

2007/2008 Outlook by Graham Turner



While it is difficult to anticipate outcomes for 2007/08 at this early stage, Flight Centre Limited (FLT) is building on solid foundations and expects to improve on its achievements of 2006/07.

Reasonable contracts are in place with major suppliers, creating an opportunity to earn a combination of upfront commission and over-ride earnings if we achieve our desired level of sales growth and if fuel surcharges do not increase. Increased competition and capacity out of Australia also creates an opportunity for our company to work closely with its airline partners to demonstrate the strength and value of its shop and online distribution networks.

To improve overall performance, FLT will continue to focus on the key issues of TTV growth, margins, online development, cost reduction, people and improving the customer experience as outlined on the accompanying table.

Some progress has already been made in 2007/08 with the company:

- Increasing its capital expenditure budget to between \$50million and \$55million to fast-track the shop of the future design's roll-out and to allow for the completion of various projects that will enhance the company's overall IT platform, including an airfares database, wholesale booking platform and online booking engine.
- Expanding into the United Arab Emirates in July 2007 with the opening of an FCM Travel Solutions office in Dubai
- Making a small but strategic investment in the Indian leisure travel market by leasing two shops in Delhi for opening during the first half of 2007/08
- Bringing the UK leisure and corporate travel businesses together under one leadership team headed by Chris Galanty
- Implementing a global property acquisition strategy to improve longer term profits, following the success of the company's Brisbane CBD property sale and leaseback deal.

The property acquisition strategy has seen the company acquire a commercial property in Auckland CBD for \$NZ12million and initiate searches for other suitable properties in Australia and overseas. FLT expects to use a mix of leverage and existing company cash reserves to fund these future property acquisitions.

Based on the momentum gained during 2006/07 and a good first month's trading in 2007/08, FLT will target 10-15% growth in total transaction value and bottom line profit growth in line with this TTV growth for the 12 months to June 30 2008.

Frequently Asked Questions

What is FLT's strategy in relation to acquisitions?

FLT will seek to strengthen its sales network and its overall customer offering by pursuing strategic acquisition opportunities in Australia and overseas in 2007/08.

While acquired businesses will typically be small, profitable companies with niche products or services, FLT will consider larger opportunities that enhance its overall operations and give the company scale in some overseas operations.

How will FLT's Board be structured?

FLT initiated a search for two independent directors to succeed chairman Bruce Brown and director Howard Stack, who signalled their intentions to resign after suitable successors were appointed. The company has also announced plans to appoint another independent director within the next year, subject to the business's requirements. Two prospective independent directors, Peter Morahan and Gary Smith, have been nominated for Board positions and will seek shareholder approval at FLT's annual general meeting on November 1. The company and its people thank Mr Brown and Mr Stack for their stewardship and dedication during their terms.

Will FLT's approach to capital management change?

FLT expects to maintain a conservative approach to managing client funds. Retained company cash and funds likely to be generated during 2007/08 will be directing towards funding FLT's capital expenditure, acquisition, dividend, tax and working capital requirements.

What impact will growth in corporate travel have on FLT's cash flow patterns?

Future cash flow patterns will be affected by the ongoing shift in FLT's overall business mix. Debtors are likely to increase with the expansion in global corporate travel, which is predominantly conducted on account.

Is there likely to be any change in the company's ownership structure in 2007/08, following the events of 2006/07?

While the company expects to introduce some debt into the business, principally to fund future acquisitions, there are no plans to enter into a joint venture or privatisation agreement with a private equity partner in the foreseeable future. The company's founders have reaffirmed their intention to retain control of FLT.

2007/2008 Outlook by Graham Turner continued

Flight Centre Limited has identified six key issues for the year.

Strategies that are in place to address these issues and drive future growth are outlined below.

ISSUE	2007/08 STRATEGY
TTV growth	<p>Develop and deploy a volume sales growth system to deliver leisure, corporate and wholesale expansion in all geographies.</p> <p>Key factors</p> <ul style="list-style-type: none"> • Shops and business growth (organic, acquisitions, franchises) • Sales staff growth • Business leads/enquiry growth
Gross margin	<p>Identify, develop and deploy innovative preferred and alternative sources of revenue to deliver margin improvement in all areas</p> <p>Key factors</p> <ul style="list-style-type: none"> • Long-term supplier relationships and contracts offering a mix of upfront and over-ride margin • Continued focus on land sales • Enhanced selling environment – shop of future roll-out
Online and IT platform	<p>Incrementally develop and deploy processes aided by technology solutions that improve productivity</p> <p>Key factors</p> <ul style="list-style-type: none"> • Increased capital expenditure in 2007/08 with various projects set for completion including internet booking engine, website redesign, fares database, wholesale booking platform • Websites to be developed as an extension of the shop experience – serving as a marketing and information tool for customers who want great value land and air travel and person-to-person service, plus highly specialised travel segments, plus the ability to perform simple transactions
People	<p>Attract and retain staff by making FLT the best place to work in all geographies through leadership, philosophies, culture, training and brightness of future</p> <p>Key factors</p> <ul style="list-style-type: none"> • People For Success surveys and action plans • Employee benefits package • Leadership development and succession planning • Leadership recruitment and selection
Costs	<p>Develop a system to reduce costs across all businesses</p> <p>Key factors</p> <ul style="list-style-type: none"> • Reduction in back office overheads • Process and system change • Salaries and wages as a percentage of commission
Customer experience	<p>Design an innovative and improved customer system</p> <p>Key factors</p> <ul style="list-style-type: none"> • Customer feedback • Increased product offerings • Increased consultant product, service and destination experience