Thomas Cook Group

**8 February 2018**

*First Quarter Trading Statement for the three months ended 31 December 2017*

# Customer-focused strategy delivers encouraging start to the year

## HIGHLIGHTS

- Strong first quarter revenue growth of 7% to £1,749 million
- Seasonal underlying operating loss improved by £10 million to £42 million
- Successful €400 million bond refinancing extends maturities at reduced interest cost
- Full year outlook in line with current expectations

**Peter Fankhauser, Chief Executive of Thomas Cook commented:**

"While it remains early in our sales cycle, we've got the year off to a good start. A particularly strong performance from our Group Airline, taking advantage of the disruption in the UK and German markets by providing a high quality and reliable service to customers, has helped deliver revenue growth of 7 per cent and a £10 million improvement in the seasonal underlying operating loss for the first quarter.

"From all that we see so far, customers' appetite for a summer holiday abroad shows no sign of slowing down. We've taken early action to meet strong demand for destinations in the Eastern Mediterranean. This has enabled us to shift capacity out of the Spanish islands where we have seen a continuation of the margin pressures we experienced last summer, particularly for the UK market.

"We've also continued our drive to innovate and invest in ways to help customers get more from their holidays, with the launch last week of our 'Choose Your Favourite Sunbed' service, which will be available in at least 30 of our own-brand hotels and resorts for Summer 18. This builds on the success of our 'Choose Your Room' feature which attracted more than 10,000 bookings during the trial phase in 60 hotels and is set to be rolled out to 300 hotels for the peak Summer 18 holiday season.

"In addition, we've made good progress in strengthening our Group Airline. This includes expanding our capacity by 10 per cent for Summer 2018 to meet the increased customer demand we have experienced in recent months, and builds on the strong recovery in our German airline, Condor.

"This remains a highly competitive – and, at times, unpredictable – market, as the disruption in the airlines sector in recent months demonstrates. However, based on current trading and the continued progress we are making on implementing our customer-focused strategy for profitable growth, we expect to deliver a performance in line with current expectations for the full year."

## FIRST QUARTER PERFORMANCE

Group revenue increased by 7% to £1,749 million in the first quarter, with more customers and higher pricing in both our tour operating and airline businesses.

Gross profit of £376 million was £16 million higher than last year, while gross margin of 21.5% represents a decline of 50 basis points over the same period last year, due to higher Spanish hotel bed cost inflation as highlighted at our full year FY17 results announcement, and a lower mix of long haul sales in the quarter.

The Group's seasonal underlying loss from operations improved by £10 million to £42 million, reflecting a good performance by our Group Airline, against a weak comparative period for Condor in particular.

Condor's turnaround has continued in line with our expectations, leading to an underlying loss of £13 million for our Group Airline, an improvement of £9 million. Our Group Airline, including Condor, carried 3.5 million customers during the period, an increase of 8% compared to last year. Seat load factor increased by 80 basis points to 88.0%, driven by higher short and medium haul demand.

The Group Tour Operator's underlying loss improved by £1 million to £22 million, with all segments achieving a similar result to last year. Corporate costs were £7 million, also in line with last year.

EBIT Separately Disclosed Items increased by £9 million to £27 million, reflecting the phasing of UK retail restructuring measures (including 26 store closures in the quarter) compared to last year, as we attract more customers to our digital channels, together with higher one-off costs such as transferring our Belgian airline to Brussels Airlines and establishing the hotel investment platform in partnership with LMEY.

**Financial position**

Net debt at 31 December 2017 was £1,296 million, an increase of £71 million over the last 12 months. This includes non-recurring payments totalling £88 million to The Co-operative Group in connection with exiting our UK retail joint venture. On a like-for-like basis, excluding these payments and the effects of currency changes, net debt improved by £65 million.

In December 2017, Thomas Cook issued a new €400 million bond with a coupon of 3.875%, maturing on 15 July 2023. This coupon is significantly lower than the 6.75% €400 million June 2021 bond it replaced, helping us to achieve lower interest costs, while extending maturities and liquidity.

