TUI GROUP

11 December 2019

TUI GROUP

Full year results to 30 September 2019

HIGHLIGHTS

- FY19 Group underlying EBITA result delivered in line with revised guidance[1] subsequent to MAX grounding, whilst continuing to invest in our strategic transformation.

- This result, against a challenging market environment, proves the resilience of our diversified business across both markets and destinations, and our successful strategic transformation as an integrated provider of holiday experiences.

- Our Holiday Experiences business delivered a strong performance and double-digit ROIC performance.

- In contrast, our Markets & Airlines business saw a challenging market, with a number of significant headwinds. Firstly, the continued Brexit uncertainty and airline overcapacities led to a later customer booking behaviour impacting margin performance for the year, compounded by the grounding of the 737 MAX aircraft in March 2019. Our Summer 2019 programme closed out well however, with both bookings and capacity in line with prior year.

- Looking ahead, we will continue to focus and deliver on our four strategic initiatives to enlarge TUI's ecosystem; 1) Protect and extend our leading positions in Markets & Airlines, 2) Grow our Hotels & Cruise businesses through asset-right expansion, 3) Build reach in new markets through our new GDN-OTA[2] digital platform and 4) Build scale in our Destination Experience business through leveraging our Musement tours and activities platform and targeted upselling through offering the potential of 'One Million Things to Do'.

- We will continue to invest according to our disciplined capital allocation policy. TUI remains well-positioned to benefit from the ongoing transformation in this changing environment and deliver sustained growth going forward.

- Based on our current outlook, we expect for FY20 an underlying EBIT range of between approximately €950m to €1,050m[1,3], which includes an approximate €130m cost impact from the 737 MAX grounding, assuming a scenario whereby the MAX returns to service by end of April 2020[4]. However, in the alternative scenario, where the ban on the 737 MAX is not lifted in time for a return to service by end of April 2020 and TUI has to plan for a continued grounding for the remainder of FY20, the Group assumes a further cost of between approximately €220m to €270m. Neither scenarios include any potential grounding compensation from Boeing in any form. Our guidance range above also includes a mid to high double-digit millions investment in our digitalised platform growth.

- Proposed dividend of 54 Euro cents for financial year 2019 for payment in February 2020.

- Capital allocation framework revised – updated dividend policy approved for financial year 2020. Updated policy will be based on a core dividend payout of 30 - 40% of the Group's Underlying EAT[12] with a dividend floor (minimum payout) of €0.35 per share guaranteeing shareholders a minimum payout irrespective of the market environment of the tourism industry going forward.

KEY FINANCIALS

Year ended 30 September €m	**2019**	2018 rebased	**Change**	**Constant currency change[1]**
Turnover	**18,928**	18,469	+2.5%	**+2.7%**
Underlying EBITA[5]	**893**	1,183[6]	-24.5%	**-25.6%**
Underlying EBITA excluding MAX[5]	**1,186**	1,183[6]	+0.3%	**-0.8%**
Reported EBITA[7]	**768**	1,055	-27.1%	**-28.4%**
Earnings before tax[8]	**691**	966	-28.4%	**-29.5%**
Group profit attributable to shareholders of TUI AG	**532**	775	-31.4%	**-32.4%**
Underlying earnings per share[9]	**0.89**	1.16	-24.4%	**-24.4%**

Proposed dividend per share	**€0.54**	€0.72	-25.6%	n/a
Net (debt)/cash	**(€910m)**	€124m	(€1,034m)	n/a
Leverage ratio[10]	**3.0 times**	2.7 times	+0.3 times	n/a
Return on invested capital (ROIC)[11]	**15.5%**	23.2%	-7.7% ppts	n/a

