REPORT ON THE 3RD QUARTER 2019 | MOTEL ONE GROUP

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DEUTSCHE BUNDESBANK CONFIRMS INVESTMENT GRADE

In its letter of 17 October 2019, Deutsche Bundesbank confirmed that, based on its financial statements at 31 December 2018, Motel One qualifies for a central bank credit rating of 3-, as it did last year. This means that if a commercial bank issues a loan to Motel One, the credit claim can be accepted as collateral by the Deutsche Bundesbank.

This creditworthiness rating is based on the decisions of the ECB Governing Council and was awarded by the relevant Bundesbank unit not just for the Motel One balance figures, but also for its specific circumstances and recent developments. The Deutsche Bundesbank rating corresponds to investment grade A- from S&P and FITCH, and A3 from MOODY'S, which are rating agencies authorised within the Eurosystem. The Motel One investment grade reinforces its standing with investors and therefore supports its international development, in particular.

TREUGAST INVESTMENT RANKING 2019

The TREUGAST Investment Ranking 2019 is based on 130 criteria, including financial figures, the corporate strategy and a portfolio analysis. In addition, the TREUGAST analysts assess the outlook of the hotel companies.

The results are summarised in a nine-level rating scheme from AAA (secured high-level ROCE) to C (totally insecure). As in previous years, Motel One is among the top performers with a triple-A rating. Motel One continues to set the benchmark in a large number of areas. The shift in concept from budget to design to lifestyle has been achieved successfully in a very short timeframe with the help of rapid investment cycles, which are no longer than five to seven years and a budget increase for FF&E. Motel One continues to demonstrate excellent earning power, enabling the Group to defend its top AAA rating once more this year (source: Treugast Solutions Group).

Motel One also received the MOST WANTED INVESTMENT PARTNER award. Although the focus is increasingly on markets in the rest of Europe, the Group's growth in Germany is also considerable. It has excelled at the balancing act between fast growth at top locations and economically sustainable lease contracts. This is the 15th time that TREUGAST has presented the award, which is unique in the hotel sector.

POLISH MARKET DÉBUT

Motel One has opened its first hotel in Poland: the Motel One Warsaw-Chopin. Situated opposite the Frédéric Chopin Museum and the famous Fryderyk Chopin University of Music in Warsaw, the design of the new hotel is inspired by Chopin and his music.

Giant musical notes, a sofa that looks like a piano keyboard, glossy black surfaces, outsized modern gold chandeliers and works by Warsaw artist Mariusz Libel stylishly showcase the design theme. Facilities include separate work and meeting areas and the usual well-stocked bar.

The hotel has 333 rooms and was developed for the Motel One Real Estate property portfolio with an investment of 37 million euros.

MOTEL ONE MUNICH-HAIDHAUSEN NOW OPEN

The new Motel One Munich-Haidhausen is located between Munich East railway station and the Werksviertel district. The design incorporates the atmosphere of the former working-class district known today as the French Quarter. This exciting mix with French influences can be seen in the colour scheme and charming details, including handmade tiles and collages by Haidhausen-based French artist Cyril Mariaux. The 250-room hotel is next-door to the Chamber of Industry and Commerce for Munich and Upper Bavaria and was developed for the Motel One Real Estate property portfolio with an investment of 34 million euros.

ONE MOBILITY – NEW BENEFITS FOR EMPLOYEES

Motel One is expanding its comprehensive employee benefits and investing in sustainable transport. In collaboration with Company Bike, a local Munich-based business, all employees in Germany will in future be entitled to a free bicycle or e-bike. With the One Mobility concept, the budget design hotel group is not only helping protect the environment, but also encouraging its own employees to embrace a healthier, more sustainable lifestyle. As an alternative to a bicycle, employees can receive a subsidy of up to 50 euros per month towards a travel pass for local public transport. This is an attractive benefit that will make the journey to work cheaper and more sustainable for all employees.

