

Minutes of the Special General Meeting of YHA New Zealand
held via Zoom on
Tuesday 27 August 2024, commencing at 4:10pm



Members present

- Board Members: Darin Cusack, Mark Ebrey, Vivien Jones, Maureen McCloy, Luke Tarplett and Nancy Ward.
- Other Members: Megan Balks; Cynthia Bates; Anthony Bayer; Dave Berry; Sally Brodie; Chris Burns; Valerie Carter; Bruce Cox; Pauline Coy; John Dale; Carol Daniel; Michael Dempsey; Andrew Dinsdale; Julian Doorey; Eric Fobert; Warwick M Goold; Gary Gower; Chris Graveston; Ken Griffin; Harry Guitry; Simon Hayman; Katharina Hecht; Anne Henderson; Victoria Heslop; Steve Kelsen; Coral Laughton; Ardeth Lobet; John McCarthy; Robert Michael McKeown; Ben Mitchell, Tjerk Oosterhuis; Jaired Pang; Nico Poultney; Paul Reid; Ben Schepp; Cathy Simmons; Markus Szillat; Penmuk Szillat; Wendy Wallace; Roger Wanless; Bruce Ward; Peter Washington; Deborah Williams; Linda-Jean Young;

In Attendance

- Leiali Al-Afrangi (Administration and Communications Coordinator), Richard Lingard (Systems & Performance) and Chris Sperring (National Secretary and General Manager),
- George Forbes (Rhodes and Co., Lawyers), and David Webb (Deloitte, Financial Advisor).

Apologies

- Susan Aitken; Jane Beange; Cathy Bendig; John Archer Bryan; Pat Campbell; Rita Carter; Clive Croy; Neil Curtis; Melvan Earle Driscoll; Kathleen Drum; Susan Ewart; Peter Fleming; Kev Fourie; Ali Goodall; Terry Goodall; Margaret Gordon; Hayley Groves; Gunther Hammer; Ellen Hume; Fergus Kennedy; Alexa Kidd; Joy Lamb; Cissy Leaf; Kreig Leitchze; Ian Lothian; Gythlian Loveday; Chris Manson; Beryl Maultby; Bernadette McKeany; Warren McMillan; Adrienne Melton; Bob Momich; Susan Morris; Clayton Murray; Kai Nau; Tony Ogilvie; Jane Pairman; Monica Parrott; Matt Parkes; Shona Paton; Richard Pearson; Bernie Ranford; Laurie Renwick; Christopher John Robb; Lyn N Robb; Alistair Robinson; David Michael Roughan; Etrick Sonntag; Bruce Spedding; Rose Stobie; Gaynor Thacker; John Thacker; Michael Thoms; Darroch Todd; Russell Uren; Grahame Walton; Gilbert Whalley; Joy Wickham; Harry Wilderink; and Heather Wright.

Chair

Maureen McCloy

1. Introductions and Purpose of Meeting

1.1. Welcome and admin

The Chair opened the meeting and welcomed attendees joining and introduced herself to everyone. Specific welcome was given to the Honorary Life Members present, the Board, staff and guests.

Members were reminded that the meeting would be run in accordance with the Standing Orders which were included in the previously communicated meeting details.

The Chair advised members that there would be time for their questions and ideas, which would be taken later in the meeting.

1.2. Purpose of Meeting

The Board has called this SGM to provide an update on the options that have been investigated as we search for a financially sustainable business model. This is not a decision-making meeting today.

Following the sale of our assets in 2022 we had just over \$4m, and we now have about \$3m. Some of those funds were spent on right sizing our information systems, redeveloping our operations, and engaging expert advice on the way forward. We continue to operate at a loss. The Board has sought expert advice and worked through the options for YHA, and has come to the point of accepting that continuing to operate at a loss and burning through cash reserves is not the right thing to do. The Board has a responsibility to YHA and to Members to safeguard YHA's funds. The Chair acknowledged this is a difficult message to hear, and it was just as difficult for the Board and Management team to work through and come to the same realisation. YHA's Board have an obligation and duty to those who came before them over the last 92 years, to ensure they protect what YHA have now, and if necessary, to pass funds forward to another custodian with a worthy charitable purpose. This is a difficult situation, and the decision regarding the future will need to be made together.

