

TRANSCRIPT

Flyr Q1 2022 Results

25 May 2022

Introduction

Tonje Wikstrøm Frislid, CEO:

Hi and welcome to our Q1 presentation! It is nice to see that many of you have found your way to these new premises. We plan to go quickly through the quarter, how our operations are doing, and our product development before Brede will go through financials.

Highlights

Tonje Wikstrøm Frislid, CEO:

We have been through a winter now which has been relatively challenging, but at the same time we have built an airline in record time, and also an airline we have wanted to build, which is super efficient, with high efficiency with few airplanes. We have now built an extensive network, covering a large part of the market we want to target. We see we are headed into summer with very many good bookings. We have established a loyalty programme, which I will briefly describe, and we are getting our new planes which, of course, will help us greatly in these times of high fuel prices.

We see that our sales have increased substantially recently after a bumpy ride in the winter with both Omicron and war having had a big effect. And now we see towards summer that things are pointing up again. We had a couple of dips here, which were Easter and 17 May, I presume, but other than that, all the arrows are pointing up. We also see that we are satisfied with the gap here between revenue and tickets sold, as yields are starting to rise.

When it comes to rising sales, we see that we have some unrealized potential, among other things, our distribution isn't set up yet. We are working on that – there are many advantages to having new systems, by being first and in the lead there, but it takes more time to get everything running. We hope that distribution will be up and running by summer, and that will also have an impact on our sales going forward.

We are a new player, and that takes time. We have said all along that it takes time to build up a brand, we are in a sector with several strong competitors with known brands, but we are beginning to build up the company slowly but steadily. We have now established a big network which our customers are clearly satisfied with. We are getting a lot of positive feedback, not least that they are starting to book with us. We are starting to get a brand that is more and more recognized by the general public, more and more have tried us and are fortunately very satisfied. And we also see that someone hard to get, the young consumers (*age 18-29*), identify us as a strong brand. One thing is that we perform well on customer service, but it is also because we are offering a simple, modern booking and trip which is attractive for young customers which we believe creates a simpler trip with us than with many competitors.

In addition, we have gotten many questions about the loyalty programme, and we launched it one to two months ago, and it has been a very big success. We have made things simple for ourselves, simple for the customers by immediate feedback, by awarding earnings on a punch card as soon as they start using the loyalty programme. It is good for us, not least, because many want to recruit friends. This has been, without a doubt, positive, and we have over 120 000 Flyr+ customers today, and we are getting over 2 000 new members every day. So this has been an enormous success for us.

We have also said that we will be low cost, be super effective, but also one of the most important things is to take care of our employees and customers at the same time. Therefore are we very proud to show this picture, with the very positive feedback we are getting from customers (*slide 9*). We have a very good product, especially with the empty seat in the middle, which some groups of customers want, but also be being easy to access, our employees are in Norway, answering you when you need help, and our booking is simple. Even though we are a completely new airline, we have already received two awards, one called HSMAI, which is for the service sector, and not least, we have received this customer service prize, where you see our score. We came in second place for personal transportation, far ahead of our airline competitors. So that is good, and we will keep it up as we head into a summer with increased traffic, many passengers, taking excellent care of those who choose to fly with us, not least our many customers, since we have already achieved over 1 million bookings. There are already very many customers who want to try Flyr. That will be great!

So Brede, if you will review our financial numbers?

Financials

Brede Huser, CFO:

Before I jump straight into financials, I will first point out the potential that lies in distribution. We will very soon get our travel agency distribution running and as of today we have sold about 95% of all sales through our own websites or our app. When all our distribution channels are up and running, we expect that the share of external channels will be 15-20%. And, in addition, last week we were informed that we had been awarded contracts with the Norwegian Agency for Public and Financial Management (DFØ) for public sector flights on all 19 routes we applied for. Those are non-exclusive contracts, so others have contracts on the same routes, but now we are there, too. That will also contribute positively from the autumn.

If we look at the traffic numbers in Q1, they were strongly influenced by Omicron and heavily impacted by restrictions announced by the authorities, so January was more or less closed. We parked as much capacity as we could then and flew with 2.5 airplanes and ran at an absolute minimum. We continued like that in February but started to slowly increase in the second week of February, increasing ahead of winter vacation, and continued to increase in March. So our traffic figures were heavily influenced by those factors.

We see that we have an increasing load factor from Q1 into April, with April being influenced by Easter vacation, of course. That increases both yield and some traffic numbers. We had a load factor of 58% in Q1, 62% in April, and, not least, we are starting to become very efficient if you look at full-time employees. At the end of Q1, we had 39 full-time employees per plane, and we finished April with 36 full-time employees per plane. So we are already at our long-term goals and we are where we are supposed to be. And that contributes significantly to our level of costs.

