STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE – August 27, 2020

Key Points – 2020 Fiscal Year (FY20) Results

Losses within ranges outlined previously and heavily impacted by COVID-19

- $510million underlying loss before tax (FY19: $343.1million profit before tax)
- $849million statutory loss before tax (FY19: $343.5million profit before tax)
- Circa $150million underlying PBT during 8 months to Feb 29 but year-to-date profits lost in March and further fourth quarter (Q4) losses incurred during transition to lower cost base

Decisive action to slow cash burn and extend liquidity runway – strategic objectives achieved

- Short-term (July 31) cash flow target exceeded
    - Annual cost base lowered by circa $1.9billion to 31.5% of pre-COVID level
    - Revenue above initial expectations by July 31
- $1.9b cash balance at June 30, including circa $1.1b in liquidity (pre bank covenants)

Global corporate business profitable and growing to win – securing record account pipeline during FY20 and into FY21

- $74million underlying PBT achieved during FY20 – highlighting business's resilience
- New accounts with annual spends in order of $US1.3billion secured by FCM alone during FY20, including flagship, enterprise level and government accounts
- Strengthening an already diverse client base and organically increasing market-share

Heavier COVID impact on global leisure business

- Circa $20million profit to Feb 29, but losses then incurred
- Higher cost base than corporate travel and subject to tougher restrictions
- $200million COVID-19 revenue reversal and minimal forward bookings made since March

Outlook

- Lower global cost base and extended liquidity runway in place – capacity to reach break-even (circa 40% of normal TTV) with current cost base
- Corporate businesses well placed to break-even on domestic/regional volumes, but leisure business weighted towards international travel
- FY21 guidance not yet provided – uncertainty around timeframes for lifting government restrictions, but some international travel bubbles/corridors now open

FLIGHT CENTRE TRAVEL GROUP RELEASES FULL YEAR RESULTS

The Flight Centre Travel Group (FLT) today released FY20 accounts.

Results for the 12 months to June 30, 2020 were within the ranges outlined on August 13 and included a $510million underlying loss before tax in the most challenging trading environment the company has experienced.

These losses were incurred entirely during the March-June period, when governments locked down borders to slow COVID-19's spread, thereby preventing or severely restricting leisure and corporate travel globally.

Prior to these restrictions, FLT had achieved a $150million underlying profit for the eight months to February 29, 2020 and had delivered record total transaction value (TTV).

Ultimately, TTV finished the year 36% down on FY19 at $15.3billion after minimal sales were recorded in March and throughout Q4 and as most of the company's forward leisure bookings were cancelled and the transactions reversed.

Amid this disruption, the global corporate business again underlined its strength, diversity and resilience by:

- Delivering an underlying $74million profit for the year
- Generating $7billion in TTV, 45% of the company's total; and
- Securing a record pipeline of new accounts, thereby establishing a strong platform for further organic market-share growth

The FCM business alone won enterprise, global and regional-level accounts with annual pre-COVID spends in the order of $US1.3billion ($AU1.8billion) during FY20 and has secured an additional $AU390million worth of new business already in FY21.

The global leisure business, which has a higher cost base and a heavier international travel weighting, delivered a $20million profit during the eight months to February 29, but recorded significant losses from March-June as it transitioned to its hibernation cost base.

Minimal leisure revenue was generated during this four-month period, given that few forward bookings were made and as $200million in revenues recognised on prior bookings were reversed (refunded) in response to the government restrictions that were applied to discretionary travel. This expense has been included in the underlying FY20 leisure result.

At a statutory level, FLT recorded an $849million loss before tax. The statutory loss included $339million in one-off items[2] that were excluded from the underlying result, with the majority being non-cash adjustments.

One-off cash costs related directly to the company's COVID-19 response were $103million during FY20, below the anticipated level of $210million, but with an additional $35million to $50million to come during FY21.Transitional costs, which were included in underlying losses, were also lower than initially expected at $130million ($155million target outlined on April 6).

Successfully achieving short-term objectives

FLT entered the crisis with healthy cash reserves and minimal debt and moved quickly when trading conditions deteriorated to buffer itself against a steep and prolonged downturn by:

- Securing more than $1.1billion in additional cash and liquidity. This included the $700million capital raising and $200million debt facility increase in April, the $62.15million Melbourne property sale in July and a GBP65million government-backed loan in the United Kingdom, which can potentially be increased; and
- Reducing its cash burn by significantly lowering its monthly cost base from its $225million-$230million pre-COVID level during what was expected to be a zero or very low revenue environment

FLT comfortably exceeded its short-term target of a $65million net operating cash outflow by July 31, after removing an annualised $1.9billion in costs – thereby lowering its cost base to about 30% of the pre-COVID level – and achieving higher than initially anticipated revenue.

July revenue (excluding refunds) reached $17million, about 7% of the prior year level, as FLT achieved a $53million net operating cash outflow for the month. With the net benefit from Australia's JobKeeper wage subsidy included, the outflow decreased to $43million.