[1] At constant currency
[2] Global distribution network (GDN) as TUI's new Online Travel Agent (OTA) platform, serving run rate of 250k customers to date
[3] Excluding impact from IFRS16
[4] Requires ban to be lifted by the end of February 2020 in order to allow sufficient time to prepare for return to service by end of April 2020
[5] Underlying EBITA has been adjusted for gains/losses on disposal of investments, restructuring costs according to IAS 37, ancillary acquisition costs, conditional purchase price payments under purchase price allocations, amortisation of intangibles from purchase price allocations, and other expenses and income from one-off items
[6] FY19 comparative rebased in December 2018 to €1,187m to take into account €40m impact for revaluation of Euro loan balance within Turkish Lira entities in FY18, and adjusted further to €1,183m for retrospective application of IFRS 15
[7] Reported EBITA comprises earnings before net interest result, income tax and impairment of goodwill and excluding the result from the measurement of interest hedges
[8] For reconciliation of earnings before tax to underlying EBITA, please refer to page 67 of the Annual Report
[9] For calculation of underlying earnings per share please refer to page 39 of the Annual Report
[10] Leverage ratio is calculated as the ratio of gross debt (including net pension liabilities and discounted value of operating leases) to reported EBITDAR
[11] ROIC (return on invested capital) is calculated as the ratio of underlying EBITA to the average for invested interest bearing capital for the Group or relevant segment

Annual Report and FY19 Results Investor & Analyst Audio Webcast

Our year-end announcement and a full copy of our Annual Report can be found on our corporate website: http://www.tuigroup.com/en-en/investors. An audio webcast for investors and analysts will take place today at 14.30 GMT / 15.30 CET. Our year-end presentation alongside details of the webcast, will be made available via our website beforehand.

FY19 RESULTS

- In line with our revised expectations, we have delivered underlying EBITA of €880m at constant currency, 26% down on prior year. This reflects €293m cost impact from the grounding of the 737 MAX aircraft, in line with our ad hoc announcement in March 2019. Excluding this impact, we delivered a result in line with prior year, driven by the strong underlying growth of our Holiday Experiences businesses and offset by our Markets & Airlines business which faced ongoing external headwinds such as continued Brexit uncertainty and airline overcapacities, impacting overall underlying EBITA growth for the Group.

In €m	
Underlying EBITA FY18 (originally reported)	**1,147**
IFRS15 adjustments	-4
Rebase for Turkish loan revaluations	+40
FY18 Underlying EBITA rebased for FY19	**1,183**
Holiday Experiences	+72
Markets & Airlines	-113
All other segments	+27
Special items	
Hotels & Resorts Prior Year: Riu gains on hotel disposals net of lost earnings	-43
Markets & Airlines Prior Year: Niki bankruptcy impact (Central Region)	+20
Markets & Airlines Prior Year: Airline disruptions (All regions)	+13
Markets & Airlines Q1 FY19: Hedging gain (Northern Region)	+29
Markets & Airlines Q4 FY19: Thomas Cook Insolvency impact (All regions)	-15
Underlying EBITA FY19 at constant currency EXCLUDING 737 MAX grounding	**1,173**
Markets & Airlines Q2/Q3/Q4 FY19: 737 MAX grounding	-293
Underlying EBITA FY19 at constant currency rates	**880**
Foreign exchange translation	+13
Underlying EBITA FY19 at actual rates	**893**

Underlying EBITA in €m	**FY19 at constant currency rates[1]**	**FY18 Rebased[6]**	**Variance at constant currency rates**	**FY19 at actual rates**	**Variance at actual rates**
Hotels & Resorts	437.5	460.0	-22.5	451.5	-8.5
Cruises	366.7	323.9	+42.8	366.0	+42.1
Destination Experiences	54.9	45.6	+9.3	55.7	+10.1
Holiday Experiences	**859.1**	**829.5**	**+29.6**	**873.2**	**+43.7**
Northern Region	63.7	278.2	-214.5	56.8	-221.4
Central Region	101.5	94.9	+6.6	102.0	+7.1
Western Region	-27.1	124.2	-151.3	-27.0	-151.2
Markets & Airlines	**138.1**	**497.3**	**-359.2**	**131.8**	**-365.5**
All other segments	-117.3	-144.0	+26.7	-111.7	+32.3
Total TUI Group	**879.9**	**1,182.8[6]**	**-302.9**	**893.3**	**-289.5**