## CURRENT TRADING AND OUTLOOK

**Winter 2017/18**

Winter trading for the Group is in line with our expectations, with 80% of the programme sold, a similar level to last year. Total bookings are up 8%, supported by continuing demand for the Canaries and a strong recovery in demand for Egypt. While pricing across all of our segments is higher than last year, average selling prices are 1% lower overall, reflecting a shift in the mix from long haul to short and medium haul destinations.

| Winter 2017/18 | Year-on-Year Variation % | | |
|---|---|---|---|
| | Bookings[i] | ASP[i] | % Sold[ii] |
| UK | Same | +6% | 84% |
| Continental Europe | Same | +2% | 83% |
| Northern Europe | +3% | +9% | 96% |
| **Group Tour Operator** | **+1%** | **+4%** | **88%** |
| | | | |
| Short & Medium Haul | +16% | +10% | 81% |
| Long Haul | -1% | +2% | 86% |
| **Group Airline[iii]** | **+10%** | **Same** | **83%** |
| | | | |
| **Total Group** | **+8%** | **-1%** | **80%** |

Based on cumulative bookings to 3 February 2018

Notes
(i) Risk and non-risk customers
(ii) Risk customers only
(iii) Group Airline figures include intercompany sales to the Group Tour Operator

Group Tour Operator bookings are ahead by 1% with pricing up 4%. Northern Europe continues to benefit from strong demand, particularly for the Canaries and Cape Verde. In the UK, charter risk bookings are up 4%, while bookings overall (including both risk and non-risk packages) are in line with a strong comparative period. UK pricing is up by 6% largely reflecting bed cost inflation in our biggest winter destination, the Canaries. In Continental Europe, bookings are in line with last year and pricing is up 2%, with growth in our German, French and Russian package businesses offset by a decline in hotel-only business.

For the Group Airline, overall bookings are 10% ahead, in line with capacity increases. Bookings to short and medium haul destinations are up by 16%, largely reflecting growth in demand for Egypt, while long-haul bookings are broadly in line with last year, impacted by Hurricane Irma in the Caribbean. Group Airline pricing has increased by 10% to short and medium haul destinations, and by 2% to long haul destinations. Overall airline pricing is similar to last year due to the shift in mix towards short and medium haul flying.

**Summer 2018**

We have made an encouraging start to trading for Summer 2018, with our holiday and flight programme now 34% sold, 3% higher than this time last year.

In terms of core destinations, Turkey, Egypt and Greece are seeing good growth across all source markets, while the very strong demand we have seen for Spain over the last two to three years appears to be normalising. We have also broadened our offering with a number of new destinations, including Montenegro, Sardinia, Dubrovnik, Olympus Riviera in Greece, Golden Sands in Bulgaria, Spain's Costa Brava and Madeira.

In our UK tour operator, which tends to have an earlier booking pattern compared to other markets, bookings are up by 3%, while average selling prices are up by 6%. We continue to see significant margin pressure in holidays to Spain, our largest destination, due to higher hotel cost inflation and increased flight capacity. We continue to take actions to help mitigate this, by rebalancing our programme towards higher margin destinations such as Turkey and Egypt, generating efficiencies, and repositioning the business through greater online distribution and an intense focus on sales of holidays to own-brand hotels.

Summer bookings for Northern Europe are well ahead of last year, driven by higher demand for our own-brand holiday offering, with positive pricing. Bookings have also increased in Germany, France and Belgium.

Our Group Airline has achieved double-digit bookings growth, as we have increased our short and medium haul capacity selectively to take advantage of good customer demand in Germany and the UK, including from third-party tour operators seeking a reliable and high-quality airline offering.

**Outlook**

Trading for 2018 so far is encouraging. The continuing recovery of Condor combined with the positive demand environment for Summer is supporting strong growth in our Group Airline, while our Group Tour Operator business is benefitting from higher demand for our holidays, especially in Northern Europe and Continental Europe. In the UK, we are seeing positive demand but continue to experience margin pressure in holidays to Spain. Although it is still early in our sales cycle, based on current trading we expect our operating result for FY18 to be in line with current expectations.

