The State of Travel Recovery

September 2022

OC&C Strategy consultants

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uncommon sense™

Summary

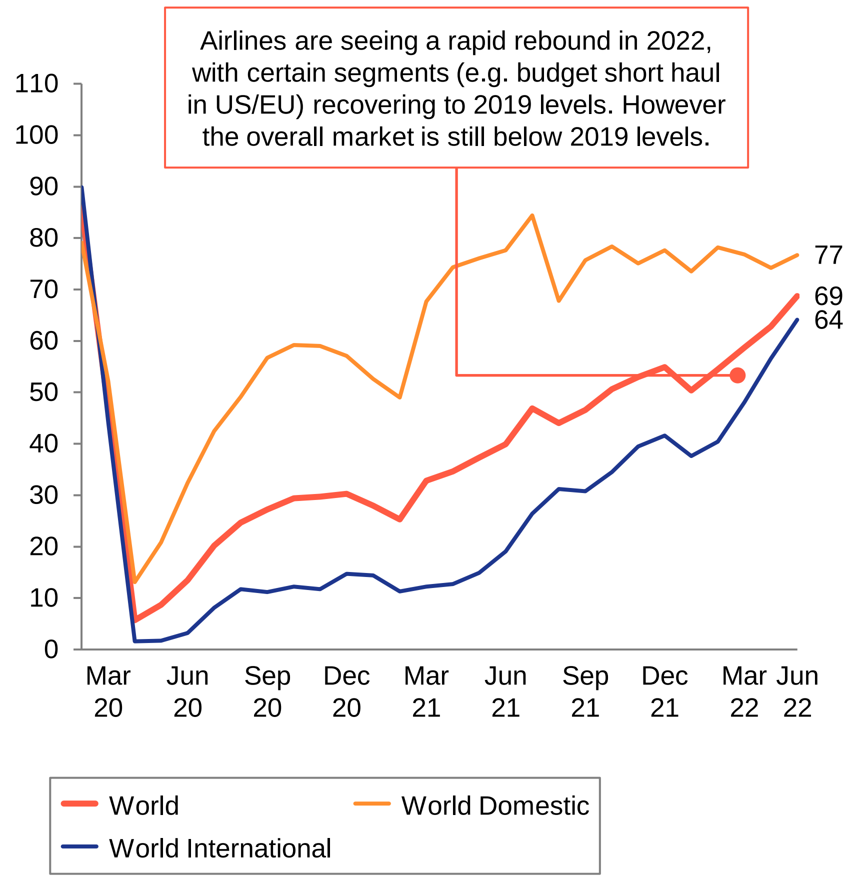
- **Travel has bounced back quicker than expected**, with recovery expanding from strong domestic leisure markets into business and international travel
  - The recovery has been supported by strong levels of pent-up demand, especially in the leisure segment with high levels of retained consumer savings
  - More unexpectedly, business travel has been returning with the jury still out on the lasting impact of the pandemic on business travel habits (although remote and hybrid working are clearly here to stay)
- **However, at a macro level, the pace of recovery is likely to slow** as inflation, labour shortages, and weakening consumer confidence impact the market
  - Rising fuel costs, wider inflation, pent-up demand and labour shortages are all contributing to elevated pricing
  - So far, customers appear to be absorbing inflationary impacts and protecting their travel spend to fulfil their pent-up needs… however, as banked savings continue to dissipate, this effect is expected to diminish…
  - …leading to a softening of the recovery through the remainder of 2022
- To help navigate these trends, **management teams need to review their labour proposition and leverage technology** to bridge labour gaps and **rethink customer reactivation** and **pricing strategies to bolster profitability**
- Valuations in public markets have softened from recent highs seen in 2021 with many travel stocks still trading below pre-COVID-19 levels. **The sector has seen strong levels of M&A with the mix of 'good' M&A increasing over the last 6-12 months**
- To **support strong valuations, businesses will need to demonstrate a recovery to pre-COVID-19 levels alongside a sustainable growth story**. We are challenging management teams to think hard about how their equity stories (and KPIs) may need to evolve as we emerge from the pandemic

Global passenger volumes have been recovering steadily with scheduled capacity in many regions getting close to 2019 levels

Flight Recovery

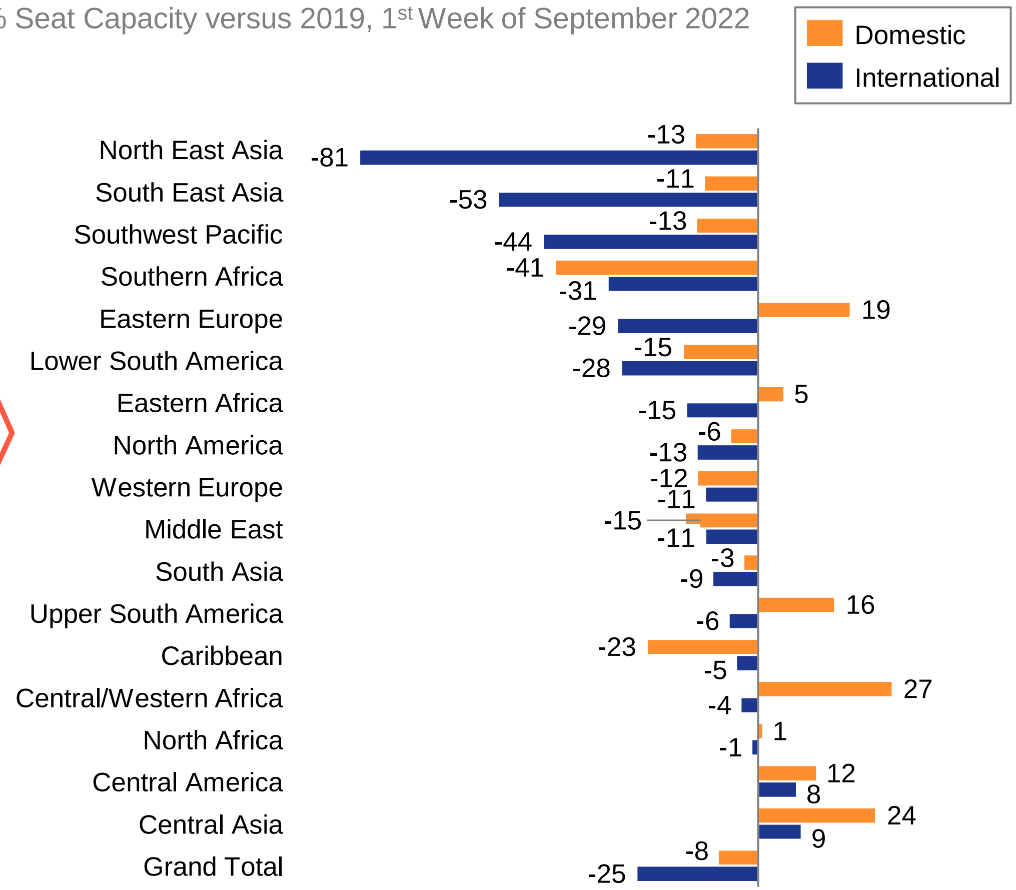
Global

% 2019 Revenue Passenger Kilometres



By Region

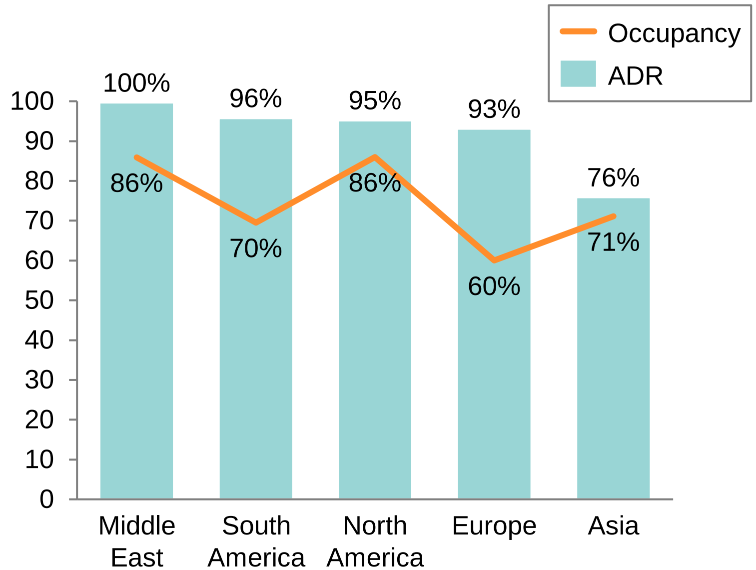
% Seat Capacity versus 2019, 1st Week of September 2022



Meanwhile, hotels have benefitted from local trips and staycations, returning to 70-80% occupancy levels with ADR close to recovery (excluding Asia)

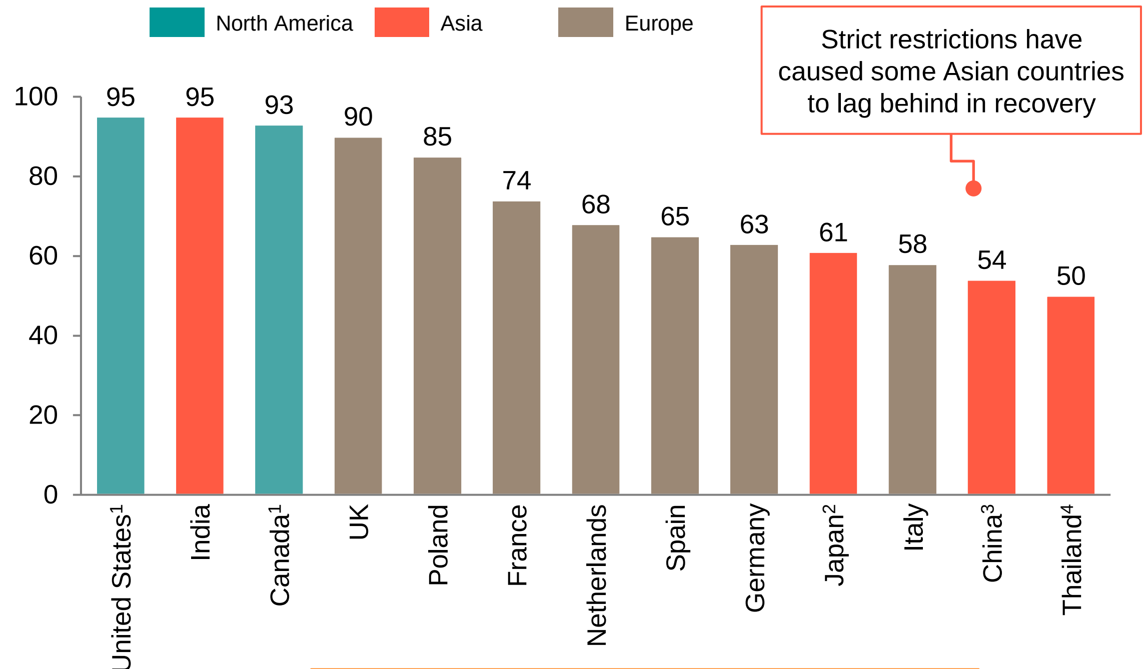
Hotel Industry Recovery Trends

Hotel ADR and Occupancy Recovery in Select Markets
(Data from December 2021, % change from 2019)



While hotel occupancy rates were at different stages of recovery in different markets, **most regions saw near full recovery of hotel ADRs by end** of 2021

Latest Hotel Occupancy in Select Markets
(April 2022, Indexed to 2019)



The latest data for 2022 shows that the **occupancy rates have almost caught up with pre-pandemic levels**, despite continued rise in ADRs

1. May 2022 indexed to May 2019
2. November 2021, City Hotels only
3. February 2022
4. March 2022

Source: STR, CEIC, Bank of Thailand, Savills, OC&C analysis

Similarly, many travel operators are projecting strong recovery trajectories with many expected to have recovered to 2019 revenue levels in 2023

Travel Sector Recovery to 2019 Levels – Revenues[1]

