

## STATEMENT TO AUSTRALIAN SECURITIES EXCHANGE – 25 FEBRUARY 2021

### Flight Centre Travel Group Releases First Half Results

#### Highlights

- Weathering the COVID-19 challenge
  - Cost base lowered materially to sustainable levels – down 66%
  - Continued revenue generation – COVID period record in December
  - Month-on-month net operating cash outflow reductions during 1H – down to \$30m in December
  - Extended liquidity runway – \$1.2b+ at end of 1H
- Well placed for the recovery phase
  - Now a leaner and more efficient organisation
  - Key assets retained and enhanced during pandemic
  - Diversity & strength – large scale leisure and corporate businesses
  - Significant exposure to domestic/regional travel
  - Growing leisure market-share in key locations
  - Growing to win in corporate – high retention rates & strong pipeline of new account wins set to fuel further organic growth
- Positive signs starting to emerge
  - Significant pent-up demand – customers travelling when they can and driving rapid rebounds in sales
  - Some smaller businesses now profitable/tracking at record levels
  - Potential for accelerated 2H TTV recovery in corporate – large and high profile accounts won, implemented and now starting to trade
  - “One-way road to freedom” in UK – government plan in place to remove restrictions before peak summer holiday season
  - Vaccination programs underway – gaining momentum in key markets
- Outlook
  - No guidance provided – stable cost base but lack of clarity around revenue trajectory given no timeframes for restrictions to be lifted
  - Domestic recovery expected in near-term – after permanent border re-openings
  - Expecting some international travel later in 2021 – low risk travel corridors after vulnerable people and groups are vaccinated
  - Securing long-term relationships with key suppliers – multi-year agreements, attractive global deals

## Result Overview

THE Flight Centre Travel Group (FLT) continues to respond to the challenges posed by COVID-19 and the unprecedented travel restrictions that are in place to slow its spread.

In releasing its 2021 fiscal year (FY21) first half (1H) accounts, FLT said today that while global trading conditions remained volatile, results had gradually improved thanks to targeted cost base reductions and revenue increases during the period.

These revenue increases have been achieved despite:

- International travel, the company's leisure businesses' core product, effectively being grounded for the past 12 months; and
- Heightened restrictions and lockdowns globally during the 1H to counter second and third waves, creating additional customer uncertainty and curbing domestic travel

Cost reduction strategies have been outlined previously and were generally introduced during FY20, as part of FLT's initial response to the COVID-19 crisis.

Since the crisis escalated in March 2020, the company has now:

- **Lowered its cost base by 66%** (representing a \$1.9billion annualised saving) without jeopardising either its investment in key growth drivers or its ability to rebound quickly when conditions improve
- **Continued to generate total transaction value (TTV) and revenue** in a pre-vaccination, domestic-only travel world – December revenue was at its highest point since travel restrictions were introduced globally in March 2020
- **Delivered month-on-month reductions in net operating cash outflow** during the 1H; and
- **Maintained a \$1.2billion liquidity runway** to help it withstand an extended downturn or capitalise on opportunities during the recovery phase, which could now be fast-tracked with the world's largest ever vaccination program underway

FLT managing director Graham Turner said: "The conditions we have encountered since March last year have undoubtedly posed the greatest challenge that our industry and many others have faced.

“Rather than enter a holding pattern ahead of future domestic and international border re-openings, we are taking steps to ensure **we are well placed for the eventual recovery**.

“We have become **a leaner and more efficient business with a long liquidity runway**, which has been crucial during this challenging and uncertain period. 1H liquidity was bolstered through FLT’s Melbourne office sale, a debt restructure and the \$400million convertible note issue.

“With an eye to the future, we have **balanced the short-term need to reduce costs in a low revenue environment with the long-term need to invest in and enhance key assets**.

“In this regard, we have **maintained capital expenditure on key leisure and corporate technology projects at pre-COVID levels** and have now started to deploy a number of important new products for our customers and our people, including:

- Helio, a leisure platform that our consultants will use to search, quote, book and manage travel for their customers. Helio, which replaces six legacy systems, is now live in our United Kingdom, South Africa, New Zealand and Australian shops and will launch in the Americas in March 2021, with full deployment by June 30
- Melon, Corporate Traveller brand’s proprietary technology offering for SME customers. The Melon digital platform uses consumer-grade mobile technology, including robotics and artificial intelligence, to give customers the best experience and is currently being tested in the USA, ahead of its official launch in April; and
- SOAR, FLT’s proprietary online booking engine, which will soon have new features and content, including enhanced packaging capabilities and personalisation

“In both the leisure and corporate sectors, we have continued to invest in new and legacy models and have **proactively delivered innovative tech-backed-by-people solutions to customers of these legacy businesses**, as evidenced by both Helio and Melon.

