



# THE UK'S LEADING ONLINE RETAILER OF **BEACH HOLIDAYS**

## H1 19 RESULTS PRESENTATION



May 2019

# AGENDA

**H1 19 Market Dynamics**  
**H1 19 Financial Performance**  
**Paul Meehan - CFO**

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**Evolution of Key Drivers**  
**Simon Cooper – CEO**

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**Q & A**

## **CAUTIONARY STATEMENT**

*This presentation may contain certain forward-looking statements with respect to the financial condition, results, operations and businesses of the Company. Forward looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'will', 'could', 'may', 'should', 'expects', 'believes', 'intends', 'plans', 'targets', 'goal' or 'estimates'.*

*These forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements, including factors outside the Company's control.*

*The forward-looking statements reflect the knowledge and information available at the date of preparation of this presentation and will not be updated during the year. Nothing in this presentation should be construed as a profit forecast.*

# Paul Meehan

*Chief Financial Officer*

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**H1 19 Market Dynamics**

**H1 19 Financial Performance**

# H1 19 Market Dynamics

## OTB

- Solid performance in H1 despite soft UK market due to Brexit uncertainties, particularly in February & March
- Background market has been trading at c.(10)% YOY in 2019 and independent market data confirms that 16% of holidaymakers were deferring their holiday purchase due to Brexit uncertainty
- Efficient online marketing spend has supported profit growth
- Continued investment in our largest offline campaign to date driving record levels of brand awareness and branded traffic, with branded and free traffic increasing to 68% in H1 (H1 2018 62%)

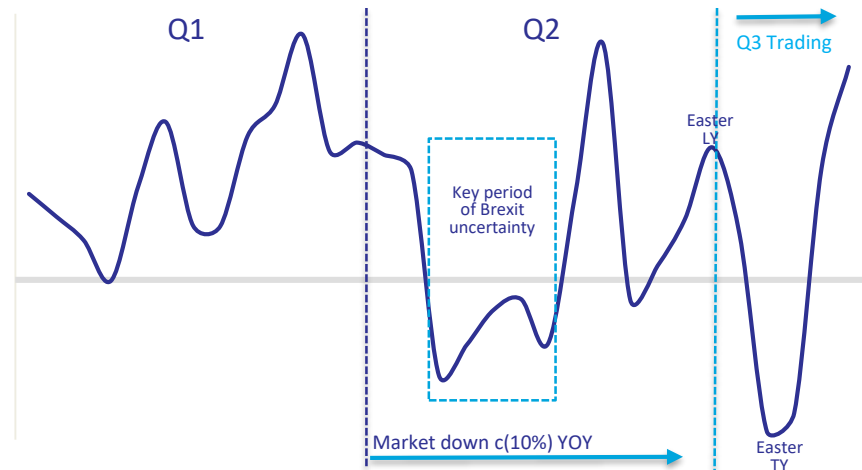
## International

- Trading in Sweden was adversely affected by the failure of Primera in October 2018 which was 25% of seat supply
- Online marketing spend has been relatively lower YoY, resulting in a high share of branded traffic and repeat purchase rates underpinning a breakeven performance in Scandinavia
- In recent weeks International bookings have recovered to prior year levels whilst marketing efficiency has been maintained

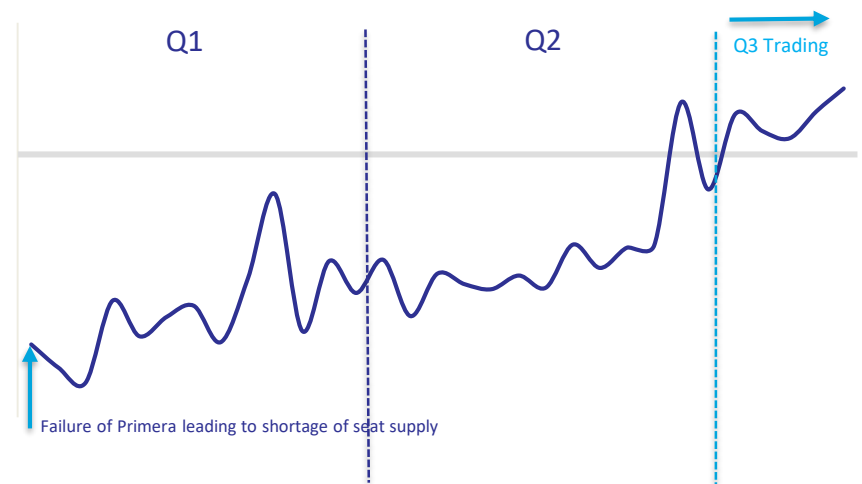
## Other

- Good progress integrating long haul carriers, with Emirates and British Airways completed
- Launched Classic Package Holidays in March and the operation (support and distribution) will be scaled in H2
- Appointed Richard Pennycook as Non-Executive Chair

H1 19 YOY Bookings Profile - OTB



H1 19 YOY Bookings Profile – International



# Profit and Loss Account – OTB Segment

## H1 19 EBITDA growth of +10%

	H1 19 £m	H1 18 £m	Change %
<b>Revenue</b>	<b>44.6</b>	<b>44.2</b>	<b>1%</b>
Online Marketing costs	(14.9)	(18.0)	
Offline Marketing costs	(4.1)	(3.4)	
<b>Total Marketing</b>	<b>(19.0)</b>	<b>(21.4)</b>	<b>11%</b>
<b>Revenue after marketing costs</b>	<b>25.6</b>	<b>22.8</b>	<b>12%</b>
Variable costs	(2.7)	(2.4)	
Fixed costs	(4.5)	(3.6)	
<b>EBITDA</b>	<b>18.4</b>	<b>16.8</b>	<b>10%</b>
EBITDA %	41%	38%	
Online Marketing %	33%	41%	
<b>Total Marketing %</b>	<b>43%</b>	<b>48%</b>	
Variable costs % revenue	6%	6%	
Fixed costs % revenue	10%	8%	
<b>Total Overheads % revenue</b>	<b>16%</b>	<b>14%</b>	

## OTB growth year on year

- Revenue +1%
- Revenue after marketing +12%
- EBITDA +10%
- Online marketing spend decreased from 41% to 33%
- 21% increase in Offline spend to drive record levels of brand awareness
- Overheads increased to 16% of revenue reflecting:
  - Investment in new Digital HQ in Manchester
  - Package Travel Directive costs
  - Further Investment in IT
- **OTB EBITDA % increased 300 bps to 41%**

H118 has been restated under IFRS15, reducing revenue by £0.2m

# Profit and Loss Account – International

H1 19 EBITDA +£1.4m YOY

	H1 19 £m	H1 18 £m	Change %
<b>Revenue</b>	<b>0.4</b>	<b>0.9</b>	<b>(56%)</b>
Online Marketing costs	(0.4)	(1.5)	
Offline Marketing costs	-	(0.6)	
<b>Total Marketing</b>	<b>(0.4)</b>	<b>(2.1)</b>	
<b>Revenue after marketing costs</b>	<b>-</b>	<b>(1.2)</b>	
Variable costs	(0.1)	(0.2)	
Fixed costs	(0.1)	(0.2)	
<b>EBITDA</b>	<b>(0.2)</b>	<b>(1.6)</b>	

- Trading in Sweden adversely affected by the failure of Primera in October 2018; as 25% of seat supply this led to a shortage of seats
- Online marketing spend has been lower YoY resulting in a high share of branded traffic and repeat purchase rates underpinning a breakeven performance in Scandinavia
- In recent weeks International bookings have recovered to prior year levels whilst marketing efficiency has been maintained
- As seat capacity returns to normal levels for the summer we will invest more heavily in marketing to grow share and bookings

