The information contained within this announcement is deemed by the Group to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 ("MAR")

Safestay plc
("Safestay" or "the Company" or "the Group")

Interim Results
For the Six Months to 30 June 2018

Safestay (AIM: SSTY), the owner and operator of an international brand of contemporary hostels, announces its unaudited interim results for the six months ended 30 June 2018

Financial Highlights

- Good demand across the portfolio has led to a strong H1 trading performance
- 60% increase in total revenues to £6.5m (2017: £4.1m) including acquisitions made in 2017
- Group occupancy increased to 76.1% (2017: 71.6%)
- 50% increase in Hostels EBITDA to £2.4m (2017: £1.6m)
- Group EBITDA stable at £1.3m (2017: £1.3m) reflecting planned investment in central organisation
- Loss before tax of £0.8m including £0.4m of exceptional costs (2017: loss before tax £0.4m, after exceptional costs of £0.1m)
- Net loss per share of -2.30p (2017 -1.08p)

Operating Highlights

- UK hostel occupancy increased to 76.2% (2017: 71.6%) driven by particularly strong performances in Holland Park and York
- Achieved 4% growth in UK revenues only held back by impact of extension works in Elephant & Castle
- 6 European hostels (acquired within the last 12 months), including a 351 bed Hostel Barcelona acquired in March 2018
    - All trading to plan
    - Contributed £2.6m of revenue
    - Average occupancy of 76.1%
    - Re-branding complete
- Mainland Europe now represents 43% of our bed stock and 43% of the total turnover in the first 6 months of 2018
- Operational efficiencies achieved in the UK to be extended into the European portfolio
- Opening of the rooftop bar in Madrid in May 2018

H2 2018 and beyond

- Group trading in line with expectations
- Full benefit expected in H2 from the 351 bed Barcelona Passeig de Gracia hostel acquired in March 2018
- Expect to complete 80 bed extension in Elephant & Castle in December
- Construction of 226 bed Paris hostel due to complete end of 2019
- Good prospects for further complementary acquisitions

Larry Lipman, Chairman of Safestay, said:

"This has been a successful six months. The Group is performing to plan and the new hostels have been quick to integrate under the Safestay brand and operating structure. Alongside benefitting from the continuing growth in awareness and popularity of modern hostels, we have significant opportunities internally to increase returns from our young portfolio and we will also shortly benefit from the investment we have made in expanding our Elephant & Castle and Madrid hostels. Safestay is therefore well positioned for further organic growth and to continue to pursue our acquisition programme."

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Chairman's statement

Introduction

I am very pleased to present the results for the six months to 30 June 2018 which clearly show our success in improving the trading performance of our UK hostels whilst integrating the 6 new hostels all located in key European cities. Alongside this, we have invested in developing the operational systems and establishing a management structure to support an expanding portfolio, the benefits from which will come through in future operational efficiencies.

Financial review

For the period under review, the Group generated a 60% increase in revenues to £6.5 million (2017: £4.1 million) with £2.4m of the additional revenue coming from new acquisitions. This led to the hostels reporting a 50% increase in EBITDA to £2.4m (2017: £1.6m). All of the 5 properties acquired in 2017 have contributed positively adding £0.5 m in EBITDA. The 351 bed hostel in the centre of Barcelona acquired in March 2018 begun very strongly contributing £0.15m in its' first the three months within the Group.

Group EBITDA was level at £1.3m (2017: £1.3m) despite significant investment into the central organisation and hostel operating systems in the period under review. Abortive acquisition costs and costs incurred in relation to ongoing developments have increased the loss before tax to £0.8m loss (2017: loss of -£0.4m). As a consequence, the Company recorded a loss per share of 2.30p compared with a loss of 1.08p per share in the first half of 2017. As usual, reflecting the seasonality of our business, approximately 33% of our annual turnover and 50% of EBITDA is made in the third quarter.

Net asset value per share was 53.2p per share (2017: 56.9p per share).

Operating review

Safestay now operates 2,618 beds in 10 properties across 4 European and 3 UK cities, pending the opening of the Paris flagship site in 2019.

Following a year of acquisition in 2017, the first six months of 2018 have delivered significant growth. We have seen improvements in all UK properties, with the exception of Elephant and Castle where up to 30 beds are blocked while the hostel is undergoing an improvement plan which will complete by the end of 2018 and add 80 beds to the inventory.

