



STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE - June 23, 2015

### **Flight Centre Travel Group Delivers Market Update**

THE Flight Centre Travel Group (FLT) today updated the market in relation to its 2014/15 fiscal year outlook.

Based on current trading results, FLT expects its underlying\* profit before tax (PBT) for the 12 months to June 30 2015 to be between \$355million and \$365million.

The mid-point - a \$360million underlying PBT - is at the bottom of the company's targeted range of \$360million to \$390million for the full year and is 4.4% lower than the record \$376.5million underlying PBT achieved in superior trading conditions during 2013/14.

Actual or statutory PBT during 2013/14 was \$323.8million.

Result highlights for 2014/15 will include:

- Record total transaction value (TTV) in FLT's 10 global businesses
- Solid growth in overseas profits, with four businesses - the United Kingdom, United States, Singapore and South Africa (local currency) - on track to deliver record earnings before interest and tax (EBIT)
- A record year-end company cash balance in excess of \$500million; and
- Continued investment in the business's people, platforms and sales network

While TTV in Australia will exceed last year's sales milestone, EBIT will fall short of the record result achieved during 2013/14.

Contributing factors include:

- Lower gross margins and revenue, brought about by consultant discounting to stimulate demand among cautious leisure consumers during the first half and in response to competitive market pricing in the corporate travel sector. Gross margins in the flagship Flight Centre brand are recovering and are now near prior year levels on a month-to-month basis
- Higher costs related to the front-end wage change that was implemented in August 2014, normal network expansion and an ongoing investment in marketing and

systems as part of the company's journey from travel agent to travel retailer. The consultant wage change has increased costs in Australia by \$12million this year; and

- Slower than normal sales growth, with Australian leisure turnover up 2.7%, compared to the 8.5% compound annual growth rate achieved over the past five years

"Our international businesses will deliver solid profit growth, but the Australian business will not achieve its normal growth trajectory," FLT managing director Graham Turner said.

"Corporate travel results have generally been reasonable, although the downturn in the resources sector has again affected performance in Western Australia and the Australian corporate travel market as a whole.

"We have seen good top and bottom-line growth from various niche brands including FX business Travel Money Oz, high-end retailer Travel Associates, cruise specialist Cruiseabout and corporate brands Campus Travel and Stage & Screen.

"While our mainstream leisure growth has been subdued this year, the investments we are making in the marketing and customer intelligence areas will help us generate stronger returns on our marketing spend and increase our market-share in the future."

TTV in Australia is likely to be up about 3% on last year.

The growth will largely be driven by the corporate business, which is up about 4% in turnover terms, and niche players like Travel Money Oz. Excluding Travel Money, overall leisure sales are likely to be relatively flat.

As reported last year, leisure sales growth in Australia slowed as consumer confidence fell in the lead-up to and after the Federal Budget in May 2014.

FLT saw some signs of recovery early in the second half of 2014/15, with the overall market returning to modest growth after a flat first half and the company's gross margins stabilising. To date, the company's share of the leisure travel recovery has not kept pace with the market and it has not experienced the traditional uplift in business activity during the key May and June months.

"On a positive note for the longer term, airline competition remains healthy in Australia, with international capacity up again this year and about 50 airlines servicing outbound routes," Mr Turner said.

"This competition looks set to continue, with Airbus recently predicting in its Global Market Forecast that the passenger aircraft fleet serving the Australia South Pacific region will almost double by 2033.

"This supports our belief that the next 20 years will represent a Golden Era of Travel, as customers will have more choice, better in-flight experiences and continued access to highly affordable fares.

"We are also seeing strong demand and sales to the USA and this looks set to continue into the new year with a price war currently underway on the Australia-Honolulu route."

Elsewhere in the world, all businesses will be profitable with the exception of Canada. A new senior management team is now in place in Canada and plans are being implemented to improve performance, particularly in leisure travel after two disappointing years.

Both the USA and UK businesses, FLT's second and third largest operations in sales terms, will deliver strong top and bottom-line growth.

US EBIT is set to increase by 50% this year in local currency and the UK is on track to reach the GBP1billion TTV milestone.