# Profit and Loss Account – Classic Collection

H1 19 EBITDA contribution of (£0.1m)

	H1 19 £m	H1 18 £m	Change %
<b>Revenue</b>	<b>18.5</b>	<b>20.1</b>	<b>(8%)</b>
Gross Profit	2.5	2.6	
<b>Gross Profit after marketing costs</b>	<b>2.0</b>	<b>2.0</b>	<b>-</b>
Variable costs	(0.6)	(0.6)	
Fixed costs	(1.5)	(1.6)	
<b>EBITDA</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>-</b>

Pro forma

## Classic Collection Holidays (CCH)

- Acquired Classic Collection Holidays on 15 August 2018
- As a principal rather than an agent, CCH reports on a travelled basis
- CCH contributed EBITDA of (£0.1m) in H1, H1 18 (pre-acquisition) EBITDA of (£0.2m)
- H2 forward bookings reflect a level of consumer uncertainty, with bookings down slightly YOY

## Classic Package Holidays (CPH)

- Classic Package Holidays was launched in March and the operation (support and distribution) will be scaled in Q3
- H1 losses of (£0.5m) in CPH relate to the resource allocated to build and launch the proposition

# Profit and Loss Account – Group

*Adjusted profit before tax +14% YOY*

	H1 19 £m	H1 18 £m	Change %
OTB EBITDA exc Share Based Payments	18.4	16.8	10%
International EBITDA	(0.2)	(1.6)	
CPH EBITDA	(0.5)	-	
CCH EBITDA	(0.1)	-	
<b>Group EBITDA exc Share Based Payments</b>	<b>17.6</b>	<b>15.2</b>	<b>16%</b>
Depreciation and amortisation	(2.0)	(1.5)	
<b>EBIT exc Share Based Payments</b>	<b>15.6</b>	<b>13.7</b>	<b>14%</b>
Finance costs / Other income	0.1	0.1	
<b>Adjusted Profit Before Tax</b>	<b>15.7</b>	<b>13.8</b>	<b>14%</b>
Exceptional and one-off costs	(0.5)	(0.3)	
Share Based Payments	(0.5)	(0.7)	
Amortisation of acquired intangibles	(2.8)	(2.2)	
<b>Profit Before Tax</b>	<b>11.9</b>	<b>10.6</b>	<b>12%</b>
Corporation Tax	(2.3)	(2.3)	
<b>Profit After Tax</b>	<b>9.6</b>	<b>8.3</b>	<b>16%</b>

<b>Adjusted Profit After Tax</b>	<b>12.6</b>	<b>10.9</b>	<b>16%</b>
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Earnings per share			
Basic	7.3	6.3	16%
<b>Adjusted</b>	<b>9.6</b>	<b>8.3</b>	<b>16%</b>
<b>Dividend per share (pence)</b>	<b>1.3</b>	<b>1.1</b>	<b>18%</b>
Effective tax rate	19%	22%	

- Adjusted profit before tax increased by 14% to £15.7m
- Adjusted profit after tax increased by 16% to £12.6m
- Exceptional costs include dual property costs as a result of the move to our Digital HQ in Manchester
- Amortisation increases reflecting increased investment in the technology platform
- Adjusted EPS increased by 16% to 9.6p
- Interim Dividend per share of 1.3p, +18%



# Balance sheet

	H1 19 £m	H1 18 £m
Intangible assets	86.3	70.8
Property, plant and equipment	7.6	2.0
Investment property	0.8	-
<b>Total Non Current Assets</b>	<b>94.7</b>	<b>72.8</b>
Trade and other receivables	189.3	156.3
Assets held for sale	0.2	-
Trust Account	56.9	58.4
Cash	8.2	11.8
<b>Total Current Assets</b>	<b>254.7</b>	<b>226.5</b>
Trade and other payables	(202.6)	(164.3)
Corporation tax payable	(1.9)	(1.7)
Derivative financial instruments	(4.0)	(0.9)
<b>Total Current Liabilities</b>	<b>(208.5)</b>	<b>(166.9)</b>
<b>NET CURRENT ASSETS</b>	<b>46.2</b>	<b>59.6</b>
RCF drawn	(9.5)	(23.5)
Deferred Taxation	(6.6)	(6.1)
<b>NET ASSETS</b>	<b>124.8</b>	<b>102.8</b>
Net Debt	(1.3)	(11.7)
Net Trade DR/CR	(13.2)	(7.9)

- ▶ The business operates a trust account which protects customer monies until they have returned from their holiday. This trust effectively acts as a debtor to the business
- ▶ Seasonal cash flow requirements are covered by a revolving credit facility which is drawn down as required
- ▶ H1 19 consolidates CCH into the Group (H1 18 excludes CCH)

# Cash Flow

	H1 19 £m	H1 18 £m
<b>Profit before taxation</b>	<b>11.9</b>	<b>10.6</b>
<i>Adjustments for:</i>		
Depreciation and amortisation	4.7	3.7
Net finance income	(0.1)	(0.1)
Share based payments	0.5	0.7
	<b>17.0</b>	<b>14.9</b>
Movement in working capital	(57.2)	(48.4)
Corporation tax	(0.2)	(3.3)
<b>Operating cash flow</b>	<b>(40.4)</b>	<b>(36.8)</b>
Capitalised development spend	(2.3)	(1.7)
Capital expenditure	(3.4)	(0.8)
<b>Free Cash Flow</b>	<b>(46.1)</b>	<b>(39.3)</b>
<i>Adjusted Free Cash Flow*</i>	<i>(45.6)</i>	<i>(39.0)</i>
Acquisition of subsidiary, net of cash acquired	-	(3.0)
RCF drawdown	9.5	23.5
Sale of Assets	0.3	-
Interest	0.1	0.1
Dividends paid	(2.9)	(2.5)
<b>Net decrease in cash excl trust account</b>	<b>(39.1)</b>	<b>(21.2)</b>
Closing cash excl trust account	8.2	11.8
Closing trust account balance	56.9	58.4
<b>Closing cash balance Total</b>	<b>65.1</b>	<b>70.2</b>

- Operating cash outflow of £40.4m, (H1 18 - £36.8m)
- Working capital change YOY due to inclusion of CCH, incremental H1 outflow which unwinds in H2
- Increased capex spend relates to the new Digital HQ in Manchester and refurbishment of the Operational HQ in Cheadle (reported gross of £1.1m landlord contribution)

\*Adjusted for exceptional and one off costs of £0.5m (H1 18 £0.3m)

