The future of tourism in Iceland

Part VI: Economic impact

September 2013

THE BOSTON CONSULTING GROUP

Context and structure of document

From October 2012– July 2013, BCG conducted an independent report on the long-term tourism strategy of Destination Iceland. The project, which was carried out in Reykjavik, was commissioned by a consortium of private Icelandic companies, including Icelandair Group, Isavia, Blue Lagoon, and Holdur / Europcar.

This set of documents contains the output from the project. It is structured in 6 parts:

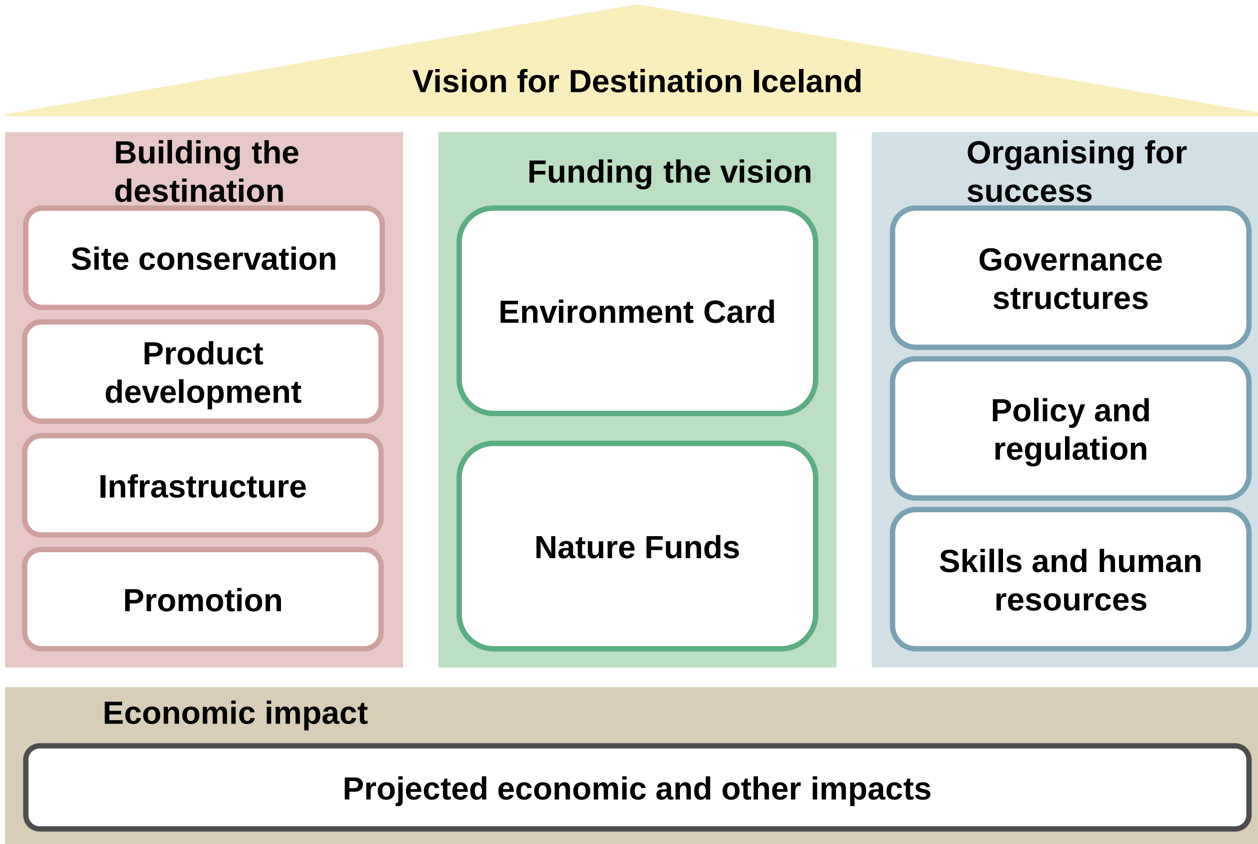
- Part I: Context - Icelandic tourism today
- Part II: Aspiration for destination Iceland and Iceland's target visitors
- Part III: Building the destination
- Part IV: Funding the vision
- Part V: Organising for success
- Part VI: Economic impact

This is the sixth of the six documents

Agenda

- Part I: Context - Icelandic tourism today
- Part II: Aspiration for destination Iceland and Iceland's target visitors
- Part III: Building the destination
- Part IV: Funding the vision
- Part V: Organising for success
- **Part VI: Economic impact**

New vision for the future of tourism in Iceland requires a programme of transformation



This presentation focuses on the economic impact

Economic impact

Vision for Destination Iceland

Building the destination
- Promotion
- Product development
- Infrastructure
- Site conservation

Funding the vision
- Environment Card
- Nature Funds

Organising for success
- Governance structures
- Policy and regulation
- Skills and human resources

Economic impact
- **Economic and other impacts**

The economic impact of tourism was estimated following a three-step process

1 **Visitor numbers**
- By segment
- By season

2 **GDP impact**
- By region

3a **Employment contribution**
- By region

3b **Tax receipts**

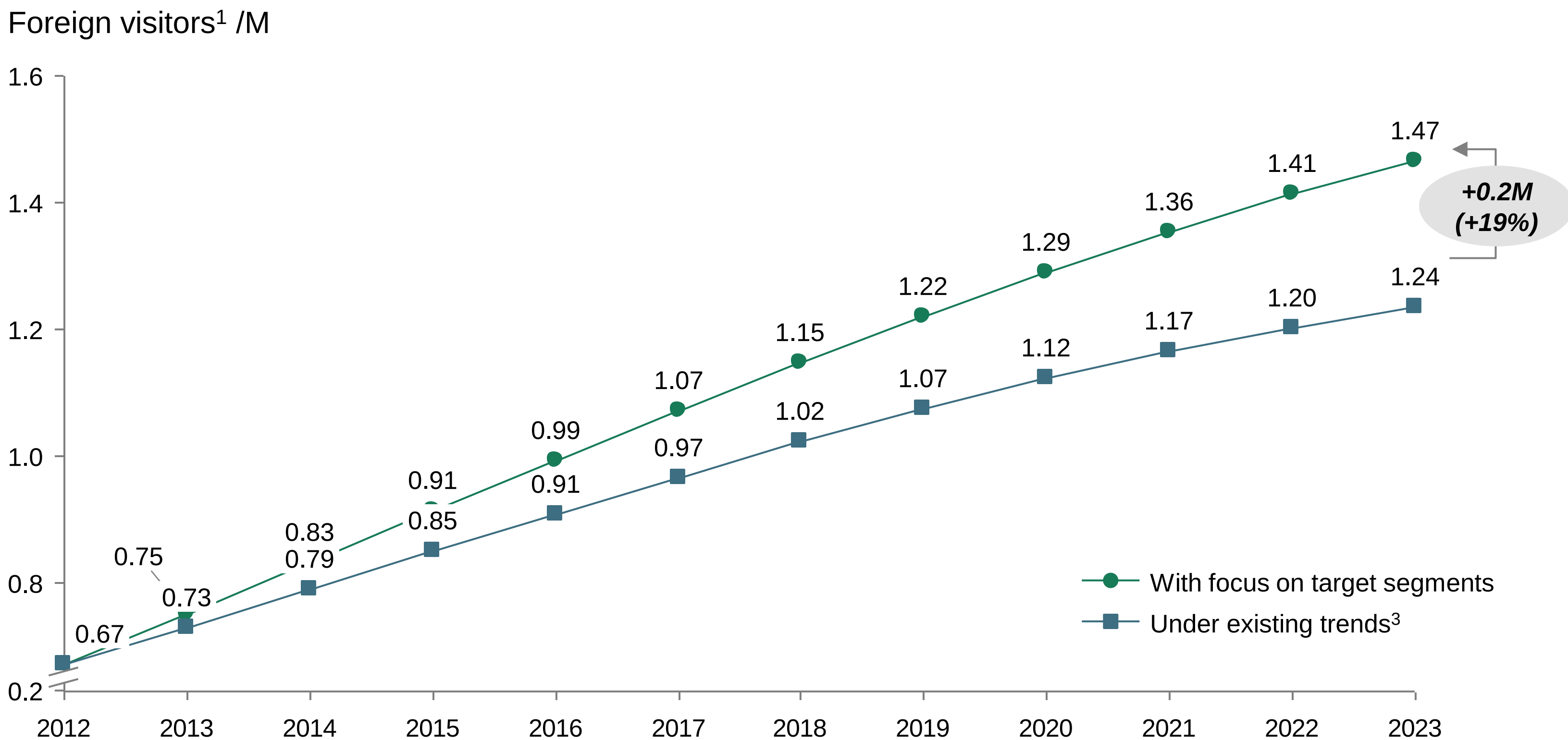
1

Foreign visitor projections based on three growth drivers, considered under two scenarios

	Growth driver	Details	Scenarios: Under existing trends	Scenarios: With focus on target segments
a	**Traveller growth weighted by demographic trends**	• Total outbound traveller growth weighted by 2012 Iceland inbound market mix • Growth rate for each segment estimated using demographic shifts & trend towards adventure tourism	✓	✓
b	**Icelandic growth above inbound trends**	• Historical growth rate of Iceland inbound ~7 p.p. above trend. Estimated as average above: – World tourism arrivals – Inbound markets' outbound travel growth • Projected to decrease to average growth by 2023	✓	✓
c	**Improved penetration of inbound markets in target segments**	• For each target segment, under-penetrated inbound markets brought to weighted average penetration by 2023		✓

