



STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE - August 25, 2016

FLT RELEASES FY16 RESULTS AND UNVEILS FUTURE GROWTH STRATEGIES

THE Flight Centre Travel Group (FLT) today released results for the 2016 fiscal year (FY16).

Result highlights included:

- Record TTV - \$1.7billion higher than FLT's previous milestone
- The company's third best profit result in a challenging trading climate and during a period of significant investment that has seen FLT make multi-million dollar enhancements to its network and to its customer and people offerings
- Further brand and geographic diversification as the company launched new brands, entered new markets and acquired new businesses; and
- A \$153million return to shareholders in combined dividend payments for FY16, a payout that was above the company's current dividend policy

FLT also unveiled a number of strategic initiatives, including plans to fast-track growth in six key sectors globally.

Targeted sectors include leisure and corporate travel, where the company is already a leading global player, and high growth sectors where FLT has an emerging presence but is currently under-represented, including student/youth and in-destination travel experiences.

As part of its broader leisure travel growth plan, the company will significantly expand online during FY17, following strong growth in sales and capabilities during FY16.

This will see FLT develop a global online presence by launching transactional websites in Europe, Asia, the UAE and South Africa this year to complement and enhance the existing online businesses in Australia, the Americas and New Zealand.

Online TTV for FY17 is expected to exceed \$1billion, given:

- The strong and consistent growth being generated by the acquired StudentUniverse and BYOjet businesses
- The momentum generated in flightcentre.com.au during the second half of FY16, as part of the strategy to grow leisure sales across the company's Person-To-Person (P2P) Index; and
- The Aunt Betty launch in Australia and the upcoming expansion into large international markets where FLT has not previously targeted the online sector

Financial Results - FY16

FLT's financial results have been summarised in the table below.

	30 June 2016	30 June 2015	Growth
Sales & Margin			
TTV	\$19.3b	\$17.6b	9.7%
Revenue	\$2.7b	\$2.4b	11.2%
Income Margin	13.8%	13.6%	20bps
Net Margin (underlying)	1.83%	2.07%	(24bps)
Profit			
Underlying Profit Before Tax	\$352.4m	\$366.3m	(3.8%)
Non-recurring items	(\$7.4m)	-	
Statutory Profit Before Tax	\$345.0m	\$366.3m	(5.8%)
Underlying Net Profit After Tax	\$246.7m	\$256.6m	(3.8%)
Statutory Net Profit After Tax	\$244.6m	\$256.6m	(4.7%)
Dividends			
Interim Dividend	60 cents	55 cents	
Final Dividend	92 cents	97 cents	

Globally, TTV increased 9.7% to \$19.3billion as FLT achieved its 20th year of growth in 21 years as a listed entity.

The company's 10 regions* achieved record TTV (in AUD), with Australia topping \$10billion for the first time. TTV exceeded \$AU1billion in four other regions - the USA, Europe, Canada and New Zealand - and reached \$988million in India, the UAE and Asia.

Revenue increased 11.2% to \$2.7billion, leading to an improved income margin of 13.8%.

As outlined during FY16, net margin and profits both decreased and were impacted by:

- Airfare price wars, which slowed second half TTV growth and meant that FLT did not achieve the level of dollar-based sales incentives (super over-rides) it expected. In Australia, average international airfare prices decreased 4% during the second half,

while the value of tickets sold by US travel agents during the same period declined 4%, despite 6.2% growth in ticket sales (Source: Airline Reporting Corporation)

- Network upgrades, leading to higher capital expenditure and a \$12million year-on-year increase in depreciation and amortisation expense
- Underperformance in some regions, particularly India, UAE and Asia, where combined EBIT decreased from \$10.3million during FY15 to \$1.1 million; and
- Multi-million dollar investments in initiatives to drive longer term growth. For example, FLT incurred almost \$7million in EBIT losses from its internal start-up businesses, brands that were exported to new geographies and small corporate acquisitions that delivered a footprint in new and strategically important markets

FLT also incurred an unforeseen \$3million loss on forward exchange contracts, predominantly relating to the UK-based Top Deck and Back-Roads Touring businesses and as a result of the significant currency devaluations that followed the June 23 BREXIT referendum.

Underlying profit before tax (PBT) was \$352.4million, in line with FLT's revised expectations and its best result behind FY14 (\$376.5million) and FY15 (\$366.3million).

