



ASX Announcement

2 March 2020

CTM Response to VGI Partners Report

Corporate Travel Management (CTM, ASX:CTD) is aware of a report published by VGI Partners (**VGI**) on Sunday 1 March 2020 (**VGI Report** or **Report**). The Report was published without prior inquiry to CTM.

The VGI Report appears to raise five concerns with CTM's 1H20 results (refer Attachment 1 for CTM's response) and re-raises a number of issues from its previous reports. CTM believes the matters raised in the VGI Report were addressed in CTM's 1H20 results and accompanying disclosures, which were released to the ASX on 19 February 2020 and CTM rejects the claims of irregularities contained in the Report.

VGI holds a short position in CTM and has a vested interest in promoting market uncertainty with respect to CTM. CTM notes that three financial reporting periods have passed since VGI's previous reports. The timing of the release of VGI's latest report, appears to be an attempt to use the current uncertainty caused by Covid-19 to promote further market uncertainty with respect to CTM, despite this affecting the entire travel sector and the broader economy.

CTM remains focused on managing the performance of the underlying business during this period of disruption to the travel sector and supporting team members, customers and stakeholders.

Authorised for release by Anne Tucker, Company Secretary.

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Attachment 1

CTM Response to VGI Partners 1 March 2020 Report

VGI Issue 1: Weakness in 1H20

VGI's report claimed that CTD had "blamed" the company's 1H20 result on the coronavirus.

CTM Response

- ✓ VGI appears to have chosen to ignore the macro and economic challenges experienced in 1H20 including Brexit, Hong Kong unrest, and the US/China Trade war.
- ✓ Any weakness in 1H20 was not "blamed" on coronavirus. Covid-19 was referred to in the context of FY20 guidance which related to 2H20 impacts.

VGI Issue 2: Lower volume-based incentive revenue

VGI's report claimed that volume-based revenue is in decline.

CTM Response

- ✓ VGI's report notes a 6% (A\$3m) decline in volume-based revenue, but appears to ignore the 9% (\$14m) increase in transactional revenue.
- ✓ On page 10, point 3, of the Investor Presentation, we have clearly indicated that in Asia we successfully executed a supplier revenue strategy to de-risk the volume-based overrides. This strategy resulted in a movement from volume-based to transactional revenue.
- ✓ Significant annual volume-based override contracts that do not finish at 31 December are only present in ANZ. Asia is the region with the highest proportion of volume-based revenue, and these contracts in Asia are predominantly quarterly, so much of the amounts owed are known as at reporting dates.
- ✓ The fact that revenue is recognised prior to cash being received is consistent with accounting standard AASB 15 *Revenue from Contracts with Customers*.

VGI Issue 3: Weak cash flows

VGI claimed that CTM produced negative free cash flows to equity in 1H20 and is unable to reconcile its cash flow movements on page 18 of the investor presentation.

CTM response

- ✓ CTM has presented its cash flow consistent with accounting standard requirements and past practice. Operating cash flow was positive in 1H20.
- ✓ The purpose of page 18 of the investor presentation was to help the investor community understand the cause of swings in reported cash flow. The company has received positive feedback on this added disclosure.

VGI Issue 4: Increased annual capitalisation of costs is a red flag

VGI's report claimed that CTM has been increasingly capitalising software development, and amortisation of previously capitalised costs are an increasing drag on profits.

CTM response

- ✓ CTM have been very clear with the market about our tech strategy, including development in-region, for-region. The assets that these activities create are a key point of differentiation for CTM and continue to drive the relative business outperformance in all regions in which we operate.
- ✓ CTM are very transparent about the amounts of software development we expect to capitalise. Software capitalisation is expected to amount to A\$22.5m in FY20 as CTM seeks to maintain its market-leadership position in technology. CTM expects to continue to increase the amount capitalised as we grow.
- ✓ Recoverability of intangible assets is tested by management.
- ✓ Information technology and communications expenses are also expensed to the Income Statement at a rate of more than double the capitalised costs.
- ✓ CTM continues to take a conservative approach to amortisation of software intangibles, with over 90% of capitalised assets either in WIP or being amortised over a period not exceeding 3 years.

VGI Issue 5: CTD's borrowings

VGI's report raised questions about intra-period borrowings, and raised the prospect of using credit cards to pay bills while repaying debt. VGI also raised what appeared, to them, to be very high rates of interest paid and low levels of interest received.

CTM response

- ✓ CTM records in the Statement of Cash Flows, all repayments and borrowings on a gross basis. The characterisation of the large intra-period balances is incorrect. If a \$20m maturity is rolled for another 3 months, that will show both a \$20m repayment and \$20m proceeds from borrowings.
- ✓ Credit cards and borrowings are not as closely linked as suggested by VGI. The card facilities are primarily used for the benefit of clients via virtual credit cards in accordance with normal industry practice for corporate clients.
- ✓ The credit card balances, as disclosed on page 19 of our Interim Financial Report, have not moved materially in 1H20 (\$45.4m at FY19 to \$51.1m).
- ✓ VGI appear to have overlooked the impact of the voluntarily disclosed borrowing costs on page 18 of the Interim Financial Report.