# Segmental P&L

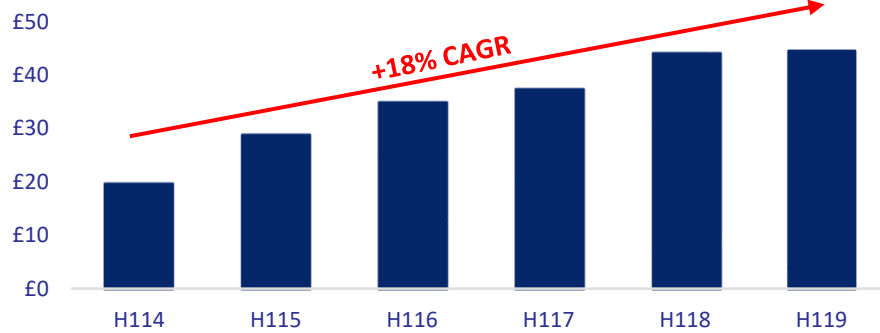
	H1 19					H1 18			Change		
	OTB £m	Int'l £m	CCH* £m	CPH** £m	Group £m	OTB £m	Int'l £m	Group £m	OTB %	Int'l %	Group %
<b>Revenue</b>	<b>44.6</b>	<b>0.4</b>	<b>18.5</b>	-	<b>63.5</b>	<b>44.2</b>	<b>0.9</b>	<b>45.1</b>	<b>1%</b>	<b>(56%)</b>	<b>41%</b>
<b>Gross Profit before marketing</b>	<b>44.6</b>	<b>0.4</b>	<b>2.5</b>	-	<b>47.5</b>	<b>44.2</b>	<b>0.9</b>	<b>45.1</b>	<b>1%</b>	<b>(56%)</b>	<b>5%</b>
Online Marketing costs	(14.9)	(0.4)	(0.1)	-	<b>(15.4)</b>	(18.0)	(1.5)	<b>(19.5)</b>			
Offline Marketing costs	(4.1)	(0.0)	(0.4)	-	<b>(4.5)</b>	(3.4)	(0.6)	<b>(4.0)</b>			
<b>Gross Profit after marketing</b>	<b>25.6</b>	-	<b>2.0</b>	-	<b>27.6</b>	<b>22.8</b>	<b>(1.2)</b>	<b>21.6</b>	<b>12%</b>	-	<b>28%</b>
Variable costs	(2.7)	(0.1)	(0.6)	-	<b>(3.4)</b>	(2.4)	(0.2)	<b>(2.6)</b>			
Fixed costs	(4.5)	(0.1)	(1.5)	(0.5)	<b>(6.6)</b>	(3.6)	(0.2)	<b>(3.8)</b>			
<b>Adjusted EBITDA</b>	<b>18.4</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.5)</b>	<b>17.6</b>	<b>16.8</b>	<b>(1.6)</b>	<b>15.2</b>	<b>10%</b>	-	<b>16%</b>
Dep'n & Amortisation	(1.8)	(0.1)	(0.1)	-	<b>(2.0)</b>	(1.4)	(0.1)	<b>(1.5)</b>			
Net Finance Income	0.0	-	0.1	-	<b>0.1</b>	0.1	-	<b>0.1</b>			
<b>Adjusted PBT</b>	<b>16.6</b>	<b>(0.3)</b>	<b>(0.1)</b>	<b>(0.5)</b>	<b>15.7</b>	<b>15.4</b>	<b>(1.6)</b>	<b>13.8</b>	<b>8%</b>	-	<b>14%</b>

\* CCH represents Classic Collection from the acquisition date of 15 August 2018

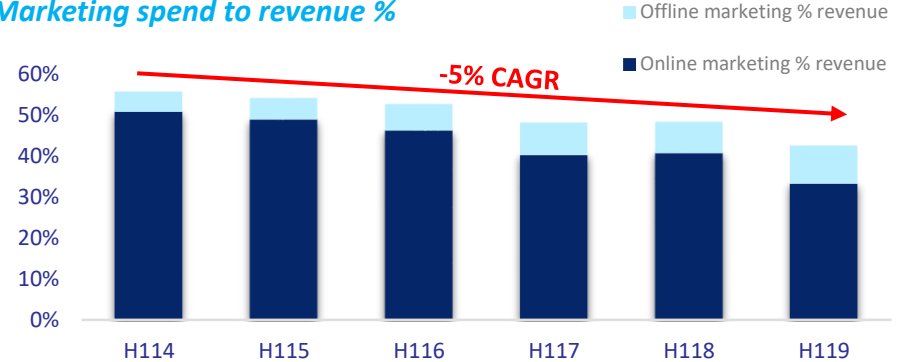
\*\* CPH represents Classic Package Holidays, launched in March 2019

# OTB KPIs: H114 to H119

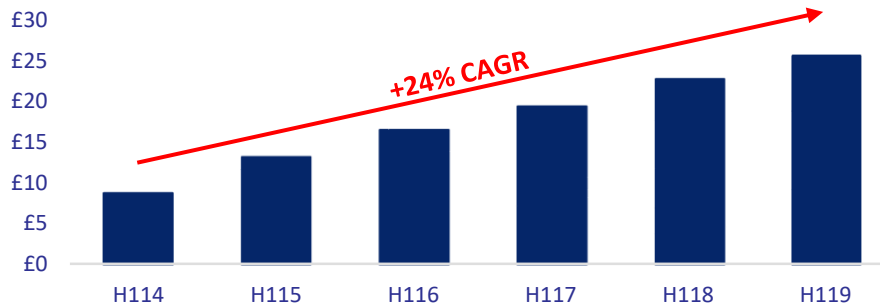
Revenue (£m)



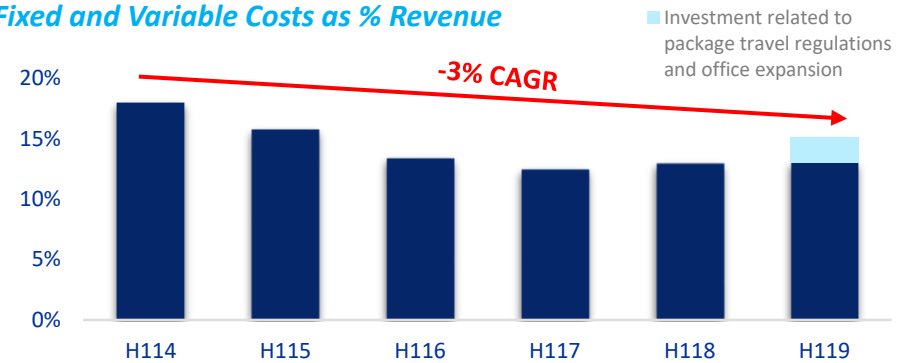
Marketing spend to revenue %



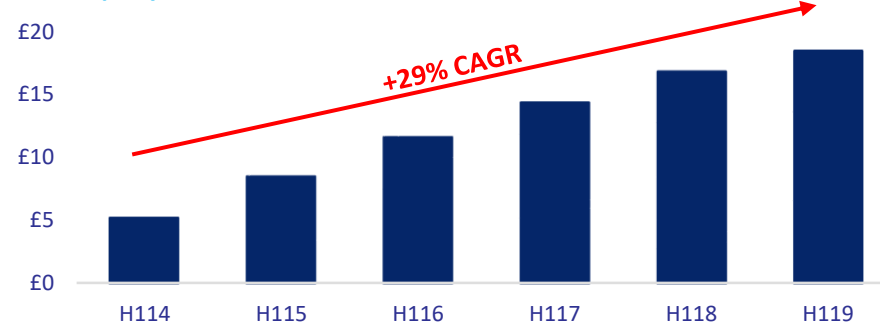
Revenue after Marketing Spend (£m)



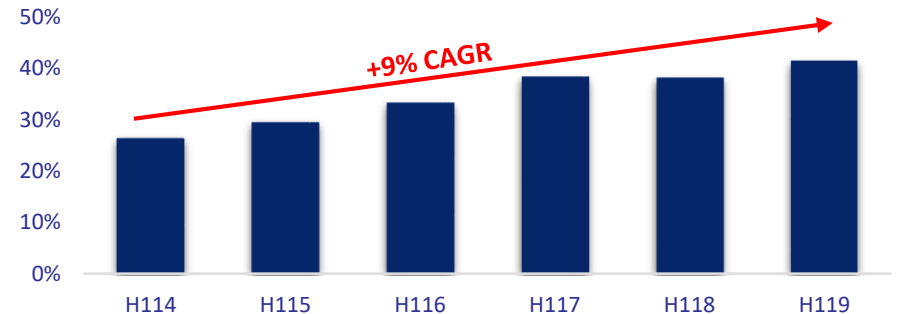
Fixed and Variable Costs as % Revenue



EBITDA (£m)



