

Club Wyndham South Pacific 30 June 2020 Half Year Financial Update

Dear Club Wyndham South Pacific Owners

Club Wyndham South Pacific (Club) lodges a half year financial report with ASIC which is subject to a limited audit review by the Club's auditor and have been made available on the Club's website.

As expected, the Club's revenue has been negatively impacted by the COVID-19 pandemic, however the Responsible Entity and Club management have been able to take the necessary steps to lower Club costs to keep the books in balance. Your Club continues to be in a sound financial position despite all the challenges being experienced in the South Pacific region and around the globe.

1.0 Financial Performance (Profit & Loss)

- **BREAKEVEN result for the six months ended 30 June 2020**
- **Club revenue DOWN 17.5% on budget and 13.3% on prior year**
- **Club costs DOWN 14.9% on budget and 10.5% on prior year**
- **Operating cost per credit is down to 7.49c compared to a budget of 8.79c and prior year 8.84c**

The Club has delivered a break even result for the half year ended 30 June 2020 despite a 13% fall in revenue against last year and 17.5% fall against budget.

As expected due to COVID-19 impacts, the Club's revenue was down \$6M (13.3%) on the same period last year and \$8M (17.5%) on budget for 2020.

The shortfall in revenue comprises the following:

- **Levy Income – Down 7.1% on the prior year and 14.6% on budget** due to the net impacts of the one time levy credit applied to all Club Owners in response to COVID-19, the annual levy increase, and reduced number of new credits against the budget as a result of reduced sales.
 - All Club owners received a credit against their annual levies which was calculated as a 36% reduction against April and May being an apportionment of the annual amount payable. The total credit amounted to \$4.74M and lowers reported revenue accordingly.
 - Due to property closures and travel restrictions in the first half of 2020, occupancy is expected to be higher than originally planned in the second half year which requires the Club to reapportion a greater value of levy income to the second half year, this has essentially deferred a further \$1.3M of levy income above what was budgeted.

- The Club's annual levy increase for 2020 was set at 3.5%, while the effective increase considering owner credit packages sizes is approx. 2.0%. Reported levy income reflects the effective annual levy increase, although it is lower than budget due to lower than expected new credits being issued by the Club in 2020 due to COVID19.
 - Sales of credits for new owners and upgrades in the Club are down approx. 55% from what the Club had budgeted, therefore levy income expected to be generated from those credits is down approx. \$1.0M for the half year.
 - Table 1.1 below reflects Levy income as 6.81 cents per credit which is down 14.4% on budget and 12.1% on the same period to date last year.
- **Resort Income – is down \$1.8M (39%) on budget and \$2.8M (50%) on the prior year** primarily impacted by property closures from late March through June due to COVID-19 and comprises the following:
 - **Housekeeping Revenue – Down \$0.8M on budget and \$1.2M on the prior year** due to a reduction of the number of mid stay cleans of 43% and 50% respectively. Revenue is typically generated from mid stay cleans or owners who have utilised all their housekeeping tokens.
 - **Rental Income – Down \$0.5M on budget and \$0.6M on the prior year** The Club rents some inventory not used by owners with the proceeds used to offset costs and keep owner levies down. Due to property closures since late March minimal rental income has been generated and occupancy is prioritised for owners.
 - **Food & Beverage – Down \$0.4M on budget and \$0.7M on the prior year** due to closure of F&B activities at Port Douglas and Dinner Plain.

Due to the shortfall in revenue and the expected operational impacts of COVID-19 in the first half of 2020, the Club's management and Responsible Entity quickly implemented cost savings measures to ensure the Clubs books would remain balanced.

Resort Operations costs were reduced 15.5%, Administration Costs were reduced 12.8% and the Responsible Entities management fee was reduced by 12% against budget for the first six months of 2020.

The cost reductions to date reflect an operating cost per credit of 7.49 cents per Table 1.1 which is favourable compared to budget being down 14.7% and 15.2% on the same period last year.

- **Labour Costs Saving Initiatives:** From late March as the Club was forced to commence closing Club properties, all non-essential Club employees were sent on annual or long service leave. Where the employee had exhausted leave entitlements they were transferred to leave without pay and received JobKeeper or equivalent benefits in the relevant countries if entitled. These actions provided cost reduction benefits for the Club as wages were eliminated or funded from existing leave entitlements or JobKeeper. Essential staff were limited to

employees performing deep cleans (brought forward to free up occupancy later in 2020) and refurbishments at properties, minimum staff to maintain security at properties and a skeleton workforce for support functions based on Owner demands.