Indicative – Based on Broker Consensus, July 13th Data

Later recovery expectations

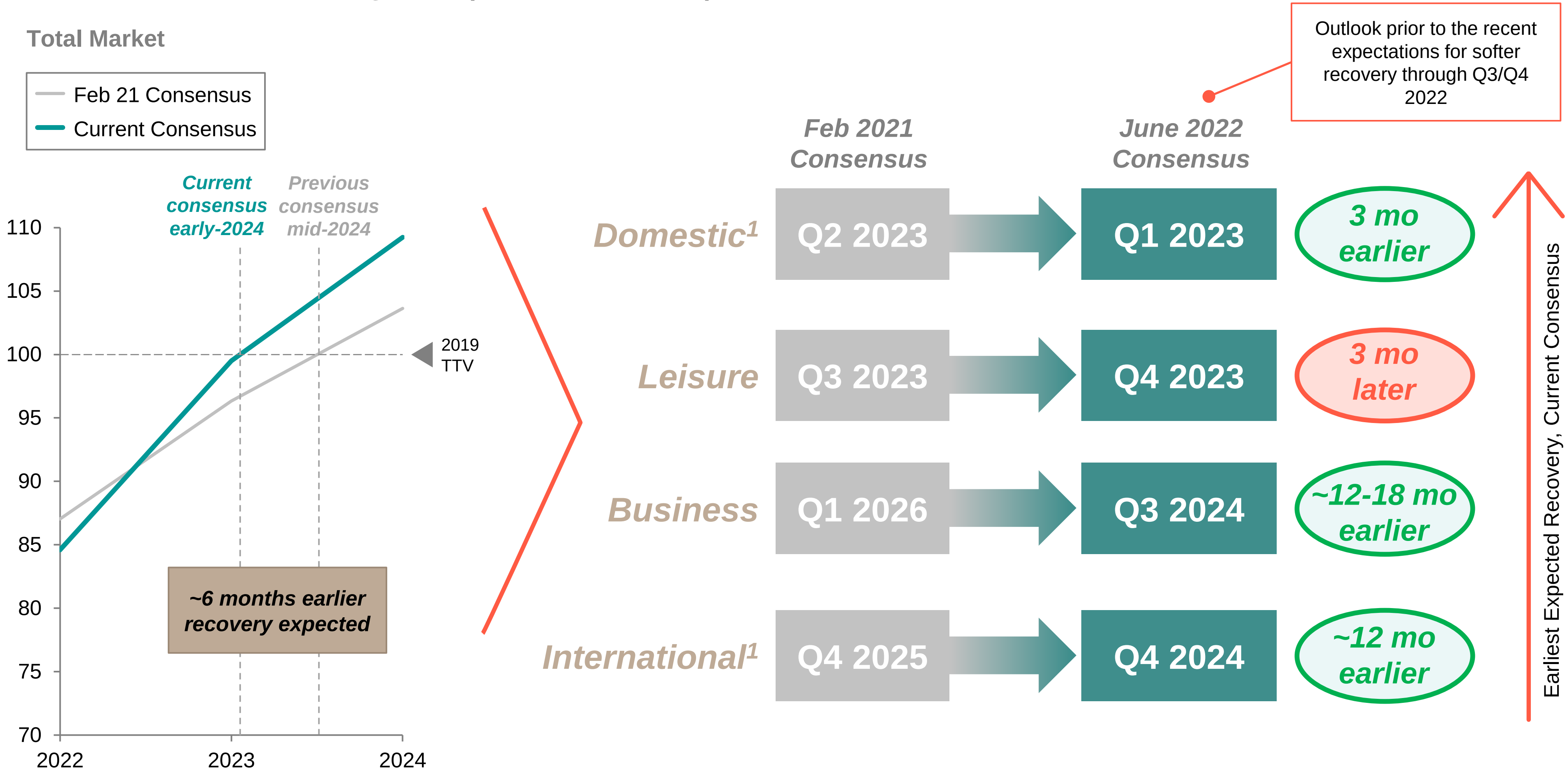
	2022	2023	2024 and beyond
HOTELS	Hyatt	Marriott, NH Hotels, IHG, Hilton Hotels & Resorts	Wyndham Hotels & Resorts, Accor, Meliá Hotels & Resorts
AIRLINES	American Airlines, Southwest, Spirit, Delta, United	Ryanair, easyJet, IAG International Airlines Group	Air France, Lufthansa
OTAs	Booking Holdings	on the Beach.co.uk, eDreams, Expedia, tripadvisor, lastminute.com, Hostelworld	Trip.com
CRUISE LINES	Lindblad Expeditions, Genting	Carnival Corporation & plc, NCL Norwegian Cruise Line, Royal Caribbean International	
TOUR OPERATORS		Jet2.com, Foliday 复星旅文	TUI Group
TRAVEL MGT.	ctm		Amadeus, Flight Centre, Sabre

1. Based on consensus revenue forecast (CIQ Estimates)

Source: S&P Capital IQ; market data as of 13 July 2022

Given these trends, and prior to more recent challenges, the recovery had been passing previous expectations…

Global Travel Market Outlook Q1 2022 (vs Feb 21 Forecast)



1. International refers to all international travel, where guests are travelling from one market to another; domestic refers to travel of guests only within their home country

Source: Euromonitor, WTTC, Business Travel News, IATA, McKinsey, STR, HVS, Fitch Ratings, PWC, Statista, HotStats, World Bank, OECD, Oxford Institute, Desk Research, OC&C analysis

However, a new wave of headwinds is likely to put continued pressure on recovery

Current Macroeconomic Travel Headwinds

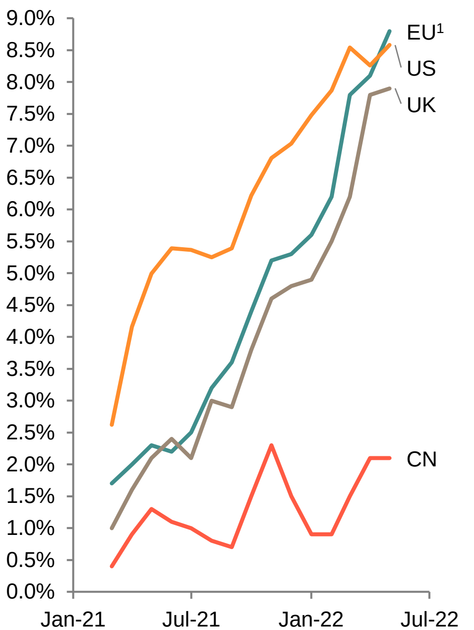
Headwind	Description	Impact on Travel
Rising Cost of Living and Declining Consumer Confidence	• High inflation and rising living costs are putting **pressure on consumer confidence** • This is leading to polarized customer response; lower-income customers suffer **reduced discretionary spending,** while more affluent consumers benefit from the savings accumulated during COVID-19	• ***Mass market squeeze,*** luxury floats on affluent demand, lower-income customers shift to budget domestic • ***Shorter, cheaper and local*** preferred for summer ‘22 trips • ***Inflation passing through:*** prices rising such as airfares due to fuel
The Hospitality Labour Gap	• Travel operators are **struggling to bring back workers who exited** the industry • Faced with low wages, employees started to look for employment opportunities in industries offering higher pay, more flexibility, or both	• ***Constrained capacity*****:** certain operators struggling to meet the pent-up travel demands • ***Rising labour costs*****:** putting pressure on operators’ bottom lines
Continued Travel Restrictions	• **Domestic travel faces few restrictions** • International travel is **still subject to some limitations** – varying from testing and vaccination requirements to some routes still requiring **more aggressive** quarantine or border closures to non-citizens	• ***Open routes have bounced back quicker than expected*** *by 6-12 months ahead of 2021 predictions for many travel types (e.g. business)* • ***Restricted route recovery remains low,*** *at just 5-30% of 2019 levels*

Source: OC&C analysis

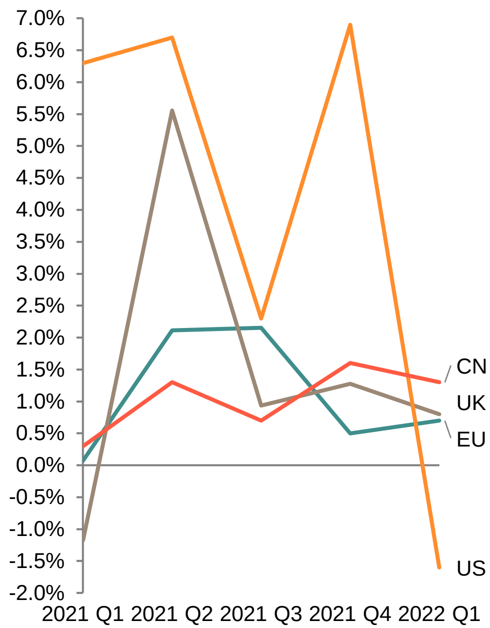
High inflationary pressure is causing a cost-of-living squeeze; GDP shows signs of slowdown / contraction and consumer confidence has fallen

Key Macro-Economic Indicators

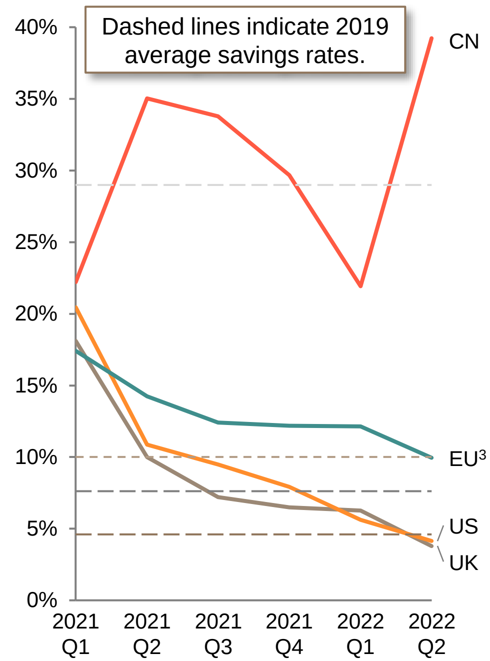
Inflation



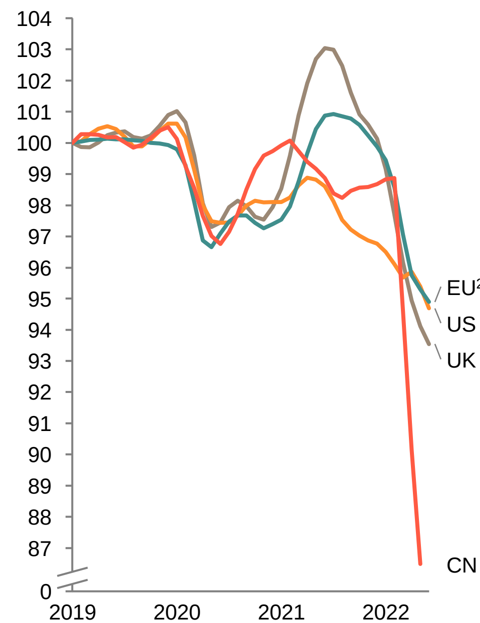
GDP Growth QoQ



Savings Rate



Consumer Confidence4



The rise in inflation in US, UK and EU post-COVID-19 raises consumer concerns over increasing costs of living

Economies are starting to show signs of contraction going into 2022, indicating risk of inflationary-led recession

Savings rates have decreased since peak pandemic, reducing the protection consumers have against cost-of-living squeezes

Consumer confidence continues to dip below 2020 levels; a confidence recovery in China has recoiled to sharp decline

1. EU = European Union; 2. EU = Euro-19; 3. EU = Average of DE, FR, ES, IT 4. Indexed to Jan 2019

Source: Oxford Economics, OECD, Eurostat, KPMG, US Commerce Department, WSJ, UK Office for National Statistics, OC&C analysis

Travel inflation is starting to gain pace due to its exposure to most affected parts of the value chain, such as energy and worker costs

Travel Inflation Trends

(Indexed to March 2019 = 100)

Specifically, high travel inflation is driven by a series of factors

1. ***Exposure to fuel costs:*** particularly for air, cruise and other transport, energy prices have increased on average 30-40%+ across geographies as a result of the war in Ukraine and Russian sanctions

