EBRD Investments in the Tourism Sector in the Balkans

Philippe Mansion, Principal Banker

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What is EBRD?

- IFI created in 1991
- AAA rating
- HQ in London
- Operates in 29 countries from central Europe to central Asia
- 3,373 signed projects
- €71.1 bln commitments
- Total project value €210.3 bln

Cumulative commitments €71.1 billion

As of 31 December 2011
What are the EBRD’s objectives?

- To promote transition to market economies
- To invest mainly in the private sector and support FDIs
- To support privatisation, restructuring and better services to improve people’s lives
- To encourage environmentally sound and sustainable development
A network of 36 offices in 30 countries

Where we operate

As of November 2008

Central Europe and the Baltic states
01 Croatia
02 Czech Republic*
03 Estonia
04 Hungary
05 Latvia
06 Lithuania
07 Poland
08 Slovak Republic
09 Slovenia

South-eastern Europe
10 Albania
11 Bosnia and Herzegovina
12 Bulgaria
13 FYR Macedonia
14 Romania
15 Montenegro
16 Serbia

Eastern Europe and the Caucasus
17 Armenia
18 Azerbaijan
19 Belarus
20 Georgia
21 Moldova
22 Ukraine

Russia
23

Central Asia
24 Kazakhstan
25 Kyrgyz Republic
26 Mongolia
27 Tajikistan
28 Turkmenistan
29 Uzbekistan

Turkey
30

*as of the end of 2007, the EBRD no longer makes investments in the Czech Republic.
EBRD Expansion

- Egypt
- Jordan
- Marocco
- Tunisia
The EBRD Property & Tourism Team

- 15 dedicated bankers
- €200 - 250 million new commitments per year

Total commitments as of end of December 2011:
- €1.95 billion to 126 projects (including equity participation in funds)
- €7.2 billion total project value
Property Commitments by sector

As of 31 December 2011
EBRD Property Portfolio – Geographic Distribution

- Central Europe: 42%
- South-East Europe: 24%
- Russia&Ukraine: 11%
- Central Asia: 23%
- Regional: 0%

As of 31 December 2011
Current Portfolio by type of financing

As of 31 December 2011

55% Equity

45% Debt
Financing structures
Classic Debt Project Financing

Sponsor
- Majority ownership + property mgmt control
- Equity - usually 45 - 50% of total project costs (including land + CASH)

Minority equity partner(s)
- Possible EBRD equity (a small % of debt amount)

Project Company
- Pre-leases required (or guarantee/margin premium)
- Capped cost overrun guarantee from the Sponsor
- Possible increase of the loan after financial completion
- Possible margin step down after completion

EBRD
- A/B-loan (50 - 55% of total project costs)
- Limited recourse to sponsor
- Security on real estate (incl. long-term lease)

Co-financing Banks
- B-lender or parallel lender

Note: details are simplified for case study
Sponsor

Majority ownership and management control

Local partner

Project Company

Equity (65-85%)

EBRD

Equity (15-35%)

- Sponsors equity usually consisting of land AND a substantial cash contribution
- EBRD entry at cost or market price if value was really added (some discount expected)
- EBRD exit through a put to Sponsor with pricing in a range depending on performance of the Company (returns above 20% usually expected)

Note: details are simplified for case study
EBRD: general project features

Minimum EBRD financing:
€5 million

Maximum EBRD financing:
35% of total project costs

- Quality of the sponsor
- Need for syndication
- Substantial equity contribution
- Transparent acquisition of the land and sound procurement practices
- Project approval cycle approx. 6-12 months
- Smaller investments are also considered on a case by case basis.
Tourism Sector in Croatia

- More than 20% of GDP
- Employs more than 13% of workforce
- ca 11 million tourists annually
- Strong seasonality (June - September)
- Predominance of 1-3 stars / only 24% of 4-5 stars rooms
EBRD Case study - Jadranka Hotels
Jadranka Hotels, Island of Losinj, Croatia

- Established and reputable hospitality company in the Northern Adriatic
- One of the leading Croatian tourism companies
- A portfolio of 10 hotels & villas with 1,600 rooms
- 2 – 3 stars standard positioning
- Hotels operated in house through “Losinj Hotels & Villas” local brand
EBRD Case study - Jadranka Hotels

Context / history

• The owner (Jadranka dd) reorganized itself as a holding, with several subsidiaries focused on one business line (commerce, hotels, camps)

• Jadranka Hotels (“the Company”) developed an ambitious Business Plan in 2007 to refurbish, reposition and upgrade its hotel portfolio

• Company was keen to team up with a strategic investor with wide hospitality experience to provide capital, strategic advice and “make things happen”
EBRD Case study - Jadranka Hotels

Project Overview

- EBRD minority equity investment in Jadranka Hotels made in 2008
- EUR 24.0 million investment mostly through capital increase
- EBRD investment used to finance an ambitious 5 years EUR 80 million capital expenditure plan
- EBRD equity proceeds to be combined with lending from the local banks and, in later years, free cash flow of the Company
Milestones Achieved so far

