STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE – August 22 2019

FLIGHT CENTRE TRAVEL GROUP RELEASES FY19 RESULTS

Key Points

New TTV Milestone Established of $23.7billion

- Exceeded FY18 record by almost $2billion

Profit in Line With Amended Guidance

- $343.1million underlying result achieved

Globalisation

- Overseas businesses generated more than half of TTV & PBT for 1st time
- $100million+ profit in the Americas

Continued Out-Performance in Corporate Sector

- Gaining share (15.2% TTV growth globally) & developing strong foundations for the future

Australian Leisure Softness but Investment in Online & New Leisure Models Paying Dividends

- Internal & cyclical factors impacting overall results & margins
- Online leisure TTV circa $1.3billion globally – key websites and native apps now growing TTV at 40%+ year-on-year
- Strong growth in home-based, flash sale and specialist Flight Centre businesses

Record $310.2million in Dividend Payments To Shareholders Relating to FY19

- $3.07 per share fully franked total return, including $0.98 final dividend (declared today and payable October 11, 2019 to shareholders registered on September 13, 2019)

FY20 Guidance to be Released at Annual General Meeting (November)

- Monitoring trading conditions in some key markets early in year

FY19 Result Overview

THE Flight Centre Travel Group (FLT) has achieved another year of record sales and a profit within its targeted range for the 2019 fiscal year (FY19).

Strong results in key overseas markets and continued out-performance in the corporate travel sector globally underpinned the company's FY19 results, which included $23.7billion in total transaction value (TTV) and an underlying $343.1million profit before tax (PBT).

Globally, TTV exceeded the record FY18 result by almost $2billion, as FLT achieved:

- Record results in all countries and regions, apart from the Nordics; and
- Its 23rd year of growth in 24 years as a listed entity

FLT's 8.8% year-on-year TTV growth was achieved with fewer sales staff (FY19: 14,346 v FY18: 14,622) – pointing to further productivity gains.

TTV growth outpaced revenue growth (up 4.5%), which meant that revenue margin – revenue as a percentage of TTV – decreased during the year to 12.9% (FY18: 13.4%). While a decrease was expected, the FY19 movement was larger than anticipated and meant that FLT achieved a PBT 10.8% below its record $384.7million underlying FY18 result.

The margin movement reflected both the disappointing Australian leisure results and, to a greater degree, ongoing and expected business mix changes resulting from the rapid growth in lower revenue margin brands during FY19.

These brands – specifically, the foreign exchange businesses in Australia, New Zealand and India, the high volume FCM corporate operation and FLT's online travel agency (OTA) businesses – collectively generated about $8.8billion in TTV at a 6.6% revenue margin.

Businesses outside Australia delivered 52% of group TTV and, for the first time, also generated more than half of group profit as the company's globalisation strategy gained momentum and in a challenging year for the Australian leisure business.

The Americas business was the major driver of international growth and delivered a $102.5million PBT, a result that surpassed the record FY18 PBT ($71.2million) by 44.4% and was almost five-times the underlying FY16 result.

FLT's increasing globalisation was also reflected in record profit contributions from the Europe, the Middle East and Africa (EMEA), Asia (India, China, Singapore and Malaysia) and New Zealand businesses.

In most countries, the corporate travel businesses drove profit growth, as FLT continued to out-perform in the sector.

The corporate brands collectively achieved 15.2% TTV growth to a record $8.9billion, with the US business growing at just under 30% and helping the broader Americas operation become FLT's largest corporate business globally.

Growth globally was underpinned by strong customer retention and record business wins, with FCM alone securing new accounts worth more than $1.3billion during the year.

Increased international and corporate travel earnings partly offset subdued Australian leisure results, linked to softer than normal TTV growth, lower revenue margin and costs.

The subdued results partly reflected a challenging trading cycle, but also disruption from changes that have taken place during the past two years.