- **Hotels & Resorts delivered improved earnings and strong segmental ROIC of 13.5% (versus segmental WACC of 7.8%), against a prior year result which included €43m of net disposal gains.**
  - Our diversified portfolio of destinations delivered an improved like-for-like underlying result in the year – whilst our absolute earnings for the segment saw a small decline year on year, this is versus a result in the prior year which included net disposal gains of €43m.
  - As anticipated, we saw demand for Spain during the year normalise with both rates and occupancies coming off record highs in recent years. This normalisation has been offset by a better result in our Turkish and North African hotels as demand returned to these destinations. There was continued high demand for the Caribbean and good demand for Greece.
  - Occupancy rate remained high at 82% with average rate per bed improving by 5% to €66.
  - We continue to deliver a strong ROIC performance of 13.5%, demonstrating the benefit of our portfolio ownership approach of hotel and club brands across multiple destinations, supported by our integrated omni-channel distribution and underpinned by our disciplined approach to investment.
  - For further commentary on Hotels & Resorts, please see page 69 of the Annual Report.

- **Cruise delivered another year of strong growth, with record ROIC of 23.3% (versus segmental WACC of 6.73%).**
    - Growth was driven by new ship launches in each of our three brands - Mein Schiff 2 by TUI Cruises in Germany, Explorer 2 by Marella Cruises in the UK, and Hanseatic nature by Hapag-Lloyd Cruises in Germany, as well as annualisation of new ships in the prior year.
    - We delivered continued high occupancies and robust average daily rates across the fleets, despite a significant increase in market capacity, particularly in the German cruise market, demonstrating the continued demand for our differentiated brands.
    - Segmental ROIC grew to a record 23.3%, reflecting our equity participation in TUI Cruises as well as strong performances by our Marella Cruises and Hapag-Lloyd Cruises subsidiaries.
    - For further commentary on Cruise, please see page 70 of the Annual Report.

- **Destination Experiences delivered a 22% increase in underlying EBITA in the year, and a 44% increase if excluding ~€10m investment in Musement platform in the year. ROIC of 21.9%, 28.1% if excluding Musement investment.**
    - Turnover up 105%, driven by both underlying customer growth and the acquisition of Destination Management and Musement in 2018.
    - Higher customer volumes in North Africa, South East Asia, Australia and Caribbean.
    - Tours and Activities increased by 116% to 9.7m versus prior year.
    - Successful integration of Musement platform completed in the year.
    - Third party distribution expanded through co-operation with Ctrip.
    - For further commentary on Destination Experiences, please see page 70 of the Annual Report.

- **Markets & Airlines delivered a result in line with revised expectations, with underlying EBITA impacted by the 737 MAX grounding and external market challenges.**
    - The grounding of the 737 MAX aircraft since March 2019 led to a cost of €293m across our Markets & Airlines business during the financial year.
    - The ongoing knock-on impact of last year's extraordinary hot Summer and Brexit uncertainty led to a later booking behaviour versus prior years.
    - Additionally, external pressures such as airline overcapacity to Spanish destinations, resulted in increased competition, putting pressure on margins.
    - These headwinds triggered the collapse of one of our key competitors in this segment, leading to €15m worth of bad debt write-offs in our final quarter.
    - Overall customer volumes declined slightly by 0.6% with customer growth in Central Region (driven mostly by our growing market Poland) offset by reductions in both Northern and Western Regions.
    - Both direct and online distribution mix remained stable at 74% and 48% respectively.
    - Strong increase in our net promoter score to 53, from 50, which evidences our continued priority and focus on our customer holiday experiences as well as the strong appeal for our differentiated customer offering.
    - Against an environment of various market challenges, we initiated our Markets & Domains Transformation Programme (MTP) which will focus on driving our market competiveness, protecting and where possible extending our leading market positions through revenue and cost base initiatives.
    - For further commentary on Markets & Airlines, please refer to pages 71 to 73 of the Annual Report.