If you look at our results in the first quarter, they were strongly affected by Omicron and the restrictions announced by government authorities. Our Q1 revenue was NOK 82 million – in April we had more revenue than in the whole first quarter. Our pre-tax earnings were a negative NOK 211 million and that result reflects us reducing our production to a minimum and cutting our variable costs as much as we could, while at the same time building for the summer and peak season.

We exited Q1 with 8 planes in operation and the ninth plane entered operations at the end of April, followed by the tenth in the very beginning of May. So as of today, we have ten planes in operation. Two more will be arriving during the summer.

Regarding cash, positive cash flow of NOK 62 million in the quarter which was of course due to the rights issue we had in January. Net of the rights issue, cash flow was minus NOK 180 million. I'll leave it there for cash flow.

The balance sheet is still a totally legacy free balance sheet, no interest-bearing debt, all long-term debt is related to leasing liabilities. Ticket liabilities were NOK 241 million at the end of Q1 and continue to rise strongly. And we have, of course, held a private placement share issue now, a couple weeks ago. That was to re-establish the financial buffer after Omicron and the war in Ukraine, and we wanted to take advantage of the positive share price development and simultaneously use the positive sales momentum we have had to raise capital. The volatility we have seen in the foreign exchange market and the oil market also affected the timing of this. We are pleased that we raised money, but we are not pleased the way it ended. There will also be a potential repair issue, which of course depends on the share price development going forward.

When it comes to costs, we have a unit cost which is very competitive with a fleet consisting of 12 aircraft. When we reach a fleet of 16 planes or more, we will be even more competitive. Looking forward to the second half, with 12 planes in operation, we are guiding for CASK (*Costs per Available Seat Km*) ex-fuel as low as NOK 0.41, and we believe that is very efficient with such a small fleet of aircraft. In the second half of 2023, if we increase to somewhere in the range of 16-20 planes, we will creep below NOK 0.40. So we still believe that our CASK ex-fuel and our cost efficiency are very, very good.

And of course, sector length has much to say for unit costs. For the second half, we have a sector length of 1 042 kilometres, which is rather short compared to others. If you look at July this year, when there is a lot of vacation traffic to the south, we have a sector length of 1 234 kilometres, and that brings our CASK ex-fuel down to NOK 0.35. So we are very, very pleased with the level of costs we have been able to achieve.

When it comes to full-time employees per aircraft, our long-term goal is 36, and our short-term goal is 38. We expect to reach 38 by the end of the year. Regarding our fleet, at the end of 2022 we will be at 12 planes. We have exercised our call option for four additional planes for next year, so by the end of 2023 we will as a minimum have 16 aircraft. Our guidance is 16-20 planes at the end of 2023. The four planes being delivered next year have production dates indicating delivery from May to July next year, so the timing is very favourable for that increase in capacity.

We see that we have substantial fuel savings and CO₂ emissions and not least costs by operating 737-8 aircraft. In its marketing materials, Boeing points to 14% fuel savings, whereas we see more than that, between 15 and 20%, depending on route and weight. If you use 15% and a fuel price of USD 1350/ton and a NOK/USD exchange rate of 9, then we save NOK 1.5 million/month in fuel costs. In a fleet of 12

aircraft, of which half are “Max” (737-8), we save NOK 9 million a month. The annualized impact of that is NOK 115 million. If we increase to a fleet of 10 planes, we save NOK 200 million a year in fuel, compared to a pure NG fleet. We also had very good timing with our order, and we see now that we have a very, very good agreement with a considerable excess value in the leasing contract we have for 10 planes for a 9-year period.

Then I will give the word back to Tonje.

Conclusion

Tonje Wikstrøm Frislid, CEO:

Thank you. To conclude briefly, we have been through a relatively demanding winter, building a new airline in record time, and not just any company, but one that is basically extremely efficient, and, in addition, we are doing it here, in Norway, we are taking care of our employees, who are employed directly in the company, which has had a great impact on customer service, in how we meet our customers and guests in our planes. Now that we have sold over 1 million tickets, or booked seats going forward, we are so happy about that, and we will see many new passengers during the summer period and we will make sure that we serve them just as well so that they return to us, just like our existing customers say they are planning to do. That was more or less it, remember what we said about our costs, we are competitive with 10-12 planes when it comes to CASK. That means the growth we see going forward is only demand-driven, rather than requiring more aircraft to enter service in order to lower costs.