2. Presentation from General Manager

Chris Sperring introduced himself and shared his PowerPoint presentation with attendees. Chris reiterated that this is a consultation meeting, meaning no decisions will be undertaken today, and the Board will listen to and consider input from Members to help inform YHA's future direction.

Following the assets sale, the Management team and Board undertook an immediate review of YHA's cost model. This included ending the National Office lease; insurance and compliance needs were trimmed; IT project work removed 23 static based servers and replaced them with a nimble, agile cloud-based system; and a co-working space was found for the team.

Cash-flow was urgently needed so the team reconnected with associate partners old and new, to develop new agreements which allowed YHANZ the ability to sell an associate hostels bed inventory online and receive a 10% commission on this sale as income earned. A new online digital membership portal was launched, and the website and booking engine was relaunched. Our commission only based model wasn't going to generate enough money to make YHA financially viable, so something else was needed.

A piece of strategy work called Project Thrive commenced to investigate all options for a financially sustainable business model for YHA. The best Tourism expertise and minds from the industry were sought to help, including Angus & Associates (A&A) and Tourism Research Conservation Consultants (TRC). The outcome of this work will be discussed with Members today.

YHA currently runs an asset light model, meaning we don't own, manage or operate any hostels. We only have a website and booking function where we sell inventory of associate hostels and take 10% commission. This is important to note as it is a completely different operating model to our previous asset rich model where we owned and managed hostels. On our previous model we kept all the revenue from bed sales, rather than our current one where we give 90% of this to other parties. On our previous model we also had control of our mission and values which were reflected through practical examples within our hostels, and which allowed us to *fulfil our charitable aims and objectives*.

Our sales activity in our current model is not enough on its own to return YHA to a financially secure space – we would need to triple our revenue by signing at least 60 associate hostels. But this still wouldn't fix the issue around maintaining our charitable aims and objectives, as we have very little control of our associates and what they deliver in terms of educating youth on the environment of New Zealand in their hostels.

Our other challenge has been working with another chain hostel group and who are such a large associate partner with 12 hostels. Most of our associate partners that we have agreements in place with are independent hostel owners. Haka House (HH) have since developed their own brand, identity and customer experience which is different to our approach and which previously met our charitable aims and objectives. Often, we have found ourselves in direct competition with HH over the capture of customers as HH also operate their own website for direct channel sales. There is a risk that If HH terminate our agreement at any point YHA would lose 90% of our commissionable revenue.

While being very active in the last two years, this work has come at a cost of roughly \$1m in operating losses. We lose around \$40k a month, which would see YHA run out of cash by around 2030. It is this rate of cash loss that is so concerning and has pushed the Board to take prompt and urgent action to ensure we don't exhaust our funds.

At 31 July 2024 the available cash figure to YHA was over \$2.9m once all liabilities are taken into account.

It is important to stress here around our obligations to third parties, that is the money we are currently holding on their behalf which must be paid (the \$191k of deposits and \$136k to other parties) which is part of YHA New Zealand's Board responsibilities but is about YHA doing the right thing.

Available Cash at 31 July 2024	
Total cash and term deposits	3,444,262.54
<i>Owed to Guests and Associates</i>	<i>-191,290.00</i>
<i>Other liabilities at 31/07/24</i>	<i>-136,411.00</i>
<i>Other assets</i>	76,582.00
<i>Contingent liabilities</i>	<i>-206,918.67</i>
Cash available to YHA	2,986,224.87

The lengthy piece of project work started in April 2023 and sought to leave no stone unturned, with A&A engaging other industry stakeholders from the accommodation sector, speaking to both small and large backpacker operators, as well as hotels, motels and holiday parks.

7 recommendations were given, with summaries listed for each:

1. *Status quo*: We identified quickly that the Asset Light commission-based model is financially unsustainable. Previously it was shared that 60 hostels would be needed as associates to make this profitable, and it's thought that there probably aren't enough hostels in New Zealand willing to be associate partners to achieve the levels of income required to make this a viable long-term option.
2. *Restart a small hostel using our funds*: Go Small – either rent or manage one small hostel. The independent financial modelling showed that this presented severe risks due to the sharp rise in costs since Covid. The owner of the property made a return through property capital gains, but the lessee (YHA in this equation) made no material gain. YHA also looked at buying one small hostel and our modest funds wouldn't even allow for that unless we opted to be away from the major urban centres where the majority of visitors frequented.

