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Thomas Cook: flightpath to failure

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Thomas Cook: Flightpath to failure

> '*I am deeply sorry about this failure, and I am deeply sorry for the distress we caused to millions of customers who booked holidays with us and who were on holidays with us.' Peter Frankhauser, Thomas Cook CEO*[1]

The CEO's apologies were too late. The sudden failure of Thomas Cook Group plc (Thomas Cook), one of the oldest travel firms, on 23 September 2019 left 600,000 holidaymakers stranded and sparked the largest ever peacetime repatriation[2] of British citizens[3] at a cost of £83m to the Department of Transport[4]. Around 9,000 employees who had expected to be paid on 30 September were left unpaid, many of them struggling to pay their bills.

The company went from a clean audit opinion in November 2018 to report a £1.1bn impairment just six months later in its May 2019 interim accounts[5]. At the time of its bankruptcy, Thomas Cook owed £1.7bn in debt to its banks with a further £1.3bn owed to its suppliers. The failure triggered several investigations including an inquiry by the Business, Energy, and Industrial Strategy (BEIS) Committee.

Was the company locked into a flightpath to failure or could Frankhauser have arrested the company's decline by taking more decisive action?

To what extent could Frankhauser take seek comfort from the presentation of the underlying performance of the company in its audited accounts and the acquired goodwill balances?

Background to failure: poorly timed acquisitions and corporate inertia

Thomas Cook was a UK-based travel company with a heritage of over 178 years. It sold package holidays to popular destinations (flight plus accommodation bundles) via its network of high street shops. An extract from its 2018 brochure is shown in Case Exhibit 1. In addition, it operated a charter airline, selling excess capacity to other package operators.

A profit warning and subsequent share price decline of 30% in September 2018 triggered enhanced monitoring by the Civil Aviation Authority (CAA) which is responsible for monitoring Air Travel Organiser's Licence (ATOL) holders' financial health[6]. In April 2019 the Department of Transport also started to work with the CAA to identify likely points of failure for the company. There was no changing the inevitable course that the company had set as its hopes of a government bailout failed to materialise.

Peter Frankhauser was an internal appointee following the high-profile departure of Harriet Green in 2014. He had a long career working in the travel industry and had worked at Thomas Cook since 2001.

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[1] Q1 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 15 October 2019

[2] Prior to the global pandemic of 2020

[3] 150,000 were repatriated Q67 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 15 October 2019

[4] Investigation into the Collapse of Thomas Cook, National Audit Office, 17 March 2020, https://www.nao.org.uk/wp-content/uploads/2020/03/Investigation-into-governments-response-to-the-collapse-of-Thomas-Cook.pdf

[5] Thomas Cook Group plc, Results for the six months ended 31 March 2019 (16 May 2019)

[6] Investigation into the Collapse of Thomas Cook, National Audit Office, 17 March 2020, https://www.nao.org.uk/wp-content/uploads/2020/03/Investigation-into-governments-response-to-the-collapse-of-Thomas-Cook.pdf

Despite the warning signs, Frankhauser's reign as CEO reflected a failure to respond to the changing market conditions and proactively address the company's precarious financial structure (Case Exhibit 3).

However, there were missed opportunities for Frankhauser to address the company's financial position. The profitable airline business had been presented as a separate operating segment in 2017 as it was expected to be sold at a time when the market recovered however, the company waited too long:

> ***'Albert Owen (MP):*** *If you had sold it earlier, do you think you could have helped save the company?*
> ***Peter Fankhauser (CEO):*** *In hindsight, you are always much, much wiser, yes. Probably it could have been an opportunity.'*[7]

There were two major contributors to the failure; firstly, the debt burden which had created a significant ongoing annual servicing cost, and secondly, the increasingly outdated business model. The BEIS Select committee concluded that Frankhauser had ample time to deal with the company's debt issue:

> '*the problem was not dealt with in the five years that you were chief executive of the company' Chair of Select Committee*[8]

The result was a fragile balance sheet. The company had significant amounts of acquisition-related goodwill as a legacy of prior growth strategies and the ultimate demise of Thomas Cook was set in motion when an impairment related to MyTravel was finally announced with the first-half results in May 2019 resulting in a loss of £1.5bn. Whilst the company sought to refinance as it had done so many times previously, this time it was unsuccessful.

As with many other cases of corporate failure e.g. Carillion plc, Thomas Cook had undertaken a series of acquisitions over the period from 2007 until 2011, leaving it with significant long-term debt (approximately £1bn over this period) and an associated ongoing financing cost.

Former CEO Manny Fontenla-Novoa (2003-2011) led the two most significant mergers, a £1.1bn merger with MyTravel in 2007, and a 2011 merger with the Co-operative Travel branch network. In the six years leading up to the 2007 merger, My Travel had only reported a profit once, yet the management believed the enlarged company would generate benefits from increased scale. Despite issuing three profit warnings in 12 months, in 2011 the company proceeded with the Co-Operative Travel deal in an attempt to eliminate competition and further increase the physical footprint.

