Strong topline growth with EBITDA margin improvement

Daniel Kos
Chief Financial Officer
& Executive Director

"Fully recovered results provide the group with strong cash flows and NAV growth."

Overview of 2023

2023 ended on a high, reporting fully recovered, record results and strong performance across our main markets. Since 2019, results of the Group have been distorted with the impacts of COVID-19 restrictions around the world, and 2023 marked the first year since with a normal trading pattern. 2023 kicked off with strong RevPAR increases compared to 2019, slightly above inflation reported over the four-year period that passed. Inflation did also affect many of our cost lines, most noticeably in the costs of utilities and labour.

The Group successfully mitigated a number of inflationary and sector-specific issues through the implementation of innovative solutions and forward planning. We have invested in enhancing our energy efficiency, and staffing is also much less of a constraint for the Group due to its proactive approach to investment in people, automation and employer branding.

We reported EBITDA margins that are behind on 2019, however lower utility hedges in the near future are expected to positively impact margin recovery. We keep focusing on managing the continued cost pressures we see on the labour side, due to minimum wage increases in all our territories.

Although 2023 showed sharp interest rate increases, the Group's results were not affected by this as all our loans are near fully hedged on fixed interest rates. These hedges limit the majority of exposure to interest rate risk on average to 2028. Furthermore, there are no significant loans up for refinance before 2026.

The elevated interest rate environment also impacts the discount rates used in property valuations, but despite increased rates, valuations have again shown a small improvement as improved trading and outlooks more than offset yield expansion.

Throughout the year, we spent approximately £126 million on capital expenditure, and the Group is now nearing completion of a heavy development cycle, where a record pipeline of more than £300 million will begin to contribute for the first time. This pipeline is estimated to grow EBITDA by at least £25 million once fully stabilised.

Operational performance

Revenue

Total revenue was up 25.6% at £414.6 million and was 15.9% ahead of 2019 levels. RevPAR was £120.7, up 25.5%, and was 16.5% ahead of 2019 levels. This reflected some further growth in average room rate up 4.0% versus 2022 and 29.8% versus 2019, alongside a consistent recovery in occupancy levels to 72.4%, compared with 60.0% in 2022 and 80.6% in 2019. Overall, RevPAR levels led to a total room revenue of £300.1 million, up 26.2% versus 2022 and up 19.7% of room revenue in 2019. The 2023 trading comparison with 2022 normalised month-on-month throughout the year. Where the first comparative quarter of 2022 was still heavily impacted by COVID-19 (thus showing significant year-on-year growth), the latter part of 2022 actually showed a fully recovered and strong trading comparable.

Financial results

Key financial statistics for the financial year ended 31 December 2023.

	Year ended 31 December 2023	Year ended 31 December 2022	Year ended 31 December 2019
Total revenue	**£414.6 million**	£330.1 million	£357.7 million
Room revenue	**£300.1 million**	£237.8 million	£250.6 million
EBITDAR	**£130.5 million**	£97.0 million	£124.7 million
EBITDA	**£128.2 million**	£94.6 million	£122.9 million
EBITDA margin	**30.9%**	28.7%	34.4%
Reported PBT	**£28.8 million**	£11.5 million	£38.5 million
Normalised PBT	**£37.5 million**	£8.3 million	£40.7 million
Reported EPS	**53p**	24p	80p
Occupancy	**72.4%**	60.0%	80.6%
Average room rate	**£166.8**	£160.4	£128.5
RevPAR	**£120.7**	£96.2	£103.6
EPRA NRV per share	**£26.72**	£25.17	£25.93
Adjusted EPRA earnings per share	**118p**	50p	128p

Q1 2023 saw a strengthening of demand for leisure, corporate travel and meeting events across all our markets. Our rate-led strategy supported topline growth which helped to mitigate inflationary headwinds, with average room rate up 15.9% versus Q1 2022 and 24.6% ahead of Q1 2019 levels. Occupancy levels continued to improve and track closer to 2019 levels in the UK and the Netherlands, with slower recovery in Germany. Overall, Q1 2023 occupancy was 950 bps behind Q1 2019.

This momentum continued into the second quarter, supported by the Coronation, taking place in London, where total revenue was up 36.9% year-on-year and up 19.8% versus Q2 2019. Average room rate grew by 14.8% versus Q2 2022 and was up 35.6% versus Q2 2019. Occupancy continued to rebuild to 70.8% (58.8% in Q2 2022 and 77.1% in Q2 2019).

