Australian Shareholders' Association

Australian Shareholders' Association Limited
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A rapid post-COVID takeoff

Company/ASX Code	Flight Centre Limited/FLT
AGM time and date	10.00am (Brisbane time) Wednesday, 15 November 2023
Time and location	Emporium Hotel Frangipani Rooms 1 & 2 Level 1, 267 Grey Street South Brisbane QLD
Registry	Computershare
Type of meeting	Hybrid (https://meetnow.global/MJYSAYG.)
Monitor	Peter Cory
Pre AGM Meeting?	Planned for 10 November with Chair Gary Smith

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

Summary of issues for meeting

In a vastly improved post COVID trading environment in FY 23 FLT delivered material uplifts in Total Transaction Value (TTV), profit and other key financial metrics, TTV more than doubled year-on-year to $22 billion (FLT's second strongest full year results). EBIT reached $301.6 million, a circa $485 million year-on-year turnaround.

In Australia, outbound capacity reached 85% of pre-COVID levels at year end, with near-term increases expected from key airline partners including Emirates, Singapore, Qantas, China Southern, & Cathay Pacific Airlines. FLT also supports plans for other airlines including Qatar Airways & Turkish Airlines to increase traffic to Australia.

During FY23 FLT successfully executed its key global strategies, which included;

- Maintaining a low-cost base with operating expenses being down 75% on FY19 levels.
- Productivity TTV per average full-time employee increased by 52% on FY19 levels.
- 38% of incremental revenue generated during the year being converted to underlying EBITDA, with leisure and corporate business converting at 47% & 41% respectively.

As mentioned in the FY22 assessment, the independence of chairman Gary Smith, who has been with the company since 2007, could be an issue.

Proposed Voting Summary

No.	Resolution description	Vote
1	Re-election of Director: that John Eales	For
2	Remuneration Report	For
3	Refresh placement capacity	For
4	Other business	

Summary of ASA Position Consideration of accounts and reports -

Governance and culture

Flight Centre Travel Group (FLT) endorses the Australian Securities Exchange's (ASX) Corporate Governance Principles and Recommendations and complies with each recommendation. (Files (fctgl.com) It has a comprehensive list of policies.

The company provides a clear and readable Board Skills Matrix with individual directors and skills outlined in its annual report.

Key board or senior management changes

There were no substantial changes in senior management.

Financial performance

Flight Centre Travel Group has recorded a strong profit turnaround during 2023 fiscal year as highlighted below;

- The $11billion FY23 result represented 96% YOY growth (FY22: $5.6billion) and an almost 25% increase on the previous TTV record (FY19: $8.9billion).
- 112% total transaction value (TTV) growth to $22billion - 2nd strongest result achieved.
- Circa $485million year-on-year (YOY) turnaround in underlying earnings before interest, tax, depreciation & amortisation (EBITDA) to $301.6million
- Record low underlying cost margin of 9.6% - compares to 11% in FY19 & 13.6% in FY22
- Revenue margin trending upwards - 70 basis point (bps) improvement YOY
- Early progress towards 2% underlying profit before tax (PBT) margin target for FY25
- Fully franked dividend represents a 52% return of underlying net profit after tax (NPAT) to shareholders and takes Total Shareholder Returns (TSR) related to FY23 to 10.8%
- New capital management policy in place for FY24, given solid cash flows and cash generation, with FLT to allocate 50-60% of NPAT to dividends &/or buy-backs.

Five Year Performance Summary

(As at FYE)	2023	2022	2021	2020	2019
NPAT ($m)	47.40	-287.10	-433.40	-662.20	264.20
UPAT ($m)	106.00	-272.60	-364.00	-378.30	266.60
Share price ($)	19.05	17.36	14.85	11.40	42.69
Dividend (cents)	0.18	0.00	0.00	98.00	316.00
Simple TSR (%)	9.75%	16.90%	30.26%	71.00%	27.94%
EPS (cents)	23.10	-143.70	-217.50	-552.10	224.20
CEO total remuneration, actual ($m)	0.895	0.684	0.647	0.600	0.675

Comments from managing director Graham Turner:

"After an incredibly challenging period, we are pleased to report material profit and sales uplifts.in improved conditions during FY23, leading to stronger shareholder returns.

"Looking ahead to FY24, we are well placed to capitalise on opportunities that will arise as industry recovery continues. Already, we have seen further solid TTV and profit growth in early trading in a resilient travel market that seems to be holding up reasonably well compared to other sectors."