EBITDA as % of Revenue



# Simon Cooper

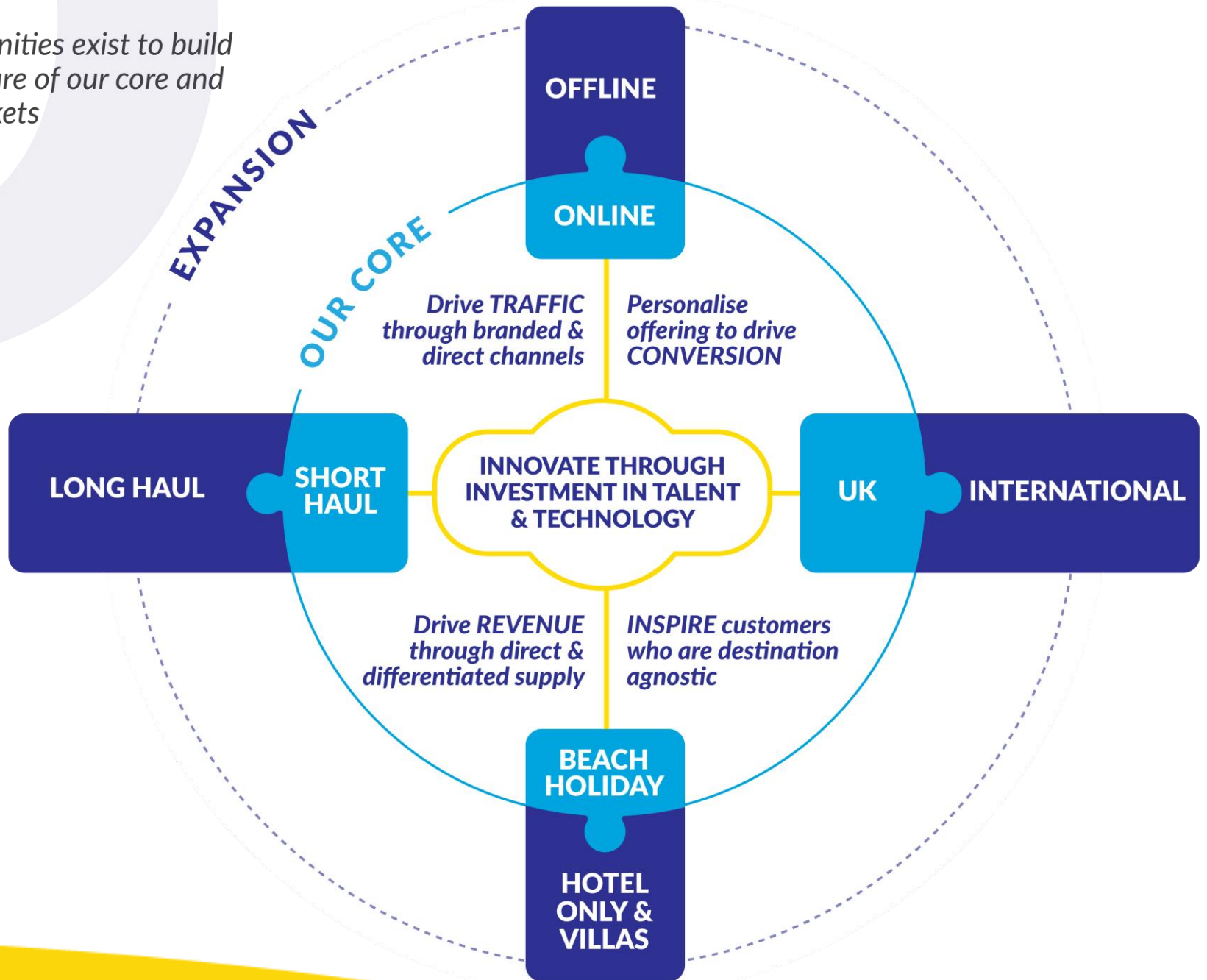
*Chief Executive Officer*

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Evolution of Key Drivers

Huge opportunities exist to build significant share of our core and adjacent markets

# OTB GROWTH STRATEGY



# Our core: Innovate through investment in talent & technology

*Relocating our headquarters should allow us to double the pace of innovation across the next 3 years*

## ➤ Recruitment

- The pace at which we are recruiting digital talent has increased through
  - The opening of our new Digital HQ in central Manchester
  - Providing a base for local tech meetups
  - Investing in our talent acquisition function
  - Continuing to run our bespoke Ruby Academy
  - Adding to the tech leadership team
  - Expanding the product function

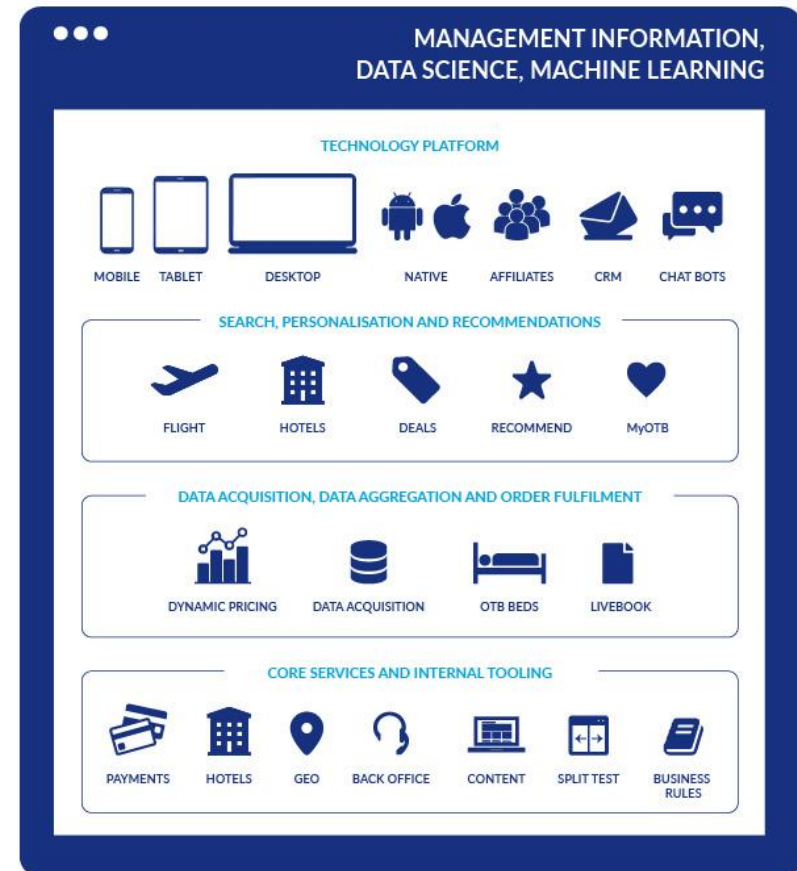
## ➤ Reorganisation

- Aligning the tech and product teams to our growth strategy via the implementation of OKRs across the digital HQ

