



STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE – February 24, 2016

**FLIGHT CENTRE TRAVEL GROUP (FLT) ANNOUNCES IMPROVED FIRST  
HALF RESULTS AND NEW INITIATIVES TO DRIVE FUTURE GROWTH**

**Result summary**

|                              | <b>31 Dec 2015</b> | <b>31 Dec 2014</b> | <b>Growth</b>  |
|------------------------------|--------------------|--------------------|----------------|
| <hr/>                        |                    |                    |                |
| <b>Sales &amp; Margin</b>    |                    |                    |                |
| TTV                          | \$9.182b           | \$8.138b           | <b>12.8%</b>   |
| Revenue                      | \$1.270b           | \$1.103b           | <b>15.1%</b>   |
| Income Margin                | 13.83%             | 13.55%             | <b>28bps</b>   |
| Net Margin (excluding ACCC*) | 1.6%               | 1.7%               | <b>(10bps)</b> |
| <hr/>                        |                    |                    |                |
| <b>Profit</b>                |                    |                    |                |
| PBT (statutory)              | \$156.9m           | \$141.0m           | <b>11.2%</b>   |
| PBT (excluding ACCC)         | \$145.9m           | \$141.0m           | <b>3.4%</b>    |
| NPAT (statutory)             | \$116.7m           | \$100.3m           | <b>16.3%</b>   |
| NPAT (excluding ACCC)        | \$105.7m           | \$100.3m           | <b>5.4%</b>    |
| <hr/>                        |                    |                    |                |
| <b>Dividends</b>             |                    |                    |                |
| Interim Dividend             | 60.0c              | 55.0c              | <b>9.1%</b>    |

\*FLT's PBT for the half year ended 31 December 2015 included a one-off \$11million refund related to the competition law test case initiated by the ACCC. FLT was required to pay an \$11million penalty during FY14 but the money was refunded during FY16 after the initial judgement in the ACCC's favour was overturned on appeal

## Result Overview

FLT today released first half results for the 2015/16 fiscal year.

In challenging trading conditions during the six months to December 31 2015, the company achieved:

- Record global sales - total transaction value (TTV) exceeded the previous first half record by more than \$1billion and increased in all countries and regions (in AUD)
- A recovery in income margin globally, following a decline during the previous corresponding period (PCP); and
- Improved profits, leading to increased shareholder returns during a period of significant investment in key areas of the business

In making these investments, which in some cases have led to a slight slowdown in short-term profit growth, FLT has highlighted its commitment to improving longer term results and strengthening platforms that will underpin its ability to deliver stronger future returns.

For example, the company now has:

- A stronger omni-channel sales network that includes a stable of well known travel brands plus an expanding portfolio of online businesses
- Enhanced systems that will help boost productivity, lower costs or grow TTV
- New revenue streams through new and unique product ranges, acquisitions and by expansion in sectors where FLT was previously under-represented; and
- A stronger marketing spend to generate more enquiry and enhance skill-sets within the Product, Advertising and Customer Experience (PACE) areas globally

In addition, a number of other new initiatives have been announced today including:

- Further online and digital enhancements, including the start-up Aunt Betty brand, Travel Money's Key To The World app, the Book With Me program and a longer term plan to create Digital Centres of Excellence in key locations globally
- Planned expansion into Europe and the Mainland China high-end retail travel sector
- The introduction of more flexible workplace arrangements to help retain and attract parents and others who prefer to work outside traditional hours. This follows pay rises for front-end sales staff and team leaders in Australia last year and in the United Kingdom, New Zealand and Canada during the first half; and
- A future plan to create business innovation and incubation hubs that will allow the company to establish relationships with and invest in travel-related start-ups

## Financial Results

For the 19th time in 20 years as a listed entity, first half TTV exceeded the PCP's result.

Globally, TTV increased by \$1billion or 12.8% to \$9.2billion and has now increased at a 16.5% compound annual growth rate (CAGR) since FLT listed in December 1995.

