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Pandox AB (PNDX.B.SE)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Anders Berg

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

Thank you very much, and welcome to this presentation of Pandox Third Quarter 2022. I'm here together with Liia Nõu, our CEO; and Anneli Lindblom, our CFO. And hopefully – we have some technical difficulties in connecting Robin, but hopefully in line with our tradition, we will have STR with us also today, represented by Robin Rossman, Managing Director at that firm. And he represents a leading independent research firm focused on the hotel market and he will share STR's view on the market.

And as you know, the views expressed by STR are completely separate from Pandox and the presentation is offered only as a service to Pandox stakeholders. And also please note that Robin's presentation will be held after we have completed our earnings presentation including the Q&A.

The presentation is as usual divided into three parts. First of all Liia, Anneli, and myself will present a business update with financial highlights for the third quarter, followed by a Q&A session. And after that, Robin will come in and provide the external hotel market update.

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

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anders, and welcome, everyone. I'm really happy to report another strong quarter for Pandox and the second in a row and our best so far in Pandox's seven-year long history. It's quite remarkable given the pandemic and the uncertainty we have seen over the last few years.

The third quarter was the first restriction free quarter with the fourth quarter 2019 and hotel market demand was strong. The combination of a positive hotel market and a well-executed business model with variable revenue resulted in a strong earnings improvement for Pandox.

Revenue-based rents increased and our own operations improved considerably, which confirms the power and performance of our business model. We end the quarter with a solid financial position with a LTV of 47.1%. And it's worth repeating that we have all of our financing through banks. And together with them, we have a good and constructive dialogue of future refinancing.

Next page please. Pandox has a well-diversified hotel property portfolio. We have 157 hotel properties with approximately 35,500 rooms in 15 countries and 90 cities and with a property market value of more than SEK 68.3 billion. We are divided into two business segments, Property Management and Operator Activities.

In Property Management, we'll lease hotels to strong and well-known operators, and the long revenue-based agreements. This segment makes up for some 81% of our property market value. The other segment, Operator Activities, we operate the hotels ourselves and the different operating models. The Operator Activities makes up for some 90% of our property market value. The focus of our portfolio is upper mid-market hotels with mostly domestic demand, which is a strength in more uncertain economic times.

Next page please. Pandox has one of the strongest networks of brands and partners in the hotel property industry. This ensures efficient operations and revenue management, which maximizes the value. 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.

We also have long relationships with strong international brands such as Hilton, Holiday Inn, Radisson Group, et cetera. And we are very happy to have added Axiom Hospitality to our network during this quarter. They are managing the operations at our newly acquired DoubleTree by Hilton Bath.

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

Next page please. The third quarter was the first quarter since 2019 without any significant pandemic restrictions. The hotel markets have now returned to a more or less normal seasonal pattern and business mix.

RevPAR has fully recovered to pre-pandemic levels mainly driven by higher average prices. Hotel demand is broadly anchored and business and group travel have increased. The strong market recovery translated into strong growth and profitability for Pandox in our third quarter. For comparable units, net sales and net operating income increased by some 78% and 84% respectively. Like-for-like Property Management increased operating income by 39%. And our relationship with our banks remained strong. And we have almost SEK 4.5 billion in cash and unutilized credit facilities at the end of the quarter.

Despite considerations paid for two acquisitions, equivalent to around SEK 878 million, Pandox loan-to-value fell to 41.1%. Return on equity measured by annualized growth in EPRA NRV rose substantially and was approximately 18%.

Next page please. Here on this picture, we see a comparison of the RevPAR level for our business segment property management from 2019 until today. The numbers are on a comparable basis. And as you can see, 2022 started weak due to travel restrictions, but saw a strong bounce back during the spring and early summer, a trend that have continued since then.

In the third quarter, the hotel demand developed strongly in all our markets. The comparison to 2020 and 2021 is no longer relevant as the current performance is now much more in line with 2019, since we have now moved out of the pandemic. Hotel demand in mainly larger cities increased significantly while smaller and regional cities continued to develop well.

