



STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE - August 27, 2015

FLIGHT CENTRE TRAVEL GROUP RELEASES FULL YEAR RESULTS

Result Summary

	30 June 2015	30 June 2014	Growth
Sales & Margin			
TTV	\$17.6b	\$16.0b	9.7%
Revenue	\$2.4b	\$2.2b	6.8%
Income Margin	13.6%	14.0%	(40bps)
Net Margin (underlying)	2.07%	2.35%	(28bps)
Profit			
Underlying Profit Before Tax	\$363.7m	\$376.5m	(3.4%)
Adjusted items*	\$2.6m	(\$52.7m)	
Statutory Profit Before Tax	\$366.3m	\$323.8m	13.1%
Underlying Net Profit After Tax	\$254.8m	\$263.6m	(3.3%)
Statutory Net Profit After Tax	\$256.6m	\$206.9m	24.0%
Dividends			
Interim Dividend	55 cents	55 cents	-
Final Dividend	97 cents	97 cents	-

* Underlying PBT for 2013/14 did not include the following non-recurring items:

- The \$61.3million non-cash write-downs to goodwill and brand names that were announced in July 2014
- \$11million in fines imposed after the ACCC's competition law test case. The judgment against FLT and the penalties that were subsequently imposed on the company have since been overturned; and
- A one-off \$19.6million gain within the Flight Centre Global Product business that was initially flagged at the half year in February 2014

* Underlying PBT for 2014/15 did not include a \$2.6million contribution from the acquired Top Deck business

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Result Overview

RECORD global sales and strong profit growth overseas have helped the Flight Centre Travel Group (FLT) record a \$366.3million statutory profit before tax (PBT) for 2014/15.

The company today released audited results for the 12 months to June 30 2015, its 20th year as a public company, and outlined its strategies and outlook for 2015/16.

Result highlights included:

- Record sales - total transaction value (TTV) increased 9.7% to \$17.6billion, as new TTV milestones were established in all 10 countries and regions
- Diversified earnings - four countries achieved record earnings before interest and tax (EBIT) - the UK and Ireland, USA, South Africa and Singapore - which led to combined overseas EBIT topping \$100million for the first time
- Strong cash generation - despite significant investments in its people, multi-channel network and key strategies, FLT finished the year with a stronger balance sheet underpinned by \$564.7million in company cash and minimal debt; and
- Ongoing growth in key leisure and corporate sectors, FLT's corporate brands increased turnover by 16.3% globally to \$5.7billion, without significant acquisitions

While FLT's statutory PBT of \$366.3million was also a record and 13.1% higher than the statutory 2013/14 result, it was 3.4% below the prior year on a normalised or underlying basis (see table above). Similarly, FLT's underlying NPAT of \$254.8million was 3.3% lower than underlying NPAT during 2013/14.

Income margin, at 13.6%, was slightly above the company's long-term average of 13.5% but 40 basis points lower than the prior year, which contributed to the lower underlying profits.

The lower income margin reflected:

- Lower commission earnings in Australia, as leisure consultants elected to lower commissions to stimulate demand among cautious consumers in the first half
- Recognition of an additional component of accommodation TTV for the first time. Previously, only revenue flowing from this TTV was recognised; and
- A slight change in product mix brought about by rapid corporate travel growth. Corporate, which has a lower income margin, generated 33.6% of group turnover during 2014/15, compared to 31.5% during 2013/14

Capital expenditure increased to \$80million as FLT expanded its network, rolled out its next generation shop designs and enhanced IT systems and platforms.

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Enhancements include Microsoft Dynamics' introduction as the company's new mid and back-office finance platform. This will allow FLT to retire up to 10 systems, in addition to supporting its omni-channel vision and enhancing customer and consultant interactions.

In terms of growth, sales staff numbers increased 6.3% to 14,433 and shop and business numbers increased 5.5% to 2,825.

Asia and the Middle East were FLT's fastest growing operations, with shop and business numbers increasing more than 30% from a relatively small base in Greater China, Singapore and the United Arab Emirates (UAE). Growth in India and in the USA and UK, FLT's second and third largest markets, also outpaced the company's overall network growth rate.