START OF APPRENTICESHIPS 2019

Professional development and further training for all employees are a central element of the Motel One philosophy. In order to offer the best possible start to our apprentices, everyone who started an apprenticeship in 2019 was invited to the Welcome Days at the Motel One Campus in Munich. 27 young people from all over Germany had the opportunity to explore the Motel One Campus and find out more about the training content and objectives.

Motel One offers three recognised apprenticeship pathways: Hotel and Catering Industry Expert, Hotel Industry Expert and Management Assistant for the Hotel Industry. Apprentices are taught all the skills and knowledge they will need for a career in an internationally successful hotel group. Alongside practical on-the-job training and classes at vocational college, Motel One offers its apprentices a wide range of training sessions at One University, the Group's in-house training centre, covering important topics like presentation techniques and intercultural communications. In addition, apprentices attend training sessions and courses to prepare for exams. Another component of their training involves spending several weeks on an international work placement at a Motel One hotel in another European country.

PROPRIUM CAPITAL PARTNERS ACQUIRES MSRESS SHARES

The 35% interest in Motel One GmbH that has been held by the Morgan Stanley Real Estate Special Situations Fund III (MSRESS) since 2007 has been acquired by Proprium Capital Partners. Acquisition of the minority holding by funds managed by Proprium Capital Partners ensures the shareholder structure will remain stable in the future and supports the company's further growth. Based in New York and London, Proprium has been managing the minority shareholding formerly held by MSRESS since 2013.

Philipp Westermann, Head of Europe at Proprium, says, "Through our stake we can support the Motel One growth under the leadership of Dieter Müller as it becomes the leading budget design brand in Europe. The completed takeover of the MSRESS shares by Proprium Capital Partners reinforces our commitment to and enthusiasm for Motel One."

Dieter Müller, founder and CEO of Motel One says, "We have had an extremely successful partnership with MSRESS and Proprium over the past 12 years and look forward to continuing our relationship."

Proprium Capital Partners is a private investment firm with a focus on real estate. It has managed net assets of around USD 2 billion. With offices in New York, London, Amsterdam, Mumbai, Hong Kong, Sydney and Atlanta, the Proprium team has carried out investments in over 15 countries. Proprium was spun out from Morgan Stanley in 2013 and acts as an advisor for the Morgan Stanley Real Estate Special Situations Fund III.

INCOME STATEMENT

The number of hotels operating at 30 September 2019 was 73 with 20,740 rooms (previous year: 66 hotels with 18,438 rooms). Two new Motel One hotels opened in the third quarter – in Warsaw and Munich-Haidhausen. Both were developed for the Group's own property portfolio.

Occupancy was lower than in the same quarter of last year at 78% (previous year: 80%). Comparable hotels achieved an occupancy level of 80.0%, which was almost the same as the previous year (80.6%), despite the poor performance of the market as a whole. Sales per rented room rose by 2%, reaching EUR 98.80 (previous year: EUR 97.30).

Revenue also rose – by 11% to EUR 146m (previous year: EUR 131m) and EBITDA increased to EUR 48m (previous year: EUR 47m). EBIT fell to EUR 32m (previous year: EUR 36m) because of higher capital consumption for new openings and redesigns. The EBT figure was also affected by higher interest charges for the new properties and, at EUR 29m (previous year: EUR 34m), was 15% lower than in the same quarter of the previous year.

	Q3			YTD September		
	2019	2018	+/-	2019	2018	+/-
Statistics:			% py			% py
No. Hotels	73	66	11	73	66	11
No. Rooms	20.740	18.438	12	20.740	18.438	12
Occupancy (%)	78,3	80,3	-2	75,9	76,0	0
RevRoSold (EUR)	98,8	97,3	2	98,3	95,0	3
Income Statement:	kEUR	kEUR	% py	kEUR	kEUR	% py
Revenue	146.126	131.345	11	413.279	353.516	17
EBITDA	48.177	46.614	3	131.186	111.428	18
EBIT	31.851	35.692	-11	88.474	75.208	18
EBT	28.505	33.510	-15	80.802	69.147	17
NET PROFIT	19.953	23.457	-15	56.561	48.403	17
Performance:	% Rev	% Rev	% Pts.	% Rev	% Rev	% Pts.
EBITDAR	50,5	52,1	-1,5	50,0	49,4	0,6
Lease payments	-17,6	-16,6	-1,0	-18,3	-17,9	-0,4
EBITDA	33,0	35,5	-2,5	31,7	31,5	0,2
EBIT	21,8	27,2	-5,4	21,4	21,3	0,1