In Q3, a quarter heavily impacted by the seasonal trading in Croatia, total revenue was up 8.8% versus Q3 2022 and up 16.5% versus Q3 2019, driven primarily by strong occupancy growth to 77.5% (Q3 2022: 70.8%). Average room rate remained solid, up 0.8% versus Q3 2022, despite the strong comparative performance in Q3 2022 which was boosted by a record summer 2022 trading in Croatia and several significant events in London, including the State Funeral of Her Majesty The Queen.

Normalised profit

£ million	12 months ended 31 December 2023	12 months ended 31 December 2022
Reported profit before tax	**28.8**	11.5
Loss on buy-back of units in Park Plaza Westminster Bridge London from private investors	**3.3**	1.5
Non-cash revaluation of finance lease	**3.9**	3.7
Non-cash changes in fair value of Park Plaza County Hall London Income Units	**(1.6)**	(0.3)
Pre-opening expenses and other non-recurring expenses	**1.4**	1.4
Capital loss on disposal of fixed assets and inventory	**–**	0.1
Non-cash changes in fair value of financial instruments	**1.7**	(9.6)
Normalised profit before tax	**37.5**	8.3

The performance in Q4 continued to be solid, with further occupancy recovery. Compared to Q4 2022 revenue was up 7.2% (up 15% versus Q4 2019). Room rate was marginally down on Q4 2022 and up 25.1% versus Q4 2019. Occupancy increased to 72.8% (Q4 2022: 72.1%).

EBITDA, profit and earnings per share

The Group reported EBITDA of £128.2 million (2022: £94.6 million and 2019: £122.9 million). The EBITDA margin continued to improve year-on-year to 30.9%, compared with 28.7% in 2022 and 34.4% in 2019. Broader cost inflation, particularly for utilities and labour, impacted full pre-COVID margin recovery over the last 12 months. The Board anticipates that cost inflation will remain topical in 2024, particularly with the recently announced minimum wage increases, however forward energy cost hedges will start flowing through at substantially lower levels than those fixed for 2023.

Normalised profit before tax improved to £37.5 million (2022: £8.3 million). Reported profit before tax improved by £17.3 million to £28.8 million (2022: £11.5 million). Reported profit before tax was negatively affected by non-cash revaluations of – amongst others – hedging derivatives and lease liabilities. A table of normalisation adjustments is provided below.

Reported basic/diluted earnings per share for the period were 53 pence (2022: 24 pence). Depreciation in the year was £45.1 million (2022: £40.0 million). Depreciation is recorded in accordance with IFRS, however, internally we consider the Group's ongoing average capital expenditure (CAPEX) over the lifespan of our hotels as a more relevant measure in determining profit, which in the hospitality industry is calculated as approximately 4% of total revenue. Our EPRA earnings number (see page 44) is calculated using the 4% rate instead of the reported non-cash depreciation charge.

Real estate performance

Valuations

The Group is an integrated developer, owner and operator of hotels, resorts and campsites and its business model is real estate driven. We generate returns and drive increased value for all our stakeholders by developing the assets that we own and operating our properties to their full potential. Certain EPRA performance measurements are disclosed to aid investors in analysing the Group's performance and understanding the value of its assets and earnings from a property perspective.

In December 2023, the Group's properties (with the exception of operating leases and managed and franchised properties) were once again independently valued predominantly by Savills (in respect of properties in the Netherlands, UK and Germany) and by Zagreb nekretnine Ltd (Zane) (in respect of properties in Croatia).

Based on their valuations, we have calculated the Group's EPRA NRV, EPRA NTA and EPRA NDV. The EPRA NRV as at 31 December 2023, set out in the table on page 43, amounts to £1,136.4 million (2022: £1,078.7 million), which equates to £26.72 per share (2022: £25.17 per share).

The EPRA NRV was positively impacted by the profit in the year of £22.4 million and positively impacted by marginally increased property valuations of £50.8 million (based on constant currency). This year the valuations were negatively affected by an increase in the discount rates used, mainly as a result of the higher interest rate environment. The value effect of these increased rates, however, were more than offset by the increased underlying results of the hotels used in the valuations, with expectations on improving margin embedded in the profit forecasts.

The table below provides additional information regarding the discount and cap rates used.

