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An Analysis and Assessment of easyJet's Strategy and Options

(A Case Study)

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Executive Summary: Markets Underrate easyJet's Strategy and Options

This analysis describes, analyzes, and assesses easyJet and the market it operates in. It proves a statistically relevant and strong relationship between the highly regulated and capital-intensive airline industry's (and its individual companies') top-line (i.e. revenues) growth and the condition of the overall economy (i.e. the GDP growth rate). It also shows how in an extremely competitive market, that nevertheless has a tendency for oligopolies on a specific route, an individual carrier's bottom-line (i.e. the profit margin) is largely a function of (i) finding the right place in the value chain, (ii) differentiating services, and (iii) building comparative (cost) advantages. The analysis of easyJet's strategy and options, furthermore, reveals that its business has relative to peers to cope with (i) weak non-seat revenues and (ii) higher costs, meaning easyJet is facing issues with respect to both top- and bottom-line. The assessment of easyJet's theoretical value follows a present value approach, based on models looking at discounted cash flows and the economic value added. The results being challenged by multiple sensitivity analyses. As per reference date (November 15, 2016) and based on the analyses and assessment of strategy and options, the theoretical value of easyJet comes in at 1,766.44 pence per share, indicating a premium of 62.5% relative to the corresponding London Stock Exchange closing price (1,087 pence), however, it is approximately only 14% above easyJet's pre-BREXIT level, and 6.6% below the shares' all-time high (April 13, 2015). Consequently, the analysis and assessment of easyJet's strategy and options c.p. indicate: easyJet is better suited relative to its peers than market price suggests and/or that investors on average assume higher uncertainty and/or make more conservative assumptions regarding its prospective top- and bottom-line development.

Note: The image on the cover represents one of easyJet's Airbus Sharklet-equipped A320 (Airbus, Photo Gallery, 2017).

Acknowledgements

Firstly, we, Said Guraieb Izaguirre and Johannes Rossmann are grateful for the guidance and advice received from our thesis advisor Edward Vali of Copenhagen Business School. Thank you very much, Edward, for your support and encouragement, for the time dedicated to our work and, last not least, for your most valued advice and your comments. Secondly, we would like to thank the second reader for reviewing our thesis. Thirdly, we extend our gratitude to our families and friends, and we also thank each other for always cooperating smoothly and with a positive spirit throughout the entire process – and for being a friend. Conayct and FUNED, handing in this thesis I, Said Guraieb Izaguirre, acknowledge your generous offer and prove your incredible gratitude is rewarded. I sincerely thank you from the bottom of my heart for providing me the opportunity to prove myself. Furthermore, I would like to thank Edgar and Patricia for their kind support.

Copenhagen, May 15, 2017

Said Guraieb Izaguirre Johannes Rossmann

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1 Introduction: Forming an Opinion re easyJet's Strategy and Options

1.1 Background

The airline industry was chosen for this analysis because of its complexity, its strong growth over the recent decades and its tendency to constantly change. Singling out easyJet was based on its business model, its innovation focus, and also in light of the increased uncertainties a UK-based airline faces from BREXIT[1]. GDP cyclicity and development have a huge impact on the top-line growth of the industry and the individual carriers. easyJet focuses on enhancing its market share in Europe and especially in countries with the propensity of a substantial future growth in GDP (in absolute and/or relative numbers), and as fuel accounts for the highest proportion of the (variable) costs, and oil price fluctuations, therefore, directly impact a carriers' bottom-line (i.e. its profitability) it operates a rather challenging business model. To shelter from its atrocities, all major airlines tend to hedge their short-term exposure to oil prices and foreign exchange rates. However, protection against long(er) term changes is not for sale at derivative exchanges and carriers, therefore, they also try to reduce overall fuel consumption. As the airline industry is very competitive the immediate question arises: "How can an individual carrier differentiate to generate a sustained competitive advantage?" In its early days the airline industry was dominated by what are today called "full-service carriers" (FSC), in recent years', however, so called "low-cost carriers" (LCC) emerged and soon cut themselves substantial slices from the market. Therefore, an analysis of the business models and strategies is imperative to understand and to assess easyJet's company specific approach, its performance and competitive edge. To counter competition and pressure on ticket prices, all airlines try to reduce costs. easyJet, however, has a second angle: it focuses on innovation to broaden and sustain revenue streams. In this context, it is worth noting that easyJet today is one of the largest European airlines, and even though it is most commonly placed within the low-cost carrier segment, it, due to its business model, competes directly with LCC and FSC. easyJet is headquartered in the Greater London area, therefore, BREXIT will directly affect the company, to which extent and how is not yet clear. However, the uncertainties triggered, could already be observed in easyJet's share price when it plummeted by 30% following the pro-BREXIT vote.

1.2 Research Question

The analysis aims to look into and assess easyJet's strategy and options by applying various fundamental financial and strategic analyses, also regarding markets, competition and peer group, to find out, whether easyJet's business model, its hopes, ambitions, options, and market achievements, and, too, whether its reference date's[2] share price properly and fairly reflects these findings and to determine whether the

[1] The term "BREXIT" describes the United Kingdom's withdrawal from the European Union (EU) following the referendum on June 23, 2016 with a 53.4% vote for leaving the EU (Hunt & Brian, 2017). The UK government started the process officially on March 29, 2017.

[2] All valuations are calculated as per November 15, 2016 (reference date or reference day), the release date of easyJet's most recent annual report.

theoretically justified "true and fair" value of its shares is in line with the market participants views or whether it could suggest or provide a recommendation to buy or sell the under- or overvalued shares in easyJet.

1.2.1 Problem Statement

Based on the above, the research question or problem statement unfolds as follows:

> *"Do easyJet's business model and strategy create shareholder value and do its reference date's market capitalization and share price fully and fairly reflect its strategic and financial options?"*

Before answering the research question, in-depth analyses of the relevant sub-topics are carried out, based on sub-questions for each of the analyses' sections. The findings of the different sections will then lead to the final conclusion. The following provides an overview of all sections and their respective sub-questions.

1.2.2 Outline: easyJet and the Airline Industry

To provide a base for the financial and strategic analyses, to contribute to a better understanding of easyJet and the industry, this section positions the company in the airline industry, by providing (i) a brief overview (history, shareholder and governance issues) and insight into (ii) easyJet's business and (iii) marketing approach, also analyzing (iv) its value chain proposition, (v) the markets the company operates in, (vi) market shares, (vii) easyJet's competitors and (viii) its peers. Based on this outline, easyJet's business model, competitors and peers materialize, and in order to prepare for answering the research question, especially the following sub-questions are answered in this section:

> *What is easyJet doing and how? How did the company develop? How is it organized and structured? Which services and products are offered? Who are easyJet's competitors? What and how are they doing? Which carriers comprise easyJet's peer group? Who are easyJet's and its peers' customers and where are they to be found? How do the peers' business models differentiate from each other?*

1.2.3 Financial Analysis: Operational Performance of easyJet and its Peers

Following the outline, the financial analysis provides detailed insights into the operational performance of easyJet regarding: (i) income statement, (ii) balance sheet, (iii) value, (iv) revenue, and (v) cost drivers, (vi) profitability, (vii) assets and liabilities, (viii) liquidity and solvency ratios[3], as well as (ix) red flags and golden nuggets, also in (x) comparison with its peers[4]. The analysis covers one business cycle of the airline industry, which according to academic literature and findings comprises a minimum of seven years (Liehr, Groesler, Klein, & Milling, 2001), in order to avoid overlooking issues, that only occur in certain phases of the cycle,

[3] Financial ratios, such as profitability ratios, are fundamental when it comes to evaluating a business and its performance. As these ratios are industry specific, the analysis responds to economic characteristics of the airline industry (Petersen & Plenborg, 2012). However, more important than the analysis of numbers, is the interpretation and evaluation of the results (Stepanyan, 2014).
[4] To better understand easyJet's business model, its competitive strengths and weaknesses, this section analyses the peer's financials, too (Soliman, 2008).

e.g. when the number of aircraft operated is increased extraordinarily strong to answer perceived market potential[5]. Consequently, the review period, i.e. the seven years the financial analysis refers to, comprises the years from 2010 to 2016 (both years included). The financial analysis, the trends identified here and in the strategic analysis will shape the model forecast and thus lay the foundation for answering the research question. Based on this and in order to prepare for answering the research question, especially the following sub-questions are answered in this section:

What is the industry's reporting structure like? Are there any industry specifics? If so: which? How did the financial performance of easyJet and its peers develop over the review period[6]? Have the companies been profitable over the entire review period/in each and every review year? How did easyJet perform relative to its peers? Is it financially healthy enough for investments improving profitability further? How do profit and loss accounts react when varying industry specific drivers?

1.2.4 Strategic Analysis: Non-financial Drivers for the Airline Industry

The strategic analysis leads to non-financial aspects that impact easyJet's and the industry's operations and performance. They are drilled down by (i) a PESTEL approach (referring to external political, economic, social, technological, environment, and legal issues), (ii) Porter's Five (addressing also external issues such as competition, suppliers, customers, substitutes, and rivalry), (iii) a VRIO analysis (related to internal considerations regarding value, rarity, imitability, and organizational topics), and (vi) concluding a SWOT analysis (uncovering easyJet's strengths, weaknesses, opportunities, and threats). The issues identified in the strategic analysis and in financial analysis will later shape the model forecast and thus lay the foundation for answering the research question. Based on this and in order to prepare for answering the research question, especially the following sub-questions are answered in this section:

What exactly is easyJet's corporate strategy? Does easyJet have sustained competitive advantages relative to its peers? What are the most important external and internal factors affecting the industry? How are the global and the regional airline markets structured (e.g. in terms of players and customers)? What is the potential impact of BREXIT and how can easyJet pro-actively react? What trends can historically be observed in the industry? What is the foundation laid for the future?

[5] easyJet for instance, once took 16 new aircraft on in one year, compared to the long-term average of 10 p.a. (calculated over the entire review period). That year's exceptional situation may have triggered one off effects (e.g. an exceptionally low load factor, extraordinary high training and/or integration costs), that may force misleading conclusions, if only this specific year is looked at.
[6] The review period, i.e. the seven years (i.e. review years) the historic review refers to, comprises the years 2010 to 2016 (both years included).

1.2.5 Analyses' Conclusions: easyJet's Prospective Financial Statements

The findings from the financial and the strategic analyses, from the assessment of easyJet's strategy and options are used to model easyJet's financial statements for the forecast period's years[7], namely: (i) income statements (including a Monte Carlo simulation regarding fuel costs/oil prices) and (ii) balance sheets, (iii) preparing for a financial analysis, and (iv) to dertemine easyJet's long-term growth rate. The model's projections are benchmarked against investment bank's research[8]. Based on this, and in order to prepare for answering the research question, especially the following sub-questions are answered in this section:

> *How can easyJet perform in the future, based on its business model and the industry and the European market? What happens if the model input (i.e. the forecasts) turns out to not be met later? What is a reasonable long-term growth rate of easyJet based on a carrier's specifics? What is a reasonable WACC to be applied for easyJet, based on what can be observed today in the debt and equity markets?*

1.2.6 easyJet's Proposed Fair Value: Answering the Research Question

Building on the findings from the financial and strategic analyses, the model of easyJet's business projections over the forecast period's years, and following the respective academic literature easyJet's proposed fair value is reviewed based on: (i) trading and transaction multiples, (ii) a discounted cash flow (DCF) model, (iii) a model referring to the economic value added (EVA), and (iv) a threat, opportunities, weaknesses, and strength analysis. All four assessing easyJet's strategy and options from their individual angle and also including sensitivity analyses where appropriate[9]. Based on this, and in order to prepare for answering the research question, especially the following sub-questions are answered in this section:

> *What is the fundamental value of easyJet's equity according to different measures? What is the implicit true and fair price of a share equal to as per reference date and according to the valuation model and the forecast? How is easyJet's fair implicit share price in comparison to its peers and competitors? How do the results react to changes in WACC and growth rates and other key drivers?*

1.2.7 easyJet's Options to Further Enhance Value: Scenario Analysis

Based on the findings from the financial and strategic analyses (including VRIO, SWOT, TOWS, DCF, EVA, etc.) and building on easyJet's historic statements, the modeled business projections and the company's proposed fair value, this section turns to three of easyJet's main areas of concern: (i) the low non-seat revenues,

[7] The forecast period (or modeled period or model period), i.e. the seven years (i.e. forecast years or modeled years or model years) the financials forecast (the model or the modeled forecast or the model forecast) refers to, comprises the years from 2017 to 2023 (both years included).
[8] The research reports include: HSBC (October 6, 2016), Société Générale (October 6, 2016), Deutsche Bank (October 10, 2016), Royal Bank of Canada (October 11, 2016), Barclays (October 19, 2016), UBS (October 24, 2016), Commerzbank (November 15, 2016), and Morgan Stanley (November 15, 2016). All research was prepared referring to the reference date.
[9] All market data and related calculations refer to the reference date (i.e. to November 15, 2016), if not explicitly otherwise mentioned. As far as periods are concerned the respective start and end date of the period are explicitly given.

(ii) the room for cutting back costs, both relative to its peers, and (iii) the yet unclear influence of BREXIT on its business performance. Based on this, and in order to prepare for answering the research question, this section shapes the previous findings and forms scenarios that may counter the critics and the shortcomings in easyJet's business model. To develop and investigate strategic options that may result in additional upside potential, if the management finds answers to especially the following sub-questions:

Could, and if so, how could easyJet boost entertainment and recreation sales to create extra profit? Could, and if so, how could easyJet cut back costs to improve future profitability substantially? Could, and if so, how could easyJet pro-actively deal with a substantial negative impact from BREXIT, if any?

1.3 Methodology

To provide for a better understanding, this section describes the data collection, the theories applied, and, thereafter and in more detail, the structure of the analysis.

1.3.1 Methodology

This analysis is written from the viewpoint of a non-strategic individual (institutional or retail) investor and is, therefore, solely based on publicly available information.

1.3.1.1 Data Collection

Data has been collected from academic literature, annual reports published by the respective companies, from industry reports, journals, articles, Websites, stock exchange information, statistics, etc. Furthermore, databases, such as Bloomberg and Reuters, were consulted as and when appropriate[10].

1.3.1.2 Applied Theories

For the purpose of the analysis, concepts from the relevant academic literature (e.g. regarding linear regressions, PESTEL, Porter's Five Forces, VRIO, CAPM, SWOT, TOWS, DCF and EVA) are presented in this work. The methods and all types of analyses used are introduced in the respective sections. Economic Theory is always subject to its assumption and they are of course often debatable. Rather than trying to solve such issues, the analysis reference sources, where the basic shortcoming of the applied theories are discussed in depth.

1.4 Structure

The analysis starts with a concise outline of easyJet and the airline industry (including company specific

[10] If not explicitly mentioned otherwise in the respective context, all information and data used for visualization in figures and tables represent the analysis' findings and calculations: (i) any company specific data used for the purpose of the analysis, refers to the in the context referenced sources, respectively the company's reports, (ii) historic market data input (historic GDP, fuel, oil, share price data, exchange rates, trading and transaction multiples etc.) refers to the in the context referenced sources, respectively the Bloomberg data bases, (iii) any projections regarding future GDP development, historical BoE interest rate data, and all information referring to market share data for aircraft manufacturers and data on providers of bus transport services, refer to the in the context referenced sources.

information on shareholder issues, corporate governance, business specifics, marketing approach, value chain considerations, operated markets and market share, competitors and peers). Following this, a financial analysis of the operational performance of easyJet and its peers is conducted (including income statements and balance sheets, operational drivers, a trend and common size and a profitability, asset and liability, liquidity and solvency ratio analysis, red flags and golden nuggets, and the peers will also be investigated). Thereafter the analysis discusses non-financial drivers for easyJet and its peers (including PESTEL, Porter's Five, VRIO, and SWOT considerations), followed by conclusions regarding easyJet's projected financial statements (including income statements, balance sheets, and long-term growth rate). Afterwards an answer to the research question is given (based on multiples, DCF and EVA models, and also taking into account a SWOT analysis). Furthermore, major external and internal drivers for the success of a carrier are investigated (including boosting entertainment and recreation sales, cutting back costs, and pro-actively dealing with BREXIT). The analyses' findings will then be summarized and set into perspective.

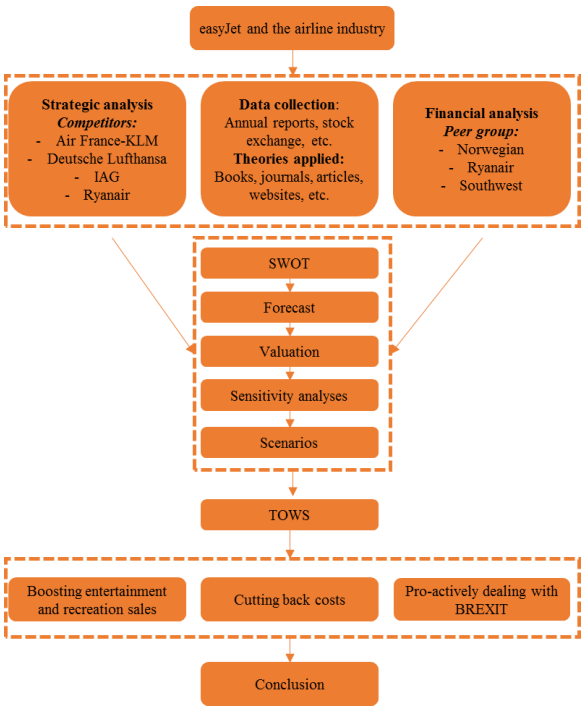

Figure 1: Thesis Structure

1.5 Delimitations

To provide the answer to the research question, the analyses concentrates on the core of the issues covered. However, the analysis references as, and if so, where required, when additional information on a details, not extensively covered for the purpose of the analysis, can be found or, and if so, that such information, based on the knowledge of the authors, is not publicly available. In addition, the following shall be noted here:

(i) As the analyzed companies' financial years differ from one another, annual reports are adjusted to a pro-forma financial year starting on September 30.

(ii) As Europe is easyJet's core market, the analysis restricts itself mainly to looking at the region's air transportation market, for both, low-cost and full-service carriers.

(iii) As easyJet is currently operating with its "target capital structure" (easyJet, Annual Report 2016, 2016), no adjustments have been made here with respect to e.g. WACC-related calculations.

(iv) All projections are based on the current market environment and do not account for future and unforeseen or unpredictable external and internal factors, respectively.

(v) Due to the current low level of interest rates and risk-free levels, the WACC is low, and consequently

the terminal value accounts for a large portion of the calculated enterprise and equity value.

(vi) easyJet's share price plummeted in response to BREXIT and still suffers from its atrocities, the forecast assumes (as the management does[11]), BREXIT will not change easyJet's business model, but also looks in different scenarios.

2 Outline: easyJet and the Airline Industry

To provide a base for the financial and strategic analyses, to contribute to a better understanding of easyJet and the industry, this section positions the company in the airline industry, by providing (i) a brief overview (history, shareholder and governance issues) and insight into (ii) easyJet's business and (iii) marketing approach, also analyzing (iv) its value chain proposition, (v) the markets the company operates in, (viii) market's shares, (ix) easyJet's competitors and (x) its peers. Based on this outline, easyJet's business model, competitors and peers materialize, and in order to prepare for answering the research question, especially the following sub-questions are answered in this section:

What is easyJet doing and how? How did the company develop? How is it organized and structured? Which services and products are offered? Who are easyJet's competitors? What and how are they doing? Which carriers comprise easyJet's peer group? Who are easyJet's and its peers' customers and where are they to be found? How do the peers' business models differentiate from each other?

2.1 Business Layout

In 1995 Sir Stelios Haji-Ioannou established easyJet plc. (from now on and also for the group: "easyJet", "easy" or "the company") in Luton (UK)[12]. From the beginning, easyJet aimed to provide a low-cost alternative in the European point-to-point air passenger transportation market, offering frequently scheduled flights and serving top-tier airports. Consequently, already in 1996 easyJet started to offer international flights to Amsterdam and Barcelona from its Luton hub. Two years later it bought a 40% stake in Swiss TEA Basel AG[13], adding to its operations a hub at Geneva airports only one year later. In 2002 easyJet took-over the LCC "Go", formerly owned by British Airways, and in 2007 "GB Airways"[14], also a low-cost carrier. Over time easyJet expanded its portfolio of routes and took up flights to e.g. Marrakech, Istanbul, and Rijeka. easyJet has built a strong presence: Today its fleet of 144 Airbus A319s (156-seats each) and 113 A320s (186-seats each)[15] services over 820 routes flying into and from more than 30 countries. Besides its first and main base at Luton

[11] Which is confident that the BREXIT will not have a substantial impact on the Group's strategy (easyJet, Annual Report 2016, 2016).
[12] Appendix 1 provides a detailed timeline of easyJet's history.
[13] easyJet thereafter operated under the acquired license of TEA Basel and rebranded the Swiss company "easyJet Switzerland".
[14] easyJet so far only acquired small regional market leaders from the low-cost segment and, therefore, has no experience with integrating larger and less core business-related acquisitions.
[15] Reflecting its ambitions, easyJet signed an option agreement with Airbus in 2017 regarding the acquisition of A320 Neo aircraft, an airliner with projected fuel savings of 5% compared to the current A320 model (BBC, 2013).

and its second at Geneva, easyJet now operates hubs, too, at Liverpool Airport (UK) and Dortmund International Airport (Germany). Its activities concentrate on the United Kingdom (47.1% of 2015 revenues), Southern Europe[16] (31.1%), and Northern Europe[17] (20.3%), while other geographical markets (1.6%) are of minor importance only. Currently, the company employs a total of more than 10,200 people (easyJet, Annual Report 2016, 2016).

2.2 Shareholder Issues

As one aim of this analysis is to investigate whether easyJet's business model and strategy create shareholder value, it is important to understand who easyJet's shareholders are, and whether they profited in the past from easyJet's performance, e.g. in terms of share price development and dividends.

2.2.1 Shareholder Structure

easyJet's share capital amounts to a nominal value of GBP 100 m and totals 397 m shares outstanding[18]. The Haji-Ioannou family, BlackRock, and Invesco hold a controlling stake[19]: the founder family owns 33.73%[20], BlackRock 11.1%, Invesco 10.02% and the free float comes at 45.10% (as per September 30, 2016) (Bloomberg, Shareholder Structure easyJet plc.)[21].

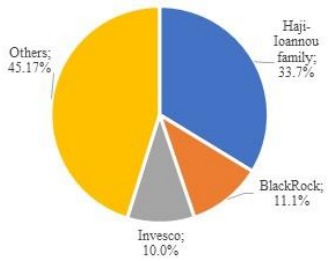

Figure 2: Shareholder Structure

2.2.2 Share Price

easyJet was brought to the exchange market in 2000. Its shares are listed at the London Stock Exchange under the ticker symbol "EZJ". The IPO price range was set from 250 to 350 pence, with 63 m new shares from a capital increase being offered. The shares were allocated to investors at 310 pence. Consequently, the company raised approximately GBP 195 m[22]. On November 22, 2000, the first trading day, the stock price increased to 341 pence. The share reached its all-time low of 251 pence on July 3, 2008, after losing a law suit against a customer (Daily Telegraph, 2008). On April 13, 2015 easyJet reached its all-time high of 1,892 pence per share, against the background of Andrew Findlay taking over the CFO position (Khan, 2015). As of November 15, 2016, easyJet's shares traded at 1,089 pence, the companies' market capitalization totaled approximately GBP 4.3 bn[23] (Bloomberg, Database, 2017).

[16] France, Italy, Spain, and Portugal comprise easyJet's Southern Europe business division.
[17] easyJet's Northern Europe activities comprise Belgium, Denmark, Estonia, and Germany.
[18] If not specifically stated otherwise, all numbers provided in Section 2 refer to the reference date (i.e. November 15, 2016).
[19] A controlling shareholder is an investor owning at least 10% of the votes in a company (Maury & Pajuste, 2002).
[20] The founder, Sir Stelios Haji-Ioannou, and his family hold their stake in easyJet via easyGroup Holdings Ltd. (easy, 2017).
[21] Airlines operating in the EU must be able to prove at any time, that they are to at least 50% owned by EU domiciled private or institutional investors. The potential implications from the rule following BREXIT will be discussed in Section 7.4.1.1 (Topham, 2017)
[22] The funds raised were used to fertilize the growth of the business (CNN Money, 2000).
[23] Appendix 2 provides easyJet's the share price performance relative to the industry.

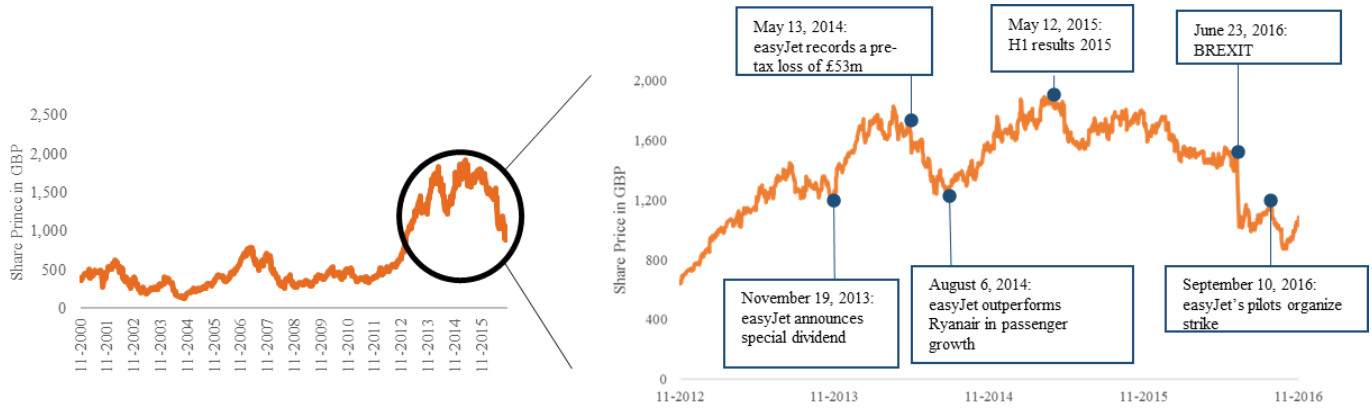

Figure 3: Share Price Development

2.2.3 Dividend Policy

Since 2011, just over half of easyJet's net profits were distributed to its shareholders in terms of dividends each year. The dividend yield, i.e. the dividend paid per share divided by the share price at the time, also increased. easyJet did not publicly announce a specific dividend policy, but easyJet is 33.7%-owned by the founder family, and Sir Stelios consistently asked for higher dividend payments over the last years. At the annual general meeting in 2016, he even threatened easyJet with a "token protest" against its dividend policy (Martin, 2016).

Year Ending:	30/09/2012	30/09/2013	30/09/2014	30/09/2015	30/09/2016
Final	21.50p	33.50p	45.40p	55.20p	53.80p
Special	-	44.10p	-	-	-
Total Dividend	21.50p	77.60p	45.40p	55.20p	53.80p
Dividend Growth	104.76%	55.81%	35.52%	21.59%	-2.54%
Dividend Yield	3.70%	2.60%	3.20%	3.10%	5.30%

Table 1: easyJet's Dividend Payouts

2.3 Corporate Governance

To better appreciate easyJet's strength and weaknesses, this section explores its corporate structure, as well as the board of directors and the executive management team, and lastly easyJet's employees.

2.3.1 Group Structure

easyJet is the parent company for six subsidiaries, through which the business is operated: 100%-owned and Luton-domiciled subsidiary easyJet Airline Ltd. runs the overall day-to-day affairs. 49%-owned easyJet Switzerland[24] (the successor of TEA Basel) operates all scheduled flights out of and into Geneva Airport and EuroAirport Basel-Mulhouse-Freiburg. easyJet Leasing Ltd. and easyJet Sterling Ltd., both domiciled at Cayman Islands, are the group's aircraft trading and leasing companies. Dawn Licensing Holdings Limited and Dawn Licensing Limited are a holding company and a graphic design firm; both based in Malta and 100%-

[24] easyJet holds an option to acquire the remaining 51% stake. The option is automatically extended for a further year on a rolling basis, unless the option is terminated by written agreement prior to the automatic renewal date (easyJet, Annual Report 2016, 2016).

owned by easyJet[25].

2.3.2 Board of Directors

easyJet's board of directors[26] is structured as a Tier 1 or single board of directors[27, 28]. The board is led by John Barton and consists of a total of nine members, of which five are classified by easyJet as independent non-executive directors. The board is balanced between dependent (also known as inside) and independent (also known as outside) directors. Inside directors represent the interest of major shareholders, officers, and employees[29], and are seen to add value through company and industry specific expert knowledge. Independent directors are not involved in the company's daily business, but are expected to add valuable views from the outside (Berk & DeMarzo, 2013). Furthermore, the board currently splits into six committees, with responsibility for: (i) supervising safety issues, (ii) determining remuneration policy, (iii) aligning accounting policies, (iv) nominating the board of directors, (v) overseeing treasury and funding policies, and (vi) providing consultancy for IT projects (easyJet, Annual Report 2016, 2016).

2.3.3 Executive Management and Employee Relations

easyJet's executive management team of nine[30] is headed by the chief executive Dame Carol McCall. Before joining easyJet in July 2010, Dame Carol headed Guardian Media, and Tesco. The lack of any airline background indicates, the board of directors values her general leadership skills and operational experience. However, three other members of the team worked in the industry prior to joining easyJet: two of them for TUI. Chris Brocklesby, the former CIO of Tesco Bank, and in this role driving Tesco Bank's online development, stands for easyJet's technology focus and edge. Of easyJet more than 10,200 employees, around 93% work in flight and ground operations, the balance in administrations. At Lufthansa for example only 46% of the employees are directly involved in flight operations (Deutsche Lufthansa, Annual Report 2015, 2015), pointing out easyJet's lean operations. In general, airline employees are to around 80% organized in labor unions (Chandrappa, 2014). In the case of easyJet, around 2,000 cabin crew members (from a total of more than 4,500) are organized via Unite[31], a number accounting for around 20% of the total workforce, which is rather low when compared to the industry (Noble, 2015). A high level of union representation can have advantages and disadvantages for a company. In the case of easyJet, Unite e.g. organized a strike of its members over a dispute regarding the employees' average GBP 25,000 salary and the GBP 6 m plus paycheck

[25] Appendix 3 provides a chart indicating the corporate structure.
[26] This paragraph refers to easyJet's board of directors as of reference date (i.e. November 15, 2016).
[27] A single or Tier 1 board of directors gives both managerial and supervisory responsibilities to one single body while a dual or Tier 2 board gives these responsibilities to two separate bodies (i.e. boards) (Block & Gerstner, 2016).
[28] The corporate governance theory provides insight into how a board of directors is meant to align the interests of all stakeholders and how to install checks and balances, that allow for an effective management and control of the business (Berk & DeMarzo, 2013).
[29] No employee representatives are part of the board, which may be due to the fact, that 19 unions and nine bodies in eight countries stand in for the employees' interests (easyJet, Annual Report 2016, 2016).
[30] Appendix 4 provides an overview of the management team and details regarding the past experience of its nine members.
[31] Unite, the labor union, also represents the workforce of British Airways and Thomas Cook (Unite, 2017).

pocketed by the CEO in July 2015. However, the flipside is, due to Unite, easyJet knew with whom to speak and to efficiently reach an agreement.

2.4 Business Specifics

In the following section easyJet's operations will be introduced, including its: corporate strategy, business development, and specific characteristics.

2.4.1 Corporate Strategy

easyJet focuses on delivering great customer experience while being the leading short-haul airline in Europe (Powley, 2016). Its corporate strategy is based on the following six strategic pillars (easyJet, Annual Report 2016, 2016).

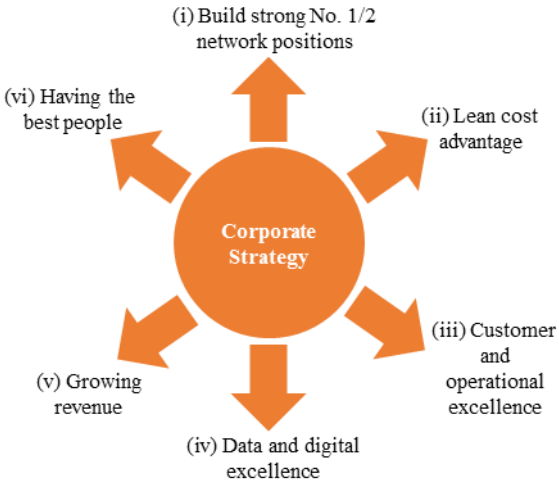

Figure 4: Corporate Strategy

2.4.1.1 Number One and Two Positions

easyJet's first pillar is the strong position in the Top 10 European markets, as it today holds positions in 16 Tier 1 countries (by GDP). For the future, easyJet has identified several target markets that are expected to also allow for building number one and two positions (easyJet, Annual Report 2016, 2016).

2.4.1.2 Lean Cost Advantage

easyJet's second pillar describes its lean, cost focused culture that aims to cut costs without giving up its Tier 1 airports or watering down its offer. Especially employee costs are already low relative to industry standards[32]. Overall, the lean culture of easyJet provides advantages when it comes to looking for additional savings and lower costs per seat (easyJet, Annual Report 2016, 2016)[33].

2.4.1.3 Customer and Operational Excellence

Customer and operational excellence, easyJet's third pillar, aims to always ensure its passengers a punctual departure and arrival and, therefore, to increase customer satisfaction while reducing disruption costs at the same time (easyJet, Annual Report 2016, 2016).

[32] According to the International Transport Workers Federation, fixed wages of low-cost carriers are 5 to 50% below those paid by premium airlines (ETF, 2014).
[33] Section 7.3 refers to the lean culture, as it suggests further cost cutting measures.

2.4.1.4 Data and Digital Excellence

easyJet's fourth pillar focuses on the usage of data and digitalization to create competitive advantages and easyJet already leverages data and digital platforms to further enhance its strong market position (easyJet, Annual Report 2016, 2016)[34].

2.4.1.5 Growing Revenue

easyJet's fifth growth driver is the clear focus on seat revenue growth, primarily by expanding into the business passenger segments. However, non-seat revenues only account for one percent of total revenues, a very low number relative to its peers, and, consequently, leaving substantial room for improvement (easyJet, Annual Report 2016, 2016)[35].

2.4.1.6 Having the Best People

easyJet believes it is the peoples' quality that makes the company stand out. Accordingly, the sixth strategic pillar is to ensure personal and professional development of staff, by efforts such as the new academy in Gatwick, which provides training facilities, classrooms, cabin simulators and more (easyJet, Annual Report 2016, 2016).

2.4.2 Business Development

Already in 1998, easyJet introduced an online booking tool to its website, thus underpinning its aspiration to be a technology leader. Only two years later over 85% of all seats were sold online, while the industry average was 7.4% (Yang, 2001). Since then, features, such as automated passport recognition for check-in, were launched, helping to keep operating costs under control. In 2006, easyJet e.g. entered into a ski partnership with Iglu, offering a one-stop-shopping solution for ski trips. A collaboration agreement with HostelWorld.com, the provider of online reservations, was signed in 2009. On such middleman-activities easyJet earns a commission[36]. In 2016 easyJet introduced pre-purchased in-flight vouchers (to cover e.g. food and drinks) to increase non-seat revenues. As a consequence of the approach to compete with premium airlines, easyJet since 2011 offers business travelers flexible fare structures that combine low prices with flexibility (e.g. rebooking flights on short notice). This "easyJet Flexi"[37] product was a success and boosted revenues from business travelers by 14% until 2016. In general, the low-cost carrier market grew by 25% over the last decade; easyJet expanded its revenues by 57% (188.3%) to GBP 4,669 m over the last six (10) years – further growth is to be expected for both: the market and easyJet (Strategy&, 2015).

[34] Section 2.5.1 provides examples, such as real time fare pricing to demand, how data analysis and digitalization add.
[35] Section 7.2 provides more details and suggests measures to increase non-seat revenues.
[36] easyJet does not disclose commission revenues separately.
[37] "easyJet Flexi" especially allows to change date and time of a flight up until two hours before the scheduled departure time.

2.4.3 Business Characteristics

The following section describes important business characteristics, namely: easyJet's focus on innovation, hedging activities, fleet, and route network (i.e. destinations served).

2.4.3.1 Focus on Innovation

To enable further growth and to enhance its operations and profitability, easyJet states, it is constantly looking for new and cost efficient ways to attract and sustain customers. easyJet, like low-cost providers in other industries, e.g. Costco, the US warehouse company, (Thain & Bradley, 2012) considers itself to be an innovation leader: easyJet offers e.g. the possibility to check-in using its proprietary mobile app[38] or by using mobile host technology provided at its airports. Furthermore, easyJet's efforts include: (i) a mobile boarding pass that allows customers to check-in in less than 10 seconds, (ii) a flight tracker[39] included in its mobile app, (iii) the opportunity to pay via Apple Pay, becoming the first UK airline and one of the first airlines in western Europe to offer this service (Tore, 2016), (iv) app-based passport recognition, to allow for a faster check-in, and (v) self service luggage check-in facilities at most of its airports (easyJet, Innovating the travel experience, u.d.). For the future, easyJet e.g. plans to use drones and robotic technology to better and quicker inspect its aircraft; today these inspections ground an aircraft for more than a day, with no revenues earned and lower accuracy than the new technology can offer. easyJet also plans to deploy 3D Virtual Reality to e.g. reduce the time spent between engineers and pilots discussing solutions for operational issues. easyJet's focuses on innovations that do not only reduce costs in the long term but also make travel safer, easier, and potentially less costly, in other words: with an intention to improve efficiency and profitability, while simultaneously creating a competitive advantage (easyJet, Innovating the travel experience, u.d.).

2.4.3.2 Hedging Activities

Airlines are highly dependent on the price of oil, as this is one of the key cost components[40]. Furthermore, oil price volatility provides airlines with a risk of instantly changing prices, which can substantially harm business and profits. As a result, measures to protect from sudden changes in fuel prices are important to the industry and most of the major airlines are hedging their fuel exposure using a variety of jet fuel, gas oil and/or crude oil derivatives[41]. As a rule, a carrier aims to hedge the next 12 months' fuel exposure on a roll-over basis, however, it is rare to find that more than 80% of the need can be hedged beyond three months ahead (Morrell

[38] Since its launch in 2011, the app has won several industry accolades; it has been ranked in the Top 5 Travel Apps Chart in 94 countries and had 48 No. 1 positions in the App Store (Airline Suppliers, 2016). As per reference date, the App was downloaded more than 18 m times.
[39] easyJet was the first airline in the world to work with Flightradar24 to integrate live flight tracking in its mobile app (Evers, 2015).
[40] IATA estimates fuel costs account for 19% of the global industry's total operating costs (IATA, Fact Sheet - Fuel, 2016).
[41] In general, hedging is used to reduce the risk of (potentially adverse) price movements of an underlying (asset) by taking on an additional position in (the same or related) assets (e.g. by means of futures), however, with a price development that counterbalances the development of the price of the underlying (Smith & Stulz, 1985).

& Swan, 2006). A hedging strategy, furthermore, cannot be considered an instrument for indefinite fuel cost savings; it solely reduces volatility over the budget's horizon. In times of a price downturn, hedging even leads to opportunity costs (Adams, 1997), and if oil remains high for a long enough time, all market participants have to finally face and pay these prices. To reduce short-term earnings volatility further, easyJet also hedges currency exposure. In total and on a rolling basis between 65% and 85% of the next 12 months' and between 45% and 65% of the following 12 months budgeted fuel and currency exposures is hedged by easyJet (easyJet, Annual Report 2016, 2016)

2.4.3.3 Fleet of aircraft

easyJet flies 240 airlines in total, operating only two aircraft types: (i) 144 Airbus A319 (156-seats each), and (ii) 113 Airbus A320 (186-seats each). The company is considered the world's second largest operator of an Airbus A320 family fleet. For the future, easyJet plans to acquire 166 aircraft[42] from the renewed Airbus A320 family, with a total list price (i.e. before discounts) of USD 14.8 bn. Looking at easyJet's history, it is worth stating, that the company's previously announced plans when and how to increase its fleet over time, often differed from reality. For example, in 2016 the company intended to operate 259 aircraft, the actual number, however, is 257. The reason for such deviations is, that easyJet constantly investigates and evaluates the economic conditions and adjusts the actual fleet size accordingly. The company currently estimates that by 2019 between 204 and 316 aircraft will be operated, the actual number depending on the industry environment[43]. The homogeneity of its fleet, however, has two main advantages: On the one side, easyJet benefits from economies of scale on new purchases[44]. On the other side, operating a homogeny fleet also decreases maintenance costs, and other operating costs (e.g. training) significantly[45].

