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TOURISM HOLDINGS LIMITED (*thl*)

2024 ANNUAL MEETING ADDRESS

Chair's address – Cathy Quinn ONZM

### *Reflections on FY24*

*thl* remains a business with a resilient balance sheet, strong market position and positive prospects. The issues of the last six months clearly correlate to broader sector performance in which we are not alone, and challenging macroeconomic conditions. Yet we remain realistic and reflective. The underlying net profit after tax of \$51.8 million did not achieve our Return on Funds Employed target of 15%, as strong performances from New Zealand and Australian Rentals, Action Manufacturing and the Tourism divisions were weighed down by the Northern Hemisphere divisions falling below target. The overall Australian division also did not perform to target, largely due to challenging RV sales and despite RV rentals performing well.

We are disappointed in the trend in the *thl* share price over this year and recognise the impact this has on our shareholders. In particular, we acknowledge the share price reaction after the profit downgrade release in May. We as a Board are all shareholders and our two Executive Directors both have significant shareholdings, with the Trouchet family being our largest single shareholder. We are aligned.

We saw sentiment turn very quickly in all markets. This was not specific to motorhomes and has been seen across the broader vehicle and leisure industry including boats, motorbikes and new car sales. We believe we were among the first publicly listed companies in Australasia to see this change coming and revise our guidance, with several other companies doing the same later in May and June.

While the share price reaction and some views in the market were that *thl* would have to raise capital, it was not the case, and our view remains that we do not currently require additional equity to operate the business in its current form. We rightly indicated in May that we would engage with our lenders to seek additional headroom on our covenants for 30 June, and we subsequently did that with no issues. We have since implemented a significant refinancing of our bank facilities with higher facility limits, an improved covenant structure, longer terms and better pricing. We see this as a reflection of our lenders support and confidence in *thl*.



A reminder that **thl**'s debt is supported by assets. For every \$1 of net debt that **thl** currently has, we have almost \$2 in the value of our rental fleet and RV inventory. We have a business that owns around 8,000 vehicles globally and in challenging times, we see the primary source of equity as our own fleet, either through accelerating sales or reducing purchases. Our business model has a flexibility that allows us to adjust the fleet to market conditions and we showed through the pandemic that we can do that effectively.

As part of our annual results, we withdrew the timing of achieving our goal of \$100M NPAT by FY26. A deeper and more prolonged economic downturn affecting vehicle sales, along with a slower recovery of international tourism, particularly to New Zealand and Australia, have made this goal unachievable by FY26. While we remain optimistic about **thl**'s long-term prospects, the uncertainty on the timing of a recovery of these factors makes it difficult to provide a new target year for this goal at present.

### ***Dividend***

The Board approved a final dividend of 5 cents per share for the financial year, bringing the total dividend for FY24 to 9.5 cents per share. This represented a pay-out of 40% of underlying net profit, within, but at the bottom of our policy target of 40 to 60%. Based on the closing share price at the end of the financial year, the FY24 dividend represented a 5.3% cash dividend yield or a 7.4% gross dividend yield for New Zealand resident shareholders, given the fully imputed nature of the dividend.

While our expectations for the result changed drastically in May, the Board considered and saw no reason for **thl** to deviate from its dividend payments in line with policy. The net profit for the year, while disappointing, was still an underlying profit of over \$50 million and the second largest in **thl**'s history. We recognise the importance of a consistent approach to dividends for our shareholders.

The uptake for the Dividend Reinvestment Plan that was made available for the final dividend was 30%. This is the largest uptake for **thl** in recent history and a reflection of our shareholders belief in a positive outlook for **thl**. We are appreciative of the ongoing support from our existing shareholder base.

### ***A strong ROFE discipline***

I would like to reiterate how important Return on Funds Employed is within **thl**. We have an internal target for each division to deliver a Return on Funds Employed at or above 15%.

For the rental businesses, each fleet investment decision requires Board approval and each request includes financial analysis to demonstrate that a 15% Return on Funds Employed is achievable, or that there is a clear plan to return a division to delivering a 15% Return on Funds Employed.



Underperforming divisions, such as North America and UK at present, receive additional attention and scrutiny from the Board. The Board have reviewed and supported the North American synergy project that is being implemented, which looks at how the USA and Canada divisions can work together to maximise the opportunity in that market. While it will take some time for those benefits to be realised, we believe the opportunities are meaningful for the future of the division.

