The next day of Greek Tourism

Executive Summary

November 2018

pwc

The next day of Greek Tourism

Tourism is a big force in the economy

Greek Hospitality sector (2017)

27.2 mn tourist arrivals (non residents)*

***€ 14.6 bn** tourism receipts*

***8.0%** Direct contribution to GDP, with total contribution reaching 19.7% of GDP ***

***459,000** Travel & tourism direct employment (12.2% of country's employment)*

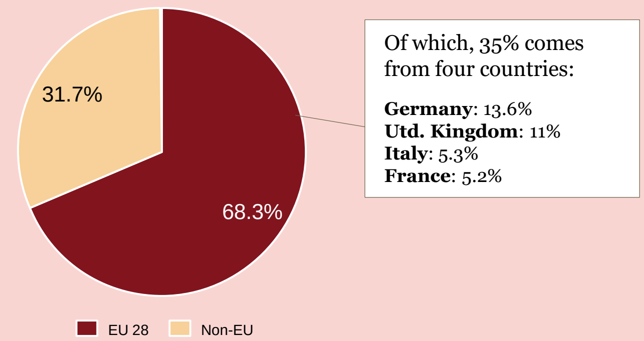
***24th** in the global tourism competitive rankings*

Source: BoG and SETE intelligence, World Economic Forum

**Excluding arrivals from cruises (2,9 mn in 2017)*
***World Travel & Tourism Council (2018)*

EU-28 countries are the main source of tourists for Greece, accounting for 68% of the total and showing a 40% increase between 2014 and 2017

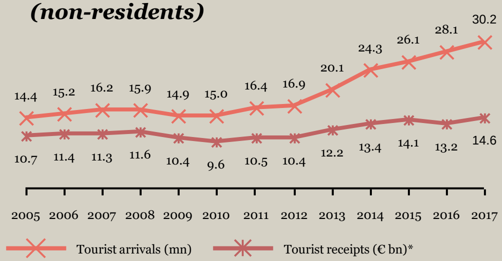
Foreign tourist arrivals



Source: Bank of Greece, (data 2017)

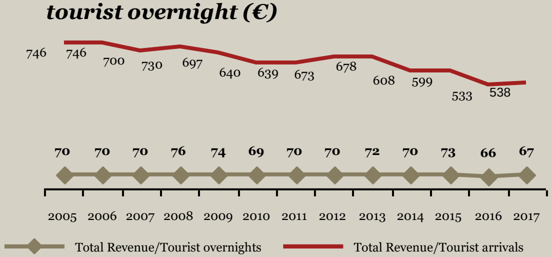
Despite the sharp gains in tourist arrivals, receipts are lagging behind mainly due to shorter stays…

Receipts from tourism and tourist arrivals (non-residents)



Source: Bank of Greece

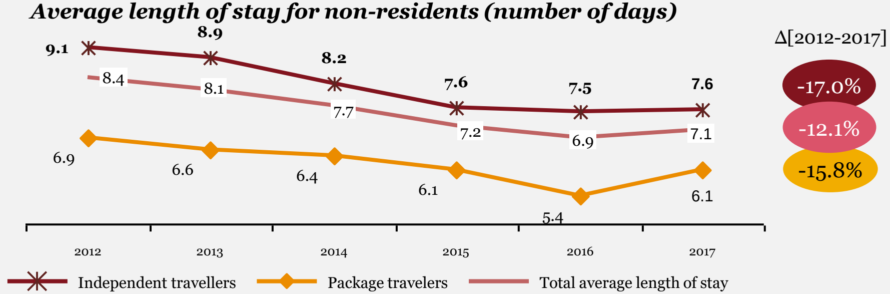
Receipts per tourist arrival & receipts per tourist overnight (€)



Source: Bank of Greece

…by packaged travelers and main tourist countries

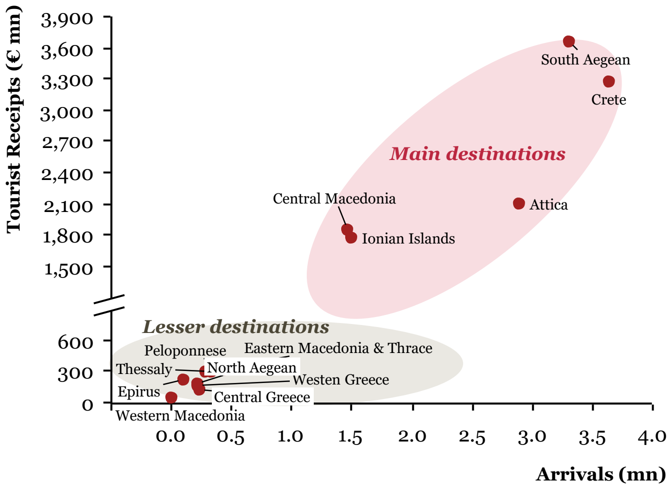
Average length of stay for non-residents (number of days)



Source: Bank of Greece

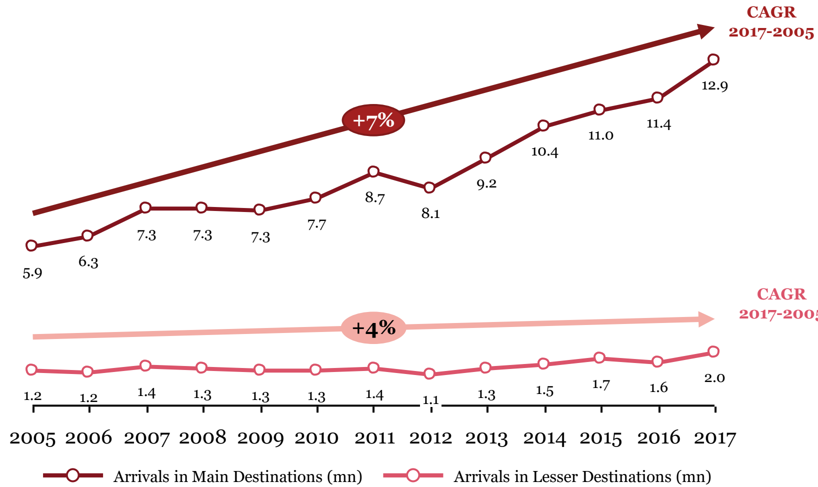
Tourist arrivals at main destinations have increased sharply, after 2012, compared to lesser destinations

