



Tourism in Iceland

Investing in Iceland's growth engine

GAMMA
2018



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Foreword

Mr. Ólafur Ragnar Grímsson

*Chairman of The Arctic Circle
and former president of Iceland*

The vision of a sustainable world, where the splendor and the majesty of nature is preserved, where clean energy and air without pollution, where freedom, peace, democracy and equality are the pillars of progressive society, has in recent years become the dream of young generations on all continents.

The millions who have visited Iceland in the second decade of the new century have found in the country a hope that such a reality could indeed be achieved; a model which inspires in multiple dimensions and contrasting colors and characteristics.

Iceland is the youngest country on Earth in geological terms, where the creation described in the Book of Genesis is still taking place. It is where the American and the Eurasian continents



meet and where the melting of the glaciers due to climate change can be directly observed. It is the home of a nation which decided to bid farewell to fossil fuel with respect to electricity production and house heating and has for decades celebrated being the first in the world to achieve the 100% target for clean energy.

The growing number of young people from America, Europe and Asia, who now visit Iceland in all seasons, indicates a fascinating transformation in global tourism. Even a short conversation will reveal that they are on a mission; 21st-Century explorers examining new paths for their own societies; seeking proof that a transformation towards their ideals is indeed possible.

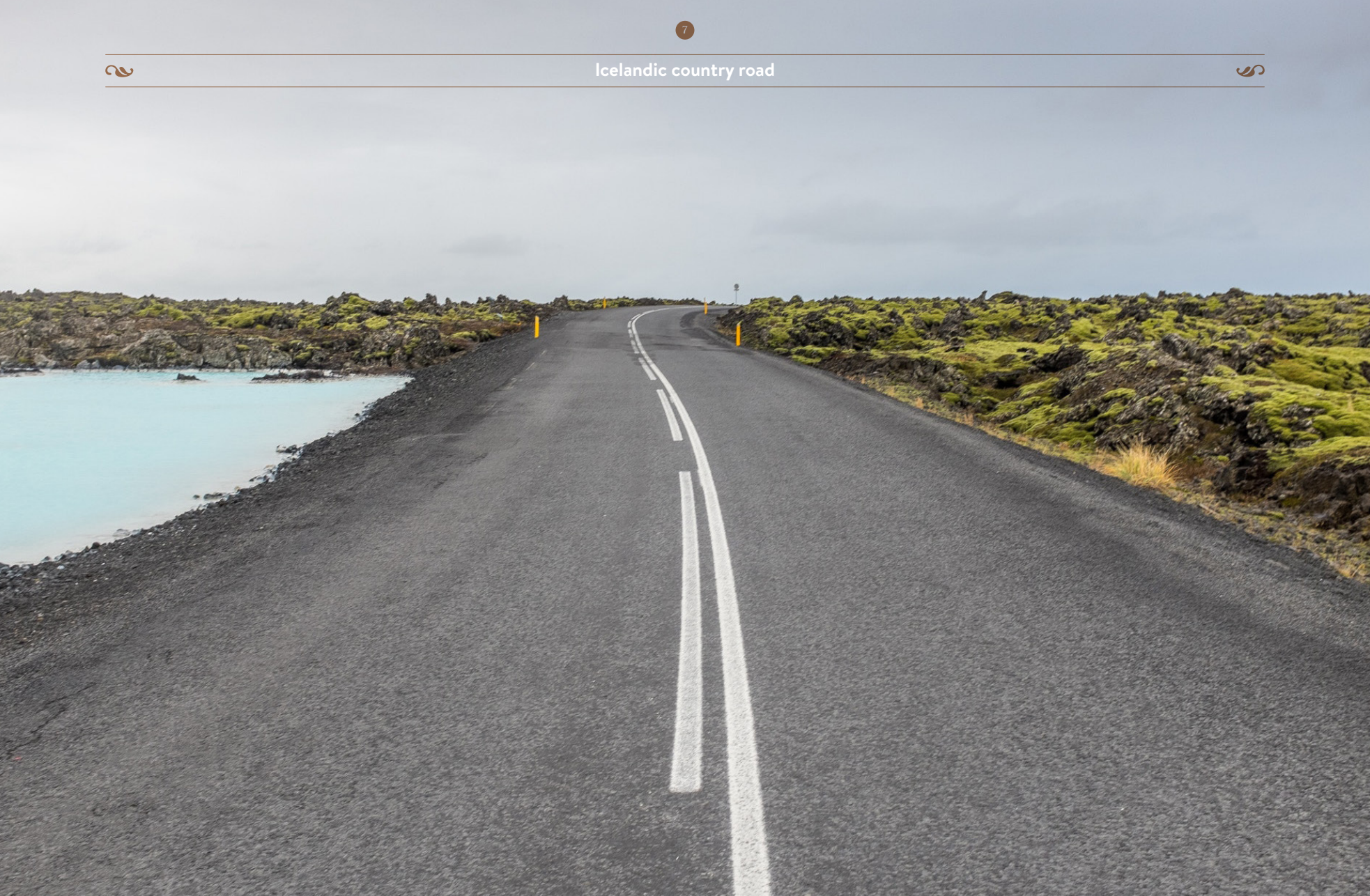
The northernmost regions of the planet – the vast territory commonly known as the Arctic

– are now the focus of growing interest, helped by the splendid photos and films brought back by the new visitors, due to the many programs on television and in the global media, strengthened by the thousands of pictures shared every day of the year by the tourists with their friends on multiple social media platforms.

This growing interest in the North and the Arctic can be witnessed every October in Iceland at the Assembly of the Arctic Circle, attended by over 2000 participants from more than 60 countries, leaders of governments, business and science, who enter into a new democratic dialogue with environmentalists, indigenous representatives, young leaders and activists. It has become the largest and the most dynamic annual gathering on the future of the Arctic and the North, enjoying, together with the World

Economic Forum in Davos, the status of being a pre-eminent European platform for such economic, political and social engagement. All these elements constitute an important contribution to the analysis presented in this report, why a small country in the North is now among the most fashionable destinations in the world, a location of the fastest growth in tourism and air passenger transport in the Western world.

It is important to understand the causes, the patterns and the directions because thus we gain a better understanding of our future; how people from every part of our planet want to join journeys towards a better and more sustainable world.





Introduction

Glacial lagoons of the purest blue, waterfalls the size of skyscrapers, desolate black sands and white geothermal springs. You'd be forgiven for thinking Iceland is the most beautiful country in the world. That's what Icelanders themselves have always thought anyway. Indeed, Gunnar of Hlíðarendi, a 10th century Icelandic chieftain and one of the heroes of the Icelandic Sagas, was so moved by the beauty of his homestead that he couldn't bear to sail away from Iceland to flee from his enemies, even though it would have saved his life.

The rest of the world was a tad slower to catch on. In the 50 years from 1950-2000, only four million foreign tourists visited Iceland - in total. Then something happened. Since 2010, tourist numbers have surged. Again, four million new tourists visited Iceland, but this time it only took the three years between 2014-2016. Iceland, one of the coldest countries on the planet had

become one of its hottest tourist destinations. For Iceland, the tourist boom couldn't have come at a better time. After suffering a large decline in output following the great recession of 2008-2009, Iceland has posted one of the world's strongest economic recoveries, aided by the huge boost to export receipts provided by tourism. That's how Iceland got its groove back.

But the rise of tourism has also brought its set of challenges. Infrastructure and capacity have come under pressure, highlighting the need for greater investment into roads, airports, hotels and transportation. The inflow of hard currency has caused the domestic currency, the króna, to appreciate handsomely, making Iceland a more expensive destination (although tourists can at least be thankful they don't have to pay for the country's beauty with their lives, as Gunnar of Hlíðarendi did!). Compiled by the seasoned professionals of GAMMA Advisory,

this report is intended to help international investors make sense of the state-of-play and opportunities presented by the tourism industry in Iceland. Among other things, the report analyses what could have caused the sudden interest in Iceland, how it has impacted the Icelandic economy, and what opportunities may exist in key sectors following recent developments. It concludes with a brief overview of the range of services GAMMA can offer investors and corporates interested in exploring opportunities in Icelandic tourism, combining international corporate finance experience with on-the-ground sector insights across our offices in Reykjavik, London and New York.

Valdimar Armann,
CEO of GAMMA



Executive Summary

The background, state of play and opportunities in Icelandic tourism

1. Tourism is booming in Iceland, generating strong growth

- ☞ Tourist arrivals in Iceland have increased fivefold since 2010 to 2.2 million in 2017.
- ☞ The tourist surge has helped Iceland achieve an exceptional export-led economic recovery since its 2008 financial crisis.
- ☞ A number of factors triggered the surge, including a volcanic eruption, film and TV, the rise of social media and successful marketing campaigns.
- ☞ With sensible policy choices, tourism is set to become a permanent pillar of the Icelandic economy year-round as Icelandic nature and northern lights continue to attract tourists.
- ☞ The number of inbound tourists in 2018 is forecast to reach 2.5 million.

2. Industry at a crossroads, with ample opportunities

- ☞ The surge has attracted a large number of entrepreneurs and upstarts in air-travel, accommodation, car-rental, tours and entertainment, often leading to significant innovation.
- ☞ The industry remains fairly fragmented, however, pointing to consolidation opportunities.
- ☞ International investors and global travel brands will likely take advantage of entry opportunities in the coming years as early entrants and domestic VCs seek to divest and exit.
- ☞ Furthermore, investment is urgently needed to maintain the road network, airports and other basic infrastructure after years of low investment, possibly under public-private partnerships.

3. How GAMMA Advisory can help

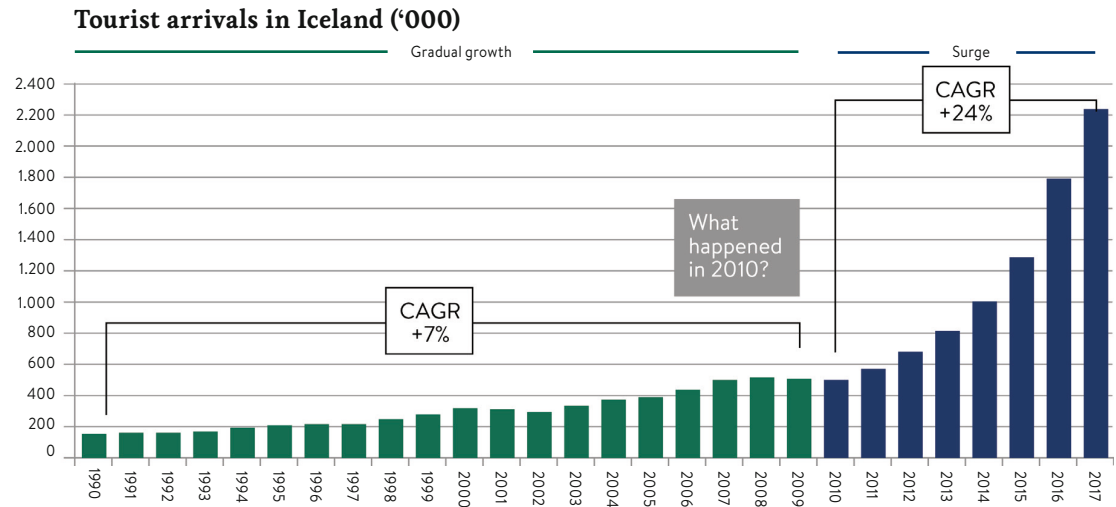
- ☞ GAMMA has a dedicated corporate advisory of 15 professionals located across the US and Europe, including a team on the ground in Reykjavik with native knowledge of the tourism sector, enabling us to provide a comprehensive investment solution to international investors interested in exploring opportunities in Icelandic tourism:
 1. Deal sourcing and origination
 2. Advisory services and transaction execution
 3. Co-investment and consortium formation

I. Overview of Icelandic tourism

A key driver of Iceland's shift in fortune

Massive surge in tourist arrivals since 2010
has bolstered Icelandic growth

- ❧ The sum total of tourists who visited Iceland in the last 12 months outnumbers the local population 7-to-1.
- ❧ More tourists visited Iceland in 2008-2016, than over the 60 preceding years.
- ❧ The #Iceland hashtag has been used 7,223,464 times on Instagram – and counting
- ❧ At peak numbers in summer, as many as one in five people on the island is a tourist.
- ❧ Almost every other car sold in Iceland since 2008 has been bought by car rentals.
- ❧ One out of every ten cars on the streets of Iceland is a rental.



Source: Icelandic Tourist Board



Confluence of factors triggered surge

Notoriously difficult to discern which of these factors played the biggest part

Eyjafjallajökull volcanic eruption

For weeks, the international media was plastered with awe-inspiring images of Icelandic nature following the Eyjafjallajökull eruption in 2010 (and again following the less disruptive 2011 eruption of Grímsvötn) providing invaluable exposure.

Expansion of seat supply

Airlines flying to Iceland have multiplied from eight in 2005, to 29 in 2018, massively expanding availability of air travel to the island. A strategy of repositioning Iceland as a hub between Europe and North-America has played a vital part in catalysing the expansion.

Shooting location for film and TV

Iceland became the setting for a flurry of high-profile films and TV series, showcasing Icelandic landscape, including *Star Wars*, *Game of Thrones*, *The Secret Life of Walter Mitty*, *Prometheus*, *Oblivion*, *Interstellar*, *Justin Bieber's I'll Show You* and more. Global celebrities frequently praise the country on talk shows.

Supportive exchange rate

Following bank failures in 2008, the Icelandic króna fell substantially, making Iceland a relatively inexpensive destination – although it is becoming less so with the recent appreciation of the currency.

Coordinated marketing

The industry collaborated with the authorities on the *Inspired by Iceland* campaign, and started to promote winter tourism and northern light safaris to draw in tourists during the shoulder season. The effect has been to reduce seasonality and attract additional tourists.

The rise of social media

Visitors to Iceland frequently become spontaneous brand ambassadors via social media which, coupled with a global increase in social media usage over the last decade, has boosted awareness of Iceland as a destination.



But why travel to Iceland?

Top attractions in Iceland according to Tripadvisor

83% of inbound tourists name Icelandic nature as the main reason for their visit



Glacial hikes are a popular activity among tourists





Iceland is a safe destination

Icelandic people are friendly towards travellers. The Nordic countries are the safest destinations in the world to visit. According to the 2017 Social Progress Index, Denmark, Finland, Norway and Iceland are the four safest destinations. Most travellers take this into consideration, especially in the light of recent terror attacks in various European holiday destinations. Iceland has been named the world's most peaceful country by the Global Peace Index and the U.S. Department of State has assessed Iceland

as being a low-threat location for crime (Iceland 2017 Crime & Safety Report). Iceland has had a murder rate of less than one per year for several decades (0.9 per 100,000 inhabitants). Not only does Iceland have an extremely low homicide rate, violent crime or perceived criminality – the country scores high in all sections of basic human needs and foundations of wellbeing. To name but a few: access to electricity, clean (natural) drinking water, clean air, and access to internet and phone coverage are the highest

in the world. Iceland operates highly trained first response teams. In addition, independent associations have an extensive role in rescue work in Iceland. Thousands of volunteers dedicate themselves to work for the ICE-SAR rescue teams. Their joint mission is to prevent accidents and save human lives and valuables. To fulfil that role there are groups of volunteers always available, night and day, year-round. The ICE-SAR rescue teams include thousands of people who are always available when needed.





Outlook: Growth to continue at slower pace

Likely that exchange rate will facilitate adjustment through relative prices

Tourist arrivals are generally forecast to increase in the medium term. However, many analysts expect growth to converge to more sustainable levels from the break-neck pace of recent years.

Based on allotted landing slots at major airports, operator Isavia forecasts that the number of inbound tourists in 2018 will increase by 11%, reaching 2.5 million. Analysts have speculated that growth might approach high single digits from 2019 onwards. This is positive news; moderate growth is more manageable, reducing the risk of severe infrastructure lags, overcrowding at tourist sites and intolerance of tourism among the native population.

The ISK exchange rate is seen as a mechanism helping tourism adjust smoothly to capacity constraints; by fuelling an appreciation of the króna, tourism may already be self-regulating the flow of tourists through relative pricing, as Iceland becomes a more expensive destination. Should appreciation start deterring tourists, the demand response will, in turn, limit the potential for further appreciation and help keep tourism at a sustainable level.



Tourists love Iceland ...

“Why wouldn't anyone want to spend 2 weeks driving through what looks like the set of Lord of the Rings and Game of Thrones?”

“Iceland is paradise on earth.”

“A unique unspoilt destination offering spectacular scenery”

“No other countries can beat its landscape beauty.”

“Good mix of city night life and outdoor activities.”

“Amazing scenery, nice people, nice food.”

“The landscapes change so much and so fast, there are moments in which you feel as if you were in another world.”

“Best trip our family has ever been on. We barely scratched the surface and all want to return.”

“Geological wonderland. Desolate but beautiful landscapes. The land of the Sagas.”

