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As of September 30, 2020, Accor represented 4.9% of the Longleaf Partners International Fund and 1.6% of the Longleaf Partners Global Fund

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| Gwin Myerberg: | 00:00:06 | Hello, and welcome to the Price-to-Value Podcast with Southeastern Asset Management, where our global investment team discusses the topics that are most top of mind for our clients, from a Business, People, Price point of view. We at Southeastern are long-term, concentrated, engaged value investors and we seek to own high-quality businesses, run by capable people, at a discounted price to intrinsic value, or P/V. I'm Gwin Myerberg, Global Head of Client Relations and Communications. |
| Gwin Myerberg: | 00:00:32 | On today's podcast, London-based Senior Research Analyst and Principal John Woodman interviews Sébastien Bazin, Chairman and CEO of Accor, which we own in our non-US and global portfolios. We hope that you enjoy the conversation as much as we did. |
| John Woodman: | 00:00:47 | I'm delighted to be joined today by Sébastien Bazin, the Chairman and CEO of Accor Hotels, and he's also currently a member of GE's board of directors, where we are also invested. Previously, Sébastien led the European arm of |

the private investment group Colony Capital, in which capacity he joined a number of their investing boards, including Accor's from 2005. So, Sébastien, I suppose you've literally sat on both sides of the board table at Accor, which must give a pretty unique insight into the company both as an investor and as an executive. So Sébastien, thank you very much for joining us today.

Sébastien Bazin: 00:01:22 Well, John, thank you for inviting me.

John Woodman: 00:01:25 Obviously, this year has been one that's dominated by a single event in COVID-19. Let's start there with a few questions. First, to kick off, from where we sit there still seems to be quite a lot of pessimism on the long-term travel and tourism trends. As one of the largest hospitality companies in the world, how do you assess the long-term implications of COVID and, particularly, who are the ultimate winners and losers that are likely to be coming out of this.

Sébastien Bazin: 00:01:51 Well, long-term, I am sure to be right. It's going to get better, and we're going to get back on both feet and probably have the same magnitude that we had pre-COVID. I'm actually certain of this. The mix might be very different. You might be able to have lesser seminar, congress, and international corporate travels, because people are going to want to cut travel, entertainment, and because of digital tools like the one we are enjoying today.

Sébastien Bazin: 00:02:18 But by the same token, you're probably going to have an increased leisure travel. I am convinced that there are still a billion people on this planet who are going to want to travel. That includes a lot of emerging countries, like we had in India, and Brazil, and Korea, and many others, so I'm certainly an optimist. And, the business model of hospitality is intact.

Sébastien Bazin: 00:02:41 We have a liquidity problem, we don't have a structural problem, which makes a huge difference. Short term, that's a different answer. We are a little bit in the dark. It is uncharted territories, but I feel so much better today than I would have felt in February of 2020. It appears that we're going to have a vaccine, and it appears we're going to have many vaccines, and it appears that they may very well resolve the sanitary health crisis, so it's only a matter

of six months to nine months to go until we can resume with our life.

Sébastien Bazin: 00:03:15 But the good news about it [is] the greatest research on Google keywords is "travel." People are sick of being confined at home with a lockdown curfew. I guarantee you, you're going to be surprised, you and I, on how many people are going to want to go and meet friends and go on the other side of the planet, so I'm hopeful, but I am also, I think, well informed that it might well be the case.

John Woodman: 00:03:40 Okay, well, that's good to hear. Perhaps you can talk through a bit more how you protected Accor from the existential risks that COVID poses, and how you're positioning yourself to be one of the key beneficiaries from that travel recovery that you're confident is coming.

Sébastien Bazin: 00:03:56 Well, there are two phases, and very distinct ones. The first is when you get hit by the wave and the crisis, which was in February, March. This is not the time to be audacious, and this is not the time to plan forward. You just have to adapt, listen carefully, protect your owners and, of course, protect the employees, make sure you preserve the cash you have, make sure you can basically sustain the storm, and make sure you can actually come out stronger. So, that was for two months. Really, preservation, health is first, family's second, business third, and I'm sorry to say it that way in front of one of my shareholders, but that's the way I've expressed myself, and it worked.

Sébastien Bazin: 00:04:37 And a lot of weekly phone calls with the directors because they also have their own inside knowledge, so information was key. Share it, adapt, and make decisions, and don't ever be silent, so communicate. Even if you have doubts, share your doubts, but be present in front of all your community. That phase passing in May, July. That was the time to open the engine. Since we had a lot of hotels being closed, this is a time really to go deep in your organization, go into what we call zero-debt budget. How could you get your fixed cost more variable? How could you lower your costs? How could you reorganize yourself to become stronger out of it, to be more agile.

- Sébastien Bazin: 00:05:18 Really, setting certain tasks being done by Accor, and that was certainly necessary for a long time, but that was a great time for us to do it, and now it's a question of having all that information laid out as a plan. Announce the plan. Make sure that people understand the gravity of it. It's being executed as of the first of October, which is only a couple months ago, and that can kill you. There's a lot things I've done through the crisis that I probably would not have done otherwise, which is why I feel this company is going to have the agility we have missed, which is time to finish the job on being asset light.
- Sébastien Bazin: 00:05:55 The beauty of what we have is the diversity and density of the network. Being in 100 countries, and a leader in 80 countries, put aside North America and China, in which Accor will never be a leader, the strengths of local expertise, community relationship, and the balance sheet is what makes us look pretty strong, and, I don't know, comfortable, during that crisis.
- John Woodman: 00:06:22 Okay. You talked there a little bit about using this COVID crisis to accelerate that shift to the asset light model. Can you go into a little bit more detail about some of the details within that.
- Sébastien Bazin: 00:06:33 Part of this was structuring, since we, really, I spent two months almost—actually, a group of five—so it's a very minimal group at the executive level, turning upside down 7,000 stones, 7,000 tasks being done by Accor. What are the missions we should be eliminating because they make no sense, or if people don't pay for it? What are the things you should be stopping? What are the things you should be enhancing? Where should the money be allocated? Which brands matter? Which geography matters? So, a lot of things.
- Sébastien Bazin: 00:07:03 Where we are today is admitting that we've been going to an asset light model by selling a lot of real estate assets over the last few years. It's between luck and being smart. Thank God we've done it, otherwise Accor would be in a very different nature today, and I wouldn't be talking to you as I am now, Accor being comfortable, because we do have \$4 billion of cash, and that cash is coming from having sold the assets.

