



## **Managing Director's AGM Address**

Thanks Gary.

As you have heard, FY21 was another tough year for travel, but conditions have gradually started to improve.

Indeed, we start the second quarter of FY22 with a fair degree of optimism given the regular travel restriction relaxations we are now seeing globally.

Some very important routes are now open or expected to reopen in the coming weeks, while travel is finally poised to take-off again in Australia. This Australian outbound reopening, which was flagged a couple of weeks ago, has prompted a surge in leisure enquiry for most key locations, but particularly the UK, Europe, the Americas and Fiji.

Before outlining our plans and prospects for FY22, I'd like to reflect briefly on the past year-and-a-half or so.

As an organisation, our priorities have evolved during the pandemic from emergency cost cutting during the FY20 fourth quarter to maintenance of those significantly reduced operational expenses while investing in our brands, developing and implementing our technology, improving productivity and finetuning our recovery strategies.

We remain very focussed on improving returns in the short-term, but also continue to build for the future while others are hibernating or unable to invest significantly in their offerings.

This balance allows us to capitalise on opportunities now, as demand starts to recover, and in the future, as we target a return to pre-COVID sales volumes.

When lockdowns are lifted and borders re-open, we see that travel bounces back immediately and strongly. South Africa is a great example, as is Queensland following Monday's announcement, and I will talk a little bit more about what we're seeing shortly.

As you will know, FLT has three main travel divisions – Leisure, Corporate and Supply.



We believe this diversity is of enormous value and a great advantage to us and to our suppliers.

Also, our stable, capable, very experienced and pretty intelligent leadership team has played a major role in getting us to where we are now and will be integral to our future success.

We have learnt a lot over the last 18-20 months - the main things I think are being resilient, being consistent and being as optimistic as possible to see us through tough times. Also, using these times as an opportunity to improve and streamline our systems, our technology and our overall operations.

Most of our markets are now living with the virus, accepting it is with us for the long-term.

We are planning – as much as we can – to be back in black on a monthly basis later this financial year and back to 100% of 2019 TTV around June 2024 but with a much leaner cost base and a more efficient operating model.

#### Targeting a return to monthly leisure and corporate travel profitability during FY22

The exact timing of our return to profitability 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 and with fewer restrictions, which we are finally starting to see

This uncertainty means we are not currently in a position to provide FY22 profit guidance.

We initially expected that restrictions would gradually and selectively ease as countries cautiously opened back up through carefully selected travel corridors or bubbles.

On a very positive note, this has started to happen more rapidly and on a larger scale than we expected.

For example, last Friday we learned that:

- International travel from Australia, or more specifically New South Wales, would resume from November 1; and

- The US would welcome fully vaccinated international travellers from November 8, a move that has effectively relaunched two-way Trans-Atlantic travel

Prior to this announcement, Americans could travel to the UK, Canada or Europe, but reciprocal rights were not available to UK, Canadian or European travellers hoping to venture the other way.

Each of these re-openings will, in time, potentially deliver material benefits to our company given that:

- Our large Australian leisure business is very heavily weighted towards international travel – this represented more than 80% of pre-COVID TTV; and
- The US's status as a key destination for our leisure and corporate customers globally

The US was, in fact, the largest outbound market for our UK and Canada businesses pre-COVID and the second largest outbound market for our Australian business.

At the start of this week, the Queensland Government also announced re-opening plans, sparking another strong and immediate response from travellers.

Following this announcement:

- Our Ignite business, which operates a specialist MyQueensland division, recorded a 663% increase in page views above the average; and
- flightcentre.com.au recorded its largest day of online sales since June 2021, when Australian borders were open, with inbound Queensland bookings doubling compared to the previous week

As we have indicated previously, we need to generate some 50% of our traditional TTV in corporate and circa 40% in leisure to reach breakeven within each of these divisions.

This is based on current cost bases, which means the breakeven percentages will increase if we choose to invest further in key growth drivers like people, marketing, sales channels or technology to generate stronger future returns.

While returning to profitability is very important to us in the short-term, winning and retaining customers – which will be reflected in TTV – is paramount for the longer term and will be a key focus initially.



As we are already seeing, our profit recovery trajectory will not be linear, given costs will ramp up to service anticipated customer demand before we benefit from the revenue.

#### Expecting strong returns on pandemic-period investments

Looking within our own business, we expect to see tangible returns on our pandemic-period investments as the world reopens.

We are now a leaner and more efficient organisation, which means we are well placed to benefit as the cycle improves.

In both the corporate and leisure travel sectors, we are successfully executing our productivity strategies and achieving our operational objectives.

We have both protected our assets and continued to invest in our key growth drivers, including our famous brands, during an immensely challenging period that has led to some market consolidation, particularly in the corporate sector.

