

Flight Centre Limited

2013 Half Year Results

Teleconference
26 February, 2013

Presentation outline



- ❑ Introduction Haydn Long
- ❑ Highlights Andrew Flannery
- ❑ Segmented results Graham Turner
- ❑ Strategic priorities Melanie Waters-Ryan
- ❑ Outlook Graham Turner

Introduction



- ❑ **Solid start – new global sales and profit records established**
- ❑ **Global growth – continued business expansion**
- ❑ **Financial strength – debt lowered and cash grew during first half**
- ❑ **Shareholder returns – record 1H EPS (91.7c), dividend and share price growth**
- ❑ **Key strategies in place and already paying dividends**
- ❑ **Full year guidance maintained**

Highlights



- ❑ TTV and gross profit both up 7% to \$6.6b and \$915.4m
- ❑ \$129.5m profit before tax, up 8%
- ❑ \$91.8m net profit after tax, up 13%
- ❑ Income margin steady at 13.9%, net margin up slightly to 2%
- ❑ Fully franked 46c per share interim dividend declared – up 12%

Highlights



- ❑ **\$828.5m global cash and investment portfolio at December 31, includes \$319.5m in general funds**
- ❑ **Debt of \$46.6m after \$USD60m loan repaid – \$273m positive net debt position**
- ❑ **Operating cash outflow higher than 1H12 but in line with expectations – seasonal 1H outflow reversed in early 2H trading**
- ❑ **Year-on-year movement largely reflects supplier payment timing**

Highlights

- ❑ Poised to open 2500th shop and business
- ❑ Corporate and leisure sales increased – highlights FLT’s diversity
- ❑ Record first half EBIT in Australia, UK, Singapore and Greater China
- ❑ flightcentre.com.au TTV up 23% and on track to deliver \$5m EBIT in FY13
- ❑ Share price at record highs in Feb 13 (inclusion in MSCI and S&P/ASX100)
- ❑ Further success in travel industry awards – FCm judged world’s best TMC for 2nd successive year, FLT claimed retail, corporate and wholesale honours at Australia’s National Travel Industry Awards



Performance summary



RESULTS IN BRIEF	DECEMBER 2012	DECEMBER 2011	Variance %
\$' million			
TTV	\$6,593m	\$6,181m	6.7%
Gross Profit	\$915.4m	\$857.5m	6.8%
Income margin	13.9%	13.9%	-
Net margin	2.0%	1.9%	1.0%
EBITDA	\$148.9m	\$137.5m	8.3%
EBIT	\$124.8m	\$112.7m	10.8%
Profit Before Tax	\$129.5m	\$119.7m	8.2%
Net Profit After Tax	\$91.8m	\$81.6m	12.6%
Effective tax rate	29.1%	31.9%	
Interim Dividend	46.0c	41.0c	12.2%
General cash	\$319.5m	\$316.9 m	0.8%
Client cash	\$453.9m	\$429.8 m	5.6%
Cash and cash equivalents	\$773.4m	\$746.7 m	3.6%
Available-for-sale investments & other financial assets	\$55.1m	\$53.7 m	2.8%
Cash and investments	\$828.5m	\$800.4 m	3.5%

Performance summary



	DECEMBER 2012	DECEMBER 2011	DECEMBER 2010	DECEMBER 2009	DECEMBER 2008
TTV	\$6,593m	\$6,181m	\$5,668m	\$5,056m	\$5,788m
Income margin	13.9%	13.9%	14.0%	14.3%	13.3%
EBITDA	\$148.9m	\$137.5m	\$121.3 m	\$100.5m	\$53.2m
PBT	\$129.5m	\$119.7m	\$101.1m	\$73.6m	\$34.2m
NPAT	\$91.8m	\$81.6m	\$70.5m	\$51.1m	\$26.1m
EPS	91.7c	81.6 c	70.6 c	51.3c	26.2c
DPS	46.0c	41.0c	36.0c	26.0c	9.0c
ROE	10.4 %	10.5%	9.9%	8.0%	4.2%
Cap-ex	\$28.4m	\$27.4m	\$24.2 m	\$8.6 m	\$37.9m
Building acquisitions	-	-	\$0.6 m	-	\$12.4m
Selling staff	12,317	11,866	10,973	9,831 ^	10,324

^ December 2009 selling staff numbers restated to include India

Segment results – Australia



- ❑ TTV up 9% in “flat”market
- ❑ Growth rate exceeds network growth rate
- ❑ Corporate brands turned over more than \$1b for 1st time in a first half
- ❑ Solid EBIT growth achieved
- ❑ Cheap fares stimulating leisure demand (FLT research shows average international fares more than 20% cheaper than 5 years ago)
- ❑ Niche brands – Escape Travel, Student Flights, Travel Associates, Cruiseabout, My Adventure Store and Travel Money Oz – performing well
- ❑ Bikes JV delivered 27.4% sales growth and inaugural PBT

