

# Question and Answer

## Operator

[Operator Instructions] Your first question comes from the line of Marcus Curley from UBS.

### Marcus Curley

*Goldman Sachs Group Inc., Research Division*

Could I just start with a couple of questions? On duty free, could you give us a little bit more detail around the assumptions behind the \$5 million uplift? Specifically, does that include any passenger volume growth within that number? Or is it simply an uplift in rental levels or turnover levels? Is it backed by minimum rental guarantees? And does it incorporate any specialty stores outside of, let's say, the standard duty free offering?

### Adrian Littlewood

*Chief Executive Officer*

Marcus, [indiscernible] -- thanks for that. Look, it's all of those things, actually. So look, and literally it's part of duty free. A bid like this, you go through a very detailed process and you receive the bids and often [indiscernible] part of that obviously. But obviously, we're looking at both, all the elements, whether it's passengers, whether it's new concessions and downstream impacts. So it's all those things.

And just to pick up your point on specialty. You threw out some other impacts and other specially elements that play into that net impact. So we've accounted for some other changes, especially that have come through and accounted for that in the guide on the \$5 million net.

### Marcus Curley

*Goldman Sachs Group Inc., Research Division*

So just to be clear, you're guiding for a collective increase in duty free revenue, including passenger growth and higher spend rates in additional space of \$5 million?

### Adrian Littlewood

*Chief Executive Officer*

Yes.

### Marcus Curley

*Goldman Sachs Group Inc., Research Division*

And I started -- just an extension of that, that they're probably tendered on the basis of the broader plan to expand the footprint, which you've sort of alluded to as part of the longer-term plan with the airport and international terminal. When do you think you're going to be in a position to give us a bit more color in terms of what you're thinking there?

### Adrian Littlewood

*Chief Executive Officer*

Oh, absolutely, that's right. They tendered based on that. If you're talking about color in terms of what it looks like and the shape and the form, look, obviously, we need to go through the process of working through with the other stakeholders. And there's a lot of work to do there around the other parts of the expansion. So that's the first priority. That has to happen first, and we'll -- as soon as we're able to, we'll be able to share some of that.

But just to give you a sense in terms of duty free. It is anticipating an uplift, and certainly in terms of the space allocated to duty free. And so that's an important part of the overall bid that the tenders put forward.

### Marcus Curley

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*Goldman Sachs Group Inc., Research Division*

By the sounds of your CapEx comments, you wouldn't be expecting to see any of this, let's say, expanded space available in the next few years. It's certainly a medium-term plan here?

**Adrian Littlewood**

*Chief Executive Officer*

Yes, look, highly [indiscernible] at this stage and obviously, subject to the project being refined down deep-level [ph] design. Broadly, we think onstream in terms of the new space around the end of 2016, early 2017 calendar year.

**Marcus Curley**

*Goldman Sachs Group Inc., Research Division*

Okay. And then, just my other question just on project related. Could you also provide any sort of update on the domestic terminal in terms of, again, when you're likely to provide, let's say, some more specific color on what that project is likely to look like? And when is it likely to commence and finish?

**Adrian Littlewood**

*Chief Executive Officer*

Yes, look, Marcus, there's a lot of work to go on in that front yet. And again, we've got to do a lot of work, both internally and with all the stakeholders involved with the airport before we can release some of that.

I think broadly, we're still saying around 5 years' time, that 2020 mark for the domestic processes [ph] to come on board. But again, how that will unfold, still to be worked through. There's an awful lot of parts -- moving parts for that. So as soon as we're ready to share that, we will. But it's got to be done in a proper process.

**Operator**

Your next question comes from the line of Grant Swanepoel from Craigs Investment Partners.

**Grant Swanepoel**

*Craigs Investment Partners Limited, Research Division*

My first question is just a follow-on from Marcus'. The last time we had a discussion, it looked like the duty free space would grow by about 13% in this new expansion. Is that still on track? And if that is, this new duty free contract you say is \$5 million in FY '16, with those changes occurring in '17, would you get some new tenancy income immediately in '17, '18? Or does that \$5 million take that into account on a normal run-rate-type basis?

My second question is on the tobacco impact on the retail growth. You [ph] only give us a bit of an idea of what the spend per passenger was x tobacco and including tobacco. Can you give some commentary on that?

And in terms of car parks, can you give us an idea what's happened to yields? How far they dropped down with all the extra capacity that you've put online and give us a feeling where that is?

And last question is on the Commerce Commission. The last comments we got from them was that something would be said in first quarter of this year calendar year. Have you heard anything from the Com Com on the review of your work?

**Adrian Littlewood**

*Chief Executive Officer*

All right. We'll try and tackle those. We might take tag team on some of those. So look, on the sake of the duty free, look, it is a significant uplift in duty free. 30%, it's probably a bit north of that in terms of total space, and it does effect the shape of the commercials as well. Obviously, we don't talk about that publicly because that's confidential. But the additional space, we'll see -- and post-redevelopment we'll see

a significant expansion on the duty free, which means new services, new brands and new spend that will follow with that.

