



**VGI**  
PARTNERS

**Corporate Travel  
Management Limited  
(ASX: CTD)**

**VGI Partners Proprietary Research**

**October 2018  
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## **Date of document**

This document is dated 28 October 2018.



# VGI Partners is short Corporate Travel Management

- VGI Partners holds a **SHORT** position in Corporate Travel Management Limited (**Corporate Travel**)
- Our analysis of Corporate Travel has led to the identification of 20 red flags<sup>1</sup>. Some of these, viewed in isolation, may be of no concern and others may be individually explainable. However we believe in aggregate they paint a troubling picture
- We are positioned to realise gains on our investment in the event that Corporate Travel's share price falls. As such, we have a vested interest in Corporate Travel's share price declining over time

<sup>1</sup> We define a red flag as a potential indicator of a problem with the quality of a business or the sustainability of its financial performance

# Introduction to Corporate Travel

# What is Corporate Travel Management?

- Corporate Travel was founded in Brisbane in 1994 as a travel management solutions company
- Corporate Travel now operates in Australia, New Zealand, North America, Asia, and Europe
- Corporate Travel has been listed on the ASX since 2010
- Corporate Travel's core business is the provision of corporate travel management services on a fee for service basis. The following services are provided:
  - Business travel advice and services
  - Bookings
  - Ticketing
  - Travel management data, diagnostics and recommendations
  - Ancillary services

# What is Corporate Travel Management?

Share Price:	A\$27.64
Market Capitalisation:	A\$3.0bn
Listed:	Australian Securities Exchange (ASX)
FY18 Reported Total Transaction Value (TTV) <sup>1</sup> :	A\$5.0bn (over A\$6.0bn run rate)
FY18 Reported Sales:	A\$372m
FY18 Reported EBITDA:	A\$125m
Reported Full-time Equivalent Staff:	2,750
Reported Countries:	Over 70
Short Interest:	4.9% of float
One Year Share Price Return:	+16%
Five Year Share Price Return:	+452%

Source: Corporate Travel Management, Bloomberg (26 October 2018)

<sup>1</sup> Total Transaction Value or TTV refers to the total amount of client spending through Corporate Travel's platform

# What is Corporate Travel Management?

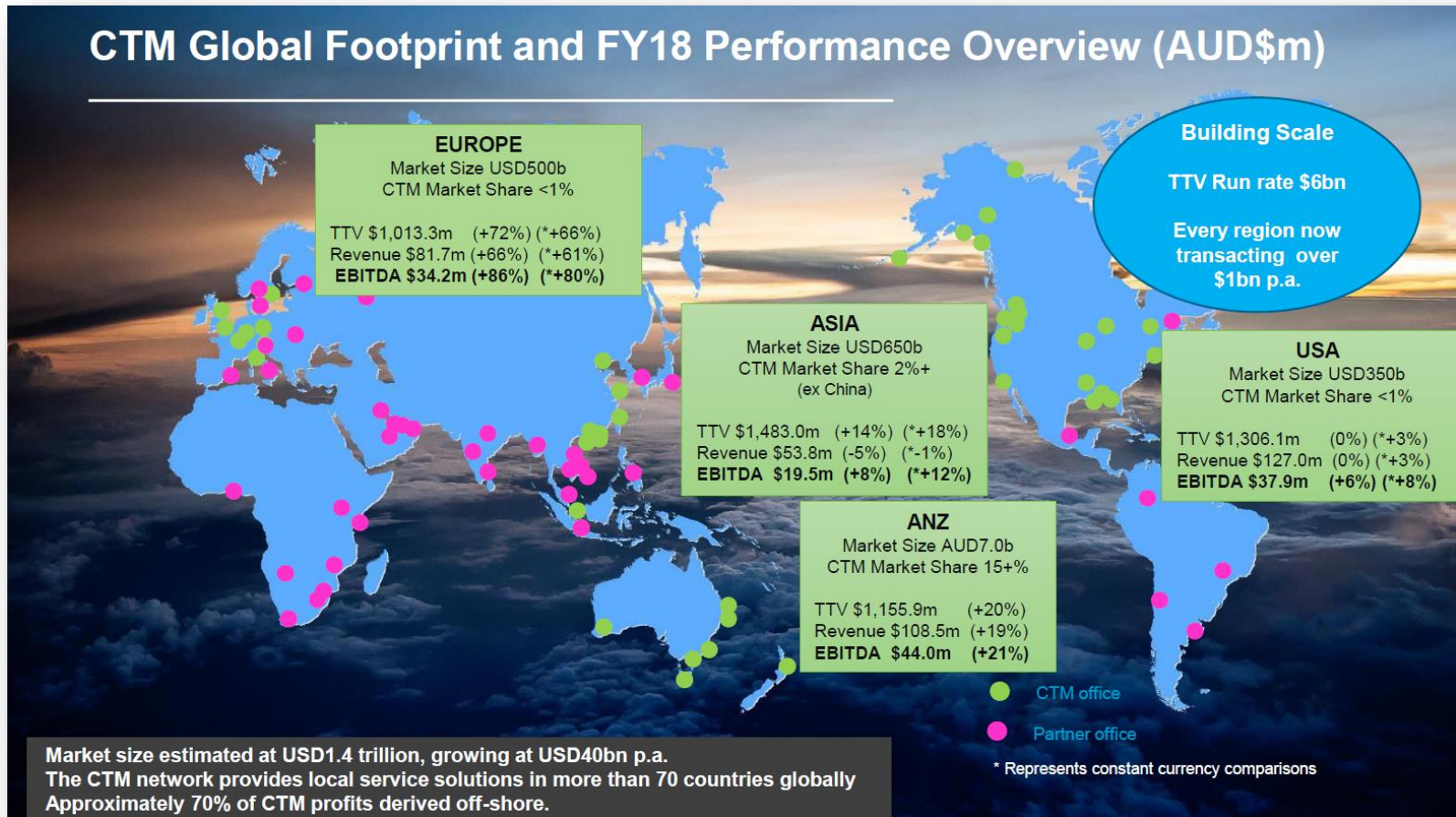
- By reported Total Transaction Value, Corporate Travel is the eleventh largest travel booking business and seventh largest corporate travel specialist in the world

Company	2017 TTV (US\$ billion)	Ownership	Business Travel as a Percentage of Total
Expedia	88	NASDAQ listed	5%
Booking Holdings	82	NASDAQ listed	
American Express Global Business Travel	33	50% American Express, 50% private equity	100%
BCD Travel	26	Privately owned	100%
Carlson Wagonlit Travel	23	Privately owned	100%
Flight Centre	16	ASX listed	35%
HRG	15	Acquired by American Express GBT in 2018	100%
Travel Leaders Group	7	Private equity	50%
American Express Travel	6	American Express	
Direct Travel	5	Privately owned	87%
<b>Corporate Travel Management</b>	<b>4</b>	<b>ASX listed</b>	<b>Circa 100%</b>
Fareportal	4	Privately owned	8%

Source: Travel Weekly 2018 Power List (25 October 2018), Corporate Travel Management & VGI Partners estimates and analysis

# Corporate Travel's presentations show that it has offices all over the world

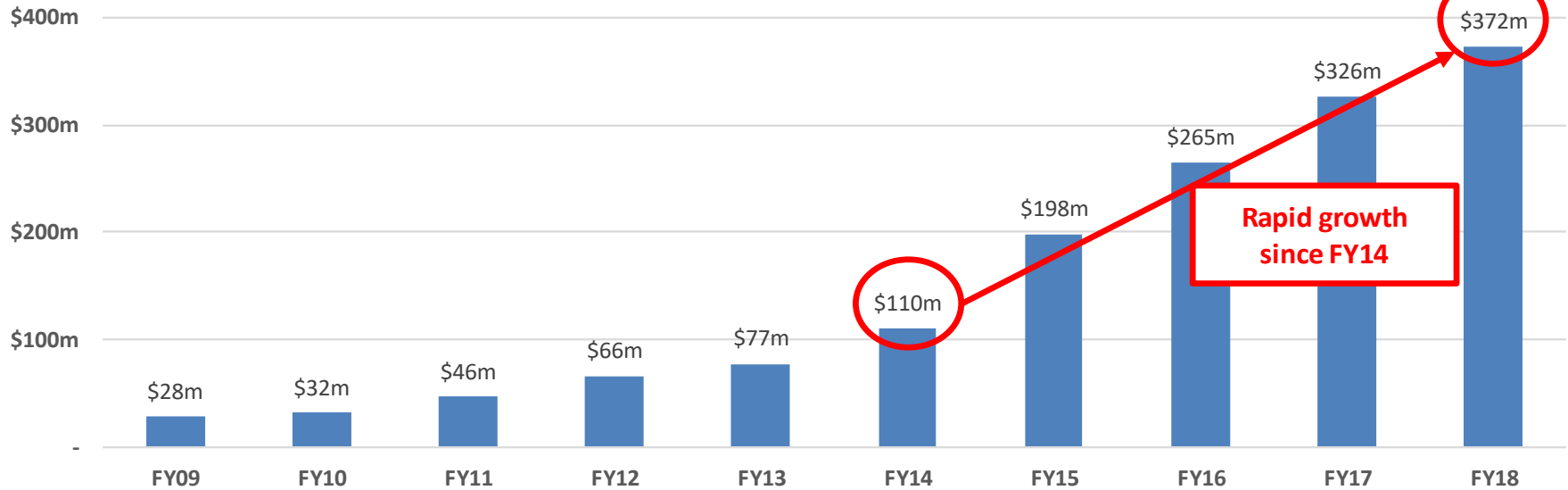
From Corporate Travel's latest Presentation:



Source: Corporate Travel Management Presentation dated 22 August 2018

Corporate Travel's reported revenue has grown 13x since FY09 and 238% since FY14

### Corporate Travel Management Revenue



Source: Corporate Travel Management & VGI Partners analysis

Note: We exclude interest revenue as we believe this is a non-operating item. Corporate Travel includes interest income within their revenue line

Corporate Travel's reported EBITDA has grown 58x since FY09 and 361% since FY14

### Corporate Travel Management EBITDA



Source: Corporate Travel Management & VGI Partners analysis



# Corporate Travel expects the growth to continue

## FY19 Guidance update

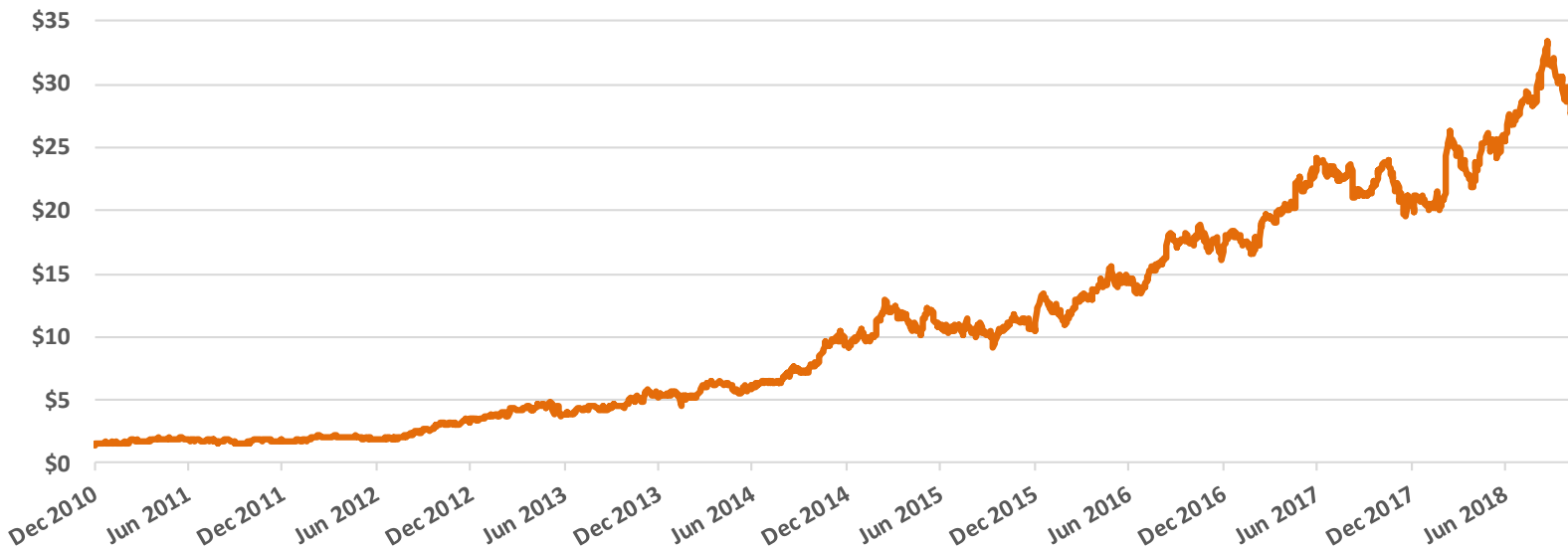
**FY19 underlying EBITDA range of AUD\$144-150m (approximately +15%-20% growth on the p.c.p.).**

Source: Corporate Travel Management FY18 Presentation, 22 August 2018

# Share price consistent with the growth story

- Corporate Travel's share price has increased from \$1.00 at IPO in 2010 to \$27.64 today – a 3,503% total return over almost eight years with dividends reinvested

Corporate Travel Management Share Price



Source: Bloomberg (26 October 2018)

# Valuation metrics consistent with the growth story

- Corporate Travel's valuation multiples are well above peers<sup>1</sup>

	<b>Corporate Travel</b>	<b>Flight Centre</b>	<b>Helloworld Travel</b>	<b>Expedia Inc.</b>
<b>EV/Revenue (FY19)</b>	<b>6.6x</b>	1.1x	1.4x	1.7x
<b>EV/EBITDA (FY19)</b>	<b>19.9x</b>	6.6x	6.3x	9.9x
<b>P/E (FY19)</b>	<b>28.6x</b>	15.8x	15.7x	18.9x

Source: Bloomberg (26 October 2018)

<sup>1</sup>Peer set includes competitor travel agency businesses with corporate travel activity and for which financial and valuation data is available

# Is Corporate Travel the next FAANG stock?

- Corporate Travel's reported performance exceeds some of the most successful businesses in the world over the past five years

	<b>Revenue growth</b> <i>FY13 to FY18</i>	<b>EBITDA growth</b> <i>FY13 to FY18</i>	<b>Total Shareholder Return</b> <i>Past Five Years</i>
Corporate Travel	5x	7x	513%
Netflix, Inc.	4x	7x	568%
Amazon.com, Inc.	3x	8x	390%
Apple Inc.	2x	1x	221%
Facebook, Inc.	7x	9x	191%
Alphabet Inc. (i.e. Google)	2x	3x	117%

Source: Corporate Travel Management, Bloomberg (26 October 2018) & VGI Partners analysis

Note: FY18 revenue and EBITDA for Netflix, Inc., Amazon.com, Inc., Apple Inc., Facebook, Inc. and Alphabet Inc. based upon Bloomberg consensus as at 26 October 2018  
Total Shareholder return calculated from 25 October 2013 using Bloomberg, assuming dividends reinvested

Four hands in dark suits holding red flags. Two hands are at the top corners, and two are at the bottom corners, framing the central text.

# Corporate Travel Red Flags

# Red flags

- Whenever VGI Partners reviews a potential investment, we are on the lookout for what we believe are “Red Flags” that may be consistent with a structurally flawed business, a fad or accounting irregularities
- The next 155 pages provide an overview of what we consider to be 20 Red Flags that we identified in the course of our analysis of Corporate Travel

# Red flags

- 1 🚩 Supernormal profitability
- 2 🚩 Growth through acquisitions
- 3 🚩 Acquisition cash outflows that fail to reconcile
- 4 🚩 Lowered goodwill discount rates
- 5 🚩 Very little interest income
- 6 🚩 Low client cash balances
- 7 🚩 Significant changes to revenue recognition policy
- 8 🚩 Growing receivables
- 9 🚩 Large balance sheet that provides meaningful discretion
- 10 🚩 Declining 2H18 cash flows
- 11 🚩 Negative share-based payment reserve
- 12 🚩 Inadequate and misleading franking disclosures
- 13 🚩 Capitalising expenses
- 14 🚩 Questionable technology claims
- 15 🚩 Global office footprint overstated
- 16 🚩 Long-serving auditor
- 17 🚩 Retirement of Chairman with no replacement
- 18 🚩 Long-standing CEO and CFO
- 19 🚩 High turnover in North America CEO role
- 20 🚩 Management share sales



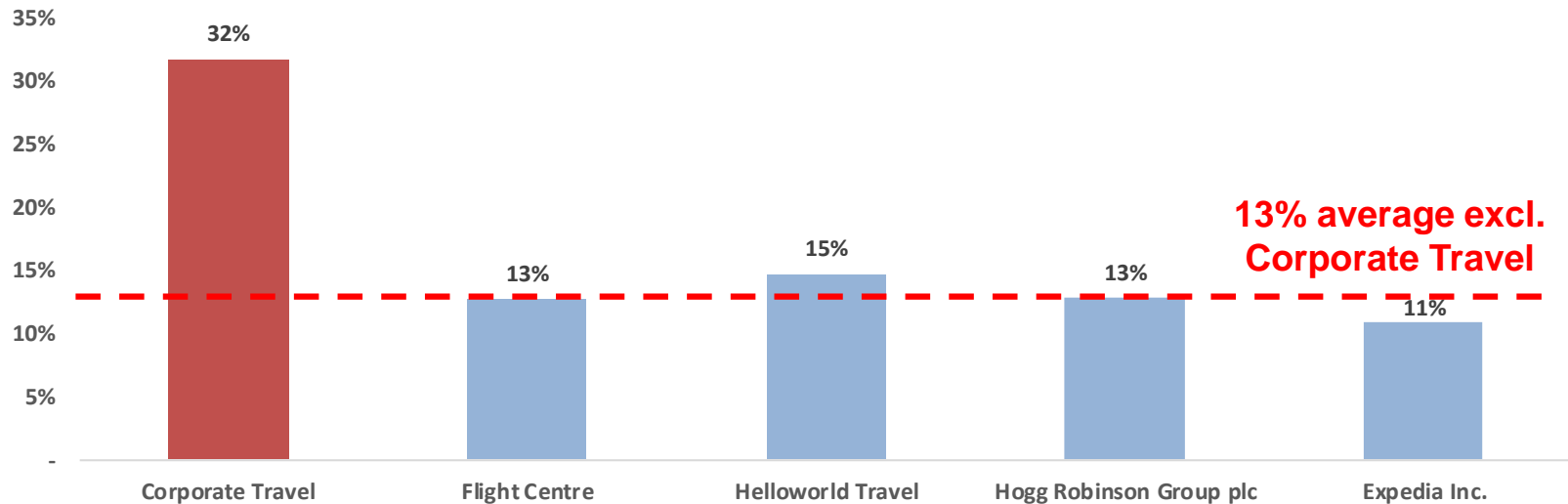
# Supernormal profitability



# Corporate Travel's margins are way above global peers<sup>1</sup>



### FY18 EBIT Margin



Source: Corporate Travel Management, Flight Centre, Helloworld Travel, Bloomberg (26 October 2018) & VGI Partners analysis  
Note: FY18 EBIT margins for Hogg Robinson Group plc & Expedia Inc. are Bloomberg consensus estimates as at 26 October 2018  
<sup>1</sup>Peer set includes competitor travel agency businesses with corporate travel activity and for which financial data is available



# Corporate Travel has purchased growth through acquisitions

# Corporate Travel has purchased growth through acquisitions

- Corporate Travel has completed 20 acquisitions over the past decade at a cost of circa A\$527m. This makes it very difficult to determine the underlying growth and economics of the business



Business Acquired	Acquisition Date	Acquisition Consideration
WA Travel	1 Jul 2008	\$0.2 m
Sainten	1 Jul 2008	\$3.1 m
Floron	1 Jul 2008	\$2.9 m
TravelCorp (AU)	3 Jan 2011	\$16.8 m
NZ Business	3 Oct 2011	\$0.7 m
ETM	3 Oct 2011	\$12.6 m
R&A Travel	2 Jul 2012	\$9.3 m
Boulder	1 Dec 2012	\$0.4 m
TravelCorp (US)	1 May 2013	\$19.2 m
Westminster Travel	29 Jan 2014	\$48.9 m
USTRavel LLC	1 Jul 2014	\$9.0 m
Forestieri	1 Sep 2014	\$9.5 m
Chambers	2 Jan 2015	\$73.4 m
Diplomat	2 Jan 2015	\$12.6 m
Montrose	1 Jan 2016	\$89.2 m
Travizon	1 Jul 2016	\$54.5 m
Redfern	1 Feb 2017	\$87.4 m
Andrew Jones	1 Feb 2017	\$5.8 m
Platinum Travel	1 Jul 2018	\$8.5 m
Lotus Travel	2 Oct 2018	\$62.9 m
<b>Total</b>		<b>\$526.9 m</b>

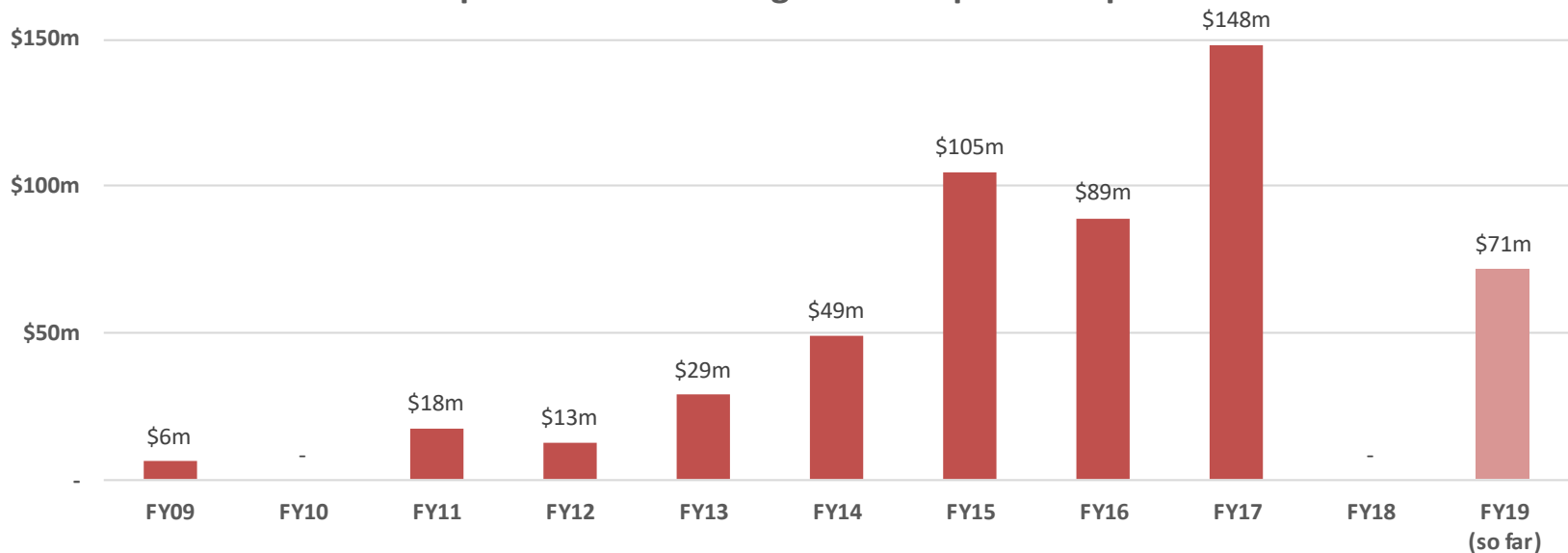
Source: Corporate Travel Management & VGI Partners analysis