- **Fixed Supplier Contracts:** Our Operations and Procurement teams worked together with our Finance team to secure credits on a number of fixed supply contracts during the shutdown period. For example we were very appreciative of a number of key suppliers who provided credits against contractual commitments including national Foxtel, Telstra, Xerox, Lifestyle Panel, and many local suppliers. Additionally the Club received fee reductions for Club apartments managed by Resort Management by Wyndham which in turn implemented similar cost saving measures for mixed use properties.
- **JobKeeper:** The Australian Federal Government's JobKeeper and New Zealand Government's COVID-19 Subsidy program have provided a credit and cash benefit of A\$1.719M and NZ\$0.174m respectively. A portion of this payment was passed through to Club employees that were stood down on leave without pay, with some funding retained by the Club to offset employees who continued to work during quarter two.
- **Management Fees:** The Responsible Entity reduced its monthly management fee by 36% in April and May 2020 in line with the levy credit provided to owners reducing the management fee by approx. A\$0.5M. The Responsible Entity is not expecting to recover this reduction and is expecting to provide further reductions to the management fee in the second half of the year.

Through the end of July 2020 it is noted Wyndham Destinations Asia Pacific Pty Ltd, the Club developer, has written off a substantial balance of its inventory holding One Time Use Credits to help alleviate demand on Club accommodation availability during 2020. Wyndham Destinations Asia Pacific has taken a cost of over A\$5M to its profit and loss as a result of this write off, it is NOT a cost being borne by the Club or Club Owners.

Table 1.0 Statement of Financial Performance (Unaudited)

	Actual		Budget 1HY 2020	Var Actuals		Var Budget		
	1HY 2020	1HY 2019		\$'s A\$ 000's	%	\$'s A\$ 000's	%	
	A\$ 000's	A\$ 000's						
Revenue								
Levy Income	35,556	38,294	41,647	(2,738)	(7.1%)	(6,091)	(14.6%)	Unfavourable
Resort Income	2,846	5,648	4,667	(2,802)	(49.6%)	(1,821)	(39.0%)	Unfavourable
Other Income	702	1,183	1,109	(481)	(40.7%)	(407)	(36.7%)	Unfavourable
Total Revenue	39,104	45,125	47,424	(6,021)	(13.3%)	(8,320)	(17.5%)	Unfavourable
Expenditure								
Resort Operations Cost	31,531	34,983	37,326	(3,452)	(9.9%)	(5,795)	(15.5%)	Favourable
Administration Costs	3,893	4,883	4,465	(990)	(20.3%)	(572)	(12.8%)	Favourable
RE Management Fees	3,671	3,792	4,172	(121)	(3.2%)	(501)	(12.0%)	Favourable
Total Expenses	39,095	43,658	45,963	(4,563)	(10.5%)	(6,868)	(14.9%)	Favourable
Net Profit Before Tax	9	1,467	1,461	(1,458)	(99.4%)	(1,452)	(99.4%)	

Table 1.1 Annualised Income and Operating Cost Per Credit

	Actual		Budget 1HY 2020	Var Actuals		Var Budget		
	1HY 2020	1HY 2019		\$'s A\$ 000's	%	\$'s A\$ 000's	%	
	A\$ 000's	A\$ 000's						
Annualised Levy Income Per Credit	6.73	7.75	7.92	(1.02)	(13.2%)	(1.18)	(15.0%)	Unfavourable
Annualised Total Revenue Per credit	7.40	9.14	9.01	(1.73)	(19.0%)	(1.61)	(17.9%)	Unfavourable
Annualised Operating Cost Per Credit	7.40	8.84	8.74	(1.44)	(16.3%)	(1.33)	(15.3%)	Favourable

2.0 Financial Position (Balance Sheet)

- **Net Assets/Club Owners Equity \$534M**
- **Surplus of Current Assets over Current Liabilities at 1.6 times**
- **\$48.5M set aside for future refurbishment of properties**

As at 30 June 2020 the Club reports \$534M of net assets/Club owner's equity and the Club is maintaining a strong solvency position with current assets exceeding current liabilities by \$36.9M.

- **Cash balances** include \$48.5M held aside in bank term deposit accounts for future property refurbishments and sinking funds.
- **Trade and Other Receivables** primarily represents levies due as the annual levy invoice is raised in December each year and paid progressively over the year. The lower June balance reflects trading of half the year and collections completed, although it should be noted that levy delinquency is slightly higher and some owners are on short term deferment assistance. The December 2019 comparative balances includes the full 2020 annual levy receivable billed in December 2019.
- **CWSP Properties** represents the accounting net book value of all Club properties at the end of June 2020 of \$498M. The net book value represents land and buildings at cost (approx. \$453M) and the depreciated or written down value of all interior Fixtures, Fittings and Equipment which forms part of the FFE Refurbishment program.

