



STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE - May 23, 2016

FLIGHT CENTRE TRAVEL GROUP ON TRACK FOR RECORD

SALES BUT PROFIT LIKELY TO BE BELOW INITIAL GUIDANCE

THE Flight Centre Travel Group (FLT) expects to surpass its annual sales record by \$1.4billion during 2015/16 as all countries/regions track towards new milestones.

The company announced today that total transaction value for the year to June 30 2016 was expected to exceed \$19billion globally (FY15: \$17.6billion), despite subdued trading conditions.

Underlying profit before tax (PBT) is, however, now likely to finish below the initial target for 2015/16 as profits during the seasonally stronger second half are being affected by:

- Increasing uncertainty in some key markets. Australia's Federal election in July and next month's Brexit referendum in the UK are both affecting consumer and business confidence leading into the important May-June trading period, while the Zika virus is affecting travel to some of the most popular destinations for American holidaymakers
- Airfare price wars in Australia, the UK, the United States and India, which together generate more than 80% of TTV. Discounted fares are stimulating ticket sales, but will also hamper FLT's ability to hit some supplier targets (super over-rides)
- Poor US leisure trading results. While the business never targeted significant improvement during 2015/16, results have not met expectations; and
- Investment in key improvement strategies that are expected to deliver strong future returns. Given their longer term importance, FLT has continued to invest in these initiatives, rather than postponing or reducing spend to boost short-term results

Operational expenditure and capital expenditure have increased significantly, as a result of the multi-million dollar investments FLT has made to underpin its Product, Shop, Business, Sales, People and Digital strategic journeys. These journeys and some of the key investments associated with them have been outlined in the accompanying table.

This year's investments will also pave the way for global expansion online next year, when FLT expects its leisure websites to deliver about \$AU1billion in TTV.

This expansion will see the company make its first significant online forays in the Americas, Europe and Asia, in addition to launching the Aunt Betty virtual travel agency in Australia.

Key developments will include:

- International expansion of StudentUniverse.com and BYOjet.com. Both businesses are performing strongly since acquisition (December 2015) and are expanding their product ranges, which will allow them to capitalise on further growth opportunities
- The launch of transactional Flight Centre websites in the UK, Hong Kong and United Arab Emirates for the first time and enhancements in the US (libertytravel.com) and Singapore; and
- Broader use of websites as a cost-effective sales channel for highly commoditised products. For the first time, FLT is using marketing campaigns to drive volume directly to its booking engines as part of the evolution of its person-to person index

### Trading Update

Trading results for the 10 months to April 2016 and preliminary estimates for the key May and June periods indicate that full year underlying PBT may finish about 2%-5% down on the \$366.3million PBT recorded during 2014/15. While the likely result will be FLT's third best ever, it will be outside initial guidance of a 4%-8% underlying PBT increase during 2015/16.

Actual (statutory) PBT will differ from underlying PBT and will include the following non-recurring items:

- A \$US19million non-cash impairment charge, which was foreshadowed at the half year, relating to the US leisure business
- An \$11million gain that the ACCC refunded to FLT in July 2015, following FLT's successful appeal in the long-running competition law test case; and
- A \$AU6.3million gain on the sale of FLT's New Zealand head office

FLT managing director Graham Turner said: "While we will be disappointed to miss the short-term profit target we set in August last year, we are investing significantly in our future and in the strategies that will underpin our longer term growth.

"While these investments are ongoing, we are developing strong platforms and are now starting to see tangible returns." For example, StudentUniverse.com's results have exceeded expectations so far and the business has given FLT access to better digital capabilities that can be utilised throughout North America and elsewhere in the world in the longer term.

"Our investment in unique products is also starting to pay dividends.

"Sales of the unique Journeys and Escapes ranges that have been launched in the UK should reach GBP40million this year and the International Airfare Packages that were introduced in Australia last year have now been rolled out in key leisure markets overseas.

"In relation to current trading, we are experiencing some uncertainty heading into the final six weeks of the year and during what is traditionally our busiest sales period, which makes it difficult to forecast final results.

"On a positive note, all countries/regions were tracking towards sales records at the end of last month and South Africa, New Zealand and the UAE could deliver record full year profit. The Canada business has also returned to profit after disappointing results last year."

In Australia, turnover during the 10 months to April 30 has increased in both leisure and corporate travel and has exceeded the 4%-5% growth rate in Australian outbound travel\* during the nine months to March 2016 (Source: Australian Bureau of Statistics).

Low cost carrier (LCC) sales are starting to increase solidly off a relatively small base as agreements are now in place with most key players and additional LCC fares and ancillary products can be booked on flightcentre.com.au.

Overall profit in Australia is now likely to be in line with last year, after being up during the first half, which in part reflects the significant investments that are being made. These range from the new shop design roll-out to increased online activity.

The US is set to deliver its second best full year result, behind last year's \$US16.5million earnings before interest and tax (EBIT) contribution.