- The underlying EBITA result for All other segments improved by €27m at constant currency versus prior year, reflecting various one-off cost savings across central group functions. To better reflect airline economic benefits in their respective regions, central aircraft financing effects have been reallocated to each market at the end of the financial year. Prior year FY18 underlying EBITA has subsequently been restated to provide a like-for-like comparison, please refer to page 73 in the FY19 Annual Report for further details.

- Reported EBITA declined by 27.1% at constant currency as a result of the cost impact from the grounding of 737 MAX aircraft. Adjustments increased €37m mainly from one-off expenses relating to reorganisation costs in Destination Experiences, the UK, Nordics, Germany and France as well the loss on Corsair disposal, partly offset by income from the reduction of pension obligations in the UK. For further detail on Adjustments, please refer to page 67 of the Annual Report. In FY20, we expect approximately €100m gain on disposal from our German specialist businesses Berge & Meer and Boomerang, to largely offset one-off expenses related to efficiency enhancement and further transformation of our Market & Airlines business, therefore anticipate net Adjustments for the new financial year of between €70m to €90m.

- Underlying EPS decreased to €0.89, a reduction of 24.4%, at constant currency reflecting the operational developments as described above, offset by the effect of more efficient financing, and continued low underlying effective tax rate of 18%. For the calculation of underlying EPS, please refer to page 39 of the Annual Report.

CAPITAL ALLOCATION

We have updated our capital allocation framework to reflect the following financial priorities: (i) Organic growth, (ii) Payout of a core dividend, (iii) Accretive Mergers & Acquisitions and portfolio optimisation and (iv) Excess cash to be returned to shareholders. At the same time we are disciplined in maintaining a solid balance sheet and keep our target gross leverage ratio comfortably within the range of 3.0x - 2.25x. This updated capital allocation framework will provide TUI Group with increased flexibility as it facilitates investments in our strategic initiatives and future growth opportunities, as well as an attractive dividend to shareholders, underpinned by a solid and robust financial structure.

DIVIDEND

We are committed to delivering attractive returns to our shareholders. As outlined in our guidance at the beginning of the financial year, we are proposing a dividend for financial year 2019 in line with underlying EBITA growth at constant currency. Therefore the Executive Board and the Supervisory Board are recommending a dividend of 54 cents per share in respect of the financial year 2019. Subject to approval at the Annual General Meeting on 11 February 2020, shareholders who hold relevant shares at close of business on 11 February 2020 will receive the dividend on 14 February 2020 and holders of depositary interests will receive the dividend on 25 February 2020.

From Financial Year 2020 onwards, the Group's dividend policy will change as follows:

- a core dividend payout of 30 - 40% of the Group's Underlying EAT[12] with
- a dividend floor (minimum payout) of €0.35 per share.

While the new dividend policy is expected to result in lower payouts, the dividend floor guarantees shareholders a minimum payout irrespective of the market environment of the tourism industry and subsequent impacts on Underlying EAT[12]. Based on TUI's share price at the end of Financial Year 2019, the dividend floor would represent a dividend yield of 3.3% p.a.

[12] Underlying EAT post minorities at constant currency is calculated as Underlying EBIT minus interest expenses adjusted by one-off items minus tax based on underlying tax rate of currently 18% minus minorities adjusted for one-off items.

NET DEBT

Closing financial position declined from the prior year net cash position of €124m to €910m net debt, in line with our plan. The higher net debt position firstly reflects the full utilisation of our circa €2bn disposal proceeds generated post-merger, which benefitted our previous closing balance sheet positions. Whilst operating cash flow was almost in line with prior year, the increase in net debt was driven by higher net investments in the year and our planned asset and debt financing of €437m, (predominantly related to our committed aircraft re-fleeting programme) resulting in a net debt balance of €910m at our financial year end.

FUEL/FOREIGN EXCHANGE

Our strategy of hedging the majority of our jet fuel and currency requirements for future seasons remains unchanged. This gives us increased certainty of costs when planning capacity and pricing. The following table shows the percentage of our forecast requirement that is currently hedged for Euros, US Dollars and jet fuel for our Markets & Airlines, which account for over 90% of our Group currency and fuel exposure.