Next page please. Here we see Pandox total portfolio categorized based on type of locations with RevPAR index versus 2019. Almost all segments in the hotel market are now trending in line or above the 2019 level. This is mainly explained by strong average price development. Occupancy has recovered, but has a little bit left to go until we reach 2019 levels. You can also see that the spread in performance between the different segments is currently very tight, which is a clear signal that the hotel market is almost normalized.

Next page please. On this slide, we see the same segments as the previous slide but with occupancy instead of RevPAR indexed versus 2019. And as you can see, occupancy has stabilized in all segments just under 2019 level. This is mainly explained by the fact that some demand segments still haven't fully returned to 2019 levels. These are international long-haul travelers, and to some extent, larger groups and events that have a longer lead time in this ramp-up.

Next page please. In the beginning of August, we announced the acquisition of NH Brussels Louise, with 246 rooms in Central Brussels for €35 million. Brussels is a growing hotel market that we have been active in for almost 25 years and know very well. We now own eight hotel properties in the city, six of which in Operator Activities and two in Property Management, making us a significant hotel property owner and hotel operator in the city. We are currently evaluating the best commercial alternative for the hotel. And with our strong local commercial and technical platform in Brussels, I am confident that we will be able to generate good return on our investments in NH Brussels Louise.

Next page please. In September, we announced the acquisition of DoubleTree by Hilton Bath for £40 million. The hotel is well invested and has a strong central location in Bath which attracts both leisure and business travelers. Around 3.8 million people visit the city each year, and the destination has a UNESCO World Heritage status, which guarantees its long-term position as a high-quality destination. The hotel will be reported in the business segment, Operator Activities, and will be operated under management agreement with Axiom Hospitality.

Next page please. In September, we announced that we will divest InterContinental Montreal for a total transaction value of CAD 80 million. The hotel has 357 rooms and we have owned it since 2007. For us, this transaction is well timed and the price is attractive. We lock in value and free up capital to be recycled into continued expansion in our core markets. Closing is planned for the first quarter of next year.

Next page please. We continue to invest SEK1 billion annually in our existing portfolio. These are investments with a good return, [ph] and can (00:10:02) for example be more rooms in hotels, renovation of rooms and public spaces, and conversion of non-productive areas.

Lately, two examples from our portfolio are Scandic Park at Stockholm and Hotel Pomander in Nuremberg. Scandic Park has undergone one of the biggest modernizations in the hotel industry. All areas have been refurbished with the ambition of finding a way back to the hotel's origins in the early 1917. The new product starts up very well in the inner-city competition. So I can really recommend and afterwards this is to check out the public area. Hotel Pomander is the former Maritim Hotel Nuremberg, which we acquired in late 2019. Since mid-2021, we have been renovating the hotel and its 311 rooms into modern high-quality products that will set a new standard in Central Nuremberg.

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. Good morning, everyone. This is a strong result if you look year-on-year but also sequentially. It is an indication on what normalized earnings for us are in a normal functioning hotel market. It shows the strength in our business model and our ability to generate strong cash earnings.

The biggest earnings improvement in the quarter was recorded in the Operator Activities where the net operating margin rose to 22%, adjusted for government support. This is well in line with 2019 levels. All outstanding government support relating to COVID-19 were received during the quarter with SEK 37 million in Operator Activities and SEK 48 million in Property Management. Repayment of deferred rent was made according to plan and invoicing is now made according to original lease conditions.

Next page please. On this slide, we can see a comparison of the variable rent in our leases over the past seven quarters. In total, we have 96 leases with revenue-based rent and with a minimum contractual rent and 32 leases which are purely revenue-based without minimum level. And on top of this we also have seven fixed leases.

In the third quarter, total variable rent amounted to SEK 378 million. The number of minimum leases generating variable rents continued to increase and reached 73%, as you can see on the graph to the right on this slide. A few more leases are expected to crossover in the fourth quarter.

Next page please. Pandox performs internal valuation of the hotel properties each quarter. 97% of the properties have been externally valued during the past 12 months and the valuations are in line with our internal valuations. Value changes were positive in the period as higher cash flow [ph] outweighed (00:13:38) a slight increase in [ph] yields (00:13:39). In the first nine months, total changes in value amounted to a positive SEK 1.5 billion, out of this, SEK 1.2 billion for investment properties and a positive SEK 300 million for operating properties.

