corporate travel management

31 October 2018

CTM response to VGI report

Corporate Travel Management (ASX: **CTD**) has today provided a comprehensive response to a research report by VGI Partners.

VGI Partners holds a substantial short position in CTM and can only profit from its investment if there is a decline in the Company's share price.

On the afternoon of Sunday 28 October, CTM became aware via the media that VGI had started circulating a 176-page report on the Company that purported to identify 20 concerns in relation to the business. At no time has VGI shared this report with the Company or offered to discuss its contents.

The Board requested a Trading Halt before the market opened on Monday morning, in order to undertake a detailed review of the report so that it could keep shareholders fully informed. The Board has treated the review of VGI's claims seriously and given it the highest priority including seeking advice from its corporate and legal advisers.

The Board acknowledges two issues, one of which relates to the need for the Company to keep its website updated with its office locations. The second relates to not using the term 'patented' in relation to its proprietary technology.

In the Board's opinion, the rest of the report either misunderstands or misrepresents the Company's financial performance, governance and business model. The detailed response accompanying this announcement comprehensively addresses all of VGI's issues.

Key points

- The Company rejects the claim that a change to revenue recognition policy made a material difference to FY18 earnings. There is no material impact from the policy change, which led to a $0.5m adjustment, representing a 0.4% contribution to FY18 EBITDA.
- The Company rejects the claim that the growth of receivables in FY18 was a result of the change in revenue recognition policy. It was predominantly due to strong growth in TTV (Total Transaction Value) and timing differences in the working capital cycle.
- The Company rejects the claim that a decline in 2H18 cashflows indicates poor revenue quality. The movements in cash payments are primarily timing differences. Over time, CTM has consistently delivered at or near 100% cash conversion.
- The Company rejects the claim that client cash balances appear very low when compared to peers. The cash balances and associated interest income of a corporate travel company are typically lower than a leisure dominant business, which has a different business model.
- The VGI report dedicates 58 pages to alleging that CTM's global office footprint is overstated. The Company rejects this claim. CTM has a clear strategy to establish a global footprint and generate scale, but is not intending to do this by building a costly and less productive small office 'bricks and mortar' empire.

As the Company has completed its review of the VGI report, the Board has this morning approached VGI Partners seeking a meeting to explain the Company's response and ask that the report be corrected or withdrawn.

Chairman, Tony Bellas said, "VGI has been very clear about its intention to benefit from a decline in the Company's share price."

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"We are concerned about the potential impact on shareholders from VGI making claims that, in our view, are not supported by the facts."

"The timing of this report is unfortunate because it does not take into account the Company's excellent performance record and continued successful execution of strategy. The Company is in great financial shape."

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1 Supernormal profitability (VGI report page 21)

Claim: CTM's margins are way above global peers.

Most of VGI's selected peer group are not directly comparable to CTM.

Most of the comparator companies derive a much lower proportion of their earnings from the corporate travel segment and do not publish separate accounts for their Corporate travel businesses.

A 'bricks and mortar' leisure travel business has a much higher cost operation than a corporate travel business. For CTM this is a high cost-to-serve business segment and is less profitable.

VGI acknowledges in its report that only 5% of Expedia's business is corporate travel and only 35% of Flight Centre's business is from corporate travel. Helloworld is primarily a leisure, wholesale and franchise travel business.

HRG was acquired by Amex GBT Travel in 2018 and there are no current financial reports for the HRG business.

CTM has improved its profitability while at the same time delivering increased value to its customers. The benefit to CTM's customers is reflected in the current revenue margin of 7.5% of Total Transaction Value (TTV) compared to 9.0% in 2010. CTM's profitability advantage is driven by the deployment of technology to create benefits of scale and internal automation to enhance customer service. Furthermore, CTM is a much lower cost operation than businesses with substantial retail operations.

Based on CTM's audited accounts for the year ended 30 June 2018, the EBIT margin is 28.7% (VGI incorrectly stated EBIT margin at 32.0%). The Board regards this level of profitability as reflective of a highly efficient and competitive business model.

2 Growth through acquisitions (VGI report pages 23-28)

Claim: CTM has purchased growth through acquisitions.

CTM has had a clear strategy to establish a global footprint and to generate scale. Growth through acquisition has been an integral part of this strategy.

These acquisitions have been EPS accretive, and the majority of acquisitions have been funded by capital raisings to preserve a strong balance sheet and operating cash flow.

