

FLIGHT CENTRE TRAVEL GROUP™

Managing Director's Address by Graham "Skroo" Turner

Thanks Gary and good morning shareholders and guests.

As you have just heard, we have started the new fiscal year with solid momentum, following the positive finish to FY22, after lockdowns became a vestige of the past and governments belatedly allowed borders to reopen, clearing domestic and international travel for take-off.

This momentum has continued in the early months of FY23 with:

- Demand increasing in both leisure and corporate travel
- Revenue margin holding steady year-on-year and expected to increase as market conditions normalise and as new initiatives gain traction; and
- Cost margin now tracking at 10% - a level that we historically aspired to achieve

Our corporate business is again out-performing globally, with TTV and transaction volumes back at record levels and monthly revenue approaching pre-COVID levels. The last two months – September and October – have, in fact, been the two strongest TTV months in our 30-year history in corporate travel.

We are also seeing positive trends in the leisure sector.

Travel is, however, at a relatively early stage on the path to recovery, as Gary noted, and there is considerable pent-up demand that is not yet fully translating to bookings, which means there is also ongoing upside potential.

In business travel, for example, our recovery is being driven by very high customer retention rates and large volumes of new account wins – rather than by overall client activity returning to pre-COVID levels.

In our largest leisure market, Australia outbound travel remains well below pre-COVID levels, with short-term resident departures in August 2022 at 63% of August 2019 levels (Source: Australian Bureau of Statistics). Outbound travel recovery, which is crucial to our offline businesses, is being impacted by a lack of competition and capacity, which is leading to a lack of seats to sell and abnormally high airfare prices.

Our expectations for FY23 are unchanged – we believe this will be a year of gradual recovery for the industry overall, ahead of a larger scale recovery during FY24.

Trading Update

During the four months to October 31 2022, Group TTV reached \$6.8billion, a 246% increase on the prior corresponding period or PCP.

Revenue increased at a similar rate to TTV – 248% - to \$667million, which meant that revenue margin remained steady year-on-year at 9.8%.

Revenue margin during the current period was adversely impacted by reduced front-end commission payments from some airlines in Australia and New Zealand from July 1.

We anticipate that these changes are adversely affecting overall leisure revenue margins by circa 1% in Australia, given that we are partially offsetting the impact through a combination of revenue margin improvement strategies and by securing better arrangements with those carriers who are keen to work closely with us during the recovery phase.

Ongoing business mix changes and higher airfare prices also continue to adversely impact revenue margin, specifically in businesses like FCM that typically earn fixed fees.

Cost margin for the four months to October 31 2022 was 10%, in line with the long-term target that we set pre-COVID, and we expect further improvements over the medium-term, which will help offset the impacts of lower revenue margin on profit.

In terms of bottom-line results for the four months to October 31, the company:

- Recorded an underlying \$61million EBITDA profit, a strong turnaround from the \$137million underlying EBITDA loss during the PCP; and
- Broke-even on an underlying profit before tax basis, after delivering a \$194million loss before tax during the PCP

All geographical segments, with the exception of Asia, were profitable on an underlying EBITDA basis for the first quarter, with ANZ and EMEA profitable on a PBT basis.

As announced previously, our ongoing goal is to translate 40-50% of incremental revenue growth to EBITDA and we expect to remain within this target range over the year.

Corporate Overview

Our global corporate business has again started the year very strongly, delivering:

- An underlying \$58million EBITDA profit for the four months to October 31, a period that includes the seasonally soft Northern Hemisphere summer holidays. This compares to a \$28.8million underlying loss during the PCP

- A record Q1 TTV contribution of \$2.6billion – 184% year-on-year growth. By the end of October, TTV had increased to more than \$3.5billion; and
- Record monthly sales in September 2022 and a similar result in October 2022, with TTV almost topping \$1billion in both months, overall transaction volumes returning to pre-COVID levels and revenue tracking at circa 95% of pre-pandemic levels

As Gary noted, the corporate business has delivered on its Grow to Win strategy and its recovery across key sales metrics has outpaced the broader industry rebound.

Accounts with projected annual spends of \$665million were secured during the first quarter to drive further growth across the Asia-Pacific, Americas and EMEA regions and taking gross annualised wins during the pandemic to circa \$6.5billion.

Wins include a mix of large and enterprise-level accounts that will typically trade with FCM and smaller SME accounts that will generally trade with Corporate Traveller.

More than half of the accounts that Corporate Traveller has won in its key Australia, UK and USA markets were previously unmanaged – reflecting the ongoing shift towards managed travel programs in uncertain times.

During the first quarter, the Americas was the largest corporate segment, generating about 32% of TTV, just ahead of Australia-New Zealand (31%) and EMEA (27%).

About 10% of our corporate TTV for the period was generated in Asia, but this will increase when China reopens and as activity increases in other key local markets like Japan.