## Technology platform



DEVOPS, SERVICE MANAGEMENT,  
MONITORING AND ALERTING



# Our core: Drive traffic through branded and direct channels

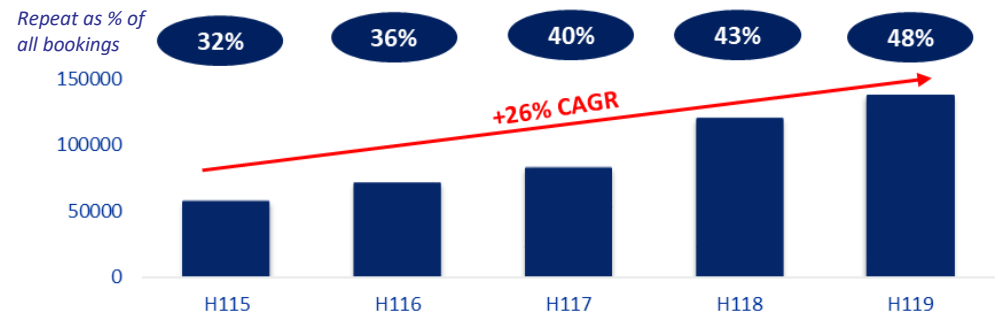
*We continue to invest in proprietary tools to allow us to grow traffic share efficiently*

- Multi-channel strategy supported by attributed in house bid modelling allows efficient share growth
- Overall spend on marketing reduced from 48% of revenue to 43% of revenue despite increased offline investment
  - App engagement has increased significantly YOY
  - Branded share of traffic has increased by 6ppts YOY to 68% of overall traffic in H1 19
- H1 19 represents our largest ever investment in offline marketing
  - Prompted awareness has increased by 6ppts YOY to 50%
- Repeat purchase volume and rates continue to increase and complaint ratios continue to fall

## Econometric Modelling



## Repeat Booking Volumes and %





# Our core: Personalise offering to drive conversion

*Our ambition is to drive a fully personalised and optimised cross-device experience for all users on all devices*

## ► Continued innovation supports improving RPUV

- Smartphone 67% of total traffic
- 35% YOY increase in smartphone conversion in H1

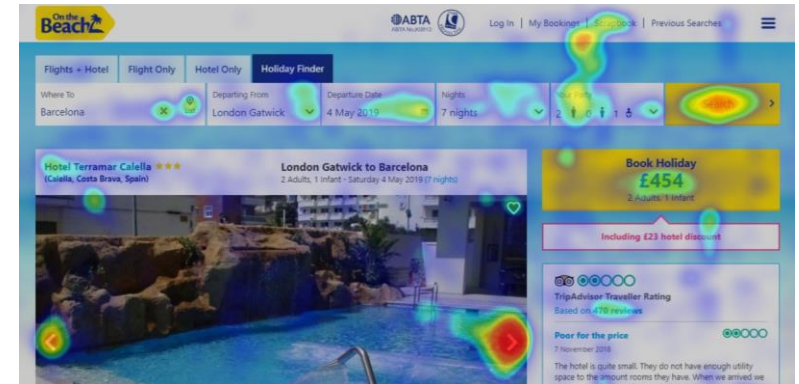
## ► Continued improvements to personalisation technology in FY19

- Mixed discipline development teams drive improvements to our machine learning driven personalisation system
- Creation of Cloud-native personalisation platform to accelerate development of personalisation technology
- Enhancing our capabilities to predict purchase intent

## ► Suite of UX testing tools give immediate validation of new features

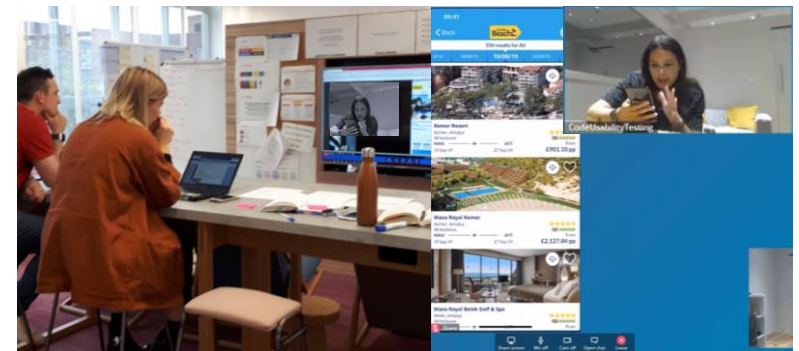
- Quantitative testing of all new functionality through our in-house split testing tool, allowing hundreds of concurrent tests to be run simultaneously
- Qualitative lab based testing with groups of users, giving first hand feedback on new features and future prototypes
- Real time dashboards give immediate feedback over effectiveness of split tests

## Quantitative testing



Suite of UX focussed analytics tools allow us to analyse changes in user behaviour in near-real time

## Qualitative testing



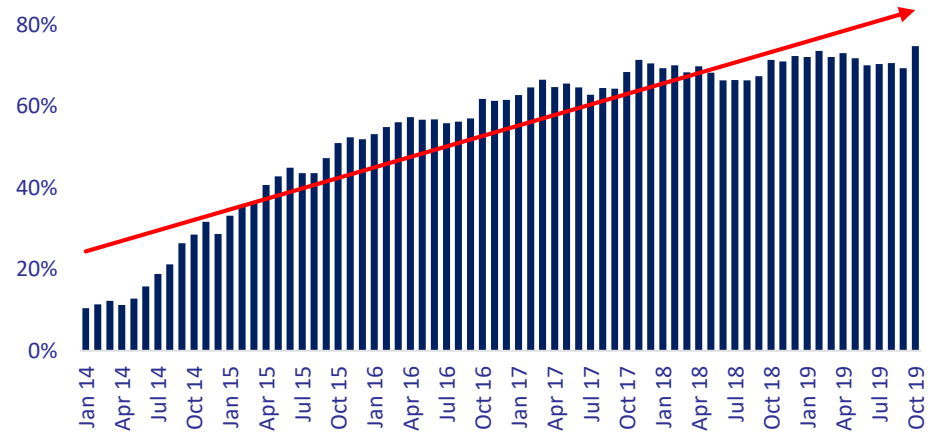
Programme of bi-weekly lab based testing of prototypes and new features with customers provides qualitative validation

# Our core: Drive revenue through direct & differentiated supply

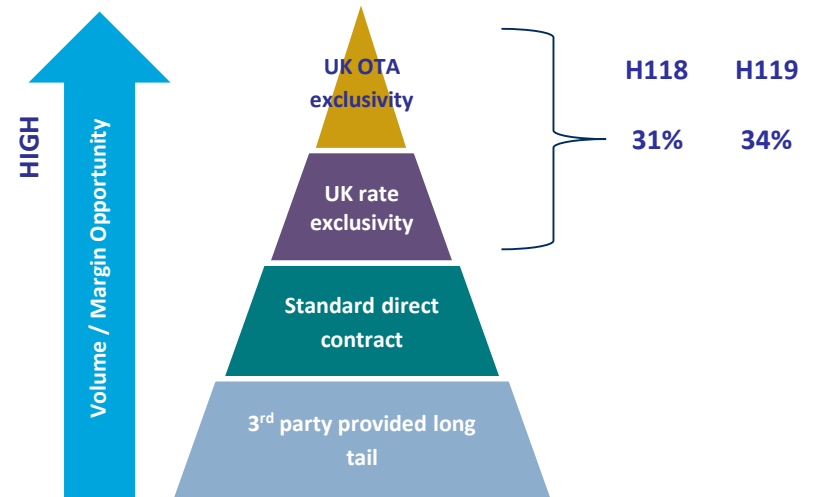
*Driving an increasing % of exclusivity continues to present a huge margin / volume opportunity*

