

Industry overview

We operate in an industry with high growth potential, underpinned by strong long-term fundamentals that remained resilient during the pandemic.

The \$360 billion hotel industry has compelling structural growth drivers, underpinned by factors including consumers' inherent desire to travel, population growth, and an expanding middle class in emerging markets with increasing disposable incomes. While the pandemic suppressed demand during 2020 and 2021, demand has returned rapidly in domestic markets as government restrictions have lifted and vaccination rates increased. This demand has predominantly been in markets not exposed to cross-border trips and across essential business travel, though discretionary corporate travel and group events have begun to return.

Cost remains a significant barrier to building a scale position in the industry, whether that's due to the investment required to build and maintain hotels, establish a strong loyalty programme or to market brands in a competitive marketplace. As such, the industry remains fragmented, with 54% of rooms affiliated with a global or regional chain.

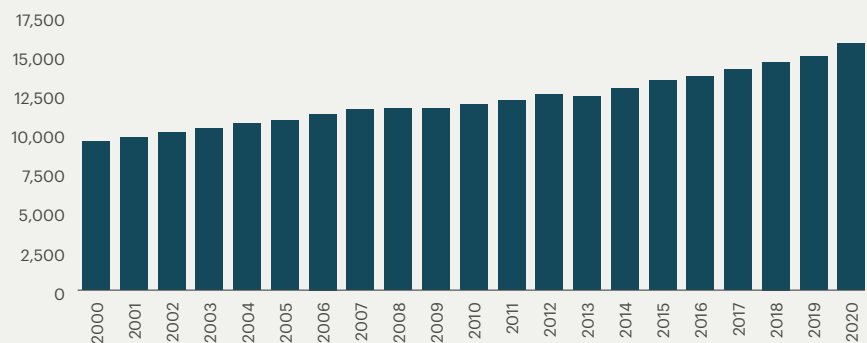
Branded hotel penetration has steadily increased as a long-term trend and is expected to continue to grow as consumers look to trusted brands to meet their evolving expectations, particularly when it comes to state-of-the-art technology and the skills, scale and resources to provide more sustainable stays. Owners affiliated with a brand tend to generate higher returns.

For the industry as a whole, it is not yet clear what impact there will be on demand from structural changes brought about by the pandemic, such as technology replacing elements of business travel. However, this may be offset by a greater use of hotels to facilitate a global shift to increasingly flexible working arrangements. In addition, there is scope for 'bleisure' demand, where flexible working creates potential for leisure demand to be combined with business stays.

It is likely that fluctuating Covid-19 restrictions will continue to create a volatile demand environment in the short term. However, we anticipate the attractive industry fundamentals to be fully restored in the longer term. For example, STR forecast that US industry RevPAR will return to 2019 levels by the end of 2023.

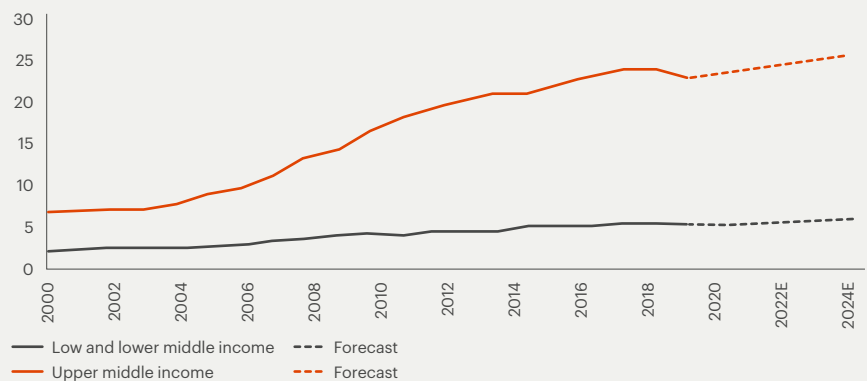
The hotel industry has attractive tailwinds...

