easyJet

Q3 Results Presentation

24th July 2014

Carolyn McCall
CEO

Good morning, everybody. Thank you for joining us to discuss our IMF for the third quarter of 2013/2014. Joining me in the room is Chris Kennedy, Rachel Kentleton, Will MacLaren and you know all of them. You should have been sent the slides along with the statement, with the slides also being available on our corporate website. As usual, Chris and I will review the Q3 results. This will then be followed up with plenty of time to ask questions.

So, just if you turn to slide 2, our revenue performance for the quarter was in line with expectations. We delivered revenue per seat growth at 2.7% at constant currency. We have delivered a better than expected performance on cost. Today we are upgrading our cost guidance for the second half of this year and we remain uniquely positioned to drive further cost improvements. Our focus on driving revenue per seat and maintaining our cost advantage means that our rolling 12-month ROCE continues to improve. On to slide three

There's been a lot of focus from you all on capacity, so let me provide a bit more detail on where easyJet is deploying capacity this summer. The key point is that we continue to strengthen our position at primary airports across our network. Around 50% of our second half capacity increase is at Gatwick, driven by the purchase of the Flybe slots and some additional slots allocated to easyJet by Gatwick Airport shortly after. Hamburg, Basel, Geneva, Naples, Nice and Fiumicino, Rome are the other main drivers of our summer capacity increase. We also opened our new base in Hamburg in March this year and it is performing well.

Turning to slide 4, at Gatwick we have made a step change as a result of the opportunity presented by Flybe's exit and the additional slots allocated by the airport. easyJet is increasing seats flown by around one point two million at Gatwick this summer, which is an increase of around 15%. The investment in the Flybe slots reinforces our leading position at Gatwick and provides the platform to continue to drive sustainable growth and return to our largest single base. However, as we told you at the half year results in May, in the short term this has impacted revenue, which we are confident will reverse from 2015 onwards because of the following reasons.

Number one, some of the routes will take time to mature; number two, some of the sector lengths being flown this summer are shorter at Gatwick. This has driven a revenue per seat dilution but we get a corresponding reduction in cost per seat; and, number three, the usage of the slot portfolio this season was sub-optimal due to the short lead times required to deploy capacity. We will have the opportunity to reallocate around 40% of the slot portfolio to more optimal routes over the next few months. As part of this step change at Gatwick we have signed a seven-year deal, as you all know, with the airport and the deal underpins our future at Gatwick and the move to the single terminal operation which will deliver increased operational efficiencies and a much improved customer experience.

On to slide five now. Let's look at revenue performance in more detail. We are experiencing short-term yield pressure at Gatwick due to our significant investment in capacity at the airport and it's important to stress that it's our capacity investment. This has resulted in a decline in revenue per seat at that airport this summer. However, at Network Points where we haven't increased capacity to the same extent, performance in the quarter was good. The UK, excluding Gatwick, and the Rest of Europe, including Rome Fiumicino, have both delivered growth in revenue per seat in the quarter.

Chris will now take you through the financial results for the quarter, moving to slide 6.

Chris Kennedy
CFO

Thanks, Carolyn. Overall, the revenue performance in the quarter was in line with expectations. Load factor in the quarter was strong at 90.4%, which is an increase of 2.2 percentage points and, as we said at the half-year results in May we have been building load early in anticipation of a less benign capacity environment. Total revenue for the quarter increased by 9.7% at constant currency and at 8.6% at reported to £1.240 billion. Revenue per seat grew by 2.7% on a constant currency basis and 1.7% on a reported basis to £62.47. That increase was driven by the movement in Easter in the second quarter of the financial year. In the third quarter the strong increase in the load factor and the continued rollout of digital, brand and revenue initiatives. Now to slide 7

Moving onto cost which, as Carolyn has already mentioned was better than expected. Cost per seat excluding fuel increased by 1% at constant currency and decreased by 1.3% on a reported basis, which is ahead of the guidance we gave and demonstrates our continued strong focus on cost control. In the quarter we drove costs lower through, o	Ground Handling costs coming down with agreed deals at a number of airports across Europe starting to produce benefits. These cost efficiencies will be a recurring benefit]. We had a decrease in disruption costs, with actions such as pre-emptive cancellations helping to control costs as we are now better at managing disruptions. And lower de-icing costs coming from milder weather over the quarter helped as well and, as a reminder, we were still de-icing in some parts of the network in May and June last year. The main increases were as expected. Increases in regulated airport charges, mainly in Italy, and higher maintenance costs due to planned ageing of the fleet and the increase of leased aircraft in the fleet. Now turning to slide 8 and I’ll hand back to Carolyn

Carolyn McCall

I think it's clear to us all that the capacity environment is less benign than it was last year and we said that all the way through this year. We're clear also that the fundamentals have not changed. Customers remain focussed on affordable fares and convenience. easyJet is really well placed for this environment. We have a pipeline of revenue and cost initiatives to maintain our structural advantage. I look forward to outlining some of these initiatives in far more detail at our Capital Markets Day in September. I just want to give you a sense today of what we're doing.

