FY18 Outlook & Strategic Update, Graham Turner (managing director)

Thanks Gary

Good morning everyone.

As you have just heard, we weren't particularly happy with last year's results, although it was pleasing to deliver:

- An underlying PBT in the order of $330million; and
- Another year of record TTV in a fairly challenging trading climate

While external factors had a significant impact, particularly during the first half, market conditions were not solely to blame for our inability to deliver a record profit to match our record sales.

Some of our businesses simply did not deliver the results that were expected of them.

We also need to ensure that our business is built to deliver top and bottom-line growth throughout the economic cycle, which is one of the reasons why we initiated our transformation program during the second half.

This program is well and truly up and running and changes are already being made by our business leaders globally to ensure we have stronger foundations and achieve the targets that are now in place.

Today, I will focus mainly on the future:

- Firstly, our prospects and guidance for the current year; and
- Secondly, the strategies that will drive future growth across our key pillars and key geographies. This will include a more detailed update on the transformation initiative

Given that both Chris and Dean are here and are eagerly awaiting their chance to answer any questions that you might have, I'll also talk about their businesses in greater detail.

FY18

2017 was basically a story of two halves, with the company encountering strong headwinds early in the year, but finishing reasonably well.

At an underlying level:

- Second half PBT increased 4.7% after being down 22.4% during the first half; and
- Second half TTV increased 6.4%, after being up just 1.8% during the first half

I'm pleased to report that this positive momentum has continued into 2018.

Although it is still early days in the new year, our businesses generally are performing well and are tracking towards a $120million to $135million underlying first half PBT.

If achieved, this will represent 6% to 19% growth on the $113.2million underlying PBT recorded during the first half of last year.

It will also set us up for a solid full year result, which we expect will be between $350million and $380million for the 2018 fiscal year. This will represent 6.2%-15.6% growth on last year.

Underlying results exclude any significant non-recurring items or major one-off transformational costs that could potentially arise in any given year.

Our international businesses currently shape as key growth drivers for 2018, with the EMEA and North America businesses currently on track to surpass their 2017 contributions, when together they delivered 30% of group profit and almost 35% of group TTV.

Asia, which is now largely a corporate operation, has returned to profit, albeit modestly during the first quarter.

Our global in-destination offerings, which sit within the "Other" Segment in our accounts, are also on track to make a more meaningful contribution with a larger DMC network in place and the tour operators in particular set to deliver stronger profits after a challenging 2017.

Results in New Zealand have been fairly good, particularly in corporate travel, while the Australian corporate business has also performed reasonably well.

In Australia, we currently expect first half profit will be slightly down on last year, while we make some important system changes within the business.

These changes, which we have spoken about previously, will inevitably lead to some distraction and disruption for our people in-store while the upgrades are underway.

Improvement is expected during the second half, when the new systems will be fully deployed, productivity will start to improve and as we start to grow our sales force again.

At the moment, our focus is on training our people and embedding the new system, rather than replacing any departing leisure travel staff.

On a positive note, international airfare prices appear to have stabilised, following the across-the-board discounting last year.

Travellers continue to benefit from cheap international fares, but the fares are comparable in price to those that were available 12 months ago

Business Update - The Americas

The Americas business has become a significant contributor to group results, generating $4.3billion in TTV last year and about 10% of the company's overall profit.

Within this region, the USA and Canada corporate businesses have been our profit engines.

We have successfully grown these businesses organically and have developed a strong and compelling customer offering, particularly in the SME-sector.

We are, however, a small player in this huge market, which means it is also an exciting future opportunity.

While corporate has generally gone from strength to strength throughout the region, the North American leisure and wholesale travel sectors have so far proven more challenging.

Our focus has been on turning around results in these businesses and we are starting to see positive signs with productivity improving and losses decreasing within the Liberty leisure and GOGO wholesale businesses in the USA and from the Canadian leisure business.

In the US, this improvement is partly as a result of better network planning, which has seen the company close some under-performing or poorly located shops.