> *'The UK business high street retail shops are particularly important for package holiday sales, with 48% of package holiday sales made through this channel in 2011. Given the importance of high street retail, the UK business recently sought to bolster its position through its retail joint venture with The Co-operatives'*[9]

The legacy of Fontenla-Novoa's dealmaking continued to affect the company and finances were further pressured when in 2017, when as part of the original transaction, the Co-Operative group exercised its right to sell its shares to Thomas Cook after 5 years for four times Earnings before Interest Tax, Depreciation and Amortisation (EBITDA) for £55.8m cash payment, resulting in an additional outflow from the company.

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[7] Q76 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 15 October 2019
[8] Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 15 October 2019
[9] Thomas Cook Group plc Annual Report 2011, p.10

By 2012 the strategic error of expanding the high street presence was revealed as plans were made to close 149 stores[10] and a dynamic new CEO, Harriet Green (2012-2014) joined the company. The company refinanced £1.2bn[11] of debt in an attempt to stabilise its finances and worked to implement a digital strategy. The extent of Thomas Cook's failure to digitalise was clear when even in 2011 20% of customers were booking online[12]:

> *'This was a company whose 1,000 stores did not even have a connection to enterprise-level internet.'Harriet Green, former CEO*[13]

Whilst some performance improvements manifested themselves over the short period of her tenure, Harriet Green's efforts were not well received internally, and she left in 2014.

> *'the reason I left was because in November 2014 […]I was told "You have done a great job. You have started the transformation. Thank you, but we would now like someone who is a traditional travel person to take this strategy forward' Harriet Green, former CEO.*[14]

It was the traditional travel person in the form of Frankhauser whose reactive approach as CEO contributed to the company's demise.

Slow adaptation to a changing operating environment

Travel bookings are sensitive to several factors which create volatility in booking patterns, including the local weather conditions e.g. the 2018 heatwave led to fewer bookings, political unrest in holiday destinations e.g. the attempted coup in Turkey in 2016, and travel concerns related to the local political environment e.g. Brexit uncertainty, currency strength.

Over the period to 2018, the travel market had undergone a period of significant change with the emergence of low-cost airlines and accommodation providers enabling consumers to build their holidays for variable durations, moving away from the traditional package model. This changing pattern of how people booked holidays seemed to catch Thomas Cook unaware. In fact, the overall market was growing[15] however, the company was slow to respond to the increasing web-based travel sales and new competitors entered the market unbundling the traditional package holiday. In 2012 it still had 1,222 UK stores[16] which Harriet Green had planned to slim down[17] whilst building the company's much-needed digital capability. The change of leadership was acknowledged to have contributed to the general inertia:

> '*after Harriet left, perhaps we did not have the level of urgency we needed in order to transform the company, to change its business model and to more it more online' Bill Scott, Former CFO Thomas Cook*[18]

Frankhauser blamed the slow pace of change on a lack of funds for investment[19] rather than taking responsibility for the strategic failures. The company's nearest competitor Tui grew its earnings over the same period (Case Exhibit 4) as it moved away from traditional tour operations and developed its

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[10] Thomas Cook Group plc Annual Report 2012, p.11
[11] Thomas Cook Group plc Annual Report 2012, p.104
[12] Q66 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 15 October 2019
[13] Q534 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 23 October 2019
[14] Q531 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 23 October 2019
[15] Office for National Statistics visits abroad by UK residents https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/datasets/ukresidentsvisitsabroad
[16] Q72 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 15 October 2019
[17] Q545 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 23 October 2019
[18] Q549 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 23 October 2019
[19] Q78 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 15 October 2019

product offerings, enabling it to offer unique holidays to its customers. The expansion of the owned hotel portfolio and cruise ships helped to reduce the exposure of Tui to changes in trading conditions.

> *'This reinforces the importance of TUI's transformation away from the traditional tour operator space, to become an integrated provider of holiday experiences, and which helps to mitigate continued market challenges.'*[20]

Thomas Cook did try to follow Tui and grow its own-brand hotel business through 'Cook's Club'[21] but it was behind its competitors in doing so and ultimately too late to impact its business model.

The obfuscating effect of separately disclosed items

In contrast to other recent corporate failures, the indicators were clear for those who wished to see them. The auditors specifically drew attention to the separately disclosed items alongside the sensitivity of goodwill to changes in assumptions and in 2018 the application of the going concern concept and the reset of banking covenants (Case Exhibit 2). In fact, a material audit adjustment of £35m was the catalyst for alerting investors to the company's situation:

> *'It reduced the profits to £250 million for the year, and it was actually the prompt for the third profit warning.' Richard Wilson, audit partner EY*[22]

The company made extensive use of separately disclosed items to generate so-called underlying performance measures. These formed the basis of both covenant tests and most controversially[23] directors' incentive payments. For example, in 2018 there was a gap between £250m of underlying EBIT and the £87m statutory measure (Case Exhibit 5). These ongoing adjustments served to obfuscate the true performance of the company and may have delayed its demise.

