WE ARE THE LARGEST RENTER OF MOTORHOMES IN THE WORLD*

We’ve come a long way in a short time. It’s not that long ago that we made the call to acquire competitors and consolidate a fragmented industry, secured beachhead operations in the northern hemisphere, whittled back our fleet to a more flexible and agile core, and embraced design thinking and digital technologies to deliver a superlative customer experience.

Our business model now draws together all aspects of the motorhome market including manufacture, sales and rentals including peer-to-peer. And linking this to tourism opportunities is proving a sound strategy again and again. Our share price and EBIT have grown and NPAT is accelerating well ahead of earlier projections. Now, having acquired El Monte, your company is big in America and set for further growth by repeating the successful formula in the world’s biggest market.

The road ahead is clear.
We are customer centric first and foremost. We have more branches and more operations, reaching more people in more countries than ever before. Our operations envelope the globe and all the seasons in both hemispheres.

* All fleet numbers are as at 30 June 2017
** RV Rentals & Sales branches
Like many industries, if you're not big in America then you can't be big in the world. Our acquisition of El Monte, the second biggest motorhome operator in the USA, positions our business for growth.
WE HAVE A SMART, FLEXIBLE BUSINESS MODEL

Our business model is focused on applying our deep understanding and experience in the RV industry to maximise value from all aspects of the RV user and owner ecosystem, and the life of the vehicles on fleet. We have applied this model most effectively in New Zealand, and now have the opportunity to apply it more globally.

We now have a smart, flexible mix of RV ownership models from long-term ownership, short-term flex-fleet to the peer-to-peer market.

Our customers are experience seekers and we seek to connect more deeply with them, including the use of new digital technology.
Having achieved our previous long term goal of $30M NPAT two years earlier than planned we have now reset our goal to achieve $50M NPAT by FY20.
Highlights

Key financials

<table>
<thead>
<tr>
<th></th>
<th>30 June 2017</th>
<th>30 June 2016</th>
<th>30 June 2015</th>
<th>30 June 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of services</td>
<td>226</td>
<td>189</td>
<td>167</td>
<td>162</td>
</tr>
<tr>
<td>Sales of goods</td>
<td>115</td>
<td>90</td>
<td>70</td>
<td>66</td>
</tr>
<tr>
<td>Total revenue</td>
<td>341</td>
<td>279</td>
<td>237</td>
<td>228</td>
</tr>
<tr>
<td>Gross profit</td>
<td>248</td>
<td>204</td>
<td>176</td>
<td>169</td>
</tr>
<tr>
<td>Other expenses</td>
<td>200</td>
<td>165</td>
<td>144</td>
<td>146</td>
</tr>
<tr>
<td>Operating profit before financing costs (EBIT)</td>
<td>48</td>
<td>39</td>
<td>32</td>
<td>23</td>
</tr>
<tr>
<td>EBITDA</td>
<td>88</td>
<td>74</td>
<td>66</td>
<td>60</td>
</tr>
<tr>
<td>Net profit after tax (NPAT)</td>
<td>30</td>
<td>24</td>
<td>20</td>
<td>11</td>
</tr>
<tr>
<td>Operating cashflow</td>
<td>15</td>
<td>13</td>
<td>24</td>
<td>44</td>
</tr>
<tr>
<td>Total equity</td>
<td>194</td>
<td>172</td>
<td>173</td>
<td>160</td>
</tr>
<tr>
<td>Total funds employed</td>
<td>470</td>
<td>334</td>
<td>318</td>
<td>296</td>
</tr>
<tr>
<td>Return On Funds Employed (ROFE)*</td>
<td>14.3%</td>
<td>15.1%</td>
<td>12.9%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Basic earnings per share (cps)</td>
<td>25.6</td>
<td>21.4</td>
<td>17.9</td>
<td>10.0</td>
</tr>
<tr>
<td>Dividends per share (cents)</td>
<td>21</td>
<td>19</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>Net debt/net debt + equity ratio (excluding intangible assets)</td>
<td>54%</td>
<td>34%</td>
<td>31%</td>
<td>36%</td>
</tr>
</tbody>
</table>

The document, in conjunction with the Annual Financial Statements 2017, constitutes the 2017 Annual Report to shareholders of Tourism Holdings Limited.

* ROFE measured as EBIT divided by average net funds employed.

Key highlights

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$47.7m</td>
<td>$624</td>
<td>$341m</td>
</tr>
<tr>
<td>Net Profit After Tax</td>
<td>$21</td>
<td>$15</td>
<td>$30.2m</td>
</tr>
<tr>
<td>Fleet numbers*</td>
<td>5,624</td>
<td>24.4</td>
<td>20.1</td>
</tr>
<tr>
<td>Final dividend</td>
<td>11cps</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic earnings per share</td>
<td>25.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings before interest and tax</td>
<td>$47.7m</td>
<td>$21</td>
<td>$30.2m</td>
</tr>
</tbody>
</table>

* Including Just go (UK).
Dear shareholders

On behalf of the Board, I present the accounts for the 2017 financial year. In this report I will provide you with a brief overview of the business performance and outlook.

The result
This year was the third record result for thl in a row. The Net Profit After Tax (NPAT) of $30.2M was up 24% on the prior year. Revenue grew 22% with El Monte included and 10% on a like-for-like basis.

