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Pandox AB (PNDX.B.SE)

Q4 2024 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, everyone, to this presentation of Pandox interim report for the fourth quarter and full year 2024. I'm here together with Liia Nõu, our CEO; and Anneli Lindblom, our CFO. And as always, we also have Thomas Emanuel, Senior Director at STR, with us.

Thomas represents a leading independent research firm, focused on the hotel market, and he will 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's stakeholders.

And also note that, as we usually do, Thomas' presentation will be held after we have completed the formal earnings presentation, including the Q&A. But before we go to that, Liia and Anneli will present the business update with financial highlights for the year and the fourth quarter 2024, followed by the Q&A session.

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

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anders. And good morning and welcome, everyone. 2024 was a good year for Pandox. During the year, we continued to execute on our strategic agenda to improve the earnings quality of the portfolio through acquisitions and investments. This was enabled by a strong cash flow, some recycled capital from divestments, strong support from our shareholders, and most important, a super strong team of Pandox making a difference every day. Thank you all.

Before we move into the numbers, I would like to do a quick recap of the key investment highlights for Pandox. We are active in Europe, which is the world's largest hotel market with strong structural growth drivers. Travel and tourism is one of the largest industries in the world, accounting for almost 10% of global GDP and a substantial share of new jobs created. We only invest in hotel properties. We are the largest listed pure hotel property owner in Europe with a unique portfolio of high-quality assets. We are an active owner with deep hotel expertise. We work with all operational models and are focused on creating value across the whole value chain.

We have attractive long-term revenue-based leases with strong and skilled operators. This gives us upside and alignment with our operators. It also gives us inflation protection as the inflationary costs are borne by the operator. We own high-yielding properties and have a solid yield spread of more than 200 basis points relatively independent of the interest rate environment. We have ambitious ESG targets, including a substantial climate transition program with high ROI. And we have a solid growth platform based on strong cash flow and a strong financial position, which enable us to drive profitable growth through acquisitions of new properties and investments in existing properties.

Our business is to own, to improve, and lease hotel properties to strong hotel operators under long-term revenue-based leases. We do this through three principal value activities: property management, property development, and portfolio optimization. We're an active, engaged owner based on sustainable and deep hotel expertise.

Including Radisson Blu Hotel Tromsø, we have acquired five hotel properties with a total value of some SEK 4.5 billion to our portfolio in 2024. Taken together, we expect these to add some SEK 350 million in net operating income on an annual basis. They are well-performing hotels, in strong locations, with some additional improvement potential.

Here is Radisson Blu Hotel Tromsø in Northern Norway, which we entered into an agreement to acquire in the fourth quarter. It's a highly profitable and well-performing hotel in one of the strongest markets in Norway and perhaps in Northern Europe. This transaction was closed 1st of January this year.

We have a strong and well-diversified hotel property portfolio consisting of 161 hotel properties, excluding Tromsø, which we acquired 1st of January, with approximately 35,700 rooms, in 11 countries and 90 cities, and with a property market value of SEK 76 billion and an average yield of 6.29%.

We are divided into two mutually supportive and reinforcing business segments, Leases and Own Operations. In Leases, where we own and lease out our hotel properties, it stands for 79% of our hotel property market value. In our Own Operations, we transform and run hotels in properties we own. Own Operation makes up for 21% of the property market value. And the focus of our portfolio is upper midmarket hotels with mostly domestic demand, which is the backbone of the hotel market regardless of which phase the hotel market cycle is in.

And we also have 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 values and a continuous flow of business opportunities. Also, a relatively large part of investment in Leases is shared with the tenant, which lowers our risk.

Our business tempo remained high in the fourth quarter and we continued to deliver on our strategy, with one acquisition and active business development across our portfolio. The fourth quarter, which is seasonally weaker due to the Christmas holiday, still benefited from a busy event calendar, active leisure travel and the continued pickup in business demand.

All in all, this translated into a positive earnings development for us with growth in both business segments. Yields were largely stable in the quarter, while our average cost of debt decreased somewhat, which has further strengthened our yield spread. We ended the year with a LTV of 45.2% and with a stable ICR of 2.7 times annualized. Including Radisson Blu Hotel Tromsø, the LTV was 45.7%.

