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**Chief Executive Officer's Address
Annual Shareholders' Meeting - Tourism Holdings Limited
Tuesday, 10th November 2009**

SLIDE 1

Thank you Keith for the introduction and welcome all to **thl's** annual meeting. As you are aware, this is my first address to you as CEO. Unfortunately it coincides with one of the most difficult trading periods in the company's history. Pleasingly, we are here today with the confidence that we are in a strong position within the market, and that the work to realign the business strategically over the past few years was the right thing to do at the right time.

Today I will outline my view of the last financial year's results, provide an update on the nature of the company, including our key areas of focus, and give some **thl** views on the industry outlook for the coming year – although uncertainty will still be the theme.

SLIDE 2

There is no doubt that the NPAT result of \$2.9 million was well below our aspirations, and reflected broad industry issues as well as some impact from internal areas of concern including Ci Munro's manufacturing performance. On the positive side, we are financially stable – relationships with our debt providers are very strong, with acknowledgement that we have assets that are mostly tangible and fairly valued, and we have good control over our capital expenditure.

SLIDE 3

We are today a rentals-vehicle centric business with a financially sound and focused set of tourism businesses. Our earnings before interest, tax depreciation and amortisation (EBITDA) are strong and, as the graph shows, have remained very positive despite the recessionary impacts. The benefit for you as shareholders is that we can, for short periods of time, create strong operating cash surpluses and thus ensure balance sheet stability is maintained. We have proved this throughout tourism impacts in the past and there is no indication that this time will be any different.

**Maui
Britz
Backpacker
Explore More
Ci Munro
Maui Vehicle Sales
Kiwi Experience
Feejee Experience
TTF – Fiji**



SLIDE 4

We are a different company to what we were in the past. The major strategic changes of the past three years have been completed and we are ready and poised for a positive future.

SLIDE 5

We have refocused the organisation over the last year towards a new operating model. The divisional approach is gone, corporate office is gone and we all operate today as a functional team working from retail premises. The business make-up today provides the opportunity for **thl** to maximise its core competencies, scale, infrastructure and brands in the rental vehicle space. The other businesses we hold provide multiple intangible benefits and, importantly, provide a return well above our cost of capital.

SLIDE 6

This year celebrates the 10th anniversary of the coming together of the Britz and Maui businesses. Whilst the first few years were difficult – especially in Australia – we now reap the rewards from the geographical spread and scale, and we will continue to see more benefits from the differentiation of both these brands along with Backpacker and Explore More.

We must remember that we hold what is most likely the second largest rental motorhome fleet in the world. This creates leverage opportunities we need to maximize. Australia now provides more than 45 percent of **thl's** total revenues and has, over the past year, provided the benefits of operating in a larger economic market. In particular, we have had great support across a comprehensive dealer network for vehicle disposals, new opportunities to expand into growing locations and the ability to stretch fleet utilisation across multiple operating seasons and locations. I see Australia as an ongoing growth market for us over the coming years, especially as we further adapt the operating model to cope with the difficulties of distance, terrain and costs associated with multiple locations.

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From inception both the Maui and Britz businesses had a thirst for innovation. Over the past 10 years **thl** has led the industry in new product development. Even through the global crisis we have continued to develop new product. This year we will again step forward and launch a new six-berth product which I will discuss later.

SLIDE 9

New Zealand has some outstanding success stories with inspiring companies that have design as a core part of their business. Examples like 42 Below, Air New Zealand, Fisher & Paykel, Icebreaker. Our aim is to be another one of those success stories – not just in product, but in creating outstanding holiday experiences, through skillful and innovative IT development and in utilising our crew to continue to take our brands forward. These are the themes for **thl** today as



we move on ambitiously towards a quick return to sustainable profitability and change the business model to deliver higher growth and returns beyond the cost of capital. We anticipate that it will take three years to see the full benefits in our results of the changes we are making today. This is the nature of our product life cycle.

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The past financial year has affected the broader tourism industry in general. There are estimates in Australia that there have been more than 30,000 job losses in the industry, and in New Zealand we know there have been impacts on development and reinvestment opportunities. Within the rental vehicle sector there should be some longer-term benefits from this crisis, particularly with the change in approach from banks and finance providers. For some time the industry (most particularly in the rental cars segment) has attracted some operators who have been able to purchase vehicles with minimal equity. They have then operated to lower compliance standards than ourselves and grown without the costs and other issues associated with completing a full fleet rotation cycle with a larger fleet.

