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Nurturing Assets and Investing for Growth Despite Covid Downturn

Company/ASX Code	Flight Centre Travel Group Limited/FLT
AGM date	Wednesday 20 October 2021
Time and location	10am, Virtual Meeting via Lumi
Registry	Computershare
Webcast	Yes
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.

Please note any potential conflict as follows: The individuals (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

Summary of issues for meeting

Board composition – independence of chair & gender diversity.

Change of constitution to allow online only meetings.

Communicating with shareholders – hard copy (or editable digital copy) of Annual Report.

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

Summary of ASA Position

Governance and culture

The governance structure and board composition remain unchanged with four non-executive directors plus the founder/Managing Director. The Chairman has been on the board for 14 years and is no longer considered independent because of his long tenure. ASA prefers the board to have an independent chair. Only 25% of NEDs are female (20% if you include the MD) so gender diversity is an issue. At our pre-AGM the company expressed its intention to add more gender diversity to the board and will consider our views on independence of the Chair.

Even through the difficulties brought on the travel industry by the pandemic, the culture remains one of growth. The company has continued to invest in people and systems in order to prepare for a post-Covid world. Employees at nearly all levels have an ownership interest in the business thus aligning their interests with that of shareholders.

Financial performance

As a result of factors outside the company's control, including lockdowns and border closures, financial performance over the past couple of years has been terrible. Total Shareholder Return for FY21 was an impressive 33.5%. This has been solely as a result of a share price increase from $11.12 to $14.85 (down from a high in the $60 range). The price at 5 October 2021 is $24.48 reflecting the market's optimism that borders will reopen and travel will resume. No dividends were paid.

The company has continued to suffer losses however NPAT has improved 34% on last year, moving from a loss of over $660m to a loss of 'only' about $440m. The company hopes to be profitable on a monthly basis toward the end of FY22.

Key events

In order to fortify its balance sheet in late FY20, the company undertook a large capital raising of over $600m. During FY21 the company further raised capital by issuing nearly $400m in convertible notes. Despite the dire financial state of the travel industry, the company has continued to invest in new products and technology platforms which it believes will see it emerge from the pandemic in a much stronger position than competitors and with a much larger market share in both leisure and business travel divisions. Green shoots are starting to appear as worldwide travel restrictions are beginning to ease in the most recent couple of months.

Key Board or senior management changes

None

Summary

(As at FYE)	**2021**	**2020**	**2019**	**2018**	**2017**
NPAT ($m)	-433.4	-662.1	264.2	264.2	230.8
UPAT ($m)	-364.0	-378.3	266.6	285.4	234.8
Share price ($)	14.85	11.40	42.69	63.63	38.80
Dividend (cents)	0	98	316	167	139
Simple TSR (%)	33.5%	-71%	-26.6%	70.4%	25.7%
EPS (cents)	-217.5	-552.1	223.1	260.5	228.5
CEO total remuneration, actual ($m)	0.647	0.600	0.675	1.400	0.675

For 2021, the CEO's total actual remuneration was **6.9 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics). Actual earnings are ASA defined as the cash payments made during the year (FR, STI, deferred STI, plus any vesting of equity incentives at share price on date of vesting).

Item 2	Re-election of Colette Garnsey as a Director
ASA Vote	For

Summary of ASA Position

Appointed in 2018, Ms Garnsey has extensive experience in retail, marketing and distribution and has held advisory roles in the fields of government and fashion. Ms Garnsey is also Chairman of Australian Wool Innovation Limited, NED of Seven West Media, Magellan Financial Group and Laser Clinics Australia. She is a member of the Remuneration & Nomination committee and of the Audit and Risk Committee. Ms Garnsey's shareholding at EOFY was only equivalent to 51% of her Director's Fees; however, she acquired these shares very shortly after she was appointed to the board at a time when they were worth well in excess of her director's fees. She has stood shoulder to shoulder with shareholders during the unprecedented difficulties the company has faced due to the pandemic.