Safestay sold a total of 284,000 nights in the first 6 months of 2018, increasing from 140,000 in the same period in 2017. Average occupancy was 76.1%, also improving from the 71.6% in 2017 despite the integration of 6 new hostels over the period. Hostel EBITDA have also significantly improved in the UK properties (+15% to £1.8m), partly due to efficiencies achieved in housekeeping. Margins achieved in the European hostels while ahead of budget are expected to benefit from the operating efficiencies being implemented in the UK. Guest satisfaction has reached 81% in the first 6 months with highest scores in cleanliness (92%) and service (95%).

We have now implemented a common Property Management System (Cloudbeds) in all properties to bring efficiencies and consistency in bookings, operation and data analytics. We are also building a strong revenue management expertise to release the full REVPAB (Revenue per Available Bed) potential in all properties. In addition, we have reinforced the corporate structure in compliance with our corporate governance policy.

Kensington Holland Park hostel, which offers a fantastic opportunity to stay in a historic Grade 1 listed building in the heart of Holland Park, has continued to grow revenues (+5%) after a record year in 2017. With occupancy now up to 82% (2017: 67%) the focus is to leverage our revenue management expertise and improve the rates to release the full potential of this unique site.

The Safestay Hostels in Edinburgh and York continue to contribute strongly to the operating profit of the group. They have grown revenue by 8% to £1.5m and 17% to £0.35m respectively. The tight control over the operating costs has helped to boost EBITDA to record levels, up to 0.8m in Edinburgh (+50%) and 0.15m in York (+79%).

At Elephant & Castle, the Company's first hostel, trading was disrupted by the extension works underway to develop an additional 80 beds over four floors. Total revenue was down 5% in 2018 to £1.2m but is expected to return to positive territory as soon as the works complete in December 2018.

Overall the 5 hotels acquired in 2017 and the Barcelona property opened in 2018 added £2.4m in turnover and £0.6m in EBITDA in 2018, in line with expectations. Lisbon and Prague markets have proved very strong and the Spanish properties have maintained occupancy levels in excess of 75% despite a challenging economic and political backdrop.

Acquisitions

In March 2018, we acquired Barcelona Passeig de Gracia from Equity point for €3m. This is our third hostel operating in Barcelona and it has already brought a positive net contribution of £0.1m to the Group profit in just 3 months of operation.

Outlook

The second half of the year has begun well, continuing on from the solid performance recorded across the portfolio in the first half. The Group will benefit from a full six months contribution from the strongly performing Barcelona Passeig de Gracia Hostel acquired in March 2018, improvements made to our online guest booking experience to support the growing proportion of direct and return bookings and the overall ongoing growth in the hostel sector. Taken together we are confident of recording a positive trading performance for the full year, in line with expectations.

Larry Lipman

Chairman
25 September 2018

Condensed consolidated statement of comprehensive income

	Note	Unaudited 6 months to 30 June 2018 £000	Unaudited 6 months to 30 June 2017 £000	Audited Year to 31 December 2017 £000
Revenue	**2**	6,509	4,058	10,547
Cost of sales		(764)	(513)	(1,561)
Gross profit		**5,745**	**3,545**	**8,986**
Administrative expenses		(5,303)	(2,769)	(7,520)
Operating profit before exceptional expenses	**2**	**442**	**776**	**1,466**
Exceptional expenses	**5**	(437)	(100)	(495)
Operating profit after exceptional expenses		**5**	**676**	**971**
Finance costs	**4**	(795)	(1,046)	(1,833)
Loss before tax		**(790)**	**(370)**	**(862)**
Tax		-	-	(11)
Total comprehensive loss for the period attributable to owners of the parent company	**3**	**(790)**	**(370)**	**(873)**

Condensed consolidated statement of financial position

	Note	Unaudited 30 June 2018 £000	Unaudited 30 June 2017 £000	Audited 31 December 2017 £000
Non-current assets				
Property, plant and equipment	**6**	46,262	46,381	45,971
Intangible assets	**7**	1,325	8,492	1,410
Goodwill	**7**	9,265	525	7,301
Total non-current assets		56,852	55,398	54,682
Current assets				
Stock		30	97	25
Trade and other receivables		1,053	854	903
Derivative financial instruments		-	9	-
Cash and cash equivalents		2,960	4,195	4,504
Total current assets		4,043	5,155	5,432
Total assets		**60,895**	**60,553**	**60,114**
Current liabilities				
Borrowings	**8**	423	100	168
Finance lease obligations	**9**	27	36	49
Trade and other payables		2,408	1,697	1,625
Total current liabilities		2,858	1,833	1,842
Non-current liabilities				
Borrowings	**8**	17,655	28,982	17,990
Finance lease obligations	**9**	21,187	10,222	21,179
Other payables	**11**	971	-	-
Deferred tax		-	-	105
Derivative financial instruments		-	33	-
Total non-current liabilities		39,813	39,237	39,274
Total liabilities		**42,671**	**41,070**	**41,116**
Net assets		**18,224**	**19,483**	**18,998**
Equity				
Share capital		342	342	342
Share premium account		14,504	14,504	14,504
Merger reserve		1,772	1,772	1,772
Share-based payment reserve		107	73	91
Revaluation reserve		4,218	4,218	4,218
Retained earnings		(2,719)	(1,426)	(1,929)
Total equity attributable to owners of the parent company		**18,224**	**19,483**	**18,998**

