FLIGHT CENTRE TRAVEL GROUP™

STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE – February 22, 2023

FLIGHT CENTRE TRAVEL GROUP RECOVERY GAINS MOMENTUM

Key Points

- **Profit* for six months to December 31, 2022 ahead of expectations**
  - $95million underlying EBITDA – 19% above mid-point of initial first half (1H) target ($70m-$90m) & in line with recently upgraded guidance
  - Almost $280million turnaround from 2022 fiscal year (FY22) 1H loss
  - Profitable in corporate, leisure and in all geographic segments, apart from Asia (breakeven)
- **Continued 1H sales momentum**
  - 1H total transaction value (TTV) up 203% to $9.9billion and tracking at 80% of record FY20 1H result (up from 26% for FY22 1H)
  - Corporate business delivering record TTV and set to top $10b during FY23
  - Leisure TTV contribution back up to 44% of group total
- **Positive margin trends as FLT targets 2% underlying PBT margin by end of FY25**
  - Record low underlying cost margin (sub 10%), with revenue margin trending upwards
- **Achieving corporate and leisure strategic objectives**
  - Corporate business outpacing broader industry recovery – Growing to Win
  - Lower cost leisure models capturing almost 40% of leisure TTV – record online sales
- **Further investment in future growth drivers and other key areas**
  - Pre-investment in people – recruitment, training and development to service increasing demand in a more complex travel environment
  - Products and platforms to enhance productivity and the customer experience
  - Mergers and acquisitions – Scott Dunn acquisition completed this month
  - Sustainability – strategy in place, including Science-Based Target commitment
- **Recent FY23 guidance reaffirmed with no signs of slowdown early in 2H**
  - Targeting$250million-$280million underlying FY23 EBITDA (excluding Scott Dunn)
  - Post-COVID record monthly TTV and profit in leisure in January 2023
  - Accelerated corporate activity from mid-January with FCM USA trading at record TTV levels – 1st ever $US100million TTV month – and solid China rebound post reopening

Result Overview and Highlights

FLIGHT Centre Travel Group (FLT) today released 2023 fiscal year (FY23) 1H accounts.

As foreshadowed in FLT's January 31 trading update, the company delivered higher than initially expected underlying earnings before interest, tax, depreciation and amortisation (EBITDA) of $95million for the six months to December 31, 2022.

This result was:

- 19% above the mid-point in FLT's initial guidance range for the period ($70million-$90million underlying EBITDA); and
- An almost $280million turnaround from the $184million underlying EBITDA loss recorded during the previous corresponding period (PCP)

On an underlying profit before tax (PBT) basis, the company recorded a similar turnaround, breaking even during the FY23 1H after a $270million underlying loss during the PCP.

FLT was profitable in both its global leisure and corporate travel divisions and in all geographic segments apart from Asia, which broke-even during the 1H.

Sales recovered strongly, with TTV increasing 203% to $9.9billion (80% of the record FY20 1H result) and revenue increasing 217% to $1billion.

FLT's global corporate travel business delivered record 1H TTV of $5billion, reinforcing its position as one of the world's leading Travel Management Companies (TMCs) and laying the foundations for a record full year well above the $8.9billion in TTV generated during FY19.

The Australian-New Zealand (ANZ) and Europe, Middle East and Africa (EMEA) corporate businesses also generated record 1H TTV, while the United States (US) business finished just below its record FY20 1H contribution.

FLT's leisure recovery gained momentum with TTV reaching $4.4billion, 44% of the group's total and a strong increase on leisure's 25% contribution to group TTV during the PCP.

1H leisure TTV was bolstered by:

- A record $770million contribution from FLT's online businesses; and
- The company's emerging network of lower cost leisure brands and businesses, which contributed almost 40% of leisure TTV during the period

In line with FLT's strategic objectives, these brands and businesses are gaining scale and cost effectively capturing a larger share of sales.

The company is also achieving its Grow to Win corporate strategic objective, outpacing broader industry recovery and gaining market-share organically by retaining clients and securing new accounts with projected annual spends of $1.25billion.

During the 1H, FLT made solid early progress towards its company-wide goals of:

- Converting 40% of incremental revenue to underlying EBITDA. Compared to the PCP, FLT achieved a 39% conversion rate; and
- Achieving a 2% underlying profit before tax (PBT) margin by the end of FY25 through cost margin reduction and gradual revenue margin improvement

Underlying 1H cost margin, excluding touring cost of sales, decreased to a record low of 9.9%, while revenue margin increased 40 basis points compared to the PCP to 10.1%.

Costs tracked at 70% of pre-COVID levels, as FLT balanced the need to maintain tight controls over expenses against its longer-term objective of investing in future growth drivers and other key areas.

