

TRANSCRIPT

Flyr Q2 2022 Results

26 August 2022

Introduction

Tonje Wikstrøm Frislid, CEO:

Hi and welcome to our Q2 presentation! I am here with our CFO Brede Huser to go through our quarterly numbers. It is a quarter characterized by a summer ramp-up and capex and remaining pandemic impacts. I will give you some insight into where we are and where we are headed. At Flyr we have focused on our employees who are satisfied and love to take care of our guests. That has given results – we are getting very good feedback from those who travel with us. We are very satisfied with the reception we have gotten in the market at the same time as we realize that much work remains.

Highlights

Tonje Wikstrøm Frislid, CEO:

During the quarter we have invested significantly to be ready for the summer. Several aircraft have gone into production, and we reached 10 aircraft by the end of the quarter. That means we have used a lot of time on recruiting and training. We welcomed 150 new colleagues on board in this period, and we have introduced many destinations and routes. We ended up this summer with 44 routes to 38 destinations. That investment costs money. We have also gotten new aircraft straight off the assembly line, which are important for reducing our operating costs and emissions. Unfortunately, we know that the oil price has been sky high, and we haven't covered the whole level, but it has helped, of course. We got off to a good start for the summer. Our load factor was a little lower than we wanted in the spring but in the summer, we had good operations and a very strong load factor, with a good response from the market.

When we launched Flyr it was because we wanted to do something a bit different. We are in an industry that is very traditional and little innovative, and we had the possibility of starting with a clean slate and operating efficiently. We wanted to reverse the trend in the sector of outsourcing and squeezing as much as possible out of employees and customers. That's what we have worked on – setting the focus on both the customer and the employee. We wanted the employees to be directly employed in the company and we have close collaboration with our employees, with collective labour agreements before operations started, and we have bet on new technology with brand new digital solutions. That makes it easy and effective, and that's why we can operate cost-efficiently now with a small organisation. When we started there were many who didn't think that was possible.

But now we have been operating for slightly more than a year, and we have delivered! As a former hand ball player, I am pleased to say that this is teamwork of the best quality. We have built a completely new airline from scratch in record time on Teams. We have had a summer with full planes, we are winning customer awards, we have digital solutions that make it easy for the customer. At Flyr, you can do everything from your cell phone, and we have become a player to be reckoned with. That too in record time. And now we are a player that many are cheering for, which is not common for airlines. As it turns out, people do appreciate being treated well. As we said, we have a lot more development to complete, but customer satisfaction is important for us, and we will continue with that, and believe that it is a big competitive advantage for us.

And this is the reason that people like to fly with us. We have competent people with a fantastic attitude, and we are building this company together. This means that although we, along with all the others, had problems this summer with luggage and airport operations, we've had pilots help move the luggage, we've had people from our customer service centre working in a tent at Gardermoen airport, trying to get luggage sent as fast as possible to passengers, and we have also had people from management and our administration, including my colleague Bjørn Erik, take a cabin training class, in order to help our colleagues in their line of duty. I feel that this is an extremely good example of team spirit and a typical example of good leadership.

It is the people in the plane, along with brand new technology and new systems, which allow us to distinguish ourselves. Everything can be done digitally, and from a cell phone. We have a very high share of bookings coming directly from phones, which is a game changer in this industry. 40% of bookings from cell phones is truly innovative. That is thanks to simplicity and, not least, good collaboration and total integration with Vipps. But there are challenges to reach our surroundings, which are not as modern. Many adjustments have taken longer than we expected, new and old technology do not always communicate well, so some of our development has been slow, which we will touch more upon when we go to our outlook.

During the quarter, our sales and traffic development have naturally been affected by having gone through a pandemic. Before summer, there was a strong trend in sales before it flattened as it normally does during summer vacation. We did see a little peak during the strike that everyone knows about during the summer, and we see now that things are slowly but surely picking up again, somewhat slower than we were hoping for, but fortunately, things are picking up.

During the summer, we had completely full planes, and we were able to conduct all our flights. That's impressive since we are a tiny company, very vulnerable, but we had only one cancellation, which was unfortunately a round trip to Billund, a disappointment for the passengers involved. But once again, impressive, and this is because of the great, competent team I am working with. They are very skilled, with an effort and a passion for this industry and this company that few have seen the likes of.

