



# Q1 Financial Results

For the period ended 30 March 2016

Release: 30 June 2016



[travelodge.co.uk](http://travelodge.co.uk)

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# Today's Speakers



## **Peter Gowers**

### **Travelodge - Chief Executive**

- Joined Travelodge in 2013
- Hotel and leisure experience with IHG plc as Chief Executive Asia-Pacific and Group Chief Marketing Officer
- Real Estate experience as Chief Executive of Safestore Holdings plc, the UK's largest self storage operator



## **Jo Boydell**

### **Travelodge - Chief Financial Officer**

- Joined Travelodge in 2013
- Hotel and leisure experience from senior roles at Hilton Group, EMI Group and Ladbrokes
- Retail turnaround experience as Finance Director at JGLCC Camera Company (Jessops)

# Continued Market Outperformance

## Q1 Headlines

- Revenue **up 5.8%** to £119.5m (2015: £113.0m)
- LFL RevPAR<sup>(1)</sup> **up 3.3%** to £32.17 (2015: £31.16)
- **2.5 pts outperformance** vs. STR Midscale and Economy Segment
- 2 new hotels opened
- EBITDA down £3.5m (changes to advertising timing, one-off rent review)
  
- Post quarter end trading is similar to Q1 – and 7 further hotels opened
- Brexit leads to cautious market outlook - but remain fundamentally well positioned

1. RevPAR is computed as the product of the Average Daily Rate for a specified period multiplied by the Occupancy for that period.

Like-for-like ("LFL") RevPAR compares the RevPAR in Q1-2016 vs. Q1-2015 on the basis of RevPAR generated by hotels that were opened before 1 January 2015.





## Company Background



# Company Overview

## Who We Are

- UK's second largest hotel brand based on number of hotels and rooms
- Positioned in the attractive value segment with 525 hotels and serving 18m business and leisure customers
- Well invested modernised hotel portfolio
- Well balanced approximately even business / leisure customer split
- Almost 90% booking direct, with 78% through own websites
- Low upfront capex leasehold model

## Where We Are

### United Kingdom

#### London

- 62 Hotels
- 8,258 Rooms
- 21.1% of total Rooms

#### Regions<sup>3</sup>

- 446 Hotels
- 29,412 Rooms
- 75.0% of total Rooms

### International

#### Spain

- 5 Hotels
- 621 Rooms
- 1.6% of total Rooms

#### Ireland<sup>4</sup>

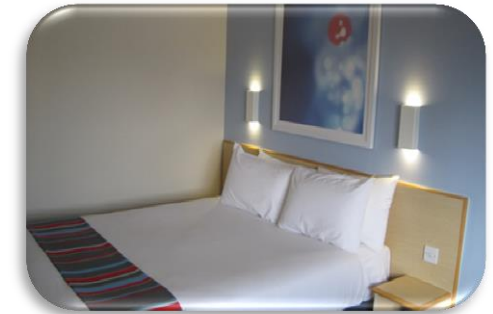
- 12 Hotels
- 899 Rooms
- 2.3% of total Rooms



## Key Statistics (FY2015)

Hotels	525
Rooms	39,190
Occupancy <sup>1</sup>	76.5%
ADR <sup>1</sup>	£50.2
RevPAR <sup>1</sup>	£38.4
Revenue	£559.6m
EBITDAR	£261.6m
EBITDA	£105.1m
Rent Cover <sup>2</sup>	1.7x

1. Occupancy, ADR and RevPAR for Travelodge UK leased Hotels only.
2. Represents the ratio of EBITDAR to net external rent payable.
3. Includes 13 hotels operated under management contracts.
4. Operations in Ireland under a master franchise.



