Statement to Australian Securities Exchange – August 26, 2021

RECOVERY GAINING MOMENTUM AS FLIGHT CENTRE TRAVEL GROUP EYES RETURN TO PROFITABILITY

Key Points

- **Recovery gaining momentum, particularly in corporate sector and in United States**
    - Month-on-month sales revenue growth despite lockdown & heavy restrictions – culminating in COVID-period record in June 2021
    - Corporate TTV tracking at 40% of pre-COVID* (PC) levels globally by year-end – transaction volumes typically higher given heavier than normal domestic travel weighting
    - Rapid leisure & corporate recovery in US late in fourth quarter (Q4)
- **Trading conditions generally improving during FY21**
    - Vaccination programs gaining momentum globally
    - Travel restrictions being relaxed or removed in several key markets, although ongoing lockdowns impacting ANZ recovery
    - Experiencing strong & immediate rebounds after travel restrictions are lifted
- **Investing to win market-share and gain further competitive advantage**
    - Enhancing platforms and products to capitalise on market-share opportunities
    - Headlined by game-changing new FCM and Corporate Traveller platforms
    - Online (SOAR) and agent (Helio) leisure platforms
- **Successfully executing key corporate and leisure strategies**
    - Corporate business "growing to win" – circa 100% client retention in FCM and $US1.4b pipeline of new accounts won during FY21
    - Increasing leisure market-share and/or profitability in key markets through enhanced multi-channel offerings, alongside streamlined shop networks – network rebalancing
- **Targeting a return to monthly profitability in both corporate and leisure during FY22**
    - Relies on vaccination efficacy (Delta and other possible strains), governments reopening domestic borders and keeping them open
    - Resumption of further international travel – potential material benefit from Trans-Atlantic reopening
    - Earnings leverage to markets with positive short-term outlooks – PC, 54% of underlying segment result generated in Americas and EMEA
    - Not currently in a position to provide FY22 guidance, given lack of clarity around government timeframes for border re-openings and removal of other travel restrictions
- **FY21 Result Snapshot**
    - Underlying loss in line with guidance at $507million
    - $3.95billion in TTV – increased corporate weighting (55%)
    - Lengthy liquidity runway maintained – circa $1.4billion cash and investments at June 30 2021

THE Flight Centre Travel Group's (FLT) recovery is gaining momentum, with travel demand escalating globally during the fourth quarter (Q4) of the 2021 fiscal year (FY21).

Recovery was particularly strong in the US – the leisure and wholesale businesses returned to profit late in the year – and in the corporate sector, with total transaction value (TTV) globally rebounding to 40% of PC levels by June 30, 2021.

Corporate transaction volumes (ticket numbers) were typically higher than TTV, reflecting heavier than normal domestic travel weighting. Volumes were at 80% or more of PC levels in China, France and Germany by the end of July 2021 and were approaching 70% in the US, as FLT continued to gain market-share globally.

Corporate TTV and ticket volumes are expected to recover further in FY22, given that FLT has established solid foundations for continued organic growth by:

- Securing accounts with PC annual spends in the order of $US1.4billion during FY21 to strengthen and further diversify its global customer base. Recent wins include flagship accounts such as Procter & Gamble (won out of the US and Europe) and Britain's Foreign & Commonwealth Office, which the FCM network will service from 44 countries
- Retaining almost 100% of large market or enterprise (FCM) customers; and
- Investing significantly in its customer offerings during the pandemic, with game-changing new platforms for both FCM and Corporate Traveller set to launch during the FY22 first half (1H)

While ongoing lockdowns throughout Australia are currently impacting near-term bookings, trading conditions and the travel outlook are generally improving, with vaccination programs gaining momentum worldwide and restrictions being removed or relaxed in several key markets, which is leading to strong and immediate spikes in demand.

In addition, FLT expects to benefit from its ongoing investments in its platforms, products and people to fast-track market-share growth and gain further competitive advantage as recovery continues.

These investments, which include the two new FCM and Corporate Traveller platforms, underpin the corporate businesses' "grow to win" strategy, which is being successfully executed globally.

