



STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE – August 27, 2013

FLIGHT CENTRE LIMITED RELEASES AUDITED 2012/13 ACCOUNTS

Result summary

	30 June 2013	30 June 2012	Growth
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Sales & Margin			
TTV	\$ 14.3b	\$ 13.2b	7.7%
Revenue	\$2.0b	\$ 1.8b	8.7%
Income Margin	13.9%	13.8%	10bps
Net Margin (underlying)	2.4%	2.2%	20bps
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Profit			
Actual Profit Before Tax	\$349.2m	\$290.4m	20.3%
Abnormal items*	\$6.1m	\$-	
Underlying Profit Before Tax	\$ 343.1m	\$290.4m	18.2%
Actual Net Profit After Tax	\$ 246.1m	\$200.1m	23%
Underlying Net Profit After Tax	\$240.0m	\$200.1m	20%
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Dividends			
Interim Dividend	46.0c	41.0c	12.2%
Final Dividend	91.0c	71.0c	28.2%

* Actual PBT for 2012/13 includes \$6.1m in non-cash gains relating to FLT's head office properties. As illustrated above, underlying results exclude these gains

Result overview

FLIGHT Centre Limited (FLT) today announced record results for 2012/13.

The company achieved a \$349.2million profit before tax (PBT) for the year to June 30 2013, a 20.3% increase on the record \$290.4million PBT achieved during 2011/12.

Excluding \$6.1million in non-cash gains related to FLT's small portfolio of company-owned head office properties (reflecting favourable property revaluations), underlying PBT increased 18.2% to \$343.1million.

Results exceeded expectations, with the company initially expecting a \$305million-\$315million PBT and subsequently upgrading guidance to \$325million-\$340million in May and \$338million-\$342million at the start of July.

Actual net profit after tax (NPAT) increased 23% to \$246.1million, taking earnings per share to \$2.46. Underlying NPAT increased 20% to \$240million.

TTV increased 7.7% to a record \$14.3billion, while revenue increased 8.7% to \$2billion.

Income margin was 13.9%, slightly above 2011/12. Underlying net margin increased from 2.2% to 2.4%, its highest level since 2002.

FLT's continued focus on cost control contributed to this net margin growth.

Rent costs increased at a slower rate than shop and business growth, meaning average rent per shop decreased, while sales and marketing costs declined year-on-year. Lowering cost per enquiry remains a priority, but FLT's overall investment in sales and marketing is likely to increase year-on-year in future, as has been the case historically.

Shop and sales staff numbers both increased 5% to 2,481 and 12,701 respectively. At June 30, 2013, FLT employed 16,116 people globally.

Balance sheet, cash and cash flow

FLT again strengthened its balance sheet and finished the year with a \$1.26billion global cash and investment portfolio, which included \$433.8million in general (company) funds.

Debt decreased to \$46.2million, giving FLT a \$387.6million positive net debt position.

During 2012/13, FLT capitalised on the Australian dollar's strength by retiring a \$USD60million loan that related to the 2008 Liberty acquisition. The company also indicated

it would consider removing an additional \$AUD30million in debt relating to the Asian corporate travel businesses in the future.

Cash flow followed traditional patterns, with funds accumulating during peak second half booking periods for payment to suppliers after peak travel periods during the first half of 2013/14. A full year \$370million operating cash inflow was recorded, compared to a \$341million inflow during 2011/12.

FLT's directors today declared a fully franked \$0.91 per share final dividend to be paid on October 18, 2013 (Record date for shareholders: September 20, 2013). This is 28.2% higher than the 2011/12 final dividend (\$0.71 per share) and takes full year returns to a record \$1.37 per share.

In total, \$138million will be returned to shareholders via the combined interim and final dividend payments, 55.9% of FLT's actual NPAT and a 22.3% increase on the previous highest full year return to shareholders (\$1.12 per share during 2011/12).

FLT has now returned more than \$400million to shareholders during the past four years in dividends alone, in addition to:

- Increasing general cash by more than \$270million, from \$160.9million (June 30, 2009) to \$433.8million (June 30, 2013)
- Lowering bank debt by \$55.5million from \$86.1million to \$30.6million; and
- More than quadrupling its market capitalisation, with FLT's share price increasing from \$8.65 (June 30, 2009) to \$39.33 (June 30, 2013)

This market capitalisation growth contributed to FLT's elevation into the S&P/ASX100 during 2012/13, along with the global MSCI index.