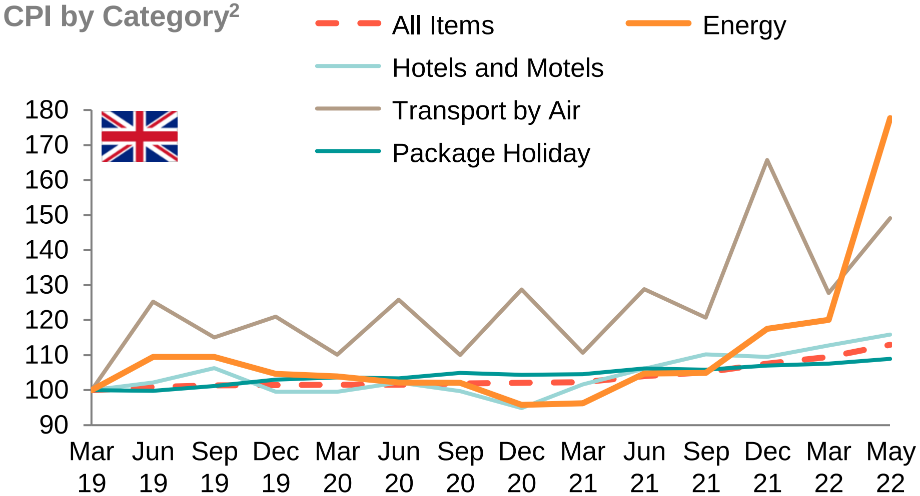
> *"Ticket prices [for airfares] have risen 40 percent"*
>
> Economist at Hopper, May 2022

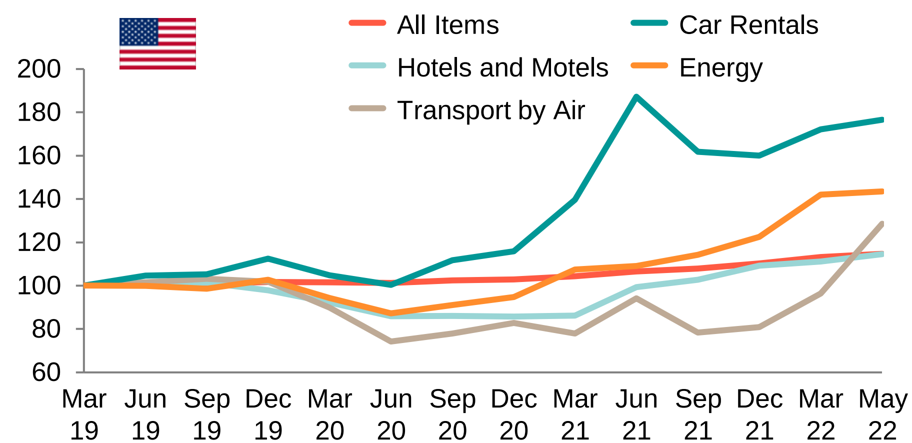
2. ***Labour shortages put pressure on firm overhead:*** firms are paying up for talent and thus facing pressure on costs; hospitality labour shortage has risen 11% in US

> *"Bringing in staff used to take 5-6 six weeks, now much longer"*
>
> Director General, Spirit Airlines

3. ***Pent-up demand drives up consumer prices:*** hotel ADR is at near full recovery; cruises are increasing onboard prices – Norwegian raised rates by 3-8% on daily gratuity charges and highest-end cabins
4. ***Supply constraints push operators to raise prices:*** Hertz reported ~70% access to vehicles in Q1 2022 compared to 2019

CPI by Category[2]



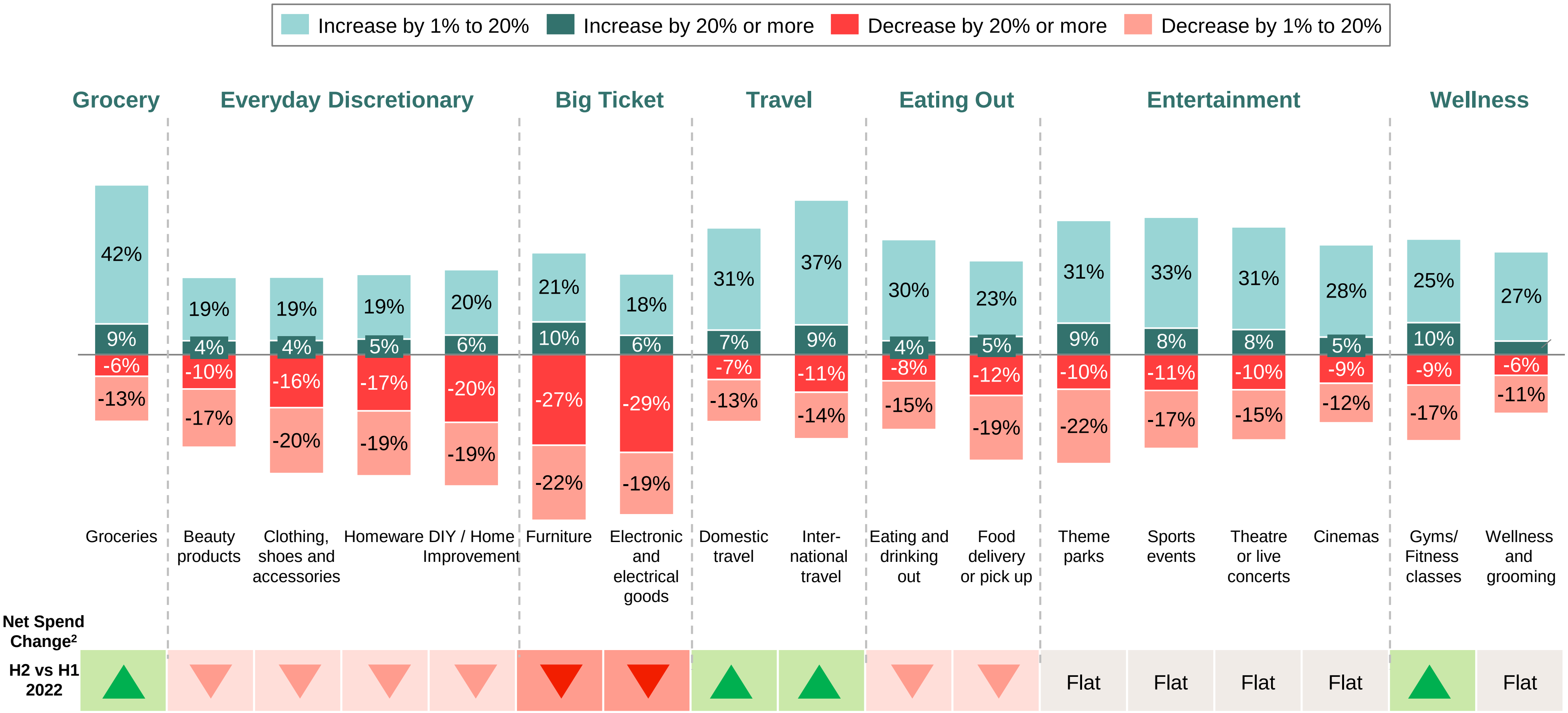


1. Based on the CPI Index for Hire of Garages, parking spaces and personal transport equipment
2. Data in quarterly increments except for the last data point, which is a two-month increment

Source: Cruzely, Reuters, Bureau of Labor Statistics, ONS, OC&C analysis

In spite of this, travel sentiment appears to be defying the cost of living squeeze, supported by pent-up demand…

Consumer Spend Outlook, H2 vs H1 2022 (% of current spenders)[1]



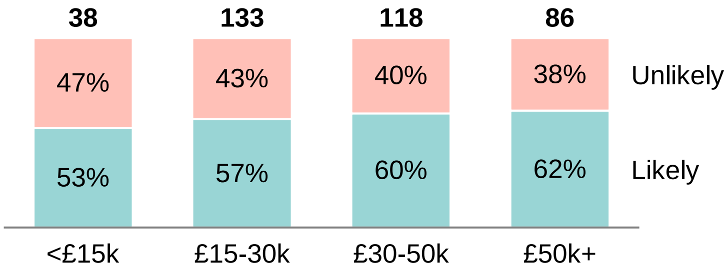
1. n=1394, Q10 *How do you expect your spend on these products to change for the next 6 months?*
2. Weighted by magnitude of spend change, averaged across all spenders, consumer with same spend not shown

Source: OC&C Consumer Survey, OC&C analysis

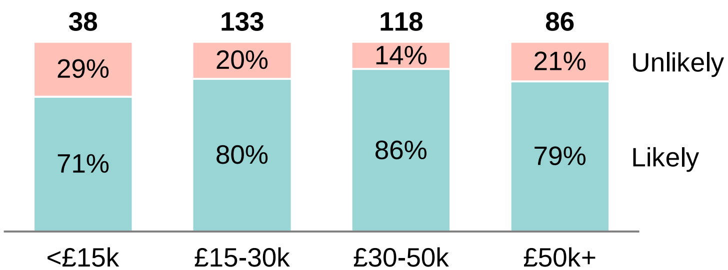
…with sentiment more positive among higher-income segments

Travel Industry Resilience in 2022

Q: In the next 3 months, how likely are you to book (for a future date) a long vacation (by household income)?



Q: In the next 3 months, how likely are you to book (for a future date) a short leisure break (by household income)?



Higher-income households are more likely to book a vacation in the near term, although the differences across income brackets are small

Major brand leaders have positive commentary on latest recovery, reaching close to / above 2019 levels and riding on the tailwinds of pent-up demand

*"RevPAR declines versus 2019 improved approximately 17% from January to March, **down only 9% to 2019**, driven by acceleration across all segments"*

President and CEO, Hilton, May 2022

*"[After CDC dropped its warning about cruise travel], the one-week period of March 28-April 3 was the **busiest booking week in the company's history**"*

Carnival Cruise Line, April 2022

*"Premium products led the way [in revenue recovery] with domestic premium revenue **approximately 100% restored to March of 2019 levels**"*

President, Delta Air Lines, April 2022

*"**People are ready to get back out there this summer**, even if it means paying higher prices and potentially cutting into their savings or taking on debt"*

Senior Industry Analyst, Bankrate, April 2022

Source: OC&C Sentiment Tracker, OC&C analysis

Furthermore, higher-income consumer segments are more insulated from the impact of inflation, especially given any residual accumulated savings

Spend Increase by Quintile
(2022, Weekly)

	Household Income Quintiles 1st	2nd	3rd	4th	5th	Sources & Methodology
Disposable Income	£274	£493	£664	£897	£1,711	• Based on 2021 disposable income by decile (ONS) adjusted for 2022 based on avg income increase by 5.3% projected by OBR following 2022 Spring Statement (incl. impact of tax changes) • **Income growth not diversified by quintile – given favourable tax changes for lower quintiles this might further mitigate the disposable income decline impact**
Income Uplift[2]	£14	£25	£33	£45	£86	
Weighted Inflation	8.3%	8.1%	7.7%	7.3%	6.8%	• Inflation weighted by consumer expenditure structure and corresponding inflation per constituent
Total Increase in Weekly Expenditure	£23	£33	£43	£53	£73	• Implied aggregate inflation of non-discretionary spend items (e.g. energy, rent) and discretionary (e.g. clothing, furniture) in cash terms per household
Net Impact of Increased Income vs. Expenditure	-£10	-£8	-£10	-£7	£13	• Difference between income uplift and spend uplift
Savings Accumulated from COVID	-	3	5	91	497	• Sum of avg c. £6.4k accumulated per household (£180bn overall based on ONS data) decomposed into income deciles based on Resolution Foundation 2021 report triangulated with ONS data on savings rate per decile. Assumed spread over 52 weeks
Implied Necessary Reduction of Discretionary Spend *(% of all discretionary spend 2021)*	-£10 (-11%)	-£5 (-4%)	-£5 (-3%)[1]	-	-	• Difference between income uplift coverage and savings accumulated from COVID-19
Quintile's share of UK domestic spend on accommodation (2020)	6.5%	11.6%	21.8%	24.5%	35.5%	• Total market value divided by decile based on Family Expenditure Survey data (2020 release)
Quintile's share of UK international spend on accommodation (2020)	4.2%	6.1%	13.2%	17.4%	59.1%	
Quintile's share of spend on package holidays(2020)	7.6%	11.0%	17.9%	24.4%	39.3%	

60-75% of travel spend comes from the higher-income households

1. Necessary reduction of discretionary spend projected in 5th decile but not 6th decile
2. Includes tax changes announced in 2022 Spring Statement

