Managing Director's Address – Graham Turner

Thanks Gary and good morning everyone.

Today, I'll give you some colour around:

- Year-to-date trading
- Our expectations for both the half and full years; and
- The strategies that we are focusing on to improve performance in both corporate – a sector that now generates about 40% of our sales and that has become our main growth engine – and in leisure – a sector that remains very important to us

Year-to-Date Trading

As expected, the first four months of FY20 have been a challenging period as we have again experienced the issues and disruptions that significantly impacted second half results last year.

These issues, which I will run through shortly, have mainly affected bottom-line results to date and have prevented us from capitalising on the strong and consistent TTV growth we have been achieving.

Profit through to October 31, 2019 has been well down in comparison to a strong prior corresponding period, although TTV growth has been fairly strong.

First quarter TTV – the most up-to-date sales figures that we currently have – increased 11.4% globally, comfortably above our longer term goal of 7% growth, and reached record levels in each of our geographic sectors – Australia-New Zealand, the Americas, EMEA and Asia.

Corporate TTV globally increased by a very healthy 18% during this period, as our corporate brands generated about 40% of the group's first quarter TTV.

Together, our corporate brands are now on track to become a $10billion business this year as we continue to out-perform in this sector. This does not include TTV that we generate through the Flight Centre Business Travel offering or that is transacted through our FCM licensee network.

We are rapidly gaining share in the world's largest corporate markets as evidenced by first quarter corporate TTV increasing:

- 27.6% across the Americas – USA TTV is up 29.5%
- 36.2% in EMEA, albeit with some help from the 3Mundi acquisition: and
- 11.6% in Asia

In Australia-New Zealand, where we already have a large share of a relatively small market, first quarter corporate TTV surpassed the prior year record by 1.7%.

This was in comparison to a relatively strong prior corresponding period and, given that we have a large pipeline of account wins coming on board, should provide a solid platform for the full year. In terms of that pipeline, the FCM business alone has won accounts with TTV in the order of $500million globally so far this year.

In the leisure sector, first quarter TTV increased about 4.5% globally.

Growth was stronger in Australia at 5.7%, despite the subdued trading climate, and was bolstered by solid results from our new and emerging businesses and from the Travel Money foreign exchange business.

These businesses are obviously smaller than our traditional leisure business, which is still being rightsized in terms of both people and shops, and are not yet significant contributors to group profits. They are, however, gaining scale and making a meaningful TTV contribution – although generally at a fairly low margin – at a time when TTV in the much larger Flight Centre brand has been relatively flat.

They include:

- Ignite, the specialist ready-made package brand that we have just fully acquired
- Travel Partners, our home-based or independent contractor model; and
- Online

In Australia, online leisure sales in Australia doubled to more than $250million during the first quarter, which points to solid market-share growth for flightcentre.com.au and for the Jetmax brands, BYOjet and Aunt Betty.

As I briefly mentioned earlier, our challenge so far this year has been translating solid top-line growth to the bottom-line.

Contributing factors have included:

- Continuing disruption in the Australian leisure business. While in-store gross margin has now stabilised, reduced TTV in our shop network has impacted back-end revenue and, therefore, overall revenue margins. Costs such as those from the EBA have also been higher in the first four-months of the year, but will become comparable to the prior corresponding period in the second half.

- A significant downturn in travel to the Dominican Republic, which is our US leisure business's largest market and an important market for Canadian leisure customers. This safety-related downturn is slowly easing, but is expected to cost in the order of $US4million to $US5million over the full year
- Ongoing Brexit-related uncertainty in the UK. While the UK businesses has again performed well and delivered a record profit last month, this uncertainty has created a degree of volatility and has slowed its traditionally strong growth trajectory late in FY19 and into the first four months of FY20
- Unrest in Hong Kong, which has impacted our Greater China business; and
- Underperformance in some other areas, particularly the in-destination businesses

Timing factors have also impacted underlying result comparisons to date, given that we have incurred:

- The higher wage costs flowing from the EBA that was adopted in the Australian leisure business in October 2018. This led to a $4million first quarter cost increase
- Additional consultancy costs linked to IT, leisure and wholesale projects that were initiated late in FY19 and that have carried through to the new year; and
- Lower interest earnings, linked to lower yields in Australia, lower cash balances following last year's special dividend and higher interest payments on our debt facilities. Together, these factors could have an $11.5million adverse impact this year and a $6million impact during the first half

We are also incurring additional development costs associated with our April 2019 investment in Upside but will exclude these from underlying results.

