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Pandox AB (PNDX.B.SE)

Q2 2023 Earnings Call

CORPORATE PARTICIPANTS

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

Liia Nõu
Chief Executive Officer, Pandox AB

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB

Thomas Emanuel
Senior Director, STR

OTHER PARTICIPANTS

Fredrik Stensved
Analyst, ABG Sundal Collier AB

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Q2 2023 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to hand the conference over to Berg Anders. Please go ahead, sir.

Anders Berg

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

Thank you very much. And welcome, everyone, to this presentation of Pandox interim report for the second quarter 2023. I'm here together with Liia Nõu, our CEO; and Anneli Lindblom, our CFO. And as always, we have STR with us today represented by Thomas Emanuel, Senior Director at STR. And Thomas represents a leading independent research firm focused on the hotel markets and he would share STR's view on the market. And the views expressed by STR are completely separate from Pandox. And the presentation is offered only as a service to Pandox stakeholders. And please note that Thomas' presentation will be held after we have completed our earnings presentation including the Q&A.

Before we let Thomas in, Liia and Anneli will present a business update with financial highlights for the second quarter followed by the Q&A session. Next page, please.

And with that, I'll hand over to Liia Nõu, CEO of Pandox.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anders. And good morning and welcome, everyone. Demand in the hotel market improved considerably in the second quarter, reflecting stronger seasonality and an economy with strong leg. Leisure demand continue to be strong with consumers clearly prioritizing travel at the expense of other consumption.

Business demand also improved, particularly in Germany which benefited from a more active trade fair calendar. Positive hotel markets translated into a good growth and profitability for Pandox and adjusted for government grants, which we received in the comparison quarter of 2022, cash earnings increased by 4%, which shows that our model with variable rent works well also in higher interest rate environment.

During the quarter, we continued to refinance outstanding debt at a high pace. In the first half of 2023, we've refinanced the equivalent of some SEK 14 billion in debt and only 15% of our loan portfolio now has a maturity of less than a year.

We remain on a solid financial ground with an LTV of 46.7% and interest cover ratio measured on a rolling 12-months of 3.2 and we have 100% of our financing with bank – relationship banks. And going forward, we see multiple factors supporting the hotel markets, but more about that later.

Next page, please. We have a well-diversified hotel property portfolio. We have 158 hotel properties with approximately 35,600 rooms in 15 countries and in 90 cities and with a property market value of more than SEK 72 billion.

Pandox is divided into two business segments. Property Management and Operating Activities. In Property Management, we leased hotel properties to strong and well-known operators and their long revenue base agreement. And this segment makes up for some 83% of our property market value.

In Operating Activities, we operate at the hotel [ph] ourselves (00:04:11) in properties we own [ph] under (00:04:15) different operating markets. And this segment make up for some 17% of our property market value. Our focus in our portfolio is on upper mid-market hotels with mostly domestic demand which is the backbone of the hotel market, regardless of which space in the hotel market cycle, we are in.

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 maximize cash flow and property value and a continued flow of business opportunities. As you can see in this picture, we work together with several well-known operators, for example, Scandic and Strawberry in the Nordics and Leonardo in the UK and Germany. We also have long relationship with strong international brands, such as Hilton, Holiday Inn, Radisson Group, among others.

In our Operating Activities segment, we have also some independent brands created by Pandox. For example, Hotel Berlin, Berlin, which is our largest hotel with over 700 rooms. And we turn next page, please. Hotel demand was solid in the second quarter, supported by sustained leisure demand and improved business demand. Events and trade fair demand also rose to a very good level.

For comparable unit, total net sales and net operating income increased by 18% and 16%, respectively. Like-for-like, our largest business segment, property management increased net operating income by some 12%. Our loan-to-value ratio was 46.7% and return on equity measured by annualized growth and EPRA NRV was approximately also 12%.

Next page, please. Here 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. As you can see, RevPAR is currently trading above the corresponding period 2019. ADR continues to be the main driver with a strong to very strong average price development in most markets. More on that on the following page.

Next page, please. Here, we have a breakdown of the performance for a selection of countries, regions and cities versus 2019. The first chart tracks the three months, year-to-date performance to March. The second chart tracks six month performance and year-to-date to June. We show ADR on the vertical axis and occupancy on the horizontal axis, that origo is the point corresponding to 2019 on both ADR and occupancy. In the boxes, we indicate how much higher or lower RevPAR is compared with the corresponding period 2019.