Similarly. the leisure business is achieving its strategic objectives with structural changes now complete, the business positioned for recovery and solid early progress as evidenced by:

- Improved overall market-share in Australia through an enhanced range of sales channels
- Increased online sales as a percentage of overall sales and new deals in place with Google Flights and Amazon; and
- The restructured US business back in profit at various times during the 2H and capturing 45% of PC TTV in July 2021 through 16% of its traditional Liberty Travel sales force and other enhanced sales channels

Various other leisure and corporate businesses have returned to modest profit or approached breakeven in specific months during the 2H.

Group-wide, FLT continues to target a return to monthly corporate and leisure profitability during FY22, subject to vaccinations continuing to prove effective against all COVID strains, domestic borders reopening and staying open and further international travel resumptions.

While there is not yet a definitive timeframe for travel restrictions to be lifted in Australia and New Zealand, the company now has heavier earnings leverage towards other regions with more positive short-term outlooks given 54% of PC underlying PBT was generated in the Americas & EMEA. In addition, some 70% of the FY21 corporate account wins should trade in the Americas and EMEA – fuelling further organic growth within these two key regions during FY22 and beyond.

<u>Comments from Graham Turner, FLT CEO</u>

“FY21 was another challenging year for our industry, but conditions have gradually started to improve.

“When lockdowns have lifted and borders have re-opened – as they have just started to do in a more meaningful way outside of Australia and New Zealand – we have typically seen immediate and strong travel recovery, which is what we have now started to see in key locations like the US, Canada and Europe. The near-term outlook has also improved in the UK, another large and important market for our company, with most restrictions now lifted and people learning to live with the virus.

“As an organisation, we too have learnt a lot during the past 18 months, particularly about being resilient, consistent and as optimistic as possible during tough times. Our priorities have evolved from emergency cost cutting at the beginning of the crisis to maintaining those significantly reduced expenses, while still developing and implementing our technology, improving productivity and finetuning our recovery strategies to drive stronger future returns.

“Looking ahead, we believe our position as a diversified global business with compelling customer offerings across three main travel divisions – leisure, corporate and supply – will be of enormous value and a great advantage to us and to our major suppliers. Although we can’t predict the future, given the current government-enforced restrictions, we are targeting a return to monthly profitability later in FY22 and to return to pre-COVID TTV by June 2024, but with significantly reduced ongoing operating costs.

“Travel will inevitably be more complex in the post-COVID world and customers will require more assistance as they navigate new requirements and try to understand any restrictions that may still apply. In this type of environment, our people’s knowledge and our enhanced systems will prove invaluable at every step of the customer journey.”

Result Overview

FLT recorded a $507.1million underlying loss before tax during FY21, in line with both the prior year result and market guidance.

Statutory losses** before tax improved from $848.6million during FY20 to $602million during FY21. After tax, FLT recorded underlying and statutory losses of $364million (FY20: $378million) and $433million (FY20: $662million) respectively.

While underlying losses were similar in both FY21 and FY20 and in the FY21 first and second halves, operational performance has improved significantly during the pandemic given that:

- About $660million in underlying losses were incurred during the last four months of FY20 after most of the world was initially locked down and after a $150million underlying profit for the first eight months of the year; and
- FY21 2H results were significantly impacted by the reduction in and then loss of the Australian Federal Government’s JobKeeper subsidy

Although FY21 2H sales revenue increased 48% – or $76million – compared to the FY21 1H result, this growth was offset by the $41million 2H reduction in retained employee government subsidies, mainly related to JobKeeper, and a $42million (8%) underlying cost increase.

FY21 TTV finished at $3.95b (FY20: $15.3b), with revenue reaching $395.9million (FY20: $1.9billion) and sales typically improving month-on-month.

The global corporate businesses contributed 55% of FY21 TTV – up from 38% PC – and have generally led the recovery in most countries to date.

The global leisure businesses were tracking at 16% of PC gross TTV levels by the end of July 2021 and have been impacted more severely by cancellations and tighter restrictions on discretionary travel, given their heavier international travel weightings and the leisure division's overall weighting towards the heavily locked down Southern Hemisphere markets of Australia and New Zealand.