Segment results – UK



- ❑ **Main profit driver outside Australia and third largest sales generator (behind Australia and USA)**
- ❑ **TTV flat with lower corporate sales during 1H offsetting leisure sales growth**
- ❑ **Strong EBIT result (up 17% to \$12.3m) in challenging economy and despite impact of London Olympics**
- ❑ **Gaining share in market that has contracted during past five years**
- ❑ **Specialisation and hyperstore strategies working well in leisure sector**
- ❑ **Corporate affected by client down-trading but account wins offsetting effects**
- ❑ **Five-year plan in place to double UK TTV by 2017**

Segment results – USA



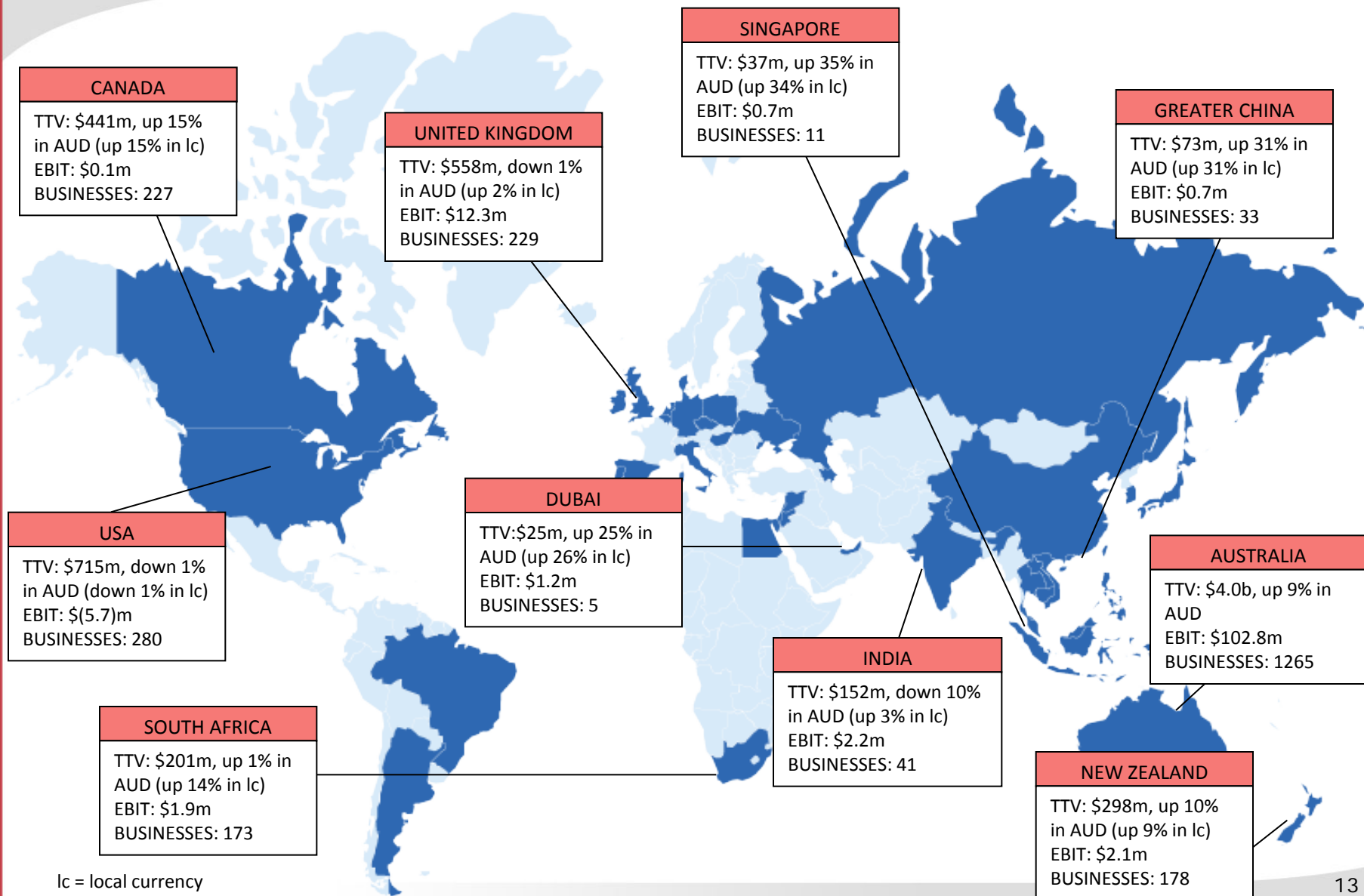
- ❑ 1H TTV in line with PCP
- ❑ Losses higher than last year because of timing issue
- ❑ Tracking close to PCP after seven months
- ❑ Results affected by Hurricane Sandy – temporary shop closures, sluggish demand in hardest hit areas in aftermath
- ❑ New York City Travel Centre – first US hyperstore – performing well after opening in October
- ❑ Liberty consultants in hyperstore generating higher average commissions than counterparts elsewhere in USA
- ❑ Ongoing corporate expansion – Corporate Traveller opened in Philadelphia and Houston (Denver and San Diego scheduled for 2H)
- ❑ Improved gross margin in GOGO wholesale business

