Statement to Australian Securities Exchange – August 23, 2018

FLIGHT CENTRE TRAVEL GROUP RELEASES RECORD FULL YEAR RESULTS

Highlights

- *Record underlying profit before tax (PBT) of $384.7million (Actual: $363.5million)*
  - *Near top of upgraded guidance range ($360million-$385million)*
  - *16.8% year-on-year growth and 2% higher than record FY14 result*
- *Record Total Transaction Value (TTV) of $21.8billion*
  - *More than $1.7billion – 8.5% – above record FY17 result*
  - *New sales milestones established in all countries*
- *Diversity a strength*
  - *49% of TTV generated outside Australia*
  - *$151million profit contribution from EMEA and Americas businesses*
- *Successfully executing key strategies*
  - *Progressing towards longer term business transformation (BT) targets*
  - *Productivity, cost margin & net margin improvements*
- *Continued investment in future growth drivers*
  - *New models, new geographies, new products & new systems*
  - *Global GDS deployment completed (FLT's largest system change)*
  - *Leisure Rebrand & Grow (R&G) plan initiated in Australia*
- *Strong shareholder returns*
  - *Record underlying EPS of $2.79*

FY18 Result Overview

THE Flight Centre Travel Group (FLT) has announced record results for the 2018 fiscal year (FY18).

In releasing audited accounts for the year to June 30, 2018, FLT today revealed that it had achieved:

- TTV of $21.8billion – this exceeded FLT's previous best result (FY17) by more than $1.7billion or 8.5%; and

- A $384.7million underlying PBT – a result that was $55.2million (16.8%) higher than FY17 and $8.2million above the record $376.5million FY14 result

These new milestones led to stronger shareholder returns in the form of underlying earnings per share of $2.79 and fully franked dividends totalling $1.67 per share ($1.07 per share final dividend declared today plus the 60 cents per share interim dividend paid in April).

FLT managing director Graham Turner said key result drivers included:

- FLT's international businesses, which delivered strong profit growth and generated 49% of group TTV during a year of significant disruption and change in Australia
- Continued development across the company's three core sectors – leisure travel, corporate travel and its in-destination travel experiences network (TEN)
- Successful strategic execution, which led to further productivity gains; and
- Benefits flowing from the BT program, as FLT achieved its TTV and underlying cost targets in addition to making solid progress towards its FY22 net margin goal

"The company's record results highlight its business model's strength, its ongoing relevance to customers globally and its increasing diversity," Mr Turner said.

"The Americas and EMEA businesses performed particularly well and together generated a $151million profit, which more than doubled their combined results from just two years ago.

"To put these combined results in context, about 40% of FLT's underlying FY18 PBT came from the Americas and EMEA, compared to just 15% five years ago.

"This is a promising sign for the future, given the size of these markets – particularly in corporate travel – and our relatively small market-share.

"While there is still work to be done in the leisure sector, we are also starting to see some positive signs, with the Canada and US leisure businesses profitable for the first time since FY11 and FY12 respectively and the UK leisure business recording solid profit growth."

At June 30 2018, FLT had a global cash and investment pool totalling $1.48billion, which included $444.5million in company cash plus $108.5million in company investments.

Debt totalled just $35.5million, leaving FLT in a $517.5million positive net debt position.

In light of this strong cash position, the directors today declared the $1.07 fully franked final dividend (payable on October 12, 2018 to shareholders registered on September 14, 2018).

The combined FY18 dividend payments of $1.67 per share represent a 60% return of NPAT to shareholders, which is at the top of the company's current dividend policy (50-60%).

FLT continues to review its cash and debt positions – along with its capital management policy – to ensure that it is managing its balance sheet appropriately, given the industry's volatility and FLT's desire to grow the business for shareholders' longer term benefit.

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FY18 Result Summary: TTV, Profit & Margins

FLT generated record TTV in each of its geographic segments and in all countries, as the company delivered its 22nd year of TTV growth in 23 years as a listed entity.

The corporate travel businesses generated 35% of group TTV, compared to 31% five years ago, and collectively recorded 16% TTV growth to $7.7billion.

Globally, the FCM business alone won $1billion in new accounts during FY18 as FLT consolidated its position as one of the world's top tier corporate travel managers.

Underlying PBT, at $384.7million, was at the top end of FLT's upgraded guidance ($360million-$385million) and was underpinned by the strong growth achieved in both the Americas and EMEA segments and a solid turnaround in Asia.