Tourist receipts & arrivals of non-residents (2017)



Source: Bank of Greece

Tourist arrivals at main & lesser destinations (2005-2017)



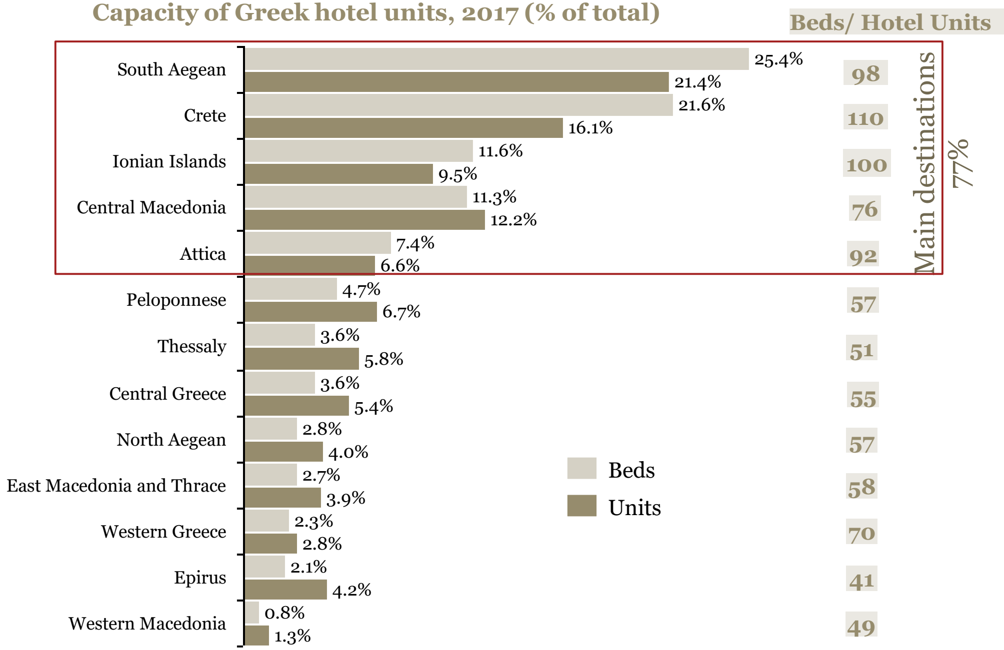
Source: ELSTAT

- Tourist spending was distinctively higher at main compared to lesser destinations in 2017
- Tourist arrivals at lesser destinations have increased since 2005, but arrivals at main destinations have shown roughly two times the growth rate of tourist arrivals in the same period

Main Destinations: Crete, South Aegean, Central Macedonia, Ionian Islands, Attika (more than 1.5mn overnights)
Lesser Destinations: North Aegean, Epirus, Thessaly, Western Macedonia, Eastern Macedonia and Thrace, Peloponnese, Western Greece (less than 1.5 mn overnights)

Almost 77% of the country's total bed capacity resides at the main destinations

Capacity of Greek hotel units, 2017 (% of total)



Source: Hellenic Chamber of Hotels, 2017
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Tourism accommodation (2017)

9,783 hotel units

414,127 rooms

806,045 beds

Average hotel unit

42 rooms

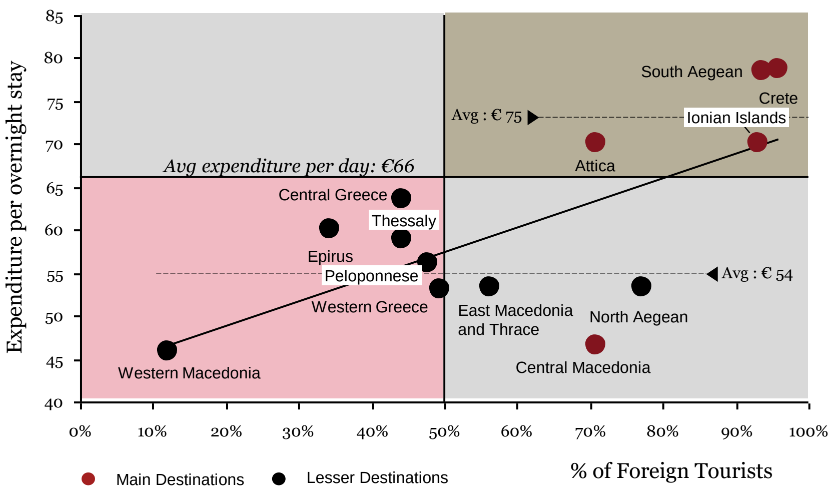
82 beds

No of Beds					
Stars	***1****	***2****	***3****	***4****	***5****
% of total	6%	25%	23%	26%	19%

The average hotel unit in Greece has 42 rooms and 82 beds, while in the Ionian Islands, South Aegean and Crete the average unit has 53 rooms and 103 beds