Cash flow and EPRA earnings

In 2023, the Group had a positive operational cash flow of £126.1 million, due to its record fully recovered trading. Cash used for debt service increased to £82.2 million (2022: £68.0 million), of which £46.4 million (2022: £41.8 million) is due to interest expenses, £31.7 million (2022: £21.3 million) due to loan amortisations and £4.1 million (2022: £4.9 million) due to lease amortisations.

Investment cash flows reported an outflow of £121.5 million, of which about 86.5% was due to development projects and £15.0 million regarding our usual maintenance CAPEX projects. Most noticeable was the £80.6 million CAPEX related to our development projects in Hoxton London and art'otel Rome Piazza Sallustio. These hotels are due to open in the current financial year, hence construction CAPEX is expected to significantly decrease from the third quarter onwards.

The Group has a healthy balance sheet, no significant refinancing until 2026 and a total cash position of £150.4 million, with access to a further £30 million of undrawn facilities.

The Group reported adjusted EPRA earnings of £50.1 million, up 137% (2022: £21.2 million), and adjusted EPRA earnings per share of 118 pence, up 136% (2022: 50 pence, 2019: 128 pence per share).

Actualised trading versus assumption in 2022 valuations

	Discount rates		Cap rates	
	2023 Valuations	2022 Valuations	**2023 Valuations**	2022 Valuations
United Kingdom	**7.75%–10.50%**	7.75%–10.50%	**5.25%–8.00%**	5.25%–8.00%
The Netherlands	**8.25%–9.75%**	7.75%–9.50%	**5.75%–7.25%**	5.25%–7.00%
Germany	**8.25%–9.25%**	8.00%–9.25%	**5.75%–6.75%**	5.50%–6.75%
Croatia	**8.00%–11.00%**	8.00%–11.00%	**6.00%–9.00%**	6.00%–9.00%

Valuation comparison

2023 versus 2022 valuation – Total portfolio +2.3%	
United Kingdom	+2.0%
The Netherlands	+5.5%
Germany	-6.5%
Croatia	+4.0%

EPRA performance measurement

EPRA summary

	Summary of EPRA Performance indicators			
	Year ended 31 December 2023		Year ended 31 December 2022	
	£ million	**Per Share**	£ million	Per Share
EPRA NRV (Net Re-instatement Value)	**1,136.4**	**£26.72**	1,078.7	£25.17
EPRA NTA (Net Tangible Assets)	**1,106.6**	**£26.02**	1,047.2	£24.44
EPRA NDV (Net Disposal Value)	**1,070.4**	**£25.17**	1,030.9	£24.06
EPRA earnings	**59.0**	**139p**	32.7	77p
Adjusted EPRA earnings	**50.1**	**118p**	21.1	50p

EPRA NRV

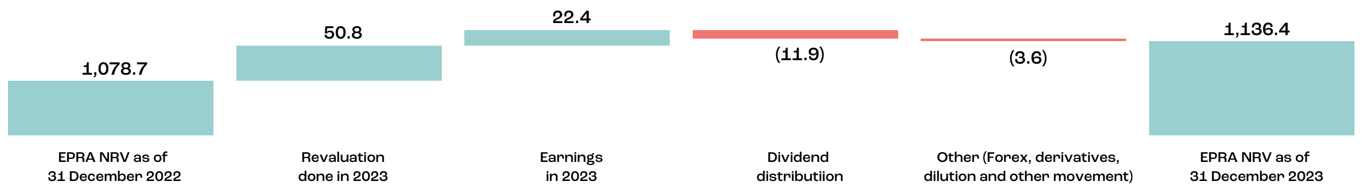
	31 December 2023			31 December 2022		
£ million	**EPRA NRV**	**EPRA NTA[4]**	**EPRA NDV**	EPRA NRV	EPRA NTA[4]	EPRA NDV
NAV per the financial statements	**314.6**	**314.6**	**314.6**	315.1	315.1	315.1
Effect of exercise of options	–	–	–	3.0	3.0	3.0
Diluted NAV, after the exercise of options[1]	**314.6**	**314.6**	**314.6**	318.1	318.1	318.1
Includes:						
Revaluation of owned properties in operation (net of non-controlling interest)[2]	**794.6**	**794.6**	**794.6**	746.9	746.9	746.9
Revaluation of the joint venture interest held in two German properties (net of non-controlling interest)	**6.1**	**6.1**	**6.1**	6.8	6.8	6.8
Fair value of fixed interest rate debt	–	–	**(5.9)**	–	–	(9.2)
Deferred tax on revaluation of properties	–	–	**(39.0)**	–	–	(31.7)
Real estate transfer tax[3]	**19.1**	–	–	18.7	–	–
Excludes:						
Fair value of financial instruments	**14.2**	**14.2**	–	21.1	21.1	–
Deferred tax	**(16.2)**	**(16.2)**	–	(9.3)	(9.3)	–
Intangibles as per the IFRS balance sheet	–	**10.7**	–	–	12.8	–
NAV	**1,136.4**	**1,106.6**	**1,070.4**	**1,078.7**	**1,047.2**	**1,030.9**
Fully diluted number of shares (in thousands)[1]	**42,527**	**42,527**	**42,527**	42,846	42,846	42,846
NAV per share (in £)	**26.72**	**26.02**	**25.17**	**25.17**	**24.44**	**24.06**