... but not Icelandic prices

“I think Iceland is quite expensive as a travel destination.”

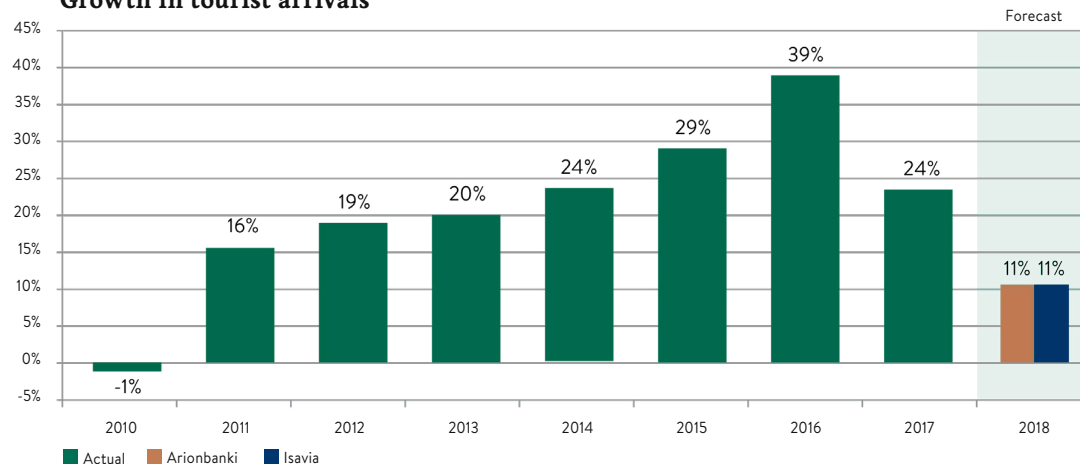
“It's a little bit too expensive.”

“It's rather pricey.”

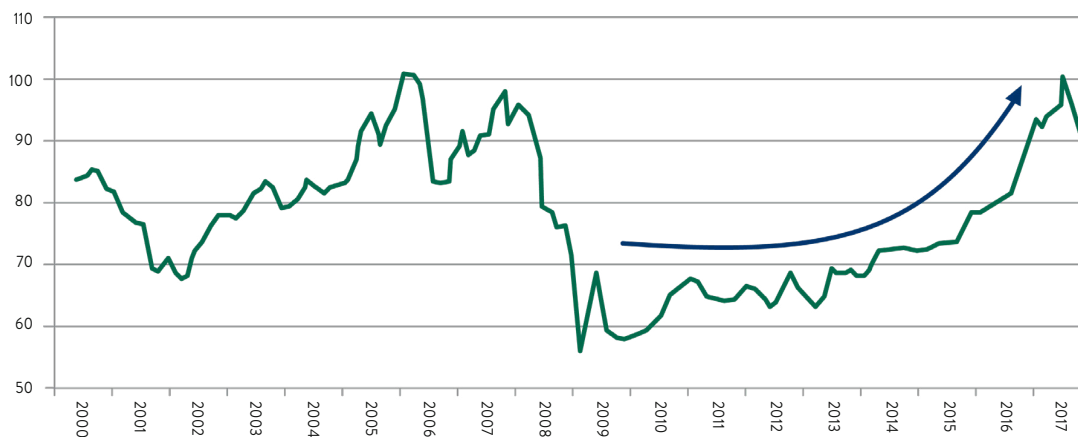
“It's so expensive!”

“I found the prices downtown at times outrageous.”

Growth in tourist arrivals



Real exchange rate (Trade Weighted Index, current=100)

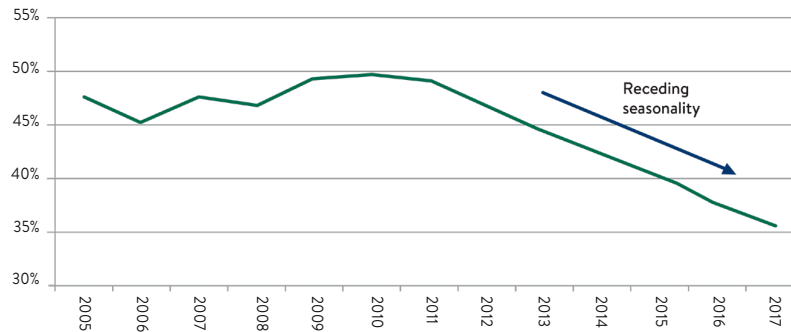


Source: Icelandic Tourist Board, Central Bank

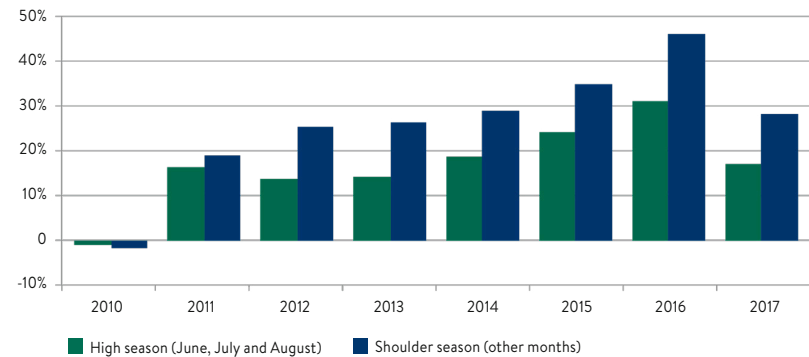


Winter tourism has reduced seasonality

Share of tourists visiting in June, July or August



Growth in tourist arrivals



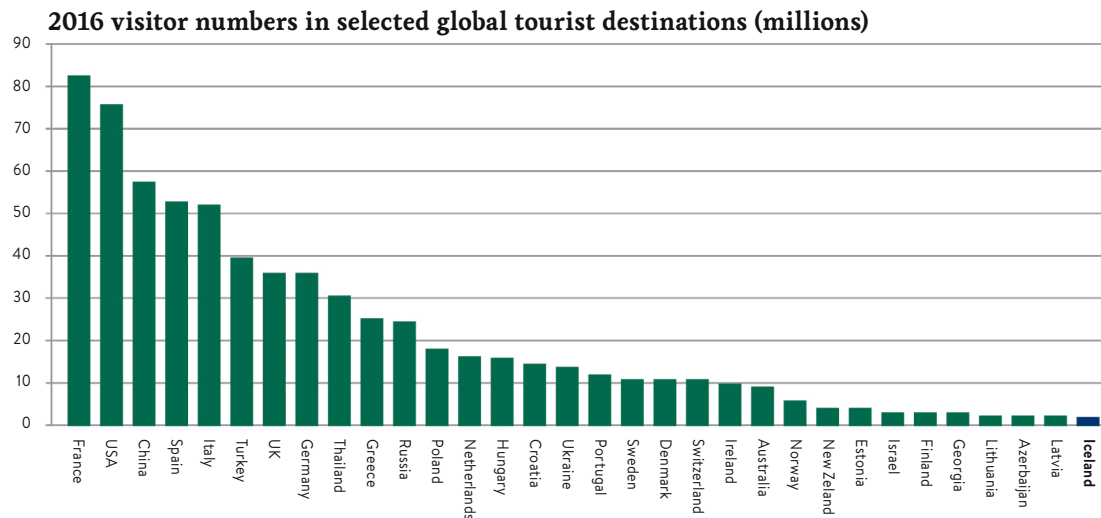
Much like other global tourist destinations, seasonality has historically been a key challenge for Icelandic tourism. In 2010, close to half of travelers visited the country during the summer months of June, July or August. The travel industry, with support from the government, the City of Reykjavik and others, launched an

international marketing campaign the following year to promote Iceland as a year-round destination. As the figures above demonstrate, the campaign has had significant success in positioning Iceland as a winter destination, significantly reducing seasonality. The Northern lights are the main attraction during the high

winter but other winter activities have also inspired travelers, including glacial treks, snowmobiling, heli-skiing, super-jeep safaris etc. This has led to increased efficiency in the tourism sector, as utilisation of capacity steadily improves year-round.



Still room to grow



While the growth in tourism has indeed been fast in Iceland, it is still a minor destination in a global context. Although the 1.8 million visitors to Iceland in 2016 is a substantial number compared to the country's population of 330 thousand, the absolute number of visitors is comparable with

those of the Baltics or minor Eastern European destinations, rather than the tens of millions travelling to major European destinations such as France, Spain and Italy. Iceland's 1.8 million visitors in 2016 account for only 0.3% of the 616 million tourists who visited Europe during the

year. It is evident that only a small fraction of the 800 million annual tourists originating in Europe and the Americas – key markets for Iceland – have visited the country, pointing towards continued opportunities for growth.



The IMF on Icelandic tourism

As part of its latest Article IV review, the International Monetary Fund (IMF) published a Selected Issues paper assessing the sustainability of Iceland's tourism eruption. IMF notes that tourists do not seem to be mainly driven by rising incomes at home, nor have they been deterred by rising costs on the back of the appreciation of the króna – which leaves Iceland's tourism boom largely unexplained by standard econometric models. Rather, Iceland's natural wonders, welcoming atmosphere, general safety, improving connectedness and social media outreach have drawn in visitors. Going forward, IMF predicts tourism is likely to grow less rapidly than in recent years, yet remain at strong levels, citing the following supportive factors:

Empirically, surges in tourism tend to be durable.

Where declines in tourism have occurred, they are usually associated with political turmoil, crumbling infrastructure, overcrowding in tourist sites, environment degradation, or losses in price competitiveness.

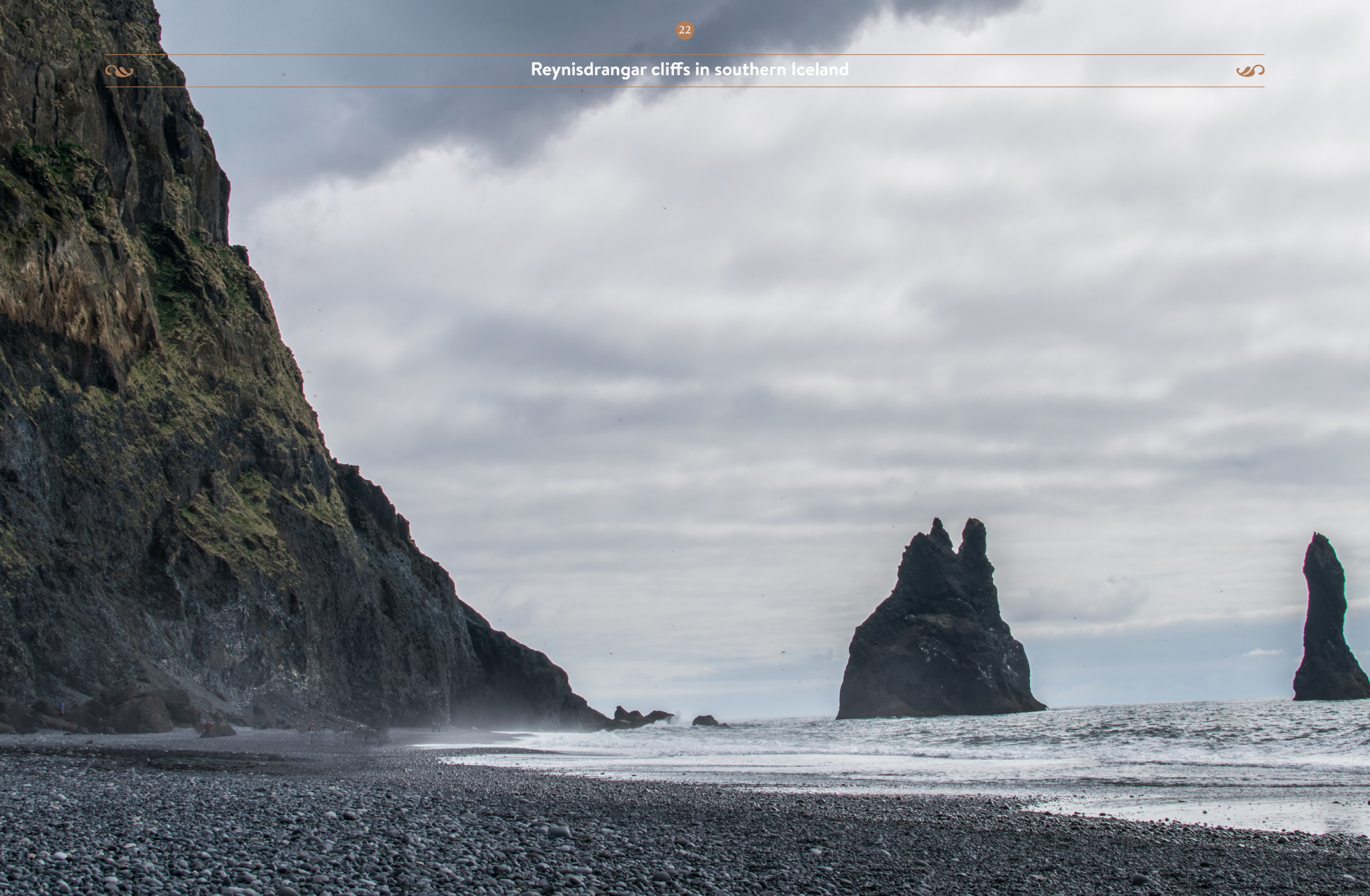
The global trend toward adventure tourism should continue to favour Iceland.

Sensitivity to price increases tends to be less pronounced for high-end destinations, such as Iceland.

Air connectivity, a stronger tourism driver in small island economies, can be further leveraged, for instance by introducing direct flights to mega-market China (an option reportedly under review by airlines).

Tourist satisfaction and likelihood to return are very high with 95% of tourists reporting that their expectations were met, and more than 80% reporting likelihood of returning.

Tourists tend to compensate for higher costs by reducing spending or shortening visits (intensive margin), rather than cancelling trips (extensive margin).





Profile of tourists visiting Iceland in 2016-2017

Based on Board of Tourism's
semi-annual survey of visitors

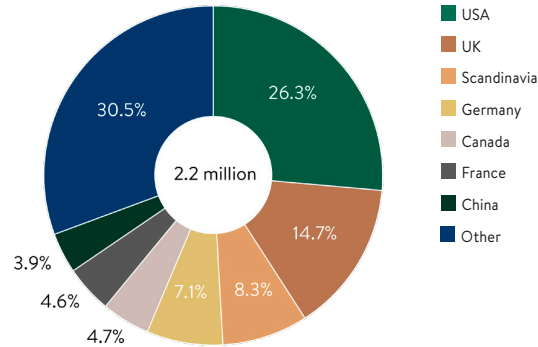
Although tourists frequently name Reykjavik as one of the most memorable aspects of their trip to Iceland, surveys overwhelmingly indicate that Icelandic nature is the single biggest attraction to foreign visitors. Summer is still the most important season for Icelandic tourism, with larger numbers of tourists and longer stays. However, winter tourism has seen the strongest growth, as ever more visitors are attracted by Iceland's northern lights and winter experience.

North-American visitor numbers have come close to quadrupling between 2014 and 2017, making US nationals the biggest group of inbound tourists in Iceland. Under 35's make up roughly half of visitors, often travelling along with their spouse or friends – perhaps suggesting that Iceland's success as a tourist destination is a marker of millennial preferences and consumption patterns.

