



STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE – February 26, 2014

FLIGHT CENTRE TRAVEL GROUP ANNOUNCES RECORD FIRST HALF PROFIT

Result summary

	Dec 31, 2013	Dec 31, 2012	Growth
Sales & Margin			
TTV	\$ 7.5b	\$ 6.6b	13.5%
Revenue	\$1.1b	\$ 915.4m	15.1%
Income Margin	14.1%	13.9%	20bps
Net Margin (underlying)	2%	2%	-
Profit			
Actual Profit Before Tax	\$155.0m	\$129.5m	19.7%
Abnormal items*	\$8.7m	\$-	
Underlying Profit Before Tax	\$ 146.3m	\$129.5m	13.0%
Actual Net Profit After Tax	\$110.8m	\$91.8m	20.7%
Underlying Net Profit After Tax	\$104.7m	\$91.8m	14.1%
Dividends			
Interim Dividend	55.0c	46.0c	19.6%

* Actual PBT for the first half of 2013/14 includes an \$8.7million one-off gain. As illustrated above, underlying results exclude this gain

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Result overview

THE Flight Centre Travel Group (FLT) today announced record results for the first half of the 2013/14 fiscal year.

The company achieved a \$155million profit before tax (PBT) for the six months to December 31 2013, a 19.7% increase on the record \$129.5million PBT achieved during the first half of 2012/13.

FLT's first half PBT included an \$8.7million one-off gain related to the Flight Centre Global Product (FCGP) wholesale business. Excluding this gain, which is outlined in greater detail in a footnote to this announcement**, the company's underlying PBT increased 13% to \$146.3million.

Actual net profit after tax (NPAT) reached \$110.8million, up 20.7%, while underlying NPAT was \$104.7million, 14.1% growth on the \$91.8million NPAT achieved during the previous corresponding period (PCP).

Actual earnings per share reached 110.3 cents, up 20.3% on the PCP.

Key result drivers during the first half included:

- Network expansion – the company opened its 2500th store in July 2013 and shop numbers increased 8.2% to 2643 during the 12 months to December 31 2013
- Global sales growth – sales increased in-store and online and in both leisure and corporate travel. First half TTV reached a record \$7.5billion, up 13.5%, with revenue increasing 15.1% to \$1.1billion
- Enhanced in-store productivity – sales grew at a faster rate than shop and sales staff numbers; and
- Margin maintenance – income margin for the period was 14.1%, slightly above the PCP, while underlying net margin was steady year-on-year at 2%

Cash, cash flow and dividends

At the end of the first half, FLT's global cash and investment portfolio topped \$1billion, up from \$828.5million 12 months ago.

The December 31, 2013 balance was a record for the period and included \$401.9million in company cash (general funds), compared to \$319.5million at December 31, 2012.

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Debt was \$44.6m, giving FLT a \$357.3million positive net debt position at the end of the half, compared to a \$272.9million positive net debt position one year ago.

Cash flow followed its traditional pattern, with the company recording a \$124.5million operating cash outflow during the first half (2012/13: \$110.8million) after paying suppliers for peak season travel that was booked during the second half of 2012/13.

A large second half inflow is expected and is already being experienced, as client cash again accumulates during the year's peak booking periods.

FLT's directors today declared a fully franked \$0.55 per share interim dividend to be paid on April 17, 2014 (Record date for shareholders: March 28, 2014).

This is 19.6% higher than the \$0.46 per share 2012/13 interim dividend and represents a 50% return of actual NPAT to shareholders (53% of underlying NPAT).

The interim dividend payment, which totals \$55.3million, also takes total dividends paid to FLT shareholders beyond \$1billion since the company listed in 1995.

FLT expects to maintain healthy cash reserves to allow it to capitalise on opportunities that will create future shareholder value, including acquisitions, and buffer it from any future economic downturns.

The company's general goal is to maintain sufficient funds to cover three months' operating expenses.

If and when surplus cash is generated, FLT will consider returning excess funds to shareholders. While all options will be considered, the board's current intention is to create longer term shareholder value by increasing dividend yields, rather than one-off distributions.

Operational review

FLT managing director Graham Turner said four businesses delivered record first half earnings before interest and tax (EBIT):

- Australia
- The United Kingdom
- Singapore; and
- Greater China

He said New Zealand and South Africa recorded strong year-on-year growth, while India and Dubai both performed solidly. The USA and Canada finished the half below expectations.