2.4.3.4 Destinations Served

easyJet serves over 820 routes with an emphasis on the United Kingdom, western European countries and sought after holiday destinations such as the Canary Islands, Turkey, and North Africa. Central and Eastern Europe airports are only served selectively: easyJet for example operates one airport in Poland[46] compared to Ryanair's 14. On average easyJet owns an estimated 22% of the entire capacity at each of its top 20 airports, and over 83% of easyJet's total capacity is (for good or bad) bound to these airports. Based on the numbers, easyJet claims a leading market share in 46% of its airports, including London Gatwick, Milan Malpensa, and

[42] These aircraft are expected to be delivered between 2017 and 2022. The deliveries shall be made as follows: 2017: 21 aircraft, 2018: 5 aircraft and the balance until 2022. In addition, easyJet has bought an option to acquire 100 aircraft that are more fuel-efficient than the currently operated models (easyJet, Annual Report 2016, 2016).
[43] The requirement for flexibility needs to be taken into account, too, when forecasting easyJet's prospects; Section 5 provides the modeled forecast for the financial years from 2017 to 2023 (both years included)
[44] The exact price discounts are not publically available due to corresponding non-disclosure agreements.
[45] There is no information available, to what number these cost advantages amount to, but the literature is certain: they are substantial (Prologis, 2014).
[46] Section 2.8.2 provides a full list of all countries easyJet serves.

Geneva, and a secondary position in a further 30%, including Paris Charles de Gaulle and Amsterdam. According to easyJet a No. 1 airport and route deliver 50% more to the top- and bottom-line than a No. 2 position and, therefore, focuses on strengthening its position at important airports (easyJet, Annual Report 2016, 2016). Competitors, such as Ryanair, follow a different road: they try to offer customers as many routes as possible, Ryanair e.g. over 2,000 different scheduled routes involving approximately 200 airports (Ryanair, Annual Report 2016, 2016).

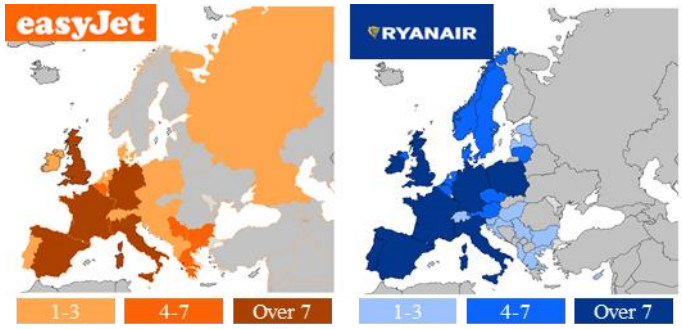

Figure 5: Airports Served easyJet vs. Ryanair

2.5 Marketing Approach

As seen before, easyJet's business approach includes a focus on innovations and their early implementation into business[47]. The following section, therefore, highlights easyJet's technological edge and its importance for the data analytics based dynamic pricing, its loyalty program, and easyJet's approach towards alliances, which are a well used feature of the airline industry.

2.5.1 Data Analytics and Dynamic Pricing

easyJet believes in the merits of a dynamic pricing strategy that is based on the following principles: (i) only limited last minute deals, (ii) a single class for all passengers, and (iii) a varying duration of sales. Dynamic pricing is subject to supply and demand, therefore, as an aircraft's (i.e. "a specific take-off time's") capacity fills, prices increase. With this "the-early-bird-gets-the-worm(-cheaper)" strategy, easyJet rewards customers who purchase their tickets well in advance. Other low-cost airlines follow an opposing approach: they use (extremely) cheap last minute deals to fill capacity (Koenigsberg, Muller, & Vilcassim, 2008). easyJet and Ryanair, too, have announced huge investments in data science, to track down loyal clients. However, both carriers are taking different routes when it comes to using this data: Ryanair gathers data to sell optional extras. easyJet tracks billions of searches made annually on its website and uses algorithms that translate the

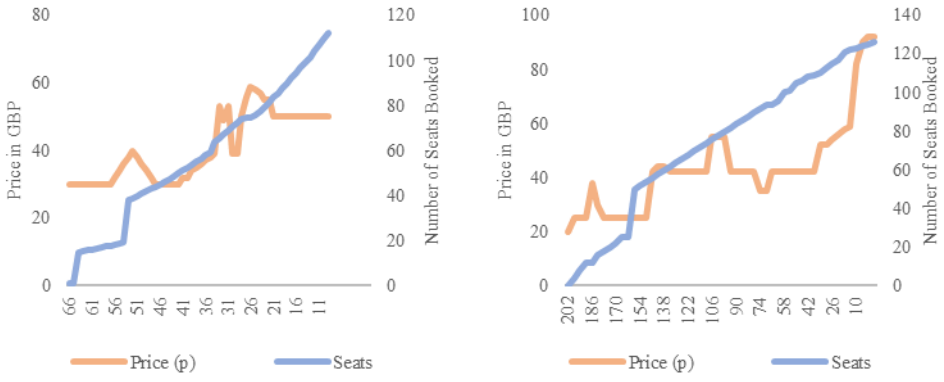

Figure 6: easyJet's Dynamic Pricing Strategy (Over Days Until Departure)

[47] Section 2.4.3.1 provides more details.

(prospective) travelers' decisions (e.g. ticket bought or not, preferred routes and travel times) to adjust seat prices real time and to optimize destinations, and travel time, for the benefit of increasing revenues and profit (Humphries, 2016). Looking exemplary at the price development for a flight from Liverpool to Alicante with a scheduled departure on January 27, 2003, and at the development for a flight from London to Edinburgh scheduled for July 21, 2003, it becomes visible how easyJet applies real-time pricing based on supply and demand, and that prices increase when the departure date approaches over time (Koenigsberg, Muller, & Vilcassim, 2008). As said before, "easyJet Flexi" has been introduced to attract business travelers (easyJet, Annual Report 2016, 2016) and such fares are available on all flights and include benefits such as: (i) unlimited free flight changes, (ii) free route changes, (iii) one piece of checked-in luggage, (iv) one piece of hand baggage, (v) fast check-in, (vi) fast-track security, and (vii) an up to GBP 5 voucher to be spend on in-flight food and drinks[48].

2.5.2 Data Analytics and Loyalty Programs

Historically, low-cost airlines did not offer loyalty programs. However, in 2016 both easyJet and Ryanair[49] started such schemes. easyJet introduced a flight club for its most valuable flyers, which were identified by the customer database. The flight club intends to reward loyal customers and to also attract their friends and family through benefits such as (i) free name changes on tickets, (ii) free booking changes, and (iii) discounted prices. Resulting from these efforts, 74% of easyJet's seats are booked by returning loyal customers in the UK, France, Switzerland, and the Netherlands. Furthermore, easyJet offers an "easyJet Plus" membership, and the number of participants here has gone up in 2016 by 40% (e.g. due to online marketing). "easyJet Plus" includes extra benefits such as (i) free choice of seats, (ii) faster baggage drop, (iii) fast-track security, (iv) faster boarding, and (vi) additional hand luggage. It also provides an additional revenue stream for easyJet, as membership is available at GBP 199 p.a. (easyJet, Annual Report 2016, 2016).

2.5.3 Approach to Airline Alliances

Alliances are agreements between two or more airlines to cooperate on an operational level, e.g. by means of inter-airline code sharing. The three largest alliances include: (i) Star Alliances (operating 23% of the total global scheduled traffic), (ii) SkyTeam (with a 20.4% market share), and oneworld (17.8%)[50]. Alliances have several advantages, including an extended network, through the aforementioned code sharing. Furthermore, cost savings can result from jointly using sales offices, maintenance facilities, operational facilities, and staff (Swelbar, 2009). Even though easyJet is, contrary to most of the full services carriers, not part of any such

[48] Traditional carriers, such as Lufthansa or Air France-KLM, have a long history in serving the business travelers market, and other low-cost carriers, such as Ryanair, too, introduced business fares. Ryanair e.g. since 2014 offers the so called "Business Plus" package, which includes (i) fast-track security, (ii) priority boarding, (iii) premium seats, (iv) flexibility on flight changes, and (v) a 20 kg checked-in bag allowance (Smith G. , 2014).
[49] Ryanair followed easyJet when introducing their loyalty program in April 2016.
[50] Appendix 5 provides a full list of all Star Alliance, Appendix 6 of all SkyTeam, and Appendix 7 of all oneworld members.

alliance[51], it has agreements with other airlines to mutually benefit from each other. In 2013 easyJet e.g. entered into a code sharing agreement with Transaero Airlines, a Russian carrier, under which Transaero sells a limited number of seats on easyJet's UK-Russia routes. easyJet, too, has an agreement with Emirates, which enables easyJet to be active on markets such as the UAE. Such relationships can be considered "quasi alliances".

2.6 Value Chain Analysis

As already described, easyJet business model builds on key stones: (i) it offers point to point short-haul flights (predominantly in Europe) and focuses on Tier 1 and Tier 2 airports, (ii) it targets leisure as well as business travelers, (iii) is specialized in passenger transport (i.e. easyJet does not offer any freight related services), and (iv) offers its passenger, next to the core product (i.e. transport), non-seat services, such as transfer to and from the airport as well as loyalty programs[52]. easyJet works closely with its suppliers, but has never tried to vertically integrate. easyJet operates a homogenous fleet, comprising of only two different types of aircraft[53]. Against this background, this section's value chain analysis investigates easyJet's activities and products, to find out where and to what extent they add value and, therefore, create profit. As a result, this section describes (i) easyJet's primary and support activities (Kaplinsky, 2000)[54], (ii) its value proposition, and (iii) its product portfolio.

2.6.1 Primary and Support Activities

easyJet's main inbound logistics include: (i) routes, (ii) passenger services, (iii) pricing, and (iv) fuel costs. easyJet operates over 820 routes in more than 30 countries, and it serves each year more than 60 m passengers[55]. As a low-cost carrier it offers travelling at perceived low-price fares, it tries to be fuel efficient for the benefit of environment and for keeping costs in check, and it also aims for reducing an aircraft's weight by using lighter seats and installations or by using nanotechnology paint. easyJet's main operations comprise: (i) scheduling flights and crews, (ii) ticket counters, (iii) safety service, (iv) (other) ground operations, and (v) in-flight services. The company manages over 500 flights a day, and its cabin crew totals more than 4,500. easyJet operates ticket counters at all destinations, even though most the tickets are sold online today. Furthermore, easyJet pays attention that the highest safety level is always guaranteed. In addition, factors influencing the operations include: (i) weather, (ii) traffic, and (iii) flight management. easyJet does not offer free in-flight food, but provides the opportunity to buy food and drinks from flight attendants during the flight.

[51] easyJet, however, participates in Airlines for Europe, an association founded in 2016, intending to promote the interests of European airlines and their passengers (Agence France-Presse, 2016).
[52] Section 2.5.2 provides more details.
[53] Section 2.4.3.3 provides more details.
[54] Primary activities are seen to provide competitive advantages in the fields of: (i) inbound logistics, (ii) operations, (iii) outbound logistics, (iv) marketing and sales, and (v) services. Support activities facilitate the efficiency of the primary activities. They are often referred to as a company's overhead (costs) and include: (i) procurement, (ii) technological development, (iii) human resources management, and (iv) infrastructure. Increasing the efficiency of any of the four improves the profitability of the primary activities.
[55] Section 3.4.1 provides more details.

It has two main outbound logistics: (i) baggage system and (ii) rental car and hotel reservation. Baggage system includes that each passenger is allowed to bring his or her luggage to the plane. Furthermore, the passengers can combine their flight booking with rental car or hotel reservations. easyJet promotes its ticket sales via search engines and travel flight comparison websites and offers e-tickets. Furthermore, easyJet uses marketing campaigns with slogans like "come fly with us" to attract customers (easyJet, Annual Report 2016, 2016).

2.6.2 Value Proposition

easyJet's services are described by its value proposition and include: (i) commitment to customer satisfaction, (ii) Internet and telephone sales (no reimbursement for missed flights), (iii) credit card payments (and acknowledgement through a 6-character booking reference number), (iv) no pre-assigned seating (first come, first serve), (v) fill as much seats as possible, and (vi) punctuality. Its strong brand awareness and reputation helps to attract new and loyal customers. Moreover, easyJet especially attracts young travelers. Technology, too, supports the primary activities, as easyJet deals with external companies such as Sopra and Microsoft to make its IT business model work smoothly (emailing, online reservations, customer base and CRM). easyJet has also launched several programs to enhance its relationship with suppliers. It established role reversal exercises and frequent workshops and simulations with sub-contractors to explain its values, mission, and expectations. Additionally, easyJet designed an innovative system that measures and evaluates a supplier's performance and tries to make them involved, pro-active, and productive, which ultimately increases the product quality (easyJet, Annual Report 2016, 2016).

2.6.3 Product Portfolio

easyJet offers: (i) passenger transportation services, addressing both retail and business travelers, and (ii) aircraft trading and leasing, also to manage its fleet capacity effectively (easyJet, Annual Report 2016, 2016) The main revenue stream, however, is the passenger transport, which generated GBP 4,587 m in 2016 (equivalent to 99% of its total revenues). However, due to the volatility of the external environment, e.g. the interest rate development, fuel prices and political decisions (e.g. BREXIT)[56], a trend and need to create new sources of (non-seat) income is evident. Therefore, easyJet now offers access to a range of related products, such as hotel reservations, car rental services, and insurance, some of them in partnerships, e.g. with Europcar. Such services generated GBP 82 m in 2016, which represents a growth of 17% relative to 2015, but non-seat revenues still only account for 1% of total revenues. easyJet intends to explore new channels, agreements, and even collaboration with other airlines, to enhance further growth in non-seat revenues (easyJet, Annual Report 2016, 2016)[57]. In general, airlines divide ancillary revenues (comprising easyJet's so called "non-seat revenues") into two groups: (i) à-la-carte products (services directly linked to the genuine act of transport,

[56] The external factors relevant for easyJet are discussed in details in Section 4.2.
[57] Section 7.2 provides more details and suggests measures to increase non-seat revenues.

including e.g. additional legroom or in-flight meals and drinks, perhaps linked to some kind of club membership) and (ii) third party products (services more loosely connected, and regularly provided in partnership with other companies, such as e.g. car rental companies or hotels[58]). The chart shows elements comprising à-la-carte and third party products, items in black refer to products currently offered by easyJet (Warnock-Smith, O'Connell, & Maleki, 2015).

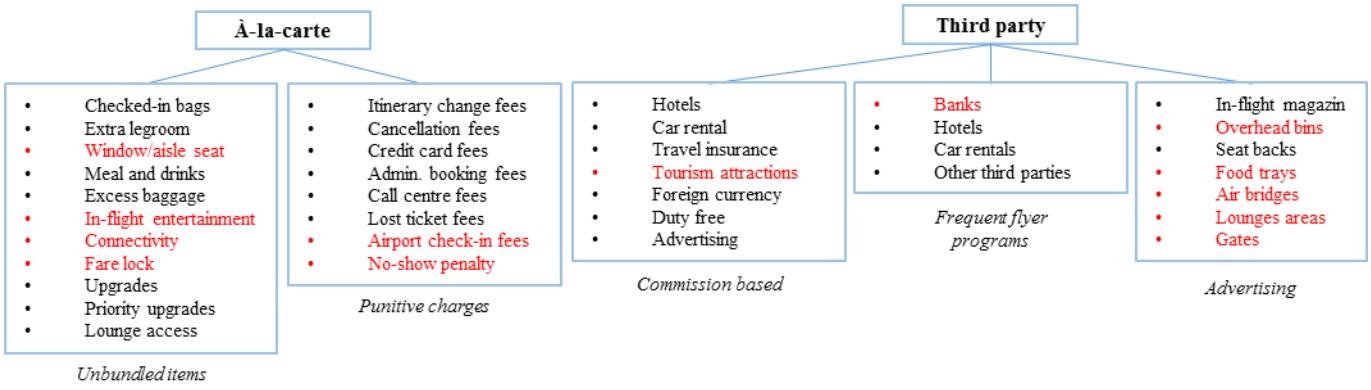

Figure 7: An Airline's Product Portfolio

2.7 Operated Markets

Besides looking at easyJet business model, it is essential to understand the market easyJet operates in, consequently this section segments the industry by (i) provider (low-cost vs. full-service), (ii) customer (leisure vs. business), and (iii) geography (e.g. UK and Germany).

2.7.1 Provider Segments: Low-Cost vs. Full-Service Carriers

Due to its special characteristics (such as e.g. securing access to strategically important goods, "connecting the world", representing the country of origin abroad), the aviation industry was ever since in the focus of the regional government, and governments across many, if not all major countries, even claimed control over the industry and, correspondingly, many carriers historically were national airlines owned and supported by their country of domicile (Chan D. , 2000)[59]. The predominantly state-owned airlines of the 20th century faced regulations and inefficiencies (Winston, 1993), for example: (i) CAB developed a formula to set the fares for air transportation[60], (ii) bilateral international agreements regulated the routes a carrier could offer, unable, too, to adjust fares or equipment. However, in the light of the global trend of increasing deregulation, including the

[58] For selling third party products the carrier regularly receives a commission.
[59] Still today, airlines (Aeromexico, Etihad, and Singapore Airlines, et al.) are of high importance for the development and the international perception of a country and its government and sometimes even seen an "ambassador" or "object of national pride" or a measure to promote tourism (e.g. in developing countries) (Henkins & Henry, 1980).
[60] This formula generally elevated fares above marginal costs for medium- and long-haul trips and below marginal costs for short-haul trips (Winston, 1993).

"liberalization of the skies"[61], the airline industry has changed rapidly over the last decades and two main business models developed: (i) low-cost and (ii) full-service carriers[62]. As the large former, yet privatized or still national airlines tried to hold on to the traditional business models (i.e. a premium full-service offer for a high fare), the demand for cheaper alternatives increased and to close the gap during the 1990s and a new wave of entrant carriers stepped in and began to offer low-cost, low-fare scheduled services. Reacting to the new LCC competition, FSC started to redefine their strategy, and focused on areas, in which LCC could (initially) not compete, such as business travellers and long-haul (Reynolds-Feighan, 2001). However, over time LCC expanded and began to compete for business travellers, too, and also to offer long-haul routes (e.g. LCC Norwegian offers flights to the US and Asia). Counter attacking, FSC started to introduce proprietary LCC services (e.g. Lufthansa today operates low-cost carrier Eurowings)[63]. And based on revenue passenger kilometers, FSC are still leading: The biggest LCC, Southwest, is the worlds 8th largest airline with 16.8 bn revenue passenger kilometres[64] (Statista, Leading airlines worldwide in December 2016, based on revenue passenger kilometers (in billions) , 2016). Nevertheless, during the last decade LCC won market share in terms of the worldwide seat capacity: In 2006, they accounted for 15.7%, in 2016 they already owned 25.5% (+62.4%) (Statista, Low cost carriers' worldwide seat capacity share from 2007 to 2016 , 2016)[65]. Airline experts assume easyJet and Ryanair will between themselves share 35% of the intra-European market by 2024 and further growth is expected thereafter (Marello, 2015)[66].

Product Features	Low-Cost Carriers	Full-Service Carriers
Brand	One brand: low fare	Brand extensions: fare + services
Fares	Simpler fare structure	Complex fare structure + yield management.
Distribution	Online and direct booking	Online, direct, travel agent
Check-in	Ticketless	Ticketless, IATA ticket contract
Airports	Secondary (mostly)	Primary
Connections	Point-to-point	Interlining, code share, global alliances
Class segmentation	One class (high density)	Two class (dilution of seating capacity)
Inflight	Pay for amenities	Complimentary extras
Aircraft utilization	Very high	Medium to high: union contracts
Turnaround time	25min turnarounds	Low turnaround: congestion/labor
Product	Focused on some key products	Multiple integrated products
Ancillary revenue	Advertising, onboard sales	Focus on the primary product
Aircraft	Single type: commonality	Multiples types: scheduled complexities
Seating	Small pitch, no assignment	Generous pitch offers seat assignment
Customer service	Generally, under performs relative to FSC	Full service offers reliability
Operational activities	Focus on core	Extensions: e.g. maintenance, cargo

Table 2: Low Cost Carriers vs. Full Service Carriers

[61] "Open Skies" is an international policy concept that calls for the liberalization of the rules and regulations on the international aviation industry in order to create a free-market environment for the airline industry to prosper (Button, 2009).
[62] Charter airlines, too, have developed in the passenger transport market; however, many of them have been taken-over in the meantime by FSC. As charter carriers today have only a minor market share of e.g. 4% in 2015 (Network Manager, 2016), they are not included in the analyses. Buck & Lei, however, analyze in details whether or not they have a future (Buck & Lei, 2004).
[63] O'Connell & Williams analyze differences between low-cost and full-service carriers in details and Table 2 refers to their research (O'Connell & Williams, Passengers' perceptions of low cost airlines and full service carriers: A case study involving Ryanair, Aer Lingus, Air Asia and Malaysia Airlines, 2005).
[64] Appendix 8 provides a full list of the leading airlines based on revenue passenger kilometers.
[65] Appendix 9 provides more details on the development of LCC's market shares.
[66] The model arrives a more conservative market share growth. Section 5 provides more details.

2.7.2 Passenger Groups: Leisure vs. Business Traveler

Product portfolio differ, but LCC easyJet and FSC nevertheless directly compete as (i) both target leisure and business travellers, and (ii) both service Tier 1 airports, and when deciding if, and if so, with whom to fly, both passenger groups share decision criteria, such as: (i) distance to destination and (ii) the possibility of collecting frequent flyer miles (the later of greater importance for business travellers) (Proussaloglou & Koppelman, 1999). The main difference between the two is the relative price sensitivity. Consequently, LCC, like easyJet, offer passenger groups specific fare structures[67].

2.7.2.1 Leisure Traveler's Characteristics

Leisure travellers are an important part of easyJet's operations and the market is increasing[68]. Due to their high price sensitivty, leisure travelers account for the largest portion of LCC passengers, in other words: as long as LCC and FSC offer the same routes and destinations they tend to opt for the LCC (Proussaloglou & Koppelman, 1999) and pay less attention to flight quality and travel time (Martinez-Garcia, Ferrer-Rosell, & Coenders, 2011). Moreover, leisure travellers are less frequent flyers, and need more assistance, e.g. during boarding, which increases the carriers operating costs e.g. in terms of taxi time[69] (Dresner, 2006). Another characteristic of leisure travellers, is that they tend to travel in small groups, consequently, when an airline attracts one, it is likely that friends will follow (O'Connell & Williams, Passengers' perceptions of Low Cost Airlines and Full Service Carriers: A case Study involving Ryanair, AerLingus, Air Asia and Malaysia Airlines, 2005).

2.7.2.2 Business Traveler's Characteristics

Business travellers also provide a significant trade as they, too, appreciate lower prices and a growing level of flexibility. In contrast to the leisure travellers, business travellers, however, are (i) more often frequent flyers, and (ii) more driven by the necessity to plan their travels more flexible[70], and (iii) more likely to choose a flight, that minimizes the distance from airport to their final destination (Dresner, 2006). As a result, they are less price sensitive and more time sensitive (therefore, e.g. online check-in tools are of great importance), when travelling to "important (client-related) meetings", and less for "unimportant meetings" (i.e. internal meetings without a client attending) (Proussaloglou & Koppelman, 1999). Their preference for LCC or FSC also depends on the employer's[71].

[67] Section 2.6.3 provides more details on the different offering for both groups.
[68] Leisure air travel increases, too, as people tend to have more holidays p.a. (Goodwin, 1981).
[69] It is, however, assumed that ongoing innovation makes traveling more convenient for them; Section 4.2.4 provides more details.
[70] Business travellers value the possibility to change their flight schedule without being penalized, as they have less control over their daily schedule.
[71] Due to costs, self-employed business travellers prefer LCC over FSC (O'Connell & Williams, Passengers' perceptions of low cost airlines and full service carriers: A case study involving Ryanair, Aer Lingus, Air Asia and Malaysia Airlines, 2005).

2.8 Market Share

As people in general, due to an average increase in income and wealth, can afford more traveling, and also resulting from globalization, the air transportation market grew constantly in the past, with a global market growth rate of 4 to 5% p.a. (World Tourism Organization, 2016). Back in 2011 airlines transported approximately 2.7 bn passenger; by 2016 the number increased to 3.4 bn (+25.9%) passengers traveling the globe by air and additional growth can be expected, as the global GDP rises further[72].

2.8.1 Regional Market

Regarding geography, the airline industry is divided into five key regions and markets: (i) Europe, (ii) North America, (iii) Asia-Pacific, (iv) South America, and (v) Africa. Europe, North America, and Asia-Pacific, served 1.2 bn, 953 m, and 932 m passengers, respectively, South America (178 m) and Africa (237 m) took care of the balance. All five regional markets developed positively over the last six years; however, Asia-Pacific outperformed substantially and increased its global market share by 4% to 33.6% in 2015. The strong increase has several drivers, including the GDP and the liberalization of the region's markets (IATA, IATA Forecasts Passenger Demand to Double Over 20 Years, 2016). The European market did not grow as strongly as the global, as passenger numbers accrued from 769 m in 2011 to 932 m in 2016 (+21.2%)[73]. easyJet's market share amounts to approximately 7.8% in 2016, having increased over the last seven years by 0.7 percentage points p.a. The European market is expected to grow by a further 2.5% p.a. until 2035, adding 570 m passengers each year, and reaching 1.5 bn by 2023 (i.e. the end of the model period) (IATA, IATA Forecasts Passenger Demand to Double Over 20 Years, 2016). The UK and Germany are the largest European markets, serving 134 m and 110 m passengers, respectively, in 2016. Regarding growth, the Netherlands (+25%, 33.7 m passengers in 2016), and Portugal (+29%, 18.3 m) were the top performers over the last years. The European air transportation market concentrates on a relatively small number of airports, most often only one per country: in France e.g. Charles De Gaulle is the largest airport, handling 652 daily departures on average, runners up are London Heathrow (649) and Frankfurt (641)[74].

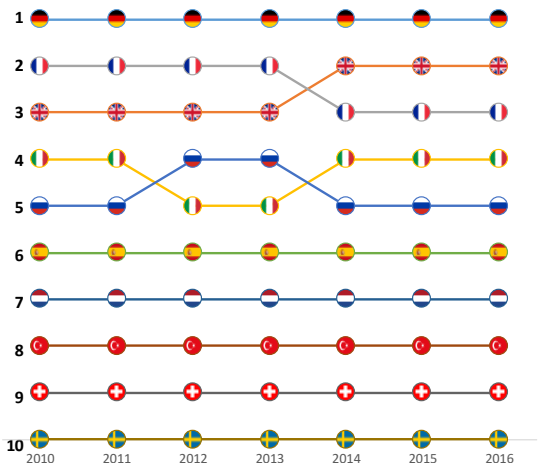

Figure 8: Top 10 European Countries According to GDP

2.8.2 Market Shares

After looking briefly into the global airline market, this section looks into easyJet's regional markets, comprising: (i) the UK, (ii) Northern Europe, and (iii) Southern

[72] Section 4.2.2.2 provides more details regarding the relationship between the GDP development and passenger numbers.
[73] As easyJet focuses on the European market, the analyses solely look at this market, when it comes to competitors and peers.
[74] Appendix 10 provides a list of the most frequented airports.

Europe[75]. Overall easyJet primarily focuses on Europe's top markets by means of GDP[76] and covers both leisure and business travel. Within these countries, easyJet serves the key airports, often Tier 1 and/or Tier 2 airports[77]. The main countries easyJet covers include: Germany (with a GDP totaling USD 3,494 bn in 2016), United Kingdom (USD 2,648 bn), France (USD 2,488 bn), Italy (USD 1,852 bn), Spain (USD 1,252 bn), the Netherlands (USD 769 bn), Switzerland (USD 651 bn), and Portugal (USD 205 bn). Apart from Portugal, all easyJet's core markets belong to the Top 10 of countries according to GDP in Europe[78].

2.8.3 The United Kingdom

In the UK, easyJet's home market, 140 aircraft are based at the Luton hub. The company holds a market share of 20% in 2016, which is mainly driven, by passengers from the Greater London area. Its capacity increased by 8% in 2016. Nevertheless, easyJet's competitors could grow their capacity by 9% in 2016, which indicates increasing competition.

2.8.4 Northern Europe

Historically, Switzerland has had a special importance for easyJet, due to the acquisition of TEA Basel in 1998; in 2016 easyJet's market share equaled 23%, after an increase in share and capacity of 9% each, resulting from strengthening the airports in Geneva and Basel. easyJet is the number one operator here and profited also because Swiss Air, the former national airline, over time increasingly focused on its Zurich Airport hub. easyJet's management plans to further increase its German activities, as it currently only holds a market share of 4%. During 2016 easyJet, therefore, launched 16 new domestic German routes, and raised its capacity by 15%, mainly focusing on the Airports in Berlin Schoenfeld and Hamburg besides the traditional Dortmund base. The German top airports are Frankfurt and Munich, where Lufthansa is particularly strong. Other than Ryanair and contrary to the strategic goal, easyJet decided to not tackle these Tier 1 airports directly for the time being, and to rather try increasing presence at airports/regions with limited competition. Another large air transportation market is France. easyJet owns 14% of the market, and is the second most preferred airline, following Air France-KLM, the former state-owned carriers. As easyJet sees sufficient profitable potential here too, it plans to expand its capacities, e.g. at Charles de Gaulle, to attract clients by offering more competitive prices, and to further increase market share by gauging-up and strengthening its domestic French network. In the Netherlands, easyJet is currently the second largest airline and could increase its capacity by 17% in 2016, while the competitors increased their capacities by 9%, only. In 2016 easyJet opened new bases and new routes, it e.g. now serves Schiphol Airport, and increased its market share in the Netherlands to 9%.

[75] This split mirrors easyJet's regional business segments.
[76] Section 4.2 covers a PESTEL analysis and explores the relationship between GDP and travel activities in more details.
[77] Tier 1 airports are airports located in or close to major cities and are major hubs for airlines. Tier 2 airports are airports that are not located in or close to major cities and enjoy only limited service, however, important (Administration, 2017).
[78] Appendix 11 provides a full list of the European Top 20 countries in terms of GDP.

2.8.5 Southern Europe

In Italy easyJet now owns 12% of the market. Here, too, it aims for future growth through investments, e.g. it plans to open a new base in Venice, and by further enhancing its existing operations. As easyJet offers leisure travelers access to Portugal[79] and Spain, these markets are, despite their limited size important, too. easyJet increased its capacity in these markets through investments in new bases and the launch of new routes, and, consequently, outperformed its competitors over the recent years. Today easyJet holds 13% and 7% of the respective markets.

2.9 Competitors

easyJet's peer group for e.g. the financial analysis, is selected, and based on the similarity of the business model (low-cost carrier), rather than just by looking who competes with easyJet in terms of passengers and (regional) market(s). However, as e.g. the strategy analysis is concerned, easyJet will additionally be compared to its regional (low-cost and full service) competitors, including: (i) low-cost carrier Ryanair[80] and (ii) full-service providers Air France-KLM[81], Deutsche Lufthansa[82], and IAG[83] (easyJet, Annual Report 2016, 2016). One reason being, that even though easyJet is a European short-haul low-cost airline[84], its strategy of being present in Tier 1 and Tier 2 airports, makes it a full-service carriers competitor. Furthermore, as response to the success of the LCC segment, FSC have adjusted strategies and moved into the low-cost segment.

2.9.1 Air France-KLM

Air France-KLM, is a French carrier, offering passenger transportation, cargo, aeronautics maintenance, and other air-transport related activities, such as catering. Air France-KLM's network is organized around the hubs at Paris-Charles de Gaulle and Amsterdam-Schiphol and offers around 320 destinations, most of them served multiple times a day, in over 115 countries. With Transavia Airlines Air France-KLM operates a low-cost carrier in the Netherlands and France, which carried approximately 6.7 m passenger in 2016.

2.9.2 Deutsche Lufthansa

Deutsche Lufthansa is the largest European airline and operates worldwide. In contrast to easyJet and Ryanair, Lufthansa's strategy predominantly relies on the quality of services, not on offering low or even the lowest price. Consequently, it permanently uses to invest in its fleet and quality to keep it "nice and shiny", but today it also offers travelers affordable options and operates the low-cost carrier Eurowings[85]. Eurowings had 18.4

[79] Portugal in particular is small, however, attracting passengers from all over Europe, it is one of the European countries with the strongest growth rates over the last ten years, and further growth is to be expected.
[80] Appendix 16 provides a company description. Ryanair business description is covered among the other peers in Section 2.10
[81] Appendix 12 provides a company description.
[82] Appendix 13 provides a company description.
[83] Appendix 14 provides a company description.
[84] easyJet holds 8% of Europe's short-haul market and continues to be a strong competitor in an aggressive market.
[85] In 2016, Lufthansa consolidated Germanwings into the Eurowings brand (Lucky, 2015).

m passengers in 2016, and services short- and long-haul flights. Lufthansa's mission is becoming the leading company within the aviation industry and to be the number one choice for customers, staff, investors, and partners.

2.9.3 International Consolidated Airlines Group

International Consolidated Airlines Group (IAG) is one of the world's largest airlines and a forerunner in industry consolidation. The group was formed by combining Aer Lingus, British Airways, Iberia, and Vueling in 2011. It aims to become the world's leading airline group, and plans to grow mainly by taking-over carriers. In 2013 IAG e.g. increased its stake in the low-cost provider Vueling to 90%. Vueling is active in Spain, France, the Netherlands, Italy, and Switzerland.

2.10 Peer Group

To understand a company's operations and to benchmark its level of success, a peer group[86] is used. Choosing the peer group means looking for companies from within the same industry and with a similar business model. As easyJet offers point-to-point routes, targeting leisure and business travelers, without being part of an alliance, while operating a homogenous fleet, peers must have similar characteristics. This section, therefore, looks in more detail into: (i) Norwegian Air Shuttle ASA[87] (also referred to as "Norwegian" or "Norwegian Air Shuttle" or "NAS"), (ii) Ryanair[88] (also referred to as "Ryan"), and (iii) Southwest Airlines[89] (also referred to as "Southwest" or "SW"). (easyJet, Norwegian, Ryanair, and Southwest together are also referred to as "the peers".)

2.10.1 Norwegian

Norwegian Air Shuttle, headquartered in Fornebu (Norway), was founded in 1993. It is a European low-cost carrier. Furthermore, and other than easyJet, the company operates scheduled with additional charter services. Norwegian's route portfolio includes destinations in Europe, in North Africa, and (other than easyJet) in the Middle East. Additionally, it serves long-haul routes to the US and Southeast Asia (easyJet does not). In total, the company services more than 450 routes, and more than 140 destinations. Norwegian operates through its subsidiaries: (i) Norwegian Air Shuttle Sweden, (ii) Call Norwegian, (iii) Arctic Aviation, and (iv) Norwegian Air UK.

[86] As a general rule, members of a peer group show similar characteristics regarding industry, customer base and geographical footprint (Berk & DeMarzo, 2013). In this case, however, an exemption is made and easyJet's peer group is predominantly selected, based on the similarity of the business models (e.g. to better identify the competitive strength and weaknesses of low-cost carrier easyJet), rather than by just looking who competes in terms of passengers and market(s).
[87] Appendix 15 provides a company description.
[88] Appendix 16 provides a company description.
[89] Appendix 17 provides a company description.

2.10.2 Ryanair

Ryanair, the first European low-cost carrier, was established in Ireland in 1985. The company serves over 1,600 routes in Europe and has more than 57 bases. Ryanair and easyJet's business strategies have several similarities: Ryanair, too, aims to offer the lowest fare in every market, high-frequency flights and to generate revenue through optional revenue streams. However, it is only recently moving towards Tier 1 airports[90]. In 2016, Ryanair was the second largest airline in Europe in terms of passenger numbers (Ryanair, Annual Report 2016, 2016).

2.10.3 Southwest

Southwest Airlines, headquartered in Dallas (US) was founded in 1967. It is a passenger airline that provides predominantly scheduled air transportation in the US and neighboring international markets. Southwest was one of the first airlines providing low-cost air transportation. Similar to easyJet, Southwest offers point-to-point services and a frequent flyer program. Southwest operates EarlyBird check-in[91] and pet transport. As of December 31, 2016, Southwest offers flights to 101 destinations in over 40 states, and to eight near-international countries: Mexico, Jamaica, The Bahamas, Aruba, Dominican Republic, Costa Rica, Belize, and Cuba. Southwest operates the Americas, and therefore a different regional market than the rest of the peers. However, honoring its business model they is included in the peer group.

2.10.4 The Peer Group's Business Models

	easyJet	Norwegian	Ryanair	Southwest
Route design				
Point to point	✓	✓	✓	✓
Hub network	×	×	×	×
Member of an alliance	×	×	×	×
Route provided				
Short-haul	✓	✓	✓	✓
Medium-haul	×	×	×	✓
Long-haul	×	✓	×	×
Target passenger group				
Leisure	✓	✓	✓	✓
Business	✓	×	✓	✓
Air-cargo offered	×	✓	×	✓
Strategic supplier integration	×	✓	×	×
Passenger transfer	✓	×	✓	×
Frequent flyer program	✓	✓	✓	✓
Fleet homogeneity				
High	✓	×	✓	×
Medium	×	×	×	✓
Low	×	✓	×	×
Owning airport facilities	✓	✓	✓	✓

Table 3: Business Model Comparison

[90] In 2017, Ryanair starts to serve Frankfurt International Airport. Section 4.3.2 provides more details.
[91] This is a paid service that gives the passenger the opportunity to check-in automatically and in parallel choose a seat.

3 Financial Analysis: Operational Performance of easyJet and its Peers

3.1 Background

Following the outline, the financial analysis provides detailed insights into the operational performance of easyJet regarding: (i) income statement, (ii) balance sheet, (iii) value, (iv) revenue, and (v) cost drivers, (vi) profitability, (vii) asset and liability, (viii) liquidity and solvency ratios[92], as well as (ix) red flags and golden nuggets, also in (x) comparison with its peers[93]. The analysis covers one business cycle of the airline industry, which according to academic literature and findings comprises a minimum of seven years (Liehr, Groesler, Klein, & Milling, 2001), in order to not overlook issues, that only occur in certain phases of the cycle, e.g. when the number of aircraft operated is increased extraordinary strongly to answer perceived market potential[94]. Consequently, the review period, i.e. the seven years the financial analysis refers to, comprises the years from 2010 to 2016 (both years included). The financial analysis, the trends identified here and in the strategic analysis will shape the model forecast and thus lay the foundation for answering the research question. Based on this and in order to prepare for answering the research question, especially the following sub-questions are answered in this section:

> *What is the industry's reporting structure like? Are there any industry specifics? If so: which? How did the financial performance of easyJet and its peers develop over the review period[95]? Have the companies been profitable over the entire review period/in each and every review year? How did easyJet perform relative to its peers? Is it financially healthy enough for investments improving profitability further? How do profit and loss accounts react when varying industry specific drivers?*

3.1.1 Audit Opinions

The data for the analyses are taken from the peers' published annual reports, which must (at least) meet the requirements and quality standards defined by the relevant national authorities. Since 2005, the International Financial Reporting Standards (IFRS) represent the reporting requirements applicable in the United Kingdom. Consequently, easyJet must apply these standards when conducting its consolidated financial statements (IFRS, 2016). Its financial reports must then be independently audited; in the case of easyJet PricewaterhouseCoopers (PwC) provided the audits from 2010 onwards and has not ever since expressed any

[92] Financial ratios, such as profitability ratios, are fundamental when it comes to evaluating a business and its performance. As these ratios are industry specific, the analysis responds to economic characteristics of the airline industry (Petersen & Plenborg, 2012). However, more important than the analysis of numbers, is the interpretation and evaluation of the results (Stepanyan, 2014).
[93] To better understand easyJet's business model, its competitive strengths and weaknesses, this section analyses the peer's financials, too (Soliman, 2008).
[94] easyJet for instance, once took 16 new aircraft on in one year, compared to the long term average of 10 p.a. (calculated over the entire review period). That year's exceptional situation may have triggered one off effects (e.g. an exceptionally low load factor, extraordinary high training and/or integration costs), that may force misleading conclusions, if only this specific year is looked at.
[95] The review period, i.e. the seven years (i.e. review years) the historic review refers to, comprises the years 2010 to 2016 (both years included).

relevant complaints. However, PwC has outlined four areas that require special attention: (i) aircraft maintenance provisions, (ii) treasury operations, (iii) judgmental accruals and provisions, and (iv) goodwill and landing rights impairments (easyJet, Annual Report 2016, 2016). As aircraft can for instance be bought using cash (or cash equivalents) generated e.g. from past activities or loans or be leased through financial or operational leases and maintenance provision depend on the chosen way of financing. All other things left equal, these options result in different profit and loss accounts and balance sheets[96]. When comparing different carriers, the financial statements need to be reformulated, too, for instance different types of leases have to be adjusted and accounted for in the same manner (Gritta, Lippman, & Chow, 1994). An airline's treasury operations (e.g. hedging activities) are also important for an assessment of the relative quality of revenues, as carriers may deploy different approaches to forward exchange contracts used to hedge currency risks. Judgmental accruals and provisions include items, such as customer claims in respect of flight delays, which can be complex by nature and difficult to account for. As these kind of provisions may only be relevant in the industry, a special focus is needed to avoid misrepresentations. Landing rights, too, are a key revenue driver, as they decide which routes an airline can serve. They are allocated in accordance with guidelines set by the IATA's Worldwide airport slots group, including a categorization into different levels[97] (IATA, Worldwide Slot Guidelines 8th Edition, 2017). As landing slots can be traded[98] and, therefore, can have a substantial commercial value, they are reflected in the balance sheets and PwC warns to not overestimate such values to create unfounded assets (easyJet, Annual Report 2016, 2016).