Sébastien Bazin: 00:07:25 But it's one thing to have changed the model. It's another thing to change the company's organization, so we had to finish the job and become organized in terms of agility and cost, and I'm never going to use COVID as an excuse to do it. We would have done it without COVID. COVID, as you said, John, is certainly accelerating the base of execution, probably making people understand it better; but I told the union representative and the French government and many state governments that I would have done it no matter what.

Sébastien Bazin: 00:07:57 COVID only opened the door on knowing myself better. That's really what happened with COVID. It was a time to reflect.

John Woodman: 00:08:06 I was going to ask you whether you thought that the pandemic would accelerate consolidation within the hospitality sector, and then obviously this morning you announced that you're buying in the minority of SBE and creating a new lifestyle company, which I guess is partly evidence of that, but was that planned pre-COVID? Has COVID accelerated that? And then, just more broadly that consolidation theme — does COVID make a difference in that.

Sébastien Bazin: 00:08:34 Well, it's been within my mind for the last 20 years I've been investing in hospitality. There are two sides of it. Number one: it is hospitality, travel and hospitality, is the second largest industry on the planet. It is roughly 10% of the GDP of all the major countries, and it is 10% of the employment on the planet, so it's big — far bigger than the pharmacy industry and even the financial industry. And it is one of the very few industries of scale which hasn't been consolidated.

Sébastien Bazin: 00:09:04 If you look at all the major industries, usually, you have three players representing 60% of all the income. That's not the case here. However, since the other side of the coin, it happens to be true in America in which you have five guys controlling 80% of the room supply market, and it happens to be true in a matter of a year in China, where two guys will control probably 60% of the supply in China, outside of China and America, Accor happen to be the largest by far—but we're tiny. We probably have 17% of

major supply market, whether it's South America, Europe, and elsewhere.

Sébastien Bazin: 00:09:41 It could happen. However, John, the risk in today's world, in the world of unknown, to integrate cultures as different from Chinese to America, when American guys buying your European guys like us, it is difficult to integrate. You can do it, but it's going to have to be amicable, and the synergies, as much as they exist, I mean, you have to question. Does scale matter for your client or for IT? It does, but is it worth the risk? I doubt it.

John Woodman: 00:10:16 What about amongst the smaller hotel operators, branded operators? Does COVID throw up any interesting opportunities to do something about smaller bolt-ons, or, as one of the largest players, do you anticipate share naturally accumulating to the bigger players.

Sébastien Bazin: 00:10:32 The former. Undoubtedly, you have, out of this fragmented mom and pop supply in many countries like where we are, no question, 25% of them will not survive the COVID crisis. Lack of balance sheet, lack of expertise, lack of time, lack of capacity to resist. Many of them will knock on Accor's door to seek protection, and many of them are doing it as we speak, which, one of the examples is what we're doing with SBE and others, so we've done it the past four years, been acquiring a lot of, actually, local companies.

Sébastien Bazin: 00:11:08 They were not in distress, but they actually joined us for the exact same reason. They cannot compete with the Booking, Expedia, Marriott, Hiltons of the world, but they wanted to preserve, they wanted to exist. They were very good. They had great brands, which is how we went from 12 to 40 brands. So, no question, you will have further mom and pop's kind of actually strategic—I don't know what you call it, kind of actually not great in nature, but tactic. Tactic bolt-on acquisition. Friendly manner. Away from auction, great pricing, and preserving culture and management teams.

Sébastien Bazin: 00:11:43 That will be probably multiplied by 300% in the next 12 months, for sure, and Accor would benefit from it, because they're going to be the first guy to talk to. I will be the last guy they would call in China and America, because

I don't exist very much over there, but I can guarantee you [that] any place else on the planet, I will get the first phone call.

John Woodman: 00:12:04 Was that part of the thinking about setting up this new lifestyle company as a separate entity? Does that give you an advantage in attracting some of those fast-growing lifestyle brands.

Sébastien Bazin: 00:12:15 Yes, and the main reason, again two or three things about lifestyle. Number one: we have to be very lucid. Everything—and you refer to it because of Colony—everything I do is at least two or three years forward thinking, and everything I do is measuring capital allocation. What is the risk? Can you actually accept that risk? What is the IRR? What is the exit? So, a lot of things that we can actually talk about in the next few minutes.

Sébastien Bazin: 00:12:42 On lifestyle, there's two or three things. Number one, it represents today 5% of total branded supply [and] happens to be in the lifestyle segment today. However, as tiny as it is, 25% of all the new pipelines for all the major companies happen to be in the lifestyle segment. Why? For a very simple matter: for the last 50 years in the hospitality sector, the only thing which mattered were one, pricing; two, location; three, brand.

Sébastien Bazin: 00:13:12 And brand being kind of actually norm, standardized, and you feel comfortable. That is true until 2010 maximum. Since 2010, people want to preserve the first three, but they want to add a fourth, which is experience. They are sick and tired of waking up someplace on the planet with the same lamp, with the same bathroom, and the same colors, even though they liked it for 40 years because we pushed it on them. Now, they want to remember where they wake up. They want to remember people they've met.