These changes in Australia have included:

- The deployment of a new sales system (GDS), which temporarily impacted TTV growth, sales staff numbers, margins and in-store productivity
- A new front-end wage model, which led to a $14million cost increase during FY19 and caused some disruption while the Enterprise Bargaining Agreement (EBA) was being negotiated
- Brand consolidation, which saw Escape Travel and Cruiseabout closed during FY18 and about 20% of FLT's Australian leisure workforce relocated to new brands. Attachment of higher margin products that these two brands specialised in initially decreased after this strategy was initiated; and
- An ongoing leisure network and sales force review, which is close to being finalised and has identified rationalisation and rebranding opportunities, along with growth opportunities in some areas that continue to perform well

While overall leisure results were disappointing, FLT generated solid returns on its investments in new and emerging distribution channels and models, including OTAs, independent contractor (IC) networks and Ignite, a specialist flash sale and ready-made package business that FLT secured a 49% interest in during FY17.

Together, these businesses generated more than $1.8billion in TTV during FY19, including about $1.3billion globally from the OTAs and leisure branded websites.

Strong leisure OTA sales growth is again expected during FY20, with flightcentre.com.au's TTV increasing by more than 50% per month as a result of significant service (technology) improvements and since online booking fees were removed during the FY19 fourth quarter.

This growth in e-commerce (web and app) sales is predominantly coming from new clients, which points to strong market-share growth during recent months.

In releasing FLT's audited accounts for the 12 months to June 30, 2019, managing director Graham Turner said: "While we were disappointed that our $343.1million underlying profit was below our record FY18 result, we can be pleased with our achievements in some important areas and with some of the progress towards our longer term goals.

"In any given year, TTV growth is crucial and it's pleasing to report another milestone result almost $2billion higher than our previous record, particularly in light of the challenging conditions in key markets like the UK, where Brexit is causing uncertainty, and Australia, where consumer confidence and leisure market growth appear to be reasonably subdued.

"Our achievements also underline some important emerging themes within our business:

- Firstly, the strength and ongoing growth potential of our corporate business, which is a highly scalable and highly efficient organic growth model.
- Secondly, our globalisation, which is evidenced by our success in key markets like the Americas, Europe and Asia that have significant future potential; and
- Thirdly, our ability to evolve to capitalise on new opportunities, which is evidenced by the solid growth in new and emerging leisure distribution models

"There are, of course, challenges to overcome within the Australian leisure business, which remains very important to us despite the emergence of other businesses that are capable of driving overall growth. Aside from market conditions, we believe these challenges are largely within our control and we are working to address the issues."

Other FY19 highlights included:

- Record dividend payments, totaling $3.07 per share fully franked and consisting of today's $0.98 final dividend and the $1.49 special and $0.60 interim dividends that were both declared in February. The final dividend was 8.4% lower than FY18 ($1.07) and, when combined with the interim dividend represented a 59.8% return of FLT's $266.6million underlying net profit after tax (NPAT) to shareholders
- Continued success in slowing cost growth, with underlying expenses (excluding touring cost of sales) increasing 3% in constant currency including the additional wage costs associated with the EBA and costs associated with the transformation program (broadly in line with prior year)
- Small acquisitions to boost FLT's global corporate travel network (Upside, Casto, ETSC, 3Mundi), enhance its leisure customer offering (Umapped) and deliver new revenue streams (Camakila hotel lease); and
- Significant investments in technology and systems to strengthen FLT's IT backbone, improve productivity and efficiency and to enhance the customer experience

Enhancements in leisure travel included new native apps, lead generation and management systems (RedConnect) and the integration of Umapped's trip management technology.
In corporate travel, FLT invested more than $100million in new technology, products and systems, including acquisitions to deliver new consumer-grade products to customers.

<u>Strategic Update</u>

FLT is working towards a 2025 vision across its three core divisions of leisure, corporate and at-destination travel.

Within the leisure division, plans are in place to ensure long-term success in mass market, premium and youth travel – FLT's three core pillars within this sector. The company has, however, tailored different paths or approaches for the Southern and Northern hemispheres, specifically:

- In Australia, New Zealand and South Africa, the famous Flight Centre brand will remain a major mass market player with high market share; and
- In the USA, Canada and UK, the company will take a more specialised approach and will target key market segments

Globally, key leisure strategies focus on customer systems and centricity, product and pricing initiatives backed by an increased marketing and advertising spend, digitisation and model shifts to capitalise on strong growth in newer models and channels, including online, home-based agents/IC, Flash Sale and specialist Flight Centre businesses..