# Corporate Travel has purchased growth through acquisitions

- Corporate Travel's annual acquisition spend has increased over time



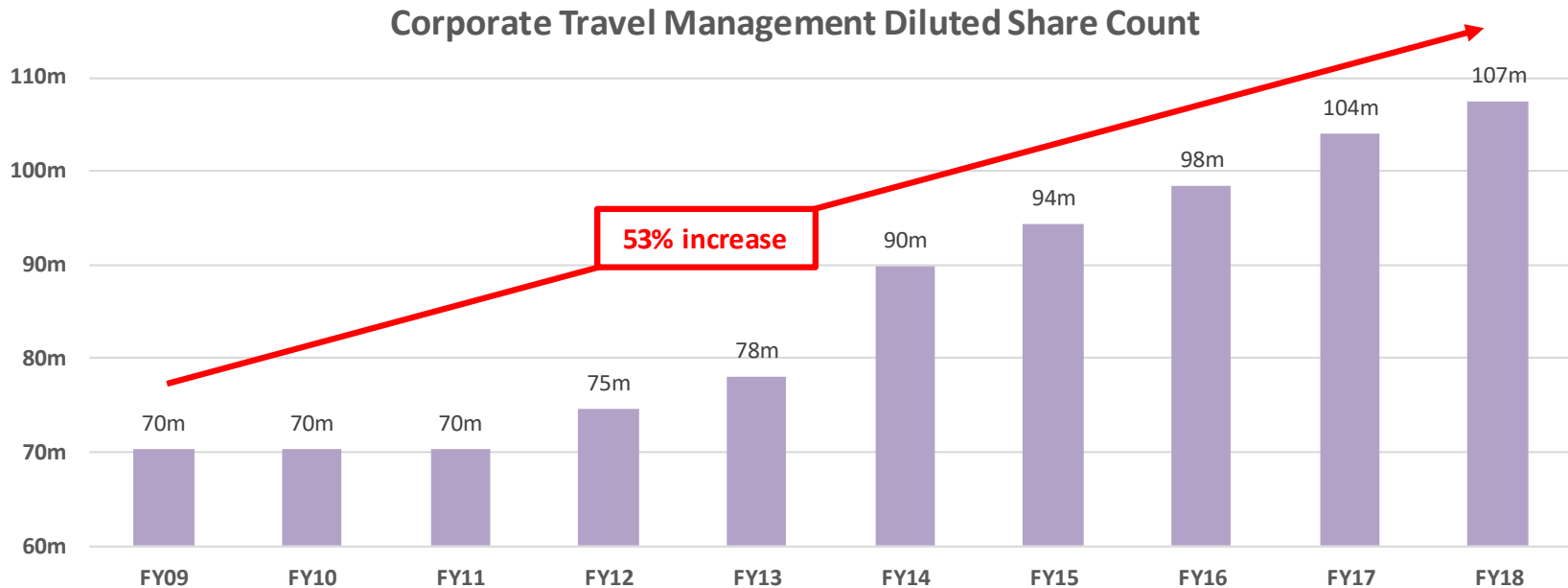
### Corporate Travel Management Acquisition Spend



Source: Corporate Travel Management & VGI Partners analysis

# Corporate Travel has purchased growth through acquisitions

- Corporate Travel's share count has increased significantly over time in order to fund these acquisitions



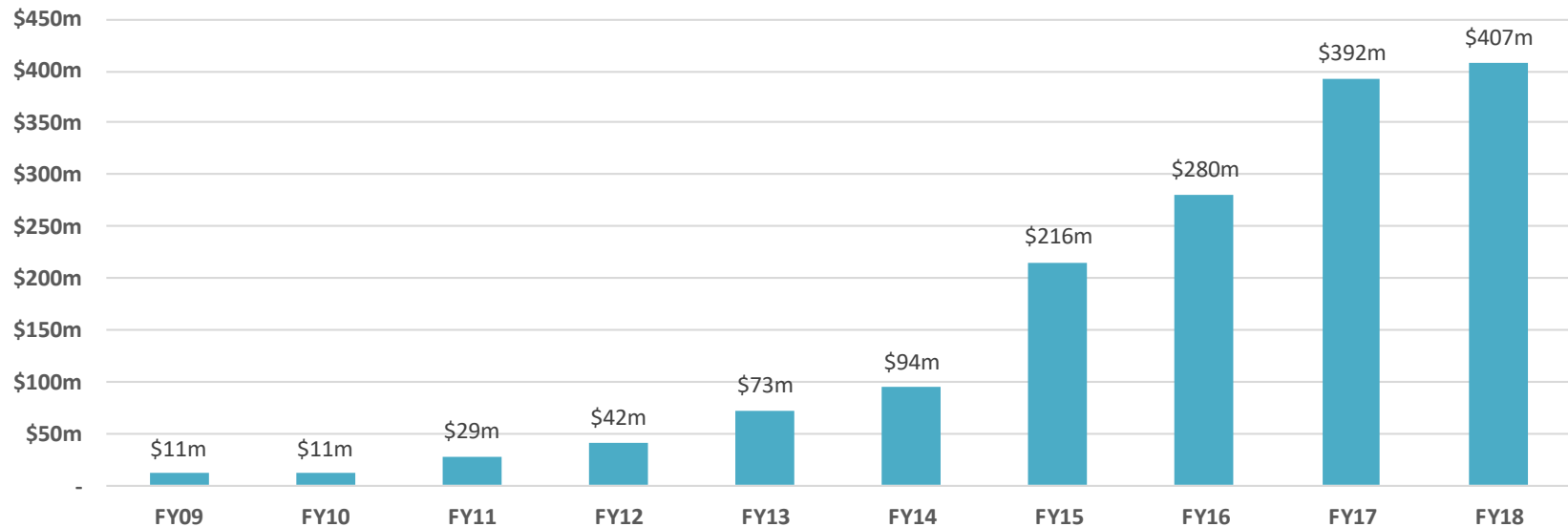
Source: Corporate Travel Management & VGI Partners analysis

# Corporate Travel has purchased growth through acquisitions

- The goodwill amount recorded on Corporate Travel's balance sheet has increased materially over time due to acquisitions. Goodwill accounted for 51% of the assets on Corporate Travel's balance sheet at 30 June 2018



### Corporate Travel Management Goodwill



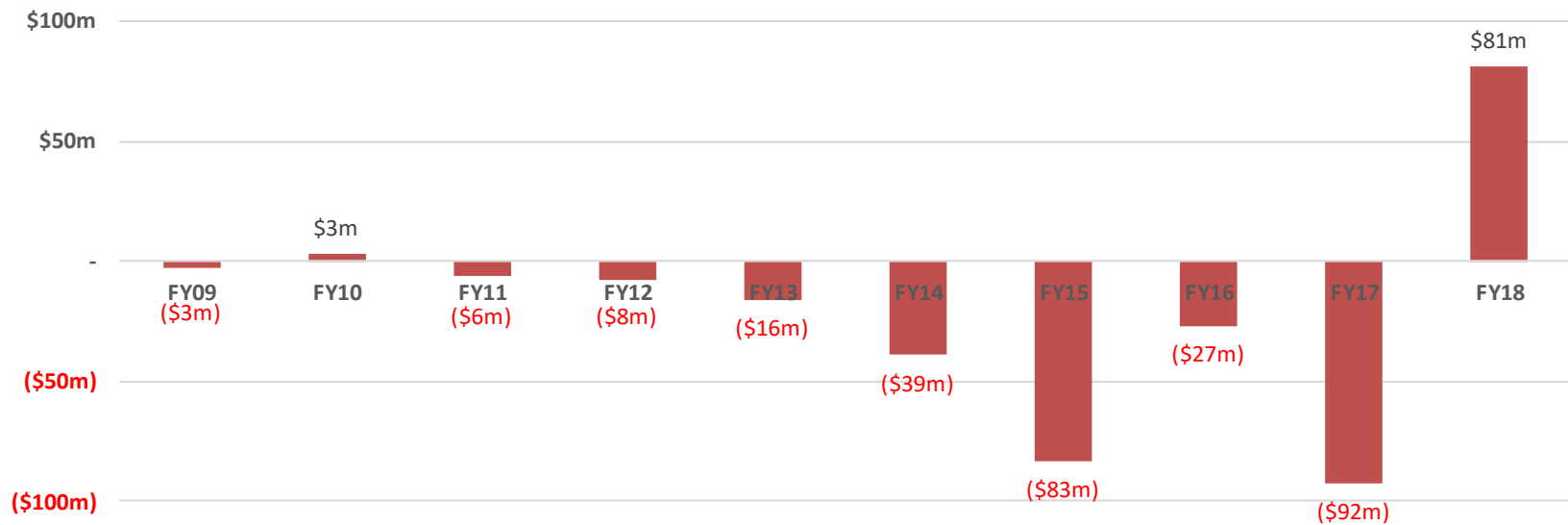
Source: Corporate Travel Management & VGI Partners analysis

# Corporate Travel has purchased growth through acquisitions

- With the exception of FY18, Corporate Travel's Free Cash Flow to Equity (FCFE) has been consistently negative after taking into account acquisition spending



### Corporate Travel FCFE After Acquisitions



Source: Corporate Travel Management & VGI Partners analysis  
FCFE After Acquisitions calculated by deducting net capex and total consideration for acquisitions from operating cash flow

# Corporate Travel has purchased growth through acquisitions

- Corporate Travel has acquired \$136m of receivables over the past decade
- Acquired receivables boost Corporate Travel's operating cash flow. When Corporate Travel buys these receivables as part of an acquisition, the cash cost is included within Investing Cash Flows. When the cash is collected, it is counted as Operating Cash Flow



Year ended 30 June (AUD\$m)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	TOTAL
Acquired receivables	2	-	3	2	1	57	16	13	41	-	136
Operating cash flow	3	3	12	7	16	12	24	70	69	94	312

Source: Corporate Travel Management & VGI Partners analysis





# Acquisition cash outflows that fail to reconcile

## Acquisition cash outflows – paying more than disclosed

- During FY17 and FY18, Corporate Travel appears to have paid out \$7.8m more for acquisitions than reported in its business combination footnotes. Where is this extra cash going?



Year ended 30 June (AUD\$m)	FY14	FY15	FY16	FY17	FY18	Total
Cash outflow for acquisitions (Cash Flow Statement)	25.2	42.5	27.0	69.4	3.7	167.8
Cash outflow for acquisitions (Footnotes)	25.2	42.5	27.0	65.3		160.0
<b>Difference</b>	-	-	-	<b>4.1</b>	<b>3.7</b>	<b>7.8</b>



# Lowered goodwill discount rates

# Discount rate utilised in valuation of goodwill lowered in FY18

- Corporate Travel materially lowered the pre-tax discount rates used for impairment testing of goodwill in FY18



	Travel services			
	Australia and New Zealand	North America	Asia	Europe
<b>2018</b>				
Pre-tax nominal discount rate applied to the cash flow projection	12.77%	11.55%	10.86%	10.71%
Cash flows beyond the next financial year, up to year 5, are extrapolated using an average growth rate of:				
Revenue	3.50%	3.50%	3.50%	3.50%
Operating expenses	3.00%	3.00%	3.00%	3.00%
Long term growth rate	2.00%	2.00%	2.00%	2.00%
<b>2017</b>				
Pre-tax nominal discount rate applied to the cash flow projection	16.06%	16.48%	12.59%	11.96%
Cash flows beyond the next financial year, up to year 5, are extrapolated using a growth rate of:				
Revenue	3.50%	3.50%	3.50%	5.00%
Operating expenses	3.00%	2.50%	3.00%	3.00%
Long term growth rate	2.00%	2.00%	2.00%	2.00%



Source: Corporate Travel Management FY18 Annual Report, 28 September 2018

Discount rate utilised in valuation of goodwill lowered in FY18

**Why would Corporate Travel lower these discount rates when global interest rates are rising?**



**Does this draw into question the value accretion from Corporate Travel's growing acquisition spending?**

**In general, reducing discount rates provides a larger valuation for an acquired business, and therefore a larger buffer before a write-down of goodwill is required.**

## Discount rate utilised in valuation of goodwill lowered in FY18

- In particular, we think that Corporate Travel's North America segment is vulnerable to a potential write-down. The North America revenue growth rate assumption only needs to fall to 0.9% to indicate an impairment, even at the reduced discount rate. North America revenue grew 0.2% in FY18



	Possible change considered	Change required to indicate an impairment
<b>Growth rates – Travel services – Australia and New Zealand</b>		
Revenue	Reduction in yield, rates, client retention	Decrease to (7.06%)
Operating expenses	Higher labour and / or other support costs	Increase to 14.88%
<b>Growth rates – Travel services – North America</b>		
Revenue	Reduction in yield, rates, client retention	Decrease to 0.90%
Operating expenses	Higher labour and / or other support costs	Increase to 6.10%
<b>Growth rates – Travel services – Asia</b>		
Revenue	Reduction in yield, rates, client retention	Decrease to (4.57%)
Operating expenses	Higher labour and/or other support costs	Increase to 10.73%
<b>Growth rates – Travel services – Europe</b>		
Revenue	Reduction in yield, rates, client retention	Decrease to (6.66%)
Operating expenses	Higher labour and/or other support costs	Increase to 16.32%

Source: Corporate Travel Management FY18 Annual Report, 28 September 2018



# Very little interest income

# Very little interest income

- Corporate Travel reported a cash balance of \$82m at 30 June 2018, which has grown rapidly
- However Corporate Travel earns surprisingly little interest income on its cash
- Low interest income is a red flag that the company may actually hold very little cash during the year, despite the financial accounts showing strong cash for the balance sheet date



## Corporate Travel

Year ended 30 June (AUD\$m)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
<b>Average cash and cash equivalents*</b>	<b>9</b>	<b>14</b>	<b>13</b>	<b>23</b>	<b>36</b>	<b>61</b>	<b>80</b>	<b>82</b>
Interest income (accrual)	0.3	0.3	0.2	0.3	0.1	0.2	0.2	0.1
<b>Implied average annual return (accrual)</b>	<b>3.6%</b>	<b>2.0%</b>	<b>1.6%</b>	<b>1.1%</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.2%</b>	<b>0.2%</b>
Interest income (cash)	0.1	0.3	0.2	0.3	0.1	0.2	0.2	0.1
<b>Implied average annual return (cash)</b>	<b>1.6%</b>	<b>2.0%</b>	<b>1.6%</b>	<b>1.1%</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.2%</b>	<b>0.2%</b>

Source: Corporate Travel Management & VGI Partners analysis

\*Average cash and cash equivalents calculated as the average between the beginning and ending balance for each year



## Very little interest income

- Accounts of comparable companies suggest that Corporate Travel's interest income is an outlier
- Flight Centre is a roughly similar business providing travel retailing services for the leisure and corporate sectors
- In contrast to Corporate Travel, Flight Centre reports a very normal ~2.0% interest rate on its cash balances



### Flight Centre

Year ended 30 June (AUD\$m)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
<b>Average cash and cash equivalents*</b>	<b>897</b>	<b>961</b>	<b>1,130</b>	<b>1,244</b>	<b>1,320</b>	<b>1,347</b>	<b>1,299</b>	<b>1,277</b>
Interest income (accrual)	40.1	40.3	35.3	32.2	29.5	25.8	26.8	25.3
<b>Implied average annual return (accrual)</b>	<b>4.5%</b>	<b>4.2%</b>	<b>3.1%</b>	<b>2.6%</b>	<b>2.2%</b>	<b>1.9%</b>	<b>2.1%</b>	<b>2.0%</b>
Interest income (cash)	39.7	37.5	39.5	32.3	29.4	27.0	24.6	21.2
<b>Implied average annual return (cash)</b>	<b>4.4%</b>	<b>3.9%</b>	<b>3.5%</b>	<b>2.6%</b>	<b>2.2%</b>	<b>2.0%</b>	<b>1.9%</b>	<b>1.7%</b>

Source: Flight Centre & VGI Partners analysis

\*Average cash and cash equivalents calculated as the average between the beginning and ending balance for each year

# Very little interest income

- Helloworld Travel is also a similar business which sells leisure and corporate travel services
- It reports a ~1.5% interest rate on its cash balances



## Helloworld Travel

Year ended 30 June (AUD\$m)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
<b>Average cash and cash equivalents*</b>	<b>154</b>	<b>219</b>	<b>226</b>	<b>210</b>	<b>180</b>	<b>189</b>	<b>200</b>	<b>201</b>
Interest income (accrual)	6.8	8.1	6.1	5.1	4.4	3.6	2.6	3.1
<b>Implied average annual return (accrual)</b>	<b>4.4%</b>	<b>3.7%</b>	<b>2.7%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>1.9%</b>	<b>1.3%</b>	<b>1.5%</b>
Interest income (cash)	6.8	8.1	6.1	5.1	4.4	3.6	2.6	3.1
<b>Implied average annual return (cash)</b>	<b>4.4%</b>	<b>3.7%</b>	<b>2.7%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>1.9%</b>	<b>1.3%</b>	<b>1.5%</b>

Source: Helloworld Travel & VGI Partners analysis

\*Average cash and cash equivalents calculated as the average between the beginning and ending balance for each year

# Very little interest income

- On the FY18 earnings call, Corporate Travel failed to answer a simple question around why its interest income is so low



## Analyst

“Could you maybe give a sense of why that cash was low interest rate, is it because it is parked in an offshore location or is it some sort of a cash cycle to the business has?”

## Jamie Pherous, Managing Director & Founder

“Yes, just to get your question right, it's about the cash cycle and where we've got cash. So, firstly it's when we pay. So, for example, if we had to pay the airlines, I don't know in the last day of the month, we're holding no cash and in the next period we paid three days before the end of the month, we've got three days different in cash. It's not really a big deal except for probably Asia. So, that's the timing movement and we try to reconcile that back for you.

As it turns out this period, it is hardly really any movement other than a bit of rail stuff. So, that's why it's around the same. In terms of how we move cash around, typically what we've done, we use -- again we've got a natural hedge because we earn profits in region and any short-term cash flow or short-term debt for earn-out is in region. So, for example, we are using US dollars to pay US earn-outs and pounds to pay UK earn-outs and usually we use the Australian profit for a dividend.

So, outside of that, there is only a small percentage of our money actually moving around. So, the FX really is an accounting translation as opposed to real FX number. Does that answer your question?”

Source: Corporate Travel Management FY18 Transcript (Bloomberg), 22 August 2018

# Very little interest income

- Responding to a follow up question, Corporate Travel said that it couldn't answer on the phone why its interest income is so low



## Analyst

“Just in terms of the interest rate on the cash, just what 0.1% of the cash balance. So –”

## Jamie Pherous, Managing Director & Founder

“I have to come back on that, I couldn't answer that one on the phone, sorry, but I mean we're doing -- we've got US denominated debt at US interest rates. So, we're using local interest rates for all our debt rather than Australian which is a good thing.”

- Why couldn't Corporate Travel answer a simple question on why its interest income is so low?

Source: Corporate Travel Management FY18 Transcript (Bloomberg), 22 August 2018

## Very little interest income

- Based on Corporate Travel's FY18 interest income of \$131k and assuming a 2.0% interest rate (the same as Flight Centre), we estimate an average cash balance closer to \$6.6m
- This is \$75.2m below the average level of cash calculated from Corporate Travel's balance sheet, and is at odds with the reported scale of Corporate Travel's business



FY18 reported interest income	\$131k
Assumed interest rate	<b>2.0%</b>
<b>Estimated average FY18 cash balance (\$131k ÷ 2%)</b>	<b>\$6.6m</b>
Reported beginning FY18 cash balance	\$79.2m
Reported ending FY18 cash balance	\$84.3m
<b>Average FY18 cash balance</b>	<b>\$81.8m</b>
<b>Difference from reported cash (\$)</b>	<b>(\$75.2m)</b>

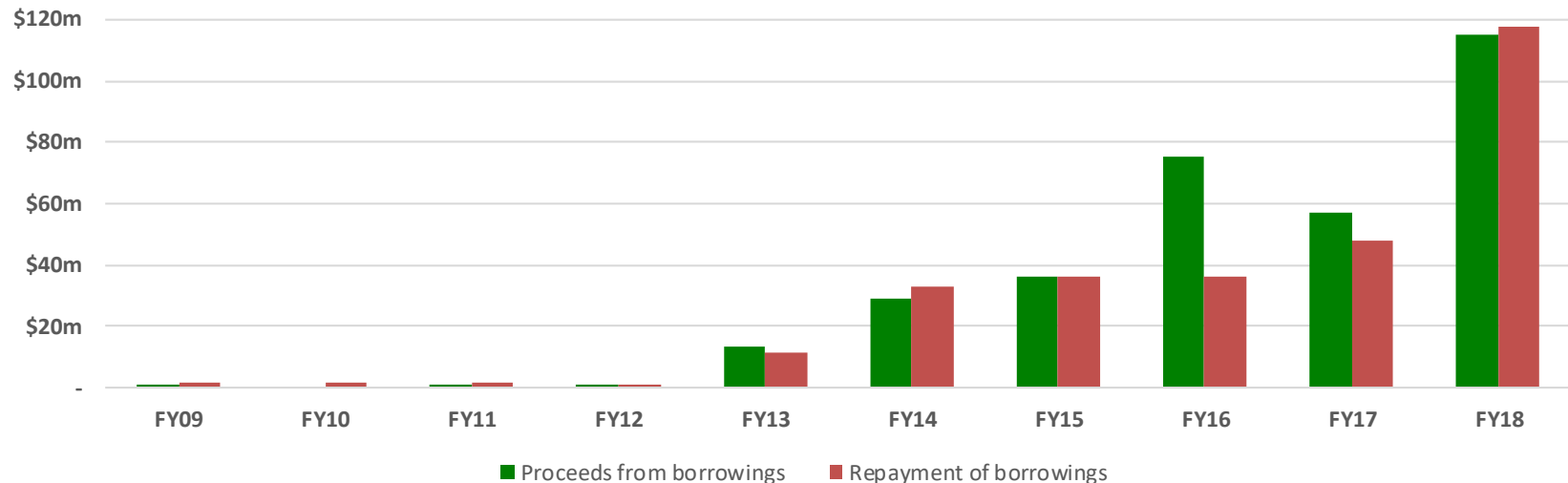
Source: Corporate Travel Management & VGI Partners analysis

# Very little interest income

- Corporate Travel's Financing Cash Flows show that it has borrowed meaningful amounts of money during each year since FY13
- However prior to balance sheet date each year, Corporate Travel has repaid a very similar amount
- This results in a lower debt balance for the balance sheet date



### Cash Borrowed vs. Cash Debt Repayments



Source: Corporate Travel Management & VGI Partners analysis

Note: Repayment of borrowings is shown as a positive number, despite being a cash outflow for Corporate Travel



# Low client cash balances

# Why are client cash balances so low?

- Corporate Travel holds cash on behalf of clients in the normal course of business
- Interestingly, Corporate Travel's cash in client accounts has not grown since 30 June 2015, despite huge reported growth in Total Transaction Value. We would expect Corporate Travel's cash in client accounts to scale with the business
- The amount of client cash also appears very low at 0.6% of Total Transaction Value



## Corporate Travel

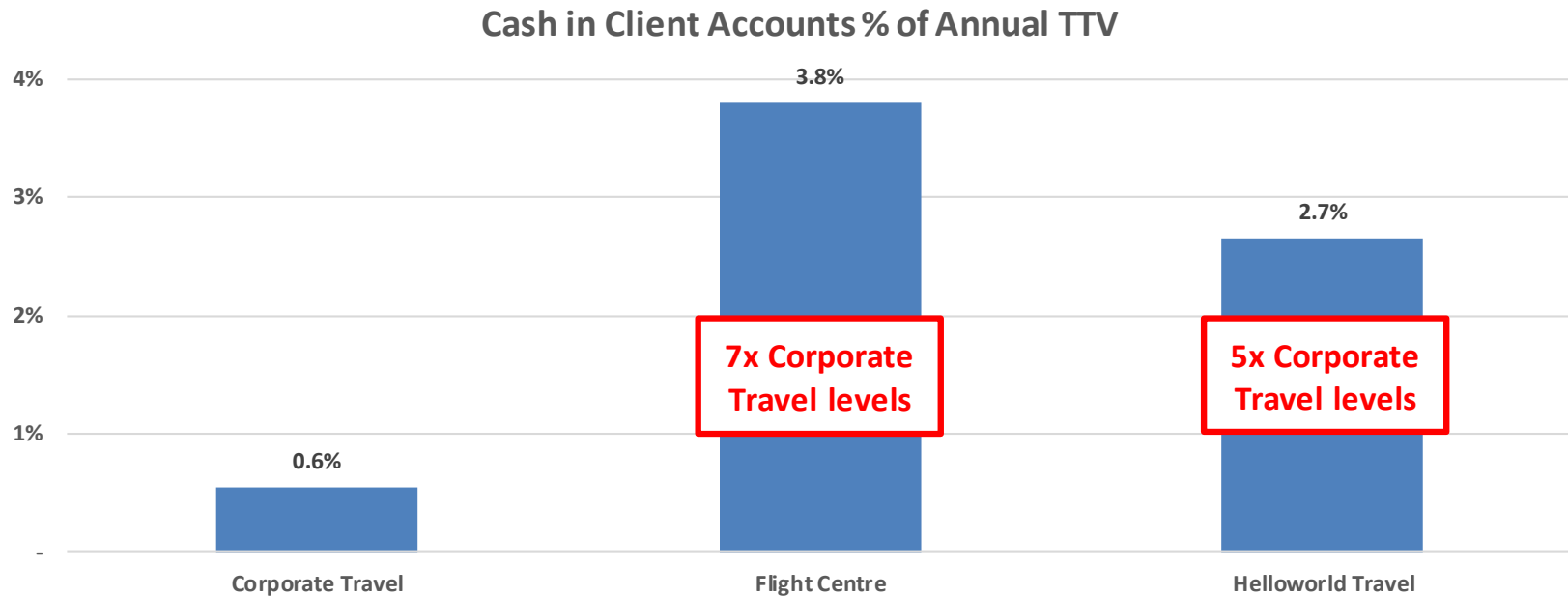
Year ended 30 June (AUD\$m)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
<b>Group TTV</b>	<b>502</b>	<b>681</b>	<b>1,002</b>	<b>1,380</b>	<b>2,656</b>	<b>3,587</b>	<b>4,162</b>	<b>4,958</b>
Growth %	42.7%	35.6%	47.1%	37.7%	92.4%	35.1%	16.0%	19.1%
<b>Cash in Client Accounts</b>	<b>6</b>	<b>7</b>	<b>12</b>	<b>18</b>	<b>27</b>	<b>34</b>	<b>30</b>	<b>27</b>
Growth %	237.9%	13.0%	88.0%	43.3%	51.6%	26.9%	(11.3%)	(9.1%)
% of Group TTV	1.1%	1.0%	1.2%	1.3%	1.0%	0.9%	0.7%	0.6%

Source: Corporate Travel Management & VGI Partners analysis



# Why are client cash balances so low?

- In contrast, Flight Centre and Helloworld Travel report meaningful client cash balances compared to Total Transaction Value, although this may be partially explained by their weighting towards leisure travel



Source: Corporate Travel Management, Flight Centre, Helloworld Travel & VGI Partners analysis

# Client cash restatement in FY12

- Corporate Travel restated upwards the amount of client cash in its FY12 accounts – why? The company provided minimal disclosure on this



**10. CASH AND CASH EQUIVALENTS**

	2012 \$'000	2011 \$'000
<b>Current Assets</b>		
Cash at bank and on hand	5,685	3,907*
Cash on short term deposit	-	6,000
Client accounts (note 2(k))	6,525	5,774*
	12,210	15,681
<b>Current Liabilities</b>		
Bank overdraft	-	-
	-	-
Net cash assets per Statement of Cash Flows	12,210	15,681

\* Client funds of \$3,061,000 have been reclassified for comparability.