Foreign visitor numbers could reach 1.2 – 1.5M by 2023

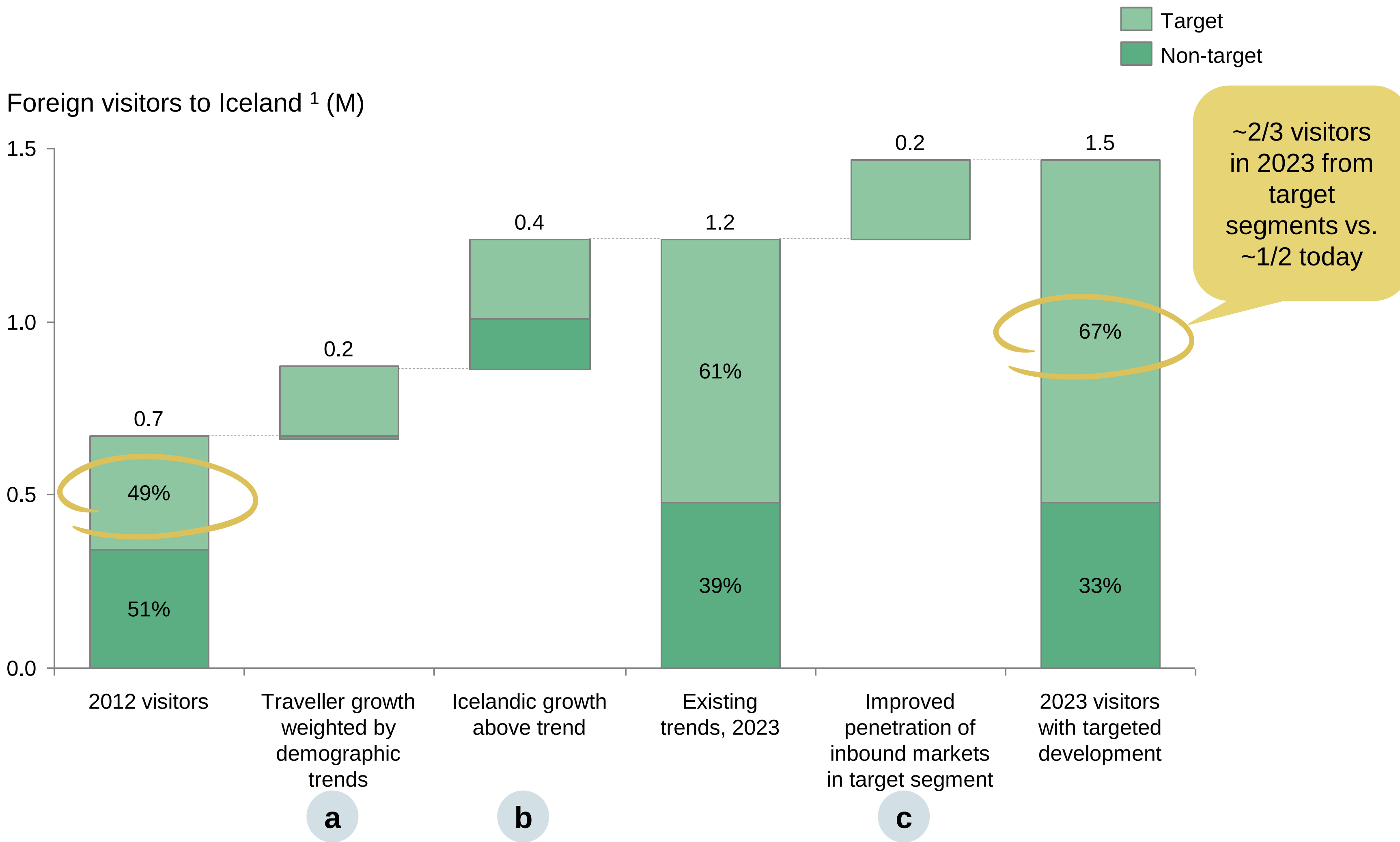
Note: Foreign visitor projection shown here does not include cruise



Domestic tourists /K[2]	*280*	*285*	*288*	*290*	*293*	*296*	*299*	*302*	*305*	*308*	*311*	*313*

1. Not including cruise passengers; 2..Projected to grow in line with population; 3. Continue on current trajectory with growth in overall volume
Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO; BCG analysis

Managing growth will drive shift towards target segments

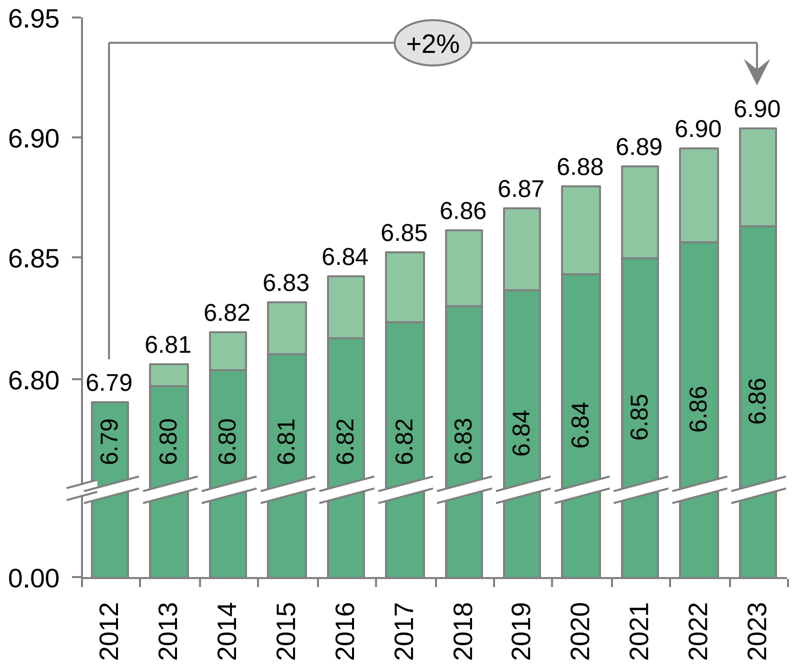


1. Not including cruise passengers;
Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO, BCG analysis

Growing target segments at the expense of non-target segments increases both average stay length and spend...

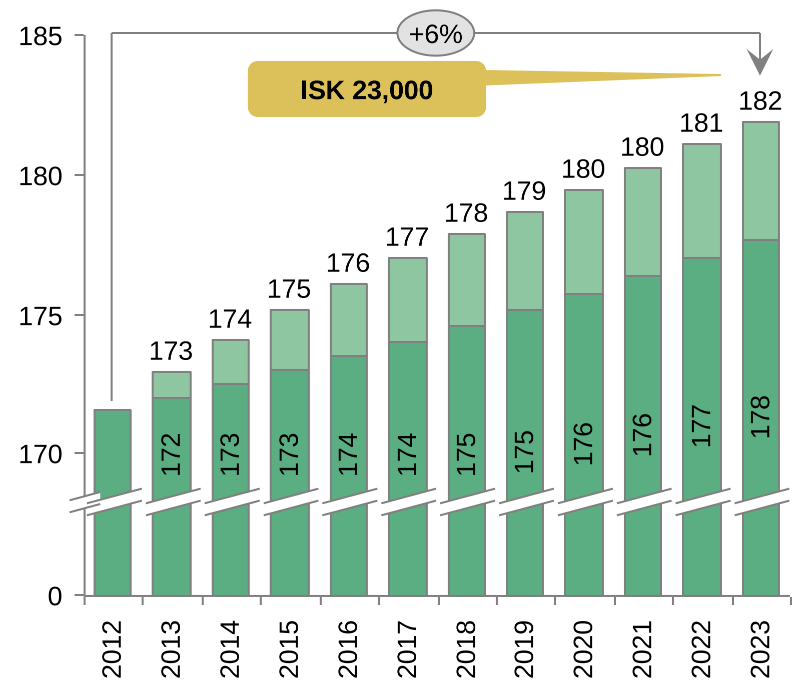
Average stay length +2% with targeted development as visitor mix changes...

Average length of stay (nights)



...over the same period, average spend per day increases +6%

Average spend / day (excl. travel to Iceland) (2012 $)