The hotel market continued to improve in the second quarter, year-to-date, June, all markets traded above or well above 2019 levels or rate, whereas the majority of them, although an improvement took place in the second quarter, remained below 2019 level on occupancy.

In terms of RevPAR, from the first to the second quarter, the greatest relative improvement took place in Germany. Thomas Emanuel from STR will talk more about Germany in his presentation later in this call. Broadly speaking, RevPAR in all our regional markets are trading above 2019 with UK and Norway regional being the strongest ones.

Among the Nordic capital cities, Oslo is clearly the strongest, followed by Stockholm. Copenhagen is slightly shy on 2019 levels, whereas Helsinki continues to suffer from the lack of Asian and Russian demand. In these two cities, Copenhagen and Helsinki, there's also been a strong inflow of new hotel rooms in the past few years.

Next page, please. Last quarter, I was pleased to be able to announce the first acquisition in a very long time in central Stockholm at Fridhemsplan more specifically. In June, we signed a new attractive lease with Scandic Hotel Group for the new Scandic Go concept in the economy segment. The agreement will come into force during the second half of 2024 and is a revenue based lease with minimum guaranteed level.

During 2023, the hotel will continue to be operated under fixed lease with current operator and will then be closed for renovation and reopened in late summer 2024 as a Scandic Go. The agreement shows that we have a unique business model where we together with strong partners can create value both in the hotel business and the hotel property.

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. We are happy to report a good set of numbers for the second quarter. And to be super clear, we do have government grants in our comparison quarter, so please read the numbers carefully. This government grant refers to previous years 2020 and 2021, and we received them last year in Q2 and also some in Q3.

So, like-for-like growth was solid both in revenue and net operating income, supported by stronger seasonality and broadening of the recovery in the hotel markets. Total revenue-based rent increased to SEK 353 million compared with SEK 258 million last year. And revenue-based rent was generated in more than 80% [ph] under gym (00:10:57) agreements with minimum guaranteed rent. And we fly into the third quarter on a good level as for now.

Operator Activities saw a clear improvement in the second quarter in line with stronger seasonality and higher demand for meetings and trade fair [ph] exhibitions (00:11:16). And as you know, Operator Activities is highly dependent on the international meeting markets in Brussels and the business demand in Germany. And the third quarter is more of a leisure period. But from September onwards, meetings and business demand is expected to resume at a good pace. This will support our larger international meeting hotels, particularly in Operator Activities.

Adjusted for the government grants, cash earnings grew by approximately 4% in the second quarter, which shows that our model with variable rent is creating value also in a higher interest rate environment.

Next page, please. We perform internal valuation of our hotel properties each quarter. Approximately 97% of the properties have been externally valued during the past 12 months. For the first six months in property management, unrealized changes in value were at net negative SEK 878 million. In operating activities unrealized and realized changes in value was at net negative SEK 119 million.

Measured from the beginning of the year, the increase in average valuation yield was 0.30% points for both business segments. In the period, we also had positive realized changes in value of SEK 200 million. Firstly, we had a capital gain from the divestment of our hotel in Montreal, InterContinental and a positive net from disposal and insurance settlements for our hotel in Bad Neuenahr, it's a Dorint Parkhotel which suffered from flooding damage in 2021.

And as always, remember that investment properties are recognized at fair value. According to IFRS, unrealized changes in value for operating properties are only reported for information purpose, but they are included in our EPRA NRV. End of period, the average valuation yield for investment properties was 5.88%. For operating properties, it was 6.80%.

On the following page, I will explain in more detail the underlying factors behind the value change. Next page, please. Here, we show how increasing yield requirements and strong cash flow have affected our property values. As you all know, we have enjoyed a strong hotel market recovery from the second quarter 2022 and onwards. This has gradually been reflected in the increased cash flow predictions, both in internal and external valuations.

For the first half of 2023, higher average yield had a negative value impact of SEK 2.6 billion, while stronger cash flow had a positive value impact on SEK 1.8 billion. As you can see, most of this change materialized in the second quarter. This is quite normal and reflects the seasonality of the hotel markets when second quarter normally provides more and stronger evidence for the valuations. So, the main reason for the higher cash flow is mainly a strong average price development in large part of our portfolio. And as I said before, measured from the beginning of the year, the increase in average valuations was 0.30% points for both business segments.

