

TRANSCRIPT
Flyr Q4 2021 Results
17 February 2022

Tonje Wikstrøm Frislid, CEO:

Hi and welcome to our Q4 presentation! It is nice to see people in the room and great to see people present physically. We are very thankful that there are people interested in what we are doing. I am here today with Brede Huser, our CFO, and we will go through our quarter in its entirety, a little about how we started and our product and our operations. Brede will go through financials, and we will finish with a summary and our outlook, with questions at the end.

Highlights

Tonje Wikstrøm Frislid, CEO:

We have now been operating for seven months. We started when we and everyone around us thought that society was returning to normal with the government's plans for reopening and the rollout of vaccinations. That was when we had the opportunity to start something completely new, modern, more flexible and simpler and it looked like our timing was good. We had a fine summer but have had a number of challenges during the winter – new waves of infection and lockdowns. For us, this has been a test if we are able to scale up and scale down like we said our starting ambitions were in creating and maintaining our organization. This has been the acid test of our model. We think we have done very well; we have managed to adjust to the changes that have come. It has, of course, been challenging, we are a start-up after all, and we had to re-establish the buffer we had in the beginning.

And now we are back, and have full focus on the upcoming summer, both spring and summer, when we think that demand will return. As we said, we started up with the unique opportunity the pandemic gave: to start a brand new airline from scratch without debt and without heavy structures, but with a simple and flexible model which should be automated and digitalized. This allows us to do this in Norway with Norwegians employed directly in the company and have focus on our employees while, not least, also seeing what the customer's needs are.

This was supposed to be demand-driven, which didn't happen this winter, but we see that it is coming now, so we are quickly setting up new routes every day and really working to set up a summer programme, which I think is of great interest to most people. We have kept things down during the winter: few routes and few flights to keep costs under control, but now we are offering tickets for new routes every week and in a couple of weeks our entire summer programme should be released.

We also have ordered planes so that we can cover that demand. In the months ahead, we will increase the number of planes we have and aim for 12 planes by summer. We know that it takes time to build this, and it takes time to build a stable customer base, but we have a product that is perceived positively, and we think that this will increase demand for our product going forward.

At the same time as we do this, it is important to take care of the values that are important for us. We have said that we shall take care of the people in the company, we have said we shall be aware of what the customer wants, and we took advantage of the opportunity to turn around a trend in Norwegian air

travel, and so far we have succeeded well, and have good cooperation with our local employees and associations, and we have delivered a good product to our customers during the winter and we will develop this further into something we believe in ourselves and into something that benefits the customer. At the same time, we will get these new planes which will reduce our emissions and give us the nice upside of reducing our fuel costs.

So for the time being, we are where we should be, we have the people we should have in the roles we require. Our IT platform is in place, we have the planes we need, or at least they will be arriving when we need them, and we have a well-functioning organisation. It is demanding as I said to run a start-up, but we have so many good people that we have a robust operation, and we are delivering a superior product.

We are getting unbelievably good feedback from our customers, which we are very proud of, and we must work hard to maintain that position. We are building this company step-by-step, it takes time, and I believe we have gotten off to a strong start, but we have a lot of development ahead of us. As I said, being close to our employees brings us close to our customers. That is to be our focus.

We shall deliver what the customer wants and where the demand is by developing our products. “Ung,” (“Young”) among others, is a product driven by customer demand and has become a very popular product. We also continue to sell “available mid-seat” which we see and believe will become an excellent product for many customers going forward. We are also getting feedback that more and more customers want to fly with us, and those who fly with us want to fly with us again. And as we have announced quite a while back, we will announce the loyalty programme.

That was short about our operations, and now Brede will take over to review financials.

Financials

Brede Huser, CFO:

Thanks, Tonje. I will say a little about Q4 and financials. It was a quarter strongly influenced by Omicron and restrictions announced by the authorities. We had a very strong start after the reopening at the end of September, and October showed how quickly demand rebounded when the world opened up. We had very strong bookings in October, very strong in November, but suddenly in the middle of November we had many local infection records in various parts of Norway, and then at the end of November, Omicron appeared. And with the new restrictions put in place for Omicron, sales abruptly stopped. So in October, we had a load factor of 61%, in November 54.5%, and December 47.1%, and we had incredibly little growth in December, and the sales we had in December were weak, and the peak we expected around Christmas, well, there was a little peak there, but it should have been much bigger, had it not been for omicron.