Revenue increased 15.1% to \$1.3billion, leading to an improved first half income margin of 13.8% (PCP: 13.6%).

Profit before tax (PBT) increased 11.2% to \$156.9million.

While this was a record, it included the \$11million that was refunded to FLT following its successful appeal in the long-running competition law case initiated by the ACCC.

Excluding the refund, FLT's PBT increased 3.4% to \$145.9million, giving the company a 15.6% CAGR since its 1995 public listing.

Net profit after tax (NPAT) increased 16.3% to \$116.7million or 5.4% to \$105.7million excluding the ACCC refund.

FLT's major expense items - wages, rent and sales and marketing - increased as the company expanded its global network.

Sales staff and sales team numbers increased by 6.2% to 14,706 and 6.7% to 2,943 respectively, meaning more than 850 new sales roles were created during the past year.

Wage growth also included pay rises for front-end sales staff and team leaders in the UK, New Zealand and Canada, mirroring the increase in Australia last year.

Increased sales and marketing costs reflected FLT's investment in the PACE area and increased advertising, both of which contributed to strong enquiry generation.

Overall, sales and marketing costs represented 1.2% of first half TTV, compared to 1.1% during the PCP.

During the first half, FLT also incurred an additional \$5.2million in depreciation and amortisation expense, a 20.3% year-on-year increase.

This was linked to increased capex, which saw first half expenditure reach \$58.2million (PCP: \$39.5million), as FLT invested in its systems, rolled out its next generation shop designs and funded head office relocations in Australia, the USA and Singapore. As announced previously, full year capex is expected to be in the order of \$120million and between \$80million and \$100million in the future.

FLT complemented its organic growth by acquiring interests in:

- StudentUniverse.com , a market leading business in the youth and student market with a strong proprietary platform, websites, apps and digital marketing capabilities
- BYOjet.com, an Australian online travel agency that delivers cheaper airfares to customers than its larger online rivals both directly and through metasearch
- Avmin, a leading aircraft charter and logistics specialist; and
- Corporate businesses in Mexico (Koch) and Malaysia (Worldwide Aviation Services)

In addition, FLT acquired a small Hong Kong-based events business this month to complement the local events operation.

#### Cash, cash flow and dividends

FLT's global cash and investment portfolio totalled \$1.15billion at December 31 2015 and included \$429.8million in company cash.

Debt was \$21.2million (PCP: \$32.8million), giving FLT a \$408.6million positive cash position.

In line with normal seasonality, an operating cash outflow was recorded during the first half. The \$96.7million outflow compared to a \$68.1million outflow during the PCP.

FLT's directors today declared a fully franked \$0.60 per share interim dividend to be paid on April 14, 2016 (Record date: March 24, 2016).

This was 9.1% higher than last year's \$0.55 interim dividend and represented a 57.3% return of NPAT to shareholders excluding the ACCC refund. FLT has now paid \$1.34billion to shareholders in fully franked dividend payments since listing.

#### Operational Review

FLT managing director Graham Turner said first half results had been underpinned by:

- Accelerated global sales growth at an improved income margin
- Record profit in the UK/Ireland (in AUD) and South Africa, plus improved results in Australia and the United Arab Emirates (UAE); and
- A solid contribution from the Top Deck touring business

"Overall, we have started the year reasonably, given the conditions and the investments we have made," Mr Turner said.

"Our financial results, particularly the \$1billion first half TTV increase, have been encouraging and we have made significant enhancements at an operational level.

"These broad-ranging enhancements have been geared towards improving longer term results and, in some cases, have led to a slight slowdown in PBT growth so far this year. They have, however, delivered a platform for stronger future returns and should lead to longer term benefits.

"Importantly, we have maintained an exceptionally strong balance sheet, while acquiring businesses to fast-track our growth in key sectors, and made significant strategic progress."