Sébastien Bazin: 00:13:41 They want to learn about somebody's culture. They want to understand their religion. They want to discover the planet, and why, that is? Because they want to talk about it. Because they want to go on Instagram. Because they want to go on social media. So if you don't provide the fourth, you're dead. You're dead 10 years from now. As small as it is today, that is a segment in which you want to

be a leader; but if you want to be a leader, that becomes complicated because, if it is experience, then that means it is human capital-driven. It has to be a profound concept. You need to have a lot of manpower behind it, and you cannot be gimmicky because if you're gimmicky, people won't go back to your brand.

Sébastien Bazin: 00:14:15 This is a place where you have to go slowly. You have to accept people who invented something that you want to kill them because they've done something you thought you could have done yourself, and none of us have been able to do it because we've been too kind or actually too big, and not creative enough to go into that segment. But, you have to make sure those people you buy or you associate yourself with will remain because they are the brand owners. They are the brand founders, and they created something that you felt was of major importance, and what Accor has done for the last four years—Marigold, 21C in America, SBC, Christopher Hoffman with 25 Hours, Trigano, Mammal Ciato, and many others—they will remain.

Sébastien Bazin: 00:14:58 And they remain because I left them autonomous. I give them the autonomy, so it's going to be a fine balance between yes, you can grow that segment; yes you can combine and you should back of the house; but yes, you have to accept that those people need to stay in place because they bring something which is in between audacity, agility, that you may not have at your own high level, so it's a fine tuning.

John Woodman: 00:15:24 Great. Thanks. A final one on COVID. Has it thrown up any other opportunities or surprises about Accor that you hadn't appreciated previously.

Sébastien Bazin: 00:15:37 Yes. One enormous, and I was trying to crack this for the last four years, and I was unable to do it. Actually, I miserably failed—which was to just accept something which I thought was absurd as big as we are—100% of our revenues comes from somebody coming from a different town or different country. The traveler. It's absurd because we have very highly-paid real estate, CBD located, great part of, I mean, this nation, part of the neighborhood.

- Sébastien Bazin: 00:16:08 We'd never addressed, and we never actually got any income from the local community. And it's absurd because the local community is four times the size of the 1.5 billion travelers. I was trying to get Accor local, and we are one of the few beside hospital and police, the only place in which you have 24/7 hours, open facility, happen to be hotel as well. So you have many services you can render for the guys around you.
- Sébastien Bazin: 00:16:32 COVID made something happen, which is for us to grasp. Major companies, actually major, small, doesn't matter the size, have been accepting people to work from home because of lockdown, confinement, and curfew. Many of us never wanted that to happen because we feared for IT, firewall, many good reasons. It would be inefficient. Guess what? It's been very efficient. People actually worked very easily from home, and it worked. But—and what's interesting—many corporations wanted people to come back after the epitome, but 70% of the people who work from home don't want to go back.
- Sébastien Bazin: 00:17:05 Not because they don't like the office. It's just because they're tired of wasting 60 to 90 minutes per day in commute. But 50% of the 70% don't want to go back to the office, but they don't want to stay at home either because it's too confined and too small and nuisance with the kids and everything. Here we are, hospitality players. We have something which is an unmatched barrier to entry. I have 5,100 hotels spread in major cities all over the planet. I can provide the employer and the employee the flexibility to work from a third location, which is usually less than 20 minutes from home.
- Sébastien Bazin: 00:17:43 For many employees, the branded hotel of Accor, they can go subscription basis. They can use my premises for a couple hours, three days a week, five days a week. We can convert hotel rooms into a third full floor, into private offices. I can guarantee you that new generation of fee stream from that local community is going to be not only buffering what you may lose on international corporate travel but is going to access you what you were looking for the last four years: local community services, where I think from this you can probably expand on it and be very much surprised on how profitable that is.

Sébastien Bazin: 00:18:23 Because everything is already paid for. You're neutralizing an existing square meter, and you have all the ease of service, and the Wi-Fi, and a toilet, and a ballroom, and the bar, everything. That's certainly something that COVID has changed enormously for me.

John Woodman: 00:18:40 That's fascinating. Well, let's move on and talk a bit about your history because I think it does provide a relatively unique take on the interactions, particularly between investors and board members. As you know, this is the second time Southeastern has been invested in Accor. The first was from 2008.

Sébastien Bazin: 00:18:57 I know. I remember very well. Josh!

John Woodman: 00:18:58 Yeah. Well, I was going to say, incidentally, it is how Josh and myself met. It was on an Accor investor day in Brazil, which you might also remember. But at the time of course, we were invested alongside yourself in your former role at Colony, you were one of Accor's biggest investors. You were a board member at the time, and that was a fascinating time for us. We were both engaged in the discussions to really determine the future direction of Accor as a business. But, what really motivated you, then, to make the move from engaged investor to an executive role.

Sébastien Bazin: 00:19:31 Only one thing—and, please, I hope you're not going to be viewing that as being narcissistic, but I knew it was time to be tested to the fire. Being on the outside and critiquing a management team and feeling they're doing a lousy job you can do better—I mean, you end up being obnoxious, arrogant, and you don't know sh*t. Sorry, I shouldn't have said that in public! And you don't know enough.

Sébastien Bazin: 00:19:56 You don't know enough, and it was time for me to say, "Sébastien, stop critiquing people. Why don't you test yourself and see whether you are capable of leading?" Having a vision is one thing, and you have one, and many people have it as shareholders, as you should, but it is a mega different bit than having a vision and capacity to execute upon it, which means can you embark people? Can you be didactic? Can you share your vision? Can you accept the risks.