In both leisure and corporate travel, the US experienced a strong recovery late in FY21, with 2H TTV increasing month-on-month at a 23% compounding rate.

Outside of the travel industry, the Pedal Group cycle business (retailer 99 Bikes and wholesaler ATA) also performed strongly with profit before tax tripling to $54million and group sales increasing 66.5% to $333million. The business expanded into New Zealand during the year and now has six shops throughout the country, plus two additional stores set to open in Auckland and Rotorua.

FLT's FY21 revenue margin was 10%, in line with expectations but lower than normal as a result of:

- Heavier than normal domestic travel weightings, given the almost complete absence of international travel in most markets
- A higher proportion of corporate TTV, which traditionally operates at a lower revenue margin than leisure; and
- A relatively high proportion of low margin government repatriation business in Australia

As travel patterns normalise, revenue margin is expected to recover.

In its initial response to the COVID crisis, FLT focussed on cost control and liquidity. As conditions stabilised during FY21, the company started preparing for growth by investing in technology and platforms, as well as sales functions and people to better service customers during the recovery.

Monthly recurring costs were typically $70million to $75million and increased after FLT welcomed back "stood-down" staff in Australia when JobKeeper ended late in the Q3.

At June 30, 2021 FLT had total cash and investments of $1.36billion. After deducting all client cash and allowing for a complete unwind of working capital, the company had a $941million liquidity runway.

Cash burn during the 2H was between $30million and $40million per month and by year-end was mainly being incurred in Australia and in FLT's Global area, with the Americas business approaching a neutral cash position after its strong sales uplift late in the year.

Prior to the lockdowns in Australia late in FY21, the company was on track to lower cash burn to below $30million by July.

Corporate Travel Division: Growing to Win

FLT's global corporate business generated a $138million underlying FY21 loss but has started FY22 in a strong position after underlining its credentials as an innovative and disruptive leader in the sector.

During FY21, the business achieved its strategic objective of growing to win and laid solid foundations for the future by:

- Continuing to develop two category-leading global brands in FCM (large market/enterprise) and Corporate Traveller (SME/start-ups)
- Securing its strong portfolio of new accounts, while retaining almost 100% of its large market customers – thereby fuelling future organic growth
- Investing in new products and platforms for the post-COVID world to fortify an already strong technology offering; and
- Enhancing global service capabilities to ensure improved customer experience and greater synergies across countries

Within the next few months, both FCM and Corporate Traveller will bring to market new digital platforms that will deliver meaningful benefits to customers and, at the same time, are likely to further disrupt legacy travel management companies. Both platforms have been designed for the post-COVID world and deliver a proprietary end-to-end customer experience, drawing from FLT's widest air and hotel content ranges and using Artificial Intelligence (AI), robotics and data science to produce tangible benefits for customers and the company.

The FCM Platform will offer large-market customers the dual benefits of global consistency and flexibility in the form of bespoke user experiences, a unique mix that underpins the FCM Platform offering that is available now in China and tailored for the local market.

Through its proprietary Melon platform, Corporate Traveller will provide customers with a simple, end-to-end, mobile-first, consumer-grade experience, tailored for SMEs and with the sophistication required in the new world of travel in terms of duty of care, data science and security.

This ongoing investment in platforms and other enhancements will ensure FLT's corporate division re-emerges with:

- More customers,
- New and differentiated brands; and
- New products in each brand, which will deliver a clear growth pathway in a market that may not recover for several years and while significant consolidation is taking place

During FY21, corporate sales increased consistently despite ongoing travel restrictions and many companies maintaining “essential travel only” policies, which meant they traded at much lower levels than normal (in some cases less than 10%).

Customer activity escalated in some countries in July 2021, despite the month typically being seasonally softer than June, and a number of businesses either continued to trade profitably or made meaningful progress towards break-even. Examples included Corporate Traveller in the USA and South Africa and FCM in the United Arab Emirates, South Africa and Mexico.