And as you might know according to IFRS, unrealized changes in operating properties are only reported for information purpose, but it is included in the EPRA NRV. And okay, the average valuation yield for investment properties was 5.45% and for operating properties it was 6.43%.

Next page please. On this slide, you can see the accumulated changes in value in our property portfolio since the start of the pandemic. During the most uncertain phase, we have negative changes in value six quarters in a row, mainly due to lower cash flows. From the third quarter 2021, based on gradually improving cash flows, changes in value have been positive. Measured from the start of the pandemic, total unrealized changes in value are still a negative 2.4%.

Next page please. Yes, as Liia said, we have two sources of financing, equity and normal bank loans, secured by underlying properties. We have no market financing in formal bonds and we have no external rating requirement. Given our business model with focus on hotels and variable rents, this has proven to be the most efficient and predictable financing over time.

On the right, we highlight our capital structure at the end of the period, and based on the closing price yesterday, Pandox is still valued with a discount to EPRA NRV around 40%.

Next page please. Okay. On this slide, [indiscernible] (00:15:57) some balance sheet KPIs. Loan-to-value amounted to 47.1%, while EPRA LTV was 47.0%. This is in the lower end of our financial target range. Cash and unutilized credit facilities amounted to SEK 4.5 billion. Credit facilities maturing in less than one year amounted to SEK 12.7 billion, on which, the majority in the first and the second quarter next year. And we do, of course, have positive dialogues about the refinancing ongoing regarding all these credit maturities. And we do, of course, expect some increase in cost [ph] readily (00:16:46) in 2023 given the development in the credit market.

But with that said, we currently have a strong interest cover ratio. Pandox also have some commercial paper program that are used to optimize Pandox financial cost via interest rate arbitrage. Commercial issued are always fully covered by our [indiscernible] (00:17:09).

So next page please. On this slide, we continue with how some important balance sheet metrics have developed since 2016. With the exception of the interest cover ratio, these metrics have remained relatively stable over the period. So just a few highlights.

Loan-to-value declined to 47.1% in the third quarter which is clearly lower than before the pandemic. The interest cover ratio as I mentioned the previous slide has improved quarter-by-quarter. The 4.8% recorded this quarter is a bit out of the ordinary on the positive side. And looking at the graph to the ride, you see an uptick in average interest rates, reflecting the development we have seen lately in the credit market. Average repayment period and average fixed rate period have gone down a bit this quarter with this sort of natural effect as we haven't made any refinancing this quarter.

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

Anders Berg

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

Thank you very much, Anneli. Yes, as Liia said from the beginning, the third quarter was the first restriction-free quarter since the fourth quarter 2019. And the recovery, which we already saw in the second quarter, continued in the third quarter. And for the first nine months, RevPAR largely recovered to pre-pandemic levels.

RevPAR in the third quarter isolated actually surpassed 2019 levels with a good margin. Demand growth was broad-based with good growth in all Pandox markets. Domestic leisure demand remained strong during the summer and the domestic business demand also improved before and after the holiday season. So we are now more or less back to normal seasonal pattern and business mix, although some international demand elements are still trailing 2019.

ADR continued to strengthen in all demand segments in the third quarter as hotels worked actively with revenue management and prioritized rate in an environment with operational cost pressures. Larger cities saw the biggest relative recovery, while smaller cities continued to perform well in line with the normalization of the hotel market. So far, rising inflation and higher energy prices have not had any clear negative impact hotel demand.

Next page please. In the following fixed charge, we track occupancy, average daily rate, and RevPAR for Nordic Regional, Nordic Capital, Germany, Frankfurt, UK Regional, and London, and how they compare to 2019. The data points are monthly and year-to-date, and the bars in the graphs 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 krona.

Starting with Nordic Regional. As restrictions were eased in the second half of the first quarter, demand came back quickly and ADR began to rise from an already solid level. The resilience in average daily rate has been strong all through the pandemic. In the third quarter supported by strong summer, average daily rate increased well above 2019 levels.