Page 25 of the VGI report shows the number of shares on issue growing at a compound annual rate of 5.5% over the past 8 years. During the same period, shareholders have benefited from EPS growth at a compound annual rate of 34.7% on a diluted basis.

Clearly, acquisitions have been a successful pillar of CTM's strategy.

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3 Acquisition cash outflows that fail to reconcile (VGI report page 30)

Claim: CTM has paid more than disclosed in acquisition cashflows.

CTM has fully complied with its reporting obligations and disclosed all material business combinations.

Following are the facts regarding the $7.8m referred to in VGI's report:

- FY17: $2.6m paid to vendors of Montrose Travel. This has been disclosed on page 62, Note 7 of the FY17 Financial report.
- FY17: $0.8m paid by CTM to acquire the remaining 40% of the business in Paris, France. (CTM had previously owned 60%). This explains CTM leaving and moving premises on slide 126 of the report.
- FY17: $0.7m represents FX movements on the acquisition payments during the FY17 year.
- FY18: $1.2m Redfern working capital adjustment which is the difference between the working capital adjustment on purchase consideration of $2.9m (page 58, Note 7 of the F17 financial report) less the working capital adjustment paid of $1.7m (page 59, Note 7 of the FY17 financial report) adjusted for FX differences.
- FY18: $0.2m AJT working capital adjustment was outlined on page 60, Note 7 of the FY17 financial report. An additional $0.14m was adjusted during FY18 as a measurement period adjustment and subsequently paid.
- FY18: $1.0m Travizon working capital adjustment payment which is the difference between the working capital adjustment on purchase consideration of $2.5m (page 60, Note 7 of the F17 financial report) less the working capital adjustment paid of $1.4m (page 61, Note 7 of the FY17 financial report) adjusted for FX differences.
- FY18: $1.3m Montrose additional acquisition payable which has been disclosed on page 62, Note 7 of the FY17 Financial report.

<u>This is a complete and detailed reconciliation of the acquisition cash outflows.</u>

4 Lowered goodwill discount rates (VGI report pages 32-34)

Claim: CTM materially lowered the pre-tax discount rate used for impairment testing of goodwill and the USA may have risk of impairment.

<u>No impairment issues have been identified since listing.</u>

CTM makes the following points:

1. The major input in the discount rate calculation is cost of equity which is sourced from an independent third party. The cost of equity has reduced in FY 2018 v FY 2017 due to improved country risk premiums and asset beta.
2. In performing our impairment assessment, we have prepared discounted cash flow (DCF) models on a value in use (VIU) basis for each CGU. These models have been prepared on a post-tax basis as is common market practice, and have therefore used post-tax discount rates for each of the CGUs. They are not prepared using a pre-tax discount rate as assumed by VGI.

   As required by AASB 136 *Impairment of assets* we have disclosed pre-tax discount rates for each of the CGUs. The methodology employed to derive the pre-tax discount rates in FY17 was to gross up the post-tax discount rate for each CGU by the relevant jurisdiction's tax rate. This methodology was revised in FY18 to ensure a more accurate pre-tax discount rate is

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calculated by 'back-solving' using pre-tax cash flows and the value implied by the post-tax value in use. This change in methodology has resulted in a portion of the change in discount rates disclosed between 2017 and 2018.

As discussed above, our impairment assessments for each CGU were performed on a post-tax basis, and we additionally performed sensitivity analysis on each of our CGUs, including in relation to discount rates. The pre-tax discount rate is not used to assess impairment.

These two points explain the reduction in the pre-tax discount rate disclosed in the 2018 Annual Report.

5 Very little interest income (VGI report pages 36-42)

Claim: CTM is earning little interest income on its cash balances and this doesn't make sense when compared to its peers.

The lower interest earned by CTM is understandable given the difference between corporate and leisure business models.

- The peers selected by VGI to compare to CTM are predominantly leisure, where deposits and full payments are held, sometimes months in advance of payment obligations falling due.
- In the corporate travel segment, very little cash is held because of short lead times between receipt of monies and payment to suppliers. Secondly, the clear majority of sales are settled via credit card so that monies are receipted by the supplier (airlines) not CTM. As a consequence, CTM has much lower holdings of cash than a leisure dominant business.
- CTM cash balances fluctuate in line with supplier payments and, in particular, payments to airlines through the Bank Settlement Plan (BSP). These payment timings and fluctuations can be significant. Therefore, to take a point-in-time cash balance for analysis is not appropriate as a basis for ascertaining effective interest income.