Travel will inevitably be more complex in the post-COVID world and customers will require more assistance from our expert travel advisors as they navigate new requirements and seek to understand any restrictions that may still apply. Within this environment, our people's knowledge and our enhanced systems will prove invaluable at every step of the customer journey, as we are already seeing in the corporate sector.

In leisure, recent research by the US's Family Travel Association and the NYU School of Professional Studies has highlighted the increasingly important role that travel advisors are likely to play post-COVID.

According to the research, which was included in the U.S Family Travel Survey 2021, 65 per cent of respondents said they would consider using a travel advisor over the next two years, compared to just 17 per cent who had used a travel advisor over the previous two years.

As Gary mentioned, our brand and geographic diversity is another strength and it has helped shield our company from some of the challenges others have faced, while also potentially fast-tracking our recovery given our earnings leverage to countries and regions that are starting to exhibit strong recovery trajectories.



For example, about 55% of our pre-COVID earnings came from the Americas and EMEA – regions that have well-advanced vaccination programs, few restrictions in place and solid sales momentum.

The Americas and EMEA also stand to benefit significantly from the large pipeline of corporate accounts won during FY21 (circa \$US1.4billion), with some 70% of this new business set to trade in these two regions.

In addition, there is very significant potential upside in heavily restricted markets like Australia and New Zealand, which are particularly important to our leisure division.

#### Travel industry poised for rapid take-off as more favourable market conditions emerge

Several lead indicators point to the possibility of a fairly rapid travel industry take-off in the coming months.

Firstly, vaccination programs are gaining significant momentum.

According to ourworldindata, by the start of this week almost half of the world's population had received at least one dose of a COVID-19 vaccine.

In most of our countries, numbers now exceed 65%.

Secondly, travel restrictions are now rapidly being relaxed or removed, as highlighted earlier.

Thirdly, consumers are ready to travel, with confidence recovering in most markets, savings at or near all-time highs and significant pent-up demand evident.

Fourthly, suppliers are looking to resume services as quickly as they are allowed to and are generally keen to work closely with us to fast-track the recovery.

In Australia, we believe a number of airlines including Singapore Airlines, Fiji Airways and Qantas, will be back to pre-COVID capacity early in the new year once caps are lifted.

In terms of pricing, we expect airfares will also return to close to pre-COVID levels in the new calendar year as we move out of peak season and capacity and load factors start to normalise.

#### FY22 Trading Update

Much has changed during the eight weeks since we released our FY21 accounts.



The outlook globally now appears considerably brighter, as evidenced by last week's US and Australian announcements and a string of significant re-openings from Singapore.

The Australian reopening plan has sparked a flurry of activity and created a genuine buzz, leading to a significant uplift in leisure enquiry and quotes in recent weeks.

While obviously not as strong as the enquiry growth, given that New South Wales has been the only state so far to formally and proactively announce international travel resumption plans, we have also seen significant bookings growth.

International leisure bookings have now surpassed domestic bookings in Australia for the first time since the start of the pandemic and almost tripled between July and September. Booking numbers this month have already surpassed the September total with more than a third of the month still to come.

To date, stand-out leisure destinations internationally have included the UK, USA and Fiji.

Based on web sessions in Australia, interest in these destinations has increased by multiples of 6, 11 and 20 respectively during the past month alone.

Already this month, bookings to Fiji are:

- In line with October 2019 (pre-COVID) in the Ignite business; and
- More than two-and-half times the September 2021 monthly total across FLT's Australian leisure shops

As we finetune our plans ahead of the imminent Australian travel reopening, we are drawing on our experiences so far in other locations like the US and South Africa.

When demand picked up in the US late in FY21, we used our Canada business, which was operating under heavy restrictions at the time, to service the excess US enquiry.

As travel returned in South Africa, strong demand meant that some leisure customers had to queue outside our shops to book or enquire. To help address this issue, webinars are now being held to help educate customers as they navigate the new travel world.

Given that the response from leisure customers to reopening announcements has typically been strong and immediate, we are now:

- Returning sales staff to full-time roles to ensure we have enough people to service the likely surge in demand
- Developing COVID support desks to help customers navigate any post-COVID travel complexities; and
- Enhancing capabilities across other sales channels, including online, to reduce the immediate pressure on our shop network

### Q1 Results

During the FY22 first quarter, FLT generated almost \$1.6billion in gross TTV.

This was:

- More than double the gross TTV generated during the prior corresponding period; and
- An 8.1% increase on the FY21 fourth quarter result, despite the first quarter of a fiscal year traditionally being a softer trading period and again highlighting the sales momentum we are experiencing

At the end of September, gross TTV was tracking at 27% of pre-COVID (FY19) levels, with activity increasing late in the month and escalating in October after positive border reopening announcements in multiple countries.

We expect, and are already seeing, further second quarter acceleration, given the positive recent travel announcements in Australia, the US, Singapore and other locations.