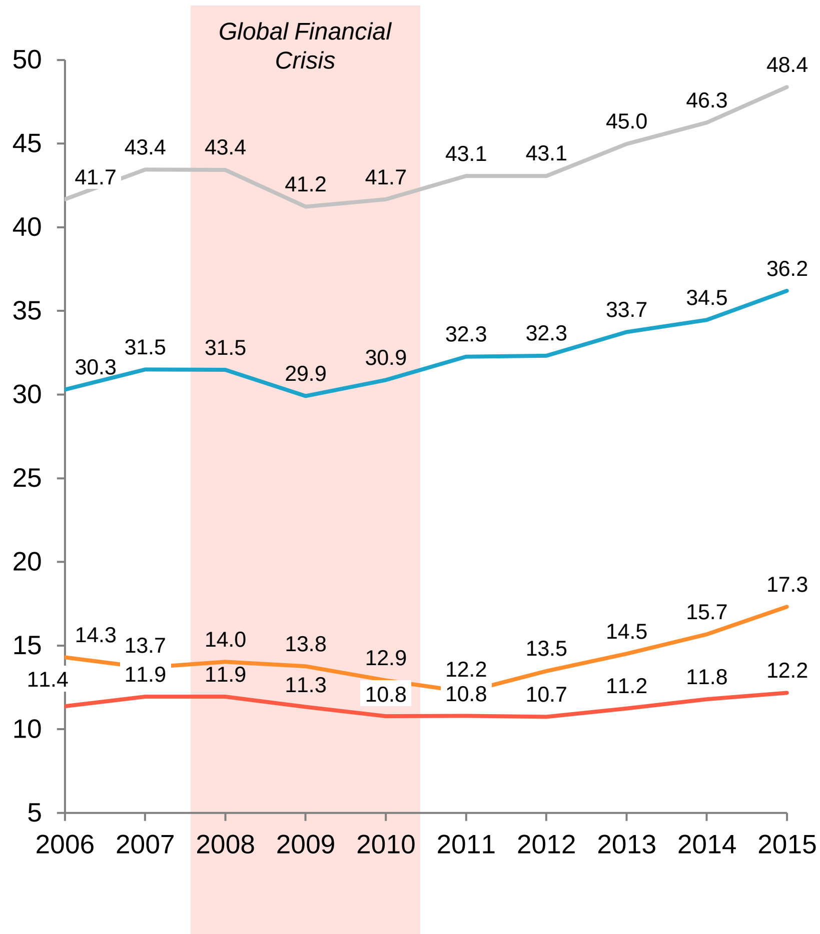
Source: ONS, FT, Fitch, Resolution Foundation, BoE, OC&C survey, OC&C analysis

In the event of a recession, mainstream consumers are likely to trade into cheaper holiday options which typically benefits domestic travel over longhaul

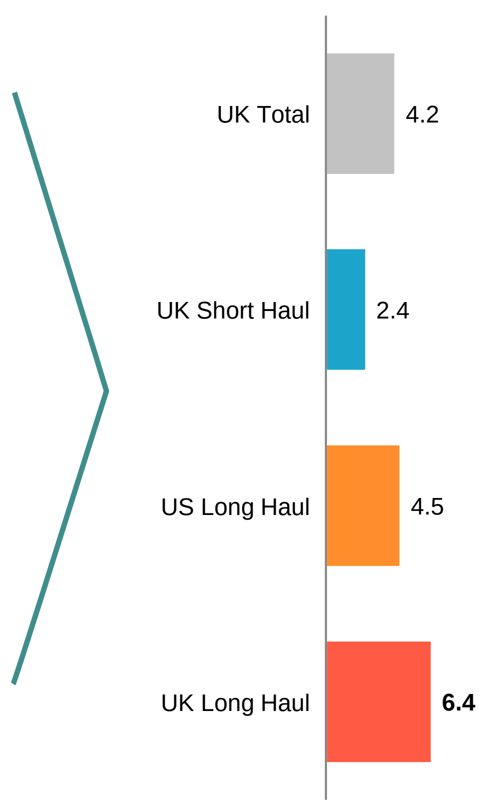
Impact of a recession on the travel market

- Consumers typically **protect travel spend** for their main holiday… but **trade into a cheaper option.** In particular, this favours **domestic travel** over international travel
- **Following previous recessions, short-haul travel has recovered faster** than longhaul given relative price points (after 2008/09, short haul from the UK took c.2.5 years to recover, whereas longhaul took 6 years)
- Longhaul travel from the US has historically recovered quicker than European longhaul given lower penetration of longhaul in the US (c.4 years vs. c.6 years in Europe)

UK/US Outbound Holiday Market by Destination Type, 2006-15 (Million Holiday PAX, US Excludes Canada/Mexico)

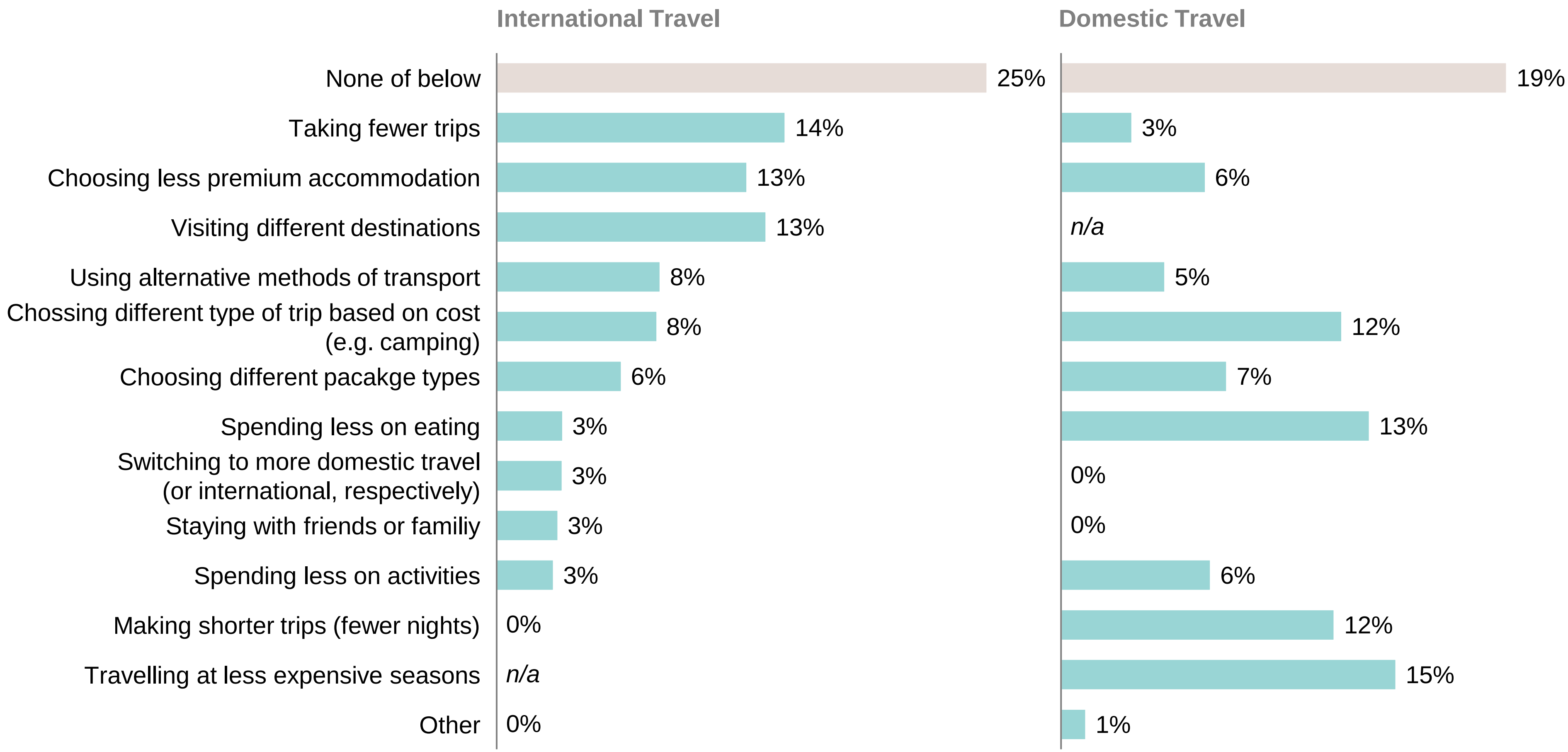


Years to Return to Pre-Crisis Volume (#)



Where consumers are aiming to reduce their travel spend they are making different trade-offs for international and domestic travel

Expected Behaviour Changes while Purchasing Travel[1] (% Ranked #1)



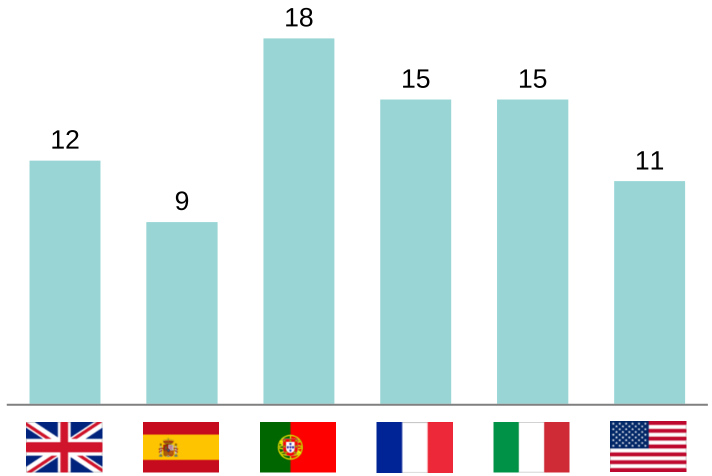
1.Q18/19 When planning any domestic/international travel this year, how do you expect your behaviour to change vs 2021?

Source: OC&C analysis

Hospitality has been facing acute labour shortages; companies are having to respond with higher wages and benefit packages or replace with technology

Labour Shortages in Hospitality

Labour Shortage as Share of Labour Demand
(H2 2021, %)




Flight cancellations continue due to staff shortages
6 April | Comments

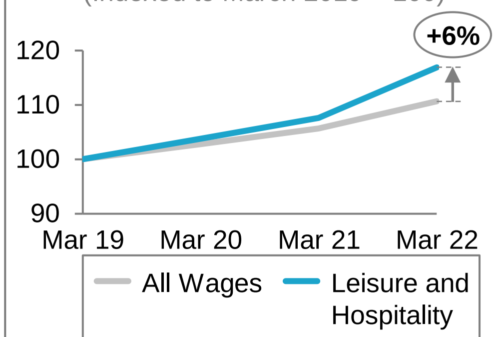
Labor shortages may wreak havoc on your summer vacation
Hotels, restaurants and airlines are all struggling to meet the pent-up demand

European hotels, eateries struggle to find workers
Hospitality industry hit hard by The Washington Post | July 26, 2021 at 4:39 a.m.