Some of these lower tier operators may well exit the industry due to lack of profitability but I believe this will take some time yet. The rental car model (and indeed motorhomes) can survive on cash flow for some time and operators can create further cash through vehicle sell downs. This is an exit strategy available to them, and some are clearly on this path today.

During the last financial year we sold a number of businesses which has been well documented. Moving on to the results in our continuing businesses.

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In September 2008 we were entering into the unknown. Customer forward bookings had dropped dramatically into the key profit months and all operators had begun to fight on price to gain what little volume seemed available. Our lead times changed dramatically creating difficulties in forecasting and pricing.

SLIDE 12

Costs for the year were up \$22 million, or 18 percent, on the previous year. Looking from an individual business perspective, \$5 million related to the Explore More business development, \$2 million to increases in ICT infrastructure and \$1.6 million to restructuring costs including redundancies and the reorganisation of Ci Munro. Looking across the key cost codes within the businesses, increases were seen in depreciation of \$6 million, and repairs and maintenance of \$3 million. The increased depreciation reflected an increase in fleet, build costs with more larger vehicles, and an increase in rates of depreciation for older vehicles as they reached higher kilometer marks.



SLIDE 13

Kiwi Experience has just celebrated its 20th birthday! In the first quarter of the year we concluded the sale of the Kiwi Experience's fleet to Johnston's Coachlines, reducing our asset base and enabling more flexibility in departures.

SLIDE 14

We had good progress at Waitomo, with Black Water Rafting continuing to perform with increased profitability. The 2005 greenfields Ruakuri cave development is now reaching a visitation level that is seeing a strong EBIT margin being produced, with further growth expected.

SLIDE 15

There are four key operational (current business) focal points for the coming year:

1. Ci Munro Focus
2. Explore More
3. Operational Vehicle Costs
4. Productivity Improvements

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Ci Munro

We have asked serious questions about the position of this business within the **thl** portfolio. Our thorough review of the business over the past 12 months has led to the conclusion that it does have a sustainable strategic position within the business model we operate.

A greater orientation towards assembly has brought more simplicity to the business.

Productivity has increased, stock management has improved, quality processes have been enhanced and we have commenced significant cost savings, with changed production methodologies and new procurement benefits.

These changes have brought a turnaround in profitability in the second half of the financial year, with an EBIT loss of \$0.4 million compared to a loss of \$5.2 million in the prior corresponding period. Moving forward, the coming year will still be difficult for this business as we deal with lower demand. We have capacity in the facilities and will look to grow the size of the workforce again as we look forward to growth in build demand.

I have mentioned that design is a core theme of **thl's** future, and Ci Munro is a critical part of that process. A key learning, however, which is now well embedded with the board and executive, is that we must operate within our means at Ci Munro and temper any desires to



grow beyond our capability. Practically, this means we have a clear expectation for this business to deliver a cost of capital return when we return to a normal rotation cycle.

We have throughout this year proven that we do have the skills and expertise to deliver.

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A good example is the execution and commencement of the three year contract to build over 90 dental health units for District Health Boards across the country. These units are impressive in design, functionality and buildability.

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The range includes a screening unit, a drivable one room surgical unit with a towable version available, and a large towable two room surgical unit.

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We have moved very carefully into this project with the DHBs and are pleased with progress to date which is operating in line with all the original projections.

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Explore More

The strategic intent of this business was to secure our space in the price-conscious youth and discount markets, keeping competitors from moving up the value chain and enabling a longer life for our smaller non-toilet shower product. I am confident this strategy was correct and we are achieving all these goals. Explore More did drive revenue and grow **thl's** market share, however the yield achieved and pressure on demand meant we had an EBIT loss of \$2.5 million for the year. As a result we have embarked on a cost reduction program to enable us to maintain the strategic imperatives without creating a drag on the result. Operating at this end of the market is different and we have had to adapt the back end procedures to create much greater leverage of the broader **thl** systems, people and infrastructure. We are on track at this point in the turnaround, and we expect the business to deliver to this year's expectations, and to be beyond the breakeven point in the 2011 financial year.

As we refine the operation and gain greater confidence in the operating model we will continue exploration of new markets within the discount sector with this brand.

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Operational Vehicle Costs

The past year has seen considerable increases in the purchase prices of materials, and in the number of accidents we have been exposed to (which appears to be nothing more than a statistical anomaly). In addition, we have made an investment in improved technology to lower future operating costs.

There are a number of work streams in place across the business to reduce these costs over time, but the safety of our customers will not be compromised and we need to continue to provide enhancements in the experience for customers.

