

Connect March 2016 Vilnius

The Strategic Outlook

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Today's Topics

- Fuel prices down
 - good or bad?
- Security challenges
 - What impact on airlines?
- New generation aircraft
- Key players
 - Further consolidation steps
- The New European Aviation Package
- New lobby group, A4E (Airlines For Europe).

Fuel prices

- Lower fuel price = cost savings
 - Potentially increasing profits/ reducing losses

But...

- Offset by strengthening \$ versus £/€
- Reduced benefit due to hedging positions

Fuel prices

Fuel Prices & Hedging Position-Illustration					
Ryanair		easyJet		Norwegian	Air France KLM
FY15	\$950				
FY16	\$898 (95%)	2nd half to Mar16	\$846 (87%)		16 (60%)
FY17	\$622 (95%)	Full year to Sept16	\$823 (86%)	FY16	\$555 (50%) 17 (25%)
FY18	\$522 (29%)	Full year to Sept17	\$643 (71%)	FY17	\$563 (20%) 18 (1%)
	Company data				

Fuel prices

- Leading to over capacity?

- give backs in fare cuts/ discounting

“Lower oil to fund lower fares in Q4 & FY17” **(Ryanair Q3 results)**

“Fuel bill savings expected to be significantly offset by downward pressure on unit revenue and negative currency impacts” **(Air France KLM year end)**

Fuel prices

- Reduced demand in some oil markets

“Oil and gas related customers reducing their travel budgets, notably to Africa” **(Air France KLM)**

Security Challenges

- Destruction of some markets (Tunisia, Egypt), negative impact on demand in others (Turkey, France)
 - Overall impact on public travel perceptions
- Need to switch capacity
 - “crisis planning”
 - Opportunities for some markets

Security Challenges

“Impact of Sharm El-Sheikh and Paris on load factor and yield” **(easyjet)**

“Paris impact in short haul” Q4 RASK -3.7% **(IAG)**

“Challenging geopolitical climate including North Africa and Paris attacks in both January and November” **(Impact 120m euros from latter, Air France KLM)**

New generation aircraft

New Aircraft Forecast 2015-2034					
	Boeing		Airbus		
	Europe	Total	Europe	Total	
Large Widebody	40	540	156	1275	
Medium Widebody	510	3520	370	2395	
Small Widebody	910	4770	787	5184	
Single Aisle	5770	26730	5,052	22927	
	7230	35560	6365	31781	
Regional Jets	80	2490			
Total	7310	38050			

New generation aircraft

- Long haul
 - Boeing 787 & A350 in service
 - New direct routes (e.g. Norwegian Cork-US plans)
 - 757 replacement?
- Short haul
 - A320 NEO in service with Lufthansa
 - Boeing 737 Max test flights underway
 - Bombardier C Series expected to enter service this year



Key Players

Ryanair

- Strong performance continues
 - Load factor up to 93%
 - Predicting > € 1bn profits to end March 2016

Ryanair

- New Strategy
 - “Always getting better”
 - 50% of growth at primary airports
 - Secondary airports still key part of strategy
- Possible feeder role
 - New approach, discussions with Norwegian, TAP for example
- Corporate Jet Executive service
 - 1 x 737-700, 60 seats

Ryanair

- Growth projections
 - Germany a key strategic focus (4% market share)
 - Expansion in CGN, new bases in BER, NUE, HAM
 - Likely expansion in countries with low market shares
 - e.g. France (7% market share), has added significant frequencies to TLS
 - 81 bases, including Romania & further Eastern Europe activity to be announced

Ryanair-Fleet & Traffic growth

Ryanair Fleet & Traffic		Data source: Q3 Results Feb 2016									
						737-800	737-MAX				
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Aircraft (peak summer)	308	340	380	401	419	450	472	507	535	546	
Passenger numbers (m)	91	106	113	125	135	140	150	160	170	180	
% growth	11%	17%	8%	11%	8%	4%	7%	7%	6%	6%	

easyJet

- Growing profitability
 - Delivered £686 m profit before tax for financial year to September 2015
 - 91.5% load factor for FY15

easyJet

- Fleet/orders

- Introduce more cost efficient 180 seat aircraft to replace 156 seat A319s (10 % seat cost advantage)
- Adding seats to A 320's to give 186 seat configuration (1st aircraft this year)
- First A320 NEO 2017 (13-14% seat cost advantage versus A319)

easyJet-Fleet

easyJet Aircraft Order: Investor Presentation November 2015									
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Fleet plan – base case	226	241	257	280	303	312	335	346	347
Maximum fleet	226	241	257	280	303	333	346	359	358
Minimum fleet	226	241	257	280	239	212	227	221	233