# Key Credit Highlights

**1 Strong Market Dynamics for Growth in Value Hotel Sector**

**2 Strong Market Position with High Brand Recognition, Scale and Extensive, Diversified Network of Hotels**

**3 Well-invested Portfolio with Strong Quality Levels**

**4 Operational Improvements and Powerful Direct Distribution Model Drive Strong Financial Performance**

**5 Tight Cost Control and Low Upfront Capex Leasehold Model Drive Strong Profitability and Cashflows**

**6 Growing and High Quality Rooms Pipeline**

**7 Experienced Management Team with a Track Record of Delivering Operational and Financial Improvements**





# Q1 2016 Results





# Continued Progress on Our Strategic Objectives

Further business customer growth fuelled by quality and yield initiatives

## Distinctive Brand: Raise Quality Image

- National advertising presence
- Quality brand partners e.g. Sleepzee Royal Warrant Beds

## Best for Business: Win Share in a Growing Market

- Focus on 'businesses on a budget'
- Direct national accounts team
- Business account card

## Win the Web: Grow Direct Digital Sales

- New website from April 2016
- Continue to drive app downloads
- Strong paid and unpaid search presence

## Price is Right: Optimise Rate and Occupancy

- Airline style yield management system (IDeaS)
- Central pricing team
- Analytics-driven pricing strategy

## Moments of Truth: Drive Consistency

- Detailed customer feedback drives action
- Standardised work processes
- Targeted training

## Development: Extend UK Network

- 250 potential locations identified
- Maintain leasehold growth in London and Regions
- Principally new-build hotels opened under lease

## Q1 Progress

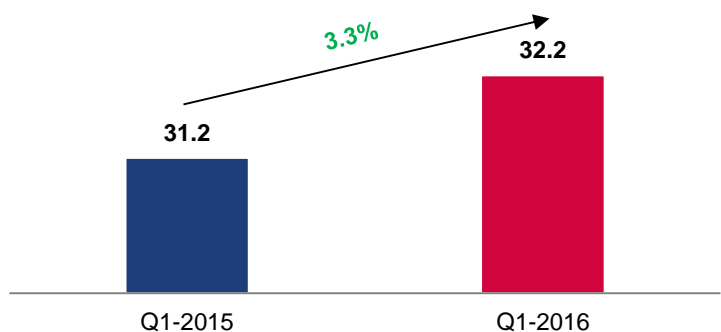
- New advertising campaign driving business customer growth
- Strengthened yield management driving ADR growth and outperformance
- New hotel manager training launched
- Continued growth in development pipeline

# Strong Operating Metrics

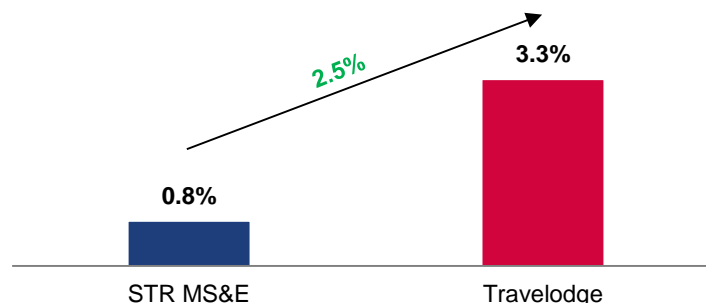
## Continued RevPAR growth and outperformance