Nuts and bolts activities like using technology and design to minimise customer mistakes (like leaving the hand brake on while driving) and leveraging procurement benefits with other partners will create greater margins and deliver the results we require. Another great example is the increased use of solar panels on product, enabling greater flexibility for the customer, improving battery life for the vehicle and, over time, reducing costs.

Such operational considerations are, for this business, critical to the EBIT per vehicle returns we expect.

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Productivity Improvements

From September last year we instituted a focus on aligning labour levels in the business to the decline in demand. Throughout this process we were careful not to target direct customer facing roles, and focused on reducing activity in support areas as well as the realignment of Ci Munro. This did provide some financial gains for the business, but productivity improvements for **thl** today mean focusing on the following:

- Creating a more engaging and efficient customer experience, from prior to booking until well after the holiday
- Improving the costs to produce and take rental vehicle products to market
- Improving the life and utilisation of the vehicles

The investment we have made in technology is enabling a lot of this change, along with the committed approach of the crew to simply do things differently.



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The operating cash flow for the business last year excluding fleet purchases and sales was \$31 million, the same as the prior year. Last year's fleet capital expenditure of \$71 million included a catchup in production from Ci Munro as a result of the productivity and supplier issues that hindered 2007 and 2008.

The ongoing challenge for the business is to manage the capital spend in line with demand increases and reduce the lead time on vehicle production to maximise demand at short notice.

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Our vehicle sales were in line with expectations throughout the year. Whilst total sales of motorhomes in New Zealand and Australia appeared to reduce, we benefited from customers moving away from newer purchases and entering the market with our second hand product. Anecdotal evidence also suggested that, with a lack of confidence in the financial sector, some customers were more willing to commit to a hard asset at an earlier point in their lives than they would otherwise have been.

SLIDE 25

The Way Forward

The *thl* business model is simple.

Today we are ensuring we stay **equally** focused on the three key elements of the model.

Build -- with a value-for-money proposition

Rent – in multiple markets to multiple segments

Sell – at varied stages of life to enhance value

Within this model we have over the past year embarked on, and completed, a number of initiatives positioning us well for the future.

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Our brands

We have the broadest and most well known collection of rental motorhome brands in our markets. On review we are clear that all of our brands have a place in the market however they have been operating too closely. We are now in a position to expand the space between these brands and stretch them beyond their current differences.



Maui – has a classic positioning as a premium operator. We will enhance this positioning and move further towards the high end of the market.

Britz – this year reached new highs in brand awareness in both New Zealand and Australia. With the broadest product range, the Britz brand has the capability to expand the total market size, making the type of experience we offer accessible to a wide variety of customer interests.

Our **Backpacker** brand has no limits on the target customer age. This brand has grown in stature as customers demand more choice about what they include in their holiday packages and to make the decisions on the components that are important to them.

Explore More has an edge and attitude that lends itself to the discount and youth market, and is very upfront about being a true low-cost operator.

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New Initiatives

We have opened a new retail branch in downtown Auckland. Located on the CBD fringe, this site now also houses a number of the business support teams. Recently, we also opened a new agency in Ballina on Australia's east coast, leveraging the Brisbane operation and fleet.

SLIDE 28

One of the initiatives in place is our new six-berth design. Whilst still under construction, the prototype vehicle is meeting all our original objectives, as indicated on the screen.

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The vehicle has been through a rigorous and comprehensive design process. The result is simplicity, quality and more space for customers to sleep, relax and enjoy.

SLIDE 30/31

Leveraging the investment and strength in information technology is critical. For us, this is more than just online sales – it is utilising the skills our crew have to enhance the holiday experience. Over the next year we will be launching new pre-travel communication options including DVD show throughs utilising both technology to a greater degree and our 24/7 reservations team.



SLIDE 32

Another new enhancement will be an online and onsite Self Check In facility. We don't strive to meet the style of experience you can get today when checking in for an airline flight at the touch of a button or the swipe of your phone – but there are clear ways these technologies can apply to help us grow our revenue and improve the experience of the customer.

The activities we are undertaking may be replicated, but with both Microsoft MOSS technology and our own reservations and fleet management systems we now have the ability to complete more of these initiatives, faster and at a significantly lower cost than competitors... and to adapt them across brands and markets with ease.

It should be an annual theme to comment on the growth and importance of online travel. We have again had a record year in online sales due to additional marketing and website functionality improvements.

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We were pleased recently when our Kiwi Experience website won a Microsoft Partner award in the social media space.

As in previous years, the Kiwi Experience business has given us a platform to trial new technologies.

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Today our drivers blog with their customers from past and present, we help customers share what they are doing through multiple social networking sites even while they are on the journey with us, and we go searching for compliments and complaints to ensure that we listen and act as we should.