As expected, monthly operating cash outflows globally have been in the order of \$40million during the quarter.

This should also improve, given that results during the period were impacted by:

- Decreased revenue during lockdowns in Australia and New Zealand
- Seasonality, specifically the extended Northern Hemisphere summer holiday period
- The removal of government subsidies as various furlough programs ended and
- A significant investment ramp-up ahead of an anticipated surge in demand when borders re-open and travel returns



Accounting losses for the period have been slightly higher than operational cash outflows, because of customer refunds processed during the quarter as Australian border restrictions tightened, as well as non-cash depreciation and amortisation costs.

These losses are likely to decrease from here as activity recovers, leading to stronger revenue generation.

A number of countries are now profitable or approaching breakeven on a monthly basis including.

- South Africa
- The United Arab Emirates
- Mexico; and
- France

Singapore should also quickly return to profitability, given its relatively low cost-base and with the opening of Vaccinated Travel Lanes (VTL) with key countries that traditionally represented about 40% of the business's sales.

Globally, the Corporate Traveller brand is now approaching breakeven, with the businesses in the USA, Canada, UK and South Africa generally recovering well.

Collectively, our corporate businesses contributed almost \$1billion to first quarter gross TTV, while also establishing further foundations for organic market-share growth through another strong pipeline of global account wins.

To date in FY22, the company has secured new accounts with projected annual travel spends in excess of \$US500million, on top of the \$US1.4billion in account wins during FY21.

Winning new accounts and retaining existing customers underpin the corporate Grow to Win strategy, which was implemented at the start of the pandemic.

As part of this strategy, the company is also investing in new products and platforms for the post-COVID world to fortify an already strong technology offering across the two category leading brands – FCM and Corporate Traveller.

Both FCM and Corporate Traveller have brought 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.





The ongoing investment in these new products, which is also integral to Grow to Win, will ensure FLT's corporate division re-emerges with more customers, new differentiated brands and two completely new products in both brands.

This delivers a clear growth pathway in a fragmented and incredibly large market that may not return to pre-COVID volumes in the near-term.

Corporate Traveller's new Melon platform is now live in the USA and Canada and will be released in the UK early next calendar year.

The FCM Platform, which is now operational in China, is in Beta testing elsewhere and set for release globally early next calendar year.

In leisure, our structural changes have been completed, we have positioned ourselves for recovery and we have started to see positive signs that our strategies have worked.

We see significant upside in the near-term as discretionary travel is cleared for take-off.

As you have heard, the leisure recovery has already gained significant momentum in South Africa and the USA, while Australia should also rebound rapidly, with both domestic and international travel poised to return in various forms in the coming weeks.

Our shops continue to capture the bulk of our sales, but we are also starting to see solid momentum across other channels that operate alongside our shop networks.

For example, our growing networks of independent contractors – referred to as our B2B model – generated about 10% of leisure TTV globally during the first quarter.

flightcentre.com.au is currently capturing 15-20% of Flight Centre brand's TTV in Australia, well above traditional levels of circa 8% but below the 25-30% highs achieved in a domestic-only travel environment at times during FY21.

As you can see on this slide, we expect ongoing shifts to these new growth models in the coming years as part of our ongoing leisure strategies.



## Constitutional Challenge

Before handing back over to Gary, I'd like to briefly outline our position in relation to a possible constitutional challenge to extended domestic border closures in Australia.

It is vital that we find more sustainable ways to safely and sensibly navigate our way out of the pandemic and to return to a degree of normalcy in our everyday lives, while protecting the vulnerable and minimising hospitalisations.

We also need to be conscious of the impact extended lockdowns and isolation, tactics that have commonly been used against COVID-19, are having on people's health and wellbeing.

In recent months, the outlook has improved significantly in Australia, with the Federal Government and some state governments proactively releasing reopening plans.

We welcome these plans and believe it is critical that we join the rest of the world in reopening borders as soon as we are able to.

This will ensure we are not rapidly left behind in a business sense and in terms of our freedoms, while reducing the emotional and psychological damage on society in general.

A state like Queensland, which is normally heavily reliant on tourism dollars generated by interstate visitors, also faces very severe economic impacts if it remains "closed" for an extended period while people from New South Wales and Victoria are allowed to again travel internationally – which it appears they are very keen to do.

We recently expressed interest in joining a proposed constitutional challenge if some states do not reopen their borders once it is widely considered safe to do so, although we hope this action will not now be necessary.



### Conclusion

In summary, after a very challenging period, we start the new fiscal year with solid foundations and recovery prospects in what looks to be an improving global market for both leisure and corporate travel.

We continue to target a return to monthly profitability during FY22, based on:

- Our current recovery trajectory; and
- An expectation that international travel continues to gradually return and Australian domestic borders reopen and remain open

Thank-you once again for your support. We look forward to updating you on our progress.

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