This result was primarily driven by a 57% increase in EBIT performance from our New Zealand rentals business.

We finished the year with Net Debt of $176M, which is up $79M on the prior corresponding period (pcp). We will maintain a Net Debt to EBITDA ratio of around 2.0x going forward.

The final dividend of 11cps brings the total to 21cps for the full year, up from 19cps in the pcp. We can achieve our current growth targets with the existing capital structure of the company, including a dividend pay-out in the range of 75-90% of NPAT. The final dividend will be fully imputed to utilise existing New Zealand imputation credits. We will likely resume a 50% imputed dividend in calendar year 2018.

NPAT targets
In 2015 we set a target for the business to reach $30M NPAT in FY19. This goal assisted the business to direct energy in the areas that would really make a difference. It is pleasing for the business and shareholders to deliver to this target two years earlier than originally planned.

In December 2016, with the announcement of the El Monte acquisition and associated transactions, we announced a new target for the business – $50M NPAT in FY20. Alread within the six months since that announcement, we have, again, seen the business galvanise around a target and ensure the plans and energy direct towards this goal.

With the first full year of the El Monte business within the portfolio, we are confident of a strong increase in profitability this year, as a whole, as we step toward that FY20 goal, in line with our plans.

Views on the business
In the annual report in FY19, I said we could not yet claim to be a successful company, but we will be. I also said "we have high expectations for the company". Today we are achieving a return on invested capital, or ROFE, that is above our internal benchmarks; however, in this tourism industry environment, we should be.

Ongoing growth, consistent ROFE and a sustainable business over the long term will be the hallmarks of a successful thl. We maintain those high expectations of the company and have set goals accordingly. We now have a business that responds to those kinds of goals and is constantly Renewing them.

The FY17 year was dominated by the announcements we made in December 2016. We announced a substantial acquisition with the purchase of El Monte Rentals and Sales and a suite of other initiatives for North American growth.

It is unusual for publicly listed companies to set a target such as this, three years out. There is risk of setting expectations too high, with a corresponding backlash from investors and analysts if targets are missed by the smallest degree. We are not arrogant about our ability to achieve this goal; we are just being transparent. We don’t believe we have been overly aggressive in our assumptions and are not relying on metrics such as excessive yield increases to achieve the goal.

We have the strategy, the resource, the business brands and operating model that can, in a reasonable tourism economic climate, achieve this goal. As a result, what we have created is strength in direction, commonality of purpose and certainty in targets. The team have responded exceptionally well. We will report on our progress towards this goal and remain open about where we may be ahead or behind.

Along the way we are taking some risks and, in today’s environment, we should. We will not stand by and watch the world change around us. We are investing in current loss-making businesses, but those businesses will either perform and add value to the business in due course, or we will adapt or stop them. We watch carefully, as a Board, the metrics which we use to measure these businesses and what they may add to the future thl, as well as thl today.

Platform for growth
In the December release I stated, "we are positively resetting the expectations for thl. These transactions leverage our current business, skills and balance sheet. We are making the right steps to be truly global in our platform".

We see the global RV market, as one that can grow with the ever-increasing desire for tourists (owners and renters) to be genuine experience seekers. We believe this is a market segment that will grow. There are opportunities for thl in the markets we operate today and in new markets around the world.

To maximise this opportunity for growth, we need to remain focused on ensuring we are building technology skills and capability that can be deployed in an easy and practical manner and enhance value. We have key technology investments we have commenced in recent years and we are gaining intellectual property as we continue to develop these businesses and our understanding of how customers will operate into the future.

Sustainability
You will see a few references in this shareholders report to the first annual Sustainability Report for thl.

We are committed as a Board to sharing what we do today and what we are aiming to do tomorrow from a sustainability perspective. We know what we need to do and we are progressing as a business. As a Board, we are encouraging management to build sustainability thinking into everything the business does. Grant will cover more of that in his report.
Chairman's letter (continued)

Goverance
From a governance perspective, we welcomed Debbie Birch as to the Board at the Annual Meeting. We are comfortable with six members of the Board and are pleased with the level of gender diversity. As a total business, we have reported the gender diversity mix in the senior leadership positions. We are holding the business to account regarding diversity. Any senior position must have a mix of genders in the final assessment pool. We welcome an increased scrutiny in this and other areas of diversity within the business. As per the company values, we will do “The Right Thing”.

As a company we have adopted the NZX Corporate Governance Code 2017 early. We are comfortable with the level of disclosure as we balance the needs to inform our shareholders and maintain the appropriate level of commercial sensitivity. Our executive has challenged themselves to ensure we are providing the right level of information in this report and the investor presentations to assist you to assess the performance of the business. We will also continue to review other recommendations from entities such as the New Zealand Shareholders Association. Creating an opportunity where shareholders, small and large, feel well informed and a sense of surety is a focus of the Board.

From a compliance perspective, we are keenly aware, as a Board, that compliance requirements are growing everywhere. In particular, we have improved our cyber security plans in the last twelve months, continued to review the state of our risk register and mitigation processes, continued the focus on health and safety and we are preparing for the changes in data privacy from the European Union and other jurisdictions. Across all these elements, and more, we will continue to drive a culture that does the right thing and empowers the crew to manage the situations they are in, in the best way possible.