“Generally, we have started the year well and, at the same time, continued our evolution from a leisure and corporate travel agent to an innovative best-in-class travel retailer,” Mr Turner said.

“We have also continued to expand our footprint and strengthen our global sales network, with the company creating an additional 1100 fulltime roles during the past year.

“Over the past four years, we have now added more than 4000 people to our workforce.

“At the end of the first half, our profit trajectory was tracking slightly above our full year target of 8-12% underlying PBT growth.

“The Australian business has, so far, been the key contributor to overall results although we have also seen continued growth in offshore earnings.

“Combined EBIT from our overseas businesses increased just over 30% during the first half, a strong follow-up to last year, when EBIT increased more than 20%.”

FLT’s three largest businesses – Australia, the UK and the USA – generated just under 80% of the company’s first half TTV.

In Australia, sales and profits increased in both the leisure and corporate travel sectors as the company expanded in all brands, boosted its marketing spend and brought new and unique products to market.

The leisure business, which includes the flagship Flight Centre brand and the emerging Escape Travel, Travel Associates, Student Flights, Cruiseabout and My Adventure Store businesses, recorded strongest growth, continuing the trend from the 2012/13 second half.

As expected, year-on-year fluctuations in the Australian dollar’s value have not affected Australian outbound travel or FLT’s Australian results. Australian Bureau of Statistics data shows that outbound travel growth accelerated in comparison to the PCP as the dollar fell during the first half of 2013/14.

The UK business continued its profit growth trajectory.

First half EBIT in the UK has now increased from \$6.9million in December 2009 to \$16.3million in December 2013, a 24% compound annual growth rate.

This year, new hyperstores have opened in Victoria (London) in November and in Bristol. Hyperstores in Leeds, Aberdeen and Monument (London) are also due to open late in the second half or early in the first half of next fiscal year.

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As expected, the overall US business incurred a loss during the seasonally slower trading period for the leisure (Liberty Travel) and wholesale (GOGO) businesses.

While overall EBIT was down compared to the PCP, the US corporate travel business again performed strongly to consolidate its position as one of FLT's fastest growing businesses.

US corporate travel sales accounted for almost half of FLT's first half sales in the country, compared to 40% two years ago.

During the second half, the corporate business will expand into Miami and Atlanta, giving the company a corporate travel presence in 17 US cities.

FLT's US footprint will also expand with the opening of a new hyperstore in Boston this week. A Philadelphia hyperstore is expected to open early in the first half of 2014/15.

Severe weather conditions in the USA have affected overall results early in the second half. It is unclear at this early stage if the leisure, wholesale and corporate businesses will recover lost revenue as the year progresses.

FLT continues to monitor the acquired Liberty and GOGO businesses' current and forecast performance to ensure goodwill balances are appropriate. The acquired India business's results will also be closely monitored.

Outside the travel sector, cycle joint venture Pedal Group generated 21% sales growth to \$23.5million.

EBIT more than doubled to just under \$1.5million.

Retailer 99 Bikes opened new stores in Macgregor (Queensland), Ipswich (Queensland) and Fitzroy (Victoria) during the first half and has just opened a shop in Brookvale (NSW).

Stores are set to open in Capalaba (QLD) and Bondi Junction (NSW) later in the second half, giving the business 17 shops plus a web store.

Wholesaler Advance Traders Australia (ATA) expanded its Bicycle Centre licensing structure. Twelve Bicycle Centres are now trading, with ATA providing these independently-owned centres with bikes and accessories, as well as branding, web and marketing structures.

Growth strategies

During 2012/13, FLT initiated a new strategic plan geared towards helping the company evolve from a leisure and corporate travel agent into a best-in-world travel retailer in the short to medium term.

