Easyjet - MT 297829- 26th Jan-KH

Speaker key

CO Coordinator
CM Carolyn McCall
CK Chris Kennedy
NG Neil Graham
JC Jarrod Castle
PH Peter Hyde
TF Theo Fennell
TM Tim Marshall
MM Mark Manduca
AL Andrew Loggerenberg
UM Unidentified male speaker
ES Edward Saad
PB Penny Butcher

CO Good morning, ladies and gentlemen, and welcome to the Easyjet conference call. My name is Kate, and I'll be your coordinator for today's conference. For the duration of the call you will be on listen-only. However, at the end of the call, you'll have the opportunity to ask questions. If any time you need assistance, please press star zero on your telephone keypad and you'll be connected to an operator. I'll now hand you over to Carolyn McCall to begin.

CM Good morning, everyone. Thanks for joining us to discuss our interim management statement for our first quarter of 2012. With me this morning is Chris Kennedy, our CFO, and Rachel Kentleton and Tom Oliver. You should have been sent the slides along with the INS, and the slides are also available on our corporate website. I'd like to keep the presentation short this morning to give you plenty of time to ask any questions of us that you may have.

Turning to slide two, we've made an encouraging start to the new financial year. Our performance has been driven by tight capacity discipline, our strong commercial performance leading to a 7.7% in revenue indices on a constant currency basis, funds relative to cost - the cost excluding fuels falling by 1.6% - a good revenue performance driving improved margins, and a robust operational performance with strong on-time performance scores leading to improved customer satisfaction.

On-time performance is measured by the number of arrivals within 15 minutes of the scheduled arrival time continues to strengthen, with a 23% year-on-year improvement that you can see on slide three. Easyjet is now consistently delivering in the upper quartile of airlines in Europe. The improvement has been delivered through complete operational focus on OGP, combined with cross-functional cooperation across the airline, and has been embedded without layering any cost into the business.

Customer satisfaction has also seen a strong improvement increasing by 11%. For the reasons see sat is important is not just because we like making it easy for our customers, but also because there is a strong correlation with re-booking.
On-flight board, you can see that revenue this quarter was robust, with growth in seats flown, load factors, and revenue per seat: seats flown increased by 6.9%. Excluding the impact of last winter's snow disruption, capacity growth increased by 2.8%.

On slide five, you'll see more detail on our revenue. The stronger revenue performance is due to no repeat of the major disruption from weather and AGC strikes that we had in December 2010. The capacity disciplines I've mentioned before.

Investments made in capacity last year and during the first half of 2011, are beginning now to mature, particularly in Switzerland, France, and Italy. We've seen a strong performance on our domestic and international city routes, and beach routes from the UK, as weaker competitors have retrenched, and we have a strong performance in first bag revenues, speedy boarding, fees, and charges. The changes to fees and charges instigated in 2011 drove significant revenue improvements. First bag revenue has increased by 68p to £4.70 per seat; fees and charges increased by £1.24 to £5.70 per seat, following firm pricing action taken, as you will remember, to offset increased regulatory and administrative costs in the second quarter of the last year. In addition, it's worth highlighting the strength of the new advertising campaign launched in September, improvements to our website, and the launch of our mobile applications in December, which have also contributed to strong sales.

On slide six, we illustrate that we are well ahead for the remainder of the year; all positions listed are within board policy.

If you now look at slide seven, you can see from our recent trading data forward bookings are broadly in line with last year.

To conclude, on slide eight, due to strong revenue performance, Easyjet expects to recover most of their £100 million increase in its first half fuel bill, and contain first half losses to between £140 and £160 million, assuming that we have no significant disruption in the second quarter. With less than 15% of summer seats sold, it is too early to provide a more detailed guidance for the full year. The good performance in the quarter has meant we are cautiously confident in our outlook for the business. The economic environment remains weak, and Easyjet is going to be impacted by the weakening of the euro. Our affordable fares and our focus on making it easy for our customers, combines with the execution that management is delivering; ensures, I think, that Easyjet is well positioned to continue to succeed.

Thanks for listening to that, and we're very pleased now to take any questions you may have.