As noted in the accounting policy notes to our annual financial statements, land and buildings are valued at original cost, which for some properties is 20 years ago. The insured replacement value is considerably higher and likewise the market value would be considered to be significantly higher again. Due to the significant cost to Club owners of obtaining market valuations for all Club properties, this task is not undertaken. Replacement valuations for insurance purposes are undertaken under a rotation basis to ensure properties are appropriately insured.

- Other current liabilities primarily reflects unearned income from levies billed for the 2020 year in December 2019. The liability is reduced monthly and transferred to levy income as earned.
- Employee benefits are lower reflecting non-essential employees being asked to take leave during COVID-19.

Table 2.0 Statement of Financial Position (Unaudited)

	1HY 2020	1HY 2019	Var	Var
	A\$ 000's	A\$ 000's	A\$ 000's	%
Current Assets				
Cash and cash equivalents	50,983	52,301	(1,318)	(2.5%)
Trade and other receivables	43,509	80,907	(37,398)	(46.2%) <i>Timing</i>
Inventories	140	145	(5)	(3.2%)
Other current assets	4,813	7,994	(3,181)	(39.8%) <i>Timing</i>
Total Current Assets	99,445	141,347	(41,902)	(29.6%)
Non-current assets				
CWSP Properties	498,242	492,377	5,866	1.2%
Total non-current assets	498,242	492,377	5,866	1.2%
Total assets	597,687	633,723	(36,036)	(5.7%)
Current liabilities				
Trade and other payables	10,951	15,739	(4,788)	(30.4%)
Other current liabilities	50,961	87,966	(37,005)	(42.1%) <i>Timing</i>
Employee benefits	596	1,118	(523)	(46.7%)
Financial liabilities	24	23	1	4.6%
Total current liabilities	62,531	104,845	(42,314)	(40.4%)
Non-current liabilities				
Employee benefits	218	210	8	3.8%
Financial liabilities	195	203	(8)	(4.0%)
Total non-current liabilities	413	413	(0)	(0.0%)
Net Assets	534,743	528,465	6,278	1.2%
Club Owners Equity	534,743	528,465	6,278	1.2%

3.0 Cash Flow

- **Net cash from Operations \$2.3M**
- **Cash spent on refurbishments \$3.6M**

Cash incoming from owners and customers was down significantly as expected due to annual levy credits, levy deferrals and lower rental and housekeeping income, all due to COVID-19.

Cash payments to employees and suppliers were also down due to the cost saving and minimisation efforts implemented, however the reduction will be lower than incoming cash due to timing factors which will balance out over a year, cash outflows associated with bringing forward deep cleans, repairs, maintenance, and non-capitalised refurbishment costs, and the one month timing lag on receipt of JobKeeper payments.

The Club invested \$3.6M in refurbishments and operational asset acquisitions at several Club properties including Phillip Island, Port Douglas, Ballarat, Sydney, and the Dinner Plain reception and restaurant facilities.

Table 3.0 Statement of Cash Flows (Unaudited)

	1HY 2020	1HY 2019	Var	Var
	A\$ 000's	A\$ 000's	A\$ 000's	%
Cash Flow from Operating Activities				
Receipts from Owners & Customers	39,505	46,532	(7,026)	(15.1%)
Interest Received	395	675	(280)	(41.4%)
Payments to Suppliers & Employees	(37,504)	(42,582)	5,078	(11.9%)
GST Paid	(88)	(598)	509	(85.3%)
	<u>2,309</u>	<u>4,027</u>	<u>(1,718)</u>	<u>(42.7%)</u>
Cash Flow from Investing Activities				
Payments for Property Plant & Equipment	(3,627)	(4,419)	792	(17.9%)
Net Decrease in Cash and Cash Equivalents Held	(1,318)	(392)	(926)	236.1%
Cash and cash equivalents at the beginning of the financial period	52,301	55,062	(2,761)	(5.0%)
Cash and cash equivalents at the end of the financial period	50,983	54,670	(3,687)	(6.7%)

We hope this half year financial review provides some interim insight into your Club's financials separate from the full annual financial report prepared at the end of each financial year.

Rest assured the Responsible Entity and Club Management are watching expenses very closely and taking every action we can to save costs while not impacting service and experience levels to Owners.

The current COVID-19 environment does continue to change rapidly and we are monitoring changes closely and will provide financial updates as we can.

Any owner that is experiencing difficulties in paying levies to the Club is encouraged to contact our Club Levies team who will work with you to see how they can assist in your circumstances. Contact details are below:

<https://clubwyndhamsp.com/informationhub/financial-hardship/accounts.receivable@wyn.com>

AU1800 021 129

NZ0800 558 668

FJ008 003 263

Intl+61 7 5512 8038

Yours faithfully

Liam Crawley

Chief Financial Officer

Wyndham Vacation Clubs Asia Pacific

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