Dalata's Markets

"For the first time since the global financial crisis, all major regions of the world are experiencing an uptick in economic growth"

World Bank, Global Economic Prospects, January 2018

Global Overview

A strong global economy is good for the travel and tourism industry and with it the hotel industry. Other key growth drivers include a competitive environment in the airline industry with continued growth of low cost carriers and prevailing low fuel prices, healthy demand for corporate travel driven by strong economies, and a shift in spending patterns from products to experiences with consumers opting to spend more on recreation, travel and eating out compared with durable goods and clothing. According to World Bank figures international travel departures across the globe have doubled from approximately 600 million to 1.3 billion in the past two decades.[1]

Global international tourist arrivals were up 6.4% in the first half of 2017 (compared with 3.9% for the whole of 2016). For Europe the figures were 7.7% and 2.1% respectively and indicators for the remainder of the year were also positive.[2] 2017 was a good year for hotels globally with RevPAR up in all of the major regions; in Europe RevPAR increased by 5.1%.[3] The outlook continues to look positive. In January 2018 the World Bank forecast global real GDP growth of around 3% per annum for the next three years, marginally up on its June 2017 prediction. For the industry this is encouraging, assuming there are no major events that could disrupt overall international tourism, whether related to terrorism, health scares or natural disasters.

1 Deloitte, 2018 Travel and Hospitality Industry Outlook
2 World Travel and Tourism Council, November 2017 Monthly Economic Impact
3 STR Global Hotel Review January 2018

Ireland

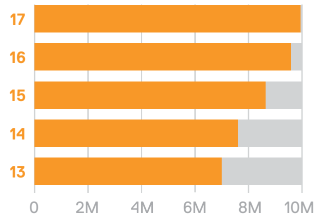
Ireland's economy is growing with figures of close to 6% GDP growth estimated for 2017, backed by strong growth in investment, employment and consumer confidence.

2017 was a record year for Irish tourism with the industry worth an estimated €8.7 billion annually[4]. Trips to Ireland reached 9.9m[5], up 3.6% on 2016. Trips from Britain, fell by 5% but mainland Europe was up 5% and the North American and Rest of the World markets enjoyed double digit growth. The impact of Brexit on the EUR/GBP exchange rate is to blame for the weak numbers from Britain but increased North American airline capacity and effective selling of Ireland as a travel destination in international markets offset the damage. 65% of hotel business in Ireland is sourced from the Irish market (including Northern Ireland), 12% comes from the United States, 11% from the UK, 10% from mainland Europe and 2% from other countries[6].

The Irish Government's decision to maintain the 9% rate of VAT on tourism services, in line with the bulk of our European competitors, helped to maintain competitiveness in the industry. The outlook for the Irish economy is generally positive in the near term, according to commentators, but Brexit creates uncertainty.

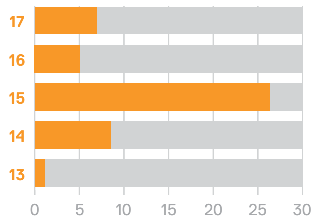
4 Irish Tourism Industry Confederation (ITIC) estimates
5 Central Statistics Office Ireland, January 2018
6 Crowe Horwath, Ireland Annual Hotel Industry Survey 2017

Visitor Numbers



Source: Central Statistics Office Ireland

GDP Growth



Source: Central Bank of Ireland

UK

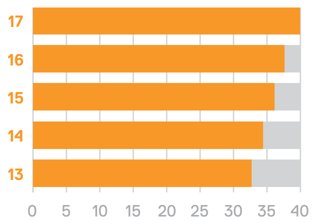
GDP growth in the UK is estimated at 1.7% in 2017 (1.8% in 2016)[7]. Following initial buoyancy in the six months following the decision to exit the EU in June 2016, economic growth in 2017 did not benefit from stronger growth in the global economy. Weaker consumer spending growth, low wage growth and weak investment growth are the factors cited for the slowdown.

The UK tourism industry is enjoying record numbers with an estimated 6% increase in international visitors to 39.9 million in 2017 and an 11.6% increase in expenditure to £25.1 billion[8]. 68% of visits to the UK are from mainland Europe, 10% from the USA, 8% from the Republic of Ireland, 7% from Asia and 7% from other markets[9].