The Board has recently completed another review of its performance and will continue to review and challenge both what we do for the business and how we operate as a Board in line with best practice.

Next steps
We are in a dynamic period for the industry and thl
Tourism is a growth industry internationally and we need to continue to be mindful of the short events that impact tourism when considering our balance sheet and we need to continue to consider the reasonably low barriers to entry that apply in the core motorhome business.

We are confident that our stress testing of the balance sheet and our high level of fleet turnover provides us with an adaptable business that can withstand shock events such as those that have occurred in the last 20 years.

From a competitive standpoint, we remain focused on two simple things. Firstly, we are prepared to innovate in a disciplined manner to increase our competitive advantages. Mighway, our investment in Roadtrippers, the telematics development, the re-development of our core technology and the expansion of the flex fleet initiatives are all examples of where we are adapting and leading the market. Secondly, as we grow we will use the scale benefits to stay competitive. We do consider, for example, that the New Zealand rentals business is now delivering a Return On Funds Employed and EBIT margin that is acceptable. We will increase margins through effective cost improvements, but look to put some of that efficiency back into greater value for the customer.

Outlook
As I mentioned earlier, we remain on track with the NPAT target of $50M in FY20. The stop this year should see us deliver somewhere between $36M and $39M NPAT. This is a reasonably wide range; however, the USA high season and Australian Northern Territory seasons are yet to be completed and we are yet to enter the 17/18 peak booking period. We will look to narrow the forecast at the Annual Meeting in October.

Within this forecast we will note that the El Monte rentals revenue in the calendar year 2017 will be below our original business case expectations. This reflects the European views on the USA political situation and the USD exchange rate when compared to Canada, which is clearly taking market share from the USA as a destination of choice. We are very confident with the plans for El Monte and the ability to deliver in the medium term. Vehicle sales and underlying business changes are well in line with expectations.

Customers and team
Finally, I would like to thank all our customers around the world, who have chosen to travel with us. We appreciate your business. And to the thl team, on behalf of the Board and all shareholders, I would like to thank you for the effort and energy we see across the business around the globe on a daily basis.

We are always either operating in, or preparing for, a high season somewhere in the world now and we never have a “slow period”. Thank you.

Rob Campbell
Chairman

Chief Executive Officer’s report

It is a pleasure to report another record profit for thl in the FY17 year. Pleasingly, revenue growth has been the primary driver of the improvement this year. There are a number of achievements within the result which should be celebrated, and yet we can clearly see more opportunities for improvement as we head towards the FY20 goal of $50M NPAT. As indicated by the Chairman in his report, the New Zealand rentals business result is clearly the highlight for the year.

The year’s review should be dominated by the announcements we made in December 2016. The acquisition of El Monte to take us to a clear number two position in the USA, the investment in Roadtrippers – a leading travel and technology company in the USA – and the pilot of Highway all reset the way we think about the USA.

We have, in reality, operated as a New Zealand and Australia centric business with a very profitable business in the USA (Road Bear). Today, everything we do considers the global position of thl from the joint venture in the UK, through the USA and down to Australia and New Zealand. We are growing globally and are acting in a manner that will deliver scale benefits from our position as the largest RV rental business in the world.1

In the coming financial year, I am entering my tenth financial year as CEO of thl. It is one in which I expect we will, again, deliver another record result for thl and achieve some more significant milestones as we challenge the business and the way we operate from the bottom up. We have technology plans to deliver, we have new ventures to manage and we have new growth we still want to explore.

We operate within the broader tourism industry in New Zealand and the much broader RV industry on a global basis. If you look at the USA RV manufacturing outlook for the 2017 calendar year, the expectation is that there will be very close to 500,000 new RV’s manufactured in 2017; a new record and a real reflection on the very positive underlying dynamics in the industry.

The RV Ecosystem
There is a danger in any business being captured by buzz words and “the RV ecosystem” sounds like one. Whilst remaining mindful of that risk, we are focused on what the end business opportunities of the RV space offers thl from a growth perspective. The New Zealand rentals business we operate is the most integrated within the RV ecosystem and yet still has significant opportunity. We are building, buying, renting, selling, operating peer-to-peer, servicing RVs and selling ancillary services through traditional and new digital channels.

In the past year we have continued to develop our own intellectual property to engage with rental customers and owners within the RV industry. We are in the early stages of really penetrating the market, however the indicators are positive. What this means for revenue is that we have increased our service revenue in New Zealand, increased our revenue through the digital platforms (Roadtrippers and CamperMate) and we have delivered well over $1M in revenue to owners in New Zealand through the Highway platform.

These kinds of lower capital, but lower margin, opportunities will, in my view, be a larger part of thl’s growth into the future, as we create a platform for global RV growth. We need to stay true to our challenger spirit and continue to invest in a disciplined manner.

1 Based on thl minutes of owned fleet.
Chief Executive Officer’s report

The result

We encourage all shareholders to review this document in conjunction with the financial statements and the investor presentation. We have endeavoured to clearly and consisely provide a business-by-business overview, whilst providing a broad overview of the metrics of the business model. The divisional results are covered in this section and I will only summarise the key salient points in this report.