Segment results – rest of world



- ❑ EBIT more than doubled in NZ – driven largely by corporate growth
- ❑ Singapore EBIT doubled – small leisure business now profitable
- ❑ Strong EBIT growth in Greater China
- ❑ South Africa, Dubai and Canada profitable but down on PCP
- ❑ Strong corporate results and network growth in Canada
- ❑ India ahead of expectations and healthy 1H profits, reversing trend of 2H12
- ❑ TTV doubled in Asia/Middle East leisure business

Segment results – by country



lc = local currency

Strategic priorities



- 1. Retail efficiency**
- 2. The “Area”**
- 3. Corporate travel growth**
- 4. Unique product**
- 5. Enquiry management**
- 6. The customer**
- 7. Emerging businesses**

Strategy 1: Retail efficiency



Aim

To improve retail efficiency and shop operations (Travel Shopping of the Future Program) and ensure we identify and take away “pain points” for our customers and our consultants

Major initiatives

- ❑ Travel Shopping of the Future
- ❑ Blended Travel
- ❑ Automated finance systems
- ❑ Single access points for air product and land product

Travel shopping of the future

- ❑ Aligned with creation of blended travel model and at the heart of FLT's retail transformation efforts
- ❑ Seamlessly melding the physical and digital worlds to make FLT's next generation shops an exciting, inspiring and engaging in-store experience for customers
- ❑ Built around five key objectives that focus on increasing the number of customer files each consultant closes, dollar value per file and land sales
- ❑ Initiatives that are expected to be delivered this year include enhanced, content-rich quotes and itineraries built out of the company's new product database



Blended travel



- ❑ **Model recognises that customers have power to transact and interact when and how they want**
- ❑ **Developed and refined after studying and meeting overseas retailers that had successfully blended on and offline offerings**
- ❑ **FLT's blended offering will allow customers to interact with the company and its consultants in any channel at any time throughout the travel cycle – dream, plan, book, experience, share**
- ❑ **Three implementation phases – Phase Two virtually complete for Flight Centre brand in Australia**

Blended travel

KEY MILESTONES	STATUS	ELEMENTS
PHASE 1	✓	<ul style="list-style-type: none"><input type="checkbox"/> Pre and post booking processes blended<input type="checkbox"/> Customers able to enquire, pay and view itineraries online
PHASE 2	✓	<ul style="list-style-type: none"><input type="checkbox"/> More products and services available online<input type="checkbox"/> Published international fares, global hotels<input type="checkbox"/> Online access to human search engines<input type="checkbox"/> Consultant “chat” and “select” in place in some brands<input type="checkbox"/> Perfect Match and automated messaging being trialled
PHASE 3	WIP	<ul style="list-style-type: none"><input type="checkbox"/> Work continues on fully integrated model<input type="checkbox"/> Will ultimately allow customers to switch seamlessly between sales channels at any stage

Consultant select - the human touch

[close](#)

Choose a travel expert

- ✓ Here when you need us
- ✓ We enjoy passing on our inside knowledge about airfares, where to stay and general travel tips
- ✓ Help **after** your booking
- ✓ We're there for you, 24/7

Choose a store that is convient for you

Your postcode:

Flight Centre Buranda




264 Ipswich Road


Select this store

+ show more results
(1 more found)





Show on map

 [\[change\]](#)
Tabitha Donnini
is your personally selected travel agent. I am here when you need me.