While leisure and wholesale results have not met expectations, the US SME corporate business and StudentUniverse.com have both performed strongly. The corporate business has continued to expand its geographic footprint and should open in another two cities next year – Oakland and one of Kansas City, Detroit or Nashville.

In the UK, earnings have been adversely affected by investments made in new wage systems and unique product ranges that have exceeded sales expectations during their start-up phase. EBIT in local currency is expected to be down slightly over the full year, despite solid TTV increases.

FLT sees the airfare price wars that are currently underway globally as positive, despite the short-term adverse impacts on TTV growth and earnings.

"This discounting by airlines reinforces our belief that this is a Golden Era of Travel and is delivering incredible value to travellers, including some of the cheapest international fares we have ever advertised," Mr Turner said.

"For example, in recent weeks we have advertised return economy fares from Sydney to New York for less than \$1000, Los Angeles for less than \$800 and London from just \$1079.

"In addition, we are seeing cheaper domestic fares and some suppliers are including flights in other discount offers - particularly European cruises and tours - to stimulate demand.

"It's impossible to predict how long these eye-catching fares will last or if we will ever see them at these levels again."

Similar trends are being seen in the US, with industry group Airline Reporting Corporation last week reporting that although transaction numbers during January-April had increased by 4.6%, the total value of airfares sold had declined by 4.3% during the same period.

FLT will release full year accounts for 2015/16 on August 25, 2016.

**The company will also host a conference call for investors and analysts this afternoon.**

**Dial-in details are as follows:**

**Time: 3.30pm. Monday, May 23, 2016**

**Dial-in: 1800 123 296**

**Participant Passcode: 1948 5637**

**ENDS Media and investor enquiries to Haydn Long 0418 750454**

\*ABS data is based on departures. FLT's sales data is recognised when the travel documents are issued. ABS departures, therefore, lag FLT's sales data and are not a like-for-like comparison

# STRATEGIC UPDATE

## Sales Journey

- Further development of FLT's multi-channel & person to person (P2P) offerings
- New tools deployed to aid P2P interaction with customers - mobile & text communications
- New CRM tool commissioned and to be deployed in Australia during FY17
- Investment in Aunt Betty (start-up virtual travel agency) for launch in Australia early in FY17
- Increased investment in Expo and Events program - delivered strong TTV growth
- Seven strategic acquisitions completed - StudentUniverse.com, BYOjet.com, Avmin, cievents Hong Kong, FCM Malaysia, FCM Netherlands & FCM Mexico - delivering margin & TTV growth opportunities
- Brands exported to new geographies - Travel Money (USA), Campus Travel (USA), 4th Dimension (USA), Stage & Screen (UK), Top Deck (Asia) & FCBT (Asia)
- Corporate Traveller set for launch in Mexico, the Netherlands, Singapore, Hong Kong & India in FY17
- US corporate business to expand into two more cities - Oakland and one of Kansas City, Detroit or Nashville - during FY17

## Shop Journey

- Point of sales and shopfront merchandising trials - delivering positive results
- Development of P2P Index and strategies to deliver a lower cost physical footprint - multi-team shop growth, US kiosks for low cost, low risk entry to new markets
- Next generation shop design being deployed globally - contributing to circa \$30m increase in shop-related cap-ex this year
- New tools to enhance productivity as part of \$30m spend on systems cap-ex

## Product Journey

- International Airfare Packages (IAPs) rolled out in NZ and Canada, following successful launch in Australia
- Will be launched shortly in the UK and in Flight Center brand in USA
- Domestic Airfare Packages earmarked for Australia-wide release next month.
- Journeys and Escapes sales exceeding expectations in UK - circa GBP40million in sales this year
- Travel Essentials - new UK service providing visas, vaccinations, travel money, insurance and other ancillary products
- Key To The World digital travel wallet set for launch in Travel Money brand next month

## Business Journey

- Ongoing \$40million investment in Microsoft Dynamics as FLT's new mid-office platform
- Now deployed in the Canadian corporate business
- Staged deployment to take place globally during next two years
- Will allow FLT to retire between 15 and 20 legacy systems & reduce costs

## People Journey

- Increase in benefits to FLT's people, in line with company's core philosophies
- Money Coaches added to Moneywise service to help staff manage personal finances
- Female leadership development program introduced
- New wage systems introduced in UK, NZ and Canada, following changes in Australia last year
- Long-term retention plan deployed, targeting key executives globally
- New workplace flexibility initiatives - primarily targeting parents and people who aren't able to work conventional hours
- Annual Engagement Survey initiated
- Learning Management System being deployed

## Digital Journey

- Better capabilities online - now able to book most low cost carriers and ancillary products
- Marketing campaigns to deliver enquiry direct to booking engines (low cost, low touch transactions)
- Digital North America (dNA) area created to capitalise on digital capabilities within StudentUniverse and increase expertise throughout the region
- Creation of a new Global Digital Leader position, which will be filled over the coming weeks
- L2 consultancy commissioned in USA to help devise digital strategy and future blended travel offering
- Product Advertising and Customer Experience (PACE) areas upskilled globally
- Book With Me - personalised URL for Flight Centre consultants