3. *Restart network using corporate finance:* Reestablishing a large network required around \$30m to get YHA up and running and to be competitive in 3 major cities. We would need to borrow on a large scale and incur debt which the Board were not prepared to do given the learnings in 2022.
4. *Partner with like-minded organisation:* Next YHA looked at partnering with a like-minded organisation. We engaged TRC to identify and run to ground if there are any similar organisations to ourselves that we could partner on. Work considered a long list of organisations such as Forest & Bird / DOC and Chateaux Tongariro, but none revealed a means to generate meaningful levels of income. In fact, most of the like-minded organisations looked like us but with reduced product offerings such as tramping huts.
5. *Partner with YHA Australia (YHAA):* From the outset YHAA have been willing to engage and help. This is expanded on next.
6. *Establish a Philanthropic Trust to secure the remaining funds:* Options 6 and 7 considered closing down YHA's operational activity in support of a sole focus on our charitable aims.
7. *Distribute the funds and dissolve the association:* This worst-case scenario is something for the Board to consider as a last resort with how it manages funds and which charities YHA may look to support.

Out of the 7 recommendations, YHA landed on two main options: a partnership with YHAA, or dissolving and distributing funds:

- A partnership with YHAA looked most appealing from an operations perspective, as they share our DNA. They have shown willingness to engage with us, but are very active in the property market within Australia, meaning that New Zealand would be a longer term proposition for them. For the next 2-3 years they are focused on completing their planned activity around hostel acquisition and other capital projects on their existing projects in their own market. Given this timeframe, this option does not look viable, as we are likely to run out of funds by the time they are ready to turn their minds to a development phase of property acquisition in New Zealand.
- The second option focuses on achieving a legacy for the organisation, and would fulfil our charitable aims and objectives, but this is a worst-case scenario, i.e. if YHA are unable to identify a sustainable operating model, then dissolution of the association and transfer of remaining funds to a similar registered charity would be considered a future pathway.

If collectively we can't identify an operating model which will sustain YHA into the future and meet our charitable aims and objectives, then consideration should be given to the dissolution of the association to protect our legacy and do right by our members, staff and Board who have devoted so much time to the organisation.

With this being a consultation process, we are keen to hear any ideas that members have that may generate cash flow quickly. Members are encouraged to send through ideas to the National Secretary inbox by close of business 30 August 2024.

Board's view

Following Chris's presentation, The Chair shared the Board's view of the risk in continuing with the status quo, and are conscious that we are reliant on HH being 90% of our revenue, and the tourism industry hasn't bounced back as we would have liked. Despite seeking expert advice and looking at every option available, no sustainable business model has been identified. The Board has a duty to act responsibly to YHA's future. If members do decide that there isn't a way forward and that YHA should close, we want to make sure this happens honourably while preserve our legacy and handing something forward.

3. Q&A's

Before taking questions from members, the Chair wished to first address questions raised prior to this meeting:

1. You completed the asset sales process at the end of Sept 2024, so nearly two years ago. What have you been doing during this time?
 - a. The asset sale process was incredibly complex. The outcome was better than predicted which meant YHA had some funds to explore options. And from Chris's presentation, hopefully members have a sense of how busy the management team have been during this time.
2. You had \$4m and now you have \$3m. What have you spent a million on?
 - a. We have incurred some one-off costs as we right-sized the information systems, re-started operations and engaged expert advisors. Chris spoke to some of this in his presentation. In addition to this, we have continued to incur trading costs, losing \$40k a month.
3. \$3m is a lot of money, so why do we need to act now?
 - a. The current operating model isn't sustainable, so if we're going to act with integrity we can't just sit and continue to lose money and hope to find a solution. There is a responsibility not to allow these funds to deplete further.
4. What advice has the Board sought?
 - a. As Chris stated we worked with A&A, TRC, Hosteling international (HI), HI USA, HI Canada, HI Finland, HI England & Wales, and YHAA. Rhodes & Co continued to provide valuable advice to us, ensuring we remained focused on delivering on our charitable purposes. Deloitte have continued to advise and remind us of our responsibilities as Board and Management to act responsibly.
5. Are you sure we can't just open a small hostel?
 - a. A small hostel these days is 70 beds to enable sufficient return and not trade at a loss. It needs to be high quality, have high occupancy rates and bed yield. To do this would cost significant capital expenditure, which would be more than \$3m. And being an incorporated society and a member of HI costs money and comes out of the profit made by this hostel too.
6. Is there some way the organisation can be put "on ice" until YHA Australia is in a position to step in?
 - a. The Board have asked this question as well. If YHA cease to trade and operate, we are at great risk of being deregistered by Charities Services, which relates to a section of the Income Tax Act which involves ~39% tax on assets held.
7. How can you be thinking of dissolving after all that work by so many people over the past 92 years?
 - a. Members over the generations have given a huge amount to YHA, and we do not want to see the efforts of so many end without a positive outcome. A decision hasn't been made as yet, and we will collectively need to decide. If members do decide that YHA does need to close down we'd all find that painful & be saddened by it.

