

Selina Fourth Quarter and Full Year 2022 Earnings Call

Monday, March 1st – 10:00am ET

Steven Ohayon, EVP Strategy of Selina: Thank you, and good morning everyone. Thank you for joining us for Selina's Fourth Quarter and Full Year 2022 Earnings Conference Call. Joining me on today's call are Rafael Museri, Chief Executive Officer, and Barbara Zubiria, Chief Financial Officer. Before we get started, I would like to remind everyone that our comments today will include forward-looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties as described in our annual report on Form 20-F and other SEC filings.

These risks could cause our actual results to differ materially from those expressed in or implied by our comments. Forward-looking statements in the earnings release that we issued today, along with the comments on this call, are made only as of today and we will not update them as actual events unfold unless we are required to do so.

In addition, you can find a reconciliation of non-IFRS financial measures referred to in today's remarks on our website at selina.com, under the Financial Information section of our Investor Relations link and in Friday's earnings release. An archive of this call will be available on our website for 90 days. And with that, I'll turn the call over to Rafi.

Rafael Museri, Chief Executive Officer: Thank you, Steven. Good morning everyone and welcome to Selina's Fourth Quarter and Full Year 2022 Earnings Call. I'd like to thank the 3,000 connectors and members of the Selina family for their efforts over the past year and everyone here for joining what is our first earnings call as a public company.

When I look back on 2022 and consider all the strides made by this organization, still what gives me most excitement is the continuous evolution of our customer experience. We estimate that over 2 million unique people visited Selina last year. Our guests traveled from around the world, represented all ages, with the majority between ages 25 and 34, and nearly 2/3 of our guests claimed to have "made a friend" during their stay. I personally visited the majority of our locations during the year and connected with many travelers. Most recently I encountered a couple who had met in Selina, traveled through Selina for 7 months, ultimately got engaged and are now planning their wedding in Selina! It's just further evidence that we continue to provide a unique hospitality experience for an entire generation of travelers, and I couldn't be more proud.

2022 has been a very important year in Selina's history. We completed our listing on NASDAQ in October 2022, and our business delivered strong improvement in our key operating metrics. We entered 2023 with a strong focus on three strategic imperatives: driving cash flow,

executing on our path to profitability, and continuing to build out a strong brand, which provides a differentiated travel experience to our growing number of guests. I believe that the new discipline around growth and cost management, along with a strong product offering, will position Selina as a leader in the hospitality space.

In tandem with the NASDAQ listing, in October 2022 we put in place a new Board of Directors composed of 5 distinguished new independent board members, on top of myself and my co-founder, and a sixth joined in March of this year. Recently, as a part of our commitment to corporate governance, the Board has established a Finance and Capital Allocation Committee to help oversee budgeting, capital allocation and significant transactions.

In terms of our operations, 2022 continued our multi-year trend of growth in operations. We opened 18 new properties while densifying our existing assets, which increased our bedspaces by 26%. With that growth and strong performance at our existing properties we almost doubled revenues. While growing our revenues, our key business metrics experienced growth over the past year and we believe they have room to go further.

With our strategic priorities in mind, in 2023 we plan to exercise discipline and moderation in our new hotel growth plan, while maintaining our focus on targeted expansion in existing markets. We recognize that building a strong brand is critical to our long-term success and will require ongoing investment in our people, our culture, and our platform.

I want to move now to a discussion of our operational performance and initiatives to help our assets perform closer to their potential. We have now set up regional Commercial hubs that will allow us to further penetrate the local/domestic markets and increase our B2B client's business further. This will allow us to better increase our occupancy and rates. We have also started to roll out our new Revenue management system (Duetto) to locations with high demand. In the first months of 2023, we have implemented further reductions at the corporate level reducing overhead run rate basis compared to the end of 2022. Additionally, at the corporate level we are working to decrease the amount of leased corporate office space we utilize to reduce overhead in future years and better match the locations of our personnel.

Closer to the asset level, we have clustered our general managers so they handle more than one property, providing headcount synergies, creating greater accountability and better utilizing our overall inventory. We have started restructuring our F&B business management to operate in a partnership model where venue managers share in profits in exchange for lower base fees. This restructuring will help us to lower our fixed costs and to create a sense of ownership and hunger to deliver better results by our managers. As our F&B business is a large focus for management, we have managed to implement the restructuring at many of our locations and expect to finish the restructuring over the course of the year. We are seeing positive trends at locations where we have completed the transition, but there is a lot of work to do and it will take time to see results from this renewed focus on F&B operations.

We continue to actively look at our portfolio to address and turn around unprofitable locations. We have not exited any properties to date, but remain in active negotiations with a number of properties to determine our long-term plans with them.

We have positioned Selina to take advantage of the travel preferences of Millennials and Gen Z. These travelers have specific lifestyle and travel preferences that differ from previous generations. Our target travelers generally prioritize experiences, value remote working, and travel to meet and make friends. We provide a full-service experience at a democratized price point blending beautifully designed accommodation with co-working, recreation, wellness, and local experiences. Selina is custom-built for today's nomadic traveler, providing guests with a global infrastructure to travel and work seamlessly

With the model we have designed our properties around, we believe we can show our superior level of customer satisfaction. Selina has an NPS of 45, which is among the highest among our industry peers. We also focus on direct-booking to better control our customer experience and maintain control of the relationship. For the year ended December 31, 2022, Selina experienced high direct booking levels, with approximately 55% of all bookings made directly through Selina channels as opposed to third-party online travel agencies.

