8 November 2018

CORPORATE TRAVEL MANAGEMENT LIMITED (ASX: CTD): UPDATE TO THE MARKET

Corporate Travel Management (ASX: CTD) has today provided a targeted response to a second report by VGI Partners (VGI).

VGI holds a substantial short position in CTM and has acknowledged that it can only profit from its investment if there is a decline in CTM's share price.

VGI has a significant vested interest in promoting market uncertainty with respect to CTM and in refusing to accept CTM's comprehensive rebuttal of the claims made by VGI in relation to its business model, governance and financial reporting. Page 50 of the recent VGI report states that "… the information contained in it is inherently biased towards VGI's short position in Corporate Travel".

On 31 October 2018, CTM provided a detailed response to the report issued by VGI on 28 October 2018 and that response refuted all of the material claims made by VGI and, importantly, all of their claims with respect to CTM's financial reporting.

At the core of VGI's conclusions is a fundamental misunderstanding of the corporate travel sector and the CTM business model.

Last week CTM engaged EY to provide ongoing support to CTM, assess certain matters relating to CTM's financial statements for FY18 and subsequently to respond to certain matters raised by VGI and its continuing attempts to discredit CTM's financial disclosures, notwithstanding CTM's detailed response to VGI's report. EY's engagement with CTM is continuing.

CTM engaged EY specifically because of its experience in the travel sector. EY is the auditor of Flight Centre (ASX:FLT) and auditor and advisor to other global travel sector participants, and has a deep understanding of not only the travel sector (including the timing of supplier (airline and rail) payments and their relationship with receivables), but also the difference between the corporate and leisure sectors. CTM notes its own auditor, PWC, is also the auditor of Helloworld (ASX:HLO) and was the auditor of Hogg Robinson Group (HRG) before HRG was acquired by American Express Global Business Travel (GBT).

EY has provided CTM with its preliminary observations with respect to certain issues raised by VGI and notes that VGI's report is superficial. EY's preliminary observations are reflected in the attached release, which addresses the following three points:

- Impairment testing of CTM's North American business (Attachment A)
- Corporate travel sector accounting disclosures – Cash Flow and working capital (Attachment B)
- CTM's cash and interest income (Attachment C)

CTM's view is that VGI's latest report raises no new substantive issues. CTM's response to VGI's original report addressed all claims by VGI. CTM refers shareholders to its initial response and sees **no need to comment further on many of the points repeated in VGI's latest report,** other than in respect of revenue recognition and its office footprint and staff numbers (Attachment D).

CTM has provided innovative and cost-effective corporate travel management solutions for nearly 25 years. The Company's business model is to grow revenue through a combination of organic growth by winning and retaining customers, acquisitions to expand its global footprint, and investments in technology development to enhance customer service and increase operating efficiency and margins. The Board is confident that the business has a strong competitive position and that the growth strategy will continue to deliver benefits for customers, staff and shareholders.

VGI may continue to make mischievous and misleading claims about issues that CTM believes have no consequence for the financial performance of the business and execution of CTM's successful business model. The Board will continue to ensure shareholders are fully informed about the fundamental performance of the business and does not intend to have the business distracted by baseless and self-serving claims.

The CTM management team continues to focus on running the Company for the benefit of our clients, staff and shareholders.

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Impairment testing of CTM's North American business

VGI has suggested that CTM's North American segment is vulnerable to a potential write-down as at 30 June 2018.

CTM applies a rigorous methodology when undertaking impairment testing. Importantly:

- The post-tax discount rate used by CTM for the purpose of its impairment assessment is **consistent with standard market practice**.
- The post-tax discount rate used for the impairment assessment of the North American Cash Generating Unit (CGU) in FY18 (9.5%) was 0.9% lower than that used in FY17 (10.4%) predominately due to movements in the country equity risk premium and the asset beta.
- When the post-tax discount rate is converted to a pre-tax basis for disclosure purposes[1], the difference between the FY17 and FY18 pre-tax discount rates is primarily attributable to a change in the Federal corporate income tax rate in the United States, which decreased from 35.0% to 21.0% from 1 January 2018, and to changes in certain market parameters (including asset beta and country equity risk premium).
- CTM has sourced the inputs for the discount rate from a number of sources including S&P Capital IQ (to derive the beta of CTM), United States Treasury (risk free rate), and the data published by the NYU Stern School of Business Professor – Aswath Damodaran (US country risk premium)(http://pages.stern.nyu.edu/~adamodar/). These independent sources of data (including Aswath Damodaran) are **commonly used by valuation practitioners adopting generally accepted valuation methods.**

After applying the above methodology (which was reviewed by PwC as part of the year end audit), CTM concluded that there was no impairment required for CTM's North American CGU in FY18. It is also the case that if the FY17 discount rate had been used, there would have been no impairment recognised.

EY has assessed all of the above, including the methodologies used, sources of information and the conclusions drawn, and has not identified any issues or concerns.

EY specifically confirms that it similarly references data produced by the NYU Stern School of Business Professor, without calling Aswath Damodaran. Other valuers also routinely use these data sources.

EY confirms that if the higher FY17 discount rate was used in FY18 there would have been no impairment required.

[1] Whilst standard market practice is to use a post-tax discount rate to perform the impairment test, Australian Accounting Standards require disclosure of a pre-tax discount rate.

Corporate travel sector accounting disclosures - Cash flow and working capital

VGI has questioned the quality of CTM's audited financial position, particularly relating to its working capital:

- VGI has questioned the 2H18 employee expenses of $96m (employee benefit expense in the Income Statement), as compared to payments to suppliers and employees of $62m; and
- Queried the relationship between working capital and TTV.

Their concerns are unfounded as detailed below.

2H18 Operating Cashflow

The $62m payments to suppliers and employees represents a "net" payment and is **not the full amount of expenses paid** for the period. The "net" versus "gross" position, is illustrated in the example provided below:

> *Client X is a CTM client that has credit terms (unlike many of CTM's clients who settle via credit card). Client X books a ticket to Hong Kong which is priced as $1,000 (TTV). The cost of the ticket (payable to the supplier) is $950. The $50 difference is CTM's revenue.*
>
> ***CTM's income statement does not show TTV "gross"**. CTM does not have sales of $1,000 and cost of sales of $950. **In this example, CTM only has reportable revenue of $50, ie. a "net" position.***
>
> ***CTM's balance sheet however, needs to show a receivable of $1,000 and a payable to the supplier of $950**. This is included in client receivables and client (supplier) payables on the balance sheet.*
>
> ***Therefore, CTM's cashflow statement should reflect the balance sheet impacts** of Client X's booking, ie. capturing the receivable of $1,000 and the payable of $950. This occurs by booking the change in receivables and payables over the reporting period through operating cash flow.*

VGI has focussed on the net figure of $62m of payments to suppliers and employees in 2H18. To calculate the actual cash payments to suppliers and employees for that same period, this amount must be adjusted for the movements in client (supplier) payables which amounted to $55.8m - the movement from 31 December 2017 to 30 June 2018**.** This amount, in part, reflects that 30 June in 2018 fell on a Saturday (a non-settlement day). In the first week of July 2018, $48m of supplier (airline and rail) payments were made in accordance with contractual terms (paid by direct debit).

VGI attempted to compare cash flows to expenses without including the balance sheet payables movements that affect operating cashflows.

2H18	**$m**
Payments to suppliers and employees from the Statement of Cash Flow	62.0
Increase in client (supplier) payables for the period	55.8
Adjusted payments to suppliers and employees	117.8

The $117.8m adjusted payments to suppliers and employees in the table above is a more accurate comparison to the $128m of operating expenses from the income statement.

There is a $10.2m difference (or cash flow benefit) between the $128m operating expenses from the Income Statement and the adjusted payments to suppliers and employees. This relates to the timing of payments of a number of operating expenses, eg. CTM's FY18 STI payments are accrued in the Income Statement but paid post reporting date.