Our corporate business has benefitted from significant investments in key growth drivers during the pandemic, when we strengthened our foundations for the long-term, rather than significantly cutting costs to prioritise short-term profits.

Focus areas included:

- New products and platforms to enhance our already compelling customer offering for large market and SME customers
- Rebranding campaigns for FCM and Corporate Traveller; and, of course
- A forward investment in people to ensure we could win and onboard our large pipeline of new accounts, while maintaining service levels for existing clients in a more complex environment

Leisure Overview

After a solid finish to FY22, our global leisure business continued its recovery during the four months to October 31 2022, delivering:

- \$3billion in TTV, a 608% increase on the \$417million result during the PCP; and
- An underlying \$23million EBITDA profit, a significant turnaround on the \$102million underlying EBITDA loss during the PCP

The famous Flight Centre brand, which has just turned 40, continues to resonate with customers, particularly in the Southern Hemisphere, where we maintain high market-share.

Our flagship leisure brand is currently undergoing a digital transformation to help ensure it maintains this industry-leading position into the future. As part of this transformation, Flight Centre will evolve its offering from multi-channel to omni-channel, providing customers with a superior experience by being able to seamlessly move between online and offline channels.

The business is also increasing customer engagement through data-driven marketing and use of Artificial Intelligence to personalise the customer experience and provide insights into the products that customers are most likely to book.

Flight Centre brand is now complemented by a diverse range of leisure brands and channels that are capturing an increased share of our leisure TTV and that are relatively low cost (compared to a traditional shop) and highly scalable.

Examples include:

- The independent contractor business, which is now roughly three-times its pre-COVID size
- Ignite and its stable of highly productive MyHolidays businesses, which we are now looking to expand overseas; and
- Our websites, which now typically feature broader ranges of bookable products

Our premium Travel Associates brand in Australia is also performing well, topping pre-COVID TTV in September from just 60% of its pre-COVID sales network.

Within our leisure business, consultant productivity is tracking at all-time high levels thanks to system enhancements during the pandemic and ongoing strong demand from customers.

To better service this demand, we are upstaffing and reopening hibernated shops, with 42 stores in Australia and the UK coming back on deck by December 31. With these reopenings, we will have about 550 leisure shops globally across our various brands.

On a similar note, our Travel Money foreign exchange business, which was fully hibernated during the pandemic, has now reopened and has quickly regained its appeal, with plans now in place for this brand to operate a 65-shop network in Australia.

Since the start of the pandemic, our leisure salespeople have secured billions of dollars in refunds for their customers, in addition to helping thousands more amend their travel plans.

As we approach the end of the calendar year, we urgently remind customers – and travellers in general – with supplier credits to consider their options before those credits expire.

We have extended Flight Centre credits for an additional 12 months to December 2023, but that has not necessarily been the case with credits that are held with suppliers. As things currently stand, travellers will – in many instances – need to lock in a booking to utilise those supplier credits before the end of next month.

Supply

In March 2022 the Supply area became a separate division under Mel's leadership.

This area is working across all brands and regions to strengthen our product offerings, to ensure we capitalise on synergies and negotiating capabilities and to provide partners with a more efficient, single access point to our geographically diverse brand and business stable.

Some other key achievements to date include:

- Global deals with various suppliers including Singapore Airlines and Emirates
- Further development of group platforms to deliver better access to content from multiple sources – TP Connects is an example of this
- Strengthening and creating centres of excellence in areas such as pricing and revenue management, packaging and merchandising; and
- Optimising data and robotics to deliver mid to long-term analytic and predictive insights and to remove and/or automate manual processing work that our people in sales and support roles have historically been required to do

Within our travel services and in-destination businesses, which include our tour operators, hotel management operations and destination management companies, recovery is in line with expectations as Asia starts to reopen and as European touring gains momentum.

Before talking about our outlook for the remainder of this year, I'd like to echo Gary's sentiments in relation to Mel – she has made an enormous contribution to our business over the years.

Mel started her career with us back when Joh Bjelke-Petersen was premier as a leisure travel agent just across the river from here in our Flight Centre Queen Street shop, after travelling through Europe.

Mel then became a team leader – at Toombul from memory – and continued her career progression on a path that ultimately led to her becoming Australian managing director, global chief operating officer and global CEO of our leisure and supply divisions.

Along the way, Mel was instrumental in the creation and/or expansion of many of our highly successful product businesses, including Infinity, Flight Centre Global Product and GPN.

As Gary said, she will leave a wonderful legacy and she will be missed.

Outlook and Guidance

In terms of our expectations for the year, we are generally positive given that:

- Demand for travel continues to recover
- International airline capacity is growing
- Revenue margin is stable and expected to increase as conditions normalise; and
- Cost margin is improving and now tracking around 10%

Together, these factors are expected to deliver profit growth in the months ahead, although it is difficult to accurately predict a full year outcome at this relatively early stage.

