

TRANSCRIPT

Flyr Q3 2022 Results

3 November 2022

Introduction

Tonje Wikstrøm Frislid, CEO:

Welcome to us and welcome to the presentation of our Q3 report. We are happy to see you here at our place! I am here with our CFO Brede Huser to go through our quarterly numbers, and then I will give some insights into where we are now and where we are headed going forward.

Highlights

Tonje Wikstrøm Frislid, CEO:

We will start with the highlights of the quarter, and despite macroeconomic headwinds, we have just finished a strong quarter from an operational point of view. We had 667,000 guests who choose to fly with us, an increase of 40% from the second quarter. We had a load factor of 80%, and you also know now that we continued the good trend in October, with a load factor of 81.3%.

Our on-time performance and operations were good, high regularity over a summer that was demanding, especially the month of July. 95% of our flights had delays of less than hour, which is excellent. Our level of costs is also very good. We have had a goal of achieving 36 full-time employees per airplane, and we have achieved that, one year ahead of schedule. We continue to provide good service to our guests, and we are getting good feedback from those who travel with us. We have become the favourite airline of Norwegians for holiday and recreational travel, which we are proud of. We also see good, stable demand for our routes to places like Barcelona, Alicante, Malaga, typical holiday destinations.

In the quarter we also got two more "Max" (737-8) airplanes, and we are happy that they are more fuel efficient than older aircraft. And even though we are clearly moving in the right direction, the macroeconomic environment is demanding, where most people are impacted by higher prices for everything from electricity and food to interest rates and fuel.

So today we are reporting an operating profit for the quarter of minus NOK 232 million. This is partly due to external factors, such as the weak krone and high oil prices, and partly because we have focused on domestic travel, but have used too long in becoming available through the travel agents. We know that is an important sales channel for business travellers. So it was with a heavy heart that we initiated on 4 October, demanding but necessary measures, including layoffs and reduced production. We see that it was necessary, because we notice that these measures are starting to have an impact. Later in the presentation, we will come back to the road ahead for us.

And I am sure that there are certainly many of you here who heard the announcement this morning that we will be having a share offering. Based on the work that our financial advisors have done, and the response from the investor meetings we have held the last weeks, we believe it is realistic to raise NOK 430 million in a private placement and NOK 100 million in a repair rights issue. That will give us a good enough buffer to make it through the winter, so we are in a good position in the spring and the

summer. The so-called bookbuilding process starts today and will last until Tuesday. We have wanted to allow all existing shareholders to participate, at the same time it gives us and our advisors enough time to hold more investor meetings.

The issue price was set low to indicate that this represents a restart, and to ensure that the money gets raised in the currently highly demanding capital markets. We will answer questions about the private placement when we finish the Q3 presentation. With that, I give the word to Brede to go through the numbers.

Financials

Brede Huser, CFO:

Thank you, Tonje. Let us look at the numbers for Q3. On an overall basis, we see a positive trend in many areas in Q3. Revenues increased by 84% compared to the previous quarter, and that is, of course, because we have increased production, but also because we increased the load factor and yield. We also experienced a nice increase in ancillary income per guest, and we expect that it will also increase in the future because of the shift in our focus to more holiday and leisure travel to southern Europe.

Looking at costs, we also see a good development, although we see some increase in wage costs, or rather unit labour costs because planes 11 and 12 came in about a month or two late making it hard to achieve optimal planning for those planes. We also see a lower unit cost for fuel, due to fuel prices coming somewhat down from the record high levels we saw in the middle of the summer.

The weak krone contributes in the opposite direction, and the US dollar has strengthened considerably against the Norwegian krone. Net financial items are largely a non-cash, unrealized loss tied to exchange rates on our leasing obligations, due to the weakness of the Norwegian krone. For the quarter, the impact was more than NOK 200 million. So far this year, the impact is about NOK 330 million. Now in October, it has gone in the opposite direction, so that loss has been reduced by over NOK 100 million. So the fluctuations are big, depending on the movements in the US dollar and the Norwegian krone.

