Thomas Cook Group

**29 November 2018**

# Full year results announcement for the year ended 30 September 2018

| £m (unless otherwise stated)[i] | 12 months ended | | Change | Like-for-like change[iii] |
|---|---|---|---|---|
| | 30 Sept 2018 | 30 Sept 2017 (restated)[ii] | | |
| Revenue | 9,584 | 9,006 | +578 | +574 |
| Underlying[iv] Gross Profit | 1,955 | 1,992 | -37 | -7 |
| Underlying[iv] Gross Margin % | 20.4% | 22.1% | -170bps | -140bps |
| Underlying[iv] Profit from Operations (Underlying EBIT) | 250 | 326 | -76 | -58 |
| Profit from operations (EBIT) | 97 | 227 | -130 | -112 |
| Profit/(Loss) after tax | (163) | 9 | -172 | -154 |
| Basic EPS | (10.6)p | 0.7p | -11.3p | - |
| Underlying[iv] EPS | (0.3)p | 9.1p | -9.4p | - |
| Recommended DPS | Nil | 0.6p | -0.6p | - |
| Net Debt [v] | (389) | (40) | -349 | -208 |

Notes: (i) This table includes non-statutory alternative performance measures – see page 23 for explanation, associated definitions and reconciliations to statutory numbers (ii) As part of the preparation of the FY18 Group financial statements, management identified several non-cash adjustments which have been applied to the Group's financial statements for FY17. Further details of the restatement can be found on page 35 (iii) 'Like-for-like' change adjusts for the impact of foreign exchange translation, fuel and other. The detailed like-for-like adjustments are shown on page 10 (iv) 'Underlying' refers to trading results that are adjusted for separately disclosed items that are significant in understanding the ongoing results of the Group. Separately disclosed items are detailed on pages 16 and 31 (v) See page 24 for definition and breakdown of net debt. 'Like-for-like' net debt adjusts the prior year comparative for foreign exchange translation and the impact of the Group's bond refinancing – see page 20 for reconciliation

*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*

## Performance highlights

- Group revenue of £9,584 million, up 6% on a like-for-like basis
- Underlying EBIT of £250 million, £58 million lower than prior year on a like-for-like basis
  - Tour Operator down £88m, impacted by discounting in 'lates' market; UK particularly disappointing
  - Strong Airline profit growth of £35 million, despite higher disruption costs
  - Group result includes £28 million of legacy and non-recurring charges to underlying EBIT
- EBIT SDIs of £153 million, including transformation and start-up costs
- Net debt of £389 million; increase due to delayed bookings and higher non-cash items
- Bank covenant compliant; headroom for future covenant tests
- Dividend suspended for Full Year 2018, reflecting the overall net loss after tax

## Strategic progress developing new opportunities for growth and efficiencies

- Sales of holidays to own-brand hotels up 15%; 2019 pipeline of at least 20 new hotels
- Accelerating own-brand hotel growth through £150-million fund with first £35 million expansion capital
- Strategic integration of Expedia technology and content in first five markets
- Innovative ancillary services driving growth of 4%

## Priorities for 2019 onwards

- Address performance in our UK tour operator business
- Better capacity management and improved operational flexibility
- Drive increased focus on cash and cost discipline across group
- Improve selling of higher-margin own-brand hotels and differentiated holidays

## Outlook for 2019

- Expect to deliver progress on underlying EBIT and lower separately disclosed items, leading to substantial progress on reported operating profit
- Reported operating profit will be a primary focus going forward, together with free cash generation

**Commenting on the results for 2018, Peter Fankhauser added:**

"2018 was a disappointing year for Thomas Cook, despite achieving some important milestones in our strategy for transforming the business. After a good start to the year, we experienced a larger-than-anticipated decline in gross margin following the prolonged period of hot weather in our key summer trading period.