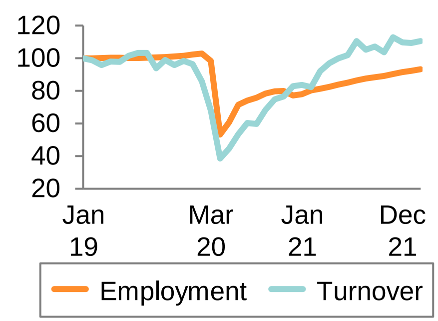
Numerous reports and statements from travel operators confirm that **labour shortage has hampered the recovery** of the leisure and hospitality sector

Companies are forced to respond with higher pay, better packages and tech-enabled efficiencies to combat turnover

Employer Cost Index in the US
(Indexed to March 2019 = 100)



Employment and Turnover in Hospitality in the US



- 78% of surveyed hoteliers[1] expect to increase hotel tech investment in the next 3 years

"Workers in those lower wage industries seem to be leaving jobs for greener pastures"

Research Director at Indeed

"We've been advertising since March [2021] for some positions, and they still remain empty"

General Manager, Hotel

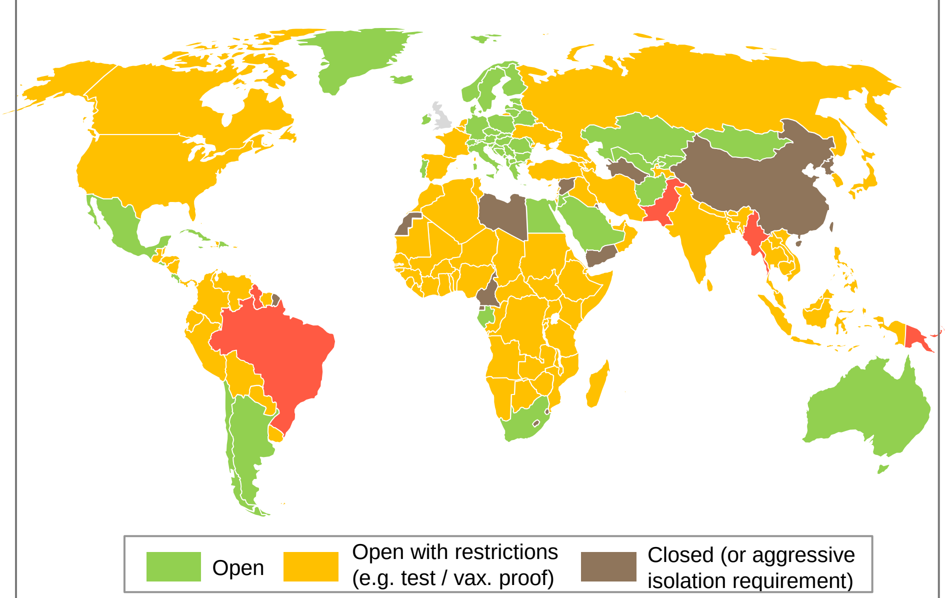
1. Duetto surveyed 210 hoteliers worldwide from January 14 – February 11, 2022

Source: WTTC / Oxford Economics, Bureau of Labor Statistics, FRED, Business Insider, Hospitality Insights, Duetto, OC&C analysis

Where travel has opened up, recovery has bounced back quickly, while markets with more severe restrictions are still facing extreme travel lows

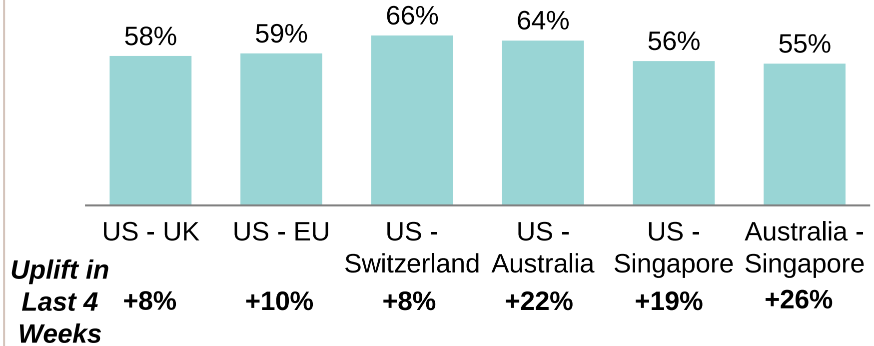
International Travel Requirements for UK Citizens
(As of July 13th 2022)

Many countries have lifted strict entry restrictions



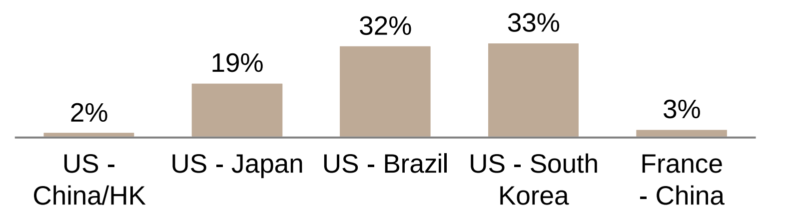
Key routes are reopening, with recovery already at 60%+, despite some continued testing requirements…

Routes with Low Level of Restrictions[1]
(Air TTV Recovery in April, 2022 vs. 2019)



…while those with more severe restrictions of closures still remain at extreme lows

Routes with High Level of Restrictions[2]
(Air TTV Recovery in April, 2022 vs. 2019)



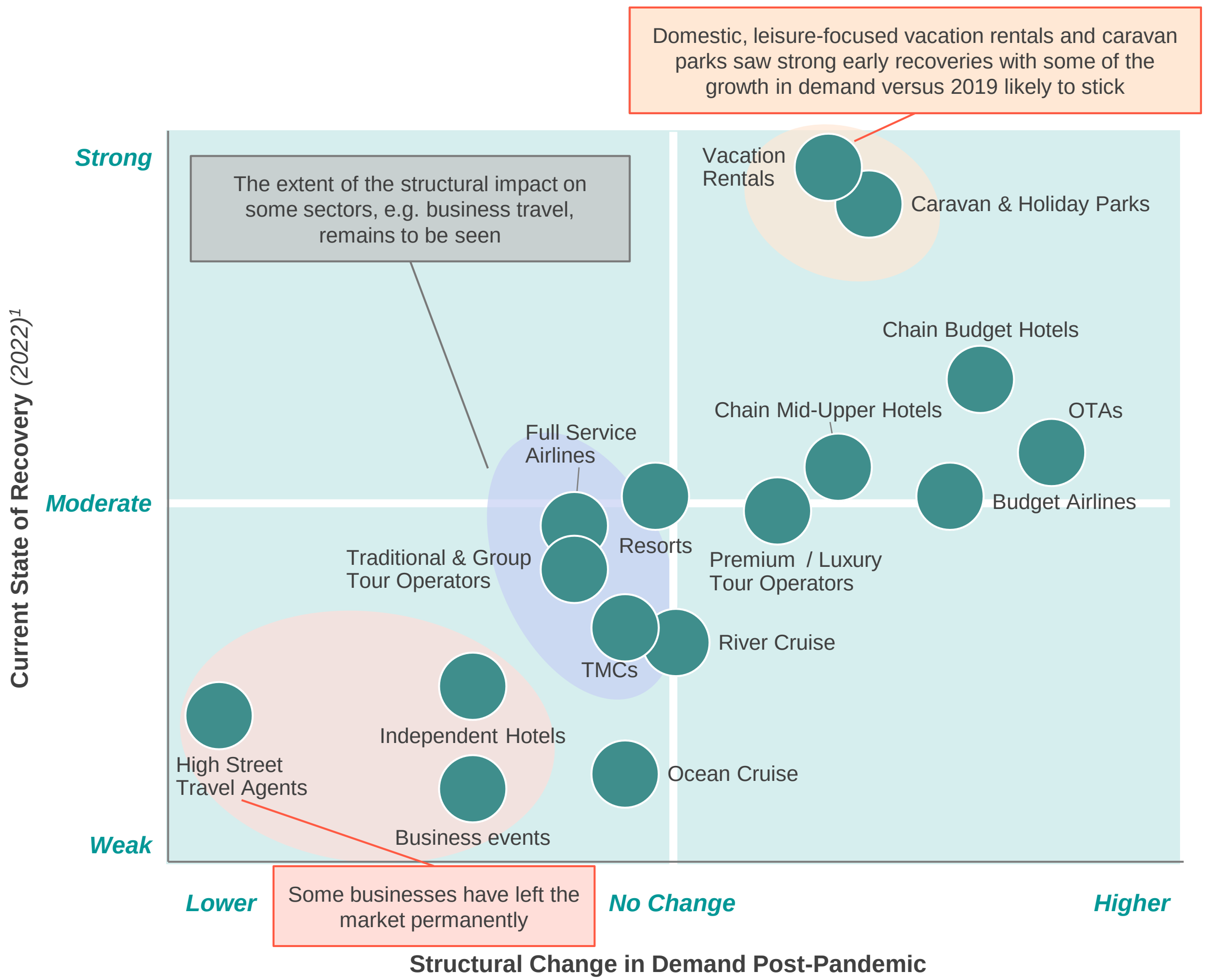
1. Light testing requirements for international travelers
2. Heavy testing requirements, capped entry or closed borders to non-citizens

Source: Kayak, OC&C analysis

Recovery will differ by sub-sector; winners will need to effectively navigate both short-term recovery and longer-term structural changes to demand

Recovery Path by Sub-Sector: Travel, Leisure and Hospitality

Illustrative



Dynamics of Recovery

Short-term drivers

- Travel restrictions during the pandemic worked in favour of domestic and local travel in many markets; this has benefitted vacation rentals and holiday parks
- With labour in short supply, relatively less personnel-intensive companies are faring better

Structural drivers

- The pandemic has caused businesses in some segments to leave the market (e.g. independent hotels and physical travel retail) – this has left an opportunity for others (e.g. chain hotels and online travel agents) to fill the gap
- The slower return of international business travel, which disproportionately impacts full service airlines, has given budget airlines an opportunity to take share
- Remote and hybrid working looks set to stay with opportunities for leisure breaks and challenges to some segments of business travel where in-person interactions are less critical

1. Recovery assessed based on Euromonitor data where available; other categories assessed on OC&C market research and experience

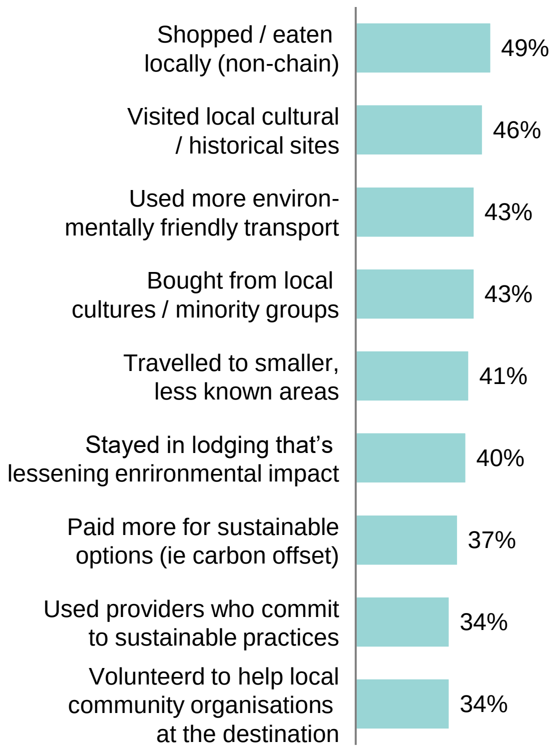
Source: Euromonitor, OC&C analysis

Customer appetite for more sustainable travel, but travellers struggle to navigate…new models and practices are helping increase transparency

Impact of Sustainability on Travel Businesses

Lockdowns accelerated consumer appetite to make meaningful decisions, in travel and beyond

ESG Actions by Travelers in past 2 Years[1]



However, lack of transparency and consistency means consumers struggle to act on intentions

65%

Want to see more sustainability info *from lodging / transportation providers*

70%

Consumers ***feel overwhelmed*** *starting the process of being a more sustainable traveller*

42%

Consumers are categorized as ***'wannabe ethical travellers'*** *– wanting to minimise impact but not yet willing to change behaviours*

Navigating a response can be tricky, but certain travel businesses are responding with new ambitions, standards and models

- Shift from carbon neutrality to carbon positivity
  - ***Pura Aventura*** *measures the carbon footprint of each client and, regardless of the bits it arranges, offsets 160% of it*
- Improve transparency for travellers
  - *Global Sustainable Tourism Council has established* ***sustainable tourism criteria*** *for destinations and holiday operators*
- Slow travel is being adopted by a set of ESG-passionate customers
  - ***LUMO*** *offers a wholly electric service between London and Edinburgh*
- Travellers want to connect with local experiences, stop offering 'cookie cutter'
  - ***ToursByLocals*** *offers tours in 194 countries, led by expert local guides to experience authenticity through a local's eyes*
- Increasing response to wider ESG-related trends, e.g. plant-based
  - ***Byway's*** *tripbuilder helps carbon-conscious consumers enjoy plant-based trips*

1. In the past two years, which of the following, if any, have you done while traveling, for either leisure or business?

Source: Expedia Travel Survey 2022, Mintel, OC&C analysis

Implications for Companies and Investors

For management teams, there are a number of areas to consider as they navigate these new headwinds and continued recovery

Management Recommendations

Create a more attractive labour proposition

- Leisure and hospitality struggles in a tight labour market due to a **weak proposition** (wages and benefits)
- Players who invest in the labour proposition will overcome capacity constraints sooner – **flexibility, benefits and choice are key**
- Further, demonstrating long-term career potential and how employee development is being supported can drive retention

