



## “Attracting new investment in regional airlines”

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- **The airline industry is difficult to attract new investment into**
  - Many demand-side and supply-side challenges
  - Airlines have historically delivered poor returns
- **2015 was a breakthrough year which may change how investors view airlines**
  - With record profits driven by combination of external factors (recovering demand/GDP, lower fuel costs) and internal factors (differentiation, discipline, rebalancing of eco-system risk and reward)
- **Flybe is a good case study of how mastering the internal factors and clear communication to the investment community can attract significant new money**
  - Mounting losses and running out of cash in 2013
  - New management team drives 4 Chapter turnaround of which £150m capital raise was key

## The airline industry is not for the faint-hearted investor

**Demand challenges**

- Cyclicality & Seasonality
- Sensitivity to external shocks
- Product commoditisation = Price elasticity

“How do you make a million in the airline industry?”

Answer: “Start with a billion”

**Supply challenges**

- Regulatory & Political intervention
- Low entry costs
- High fixed costs & difficult to control input costs

## Airlines have historically delivered poor returns

**Return on Capital vs. Cost of Capital in the Aviation Value Chain (2004-2011)**

4 companies serve majority of market	11 companies serve c30% of market	>500 airlines; overcapacity; fierce competition	Regulated “monopolies”	8-15 companies serve c50-90% of market	5 companies serve c80% of market
market Aircraft Manufacturers	Leasing Companies	Airlines	Airports	Services (Catering, MRO, Gr Handling)	CRS/GDS

Segment	Return on Capital (ROIC)	Cost of Capital (WACC)
Market Aircraft Manufacturers	7%	9-11%
Leasing Companies	9%	9-11%
Airlines	4%	7-10%
Airports	6%	6-8%
Services (Catering, MRO, Gr Handling)	11%	7-9%
CRS/GDS	20%	10-11%

**Warren Buffett:**  
 “If a farsighted capitalist had been present at Kitty Hawk, he would have done his successors a huge favour by shooting Orville down”

Source: McKinsey, IATA

## 2015 was a milestone year with record profits



### 2015 saw the airline industry deliver record high profits



- Net profit of \$33 billion (4.6% net profit margin )
- Return on capital was 8.3% (vs. 7% cost of capital)

### 2 external drivers

- Lower oil prices (\$55/barrel Brent)
- Strong demand for passenger travel (+6.7% growth in 2015) in line with improved global economy (2.5% GDP growth)

### BUT there were 3 internal drivers

- Focus on differentiation
- Capacity discipline as evidenced by record high load factor (80.6% in 2015)
- Recovering money from those they feed e.g.:
  - Aircraft manufacturers

