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FLIGHT CENTRE'S WINGS CLIPPED BY COVID-19

Company/ASX Code	Flight Centre Travel Group Limited (FLT)
AGM date	Thursday 5 November 2020
Time and location	10am Brisbane Time, Virtual Meeting via Lumi
Registry	Computershare
Webcast	Yes
Poll or show of hands	A poll on all items
Monitor	Kelly Buchanan assisted by Mike Sackett and Mike Stalley
Pre AGM Meeting?	Yes with Chair Gary Smith, Remuneration Committee Chair John Eales, and Head of Shareholder Relations Haydn Long

The individuals (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

Introduction

Flight Centre regards itself as a top-five global travel management company, headquartered in Brisbane, with a presence in 23 countries. The global Covid-19 crisis is the overarching event for Flight Centre and continues to have a massive effect on the company. The company has been demonstratively pro-active in managing the crisis while also ensuring that some limited opportunities for enhancing the business model in the future have been seized.

Governance and culture

A key feature of Flight Centre is relevant and appropriate governance driven by considered, timely and decisive management. The last four months of the financial year presented a significant challenge to normal operations. The preceding eight months were tracking to forecast earnings or better. The Annual Report provides a comprehensive analysis of the two parts of the financial year. Consequently, this voting intention report examines the strategic actions put in place to manage the crisis and ensure the future viability of the company.

A synopsis of these actions provides a three-fold strategy:

- The strengthening of the Balance Sheet through the April 2020 capital raising,
- The immediate measures to reduce the operating cost base and non-essential capital expenditure, and

- Continuing to maintain technology-driven investments in order to better position and strengthen the company in a post-Covid world.

The outcome of these strategies has provided a foundation to get through this crisis. It will also place the company in a favourable position, post-COVID-19 to progress.

Unfortunately, there is a human element to cost-cutting with an estimated reduction of 70% in the global workforce. The company has been pro-active in providing support for these former staff members. The travel business may be different in the future.

Financial performance

FY 2020 was a year like no other, especially for the travel industry. As a result of the crisis, Flight Centre lost $849 million during the year. This result is frustrating given the forecast (very positive) performance for the first eight months of the year.

Shareholder returns reflect the current crisis, with the final 2019 dividend of 98 cents the only dividend paid. A dividend was declared in February but cancelled in March 2020. The share price in the below table is a massive reduction from the 2019 year, although the price had recovered somewhat from a low of $8.56 in late April 2020 at balance date.

In the current circumstances, standard financial comparisons do not provide a great deal of value to the reader. The cash flow statement is an exception where the sources of the significantly large increase in liquidity are recorded.

The audit was unqualified and all key matters raised were, as expected, liquidity, cash impairment, receivables, cancellations. Additionally, the implementation of AAS16 was reviewed.

Key events

Material events include the COVID-19 crisis and the capital raising of $700M, and a $200M debt facility increase in April.

Post balance date: Sale of Melbourne property for $62.15M and the Bank of England provision of $116.6M in additional short term liquidity.

In summary, Flight Centre has implemented sound strategies to defend against the effects of COVID-19 and to ensure future sustainability.

There were no key board or senior management changes.

Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	-662.1	264.2	264.2	230.8	244.6
UPAT ($m)	-378.3	266.6	285.4	234.8	269.2
Share price ($)	$11.40	$42.69	$63.63	$38.80	$31.58
Dividend (cents)	98	316	167	139	152
TSR (%)	-71%	-26.6%	70.4%	25.7%	-3.0%
EPS (cents)	-552.1	223.1	260.5	228.5	242.4
CEO total remuneration, actual	$600,000	$675,000	$1.4m	$675,000	$675,000

For the year 2020, the CEO's total actual remuneration was only **7.3 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2	**Re-election of John Eales as a Director**
ASA Vote	**For**

Summary of ASA Position

John Eales was appointed to the Board in 2012 and is Chairman of the Remuneration and Nomination Committees and a member of the Audit & Risk Committee. His background was as a professional sportsman, becoming the most successful captain of the Australian Wallabies Rugby Union team in history. He holds a BA in Arts (Psychology) from UQ. Mr Eales is also a director of Magellan Financial Group, Executive Health Solutions and Fuji-Xerox Asia Pacific.

It is very pleasing that over the past two years Mr Eales has increased his shareholding in FLT. Even in the face of an enormous share price decline his shareholding is still greater than the value of his Director's fees. Well done.

FLT has a relatively small Board with five members only one of whom is female. ASA advocates for Boards to have at least 30% female and 30% male directors as well as diversity of geography, age, and ethnic background. FLT may wish to consider expanding its board of five with the addition of an appropriately qualified female and as Chairman of the Nominations Committee Mr Eales is an ideal position to facilitate that.