1 The fully diluted number of shares excludes treasury shares but includes 163,221 outstanding dilutive options (as at 31 December 2022: 150,223).
2 The fair values of the properties were determined on the basis of independent external valuations prepared in December 2023.
3 EPRA NTA and EPRA NDV reflect fair value net of transfer costs. Transfer costs are added back when calculating EPRA NRV.
4 NTA is calculated under the assumption that the Group does not intend to sell any of its properties in the long run.

NRV per share

£25.17	**£1.19**	**£0.53**	**£(0.28)**	**£0.11[1]**	**£26.72**

Real estate performance £million



1 Positive movement due to lower diluted number of shares.

EPRA earnings

	12 months ended 31 December 2023 £ million	12 months ended 31 December 2022 £ million
Earnings attributed to equity holders of the parent company	22.4	10.2
Reported depreciation and amortisation	45.1	40.0
Revaluation of Park Plaza County Hall London Income Units	(1.6)	(0.3)
Changes in fair value of financial instruments	1.7	(9.6)
Non-controlling interests in respect of the above[3]	(8.6)	(7.6)
EPRA earnings	**59.0**	**32.7**
Weighted average number of ordinary shares outstanding	42,541,186	42,522,523
EPRA earnings per Share (in pence)	139	77
Company specific adjustments:[1]		
Capital loss on buy-back of Income Units in Park Plaza Westminster Bridge London	3.3	1.5
Remeasurement of lease liability[4]	3.9	3.7
Disposals and Other non-recurring expenses (including pre-opening expenses)[7]	1.4	1.5
Adjustment of lease payments[5]	(2.3)	(2.2)
One-off tax adjustments[6]	(2.5)	(5.8)
Maintenance CAPEX[2]	(16.6)	(13.2)
Non-controlling interests in respect of Maintenance CAPEX and the adjustments above[3]	3.9	3.0
Company adjusted EPRA earnings[1]	50.1	21.2
Company adjusted EPRA earnings per Share (in pence)	118	50
Reconciliation Company adjusted EPRA earnings to normalised PBT:		
Company adjusted EPRA earnings[1]	50.1	21.2
Reported depreciation and amortisation	(45.1)	(40.0)
Non-controlling interest in respect of reported depreciation[3]	8.6	7.6
Maintenance CAPEX[2]	16.6	13.2
Non-controlling interests in respect of Maintenance CAPEX and the adjustments above[3]	(3.9)	(3.0)
Adjustment of lease payments[5]	2.3	2.2
One-off tax adjustments[6]	2.5	5.8
Profit attributable to non-controlling interests[3]	4.7	4.7
Reported tax	1.7	(3.4)
Normalised profit before tax	**37.5**	**8.3**

1 The 'Company specific adjustments' represent adjustments of non-recurring or non-trading items.
2 Calculated as 4% of revenues, which represents the expected average maintenance capital expenditure required in the operating properties.
3 Non-controlling interests include the non-controlling shareholders in Arena, third party investors in Income Units of Park Plaza Westminster Bridge London and the non-controlling shareholders in the partnership with Clal that was entered into in June 2021 and March 2023.
4 Non-cash revaluation of finance lease liability relating to minimum future CPI/RPI increases.
5 Lease cash payments which are not recorded as an expense in the Group's income statement due to the implementation of IFRS 16.
6 Mainly relates to deferred tax asset on carry forward losses recorded in 2023.
7 Mainly relates to pre-opening expense and net profit and loss on disposal of property, plant and equipment.

