



STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE - February 23, 2017

## **FLIGHT CENTRE TRAVEL GROUP ACHIEVES STRONG FIRST HALF TICKET SALES**

THE Flight Centre Travel Group (FLT) has achieved record first half (1H) sales and a profit before tax (PBT) in line with its targeted range for the six months to December 31, 2016.

The results have been achieved in a challenging global trading cycle and against a backdrop of widespread airfare discounting, economic uncertainty and exchange rate volatility. These cyclical factors have affected short-term PBT comparisons at a time when FLT's longer term strategic evolution has started to gain momentum, as evidenced by its:

- Strong ticket sales, particularly in Australia, where volume growth significantly outpaced market growth and 1H total transaction value (TTV) topped \$5billion for the first time
- Improved productivity, as FLT achieved its goal of increasing sales per person
- Growth in Europe, with the business delivering record 1H results in local currency (LC) and expanding into new and important geographies on the Continent
- Ongoing business transformation through the investment in new tools and systems, including digital enhancements that have helped drive rapid online sales growth; and
- Strong balance sheet, with more than \$350million in positive net debt

The company, which is now one of the world's largest and most diverse travel groups, has also outlined new initiatives to enhance its omni-channel offerings and drive future growth.

These include a small but potentially important investment for the future on Mainland China, with FLT adding Shenzhen Sunny Holiday International, a small Shenzhen-based travel agency that is licensed to sell outbound travel to Chinese nationals, to its network.

FLT's investment in Sunny follows three earlier acquisitions in the 2017 fiscal year (FY17), as it continues to expand globally in six key sectors, specifically its mainstream leisure, corporate and student/youth businesses, plus its emerging in-destination, non-travel and business acceleration areas.

Including its recent acquisitions in Europe, which saw it add businesses in Germany, Sweden, Denmark, Finland and Norway to its existing footprint in the UK, Ireland and Netherlands, FLT now has company-owned businesses in 20 countries, compared to just 10 countries three years ago.

## Results and Result Drivers

While FLT achieved record 1H TTV for the 20th time in 21 years as a listed entity and an underlying PBT in line with expectations, results were significantly impacted by:

- Unprecedented airfare discounting since the start of the second half (2H) of FY16, which has stimulated demand but slowed short-term TTV and revenue growth
- Adverse foreign exchange (FX) movements, which affected overseas result translation into Australian dollars (AUD) and which also led to a \$3.4million swing in Forward Exchange Contracts and translation of foreign denominated balances into AUD. FLT would have achieved an additional \$4.7million in 1H PBT and TTV would have increased by 5.6% if FY16's 1H exchange rates were applied to its FY17 results
- Economic uncertainty early in the 1H, which contributed to soft July trading results. Excluding July, TTV increased about 3.4% globally and by 6.2% in Australia; and
- Reduced earnings from the emerging Asia, Middle East and UK-based tour operating businesses, which together recorded a \$12.5million decrease in 1H profits

Nine of FLT's 10 regions\* delivered record TTV in LC, but year-on-year FX shifts (outlined above) meant that overall TTV increased by 1.8% in AUD to \$9.34billion.

Underlying PBT was \$113.2million, just above the mid-point of the period's targeted range, while underlying net profit after tax (NPAT) was \$78.2million (FY16:\$105.7million). Actual PBT was \$109.2million, with FLT incurring a one-off \$4.1million loss on exiting its Employment Office investment.

The Europe business overcame challenging market conditions to deliver a record 1H PBT in LC, as did FLT's businesses in South Africa and on Mainland China.

FLT managing director Graham Turner said the prevailing market conditions and their impacts on 1H results had masked some of the key achievements during the period.

"While we were disappointed that our record sales didn't translate to record 1H profits, our \$113.2million underlying PBT was a decent outcome, given the conditions," he said.

"Currency headwinds had a significant impact and particularly affected UK result translation, with a GBP500,000 1H profit increase translating to a \$AU3.9million 1H PBT decrease.

"Widespread airfare discounting, particularly on Australian outbound routes and in the USA, New Zealand, Singapore and India, also impacted short-term results.

"This discounting, which was driven in Australia by rapid airline capacity growth during the 2016 calendar year, has delivered unprecedented airfare bargains to our customers, but has affected TTV and revenue comparisons, given that fares were higher during the FY16 1H.