RevPAR crossed over 2019 levels in March and have trended above those – above 2019 since then. And supported by the strong third quarter, RevPAR for the nine months was clearly higher than 2019. The recovery is broad-based, but Finland remains a slightly weaker performer than the rest of the Nordic countries.

Next page please. As you know, it's been a general trend all through the pandemic that larger cities with high dependence on international demand have seen a slower development than smaller regional cities. During the second and third quarters, Nordic Capital Cities recovered relatively strongly in both occupancy and ADR. 2022 RevPAR was largely in line with 2019 levels in the third quarter but is still trailing 2019 on a year-to-date basis due to the slower start of the year. However, year-to-date RevPAR is now only some 10% to 12% below the 2019 level.

Next page please. Restrictions in Germany were listed, the latest I would say in our markets, actually on the 20th of March, which meant that it started its recovery later than most of the Nordic Countries. But as you can see, occupancy and ADR have improved steadily from the reopening. And in the third quarter, 2022 RevPAR exceeded 2019 by a clear margin, but also here, due to the weak start to the year, year-to-date Germany still some 18% below 2019.

Next page please. Frankfurt remains a good illustration of the rapid recovery in larger more international destinations that we have seen in recent months. In the third quarter, both occupancy and ADR were on aggregate on a good level and RevPAR exceeded 2019 levels. But also here, due to the weak start of the year, year-to-date RevPAR still approximately 30% below 2019. And this is explained by some international demand segments still having some way to go until full recovery.

Next page please. UK Regional, as you know, has been the strongest performing market, both during the pandemic and in the recovery phase after it. And it remained a solid performer also in the third quarter. The UK's open early strategy meant that UK Regional hit the ground running in the second quarter, already at relatively high occupancy and ADR levels. And that run was extended in the third quarter. So with the exception of January, 2022 RevPAR in UK Regional has exceeded 2019 every month this year. And year-to-date RevPAR is approximately 13% than 2019.

Next page please. London continued to improve in the third quarter with 2022 RevPAR trending clearly above 2019. Despite the slow start to the year, explained by restrictions, closed offices, and limited international inbound travel, year-to-date RevPAR is now on par with 2019.

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

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anders. With RevPAR at or above 2019 levels, it's fair to say the pandemic is behind us. Even if [ph] we're often missing (00:24:13) some international demand, the business mix is now more or less normal and we are starting to see the hotel market move in line with normal seasonality. I am proud of our journey through the pandemic and on behalf of all the hardworking people at Pandox to report such a strong result. It clearly shows that our business model is super strong. And that we have a world-class team in our company to support it.

As the hotel market have gradually normalized, so have our earnings. Through a combination of operational improvements and prudent management of our balance sheet, our financial position is strong. [ph] The loss percentage (00:24:53) of Pandox revenue is variable, which offers protection against increased energy cost and financial cost with the upper half a good starting point in more uncertain times.

[indiscernible] (00:25:06) between strong underlying demand in the hotel market and risk relating to disposable income and business cycle will play out, it's too early to tell. However, based on our experience, the hotel market demand is normally quite resilient and are focused on upper mid-market hotels with mostly domestic demand is a strength particularly in uncertain times.

Next page please. Before we move over to the Q&A, I would like to remind you that we have our Hotel Market Day coming up. The day is 15th of November and we promise you an interesting [indiscernible] (00:25:42). The topic of this year is future of work and what that means for hotels. So if you haven't registered, please do. But you can also be able to follow the event online at our website.

Next page please. We now move over to the Q&A. Operator, we are now ready for questions. And please do not forget to hand the call back to us afterwards for Robin's presentation.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We have a question from Fredrik Stensved from ABG Sundal Collier. Please go ahead.

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Thank you very much and good morning. A couple of questions from my side. Firstly on the number or the share of leases generating turnover rent now in Q3, it's up to 73 leases or 76%, so quite a step up versus Q2. I was wondering if you could share any sort of data or insights into the 25% not generating turnover component today. Is that due to a weak Q1 or is it below the turnover hurdle if you look at Q3 isolated as well?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Hi. It is related to the fact that we had a slow or poor Q1. And as well remember, Germany using the restrictions in the middle Q2. And then again, the minimum rent especially in Germany are on a higher level because the transactions made was – so they're on a higher number, is a more difficult number to beat.