**9. CASH AND CASH EQUIVALENTS**

	2011 \$'000	2010 \$'000
<b>Current Assets</b>		
Cash at bank and on hand	6,968	108
Cash on short term deposit	6,000	-
Client accounts (note 2(k))	2,713	1,709
	15,681	1,817
<b>Current Liabilities</b>		
Bank overdraft	-	-
	-	-
Net cash assets per statement of cash flows	15,681	1,817

Source: Corporate Travel Management FY12 Annual Report (17 September 2012) & FY11 Annual Report (30 September 2011)



# Significant changes to revenue recognition policy

# First impressions suggest a strong organic growth story

- Corporate Travel's FY18 result was its first since FY10 not to benefit from a significant acquisition
- At first glance, it looked like a strong organic result



<b>Reported (\$AUDm)</b>	<b>FY2018</b>	<b>Change on P.C.P</b>
TTV (unaudited)	4,958.3	19%
Revenue and other income	372.2	14%
<b>Underlying EBITDA#</b>	<b>125.4</b>	<b>27%</b>
<b>Statutory NPAT attributable to owners of CTD</b>	<b>76.7</b>	<b>41%</b>
<b>*Underlying NPAT (excluding acquisition amortisation)</b>	<b>86.0</b>	<b>34%</b>

Source: Corporate Travel Management FY18 Presentation, 22 August 2018

# First impressions suggest a strong organic growth story

- Management used the FY18 result to demonstrate to investors that the business does not need acquisitions in order to grow



“As I said before, we don't need acquisitions. You can see the organic growth we are doing without acquisitions, it's not like they are needed.”

– CEO Jamie Pherous, FY18 Earnings Call Transcript, 22 August 2018

Source: Corporate Travel Management FY18 Transcript (Bloomberg), 22 August 2018

First impressions can be misleading

**But was the FY18 result as  
good as it appeared?**

**Let's dig a little deeper...**



# The organic growth story is actually less than clear

- Corporate Travel loosened its revenue recognition policy in FY18 to recognise revenue earlier
- From FY18, Corporate Travel began recognising revenue relating to Pay Direct Commissions (“PDC’s”) upon “confirmed commissionable by supplier”, rather than simply upon receipt



From the FY18  
Annual Report:

*Revenue from sale of travel services*

Revenue from sale of travel services represents net revenue earned via commissions and fees, and also includes any commission payable by suppliers after completion of the transaction. Commission and fees from the sale of travel services are recognised when a travel booking is received and travel documents are issued. Commission payable by suppliers includes PDC’s, which is recognised upon receipt or confirmed commissionable by supplier, the point at which it can be reliably measured, and it is probable that future economic benefits will flow to the entity.

Revenue relating to volume incentives (override revenue) are recognised at the amount receivable when annual targets are likely to be achieved.

From the FY17  
Annual Report:

*Revenue from sale of travel services*

Revenue from sale of travel services represents net revenue earned via commissions and fees, and also includes any commission payable by suppliers after completion of the transaction. Commission and fees from the sale of travel services is recognised when a travel booking is received and travel documents are issued. Commission payable by suppliers includes PDC’s, which is recognised upon receipt, the point at which it can be reliably measured, and it is probable that future economic benefits will flow to the entity.

Revenue relating to volume incentives (override revenue) is recognised at the amount receivable when annual targets are likely to be achieved.

Source: Corporate Travel Management & VGI Partners analysis

# More aggressive revenue recognition policy

- It's unclear exactly when the revenue recognition policy change became effective. Notably, Corporate Travel's 1H18 Interim Report contained no mention of this accounting change
- In fact, the Interim Report said "The accounting policies adopted are consistent with those of the previous financial year and corresponding interim period, except as set out in Note 13."
- **However the 1H18 Accounts stop at Note 12. There was no Note 13. How did the auditor and Corporate Travel investors miss this?**



## Basis of preparation

This condensed consolidated interim financial report for the half year reporting period ended 31 December 2017 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2017 and any public announcements made by Corporate Travel Management Limited ('CTM' of 'the Group') during the interim reporting period, in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim period, except as set out in **Note 13**.

**What happened  
to Note 13?**

Source: Corporate Travel Management 1H18 Interim Report, 20 February 2018



**What impact might this change have had on Corporate Travel's FY18 result? We can't be sure as Corporate Travel has not provided this information.**



**However if we go back to the 1H14 Interim Report, we see that Corporate Travel actually made an opposite change to revenue recognition...**

# More aggressive revenue recognition policy

- Specifically, Corporate Travel stopped recognising Pay Direct Commissions (“PDC”) at the time of booking, saying it was inappropriate because **“it was not probable that revenue would flow to CTM until the point of receipt”**
- Corporate Travel has not explained what’s changed to justify flip-flopping on this issue



From the 1H14 Report:

## **VOLUNTARY CHANGE IN ACCOUNTING POLICY**

During the half-year, the Group made a voluntary change to its accounting policy in relation to Pay Direct Commissions (“PDC”). In assessing the revenue recognition policy, the Directors noted several factors including a deteriorating rate of PDC recoveries in the past six months and the **uncertainty that surrounds PDCs at the time of travel booking**. These factors made it **increasingly difficult to reliably estimate PDC revenue at time of booking**.

The Directors concluded that it was **not probable that revenue would flow to CTM until the point of receipt**. Hence, the Directors consider that this voluntary change in accounting policy will allow a more reliable measurement and recognition of PDC in the future.

**PDC revenue is now being recognised based on receipt of commission, as opposed to previous recognition based on a booking received**. Full details of the impact of the voluntary change are found in Note 9.

Source: Corporate Travel Management 1H14 Accounts (26 February 2014) & VGI Partners analysis

# More aggressive revenue recognition policy

- From the 1H14 report we see that PDC revenue flows straight to bottom line – there are no costs attached to this revenue
- PDC revenue was of sufficient scale that a change in recognition policy had a 50% impact on EPS at the time of the 1H14 report. From the 1H14 Report:



	31 December 2013 \$'000	31 December 2012 \$'000
<b>REVENUE</b>		
Revenue before change in accounting policy	40,830	38,742
Adjustment due to change in accounting policy	2,610	(1,124)
Revenue after change in accounting policy	<u>43,440</u>	<u>37,618</u>
<b>PROFIT BEFORE INCOME TAXES</b>		
Profit before income tax before change in accounting policy	5,392	8,126
Adjustment due to change in accounting policy	2,610	(1,124)
Profit before income tax after change in accounting policy	<u>8,002</u>	<u>7,002</u>
<b>EARNINGS PER SHARE (BASIC AND DILUTED)</b>		
As reported before change in accounting policy	4.8	7.6
Adjustment due to change in accounting policy	2.4	(0.9)
Restated after change in accounting policy	<u>7.2</u>	<u>6.7</u>

Source: Corporate Travel Management 1H14 Accounts (26 February 2014) & VGI Partners analysis

## More aggressive revenue recognition policy

**Changing the accounting treatment may have contributed very substantially to Corporate Travel's FY18 profitability.**



**However Corporate Travel's FY18 accounts contained no disclosure about the impact of the revenue recognition change – there was no reconciliation of the sort provided in the 1H14 example on the prior slide.**

**In the interests of transparency, Corporate Travel should provide the impact of the FY18 accounting change to investors.**



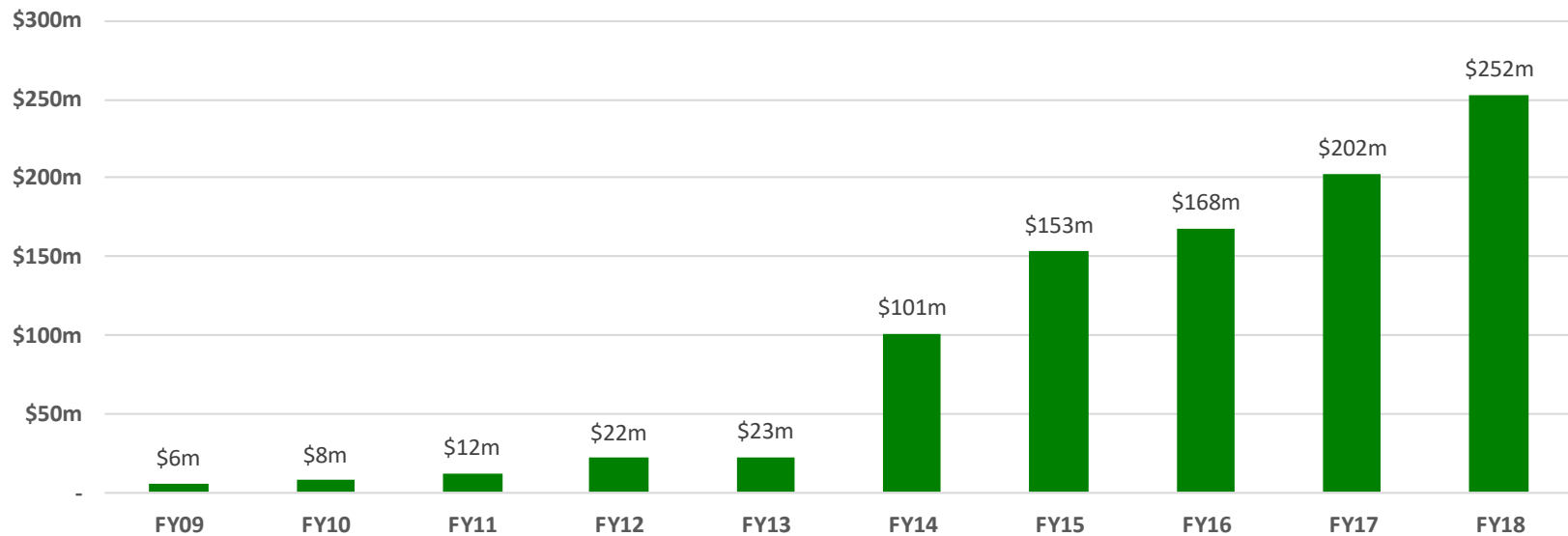
# Growing receivables

# Growing receivables

- Corporate Travel's outstanding receivables balance has grown rapidly since FY14
- How much of the increase in FY18 relates to the change in revenue recognition?
- Are all of these \$252m of receivables collectible?



### Corporate Travel Receivables



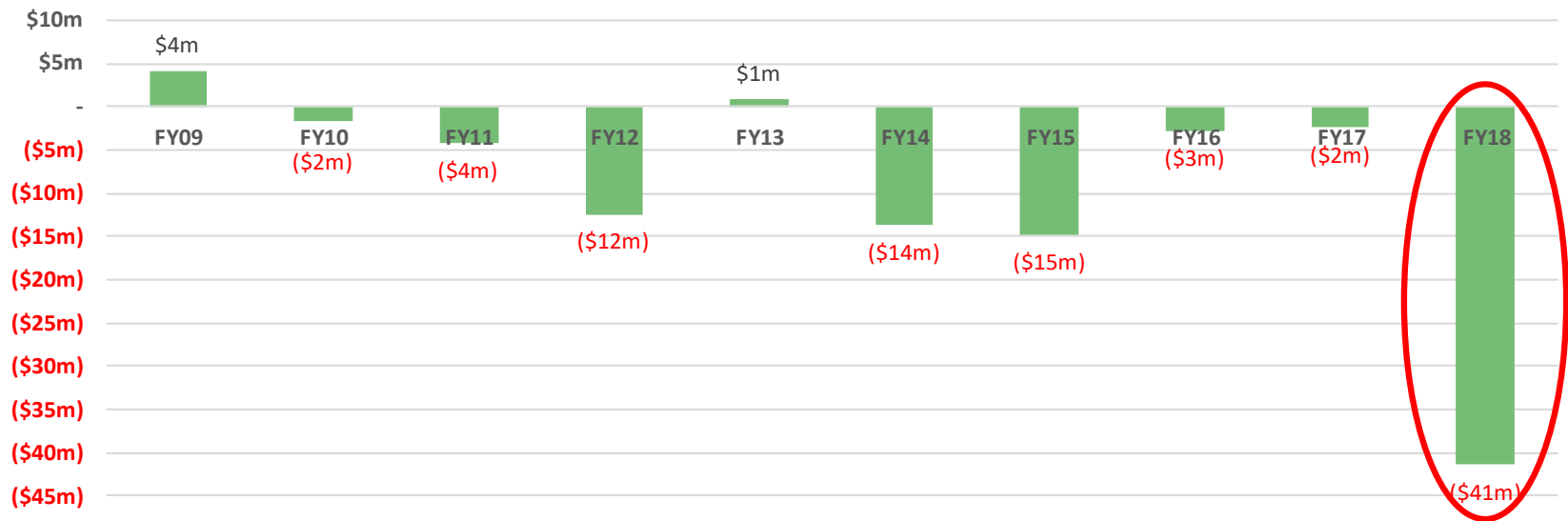
Source: Corporate Travel Management & VGI Partners analysis

# Growing receivables

- Interestingly, Corporate Travel's revenue recognition change corresponded with a sharp fall in cash receipts in FY18, suggesting to us that revenue recognition has become significantly more aggressive



Corporate Travel Cash Flow Benefit / (Drag) From Growth in Receivables



Source: Corporate Travel Management & VGI Partners analysis



# **Large balance sheet provides meaningful discretion**



# Large balance sheet items provide meaningful discretion over cash flows

- Corporate Travel reports large “Client Receivables” and “Client Payables” amounts on its balance sheet



10. Trade and other receivables

	2018 \$'000	2017 \$'000
<i>Current</i>		
Trade receivables (i)	43,149	32,000
Client receivables (i)	202,330	158,146
Allowance for doubtful debts	(2,615)	(2,141)
	<b>242,864</b>	<b>188,005</b>
<i>Deposits (ii)</i>		
Deposits (ii)	7,587	13,125
Other receivables	1,786	1,305
	<b>252,237</b>	<b>202,435</b>

11. Trade and other payables

	2018 \$'000	2017 \$'000
<i>Current</i>		
Trade payables (i)	12,536	13,156
Client payables (i)	185,122	148,703
Other payables and accruals (ii)	33,458	26,247
Acquisition payable (iii)	22,505	44,943
	<b>253,621</b>	<b>233,049</b>
<i>Non-current</i>		
Other payables and accruals	2,872	4,112
Acquisition payable	-	12,596
Contingent consideration payable	-	8,160
	<b>2,872</b>	<b>24,868</b>

Source: Corporate Travel Management FY18 Annual Report, 28 September 2018

# Large balance sheet items provide meaningful discretion over cash flows

- The net movement in these items flows through Corporate Travel's operating cash flows
- These balance sheet items are so large that they give the company meaningful discretion over the cash flow figures reported to investors each period
- For instance, delaying client payables by **just two days** would improve Corporate Travel's operating cash flow by roughly \$27m (29% of FY18 operating cash flow or 40% of 2H18 operating cash flow)



Year ended 30 June (AUD\$m)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Gross operating cashflow	5	12	10	23	17	34	84	92	120
Ending client receivables	3	4	11	10	69	101	130	158	202
Ending client payables	3	6	14	17	72	104	135	149	185

Source: Corporate Travel Management & VGI Partners analysis



# Declining 2H18 cash flows

# Does operating cash flow reconcile with EBITDA?

- Corporate Travel emphasises that its “Underlying EBITDA” can be verified by a comparison to cash flows



<b>\$AUD (m)</b>	<b>June 18</b>	<b>June 17</b>
Cash flows from operating activities	94.4	69.3
Add back: tax and interest	<u>25.2</u>	<u>22.1</u>
<b>Total operating cash conversion</b>	<b>119.6</b>	<b>91.4</b>
Underlying EBITDA	125.4	98.6
Reported operating cash conversion %	95%	93%
<b>Normalised Operating Cash Conversion:</b>		
Add back BSP/RSP timing	(10.0)	7.0
ANZ/USA one off government clients on terms	15.0	-
Normalised operating cash conversion	124.6	98.4
<b>Normalised operating cash conversion %</b>	<b>99%</b>	<b>100%</b>

Source: Corporate Travel Management FY18 Presentation, 22 August 2018

Does operating cash flow reconcile with EBITDA?



**But let's look a little more  
closely at the detail...**

# Why did 2H18 cash flows decline so much?

- Corporate Travel's 2H18 cash receipts from customers declined -9% YOY in 2H18
- This occurred in the first "clean" result (without a large recent acquisition) and is totally at odds with claims that the business is delivering strong organic growth (+14% YOY reported revenue growth in 2H18)
- This throws into question the **quality** of Corporate Travel's **reported revenue**



Year ended 30 June (AUD\$m)	1H14	2H14	1H15	2H15	1H16	2H16	1H17	2H17	1H18	2H18
Receipts from customers (incl. GST)	53	59	101	98	146	110	178	156	196	142
Payments to suppliers and employees (incl. GST)	(44)	(51)	(72)	(93)	(95)	(76)	(124)	(119)	(156)	(62)
<b>Gross operating cash flow</b>	<b>9</b>	<b>8</b>	<b>29</b>	<b>5</b>	<b>51</b>	<b>33</b>	<b>54</b>	<b>38</b>	<b>40</b>	<b>80</b>
<b>YOY growth</b>										
Receipts from customers (incl. GST)	10%	52%	89%	67%	44%	12%	23%	43%	10%	(9%)
Payments to suppliers and employees (incl. GST)	14%	93%	63%	84%	32%	(18%)	31%	55%	25%	(48%)
<b>Gross operating cash flow</b>	<b>(8%)</b>	<b>(35%)</b>	<b>215%</b>	<b>(40%)</b>	<b>75%</b>	<b>574%</b>	<b>7%</b>	<b>14%</b>	<b>(26%)</b>	<b>111%</b>

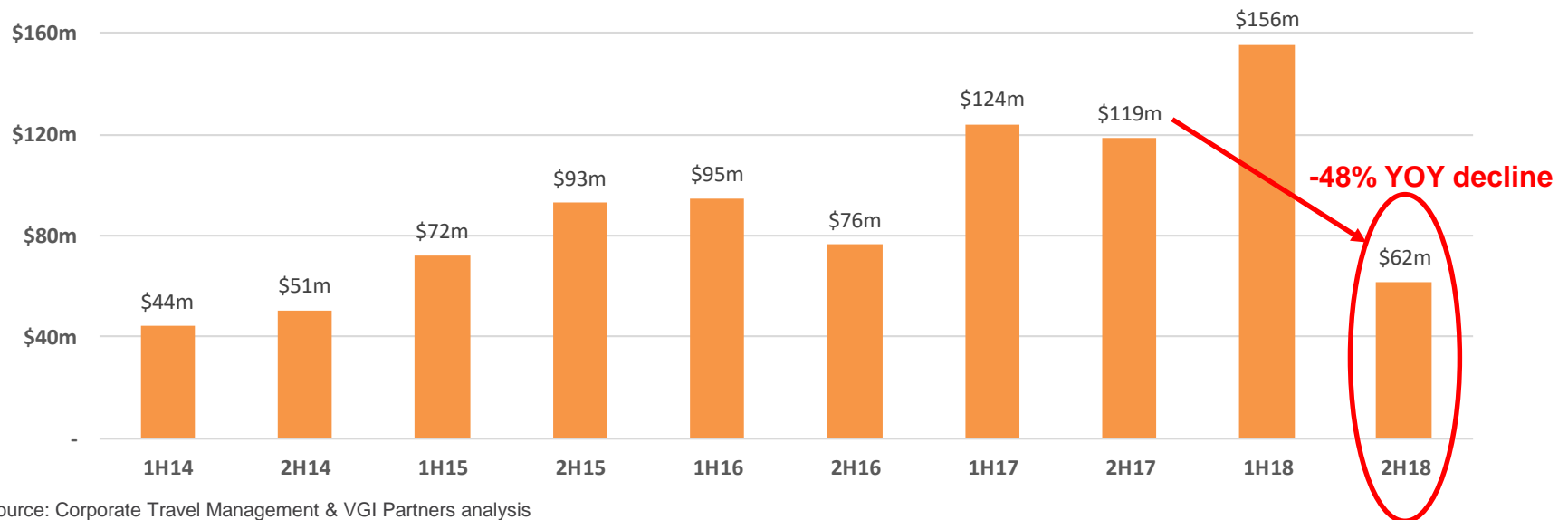
Source: Corporate Travel Management & VGI Partners analysis

# Why did 2H18 cash flows decline so much?

- Remarkably, Corporate Travel was able to show +111% growth in 2H18 gross operating cash flow (the cash flow statement equivalent of EBITDA) due to a -48% YOY decline in cash payments
- How did cash payments decline so sharply in the half? 2H18 cash payments of \$62m were the lowest since 2H14, when Corporate Travel reported one-third of the revenues it does today



### Cash Payments to Suppliers and Employees



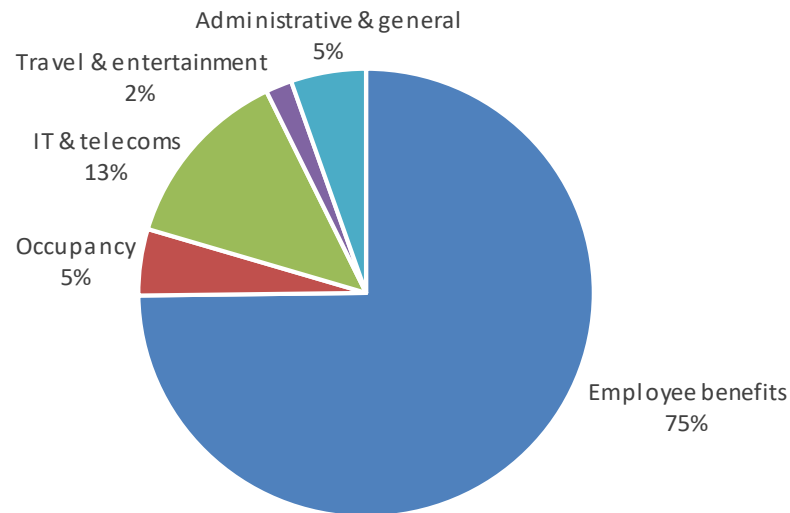
Source: Corporate Travel Management & VGI Partners analysis