Short-term profitability was adversely impacted by important, longer-term investments in:

- People – upfront recruitment, training and development spend to service increasing demand, particularly in corporate, and prepare for larger scale recovery
- Technology, including the FCM platform, Melon (Corporate Traveller platform), Flight Centre brand's omni-channel offering and airfare aggregator TP Connects
- The Scott Dunn acquisition, which was completed this month to fast-track FLT's growth in the luxury sector in the United Kingdom (UK), US and Singapore; and
- Sustainability. FLT has now introduced an over-arching sustainability strategy, which includes a net zero commitment

Lower than normal revenue margins have also adversely impacted profit during the early recovery phase.

While margin movement has predominantly been driven by planned business mix shifts, specifically rapid growth in lower revenue margin businesses (including FCM, leisure online, independent agents and Travel Money), cyclical factors that have now started to normalise have also led to short-term revenue margin reductions, including:

- Abnormally high airfares, given that some revenue is based on fixed dollar fees, rather than percentages of the total fare
- Higher percentages of lower margin, air-only sales given larger volumes of visiting friends and relatives (VFR) and short-haul travel after restrictions were lifted; and
- Heavier than normal corporate weighting before the leisure recovery gained pace

The previously announced commission reductions from some airlines in ANZ have been implemented. In other locations and in other sectors, including cruise, tours and hotels, supplier margins have generally remained stable or increased, which has allowed FLT to offset some of the commission reduction's impact and achieve year-on-year growth in overall revenue margin.

Airline capacity is also gradually recovering, which is expected to deliver cheaper fares and higher volumes, in addition to positively impacting supply margins in a more competitive environment. In Australia, FLT expects international capacity to increase to 85% of pre-COVID levels by June 30 as a number of key airlines, including Emirates, China Southern and Cathay Pacific, increase services.

China Southern and Cathay, FLT's largest partners in China and Hong Kong respectively, are already ramping up their offerings with China Southern now flying daily from both Sydney and Melbourne to Guangzhou and on to other locations including the UK and Europe.

To improve margins at a time when airlines are investing heavily in New Distribution Capability (NDC), FLT's supply division has now initiated a Fresh Air strategic pathway to deliver new air capability and air content freedom to the business and its customers.

Fresh Air is built around FLT's TP Connects air aggregation platform, which can source differentiated content offered by airlines via NDC or other non-traditional means and deliver that product to customers and travel consultants.

Commercial and operational discussions are already underway with major partners as FLT prepares to deploy its business-to-business and business-to-customer offerings, powered by TP Connects, towards the end of FY23.

FLT has maintained a healthy balance sheet and finished the 1H with $1.1billion in cash and investments.

While no interim dividend was declared, the company has initiated a review of its capital structures ahead of an anticipated uplift in earnings and cash generation. The review will consider the business's cash requirements to fund growth, shareholder returns and debt structures, including FLT's convertible notes.

Comments from chief executive officer Graham Turner

"Flight Centre Travel Group has delivered a solid start to FY23 in an improved, but not fully recovered, trading environment.

"The sales momentum that helped drive our recovery last year continued throughout the 1H, with TTV and revenue both tripling compared to the PCP.

"Positive margin trends have also emerged, with underlying cost margin dipping below 10% to a record low and revenue margin gradually ticking upwards, in line with our expectations.

"In both leisure and corporate, we are achieving our strategic objectives and laying foundations for more meaningful profit recovery in the future.

"Our corporate business is trading at record TTV levels – ahead of industry growth rates – and winning large volumes of new accounts because of its compelling FCM and Corporate Traveller customer offerings.

“In leisure, our recovery is gaining pace, with the business generating 44% of group 1H TTV – a sharp improvement on its 25% contribution 12 months ago. Lower cost models are gaining scale and capturing a larger share of sales to complement our mass market Flight Centre brand, which continues to resonate strongly with on and offline customers.

“Looking ahead, we expect further 2H recovery and we continue to target underlying EBITDA between $250million and $280million for the full year.

“While we continue to monitor market conditions. we are not currently seeing evidence that the recovery is slowing with the leisure business currently trading at post-COVID highs and corporate travel activity escalating after the traditional holiday period.

“This underlines both the significant pent-up demand that still exists for travel in this early recovery phase and the sector’s proven resilience. While travel is a discretionary purchase, customers typically view it as essential and prioritise it above other discretionary items, which is one of the reasons why the market typically grows year-on-year and why prolonged downturns in the sector are relatively rare.

“Very high employment rates in our key markets are also a strong macro-economic tailwind.”

Corporate Travel

FLT’s global corporate business continued its strong recovery, delivering:

- Record 1H TTV of $5billion, almost 150% growth on the PCP; and
- $80million in underlying EBITDA, compared to an underlying $31million PCP loss

The business outpaced broader industry recovery across key sales metrics, with 1H revenue recovering to 88% of pre-COVID levels, transactions back to 90% and TTV reaching 103%.

In TTV terms, the $1.25billion in 1H account wins are weighted 57% towards FCM and 43% towards Corporate Traveller and will help drive further recovery across both brands. FCM’s wins typically came from competing TMCs, while Corporate Traveller won large volumes of business from competitors, disruptors and accounts that were previously unmanaged.