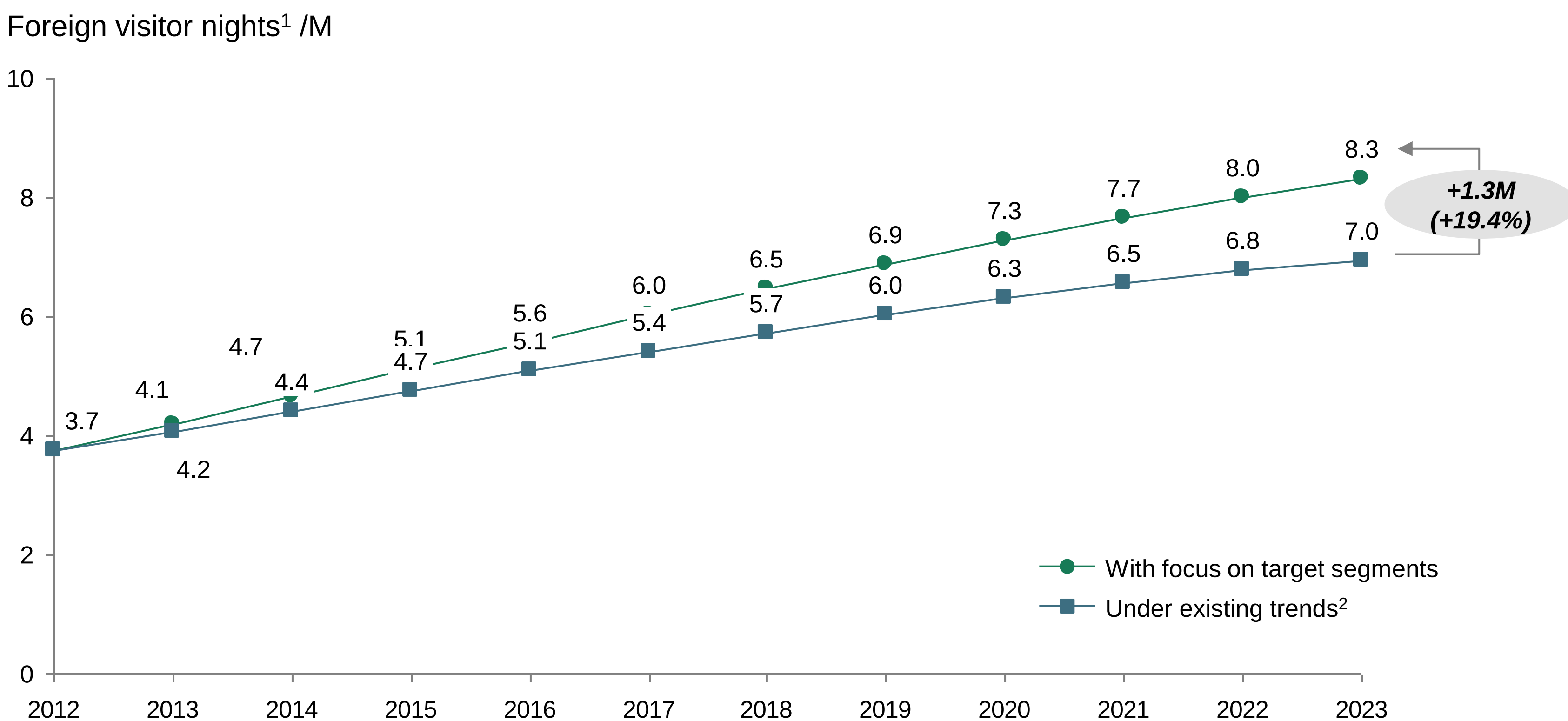


With focus on target segments
Under existing trends

Note: Foreign visitors only. Does not include cruise passengers
Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO, BCG analysis

1

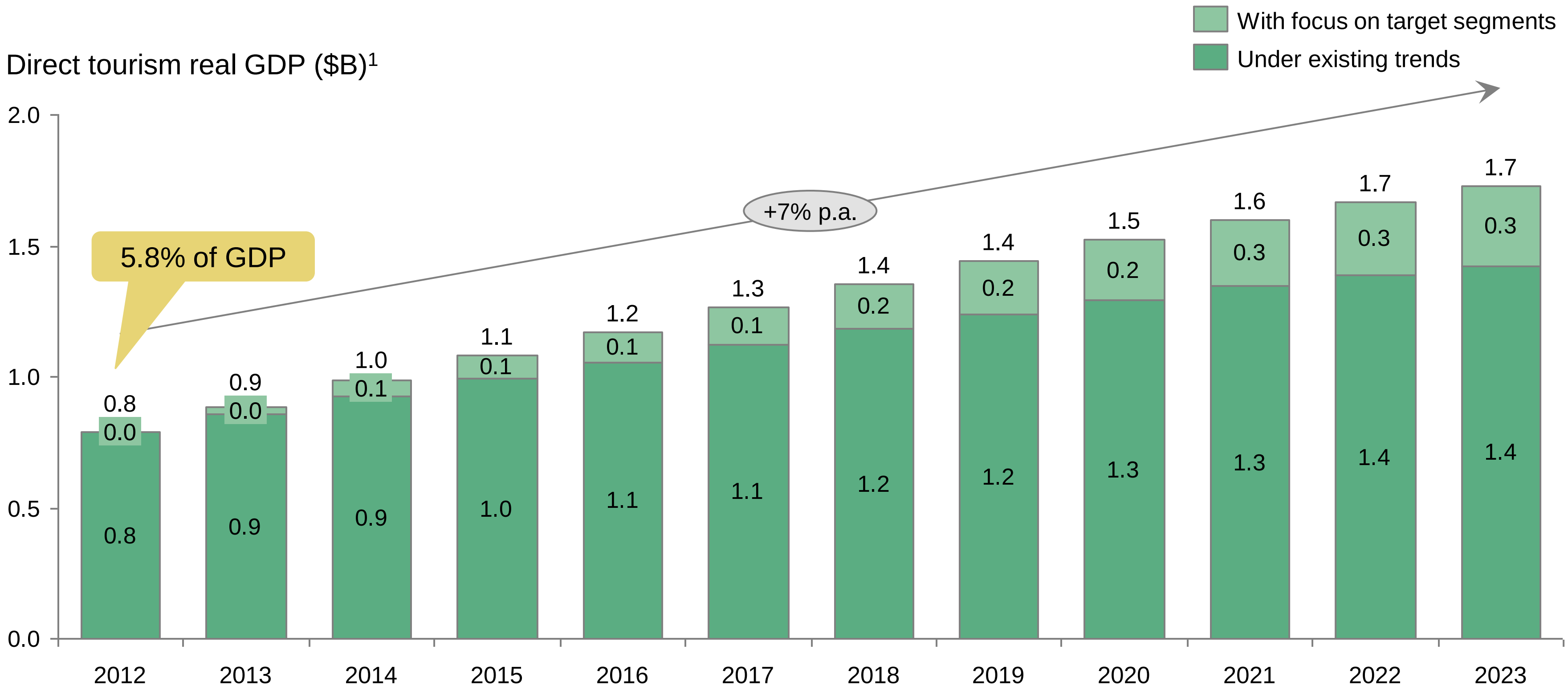
...Leading to incremental 1.3M visitor nights in 2023



Domestic tourist nights /K[1]	*850*	*864*	*872*	*880*	*889*	*898*	*907*	*917*	*926*	*935*	*943*	*952*

Note: Does not include cruise passengers
1..Projected to grow in line with population; 2. Continue on current trajectory with growth in overall volume
Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO; BCG analysis

Tourism could directly contribute $1.7B (ISK 215 B) to GDP in real terms by 2023, more than double today



Total Icelandic Real GDP[1] ($B)	2012	2013	2014	2015	2016	2017	2018
	13.7	13.9	14.3	14.7	15.1	15.5	16.0

Forecast by Statistics Iceland

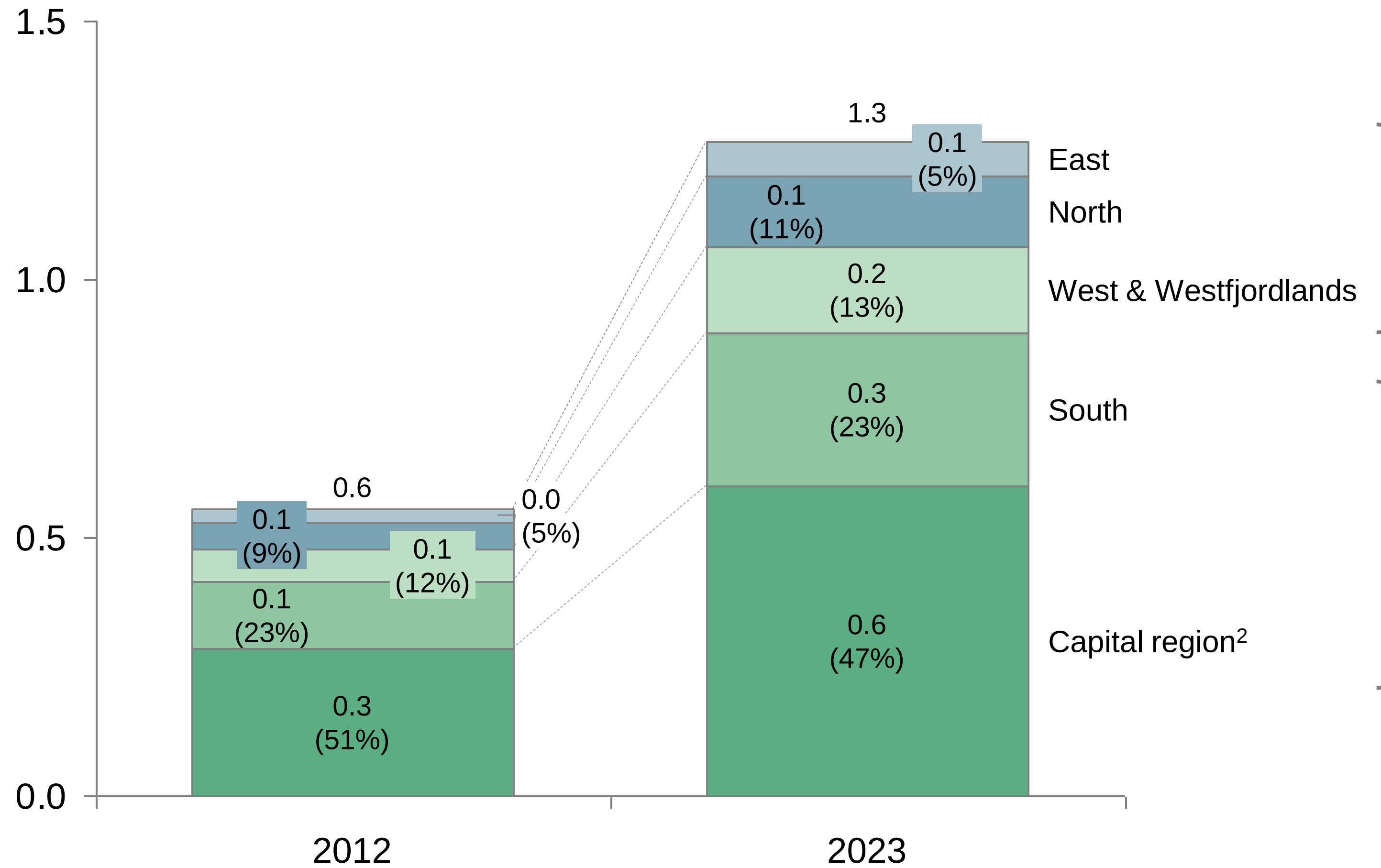
1. 2012 prices, 2012 USD: ISK exchange rate applied
Note: Domestic tourists' incremental spend on tourism and cruise passengers' spend in Iceland also included in calculation
Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO; Statistics Iceland; Oanda; HVS; Icelandic Road Administration; BCG analysis

2

Tourism's direct GDP impact on East/North/West to grow >2x

Direct spend only, excl. travel to Iceland

Direct real GDP excl. travel to Iceland ($B)[1]