So next page, please. Pandox has two sources of financing. We have equity and we have just normal bank loans secured by underlying properties. We have no market finance in the form of bonds and no external rating requirements. Given our business model, we focus in hotels and variable rent. 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, based on the closing price yesterday, Pandox is valued at a discount to EPRA NRV of approximately 43%

Next page, please. So and then the slide with some balance sheet KPIs for the June 30. We have been very active on refinancing in the second quarter, taking the total amount of refinancing to SEK 14,146 million in the first half of 2023. We now have some SEK 5.6 billion of debt maturing within one year of which nothing in the third quarter and then some SEK 3.2 billion in the fourth quarter this year.

We have refinanced mostly with long durations and we have extended our average repayment period to 2.7 years. End of quarter, the average interest on debt was 4.3%, which is a reasonable approximation for the level at year-end assuming unchanged market rates. We have also extended our average fixed rate period in the quarter and I will explain more on the next slide.

Loan-to-value as well as EPRA LTV amounted to 46.7%. Our interest cover ratio measured on a 12-month rolling basis, which is how it's tested in all our credit agreements, was 3.2 times. Cash and credit facilities amounted to SEK 3.3 billion.

Next page, please. And yes, during the quarter, we extended our average fixed rate period. We bought interest rate swaps, where we paid fixed and receive floating with maturities between 7 to 10 years in four major currencies, all-in-all corresponding to a total nominal corresponding for total nominal amount of SEK 6 billion. The effect was that our average fixed rate period increased to 4.3 years compared with 2.7 years in the first quarter. Our net debt hedged against interest rate movements for a period longer than one year increased to 76% compared with 64% in the first quarter.

And the main reason for doing this was that we wanted to achieve a more even interest maturity profile. And we also saw an attractive opportunity to take advantage of the inverted yield curve in the interest rate markets.

So, next page, please. And with that, I'll hand back to Liia for some final remarks.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anneli. Good development in the hotel markets reflect an economy with strong legs. Household demand for experiences has been high and people have prioritized travel at any price over other consumption. We believe that what people experienced during the pandemic may be one explanation for this and that the escape sector is still a strong driver.

Also surplus household savings remain high in many of our markets. We see further potential for increased business travel in the autumn, particularly in Germany, where trade fair calendars are now well-filled in classic trade fair cities. The same applies to international travel which still has a way to go to reach 2019 levels.

Reopening in Asia after the pandemic has been relatively slow, and the arrivals from countries such as China and Japan and Europe are still at a low level. One explanation which also applies to international travel in general is the flight capacity has not yet fully returned to pre-pandemic levels. One positive [ph] sort of (00:19:50) factor is that weak exchange rates in UK, Norway and Sweden should stimulate increased international arrivals to these markets.

Next page, please. And we now move over to Q&A. Operator, we are now ready for questions. And everyone, please do not forget to listen-in to the presentation of Thomas afterwards.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Fredrik Stensved from ABG. Please go ahead, sir. Your line is open, sir. You may proceed.

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Thanks. This is from Fredrik from ABG. I hope you can you hear me.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Hi. Hi, Fredrik.

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Hi. A couple of questions from my end. And maybe to start with, you mentioned in the report that you had administration costs of SEK 20 million related to an hotel which is under repair. Do you think that's sort of a non-recurring cost or why do you [ph] if you split that out then in cash (00:22:21)?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Absolutely. This is the hotel, actually, we have in Nuremberg. We bought it in 2019 and we've had it close to two years under renovation i.e., closed. The cost in the second quarter for that hotel as we are ramping up, [ph] the investment is ready, to be launched (00:22:40) is SEK 20 million in the quarter. So, we do expect that this hotel will come out in the market. So it's pure cost and a closed hotel, it will be launched in the third quarter.

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Very good. Thanks. Then, I also wonder the amount of hotels that generated turnover rent in Q2.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Yes. Anneli, you have it.

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB

A

I mean, [ph] we're up to (00:23:11) 80% that are now running on a revenues base [ph] then (00:23:17). So what was the question?

Liia Nõu
Chief Executive Officer, Pandox AB

A

On how many.....

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB
A

... how many?

Liia Nõu
Chief Executive Officer, Pandox AB
A

How many hotels of the 100. So, 80 of the 100. Yeah.

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB
A

80, I would say, of the 100.

Liia Nõu
Chief Executive Officer, Pandox AB
A

Yeah. It's about. And I think that the majority part which is still not running on the variable is some part in Germany which are on a higher level, but also in Finland, where the minimum rents have actually increased because they are indexed with inflation, which is good, but they are also in a high level and, as you know, Helsinki, with the big conference centers and the closeness to the Asian and the Russian market [ph] have suffered some (00:23:55).