Operational review

Managing director Graham Turner said operational highlights included:

- Profits from all 10 countries for the third consecutive year
- Record earnings before interest and tax (EBIT) from FLT's three largest businesses – Australia, the United Kingdom and the United States – plus the emerging Singapore and Greater China businesses
- Improved results in New Zealand, South Africa and India; and
- Healthy sales growth and continued profitability in both Canada and Dubai, but bottom-line results were down compared to last year

He said sales increased in both leisure and corporate travel and both off and online – flightcentre.com.au's TTV increased more than 20% during the year – as the company continued its transition to a blended travel model.

“Key result drivers for 2012/13 included business growth, margin improvement, productivity enhancements and diversity,” Mr Turner said.

“While Australia was again the major result driver, FLT's international businesses collectively contributed almost \$75million to group EBIT.

“This is a 20% year-on-year increase and a promising sign for the future.

“Importantly, we have scale and solid platforms for growth overseas, particularly in the UK and USA.

“UK EBIT has now doubled in two years to \$AUD32million – a result more than 30% higher than the previous record – despite economic uncertainty domestically and in Europe.

“Sales and profit increased in both the leisure and corporate businesses during 2012/13, with the leisure business, in particular, performing strongly.

“The USA business recorded \$10.9million in EBIT, its third consecutive profit and a 11% year-on-year increase.

“The acquired Liberty leisure and GOGO wholesale businesses were again profitable, while the corporate business opened in four new cities, increased profits and generated 40% of overall TTV in the USA.

“US corporate is now our largest division outside Australia by turnover and the second largest profit contributor behind the UK corporate business, despite being in its infancy.”

In Australia, FLT's leisure travel business performed strongly, particularly during the second half, to more than offset slightly softer domestic corporate travel results.

Flight Centre brand continued to grow, while combined EBIT from FLT's stable of niche leisure brands almost doubled.

The Australian corporate travel businesses generated record EBIT and turnover in excess of \$2billion to consolidate its position as the country's largest corporate travel manager. Results were, however, below initial expectations.

To improve future performance, more aggressive BDM and sales network growth plans were initiated to fast-track TTV growth.

Globally, FLT's dedicated corporate brands turned over \$4.3billion, 31% of group TTV. This excludes corporate business that is transacted through FLT's leisure travel shops.

Within the global corporate business, key developments included:

- Solid account growth to offset client down-trading in some countries and sectors
- Continued expansion within FLT's five major corporate sectors, with business numbers increasing 10% during the year. FLT is now on track to open its 500th corporate outlet late in 2013/14
- Significant investment in client acquisition through growth in FLT's business development manager (BDM) sales force. BDM numbers increased 27%
- Investment in new tools, including mobile apps, customer tracking and enhanced reporting systems; and
- Creation of a new global team, with Asia-Pacific, USA and UK representatives, that targets multinational accounts

FCm Travel Solutions was judged the world's Best Travel Management Company at the World Travel Awards for the second successive year, in addition to winning a string of regional awards.

The FCm network also continues to expand into new markets, through company-owned businesses (11 countries) and partnerships (70 countries) with independent local travel management companies, to meet multinational clients' needs.

Elsewhere in the business, FLT continued its strategic investment in the projects and systems that will ultimately underpin its transition from a leisure and corporate travel agent to an innovative travel retailer.

This transition will see FLT deliver the best alternatives to customers within their chosen travel segments by ensuring brands retain special meaning within the marketplace, offer unique products and allow customers to buy those products seamlessly.

The commitment to developing and bringing exclusive new products to market saw Flight Centre launch its range of Red Label Fares in Australia in June 2013.

The Captain's Red Label Fares come with various value-added inclusions, along with a Price Drop Protection feature that means Flight Centre will refund the price difference if a customer finds a cheaper advertised fare within 30 days of paying in full for his or her ticket.

FLT's moves to create a seamless customer experience through a blended leisure travel model also gained momentum, as capabilities were enhanced across all sales channels.

When fully implemented, the blended model will allow customers to interact with FLT and its consultants in any sales channel at any time with the full product range available worldwide.

Implementation will take place in three phases.

Phases one and two are now in place for Flight Centre brand in Australia, as outlined in previous market announcements.