Within FLT's businesses, all countries and regions were profitable during the period, apart from the Americas, where the company has traditionally recorded first half losses, and India.

Four businesses recorded EBIT growth, as outlined previously, while the New Zealand, Singapore and Greater China operations were profitable but delivered lower first half EBIT.

In Australia, TTV increased 7%.

This growth rate exceeded the 3.9% growth rate in outbound departures (Source: Australian Bureau of Statistics) during the first half and was underpinned by strong sales in several key leisure sectors including:

- Ocean and river cruising
- Youth touring
- Complex airfares, particularly round-the-world flights
- Small corporate accounts trading with Flight Centre Business Travel; and
- Foreign exchange, with Travel Money Oz continuing its rapid expansion and performing strongly

In addition, Flight Centre recorded solid growth in low cost carrier (LCC) sales after establishing mutually beneficial relationships with several significant players, including Air Asia X and Tigerair, as part of its commitment to offering the widest choice of airfares.

To enhance its omni-channel network, FLT rolled out its next generation leisure shop designs and developed a stronger online presence by acquiring a 70% interest in BYOjet.

The company also enhanced the product range and capabilities on its websites with [flightcentre.com.au](http://flightcentre.com.au) now offering a full range of Jetstar fares and ancillary products and the Tigerair range to be added next week.

The Australian corporate travel businesses together turned over just under \$1.2billion and won a number of large accounts to offset the loss of the Whole of Australian Government account during the second half of last year.

High profile account wins included the New South Wales Government, which was won by FCM Travel Solutions and should start trading during the fourth quarter, Cricket Australia and rugby governing body SANZAR.

Factors that are contributing to FLT's success in corporate travel include:

- An industry-leading service proposition provided locally by dedicated service delivery teams. This has contributed to FLT's brands claiming a number of high profile awards, including FCM being named the World's Leading Travel Management Company for five consecutive years and the Australian business being judged Best National Travel Management Company at the 2015 National Travel Industry Awards
- Its leading technology suite, which has been developed in conjunction with innovative tech partners and includes the sector's fastest online booking tool (OBT), Rapidbook
- Brand diversity, FLT has six brands targeting specific market sectors
- Unique products, like Corporate Traveller's Smart suite, that are delivering tangible benefits to SME customers
- Operational efficiencies, specifically reduced administrative requirements for clients through streamlined financial processing
- Market intelligence. FLT's businesses work with customers to better manage their spend through cutting edge analytics tools and via negotiations with suppliers; and
- The ability to be more than just a travel management company by giving corporate customers access to other core competencies, including discounted leisure travel for staff, financial and health services and learning and development programs. For example, Domino's has just entered into a six-month agreement with FLT's GoldMind leadership development business with a view to developing talent from within the company, enhancing employee engagement and improving performance

The **UK/Ireland** business again delivered record profit (in AUD) and sales, with first half TTV topping GBP500million for the first time.

Profit growth in local currency was, however, flat after a period of strong growth that has seen EBIT increase at an 18% CAGR since the 2009 recession.

Solid corporate travel growth was offset by lower leisure profits. This was, in part, brought about a new wage system that delivered a pay-rise to front-end sales staff and team leaders.

Other key investments included:

- Network enhancements: A Chester hyperstore opened and sites were secured in Dublin and in Richmond
- Significant start-up costs associated with the Journeys and Escapes product ranges

- Increased marketing to develop the PACE area and generate more enquiry; and
- Business development manager (BDM) growth to secure more corporate accounts

The **USA/Mexico** business was FLT's second largest sales generator, with TTV reaching \$AU1.3billion and narrowly topping last year's record first half result in local currency.

The USA's SME corporate business again generated record profit and sales, but leisure and wholesale losses increased during their seasonally softer trading period. Overall, the US business is expected to become profitable during the third quarter, as is traditionally the case.