### Strong RevPAR Growth Driven by ADR Increase and Steady Occupancy

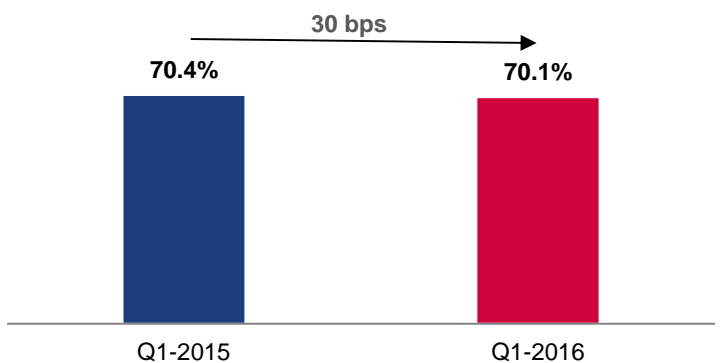
LFL<sup>1</sup> RevPAR (£)<sup>2</sup>



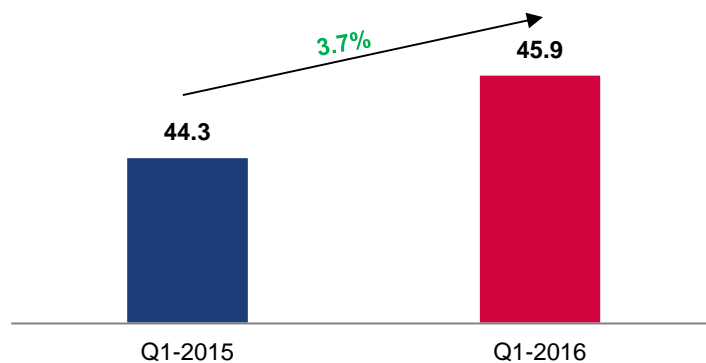
Q1-16 RevPAR Growth Outperformance



LFL<sup>1</sup> Occupancy (%)<sup>2</sup>



LFL<sup>1</sup> ADR (£)<sup>2</sup>



#### Q1-2016 vs. Q1-2015

- **RevPAR vs. Market:** outperformance vs. the MS&E segment growth rate in Q1-2016 by approximately 2.5% points
- **RevPAR:** like-for-like UK RevPAR growth of 3.3%
- **Occupancy:** occupancy remained stable at c.70%, in what we consider to be our slowest quarter
- **ADR:** continued improvement increasing by 3.7% vs. Q1-2015

1. RevPAR is computed as the product of the Average Daily Rate for a specified period multiplied by the Occupancy for that period. Like-for-like (LFL) RevPAR compares the RevPAR in Q1-2016 vs. Q1-2015 on the basis of RevPAR generated by hotels that were opened before 1 January 2015.

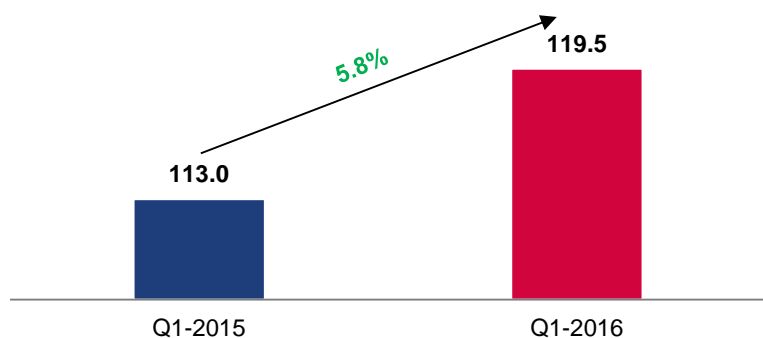
2. Occupancy, ADR and RevPAR for UK leased estate only.

# Strong Underlying Financial Performance

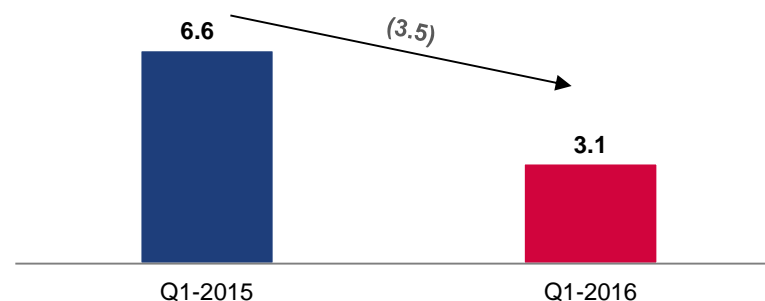
Good sales growth with EBITDA impacted by timing variances and one-off rent review

## Financial Performance Has Remained Strong

Revenue (£m)



EBITDA (£m)



### Q1-2016 vs. Q1-2015

- **Revenue** increase of 5.8%/£6.5m was primarily due to:
  - Like-for-like UK RevPAR growth of 3.3%
  - Annualisation and maturity of the 12 new hotels added in the 2015
  - Opening of 2 new hotels in the period
- **EBITDA** was driven by:
  - Benefits of higher revenue
  - Timing effect of £2.6m advertising costs incurred in quarter (launched in February 2016 compared to May 2015 in prior year)
  - Increased rent expense from the one-off CVA category 2 rent reset of approximately £0.8m