For the period from January to September 2019, occupancy was 75.9% (previous year: 76.0%) and revenue per room sold rose by 3% to EUR 98.30 (previous year: EUR 95.00). Total revenue rose by 17% to EUR 413m (previous year: EUR 354m) and EBITDA increased by 18% to EUR 131m (previous year: EUR 111m). EBT and net profit both rose by 17%: EBT to EUR 81m (previous year: EUR 69m) and net profit to EUR 57m (previous year: EUR 48m). Relative performance at EBITDA level in relation to revenue rose 0.2 percentage points to 31.7% (previous year: 31.5%).

CASH FLOW STATEMENT AND BALANCE SHEET

Operating cash flow at 30 September 2019 rose to EUR 216m (previous year: EUR 95m), partly because of a purchase price payment for a property transaction from the previous year. Redesign investments for existing hotels increased to EUR 35m (previous year: EUR 29m). Cash flow available for expansion increased to EUR 166m (previous year: EUR 61m). Of this, EUR 47m (previous year: EUR 38m) was invested in the Group's own property portfolio, and EUR 10m (previous year: EUR 23m) in FF&E. After higher dividends of EUR 70m (previous year: EUR 10m), cash holdings at 30 September 2019 rose to EUR 157m (previous year: EUR 108m).

Cash Flow Statement	Q3			YTD September		
	2019	2018	+/-	2019	2018	+/-
	kEUR	kEUR	% py	kEUR	kEUR	% py
EBITDA reported	48.177	46.614	3	131.186	111.428	18
Net Working Capital	11.062	-16.015	<100	84.804	-16.092	<100
Operating Cash Flow	59.239	30.599	94	215.990	95.336	>100
- Re-Design Capex	-12.431	-1.428	>100	-34.839	-29.428	18
- Taxes	-8.552	-10.053	-15	-24.241	-20.744	17
Free Cash Flow after taxes	38.256	19.118	>100	156.910	45.164	>100
- Equity Cash Flow	552	0		-2.352	0	
- Debt Cash Flow	-4.930	7.882	<100	11.651	15.495	-25
Cash Flow for Expansion Capex	33.878	27.000	25	166.209	60.659	>100
- CAPEX new Hotels PROPCO	-5.721	-25.973	-78	-46.923	-37.934	24
- CAPEX new Hotels FF&E	-3.014	-7.795	-61	-10.231	-22.906	-55
- Dividends	0	0		-70.000	-10.000	>100
Net Cash Flow	25.143	-6.768	<100	39.055	-10.181	<100
Cash at end of period	156.564	107.817	45	156.564	107.817	45

Equity rose by 9% to EUR 474m (previous year: EUR 434m). Net debt fell by 5% to EUR 195m (previous year: EUR 206m), which is 1.1 times EBITDA (previous year: 1.5 times EBITDA).

Net Balance Sheet	September, 30				
	2019		2018		+/-
	kEUR	%	kEUR	%	%
Fixed Assets	760.670	100	701.136	100	8
Equity	473.648	62	434.110	62	9
Net working capital	91.630	12	61.317	9	49
Net debt	195.392	26	205.709	29	-5
EBITDA Rolling 12 months	170.008		140.381		21
Net Debt/EBITDA	1,1		1,5		-0,3

HOTELS IN OPERATION AND UNDER DEVELOPMENT

The number of hotels in operation is 73 with 20,740 rooms (previous year: 66 hotels with 18,438 rooms). Of these, 17 hotels with 4,235 rooms (previous year: 17 hotels with 3,771 rooms) are owned by the Group, and 7 hotels with 1,626 rooms (previous year: 4 hotels with 1,086 rooms) are financed through a leasing arrangement. 49 hotels with 14,879 rooms are rented (previous year: 45 hotels with 13,581 rooms), representing 72% of hotels (previous year: 74%). Outside Germany, 22 hotels with 6,398 rooms are in operation (previous year: 21 hotels with 6,068 rooms). This represents 31% (previous year: 33%) of hotels.