Sébastien Bazin: 00:20:23 It is, really, it was a personal time for me to say, "Sébastien, it's time for you to probably leave your footprint and see whether you can change this company," which I felt had been a sleeping giant for too long. And time will tell. I'll be the worst judge of myself because, I must say, it's probably been tougher than I expected. I have no regrets, but I have certainly changed my perspective on things, saying that the people of Accor happen to be as important as the shareholders of Accor, if I may say this.

John Woodman: 00:21:02 No, well, yeah, I mean, I hear you on how hard it is. I did it myself, made a move to the corporate world for a few years, got a proper job; but, unlike you, I jumped back to the finance world. Got too used to being comfortable.

Sébastien Bazin: 00:21:15 I may come back. John, I may come back. I don't know what's going to be the days in front of me, but it is such a blessing and a privilege to have been in my position. I think you're a different person. You're not a better person, but you're a different person when you come out of it.

John Woodman: 00:21:31 That's for sure. Yeah. Well, I guess following up from that, what are your biggest takeaways from your experience of assessing companies, firstly, from the perspective of a major investor, and then subsequently as its chair and CEO. Full perspective, but what are the major surprises.

Sébastien Bazin: 00:21:50 Two things. Number one is the nature and the time of the reflection. When I was at Colony, or an investment banker or stock broker, 90% of my decisions only had one consequence, which was a financial consequence. I could be right or wrong. I make what was mine, and you make 10 decision amounts, and you happen to be right on seven or eight if you're lucky, and the two in which you fail does not matter. The average is good. If you are in a CEO seat, or executive position, you better need to reflect probably 10 times more on the nature of that decision because the implications are multifaceted, and many of the indications are of social consequences, strategic owners, clients, IT, digital relationship.

Sébastien Bazin: 00:22:42 And those decisions you make, you'd better carry them because you become to incarnate the decisions being made because you happen to be responsible for it, so you

have to be more right than wrong; and if you happen to be wrong, which is the case, just admit your failure and learn from it. It's just a very, very different nature in terms of consequence, and the rest is the decision we make, the only thing that I am caring today. I mean, I'm caring for even more so with COVID, can I make sure Accor could survive many other storms.

- Sébastien Bazin: 00:23:24 What is the sustainability of this company? You need to be stronger, you need to be a growing machine, because you can restructure any company on the planet, and you can do layoff lines, and I'm doing another one as we speak; but people accept layoff lines if those things fuel you moving, fuel you growing, because they need to actually see that sentiment of scale, speed, comfort, and strengths. Anybody who is restructuring and reducing this other company, unless they're really obliged to do it, will fail because you never embark people around you on shrinking. That's the wrong strategy, so thank God we can afford to do both at the same time.
- Sébastien Bazin: 00:24:04 It's just nature of the decision, and just the obligation to embark people around you because, as the CEO, if you act only for your own sake; I mean, this is the wrong place.
- John Woodman: 00:24:15 And when it comes to people, obviously from an investment perspective, you're looking at the people in the team, and the board, and the management team, and assessing them in a certain way. When you're building your executive team around you as a CEO, is it similar, the skillsets that you're looking for? Or do you have a very different perspective on analyzing people as well, now.
- Sébastien Bazin: 00:24:40 It's very different. When I was at Colony, I was only leading 70 people of which I had 60 Formula One drivers. Those guys were well educated, super smart, super savvy, and great negotiators, and you just go. Here, I don't have Formula One. I have some heavy trucks. Some great drivers, but they're driving heavy trucks, so it's very different nature of people. That being said, you know, one thing that I tried, and I think I've managed to have done that one right. Many others, to be debated, is Accor, seven years ago when I started, was mega-French. French

language. 70% of French expatriates in all the decision making processes all over the world, and super arrogant.

Sébastien Bazin: 00:25:24 And, an "I know better" attitude, and the communication was 80% French. Now the executive committee of Accor is 80% non-French. There is no longer any French expatriate on any places outside of France, and it's becoming a global company, and we don't speak French anymore. Everything is done in English, and that goes a long way for our capacity to attract people because being non-French is probably a plus today, and it was a big minus, and at the time it was buddy-buddy.

Sébastien Bazin: 00:25:55 You knew the founders. You have a great career because you've been actually there for 25 years, so it had nothing to do with the competence. It had to do with whom you know. That's gone, so I think it's going to be that my successor could be non-French, and he could be actually very well-received as well, and it was time to be global. I need to be better when it comes to the American market.

Sébastien Bazin: 00:26:19 One thing I've never found the recipe as of yet, and you guys at Southeastern, you have to help me, is the mere fact that we are undervalued compared to our peers. Some of the reason, I'm not saying all the reason, but one of the reasons is that we are virtually unknown on the capital market in America. Every time I go on CNBC, it happens to be CNBC Europe. It's making the Wall Street Journal happen once a year, and it was actually yesterday with lifestyle. People don't care in America about Accor, even though capital market and my float every day is American traded, because you have a great chance of being able to invest in Marriott, Hilton, Choice, Wyndham, Intercom — happens to be an American-based company.

Sébastien Bazin: 00:27:03 I need to find the recipe where, as big as we are, as strong as we are, I need to be more visible, made more credible, in the hands of portfolio managers in America. It's so nuts, and I haven't found a solution as of yet.

John Woodman: 00:27:17 Hm. Interesting. If you were looking back, what advice would you give to the Sébastien Bazin of 2008, when we were starting on this journey, given what you know today.