"Profit in our tour operating business fell £88 million as the sustained heatwave restricted our ability to achieve the planned margins in the last quarter. The UK was particularly hard hit with very high levels of promotional activity coming on top of an already competitive market for holidays to Spain. Despite the impact of the hot summer, our Northern European tour operator achieved a near record performance, albeit lower than that expected at the end of May. Meanwhile, our Group Airline delivered strong growth in customers and profit, up £35 million, benefitting from increasing capacity in a turbulent European aviation sector.

"We remain committed to our strategy for profitable growth and we've made some good progress during the year. Within our own-brand hotels business we have established our hotel investment fund, opening 11 new hotels last summer, including an innovative new concept in Cook's Club. This positions us well for 2019 as we build on our position as one of the top 5 sun & beach hotel companies in Europe with at least 20 new hotel openings planned. Meanwhile, the launch of our alliance with Expedia, now in five of our markets, offers customers a much wider choice of city and domestic hotels at lower cost to the business. Taken together, these developments are transforming our opportunities for growth.

"Looking ahead, we must learn the lessons from 2018 and go into the new year focused on where we can make a difference to customers in our core holiday offering. We will put particular attention on addressing the performance in our UK tour operator where the challenges of transformation in a competitive environment remain significant. Across the Group, we will continue to streamline our cost base and manage our capacity to give us greater operational flexibility and financial discipline, while focusing the team on delivering performance improvements and giving customers more reasons to holiday with Thomas Cook."

**Replay of presentation for equity analysts and investors**

A presentation for equity analysts and investors was held on Tuesday 27 November, on release of our FY 2018 results update. The recording of this event is now available on www.thomascookgroup.com. There is no further presentation planned for today.

**Forthcoming announcement dates**

The Group intends to announce a first quarter trading update on 7 February 2019.

**Enquiries**


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**SUMMARY OF 2018 PERFORMANCE**

Overall, our financial performance in 2018 was disappointing, despite starting the year well and making good strategic progress. Group revenue was £9.6 billion, up 6% on a like-for-like basis, and group underlying EBIT was £250 million, down £58 million on a like-for-like basis.

We delivered a strong first six months of the year, achieving improved financial results and going into the summer with a positive position. As a result, we were confident of filling all our committed hotel accommodation and flight capacity at good returns. However, with the start of the heatwave in May, demand reduced sharply with customers across our European markets delaying holiday decisions as they enjoyed record temperatures at home. This delay in bookings restricted our ability to achieve the planned margins in the 'lates' booking period.

While all our source markets were impacted, we saw a particular hit to our UK business where the slowdown in bookings came on top of an already competitive market for Spanish holidays. We have a specific plan to address the performance in our UK Tour Operator, set out later in this statement.

Overall, a higher-than-anticipated decline in gross margin in the final quarter resulted in underlying EBIT in our Tour Operator business being £88 million down for the full year. Within this, our Northern European Tour Operator achieved a near record performance, albeit lower than that expected at the end of the first half, despite the impact of the hot summer.

The weakness in our Tour Operator was partially offset by a good performance in our Group Airline. This looked set for an excellent year until air traffic control issues led to industry-wide disruption. This was compounded by operational challenges as we grew capacity to take advantage of the failure of Air Berlin. Nevertheless, our Group Airline delivered a £35 million improvement in profit in 2018.

Overall, our Group underlying EBIT was £250 million, £58 million lower than the prior year on a like-for-like basis. This reduction includes £28 million of legacy and non-recurring charges, comprising a £14 million write-down of historic hotel receivables, £4 million of flight disruption costs and £10 million of further transformation costs, taken through underlying EBIT rather than separately disclosed items (SDIs). In addition, £24 million of prior year balance sheet adjustments were made, reflecting a write down of historic balances now considered to be irrecoverable.

Overall, SDIs totalled £153 million which principally relate to our transformation programme and start-up costs relating to new ventures.

Free cash outflow was £148 million, £294 million below last year. This reflects the lower underlying EBIT performance, higher cash-related SDIs, investment in our new hotel fund and a working capital impact from the slow start to bookings for the 2019 winter season.