TTV recovery is likely to continue in FY22, assuming conditions improve during the course of the year and as new accounts start to trade. Accounts with annual spends of circa $US900million are currently in implementation (partially onboarded or in the solution design process).

FLT also believes changing customer needs post-COVID will lead to increased demand for Travel Management Companies’ services and away from unmanaged and supplier-direct bookings.

Leisure: structural changes completed, positioned for recovery, starting to see positive signs that strategies have worked

FLT’s global leisure division generated a $353million underlying loss during FY21 in challenging market conditions, given the heavy restrictions that applied to discretionary travel throughout the year.

In Australia and New Zealand, FLT’s largest leisure region, these restrictions have been among the tightest in the world and have effectively prevented FLT’s people from selling their core international travel product in a meaningful way since widespread border closures were first applied in March 2020.

Within this subdued trading climate, gross TTV reached $1.5billion and was tracking at 14% of pre-COVID levels in June 2021, with sales tending to gradually increase during the period.

Operational highlights included:

- Healthy spikes in demand globally when border restrictions were relaxed or removed, highlighting the large potential upside in the leisure sector
- Market-share growth in both Australia and South Africa. In Australia, industry data points to both an increase in online (intermediary) market-share from 17% to 25% and continued strength in the Leisure Offline Travel Intermediaries sector, where market-share now exceeds 40%, despite the absence of international travel
- Ongoing cost discipline, following the structural changes made early in the pandemic
- Liberty (USA) returning to monthly profitability late in the year and exceeding pre-COVID productivity levels thanks in part to a lower cost, new, hybrid operating model; and
- Wholesaler GOGO (USA) also trading profitably late in FY21 and generating solid forward bookings

The hybrid Liberty model is built around four “networks” (shops) in New York, New Jersey and Pennsylvania. A pool of 20 experienced consultants is typically attached to each network, with consultants dividing their time between the networks and other locations, thereby enjoying greater flexibility, providing a more convenient service for customers and reducing costs.

US leisure TTV was tracking at 45% of PC levels by the end of FY22. This was achieved with just 16% of Liberty’s PC sales force, backed by stronger offerings across other sales channels.

As part of its network rebalancing, FLT has started to capture a more meaningful percentage of leisure sales through new and emerging channels that are both scalable and highly productive and that operate alongside its smaller – but still highly accessible – retained shop networks.

For example, online leisure TTV globally (gross) topped $300million during FY21 – roughly 20% of the leisure business’s total – with the flightcentre.com.au website generating 26% of the brand’s Australian TTV. PC, online leisure TTV represented about 7% of group leisure TTV globally.

Recent e-commerce developments that should deliver further growth include:

- The Jetmax online travel agency (OTA) brands, BYOJet and Aunt Betty, securing a global agreement that will allow them to offer their discounted international airfares to travellers in large and potentially lucrative new markets globally via the Google Flights platform; and

- StudentUniverse, FLT's US-based online youth and student travel marketplace, teaming with Amazon to offer Prime Student members in the US discounted flights and hotels

In addition to e-commerce, other areas that have been earmarked for growth include the premium and luxury travel sectors, which FLT has predominantly serviced via the Travel Associates and Laurier Du Vallon brands, and a rapidly developing B2B area known as Home Of The Travel Entrepreneur (HOTTE). Globally, FLT now has about 1,400 independent agents attached to its HOTTE networks in the US, New Zealand, Australia, Canada and South Africa, with about half currently trading.

FLT has also developed an enhanced call centre model, which should capture a higher percentage of overall bookings moving forward.

In the medium-term, FLT expects its shop network will remain the largest contributor to leisure TTV, although the contribution will decrease in percentage terms as these new and emerging growth channels gain momentum.

The company continues to invest in its flagship and iconic Flight Centre brand offering. A new modernised brand – fronted by new captain/s and co-captains – has been launched as FLT works to cement its market-leading position in Australia, South Africa and New Zealand.

Outlook

FLT continues to target a return to monthly profitability in both its leisure and corporate divisions during FY22 in what it currently expects will be superior trading conditions.