And we see now, in 2022, in January and onwards, that the load factor and demand are rising. In January we had 53.7%, and we expect that to continue to increase going forward. If you look at employees per aircraft, to measure our efficiency per employee, it was down to 53 full-time employees at the end of the year and improved to 46 in January. That should continue to improve as we phase in more and more airplanes. We have a goal of 38 employees per plane in the second half of the year, in 2022, and we have a long-term goal of 36. That means that we can achieve economies of scale with a relatively small fleet. And 36 employees per airplane is effective, very effective if you benchmark that with other airlines.

When it comes to IT, we have a very progressive system, highly effective cost-wise, and extremely cost-efficient when it comes to distribution. We barely have any distribution costs. Our goal for Q1 among large projects is to launch distribution via travel agents near the end of the quarter, and at the same time to launch the first phase of our loyalty programme. We have weekly releases and are continuously developing our IT platform.

If you look at our results, the first quarter reflects roughly 20 to 25 flights per day, revenues rose by 117% from the third quarter. We got the fifth airplane at the very end of December, the sixth plane came in the beginning of February, and the first 737-8 will fly from the Boeing factory in Seattle tomorrow and lands here on Saturday.

As said earlier, earnings and revenues were extremely affected by Omicron and the restrictions announced by government authorities. We tried to mitigate that by adjusting production – we started to adjust in the middle of December, and January was also heavily adjusted. On the average in January, we had two to three airplanes in operation.

Our costs reflect us being a fully-staffed organization. We have invested in our growth, in our operation, and we have invested in our technical infrastructure.

Cash flow from operations in the quarter was minus NOK 119 million, from investment minus NOK 17 million, of which NOK 4 million was the deposit we paid on the leasing aircraft and NOK 13 million was used on IT systems. And cash flow from financing was NOK -18 million, which was the repayment of an aircraft lease. In total, the cash burn was NOK 153 million in the quarter.

If you look at cash since we started, during the first nine months we had operating costs of NOK 164 million, with NOK 110 million of that in Q4, we have used NOK 21 million on leasing deposits, and we have used NOK 73 million on IT investments, with half of that being capitalized on the balance sheet and half being expensed. At the end of the year, after five months of operations, including the rights issue we had, we are back to a little over NOK 400 million, or about two-thirds of where we started. We have a legacy free balance sheet, long-term debt NOK 441 million, all related to leasing liabilities. Short-term debt is leasing and trade payables. We do not have any off balance sheet obligations at all.

Looking forward, we are guiding for *CASK (Costs per Available Seat Km)* ex-fuel in the second half of NOK 0.41 to NOK 0.43, and that is very competitive for a fleet with only 12 aircraft. Some of things contributing to this is the introduction of the 737-8 airplane, where, including lease and maintenance costs, and deduct the fuel savings compared to an older NG, you have 32% lower cash burn than a 737 NG. We have entered a leasing agreement for 737-8 adapted to a start-up company so that we have a lease profile with lower payments the first years, but which gradually climb. But, in total over 6 years, which is the leasing period for a 737-800, with today's fuel prices, a cash burn for a 737-8 is 14% lower than an NG. So our aircraft fleet will be a significant contributor to us achieving our cost goals.

Our guidance is for 12-18 planes by the end of the year, probably in the lower end of that scale, but we are opportunistic and will see how things develop. And, as we said earlier, for full-time employees, at the end of the year, 38 employees per airplane.

In ticket booking patterns, we see a gradual improvement, but in domestic flights, we see that tickets are ordered shortly before flights, often just days, but for international destinations, especially vacation destinations, to the south, and by the Mediterranean, we are starting to see earlier and earlier ticket

booking patterns. But there is a significant difference between domestic and international ticket booking patterns, but we see earlier and earlier ticket booking patterns every day.

Then I give the word back to Tonje, who will conclude.

Conclusion

Tonje Wikstrøm Frislid, CEO:

Thank you. To conclude, we have been through a stormy winter, it is basically tough to run a start-up, but we said and believed that we would have a business model which is effective and flexible, has the ability to adapt, and not least to have the customer's needs in focus. We have delivered on that, that is where we are today, our organization is set up, we have our platform ready, week after week we are continuously automating more and more, and our product is getting better and better. As we said, very many routes, continuously being made available for booking, and good feedback, we cherish them. We are also very interested in the improvements we can make, and I challenge you to try and fly with us, try our product, and please, give us feedback, either positive things we can keep doing, or things we can improve.