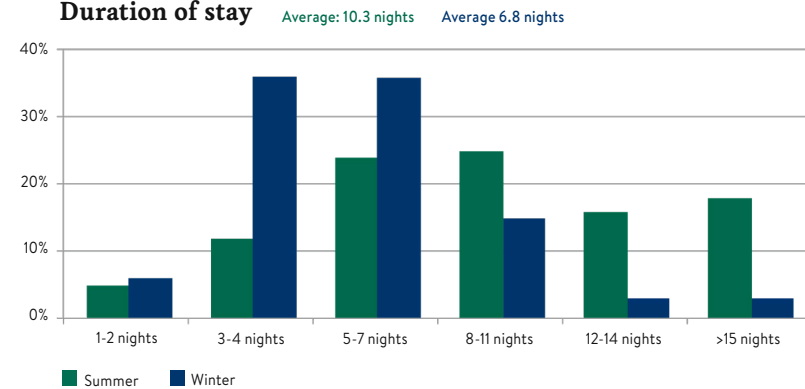
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Nationality of visitors



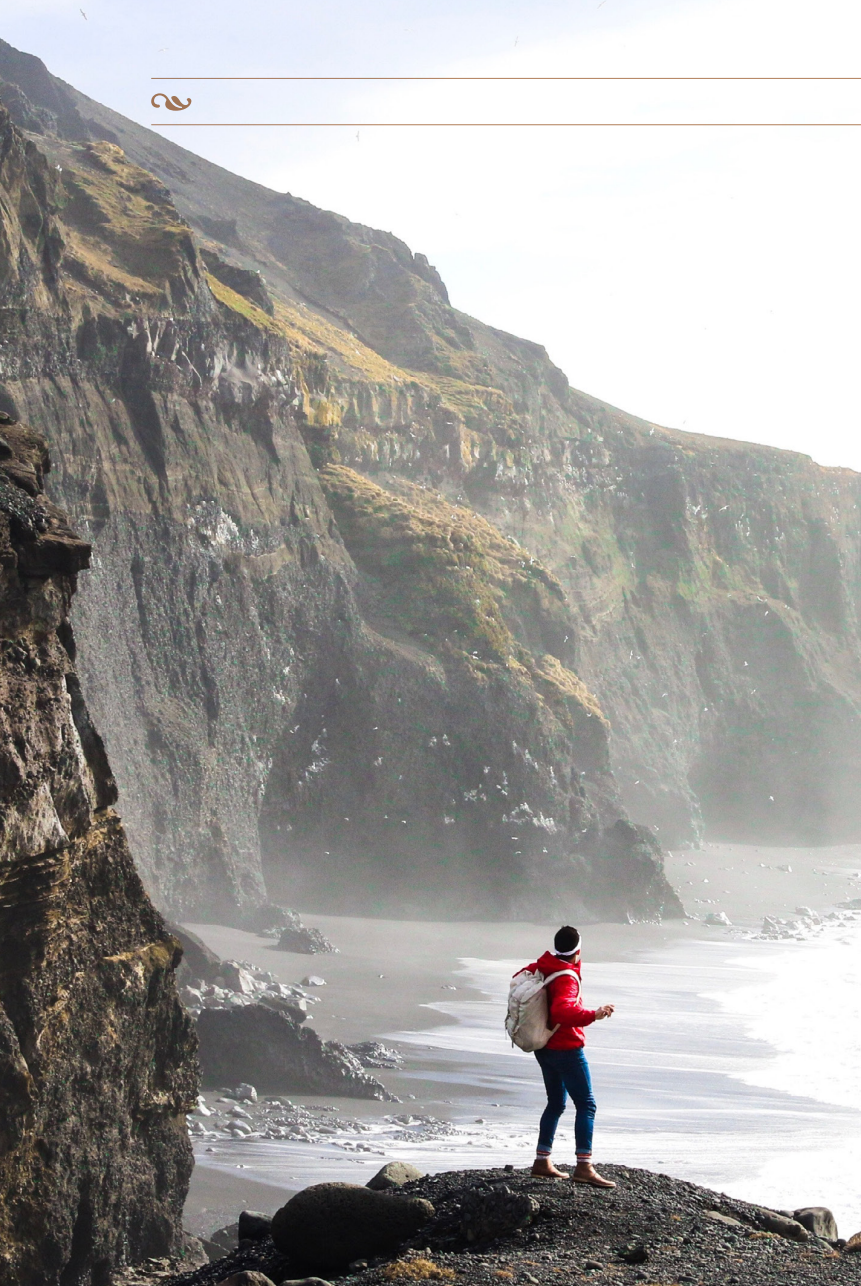
Duration of stay



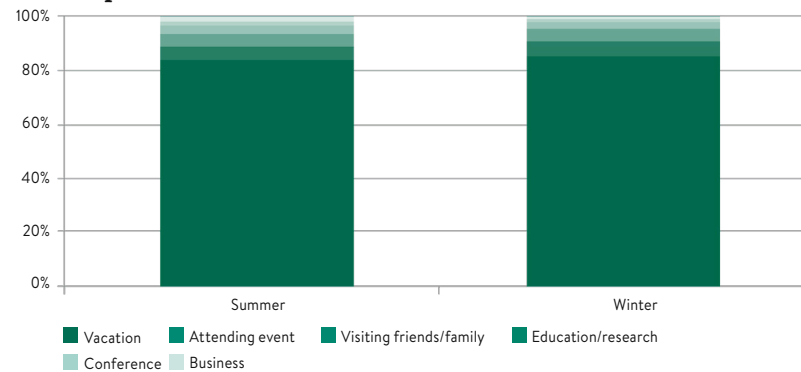
The vast majority of visitors are travelling for leisure, with MICE (Meetings, Incentives, Conferences, and Events) accounting for a minor portion of the overall market. Iceland is increasingly establishing itself as a high-end destination, particularly as the country has become less affordable with the krona going up in value. Consistent with its brand image, survey evidence suggests visitors to Iceland tend to be more affluent.

Although students make up roughly a fifth of visitors, around 70% have a university degree and more than 40% identify as professionals or managers. Close to 80% describe themselves as having average, or above average household income. Word-of-mouth seems to be an important factor driving tourism, as over half of respondents name recommendations from friends and relatives and social media as giving them the idea of traveling to Iceland.

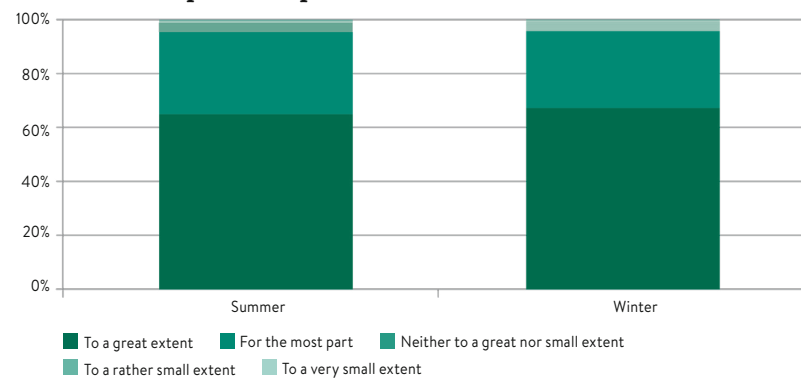
More than 9 out of 10 tourists visit Reykjavik during their stay. Most also venture outside the capital, particularly during the summer when conditions for driving are good, with the south and north of Iceland being the most popular regions.



Purpose of visit

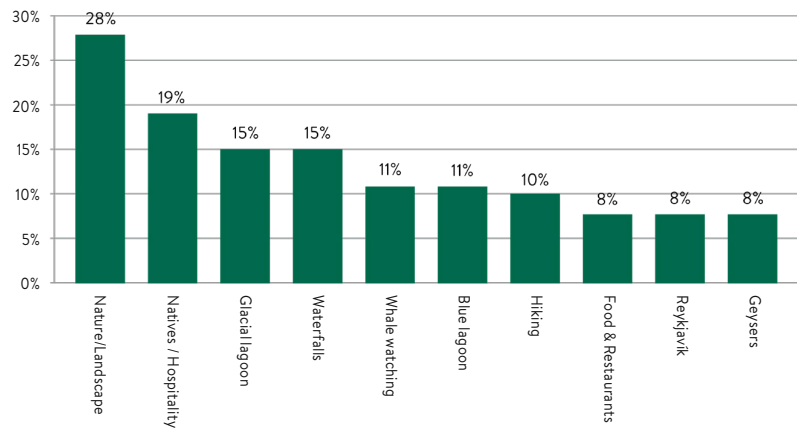


Did the trip meet expectations?

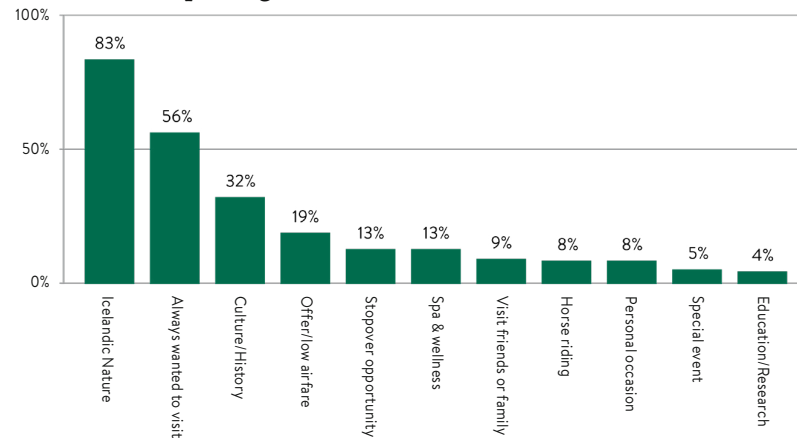




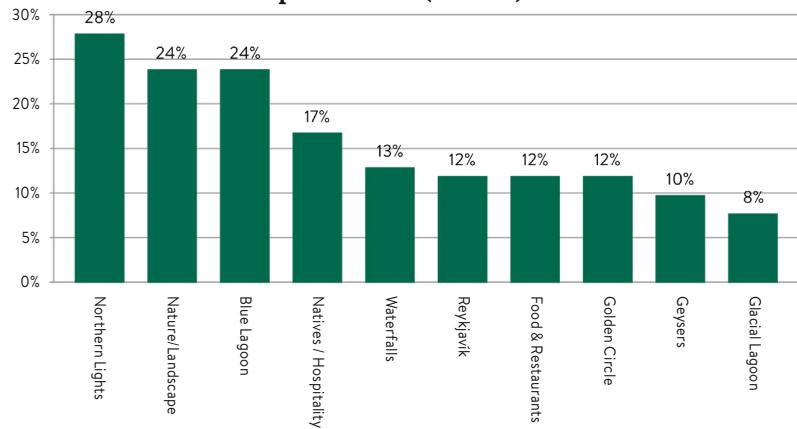
Most memorable aspect of visit (name 3) Summer



Factors impacting decision to visit



Most memorable aspect of visit (name 3) Winter



Consistent with its brand image, survey evidence suggests visitors to Iceland tend to be more affluent.



Industry financials improving

Margins have lifted as efficiency improves

Some segments of the tourism industry, e.g. transportation and accommodation, are capital intensive. These segments in particular stand to benefit from the surge in tourist numbers and reduction in seasonality, as it leads to higher occupancy rates and better capital efficiency year round. There is evidence that the tourist sector has become more efficient on the back of scale economies, lifting margins.

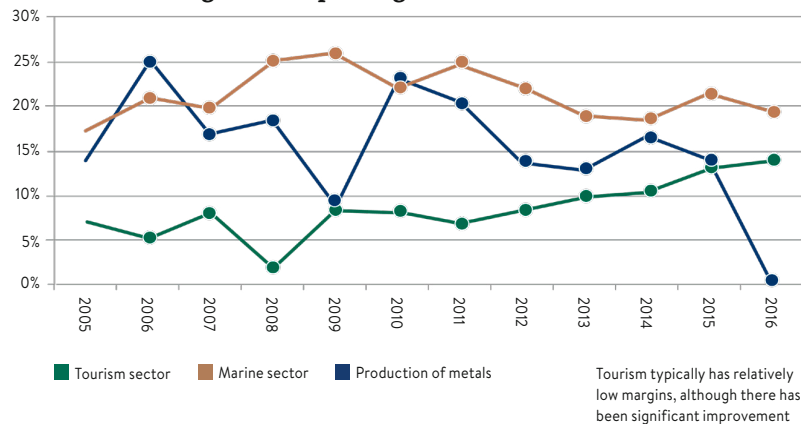
Although lending to the tourism sector has increased, loans to the industry still compose a fairly small segment of the commercial

banks' overall portfolio, underlining the limited systemic risk posed by the sector. Financing has largely happened outside the banking system, e.g. via alternative investment funds or limited partnerships. Domestic pension funds are the primary investors. Despite ample opportunities in the tourist sector, not just for the deployment of capital but for the transfer of networks and knowledge, foreign investors are largely absent from the stage.

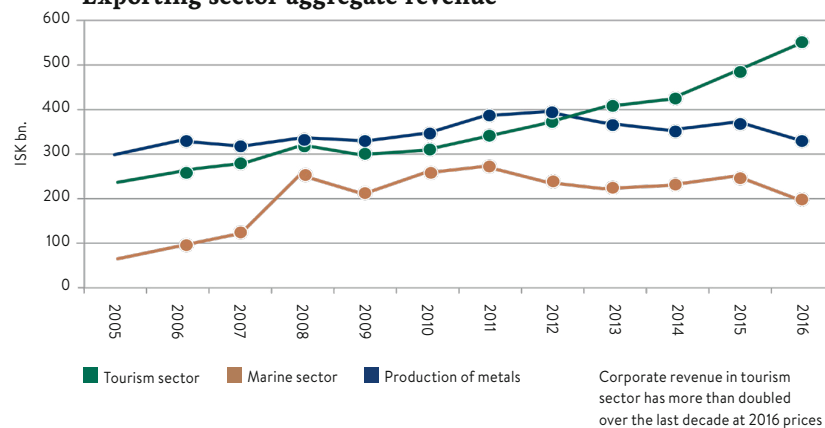
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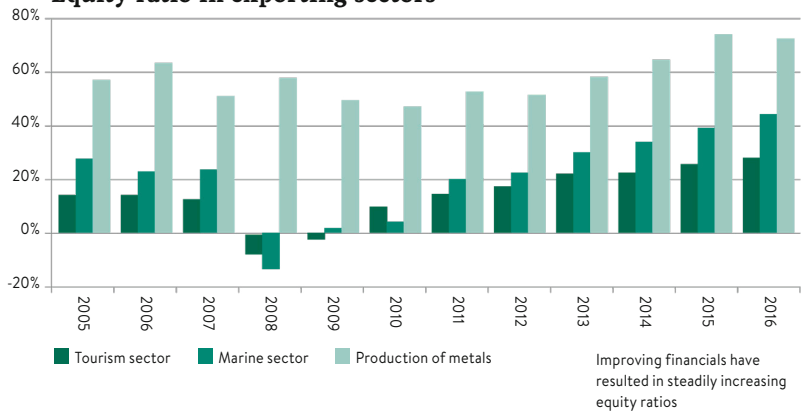
EBITDA margins in exporting sectors



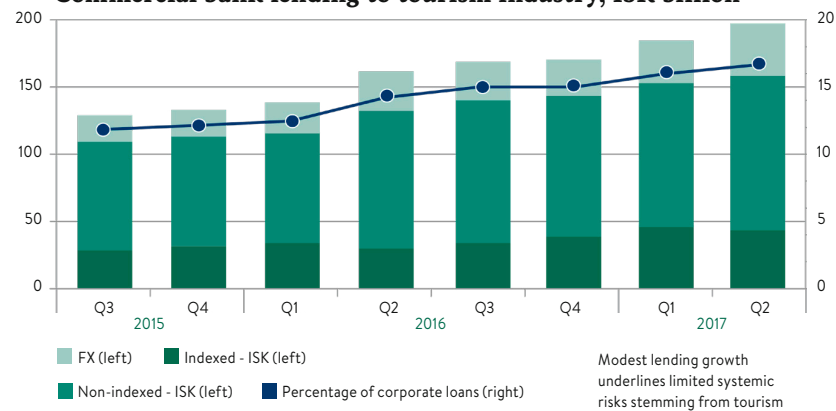
Exporting sector aggregate revenue



Equity ratio in exporting sectors



Commercial bank lending to tourism industry, ISK billion





The evolution of Icelandic tourism

We predict that the tourism industry is entering a phase of consolidation

Pre. 2010

2011-2013

2014-2017

Dormant market dominated by incumbents

- ☞ Tourism is of limited relevance to the Icelandic economy
- ☞ Few dominant incumbents in key sectors (air travel, accommodation, tour operators and car rentals)
- ☞ Limited product innovation

Surge in tourist numbers attracts upstarts

- ☞ A large number of entrepreneurs enters market
- ☞ Market fragmentation
- ☞ Significant product innovation, not least in regional markets
- ☞ Earnings funded growth - limited access to funding hurdle to expansion