CO Ladies and gentlemen, if you would like to ask a question, please press seven on your telephone keypad. If you change you mind and wish to withdraw your question, please press seven again. You'll be advised when you ask your question. Your first question comes from the line of Neil Graham from Credit Suisse. Please go ahead.

NG Good morning, Caroline; everybody.

CK Hi, Neil.

NG Two questions from me, please: the first in relation to pricing. Underlying pricing trends, if you back out the bags in this card, fees seem to be about 3%, 4% constant currency in the quarter. I'm just interested in what kind of volatility you're seeing around this run-rate on a month-by-month basis, if you could give us some insight into that, please. Then my second question. Clearly Lufthansa had exited Malpensa at the end of October, and Thomas Cook has had a couple of wobbles over recent months; can you give us some insight in terms of how each of those dynamics is maybe helping revenue proceed at Malpensa and, maybe, Gatwick?

CM Yes. Let me just… I'll do your second question first, and I'll have over to Chris to talk to you about some pricing trends. First thing on Lufthansa Italia is, of course, it helps with the capacity coming out. If you just look on Italy as a market for us, we've seen good trading this quarter. City and domestics have done particularly well, and Lufthansa Italia coming out has obviously helped our yields. There has been a general slowdown in the Italian market, so actually we're doing well in spite of the slowdown, and I think of course capacity coming out of the market from Lufthansa has helped that. So that's what I would say about Malpensa. It's still quite early days, because just bear in mind that they only took capacity out in October, so we've only really had two months of that to show in Q1.

On Thomas Cook, again I think certainly very helpful for us in the UK that capacity has come out of the market from Thomas Cook, but also again bear in mind that their summer capacity is as it is, so they're already sold for the summer, so actually we're not really, I think, going to see any… It's too early, put it that way. I think we're definitely benefitting short-term; we expect to benefit going forward. The weakness in tour operators generally is certainly helpful to us.

CK And, Neil, on the ticket question, I think you're there or there about when you've factored out, I make it just over 4.5, pretty consistent across the piece, but strongest performance in Europe driven by France and on that maturing capacity which you'd expect. And really the only place that we've seen and it's still strong, that slight weakness, is UK region.

NG Great. And if we just think about how that progresses through the months, are we seeing any distinct differences between, let's say, November, December, as we move into January, or has it been more uniform?

CK It's been fairly consistent across the piece.

NG Great. Thanks, Chris.

CO Thank you. Your next question comes from the line of Jarrod Castle, from UBS. Please go ahead.

JC Good morning. Two questions, if I may? Just any further thoughts in terms of where your capacity will be flying to? Have any of the strikes, for instance, that Iberia's seeing in Spain made you maybe a bit more positive about the region, I guess, for the next quarter, and potentially also just some colour maybe for the summer, if you can give? And then, secondly, any additional thoughts on BMI now that that deal looks like it's going to go ahead?

CM Yes. On the capacity, we will put our… any of our capacity will go into areas we know we can drive return, so get high yield. So I have to say, regardless of the IAG strikes in Spain, Spain is a competitive and quite low-yielding market generally, and so that's now where we see we would be putting in more capacity. Our capacity will come from our high-yielding markets where we're maturing capacity really well at the moment, and those are really France, Switzerland, and the UK, actually Gatwick.

JC Yes, obviously, and the Lufty withdrawal in Malpensa, which I added.

CM Yes, which I've mentioned. I think on BMI, we don't yet know how that is going to play out. We expect that BA taking all the Heathrow slots, again a little bit of capacity reduction from BMI in the overall market very helpful to us, again will play into our strengthening yield. We don't yet know what it means to Gatwick, so we're monitoring that very closely.

CK And clearly also the BMI baby and what happens to that, whether it actually gets sold or closed is also another factor for us on UK domestic.

JC And sorry, just one other question, if I may? Can you just talk a little bit about ETS; what you're finding on that, having kicked off in January? Obviously we've seen Ryanair increase their surcharges related to that; Air France, Delta.

CK Well, Jarrod, it's Chris. The first thing to say is it's a relatively small… compared to 220 million of fuel, ETS is a relatively small increase year-on-year, so I can't comment on what the competitors are doing on their surcharges, but it's not a big increase in the cost bases here.