Disposable personal income in the US from 2000 to 2020
(in billion US dollars)



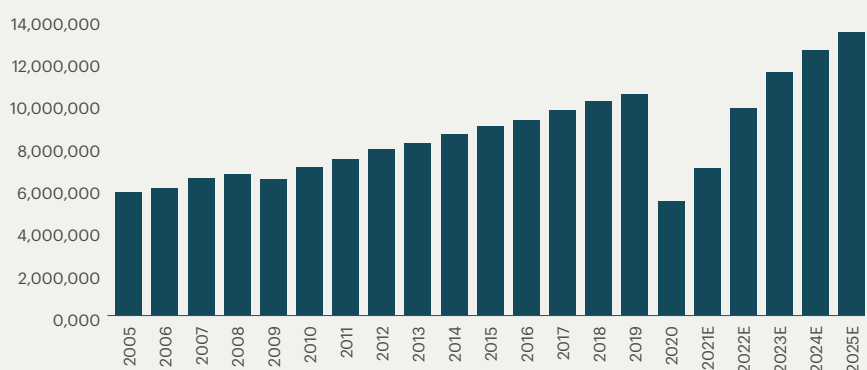
Source: Statista

A growing middle class in emerging markets with a desire to travel
Wealth share in emerging economies (%)



Source: Credit Suisse

Resilience in room night stays, with further growth expected
Global hotel room night stays



Source: Oxford Economics

with significant barriers
to entry...

The top five hotel groups^a have increased their market share

Share of top five branded hotel groups as % of global rooms supply

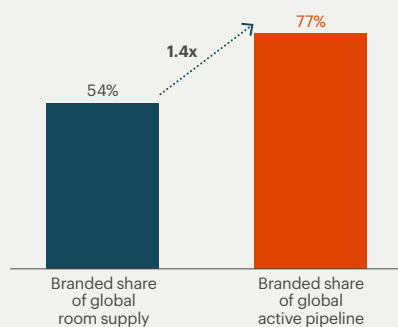


^a Includes IHG, Marriott International, Inc., Hilton Worldwide Holdings Inc., Wyndham Hotels & Resorts Inc., Accor S.A.

Source: STR

With share expected to further expand

Branded share of global industry supply and share of global industry active pipeline



Source: STR

Consumers value loyalty membership which requires a large scale enterprise to deliver

57%

Of consumers spend more on brands to which they are loyal

Source: Accenture

84%

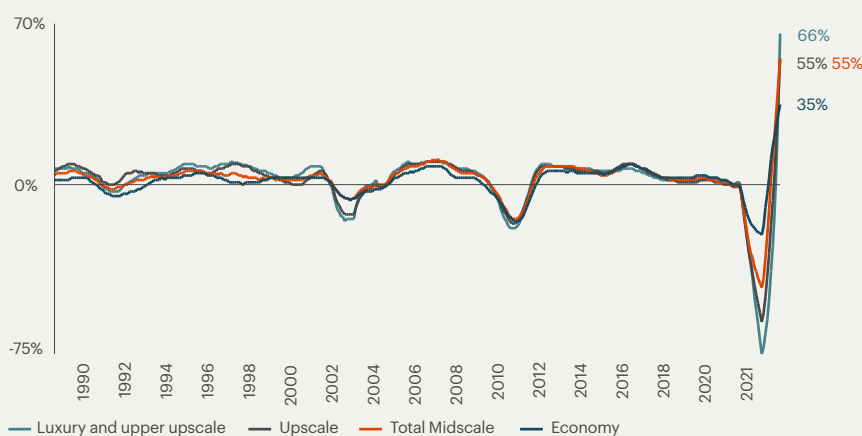
Of loyalty programme members have made a redemption from the programme

Source: Bond, in partnership with Visa

and a track record of growth

Industry RevPAR has seen a long-term track record of growth; the most recent recovery has been driven by domestic leisure demand

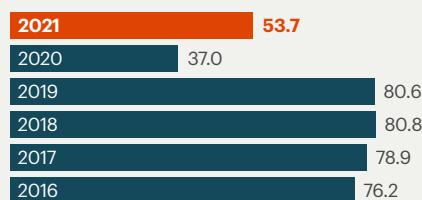
US Industry RevPAR growth, monthly year-on-year



Source: STR

Global industry RevPAR (\$)

RevPAR movements are illustrative of lodging demand



Source: STR

Global rooms supply (m rooms)

Supply growth reflects the attractiveness of the hotel industry



Source: STR

Branded hotel business models

There are two principal business models:

- A fee-based, asset-light model:
 - Franchised: owned and operated by parties distinct from the brand, who pay fees to the hotel company for use of its brand.
 - Managed: operated by a party distinct from the hotel owner. The owner pays management fees and, if the hotel uses a third-party brand name, fees to that third-party, too.
- An owner-operated, asset-heavy model:
 - Owned: operated and branded by the owner who benefits from all the income.
 - Leased: similar to owned, except the owner-operator does not have outright ownership of the hotel but leases it from the ultimate owner.

Asset-heavy models generate returns on the real estate and centralise control over operations. Asset-light models typically enables faster growth and generate higher returns. This model tends to present lower risk to fluctuations in the economy.