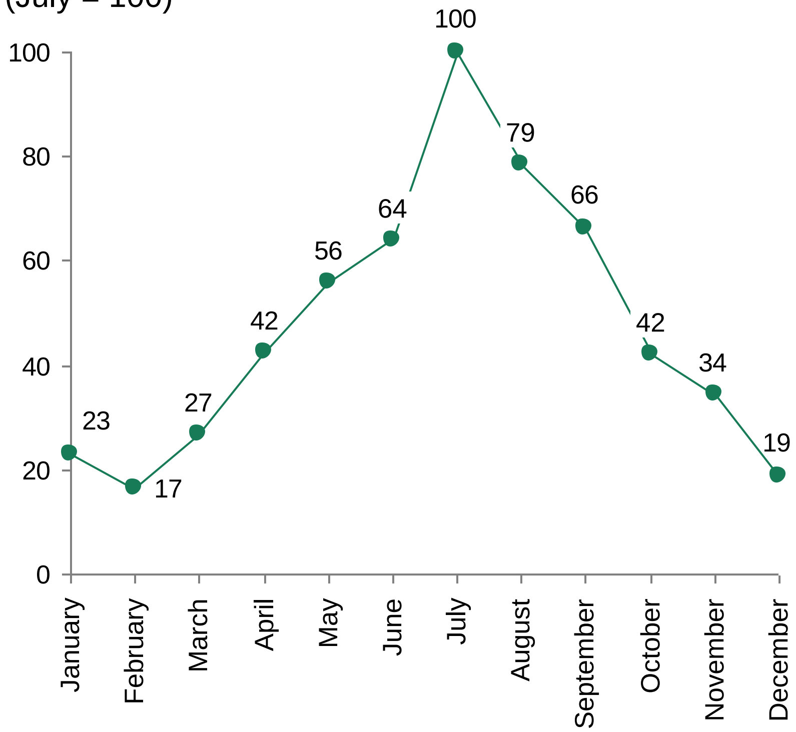
Direct Tourism GDP, excl. travel to Iceland ($B)		Growth (%)
2012	2023	
0.14	0.37	162%
0.41	0.90	117%

1. 2012 prices and exchange rate; 2. includes Reykjavik and Reykjanes
Note: ratio based on expected visitor numbers to each region under each scenario; excludes domestic nights
Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO; Statistics Iceland; Oanda; HVS; Icelandic Road Administration; BCG analysis

Assumption made that Swedish and Finnish visitor seasonality achieved for all visitors by 2023...

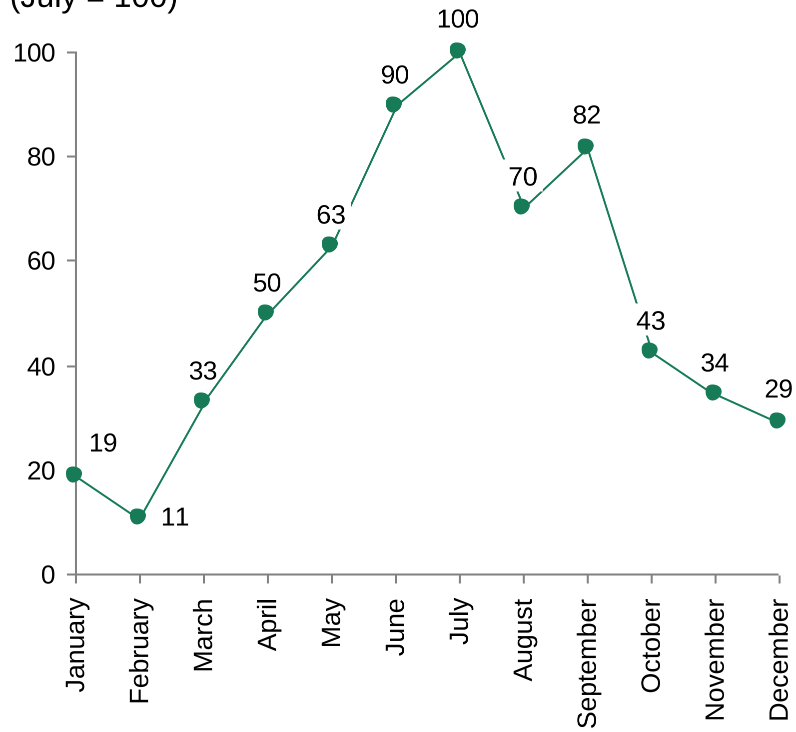
Swedish visitors to Iceland through KEF 2012[1]

Indexed visitors July =100
(July = 100)



Finnish visitors to Iceland through KEF 2012[1]

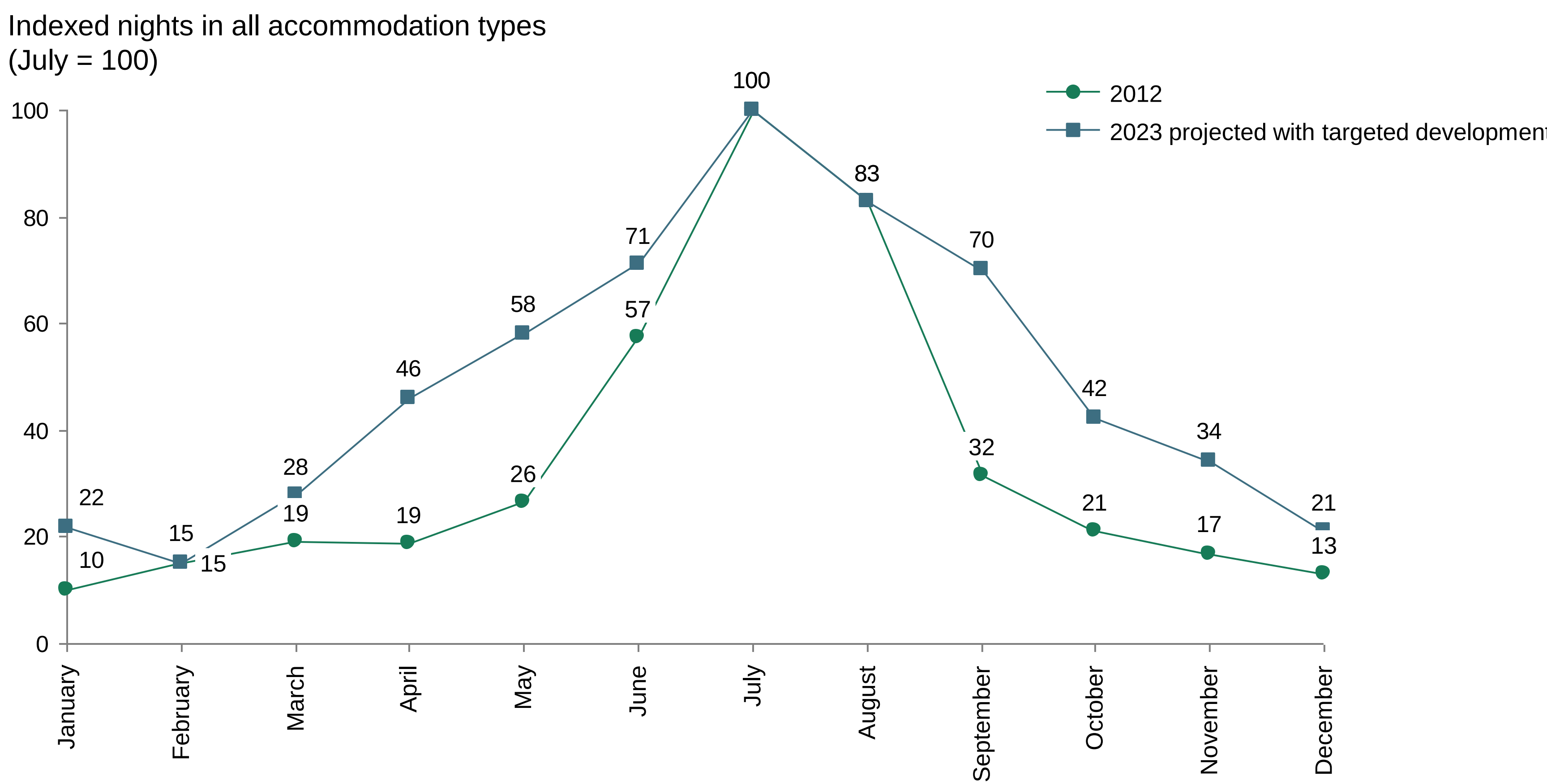
Indexed visitors, July=100
(July = 100)



Source: Isavia

2

... resulting in reduction in overall seasonality, particularly in shoulder season



Driven by focus on target segments, as well as winter marketing and product development

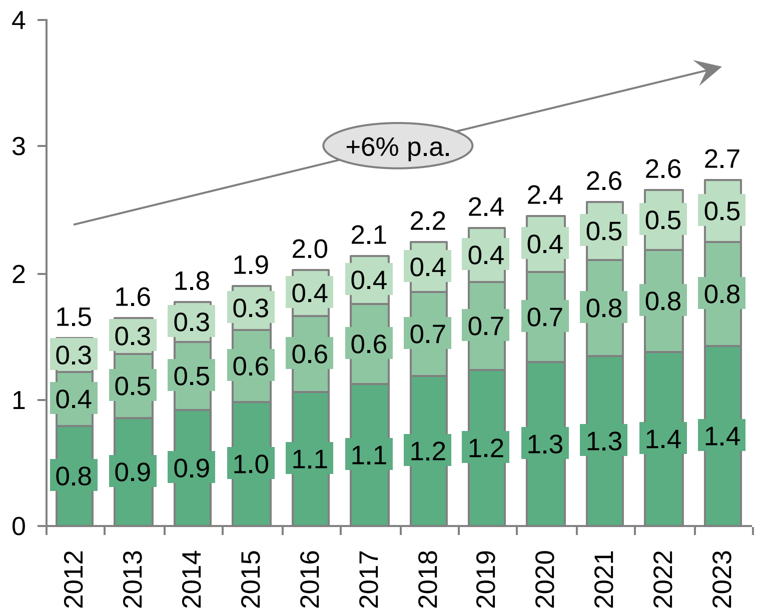
Note: Domestic and foreign nights. Based on average seasonality of Swedish and Finnish arrivals to Iceland – assumption that shoulders can be grown closer to 'best case' today
Source: Statistics Iceland, BCG analysis