Flight Centre Buranda [Store Details](#)
 1300 356 835

Cost Breakdown

1 x Adults	AUD \$2543.14
Booking fee 	AUD \$28.00
Merchant fee 	<i>select payment type</i>
†SUBTOTAL	AUD \$2571.14

Strategy 2: The “Area”



Aim

Focus on the area, a grouping of 12-20 shops and businesses, as the key operational unit – thinking small to grow big

Major initiatives

- ❑ New brand-based leadership structure in place – allows area leaders to focus on one brand
- ❑ Area Leader Recipe for Success now in place – structured approach to the role
- ❑ Shift in role’s focus – senior management of FLT’s core business unit

Strategy 3: Corporate travel growth



Aim

To accelerate corporate travel growth

Major initiatives

- ❑ Team and BDM growth, expansion of FCm global network (80 countries)
- ❑ Enhanced customer offerings
- ❑ Corporate TTV has doubled over the past three years
- ❑ Business travel brands (FCm Travel Solutions, Corporate Traveller, cievents, Stage & Screen and Campus Travel) contributed 33% of group TTV during 1H, compared to 22% during 1H10
- ❑ Flight Centre Business Travel expansion

Strategy 4: Unique product

Aim

Enhance supply chain relationships for mutual benefit and unique product creation

Major initiatives

- ❑ **Manufactured multi-stop flights – round-the-world, Double Dip**
- ❑ **Student Flights’ Black Market fares gaining strong support and growing sales for suppliers**
- ❑ **Work underway on new range of exclusive Flight Centre brand airfares**
- ❑ **myTime (exclusive VIP bonus program for FLT customers) now working with 139 suppliers. Another 35 planned for introduction by the end of financial year**
- ❑ **myTime properties are gaining market-share – sales growing at a significantly faster rate than non myTime properties**

Strategy 5: Enquiry management



Aim

Better manage and convert the record levels of enquiry FLT continues to generate

Major initiatives

- Faster response times to email enquiry**
- Enquiry routed to specific consultants with expert knowledge – London trial for Perfect Match**
- Domestic “direct” and other specialist teams created (first and business class, round-the-world) to ensure greater expertise for customers**

Strategy 6: The customer



Aim

Enhance FLT's customer-centric focus to ensure the company's businesses are the preferred choices in their sectors

Major initiatives

- ❑ Global Sales Academy exported from FLT's UK business and now in place in Australia, RSA and the USA
- ❑ Call recording facility compels consultants and leaders to focus on the customer experience, sales techniques and behaviours
- ❑ Blended offering – online expansion, shops trading longer, more after hours sales staff in place
- ❑ Focus on resolving customer issues faster – senior leaders listed as points of contact
- ❑ Instant Refunds team about to be implemented