In the fourth quarter, total revenues and net operating income increased by 3% and 8%, respectively, of which a significant part is explained by growth from larger completed investments. For example, Scandic Nürnberg Central and Scandic Go Sankt Eriksgatan 20. For the full year, total revenues and net operating income increased by 4% and 7%, respectively.

Cash earnings per share increased by 23% in the quarter and growth in EPRA [ph] NAV (00:07:51) annualized with dividend added back and proceeds from share issue deducted was 10%. For the full year, cash earnings per share increased by 10%. Anneli will talk more about tax later in this presentation. The board will also propose an increase of our dividend to SEK 4.25 per share, a total amount of SEK 827 million. This corresponds to an increase of approximately 6% compared to last year.

Here is the RevPAR development level for our business segment Leases compared with 2023. The numbers are on a comparable basis [ph] and are (00:08:35) fixed currency. In the fourth quarter, RevPAR decreased by approximately 1% like-for-like, with a marginal decrease in both occupancy and average price. The decline is largely explained by geographic exposure within countries, with Gothenburg as one factor.

Here we have a breakdown of the performance for a selection of countries, regions and cities versus 2023. We show average daily rate on the vertical axis and occupancy on the horizontal axis. Thus, origo is the point corresponding to 2023 on both ADR and occupancy. In the boxes, we indicate how much higher or lower RevPAR is compared with the corresponding period 2023.

In the fourth quarter, the hotel market with some variations developed positively. RevPAR increased in most markets, mostly driven by increased occupancy, while the average prices were more [ph] varied (00:09:35). In terms of RevPAR, the greatest relative improvements in the fourth quarter took place in Finland Regional and Helsinki. Both Norway Regional and Oslo continued to perform very well. Sweden Regional improved somewhat, but continued to struggle due to the great capacity inflow in Gothenburg. Thomas Emanuel from STR will talk more about the underlying trends, including supply, in the European hotel market update later in this call.

I earlier touched on our value activities. We focus on maximizing the value of each individual hotel property. We do this by creating attractive hotel products and properties based on the uniqueness of each property. Our Own Operations is an important transformation tool. It gives us flexibility in acquisitions and enable us to drive change at a high speed. And perhaps, most important for us, optionality in itself is a key value driver, and we work actively to maximize it, all with the objective to create continuous value growth.

During 2024, we invested some SEK 1 billion into our standing portfolio, supported by a number of larger transformational investments such as Scandic Nürnberg Central, Citybox Brussels, Scandic Go Sankt Eriksgatan 20, DoubleTree by Hilton Brussels City, and Quality Hotel Luleå.

We are on track to add an additional plus SEK 300 million in net operating income by the year 2026 on an annualized basis, starting from 2023 as the base year. During 2024, we estimate that some more than SEK 100 million was realized already.

We are also, of course, adding new projects to the pipeline continuously. Most recently, Quality Hotel Luleå and Leonardo Hotel Christchurch. For 2025, some SEK 1.1 billion is expected to be invested in our standing portfolio.

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

Anneli Elisabet Lindblom

Chief Financial Officer, Pandox AB

Thank you, Liia. So, good morning. We are happy to report good numbers for the fourth quarter and for the full year. In the fourth quarter, group revenue increased by 3% and net operating income with 8%. As Liia said earlier, a significant part of this is explained by growth from larger completed investments; for example, Scandic Nürnberg Central and Scandic Go Sankt Eriksgatan 20.

Profit before changes in value increased by 12%, and cash earnings per share increased by 23%. For the fourth quarter, current tax amounted to SEK 55 million and the efficient tax rate was approximately 11%. For the full year, however, the tax rate was 16%. The lower current tax is partly explained by reduced nontax deductible interest expenses as a result of the restructuring of the intragroup financing that took place during the year.