Welcome on board! Thanks so far, and we are open for questions.

Q&A

Ole Martin Westgaard, DNB:

You had positive working capital impact of NOK 46 million in the quarter. What is this related to, can you say anything about working capital effects going forward?

Brede Huser, CFO:

I can answer. We had positive working capital from growth, quite simply. As our production grows, we benefit from payables due 30-day payment terms. Should we go to question from the audience in the room first?

Carl Frederick, Arctic Securities

Good morning. I have a question about fuel costs, which of course is a hot topic for the whole sector now. Can you tell us your thoughts about that, and your ability to adjust your ticket prices going forward, can you make adjustments for higher costs?

Brede Huser, CFO:

We see the introduction of 737-8 as a means of handling rising fuel costs, and this summer, 50% of the fuel fleet will have 14% lower fuel costs. And we, the same as our local competitors, are not hedged. All the local companies are in the same situation, and I assume that all the companies face the same challenge with fuel prices, and that will also be reflected in the level of prices.

Carl Frederick, Arctic Securities

Then I have a question about what you said earlier about your ability to scale your production up or down, there are two aspects, you have direct costs with your planes, but you have a centralized

organization that is up and running. How much can that be scaled up or down, and how many planes is that organization based on administering as of now?

Tonje Wikstrøm Frislid, CEO:

It is dimensioned to administer all our growth, so we are the people today we need. We have a goal of growing somewhat, with up to twelve planes this summer, and we can handle that, so when we have an increase in full-time employees going forward, they are going to be people serving our customers out there in our planes.

Brede Huser, CFO:

The administration doesn't just handle the planes operating now, but also the ones that are coming. Much of our work is to be set and ready for the planes that are coming.

Carl Frederick, Arctic Securities

But now in January, when you had fewer planes operating than in December, do you have any possibility of reducing those overhead costs, or mainly just the direct expenses tied to aircraft that can vary?

Brede Huser, CFO:

Now in January it is mainly the variable costs tied to operating planes we adjusted. We had to choose between layoffs or no layoffs, and we chose to take advantage of the wage support scheme that was created.

Carl Frederick, Arctic Securities:

Thank you.

Lars-Daniel Westby, Sparebank 1 Markets:

How have operations runs relative to plans, for getting the planes into the air and planning routes? And, further, any comments about how many hours you can keep a plane flying? And how many flight hours are achievable when you get to your summer routes with twelve planes?

Tonje Wikstrøm Frislid, CEO:

In general, when it comes to operations, it has gone overwhelmingly well. We have a lot of experience in our organization, along with some new people. You couldn't dream about better operations than we have, they are really competent. When it comes to how much the planes will fly, it depends on demand. As we said, we can scale up or down, we don't have to increase a lot to be profitable, but I don't know if we should say anything about "x" number of hours ...

Brede Huser, CFO:

In today's world and today's situation, we have relatively inexpensive assets in our industry, so it isn't the assets that determine the dimensions of operations, it is the crew. Crew is the most expensive input factor, and that is what determines how much we fly daily. We try to optimize crew costs, and then, misunderstand me correctly, then the aircraft utilisation becomes a residual. So we will have less capacity utilization of our planes than the traditional low cost airlines, but that is what it takes to

optimize the crew cost, and then we fly more peak, less early morning, late night routes where willingness to pay is low. So that is what we have calculated as the optimal model.

Hans-Jørgen Elnæs, Winair

A little about the strategy to Flyr when it comes to how we define low price airlines' goals. Are you aiming for what we call yield active, load factor passive or load factor active, yield passive? If you look at the load factor you have had the last two quarters, then maybe it has been more yield active, load factor passive? But it would be nice if you could elaborate how Flyr is thinking about how you optimize income, whether you fill the plane or get paid as much possible for each sold seat.

Brede Huser, CFO:

I think that is a balancing act, and I don't think there is one answer. It depends on what routes you look at, how much production you have on that route, and on demand. The way things have been with Omicron, you could have given away tickets, but you would not have necessarily gotten any more passengers. The willingness to travel hasn't been there. So, I don't think there is an unambiguous answer to that, we adjust revenues to maximize our income.

Hans-Jørgen Elnæs, Winair

I wasn't thinking especially about Omicron but wondered how you were thinking about the future. When you say you maximize income, there are two ways to look at that: you fill up the plane with lower sold ticket income you might higher income with what we call ancillary (*income*) ...

Brede Huser, CFO:

We are probably closer to that, than the other. We are closer to aiming for a high load factor.