Investor capital employed to fund expansion

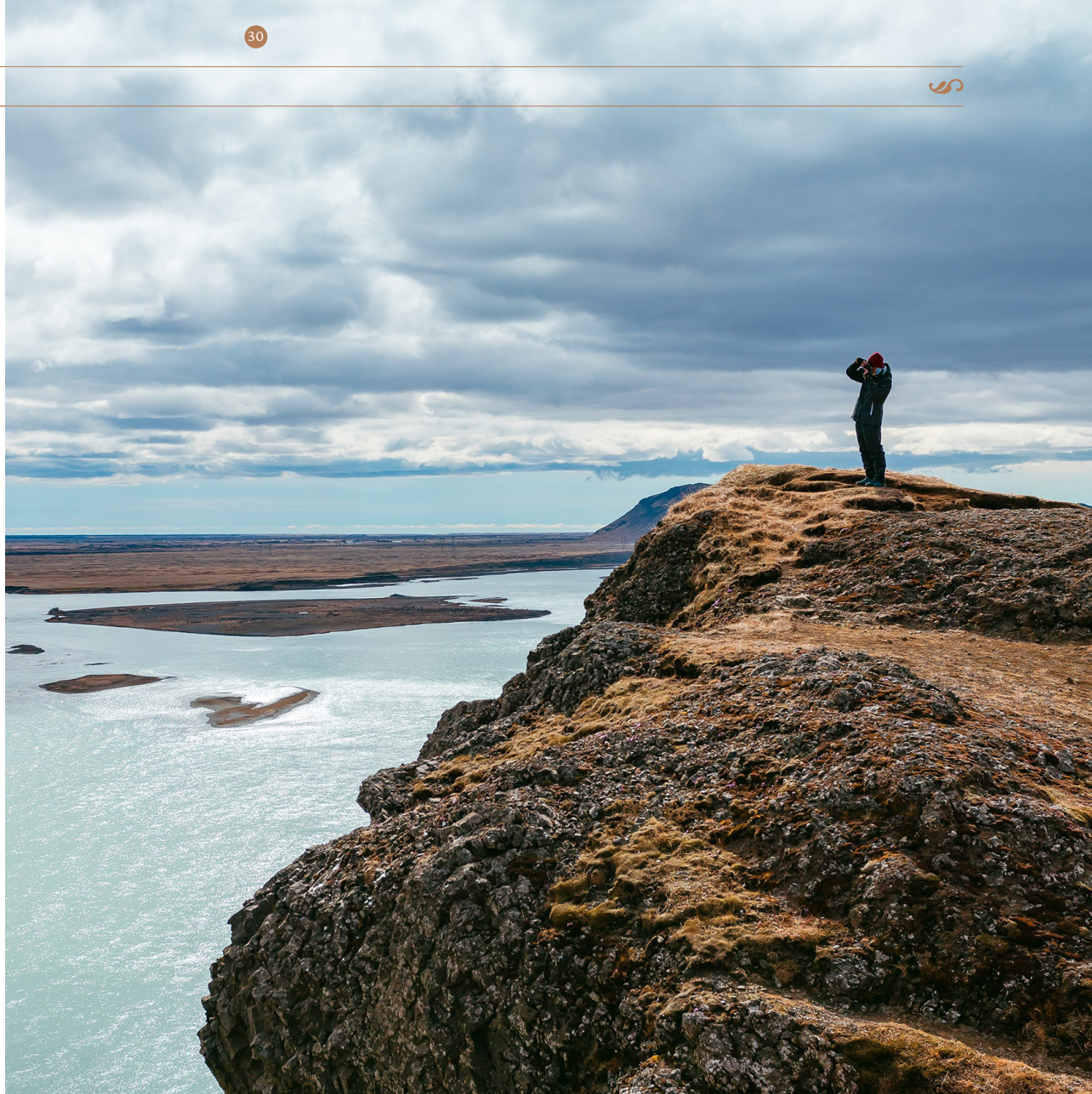
- ☞ Significant improvements in financial results
- ☞ Capital increasingly available as investor comfort grows
- ☞ Financing largely through private equity market
- ☞ Expansion of operations, with market leaders emerging



2018 and beyond

Consolidation and international entry

- Founders and seed investors weigh options for exit
- Significant opportunities in reaping synergies via market consolidation
- Entry of international players brings new perspectives and global expertise



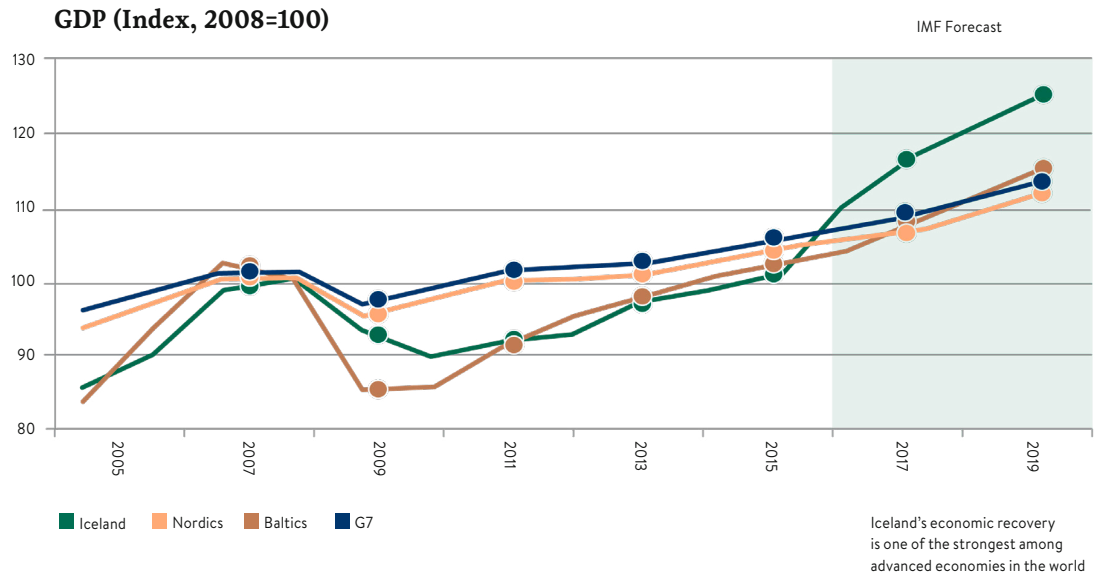


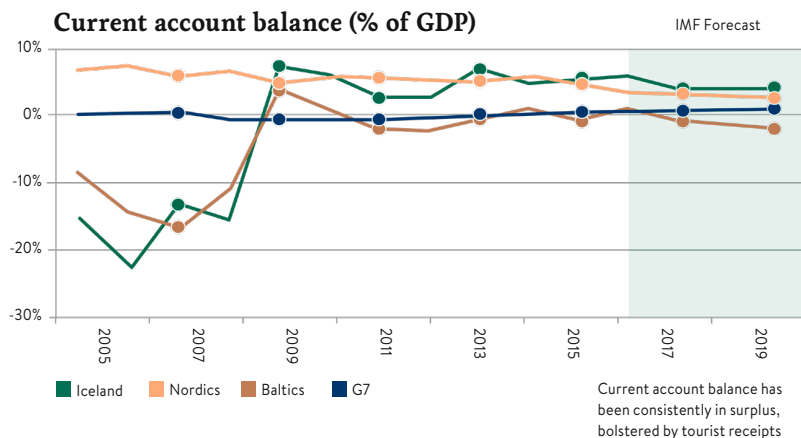
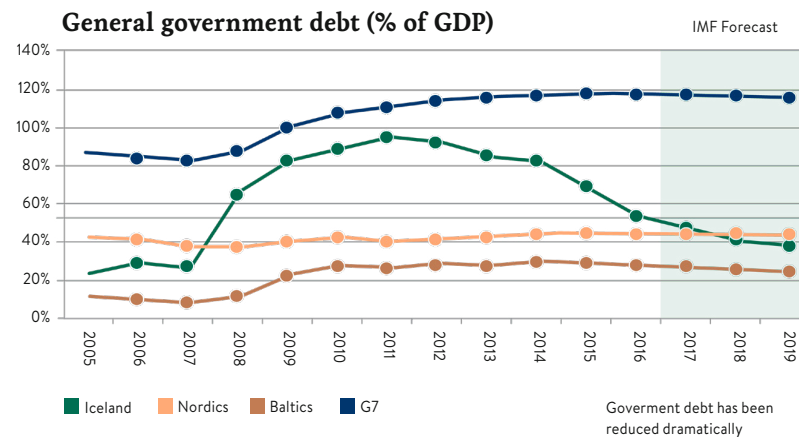
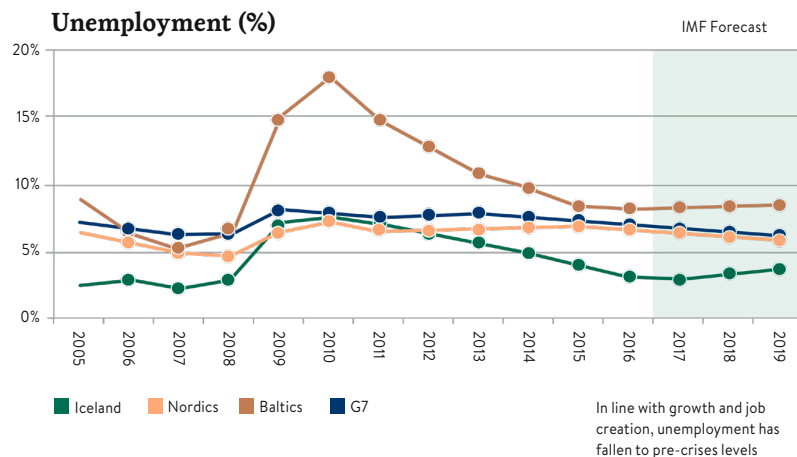
Economic recovery: Iceland vs. the World

Strong export-led growth, fuelled in large part by surge in tourist arrivals

After suffering one of the largest declines in GDP among advanced economies following the great recession, Iceland saw stronger recovery than most developed markets. In addition to the implementation of a mix of orthodox and unorthodox economic policies, the Icelandic recovery has been heavily aided by an ongoing boom in tourism since 2010, which has seen the number of tourists come close to quadrupling.

Iceland's economic recovery is one of the strongest among advanced economies in the world.





In large part thanks to its robust, tourism-driven balance of payments, Iceland finally managed to fully lift capital controls in 2017 without issue.



How tourism has affected the economy

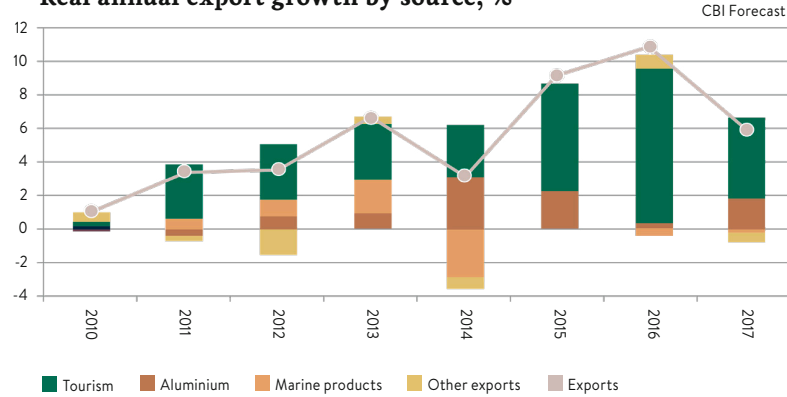
The biggest exporting sector, accountable for large share of recent job creation

Tourism is now Iceland's biggest generator of hard currency, driving its export-led growth since 2010. Tourism added close to 12 thousand direct jobs in 2010-2016, or over half the Icelandic economy's aggregate job creation over the same period, attracting foreign workers. It may therefore appear that Iceland is too dependent on tourism, but in fact tourism constitutes significant diversification of the economy's sources of income. Before the tourism boom, Iceland got most of its hard currency from exporting fish and aluminium, so having a third pillar in tourism is welcome.

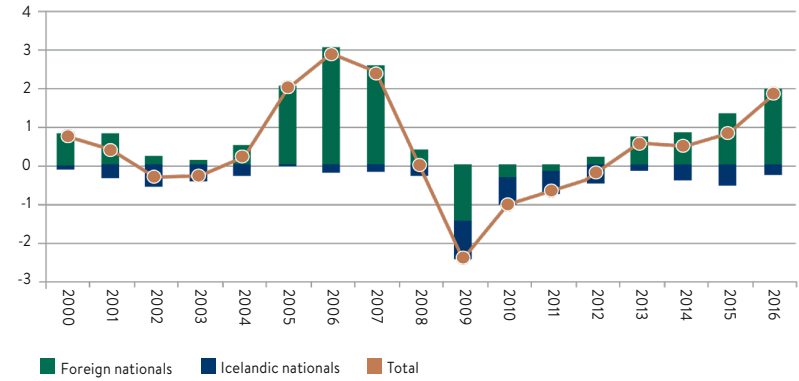




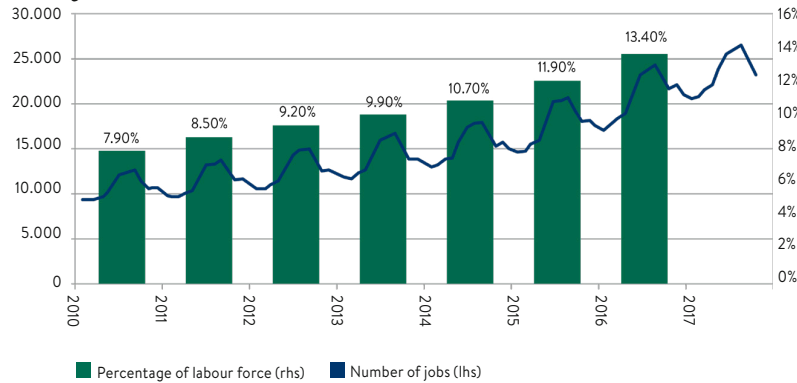
Real annual export growth by source, %



Net migration (% of pop. aged 20-59)



Jobs in tourist sector



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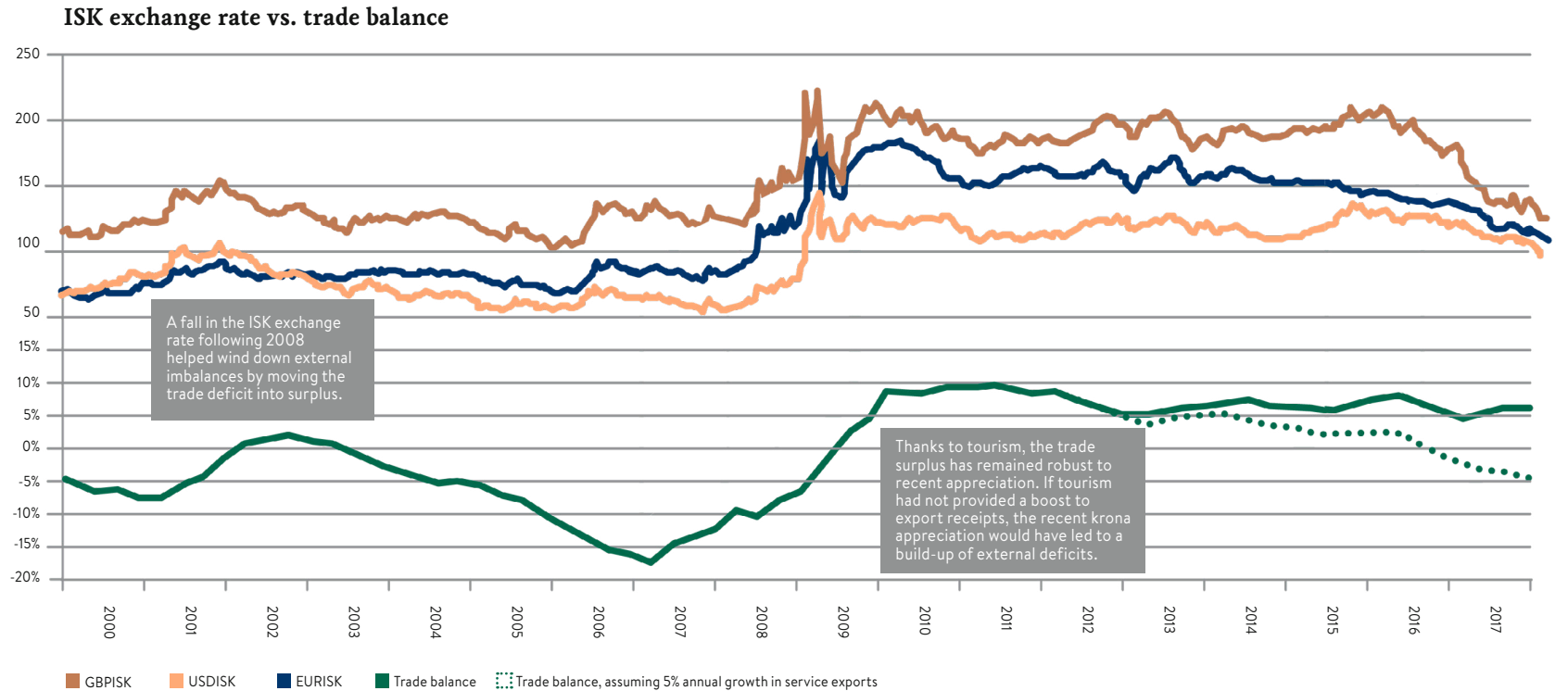
Tourism has lifted equilibrium ISK rate

Iceland keeps running trade surpluses
despite recent krona appreciation

Tourism has delivered a boost to Icelandic households' purchasing power via krona appreciation.

By providing a permanent boost to export revenue, tourism has raised the equilibrium real exchange rate of the Icelandic krona. Simply put, this means that a rise in the krona exchange rate (which is partly a consequence of FX inflows from tourism receipts) has not led to a build-up of external imbalances and unsustainable external dynamics like in previous appreciation episodes.

Tourism has therefore simultaneously fuelled the appreciation and rendered it sustainable, by allowing the economy to continue running current account surpluses. As the figure illustrates, had service exports grown only at a modest 5% annually (dotted line), a trade deficit would have emerged in 2016. Thanks to the increase in exports, however, the trade balance has remained firmly in surplus (solid line).