> *'The special disclosed items seem to be anything but special, in that they occurred year after year adding up to a total of £1.8bn. All the special events [. . .] every year there were some different specially disclosed items which I think, helped to hide the underlying problems rather than reveal the underlying state of the company' Joint Committee Chair* [24]

Concerns related to such adjustments are raised frequently in the literature e.g. Young (2014), Smith & van der Heijden (2017). However, adjustments made to arrive at key performance indicators (KPIs) continue despite warnings that they are not audited and suffer from a lack of standardisation (Smith & van der Heijden, 2017). The use of such measures leads to a clear tension between the investor relations strategies adopted by companies and the aim of comparability of the financial accounts.

> *'In order to clarify our figures better, we felt it was good to separate the ongoing business from expenses that were one-off or expenses that had to do with the transformation of the company' Martine Verluyten, Chair of Audit Committee.*[25]

It was revealed that the auditors had also mentioned that the separately disclosed items offered the 'potential for manipulation' in the annual management letter[26].

Such measures, sometimes also referred to as alternative performance measures, have also been the focus of attention for the FRC which reported that it was a top 3 issue in its annual monitoring activity

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[20] Tui Group Annual Report 2018, p.68
[21] Thomas Cook Group plc Annual Report 2018, p.7
[22] Q226 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 22 October 2019
[23] Q531 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 23 October 2019
[24] Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 15 October 2019
[25] Q56 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 15 October 2019
[26] Q316 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 22 October 2019

for 2018/19[27]. Further, during 2020 the IASB consulted on what they term management performance measures (MPM) to address calls for increased transparency of corporate reporting and enable investors to extract the data that they require more easily (International Accounting Standards Board, 2019). The exposure draft 'General Presentation and Disclosures' is now proceeding towards an expected IFRS standard[28].

Misplaced comfort from goodwill balances

The acquisitions led to a significant level of goodwill on the balance sheet comprising 47% of total assets in 2018 (Case Exhibit 3). The audit report identifies goodwill as a key area of judgement where small changes to the valuation assumptions could result in a significant reduction in the valuation of goodwill (Case Exhibit 2).

Accounting for goodwill on acquisition often leads to significant intangible assets reported by acquisitive companies:

> *'The problem with intangible assets is that you choose as accountants to claim they are indefinite.' Select Committee Chair*[29]

The current accounting standard (IFRS3) involves significant assumptions applied by management concerning the future cash generation of the assets and is therefore sensitive to minor adjustments in the assumptions applied. This leads to a significant proportion of the valuation being attributed to a perpetuity calculation. Such techniques have been implicated as a contributing factor in prior corporate failures e.g. Carillion plc. As an indicator of the difficulty of accounting for goodwill on acquisition, accounting rules have varied over time as various drawbacks of each approach have been identified (Amel-Zadeh, et al., 2016). In 2020 the International Accounts Standards Board (IASB) reopened the discussion by issuing a consultation paper[30], indicating that the discussion regarding the utility of the current accounting disclosures continues. A review of accounting for goodwill was also recommended by the Parliamentary joint committee[31].

Despite all the operating problems at Thomas Cook, the goodwill on acquisition had not been written down since 2012. The company's management conceded that goodwill was not written down in 2018 based on the:

> *'assumption of a 28% growth in earnings in each year for three years and yet six months later you wrote down the goodwill of the group by over £1billion.' Antoinette Sandbach MP*[32]

The disclosure in the 2018 Annual Report links the assumptions to the success of the then-current turnaround plan[33]. However, Thomas Cook could be said to have been executing turnaround plans continually since 2011, none of which delivered their ambitions. The auditors had highlighted the reliance on assumptions as part of the Principal Audit Risk disclosure (Case Exhibit 2), however as in the case of Carillion, very soon after the Annual Report was published an impairment was recognised which reflected the operating challenges of the company and signaled externally the extent of the problems (Case Exhibit 6).

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[27] FRC Developments in Financial Reporting 2019 https://www.frc.org.uk/getattachment/b3b6cd43-7ade-4790-959e-3b84d59a7253/Developments-in-Corporate-Reporting-2019-FINAL-Full.pdf
[28] https://www.ifrs.org/projects/work-plan/primary-financial-statements/
[29] Q351 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 22 October 2019
[30] https://www.ifrs.org/projects/work-plan/goodwill-and-impairment/#current-stage
[31] Annex: Conclusions and recommendations
[32] Q 29 Business, Energy and Strategy Committee, Oral evidence: Thomas Cook, HC 39 15 October 2019
[33] Thomas Cook Group plc Annual Report 2018, p.143

The Committee recommendations concluded that the Thomas Cook case echoed similar systemic issues it had previously identified and which reforms seem slow to address:

> *'We are frustrated that the industry appears to have failed to acknowledge that it has been complicit in a string of corporate failures, including BHS and Carillion.'*[34]

Thomas Cook Returns

Since the failure, Fosun International, a Chinese conglomerate and former investor in the company, bought the Thomas Cook brand from the liquidator and relaunched it in September 2020. Thomas Cook Holidays is now an online travel operator, having made the tra4nsition from store to the web in the most dramatic manner.

Lessons learned?