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Right. And so if you looked at Q3 isolated with sort of a normal Q1, Q2, can you share what the corresponding number would be 73 leases today?

Liia Nõu
Chief Executive Officer, Pandox AB

A

We don't have that on top of my head, but [indiscernible] (00:28:07) of course, Q3 is a normalized quarter, so without having that exact number, but without having the drag or the first five months, then we would of course be in a majority part of variable leases. Yes, I would say it would have been the same as in 2019, I guess, yes.

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Perfect. Secondly, the sort of delayed COVID relief payments that you received in Q2 and Q3, will there be any more of those coming, going forward or are we done now?

Liia Nõu
Chief Executive Officer, Pandox AB

A

[indiscernible] (00:28:46) we are definitely done with those. So we have it all in the Q3 report. And I mean, we have also checked because there is a discussion regarding the bigger restriction for us to give dividend. But it's still up to the board to decide on the dividend. But the government [indiscernible] (00:29:05) we have received this year will not be a restriction for [indiscernible] (00:29:10).

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Perfect. Thank you. And last question, if that's possible to answer. Do you know the – or can you share the FX impact on sales sort of Q-on-Q? From Q2 to Q3, what is the FX impact?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Impact on EPRA NRV meaning or on...

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

No, on top line sales turnover.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Compared to 2019, wow.

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

No, not compared to 2019, just sort of the FX impact on a sequential basis.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Okay, from the last quarter you mean then? [indiscernible] (00:29:58)

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Exactly.

Liia Nõu
Chief Executive Officer, Pandox AB A

We don't have Anneli here. We'll have to come back to you [indiscernible] (00:30:08) no, we don't have that.

Fredrik Stensved
Analyst, ABG Sundal Collier AB Q

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

Liia Nõu
Chief Executive Officer, Pandox AB A

Yeah, but you also have the [indiscernible] (00:30:15) if you would like to [indiscernible] (00:30:18)

Fredrik Stensved
Analyst, ABG Sundal Collier AB Q

Thank you.

Liia Nõu
Chief Executive Officer, Pandox AB A

Okay.

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

Have a couple of questions from the web. Maybe we can go through them first. So the first question is, how are booking looking for Q4 given current market conditions?

Liia Nõu
Chief Executive Officer, Pandox AB A

Well, the booking for the Q4 and for the beginning of the year looks good. So as said, we don't see anything on the market [indiscernible] (00:30:51) but the performance is looking good.

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

How are you expecting energy cost to impact profit going forward?

Liia Nõu
Chief Executive Officer, Pandox AB A

Well, as we said previously as we said, about 80% of our portfolio is Property Management where the operator bears these costs, and where we have a sort of strong resilient ADR which have been compensated with that. In our own operations, which is less than 20% of our market value, then of course energy cost will be an increasing part of that cost. There are however in the – especially in our [indiscernible] (00:31:35) we have a number of agreements which have been fixed as well there will be a prolonged time before [indiscernible] (00:31:43) those increase. And we also have a resilient and increasing ADR compensated with these [indiscernible] (00:31:49)

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

A

How strong do you see the reliance in the yield used in valuation given rising interest rates?

Liia Nõu
Chief Executive Officer, Pandox AB

A

We have to remember that the yield we see today are actually higher than in 2019. So the hotel industry we have not been part of the yield, the decrease, the yield [ph] squeeze (00:32:16), which has been going on for the last two, three years, so there is a sort of a buffer in that. Of course, there are some pressures in the yield and we have taken into account that, as you see in our quarter reports already, even though the cash flow, the strong cash flow more than offsets that.

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

A

And I should add that those questions were [indiscernible] (00:32:46) and then we have a question from [indiscernible] (00:32:50) can you please elaborate on bank financing?