# Why did 2H18 cash flows decline so much?

- The decline in cash payments makes **NO SENSE** to us given that 75% of Corporate Travel's expense base is employee benefits, the payment of which is very unlikely to be delayed



**Breakdown of Expenses**



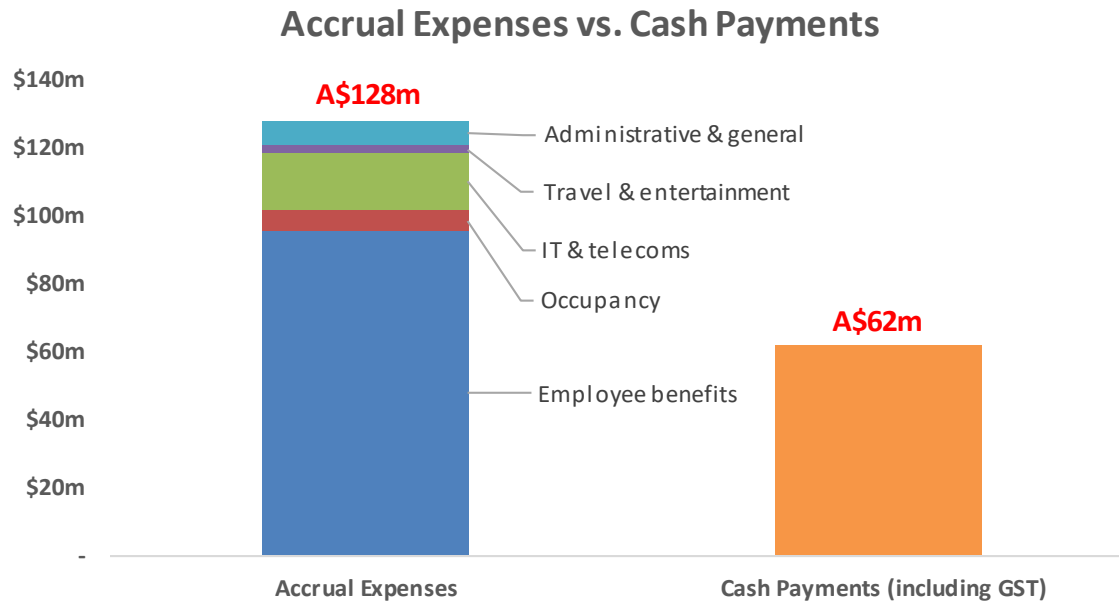
Source: Corporate Travel Management & VGI Partners analysis

Note: The above chart shows the breakdown of 2H18 income statement operating expenses, excluding depreciation and amortisation



# Why did 2H18 cash flows decline so much?

- In total, Corporate Travel's reported 2H18 accrual expenses were more than 2x its cash payments. This is despite cash payments being grossed up for GST (GST isn't included in accrual expenses)
- Corporate Travel's 2H18 wage bill alone (A\$96m per the income statement) exceeded the reported 2H18 cash payments to suppliers and employees of just A\$62m



Source: Corporate Travel Management & VGI Partners analysis

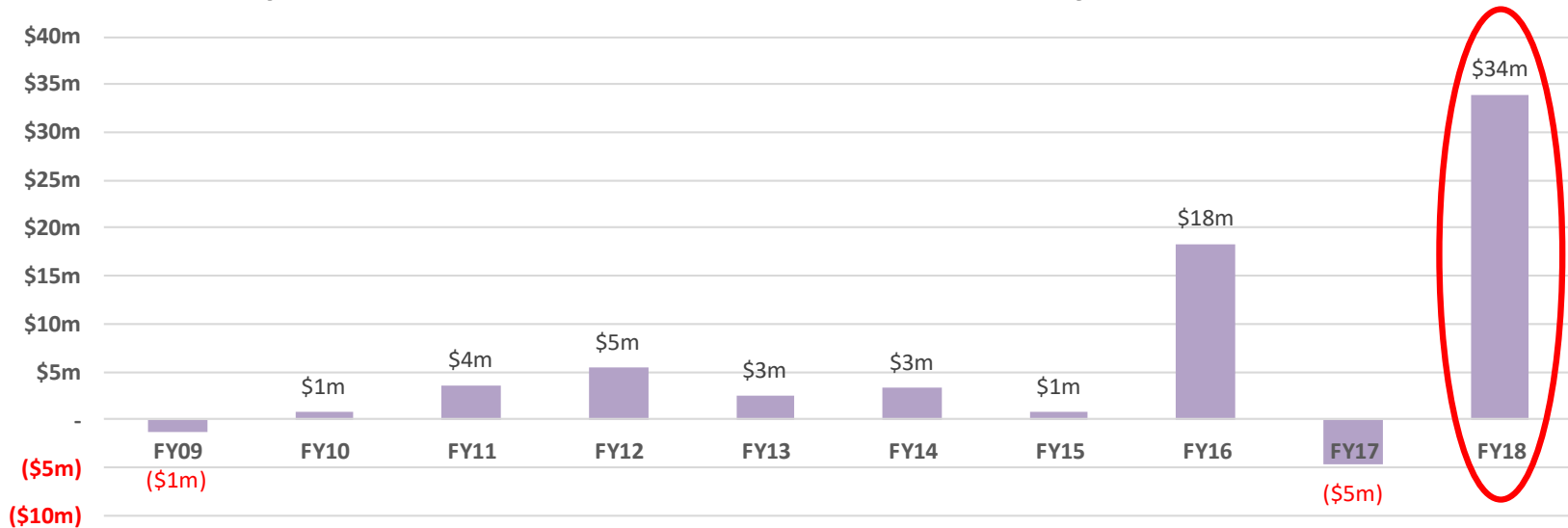
Note: The above chart shows the breakdown of 2H18 income statement operating expenses, excluding depreciation and amortisation

# Why did 2H18 cash flows decline so much?

- Corporate Travel's payments to suppliers and employees received a A\$34m benefit in FY18 from growing payables and provisions



### Corporate Travel Cash Flow Benefit From Growth in Payables & Provisions



Source: Corporate Travel Management & VGI Partners analysis



# Negative share-based payment reserve

# Negative share-based payment reserve

- Corporate Travel's share-based payment reserve went negative at 30 June 2018. This is highly unusual



	FX translation \$'000	Share based payment \$'000	Total \$'000
<b>At 30 June 2016</b>	<b>17,331</b>	<b>2,314</b>	<b>19,645</b>
Currency translation differences – current period	(8,887)	-	(8,887)
Deferred tax	461	-	461
<b>Other comprehensive income</b>	<b>(8,426)</b>	<b>-</b>	<b>(8,426)</b>
Non-controlling interests disposal/acquisition of subsidiary	(520)	-	(520)
Share-based payment expenses	-	2,300	2,300
<b>At 30 June 2017</b>	<b>8,385</b>	<b>4,614</b>	<b>12,999</b>
Currency translation differences – current period	15,373	-	15,373
Deferred tax	274	-	274
<b>Other comprehensive income</b>	<b>15,647</b>	<b>-</b>	<b>15,647</b>
Share-based payment expenses	-	(9,277)	(9,277)
<b>At 30 June 2018</b>	<b>24,032</b>	<b>(4,663)</b>	<b>19,369</b>

Source: Corporate Travel Management FY18 Annual Report, 28 September 2018



**We do not see any reason why Corporate Travel's share-based payment reserve should go negative – what is on the other side of this transaction?**

**Could Corporate Travel be under-recognising employee expenses in the P&L (we think this is possible if share-based payments are cash-settled)?**

# Negative share-based payment reserve

- The \$9.277m of share-based payment expenses in Note 12 does not correlate to the \$2.168m in Corporate Travel's indirect operating cash flows (Note 9)



## Note 12, FY18 Annual Report:

	FX translation \$'000	Share based payment \$'000	Total \$'000
<b>At 30 June 2016</b>	<b>17,331</b>	<b>2,314</b>	<b>19,645</b>
Currency translation differences – current period	(8,887)	-	(8,887)
Deferred tax	461	-	461
<b>Other comprehensive income</b>	<b>(8,426)</b>	<b>-</b>	<b>(8,426)</b>
Non-controlling interests disposal/acquisition of subsidiary	(520)	-	(520)
Share-based payment expenses	-	2,300	2,300
<b>At 30 June 2017</b>	<b>8,385</b>	<b>4,614</b>	<b>12,999</b>
Currency translation differences – current period	15,373	-	15,373
Deferred tax	274	-	274
<b>Other comprehensive income</b>	<b>15,647</b>	<b>-</b>	<b>15,647</b>
<b>Share-based payment expenses</b>	<b>-</b>	<b>(9,277)</b>	<b>(9,277)</b>
<b>At 30 June 2018</b>	<b>24,032</b>	<b>(4,663)</b>	<b>19,369</b>

## Note 9, FY18 Annual Report:

	2018 \$'000	2017 \$'000
<b>Reconciliation of profit after income tax to net cash inflow from operating activities</b>		
Profit for the year	80,582	57,838
<i>Adjustments for:</i>		
Depreciation and amortisation	17,833	16,160
Net exchange differences	(92)	77
Non-cash interest	678	1,274
<b>Non-cash employee benefits expense</b>	<b>2,168</b>	1,366
Non-cash release of earn out payable	-	-
Net (gain)/loss on sale of subsidiary	-	(912)
Appreciation in value of investments	(750)	-
Net gain/(loss) on disposal of non-current assets	(5)	(2)
<b>Changes in operating assets and liabilities</b>		
(Increase) in trade and other receivables	(41,341)	(2,433)
(Increase) in prepayments	669	928
(Decrease) in deferred tax balances	(999)	841
Decrease in current tax liability / (receivable)	1,730	(1,198)
Increase in payables and provisions	33,919	(4,661)
<b>Net cash flow from operating activities</b>	<b>94,392</b>	<b>69,278</b>

Source: Corporate Travel Management FY18 Annual Report, 28 September 2018



# Inadequate and misleading franking disclosures

# Franking credit disclosures are inadequate

- Up until FY16, Corporate Travel's disclosures on franking credits looked like this:



Franking credit balance	2016 \$'000	2015 \$'000
<i>The amount of franking credits available for the subsequent financial year are:</i>		
Franking account balance as at the end of the financial year at 30% (2015: 30%)	5,676	5,358
Plus:		
Franking credits that will arise from the income tax payable/(the receipt of income tax receivable) as at the end of the financial year	1,412	2,639
Equals:		
<b>The amount of franking credits available for future reporting periods</b>	<b>7,088</b>	<b>7,997</b>
Less:		
The impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	(6,305)	(4,157)
<b>Balance of franking credits available for subsequent years</b>	<b>783</b>	<b>3,840</b>

Source: Corporate Travel Management FY16 Annual Report, 23 September 2016



# Franking credit disclosures are inadequate

- However in the FY18 accounts, Corporate Travel's disclosures on franking credits looked like this:



Franking credit balance	2018 \$'000	2017 \$'000
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2017: 30%)	4,993	6,881

The above amounts are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits and debits that will arise from the settlement of liabilities of or receivables for income tax and dividends after the end of the year.

- We see it as a red flag when a company removes important disclosure. So we ask ourselves – why would a company do this?

Source: Corporate Travel Management FY18 Annual Report, 28 September 2018

# Franking credit disclosures are inadequate

- VGI Partners' analysis (see next page) shows that in our view Corporate Travel's franking disclosures in its FY17 and FY18 Annual Reports are factually misstated
- Contrary to the below note, the figures presented appear to be **before** adjusting for dividends paid post balance sheet date, not after
- Why did the auditors not identify this?



Franking credit balance	2018 \$'000	2017 \$'000
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2017: 30%)	4,993	6,881

The above amounts are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits and debits that will arise from the settlement of liabilities of or receivables for income tax and dividends after the end of the year.

Source: Corporate Travel Management FY18 Annual Report, 28 September 2018 & VGI Partners analysis

# Franking credit disclosures are inadequate

- VGI Partners' analysis shows that the old form of disclosure, if set out correctly, would have shown a negative franking credit balance in the FY17 Annual Report. **Was the disclosure changed in order to avoid revealing this?**
- Note also that due to a de minimis franking credit balance, Corporate Travel have cut the franking of their final FY18 dividend to just 50% (from 100% in earlier periods)



Year ended 30 June (AUD\$m)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Franking credit balance as at the end of the financial year	2.8	4.0	6.7	6.3	5.5	5.4	5.7		
Plus: Franking credits that will arise from the income tax payable	(1.4)	1.6	2.1	0.7	1.9	2.6	1.4		
Franking credits available for future reporting periods	1.4	5.6	8.8	7.0	7.4	8.0	7.1	6.9	5.0
Less: The impact on the franking account of dividends proposed or declared	(0.3)	(1.5)	(1.9)	(2.2)	(2.9)	(4.2)	(6.3)	(8.2) <sup>1</sup>	(4.8) <sup>1</sup>
Franking credits available for subsequent years	1.1	4.1	6.8	4.8	4.5	3.8	0.8	(1.3) <sup>1</sup>	0.2 <sup>1</sup>

Source: Corporate Travel Management & VGI Partners analysis

Note: FY17 & FY18 impact of dividends proposed or declared has been estimated by VGI Partners, not provided by the company

<sup>1</sup>Estimated by VGI Partners based on Corporate Travel disclosures



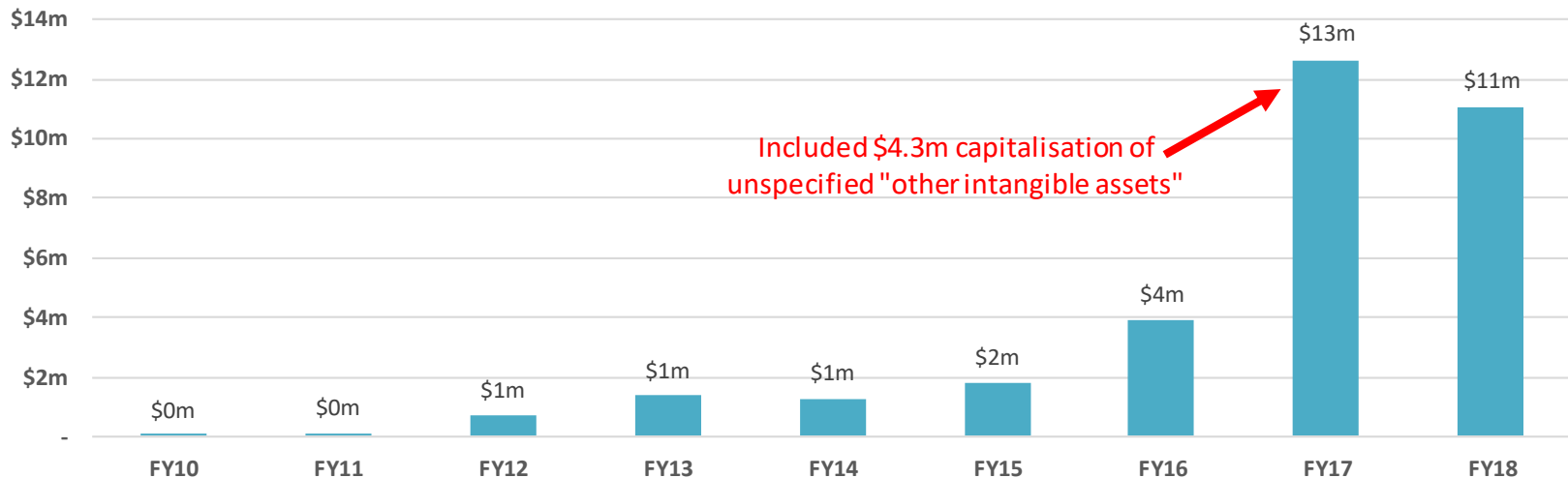
# Capitalising expenses

# Corporate Travel is increasingly capitalising technology costs

- Increasingly, Corporate Travel is capitalising expenses relating to intangible assets (mostly software)
- This had the effect of boosting Corporate Travel's EBITDA by 9% in FY18 (compared to fully expensing these costs), as well as boosting Operating Cash Flows



Corporate Travel Management Capitalised Intangible Costs



Source: Corporate Travel Management & VGI Partners analysis



# Questionable technology claims

# Corporate Travel explains its success as a function of scale and superior technology

## Jamie Pherous, Managing Director & Founder

“There are two key factors that drive our performance this year. Firstly, it's strong organic growth. We continued to win and retain business and win market share everywhere and those wins and retention levels are at historically high levels. And secondly, it's another year again of excellent translation of revenue into profit due to the **benefits of our growing scale, our technology and our obsession with automation.**”

– CEO Jamie Pherous, FY18 Earnings Call Transcript, 22 August 2018

## Jamie Pherous, Managing Director & Founder

“As you can see, we'd had an excellent translation of revenue to EBITDA which is our key metric and as we flagged that would happen as we grew and that's a **combination of modern technology frameworks, integrated automation and of course, the growing scale that we have.**”

– CEO Jamie Pherous, FY17 Earnings Call Transcript, 21 August 2017

## Jamie Pherous, Managing Director & Founder

“Technology, as we've said before, our SMART Technology is a cornerstone of why we're growing and winning business.”

– CEO Jamie Pherous, FY17 Earnings Call Transcript, 21 August 2017

## Jamie Pherous, Managing Director & Founder

“We are building a lot of technology within for our clients and that coupled with very, very good service is why we are getting record values of new client wins.”

– CEO Jamie Pherous, 1H18 Earnings Call Transcript, 20 February 2018

Source: Bloomberg

# Corporate Travel explains its success as a function of scale and superior technology

## Benefits of scale and technology: IPO to FY18.

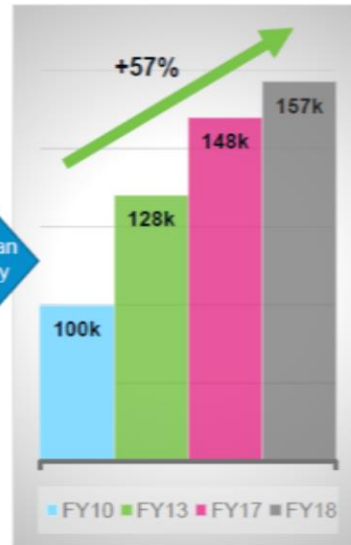
### Revenue/TTV Yield %



- Ability to win larger client segments, globally

More than off-set by

### Increasing Revenue per FTE



- Automation reducing non-client facing process
- Create more time to service clients

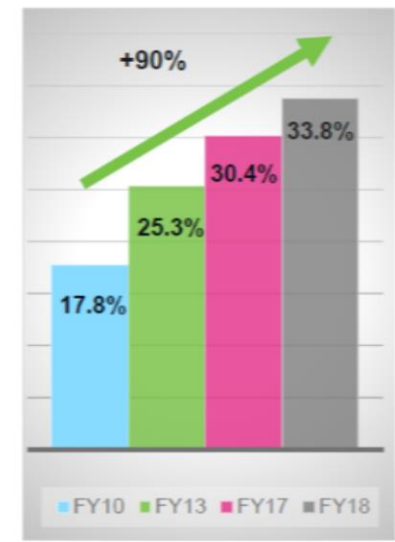
Results

### Increasing EBITDA per FTE



- Support costs growing at slower rate than top line growth

### EBITDA/Revenue % Margin



- Best practice outcomes whilst achieving client satisfaction, staff engagement

Source: Corporate Travel Management FY18 Presentation, 22 August 2018



# Corporate Travel explains its success as a function of scale and superior technology

CEO Jamie Pherous demonstrating Corporate Travel's technology:



Source: Business Acumen Magazine - <https://www.businessacumen.biz/news-queensland-leaders/1058-corporate-travel-management-innovates-on-the-move>,  
<https://www.businessacumen.biz/news-business-travel-events/1059-ctm-s-technology-smarts-hit-the-suite-spot>

# Corporate Travel appears to overstate its technological advantage

- However it does not appear to us that Corporate Travel's strategy is highly differentiated, with competitors such as Flight Centre promoting its own commitment to technology innovation



From Flight Centre's FY18 Presentation:

## Your CT: New Portal for SME customers

PROFILE MANAGEMENT

TRAVEL POLICY

BOOKING

TRAVELLER TRACKING

APPROVE & REQUEST

TRAVEL ALERTS

INVOICE DATA

REPORTS

Source: Flight Centre 2018 Results Presentation, 23 August 2018

# Corporate Travel appears to overstate its technological advantage

- Corporate Travel has claimed to have **patented** technology since 2014

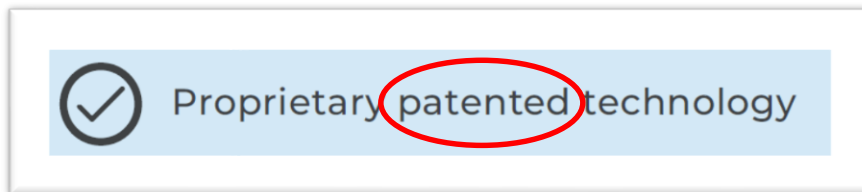
From Corporate Travel's Presentation dated 6 June 2018:



**CTM**

- ✓ Flexible, highly personalised service
- ✓ Innovative technology, proprietary and **patented**

From Corporate Travel's FY18 Annual Report:



✓ Proprietary **patented** technology

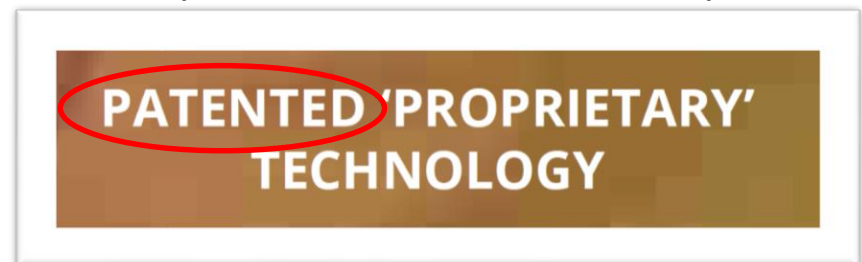
From Corporate Travel's Presentation dated 5 May 2016:



**Technology**

Proprietary **patented** technology

From Corporate Travel's FY14 Annual Report:



**PATENTED PROPRIETARY TECHNOLOGY**



# Corporate Travel appears to overstate its technological advantage

- However a simple patent search suggests that Corporate Travel has **NO granted patents** in its own name



The screenshot shows the AusPat search results page. The search query is "corporate travel management group pty ltd", which returned 2 results. The results table is as follows:

Application number	Title	Applicant(s)	Inventor(s)	Filing date	Application status
<a href="#">2014339740</a>	Travel product selection and booking method, device and system	Corporate Travel Management Group Pty Ltd	Clark, Thomas Patrick	2014-06-23	FILED
<a href="#">2013904076</a>	Airfare forecaster and bed tracker widgets	CORPORATE TRAVEL MANAGEMENT GROUP PTY LTD	Clark, Tom	2013-10-22	LAPSED

The word "FILED" in the first row is circled in red. The page also shows navigation options like "First", "Last", "Page 1 of 1", and "Jump to page".

