

2021 Mid-Year Update

Covid-19 continues to be the dominant factor affecting trading across the globe, particularly for the travel and leisure industries. The Sykes Group experienced a relatively buoyant end to the previous financial year as the easing of the initial UK lockdown (March to July 2020) resulted in strong short-term demand for UK travel with high levels of uncertainty and risk associated with overseas travel.

The expectation for the current financial year was for some volatility with the “rule of 6” travel restrictions in place from the start of the year (October 2020). As the first quarter matured, the level of restrictions only increased across the UK to combat growing Covid-19 cases, inclusive of more virulent strains. The UK government and national assemblies introduced a number of firebreaks, tiers and bubbles, culminating in a total lockdown from the beginning of 2021, meaning trading for January to March was delivered under a complete national lockdown in the UK.

The learnings from the initial UK lockdown have been applied throughout the period. Cost control has been key to ensuring the business is resilient to these lockdown periods. Marketing spend was tightly monitored and staff costs were minimised (through furlough where applicable and limited recruitment). Further savings in overheads were attained via a strict control over discretionary spend budgets.

Despite the restrictions in place, there remained an underlying steady demand for future departure periods throughout the period – although significantly under the budgeted levels. The business remained confident that the lockdown exit would be beneficial to the staycation market, and this has been the case.

The combined announcements of the UK government/national assemblies in February, released the pent-up consumer demand resulting in booking levels returning to forecast levels. The levels of demand meant that marketing costs were minimised and an application of our standard yield management tools has resulted in a recovery of a significant proportion of the contribution downside experienced through the lockdown periods.

As each travel restriction in the UK was announced, an assessment was made over the discretionary refund policy and Sykes continued to refund affected bookings. Refunds were given as a goodwill gesture to customers/owners and the reduction in income as a result classified as exceptional in nature.

Despite the downward pressure on cash caused by these refunds, the balance sheet remains in a healthy position, largely due to the buoyant trading conditions, cost controls and the temporary and voluntary conversion of most of our owners to arrears payment terms. This has also enabled a more efficient refund process to customers during lockdown periods and simplified the refunds process for our owners.

The New Zealand brand experience has been somewhat different to the UK group, due to the application of the initial lockdown in New Zealand and the strict closure of their borders. Booking volumes and EBITDA delivery have performed broadly to budget levels during the first half of the year. The demand for properties in New Zealand continues to be fulfilled by internal travel, that is effectively replacing the international customers that cannot travel. On 19th April a travel corridor between New Zealand and Australia opened, that should only help trade into the second half of the year.

Developments During the period

- Continued support for Staff working from home has been achieved through the use of technology, including web-based functionality and video conferencing. Due to the isolated and difficult working conditions for some individuals we have endeavoured to do all we can to look after the mental and physical wellness of our employees. A high level of communication and management support has been delivered throughout the period. External counselling is available for all staff and a 24-hour helpline is available for those who require any such support, along with online fitness classes to encourage social interaction outside of work.
- Added additional capacity and flexibility to our financing arrangements in April 2021 to support our acquisition strategy and to position the group optimally for the post Covid-19 environment. This enables an expansion of the properties available to consumers and an opening up of our combined national/local marketing and support network, to drive additional revenue for property owners.
- Significant internal software development has been produced during the year to help the business deal more efficiently with ongoing Covid-19 issues, for example consumer refund processes have been automated to ensure that qualifying bookings are refunded efficiently.
- Despite our contractual terms, and not anticipating the disruption at the level caused by ongoing Covid-19 legislation, refunds to customers and owners continued as a goodwill gesture.

Outlook

The success of the UK vaccination program has resulted in a strong level of confidence in the continued relaxation of the lockdown restrictions, resulting in a continuation of high levels of demand for UK based vacations into the second half of the financial year and beyond.

Combined with ongoing uncertainty over the ability to travel overseas in the short to medium term, the Sykes Group has benefitted from this demand to deliver a wide range of holiday options to our customer base, whilst maximising rental returns for our owners thus helping the financial recovery of the sector, alongside the group.

The business remains fully aware of the potential effects of further lockdown periods in the event of different strains of the Covid-19 virus. In this environment, an appropriately cautious approach will always underpin our decision making, but the cost control and financing measures undertaken in the past six months has demonstrated the resilience of the group and its business model. We now have the flexibility to invest in existing and new initiatives, to grow the business over the next 12 months as we hopefully return to a level of normality.