- Sébastien Bazin: 00:27:32 You might be surprised. It is the order in your decision-making process. Everything I've done for the last seven years, start with the stomach, your instinct. What does your stomach tell you? Two, go with your heart. How important is that decision to people around you, stakeholders. Three, brain. Brains come only third to rationalize what your heart and your stomach tells you. If you start with your brain, then I think you cannot be a good CEO.
- John Woodman: 00:28:08 The final point I think relating to your background is on capital allocation. You clearly had a very well-defined capital allocation policy when you were on the investment side of the business. How would you define that philosophy now as a chair or CEO.
- Sébastien Bazin: 00:28:24 Wow. The first thing, and I said that when I was at Colony for 17 years; and I said it again for the last seven years. First, understand it is not your money. The company only exists because some shareholders, owners, are giving you their wealth, and they own the company, so the risk is on behalf of somebody who's providing you with that trust. So you have to remind people that, I guess, it belongs to someone, which is not the managers.
- Sébastien Bazin: 00:28:54 Two: If you take a risk, you have to measure what is the return on the risk you are taking. And it obviously depends on interest rate, currency, geography, and they have to be assessed. You can be wrong on your hypothesis, but you have to basically go one by one. Three: Be responsible, accountable. If you happen to be wrong because you had your own hypothesis, and go back to what was wrong a few years before—as we do in private equity—you can be blamed because you have investment committee memo; so, wherever you go, have a memo.
- Sébastien Bazin: 00:29:29 Put it in writing and make sure that people understand what they wrote four, five years before. The rest, where I defer—and probably I've changed quite a bit in between seven years ago and today—is all the strategy, all the capital allocation, as draconian, rigid as it is, and I'm a very down-to-earth type of guy, is really much dictated by management recommendation, board members to challenge it, and why not revise it? But it's not dictated by

the Wall Street and capital market, because there are so many different views in between somebody's going to be with me for nine months, somebody's going to be with me for 10 years, so the capital market has to understand that in being draconian, management is capable, the board is well set up to challenge it, but it is not responding to Wall Street.

Sébastien Bazin: 00:30:21 It is responding to a plan for the company. That's probably where before, when I was at Colony, when probably the CEO told me things like this, I wanted to shoot the guy. And you can shoot me tomorrow morning, but that's probably where I changed quite a bit.

John Woodman: 00:30:37 Well, no, I think we know that you still apply capital allocation policy very much with a view to creating long-term shareholder value, which is one of the things we really appreciate—that value of perspective. When we look at Accor, one of the unique things, I think, in your sector, is that quite a lot of the value is still tied up in assets on the balance sheet and unconsolidated earnings, and non-earning assets that perhaps don't get some of the recognition that some of your pure play peers, particularly in the US, do.

John Woodman: 00:31:10 Is that by design, by default? And what's the plan? Can you tell me from that specific allocation policy going forward.

Sébastien Bazin: 00:31:19 It's by default just I haven't had time to finish the job. I started seven years ago. It took me three years for people to understand the Chinese noodle plate I had with all the fixed guarantees, variable guarantees, performance clauses, lease obligations. It was a mess in this company, so we needed to clean up our own real estate portfolio, because - thank God I did not sell it early to Apollo, Colony as well, because they would have done a lot of money.

Sébastien Bazin: 00:31:48 We cleaned up the company, then we sold and found \$10 billion worth of asset and got \$4 billion profit out of it, which is the \$4 billion sitting on my balance sheet. Thank God we have it. But I still have a couple billion on the balance sheet that people don't appreciate because they don't yield any EBITDA consolidated price, and you have plus or minus a billion on Accor invests, which is the remainder 30% stake I own in the company. We set it up

because the GIC, PIF, Colony, Amundi as well, wanted me to remain with skin in the game, so there's a lock up for another two and a half years—so that is worth a lot of money, and it's going to go back on its feet after COVID.

Sébastien Bazin: 00:32:26 Two: I happen to have done a great deal on buying our own headquarters here in Paris, which is worth probably 500 million euros, which is a huge profit. And three: We've made probably one of the best decisions made by this company four years ago. I decided that we're never going to win in China because the Chinese are far stronger, better, than any non-Chinese, and I decided to play the growth of China through making an investment master fund in China with one or two other players. We invested \$150 million, owning 12% of the company. I'm still a board member.

Sébastien Bazin: 00:32:58 And that \$150 million is worth, today, a billion three, and we already pocketed \$500 million, but there's another \$600, \$700 million to be pocketed whenever we feel there's a time to sell. So, if you add up \$1 billion minus what we invested, \$500 million headquarters, \$500 million plus, that is \$2 billion. I just have to finish that job. The reason why I haven't done it yet, and I'll be also very honest, since we have \$4 billion on our balance sheet yielding zero interest, the last thing I want is to basically sell too early the stake in the Chinese company because it's been growing 30% even through COVID. So, until we need the money, just make sure it's still well placed—and then whenever you need it, liquify it, and then return it to the shareholders and reinvest it. So it's just a question of sequence.

Sébastien Bazin: 00:33:48 But you're right. The job's not finished.

John Woodman: 00:33:51 Right. Makes a lot of sense. Let's move on and talk a little bit about bigger picture governance questions because you know, at Southeastern, we're very much long-term, engaged investors. We pay a lot of attention.

Sébastien Bazin: 00:34:07 You're too small in my shareholder base!

John Woodman: 00:34:12 We've been trying. We pay a lot of attention to the balance of stakeholder interests and broader ESG considerations. Accor, in particular, has a particularly interesting

shareholder base. It incorporates a number of state-owned enterprises, private equity companies. They've got board seats. How do you think about balancing the interests of those strategic investors with the interests of minority shareholders, and how important to you is the engagement with minority shareholders given that you have these big, strategic investors.