JC But do you think you could get a situation where you make some money out of it actually and you sell your credit, and you try push through the charges to customers?

CK No, we're not looking at that. We have historically had an offset scheme where customers have been able to voluntarily pay to offset their carbon, but that will fall away once we've got ETS in place.

CM And the thing about ETS, APD, etc, all the charges, I think everybody is having to look at their pricing across the market, so everybody's prices are going to inevitably go up a bit.

JC Thank you very much.

CO Your next question comes from Peter Hyde, from Liberum Capital. Please go ahead.

PH Hi. Morning. I'm just interested in a couple of things. Firstly, on unit costs. I don't know how much you can talk about the weather benefitting your unit costs versus other more; can I call them longer term things? The difference between the 2.5% and the 4%, but any help you can give us around what the lack of poor weather has had would be good, and the impact on that. Secondly, I notice you haven't – I don't think – increased your hedging in fuel for FY12, and I wondered if Chris could just give us a quick chat on that. And then finally on admin fees, exactly when is the admin fee coming in, and how is that changing your charging structure? Thanks.

CK Peter, in the IMS we've said that without disruption we're 1.6% better on cost. But if you're taking into account the lack of disruption this year that would mean a rise of 2.5%, so that's the underlying increase.

PH So the difference there is just the impact disruption, is it?

CK Absolutely, yes. If you recall, last year we had £28 million of disruption in the quarter. What I would say on cost is we are absolutely on schedule for Easyjet Lean, so the £90 million for this year is progressing well in the first quarter. We're getting a slight benefit from… In addition to the 28 million, obviously, you get a slight benefit because the crew costs… you're flying more seats, so the cost of the seat is going to go down naturally anyway. So I think that's the cost story: we are on track on cost, and Lean is working.

On the fuel hedging, we have been… we're pretty well hedged for this year. We have actually been hedging for next year at fairly good rates as and when fuel comes down around the $1,000 barrel… that's right, the $1,000 a ton mark, but the hedging for this year is going to be 3% for the full year, and we're comfortable where we are right now.

CM On the admin fee, it's already in, so we put it in on 12th January. I think just to recap on that, it's per booking, not per passenger as some other airlines do. And we've not seen any… It's very early days - it's only two weeks - so we haven't seen any effect on bookings so far by putting up the price by £1. We have also been talking to consumer bodies and to the OFT, and they've welcomed our changes, because they see them as being transparent and they're at the front of the booking funnel. So actually the fact that we're not seeing any fall-off in conversion, and the admin fee is right up there, you can't miss it when you come on to our website, is good. And it's something we've rolled out. Of course this is a network-wide thing. It's not just a UK thing. We've put this in across Europe.

PH Thanks. Just one very small clarification actually. The credit card fee is 50p, isn't it?

CM It's £2,50.

CK Minimum.

PH Sorry. £2,50 if you use a credit card.

CK Yes. No, it's 2.5% with, I think, a minimum of £4.95.

CM Yes, it is.

PH Thanks.

CO Thank you. Your next question comes from Theo Fennell, from Davy Research. Please go ahead.

TF Morning. [Unclear]. Just a question, maybe you'll talk about it next week more but just on the business side of things. Do you definitely see where you're gaining market share, and I'm just wondering how it's working with the GDS and the whole flexi fare. Maybe if you could just make a general comment? I know you'll talk about it more next week.

CM We'll talk a lot more about it.

TF And the second thing, just on forward bookings. I see you're pretty much in line with last year at 15%. Can you just remind us how you would expect to step up? Is March the peak time for bookings, and is it a steady step up? Thank you.

CM I'm going to take business, and then I'm going to ask Chris to talk about the forward bookings. On business - you will hear much more about this, you'll see a presentation on this next Tuesday – just to say what we've done in the last year is we put in all the building blocks, including a signed deal with Amadeus, which we signed in December, and it has only started in January. So we've got the sale teams; we got the products; we've got the marketing: everything that we've done… the last thing on that was the deal with GDS and directly with travel management companies. So that has all been put in place. I think what is very significant about the Amadeus deal is that they will put in a huge amount of investment in technical improvements to our booking flow, which means that when agents come to the screen, they see the same thing as they will do for other airlines, which they didn't do before. So before we were much further back on the screen, so now we make it very easy for agents to book us. So although the investment that they will take will take a year to come to full fruition, we will see some wins early on in this year. So I would say that until we unlock the value through Amadeus, and we've only just started that, you won't really see any significant progress on business. Although we are doing well, it's steady progress, it won't be significant.