3.1.2 Accounting Policies

After confirming the audit opinions, the accounting policies applied over the review period are analyzed to eliminate the noise, if any, which may result from changes and could lead to wrong conclusions when analyzing the historic statements. However, no such substantial changes made over time in the accounting policies of the peers are to be observed. Nevertheless, there were changes in IFRS over the course of the review period, of which one is worth pointing out: effective January 1, 2013 IAS19 was changed, forcing easyJet to state its pension deficits on the balance sheet. Before the change, the corridor method of accounting was used to show the difference between actuarial gains and losses. The method allowed a company to amortize the differences over the expected remaining lifetime of the beneficiaries in the income statement. Following the new rule, companies have to recognize the actuarial adjustment in the comprehensive income at the time of occurrence. However, in easyJet's case (a relatively young company with "few" employees), the change did

[96] Due to the purchase price of an aircraft – an A319 e.g. cost around USD 85.8 m (Airbus, New Airbus aircraft list prices for 2014, 2017) – the industry is capital intensive and depending on the way of financing a fleet of several hundred planes, maintenance provisions can vary substantially.
[97] Level 1 airports are defined as non-coordinated airports, while Level 2 Airports are defined as schedules facilitated airports, and Level 3 airports are defined as coordinated airports (Administration, 2017).
[98] In January 2017 Delta Airlines e.g. bought one weekly slot at Heathrow from Croatia Airlines for USD 19.5 m (McWhirter, 2017).

not have a large effect (PricewaterhouseCoopers, 2013).

3.1.3 Reformulation of Statements

Reformulation of financial statements is necessary for two main reasons: (i) to show the real profitability of the core business (i.e. its operating performance, operating and operational are used interchangeable in this context) and (ii) to make the peers' reports comparable. A specialty of easyJet's is its financial year, which starts on October 1 and lasts until September 30 of the subsequent year [99]. As Ryanair's 12 months' financial year ends on March 31 and Southwest's and Norwegian's end of December, the difference needs to be accounted for, to e.g. ensure all intercompany comparisons properly reflect the underlying operations and strategy. As the analysis looks at the key drivers of the peers' business models' "real" profitability, it makes sense to solely look at the operating performance, i.e. how their core business is doing, and therefore a distinction between operating and financing activities is essential (Easton, Wild, Halsey, & McAnally, 2008)[100]. As said before, airlines can finance their aircraft in different ways. To allow for comparing the peers, all leases are converted into capitalized leases, and the required adjustments on both, the income statement and balance sheet are made (Gritta, Lippman, & Chow, 1994)[101]. Consequently, non-recurring items are excluded, too, as they would also misrepresent the actual operational performance of the respective year (Penman, 2012). As a result of the reclassification two new key drivers are introduced: (i) invested capital and (ii) NOPAT (net operating profit after tax). Consequently, the income statements and the balance sheets of all four peers[102] have been reformulated for all seven review periods to allow for comparison across time and carriers (Petersen &

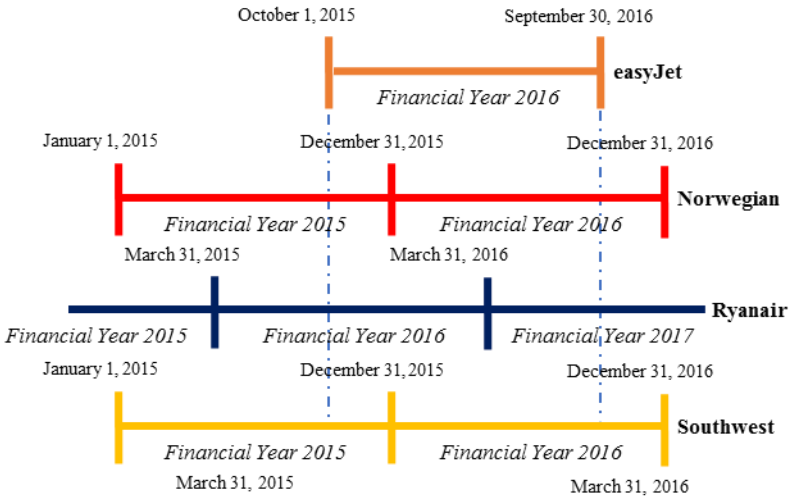

Figure 9: Overview of Peers' Financial Year

[99] easyJet's financial year 2015 e.g. starts October 1, 2014 and lasts until September 30, 2015 (easyJet, Annual Report 2015, 2015).
[100] The focus of the analyses is on the operating performance, because looking at the total (i.e. operating plus financial) might be misleading, as for instance the development of e.g. the total net income, could be mainly driven by non-core or for the peer group comparison not relevant financial decisions.
[101] The adjustments follow the relevant academic literature (Gritta, Lippman, & Chow, 1994).
[102] As Norwegian do not publish a detailed financial statements for each quarter, it is not possible to reformulate their quarterly reports and therefore the reformulation of the accounts is made pro rata based on their annual reports.

Plenborg, 2012)[103].

3.2 Income Statement

Based on the rational outlined, core operations (of all peers) have been separated considering the following issues[104].

3.2.1 Revenues

easyJet's total revenues are divided into seat revenues and non-seat revenues. Seat revenues arise from the sale of a flight ticket, including provisions for checked in baggage or allocated seating, if any, and can be identified as revenues from operations. Non-seat revenues (also referred to as ancillary revenues) may be considered "non-operative", as they comprise commissions earned from services sold on behalf of partners, such as travel insurances. However, they are strictly related and dependent on seat revenues (i.e. a ticket bought) and are, therefore, categorized as revenues from operations. The same applies for comparable revenue types of all peers.

3.2.2 Operating Costs

easyJet's operating costs such as fuel, ground handling, and employee costs, are clearly and directly related to the core business as they are required to maintain its operations. Other costs consist of: (i) annual royalties, (ii) brand protection, and (iii) the comfort letter agreement with Sir Stelios. All three are to be directly associated with core business and are, consequently, considered operating. Aircraft dry leasing costs, however, are as mentioned before converted from operating into capitalized leases and, to avoid double counting, the corresponding aircraft rental costs reported by easyJet are excluded from operating costs.

3.2.3 Leasing Costs

Airlines tend to finance aircraft through lease agreements, but often, and in the case of easyJet, the fleets' financing consist of a mix of operating and capitalized leases. Accounting-wise these two ways of leasing materialize differently in the financial statements, and therefore have an impact on profitability ratios, and tax. Operating leases compare to rental agreements, meaning that they are recognized on the income statement, but have no impact on the balance sheet, i.e. the aircraft is not shown as an asset. Financial leases are treated as loan equivalents. They result in depreciations and the aircraft is accounted for on the active side of the balance sheet as a non-current asset, the passive side includes the corresponding debt equivalent. Consequently, when restating operating to capitalized leases, both, income statement and balance sheet, have to be adjusted, and

[103] It has to be remarked that the reformulation does not take into account "political" adjustments peers may have chosen at the end of a financial years, "steering" profits in one way or another, but as always four consequent quarters are included in a reformulated financial statement, this should be of minor importance, if any, and the reformulated accounts should allow for a true and fair view.
[104] Appendix 18-32 provide additional details concerning reformulating and also includes all reformulated statements of all peers.

also items such as e.g. EBITDA and net income change. There are two approaches for adjusting operating to capitalized leases. One method is to estimate the asset's time value, by the rental costs, as well as the cost of debt and the expected remaining asset lifetime (Myers, Dill, & Bautista, 1976).

$$Asset\ Value = \frac{Leasing\ Cost}{Costs\ of\ Debt + (\frac{1}{Asset\ Life})}$$

Equation 1: Asset Value of Operating Leased Assets

However, most research analysts use the second capitalization rate method and this analysis will follow. In general, the capitalization rate method multiplies the rental costs as a "rule of thumb" by eight to receive a proxy for the asset value (Bennet & Bradbury, 2003). In the airline industry, however, and based on the findings in the annual reports of the peers, a capitalization rate of seven is used rather than the eight mentioned in academic literature (easyJet, Annual Report 2012, 2012). Some companies, such as easyJet, even report corresponding capitalized lease values for their operating leases. In such cases, the numbers provided have been used, in all other cases the "rule of thumb" has been applied, with a factor of seven. The calculated asset value of the operating leases is then included in the reformulated balance sheets' assets. The additional lease costs are calculated by multiplying the asset value by the cost of debt for the specific company.

$$Capitalized\ Lease\ Interest\ = Debt\ Equivalent\ Capitalized\ Lease * Costs\ of\ Debt$$

Equation 2: Capitalized Lease Interest Cost

The depreciation following from the additional asset and the corresponding interest costs have to also be taken into account in terms of the income statement. The depreciation is calculated by subtracting the additional lease interest costs from the former rental costs. Both, additional lease interests and additional lease depreciation, are then included in the reformulated income statements.

3.2.4 Operating Profit and Tax

Following these adjustments, the operating profit of the reported and reformulated income statements of a specific year differ. Consequently, the reported corporate tax number cannot be used for the model's tax. Therefore, all tax is adjusted according to the reformulated statement, using the reported tax rate.

3.2.5 Financial Charges, Other Income/Costs

Financial charges and other income/costs describe revenues and costs that are not related to the core operations. The above mentioned additional lease interests are included here, too. The total financial charges are taxed and result in a net income representing the respective reformulated income statement's items. It equals the net income from the original income statement, as long as no adjustments for non-recurring items are to be made. easyJet's financial charges include interest receivables and other financing income and interest payables and

are recurring. They are all related to the financing activities of easyJet. As no non-recurring or extraordinary items appear on easyJet's statements no readjustments are necessary.

3.3 Balance Sheet

Like income statements, balance sheets comprise operating and financing items. Consequently, and to prepare the reformulation of the balance sheet, this section separates the two as far as (i) current and (ii) non-current assets, (iii) current and (iv) non-current liabilities, as well as (v) shareholder's equity are concerned.

3.3.1 Current Assets

easyJet's reports current assets including current derivative financial instruments and current restricted cash. Current derivative financial instruments include the hedging activities (mainly with respect to oil and currencies), and are therefore clustered as operating. Trade and other receivables are directly related to its core business and thus operating, too. Current assets that are to be allocated to the financing balance sheet include money market deposits, loan notes and restricted cash as they are not used for operating purposes. Cash (and cash equivalents) often separate in operating and excess cash. As the publicly available information provides no indication on how the positions split, all cash items are included in the financing activities (Petersen & Plenborg, 2012).

3.3.2 Non-Current Assets

easyJet's non-current assets include intangible assets, PP&E, derivative financial instruments, restricted cash, and other non-current assets. As already mentioned, airline companies' goodwill and intangibles assets include e.g. landing rights or computer software. Consequently, they are core and included in the operating balance sheet, the same is true for the PP&E. Non-current derivative financial instruments, too, are operating. Other non-current assets comprise deferred consideration and deposits related to leases, "leased aircraft – shortfall on sale and leaseback", and recoverable supplemental rent. They are also operating.

3.3.3 Current Liabilities

To some extent, easyJet's current liabilities mirror current assets, such as trade and other payables, current tax, or derivative financial instruments, and therefore allocated correspondingly. Unearned revenues represent seats for future flights that have already been collected. They are therefore considered operating. Borrowings include easyJet's two outstanding bonds: (i) a medium-term note program established in January 2016 (GBP 3,000 m), and (ii) a Eurobond issued in February 2016 (GBP 500 m), both used to pay back GBP 182 m of existing commercial debt and to finance new aircraft. Both bonds are allocated to the financing activities (easyJet, Annual Report 2016, 2016).

3.3.4 Non-Current Liabilities

easyJet's items shown as non-current liabilities are of the same nature as the current liabilities and are therefore allocated correspondingly.

3.3.5 Shareholders' Equity

A company's equity is the difference between total liabilities and total assets (Berk & DeMarzo, 2013). easyJet's equity is shown on the financing balance sheet.

3.4 Operational Drivers

Identifying the key operational drivers and how they impact the profitability is an important part of the financial analysis. In the airline industry, such drivers include: (i) number of passengers p.a., (ii) available seat kilometers (ASK), (iii) load factor, (iv) revenue passenger kilometers (RPK), (v) number of aircraft operated, (vi) ASK per aircraft, (vi) sectors and routes flown, (vii) metric tons (of fuel) per ASK, and (viii) staff per aircraft.

3.4.1 Passengers p.a.

The number of passengers is the most obvious key driver of revenues, as it reflects the ability to attract travelers. However, passengers do not directly translate into profits, as several other factors influence the performance (Feng & Wang, 2000). All peers could increase their passenger numbers during the review period by similar rates, however, starting from different base levels. As a result, market shares remain by and large stable. In 2016 Ryanair grows stronger relative to the other peers, it remains to be seen, whether this is a one off or the beginning of a shift.

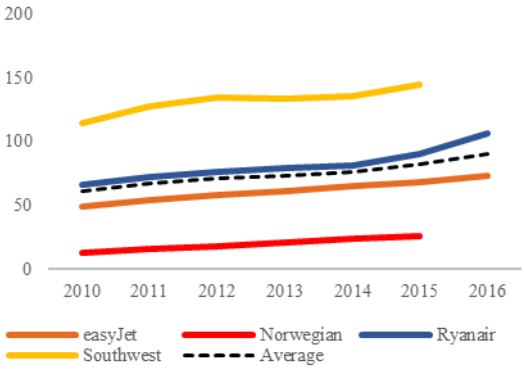

Figure 10: Passenger Development (m)

3.4.2 Available Seat Kilometers (ASK)

Available seat kilometers show the total capacity of an airline, They are calculated by multiplying the number of seats available for sale in a specific flight (excluding seats for staff or seats that are not for sale due to regulatory or technical reasons, if any) with the number of kilometers flown during that particular flight (Feng & Wang, 2000).

$$Available\ Seat\ Kilometers = Number\ of\ Seats\ Available * Kilometers\ Flown$$

Equation 3: Available Seat Kilometers

easyJet and Norwegian are below, Southwest and Ryanair above the peers' average ASK. The gap is rather huge, and reflects the relative size of the peers: both, easyJet and Norwegian operate smaller fleets and have lower ASK. (easyJet's ASK growth-rate is also slightly below average.) Driven by the increase of aircraft and routes operated, Ryanair's ASK has been increasing consistently over the entire review period[105]. Southwest starts with the highest ASK (in absolute numbers) in 2010. The huge increase in 2011 is caused by adding more than 150 aircraft. In the following years, Southwest grows around average. Overall ASK show no significant shift in market share over time.

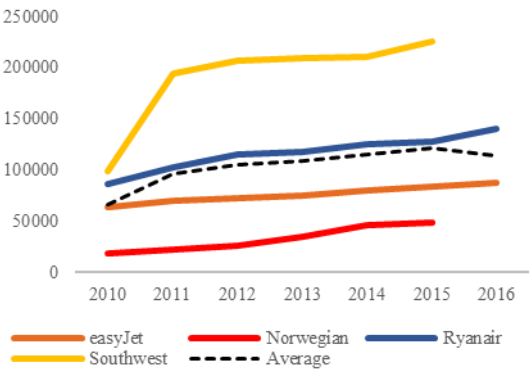

Figure 11: ASK Development

3.4.3 Load Factor

ASK reflect the capacity, while load factors show, to what extent seats are actually sold, in other words how booked-out flights are (Feng & Wang, 2000).

$$Load\ Factor = \frac{Passenger\ Flown}{Seats\ Flown}$$

Equation 4: Load Factor

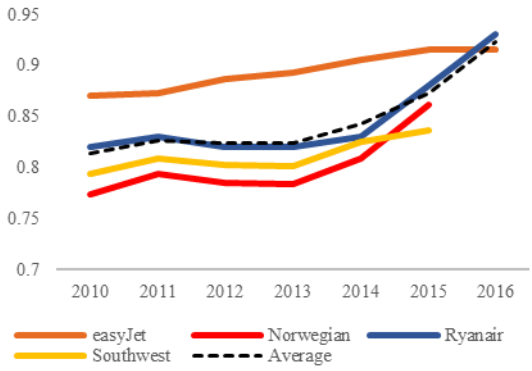

Figure 12: Load Factor Development

easyJet from the start has the highest performance by far with a load factor consistently between 87 and 92%, indicating, that around 90% of all available seats are sold[106]. Ryanair is the only carrier able to catch up, as it raises the load factor to 93% in 2016, based on a strategy to aggressively marketing "excess" capacities with (very) low-price "last-minute special offers". Southwest's load factor is between 79 and 84%, meaning between 21 and 16% of its capacity, which on average equals one out of 5 or 7 aircraft, is wasted and flies across skies with no passengers on board. Similar to Southwest, Norwegian has a load factor of around 77% to 86%; therefore 14% of its capacity is producing costs, but no revenues. easyJet outperforms its peers, also due to its approach towards marketing seats[107].

[105] Section 3.4.5 provides more details regarding the development of Ryanair's fleet.
[106] The high load factor indicates, easyJet has very limited room to improve seat revenues given the existing fleet and routes and growing non-seat revenues is therefore c.p. even more important.
[107] Section 2.5 provides more details regarding the marketing strategy.

3.4.4 Revenue Passenger Kilometers (RPK)

Revenue passenger kilometers[108] relates to the number of paying passengers an airline transports.

$$Revenue\ Passenger\ Kilomters = Passengers\ Carried\ on\ Flight\ Stage * Distance\ of\ Flight\ Stage$$

Equation 5: Revenue Passenger Kilometers

The figure is obtained by multiplying the number of paying passengers on each flight with the corresponding flight distance (in kilometers). All peers increase their RPK over the review period, referring to 2011 Southwest being the strongest winner.

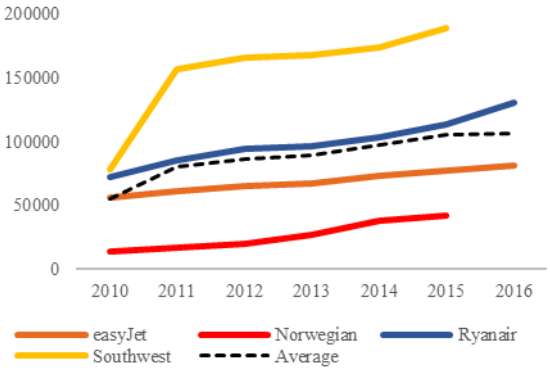

Figure 13: Revenue Passenger Kilometers Development

3.4.5 Number of Aircraft Operated

As the number of aircraft operated, is a basis for calculating ASK and load factor, it is closely tied to a carrier's revenue and profit potential: the more aircraft an airline operates, the more tickets it can sell (Feng & Wang, 2000). If the fleet is large, but revenues are small, this c.p. indicates (i) many tickets are sold, but too cheap and/or (ii) not enough tickets are sold. easyJet operates the third largest fleet, and can therefore neither match the absolute number of tickets Southwest[109] and Ryanair sell, nor their overall revenue. Ryanair has the second largest fleet. In 2016, its revenues were consequently significantly higher than easyJet's[110]. Southwest is the largest carrier in number of aircraft operated, which also explains its significantly higher revenues[111]. Norwegian operates the smallest number of aircraft and generates the smallest revenues, too. With the exemption of Southwest[112], all peers increase the share of owned aircraft in their fleet substantially over time: easyJet from 64 to 74%, Ryanair from 78 to 87%, and Norwegian from 25 to 73%. One explanation could be that the larger a company gets, the more aircraft they need, the larger the discounts and the more attractive buying aircraft becomes and it also saves leasing companies' margin. Another reason could be the very low interest environment that makes financing acquisition cheaper.

[108] RPK are interlinked with ASK for a given load factor and with load factor for a given ASK.
[109] However, easyJet's profitability ratios, even though the carrier operates on a smaller scale, are healthy, also based on the superior load factor; in other words: the company is using its fleet effectively. Section 3.4.3 provides more details.
[110] Since neither Southwest's annual report for 2016 nor other corresponding information has been released yet, it is not clear, what in details caused the increase in aircraft operated.
[111] However, Southwest is also an example for the rule, that being larger not necessarily means being more profitable in absolute or relative terms. Furthermore, it shows, a larger fleet does not even guarantee more revenues, again neither in absolute nor in relative terms. At the end it is all about efficiency. Section 3.4.5 provides more details.
[112] A specialty of Southwest is that they sublease aircraft they own through the acquisition of AirTran, to Delta Airlines.

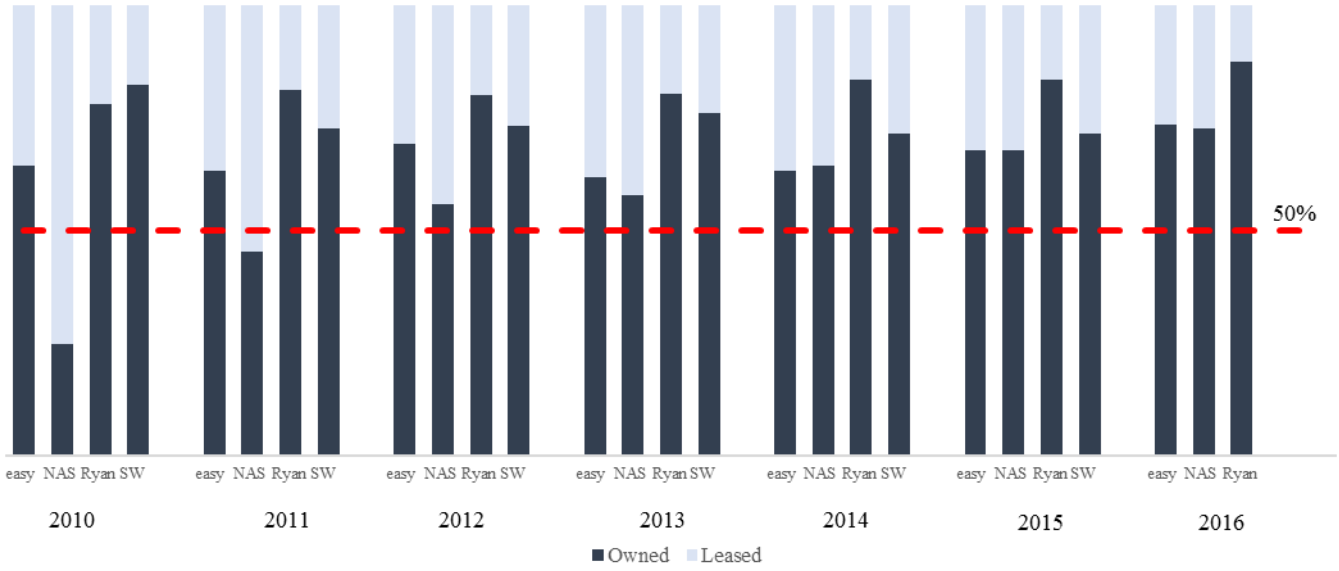

Figure 14: Owned vs. Leased Aircraft Development

3.4.6 Available Seat Kilometers (ASK) per Aircraft

ASK per aircraft calculates the (on average) per aircraft available seat kilometers:

$$Available\ Seat\ Kilometers\ per\ Aircraft = \frac{Available\ Seat\ Kilometers}{Aircraft}$$

Equation 6: ASK per Aircraft

As the ASK are one of the key drivers of airlines profitability, the more ASK an aircraft c.p. flies p.a., the more efficient the airline is using its fleet. easyJet's ASK per aircraft is almost stable over the review period, which indicates efficiency, as adding aircraft always bears a risk of watering down profitability. Norwegian outperforms with 495 ASK per aircraft in 2015 (easyJet's ASK come only at 348). One possible reason could be that Norwegian also provides long-haul flights. Ryanair also has a higher ASK per aircraft than easyJet (e.g. in 2016 413 vs. 341), suggesting that Ryanair found a way to use its available aircraft more efficiently, and its load factor improvement in 2016 confirms this analysis[113].

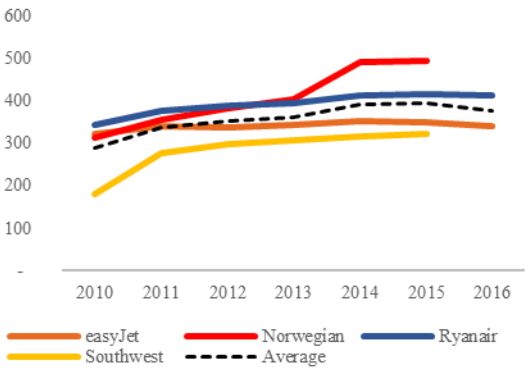

Figure 15: ASK per Aircraft Development

[113] Within the peer group, Ryanair and easyJet have the most homogenous fleets (i.e. the most homogenous split or less biased average ASK per aircraft). On the one side, they so profit from economies of scale (in terms of e.g. purchase prices and maintenance costs). On the other side, this may come at the cost of not being able to fully exploit a given route's passenger potential (if the "average" aircraft is too small) or to fly with "overcapacity" (if the "average" aircraft is too big) and increase costs per paid-seat. Be it as it may, homogeneity is c.p. paid for with lesser flexibility.

3.4.7 Sectors and Routes Flown

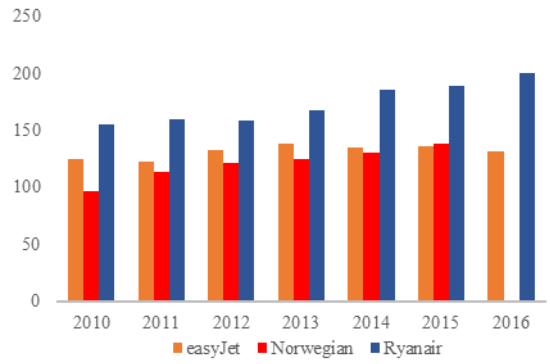

Figure 16: Airports Served

Obviously, the more airports are c.p. served, the broader the portfolio of routes (Feng & Wang, 2000)[114]. Adding routes also provides access to more travelers and thus helps increasing revenues[115]. easyJet holds the number of airports served more or less constant. In 2009 it serves 125, by 2016 132 airports (+5.5%), however, easyJet (due to its strategy to focus on a given number of top tier airports and to expand routes from there) increases the number of sectors and routes operated from it current bases substantially over time[116]. Ryanair shows an even stronger expansion and increases the number of airports served from 155 to 200, showing a growth of around 30% over the review period. Norwegian has also been expanding: from 57 airports to 138 in 2015, representing a growth of around 43%[117].

3.4.8 Metric Tons (MT) per ASK

Metric tons per ASK is about fuel efficiency, it shows how many MT of fuel are used up for each available seat kilometer. Correspondingly, the less MT per ASK the company c.p. uses, the more efficient its aircraft operate. In line with environmental requirements, EPA e.g. calls for a 4% reduction in overall fuel consumption (Climate Central, 2016), all companies reduced fuel consumption per ASK. Currently, it seems that Southwest shows the largest improvements. The observed drop in 2015, however, could also (i) be explained by the overall drop in USD-denominated oil prices (and would therefore be more of a "currency issue" in the comparison than a real reduction in fuel consumption) and/or (ii) indicate Southwest is a latecomer, following with a time lag the European peers, who based on stricter regulations had to look at environmental issues earlier (in this case it is more of a base effect). As easyJet has announced to modernize its fleet further, it can

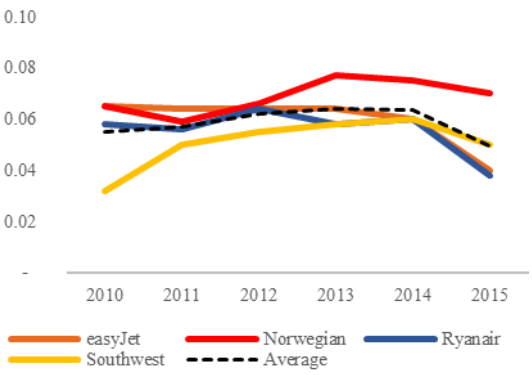

Figure 17: Metric Tons per ASK Development

[114] Taking-over regional carriers has historically been an important way to increase the numbers of routes operated.
[115] The thought assumes that passenger growth on a given route has a certain "natural" limit, considering that if a region served by a specific airport has a population of x million people (i.e. potential travelers); each of them can only fly "once" p.a. into summer vacation.
[116] As outlined in Section 2.4.3.4, easyJet focuses on being present at premium airports (i.e. in the important European cities/regions) and to expand the routes served from these hubs rather than adding airports constantly or acquiring regional carriers. If easyJet was forced to acquire (e.g. resulting from BREXIT, as analyzed in Section 7.4), the lack of experience may result in questioning their ability to successfully integrate. As a consequence, easyJet could most likely prefer a smaller acquisition that allows for an easier integration.
[117] Southwest does not reveal the number of airports served in their annual reports and is therefore excluded from the analysis.

be assumed that its MT per ASK will decrease further.

3.4.9 Staff per Aircraft

Staff per Aircraft is a proxy of how many employees, including cabin crew as well as administrative staff, are on average required to operate one aircraft.

$$Staff\ per\ Aircraft = \frac{Number\ of\ Employees}{Aircraft}$$

Equation 7: Staff per Aircraft

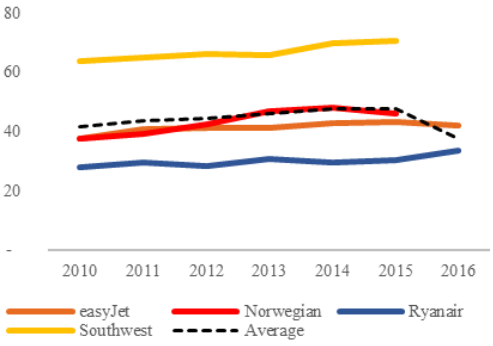

Figure 18: Staff per Aircraft Development

The analyses prove easyJet and Ryanair employ the lowest number of staff per aircraft, also explaining the relatively low employee costs (in percent of revenues). easyJet comes in at around 40 people per operated aircraft, Ryanair at around 35. Both indicating they have rather low overhead costs, assuming that their numbers of cabin crew per aircraft are similar. In contrast Southwest needs around 70 people to get one plane into the air.

3.5 Trend and Common Size Analysis

The trend and common size analysis looks at the historic development of the individual income statement items in percent of total revenues, to identify the key revenue and cost drivers[118,119].

3.5.1 Revenues

As outlined before, an airline's revenue stream derives from (i) seat and (ii) non-seat revenues[120]. Norwegian outperforms its peer in terms of total revenues (they proud themselves for being "one of the world's fastest growing airlines" (Norwegian, Our Story, 2017)). Explanation for the strong total revenue growth of all peers in the first two years of the review period include a base effect, as 2010 was hit by external factors such as the economic crises, the H1N1 epidemic, and the Icelandic volcanic

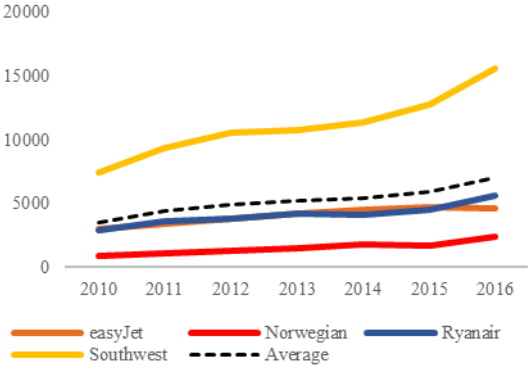

Figure 19: Revenue Development

[118] The rational is based on the hypothesis, that all variable and fixed costs are "variable" (i.e. flexible) for the purpose of the analysis. The ratios are later used to help modeling forecasts.
[119] Appendix 33-40 provide a trend and common size analysis for the whole peer group.
[120] Some airlines report non-seat revenues, under "ancillary revenues".

eruptions[121]. Regarding seat revenues, Norwegian, too, has outperformed its peers, with a growth of 300% over the review period. easyJet, Ryanair, and Southwest could (only) increase seat revenues by 191%, 187%, and 166%, respectively. Norwegian's total revenue growth goes hand in hand with a strong load factor[122], which also reflects they are operating attractive routes. Today easyJet generates its revenues mainly by means of seat revenues (99% of its total revenues in 2016, while in 2010 they accounted for only 81%, part of this development is, however, driven by a reclassification of non-seat into seat revenues in 2012[123]).

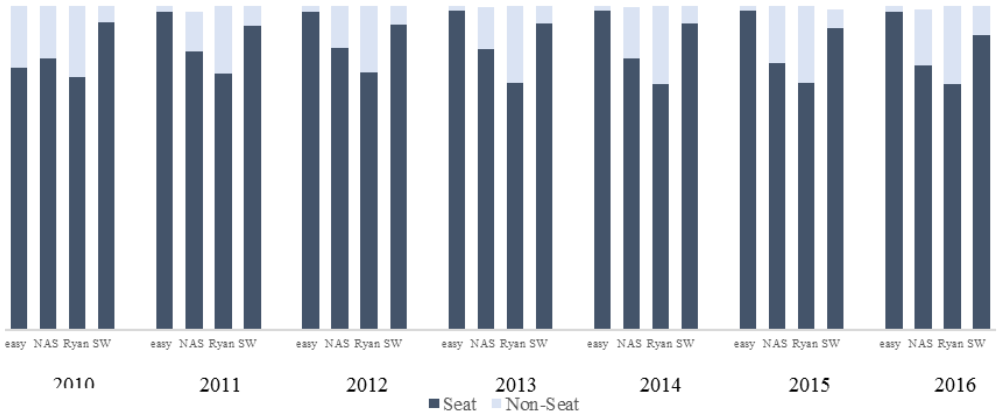

Figure 20: Revenue Split Development

In terms, of seat revenues, it seems easyJet is using the right approach and is slightly outperforming its peers, excluding Norwegian. Both Ryanair and Norwegian, however, outperform easyJet in term of non-seat revenues. Ryanair, the primus regarding non-seat revenues, made 22% of 2010 total revenues here and increased the number to 24% in 2016. Among other factors[124], the increase can be explained by the endorsement of handheld electronic point of sale devices which helped to increase in-flights sales. easyJet, however, was only able to improve its non-seat revenues, from GBP 63 m in 2011 to GBP 82 m in 2016, and as its seat revenues grew relatively strong, non-seat revenues now make up a smaller portion of the total revenues (only around one percent) relative to 2010, showing, that easyJet has ample room to improve non-seat revenues in absolute and relative terms.

3.5.2 Costs

Regarding costs, the common size analysis reiterates, that easyJet's main costs include (i) fuel, (ii) ground operations, and (iii) employee costs, which together account for more than 60% of total revenues in 2016. Fuel costs being the largest portion (28%[125]), followed by ground operations (24%), and employee costs (11%). All

[121] The eruptions forced to cancel more than 17,000 flights over the course of 3 days, and it is estimated that airlines lost $ 200 m in revenues each and every day (Tse & Rosenbaum, 2010).
[122] The load factor describes the relationship between seat capacity and booked seats (Caves, Christensen, & Tretheway, 1984). Section 3.4.3 provides more details.
[123] Since 2012, non-seat revenue comprise of commissions earned from services sold on behalf of partners, before they e.g. included provisions for checked baggage or priority boarding, which are now reported as seat revenues. In the analysis' 2011 number were reclassified, too.
[124] Another drives is that, Ryanair entered into agreements pursuant to which partners promote Ryanair-branded products, such as credit and prepaid cards issued, partners include e.g. Deutsche Bank (Ryanair, Annual Report 2016, 2016).
[125] In 2015 IATA reports, airlines on average spend almost 27% of their operating costs on fuel (IATA, Fact Sheet - Fuel, 2015), but are reluctant to pass on an increase in fuel bills to their passengers.

three categories show a similar development over the review period (+152%, +157%, and +161%, respectively) and grow in line with total revenues (+191%)[126]. In 2016 Ryanair spends around 30% of its total revenues on fuel, while Southwest's (23% on average over the last three years) and Norwegian's (25%) relative costs are below easyJet's and Ryanair's. Southwest was able to decrease fuel costs from 30% in 2010 to an impressing 17% in 2016[127]; Norwegian improved from 23.2% to 19.1%.

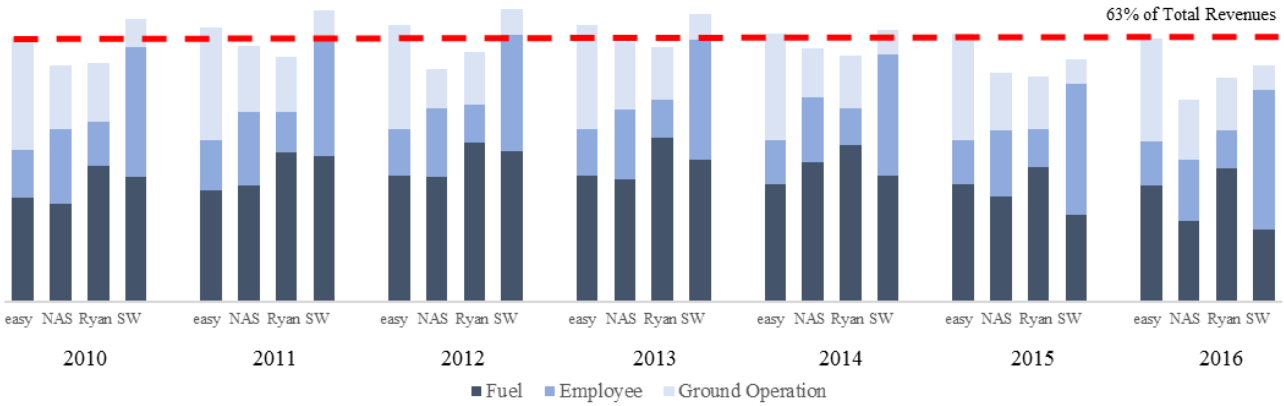

Figure 21: Operating Expenses Split

This development could be influenced by several drivers: (i) Norwegian and Southwest could have used superior hedging strategies, (ii) Norwegian and Southwest may have used their fuel more efficient, (iii) as easyJet and Ryanair are British companies and earn their revenues in GBP, higher fuel costs could be driven by regional differences in the jet fuel price level and/or the GBP/USD exchange rate development and/or in the case of Norwegian by a favorable oil price in NOK, based on domestic oil reserves. easyJet's ground operations in an average year make up for 31% of its total costs and for 25% of the total revenues. easyJet here operates less efficient than its peers: Ryanair reports 22% of total revenues, Southwest 18%, and Norwegian 14%. The higher cost ratio at least partially reflects easyJet's strategy to serve (the more expensive) Tier 1 and Tier 2, instead of (low-cost) low-tier airports as its peers predominantly do. Regarding employee costs, both easyJet (12% of total revenues) and Ryanair (9%) spend less than their peers (Southwest: 33% and Norwegian: 15%). One possible reason for Ryanair's low employee costs is that they, in contrast to easyJet, do not have to face trade unions, and consequently pay lower wages.

[126] The perceived close relationship between total revenues and the major cost blocks justify the forecast model's assumption of stable ratios. Section 5.2 provides more details regarding the income statement model.
[127] The result is in line with Southwest's MT per ASK ratio development described in Section 3.4.8.

3.5.3 Leasing Costs

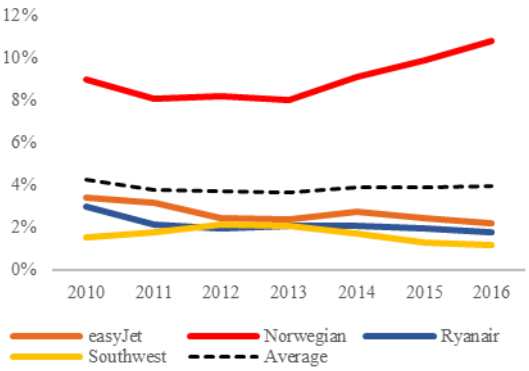

Figure 22: Leasing Cost Development (in % of Total Revenues)

Leasing costs are an important profitability driver for airlines [128]. Over the review period, easyJet decreased its leasing costs from 3.4% of total revenues in 2010 to 2.7% in 2016. In actual numbers the costs remained constant at GBP 103 m, also due to the new policy of buying aircraft rather than leasing. Both, Ryanair, and Southwest, too, drove down their lease costs to 1.8% and 1.1%. Norwegian's lease costs, however, increase over the period from 8.9% in 2010 to 10.8% in 2016. The sudden plunge of Southwest's lease costs in 2013 was mainly driven by the start of subleasing unutilized aircraft to Delta airlines[129]. As said before, absolute leasing costs also depend on the number of aircraft leased in percent of the total fleet. easyJet and Norwegian have a similar proportion of leased Aircraft (24.5% and 26.5% in 2016), while Ryanair, for example, leases only 15%. Consequently, easyJet's and Norwegian's higher leasing costs p.a. compare with higher interest costs of Ryanair, as it acquires aircraft debt financed.

