

Flight Centre Limited

Macquarie Australia Conference

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Presentation by

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FLT: An overview



COMPANY HISTORY



Established in early 80s as Australia's first airfare discounter
Listed in 1995 at an issue price of 95cents
Current market cap about \$2.1billion

GEOGRAPHIC DIVERSITY



More than 2300 company-owned businesses in 11 countries
Almost half are located outside Australia
FCm corporate network extends to additional 70 countries (licensing arrangements)

BRAND STRENGTH



36 brands – retail, corporate and wholesale travel, travel-related and other
Flight Centre recognised as Australia's 14th most valuable brand (Source: Interbrand)

PEOPLE



Staff numbers growing about 10% each year
About 80% are in sales roles
Incentivised workforce at all levels

GROWTH RECORD



Profit has exceeded prior year 14 times in 16 years as a public company
Targeted 11/12 result will be another record and represents 10-18% growth on 10/11

An A-Z of FLT



A: The Aussie Dollar v The US Dollar

- Historic correlation between FLT's share price and the USD
- No correlation between results and a high AUD
- Avg annual AUD-USD exchange rate has fluctuated between 52c and \$1.04 since listing
- Profit has generally grown throughout this period, despite FX fluctuations
- Strong dollar typically a secondary benefit for travellers
- Cheap airfares and consumer confidence remain primary drivers
- USD is irrelevant to overwhelming majority of outbound travellers

An A-Z of FLT



B: Balance Sheet

- One of FLT's strengths – solid cash reserves and moderate debt
- \$800million cash and investments at 1H– likely increase during seasonally stronger 2H
- Positive net debt position – \$317million in general cash and about \$170million in debt at 31 Dec
- About \$75million of this debt relates to Business Ownership Scheme (BOS)
- FLT required to maintain healthy cash reserves to meet licensing requirements
- Conservative capital management allows FLT to capitalise on opportunities

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C: Corporate, Retail and Wholesale Travel

- FLT is best known for its network of red and white FC-branded leisure travel shops
- Now one of the world's largest corporate travel managers – corporate generates 30-35% of TTV
- Corporate brands include FCm (TMS market), Corporate Traveller (SME), Ci Events, Stage & Screen and Campus Travel
- Leisure and corporate results have both improved this year – corporate profit growth stronger so far
- FLT's wholesale businesses predominantly sell to FLT's shops
- GoGo (USA) is the exception – an external wholesaler

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D: Dubai and Asia

- Developed or acquired businesses in India, Dubai, Singapore, China and Hong Kong
- Initial aim was to have a strong company-owned presence for corporate clients – service offering
- All businesses profitable last year
- Dubai performing well and growing strongly from small base
- India still profitable but some challenges to address
- Leisure travel operations now launched in all countries
- Leisure shops open in Singapore, Hong Kong and India (Flight Shops brand), web-based businesses in China and Dubai

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E: Expansion

- FLT typically targets 8-10% annual growth in sales staff globally
- Growth targets in place in all countries, but some variation in targeted rates between established and emerging brands
- In USA, relatively slow growth in Liberty, but corporate business growing strongly
- FLT predominantly grows organically
 - From time to time, will consider strategic acquisition opportunities
 - Will tend to be small bolt-on businesses, rather than large acquisitions

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F: Flight Centre Global Product

- FCGP is FLT's global wholesale and corporate product procurement division
- Currently delivers about 20,000 products to FLT's wholesale, retail and online brands
- Plus 17,000 hotels and car hire contracts to the FCm global network
- Key contributor to group profit and margin
- Opportunity to increase internal marketshare in Northern Hemisphere in particular

H: Hyperstores

- Concept developed in UK
- Can house up to 50 consultants (8 teams)
- Delivers cost-effective access to prime retail sites – costs divided across multiple teams
- FC teams in prime walk-in locations, corporate and “direct” teams in other spaces
- Opportunity to introduce hyperstore model in some other locations – Manhattan
- Some opportunities in Australia – site leased and due to open in Perth

FLT's Manchester Hyperstore



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I: Interest

- A key part of the FLT business model
- FLT generates strong interest revenue on its cash reserves – managed conservatively by in-house Treasury team
- \$23million in interest income generated in 1H 2011/12
- \$16million paid out in interest expenses during 1H – \$13million related to BOS, \$3million related to bank debt

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J: Joint Ventures

- Most FLT businesses are wholly-owned
- Handful of franchisees in Escape Travel brand in Australia
- Company involved in some joint ventures including:
 - Bikes – Advance Traders Australia (wholesale) and 99 Bikes (retail)
 - Recruitment marketing – Employment Office
 - Adventure Travel – Intrepid My Adventure Store (IMAS)
- 11 My Adventure Stores now in Australia, stores also open in Canada, NZ and UK

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K: Kiwi, Canada and South Africa Businesses

- All solid contributors to group profit
- New Zealand business historically a strong performer for FLT, but some challenges in recent years – economy, natural disasters
- Rugby World Cup also a factor during first half
- Strong corporate travel business in Canada
- South African business performing solidly – volatile currency affects translation to AUD

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L: Liberty and the USA

- **FLT launched US business in 1999**
- **Acquired Liberty and GoGo in Feb 2008 to gain larger footprint and to access to directly contracted North American product (a key acquisition rationale)**
- **Losses incurred as business was restructured – shops closures, system changes**
- **Inaugural US (EBIT) profit in 2010/11 and targeting growth during 2011/12**
- **Corporate travel business performing strongly and opportunity to increase marketshare**
- **Leisure results improving year-on-year, ahead of key May-June booking period**
- **Medium term target is to generate 1% PBT margin in overall US business**
- **Aim in leisure travel is to provide meaningful alternative to the online players**