Both businesses are also poised for further expansion during 2015/16, with:

- New hyperstores set to open in Dublin and in Richmond
- A new US hyperstore to open in Washington and a smaller megastore, housing Liberty, Stage & Screen and Flight Center teams, plus the USA's first Travel Money business, to open in Manhattan's Union Square
- The US corporate business to launch in three new cities - Raleigh (North Carolina), Orange County and possibly Minneapolis or Detroit; and
- The Stage & Screen and Campus Travel corporate brands to launch in the UK and USA respectively

### Strategic update

FLT continues to focus on and invest in the key strategies that will underpin its journey from travel agent to the world's best person to person travel experience retailer.

These strategies focus on:

1. Having world class brands that are special
2. Manufacturing exclusive FLT products, not just selling suppliers' product

3. Being person-to-person travel experts, not agents
4. Working from branded business spaces, not offices.
5. Offering blended access so customers can touch, browse and buy FLT's products when and how they want – online, offline, shop, email, chat, phone or SMS
6. Information as power - profiles, patterns and predictions; and
7. Creating a more effective sales and marketing machine

Significant progress has been made this year in the unique product and sales and marketing areas in particular.

New initiatives and products include The Captain's International Airfare Packages, which have just been rolled out nationwide in Australia to clearly articulate the bonuses and benefits that are available to Flight Centre brand's customers.

An exclusive new Beach Escape range, featuring tried and tested products, will be launched next month (July).

These single-destination holiday packages will include flights, accommodation, activities, access to a travel concierge before and after the holiday and a credit towards a future Escape booking.

Essential, Value and Premium Escape packages will be offered at popular resorts to cater for all travel budgets and styles.

Flight Centre brand is also proactively promoting its Widest Choice of Airfares.

This extensive airfare range includes:

- Published fares that are widely available to bricks and mortar and online travel agencies via the various Global Distribution Systems
- Fares that agents access via particular airlines' websites; and
- Hundreds of other unique fares that are manufactured by FLT or made available to the company as private fares

In line with this commitment to offering the widest choice of airfares, FLT recently announced it had become the first Australian company to secure a commercial agreement with leading low cost carrier AirAsia. FLT is keen to secure other unique arrangements with airlines.

FLT's blended travel strategy has initially seen the company enhance all sales channels.

Enhancements include the roll-out of the next generation shop design for Flight Centre brand, Escape Travel and Travel Money, which is expanding rapidly throughout Australia and New Zealand and will launch next year in India and the USA.

The company's largest shop - a hyperstore in Sydney's George Street that will house up to 130 people - has been leased and will open late in the first half of 2015/16.

Other new developments in-store include the launch of Travel Clinics in the UK. The first Travel Clinic is about to open within the Kensington hyperstore to provide visitors to the store with travel-related medical and vaccination advice.

In addition to making more products and information available online, the company has also delivered new benefits to online customers to highlight another key theme that underpins blended travel - that customers are never on their own when they book with FLT.

These benefits include:

- Introducing live Chat capabilities on key leisure travel websites in Australia
- Creating an Online Care team to contact customers who have booked international airfares on flightcentre.com.au and help them in the areas where errors typically arise - seat selection, meals, visas/passports and loyalty programs, About 20% of these customers have made future bookings in-store; and
- Assigning expert consultants to online bookings in New Zealand to give customers a point of contact should any issues arise or to book ancillary products

A system that allows customers to enquire and interact via text message is being trialled.

#### Cash and cash-flow

FLT will finish the year with a stronger; positive net cash position and a company cash balance that is likely to exceed \$500million.

FLT will continue to re-invest company cash in the business to create additional shareholder value for the future.

This will see:

- An increase in capital expenditure in the short-term, as the company rolls out its next generation shop designs. FLT will also introduce a new mid-office finance platform and will initially roll the program out in the USA corporate business and in FCm Canada late in the first half of 2015/16

- Continued investment in the global corporate travel business; and
- Further acquisitions and joint ventures (JVs) to complement FLT's organic growth

During 2014/15, FLT has secured two new JVs, Topdeck in the UK and the Buffalo Tours destination management company in Asia.

FLT also recently announced it had entered into a legally non-binding agreement to acquire Mexico City-based Koch Overseas de Mexico, a corporate travel management business that was formerly part of the global FCm Travel Solutions network. The company expects to finalise the Koch agreement in the coming weeks.

FLT will release audited full year accounts on August 27, 2015.

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\*FLT's underlying PBT for 2014/15 does not include the acquired Topdeck business's profit, while underlying PBT for 2013/14 did not include the following non-recurring items: A \$61.3million non-cash write-down to goodwill and brand names, \$11million in fines imposed after the ACCC competition law test case and a \$19.6million one-off gain within the FCGP business.