Interrelated policy challenges for authorities

1. Taxation and regulation

Challenges

- ☞ Raising revenue to build capacity and maintain infrastructure
- ☞ Building incentive-compatible and efficient collection system
- ☞ Maintaining growth-conducive regulatory regime

Current status

- ☞ Attempts to build consensus around targeted tourist levies (such as “nature pass”) had limited success
- ☞ Other ideas floated include airfare levies or raising VAT to par with other industries
- ☞ To date, no holistic tourist tax policy framework

2. Flow and resource management

- ☞ Battling the effects of overcrowding at individual tourist sites
- ☞ Preserving unspoilt nature
- ☞ Promoting destinations outside capital area and diverting crowds to less visited sites
- ☞ Increasing productivity by reducing seasonality
- ☞ Ensure tourist safety

- ☞ Marketing efforts made significant strides in attracting tourists during the shoulder season and reducing seasonality
- ☞ Proposals to manage crowds by charging tourists to visit key sites has met with resistance from local population



3. Infrastructure

Challenges

- ☞ Overcoming accumulated infrastructure investment deficit of post-2008 era
- ☞ Maintaining quality of road network
- ☞ Ensuring that capacity at key airhubs, such as Keflavik Airport, keeps up with arrivals

4. Exchange rate and economy

- ☞ Addressing concerns that the appreciation of the Icelandic krona is crowding out other exporting sectors
- ☞ Managing economic upswing so as to ensure its sustainability

Current status

- ☞ Investment for airport enlargement amounts to USD 200 million in 2016-2017 and USD 3-400 million in 2018-20
- ☞ Public pressure to increase investment
- ☞ Merits of Public-Private Partnerships increasingly entering policy space
- ☞ Broad consensus that equilibrium exchange rate has risen, and that the currency is facilitating economic adjustment to shift in fundamentals
- ☞ Openness to immigration has reduced stress on labour market
- ☞ Fiscal prudence through long-term planning; windfalls used for debt reduction




Iceland in the movies

Other worlds and alien landscapes

With its amazing landscapes, glaciers, beaches and untouched highlands, Iceland is the perfect place for feature film and TV productions, commercials, music videos and photo-shoots. The Icelandic government also offers a 25% tax rebate on production costs.

In recent years, producers have chosen Iceland as one of the main shooting locations for many popular movies and TV shows, including *Game of Thrones*, *Vikings*, *Fortitude*, *Star Wars: The Force Awakens*, *Star Wars: Rogue One*, *Star Wars: The Last Jedi*, *Blade Runner 2049*, *Marvel's Captain America – Civil War*, *Marvel's Thor 2: the Dark World*, *DC's Justice League*, *Jason Bourne*, *The Huntsman*,

Winter's War, *Noah*, *Prometheus*, *Oblivion*, *Interstellar*, *The secret life of Walter Mitty*, *Fast 8: The Fate of the Furious*, *Transformers: The last knight*, *Transformers: Age of Extinction*, *Sense 8*, *The Last Witch Hunter*, *Flags of our Fathers*, *Letters from Iwo Jima*, *James Bond: Die Another Day*, *Lara Croft: Tomb Raider & Batman Begins*.



*Just absolutely stunning.
It's just so vast and it just
seems to go on forever.*
– Tom Cruise

*In Iceland you get such scale,
It's bigger than your imagination*
– Tom Hiddleston

*In Iceland I found this majestic landscape
which is a bit like time stood still. There are
these marvelous wonderful rock formations
and marvelous valleys and sweeping
expanses of lake.*
– Ridley Scott

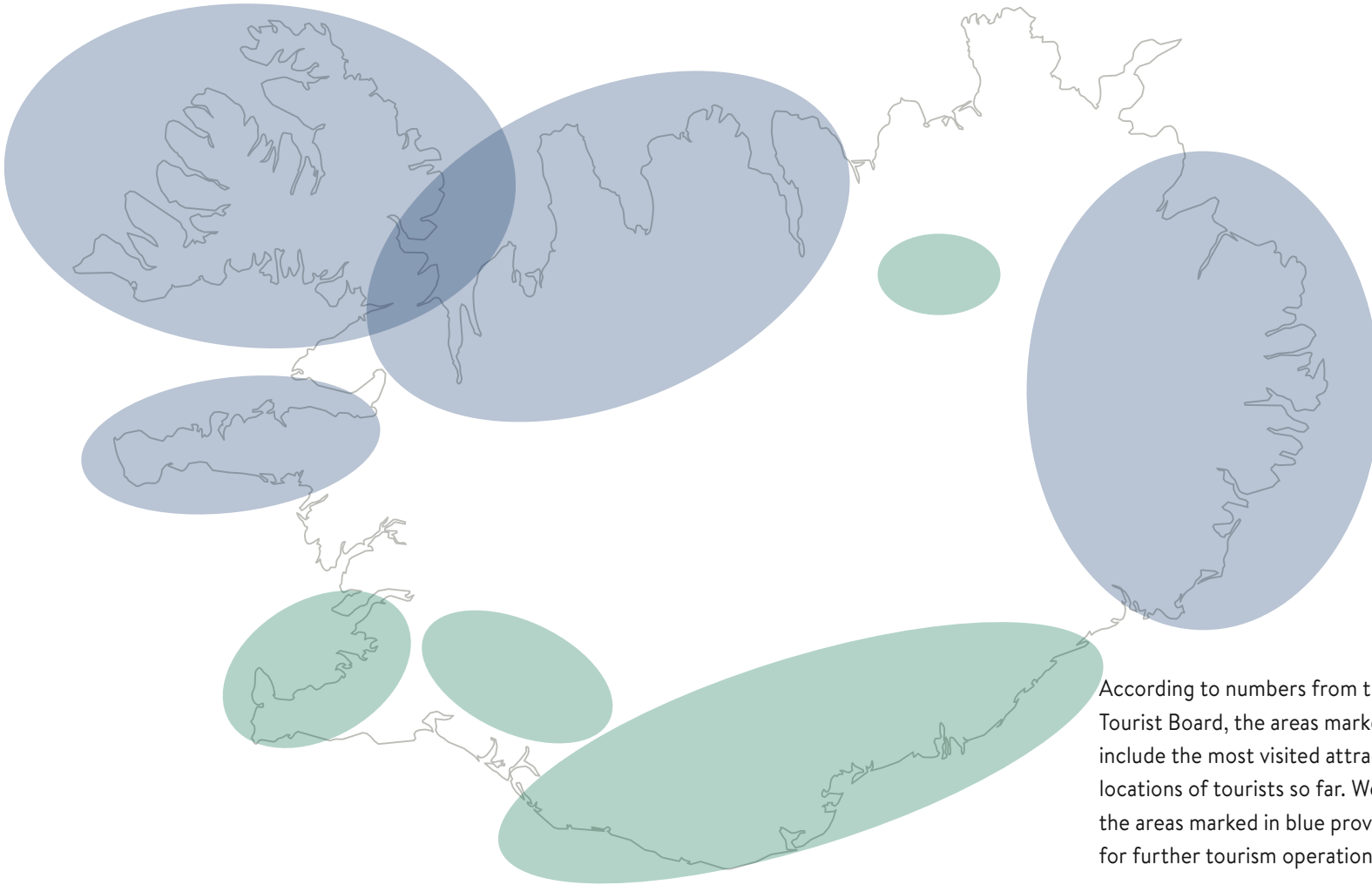


Iceland has further options

Despite the rapid growth in tourist numbers, large areas in the country remain completely uncrowded. The majority of tourists visit Reykjavík, Reykjanes Peninsula and South Iceland. Some of the most popular locations are approaching full capacity during high season, with regards to hotel capacity and congestion at key sites (such as Thingvellir, Gullfoss and Geysir to name a few). At the same time, areas in West Iceland, West Fjords, North Iceland and East fjords can accommodate far more tourists. In

recent years, construction has expanded hotel capacity around the country. Some of them can qualify as luxury hotels, while others are traditional three-star hotels. We believe that with a more widespread distribution of tourists, the operational environment of hotels and activity suppliers can be improved around the whole country, especially in the areas that receive fewer visitors today. Luxury and Private travel has been expanding in recent years. All facilities are available in Iceland to meet the expectations of

even the most demanding travellers, including luxury vehicles, helicopters, luxury lodges and hotels, high quality restaurants, and experienced guides as well as suitable activity options almost everywhere in the country. For example, US based company Eleven Experience recently renovated an old farm in North Iceland to a high-quality Luxury Lodge, Deplar Farm. The location of Deplar Farm is in a rural area far from any large town and provides great opportunities for private luxury travel.

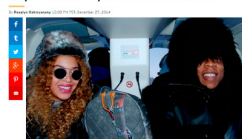


According to numbers from the Icelandic Tourist Board, the areas marked in green include the most visited attractions and locations of tourists so far. We estimate that the areas marked in blue provide opportunities for further tourism operations.



Iceland is a hot destination

Beyonce and Jay Z Take Over Iceland



The Future Of Reykjavik, Iceland: New Luxury Hotels And A Secret Billionaire Hunting Lodge

15 Reasons Why You Should Go to Iceland On Your Next Vacation

Consider this your must-see list.



by LINDSEY MATTHEWS JUN 17, 2014



14 Reasons Why You Need To Visit Iceland Right Now



Beyonce & Jay Z's Trip To Iceland Looks Like A Magical Winter Wonderland

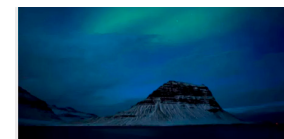
By Matthew Mercer

Earlier this month, Beyonce and Jay Z hit up Iceland in celebration of Jay Z's 40th birthday.

According to People magazine, the couple stayed at the luxe, Threafa Lodge, which bills itself as a "chick-luxe house" and "gay" and is "fit for a king."

It sounds perfect for the Carter-Kimberly crew, and judging by the photos, Beyoncé

thinks she's on her home turf. It looks like the entire trip was just one big magical winter wonderland.



Iceland Among Most Googled Rising Holiday Destinations

Bill Gates Holidays in Iceland

Game of Thrones boosts Iceland's national brand

Share



Wardian Dailies



Iceland's dramatic landscape gives Game of Thrones its wintry backdrop, and the country has seen volcanic political feuds that echo the popular television series.

Gwyneth Paltrow blogs about Iceland trip



Paltrow took her children on an Iceland adventure this summer. Screenshot: "Gor"

Hollywood actress and health guru Gwyneth Paltrow has published a blog on her Goop lifestyle website called Five Days in Iceland with G.O.

"As family vacation destinations go, Iceland is the kind of topographically and culturally extraordinary corner of the earth that captivates both kids and parents from touchdown to takeoff."

Ed Sheeran blows out his candles in Iceland



Popular British singer-songwriter Ed Sheeran has chosen Iceland as the destination for his 23rd birthday celebrations.

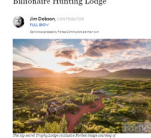
According to Icelandic news website vísir.is (link in Icelandic), Sheeran - who has sold millions of albums worldwide - enjoyed a birthday lunch for his 23rd birthday in the Gættuð restaurant in South Iceland.

Twitter posts from star-struck fans also suggest that the singer from Suffolk, England, also visited Iceland's famous Blue Lagoon resort recently.

Forbes Lifestyle #Wanderlust



The Future Of Reykjavik, Iceland: New Luxury Hotels And A Secret Billionaire Hunting Lodge



HUFFPOST



10 Reasons Why You Should Visit Iceland

Travel Pulse, Contributor
Northern Lights
Published: 12/12/2017 Updated: 12/12/2017

According to the Luxury Travel Guide Iceland was the best destination for 2016. Since 2010, Iceland's popularity has risen sharply, and it is now one of the most sought-after destinations in the

world in terms of internet searches, travel media coverage etc. Iceland has the fastest-growing "brand" in the world, with its value rising 83

per cent in a year to \$26bn, and it looks set to enjoy "unrivalled growth" in the coming years, according to Brand Finance.



Aldeyjarfoss. Breaking the icebound



II. Key sectors and opportunities



Recent trends in key tourism sectors



Air travel

Characteristics

- ✧ Iceland is a hub for local airlines Icelandair and WOW
- ✧ Trans Atlantic air routes
- ✧ Direct flight to Iceland offered by foreign airlines

Recent trends

- ✧ Increased supply of seat capacity
- ✧ Increased number of airlines
- ✧ Increased number of destinations

Opportunities

- ✧ Easy to gain exposure with high degree of liquidity via publicly listed Icelandair



Accommodation

- ✧ Mix of mainly domestic hotel chains and independent hotels and hostels
- ✧ AirBnB increasing market share

- ✧ Booming demand
- ✧ Supply is seriously lagging
- ✧ Prices have risen dramatically
- ✧ Continent beating occupancy rates

- ✧ Funding of new hotels
- ✧ Gap in upscale market; no 5-star hotel available
- ✧ Synergies from merging and streamlining smaller hotels



Tour operators

Characteristics

- ☞ Group Tour operators (oligopoly)
- ☞ High prices and margins
– but increased competition from foreign operators

Recent trends

- ☞ Investment funds have acquired stakes in large local operators
- ☞ Increased competition
Business needs streamlining

Opportunities

- ☞ Opportunities to reap greater synergies from economies of scale
- ☞ Merger opportunities



Car rentals

- ☞ Shift from low budget (Cheap Jeeps, SAD cars etc.) to new cars
- ☞ High degree of fragmentation
- ☞ High utilization rate and prices

- ☞ New local entrants to the market
- ☞ Mergers of car rentals have started to take place

- ☞ Smaller car rentals are seeking to merge or sell operations to more established rentals
- ☞ A lot of activity needs funding, i.e. near Keflavik airport



Infrastructure

- ☞ Basic infrastructure worn down
- ☞ Lack of funding
- ☞ Unclear vision for future
- ☞ Outdated and inefficient

- ☞ Lack of investment
- ☞ Lack of political understanding of public-private funding, although this is slowly changing

- ☞ Toll roads and tunnels
- ☞ Large interconnectors
- ☞ Airport enlargement



Massive expansion of air travel options

Airlines are the lifeblood of Icelandic tourism

Air travel is both vital to Icelandic tourism and the primary mode of transport for inbound tourists. There are currently 12 airlines servicing Iceland year-round, rising to 29 in summer. At peak times, direct flights are now available from close to 90 destinations, mainly in Europe and North America. Despite the strong growth in seat supply from international air carriers, the two Icelandic airlines, Icelandair and Wow air, accounted for roughly 80% of outbound seats in 2016.



Full service airline with elegant brand image, listed on Nasdaq Iceland.

2016 Operating Data

Size of fleet: 28 jets
Destinations: 43
No. of passengers: 3,675,000
Seat occupancy: 82%
Employees: 3,900
Sales: USD 1,286m
EBITDA: USD 220m
Net profit: USD 89m



Fast growing low-fare airline with a cool and playful brand image, privately held by local tycoon.