It is a reality that we have a variety of businesses that are at all a different stage of development in different operating market conditions with different capabilities. We recognise this and will invest in both the leaders and the laggards, as required.

The NPAT result of $3.0M was impacted by only having the low season EI Monte performance. Without EI Monte, on a like-for-like basis, the result would have been over $31.0M. The interest impact of close to $2.0M before tax is the largest negative impact.

EBIT of $47.7M was an increase of 23% over the prior year. All businesses had an increase in EBIT over the prior year in operating currency. The USA Road Bear result was slightly down year-on-year in NZD terms and was well forecast to the market, as we invested in operational resource to meet the much higher fleet volume we operate today.

We have discussed Return On Funds Employed (ROFE) as a key focal point for the business and it remains so regardless of the operating market. We need to see either strong delivery of a sustainable ROFE or a very achievable clear plan to achieve a benchmark result in a reasonable time frame. In the prior business, we delivered 3.4% ROFE in FY17, down from 5.1% in FY16. This reflects the low season EBIT of EI Monte with the full funds employed. Without EI Monte, the ROFE result was close to 17%, a positive improvement on FY16.

This is a pleasing result, given our internal benchmark of 16%, the investment in the list of Moderate step and the increase in overall fleet size and revenue. It is one indicator that we are making the right capital decisions or we are able to adopt more rapidly when we miss the mark. Australian rentals this half was an area where the increase in overall fleet size and revenue. It is one indicator that we are making the right capital decisions or we are able to adopt more rapidly when we miss the mark. Australian rentals this half was an area where

Sustainability

As indicated by the Chairman, we have launched the inaugural Sustainability Report for FY17 in line with this shareholder review. The report has been completed in line with the Global Reporting Initiative (GRI) standards. Without repeating the detail of the introduction to that report, it is worthwhile highlighting where we are at from a sustainability perspective.

We do consider ourselves a responsible tourism operator. We are often leading the way within the industry segment that we operate and we will continue to do so, as we have goals we want to achieve and we want to be confident we are making a positive contribution to the broader environment we operate.

We have three sustainability pillars – Protect, Respect and Grow. We also have five key sustainability focus areas:
  - Climate Change
  - Responsible Travel
  - Nurturing Our Crew
  - Embracing Our Communities
  - Shareholder Satisfaction

This is also the first year we have started to measure our carbon footprint in parts of the business. It’s a start, but there is more to do. We hope you see the Sustainability Report as an honest assessment of what we do today, a demonstration that we are taking this seriously and an admission that we have a lot more we can do.

As an organisation, we will do the right thing by the environment, our shareholders, our crew and the community.

Business capability

Today we have six previous owner-operators in key roles in the business, from the Board through to the joint ventures and in key leadership roles. There is little doubt the benefit from this is that comes from an owner-operator mentality. Yet we also have a very established senior executive team and have been a business and, importantly, an experienced broader management group that have continued to develop, change roles and deliver.

We continue to develop the crew within the business and we will invest in them throughout all operating businesses.

Tourism outlook

The Chairman provided an update on the company outlook and forecast for FY18 and we will provide a further update at the Annual Meeting.

In the investor presentation pack, you will see some information on the broader tourism outlook in each of our operating markets. The following summarises our general views in the key markets.

New Zealand

Rentals
We consider the tourism market remains positive and the outlook for the 17/18 summer strong. We have positive early bookings and expect growth in line with our fleet growth in the coming year. We have been operating a maximum peak season utilisation for the last two years and continue to drive shoulder season revenue in line with the current Tourism New Zealand strategy.

There has been commentary that hotel yields have been deterring demand and New Zealand is too expensive. On a national level we do not see this as the average hotel yields have dettered demand; however, we have seen some capacity constraints in some areas of our business. We expect our yields to increase at a reasonable and sustainable rate and we will always remain aware of the subjective lines of our product to other self-drive and accommodation options.

Sales

Vehicle sales in the USA reflects the growth in the broader RV market. The FY17 year was a record year for Road Bear; and EI Monte achieved the highest second-half sales that it has on record.

UK

Rentals
International and domestic demand continue to grow. The exchange rate in the UK is enabling a strong growth period short travel to the UK, with a higher spend per customer.

Sales

UK has grown vehicle sales through the New Zealand IH relationship, and locally. The market is strong in line with the general European RV market. Growth is expected in the coming year.

Summary

We are pleased with the results for the year, but not satisfied. Whilst a record result, the leadership team can see the opportunities for further improvements and the business is excited by the new developments within the business. We operate in an industry that in a growth phase, we deliver compelling experiences and we are a business that has improved, is still improving and is prepared to take some careful risks for future substantial growth. The crew in the have been passionate, committed and work tirelessly. We are in a good space, but remain far from complacent. We have set a target for FY20 and are determined to achieve.

Grant Webster
Chief Executive Officer

Technology development

Throughout FY17, we commenced three key technology projects which will all come to fruition in FY18. We are in the process of rebuilding the booking and reservation system to meet today’s needs, signalling the enterprise resource planning system to bring all businesses into the same cloud-based system and developing marketing automation capability to further improve our customer community engagement.

Each project is being tightly managed and is, as a whole, operating well within budget expectations. We will provide a general update on the progress of these projects as we progress, without detailing some of the commercially sensitive aspects of the development.