Ours is a very international lifestyle brand spanning the globe with exposure to international travel and building a community in our locations. Our properties are meant to appeal to both guests and locals, which allows us to bring in revenue from a larger target audience. Selina's accommodations, especially our shared rooms, represent an affordable price point for travelers. Even during the past few years when travel was hard and the economy has been tough, we have had strong demand for our co-work and co-live products allowing people to escape from expensive locations to live abroad inexpensively. Since launch in 2020, 8,500 people have participated in our Co-Live program spending an average of 55 nights each within the Selina network.

We are seeing positive trends and are encouraged by our internal metrics in the first quarter of 2023. Although we are still in the process of turning a profit at the corporate level, we believe we are making strides along the path to profitability already this year.

We are pleased to report that our cash outflows from operations have decreased every year for the past few years. We anticipate that this positive trend will continue this year, and that we will achieve positive cash flow from operations. Our ongoing efforts to optimize operations, as discussed earlier, are expected to result in meaningful improvements on both the revenue and cost side. While we have a number of fixed costs at both the unit and corporate level, we expect to continue to decrease our corporate overhead burden as a percentage of revenues as we grow our topline. Additionally, by focusing on densifying and executing on opportunities within our existing portfolio, we are confident that we can more easily cover our lease liabilities.

In closing, I would like to again express my gratitude to the Selina family for their hard work and contributions to an important year in our journey. I just want to say one more time that Selina is focused on three strategic priorities: driving cash flow, executing on our path to profitability, and building our brand. Barbara will now provide more details on our operating results. Barbara, over to you.

Barbara Zubiria, Chief Financial Officer: Thanks, Rafi, and good morning, everyone. My commentary today will cover key drivers of our performance in 2022 and expectations I can share for 2023.

For those new to the story, we have different names for our key metrics, but they are basically the same as our lodging peers. We use total revenue per occupied bedspace, AKA TRevPOBs, instead of ADR, which uses bedspaces vs rooms, and total revenue, not just rooms revenue. Since we generate only 59% of our revenues from rooms and instead focus on an entire travel experience, we benchmark how much we are yielding from the total experience. Similarly, we use annualized total revenue per bedspace AKA TRevPABs instead of RevPAR, which again uses total revenue and bedspaces.

For the full year 2022, TRevPABs increased by 55% driven by a 44% increase in occupancy and a 9% increase in TRevPOBs. Our occupancy increases represent the continued stabilization of our newly opened properties, recovery from industry challenges over the past few years, and our operating focus. In the 4th quarter of 2022, TRevPABs increased by 36% compared to the 4th quarter of 2021. This was driven by a 27% increase in occupancy and an 8% increase in TRevPOBs. As we move through 2022 and 2023, the comparable periods in the prior year are expected to get stronger from an occupancy stand-point.

In every market we operate in, we increased total revenues per bedspace. We did that by increasing Occupancy in all markets but one market. Our newest market, APAC, for instance, is showing stronger occupancy and revenue per bedspace than our property average . All of our regions reported positive unit-level EBITDAR in 2022. Two of our regions (Mexico and Central America) had positive Unit-Level Operating Profit/Loss (defined as unit level EBITDAR less rent) for the year. This demonstrates part of our turn-around story at the asset level as more of our units begin to cover rent and generate profits.

Although we still had a loss of \$14.5 million at the Adj. EBITDA level, we made great strides towards getting closer to our target of achieving adj. EBITDA positive. In 2022, we decreased our loss at the adj. EBITDA level by over \$10 million. We have also introduced a new metric, Free Cash Flow before Debt Service, to more clearly show the cash needs of the business before servicing debt and interest. Our Free Cash Flow in 2022 declined compared to 2021 due to a number of factors. FCF in 2021 benefited from rent deferrals and overfunding of capital expenditures from local partners, with part of those proceeds being invested in 2022. During 2022 we completed many of the new locations under development in 2021, impacting growth capex and we also returned to a more normalized burden of lease liabilities. Over 2/3rds of the decline in FCF in 2022 can be attributed to the swing in capital expenditure funding.

In terms of our Balance Sheet, we closed December 31st, 2022 with \$47.7m of cash and cash equivalents after completing the business combination with 96% redemptions. This transaction ultimately did not result in the original expected recapitalization of the business and significant fees on both sponsor and target were incurred, part of which we are carrying over into 2023.

As we have previously indicated, we are working on a number of initiatives related to our balance sheet and cash position. We are working to restructure certain liabilities and payables into equity-and are considering some non-core asset sales to drive further liquidity. We are also working on accessing some remaining available credit line with one of our main banking partners. While we expect our business will continue to improve, we expect to access the capital markets to support our cash needs over the next year in order to complete the recapitalization that was intended to take place in our IPO.

As Rafi has discussed, we continue seeing positive momentum in our operations so far in 2023. Thus, Selina is pleased to reaffirm our previously stated goals, which for 2023 include annual revenue growth of 30 to 40% and achieving positive Adjusted EBITDA and positive operating cash flow. I would note that due to IFRS considerations, our adjusted ebitda definition does not include the impact of lease liabilities and our operating cash flow doesn't include lease payments or interest.

I will now turn it over to Steven Ohayon for closing comments.

Steven Ohayon, EVP Strategy of Selina: Thank you Barbara. And thank you to everyone for joining us this morning. In closing, we encourage our investor community to reach out to us with any questions or to request individual meetings where we can address our business performance in more detail. We look forward to speaking with you all in future meetings.