Source: <http://pericles.ipaustralia.gov.au/ols/auspat/quickSearch.do>, 20 September 2018

Corporate Travel appears to overstate its technological advantage

**So we engaged patent lawyers to  
conduct a global search for patents  
within Corporate Travel's subsidiaries.**



**We found NO granted patents globally  
in the name of Corporate Travel or its  
subsidiaries!**

# Corporate Travel appears to overstate its technological advantage

Subsidiary	Granted patent found?	Comment
Corporate Travel Management Limited ACN 131 207 611	✘	
Sainten Pty Limited ACN 073 129 101	✘	
Floron Nominees Pty Ltd ACN 001 573 566	✘	Trade mark (since removed) filed in the name of "Crewe & Sons". Appears to have no relation to the listed entity
WA Travel Management Pty. Limited ACN 126 792 256	✘	
Travelcorp (AUST) Pty Ltd ACN 063 120 258	✘	Trade mark in Australia in the name of Travelcorp (lapsed)
ETM Travel Pty Ltd ACN 096 289 431	✘	
Andrew Jones Travel Pty Ltd ACN 065 009 887	✘	Two trade marks in Australia – one of which remains registered.
Corporate Travel Management Group Pty Ltd ACN 005 000 895	✘	Related patent applications filed (not granted) in Australia and the US. Several trade marks in Australia
SCT Travel Group Pty Ltd ACN 124 599 471	✘	Trade mark (lapsed) for "Platinum Travel Corporation"
Travelogic Pty Limited ACN 126 792 158	✘	
Travelcorp Holdings Pty Ltd ACN 128 213 249	✘	
Corporate Travel Management North America Inc (US company)	✘	
Westminster Travel Limited (Hong Kong company)	✘	Trade mark (lapsed) for logo
Corporate Travel Management (United Kingdom) Limited (UK company)	✘	
Redfern Travel Ltd (UK company)	✘	
Corporate Travel Management (New Zealand company)	✘	
Corporate Travel Management North America Limited (US company)	✘	
Corporate Travel Management, Inc	✘	
Sara Enterprise, Inc	✘	



**NO GRANTED PATENTS GLOBALLY!**

Search conducted on 8 October 2018

Corporate Travel appears to overstate its technological advantage

**Corporate Travel appears to use  
third-party technology platforms  
which are not properly integrated  
across the business**





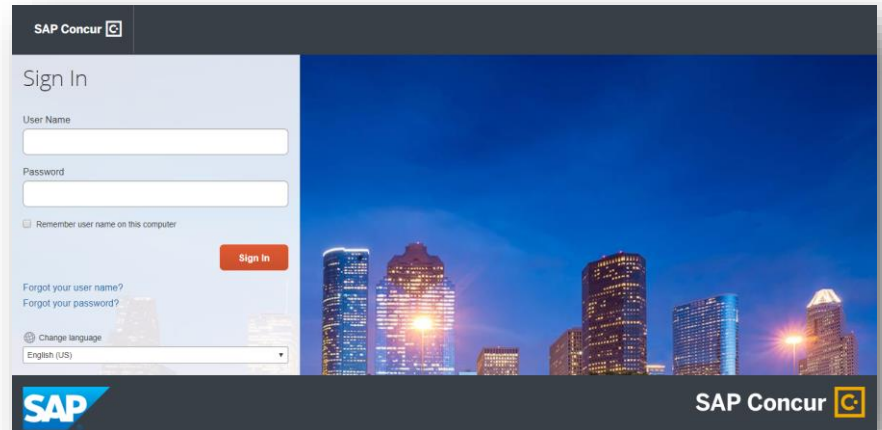
# Corporate Travel appears to overstate its technological advantage

- For example in the US, a Baton Rouge customer is prompted to login to third-party portals from SAP and Grasp Technologies

**Client Tools**

- [Log in to Concur Solutions](#)
- [Grasp Reporting](#)

Source: <https://us.travelctm.com/contact/baton-rouge/>, 8 October 2018



SAP Concur

Sign In

User Name:

Password:

Remember user name on this computer

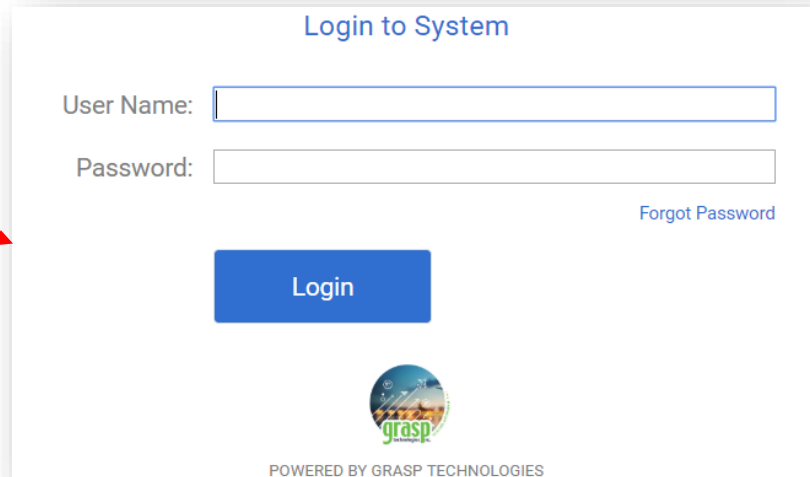
Sign In

Forgot your user name?  
Forgot your password?

Change language  
English (US)

SAP Concur

Source: <https://www.concursolutions.com/>, 8 October 2018



Login to System

User Name:

Password:

Forgot Password

Login

grasp

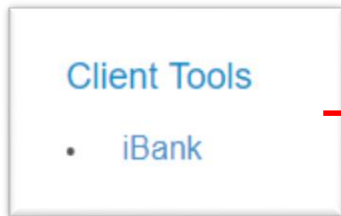
POWERED BY GRASP TECHNOLOGIES

Source: <http://apps.grasptechnologies.com/WebReporting/Public/login.aspx?ReturnUrl=%2fWebReporting%2f>, 8 October 2018

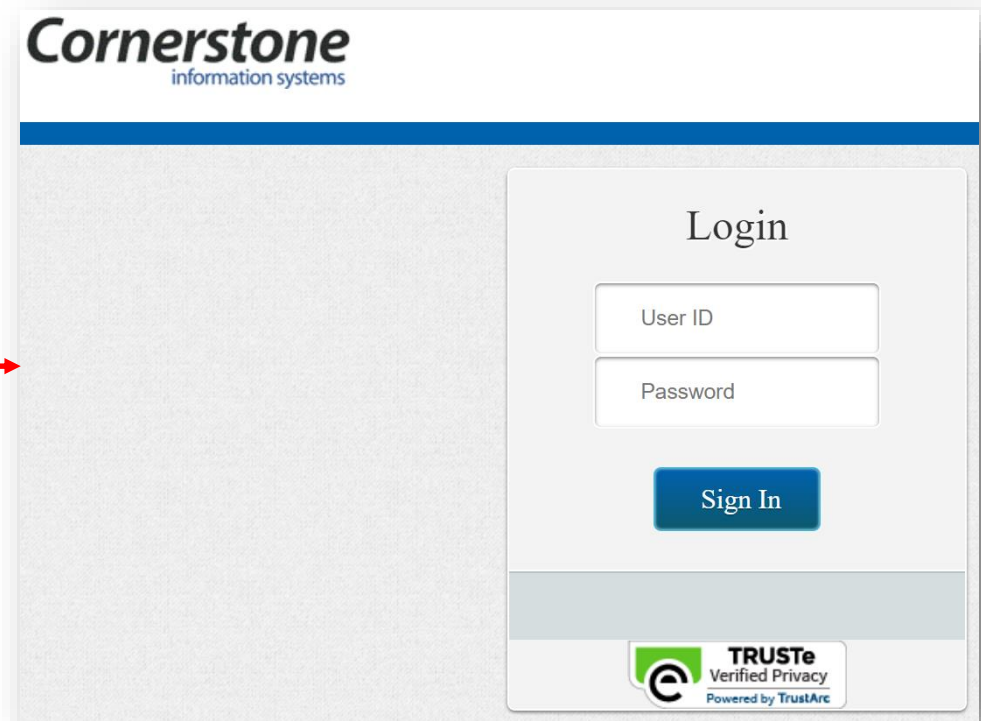


# Corporate Travel appears to overstate its technological advantage

- In Seattle, Tacoma, Spokane, Juneau, Dutch Harbor or Anchorage, Corporate Travel's clients are prompted to login to iBank, a technology owned by Cornerstone Information Systems Inc.



Source: <https://us.travelctm.com/contact/tacoma/>, 8 October 2018



Source: <https://ibanksystems.com/ibankv5/login.cfm?agclient=clearview>, 8 October 2018

# Corporate Travel appears to overstate its technological advantage

- u-travel, a platform owned by Agency Technology, LLC, is only used by Corporate Travel's Denver office



**Client Tools**

- Log in to u-travel (formerly "Npower")
- Log in to Concur Solutions
- Grasp Reporting

Source: <https://us.travelctm.com/contact/denver/>, 8 October 2018

**Welcome**

**Sign in**

Username

Password:

Password is case sensitive

[Forgot Password](#) | [Change Password](#)

© Copyright 2006-2018 - All Rights Reserved — Agency Technology, LLC

Source: <https://utrael.travelctm.com/>, 8 October 2018

Corporate Travel appears to overstate its technological advantage



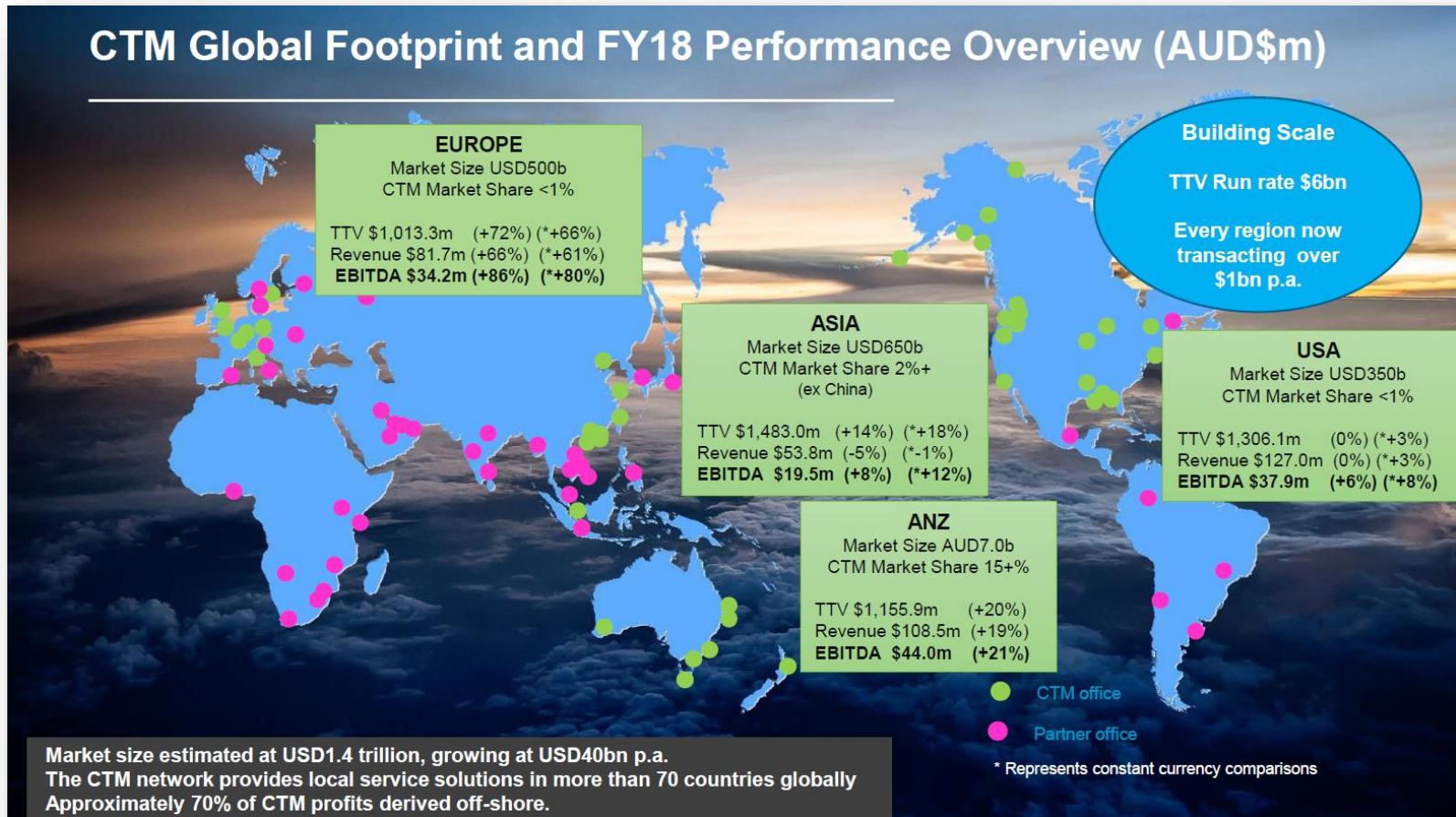
**If Corporate Travel is prepared to overstate its technology position, what else might be overstated?**



# Global office footprint overstated

# Corporate Travel claims to have offices all over the world

From Corporate Travel's latest Presentation:



Source: Corporate Travel Management Presentation dated 22 August 2018

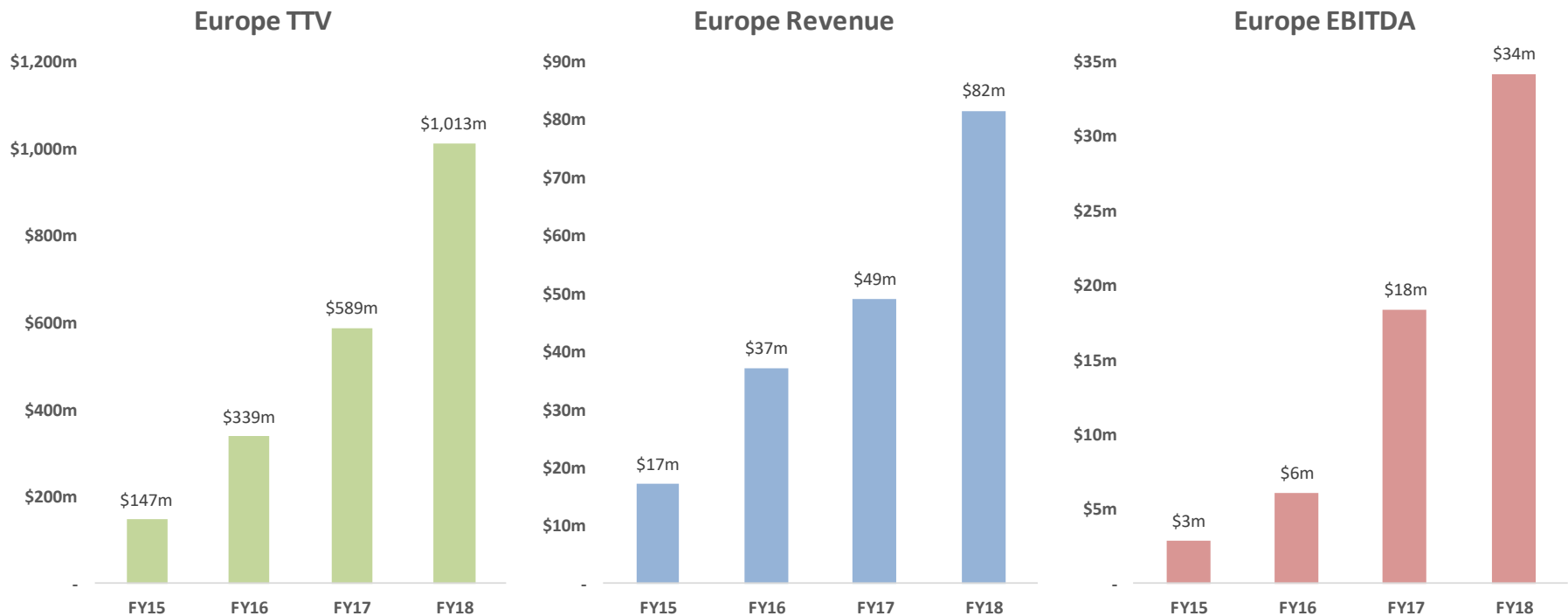
European expansion has been a success story for Corporate Travel



# First, let's look at Corporate Travel's European offices

# European expansion has been a success story for Corporate Travel

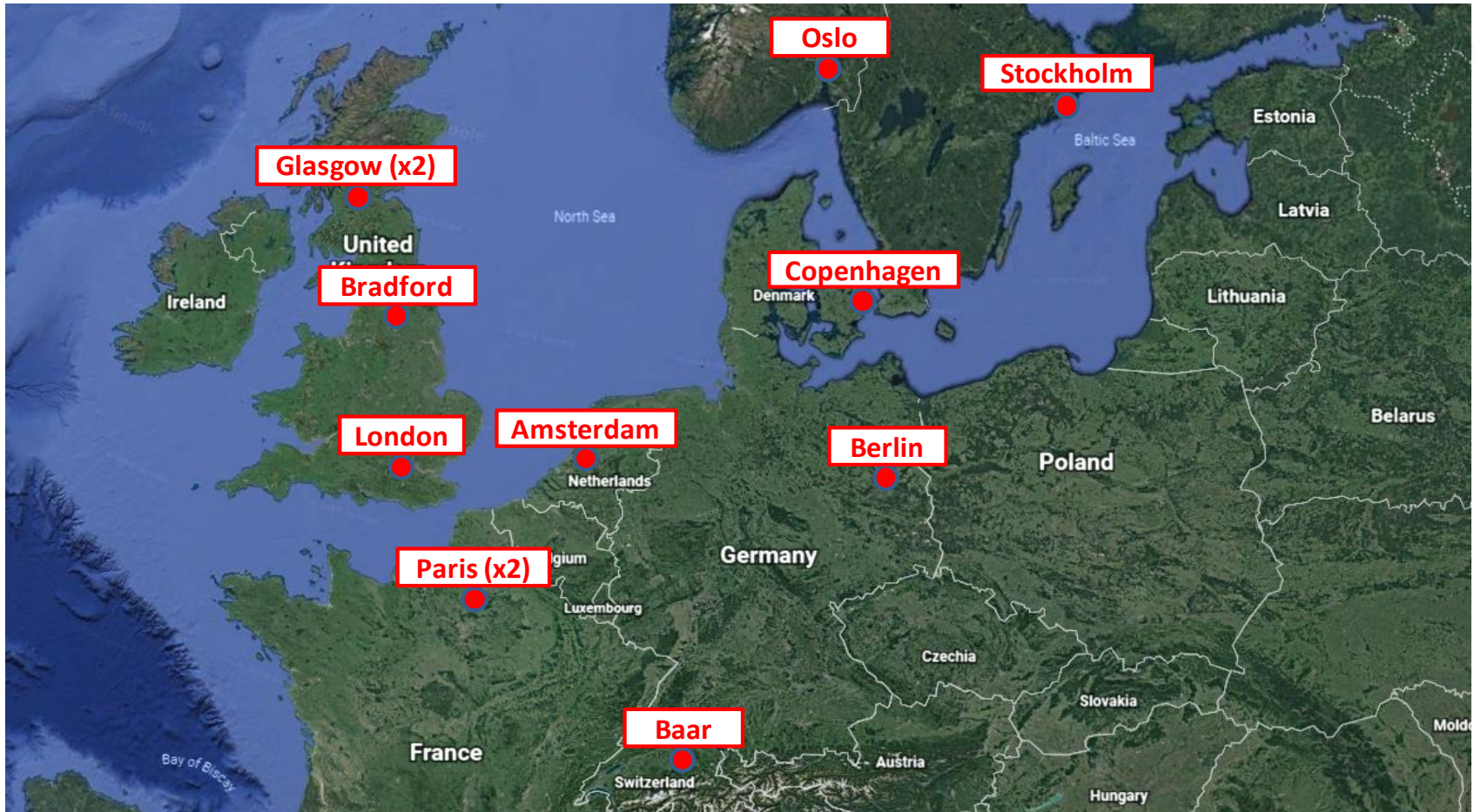
- Since entering the Europe market via acquisition in FY15, Corporate Travel has reported tremendous growth



Source: Corporate Travel Management & VGI Partners analysis



# We decided to pay a visit to Corporate Travel's European offices



Source: Google Earth, office locations sourced from <https://www.travelctm.co.uk/contact/corporate-travel-management-offices/> (2 October 2018) and <https://www.traveletm.co.uk/contact/offices/> (2 October 2018)



# We visited Corporate Travel's office in Stockholm, Sweden

From Corporate Travel's website:

## Corporate Travel Management, Sweden Office

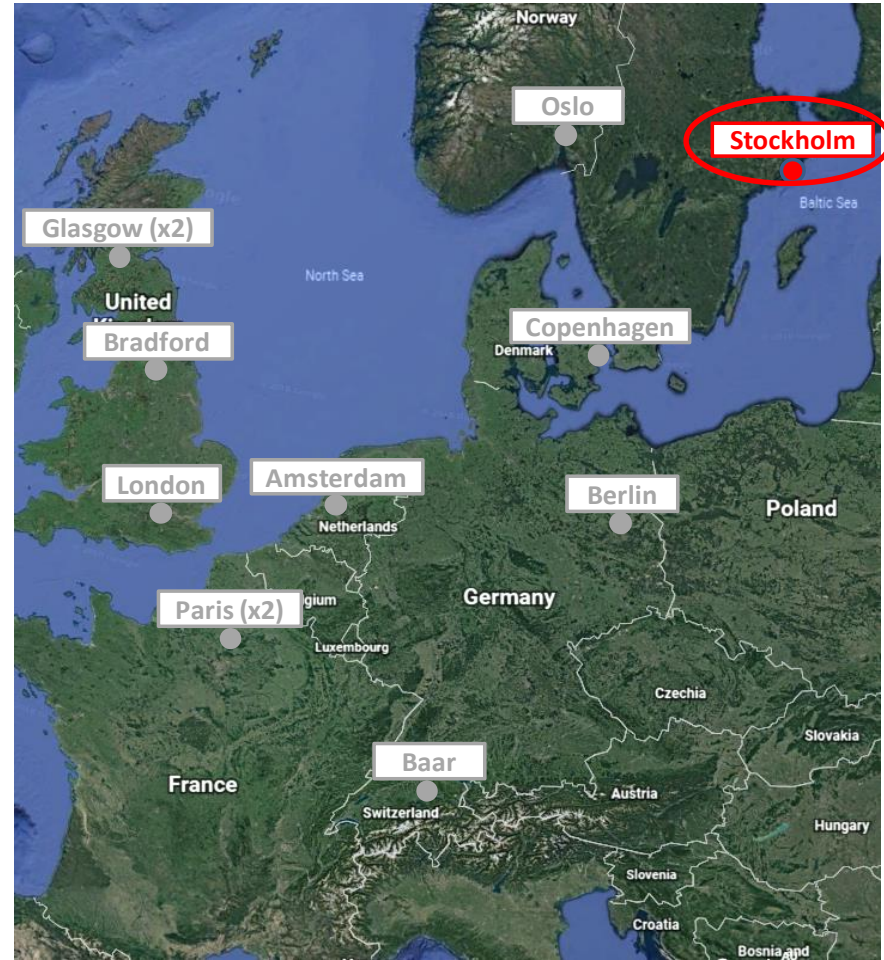
Corporate Travel Management (Sweden) AB

Sergels Torg 12, 12th floor

PO Box 162 85

SE-103 25 Stockholm, Sweden

E: [enquiries@eu.travelctm.com](mailto:enquiries@eu.travelctm.com)



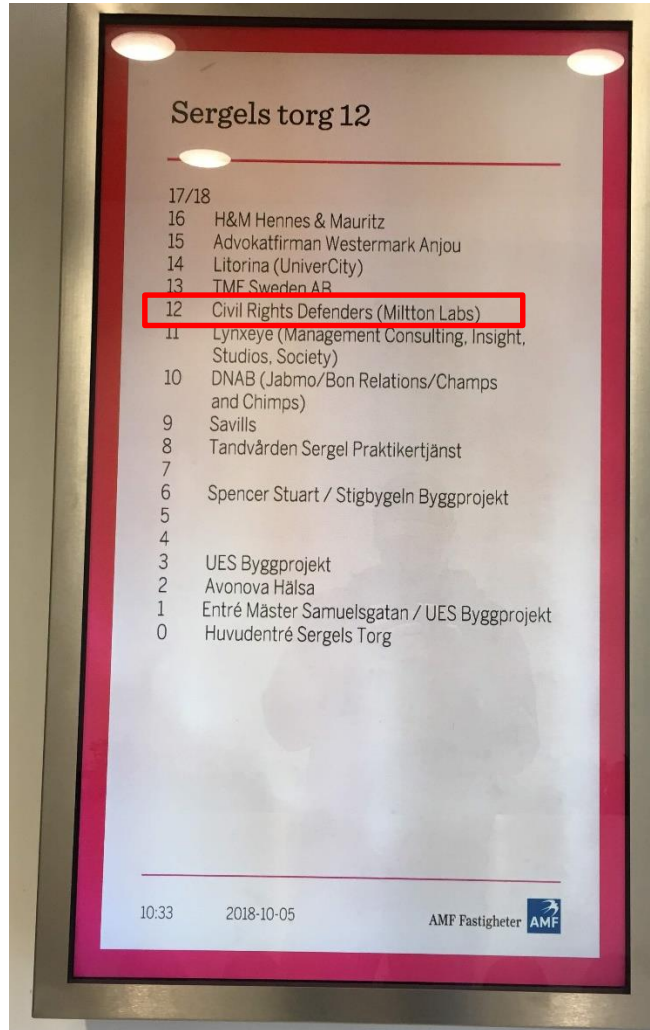
Source: Google Earth, office locations sourced from <https://www.travelctm.co.uk/contact/corporate-travel-management-offices/> (2 October 2018) and <https://www.traveletm.co.uk/contact/offices/> (2 October 2018)

# We visited Corporate Travel's office in Stockholm, Sweden

- This is the building that allegedly houses Corporate Travel's Stockholm office



# We visited Corporate Travel's office in Stockholm, Sweden



- However on the building's tenant directory, there was **NO** mention of Corporate Travel on level 12 or anywhere else in the building





# We visited Corporate Travel's office in Stockholm, Sweden

- The only organisations to be found on level 12 were *Civil Rights Defenders* and *Miltton Labs*.