Likewise we have had management review the UK business in some detail. We would acknowledge that this has been one area of the merger which has not gone to plan and is therefore a focal point for management.

In closing, the **thl** Board and management are focused on managing to the current conditions but are also conscious of short-termism. We aim to continue to position **thl** for a recovery as economic conditions improve. This means that we continue to invest in sensible fleet growth, in improving our digital systems, in the safety and training of our people and continue to explore inorganic growth opportunities that present themselves in the current environment.

Before I pass on to Grant to cover off the result in more detail, I would like to once again acknowledge and thank all of our shareholders for your support. We hope to continue on this journey with you to more prosperous times for **thl**.

#### **CEO's address – Grant Webster**

##### ***FY24 summary***

Our FY24 results reflect a mixed set of outcomes by business area and geography. Our core rentals businesses have performed well, particularly in markets like New Zealand and Australia, but challenging conditions in vehicle sales have impacted our overall performance.

The profit downgrade in May was a defining moment for **thl** and there has been significant questioning and review of the state of the industry and its prospects by everyone involved, given the quantum and timing so close to year-end.

The scale of the downgrade is partly a hangover from the pandemic, where we achieved record sales margins and fleet values appreciated, resulting in an unusually large earnings exposure to our projected vehicle sales volumes. This came to the fore in the fourth quarter of FY24 where we sold fewer ex-fleet vehicles in Australasia and RV demand in North America did not recover in line with broader industry expectations.



Long term investors will know a movement of this magnitude in **thl** is unusual. We hope you know as shareholders that we have taken the situation very seriously, and have responded with definitive actions.

### ***Highlights***

Whilst acknowledging that we are operating in a challenging environment, I believe it is still important to reflect on the positive elements of the year. We have seen New Zealand Rentals continue to go from strength to strength, delivering a record EBIT result and with a continued positive outlook for fleet and earnings growth this year.

Earlier this year we also acquired Camperagent RV Centre, a leading RV dealership in South Australia, lifting our sales capability in that market.

We also spent \$165M in net fleet capital expenditure – comprising \$40M to replenish ex-rental vehicles sold in the period and \$125M to grow our overall fleet and ex-rental vehicle inventory by 1,074 vehicles. This investment assists us to maintain a young fleet age, deliver a premium product and to be able to charge accordingly.

Pleasingly, both Action Manufacturing and New Zealand Tourism also delivered record EBIT results. We are delivering more profit on lower customer numbers in the Tourism division and see the opportunity to continue growth as international tourists return. Action Manufacturing is also seeing the benefits of bolt-on acquisitions we have undertaken in recent years in the commercial vehicle space.

### ***The global operating context***

A key indicator for our RV rental business is the state of international tourism. The recovery of tourism back to 2019 levels continues but the pace of growth has been slower than the industry expected this year, particularly in New Zealand and Australia. Year-to-date, international arrivals to our main operating countries are between 8% to 16% down on 2019. These statistics show that there is a runway of growth for our rentals businesses as leisure tourist arrivals return to pre-COVID levels.

Vehicle sales continue to be challenging. Consumers have chosen to close their wallets on big-ticket discretionary expenses in response to increasing economic uncertainty. This is even the case for our customer base, which leans towards older retirees that are less likely to have a mortgage and more likely to have benefitted from the higher interest rate environment. Some of the data we see from the larger RV markets in Australia and the US indicates that the overall RV sales market is down by nearly 40% from its peaks.



Some investors have questioned whether the spike in RV sales through the pandemic brought forward demand for several years. While we see that as one of the influencing factors, we also see that there is greater category awareness for RV travel as a result. A statistic out of the USA indicated that during the pandemic the median age of a first-time RV buyer went from 41 to 32. This can only be positive for the long-term outlook for our industry, in which we regularly see RV buyers trade-up from towables and campervans to motorhomes over the years as their family grows.

We see the improvement in vehicle sales being closely connected with the recovery in overall economic conditions. In the US, which is the world's largest RV market, industry projections are for a 7% increase in RV shipments in 2025. Our experience has been that US market trends tend to lead 6 to 12 months ahead of other markets.

### ***Cost-out and optimisation initiatives***

We are coming up on nearly two years since the merger with Apollo completed. We believe the integration to-date has been implemented well but know that the journey to maximise all benefits is a longer one. We see ourselves as nearing completion of the integration and progressing into a new phase where we look to maximise and optimise. This is a significant project that is ongoing as we look at all markets and all segments of our business.