Prioritize tech to drive labour efficiency

- Investments in **technology used both on the back- and front-end** are critical with regards to the labour shortage, the bottom line and consumer demands
- Examples include automated check-in / -out for airlines and hotels, back-end systems for travel agencies and tour operators, and PMS for independent hotels

Rebuild capacity (flexibly) to meet demand

- **Rebuilding capacity ahead of demand** required to capture the market recovery; travel operators who have under-forecast initial recovery are now struggling to meet demand
- Where COVID-19 restrictions have been removed there is **good evidence for a rapid rebuilding of demand.** Operators who get this right have an opportunity to capture market share

Customer retention

- The economics of many travel businesses thrive on repeat bookings
- As travel restrictions unwind, ensuring that existing cohorts of customers continue to **rebook will be critical to rebuilding customer economics**
- Delivering strong levels of service will be important here. There is likely to be a migration to more trusted brands

Revisit pricing and supplier base to bolster profitability

- Some segments, e.g. car rentals, are seeing higher prices than pre-pandemic, with a **prospect of maintaining superior economics**
- This requires navigating supply/demand levels and high inflation
- Winners will develop and maintain **pricing and supply strategies that support margins** and don't drop prices too quickly if demand softens

Source: OC&C analysis

For investors in the travel space, there are a range of opportunities this presents over the next 12-24 months

Travel & Accommodation Investment Themes

Not Exhaustive

Invest in Value Brands
e.g. hotels, airlines, domestic

Invest in Premium and Experiential Operators with Long-Term Tailwinds
e.g. premium TAs

Support Scalable Tech-Led Operators
e.g. OTAs

Carve-Out Non-Core Brands from Multi-Brand Operators
e.g. cruise, hotels

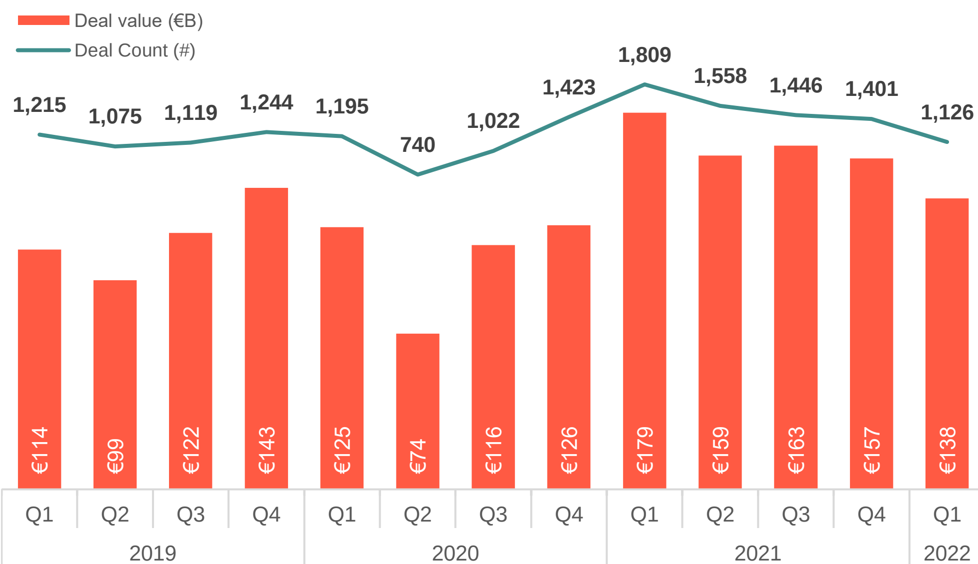
Drive Efficiency Through Consolidation
e.g. OTAs, TMCs, GDS, Hotel Franchisees

Source: OC&C analysis

As the macro-economic backdrop deteriorates, investors are looking to back the platforms which have already demonstrated their recovery from COVID

Record M&A activity in 2021…

European Private Equity deal activity by quarter [1]



Total global M&A deal value reached all-time highs of $5.9tn globally in 2021[2] driven by:

- **Record volume of companies exploring a potential sale** as sellers were taking advantage of the strong sellers' market
- **Strategic buyers** looking to expand capabilities and 'land grab' to stay competitive / take share
- **Deal financing** – low cost of capital
- **Prevalence of Private Equity funds** – a vast wall of dry powder

…dampened from record highs in 2022 given macro headwinds

1 Deal activity is expected to slow from record levels but not stop

- Despite higher financing costs and lower public company valuations creating a more challenged dealmaking environment, sponsors are sitting on more than €1.7 trillion in dry powder and are highly incentivised to deploy it
- The fundamental drivers of M&A activity continue to exist
- Recession / COVID-19-resistant businesses are attracting the strongest interest

2 Focus on A / A+ assets

- Private Equity groups continue to focus on A+ assets and are keen to deploy capital – the valuations of these market leaders are expected to be less impacted in the short term, but the bar is getting higher and higher
- Valuations of other assets likely to be impacted due to the market environment

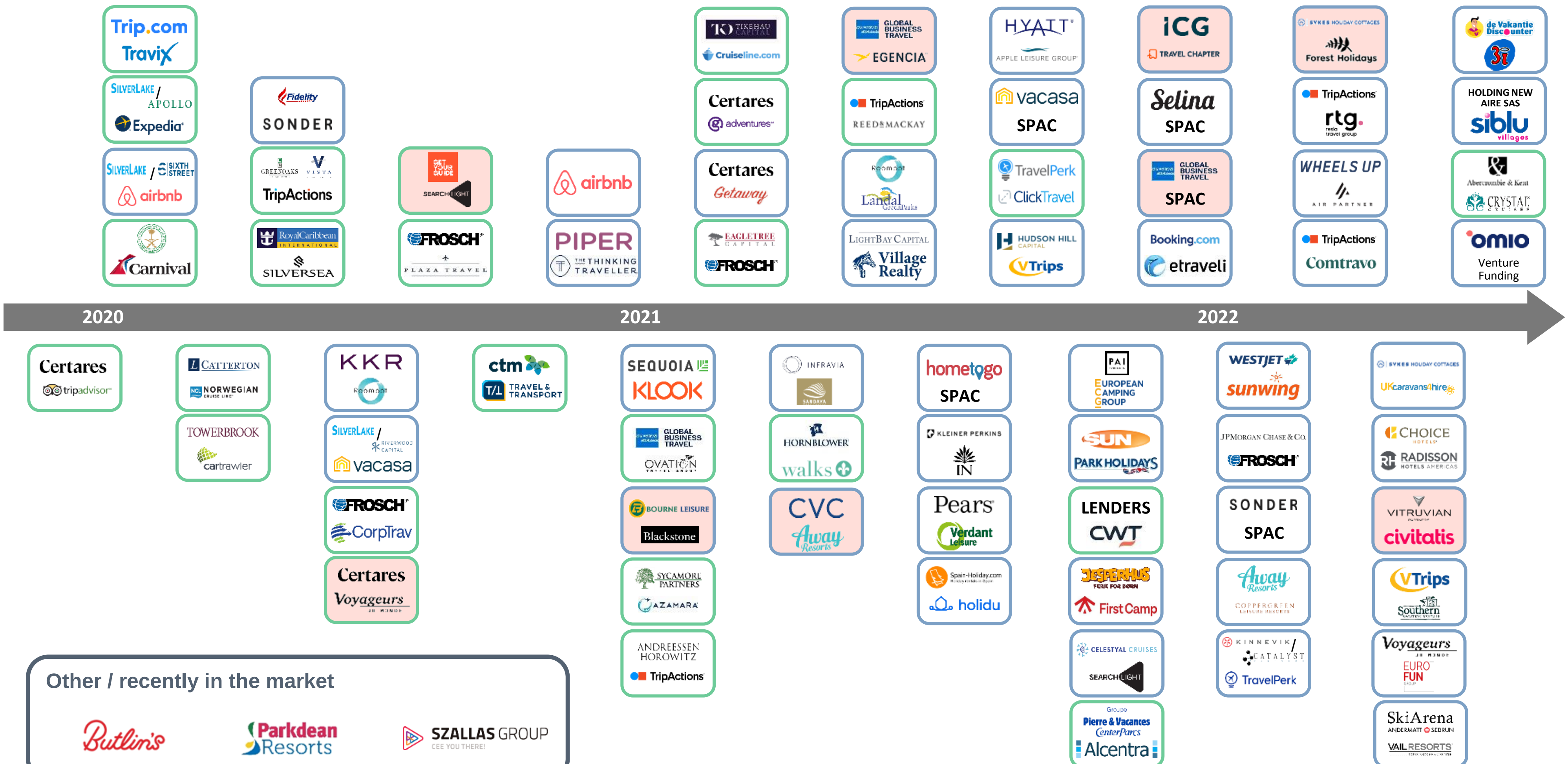
3 ESG is increasingly ingrained in how all investors are assessing M&A

- Growing pressure from institutional investors and limited partners has made ESG increasingly critical to strategic and financial buyers' M&A and investment decisions
- It is critical for companies to start early in defining their ESG approach, goals, baseline metrics and go-forward strategy

Sources: (1) PitchBook, European PE Breakdown, Q1-22, Europe, as of 31-Mar-22 (2) Bain & Company

M&A – selected recent travel sector M&A activity

M&A activity across the travel sector has been robust. The mix of M&A has transitioned more to ‘good quality’ M&A in the past 6-12 months



Other / recently in the market

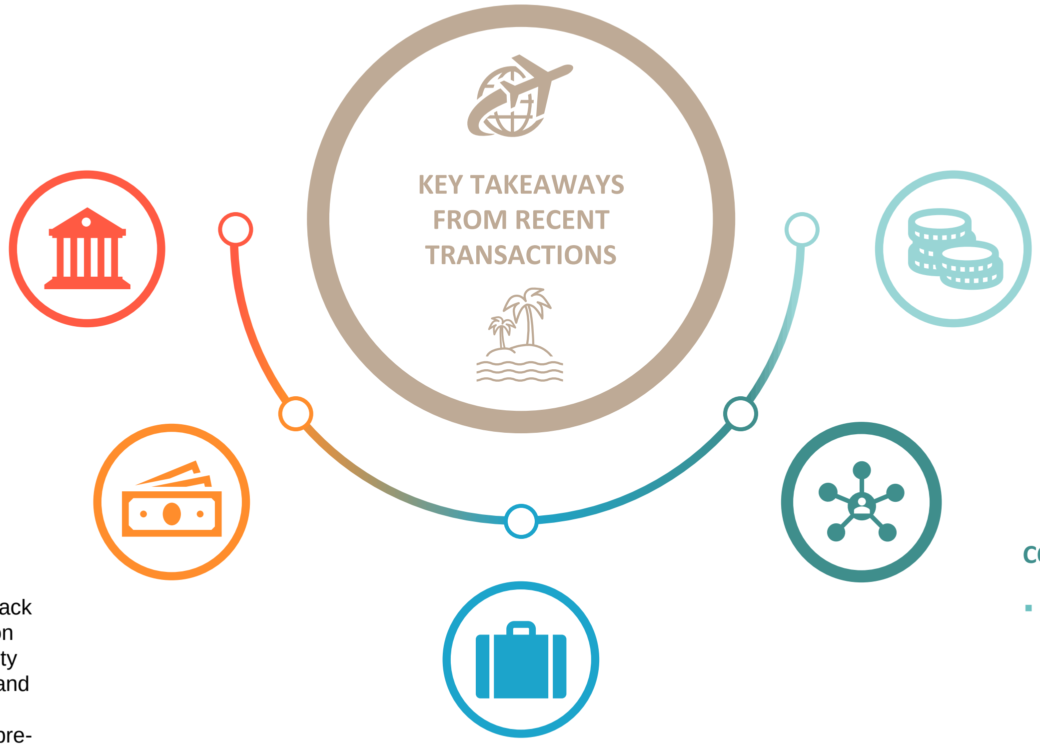
Butlin's · Parkdean Resorts · SZALLAS GROUP

Deals involving HW or OC&C

Some form of distress

Source: S&P Capital IQ, MergerMarket and Pitchbook

Transactions have occurred across the breadth of the travel landscape; investor appetite continues to build