Liia Nõu
Chief Executive Officer, Pandox AB

A

On bank financing, yes, as you know, we have had – we have only bank, relationship banks and to our [indiscernible] (00:33:03) bank loans. We have, during the pandemic, have been in close dialogue [indiscernible] (00:33:09) with the banks consistently. And we see actually a more active environment when it comes to discussing new financing with a bank. Even though of course, there are [indiscernible] (00:33:23) on the underlying interest rates. But when it comes margins and the sort of increasing margins, we have to a large extent already seen that during the pandemic and it's also already sort of in when it comes in margin already in the numbers. But of course, there's some pressures on the refinancing.

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

A

Those were the questions from the web. And now, we are ready for Robin's presentation.

Robin Jack Rossman
Managing Director, STR Global Ltd.

Good morning, Anders. Can you hear me?

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

We can hear you. Please go ahead, Robin.

Robin Jack Rossman
Managing Director, STR Global Ltd.

That's wonderful news. Good morning, Anders. Good morning, here, and good morning, everyone. It is very good to join you today and I'd like to just carry on from I think the most important statement from a – certainly from a hotel market performance perspective that both of you, Liia and Anders, mentioned in your presentation and that Q3 was a return to normal.

And I'd like to just add on to that, that in particular, what is really important is it's not just the summer bit of Q3 that has returned to normal but it was September and as we go into October too. And the reason why I'm starting by just pulling that out is some may remember that many including Bill Gates, called out during the early and middle days of the pandemic, that business travel would never be the same, in fact, Bill Gates said that there would be a 50% decline in business travel. And I can say that with great confidence, given we have actual data now, that that has not transpired in any way.

And as we've gone through the months coming out of the leisure season into the business season, we have seen a return to almost normal business travel, still some constraints there that have been mentioned, but certainly, nowhere near the kind of scenario that many thought would happen. The reality is, as with many things, in a post-pandemic, things are returning to normal and people are valuing and recognizing that travel in-person is fundamental to a successful business.

And so on that sort of opening note, I'll go on to my presentation. I'll move over the cover slide, which is holding onto gains, facing off economic pains, [ph] and talk a bit more about that (00:36:09) last question particularly toward the end. But I will start again moving over from global overview onto page 33. Just giving that global picture and really highlighting that when you look at where we've reached in September for the month of September, again, this is more a business month than it is a leisure month. And if you look at Europe, 77% occupancy which is only 5% behind 2019 levels.

From a rate perspective on the following slide, slide 34, you can see that that has been done with a monthly ADR growth of 22%, really quite spectacular. And year-to-date, ADR growth of 17% for Europe as a whole.

Moving on to slide 35. What that means is for the month of September, 16% RevPAR growth and 3% year-to-date given the slow start with COVID restrictions. So on to the following slide. [indiscernible] (00:37:14) global picture. One of the big trends over the last three months has been the recovery of global gateway cities that have been more reliant on international travel. And you can see even in the year-to-date picture, occupancy indexed to 2019 for most except those in Asia underpinned by continued zero COVID policy in China. But excluding Asia, most are recovered almost 90% year-to-date, which is pretty amazing given the start to the year.

So then just [ph] drilling down (00:37:50) on Europe cover slide next and then going over onto slide 38. Looking at – really this is just purely to show the trend line of all the major countries across Europe. And the trend line is one where we've seen since July, August, things settle into a bit of a new normal, and again, most importantly, you'll see for most of these countries, even though we've gone into October, occupancies have been trending at broadly the same level. Some countries like Ireland, Italy, Turkey, fully recovered, other countries less so, and still in recovery phase like was mentioned before, Germany was a bit later to open up and still recovering there at about 91%.

So going on to the next slide, slide 39. This again is just stepping back, looking at aggregated European numbers, looking at occupancy week by week indexed for 2019, split between weekday and weekend, starting with 5th of June on the left ending with 165 of October on the right, so a bunch of information to absorb there. Really what this is intended to show is how the recovery has trended week by week, split between weekday demand [indiscernible] (00:39:13) particularly in the non-summer months, and weekend demand which obviously more leisure based demand. And what you can see is that there was a steady improvement in both, all the way up until the last week of summer, the last week of August.