Fredrik Stensved
Analyst, ABG Sundal Collier AB
Q

Right. So, 80 in total...

Liia Nõu
Chief Executive Officer, Pandox AB
A

Yeah.

Fredrik Stensved
Analyst, ABG Sundal Collier AB
Q

...generating turnover rent. Do you think the ones in Germany and Finland not currently generating turnover rent, do you think that will – those hotels sort of will reach the hurdle or exceed the hurdle in H2?

Liia Nõu
Chief Executive Officer, Pandox AB
A

The majority part, especially in Germany, will reach and that's because, of course in the second quarter, the fair trade and group meetings have come back. But as we said, it's coming back much more in the in the second quarter. And of course, because this was like a calendar [ph] effected start (00:24:39) from the 1st of January, when you look at it, the first quarter is always the weakest quarter. So yes, we do see the majority of all our hotels running on a variable rent.

Fredrik Stensved
Analyst, ABG Sundal Collier AB
Q

Very good. And that's all for me. Thank you very much.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Thank you.

Operator: [Operator Instructions] This concludes our question-and-answer session. I would like to turn the conference over to Emanuel Thomas to continue with his presentation. Please go ahead, sir.

Thomas Emanuel
Senior Director, STR

Good morning, everybody. Thank you very much indeed for your time today. If I can ask you to proceed to the next slide, my title page, European Hotel Performance Update. So, as mentioned, my name is Thomas Emanuel. I'm a Senior Director at STR based in London. And for the next 10 minutes, 12 minutes or so, I'll be giving you an overview on what is happening across the hotel industry.

If we can move to the next slide, please. So, of course, there is lots of talk in the media. Every time you open a newspaper or turn on the television, we are hearing about economic challenges, high interest rates, inflation, the cost of debt, the geopolitical situation, supply chain, logistics, etcetera. And there are lots of risks out there. So, what I want to do in this presentation is talk really about how the hotel industry is doing in the face of these risks and how much we need to worry about these risks in our industry.

Next slide, please. So, I will start with a look at global occupancy. So, this is global occupancy indexed to 2019. And what we can see is across the world, we are ever so nearly back to where we were prior to COVID. We're not quite there, but we are nearly there. And if you look at the last four months, really every month of this calendar year, we're in the mid-to-high 90s, in terms of percentage recovered at a global level.

If we move to the next slide, please, you will then be able to see something actually quite interesting is from a global occupancy perspective, we are recovering at pretty much the same pace as we were post the global financial crisis. So, we've indexed these two lines to the December before the financial crisis and before COVID hit. Of course, the dip for COVID as we all know is much more steep but the recovery has been much more rapid as well. And we are basically now in line with where we were in comparison to the last major shock, as such, to the hotel industry.

Next slide, please. This slide refers neatly to what was mentioned at the conclusion of the Pandox presentation in regards to airline capacity. So, this is data from OAG and we can see just how much airline capacity did dip in 2020. But the good news and this is a real positive for the hospitality industry, of course is that by the end of Q3, OAG are forecasting that airline capacity, airline seats will be back to the levels they were in 2019. So, this is a real positive for our industry as we move forward.

Next slide, please. We now drill down and look at occupancy on a regional level and there are of course, some variances across the regions. Here you have, May year-to-date actual occupancy and the percentage change that means from 2019. So, across Latin America, things are looking a bit stronger. Across much of Asia, things still remain a little bit weaker. But across the western world as such North America, Europe, Middle East, you can see we're not too far behind where we were in 2019.

And in Europe, it's a 5% change but that equates to just 3 percentage points, in terms of [ph] actualized (00:29:06) occupancy. If we move to the next slide, please and we'll shift now our attention to global average daily rates. And as we've mentioned, previously average rates have come back incredibly strongly and here we're comparing it to the recovery post the global financial crisis.

Once again, you can see that we are currently – the ADR recovery cycle is two years shorter than the global financial crisis recovery cycle, and overall globally, average rates are sitting at about 20% ahead of where they were prior to COVID.

Next slide, please. If we drill down and look at things on a regional level. Again, we see things a little bit weaker across Asia. And then, we've got some hyperinflation in South America and Northern Africa, somewhat skewing those numbers slightly. But across North America, Europe, Middle East, you can see again very healthy recovery indeed from a rate perspective. This is, of course numbers that are ahead of inflation. So, we see this as real ADR growth, not just nominal ADR growth.

Next slide, please. So, what is driving performance and what will drive performance going forward? And we've really split this into four buckets, which we'll dive into momentarily as well in the presentation. So firstly, you've got leisure. Leisure travel was, of course, the first to come back post-COVID and the appetite for leisure as has been referred to previously, remains very strong.