## NO sign of Corporate Travel



<https://crd.org/>



<https://www.milttonlabs.com/>

We visited Corporate Travel's office in Stockholm, Sweden



**VERDICT: PHANTOM OFFICE\***

Visited Wednesday 19<sup>th</sup> September 2018

Visited Friday 5<sup>th</sup> October 2018

\* Office does not appear to exist, despite being listed on Corporate Travel's website

# We visited Corporate Travel's office in Amsterdam, The Netherlands

From Corporate Travel's website:

## Corporate Travel Management, Amsterdam Office

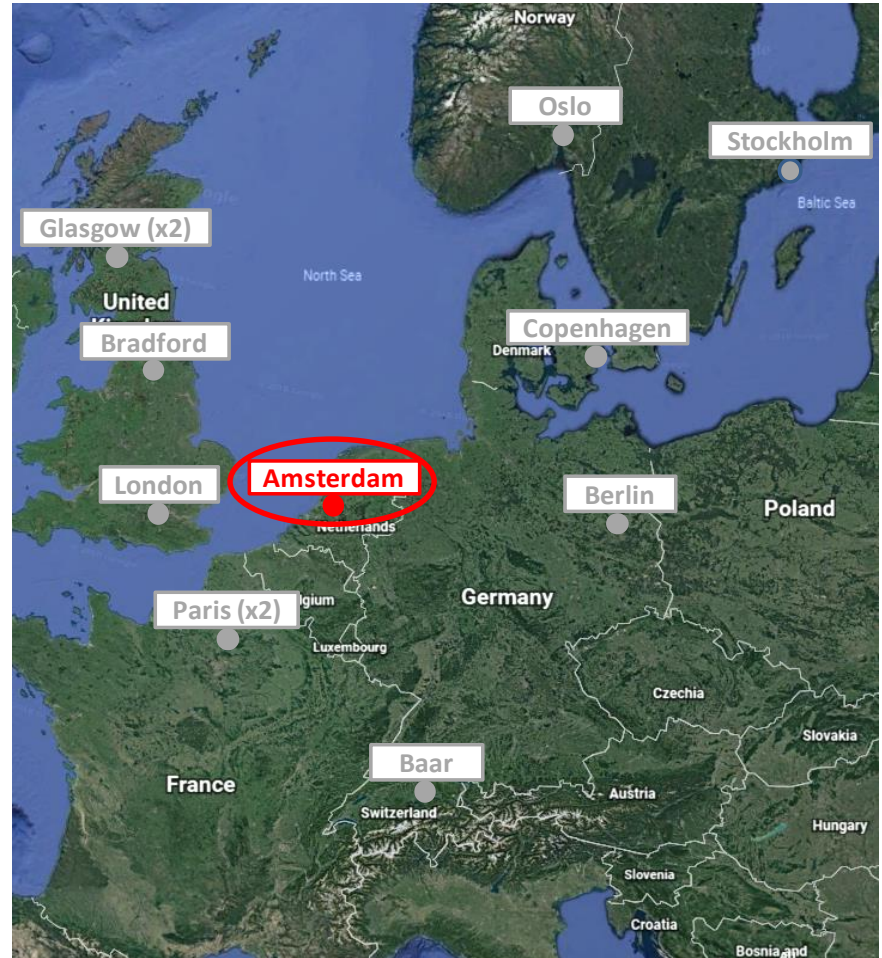
Corporate Travel Management (Netherlands) B.V.

Top Naefflaan 38

1183BS Amstelveen

Netherlands

E: [enquiries@eu.travelctm.com](mailto:enquiries@eu.travelctm.com)



Source: Google Earth, office locations sourced from <https://www.travelctm.co.uk/contact/corporate-travel-management-offices/> (2 October 2018) and <https://www.traveletm.co.uk/contact/offices/> (2 October 2018)



# We visited Corporate Travel's office in Amsterdam, The Netherlands



# We visited Corporate Travel's office in Amsterdam, The Netherlands

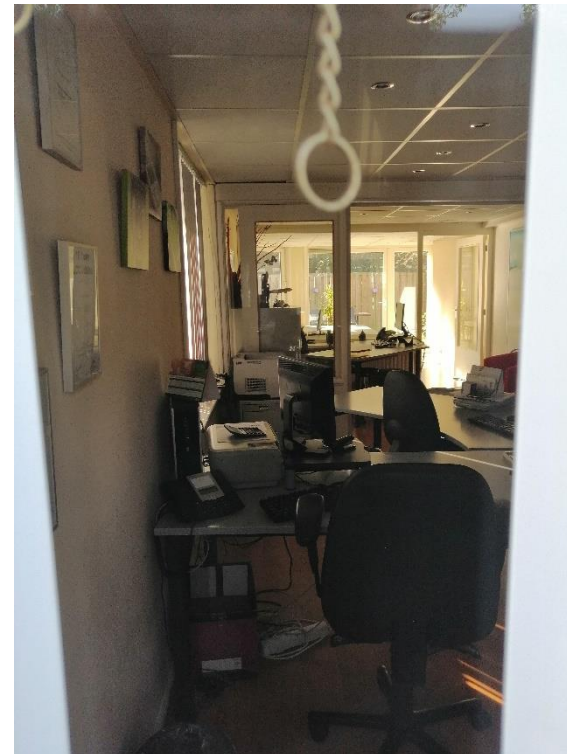
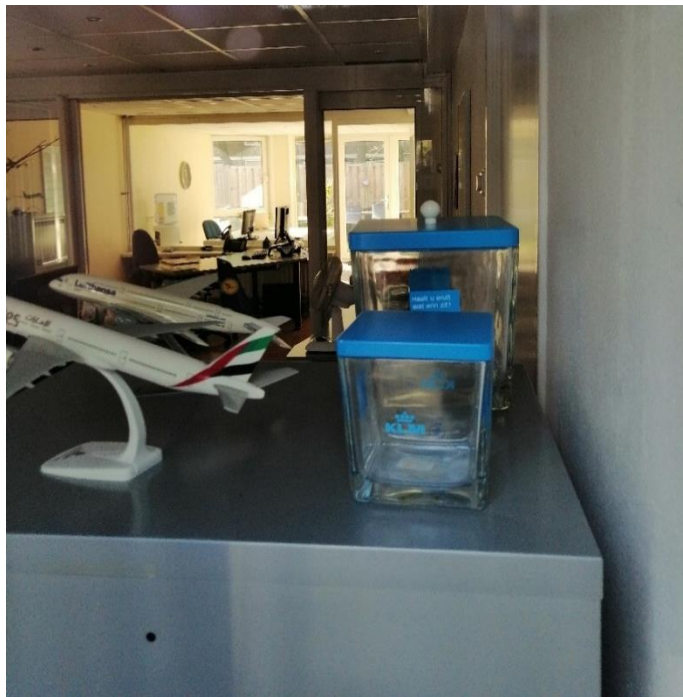
- However on the front window there was a sign for “Nova Business Travel” (we can find no connection to Corporate Travel)





# We visited Corporate Travel's office in Amsterdam, The Netherlands

- The building appeared abandoned, with no signs of recent activity. We visited during business hours
- A neighbour said the travel agency at this location has **not shown any activity for at least six months**



We visited Corporate Travel's office in Amsterdam, The Netherlands



**VERDICT: PHANTOM OFFICE\***



Visited Thursday 20<sup>th</sup> September 2018

Visited Tuesday 9<sup>th</sup> October 2018

\* Office does not appear to exist, despite being listed on Corporate Travel's website

# We visited Corporate Travel's office in Baar, Switzerland

From Corporate Travel's website:

## Corporate Travel Management, Switzerland Office

Corporate Travel Management (Switzerland) GmbH  
3rd Floor, Bahnhofstrasse 9  
6340 Baar  
Switzerland

E: [enquiries@eu.travelctm.com](mailto:enquiries@eu.travelctm.com)



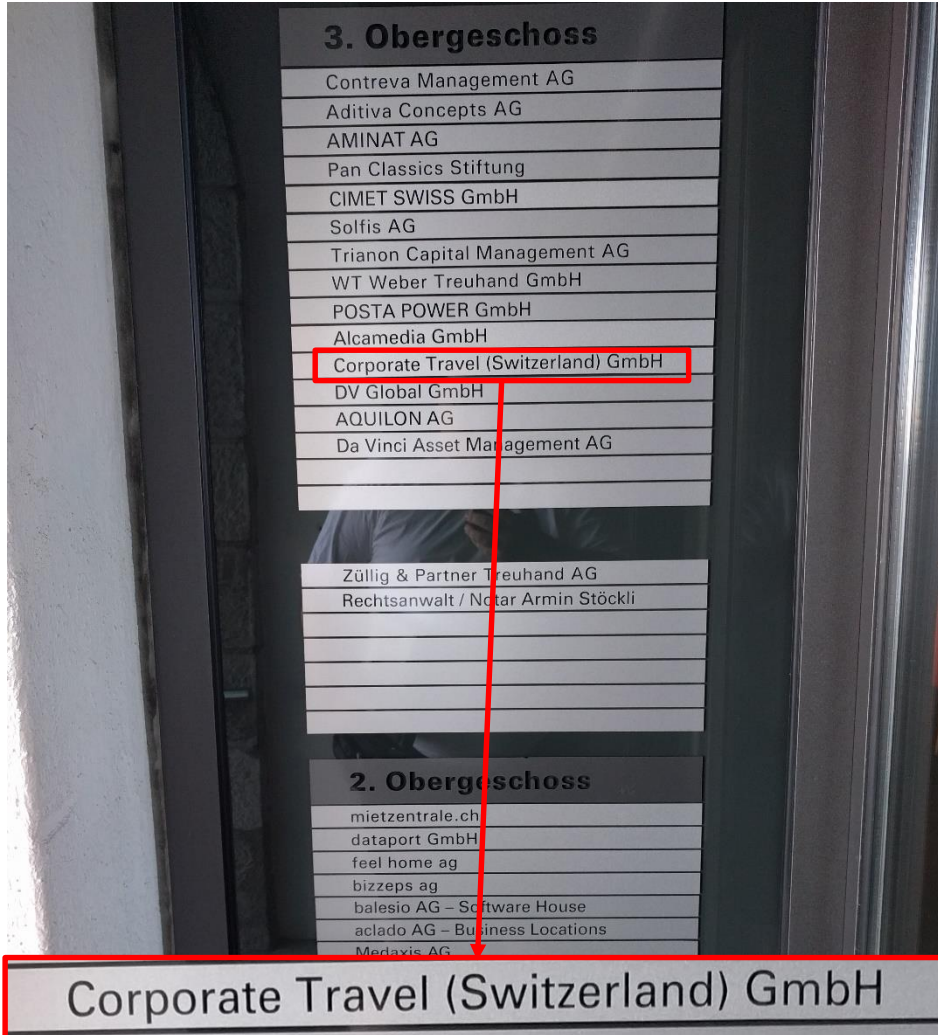
Source: Google Earth, office locations sourced from <https://www.travelctm.co.uk/contact/corporate-travel-management-offices/> (2 October 2018) and <https://www.traveletm.co.uk/contact/offices/> (2 October 2018)



# We visited Corporate Travel's office in Baar, Switzerland



# We visited Corporate Travel's office in Baar, Switzerland

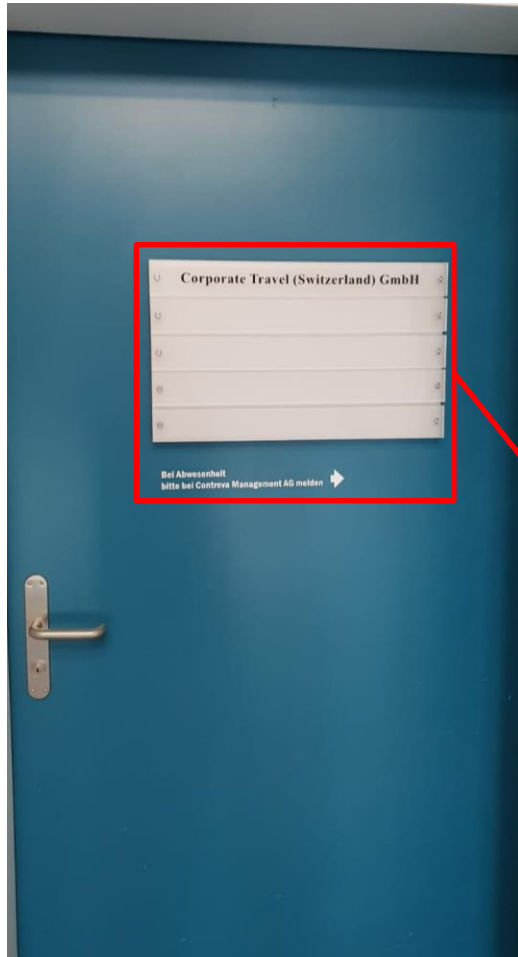


- We visited Corporate Travel's office in Baar during business hours
- We did find signage for "Corporate Travel (Switzerland) GmbH"



# We visited Corporate Travel's office in Baar, Switzerland

- However when we knocked on the door, nobody answered
  - A sign below the door indicated that during absence to get in touch with Contreva Management AG next door (Contreva Management AG offers business establishment, tax consultancy and accountancy services)
  - Contreva Management AG could not provide us with any information on Corporate Travel's office



We visited Corporate Travel's office in Baar, Switzerland

**VERDICT: GHOST OFFICE\***



Visited 2:40pm, Thursday 20<sup>th</sup> September 2018

Visited 10:45am, Monday 15<sup>th</sup> October 2018

\* Office exists, however appears to be unused, despite being listed on Corporate Travel's website



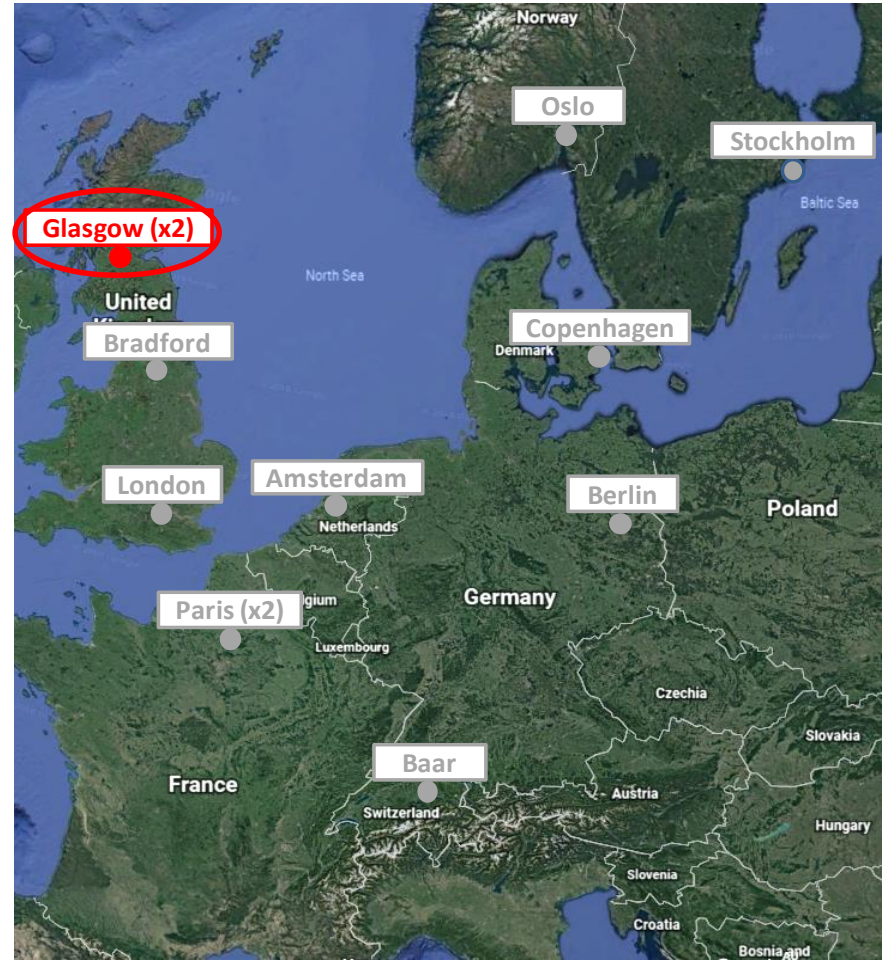
# We visited Corporate Travel's office in Glasgow, United Kingdom

From Corporate Travel's website:

Corporate Travel Management, Glasgow Office  
Corporate Travel Management (United Kingdom) Ltd  
5th Floor, The Hatrack  
144 St Vincent Street  
Glasgow, G2 5LQ

T: +44 (0) 141 223 1700

E: enquiries@eu.travelctm.com



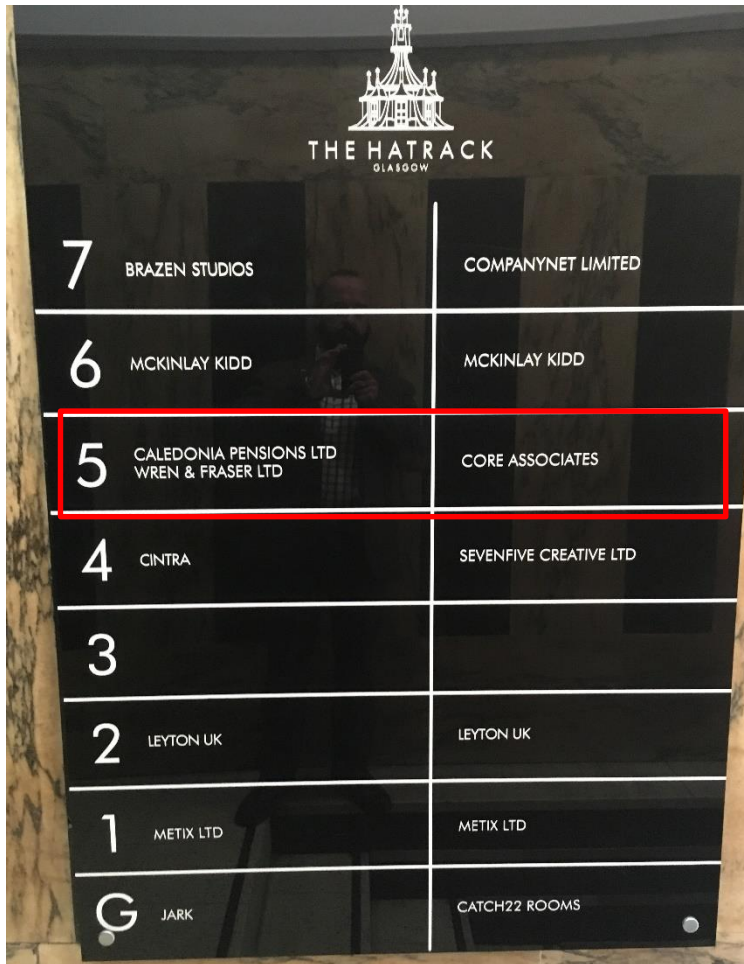
Source: Google Earth, office locations sourced from <https://www.travelctm.co.uk/contact/corporate-travel-management-offices/> (2 October 2018) and <https://www.traveletm.co.uk/contact/offices/> (2 October 2018)



We visited Corporate Travel's office in Glasgow, United Kingdom



# We visited Corporate Travel's office in Glasgow, United Kingdom



THE HATRACK GLASGOW	
7 BRAZEN STUDIOS	COMPANYNET LIMITED
6 MCKINLAY KIDD	MCKINLAY KIDD
5 CALEDONIA PENSIONS LTD WREN & FRASER LTD	CORE ASSOCIATES
4 CINTRA	SEVENFIVE CREATIVE LTD
3	
2 LEYTON UK	LEYTON UK
1 METIX LTD	METIX LTD
G JARK	CATCH22 ROOMS

## ■ However there was no mention of Corporate Travel on the tenant directory

– On the 5<sup>th</sup> floor, the only companies listed were:

- Caledonia Pensions Ltd.;
- Core Associates; and
- Wren & Fraser Ltd.