On a positive note in leisure travel, we have seen a recovery in in-store gross margins – effectively commissions – in Australia after a decline last year.

We do, however, need to generate stronger TTV growth from our store network to ensure the benefits of this flow through to revenue margin.

Revenue margin is again expected to decrease this year as a result of the business mix changes that we continue to see.

Specifically, this relates to the rapid growth in various low revenue margin businesses including the online leisure businesses and the FX business in India (TTV up 80% during Q1).

Half Year & Full Year Outlook & Profit Guidance

As we have indicated previously, underlying PBT for the half year will be below the underlying $140.4million first half result we achieved last year, largely as a result of the challenging first quarter we have experienced.

While we expect some stabilisation later this quarter, it is currently very difficult to gauge exactly where we will finish the first half in profit terms because of:

- The ongoing uncertainty we are experiencing in some important geographies; and
- The fact that we have yet to experience like-for-like trading conditions in Australia, given that we had a fairly strong start to FY19, before TTV slowed in November and December and generally remained subdued for the rest of the year

November and December of this year are, therefore, likely to provide a more meaningful insight into our progress.

Ahead of this important period in the first half, we believe underlying PBT for the six months to December 31 2019 will be between $90million and $110million, which is well down on last year's first-half result.

As previously highlighted, the primary reasons for the first-half decline are the Australian leisure business and the "Other" segment.

The Other segment will be impacted in the first half by reduced net interest income, increased consultancy costs and poor trading results in our Global Touring businesses.

In addition, the impact of the Dominican Republic issues in the US leisure business will be a drag on the corporate business's continuing top and bottom line growth in that region for the first half.

Year-on-year profit growth is expected during the second half, which is traditionally a seasonally busier trading period, and we will target an underlying PBT between $310million and $350million for the full year.

The mid-point of this full year range – $330million – represents a 3.8% decrease on the $343.1million underlying FY19 result, while the top represents 2% growth.

At this stage, we expect to separate two items from underlying results, specifically:

- About $10million in development costs associated with our Upside investment. The majority of these costs would be capitalised if we owned the business outright; and

- $5.5million to $7million in non-recurring costs associated with our voluntary decision to reaccommodate customers who would otherwise have lost their money as a result of the collapse of wholesalers Tempo and Bentours in Australia

While we will be disappointed if full year profit does not exceed the FY19 result, we are conscious that various factors that are currently in play make forecasting profits very difficult.

Our full year guidance implies FY20 results are likely to be heavily second half weighted, which reflects our expectations that:

- We will encounter like-for-like trading conditions from late in the second quarter – which has not yet been the case during FY20
- Our improvement strategies will gain further traction
- Our recently increased ownership of both 3Mundi and LDV, plus the Casto business,, will deliver increased profit to the group
- Cost comparisons will also become like-for-like as the year progresses; and
- World events that are outside our control, for example Brexit, may be resolved

We may also start to see more tangible benefits flowing from economic stimulus packages in Australia during peak leisure booking seasons, which occur during the second half. We did see some positive signs in the recent Travel Expo season in Australia.

In corporate travel globally, we have started FY20 strongly and have also developed the foundations for another very good full year.

While safety concerns in the Dominican Republic have significantly impacted American leisure results, the corporate business has maintained its strong profit and TTV growth record.

During the first quarter, it overtook Australia-NZ to become our largest corporate business, which was inevitable given its success in a market that is some 30-40-times larger than the Australia-NZ market.

Similarly, we expect the EMEA corporate business to challenge its Australia-NZ counterpart in the near term, given:

- Our consistent growth record and small but growing share in the UK, South Africa and the UAE; and
- The Continental Europe corporate market's size and our emerging presence there

This year, the Continental Europe businesses should deliver about $1billion in TTV and a combined profit of more than $10million, underlining their potential as future growth drivers for the group.

Overall profits in EMEA should also top $100million this year – just 12 months after the Americas business achieved this milestone – to further underline the company's global strength and its evolving earnings profile.

