

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR THE PURPOSES OF THE MARKET ABUSE REGULATION (EU) NO. 596/2014.

24 August 2020

**Safestay Plc
("Safestay" or the "Company")**

Trading Update and Financing Arrangements

Safestay (AIM: SSTY), the owner and operator of an international brand of contemporary hostels, is pleased to provide the following update on trading and its latest financing arrangements.

Trading update

On 29 May 2020, in conjunction with the announcement of the Company's final results for the year ended 31 December 2019, the Company updated the market on its financial position and outlook. That announcement explained the material uncertainty which has resulted from the impact of the COVID-19 virus on the economy and the hospitality industry and the company now sets out its revised plan as it adapts to the prolongation of the pandemic beyond June and the current travel restrictions in parts of Europe and across the globe. The perceived likelihood of a second wave, impacting further the tourism sector after the summer of 2020 is increasing, and this has persuaded the Company to take further actions to safeguard the Group's financial position. Additional cost saving measures have recently been implemented, including further negotiations with landlords to obtain additional rent reduction following the £0.4m rent relief granted in the period between April to July 2020, and all costs will continue to be reviewed on an ongoing basis.

The Directors believe that Safestay has the infrastructure in place to manage the re-opening of hostels and re-engagement with its customers and that ultimately, Safestay will find the route to returning its portfolio of hostels to pre-COVID-19 occupancy levels. Safestay has been at the forefront of the modernisation of the hostel market over the last five years. The Group generated significant cash from its operations in 2019 and its strategy to develop and expand the premium hostel offering within the UK and through its European acquisitions was proving a successful formula pre-crisis, and the Directors believe that it will continue to appeal to the Group's customer base again once the world has moved past the current crisis.

The Company has built a forecast under two alternative indicative scenarios:

A base case which applies the following assumptions:

- All hostels re-open by October 2020
- 25 per cent. occupancy (versus 90 per cent. in 2019) for the months of August and September 2020 (based on open units rather than total units), rising to 30 per cent. occupancy in the last quarter of 2020, and 40 per cent. occupancy (versus 65 per cent. in 2020) for the months of January and February 2021; and
- An average occupancy 5 per cent. lower than in 2019 for the rest of 2021.

A low case which applies the following assumptions:

- All hostels re-open by October 2020 except for London Kensington Holland Park and Barcelona Gothic which would open in 2021;
- 20 per cent. occupancy (versus 90 per cent. in 2019) for the months of August and September 2020 (based on open units rather than total units), reducing to 15 per cent. occupancy in the last quarter of 2020 assuming a second wave of infection, and 25 per cent. occupancy (versus 65 per cent. in 2020) for the months of January and February 2021; and
- An average occupancy 15 per cent. lower than in 2019 for the rest of 2021.

The Group's hostels break even when the average occupancy reaches approximately 57%. Under both indicative scenarios, the hostels reach this occupancy level from March 2021.

The contribution of the six hostels acquired in 2019 and 2020 will help the total revenue to return to 2019 levels in 2021 in the base case scenario despite a lower occupancy. The following is an update of the Group's material capital expenditure requirements:

- The conversions of the Group's properties in Glasgow, Vienna and Brussels from hotels to hostels were completed and paid for by March 2020. The Brussels and Glasgow properties were also fully renovated as part of the conversion works to position the hostels strongly in their market upon re-opening of the properties.
- The Group completed renovation works in Lisbon, Barcelona Gothic, York and Edinburgh, and to the restaurant in Barcelona Passeig de Gracia by March 2020.

The conversion and renovation costing upwards of £0.2 million of the Berlin hotel into a 180 bed hostel has been postponed. The Group's planned 2020 renovation program also included some renovation works in Barcelona Sea, Barcelona Passeig de Gracia and Elephant and Castle, which have been postponed. All these projects will resume when the requisite funds are available and if the investment is still financially sensible in the post COVID environment.

Current Trading

During the lock down period, management organised 24/7 security in all hostels and all properties have been serviced, maintained, and cleaned. The job retention schemes have allowed the Company to keep essential staff employed, and therefore the Group has the ability to resume activity in all hostels as soon as authorised by relevant jurisdictions and provided that resuming activity makes financial sense. Moreover, following the acquisition of 14 hostels in the last three years, the Group's teams have gained experience in opening hostels in a very short timeframe and limited resource, as demanded by the current situation.