3.6 Profitability Analyses

Having analyzed revenue and cost drivers, this section investigates the peer group's profitability, in terms of (i) EBIT, (ii) EBITDA, and (iii) profit margins, with respect to (iv) return on equity, (v) fixed assets turnover, (vi) return on assets, and (vii) invested capital, (viii) turnover rate of invested capital, and (ix) net borrowing costs. The profitability analysis identifies and assesses the historical financial value drivers of the peers, as understanding the past is essential for the further investigation of the research question. The analysis concludes: from 2015, onwards easyJet's profitability decreases mainly (i) due to higher operating costs and depreciation, (ii) because of currency fluctuations[130], and (iii) because of the exchange rate changes created by BREXIT in 2016. Ryanair manages to increase revenues and profit, (i) due to an increase in market share, and (ii) because of its cost-efficient operations. Southwest increases its revenues without raising operating costs significantly, thus creating extra profits. Norwegian grows its total revenues by more than NOK 3 bn with an increase in operating costs of around NOK 1 bn, resulting in a considerable higher profit.

[128] Section 3.5.2 provides more details.
[129] The subleases included the 88 Boeing 717-200 aircraft previously owned by AirTran, a company that was acquired by Southwest in May 2011 (Southwest IR, 2012).
[130] Section 4.2.2.3 provides more details.

3.6.1 EBIT Margin

The EBIT margin reveals the earnings (excluding net interest and net taxes) a company generates for each currency unit of total revenue (Berk & DeMarzo, 2013).

$$EBIT\ Margin = \frac{EBIT}{Total\ Revenues}$$

Equation 8: EBIT Margin

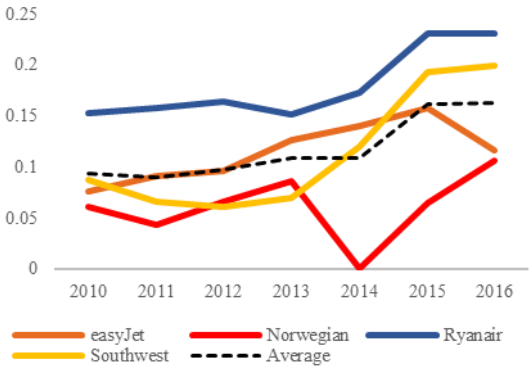

Figure 23: EBIT Margin Development (in %)

Comparing the peers' margins gives an indication of how efficient they are operating in relative terms. Over the entire review period all peers show increasing EBIT margins. Norwegian had a significant backdrop in 2014, followed by a recovery during the following years. The main reasons for the decline are (i) an increase in fuel costs[131] and (ii) higher employee costs. easyJet's margin went down significantly in 2016 (from 16% in 2015 to 12%). The decrease is mainly driven by (i) higher ground operation costs in Luton and Italy[132] and (ii) higher depreciation, due to the increase in its fleet. In 2016, Norwegian and easyJet are on a similar level (11% and 12%), but both still well below Ryanair and Southwest (23% and 20%), interestingly their EBIT margins leveled out in 2016. As mentioned before, in the case of easyJet this is due to the cost side i.e. the USD-denominated fuel[133].

3.6.2 EBITDA Margin

Adjusting EBIT for depreciation and amortization gives EBITDA and the EBITDA margin (i.e. EBITDA for each currency unit of total revenues) reflects the operational excellence (Berk & DeMarzo, 2013).

$$EBITDA\ Margin = \frac{EBITDA}{Total\ Revenues}$$

Equation 9: EBITDA Margin

[131] Section 3.5.2 provides more details.
[132] Section 7.3 provides more details.
[133] The majority of its revenues are GBP-denominated and when the currency (due to BREXIT) substantially weakened (USD/GBP on January 1, 2016 was at 1.533 and on December 31, 2016 at 1.234), cost went up (Ryanair, Annual Report 2016, 2016).

Since EBITDA factors in depreciation and amortization, it can provide a better view of the operating profitability and the cash flow of the business. It also allows for directly comparing companies with different financing structures (e.g. leased vs. owned equipment, debt vs. equity). As the analysis is based on reformulated statements, the EBITDA margins and their development over time are very similar to the corresponding EBIT margins. easyJet is experiencing the same drop in 2016 and for the same reasons. Ryanair and Southwest show an overall increase in EBITDA margin until 2015 and remain more or less flat in 2016, again consistent with their EBIT margins. Norwegian's EBITDA margin decreased substantially from 2013 to 2014 but shows a downturn thereafter, driven by its relatively higher fuel and staff costs[134].

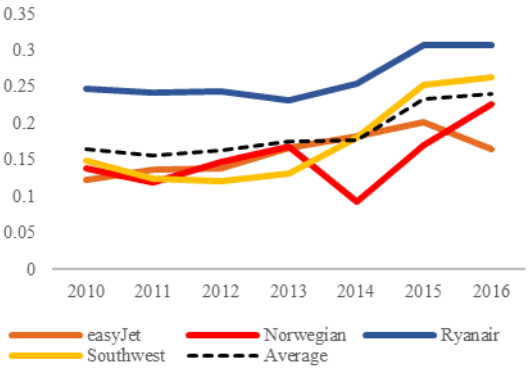

Figure 24: EBITDA Margin Development (in %)

3.6.3 Profit Margin

Profit margins relate net income to shareholders to total revenues. In general, the higher the profit margin, the more attractive[135] an equity investment in the company c.p. is, as a higher portion of the revenues ends up as net income available for distribution to shareholders (Fairfield & Yohn, 2001).

$$Profit\ Margin = \frac{Net\ Income\ to\ Shareholders}{Total\ Revenues}$$

Equation 10: Profit Margin

easyJet, Norwegian, Ryanair, and Southwest Airlines have positive profit margins over the entire review period. In 2014, Norwegian has experienced a negative trend in profit margin, the reason again being the increase in fuel costs and airport charges. In 2016, easyJet experienced a drastic increase in its profit margin, which was mainly due to the weak 2015 number, which resulted from substantial fair value losses[136]. The 2016 decline of Ryanair is driven by several factors including a share buyback, the disposal of Aer Lingus shares[137], and higher interest costs for the fleet. Overall, easyJet and Southwest Airlines improve their profit margins over the

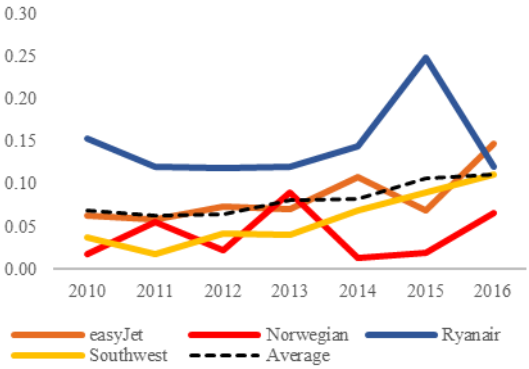

Figure 25: Profit Margin Development (in %)

[134] Section 3.6.1 provides more details regarding EBIT margins.
[135] There is of course a kind of "vicious circle": If an investment is seen to be more attractive in relative terms, it is c.p. likely to be more costly in relative terms than a less profitable investment. And this in return may affect the attractiveness of the investment.
[136] Fair value losses totaling GBP 510 m occurred from losses in cash flow hedges.
[137] Ryanair initiated a EUR 482 m share buyback, which was launched in February and completed in June 2016, and distributed a further EUR 398 m of the proceeds from the Aer Lingus sale to its shareholders (Odell & Wild, 2014).

last seven years, while Ryanair started off with the highest profit margins but considering the decline in 2016 is now below its 2010 level. Looking at 2016 it can be concluded that, based on profit margins, easyJet's operations are efficiently run, at least relative to its peers.

3.6.4 Return on Equity (ROE)

Following the structure of the DuPont model[138], the return on equity is calculated as follows.

$$Return\ on\ Equity = Return\ on\ Total\ Assets * Equity\ Multiplier$$

Equation 11: Return on Equity

$$Return\ on\ Total\ Assets = \ Net\ Profit\ Margin * Total\ Asset\ Turnover$$

Equation 12: Return on Total Assets

Net profit margin times asset turnover is equal to the return on assets, which is then multiplied with the equity multiplier[139] to provide the return on equity[140]. In this section, its components, their development, and implications are discussed. The ROE measures the shareholders' return on investment and can be seen as a proxy of a company's attractiveness to an investor[141]. A ROE of one for instance means that for each dollar invested (by a shareholder) one dollar of net income is generated by the company in the respective year. Analyzing the return on equity of a peer group is therefore a useful approach to measure how efficiently a company uses its investors' equity to generate net income (Kennerly & Neely, 2002). Consequently, investors widely use the concept (Halsey, 2001). easyJet's return on equity is relatively stable over the review period and averages around 4% p.a., while Ryanair's ROE comes within a range from 8% to 23%. Accordingly, Ryanair outperforms, regarding the DuPont analysis, easyJet (even though their 2016 ROE is very close), and both, Ryanair and easyJet, Norwegian (due to its yet unprofitable expansion) in all years and Southwest in all years but 2015.

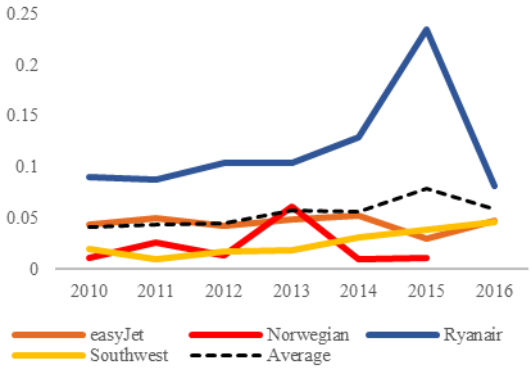

Figure 26: Return on Equity Development (in %)

3.6.5 Fixed Assets Turnover

The fixed asset turnover, too, is a measure of profitability (Stepanyan, 2014).

[138] Appendix 41-44 provide a DuPont Model for each and every peer.
[139] The equity multiplier indicates how the company finances its operations (equity vs. debt) by comparing the total assets to the shareholder's equity. Section 3.7.1 provides more details.
[140] This section works based on the numbers introduced in Section 3.2.
[141] There is of course a kind of "vicious circle": If an investment is seen to be more attractive in relative terms, it is c.p. likely to be more costly in relative terms than a less profitable investment. And this in return may affect the attractiveness of the investment.

$$Fixed\ Assets\ Turnover = \frac{Total\ Revenues}{Fixed\ Assets}$$

Equation 13: Fixed Assets Turnover

For an airline, fixed assets mainly comprise of the (owned and leased) aircraft operated and thus the ratio judges a fleets' ability to generate revenues and measures the efficiency level of the fixed assets utilization. Norwegian's development is of special interest, as it shows the life cycle of an airline: In 2010, Norwegian was a rather small company, with only 57 aircraft serving its business. It operated at maximum capacity and the lack of operational slack helped to produce (relatively) high revenues with a comparatively low fixed asset base. To further expand business and revenues, Norwegian had to invest in its fleet and overall infrastructure and to accept, that the new investments were underused relative to the previous levels[142].

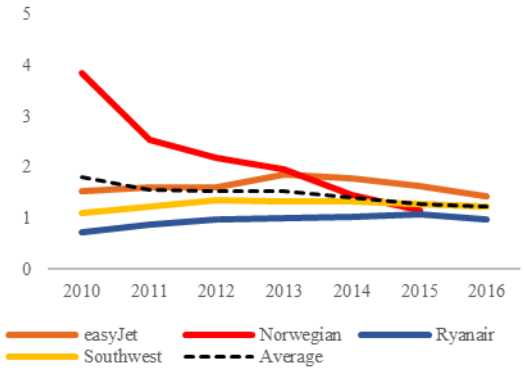

Figure 27: Fixed Asset Turnover Development

3.6.6 Return on Assets (ROA)

The return on assets (ROA) is derived by multiplying profit margin and total asset turnover[143].

$$Return\ on\ Assets = Net\ Profit\ Margin * Total\ Asset\ Turnover$$

Equation 14: Return on Assets

It measures the profitability of a company relative to its total assets. Furthermore, the ROA provides an idea of how efficient the management of a company is using its total assets to generate profits (Dess & Robinson, 1984). In 2016, easyJet outperformed its peers showing an ROA of 0.13 compared 0.05 in 2010. easyJet's development over the review period can be explained by a decline in net profit margin, due to (i) higher costs in ground operations and crew, and (ii) the expansion of its fleet. It is also impressing, how Southwest improves from 0.03 in 2010 to 0.11 in 2016. The large decline in Ryanair's ROA is based on two main drivers: (i) Ryanair progresses net profit margin based on an 18% traffic growth, and (ii) the operating assets increase substantially

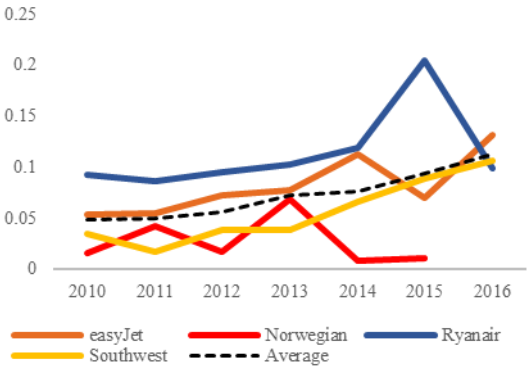

Figure 28: Return on Assets Development

[142] This also highlights the special risk investment decisions in a capital intense industry bear and what can happen, if new assets are underutilized.
[143] Section 3.8.1.1 looks in more details into total asset turnover.

in 2015, driven by the pre-delivery payment of new aircraft, while they in 2016 only slightly increase (i.e. a base effect). It seems that easyJet, along with Ryanair and Southwest, has found a way to deploy their assets efficiently to generate earnings, and seem to be very close to each other. Furthermore, it appears that not only their corresponding business models determine the return on assets, but firm-specific characteristics too, such as management skill and style.

3.6.7 Return on Invested Capital (ROIC)

The return on invested capital (ROIC) is one of the most important operational profitability ratios. It reflects the return on the capital tied up in the company (i.e. the invested capital) as a percentage of its net operating profits after taxes (NOPAT), in other words it provides a measure for the interest the invested capital (be it debt or equity) earns (Berk & DeMarzo, 2013).

$$Return\ on\ Invested\ Capital = \frac{NOPAT}{Invested\ Capital}$$

Equation 15: Return on Invested Capital

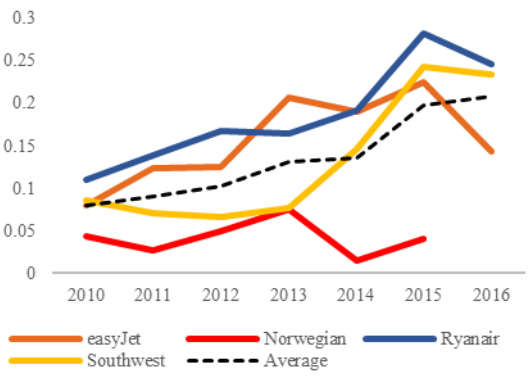

Figure 29: Return on Invested Capital Development

The higher the ROIC, the higher the perceived value of the company c.p. is[144]. A company with a higher ROIC usually has better access to lending than a low ROIC debtor and it gets fund cheaper, too, because the risk of failure is perceived lower[145]. easyJet, as all peers, in each year shows a positive (in six out of seven years even an above average) return on the invested capital, but a sharp decline in 2016, based on the increase in operating costs[146], and in the invested capital, mainly due to the addition of 20 aircraft. In 2016 easyJet's 14% ROIC means that the company generates 14 pence for each invested 100 pence. Ryanair, similar to easyJet, faces a decrease in 2016, as PP&E go up due to the reclassification of operating leases to capitalized leases, and a decrease in derivative financial instruments[147]. Southwest shows a pattern similar to easyJet and Ryanair, here the decline in 2016 is mainly due to the acquisition of 28 new aircraft, which increase the invested capital substantially without immediately generating the previous year's average NOPAT per aircraft[148]. Norwegian is the exception to the rule: with 3 pence per 100 pence invested, it consistently has a significantly lower ROIC than its peers. Summing up, easyJet,

[144] There is of course a kind of "vicious circle": If an investment is seen to be more attractive in relative terms, it is c.p. likely to be more costly in relative terms than a less profitable investment. And this in return may affect the attractiveness of the investment.
[145] Section 3.8.2 provides more details on measures regarding a company's solvency.
[146] Section 3.5.2 provides more details.
[147] Section 3.7.2 provides more details.
[148] Section 3.4.5 provides more details.

Ryanair, and to some extent Southwest, too, have over and over again the highest ROIC, and are therefore in terms of ROIC more attractive than Norwegian[149].

3.6.8 Turnover Rate of Invested Capital

The turnover rate of the invested capital also looks at a company's ability to generate revenues (Berk & DeMarzo, 2013).

$$Turnover\ Rate\ of\ Invested\ Capital = \frac{Total\ Revenues}{Invested\ Capital}$$

Equation 16: Turnover Rate of Invested Capital

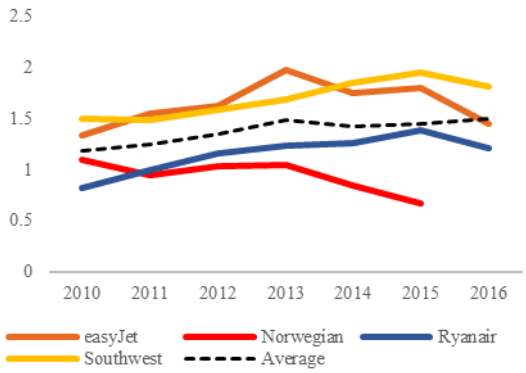

Figure 30: Turnover Rate of Invested Capital Development

Within the peers, the turnover rate of invested capital behaves similarly for Ryanair and Southwest: both increasing rates until 2015, facing a decline in 2016. In absolute numbers, however, Ryanair outperformed Southwest in each and every year. easyJet holds up until 2013, but its turnover rate of invested capital is declining since and now below the 2010 level. Nowegian's shows a decreasing rate over all years. The developments are explained by the same factors as the decline in its ROIC[150].

3.6.9 Net Borrowing Cost (NBC)

A company's net borrowing cost (NBC) equals the total net financial costs after tax divided by the net interest bearing debt. The NBC is a measure that usually does not equal a company's (average) borrowing rate (Petersen & Plenborg, 2012).

$$Net\ Borrowing\ Cost = \frac{Total\ Financial\ Expenses - Financial\ Tax}{Net\ Interest\ Bearing\ Debt}$$

Equation 17: Net Borrowings Costs

[149] As outlined before, a company's attractiveness for investors is c.p. also driven by a company's dividend policy and the dividend yield, showing which portion of the ROIC is actually received by the (equity) investor donating the invested capital.
[150] Section 3.6.7 provides more details.

Norwegian consistently shows a negative net borrowing cost of -0.04, which is driven by its fleet investment, which was mainly financed by capitalized leases, and therefore increased its net interest bearing debt (i.e. the financial liabilities). Southwest's development in 2015 is mainly driven by its increase in financial liabilities. However, Ryanair's NBC significantly decreased in 2014[151], due to an increase in its non-current borrowings and the fleet expansion, and then leaped back to previous levels.

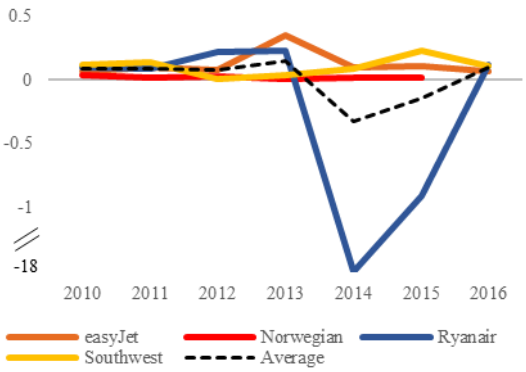

Figure 31: Net Borrowings Cost Development

3.7 Asset and Liability Ratios

This section analyzes key asset and liability ratios, namely: (i) equity multiplier and (ii) working capital, (iii) current and (iv) cash ratio, as well as the (v) accounts receivable turnover.

3.7.1 Equity Multiplier

The equity multiplier indicates how the company finances its operations (equity vs. debt) by comparing the total financial assets to the shareholder's equity.

$$Equity\ Muliplier = \frac{Financial\ Assets}{Shareholder's\ Equity}$$

Equation 18: Equity Multiplier

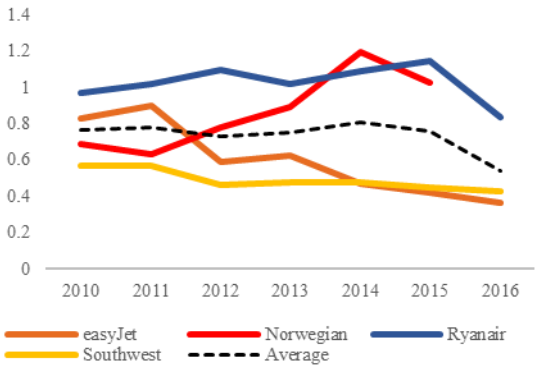

Figure 32: Equity Multiplier Development

The higher the equity multiplier, the larger c.p. the debt financed portion of total financial assets, and vice versa, the lower the equity multiplier, the more debt financing potential is c.p. available (Bhandari, 1988). By reinvesting net income into operations rather than paying out dividends, Norwegian's equity multiplier goes up from 2012 onwards, following two years of decline, before dropping again in 2015 but staying above average. Driven by a decrease in equity, namely in other reserves, Ryanair's equity multiplier goes down in 2016 substantially and fell below its level in 2010. easyJet was able to improve (i.e. to decrease) its equity multiplier over the review period. In general, this is mainly driven by (i) a decrease in financial assets over time and/or (ii) an increase in equity. easyJet uses cash for new aircraft and the repayment of loans, which drives down financial assets.

[151] The strong dip in Ryanair's NBC in 2014 can, accordingly, be considered a one-off outlier.

Furthermore, in 2014 easyJet raised GBP 308 m via in capital increase, and correspondingly its equity. As of 2016 easyJet has the lowest equity multiplier within the peer group, which speaks for a solid financing. The low multiplier enables easyJet to raise more debt in the future, if necessary, and/or allows paying out dividends[152], if necessary, c.p. without directly affecting operations.

3.7.2 Working Capital

Working capital describes to what extent a company's short term assets cover its short-term obligations.

$$Working\ Capital = Total\ Current\ Assets - Total\ Current\ Liabilities$$

Equation 19: Working Capital

A high negative working capital signals that the company has a constant need to raise funds short-term (by increasing debt or equity). In a situation, in which (sufficient) financing is not available in the Market, such companies quickly face financial constraints, and in extreme scenarios even the risk of failure (Berk & DeMarzo, 2013)[153]. easyJet and Ryanair show a very comparable development in terms of working capital: during the first five years it goes down, in 2016 it increases again, but only slightly. As both have similar business models and serve similar markets, the reason for the increase is similar, too: they increased their current assets, based on favorable mark-to-market adjustments of their derivative contracts. Based on the numbers, easyJet should be able to finance more of its current operations with debt in the future, which c.p. would in turn allow increasing investments to drive further growth (or to pay back equity instead, if it does not believe in its future). In the case of Ryanair, the development also corresponds with a step-up in the value of its stake in Aer Lingus[154]. Southwest experienced a strong decline in working capital; it has almost tripled its working capital in seven years, from USD -1,532.28 m in 2010 to USD -4,188.95 m in 2016. The two main drivers are: (i) new aircraft and flight equipment financed by short term debt, and (ii) writing down the residual value of its fleet, due to accounting changes in 2012 (based on current and expected future market conditions and assuming, a reduced utilization of (too) large fleet going forward)[155].

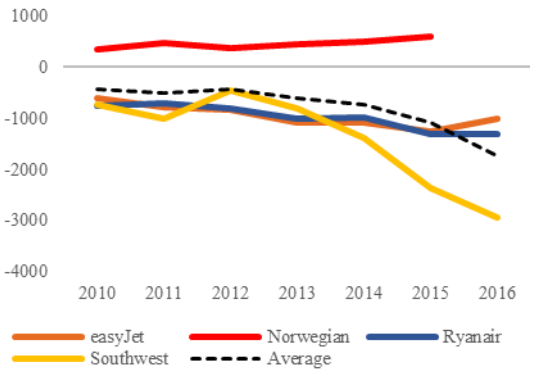

Figure 33: Working Capital Development

[152] Section 2.2.3 provides more details regarding easyJet's dividends.
[153] Even though working capital is a member of the asset-and-liability-ratios-family, it also is linked to solvency. Section 3.9 provides more details regarding solvency ratios.
[154] Ryanair now values Aer Lingus with a share price of EUR 2.33 compared to a former EUR 1.64 (Ryanair, Annual Report 2016, 2016).
[155] Notwithstanding the high negative working capital, looking at the entire picture (i.e. current news, the published financial reports, profitability ratios etc.) nothing suggests, that Southwest runs an increased risk of financial trouble.

3.7.3 Current Ratio

Like working capital, the current ratio gives an indication for a company's ability to pay current obligations, by using the available short-term assets only (Berk & DeMarzo, 2013)[156].

$$Current\ Ratio = \frac{Total\ Current\ Assets}{Total\ Current\ Liabilities}$$

Equation 20: Current Ratio

The higher a current ratio, the higher c.p. the ability to repay short-term debt, by cash generated from current assets, e.g. inventory or cash. Airlines face higher current liabilities than current assets as a rule of thumb, as input ressources tend to be paid beforehand and tickets on average later (Petersen & Plenborg, 2012). Consequently, the peers' current ratio is to be expected to come below 1 and this is the case. Over the review period current ratios for easyJet, Ryanair, and to some extent Southwest, too, are similar. The current ratio of Norwegian, however, is approximately eight times higher at the end of the review period, which is to be expected following the analysis of the net working capital[157]. However, Norwegian's ratio declined from 2011 to 2012 from 2.8 to 2.0, driven by (i) an increase in its short-term borrowings in 2012, and (ii) the high value of financial instruments in 2011[158].

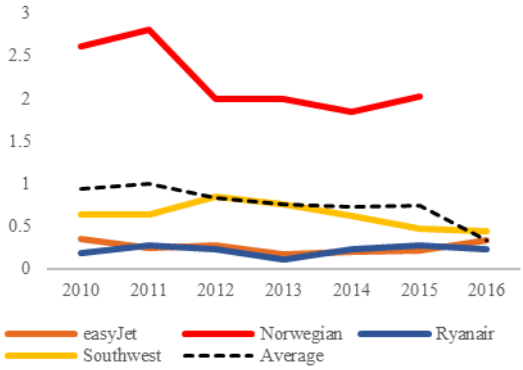

Figure 34: Current Ratio Development

3.7.4 Cash Ratio

Narrowing in, this section analyzes the ability to pay back total current liabilities solely by using existing cash reserves.

$$Cash\ Ratio = \frac{Cash\ and\ Cash\ Equivalents}{Total\ Current\ Liabilities}$$

Equation 21: Cash Ratio

A cash ratio close to 1 or above c.p. indicates a strong cash position that allows repaying the current debt, without selling any current assets needed to continue operations (Berk & DeMarzo, 2013). None of the peers

[156] Even though the current ratio is a member of the asset-and-liability-ratios-family, it also is linked to solvency. Section 3.9 provides more details regarding solvency ratios.
[157] Section 3.7.2 provides more details.
[158] Section 3.8.1.2 provides further reasoning for these findings and details on the peers' days' sales uncollected ratios.

has such a strong cash ratio in 2016. One reason being, that companies usually try to keep non-interest bearing (cash) positions low and rather use cash to finance operations, as this is a cheap way of funding. However, it also mirrors the vast capital requirements of the industry. Norwegian's last reported cash ratio equals 0.31; Southwest comes in at 0.29 in 2016, a cash ratio that remains almost constant across all review years. Norwegian shows a decrease, similar to Ryanair's but less strong. With almost 0.5 easyJet and Ryanair are the two with the highest cash ratio. Ryanair's ratio decreases year by year, coming from close to two in 2010. The development indicates Ryanair is now using cash more efficiently to fund operations. easyJet has been experiencing both, ups and downs, however shows an improvement in the last two years. In 2011, its cash ratio even came above 1, better than Ryanair's in the respective year. As cash is used, to fund current operations, as well as to pay out dividends to shareholders, no potential tricky issues can be identified[159].

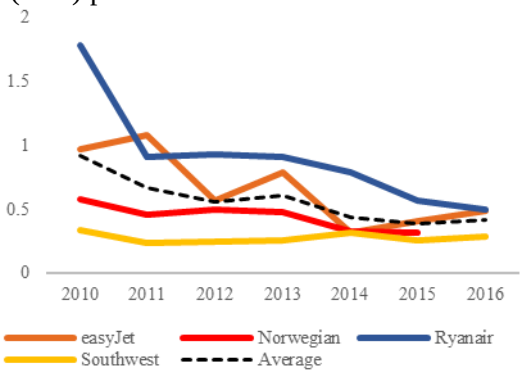

Figure 35: Cash Ratio Development

3.7.5 Accounts Receivables Turnover

To investigate the ability to collect revenues early, the account receivables turnover is analyzed, which usually comprises of the net credit sales, but as they are not publicly available, total revenues are used as a proxy (Chen & Shimerda, 1981).

$$Accounts\ Receivables\ Turnover = \frac{Total\ Revenues}{Trades\ Receivable}$$

Equation 22: Accounts Receivables Turnover

Debtors have an incentive to pay their bills late, if they are not forced to pay interest on amounts outstanding and the more of them pay their bills late, the lower the accounts receivables turnover (ratio) c.p. is. In other words, every time, a flight passenger for instance pays a ticket late, the carrier effectively loses money (i.e. interest either paid actually or in terms of opportunity costs). Ryanair collects money the most efficiently, also based on the policy of online sales (accounts receivable turnover: 86 on average). Southwest, too, operates efficiently, having an accounts receivable turnover of 39 on average. In 2016, however, its ratio goes down to 24. This may be due to its co-branded credit card agreement with Chase

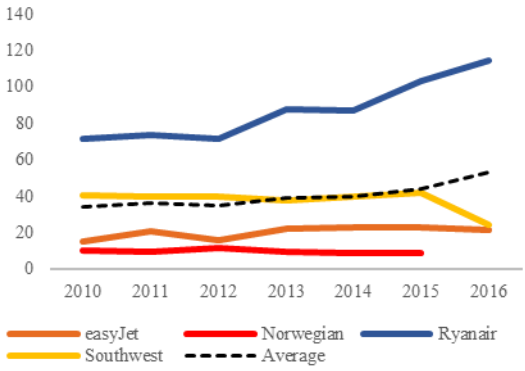

Figure 36: Accounts Receivables Turnover Development

[159] Section 3.8.1.2 provides further reasoning for these findings and details on the peers' days' sales uncollected ratios.

Bank, which may on average lead to later payments[160, 161]. Over the years, easyJet kept its accounts receivables turnover at around 20; and only Norwegian is lower with an average of 9. Comparing easyJet's to its peers indicates easyJet has ample room to improve.

3.8 Liquidity and Solvency Ratios

3.8.1 Liquidity Ratios

This section analyzes key liquidity ratios, namely: (i) total asset turnover and (ii) days' sales uncollected.

3.8.1.1 Total Assets Turnover

The total asset turnover shows to what extent total assets generate revenues and measures the efficiency of the total asset's utilization (it is also used in DuPont models[162]). Accordingly, the higher total asset turnover, the better the company c.p. is using or deploying its total assets (Chen & Shimerda, 1981).

$$Total\ Asset\ Turnover = \frac{Total\ Revenues}{Total\ Assets}$$

Equation 23: Total Asset Turnover

easyJet, Ryanair, and Southwest follow similar revenue trends. Whereas Norwegian outperforms the peers regarding top-line growth (over 300% over the review period) it faces the largest decline in the total asset turnover, due to two main events in 2013: (i) the acquisition of 17 new aircraft, and (ii) the complete transfer of Norwegian assets to Artic Aviation Asset, domiciled in Ireland[163]. Ryanair's 2013 increase is explained by holding total assets stable, while generating more revenues at the same time. easyJet's asset turnover however, suggests they are using its assets on average more efficiently than the peers do. Nevertheless, it declines since 2013 mainly driven by the acquisition of 19 new aircraft. It can be concluded that, although the asset turnover has decreased in the last years, easyJet's asset turnover is healthy and above average. Even if Norwegian is excluded, it is still average.

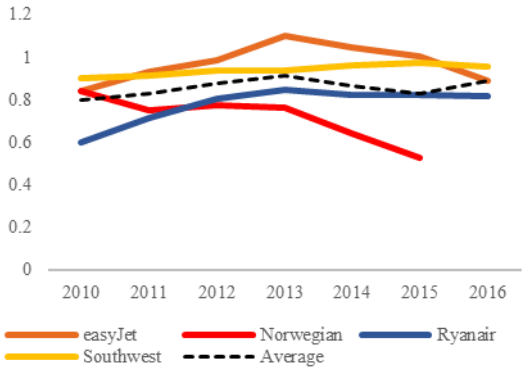

Figure 37: Total Assets Turnover Development

[160] Southwest and Chase Bank have a credit card agreement, which rewards travelers when purchasing via credit, therefore increasing Southwest's accounts receivables turnover (Southwest, Annual Report 2015, 2015).
[161] Section 3.8.1.2 provides further reasoning for these findings and details on the peers' days' sales uncollected ratios.
[162] Appendix 41-44 provide a DuPont Model for each and every peer.
[163] Norwegian argues that the rationale behind this decision is to balance out risks related to debt exposure in foreign currencies (Norwegian, Annual Report 2013, 2013).

3.8.1.2 Days' Sales Uncollected

Having learned, that not all debtors pay upfront, the analysis turns to investigate, how many days the individual peers do give them credit (Berk & DeMarzo, 2013).

$$Days' Sales\ Uncollected = \frac{365}{Accounts\ Receivables\ Turnover}$$

Equation 24: Days' Sales Uncollected

In general, it is expected, sales materialize on the seller's balance sheet within 30 days following a transaction. However, based on the capital-intensive business model and its need for liquidity, low-cost carriers should try to collect open amounts much faster, following the conclusion, that they in effect pay extra interest if clients pay late (i.e. interest either paid actually or in terms of opportunity costs). As to be expected from the accounts receivables turnover, Ryanair is by far the primus. On average, it gets its money within only four days. easyJet collects on an average 18 days. Even though this is well below the benchmark of 30 days, Ryanair shows easyJet: there is room for improvement. Runners-up are Southwest, they average 26 days, which is close to the 30-day benchmark, and Norwegian with a 39 day average[164].

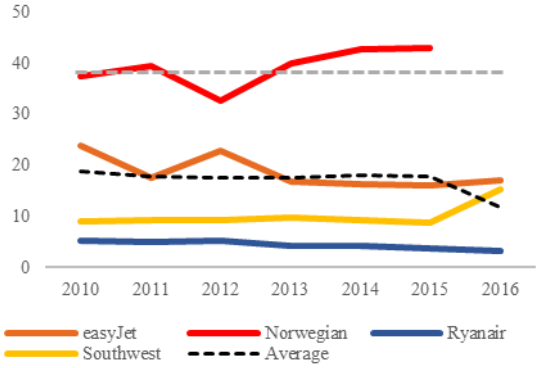

Figure 38: Days' Sales Uncollected Development

3.8.2 Solvency Ratios

It is difficult to assess the solvency of a company solely based on ratios looking at past years developments. However, they can provide an orientation (Berk & DeMarzo, 2013). The lower e.g. a company's solvency ratios, the more likely it c.p. is that outside lenders are willing to provide extra funding (Morrel, 2013). The analysis shows, that easyJet is on industry averages regarding (i) the debt to equity, (ii) the debt to assets and (iii) the solvency ratio, which indicates it faces a low risk in terms of questioning its long-term solvency. Ryanair comes in with the best results, but easyJet comes in a close second. Southwest is third, showing ratios that might give reason to consider carefully whether it needs to adjust the capital structure to avoid issues in the long(er) term. Norwegian scores the most unfavorable, indicating medium to high long-term solvency issues, also resulting from its rapid growth.

3.8.2.1 Total Debt to Equity Ratio (D/E Ratio)

The debt to equity ratio (D/E Ratio) refers to the capital structure. It captures the leverage and helps to

[164] The extra-long cash period helps to understand why Norwegian's working capital and current ratio are so high. It also explains why Norwegian has a substantially higher amount of trade receivables than the peer group's average.

distinguish the peers' capital structure[165] (Petersen & Plenborg, 2012).

$$Total\ Debt\ to\ Equity\ Ratio = \frac{Total\ Operating\ Liabilities}{Shareholder's\ Equity}$$

Equation 25: Total Debt to Equity Ratio

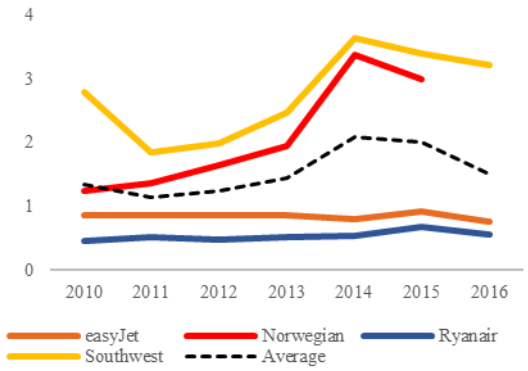

Figure 39: Total Debt to Equity Ratio Development

A high debt to equity ratio indicates that the company's equity (and its revenue and profit growth) c.p. is highly leveraged by debt. The more leveraged, the higher is c.p. the risk that the company is not able to repay its debt come bad times. With a total debt to equity ratio below 50% Ryanair has the healthiest ratio of the peers: its funding comprises mostly of equity. easyJet has a low D/E Ratio, too, around 50% in 2016, while Norwegian (300% in 2015) and Southwest (320% in 2016) score much higher gearings, which makes them more vulnerable when easy access to debt markets is not much of an option. Norwegian's ratio reflects its strong and heavily debt financed growth, especially after 2013, which is not unusual when the largest shareholder is a private person (presumably with limited resources) and, too, the CEO[166]. easyJet's debt to D/E Ratio looks sound and allows putting on some extra debt.

3.8.2.2 Total Debt to Assets Ratio

The total debt to assets ratio highlights the relationship between assets and debt. It is used to investigate what portion of the company's assets is debt financed (Penman, 2012).

$$Total\ Debt\ to\ Assets\ Ratio = \frac{Total\ Operating\ Liabilities}{Total\ Operating\ Assets}$$

Equation 26: Total Debt to Assets Ratio

Similar to the total debt to equity ratio, the higher the total debt to asset ratio is, the higher c.p. the risk that the company cannot meet its obligations if and when difficult times are lying ahead. This is especially important when a company tries to issue new debt and hits a ceiling. The peers have consistently held their level of debt to assets below 0.5. This is consistent with the low-

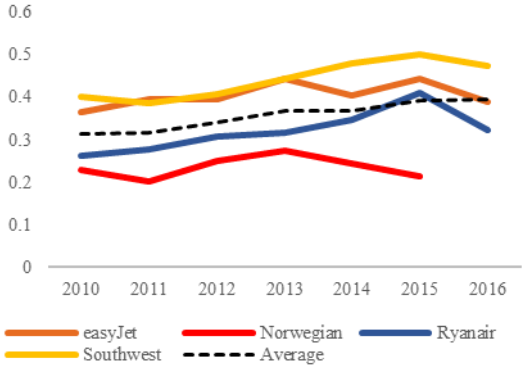

Figure 40: Total Debt to Assets Ratio Development

[165] In 1958 Modigliani & Miller proved the irrelevance of the capital structure in a model with rather rigid assumptions (Modigliani & Miller, 1958). Sooner and later academic analyses e.g. (Glickman, 1996), (Ahmeti & Prenaj, 2015) found out the capital structure matters under more realistic assumptions.

[166] The situation is addressed by the principal agent theory, aiming to align the goals of the agent (here: the CEO) with those of all principals (here: stakeholders), however, things may be different when a major shareholder acts as agent (CEO) (Garen, 1994).

cost business model: costs are kept to a minimum; cash from operations may come late, but is high and can be used to avoid funding from expensive sources, such as banks or bonds.

3.8.2.3 Solvency Ratio

The solvency looks at the company's ability to meet its short-term obligations by comparing the operating profit adjusted for depreciation to the total operating liabilities (Penman, 2012)[167].

$$Solvency\ Ratio = \frac{Operating\ Profit + Depreciation}{Total\ Operating\ Liabilities}$$

Equation 27: Solvency Ratio

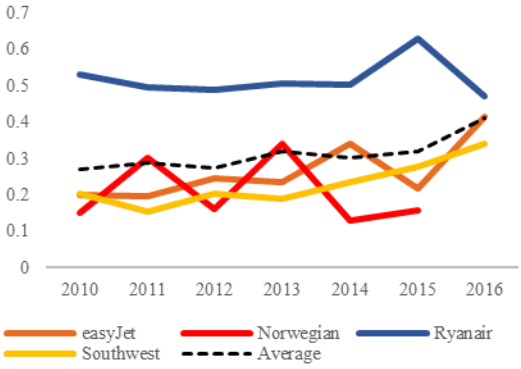

Figure 41: Solvency Ratio Development

A relatively high solvency ratio indicates the risk for insolvency is c.p. rather low, as the company is generating (sufficient) profit (and cash) to meet obligations. Ryanair's solvency risk peaks in 2015 and goes down to a more "normal" level in 2016, while easyJet and Southwest increase ratios over the review period. Ryanair's decrease is driven by its exceptional high profit in 2015, which resulted from an increase in revenues of approximately 16% (from EUR 5,654.0 m to EUR 6,535. 8m), partially offset, however, by an approximately 10% increase in operating costs (EUR 4,611.1 m to EUR 5,075.7m).