Strategy 7: Emerging businesses



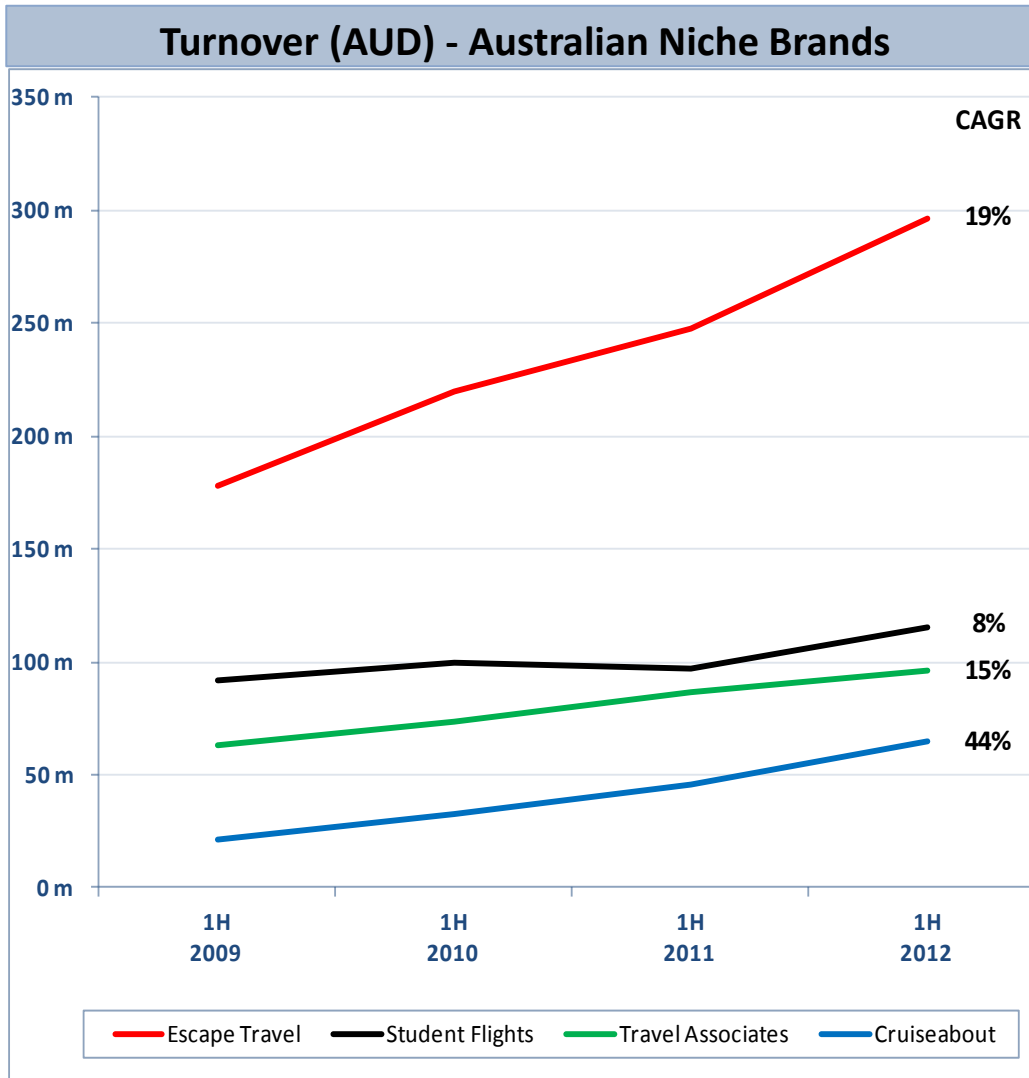
Aim

Ensure FLT's emerging businesses have the focus and resources to better create replicable, successful business models

Major initiatives

- ❑ Brand-based leadership structure now in place and starting to pay dividends
- ❑ Turnover up 70% since Dec 09 for Australia's niche leisure brands (Student Flights, Escape Travel, Travel Associates, Cruiseabout and Travel Money Oz)
- ❑ Contributed more than \$750m in TTV during 1H (\$440m 1H10)
- ❑ Dedicated leader in place across non-travel businesses (bikes, Employment Office, FC Business School, FC Appointments, Moneywise and Healthwise)
- ❑ Inaugural PBT for Pedal Group cycle joint venture (\$120,000) during 1H and continued EBIT growth to \$620,000

Growth trajectory – niche brands



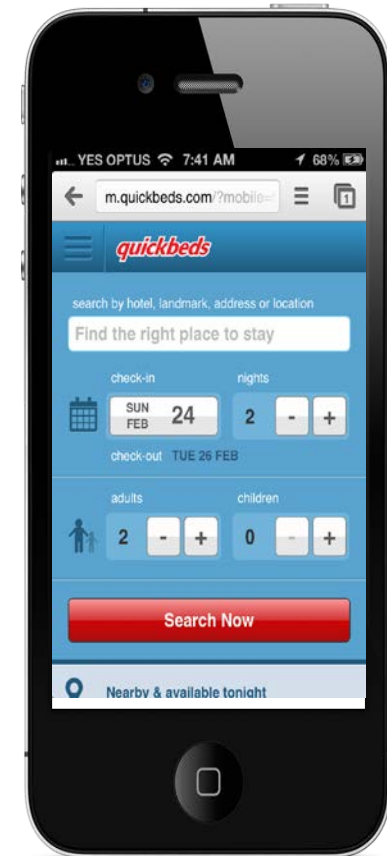
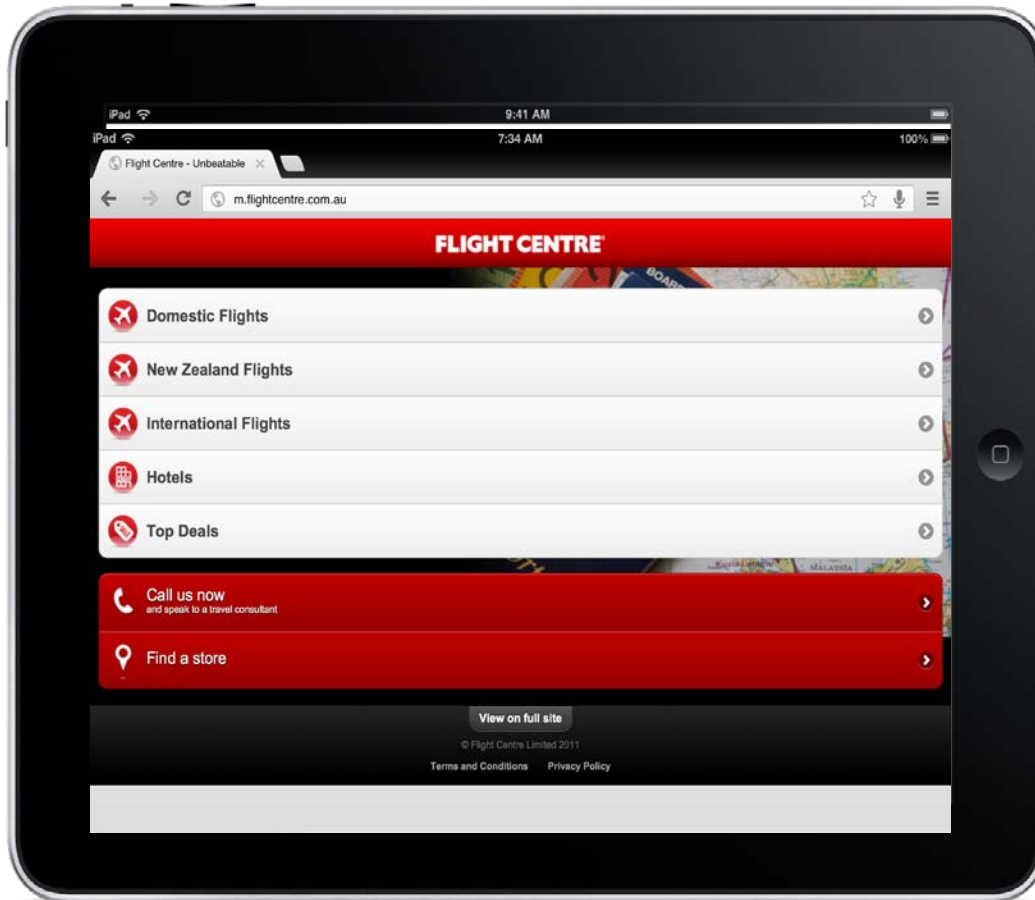
- ❑ Australia's niche leisure brands are growing strongly
- ❑ Combined turnover has increased 70% since the half year ended December 09
- ❑ Cruiseabout's turnover has more than tripled during this period