We have a positive development and momentum which continued in October. If you look at the load factor, we delivered 81.3% in October, which we think is very good. And we see that we fill the international flights very well, with an 87% load factor. In domestic traffic, the trend is positive compared to previous months, where we are now at 64%, compared to 54% in September.

We see that our unit costs have had a good trend since our production started to grow last winter, through the spring and summer. We saw in July, when we had stable production with ten aircraft, that our unit costs ex-fuel declined to NOK 0.36, and with only ten planes, which is at the same level as Norwegian had the same month with a fleet just below 70 planes. So we are very competitive when it comes to costs, but on a small scale.

When it comes to regularity and punctuality, we continue to deliver high regularity, with 99.2% regularity in October and continual improvements in punctuality, with 85% in October and over 95% within an hour. So, overall we have demonstrated that we don't need 100 aircraft and a large scale to drive a cost-effective, reliable operation. We achieve that just fine with a fleet of ten or more aircraft. And part of our secret is that we are very effective on the employee side. We currently have 36 employees per aircraft, which is our long-term goal, and as Tonje mentioned, we achieved that one year ahead of schedule. And

that is nearly best in class for Europe. I think Ryanair is at 38, Wizz has 39 and the last figure I saw for Norwegian was just over 50 employees per aircraft.

Cash flow in the period was a negative NOK 153 million which gave us NOK 154 million in cash at the end of the quarter. And now, as you all know, we are strengthening our balance sheet by the ongoing private placement.

We continue to have a completely legacy-free balance sheet, no hidden surprises. Our leasing liabilities are about NOK 2.3 billion at the end of the quarter, with liabilities increasing by NOK 650 million from Q2 to Q3, due to the new "Max" aircraft we received, one at the end of July, and one at the end of August. And then it has increased from the unrealized foreign exchange impact, which was over NOK 200 million. Reducing liabilities a bit is that we made a principal payment of NOK 33 million on our leasing obligations.

Our equity is negative at NOK 450 million, and that includes the unrealized non-cash loss of NOK 330 million. And, as mentioned, that loss declined by over NOK 100 million in October. In addition, it is worth mentioning that we have surplus values in our aircraft leases. Our leases are about 20% below market prices, so the surplus values are significant there, and we have our own-developed software and brand, and we have a tax loss carry forward.

And now Tonje will tell us a little about our business plans going forward.

Revised business plan

Tonje Wikstrøm Frislid, CEO:

We started in a market that was very unpredictable and we have made some mistakes during that period. We expect that the market going forward may also be unpredictable, so we are going to make some changes in our model to make us less vulnerable in this market. At the same time, we shall maintain the good product that we have, and not least, the good service we have become known for.

The flexible model we have means that we can quickly change production, so we can solely concentrate on the routes and services we have been successful with, We need more time with the domestic market and business travellers. We have to approach things opportunistically, so we can quickly establish routes when we see that demand comes. As of today, we have become available to more business customers in the portal of the travel agent Berg-Hansen, and when this has its full ramp-up, we expect demand in the business segment to improve.

In the meantime, we have full focus on the holiday and leisure market, where we have succeeded very well so far, especially to Mediterranean destinations. In addition, in the low season, we will increasingly offer charter flights and wet leases. We will prioritize that going forward, so we can achieve the full benefits of the demand that we know exists, but this is a process which has a longer planning horizon, so it will take time before we see the full effect of this. The full effect will not appear before next winter.

This wasn't part of the original plan, but we know that both Airbus and Boeing are struggling with delays in their plane deliveries, and the hot topic at Routes World 2022 travel conference in Las Vegas a few weeks ago was that the industry needs people and planes. That's just what we have, and that's what we know. That's where we will make our money in the future.

We are already seeing now daily inquiries about those kind of routes, which we are also offering on an ad hoc basis.