The outcome of Brexit negotiations is a source of uncertainty for economic forecasters with the Bank of England predicting 1.7% GDP growth in 2018 and similar levels in 2019.

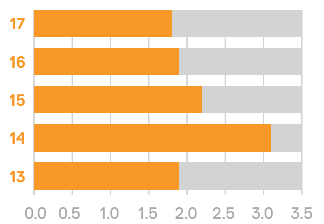
7 Bank of England, February 2018 Inflation Report
8 Visitbritain.org
9 British Office for National Statistics

Visitor Numbers



Source: www.visitbritain.org

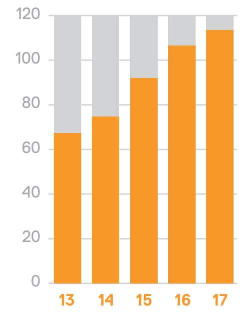
GDP Growth



Source: Office of National Statistics

Dublin

RevPAR (€)



Source: STR Global

Commentary

The Dublin market grew strongly in 2017 with RevPAR up 7.7% to €113.50, (83% Occupancy) and Average Daily Rates (ADR) up 6.9% to €136.80. Some new supply will enter the market in 2018 and RevPAR growth of 5% is forecast.[10]

10 STR Global

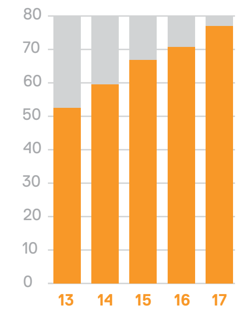
Direct Links to Key Risks

See pages 38 to 41

1 2 5 7 11 13

Regional Ireland

RevPAR (€)



Source: STR Global

Commentary

2017 was a good year in regional Ireland; in the key cities: Cork RevPAR was up 13.6% to €77.40 (80% occupancy), with ADR up 11% at €97.00; Galway RevPAR was up 7.6% to €80.20 (77% Occupancy), with ADR up 5% to €104.40. Limerick RevPAR was up 13.2% to €54.80 (72.1% Occupancy), with ADR up 9.6% to €76.00. Conditions are conducive to limited new supply in Cork and Galway but not in the rest of the country.

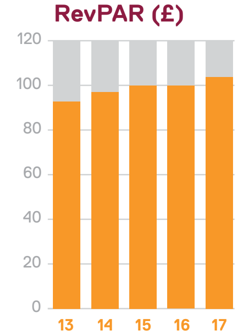
Direct Links to Key Risks

See pages 38 to 41

1 2 7 11 13

UK

RevPAR (£)



Source: STR Global

Commentary

London RevPAR grew by 4.4% with early strength waning towards the end of the year.

Regional UK saw 3.7% growth in RevPAR with Belfast achieving a market leading 17% growth, Edinburgh was up 12%, Cardiff up 8%, Liverpool up 6%, Birmingham up 2% and Manchester saw marginal growth whilst Leeds and Southampton were flat.

Direct Links to Key Risks

See pages 38 to 41

1 2 3 7 13

Business Model

WHAT WE DO

Dalata is a hotel owner, operator and brand owner. The Group operates 38 hotels, of which 26 are owned, nine are leased and three are operated under management contract. The portfolio includes 20 Clayton Hotels, 13 Maldron Hotels and 5 individually branded hotels. All Clayton Hotels are four star rated and Maldron Hotels has five four star and eight three star properties. 67% of group revenue is derived from the sale of accommodation, 26% comes from food and beverage sales and 7% from other services (including leisure centre membership and car parking).

The company owns property assets valued at €1 billion including €129 million spent on hotel acquisitions in 2017. The group employed 4,326 full and part-time employees at the end of 2017. Our customer promise is based on the quality and comfort of our bedrooms and facilities, good food and care for our guests by our friendly, helpful staff. We depend on many suppliers who are selected by the central purchasing team to support the hotels in service delivery. As set out on pages 20 and 21 the training and development of our staff is a strategic priority for the group to ensure we continue to develop and deliver the distinctive experience promised by our hotel brands. In 2017 we had 3.6 million overnight guests and served 5.3 million meals to our customers.