Net debt was £389 million, including the impact of non-cash adjustments for foreign exchange and finance lease extensions, which totalled £141 million. While net debt is higher than previously forecast, the Group's lenders remain supportive and we have secured additional flexibility to ensure we can continue to deliver our strategic plan. With an increased focus on free cash generation and cost management in our new plans, we are confident that we will make good progress reducing net debt over the next few years.

Further details on interest, tax and the Group's overall loss after tax are provided in the financial review section of this statement.

The Board decided to suspend the dividend for FY18, reflecting the overall net loss after tax reported by the Group. This decision does not reflect a change in the long-term dividend policy, which is to target dividend growth that reflects the Group's progress in underlying earnings per share. For FY17 the Company paid a dividend of 0.6 pence per share resulting in a cash redemption of £9 million.

Thomas Cook Group

**PROGRESS ON DELIVERING OUR STRATEGY**

Despite the disappointing financial performance, 2018 was a year of good strategic progress for Thomas Cook. We've taken important steps to grow our own-brand hotels business, establishing our hotel investment fund and opening 11 new hotels, including an innovative new concept in Cook's Club. Meanwhile, the launch of our alliance with Expedia in five markets is giving customers greater choice, at lower cost to the business. These represent significant steps forward in our strategy which is transforming our opportunity for sustainable growth in the years ahead.

**Customer at our Heart is delivering meaningful improvements**

Three years after introducing "Customer at our Heart", we now have tangible evidence that it is delivering. Customers are more loyal to Thomas Cook with a higher rebooking rate in 2018 than the previous year and we attracted 3% more new customers than in 2017.

More than that, we see a direct correlation between Net Promoter Score (NPS), our key measure of customer satisfaction, and the financial returns we can generate as a business. Where a hotel meets our threshold measurement on NPS, we earn an additional two percentage points more in margin the following year, showing that customers are willing to pay more for better quality.

NPS across our hotel portfolio increased 2 points in the past 12 months, demonstrating that the work we've done to improve quality in destination and our stringent approach to the hotels we include in our portfolio is paying off. Following a summer of airline disruption, as we integrated new aircraft and managed the impact of industry-wide air traffic control issues, Group Airline NPS was down 3 points. As a result, after two years of consecutive growth, group NPS fell back 0.8 points in 2018.

*Customer Care – building trust in our brand*

Our focus on the customer drives the big decisions that we take as a business. At an operational level, that means gathering all the information we can about our customers' experience and constantly monitoring it to shape the decisions about the hotels we sell.

The introduction of a new customer feedback management tool, InMoment, at the start of 2018 provides our hotel quality managers with detailed, real-time information on customers' experience of all aspects of a hotel. This enables them immediately to identify issues and intervene with improvement plans.

*Customer Contact – forging closer relationships*

The success of our customer-led strategy rests on strengthening our direct relationships and ensuring that we are available where, when and how our customers need us. We want to increase the number of customers who book directly with Thomas Cook, with a focus on digital channels where our cost of sale is lower. At the same time, we want to make it easier for our customers to book all of the services and holiday extras which help to give customers a personalised holiday experience.

Online sales increased in all segments in 2018 with particularly strong growth in the UK, up almost 30% year on year. Germany increased by almost 25% and our Airline by 17%. Online now accounts for 48% of bookings across the Group.

**Holidays – improving choice and flexibility**

Our holidays are the primary focus of all that we do at Thomas Cook. At the heart of that strategy sits a streamlined portfolio of 3,150 hotels where we can have a greater influence over our customers' experience – generating higher returns for our business.

In an increasingly competitive market, we know the successful businesses will be those that genuinely differentiate their offer and provide real value to the customer.

This is a growing market. One in five of our customers go on more package holidays than three years ago. In addition, more than two in three want the opportunity to personalise their holiday, which is why we have launched innovative new services like Choose Your Favourite Sunbed and Choose Your Room.

Our customers are responding well to these innovations. Alongside our 24-Hour Hotel Satisfaction Promise, which is now in place across all our core hotels, we are distinguishing our holidays from other package holiday providers, giving them more reasons to book with Thomas Cook.