Sébastien Bazin: 00:34:45 Well, in my mind, there's zero difference between somebody having a thousand shares to somebody have 14% of our company. Zero. They're taking the exact same risk in the exact same moment with probably the exact same expectation. The only mega difference is, and Accor happens to be known as the United Nations of Hospitality. My first shareholder is Chinese. My second is Qatari. My third is American. My fourth is Saudi. I'm just missing a Colombian and South African, and the French shareholder base is less than 10%, so it is unbelievable that that is the case. And you've done it in many occasions as I did at Colony.

Sébastien Bazin: 00:35:24 You do spend more time with those represented on the board, and on the board I have some state-owned Chinese company, Shang Jiang, and I have some Sovereign Office Agency, which is QIA, and Prince Alwaleed and so it is, my obligation to them is they don't know *better*, but they know *different* from me. So the obligation I have with those on the board, just listen to them. You might not agree, but listen to their views, and every investor shows we do—it's actually good, which is why that teleconference, it worked.

Sébastien Bazin: 00:35:59 But it didn't bring me, the last time, on the same feeling—body language. I'm actually welcoming when I am in Boston, and New York, and Chicago, and elsewhere. Those times are actually necessary for me, because you grasp what it is about comfort, discomfort, strategy, what people want, so it's, again, it's going back to what I said earlier. The company's not mine, and since it is not mine, accept that they might want to go a direction; and, if you don't agree with them, explain to them that you won't go there because either you don't or because you can't. And then transparency. That's what I owe to many of you.

- Sébastien Bazin: 00:36:39 No, but there's no difference for whether you're big. My preference is I would spend, obviously, more time with those where I feel they're going to be part of the venture with me for 18 months, two years, than as opposed to nine months, because they don't have different views.
- John Woodman: 00:36:49 You know, you were obviously an actively engaged investor in your previous career, but what role do you think that investor engagement has or plays? Or how necessary is it in ensuring strong governance and then driving positive outcomes of businesses.
- Sébastien Bazin: 00:37:12 Box and gain. They have to be outspoken. They have to be tough. And they have to challenge the management. If they don't do this, then they can't act, so as strong-minded as I am - and I have been a smart ass and a tough guy with my predecessors here. I know people can be tough with me, and on some occasions they have been pretty tough. That's fine. Just accept it, and something good comes out of it, so what I'm expecting is as long as people do the work, that they do their own analysis, but their view is well-heard, and I changed my mind, and thank God I did.
- Sébastien Bazin: 00:37:57 Some people told me, "Don't even." Air France is a good example. Air France, I felt we can go and basically buy the French stake part of this airline company, which is absolutely mismanaged for the last 20 years. There's enormous value to be gained on loyalty programs, on digital bookings, on customer relationship management, underlining the biggest European hotel player with the biggest airline player. Enormous synergies in interests, and it was only talking of buying 10%, so it was a 50 million exposure for Accor.
- Sébastien Bazin: 00:38:29 And my board stopped me, told me to go and get a cold shower, and I did. And we still lost kind of actually market perception, even though we've done nothing. That's a typical example of how it makes sense in terms of client relationship, and synergies, but people were too afraid of the perception and the impact on the marketplace. You need that. You need that early, actually, as opposed to late.
- John Woodman: 00:38:53 Okay. Yeah. One of the things that we often think about is how European culture compares with US culture in terms

of how they recognize the different interests between the various stakeholders, so you've got your shareholders, you've got employees, you've got pensioners, lenders, various other stakeholders. How do you think about all of those competing interests, and have you seen a difference between the way US and European countries do it in general.

- Sébastien Bazin: 00:39:18 When it comes to culture, yeah, I think the American culture is much more draconian, financial result-driven, so a bit more cold. And the European culture is a bit more humanist, and a bit more corporate social responsibility, a bit more planet friendly. A bit more non-quantifiable, and it's very different. If we can combine those two cultures, you can create something which is super powerful. So yeah, I can tell you in many companies, all of them being in Europe, the mere notion of what is the cost of a dollar, many companies still don't know how to price it, and that's insane.
- Sébastien Bazin: 00:40:05 At any cost of a dollar in all the major US companies, they know exactly how to price it, so that's a mega difference.
- John Woodman: 00:40:17 I mean, you've given some examples of this already and you've implied it, but we saw this during the height of COVID when you launched the All-Heartist fund at the peak of COVID to support employees that were going to have a difficult time. I mean, as you say, that shows a refreshingly humanist approach to market realities.
- Sébastien Bazin: 00:40:45 But you know how it happened? Because I'm just on this point two seconds. I'm in, well, it's the exact same seat, the exact same room in the, I think it was the 12th or 14th of March. Within exactly 48 hours, we had been told and we knew that 90 countries were going to a lockdown within 48 hours because of the epidemic. And we knew that by closing frontiers when we lock down, I need to close 98% of my hotels within 48 hours, and by closing 90% plus of hotels—when you have a 320,000 employee base under your brand—you know that 300,000 people will be hurt. Totally unfair on basically them not returning to their job the week after, and you then know that in many jurisdictions like Europe, you would have subsidies aided by different European commissions and

government agencies who could provide some furlough paycheck for probably three months, four months.

Sébastien Bazin: 00:41:44 But I knew in Laos, and in Chile, and in Dubai, that did not exist. Or in India, for that matter. So I told the board within that same 48 hours, I said, "Guys, we are at the time of confirming the dividend." \$270 million the day after. And I told them, "I can't, you're asking me to confirm a dividend. At the exact same time, I'm furloughing 280,000 people, of which probably 60,000 won't have any paycheck in a week. I can't see myself in the mirror doing this, so I'm asking you as board members, would you please accept that we basically withdraw the dividend?"