INVESTOR APPETITE

- Sector interest remains solid despite COVID-19, albeit some investors are still on the sidelines for now
- COVID-19-affected businesses require evidence of re-based volumes and margins, plus the growth levers from this new base to attract strong investor interest at good valuations

VALUATIONS

- Segments which have bounced back quickly from COVID-19 interruption have seen very strong M&A activity and valuations (domestic leisure and vacation rental in particular), with EBITDA multiples in line / above pre-pandemic levels
- COVID-19-affected businesses generally valued off 2019 EBITDA multiples

LONG-TERM SECTOR OUTLOOK

- General appreciation that the long-term outlook for experiences and travel remains solid
- Impact on inflation pressures TBC, but a sense that premium / value should fare better than mid-market

NEW (LOWER) COST STRUCTURE

- The pandemic has been a catalyst for operators to re-assess their cost base
- Buyers will need to delineate between COVID-19 effects and a restructured cost base in their assessment of EBITDA and margin recovery
- The better-funded businesses took advantage of the downturn to invest in infrastructure / tech

CONTINUED CONSOLIDATION

- Consolidation is still the name of the game – the vast majority of recent transactions have involved a strategic buyer

For deal activity to return to 2019 levels at attractive valuations / volumes, private equity investors will need to see margin recovery along with evidence of sustainable growth from a new base. Strategic buyers may be more bullish

Evidence that recovery is complete…

1 EVIDENCE INITIAL RECOVERY AND ESTABLISH NEW BASE

- **Margins stabilise (to prior level or new normal)**
- **EBITDA has troughed and is now stable or growing again**

- Important not only to evidence that recovery is 'complete' but also to establish a new base from which to grow
- Hard to be precise, but likely to need 6+ months' evidence of this 'new norm'

…and evidence of a sustainable growth story

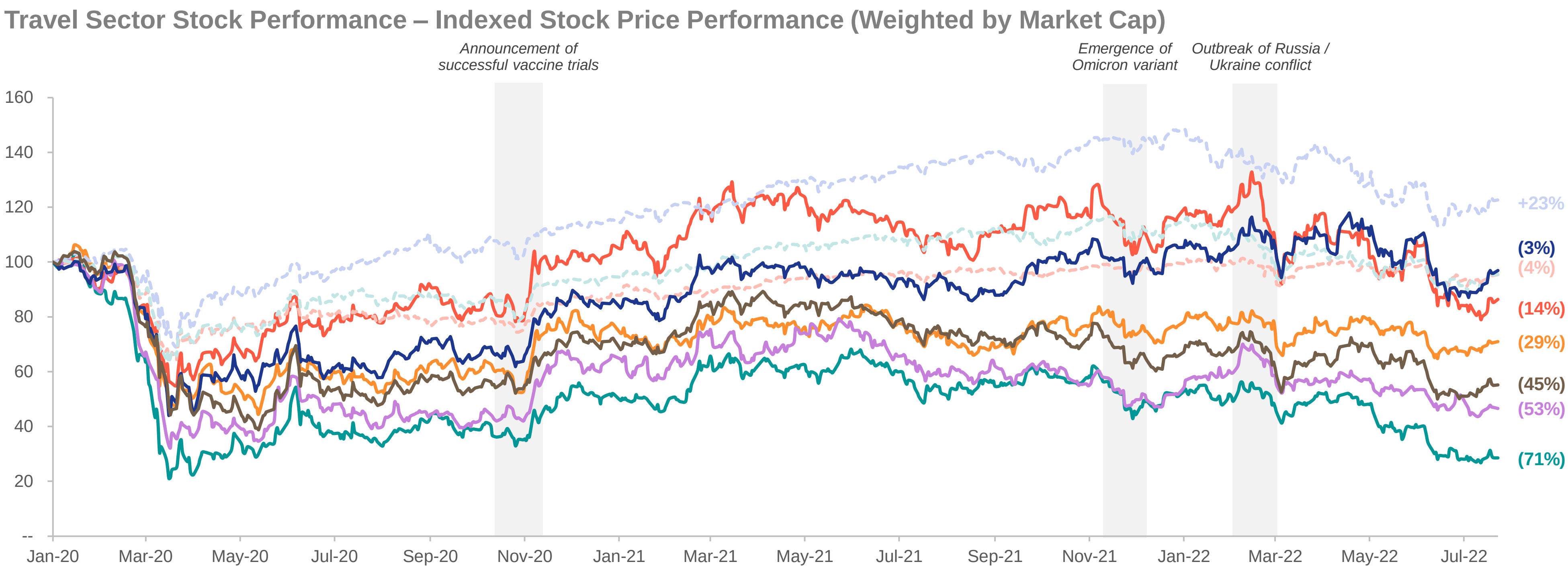
2 Evidence of a sustainable growth story

- **EBITDA showing sustained growth**
- **Stable or expanding margins (including evidence around CPA and new ABVs)**
- **Strong booking momentum (PAX) and converting to departures**

- Hard to be precise, but likely to need 9+ months' evidence of growth from the new base
- This to include good revenue visibility for the first 'normal' year post-COVID-19

We believe that investors will need to see **both** of the above to be able to meaningfully engage in M&A at attractive valuations

Most public market travel sector stocks still below pre-COVID-19 levels



Given strong rates and occupancy achieved, hotels are the only sub-segment close to pre-COVID-19 levels

All other sub-segments remain depressed, underperforming in the broader market

Airlines, cruise lines and tour operators have been hit particularly hard by COVID-19, as well as increasing input prices and labour shortages

Airlines: Air France, American Airlines, Delta, easyJet, IAG, Lufthansa, Ryanair, Southwest and United

Cruise Lines: Carnival, Norwegian Cruise Line, Royal Caribbean, Genting Berhad and Lindblad Expeditions

Hotels: Accor, Hyatt, IHG, Marriott, Meliá, NH Hotel and Wyndham

Online Travel Agents (B2C) ('OTAs'): Booking Holdings, Expedia, Trip.com, TripAdvisor, On the Beach, eDreams, lastminute.com and Hostelworld Group

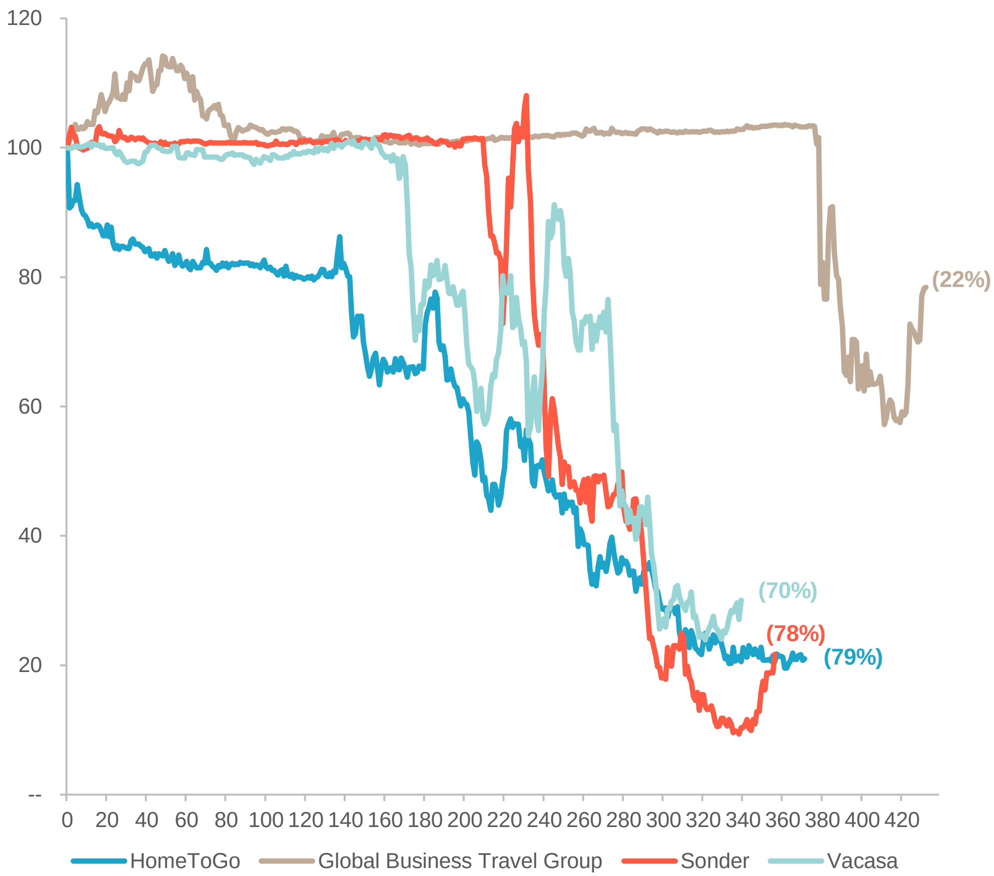
Tour Operators (B2C): Jet2, Fosun Tourism and TUI

Travel Management (B2B): Amadeus IT, CTM, Flight Centre Travel and Sabre

Source: S&P Capital IQ; market data as of 10 August 2022

Recent travel SPACs have significantly underperformed the sector and market

New Travel SPAC Stock Performance – Indexed Stock Price Performance (Days Since Listing)



Lacklustre performance driven by a number of factors

1. ***Negative EBITDA, with questions around the 'path to profitability':*** All four businesses were generating negative EBITDA at the time of each SPAC deal. Only Amex Global Business Travel is expected to generate positive EBITDA in 2022. HomeToGo and Vacasa are due to break even by the end of 2023, while Sonder is only forecast to turn EBITDA positive during 2024

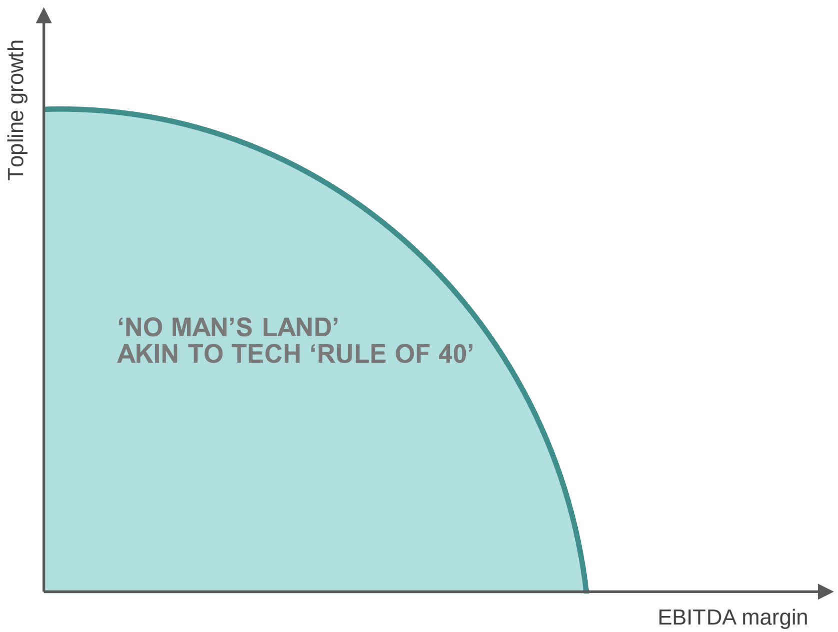
2. ***Downgrading of H2-22 / 2023 forecasts:*** Brokers have consistently downgraded H2-22 trading expectations following mixed performance in Q1/Q2-22, which has had a knock-on impact in 2023 and beyond. This has also pushed out the 'breakeven' EBITDA points into 2023 and 2024

3. ***Amex Global Business Travel remains a significant recovery play:*** c.$500m EBITDA in 2019 (pre-COVID-19). Latest Company guidance of $75-85m EBITDA in 2022 (c.5% margin), jumping to $527m in 2023 (22% margin)

Source: S&P Capital IQ as of 10 August 2022, MergerMarket and Pitchbook;

While the domain of the very high growth / no profit transaction still exists, all investors are becoming more focused on EBITDA. The pandemic has only reinforced this