Underlying PBT for both FY18 and FY17 has been adjusted to exclude the impacts of various non-recurring items.

Specifically, these were:

- The $4.1million loss incurred in FY17 when FLT exited the Employment Office joint venture; and
- $13.3million in costs and penalties related to the long-running competition law test case in Australia, which was finalised during FY18, plus an $8million holiday leave adjustment in New Zealand*

Actual or statutory PBT for FY18 increased 11.7% to $363.5million (FY17 $325.4million).

Income margin (revenue as a percentage of TTV) decreased, as expected and largely as a result of ongoing mix changes, specifically further rapid growth in several lower income margin businesses, which together generated almost 30% of group TTV at a combined income margin of just under 7.3%.

Underlying cost margin (costs as a percentage of TTV) improved by 50 basis point (bps) to 11.2% – FLT's best result since FY07 – to more than offset this income margin decrease.

This cost margin improvement resulted in a 12bps net margin improvement (profit before tax as a percentage of TTV) to 1.76%.

Net margin growth, which was a key BT program target, was driven by:

- Slower overall cost growth and efficiency gains, as outlined in the BT section
- The removal of some loss-making businesses
- A turnaround in some other businesses that had historically generated losses, including the North American leisure businesses; and
- Stronger returns from some businesses that have not historically been materially profitable. Examples include FX business Travel Money Australia and online travel agency BYOjet

FY18: Investment in Future Growth Drivers

While cost control is an ongoing priority, FLT also continues to invest in its key foundations to drive future revenue and TTV growth.

During FY18, the company deployed its new point-of-sale system (GDS) in Australia and New Zealand, which brought the two-and-a-half year global project to an end.

Deployment adversely impacted TTV in the short-term, while training was underway and while normal recruitment activities were placed on hold, but the new system should help FLT achieve one its primary strategic objectives – improving productivity – in the future, as has been the case in other markets overseas.

Shortly after the GDS transition was completed, the Rebrand & Grow (R&G) plan was initiated in Australia.

Under this leisure market-share growth plan, the moderately profitable Escape Travel and Cruiseabout brands were merged with the stronger and more profitable Flight Centre and Travel Associates brands.

Some 1200 consultants from 250 Escape Travel and Cruiseabout shops – 15%-20% of the company's Australian leisure workforce – were redeployed as the company moved to create three stronger leisure business streams in Australia targeting:

- The mass market (Flight Centre and BYOjet)
- Premium travellers (Travel Associates and Travel Partners); and
- The youth sector (Student Flights, Topdeck and StudentUniverse)

Other significant investments during FY18 included:

- A number of small acquisitions** to bolster FLT's leisure, corporate and TEN businesses
- The launch of a start-up US home-based agency network, Independent by Liberty Travel, to tap into a rapidly expanding industry segment. Together with Independent by Flight Centre in Canada, FLT now has 500 home-based agents across North America
- Investment in the FCM Germany start-up to give it the scale necessary to service FLT's corporate clients; and
- Continued investments in FLT's digital transformation

Digital transformation has seen new responsive websites built for several businesses, including Liberty Travel and Travel Money Oz, native apps revamped (StudentUniverse) and further investment in online capabilities and the company's global leisure platform to deliver better booking engines for hotels and cruises and new lead generation solutions.

In Australia, FLT has also moved to introduce a new wage model for its leisure sales people.

The new model is expected to be introduced during FY19 as part of an Enterprise Bargaining Agreement (EBA), which the company is currently designing in conjunction with its people.

While the EBA will increase wage costs, it is an important investment that will ensure FLT's leisure sales people operate under a simpler system and are better rewarded in terms of both pay and overall conditions.

FY18: Segmented Results

Nine countries generated record PBT during FY18:

- The USA, Canada and Mexico, as profit in the Americas more than doubled
- The UK, Netherlands, South Africa and UAE in the EMEA segment; and
- Singapore and Malaysia in the Asia segment

In the Australia/New Zealand segment, the company recorded reasonable TTV growth.

The growth rate of 4% was, however, softer than normal, as a result of the GDS and network changes that were taking place in the Australian leisure business. The Australian corporate business, which was less impacted by the disruption, recorded solid TTV growth.

Transformational costs, including costs associated with the R&G plan, have been recorded in business as usual results, rather than separated as non-recurring, and this contributed to a year-on-year profit decrease in Australia.

In New Zealand, underlying PBT increased 14%, with the acquired corporate and home-based leisure businesses making a solid contribution.