"On a positive note, productivity is improving and our record ticket sales again underline the strength, relevance and diversity of our offerings and of our omni-channel network. These are encouraging signs and mean we are well placed to benefit when conditions stabilise"

Sales staff numbers increased 3% year-on-year, but sales team numbers were flat as FLT:

- Successfully focused on productivity, its over-arching strategic focus in the short-term, rather than network expansion in some countries in a subdued trading climate
- Merged some smaller teams, in line with its belief in operating with an optimum team size; and
- Downsized US-based wholesaler GOGO and Round-The-World Experts in the UK to deliver stronger results

In addition to its investment in Sunny, FLT secured three small 1H acquisitions:

1. A 49% interest in Ignite, an Australian retail business that specialises in holiday packages, exclusive "flash sale" travel vouchers and rewards programs
2. The European corporate businesses; and
3. Bengaluru-based Travel Tours Group's (TTG) business assets, which included specialist FX, meetings and events, leisure, corporate and wholesale businesses

The Europe acquisition settled late in December 2016, while the first component of the TTG acquisition settled early in the 2H, meaning neither contributed to 1H results.

1H capital expenditure was \$66million (FY16: \$58million) as FLT invested in systems and shop enhancements, plus head office relocations that have now taken place. The largest relocation was in Australia, where almost 2000 staff relocated from four Brisbane properties into the new global headquarters at South Bank.

The increased cap-ex, which led to a \$5million 1H depreciation and amortisation expense increase, has also been directed towards system enhancements that should create a stronger operational backbone, enabling scalable growth and seamless customer experiences. Key areas include product and pricing, finance, the customer and digital.

At December 31 2016, FLT had \$448.6million in company cash and investments and \$91.9million in borrowings, leading to a \$356.7million positive net debt position.

The directors today declared a 45 cents per share fully franked interim dividend (FY16: 60 cents per share) to be paid on April 13, 2017 to shareholders registered on March 23, 2017. This represents a 58% return of underlying NPAT to shareholders.

## **Geographic Results - Australia**

In Australia, 1H TTV topped \$5billion for the first time, as the company recorded strong growth in international and domestic airfare sales.

International ticket sales increased 10% during the period and comfortably outpaced:

- The 5.2% outbound travel growth rate\*\*, pointing to market-share growth; and
- Network growth, pointing to solid productivity improvements

This growth trajectory continued in January, with FLT achieving its best monthly TTV increase for three years.

While 1H ticket sales increased strongly, average fares decreased 7% (international) and 4% (domestic) as traditional airlines and low cost carriers (LCCs) discounted fares.

This deflation meant that year-on-year TTV growth in Australia was more subdued at 4.6% and contributed to a 10% 1H earnings decrease. Other contributing factors included lower corporate gross margins, which were in part brought about by a change in business mix (larger accounts secured), and the investment in online businesses Aunt Betty and BYOjet.

Both BYOjet and Aunt Betty delivered strong 1H sales results, with BYOjet's TTV increasing more than 50%.

flightcentre.com.au also performed strongly, with TTV increasing about 30%. A broader range of products was added to the site, including additional fares and ancillary offerings, and it again delivered record enquiry to the flagship leisure brand's consultants.

In addition to achieving increased flight sales through multiple channels, FLT performed well in a number of key sectors, including hotel room nights, cruise, FX, adventure travel, corporate account wins and the youth sector.

Other 1H highlights included the launch of interest-free payment options for leisure customers and expansion in the exclusive Captain's Package range (CPs), with a short-haul CP launched and new features added, including travel insurance (December).

While leisure TTV increased, corporate TTV was in line with the FY16 1H at just under \$1.2billion in a subdued trading environment. FCM and Stage & Screen recorded solid sales growth but overall results were affected by lower airfare prices, client down-trading and the loss of some smaller accounts.

## **Geographic Results - Europe (UK, Ireland and the Netherlands)**

FLT's European business achieved record 1H TTV and profit (both in LC) despite a tough start to FY17, following the June 2016 Brexit referendum.

UK profit increased 10% during the three months to December 31 2016, after being relatively flat in LC during the first quarter, to underpin the company's overall growth in Europe.

This positive momentum has continued, with turnover increasing more than 20% in January in Europe and a record monthly profit achieved.

The UK corporate business again performed strongly, with account wins offsetting the impacts of client down-trading early in the 1H.

Elsewhere, the Netherlands corporate business broke even, while FLT recorded a loss in Ireland during a period of expansion, which saw a leisure offering launched in Dublin.

Other growth highlights in Europe included:

- Corporate travel expansion through the acquisitions in five key markets, which will make a small contribution to 2H profit, and via Corporate Traveller's Netherlands launch; and
- FLT's first significant online push through BYOjet's launch and e-commerce player StudentUniverse's merger with the gapyear social networking business

### **Geographic Results - USA (including Mexico and StudentUniverse)**

In the USA, 1H TTV reached a record \$AU1.3billion and exceeded \$US1billion for the first time. Losses increased in a low fare environment and during the leisure and wholesale businesses' seasonally softer trading period.