Item 3	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

CEO rem. framework	Target*$	% of Total	Actually Received $	% of Total
Fixed Remuneration	$675,000	90%	$600,000	88.9%
STI - Cash	$75,000	10%	$0	0%
STI - Equity	$0	n/a	$0	n/a
LTI	$0	n/a	$0	n/a
Total	$675,000	100%	$600,000	88.9%

*The Target amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. Mr. Turner owns a substantial number of FLT shares and receives no share based compensation.

Flight Centre's industry has been ravaged by Covid-19 lockdowns both in Australia and internationally. No STI's were paid this year. FLTs Business Ownership Scheme (BOS) incentive scheme (LTI) has been put into hibernation although two KMP received BOS interest before Covid struck representing 30% and 54% of their entire earnings for the year. Directors took a 50% pay cut in the fourth quarter and agreed to further pay cuts for FY21. Executives also took pay cuts for both FY 20 and 21. The company is balancing its need to preserve cash with its desire to retain talented staff and hopes to return to normal once there are tangible signs of recovery in the travel industry.

Flight Centre's Remuneration is unlike any other and has been tailored to encourage KMP and other employees to take an ownership interest in the company and to encourage retention of valuable employees. Evaluation using ASA Guidelines is difficult because it is so different.

Executives receive fixed pay and may receive a cash bonus each year which bonus is effectively the STI portion of their remuneration. The company also operates a Business Ownership Scheme (BOS), and a BOS Multiplier scheme for a few selected KMPs, a Long Term Retention Program (LTRP) and an Employee Share Plan (ESP). Given the uniqueness of the company's entire remuneration structure, we have determined that the BOS and BOS Multiplier Schemes, taken together, are akin to a Long Term Incentive Scheme.

Employees may receive a cash bonus as short-term incentive each year that is tied to financial (PBT/EBIT) targets for their areas of responsibility if they meet their budgeted targets. As well, employees who exceed their budgeted targets will receive additional 'stretch' STIs. Although these stretch targets are unlimited, undisclosed decelerator mechanisms are in place to slow an executive's salary growth. The level of the hurdles for each employee's pre-determined yearly target is not clear and we would prefer the level of achievement to be more clearly disclosed.

Under the company's Business Ownership Scheme (BOS) and BOS Multiplier Scheme, KMP and 60-70% of other staff use their own money to buy into the business component over which they have control. This ownership interest entitles them to a relative percentage of the profit generated by their business component, according to the amount they invest themselves. The BOS is structured as an unsecured loan (note) from the employee to the company and is governed by a Prospectus. The employee must remain employed by the company to receive anything, their share of profit is deemed to be interest on the note and is reported in their remuneration.

The BOS Multiplier scheme is an exceptionally "long term" component as it entitles selected KMPs to receive BOS return multiples of 5, 10 and up to 15 times the BOS return generated in their final year of employment, provided they achieve long-term tenure-related hurdles. The BOS and BOS Multiplier Schemes foster "ownership" of the business and encourage key employees to stay. Having their own money in the business certainly aligns their interests with those of shareholders.

FLT also operates the LTRP, a share based award program, solely to retain staff. Participants typically receive up to 15% of their targeted Base Salary as "Base Rights", that is, the right to receive shares three years in the future. For each two "Base Rights", employees also receive one "Matched Right" which entitles the employee to an additional share, provided the Base Rights are still owned and provided the employee remains employed. From 2019 on, these rights must be held for five years for new participants' first grant in order to receive a Matched Right. FLT may purchase shares on market or issue them and we encourage the company to purchase on market them to avoid shareholder dilution. This award program strengthens employees' 'skin in the game'.

Flight Centre’s Employee Share Plan, another retention scheme, allows employees to buy shares. If held for more than two years, and if the employee remains employed, FLT gives them another share.

This year the Annual Report contains a clearly identified table of actual take-home pay. Given the complexity and uniqueness of FLT’s remuneration system we are delighted with the change.

Although FLT’s Remuneration is very unusual, it is specifically designed to motivate employees and KMP to produce profits year in and year out. The company has a highly differentiated company culture. Discussing future succession issues, a major focus for the group is to ensure that there is appropriate talent developed and ready to step in when it is time for Mr Turner to bow out. The remuneration framework is designed to retain valuable staff members, all to the benefit of shareholders.

Item 4	**Refresh Placement Capacity**
ASA Vote	**For**

Summary of ASA Position

The company seeks shareholder approval of the April 2020 issue of equity securities pursuant to its institutional placement. Such approval will remove those shares from the 15% cap (temporary Covid-19 cap of 25%) on the amount of equity securities a company can issue without shareholder approval. Such approval will give FLT the ability to issue more shares over the 12 months (beginning in April 2020) without seeking shareholder approval.

Flight Centre as been ravaged by the worldwide shutdown of travel brought on by the Covid-19 pandemic. We support the company’s flexibility to raise more capital to see it through these unprecedented times should it become necessary although we would have preferred a renounceable, rather than non-renounceable, rights issue in the retail entitlemenot offer.