- Direct contracting function performed in line with expectations
  - >70% of hotels directly contracted, driving >50% of Group revenues
  - Increasing % of sales into differentiated hotels
  - Significant increase in sales to Eastern Mediterranean
  - Resource added to contract long haul destinations
  - Increased investment into contracting platform
  
- FY17–FY18 we have used differentiated supply to drive volume and market share gains
  
- FY19–FY20 start to convert differentiated supply position into incremental margin

*Direct contracting - share of monthly arrivals*



*Hotel contracting: Incremental margin / volume opportunity*



# Our core: Inspire customers who are destination agnostic

*Our technology now allows holidaymakers to search all destinations simultaneously*

- ▶ **Package Travel Directive came into effect on the 1/7/18**
  - Rebuilt deals engine powers new destination agnostic search functionality
  - Customers can compare deals across destinations and departure dates
  - “Holiday Finder” path is approx. 50% of all searches
  - Further rollout is ongoing
- ▶ **Opaque path allows us to develop functionality to address adjacent markets**
  - Long haul: requires access to ITX (opaque) fares with scheduled airlines
  - Classic Package Holidays: An online portal for high street agencies and homeworkers

## Deals functionality

The screenshot displays the 'Deals functionality' interface. At the top, there are tabs for 'Flights + Hotel', 'Flight Only', 'Hotel Only', and 'Holiday Finder'. The search criteria are: 'Where To: Tenerife', 'Departing From: Manchester', 'Departure Date: 19 May 2019', 'Nights: 7 nights', and 'Your Party: 2 adults, 1 child'. A 'Search' button is visible.

The main content area shows a calendar for May 2019. The departure date is set to 19 May 2019, and the return date is 26 May 2019. The calendar shows prices for various dates, with the 19th of May highlighted as the selected date. Below the calendar, there is a section for 'Fanabe Costa Sur' (Costa Adeje, Tenerife, Canaries) with a 5-star rating.

On the right side, there is a 'Chosen flights' section. It shows the departure from Manchester (+£0pp) and the take-off times for the outbound and inbound flights. Below this, there are flight options from easyJet and Ryanair. The easyJet options are for Sun 19 May 2019 (Manchester to Tenerife South, EZY 1907) and Sun 26 May 2019 (Tenerife South to Manchester, MT 1165). The Ryanair options are for Sun 26 May 2019 (Tenerife South to Manchester, FR 4331) and Sun 19 May 2019 (Manchester to Tenerife South, FR 4332).

# Expansion opportunities

*Huge opportunities exist to build share of adjacent markets*

## ► International

- Revenues recovering to prior year levels throughout H1 in Sweden post Primera failure
- Strengthening brand share and repeat purchase driving marketing efficiencies with breakeven performance post marketing
- Expecting significant revenue growth in H2 with incremental investment in marketing
- Further internationalisation possible organically or via acquisition

## ► Long haul

- 4 million holidaymakers book long haul beach packages each year with an ABV of £1000pp+
- OTB site handles 10m searches pa for long haul destinations
- Direct integrations completed in H1 with Emirates and BA
- Integrations to follow in H2 with Etihad, Virgin, Qatar and Turkish
- Hotel portfolio contracted for launch
- Long haul portfolio will be made available through our B2B and luxury brands

## ► Offline

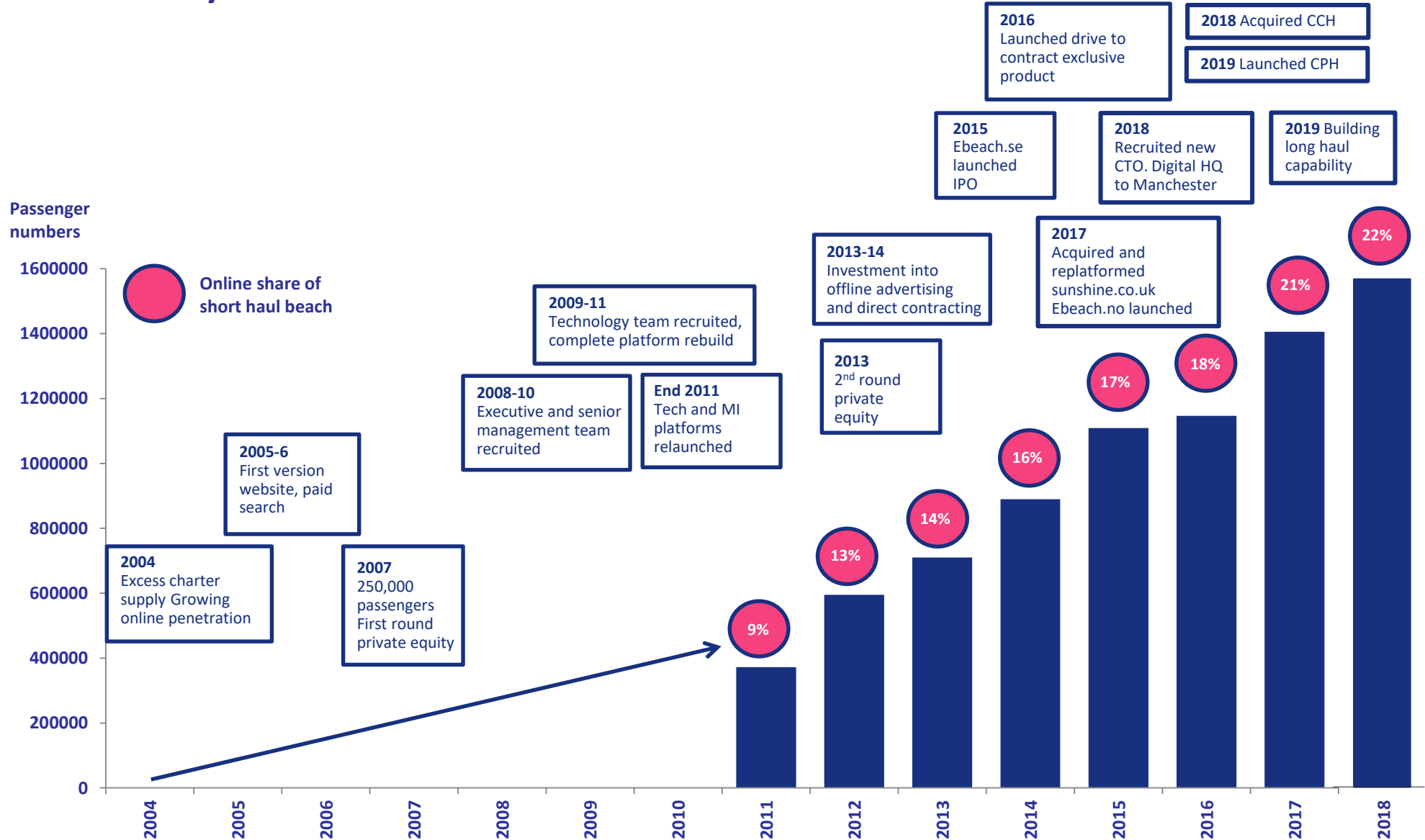
- More than 6 million holidaymakers book short and long haul beach packages each year through offline channels
- Classic Package Holidays portal built and launched end H1 providing bookable access to 3000+ short haul beach hotels
- Classic Package Holidays support / service centre recruited and trained
- Target to activate 1000+ agents by the year end
- OTB will assist Classic Collection to develop its offering to include longer haul beach and an increase in tailor-made itineraries