Other EPRA measurements

Given that the Group's asset portfolio is comprised of hotels, resorts and campsites which are also operated by the Group, a few of EPRA's performance measurements, which are relevant to real estate companies with passive rental income, have not been disclosed as they are not relevant or non-existent. Those EPRA performance measurements include EPRA Net Initial Yield (NIY), EPRA 'Topped-up' NIY, EPRA Vacancy Rate and EPRA Cost Ratios.

Capital structure

Call impact minorities and future

As part of our strategy, we unlock capital on the back of our assets in many different ways. We do this by raising debt, raising equity through several different forms of partnerships or sometimes by entering into 100+ year ground rent structures. This funding strategy gives us access to capital on the back of the fair value of our assets and also balances the liquidity and interest rate risk attached to our capital structure.

Our partnerships, such as the third party unit holders in Park Plaza Westminster Bridge London, the third party shareholders in our listed Croatian subsidiary or the individual professional partners we work with on several assets, provide us with long-term equity and therewith sharing of the risks and returns on each asset.

The 100+ year ground rent structures give us long-term access to capital, with no covenants, no recourse to the Group and no refinance risk or interest rate exposure. These structures are typically linked to inflation, although, these are often capped at around 4–5% annually.

Finally, our asset-backed mortgages are mostly entered into with long-standing banking partners, with a five- to ten-year maturity and with a fixed rate or a variable rate with hedging arrangements. Our mortgages have covenants around the value of assets (Loan to Value) and trading (interest or debt service cover ratios). The level of debt raised on trading assets is typically around 50% of the value of these assets and appropriate buffers are kept towards the covenants on the loan. Furthermore, most of our loans are amortised annually around 2.5% of the nominal amount over the term. The current net bank debt leverage (EPRA LTV) percentage is 33.4%

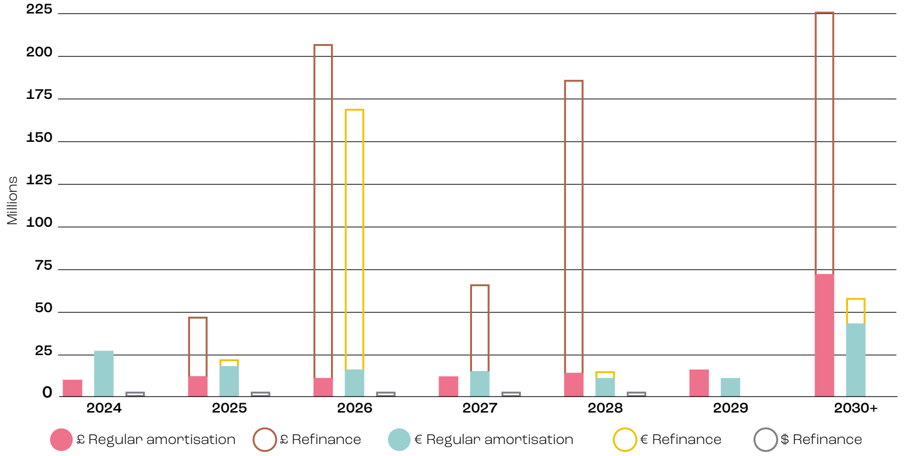
Although our mortgages are exposed to interest rate risks, most of these were entered into years ago, averaging at 3.5% interest (98% fixed) and with an average remaining maturity of 4.0 years. In early 2022, the Group entered into multiple forward starting hedges (starting when loans roll over or refinance in 2024 and 2026) for approximately £380 million, around 1.4%–1.9% swap rate, significantly below current market levels. The loans on trading assets are non-recourse.

European Hospitality Real Estate Fund

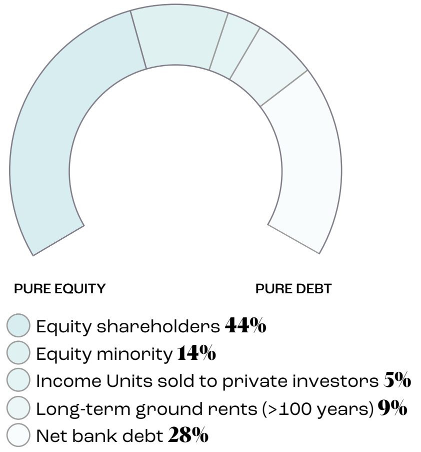
Consistent with PPHE's long-standing approach to building shareholder value through the careful stewardship of its own balance sheet and partnership with third party capital providers, we launched our inaugural European Hospitality Real Estate Fund (the 'Fund') in March 2023 to support the Group's long-term growth ambitions. Hotels acquired by the Fund will be operated by PPHE's hospitality management platform, building further scale in the platform. PPHE has committed up to €50 million in cash and/or assets to the Fund and the Fund's cornerstone investor, Clal Insurance, has committed to invest up to €75 million (however, capped at 49% of the equity contributed at any time). In March 2023, our property in Rome (soon to open as art'otel Rome Piazza Sallustio) was contributed as a seed asset.