To improve future results, new products, including Liberty's Breaks, Journeys and Escapes ranges and GOGO Care, have been launched, plus the Campus Travel and Travel Money brands. A new megastore opened in Manhattan's Union Square during the first half and a hyperstore site has been secured in Chicago (to open during 2016/17).

The corporate business, which generated about 54% of first half turnover, is also poised for further growth, with:

- A larger BDM network deployed to win more accounts - numbers have increased 31% during the past year in the USA
- Corporate Traveller to open in Raleigh or Durham (North Carolina), Minneapolis (Minnesota) and Orange County (California) during the second half, giving the corporate business a presence in 20 US cities; and
- The Mexico business, which contributed a small first half loss, now integrated into Flight Centre USA and using FLT's proven systems and structures

Elsewhere in the world:

- The South Africa business comfortably surpassed its previous profit and sales records. All leisure and corporate travel brands were profitable over the half year
- Sales increased solidly in New Zealand with first half TTV topping \$NZ500million for the first time. Profit was, however, adversely affected in the short-term by the investment in the network, the launch of new products and a new front-end wage structure
- Bottom-line results improved slightly in Canada under the business's new leadership team. The corporate business was again profitable, while leisure losses decreased; and
- The Asia-Middle East region recorded strong sales and team growth and could now surpass \$AU1billion in TTV for the full year for the first time

Additional details on FLT's performance within its 10 geographic regions have been included in a presentation lodged with the Australian Securities Exchange today.

Elsewhere in the company:

- The Top Deck and Back-Roads touring businesses performed strongly. Top Deck launched an Asia product range in November, with the first trip to start on April 1
- The Buffalo Tours destination management company (JV) was profitable and has now been positioned as FLT's ground operator in key Asian markets, including Thailand, Singapore, Hong Kong, Indonesia, China, Japan and Malaysia
- The Pedal Group cycle JV achieved record results, with consolidated sales increasing 27% to \$37.2million and EBIT increasing 41% to \$2.4million, during a period of significant expansion that saw new 99 Bikes retail shops opened in Blackburn and Bentleigh (Victoria) and in Brisbane's CBD and wholesaler Advance Traders Australia take on a new product range (BMC). Three more 99 Bikes shops will open during the second half; and
- The First Class Education Group (FCEG) continued to expand with more than 1300 students completing qualifications since July 1 2015. The FCEG currently has more than 4300 active enrolments, including internal and external students

### Strategic Update

To ensure it capitalises on the travel sector's ongoing global growth, which is generally projected to increase at a 4-5% CAGR over the next 20 years, FLT's longer term strategic focus is on the following areas:

1. Travel retailing - direct sales across various segments and models, including online
2. Travel experiences - "at destination" delivery of a range of travel experiences provided by destination management companies and tour operators
3. Corporate travel; and
4. The youth and student travel sector, incorporating FLT's education business

In addition, FLT plans to expand its current network of non-travel businesses and is considering a longer term plan to develop travel incubation hubs, which will allow it to build relationships and invest in emerging start-up businesses within the travel sector globally

FLT is already a major player in the key areas listed above, but each area's weighting within the group is shifting and will continue to change as the company grows and evolves.

For example:

- The company's corporate businesses globally generated 35% of first half turnover during 2015/16, compared to just 27% five years ago; and

- FLT's stable of youth-focussed businesses has been boosted by the recent additions of Top Deck, a touring business for 18-30-somethings, and StudentUniverse.com

To evolve its model and enable ongoing growth within these areas, FLT has followed two key pathways during the past three years.

The first pathway - the journey from travel agent to world class travel retailer - involved seven themes covering brands, unique products, expertise, shops as retail spaces, blended travel, information as power and sales and marketing. The second pathway saw FLT define its noble sales purpose (NSP) - we care about delivering amazing travel experiences.