And the cost diagrams that Brede showed, illustrate that we have costs at the elite level, at the top of the elite level, at the same time as we are able to deliver a very good product, far better than many of our competitors. And the feedback we get from people who travel with us is overwhelmingly positive. That is because of our ability, derived not only from our technology, of knowing who the customers are and can put them in the centre, and give them what they want. They obviously haven't been spoiled in this industry by the service, where getting a glass of water, coffee and a smile can make guests very happy. Perhaps the most important reason we score as high as we do in customer surveys and win the prizes we win, is that we have engaged, motivated and, not least, competent colleagues in Flyr.

Everyone in the company, regardless of level or position, is passionate about the airline industry, and passionate about giving the customer a good experience. Some of that is because we take care of our employees, and said from the start that we are building this company together. The good cooperation we also have with the labour union, means that we in Flyr don't live with the same risk of a strike as the rest of the airline industry, and we see as well that when people enjoy their job, fewer are on sick leave. We have a much lower sickness absence rate than our competitors.

We know also that there are few sectors that have suffered so much during the Covid-19 pandemic as the tourist industry. Many airlines, hotels and restaurants are struggling to attract skilled employees. We don't have that problem at Flyr. At our previous cabin class, we had over 400 applicants for 40 places, and many of those who applied had flown with us and felt this seemed like a good place to work and wanted to work here. That says a lot about the good job that our cabin crews do.

We see that as well now where over half of our employees are laid off; everyone wants to do the best for Flyr, and the volunteer spirit we see here is truly enormous. We know that this is an industry where there is a fight for expertise, but Flyr is one of the few airlines that people really want to work for. We have not had challenges on the recruitment side.

This has also contributed to Flyr establishing itself in record time as a brand name and a company that people like, and more and more are discovering us. We see that in our own traffic figures, and we also see that in the monthly brand surveys we do. Things are continually moving in the right direction, even though things have moved slowly at times. We have said from the very start that this industry needs innovation, and we in Flyr have taken a leading position there. It takes time to change people's habits but awareness about us is increasing every month, which we see leads to increased sales and higher prices.

That we who have been flying for just over a year are now approaching the same level of recognition as companies that have operated for several decades is something that we are very proud of. We thought we would use more time, but it is obvious that we aren't the only one who believes that this industry needs an innovative actor.

Brede, will you say something about the numbers behind our plans?

Revised business plan, financial numbers

Brede Huser, CFO:

Let's look at our business plan going forward. We have, as explained earlier, revised our production, reduced mid-week domestic flights, kept some domestic traffic around the weekends where the potential is large for the holiday and leisure segment, and focused significantly on the holiday and leisure segment in southern Europe where we have been very successful.

Our business plan assumes a load factor in our targeted routes in line with what we have observed the past five months for the same routes, adjusted for seasonal factors going forward, naturally. If you look at the routes to Spain, we have established a steady, high load factor between 80 and 90%. So the planes to Spain, whether coming from Oslo, Bergen or Trondheim, are well filled. For large cities in Europe, we are running between 75 and 90%, and we have also established ourselves there at a steady, high level that is sustainable for our business plans in the future.

Our domestic load factor was 64% in October, and keep in mind there when looking at the past three months, that we had a strong increase in production after the summer. Going forward, we will for all purposes be flying on Fridays and Sundays where we have historically achieved a load factor between 75% and 85%. Monday, Tuesday, Wednesday and Thursday are the days we have struggled with in the domestic market. And we have to remember as well that the load factor in the historic period has been significantly negatively influenced by all the new capacity we added to the market, and it takes time for new capacity to be absorbed.

But, as we said, we see now that we have established ourselves at a stable, high load factor on the routes where we will continue to fly.

