Thomas Cook Group

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No 596/2014.

16 May 2019

Results for the six months ended 31 March 2019

£m (unless otherwise stated)	6 months ended		Change	Like-for-like change[iii]
	31 Mar 2019	31 Mar 2018		
Revenue	3,019	3,227	-208	+4
Underlying[i, ii] Gross Profit	599	672	-72	-54
Underlying[i, ii] Gross Margin %	19.8%	20.8%	-100bps	-180bps
Underlying[i, ii] Loss from Operations (Underlying EBIT)	(245)	(170)	-76	-65
Loss from Operations (EBIT) exc. goodwill impairment	(282)	(215)	-68	-55
Goodwill impairment[iv]	(1,104)	-	-1,104	-1,104
Loss from Operations (EBIT)	(1,386)	(215)	-1,172	-1,159
Loss before tax	(1,456)	(303)	-1,153	-1,140
Net Debt[v]	(1,247)	(886)	-361	-275

Due to rounding in both the current and prior year, some totals or variances may not agree exactly

Notes (i) This table includes non-statutory alternative performance measures – see page 34 for explanation, associated definitions and reconciliations to statutory numbers

(ii) 'Underlying' refers to trading results that are adjusted for separately disclosed items that are significant in understanding the on-going results of the Group. Separately disclosed items are detailed on page 27

(iii) 'Like-for-like' adjustments include the impact of foreign exchange translation, IFRS 15 and the timing of Easter. The detailed like-for-like adjustments are shown on pages 7 and 8

(iv) Goodwill impairment includes £1,038 million of goodwill and £66m of brand name intangible asset impairments

(v) See page 14 for definition and breakdown of net debt. 'Like-for-like' net debt adjusts the prior year comparative for finance lease extensions which are non-cash and foreign exchange translation

The comments below are based on like-for-like comparisons unless otherwise stated, as Management believes this provides a clearer view of the Group's underlying year-on-year progression

H1 performance against strong prior-year period

- Revenue of £3,019 million, in line with last year
- Underlying EBIT loss increased by £65 million to £245 million reflecting margin pressure in Tour Operator
- Goodwill impairment of £1,104 million in UK business, relating to 2007 merger with MyTravel
- Loss before tax of £1,456 million after goodwill impairment
- Net debt of £1,247 million; increase due to a lower working capital position and higher non-cash items

Good progress on executing strategy of differentiation

- Group NPS improvement led by Hotels (+6 points), Tour Operator (+2 points) and Airlines (+2 points)
- Opened 12 own-brand hotels, including four Cook's Clubs and one Casa Cook
- Expanded presence outside Europe: agreed joint venture in Russia and pipeline of new hotels in China

Strategic review of airline progressing; agreed term sheet for new facility

- Multiple bids received for all and part of Group Airline
- £300 million bank facility to provide additional liquidity for Winter 2019/20 season

Challenging trading for Summer 2019

- Recent economic and political uncertainty has led to high levels of promotional activity
- This activity, along with higher fuel and hotel costs, will impact progress on FY19 EBIT

Peter Fankhauser, Chief Executive of Thomas Cook, commented:

"The first six months of this year have been characterised by an uncertain consumer environment across all our markets. The prolonged heatwave last summer and high prices in the Canaries reduced customer demand for winter sun, particularly in the Nordic region, while there is now little doubt that the Brexit process has led many UK customers to delay their holiday plans for this summer.

"Our loss from operations for the period was £1.4 billion, which reflects a non-cash impairment of historic goodwill, largely related to the merger with MyTravel in 2007 which we have re-valued in light of the weak trading environment.

"Our current trading position reflects a slower pace of bookings, against a strong first half in 2018, and our decision to reduce capacity in order to mitigate risk in the tour operator and allow our airline to consolidate the strong growth it achieved last year.

"Despite this more challenging environment, we have made good progress on our strategy of differentiation. Following the announcement of the strategic review of our Group Airline in February, we have received multiple bids, including for the whole, or parts, of the airline business. As we assess these bids, we will consider all options to enhance value to shareholders and intensify our strategic focus.

"We are well advanced in our aim to build our position as one of the leading sun and beach hotel companies in Europe. In the last two months alone, we've opened 12 new own-brand hotels out of a pipeline of 20 for 2019, reinvigorating key destinations across the Med with four new Cook's Clubs, and launching our first family Casa Cook in Crete.