Corporate demand is also coming back quite nicely and we see the opportunity for that to do so further as we move into both Q3 and then ever important Q4 as well from the corporate travel perspective. And then, events, fairs are also returning quite nicely to the calendar and we are starting to see the impact of that.

And then, you may be wondering why we've got a picture of a young man there with a mullet haircut. But this is rather tongue in cheek, admittedly, but it describes what has been termed as bleisure. So the mixture of business and leisure and the reason we turn this mullet travel as such is, the front of the haircut is nice and neat. You're ready for the office. The back of the hair is long, a bit scruffy. It means you're ready to party. So, it just showcases that mix of business and leisure travel in quite a nice way.

Next slide, please. And we will move now on to Europe. And this is some data from our friends at Oxford Economics, looking at the recovery of the various travel types across Europe as a whole. And if we look at 2023, we see domestic travel has fully recovered back up above 2019 levels. Intra-regional, still a little bit behind and then long-haul remains a little bit behind that as well. Now, of course, this isn't surprising, but what is important to take from this chart as well is the direction of travel is a positive one and we are moving back up to where we were or ahead of where we were prior to the pandemic.

Next slide, please. This showcases occupancy percentage change, along with average rate and RevPAR percentage changes, again compared to 2019. And what we can see occupancy across Europe unsurprising haven't quite recovered, but average rates were fully back above 2019 levels back in February of last year and then RevPAR recovered in May of last year. So, we have now seen 12 months of solid RevPAR increases which have been driven, of course by average rates and over that time period averaged out, its indexing at 116.

Next slide, please. And we'll now look at things by country level. And this is RevPAR May year-to-date index to 2019 and we can see for the most part we saw some really positive numbers. Of course, this is driven predominantly of course by average rates, but we've got some very positive numbers there. We see Turkey has slightly skewed by exchange rate, Hungary, the Balkans as well, all doing relatively well as well as major Western European countries for the most part. It has been, however a little bit slower in Germany and that has been touched on previously as to why, but there is more conservative domestic demand across that market.

Group recovery. I will come on to that, it's getting better. The events come back, but that has been a challenge in the first five months of the year. Less luxury leisure demand than many other countries in Europe and then of course, limited dollarized travelers as well.

And if we move to the next slide, what we'll see here is that the cities, gateway cities correlate quite nicely to how the countries are doing in the most part as well. And RevPAR wise, we are up ahead in many cases, you can see particularly markets like Paris, Edinburgh, Rome, Budapest doing well. And some of those markets in the Nordics that we've got on the slide, Copenhagen, Helsinki, was described why those are challenged a little bit more. But for the most part in most markets, things are doing really rather well.

And if we move to the next slide, I'm going to touch on Germany, as was mentioned. So, we've got a selection of key German cities here and we've got occupancy for May year-to-date of both 2023 and 2019. So, it's not surprising that, of course, we are still a little bit further behind where we were. The exception is Mannheim, which is actually ahead. But you can see there in many cases, the gap is not too sharp at all but it is still a little bit behind where we were.

But if we move to the next slide, please. I think this is the good news story that was echoed very nicely earlier in the presentation. This, again is by month, looking at five major cities. And we can see, if we look at 2023, the pattern is a really positive one. We are moving up month upon month in quite a nice, consistent manner. And we're actually now seeing certain months in Hamburg and in Cologne, for example, where 2023 occupancy is ahead of 2019 occupancy already. So, the direction of travel across Germany is a positive one.

If we can move to the next slide please and shift our attention to average daily rates. This is European Markets indexed to 2019 and, well, it's a sea of green as you can see. In most markets, significantly above inflation rates. So once again, we are seeing real not just nominal average rate growth across our gateway markets.

Next slide, please. And again, we're shifting our attention here to Germany and the pattern is a good one. Once again, we're seeing, in the vast majority of markets, average rates above 2019 levels. There are some really positive stories here. Again, Dusseldorf has a €27 premium on 2019; Berlin, a €21 premium, for example, as well. A couple of outliers admittedly, Munich still slightly behind but you'll see more as to why on the next slide, if we can please advance the deck.

So, this slide talks quite neatly to what was discussed earlier in regards to events coming back in Germany. So, we could see here those five major cities again, occupancies by month for 2019 and for 2023, and pretty consistently, they are ahead for 2023. But where we do see some anomalies is due to the fairs. So, if we look at Munich, we saw before on the prior slide, it was still lagging. And that's because of April, where in April of 2019, the Bauma event attracted approximately 400,000 people to the city. It takes place every three years.