Technology and digital enhancements



- ❑ **Universal Desktop**: In place in Australia, UK, NZ and RSA. Single search air database on the way in Australia
- ❑ **Flight Express**: Consultant desktop in place in USA
- ❑ **FCm Mobile**: Integrated mobile phone solution to be launched for corporate customers
- ❑ **iPads**: Now incorporated into some hyperstores, including Madison Avenue
- ❑ **Mobile sites**: New offerings launched for Flight Centre and quickbeds
- ❑ **Database expansion**: Communicating digitally with millions of existing and potential clients
- ❑ **Social media**: Communicating with customers, monitoring social channels and business mentions around-the-clock
- ❑ **Skroo's news**: Graham Turner is on Twitter, Facebook, Google Plus and LinkedIn and now produces a regular blog (www.skrooturner.com)

Ready for take-off – mobile sites



2012/13 guidance



- ❑ **Tracking at the top end of guidance range at the end of 1H (PBT up 8%)**
- ❑ **Likely to be 10% up on PCP by end of February**
- ❑ **Maintaining 10% PBT growth will become more challenging**
- ❑ **FLT now tracking against largest profit months of 2011/12**
- ❑ **Will continue to target a PBT between \$305m and \$315m for FY13**
- ❑ **Targeted range is not a formality but FLT well placed to build on foundations**
- ❑ **Strengths include proven and resilient building model, strong balance sheet, brand and sector diversity (large leisure and corporate travel presence) and blended offering that distinguishes FLT from OTAs**

