Australian Shareholders' Association

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## Taxiing down a growth runway and poised for rapid takeoff

| | |
|---|---|
| **Company/ASX Code** | Flight Centre Limited/FLT |
| **AGM date** | Monday 14 November 2022 |
| **Time and location** | 10am Emporium Hotel, 267 Grey Street, South Brisbane |
| **Registry** | Computershare |
| **Type of meeting** | Physical |
| **Poll or show of hands** | Poll on all items |
| **Monitor** | Kelly Buchanan assisted by Mike Stalley |
| **Pre AGM Meeting?** | Yes with Chair Gary Smith, MD Skroo Turner, and Shareholder Relations Head, Haydn Long |

The individuals (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

**Summary of issues for meeting**

FLT has come through the pandemic, one of the largest ever challenges to its survival, and is to be commended for doing so.

The independence of chairman Gary Smith, who has been with the company since 2007, could be an issue.

**Proposed Voting Summary**

| No. | Resolution description | |
|---|---|---|
| 1 | Election of Kirsty Rankin as a Director | For |
| 2 | Re-election of Gary Smith as a Director | For |
| 3 | Adoption of Remuneration Report | For |

**Summary of ASA Position**

**Consideration of accounts and reports -**

This report is considered in the context of the last four years, the pre-covid period FY19, the covid-affected FY20 and FY21, and this FY22 report. FLT is very vulnerable to a covid-like pandemic where their business model disappeared in a very short period.

To emphasise this event's impact on profit and loss after tax note the massive changes in this indicator. Profit pre-covid in FY18 and 19 was $264m each year, FY20 (covid start) a loss of $662m, nearly a billion $ ($926m) turn-around in less than a year!

The company immediately undertook a significant expenditure reduction to a sustainable level and protected the Balance Sheet by raising $1.5B of capital. This prompt action, amongst other survival initiatives, is evident in the FY21 and FY22 losses of $433m and $287m respectively, a reduction in year on year of the loss of 52% and 51%. Happily, the last quarter of FY22 returned a profit.

This is a compelling case for the timely action taken by FLT in FY20. Further financial information for FY 22 is below.

**Governance and culture** Although the company states that no particular or significant environmental regulations apply to it the annual report outlines the small way the company is giving a nod to environmental issues associated with travel. The corporate arm of FLT now offers clients emissions tracking for upcoming and past trips, and comparative emissions statistics so clients can choose their level of environmental impact, and carbon offset programs on some products.

The company provides a clear and readable Board Skills Matrix in its annual report.

**Financial performance** Following two years of pandemic induced losses, the business is now starting to recover. Its $180m+ (underlying) loss for the year is an improvement on the PCP as a result of a very modest profit in H2, largely skewed to Q4. No dividends were paid. TSR for the period was positive at nearly 17%. The Balance Sheet remains sound, and the end-of-year cash position is strong. All financial indicators suggest that the profit position established in the last quarter, FY 22, is set to continue as FLT ramps up its core business.

**Key events** In the second half of FY22 the company operated in a vastly improved trading environment due to removal or reduction of worldwide travel restrictions. Several strategic acquisitions were made during the year including small travel businesses in Asia and Europe, and a couple of sophisticated technological tools to enhance FLT's ability to service its customers in both the leisure and corporate sectors. During the pandemic the company worked to expand digital solutions and now has an omni-channel program allowing customers to shop seamlessly across online, app, call centre and in-store channels.

**Key Board or senior management changes** There were no substantial changes in senior management which is a credit to the company during the catastrophe faced by the travel industry during the pandemic. The appointment of a new director, Kirsty Rankin, was announced in August 2022 (see below).

**Summary**

| (As at FYE) | **2022** | **2021** | **2020** | **2019** | **2018** |
|---|---|---|---|---|---|
| NPAT ($m) | -287.1 | -433.4 | -662.2 | 264.2 | 264.8 |
| UPAT ($m) | -272.6 | -364.0 | -378.3 | 266.6 | 285.4 |
| Share price ($) | 17.36 | 14.85 | 11.4 | 42.69 | 63.63 |
| Dividend (cents) | 0 | 0 | 98 | 316 | 167 |
| Simple TSR (%) | 16.9% | 33.5% | -71% | -26.6% | 70.4% |
| EPS (cents) | -143.7 | -217.5 | -552.1 | 224.2 | 261.6 |
| CEO total remuneration, actual ($m) | 0.684 | 0.647 | 0.600 | 0.675 | 1.400 |

**Election or re-election of directors**

For FY22 FLT's board was composed of Chairman Gary Smith, Founder and MD Graham "Skroo" Turner, NED John Eales, NED Collette Garnsey and NED Robert Baker, giving it a total of four NEDs. The Chairman has been on the board of Flight Centre since 2007 making his tenure over fifteen years and, in the eyes of ASA, no longer an independent director. The board has been endeavouring to increase its gender diversity for a few years but that came to a halt with the industry crisis brought on by the pandemic. Happily, a new well-qualified director, Kirsty Rankin, was added in August 2022.