	Winter 2019/20	Summer 2020	Winter 2020/21
Euro	95%	74%	39%
US Dollars	95%	81%	45%
Jet Fuel	97%	88%	51%

As at 6 December 2019

EXPECTED DEVELOPMENT

FY19 saw a number of external challenges which limited our overall growth. Some of these ongoing external challenges remain and are likely to persist into FY20. TUI's sustained performance in a challenging market environment demonstrates its successful transformation as an integrated provider of holiday experiences, with strong strategic positioning, combining owned products with strong omni-channel distribution capabilities, diversified across markets and destinations. This coming year will see us focus on driving competitiveness in Markets & Airlines, asset-right expansion of our Holiday Experiences business, and building reach and scale through our digital platforms in new markets and Destination Experiences, to enlarge TUI's ecosystem. Delivering on our four strategic initiatives will ensure we continue to grow our integrated business model and become a travel platform with strong brands and strong customer relationships. We will invest according to the priorities and discipline as outlined in our capital allocation policy and TUI remains well-positioned to benefit in this changing environment and deliver sustained growth going forward.

In Hotels & Resorts, our diversified portfolio of destinations means we will continue to see a balanced result from the shift in demand for Turkey and North Africa, against a normalisation in rates and occupancies in Spain, particularly in the Canaries. Going forward we will continue to further diversify our asset portfolio, we will selectively invest in our key hotels brands such as Riu, Robinson and Blue Diamond. We will establish our TUI Blue brand as a leading leisure asset-light hotel chain, growing from 11 to ~100 hotels by end of 2020. Around 85 of these hotels will be through the repositioning/conversion of existing hotels within the group portfolio, and mostly under asset-light ownership such as joint ventures, management, franchise and third-party concepts. We expect incremental capex over next few financial years to acquire a small number of TUI Blue hotels which will be fully owned. Around four new TUI Blue hotels will be opened during FY20. Additionally, we plan to open around eight new incremental hotels across our other key brands. Continuing on from past years, we expect to see incremental profit contribution from the annualisation of past hotel investments.

In Cruises, FY20 will see the annualisation benefit from three ships launched across our three cruise brands during the course of FY19, plus a full-year benefit from the Hanseatic inspiration expedition ship for Hapag-Lloyd Cruises launched in October 2019. As well documented across the sector, the international ocean cruise market saw a record year of new capacity growth during 2019, with the German cruise market in particular seeing an estimated ~20% growth. As a result, TUI Cruises has seen customers committing later to booking which we expect to limit yield and growth contribution from TUI Cruises in the year. The introduction of IMO2020, the new regulatory requirement to cap sulphur content of marine fuel oil as of 1 January 2020, will see higher operational costs incurred for Marella Cruises (across the full fleet), Hapag-Lloyd Cruises (across full fleet) and TUI Cruises (relating to Mein Schiff Herz). For Marella Cruises, average selling price growth to date has been insufficient to cover the significantly higher cost base as a result of IMO2020 and we expect this will fully erode any annualisation benefit from Explorer 2 in FY20.

In Destination Experiences, we will continue to build customer reach and scale to enlarge TUI's ecosystem. We will target upselling 'One Million Things To Do' through both our Destination Management business and our digitalised platform Musement. Alongside, we will grow both the number of tours and activities offered and increase our 3rd party distribution through partnerships such as Ctrip. In order to accelerate and achieve these strategic goals, additional opex investment will be required which will be at the expense of EBIT and margin in the short to medium term.

In Markets & Airlines, recent events have reinforced our leading market position as an integrated provider of holiday experiences, enabling us to benefit from our vertical integration model and drive more demand to our own Holiday Experiences product businesses. Following the collapse of one of our key competitors on 23 September 2019, we have experienced an unprecedented number of customers in the UK migrating to TUI to fulfil their holidays. We have subsequently increased our planned capacity for Winter 2019/20 by 2% to flat year on year, from our previously planned reduction of 2%. For Summer 2020, we have increased capacity year on year by 14% driven by our recently announced volume increases predominantly in the UK, followed by Germany and Benelux. Currently Winter 2019/20 bookings are up 4% and average selling prices are up 6% both versus prior year, with 59% of the programme sold, in line with prior year[13]. Bookings for next Summer 2020 are at an early stage. The UK is 25% sold, and at this stage, bookings are up 18% with average selling price up 3%[13].