In terms of PSR, I think Simon mentioned before, you said actually a pleasing result in PSR. And this is across the airport, I would say. And that's largely -- it's partly down to some stellar performance from other categories outside of duty free. So obviously, duty free was impacted by tobacco, but I think the duty free operators did a pretty good job of dealing with that and driving sales hard in the other categories in duty free, just to offset the -- a lot of the impact of tobacco. We still have to wait and see how that unfolds in the full year.

But for example, in specialty, we saw strong double-digit growth continued in specialty categories, F&B, again, strong performance and growth there, which I think has been fantastic, well ahead of passenger growth. So I think those things have helped overall PSR performance in the period. And in fact, in December we had our record month ever for sales at the international terminal across categories. So I think it's a very strong sign for the future.

On car park yields, Simon, you're want to touch on it?

**Simon D. Robertson**

*Former Chief Financial Officer*

So car park yields have grown. So average transaction values, up just over 2%. So the increase in the space hasn't impacted our average transaction values in this 6-month period. We think we can do better in terms of full utilization of the space that has just been created. So we'll continue to develop that part of the product along side the valet product, which also enables us to utilize space better.

On the Commerce Commission, no, we haven't heard anything further at this stage.

**Grant Swanepoel**

*Craigs Investment Partners Limited, Research Division*

And if I could just push you a bit harder on -- you have in the past, let's say, you do track the international -- given the international percentage change impact -- both impacts on tobacco included and excluded, are you no longer going to be giving that information out?

**Simon D. Robertson**

*Former Chief Financial Officer*

I suppose, ultimately, we -- Simon here, Grant. So we had [indiscernible] it in the past, but it wasn't trying to not show anything. It was a -- it's just what was most relevant, we thought, for this particular period. It certainly impacts [ph] on the duty free team. But as I said, we've had 5 months now of PSR growth, excluding tobacco, and 5 months where there's just a very modest lift in passenger spend rate for the last 5 months, including tobacco with that.

**Operator**

Your next question comes from the line of Paul Turnbull from First NZ Capital.

**Paul Turnbull**

*Jarden Limited, Research Division*

Just another question, I guess, on retail. Just to clarify your original expectation were for an annualized revenue impact from the tobacco concessions of between \$7 million and \$8 million, is that in line with what you're saying?

**Adrian Littlewood**

*Chief Executive Officer*

Look, that was -- Paul, Adrian here. Look, that was the original estimate. I guess, what we didn't know was how other categories would perform on that. So that original estimate still remains pretty accurate, I think, overall. But what we've obviously been focusing on is how do we drive harder the other categories.

**Paul Turnbull**

*Jarden Limited, Research Division*

Right. The second, when you're talking further about, I guess, a weaker retail performance and at the last result, you mentioned a negative impact was the weak Aussie dollar against the kiwi. Is that a sign that's continued to impact during the long performance in retail? Or are there other trends in play?

**Adrian Littlewood**

*Chief Executive Officer*

Look, it probably has had a little bit of an impact. I think tobacco's probably been the bigger driver in terms of this performance. I think, overall, the underlying theme is still the pivot toward the Asian markets and the spin rates that go on there. Australia has been -- continues to be a bit flat, but we worked really hard with them on making sure the retailers were competing appropriately against the Aussie market, dealing with that change in currency. So look, we don't really have anything yet additional to add on that right now, but it's something we're watching closely.

**Paul Turnbull**

*Jarden Limited, Research Division*

Sure. Final question. You mentioned about improving load factors across your international capacity. At the same time, you've got lower fuel costs, materially so. And you're exposed to actual [ph] long-haul routes quite heavily. I mean, how are discussions going? Obviously, you talk about your capacity growth with Asian routes, but how are things looking, perhaps, in some of the other regions in terms of potential new capacity and new airlines coming onboard?

**Adrian Littlewood**

*Chief Executive Officer*

Look, Paul, it's one of the things we constantly do. Look, what I would say just on fuel is we always think of fuel multiplied or combined with our new fleet. So 787s, A350s are all rolling out and rolling off the assembly line into the airline's service air markets. And the combination of lower fuel plus a more efficient plane can only be a good thing for New Zealand. As you say, it's a long-haul destination.

So look, eventually we'll see how the airlines go. So the early signs are they're interested in returns to shareholders initially. But our sense is they will also quickly look for growth in other markets. And so, again, I think that's a good thing for New Zealand [indiscernible].

**Operator**

Your next question comes from the line of Andy Bowley from Forsyth Barr.

**Andrew James Bowley**

*Forsyth Barr Group Ltd., Research Division*

Look, a couple of questions, and the first really searching back to something you talked about already around retail. And just to absolutely clarify in terms of the \$5 million uplift, are you effectively saying that whatever we make in fiscal '15, in terms of guidance for fiscal '16, just add \$5 million? Or is there other things that we should be concerned about or put into our modeling from the point of view of specialty growth outside of these specific duty free and specialty-related contracts?