M: Margins

- Income margin has historically varied between 12.5% and low 14%
- Towards top of this range in recent years
- Internal expectation is for overall margin in order of 13.5-13.8%
- Earnings vary from product to product – margin can be influenced by product mix
- Corporate travel (TMS market sector) typically lower income margin than leisure travel
- Corporate and leisure travel net margins are similar

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N: The Net

- A growth opportunity, but at the same time FLT's biggest competitor
- Globally, greatest penetration has been commoditised product – last minute hotel and simple point-to-point airfares (domestic)
- Relatively low penetration in international travel – complex requirements and inability to deliver all travel options online
- Some international will inevitably migrate online but overall penetration in Australia unlikely to reach US levels – different travel requirements and habits
- FLT now providing a more complete range of international airfares on websites to meet expectations of customers who like to transact online or outside normal trading hours

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O: On and Offline Interplay

- FLT's online sales are increasing, as are offline sales
- Unique opportunity to offer customers a blended on and offline travel solution
- Able to replicate online booking facilities OTAs offer and couple this with FLT's human search engines – more than 11,000 travel experts globally in more than 2300 shops
- Ability to offer web customers proactive human backup a key point of difference for FLT – valuable tool, particularly when something goes wrong
- Strategy currently being fine-tuned within each brand and country

FLT's on and offline interplay



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P: Product Innovation

- Focus on developing/manufacturing unique product for customers
- myTime – VIP bonuses at participating properties and resorts
- Double Dip Flights
- Black Market Flights
- Mystery Escapes
- Constructed round-the-world fares

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R: Rent, Wages and Other Costs

- FLT's major expense items are wages, rent and marketing
- Wage bill is variable and flexes with revenue – reflects FLT's incentive system
- Advertising bill tends to increase – aim to deliver desired level of enquiry to consultants
- Rent costs tend to increase as the company's footprint increases
- Some success in negotiating reductions – generally confined to smaller landlords

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S: Saturation in Australia

- Growth opportunities in all brands in Australia
- Flight Centre leisure brand will grow at a slower rate than some others
- Cruiseabout, Travel Money Oz and other brands can grow more rapidly
- Flight Centre shops as busy as they have ever been in terms of enquiry
- Priority to enhance consultant productivity to deliver a better and faster service to customers
- Corporate an obvious growth opportunity – FLT already largest player in Australia but marketshare lags leisure travel share

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T: travelthere.com

- Acquired almost 10 years ago – now a testing ground for FLT's online initiatives
- International airfare booking engine that is now on flightcentre.com.au was tested on travelthere.com
- New hotel booking engine on flightcentre.com.au was also introduced via travelthere
- Hotel system draws from a number of inventory providers to find the best deal
- Provides consultants and customers with access to more than 100,000 hotels globally

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U: The UK

- **Business performing strongly in challenging market conditions**
- **On track for best full year result**
- **Experienced and innovative management team in place**
- **Focus on corporate travel and niche leisure areas paying dividends**
- **Hyperstore model giving FLT cost effective access to prime retail sites**

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V: Virgin, Qantas and Supplier Relations

- Good relationships with air and land suppliers – aim to be the retailer that suppliers choose to work with
- Contract terms are negotiated annually
- Similar contract structures in place to recent years – greater emphasis now on guaranteed margin (commission and over-ride)
- Less emphasis now placed on volume-related super over-rides

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W: Wage Model

- **Highly incentivised workforce**
- **Pay includes a retainer (guaranteed) and incentive (subject to performance)**
- **Staff rewarded with higher earnings when shareholders rewarded with higher returns**
- **Sales consultants are initially incentivised to achieve cost of seat**
- **Incentive earnings increase after cost of seat is reached**
- **Opportunities for team leaders to invest in their businesses (BOS)**
- **In sales roles, earnings are uncapped**

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X: The X Team

- FLT is managed globally by its Brisbane-based executive team (X Team)
- Team includes:
 - Managing director Graham “Skroo” Turner
 - Chief operating officer Melanie Waters-Ryan
 - Peopleworks leader Michael Murphy
 - Marketing executive general manager Colin Bowman
 - Global corporate leader Rob Flint; and
 - Andrew Flannery, CFO
- Three members of this team started as Flight Centre travel agents
- Each country is managed by a locally-based executive general manager

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Y: Yields

- International airfares remain highly affordable
- On some routes, advertised fares remain below GFC levels – includes Bangkok, Auckland, Paris and Rome
- New entrants growing capacity and offering attractive fares
- Pricing trend varies from route to route
- Compared to 12 months ago, FC is advertising cheaper fares to Bangkok, Singapore, Auckland and others
- Advertised fares to Fiji, LA and Rome are slightly more expensive than last year

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Z: Z Class

- A category of business class travel for some airlines
- Discounting that has been commonplace in economy in recent years has also reached the business class cabins
- Positive for corporate and leisure travellers
- Flight Centre currently offering return business class fares from Melbourne to Europe (Amsterdam) for less than \$3500
- Return business class fares to London available for around \$5000 from Brisbane, Sydney, Melbourne and Perth

G: Guidance

- Currently targeting a PBT between \$270million and \$290million (excluding any major abnormal items)
- Guidance was upgraded in February, following strong start to the year
- New targeted range represents 10-18% growth on underlying \$245.2million PBT achieved last year
- FLT comfortable with current upgraded guidance

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Q: Questions

More information?