“While we are in the early stages of recovery, we are starting to see some promising signs.”

Headline 1H results included:

- **\$1.5billion in TTV**, 12% of prior corresponding period (PCP) sales. As expected TTV was weighted towards corporate, given the tighter restrictions that have generally been

applied to leisure travellers globally, and domestic, given that international borders have generally remained closed

- **10.4% revenue margin**, which was also in line with expectations as a result of heavier than normal domestic and corporate weightings in FLT's sales mix; and
- **An underlying \$247.2million loss before tax** (\$317.3million statutory loss before tax). FLT achieved a \$102.7million underlying profit before tax (PBT) during the PCP, before the COVID-19 crisis unfolded.

### Positive Signs Emerging

While heavy travel restrictions remained in place throughout the 1H, the company started to see some positive signs as the period progressed including:

- **Revenue growth:** Revenue reached a **COVID period record of \$33.5million in December**, which is normally one of the quietest trading months
- Significant pent-up demand, which should ultimately fast-track recovery: FLT is typically recording strong and immediate rebounds in leisure and corporate demand when restrictions are lifted or eased. In Australia, for example, **domestic leisure sales exceeded prior year levels within two days of Queensland announcing plans (November 23) to reopen its borders** to travellers from New South Wales and Victoria from December 1
- **Various businesses returning to profitability.** The United Arab Emirates corporate business was profitable throughout the second quarter, while Ignite in Australia became the first leisure business to return to profitability in January 2021 thanks to solid future domestic sales and 2022 cruise bookings. Air charter business AVMIN and cycle retailer 99 Bikes have remained profitable and grew significantly throughout the pandemic
- **A large volume of new corporate accounts secured, implemented and now starting to trade:** The FCM business alone has won new accounts with annual pre-COVID spends in the order of \$US700million year to date, complementing its high customer retention rates and again underlining its organic growth capacity. High profile wins, including FLT's largest global account and various government or essential services customers that are likely to transact at closer to normal volumes during the

pandemic, have now started to trade which should help fuel a faster 2H recovery particularly within the large Northern Hemisphere businesses; and

- **Vaccination programs underway globally and starting to gain momentum** in key markets that typically drive group earnings: Examples include the UK, the USA and now Australia, which are all aiming to have at-risk or vulnerable people, plus a high percentage of their overall adult populations, vaccinated by mid-year

In a further positive sign for the company and its large UK business, which generated about 10% of group TTV pre-COVID, British Prime Minister Boris Johnson this week outlined plans to remove most restrictions by June 21 as part of his “one-way road to freedom” strategy.

This could see domestic restrictions in the UK lifted by April 12 and international travel permitted by mid-May, ahead of the peak Northern Hemisphere summer holiday season.

As expected, **recovery to date has been heavily weighted towards corporate and domestic travel – two sectors that FLT is significantly leveraged to.**

Although the leisure businesses typically have heavier international travel weightings, **FLT has increased its share in several large and important leisure markets during the 1H including Australia and South Africa, through enhanced omni-channel offerings.**

In Australia, industry booking data (GDS) shows that Flight Centre brand captured 16-18% of total GDS segments booked in Australia in November and December 2020, compared to 15-16% during the PCP and despite a materially different sales mix.

Domestic tickets represented 94% of FLT’s total ticketing volume in Australia during the FY21 1H, compared to 57% during the PCP.

In total, FLT issued 35,000 international tickets in Australia during the six months to December 31, 2020 at a time when just 86,000 residents travelled overseas for short-term departures (Source: Australian Bureau of Statistics).

## **Corporate Travel Update – Growing to Win**

Collectively, FLT's global corporate businesses delivered \$823million in 1H TTV, about 16% of the PCP's total. Recovery during the period was more rapid in Australia (trading at circa 30% of prior year TTV).

The Americas and EMEA businesses, which together generated about 60% of the group's corporate TTV pre-COVID, contributed less than 40% during the FY21 1H, but should have a stronger 2H given:

- The large pipeline of new account wins, which are heavily Northern Hemisphere weighted (60% is expected to transact in EMEA and the Americas); and
- Relaxed travel restrictions as the vaccination roll-out continues at pace, particularly in the UK and USA

Within the corporate sector, the company has benefitted from its focuses on:

- Continued development of two key brands, FCM (targeting multi-national corporates) and Corporate Traveller (SMEs and start-ups) with compelling customer value propositions and tailored solutions for their key markets
- Major ongoing investment in intelligence (data, robotics, pricing and analytics), content and supply (including airline New Distribution Capability) and tailored platforms that enhance the customer experience. This heavy tech investment will enable FLT to launch new global platforms that have been designed to deliver the best user experience and content access to customers of both key brands; and
- Its Grow to Win strategy – increasing market-share organically through high customer retention and by winning new accounts during the current downturn. Contracts typically run for three to five years and are generally renewed, thereby providing a strong foundation for both immediate and future growth

## **Leisure – positioning for recovery in the post-pandemic world**

FLT's global leisure businesses generated \$501million in TTV during the 1H, with TTV heavily weighted towards Australia and South Africa, businesses that have significant exposure to the domestic travel sector.