Phase One saw FLT take away customers “pain points” in the pre and post booking stages by allowing them to perform various tasks online, rather than in-store or via the phone.

In Phase Two, FLT made more product and services available online – including international flights and a comprehensive global hotel offering on flightcentre.com.au – in addition to giving customers broader access to its global shop network.

Consultant Chat was added to some sites, including the Flight Center USA website and Student Flights in Australia. This feature is set to be added to the Flight Centre, Escape Travel and Quickbeds sites during 2013/14.

Consultant Select was launched on flightcentre.com.au to give online customers the benefits of access to FLT’s network of human search engines.

Consultant Select allows web customers to select a human contact for advice and/or help and will evolve into a “Perfect Match” system that will proactively pair customers with consultants who have recent first-hand experience of the customer’s chosen destination.

In Phase Three, FLT will unveil a fully integrated offering that allows customers to switch seamlessly across different devices and between sales channels.

Outside the travel sector, cycle joint venture Pedal Group generated \$36.1million in sales, 20.7% growth, and almost \$1million in EBIT during its fourth full year.

Growth strategies

During 2012, FLT outlined a five-year strategic blueprint focused on retail efficiency, area-based structure, corporate travel growth, supplier relationships, enquiry management, customer care and helping its emerging businesses become successful sooner.

While these strategies remain in place and are gaining traction, they are now part of the broader plan to help FLT evolve from a leisure and corporate travel agent into a best-in-world travel retailer in the short to medium term.

This evolution is built around seven key themes that apply to all leisure, corporate and wholesale businesses globally:

- Brand and specialisation: Developing brands that truly specialise in specific areas of travel and have clear customer value propositions (CVPs)
- Unique product: Making, combining and sourcing exclusive FLT products and services, rather than simply selling suppliers' products. FLT's brands will have targeted product ranges in line with their specialisations – for example Flight Centre's Red Label Fares and Student Flights' Black Market Flights
- Experts, not agents: Ensuring each brand's people are experts in understanding the brand's speciality and that they in turn are backed by "travel gurus", who are readily available if additional expertise is required
- Redefining the shop: Ensuring corporate, wholesale and retail spaces reflect that FLT's people are retailers first and foremost, not office workers
- Blended access: Ensuring FLT's brands are always available to customers. They can touch, browse and buy FLT's products when and how they want – online, offline, shop, email, chat, phone or SMS
- Information: Gaining a better understanding of customer habits and proactively using this information, thereby delivering and developing better products and increasing FLT's relevance to customers; and
- A sales and marketing machine, focused on lead and enquiry generation: Ensuring each brand has the best and most BDMs, an advertising plan and deployment that delivers the opportunity to increase market share

"These enhancements and our leisure, wholesale and corporate businesses' future design are all about making the customer offering better than all alternatives," Mr Turner said.

"First and foremost, our customers will know they can get the products they want from us, but we will offer much more – our brands will have a personality, a style, a way of retailing that offers value.

"Our shops and our people are the heart of our business and are integral to our future plans, including blended travel, manufacturing unique product and our overall evolution from a travel agent to a retailer.

"Although FLT now provides leisure customers with online booking capabilities, it has built on the traditional web offering and does not see its future as an Online Travel Agent.

“Instead, FLT will deliver a blended access offering that draws on the strengths of the on and offline models and is seamlessly blended to give customers the convenience of all options when they plan and book their travel.”

In addition to FLT’s major strategic goals, operational plans are in place to enhance year-on-year profitability and productivity in all brands and businesses globally.

This includes Flight Centre brand in Australia, FLT’s most mature business.

In addition to introducing new tools and developing new travel products, opportunities for the company’s flagship leisure brand in the short to medium term include expansion in specialist areas, generating a better return on existing real estate and creating a more disciplined sales process via the Global Sales Academy, which is now fully deployed within the brand.

The company is also including new features for customers in its shops and, where possible, opening UK-style hyperstores in capital cities and major regional centres. The newest hyperstore, the second in Australia, will open in Brisbane’s Queen Street Mall next month.

Elsewhere within FLT’s key business segments, FLT’s UK management team continues to focus on its internal goal of delivering just under GBP1.5billion in TTV by 2017.

Three new hyperstores are scheduled to open during 2013/14 – in Victoria (London), Bristol and Leeds – as part of the plan to develop a UK-wide footprint of flagship shops.