Further network contraction is likely as other leases expire and as the company continues to review the performance of some other businesses.

In Canada, we have also closed a number of poorly located shops to improve bottom-line performance within three key provinces - Ontario, British Columbia and Alberta. In addition, we are growing our home-based offering to complement our shop network and now have more than 100 independent contractors who are associated with our leisure business.

Looking ahead, our next major initiative is to improve conversion by developing a system which identifies the agent most likely to convert the incoming customer enquiry.

This new system is currently in pilot stage in the US with 200 users in New Jersey and Massachusetts.

While there is still work to be done to return Liberty to solid profitability, we continue to see opportunities for a predominantly offline or blended offering in the USA, given the enormous size of the overall market.

To give you some idea of the size of the opportunity, about 13.6million US citizens travelled to Europe during 2016, making this sector alone about one-and-a-half times the size of the entire Australian outbound travel market.

Canada is also proving a good turnaround story for the company.

The business recorded a loss during 2015 but saw a strong rebound in profitability during the past two years and this has continued into 2018 so far.

Business Update - EMEA

The EMEA region now includes:

- The Europe and UK businesses
- South Africa and Namibia; and
- The UAE corporate business, which was formerly part of our Asia division

Together, these businesses generated more than $2.7billion in TTV during 2017 or about 13.5% of the group total in Australian dollar terms.

While the UK remains our largest market within this region, we are expanding in Europe and believe that there are significant opportunities for us on the continent.

After completing a number of small acquisitions in recent years, we now have a company-owned presence in the UK, Ireland, the Netherlands, Germany, Sweden, Norway, Denmark and Finland, plus a minority holding in 3Mundi, our FCM licensee in France and Switzerland and a business with a strong technology platform.

Our rationale in acquiring these businesses has been cost-effective expansion or, more specifically, to gain a scalable, company-owned presence in key corporate travel markets.

Looking ahead, we expect the EMEA businesses to deliver solid profit growth this year and into the future.

Conditions are more stable than they were during the same period last year, particularly in the UK, and we have been performing well in Europe and in South Africa, while narrowing our focus in the UAE to concentrate on the profitable corporate travel operation.

Strategic update - three core business pillars

As you have just heard in our guidance for 2018, we aim to return to a growth trajectory in the short-term but are also looking further ahead to ensure we deliver sustainable long-term benefits for our stakeholders.

Our plan is to grow in three core sectors:

- Leisure travel, which is comfortably our largest sector by sales globally
- Corporate travel, which now represents more than a third of our TTV; and
- In-destination travel experiences, a new and rapidly expanding business pillar that feeds directly from the company's leisure and corporate distribution networks

Within the leisure sector, we now have a strong multi-channel offering which allows customers to transact and interact with the company's brands when and how they want.

Our key channels are highlighted on this slide.

Online leisure sales represent a relatively small percentage of our overall business but are increasing as we improve our e-commerce capabilities and develop our stable of online transactable brands, apps and blended offerings.

Our brands are typically flight-focused and include StudentUniverse, flightcentre.com.au and BYOJet, which is now in Australia, New Zealand, Singapore and the UK.

This focus on flights, rather than hotels, means our online businesses have a different target market to the large global OTAs, but also means that margins and transaction values generated tend to be lower than sales processed via our other channels.

This is basically because:

- Online airfare sales are heavily weighted towards simple point-to-point transactions, which are generally domestic in the Australian context. In contrast, sales booked in-store tend to be more heavily weighted towards international travel; and
- Online customers often book flights separately to accommodation and other higher margin and higher value products - attachment is very low in other words

Within the Australian shop network, flagships and specialist teams are expected to drive shop-based TTV growth in the short to medium-term, with profit improvement, rather than physical expansion, the primary focus within the community shop network.

While very few shops in Australia are unprofitable, we will close or relocate stores that do not meet our expectations, as part of our overall network planning.

Sales team numbers are likely to be reasonably flat, this year with the likely closures offset by expansion in some channels, particularly flagship stores in super regional shopping centres, and in some specialist sectors.