To reach break-even, the company needs to generate some 50% of its PC TTV in corporate and circa 40% in leisure. This is based on current spend, which means the breakeven percentages will increase if FLT invests further in key growth drivers like marketing, sales channels or technology to generate stronger future returns.

Timing is uncertain and remains largely in government hands, given that revenue generation opportunities are intrinsically linked to borders re-opening and staying open and international travel resuming in a more meaningful way globally.

Assuming vaccination programs continue to prove successful, FLT expects restrictions will gradually and selectively ease as the year progresses and as countries re-open – initially through travel corridors or bubbles. Already, travel has resumed on the USA-UK and USA-Canada routes (one-way bubbles) and within Europe, with other significant re-openings scheduled for September 7 (Canada-UK) and September 8 (Germany-Singapore).

A full resumption of US-UK travel would materially benefit FLT given that this route alone represented circa 25% of the company's air TTV from the UK and 6% of overall US TTV PC.

FLT is not currently in a position to provide FY22 guidance, given the lack of clarity around government timeframes for border re-openings and removal of other travel restrictions.

The company has, however, started FY22 with renewed confidence based on its:

- Strong Q4 momentum
- Improving outlook in various countries, including the US, Canada and the UK, that are traditionally material profit contributors and that stand to benefit most from the $US1.4billion portfolio of new corporate accounts
- New products and tech platforms that will enhance the customer experience and improve productivity
- Leaner and more productive structure, which means it is well placed to benefit as the travel industry globally starts to take off again; and
- Market-share growth opportunities as customers seek advice and expertise in a more complex travel environment post-COVID

While it may be some years before the sector returns to PC levels, several lead indicators also point to the possibility of travel industry take-off in the near-term.

These include:

- Rapid momentum in global vaccination programs, with almost 5billion doses administered globally by mid-August – enough to fully vaccinate more than 30% of the global population – and more than 50% of the adult populations vaccinated in several key FLT countries (Source: Bloomberg)
- Recent relaxation or removal of long-standing travel restrictions; and
- Pent-up demand – consumers are ready and able to travel as soon as governments allow them to, with confidence recovering rapidly and savings at or near all-time highs (Source: Moody's Analytics)

According to an FLT survey in Australia in mid-August, almost a quarter of respondents hoped to travel within a month of COVID-19 being contained, while a global International Air Transport Association (IATA) survey during the FY21 Q3 found that 57% of travellers planned to take-off within two months of COVID-19 being brought under control.

FLT maintains strong relationships with its global stable of air, hotel, car, tour and cruise partners.

In the aviation sector, the company has drawn on these relationships during the pandemic to help repatriate stranded travellers. In Australia alone, FLT has worked closely with Qatar Airways and other carriers to bring an estimated 17,000 travellers home.

The company is close to finalising new long-term global deals with Singapore Airlines, Qatar and Etihad, along with more than 75 “recovery deals” within region generally on similar or more favourable terms to the PC agreements.

In Australia, the company continues to work closely with Qantas to showcase a full range of content options and drive future revenue opportunities. The company has also agreed domestic deals with Virgin and Regional Express (signed this month), with Jetstar and Qantas pending.

Long-term recovery agreements have also been reached with tour companies The Travel Corporation, Globus Family of Brands and Intrepid, while multi-year deals have been agreed with various cruise partners.

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*Pre-COVID (PC) refers to the FY19 fiscal year, which was unaffected by the pandemic

**Statutory losses include $94.6million in losses and gains that have been excluded from underlying results. Losses predominantly relate to the company’s response to COVID-19, disposal of head office/store assets and employee retention plans. Gains include a $33million windfall on the sale of FLT’s St Kilda Road building (Melbourne)

FLT Full Year Results Schedule

FLT will present its 2021 fiscal year full year results to analysts and investors from 10.30am (Queensland time) today (Thursday, August 26). The presentation can be accessed via the following URL: http://www.openbriefing.com/OB/4397.aspx

This announcement has been authorised by the board of Flight Centre Travel Group Limited.