Condensed consolidated statement of changes in equity

For the six months to 30 June 2018 (unaudited)

	Share capital £000	Share premium account £000	Merger reserve £000	Share-based payment reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018	**342**	**14,504**	**1,772**	**91**	**4,218**	**(1,929)**	**18,998**
Comprehensive income							
Loss for the period	-	-	-	-	-	(790)	(790)
Total comprehensive income	-	-	-	-	-	(790)	(790)
Transactions with owners							
Share-based payment charge for the period	-	-	-	16	-	-	16
Balance at 30 June 2018	**342**	**14,504**	**1,772**	**107**	**4,218**	**(2,719)**	**18,224**

For the six months to 30 June 2017 (unaudited)

	Share capital £000	Share premium account £000	Merger reserve £000	Share-based payment reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	**342**	**14,504**	**1,772**	**57**	**4,218**	**(1,056)**	**19,837**
Comprehensive income							
Loss for the period	-	-	-	-	-	(370)	(370)
Total comprehensive income	-	-	-	-	-	(370)	(370)
Transactions with owners							
Share-based payment charge for the period	-	-	-	16	-	-	16
Balance at 30 June 2017	**342**	**14,504**	**1,772**	**73**	**4,218**	**(1,426)**	**19,483**

Condensed consolidated statement of changes in equity

For the year ended 31 December 2017 (audited)

	Share Capital	Share premium account	Merger Reserve	Share-based payment reserve	Revaluation Reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2017	**342**	**14,504**	**1,772**	**57**	**4,218**	**(1,056)**	**19,837**
Comprehensive income							
Loss for the year	-	-	-	-	-	(873)	(873)
Total comprehensive income	-	-	-	-	-	(873)	(873)
Transactions with owners							
Share-based payment charge for the year	-	-	-	34	-	-	34
Balance at 31 December 2017	**342**	**14,504**	**1,772**	**91**	**4,218**	**(1,929)**	**18,998**

Condensed consolidated statement of cash flows	Note	Unaudited 6 months to 30 June 2018 £000	Unaudited 6 months to 30 June 2017 £000	Audited Year to 31 December 2017 £000
Operating activities				
Cash generated from operations	12	972	851	1,863
Net cash generated from operating activities		972	851	1,863
Investing activities				
Purchase of property, plant and equipment		(990)	(1,032)	(1,088)
Purchase of intangible assets		(12)	(7,350)	(48)
Acquisition of business		(617)	-	(7,298)
Net cash outflow from investing activities		(1,619)	(8,382)	(8,434)
Cash flows from financing activities				
Proceeds from borrowings		-	29,445	29,820
Repayment of borrowings		(127)	(17,600)	(17,600)
Amounts paid under finance leases		(480)	-	(916)
Interest paid		(290)	(856)	(966)
		(897)	10,989	10,338
Cash and cash equivalents at beginning of period		**4,504**	**737**	**737**
Net increase/(decrease) in cash and cash equivalents		(1,544)	3,458	3,767
Cash and cash equivalents at end of period		**2,960**	**4,195**	**4,504**

1. Basis of preparation and principal accounting policies

The condensed interim consolidated financial statements of the Company and its subsidiaries ("the Group") for the six months to 30 June 2018 ("the period") have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial information presented above does not constitute statutory financial statements as defined by section 435 of the Companies Act 2006.

Copies of this announcement are available from the Company's registered office at 1a Kingsley Way, London N2 0FW and on its website, www.safestay.com.

These condensed interim financial statements have not been audited, do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's consolidated annual financial statements for the year ended 31 December 2017. While the financial figures included within this interim report have been computed in accordance with IFRS applicable to interim periods, this report does not contain sufficient information to constitute an interim financial report as set out in International Accounting Standard 34 Interim Financial Reporting.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers. As required by IAS 34, the nature and effect of these changes has been reviewed by the Directors but do not have an impact on the interim condensed consolidated financial statements of the Group.