Alongside the initiatives, we will continue to develop the existing telematics technology and increase the tools we offer our owners.

Lastly, we will continue to explore options around electric vehicles and their place in the RV market. It is very early days, and a R&D project; however, we are excited about the product options that will undoubtedly develop over the coming year. We will have a prototype ready for trial this calendar year; however we see it as unlikely to have a fully commercialised product in this coming financial year.

It is a reality that we have a variety of businesses that are at all a different stage of development in different operating market conditions with different capabilities. We recognise this and will invest in both the leaders and the laggards, as required.
Interview with Grant Webster

There is no doubt that internationally we are in a period of growth for tourism. Here in New Zealand, in particular, it has been another year of positive demand and yield growth. Within Apollo we can see we have not only ridden the wave, but we have also created growth through new initiatives, smart use of capital and, importantly, we have also invested for the future. The changes we have made in which motorhomes we build and where we have made some positive choices on the back of a positive market environment.

Some analysts and investors have questioned whether TM is now overvalued and, with low barriers to entry and a high capital intensity, there is only downside from here. You are trading at over three times Net Tangible Assets. What is your response to these views?

We are aware of those views and understand the theory behind them. TM is an asset intensive business and the motorhomes are a replicable asset. There are two key elements to that which I would consider aren’t necessarily being accounted for appropriately. First is our competitive advantages – primarily scale, experience and market penetration. We do believe our channels to market, our brands, their heritage and the technology that we have developed enable us to create and sustain demand that provides us with a competitive advantage. Along with scale on an international basis, we have the opportunity to sustain our customer base. Secondly is the barriers to entry. The business model is build/fund and sell. Each aspect of the model requires a different type of infrastructure and licenses. The asset intensity of the industry also creates its own barrier.

Apollo are generally regarded as your largest competitor and they are now listed. How has that changed the way you think and operate?

There is no doubt that I think this has been positive for TM. The primary gain for us that we now accurately benchmark our performance. This benefits us and our shareholders. We can now accurately benchmark our performance. We use a number of tools and metrics; one is Net Promoter Scores (NPS) and, in the rentals segment, we are at the forefront and leading the way from both a responsible tourism and environmental sustainability perspective.

This is also a point where I would acknowledge where we clearly are behind. We have a leadership role in the business in sustainability. Beyond her core responsibilities and taken a leadership role in the business in sustainability. We are very fortunate to have a leader within the business who has gone well beyond her core responsibilities and taken the leadership role in the business in sustainability. We use a number of tools and metrics; one is Net Promoter Scores (NPS) and, in the rentals segment, we are at the forefront and leading the way from both a responsible tourism and environmental sustainability perspective.

The El Monte acquisition was around 90% debt funded. How can you be confident TM can sustain over $200M of debt?

Before embarking on the acquisition, we stressed tested the balance sheet and TM business model under a wide range of scenarios. We looked at all the medium term shocks over the past 20 years and tested how we would handle the situation. We can handle a shock event, or events. Secondly, in the past year we have worked with our funding partners to ensure we have a covenant package that reflects our ability to manage the balance sheet through difficult periods. The third point I would make is that we have a gross capital spend in a 12 month period that is nearly equal to our total net debt. We can, in an extreme situation, pay nearly all our debt off in just over a year if we had to. During the GFC we had advisors and shareholders suggest we should have raised capital and created a stronger balance sheet. We didn’t, and we managed capital effectively and have created a much greater return for those shareholders as a result.

You have released your first Sustainability Report. Are you confident you are doing enough in this space – and if not, why not? If so, why do you believe that’s the case?

We are very open about the fact that, whilst it is a cliché, we are on a journey. We aren’t confident that taking every action we can contemplate for environmental sustainability would be appropriate from a shareholder, community and employee perspectives at this time. We do, however, need to do more than we have been and we will, at a greater pace and with more investment.

I would also balance that by saying that I firmly believe we have made some big strides in this space and, from what we see within our industry segment, we are at the forefront and leading the way from both a responsible tourism and environmental sustainability perspective.
Grown in the USA
The El Monte RV Story

The acquisition of American motorhome icon El Monte RV has given thl critical mass in the world’s largest RV market, positioning thl as #2 in the USA - and a global industry leader.

El Monte RV (El Monte) is the second largest RV rental/sales operator in the USA, its acquisition underpins thl’s “dual-hemisphere” operating platform, a position we will consolidate through our ‘RV centric’ business model, which continues to be successful in Australasia and the United Kingdom.

We’re excited about the growth prospects the El Monte acquisition offers thl. Come and get to know our latest acquisition a little better.

The El Monte brand
El Monte has a positive, longstanding reputation, stretching back over 45 years in the USA; it’s a classical American success story. The business started in 1970 from one location with only a few vehicles. Now, El Monte is in 26 locations, with a range of ~1,300 vehicles and a commitment to provide an extraordinary motorhome experience. It’s highly regarded in the RV industry for its operational excellence.

While El Monte is a USA brand, it has recently franchised an operation in Japan. We’re starting modestly but, by offering Japan as an RV destination, the El Monte brand gets international exposure and increases thl’s global footprint.