2016 Operating Data

Size of fleet: 12 jets
Destinations: >30
No. of passengers: 1,669,000
Seat occupancy: 88%
Employees: 720
Sales: USD 340m
EBITDA: USD 52m
Net profit: USD 39m



Number of airlines servicing Iceland year-round

2005



2010



2015



2017



During high-season, 29 airlines service Iceland

Air Iceland
Connect



WOW
air

ICELANDAIR



 **transavia**

BRITISH AIRWAYS



IBERIA
EXPRESS

CSA CZECH
AIRLINES


Air Canada

SAS

airBaltic

THE SPIRIT OF
NIKI
FLYNIKI.COM

 **Primera Air**

vueling

 **TRAVEL**
Service

easyJet

 **DELTA**

 **Germania**

Eurowings

FINNAIR

 **edelweiss**

air greenland 

 **Lufthansa**

Austrian 

norwegian.com

WIZZ

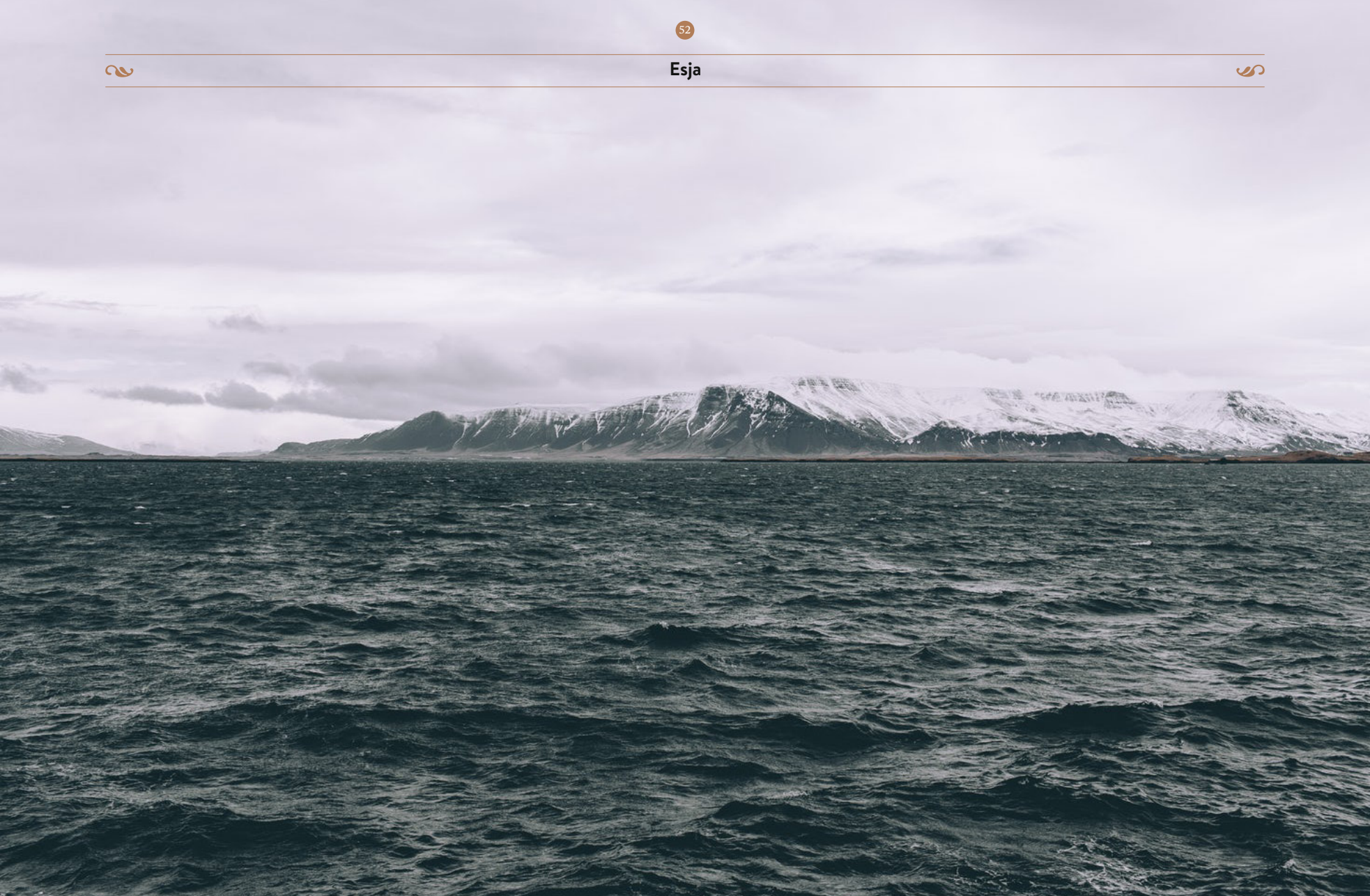
Starting
summer 2018

American Airlines 

 **S7 Airlines**

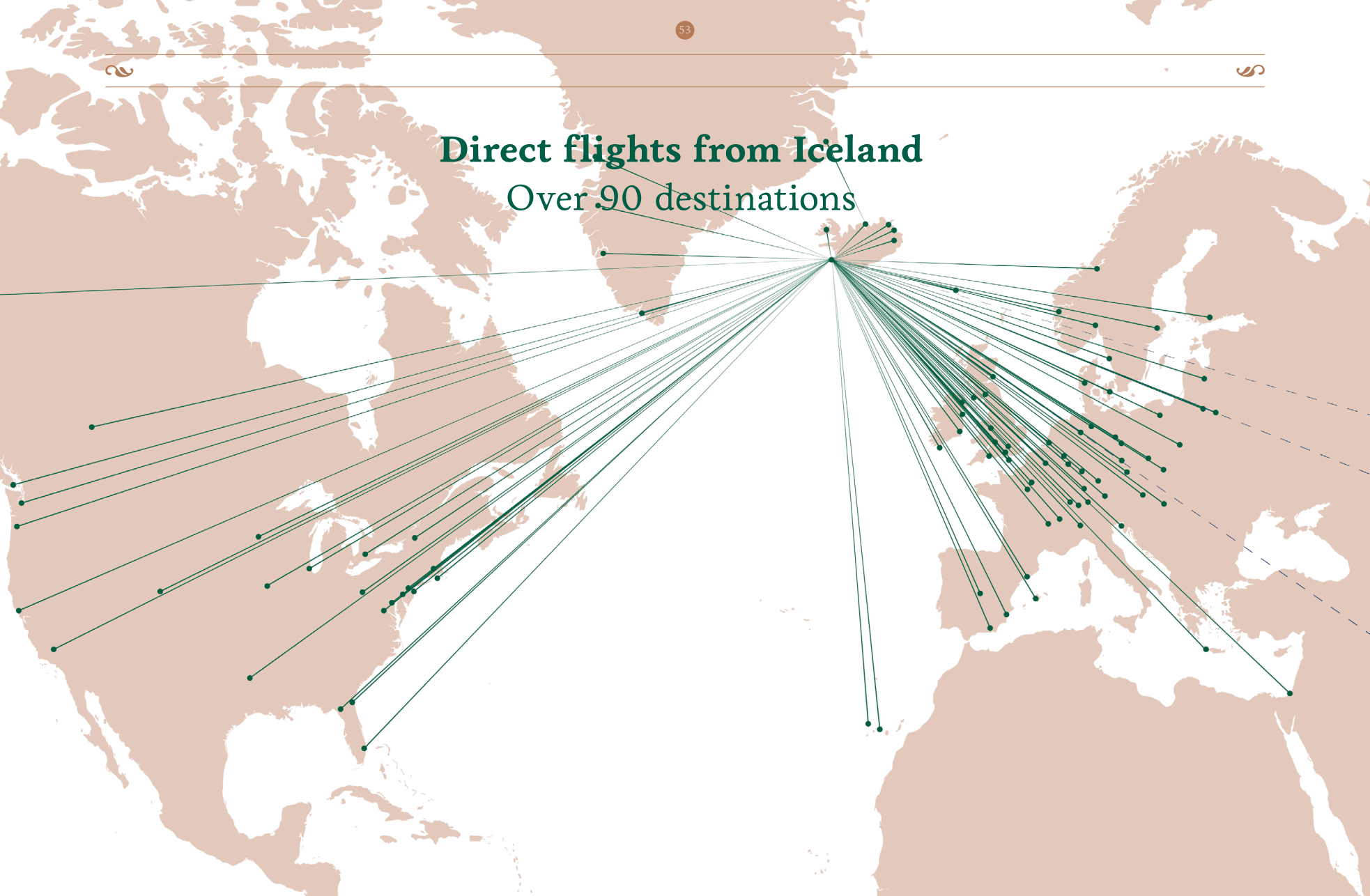
UNITED 

 **LUXAIR**



Direct flights from Iceland

Over 90 destinations



The fastest transatlantic route

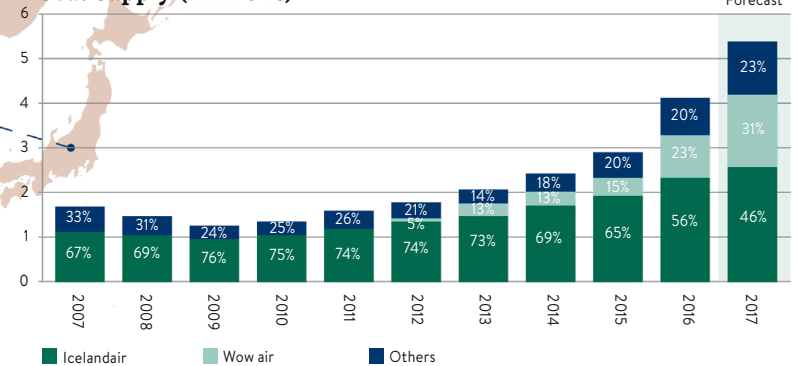
During the high-season, there are three times more flights departing from Keflavik airport than from all Scandinavian cities in total.

Keflavik airport is one of the best connection hubs between destinations in the US and Europe, often making it the fastest option for transatlantic connecting flights. For example, in the summer of 2018 there will be 56 flights between

Reykjavik and New York per week, with only London having more flights to and from New York. Since 2015, the number of departures from Keflavik has increased by more than 80%. During the summer there are around 7-800 departures per week to N-America and Europe and in the winter of 2017/18 there will be over 450 departures per week.

Airlines are planning to add direct flights to India, China and Japan

Seat supply (millions)



Source: Isavia, Íslandsbanki



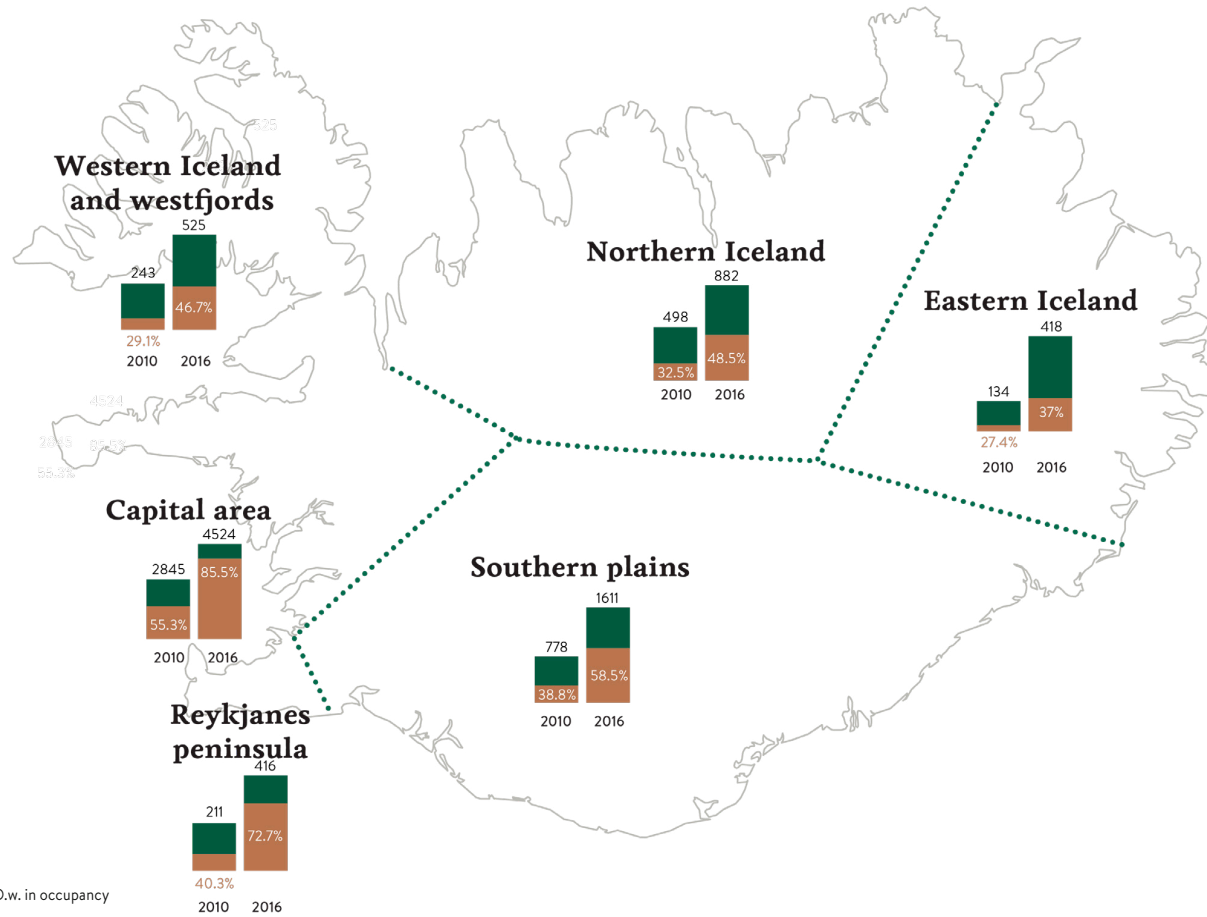
Significantly improved hotel occupancy rates

Even in the face of large expansion of room supply

Most hotel supply in Iceland is concentrated in the three- and four-star segments, although there has also been considerable growth in the number of hostel beds since the start of the tourist boom. In recent years new upscale lifestyle and boutique hotels have opened. At the same time many other hotels have renovated to meet the expectations of travellers. This applies to hotels both in Reykjavik and outside the metropolitan area. Currently there are five-star hotels being built, i.e. at the Blue lagoon and a Marriott hotel next

to the Harpa Concert Hall. As can be seen on the opposite page, room supply has been expanded handsomely since the start of the tourist boom, with multiple new developments opening their doors in recent years. Nevertheless, the increase in supply is nowhere near enough to keep up with demand, as evidenced by the rising occupancy rates in every quarter of the country. This is even more remarkable in light of the increased competition from private residences via the rapidly expanding sharing economy –

At least 30% of tourists reported having stayed at least in privately owned apartments or houses in Iceland in 2016 in an annual survey. Surveys conducted by the Icelandic Tourist Board suggest that the overall quality of accommodation in Iceland is fairly high; incoming tourists in 2016 rated their paid accommodation at 8.1/10, with 70% of respondents giving ratings of 8 or higher.









Overcoming the seasonality challenge

Hotels in Reykjavik post continent-beating occupancy rates, decent ADR

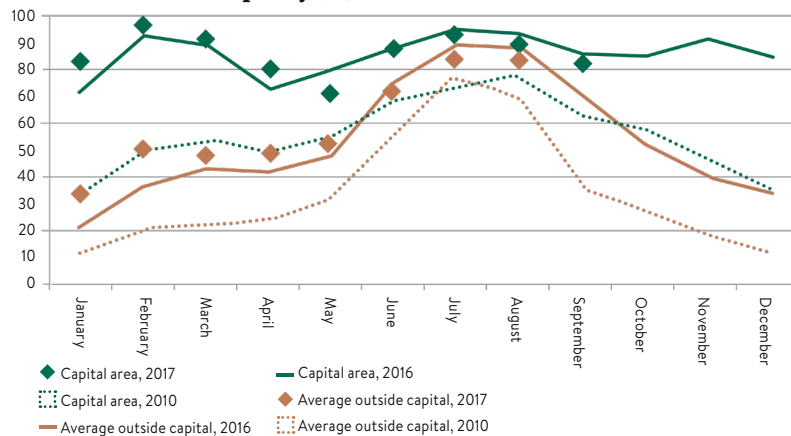
The Icelandic hotel industry exemplifies how winter tourism has helped boost capital efficiency in the tourism sector

Seasonality has receded, rendering capital significantly more productive as average occupancy has become one of the best among European cities. Seasonality remains a challenge outside Reykjavik. The average daily rate in Reykjavik hotels rose by close to 37% over 2013-2016 due to a combination of krona appreciation and market pressures, and it is likely to have

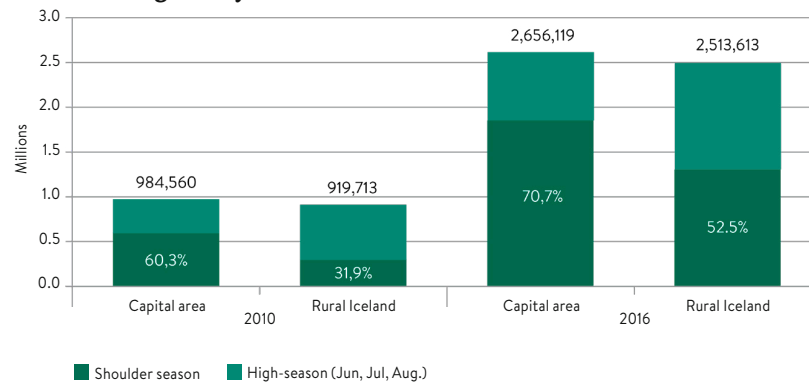
risen further in 2017 due to the strengthening currency. Reykjavik hotels are towards the higher end of the pricing range in European cities on average. However, it should be noted that there exists significant seasonality in pricing, with ADR's approaching the highest in Europe during summer, while remaining relatively inexpensive during the shoulder season.