6 Low client cash balances (VGI report pages 44-46)

Claim: CTM's client cash balances appear very low when compared to its peers

For the reasons given in response 5, CTM client cash holdings are significantly lower than businesses that operate predominantly in the leisure segment.

VGI makes a comment on page 46 relating to FY11 (CTM's first year as a listed entity) and FY12 comparatives in the CTM accounts. This had no impact on total cash and was to ensure comparability in the split between corporate and client cash in FY11 versus FY12.

The cash balances of a corporate travel management company are typically lower than a leisure dominant business.

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7 Significant changes to revenue recognition policy (VGI report pages 48-56)

Claim: CTM may have made a material change to revenue recognition policy to overstate FY18 results.

There is no material impact from the change in revenue recognition policy.

The revenue recognition policy change led to a $0.5m adjustment, representing a 0.4% contribution to FY18 EBITDA.

The background to this adjustment is as follows:

- The revenue standard requires revenue to be recognised when it can be reliably measured and is highly probable.
- As a result of increased probability of receipt and validation measurement on the Pay Direct Commission (PDC) process, CTM booked additional revenue of $0.5m in FY18.

Page 52 suggests that CTM was deliberately misleading concerning a missing Note 13. The fact is there is no missing information. Due to a typographical error there was an incorrect reference to Note 13 which should have been Note 12. There was no Note 13 to the accounts.

Pages 53-55. VGI claims that an accounting policy change regarding revenue recognition in FY18 is inconsistent with a policy change in FY14.

The facts are as follows:

- The change to accounting policy in 1H14 was disclosed in Note 32 on page 116 of the 2014 Annual Report.
- The adjustment is not material in FY18.

CTM did not overstate FY18 results and did not mislead the market.

8 Growing receivables (VGI report pages 58-59)

Claim: Increased receivables is linked to changes in (ie. more aggressive) revenue recognition.

Aside from the change noted in point 7 (which only accounted for $0.5m of revenue over FY18), there has been no change in CTM's revenue recognition policy.

The increase in receivables is due to:

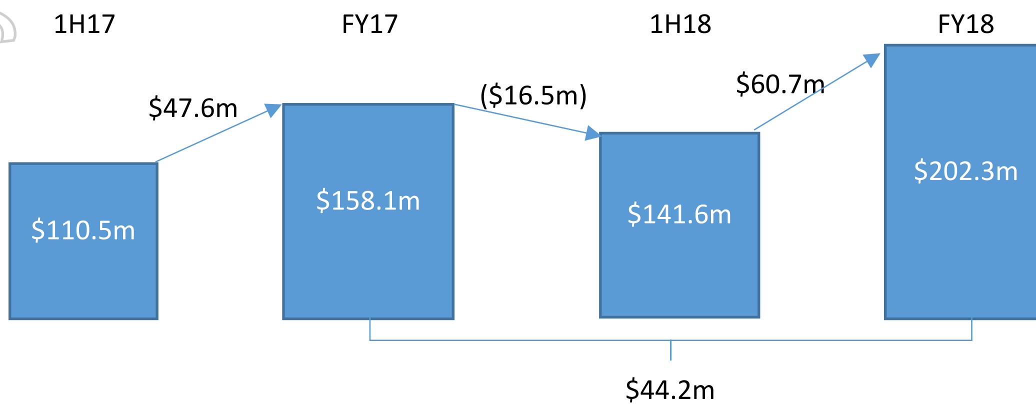
- Strong growth in TTV which is on credit terms (predominantly wholesale and Government accounts).
- Timing differences in the working capital cycle where payment obligations by clients or to suppliers may fall either side of balance dates.

Prior to FY14, the majority of CTM business was transacted directly on client credit cards. During FY14, CTM acquired Westminster Travel in Asia. This business has a large number of clients on credit terms. In FY15, CTM acquired Chambers Travel in Europe, which also has a portion of its business on credit terms. These acquisitions increased client receivables.

More recently, the change in client receivables is due to growth in Government business (as noted in our FY18 results presentation), however the biggest impact on the change period to period is timing.

The VGI report on page 59 sets out year on year movement in receivables. The matters raised in point 8 (receivables) and point 10 (payables) should not be looked at in isolation.

The table below sets out the movement in client receivables in the last four reported halves.