# We visited Corporate Travel's office in Glasgow, United Kingdom



We visited Corporate Travel's office in Glasgow, United Kingdom



**VERDICT: PHANTOM OFFICE\***

Visited Thursday 27<sup>th</sup> September 2018

Visited Thursday 11<sup>th</sup> October 2018

\* Office does not appear to exist, despite being listed on Corporate Travel's website



# We visited Corporate Travel's office in Oslo, Norway

From Corporate Travel's website:

Corporate Travel Management, Norway Office

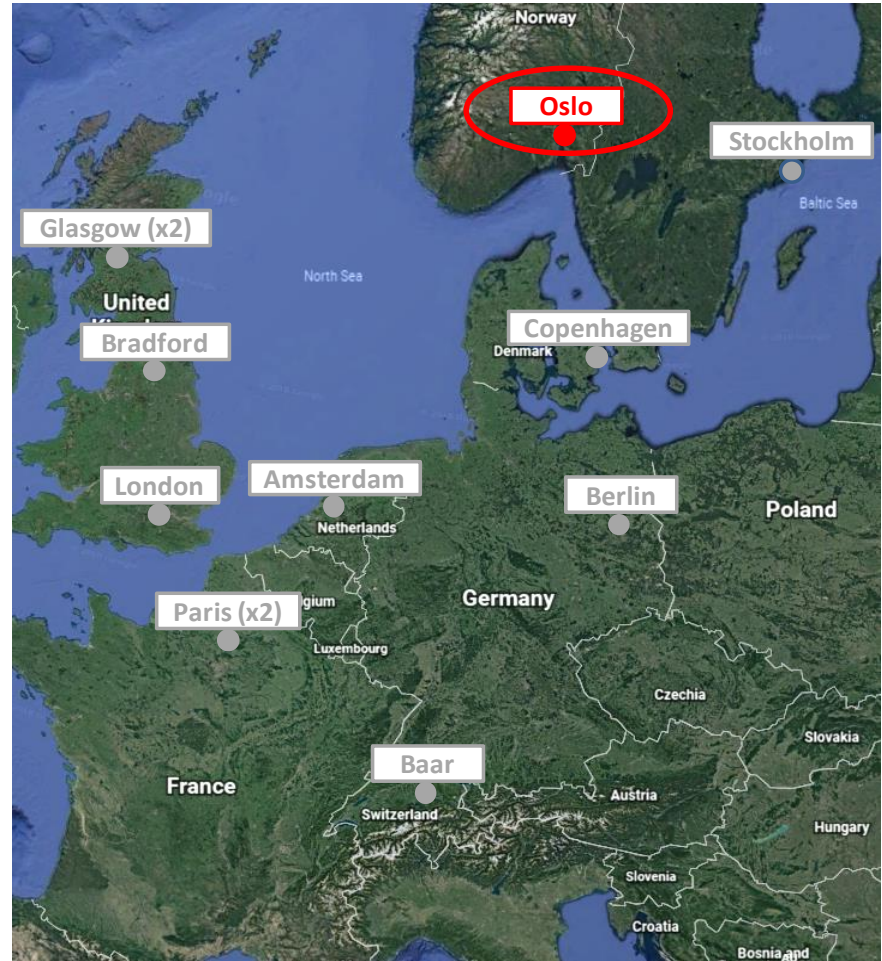
Corporate Travel Management (Norway) AS

Bryggegata 6

Oslo

Norway

E: [enquiries@eu.travelctm.com](mailto:enquiries@eu.travelctm.com)



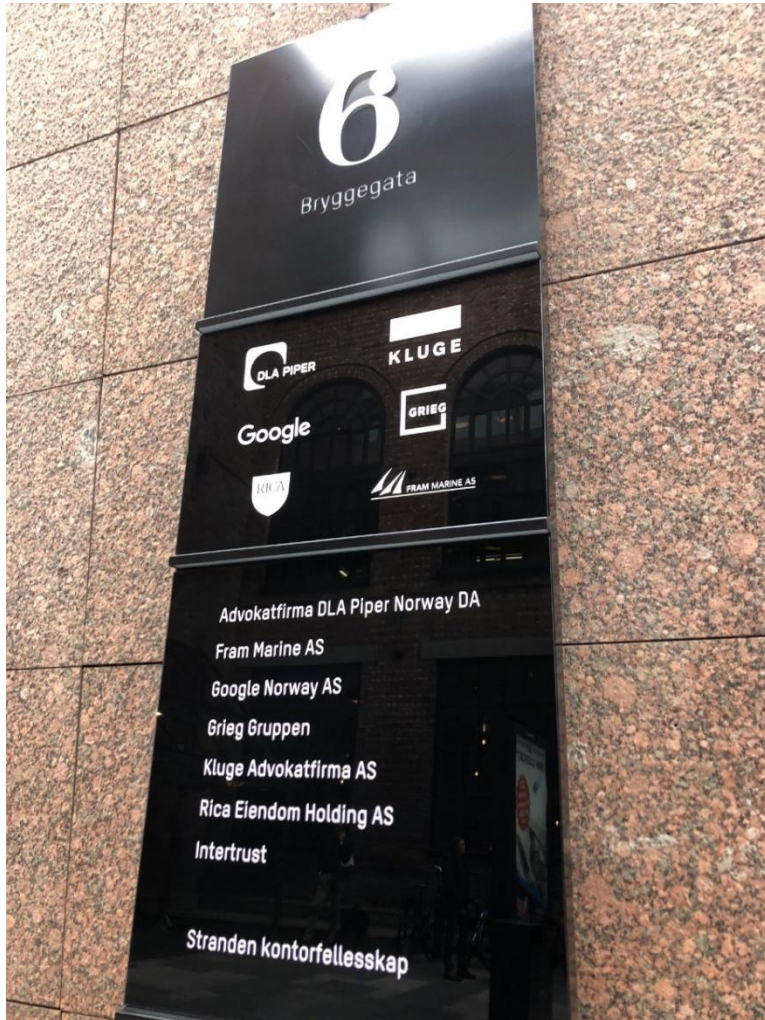
Source: Google Earth, office locations sourced from <https://www.travelctm.co.uk/contact/corporate-travel-management-offices/> (2 October 2018) and <https://www.traveletm.co.uk/contact/offices/> (2 October 2018)

# We visited Corporate Travel's office in Oslo, Norway





# We visited Corporate Travel's office in Oslo, Norway



- However there was no sign or mailbox for Corporate Travel



We visited Corporate Travel's office in Oslo, Norway

**VERDICT: PHANTOM OFFICE\***



Visited Thursday 27<sup>th</sup> September 2018

Visited Wednesday 10<sup>th</sup> October 2018

\* Office does not appear to exist, despite being listed on Corporate Travel's website



# We visited Corporate Travel's office in Paris, France

From Corporate Travel's website:

Corporate Travel Management (France) SAS  
Corporate Travel Management Europe SAS  
63 bis Avenue Ledru Rollin  
Paris 75012  
France  
  
T: +33 (0) 153 46 16 92  
E: enquiries@eu.travelctm.com



Source: Google Earth, office locations sourced from <https://www.travelctm.co.uk/contact/corporate-travel-management-offices/> (2 October 2018) and <https://www.traveletm.co.uk/contact/offices/> (2 October 2018)

## We visited Corporate Travel's office in Paris, France



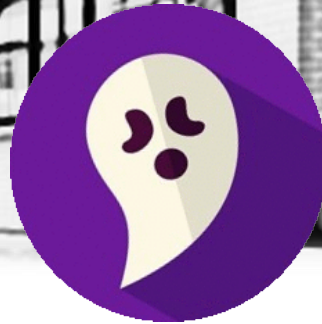
- However the office is now occupied by Frequent Flyer Travel Paris, part of the Reed & Mackay Group (not Corporate Travel)
  - No signs for Corporate Travel were displayed



We visited Corporate Travel's office in Paris, France



**VERDICT: PHANTOM OFFICE\***



Visited Friday 14<sup>th</sup> September 2018

\* Office does not appear to exist, despite being listed on Corporate Travel's website

# European office check scorecard

- We believe Corporate Travel lists a significant number of offices on its website which either do not exist or are unused



City	Country	Verdict	
London	United Kingdom	Real office	
Bradford	United Kingdom	Real office	
Glasgow (8 Nelson Mandela Place)	Scotland	Real office	
<b>Glasgow (144 St Vincent Street)</b>	<b>Scotland</b>	<b>Phantom office</b>	
Paris (50 Rue Du Faubourg Saint Antoine)	France	Real office	
<b>Paris (63 bis Avenue Ledru Rollin)</b>	<b>France</b>	<b>Phantom office</b>	
<b>Amsterdam</b>	<b>The Netherlands</b>	<b>Phantom office</b>	
Berlin	Germany	Real office	
<b>Stockholm</b>	<b>Sweden</b>	<b>Phantom office</b>	
<b>Baar</b>	<b>Switzerland</b>	<b>Ghost office</b>	
Copenhagen	Denmark	Real office	
<b>Oslo</b>	<b>Norway</b>	<b>Phantom office</b>	

Phantom office = Office does not appear to exist, despite being listed on Corporate Travel's website

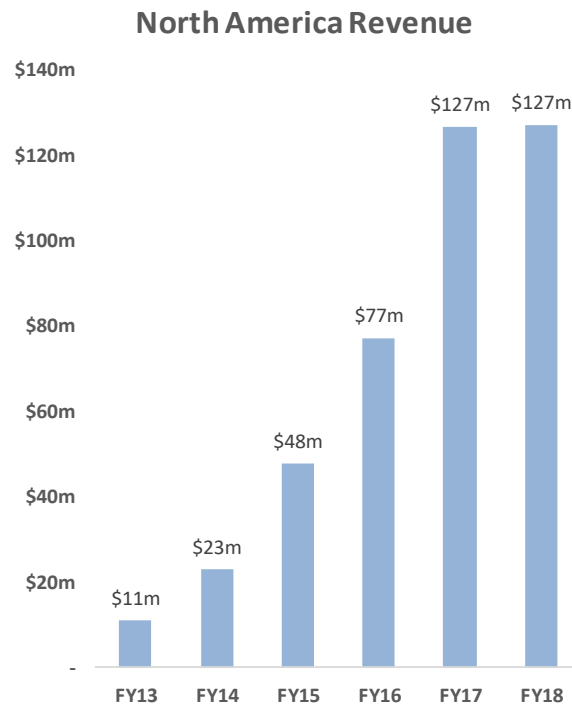
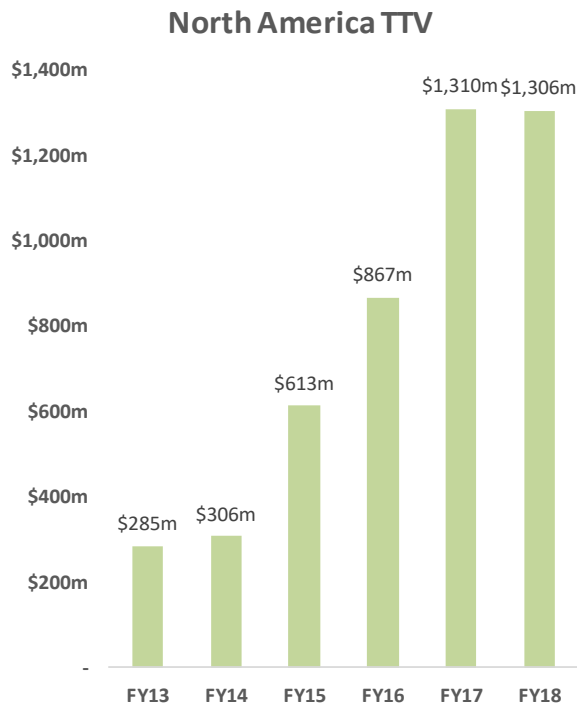
Ghost office = Office exists, however appears to be unused, despite being listed on Corporate Travel's website



# What about Corporate Travel's North American offices?

# North American expansion has been a success story for Corporate Travel

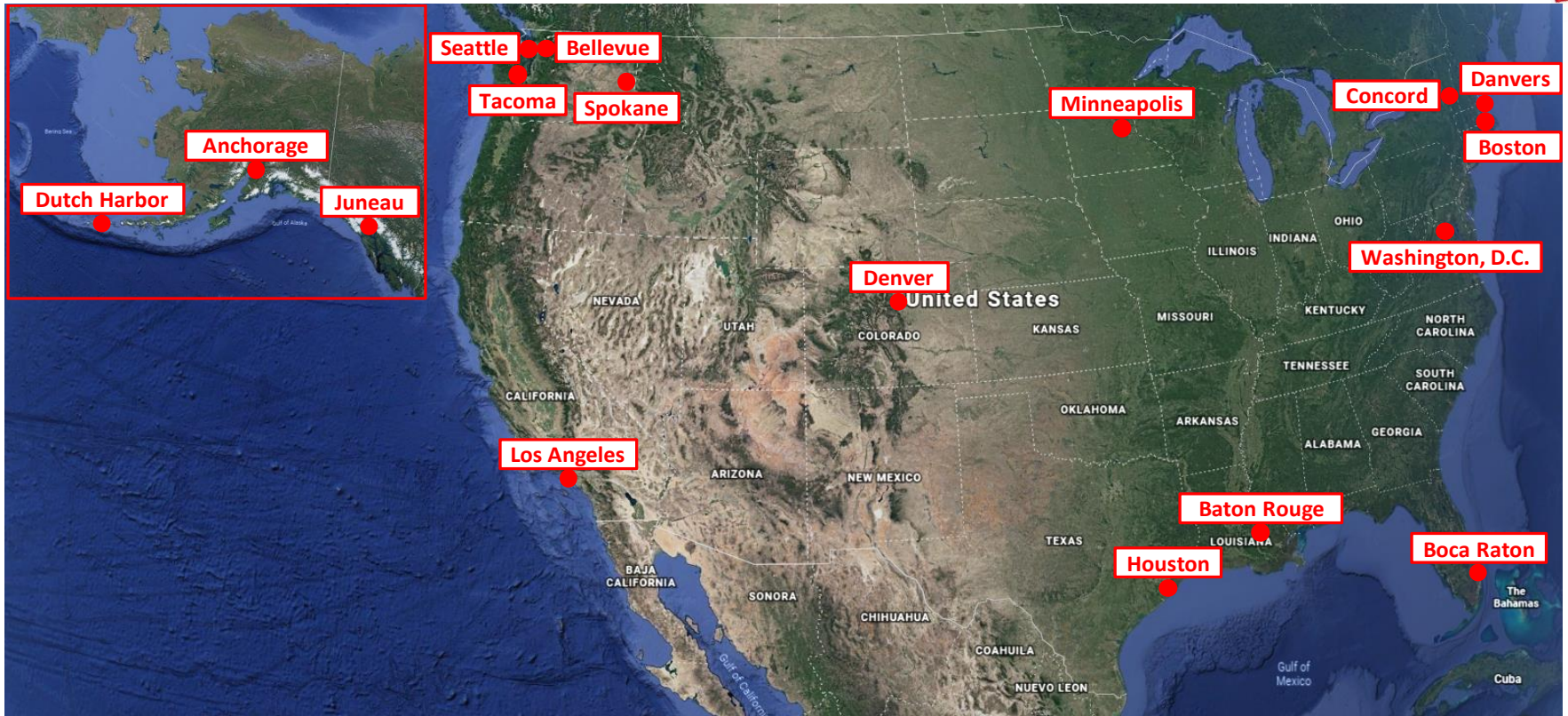
- Since entering the North American market via acquisition in FY13, Corporate Travel has reported tremendous growth



Source: Corporate Travel Management & VGI Partners analysis



# Corporate Travel's North American offices



Source: Google Earth, office locations sourced from <https://us.travelctm.com/contact/offices/>, 2 September 2018



**Following our European  
experience, we thought we  
would pop in and say hello...**

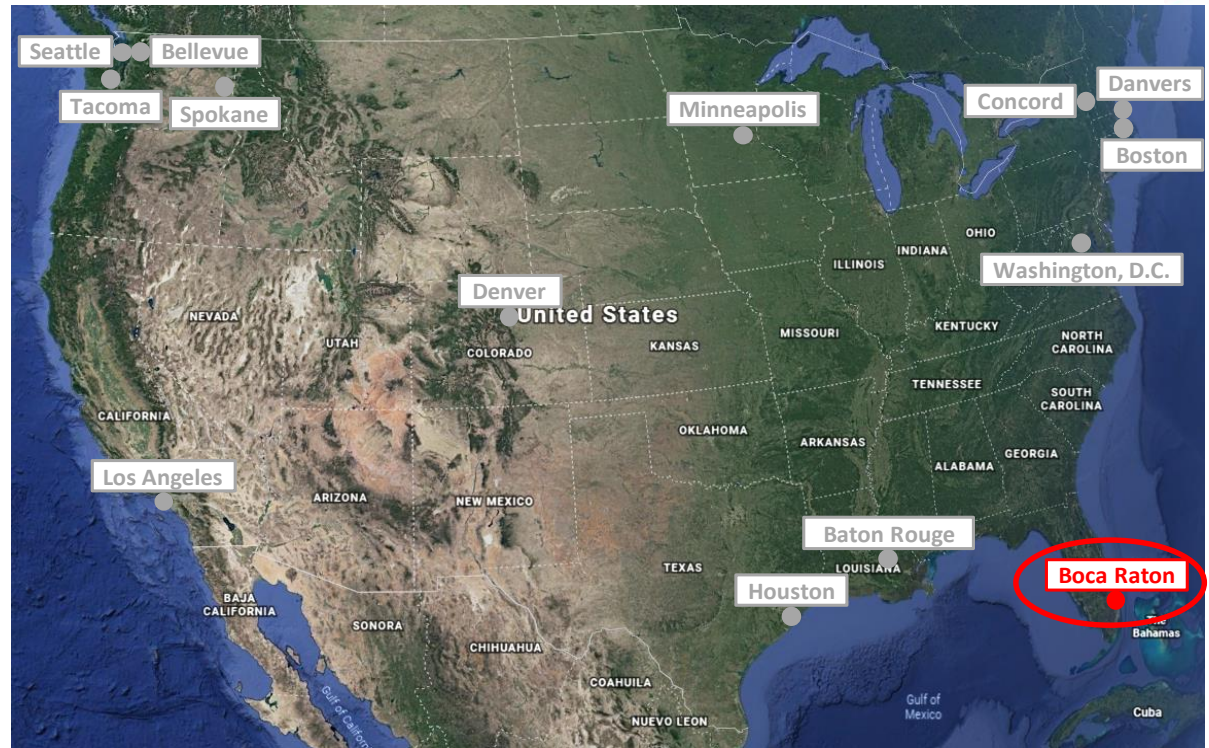


# Boca Raton, Florida

From Corporate Travel's website:

## Boca Raton

One Boca Commerce Center  
551 NW 77<sup>th</sup> Street  
Suite 114  
Boca Raton, Florida 33487



Source: Google Earth, office locations sourced from <https://us.travelctm.com/contact/offices/>, 2 September 2018

## We visited Corporate Travel's office in Boca Raton, Florida

- We did find an office, signposted as "Travizon Travel/BTI". Corporate Travel acquired Travizon in July 2016
- We knocked on the door of the office during business hours, however there was no response and it appeared nobody was inside
- Nobody was observed entering or exiting the office
- The tenants of a suite on the same floor said they had never seen any activity at this office



We visited Corporate Travel's office in Boca Raton, Florida

**VERDICT: GHOST OFFICE\***



Visited 3:45pm, Tuesday 18<sup>th</sup> September 2018  
Visited 11:35am, Friday 19<sup>th</sup> October 2018

\* Office exists, however appears to be unused, despite being listed on Corporate Travel's website



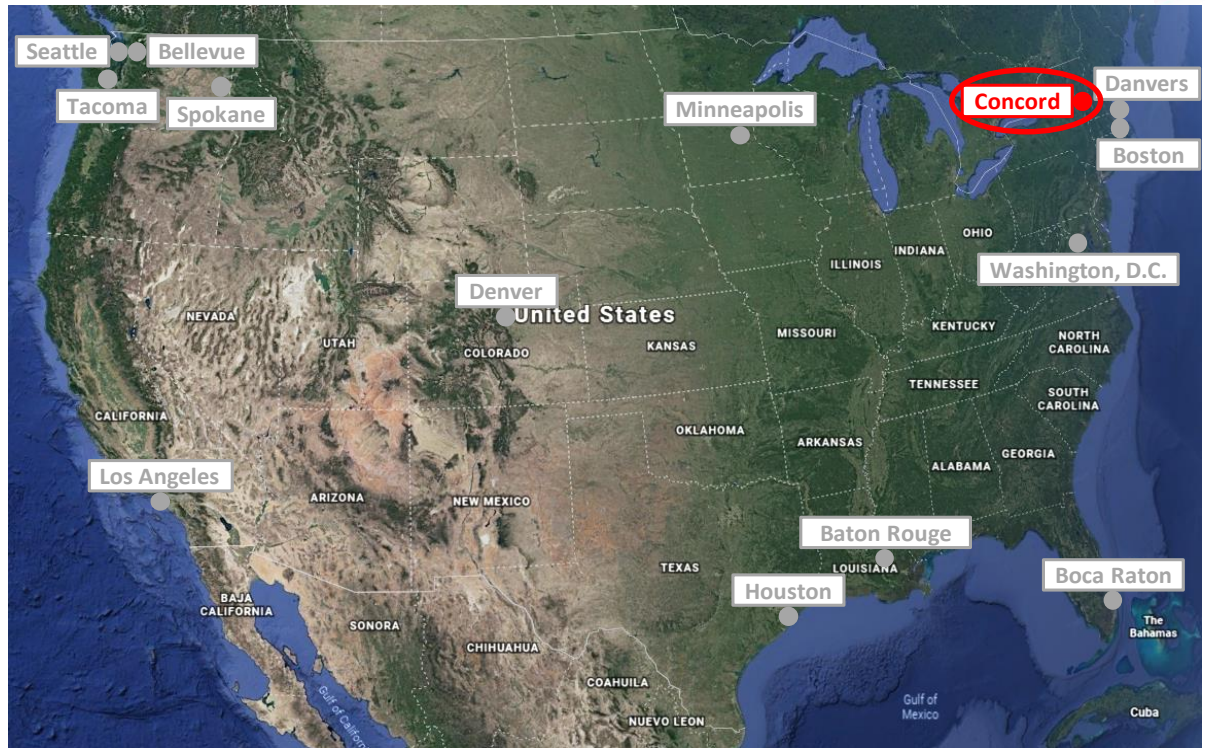
# Concord, New Hampshire



From Corporate Travel's website:

## Concord

10 Ferry Street  
Suite 424  
Concord, New Hampshire 03301



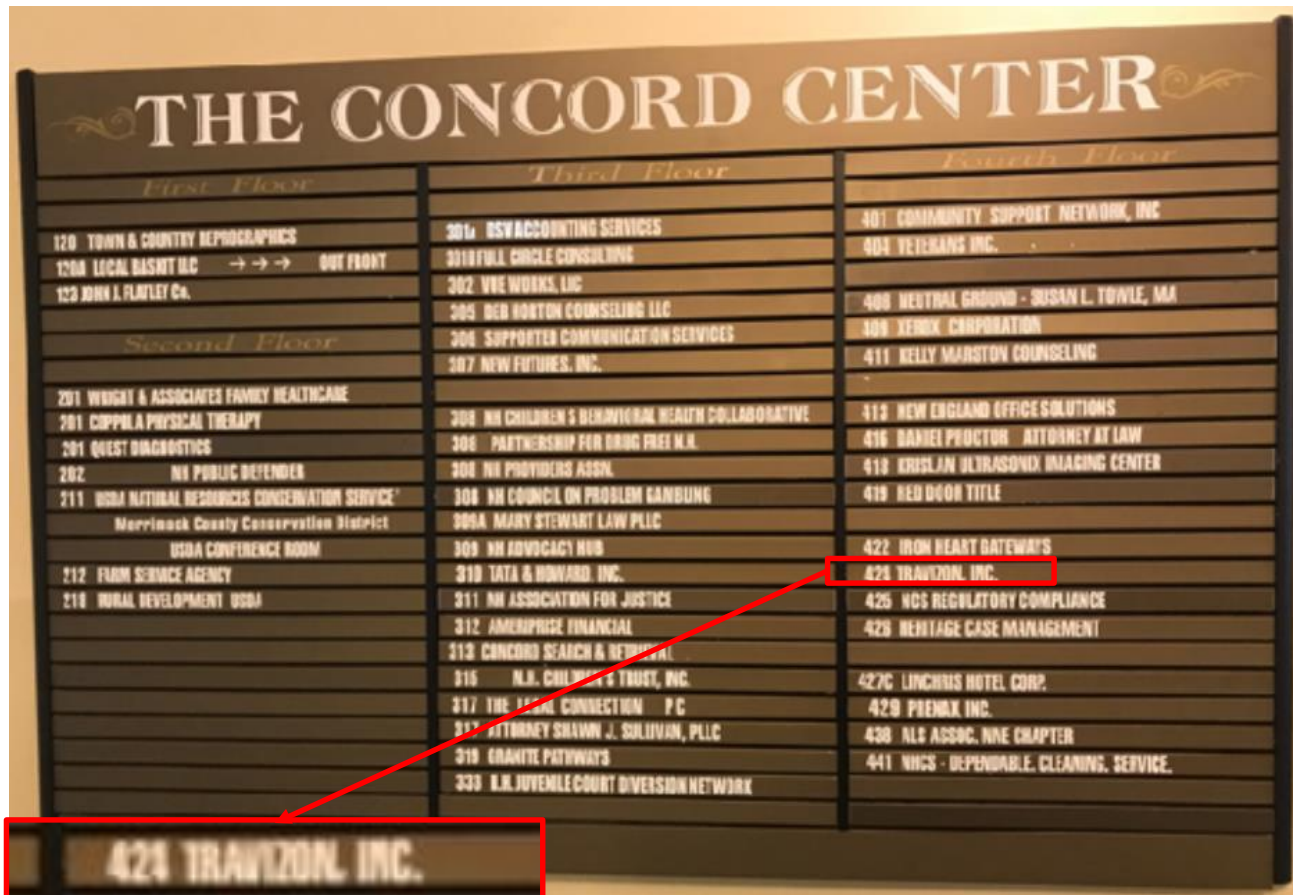
Source: Google Earth, office locations sourced from <https://us.travelctm.com/contact/offices/>, 2 September 2018

We visited Corporate Travel's office in Concord, New Hampshire



# We visited Corporate Travel's office in Concord, New Hampshire

- We did find an office for "Travizon Travel, Inc." (acquired by Corporate Travel in July 2016)





## We visited Corporate Travel's office in Concord, New Hampshire



- However during business hours the door was locked and nobody answered our knocks
- The interior lights were off
- We could see five desks through the window, however the desks were bare (no office equipment or personal effects)





We visited Corporate Travel's office in Concord, New Hampshire



Visited 3:15pm, Wednesday 3<sup>rd</sup> October 2018

Visited 10:40am, Tuesday 23<sup>rd</sup> October 2018

\* Office exists, however appears to be unused, despite being listed on Corporate Travel's website