And then we did have, going into September, a bit of a transition phase, where we saw the recovery drop back by one week, obviously, sometimes people take a few days [indiscernible] (00:39:45) getting back from a holiday just to finalize their travel plans, don't usually do that first week of September. But quickly thereafter, we've seen a [ph] precover (00:39:52) to that mid-single-digit level of occupancy below 2019 levels on the weekday and a bit better than that 2, 3, 4 percentage points on the weekend. And the reason why that recovery is not fully there is, and we mentioned before, if you go into slide 40, it's that certain types of demand, some international demand hasn't come back at all, so group demand you can see on the left-hand side there still trending about 30% behind 2019 levels.

If you go ahead into the future, and you can often do that in the hotel industry by looking at what's happening in the US, you would see that group demand is now single-digits behind 2019 levels in the US, so only about 5%. So we do expect that to recover as we go into next year because it does have just a longer lead time. But that transient demand is getting there and in excess of 2019 levels.

Going on to the next slide, slide 41. Just touching on some cities in particular because as I mentioned, they were the last to recover. But cities, as we got them to July, we're anywhere between mid to low 90s recovered, up to 100% recovered in some cases and then [ph] obviously are (00:41:14) some exceptions either side of that.

The real question though was and we've been tracking this for a while is going back to our start of this presentation, would the recovery hold true or be resilient as we're headed into reliance of business travel? And when we looked at business on the books, going on to the next slide, and we looked at business on the books for the next 90 days and we looked at what was there at the beginning of September and compared it to what was at the beginning of June, now bear in mind, June, July, and August was one of the strongest summers for many markets in Europe. And so with longer lead times because people [ph] were planning (00:42:01) their leisure breaks for I think more than usual this year going into the summer.

So when we look at business on the books for the three months going into September, October, November and compared it to June, July, and August, what we saw was encouraging even though there are negative numbers there. Because what those negative numbers mean is that there was less rooms already sold to the next 90 days going into the business period than there were going into the leisure period. However, the difference was not that big in most cases. And typically, business demand has later pickup and so we expected that negative variance would, for the most part, if it was mid-single-digits, be absorbed through the later booking pickup of corporate travel.

And what I can say is if you go into the next slide that that did materialize, that if you look at September for those cities, again, you can see that with the exception of those that had double-digits sort of differences and business on the books like Edinburgh, that was underpinned by things like the Fringe Festival, which is a bit of an exception. But if you take those out, generally, anything that had mid-single-digits negative business on the books, pacing, recovered that and we saw that occupancies held true to September. And I'll talk about the rest of Q4 later.

But before I do, going on to the next slide, looking at ADRs. What we have seen is that because there was that huge pent-up demand for leisure travel, particularly on the luxury end, we saw rates really accelerate in the summer months and you can see here ADR across EU 27 countries and indexed to 2019 by week, showing the total combined bar being nominal ADR indexed and then the dark blue portion being real ADR adjusted for inflation. And really since July, or even before actually May, we've seen real ADRs being in excess of 2019 levels. With the summer months, that's translating to almost 30% nominal ADR increase. And in recent months, as we have expected, we expected that 20% to 30% ADR increase to drift back to something mid-teens.

And because that real pent-up leisure demand was going away, we've seen that do exactly that. We've seen it drift back to around that mid-teen percentage and stabilize broadly there, which would leave real ADRs back at 2019 levels, which would [indiscernible] (00:44:38) for most parts, be enough to get profit margins back to 2019 levels, taking into account cost inflation.

So next slide please. When you look at slide 43, you'll see that again this is just to show the trend [indiscernible] (00:44:59) looking at occupancy. But ADR has broadly stabilized across countries with a slight adjustment being as shown in the aggregate version that we have seen things drift slightly back towards mid-teens in the recent month.

Next slide please. Just looking at those cities again, almost all cities showing rate growth ahead of 2019 levels on a year-to-date basis.

And next slide please. If we focus on the summer months, we can see that again that is an even more positive picture.

Next slide please, slide 48. One thing that has materialized this year and it was consistent with what we saw coming out of the 2008-2009 financial crisis but more accentuated, and that is because of that pent-up demand, we have seen that push rates at the luxury end of the market, higher than the rest of the market. So rates for luxury hotel year-to-date across Europe up 46%, so indexed [ph] 146 (00:46:16) to 2019 on the left-hand side there. And the rest of the classes indexing at a relatively narrow range, anywhere from double-digits up to sort of mid-teens.

