STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE – August 30, 2023

Flight Centre Travel Group Records Strong Profit Turnaround During 2023 Fiscal Year

Key Points

Strong recovery in improved trading conditions during 2023 fiscal year (FY23)

- ✓ 112% total transaction value (TTV) growth to $22billion - 2nd strongest result achieved
- ✓ Circa $485million year-on-year (YOY) turnaround in underlying earnings before interest, tax, depreciation & amortisation (EBITDA) to $301.6million

Key global strategies successfully executed

- ✓ Tight cost controls maintained – 92% of FY19 TTV achieved with 75% of FY19 cost base
- ✓ Productivity growth – 52% increase in TTV per full-time employee (FTE) v FY19
- ✓ "Growing to Win" in global corporate travel sector – comfortably delivering record TTV, well ahead of industry's expected recovery timeframe
- ✓ Transformed leisure business recovering rapidly – back to being a $10billion+-per-year business and cost-effectively capturing TTV through diverse network of channels and brands

Positive margin trends

- ✓ Record low underlying cost margin of 9.6% - compares to 11% in FY19 & 13.6% in FY22
- ✓ Revenue margin trending upwards - 70 basis point (bps) improvement YOY
- ✓ Early progress towards 2% underlying profit before tax (PBT) margin target for FY25

New capital management policy unveiled, along with $0.18 per share final dividend for FY23

- ✓ Fully franked dividend represents a 52% return of underlying net profit after tax (NPAT) to shareholders and takes Total Shareholder Returns (TSR) related to FY23 to 10.8%
- ✓ New capital management policy in place for FY24, given solid cash flows and cash generation, with FLT to allocate 50-60% of NPAT to dividends &/or buy-backs

Result Overview

FLIGHT Centre Travel Group (FLT) recorded a strong profit turnaround during FY23.

The diversified global travel company delivered $301.6million in underlying EBITDA for the 12 months to June 30, 2023 – an almost $485million turnaround from FY22's $183.1million underlying loss.

The result represented a 265% YOY improvement and was above the mid-point in FLT's upgraded, targeted profit range for FY23 ($295million-$305million).

On a profit before tax (PBT) basis, the company achieved an underlying $106million profit (FY22: $361million loss) and a $70million statutory PBT (FY22: $378million loss).

FLT's strong profit recovery was underpinned by:

- A 112% TTV uplift to $22billion (FY22: $10.3billion), FLT's second strongest result behind FY19 ($23.7billion), in an improved trading climate
- Efficiency gains, highlighted by a 70bps revenue margin improvement and a record-low 9.6% underlying cost margin, which together led to improved profit margin; and
- Solid cash generation and cash flow to fund business re-investment and pave the way for an 18 cents per share fully franked final dividend for shareholders. A new capital management policy, effective from FY24, has also been introduced

As foreshadowed during FY23, results were heavily 2H weighted, with almost 70% of underlying EBITDA generated during the six months to June 30, 2023

Underlying PBT margin (underlying PBT as percentage of TTV) increased from 0% during the 1H to 0.9% during the 2H, leading to a 0.5% FY23 result and providing solid momentum into FY24.

This 2H profit weighting reflects improved market conditions after travel restrictions were removed globally, improved industry dynamics, specifically airline capacity growth, and normal seasonality (key booking periods are typically during the six months to June 30).

In Australia, outbound capacity reached 85% of pre-COVID levels at year-end, with near-term increases expected from key airline partners including Emirates, Singapore Airlines, Qantas, China Southern and Cathay Pacific. FLT also strongly supports yet-to-be-approved plans by other airlines, including Qatar Airways and Turkish Airlines, to increase traffic to Australia to boost tourism and to deliver cheaper airfares to travellers.

During FY23, the company successfully executed its key global strategies, which included:

- Maintaining a lower cost base – operating expenses were at 75% of FY19 levels
- Productivity – average TTV per FTE increased by 52% compared to FY19
- Conversion – 38% of incremental revenue generated during the year was converted to underlying EBITDA, with the leisure and corporate businesses converting at 47% and 41% respectively, during a period of heavy up-front investment that should translate to stronger future earnings growth

- Grow to Win – a strategy that has been instrumental to FLT outpacing broader industry recovery in the $US1.4trillion global business travel sector through high customer retention and large volumes of new accounts wins. FLT's corporate TTV exceeded pre-COVID levels in June 2022, some two years ahead of anticipated industry recovery (based on Global Business Travel Association projections), and grew strongly again during FY23; and
- Cost effectively capturing leisure TTV through a transformed offering featuring a modernised Flight Centre brand, with a stronger digital presence, and a diverse range of channels and brands that are delivering record TTV and scalable growth

As mentioned above, while FLT has permanently and structurally lowered its cost base, it has continued to invest in important growth drivers. These investments have included:

- An additional 2500 people during FY23 to right-size FLT's global sales force – the corporate business is now fully staffed, while the leisure business will continue to recruit to match future growth plans, while maintaining productivity
- Network enhancements leading to increased scale, brand and geographic diversity, and improved customer access to businesses and services. Examples included acquisitions (Scott Dunn and Luxperience), the reopening of Flight Centre shops that hibernated during the pandemic, cruise brand Cruiseabout's upcoming reintroduction in Australia, broader geographic rollout of Stage & Screen (USA) and FCM Meetings and Events, Corporate Traveller's return to New York via the new Bryant Park hub and the deployment of a new centralised global hub model for multi-national corporate clients; and
- Technology – to increase productivity, reduce costs and enhance the customer experience. Examples include the proprietary Melon and FCM corporate platforms, products that are driving Flight Centre brand's omni-channel evolution and Home, a portal offering independent agents "single-door" access to FLT's suite of tools

In both leisure and corporate, FLT is driving innovation by investing in new ways to deliver a better customer experience and achieve its sales and savings objectives, leveraging Artificial Intelligence (AI), machine learning and robotic process automation (RPA).

The company also continues to strengthen its product (content) aggregation capabilities to deliver leisure and corporate customers the widest airfare range as airlines in particular invest heavily in new distribution models, including New Distribution Capability (NDC).

Comments from managing director Graham Turner:

"After an incredibly challenging period, we are pleased to report material profit and sales uplifts.in improved conditions during FY23, leading to stronger shareholder returns.

“Our $485million profit turnaround exceeded our initial expectations as our diverse global business benefitted from the removal of unprecedented restrictions that were imposed on travellers for some two-and-a-half years and from the strategies that we implemented to preserve our key assets and ensure we re-emerged in a position of strength.

“Sales more than doubled group-wide, as our leisure and corporate divisions both delivered more than $10billion in annual TTV for the first time.

“Corporate TTV reached $11billion, comfortably surpassing the previous record and broader sector recovery, as our business consolidated its position as a global industry leader with a compelling customer offering across two key brands – FCM and Corporate Traveller.

“Our transformed leisure business is also on a steep TTV recovery trajectory, with several businesses, including online and the independent agency network, delivering record sales.

“Group-wide, we have successfully executed our key strategies, which has led to ongoing cost discipline, strong productivity and efficiency gains underlined by higher revenue margin and record-low cost margin. This in turn has delivered stronger profit margin and underlying earnings per share growth to 36.9 cents, compared to -135.2 cents during FY22.

“Importantly, we have reinforced our balance sheet and re-established foundations for stronger short and long-term shareholder returns, which is a priority, as evidenced by the new capital management policy we have outlined today and the fully franked 18 cents-per-share FY23 final dividend, which has taken total shareholder returns for the year to 10.8%.

“Looking ahead to FY24, we are well placed to capitalise on opportunities that will arise as industry recovery continues. Already, we have seen further solid TTV and profit growth in early trading in a resilient travel market that seems to be holding up reasonably well compared to other sectors.”

Comfortably Outpacing Industry Recovery in Global Corporate Travel Sector

FLT’s corporate travel business continued to out-perform, comfortably out-pacing broader industry recovery and delivering record TTV during FY23.

The $11billion FY23 result represented 96% YOY growth (FY22: $5.6billion) and an almost 25% increase on the previous TTV record (FY19: $8.9billion).

New TTV milestones were established in all geographic segments, with the Europe, Middle East and Africa (EMEA) business topping its previous record by 59%, Asia by 24%, the Americas by 15.6% and Australia-New Zealand (ANZ) by 10.5%.

The Americas business was FLT's largest corporate operation, generating 31% of group corporate TTV, just ahead of ANZ (30%), EMEA (28%) and Asia (11%).

Corporate transaction volumes also exceeded pre-COVID levels – well ahead of the estimated industry-wide recovery of 70-75% of FY19 transaction levels – with growth again driven organically through high customer retention rates and a large pipeline of global account wins for both FCM (large market sector) and Corporate Traveller (SMEs/start-ups).

FCM secured new, contracted accounts with annual spends in the order of $1.6billion, with wins typically coming from competitors. More than half of Corporate Traveller's wins (uncontracted) were previously unmanaged accounts.

In terms of FY23 EBITDA, the business delivered a $190million underlying profit, an almost 3000% YOY improvement (FY22: $6million).

Bottom-line results were, however, impacted by significant upfront costs incurred in winning and onboarding the large volume of accounts secured with some 1000 new sales and support staff added to the corporate workforce during FY23. The business also invested in its leading tech platforms, with Melon deployed in the United Kingdom (UK), following its successful Americas introduction, and new features added to the global FCM Platform.

While the business will continue to focus on the Grow To Win strategy, a Productive Operations initiative is also underway to identify savings, productivity gains and customer benefits through automation and streamlined systems following a period of rapid recovery.

Leisure: Transformed Business Recovering Rapidly
Global leisure TTV increased by 162% to $10billion during FY23 (FY22: $3.8billion) at improved revenue and cost margins.

This margin improvement – which saw 2H underlying profit margin exceed FY19 2H levels – drove a 207% increase in underlying EBITDA to $172million (FY22: $160million underlying loss) as the leisure business's four pillars (Mass Market, Independent, Luxury and Complementary) all delivered profits.

The mass market Flight Centre brand was again leisure's major profit contributor and has maintained high market-share in its key markets of Australia, New Zealand and South Africa.