"Outside of Europe, we have taken an important next step in the development of our China joint venture with the announcement of two new hotel projects in partnership with Fosun, including our first Casa Cook in Asia. We have also secured a leading position in the Russian market with the development of a new joint venture to buy the number one tour operator Biblio Globus.

"Taking lessons from 2018, we have put a keen focus on cash and cost discipline across the group in the first half. We have also accelerated the transformation of our UK business, including the closure of 21 UK retail stores and a review of Thomas Cook Money. A range of further cost efficiencies are planned for the second half, allowing further investment in our growth strategy.

"As we look ahead to the remainder of the year, it's clear that, notwithstanding our early decision to mitigate our exposure in the 'lates' market by reducing capacity, the continued competitive pressure resulting from consumer uncertainty is putting further pressure on margins. This, combined with higher fuel and hotel costs, is creating further headwinds to our progress over the remainder of the year."

Analyst and Investor Presentation

A presentation will be held for equity analysts and investors today at 09.00 (BST). A live webcast of the presentation will be available via the following link and dial-in:

http://view-w.tv/798-1035-21516/en

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CURRENT TRADING AND OUTLOOK

Winter 2018/19

Our Winter 2018/19 programme closed out in line with our expectations. Overall Group bookings increased by 7%, with strong demand for Egypt and Turkey. Average selling prices were down by 9%, reflecting a shift in the mix from long-haul to short/medium-haul destinations.

Summer 2019

Our Summer 2019 programme is 57% sold, in line with the prior year. Group Tour Operator bookings are broadly consistent with the capacity reductions we have made across our markets to better manage our operational risk throughout the year. As a result, while tour operator bookings are down 12%, pricing is up in all key segments, and 2% higher overall.

We continue to see strong demand for Turkey, Egypt and Tunisia as customers are attracted by our great value offer of high-quality hotels and increased flight capacity. Bookings to the Spanish Islands are lower than last year following our decision to significantly reduce tour operator capacity for the summer.

In the UK, the political uncertainty related to Brexit over recent months has led to softer demand for summer holidays across the industry. While our booking position remains ahead of the capacity reductions in the tour operator, the trading backdrop remains highly competitive, leading to increased levels of promotional activity. We have seen no tangible change to booking patterns in recent weeks since the announcement of a delay to Brexit, although we will shortly start to lap a weaker comparative period.

In Continental Europe, bookings are lower than last year across all markets, and below our capacity reductions, primarily reflecting a weaker consumer environment in Germany, in particular. The decline is being driven by reduced demand for the Spanish Islands and Greece, partially offset by growth to Turkey and Tunisia.

In Northern Europe, bookings are also running behind our capacity cuts. The knock-on effect from the heatwave last summer led to a slower start to the season. Consumers' appetite for a summer holiday abroad has also been impacted by a weaker macroeconomic environment, particularly in Sweden, combined with a growing environmental movement against air travel.

Group Airline bookings are 6% lower than last year, in line with our expectations, reflecting a strong comparative period and capacity reductions to our in-house tour operator. Excluding our in-house tour operator, bookings are up 9%. UK long-haul sales are robust with good pricing while in Germany, Condor's sales to third-party tour operators are ahead of last year. Average selling prices are up 2% overall, with short/medium haul yields slightly behind prior year, while the long haul business, especially in the UK, is achieving good yields and improved load factors.

Outlook

Trading for the Group has been challenging to date, reflecting an uncertain consumer environment which has led to a slower pace of bookings across all markets. We have partially mitigated this risk by reducing the amount of capacity across all of our tour operator businesses. However, we continue to face intense competition, particularly in our UK business.

As we look ahead to the remainder of the year it's clear that, notwithstanding our early decision to mitigate our exposure in the 'lates' market by reducing capacity, the continued competitive pressure resulting from consumer uncertainty is putting further pressure on margins. This, combined with higher fuel and hotel costs, is creating further headwinds to our progress over the remainder of the year. As a result, we now expect underlying EBIT in the second half to be behind the same period last year although, as previously advised, operating profit will reflect significant reductions in separately disclosed items.

