



## MANAGING DIRECTOR'S ADDRESS – FLT 2015 ANNUAL GENERAL MEETING

Good morning everyone and thanks again for joining us today at our AGM.

As is typically the case in this address, I will share some insights into our strategies and plans for the year ahead and for the longer term, before talking briefly about profit guidance for 2015/16 and our results to date.

### 2015/16 Strategies

Firstly, our strategies and plans.

Globally, we continue to focus on what we call our "Killer Theme", which is our journey from travel agent to world's best person-to-person travel experience retailer.

Given that this strategic journey has been underway for a couple of years and has been discussed at length in our annual report and at previous AGMs, I won't run through the five key journeys that now underpin it in detail today.

I will, however, briefly highlight our progress in a couple of areas.

### Blended travel

Firstly, blended travel, which was our fifth mini-theme when we started on this journey.

Like any business, we have to deliver value to ensure people continue to book with us.

One of the consequences of this is that we need to have a blended model to give customers the right to book with us and deal with us in the way that is most convenient to them.

Often the same customers will want to deal with us online, just as they want to book with us in store, via the phone, via email or via SMS.

In recent years, we have enhanced all sales channels to ensure customers have this wide range of choice.

### Unique products

Our future also relies on our product offerings and having our own products that customers just can't get anywhere else.

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These will be:

- Products that we own
- Products that we manufacture in a different way
- Products secured through businesses like Back Roads, Top Deck or Buffalo - our tour operating and destination management businesses; and
- Products that we work with suppliers to develop. We've been doing this forever and a day, helping suppliers in partnership to develop products that we can market and sell

We have already made significant progress and have launched an array of products including:

- Student Flights' Black Market Fares
- Flight Centre's Escapes and Journeys packages
- International Airfare Packages, which are now available from Flight Centre brand in Australia and are displayed on the screen behind me; and
- The "Smart" suite of products that we offer our corporate travel customers

The International Airfare Packages - IAPs - have proven popular with customers and have contributed to the margin recovery we have seen in Flight Centre brand.

Given this success, we now plan to roll them out in other markets, including Canada.

#### Person-to-person

Another priority for our leisure and corporate businesses is to be closer to the customer.

So the same consultant - the same person - deals with the same customer and the customer comes back to his or her consultant person-to-person, year after year.

It has to be more than a brand to customer communication in the way we market to customers - it has to be person-to-person.

Our successful sales people generally operate this way, but we can improve across the board by doing simple things like using smart phones and developing a systemised approach.

In Australia, we've taken some positive steps towards personalising the online experience.

For example, we have an O-Care team that proactively calls customers who have booked international flights online and helps them in four key areas where mistakes are commonly made when customers book online.

This reinforces the message that "You are never on your own when you book with us".

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## Growth drivers - 2015/16

In terms of growth drivers for this year, returning the Australian leisure business to its traditional growth trajectory is an obvious opportunity.

To achieve this, we are doing things like broadening our offerings by developing new revenue streams and product lines.

We're also expanding our footprint, particularly in sectors that are performing well like foreign exchange and cruising.

Other improvement opportunities globally include:

- Generating greater profits and sales contributions from off-shore
- Overall market growth as the Golden Era of Travel continues. Experts typically predict 4-5% compounding growth in passenger numbers over the next 20 years; and
- A full year contribution from Top Deck, which was acquired after its peak profit months last year, and the smaller Koch business in Mexico

## Top Deck

As an aside, Top Deck has just announced the launch of an Asia range.

From April next year, the business will offer 11 trips across Thailand, Indonesia, Japan, Vietnam, Singapore, Malaysia, Laos and Cambodia.

This means that Top Deck's trip program will now span Europe, Australia and New Zealand, North America, Egypt and the Middle East, Africa and Asia.

## Buffalo Tours

Buffalo Tours, another recent acquisition, is helping to operate Top Deck's Asia range and is developing a strong presence in the region in its own right.

This business, which is in its infancy, is operating in 11 countries, providing transfers and other destination management services to our customers and other travellers.

Buffalo, which is a joint venture with Vietnam's Thien Minh Group, now has 32 hotel reps and three tour desks. Its expanding customer base also includes other tour operators and travel companies, who are using Buffalo to operate tours, excursions and day-trips.

## Working proactively with low cost carriers

As we said in August, we have maintained strong sales within key leisure travel sectors in Australia.

There are, however, some opportunities to increase sales in other sectors that have previously offered low or no margin and have not, therefore, been growth priorities.

For example, low cost carriers are adapting their business models and are typically working more closely with us for mutual benefit.

Commercial agreements are now in place with the likes of Air Asia and Scoot in Australia, easyjet in the UK and JetBlue in the USA.

We are also finalising an agreement with Tiger in Australia.

We see these airlines as important additions to our supplier stable and their presence supports our goal of offering the widest choice of airfares to customers.

#### Online - broader product range and more content

We are also working to add more low cost carrier fares and content to our websites.

This will include access to ancillary products, which now represent a significant component of airline revenue. Ancillary products include things like checked baggage, allocated seats, meals and access to in-flight entertainment programs.