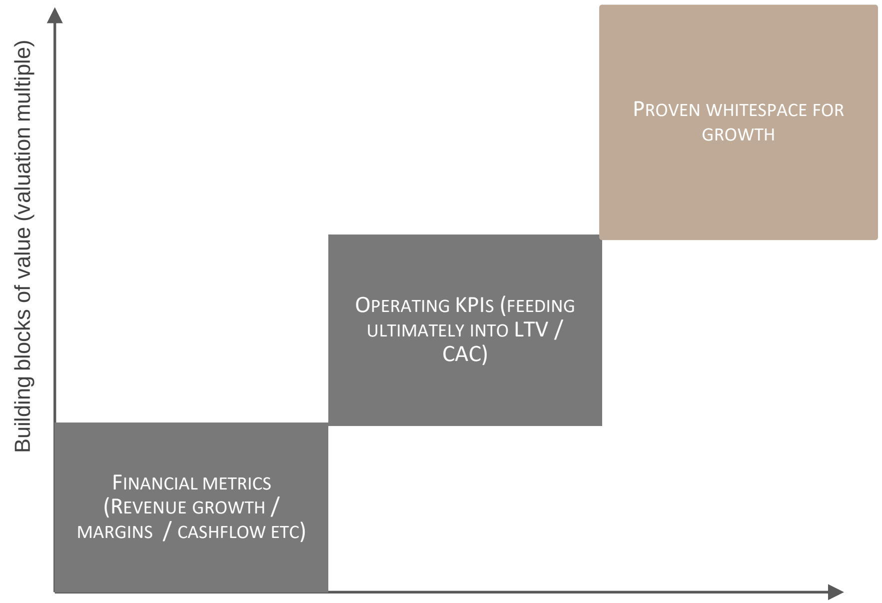
AVOID "NO MAN'S LAND" AS BEST AS YOU CAN



Three broad camps that attract high valuations:

- Very high growth (35%+); loss making = Revenue multiples
- Solid growth (10-20%+) + solid margins (10-20%) = EBITDA multiples
- Lower growth (<10%) + exceptional margins (25%+) = EBITDA multiples

EVIDENCEABLE 'TAM' IS THE LARGEST FACTOR DRIVING VALUATION



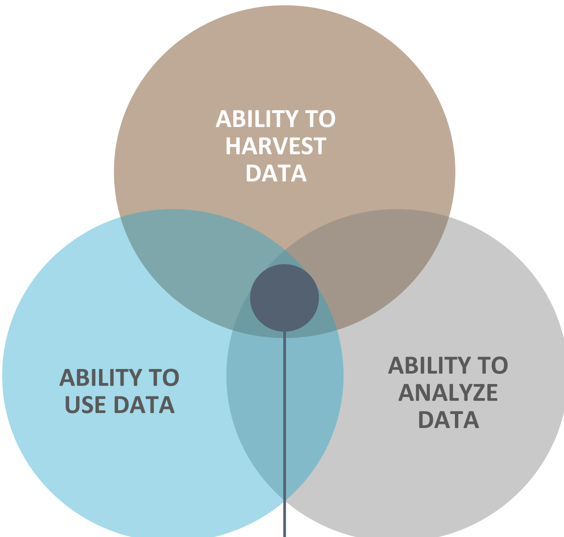
- We see valuation driven by three principal buckets, each of increasing importance
- Ultimately, it is proven whitespace for growth which impacts the most. But, the other building blocks have to be in place first to form a 'sustainable and solid platform'

We are challenging our clients to think hard about how their equity stories (and KPIs) may need to evolve as we emerge from the pandemic

1	UNDERSTAND IF (AND HOW) THEIR DEMOGRAPHIC IS CHANGING	• How do new demographic trends (over the long term) compare to the existing demographic? • What does this new demographic do to the long-term organic growth potential? • How might the value proposition need to evolve to retain these new customers? • Many businesses have seen the booking curve get later and later (i.e. lesser visibility on future revenue)
2	MARKETING MIX / CAC	• Most operators were not marketing heavily during 2021 – there has been a strong increase in spend since • Where is the new market norm, by channel? And what evidence will be needed to underpin long-term forecasts? • What % of bookings were cancelled vs. rolled over due to COVID-19 – customers of the former will need to be 're-acquired' • For 'cohort models,' businesses have lost nearly two full new cohorts – what will this mean in the long run?
3	MARKET SHARE	• What gains have been achieved – how sustainable are they? • Marrying capacity with demand is going to be a fine balance
4	BRAND VALUE / RELATIVE BRAND VALUE	• Most operators track NPS; given the potential increased importance of brand, there will be emphasis on regular tracking (rather than sporadic) – including during the pandemic (if possible) • Brand value is inherently linked to level of booking deferral (vs. cancellation) • In a more inflationary environment, price potentially becomes more of a tool
5	COVID-RELATED	• Consider keeping a log of what you would do if a lockdown were to happen again – such as things to be done differently, etc. • Both in terms of mothballing, but also around how to restart as best possible • For future sale process, this will be an important focus in diligence • It will be interesting to see how quickly the current dislocation around air travel lasts, and the consequences for operators in different segments

Buyers are less focused on the technology itself (and indeed whether it’s bespoke or off-the-shelf); it's whether data can be successfully harvested, analyzed and used to drive future growth that is most important

TECH UNDERPINS THE COMMERCIAL AGENDA



The true advantage that tech enables

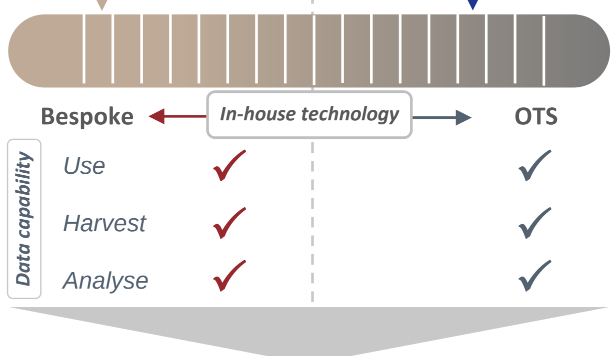
TECH CAPABILITIES CAN BE BESPOKE OR ‘OFF-THE-SHELF’

OPERATOR A

- Highly bespoke
- Developed in-house
- 100+ internal developers

OPERATOR B

- Predominantly off-the-shelf solutions
- Small support / development team

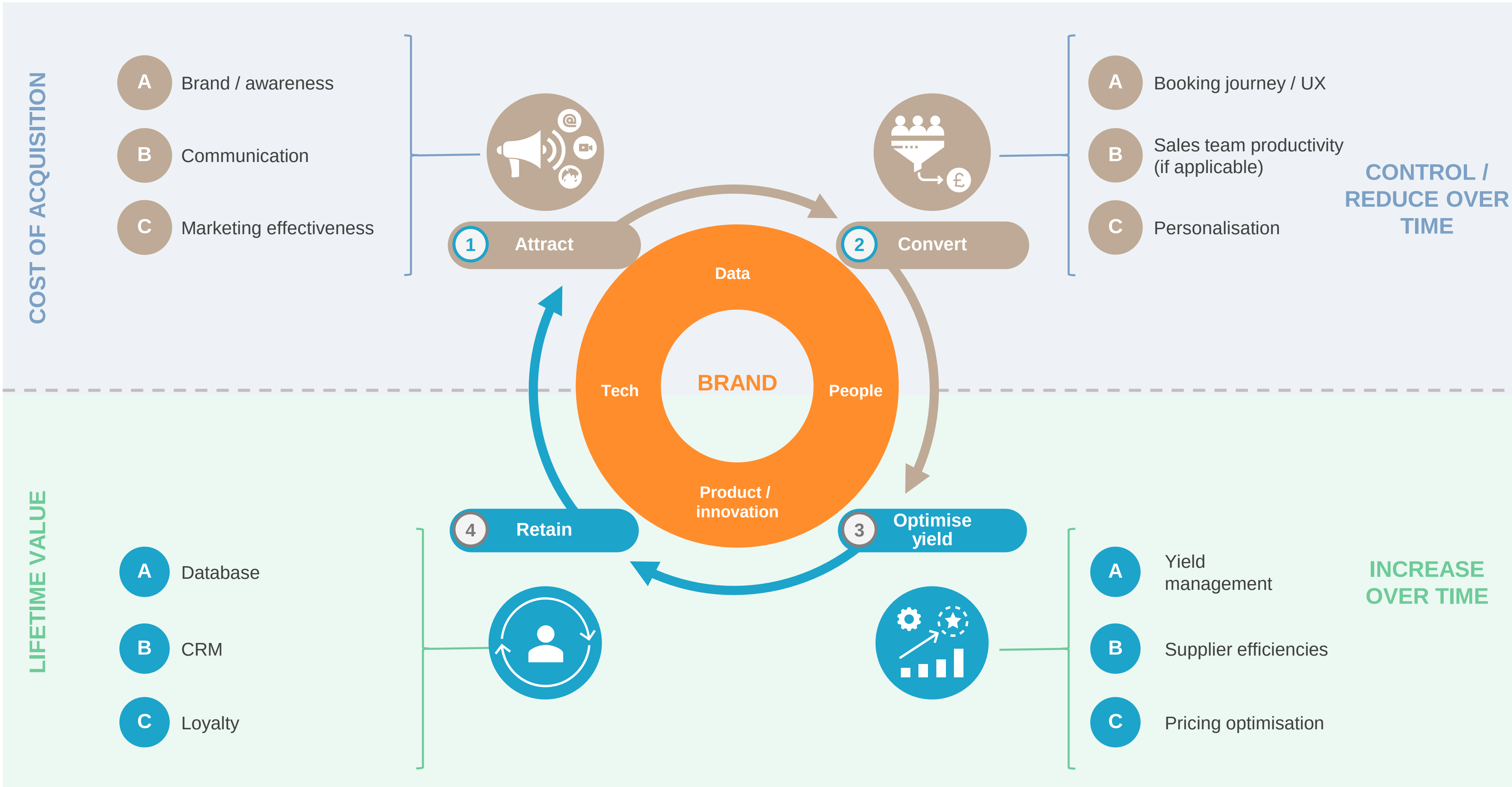


Technology enables both operators to drive growth, even though the tech stacks are built very differently

PLATFORM FOR GROWTH

- The most compelling equity stories are articulated in terms of LTV / CAC ratios
- In the case of tech, the easier one can convey the direction of travel in KPIs (building into LTV and CAC), the more effectively one can evidence the equity story and the better the business will diligence

Investors have become attuned to diligencing travel businesses through a CAC / LTV lens



The best stories are easily diligenced by extensive KPIs – we have set out selected KPIs below. It is well worth compiling all KPIs in a data warehouse well ahead of any exit sale process

DRIVE DEMAND AT EFFECTIVE COST OF ACQUISITION (CAC)

ATTRACT

1. Brand awareness (prompted and unpromoted, by source market)
2. Spend on marketing, by channel
3. NPS (vs. competitors, industry benchmark)
4. Other guest ratings, awards, etc.
5. Customer target demographic
6. Channel mix over time
7. Email database size and shape
8. # emails sent to database
9. # followers on social media / level of interaction / # of posts etc.
10. Average page ranking on Google (Visibility Index)
11. Effectiveness of third-party distribution channels

CONVERT

1. Conversion rates through the funnel, by channel
2. Website performance metrics (load speeds, bounce rates)
3. Traffic metrics by device
4. Repeat customer % of bookings
5. Pre-book customer experience statistics (UX)
6. Personalisation / CRM
7. Pricing sophistication (driving conversion)
8. Review site feedback (TrustPilot etc.)
9. SEO (# of keywords, sophistication)
10. Attribution sophistication
11. % of free / nearly free bookings (direct)
12. CAC / CPB

DRIVE LIFETIME VALUE (LTV)

OPTIMISE YIELD

1. Pricing sophistication (frequency of changes, revenue management)
2. GM %
3. PAX and # of bookings
4. Average Booking Value
5. Average trip duration (If applicable)
6. Forward revenue visibility (booking curve)
7. LTV/CAC

RETAIN

1. # of repeat bookings
2. Cohort analysis (both PAX and ABV)
3. Database size and shape
4. CRM effectiveness (personalization and impact on re-activation rates etc.)
5. Repeat booking analysis (conversion from first to second booking, and second to third etc.)
6. Average # of repeat bookings per repeater (and ABV understanding)
7. NPS (repeat vs. new customers)
8. Intention of repeat dynamics (survey data)
9. # of complaints
10. LTV (3-year, GM)

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