Sébastien Bazin: 00:42:22 "At worst, you're not going to get it, and many shareholders are on my board, but I'm asking you that we set aside 25% of what should have been paid precisely to the benefit of those employees on furlough, no paycheck, in which they need food for their family or access to hospital in case they were impacted by COVID." And by doing so, John, what I've done is I was missing two of my main shareholders, top five, neither of them were represented on the board. I called them after market hours, and thank God I talked to the CEOs of those two asset managers, and I said, "Guys, I need your blessing. I don't need your authorization, but this is what I'm likely to announce and propose to the board. Are you on board with it?"

Sébastien Bazin: 00:43:02 And they said, "Sébastien, why are you asking us? We prefer you not asking." I said, "Because I want your view." And I got the five to agree, and I think it's been one of the best decisions we have made because it goes a long, long way, and after the seven months, 58,000 people have been asking for the aid. On average, it's \$500, and we've granted 42,000, because some of them asked whether they had subsidy, but it changes entirely your relationship with your employees, and many of those were not my employees.

Sébastien Bazin: 00:43:38 They were employees of a different owner, different jurisdiction, so sorry, I'm going to, but that is what Accor is all about.

- John Woodman: 00:43:45 And it ties into a much bigger theme, which you must be very aware of. We're clearly aware of it, as well, which is the ESG factors are becoming increasingly important to customers and to investors, and I suppose the challenge for businesses like yourself is to avoid the low value added box ticking exercises and making sure that you're applying positive ESG principles actually in reality where it makes a difference in people's lives. So more broadly, I mean, how are you approaching that challenge.
- Sébastien Bazin: 00:44:17 We're approaching it in a very simplistic way because it is so confusing when it comes to ESG or CSR because you invent words people don't understand, and people cannot visualize it, so we actually said it's actually very simple. We have four pillars: employees, clients, owners, and local community. That's the four pillars. And then, within the four pillars, you have two priorities. Food waste and real estate carbon emission. That's basically 90% of what we do, and clearly there is one on which you can act very easily, which is, since we are 75% a manager of the hotels, anything which is local procurement, local community, stopping food waste, you can act upon it—and we've been reducing it by 25% over the last few years. It makes a huge marker.
- Sébastien Bazin: 00:45:08 The difficulty is the real estate carbon emission, when it comes to real estate and buildings, because many of those buildings, actually 99% of the buildings, are no longer mine, and there is a cost that the owners have to accept to use different materials to be more planet friendly. And, in many cases, the real estate investor doesn't care much about what I'm actually instructing him to do, so now the next step, which I told my developers, at the risk of dissatisfying the financial market, you have to be able to say to the new built hotels, "If you don't obey my rules, you won't have my grant."
- Sébastien Bazin: 00:45:44 And then they might go to Marriott, Hilton; but as a CEO, it does not matter anymore. You have to be basically draconian, and you have to express it, and hopefully some shareholders will pop in because precisely this is a policy, but this is a bit beyond my control in terms of, I know, I stand to lose a lot of my real estate developers because

admitting, when you come to Russia, many places, yeah, they don't pay much attention to this.

Sébastien Bazin: 00:46:10 But that's where we are, and we started that way before me. That started in 1995. It's called Planet 21. We're planting a tree every two minutes on the planet. And why are we planting a tree every two minutes with seven million trees planted? Because everything we can preserve by people accepting to keep the towels for two days, so all the energy we save, water and other, is actually being used 100% to plant the tree. So sorry, I won't bore you, but there's many things.

John Woodman: 00:46:37 No, it's fascinating. Yeah, no, it's good to hear about it in practice. A final question I had on this was we think a lot obviously about the combination of just good business practice with good humanist behavior. Perhaps you could talk a bit about how important diversity is throughout Accor as a driver of sustainable business success.

Sébastien Bazin: 00:47:01 I've failed in one case, and I won in the other one. We signed, my gosh, this was probably five years ago, United Nations for Women have signed a new program called a HeForShe. And HeForShe is 15 different sponsors. Five university, five governments, and five corporate, and Accor was selected as one of the five, and part of that endeavor, there was two sub parts. One was equal pay and two was gender variety when it comes to executives and missions. We've managed to get to equal pay. We have the exact same salary across the entire chain of Accor. Thank God, because there's no reason on the planet why you'd be paying a man more than a woman for the same mission.

Sébastien Bazin: 00:47:47 But that's done, that is behind me; and at the time I took that on five years ago, some board member asked me, "Sébastien, how much did that cost?" And I responded, "You don't want to know, because if I tell you the answer, you'll tell me that we can't afford it." And they laughed, but that was a sincere answer. The second in which I've failed is gender parity on the executive committee. It's 28% today. It is miserably low. I wish it could be 50%, and I failed for one reason. I can't have myself not promoting a

man because he is a man if he has a better experience and expertise than a woman.