**In our travels we also  
encountered a number of  
skeleton offices\* with only a  
small number of employees**

\* Office exists, however appears to be very small

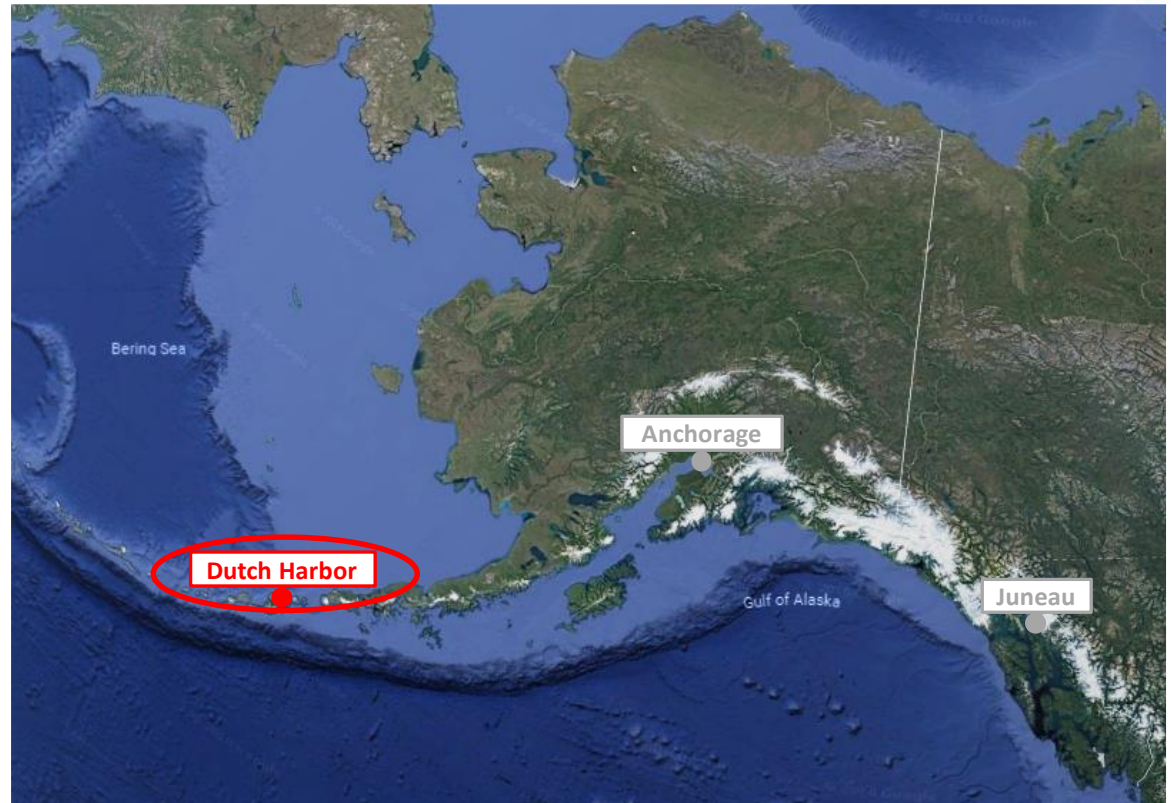
# Dutch Harbor, Alaska



From Corporate Travel's website:

## Dutch Harbor

2029 Airport Beach Road  
Dutch Harbor, Alaska 99692



Source: Google Earth, office locations sourced from <https://us.travelctm.com/contact/offices/>, 2 September 2018

We visited Corporate Travel's office in Dutch Harbor, Alaska



**We could not find a Corporate  
Travel office at the address listed  
on the website.**

# We visited Corporate Travel's office in Dutch Harbor, Alaska

- At this location, we just found a Safeway™ supermarket



We visited Corporate Travel's office in Dutch Harbor, Alaska



**However a local resident  
informed us that there was a  
Corporate Travel office at the  
airport.**



# We visited Corporate Travel's office in Dutch Harbor, Alaska

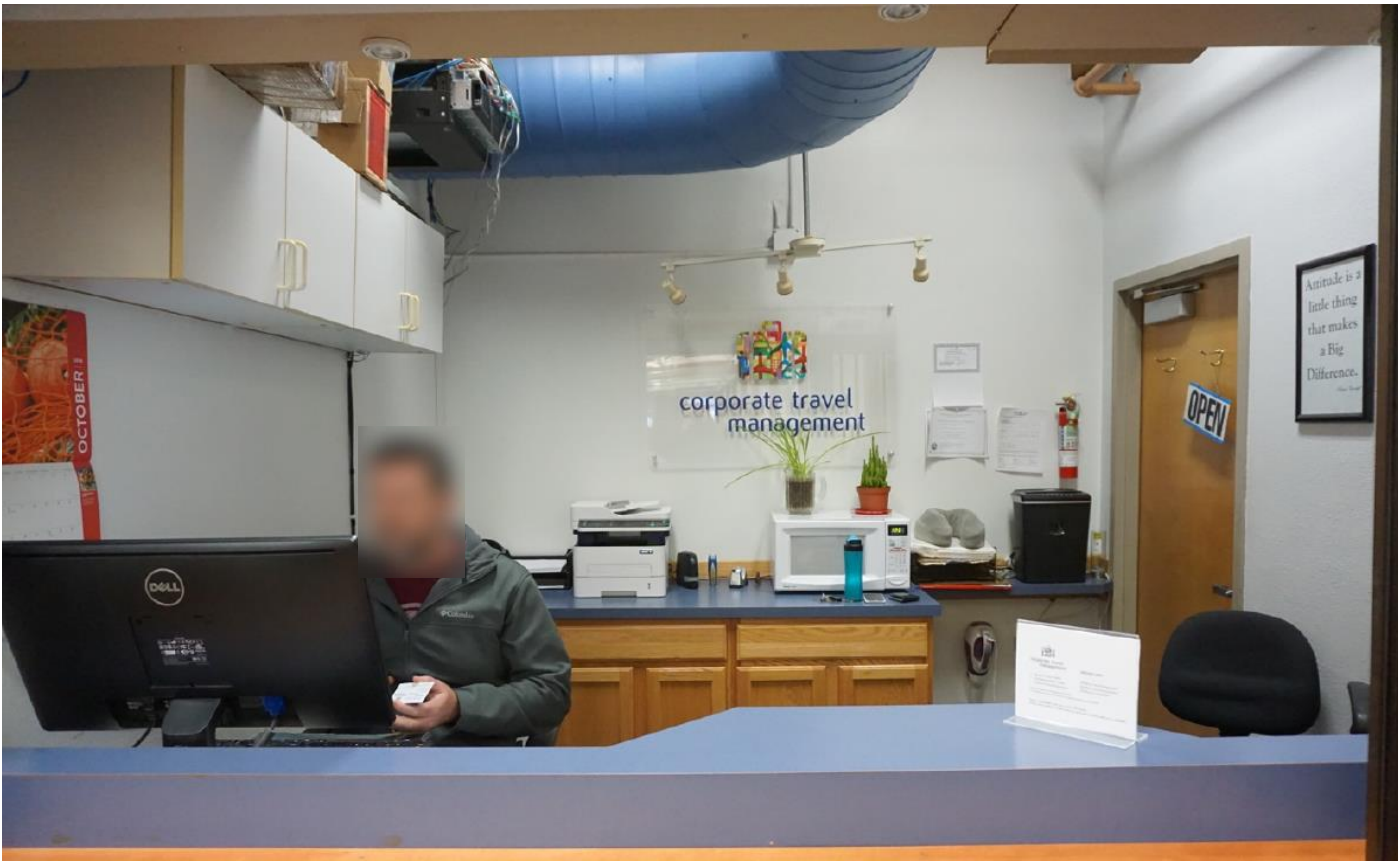
- We found Corporate Travel's office in the baggage claim area of the airport





# We visited Corporate Travel's office in Dutch Harbor, Alaska

- The space was occupied by a single employee



Note: Image blurred for privacy

We visited Corporate Travel's office in Dutch Harbor, Alaska



**VERDICT: SKELETON OFFICE\***

Visited 1:00pm, Monday 22<sup>nd</sup> October 2018

\* Office exists, however appears to be very small

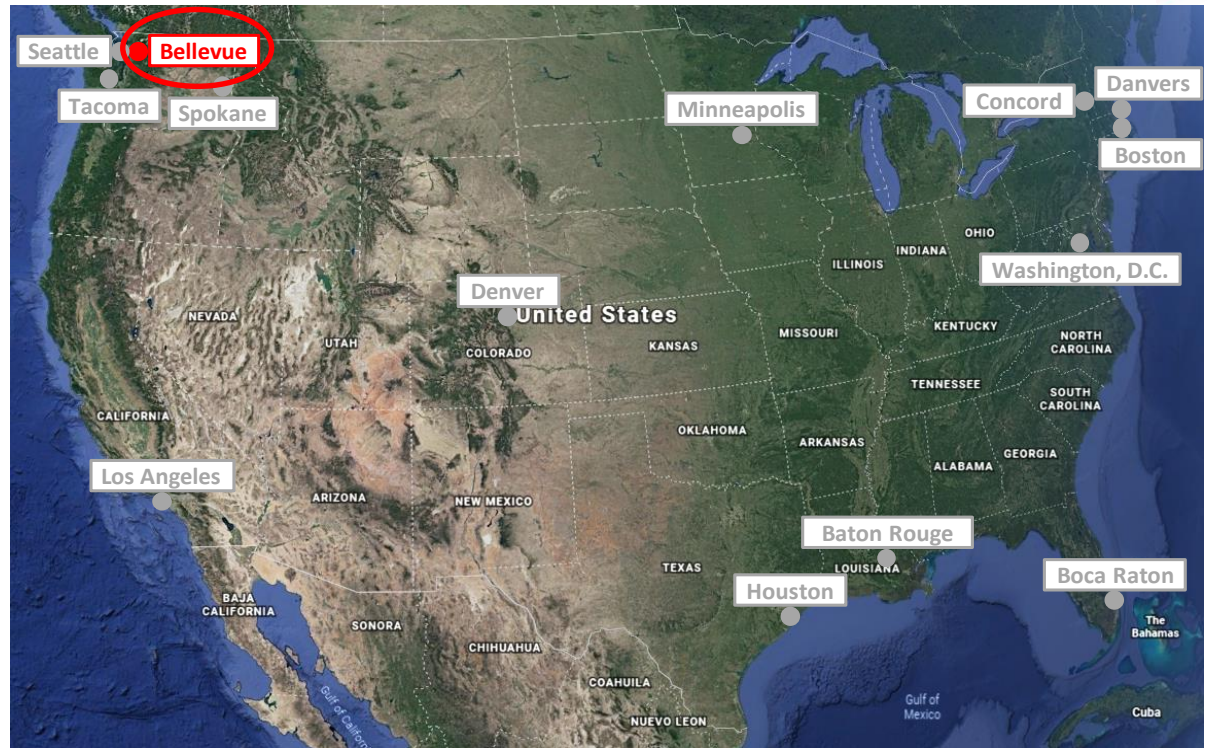
# Bellevue, Washington



From Corporate Travel's website:

## Bellevue

14711 NE 29th Place  
Building A, Suite 218  
Bellevue, Washington 98007



Source: Google Earth, office locations sourced from <https://us.travelctm.com/contact/offices/>, 2 September 2018

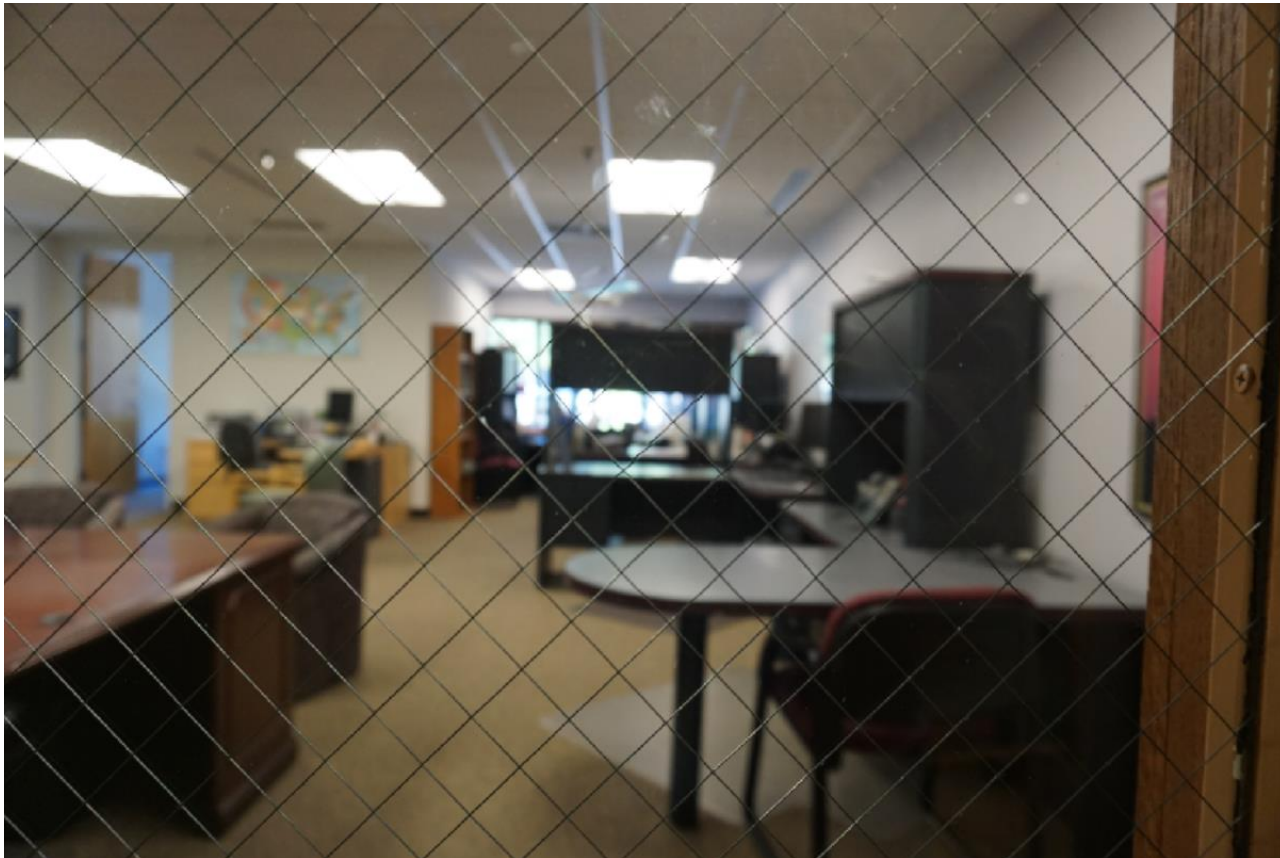


We visited Corporate Travel's office in Bellevue, Washington



# We visited Corporate Travel's office in Bellevue, Washington

- The space was occupied by a single employee



We visited Corporate Travel's office in Bellevue, Washington

**The employee appeared to be caught off guard by  
a visitor.**



**We asked about corporate travel services but the  
employee said she only handles leisure travel and  
“we don't even have business cards or any of that  
stuff.”**



We visited Corporate Travel's office in Bellevue, Washington



Visited 2:10pm, Tuesday 16<sup>th</sup> October 2018





\* Office exists, however appears to be very small



# North American office check scorecard

- We believe around one-quarter of offices listed on Corporate Travel's US website are sub-scale or unused



City	State	Verdict	
Anchorage	Alaska	Real office	
Baton Rouge	Louisiana	Real office	
<b>Bellevue</b>	<b>Washington</b>	<b>Skeleton office</b>	
<b>Boca Raton</b>	<b>Florida</b>	<b>Ghost office</b>	
Boston	Massachusetts	Real office	
<b>Concord</b>	<b>New Hampshire</b>	<b>Ghost office</b>	
Danvers	Massachusetts	Real office	
Denver	Colorado	Real office	
<b>Dutch Harbor</b>	<b>Alaska</b>	<b>Skeleton office</b>	
Houston	Texas	Real office	
Juneau	Alaska	Real office	
Minneapolis	Minnesota	Real office	
Los Angeles	California	Real office	
Seattle	Washington	Real office	
Spokane	Washington	Real office	
Tacoma	Washington	Real office	
Washington, D.C.	District of Columbia	Real office	

Ghost office = Office exists, however appears to be unused, despite being listed on Corporate Travel's website

Skeleton office = Office exists, however appears to be very small



# Long-serving auditor

## Long-serving auditor

- Corporate Travel has had the same auditor since IPO in 2010 – PricewaterhouseCoopers Brisbane
- The current signing audit partner is Mr Michael Shewan



Source: Corporate Travel Management FY18 Annual Report, 28 September 2018

# Long-serving auditor

- PricewaterhouseCoopers Brisbane and network firms receive substantial audit fees from Corporate Travel



## 28. Auditors' remuneration

The auditor of the Group is PricewaterhouseCoopers.

	2018	2017
<b>PricewaterhouseCoopers Australia:</b>		
Audits and review of the financial reports of the entity and any other entity in the consolidated group	455,805	531,419
Other services in relation to the entity and any other entity in the consolidated group:		
Tax compliance	214,700	220,578
Other advisory services	76,508	72,127
<b>Total remuneration of PricewaterhouseCoopers Australia</b>	<b>747,013</b>	<b>824,124</b>
<b>Other PricewaterhouseCoopers network firms:</b>		
Other services in relation to the entity and any other entity in the consolidated group:		
Audit and review of the financial report	466,452	471,027
Tax compliance	8,357	43,639
Other services	16,257	6,071
<b>Total remuneration of PricewaterhouseCoopers network firms</b>	<b>491,066</b>	<b>520,737</b>
<b>Non-PricewaterhouseCoopers firms:</b>		
Services in relation to the entity and any other entity in the consolidated group:		
Audit and review of the financial report	69,749	101,703
<b>Total remuneration of Non-PricewaterhouseCoopers firms</b>	<b>69,749</b>	<b>101,703</b>

Source: Corporate Travel Management FY18 Annual Report, 28 September 2018



# Retirement of Chairman with no replacement

## Retirement of Chairman with no replacement

- On 28<sup>th</sup> September 2018, Corporate Travel announced that its Chairman since June 2010, Tony Bellas, will step down on 31<sup>st</sup> October 2018
- Tony Bellas owns 220,836 shares of Corporate Travel. Most of these were acquired for \$1.00 at Corporate Travel's IPO (he paid \$200,000 for 200,000 shares). Mr Bellas' stake in Corporate Travel was worth \$6.1m at market close on 26<sup>th</sup> October 2018
- Once Mr Bellas has stepped down as Chairman, Corporate Travel will no longer have to disclose any of his share sales
- Corporate Travel is currently looking for a new Chairman







# Long-standing CEO and CFO



**We believe a long-serving and entrenched management team is a Red Flag for the following reasons:**

- **Level of influence (vis-à-vis the Board) of long-serving managers;**
- **Absence of independent thought provided by a fresh set of eyes; and**
- **Propensity to prioritise protection of legacy over confronting reality.**

# Long-standing CEO and CFO

- Corporate Travel has had the same CEO, Jamie Pherous, since founding in 1994
- Corporate Travel's CEO is a former accountant (from Arthur Andersen)



Source: <https://www.couriermail.com.au/business/ask-stockbrokers-what-are-the-5-best-queensland-companies-to-invest-in-now-and-youre-not-likely-to-get-a-lot-of-overlapping-ideas/news-story/f52f3b6c2717f029c2df810180ee0412>, 1 April 2016

## Long-standing CEO and CFO

- Corporate Travel has had the same CFO since IPO, Steve Fleming
- Apparently, Corporate Travel's CFO is now based in the UK



Source: <https://www.travelctm.com/global-leadership-team/steve-fleming/>, 26 October 2018



# High turnover in North America CEO role

## North America CEO role turnover

- For some reason, Corporate Travel has seen very high turnover in its North America CEO role



Executive	Time as CEO of North America
Mr Romeo Cuter	1 year
Ms Julie Crofts	1 year
Mr Chris Thelen	Since 1 July 2016

Source: Corporate Travel Management & VGI Partners analysis



# Management share sales:

*“Follow the money”*

*“Don’t listen to what they are saying, look at what they are doing”*



# Management and directors have been selling stock

- Many of Corporate Travel's key executives and directors have been selling shares



Ordinary shares	Balance at 30 June 2017	Purchased	Disposed	Received on vesting of rights	Other changes during the year	Balance at 30 June 2018
<b>Non-Executive Directors</b>						
Tony Bellas	243,836	-	(23,000)	-	-	220,836
Stephen Lonie	254,312	-	-	-	-	254,312
Greg Moynihan	254,312	-	-	-	-	254,312
Admiral Robert J. Natter	143,200	10,000	(46,000)	-	-	107,200
<b>Executive Directors</b>						
Jamie Pherous	21,650,000	-	(1,165,000)	-	-	20,485,000
Laura Ruffles	98,691	-	(50,000)	69,433	-	118,124
<b>Other key management personnel of the Group</b>						
Steve Fleming	48,145	-	(92,447)	69,433	-	25,131
Larry Lo	25,000	-	-	69,433	-	94,433
Debbie Carling	11,307	-	-	-	11,537	22,844
Chris Thelen	905,547	-	(905,000)	-	196,552	197,099

Source: Corporate Travel Management FY18 Annual Report, 28 September 2018

# Head of North America selling stock

- Chris Thelen is the CEO of Corporate Travel's North America segment
- North America contributes over one-third of Corporate Travel's reported revenues
- Chris Thelen was previously CEO of Chambers Travel, which was acquired by Corporate Travel in January 2015



Source: <https://us.travelctm.com/about/leadership-team/chris-thelen/>, 26 October 2018

# Head of North America selling stock

- At the time of the Chambers Travel acquisition, key management stock ownership was a key selling point of the deal



“Both [the Chambers Travel and Diplomat Travel] acquisitions meet our strict acquisition criteria. They possess capable and passionate management teams, are leaders in corporate travel in their respective regions, enjoy high client and staff retention, and will have significant ownership in CTM via CTD stock.”

Source: Corporate Travel ASX release dated 2 December 2014

## Head of North America selling stock

- However in FY18, Chris Thelen sold nearly every share that he had at the start of the year
- We think this demonstrates a clear lack of confidence in the outlook for Corporate Travel



Chris Thelen share ownership at 30 June 2017	905,547
Shares sold during the year	(905,000)
Percentage of 30 June 2017 shares sold during FY18	99.9%

Source: Corporate Travel FY18 Annual Report, 28 September 2018

# CFO selling stock

- Corporate Travel has had the same CFO since 2009, Mr Steve Fleming
- Mr Fleming has sold the vast majority of his stock. Interestingly, he sold the largest portion of his stock in 2014, around the same time Corporate Travel increased its acquisition activity and a number of red flags in the accounts first started to appear



Steve Fleming Share Ownership	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Opening balance	0	150,000	150,000	150,000	43,955	46,467	28,467	48,145
Purchased	150,000	0	0	3,955	2,512	0	642	0
Disposed	0	0	0	(110,000)	0	(18,000)	(15,000)	(92,447)
Received on vesting of rights	0	0	0	0	0	0	34,036	69,433
Other changes during the year	0	0	0	0	0	0	0	0
<b>Closing balance</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>	<b>43,955</b>	<b>46,467</b>	<b>28,467</b>	<b>48,145</b>	<b>25,131</b>

Source: Corporate Travel Management & VGI Partners analysis

# COO selling stock





















- Ms Laura Ruffles is the CEO of Australia & New Zealand and the Global COO
- Laura Ruffles has sold large amounts of stock over the past three years



Laura Ruffles Share Ownership	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Opening balance	0	150,000	150,000	150,000	153,956	155,012	126,923	98,691
Purchased	150,000	0	0	3,956	1,056	0	726	0
Disposed	0	0	0	0	0	(75,000)	(80,012)	(50,000)
Received on vesting of rights	0	0	0	0	0	46,911	51,054	69,433
Other changes during the year	0	0	0	0	0	0	0	0
<b>Closing balance</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>	<b>153,956</b>	<b>155,012</b>	<b>126,923</b>	<b>98,691</b>	<b>118,124</b>

Source: Corporate Travel Management & VGI Partners analysis

## Red flags summary

- 1  Supernormal profitability
- 2  Growth through acquisitions
- 3  Acquisition cash outflows that fail to reconcile
- 4  Lowered goodwill discount rates
- 5  Very little interest income
- 6  Low client cash balances
- 7  Significant changes to revenue recognition policy
- 8  Growing receivables
- 9  Large balance sheet that provides meaningful discretion
- 10  Declining 2H18 cash flows
- 11  Negative share-based payment reserve
- 12  Inadequate and misleading franking disclosures
- 13  Capitalising expenses
- 14  Questionable technology claims
- 15  Global office footprint overstated
- 16  Long-serving auditor
- 17  Retirement of Chairman with no replacement
- 18  Long-standing CEO and CFO
- 19  High turnover in North America CEO role
- 20  Management share sales



# Key shareholders

# Key Shareholders

Institutional Shareholder	Position	% of Shares Outstanding
Hyperion Asset Management Ltd/Aust	5,748,337	5.3%
The Vanguard Group Inc	2,752,141	2.5%
Fidelity International	1,734,141	1.6%
Wasatch Advisors Inc	1,348,735	1.2%
Dimensional Fund Advisors LP	1,047,985	1.0%

Source: Bloomberg (26 October 2018)