Throughout the year the Group engaged with investment bankers to raise the remaining equity for the Fund, however, the significant changes in the interest rate market during this period has meant that the Group was not successful in signing up new investors.

Amortisation profile



Capital structure



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Net debt leverage/EPRA LTV reconciliation

	Group as reported under IFRS £'million	Adjustments to arrive at EPRA Group LTV £'million	Group EPRA LTV before NCI adjustment £'million	Proportionate Consolidation (Non-controlling interest) £'million	Combined EPRA LTV £'million
Include:					
Borrowings (short-/long-term)	893.0	–	893.0	(202.4)	690.6
Exclude:					
Cash & cash equivalents and restricted cash	(167.7)	–	(167.7)	36.6	(131.1)
Net Debt (a)	**725.3**	**–**	**725.3**	**(165.8)**	**559.5**
Include:					
PP&E	1,412.8	762.4	2,175.2	(511.8)	1,663.4
Right-of-use assets	229.2	(229.2)	–	–	–
Lease liabilities	(277.4)	277.4	–	–	–
Liability to income units in Westminster Bridge hotels	(114.3)	114.3	–	–	–
Intangible assets	10.7	–	10.7	(0.9)	9.8
Investments in Joint ventures[1]	5.4	11.4	16.8	(7.8)	9.0
Other assets and liabilities, net	(9.9)	(4.0)	(13.9)	8.5	(5.4)
Total Property Value (b)	**1,256.5**	**932.3**	**2,188.8**	**(512.0)**	**1,676.8**
EPRA LTV (a/b)	**57.7%**	**–**	**33.1%**	**–**	**33.4%**
Adjustments to reported EPRA NRV:					
Real estate transfer tax	–	21.9	21.9	(2.8)	19.1
Total Property Value after adjustments (c)	**1,256.5**	**954.2**	**2,210.7**	**(514.8)**	**1,695.9**
Total Equity (c-a)	**531.2**	**954.2**	**1,485.4**	**(349.0)**	**1,136.4**

1 Proportionate consolidation was not applied to the joint venture as it is considered as not material.

If further investors have not joined the Fund by 13 March 2024 (unless mutually extended), the Fund will carry on as a joint venture with Clal. Furthermore, the Group has the option to top up its own equity contribution (currently at up to €50 million) to €78 million to give the total joint venture a c.€150 million equity value. With full equity subscription combined with a targeted 50% bank leverage, the investment potential of the joint venture will then be around €300 million. The Fund has an investment period of 24 months from March 2023, which can be extended by an additional 12 months (subject to consent).

Capital Expenditure/ Development pipeline update

With an expansion CAPEX of £110.6 million, we remained focused on implementing our strategy, progressing our development pipeline, and expanding our footprint into new, highly attractive markets.

The construction phase of our new hotel in Hoxton London (art'otel London Hoxton) is nearing completion and handover of certain areas had commenced in Q1 2024 enabling our operational teams to start preparing the hotel for its expected opening in Q2 2024.

We opened our first art'otel in Croatia in Q3 2023, art'otel Zagreb. This was an office-to-hotel conversion project in Zagreb city centre at a total investment of £18 million

