

# Market Update

USA Capital and Operational Review

27 May 2019

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- **We expect our USA business to generate positive operating cash flow in FY2020 of approximately US\$35M.**
- **FY2020 capital expenditure in the USA business has been lowered by approximately US\$40M from our previous plan.**
- **FY2020 fleet size for both Road Bear and El Monte RV will be lower than in FY2019 and FY2018.**
- **Targeting a reduction in funds employed in the USA business of approximately US\$20M by the end of FY2020.**
- **Decisive changes have been made to the organisational structure of the USA business.**
- **We expect to emerge from the current market conditions in a stronger position within North America.**



**Our strategy and direction are right.**

**We need to keep acting, reflecting, changing and upping the ante on delivery.**

Despite the current market conditions, our USA performance for FY2019 to date is unacceptable. At *thl*, we are of the view that we should be able to deliver regardless of what the broader market conditions are doing, given our relatively small size compared to the total size of the market.

We've had a detailed review and have a clear plan, which has commenced at pace.

Given today's market conditions, we expect that our USA FY2020 result will also be impacted. However, there is nothing which indicates our fundamental Build/Buy, Rent and Sell model is broken or that we have a poor business.

We do not see the current performance being a long-term issue.

We have reviewed our company strategy and remain confident in our direction despite these immediate USA issues.

We are extremely focused on getting the USA business back in shape.

# THE FOUR PILLARS OF OUR REVIEW

## PEOPLE

Ensuring we have the right people and capability in the USA.

## OPERATIONS

Ensuring we are even tougher about reducing costs and extracting synergies between Road Bear and El Monte RV.

## THE FOUR PILLARS

## REVENUE

Continued strong focus on growing the international rental market and adapting our approach to the domestic market.

## CAPITAL

Reducing capital to reflect softer market conditions. FY2020 purchase decisions are the point of impact.

## USA VEHICLE SALES UPDATE

### Tourism Holdings - Gain on Sale of Fleet Assets - Road Bear & El Monte RV

US\$M	10 Months ending 30 April			
	FY19	FY18	VAR	VAR %
Proceeds from sales of motorhome fleet	33.4	54.3	(20.9)	(38%)
Net book value of vehicles sold (incl writeoffs)	29.1	45.8	(16.7)	(37%)
<b>Gain on sales of motorhome fleet before selling costs</b>	<b>4.3</b>	<b>8.4</b>	<b>(4.1)</b>	<b>(49%)</b>
Vehicle sales costs (warranty only)	0.2	0.3	(0.2)	(47%)
<b>Gain on sales of motorhome fleet after selling costs</b>	<b>4.1</b>	<b>8.1</b>	<b>(4.0)</b>	<b>(49%)</b>
Gross profit on non-fleet vehicles, retail and accessory sales	0.7	0.7	(0.0)	(4%)
<b>Gross profit</b>	<b>4.8</b>	<b>8.8</b>	<b>(4.0)</b>	<b>(45%)</b>
<b>Total average gain on sale (\$000) after selling costs</b>	<b>6.0</b>	<b>7.2</b>	<b>(1.2)</b>	<b>(17%)</b>
<b>Total fleet motorhomes sold (units), excl. buybacks</b>	<b>683</b>	<b>1,120</b>	<b>(437)</b>	<b>(39%)</b>

## OUR VIEWS ON THE USA VEHICLE SALES MARKET

- The USA vehicle sales market has declined.
  - Over the prior six months we estimate that the wholesale market is down 40% by volume and the retail market is down 10% by volume (against prior corresponding period)\*.
- The anticipated seasonal uplift in vehicle sales has not materialised.
- Heavy discounting from retailers, manufacturers and rental companies has occurred, creating margin pressure.
- We expect this margin pressure to continue for the next 12 months, when wholesale volumes are expected to grow.
- We will continue to assess the market conditions and adjust our pricing, as required.

\* *thi* management estimates.