Strategic Update

As we mentioned at our full year result announcement in August, plans are in place to improve performance across our three core divisions of:

- Corporate travel
- Leisure travel; and
- In-destination travel experiences (TTG)

Given that these strategies are also covered in detail in our annual report, today I will briefly remind you of our corporate strategies and share some additional detail on our leisure plans.

We are one of very companies that have large global businesses in both leisure and corporate travel.

Corporate is very important to us – now and into the future – and, as you have just heard, is currently our major growth driver globally,

We have a proven organic growth model that has been deployed globally and, given its international success and extensive geographic footprint, it should surpass our leisure business to become our largest division by TTV in the medium-term.

Our priorities in this sector are:

- Investing in sales and marketing, including our global network of more than 500 business development managers, to win new customers and to drive our organic growth strategy This is supported by strong client retention rates and is consistently delivering record wins to the business
- Continuing to investing in technology
- People – while automation is increasing, people remain a key part of our offerings
- Cost reduction and efficiency gains
- Developing market-leading and unique products; and
- Geographic expansion

The significant investments we are making in technology and systems are enhancing the already strong FCM offering and delivering innovative, easy-to-use, consumer-grade, digital solutions to our SME customers.

This is enhancing the customer experience, while also improving our own productivity.

As you will know, in recent years the Australian leisure business overall has not been able to deliver the consistent year-on-year profit growth that it traditionally achieved.

Challenges have included:

- External factors, like the macro-economic climate; but also
- Internal factors that we have outlined previously, including system changes, network issues and cost growth, which is inevitable in our bricks and mortar business

While we tend to focus on the internal factors that we control, the current economic climate clearly isn't helping our leisure business.

Our analysis of Australian outbound travel departure data, which is a more meaningful measurement for us than the Australian Bureau of Statistics' "returns" data, shows that overall industry growth has slowed from:

- A 7% compound annual growth rate for short-term resident departures between FY09 and FY18
- To 3.5% during FY19; and
- Less than 1% across July and August this year

Across the broader Australian retail sector, the soft September sales figures that were released early this week have also highlighted the challenging trading cycle.

Regardless of trading conditions, we will need to ensure our leisure business is robust enough to weather cyclic storms and structural shifts that may take place and can capitalise on opportunities that a challenging trading cycle presents (for example, market-share).

In leisure, our improvement strategies are outlined on this slide and can be divided into two streams.

The first work stream focuses on operational efficiency – improving current results and creating a better deployment capability of change by bringing together all operational efficiency projects into one dedicated program of work over the short-term.

It is geared towards improving results in the existing leisure business in the key areas of consultant productivity, marketing effectiveness, managed network reduction, cost base, REM mechanisms and overall business simplification.

We shared some details on our network plan in August and it remains a work in progress.

Work stream two focuses on the mid to longer term, specifically identifying opportunities within a shifting market and challenging some of our current models.

Acceleration and further investment in our successful newer models, which you have also just heard about, will feature strongly here.

Across our business, we are working towards a 2025 vision and also the 2022 business transformation program goals that are highlighted on this slide.

We don't feel that a change to these goals is currently needed, as we continue on a business engineering and investment phase, although we accept that our Australian leisure business will take longer to recover than initially anticipated.

Conclusion

Before handing back to Gary, I'll quickly summarise the morning's key points.

Although it's been a challenging start to the new fiscal year in terms of profit, we continue to achieve record TTV, despite macro challenges and uncertainty in some key geographies.

TTV growth is predominantly being fuelled by our corporate businesses – which are on track to top $10billion in TTV this year – as we rapidly gain share in the world's largest markets.

New and emerging leisure models are also gaining traction, particularly the Australian online leisure businesses, and contributing to this overall TTV growth.

There are, of course, challenges to overcome.

Strategies are in place to address these challenges, particularly in the Australian leisure business, and we expect them to gain further traction as the year progresses.

Profit is likely to be heavily second half weighted this year and, at the half year, will be below the $140.4million underlying first half result we achieved during FY19.

For a variety of reasons, we expect stabilisation during the second quarter and growth during the seasonally busier second half as we work towards an underlying PBT for the year between $310million and $350million.

We will be disappointed if we can't top our FY19 result, but unfortunately we don't yet have 20-20 vision when it comes to our vision of profit for 2020. Trading over the next few months will provide us with a more meaningful insight into our growth prospects for later in the year.

Once again, thank-you for your ongoing support.

I now invite Gary back to the podium.