The re-opening of hostels is subject to the restrictions in each market, and the Group's sales team is initially focused on just domestic customers while international travel remains limited. Under the slogan, 'Stay Safe at Safestay' the priority is to inform guests of the safety measures that are in place. A detailed description of the safety protocols and the operational measures in place is made available to the Group's guests via the Company's website. Rooms are only being sold to individuals or groups who are known to each other.

The Group re-opened its Berlin hotel on 26 May 2020, the Vienna hostel on 10 June 2020, and all other hostels will have re-open by 28 August, except for London Kensington Holland Park and Barcelona Gothic hostels which will only re-open when there is considered to be sufficient demand to profitably operate more than one hostel in London, and two in Barcelona.

On average, in July 2020, 30 per cent. of the Group's bed stock was available and 16 per cent. of such bed stock was occupied. The average occupancy for the Group's bed stock rose to 24 per cent. and 27 per cent. of available bed stock respectively in the first and second weeks of August. The Directors are encouraged that the data up to 16 August 2020 shows that occupancy levels are gradually increasing week after week after hostels have re-opened. The five hostels (Pisa, Berlin, Vienna, Warsaw, Brussels) which have been re-open for more than five weeks have achieved 31 per cent. occupancy on average in their third week since re-opening, and 39 per cent. occupancy on average in their fourth week since re-opening.

Whereas under normal circumstances, 28 per cent. of the Group's business is from group bookings made months in advance, and 72 per cent. from individual guest bookings made two months in advance on average, the current business is made essentially of last minute bookings, which makes future bookings more difficult to predict.

Financing Arrangements

It was announced on 14 April 2020 that the Company had agreed a new £5 million overdraft facility from HSBC, which together with the Company's cash reserves, would satisfy the Company's working capital cash requirements during and after the lock down period. As announced on by the Company on 29 May 2020, the covenants in the Company's existing £22.9 million debt facility, also with HSBC, have been waived until 31 December 2020. The Group is expected to breach the historic debt service cover covenant and the historic interest cover covenant at the next test date of 31 December 2020, and the Group is currently discussing with HSBC the possibility of HSBC waiving such covenants as at the test date of 31 December 2020 and for a longer period thereafter. There is no guarantee that HSBC will agree to waive such covenants as at 31 December 2020 or agree to extend the waiver of such covenants beyond 31 December 2020. The Group is pursuing a government backed loan pursuant to the Coronavirus Business Interruption Loan Scheme (CBILS) to replace the HSBC facility.

Cash in bank as at 18 August 2020 was approximately -£0.9 million, with £4.1 million of the £5.0 million HSBC overdraft still available to be drawn. Under the base case scenario above, the Company models its cash low position of approximately £(4.6) million in February 2021, falling within the available £5.0 million overdraft facility. If the assumptions contained in the low case scenario described above were to apply, the Group would have a funding shortfall by 31 January 2021.

To strengthen the Company's finances the board is investigating alternative options to maintain its cash requirements within the £5 million limit pursuant to the overdraft with HSBC. The Group owns the freeholds of the hostels in Glasgow, Pisa and York, which could therefore be disposed of, either in the form of a sale and lease back transaction or a straight disposal. The Group might also contemplate the early termination of the leases which are anticipated to generate losses in the next months, subject to an agreement being reached with the relevant landlords. The Board is considering a range of options in relation to the business, including raising equity, but the Board is mindful of giving all shareholders the opportunity to participate in any such equity raise.

The directors remain confident of securing additional funding to continue to support the business and emerge as one of the winners post the pandemic.

Larry Lipman, Chairman of Safestay, "This is a challenging period but I am confident that in time we will get back to normal. We are working closely on a range of options to strengthen our financial position, which may not be required but will be an additional comfort to have. We know we have a good cash generative business and while the current market is challenging we have a clear strategy for addressing it and as importantly for moving back to being fully operational."

The Company will provide a more detailed trading update with its interim results, which will be published on 24 September 2020.

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About Safestay

Safestay (AIM: SSTY) is the owner and operator of an international brand of contemporary hostels.

For more information visit our:

Website: www.safestay.com

Vox Markets page: <https://www.voxmarkets.co.uk/company/SSTY/news/>

Instagram page: www.instagram.com/safestayhostels/