Examples of recent deals we've with travel management companies, you know about the Amex deal, which is pan-European, and that is already beginning to get traction. We've just signed a deal with Flight Centre Group, which is the largest UK player, and it's the largest Amex… even though Amex is pan-European, this is only… FCM is only in the UK, it's actually a very big player. Now what we do with them is they become a preferred partner, and we're incentivizing them for high margin seats. So that's how we're implementing the business traveller strategy, and it is getting traction, but again this is the year where we will start seeing how the GDS use Easyjet, and access Easyjet.

CK And on the booking profile, it builds up nicely over the quarter, it's really only when we get to our interims around May that we've got a sufficient critical mass of bookings to get a really good read on the second half.

TF Got it. Just to follow up, you mentioned a comment about the euro… non-TL [?] Swiss franc is moving around. Are you making a certain assumption that where the currencies are now that on a reported basis maybe slightly shave off the actual translated deal number?

CK Yes. Obviously we've got euro hedging well in place at around €14 on the surplus euros. But yes, our assumption now is that we'll be around at 1.20 for the rest of the year. When we started the year we were assuming around 1.15.

TF Got it, thanks.

CK But I would say it's half [?] the cost.

TF Thanks, Chris.

CK And as you point out, so far this year the currency affected Swiss franc, so that's helping in the revenue and hurting on the cost.

CO Your next question comes from the line of Tim Marshall, from Redburn. Please go ahead.

TM Morning, everybody. I wonder if you could just answer two questions. Firstly, can you just remind me what the timing of the increase in the booking fees has been, if we look back last year, and obviously there's been the increase at the beginning of this year? And then just secondly, what level of capacity growth in the second half will be on your existing routes compared to starting up new routes?

CK So, Tim, on the booking fee, we put a small increase through in November last year of £4.95, moving up to in January of £5.50, but the big step up was May, when we moved it to the £8. In terms of an annualisation benefit, you'll get a good flow-through in Q2, but that'll rapidly tail off in Q3 and Q4. Do you want to take that, Carolyn?

CM Yes. In terms of capacity we are putting the majority of our capacity on our existing routes and sticking to frequency on key business routes. And I would say it's about 70:30 split. So we've got some new routes. We've got the Amsterdam-Glasgow to Belfast-Manchester, [unclear] and Lyon, so we've got some new routes coming through. Opening one up to Iceland, which has attracted lots of publicity, but actually, the majority are on existing routes and really building frequency on those.

TM Perfect. Thanks very much.

CO Thank you. Your next question comes from Mark Manduca, from Merrill Lynch. Please go ahead.

MM Hi, morning Carolyn, Chris, Rachel, and Tom. Actually my cost question's already been answered. In terms of something longer term, just having a think about a thematic that we'll probably touch on on Tuesday: what, Carolyn, is the potential and appetite to form J/Vs and partnerships with mainline carriers at a time when your primary hub network is obviously flourishing, and to a certain degree theirs isn't? And I guess my second point is touching on Norwegian yesterday, your thoughts on that, both at the idiosyncratic level and an industry level for the next five to ten years.

CM On J/Vs and alliances, we have been very clear that anything that would complicate or get in the way, I suppose, of us running a very straightforward point-to-point business with high efficiency and low costs therefore, is not something that we would consider. But that doesn't mean we're close-minded to someone talking to us about it, if it could be done in a very clean, straightforward way, and if it was for us revenue-enhancing and not adding to cost. So we're not close-minded about that, but it would have to be really, really quite a significant deal for us to consider it.