These pathways have now been blended to form six key journeys that have been implemented in each country and in each brand:

1. The product journey
2. The physical or shop journey
3. The sales journey
4. The business journey
5. The people journey; and
6. The digital journey

As part of its **physical journey**, FLT has invested significantly in its network to improve the retail experience for customers.

Next generation shop designs have been introduced and new features, including enhanced digital signage, have been incorporated to showcase FLT's products and to capitalise on the shops' high profile locations.

Larger footprint shops, housing more sales teams, are also being rolled out and are delivering stronger returns, in addition to allowing FLT to grow sales team numbers at a more rapid rate than the growth in physical sites.

The **product journey** has seen FLT's brands create, deploy and expand unique product ranges that customers and consultants love.

Examples include the global Journeys and Escapes ranges and the International Airfare Packages (IAPs) that were launched Australia-wide in April 2015 and subsequently in other markets. An Australian Domestic Airfare Package is being trialled.

FLT's **business journey** is focused on ensuring its replicable and simple business model, based on ownership, remains integral to the company's success.

This ownership model is being coupled with strategies designed to make the business model more cost efficient and scalable through a changing physical footprint and by embracing digital technology for online transactions and for person-to-person customer connections.

Ultimately, FLT will have multiple distribution models in leisure travel encompassing:

- Online, built around fully mobilised websites for high volume, low-touch transactions
- Low cost off-street call centres, dealing predominantly with phone and email enquiry
- Large hyperstores in key CBD locations and super-regional shopping centre and smaller multi-team megastores in other shopping centres and major strip location
- "Community" shops in suburban shopping centres and strip locations
- Home based agents; and
- Travel expos, a series of high profile events held at exhibition and convention centres

Three major strategies are at the heart of the company's **sales journey**:

1. Establishing stronger person-to-person connections to help consultants build, keep and grow a personal customer base
2. Utilising digital and, importantly, mobile interaction with customers; and
3. Customer Relationship Management (CRM) through a new CRM tool that has been earmarked for launch in Australia during 2016/17. This new tool will expand on FLT's single view of the customer and allow it to personalise offers, products and services to enhance the experience with FLT's brands and consultants

"Book With Me" has been introduced in Australia to connect the on and offline worlds.

This program mirrors the company's successful corporate offering and will see personalised Flight Centre websites or online booking tools (OBTs) created for FLT's sales people to share with their customers, families and friends.

Customers are invited to "Book With Me" or can use the personalised OBT to make the booking directly but with the consultant personally attached to it.

As part of its **people journey**, FLT is initiating workplace flexibility strategies that will deliver new career options to parents and others who are seeking to vary the traditional work week.

Examples include:

- Flexible rosters, allowing full and part-timers to work compressed weeks
- Reduced hours, providing greater opportunities for casuals, temps and part-timers
- Job sharing
- Programs that will enhance life balance; and

- An expansion in work from home arrangements

The **digital journey** broadly encompasses three major paths:

1. Accelerated development of digital online travel brands, such as StudentUniverse.com, BYOjet.com and the Aunt Betty start-up
2. Broader and faster adoption of digital capabilities within FLT's person-to-person leisure brands to facilitate stickier customer relationships and scalable growth; and
3. The ongoing enhancement of digital tools for FLT's corporate brands

The company also plans to create Digital Centres of Excellence globally to develop digital strategies and platforms across the business.

### 2015/16 Outlook And Growth Drivers

FLT today reaffirmed its full year guidance of a \$380million-\$395million PBT excluding the ACCC refund, possible intangible impairment\*\* (non-cash) and unforeseen items that can potentially arise in any given year.

"If we achieve our target, we will top last year's result by 4-8% and the record \$376.5million underlying PBT we achieved in superior conditions two years ago," Mr Turner said.

"While we will be disappointed if we do not achieve our goal, establishing a new profit milestone will not be a formality given our size, the strategic investments we are making and the volatile conditions in some geographies heading into our peak booking months.