So, yes, we had challenges with luggage, but our operations delivered well, and we have delivered on our customer promise. Customers are for the most part very satisfied with what we have delivered so far.

So then I will hand the microphone to Brede, who will review our financial numbers.

Financials

Brede Huser, CFO:

Let us look at the quarterly numbers. We have had a positive development in all key numbers through the entire quarter. We entered April with 123,000 guests and had over 260,000 in July and a load factor of 92.3%. And activity was extremely high during some of the summer. And we would have loved to have even more empty seats to sell so we could have helped even more people get a summer vacation or return home from summer vacation. When it comes to the number of employees, we are now down to 41 full-time employees per aircraft, and that is exactly in line with our plans to achieve our cost goals of 38 employees per aircraft by the end of the year and 36 full-time employees per aircraft by the end of 2023.

Our revenues increased by 313% compared to the previous quarter. The growth was primarily due to increased production, increased awareness about Flyr in the market, and the start of the summer high season.

On the cost side, fuel costs are a significant component, mainly driven by increased production, in addition, we are, as are all other airlines, very impacted by high oil prices and a strong dollar. In July, we had a CASK ex-fuel (*Costs per available seat-kilometre*) of NOK 0.36, marginally higher than our goal of NOK 0.35 and that is due to the baggage issues we had at airports in Norway and in Europe, and some congestion in European airspace. But NOK 0.36 as the unit cost with a fleet of ten planes is very good. We had a non-cash forex item of NOK 140 million due to the conversion of our leasing liabilities in dollar to Norwegian kroner. So the strengthening of the dollar during the quarter has led to a cost of NOK 140 million, but it was a non-cash item.

Regarding cash flow, our cash flow from operations was a negative NOK 151 million, consisting of EBITDAR of NOK -227 million, somewhat offset by NOK 79 million less working capital requirements. Cash outflow from investments was NOK 16 million, composed of NOK 8 million in deposits paid on aircraft leases and IT development costs of NOK 7 million. Our cash flow from financing was NOK 201 million, with NOK 245 million coming from the rights issue we had in May, minus NOK 30 million in aircraft leases and NOK 14 million paid in interest expenses for lease payments.

We still have a balance sheet without any form of legacy – no old ghosts hidden there. We don't have any interest-bearing debt, either. We have cash totalling NOK 307 million. Our long-term debt of NOK 1,412 million is almost entirely our leasing liabilities. Short-term debt is NOK 938 million, whereof NOK 471 million is ticket liabilities to customers, NOK 213 million is the short-term part of our leasing commitments and the rest is trade liabilities and other short-term debt of NOK 264 million.

Our equity is NOK 8 million, reflecting our negative operating result of NOK 279 million and the negative non-cash forex impact of our leasing obligations.

We have several off-balance sheet assets, including, among other things, surplus values in our aircraft leases. We made our "Max" (737-8) agreements at a very favourable time and to very favourable terms, so there are significant surplus values there.

If we take our outlook, we achieved a CASK ex-fuel in July of NOK 0.36, based on only ten aircraft, and we expect increased efficiency when we increase the fleet next year to at least 16 planes. So we believe the goal for 2023, when our fleet is 16 to 20 planes, is below NOK 0.40 in unit costs. In the second half of 2022, we will be down close to NOK 0.41 when we have 12 aircraft in full production. If we have 11 planes in full production, it will be around NOK 0.45. And how production develops in the fall depends on how the demand for air travel develops.

Our fleet plan is 12 aircraft by the end of 2022, and 16 to 20 planes by the end of 2023. As of today, we have contracts for 16 planes. Then I will give the word back to Tonje.

Conclusion

Tonje Wikstrøm Frislid, CEO:

So far, we have delivered when it comes to product and operations. We have a simple, digital and customer-friendly journey and operations that are both robust and very effective. Going forward, our focus will be to fill the planes and adjust our production to demand. We have already demonstrated that we are very good at that, we are flexible, and we will continue with that, and the same time as we further develop our product offering. We still have much low and high hanging fruit that we can pick.