On customer, we continue to see opportunities in CRM, digital and data to enhance the customer offering to drive margins. A recent example is our innovative i-beacons trial at a number of airports. These strategically-placed beacons trigger helpful notification to passengers mobiles during critical points of the airport journey. On cost we have a number of initiatives which will deliver sustainable cost savings from today through to 2019. easyJet will continue to deliver sustainable cost savings. We have a pipeline of initiatives until 2018 and actually even beyond that. This year Lean has delivered £20 million to date of sustainable savings. It'll be about £32 million for the year. We are uniquely positioned relative to competition with regards to the cost per seat savings which the up-gauging of our fleet will deliver.

Last week we announced CSM as the supplier of engines for our future current generation and new generation aircraft. These will deliver significant cost savings from today until 2022 and beyond. 95% of our E&M, our Engineering and Maintenance, contracts are up for re-tender in 2015. We anticipate further cost savings from this process. We'll keep you up-to-date with that. We'll particularly go into detail at Capital Markets Day. We have a strong balance sheet which enables us to compete effectively, a low level of gearing and we're well-positioned to continue to deliver returns in future. Fundamental to our success, as you know, is the strong number one and two network positions in core markets, which take a long time to build. Over the past four years we've invested in these markets and driven continued improvements in our market share at primary airports.

Just let me give you one example of our recent programme of investment in our network. If you look at slide 9, you'll be familiar with the pie chart on the left-hand side, emphasising the scale of the opportunity at our existing top 20 airports for easyJet to grow within its core markets over the next three to four years. Last week we announced two new base openings at existing network points, Porto and Amsterdam. Our new Schiphol base is planned to open in spring 2015 with three based aircraft. We currently have the number two position at that airport with a 9% market share. It compares to the number one carrier with a 58% market share.

Amsterdam is consistent with our primary airport strategy. We already fly 20 routes which touch Schiphol. Our new base at Porto will also open in the spring and two aircraft will initially be based there. We have an existing presence there already with six routes touching the airport. The base will provide us with additional network flexibility. We see many more similar opportunities over the next three to four years.

Turning to slide 10, you can see from this slide how our continued investment in the network has contributed to improvements in return year after year. Over the last three years these returns have been achieved while easyJet has continue to invest in network and whilst capacity in the European short haul market has been steadily growing.

Slide 11 and back to Chris.

Chris Kennedy

Overall, as expected, forward bookings are ahead of prior year and we are now 77% sold for the half versus 75% at this time last year. As we told you in May at the time of our half year results, we have been focusing on building our load factor earlier to respond to the competitive situation. We have continued to do this, delivering a strong load factor performance in the third quarter.

Turning to slide twelve and moving on to the details of our hedging position for fuel, US dollar and Euro. We now have 83% of our remaining H2 2014 fuel requirement hedged at $968 a tonne and 80% of full year requirement at $980 a tonne. We continue our policy of using hedging to smooth the impact on cash flow by changes in fuel and foreign exchange rates. Taking into account the hedges currently in place, a $10 movement in the fuel price, impacts PBT by $1.0 million, a one cent movement dollar rate impacts by £0.2 million, and a one cent movement in Euro by £0.2 million.

Turning now to the outlook I won't read the paragraph in the statement verbatim but in summary. easyJet's capacity in the second half of the financial year is expected to grow by 6.4% year-on-year, assuming normal levels of disruption. Revenue per seat at constant currency in the second half is expected to increase by around 1% compared to the second half of the prior year, again assuming normal levels of disruption. As a result of easyJet lean initiatives cost per seat ex fuel at constant currency is expected to increase by 0.5% in the second half of the year, again assuming no further significant disruption, and that compares to the around 2% increase guided to in May 2014. As a result easyJet expects to grow profit before tax from £478 million for last year to a range of £545 million to £570 million for the year to 30 September 2014. This range includes the impact from the situations in Israel, Egypt and Moscow. I'll now hand back to Carolyn to conclude.

Carolyn McCall

So, to summarise, we delivered a solid performance in the quarter despite the increase in capacity and our significant capacity investment at Gatwick; we outperformed on cost; we've upgraded our cost guidance for the year; and our strategy of continued discipline growth together with a focus on cost and customer experience means that we are well-placed to succeed in a market which less benign year on year and delivers sustainable growth and returns.

Before I take questions, can I just remind you of upcoming events? Thursday, 18 September, Capital Markets Day here at Nomura. I look forward to seeing many of you there. We will then release our pre-close statement for the financial year on Friday, 3 October, and our full-year results will be on 18 November.