Investigating and addressing the issues involved in corporate failure is painfully slow. Little progress has been made to date:

- The BEIS Select Committee work was truncated by the 2019 general election[35].
- The National Audit Office investigated the government's response to Thomas Cook's failure, reporting its findings in March 2020[36].
- The sector continues to await the outcome of the Financial Reporting Council (FRC) investigations started in 2019[37].
- The failure also resulted in approximately £350m[38] of claims from holidaymakers to the Air Travel Operators Licence (ATOL) scheme. The ATOL scheme is a UK financial protection scheme for package holidays required by law and designed to protect consumers from being stranded overseas if travel operators fail during their holidays. It is funded by a per customer levy. In 2021 the CAA launched a consultation on changes to the ATOL scheme, largely to address the consequences of the Thomas Cook failure (Case Exhibit 7).

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[34] https://old.parliament.uk/documents/commons-committees/business-energy-and-industrial-strategy/Correspondence/2019-20/Annex-recommendations.pdf

[35] https://old.parliament.uk/documents/commons-committees/business-energy-and-industrial-strategy/Correspondence/2019-20/Annex-recommendations.pdf

[36] Investigation into the Collapse of Thomas Cook, National Audit Office, 17 March 2020, https://www.nao.org.uk/wp-content/uploads/2020/03/Investigation-into-governments-response-to-the-collapse-of-Thomas-Cook.pdf

[37] Investigations into the audit of Thomas Cook Group plc https://www.frc.org.uk/news/december-2019-(1)/investigations-into-the-audit-of-the-financial-sta

[38] https://www.caa.co.uk/News/99--of-Thomas-Cook-claims-now-settled/?catid=159

Case Exhibit 1: Extract from Thomas Cook 2018 holiday brochure

7 nights *Bed & Breakfast*
SunConnect Liberty Hisaronu *Turkey*
Departs on 3rd May 2018
Large Double Room - 4* accommodation
- Thomas Cook Kids' Club
- Waterslides and splash area
- Stylish and contemporary rooms

Price per person (Based on 2 adults)
Fly from your local airport
£229

7 nights *All Inclusive*
Sol Cala Antena *Majorca*
Departs on 22nd May 2018
Twin Room - 3* accommodation
- 300m from the beach
- 600m from village centre
- Lively family atmosphere

Price per person (Based on 2 adults)
Fly from your local airport
£359

7 nights *Half Board*
SENTIDO Aequora Lanzarote *Lanzarote*
Departs on 10th May 2018
Double Room - 4* accommodation
- Hotel-run kids' club
- Modern and contemporary design
- Fantastic hotel-run entertainment

Price per person (Based on 2 adults)
Fly from your local airport
£449

7 nights *All Inclusive*
SENTIDO Mamlouk Palace *Red Sea Riviera*
Departs on 7th May 2018
Twin Room - 4* accommodation
- Set on the beachfront
- Free use of waterpark at sister hotel
- Two outdoor swimming pools

Price per person (Based on 2 adults)
Fly from your local airport
£549

7 nights *All Inclusive*
Playa Olid with Siam Park *Tenerife*
Departs on 1st May 2018
1 Bedroom Apartment - 3* accommodation
- Unlimited access to Siam Park
- Newly refurbished
- Modern and spacious apartments

Price per person (Based on 2 adults)
Fly from your local airport
£569

7 nights *All Inclusive*
Iberostar Daiquiri *Cuba*
Departs on 9th May 2018
Twin Room - 3* accommodation
- On a white sand beach
- Two swimming pools
- Three themed restaurants

Price per person (Based on 2 adults)
Fly from London & Manchester
£759

All prices shown are based on a minimum of 2 adults sharing. Standard luggage allowance and resort transfers are included, however optional extras such as inflight meals and 'Choose Your Seat' are not included but can be added on at a supplement. Holiday is subject to limited availability and price is subject to change (up or down) without notice. Prices for other departure dates vary. All applicable savings are included. Offers can be withdrawn at any time and holidays are operated by Thomas Cook Tour Operations Ltd, ATOL protected 1179, ABTA V6896. Price is correct as of 13th February 2018.

Summer 2018

Case Exhibit 2: Principal audit risks (Audit Report extracts)

Going concern basis used in preparation of the Annual Report & Accounts

'The Group's Annual Report & Accounts are prepared on the going concern basis of accounting. This basis is dependent on a number of factors, including the Group's trading results, the Group's continued access to bank borrowing facilities and the Group's ability to continue to operate within its financial covenants. The Group's borrowing facilities are subject to financial covenants tested quarterly on a rolling 12-month basis. These consist of a leverage covenant and a fixed charge covenant. The leverage covenant is a measure of profit before separately disclosed items as disclosed in the financial statements, interest, tax, depreciation, amortisation, aircraft operating lease rentals and other exceptional items which the Company determines are material and of an unusual or non-recurring nature compared to net debt. The fixed charge covenant is a measure of profit before separately disclosed items as disclosed in the financial statements interest, tax, depreciation, amortisation, operating lease charges and other exceptional items which the Company determines are material and of an unusual or non-recurring nature compared to net interest and operating lease charges. During the year, the Group received agreement from Lenders to reset the leverage covenants for the first two quarters of FY19 and FY20 respectively in order to secure additional headroom. Covenants in the last two quarters of FY19 remain tight, but pass under management's severe but plausible scenarios.'