On Norwegian, we think it is a very, very big order. It's very brave. It's very interesting. I think it certainly makes us think we're really working out what they're doing and why they're doing it. So really it's about what does it mean for us. Does this mean they're going to try and be a pan-European player or not? So I think those are the industry connotations, which are is this really about them taking on SAS and becoming the number one in Scandinavia, which SAS is over 200 players, and maybe that's their goal, or is it that they're going to come into Europe, because they're not really a key player in mainland Europe. And that's what we're debating and discussing strategically at the moment.

MM Super. Thank you very much.

CO Thank you. Your next question come from Andrew Loggerenberg, from RBS. Please go ahead.

AL Morning, everyone. From the long-term strategic to the mundane, in terms of your revenue guidance for 2Q, you're talking about something similar to what we've just had in the first quarter, and yet the comparison data was markedly softer in the second quarter last year than the first quarter. Is there anything that we could read into that? And then, whilst I understand that you're reluctant to give material colour on the summer bookings, to the extent that we've got 15% in the bag, what are we feeling about the flavour of quality of those bookings that are in the bag at the moment?

CK Andrew, on Q2, yes, there were weaker [?] comparisons, so I think the guidance is still ones that the… biggest quarter-on-quarter falls, so it's following the pattern of last year. And all I can say is that we've really built that up from what we can see from our forward bookings and from the ancillary revenues. So yes, it is a similar pattern to last year, but that is what's coming out in the market.

On H2, 15% is just too little to draw any conclusions on. It's very early bookings. They're not representative of the overall, so we can't comment further on what it means.

CM My view on that is if it's just under 15%, it's very early days. You've got a lot of things going on in this market, including macro economic factors. We're not saying… That's our portion. We're constant that we will do everything we can, in our power, in our control, to make the summer a good summer, so it's just too early, and I think you have to wait for Q2 to get more colour on H2.

AL That's absolutely fair. Can I just ask one little add-on? You gave Tim the detail of the timing of fee increases. Can you just remind us of the timing of bag increases as well: when do we lose moment on that?

CK Yes. Bags, we introduce the three-tier pricing in February, so that's when we move from £9 flat to the £9, £10, £12,50. And then we nudge that up again in April to £9, £11, £14. So bags will start to tail off earlier than fees and charges – you'll see some tailing off in Q2 – and then it'll really start to come down in Q3. So it's about a quarter ahead of the fees and charges in terms of annualisation.

AL Lovely. Thanks very much.

CO Thank you. Your next question comes from the line of [unclear]. Please go ahead.

UM Hi there. I just want to bring it back to the costs. Given the performance in Q1, just trying to get a feel maybe in terms of the half-year it looks like it could be close to maybe just the wrong side of flash [?] for the half-year, but you can stick o the guidance for two to three for the full year. So just wondering, A, to assimilation of hedge one, would that be where it is close to break-even, or just over it, and, secondly, maybe the main drivers into the second half in terms of unit cost. And then just a second follow-on question, maybe just looking at a lot of the operational difficulties that you've deal with over the last 18 months or so very successfully, your thoughts maybe, Carolyn, or Chris, on maybe the next couple of years on the sort of trend, unit cost growth you would envisage for the business.

CK Yes. We've brought the cost guidance down from 4% to 3% for the half. We're still sticking with the 2% to 3%, simply because some of those are timing differences. Clearly if there is no further disruption, then that'll help within that range, but right now we're sticking with the full year guidance on cost.

CM And I think looking at two years, we've said very clearly that as far as cost is concerned, it really all depends on inflation, but our absolutely goal is to be really beating inflation every step of the way and keep our unit costs as low as possible. So again, that's the goal. At the moment, it's high inflation environment all the way across Europe, and so we are really nailing down a lot of the airports about handling contracts and we're re-negotiating some of those, and we will continue to do that. We expect inflation to come down. We're not banking on it.

UM And just in terms of some of the austerity concerns that are taking place across Europe, particularly in some of the peripherals, are you seeing that on the ground in terms of the Italian economy? You alluded to that area in a response, but Spain as well?