*Hotels – our own-brand strategy is winning with customers*

Own-brand hotels are the cornerstone of our holiday strategy, presenting the greatest opportunity for differentiation and, from that, higher returns.

All our customer research supports that decision. Across our three biggest markets, customers' satisfaction with their hotel is the most important influencing factor in their overall satisfaction with their holiday. Three in ten customers now say that the hotel is more important even than the destination.

The NPS in our own-brand hotels in 2018 was two percentage points higher than our differentiated portfolio as a whole. And our new concept hotels like Casa Cook are among the very top performing hotels for NPS. This plays into the financial returns we make from these hotels. We earn a significantly higher margin from our own-brand hotels versus those from our selected partner hotels.

In Summer 2018, we opened 11 new own-brand hotels, including a new concept in Cook's Club. This builds on the success of Casa Cook, extending the same design-led approach to bigger properties at a more accessible price that we can roll out at scale.

The first hotel under the Cook's Club brand opened in June in Crete and transformed a traditional holiday resort hotel into a stripped-back, design-led hotel to appeal to a new generation of travellers. In its first summer, the hotel delivered occupancy levels of more than 93% and increased its average daily room rate by almost 50% versus the previous year.

In 2019, we plan to open at least 20 own-brand hotels. This includes up to 10 new Cook's Club hotels; the company's first Casa Cook in its biggest market, Spain; and the first family Casa Cook in Greece. The new properties will take the company's portfolio to 200 hotels with around 40,000 rooms, putting us in the top five largest sun and beach hotel groups in Europe.

This expansion is boosted by the launch of our new hotel fund, Thomas Cook Hotel Investments, in partnership with hotel development company LMEY. Casa Cook Ibiza will open next summer as the first new project for the fund. Managed by Thomas Cook, we expect the 189-room hotel to continue the success of the first two openings for the Casa Cook brand where more than 75% of guests have been new to the company. We are targeting a further five new projects for the fund for 2019, focusing on our key brands of Casa Cook, Cook's Club and Sunwing.

**Airline – good performance in a challenging year for operations**

The success of our holiday offer is supported by a well-managed airline which leverages its relationship with our holiday business while actively developing its own distribution channels to compete wing-to-wing with other European leisure carriers.

2018 was a strong year of growth for our airline against a backdrop of widespread disruption following the collapse of Monarch and Air Berlin in 2017 and strike action across European air traffic control. We took advantage of the upheaval in the market to expand capacity by 10% this summer, increasing our market share at a number of our key airports in Germany in particular. We also strengthened our operational setup to support that growth with the addition of two new Air Operating Certificates (AOCs), including a new operation in one of our biggest destinations, the Balearics.

We made good progress with our efficiency programme, removing a further £31 million in cost through synergies achieved as we bring our national airlines closer together to operate as one European airline.

Despite some operational challenges, we delivered good growth in customers and profit, which increased by £35 million year on year on an underlying basis. Our focus for 2019 is to consolidate the growth we achieved in 2018, strengthen our customer offer and further extend our reach.

**Partnerships**

*Complementary holidays*

Ultimately, we know that the success of our strategy will be determined by our ability to focus on delivering higher returns from our core sun & beach holidays while at the same time partnering with the best in the industry to offer customers even greater choice.

The launch of our Expedia alliance in the first five markets was a milestone development. Plugging in Expedia's market-leading capabilities and extensive catalogue of city and domestic hotels will transform the way we offer a choice of holidays to our customers: more than 150,000 hotels that meet our health and safety standards, with an improved booking journey, at reduced cost and complexity to our business.

Combined with our hotel sourcing partnership with Webjet in sun and beach, we delivered 58% growth in overall bed-bank bookings for the year. This demonstrates the prospects for this part of the business as we roll it out further – and begin to take advantage of Expedia's distribution channels to sell our own-brand hotels where we have excess capacity.

*Thomas Cook China*

Our joint venture with Fosun in China had a strong year, growing customers eight-fold and building the foundations from which it can grow over time to become comparable in size to our other key source markets, an important step as we look to diversify away from our dependence on north and western European markets.