To complement its organic growth, FLT formed a destination management joint venture with Buffalo Tours in Asia and acquired tour operator Top Deck (August 2014). The company also acquired its FCm licensee in Mexico, Koch Overseas, in July 2015.

Cash, cash flow and dividends

General (company) cash totalled \$564.7million at June 30 (FY2014: \$476million) and was part of a \$1.45billion global cash and investment portfolio.

Debt was just \$32.8million (FY2014: \$44.9million), meaning FLT had a \$531.9million positive net position and held more than 15% of its market capitalisation in free cash.

In line with normal patterns, funds accumulated rapidly during the seasonally stronger second half for payment to suppliers after peak travel periods during the first half of 2015/16. A\$362.5million operating cash inflow was recorded over the full year (FY14: \$227.1m).

In light of FLT's results and strong cash position, the directors today declared a \$0.97 per share fully franked final dividend (payable on October 16 2015 to shareholders registered on September 18 2015).

This followed the fully franked \$0.55 per share interim dividend that was paid after the half year and took the return for the year to \$1.52 per share or \$153million. These payments were in line with the previous year and represented a 60% return of underlying NPAT.

Operational review

Although underlying profit during 2014/15 was the second best result in FLT's history, it was lower than initially expected and adversely impacted by:

- The market slowdown in Australia, which in turn led to lower than normal TTV growth. Outbound departures grew at just 2.9% during the year, compared to 7% during 2013/14 (Source: Australian Bureau of Statistics)

- Underperformance in Canada, which was the only region to record a loss
- Lower margins, as outlined previously; and
- Ongoing investments in people and other areas that will drive future returns, including the company's global strategies

Managing director Graham Turner said FLT performed well in several key regions, including the USA and UK, and achieved a number of milestones globally...

"In TTV terms, we achieved our fifth consecutive year of record results and our 19th year-on-year increase in 20 years as a public company," he said.

"We increased TTV in dollar terms by \$1.55billion globally and by \$445million in Australia, despite a reasonably flat trading environment.

"While this record sales result in Australia didn't translate to a record profit, the Australian business generated more than \$250million in EBIT for the third consecutive year and was again the company's main profit and sales generator.

"The USA and UK businesses recorded strong results and were key contributors to the healthy growth in EBIT from FLT's international businesses. Together, these overseas businesses generated a record \$103.6million in EBIT, which was more than double the contribution from just four years ago."

TTV and PBT have now increased at compound annual growth rates (CAGR) of 16.5% and 16.9% respectively since 1995/96, FLT's first year as a public company.

"These achievements over a 20-year period highlight FLT's ability to innovate and to adapt to changes in industry dynamics and consumer behaviour," Mr Turner said.

"To maintain margins and improve results, we have become more diverse, broadened our product mix, integrated vertically and tapped into new revenue streams.

"As a result, we are now a major player in:

- Niche sectors that are growing rapidly, while maintaining our dual position as Australia's largest travel retailer and largest corporate travel manager. Our Student Flights (targeting students and backpackers), Travel Money (B2C foreign exchange) and Cruiseabout (ocean and river cruising) brands are all the largest businesses of their kind in Australia and together turned over almost \$1.2billion during 2014/15
- The accommodation sector. Our Australian business alone sold about 4.5million room nights - an average of almost 12,330 every night - globally through preferred suppliers during 2014/15. This includes package holidays, corporate hotel stays and last-minute style

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accommodation, but does not include rooms booked as part of escorted tours or via non-preferred suppliers; and

- Tour operating. Together, Back-Roads, Top Deck and Buffalo Tours should generate TTV in the order of \$AUD200million this year

In addition, FLT has successfully transplanted its business model into other retail sectors, with the Pedal Group cycle joint venture recording a 24.2% sales increase to \$56.8million and generating record EBIT of \$3.2million during 2014/15.

Segmented results

In Australia, TTV increased but bottom-line results were adversely affected by ongoing investments in key areas and a one-off step change in costs as a new front-end wage system for leisure consultants was introduced. These investments coincided with lower than normal margins and TTV growth, as announced previously.

The Australian corporate businesses achieved record overall EBIT and sales, turning over about \$2.3billion. FCm, which celebrated its 10th birthday in October 2014, won a number of high profile accounts and enhanced its suite of product and technological offerings.