CM Well, look, I think this is double-edged in a way. I think the economies are, as you know, people in those countries are finding things very tough. We wouldn't be opening a base in Lisbon, though – talking about peripherals – if we didn't believe that there was an opportunity for Easyjet because of our price structure in terms of our low cost base. We'll operate at a much, much, much – significantly lower – cost base than TAP ever could, than as Italia etc, and the more austere things are, the more people think about affordability and value, and therefore will reappraise Easyjet. So our research would say that this is a good moment for people who don't use Easyjet in all of our markets actually, France included, to say price is an important factor; more important now than ever before in a decision to buy an air ticket. So I think it's a double-edged thing. There's obviously uncertainty around the macro environment for all companies operating, but actually Easyjet's model can benefit, I think, from that in that condition.

UM Thank you.

CO Thank you. Your next question comes from the line of Peter Hyde, from Liberum Capital. Please go ahead.

PH Hi. I just wanted to come back on the UK regions. I think you said, Chris, they were up, but I didn't know what you meant. I'm not quite sure whether you meant in terms of volume or price or total revenue. And are you seeing any differences at all across the regions, or if you could give us some clue about what you mean by up? I mean is it 1% or 5%?

CK Peter, in terms of up, I was talking about the revenue receipts [?], which is up, but less than average across the network, so draw your own conclusions. And then, Carolyn, I think can take…

CM I'll give you the colour. I think actually the UK has been particularly strong for us, and I'd say the area of softness, the only that's been a bit soft originally, has been the North-west, and our view on the North-west is really there's a combination of effects going on there. One is very, very competitive environment in Manchester, and there's quite a large public sector effect where there's a lot of wage freezes and redundancies, so the only region really that is notably not up is the North-west. City's been strong and beach has been strong, domestics have been strong. So actually we are performing well in the UK, I think. And of course, as I mentioned before, Peter, the tour operator pressure that they've been under [inaudible] more than anywhere else.

PH Yes. Obviously they've had a few more than slight problems, haven't they?

CM Yes. But we will obviously benefit from those problems, because I think the low-cost carriers ones are the ones that are destabilising the tour operator model, so all of those things are helping the UK for us.

PH Thanks.

CM Thank you. Our next question comes from the line of Edward Saad from Memoriam Security. Please go ahead.

ES Good morning, everybody. I wonder if I could ask just a basic question about your guidance on the seats flown. You're suggesting 3% growth in the first half, which would imply, if I've got my sums rights, some flat slightly down in the second quarter. A, is that right, and, B, is there some assumption and caution on disruption within that guidance?

CK You're right. It is. It does seem flattish for Q2 within that; that's assuming no significant disruption. Yes, it'll come down if there's big disruption.

CO And a final reminder, please press seven if you'd like to ask a question. Your next question comes from the line of Susan Todd, from Morgan Stanley. Please go ahead.

PB Hi there. It's actually Penny Butcher. I have just one question to follow up with regard to costs. Carolyn, are you able to give us an update? I believe you mentioned in the November results that you were just beginning the engagement with the Union group, BALPA in particular. Could you give an update on where those negotiations are heading, and what your expectations are for the potential increases?

CM I can't give you any expectation for increases. We'll have budgeted for all of this, so there'll be no surprises in terms of what we're anticipating, so that's the first point, which is that we will be very firm in our containment of that. It would be true to say that we are coming to the end of our discussion with BALPA. It’s been six months where we’ve been working on a pay and lifestyle deal, which is much, much more complicated than a straightforward pay deal, believe it nor not, and I’m not sure it’s going to go through. I don’t know at the moment. It’s out there. We’ve taken a very different approach. We’re giving the detail to the pilots, because it is complicated changing the roster patterns, and we will have to re-group and see whether it… We have said that we cannot change now the structure of this deal, so we’re right at the end of the negotiation. The important thing to you is that I think our pilots are… I don’t think they’ll be disengaged about this. I mean they might be frustrated, and they might be annoyed that it hasn’t come off, but it is up to them whether they want to help fund this change to the roster pattern. So I think yes, it’s still being discussed.

PB Are you able to give any guidance, though, on what you have budgeted for?

CM No, not really, because it’s part of an overall view in budget.

PB Thank you.

CO There are no more questions coming through from the phones.

CM Thanks very much, and see you all on Tuesday. Bye for now.

CO Thank you for joining today’s call. You may now replace your handsets.