- Sébastien Bazin: 00:48:25 I think it takes probably longer than expected because you have to go bottom up for the woman to basically be on that executive missions. We actually succeeded on the GM, the hotel general manager. Now we have, in South America, 55%, and roughly 38% within Accor. When I started it was 20%, so it is becoming certainly true at the local level, and I hope within three years we're going to get there at the executive level. It is very important.
- John Woodman: 00:49:00 Clear. Okay. Well, to finish off, I've just got some quick, fun questions for you, just to learn a little bit more about you if that's okay with you.
- Sébastien Bazin: 00:49:07 Sure.
- John Woodman: 00:49:08 What's your favorite Accor hotel.
- Sébastien Bazin: 00:49:12 Raffles Singapore. It's actually the best hotel on the planet, my dear. It has everything to do about colonial wood, material, volume, design, color, service. It is exceptional.
- John Woodman: 00:49:35 And the home of the Singapore sling, so worth visiting just for that.
- Sébastien Bazin: 00:49:35 Yes, it is.
- John Woodman: 00:49:35 What's your favorite country for a holiday.
- Sébastien Bazin: 00:49:40 You know what? I don't care, as long as there's access to the sea. I need water. I can't be on holidays if I'm not barefoot. Either on the boat, whether it's a sailboat or an engine boat, I need to be barefoot and I need to be on the beach and I need to be on the water, so that's my holiday. And it could be Mauritius, it could be Brittany, it could be Greece. Doesn't matter. My favorite place is to come to northern France, Brittany. It's windy, it's raining, but it is wonderful. It's got wonderful people.
- John Woodman: 00:50:14 I'm sure you could go barefoot in the office, I'm sure Jean Jacques wouldn't mind.
- Sébastien Bazin: 00:50:19 Yeah, my next life I'll be barefoot, I can tell you this.
- John Woodman: 00:50:24 Typically, how much of your time do you spend traveling.

Sébastien Bazin: 00:50:29 For the first seven years, the first six years, 260 days per year, which is enormous, and almost half at Accor hotels, half non-Accor hotels because I wanted to experience the competition. For the last seven months, I've been only traveling 20 days; and, after 35 years of marriage, being with my wife in the lockdown for nine months, it worked! And that's another miracle, but it's, no, I need to go back to travel, and I've been to India, I've been to Istanbul, I've been to Doha, I've been to Dubai for the last 30 days.

Sébastien Bazin: 00:51:04 I miss my team, seriously. The only thing which prevents me from traveling, put aside lockdown, is I miss my team so much that I want to hug them, and it's difficult to hug somebody through the epidemic with a mask, so I need to be close to them, so it's going to come back soon.

John Woodman: 00:51:27 I mean, clearly you've spent a lot of time on airplanes. How do you spend your time typically on a long plane journey.

Sébastien Bazin: 00:51:33 I lie to the team by saying that the Wi-Fi doesn't work. Seriously. The plane is my time. My personal time. This is the time I think, this is the time I want my mind to go away in many directions. I need to be on the book, I need to be on the film, but this is the pause button. This is the time to disconnect and this is very rich time, really, to reflect.

Sébastien Bazin: 00:52:03 Again, that's my recipe.

John Woodman: 00:52:08 That's good to hear, good to hear. Top tips for frequent travelers.

Sébastien Bazin: 00:52:11 Yeah, I have one which works for me: since I'm constantly on jet lag, every time and any place I go to, I never close the curtain. Never, ever. Actually, open them widely when you get to the room. For one reason. I know I'm going to be awake at 3 a.m., 4 a.m. in the morning, so I never look at my phone, never look at my watch. I only look outside; so if it's still dark, I know I have to go back to sleep if I can manage.

Sébastien Bazin: 00:52:40 Because if you start basically looking at your iPhone, then you're going to be responding to an email, and then you're dead. So, of course, if it's still dark, and I need to wake up for a 7 o'clock meeting, I'll put my alarm clock, but for me,

yeah. Open the curtain, at least you know where you are, and then try to manage back to sleep if it's still dark.

- John Woodman: 00:52:59 You know, I read recently that the first thing that the majority of people do when they get into a hotel room, they turn the television on, which surprised me.
- Sébastien Bazin: 00:53:08 No, no, no, it's not.
- John Woodman: 00:53:08 I would believe they'd be excited.
- Sébastien Bazin: 00:53:09 It's a good thing you're pointing out, because this is for males, the first thing that the males do is they put the TV on. The first thing women do in the hotel room, they actually look outside the window to see who can basically look in from the outside; and the second thing they do, they check the amenities in the bathroom. You see how different we are.
- John Woodman: 00:53:31 That's much more sensible, to be honest. What was the last book that you read.
- Sébastien Bazin: 00:53:39 My board member, former French President Sarkozy, who wrote a very interesting book on how to face the storm. That was the 2008 crisis, and there's quite a bit you learn from how to talk and how to communicate and where to act through a crisis, so it was just coincidental because the book was just out. So that's the last book, but I have never read any management book, for God's sake, and I don't intend to.
- John Woodman: 00:54:10 That sounds interesting. I'll look out on that one. A couple more. What's the best piece of advice you've ever received.
- Sébastien Bazin: 00:54:17 Always look at people in the eyes. Never look at people's feet. Even though you can feel depressed and in despair, just open up your chin, and don't show your muscle, but show who you are. So yeah, respect and look somebody else in the eyes.
- John Woodman: 00:54:35 Good advice. And so finally, clearly you've lead a very interesting and active career, but what's left on your bucket list.

Sébastien Bazin:	00:54:59	Transmit. Be a professor. If somebody wants me, my next life is hopefully I'll be a teacher in maybe underprivileged school, but yeah, transmit. Next chapter.
John Woodman:	00:55:02	Fascinating. Interesting. I was not expecting that. Very good. Well, look, Sébastien. Thank you so much. This has been absolutely fantastic, and we very much appreciate your time.
Sébastien Bazin:	00:55:33	It was great to be with you, so my final words: buy more shares. It's cheap.
John Woodman:	00:55:44	Thank you, Sébastien.
Sébastien Bazin:	00:55:44	Thanks a lot. Bye-bye.
Gwin Myerberg:	00:55:44	Many thanks to Sébastien for joining us today and to John for the fascinating discussion. Thank you as always to all of our listeners for tuning in to the Price-to-Value podcast, with Southeastern Asset Management. If you have any questions or would like to share topics that you'd like to see us cover in future episodes, please feel free to send us an email at podcast@seasset.com . We wish you all the best for a safe and healthy holidays, and look forward to sharing a new episode in the New Year.
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