## ► Hotel Only & Villas

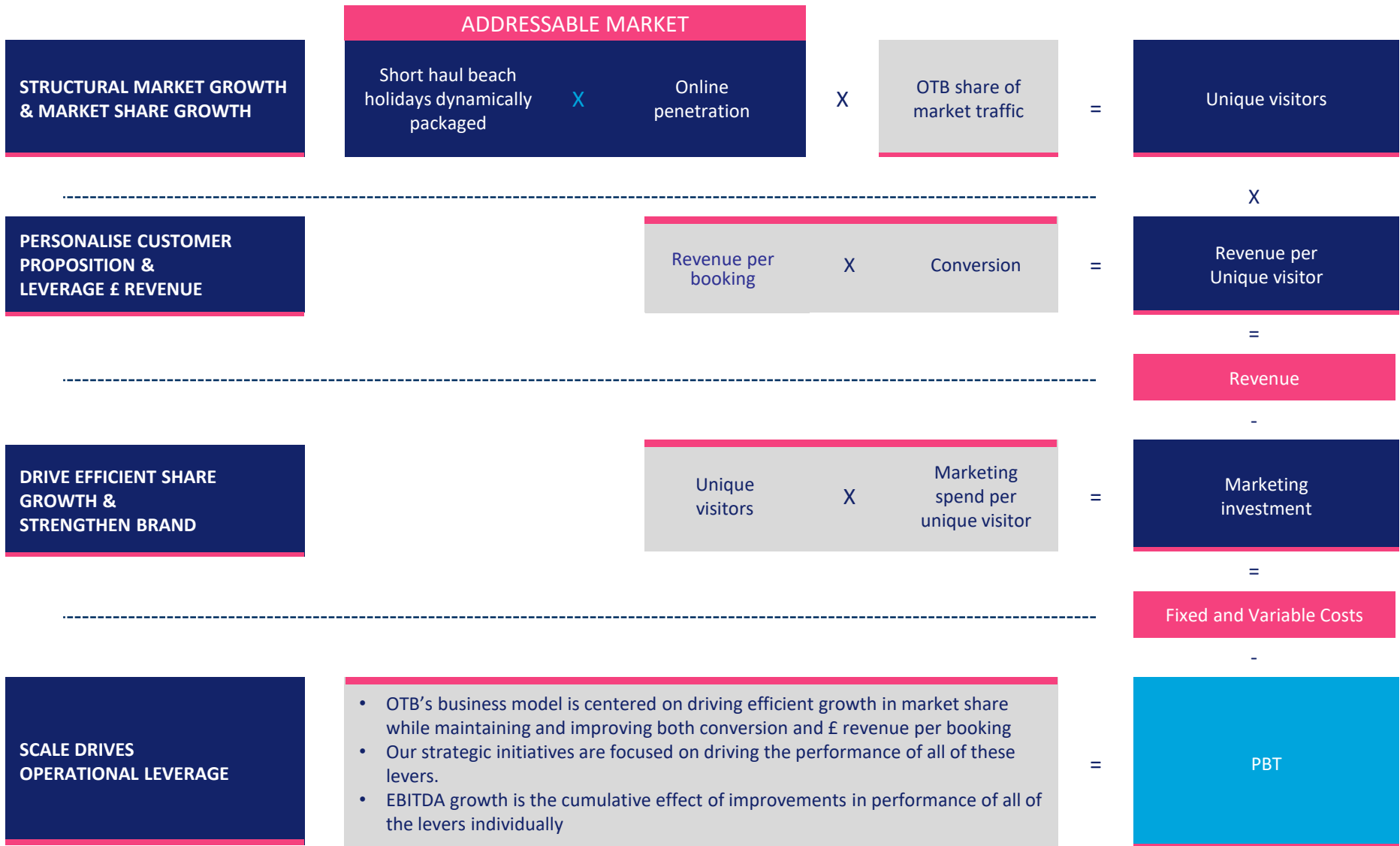
- We are enhancing our meta search capability through the sunshine.co.uk brand
- This will allow us to offer a portfolio of hotel product through the largest hotel only OTAs (Tripadvisor and Trivago)
- And to leverage our deals functionality to sell package holidays through meta partners
- We will also introduce suppliers of beach villa product in our core destinations to allow us to target extended family groups

# Appendix

# OTB History



# Business Model



# Disruptive retailer of beach package holidays

*On the Beach has the product advantages of a tour operator with the model advantages of an OTA*

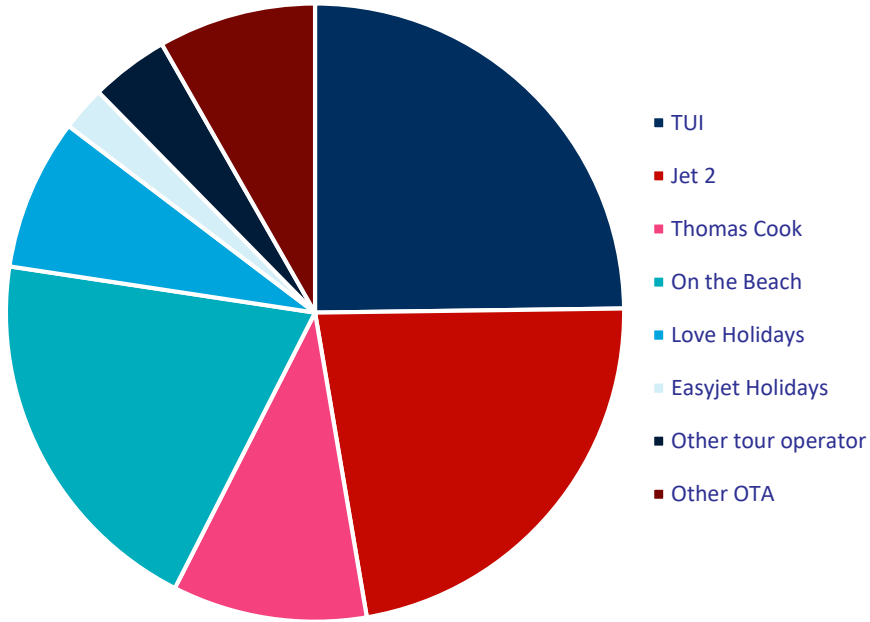




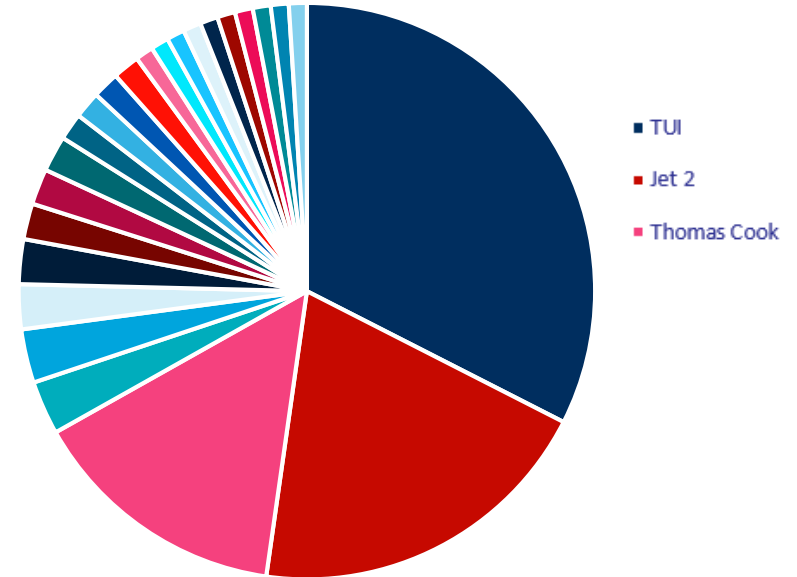
# Market Share

Huge opportunities exist to build significant share of our core and adjacent markets