Source: CTM annual and half year financial reports

As noted in the response to point 10, there has also been an increase in client (supplier) payables of $36.4m from FY17 to FY18. This is offset by the increase in client receivables over the year of $44.2m. The difference between $44.2m client receivables movement and the total movement in trade and other receivables of $41.3m, noted on page 59 of the VGI report, is the movement in the other receivable accounts. See Note 10, page 63 of CTM's FY18 Financial Report.

The movement in receivables in the table above is largely due to timing, as CTM manages its working capital to ensure all payment obligations can be met. This is explained further in the response to point 10.

CTM has not experienced any material write-offs as a result of non-collectability of outstanding debts.

9 Large balance sheet that provides meaningful discretion (VGI report pages 61-62)

Claim: CTM's large balance sheet could allow it to manipulate its cashflow by delaying payments

This claim fails to consider the consequences to CTM for failing to make BSP payments on time. Late payments can result in a loss of licence and the ability to issue tickets, which is not in the interest of CTM. CTM would not put the business model nor our clients at risk.

10 Declining 2H18 cash flows (VGI report pages 64-70)

Claim: The VGI report asserts a decline in 2H18 cash payments and customer cash receipts are indicators of poor revenue quality and that CTM is not delivering organic growth.

These movements in cash payments and receipts are primarily timing differences. Over time, CTM has consistently delivered at or near 100% cash conversion.

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The following provides a more detailed explanation.

Whilst CTM transacts in excess of $5bn of TTV, the majority of TTV is settled by client's own credit cards and hence this TTV volume does not flow through CTM's cashflow as receipts from customers or payments to suppliers and employees.

There is a portion of clients that operate on credit terms and these are recorded in CTM's cashflow as movements in receivables and payables. Client accounts are generally on terms ranging from 7 to 30 days (see comments under point 8). In addition, client (supplier) payables are normally settled on terms from 7 to 30 days. Timing differences occur in the working capital cycle where payment obligations by clients or to suppliers fall either side of balance dates.

CTM puts considerable effort into forecasting the settlement cycles of receivables and payables to manage the working capital of the business and to meet its payment obligations. CTM has consistently achieved, over a twelve-month period, at or near 100% operating cash conversion to EBITDA. Due to the impact of timing, half year conversion may not be at or near 100% however CTM guides to each half year in advance. For example, in August 2018 CTM guided that 1H19 would not achieve 100% conversion due to timing of supplier payments, but over the full year, expects at or near 100%. The table below sets out the conversion over the last four reported halves.

	1H17	**2H17**	**1H18**	**2H18**
Reported Operating Cash conversion.	134%	64%	75%	111%

This demonstrates the variability in cash conversion across reporting periods.

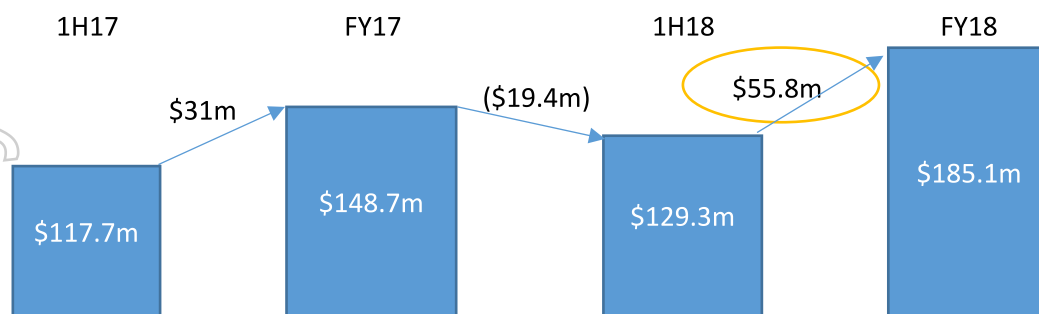
The biggest impact on the cash conversion is the timing of client (supplier) payables and client receivables (refer response to point 8).

Claim: The VGI report queries why there is a 48% year on year decline in cash payments to suppliers and employees. The report states total expenses of $128m are significantly less than cash payments to suppliers and employees of $62m per the cashflow in 2H18 (a difference of $66m). Further, CTM's 2H wage bill of $96m exceeded the $62m payments to suppliers and employees for 2H.

The following table reconciles expenses per the Income Statement and payments to suppliers and employees per the Statement of Cash Flows.