For the first half, we currently expect underlying EBITDA to be between \$70million and \$90million, which compares to the \$184million underlying EBITDA loss during the PCP.

We then expect a significant second half profit improvement driven by:

- Continued top-line growth to meet ongoing pent-up demand in leisure and as new corporate accounts are implemented and start trading
- Greater stability within the supply chain as teething issues are addressed and as capacity and other conditions continue to normalise; and
- Operational and technological enhancements, which are already delivering better margins and productivity; and
- Seasonality - the six months to June 30 is a stronger trading period for both the leisure and corporate businesses, with between 60% and 70% of full-year profit traditionally generated during the period. July and December are the peak summer holiday months in the Northern and Southern Hemispheres respectively and are, therefore, typically the year's soft trading months

While we believe that revenue margin will increase from its current level as the trading cycle normalises, it is expected to remain below pre-COVID levels in the near-term because of:

- Planned business mix changes – these include rapid growth in the enterprise corporate sector globally (FCM) and increased contributions from lower margin but highly scalable leisure businesses like online and our independent contractor offering
- Cyclical factors, which include abnormally high airfares and heavier than normal weighting of travellers who are visiting friends and relatives, rather than enjoying a traditional holiday, which typically comes with higher margin; and to a lesser extent
- The commission changes from some airlines in Australia and New Zealand that I outlined earlier

Within our other markets, where air capacity is recovering more rapidly, supplier margins are generally stable and we are now having positive discussions with airlines in relation to traditional margin structures. Similarly, margins are generally steady or increasing in other sectors like cruise, hotels and touring.

As flagged earlier, we expect cost margin improvements to offset lower revenue margins, given the progress we are already making and as we achieve further scale benefits.

Our cost base has structurally changed as we have reduced our store footprint, restructured the way that we support our businesses globally, improved front-end productivity and automated or eliminated unnecessary processes.

As a result, our cost base is not just far leaner than it was in 2019, but it is also able to flex and more efficiently scale as the business continues to grow.

Prior to the pandemic, we were working towards an aspirational 2% net margin target (profit before tax to TTV) and, while much has changed since we set that target, we believe it remains relevant across the business within the next two-and-a-half years.

The mix of revenue margin and cost margin to drive that targeted outcome will be different to our initial expectations, and indeed we now have interest costs on our convertible notes that we will also need to offset to reach the 2% target, but we believe it is achievable by 2025.

On a positive note, international capacity is returning in Australia and is likely to be back to circa 70% of pre-COVID levels by December and approaching 90% by mid-2023, assuming the Chinese carriers return. These airlines are important from lead-in pricing and freight perspectives, and we currently expect some to return to Australia early next calendar year.

In the interim, it is pleasing to see various other airlines, including United and Qatar, working to increase capacity in Australia], which will ultimately lead to cheaper fares.

We are also starting to see this domestically, with REX increasing its services and offering attractive fares to woo customers and increase market-share on popular east coast routes.

Like every global business, we are monitoring macro-economic conditions, particularly in the Northern Hemisphere.

Higher inflation and recent interest rate increases have not noticeably impacted demand for travel to date, which is consistent with what we have seen historically. Globally, outbound travel has tended to increase year-on-year during these cycles, with downturns typically short-lived and generally followed by steep uplifts in demand.

Looking at Australia, outbound travel – our leisure business's core product – grew strongly and consistently year-on-year pre-COVID throughout similar economic cycles and at significantly higher interest rates than today's, supporting our longstanding view that travel is not generally considered discretionary and is more often regarded as a necessity.

Google search data for international travel from Australia has also remained strong, tracking above pre-COVID levels and underlining the ongoing positive sentiment towards travel.

Very low unemployment rates globally are another positive leisure travel lead indicator, given that workers tend to have the financial means and the desire to make the most of their limited holiday time.

Conclusion – well placed to benefit

FLT is re-emerging from the pandemic with a solid balance sheet and with its key assets intact and, in some cases, strengthened.

Demand is increasing, revenue margins are holding steady and cost margins are improving, which lays the foundations for stronger future profit growth.

While there is heightened macro-economic uncertainty, the company sells a discretionary product that customers re-invest in consistently and is successfully expanding its leisure and corporate businesses to service current and anticipated future demand at a time when travel is more complex.

FLT is drawing on its proven skills in the areas of recruitment, training and developing people to strengthen its people network. Tech platforms have also been enhanced to improve consultant productivity and the customer experience.

We aspire to be one of the world's largest and most successful diversified travel companies and are well placed to benefit from the anticipated recovery this year and in the years ahead.

Thank-you. I will now handover to Gary.

This announcement has been authorised by the board of FLT.