In leisure travel, Travel Money grew rapidly, along with high-end brand Travel Associates and Cruiseabout, which opened its 50th Australian store in July 2014.

Enhancements to Flight Centre brand included a new shop design and an extensive range of new products including Widest Choice of Airfares, Journeys and Escapes.

International Airfares Packages (IAP), offering customers the chance to add Essential, Value and Premium inclusions to their flight bookings, were also introduced nationwide in April and contributed to the gross margin recovery as the year progressed. IAPs are now attached to about 40% of the international flights Flight Centre sells in Australia.

Flight Centre's blended offering was enhanced, with chat functionality expanded, growth in the 24/7 workforce and teams created to contact online customers and correct the mistakes that are commonly made with online bookings. This reinforces that customers are never on their own when they book with Flight Centre.

As expected, currency fluctuations have not led to shifts away from America, with Australian Bureau of Statistics data for 2014/15 showing 5% growth in short-term departures to the US. Capacity and competition between airlines also remained healthy, with more than 50 carriers servicing Australia and capacity increasing, albeit at a slower rate than during 2013/14.

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Record profits and sales were achieved in the UK and Ireland, with TTV surpassing the GBP1billion barrier for the first time and the company generating \$AUD49.5m in EBIT.

In corporate travel, FLT secured record account wins and achieved strong customer retention. FCM's wins included the two largest accounts secured by the UK business to date.

New leisure product ranges were developed and launched including Journeys, unique and superior tailor-made long haul holidays, and Escapes, a mid to long haul beach holiday range that was launched in June 2015. Both ranges give customers access to dedicated Travel Butlers or Concierges before, during and after their holidays.

This year, new hyperstores will open in Chester (first half) and in Dublin (Dawson Street) during the second half. The Dublin store will house FLT's first leisure businesses in Ireland.

FLT's US business performed strongly and again generated record profit and sales, with EBIT increasing 69% to \$AUD21.4million and the business contributing more than \$AUD2.5billion in TTV to FLT's top-line result.

These strong results were again underpinned by the corporate travel businesses, which together generated \$USD1billion in TTV (\$AUD1.2billion) as FLT continued to expand into new cities and gain market share in the world's largest corporate travel market.

Expansion into Raleigh and Minneapolis is planned for 2015/16. Campus Travel has also been introduced (July 1 2015) to serve the academic community's unique travel needs.

New Liberty hyperstores opened in both Los Angeles and Philadelphia and a responsive website was launched. This year, another hyperstore will open in Chicago and a smaller megastore will open in Manhattan's Union Square.

Unique products have also been launched to help Liberty increase sales to Europe. These include EURObreaks, Escapes (both launched June 2015) and Journeys (August 2015).

In the wholesale sector, GOGO launched its Travel Agents First campaign to deliver greater value to its external travel agency partners and has recently added GOGO Care, a bundled collection of services and perks valued at more than \$USD200 per person.

Elsewhere in the world:

- The Canada business posted a loss after five years of consecutive profits. A new leadership structure has been implemented and strategies have been introduced to improve performance, particularly in the leisure travel sector
- FLT achieved record profit and sales in South Africa and launched unique leisure products tailored to customers travelling to key destinations including Mauritius and Thailand; and

- The New Zealand business generated record TTV and enhanced its blended offering by launching a locally-based 24/7 service, responsive websites and an online booking engine for flights to Australia and the South Pacific. The business has also started proactively allocating consultants to online bookings.

FLT's businesses in the emerging Greater China (Hong Kong and Mainland China), Singapore, India and United Arab Emirates (UAE) markets were all profitable and together turned over about \$AUD870million.

In sales terms, Singapore was FLT's fastest growing country with TTV in both leisure and corporate travel increasing strongly.

Other highlights within the region during 2014/15 included:

- FLT becoming the first global Travel Management Company to secure a wholly-owned domestic ticketing license for Mainland China. As a result, FLT can now issue domestic tickets to corporate customers, rather than relying on third parties
- Flight Centre Business Travel's launch in Greater China and the opening of a flagship megastore on Lyndhurst Terrace, in Hong Kong's central business district
- Expansion in India, with the corporate business opening in Noida and Vadodara, an FX offering introduced and high street hyperstores opening in New Delhi and Mumbai. These stores were profitable in their first and third months respectively; and
- New leisure stores opening in Abu Dhabi (Yas Mall) and Dubai (Arabian Ranches)

Further expansion and development will take place this year with additional unique product ranges to be launched, hyperstores set to open in Singapore (Cecil Street) and Bangalore and a new website with online booking capabilities to be launched in Hong Kong.