Tourism expenditure and occupancy are higher at main destinations

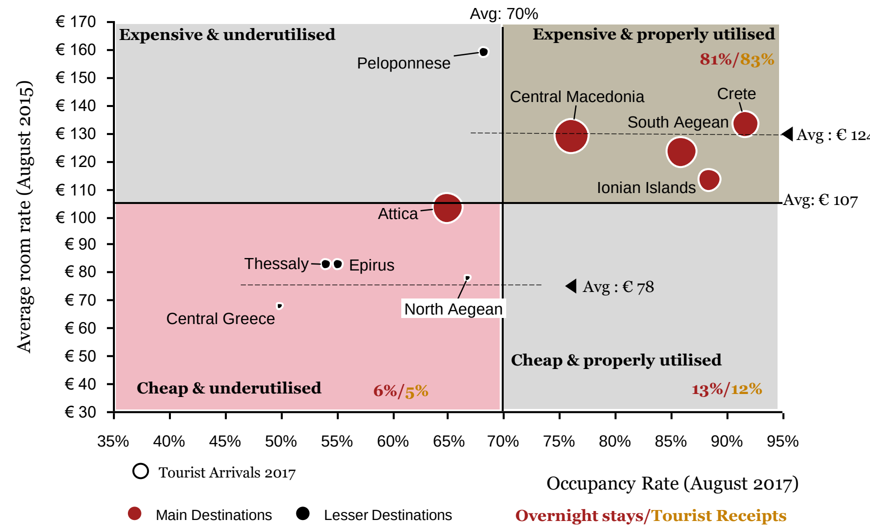
Destinations' characteristics



Source: Bank of Greece (Data 2017)

- Destinations, like South Aegean, Crete and Ionian islands, where foreign tourists prevail, are more expensive
- Destinations driven mainly by domestic demand lie below the average daily spent
- North Aegean, Central Macedonia and East Macedonia & Thrace attract lower budget foreign tourists

Occupancy rates during August are above 50%



Source: Bank of Greece, Hellenic Chamber of Hotels 2015, Eurostat

Tourists arriving at the main destinations appear to be paying on average a premium compared to lesser destinations, with the exception of Peloponnese

Main destination hotels report on average higher performance per bed compared to lesser destinations

Revenue/bed (€k)
Main Destination
Lesser Destination
Gap € 3.2k

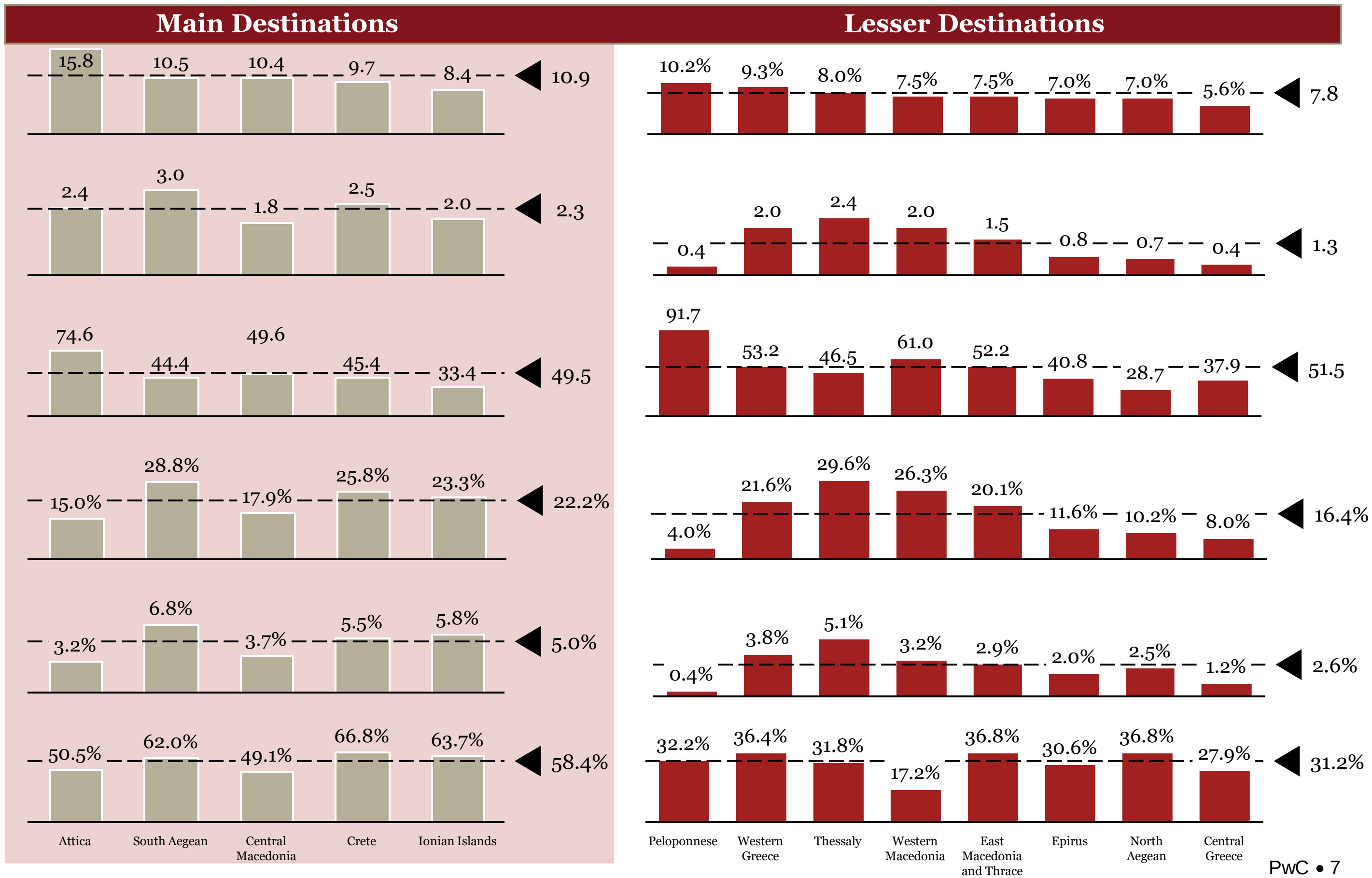
EBITDA/bed (€k)
Main Destination
Lesser Destination
Gap