If you then look at Hamburg, for example, had a really strong May and that was because of the [indiscernible] (00:37:28) Europe event attracting a vast number of visitors. Equally in Cologne, the interzum event, 57,000 visitors to the city for that fair. There are also a wealth of concerts, from Helene Fischer to Elton John, helping to drive average rate in the city. So, the fair business is there, the calendar is booked up. So, this is certainly going to help a number of key German markets going forward into that ever important Q4 as well.

If we can just advance to the next slide, please, and just touch on some other patterns that we're seeing. This is day of week occupancy percentage change across Europe by month, and we've broken this out into three buckets. Now in the US, we're actually seeing weekend occupancy year-on-year decline, that leisure travel, that revenge travel, as such, slowed down a little bit in the States, but we're not seeing that yet here in Europe. We're still growing regardless of the day of the week. So, things are getting better the shoulder [ph] night (00:38:33), that points to that leisure demand I mentioned. Solid growth during the week as well pointing to corporate demand as well.

And if we move forward to the next slide, please you can see there, it is a bit of a mixed bag, but we are seeing things looking better during the week. If you go back a few months even, we were seeing far greater declines during the week than at the weekend. But that's not happening anymore. So, really where we are seeing, what is driving occupancy recovery across Europe is that recovery in the corporate sector.

And if we can move to the next slide, please. This touches on group demand, group versus transient. Now, transient's been back for 18 months or so very, very solidly. Now those group numbers don't look great in isolation. But if I was doing this presentation 3, 6, 12 months ago, it would be 50%, 70% behind. Now, it's 30% behind and it is improving as those events are coming back. So expect to see group demand continue to move in the right direction.

Next slide, please. These demand drivers, of course, are helping that resilient and very strong average rate growth and you can see it's consistent across all nights of the week. But what we do need to be conscious of, really, we're saying from around July time this month, we're going to start to see those rate percentages start to slow because we will have had 12 months of a very solid recovery in terms of performance. So, expect to see the rate growth retained but start to slow when we look at things on a year-on-year basis.

Next slide, please. Looking forward now, business on the books. This is the percentage point change from last year to this year for the next 90 days as of a couple of weeks back and we can see with a couple of exceptions, actually, it's looking pretty strong. And if we think back to last summer, we were talking about just how positive the summer was for Europe, both from a city perspective, but also a leisure perspective. And we are expecting similar this summer as well. It's looking like it will be a very good one.

And if we could advance the slide, please, to – I'll finish this deck with our forecast. And this is our European city forecast, which is an aggregation of the list of cities that you can see at the bottom of the slide here. And I'll just take each KPI in turn, this is indexed to 2019. And if we look at demand, first of all, we do expect demand to be 1% above 2019 levels this year. So, we will have sold more rooms this year than in 2019, which is fantastic and you can see that demand line is continuing to move forward, as well as demand growing, supply is also growing. So, that has an impact on our occupancy numbers. So, although we're seeing things getting better, we're not forecasting full occupancy recovery until around 2026 or 2027 at the moment.

Average rates. That royal blue line, we know what happened but look from 2023 it's fairly static. It's fairly stable. So, the rate growth that we've achieved is here to stay, but don't expect to see year-on-year increases being significant by any stretch as we move forward.

And then if we put that all together, RevPAR as you can see this year we are forecasting RevPAR to be 17 percentage points ahead of -17%, sorry, ahead of 2019 levels, which is a fantastic place for the industry to be. And as you can see, it will continue to move forward in quite a nice, steady fashion as we go forward.

So, next slide, please. My conclusion,, hotel demand globally very close to being fully recovered, room rates recovered in real terms, growth this year, year-on-year, is not going to be as strong. Corporate demand is coming back, we should see that continue as we move forward throughout the year. Leisure, losing a little bit of last year's luster perhaps, but that's really just a year-on-year comparison, but ultimately still very solid. And the outlook, we believe for our industry remains resilient as we do face the future with some of the economic challenges. The hotel industry remains in a good position.

And next slide. With that, I will say thank you very much indeed.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Thomas, for this hotel market update. Thanks all folks and thank you for participating in this call. We really appreciate your time and interest in Pandox. Our interim report for Q3 2023 is published on October 26. So, thank you, all, for interest in Pandox. We wish you all nice and relaxing summer and goodbye.

Operator: Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect. Goodbye.