**Kirsty Rankin**

On 25 August 2022 FLT appointed Kirsty Rankin as a NED. She has global experience in developing capacity in data-driven customer insights, managing digital transformation and developing and implementing customer loyalty programs, all areas that FLT considers critical to the future of its business. Kirsty was CEO of Pinpoint Pty Ltd, an organisation which specialised in cultivating customer loyalty and engagement, prior to its sale to Mastercard. Ms Rankin subsequently served as a global executive for Mastercard in the USA. She is also a non-executive director of Azupay, a privately-owned, real-time payments platform, Stone & Chalk, a leading innovation start-up and scale-up hub, and Skyfii Limited, an ASX-listed omni-data intelligence company. We are pleased that FLT has expanded its board with another Independent NED and look forward to the contribution Kirsty can bring to the company in the future.

**Gary Smith**

Chairman Gary Smith has vast tourism experience from his diverse service to the industry for over thirty years. He was appointed to the FLT board in 2007. His long service to the company renders him non-independent in the eyes of ASA. However, all other board members other than the CEO are independent and the CEO's focus appears to be solidly aligned with shareholders' interests. He values the success of the business far above his personal financial achievements. Chairman Smith's continuity of service during the pandemic has been very valuable as has his steering of the company during this fraught time. He also serves on the boards of Michael Hill International and the NRMA. His deep industry knowledge, dedication to the company and unique historical experience are tremendously valuable.

**Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO**

Flight Centre's Remuneration is unlike any other and encourages KMP and other employees to take an ownership interest in the company. Evaluation using ASA Guidelines is difficult because the framework is so different.

In summary, KMP earn appropriate fixed salaries, modest cash short term incentives which can be larger if business performance warrants it, participate in an ownership scheme in which they invest their own money in the area of the business over which they have control, and participate in several long-term retention schemes involving share ownership. The CEO/founder owns >$400m in shares and receives modest fixed pay.

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## Appendix 1
## Remuneration framework detail

| CEO rem. Framework for FY22 | Target* $ | % of Total | Max. Opportunity $ | % of Total |
|---|---|---|---|---|
| Fixed Remuneration | $675,000 | 90% | $675,000 | 90% |
| STI - Cash | $75,000 | 10% | $75,000 | 10% |
| STI - Equity | 0 | 0 | 0 | 0 |
| LTI | 0 | 0 | 0 | 0 |
| Total | $750,000 | 100% | $750,000 | 100% |

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

Flight Centre's Remuneration is unlike any other and encourages KMP and other employees to take an ownership interest in the company. Evaluation using ASA Guidelines is difficult because the FLT framework is so unusual.

Fixed Pay and Short-Term Incentives

Executives receive fixed pay of 90% of their targeted pay and may earn further cash incentives which are the STI portion of their remuneration. STI payments are tied to financial (PBT/EBIT) targets and employees who exceed budgeted targets will receive additional 'stretch' STIs. Although these stretch targets are unlimited, undisclosed decelerator mechanisms are in place. We would prefer the level of the hurdles for each employee's pre-determined yearly target to be more clearly disclosed. Due to the pandemic's severe impact on the travel industry KMP did not receive *any* STI payments for the first nine months of FY22. With the exception of one executive, they received one half of their STI for the final quarter of FY22.

Long-Term Incentives

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).

The BOS was suspended during the pandemic but was partially reinstated this year. The Company plans further resumptions of the BOS as the travel recovery progresses. Under the BOS and BOS Multiplier Schemes 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 themselves invest. The BOS is structured as an unsecured loan from the employee to the company. The employee must remain employed by the company to receive anything; their share of profit is deemed to be interest on the loan 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 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.

Long Term Retention Plans

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 for three years (five years for newer employees). FLT may purchase shares on market or issue them and we encourage the company to purchase them on market 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.

Special Covid Retention Programs

Last year, two short term programs were created to maintain personnel who were critical to FLT's post-pandemic recovery. The highest level KMPs participate in the Post Covid Retention Plan (PCRP); the Global Recovery Rights (GRR) is available to other employees. The PCRP is a one-off grant of share rights vesting after two years, plus additional matched rights vesting after years three and four. The quantum of these PCRP rights of up to 70,000 in base rights and 35,000 in matched rights is quite high compared to previous LTRP grants (in the 2,000 – 5,000 range). If all the 'base' and 'matching' rights vest 660,000 shares will be earned ($4.86m under a Black-Scholes valuation). In creating this program, the company balanced the scarcity of cash with the need to retain KMP during very difficult Covid times.

Although FLT's Remuneration is very unusual, it is specifically designed to motivate employees 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's design accomplishes this.