Item 3	Re-election of Robert Baker as a Director
ASA Vote	For

Summary of ASA Position

Robert Baker became a Director of Flight Centre in 2013. He is a former audit partner of PwC with experience in retail, travel and hospitality sectors. He is Chairman of the risk committee and a member of the Remuneration & Nomination Committee. In 2017 he was appointed Chairman of Rightcrowd Limited. He is Chairman of Goodman Private Wealth Ltd and NeuroSensory Limited. He is also a board member of Apollo Tourism & Leisure Limited. He also holds a number of senior positions for the Catholic church. Mr Baker has a large number of 'jobs'; we would prefer to see him reduce his other commitments in order to devote more time to FLT. Pleasingly Mr Baker has increased his shareholding in the company since his last re-election but the unprecedented downturn in the share price as a result of the pandemic puts it below the preferred threshold.

We would prefer to see the FLT board increase its gender diversity and the company has affirmed its intention to do so before the FY22 AGM.

Item 4	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Flight Centre's Remuneration is unlike any other and encourages KMP and other employees to take an ownership interest in the company and to encourage retention of valuable employees. Given that its outcomes align with the interests of shareholders we support the Remuneration scheme. For more details see Appendix 1 below.

In summary, no STI's were paid this year. FLTs Business Ownership Scheme (BOS) incentive scheme (akin to LTI) has been put into hibernation. KMP and NEDs have taken pay cuts in both of the last financial years. The company continues to balance its need to preserve cash with its desire to retain talented staff and hopes to return to normal once the travel industry recovers.

Item 5	**Approval of Issue of Notes (refresh placement capacity)**
ASA Vote	**For**

Summary of ASA Position

In November 2020 FLT issued 2,000 senior unsecured convertible notes raising $400m, $100m of which was used to retire existing debt and the remainder used for liquidity. The notes bear interest at 2.5% per annum and are listed on the Singapore exchange. The notes can be converted on various conditions into shares at the conversion price is $20.04/share at which time FLT will issue the shares. Unredeemed and unconverted notes will be redeemed by the company no later than November 2027. FLT asks shareholders to ratify the issue of the notes for purposes of the 15% placement capacity rule.

Flight Centre has 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.

Item 6	**Approval of the Grant of Global Recovery Rights (refresh placement capacity)**
ASA Vote	**For**

Summary of ASA Position

In September 2021 FLT issued 1.8m Global Recovery Rights (GRR) to eligible employees to provide a retention incentive and to thank them for their loyalty and dedication during the pandemic. The rights will vest provided the recipients remain employed until early 2023 at which time they can be converted 1:1 into FLT shares which the company may buy on market or may issue. FLT asks shareholders to ratify the issue of the GRRs for purposes of the 15% placement capacity rule.

Flight Centre has 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; however, we encourage the company to buy these shares on market in order to prevent dilution to other shareholders.

Item 7	Approval of the Grant of PCRP Rights (refresh placement capacity)
ASA Vote	**For**

Summary of ASA Position

In February 2021 FLT issued 1.2m rights under the Post-COVID-19 Retention Plan (PCRP) to 22 senior managers to provide a retention incentive to managers who will be critical to FLT's recovery after the pandemic. The PCRP provides for a one-off grant of share rights vesting after two years, plus additional matched rights vesting after years three and four, provided the employees remain employed. At vesting the rights may be converted 1:1 into FLT shares which the company may buy on market or may issue. FLT asks shareholders to ratify the issue of these PCRP rights for purposes of the 15% placement capacity rule.

Flight Centre has 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

Item 8	Approval of the Grant of Future Issuances Under the Flight Centre Employee Share Plan (ESP)
ASA Vote	**For**

Summary of ASA Position

Under the FLT Employee Share Plan (ESP) eligible employees purchase shares from FLT and, where certain conditions are satisfied, receive matched shares which are either issued or purchased on market. FLT asks shareholders to ratify the issue of these PCRP rights for purposes of the 15% placement capacity rule.

The ESP is an excellent program that gives employees an opportunity to become shareholders in the Company thereby aligning their interests to those of shareholders and we support the company's flexibility to raise more capital to see it through these unprecedented times should it become necessary.

Item 9	Approval of Future Issuances Under the Flight Centre Long Term Retention Plan (LTRP)
ASA Vote	**For**

Summary of ASA Position

FLT's LTRP is a share-based award program designed 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. The employees' Matched Rights vest after three years (five years for newer employees). FLT may purchase shares on market or issue them and we encourage the company to purchase on market them to avoid shareholder dilution.