Classification of separately disclosed items (£179m, FY17: £140m)

'The Group separately discloses items in the income statement that are considered material either because of their size or their nature, or which are non-recurring. Management considers that separate reporting helps provide a full understanding of the Group's performance. Underlying EBIT which excludes separately disclosed items forms part of the basis for determining the Group's compliance with key banking covenants. Separately disclosed items are not defined by IFRS and therefore considerable judgement is required in determining the appropriateness of such classification. Consistency in items treated as separately disclosed is important to maintain comparability of reporting year-on-year.'

Carrying value of goodwill (£2,585m, FY17: £2,627m)

'The Group holds significant goodwill on the balance sheet. The Group's business is geographically diverse and the changing geopolitical environmental and economic landscape will continue to influence business performance and could impact the carrying value of goodwill. The annual impairment test of goodwill includes several key areas of estimation and judgement over the future performance of the business and specific assumptions such as discount rates and terminal growth rates. Changes to these assumptions or adverse performance could have a significant impact on the available headroom and any impairment that may be required.'

Source: Thomas Cook Group 2018 Annual Report, p.111

Case Exhibit 3: Thomas Cook Accounts (extracts from Annual Reports)

Consolidated income statement

£m	2014	2015	2016	2017	2018
Revenue	8,588	7,834	7,812	9,007	9,584
Cost of sales	-6,720	-6,062	-5,990	-7,014	-7,651
Gross profit	1,868	1,772	1,822	1,993	1,933
Personnel expenses	-939	-886	-921	-1,003	-1,071
Depreciation and amortisation	-173	-175	-204	-222	-219
Net operating expenses	-633	-478	-477	-520	-589
Loss on disposal of assets	-19	-13	-9	-9	41
Impairment	-50	-9	-6	-8	-8
Profit/loss from operations	54	211	205	231	87
Share of results from associates and joint ventures	2	1	-1	-1	10
Profit on sale of associated undertaking		7			
Net investment income			1		
Finance income	10	10	6	4	5
Finance costs	-180	-179	-169	-188	-155
Profit/loss before tax	-114	50	42	46	-53
Tax	-1	-31	-33	-34	-110
Profit after tax	-115	19	9	12	-163

Consolidated balance sheet

£m	2014	2015	2016	2017	2018
Non-current assets					
Intangible assets	2,873	2,794	3,077	3,136	3,104
Property, plant and equipment					
Aircraft and aircraft spares	578	605	627	581	568
Other	177	202	222	139	150
Investments in Associates	14	4	8	6	85
Other investments	1	1	1	1	1
Deferred tax assets	195	197	228	216	117
Pension asset		50	52	123	279
Tax assets	2				
Trade and other receivables	106	55	58	65	83
Derivative financial instruments	19	15	26	6	14
Total non-current assets	3,965	3,923	4,299	4,273	4,401
Current assets					
Inventories	34	32	43	42	44
Tax assets	3	3	4	1	
Trade and other receivables	705	585	688	735	811
Derivative financial instruments	68	114	145	56	219
Cash and cash equivalents	1,019	1,301	1,776	1,407	1,039
Assets classified as held for sale	0		0	101	55
Total current assets	1,829	2,035	2,656	2,342	2,168
Total assets	5,794	5,958	6,955	6,615	6,569

Current liabilities	**2014**	**2015**	**2016**	**2017**	**2018**
Retirement benefit obligations	-1	-7	-8	-9	-9
Trade and other payables	-2,083	-1,979	-2,177	-2,343	-2,314
Borrowing	-449	-219	-891	-245	-184
Obligations under finance leases	-34	-35	-42	-39	-34
Tax liabilities	-15	-22	-40	-57	-57
Revenue received in advance	-999	-1,117	-1,251	-1,355	-1,390
Short-term provisions	-247	-147	-138	-168	-214
Derivative financial instruments	-66	-176	-83	-109	-20
Total current liabilities	-3,894	-3,702	-4,630	-4,325	-4,222
Non-current liabilities					
Retirement benefit obligations	-447	-322	-501	-439	-435
Trade and other payables	-90	-79	-105	-25	-24
Long-term borrowings	-715	-1,038	-847	-1,047	-1,028
Obligations under finance leases	-147	-148	-141	-115	-182
Non-current tax liabilities	-21	-22	-31	-7	-11
Deferred tax liabilities	-49	-46	-51	-61	-88
Long-term provisions	-143	-210	-255	-307	-282
Derivative financial instruments	-3	-23	-3	-9	-6
Total non-current liabilities	-1,615	-1,888	-1,934	-2,010	-2,056
Total liabilities	-5,509	-5,590	-6,564	-6,335	-6,278
Net assets	285	368	391	280	291
Equity					
Share capital	69	69	69	69	69
Share premium	435	524	524	524	524
Merger reserve	1,547	1,547	1,547	1,547	1,547
Hedging and translation reserve	133	-12	115	8	116
Capital redemption reserve	8	8	8	8	8
Retained earnings	-1,907	-1,778	-1,889	-1,867	-1,965
Investment in own shares	-38	-18	-8	-8	-8
Equity attributable to shareholders of the parent	247	340	366	281	291
Non-controlling interests	38	28	25	-1	0
Total equity	285	368	391	280	291
Extracts from the notes to the accounts					
Average payable days	72	83	97	82	72