Our recent investment in independent contractor models in Australia and New Zealand, plus our organic growth in Canada, has delivered stronger platforms in an emerging sector.

These leisure businesses, which will continue to operate independently, have lower cost bases than traditional shops.

In corporate travel, we continue to consolidate our position as one of the world's largest and most successful travel management companies.

Last year, our corporate brands alone generated $6.6billion in TTV globally, an 8.7% increase in constant currency, with all regions recording solid growth in local currency.

Strong foundations for future growth were also established through technology enhancements, which have ensured our customers have access to a leading suite of tools and systems, and geographic expansion into key corporate markets.

The corporate business has now entered 12 new countries in the past three years, through outright ownership or equity investments, more than doubling its geographic footprint.

At the same time as it has extended its corporate travel reach, the company has created the in-destination travel experiences network as a key future profit driver by investing in:

- Tour operators, specifically Top Deck and Back-Roads
- Our DMCs, Buffalo in Asia and Olympus in Mexico; and
- Our new hotel management business, BHMA

Now and into the future, these investments will deliver benefits that are aligned to our strategic objectives including:

- Greater control over the customer experience
- The ability to create unique products that we can distribute via our global sales network; and
- Margin and revenue opportunities through vertical integration and external B2B and B2C sales of the in-destination products

Strategic update - Business Transformation

The transformation initiative that is now underway is expected to deliver tangible benefits across all businesses over the next three to five years.

The company is already working towards various high level goals, which our leaders and Mel's transformation team will monitor and amend as:

- Strategies are finetuned

- As market conditions change; and
- As the company's business mix shifts

We refer to these goals as 7-2-100 or more specifically:

- 7% average TTV growth per annum in constant currency over the next three years
- A return to a 2% net margin - profit before tax (PBT) as a percentage of TTV - within three to five years; and
- Cost growth this year of less than $100million on a constant currency basis

The dual focus on TTV growth and margin improvement targets will ensure we are balanced in our approach and that we maintain an ongoing focus on profitable growth.

As I said earlier, some progress is already being made, with:

- TTV growing in line with or slightly above our longer term target
- Cost growth slowing as a result of initiatives like the support rationalisation that took place in Australia late last year, the Hong Kong-Singapore integration and moves to outsource or automate some non customer facing functions; and
- Several loss-making businesses closed or pivoted. As mentioned earlier, these businesses include the Singapore, UAE, Canada and US leisure offerings

We are also working to develop closer relationships with major landlords with a view to getting access to better sites, which will strengthen our network, and a more effective spend.

While progress is being made, we will not necessarily see a linear progression towards our 2% net margin target. This is because some lower net margin businesses are likely to grow solidly in the short-term, which will dilute our overall net margin this year.

In addition to our online leisure brands, these businesses include Travel Money, which now generates more than 5% of our TTV globally, and the multi-national corporate business, which is heavily automated and, accordingly, trades on fairly low margins per transaction.

Conclusion

As I said previously, it is early days in the 2018 fiscal year, but we are making solid progress and are well placed to grow both top and bottom-line results.

The investments we've made in recent years have provided us with a platform for further cost-effective and scalable growth across our core business units and we have started to see some of the benefits.

Further changes are inevitable as we continue to evolve, in response to market conditions and to tap into new opportunities that will arise as travellers continue to take advantage of what we call "the Golden Era for Travel".

This era is well and truly underway and is characterised by:

- Improved affordability - fares have never been cheaper (in dollar terms) or more accessible (when adjusted for inflation or average wages)
- Improved services - flights are becoming more direct, as evidenced by Qantas's impending launch of non-stop services from Perth to London, and in-flight facilities are being enhanced; and
- Greater choice - more airlines are flying here and the range of products is expanding

This obviously creates huge opportunities that we are well placed to capitalise on, given our brand and geographic diversity, our extremely healthy balance sheet and with the strength of our offerings across multiple channels.

Thank-you once again for your support of our company.

I now invite Gary to reassume his chairman duties.