Actual or statutory PBT was \$345million (FY15: \$366.3million) and included:

- \$17.3million in non-recurring gains, consisting of the \$11million ACCC refund, plus the \$6.3million gain recorded on FLT's New Zealand head office sales; and
- \$24.7million in non-cash impairment (US leisure and wholesale businesses)

Underlying net profit after tax (NPAT) was \$246.7million, down 3.8%, while statutory NPAT decreased 4.7% to \$244.6million.

Cap-ex and growth

As expected, cap-ex increased to \$121million (FY15: \$82.9million) as FLT upgraded its shop network by rolling out a new design, invested in its IT infrastructure, including the Microsoft Dynamics finance platform, and relocated head offices in Australia, the USA and Singapore.

Sales team numbers increased 3.2% to 2914, while sales staff numbers grew 2.5% to 14,760 organically and through acquisitions that enhanced and diversified the network.

Acquisitions included:

- StudentUniverse, a leading platform for the student and youth sector with proprietary technology that allows it to sell exclusive student-only airfares online
- BYOjet, an online business that specialises in low cost airfares
- Aircraft charter and logistics specialist Avmin

- Corporate travel businesses in Mexico, Malaysia and the Netherlands, which have now become part of the global FCM network; and
- Maya Events in Hong Kong, which has bolstered the local events business

In addition, FLT again exported brands and businesses to new geographies, including Corporate Traveller (Asia and UAE), Top Deck (Asia), BYOjet and Stage and Screen (both Europe), events (Canada) and Travel Money, Campus Travel and 4th Dimension (USA).

Aunt Betty was also developed for launch in Australia during the first half of FY17.

Cash, cash flow and dividends

FLT's global cash and investment portfolio totalled \$1.52billion at June 2016 and included \$506.7million in company cash or general funds.

Overall, debt at June 30 2016 was \$76.8million, giving FLT a \$429.9million positive net debt position at year-end.

A \$356.6million operating cash inflow was recorded over the full year.

FLT's directors declared a fully franked \$0.92 per share final dividend to be paid on October 14, 2016. (Record date for shareholders: September 16, 2016).

This follows the \$0.60 per share fully franked interim dividend (paid in April 2016) and takes returns related to the full year to \$1.52 per share, in line with both FY14 and FY15.

The total dividends for FY16 exceed FLT's current policy of returning 50-60% of NPAT to shareholders and represent:

- A 62% return of underlying NPAT
- A 63% return of actual NPAT; and
- A 5% dividend yield, based on FLT's closing share price on June 30, 2016

Operational Review

FLT managing director Graham Turner said trading highlights included:

- Record TTV in all countries/regions in Australian dollars
- Record EBIT in South Africa and New Zealand; and
- Improved earnings in Australia, the UAE and Canada, with the latter returning to profit after losses during FY15

"The strong sales growth was particularly pleasing and meant that, on average, the group sold travel valued at more than \$50million every day of last year," Mr Turner said.

"TTV increased in both leisure and corporate travel but was generally stronger in corporate as we turned over more than \$6billion globally and consolidated our position as one of the world's largest travel management companies."

In Australia, TTV again increased at a slightly faster rate (5%) than the Australian outbound travel growth rate (circa 4.5%). EBIT increased 2%.

Several brands grew strongly, including FX specialist Travel Money Oz, Escape Travel, Flight Centre Business Travel and niche corporate brands Stage and Screen and cievents.

Sales also increased solidly at FLT's nationwide Expos and in several sectors, including:

- Youth and mature age coach touring
- Adventure travel; and
- Cruise

The International Airfare Packages (IAPs) that were launched during FY15 again performed well and contributed to the leisure margin recovery. The IAPs have now been renamed the Captain's Packages and expanded to include a short haul offering (domestic flights and some international journeys).

Low cost carrier (LCC) sales increased strongly off a small base, as part of the NXGen strategy that has seen FLT secure mutually beneficial commercial deals with LCCs and make a broader range of fares and ancillary products available online.

FLT's Australian corporate businesses achieved record TTV In a flat corporate travel market.

Growth on FY15 was relatively modest and was driven by record account wins, which offset the impacts of client down-trading in a subdued market and the loss of some accounts.

Wins included two of FLT's largest accounts - the New South Wales Government, which started to transact late in FY16, and ANZ Bank, which should start to transact early in FY17.

The Europe business again generated more than GBP1billion in TTV and was FLT's largest profit contributor outside Australia.