2H18	**$m**
Operating expenses from the Income Statement	128.0
Less adjusted payments to supplier and employees	117.8
Cash flow benefit (difference)	10.2

For VGI to omit the movement in payables reflects either VGI's lack of understanding of the corporate travel business model or is designed to be deliberately misleading.

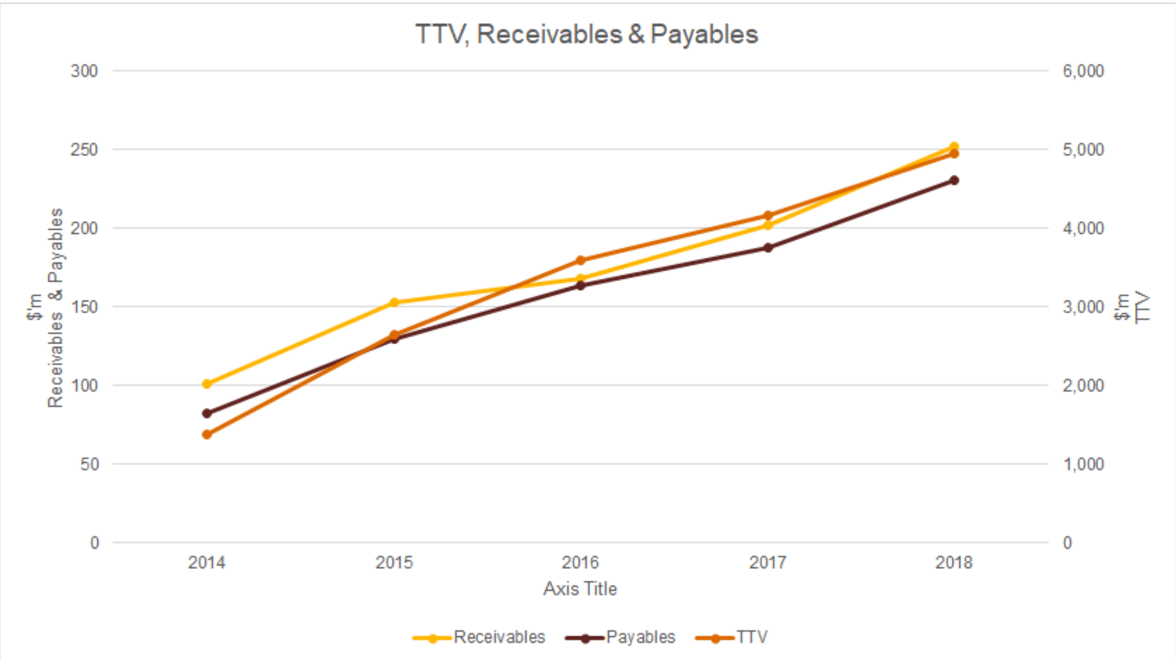
CTM complies with its statutory obligations to pay employee entitlements when due and meet its contractual supplier obligations which are direct debited.

Client receivables also increased by $60.7m in 2H18 (as set out on page 5 of CTM's response to VGI's initial report). This is not unusual in CTM's working capital cycle and provides a natural offset to the increase in payables.

The implication from VGI's report is that CTM's working capital position is not trending in the same direction as TTV.

This is incorrect.

We have set out below CTM's working capital movements on a "gross" basis, highlighting the movement against TTV, the **correct measure** of CTM's level of activity. As highlighted, the trends in working capital are very much aligned to and are consistent with the growth in CTM's TTV.



Note: Payables exclude acquisition payables which are included in investing cash flows.

CTM has consistently applied the accounting treatment described above since its IPO eight years ago. This treatment is in accordance with Accounting Standard AASB 107 (Cash Flow Statements).

CTM has consistently delivered approximately 100% operating cash conversion over time.

CTM provides guidance about its expectations for cash flow conversion for the upcoming half year period. Most recently in August 2018, CTM flagged that 1H19 operating cash conversion would be below 100% but that over the full year CTM still expects to deliver approximately 100%.