This evolution is built around seven key themes that apply to all leisure, corporate and wholesale businesses globally:

1. Brand and specialisation: Developing brands that truly specialise in specific areas of travel and have clear customer value propositions (CVPs)
2. Unique product: Making, combining and sourcing exclusive FLT products and services, rather than just selling suppliers' products. FLT's brands will have targeted product ranges in line with their specialisations
3. Experts, not agents: Ensuring each brand's people are experts in understanding the brand's speciality and that they in turn are backed by "travel gurus", who are readily available if additional expertise is required
4. Redefining the shop: Ensuring corporate, wholesale and retail spaces reflect that FLT's people are retailers first and foremost, not office workers
5. Blended access: Ensuring FLT's brands are available to customers 24/7. They can touch, browse and buy FLT's products when and how they want – online, offline, shop, email, chat, phone or SMS
6. Information – profiles, patterns and predictions: Gaining a better understanding of customer habits and proactively using this information, thereby delivering and developing better products and increasing FLT's relevance to customers; and
7. A better sales and marketing machine, focused on lead and enquiry generation: Ensuring each brand engages with customers across the five phases of the travel cycle and has content that is relevant and up to date. Key components include business development managers (BDMs), advertising plans and deployment that delivers the opportunity to increase market share

During the first half, FLT built on the progress that was made in each area last year.

New developments included:

- Unique product: SmartSTAY (FCm and Corporate Traveller), Red Label Holidays (Flight Centre), Pack & Relax Holidays (Escape Travel) and Watertight Deals (Cruiseabout) were added to FLT's stable of unique products. Flight Centre's Red Label Fares range was launched in June 2013

- Experts, not agents: A new Welcome Aboard program that focuses on novice consultants' first 120 days was created
- Redefining the shop: Hyperstores, showcasing new design features, opened in Australia, the USA and the UK. Key features, including digital innovations, product zones and mobile consultants, have also been incorporated into other stores; and
- Blended access: Enhancements took place across all sales channels. For example, a larger 24/7 sales force was deployed in Australia to cater for the growing volume of customer calls and emails being generated outside normal work hours. Transactional websites were launched for Flight Centre brand in South Africa and for Liberty Travel in the USA. Live "Chat" was added to Flight Centre's Australia and Canada websites to give online customers instant access to expert consultants

Outlook – 2013/14

In terms of 2013/14 guidance, FLT continues to target a PBT between \$370million and \$385million, assuming stable conditions and excluding possible goodwill adjustments or significant unforeseen items that may arise.

If achieved, a result within this range will represent:

- 8-12% growth on the underlying 2012/13 result
- FLT's 15th record PBT in 19 years as a public company; and
- The 17th time PBT will have surpassed the prior year result in 19 years

"The company sees growth opportunities in all markets and will continue to focus on its seven strategic priorities that lead to what we refer to as our Killer Theme – our evolution from travel agent to world class travel retailer," Mr Turner said.

"While we are making sound progress and first half trading results are promising, it is too early to amend full year guidance.

"The second half is traditionally our busiest period and we performed strongly during these peak trading months last year, meaning it becomes more difficult to maintain high growth rates as the year progresses."

FLT aims to grow its global sales network by 8-10% during 2013/14.

Growth will predominantly be organic, although FLT expects to pursue some strategic acquisition opportunities. Acquisitions are likely to be businesses that can be vertically integrated, without the company taking on significant capital assets.

Possible targets may include destination management companies or hotel management arrangements or joint ventures.

As announced previously, the company has also moved to complement its organic growth by reintroducing a franchise model in Australia in the Escape Travel brand.

A five-agency chain owned by Newcastle's Pearson family became the first addition to FLT's franchise network on February 1, when the former Harvey World Travel agencies at Kotara, Glendale, Toronto, Mt Hutton and Charlestown officially switched to Escape Travel.

FLT awaits the outcome of the penalty hearing that followed the ACCC's competition law test case against it. The case was heard in October 2012 and judgment was delivered in the ACCC's favour in December 2013.

A subsequent penalty hearing concluded in February 2014. As penalties have not yet been determined, no provisions have been set aside in FLT's half year accounts.

FLT has previously indicated it expects to appeal the initial judgment.

[ENDS Media and investor enquiries to Haydn Long 0418 750454](#)

Investor conference call: FLT's investor teleconference will be held at 8.30am (Queensland) today. Dial +61 2 8038 5221 or 1800 123 296, conference ID 1628 778

**FLT recognised a one-off \$8.7million gain during the first half. The gain was brought about by systems improvement, which has allowed FLT to accurately calculate and capture an additional component of margin within the FCGP business at the time of sale, rather than after the customer has travelled. FLT generally recognises revenue at the point of sale, so the change brings FCGP in to line with FLT policy.