Strategic update

In recent years, FLT has embarked on a journey to become the world's best person-to-person travel experience retailer.

This strategic evolution, dubbed the company's "Killer Theme", has become the blueprint for FLT's future and has seen FLT focus on seven key mini-themes:

1. Having world class and specialised brands
2. Our product not just someone else's
3. Being experts, not agents
4. Working from branded business spaces, not offices
5. Offering customers blended access
6. Using information as power; and

7. Creating a sales and marketing machine

In terms of brand and specialisation, FLT is working to ensure its brands are thought leaders in their specialised segments. Each brand has clear Customer Value Propositions (CVPs) and is innovative and different, which leads to increased brand awareness.

In the product space (mini-theme two), FLT is creating unique product and travel experience ranges that are FLT's - not always someone else's - and aiming to become famous for those products and experiences.

As a result, FLT now has manufactured offerings across three levels of unique products:

1. Travel products/experiences - examples include the Journeys and Escapes ranges
2. Service products/experiences - for example, Flight Centre brand's IAPs; and
3. Technological products/experiences - including the products that are now available to our corporate customers

Enhancing consultant expertise, mini-theme three, was geared towards ensuring FLT's sales people were experts in their specialised areas. To achieve this aim, comprehensive brand accredited training programs were introduced.

The shift from a traditional office environment to a branded business space (mini-theme four) has led to significant enhancements in-store, including the development of dedicated customer, travel experience and sales spaces. New Shop of the Future designs have been introduced for Flight Centre, while corporate offices have been transformed into business travel hubs that showcase deals and products. Customers can visit to experience the tangible and obvious benefits of FLT's physical model.

Blended travel (mini-theme five) has led to enhancements across all sales channels to ensure customers can transact and interact with FLT's businesses when and how they want; and are never on their own when they book with FLT.

This has seen:

- Shop hours extended and new features incorporated into in-store designs
- New features added to FLT's websites, including online booking engines
- Significant growth in 24/7 sales and assistance teams to cater for the large volume of enquiry that is generated after hours
- Responsive websites and booking engines launched
- Expansion in the use of chat and other interactive features; and
- The launch of various apps, particularly in the corporate travel business

Various business, including Australia, New Zealand and Singapore, are also either allocating consultants to online bookings or proactively phoning customers who have booked online.

Information is power (mini-theme six) has focussed on delivering valuable, real-time information so FLT has a clear picture instantly of what's being looked at, enquired about, booked and discarded. This ensures "in-demand" product is always in the market place.

A Customer Intelligence and Analysis area was created, along with a new Reporter tool to deliver this information to the business.

Sales and marketing (mini-theme seven) enhancements included the investment in Product, Advertising and Customer Experience (PACE) areas. PACE teams are using the information that is now more readily available to be more targeted in their campaigns, which will allow the company to cost-effectively generate enquiry and sales.

While these mini-themes remain key areas of focus, they have now been condensed into five important sub-journeys:

1. Our product journey
2. Our shop or physical journey
3. Our business journey
4. Our sales journey; and
5. Our people journey

These journeys are evolving and will be integral to FLT's success in the future.

Outlook

FLT sees solid growth prospects globally during 2015/16 and will target an underlying PBT between \$380million and \$395million for the year to June 30 2016. If achieved, this will represent 4%-8% growth on the \$366.3million statutory PBT achieved during 2014/15.

This preliminary guidance for 2015/16 excludes impairment or significant unforeseen items that can arise in any given year and the \$11million that has been returned to FLT following its recent win in the long-running ACCC competition law test case.

"Overall, FLT has started the new year reasonably and, based on year-to-date trading results, is currently tracking broadly in line with its annual PBT growth target," Mr Turner said.

"In Australia, consumer confidence remains relatively subdued but we are seeing positive momentum in leisure travel, with customer enquiry currently tracking above target and sales in key sectors continuing to grow.

"Gross margins in Flight Centre brand have also rebounded and we have started to see some improvement in the niche leisure brands.