El Monte customers
Approximately fifty-percent of El Monte’s guests come from outside the USA. Our brand recognition is strong in Europe – primarily Germany, the UK, the Netherlands, Switzerland and the United Kingdom, where we work with almost all the major tour operators/wholesalers, as well as with most of the larger OTAs around the world.

With a business that is roughly 50/50 split between domestic and international business, there is an ability to “ride out” softer periods with a refocus on whichever is the stronger market at the time.

Our customer groups come in many configurations but, because our RV range offers a wide selection of larger bunk bed models (22-36 ft. RVs), the El Monte product attracts more families/friends traveling together in larger numbers, and we capture this customer segment better than most others in the USA market.

We also have a reputation for accommodating the largest number of one-way travel requests and we will continue to emphasise this point of difference over our competitors.

20 thl Shareholder Annual Review 2017

21 thl Shareholder Annual Review 2017
The El Monte fleet

Since the Global Financial Crisis (GFC), El Monte has been running an older fleet proposition than desirable within the international rental market.

Now, in line with thl’s strategic focus on offering a leaner core RV fleet, and shorter rent-to-sell timeframes for older models, El Monte has been able to right-size the fleet and reposition itself in the wholesale market.

With a projection to have the largest proportion of new fleet in its offer in over a decade, the largest range in the international rental market and a clear differentiation between brands (thl has introduced the Mighty brand into the USA), the broader El Monte business is well positioned for revenue growth, increased utilisation and a substantive positive movement in ROFE, a measure the business didn’t prioritise historically.

This strategic approach enhances El Monte’s reputation as a large, quality motorhome rental company and further underpins thl’s position as a significant global industry leader.

Our tour operator partners are very enthusiastic about our strategic approach, suggesting we have positioned the business well for a successful 2018/2019 season.

In fact, the next few years are exciting. We’ll continue to drive efficiencies and synergies throughout the business whilst, at the same time, experiencing growth in experience-led tourism and RV ownership. Add in a growing target market demographic, and the future holds much promise.

Roll on El Monte!

El Monte has a positive, longstanding reputation stretching back over 45 years in the USA. It’s a classical American success story.
Do it Mighway in the USA

Mighway is “the Airbnb of motorhomes” – a peer-to-peer RV rental service, facilitated online and owned and operated by thl.

Since its inception in 2015, Mighway has gained significant traction in New Zealand, and this has given thl the confidence to trial the concept internationally, with the launch of a pilot programme in California, USA.

The opportunity is huge. The USA is the largest RV market in the world with an estimated nine million RV owners, with California having one of the highest ownership rates of RVs of any of the states, and the strongest demand for RV hire during the summer.

There is some competition, however, no operator has yet established a dominant position, and we believe with the infrastructure we have through the U.S., Mighway can successfully enter the market and establish a strong foothold.

We’re starting small, with one permanent Operations Manager on the ground in California, and key management functions (owner acquisition, customer experience and marketing) being run out of the Auckland office.

As well as peer-to-peer rentals through mighway.com, we also offer a managed Mighway service, providing vehicle storage, basic maintenance, customer vehicle pick up/drop offs and post-hire cleaning. Currently, we offer this through Cordelia RV, and an El Monte RV location (Dublin).

The Mighway USA pilot programme got underway in May 2017, with a target of 150 RVs listed with Mighway by 30 June 2017. The Mighway team surpassed this target comfortably, securing approximately 250 RVs by that date.

There are some challenges to work through. Initial bookings for the pilot are softer than forecast, due to the localised nature of the service, but we are working on this and we expect results to follow quickly.

Our innovative marketing is already bearing fruit; the Mighway promotional vehicle is constantly on the road, and bloggers and journalists are creating inspiring and engaging content to help boost the uptake of Mighway in the USA market.

Roadtripper
t's global expansion strategy, and the desire to create a leading global platform within the RV industry, has seen the company partner with Roadtripper USA, the top North American-based road travel app and data business.

Our USD $6M investment in Roadtripper USA represents a significant stake in the company, a seat on the Board and, through a partial equity stake in thl’s own GeoZone, the creation of a new joint venture partnership in Australasia, combining GeoZone and Roadtripper.

Roadtripper is a great concept. It’s an award-winning map app platform which allows our RV travellers to easily discover and explore places along their chosen route and plan an itinerary (including where to find good restaurants, fill up with gas and even book a hotel). Using the Roadtripper app, they can also navigate with ease and build and share their holiday experience with friends or other travellers via email and Facebook.

With over 2.5 million users each month and a proprietary database of millions of the best places to visit and things to do, Roadtripper is the ultimate road trip companion and a perfect complement to our high quality, self-drive RV experiences. Roadtripper is available on iOS, Android and the web.

thl’s buy-in to the Roadtripper platform provides the cash injection necessary for the product’s growth and expansion, as the company scales up the data business to a global level and further expands the Roadtripper product portfolio.

We’re excited about the added value Roadtripper offers our customers, and we look forward to being an integral part of its ongoing development.
The EBIT performance of $24.2M was an increase of over 50% on the prior year. EBIT margin was impressive at 20% and the Return On Funds Employed was well above expectations at 18.3%.

The improvements in this financial year have been driven by increased flex-fleet, improved yield – reflecting a positive demand environment, increased vehicle sales - including improved margins, some gains from the Lions Tour of circa $500k and good labour management in the peak season.