Members questions were then taken and addressed:

8. Anne H: What was the plan for YHA going forward when the Board decision was made to sell off all the hostels – did it have one?
 - a. The sale outcome was better than predicted and the Board were very relieved as this allowed YHA to explore options. YHA was very close to an outcome where we wouldn't be here today. We were given a continued chance to see if YHA could be viable, and unfortunately despite best efforts that hasn't occurred. There is another courageous decision that needs to be made now to keep the legacy of 92 years and the charitable purpose.
 - b. Darin: Since joining the Board, YHA had over-capitalised funds, had extensive border closures and lockdown, which all impacted things. Once YHA closed and sold assets, we were in this phase to look at our options and how we could shape these to look at viable options going forward.
9. Ben S: What options have been explored to collaborate with other educational or environmental charities to operate a small hostel in a prominent location?
 - a. Chris: We did a lot of work with A&A, and they dismissed the small hostel option quite quickly, but we went back and engaged with TRC to explore this further. Multiple like-minded organisations were reviewed but the partnership offering didn't have the capital behind it to help us find a sustainable model. Once we were clear of the asset sale process, we've been looking for the golden ticket to get back into the game of operating hostels, but that hasn't materialised.
10. Ken G: If the Board believes the best thing to do is to give the money to a like-minded charity, what's different about their model that allows them to continue sustainably that we can't? All the options listed assumes something similar to the operating model we currently have had, and doesn't see this as leaving no stone unturned. Our Constitution encourages love and care of the countryside, and to that end provide hostels and/or other accommodation – it doesn't imply that we *have* to be in the hostel space, just in the charity space. Thinking small and having a hostel isn't the only option. Thinking small and doing something else completely is also a possibility, and we have the AGM to change the Constitution to allow for that.
 - a. Maureen: We'll have to traverse that if that's where our decision leads, and to what kind of charity that might be.
 - b. Chris: We entertained this ourselves. When we started the research piece with A&A, they conducted research both in New Zealand and Australia into what YHA stood for and what we're synonymous for, and two things came back: YHA are known for accommodation and sustainability. The YHA NZ brand is still very powerful and associated with regenerative travel. This feedback showed us that this is where we needed to focus our activity as our brand proposition connected us to our customers in the accommodation space.
 - c. David: If we can make any of these ideas work, we're happy to hear them. We do have a very short timeframe though, as there's a responsibility around the funds we hold. The timeframe to change the Constitution might not be possible to mobilise in a short time frame.
 - d. George: In regards to the questions of if members do decide to liquidate, do those funds have to go to other charitable organisations with hostels – the Constitution gives flexibility in this regard, and does state that funds can be applied to charitable concerns with substantially similar objects and activities or other charitable concerns with other

charitable purpose. So it's not as narrow as hostelling, but the critical point is that it is applied to registered charities with charitable purpose.

11. Deborah W: What is the cost per month of running the website? And was the viability of the 10% booking fee normal?
 - a. The cost of running the website is roughly \$3k per month.
 - b. Looking at a company like booking.com – they don't focus their business on one sector and country like we've done. They're worldwide. Which is why they're able to charge in the range of 13-15% commission. Often an associate partner will view our commissionable level as 20%, as they have to take into account the 10% member discount as well.