2

Including indirect and induced spend, tourism contribution could reach $3.3Bn (ISK 400Bn) by 2023

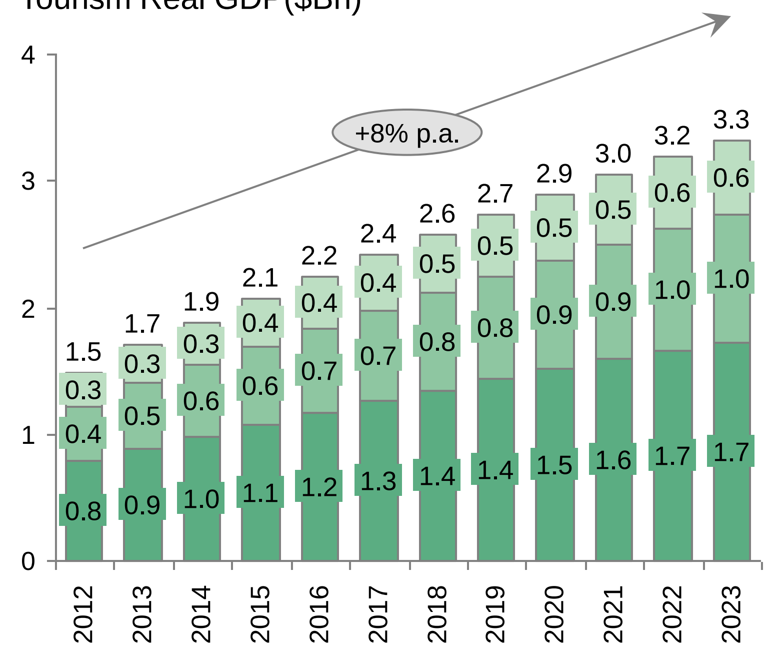
Under existing trends, total tourism impact estimated at $2.7Bn (ISK 325 Bn)...

Tourism Real GDP($Bn) [1]



...growing to $3.3Bn (ISK 400Bn) with focus on target segments

Tourism Real GDP($Bn) [1]



Induced GDP | Indirect GDP | Direct GDP

1. 2012 prices, 2012 USD: ISK exchange rate applied
Note: Domestic tourists' incremental spend on tourism and cruise passenger spend also included in projections
Source: Icelandic Tourist Board, Isavia, EIU, Euromonitor, UNWTO; Statistics Iceland; Oanda; HVS; Icelandic Road Administration; BCG analysis

2

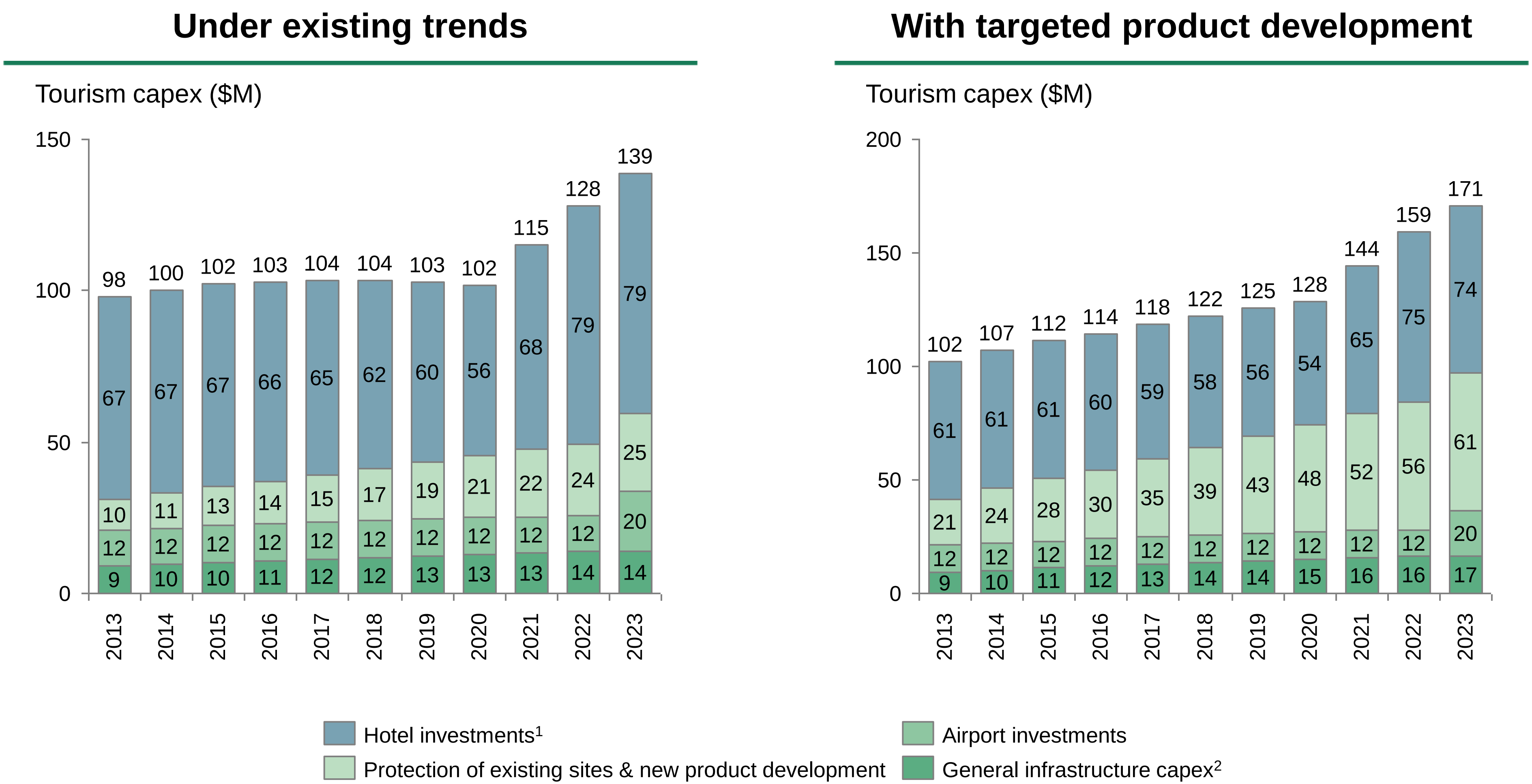
Backup: Items included in direct, indirect, and induced spend

	Category	Direct	Indirect	Induced
Spending	**Margin on core tourism spend** • Accommodation • Internal travel by tourists • Restaurant spend by tourists • Tourist travel on Icelandic airlines to Iceland • Tourist recreation • Tourist retail spend	✓		
	Taxes on core tourism spend	✓		
	COGS of core tourism spend (supply chain spend)		✓	
	Other tourism spend incl. fuel, groceries		✓	
	Spending by staff employed in tourism / tourism-related industries[1]			✓
Capex investment	**Airport expansion**		✓	
	Hotel capex required		✓	
	Existing site development, e.g., • Visitor centres • Paths • Signposts		✓	
	New site product development • Funded by tourism fund		✓	
	Infrastructure investment to support increased tourism incl. • Water treatment • Wifi/mobile infrastructure • Sewerage plants		✓	

1. WTTC impact of Travel & Tourism Economic Impact Iceland 2012: Induced GDP impact = 1.2 x (direct + indirect) GDP impact

2

Backup: Capital investment forecast to support calculation of indirect tourism impact on GDP



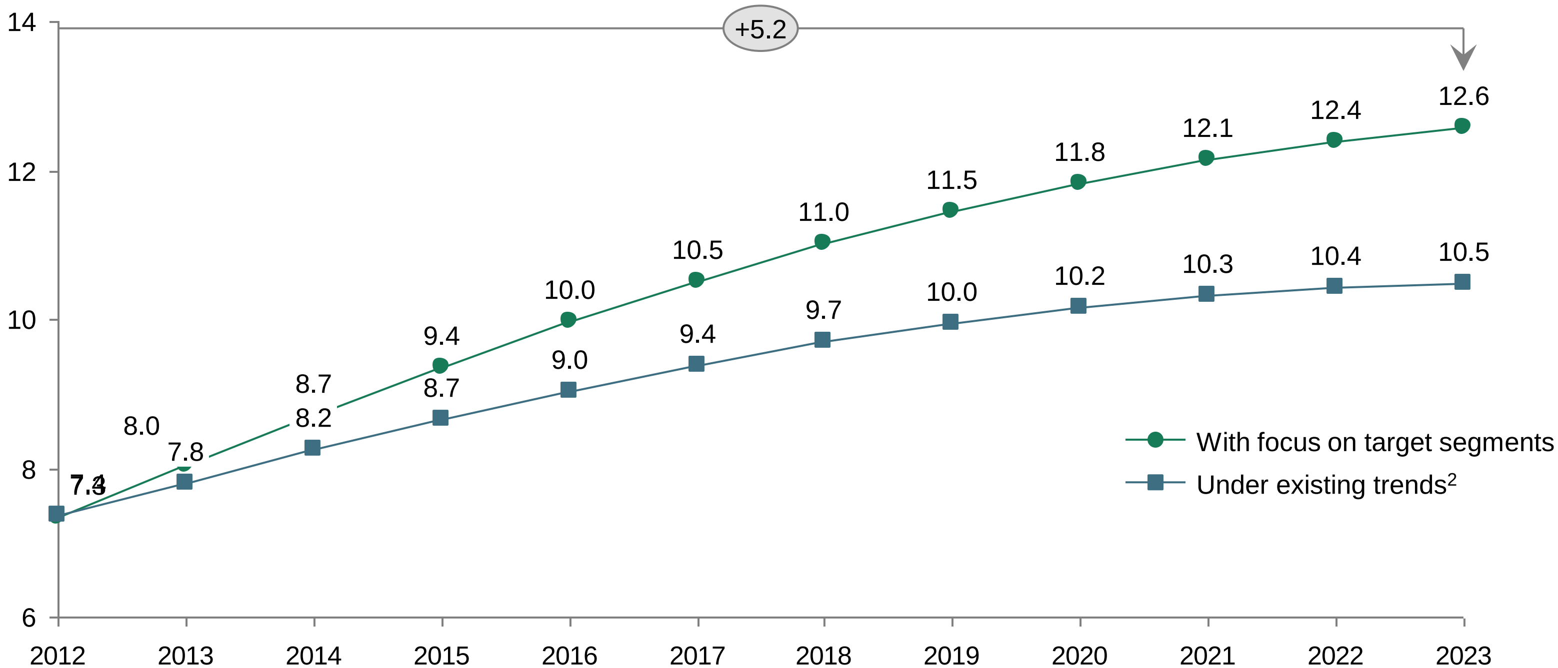
1. Including both new construction and renovation; 2. Including; water treatment, mobile/Wi-Fi receivers/transmitters and sewerage
Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO; Statistics Iceland; Oanda; HVS; Icelandic Road Administration; BCG analysis

