Development Brochure

Q1 2014
Travelodge - Background Information

- Opened the UK’s first branded budget hotel in 1985.
- Is now the 2nd largest hotel brand in the UK, with 497 hotels.
- Over 16.5 million customers slept at our hotels in 2013.
- Over 6,000 employees in the UK, Ireland and Spain.
- Operates more hotels in London and Edinburgh (the UK’s top 2 two tourist destinations) than any other brand.
- [www.travelodge.co.uk](http://www.travelodge.co.uk) is amongst the UK’s most popular hotel websites, attracting over 1.2 million visits each week and accounts for 85% of all Travelodge bookings.

The UK Hotel Market

The Serviced Accommodation sector in the UK is changing rapidly. Almost uniquely in the retail and service sectors, the majority of the supply is still provided by independent, unbranded establishments, with the Corporate Branded sector having just a 43.5% market share of bedrooms. However, this share is growing rapidly. In the past decade 103,612 new hotel rooms have opened, with the vast majority being in the Branded Budget sector. However, 39,174 rooms have also closed during this time, virtually all in the Independent sector.

According to hotel industry consultant Melvin Gold Consulting, there is a total of around 730,000 rooms in the UK Serviced Accommodation Sector. New openings remain plentiful, with 45,000 new rooms opening since 2010, virtually all of which are Branded. Inevitably, at some point in the next decade, corporate branded hotels will, for the first time, be more numerous than independent properties. This is already the case in the more mature corporate hotel market of the USA, where the Branded sector makes up over two thirds of the total supply and Branded Budget hotels have a 31% market share, compared with less than 18% currently in the UK.

(Large Hotel Brands in the UK)

<table>
<thead>
<tr>
<th>Brand</th>
<th>Hotels</th>
<th>Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premier Inn</td>
<td>652</td>
<td>52,034</td>
</tr>
<tr>
<td>Travelodge</td>
<td>497</td>
<td>36,602</td>
</tr>
<tr>
<td>Holiday Inn</td>
<td>130</td>
<td>19,731</td>
</tr>
<tr>
<td>Hilton</td>
<td>73</td>
<td>16,525</td>
</tr>
<tr>
<td>Holiday Inn Express</td>
<td>124</td>
<td>14,476</td>
</tr>
<tr>
<td>Marriott</td>
<td>50</td>
<td>9,257</td>
</tr>
<tr>
<td>Ibis</td>
<td>57</td>
<td>7,875</td>
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</tbody>
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Despite being the UK’s 2nd largest Hotel Brand, Travelodge has less than 5% of the Serviced Accommodation Sector.
The UK Branded Budget Hotel Sector

- Dominated by Travelodge and Premier Inn, which together operate around 70% of the supply.
- Accounts for less than 18% of total bedroom stock in the UK, significantly less than in France (24%) and the USA (33%).
- Expanding by 10% p.a., it is by far the fastest growing sector of the hotel industry. Growth is monopolised by Travelodge and Premier Inn, which operate over 80% of all new bedrooms developed during the last 4 years.
- Growth expected to be maintained for the next 15 years. Leading hotel consultant Melvin Gold predicts that the sector will have grown to around 26% of the accommodation market by 2030, taking the total number of branded budget hotel bedrooms from 130,000 (at 30/6/13) to 225,000.
- Given that the total market is forecast to grow by just 1%, the evidence points to a major contraction in the unbranded independent sector during the next 2 decades.

Travelodge has doubled the size of its estate in the last 6 years and, during this time, has focused on city centre growth to rebalance its portfolio away from roadside locations. Today, 87% of Travelodge bedrooms are in major cities and towns, with approximately 21% being in London.

Travelodge plans to grow its market share from its current 4.8% of the Serviced Accommodation Sector to around 700 hotels and 8% of the market by 2025. This will be achieved via a developer-led, leasehold development model.

