STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE – February 21, 2019

Flight Centre Travel Group Releases First Half Results

Key Points

- Record Sales
  - Total transaction value (TTV) exceeded previous 1H record (FY18) by more than $1billion – 10% year-on-year growth
- Increased Profit
  - Underlying profit before tax (PBT) within the targeted range for the period but towards the lower end
- Diversification and Globalisation Success Stories
  - Corporate businesses in Australia and overseas driving growth
  - Accelerated overseas sales and profits - Americas now an earnings powerhouse (underlying 1H PBT up almost 300%)
- Disappointing Australian Leisure Results
  - Modest 1H TTV growth & decreased profit
  - New short-term strategies being implemented to improve second half (2H) results & complement longer term initiatives
- Increased Shareholder Returns
  - $211million in fully franked dividends to be paid via $1.49 per share special dividend + 60 cents per share interim dividend
- FY19 Guidance
  - Tracking towards bottom of range and closely monitoring Australian leisure results, amid ongoing earnings and market volatility
  - Continued focus on productivity & business transformation targets

Result Overview

THE Flight Centre Travel Group (FLT) has delivered record TTV and an underlying PBT within its targeted range for the 1H of FY19.

In releasing its accounts for the six months to December 31 2018 today, the company also announced a record $211million return to shareholders via:

- A fully franked $0.60 per share interim dividend; and
- An additional fully franked $1.49 per share special dividend

The increased dividend payments, which will both be paid on April 12 2019 to shareholders registered on March 22 2019, reflect the company's solid 1H and underline its success in diversifying and globalising its business.

As expected, results for the period were underpinned by FLT's corporate travel business globally as it again:

- Cemented its position as a top-four global travel management company (TMC); and
- Underlined its ability to deliver strong and scalable organic growth in a sector that has significant future potential, given the market's size, FLT's emerging international footprint and its strong growth trajectory

FLT's globalisation strategy also delivered strong returns, with growth accelerating in the key Americas, Europe, Middle East and Africa (EMEA) and Asia markets during the 1H.

This helped the company surpass its previous 1H TTV record (set during the FY18 1H) by more than $1billion and led to record profit contributions from FLT's international businesses.

Underlying PBT almost quadrupled in both the Americas and Asia and grew solidly in EMEA to help offset disappointing Australian leisure profits in a volatile trading climate and during the business engineering phase of the company's five-year transformation plan.

In releasing FLT's 1H results, managing director Graham Turner said: "Our achievements to date generally reflect a solid start to the year and also highlight some key emerging themes – firstly, our corporate model's strength and secondly, the globalisation of our operations.

"The corporate business, which is largely built around the FCM and Corporate Traveller brands, has a proven organic growth model that is highly scalable and highly productive.

"It is now in more than 20 countries and it is rapidly gaining share by attracting and retaining customers globally.

"During the 1H, corporate TTV increased 16% to $4.2billion and grew by more than 30% in the USA and 20% in the UK and Europe, which are both top-five corporate markets globally.

"There are strong future prospects, given the business's trajectory, the model's strength and with its compelling customer offering, which we continue to invest in and enhance.

"FLT's globalisation is evidenced by more than 50% of 1H sales being generated overseas, by the sustainable growth that our businesses are delivering in the EMEA and the Americas and the improvements we are seeing in Asia.

“Both the EMEA and the Americas now sit alongside Australia as material contributors to group earnings, with the Americas, in particular, becoming an earnings powerhouse and delivering a $32.6million 1H profit.

“Just two years ago, this business posted a $6.7million 1H loss and the outlook for the future looks very bright.”

Financial Overview

Globally, 1H TTV increased by 10% to a record $11.16billion as the company again surpassed its 7% compounding growth target through to the end of FY22.

Underlying PBT increased modestly to $140.4million and was within FLT’s targeted range for the period ($140million-$150million).

For the 1H, underlying PBT was adjusted to exclude three non-recurring items:

- A $23.8million non-cash impairment relating to the Olympus destination management company (DMC)
- A $2.56million gain on adoption of new revenue accounting standard AASB 15. This relates to the release of lump-sum and touring revenue that was deferred on transition to AASB 15; and
- A $8.2million gain which has resulted from a change in revenue recognition within the global product area. Recent system enhancements mean that FLT can now capture and recognise some additional override revenue at the time of booking, as it typically does elsewhere in the business, rather than after the customer has travelled

Including these non-recurring items, FLT achieved a $127.4million actual (statutory) PBT.

Net profit after tax (NPAT) was $101.1million (underlying) or $85million (actual).

As expected, revenue margin (revenue as a percentage of TTV) decreased as a result of ongoing business mix changes, specifically the growth in lower revenue margin businesses. Lower Australian leisure margins, linked to lower non-air attachment and increased discounting, also contributed.