Data is for end of relevant financial year

easyJet

- Further Growth
 - France remains a core market
 - “Built a strong presence in international and domestic market”
 - See further opportunities in regional airports

easyJet

- Willing to move aircraft to maximise profitability



Norwegian

- 2015 small profit after heavy losses in 2014
- 246m NOK (after hedges, 75m NOK before) aided by lower fuel prices
 - ASK's +16% 2016, (+12% short haul, +40% growth in long haul)
 - 2020:**Long haul to be more than 1.5 x today's short-haul operation**

Norwegian

- Developments
 - Opening ORY base & adding US routes
 - FCO base
 - Regulatory barriers on some US routes (e.g. ORK)

Norwegian Fleet

Data source: Q4 Results January 2016

	2010	2011	2012	2013	2014	2015	2016	2017
Aircraft (End financial year)	57	62	68	85	95	99	120	153
					7	8	12	21

Wizz

- Strong performance
 - Project 200-210m euro profit to end March 2016
 - 65 aircraft end of Q3 2015-16, 73 by Sept 16
 - ASK's +18% for FY 2015-16

Wizz

- Fleet Expansion
 - Large order for 110 A321 NEO's from 2019
 - Increase in average aircraft size (239 seats on NEO's versus 230 on A321 & 180 on A320)
 - Reduced average seat cost

Wizz Fleet

Data source: Q3 Results January 2016

		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Aircraft (End financial year)	A320	55	63	63	67	63	54	49	42	26	22
	A321		4	15	24	36	48	70	94	114	130
	Total	55	67	78	91	99	102	119	136	140	152



Legacy Groups

Air France KLM

- Financials
 - Returned to profit in 2015, supported by low fuel prices
 - Further cost reduction needed
 - Pilot, ground staff agreements not yet reached- further industrial action risks

Air France KLM

- Short haul remains the challenge
 - Further cuts in short haul capacity, non feeder routes switched to Hop!
 - Transavia growth, opening of MUC base end of March
 - Second non French/NL base expected Summer 2017

Lufthansa Group

- Financials
 - Expect profits to grow for 2015 (announced 17 March)
 - However, significant impact from pilot strikes