Impacts of standards issued but not yet applied by the Group

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard,
an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of £19.7m. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.
Some of the commitments may be covered by the exception for short-term and low-value leases, and may relate to arrangements that will not qualify as leases under IFRS 16. The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

2. Segmental analysis

	Unaudited 6 months to 30 June 2018 £000	Unaudited 6 months to 30 June 2017 £000	Audited Year to 31 December 2017 £000
Revenue			
United Kingdom	3,942	4,058	8,496
Other Europe	2,567	-	2,051
	6,509	**4,058**	**10,547**
Operating profit*			
United Kingdom	1,155	1,312	2,570
Other Europe	454	25	49
Central costs	(1,604)	(661)	(1,648)
	5	**676**	**971**

Operating profit for the United Kingdom stated in the 2017 audited financial statements is £0.922 million. The above disclosure and division of costs has not been audited.

3. Loss per share

	Unaudited 6 months to 30 June 2018 £000	Unaudited 6 months to 30 June 2017 £000	Audited Year to 31 December 2017 £000
Loss for the period attributable to equity holders of the company	(790)	(370)	(873)
	Number ’000	**Number ‘000**	**Number ‘000**
Weighted average number of ordinary shares for the purposes of basic loss per share	34,219	34,219	34,219
Effect of dilutive potential ordinary shares	1,807	36	1,807
Weighted average number of ordinary shares for the purposes of diluted loss per share (‘000s)	**36,026**	**34,255**	**36,026**
Basic and diluted loss per share	(2.30p)	(1.08p)	(2.55p)

There is no difference between the diluted loss per share and the basic loss per share presented. Due to the losses incurred in the reported periods the effect of the share options in issue is anti-dilutive.

4. Finance costs

	Unaudited 6 months to 30 June 2018 £000	Unaudited 6 months to 30 June 2017 £000	Audited Year to 31 December 2017 £000
Interest on bank overdrafts and loans	270	695	798
Amortised loan arrangement fees	41	-	73
Other interest costs	-	-	115
Lease finance (note 9)	465	349	831
Fair value of interest rate swaps	19	2	16
	795	**1,046**	**1,833**

5. Exceptional expenses

The following costs are separately disclosed on the Condensed Consolidated Income Statement as exceptional and outside the underlying trading of the hostels:

	Unaudited 6 months to 30 June 2018 £000	Unaudited 6 months to 30 June 2017 £000	Audited Year to 31 December 2017 £000
Administration costs relating to incomplete acquisitions	369	-	-
Administration costs relating to the acquisition of businesses	23	100	201
Other	45	-	274
	437	**100**	**495**

6. Property, plant and equipment

For the period from 1 January 2018 to 30 June 2018 (unaudited)

	Freehold land and buildings £000	Leasehold land and buildings £000	Fixtures, fittings and equipment £000	Assets Under Construction £000	Total £000
Cost or valuation					
At 1 January 2018	2,683	43,717	2,052	121	48,573
Transfer	18	231	(249)	-	-
Additions	-	19	258	713	990
Business Combinations	-	-	103	-	103
Exchange Movements	-	-	(7)	(1)	(8)
Disposals	-	-	(48)	-	(48)
At 30 June 2018	**2,701**	**43,906**	**2,109**	**833**	**49,610**
Depreciation					
At 1 January 2018	261	1,031	1,310	-	2,602
Charge for the period	15	456	306	-	777
Released on Disposal	-	-	(31)	-	(31)
At 30 June 2018	**276**	**1,487**	**1,585**	**-**	**3,348**
Net book value					
At 30 June 2018	2,425	42,480	524	833	46,262

7. **Intangible Assets and Goodwill**

For the period from 1 January 2018 to 30 June 2018 (unaudited)

	Software	Leasehold rights	Goodwill	Total
	£000	£000	£000	£000
Cost				
At 1 January 2018	48	1,711	7,301	9,060
Additions	12	-	-	12
Business Combinations (note 9)	-	-	2,002	2,002
Exchange Movements	-	(7)	(38)	(45)
At 30 June 2018	60	1,704	9,265	11,029
Amortisation				
At 1 January 2018	4	345	-	349
Charge for the period	9	81	-	90
At 30 June 2018	13	426	-	439
Net book value				
At 30 June 2018	**47**	**1,278**	**9,265**	**10,590**