Gross Fixed Assets/bed (€k)
Main Destination
Lesser Destination
Gap € 2.0k

EBITDA margin (%)
Main Destination
Lesser Destination
Gap 5.8pps

ROI (%)
Main Destination
Lesser Destination
Gap 2.4 pps

Occupancy 2017 (%)
Main Destination
Lesser Destination
Gap 27.2 pps



Destination appears to be the prime determinant of a hotel's financial performance, with size and rating following

ROI per region, star rating category and size of hotel

	Peripheries	2*		3*		4*		5*		Average
		Large	Small	Large	Small	Large	Small	Large	Small	
Main destinations	South Aegean	7%	15%	6%	67%	7%	30%	6%	20%	20%
	Crete	5%	11%	5%	13%	11%	11%	7%	11%	9%
	Ionian Islands		8%	9%	8%	4%	9%	5%	13%	8%
	Attica		6%	5%	19%	5%	9%	3%	3%	7%
	Central Macedonia	1%	3%	7%	9%	6%	2%	3%	7%	5%
Lesser destinations	Peloponnese			4%	35%	-3%	3%	-3%	30%	11%
	East Macedonia and Thrace		7%	-1%	18%	7%	5%		3%	7%
	Epirus		1%		1%		27%	2%	2%	7%
	Thessaly		9%		2%	4%	6%	13%	7%	7%
	North Aegean		2%		5%		5%	6%	11%	6%
	Western Macedonia				1%		4%		4%	3%
	Western Greece		2%		-2%	3%	3%	5%	5%	3%
	Central Greece			N/A*	2%	N/A*	1%	2%	3%	-21%
	Average	**4%**	**6%**	**5%**	**15%**	**5%**	**10%**	**5%**	**9%**	

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ROI ≥ 6% (green) ROI < 6% (red) * The sample is small

Hotels at main destinations over-perform

Star rating and the size of the hotel unit have a limited impact on financial performance

On average, the most remunerative type of hotel is small 3* in South Aegean

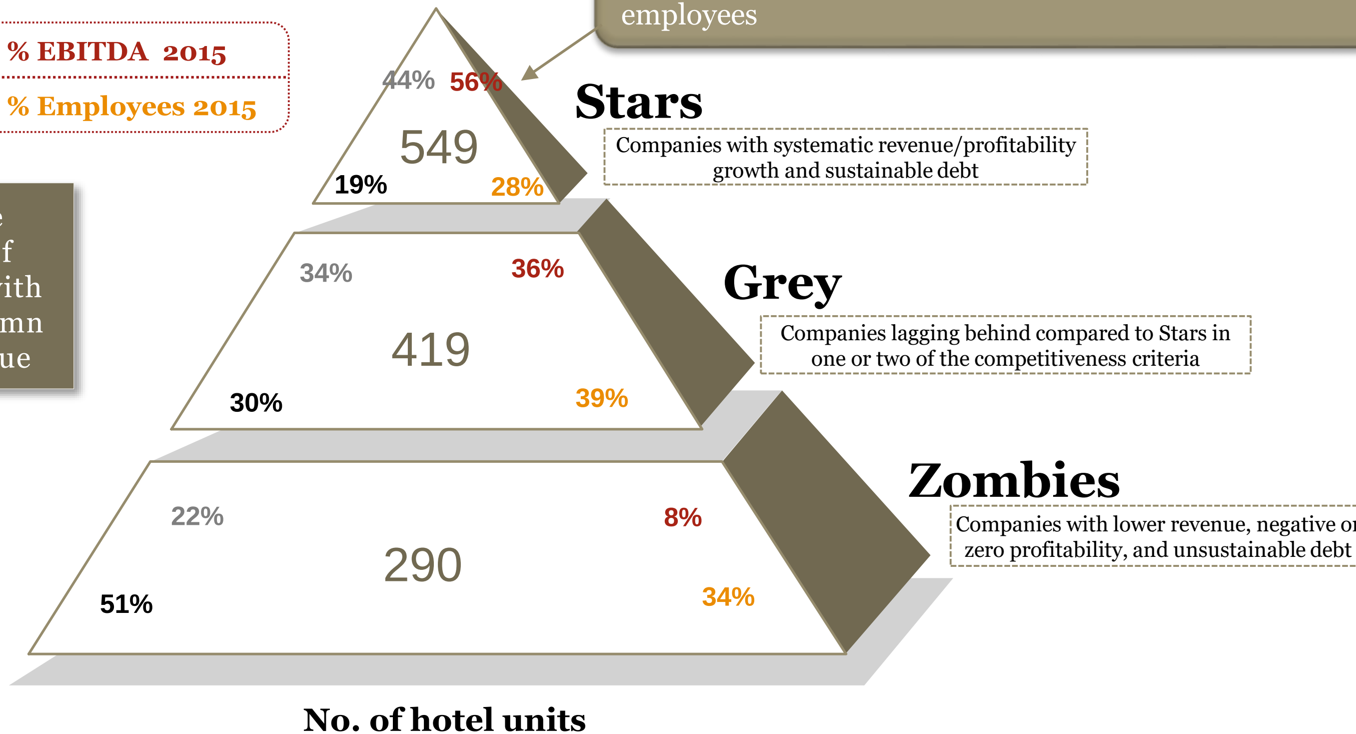
Central and Western Greece, and Western Macedonia are not conducive to high returns, independently of the type of the hotel