- We have implemented a number of organisational changes in the USA.
- Gordon Hewston will be appointed as the new “General Manager – USA RV Operations”. Gordon is currently the Vice President of El Monte RV.
- In his new role, Gordon will be reporting directly to the CEO, Grant Webster.
- Hannes Rosskopf, currently General Manager of Road Bear will be leaving the business.
- Daniel Schneider (previous owner of Road Bear), currently a consultant to *thi* in respect of USA operations, will have greater responsibilities in the adapted role of “Executive Director – USA Operations”. Daniel will have a particular focus on vehicle sales and will report directly to the CEO.
- Jerry Hunter, an experienced RV sales leader, has recently been appointed. Jerry will be responsible for wholesale vehicle sales in the USA, and will work with the existing vehicle sales teams.
- We are also seeking an additional leadership position for the USA who will report to Gordon. We expect to hire a person from within New Zealand, with specific complementary skills that we desire in the USA.

### PROPERTY CHANGES

We have conducted a profit-by-location review in the USA. As a result, we will be looking to franchise or exit up to five locations.

We expect that the implementation of these changes could result in ongoing annual savings of approximately US\$500-800k from FY2021.

We would give up some future revenue as a result, but we are confident the change would be positive for our return on funds employed.

### PEOPLE

We see an opportunity to reduce labour costs in certain support areas over the coming two years, as a result of improvements in underlying systems and the full integration of the USA with our New Zealand and Australian models.

We are targeting ongoing annual savings of approximately US\$1M from FY2021.

### GENERAL OPERATING COSTS

We are implementing a general cost reduction plan in the coming year across the *thl* group.

We are currently working through a bottom-up process across the USA business to identify deliverable cost savings from FY2021.

## **Reviewing our Capital Expenditure Decisions**

- In light of our review, FY2020 capital expenditure in the USA has been lowered by US\$40M from our earlier expectations. Fleet size for both Road Bear and El Monte RV will, therefore, be lower in FY2020 than in FY2019 and FY2018.
- There will be a small increase in average vehicle age (less than 0.5 years) as a result of lower FY2020 vehicle purchases. This will not change the quality proposition to our customers, as we have reduced the average fleet age in recent years giving us the ability and tolerance to age our fleet with minimal impact to the customer proposition and P&L.
- Our fleet size and FY2020 capital expenditure decisions have taken into consideration and balanced the flow-on impacts to FY2021 rental and sales revenue.

## **Reduced Funds Employed in the USA**

- We are targeting a reduction in funds employed in the USA of approximately US\$20M by the end of FY2020.
- Approximately 80 new vehicle purchases initially intended for Road Bear in FY2019 will remain in our storage facility in Middlebury. This will reduce costs associated with holding this fleet because:
  - The vehicles will not be registered until FY2020.
  - Depreciation on these vehicles will be at a lower rate prior to registration, reflecting that there will be no mileage on those vehicles.

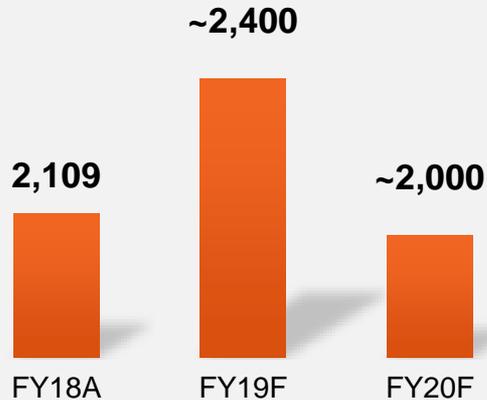
USA Gross Fleet CAPEX US\$M



USA Net Fleet CAPEX US\$M



USA Fleet Size \*



\* at year-end

# GUIDANCE

- We reaffirm our intention to declare a FY2019 final dividend of 14 cps, keeping our total FY2019 dividend in line with FY2018.
- We reaffirm our previously stated FY2019 net profit after tax guidance of between NZ\$25M - \$28M\*.
- Included within this guidance is the impact of one-off costs relating to an issue with an Australian vehicle dealership and a historical New Zealand holiday pay issue, the combined impact of which is expected to be circa. NZ\$1.5M.
- We expect *thl's* net debt at the end of FY2019 to be approximately NZ\$240M, slightly higher than previous guidance and reflective of the decline in the vehicle sales environment.

*\* As per previous guidance, this range excludes a potential one-off Australian tax issue, which thl continues to challenge.*