As announced previously, cost reduction strategies included:

- Lowering occupancy costs through rent reductions and shop rationalisation. This rationalisation saw FLT close about half of its leisure shops globally
- Global workforce reductions, About 70% of FLT's people have either been placed on stand-down or furlough programs or their roles have become redundant, given that customers have effectively been prevented from travelling and with no visibility around timeframes for restrictions to be lifted
- Pay reductions (50%) for senior executives and board members during Q4, plus ongoing reductions during FY21; and
- Deferral/removal of non-essential capital expenditure and other discretionary spend

FLT believes its current cost base can service 40% of normal TTV, which is likely to represent a break-even position.

Comments from Graham Turner, FLT managing director

"COVID-19 and, specifically, government responses to it have created the most challenging trading environment that we have experienced in our almost 40 years in business.

"Until the past four or five months, we had not seen – and could not have imagined – a scenario in which virtually all flights and travel plans globally would effectively be grounded for an extended period.

"This extraordinary trading environment has already had a devastating impact on businesses and on people, particularly those in the aviation, travel, tourism and hospitality sectors, with tens of thousands of jobs lost in Australia alone and many businesses struggling to survive.

"We were forced to make some very tough decisions as this crisis unfolded, but we were very fortunate to be able to draw on our strong balance sheet. We also moved quickly to develop a longer cash and liquidity runway and to lower costs in anticipation of a zero or very low revenue environment for an extended period of time.

"On a positive note, revenue has, to date, exceeded our initial expectations and has been increasing.

"Travel is starting to gradually recover in locations like North America, Europe and South Africa, where domestic borders are now open, although we are also seeing heightened restrictions in Australia and New Zealand, after earlier relaxations.

"Costs have reached the targeted level and we have capacity to service about 40% of normal TTV with the current cost base, which means we will be able to reach a break-even position without incurring significant additional expenses.

"In the near-term, TTV is likely to be domestic and corporate travel weighted, given that heavy restrictions still apply to international travel, although we are seeing some travel bubbles or corridors open as countries learn to live with the virus."

Corporate travel – Growing to Win

FLT's global corporate business generated a $74million underlying profit before tax from $7billion in TTV during FY20.

The business, which operates in 23 countries via the leading FCM and Corporate Traveller brands, recorded strong 1H growth and was on track to top $10billion in TTV before industry-wide activity slowed significantly from March.

Growth has been fuelled by the business's continued success in delivering a record pipeline of new accounts and achieving high retention rates (97% in the FCM business) through a compelling customer offering based on:

- Customer-centric DNA, which provides customers with the right flexibility and agility to support their businesses
- Innovative and disruptive technology, including the SAM chatbot with enhanced artificial intelligence (AI) capabilities to help travellers during the pandemic, which blends seamlessly with partner and customer offerings
- Its state-of-the-art data and reporting suite, powering new COVID dashboards and safety products; and
- People and small team-based service model.

The FCM businesses in the key Americas and Europe, the Middle East and Africa (EMEA) markets both won accounts with projected annual spends of more than $US500million during the year, as FLT consolidated its position as a top-five global travel management company and increased its share of what was a $US1.5trillion market pre-COVID.

Recent wins include:

- Enterprise-level multi-national accounts, headlined by FCM's first account with a projected $US1billion contract value (pre-COVID)
- Large technology and financial services sector businesses; and
- A significant government contract in the United Kingdom

Together, these wins strengthen an already diverse global customer base, which includes a solid foundation of essential services businesses that are generally exempt from the current travel restrictions. About 25% of FCM's TTV currently comes from government, mining/resources and the health/pharma sectors.

FLT also recently strengthened its corporate technology platform by acquiring San Francisco-based WhereTo,

The enterprise travel platform and technology company enhances corporations' business travel planning by pulling in content from dozens of sources and using AI-based algorithms to quickly guide users to the optimal trip options within policy, factoring in criteria like traffic conditions and travel deals. This technology will become a key part of the company's offerings in FCM and Corporate Traveller, which targets the SME sector and start-ups.

<u>Leisure travel – ongoing transformation</u>

As announced previously, the global leisure business recorded a $20million profit to February 29, before incurring significant losses during the four months to June 30.

These losses reflected:

- A pre-COVID monthly cost base of between $140million and $150million, which has now been reduced by more than 70%

- Heavy weighting towards international and discretionary travel, both of which were effectively grounded when border restrictions were applied globally; and
- The significant loss of revenue flowing from minimal forward bookings since March and a high volume of transaction reversals

In Australia, FLT's largest leisure market, the ongoing restrictions that were applied to international travel led to an industry-wide 99.4% decrease in Australian short-term resident departures during the FY20 Q4 (Source: Australian Bureau of Statistics).