"For example, consumer confidence in Australia has not yet recovered from the cyclical downturn late in the 2014 fiscal year and outbound travel from Australia has grown at a slower rate than normal.

"There have, however, been some positive signs recently with record sales and attendance at the annual Travel Expos that have been held throughout Australia and some of the cheapest fares in recent memory being advertised.

"An analysis that we undertook in Australia last month showed that our cheapest advertised return fares from Sydney to ten of the hottest international destinations were on average 14% cheaper than one year ago.

"These ongoing improvements in airfare affordability, coupled with the extensive product-related enhancements we are seeing, reinforce our belief that this is a Golden Era Of Travel.

"In corporate travel, we had record multi-national account wins during the first half and have a solid pipeline of business coming on board, including two of our largest global accounts."

Other second half growth drivers include:

- TTV growth in Australia driven by network growth during the first half, strong enquiry and cheap airfares heading into the year's peak booking seasons
- More rapid corporate travel growth, given the pipeline of first half account wins
- Contributions from recent acquisitions, particularly StudentUniverse.com; and
- Stronger returns on the investments that have been made to develop new revenue streams, bring unique product ranges to market and to enhance sales and marketing

The company will also continue to expand its geographic footprint by exporting brands and, in some cases, starting or acquiring businesses in new geographies.

After adding Malaysia and Mexico to its global network during the first half, FLT is currently considering opportunities on Continental Europe and in Mainland China.

FLT's UK business will oversee European expansion, which is likely to be via corporate travel acquisitions in the short-term. Expansion in China is likely to be via a small-scale acquisition or partnership with a local operator to give the company access to high-end outbound leisure travellers.

Other initiatives or enhancements that are on the way include:

- Aunt Betty - a new breed online business, targeting the 25-45 demographic. Aunt Betty has been developed as a package-led "virtual travel agent", offering a strong technology platform normally associated with an online travel agency, plus the ability to recommend and tailor package holidays for individual travellers. The business is expected to be fully operational by June 30, 2016 and will operate alongside BYOjet.com, which specialises in airfares
- BYOjet's expansion in New Zealand, South Africa and Australia
- System improvements via the CRM tool in Australia and Microsoft Dynamics' global roll-out as FLT's new finance platform; and
- The launch of Travel Money's Key To The World digital travel wallet during the fourth quarter. Key To The World will give customers access to itineraries, a prepaid currency card with ten currencies, travel insurance and phone and data SIM cards, via a single user-friendly portal

In addition, the company announced two new agreements last week that saw FLT extend its relationship with travel insurance provider Covermore (CVO) and acquire an additional 20% interest in BYOjet.com to take its holding to 90%.

FLT's increased ownership of BYOjet.com will give FLT greater control over marketing systems and spend, which will allow it to fast-track the business's growth.

The new CVO agreement will see the companies extend their long-standing exclusive arrangement in Australia and pursue new opportunities overseas.

In line with the company's philosophies, FLT also plans to deliver more ownership opportunities to its people via the Global Employee Share Plan (GESP) and a new Long-Term Retention Plan (LTRP). These plans will balance the use of short-term incentives within FLT's remuneration structures by ensuring executives' interests are aligned with shareholders' interests for the longer term, in addition to rewarding those who establish long-term careers with the company.

Offers have been made to 42 executives globally under the LTRP, while more than 1350 people in six countries have participated in the GESP (previously known as the Employee Share Plan).

[ENDS Media and investor enquiries to haydn\\_long@flightcentre.com, +61 418750454](mailto:haydn_long@flightcentre.com)

\*\*While the acquired US leisure and wholesale businesses have traditionally performed strongly during the second half, first half results were below expectations, as were results in India. In line with normal business practice, FLT will continue to monitor these businesses' current and forecast performance to ensure intangible balances are appropriate

**FLT Half Year Result Schedule: A conference call for analysts and investors will be held at 9.30am Queensland time today. Phone (02) 80385221 or 1800 123296. Conference ID 53708665**