There are still areas requiring improvement including repairs and maintenance, which increased on a per day basis. We also need to increase our capability to meet internal and external servicing demand. We overspent on outsourced and penalty rate labour to meet the high demands of the busy season. It is a reflection of the labour market for these skills, however we need to create a sustainable solution.

The flex-fleet initiatives remain positive and we will grow flex-fleet again in FY18. The core fleet remains reasonably stable. Action Manufacturing is benefiting from the sales opportunity that flex-fleet provides and is establishing new customers based on the flex-fleet pod vehicles.

The coming year is expected to see an increase in performance, with the benefit of the Lions Tour in July and an expected increase in high season demand.

From a competitive standpoint, we have seen a reasonably stable market. We have seen one new competitor with McRent, a European-based operator, creating a joint venture business in New Zealand. We understand McRent will be commencing rental hire in the 17/18 summer season. They are expected to have less than 100 vehicles and we believe the market can sustain that additional capacity.

We will look to stabilise EBIT margin and ROFE percentage around the FY17 levels into the future.
Australia

The Australian result was up 16% to $7.8M in NZD, but was up 22% in AUD terms.

The business continues to improve, but certainly at a slower rate than desired. Return On Funds Employed was marginally up on the prior year, at 11.8%. Whilst this is below our targeted rate, the business does absorb management overheads in excess of what it may as a completely standalone business. We still see growth in this business and are pleased to see ongoing progress with initiatives such as telematics.

Fleet repairs and maintenance costs have hit a new low and appear sustainable. This reflects three years of hard work insourcing a number of functions and creating benefits from the increased knowledge associated with telematics. The current telematics supplier costs resulted in a net loss in the project, however we have options in place to rectify this situation in the coming year.

Summer flex-fleet assisted growth in high season revenue and, whilst slower than desired, the flex-fleet sales are progressing.

Matt Harvey, who has been General Manager for nearly four years, has taken up a position leading El Monte in the USA and we are very pleased to have been able to appoint Kate Meldrum, a long serving member of the thl executive, to the Australian General Manager position.

From a competitive standpoint, we have seen Let’s Go slowly grow fleet, Crikey Camper Hire increase fleet in the Northern Territory and the remainder of the market remain reasonably stable.

The longer-term operating strategy in Australia will continue to be reviewed and challenged as we should, and do, expect more.

USA

We will report the USA as one operating unit in the future and you will see in the financial statements it is reported as one segment or cash generating unit. There are opportunities for the businesses to combine in certain areas including the Fleet profiles and, thus, it’s more relevant to report them as one entity externally.

We will continue to provide information against our core goals for both businesses, as appropriate.

Road Bear

The highest performing rentals Return On Funds Employed business in thl delivered another outstanding result, at 28% ROFE.

EBIT, at $12.2M, was broadly in line with the prior year, which was as planned and indicated to the market.

Vehicle sales were again superb, with excellent volume and margin. A record 700 vehicles were sold in the financial year. We expect to maintain or increase this volume in the coming year; however margins will slightly decrease, due to pressure on vehicle volume rebates as manufacturers reach peak capacity. The manufacturers are exercising a higher level of pricing control at present. We will continue to develop our sales mix and channels to maximise the current retail demand for RVs.

We have invested in people over this year, and needed to, with the business now busy all year, given the strong vehicle sales. This has been a positive move and one in which will continue to see benefit into the future.

From a competitive standpoint, we haven’t seen any new competitors; however, we have seen McRent buy into Best Time RV in the USA (~50% holding) and note Apollo’s announcements that they are growing the USA fleet and locations.

From a thl perspective, the combined Road Bear and El Monte fleet is expected to decrease in the coming year as we complete the El Monte fleet reduction plan. We are comfortable that there is significant medium term growth for us operating a more efficient business.
El Monte

The transition of the business has gone very well and we welcome the El Monte team to this first public report on the business progress. We acknowledge that we think differently in many ways and suggest we are potentially more rigid in expectations than a long-standing family business. The management team at El Monte have responded exceptionally well to new metrics, reporting structures and a reinvestment into the business.

We identified 182 vehicles as inventory fleet which would need to be priced to move quickly when we acquired the business. Pleasingly, 80% had sold by the financial year end and they will be close to gone by the time this report is released. This has been in addition to the normal sales and contributed to an excellent sales volume of 354 in the six months to 30 June 2017. The strong demand environment enabled us to achieve this volume of sales at a higher margin than expected. The non-recurring gain on the sell-down of this older fleet sale was circa NZD $0.8M after tax.

The rentals business has performed below expectations this calendar year and we have accounted for that in our FY18 business outlook.

We have started our repositioning of El Monte in the international markets and we are developing new market development strategies, which are expected to benefit the 2018 calendar year. With the older fleet gone and a total reduction in operating fleet, we have seen quality improve, repairs reduce and a more efficient operation of sites with older fleet removed creating space and capacity for all elements of the business. As at the end of June, the average age of the fleet was 2.4 years compared with 3.7 years at acquisition.

Next year El Monte will have its largest number of new fleet in many years. In addition, we have launched the Mighty brand within the El Monte mix to offer a clear differentiation of the older fleet. Repositioning El Monte to the higher end of the market, with the widest fleet range in market, has been very well received by the international wholesalers.

