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**Chairman's Address
Annual Shareholders' Meeting
Tourism Holdings Limited**

Welcome to the 25th Annual Shareholders' Meeting of Tourism Holdings Limited.

I am Keith Smith, your chairman. I am joined by my fellow directors, John Bongard, Graeme Bowker, Rick Christie, Deepak Gupta and Graeme Wong – and also by our chief executive Grant Webster, chief financial officer Ian Lewington and financial controller / board secretary Paul Illingworth.

It's a pleasure to be with you and take this opportunity to review the previous year but more importantly provide an update on the activity undertaken by the company and the board to improve the results of the company moving forward.

After I have spoken today, Grant Webster will provide a brief overview of some last year's highlights and challenges as well the focal points of the company's executives today.

Last year I spoke about the strategic realignment of the company and the transformation of the company to a rentals centric organisation. I also mentioned that the confidence we had in our rentals systems, processes and knowledge could be replicated to enable us to grow into new markets. As you are aware we were very pleased to announce in December last year the acquisition of the Road Bear RV Rentals and Sales business based in the United States.

As part of the negotiations for the purchase we were very pleased to be able to secure one of the vendors to remain with the business. Daniel Schneider is with us today and later will take the opportunity to provide an overview of the Road Bear business and the USA market from his perspective.

The timing of the acquisition was considered and deliberate to ensure we maximised benefit from the current tourism growth into the USA as well as ensuring that the important vehicle sales market was stable.

We purchased a smaller, smartly operated business in order to minimise risk, whilst ensuring we had the opportunity for careful growth over time utilising **thl's** systems, sales networks and capital base.

**Road Bear RV Rentals & Sales
Maui
Britz
Backpacker
Explore More
Motek
Kiwi Experience
Black Water Rafting
Waitomo Glowworm Caves
Ruakuri Cave**



It is pleasing to note that the Road Bear fleet grew by 24% this calendar year. As a consequence the financial result will exceed our acquisition forecast by over USD \$3.0m or 150% (Road Bear has historically operated a December 31st balance date).

The business has benefitted both from growth in tourism visitation into the USA and a strong used recreational vehicle market to sell its fleet into. In practical terms this means the oldest vehicle in the fleet came into service in March this year.

We are pleased with the integration to date. We have been able to achieve a number of **thl** synergies and benefits whilst ensuring the underlying business model and operating style has been protected.

There is often negative media commentary regarding New Zealand companies moving into the USA and not succeeding. As part of the due diligence process we reviewed learning's from a number of New Zealand and Australian successes and failures in the USA to mitigate risks where possible. There are three salient positive aspects to the **thl** entry into this market. Firstly, we have purchased an existing business with a strong brand and reputation and a management team that is cohesive and by in large has remained with the business. The second aspect is that the assets we have purchased are mobile and liquid in nature as evidenced by the full fleet rotation over the last year. Thirdly, the main customer base is the same customers as **thl's** current business, that is, Europeans and in particular Germans and Dutch.

We would also acknowledge that at present from a tourism flows perspective the USA is benefitting from a low dollar and good airfare pricing. As a smaller player in the market with approximately 5% market share we are confident we can adjust the business model and fleet quickly enough to deal with any potential downturns in a much more responsive manner than we have been able to here in New Zealand and Australia.

Grant and Daniel will both provide more information about the business shortly.

Valuation

A number of shareholders have raised their concern that the current share price does not reflect the true value of the company.

Indeed, there is a significant gap between the current market price around 60 cents and other relevant measures. In regard to the latter, net tangible asset backing in the June 2011 accounts was \$1.35 per share; and the Independent Advisor's Report in respect of the partial takeover offer from Ballylinch in May 2011 set out a valuation range of 97 cents to \$1.27 per share.

Addressing this gap is the board's highest priority. We believe the best way to achieve this is to build earnings momentum based on the strategic and operational improvements made over recent years.



The tangible results from these improvements have often been obscured by market conditions – in particular, the effects of global financial crises and other events in our major geographical markets. Nevertheless, your company today is more focused, better connected with its customers, operationally leaner and more financially efficient than it has ever been before.

There are positive indications that **thl** has also made significant gains in market share in all rentals markets that we operate. Wholesaler feedback is positive and we have had glowing reviews from customers regarding the significant improvements in product and more importantly the customer experience. These have come from a focus on the customer, product design and innovation and strongly focused marketing, backed by the financial strength and flexibility that come from most likely being the largest rental motorhome operator in the world. **thl** is a large player in markets where many competitors do not have a strong capital base.

As I mentioned the Road Bear acquisition has performed well, significantly exceeding its forecast performance to date under **thl** ownership. Indications of its future performance are also encouraging.