3.9 Red Flags and Golden Nuggets

Operating and/or financial weaknesses relative to the peers can be seen as warning signals, indicating issues in the short- to medium-term. Respective strengths indicate, easyJet's development is on track and it can build value (Petersen & Plenborg, 2012). In terms of revenues, easyJet's strengths include seat revenues, the flipside being its weak non-seat revenues. One way seeing it is that easyJet's non-seat revenues provide ample room for improvement. However, since market participants[168] have already started thinking loud about further and extremely reduced fares or even of free flights to increase load factors and do hope for non-seat revenues, easyJet, relying solely on seat revenues, may have difficulties to keep-up or even improve its market position. The high level of operating costs reflects rather costly ground operations based on easyJet's business model of serving Tier 1 and Tier 2 airports mainly. easyJet's strength include the comparatively low employee costs and number of employees per aircraft, its level of efficiency, mirrored in a high load factor relative to its peer group. easyJet shows high-profit margins and assets turnovers and collects its money quick. However, it has

[167] As it aims to review the ability to always pay all cash obligations, including depreciation makes sense.
[168] In November 2016 Ryanair has announced that they are considering to moving from low fares to no fares for many travelers as a way of increasing passenger numbers (Paton, 2016).

despite of its efficient operations rather low EBIT and EBITDA margins, returns on equity and on invested capital as compared to its peers. easyJet financial profile is strong, leaving capacity for taking on further debt, it has a strong working capital, and an attractive current ratio[169].

3.10 Peer Group Analysis

Looking at the profitability map[170] and comparing the peers, easyJet and Southwest have similar profiles regarding profit margin, return on equity, and debt to equity ratios, and both improved their profit margins, as well as their returns on equity over the years from 2013 to 2016. Norwegian, too, is within the same band, despite having taken on much more debt, due to its aggressive growth, and despite having the highest leverage ratio of all peers. Ryanair consistently outperformed its peers in terms of both, profit margins and return on equity. Nevertheless, and in contrast to easyJet and Southwest, it could not improve its position lately and even had their worst year in 2016. This leads to the conclusion: Runners-up have a better chance to improve their relative position, the leader of the pack has to struggle to remain atop, but may turn aggressive.

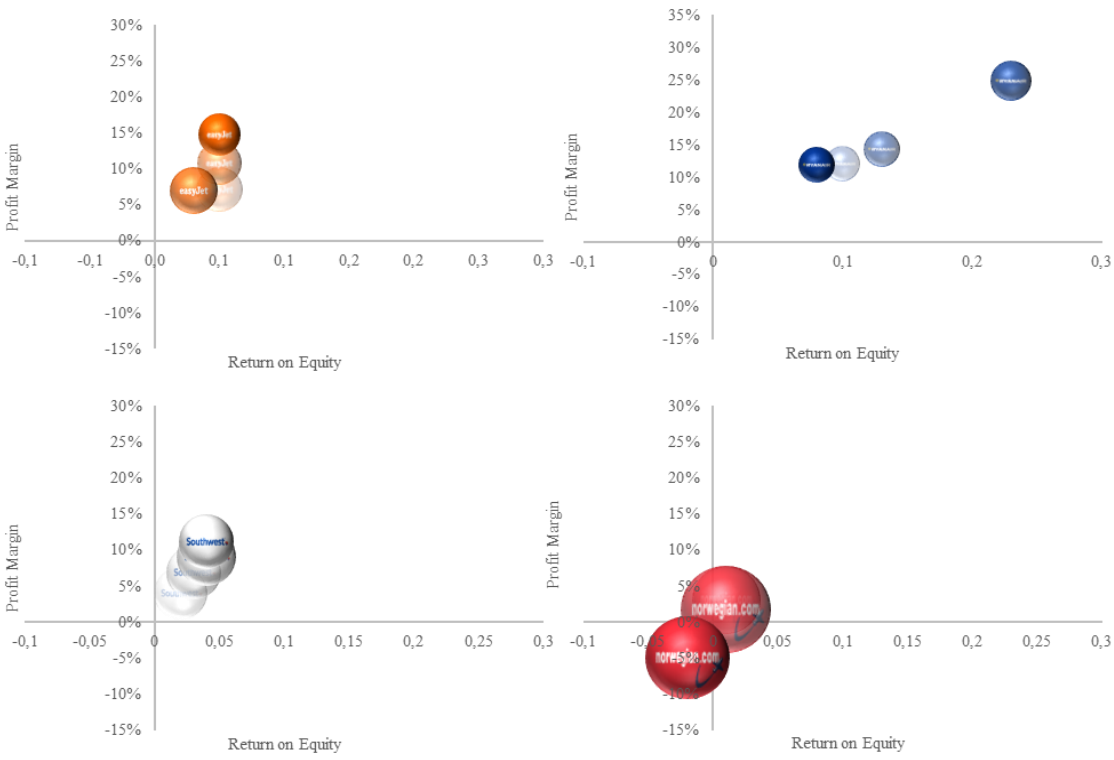

Figure 42: Profitability Map

[169] Further red flags and golden nuggets can be found in the Audit Opinions (Section 3.1.1), SWOT (Section 4.5), and TOWS (Section 6.5).
[170] The size of a bubble relates to the debt to equity ratio, more transparent bubbles refer to earlier years.

4 Strategic Analysis: Non-financial Drivers for the Airline Industry

4.1 Background

The strategic analysis leads to non-financial aspects that impact easyJet's and the industry's operations and performance. They are drilled down by (i) a PESTEL approach (referring to external political, economic, social, technological, environment, and legal issues), (ii) Porter's Five (addressing also external issues such competition, suppliers, customers, substitutes, and rivalry), (iii) a VRIO analysis (related to internal considerations regarding value, rarity, imitability, and organizational topics), and (vi) concluding a SWOT analysis (uncovering easyJet's strengths, weaknesses, opportunities, and threats). The issues identified in the strategic analysis and in financial analysis will later shape the model forecast and thus lay the foundation for answering the research question. Based on this and in order to prepare for answering the research question, especially the following sub-questions are answered in this section:

> *What exactly is easyJet's corporate strategy? Does easyJet have sustained competitive advantages relative to its peers? What are the most important external and internal factors affecting the industry? How are the global and the regional airline markets structured (e.g. in terms of players and customers)? What is the potential impact of BREXIT and how can easyJet pro-actively react? What trends can historically be observed in the industry? What is the foundation laid for the future?*

4.2 PESTEL: Political, Economic, Social, Technological, Environment, Legal Issues

Following the PESTEL approach, the strategic market analysis considers external (i) political, (ii) economic, (iii) social, (iv) technological, and (v) environmental and (vi) legal factors airlines face[171].

4.2.1 Political Environment

The airline industry includes a large variety of partly or fully or at least formerly state-owned companies, mainly from the full service providers segment, operating in a highly regulated market[172]. Historically airlines are a symbol of national pride, for modern economies, however, the efficiency of air transportation is much more of an issue. Notwithstanding this and as the airline industry's infrastructure requirements create substantial (implicit and explicit) public investments and environmental costs, many politicians and governments insist on keeping influence and to profit from the industry (Wettenhall, 1962)[173]. As a result, there are manifold interactions between politics and the industry: international open-sky agreements, national regulations regarding landing rights, supranational anti-trust rules, regional minimum wages and other

[171] Based on easyJet's business model, the analysis focuses on European passenger air transport and excludes freight considerations.
[172] The industry splits into full service providers (i.e. such as Lufthansa), the "old industry", and low-cost carriers (i.e. easyJet), the "innovation drivers". Section 2.7.1 provides more details.
[173] Even today, airlines (Aeromexico, Etihad, and Singapore Airlines, et al.) are of high importance for the development and the international perception of a country and its government and sometimes even seen an "ambassador" or "object of national pride" or a measure to promote tourism (e.g. in developing countries) (Henkins & Henry, 1980).

workforce related restrictions, national and international security provisions, etc.[174]. Airlines are also subject to fare transparency and customer protection by the EU[175] and additional regulations national authorites, in the case of the UK for instance, the CAA (Civil Aeronautics Authority), impose on airlines.

4.2.1.1 BREXIT

BREXIT[176] provides additional challenges and uncertainties for the industry. Currently, for instance the "new EU" [177] is the UK's largest trade partner, as around a half of the UK's trade (goods and services) is with the "new EU" (Mulabdic, Osnago, & Ruta, 2017). However, following BREXIT the trade between the "new EU" and the UK is expected to decline (Dhingra, Ottaviano, Sampson, & Reenen, 2016). As airlines' revenues are linked to international relations and GDP, it can be expected, that the industry's revenue stream will be affected, too. Following the referendum, financial markets reacted negatively, and investors worldwide lost more than the equivalent of USD 2trillion, making it the worst single-day loss in history; shares in UK airlines such as easyJet dropped dramatically, too[178]. The value of the pound fell to a 31-year low against USD, raising USD-denominated fuel prices substantially for companies such as easyJet with GBP-based revenue streams. Furthermore, S&P lowered the debt credit ratings for both, the UK and the EU, making borrowing more costly for UK airlines such as easyJet (Krudy, 2016). The EU allows for free access to foreign direct investment (FDI) within the EU, meaning e.g. British companies such as easyJet currently can invest in other EU countries free of limitations. Moreover, a UK company is attractive for FDI from non-member states of the EU, as it provides a spearhead to continental Europe. This is especially attractive for US investors because of the lack of a language barrier and similar economic and cultural traditions (Lannoo, 2016). All such things could diminish or even disappear following BREXIT, even though, the full impact is not known yet. In light of its prospective influence on business, easyJet's board of directors has elected a sub-committee to prepare for BREXIT. easyJet's latest published statement says it is confident that BREXIT "will not have a material impact on the Group's strategy or its ability to deliver long-term sustainable earnings growth and returns to shareholders" (easyJet, Annual Report 2016, 2016), initially, however, easyJet issued different and more concerned views (easyJet, Annual Report 2016, 2016)[179].

4.2.1.2 Politically Motivated Terrorism

The politically motivated September 11, 2001 terror attacks changed the aviation industry over night and

[174] In 2017 Donald Trump, the President of the United States of America, e.g. signed the US Executive Order 13769 (Protecting the Nation from Foreign Terrorist Flying into the United States) (Knecht, 2017), which substantially affects the airline industry.
[175] The respective EU directive (Regulation (EC) No 1008/2008) dates from November 1, 2008.
[176] The term "BREXIT" describes the United Kingdom's withdrawal from the European Union (EU) following the referendum on June 23, 2016 with a 53.4% vote for leaving the EU (Hunt & Brian, 2017). The UK government started the process officially on March 29, 2017.
[177] The "new EU" is comprised by all current EU member states excluding the UK and refers to the post-BREXIT EU member states.
[178] easyJet's share price dropped by 30% following the pro-BREXIT vote.
[179] Section 7.4 provides more details on BREXIT is proposed affects on easyJet's' strategy and proposed options.

dramatically, as a tremendous increase in costs, resulting for instance from an enhanced airport security, and a decrease in passenger numbers followed[180]. The industry took five years to return to profitability, but is still suffering from stricter security measures as terrorist attacks are an ongoing threat. easyJet is no exemption: in 2016, for instance, it was subject to a threat of a terrorist attack, even though the aggressor was finally restrained by the authorities (Murphy, Beckford, & Hearn, 2016). Furthermore, easyJet openly acknowledges that a terrorist attack would lead to diminished reputation and would affect its operational and financial performance (easyJet, Annual Report 2014, 2014). Historically, traveling via airplane was perceived a prestige travelers were prepared to pay for it and for the time savings relative to a cruise. The low-cost revolution has made air travel available and accessible for lower- and middle-class travelers, and even in times of increasing fears of terrorists, flying is still considered a safe way of traveling by most.

4.2.1.3 Revenue Streams

As the external factors in the aviation industry become a concern, carriers constantly explore new ways to generate revenues. A trend to increasingly focus on ancillary revenues can be observed. A study performed on their development (Warnock-Smith, O'Connell, & Maleki, 2015) showed for a group of 10 top airlines, that in 2007 they altogether earned ancillary revenues totaling USD 2.1 bn[181]. In 2013, the same group totaled ancillary revenues of USD 20.4 bn: a growth of 971% in only six years.

4.2.2 Economic Environment

A range of economic issues, too, affects the airline industry and its profitability. Consequently, this section looks at key factors including: (i) oil price and (ii) GDP development, (iii) exchange rates, (iv) interest rates, (v) social, (vi) technological, and (vii) environmental issues, and (viii) legal regulations.

4.2.2.1 Oil Price Development

As indicated in the financial analysis[182], jet fuel prices are a large block of a carrier's costs and, therefore, fluctuations (e.g. due to change in currency ratios) are one of the key determinants of an airline's profitability: jet fuel prices are strongly related to oil prices[183], and despite both following the same patterns, fuel prices

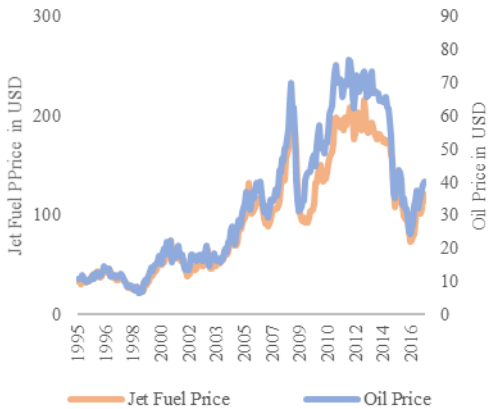

Figure 43: Jet Fuel Price vs. Oil Price Development

[180] Furthermore, insurance companies withdrew coverage for third party war risk on air transport. It is estimated that the insured harm from these events cost around USD 35.9 bn in total, the second highest derived from one single event, only beaten by hurricane Katrina in 2005 (IATA, The Impact of September 11 2001 on Aviation, 2010).
[181] The study includes: AirBerlin, Air Lingus, Alaska Air, Alitalita, Austrian, Delta, easyJet, Korean, Ryanair, United, and WestJet.
[182] Section 3 provides more details regarding the financial analysis.
[183] For the oil price development the ICE Brent Crude Oil Future (CO1 Comdty), for jet fuel ST13JF, is used. As the prices are reported in different currencies, for reason of comparison all prices were converted into GBP (Bloomberg, Database, 2017).

are even more volatile[184]. Running a linear regression analysis concludes, both are indeed highly correlated (correlation coefficient 0.97, indicating, that more than 97% of the jet fuel price changes can be explained by the oil price development during the period from January 1, 1995 to September 30, 2016). The regression line follows the formula[185]:

$$Jet\ Fuel\ Price = 2.668 * Oil\ Price + 7.553$$

Equation 28: Regression of Jet Fuel & Oil Price Development

These findings may, too, advocate for a relative strong relationship between the oil price development and the share price of an airline, as e.g. the oil price and easyJet's share price at first sight follow a similar pattern at least until the end of 2006 and then again until end of 2013. However, leaving the anecdotic evidence aside and running a linear regression analysis, only around 7% of the 21st century's changes in easyJet's share price (or market cap, respectively) can be explained by the oil price development[186]:

$$Share\ Price\ easyJet = 6.706 * Oil\ Price + 378.480$$

Equation 29: Regression of easyJet's Share Price & Oil Price Development

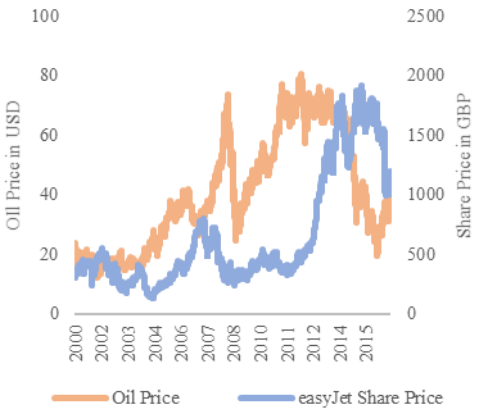

Figure 44: easyJet's Share Price &. Oil Price Development

The relatively weak correlation and the very strong positive development of easyJet from 2010 onwards indicate that an airline's management can find measures to successfully decouple from fluctuations in fuel prices. Nevertheless, according to the International Air Transport Association (IATA), the expected 2017 increase in oil prices will have the largest impact on the airlines' profitability outlook for the year, assuming the cost of fuel on average represent about 20% of the industry's cost base (IATA, IATA Forecasts Passenger Demand to Double Over 20 Years, 2016). It is thus important and common industry practice to hedge against fuel price fluctuations[187].

[184] Oil prices can also change subject to the political environment, as OPEC often demonstrated. Section 4.2.1 of the PESTEL analysis refers to political issues and Section 4.2.2.1 analyzes how sensitive easyJet's reacts on fuel price fluctuations.
[185] The p-value of the regression is below 0.05, consequently the linear regression is statistically highly significant. Looking at the residuals a hypothesis test reveals that they are statistically independent, in other words: randomly distributed. Appendix 45-46 provide the entire regression output as well as a residuals plot.
[186] The p-value of the regression is below 0.05, consequently the linear regression is statistically highly significant. Looking at the residuals a hypothesis test reveals that they are statistically independent, in other words: randomly distributed. Appendix 47-48 provide the entire regression output as well as a residuals plot.
[187] Section 2.4.3.2 provides more details regarding fuel and oil price hedges.

4.2.2.2 GDP Development

Carriers depend directly on the general economic environment, measured in terms of GDP. To investigate the relationship between GDP development and passenger numbers, the analysis looks exemplary at Europe (i.e. easyJet's home market). The regression calculated from the last 35 years shows that the correlation between GDP and passenger numbers is high (around 96%); the derived linear regression is equal to[188]:

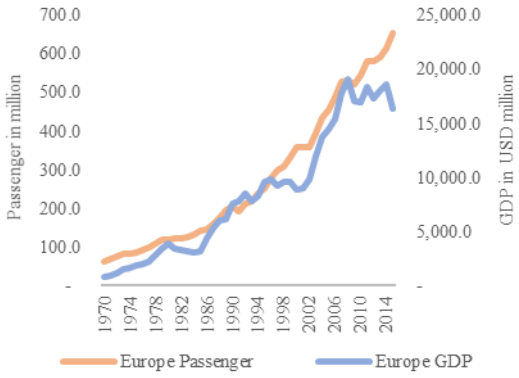

Figure 45: Europe Passenger & Europe GDP Development

$$Number\ of\ European\ Passengers = 0.031 * GDP\ Europe + 20.220$$

Equation 30: Regression of European passenger numbers & European GDP Development

The linear regression concludes the changes in passenger numbers are strongly aligned with the GDP development, however, considering, that e.g. an increase in passengers does not directly translate into an increase in easyJet's profits, the relationship, if any, between GDP and company-specific revenues is investigated and as the competition consist of low-cost and full-service carriers (with different business models), the analysis is carried out separately for both sub-industries, and easyJet and Deutsche Lufthansa serve as representatives for their business models[189]. As Europe is easyJet's main market, whereas Lufthansa operates all skies, easyJet is run against GDP Europe[190] and Lufthansa against the world's GDP[191]. Running the analyses turns out: 64% of easyJet's changes in revenues since its IPO 15 years ago can be explained by the GDP development, and the linear regression is highly significant[192]:

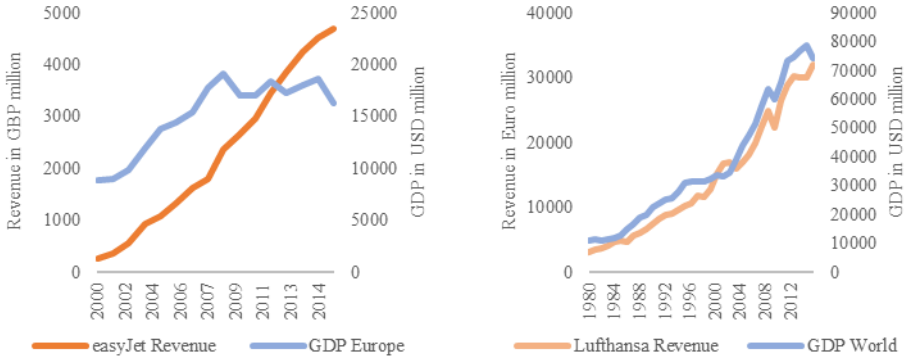

Figure 46: GDP Europe & easyJet Revenue ' GDP World &. Lufthansa Revenue Development

[188] The p-value of the regression is below 0.05, consequently the linear regression is statistically highly significant. Looking at the residuals a hypothesis test reveals that they are statistically independent, in other words: randomly distributed. Appendix 49-50 provide the entire regression output as well as a residuals plot.
[189] easyJet and Ryanair (and Norwegian and Southwest, too) are low cost carrier; while Lufthansa, IAG, and Air France-KLM are full-service carrier. Section 2.9 and 2.10 provide more details.
[190] For Ryanair and Norwegian, too, "Europe" can be considered the main market.
[191] For IAG and Air France-KLM, too, "the world" is the core or main market.
[192] The residuals plot shows an increasing trend, suggesting that the regression is a better fit for smaller changes in x-values, but not for larger ones, however it is fair to say, changes in GDP tend to be rather small aside in times of external shocks. Appendix 51-52 provides the entire regression output as well as a residuals plot.

$$easyJet's\ Revenue = 0.351 * GDP\ Europe - 3{,}022.200$$

Equation 31: Regression of easyJet's total revenues & European GDP Development

Investigating the relationship between Lufthansa's revenues and the world's GDP, also suggests a clear relationship, as Lufthansa's linear regression, starting with is its IPO 35 years ago, shows a correlation coefficient of around 98% and the linear regression is statically highly significant[193].

$$Deutsche\ Lufthansa's\ Revenues = 0.412 * GDP\ worldwide - 952.600$$

Equation 32: Regression of Deutsche Lufthansa's total revenues & World GDP Development

It seems plausible, that a fast-growing young carrier in a booming low-cost environment has a lower correlation, i.e. a greater chance to successfully decouple from GDP trends[194]. Pain & Young (2004) analyzed the BREXIT long before it occurred and saw a risk for jobs that are based on the trade between the UK and the EU, both in production and services. But nevertheless, they did not see any risk of rising unemployment as response (Pain & Young, 2004). Their estimates for the UK GDP development vary from -2.2% to +0.75% by 2030, however, conclude the actual outcome, depends on BREXIT details (Booth, Howarth, Persson, Ruparel, & Swidlicki, 2015). PwC believes the total UK GDP could be between around 3% and 5.5% below the FTA and WTO scenario in 2020, compared to the current status quo (PwC, 2016). Mansfield says the total impact on GDP varies from +1.1% to -2.6% (Mansfield, 2014). Ebell and Warren find that by 2030, GDP is projected to be between 1.5 percent and 3.7 percent below the baseline forecast in which the UK remains in the EU (Ebell & Warren, 2016).

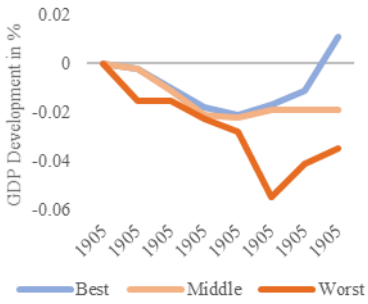

Figure 47: Possible UK GDP Growth Rate after-Brexit

4.2.2.3 Exchange Rates

By operating in international markets with varying currency regimes, with revenues (e.g. as ticket prices and sales) predominantly GBP-denominated and procurement (e.g. fuel prices) to a large extent USD-denominated, easyJet's business is sensitive to exchange rate changes and easyJet, as the entire airline industry, is exposed to considerable currency risks. It is thus important and common industry practice to use financial instruments to hedge against these risks[195]. Over the last decades, GBP lost value relative to the USD, and following

[193] The p-value of the regression is below 0.05, consequently the linear regression is statistically highly significant. Looking at the residuals a hypothesis test reveals that they are statistically independent, in other words: randomly distributed. Appendix 53-54 provides the entire regression output as well as a residuals plot.
[194] The results allow for a linear regression, as the residuals are randomly distributed, and it can be concluded that FSC are closer related to GDP than LCC. Appendix 55-60 provides the entire regression output as well as a residuals plot.
[195] Section 2.4.3.2 provides more details regarding exchange rate hedges.

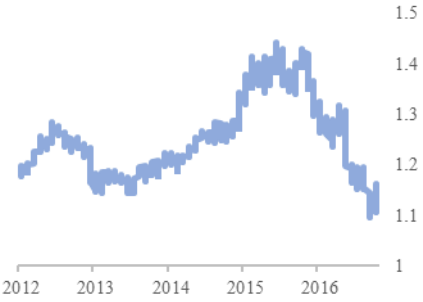

Figure 48: USD/GBP Exchange Rate Development

BREXIT even more. As hedging is cost intensive this is a clear disadvantage, relative to carriers operating the US market. Following BREXIT the GBP dropped substantially[196], which leads to an increase in import prices and put a squeeze on UK households' real income. The currency development indicates market participants feel the consequences of BREXIT are negative for the UK and the currency falls to help absorb the detriment by making UK exports c.p. cheaper (Broadbent, 2017). The corresponding increase in the price of imports could c.p. increase inflation, which may force the BoE to increase interest rates with a negative effect on domestic demand (Ebell & Warren, 2016).

4.2.2.4 Interest Rates

As carriers run a capital intensive business model, their economics show a substantial sensitivity to changes in interest rates[197]. Interest rates, too, have second round effects, as in times of lower interest rates, people are willing to spend more money on luxury goods, such as traveling. Since the introduction of the euro, the European interest rates moved down in response to the general economic downturn, also based on the dot-com bubble and the September 11, 2001 terror attacks. Another reason was the world financial crisis starting 2008 and its European aftermath. With a lower interest rate, it becomes cheaper to borrow money, and this should be favorable for a capital investment intensive industry such as the airlines industry (Bloomberg, Database, 2017).

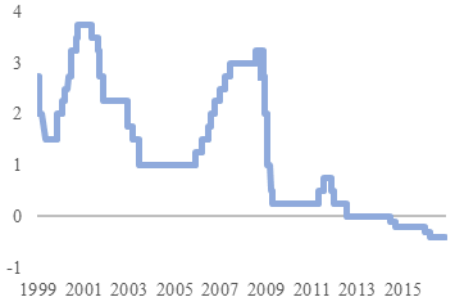

Figure 49: BoE Interest Rate Development

4.2.3 Social Environment

It is expected that airlines grow passenger numbers further, especially in emerging countries. As the industry's development is GDP related, and as the population of a country becomes richer, the tendency to travel increases[198]. This trend is important and companies operating developing markets have an extra chance to profit[199]. The Internet, too, plays an important role, and it is a crucial success factor now: today's travelers

[196] As shown in Section 2.4.3.2 exchange rates, in general, are important input factors for airlines, as they operate on an international level. Therefore, the GBP development has a direct impact on easyJet's past and future performance. easyJet can hedge against the volatility of a currency, but not against an ongoing depreciation, that will lead to an ongoing threat to the profitability.
[197] Section 3.2.3 provides more details regarding the high levels of adjusted debt, corresponding to financing aircrafts by operating leases.
[198] This holds true for business and leisure, as anecdotal evidence for rising number of travelers from the Peoples Republic of China suggests. It is also reasonable to assume, that the link between GDP and passengers becomes stronger with an increasing absolute GDP in an emerging country. However, this is not explored into more details, as easyJet's core market is Europe.
[199] It is also worth mentioning, the airline industry is an important driver for the globalization, too, which can be observed by looking at the increasingly dense global network of routes.

encounter low switching costs and are (to a varying extent) indifferent to which airline to choose. Travelling by plane has become a commodity and passengers often choose based on the lowest available price[200]. As technology evolves, online shopping becomes the predominant way to buy a fare. Therefore, to stay relevant, being present in the most important search engines is vital. Moreover, online reputation has become a concern not only for airlines[201]. However, the Internet provides many opportunities, e.g. for carriers selling tickets directly via their website and earning the former middleman's margin themselves[202].

4.2.4 Technological Environment

Technology development affects both, revenues and costs. By utilizing advanced technology revenues can c.p. be increased e.g. by using additional sales channels. By operating more fuel-efficient aircraft, costs can c.p. be reduced, and according to the importance of the fuel consumption, this is core, when choosing a new aircraft. Airbus and Boeing, as of today the two leading providers, offer aircraft that consume 2.4 to 3.1 liters' fuel per seat kilometer. Even though this may be perceived as a lot, relative to improvements made for travelling by car, carriers' fuel consumption has been reduced significantly over the last decades, as today's aircrafts (e.g. the Dreamliner) are brought to the Market with a fuel consumption of approximately 15 to 30% below traditional engines[203]. Together with the relative decrease in fuel costs it is important, that a more fuel-efficient fleet c.p. means a reduction in costly emissions, which are heavily criticized by the public since long. The increasing usage of smart phones and other electronic devices for business and leisure purposes imposes a demand for in-flight Wi-Fi[204], even though it is yet open, how low-cost airlines react. Moreover, features such as fast-track security, biometric check-in, and mobile boarding passes are products that can reduce the time spent for boarding and may create ways to differentiate from competition[205]. As technology evolves, innovations like self-service airports become possible and the industry is constantly introducing additional features to decrease costs. An example is Singapore's Changi Airport which makes considerable investments to adopt self-service technology including check-in kiosks and automated bag-drop machines (Airport, 2016).

4.2.4.1 Connectivity

Simon Lamkin, heading up easyJet's operational systems, referring to the aforementioned need for technology, stated that the future includes in-flight Wi-Fi connection. However, he also said that technology had not yet developed the right product, the right speed, and the right performance. Therefore, it has not yet been included in its product portfolio. Similar to easyJet, John Hurley, Ryanair's Chief Technology Officer, agreed that in

[200] The development of platforms such as Skyscanner increased competition dramatically and provides price transparency.
[201] Online boycotts of companies over Internet scandals are becoming increasingly popular e.g. United Airlines scandal for removing a passenger due to overbooking (Press, 2017)
[202] Section 2.5 provides more details regarding easyJet's usage of technology to improve economics.
[203] Section 4.2.5 provides more details environmental issues.
[204] Section 4.2.4.1 provides more details regarding easyJet's view on inter flight Wi-Fi.
[205] Section 2.5 provides more details regarding easyJet's usage of technology to improve economics and customer satisfaction.

the future it would offer Wi-Fi connection, but at the moment, it is too expensive (Flight Global, 2015). However in 2017, JetBlue[206] announced that all of its domestic flights in the US include free Wi-Fi with immediate effect and claimed to be the first LCC offering this service in its entire fleet (Vasel, 2017).

4.2.4.2 Digitalization and Personalization

Carriers like Ryanair and easyJet are already making efforts to optimize the use of data science to increase seat and non-seat (i.e. ancillary) revenues[207]. The trend is evident and expected to drive industry innovation. Lufthansa has announced plans to invest EUR 400 m to digitalize the company by 2020 (Deutsche Lufthansa, Annual Report 2015, 2015). Low-cost carriers are also expected to use digitalization to boost ancillary revenues e.g. through highly personalized marketing (Humphries, 2016).

4.2.5 Environmental Factors

Environmental factors (and legislation) and ecological debates with respect to the industry are widely common. Some of the most discussed topics are (i) CO_2 emissions (i.e. fuel consumption and global warming), as well as (ii) renewable energy, another factor that generates concern is (iii) night take-off and landing rights, which have a tremendous influence on the frequency that can be offered on certain routes.

4.2.5.1 CO_2 Emissions

The European Emission Trading Scheme was introduced in July 2008, as a response to the climate change and the further expected growth in air transportation. Despite a contribution of 3% to CO_2 emissions (and therefore to the attributed effects on the "climate change"), aviation is often said to be the most unsustainable mode of transport. easyJet publicizes carbon emission per passenger kilometer. It decreased from 81.05 g in 2015 to 79.98 g in 2016. The use of more efficient aircraft and enhanced operating efficiency are the main reasons behind, the purchase of the new A320 Neo aircraft, which could lead to a further decrease, as they are expected to be around 13 to 15% more fuel efficient than today's aircraft. Regarding operating efficiency easyJet has increased the number of seats per aircraft to reduce the carbon emissions per passenger kilometer, an additional reason for the above-mentioned reduction. (easyJet, Annual Report 2016, 2016).

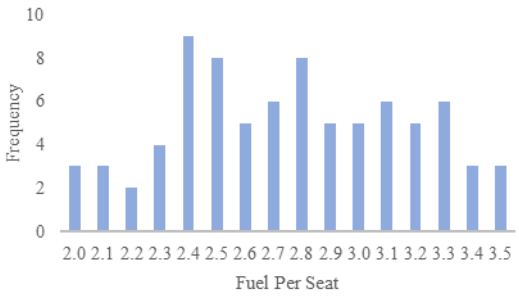

Figure 50: Fuel Per Seat Consumption of the Current Aircraft in the Market

[206] JetBlue Airways Corporation is an American airline, based in Long Island City.
[207] Section 2.4.3.1 provides more details regarding easyJet's digitalization strategy.

4.2.5.2 Renewable Energy

It seems that even a price scenario of EUR 40 per ton of CO_2 will be too low to trigger any significant changes in the air transport sector (Anger, 2010). In light of the criticism the industry is increasingly prepared to consider using renewable energy. IATA supports research and development in bio-fuel and has set the goal that 6% of the world's air fleet should use biofuel by 2020. The big obstacle with the use of bio-fuel is the price, as the market price is significantly above the costs of traditional jet fuel, making it impossible for airlines to use, as stated e.g. by Norwegian (Norwegian, Annual Report 2015, 2015). Despite the huge gap, some experts expect prices of traditional fuel and biofuel to narrow over time (Gegg, Budd, & Ison, 2014). As Kuhn, Falter and Sizmann (2011) explain, future energy research and development could deliver a technology that allows fully electric aircraft engines in the not too distant future. This technology could use solar energy, but advancements in energy storage are still needed before this is seen to provide a realistic option. Even if this problem was solved, electric engines could only be used for short distances, as long-distance functionality would require developments, which are not yet seen at the horizon. This suggests that such technology would first benefit the regionally active, short-haul low-cost airlines (Kuhn, Falter, & Sizmann, 2011).

4.2.5.3 Night Time Take-off and Landing

Night Time Take-off and Landing Rights are mainly regulated by local governmental bodies, however, can have a major impact on airports and the serving carriers. On one side, the more flights an operator can offer, the more money it can earn. On the other side, problems with the society and the population living near the airport facilities and complains about disturbances, can have a huge impact on the standing, the future development, and expansion plans. For example, in 2012, campaigners against night flights in Frankfurt won in court and flights from 11 p.m. until 5 a.m. were banned. Lufthansa explained its business would be damaged. However, their complaint was rejected by the German court for the benefit of the broader society.

4.2.6 Legal Environment

The airline industry is subject to manifold legal restrictions including (i) operating licenses, (ii) take-off and landing slot's/rights and (iii) safety requirements, as well as (iv) labor law issues[208].

4.2.6.1 Operating Licenses

With respect to aerospace service rights, European regulations shifted from national to an EU setting when the Single European Sky (SES) was introduced. The main intention behind the SES was to regulate airspace across the European Union and to ensure a sustained traffic growth and safety (Pellegrini & Rodriguez, 2013). As a general rule, operating licenses are to be awarded by the state, in which the majority of the companies'

[208] Section 4.2.5 provides more details regarding environmental issues than influence a carriers business.

shareholders are domiciled (Civil Aviation Authority, Licensing Airlines in the UK: the Framework and Criteria for Granting Operating Licenses, Route Licenses and Air Transport Licenses, 2008). Accordingly, easyJet's current operating license has been provided by the British Civil Aviation Authority and allows operating the SES. As of today, it is at least questionable, whether this license allows operating the routes from and into the "new EU" following the BREXIT. One scenario could be, that the UK and the "new EU" sign an agreement, like the one the EU has with the US, which guarantees open skies. Another scenario could be that the UK tries to reach bilateral agreements with the "new EU" countries, into which British airlines want to offer routes. Such bilateral agreement as e.g. the contract between Germany and UAE exemplifies are complex: UAE airlines do not have the right to choose any route they would like to serve and are only allowed to serve Frankfurt, Munich, Dusseldorf, and Hamburg. Furthermore, they can only offer "agreed services" on these "specific routes". All details are reviewed on a rolling basis and may be adjusted (Bundesrepublik Deutschland, Gesetz zu dem Luftverkehrsabkommen vom 2. Maerz 1994 zwischen der Bundesrepublik Deutschland und den Vereinigten Arabischen Emiraten, 1996). Furthermore, Germany (German Federal Foreign Office, 2016) and most of other EU member states have transferred the responsibility for air transport agreements to the EU, what may even make things more uncertain. So as there is a risk, that no agreement will be reached or that an interim period of uncertainty about future operations can occur, easyJet's management must consider carefully the available options in order to not jeopardize its business. Consequently, this analysis considers different scenarios: (i) "Norway" [209], (ii) "Average-PTA" [210], and (iii) "No-agreement" [211]. Under "Norway" UK airlines would also in future operate under the wings of SES as to date. "Average-PTA" would give the UK only limited access to the "new EU" and may result in losing EU and non-EU routes. "No-agreement" could mean easyJet is not able to serve the "new EU"; furthermore, easyJet may lose non-"new EU" routes it currently operates under EU right[212].

4.2.6.2 Take-off and Landing Slots

The growing competition in air travel has put more pressure on airports to allocate, or even better, to increase capacity, and especially the available take-off and landing slots. IATA oversees the distribution of slots to airlines, as it grants the permission to use airport facilities at a given time and date. If an airline operates 80% or more of a specific slot over the course of a full year, it can secure the same slot for the next year[213]. Access to "new" and "additional" slots is therefore largely dependent on whether an airport has excess capacity and

[209] According to "Norway" UK exports would decrease by 12%, while for services and domestic value added a decrease of exports of 16% and 6% respectively is suggestes in literature (Mulabdic, Osnago, & Ruta, 2017). Section 7.4 provides more details regarding the scenario.
[210] "Average-PTA" could lead to a decrease in exports of 26%; service would decrease by 48%, so the assumption (Mulabdic, Osnago, & Ruta, 2017). Section 7.4 provides more details regarding the scenario.
[211] "No-agreement" might lead to services exports go down by 62%, which implies a further 14 and 46%-point drop relative to "Norway" and "Average-PTA", respectively, value added exports would decrease by about a quarter and the foreign value added in UK's exports would decrease by one-third (Mulabdic, Osnago, & Ruta, 2017). Section 7.4 provides more details regarding the scenario.
[212] Section 7.4 investigates easyJet's potential to pro-actively counter the risk of uncertainty about its operating license.
[213] Also known as grandfathering and enabling established airlines to continue operating profitable routes (Sieg, 2010).

whether established airlines "fully" use their allocated slots. This represents a strong advantage for established airlines[214]. At major airports, large airlines even operate and control terminals and gates (European Commission, An Aviation Strategy for Europe, 2015). However, trading slots among airlines is also an option and happened in the past: e.g. in 2013 easyJet acquired 25 take-off and landing slots from Flybe for GBP 20 m to get a sizeable presence at London Gatwick (Strydom, 2013).

4.2.6.3 Safety Requirements

Safety requirements increased over the last years, also in light of September 11, 2001[215]. The requirements imposed on carriers, respectively its passengers, include restrictions on liquids, massive and locked cockpit doors during flight, and additional controls for domestic flights. These stricter safety requirements have increased the costs for airlines, as well as for airports.

4.2.6.4 Labor Laws

In general, the minimum wage is a concept that establishes how much an employer must at least pay an employee on an hourly or daily basis. The details vary across countries; some do not set a minimum wage by law, but rely on minimum wages to be agreed upon by unions or other workers' representatives. Minimum wages can e.g. have substantial effects on a country's GDP or unemployment rate development (Meer & West, 2015). They can differ not only between industries, but also across countries and even between cities within the same jurisdiction. The profitability of an international company competing against others in a variety of countries can be affected when competing for the same clients and need to offer similar prices, but staff costs differ, due to minimum wage policies. The United Kingdom does politically establish a minimum wage. easyJet, however, has to offer competitive salaries and pays UK-based employees above the minimum (easyJet, Recognition and reward, u.d.). As most UK employment law is knotted with EU law, a BREXIT could change the labor market regulation, too, and therefore affect easyJet's workforce and, consequently, its operating costs[216]. At the current stage, there is a general tendency that large enterprises benefit more from the EU regulations than small companies do (Coulter & Hancke, 2016). As easyJet is a large company, the EU employment regulations currently do not have a major negative impact on easyJet's operating costs[217]. However, any changes in labor regulations induced by BREXIT, could materially affect the industry in general, and in particular easyJet (Centre on Migration, Policy and Society, 2016) and it is uncertain, whether or not the UK will weaken domestic employment regulations (Dhingra, Ottaviano, Sampson, & Reenen, 2016) and/or

[214] As Section 4.4.1.2 explains in more details this also creates sustained competitive advantages, as continuously renewing historical slots can be seen as a strong barrier for potential new market entrants.
[215] Section 4.2.1.2 provides more details regarding the impact of September 11, 2001.
[216] Labor costs are also subject to changes in the economic environment. Section 6.3.4.4 investigates how sensitive easyJet's reacts on a potential change in labor costs.
[217] The industry is amongst those with the least UK employees, as of the UK transportation industry's total workforce 7.4% (around 210,000 employees) are non-UK EU citizen and 14.1% (i.e. 400,000) non-EU immigrant workers. Labor costs are also subject to changes in the economic environment. Section 6.3.4.4 investigates how sensitive easyJet's reacts on a potential change of labor costs.

restricts immigrations and/or cross-border labor mobility (Busch & Matthes, 2016).