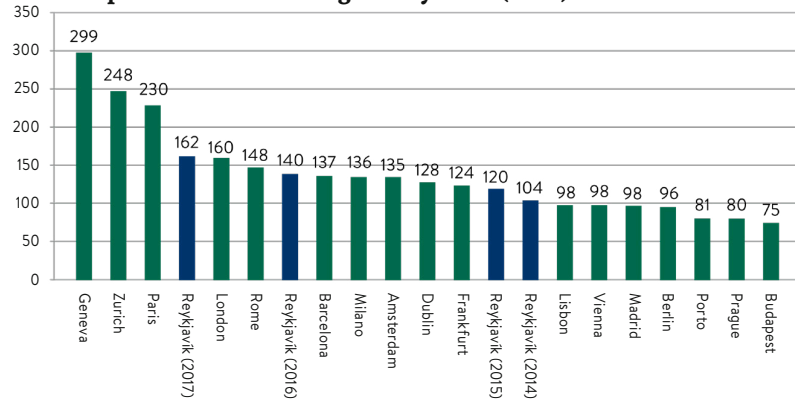
Hotel room occupancy (%)



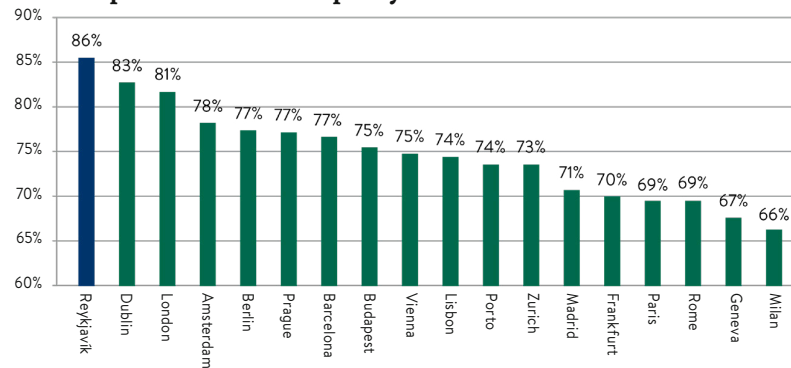
Overnight stays at hotels and hostels



European Hotels - Average Daily Rate (EUR)



European Hotels - Occupancy rates

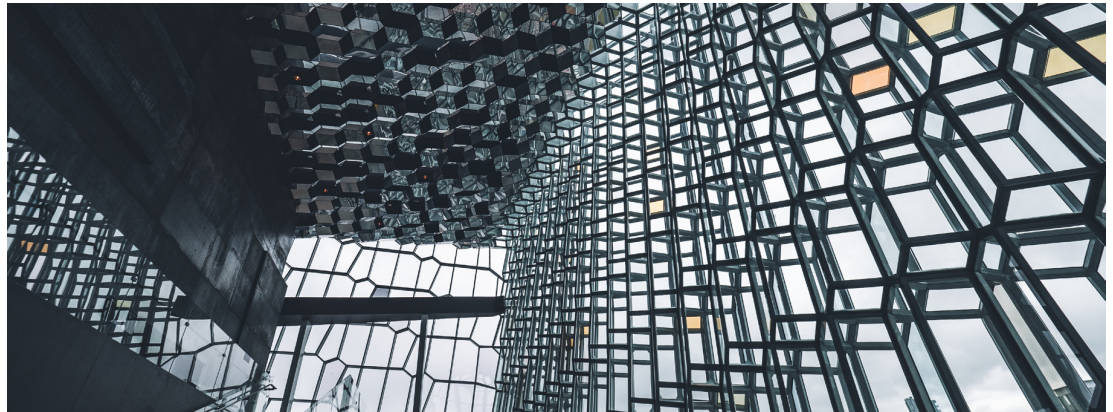




Hotel investment lags behind tourist numbers

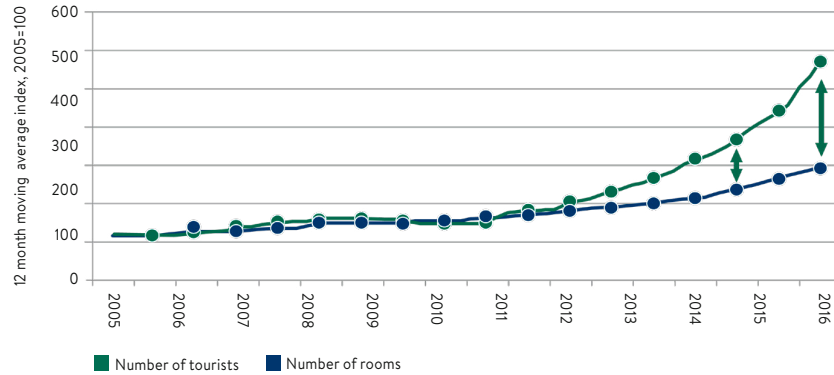
Continued upward pressure on rates
and occupancy expected

Growth in hotel rooms has not managed to keep up with growth in tourist arrivals. In addition to leading to improved occupancy and ADRs in Icelandic hotels, this has had a spillover effect on the Icelandic housing market via the sharing-economy. On average, 2000 homes are listed on AirBnb in the Capital area, rising to as many as 2500-3000 during the high season. We expect continued upward pressure on rates and occupancy, as tourist arrivals are likely to outpace increases in hotel building.





Tourists vs. country-wide hotel and hostel rooms



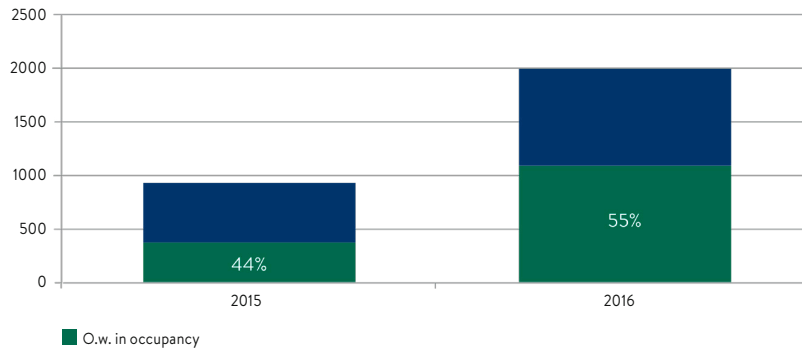
Plans for hotel investment in Capital area

2,200-2,500 additional rooms planned until 2020 across more than 20 hotel projects. Can service **190,000-215,000** tourists annually at current occupancy rates and duration of stay. This is equal to roughly **2/3** of the projected increase in tourist arrivals in 2018 alone.

Likely impact

- ▲ Occupancy
- ▲ Average daily rate
- ▲ Spillovers to regional hotel market
- ▲ Spillovers to housing market

Average no. of AirBnB accommodation in Reykjavik



Capital area residential real estate price index





Hotel sector: Key operators

Four large hotel chains with
a combined market share of over 50%

Close to 140 hotels are in operation in Iceland, over 50 of which are located in the capital of Reykjavik, with several more under construction. Although recent years have seen significant capital investment, new constructions have not managed to keep up with the increase in tourist numbers. The hotel industry comprises a mixture of domestic hotel chains and independent hotels and hostels, with a limited number

of global brands being run by domestic operators under license. The hotel segment has seen strongest foreign investor appetite within the hospitality industry, with American investors PT Capital Advisors and JL Properties reportedly acquiring a 75% stake in KEA Hotels, Iceland's third largest hotel chain, in 2017. Iceland's first ever five-star hotel will open at the Blue Lagoon in 2018. Another five star hotel

is being built next to Reykjavik's Harpa Concert Hall and Conference Centre. The hotel, being funded by SIA III (Icelandic PE fund), Carpenter & Company and other domestic and international investors, will open as a Marriott EDITION hotel. There remain several attractive investment opportunities in the space, both in terms of assets in operation and development projects.



Largest hotel chain in Iceland operating Fosshotel (15 hotels), Grand Hotel Reykjavik and Hotel Reykjavik Centrum. Most properties owned. Majority owned by Olafur Torfason and his family. Two Icelandic PE funds (Kjölfesta and Edda) bought together ~25% stake in 2015.

2016 Operating Data

No of hotels/rooms: 17/1,750

Sales: USD ~91m

EBITDA: USD ~28m



Started with Hotel Kea in central Akureyri in 1999 and has grown since by adding 5 hotels in Reykjavik including Hotel Borg and Apotek Hotel. Hotel Exeter will open in 2018. Was acquired in 2017 by a group of investors led by Alaskan based JL Properties and Pt Capital Advisors.

2016 Operating Data

No of hotels/rooms: 8/624

Sales: USD ~35m

EBITDA: USD ~9m



Started as a guesthouse in the city centre, the business has grown into a hotel chain of 6 hotels in Reykjavik city centre. Founded and run by the Oliversson family for over 20 years.

2016 Operating Data

No of hotels/rooms: 6/478

Sales: USD ~30m

EBITDA: USD ~4m

Icelandair Hotels

Operating mix of international (Hilton, Canopy) and local (Icelandair, Edda) hotel brands. Two new hotels to open in 2017/2018 under the Curio brand. Fully held by Icelandair Group, an international airline company listed on Nasdaq Iceland.

2016 Operating Data

No of hotels/rooms: 16/1,636

Sales: USD ~101m

EBITDA: USD ~10m



Buses and tours: Key operators

The market for buses and guided tours is highly competitive

Survey evidence suggests that over a third of tourists visiting Iceland will go on an organised tour of some sort during their stay. That's hardly surprising, considering the wide selection of activities to choose from, ranging from day tours of natural phenomena, such as waterfalls and geysers near Reykjavik to northern light safaris and

adventurous glacier excursions. The market for guided tours is highly fragmented with several large players (70-100 coaches) and small niche companies operating 1-5 coaches and super jeeps. There has been increased investor activity in the buses and tour segment, with the three largest tour operators having recently been

acquired by Icelandic PE funds (Reykjavík Excursions, Hópbílar and Gray Line Iceland). There are significant opportunities for consolidation, which will be driven by these PE funds. Bus operators from Eastern Europe have also recently entered the Icelandic market, further increasing competition in the space.



Trex Hópfersðamiðstöð is one of the largest operators in Iceland with 80+ coaches in operation. Offering various day tours from Reykjavík. Trex is owned by 38 shareholders, with none holding more than 15%.



Guðmundur Tyrfingsson (GT Travel) operates around 50 coaches including 2 VIP buses. GT Travel is a coach company, travel agency and tour operator in Iceland. GT Travel is a family owned company founded in 1969 with a turnover of USD 5m (2015).



Snæland Grímsson has over 30 coaches and super jeeps in operation, offering shorter and longer tours ranging from airport transfers to fully escorted trips around Iceland. Snæland is a family-owned operator founded in 1945 with a turnover of USD 20m (2016).



Reykjavík Excursions – Kynnisferðir operates around 70 coaches including the Flybus. Fully licensed tour operator and travel agent offering day trips and guided tours. Icelandic PE fund SÍA II bought 35% stake in 2015. Total turnover of around USD 45m (2015).



Teitur has 42 coaches in operation offering a wide range of travel services. Offers day trips to key sights and northern light safaris, as well as longer trips of up to 5 days. Teitur is a family-owned company founded in 1963 with EBITDA of USD 1m (2015).



Gray Line Iceland (Iceland Excursions Allrahanda) has around 70 coaches in operation. The Icelandic PE fund Akur bought close to a 50% stake in the business in 2015. Rest owned by founders and current management. Total turnover close to USD 34m (2015).



SBA Norðurlæið operates 75 coaches from Akureyri (HQ) and Reykjavík. The company offers sightseeing tours from Akureyri to North-East of Iceland. SBA is majority-owned by Gunnar M. Guðmundsson and has a turnover of USD 10m (2015).



Hópbílar has a fleet of 110 coaches and city buses ranging from 9 to 71 seaters providing services to travel agencies, airlines, cruise-ships, school groups and municipalities in Iceland. Founded in 1995 and bought by Horn III, an Icelandic PE fund, in 2016. Turnover USD 18m (2016).



GJ Travel, established in 1929, is one of the oldest tour operating companies in Iceland. The family-run company has a fleet of 25 Mercedes-Benz coaches, ranging in size from 16 to 69 seats, along with a few 4x4 Highland buses. It also offers tours to Greenland. Turnover USD 19m (2016).



Car rentals: Key operators



An overwhelming majority of tourists leaves the capital of Reykjavik to see the natural sights to be found around the country. While many opt for organised tours, survey evidence suggests that over half of the tourists go exploring on their own via rented car – many opting to travel the famous ring road, which literally stretches full circle around the island. The car rental business in Iceland is somewhat fragmented, with over 100 operational car rentals. The largest car rental owns 4,480 vehicles, which roughly amounts to a 20% market share based

on car fleet size. The market is dominated by international brands, operated under licenses by domestic car rentals with a long established market presence. The rental fleet has seen substantial growth in recent years, with much of the growth stemming from increased activity from small-to-mid market operators. New upstarts have driven product innovation, with a number of niche operators specialising in camper rentals and caravans, particularly popular among budget travellers. There exist multiple opportunities for consolidation, particularly among mid-market operators.



Founded in 1974, Höldur ehf. (BA) is the largest car rental company in Iceland. The company is the licensee holder for Europcar in Iceland. Höldur ehf. is privately owned (Steingrímur Birgisson, Bergþór Karlsson, Baldvin Birgisson and Þorsteinn Kjartansson)

2016 Operating Data

Car fleet: 4,480 vehicles

Turnover: USD 61m

EBITDA: USD 28m



Bílaeiga Flugleiða ehf. is the license holder of Hertz International in Iceland. The company has 9 outlets around Iceland. The company was bought in 2010 by Sigfús R. Sigfússon, Sigfús B. Sigfússon, Hendrik Berndsen and Sigurður Berndsen.

2016 Operating Data

Car fleet: 2,142 vehicles

Turnover: USD 34m

EBITDA: USD 17m



Alp ehf. is the licensee holder of AVIS and Budget in Iceland. Alp was founded in 1980 and has 8 outlets around Iceland. Alp ehf. is 55% owned by management and 45% owned by RAC Holding AS in Norway, operator of AVIS and Budget in Scandinavia.

2016 Operating Data

Car fleet: 2,622 vehicles

Turnover: USD 37m

EBITDA: USD 14m



Bílaeigan Berg ehf. is the licensee holder of Sixt in Iceland. The company has 2 outlets in Iceland (Reykjavik and Keflavik Airport). The company is held by Benedikt Eyjólfsson and family, the operators of Bílabúð Benna, an Icelandic car dealership.

2016 Operating Data

Car fleet: 1,643 vehicles

Turnover: USD 20m

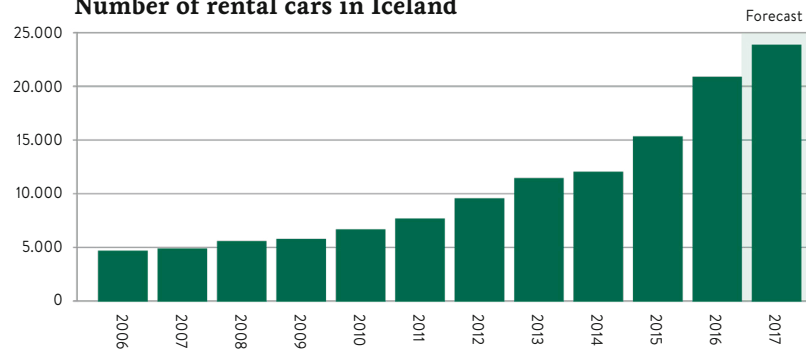
EBITDA: USD 8m

20 largest car rentals by fleet size

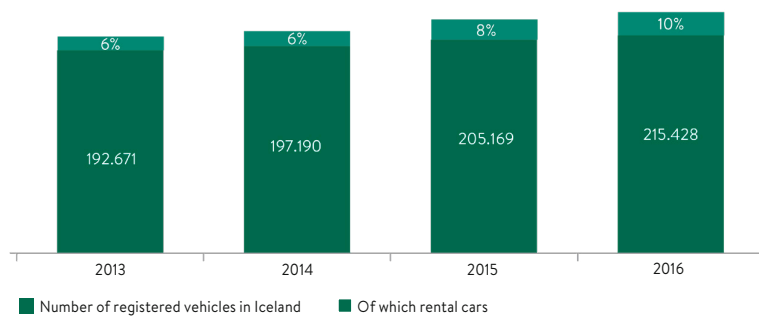
Name	Fleet size 2014	% of total	Fleet size 2015	% of total	Fleet size 2016	% of total
Höldur/Bílaleiga Akureyrar/Eurocar	3,333	27.4%	3,842	24.9%	4,480	21.5%
Avis/Budget	1,781	14.6%	2,063	13.4%	2,622	12.6%
Hertz/Firefly	1,455	11.9%	1,778	11.5%	2,142	10.3%
Sixt	687	5.6%	1,049	6.8%	1,643	7.9%
Dollar/Thrifty	587	4.8%	758	4.9%	1,131	5.4%
Blue Car Rental	272	2.2%	495	3.2%	965	4.6%
Enterprise/Red	127	1.0%	305	2.0%	699	3.4%
Green Motion	159	1.3%	395	2.6%	649	3.1%
Procar	305	2.5%	397	2.6%	566	2.7%
Bílaleiga Reykjavíkur	319	2.6%	406	2.6%	445	2.1%
Rent Nordic	224	1.8%	270	1.8%	436	2.1%
SAD Cars	207	1.7%	273	1.8%	333	1.6%
CC bílaleiga	192	1.6%	229	1.5%	298	1.4%
Bernhard/Ice Rental Cars	0	0.0%	0	0.0%	248	1.2%
Icerental 4x4	45	0.4%	80	0.5%	196	0.9%
Kú Kú Campers	85	0.7%	110	0.7%	183	0.9%
Route 1	120	1.0%	134	0.9%	176	0.8%
Átak	100	0.8%	123	0.8%	161	0.8%
SS Bílaleiga	128	1.1%	134	0.9%	151	0.7%
Hasso	69	0.6%	120	0.8%	119	0.6%
Total	10,195	83.7%	12,961	84.2%	17,643	84.6%