**Regional airlines need to master all 3 internal drivers to attract new investment**

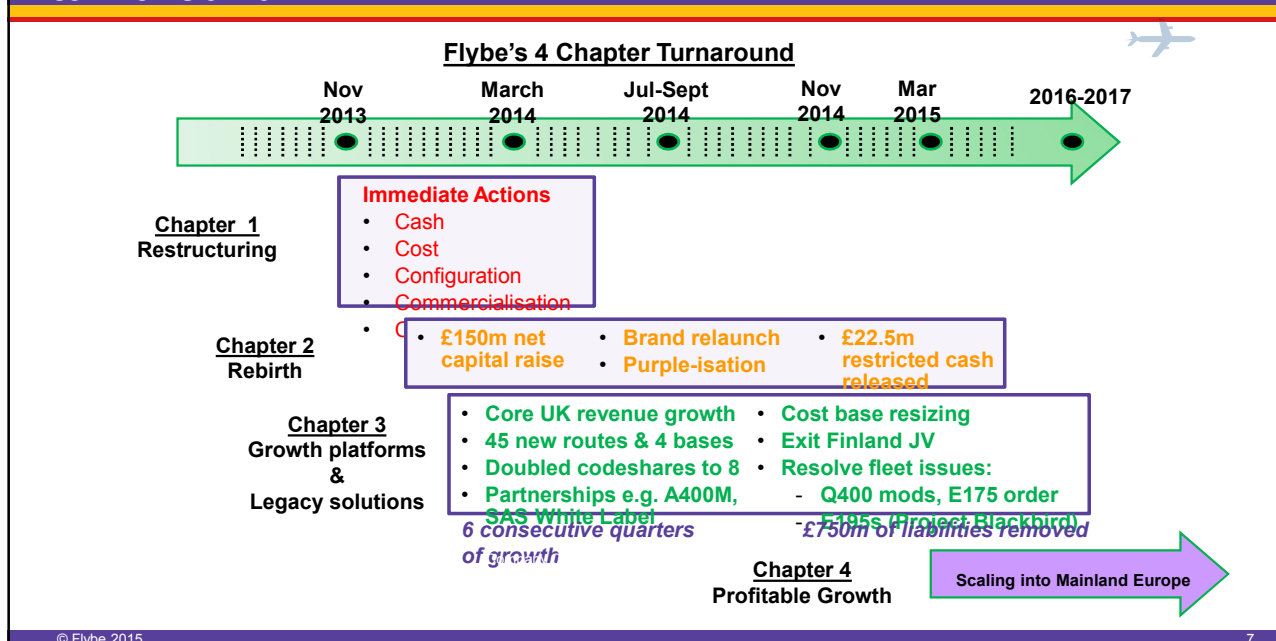
## Flybe Case Study



- **Largest independent regional airline in UK and across Europe.**
  - 8m passengers last year
  - 2016: 194 routes covering 10 countries in Europe with a fleet of 72 aircraft from 72 departure points.
  - HQ is in Exeter; c2000 employees but base aircraft and crew in regional communities in 10 key airports across the UK
- **Largest UK domestic carrier aiming to deliver unrivalled regional connectivity.**
  - Operates at 37 UK airports, the largest UK domestic coverage of any carrier
  - One out of every two passengers travelling intra-regionally on a UK domestic air route outside of London is a Flybe customer.
  - Accounts for 53% for all internal flights within mainland Britain

• In 2012 Flybe faced significant threat to survival:

## New team appointed in August 2013 has driven 4 chapter turnaround



## Return to profit confirmed in H1 2016

£m	H1 2014/15	H1 2015/16	YOY change
<b>Adjusted profit/(loss) before tax</b>	<b>(1.0)</b>	<b>21.1</b>	<b>22.1</b>
Revaluation gains/(losses) on USD loans	(2.3)	1.8	4.1
<b>Reported profit/(loss) of continuing operations before tax</b>	<b>(3.3)</b>	<b>22.9</b>	<b>26.2</b>
Tax charge	(0.1)	3.9	4.0
<b>Profit/(loss) of continuing operations after tax</b>	<b>(3.4)</b>	<b>26.8</b>	<b>30.2</b>
Discontinued Operations	(12.0)	0.0	12.0
<b>Reported profit/(loss) after tax</b>	<b>(15.4)</b>	<b>26.8</b>	<b>42.2</b>

2014/15 full year reported loss after tax was £(35.7)m

## Key part of turnaround was Chapter 2: Capital Raise and Brand Relaunch in 2014

March  
2014

£150m net raised and Brand re-launched



Oversubscribed and share price dilution limited to 7%

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## Why investors interested?



### Market attractiveness

- Substantial **Scale**:
  - 50% of passengers worldwide are flying sectors below 500 nautical miles and 30% below 300 nautical miles. Europe is the largest regional airline market in the world (c32% of total) with over 75m seats <350 nautical miles
- Significant **Growth** Potential in a fragmented space:
  - Flag carriers likely to withdraw or outsource
  - LCCs up-gauging
  - Limited incremental investment in rail or road infrastructure across Europe
- Sustainable **Profitability**
  - Thinner routes can only be served economically by regional jets or turboprops
  - Competition often road, rail and/or ferry

### Flybe's competitive positioning

- Already at **scale** globally (£600m t/o) and locally (no 1 or 2 at key airports)
- **Refocused concept** on smaller aircraft on low volume, short hop regional routes
  - Smaller, neighbourhood airports
  - High frequency schedules, for time sensitive travellers

## The reborn Flybe is building off solid foundations



### Flybe as at January 2016



- **Number of aircraft:** 72 (49 Q400, 11 E175, 9 E195, 3 ATR72-600)
- **Number of routes:** 194 routes, 72 departure points (37 UK, 35 EU)
- **Number of bases:** 10
- **Codeshare partners:** 8 (+17 interline agreements)
- **Pax total:** c8m
- **Pax split:** c50% business, c25% VFR, c25% leisure
- **Bookings split:** 80% website, 20% indirect channels
- **Number of FTEs:** c2000
- **Culture:** Purple

**Flybe currently connects Britain - its ambition is to connect Europe  
1/3 of its seat capacity is on UK to Europe routes and that proportion is  
growing**

## Executive Summary



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