That means we can focus on ourselves, our daily business, operationalize it, do well, with on-time and safe operations, at the same time as we take care of the most important thing, which is our guests.

Brede Huser, CFO:

That’s a very strong argument. And when we arrive at 16-20 planes, in that range, and come below NOK 0.40/km, we are where we are supposed to be. We won’t have to grow more to be cost-competitive then. So we have no plans to expand into any unprofitable secondary markets, we will stay in what we call the profitable, Norwegian market.

Tonje Wikstrøm Frislid, CEO:

Thank you. That is what we had so far, now we are open for questions.

Q&A

Question from audience:

Is it possible with individual interviews afterwards?

Tonje Wikstrøm Frislid, CEO:

Yes.

Hans-Jørgen Elnæs, Winair

Thank you for your presentation. I have three questions for you. You were very focused on your aircraft being low cost when you exclude fuel, which indeed you do have, and the goal of NOK 0.40 ex-fuel is on par with what Norwegian aims for, so you could say that competition there is even if you succeed in your goals. But now you have guided for both yield and CASK in April and you have significantly increased your capacity from March to April, but we haven't been seen any indications of how that impacts CASK including fuel. Can you give any idea of how we are doing there?

And then about holdbacks. The credit car companies keep 100% of the sales until one day after the passenger has travelled. Do you expect this to continue going forward, see any change in this, or do you see a light at the end of the tunnel in that respect?

And, finally, when it comes to summer, many airlines struggle with operational issues related to their schedules, with a shortage of pilots, and employees, especially cabin employees. Can you delve into that, how your planes are set up for the summer schedule?

Tonje Wikstrøm Frislid, CEO:

I can take the operational questions and start there. Our set-up is good since we started at a time when recruitment was easy, and fortunately we have delivered well relative to what we promised, also relative to employees, its almost getting better and better, because we are getting positive recommendations. So when it comes to the number of employees, we have enough, and not least, talented employees so that we can perform well.

When it comes to increasing capacity, that is something we do as summer approaches, and it takes time to raise the passenger numbers. We aren't satisfied with where we are now, we will increase further. But don't forget that we are new, and when we in addition increase capacity, we would have almost expected yield to be a little lower, but we have a completely satisfactory position, but will go higher. When it comes to CASK including fuel, can you cover that, Brede?

Brede Huser, CFO:

I'll start with holdback question first. We have 100% holdback and will also have that in the short-term horizon but are in a constant dialogue with redeemers and are working on improvements. But for us, being newly established, it will take a little time. We don't plan or assume reduced holdback, at least in my liquidity forecasts. But we are working on it, trying to improve the situation.

When it comes to CASK including fuel, we guide for CASK ex fuel because that is a measure of costs that we have good internal controls for. As I said, the volatility in fuel prices is extreme, and it is very difficult to predict where things are heading, but with our fleet and incoming Boeing Max planes, which will use at least 14%, 15% less fuel than older Boeing-NGs, our situation is good. And this summer, with a fleet size of 12, and half of them Max, we have a 7% fuel advantage compared to airlines with a pure NG fleet. We believe we are in a good position here, and we did very well with our leasing agreement for those ten planes.

Tonje Wikstrøm Frislid, CEO:

Do we have some questions from the web?

Jeppe Baardseth, Arctic Securities

How does booking look going into the summer season? Do you still see that bookings are coming in close to departure dates? Have you seen an increase in ticket prices to compensate for higher fuel costs?

Brede Huser, CFO:

I can answer that. As we said here on one of the slides, our momentum is currently very strong. That is driven by trips for the peak season, and we see, as Tonje pointed out, that the spread in the graph between revenues and passenger numbers is increasing, so tickets we are selling now contribute a very good yield. We see that the yield is increasing going into summer. Excuse me, please repeat the rest of the question?

Jeppe Baardseth, Arctic Securities

Have ticket prices risen to compensate for higher fuel costs?

Brede Huser, CFO:

Prices are on the way up. Yes, that is contributing to compensating somewhat. That doesn't fully recoup expenses but contributes to some degree.

Knut-Erik Karlsen, Flysmart24

Has Flyr noticed any of the scepticism that is said to be in the market regarding flying Max planes?

Tonje Wikstrøm Frislid, CEO:

No, we haven't actually. There are many who use them now, and there isn't any plane that has been as thoroughly checked as that one. So, very little scepticism, although we were prepared for some, so no.

Brede Huser, CFO:

Only positive feedback from customers.

No further questions?

Tonje Wikstrøm Frislid, CEO:

There don't seem to be. Thank you all for attending!