12. Ben M: Enormously impressed with how the organisation has dealt with things the last four years to salvage the organisation, and his thanks and support go out to the Board and team for their achievements to date. If the organisation were to continue under a similar vein to how we have been, our best option lies with YHAA. In Chris's presentation he said they don't have the capability to explore that until as late as 2030 – could Chris expand on his conversations with YHAA, their interest, the opportunities that might exist there, just so we have a greater understanding of the avenues that might have been traversed?
 - a. Chris: YHAA looked like the best fit for us, and we have been talking to Paul McGrath, their CEO, on roughly a weekly basis to explore their potential and appetite to expand into New Zealand in the future. We looked at whether they could take on some of our costs such as hosting our IT infrastructure and website. They're also going through a similar process of adjusting their processes to cloud-based, and were happy to incorporate us into their future plans. There's also an opportunity for shared services, for things such as dual marketing, as international visitors and youth often do both locations - there's an automatic link between Australia & New Zealand. As we moved through the piece we looked at what the opportunity would look like to put properties on the ground in New Zealand. HI only allows one member-associate license per country meaning that YHAA couldn't operate in this country without us, so we would hold the license for them and that's our value proposition to them. YHAA have quite an aggressive asset portfolio expansion plan in place already in their own country over the next 2-3 years and plan on completing an extensive upgrade to their other existing properties. This means that their funds are tied up over the next 2-3 years with their investment partners with the focus being on Australia and not New Zealand.

13. Ben M: While we're down to \$3m and burning through this, we still have the luxury of a little time, with caution rather than making a drastic decision over the rest in this calendar year. When talking about putting the organisation on ice, it's not about shutting it down completely, it's more about a careful middle ground to be woven over the coming months to further explore whether there is a minimum amount on what operational function can maintain our charitable status in conjunction with further discussions with YHAA on them embarking on a YHA New Zealand light-perspective, rather than begin operating in our space until they build a hostel. Is there a pathway to a discussion there that keeps our charitable status and gives an opportunity for YHAA to aggressively step into the role of running the organisation here and getting some transition that allows them to build momentum and buy-in well before the 2030 date? A hibernation piece.
 - a. Without a formal agreement in place with YHAA we don't have anything worth holding on / hibernating for. This would need ratification at a Hostelling International level as the current constitutional rules of the association wouldn't allow for this. This approach

may also not appease our situation with charity services in terms of upholding our obligations to meet our charitable purpose.

Ben will gather his thoughts and send through something to the National Secretary inbox.

14. Simon H: Is there any inspiration we can get from YHAA – they survived Covid, while YHA New Zealand did not.
 - a. Chris: YHAA received a huge amount of government support, whilst we did not.
15. Cynthia B: We already have a booking system in place for our 17 associates. Are we able to advertise or request donations by leading users to a site specifically designed for charitable donations like CHIVE?
 - a. We do have this functionality on our website. It's similar to the Green Footprint where you can donate at the end of the booking.
16. Eric F: How about invest the fund money in a Guaranteed Income Certificate (GIC), less enough funds to cover the money necessary to manage the funds until the GIC matures. Donate a percentage of the profits to fulfill the non- profit charitable responsibilities at interest maturity. This until either YHAA enter into the New Zealand Market or until another possible direction arises. Just a thought.
 - a. Good idea, thanks.
17. Nico P: Could YHA New Zealand become an incorporated society with no activity other than guard the current \$3m until the market changes? Minimal running costs, invest the cash, wait for better times.
 - a. Refer to Qs 6 answer regarding tax implications.
18. Coral L: How profitable is the backpacker sector in New Zealand? Why would we think that others, i.e. YHAA, could be profitable if they entered into New Zealand under our brand?
 - a. That is difficult to answer as this considers a macroeconomic and micro-operating context. The question is a good one as it goes to the heart of YHA's problem. The recovery of international backpacker arrivals has been the slowest segment of the tourism industry at 65% of pre-Covid levels. The sector lost about 50% of all hostels during or post-Covid as a lot of independent and chain hostels such as Base and YHA New Zealand were forced to close. The new brands, such as Lylo, Haka House and Drifter who have since entered the market have massive capital investment sat behind them which has lifted the standard of accommodation in New Zealand in our sector. This lift in standards has allowed the chain hostels to charge premium bed yields (and not just across summer) but are competing over a smaller pool of visitors due to the low levels of visitor arrivals. Our financial modelling showed that bed yields would need to increase from \$35 in 2019 to \$68 today to break a return, which takes into account the increase in costs. YHA's competitors are generally backed by large hotel chains or private equity funding, so they have deep pockets. There isn't anything backing up YHA now beyond our \$3m, and we are an outlier as a registered charity and an incorporated society. Back in the day it was the BNZ borrowings facility that was our back-stop, but when that was pulled it started the chain of events that got us to where we are now.