Hotel competitiveness is high moving along the same lines as financial performance

Almost 45% of the sample's hotels are Stars generating 56% of operating profits, while employing almost 30% of the sample's employees

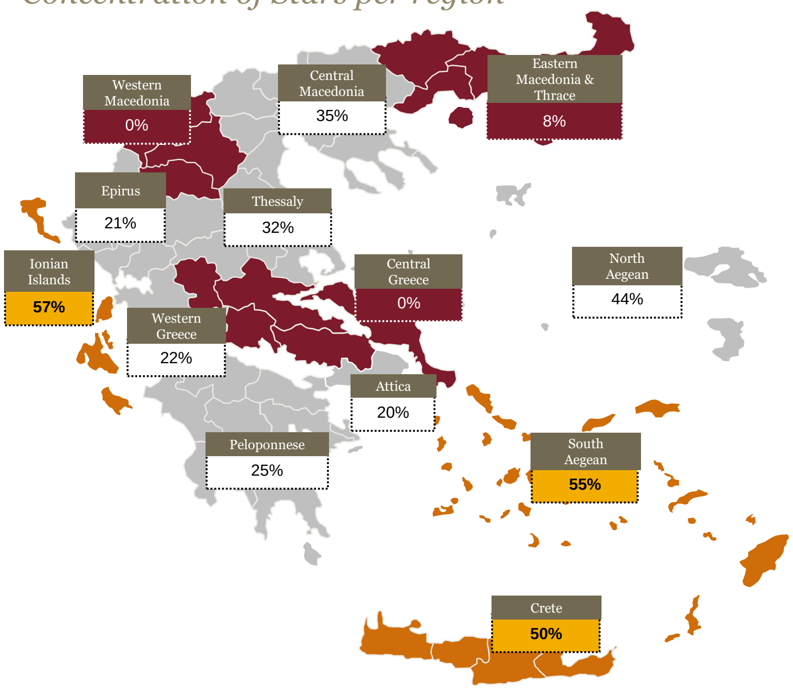
% Revenues 2015	% EBITDA 2015
% Debt 2015	% Employees 2015

The sample comprises of 1,258 hotels with more than € 1mn annual revenue



Hotels in the Ionian Islands, South Aegean and Crete are the most competitive

Concentration of Stars per region



Periphery
Concentration of Stars as % of total hotels in each periphery

- Concentration of Stars ≥ 50%
- Concentration of Stars between 20% and 50%
- Less than 20% concentration of Stars

Star hotels, particularly in the Ionian Islands, South Aegean and Crete, seem to populate main destinations

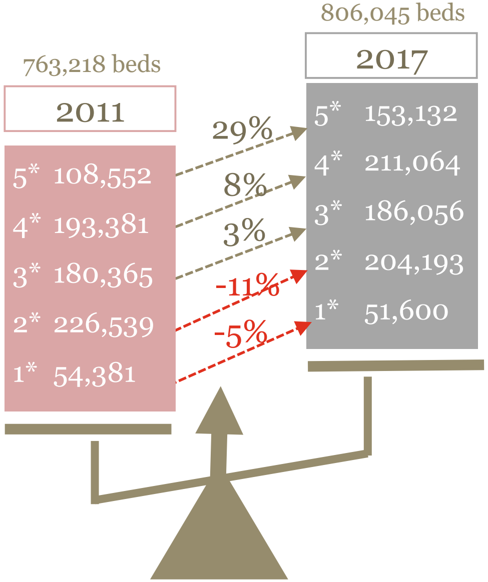
Regarding lesser destinations, the most competitive region is North Aegean with a Stars concentration of 44%

Central Greece and Western Macedonia have no Star hotels

The Greek market has been gradually upgrading to 5 hotels*

- During 2011-2017 total bed capacity of 5* hotels increased by roughly 30%
- At the same time, beds in 1* and 2* hotels decreased by 5% and 11% respectively

Evolution of beds by star rating



Source: Hellenic Chamber of Hotels, ITEP

Between 2010 and 2015 over € 1.8bn of capital expenditure was made, concentrating mainly on 5 large hotels at main destinations*