FLT asks shareholders to approve the issue of these PCRP rights for purposes of the 15% placement capacity rule. We support the LTRP and we also support the company's flexibility to raise more capital to see it through these unprecedented times should it become necessary

Taken together, the Notes, Global Recovery Rights, PCRP Rights, ESP shares and the LTRP shares will result in significant dilution to the detriment of existing shareholders. However, balancing the need to retain valued staff, the dilution to existing shareholders of which the MD and founder is one, and the potential need to raise more capital to stay afloat, we will support the company's abilities to raise more capital to stay in business.

Item 10	**Amendments to the Constitution**
ASA Vote	**Against**

Summary of ASA Position

The company seeks to update its constitution to achieve more efficient and flexible administration. Topics covered include using technology to facilitate general meetings, extending the nomination period for Directors, dealing with unclaimed dividends, allowing the share registry to charge fees for certain off-market transfers, expanding the definition of "officer" for purposes of indemnity, and providing for Restricted Securities (the company has none) to comply with the listing rules.

Although we would like to support most of the company's proposed constitutional changes we must vote against this motion because of our opposition to 'virtual technology only' meetings. We understand the current pandemic-caused need for virtual meetings. However, the pandemic will end and perhaps no other Australian company has such a huge interest in its demise! When that time comes, shareholders must be allowed to more fully engage with directors by being in the same physical location at general meetings. We would happily support an amendment that includes wording indicating virtual meetings will be the alternative under a state of emergency or when people can't gather in a physical location. See for example the Pilbara Minerals (PLS) constitution.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY21	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%

Due to Covid belt-tightening, the CEO and other KMP elected to receive only 86.25% of their targeted remuneration. Note also, the CEO is the founder and owns shares worth ~$250m at balance date ($406m at 5 Oct 21).

Given the pandemic, no STI's were paid this year. FLTs Business Ownership Scheme (BOS) incentive scheme (akin to LTI) has been put into hibernation. KMP and NEDs have taken pay cuts in both of the last financial years. The company continues to balance its need to preserve cash with its desire to retain talented staff and hopes to return to normal once the travel industry recovers.

Flight Centre's Remuneration is unlike any other and encourages 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 equal to 90% of their targeted pay and may earn further cash incentives which are effectively 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. The level of the hurdles for each employee's pre-determined yearly target is not clear and we would prefer it to be more clearly disclosed.

The company also operates a Business Ownership Scheme (BOS), and a BOS Multiplier scheme for a few selected KMPs (currently in pandemic hibernation), a Long-term Retention Program (LTRP) and an Employee Share Plan (ESP). This year two short term programs were created to maintain critical personnel when they might otherwise jump ship during the pandemic: the Post-Covid Retention Plan (PCRP) for senior executives and the Global Recovery Rights (GRR) program for other employees.

Under the 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 themselves invest. 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. At present the BOS scheme is in hibernation until the pandemic sees the company return to profitability. At our pre-AGM meeting the company indicated it may be restructured with the intention to continue giving employees a feeling of ownership in the company.

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 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, two short term programs were strategically created to maintain personnel who will be critical to FLT’s recovery after the pandemic. The highest level KMP participate in the PCRP and the GRR is available to other employees. The PCRP is a one-off grant of share rights vesting after 2 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). The company has balanced the scarcity of cash with the need to retain KMP in these very difficult Covid times.

The Annual Report contains a table of actual take-home pay labelled “Paid and Payable Remuneration”. Given the complexity and uniqueness of FLT’s remuneration system we are delighted with the inclusion of this table.

Although FLT’s Remuneration is very unusual, it is specifically designed to retain employees and KMP and to motivate them 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 and ensure they have an ownership interest in the company, all to the benefit of shareholders.

Base Rights/Matched Rights – a long term retention plan. Typically granted Base Rights to the value of 15% of their target Fixed Rem. Then get one Matched Right if they stay employed. After 3/5 years (see my notes for the pre-AGM) these rights become shares.

Shares can be bought on market (p.27) or issued.