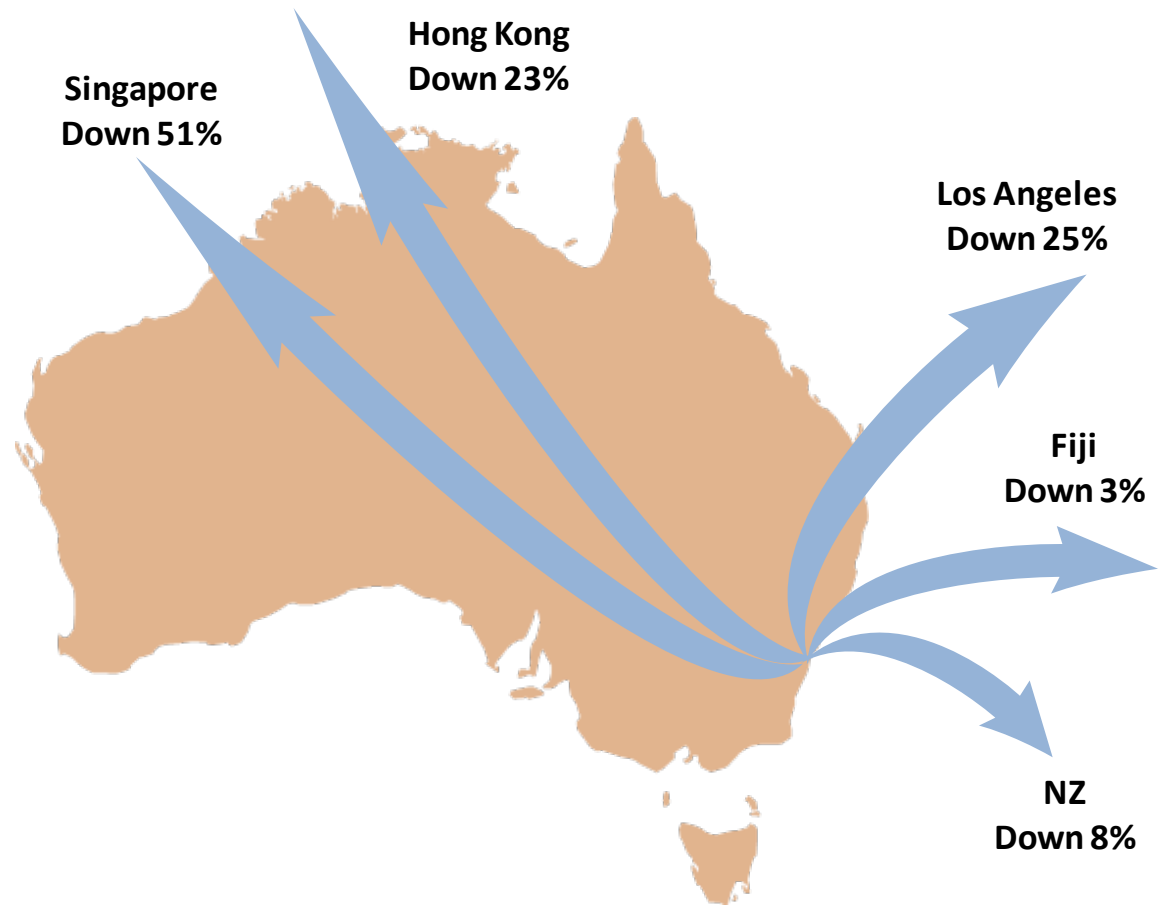
Outlook: Australia



- ❑ **Solid start to 2012/13**
- ❑ **Corporate sales growing, leisure customers taking advantage of cheap fares**
- ❑ **Continued growth in Flight Centre brand – 20 new sales teams by June 30**
- ❑ **New “specialist” teams – first and business class travel, round-the-world flights, small corporate accounts (Flight Centre Business Travel), group travel and online**
- ❑ **Corporate priorities include technological improvements to drive productivity gains and enhance the customer experience**
- ❑ **New tools on the way**
- ❑ **Mobile platform and traveller tracking tools, enhanced reporting, single sign-on customer portal**

Airfare prices in freefall

ROUTE	DEC 2007	DEC 2012	SAVING (%)
Sydney-Auckland	\$359	\$330	Down 8%
Sydney-Bali	\$999	\$642	Down 36%
Sydney-Bangkok	\$955	\$664	Down 30%
Sydney-Fiji	\$565	\$550	Down 3%
Sydney-Hong Kong	\$1039	\$797	Down 23%
Sydney-London	\$1595	\$1413	Down 11%
Sydney-LA	\$1539	\$1160	Down 25%
Sydney-New York	\$1765	\$1421	Down 19%
Sydney-Phuket	\$1079	\$794	Down 26%
Sydney-Singapore	\$1069	\$519	Down 51%