Tonje Wikstrøm Frislid, CEO:

But remember that this takes time. We are a start-up company. We are also impatient, for sure, but I have understanding and respect for that it takes time to build. It isn't that we are satisfied with the load factor we have now, but we know that it will take time than perhaps many of you expect. That is in our plans.

Hans-Jørgen Elnæs, Winair

I understand that. It was more to get the big picture of your overall strategy, if it was yield passive or load factor active? Is it revenue per sold seat or is it to fill the plane and maximize the higher revenues you achieve with many passengers on the plane as we see the big players Ryanair, easyJet and Wizz Air do, which now have more than 50% of their revenue from additional services, not just the plane ticket?

Brede Huser, CFO:

I would say that it varies from route to route, but we aren't where Ryanair is, what do they say, that they have 95% full planes, but we aren't at the other end of the scale, either. But it depends on the route you look at.

Tonje Wikstrøm Frislid, CEO:

Now we are a low cost company, not a low price company. We shall have sensible, low prices, but we think that the prices are at such a low level that it is important with something a little extra, and we believe we are offering that, and that is supported by the feedback we are getting.

Moderator:

Now there are some questions from the Internet.

Ole Martin Westgaard, DNB:

How many ramp-up costs will you have in the spring? Was the CASK you had in Q4 at NOK 0.70 ex-fuel representative for Q1, Q2?

Brede Huser, CFO:

Ramp-up costs when we get new planes are mostly related to us having a crew, say one month before we go into production, and we have airplanes a few weeks before they start in production. There are some ramp-up costs. And you could say that maybe the biggest ramp-up costs you could get are that we put many new routes into production, and we fill them on a continuous basis. The last question was linked to if CASK is representative? What we have guided for is a relatively stable situation in the second half when we have 12 planes. CASK will go gradually down to that level during the spring. It will be varying because we will get one plane a month so it will get gradually better towards the summer.

Ole Martin Westgaard, DNB:

You burn through about NOK 150 million a quarter in cash, at the same time you say that you have a flexible model. What is it that is flexible? Where do you have more flexibility than your competitors?

Tonje Wikstrøm Frislid, CEO:

Our flexibility rests in the ability to ramp up or down and adapt to demand in particular, but also the ability to modify our product. We chose, as Brede said, not to have any layoffs, and we want to take care of those who work for us, but they are also very flexible. Crew is a cost driver, and we have one of the best agreements there in addition to them having a good workday with us.

Tellef Ormestad, investor

Will you achieve breakeven on operations during 2022? I understand that Covid-19 can disturb this in the rest of 2022, so I am maybe looking for a more normal year.

Brede Huser, CFO:

I think 2022 will depend on the development in the pandemic and the development of fuel prices.

Olav Gram Degnes, journalist

Will the increase in the fleet be 737-8 aircraft, and be an exclusively Boeing fleet?

Brede Huser, CFO:

We have an exclusively Boeing fleet, and no plans for the short and medium term for anything else. The orders we have now are for 737-8.

Last question:

Please say something about 2023 and 2024 too.

Brede Huser, CFO:

A very open question. (laughter in audience) We will get back to that later.

Hans-Jørgen Elnæs, Winair:

Today you plan to grow to 12, 18 planes, maybe in the low end, and you need more pilots and key technical employees. Can you say anything about how that process is proceeding, is it moving ahead okay? Or is there a shortage of qualified pilots to staff up for your growth?

Tonje Wikstrøm Frislid, CEO:

There is a fight for them, no doubt about it. Many need pilots going forward, but we are there we need to be. We have the supply we need. We do offer something a bit different, we have to be effective, but we get feedback from those who work for us that this is the best workplace they have had, so the recruitment to us looks fine relative to the growth we are planning.

Brede Huser, CFO:

We posted job ads for pilots two to three weeks ago and we got 1,000 applications in one week.

Ole Martin Westgaard, DNB:

How do you see the capacity in the market for the summer season 2022? How do you feel about competitive pressures?

Tonje Wikstrøm Frislid, CEO:

Competition. There will always be competition in aviation. We have been in this industry a long time and are aware of that, and that is where we believe we have our competitive advantage. Using the model we have, we can have low costs relative to our size, and be profitable in the long run. Competition and other factors will play a role, but we are set up for that.

Now there weren't any more questions from the internet nor from here, so we thank you for attending. We will see you next quarter and you are very welcome on board our planes!