[13] These statistics are up to 1 December 2019, shown on a constant currency basis and relate to all customers whether risk or non-risk

With regard to the UK's potential exit from the EU in 2020, a main concern remains whether our airlines will continue to have access to EU airspace. We are continuing to address the importance of there being a special and comprehensive agreement for aviation between the EU and the UK post Brexit to protect consumer choice with the relevant UK and EU decision makers, and are in regular exchange with relevant regulatory authorities. We continue to develop scenarios and mitigating strategies for various outcomes, including a "hard Brexit", depending on the political negotiations, with a focus to alleviate potential impacts from Brexit for the Group.

Based on our near-term strategic initiatives, we expect to deliver an underlying EBIT range of between approximately €950m to €1,050m in FY20, reflecting growth in Holiday Experiences and market uncertainties that continues to impact our Markets & Airlines business, and includes an approximate €130m cost impact from the 737 MAX grounding, assuming a scenario whereby the MAX returns to service by end of April 2020[4].

However, in the alternative scenario, where the ban on the 737 MAX is not lifted in time for a return to service by end of April 2020 and TUI has to plan for a continued grounding for the remainder of FY20, the Group assumes a further cost of between approximately €220m to €270m.

Neither scenarios include any potential grounding compensation from Boeing in any form.

Our guidance range above also includes a mid to high double-digit millions investment in our digitalised platform growth. We would remind that FY20 Q1 will see a headwind of €29m from the non-repeat of a hedging gain reported in Q1 of the prior year and was also clear of any MAX grounding costs during Q1 of the prior year.

Further detail on FY20 expected development is set out in the table below.

	FY20 guidance[1,3]	**FY19**
Turnover	Mid to high single digit % growth	€18,928m
Underlying EBIT[14]	Between approximately €950m -€1,050m, including approximately €130m cost impact from MAX grounding, assuming return to service by end of April 2020[4] Should the MAX grounding continue to the end of FY20, additional cost impact of ~€220m -€270m expected The above guidance does not include any potential grounding compensation from Boeing in any form; and includes a mid to high double-digit millions investment in digital platform growth.	€893m[3]
Adjustments[15]	~€70m - €90m	€125m
Underlying EAT (after minorities)	~€540m - €630m	€525m
Net investments[16]	~€750m - €900m	€1,118m
Asset & debt financing	~€750m - €850m	€447m
Net debt	~€1.8bn - €2.1bn	€910m
Dividend per share	Updated dividend: a core dividend payout of 30 - 40% of the Group's Underlying EAT[17] with a dividend floor (minimum payout) of €0.35 per share	€0.54

[14]As from FY20, we will use Underlying EBIT which is more common in the international sphere. Our previous KPI Underlying EBITA includes amortisation of goodwill, any future goodwill impairments will be adjusted for in the reconciliation to Underlying EBIT
[15]Includes ~€100m disposal gains from our German specialist businesses Berge & Meer and Boomerang
[16] Including net capex and net PDPs
[17] Underlying EAT post minorities at constant currency is calculated as Underlying EBIT minus interest expenses adjusted by one-off items minus tax based on underlying tax rate of currently 18% minus minorities adjusted for one-off items.

IMPLEMENTATION OF IFRS16 ACCOUNTING STANDARD UPDATE - WEBCAST

We will host an update on the implementation of IFRS16 by audio webcast on Thursday 12th December at 10.00am GMT/11.00am CET. A short presentation alongside details of the webcast will be made available via our website beforehand.

ANNUAL GENERAL MEETING AND Q1 FY20

TUI Group will hold its Annual General Meeting and publish its Q1 FY20 Report on 11 February 2020.

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