Digitisation initiatives have made it easier for customers to transact and interact with FLT's brands and have seen new self-service capabilities introduced, along with tools to enhance post-transaction communications. Umapped's digitised solutions are now available to consultants and customers, via dynamic websites, apps and attached documentation, and will soon provide access to FLT's product range throughout the travel journey.

In Australia, a targeted Flight Centre brand improvement program, FC 2.0, is also underway to deliver:

- A new membership model – focused on omni-channel benefits and personalisation
- Product and pricing initiatives to improve the use of big data across the business
- Self-service capabilities to make it easier for customers to engage with the business
- Sales technology – to better handle, score and direct business leads; and
- Modern marketing strategies – to automate, personalise and optimise marketing

Within its corporate travel division, FLT has developed a compelling offering that is resonating with customers globally, as evidenced by its strong and consistent growth record within the sector.

This offering is built around two core brands:

- Corporate Traveller, which focuses on small to medium-sized enterprises (SME sector) and operates in seven countries; and
- FCM Travel Solutions, which specialises in larger managed accounts (TMS sector), and has a network that spans 97 countries (22 equity plus 75 independent licensees)

FLT's strategic evolution is relatively advanced in corporate travel, with the company's organic growth model being successfully applied globally and the key building blocks in place for further growth.

Medium-term strategies are geared towards:

- Dominating the SME sector through Corporate Traveller, a brand that has built a competitive advantage around its combination of innovative technology products, people and widest choice of content; and

- Developing FCM as a truly global alternative to the three established global travel management companies (TMCs) that have traditionally dominated the sector

These strategic objectives are being achieved through:

- A large investment in sales and marketing to win new accounts. These wins, which are secured via a global network of some 500 business development managers, are complemented by high customer retention rates
- Development of an innovative and unique technology and product suite across all brands to deliver new efficiencies, savings and full content, including New Distribution Capability (NDC), to customers New consumer-grade products are being incorporated, as evidenced by the recent investment in Upside – an acquisition that will give FLT access to Upside's SME-focused technology suite and online booking tool - and the SAM :] app's continued development and global roll-out; and
- A leading people proposition, which is proactively blended with systems and technology to produce the brands' compelling customer offerings

FLT's in-destination businesses are part of a broader division now known as The Travel Group (TTG)(formerly TEN), which is seen as a longer term driver of shareholder value.

The Asia and Mexico-based destination management companies (DMCs), Buffalo and Olympus have just been rebranded to Discova as part of the plan to develop a global DMC network. Similarly, the hotel management business, BHMA, has been rebranded to Cross Hotels & Resorts, ahead of further expansion in carefully selected markets.

The more-established tour operating businesses within TTG, Top Deck and Backroads, have been earmarked for ongoing growth driven by product evolution, brand expansion and distribution in new and emerging international markets.

Within this division, the in-destination businesses operate alongside a network of product and procurement-related businesses that have historically serviced FLT's businesses, but could be expanded in the future to service the broader B2B market. .

Across the business, FLT also remains focused on the broader business transformation program targets that are in place through to the end of FY22, specifically:

- 7% compounding annual TTV growth
- A 10% underlying cost margin (excluding touring cost of sales); and
- A return to a 2% net profit margin (underlying PBT as a percentage of TTV)

The program's focus was on loss-making businesses during year-one (FY18) and then shifted to an investment phase during years two and three (FY19 and FY20).

Containing cost growth, while continuing to invest for the future, has been a priority since the program was initiated and FLT has made solid progress, as evidenced by the lower growth (in constant currency) during both FY18 and FY19 and improved cost margins.

In addition to improving front-end productivity and network performance, FLT is currently focusing on cost and efficiency strategies across four areas:

1. Robotics and automation
2. Outsourcing
3. Head office real estate efficiency; and
4. Lowering overall support costs

FLT has also initiated a group-wide technology program, which is being run in partnership with US-based technology consultancy Hudson Crossing and focuses on operational excellence and strategy across information technology and digital services,

The 12-18-month program is built around five key phases, ranging from an initial assessment, which is now underway, to phased roll-out of recommendations and will deliver a rationalised IT roadmap that is connected to business strategies and takes into account current commitments and future full value opportunities.