Within this challenging trading climate, initial leisure priorities included:

- Cost control, through network reductions, rent renegotiations, brand consolidation and reduced discretionary spending
- Structural enhancements and communications; and
- Enhancing the refund process to deliver better outcomes to customers, while FLT's people and suppliers dealt with unprecedented volume

To date, FLT has processed full or partial refunds totalling more than $600million in Australia alone and is working to return money to customers as quickly as possible (generally within five days) after airlines and other suppliers return that money to FLT.

During this period of major disruption, the company has continued to focus on its longer term leisure transformation program. This program was initially intended to focus on the flagship Flight Centre brand (Speed 1) over the next few years but has been fast-tracked to include new opportunities and growth models (Speed 2).

Transformation priorities include:

- Rejuvenating the Flight Centre brand and, at the same time, growing the brand's online sales, which were increasing strongly before the pandemic
- Further e-commerce growth through the Jetmax and StudentUniverse online travel agency (OTA) brands, which were also growing strongly pre-COVID

- Developing a leading commercial, product and technical offering tailored for independent travel entrepreneurs (home-based agents) – delivering business-to-business growth; and
- Growth in the premium/luxury sector, where FLT's brands include Travel Associates in Australia and Laurier du Vallon (LDV) in Canada.

In leisure e-commerce, FLT generated almost $1.2billion in TTV during FY20, predominantly via the Flight Centre brand websites throughout the world, the Jetmax businesses (BYOjet and Aunt Betty) and StudentUniverse. StudentUniverse is among the businesses that are leading FLT's leisure recovery to date, with TTV now tracking at 30-40% of prior year levels.

The company continues to invest in e-commerce capabilities and will soon introduce a new packaging tool, along with other enhancements, to fast-track its online market-share growth.

<u>Outlook</u>

While FLT has seen a consistent uplift in demand since April, widespread and ongoing travel restrictions – including key domestic border closures in Australia – continue to hamper a more meaningful industry-wide recovery.

Given the limited visibility around timeframes for these government-imposed travel restrictions to be lifted, the company is not in a position at this early stage of the year to provide market guidance.

FLT will continue to work towards extending its liquidity runway in the near-term by:

- Increasing revenue, as travel restrictions are lifted or relaxed; and
- An ongoing, targeted cost focus, particularly in its leisure businesses

.This longer runway will allow the company to capitalise on:

- Industry consolidation, which is already taking place; and
- The inevitable rebound that will come when restrictions are lifted and consumer confidence recovers

Revenue generation opportunities in the short-term include domestic travel, which is approaching or above prior year levels in some countries and businesses including New Zealand and the Ignite ready-made package business in Australia, and is a key driver for the company's corporate businesses globally.

Prior to the pandemic, domestic and regional travel accounted for the majority of corporate TTV in Australia, the United States, Canada, Asia, India, New Zealand, Europe, South Africa and the United Arab Emirates, plus 25-30% of leisure TTV globally..

This heavier domestic weighting in corporate, coupled with its lower cost base and strong account pipeline, means the corporate business's profit is likely to rebound ahead of the leisure business's result.

While FLT believes demand for international travel, which is the leisure business's primary revenue source, will not fully recover before FY23 or FY24 in the absence of an effective vaccine, it expects gradual sales growth during the year as:

- Travel bubbles and corridors open between countries, as is happening now; and
- Businesses and governments work together to develop broader re-opening strategies and plans, which is also starting to happen in some countries

As announced previously, FLT will receive further subsidies during FY21 for retained employees in Australia via the Federal Government's extended JobKeeper program. At current staffing levels, the company expects to receive a net benefit of $70million to $80million in additional subsidies for retained employees from July through to the end of March via JobKeeper and the modified JobKeeper 2.0 program.

As the year progresses, FLT will also review its debt structure, which currently includes short-term borrowings[1] and a $350 million cash covenant, to ensure it is appropriate for the medium to long-term.

ENDS: Media & investor enquiries to haydn_long@flightcentre.com, + 61 418 750454

Note for analysts and investors:

FLT will present its results to the market this morning (Thursday, August 27). A presentation for analysts and investors will be held from 9.00am (Queensland time) and will be able to be accessed via the following URL:

https://webcast.openbriefing.com/6485/

[1] As previously announced to the market, FLT's $200million 364-day bilateral term facilities and GBP65million CCFF notes will mature in March 2021. FLT understands that the CCFF notes should be capable of being extended for a further 12 months through the issue of further notes.

[2] FLT incurred almost $340million in one-off or non-recurring items during FY20 as outlined below

Item	**1H Impact**	**Total FY20 Impact**
COVID-19		$103m
Business impairment	$46m	$140m
Other impairment		$18m
Loss on disposal – shop assets		$29m
Supplier exposure	$7m	$29m
Upside investment share of losses	$5m	$10m
Fair value loss on change in control (Ignite)	$3m	$3m
Accounting adjustment (IFRS16)	$2m	$7m
Total adverse impact	**$63m**	**$339m**

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Approved by the Board of Flight Centre Travel Group Limited