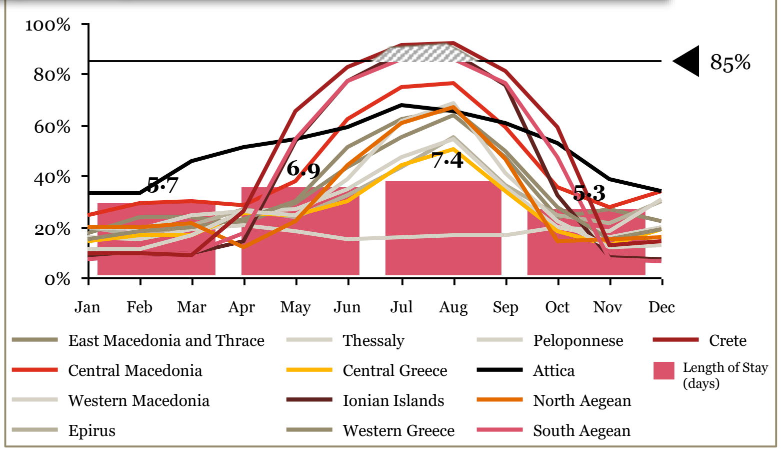
Total investment (€ mn) 2010-2015

	Peripheries	2*		3*		4*		5*		*Total Large*	*Total Small*	**Total destination**
		Large	Small	Large	Small	Large	Small	Large	Small			
Main	Crete	1	31	16	45	207	67	197	59	*421*	*202*	**623**
Main	South Aegean		12		0	144	3	143	113	*287*	*128*	**415**
Main	Central Macedonia		1	5		31	5	263	27	*299*	*32*	**332**
Main	Ionian Islands		7	3		18	6	53	19	*74*	*32*	**106**
Main	Attica		7		22			77	0	*77*	*29*	**106**
	Subtotal	**1**	**58**	**24**	**67**	**400**	**80**	**733**	**218**	*1.158*	*423*	**1.581**
Lesser	Peloponnese			1	4		6	60	13	*61*	*23*	**83**
Lesser	Thessaly		0		9	5	24	3	13	*8*	*47*	**54**
Lesser	Western Greece		0			6		49	2	*56*	*2*	**58**
Lesser	East Macedonia and Thrace		1	1		4	14		4	*5*	*19*	**24**
Lesser	Epirus				1		5	0	15	*0*	*22*	**22**
Lesser	Central Greece		0	0				9	7	*10*	*7*	**16**
Lesser	Western Macedonia				0		1		1	*0*	*3*	**3**
Lesser	North Aegean		1							*0*	*1*	**1**
	Subtotal	**0**	**2**	**2**	**14**	**16**	**51**	**122**	**55**	*139*	*122*	**261**
	Total	**1**	**61**	**26**	**80**	**416**	**132**	**855**	**273**	*1.297*	*545*	**1.842**

€ 1.383mn Investments in excess of € 50mn over five years

Greek destinations are in general oversupplied. Only at peak season there may be a shortfall of capacity in 2022 in Crete, South Aegean and the Ionian islands

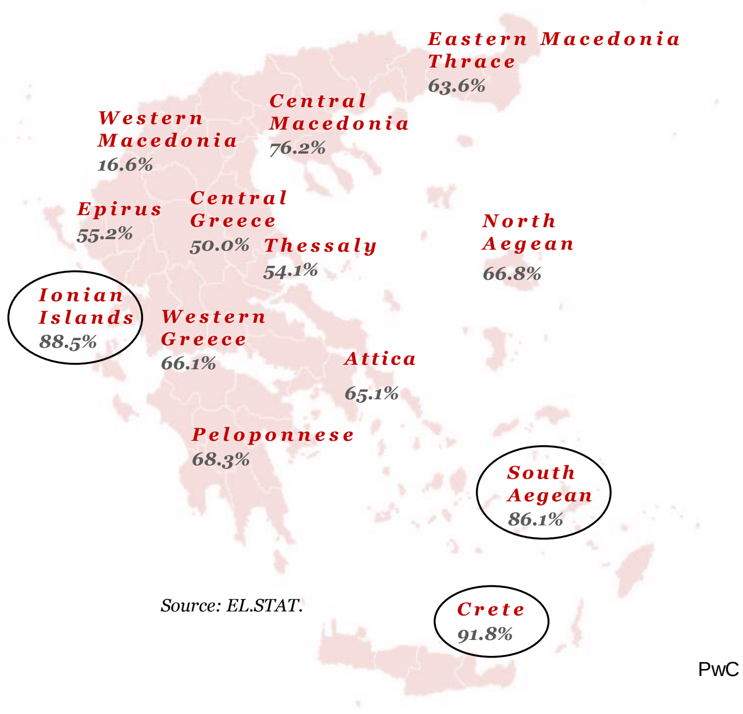
Occupancy rates and average length of stay (quarterly)



- Current capacity is utilized considerably less than 80% occupancy rate during the peak period at all but three destinations
- Western Macedonia, Peloponnese and Central Greece are suffering from severe excess bed capacity

Source: Hellenic Chamber of Hotels, 2017

Occupancy rates by region (August 2017)



Source: EL.STAT.

Greek hotels require mainly refurbishment investments as there is ample capacity available around…

Building new hotel beds € 1.1bn

Refurbishment of existing hotel units € 4.8bn

Maintenance of existing hotel units € 0.3bn

Around €6.2bn will be needed in total for the Greek hospitality sector to be competitive in the next 5 years

New beds needed

24k beds

to be Added in order to meet ~85% occupancy (90% for Crete)

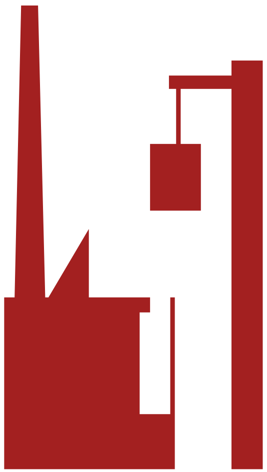
~12k rooms*

~ 90 hotel units*

** We have assumed that the average hotel has around 132 rooms and 270 beds as per our sample, which has little representation of very small hotel units*

...and incoming capacity from greenfield projects

Construction of new hotel units



New Investment (Greenfield)

There are 14 tourist greenfield projects (hotels & villas) planned located in Crete, South Aegean, the Ionian Islands, and Central Greece. All but one greenfield projects are at the main destinations and none is yet at the stage of building permits and construction

Beds ≈ 11,154
Investment: €2,551 mn

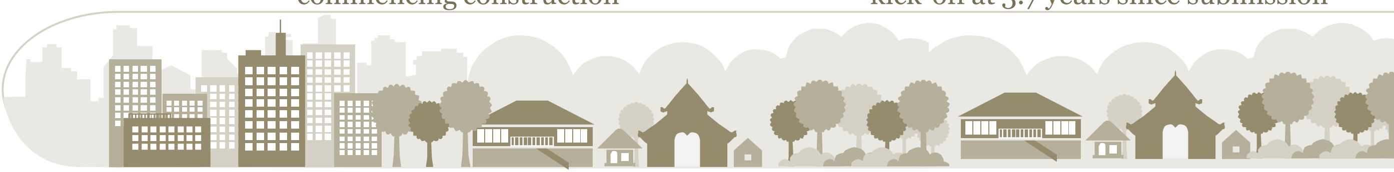
15 years takes, on average, for a project to go from planning to commencing construction