# Continued Strong Cash Generation

Solid cash conversion and lower capex

£m	Q1-2016	Q1-2015	Diff.
EBITDA before Exceptional Items and IFRS Rent Charge	3.1	6.6	(3.5)
IFRS Rent Charge	(1.0)	(1.2)	0.2
Working Capital	26.2	28.1	(1.9)
<b>Net Cash Flows from Operating Activities before Exceptionals</b>	<b>28.3</b>	<b>33.5</b>	<b>(5.2)</b>
Capital Expenditure	(7.0)	(9.4)	2.4
<b>Free Cash Flow Generated for the Year</b>	<b>21.3</b>	<b>24.1</b>	<b>(2.8)</b>
Interest Costs – Bank Interest Paid	(16.4)	(1.0)	(15.4)
– Finance Fees Paid	(0.1)	(0.1)	0.0
Interest Income	–	0.2	(0.2)
Interest Element of Finance Lease Rental Payments	(1.1)	(1.0)	(0.1)
Cash Spend on Provisions and Exceptional Items	(2.0)	(1.1)	(0.9)
<b>Non-Trading Cash Flow</b>	<b>(19.6)</b>	<b>(3.0)</b>	<b>(16.6)</b>
<b>Cash Generated</b>	<b>1.7</b>	<b>21.1</b>	<b>(19.4)</b>
Repayment of Flare Facility	(12.9)	–	(12.9)
<b>Movement In Cash</b>	<b>(11.2)</b>	<b>21.1</b>	<b>(32.3)</b>
<b>Opening Cash</b>	<b>76.9</b>	<b>38.9</b>	<b>38.0</b>
<b>Closing Cash</b>	<b>65.7</b>	<b>60.0</b>	<b>5.7</b>

## Comment

### Q1-2016 vs. Q1-2015

- **Working Capital** inflow of £26.2m in Q1-2016 vs £28.1m in Q1-2015 primarily due to:
  - *Growth of business*, with increased creditors and accruals
  - *Timing of payments* around the quarter end
- **Net Cash from Operating Activities:** decreased by £5.2m, primarily due to:
  - *Timing of marketing campaign* commencing in February 2016 versus March 2015 of £2.6m
  - *Lower deposits* paid by customers for future stays of £2.4m, impacted by the timing of Easter
- **Capital Expenditure** decreased by £2.4m, primarily due to:
  - *Completion of the modernisation programme* in December 2015.
- **Bank Interest Paid** increased by £15.4m, primarily due to:
  - *Bank interest moving from PIK to cash paid* from the beginning of 2015.



# Net Debt and Leverage

## Debt (£m)

	Q1-2016	Adjusted
<b>Cash and Cash Equivalents</b>	<b>65.7</b>	<b>49.3</b>
Senior Secured Notes	-	390.0
First Lien Term Loan	335.9	-
Second Lien Term Loan	35.5	-
<b>Total Senior Secured Indebtedness</b>	<b>371.4</b>	<b>390.0</b>
Finance Leases	31.3	31.3
<b>Total Third Party Indebtedness</b>	<b>402.7</b>	<b>421.3</b>

## Liquidity

- **Adjusted Cash on Balance Sheet<sup>1</sup>: £49m**
- **Revolving Credit Facility: £50m**
- **Letter of Credit Facility: £30m**

## Financial Ratios<sup>2</sup>

- **Net Senior Secured Debt / LTM EBITDA<sup>3</sup> = 3.4x**
- **Net Third Party Debt / LTM EBITDA<sup>3</sup> = 3.7x**

1. As of 30 March 2016, we had £65.7 million of cash and cash equivalent. Adjusted cash gives effect to the use of £16.4 million of cash on hand as described in "Use of Proceeds" in the Offering Memorandum.

2. Ratios based on Adjusted Cash.

3. LTM EBITDA is calculated adding the Q1-2016 EBITDA (£3.1m) and subtracting the Q1-2015 EBITDA (£6.6m) to the 2015 Reported EBITDA of £105.1m.

# Summary and Outlook

## Continued Market Outperformance

- Continued RevPAR growth and market outperformance
- Good progress on strategic initiatives
- 2 new hotel openings
  
- Post quarter end trading is similar to Q1 – and 7 further hotels opened
- Brexit leads to cautious market outlook - but remain fundamentally well positioned

# Q&A