UK shop and business numbers are expected to increase 11% during 2013/14.

Work also continues on a UK blended retail model, based on the system that is now in place in Flight Centre brand in Australia and within FLT’s corporate businesses.

In the USA, FLT is set for its largest year of growth since acquiring Liberty/GOGO in 2008.

This will see:

- New hyperstores (known locally as travel centers), featuring flagship Liberty stores, opening in Boston, Chicago and Philadelphia
- Superstores created within the current retail footprint, as new teams are added to existing stores. This includes new teams in the Flight Center brand, which operates as a 24/7 specialist airfare brand that primarily services web enquiry
- A transactional website launched for Liberty late in the first half; and
- Expansion in the range of unique product that Liberty and GOGO offer

After opening in Philadelphia, Houston, Denver and San Diego during 2012/13, the corporate business will expand into Atlanta and Minneapolis this year, giving it a 17-city presence in the world's largest corporate travel market.

While overall US results are improving, FLT continues to monitor the acquired Liberty and GOGO businesses' current and forecast performance to ensure goodwill balances are appropriate. The acquired India business's results will also be closely monitored.

Outlook – 2013/14

In terms of 2013/14 guidance, FLT will target a PBT between \$370million and \$385million, assuming stable conditions and excluding possible goodwill adjustments or significant unforeseen items that may arise.

If achieved, a result within this range will represent:

- 8-12% growth on the underlying 2012/13 result
- FLT's 15th record PBT in 19 years as a public company; and
- The 17th time PBT will have surpassed the prior year result in 19 years

FLT's sales network is expected to grow by 8-10% during 2013/14, in line with historical expansion plans but above the level of growth achieved during 2012/13

Growth will predominantly be organic, although FLT expects to pursue some strategic acquisition opportunities. Acquisitions are likely to be businesses that can be vertically integrated, without the company taking on significant capital assets.

"FLT is a growth-focused company and has set its sights on delivering improved top and bottom-line results and enhanced shareholder returns during 2013/14," Mr Turner said.

"Achieving 8-12% underlying PBT growth will not be a formality for a company of our size and given the challenges that can arise, but we are well placed to weather any storms.

"The company's brand and geographic diversity are obvious strengths – FLT is one of the few companies in the world that mixes business with leisure travel on a large scale – along with its balance sheet.

"Longer term strategies are in place to drive future growth in all businesses and to enhance the value that our sales people and shop network deliver to their leisure, corporate and wholesale customers.

“July and August trading results indicate that we are currently tracking ahead of the same period last year, albeit based on relatively low comparatives.

“Comparatives will become more difficult as the year progresses, so the next few months will provide a truer indication of our performance.”

FLT does not expect the Australian dollar's recent volatility to significantly affect its business or to fundamentally change Australian travel habits, as customers typically respond to currency shifts by adjusting “at-destination” spending (upgrade or downgrade plans).

The company believes flight prices, overall affordability and consumer confidence, specifically job certainty, are more likely to influence Australia's outbound market.

Preliminary sales data from FLT's Discover the Americas travel expos throughout Australia this month also indicate that the US is maintaining popularity, despite the weaker dollar, with overall expo sales increasing solidly year-on-year.

A lower Australian dollar may also translate to higher profit contributions from FLT's international businesses.

In terms of capital management, FLT continues to build cash and will have almost \$200million in franking credits after paying its 2012/13 final dividend.

This cash balance will allow the company to capitalise on opportunities that will create future shareholder value, including acquisitions, and buffer it from any future economic downturns.

FLT's cash policy is to maintain sufficient funds to cover three months' operating expenses.

If and when surplus cash is generated, FLT will consider returning excess funds to shareholders. While all options will be considered, the board's current intention is to create longer term shareholder value by increasing dividend yields, rather than one-off distributions.

FLT awaits the outcome of the competition law test case the ACCC initiated against it during the 2012 calendar year.

The test case was heard in October 2012, with a ruling to be delivered at a date that has not yet been determined. FLT does not expect any updates before the judge's ruling.

ENDS Media and investor enquiries to Haydn Long 0418 750454

Investor conference call: FLT's investor teleconference will be held at 10.30am (Queensland) today. Dial + 61 2 83148370 or 1800 123296, conference ID 35228994