Tourism projected to directly create >5,000 new jobs by 2023

Estimations based on Statistics Iceland 2009 employment figures

Excludes black market employment

Direct employment[1] (K)



Assumptions

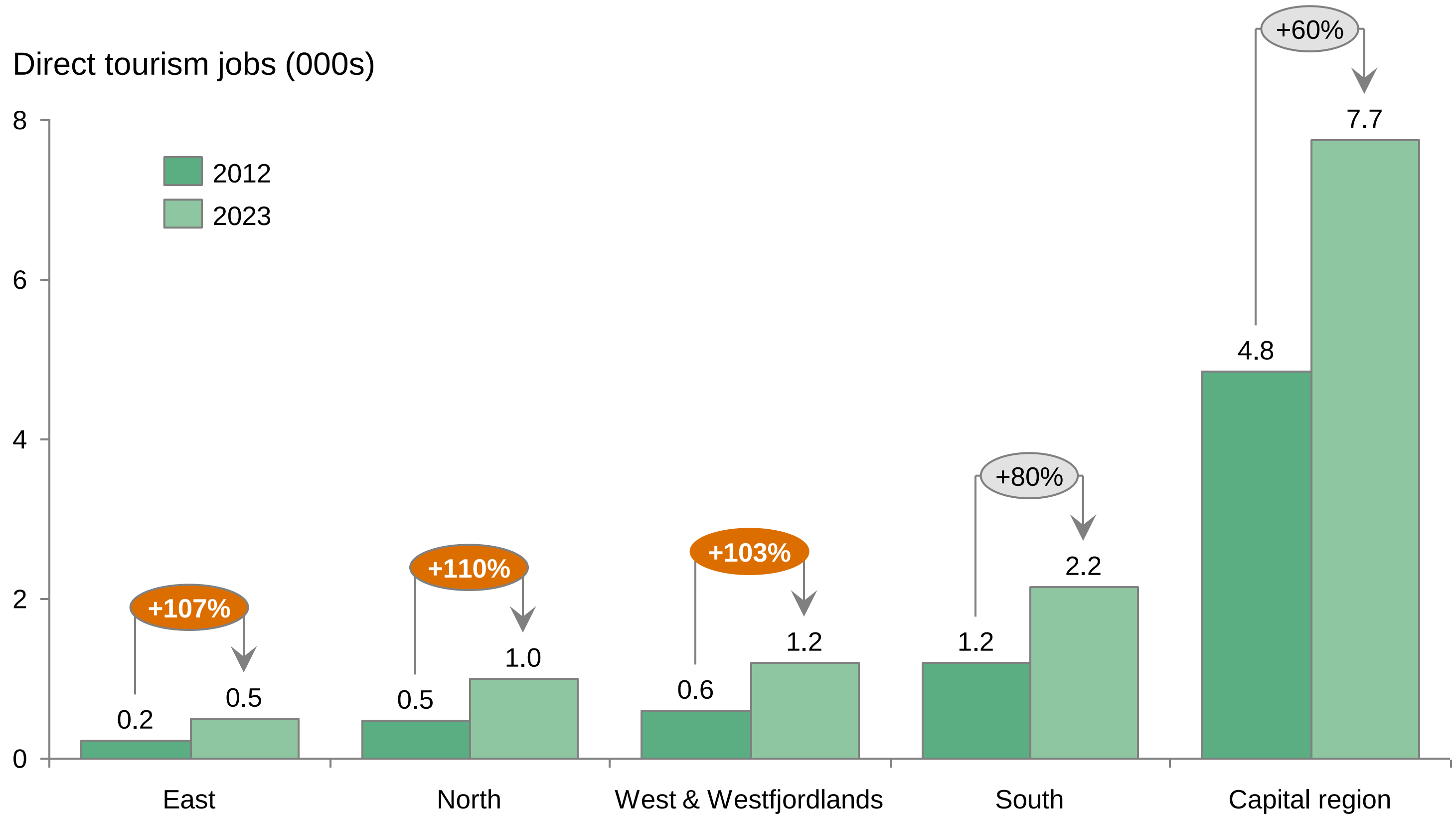
Direct employment
- In both cases, direct GDP contribution per direct employee grown at 2% CAGR, following historic trend 2000–2008
- Assumed a further 0.1 p.p increase per year due to reduced seasonality in the targeted growth case
- Direct employment estimated at 65% of direct + indirect employment, as per Icelandic historic benchmarks

1. Tourism characteristic industries, as defined by Statistics Iceland; 2. Continue on current trajectory with growth in overall volume
Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO; Statistics Iceland; Oanda; HVS; Icelandic Road Administration; BCG analysis

3a

All regions predicted to benefit from increased tourism employment, with highest growth in the North & East

Employment in direct tourism industries with focus on target segments



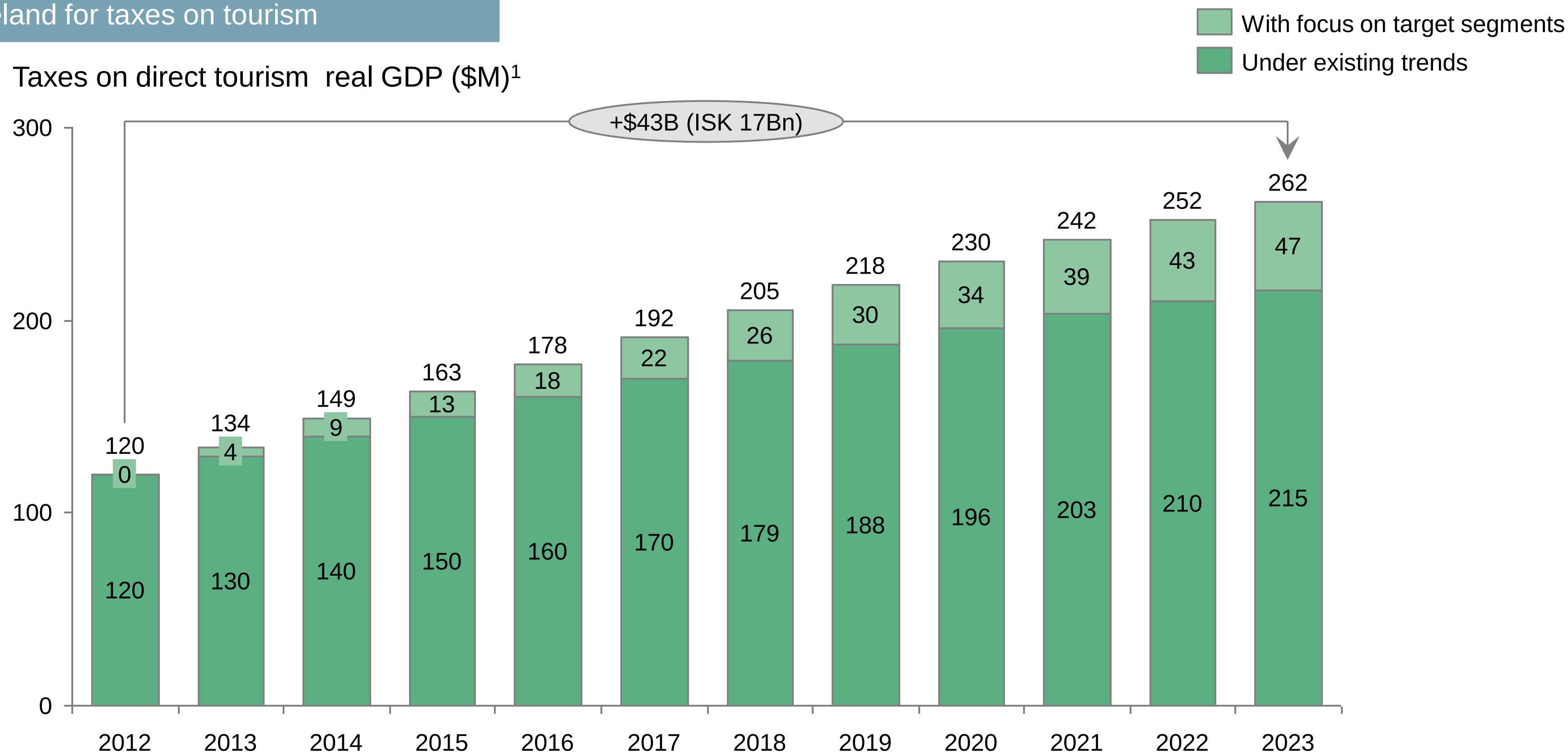
~1.4k of 5.2k new direct jobs created in East, North, and West