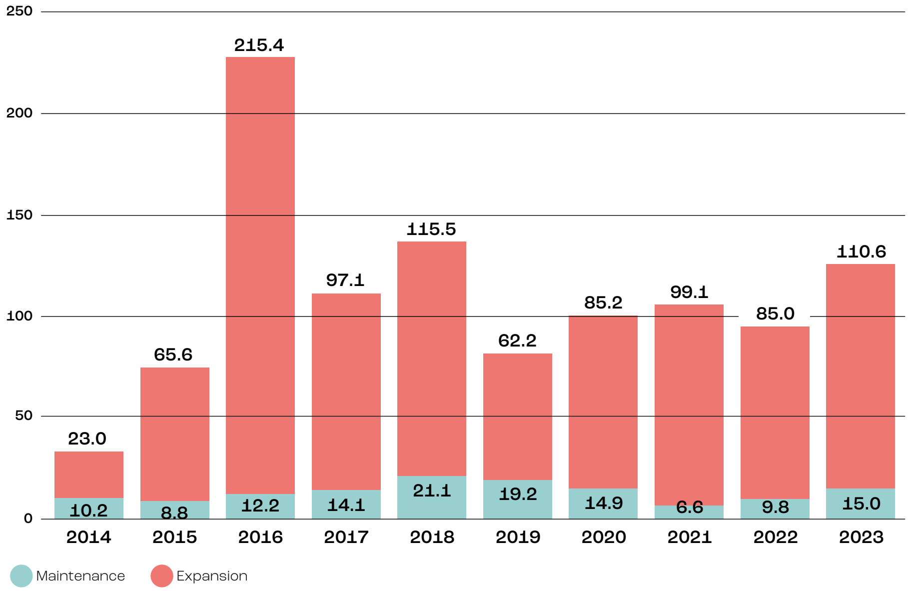
Similarly, the first Radisson RED property to be operated by the Group, and the second to open under the extended Radisson partnership, opened for bookings in Q4 2023, following an extensive repositioning (previously known as Arena 88 Rooms Hotel).

In Rome, the Group had embarked on a full repositioning and construction of the former Londra & Cargill Hotel located in the city centre in July 2022. Works are underway to reposition this hotel into a 99-room premium art'otel, which is expected to open in the first half of 2024.

On the above £300+ million pipeline, the Group has a remaining commitment of approximately £60 million.

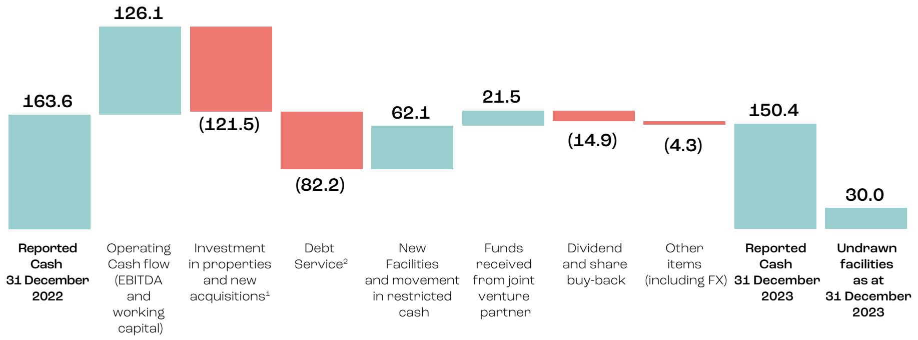
We are constantly working on improving our existing portfolio and looking for interesting opportunities to acquire further

Investments in property split between expansion/redevelopment and maintenance in £m



Maintenance CAPEX profile has historically been 4% of revenue on average.

Year-on-year cash flow £million



1 £15.0 million reflects regular CAPEX.
2 Including leases and unit holders in Park Plaza Westminster Bridge London.

assets to broaden the Group's portfolio. The diagram below provides a summary of the investments done in the past ten years.

Dividend

The strength of trading during the first half of 2023 and the Board's confidence in the outlook enabled it to recommend a return to the Company's historical capital returns policy of distributing approximately 30% of adjusted EPRA earnings while continuing to support investment in future growth opportunities. Given the continued share price discount relative to the Company's EPRA NRV per share, the Board consulted with shareholders about the most appropriate and effective mechanism for such distributions to take place, including dividends, share buy-backs, tender offers or a combination of these. During this exercise, a broad range of opinions and preferences were expressed by shareholders. Having listened carefully to all the viewpoints provided, the Group took the decision to pay an interim dividend of 16 pence per share for the period ended 30 June 2023, which represented a year-on-year increase of 13 pence per share (H1 2022: 3 pence per share).

Further to the above, and in line with the Board's confidence in the Group's performance and the strength of its development pipeline being delivered, the Board has proposed a final dividend payment of 20 pence per share. When combined with the interim ordinary dividend, it will bring the total dividend for the year to 36 pence per share.

The Board will continue to regularly review its capital returns policy.

Daniel Kos
Chief Financial Officer & Executive Director