StudentUniverse (SU) achieved strong sales volumes and healthy profits, with online bookings growing and bookings made via SU's native mobile apps more than doubling.

The SME corporate business (Corporate Traveller), which has recently opened in Raleigh, Orange County and San Jose, also performed strongly, while the Mexico corporate business (acquired FY16) delivered a small profit..

Leisure losses increased, while loss-making wholesaler GOGO recorded a modest bottom-line improvement.

In line with normal seasonality in the USA, stronger 2H results are expected and the overall US business is expected to be profitable by the end of this month.

Other 1H highlights included:

- The creation of a Boston-based digital centre of excellence to improve online services and e-commerce platforms. This team has already delivered Flight Center USA's fully native mobile app to the market as a true "mobile first" initiative; and

- The opening of the first leisure micro-store in Tysons Corner Mall (Virginia)

## **Geographic Results - Rest of the World**

Elsewhere in the world, FLT's established businesses in South Africa, New Zealand and Canada achieved record TTV in LC.

The South Africa business expanded into Namibia and achieved a record 1H profit (LC), while the Canada business, which has traditionally recorded 1H losses, finished the period close to breakeven and achieved a record profit in January.

In New Zealand, FLT achieved another healthy profit but the result was below the prior year.

FLT's emerging businesses in Greater China, Singapore and India also achieved record TTV (LC), with the UAE business recording a year-on-year decline in a subdued trading climate.

While the company performed well in some sectors in its Asia-Middle East region, particularly on Mainland China, overall losses increased about \$2.9million during the 1H. 2H improvement is expected, as FLT introduces a regional management structure to centralise functions and reduce costs and as other new initiatives gain traction.

The recent India and China acquisitions are not expected to materially affect 2H results but will strengthen FLT's offering in these two rapidly growing markets in the future.

Since entering Mainland China in 2005, via a JV with China Comfort, FLT has obtained wholly-owned domestic and international ticketing licenses. With Sunny's addition, the company will have a full leisure and corporate offering in a country that is now the world's largest corporate travel market (Source: GBTA) and is tipped to surpass the USA as the world's largest aviation market by 2024 (Source: IATA).

## **Strategic Update**

While FLT's short-term strategic goal has been to increase productivity, which it has successfully done, longer term plans have been geared towards growth in six key areas.

1. Leisure travel retailing
2. In-destination travel experiences
3. Corporate travel, which now generates more than a third of global sales
4. The student and youth sector
5. Non-travel businesses that operate in sectors that are either adjacent to travel or that use the FLT business model; and
6. Business acceleration and early stage travel technology investments (Little Argas)

In leisure travel, FLT is cost effectively developing its omni-channel offerings along the Person-2-Person (P2P) Index to increase its market-share and to enhance customer transactions and interactions.

Key channels in the P2P Index include:

- Low touch, low cost online and contact centre offerings
- Large footprint hyperstores and megastores, plus smaller community shops; and
- Higher touch offerings, specifically events and expos and home-based agents

In Australia, FLT aims to fast-track growth in areas where it is currently under-represented, while also increasing in-store sales to dominate the leisure travel landscape. Opportunities include online and home-based, a model that is growing rapidly globally.

The company is also blending its leisure offerings and developing new products like CPs, interest-free holidays, Student Flights' Black Market Flights and the Journeys and Escapes land product ranges. A branded Mastercard was also recently introduced in New Zealand.

FLT's investment in its in-destination travel experiences area has created a stable of profitable businesses with unique products and offerings that can be distributed via its vast global sales network.

Destination management company (DMC) Buffalo Tours, a JV with Vietnam's Thien Minh Group, is performing strongly in Asia is expected to deliver a total FY17 profit in the order of \$2million in just its second full year. This success is likely to pave the way for further expansion globally in the DMC sector, both organically and via acquisitions.

Tour operators Top Deck and Back-Roads are also expanding and recording strong forward bookings, which should lead to improved future results.

In corporate travel, FLT is developing a truly global presence by entering new and important markets and enhancing its already strong corporate technology suite through the introduction of Artificial Intelligence (AI) tools that are expected to deliver further efficiencies for both FLT and its customers.

SAM :], a booking app utilising cutting edge AI and chatbot technologies to enhance customer-consultant interactions, has been deployed in the USA and was launched in Europe this week.

In addition, the Little Argas acceleration and investment team has made a small investment in Claire, an intuitive AI-powered travel technology service that has just entered beta testing in the USA and that has been developed to target the unmanaged SME market.

While SAM :, or Smart Assistant for Mobile, is designed to respond to requests over a chat interface, Claire injects AI into the entire experience by analysing customer behaviour to identify habits and using machine learning to deliver deeper personalisation.