1. Includes Reykjavik and Reykjanes
Note: based upon % of foreign visitors to each region reported today in Icelandic tourism board surveys and assumed increased regional spread with initiatives in place by 2023.Impact of revenue from travel to Iceland assumed to impact capital region
Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO; Statistics Iceland; Oanda; HVS; Icelandic Road Administration; BCG analysis

3b

Tax receipts on direct tourism GDP could reach $264M (ISK 33Bn) in 2023, more than double today

Estimated based on 2009 data from Statistics Iceland for taxes on tourism



Incremental tax receipts by 2023 equivalent to a rise of 1.7% GST or 50K ISK additional tax per Icelander[1]

1. 2012 prices and exchange rate

Note: 2009 implied tax rate of 15% (2009) used for projection

Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO; Statistics Iceland; Oanda; HVS; EIU; BCG analysis

Appendix: Economic impact facts and figures

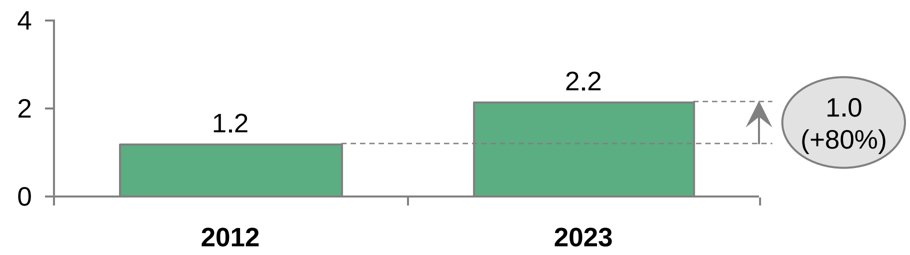
Over the next 10 years, focused growth of tourism could deliver a number of benefits for Iceland's economy

+4.2M	**Additional foreign visitor overnight stays annually**
150%	**Increase in visitor nights in regions outside the south**
215B ISK	**Annual direct tourism GDP contribution in 2023** (+105B ISK increase from 2013)
7%	**Growth in tourism's direct GDP contribution p.a. since 2013** • Double the rate reported for other sectors
+4.5k	**Additional tourism jobs created over 10 years** ~ double the number of tourism jobs outside the south today
+16 B ISK	**Incremental direct tax contribution from tourism since 2013** Equivalent to ~120K ISK per Icelandic household per year

South Iceland: Estimated regional impact of tourism strategy over next 10 years

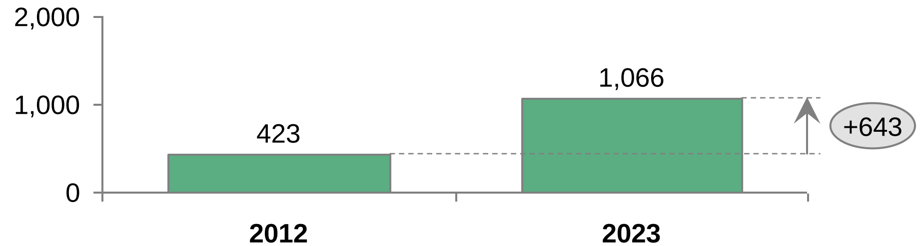
80% increase in tourism employment

tourism employees (000s)



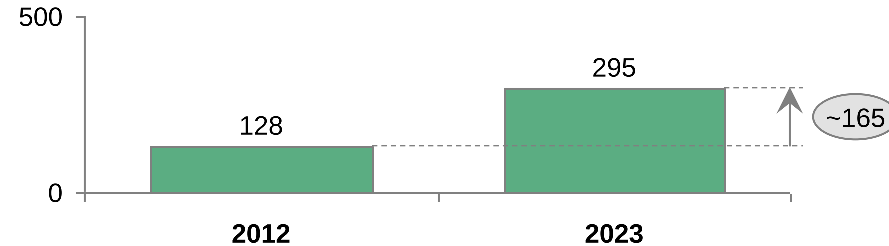
640K additional visitors

visitors (000s)



Increase of $165M in direct tourism GDP

Direct tourism GDP ($M)

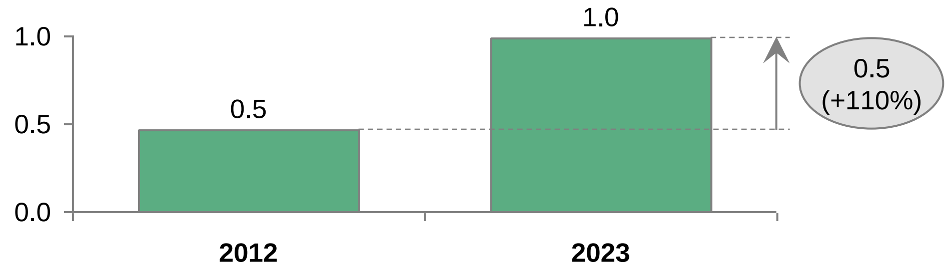


Note: 2012 figures for employment and GDP estimated based on behaviour of four groups (Adventurers, Seniors, Emerging Market Explorers and non-Adventurers) reported in the Iceland Tourism Board Summer & Winter surveys 2011-2012 . 2023 figures based on the assumption that targeting development at the first 3 groups will increase the propensity for them to visit the region by 20%, whilst the conservative assumption was made that non-adventurers are not impacted .
Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO; Statistics Iceland; Oanda; HVS; Icelandic Road Administration; BCG analysis

North Iceland: Estimated regional impact of tourism strategy over next 10 years

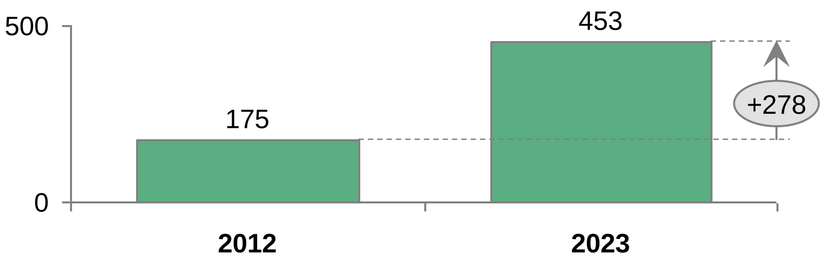
110% increase in tourism employment

tourism employees (000s)



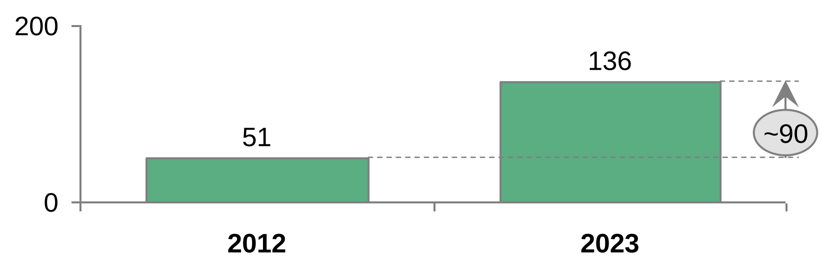
280K additional visitors

visitors (000s)



Increase of $90M in direct tourism GDP

Direct tourism GDP ($M)



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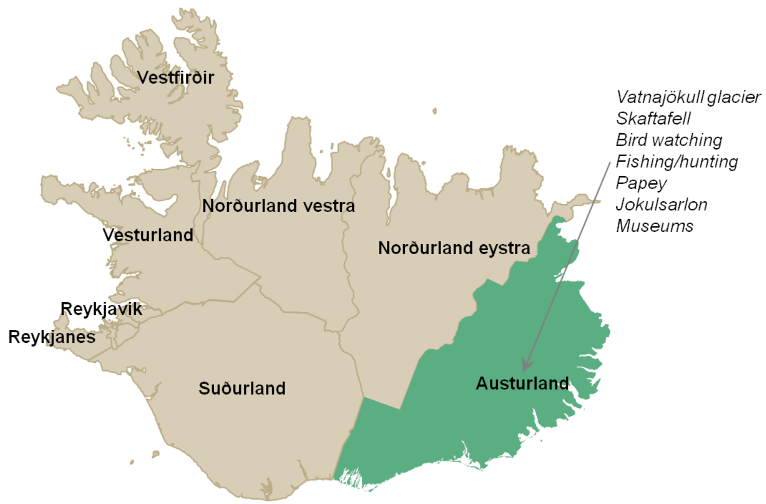
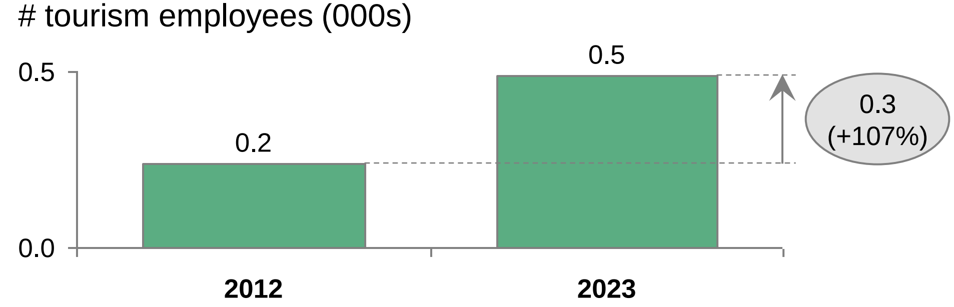
Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO; Statistics Iceland; Oanda; HVS; Icelandic Road Administration; BCG analysis

