

# Variation to the Brand Licence Agreement

Presentation to analysts and investors

October 2010



# Background

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## 1995 – 2000:

- *easyJet* name owned and developed by the company

## 2000:

- At IPO of *easyJet*, the company agreed to transfer ownership of the *easyJet* name to *easyGroup* IP ('eGIP') in exchange for the current brand licence in perpetuity for £1 royalty p.a.
- Shareholder agreement set up allowing Sir Stelios Haji-loannou ('SHI') to appoint himself as Chairman and *easyGroup* the right to appoint two directors

## 2008:

- In August 2008, eGIP launches legal action over the terms of the brand licence – High Court litigation began

## 2009:

- Chairman and Finance Director and other members of the management team resign, retention payments made to CEO

## 2010:

- June 2010 brand licence dispute comes to court

# Resolution of the brand licence dispute

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- Court judgment would have resolved only some issues and could have been the start of new litigation by easyGroup
  - Potential risk to 'white label' revenues of around £3m to £4m
- Current situation unworkable
  - Continued refusal by eGIP to agree third party co-branding and marketing support deals causing lost revenue (estimated at around £5m in 2010)
  - Ongoing legal costs (costs over the past two years associated with brand licence dispute have been c.£4m)
- Window of opportunity ahead of court judgment to reach a swift resolution
- Robust process involving wider easyJet management team to ensure workable agreement
- Varied agreement allows for settlement of current dispute and provides greater clarity and freedom going forward
- Better alignment of Company's and SHI's interests through a royalty payment
- Allows for clarity over governance of the Company for the future
- Shareholders to vote on proposal at a General Meeting in mid Quarter 4

# Main features of the varied agreement

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- SHI gives up all rights to appoint himself as Chairman and to any Board representation. Normal rights as a shareholder remain
- All current and contemplated activities are approved, as are a permitted list of others
- Further ability to innovate beyond the aircraft and airport subject to a peer group test (certain prohibited activities) and the discretion of eGIP
- Related personal undertakings from SHI regarding non-compete provisions, communications, and mutuality of respect
- Worldwide exclusive licence to operate flights in fixed winged aircraft under an AOC under the easyJet brand name
- Royalty payment of 0.25% of total revenues fixed in FY11 (£3.9m) and FY12 (£4.95m)
- eGIP retains existing rights to easyHolidays, and easyFlights (but cannot enter the market for one year)
- easyJet able to provide any new product or service provided by at least one competitor airline, subject to a list of prohibited categories
- Fifty year agreement, with option for good faith renegotiation at thirty years
- Minimum 10 year term i.e. if terminated by easyJet or by easyGroup in the event of repudiatory breach in year one of agreement gives a liability of £65m
- One year ability to co-brand in the event of a termination
- Communications protocols and mutual respect provisions
- Swift arbitration process to resolve certain disagreements
- Operational performance benchmarks agreed and parties to form a Service Level committee to review

# Variations give easyJet new benefits

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- Removal of the 75:25 rule, easyJet able to offer largely unrestricted activities within airports and aircraft; all current activities and a set of contemplated future activities approved
- No need for consent from eGIP for co-branding and promotions with aviation partners, airports and reputable consumer brands
- Ability to wet lease within limits for operational purposes without permission of eGIP
- easyJet able to generate revenues from white label with certain restrictions
  - e.g. can book a hotel with easyJet but not set up “easyJethotels”
  - Carve-out to allow easyJet Holidays
  - Requirement to re-configure partner websites for customer log-in. Consequently, some partner contracts will need re-negotiation and there will be some level of IT investment
- Notification rights in the event of a proposed sale of the brand
- SHI is prohibited from using his own name (or derivative) to brand another airline in Europe for 5 years. Revised agreement gives better protections as current non-competes may be unenforceable
- Scope for disagreement reduced as the royalty payment better aligns interests and SHI board rights are removed.

# Financial implications



	F'10	F'11	F'12	Ongoing
Consensus revenue estimates*	£2,954m	£3,250m	£3,536m	
<b>Consensus PBT estimates*</b>	<b>£146m</b>	<b>£242m</b>	<b>£304m</b>	
Royalty payment @ 0.25% of total revenue	£7.4m	£8.1m	£8.8m	<i>0.25% of total revenue</i>
easyGroup royalty payment fixed in Y1 &2	n/a	£3.9m	£4.95m	<i>0.25% of revenues</i>
SHI restriction fee	n/a	£0.3m	£0.3m	<i>£0.3m for further 3 years</i>
<b>Total cost</b>	<b>n/a</b>	<b>£4.2m</b>	<b>£5.25m</b>	
Risk to white label revenues	<b>n/a</b>	£4m	£4m	<i>£4m</i>
Ongoing legal costs	<b>£(2)m</b>	£2m	£2m	<i>£2m</i>
Additional marketing / co-branding revenues	<b>£(5)m</b>	£3m	£3m	<i>£3m</i>
<b>Hard benefits</b>	<b>£(7)m</b>	<b>£9m</b>	<b>£9m</b>	<b>£9m</b>

Minimum 10 year term i.e. if terminated by easyJet or by easyGroup in the event of repudiatory breach in year one of agreement gives a liability of £65m

# Risks and mitigation

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- Commercial risk to easyJet Holidays and easyJet if eGIP successfully launch easyHolidays and easyFlights. However eGIP must use another colour (as well as orange and white) in its branding of ATOL activities. AOC licence and chartering not permitted. SHI will procure that eGIP does not license the brand to an ATOL holder on terms which permits it to sell flights for One year
- eGIP can terminate for (i) irremediable breach leading to material brand damage or (ii) material breach not cured for 9 months. If easyJet fails over a year to hit operational benchmarks then eGIP can serve a cure notice in the next financial year and performance will be measured over the 3rd year. If easyJet is not compliant in the 3rd year, eGIP has the right to terminate
- In the event of termination other than for easyJet's breach, easyJet can continue to use the brand (with or without a co-brand) for up to 12 months and eGIP will not use brand for up to a further 2 years (if continue to pay royalty). In the event of termination for easyJet's breach, easyJet can continue to use the brand for 9 months
- As the proposal is a variation to the current Brand Licence advise is that minimal likelihood of tax liability

# Summary

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- Removal of SHI shareholder agreement ends uncertainty over governance issues
- Settles current dispute and provides greater certainty over use of easyJet name
- Greater freedom for easyJet to operate and generate revenue as an airline
- Royalty provides better alignment of interests
- Status quo is unsatisfactory for future management efficiency