Within FLT's other key sectors;

- Youth brands SU and Student Flights are recording strong sales growth and gaining share in a large but highly fragmented global market
- The non-travel businesses are generally performing well in sales terms, with Travel Money on track to become the fourth Australian brand to top \$1billion in annual TTV after Flight Centre, FCM and Corporate Traveller and the Pedal Group cycle JV set to deliver almost \$100million in sales; and
- The Little Argas team is working with leading industry players to help fast-track start-ups' growth and identify possible investment opportunities, particularly businesses with products that can either be distributed via FLT's global sales network or that solve business problems

Across its key business units, FLT has continued to invest in and develop digital capabilities.

This has seen the company:

- Appoint a global chief digital officer (Atle Skalleberg) during the 1H
- Create the digital commerce centre of excellence in Boston to accelerate FLT's digital transformation and provide global direction across e-commerce entities
- Implement an online sales strategy built around fewer proprietary booking platforms, improved leveraging of group IP and expansion into new and potentially large regions including the UK, Europe, Asia and the Middle East, where FLT has not previously had a meaningful online presence; and
- Launch new apps and tools, including Book With Me, the personalised web pages that Flight Centre travel agents in Australia are using, and Flight Centre branded search and book apps in Australia and New Zealand

Online sales are growing, both in leisure and corporate travel.

In the leisure sector, FLT is working towards its goal of achieving \$1billion in online TTV globally this year, largely through flightcentre.com.au, SU and metasearch specialists BYOjet and Aunt Betty. During the 2H, the popular CP range will be made available online via flightcentre.com.au, BYOjet and Aunt Betty will launch in Singapore and transactional Flight Centre branded websites will be rolled out in South Africa and the UAE.



FLT will not benefit fully in the short-term from its improvement initiatives, but is seeing returns on its investments as evidenced by its solid sales growth so far this year, growth into new geographies and sectors and the productivity gains that it is recording globally.

### Outlook

Although underlying 1H PBT was in line with expectations and TTV growth appears to be accelerating, trading conditions globally remain uncertain and the factors that significantly impacted 1H results - FX movements and airfare deflation - may continue throughout the 2H and slow bottom-line growth.

Given this ongoing uncertainty ahead of the company's busiest booking periods, FLT believes it is appropriate to amend its FY17 guidance to an underlying PBT between \$300million and \$330million (previously \$320million-\$355million).

As outlined above, risk factors include FX fluctuations and their possible impacts on consolidated overseas profits and the possibility of further significant year-on-year airfare deflation, which will make it more difficult to achieve the accelerated 2H TTV and revenue growth that FLT currently expects.

Factors that are currently expected to drive 2H results include:

- Accelerated TTV growth if airfare pricing remains relatively stable. Given that widespread discounting began during the FY16 2H, the differences in average fares may decrease as the year progresses, which will see FLT achieve more rapid TTV growth if it maintains current ticket sales volumes
- A more stable trading environment and solid momentum heading into the period after an improved second quarter, particularly in the USA and Europe
- Comparatively stronger results from the touring businesses after a \$9.6million reduction in 1H earnings stemming from FX shifts and operational issues (over capacity) during the peak European touring season
- Benefits from cost-control initiatives that are now in place; and
- Further productivity gains and cost-effective network expansion

"While we still believe that a full year PBT towards the bottom of our initial range is possible, we are not yet seeing tangible evidence that the factors that affected 1H profits are abating quickly and that the benefits will flow through during FY17," Mr Turner said.

"Translation of UK results remains an issue and the year-on-year differences in average airfare prices are not yet narrowing to the extent that we anticipated.

"As a result of these external factors, we now believe that underlying FY17 PBT is likely to be at the lower-end or below our initial guidance and that a result between \$300million and \$330million is more likely.

"To improve short-term performance, we will instead focus on factors that are within our control, specifically increasing market-share, enhancing productivity, improving performance and implementing sensible cost control measures, as we have been doing during the 1H.

"Factors that will drive longer term growth include the business's:

- Brand and geographic diversity
- Diversity of sales channels - customers can now interact with our people in-person, by phone, email, online, SMS, chat, with the assistance of artificial intelligence or via a combination of channels; and
- Ability to capitalise on opportunities as a result of its balance sheet strength."

#### **Additional Details**

Investor Call: FLT's half year conference call will be held today at 9.30am QLD time (10.30am NSW). Phone 02 80385221 or 1800 123296. Conference ID 74734216

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\*FLT's 10 major regions are Australia, Europe, the USA (including Mexico), Canada, New Zealand, South Africa, Greater China, India, Singapore (including Malaysia) and the UAE.

\*\*Outbound departures are based on travel dates, while FLT's sales are recorded when travel documents are issued