4.3 Porters' Five: Competition, Suppliers, Customers, Substitutes, Rivalry

In this section easyJet's competitive strength and position within the market is investigated. To understand in which areas easyJet is competitive, and in which fields easyJet has to improve, the framework of Porter's Five Forces is used, and the following items are investigated: (i) industry competition, (ii) power of suppliers, (iii) power of customers, (iv) threat of substitute products, and (v) intensity of industry rivalry.

4.3.1 Competition in the Industry

As competitors are focused on gaining market share and, therefore often tend to accept lower prices and lower margins, "new" and/or additional suppliers (intending to) entering a market represent a (potential) threat for the "old" and traditional providers. How successful a new seller is, depends greatly on the entry barriers set by the established companies (Porter M. , 2008). The airline industry has well-defined, strong entry barriers with a tendency to make it difficult to compete for new entrants from outside the industry[218]. An important entry barrier into the airline industry is the great initial investment (for aircraft, landing rights, workforce and the like) required to operate. The industry is already highly competitive and this increases the risk for new entrants, as they lose substantial amounts of their investments if failing. Consequently, it is not often seen that new airlines are founded. However, when an existing airline (maybe with excess capacity) enters a new market (i.e. route) as a competitor (and has access to landing and take-off slots), it becomes a potential threat to airlines already serving the route, because it is relatively easy for the newcomer to gain market share, as airlines often have an undifferentiated product and switching costs are low. Therefore, if a new entrant offers lower prices, (many) customers can be expected to switch (MarketLine, Global Airlines, 2016). To avoid this, airlines often increase switching costs, by offering loyalty programs. Alliances, too, make it harder for new entrants, as through alliances the established airlines can offer more routes. Another defensive strategy against new entrants is "predatory behavior". This strategy involves a temporary reduction of prices by the established player to at least match those of the new competitor. The low prices are then offered until the new competitor goes out of business; thereafter prices will be set back to pre-competition levels or may even be increased further. Other entry barriers include airport capacity, access to slots and regulatory issues, such as grandfathering[219]. The manifold entry barriers and strategies established airlines use to mitigate the threat of new competitors, make it difficult and costly for new companies (especially if they have no industry background) to enter a market successfully and, therefore, the threat imposed by competitors is low or

[218] The VRIO analysis introduced in Section 4.4, however shows, that despite the obvious barriers for new suppliers from outside the industry, carriers such as easyJet in real life have only limited, if any sustained advantages (relative to competitors from inside the industry). Operating buses, however, is easier for newcomers from the outside: buses are cheap relative to aircraft. This explains the difference between the two markets and what can happen in an industry if only limited barriers exist. However, the revival of bus travel also affects low-cost airlines on short distance travel (International Union of Railways, 2015)

[219] According to IATA an airline that operates 80% or more of a specific slot over the course of a full year, can secure this lot for the next year, a rule also known as grandfathering (Sieg, 2010).

moderate according to literature (MarketLine, Global Airlines, 2016)

4.3.2 Power of Suppliers

Charging higher prices and/or limiting quality or services can allow powerful suppliers to increase profitability. Suppliers are dominant: (i) if they offer a unique product within an industry, (ii) if they have a well diversified customer base, (ii) if customers face high switching costs, (iv) if providers offer a range of products, (v) if customers depend on the product, and (vi) if suppliers have room for vertical integration (Porter M. E., 1979). easyJet and airlines in general, face suppliers, which could have bargaining power, as most of them offer specialized products and/or services, and often are oligopolistic or even "de facto" monopolists. These suppliers include: (i) aircraft manufacturers, (ii) ground operation providers, (iii) employees (if represented e.g. by labor unions), (iv) airports, and (v) fuel suppliers.

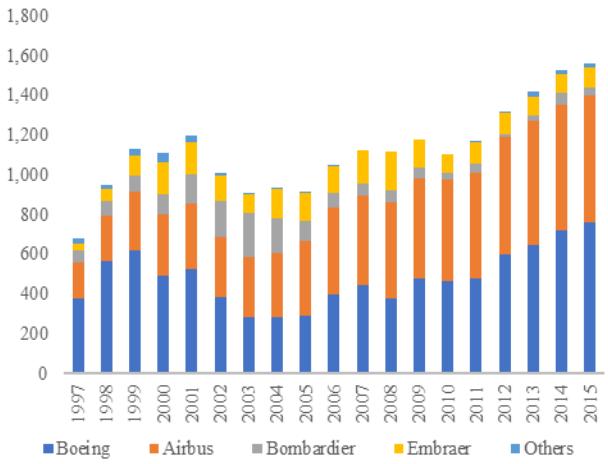

Figure 51:Market Share of Aircraft Manufacturer

Manufacturers operate until now in a de facto duopolistic market made up by Boeing and Airbus, and as the airlines have no alternative to purchase (Odell M. , 2011), this results in a relatively strong bargaining power. On the other side, aircraft manufacturers also depend on a given number of carriers, as they are, apart from selected private and government institutions, the only buyers, which gives them power, too. As easyJet's fleet consists only of Airbus's, it faces a trade-off between a potential dependence and its ability to generate economies of scale. easyJet's switching costs would be high, as it has a long-term contract with Airbus, and this would also be followed by a need to adjust maintenance routines and facilities, and to offer specific training for their employees. Another important input factor for air transportation is skilled labor. Flight attendants, pilots and engineers especially are subjects of relatively long education and training, which cannot be easily replaced[220]. In addition, established unions have strong negotiation power with respect to salaries and perks; and recent strikes impressively show their bargaining power[221]. Another issue is the airports and landing slots. Following deregulation on airport commissions and when airports have excess capacity, LCC (such as Ryanair at Frankfurt Airport) have been able to substantially cut prices of airport fees[222]. But when companies, such as easyJet, want to offer a specific route already operated by others, they often do not have options. This indicates that airports operating at 100% of their capacity and serving attractive routes have bargaining power. Here

[220] The education of a pilot takes approximately two to four years (Civil Aviation Authority, How to become a commercial pilot, 2017).
[221] Lufthansa's recent experience while negotiating an adjustment of the existing contracts with Cockpit (the labor union representing Lufthansa's pilots) provides a good example of what can happen, if things go wrong for an airline (dpa, 2017).
[222] Ryanair and Fraport (the operator of Frankfurt Airport) have agreed on a 50% discount on fees for the first year Ryanair operates flights from Frankfurt. During the ongoing years this discount will be cut step-by-step. Normally, airlines have to pay around Euro 30 per passenger to Fraport as operating fee, implying that Ryanair only has to pay around Euro 15 (Koenen, 2016).

again, a supplier depends on the airline industry, but on margin not necessarily on a specific airline. Even though there is a mutual need of airports and airlines, the competition between carriers increased over the past years, as the airlines overall capacity increased. As the number of high capacity players grows, airports c.p. become increasingly less depend on a specific airline, and this in return increases the airport's bargaining power. Fuel suppliers do not only serve the airlines, and therefore are not solely dependent on the industry. However, due to the amounts of fuel bought by an airline, it is considered that in the long(er) run there is, if any, only a limited net positive bargaining power of fuel suppliers, most likely it is neutral.

4.3.3 Power of Customers

According to Porter (2008), the bargaining power of customers is strong (i) if a small number of customers makes large purchases, (ii) if customers switch suppliers regularly and easily, (iii) if products from different vendors can not be differentiated, and (iv) if buyers are price sensitive. Powerful customers can then drive prices down, demand higher quality and/or ask for more services to be included for free, which causes costs to increase (Porter M. E., 1979). The analysis of the relative power shows that the airline industry faces such powerful customers. The factor that gives customers the most power is that they can switch airlines easily and that the basic product (i.e. traveling from A to B) can hardly be differentiated. Travelers (i.e. buyers) use websites to compare prices from different suppliers offering the same routes in matter of seconds[223]. The digital era allows them a hitherto unknown control, as they can book over digital channels (Harteveldt H. H., 2012). Moreover, the price sensitivity of air travelers is significant. They are known to have an elasticity of -1.96, which, for example, means that a 10% increase in price will drive demand down by 19.6% (InterVistasConsulting, 2007). However, there are also factors that reduce their bargaining power: (i) the lack of time efficient long-haul substitutes is one of them, even though teleconferences and to some extent buses (on short distances) pose a threat[224] and (ii) airlines, at least as far as individual leisure travelers are concerned, do not always face a situation where a small number of customers make large purchases. Summing up, the bargaining power of airlines' customers is seen to be moderate: they tend to take the lowest price available in the market, but they do not set it.

4.3.4 Threat of Substitute Products

A substitute product performs the same or at least a similar function as the established product or service, however, by different means. When the threat of substitutes is high, it limits an industry's profit potential and puts a ceiling on the price of the original product. The threat is high: (i) if substitutes offer an attractive price-performance trade-off to the established product and (ii) if the buyer's costs of switching are low (Porter M. E., 1979). The air transport industry experiences several substitutes. On the one side, trains or buses compete

[223] Google statistics have revealed that the average traveler uses around 22 websites to research a trip before booking (Harteveldt H. H., 2012).
[224] Section 4.3.4 provides more details regarding substitute products.

with short distance flights. On the other side, products, which traditionally would not be seen as competing with flights, such as advanced telecommunications (often Internet-based), also pose a threat. Besides traveling cheaply, most people prefer to travel quickly and flying is the fastest way of transportation, at least if it is about long(er) distances. But with new technologies, such as high-speed trains, this competitive advantage could disappear in the long(er) term as it already has over short(er) distances. Long distance bus journeys[225] in Germany, for instance, accounted in 2007 for 1.09 bn passengers per kilometer, while in 2015 over 7.3 bn passengers per kilometer were transported (Statistisches Bundesamt, Verkehr - Personenverkehr mit Bussen und Bahnen, 2016). A similar development can be observed in other countries, such as the UK, with providers such as National Express or Megabus. This indicates, substitute products are used, when they are comparatively cheap and compatible in terms of time[226]. Airlines serve business travelers, who use the transportation as a tool to meet in person. While this is most common for the time being, it is more and more replaced by teleconferences (e.g. via Skype), thus saving money and environmental resources and using time efficiently[227]. Both threats could have a negative impact on easyJet: if more and more leisure travelers e.g. decide for trains or buses, it will be difficult to continue growing revenues, and if business travelers increasingly opt for teleconferencing, this could affect the number of travelers further, even though, being a low-fare provider, it may be less or later affected than the average FSC.

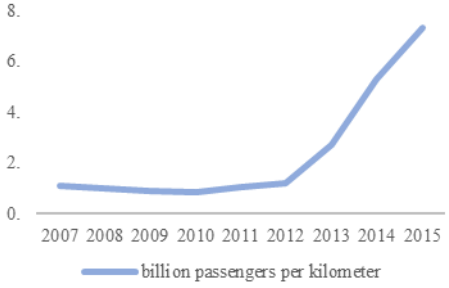

Figure 52: Passengers per Kilometer for Buses in Germany

4.3.5 Intensity of Industry Rivalry

Industry rivalry can lead to price pressure and/or the need to enhance marketing, which c.p. results in lower revenues per passenger (or even total revenue growth) and increased operating costs and thus overall in a lower profitabilty. Rivalry tends to be rather high if (i) the suppliers are similar in terms of size and market share, (ii) markets are growing slowly, (iii) exit barriers are high, (iv) opponents are strongly committed to the business[228], and (v) cannot read each other's signals well (Porter M. E., 1979)[229]. Air transportation is a complex industry: its comprised of plenty suppliers, limited product differentiation and high fixed costs asking for volume. All these characteristics are in line with Porter's description of a with high-intensity competing industry. In general, with the entrance of low-cost carriers, as more advanced bus transfer and trains, competition increases. Also deregulation has led to a more competitive environment compared to the previous

[225] A long distance public transportation is defined as a travel over 50 kilometers (Statistisches Bundesamt, Verkehr aktuell, 2017).
[226] Due to the purpose of the analysis, the relationship between money saved and extra time spent (vice versa) is not looked into here.
[227] Section 4.3.4 provides more details regarding substitute products.
[228] A strong commitment in this case also means an aspiration for leadership and may be even at the cost of reducing the overall economic performance.
[229] Reasons for not reading signals accurately include: lack of familiarity with one another, differing approaches to competion and/or different goals.

monopoly-like markets formerly formed by national flag carriers (Spitzer, 2006)[230]. The "Open Skies" legislation has made LCC possible and changed the setting (O'Connell & Williams, Passengers' perceptions of Low Cost Airlines and Full Service Carriers: A case Study involving Ryanair, AerLingus, Air Asia and Malaysia Airlines, 2005). Furthermore, the product and prices are homogeneous and to a high degree imitable and difficult to diversify, switching costs are low, price sensitivities high and intra-industry competition intense.

4.4 VRIO: Value, Rarity, Imitability, Organization

Having a sustained competitive advantage ensures a competitor would encounter, in a perfect world, very prohibitively high costs when trying to duplicate a company's strategy (Barney, 1991). Such advantages can be derived from three different areas: (i) physical capital, (ii) human capital, and (iii) organizational capital. The VRIO approach looks into these areas in detail, referring to value, rarity, imitability, and organization, when analyzing whether a company is unique and can therefore create a sustained competitive advantage, a lasting surplus value. According to VRIO, an asset is: (i) valuable if it makes the business more efficient and effective (this is the most important item, as only a value creating asset can generate a sustained competitive advantage), (ii) rare when only a few have access to it (the rarer an asset is, the larger the competitive advantage that occurs from it). If a company has a valuable and rare asset and creates competitive advantages from them, others will try to copy. Consequently, whether a sustained competitive advantage is captured, depends (iii) on the assets imitability (i.e. depends on how simple it can be duplicated, and the more expensive duplication is, the larger the competitive advantage c.p.) (Barney, 1991). An asset can be valuable, rare, and difficult to copy, but as long as (iv) the organizational structure lacks efficiency, the full potential of a sustained competitive advantage cannot be captured (Pesic, Milic, & Stankovic, 2013).

4.4.1 Physical Capital

Physical resources relevant for an airline include: (i) aircraft, (ii) routes, (iii) value proposition, and (iv) technological development.

4.4.1.1 Aircraft

Fleets can generate value mainly from three angles, namely: (i) fuel and, (ii) maintenance efficiency, and (iii) total seats available. easyJet's fleet consists of 257 aircraft, thereof 144 Airbus A319 (each 156-seat) and 113 A320 (each 186-seat). With an average age of 6.7 years the fleet is young, modern and efficient regarding jet fuel consumption. 36% of the fleet is fully owned, 22.2% under finance lease, and 41.8% under operating lease (easyJet, Annual Report 2016, 2016). Ryanair in comparison operates over 350 Boeing 737-800NG aircraft, with 189 seats each and an average age of less than six years, which is similar to easyJet's. Ryanair expects to

[230] Section 4.2 describes the PESTEL analysis and provides more details.

grow to approximately 550 aircraft by 2024 (Ryanair, Annual Report 2016, 2016). In contrast, Lufthansa e.g. operates a much wider variety of models (in total 19 different models[231]), with an average age of 11.8 years (Deutsche Lufthansa, Annual Report 2015, 2015). IAG's fleet has grown from 348 aircraft in 2011 to 548 Airbus and Boeing in 2016 (IAG, Annual Report 2015, 2015). Air France-KLM's fleet comprises 564, with only 395 operational aircraft of which 169 are long-haul, nine cargo, and 217 medium-haul. The average age of the operational fleet is 11 years (Air France-KLM, Annual Report 2015, 2015). By focusing on two types of aircraft only, maintenance costs are kept low relative to the peers. However, the lack of smaller planes, may negatively affect its load factor[232], which reflects some kind of tradeoff. Overall easyJet's fleet clearly is a value driver: it operates at comparatively low costs and allows for an increase in profitability. However, easyJet's fleet is not rare in the strict sense, even though, it would be very and in the short term prohibitively expensive for a competitor to swap the existing fleet for new and more homogenous craft. In terms of organization, a homogeneity fleet can be effective, as each aircraft can serve every route and e.g. fewer flights are required to move (near) empty aircraft to a new hub, before operating a next flight.

4.4.1.2 Routes

easyJet focuses on routes from and to Tier 1 and Tier 2 airports in the UK, Northern and Southern Europe that simultaneously attract leisure and business travelers. The frequency of flights (over 500 a day) can also be seen as an advantage which creates value to the customers. Lufthansa, Air France-KLM, and IAG offer a comparable European route network, and it therefore is not unique or rare in general; it is, however, with respect to the low-cost proposition. It is yet to be seen if it can be sustained in the long term, as Lufthansa (with Eurowings) and Ryanair, too, make efforts to open new bases and over 100 additional routes, to roll-out their low-cost propositions to more primary airports. As (i) full cost carriers trying to become cheap, Lufthansa with Eurowings, Air France-KLM with Transavia, and IAG with Vueling, and as they are already operating easyJet's main routes and as (ii) it should be possible for Ryanair to copy[233], it is fair to conclude that easyJet's route (or network or bases) do not constitute a long-term sustained competitive advantage: others saw, it might become one and reacted, before it was too late. This shows sustained competitive advantages also depend on whether competition sleeps or slept, not only on the "old bulls" excellence. easyJet's value proposition includes offering convenience and punctuality at low (better: competitive) prices to its existing and new passengers. These promises address key features, and when they are met they increase customer satisfaction and loyalty[234]. With respect to the organization, serving customers on time enables easyJet to operate more flights per aircraft per day. However, this is not rare and can in theory be duplicated, but in real life operational excellence is rather difficult and costly to copy. Ryanair, for example, aspires a similar value proposition and the FSC, too,

[231] Models include Airbus, Boeing, Bombardier, Embraer, Fokker, and BAE Systems (Deutsche Lufthansa, Annual Report 2015, 2015).
[232] Section 3.4.3 provides more details regarding easyJet's load factor and other efficiency-related ratios.
[233] Ryanair e.g. will begin to serve the Frankfurt airport starting in 2017 (Calder, 2016).
[234] Section 3.4.1 provides more details.

promote high attention to punctuality, quality, and customer care, and so, although it is valuable, it cannot be considered a major sustained competitive advantage for easyJet.

4.4.1.3 Technological Development

easyJet constantly develops new technology to adapt its operations and to create a technological advantage relative to its peers. Such efforts include the proprietary app, flight-tracking, fast check-in, and pioneering the option to buy tickets online. As a result, it is since foundation one of the leaders in the field of technology. Today, the digital strategy materialises in terms of: (i) the corporate website, which from around 350 m visits p.a. generates the majority of all sales, (ii) the corresponding mobile app, with more than 160 m visits in 2015, equivalent to a 38% growth relative to the previous year, and (iii) the Global Distribution Systems (GDS)[235] aggregator, which helps to target leisure and corporate customers. easyJet works on further projects that are meant to increase its operational efficiency and to reduce costs further (Lauchlan, 2016)[236]. However, the competition has made efforts, too; Ryanair distributes the majority of tickets via its website now, in contrast to easyJet, it regularly tries to attract clients (i.e. to sell spare capacity) through advertisements and last minute deals (Flynn, 2016)[237]. In 2015, Lufthansa, introduced a EUR 16 charge on tickets sold through non-group websites in an attempt to reroute clients and traffic to its website (Bryan, 2015). Interestingly Lufthansa at the same time is looking to create additional branded distribution channels, as it e.g. opened an application programming interface (API), that allows a wide range of developers to implement the Lufthansa world into other sites (Reporters, 2017). In 2014, IAG followed a different route and made an exclusive long-term deal with Sabre, a player in the technology and tourism industries. The deal allows Sabre to sell tickets and ancillaries from British Airways, Iberia, and Iberia Express through their platform (Sabre, 2014). Similar to IAG, Air France-KLM is expanding trough third party agreements; in 2013, the company signed a corresponding long-term contract with Amadeus (Fox, 2013). As the examples point out, the competition may have failed to duplicate the "spirit of technology" easyJet claims, but have instead entered into some sort of cooperation with third party technology agents. In contrast, easyJet takes equity positions in small technology providers and start-ups to improve services and to likewise directly benefit from its success, while sharing revenues (Initiatives, 2017)[238]. Ryanair is the company that has the most similar technological approach. However, it still needs the costly marketing efforts to fill its fleet at the cost of overall income and profitability. In 2016, Ryanair's marketing amounted to 4.5% of total revenues, while easyJet spent only half of it (2.3%). Since easyJet's technological edge is value creating, rare and difficult to duplicate, there is reason to conclude it can provide a source of sustained competitive advantage, when not referring to existing solutions but to the

[235] GDS allows third parties (such as travel agents) to sell seats or to reserve capacity (Airline World, 2007).
[236] Section 3.5.2 provides more details.
[237] Section 2.5 provides more details.
[238] easyJet has e.g. invested in Founders Factory, a technology start-up accelerator and plans to incorporate them in their digital strategy (Initiatives, 2017).

corporate spirit, that can be expected to further drive new developments: others can copy part of easyJet's solutions, but not clone the spirit of technology leadership.

4.4.2 Human Capital

With respect to human capital three main issues are relevant: (i) recruitment, (ii) training, and (iii) remuneration. As employees are core for the success, the better their performance and loyalty, the better the company's performance, therefore employees can create a competitive advantage (Huselid, 1995).

4.4.2.1 Recruiting

Competitive advantages or disadvantages start at the very beginning: by finding the right people. easyJet and its competitors follow a similar recruitment process, consisting of online application, interviews, and assessment centers. With more than 50 channels for recruitment in different countries, Lufthansa has the most differentiated process[239]. One special feature of easyJet is the creation of the "Amy Johnson Flying Initiative", which aims for a gender-equal selection of pilots. However, as all five companies have in the end a similar approach, competitive advantage or disadvantage cannot be identified. Furthermore, a recruiting process creating a competitive advantage would be to duplicate without prohibitive effort.

4.4.2.2 Training

Training can improve job performance and thus profits (Hill & Lent, 2006). Therefore, when a company offers special trainings, and the employees' skill set profits, this could be a competitive advantage. easyJet offers training to all employees, including a wide range of eLearning, coaching and mentoring, an online learning academy, workshops, and work shadowing. Lufthansa offers a similar range of training opportunities and, in partnerships with universities, on-campus education. IAG interestingly offers its pilots a special training on fuel efficiency. easyJet provides manifold training possibilities, but no competitive advantage can be identified. IAG's fuel efficiency training could potentially lead to a competitive advantage, as this could c.p. reduce operating costs, but it would be simple and with no substantial cost to copy. easyJet uses an employee engagement index to evaluate the performance of its employees. In 2016, there was a decrease in employee engagement that corresponded with an overall challenging year which also affected staff motivation[240]. Nevertheless, easyJet was able to outperform the Ipsos Mori airline norm even then (easyJet, Annual Report 2016, 2016). Air France-KLM and Ryanair measure their employee performance based on customer satisfaction, the outcome is positive, too. By and large, all competitors seem to perform well, there is no clear sustained competitive advantage identifiable.

[239] Lufthansa received over 168,000 applications in the year 2015 only (Deutsche Lufthansa, Annual Report 2015, 2015).
[240] Section 2.3.3 provides more details.

4.4.2.3 Remuneration

Remuneration can be used in two ways to gain a competitive advantage: (i) building a cost and efficiency advantage and (ii) attracting better people to drive e.g. innovation (Schuler & MacMillan, 1984). easyJet's, Air France-KLM's and Lufthansa's remuneration schemes are all aligned with the performance of their managers, and all rewards are based on the achievement of goals. Ryanair is the only company within the group that pays relatively low fixed salaries and caps the bonus at 100% of the fixed portion. Furthermore, it has a policy for minimizing management costs: i.e. it is not providing benefit pensions or company cars and puts restrictions on costs even of senior managers. As can be seen, Ryanair has a unique approach towards remuneration. Copying this would require competition to reduce the salaries which would be rather difficult and reduce motivation due to the ratchet effect[241]. A sustained competitive edge cannot be found for easyJet.

4.4.3 Organizational Capital

Organizational capital in the context of the analysis includes: (i) branding, (ii) alliances, and (iii) reporting structure.

4.4.3.1 Branding

easyJet and its competitors use branding strategies to get into their clients' minds and try to make their airline the traveler's preferred carrier. easyJet, for example, uses the orange color to distinguish itself, and its entire advertising refers to the "Orange Spirit" (easyJet, Annual Report 2016, 2016). Similarly, Ryanair uses blue. Lufthansa deploys such strategies, too, predominantly using yellow and blue colors[242]. IAG runs four different airlines and uses individual branding strategies for each (IAG, Annual Report 2015, 2015). Air France-KLM also has a portfolio of brands with a strong presence in national and international markets; it uses catchy slogans and colorful images (predominantly blue and red)[243]. As the branding efforts of the peer group are all similar, branding is ruled out as a source of sustained competitive advantage.

4.4.3.2 Alliances and Partnerships

Airlines often participate in alliances or partnerships, which in general include code-sharing, but other jointly offered services, such as lounges, too. Alliances are viewed as an attractive marketing tool especially from the weaker members' perspective. They provide access to additional connecting flights, keep passengers in the network as long as possible and feed the stronger members' aircraft with passengers (Hannegan & Mulvey,

[241] The ratchet affect explains that employees hardly accept decreases in wages, but they may also be dissatisfied with wage increases if they are felt to be insufficient (Weitzman, 1980).
[242] Lufthansa is said to have lost brand value of about EUR 750 m in 2016 due to repeated pilot strikes, which were not well received. Said strikes have been due to its aim to reduce employee costs to better compete with low-cost rivals (Narayanan, 2016).
[243] As the four brands are largely independent and operational synergies scars, IAG and Air France-KLM pay for it with higher costs.

1995). easyJet is not part of an alliance[244], and as partnerships provide advantages, this could be a competitive weakness. easyJet, however, has bilateral agreements, which to some degree offset potential disadvantages. From the competitors only Ryanair is not participating in an alliance at all: Air France-KLM is part of SkyTeam, Lufthansa takes the lead in Star Alliances, and IAG belongs to oneworld. As there is no real distinction between alliances, no sustained competitive advantage from membership can be identified.

4.4.3.3 Reporting Structure

An appropriate organization, e.g. state of the art reporting structures and working formal and informal controlling measures, enable a company to realize its full potential and to benefit from competitive advantages (Njoya & Niemeier, 2011). All companies analyzed publish their financial reports under IFRS. Furthermore, all their reports are audited and meet the requirements international (institutional) investors' have, no sustained competitive advantage can be observed here.

4.4.4 Summary

In this section, each of the steps of easyJet structure and core operations that could potentially result in a sustained competitive advantage were analyzed. The only sustained competitive advantage for easyJet could be its approach to technology, its technological edge, rather than the technology actually deployed.

Class	Ressource	Valuable	Rare	Inimitables	Organization	Performance	Competitive Implication
Physical resources	Aircraft	✓	×	×	✓	average	neutral
	Route network / Bases	✓	~	×	✓	higher average	satisfactory
	Value proposition	✓	×	✓	✓	average	neutral
	Technology development	✓	✓	✓	✓	high	strong
Human capital resources	Recruitment	✓	×	×	✓	average	neutral
	Training	✓	×	×	✓	average	neutral
	Performance	✓	×	×	✓	average	neutral
	Remuneration & rewards	✓	×	×	✓	average	neutral
Organizational resources	Branding	✓	×	×	✓	average	neutral
	Partnership (alliances)	×	×	✓	×	low	weak
	Reporting structure	✓	×	×	✓	average	neutral

Table 4: Summary VRIO Analysis

[244] Section 2.5.3 refers in more details to easyJet's approach towards alliances and partnerships.

4.5 SWOT: Strengths, Weaknesses, Opportunities, Threats

The SWOT approach analyzes (i) strengths, (ii) weaknesses, (iii) opportunities, and (iv) threats a company has or faces.

Strengths	
(i)	Well positioned relative to its peers, showing strengths that indicate, easyJet's can build value
(ii)	Focusing on economically strong countries with stable demand for travelling and room for growth
(iii)	Focusing on data and digitalization to create competitive advantages to enhance market position
(iv)	Strong trend with respect to development of seat revenues and costs (e.g. employee costs)
(v)	Lean, cost focused culture that aims to constantly cut costs without giving up its Tier 1 airports
(vi)	Strong brand name, that allows to profitably serve both, the leisure and business travellers segments
(vii)	Strongest load factor within the peer group without giving up revenues e.g. by last-minute offers
(viii)	Operating a homogenous fleet produces economies of scale e.g. re purchase price and maintenance
(ix)	Individual travellers are price sensitive, however price takers, customer satisfaction is high
(x)	Focusing on reduction of fuel consumption, thus being able to position as environmental friendly
(xi)	Strong entry barriers, making it for new entrants from the outside extremely difficult to compete

Weaknesses	
(i)	Strong dependence on the condition of the overall economy (i.e. the GDP growth rate) bears risk
(ii)	Operating the competitive airline industry with oligopolistic tendencies puts pressure on profits
(iii)	In light of still weak non-seat revenues, their future positive development is at least questionable
(iv)	Operating top tier airports, having a strong positions there, limits future growth potential
(v)	Lean, cost focused culture that aims to cut costs, provides limited room for further cost cutting
(vi)	Even with a technological edge, no (strong) sustained advantages can be created in the industry
(vii)	Comparing the profitability of the peers, it may be difficult to preserve current achievements
(viii)	No access to the fast growing countries and regions outside the mature European core markets
(ix)	Homogenous fleet bears risk, with respect to a prices increase and/or reputation (e.g. accidents)
(x)	Revenues GBP- and EUR- and fuel USD-driven, provides exposure to fuel price and currency risks
(xi)	Operating a capital intensive business, leads to substantial sensitivity to changes in interest rates
(xii)	Operating a highly regulated market, produces unpredictable and unforeseeable risks (e.g. BREXIT)
(xiii)	Refusal to participate in alliances may lead to giving-up profitable business and growth potential
(xiv)	New products, such as advanced telecommunications or bus travel challenge the aircraft industry
(xv)	Executive management team with on average relatively low airline expertise/background
(xvi)	Union representation of cabin crews creates enhanced risk of strikes (e.g. with respect to salary)
(xvii)	Airlines are exposed to catastrophes and terrorists attacks, both produce costs and endanger business

Opportunities	
(i)	Strong European economies can further drive top-line (i.e. revenue) growth and profitability
(ii)	Strong European market position provides growth opportunities in the leisure and business segment
(iii)	Focus on European markets allows for additional growth potential from broadening the footprint
(iv)	Operating the competitive airline industry with oligopolistic tendencies may allow for extra profits
(v)	Cost focused culture allows keeping up with competition and peers in terms of aggressive prices
(vi)	Focus on using data and digitalization to create competitive advantages bears opportunities
(vii)	In a market, driven by innovations, a technology leader can set trends and realize early-bird profits
(viii)	Advanced pricing system, room for non-seat revenues and price-sensitive travellers allow for growth
(ix)	Customer and operational excellence increase customer satisfaction while reducing disruption costs
(x)	Homogenous fleet and technologically advanced maintenance allow for further cost reductions
(xi)	Successfully weathering-out historic oil price and currency fluctuations, allows for a positive outlook
(xii)	Collecting account receivables quicker than peers and competitors allows for saving interest expense
(xiii)	Executive management team with a large variety of professional backgrounds can provide new angles

Threats	
(i)	Strong dependence on the condition of the European economy (i.e. the GDP growth rate) bears risk
(ii)	Operating the competitive airline industry with oligopolistic tendencies puts pressure on profits
(iii)	Being only average or second with respect to many financial ratios, questions if easyJet is on track
(iv)	Increasingly volatile fuel prices and currency exchange rates put pressure on future profitability
(v)	Dependency on Airbus exposes to cost (e.g. purchase price) and reputation (e.g. accidents) risks
(vi)	Travellers becoming more price sensitive due to substitute products (i.e. telecommunications, busses)
(vii)	Operating Tier-1 and Tier-2 airports increases vulnerability, if full service carriers aggressively attack
(viii)	Capital intensive business creates sensitivity to interest rate changes and to debt markets liquidity
(ix)	High union representation of cabin crews bears a constant risk of strike (e.g. regarding compensation)
(x)	Politics are a constant threat to profitability and may even endanger the business (e.g. BREXIT)
(xi)	New environmental regulations (e.g. fuel consumption and/or night take-off) increase costs
(xii)	Sudden industry changes and/or external shocks can challenge management's lack of airline expertise
(xiii)	Airlines are exposed to catastrophes and terrorists attacks, both produce costs and endanger business

Table 5: SWOT Analysis

5 Analyses' Conclusions: easyJet's Prospective Financial Statements

5.1 Background

The findings from the financial and the strategic analyses, from the assessment of easy Jet's strategy and options are used to model easyJet's financial statements for the forecast period's years[245], namely: (i) income statements (including a Monte Carlo simulation regarding fuel costs) and (ii) balance sheets, (iii) for a financial analyses, and (iv) to dertemine easyJet's long-term growth rate. The model's projections are benchmarked against investment bank's research[246]. Based on this and in order to prepare for answering the research question, especially the following sub-questions are answered in this section:

> *How can easyJet perform in the future, based on its business model and the industry and the European market? What happens if the model input (i.e. the forecasts) turns out to not be met later? What is a reasonable long-term growth rate of easyJet based on a carrier's specifics? What is a reasonable WACC to be applied for easyJet, based on what can be observed today in the debt and equity markets?*

5.2 Income Statement

This section looks into the key drivers for the model's operating[247] income statements, i.e. (i) markets, (ii) revenues, and (iii) costs, and concludes with a (iv) financial analysis of the business forecast (i.e. the modeled data)[248, 249].

5.2.1 Market Development

easyJet's revenues comprise of seat and non-seat revenues and their future development is a key driver for its future options and profitability (Hussey, 1999)[250]. In general revenues can be projected in a number of ways, for example, a variable or fix growth rate could be set (Chan, Karceski, & Lakonishok, 2003). As a carrier's revenues are derived from passengers, future revenues are based on the future passenger numbers for the market the carrier operates in (based on easyJet's operations the for the purpose of the analyses relevant market is Europe) and its future market share. As the findings from the PESTEL analysis[251] suggest, the number of future passengers will be linked to the market's future GDP development. In addition, company-specifics such

[245] The forecast period (or modeled period or model period), i.e. the seven years (i.e. forecast years or modeled years or model years) the financials forecast (the model or the modeled forecast or the model forecast) refers to, comprises the years from 2017 to 2023 (both years included).
[246] The research reports include: HSBC (October 6, 2016), Société Générale (October 6, 2016), Deutsche Bank (October 10, 2016), Royal Bank of Canada (October 11, 2016), Barclays (October 19, 2016), UBS (October 24, 2016), Commerzbank (November 15, 2016), and Morgan Stanley (November 15, 2016). All research was prepared referring to the reference date.
[247] Section 3.5 provides more details.
[248] Section 3 provides more details.
[249] Appendix 61-62 provide more details on the operating income statement model as well as on the assumptions it is based upon.
[250] Section 3.5.1 provides more details.
[251] Section 4.2 provides more details.

as e.g. the number of aircraft operated and load factors are to be considered.

5.2.1.1 Gross Domestic Product (as per Region)

Based on the GDP projections provided by OECD, France and the UK face the highest growth rates over the model period, the Netherlands, Portugal, Spain, and Switzerland come in at the lower end (OECD, 2017).

Region	2016	2017	2018	2019	2020	2021	2022	2023
France	2.7%	2.8%	2.7%	2.6%	2.5%	2.5%	2.5%	2.5%
Germany	1.0%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%
Italy	1.8%	1.9%	1.8%	1.8%	1.9%	2.0%	2.0%	2.1%
The Netherlands	2.9%	3.1%	2.9%	2.8%	2.7%	2.6%	2.5%	2.5%
Portugal	2.3%	2.1%	1.7%	1.4%	1.3%	1.3%	1.4%	1.6%
Spain	2.4%	2.2%	1.9%	1.7%	1.6%	1.6%	1.7%	1.7%
Switzerland	2.3%	2.3%	2.3%	2.3%	2.2%	2.2%	2.2%	2.1%
United Kingdom	2.6%	2.7%	2.8%	2.9%	2.9%	2.9%	2.9%	2.8%

Table 6: Estimated GDP growth for easyJet's Main Markets

5.2.1.2 Regional Passenger Potential

The previous analyses[252] concluded that the European region's (i.e. countries') GDP and air traveler numbers are highly correlated by means of a linear regressions for all separate regions[253] (and statically highly significant for all regions, too [254]), however, the correlation differs from region to region (i.e. from country to country). Both, the UK's and the Netherlands's, and also Portugal's passenger numbers show a correlation coefficient of above 90%, while e.g. Switzerland's correlation coefficient comes at a lower 77.3%, indicating, that passenger numbers are to higher degree also depending on additional factors (e.g. Switzerland's status as a small country, that does not belongs to any supranational political block, but provides the home base for a number of the world's authorities, thus inducing its own traffic and showing a rather robust GDP correlation). The residuals of France, Germany, Italy, the Netherlands, Spain, and Switzerland are randomly distributed according to a residual plot test, while others indicate that the higher the passenger numbers are at the end of the review period, the lesser they can be explained by GDP development. Overall, the GDP projections and regression analyses suggest relatively strong growth for both, the UK and France, the two being key for easyJet, and for the Netherlands, too. With an average growth in passengers of one percent, Germany builds the tail end. In 2023 the largest market,

Region	Correlation	p-Value	Regression Line
UK	96.9%	0.000	$Passenger = 0.0365 * GDP + 8.77$
Portugal	94.2%	0.000	$Passenger = 0.0431 * GDP + 0.91$
The Netherlands	94.2%	0.000	$Passenger = 0.0367 * GDP + 0.28$
France	93.2%	0.000	$Passenger = 0.0201 * GDP + 9.63$
Spain	92.2%	0.000	$Passenger = 0.0326 * GDP + 8.44$
Rest of Europe	91.8%	0.000	$Passenger = 0.0394 * GDP + 0.8$
Germany	88.7%	0.000	$Passenger = 0.0313 * GDP - 13.04$
Italy	84.2%	0.000	$Passenger = 0.013 * GDP + 6.89$
Switzerland	77.3%	0.000	$Passenger = 0.0321 * GDP + 1.74$

Table 7: Regression Results of Countries Passenger Numbers & GDP Development

[252] Section 4.2.2.2 provides more details.
[253] The analysis is based on the years 1970 to 2015, passenger and GDP numbers are taken from World Databank (Databank, Air transport, passengers carried, 2015), (Databank, World Development Indicators, 2015).
[254] Appendix 63-80 provides the entire regression output as well as a residual's plot.

regarding passenger numbers is the UK (145 m passengers), followed by Germany (114 m); the two will than account for 41.8% of all European passengers.

Region	2016	2017	2018	2019	2020	2021	2022	2023
France								
Passengers (in m)	64	66	67	69	70	71	73	74
Growth (in %)		2.2%	2.1%	2.0%	2.0%	2.0%	2.0%	2.0%
Germany								
Passengers (in m)	106	107	108	109	110	112	113	114
Growth (in %)		0.9%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%
Italy								
Passengers (in m)	35	35	36	36	37	37	38	38
Growth (in %)		1.3%	1.2%	1.3%	1.3%	1.4%	1.4%	1.5%
The Netherlands								
Passengers (in m)	31	32	33	34	35	35	36	37
Growth (in %)		2.8%	2.7%	2.5%	2.4%	2.4%	2.3%	2.3%
Portugal								
Passengers (in m)	11	11	11	11	11	11	11	12
Growth (in %)		1.7%	1.4%	1.2%	1.1%	1.1%	1.2%	1.3%
Spain								
Passengers (in m)	53	54	55	56	56	57	58	59
Growth (in %)		1.7%	1.5%	1.3%	1.2%	1.2%	1.3%	1.3%
Switzerland								
Passengers (in m)	27	28	28	29	29	30	30	31
Growth (in %)		1.9%	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%
United Kingdom								
Passengers (in m)	122	125	128	131	135	138	142	145
Growth (in %)		2.4%	2.5%	2.6%	2.6%	2.6%	2.6%	2.5%

Table 8: Estimated Passenger Growth as per Country

5.2.1.3 Market Share

easyJet's future passenger numbers are derived using its modeled market share. Over the review period easyJet increased its European market share (including both, the LCC and FSC sub-market) from 7.1 to 7.8%. The increase corresponds with the growing market share of the entire LCC market segment, which went up over the review period by 4.1% p.a. In other words: easyJet in the past could not substantially win market share from European LCC competitors. As easyJet, too, competes with FSC, for business travelers, it can be expected to profit from both, (i) the overall passenger growth and (ii) an ongoing strengthening of the LCC segment[255]. Accordingly, this gives reason to assume, easyJet can increase its market share further. However, taking into account substitute products, such as trains or buses or teleconferences, and that competing carriers will not surrender and give up market share easily, the potential for a market share growth is limited. Therefore, and in line with the results from the market analysis, the forecast peaks with conservative 8.0% European market share in 2023[256].