## ANALYST AND INVESTOR CALL

A conference call and webcast for investors and analysts will be held today at 09.00 (GMT):

- Standard International Access: +44 (0)20 3003 2666
- UK Toll Free: 0808 109 0700
- Password: Thomas Cook

**Forthcoming announcement dates**

The Group intends to issue results for the six months ended 31 March 2018 on 17 May 2018.

**Enquiries**


| | | |
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Thomas Cook Group

## APPENDIX

### Like-for-like analysis

Certain items, such as the impact of foreign exchange translation, acquisitions, disposals and business transfers, affect the comparability of the Group's financial performance over time. To give a clearer view of underlying performance, we provide 'like-for-like' comparisons which adjust for the impact of these factors, as set out in the table below. The financial commentary in this announcement is based on 'like-for-like' comparisons unless otherwise stated.

| **Group (£m)** | **Revenue** | **Gross profit** | **Gross margin** | **Underlying EBIT** |
|---|---|---|---|---|
| 3 months ended 31 December 2016 | 1,618 | 357 | 22.1% | (49) |
| Impact of currency movements | +20 | +3 | -10bps | -3 |
| **3 months ended 31 December 2016 Lfl** | **1,638** | **360** | **22.0%** | **(52)** |
| **3 months ended 31 December 2017** | **1,749** | **376** | **21.5%** | **(42)** |
| Like-for-like change (£m) | +111 | +16 | -50bps | +10 |
| Like-for-like change (%) | +7% | +4% | n/a | +19% |

| | **Group Tour Operator** | | **Group Airline** | |
|---|---|---|---|---|
| **(£m)** | **Revenue** | **Underlying EBIT** | **Revenue** | **Underlying EBIT** |
| 3 months ended 31 December 2016 | 1,223 | (21) | 658 | (21) |
| Impact of currency movements | 15 | (1) | 7 | (2) |
| Impact of business transfer(i) | 4 | (1) | (14) | 1 |
| **3 months ended 31 December 2016 Lfl** | **1,242** | **(23)** | **651** | **(22)** |
| **3 months ended 31 December 2017 (ii)** | **1,305** | **(22)** | **710** | **(13)** |
| Like-for-like change (£m) | +63 | +1 | +59 | +9 |
| Like-for-like change (%) | +5% | +4% | +9% | +41% |

Note: (i) Thomas Cook Airlines Belgium transferred to Brussels Airlines in October 2017, such that it is no longer part of the Group; a like-for-like adjustment has been made to show the comparable performance of the Group Airline and Group Tour Operator

(ii) Intercompany revenue eliminations in the quarter were £266 million, and underlying EBIT for corporate/other was £(7) million, leading to Group revenue of £1,749 million and Group underlying EBIT of £(42) million

### Hedging of Fuel and Foreign Exchange

The proportions of our forthcoming requirements for Euros, US Dollars and Jet Fuel that have been hedged are shown in the table below.

| | Winter 17/18 | Summer 18 | Winter 18/19 |
|---|---|---|---|
| Euro | 94% | 81% | 70% |
| US Dollar | 91% | 86% | 60% |
| Jet Fuel | 92% | 88% | 75% |
| Hedged rate | $529 | $547 | $578 |

As at 31 January 2018

As Jet Fuel is priced in US Dollars, we buy forward the requisite amount of US Dollars from a mix of base currencies. For FY18, we are hedged at significantly below the current forward rate, and estimate that, as a result of our hedge position, our fuel costs will fall by £10 million compared with FY17.

The Group's policy is not to hedge the translation impact of profits generated outside the UK. If Q1 period end rates for the Euro and Swedish Krona were maintained throughout the remainder of FY18, there would be a negative year-on-year translation impact of around £15 million. Due to the seasonality of our business, the foreign exchange translation impact for the full year is highly dependent on the prevailing exchange rates during our final quarter between July and September.