Underlying cost margin*, underlying costs as a percentage of TTV, improved from 11.6% during the FY18 1H to 11.1% to offset this revenue margin decrease as FLT made solid progress towards its 10% FY22 target.

This reflects the company’s continued focus on cost containment and also its success in increasing consultant productivity, which has been a key global objective.

Underlying costs increased about 5% or by 2.9% in constant currency (excluding impairment and touring cost of sales), while productivity, or TTV per person, increased by 7% globally.

To slow cost growth and improve efficiency, FLT continues to outsource and off-shore some business support functions. The company is also proactively using robotics and artificial intelligence (AI) tools to enhance consultant productivity and the customer experience.

Net margin, underlying PBT as a percentage of TTV, decreased to 1.26% (PCP: 1.37%), largely as a result of the lower Australian leisure profits during the 1H. Margin growth in the Americas, Asia and EMEA segments partially offset this decrease within the Australia/New Zealand segment.

Segment Results

FLT's evolving earnings profile, which has seen the corporate travel businesses in Australia and overseas and the international businesses in general drive recent growth, gained momentum during the 1H.

This was in line with expectations given:

- The company's growth trajectory in several large markets, including the USA
- Its expanding global corporate travel footprint, which has consistently delivered scalable organic growth; and
- The ongoing changes underway within its leisure businesses, particularly in Australia, and their adverse impact on short-term results

In all geographic segments, the company generated record TTV, with:

- The Australia/New Zealand business achieving 2% growth to $6billion
- The Americas delivering 18% growth to almost $2.5billion (22% of group TTV)
- The EMEA achieving 12% growth to $1.6billion (about 15% of group TTV); and
- FLT's Asia businesses delivering 39% TTV growth to $885million (8% of group TTV)

Growth in Australia/New Zealand was hampered by the relatively low increase in Australian leisure TTV.

Although same store sales increased, shop closures during the FY18 2H meant that leisure TTV growth was reasonably flat and driven by the online travel agency businesses (BYOjet and Aunt Betty), FX business Travel Money, the Travel Partners home-based agency business and by various specialist divisions within Flight Centre brand.

Underlying PBT also increased strongly in all geographic segments, apart from Australia/New Zealand, with:

- The Americas and Asia businesses almost quadrupling their PCP contributions; and
- The EMEA businesses achieving 13% growth, despite the Brexit uncertainty in the UK, the investment in the FCM Germany start-up and the impact of credit-card legislation changes that came into effect in the FY18 2H

While overall PBT decreased in Australia/New Zealand, the New Zealand operation and the Australian corporate travel business both delivered record profits.

Other notable achievements within FLT's segments included:

- EMEA: The UK delivered further strong growth and became FLT's 3rd country to surpass $1billion in 1H TTV after Australia and the USA, while the Dubai-based United Arab Emirates business also performed strongly
- Americas: Although the corporate businesses again drove profit growth, the leisure and wholesale businesses delivered improved results during their seasonally weaker trading period. StudentUniverse, one of two leisure online travel agencies that currently ranks among FLT's top 10 businesses globally by TTV, achieved a record profit; and
- Asia: The India business, which has become FLT's 6th largest country in TTV terms, was a key contributor to overall 1H results and should deliver more than $1billion in TTV during FY19

FLT's Travel Experiences Network (TEN) businesses are part of the "Other" segment in the company's accounts and include:

- Tour operators Top Deck Travel and Back-Roads Touring
- Hotel management company BHMA; and
- DMCs Buffalo Tours and Olympus

The established touring businesses delivered a strong 1H profit, with Top Deck on track to achieve its best profit result in three years.

As expected, BHMA contributed a modest loss during an expansion phase that has seen the business grow its portfolio to 23 properties in Thailand, Vietnam and Bali.

The DMCs delivered mixed trading results, with Asia-based Buffalo contributing a reasonable profit and Mexico-based Olympus a trading loss as the business has been negatively impacted by the loss of key customers, a decline in local Mexico sales and a change in local management. As announced previously, FLT has written down its Olympus investment and has incurred a $23.8million non-cash impairment charge in its actual 1H results.

Strategy & Business Transformation

FLT is now in the second year of a five-year business transformation program and is working towards achieving three specific targets through to the end of FY22:

1. 7% compounding annual TTV growth
2. A 10% underlying* cost margin (excluding touring cost of sales); and
3. A return to a 2% net margin

After a clean-up phase during year-one, which saw the company remove or pivot various loss-making businesses, FLT has now entered a two-year business engineering phase that will take place across the three core divisions of corporate travel, leisure travel and the TEN.

Key objectives during the current phase include:

- Developing famous and distinctive brands that deliver a high quality and consistent customer experience across these three divisions; and
- Developing productive and efficient business models that deliver scalable growth (sustainable revenue and cost structures) in future years

Corporate transformation initiatives focus on globalisation, digital and technical investments, delivering integrated financial solutions, vertical integration in product and developing a workplace of the future for the company's people.