WHERE WE OPERATE

15 Hotels, accounting for 58% of revenue are located in Dublin, 12 hotels (22% of revenue) are in Regional Ireland and 8 Hotels (20% of revenue) are in the United Kingdom. There are 7,674 rooms in the portfolio, including our managed properties, and our hotels are generally located in primary city-centre locations or close to key amenities (airports, central business districts, key attractions, etc). In Dublin our 3,992 rooms gives the group a 20% market share; Cork, 411 rooms (17% market share); Galway, 412 rooms (13%) and Limerick 300 rooms (16%). These four cities account for 91% of the group's business in the Republic of Ireland. Currently the group has UK hotels in Belfast, Derry, Cardiff, Birmingham, Manchester, Leeds and London.

Revenue

Owned and leased rooms

Key Cities

Dublin	3,992 Rooms
Cork	411 Rooms
Galway	412 Rooms
Limerick	300 Rooms

Belfast London Manchester Birmingham Leeds Cardiff

Inputs

€1bn
In hotel assets

€129m
Spent on hotel acquisitions in 2017

26
Owned hotels with 5,247 rooms

9
Leased hotels with 2,234 rooms

210
Average rooms per owned and leased hotel

4,326
Full and part-time employees

HOW WE MAKE MONEY

We sell hotel accommodation, food and beverage and ancillary services; 2017 revenue was €348m. Revenues are sourced from direct bookings (brand website and through our sales teams) by key corporate accounts, tour operators, conference organisers and individual guests, and indirect bookings through agents (online travel agents, traditional travel agents, etc).

After deducting costs of €245m (of which €95m, or 39% were payroll costs), the group reported €103m of EBITDA in 2017. Revenue recognition is straightforward with the majority of guest accounts settled on check-out. We have a strong balance sheet with total assets of €1.1bn including €1bn of property assets and total loans and borrowings of €260m.

The business is highly cash generative with a negative investment in working capital. Trade and other payables exceeded trade and other receivable by €44 million at the end of 2017. Cash available after the payment of tax and debt service may be applied for maintenance capital expenditure, reinvestment in new assets or to provide a direct return to shareholders.

WHAT DIFFERENTIATES US

Dalata exclusively owns and operates it own hotel brands. As the exclusive owner/operator we have invested in the resources to bring a singular focus to the maximisation of the return on investment in each individual hotel. One voice, one goal and full control.

In the hotel sector generally and specifically in our target market segments, brand ownership, business ownership and hotel operations are often fragmented across multiple interested parties. As such, interests may not be aligned and return on investment may be compromised.

Our hotel General Managers are encouraged to engage with their local communities and build strong relationships with their business clients. In addition to earnings targets, managers are incentivised to reach measurable targets for employee engagement, customer satisfaction and health and safety management.

This combination of incentives supported by our culture and values (pages 2 and 3) and our work ethic, creates a level of intensity around the business that drives the maximum return at each property.

General Managers compete for maintenance capital expenditure allocations which are determined by Central Office. Decisions are made based on a number of criteria and are strongly influenced by customer feedback. Refurbishment projects are assessed for their return on investment and a reserve budget is maintained to deal with contingencies arising during the year.

Central Office provides strategic direction and oversight through its experienced management team and functional specialists. Central Office activities include group purchasing through central supply contracts, training and development programme design and delivery, and brand management. The group invests in information technology to provide common tools to help General Managers get the best from the business, manage rooms pricing optimally and input resources efficiently.

The systems infrastructure is also designed to provide central office with up to the minute information on group operations and financial performance.

The vertical integration of the business combined with our decentralised management structure allows us to develop a distinctive customer experience and brand integrity in the fragmented market segment in which we operate.

Outputs

3.6m
Overnight guests

5.4m
Meals served

13
Thousand Leisure Club Members

€105m
Adjusted EBITDA

€95m
Net Cash from operating activities

€95m
Aggregate Payroll Costs