On this slide, we show the change in the main valuation parameters for the total property portfolio year-to-date. And do remember that investment properties are recognized at fair value, and according to IFRS, unrealized changes in value for operating properties are only reported for information purpose, but is included in our EPRA NRV. In the fourth quarter, the total unrealized changes in value were positive SEK 49 million. Currency was positive in the quarter. And as you know, we have the main part of our hotels properties outside Sweden and denominated in foreign currency.

In the quarter, we gained access to DoubleTree by Hilton Edinburgh with a transaction value of £49 million. We also signed an agreement to acquire a hotel in Tromsø, but this transaction was not closed until the 1st of January. So, the first day in the first quarter of this year, 2025, we will have those figures in. And at the end of the period, the average valuation yield for investment properties was 6.13%; and for operating properties, a bit higher with 6.89%; and the blended yield was 6.29%.

Here we have the average yield, the average interest on debt, and EPRA NRV per share quarterly. Despite higher yields and higher market interest rates, EPRA NRV per share has increased compared to 2019 and we have a tangible and positive yield spread of well over 200 basis points. In the fourth quarter, growth in EPRA NRV was positive 10%, measured on an annual basis, adjusted for paid dividends and proceeds from the new share issue.

Our LTV at the end of the quarter amounted to 45.2%, which puts us firmly at the lower end of our policy range. Including the acquisition of Radisson Blu in Tromsø, the LTV is 45.7%. So, that's made from the 1st of January this year we are on 45.7%. The ICR on a rolling 12-month basis strengthened somewhat to 2.7 times on a sequential basis. Cash and credit facilities amounted to SEK 4.1 billion. And on top of that, we have encumbered assets of some SEK 1.5 billion as untapped reserve.

During the year, we saw a market improvement in the financing climate with gradually lower credit margins. In the fourth quarter, we refinanced loans of SEK 5.6 billion, a majority of them sustainability-linked. And as of year-end 2024, sustainability-linked loans accounted for 45% of our total outstanding loans.

Looking ahead, we have SEK 2.5 billion of debt maturing within one year, of which the majority in the second quarter 2025. But we have still strong and expanding bank relations and discussions on future refinancing are ongoing and very positive. At the moment, we have 68% of the net debt hedged, which means that the effects from movements in the market rates remains relatively low.

And with that, I will hand back to Liia for some final remarks.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anneli. RevPAR growth in the hotel market for 2024 was in line with our expectations. For 2025, we also expect RevPAR in the hotel market to grow. In addition, completed acquisitions and repositioning investments will have a positive contribution to our growth.

For the first quarter of 2025, specifically, we expect seasonally weaker demand in the hotel market, but also a positive Easter effect, as Easter fell in Q1 last year and now in Q2, and a positive contribution from acquisitions and repositioning investments.

And also, please note, we had two one-off effects in comparability in Leases in the first quarter last year; rental income of SEK 40 million relating to Köln Bonn Airport and a cost of approximately same amount, SEK 38 million, relating to commercial development.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The next question comes from Staffan Bulow from Nordea. Please go ahead.

Staffan Bulow

Analyst, Nordea Bank ABP

Q

Hello. Can you hear me?

Anders Berg

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

A

Yes.

Liia Nõu

Chief Executive Officer, Pandox AB

A

Yes, absolutely.

Anders Berg

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

A

Yeah.

Staffan Bulow

Analyst, Nordea Bank ABP

Q

Great. Okay. So, I have a couple of questions. I'll ask them one by one. And starting off with some comments in the CEO letter, Liia, you say, we're expecting RevPAR growth in the hotel market in 2025. Could you provide, like, what kind of interval do you see, is it like 0% to 2%, 1 to 3%, to get a sense of that magnitude?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Yes. I mean, underlying RevPAR growth in our market we expect to be somewhere between 2% and – around 0% and 4%, 2% to 3%, perhaps. And again, add to that, the investments we're doing in our existing portfolio and acquisitions. But the underlying growth, we do expect to be around 2%, 3%.