As a result of all these factors there is positive momentum in our earnings. I will comment on the outlook for the company in the closing part of this address, but let me note for the moment...

- Results for the first half of the current year are likely to exceed the forecast on which our most recent earnings guidance for the full 2012 year was based.
- Results for the second half may be under the equivalent forecast; however, we are confident that earnings for the full year will achieve the guidance provided.
- The board believes there will be further earnings momentum in the 2013 year.
- Consistent with these expectations, our intention is to resume dividend payments from April 2012.

This outlook is based on realistic assumptions – continuing uncertainty in markets, flat-to-declining activity levels, continuing containment of costs, and a particular focus on reduction of fleet operating costs. We are planning on a fleet reduction in Australia and New Zealand over the 2012 year to align our asset base with the expected activity levels.

In short, your board believes the company is strategically and financially robust, well-run and well-adapted to market conditions. It will gain from any improvement in markets, but in the meantime it expects to produce improved earnings even if the current conditions persist.



FY 2011 Financial Results review

thl reported a loss after tax for the year of \$27.3m which included a \$26.1m non cash write down of goodwill. However as noted in the Annual Report the results for FY2011 are best reviewed at an Operating EBIT level which excludes the one off goodwill write off. The Operating EBIT of \$4.3m was down on the \$9.9m achieved the prior year. This result included the expensing of acquisition costs associated with the Road Bear purchase of circa \$1.0m.

The acquisition costs for the USA business reflected the need to ensure that due diligence was thorough given it is a new operating market and that the base company structure and finance facilities were established in a suitable fashion for the future.

Net Profit After Tax excluding the goodwill write off was a loss of \$1.2m compared to a profit of \$5.0m the previous year.

The goodwill write off was conducted in line with New Zealand International Financial Reporting Standards and related to the goodwill held within the New Zealand and Australian rentals businesses. As previously indicated the write down had no impact on banking covenants. Based on current earnings and forecasts for the coming years there is no need to consider any write down of the remaining goodwill in the business which relates solely to Kiwi Experience and Road Bear.

Since the last Annual Meeting we have throughout the last 12 months seen another round of tumultuous events here in New Zealand and around the world. At the start of the calendar year in February we reduced our forecasts for the 2011 financial year as we saw a significant drop in forward bookings from key markets during and post the devastating Queensland floods and Christchurch earthquake. Compounding these issues we have seen a negative impact in Australia and New Zealand due to the increased value of our currencies against the British Pound and Euro. An approach from some airlines to increase yields is understandable however it has also accentuated the negative price perception of Australia and New Zealand.

The approach by the company has been to hold and grow market share whilst taking new approaches to controlling costs. Revenue for the group for last 12 month period was up from \$182m to \$196m including the Road Bear business. This however was below our expectations, especially in Australia where we had increased fleet based on the positive utilisation and forward bookings in the first half of the 2010 calendar year.

The business also relies on fleet sales to maintain the business model. Last year's total fleet sales generated \$41m of revenue. Margin increased from \$4.4m last year to \$7.0m in 2011.

This is a key indicator for the board that has continued to provide confidence that debt levels and fleet size can be managed over time. Grant will review the fleet profile in more detail.



Over the year debt increased to \$99m at the year end. It is important however to note that \$28m of the increase relates to the Road Bear business. The debt position was \$11m below the forecast in the Target Company Statement.

The Debt to Debt plus equity ratio remains positive for this style of business at 43%. We would suggest that this level of equity is very strong for the industry we operate in and we know that this provides customers with confidence.

With our predicted fleet sales numbers and lower expected capital expenditure in the coming year we expect debt to decline after allowing for a moderate increase in fleet in the USA.

The two key trading highlights in the FY2011 result were the on-going improvement in our manufacturing business and as discussed the first six months result from the USA based Road Bear business.

Grant will discuss the rationale behind our branding change in vehicle manufacturing and sales. The newly named Motek manufacturing business in Hamilton formerly known as Ci Munro produced a profit for the year of \$0.5m compared to a loss of \$1.9m the previous year.

Operationally the last year saw the core New Zealand and Australia businesses take another leap forward in the customer offer and brand positioning. We have now also started to see the benefits of operational changes and new vehicle design in reducing operating costs.

The single most significant negative impact on the FY2011 result was the excess fleet held in the Australian business. At the time when the decisions were made on new fleet build the Australian outlook and forward book was very strong. Revenues did not meet expectations and as a result we incurred significant holding and operating costs of fleet that was underutilised. This situation is currently being addressed as we realign fleet size to the current market demand.

Rentals general market data is not easy to obtain in this industry however based on registrations, chassis purchases and general industry information we believe the campervan rentals industry as a whole are downsizing or at least minimising growth.