Outlook: UK



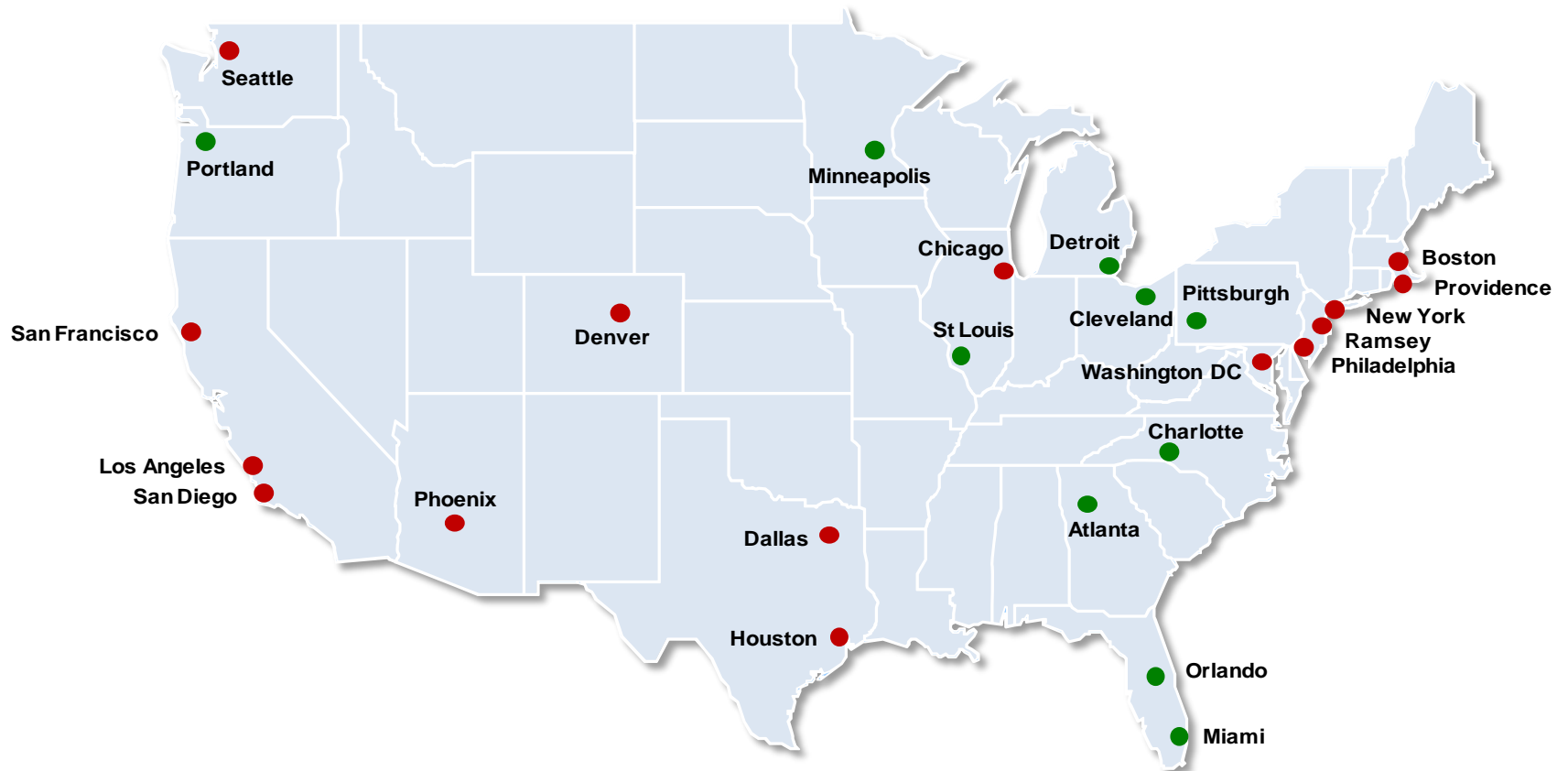
- ❑ **Blueprint in place to drive growth to 2017 and beyond**
- ❑ **Key strategies focus on sales network growth, product expansion, productivity and leadership development**
- ❑ **Currently, building operational and technological platforms required to fast-track growth through to 2017**
- ❑ **Aiming to offset effects of corporate client down-trading by winning new accounts in corporate travel**
- ❑ **In leisure travel, FLT continued expansion through hyperstores and flagship outlets in key locations in London and other cities (currently looking at Bristol)**

Outlook: USA



- ❑ Results expected to follow a similar pattern to last year
- ❑ 2H profits targeted to exceed 1H losses, leading to \$10m-\$15m full year EBIT
- ❑ Some ongoing economic uncertainty, ahead of business's key profit period
- ❑ Fast-tracking plans for Boston hyperstore (new build likely to open in 13/14)
- ❑ Searching for Chicago hyperstore site
- ❑ Corporate business now FLT's 2nd largest corporate operation globally by sales
- ❑ Poised for 2H growth – Denver expansion scheduled for Q4
- ❑ Future growth opportunity – FLT expanding rapidly but still has relatively small US corporate market-share
- ❑ Presence in 15 cities – 10 additional cities earmarked for medium term future

USA corporate footprint



- Location of Existing Corporate Businesses
- Location of Intended Corporate Businesses

Capital management



- ❑ **FLT will consider retiring some of its remaining debt during 2H (announced previously) to lower overall interest expense**
- ❑ **Opportunity to remove about \$30million in overdrafts and loans (related to the Asia and Middle East corporate businesses)**
- ❑ **Will consider strategic acquisition opportunities and may use general funds for small acquisitions (major focus is organic growth)**
- ❑ **Full year cap-ex likely to be \$55m-\$60m**
- ❑ **Subject to business's needs, directors intend to maintain current dividend policy of returning 50-60% of NPAT to shareholders**

End of presentation



❑ Questions?