One of the things most in demand is our presence in the travel agencies. We are now gradually increasing our presence there. That is important because the travel agents have done a good job during the pandemic, and they represent up to 20% of the customer base in the industry, especially during the fall and winter, and they are still experiencing good growth. They have been very good at satisfying the needs of corporate customers and we have too, people are satisfied with us, so we must make a match here. We know that the travel agents want us to be there because their customers are asking for us.

Today we are available in Amadeus, meaning that trips can be ordered directly through travel agents. Beyond that, we are working on direct integration with the travel agents so that we can be available directly through their portals. That is typically where most of the larger companies in Norway order their trips. That takes time, maybe we were too early with modern technology, but we see now that things are starting to fall into place, slowly but surely. We hope to have accomplished this by the end of the winter or during the year. But remember, it is possible to book us through travel agents now!

So, we are continuing to improve ourselves, and our focus going forward is to continue to deliver on our customer promise, and work on delivering the best customer experience in the industry. Thank you, that was what we had, and we are now open for questions if there are any.

Q&A

Hans-Jørgen Elnæs, Winair:

A couple of questions. One is about holdbacks; can you update the status there? You are showing a good development in reducing costs and in unit income, but you still have a spread of NOK 0.36, so the second question is what are you planning to do about that?

Brede Huser, CFO:

I can start with the holdback question. There is no change there, we are working closely with redeemers, in order to work on the situation, but for the time being there is no change, and we still have 100 percent holdback. Let's just say that there is an upside to the situation. And excuse me, could you please repeat the second question?

Hans-Jørgen Elnæs, Winair:

You have shown a fine progression in both unit costs and unit income, but there is still a gap of NOK 0.36, from NOK 0.40 to NOK 0.76, so what are you planning to do to reduce that?

Brede Huser, CFO:

As Tonje mentioned, our main focus internally now is distribution and working on our top line. On the cost side, we are where we are, fantastically effective with a fleet of 10 aircraft with a CASK ex-fuel of NOK 0.36. You will have to look far and wide to match that, with that size. So when it comes to costs, we are just where we should be. So we are working hard to build our revenues. Distribution will be one of the contributors there.

Ole Martin Westgaard, DNB:

What are you expecting for swings in working capital for Q3?

Brede Huser, CFO:

That will depend on how our production is going forward.

Ole Martin Westgaard, DNB

This is a questions about a detail in the accounts. Off the top of your head, do you know what is the NOK 150 million positive item in "other adjustments" in the cash flow from operating activities, or should we take that afterwards?

Brede Huser, CFO:

We will cover that later.

Ole Martin Westgaard, DNB

July CASK ex-fuel was strong at NOK 0.36, but at the same time you are guiding for NOK 0.45 for the second half with 11 planes and NOK 0.41 with 12 planes. What are your CASK ex-fuel expectations for Q3 and Q4?

Brede Huser, CFO:

As I touched upon in our presentation, we will adjust our production relative to the demand we see during the fall. If we see 12 planes in full production, we will achieve NOK 0.41, and if we have 11 planes in full production it will be around NOK 0.45. So we will have to see how demand is during the autumn.

Ole Martin Westgaard, DNB

How much did ramp-up costs and extraordinary costs affect the Q2 numbers?

Brede Huser, CFO:

I don't have an exact number for that, but we have hired crew and trained them, and we have worked very much on many new destinations, so there have been some costs there.

Ole Martin Westgaard, DNB:

You did touch upon the equity in the company, but how much equity do you need to deliver on your strategy up to year-end 2023?

Brede Huser, CFO:

I would say that our cash burn going forward will depend on two things: one is demand for air travel in the market in general, which depends on the personal finances of the normal consumer, which again depends on the development of the electricity price, interest rates, inflation. And secondly, the oil price also plays a strong role here as well.

Question from Internet:

When do you expect to deliver positive results, or alternatively a positive result without a rights issue?

Brede Huser, CFO:

We are still hoping to achieve breakeven during 2023, as we have communicated earlier. But again, we do depend on the development of air travel in general, and, not least, how the oil price develops going forward.

Moderator:

We have no further questions other than a rather detailed question from Ole Martin Westgaard that I suggest we answer directly to him. So we could take that later.

If we don't have further questions from the audience or from the internet, we will wind things up.

Tonje Wikstrøm Frislid, CEO:

We thank you for your time and attendance.