In terms of occupancy recovery, that's been broadly the same across all the segments except for economy, which has attracted a faster occupancy recovery, close to 100% recovery. As we go forward, we expect this trend to sort of normalize in the sense that we think luxury will move back down towards the rest of the market's ADR indexing.

So just a bit on to the outlook, so next slide please, and past that slide to the next slide, which is across major markets business on the books is much improved. And this slide shows the teal bars being this year's business on the books for the next 90 days from the beginning of October or mid of October to same time last year, the blue line. And the good news is that it has improved. And it would also be expected that it improved given at this time last year, many of us were having to relook at our travel plans and [indiscernible] (00:47:37) as COVID cases were on the rise across Europe.

And so what we see there is those green lines in particular are filling up the areas that we're missing last year, which is that mid-week demand. So the blue stacks are the weekend, and the green line is mid-week. And really what this reflects is a continuation of the trend that I showed previously, which is business on the books is suggesting that we're not going to see a massive pullback in the recovery. Business demand is there. That should continue to hold occupancy recovery at least up to the current level for the next few months based on that data that we have.

Next slide please. Just a couple more trends to talk about already, one more trend is that – and this is using London and the Regional UK as a proxy for what we're seeing across most of Europe. And that is we did see Regional markets recover occupancy to 2019 levels far sooner because they were less reliant on international travel, more resilient with domestic demand, and we've seen that that remained resilient, all the way through to October Regional markets and the Regional UK as an example is maintaining that near 100% recovery.

What we are seeing is that gateway cities like London are catching up. And based on the business on the books, we would expect that to get to continue to close from an occupancy perspective because international travel is now coming back, and in particular driven by a weaker euro, a weaker sterling, we're seeing a lot more Trans-Atlantic demand come through, particularly for cities that attract American-based demand.

From a rates perspective, next slide please, you can see that what that's driving is rates for Regional markets have grown and are stabilizing sort of drifting slightly from that 20% odd level. And the cities which took a longer time to recover have caught up on that and are trending to exceed that in the coming months and typically what we do see with a weak euro, weak sterling, is that does help provide upside momentum to rates in those cities that have a lot of dollar-based demand, whether that be from the US or the Middle East.

And so with that, I will go on to sort of the conclusion, and that is kind of where I started is the really important data point not to ignore is that the risks around business travel coming back have not materialized. It has indeed come back even though we're still in the early months of the pandemic. Group demand is not back yet, but it is slowly recovering. And you've got ADR growth has been exceptional. And whilst it is sort of drifting down slightly from those leisure highs in the summer month, it is stabilizing in the sort of the mid-teen level.

There is no doubt that the worsening economic outlook definitely represents a downside risk, the hotel industry is like many industries, cyclical and is dependent on economic activity and consumer confidence. And so those represent [indiscernible] (00:51:33) but nonetheless, those risks have been there for a while and the industry has remained resilient nonetheless, and based on business on the books, it is still resilient for the time being. And there are some significant upsides to those risks. The strong dollar and weak euro, weak pound, will help drive both occupancies and importantly rates on markets that benefit from international demand.

There is still pent-up business demand, so there is still, like leisure demand, there was pent-up leisure demand, there is still pent-up business demand that is taking its time to work through into materializing [ph] people counting events (00:52:22), getting back together, going to see clients for the first time in a long time, and so that is still there and there is recovering group demand. The other upside risks that I haven't actually put on here is that the one major market particularly for countries like Germany that hasn't come back is China. And whilst there are currently no signs of when that market might open up, when it eventually does, that will help drive increased demand from that segment which has not come back yet.

And on that note, I will hand back to you, Anders and Liia. And so thank you for having me this morning. And is there a question?

Liia Nõu

Chief Executive Officer, Pandox AB

That's all folks. Thank you for participating in this call and we really appreciate your time and interest in Pandox. So on our fourth quarter report, will be published next year in 9th of February. So thank you. Have a great autumn. Go out and see and stay at our hotels and enjoy life. Goodbye.

Operator: Thank you. This now concludes today's...

[Abrupt End]