- Two largest Company hotels – Aurora (393 rooms) and Vespera (404 rooms) – successfully completed and re-opened on time for the 2008 and 2009 seasons
- Third largest hotel – Punta (280 rooms) currently under refurbishment, to be reopened in June 2012
- Management improvements
- Successful debt raising from the local banks
A few examples of international investors’ involvement in the Croatian tourism sector

Orco Property Group
- Privatization of the Suncani Hvar company and subsequent refurbishment and repositioning of part of the hotel portfolio, located on the island of Hvar

Jupiter Adria
- Raising of the Jupiter Adria fund which acquired a portfolio of sites across Croatia, with a view to develop a portfolio of hotel, resort, golf and residential high end developments
- First hotel and residential project in Dubrovnik (Dubrovnik Sun Gardens, operated by Radisson BLU)

Falkensteiner Group
- Construction and operation of the large Punta Skala hotel and residential resort in the Zadar county
Hotel brands in Croatia

• Several international brands are established on the local hotel market, primarily mid- and up-market:
  • Zagreb: Regent, Sheraton, Westin, Four Points, Best Western
  • Dubrovnik: Hilton, Radisson, Rixos, Iberostar
  • Istria & Dalmatia: Kempinski, Radisson, Le Meridien, Sol Melia, Vienna International, Orco, Falkensteiner

• Several local brands have developed since 1990s, mostly with regional coverage:
  • Adriatic Luxury Hotels, Valamar, Maistra, BlueSun, Losinj Hotels & Villas
Case Study – Sveti Stefan resort
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Case Study – Sveti Stefan resort

- Project description:
  - Financing the re-development of a landmark tourist site on the Montenegro coast into a prime resort
  - Benchmark for high-end tourism on the Adriatic coast
  - Project developed in 2 phases

- Location: Montenegrin Adriatic Coast, between the towns of Budva and Petrovac

- Borrower: Adriatic Properties d.o.o fully controlled by one of the largest shipping groups in Greece

- Main operator: Aman resorts

- Total Project costs: EUR 92.6 million
Case Study – Sveti Stefan resort

Background

– Sveti Stefan island used to be a walled fishing village
– It was converted in the 50’s into a prominent holiday resort
– Famous guests included Sophia Loren, Elizabeth Taylor and Marilyn Monroe
– It is one of the most iconic tourist destination of Montenegro and considered a landmark site of historical importance
– International tender organized in 2005 / 2006 by the government of Montenegro for the re-development of the site under a leasehold structure
Case Study – Sveti Stefan resort

Project description

– Site re-developed in 2 phases

– Phase 1:
  • Refurbishment of the Milocer hotel (8 rooms and suites) and Sveti Stefan Island hotel (50 rooms and suites), which is now completed
  • Both hotels are currently operated by Aman resorts (5 stars)

– Phase 2:
  • Development of a new Queen’s Beach hotel (4 stars)
  • Construction of a pool of apartments, for sale
  • Spa, restaurants etc
Case Study – Sveti Stefan resort

- EBRD Loan:
  - EUR 37 million senior loan
  - Structured in 2 tranches to finance each of the Project’s phases

- EBRD transaction rationale
  - Support of one of the first PPPs in the tourism sector in Montenegro
  - Flagship project at the heart of Montenegro’s tourism strategy
  - Low density & sustainable tourism
  - Demonstration effect to attract similar projects, investors and operators in the country
Case Study – Hilton Podgorica
Case Study – Hilton Podgorica

- Project description:
  - Refurbishment, extension and operation of Hotel Crna Gora in a prime central location. Upon refurbishment the hotel will be renamed “Hilton Podgorica Montenegro” under a Franchise Agreement with Hilton International
  - Creation of the leading institutional quality and internationally branded business hotel in Montenegro

- Location: Montenegrin capital Podgorica
- Borrower and operator: Crna Gora Hotel d.o.o.
- Franchisor: Hilton International
- Total Project costs: EUR 74.3 million
Case Study – Hilton Podgorica

Background

- A landmark hotel: the hotel was built in 1953 as the first and premier hotel in Podgorica and offered at the time the highest quality services and standards available in Montenegro

- It is considered one of the most culturally significant sites of Podgorica

- International tender organized in 2006 by the government of Montenegro for the privatization of the hotel
Case Study – Hilton Podgorica

Project description

– Site re-developed in two phases
– Phase 1:
  • Construction of the Hotel annex with 70 new rooms on the adjacent land plot
  • Includes Conference Rooms, and Fitness Centre (gym, pool, etc.)
– Phase 2:
  • Complete refurbishment of the existing 150 rooms and conversion into 130 new rooms
  • Construction of a retail gallery of 5,500 m2 GLA within the Hotel complex
Case Study – Hilton Podgorica

• EBRD Loan:
  • EUR 23.9 million senior loan

• EBRD transaction rationale
  • Increased competition in the sector
  • Market expansion (through backward linkages) and skills transfers
  • Setting standards of business conduct (energy efficiency standards)
    • Demonstration of products and processes which are new to the industry
    • Renewable energy installation
Lessons Learned

- Modesty
- Analysis
- Low leverage and long-term financing
- Professionalism
- Legal framework
Key aspects

- Local authorities
- Land ownership
- Accessibility and infrastructure
- Branding
- Service
- Environment
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