In response to these challenges we have taken proactive steps to ensure we can maintain an appropriate level of liquidity and facilitate sustained long-term investment in our strategy.

INTENSIFYING OUR STRATEGIC FOCUS

Strategic review well underway

Following the announcement of the strategic review of our Group Airline in February, we have received multiple bids. We are currently assessing the bids received, including for the whole, and parts, of the Group Airline. We will consider all options to enhance value to shareholders and intensify our strategic focus and we will provide an update on this process in due course.

Delivering our strategy for profitable growth

We are making good progress in executing our strategy for sustainable profitable growth, through which we aim to generate higher quality revenues, improve profitability and increase cash flows.

Customer Care

A key focus of the business remains improving customer satisfaction, measured by the Net Promoter Score (NPS), knowing that higher NPS directly correlates to higher margin and higher rebookings. We increased Group NPS by two points in the first half compared with last year, led by a six-point increase in hotel NPS, with NPS in the Group Tour Operator and Group Airline also up, by two points respectively.

Customer Contact

We continue to shift more customer bookings online, increasing the share of sales made online by four percentage points to 50% in the first half. At the same time, we increased direct sales to customers by three percentage points to 72%, despite continuing to reduce the size of our retail network in the UK as part of our efficiency program.

Own-brand hotels

We now operate one of the largest sun and beach hotel groups in Europe, with market-leading positions in Greece and Turkey, and a top 5 position in Spain. With a portfolio of 200 hotels this summer, we have around 40,000 rooms on offer across the Mediterranean, North Africa, the Middle East and Asia.

In the last two months, we have opened 12 of the 20 new own-brand hotels scheduled for this year. These include four new Cook's Clubs, including a major refurbishment of a former Smartline in Playa de Palma, and the first Casa Cook for families in Crete. We are on track to launch a further two Casa Cooks by the end of the year.

At the same time, we have continued to make progress in our aim to improve the financial returns from our hotels business by signing four new management contracts, taking the total to 24. Fees earned through management contracts are, on average, double those earned through franchise contracts.

We have established good momentum in our hotel fund joint venture. One year on from launch, the fund has almost doubled in size to number nine properties, including one of our most successful Greek hotels, Casa Cook Kos. This growth has been fuelled by the successful addition of a further €91 million of funding from third-party finance partners. The fund is in advanced discussion about a number of further opportunities while the first new-build hotel in the joint venture will open this summer as a flagship Casa Cook in Ibiza, managed by Thomas Cook Hotels and Resorts.

Airline

Our Group Airline will operate 105 aircraft this summer, excluding wet leases, as it consolidates its growth of 2018 and strengthens its position as one of the leading leisure airlines in Europe, both by leveraging its close relationship with the Tour Operator and increasing seat-only and third party tour operator sales through its own channels.

As part of a continued series of operational improvements across the Group Airline, our UK airline now operates an all-Airbus fleet, reducing cost and complexity. Condor, the German airline has driven particularly strong growth in third-party sales in short/medium-haul of 27% in the first half as it benefits from providing a reliable service in a disrupted market. Meanwhile, the ongoing efficiency programme is on track to deliver further cost reduction across the Group Airline. In recognition of the Group's focus on customer service, Thomas Cook Airlines Scandinavia was awarded the TripAdvisor Travellers' Choice award in April 2019.

Thomas Cook China

Two and a half years from launch, our Chinese joint venture with Fosun continues to grow strongly by expanding its product portfolio and distribution channels. The business further strengthened its offer for Chinese customers with the agreement in January of a memorandum of understanding with Fosun for two own-brand hotel projects - the first Casa Cook in China in Lijiang in the South West, and a Sunwing resort in the Fosun development in Taicang near Shanghai. These follow last year's announcement of our first own-brand hotels in China, in partnership with DreamEast Group.

At the same time, the business has strengthened its presence in key strategic destinations for Chinese travellers, opening offices in Sanya, Thailand and Japan. Building on the success of its multi-channel strategy, the Chinese joint venture has launched a new digital sales channel integrated within WeChat, China's number one social media platform. This has helped grow own-digital sales to almost 20% of all outbound sales.