We have managed costs within expectations and will exit or repurpose locations to ensure planned synergies are achieved as expected.

From a management perspective, Matt Harvey commenced in mid-July and will transition with Tucker and Todd Schork, as required, over the coming months.

At the start of the calendar year, we formed a USA advisory group, chaired by Rob Campbell, and include the Schork family, along with Daniel Schneider, the former owner of Road Bear. This group enables a more USA-centric view on the businesses and market environment we operate in.

The El Monte team are working very hard and are responding extremely well to the different goals and targets provided by thl.

Tourism

The Waitomo business performed well for the year, with an increase in EBIT in line with our expectations. Kiwi Experience was below expectations and last year, due to several factors as outlined below.

Waitomo had strong increases in visitors above the national arrival statistics and increased yield slightly. The ancillary businesses at Waitomo, including food, beverage, retail and The Homestead, had strong increases over the prior year. The retail investment to expand the footprint was a particular highlight.

The outlook for the business remains very positive and is expected to continue to exceed national arrival statistics, with strong central North Island visitation. Kiwi Experience suffered from several factors. The Kaikoura earthquake disrupted flows, add-on sales and volume in the South Island. The last quarter suffered from a lower volume from the UK backpacker market, which is core to the business, and the exchange rate impacted add-on sales in the rest of the country. The impact on the total thl business is minimal and, with basically no fleet capital employed, the ROFE remains the highest in the business.

The outlook expectations for the business are positive.
Mighway

Due to the size of the business, we still report Mighway within the group support costs. The loss for the FY17 year was $1.4M after tax. The New Zealand business was cash flow positive for a period in the summer.

From an owner acquisition and service delivery perspective, the business is performing very well. We have engaged owners with minimal churn (normally related to the sale of the vehicle).

The USA pilot has been successful from an owner acquisition standpoint and we have engaged with a very proactive managed partner in northern California. Revenue this season has been very slow to start, whilst we establish a market presence. There are a number of competitors in this space within the USA and we don’t see anyone with traction at this point.

From an owner perspective, we are confident we can deliver a positive outcome for owners and the business in the long term.

We will continue to invest in Mighway this financial year and expect the losses to be higher than FY17, inclusive of the expansion plans.

As indicated, the internal metrics on the owner side of the business are on track; however, we still need to grow the revenue generation.

The team are passionate and excited about creating a new global platform for the business and are developing long term intellectual property for the business.

Joint venture operations and investments

Action Manufacturing

The Action Manufacturing result for tM’s 50% ownership was a Net Profit Before Tax (NPBT) of $3.1M, up 82% on the prior year. Of note, we equity account for these results and don’t include them within either the EBIT results for the business or the ROFE calculations.

Action Manufacturing is today producing an excellent return on funds, with the loan to tM paid back to an acceptable level. The initial loans and funds employed have all been repaid except for a few hundred thousand dollars. The retained earnings is currently $5M and the business is delivering a very high Return On Funds Employed.

The price of motorhomes to tM has not been increasing and, indeed, we are still finding efficiencies which are primarily passed on to tM in the subsequent year.

The flex-fleet pod initiative provides Action Manufacturing with three potential chances to earn from the one campervan – the hours to create and install the pod, the hours to convert the pod to a minivan and a small margin on sale. These joint initiatives are benefitting both businesses and align strategic interests.

Action Manufacturing continues to develop market-leading products and is gaining penetration in the Australian market at present. Queensland Ambulance Service work has commenced and we are excited about the future potential.

We will continue to assess the development options for Action Manufacturing as we head towards capacity. At present we have a preference for a partner approach to capacity utilisation as opposed to investing significant capital.

Just go UK

The Just go business moves from strength to strength and follows, very carefully, the Road Bear model and financial metrics. With vehicles operating just one season in the business, the fleet operating costs are minimal and the vehicle sale margins are strong.

During the year, Just go successfully moved to the tM booking system and we will continue to look for scale efficiencies within the business over the coming year.

The partnership model is working well. As with Action Manufacturing, we would note that the profit and ROFE of this business are not included within the EBIT and ROFE reported figures for the company.
Roadtrippers, GeoZone, CamperMate

The investment in these businesses is ever-changing and we are prepared to adapt, as appropriate, to maximise the opportunity for thl and the growth of our digital capability. We have, in the past three years, recognised and been prepared to buy in and invest in capability which we are aware we may not have in the business. The full acquisition of GeoZone in FY16, and the subsequent transactions with Roadtrippers in FY17, are the primary examples.

With Roadtrippers as a partner, we have a connection to a business with tremendous potential in the tourism data space and in-trip connectivity with customers. Roadtrippers operate on a scale GeoZone could not reach on its own and we are pleased with both the direction and results from Roadtrippers to date. The USD $6M (including the GeoZone assets) that thl has invested in Roadtrippers is being used to fast track the capability in the business and create greater scale in the North American market and beyond.

The business will continue to lose money over the coming two years, as it continues to develop. Interest in Roadtrippers from large international automotive, technology and travel companies is significant.

The local joint venture will relaunch in FY18, bringing the Roadtrippers capability to the Australian and New Zealand markets, operating alongside the existing CamperMate products and white label businesses.