If we look at prices, our business plan again is based on what we have achieved the last five months. That is the basis for the plan going forward, but once again adjusted for seasonality, since January's price is lower than July's. Spanish routes have stable, high prices, from NOK 1,150 and upwards the past five months. Large cities are between NOK 750 and NOK 1,200, depending on the destination. Domestically, we have average prices of NOK 450. And, once again, here we will just be flying on Fridays and Sundays, and the historic numbers here are coloured by much mid-week production.

And, as with the load factor, prices have been influenced by us introducing significant capacity to the market. As a new actor during the spring and summer, we have actively used prices. But now, after the summer, we see that we are stabilizing at a significantly better level than we were at before the summer, and where we were when we went from two planes in January to ten planes in June.

Conclusion

Tonje Wikstrøm Frislid, CEO:

So, going forward, we will concentrate on offering routes to the travel destinations where we have been successful so far, and we will have an opportunistic approach when it comes to reopening domestic routes in Norway. We will exploit the market opportunities in charter and wet lease flights, especially in the low season when we have more available capacity. And, not least, we will continue to take care of

our colleagues during the winter, both those who are here and working hard, but especially those who are laid off. Together we will prepare for a spring and summer with full production.

We will also continue to take care of our guests and continue to deliver a service and a product that enthruses. We shall maintain the industry-leading cost level we have and the competitive model, and with the plans we have made, with a considerably strengthened financial position, we expect to achieve a breakeven point for cash flow during 2023 and start making profits in 2024.

There is no doubt that the customers love us and with this platform, we also believe conditions are right so that investors will start to do the same. So, thank you, and we are opening up for questions, first here, and from the web afterwards, if needed.

(pause)

Was there anything?

Ole Martin Westgaard, DNB:

This was a quiet group of people. Could you please explain what the significant movements were in working capital during the quarter? For instance, the NOK 159 million in receivables, and the NOK 108 million in current liabilities. What should we expect for working capital movements going forward?

Brede Huser, CFO:

We expect no significant changes going forward in working capital. Working capital is somewhat affected by growth at the start of the quarter, and a reduction exiting the quarter.

Ole Martin Westgaard, DNB:

A follow-up question. You have a negative book equity of NOK 450 million at the end of the quarter, and you are aiming to raise NOK 430 million. Are you aiming to run the business with negative book equity and what are your expectations for losses in Q4 and the next twelve months.

Brede Huser, CFO:

As we mentioned, we have an opposite effect in October, where we have over NOK 100 million in positive impact from foreign exchange movements, and we always follow the Norwegian Companies Act's provisions on responsible equity and liquidity, including an evaluation of the real equity in the company.

Kenneth Sivertsen, Pareto:

The CFO says that the company has shown that Flyr does not need scale to be competitive, but cash burn indicates something quite different. What can change during the winter that reduces cash burn?

Brede Huser, CFO:

What I said was that we don't need large scale to produce and to be very competitive on costs. We are able to produce with the same unit costs using ten planes that others achieve with seventy or eighty. We need to work on our top line. As you see, we have a very positive development and have had it since the summer. We have established ourselves at a higher level on many popular routes.

Our challenge has been domestic production, and especially the increase we made in middle of August, where we shifted the programme from mid-summer to autumn, where we shifted capacity from holidays to domestic, adding 5-6 daily departures to cities in southern Norway without having the travel agent distribution set up. In addition, the economy moved against us. That has been our problem. We see from the one slide showing average domestic prices and load factors on weekdays, where you see a clear difference between Monday, Tuesday and Wednesday compared to weekends. We have gotten a very good handle on the holiday market, which we will focus on going forward, as Tonje said, and have an opportunistic approach to increase domestic production going forward.

And, as we also mentioned, today we are fully available at Berg-Hansen. That is what we should have had on the distribution side six months ago, but we have been delayed there.

Moderator

We have no further questions from the web, so we shift to 1-1 questions from the participants in person here at Nedre Vollgate.

Tonje Wikstrøm Frislid, CEO:

Thanks. Thank you for your attendance.