Staffan Bulow
Analyst, Nordea Bank ABP

Q

Okay. Thank you. That's clear. And in terms of the revenue growth like-for-like in the quarter, in Leases, it was 1%, if I remember correctly; and Own Operations, 3%. And if I look at market data that you have in the report, we see that the RevPAR development on your key markets was up a bit more; for example, plus 5% in the Nordics, plus 5% in Germany, London 3%, et cetera. So, I'm trying to understand the difference here that – between the like-for-like growth, it's a bit softer versus the market data?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Well, it's a combination of two. Both, it's the mix – geographical mix which occurring in the quarter and when you look at the like-for-like numbers, then, of course, this excludes a major part of our business model, which is transformational investment in existing portfolio. So, reclassification. I mean, what we do best, we buy a hotel, we do an investment in our own operations and then we lease it out. That's actually not included in the like-for-like. We are – I'm brutally aware of this and we are working to make it clearer in the Q1 report. But for us, it's a major part of the value growth and also the net operating income. But again, the underlying for the hotels that we're not being doing investments, it's a mix of geographies. We have a quite large presence in Finland, Helsinki, and also Gothenburg, it little bit depends on, well, if you look at the total market.

Staffan Bulow
Analyst, Nordea Bank ABP

Q

Okay. I see. Thank you. And then I have questions on the current tax rate. Cash earnings was boosted in the quarter by a lower current tax rate. Should this be seen as one-off for the quarter or should we extrapolate newer lower current tax rates?

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB

A

Yes. I mean, if you look at the current tax rate for the full year, you will get quite a good forecast on the tax going forward. Because, I mean, it was some one-offs, but it was also from previous quarters. So, the full year tax rate is at 16%. And I would estimate between 15% and 16% in tax rates coming for next year and so on further, because we have done some really...

Staffan Bulow
Analyst, Nordea Bank ABP

Q

Okay.

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB

A

...big financial reconstruction within the group. So, it will be fully effective for next year. So, I would estimate the tax rate...

[indiscernible] (00:23:04)

Staffan Bulow
Analyst, Nordea Bank ABP

Q

Okay. I see. And just to be clear, is it – and is that as a percentage of pre-tax profit before value changes when you say 15% to 16%?

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB

A

Yes, yes, yes. Yes, that's correct. Current tax rate in relation to the...

Staffan Bulow
Analyst, Nordea Bank ABP

Q

Okay.

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB

A

...before – yeah.

Staffan Bulow
Analyst, Nordea Bank ABP

Q

Okay. Thank you. A final question from me. So, you mentioned in the CEO letter that you have been able to acquire properties at very profitable and at high stabilized yields of around 7% to 9%. Was this sort of an exceptional opportunity that arose in 2024, or do you see similar opportunities going in in 2025?

Liia Nõu
Chief Executive Officer, Pandox AB

A

The – well, it's important for us to have a positive yield gap, which is plus 200 basis points, now it's actually even close to 2.3%, 229 basis points. The edge for Pandox is that we are able to acquire hotels gradually independent of where in the yield curve you are, but where we do look at some – it's – somebody said before, we like to buy cheap and sell expensively. We like to buy things that are a little bit complicated where we do investments, where we do changes. And in these transactions, there's sometimes less competition, which means that you get a higher – that you can create more value.

Also, there's also the fact that we have – we are a large player; so, we do look at a lot of things, and we have quite a good reputation of closing the deals. So, it's a deal certainty. So, it's a mix of these things. And again, as hotel properties is the only thing we do. So, we do expect to continue to get good healthy yields. And we never bought anything, not even in these wildest times, south of 5%. And of course, this is also a reflection of where interest rates are, and yields.

Staffan Bulow
Analyst, Nordea Bank ABP

Q

Yes. Okay.

Liia Nõu
Chief Executive Officer, Pandox AB

A

[indiscernible] (00:25:27).

Staffan Bulow
Analyst, Nordea Bank ABP

Q

Thank you. That is clear. Those were all my questions. Thank you.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Thank you.

Staffan Bulow
Analyst, Nordea Bank ABP

Q

Yeah. Thanks.

Operator: The next question comes from Fredric Cyon from Carnegie. Please go ahead.