Remaining authentic and honest through these processes is important, and reminds us no one can hide.

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Waitomo

The Waitomo group of businesses has performed well over the past year and maximised every dollar of revenue.

We would obviously have preferred to have had the rebuild completed at least two years ago, but we are moving forward today at pace. The result should be an iconic building.



SLIDE 36

The new building will have increased revenue generating facilities. This gives us confidence to more aggressively market our product after nearly four years since the fire. We are strongly targeting growth in visitor arrivals to the area from both domestic and international visitors.

We are positioned for long-term growth in Waitomo and we have a complimentary set of products that require little ongoing capital investment to deliver the experience.

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The building is on budget, with weather being the only notable cause of delay. We expect the core building to be completed in the first half of the 2010 calendar year, but we will commence new marketing only when the full business is operational towards the September school holidays, to maximise the high season opportunities.

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Tourism Outlook

From a *thl* perspective, demand remains uncertain in both Australia and New Zealand.

We are very fortunate in New Zealand to have the Prime Minister remain such a positive voice for the industry. At a time when the government has committed to holding expenditure in general, it remains focused on finding ways to enable tourism to receive more funding and deliver greater returns to the economy. We applaud the recent announcement of \$20 million additional funding. In Australia, additional funding of \$9 million has been announced and the economic stimulus package has, in our view, created clear benefits in ensuring that tourism infrastructure remains up to date. In the last financial year we had a tax gain of \$1 million as a result of the additional investment allowance the Australian government allowed for capital expenditure put in place by June 30th 2010. This initiative did encourage us to spend more in fleet development in Australia.

Both national tourism marketing organisations have new leaders starting in January 2010. I offer *thl's* support and encouragement to both Kevin Bowler in New Zealand and Andrew McEvoy in Australia. Both have indicated a stronger push towards online growth and, as indicated, I believe we are well positioned to benefit accordingly.

We would also like to see Tourism New Zealand and Tourism Australia work more closely together to benefit the region as a whole. The work on easier customs and border access, for example Smart Gate, between the two countries is a good example of the benefits that can be gained.



History shows that tourism will recover, and there is enough airline capacity in the world today to ensure it continues to grow. The two-to-five-year outlooks from both Tourism Australia and Tourism New Zealand all indicate positive growth.

Airline capacity and pricing are two critical issues we are watching closely to assist in assessing future demand.

In recent times Australia has seen increases in the number of airlines operating, the number of flights operated by discount players and the capacity of aircraft on key routes. We all know there are great specials on many routes around the world, and there is little doubt this is stimulating demand and balancing issues with the exchange rate changes. How long this will last we don't know... but it is creating new customer behaviours, as indicated in the annual report.

Currency is always an issue for tourism when at the current high exchange rates. The immediate impact may be greater this year on the backpacker market segment. The recession doesn't appear to have stopped backpackers travelling however their spend on the ground certainly diminishes as the currency moves upwards.

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More importantly for us, we continue to watch consumer confidence in key markets as an indicator of future potential.

SLIDE 40

This leads to the inevitable question of expectations for visitor arrival numbers. As mentioned in the annual report, we agree with the forecasts provided by Tourism Australia and Tourism New Zealand. For our general market mix this still indicates a drop in visitors of between three and five percent, although we now believe it will be closer to three percent.

Looking further forward, we believe there is enough confidence for gains in the 2011 financial year.

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We need to stay flexible in our approach at the moment, and be ready for demand lifts when they commence.

Keith has indicated our views on the first half forecast loss of between \$1 million and breakeven.



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Strategic Direction

Today we need to both improve our underlying business performance and continue to conservatively develop new growth opportunities within the markets we operate in.

I have discussed the improvement paths for both Ci Munro and Explore More and I look forward to reporting positive improvements in both those businesses at this time next year.

We will continue to grow core profitability in our existing operating markets.

Our balance sheet is strong and we have kept a close eye on various and different opportunities in Australia, New Zealand and the United States. We believe we could grow further today and will not discount opportunities, but we stay mindful of the uncertainty in the environment.

In conclusion... we have had a difficult year. We now have fewer people, and with the number of projects on the go they are all doing more. The focus of the executive has moved to the next stage of development following the strategic realignment, and we are focused on achieving a quick recovery in profitability.

As I approach the conclusion of my first year in this role I know that we have as a company stepped forward from an established strong foundation despite the ground moving around us. We are moving at pace today, and I can assure you all that you have a management team that is aligned and focused on change.

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Thank you. I will now pass back to Keith.