To give you an idea of the importance of this revenue stream to airlines, carriers are expected to collect about \$USD60billion globally in ancillary revenue during 2016, according to a report released this week by IdeaWorks and Car Trawler.

We see growth opportunities online as part our blended offering and by targeting customers who prefer to transact via this channel.

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

It is also worth highlighting the vital role the web plays in our business in terms of enquiry generation. About half of our enquiries are generated online in Australia.

#### Organic growth

To increase TTV, we will continue to expand our network.

This year, we aim to grow our global sales force by 6%-8%, which will see the company create more than 1000 new jobs.

Growth rates vary from country to country and from brand to brand, depending on factors like the level of maturity, market dynamics and the prevailing macroeconomic climate.

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Smaller brands will tend to grow most rapidly, along with businesses that operate in sectors that are performing strongly.

This year, we will open new hyperstores in Australia, the USA, the UK, Ireland and Asia.

The Ireland hyperstore is set to open in Dublin during the second half and represents our first leisure travel foray in the country.

### Acquisitions

While our focus will again be on organic growth, we will also target strategic acquisitions.

Our priorities will be businesses that:

- Operate in sectors 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

Another area that we are interested in is youth-focussed travel businesses as we seek to expand our presence in this sector. This presence already includes the Student Flights leisure travel network, Top Deck and the gapyear.com social networking website.

### AVMIN

As mentioned earlier today, our most recent acquisition was AVMIN, a Brisbane-based business that specialises in charter aircraft and logistics solutions

Among other things, AVMIN specialises in complete fly-in fly-out (FIFO) logistics, VIP and group travel.

This makes it a great fit for our business and there are good tie-ins with brands like Stage & Screen, cievnts and our mainstream corporate businesses.

AVMIN also specialises in private jets so if anyone here needs one, please let us know!

### Guidance

As we said in August, we see 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 a record result and 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 the company following its win in the ACCC's competition law test case

#### Year-to-date results - performing in line with expectations

Generally, the company has performed in line with expectations during the four months to October.

In profit terms, the UK and South Africa businesses have been among the top performers to date.

We have also seen a slight reduction in losses in Canada.

A new leadership team is in place headed by John Beauvais, our former corporate leader in the USA, and strategies that have been implemented to improve performance.

These include a renewed focus on one core leisure brand, Flight Centre, and expanding its core product range to include longer haul travel, as we are also seeking to do in the USA.

#### Market conditions - Australia

In Australia, consumer confidence remains fairly subdued and the outbound travel market is growing at a slower rate than normal.

According to government figures released on Monday, the number of travellers taking off overseas increased 2.3% during the first quarter of 2015/16.

The weaker Australian dollar does not appear to have turned Australians away from America, with short-term departures to the States growing at more than three times this rate during the same period.

Within our business, both leisure and corporate travel turnover has increased at a slightly higher rate than the outbound travel growth rate.

We are, of course, a lead indicator of outbound, given that we recognise our revenue when the customer has paid in full, which is obviously well before he or she travels and becomes an outbound departure statistic.

Looking ahead, there are some positive signs in the market.

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Firstly, customer enquiry is solid and we continue to see cheap international airfares.

For example, eight of the ten fares that we are advertising on the flightcentre.com.au landing page this week are cheaper than the fares we advertised 12 months ago.

The average saving across these 10 headline fares is 10.6%.

Secondly, airline capacity continues to increase on international routes and competition between the airlines is healthy, with some 50 airlines servicing Australia.

### Corporate - Australia

In corporate travel, we continue to win new accounts.

Factors that are contributing to our success include our brand segmentation strategy, which has seen us invest in brands that offer specialised services to key market sectors.

Examples include Stage & Screen, which focuses on the entertainment and sporting sectors.

Clients in the entertainment sector now include Australia's commercial television networks, while recent client wins in the sporting field include SANZAR and Cricket Australia.

Our technology is another factor that helps us win accounts.

We are working with innovative third party companies to introduce market leading solutions.

Examples include:

- Rapidbook, which was developed in conjunction with Serko and is the fastest way to book corporate travel online; and
- ClientBank Connect, a business intelligence tool that analyses businesses' corporate travel spend and identifies cost-saving opportunities

We are also developing a broader range of mobile solutions and additional tools for SME clients to help them prosper and grow.

Another critical factor in our success in corporate travel is our people.

We have an engaged and service-focussed workforce and this is integral to our success in the awards we have won recently.

This year, FCm was judged best national travel management company at Australia's National Travel Industry Awards and it recently won a similar honour for the fourth consecutive year at the World Travel Awards.

## Conclusion

In summary, we believe we have a strong platform for the future and are well placed to build on our past successes.

As you have just heard, we have:

- A strong brand presence that spans the leisure and corporate sectors
- A clear strategic blueprint for the future
- Strong cash reserves; and
- A history of diversifying our offerings and growing top and bottom-line results to improve shareholders returns

In the shorter term, we have set our sights on a new profit record during 2015/16 and have started the year well.

I will now handover to Gary.