Strategy

Today **thl** operates in three significant markets. Here in New Zealand we remain a significant player in the tourism industry with the Waitomo and Kiwi Experience businesses operating effectively within the broader rentals and company support infrastructure. In Australia we cross all states and now have 11 branches including the newly developed Melbourne branch and factory which enabled us to bring three operations into one single more efficient site. And of course we now also operate in North America. The Road Bear acquisition has enabled us to operate in a market with different tourism drivers, a much larger vehicle sales market and a high season that is counter cyclic to the New Zealand business.



This diversification now means we can leverage the benefits of *thl's* scale whilst mitigating some of the market specific risks of this region.

Moving forward we are focussed as a company on continuing to create more flexibility in fleet management and continuing to develop an operating model that benefits from the scale of *thl*.

FY2012 Forecast and Outlook

As I have mentioned this financial year has started positively. In May as part of the Target Company Statement we released forecasts for the FY2012 year including a forecast EBIT of \$17.2m and NPAT of \$5.9m and we remain focussed on achieving those numbers.

Visitation and revenue from the Rugby World Cup in New Zealand was positive in September, exceeding expectations and lower than expected in October. The total EBIT achieved from the event exceeded our plans.

The Road Bear EBIT gains to date of over USD \$3.0m are expected to be maintained through to the year end.

Overall the December half year result is expected to exceed the forecast EBIT of \$9.2m by over \$1.0m.

The second half of the financial year will contain some headwinds based on a lower than planned fleet build for Motek manufacturing and lower visitation expectations for both Australia and New Zealand.

Within the tourism industry it is difficult to provide accuracy in long term forecasts. We continue to look at consumer confidence, exchange rates and trends within the airline industry as leading indicators of the long haul market visitation trends. At present these indicators collectively do provide some opportunity for growth especially based on the on-going increases in airline capacity to this part of the world from Middle Eastern and Asian carriers in particular.

The 2013 financial year performance will obviously not include the benefit of this year's Rugby World Cup in New Zealand. Despite this we do see the opportunity for profit growth as the benefits of our new lower cost vehicles and lower fleet operating costs come into effect. At this point in time we see little growth in revenue except for the USA business.

Dividends

The board are acutely aware of the need to provide returns to shareholders. With the strong recovery in this half of the financial year and the expectation that the full year profit will be achieved we expect to be confirming a 2cps dividend at the half year result announcement which would be payable in April 2012.



Governance

During the year there have been two items of particular note in regards to our share register and share activity.

In April this year our largest shareholder Mr John Grace through Ballylinch LP launched a partial takeover offer. The offer was friendly in nature as indicated in the press releases made by Mr Grace. As you are aware the directors that were part of the Independent Response Committee recommended that shareholders did not accept the offer for the reasons stated in the Target Company Statement.

During the takeover Mr Gerry Ryan provided a substantial security notice indicating he had exceeded a 5% shareholding in the company. In July this year he released a further notice and announced his interest exceeded 10% of the ordinary shares in the company.

thl has for a number of years purchased a range of vehicles from Jayco in Australia which is a related party to Mr Ryan. The New Zealand Stock Exchange (NZX) has clear rules regarding related party transactions. Given the benefit to *thl* as a company from the Jayco operating relationship we have applied for and received an exemption from the NZX allowing *thl* to purchase vehicles from Jayco without ongoing shareholder approvals. This exemption allows the company to save significant time and money whilst ensuring that the commercial sensitivity of the relationship remains intact. We have the ability to assess and compare the pricing and product offered by Jayco and remain confident that it is in the best interests of the company to purchase some vehicles from that business.

As part of that application process we have been clear that as a company we are not aware of any reason why Mr Gerry Ryan would have any influence over the trading decisions made by the company. Obviously if the situation were to change we would reassess the situation.

At the time of the partial takeover offer the company approached a range of other parties to assess any interest in making a competing offer for the company. We can confirm that as at today there have been no parties express any interest in any form of takeover of the company.

The Remuneration Committee under John Bongard's leadership this year conducted a review of the policies and practices and made appropriate changes in line with best practice.

Over the past year the board has conducted its bi-annual 360 degree review in line with the best practice procedures of the New Zealand Institute of Directors.

We will continue to review the makeup of the board and ensure we have an appropriate set of capabilities, knowledge, experience and diversity in culture, geographical areas and gender.



Forecast

In conclusion I would reiterate that based on the information we have today and the results achieved year to date we are on track to achieve the FY2012 forecast NPAT of \$5.9m. With the on-going uncertainty there are few opportunities for gains above that forecast.

END

A handwritten signature in blue ink, appearing to read 'Keith Smith', is placed over a light yellow rectangular background.

Keith Smith
Chairman

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