Fast-Track Projects (Greenfield)

So far, 6 out of 12 submitted hotel projects have been approved into the Fast Track process, with most of them located in Halkidiki, while none of them has been completed or started operating

Beds: 2,666
Investment : €2,754 mn

Overall, **fast track projects are slow** with an average construction kick-off at 3.7 years since submission



14 Greenfield **hotel and villa** projects with a budget of € 2.5bn and for about 5.600 rooms

15 *years*

takes, on average, for a project to go from planning to commencing construction

Source: Press

Over 400 hotels with unsustainable debt, need to first restructure or refinance their debt before attracting new investment

Write off *about* **€ 490mn** to release assets *(around 18.6k beds);* mostly in Zombie hotels

Trapped Debt ***€ 0.5bn***

18.6k beds

in companies that have trapped debt in their balance sheet

75 hotel units

- 50 hotel units in main destinations
- 25 hotel units in lesser destinations

Restructure/refinance *about* **€ 2.1bn** *to restore operational profitability (around 108.3k beds)*

Refinancing Debt ***€ 2.1bn***

108.3k beds

in companies with unsustainable debt, but with potential to restore sustainability

342 hotel units

- 290 hotel units in main destinations
- 52 hotel units in lesser destinations

Methodology

- For every company with negative EBITDA, it was assumed that the debt committed cannot be repaid ("Trapped Debt")
- For every company with positive EBITDA, it was assumed that the debt level needs refinancing ("Refinanceable Debt") using the debt sustainability ratio of Net Debt/ EBITDA = 6.5x

There is a significant bid-ask gap for hotel companies and hotel properties for sale, located mostly in main destinations

Hotel M&As

During 2017, 18 major hotel sales took place, mainly as divestments of non-core assets by the four systemic banks

Beds: 13,319
Investment : €310 mn

Available for acquisition

65 operating hotel companies for sale at main destinations

Average asking price per bed

2.3x higher

compared to the average value of a similar hotel unit

Hotel beds for sale represent roughly

2%* of the total market

Available for acquisition

35 hotel properties for sale, located mostly at main destinations

Average asking price per bed

40% smaller

compared to the average cost of construction of a new hotel

Hotel beds for sale represent roughly

0.6%* of the total market at main and

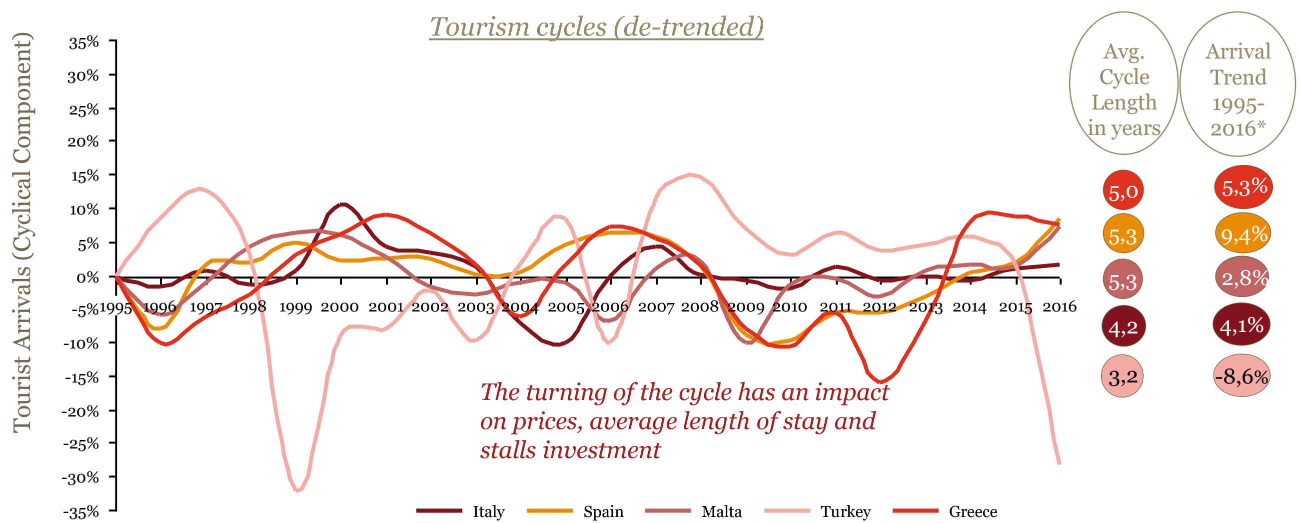
0.1%* at lesser destinations

* Based on the total number of hotel beds (806,045) and total beds in advertisements (16,063)
Source: Press, PwC Analysis

There are few specific risks in the horizon to deter future growth, and most of them are encapsulated in the typical tourism cycle

- The single most important risk is demand's downturn in the tourism cycle we are currently riding
- Tourist cycles are the result of a blend between origin economics and tourist patterns, as well as of competition between destinations
- Tourist cycles typically average 5 years and they are constantly upwards trended, very rarely leading to a real reduction in tourist flows and income
- Greece is in the upside of its current cycle and should expect a slowdown in tourism activity
- Any slowdown inevitably impacts pricing and average stay and delays investment

- *The average length of the tourist arrivals cycle (from peak to peak) varies by country but it is in the range of roughly 5 years*
- *Tourism cycles of competing countries are synchronised to a considerable extent*



* From first peak to last peak (it can vary for different countries)

Source: World Bank (as of 18/10/2018)

The challenges of Greek tourism

1
High EU concentration arrivals

- EU Concentration: 68%

Major countries of origin (% of total arrivals)