"In addition, we don't anticipate any step changes in costs during 2015/16. This is in contrast to last year, when the change in front-end wage structures increased the Australian leisure business's cost base.

"The Australian corporate business is also well placed to build on its success with TTV increasing in a soft trading climate, solid productivity gains being achieved and new account wins at record levels.

"Our corporate businesses globally have started the year with strong momentum following record wins during 2014/15. We have been particularly successful in securing multi-national accounts and these type of accounts now represent about 30% of FCm's sales globally."

FLT has generally maintained strong market-share within the key leisure travel sectors that it has focussed on in Australia. These sectors include package holidays, long-haul, premium and complex airfares, ocean and river cruising, adventure travel and escorted touring.

This year, the company has taken steps to increase sales in highly commoditised sectors that have previously offered low or no margin and have not, therefore, been growth priorities. This has seen FLT sign commercial agreements with several low cost carriers including Air Asia and Scoot in Australia, plus easyjet in the UK and JetBlue in the USA.

The company also plans to close gaps in its online product range by:

- Adding Air Asia and Tiger fares to the flightcentre.com.au website, along with additional Jetstar inventory and ancillary products; and
- Introducing an accommodation aggregation tool that will draw from a range of databases to give FLT's customers access to some 400,000 properties globally, including hotels and apartments

FLT sees growth opportunities online as part of the company's blended offering and by targeting customers who prefer to transact online.

As a result, the web will be incorporated into the person-to-person sales journey and online brands will be developed or acquired, if viable, to target sectors that have shifted online.

"One of FLT's strengths - and a key point of difference - is that it can offer customers the best of both the on and offline worlds via brands like Flight Centre," Mr Turner said.

"Machine-powered websites have their place, but human search engines can offer travellers many additional benefits including:

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- A person-to-person experience
- Access to a broader range of products, including unique offerings, given that websites can only draw from specific databases
- Complex and constructed fares - including Round-The-World, Interline and Open Jaw offers - that are not available online
- Peace of mind by validating options or recommending alternatives; and
- Better pricing. A website can obviously only sell at the price that has been loaded into the system, while a person can proactively beat a competitor's price."

Growth drivers

In addition to improving Australian results, other key growth drivers will include:

- Greater profit and sales contributions from off-shore as businesses gain scale
- Overall market growth as the Golden Era of Travel continues. IATA has projected 4.1% compounding annual growth in passenger numbers globally through to 2034, while Airbus recently predicted that international traffic serving the Australia South Pacific region was expected to grow annually at 4.5% to 2033
- A full year contribution from Top Deck and the smaller Koch business in Mexico; and
- Ongoing network expansion. FLT aims to expand its global sales network by 6%-8%, which will see the company create more than 1000 new jobs

New hyperstores will open in Australia, the USA, the UK, Ireland and Asia.

A flagship store will open in Sydney, next to the Hilton Hotel on George Street, during the second half and will become FLT's largest shop globally.

It will house eight leisure travel sales teams, plus teams of wholesale consultants and a network of corporate travel business development managers (BDMs). New features will include an Explore Zone, an interactive area that will allow suppliers to showcase their products and for customers to experience aspects of their holidays in-store.

FLT will again target strategic acquisitions and will consider businesses that:

- Operate in sectors and geographies that FLT is not currently in, thereby enhancing diversity and delivering new revenue streams
- Enhance FLT's scale by adding sales volume; and
- Offer low cost business models

"We believe we are at the beginning of a Golden Era of Travel and are building the foundations that will allow us to seize this opportunity," Mr Turner said.

"This Golden Era will be characterised by:

- Cheap airfares - flights are becoming more affordable in relative terms
- More choice - innovative new product ranges are being developed and launched
- Greater luxury and comfort - this is particularly evident in the air; and
- Less flying time - flights are now faster, more direct and more reliable

"Travellers will be the winners, but FLT is also well placed to capitalise given its global presence, omni-channel capabilities and brand diversity. The company also has an extremely strong balance sheet and a clear strategic blueprint for the future."

ENDS Media and investor enquiries to Haydn Long 0418750454

Investor call: FLT's conference call for analysts and investors will be held at 11am today. Phone (02) 80385221 or 1800 123296. Conference ID 14928356.

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