New and unique customer-facing systems and technology are being developed by FCM Labs, tech hubs that are now in place in Barcelona, Stockholm, Boston, Brisbane and Bangkok.

In the leisure sector in Australia, the company is developing three business streams targeting the mass market, premium travellers and the youth sector.

Leisure transformation initiatives that are currently underway include:

- FCB 2.0, a tailored program of enhancements for the Flight Centre brand in Australia
- Growth in new and emerging models, including independent contractors and affiliates, online and flash sale (vouchers); and
- Productivity and people, which includes specialisation, flexibility and retention programs and efficiency

The development of the FCB 2.0 program has been led by FLT chief digital officer Atle Skalleberg and the program focuses on improving Flight Centre brand's performance by developing or introducing:

- Lower cost self-service channels and capabilities, such as apps and websites
- Sales operations technologies with increased automation levels, including lead management tools like RedConnect, which is contributing to the strong US leisure turnaround
- A new membership program that will reduce customer acquisition costs, use data to personalise marketing and reduce friction in the consumer buying process
- Integrated trip management technologies like Umapped
- Improved marketing automation and retargeting systems and workflows; and
- Customer relationship management technologies

Outlook

FLT is currently tracking towards the bottom of its guidance range for the full year (underlying PBT between $390million and $420million), largely as a result of the volatility it has experienced in Australia and within the leisure business in particular during the 1H.

This volatility has continued early in the 2H and market conditions remain challenging heading in to the leisure business's busiest trading months.

FLT will continue to monitor this volatility, along with growth overseas, to assess how group results are tracking relative to earnings guidance.

In addition to an apparent slowdown in the general trading cycle during the second quarter, factors that adversely impacted leisure results in Australia during the 1H included:

- Lower margins
- The significant change and disruption that has taken place within the business over the past two years
- Investments in systems, security and people, which has included a new wage model (1H cost of circa $5million) and rapid upstaffing, which saw the company recruit a record number of new sales consultants; and
- Network changes, including the 90 shop closures during the FY18 2H and brand mergers undertaken as part of the Rebrand & Grow strategy

The company will implement additional strategies during the 2H with a view to addressing these issues and complementing the longer term initiatives.

These shorter term strategies include:

- Expansion in models and sectors that are currently performing well, including specialist Flight Centre businesses, online and home-based agents
- Building a stronger network by closing or relocating poorly performing or poorly located shops and by opening new shops in prime locations
- Lowering costs by slowing recruitment in a low revenue growth trading climate and after the record 1H of people growth and by reducing head office overheads; and
- Improving margins through better attachment, centralised pricing, sales of company-owned products and through a more disciplined sales approach

Globally, 1H trends are currently expected to continue, with FY19 results likely to be driven by the corporate travel businesses globally and by FLT's international businesses in general.

Corporate growth will, in part, be fuelled by new accounts won during the 1H. These wins amount to about $600million in projected annual spend globally for the FCM business alone.

FLT's international businesses have started the 2H with strong momentum; following their record breaking 1H contributions, with the UK operation recording its largest ever monthly profit in January 2019 despite the ongoing Brexit uncertainty.

The company expects to make further progress towards its FY22 business transformation goals, relating to TTV growth, cost margin and net margin, as the year progresses.

TTV has, to date, exceeded the 7% annual growth target and underlying cost margins have again improved during the 1H.

The group's net margin is typically stronger during the 2H and is expected to increase in the future as the transformation program gains momentum and helps drive further growth.

While FLT has today announced plans to return surplus cash on its balance sheet to shareholders, it will continue to invest in growth initiatives.

FY19 capital expenditure is likely to be in the order of $100million and will again be weighted towards system enhancements.

The company will also consider further merger and acquisition opportunities to complement organic growth, to fast-track growth in new sectors or to deliver new tools that enhance productivity or the customer experience.

"Our business is now truly global and continues to evolve across its three core divisions and across its key geographical divisions," Mr Turner said.

“Our success in the world’s largest travel markets, coupled with our balance sheet strength, means we are well placed for the future and gives the Board confidence to return additional funds to shareholders via the $1.49 per share special dividend.

“We will continue to invest in key areas within the business to create additional shareholder value, as evidenced by the ongoing investments we’re making in our cutting edge corporate technology suite and through our efforts to improve leisure sector results.

“While our reliance on the Australian leisure business to drive overall growth is decreasing as other businesses rapidly gain scale, it remains a significant contributor to group results. Further enhancements are now being made now to strengthen areas that are performing well and to address the issues that are impacting results.”

ENDS Media & investor enquiries to haydn_long@flightcentre.com, + 61 418 750454

*Underlying costs do not include touring cost of sales and impairment

Additional Details for Analysts & Investors: FLT will hold a conference call for analysts and investors at 9.30am QLD time (10.30am NSW) today. Conference ID 4949686, Phone + 61 2 80385221