A copy of Travelodge’s current target requirements list can be downloaded from our Development website at:

www.travelodgedevelopment.co.uk

Travelodge Growth Plans

Cambridge Newmarket Road - Opened June 2013
Purchased by Charities Property Fund

Travelodge Revenue Growth

Source: Melvin Gold Consulting August 2013
Travelodge Growth Plans

Travelodge’s growth strategy is focussed on town and city centre locations, especially in the major tourist areas and the South East of England, with a particular emphasis within the M25.

Travelodge has 60 hotels within the London Boroughs and is the largest hotel brand (by both hotel and bedroom numbers) in London, the UK’s dominant hotel market.


To allow the business to be able to afford the best locations for its customers, Travelodge developments frequently form part of mixed-use schemes, sitting above or alongside other operators. Of the 45 Travelodge developments constructed since the start of 2012, 7 included supermarkets, 8 included pubs / restaurants and 13 included other retail.

Many of our new hotels are conversions of existing office buildings, with recent examples including London Balham, London Bank, London Covent Garden, London Crystal Palace, London Teddington, London Woolwich, Manchester Piccadilly and Southampton. Many of these schemes are undertaken by existing owners.

For detailed information about our development programme, please consult our website at:

www.travelodgedevelopment.co.uk

Travelodge’s Leasehold Model

Travelodge is an operational business, whose expertise lies in providing a good night’s sleep, at comfortable, affordable hotels, in great locations. To focus on this core business, Travelodge follows a leasehold business model, taking effective Full Repairing and Insuring, 25-year, unbroken lease terms, with 5-yearly rent reviews in line with the Consumer Prices Index.

This structure offers Landlords a longer lease length than many sectors of the UK property market, combined with a greater level of security than that offered via the management contract or turnover lease structure utilised by many other hotel operators.

Travelodge leases are granted on standard, institutionally acceptable terms, which enable the hotels to form part of mixed-use developments and sit comfortably within an overall investment package, in locations that would be unaffordable for a standalone hotel. 80% of our schemes are mixed-use developments and we partner a wide range of businesses, including retail, restaurants, supermarkets, cinemas, offices, car parking operators and residential.

Travelodge doesn’t have a ‘house style’ of architecture and designs its hotels to comply with local Planning Authority requirements and objectives of the broader scheme.

www.travelodgedevelopment.co.uk
Travelodge Corporate Structure

On 12th October 2012, ownership of Travelodge transferred from Dubai International Capital to three of the Company’s key investors; the US companies and global investment firms GoldenTree Asset Management (www.goldentree.com), Avenue Capital (www.avenuecapital.com) and Goldman Sachs (www.goldmansachs.com). Simultaneously, a major financial restructure of the business took place, under which net debt reduced from £1,111m to £331m.

Trading Update & Operational Strategy

Until 2009, Travelodge experienced year-on-year RevPAR (Revenue Per Available Room) growth. However, the onset of the recession, allied to the interest payments on the debt put in place by the previous owners, Dubai International Capital, caused major cash constraint problems which led to significant under-investment in both our hotels and central support functions over a number of years. Consequently, from 2009, whilst our business continued to grow, with additional hotels and bedrooms opening, sales increasing year-on-year and average occupancy remaining steady and strong, our RevPAR began to fall both in real terms and relative to the market. Between 2009 and 2012, our RevPAR fall by around 18%, whilst that of our major competitor, Premier Inn, increased during this period, as they took advantage of our lack of investment.

As part of our financial restructure, we are investing £57m in refurbishing our hotels; incorporating a new room design and upgraded common areas and Bar Cafés. Works commenced in March 2013 and by the end of January 2014 over half of our bedrooms (17,665 rooms and 206 hotels) had been refitted to our new brand standard (see photo below). 85% of our rooms will have been completed by the end of Q3 2014. Our future budgets allow for the on-going refurbishment of every hotel, every seven years. We have also appointed an in-house maintenance team of over 100 skilled tradesman to maintain the quality of the estate and re-paint every room every 3 years.