The work we are currently undertaking on shifting our global businesses onto common digital platforms is one that I am particularly excited about, as it will enable us to deeply and quickly compare key metrics and maximise conversion rates in revenue generation and cost efficiencies between markets at a granularity that neither *thl* nor Apollo has previously had.

We recently indicated that we would be moving from synergy targets to broader cost-out opportunities. Our rebased targets are relative to the FY24 cost base, given the increasing complexity of comparing against a counterfactual set some years ago. We are also shifting our terminology to more accurately describe these targets as cost-out and optimisation opportunities.

We believe we can deliver an improvement of at least \$12M in net profit after tax in FY27, primarily through cost reduction across multiple categories, and reduced depreciation resulting from optimisation of our fleet production and procurement. For clarity we note that we see this \$12M as incremental to other opportunities to improve performance.

### ***Trading update***

Moving on to a trading update for performance in the first half of this year. The recent high season in the US has been positive where we have achieved rental revenue growth. While rental revenue in Canada has



been broadly flat, we have improved Rental Revenue per Average Rental Vehicle (RevPARV) in both US and Canada. Forward bookings in these markets are showing growth, however this is through a quieter part of the year.

As we near the summer season in New Zealand, our rental intakes have been positive and are showing year-on-year growth. This market is also where we have expanded our fleet the most over the past year. The RevPARV in the first half is expected to be slightly down in this market as we carry additional fleet through the shoulder season ahead of the high season which is more weighted to the second half.

The rental revenue intake in Australia, which is less seasonal, has been mixed – up in some months and down in others, but broadly flat overall for H1. We do expect a small decline in RevPARV in the first half as we are operating a larger fleet.

In vehicle sales, the difficult market conditions at the end of FY24 have continued into the first half of FY25. Volumes in North America have been volatile and are currently tracking below the prior year in both the US and Canada.

Sales volumes in New Zealand so far have been in line with last year. This also applies to overall sales volumes in Australia. We are seeing new retail sales down in that market, while our ex-rental sales are tracking ahead of last year, likely a reflection of the market being softer at the new end. There is margin pressure across all markets as would be expected in a down market, which will impact performance this year.

### ***Outlook***

Our expectations for FY25 included that the first half would be significantly below FY24, as any overall increase in rental revenue was unlikely to offset a weaker performance in vehicle sales. We continue to hold this view for the first half of FY25. As expected, the challenging operating conditions for vehicle sales from the fourth quarter of FY24 have persisted in the first half of FY25.

We expect to achieve NPAT growth in the second half of FY25, driven primarily by stronger rental activity in New Zealand through the high season and targeted operating cost savings, and we remain focused on increasing underlying NPAT in FY25.

Before passing back to the Chair, I want to acknowledge the present challenges. It is a difficult time to be in the RV industry globally. Whilst sales are at a low point in the cycle, we are confident that there has been no structural change. Economic conditions should improve in time, and with it the RV sales market. Most importantly international tourism is still in recovery and growth mode even despite these challenges. And



to add to all of that, we have a clear plan and target for cost out and optimisation that in itself should deliver an NPAT improvement of at least \$12 million in FY27.

Our Board and management team have experienced these kinds of conditions before. We know that we can't stand still or take our ability to recover with the market for granted – we have to be fast, assertive and agile. Better than we have ever been so that we are leading as a more effective business when market conditions improve.

Thank you once again for your support of **thl**.

**ENDS**

**Authorised by:**

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About **thl** ([www.thlonline.com](http://www.thlonline.com))

***thl** is a global tourism operator listed on the NZX and ASX (code: THL) and is the largest commercial RV rental operator in the world. In New Zealand/Australia, **thl** operates rental brands (Maui, Britz, Apollo, Mighty, Hippie, Cheapa Campa), manufacturing (Action Manufacturing, Apollo), retail brands (Talvor, Kea, Winnebago, Adria, Coromal, Windsor), retail dealerships (RV Super Centre, Apollo RV Sales, Kratzmann, George Day, Sydney RV, Camperagent), travel technology (Triptech) and tourism attractions (Kiwi Experience and the Discover Waitomo Group, which includes Waitomo Glowworm Caves, Ruakuri Cave, Aranui Cave and The Legendary Black Water Rafting Co.). In North America, **thl** operates the Road Bear RV, El Monte RV, CanaDream, Britz and Mighty rental brands. In UK and Europe, **thl** operates the Just go, Apollo and Bunk Campers rental brands.*