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Q

Good morning, Liia, Anneli, and Anders. I only have one question for you and that's related to acquisition opportunities. Last year, you were quite open that you saw that [ph] the deal flow in Leasing (00:25:58) was active. Looking into 2025, is there any particular markets where you see more opportunities, would you consider new markets, and do you expect to be able to acquire at similar yield levels as you were in 2024?

Liia Nõu
Chief Executive Officer, Pandox AB

A

In short, basically, yes. M&A transaction market is improving all the time. And again, as I said before, we are able to find possibilities where maybe other more institutional buyers, et cetera, won't. Of course, it's a reflection also where deals are, where the interest rates are. But we do see a good pipeline.

When it comes to different, what kind of markets, it's more important to find the right assets. And of course, it's easier when it's in our existing markets. But we are also open for [indiscernible] (00:26:57) portfolio and it's in neighboring countries, whether it's – of course, we would look at those as well. But we don't anticipate to go broadly outside our footprint. UK, Germany, the Nordics, these are great markets already and expecting the yields [ph] – I mean, (00:27:17) of course, some of the acquisitions we did we are really proud of, they were great acquisitions, we do expect to again find good yield spread acquisitions going forward as well.

Fredric Cyon
Analyst, Carnegie Investment Bank AB

Q

And perhaps a follow-up on that. How's the competitive landscape in terms of a willing buyer changed in any material way during the last 12 months?

Liia Nõu
Chief Executive Officer, Pandox AB
A

Sorry, could you take the question again? Oh, if there's a competition about – if it's changed?

Fredric Cyon
Analyst, Carnegie Investment Bank AB
Q

Yeah, for sure.

Liia Nõu
Chief Executive Officer, Pandox AB
A

Yeah. Sorry. It's not a good line. It's, of course, the more – the more stable the hotel industry, the more competitors for acquisitions there is. Again, we always find our edge in the sense that we can do more complicated transactions, as we can take them into our own operations and have a fantastic organization transforming these investments as well. There's still some hesitation from new, I mean, more institutional buyers perhaps. There is a big surge for hotel properties, but still we do find there's sort of a good spot to find good opportunities. So, yeah, it's – the competition gets deeper, but it's still good opportunities for us.

Fredric Cyon
Analyst, Carnegie Investment Bank AB
Q

Okay. Sounds promising.

Liia Nõu
Chief Executive Officer, Pandox AB
A

Thank you.

Fredric Cyon
Analyst, Carnegie Investment Bank AB
Q

That's all from me.

Liia Nõu
Chief Executive Officer, Pandox AB
A

Thank you.

Operator: [Operator Instructions] There are no more questions at this time. So, I hand the conference back to the speakers.

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

Okay. Thank you very much for this. Now, we hand over to our guest speaker, Thomas, for the hotel market update. Please go ahead, Thomas.

Thomas Emanuel

Senior Director-STR, CoStar Group

Thank you very much, Anders. Good morning, everybody. And as previously, I'll be giving you an overview on the European hotel market.

So, if we move to that first slide. Well, first of all, looking at things globally and looking at demand. So, that's the number of rooms sold by month, indexed on 2019. And it's a nice way to start. It's a good news story that for the last 24 consecutive months; so, since January of 2023, we have sold more rooms than we did in the corresponding months of 2019. So, moving ahead in terms of demand. And you can see that December of last year was a strong month there I thought, 8% ahead of December 2019.

Now, moving forward to the next slide and looking at the global demand picture, but on a year-on-year basis. You can see once again the vast majority of months have actually grown in terms of the number of rooms sold. So, as an industry, obviously, as mentioned, selling more rooms than we have ever done previously.

So, how does that then translate to look at the occupancy picture? So, if you move now to the next slide, you can see there the occupancy for each of the key global regions. And you see there are a couple of exceptions, but in the vast majority of cases, we are still growing our occupancy basis. And in Europe, it was a pretty solid year, as you can see there, plus 2%. And Europe just pipped by Australasia in terms of the highest actual occupancy, but at 70%, as you can see, well ahead of other mature hotel markets such as North America, for example. So, a good year for Europe in that regard.