**Adrian Littlewood**

*Chief Executive Officer*

Yes, it's a good point, Andy. Adrian here. Just to clarify. So the guide we had on that \$5 million impact, it's almost duty free plus some other changes. There can be and there will be other changes in retail that could change that result for positive or negative. Again, one of the things we said is [indiscernible] how the tobacco continues to impact our numbers. We've thought about that. But we -- there are also other specialty change outs that we'll continue to make, F&B changes that we're always looking at. So there is potentially some other opportunities there I think as well.

**Andrew James Bowley**

*Forsyth Barr Group Ltd., Research Division*

But does the \$5 million include effectively your expectations around passenger growth for the -- or the passenger growth impact on the whole of retail or just the specific contracts?

**Adrian Littlewood**

*Chief Executive Officer*

No, it's more connected to duty free and the other downturn impacts associated with our [indiscernible] business.

**Andrew James Bowley**

*Forsyth Barr Group Ltd., Research Division*

So if we've got specialty concessions outside of these specific contracts, assuming that we get further passenger growth, we're still going to see an uplift in terms of retail income from those other areas as well.

**Adrian Littlewood**

*Chief Executive Officer*

Well, that's possible and also passenger mix and the consequence being the counter on that.

**Andrew James Bowley**

*Forsyth Barr Group Ltd., Research Division*

Okay. So you -- I guess, in effect, from a retail income point of view, you'd be disappointed if retail income only went up \$5 million next year.

**Adrian Littlewood**

*Chief Executive Officer*

Andy, our aspirations are always high and we'll look at continued...

**Andrew James Bowley**

*Forsyth Barr Group Ltd., Research Division*

Assuming you've got passenger growth, that is.

**Adrian Littlewood**

*Chief Executive Officer*

Of course. Yes, that's right. And I guess what we're seeing is in this part of the year, that growth has continued. Obviously, we'll have to watch as it unfolds through this year. But signs like China Southern extending year-round the double-daily service is a good sign for us. Again, we can't predict what it's going to actually turn out, all right? But those are signs for the future.

**Andrew James Bowley**

*Forsyth Barr Group Ltd., Research Division*

And then searching back again in terms of the timing of retail expansion and the immigration whole [ph]. Previously, you talked about doing it in a couple of stages, with the first stage being ready for next peak season. Is that still the case in terms of the duty free expansion before you move on to...

**Adrian Littlewood**

*Chief Executive Officer*

Two parts of the duty free. So obviously 1 July is the initial change out, and the duty free tender is -- the successful bidders have some plans already in place around how they would adjust the space that's already there and the brands they would have. And that's an important part of their overall bid and plan for us and we looked at it very closely. So that's stage 1.

And then stage 2, we've been ultimately moving into the new space, the significantly expanded space. And that's, as I said earlier, that's probably around the end of calendar 2016, early 2017.

**Andrew James Bowley**

*Forsyth Barr Group Ltd., Research Division*

Okay. So it kind of sounds like there's been a bit of a delay on that from the -- what you've talked about before.

**Adrian Littlewood**

*Chief Executive Officer*

No, look, no, I don't think so. I think it's -- these things are, again, complicated. I think we always see it around the 2016 period, early 2017 period for the new space. And 1 July is obviously the change out date. So that's the -- a fairly firm date.

**Andrew James Bowley**

*Forsyth Barr Group Ltd., Research Division*

Do you anticipate doing all of the retail expansion at the same time for that early 2017? Or is there going to be another stage in addition to that?

**Adrian Littlewood**

*Chief Executive Officer*

Duty free will come first and then the others will follow. And just like last time we did the retail expansion in change, it unfolded in stages. And it's purely for construction and operational management.

**Andrew James Bowley**

*Forsyth Barr Group Ltd., Research Division*

So the final completed changes, due early calendar 2018.

**Adrian Littlewood**

*Chief Executive Officer*

No, probably more like 2017 calendar, sort of middle, later that year.

And with it obviously, the -- currently as planned, got uplift in additional specialty space as well. So that's something we're working hard on.

**Andrew James Bowley**

*Forsyth Barr Group Ltd., Research Division*

Great. Then you made a comment before about aero CapEx being -- [indiscernible] in the pricing disclosures. What about other CapEx over the next few years? I recognize that you've got discussions with stakeholders around the combined terminal with regards to goes into [indiscernible] and what doesn't. But can you give us some flavor as to what we can expect in the next year from other CapEx?

**Adrian Littlewood**

*Chief Executive Officer*

Yes, look, it very much depends on the sequencing of the projects, the scale of projects. And those all are subject to discussions with stakeholders and plans. So very hard to predict what that looks like. Obviously, we've got a view on how we'd like to see it unfold. We've got to see how that plays out with the projects themselves. We've guided on, clearly, on the current period, on the aero, 2017.

But I'll just step back for a minute and just look ahead for this year. We probably see a lift, a slight lift in CapEx for this year. But that's very -- directly connected to the property story I talked about before. So that's driving a lift in CapEx for this year.

**Operator**

[Operator Instructions] There appears to be no other questions at this time. Mr. Littlewood, please continue.

**Adrian Littlewood**

*Chief Executive Officer*

Look, I just wanted to thank everyone for joining today. Again, apologies for this late start. But thank you for your time, and we look forward to speaking to some of you later today. Thank you.