While TTV increased solidly, particularly during the first half, EBIT decreased to \$AU47.2million and was adversely affected by costs, specifically pay rises for sales staff and team leaders, investment in the start-up product ranges and a market slowdown in the lead-up to and after the BREXIT vote. FLT's corporate brands generally performed strongly, as did Flight Centre Business Travel.

During FY16, FLT entered continental Europe for the first time via the FCM Netherlands acquisition.

Further international expansion has taken place during FY17, with the first leisure shop now open in Ireland, in Dublin's Dawson Street, and an FCBT shop set to open in Cardiff later in the first half.

In the USA segment, TTV increased modestly in local currency and exceeded \$AU3billion for the first time, consolidating the USA's position as FLT's second largest business by sales.

EBIT was \$AU21.2million, compared to the record \$AU21.4million result during FY15.

Strong contributions from StudentUniverse (\$AU230.8million TTV and \$AU3.9million EBIT) and the SME corporate business offset disappointing leisure and wholesale results.

Corporate Traveller expanded into Raleigh, Minneapolis and Orange County and has been earmarked for launch in Mexico and in two new US cities (Oakland and Detroit) during FY17.

FLT also invested significantly in its corporate sales force (BDMs), technology and network, with Campus Travel and 4th Dimension introduced.

Travel Money opened its first two US shops, an implanted store within the Union Square hyperstore in Manhattan and a standalone location on nearby Broadway, while Liberty's Chicago hyperstore opened last week, giving the business a network of flagship Travel Centers in New York, Boston, Chicago, Philadelphia and Los Angeles.

Elsewhere in the world:

- South Africa and New Zealand achieved strong profit and sales growth, with TTV topping R5billion in South Africa and \$AU1billion in New Zealand for the first time
- Canada returned to profit, thanks to strong corporate results and reduced leisure losses; and
- The combined India, UAE and Asia business recorded solid sales growth but did not achieve its normal profit growth trajectory, despite improved earnings in the UAE

Contributing factors included a downturn in the oil and gas sector, which has affected corporate travel demand, the loss of some regional corporate accounts, investment in new and emerging businesses and lower airfare yields (prices), particularly in India..

Improvement Strategies

FLT aims to become "The world's most exciting and profitable travel retailer, personally delivering amazing experiences to its people, customers and partners".

The keys to achieving this objective include having famous and distinctive brands with expertise, scalable growth and making it easy for customers to buy from the company.

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As part of this strategic evolution, FLT has focused on six key journeys in recent years:

The Brand/Product Journey (Journey 1) saw every brand develop a clear offering, proposition and customer target, supported by unique products that customers value.

Under the Shop/Physical Journey (Journey 2) shops and offices were transformed into stimulating work places that showcased products and expertise.

As part of its Sales Journey (Journey 3), FLT created its P2P index to focus growth across the different models, from online travel agent to home-based agencies, so it could achieve better scale, more choice for customers and a successful model at all levels.

FLT has also incorporated mobile phones, SMS, laptops and Chat into the sales process, with a view to delivering instant quality responses, blending its offering and creating deeper and more personal relationships with customers.

Under the Business Journey (Journey 4), new ownership mechanisms were created, costs removed and unnecessary tasks and processes removed.

The People Journey (Journey 5) was built around a host of new initiatives, including flexible working arrangements (compressed weeks, job share, part-time).

The Digital Journey (Journey 6) has gained momentum during the past year, as FLT has acquired and launched new online brands, used digital tools to enhance back office efficiency and provided or developed new digital offerings for its people and customers.

Tools that have been introduced recently include Book With Me (personalised URL for Flight Centre consultants), the Key To The World digital travel wallet and "Sam" (SmartAssistant for Mobile), an app for FLT's US corporate customers.

A chief digital officer (CDO), StudentUniverse managing director Atle Skalleberg, has also been appointed to help FLT become the global leader in blending offline and online travel and meet the demands of tech-savvy leisure travellers.

Longer Term Growth Strategies

These journeys are integral to FLT's long-term plans, which are built around growth in:

1. Leisure travel retailing, the business that currently generates the bulk of FLT's sales
2. In-destination travel experiences, an area that now includes touring (Top Deck and Back-Roads) and destination management businesses (Buffalo Tours joint venture)
3. Corporate travel, a sector that now accounts for 33% of FLT's global sales
4. The student and youth market, a multi-billion dollar sector that is growing rapidly

5. Non-travel businesses that operate in sectors adjacent to travel (education) or that use the FLT business model (bikes); and
6. Travel investment and acceleration, which is an emerging area of focus that will allow FLT to work with and invest in innovative travel-related start-ups

FLT expects continued leisure growth globally and is using the P2P index to focus this growth across the different channels to achieve better scale, greater customer choice and a successful model at all levels globally.