5.2.2 Revenue Development

As the revenue of airlines origins from two main sources, namely: (i) seat and (ii) ancillary revenues, both will be projected separately. Accordingly, total revenues will be forecasted as the sum of the two streams[257]. For

[255] Section 2.7.1 provides more details.
[256] The fact that currently around 74% of easyJet's seats are booked by returning loyal customers provides reason to assume, easyJet is well positioned to at least hold its market share stable at 7.8%.
[257] Appendix 81 provides the revenue forecast in detail.

the seat revenue the model is based on drivers such as (i) available seat kilometers, (ii) routes operated, (iii) available seats, and (iv) yield. Non-seat revenues will be forecasted by using a growth rate assumption based on the aforementioned variables and estimated passenger numbers.

5.2.2.1 Available Seat Kilometers (ASK)

The ability of an airline to turn market growth into seat revenues depends on its available seat kilometers (ASK) and these are limited by (i) the number of aircraft operated and (ii) the available seat kilometers per aircraft. Currently, easyJet operates 257 aircraft, 53 more than 2010 (i.e. +7.6 aircraft p.a.)[258]. Based on current contracts easyJet can add up to 166 new Airbus aircraft until 2022. The analysis assumes easyJet will operate a fleet of 273 aircraft in 2023, which corresponds to a moderate increase (i.e. +2.3 aircraft p.a., e.g. 2 added in January and a third in September). As easyJet today uses its aircraft more efficiently, than its competitors, there is less room for further optimization[259]. As a consequence, and in line with the review period, over which only a slight increase in ASK per aircraft can be observed (reaching around 341 ASK per aircraft in 2016, a reduction, however, relative to 2014 and 2015), the number is expected to remain at the 2016 level.

Review Period		Model Period	
Year	Number	Year	Number
2010	196	2017	259
2011	204	2018	264
2012	214	2019	264
2013	217	2020	267
2014	226	2021	269
2015	241	2022	271
2016	257	2023	273
Average	*222*	*Average*	*267*
Median	*217*	*Median*	*267*

Table 9: Number of Aircraft

5.2.2.2 Routes Operated

The number of routes operated is subject to (i) the number of aircraft operated and (ii) the number of routes covered as per aircraft. easyJet management's skills allowed increasing the number of routes operated by each aircraft from 2.68 in 2011 to 3.12 in 2016 (+16.4%)[260]. For example, Norwegian increased its routes by only 3.4% (from 4.37 in 2011 to 4.51 in 2016), but operates on a higher profit level than easyJet. Having already a strong position, only a small future increase is projected for easyJet (number of routes peaking at 3.33 in 2023). With easyJet's expansion over the review period and the corresponding increase in the number of routes covered by one airplane (which helped to increase the load factor to 91.6% in 2016), the average daily frequency of routes decreased over the review period (i.e. from 2.68 in 2011 to 1.64 in 2016); the model expect it to bottom out at 1.59 in 2023.

5.2.2.3 Available Seats

The number of available seats is based on (i) the number of aircraft operated and (ii) the average number of

[258] Section 3.4.2 provides more details.
[259] Section 3.4.3 provides more details.
[260] Section 3.4.7 provides more details.

available seats as per aircraft[261]. easyJet's fleet comprises only of two types of aircraft, and future additions will be of the same. It, therefore is assumed that the available seats per aircraft on average will stay constant at the 2016 level (i.e. at 166 seats).

5.2.2.4 Yield

Review Period		Model Period	
Year	Number	Year	Number
2010	0.044	2017	0.057
2011	0.056	2018	0.057
2012	0.059	2019	0.057
2013	0.063	2020	0.057
2014	0.062	2021	0.057
2015	0.060	2022	0.057
2016	0.057	2023	0.057
Average	*0.057*	*Average*	*0.057*
Median	*0.059*	*Median*	*0.057*

Table 10: Yield

The yield measures the average fare paid per kilometer and passenger. easyJet was able to keep it at around 0.06 as per each review year[262]. As easyJet's pricing policy is considered one of its unique selling propositions, and as it already uses sophisticated algorithms to price tickets according to demand, there should not be much room for substantial improvements. Consequently, and based on the assumption, that easyJet's management in future, too, can cope with a competitive market, the forecasted yield is held constant at the review period's average.

5.2.2.5 Seat Revenues

Based on the projected development of the key seat revenue drivers, the average revenue growth over the model period comes in at +1.1%, with e.g. +1.2% in 2017 and +1.3% in 2018. These numbers are conservative relative to the expectations of brokers such as Barclays (+9% in 2017) and RBC (+5.4%); Deutsche Bank forecasts a 2017 growth rate of +1.5%, which is close to the analysis's conclusions.

5.2.2.6 Non-Seat Revenues

easyJet currently generates 1% of its total revenues from non-seat revenues. Especially relative to Ryanair and Norwegian, easyJet tends to miss a substantial upside here. As a consequence, its management already started to add services, such as hotel reservations or car rental services. Resulting from this, the carrier improved non-seat revenue in 2016 by 9.9%. However, the absolute revenue contribution is still very low[263]. easyJet's competitive technology advantage is used to enhance client knowledge further and additional revenues could, for example, include check-in fees and no-show penalties. Moreover, easyJet can grow with lounges and in-flight food and drink sales and it can expand such services, too, because they are part of an industry-wide trend and missing out may also mean losing market share. Therefore, it is projected,

Review Period		Model Period	
Year	Number	Year	Number
2010	0.0%	2017	2.0%
2011	-90.1%	2018	2.0%
2012	-11.1%	2019	2.0%
2013	2.5%	2020	2.0%
2014	-4.7%	2021	2.0%
2015	1.7%	2022	2.0%
2016	9.9%	2023	2.0%
Average	*-13.1%*	*Average*	*2.0%*
Median	*0.0%*	*Median*	*2.0%*

Table 11:Non-Seat Revenue per Passenger Growth

[261] Section 3.4.5 provides more details.
[262] Section 2.5.1 provides more details.
[263] Section 3.5.1 provides more details.

that easyJet will grow non-seat revenues per passenger, however slowly, assuming a (very) conservative average increase of 2.0% p.a. over the forecast period, a number seeming unenthusiastic when compared to Barclays' +9% estimate. However, as such revenues only account for 1% of total revenues, the difference is not crucial for the analysis.

5.2.3 Development of Costs

5.2.3.1 Cost of Goods Sold (COGS)

COGS capture costs that are attributed directly to the (operational) revenues (Hussey, 1999). For the purpose of the analysis, the following costs components have been budgeted: (i) jet fuel, (ii) ground operations, (iii) staff, (iv) aircraft leasing, (v) tax, (vi) other (including navigation, maintenance, sales and marketing, and the residual). An industry specific is, that apart from e.g. fuel, a substantial amount of all operating costs are fixed, fixed in a sense, that they are to be paid independent of whether any passengers are transported, or not[264]. Consequently, the cost of goods sold projection is based on the available seat kilometers.

5.2.3.2 Jet Fuel Costs (CoF)

easyJet's future jet fuel needs (i.e. the estimated metric tons of jet fuel per forecast year) are derived from (i) the number of aircraft operated (in the forecast years) and (ii) the average number of MT per ASK (derived from historical consumption).

$$Total\ Metric\ Ton\ Jet\ Fuel\ Needed = Available\ Seat\ Kilometeres * MT\ per\ ASK$$

Equation 33: Total Metric Ton Jet Fuel Needed

easyJet decreased MT per ASK over the review period, starting in 2013 with 0.063, ending with 0.033 in 2016. The reasons are (i) a more fuel-efficient fleet and (ii) a more efficient route management[265]. Based on easyJet's announced plans to expand with the type of aircraft already operated, there is no room to increase engine efficiency further, accordingly MT per ASK are held constant over the forecast period[266]. For calculating its costs, the total jet fuel needed is multiplied by the fuel price. As found in the PESTEL analysis[267], the jet fuel price is highly correlated with the oil price development. Therefore, jet fuel prices are forecasted by using oil price projections applying the respective linear regression. However, as the development of oil prices largely depends on (i) political aspects (e.g. Opec's policy on petroleum production, regional conflicts, wars, terrorism, environmental issues, tax rates), (ii) economic factors (e.g. GDP growth, currency fluctuations), and (iii) technology issues (e.g. oil sand technology) (Breitenfellner, Cuaresma, & Keppel, 2009), its development is

[264] Section 3.5.2 provides more details.
[265] Section 3.4.8 provides more details.
[266] easyJet says, it will be able to decrease MT per ASK in the process of modernizing the fleet. Due to the published contracts for new aircraft, the analyses, however, concludes: this will only show in MT per ASK spending beyond the model's horizon.
[267] Section 4.2 provides more details.

subject to many unpredictable opinions and unforeseeable events, in other words: difficult to project, if at all. To account for the huge uncertainty, the analysis applies a Monte Carlo Simulation[268] to form an opinion on the potential oil price development and thus implicitly jet fuel prices. The resulting fuel costs differ widely from those brokers apply. For example, HSBC suggest a decline of 7% in 2017, the analysis, however, is based on a moderate (average) growth of 1.33% p.a. As HSBC is looking into 2017 based on views of details such as the e.g. the Syria crisis and its potential effects on the oil supply and also short term currency movements, these levels of detail cannot be applied for 2023. So overall, the analysis's long(er) term assumptions do not necessarily contradict HSBC's short term view[269].

5.2.3.2.1 Input Data for the Monte Carlo Simulation

In 2016, the average oil price per metric ton was around GBP 34.5[270]. Its average growth rate (calculated over the last 20 years) comes at around +15% p.a., showing a (rather high) volatility of 48.9%. Running a Monte Carlo Simulations on the oil price development requires (i) a mathematical model that can handle many of scenarios, and (ii) a mean and a standard deviation applicable for the distribution (in this case both are derived from history). Based on the aforementioned parameters (i.e. a mean of +15% and a standard deviation of 48.9%), random oil price developments are simulated; the analyses includes 1,000 scenarios per case[271].

5.2.3.2.2 Oil Prices Derived from the Monte Carlo Simulation

The analysis simulates the oil price development (i) on an annual basis and (ii) over the entire model period

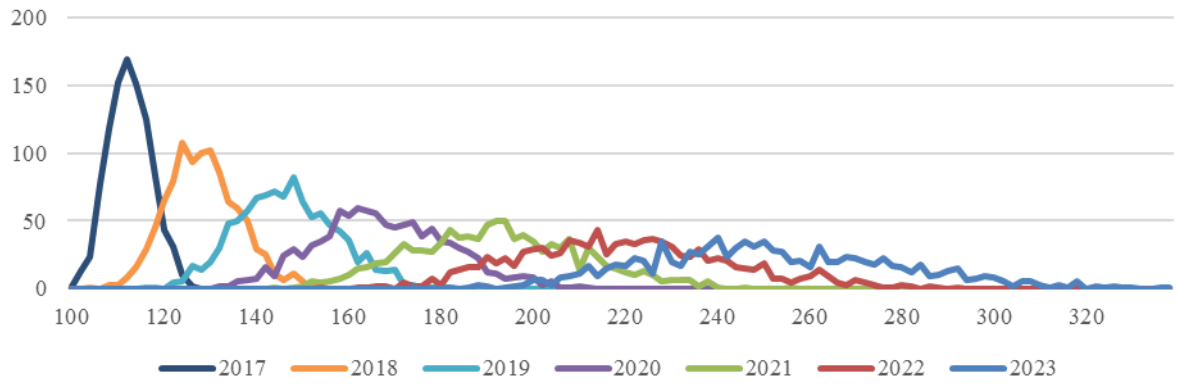

Figure 53: Normal Distribution from Monte Carlo Simulation

(Barreto & Howland, 2006). Due to the large number of scenarios Monte Carlo Simulations usually produce normal distributions, and the 2017 distribution (the 2018 numbers, too, but to a lesser extent) replicates the distribution nature. Overall, looking into later years, the simulation indicates that oil becomes more expensive

[268] Monte Carlo Simulations are used, when the development of a variable (in this case the oil price) cannot be meaningful predicted by its historic development (Mun, 2010).
[269] However, it is fair to admit, oil prices have proven in the past, they can always deteriorate e.g. subject to the aforementioned politics or geo-political conflicts, which are, however, beyond this analyses.
[270] Section 4.2.2.1 provides more details.
[271] According on McLeish 1,000 scenarios are sufficient to capture the possible outcome, but the more simulations are run, the mean converges towards the true mean, due to the "law of large numbers" (McLeish, Monte Carlo Simulation and Finance, 2005).

over time, as the peak of the prices in a given year "shifts to the right" the farther the analysis moves into the future. Furthermore, the spread of the distribution increases. From 2019 onwards, the plot of over 1,000 simulations hints to equally distributed prices. The findings seem plausible as a consequence of the standard deviation used and because anecdotally uncertainty in general increases over time.

5.2.3.2.3 Conclusions for Future Cost of Fuel

Oil price declines from GBP 996 per metric ton in 2013 to GBP 415 per metric ton in 2016[272]. The analysis assumes the oil price will be GBP 410 per metric ton in 2017, and reach GBP 373 per metric ton in 2023. Having derived future oil price scenarios via the Monte Carlo Simulation, future jet fuel prices are projected using the results from the linear regression between the two (having a regressor of 2.668 and an error term of 7.553)[273]. Taking easyJet's hedging policy[274] into account, the forecasted cost of fuel in a specific year t (CoF_t) calculates, based on the prices of year t and its predecessor (year t-1), as follows:

$$CoF_t = 0.85 * CoF_{t-1} + (1 - 0.85) * CoF_t$$

Equation 34: Cost of Fuel

5.2.3.3 Costs of Ground Operations

Costs of ground operations on average make up for 24% of easyJet's total revenues p.a. and grow 157% over the review period. As operating costs allow operating the routes offered, the bulk c.p. accumulates (and need to be paid) whether or not the routes are actually served, whether or not the fleet is busy, whether or not its seats are filled, etc. As a result, they are "quasi fix" costs for a given level of operations. They are projected in percent of ASK, assuming there is a linear relationship, which may not be the case in all scenarios. However, it seems fair, as the ratio remains more or less stable over the review period: in 2011 it was at 1.3%, peaking in 2015 at 1.5% and then falling back to 1.4% in 2016[275]. For the analysis, it is assumed that the cost of ground operation will remain at 1.4% of ASK for all forecast years. The analysis' assumption of +2.36% in 2017, however, is much lower than brokers': e.g. HSBC suggests a growth of 8.5%, while Barclays estimates a 21% increase in 2017[276], without giving detailed reasons.

Review Period		Model Period	
Year	Number	Year	Number
2010	1.3%	2017	1.4%
2011	1.3%	2018	1.5%
2012	1.3%	2019	1.5%
2013	1.5%	2020	1.5%
2014	1.4%	2021	1.5%
2015	1.3%	2022	1.5%
2016	1.4%	2023	1.5%
Average	*1.4%*	*Average*	*1.5%*
Median	*1.3%*	*Median*	*1.5%*

Table 12: Ground Operations as % of ASK

[272] Section 3.4.8 provides more details.
[273] Section 4.2.2.1 provides more details.
[274] As easyJet hedges up 85% of their next 12 months' fuel requirements, i.e. it on average pays for 85% of its fuel last year's and for the balance this year's prices.
[275] Section 3.5.2 provides more details.
[276] Also because of the discrepancy, Section 6.3.4.4 provides a sensitivity analysis, to investigate how the implied share price reacts on changes in the projected costs of ground operations.

5.2.3.4 Cost of Staff

Review Period		Model Period	
Year	Number	Year	Number
2010	38	2017	42
2011	41	2018	42
2012	41	2019	42
2013	41	2020	42
2014	43	2021	42
2015	43	2022	42
2016	42	2023	42
Average	*41*	*Average*	*42*
Median	*41*	*Median*	*42*

Table 13: Average Workforce per operated Aircraft

Both, easyJet and Ryanair, have the lowest employee costs within the peer group[277]. easyJet's average costs per employee are around GBP 50,000 p.a. For judging the necessary future number of employees, the analysis relates the historic number of employees per aircraft operated (in terms of the crew and operational overhead to the models aircraft as per year), thus assuming a linear relationship, which is plausible as the analysis of the operational drivers proved, that all peers kept staff per airplane rather constant over time, also indicating that there is only limited room for operational slack, if any (Azadegan, Patel, & Parida , 2013) Today easyJet staffs around 42 employees per aircraft, and the model holds this ratio constant over the forecast period.

5.2.3.5 Aircraft Leasing Costs

Due to it homogenous and young fleet, easyJet's total aircraft leasing costs are relatively close related to the leasing costs as per aircraft and, respectively, the number of aircraft operated (if a fleet comprises a variety of different aircraft, bought at many different years, and with varying interest rate levels, this may be different). Over the review years leasing costs as per aircraft declined on average and year by year from GBP 0.534 m in 2011 to GBP 0.401 m in 2016[278]. The model assumes the leasing costs per aircraft at a stable 0.474 over the forecast period, thus allowing for a moderate increase in interest rates balanced by price discounts for new aircraft. The analysis assumes easyJet will operate a fleet of 273 aircraft in 2023, which corresponds to a moderate increase (i.e. 2.3 additional aircraft p.a.).

Review Period		Model Period	
Year	Number	Year	Number
2010	0.52	2017	0.47
2011	0.53	2018	0.47
2012	0.44	2019	0.47
2013	0.47	2020	0.47
2014	0.55	2021	0.47
2015	0.47	2022	0.47
2016	0.40	2023	0.47
Average	*0.48*	*Average*	0.47
Median	*0.47*	*Median*	0.47

Table 14:Average Leasing Costs per Aircraft in GBP m

5.2.3.6 Other Costs

Other costs (i.e. navigation, maintenance, sales and marketing, and the residual costs) are often looked at as a percentage of the specific period's revenues (Ascoli, 2014). Due to the characteristics of the industry and based on the conclusion, that they resemble "quasi fix costs" for a given level of operations, the analysis, however, uses a fixed percentage of the ASK. Looking at e.g. navigation costs proves, they were percentagewise stable over the review period and amounted to approximately 0.4% of total ASK of the corresponding year. Based on this observation, the ration is held constant over the forecast period. Maintenance costs p.a. are stable at around 0.3% of total ASK over the review period. As easyJet is not expected to and could not easily swap the

[277] Section 3.5.2 provides more details.
[278] Section 3.2.3 provides more details.

fleet, the model holds the factor stable, too. Taking into account, that the aircraft operated are getting older over time, this may lead to higher maintenance cost. However, easyJet's initiatives, such as the usage of drones and robotic technology to inspect its aircraft, tend to reduce costs and also maintenance time, thus allowing aircraft to return earlier to the skies and to produce revenues, the assumption that the opposing effects will offset each other, does not seem unfair. Other costs in percent of total ASK increase over the years, starting at 0.2% in 2011 and reaching 0.3% in 2016, compared to an average of 0.3 over the review period. For the forecast period the 0.3% average is also applied.

5.2.4 Tax Rate

The tax rate equals the percentage at which pre-tax profits are taxed. In general, the tax rate et al. depend on the countries a company operates in or domiciles in and/or where it earns the pre tax profits. Looking at the past, easyJet's tax rates fluctuate, covering a range from 22.5% to 9.3%[279]. Furthermore, there are huge jumps between subsequent years that are undisclosed in easyJet's published information. The analysis, therefore, uses the median rate of 19.5% over the model. When compared to the benchmark research, the tax rate is on the pessimistic side: Barclays, Commerzbank, Deutsche Bank, and RBC suggest rates from 11.92 to 20.12%.

5.3 Balance Sheet

This section looks into the operating[280] balance sheets' key drivers[281]: (i) accounts receivables, (ii) property, plant, and equipment (PPE), (iii) capital expenditures (CapEx), (iv) depreciation and amortization (D&A), (v) intangible assets and goodwill, (vi) trade and other payables, and (vii) derivative financial instruments.

5.3.1 Accounts Receivables

Accounts receivables are closely linked to days' sales uncollected (Berk & DeMarzo, 2013) and carried forward in the model as a percentage of total revenues (Ascoli, 2014). It is assumed that easyJet will decrease accounts receivables by 0.05% p.a. from 2017 onwards, reaching 4.3% in 2023, coming from 6.5% in 2010, and 4.6% in 2016. Over the review period, easyJet held its days' sales uncollected stable with an average of 18 days[282]. Therefore, a decrease of 0.05% p.a. is not out of proportion.

Review Period		Model Period	
Year	Number	Year	Number
2010	6.53%	2017	4.65%
2011	4.78%	2018	4.60%
2012	6.25%	2019	4.55%
2013	4.56%	2020	4.50%
2014	4.42%	2021	4.45%
2015	4.40%	2022	4.40%
2016	4.65%	2023	4.35%
Average	5.08%	*Average*	4.50%
Median	4.65%	*Median*	4.50%

Table 15: Accounts Receivables as % of total revenues

[279] Section 3.2.4 provides more details.
[280] Section 3.3 provides more details.
[281] Appendix 82-83 provide more details on the operating balance sheet model as well as on the assumptions it is based upon.
[282] Section 3.8.1.2 provides more details.

5.3.2 Property, Plant, and Equipment (PP&E)

Property, plant, and equipment (PP&E) are the fixed assets essential for running the operations. Typically, assets such as e.g. machinery, buildings, or owned aircraft are only to a limited extent fungible (Hussey, 1999). easyJet's PP&E mainly consist of aircraft owned and leased via capitalized leases[283]. PP&E are: (i) built with capital expenditures (CapEx) and (ii) subject to depreciation and amortization (D&A). Knowing the model's annual numbers for future CapEx and D&A, the corresponding PP&E values can be derived, by adding the CapEx to the previous year's PP&E, and subtracting the current years D&A. In the year 2017 PP&E accounts for GBP 3,614 m and increases to GBP 5,423 m until 2023, which is in line with the historical development, even though annual PP&E growth year-by-year was rather volatile (e.g. -4.8% in 2013, +13.2% in 2015). The model operates a decreasing growth rate, starting with 11.1% in 2017 and ending with 4.6% in 2023. The decline results from the balance of the corresponding development of CapEx and D&A.

5.3.2.1 Capital Expenditures (CapEx)

Capital expenditures (CapEx) capture the costs of a company's fixed assets, required to maintain its operations, and are therefore added to the existing PP&E. Future PP&E are modeled by assumptions regarding the development of CapEx (as well as assumptions about depreciations and amortizations) (Hussey, 1999). As airline revenues, next to other factors, depend on the number of aircraft operated, the corresponding capital expenditures are, accordingly, forecasted relative to (i.e. as a percentage of) revenues (Samonas, 2015). However, easyJet's CapEx in percent of revenues was rather volatile over the review period: easyJet e.g. shows rather high CapEx in percent of revenues in 2010 (15.9%) and 2011 (15.9%), which mirrors extraordinary investments in the fleet[284], whereas the period's average equals 11.9%, only[285]. The model's numbers are based on a CapEx of 11.8% of revenues p.a. (which is close to the review periods annual average), factoring in the perceived fleet expansion and the plan to further strengthen the market position.

Review Period		Model Period	
Year	Number	Year	Number
2010	15.9%	2017	11.8%
2011	15.9%	2018	11.8%
2012	9.8%	2019	11.8%
2013	9.4%	2020	11.8%
2014	9.4%	2021	11.8%
2015	10.9%	2022	11.8%
2016	11.8%	2023	11.8%
Average	*11.9%*	*Average*	*11.8%*
Median	*10.9%*	*Median*	*11.8%*

Table 16:Capital Expenditures as % of total revenues

5.3.2.2 Depreciation and Amortization (D&A)

Fixed assets, such as aircraft, lose value over time and usage, and, consequently, are subject to depreciation (e.g. according to their remaing life), which reduces their balance sheet value. (Hussey, 1999). easyJet's future D&A are modeled based on the value of PP&E, more precisely as a percentage of the PP&E's of the

[283] Section 3.2.3 provides more details.
[284] Section 3.4.5 provides more details.
[285] Section 3.4.5 provides more details.

corresponding previous year (Ascoli, 2014). Over the review years, D&A[286] in percent of previous PP&E overall increased: in 2011, it accounts for 4.5% of previous years PP&E, in 2016 for 5.9%. The increase can be explained (i) by the acquisition of aircraft and (ii) by the shift in the financing structure of the fleet (i.e. from leasing to owning). Over the entire review period aircraft are subject to linear depreciation based on an individual overall lifetime of 23 years, for the future no changes have to be expected. Starting from 2016 (5.9%) and to capture the observed trend, D&A as percentage of previous PP&E's increases by 0.1% percentage points p.a., reaching 6.6% in 2023.

5.3.3 Intangible Assets and Goodwill

Intangible assets and goodwill include valuable non-physical assets such as reputation, trademarks, patents, intellectual property, etc.; in the airline industry landing (and comparable) rights are here included, too[287]. The value of these assets is subject to an annual impairment test, value losses, if any, are recognized extraordinary (Hussey, 1999)[288]. Intangible assets increase over the review years from GBP 87 m in 2010 to GBP 152 m in 2016. In line with the literature (Hussey, 1999) and because there is no reason to deviate, intangibles are held stable in the model at the current level of GBP 152 m. Over the last seven years easyJet did not report any change in its goodwill of GBP 365 m. As there is no (obvious) reason for a change, the model operates with this number.

5.3.4 Trade and other payables

Trade and other payables reflect COGS which are not yet paid for by the company. In easyJet's case, for example, unpaid bills from airline caterers or fuel providers (Hussey, 1999). Consequently, they are forecasted as a percentage of COGS (Ascoli, 2014). Looking at the past, easyJet has rather high trade and other payables, from 2010 to 2014 always around 30% of the respective COGS. In 2015 and 2016 they plummet to 13.2% and 14.5%, respectively[289]. High trade and other payables provide a company with low interest or even interest free loans, and allow using existing cash for financing operations. However, if they are (too) high and many or all suppliers want to collect their money at the same time, they can trigger liquidity issues. To avoid such risks for a company with a wish to grow further, a decreasing trend is modeled. Based on the 2015 and 2016 achievements, an increase of only 0.1 percentage point for each forecast year is factored in, assuming that new passengers payment morale is below current

Review Period		Model Period	
Year	Number	Year	Number
2010	31.7%	2017	14.6%
2011	30.7%	2018	14.7%
2012	30.7%	2019	14.8%
2013	30.8%	2020	14.9%
2014	30.0%	2021	15.0%
2015	13.2%	2022	15.1%
2016	14.5%	2023	15.2%
Average	*25.9%*	*Average*	*14.9%*
Median	*30.7%*	*Median*	*14.9%*

Table 17: Trade and Other Payables as % of COGS

[286] Section 3.2.3 provides more details.
[287] Section 3.3.2 provides more details.
[288] However, an impairment test can also face value accruals.
[289] Section 3.5.2 provides more details.

average, and reaching a level of 15.2% of the corresponding COGS in 2023, which remains below historic high levels.

5.3.5 Derivative Financial Instruments

Airlines use derivative financial instruments to hedge against market changes in exchange rates or jet fuel prices (Hull, 2015). As easyJet uses these hedges, too, to make revenues less volatile, and because fuel prices are related to revenues, they are modeled in percent of revenues. Over the review period derivative financial instruments calculated in percent of revenues increase: in 2010 i.e. they came at 0.3%, in 2015 they peaked at 7.9% of total revenues[290]. To capture financial instruments in the model, an annually decrease of 0.4 percentage points, reaching a reasonable 3.2% in 2023 is forecasted. easyJet's hedging strategy was successful over the last years, and, therefore, no significant changes can be suggested, which makes the assumption reasonable.

5.3.6 Long-term Debt

Long-term debt includes all financial obligations with a maturity of more than one year, typically including aircraft financing (Berk & DeMarzo, 2013). easyJet's long-term debt decreases over the review period[291]. Starting a long-term debt of GBP 1,085 m in 2010, it is down to GBP 664 m in 2016, due to easyJet's policy to mainly finance through retained earnings. Accordingly, and because no major long-term financing needs are modeled in, the long-term debt can be held at GBP 664 m over the model period.

5.4 Financial Analysis

This section provides a financial analysis of key drivers of the model, including (i) a DuPont analysis, and a discussion of (ii) profitability, (iii) liquidity ratio, (iii) long-term solvency risk and (iv) easyJet's projected long term growth rate[292].

5.4.1 Du Pont Analysis

The DuPont analysis looks at the return on assets, by analyzing (i) the profit margin, (ii) the total asset turnover, (iii) the equity multiplier, and (iv) the return on equity (ROE). From 2010 to 2013, easyJet's profit margin is by and large stable at a level of around 6%. Thereafter, profit margins pick up; 2014: 11%, 2016: 15%, interrupted by a backswing in 2015 (7%). The model starts with a profit margin at the 2015 level which decreases to 4% in 2023, as operating costs outgrow revenues.

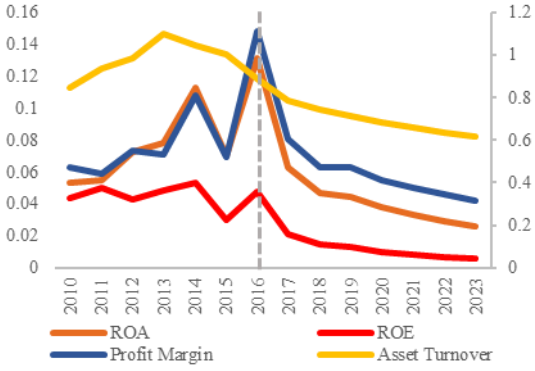

Figure 54: DuPont Analysis

[290] Section 3.3.1 provides more details.
[291] Section 3.8.2.1 provides more details.
[292] The analysis is similar to the financial analysis in Section 3.4, however focuses on the model's key drivers.

The negative trend for easyJet's asset turnover rate development also continues. It starts in 2017 with 0.79 and reaches 0.63 by 2023, driven by the increasing total assets, and mainly associated with the fleet expansion. Corresponding to the profit margins and the asset turnover development, the return on assets, goes down, from 0.05 in 2017 (equaling the 2010 level) to 0.02 in 2023. This is not unexpected, as it e.g. is very similar to what Norwegian experienced, when its asset turnover decreased due to its expansion. easyJet's equity multiplier goes down from 2010 (0.83) to 2016 (0.36), and consequently increasing its ability to take on more debt in the future, which gives the company additional breathing room, if necessary. The decreasing trend is repeated due to the models profitably growing business. For 2017 easyJet reports an equity multiplier of 0.34, while in 2023 it comes at 0.23. Return on equity, can be seen as a proxy of to what extent the company can attract investors. Historically, a decrease in ROE can be observed for 2015, and the model's conservative assumptions do not alter this: in 2017 the ROE reaches 0.02, in 2023 it goes down to 0.01.

5.4.2 Profitability

The model profitability of easyJet focuses on EBIT margin (2016: 11.6%, 2015: 15.7%) and EBITDA margin (2016: 20.1%, 2015: 16.5%), which both follow a decreasing trend in 2016, mainly driven by higher operating costs, in terms of fuel and ground operations. For the EBIT margin this trend continues (2017: 9%, 2023: 5%), whereas the EBITDA margin remains stable at 13%. The discrepancy shows the impact of the higher D&A (due to the business expansion).

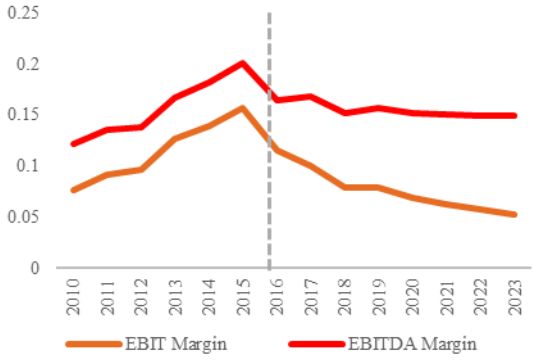

Figure 55: Profitability Analysis

5.4.3 Liquidity Ratios

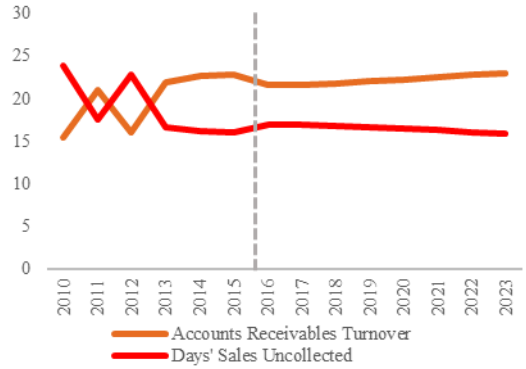

Figure 56: Liquidity Analysis

To judge operational efficiency, accounts receivables turnover and days' sales uncollected are analyzed. Historically easyJet has a rather low accounts receivable turnover (20 on average over the review period), especially compared to Ryanair (86). As it is assumed here, that easyJet can improve its trades receivables in the future, its accounts receivables turnover increases. By 2023, the model reaches a level of 23, which is an improvement, but still considerably below Ryanair's accounts receivables turnover.

5.4.4 Long-Term Solvency Risk

The debt to equity (D/E) ratio refers to the company's capital structure. A high debt to equity ratio indicates the company's equity is highly leveraged. Between 2010 and 2015, easyJet's (D/E) ratio is between 80% and 90%, declining to 75% in 2016. From the peers, Ryanair has the lowest debt to equity ratios (2016: 55% and 2010: 45%). The model suggests that easyJet is able to get closer to Ryanair's ratio, and with 52.4% in 2019, easyJet is able to even outperform Ryanair's review period's ratios according to the model; easyJet's ratio will then again decrease to 40.9% by 2023, which is positive due to the nature of the measure.

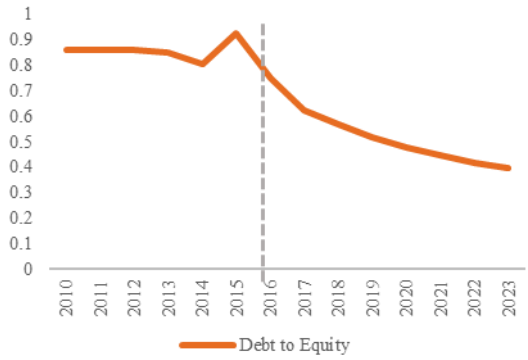

Figure 57: Long Term Solvency Analysis

5.5 Long-term Growth Rate

Within the discounted cash flow (DCF) model, the terminal value (TV) account for a large portion (regularly up to 75% or even more) of the enterprise value (EV) (Rotkowski & Clough, How to Estimate the Long-Term Growth Rate in the Discounted Cash Flow Method, 2013). As the TV depends on easyJet's long-term growth rate, it is vital for the explanatory power of the model (Koller, Goedhart, & Wessels, 2010). In general, long-term growth rates determine the external growth of a company following the forecast horizon, in this case for the years from 2024 onwards. It has to be based on the findings from the financial and strategic analysis (internal factors), as well as on future market expectations (external factors) (Rotkowski & Clough, How to estimate the long-term growth rate in discounted cash flow emthod, 2013). Internal factors include, future business strategies, management skills, and other aspects of the business, such as current positioning in the market (Mercer & Harms, 2006). External factors include the expected overall market growth (in terms of the industry and GDP) and economic factors, such as e.g. inflation rates. It is not plausible, to assume, a company can outgrow its market forever, because otherwise, at some point in time this company, would be the only market player, which then would most likely trigger a political reaction (e.g. forced sale of business parts). Therefore, the applied long-term growth rate has to be below market growth (Huang, Natarajan, & Radhakrishnan, 2004). MarketLine (MarketLine, Airlines in Europe, 2016) estimates a 4% p.a. short-term growth of the airline industry, which is higher than easyJet's estimated revenue growth over the model period (growth rate peaks in 2018 with 0.97%). For the long-term, IATA (IATA, IATA Forecasts Passenger Demand to Double Over 20 Years, 2016) estimates 2.5% p.a. industry growth. Given easyJet's size and strong position at the most important airports, and even if this may lead to believe that it is possible to outperform the market during the forecast period. However, in the long run (and for the aforementioned reasons), it is more likely to not outperform. Its long-term growth rate is therefore, and based at the industry and IATA's rate of 2.5% p.a., set at a conservative 2% p.a. in the model.

6 easyJet's Proposed Fair Value: Answering the Research Question

6.1 Background

Based on the findings from the financial and strategic analyses, the model of easyJet's business projections over the forecast period's years[293], and following the respective academic literature easyJet's proposed fair value is reviewed based on: (i) trading and transaction multiples, (ii) a discounted cash flow (DCF) model, (iii) a model referring to the economic value added (EVA), and (iv) a threat, opportunities, weaknesses, and strength analysis, all four assessing easyJet's strategy and options from their individual angle and also including sensitivity analyses where appropriate[294]. Based on this and in order to prepare for answering the research question, especially the following sub-questions are answered in this section:

> *What is the fundamental value of easyJet's equity according to different measures? What is the implicit true and fair price of a share equal to as per reference date and according to the valuation model and the forecast? How is easyJet's fair implicit share price in comparison to its peers and competitors? How do the results react to changes in WACC and growth rates and other key drivers?*

6.2 Trading and Transaction Multiples

This section refers to multiple valuations, suggesting easyJet's ("true" and "fair") value is to be calculated relative to comparable companies and based on specific ratios (e.g. EV/Total Revenues and EV/EBITDA). The rational is based on the "Law of One Price"[295], which states that identical goods or assets (in this case companies), should trade at the same price (Baffes, 1991). It is obviously rare (and in most cases impossible) to observe truly "identical" companies in reality (as each company has specific characteristics, such as size, geographical footprint, business model, management etc. (Berk & DeMarzo, 2013)). Therefore, a peer group is defined for the purpose. For the peer group companies are selected, with similar sizes, market shares, growth profiles, geographical footprint, value chain, product portfolio, etc. Multiples can be classified into: (i) equity value and (ii) enterprise value (EV) multiples; the numerical values of the corresponding multiples vary across industries (e.g. take industry specifics into account including degree of competition, growth potential, etc.). Consistently: (i) equity multiples are used to calculate the value of the company's equity only (i.e. refer to the company's capitalization in the equity markets) and, correspondingly, they are based on only those income

[293] The forecast period (or modeled period or model period), i.e. the seven years (i.e. forecast years or modeled years or model years) the financials forecast (the model or the modeled forecast or the model forecast) refers to, comprises the years from 2017 to 2023 (both years included).
[294] All market data and related calculations that are not attributed to a specific date refer to the reference date (i.e. to November 15, 2016), if not explicitly otherwise mentioned. As far as periods are concerned the respective start and end date of the period are explicitly given.
[295] The "Law of One Price" says: there can be only exactly one price for a given good (or identical goods) in a given market at a given time with a given set of information etc. Otherwise arbitrage would start and adjust prices accordingly. The law's applicability is subject to certain preconditions including e.g. efficient markets (Baffes, 1991). If transferred to the "real world" and to (not identical, but) "similar" goods, it can be e.g. assumed, that "similar" companies (with "similar" business models, "similar" cash flows, etc.) should have a "similar" value. (Berk & DeMarzo, 2013).

statement items (including e.g. net income) solely available to pay or satisfy the claims equity holders are entiteld to, and (ii) enterprise multiples are used to caculate the value of the entire company (i.e. refer to the value of the company's equity and debt) and, are based on income statement items (including e.g. revenues) available to pay or satisfy the claims both, equity and bond holders, are entitled to.[296] For the purpose of the analysis this section's multiples refer to enterprise values. Multiples can also be classified as: (i) trading and (ii) transaction multiples. Correspondingly: (i) trading-based multiples look at the valuation of listed companies, in other words, how the stock market values percieved peers of the target company; (ii) transaction-based multiples look into historic transactions (e.g. mergers and acquisitions), in other words how strategic and financial investors valued comparable companies (for the purpose of this analyses: comparable to easyJet)[297].