Consolidated cash flow statement

£m	2014	2015	2016	2017	2018
Loss/Profit before tax	-114	50	42	46	-53
Adj for					
Net finance costs	170	169	163	184	150
Share of results of JVs and Associates	-2	-1		1	-10
Increase in provisions	-51	-55	1	20	37
Depreciation, amortisation and impairment	233	184	216	238	264
(Profit)/loss on disposal of subsidiaries and fixed assets	19	13	9	9	-41
Share-based payments	4	1	1	3	5
Profit on sale of associates		-7			
Additional pensions contributions	-26	-28	-29	-28	-28
Interest received	9	10	6	4	5
(Increase)/decrease in working capital					
Inventories	-8	0	-7	2	-2
Receivables	86	139	-97	-110	-129
Payables	47	17	101	164	-20
Cash Generated from operations	367	492	406	533	178
Income taxes paid	-32	-18	-15	-37	-39
Net cash generated from operating activities	335	474	391	496	139
Proceeds on disposal of PPE	2	3	9	7	6
Proceeds on sale of subsidiaries	78				1
Proceeds on sale of non-current assets held for sale					6
Proceeds on sale of associates		17			
Dividends from associates	2				
Investment in JV and associates			-3		-6
Investment in subsidiaries	-4				
Purchase of tangible assets	-118	-130	-117	-132	-123
Purchase of intangible assets	-38	-70	-89	-74	-87
Net cash used in investing activities	-78	-180	-200	-199	-203
Dividends paid to non-controlling interests	-4	-6		-32	
Dividends paid				-8	-9
Interest paid	-139	-134	-135	-144	-135
Draw down of borrowings	125	561	157	1,011	688
Repayment of borrowings	-208	-450	-340	-948	-759
Payment facility set-up fees		-18		-10	-27
Shares purchased by Employee Benefit Trust	-9				
Net proceeds on issue of ordinary shares	1	92			
Repayment of finance lease obligations	-44	-35	-38	-44	-39
Net cash used in financing activities	-278	10	-356	-175	-281
Net (decrease)/increase in cash and cash equivalents	-21	304	-165	122	-345
Cash, cash equivalents and overdrafts at the beginning of the year	1,090	1,017	1,286	1,234	1,399
Effect of foreign exchange	-52	-35	113	43	-16
Cash, cash equivalents and overdrafts at the end of the year	1,017	1,286	1,234	1,399	1,038

Cash flows from financing activities					
Draw down of bank and other loans	277.2	-171	14.7	-19	6.7
Payment of finance lease liabilities	-16.8	-16.7	-9.2	-6	-7.4
Acquisition of own shares	-3	-2.2	-0.5	-0.4	-1
Payment to employees in settlement of share options	-0.8	-0.3			
Dividends paid to equity holders of parent	-70.4	-74.6	-75.7	-76.8	-78.9
Dividends paid to non-controlling interests	-8.2	-1.1	-1	-3.2	-3.8
Net cash flows from financing activities	**178**	**-265.9**	**-71.7**	**-105.4**	**-84.4**
Increase in net cash and cash equivalents	166.7	-237.1	52.9	-6.1	-10.9
Net cash and cash equivalents at 1 January	487.7	652.2	410.4	465.8	455.8
Effect of exchange rate movements	-2.2	-4.7	2.5	-3.9	22.8
Net cash and cash equivalents at 31 December	**652.2**	**410.4**	**465.8**	**455.8**	**467.7**

Case Exhibit 4: Tui Group AG

TUI is the leading tourism group with a portfolio ranging from tour operators, travel agencies, online portals, airlines, hotels and cruise ships. It serves around 27 million customers annually.

TUI Group was created in 2014 from the merger of Tui AG and Tui Travel plc. The company is the product of an acquisitive past, having entered the travel market in 1997 with the acquisition of Hapag-Lloyd in Germany and a reshaping to acquire further well-known travel brands including Thomson, Nouvelles Frontières and Fritidsresor amongst others. Tui Travel plc was created in 2007 by the merger of First Choice Holidays plc and the tour operating business of Tui AG.