8. **Borrowings**

	Unaudited 30 June 2018	Unaudited 30 June 2017	Audited 31 December 2017
	£000	£000	£000
At amortised cost			
Bank loans	18,382	18,400	18,400
Unamortised borrowing costs	(304)	(738)	(242)
	18,078	**17,662**	**18,158**
Loans repayable within one year	423	90	168
Loans repayable after more than one year	17,655	17,572	17,990
	18,078	**17,662**	**18,158**

The repayment profile of the loans as at 30 June 2018 are as follows:

For the period ended 30 June 2018 (unaudited)	**Total**
	£000
Due within one year	342
Due after more than one year	18,040
Balance at 30 June 2018	**18,382**

9. **Obligations under finance leases**

Minimum lease payments

	Unaudited 30 June 2018 £000	Unaudited 30 June 2017 £000	Audited 31 December 2017 £000
Amounts payable under finance leases:			
Within one year	960	960	937
In the second to fifth years inclusive	4,800	4,800	3,840
After five years	43,480	44,440	37,455
Less future finance charges	(28,026)	(28,906)	(21,004)
Present value of future lease obligations	**21,214**	**21,294**	**21,228**

	Present Value of minimum lease payments		
	Unaudited 30 June 2018 £000	Unaudited 30 June 2017 £000	Audited 31 December 2017 £000
Amounts payable under finance leases:			
Within one year	27	27	49
In the second to fifth years inclusive	128	127	223
After five years	21,059	21,140	20,956
Present value of future lease obligations	**21,214**	**21,294**	**21,228**

The Group continues to treat the Holland Park lease as a finance lease on the basis that the present value of the lease payments constitutes the substantial part of a theoretical freehold valuation. The average effective borrowing rate was 6.55%. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

On 31 March 2017 the group property refinancing transactions on its hostels in Edinburgh and Elephant & Castle, receiving gross proceeds of £5.32 million and £6.1 million respectively. The properties were independently valued at £14.3 million and £16.0 million; as the undervaluation matched by lease rentals is below the full market rate, the directors deem the transaction as outside the scope of IAS17 and treatment as finance leases is considered appropriate.

10. Obligations under operating leases

The total future minimum lease rental payments (discounted) under non-cancellable leases are as follows:

	Unaudited 30 June 2018 £000	Unaudited 30 June 2017 £000	Unaudited (Restated) 31 December 2017 £000
Due within a year	1,755	1,055	1,359
Between one and five years	9,282	6,834	4,695
After five years	8,692	6,158	5,481

11. Business combinations (unaudited)

On 7th March 2018 the Group acquired its third Barcelona hostel through an asset purchase with seller, Equity Point Hostels for a total consideration of €3.0 million; €700,000 was paid on acquisition with 4 annual instalments of €575,000 due.

The hostel has been treated as a business combination as it was operating as a business at the point of purchase.

The provisional fair values of assets and liabilities acquired, translated at 1.13:

	£000
Property, plant and equipment	103
Current assets	-
Deferred revenue, trade and other payables	(50)
Goodwill	2,002
Consideration (Net present value)	**2,055**

The deferred consideration is presented in current and non-current payables at £460,597 and £971,192 respectively at the reporting date.

12. Notes to the condensed consolidated statement of cash flows

	Unaudited 6 months to 30 June 2017 £000	Unaudited 6 months to 30 June 2017 £000	Audited Year to 31 December 2017 £000
Loss before tax	**(790)**	**(370)**	**(862)**
Adjustments for:			
Depreciation of tangible assets	777	422	1,538
Amortisation of intangible assets	90	70	161
Finance costs	795	1,046	1,833
Loss on disposal of fixed assets	17	-	-
Share-based payments	17	17	34
Exchange movements	53	-	(147)
Changes in working capital			
Stock	(7)	(74)	2
Trade and other receivables	(199)	(363)	(259)
Trade and other payables	219	103	(389)
Cash generated from operating activities	**972**	**851**	**1,911**

13. Reconciliation of operating profit to EBITDA

	Unaudited 6 months to 30 June 2018 £000	Unaudited 6 months to 30 June 2017 £000	Audited Year to 31 December 2017 £000
Operating profit	**5**	**676**	**971**
Add back:			
Depreciation and amortisation	867	493	1,699
Exceptional items	437	100	495
Share based payment expense	16	17	34
Group EBITDA	**1,325**	**1,286**	**3,199**
Head Office costs	1,109	307	1,036
Hostel EBITDA	**2,434**	**1,593**	**4,235**