As announced previously, the leisure businesses, which span seven countries, were part-way through a transformation program – focussing on Flight Centre brand and new and emerging models and channels – when the COVID-19 crisis unfolded.

Work has accelerated on this program, with the company focusing on maintaining costs at a sustainable level, while optimising its shop networks for Flight Centre, Liberty and the premium Travel Associates and Laurier Du Vallon brands and investing in sales centres, independent contractor offerings and self-service/e-commerce businesses to maintain and increase market-share.

Effectively, the company has worked to maintain its leisure reach by rebalancing its sales channels to reflect changing customer needs and preferences, while also lowering costs.

The company's brand stable and shop networks have been rightsized, with what was initially intended to be a three-to-five year reduction program completed in 12 months, while other channels have been enhanced and upsized to capture a larger share of overall sales.

Work has also continued on the Flight Centre brand rejuvenation plan, which has seen its offering modernised and its omni-channel capabilities enhanced.

As announced previously, the company saw rapid sales recovery when border restrictions were eased and has successfully increased market-share in a subdued trading climate.

Solid recovery in online sales, which was expected in a domestic-only trading environment, has contributed to this market-share growth, with daily domestic sales on [flightcentre.com.au](https://flightcentre.com.au) reaching record levels when Australian borders were open during the 1H.

Shop-based sales have, however, continued to comfortably account for the majority of leisure sales globally.

In addition, FLT's leisure consultants have worked tirelessly to help customers receive refunds or rearrange their travel plans since border restrictions were imposed. To date, consultants in Australia alone have secured more than \$1.3billion in refunds from suppliers for their customers for no revenue.

## Outlook

Given that the timeframe for recovery is largely dependent on government policies and the vaccination programs' success, FLT is not able to provide FY21 guidance.

Sales slowed in January 2021 after further domestic border lockdowns in Australia and tighter global travel restrictions were applied. The company is, however, seeing a number of positive indicators and is well placed for the recovery phase given its:

- **Investment in proven growth drivers and successful deployment of key global strategies**, including Grow to Win in corporate and ongoing leisure transformation
- **Financial strength and stability**, underlined by an extended liquidity runway at a time when market consolidation is inevitable
- **Significantly lower cost base**, which will allow it to breakeven with a lower proportion of its normal sales volume
- **Brand and geographic diversity**, highlighted by large scale operations in both leisure and corporate travel and in countries that are reaching an advanced point in their vaccination programs
- **Significant leverage to domestic and short-haul regional travel**, which partially offsets the ongoing but temporary loss of international travel; and
- **Secure long-term relationships with suppliers** – multi-year agreements are in place with a number of partners and attractive global deals are also being locked in

"Within our businesses globally, we have invested in key growth drivers and controlled the business critical factors that should pave the way for a return to profitability," Mr Turner said.

"Based on what we have seen so far, travellers have been keen to take off as soon as they have been allowed to do so, which should ultimately lead to a very solid rebound.

"Assuming vaccination programs continue to prove successful against the virus and any variants, we expect travel restrictions will ease over the next few months given that high risk and vulnerable people, who are being prioritised in most programs, will be protected.

"This should allow domestic travel restrictions to be removed permanently and international travel to return in some countries later this year, probably via low risk corridors initially for those



who have been vaccinated and have the appropriate health passports, which we believe will be mandatory and is an area that we have proactively expanded into.

“Significant progress has been made in most of our key countries.

“Vaccinations are now being administered in Australia and the Federal Government has indicated the population could be vaccinated well before the end of this calendar year.

“The UK and USA are both making very strong progress – more people have now been vaccinated in the USA than have tested positive to the virus (Source: Bloomberg) – and infection rates are falling.”

FLT is targeting a return to breakeven in both leisure and corporate travel during the 2021 calendar year on the basis that domestic borders are likely to open permanently and some (low risk) international travel may be permitted.

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#### **FLT Half Year Result Schedule**

The company will present its 1H results to the market today at 8.30am Queensland time (9.30am Sydney/Melbourne). The presentation can be accessed via the following URL:

<http://www.openbriefing.com/OB/4155.aspx>

This announcement has been approved by the Board of FLT.

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