Tui Group AG Financial statements (extracts from Annual Reports)

Consolidated income statement

EURm	**2014**	**2015**	**2016**	**2017**	**2018**
Revenue	18,714.7	17,515.5	17,184.6	18,535	19,523.9
Cost of sales	-16,436.6	-15,549.5	-15,278.1	-16,535.5	-17,542.4
Gross profit	2,278.1	1,966	1,906.5	1,999.5	1,981.5
Admin Expenses	-1,577.3	-1,352.6	-1,216.9	-1,255.8	-1,289.9
Other income	35.9	42.9	36.3	12.5	67.4
Other expenses	-2.1	-5.7	-7.4	-1.9	-3.5
Profit/loss from operations	734.6	650.6	718.5	754.3	755.5
Financial income	36.2	35.8	58.5	229.3	83.8
Financial expenses	-305.2	-364.5	-345.9	-156.2	-165.5
Share of JV and associates	40	143.9	187.2	252.3	297.7
Profit/loss before tax	505.6	465.8	618.3	1079.7	971.5
Tax		-58.2	-153.4	-168.8	-191.3
Profit after tax	505.6	407.6	464.9	910.9	780.2
Result from discontinued operations		-28	687.3	-149.5	38.7
Profit	505.6	379.6	1152.2	761.4	818.9

Consolidated balance sheet

EURm	2014	2015	2016	2017	2018
Non current assets					
Goodwill	3,136.2	3,220.4	2,853.5	2,889.5	2,958.6
Other intangible assets	933.5	911.5	545.8	548.1	569.9
Investment property	7.7				
Property, plant and equipment	2,836.6	3,636.8	3,714.5	4,253.7	4,899.2
Investments in joint ventures and associates	988	1,077.8	1,180.8	1,306.2	1,436.6
Financial assets available for sale	62.7	56.2	50.4	69.5	54.3
Trade receivables and other assets	368.1	332.5	315.3	211.8	287.7
Touristic prepayments				185.2	157.3
Derivative financial instruments	76.3	48.1	126.8	79.9	83.2
Income tax assets					9.6
Deferred tax assets	238.1	330.7	344.7	323.7	225.7
Total non-current assets	8,647.2	9,614	9,131.8	9,867.6	10,682.1
Current assets					
Inventories	126.5	134.5	105.2	110.2	118.5
Financial assets available for sale	300	334.9	265.8		
Trade and other receivables	1,917.8	1,948.7	1,320.1	794.5	981.9
Touristic prepayments				573.4	720.2
Derivative financial instruments	171.4	281	544.6	215.4	441.8
Income tax assets	94	58.5	87.7	98.7	113.8
Cash and cash equivalents	2,286	1,672.7	2,072.9	2,516.1	2548
Assets classified as held for sale	483.3	42.2	929.8	9.6	5.5
Total current assets	5,379	4,472.5	5326.1	4,317.9	4,929.7
Total assets	14,026.2	14,086.5	14,457.9	14,185.5	15,611.8
Current liabilities					
Pension provisions and similar obligations	32.1	32.4	40.6	32.7	32.6
Other provisions	472	463.4	374.8	349.9	348.3
Financial liabilities	214.5	233.1	537.7	171.9	192.2
Trade payables	3,301.2	3,224.2	2,476.9	2,653.3	2,937.3
Touristic advance payments received				2,446.4	2,551
Derivative financial instruments	242	388.2	249.6	217.2	65.7
Income tax liabilities	101.5	78.9	196	65.3	86.2
Other liabilities	3,152	3,247.3	2,872.4	598	674.4
Liabilities related to assets held for sale		31.5	472.3		
Total current liabilities	7,515.3	7,699	7,220.3	6,534.7	6,887.7
Non-current liabilities					
Pension provisions and similar obligations	1,242.4	1,114.5	1,410.3	1,094.7	962.2
Other provisions	601.6	746.3	803	801.4	768.1
Financial liabilities	1,748.4	1,653.3	1,503.4	1,761.2	2,250.7
Derivative financial instruments	20.7	78.5	27.5	50.4	12.8
Income tax liabilities	98.5	115.7	22.2	150.2	108.8
Deferred tax liabilities	147.3	125.7	62.9	109	184.5

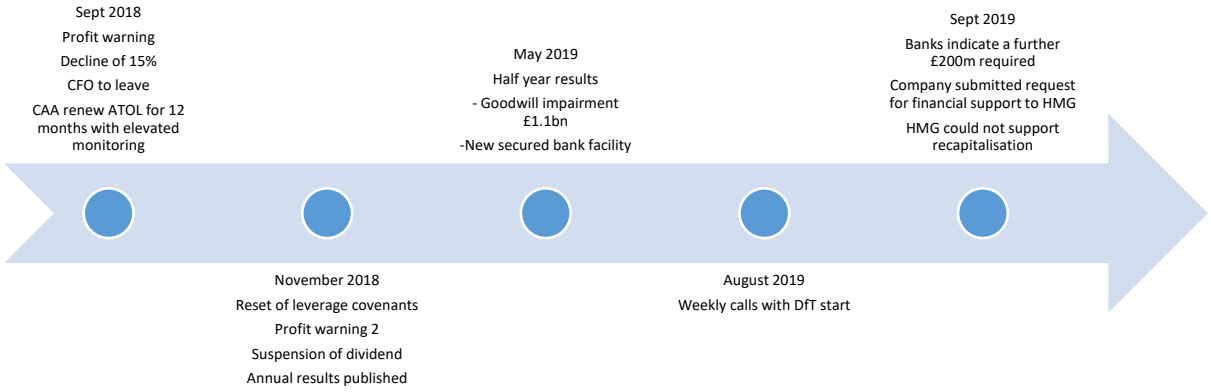
Other liabilities	134.9	136.2	160.1	150.2	103.4
Total non-current liabilities	3,993.8	3,970.2	3,989.4	4,117.1	4,390.5
Total liabilities	11,509.1	11,669.2	11,209.7	10,651.8	11,278.2
Net assets	25,535.3	25,755.7	25,667.6	24,837.3	26,890
Equity					
Share capital	732.6	1,499.6	1,500.7	1,501.6	1,502.9
Capital reserves	1,056.3	4,187.7	4,192.2	4,195	4,200.5
Revenue reserves	321.7	-3,773.9	-3,017.8	-2,756.9	-2,005.3
Hybrid capital	294.8				
Equity attributable to shareholders of the parent	2,405.4	1,913.4	2,675.1	2,939.7	3,698.1
Non-controlling interests	111.7	503.9	573.1	594	635.5
Total equity	2,517.1	2,417.3	3,248.2	3,533.7	4,333.6