The company's In-destination Travel Experiences Network is growing rapidly and will ultimately consist of distinct but aligned businesses focused on distributing and delivering amazing in-destination experiences to customers, while leveraging FLT's sales network.

Divisions are likely to include a global network of Destination Management Companies (DMCs), tour operators and hotels.

In the hotel sector, FLT is now pursuing partnership or management opportunities within key international markets. The initial focus is on Asia and the USA to leverage FLT's significant procurement of hotel rooms within these markets.

In corporate travel, FLT is now one of the top five travel managers globally and sees clear opportunities to fast-track future growth organically and by expanding in key international markets, as it did during FY16 via acquisitions in the Netherlands, Mexico and Malaysia.

StudentUniverse, with its powerful online platform and digital expertise, has given FLT a stronger platform for global growth in the student and youth demographic.

Within this sector, FLT ultimately aims to become:

1. The dominant global retailer of student and under-30s travel products on and offline through StudentUniverse and Student Flights; and
2. A major provider of student and under-30s travel experiences including touring, accommodation and event-based products

In addition to bikes and education, FLT's non-travel interests include an expanding financial area that serves staff and external clients.

Services currently include financial planning, travel industry tax returns, home loans and money coaching.

FLT is also expanding its foreign exchange offering, principally through Travel Money and Key To The World, and its range of interest-free holiday payment options.

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In Australia, the interest-free options were introduced within the Escape Travel brand three years ago and an agreement has just been reached with Flexi-Group to expand the offering to include FLT's other leisure brands. Student Flights has also introduced a lay-buy option. .

Incubation, investment and acceleration is a new area of focus and has two core functions:

1. A Business Accelerator focused on fast-tracking travel-related start-ups' growth; and
2. An Investment Arm tasked with identifying and investing in emerging businesses with established customer bases

In Australia, FLT's initial steps into this area have included investing in a local venture capital fund and working with leading industry players Fishburners (incubation) and Little Tokyo 2 (acceleration).

Outlook

Managing director Graham Turner said FY17 would be another important year for FLT, as its long-term strategic evolution continued and as it expanded in its six key areas.

"This evolution is well underway and has seen our company invest significantly in initiatives that will drive future growth," he said.

"For example, we have:

- Upgraded our omni-channel network by rolling out new shop designs, enhancing online offerings and generally making it easier for customers to transact and interact with our brands
- Implemented new systems and tools to enhance consultant-to-customer dealings and lower costs
- Launched people-related initiatives to develop expertise and aid professional growth
- Diversified through acquisitions, brand expansion and expansion into new geographies; and
- Designed and introduced new and unique product ranges

"In addition to developing products like the IAPs, we have taken steps to own the product at-destination via the travel experience network businesses. This is unique product that our businesses manufacture, merchandise and price.

"While we are starting to see some returns on these multi-million dollar investments, our focus remains very much on the longer term and building strong foundations for the future."

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Market Conditions, Guidance and Growth Drivers

In relation to the trading environment at the start of FY17, conditions remain volatile in some markets, including the UK and the USA.

In the UK, the BREXIT vote has adversely affected consumer confidence and demand for both corporate and leisure travel late in FY16 and at the start of FY17.

In the USA, airfares continue to fall, as airlines discount fares to stimulate demand in a soft market. This industry-wide softness has been attributed to the Zika Virus, which has led to travel warnings for a number of key markets for US holidaymakers, and instability in Europe.

Cheap airfares also continue to affect TTV growth in Asia and in Australia, where international capacity growth during CY16 is outpacing passenger growth and leading to lower seat utilisation (Source: BITRE).

In relation to FY17 profit expectations, FLT believes it is too early to provide meaningful guidance, given the uncertain environment, low airfare yields and ongoing investments, but will be disappointed if it does not exceed its underlying FY16 profit results.

The company will continue to monitor conditions and its performance and expects to provide more detailed commentary on its FY17 expectations at the Annual General Meeting on November 9, 2016. By then, FLT will have a clearer picture of the trading environment in its key geographies and an insight into its first quarter trading performance.

"There is a degree of uncertainty within our key economies at the start of the new year and it's impossible to predict future conditions, but we see improvement opportunities within our businesses and growth prospects globally," Mr Turner said.

"We will be disappointed if we don't improve on our FY16 performance.

