorter term because I think we all like to get out of this before we put the longer maturities in place.

Fredric Cyon (Carnegie): I have only one question, and it relates to rental income for the Property Management unit going into the third quarter. So last year adjusting for one-offs, I think it was around SEK600 million. When I read your statement, Liia, in the quarterly report, it sounds like you are quite cautious on the variable rents going into the second half of 2020—second half of this year.

Liia Nõu: Yeah.

Fredric Cyon: Considering that the occupancy levels generally are higher now than they were during the third quarter of last year, should not we expect that the rental income within Property Management increasing year-over-year or rather any other items that I should be aware of?

Liia Nõu: Yeah. Again, like we have said the last time and also we want to emphasise that the structure of the agreements when we have revenue base sort of above minimum, the revenue base levels, they are looked at on the yearly basis. So in order to get above that minimum rent threshold—. In the Nordics, this threshold we think is around 40%, 50% of where we have revenue base, this is above the minimum rent. Outside the Nordics, it is around 60%. And that is because we have signed the leases more recently because of transactions.

But it is basically on a yearly basis. So I am confident we will fly out of this year in 2021 into 2022 with a different pace. But in order for the hotels that have a minimum threshold, then it needs to be above those levels for the full year. And of course, we started out pretty poorly for the first five months now with picking up. But in order to sort of get above that, some hotels will hopefully do that. But for a yearly basis, we are more sort of cautious.

Fredric Cyon: Okay. So basically, due to the catch-up effect we should not expect growth for the third quarter then?

Liia Nõu: Well, again, we have the 30 hotels where we do not have minimum rents. We have our Operating Activities. So that, of course, is variable from the first kroner from the first occupancy percentage. But all in all, it does is what it should be was in 2019. 2021 it's still lagging because of the sort of the first little bit weaker half year that we expect than the second half year.

Anders Berg: Yeah. Maybe I could add, at least, it is the pure sort of revenue base agreement that Liia spoke about, 30 or something mainly in the Nordics, of course. I mean, in those agreements, prospects are reasonably good for rents to be higher.

Liia Nõu: Absolutely. Yeah. Thank you.

Fredric Cyon: Okay, thank you.

Liia Nõu: Okay. That is all, folks. Thank you for participating in this call. I know there is a lot of reports out there. You are all busy and you all want to go out in this nice weather, but we are really appreciating that you are listening in. Our third quarter 2021 interim report is published on 27th October. So thank you. Stay safe and stay at our hotels. And have a great summer. Goodbye.

[END OF TRANSCRIPT]