Number of rental cars in Iceland



Overall number of vehicles and % of rental cars



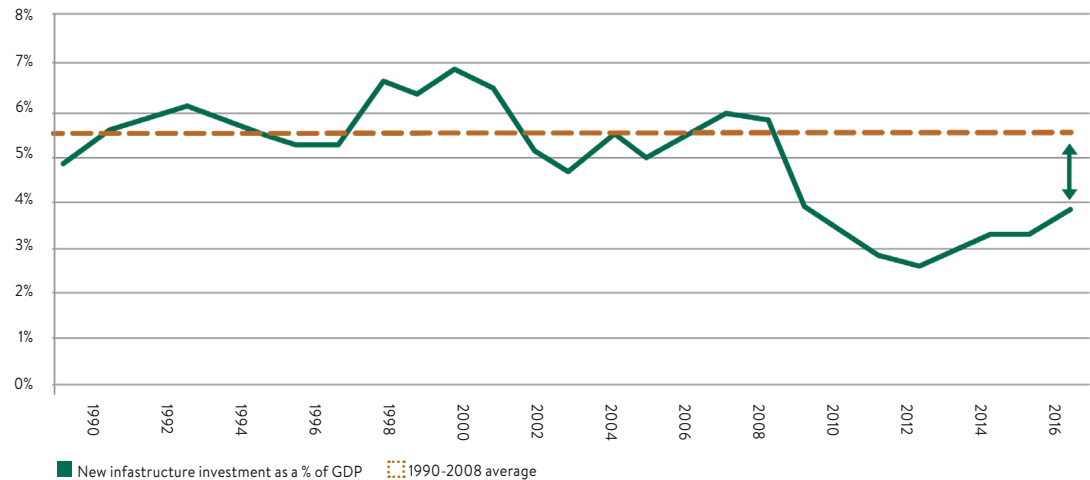


Infrastructure under pressure

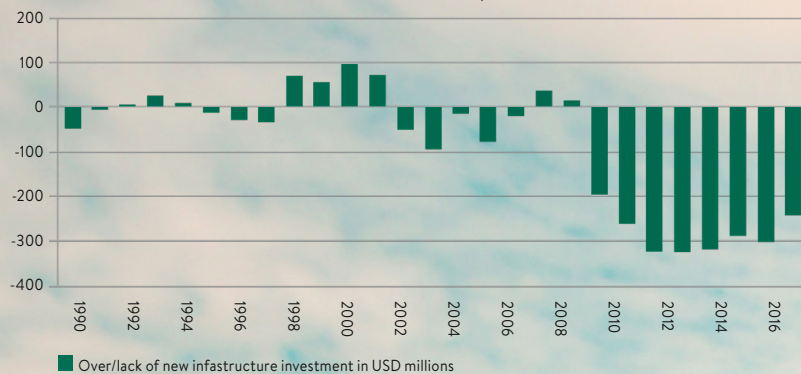
The capital output ratio bearing
the brunt of the growth in tourism

The reduction in new investment in infrastructure has been substantial since 2008, standing at 3.8% of GDP in 2016 compared to around 6% in 2008. Since 2009 the infrastructure capital stock in Iceland has fallen from 73% of GDP to 62% of GDP and has never been lower, and is approximately 10% lower than is desirable to maintain economic growth in the long term. Tourists name basic infrastructure, such as airports and roads, as a key area of improvement for Icelandic tourism. The authorities are becoming increasingly open to Public-Private Partnerships.

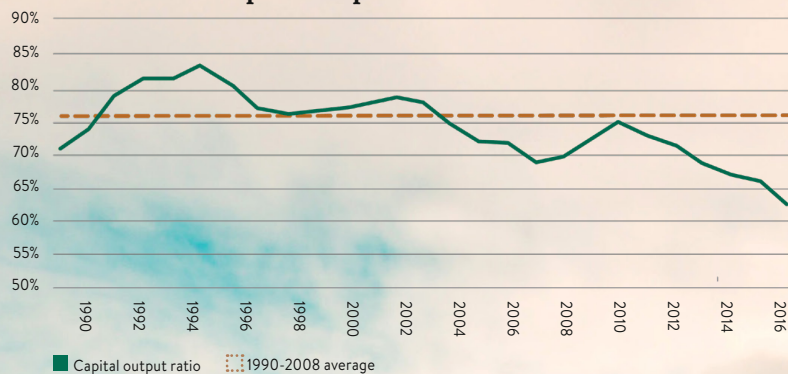
New infrastructure investment has decreased



Accumulated infrastructure deficit \$2.3bn



The Icelandic Capital Output ratio at a historical low



2016 tourist survey

How can Icelandic tourism be improved?	Winter	Summer
Road condition and quality	10.3%	18.6%
Public toilets	12.5%	16.0%
Limitations to tourist numbers	7.1%	16.9%
Road signs	12.7%	9.1%
Public transport	10.6%	6.0%
Viewpoints	2.6%	4.5%
Tent sites	0.7%	10.5%
Airports	3.4%	4.3%
Trash bins	0.9%	5.0%

Sources: Statistics Iceland, Registers Iceland, Icelandic Tourist Board



Keflavik International Airport expansion

Type:
International airport

Total investment:
USD 1.2-1.5bn

Likelihood of private participation:
Medium

Start of construction:
0-7 years out

Likely Setup:
Build-Own-Operate-Transfer

Construction time:
18-84 months

Keflavik international airport (KEF), opened in 1987 and is run by ISAVIA, the state-owned operator of Iceland's airports, international and domestic. The overall number of passengers passing through Keflavik airport in 2016 is estimated to be 6.9 million, up from 4.9 million last year as domestic appetite for travel swells and transfer passengers arrive in ever larger numbers.

As the sole gateway for international air travel, KEF is the constricting bottleneck for Iceland's booming tourism industry. Investment is sorely needed to keep up. ISAVIA has laid out a development framework for the airport and nearby areas: Keflavik International Airport - Masterplan 2015-2040, including new gates and stands, a new passenger

terminal and access facilities.

The estimated cost of the first phase is put at USD 600-650 million, phase 2 USD 115-150 million, and the overall cost is set to reach USD 1.2-1.5 billion. The current government has been keen to find infrastructure projects suitable for private investment. An entirely new terminal could provide the platform for outside investors to approach the project.

Keflavik Airport in 2040 according to ISAVIA's Master Plan





The Keflavik-Reykjavik Express Train

Type:
Express train

Total investment:
USD 650-950mn

Likelihood of private participation:
High

Start of construction:
2-5 years out

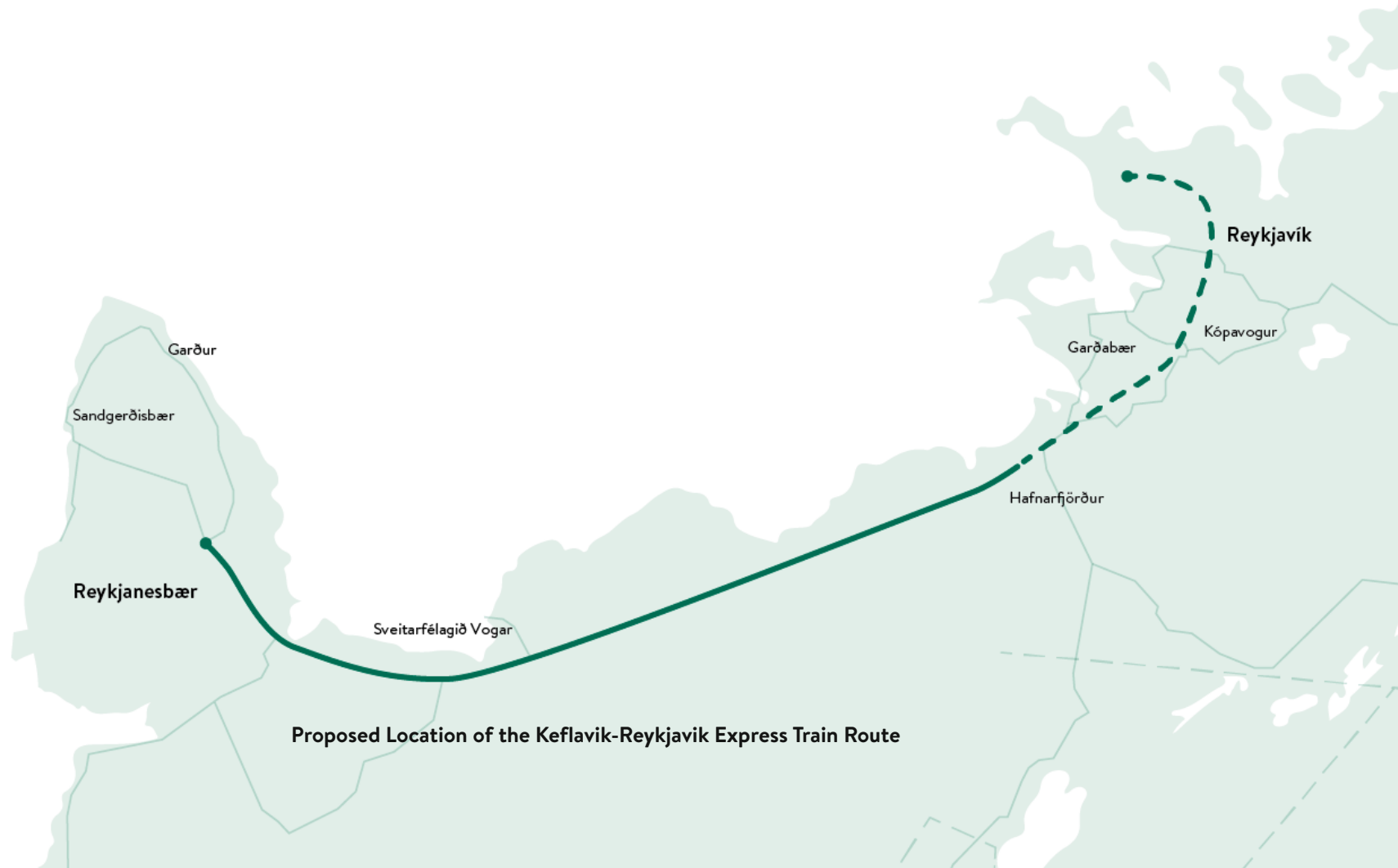
Likely Setup:
Build-Own-Operate-Transfer

Construction time:
48-60 months

Increased traffic at the Keflavik International Airport Case is making a Keflavik-Reykjavik Express train a more viable project. The length of the route is 49km, some 14km of which would be tunnels through the Reykjavik Area, which is indicated as a dotted line in the opposite map. The proposed design is a single track inside

tunnels and double tracks above ground. The average speed of the train will be 180kph with a maximum speed of 250kph resulting in a travel time of 15-18 minutes compared with a travel time of 40-50 minutes in a private car or a taxi. A feasibility study, conducted by a group of Icelandic companies led by the advisory firm

RRV Consulting in July 2014, found the case to be profitable with an expected project IRR of above 8% even if tourism does not increase at all from current levels. The estimated cost of the train project is USD 650-950mn with positive cash flow and pre-tax profits expected from year one in operation.



Proposed Location of the Keflavik-Reykjavik Express Train Route



III. GAMMA Advisory



Key advisory staff

Ingvi Hrafn Óskarsson



Ingvi Hrafn Óskarsson is managing director of alternative investments at GAMMA. He was previously a partner in the legal office Lögmenn Lækjargata and prior to that worked for Íslandsbanki and Glitnir as head of legal advisory. Ingvi holds an LL.M. degree from Columbia and MSc in finance from London Business School.

Thordur Agust Hlynsson



Thordur Agust Hlynsson is Managing Director of GAMMA Advisory. Thordur has over 15 years' international experience in corporate finance. Previously Thordur worked as a corporate finance advisor in London at Landsbanki and Pensum Partners. Thordur holds a M.Sc. degree in Finance from Cass Business School and has a certificate in corporate finance from the FCA in the UK.

Sölvi Blöndal



Sölvi Blöndal is the head of economic research at GAMMA. A trained economist from the University of Stockholm, Sölvi has over a decade's experience analysing market data to shape investment theses. Among other things, Sölvi oversees GAMMA's significant research efforts into identifying cyclical and secular trends in markets, based on macroeconomic and demographic research. He has published extensive analyses and writings on real estate, infrastructure and demographics and was named Economist of the Year 2017 by the Icelandic Society of Economics and Business Studies.



Laurent Lavigne du Cadet



Laurent Lavigne du Cadet is the CEO of GAMMA in New York. Laurent has over two decades of managerial experience in the world of banking and finance, having worked in the profession in the USA, Europe and the Middle East. His last position was as Senior Advisor to the world's largest law firm, Dentons LLP; his previous posts include that of Deputy CEO of the US investment bank Taylor-DeJongh, CEO of the investment bank Amwal in Qatar, Managing Director at Dubai Islamic Bank and Managing Partner of Alternative Finance Partners in London.

Helgi Bergs



Helgi Bergs is a senior advisor with GAMMA Advisory, based in Zürich. With over two decades of experience in international finance, Helgi was the Global Head of Investment Banking for Kaupthing Bank from 2005-2008 and the Managing Director of Kaupthing Limited in London from 2003-2005. Previously he was Head of Special Products for Iceland Seafood International, and in recent years he has been Head of Trading for Birwood Limited in London.

Fridjon Thordarson



Fridjon Thordarson is a director with GAMMA Advisory. With over 18 years' experience in financial markets, Fridjon has provided transactional advice to a number of international investors navigating Icelandic markets. He is one of the founders of private equity firm Varða Capital, a joint venture between Icelandic and US institutional investors. Fridjon was a managing partner and head of capital markets at Icelandic securities boutique Virðing in 2007-2009, prior to which he was a FX and derivatives trader with Landsbankinn bank. Fridjon holds an MBA from IE Business School.



Global reach

As part of its broad service offering, GAMMA maintains operations in four countries, bridging markets on either side of the Atlantic



The offices of GAMMA Capital Management in Mayfair, London





GAMMA Advisory team experience

ALSTOM

Alstom, France
Rail transport



Cintamani, Iceland
Clothing

EIMSKIP

Eimskip, Iceland
Shipping

Technip

Technip, France
Engineering



*Saudi Telecom Company,
Saudi Arabia*
Telecommunications

Marconi

Marconi, USA
Telecommunications

FMC

FMC, USA
Chemicals

**ICELANDIC
GROUP PLC**

Icelandic Group, UK
Seafood

GAMMA has a dedicated team of highly experienced corporate finance specialists, who have delivered high-level financial advice on complex and sensitive issues to a number

of the world's biggest corporates and institutions throughout their careers, including those listed on this page. The corporate advisory includes a team on the ground in Reykjavik with native knowledge

of the tourism sector, enabling us to provide a comprehensive investment solution to international investors interested in exploring opportunities in Icelandic tourism.



Telenor, Norway
Telecommunications



West Ham United, UK
Football club

KAREN MILLEN

Karen Millen, UK
Clothing retailer



Koch Industries, USA
Manufacturing



Hellenic Republic
Sovereign



Pride, USA
Drilling

RioTinto

Rio Tinto Alcan, Iceland
Mining



Total, France
Oil and gas



Alcoa Fjarðarál, Iceland
Aluminium production

ExxonMobil

ExxonMobil, USA
Oil and gas



General Electric, USA
Conglomerate



Alcatel Lucent, France
Telecommunications



Refresco Group, Netherlands
Soft drink manufacturing



Bluebird Cargo, Iceland
Airline



RAK Petroleum, Dubai
Oil and gas



CCP, Iceland
Digital entertainment and gaming



GAMMA's broad service offering

Ideal partner for investors interested
in exploring opportunities in tourist sector

Deal sourcing and origination

- ☞ Native knowledge of tourism sector and related opportunities
- ☞ On-the-ground presence
- ☞ Unrivalled network and access to deal flow
- ☞ Target screening based on active monitoring and identification of opportunities tailored to client goals
- ☞ Strategic compatibility review
- ☞ Readiness review

Advisory and execution services

- ☞ Initial engagement with seller and introduction/expressions of interest
- ☞ Valuation services
- ☞ Bid and negotiation strategy
- ☞ Business plan review
- ☞ Deal structuring
- ☞ Analysis of hedging options, e.g. currency risk
- ☞ Bid preparation and documentation
- ☞ Post-merger integration, and operational streamlining

Co-investment and Consortium formation

- ☞ GAMMA frequently co-invests with clients
- ☞ Access to a wide network of both Icelandic and international investors, and ability to manage consortium formation where appropriate and desired
- ☞ Arrangement of hedging instruments
- ☞ Arrangement of acquisition financing with local banks and lenders



GAMMA Advisory contacts

Please do not hesitate to contact us for an initial consultation and further information on opportunities in the Icelandic tourist sector



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