Without the funding ability to compete with Lylo, Haka House and Drifter on product offerings we would be unable to charge the types of high bed yield required to turn a profit.

- b. Maureen: When she stayed in HH Wellington, they offered her 15% to book directly, and once signed up on their systems, offers have since increased to 20% & 30% discount. That removes YHA's margin completely, and pulls guests away from our brand and using their direct interface.
19. Deborah W: Could we have some accounts showing how it is proposed that we continue for the next 6 months if we continue as now please?
- a. We will send through a budget forecast to Deborah Williams.
20. Warwick G: Are there not other YHA's in other parts of the world that we could partnership instead of Australia? e.g UK, Canada, USA etc.
- a. Chris: Fits nicely into our YHAA piece. There are a lot of organisations that look similar to us before Covid and had a few assets. HI Canada took a decision to lose their charitable status a few years ago because of the commercial assets of where and how they were trying to compete. YHA England & Wales are looking at similar. It comes back to governance structure, hostelling international allowing another country to operate with another member associate like ourselves, and whether they've got the money. It comes back to a value proposition as to why they would want to partner with YHA New Zealand. HI Finland operate a very similar model to us with just an associate franchise partner network, and don't own or manage any properties. They return a very small profit / deficit yearly with 1.5 FTE. It's not material enough to get properties. They sold their assets following Covid and hope to get back to an owned / managed network, but are not making enough money to enable that to happen.
 - b. In terms of HI partnership opportunities with other Member Associations, what would our value proposition look like for any of the other HI federations such as HI Canada, HI USA or even DJH German to make this attractive. All have different governance structures and their own obligations within their own boundaries but importantly face the same operating challenges that we are seeing in New Zealand in terms of rising cost models and the need to further enhance their own networks to charge a higher bed yield.
21. Anne H: I booked through YHA to stay in HH Christchurch and ended with a different dorm situation; and there was not one indication that YHA had any part in HH operations, surprising me. What is the current working / personal relationship between YHA and HH?
- a. Chris: HH are a key partner for us, 90% of our income is derived from their properties. We have an agreement in place which has responsibilities on both sides of the fence.
 - b. Maureen: It's a very important relationship with HH, but we realise the relationship may not last forever.
 - c. Richard: HH bought most of our properties and we helped support them through that process. But they're very much their own brand, and they partnered with us so that we could continue as well, but there's no guarantee that partnership will continue into the future. They're not like our old associates who took on our brand and values. It is an important partnership and we work closely together. If YHA was to continue it would be more about diluting the HH brand & bring on more independent associates who could pick up our values a bit more.
22. Ken G: Do the Board Members whose terms expire this year intend to re-stand?
- a. George: At this stage, no decisions have been made about the future. This meeting is about gathering feedback from members for the Board to consider. In the meantime,

parallel to this is the normal process in relation to the AGM, which continues as per the Constitutional arrangements.

4. Summary of next steps

The Chair thanked everyone for their questions and input, and if there are any ideas that the Board hasn't yet considered or hasn't been asked in this meeting, asked members to please send them through to the National Secretary inbox by Friday 30 August 2024. The Board will read them all before making a recommendation, and it is our intention is to come back to members next week to let members know where we're up to.

In the event that we can't find a way forward and need to close YHA down, a courageous decision will need to be made to ensure we protect the funds we currently have and ensure they are used for a charitable purpose.

As members will have seen today, there isn't an obvious way forward, otherwise we would have taken it.

The Chair thanked everyone for their time today.

The Chair closed the meeting at 5:43pm.