Within the EMEA segment:

- The UK business again performed well, with corporate TTV exceeding $1billion for the first time and leisure results improving as the business transitions to a long haul, tailor-made holiday specialist
- The corporate businesses on continental Europe, which have given FLT a presence in some key markets, generally performed in line with expectations; and
- The South Africa and UAE businesses both delivered record profits, with profit more than doubling in the UAE, despite the leisure business's closure costs

Within the Americas, FLT's second largest segment by sales, the company grew strongly in corporate travel and benefited from the significant turnaround in leisure results.

Result highlights included:

- Strong corporate results in the USA, with both the FCM and Corporate Traveller businesses performing well and generating almost $1.7billion in TTV
- Modest USA leisure profits, after five years of losses, as the business started to benefit from the productivity, cost reduction and other strategic initiatives that have been implemented in recent years; and

- Solid growth in Canada fuelled by solid corporate results, the addition of Quebec-based Les Voyages Laurier Du Vallon (LDV) and the return to leisure profitability for the first time since FY11

Factors that have contributed to this leisure turnaround in Canada have included:

- A new network plan, which has seen FLT close some under-performing shops and focus on a smaller but stronger network concentrated in three provinces, British Columbia, Ontario and Alberta
- New marketing and product strategies geared towards attracting a more affluent customer base
- A stronger digital offering; and
- Growth in new sectors, including groups and the home-based agency model

The Asia businesses also continued their recovery and together made a solid profit contribution of $5.2million, while generating about $1.4billion in TTV (6% of group result and a 30% year-on-year increase).

FLT's TEN businesses collectively delivered a small profit.

Touring businesses Topdeck and Back-Roads were again profitable, as were the Buffalo and Olympus Tours destination management companies (DMCs). BHMA, a small hotel management business that was acquired during FY18, made a modest loss, as expected during this early stage of its development.

FY18: Strategic Update

The BT program that was initiated late in FY17 to ensure FLT achieved scalable and profitable growth throughout the economic cycle has started to gain momentum, with the company making solid progress towards its 7-2-100 targets.

Specifically, these targets are:

- 7% average TTV growth per annum in constant currency. FLT comfortably exceeded this target during FY18 and has set its sights on continuing this growth rate through to FY22
- A return to a 2% underlying net margin by the end of FY22. FLT recorded a 12bps improvement during FY18 to 1.76%; and
- Less than $100million underlying cost growth during FY18 on a constant currency basis, a target that FLT achieved. Underlying costs*** increased by $91million (3.9%), which translated to $85.4million (3.6%) growth on a constant currency basis

A new cost-related target is in place, with the company now targeting an underlying 10% cost margin by the end of FY22.

Priorities during the program's first year included brand rationalisation to simplify the business, globalisation, particularly in the air, land and IT spaces, and cost control/efficiency.

As part of its brand rationalisation, FLT closed, downsized or changed strategic direction with several loss-making or modestly profitable businesses.

These included:

- The loss-making UAE leisure business, which was closed
- The small leisure operations in Singapore and Hong Kong, which were downsized and pivoted towards corporate travel to improve bottom-line performance; and
- The leisure businesses in Canada and the USA, which now have smaller but stronger shop networks

In Australia, the company closed about 90 poorly located shops and redeployed the sales staff to better sites as part of a new network plan. FLT also initiated its R&G plan to develop a stronger leisure brand stable.

FLT's success in globalising its business was evidenced by the strong contributions its international businesses made to group results

Globalisation has also helped the company capitalise on various synergies within its air, land and IT businesses – using different geographies to develop and pilot global initiatives. For example, a global Ticket Centre was created during FY18, following a successful trial involving the Australian business, to replace the regional models that were in place.

To slow cost growth during FY18, the company streamlined its support structures in various areas and initiated an out-sourcing program, starting with web support areas and some finance functions. Further outsourcing opportunities are being considered.

The transformation focus will now shift to an investment and business engineering phase that will take place globally over the next two years across the three key divisions – leisure, corporate and the TEN.

This phase will be geared towards:

- Making the company more productive and efficient
- Delivering a better and more consistent customer experience; and
- Scalable growth – sustainable revenue and cost increases

There will also be an ongoing focus on digital transformation to deliver:

- Further online leisure sales growth on top of the 20% growth achieved during FY18
- Lead management technologies, producing quality leads for FLT's expert people
- Continued improvements to the company's websites and native apps; and

- Digital solutions that will enhance productivity and/or the customer experience

FY19: Outlook

FLT expects further profit and TTV growth during FY19 and will provide more specific market guidance at its Annual General Meeting in October. This is in line with recent policy and allows the company to provide more meaningful guidance, given that it comes after first quarter trading is complete.