Moving to the next slide and looking at average rate, there you can see with the exception of Mainland China, which obviously has a range of economic challenges, all other regions grew ADR. Now, there are some inflationary numbers there across Africa or South America, for example, but in Europe, we had a pretty solid year, as you can see there, up 4%, once again way ahead of our friends across the pond in North America.

So, let's now, with that, move forward and just look at Europe. If we can move to the next slide, you'll see here a monthly picture, looking at the occupancy, average rate, and RevPAR change across Europe for each of the months in 2024. And really good word that I'm using to describe, Europe is solid. It was a really solid year for the continent. And we can see there, across the board, we saw growth every single month, single-digits, but pretty solid and, in most cases, high-single-digit RevPAR increases. You'll see the majority of that RevPAR growth was, of course, made up by ADR, as you can see.

Now, if we move to the next slide, I wanted to bring to you one of the trends that I've brought previously to you, but I think it's an important one, and the word that we're talking about here is bifurcation. So, bifurcation when basically the industry is going in two separate ways in many respects. We're seeing this very strongly in the US, but also in Europe, albeit to a lesser extent, where effectively the higher the class of hotel, the higher the RevPAR growth, and then you've got economy hotels very much on their own in terms of their ability to drive rates as those at the lower end of the income spectrum have been more squeezed by cost of living inflation, interest rates, and so forth. But very strong growth, as you can see, luxury upper upscale and upscale class hotels.

Moving to the next slide and having a look now at geography. And you can see here the occupancy indexed on 2019 for the full year of 2024. Really, we've got three buckets there. We've got the UK and Ireland back up above or at 2019 levels. Then you've got Southern Europe, and then you've got the rest of Europe a little bit further behind, but not too much further behind. It must be said these margins are pretty small, but I thought it was quite interesting to see an acronym that we talked about a lot back in 2008, the PIIGS; Portugal, Italy, Ireland, Greece, Spain, they are in many cases leading that occupancy recovery, as you can see.

If we move then to the key gateways on the next slide, you can see really in terms of occupancy growth, really the stronger east you go, the stronger the occupancy growth. You can see there Helsinki doing really rather well, that was flagged up, as is Copenhagen. But overall, as you can see there, across the continent, for the vast, vast majority of markets, we are looking at a positive occupancy growth picture for 2024.

Now, moving to the next slide, and we can see here the ADR indexed on 2019. And really, it's a two-tier recovery, as you can see there. Very much the PIIGS is very apparent, obviously, and you can see that not only you have those Southern European markets increased more quickly, but look at the growth that they've seen year-on-year, that is where we have actually seen really strongest ADR growth. But all other markets, countries, regions across Europe as well are still, of course, significantly ahead of where they were and the vast majority still moving in the right direction as well.

If we move to the next slide, you can see there that north-south divide very evidently when we look at the ADR performance of our key gateways there. You've got double-digits in markets such as Madrid, Belgrade, Athens, for example. And then, in Northern Europe, you have got a range of markets which we're seeing flat or slightly negative average rate performance. But when we drill down into that, and this is important to focus upon, when we drill down into these numbers, the declines are very much happening at the lower end of the market; so, that midscale and economy end of the market, and also at weekends, we continue to see weekdays and corporate demand going quite nicely.

Now, I'd like to change tack slightly, and if you could move to the next slide, please. I was asked to talk a little bit on supply. And what we've got here is recent years, across Europe, by class, the supply percentage change. Now, there's obviously a few patterns you can see there. In terms of percentage growth, it's higher at the higher end of the market, the luxury upper upscale end of course, rather than midscale and economy. And whilst if we think about things on a cumulative basis, year after year after year adding up, there are a number of new rooms coming into the market. But on an annual basis, looking at the axis, you can see it's not that much. We are not seeing that much new supply coming in on an annual basis.

So, let's look at that on a country level. If we move to the next slide here, what we can see is the supply percentage change versus 2019. So, we're looking at five years of growth here, and there's a great variance across Europe, as you can see. Poland saw a significant increase in supply over that period, about 13%. Italy, supply grew just 0.2% during that time period. So, there's a great variance across the European continent.