Russia

In March, Thomas Cook announced a joint venture with Ionic Invest to buy Biblio Globus, one of the leading tour operators in Russia. The acquisition diversifies the Group's customer base by giving it a leading position in a growing market and access to additional flight capacity for its existing Russian business, Intourist. With its strong brand and diversified destination mix, Biblio Globus will help strengthen our operations in Russia while expanding the customer base for our own-brand hotels in the Eastern Mediterranean.

Operational Efficiencies

Taking lessons from 2018, we have put a keen focus on cash and cost discipline across the group in the first half. At the same time, we have continued to drive further cost efficiencies by removing complexity and streamlining the business.

We have also accelerated the transformation of our UK business. As an increasing number of customers switch online to book their holidays, we announced in March the closure of 21 stores and a reduction of more than 300 store-based roles across the retail network. We also announced a review of Thomas Cook Money.

A range of further cost efficiencies are planned for the second half, allowing further investment in our growth strategy.

Financing progress

Consistent with our focus to increase liquidity and introduce greater flexibility into the capital structure, we have agreed a mandate letter and a term sheet for a new £300 million secured bank financing facility with our lending banks. This new facility will sit alongside the existing revolving credit facility and bonding facility totalling £875 million, which matures in November 2022. The new financing arrangement features a leverage covenant and a fixed-charge covenant in line with the existing facility. As part of the discussions with lenders, we received a waiver in respect of the March 2019 covenant tests. The new term sheet resets the levels of both covenants for the remaining duration of the borrowing facilities.

The new facility will be available from 1 October 2019 and matures on 30 June 2020. Its availability is principally dependent on progress in executing the strategic review of the Group Airline. Security in the amount of £300 million (in aggregate) granted over certain assets, will apply on a first ranking basis to the new facility and on a second ranking basis to the existing facility until their respective maturity dates. The new facility will be subject to customary conditions, as well as consent from certain other finance providers. The terms of the new facility are not subject to the consent or approval of the noteholders under the Group's 2022 notes and 2023 notes.

OPERATING AND FINANCIAL REVIEW

£m	H1 2019	H1 2018	Change	Like-for-like Change(ii)
Revenue	3,019	3,227	-208	+4
Underlying(i) Gross profit	599	672	-72	-54
Underlying(i) Gross Margin (%)	19.8%	20.8%	-100bps	-180bps
Underlying(i) Operating expenses	(839)	(841)	+1	-6
Share of JV & Associates	(5)	(1)	-5	-5
Underlying(i) loss from operations (Underlying EBIT)	**(245)**	**(170)**	**-76**	**-65**
Loss from operations (EBIT) excluding Goodwill impairment	(281)	(215)	-67	-55
Goodwill impairment	(1,104)	-	-1,104	-1,104
Loss from operations (EBIT)	**(1,386)**	**(215)**	**-1,172**	**-1,159**
Underlying(i) Net finance charges	(70)	(66)	-4	-4
Separately disclosed finance charges	-	(22)	+22	+22
Loss before tax	**(1,456)**	**(303)**	**-1,153**	**-1,140**
Tax	(18)	48	-66	-67
Loss for the period	**(1,474)**	**(255)**	**-1,219**	**-1,207**
Free cash flow(iii)	(839)	(718)	-134	-121
Net debt(iv)	(1,247)	(886)	-361	-275(iv)

Notes
(i) 'Underlying' refers to trading results that are adjusted for separately disclosed items that are significant in understanding the on-going results of the Group. Separately disclosed items are detailed on page 12
(ii) 'Like-for-like' adjustments include the impact of foreign exchange translation, IFRS 15 and the timing of Easter. The detailed like-for-like adjustments are shown on pages 7 and 8
(iii) Free cash flow is cash from operating activities less exceptional items, capital expenditure and net interest paid, before proceeds on disposal. A summary cash flow statement is presented on page 13, and a reconciliation of free cash flow is shown on page 34
(iv) Like-for-like net debt adjusts the prior year comparative for foreign exchange translation, the impact in change in finance lease extensions and other non-cash items, which totalled £86 million, resulting in H1 2018 like-for-like net debt of £972 million. The detailed like-for-like adjustments are shown on page 14

Overview

The comments below are based on underlying like-for-like comparisons, unless otherwise stated, as Management believes this provides a clearer view of the Group's year-on-year progression

The Group had a challenging first half, with lower demand across our tour operator businesses. Revenue was in line with the prior year on a like-for-like basis and, despite robust pricing, margins were lower due to higher fuel costs and hotel cost inflation.