In upcoming periods, the company expects an uplift in corporate profit driven by:

- The COVID-period investments in new platforms, products, rebranding and people – the business has invested ahead of the recovery to win, implement and service a materially larger volume of transactions as part of its Grow to Win strategy
- Better returns on client contracts as recently secured accounts are fully implemented and set-up costs are absorbed
- Scale benefits that will ultimately deliver lower costs per transaction; and

- Asia's reopening – positive signs of recovery are already emerging in China, following last month's reopening, with volumes tracking above pre-COVID levels

FLT has also hyper-invested in North America to fast-track growth in a key global market. This investment includes a new Corporate Traveller sales hub in New York City, which will open later in the 2H and will house up to 80 people.

<u>Leisure Travel</u>

The global leisure business's recovery gained momentum with:

- TTV rebounding rapidly – the $4.4billion FY23 1H result was more than five-times the PCP result and 44% of group TTV (up from 25% during the PCP); and
- Profit improving – underlying EBITDA improved from a $140million PCP loss to a $43million profit during the FY23 1H

As mentioned previously, FLT's diverse network of highly scalable complementary, independent and luxury brands captured almost 40% of its 1H leisure TTV.

This included significant TTV contributions from:

- The luxury Travel Associates brand, which almost reached pre-COVID TTV levels from about half of its pre-COVID ANZ shop network
- The Ignite (MyHolidays) "Holiday in a Box" business, which has performed strongly throughout the pandemic and could deliver up to $500million in TTV during FY23
- Foreign exchange business Travel Money Oz, which was fully hibernated during the pandemic but quickly returned to profitability after reopening late in the FY22 third quarter; and
- The independent agency business, which delivered about 15% of 1H leisure TTV

The online leisure businesses' $770million TTV contribution was driven predominantly by flightcentre.com, which delivered $445million in 1H TTV globally, 360% growth on the PCP.

While new growth models generally performed solidly, the traditional Flight Centre shop network remained the major contributor to group leisure TTV.

During the 1H, 37 hibernated Flight Centre shops reopened to service the increasing demand for expert travel advice, taking the global shop network to 404 locations predominantly in Australia, New Zealand and South Africa.

In ANZ, Flight Centre's 1H TTV recovered to circa 75% of pre-COVID levels – with just 30-35% of the brand's pre-COVID full-time workforce – highlighting increased consultant productivity, a strong performance from the retained shop network and solid contributions from other sales channels within the brand. Further enhancements are planned as the company continues to develop Flight Centre brand's unique omni-channel offering.

FLT's Scott Dunn acquisition was formally completed on February 7 and has bolstered the company's presence in the luxury travel sector globally. Growth in this sector has been a longstanding strategic priority for FLT, with Scott Dunn providing an attractive entry point into the UK and US markets via a high quality and scalable brand.

FY23 Guidance and Outlook

As announced previously, FLT will target underlying FY23 EBITDA between $250million and $280million (FY22: $183million underlying loss), excluding Scott Dunn's contribution.

The mid-point in this targeted range implies a 35%-65% earnings split between the first and second halves respectively, with the 2H uplift expected to be driven by:

- Normal seasonality – FLT's peak booking months are generally during the six months to June 30, ahead of peak travel seasons later in the calendar year
- Further top-line growth as normal leisure travel patterns resume and as new corporate accounts are onboarded and start to trade profitably
- Supply chain stability as trading conditions continue to normalise; and
- Operational enhancements, which are expected to improve margins

While FLT will continue to focus primarily on organic growth, it will also consider further merger and acquisition activity to either fast-track growth in sectors that it is under-represented in or to secure new models, revenue streams, systems or technology.

FLT continues to monitor trading conditions globally but has not seen any noticeable impacts on customer trading patterns as a result of changing macro-economic dynamics.

Sales have continued to recover in January, with:

- The leisure business contributing post-COVID record TTV and profit; and
- Corporate activity escalating after the traditional holiday period, with China rebounding quickly after the Chinese New Year and FCM USA delivering record monthly TTV, reaching $US100million for the first time as 16 of the top 20 clients transacted more than in any other month over the past year

While travel is gradually becoming more seamless, following the disruption experienced during the pandemic and immediately after restrictions were lifted, some complexity remains. This complexity plays to FLT's strengths and is contributing to strong demand for the person-to-person services that, in conjunction with leading technological solutions, underpin the company's leisure and corporate offerings.

Through its diverse global leisure and corporate networks, FLT is also well placed to capitalise on pent-up demand as travel continues to recover towards pre-pandemic levels.

ENDS: Media & investor enquiries to haydn_long@flightcentre.com, + 61 418750454

*Unless specified otherwise, profit refers to underlying EBITDA

Result Presentation

FLT will present its 1H results to the market at 9.45am AEDT (8.45am Brisbane) this morning. To access the presentation, visit http://www.openbriefing.com/OB/5041.aspx

This announcement has been authorised by Flight Centre Travel Group Limited's board.