"While the soft trading conditions experienced during the FY16 fourth quarter continued into July, we have started to see some recovery this month, led by the Australian business.

"This year in Australia, we aim to increase overall market-share in both corporate and leisure travel, as well as growing within key market segments.

"The outbound travel market continues to grow - albeit at a slower rate than in the past - with this growth being fuelled, in part, by incredibly cheap international airfares to destinations like London, Los Angeles, New York and Hawaii, which are among the lowest we have seen.

"While these lower ticket prices can curb our TTV growth in the short-term, they are hugely positive for customers and we will continue to promote them proactively and aggressively.

"In the UK, we believe travel patterns will start to return to normal as the year progresses and as customers become more comfortable with their financial position and outlook.

"We also believe our Europe business can out-perform the market, given its enhanced brand and geographic diversity, its financial strength and the local management team's track record of success in tough trading climates."

To improve performance in the short-term, FLT aims to improve productivity and achieve.

- Accelerated TTV growth through access to new revenue streams. Already this year, new products have been launched, specifically Key To The World and Avmin's Jetbidders aircraft charter booking tool, businesses have opened in new geographies and new offerings have been delivered to customers
- Stronger returns on recent investments, including brands and businesses that were launched last year
- Improvement in Asia, following the reduced profits during FY16, as new businesses start to deliver better returns and through a solid pipeline of corporate account wins; and
- Further network enhancements and expansion, as it continues to cost effectively grow along the P2P index

"In leisure travel, the building blocks are in place for stronger sales growth and we are starting to see the benefits in various channels, particularly flagship shops and online," Mr Turner said.

"Twelve months ago, our online leisure presence was largely centred on Australia and on the flightcentre.com.au website.

"Today, we have a stable of dedicated online brands that are growing strongly, along with enhanced capabilities and dedicated growth strategies on the websites that operate in conjunction with our leisure brands globally.

"By the end of FY17, we will have will have a significant online presence in Australia, Europe, the Americas, Asia, the Middle East, New Zealand and South Africa and we expect combined TTV to top \$AU1billion."

Network Expansion

FLT's sales staff numbers are expected to increase by 6-8%, which will see its global workforce top 20,000 people and it reach the 3000-business milestone during FY17.

TTV is expected to exceed \$20billion for the first time, nine years after FLT surpassed the \$10billion milestone and 20 years after the company first topped \$1billion.

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FLT will continue to pursue strategic acquisitions, as well as targeted organic growth opportunities within regions and within brands.

For example, Flight Centre in Australia will primarily grow in the channels that sit towards the edges of the P2P Index - low touch online and contact centre offerings, plus higher touch home-based agent and expo offerings.

Shop growth will primarily be in larger footprint stores - flagship hyperstores in CBD locations and megastores in super regional shopping centres - rather than in the traditional community shops that are now well represented in key locations.

The new George Street hyperstore in Sydney, which opened this month and is now FLT's largest shop globally, is a high profile example of this growth strategy and will ultimately house up to 150 people across multiple teams.

The company will also continue to export brands, as evidenced by:

- Corporate Traveller's recent move into Asia and its upcoming launch in the Netherlands (1H) and Mexico (2H)
- Flight Centre's introduction in Ireland this month and in Namibia in October
- cievents' planned launch in Mexico during the second half
- BYOjet's recent launch in the UK; and
- FLT's upcoming expansion into Wales

Capital Management

FLT currently has a \$429.9m positive net debt position and intends to maintain a strong balance sheet to allow it to fund growth initiatives throughout its omni-channel network, capitalise on opportunities and buffer it from the impact of future economic downturns.

If FLT's directors believe the company has surplus cash at a point in the future, the board will return funds to shareholders via the method it believes is most appropriate at the time.

Options may include:

- An increased dividend pay-out ratio. FLT currently seeks to return 50-60% of NPAT
- A one-off return. FLT has issued two special dividends previously; or
- A buy-back, an option that may be pursued if FLT's share-price is undervalued

ENDS Media & investor enquiries to haydn_long@flightcentre.com, + 61 418 750454

FLT will host a conference call for analysts and investors at 10.30am (Queensland time) today.

Dial-in details are as follows: Phone (02) 80385221 or 1800 123296. Conference ID 67103222.

*FLT's 10 geographic regions are: Australia, New Zealand, Europe (UK, Ireland and the Netherlands), South Africa, Canada, the USA and Mexico, Greater China (Hong Kong and Mainland China), India, the UAE and Singapore-Malaysia

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