Structur	September 30, 2019			September 30, 2018			+/- py	
	Hotels	Rooms	%	Hotels	Rooms	%	Hotels	Rooms
in operation								
Owned Hotels	17	4.235	20	17	3.771	20	0	464
Leased Hotels	7	1.626	8	4	1.086	6	3	540
Rented Hotels	49	14.879	72	45	13.581	74	4	1.298
Total in operation	**73**	**20.740**	**100**	**66**	**18.438**	**100**	**7**	**2.302**
- Germany	51	14.342	69	45	12.370	67	6	1.972
- International	22	6.398	31	21	6.068	33	1	330
under development								
Owned Hotels	5	1.944	26	8	2.956	32	-3	-1.012
Rented Hotels	20	5.635	74	20	6.366	68	0	-731
Total Pipeline	**25**	**7.579**	**100**	**28**	**9.322**	**100**	**-3**	**-1.743**
- Germany	16	4.939	65	18	6.294	68	-2	-1.355
- International	9	2.640	35	10	3.028	32	-1	-388
Total signed								
Owned Hotels	22	6.179	22	25	6.727	24	-3	-548
Leased Hotels	7	1.626	6	4	1.086	4	3	540
Rented Hotels	69	20.514	72	65	19.947	72	4	567
Total signed	**98**	**28.319**	**100**	**94**	**27.760**	**100**	**4**	**559**
- Germany	67	19.281	68	63	18.664	67	4	617
- International	31	9.038	32	31	9.096	33	0	-58

25 hotels with 7,579 rooms are currently in the development pipeline (previous year: 28 hotels with 9,322 rooms). Of these, 5 hotels (previous year: 8 hotels) are being developed for the Group's own property portfolio, and 20 hotels (previous year: 20 hotels) are being developed with external investors based on long-term leases. The total number of contractually secured hotels rose to 98 hotels with 28,319 rooms (previous year: 94 hotels with 27,760 rooms). Because of the overheated property markets and the high number of hotels in the pipeline, there is a limit to how much sustainable growth can currently be achieved through new contracts.

THE EUROPEAN HOTEL MARKET

The hotel market in Northern Europe reported a 0.3% increase in revenue per available room (RevPAR) for the period from January to September 2019 compared with the previous year. Following a massive decline in the 3rd quarter, Germany registered an increase of just 0.5%, while RevPAR in the UK went up by 1%. The best performers in the top 10 markets of relevance to us (up to September) were Vienna, Manchester and Berlin. RevPAR losses were registered in Frankfurt, Hamburg, Leipzig and Stuttgart (source: STR Global).

After a strong first half of the year, the hotel industry in Germany saw a dramatic decline in operating figures in the third quarter. RevPar fell by 4.2% compared with the same quarter of the previous year. The average value for Germany was actually lower than the 2015 figure. Of course, the results vary considerably depending on the hotel location (source: Fairmas and STR).

The massive RevPAR losses in Germany in the 3rd quarter of 2019 were caused by a combination of factors: lower demand from trade fair and congress visitors than the previous year, a weaker economy and early impacts of the substantial increase in supply.

OUTLOOK

The economy, which has been growing for over ten years, appears to be slowing considerably, at least in Germany, with the transformation in the automotive industry, continuing trade disputes, Brexit and geopolitical tensions. At the same time, capacities continue to expand, meaning that occupancy rates and prices will come under pressure in most European cities.

We expect to be affected by these developments as well, but anticipate that we will continue to outperform the market. In terms of site developments, however, we see a crisis as a source of opportunities. The 4th quarter of 2019 will see Motel One Linz open in an excellent location on the main square.

Munich, October 2019