STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE – April 26, 2019

FLIGHT CENTRE TRAVEL GROUP AMENDS FY19 GUIDANCE

THE Flight Centre Travel Group (FLT) has amended its 2018/19 fiscal year (FY19) profit guidance.

First half trading patterns are continuing into the second half, with sales tracking at record levels and the company again performing strongly in the corporate travel sector globally and in most key markets including the United States (USA), the United Kingdom (UK) and Asia.

Australian leisure results, however, have not yet recovered in line with expectations as subdued trading conditions have continued to impact total transaction value (TTV) in the lead-up to the key May-June trading period.

As outlined at the half year, this challenging trading climate in Australia has corresponded with a period of significant change and disruption during the past two years as the company has:

- Deployed a new sales system (GDS)
- Introduced a new wage model for its front-end sales staff
- Consolidated its brand structures; and
- Initiated an ongoing review of its shop network

While these changes are now embedded and additional plans are in place to address short-term market challenges relating to soft TTV growth, costs and margin contraction within the leisure business, the benefits that are expected to flow from these initiatives are not yet being realised.

In addition, losses in the “Other” segment of FLT’s accounts are expected to increase significantly during the second half, compared to the prior corresponding period, which will also offset the record profit contributions from FLT’s international businesses.

This movement will be driven predominantly by decreased interest income following the recent cash payment of $211million in fully franked dividends, higher interest payments, increased global technology expenses, merger and acquisition costs and additional transformation costs (consultant fees and redundancy payments).

As a result of these factors, FLT now believes underlying profit before tax (PBT) for the 12 months to June 30 2019 is likely to be between $335million and $360million, below the $390million-$420million range it initially targeted when it released market guidance in October 2018.

The mid-point in this new range - $347.5million - represents a 10% decrease on the record $384.7million underlying PBT achieved during FY18.

FLT managing director Graham Turner said: “Our FY19 result will highlight the challenges we are addressing in Australia but will also underline two of our great strengths – our emergence as a world leader in corporate travel and our changing earnings profile.

“For the first time, businesses outside Australia are expected to generate more than half of group profit and earnings globally will be weighted more heavily towards corporate travel.

“While we expect Australian leisure results to improve as short-term operational improvement plans gain traction and as longer-term transformational strategies are implemented, we also expect these trends to continue.

“This expectation, which is in line with our longstanding objectives of increasing our corporate and international weightings, reflects our strong future prospects in corporate travel and our success in delivering innovative customer offerings and winning share in some of the world’s largest markets.

“We are performing particularly well in the USA and UK and are on track to achieve record profits in both of these countries and in several other geographies.

“The USA business, which is now poised to become our second largest business behind Australia in both profit and TTV terms, is on a strong growth trajectory.

“Thanks largely to this continued success in the large US market, the broader North American business, which also includes our Canada and Mexico operations, is now closing in on a profit in excess of $100million for FY19, which will be a significant achievement.

“At a group level, sales continue to increase at a healthy rate and we will comfortably surpass the TTV record we established during FY18, with year-to-date TTV currently tracking 9% above the prior corresponding period, despite being flat in Australia.

“We have started to see some modest signs of recovery in Australia recently, with margins stabilising and customer enquiry growing steadily, but this has not yet converted to increased bookings, which is a trend that has been evident in the past when consumer confidence has been relatively low.”

Leisure Improvement Strategies in Place

FLT’s mid to longer term global leisure objectives focus on the three core segments of mass, premium and youth travel.

The Southern Hemisphere leisure businesses (Australia, New Zealand and South Africa) will retain their mass market leading positions, while pursuing further growth in specialist areas and new models. In the Northern Hemisphere, FLT will focus on specialist niche businesses and models within these segments.

The accelerated expansion into newer models outside of traditional bricks and mortar is at the centre of the company’s leisure plans globally.

In Australia, where results have been weak in the Flight Centre brand, recent ventures into these newer models are delivering solid growth, albeit off a smaller base.

Examples include:

- Independent contractor (Travel Partners)
- Specialist call centres
- Flash sale (Ignite); and
- Online, where key brands include flightcentre.com.au, BYOjet and Aunt Betty

Next month, the company will strengthen its online brand stable by launching StudentUniverse in Australia as a specialist online travel agency targeting the youth sector.

StudentUniverse currently operates in the USA and UK and specialises in verifying and selling restricted student and youth airfares online.

Within the flagship Flight Centre brand, short-term operational strategies are in place to improve performance by:

- Reducing support structures and costs
- Rightsizing the Flight Centre brand business in terms of both locations and people
- Accelerating growth in the lower cost and highly scalable models outlined above; and
- Product development, marketing of a fuller product range, sales and automated cross selling to address product sales mix changes, which have impacted revenue margin during FY19

These short-term strategies complement the longer term improvement initiatives that are underway as part of the FCB 2.0 and transformational program.

<u>Targeting Further Corporate Travel Growth</u>
FLT's corporate businesses continue to perform strongly and further growth is expected.

The FCM business has again secured record account wins during FY19 because of the strength of its platforms and customer offerings and its expanding global presence.

FLT has continued to invest in its corporate systems, platforms and network, as evidenced by its recent acquisition of a 25% interest in the Upside Travel Company, a Washington DC-based, technology-driven start-up launched by Priceline founder Jay Walker.

The company believes the Upside offering, which targets smaller corporate accounts, will complement its Corporate Traveller brand and has the potential to disrupt traditional players in the large and fragmented SME market in the longer term.

FLT has also recently invested in Bangkok-based 30SecondsToFly, acquired the award-winning mobile app Sam :] and strengthened its global footprint and its US West Coast presence by acquiring Silicon Valley-based Casto Travel.

<u>Outlook</u>
Mr Turner said, while overall results for FY19 would be disappointing, the company was well placed to deliver further growth in the future, given its brand and geographic diversity, its strong balance sheet and its ability to evolve to capitalise on new opportunities.

"Short-term results will be below our initial expectations and there is further work to be done, but there are also some promising signs for the future," he said.

“Our strong growth trajectory in both corporate and global travel is evident and we are implementing solid plans to address issues in the Australian leisure business in both the near and longer term.”

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