Factors that are expected to help drive FY19 results include:

- Ongoing market growth – the travel sector is expected to grow at a 3.6% compounding annual growth rate globally through to 2036 (Source: IATA)
- Positive momentum, with the company tracking above the prior corresponding period in early FY19 trading
- Further cost, efficiency and revenue benefits flowing from the BT program; and
- Continued strong contributions from the overseas businesses, particularly in the corporate travel sector

In Australia, the company expects to surpass its FY18 achievements, off the back of ongoing corporate travel growth and improved leisure travel results.

Leisure improvement in Australia is expected to be driven by:

- Productivity growth, now that the GDS migration is complete
- Improved conversion rates through new sales operations, technology, automation and marketing initiatives
- People growth, as the company again focuses on recruitment and retention; and
- Better network returns now that poorly located shops have been closed and a new growth plan is in place to ensure the right shops are in the right A-grade locations

Average international airfare prices are at or around prior year levels, which means travellers continue to enjoy the benefits flowing from the unprecedented discounting that took place during FY17. At this stage, FLT expects modest fare movements this year – normal annual fluctuations – although rising oil prices could fuel more significant medium term price growth.

“Within FLT’s businesses, the company sees improvement and growth opportunities across its three core sectors and is tailoring strategies accordingly,” Mr Turner said.

“In leisure travel, for instance, the company will continue to invest in its core Flight Centre brand, while also targeting the premium and youth sectors through brands like Travel Associates, Liberty Travel in the USA and StudentUniverse.

“We will continue to grow in emerging areas, including the home-based agency sector and online, and will target new revenue streams and models through initiatives like Flight Centre Exclusives, a new last minute package range that has just been launched in Australia.

“In corporate travel, growth is expected to be driven by account wins in both the FCM and Corporate Traveller businesses.

“FCM, which specialises in larger, managed accounts, is coming off a very strong year globally and now ranks among the global leaders in the sector. The company is regularly being invited to pitch for – and is winning – flagship multi-national accounts.

“This success is in part due to FCM’s leading technology suite, which is blended with an equally strong people offering and includes the SAM :] artificial intelligence app.

“FLT will continue to invest in this tech suite and have just announced an exclusive agreement with Serko to develop Savi, the next generation technology offering. The SME focussed Corporate Traveller brand has also strengthened its technology offering, with Your CT deployed as a new portal for SME customers during FY18.”

Within the TEN, FLT will continue to integrate and enhance its brand and business stable, while also considering acquisition opportunities, particularly in the hotel and DMC sectors.

In the aviation, land and cruise sectors globally, FLT has developed long-standing and mutually beneficial relationships with many suppliers.

The company intends to build on these relationships and is now generally seeking longer term contracts with partners. FLT’s 10-year Virgin Australia contract was one of the first long-term agreements and the company has taken steps to replicate this with other key airlines, including Etihad and Singapore Airlines.

FLT is also taking an active role in new aviation sector developments and is pleased to be launch partners of both Amadeus and Sabre’s NDC enabled solutions. These initiatives are geared towards shaping the future of travel distribution and are proactively bringing key players to the table to deliver outcomes that will benefit all parties.

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Additional Details

FLT’s conference call for analysts and investors will be held at 10.30am Queensland time today.

Call details are as follows:

Date: Thursday, August 23, 2018
Time: 10.30am (QLD)
Dial-in details: Phone (02) 80385221 or 1800 123296. Conference ID 5664839)

Footnotes

* The New Zealand holiday leave adjustment mirrors the adjustment that many other companies, government departments and organisations are now making in relation to the country’s Holidays Act. The government has acknowledged widespread non-compliance with this act, as a result of various factors including issues with the act itself,

and has now formed a Holidays Act Working Group to find a better solution. Like other affected companies and organisations, FLT will notify and repay all affected past and present employees.

** FLT bolstered its core divisions during FY18 with the following acquisitions:

- Leisure – Travel Partners and Travel Managers (home-based agencies)
- Corporate - Executive Travel (NZ) and LDV (Canada)
- TEN – Olympus Tours and BHMA

***FLT's underlying costs and underlying cost projections do not include the touring business's costs. The ACCC test case penalty and costs and NZ holiday leave adjustments were not included in FY18 underlying costs, while the Employment Office expense was not included in underlying FY17 costs