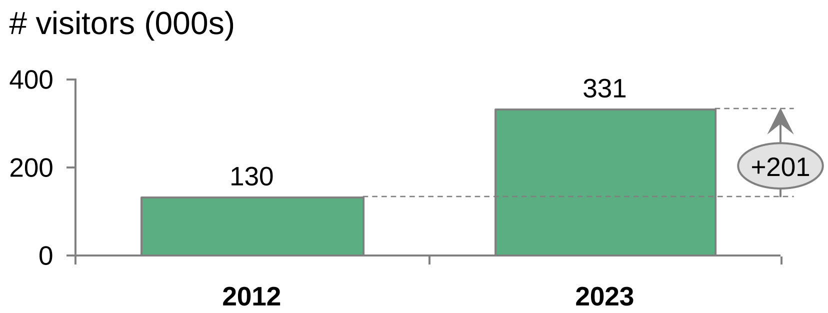
East Iceland: Estimated regional impact of tourism strategy over next 10 years



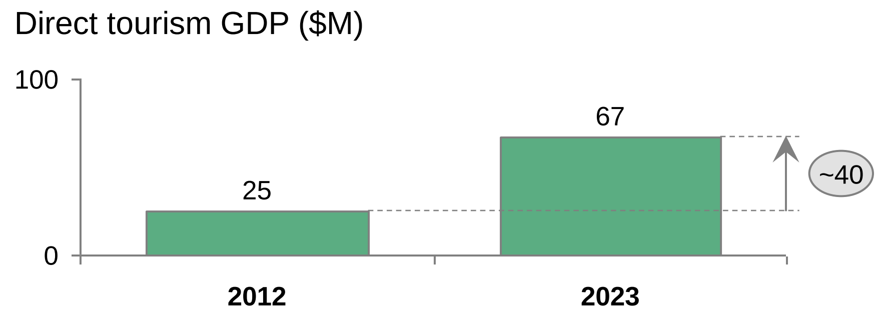
107% increase in tourism employment



200K additional visitors

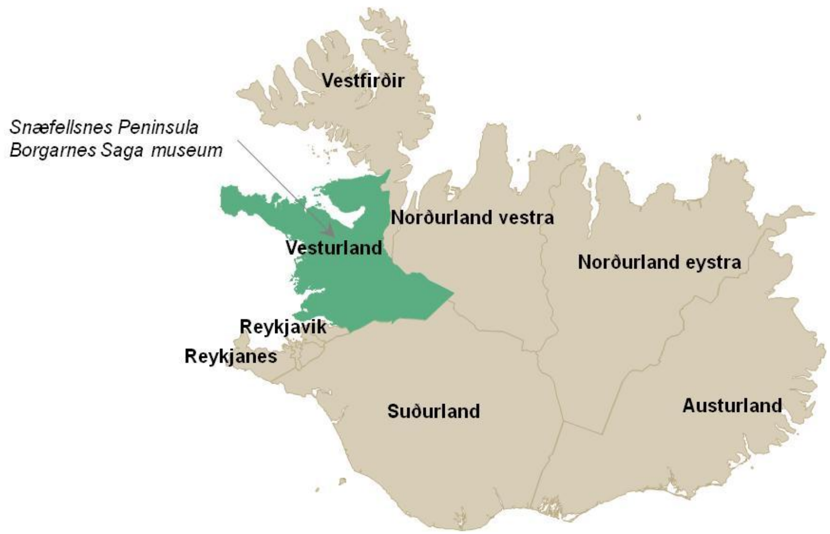


Increase of $40M in direct tourism GDP

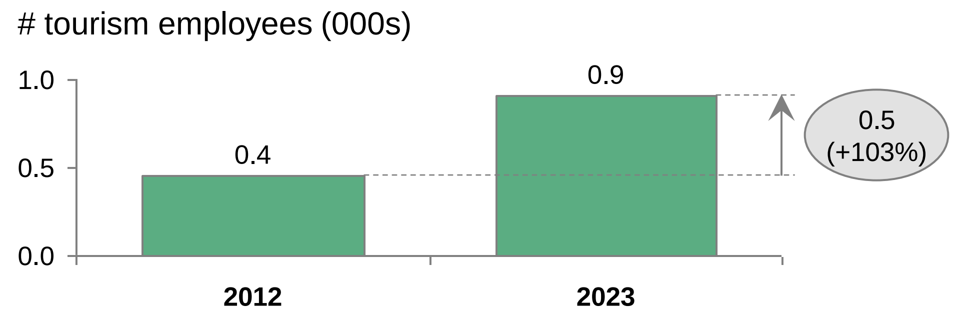


Note: 2012 figures for employment and GDP estimated based on behaviour of four groups (Adventurers, Seniors, Emerging Market Explorers and non-Adventurers) reported in the Iceland Tourism Board Summer & Winter surveys 2011-2012 . 2023 figures based on the assumption that targeting development at the first 3 groups will increase the propensity for them to visit the region by 20%, whilst the conservative assumption was made that non-adventurers are not impacted .
Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO; Statistics Iceland; Oanda; HVS; Icelandic Road Administration; BCG analysis

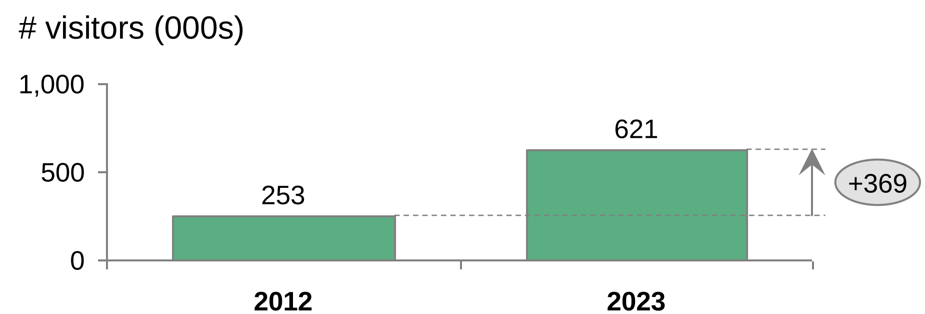
West Iceland: Estimated regional impact of tourism strategy over next 10 years



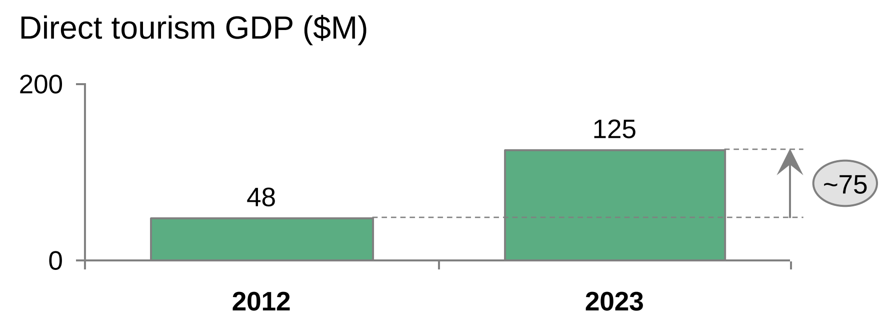
103% increase in tourism employment



360K additional visitors



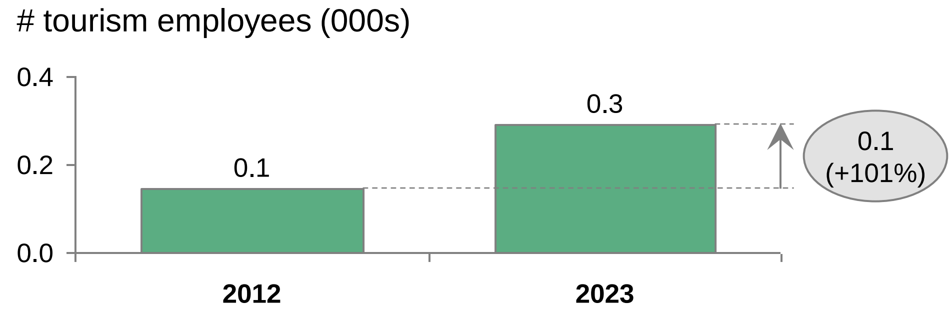
Increase of $75M in direct tourism GDP



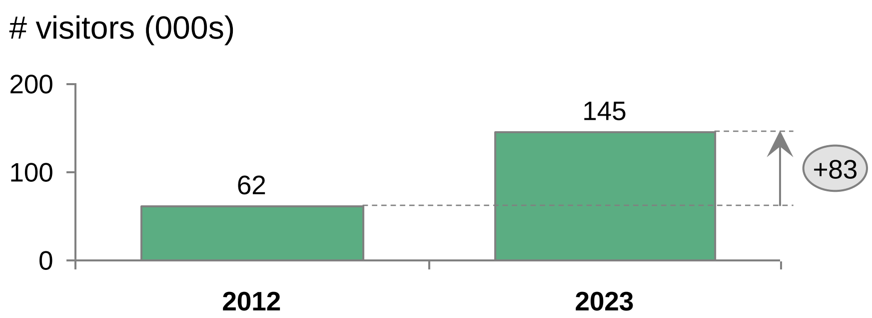
Note: 2012 figures for employment and GDP estimated based on behaviour of four groups (Adventurers, Seniors, Emerging Market Explorers and non-Adventurers) reported in the Iceland Tourism Board Summer & Winter surveys 2011-2012 . 2023 figures based on the assumption that targeting development at the first 3 groups will increase the propensity for them to visit the region by 20%, whilst the conservative assumption was made that non-adventurers are not impacted .
Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO; Statistics Iceland; Oanda; HVS; Icelandic Road Administration; BCG analysis

Westfjordlands: Estimated regional impact of tourism strategy over next 10 years

101% increase in tourism employment



80K additional visitors



Increase of $25M in direct tourism GDP

Note: 2012 figures for employment and GDP estimated based on behaviour of four groups (Adventurers, Seniors, Emerging Market Explorers and non-Adventurers) reported in the Iceland Tourism Board Summer & Winter surveys 2011-2012 . 2023 figures based on the assumption that targeting development at the first 3 groups will increase the propensity for them to visit the region by 20%, whilst the conservative assumption was made that non-adventurers are not impacted .
Source: Icelandic tourism board, Isavia, EIU, Euromonitor, UNWTO; Statistics Iceland; Oanda; HVS; Icelandic Road Administration; BCG analysis