Outlook

FLT plans to release FY20 guidance at its Annual General Meeting in November, which is in line with its normal practice and will allow it to monitor first quarter trading conditions and results in comparison to a stronger trading period during FY19.

Mr Turner said FY20 results were again likely to be driven by the company's corporate and international businesses, although improvement was also anticipated in Australia.

"Our overseas businesses have become strong and consistent performers and, for the first time, generated the majority of our profit during FY19," he said. "We expect this trend to continue, given our success and relatively small share of very large markets overseas.

"The Americas business is now entrenched as a key earnings driver, with expectations of strong growth into the future.

"The American corporate business has just overtaken its Australia-New Zealand counterpart to become our largest corporate business globally by TTV and we have started to see healthier returns from our leisure brands, with Liberty in the US delivering its strongest result since acquisition (2008) during FY19.

"Our EMEA business, which is headquartered in London, is also delivering consistent earnings and sales growth while expanding into new locations and countries.

"We now have a solid corporate travel footprint and a platform for further growth in key European markets through a combination of start-ups and acquisitions in France, Germany, the Netherlands, Switzerland, Ireland, Sweden, Norway, Denmark and Finland.

"While our Asia business is currently smaller than both the Americas and EMEA businesses, it is performing well and has a good growth trajectory.

“This business, which is set to deliver more than $2billion in TTV this year, is also a key contributor to our corporate success globally and is integral to the strong pipeline of new accounts we are winning.

“In Australia, we expect gradual leisure sector recovery as the year progresses, as the trading climate improves and as our improvement strategies gain traction. While market conditions and the consumer environment remain subdued, we have seen some margin stabilisation recently,”

FLT will also continue to monitor the impacts of world events on the travel sector, including Brexit and the unrest in Hong Kong.

For Flight Centre brand in Australia, key short-term priorities include:

- Growing TTV across specialist businesses and via channels that continue to perform well and that are now generating an increased share of the brand’s TTV – online, flagship stores and Flight Centre Business Travel
- Improving operational performance through new customer centric initiatives, better use of data and by working with consultants to improve conversion and deliver an instant quality response to customers; and
- Simplifying the product-to-market approach and delivering irresistible deals, including cheapest, best and premium options

The leisure network review that is currently underway aims to right-size the Flight Centre Brand network in terms of both shops and people and is expected to see:

- Up to 30 Flight Centre shops closed during the course of the year, an additional 30 converted to either Travel Associates or the new youth-focused Universal Traveller brand, depending on the shop’s location and customer base, and 30-40 leisure shops shifted to better sites
- About 20 Flight Centre shop openings, including high profile hyperstores in the Melbourne and Perth central business districts; and
- About 200 sales consultants added to Flight Centre brand over the course of the year to ensure shops are appropriately staffed and to return the network to optimum staffing levels (about 5200 people), following a reduction in recent months; and

Universal Traveller’s launch in Australia this month, coupled with StudentUniverse’s recent introduction as a dedicated online brand, signals a stronger push into the youth sector.

Within the premium travel sector in Australia, FLT has also developed a new specialist cruise offering, Travel Associates Cruise Boutique.

In corporate travel, FLT acquired the remaining 25% interest in Les Voyages Laurier Du Vallon (**LDV)** in Canada early this month to take 100% ownership of the corporate and premium leisure business. This followed the June 30 acquisition of the remaining 75% interest in European corporate business 3Mundi.

FLT’s 25% interest in the Upside corporate travel start-up is expected to result in an equity-accounted loss from Associates within the company’s FY20 accounts. As announced previously, FLT will deploy Upside's technology in its Corporate Traveller businesses in North America and the UK, with USA roll-out set to take place late in the year.

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

Advance Notice: FLT Full Year Result conference call for investors and analysts

- Date: Thursday, August 22, 2019
- Time: 9.30am
- Dial-in details: Phone (02) 80385221 or 1800 123296. Conference ID 3266476