2H18	**$**
Expenses per Income Statement	128.0m (includes $96m employee benefits expense)
Movement in client (supplier) payables	(55.8m)
Movement in trade and other payables	(10.2m)
EQUALS: Payments to suppliers and employees per the Statement of Cash Flows	62.0m

The chart below sets out the client (supplier) payables and movements between periods for the last four reporting halves.



Source: CTM annual and half year financial reports

The $66.0m difference ($55.8m+$10.2m) between $128.0m of accrued expenses and $62.0m cash payments to suppliers and employees is largely due to movements of $55.8m in client (supplier) payables as shown in the chart above. The remaining difference of $10.2m is due to the movement in trade and other payables between reporting periods.

The growth on the previous corresponding half (1H18 compared to 1H17 and 2H18 compared to 2H17) for client receivables and client (supplier) payables illustrated in the chart above and in the response to point 8, is evidence of CTM's organic growth.

11 Negative share-based payment reserve (VGI report pages 72-74)

Claim: A negative share reserve is unusual and is under-stating expenses in the P&L

The VGI report claims that CTM could be under-recognising employee expenses in the P&L in the event that share based payments are cash settled.

CTM confirms share-based payments are equity settled, and as such there is no basis for VGI's claim.

Following is the explanation for a negative reserve.

CTM has an LTI program in place as noted in its Financial accounts. The plan is for issuance of Stock Appreciation Rights (SARS) to Senior Management (not cash) on a 3-year timeframe and subject to achieving financial performance hurdles. In accordance with accounting standards CTM values the SARS upon issue (using Black Scholes methodology) and the accounting expense is booked through the P&L over the life of the SARS.

In relation to the movement in the share-based payment account, the following should be noted:

- Opening balance $4.6m Cr
- Debit of $9.3m
- Closing balance of $4.7m Dr

The debit of $9.3m that has caused the reserve to go negative has been derived as follows:

- A credit of $2.2m to the Share Based Payments Reserve (SBPR) to recognise an annual expense for the fair value of the SARS at grant date over the vesting period (3 years) in accordance with

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the accounting policy on Page 67. The other side of this transaction is an expense recognised in the income statement as detailed in Note 23 Page 82 of the 2018 Annual Report;

- A debit of $13.7m relating to the shares issued by the company during the financial year in relation to SARS which have vested. The corresponding entry is an increase in Contributed Equity as disclosed in Note 13 (a) Contributed Equity. The Company's policy is to recognise this entry at the market value of the shares at issue date which in this financial year has resulted in a debit entry. This entry results in a transfer of balances between the SBPR and Contributed Equity, but no net impact on total equity, in accordance with Paragraph 23 of AASB 2 Share Based Payment. As such, the negative (debit) balance in SBPR caused as a result of this entry is offset by an equal and opposite credit balance in contributed equity.
- A net impact of $2.2m relating to the tax impact of the above transactions.

This is not unusual for a high performing company.

12 Inadequate and misleading franking disclosures (VGI report pages 76-79)

Claim: CTM franking disclosure was inadequate to avoid revealing a negative franking balance

CTM's franking disclosure was in accordance with Accounting Standards.

Page 77 refers to removal of various disclosures previously provided in relation to franking credits. Note 4 Dividends Paid and Proposed includes the amount of the franking credit balance as at 30 June 2018. The disclosures in this note are consistent with the requirements of AASB 1054 Australian Additional Disclosures Paragraph 13 which requires that "an entity shall disclose the amount of imputation (i.e. Franking) credits available for use in subsequent reporting periods." The additional disclosures previously included were removed when the Company streamlined its Financial Report in 2017, like many listed entities at that time, and consistent with the form of disclosure in CTM's auditors model accounts. There is no other reason for the change.

Page 78 of the VGI Report asserts that the franking disclosures are factually misstated, in that they do not adjust the balance for dividends paid post balance sheet date. AASB 1054 Australian Additional Disclosures Paragraph 14 notes that for the purposes of determining the amount required to be disclosed in accordance with paragraph 13, "entities may have imputation (franking) debits that will arise from the payments of dividends recognised as a liability at the reporting date". As such, the balance should only be adjusted if the dividend is declared and recorded as a liability prior to balance date. As noted in the Directors' Report, the dividend was not declared until after balance date. To adopt VGI's approach would be in contravention of the accounting standards.