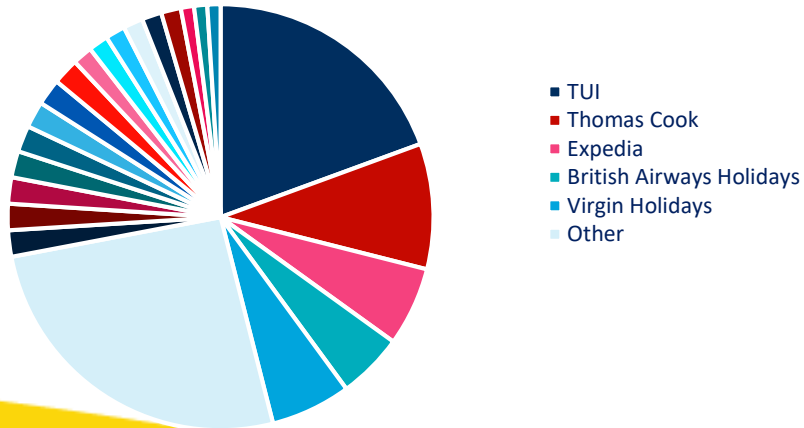
CORE MARKET: Short Haul Beach – Online (7m pax)



EXPANSION: Short and Long Haul Beach – Offline (6m pax)



EXPANSION: Long Haul Beach – Online and Offline (4m pax)



# OTB Cash Flow - Seasonality

*OTB Peak booking trading period between January and June and travelled June and August*

## Booked by month

- As an agent OTB revenue is recognised on a booked basis (gross margin / commissions)
- As a principal CCH revenue recognised on as flown basis (total sales / turnover)
- Calendar Q4 is quiet in both businesses
- Volumes increase following Christmas as customers start to research for the following summer

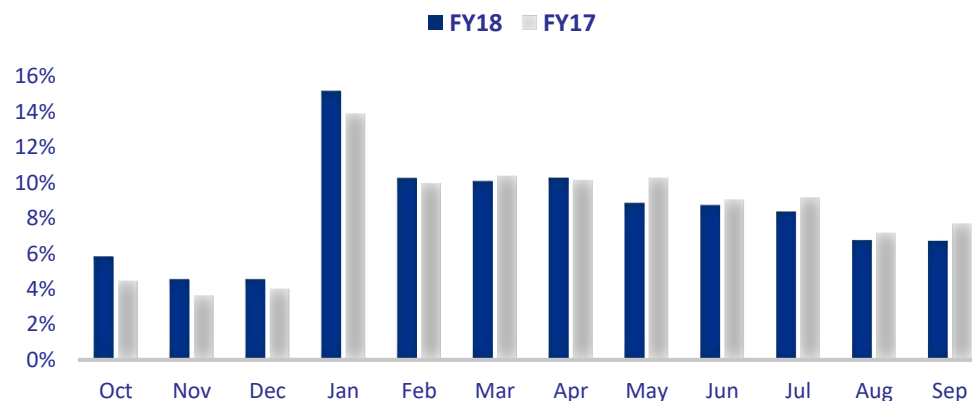
## Travelled by month

- Peak departure months are June to September
- July / August 2018 affected by heatwave

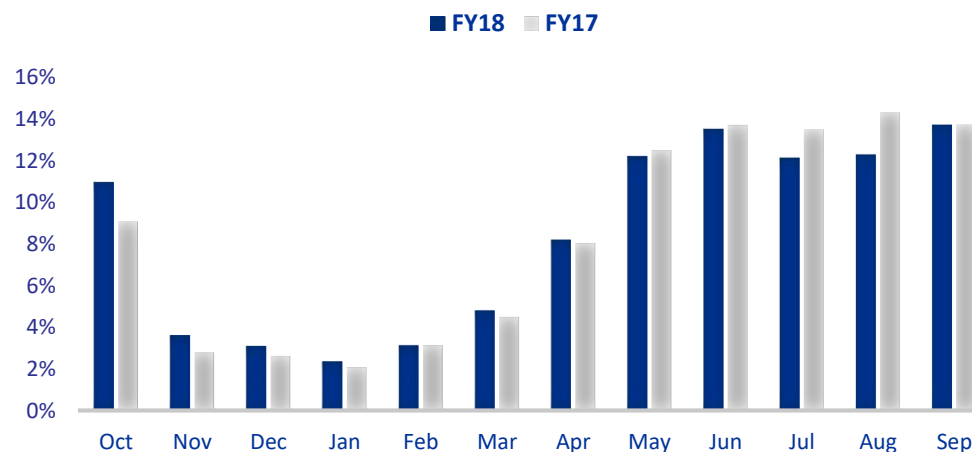
## Funds Flow

- Invest in marketing and low deposits to drive bookings but margin and cash are earned on a travelled basis

## Booked by month



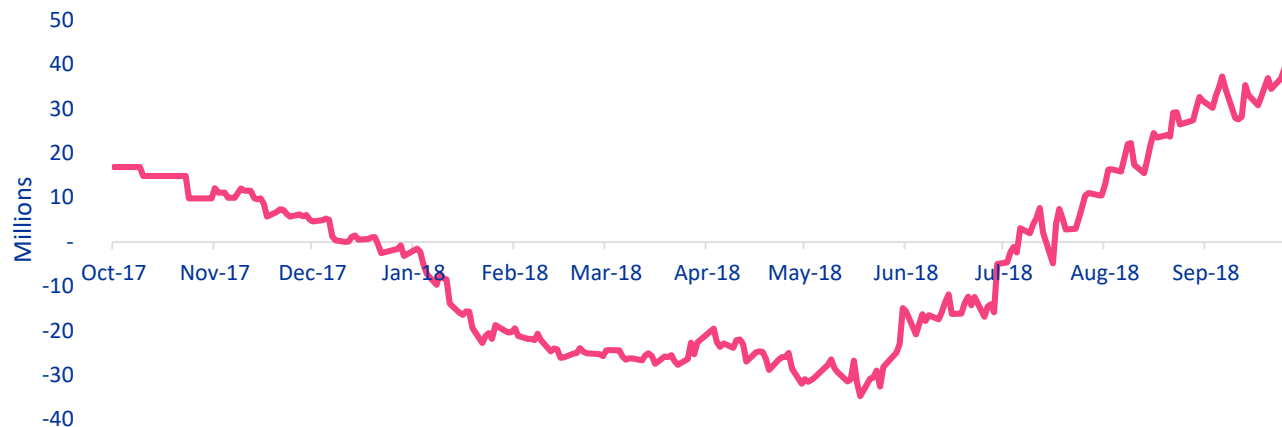
## Travelled by month



# Cash Flow: Cash Profile

Facility used to fund low deposits during peak trading periods between January and June

Bank balance profile FY18



- Annual cash cycle sees investment into working capital as bookings are achieved in Jan - June, with cash unwinding from the trust as customers travel
- Maximum RCF facility available is £28.5m, maximum drawdown in H1 19 was £9.5m

Funding of low deposits FY18