Lufthansa Group

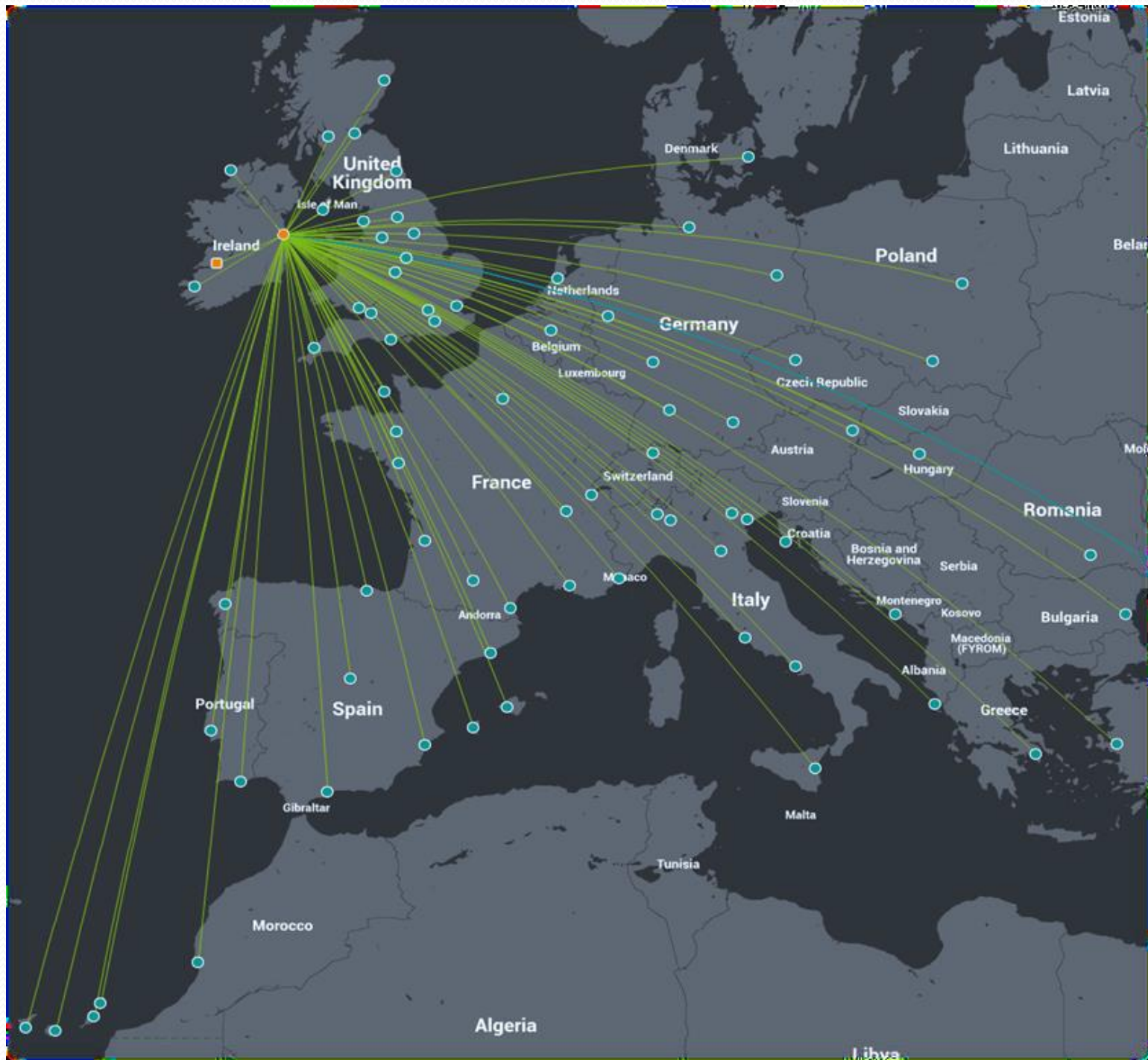
- Strategy
 - Efforts to improve performance of **Eurowings**
 - Established long haul LCC: leisure markets, can it work?
 - Initially over stretched & having to cut back