The narrative disclosure in Note 4 (Page 54) of the 2018 Annual Report explains the Company's application of the above facts, and the requirements of AASB 1054, and is accepted as a way of disclosing these requirements in listed company accounts.

As disclosed on Page 54 of the 2018 Report, the dividend declared in August 2018 was 50% franked.

On page 79 the report claims that CTM would have had a negative franking account balance in FY17. CTM has never been in the position of having a shortfall of franking credits compared to franked dividends paid. At no time has the company paid franking deficit tax.

In summary CTM's franking disclosure was correct, adequate and in accordance with Accounting Standards.

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13 Capitalising expenses (VGI report page 81)

Claim: CTM is overstating capital expenditure to make FY18 organic profit growth appear high.

There has been no change in accounting policy and the increase is purely as a result of increased activity and investment in technology development.

CTM has continually flagged to the market its strategy of developing technology in all four regions.

In FY17 CTM started the rollout of technology hubs, and software development expenditure grew to $8.3m in FY17, and $11.1m in FY18. The increase in capital expenditure is in line with CTM's previous expectations. At its FY 2018 results presentation, CTM flagged that it expects to invest approximately $18.0m on software development in FY 2019, which is an annualised amount taking into account the 2H18 uplift in investment, particularly in the USA.

14 Questionable technology claims (VGI report pages 83-95)

Claim: CTM is misleading the market on the benefits of its technology strategy, is misleading on patents acquired, and has no technology advantage in the USA.

CTM's client facing technology is proprietary and does add competitive advantage:

- CTM has its own dedicated client facing technology hubs, in each of its geographic regions
- its technology is developed in-house, and does not outsource to third parties
- the technology is easy to use, is intuitive and is consumer facing
- the hubs are regionally decentralised and embedded in CTM offices to take advantage of feedback loops to customise development for local nuances.

In regions where its hubs are most mature, eg. ANZ and Europe, CTM has been able to demonstrate it can materially grow above market, expand profit margins and increase technology uptake because of the technology suite it has developed. Client feedback validates the importance and value of our technology offering.

CTM has customer facing technology which is proprietary and not patent protected. Some patents are pending and CTM has taken a commercial decision to allow some patents to expire. CTM acknowledges in some instances it has used the word 'patented' inaccurately to describe a proprietary technology. CTM will ensure this does not happen again.

CTM has taken a commercial view that patents are both expensive and timely to file and have less relevance when CTM is frequently updating technology in each region. Additionally, the integrity of patents is not always respected in some jurisdictions. CTM's technology suite is proprietary and CTM believes it takes adequate measures to protect its IP.

Claim: In pages 92-94 the report specifically focusses upon USA and suggests CTM overstates its technological advantage in this region.

It has always been CTM's view that:

- current third-party technology in the USA is expensive, clunky and difficult to integrate
- it is building a tech hub in the USA, to create the same technology competitive advantage it enjoys in other jurisdictions

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- it does not yet have a technology advantage in the USA but expects to deliver its end-to-end technology by 31 December 2018 in the USA.
- some clients using legacy technology will prefer to maintain the status quo and CTM will support this.

15 Global office foot print overstated (VGI report pages 97-154)

Claim: CTM is being misleading by overstating the number of physical locations in which it operates

Our response to the 58 pages in the VGI report dedicated to this topic is set out below.

Europe (see summary page 128 of the VGI report)

In Europe, every office serves a strategic purpose.

In order to comply with regulatory requirements, CTM maintains office addresses in key European countries where required to service clients. This allows CTM to have access to local travel content and issue tickets in the local currency without requiring a 'bricks and mortar' office in that location.

CTM's teams who service these customers are physically located in the London office (Eurocentre).

The staff who work in our Eurocentre are multi-lingual experts, that can best leverage the expertise, the ramping of services in response to fluctuations in client demand and allows CTM to better service our customers at a lower cost of delivery. Importantly, our global clients are aware of this solution. The alternative is to open 'bricks and mortar' agencies in each European country that are small, costly, and less productive. These types of agencies are not required by a corporate travel company.

Where there is sufficient customer demand CTM will open a staffed office. Paris and Berlin are good examples of this. Another large European office is our Glasgow office. This strategy has been very successful, as measured by recent revenue and profit growth in the region, and it is noted that VGI highlights this growth in Page 99.

CTM's website may not have always been up to date with current addresses for some of its offices that have recently relocated or new offices that have recently opened. Paris and Glasgow have recently relocated to larger premises.