In the Northern Hemisphere, where FLT historically had a smaller presence and an inconsistent profit record, the company has focused on establishing foundations for profitable recovery. The UK business performed strongly, but its profits were offset by North America's losses (predominantly incurred in Canada and in StudentUniverse).

Following a major transformation, which was initiated prior to the pandemic and fast-tracked during the crisis, the leisure business now has a leaner cost base and a scalable brand and channel stable that has started to deliver meaningful TTV at improved margins.

A number of these brands and channels contributed record TTV during FY23 including:

- The online leisure businesses, which together contributed circa $1.6billion in TTV – more than double the $750million FY22 contribution – with growth driven primarily by flightcentre.com
- The independent agent network – TTV tripled YOY to $1.5billion; and
- The luxury collection, which was bolstered by Scott Dunn's contributions

Ignite (MyHolidays) and Travel Money (foreign exchange), which sit in the Complementary pillar with online travel agencies Jetmax and StudentUniverse and US business Liberty, also performed strongly, with Travel Money opening 42 outlets during FY23.

Scott Dunn (acquisition announced in January 2023) is trading in line with expectations and establishing a broader growth platform in a resilient and attractive customer demographic by:

- Developing a US east coast presence in New York; and
- Unlocking revenue synergies by wholesaling its unique, curated products within FLT

Capital Review Complete and New Framework in Place

After incurring almost $2billion in statutory losses (PBT), raising capital and taking on $800million in convertible notes during the pandemic, FLT is rebuilding its balance sheet and reviewing its future capital needs, as it again starts to generate strong cash flows.

Given its strong recovery and improved outlook, FLT today unveiled a new capital management policy designed to create shareholder value by using free cash flow to:

- Re-invest in the business to drive longer term growth through capital expenditure and, where appropriate, mergers and acquisitions; and

- Deliver tangible short and long-term benefits through a combination of dividend payments and strategic buy-backs of FLT's issued capital or convertible notes to increase earnings per share

Under this policy, 50-60% of FLT's net profit after tax (NPAT) will be allocated to dividends or buy-backs from this year (FY24), subject to the business's anticipated needs at the time.

In addition to unveiling its new capital management policy, the company today declared an $0.18 per share fully franked final dividend for FY23. The dividend, FLT's first since before the pandemic, will be paid on October 19, 2023 to shareholders registered on September 21, 2023 and represents a 52% return of underlying FY23 NPAT to shareholders.

Outlook – Targeting Further Recovery

FLT has started FY24 in a solid financial position and currently expects:

- More favourable industry dynamics for travellers as competition on international routes increases and as airfare prices gradually start to decrease more significantly
- Further leisure and corporate TTV growth; and
- Gradual revenue margin increases and further cost margin decreases, particularly in corporate, as the company continues to target a 2% underlying PBT margin for FY25

While revenue margin is now increasing, it is expected to remain below historic levels, predominantly as a result of planned and ongoing business mix changes brought about by rapid growth in lower revenue and lower cost margin businesses and sectors, including online leisure, foreign exchange, large market corporate (FCM) and independent agents.

In terms of supplier margin, total available margins (TAM) and overall contract structures are generally in line with those that were in place pre-COVID in the land, tour and cruise sectors.

FY23 air TAM reductions largely reflect front-end commission changes in ANZ at the start of the year and fewer strategic and volume-based incentive agreements with airlines globally, while sales opportunities were limited during the pandemic. Traditional back-end contract structures are now returning in Australia and globally, as competition and capacity increase.

In addition to pursuing leisure and corporate margin improvement strategies, FLT is working with airlines to increase TAM paid to its large and diverse stable of businesses through NDC deals and content arrangements, nett fares and mutually beneficial partnerships.

In leisure, TTV growth is expected to be driven by further outbound travel recovery as airfares become more affordable and as holidays and experiences are prioritised over other areas of discretionary spending. This resilience among holidaymakers is evidenced by the consistent YOY outbound travel growth globally and in Australia in particular pre-COVID.

While FLT will continue to monitor macro-economic changes, current conditions do not appear to be significantly impacting demand, with July-August profit and sales well up YOY in both leisure and corporate.

Very low unemployment globally is aiding leisure sector recovery, while FLT's business is leveraged towards demographics that are less affected by mortgage stress, specifically the luxury sector and babyboomers, and who are therefore more likely to continue to travel.

In corporate, FLT expects client spend to typically remain below pre-COVID levels in the near-term, as customers maintain their cost reduction focus. New account wins are, however, expected to drive FLT's TTV above its record FY23 result, with accounts with projected annual spends of circa $750million already implemented during the FY23 2H and set to trade for a full year during FY24.

Industry-wide, corporate travel spend is tipped to exceed FY19 levels during CY24 (Source: GBTA) – some two years after FLT's corporate business first exceeded pre-pandemic TTV.

The company expects to provide profit guidance and more detailed commentary on its FY24 expectations at its Annual General Meeting on November 15, 2023.

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

FY23 Result Conference Call

A webcast for investors and analysts will be held today (August 30) from 9.45am. To access the webcast, go to https://webcast.openbriefing.com/fly-fyr-2023/

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