But if we look to the next slide and just look at the last year. So, year-on-year growth. Again, we've got some variance here. Austria, Belgium, Ireland, north of 2%. Then, you've got – actually, we've seen a supply decrease in Spain. Very minimal supply growth in the Netherlands, Turkey, Italy, et cetera. But I think the important thing to point out here is, with the exception of some big cities, we are going to see some markets where supply is an issue in terms of performance. But if we look at things on a country level, on a continent level, so sort of on an industry level, I think it's safe to say that we are not really going to see supply being an issue in terms of performance. And that, of course, is of great benefit to existing hotels, but also those hotels that do open their doors.

So, with that, let's move to the next slide and have a look to the future and the pipeline and how supply might change. So, if we look at the top countries in terms of rooms in the active pipeline. So, we see there the UK way ahead, 96,000 keys in the pipeline; followed by Germany on 74,000; and Spain on 33,000. So, generally speaking, the larger the country, the larger the pipeline. Obviously, that's quite obvious in many respects, although it doesn't always follow that pattern.

But if we move to the next slide, I think this is, again, really important to look at. And I'll just take a minute to explain this. So, this is looking at both pipeline projects in the planning or final planning stages. So, that means in [ph] STR speak (00:38:30) effectively that they are at least a year away from opening probably further. So, they're further away in terms of coming to fruition. And these are the final planning and planning pipeline rooms as a percentage of existing supply.

So, what we can see here is those – there are a number of countries in Central and Eastern Europe where actually we're seeing quite robust potential supply increases coming in in the future. But if we look after Poland and further down actually, we don't see quite so many. And France, it's just 1.1% of existing supply, for example. So, fairly minimal. And if you look at Europe as a whole, 4.1%. Now, of course, bear in mind, not all of these rooms will eventuate. They won't all come to fruition. And when they – those that do are going to come to fruition over a number of years as well. So, again, the message here is we're not going to see an influx of supply into Europe.

And if we move to the next slide, this is just looking at in-construction rooms. So, that is either the ground has been broken or they are due to open in the next 12 months, which the vast – in the case of conversion, for example, which of course the vast majority of new openings in Europe are at the moment. So, again, you've got a few outliers across Eastern Europe. But look at those key Western European mature markets again, fairly limited. And if you look – as you're looking at the slide, from the Netherlands to the right, it's less than 2% of existing supply in construction. Across Europe as a whole, it's 2.7%. So, again, just pointing out, it doesn't look like supply will be an issue in the coming years.

Let's move to the next slide, please, and our all-important forecast. Now, this is an aggregation of the European cities that you can see listed at the bottom of this slide. And I've broken this down by quarter. And this is our November forecast. So, that's important to point out. We will be updating these numbers this month. So, that will be something that comes to fruition in the next couple of weeks.

But really what we're looking at, as was mentioned previously on the call, is what I call Germany sort of steady, but unspectacular growth, RevPAR, 2 to 3%, et cetera. But what I did want to point out is Q3. You can see there actually a decline. We're forecasting a decline in ADR. Now, why is that? And this is an important pattern that we're going to see across Europe. Last year was phenomenal for events. So, this is a rebound, an expected rebound. The European Championships were in Germany. The Olympics were in Paris. We had a significant number of Taylor Swift concerts across the continent as well in Q3. So, all of that is leading to what we see will be a slight contraction in rate in Q3.

But if we move to the next slide, what we can see actually on an annual basis, we are looking at that steady, but unspectacular growth for the next few years, 2% to 3% in terms of RevPAR, fairly evenly split between occupancy and average rate. That's varying, of course, ever so slightly on an annual basis. But the important thing is, as we move forward off the back of some very successful years for the industry, we are still talking about growth.

And with that, I will say thank you very much for having me, and pass back to Anders, Liia and Anneli. Thank you, all.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Thomas, for this fantastic hotel market update. And thank you all for participating in this call. We really appreciate your time and interest in Pandox. And the next activity on our calendar is the Annual General Meeting, 9th of April. And our interim report for the first quarter will be published on the 29th of April. Thank you all for your interest, and goodbye.