USA (see summary page 154 of VGI report)

In North America we are in the process of consolidating legacy offices.

CTM has inherited several legacy 'bricks and mortar' offices (through previous acquisitions) that are either not profitable or not relevant to support the business. It is CTM's strategy to merge or close these offices as part of a transition plan. This is in the normal course of business.

In responding to the summary of each office location on page 154, with the exception of Dutch Harbor, the other offices cited by VGI are legacy locations where we are running out existing leases that will not be renewed. This is part of our office consolidation strategy. In relation to Dutch Harbor, CTM has downsized from an office to an airport kiosk because it better meets the needs of a key corporate fly-in-fly-out seasonal client.

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16 Long-serving auditor (VGI report pages 156-157)

Claim: PwC has been the auditor of CTM since listing on the ASX in December 2010 and received substantial audit fees.

In that period, there have been three PwC audit partners overseeing the CTM audit in rotation. The most recent audit partner, Mr Michael Shewan, has just completed a five-year rotation and, in accordance with the usual practice adopted by most audit firms and consistent with good governance principles, has been replaced by Mr Michael Crowe.

Neither the tenure of PwC as auditor nor the level of audit fees they receive, is in any way out of the ordinary.

17 Retirement of Chairman with no replacement (VGI report page 159)

Claim: Retirement of Chairman with no replacement

The Chairman, Mr Tony Bellas, has held that position since listing in December 2010. He currently chairs five other ASX-listed companies and is also chair of the Endeavour Foundation, a not-for-profit organisation that provides services to people with intellectual disability.

Mr Bellas has been conscious of the calls by various proxy advisors to reduce his workload. In this regard, he has taken the decision to retire from two of the companies where he has had longest tenure – CTM (retiring at the AGM on 31 October 2018) and ERM Power (retiring at the half year results announcement in February 2019).

The process for recruitment of a replacement Chairman is nearing completion and will be announced shortly.

18 Long-standing CEO and CFO (VGI report pages 161-163)

Claim: CEO and CFO have served for too long, and this presents risks to the business

Managing Director and CEO, Mr Jamie Pherous, is the founder of CTM and retains a significant shareholding in the company. Accordingly, his interests are aligned with CTM's other shareholders. Mr Pherous is one of two executives that sits on the board, which has a majority of independent directors including an independent Chair. The issues raised by VGI have never been raised as a concern by shareholders.

CFO, Mr Steve Fleming, is a Chartered Accountant and has held the position of CFO since January 2009. He is currently based in London and was heavily involved in the acquisition and integration of Redfern Travel (now CTM North region) based in Bradford in the north of England. Having Mr Fleming on the ground in the UK, in a region where we expect future acquisitions, is an asset to the Company.

Mr Pherous leads a motivated and experienced global team that has presided over a period of sustained growth.

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19 High turnover in North America CEO role (VGI report page 165)

Claim: High turnover of CEO in North America

CTM entered the North American market with the July 2012 acquisition of a Denver-based corporate travel firm. The principal of that firm, Mr Robert Polk oversaw the US operations for the first two years. Following Mr Polk's retirement, Mr Romeo Cuter was recruited to the role but left the company after only one year. An interim CEO, Julie Crotts, founder of the Seattle based corporate travel firm acquired by CTM in July 2014, was appointed pending a search for a replacement. The current CEO, Mr Chris Thelen, has been in the role since July 2016 and was previously CEO of the European business based in London. Mr Thelen, who holds both US and UK citizenship, was the founder and principal of Chambers Travel acquired by CTM in January 2015. The leadership of the North American operations has been stable, and a highly effective senior leadership team supports the CEO.

20 Management share sales (pages 167-172)

Claim: Management and directors have been selling shares

The sale by Mr Chris Thelen, CEO of North America, was for personal reasons. He retains 431,007 shares, a significant stake in the company.

The sale by Steve Fleming was for the purposes of purchase of a house in London where he is now based in his role as Global CFO.

The sale by Laura Ruffles was for tax and property purposes.

The sale by Director Natter was in fact a transfer to a charitable trust for the United States Naval Academy and there was no financial gain to Admiral Natter.

Mr Bellas sold less than 10 percent of his stake for personal reasons.

Mr Pherous has sold stock primarily to fund property purchases but has also reinvested in the company during various capital raisings. He remains a significant shareholder with 20,485,000 shares.