We strengthened our partnership with Alibaba, the world's largest online marketplace, to increase the number of holidays we sell on its travel division, Fliggy, helping us to further leverage Alibaba's large customer base of active users in China. At the same time, we are building out our own digital distribution platform to grow our direct customer base. Our Webjet partnership is now integrated with our Chinese platform, along with a number of other bedbanks, creating a fully automated and scaleable customer offer.

We are also developing our first own-brand hotels in China, taking advantage of the fast-growing Chinese domestic tourism market. These include a 200+ room Sunwing family resort in Jaishan with another family property in the pipeline.

*Thomas Cook Money*

Our financial services division launched two new products in the UK: a new pre-paid travel card, Lyk, replaced Thomas Cook's existing cash passport with lower fees and more customer benefits; and Roam which offers a simpler way to buy and personalise your holiday insurance.

We have combined the management of Thomas Cook Money and UK retail to strengthen the reach of our innovative travel-related financial services to our large and loyal high street customer base and maximise returns from our store estate.

Thomas Cook Money has also grown its business-to-business partnerships including with European travel insurance broker InterMundial and digital challenger bank Revolut for travel insurance. In total, more than 3 million customers now use Thomas Cook for holiday money or travel insurance.

**CURRENT TRADING AND OUTLOOK**

**Summer 2018**

Our Summer 2018 season closed out with no material change compared to our pre-close trading update in September.

**Winter 2018/19**

Against a strong winter in 2017/18, bookings for the Group Tour Operator are 3% down on last year, with flat pricing, largely reflecting knock-on effects from the hot summer weather and poor demand for the Canary Islands.

UK bookings are broadly flat, albeit at lower margins due to increased capacity in the wider market. In Northern Europe, where as previously advised we have reduced winter capacity by 5%, the knock-on impact of the summer heatwave and continued mild weather is leading customers to delay booking their winter holiday, resulting in 8% lower bookings year on year. Excluding the legacy city and domestic hotel-only business, which is being transformed as we move over to Expedia, bookings in Continental Europe are down 2%. The modest decline is driven largely by the reduced demand for the Canary Islands, a key winter destination, a trend we are seeing across the Tour Operator. Demand is strong for Turkey, Egypt and Tunisia as customers seek alternatives to high hotel prices in the Canaries.

Airline trading is positive, with bookings 11% ahead of last year and improved pricing across short and medium-haul routes with bookings up 14%, reflecting good growth to Egypt and Turkey. Long-haul bookings, particularly to the US and Caribbean, are trading well with bookings up 4%.

| Winter 2018/19 | Year-on-Year Variation % | | |
|---|---|---|---|
| | Bookings[(i)] | ASP[(i)] | % Sold[(ii)] |
| **Tour Operator by Market** | | | |
| UK | +1% | +4% | 60% |
| Continental Europe[(iii)] | -2% | -2% | 63% |
| Northern Europe | -8% | -2% | 72% |
| **Group Tour Operator** | **-3%** | **-1%** | **65%** |
| Short & Medium Haul | +14% | +6% | 55% |
| Long Haul | +4% | -1% | 66% |
| **Group Airline**[(iv)] | **+11%** | **-2%** | **58%** |
| **Total Group** | **+10%** | **-10%** | **55%** |

Based on cumulative bookings to 17 November 2018. Notes: (i) Risk and non-risk customers (ii) Risk customers only (iii) Continental Europe bookings including our legacy city and domestic business were down 7%, with pricing up 2% (iv) Group Airline figures include intercompany sales to the Group Tour Operator

**Summer 2019**

Although it is still early in the booking cycle for Summer 2019, we have seen a mixed start to trading. UK bookings are positive, while Continental and Northern Europe bookings are behind a strong start to last year. Tour Operator pricing overall is ahead of last year. Demand for our holidays to Turkey and Egypt is strong, while we're seeing good growth in long-haul holidays, particularly to the USA.

Our Airline typically has a later booking profile compared to the Tour Operator, and it is therefore too early to comment on the Airline's current trading for Summer 2019.