Trading performance for the total UK hotel market was flat during the first part of 2013. Since the half-year, growth has been strong, and according to STR Global’s UK Hotel Trading Data, average occupancy and RevPAR for the total UK market was up. The Midscale Economy Classes had an even stronger performance and Travelodge was stronger still.
**Investors & Investment Transactions**

Travelodge lease investments continue to receive high levels of demand from a wide range of investors, including pension funds, various international investors, syndicated investors, family trusts and high net worth individuals. Since 2010, over £650m has been invested directly in the Travelodge covenant by the UK’s major Pension Funds, including Aviva, Associated British Food Pension Fund, AXA, BP Pension Fund, CBREGi, Charities Property Fund, Chubb Pension Fund, Derbyshire CC Pension Fund, Diageo, Henderson Global Investors, Lancashire Council Pension Fund, Leicestershire CC Pension Fund, Legal & General, PRUPIM, Scottish Widows, Smiths Industries Pension Fund, Staffordshire CC Pension Fund and Standard Life.

### Recent Investment Deals

<table>
<thead>
<tr>
<th><strong>Huddersfield</strong></th>
<th><strong>Taunton</strong></th>
<th><strong>Brighton</strong></th>
<th><strong>Harrogate</strong></th>
<th><strong>Chester</strong></th>
<th><strong>Bolton</strong></th>
<th><strong>Greenwich Central</strong></th>
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<tr>
<td><strong>Date:</strong> January 2014</td>
<td><strong>Date:</strong> January 2014</td>
<td><strong>Date:</strong> December 2013</td>
<td><strong>Date:</strong> December 2013</td>
<td><strong>Date:</strong> December 2013</td>
<td><strong>Date:</strong> October 2013</td>
<td><strong>Date:</strong> July 2013</td>
</tr>
<tr>
<td><strong>Purchaser:</strong> Coalfield Regeneration Trust</td>
<td><strong>Purchaser:</strong> RO Development</td>
<td><strong>Purchaser:</strong> SWIP</td>
<td><strong>Purchaser:</strong> Family Trust</td>
<td><strong>Purchaser:</strong> Knight Frank Investors</td>
<td><strong>Purchaser:</strong> Local Authority Pension Fund</td>
<td><strong>Purchaser:</strong> Overseas Investor</td>
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<tr>
<td><strong>Net Initial Yield:</strong> 7.10%</td>
<td><strong>Net Initial Yield:</strong> 6.5%</td>
<td><strong>Net Initial Yield:</strong> 6.3%</td>
<td><strong>Net Initial Yield:</strong> 7%</td>
<td><strong>Net Initial Yield:</strong> Blended yield of 7.3%</td>
<td><strong>Net Initial Yield:</strong> 7%</td>
<td><strong>Net Initial Yield:</strong> 6.4%</td>
</tr>
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<td><strong>Transaction:</strong> Standing Investment</td>
<td><strong>Transaction:</strong> Standing Investment</td>
<td><strong>Transaction:</strong> Standing Investment</td>
<td><strong>Transaction:</strong> Standing Investment</td>
<td><strong>Transaction:</strong> Forward Funding</td>
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<td><strong>Transaction:</strong> Forward Funding</td>
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### Other Information...

Given that the financial restructure in 2012 has significantly improved Travelodge’s financial position, why is its D&B Rating 5A4?

As a condition of the financial restructure, Travelodge’s lenders required that a CVA be entered into, which was approved and implemented on 4th September 2012. Under its terms, the rent for 48 hotels was reduced to £0 six months after the CVA, the rent for 109 hotels was reduced by 25% and 352 hotels and 52 development schemes were unaffected. Affected landlords will share a fund of up to £10m if Travelodge Hotels Limited exceeds certain performance goals during the 3 year period ending September 2015. Consequently, the CVA technically remains in force for this period. As a result, D&B’s rating of Travelodge Hotels Limited is assessed on the basis that the company (technically) remains in a CVA process.

Had THL not offered this compensation fund, then the CVA process would now be over. In its latest Report on THL, D&B considers this position and states “D&B have been in discussions with Travelodge about this situation and had the CVA process been completed now we would provide a Rating that indicated a low risk of failure.”