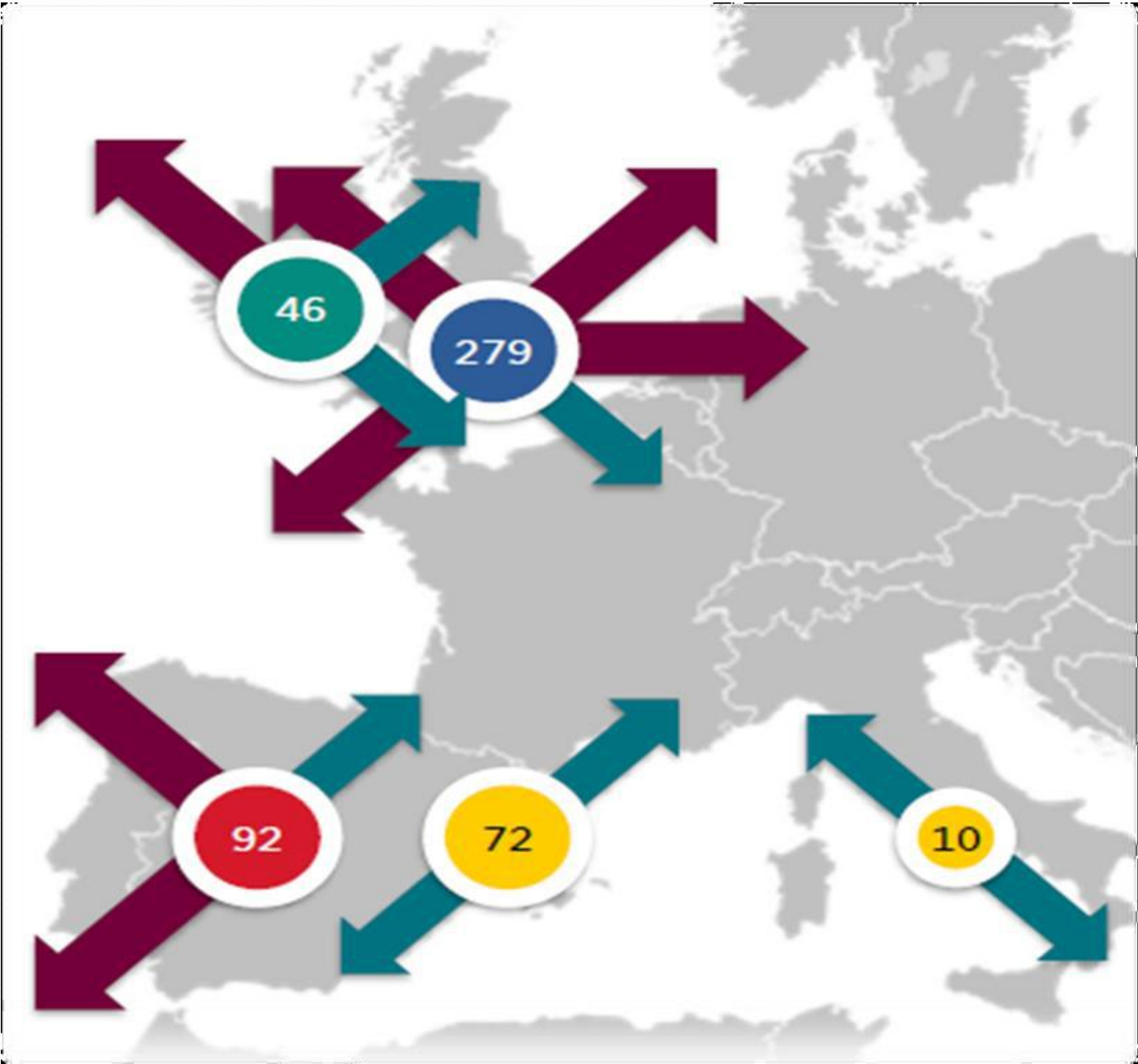
IAG

- The leading European legacy group
 - 2015 operating profit £2.3bn (£1.8bn after tax)
 - Long term planned operating margin 10% - 14%
 - Very cost focussed

IAG: Aer Lingus

- “Powered by geography, cost and opportunity.... leveraged by IAG” **(IAG Investor Day)**
 - Enabling accelerated growth
 - Network expansion through code and AIB (JV)
 - 6 x A330-300/ 4 x A330-200/ 4 x B757





IAG

- British Airways
 - Facilitating new long haul routes from LHR: Expanding in Asia, new US secondary cities
 - **Stepping into STN**
 - **Threats re LHR/LCY costs**

IAG

Willie Walsh CEO, IAG:

“I’m not going to support anything that sees our charges at **Gatwick or Heathrow** rise...”

“The price tag attached to...third runway is excessive...cannot be justified on any basis...we’re certainly not prepared to pay for it.”

LCY:

“If the owners succeed in selling this for £2bn we cannot see how a buyer will be able to recover or make any return on that investment unless they make a significant increase in airport charges”...

“We will not stay in London City at the levels we are today if these charges increase. Quite honestly the margins we make at London City would not support any increase in charges.” (Source FT)

New European Aviation Package

- Place the EU as a leading player in international aviation, whilst guaranteeing a level playing field
 - new external aviation agreements (Incl ASEAN, GCC, China, Mexico)
- Tackle limits to growth in the air and on the ground
 - Single European Sky (SESAR)

New European Aviation Package

- Maintain high EU standards
 - safety, security, the environment, social issues, passenger rights
- Progress on innovation, digital technologies and investments
 - Drones, SESAR

New Lobby Group:



- Unified approach to lobby on industry issues

The “big 5” Air France KLM/IAG/Lufthansa/Ryanair/easyJet

- 400 Million passengers per year
- 50% of European passenger journeys
- 2,100 aircraft
- 300,000 employees
- Norwegian/Finnair now joined



- Airport costs-key focus

“In the last ten years, charges rose by 90 per cent at the 10 largest European airports while airline fares dropped 20 per cent over the same period”

“New airline association urges EU to act on legislation to effectively regulate monopoly airports”

“Ready to represent the interests of all European airlines...will grow our member base over the next months...to take forward changes that will increase our competitiveness “

Thank you!

Questions?

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