EY has confirmed that:

- **CTM's net working capital position continues to trend in line with TTV, the true measure of CTM's market activity;**
- **VGI's report does not accurately reflect the full extent of the payments and receipts of CTM in the periods referred to.**

CTM's cash and interest income

VGI has used CTM's FY18 interest income of $0.13m to suggest that it holds "very little cash during the year".

CTM's average monthly cash balance across FY18 of $76.9m, and its audited financial statements support the closing balance as at 30 June 2018 of $84.3m. After 30 June 2018, the cash balance moved in response to usual business activity, including supplier (airline and rail) payments of $48m in the first week of July 2018 (which is direct debited in accordance with contractual terms).

Despite CTM's cash balances, interest income in FY18 was $0.13m because:

- CTM effectively uses its variable cash position as an offset to its financing facility to manage working capital movements. This is reflected in the debt repayments and debt draw downs in the Statement of Cash Flows.
- CTM has geographically dispersed cash accounts across its international operations and, as a result, earns little interest on these largely 'at-call' accounts.

Cash in client accounts has declined approximately 10% in the last two years. This has been disclosed separately in the audited financial statements and has been impacted by the timing of payments and receipts and shortened airline payment cycles.

EY have assessed CTM's cash account fluctuations and low interest income, and have confirmed that:

- **CTM's low interest income is not reflective of its closing cash balance; and**
- **The $84.3m closing cash balance is consistent with the average monthly balance across the preceding 12 months.**

OTHER MATTERS FOR CLARIFICATION

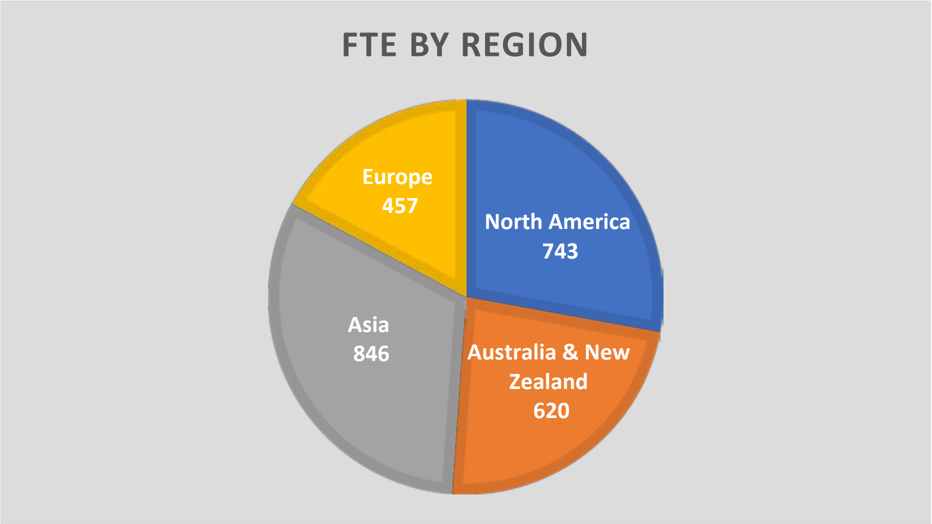
Revenue Recognition

The change in revenue recognition in FY18 did not reverse the change in policy made in FY14 but resulted in a slightly earlier revenue recognition point in instances where commission is confirmed by the third party responsible for collecting and remitting commission, prior to cash receipt.

The impact of $0.5m was immaterial hence no further disclosure was given in FY18 and it is not expected to be material in FY19.

Office footprint and staff numbers

CTM's total FTE headcount as at 5 November 2018 was 2,666 (excluding Independent Consultants and unfilled job vacancies). The headcount is broken down by geographic region in the graph below. It should be noted that in a large organisation, head count will vary on a day to day basis.



CTM is proud of its people, who deliver outstanding customer service, whether they are working from a CTM office, from home or at client premises.

CTM has a global footprint that includes physical offices and virtual offices and will continue to operate in locations that are relevant to fulfilling its customer service value proposition.

CTM continues to review and update our website.