Gross profit reduced by £54 million with gross margin down 180 basis points due to lower margins in the Group Tour Operator, with Group Airline gross margin flat on a like-for-like basis. The Group's seasonal underlying EBIT loss increased by £65 million to £245 million.

As a result of the weak current trading environment, we also made an impairment to goodwill and brand name intangibles carried forward largely from the merger with MyTravel in 2007. As a result, the Group's loss from operations of £1,386 million includes a goodwill and brand name impairment of £1,104 million.

Underlying net finance charges increased by £4 million to £70 million, whilst separately disclosed finance charges decreased by £22 million to nil. Prior year separately disclosed finance charges related to costs associated with our bond refinancing in December 2017.

The Group's loss before tax increased by £1,140 million to £1,456 million.

Tax for the first half was £18 million, an increase of £67 million year on year due to the tax credit in the prior period. As a result, the Group's loss after tax was £1,474 million.

Free cash flow for the period was a seasonal outflow of £839 million, £121 million higher than last year, primarily reflecting our weaker trading performance and higher working capital outflows, as a result of lower winter activity and fewer summer bookings.

Group net debt at the end of the period was £1,247 million, £361 million higher than a year ago. Adjusting for non-cash and non-recurring items, net debt worsened by £275 million on a like-for-like basis. Compared to the September 2018 year-end position, net debt has increased by £858 million (compared to the equivalent increase of £846 million in the first half of 2017/18).

Like-for-like Analysis

Certain items, such as the translational effect of foreign exchange movements, affect the comparability of the underlying performance between financial years. To assist in understanding the impact of those factors, and to better present underlying year-on-year changes, 'like-for-like' comparisons with H1 2018 are presented in addition to the change in reported numbers.

The 'like-for-like' adjustments to the Group's H1 2018 results and the resulting year-on-year movements are as follows:

Group £m	Revenue	Gross Margin %	Operating Expenses	Underlying EBIT	Operating SDIs	Goodwill Impairment	Operating Profit
H1'18 Reported	**3,227**	**20.8%**	**(841)**	**(170)**	**(45)**	-	**(215)**
Impact of Currency Movements	(53)	-0.0%	7	(5)	(1)	-	(6)
Impact of changes to IFRS15	(124)	+1.1%	-	+9	-	-	+9
Easter adjustment	(36)	-0.2%	-	(15)	-	-	(15)
H1'18 like-for-like	**3,016**	**21.6%**	**(833)**	**(181)**	**(46)**	-	**(227)**
H1'19 Reported	**3,019**	**19.8%**	**(839)**	**(245)**	**(37)**	**(1,104)**	**(1,386)**
Like-for-like change (£m)	+4	n/a	-6	-65	+9	n/a	-1,159
Like-for-like change (%)	Same	-180bps	-1%	-36%	+20%	-	-511%

(£m)	Group Tour Operator			Group Airline		
	Revenue	Underlying EBIT	Operating Profit/Loss	Revenue	Underlying EBIT	Operating Profit/Loss
H1'18 Reported	**2,386**	**(86)**	**(124)**	**1,313**	**(59)**	**(63)**
Impact of Currency Movements	(43)	(2)	(4)	(10)	(3)	(3)
Impact of other LfL changes [(i)]	32	2	2	(196)	(8)	(8)
H1'18 like-for-like	**2,374**	**(86)**	**(125)**	**1,109**	**(69)**	**(73)**
H1'19 Reported [(ii)]	**2,283**	**(157)**	**(1,282)**	**1,207**	**(71)**	**(81)**
Like-for-like change (£m)	-91	-70	-1,157	+98	-2	-8
Like-for-like change (%)	-4%	-82%	-925%	+9%	-3%	-11%

Notes (i) Includes Impact of changes to IFRS 15 adjustment, Easter timing and the Business transfers represent the impact of the transfer of our Belgian Airlines business to SN Brussels

(ii) Intercompany revenue eliminations in the first half were £471 million and underlying EBIT for Corporate/other was £(17) million, leading to Group Revenue of £3,019 million and Group underlying EBIT of £(245) million