Case Exhibit 5: Underlying performance

£M	2014	2015	2016	2017	2018
Revenue	8,588	7,834	7,812	9,007	9,584
Operating profit	56	212	204	230	97
Operating profit margin	0.7%	2.7%	2.6%	2.6%	1.0%
EBIT (as defined by Thomas Cook)	333	353	294	308	250
EBIT margin	3.7%	3.9%	3.5%	3.4%	2.6%

Source: Thomas Cook Group plc Annual Accounts 2018, p. 32 and Case Exhibit 1

Case Exhibit 6: Timeline to the winding up petition



ATOL – air travel organiser's licence

HMG – Her Majesty's government

DfT – Department of Transport (government department which covers air operators)

Source: Prepared by author from Liquidation of Thomas Cook Group plc, Timeline of key events https://old.parliament.uk/documents/commons-committees/business-energy-and-industrial-strategy/correspondence/Timeline-of-key-events.pdf

Case Exhibit 7: CAA proposes major changes to ATOL regime

Ian Taylor 29 April 2021

The Civil Aviation Authority (CAA) has launched a long-awaited consultation on changes to the Atol regime which includes proposals to move the sector to trust arrangements and introduce varying rates of Atol Protection Contribution (APC) on holiday bookings.

The CAA consultation document proposes a number of ways to improve "financial resilience" including the segregation of customer advance payments in trust or escrow accounts, although the regulator could allow what it calls "partial segregation".

The APC on bookings, which finances the Air Travel Trust to repatriate and refund customers when an Atol holder fails, could change from the current £2.50 rate to a variable payment depending on the extent to which customer money is segregated – partially or in total.

The APC rate could also vary according to the level of 'financial risk' a company presents, as assessed by the CAA, or the value of a booking – meaning the APC on a luxury holiday or cruise could be higher than on a short break.

Most travel firms operating trust arrangements at present use a system of partial segregation in order to be able to pay suppliers, typically low-cost airlines, at the time of booking.

The consultation gives no indication as to whether the overall rate of APC will increase, although this is widely expected after the failure of Thomas Cook in 2019 largely wiped out the Air Travel Trust fund which contained just £35 million last November.

The CAA proposes that trust or escrow arrangements could be backed by bonds in a 'hybrid' system of protection.

The authority said the proposed changes would improve "direct protection of consumers' money and the financial resilience of the Atol scheme".

The consultation document notes: "There are two principal problems:

"Many travel businesses are highly reliant on customer money as a source of funding working capital and are not strongly capitalised enough in their own right.

"And the APC they incur may not be reflective of the risk individual Atol holders or the value of bookings pose."

The CAA points out that some Atol-protected travel businesses "use customers' advance payments for holidays to fund their operations, before customers have had their holidays".

It notes that using "customers' advance payments for holidays to fund [travel firms'] operations" is a long-standing practice in the industry, but said: "It may fail to incentivise sufficiently robust financing arrangements."

The regulator added: "The Covid-19 pandemic has also highlighted how challenging it was for some businesses to pay customers the refunds to which they were entitled."

The CAA also asks whether 'pipeline monies' received by travel agents on behalf of Atol holders should be segregated.

The CAA stresses this is an initial consultation to assess the industry response and a second consultation on detailed proposals will follow early next year.

The consultation will close on July 30.

CAA director Paul Smith said: “The Atol scheme exists to protect consumers and it is therefore right that we work to continually strengthen its financial resilience.

“Following several large Atol failures in recent years, we have become concerned about the impact of businesses using consumers’ money as a source of funding working capital.

“That is why we are seeking people’s views on changing these arrangements to further enhance Atol protection of customers’ money.

“The travel industry can be reassured we understand the impact the Covid-19 pandemic has had on their finances.

“We will take full account of the need to allow industry to adjust to any new arrangements that will be implemented following the overall consultation process.”

Source: https://travelweekly.co.uk/news/air/caa-proposes-major-changes-to-atol-regime

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