Germany: 14%
UK: 11%
France: 5%
Italy: 5%
USA: 3%

Countries with high growth in arrivals (CAGR2014-2017)

Australia: 21%

Countries with systematic long stays:

USA: 11.0 overnight stays
Germany: 10.2 overnight stays
UK: 8.8 overnight stays

2
High demand during peak periods

Seasonality of tourist arrivals

- 2nd & 3rd Quarter: 77%
- 1st & 4th Quarter: 23%

Purpose of travel (% of total arrivals)

- Sun & Beach: 48%
- Cultural: 10%
- MICE: 3%
- Yachting: 4%
- City Break: 4%
- Other: 31%

3
Significant & systematic under-utilisation of capacity

Tourist visits

Main Destinations: 84%
Lesser Destinations: 16%

Annual Occupancy Rates (average)

- Main Destinations: 58%
- Lesser Destinations : 31%

4
Under-invested in physical facilities and infrastructure

Completion time for a greenfield project~15 years

Hotel Companies CAPEX (2010-2015):
€ 1.8bn

Tourism related infrastructure projects pipeline €18.7 bn (2018-2023), of which:

Motorways: € 2.7bn
Ports & marinas: € 0.5bn
Airport: € 1.3bn
Large Motorways: € 3.5bn
Energy Interconnections: € 3.5bn
Waste management: € 0.6bn
Rail: € 1.8bn

Developing lesser destinations seems to be the most promising business strategy in terms of value potential

Strategy A : *Develop lesser destinations*

Gain Potential (x)			
Group	Develop lesser destinations		
	5*	4*	3*/2*/1*
Star	3.3	1.4	1.8
Grey	1.7	1.8	1.0

- at lesser destinations hotels tend to chronically underperform due to low occupancy and consequently low rates
- marketing lesser destinations hotels aggressively will improve operating economics
- no significant extra investment outside regular maintenance
- the most relevant lesser destinations for this strategy are North Aegean, Thessaly and Western Greece
- Star 5* hotels are the most suitable targets for this strategy, followed by Grey 4*
- developing a new destination could prove expensive, for the upgrade of infrastructure and marketing and may require state support

Strategy B : *Add capacity at main destinations*

Gain Potential (x)			
Group	Build new hotels		
	5*	4*	3*/2*/1*
Star	1.1	1.1	1.2
Grey	0.7	0.6	0.7
Add capacity to existing hotels			
Star	1.6	1.6	1.8
Grey	1.0	0.9	0.9

- capacity in certain destinations is short of potential demand
- new capacity increases room availability and, depending on its rating distribution, it may increase average overnight stays
- when new units are combined in locations with existing ones, the economics improve
- adding capacity to existing Star hotels seems to be the best value option
- building new Star hotels has modest returns, while building new Grey hotels is not value accretive at all

Strategy C : *Upgrade hotel units to the next class*

Gain Potential (x)		
Group	Upgrade to next class (Main)	
	4* -- > 5*	3* -- > 4*
Star	1.5	1.4
Grey	1.6	1.1
Upgrade to next class (Lesser)		
Star	1.2	0.8
Grey	0.7	1.4

- investments in hotel upgrading appear due after years of under-investment
- upgrading to the next class will increase room rates at the expense of the incremental investment
- upgrading increases both operational profitability and return on investment
- the value improvement tends to be larger for Grey hotels when upgrading from 4* to 5*, followed by the Star hotels
- main destinations offer added value consistently

* Complete methodology can be found in the Appendix

There are four interconnected public policies which need to be applied consistently to address the challenges and increase the value of tourism to the economy

Attract high income tourists

- Develop a complementary non EU distribution network
- Create strong affiliation links with origins
- Manage the risks associated with the tourism cycle

Introduce complementary products

- Develop off season conference tourism
- Develop off-season complementary products
- Introduce dynamic pricing
- Set up off-season product distribution network
- Offer clustered experiences
- Strengthen complementary hospitality service marketing

Expand demand to lesser destinations

- Market sun and sea features of lesser destinations
- Improve air connectivity and link specific origins to lesser destinations
- Upgrade product on lesser destinations (accommodation and service)

Upgrade tourist product

- Invest in new hotels
- Greenfield hotels and villas projects
- Investment in refurbishment and upgrade of hotels
- Tourism product infrastructure and connectivity upgrade

	Attract high income tourists	Introduce complementary products	Expand demand to lesser destinations	Upgrade tourist product
Estimated impact	**+ € 6.9bn** *tourist receipts*	**+ € 2.6bn** *tourist receipts*	**+ € 2.1bn** *hotel earnings of lesser destinations*	**+ € 4.3bn p.a.** *direct impact on GDP*
Areas of impact	✓ Tourism receipts ✓ Hotel profitability × Investments	✓ Tourism receipts ✓ Hotel profitability × Investments	× Tourism receipts ✓ Hotel profitability × Investments	✓ Tourism receipts ✓ Hotel Profitability ✓ Investments

The next day will be good but it can be better

- Tourism is, and will remain, a big economic force in Greece. By and large, it is globally competitive and its performance is improving
- The sector's economics are fundamentally divided by destination
- Despite the systematic growth of tourist arrivals, the investment required for the period 2018-2022 is modest and stands at about € 6bn
- Overall, the Greek tourism does not face significant risks, going forward
- Four public policies will facilitate the implementation of the business strategies and will add value to the economy:
  - Attract high income tourists (**+ € 6.9bn tourist receipts**)
  - Introduce complementary products (**+ € 2.6bn tourist receipts**)
  - Expand demand to lesser destinations (**+ € 2.1bn hotel earnings of lesser destinations**)
  - Upgrade the tourist product overall (**+ € 4.3bn p.a. direct impact on GDP**)
- There is a need for a **public-private partnership** which will enhance the contribution of tourism

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