Resolutions

Item 1 (Re-election of Director – John Eales)

John has been an FLT director since 2012. John is also Chairman of Trajan Group Holdings Ltd (from Mar-21) and De Motu Cordis Pty Ltd (from Jan-20) a director of Magellan Financial Group (from Jul-17), Executive Health Solutions (from Jun-15) and FujiXerox-DMS Asia Pacific (from Jan-14). John is the co-founder of the Mettle Group in 2003, which was acquired by Chandler MacLeod in 2007. John is an independent non-executive director of FLT. He is also FLT's Remuneration & nomination committee chairman, and an Audit & risk committee member.

For FY22 FLT's board was composed of Chairman Gary Smith, Founder and MD Graham "Skroo" Turner, and Non Executive Directors, John Eales, Collette Garnsey, Robert Baker and Kirsty Rankin, giving a 33% gender diversity to the Board.

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, leaving a majority independent board with four independent directors. By the end of his term, Mr Eales will no longer be considered independent due to tenure.

Item 2 (Remuneration Report)

The vote on this resolution is advisory only and does not bind the directors or the Company. The Board will review and consider shareholder feedback and voting when deliberating on remuneration policies. The Directors recommend that you vote in favour of this resolution.

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 16,641,081 shares (7.6% of Fully Paid Ordinary Shares) worth $317 million at 30th June, and receives modest fixed pay.

CEO rem. Framework for FY23	Target $	% of Total	Actual Received	% of Total
Fixed Remuneration	$768,748	91%	$691,874	77%
STI - Cash	$76,874	9%	$204,057	23%
STI - Deferred		0%		0%
LTI		0%		0%
Other		0%		0%
Total	$845,622	100%	$895,931	100%

For 2023, the CEO's total actual remuneration of $1.07m was **11 times** the Australian Full time Adult Average Weekly Total Earnings (based on $99,143 May 2023 data from the ABS.)

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FLT’s tailor-made remuneration model v traditional offerings

STI component historically built into targeted remuneration packages, not paid as an annual bonus LTRP is primarily a retention tool, not a traditional LTI

Prior to FY24, STIs were not annual bonuses that were only payable to FLT’s executives in good years. The company’s people were historically targeted to earn an STI component as part of their normal (targeted) remuneration packages and had the opportunity to earn additional stretch STIs (above and beyond targeted packages) if they exceeded their KPIs.

LTRP is primarily a retention tool, not a traditional LTI

The company’s main LTI for KMP and senior executives, the LTRP, does not have results-related performance hurdles attached to it. This is because the LTRP is a tailor-made retention tool for key executives and its performance hurdle is longevity-related. The company is currently evaluating other LTI models with multiple performance hurdles for FY25.

Profit-Based KPIs Tied to Sustainable, Ongoing Growth STIs were historically uncapped

FLT uses profit – generally a combination of underlying PBT and underlying EBITDA – as the basis of its executive STIs, which is aligned to its goal of delivering sustainable, earnings growth to benefit all stakeholders. To earn their STIs, executives need to build businesses that deliver year-on-year profit growth.

STIs were historically uncapped

Fairness and reward for achievement are key components of FLT’s remuneration system. The company did not historically cap STIs for KMP and instead relied on governance processes and natural curbs to ensure that rewards were aligned to shareholders’ interests and to prevent salaries
from reaching unacceptable levels. While the company was generally successful in achieving this objective, an STI cap (30% of targeted earnings) has been introduced for FY24.

Item 3 (Refresh placement capacity)

Background On 6 February 2023, the Company completed the issue of 12,328,768 fully paid ordinary shares (Placement Shares) at an issue price of $14.60 per Share, raising a total of $180,000,012.80. The issue of the Placement Shares was accompanied by a share purchase plan offer to eligible shareholders. The net proceeds of the Placement Shares issue were used to fund the acquisition of a 100% interest in Luxury Travel Holdings Limited (Scott Dunn). The Placement Shares were marketed to new and existing institutional investors and are listed on the ASX.

The Company wishes to retain flexibility to issue additional equity securities up to the 15% limit in the period ahead without having to obtain shareholder approval.

The effect of approving Ordinary Resolution 3 will be to refresh the Company’s 15% placement capacity under ASX Listing Rule 7.1 so that its capacity would be the same as if the Placement Shares had been issued with shareholder approval. If shareholders approve Ordinary Resolution 3, the Company will have greater flexibility to make future issues of the Company shares and other issuances of equity securities to raise funds to meet future needs.

If shareholders do not vote in favour of Ordinary Resolution 3, the issue of the Placement Shares will be included in calculating the Company’s 15% limit in ASX Listing Rule 7.1, effectively decreasing the number of equity securities it can issue without shareholder approval over the 12-month period following the issue date.

Directors’ recommendation The Directors recommend that you vote in favour of this resolution.

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