6.2.1 Trading Multiples

This section estimates easyJet's enterprise value (EV) relative to its peers and (comparable) competitors[298] (EV is the notional price to be paid for acquiring a company's equity and net debt), with: (i) EV/Total Revenues and (ii) EV/EBITDA[299] multiples (or ratios) calculated for the years 2016, 2017, and 2018. The peers' analyses proposes (i) average EV/Total Revenues multiples of 2.0x for 2016, 1.9x for 2017, and 1.7x for 2018 and (ii) average EV/EBITDA multiples of 9.3x for 2016, 9.6x for 2017, and 7.6x for 2018. The competitors' analyses suggest (i) average EV/Total Revenues multiples of 0.5x for 2016, 0.4x for 2017, and 0.4x for 2018 and (ii) average EV/EBITDA multiples of 3.2x for 2016, 3.3x for 2017, and

Company	Share price	Enterprise value (m£)	EV/Total Revenues			EV/EBITDA		
			2016e	2017e	2018e	2016e	2017e	2018e
Peers								
Norwegian	269.8 NOK	2,783	1.2x	0.9x	0.8x	10.1x	12.0x	7.6x
Ryanair	14.315 EUR	16,823	3.1x	3.0x	2.9x	10.2x	9.9x	8.9x
Southwest	46.25 USD	27,616	1.8x	1.7x	1.6x	7.5x	6.9x	6.1x
Average			*2.0x*	*1.9x*	*1.7x*	*9.3x*	*9.6x*	*7.6x*
Median			*1.8x*	*1.7x*	*1.6x*	*10.1x*	*9.9x*	*7.6x*
Competitors								
Air France-KLM	5.47 EUR	5,582	0.3x	0.3x	0.3x	2.5x	2.7x	2.7x
Deutsche Lufthansa	13.195 EUR	9,037	0.3x	0.3x	0.3x	2.7x	3.1x	3.0x
IAG	453.8 £	13,844	0.7x	0.7x	0.7x	4.4x	4.2x	4.0x
Average			*0.5x*	*0.4x*	*0.4x*	*3.2x*	*3.3x*	*3.2x*
Median			*0.3x*	*0.3x*	*0.3x*	*2.7x*	*3.1x*	*3.0x*
Total average			***1.2x***	***1.2x***	***1.1x***	***6.2x***	***6.4x***	***5.4x***
Total median			***1.0x***	***0.8x***	***0.7x***	***5.9x***	***5.5x***	***5.1x***

Table 18: Trading Multiples

[296] Academic literature often states the superiority of enterprise value multiples, as the accordingly calculated values are independent from the looked-at companies' individual gearings. Equity multiples, however, produce values (amongst other things) subject to the leverage of a specific company from the peer group (Berk & DeMarzo, 2013).
[297] This analysis is, however, written from the viewpoint of a non-strategic individual (institutional or retail) investor
[298] For valuation purposes (i) the peers include: Ryanair, Southwest, and Norwegian, and (ii) the competitors comprise: Lufthansa, Air France-KLM, and IAG. Section 2.9 and Section 2.10 provide more details regarding respective peer group and competitors.
[299] The peers' and competitors' revenue and EBITDA figures are based on Bloomberg estimates, the respective numbers for easyJet refer to the model; Section 4 provides more details on easyJet's numbers.

3.2x for 2018[300]. Comparing both sets of multiples the analyses conclude: on avarage LCC tend to trade on higher multiples than full service airlines. For the purpose of the model valuation, aggregated average multiples are derived from both, the peers and the competitors, with (i) EV/Total Revenue multiples of 1.2x for 2016, 1.2x for 2017, and 1.1x for 2018 and (ii) EV/EBITDA multiples of 6.2x for 2016, 6.4x for 2017, and 5.4x for 2018.

6.2.2 Previous Transaction Multiples

This section estimates easyJet's enterprise value (EV) relative to relevant previous transaction prices (TP, the notional price to be paid for acquiring a company's equity, thus excluding net debt) paid for companies from within the airline industry and based on (i) TP/Total Revenues and (ii) TP/EBITDA multiples. Over the last 15 years, there were six LCC transactions involving peers or competitors, respectively, and these LCC were taken-over with (i) an average TP/Total Revenues multiple of 0.2x and (ii) an average TP/EBITDA multiple of 5.9x, each calculated from the respective transaction year's total revenues and EBITDA[301]. Over the last 16 years, there were 32 FSC transactions involving peers or competitors, respectively, and these were taken-over with (i) an average TV/Total Revenues multiple of 0.4x and (ii) an average TP/EBITDA multiple of 9.2x, each calculated from the respective transaction year's revenues and EBITDA. Comparing both sets of numbers the analyses conclude: on average LCC tend to be bought in transactions at lower multiples than FSC. In other words, low-cost carriers' (i) TP/Total Revenues multiples on avarage were only 50% and their (ii) TP/EBITDA multiples on average were only 64% of those FSC, which is basically the opposite of what trading multiples suggest. One prospective reason for the difference is that the transaction involving low-cost carriers had rather small transaction values compared to those with full-service carriers, and as low-cost carriers most often serve only small(er) regional markets, an acquisition has less synergy potential. Moreover, LCC tend to operate at efficiency levels that do not allow for the "large" premiums justified in an FSC acquisition with room for (substantial) efficiency gain (raised by increasing the targets business profits after improving its efficiency).

6.2.3 Implied Share Price

Based on the multiples easyJet implied share price can be calculated. As enterprise value multiples are used: (i) its enterprise value is calculated, and (ii) by deducting the net debt of easyJet[302], its equity value is derived. Dividing the implied equity value by the number of shares outstanding, the implied share price is calculated as shown exemplary for the peer's EV/Total Revenues 2018 multiple:

[300] These and all following average multiples refer to the equally weighted arithmetical means.
[301] Appendix 84-85 provide the full list of past transactions.
[302] According to easyJet's annual report 2016 net debt accounts for GBP 230 m (easyJet, Annual Report 2016, 2016), the respective net debt figure was also applied in the model forecast.

$$Implied\ Share\ Price = \frac{\left(\frac{EV}{Total\ Revenues} Multiple\ '18 * Forecasted\ Revenues\ '18\right) - Net\ Debt}{Number\ of\ Outstanding\ Shares}$$

$$Implied\ Share\ Price = \frac{(1.7x * GBP\ 4{,}715m) - GBP\ 230m}{397m\ Shares}$$

Equation 35: Implied Share Price Calculation (EV/Total Revenues Multiple)

Applying the average trading multiples for 2016, 2017, and 2018 to easyJet's projected 2018 total revenues and EBITDA provides an enterprise value from GBP 4,403 to 5,988 m and a corresponding equity value from GBP 4,173 to 5,758 m. The corresponding implied share price calculates from 1,043.42 to 1,485.90 pence. Applying the average transaction multiples on easyJet's 2017 total revenues and EBITDA, provides an enterprise value from GBP 1,771 to 6,706 m and a corresponding equity value from GBP 1,541 to 6,476 m. The corresponding implied share price calculates from 445.80 to 1,668.21 pence. As per reference date (November 15, 2016) easyJet's share price on average comes at 1,087 pence.

Multiple	Implied Share Price (GBP)	Share Price Potential
EV/Total Revenues 2016e	1468.45	35.1%
EV/Total Revenues 2017e	1485.90	36.7%
EV/Total Revenues 2018e	1383.67	27.3%
Multiple	**Implied Share Price (GBP)**	**Share Price Potential**
EV/EBITDA 2016e	1259.79	15.9%
EV/EBITDA 2017e	1229.98	13.2%
EV/EBITDA 2018e	1043.42	-4.0%

Table 19: Implied Share Price of Trading Multiples

Multiple	Implied Share Price (GBP)	Share Price Potential
TP/Total Revenues	445.80	-59.0%
TP/EBITDA	1,688.21	55.3%

Table 20: Implied Share Price of Transaction Multiple Valuation

6.3 Evaluating Strategy and Options by DCF

This section introduces a DCF model to derive easyJet's implied share price, and includes sensitivity analyses focusing on two main valuation drivers, namely: (i) WACC and (ii) long-term growth rate.

6.3.1 Discounted Cash Flow Analysis

The discounted cash flow model determines the enterprise value of a company, subtracts net debt, and so provides the equity value and finally easyJet's implied share price as per reference date (Berk & DeMarzo, 2013)[303].

6.3.2 Cost of Capital

This section calculates easyJet's cost of capital, namely its (i) cost of equity and (ii) of debt.

[303] All calculations and data input are based on the projected income statement and balance sheet for the model period, and the additional data this section refers to. Section 5 provides more information.

6.3.2.1 Cost of Equity

easyJet's cost of equity are modeled based on the Capital Asset Pricing Model (CAPM) developed by Sharpe and Lintner (1964, 1965) following Markowitz (1952) Modern Portfolio Theory (MPT)[304]. The CAPM explains the rate of return (r_i) required for investing into a specific asset or a security or a company (i) by looking at asset's risk-return-profile (β_i), the return on the market portfolio (r_m) and the risk free rate of return (r_f)[305] (Sharpe, 1964) (Lintner, 1965). The rate of return of the asset (r_i) under consideration calculates according to the CAPM model as follows:

$$\text{Required Return of the Asset} = \textit{Risk Free Rate} + \textit{Beta} * (\text{Market Return} - \textit{Risk Free Rate})$$

Equation 36: Capital Asset Pricing Model

Beta (β_i) and the return on the market portfolio (r_m) are typically derived from historic data, the risk-free rate (r_f) is set by looking at an asset considered risk free, classically determined by a government bond, as such assets are often considered not bearing a risk[306]. Using historic data, however, can always lead to wrong conclusions, if e.g. external shocks occur, that alter fundamentally or even terminate a relationship that existed in the past[307]. As beta measures the systematic risk of an assets, the excess return of easyJet (i.e. the difference between easyJets observed rate of return and the return of the market portfolio) has to be linearily regressed, over the period from November 14, 2000 (i.e. easyJet's initial listing at LSE) to reference date (i.e. November 15, 2016), against the observed market return, in this case for the relevant market (i.e. the benchmark) the FTSE100 seems appropriate.

$$\textit{Return}_{easyJet} = \text{Alpha} + \text{Beta} * \textit{Return}_{FTSE100}$$

Equation 37: Estimation of Beta

For the purpose of calculating the models cost of equity the following figures apply: (i) a β_i of 0.23[308], (ii) a standard error of 0.201, and (iii) an alpha of -0.507. The proxy for the risk free rate of return is the 10 years generic government bill of the United Kingdom. As per reference date this rate of return (r_f) comes at 0.746% p.a. (Bloomberg Markets, 2017). The return of the market (i.e. the FTSE100) is derived based on the (equity)

[304] Markowitz developed the Modern Portfolio Theory (MPT) which includes four key assumption: (i) investors are risk averse, (ii) security markets are efficient, (iii) investors focus on their entire portfolio as opposed to individual assets, and (iv) for every risk level there is exactly one combination of assets maximizing the expected return (Markowitz, 1952). Sharpe and Lintner introduced a risk free asset to Markowitz's MPT and concluded the Capital Market Line (CML) and the Security Market Line (SML) (Sharpe, 1964) (Lintner, 1965).

[305] The market portfolio comprises all available assets and has a beta of 1. Individual assets (stocks) have typically a beta higher or lower, higher/lower means a higher/lower volatility (risk), and therefore a higher/lower return is expected (Berk & DeMarzo, 2013).

[306] Although it is assumed countries do not face bankruptcy risk, it has to be remarked, that even when government bills are treated as risk-free assets, they are not necessarily risk-free as a risk of failure is always present, even if considered low (Damodaran, 1999).

[307] In the case of easyJet, BREXIT could provide such a change, however, for the purpose of the model, it is assumed, that BREXIT has no influence at this stage.

[308] The beta coefficient (0.23), is e.g. lower than Reuters estimate of 0.45 (Reuters, 2017), and CNBC's estimation of 0.45 (CNBC, 2017). The divergence is due to differences in the used time horizon and/or to benchmarking against a different index. Both, Reuters and CNBC, however, do not specify how exactly their beta is calculated. However, Bloomberg reports a beta similar to the used one.

capital weighted average internal rate of return of each market asset (i.e. all companies included in the FTSE100). This gives a market return (r_m) of 11.4% p.a. as per reference date (Bloomberg, Database, 2017). easyJet's costs of equity are 3.2% p.a. and calculated as follows (as per reference date):

$$Return_{easyJet} = Risk\ Free\ Rate + Beta_{easyJet} * (Return_{FTSE100} - Risk\ Free\ Rate)$$

$$Return_{easyJet} = 0.746\% + 0.23 * (11.4\% - 0.746\%) = 3.2\%$$

Equation 38: easyJet's Cost of Equity

6.3.2.2 Cost of Debt

Looking at the yield to maturity for a long-term outstanding bond of a company is one way to derive its cost of debt. In the case of easyJet, this is a bond with a remaining lifetime of six years[309], its yield to maturity as per reference date calculates with 1.75% p.a. However, academic literature suggests that a six year maturity is too short for deriving cost of debt, as the time period is too low to minimize the reinvestment risk. Consequently, a different approach is used, and based on easyJet's bond rating of "Baa1" (Moody's, easyJet Plc, 2017)[310]. The rating is medium-grade and awarded for bonds that have a certain speculative character (i.e. a higher risk relative to higher rated bonds). Based on easyJet's bond rating and the average risk spread for "Baa1"-rated companies, 0.28%, is the risk (debt) premium to be used for easyJet's cost of debt (NYU, 2017). The calculation of cost of debt also takes the tax rate into account, as interest payments on obligation are tax deductible, and therefore has second round effects for the WACC calculation. For the calculation, easyJet's reported tax rate (19.5%) is to be taken. Based on these considerations easyJet's cost of debt are 0.89% p.a. calculated as follows:

$$Cost\ of\ Debt\ = (Risk\ Free\ Rate + Debt\ Premium) * (1 - tax\ rate)$$

$$Cost\ of\ Debt = (0.746\% + 0.28\%) * (1 - 19.5\%) = 0.89\%$$

Equation 39: easyJet's Cost of Debt

6.3.3 Weighted Average Cost of Capital (WACC)

The WACC is used for discounting the models projected free cash flows[311], to their present value as per reference date. Consequently, WACC is an essential part of the DCF model, and critical for the implied share price (Berk & DeMarzo, 2013). easyJet's modeled capital comprises of 16% debt and 84% equity (easyJet, 2016)[312]. For the WACC calculation the respective (i) cost of equity (3.2% p.a.) and (ii) cost of debt (0.89%

[309] Please refer to Section 3.3.3 for more details on the outstanding bond.
[310] "Baa1" equally Moody's eight highest long-term corporate obligation rating (Moody's, Ratings Definitions, 2017).
[311] Section 6.3.1 provides more information on the model.
[312] Section 3.8.2.1 provides more details.

p.a.) are used (Miles & Ezzell, 1980)[313]. Based on these considerations easyJet's cost of capital calculate at 2.7% p.a.[314].

$$WACC = Debt\ to\ Total\ Capital * Cost\ of\ Debt + Equity\ to\ Total\ Capital * Cost\ of\ Equity$$

$$WACC = (0.16 * 0.89\%) + (0.84 * 3.2\%) = 2.7\%$$

Equation 40: easyJet's Weighted Average Cost of Capital

Running a sensitivity analysis regarding WACC concludes: a 0.1 increase (i) in the relevered beta, c.p. results in an increase of 0.7% of the WACC, going to 3.5%. Looking at a whole range of a positive and negative shifts of beta of 0.2, results in a volatility of 3.4% in the WACC (i.e. suggests a WACC range from 1.0% to 4.4%). As the second main driver of the WACC the market risk premium, is considered, a 0.5% increase in the market risk premium leads to an increase in WACC of around 0.1%. Looking at a range of a 1% up and down, the corresponding WACCs fluctuate from 2.5% to 3.0%.

		Relevered beta				
		0.03	0.13	0.2 3	0.33	0.43
Market risk premium	9.2%	1.0%	1.7%	2.5%	3.3%	4.0%
	9.7%	1.0%	1.8%	2.6%	3.4%	4.2%
	10.2%	1.0%	1.8%	2.7%	3.5%	4.4%
	10.7%	1.0%	1.9%	2.8%	3.7%	4.6%
	11.2%	1.0%	1.9%	2.9%	3.8%	4.8%
	11.7%	1.0%	2.0%	3.0%	4.0%	4.9%

Table 21: WACC Sensitivity Analysis

6.3.4 Implied Share Price

As the DCF model calculates the enterprise value, net debt needs to be subtracted to receive the equity value. (Berk & DeMarzo, 2013) The corresponding enterprise value based on easyJet's modeled financial statements equals the present values (calculated using easyJet's WACC of 3.2%) derived from (i) easyJet's operating free cash flows (FCF) modeled for the financial years 2017 to 2023[315] and (ii) the terminal value, calculated according to the following formula[316]:

[313] Theory would require to calculate a specific WACC for each forecasted year, based on the forward rate. However, this calculation refer to one WACC for the model period, to allow focusing on the DCF and EVA models.
[314] Appendix 86 provides a graph, visualizing, how WACC is calculated, based on the various input parameters.
[315] In the past, easyJet has frequently adjusted the published cash flow figures for "non-operating" or "one-off" items, without disclosing what exactly was done and why. (Literature states, not properly disclosed adjustments for "non-operating" or "one-off" items are a widely-used tool to overstate the success of a company's core operations (Kiss, 2007).) Resulting from easyJet's disclosure policy, published FCF numbers cannot be compared across years and so the model's operating FCF figures cannot be calculated from the review period's cash flow statements. Investment banks' research analysts try to overcome these shortcomings by liaising closely with the investor relations team and even with the accounting staff of the company under consideration. However, easyJet, did not respond to a request to provide the necessary details for the purpose of this analysis. In light of this easyJet's modeled operating free cash flows are indirectly derived, using the forecast periods annual EBITDA, adjusted for the net change in working capital and CapEx, as well as the net tax (including the tax shield on interest costs) (DePamphilis, 2015). For verifying these numbers they were also calculated starting with net profits and adjusting for the interest costs, net CapEx, the net change in working capital and the tax shield on interest costs. As to be expected, both approaches confirm the same operating FCF numbers.
[316] The terminal value is calculated based on the last modeled operating free cash flow (the FCF of year t). The discount factor is WACC and g represents the growth rate (in this case 2%) for the following years (Hitchner, 2006). It is calculated as per year t and then discounted to its present value.

$$Terminal\ Value_t = \frac{FCF_t \cdot (1 + \text{Long} - \text{term Growth Rate})}{WACC - Long - term\ Growth\ Rate}$$

Equation 41: Terminal Value Calculation

6.3.4.1 Calculation

The model's operating free cash flows increase from GBP 11 m in 2017 to GBP 67 m in 2023 (indicating a CAGR of 36.5%), with a particular strong increase in 2018 (+513.7%). This is in line with the findings from the financial and strategic analysis. The present value of the 2017 to 2023 operating FCF totals GBP 413 m, the present value of the terminal value equals GBP 6,374 m, therefore represents around 93.9% of the total enterprise value of GBP 6,786 m[317]. Deducting the net debt (GBP -230 m), provides the equity value (i.e. the implicit market capitalization) of GBP 7,016 m. Dividing the enterprise value by the number of shares outstanding (397.21 m) gives an implied share price of 1,766.44 pence per share. As easyJet's reference date share price equals 1,087 pence, the implied share price indicates an upside potential of +62.5%. The premium may suggest that easyJet's business model and strategy do create shareholder value and that reference date's market capitalization and share price do underestimate the value of its strategy and options and upside is justified[318]. Interestingly, the DCF model's implied share price is however, 6.6% below easyJet's all-time high of 1,892 pence (as per April 13, 2015). This may indicate that the difference to the implied reference date share price to the then prevailing market price is at least partially founded in the uncertainties from BREXIT which drove easyJet's share price 30% down following the BREXIT discussions. Benchmarking the result with analyst research shows, their discount/premium fluctuate from -13.6% to 105.8%, indicating the analyses equals almost the research's average[319].

Forecast (GBPm)	Projection							
	2017	2018	2019	2020	2021	2022	2023	2014 onwards
Number of forecast period	1	2	3	4	5	6	7	
EBITDA	**787**	**716**	**741**	**722**	**717**	**718**	**717**	
Net change in working capital	(117)	(7)	(26)	(19)	(21)	(22)	(22)	
Capital expenditures	(550)	(555)	(558)	(561)	(563)	(566)	(570)	
Net tax (incl. tax shield on interest cost)	(109)	(86)	(86)	(76)	(69)	(64)	(59)	
FCF (adj. EBITDA basis)	**11**	**68**	**72**	**66**	**63**	**65**	**67**	**69**

Table 22: FCF (adj. EBITDA basis) Calculation

Valuation Section	
Sum of FCFO (GBP m)	413
Terminal value (GBP m)	7,997
PV terminal value (GBP m)	6,374
EV (GBP m)	6,786
PV terminal value as % of EV	93.9%
Net debt (GBP m)	-230
Implied market cap (GBP m)	7,016
Shares outstanding (m)	397.21
Implied share price (GBP)	1766.44
Current share price	1087
Implied premium to current share price	62.5%

Table 23: DCF Implied Share Price Calculation

[317] The model's terminal value clearly represents the main part of the DCF model's enterprise value. However, this is the common outcome for the model, even though mostly 75% of the enterprise value results from the terminal value. As in easyJet's model case, the WACC is (also due to the low interest rate environment as per reference date) rather low, the terminal value accounts for a larger proportion of the enterprise value.

[318] Appendix 87 provides the corresponding operating Free Cash Flow and Share Price Calculation for the Second DCF model approach.

[319] In the analysis this result is referred as the base case.

6.3.4.2 Sensitivity towards WACC, Long-term Growth Rate, and Tax Rate

Varying (i) the WACC, (ii) the long-term growth rate, and (ii) the tax rate helps to understand how sensitive the implied share price c.p. is to the main drivers of the discount rate (Berk & DeMarzo, 2013). The analysis demonstrates that the implied share price (1,766.44 pence) is c.p. highly sensitive to changes in the applied WACC. E.g. a 1% increase in the discount rate (i.e. WACC) results in a 51.2% change of the implied share price to 855.8 pence. Furthermore, the impact of the long-term growth rate is of great importance, but smaller than the impact of a change in the WACC. E.g. a 1% decrease in the long-term growth rate, results c.p. in 49.2% decrease of the implied share price to 897.0 pence. Increasing the tax rate by 3% suggest the implied share price drops by 15.2%, to 1,497.9 pence, on the other side, when the tax rate would drop to 13.5% the implied share price c.p. would be 2,256 pence, indicating an increase to the implied share price of 27.7%. The rather large range of different tax rates within the sensitivity analysis, was applied to capture the historical range in easyJet's tax rates.

		WACC				
		1.88%	2.38%	2.88%	3.38%	3.88%
LT growth	1.0%	1863.0	1203.7	897.0	720.3	605.8
	1.5%	4157.5	1813.9	1173.9	876.0	704.5
	2.0%	-12227.8	4042.0	1766.4	1145.0	855.8
	2.5%	-2305.7	-11869.0	3930.3	1720.6	1117.0
	3.0%	-1220.3	-2234.1	-11522.2	3822.4	1676.2

Table 25: LT Growth and WACC Sensitivity Analysis

		Tax Rate				
		13.50%	16.50%	19.50%	22.50%	25.50%
LT growth	1.0%	1155.0	1029.5	897.0	757.5	611.0
	1.5%	1507.7	1345.5	1173.9	992.6	801.6
	2.0%	2256.0	2019.0	1766.4	1497.9	1212.9
	2.5%	4916.1	4445.2	3930.3	3368.9	2758.2
	3.0%	(16938.1)	(14103.2)	(11522.2)	(9153.3)	(6963.1)

Table 24: Tax Rate Sensitivity

6.3.4.3 Sensitivity towards Beta, Debt Premium, and the risk-free rate

Varying (i) beta, (ii) market risk premium, (ii) debt premium, and (iv) the risk-free rate provides the following conclusions: A 25% increase in beta, results in a 36.8% decrease of the implied share price to 1,116.5 pence. It therefore is a significant value driver, also due to easyJet's low gearing or high equity ratio, respectively. A 25% increase in the market risk premium leads to 38.5% change in the implied share price driving it to 1,085.5 pence. However, a change in easyJet's credit rating, e.g. a 35% change in the debt premium, would not have any major impact on easyJet valuation, also driven by its low debt ratio. A 0.1% reduction in the risk-free rate could lead 13.9% change in the implied share price driving it to 2,011.7 pence. The model's sensitivity to these factors is so large, that even minor changes can result in a negative implied share price.

		Beta				
		0.17	0.20	0.23	0.26	0.29
LT growth	1.0%	1235.6	1037.8	897.0	791.7	710.2
	1.5%	1891.6	1445.5	1173.9	991.3	860.3
	2.0%	4476.0	2523.1	1766.4	1365.0	1116.5
	2.5%	(9113.0)	13516.1	3930.3	2317.8	1653.3
	3.0%	(2106.4)	(3583.4)	(11522.2)	9813.0	3486.2

		Market risk premium				
		4.65%	7.65%	10.65%	13.65%	16.65%
LT growth	1.0%	2266.4	1274.6	897.0	698.9	577.4
	1.5%	7163.0	1990.1	1173.9	842.8	664.2
	2.0%	(5302.2)	5110.7	1766.4	1085.5	793.7
	2.5%	(1828.1)	(7183.9)	3930.3	1582.1	1007.6
	3.0%	(1063.9)	(1975.9)	(11522.2)	3165.9	1428.0

		Debt premium				
		0.018	0.023	0.028	0.033	0.038
LT growth	1.0%	897.0	897.0	897.0	897.0	897.0
	1.5%	1173.9	1173.9	1173.9	1173.9	1173.9
	2.0%	1766.4	1766.4	1766.4	1766.4	1766.4
	2.5%	3930.3	3930.3	3930.3	3930.3	3930.3
	3.0%	(11522.2)	(11522.2	(11522.2	(11522.2	(11522.2

		Risk free rate				
		0.55%	0.65%	0.75%	0.85%	0.95%
LT growth	1.0%	1008.7	949.4	897.0	850.5	808.9
	1.5%	1386.5	1270.9	1173.9	1091.2	1020.0
	2.0%	2338.9	2011.7	1766.4	1575.9	1423.5
	2.5%	9333.5	5522.8	3930.3	3056.1	2503.6
	3.0%	(4102.7)	(6061.6)	(11522.2)	(108654.1)	14755.7

Table 26: WACC Input Variables Sensitivity Analysis

6.3.4.4 Sensitivity towards Market Share, Non-seat Revenues, Fuel, and Ground Operations

Varying (i) market share, (ii) non-seat revenues, (iii) fuel price, and (iv) ground operation costs concludes: An increase of 3% in the jet fuel price, results in a 35.3% decrease of the implied share price to 1,142.1 pence. Going hand in hand with the previous finding that jet fuel prices are an important value driver for easyJet, and airline in general. A 0.5% increase in easyJet's market share, results in a 22.7% increase in the implied share price driving it to 2,167.1 pence. A decrease in easyJet's ground operations of 3% of the estimated base case,

		Fuel price				
		-6.00%	-3.00%	0.00%	3.00%	6.00%
LT growth	1.0%	1515.6	1206.3	897.0	587.7	278.4
	1.5%	1993.1	1583.5	1173.9	764.3	354.7
	2.0%	3015.0	2390.7	1766.4	1142.1	517.8
	2.5%	6747.0	5338.7	3930.3	2522.0	1113.7
	3.0%	(19903.3)	(15712.8)	(11522.2)	(7331.7)	(3141.2)

		Market share				
		-1.0%	-0.5%	0.00%	0.5%	1.0%
LT growth	1.0%	500.4	698.7	897.0	1095.3	1293.6
	1.5%	648.3	911.1	1173.9	1436.6	1699.4
	2.0%	965.0	1365.7	1766.4	2167.1	2567.8
	2.5%	2121.5	3025.9	3930.3	4834.7	5739.1
	3.0%	(6137.1)	(8829.7)	(11522.2)	(14214.8)	(16907.3)

		Ground operations				
		-6.00%	-3.00%	0.00%	3.00%	6.00%
LT growth	1.0%	1682.4	1289.7	897.0	504.3	111.6
	1.5%	2215.8	1694.8	1173.9	652.9	131.9
	2.0%	3357.5	2562.0	1766.4	970.9	175.4
	2.5%	7526.4	5728.4	3930.3	2132.3	334.3
	3.0%	(22244.2)	(16883.2)	(11522.2)	(6161.3)	(800.3)

		Non-seat revenue growth				
		-6.00%	-3.00%	0.00%	3.00%	6.00%
LT growth	1.0%	1469.8	1473.0	1476.2	1479.4	1482.7
	1.5%	1936.3	1940.6	1944.9	1949.2	1953.6
	2.0%	2934.7	2941.3	2948.1	2954.8	2961.5
	2.5%	6580.5	6595.9	6611.3	6626.7	6642.2
	3.0%	(19454.8)	(19501.3)	(19548.0)	(19594.9)	(19641.9)

Table 27:Main Drivers Sensitivity Analysis

could lead to an increase of 45.0% of the implied share price, i.e. 2,562.0 pence. The model sensitivity towards an improvement in the non-seat revenue growth per passenger of 6% is only minor, as it leads to an increase of 0.4%, and respectively an implied share price of 1,779.9 pence. For all four it can be seen, that they have a large impact on the implied share price, too.

6.4 Economic Value Added Analysis

To challenge and benchmark the results from the DCF analysis, a discounted economic profit model, in this case an Economic Value Added (EVA) model is introduced[320]. In contrast to the DCF model, EVA captures the value creation abilities of a company, and is meant to estimate the true economic profit[321]. Similar to the DCF, the EVA model is based on income statement and balance sheet forecasts. The corresponding EVA values for each year are derived by subtracting the invested capital (including the respective years cost of capital, calculated by the WACC,) from the corresponding year's net operating profit after tax. The forecasted EVA values are then discounted to their present values, again using the WACC. The sum of the present values plus the initially invested capital equals the enterprise value derived from an EVA model. Net debt is to be subtracted to calculate the implicit equity value (Grant, 2003)[322].

[320] In general, there are two different approaches to discounted economic profit models. Next to the EVA model, there is the residual income (RI) model, which estimates the equity value of the company directly (Grant, 2003). It is however not used here, to allow for a more detailed EVA analyses.
[321] Stern Stewart & Co, a consulting firm based in New York (US), introduced the concept in 1989.
[322] The concept is in so far similar to the DCF model, consequently all input data is taken from the model described in more detail in Section 5.

6.4.1 Implied Share Price

The description of the EVA model points to its key input: (i) the return on investments made, (ii) the cost of capital for investments made, and (3) the capital required for investments made in a specific year[323]. Consequently, easyJet's EVA for a given year is derived by using the years modelled net operating profit after tax minus the product of capital invested in the period and the WACC. The corresponding capital invested is calculated by using the periods initial capital invested, amended by the net change in working capital and net CapEx.

$$Economic\ Value\ Added = Net\ Operating\ Profit\ After\ Tax - (\sum Capital\ Invested * WACC)$$
$$\sum Capital\ Invested\ = Initial\ Capital\ Invested + Change\ in\ Working\ Capital + Net\ CapEx$$

Equation 42: Economic Value Added Calculation

6.4.1.1 Calculation

Firstly, the annual EVA contribution is calculated. The modelled EVA values decline, with the largest set-backs in 2018 (-31.3%) and 2020 (-17.2%). The backswing in 2018 is mainly driven by the decrease in net operating profits of 20.8% (from GBP 387 m to GBP 300 m), the same accounts for 2020, with a decrease of 12.0%. The present value of the modelled EVAs (discounted by using the WACC of 2.7% for each forecast years) amounts to GBP 945 m. Adding the capital initially (i.e. in 2017) invested, provides an enterprise value (EV) of GBP 6,786 m. The initial investment represents 89.2% of the total enterprise value based on the model assumptions, which is a large portion and a common outcome for these models, however, below the 93.9% the terminal value accounted for in the DCF model. easyJet's (equity) market capitalization is calculated by adding the 2017 modelled net cash position (GBP 230 m); the resulting market capitalization of easyJet is GBP 7,016 m based on the model assumptions. Dividing the total equity value by the number of shares outstanding (397.21 m) gives an implied share price of 1,766.44 pence

EVA (GBPm)	Projection						
	2017	2018	2019	2020	2021	2022	2023
Number of forecast period	1	2	3	4	5	6	7
Net operating profit after tax	**378**	**300**	**300**	**264**	**241**	**223**	**205**
Invested capital as WACC	169	156	146	137	128	120	112
EVA	**209**	**144**	**154**	**128**	**113**	**103**	**93**

Table 28: Economic Value Added Results

6.4.2 Sensitivity Analysis

As both, the DCF and the EVA model base their conclusions on the same model, they do lead to the same enterprise value, equity value and implied share price and are also subject to the same sensitivities[324].

[323] As the outcome of an EVA analysis heavily depends on the investments (i.e. the invested capital), it is regularly used to look into capital intensive sectors, such as e.g. the airline industry.
[324] Appendix 88 provides a detailed sensitivity analysis on the EVA model.

6.5 TOWS: Threats, Opportunities, Weaknesses, Strength Analysis

In addition to the SWOT analysis the results of a TOWS analysis are conducted in this section, referring to the relationship between easyJet's strengths, weaknesses, opportunities, and threats, to provide a basis for exploring potential strategic options.

	Strengths	
Opportunities	(i)	Focusing on economically strong countries with stable demand for travelling and room for growth
	(ii)	Focus on European markets allows for additional growth potential from broadening the footprint
	(iii)	Focusing on data and digitalization to create competitive advantages to enhance market position
	(iv)	In a market, driven by innovations, a technology leader can set trends and realize early-bird profits
	(v)	Advanced pricing system, room for non-seat revenues and price-sensitive travellers allow for growth
	(vi)	Operating the competitive airline industry with oligopolistic tendencies may allow for extra profits
	(vii)	Strong momentum with respect to development of seat revenues and costs (e.g. employee costs)
	(viii)	Cost focused culture allows keeping up with competition and peers in terms of aggressive prices
	(ix)	Strong brand name, that allows to profitably serve both, the leisure and business travellers segments
	(x)	Operating a homogenous fleet produces economies of scale e.g. re purchase price and maintenance
	(xi)	Homogenous fleet and technologically advanced maintenance allow for further cost reductions
	(xii)	Focusing on reduction of fuel consumption, thus being able to position as environmental friendly
	(xiii)	Customer and operational excellence increase customer satisfaction while reducing disruption costs
	(xiv)	Strong entry barriers, making it for new entrants from the outside extremely difficult to compete
	(xv)	Successfully weathering-out historic oil price and currency fluctuations, allows for a positive outlook
	(xvi)	Collecting account receivables quicker than peers and competitors allows for saving interest expense
	(xvii)	Executive management team with a large variety of professional backgrounds can provide new angles

	Weaknesses	
Opportunities	(i)	Operating the competitive airline industry with oligopolistic tendencies can bolster profits
	(ii)	In light of still weak non-seat revenues, their future positive development would enhance profits
	(iii)	Technological edge may help to create comparative advantages in the future
	(iv)	No access to the fast growing regions outside the mature European creates opportunities
	(v)	Historic refusal to participate in alliances may lead to future potential, if the strategy is adjusted
	(vi)	Expanding into new products, such as telecommunications or bus travel my provide opportunities
	(vii)	Union representation of cabin crews allows for a quick solution, if any problems arise

	Strength	
Threats	(i)	Operating the competitive airline industry with oligopolistic tendencies can bolster profits
	(ii)	In light of still weak non-seat revenues, their future positive development would enhance profits
	(iii)	Technological edge may help to create comparative advantages in the future
	(iv)	No access to the fast growing regions outside the mature European creates opportunities
	(v)	Historic refusal to participate in alliances may lead to future potential, if the strategy is adjusted
	(vi)	Expanding into new products, such as telecommunications or bus travel my provide opportunities
	(vii)	Union representation of cabin crews allows for a quick solution, if any problems arise

	Weaknesses	
Threats	(i)	Strong dependence on the condition of the overall economy (i.e. the GDP growth rate) bears risk
	(ii)	Operating the competitive airline industry with oligopolistic tendencies puts pressure on profits
	(iii)	In light of still weak non-seat revenues, their future positive development is at least questionable
	(iv)	Operating top tier airports, having a strong positions there, limits future growth potential
	(v)	Lean, cost focused culture that aims to cut costs, provides limited room for further cost cutting
	(vi)	Even with a technological edge, no (strong) sustained advantages can be created in the industry
	(vii)	Comparing the profitability of the peers, it may be difficult to preserve current achievements
	(viii)	No access to the fast growing countries and regions outside the mature European core markets
	(ix)	Homogenous fleet bears risk, with respect to a prices increase and/or reputation (e.g. accidents)
	(x)	Revenues GBP- and EUR- and fuel USD-driven, provides exposure to fuel price and currency risks
	(xi)	Operating a capital intensive business, leads to substantial sensitivity to changes in interest rates
	(xii)	Operating a highly regulated market, produces unpredictable and unforeseeable risks (e.g. BREXIT)
	(xiii)	Refusal to participate in alliances may lead to giving-up profitable business and growth potential
	(xiv)	New products, such as advanced telecommunications or bus travel challenge the aircraft industry
	(xv)	Executive management team with on average relatively low airline expertise/background
	(xvi)	Union representation of cabin crews creates enhanced risk of strikes (e.g. with respect to salary)
	(xvii)	Airlines are exposed to catastrophes and terrorists attacks, both produce costs and endanger business

Table 29: TOWS Analysis

7 easyJet's Options to Further Enhance Value: Scenario Analysis

7.1 Background

Based on the findings from the financial and strategic analyses (including VRIO, SWOT, TOWS, DCF, EVA, etc.) and building on easyJet's historic statements, the modeled business projections and its proposed fair value, this section turns to three of the easyJet's main areas of concern: (i) the low non-seat revenues, (ii) the room for cutting back costs, both relative to its peers, and (iii) the yet unclear influence of BREXIT on its business performance. Based on this, and in order to prepare for answering the research question, this section shapes the previous findings and forms scenarios that may counter the critics and the shortcomings in easyJet's business model to develop and investigate strategic options that may result in additional upside potential, if the management finds answers to especially the following sub-questions:

> *Could, and if so, how could easyJet boost entertainment and recreation sales to create extra profit? Could, and if so, how could easyJet cut back costs to improve future profitability substantially? Could, and if so, how could easyJet pro-actively deal with a substantial negative impact from BREXIT, if any?*

7.2 Scenario 1: Boosting Entertainment & Recreation Sales

easyJet's seat revenues are particularly strong, while its non-seat revenues are weak, not only compared to its peers, where easyJet was the only company unable to improve non-seat revenues from 2011 to 2016. Today easyJet's seat revenues comprise 99% of its total revenues, while in 2010 they accounted for only 81%. One reason for this relative decrease is that easyJet reclassified "non-seat revenues" into "seat revenues" in 2012[325]. Consequently, easyJet may consider some, or even all, of the following considerations to refer to "seat revenues" rather than to "non-seat revenues". Be it as it may: there is room for further improvement, and how to account for the additional revenues, if any, is of secondary importance.

7.2.1 Scenario Considerations

As the VRIO Analysis proved, easyJet has a competitive technological edge. However, this advantage and potential could be translated into boosting entertainment and recreation sales, e.g. as easyJet's product portfolio does not include products offered successfully by peers and/or competitors

Forecast (GBPm)	Projection							
	2017	2018	2019	2020	2021	2022	2023	2014 onwards
Number of forecast period	1	2	3	4	5	6	7	
EBITDA	**787**	**716**	**742**	**724**	**721**	**724**	**727**	
Net change in working capital	(117)	(7)	(26)	(19)	(21)	(22)	(22)	
Capital expenditures	(550)	(555)	(558)	(561)	(564)	(567)	(571)	
Net tax (incl. tax shield on interest cost)	(109)	(86)	(86)	(76)	(70)	(65)	(61)	
FCF (adj. EBITDA basis)	**11**	**68**	**72**	**68**	**66**	**69**	**73**	**75**

Table 30: (FCF Scenario 1)

[325] Since 2012, non-seat revenue comprise of commissions earned from services sold on behalf of partners, before they e.g. included provisions for checked baggage or priority boarding, which are now reported as seat revenues.

yet. For example, easyJet could start to charge extra fares for window or isle seats, for in-flight entertainment, connectivity, airport check-in fees, and fare locks. In line with easyJet's pricing strategy no-show penalties might be introduced to avoid cheating by buying tickets early when they are cheap as kind of an option and potentially upsetting other travelers. All this could allow easyJet to further strength its value proposition, as well as increase its non-seat revenues. Moreover, easyJet could strengthen its third-party income, by including additional tourism attractions to its airport portfolio (such as e.g. Reykjavík), or expand its frequent flyer program in partnership with banks, as Ryanair successfully did. easyJet technological advantage, e.g. reflected in both, its app and in data analyses, should also help to tap its full potential, by using the competitive edge to push ancillary revenues (e.g. through more personalized car rental and hotel reservations offers), as already successfully proven by using data analytics in order to determine dynamic prices based on supply and demand. However, there is a risk, too, that e.g. adding extra paid for services could also make passengers more price-sensitive, could water-down easyJet's perception and standing in the market and there is a risk, too, that the high customer loyalty (74% are returning customers) decreased. Therefore, it is worth running a sensitivity analysis[326].

7.2.2 Valuation Considerations

This scenario analyzes the effects of an increase in its ancillary (i.e. non-seat) revenues c.p. by an extra +0.5% p.a. over the forecast period, a conservative number considering easyJet's position as an innovation leader with strong digital channels[327]. Based on this add-on growth, under the model's assumptions and with costs following the improved top-line growth, easyJet's implied share price goes to 1,352.85 pence, representing an implied premium of 24.5% to the current share price and of 10.2%. to the base case[328]. Furthermore, following this train of thought, it could also take pressure from ticket sales and provide additional leeway to stay successful and profitable in times where GDP's show low or no growth or even decline, and people reduce their flying budgets.

Valuation Section	
Sum of FCFO (GBP m)	427
Terminal value (GBP m)	8,704
PV terminal value (GBP m)	6,937
EV (GBP m)	7,363
PV terminal value as % of EV	94.2%
Net debt (GBP m)	-230
Implied market cap (GBP m)	7,593
Shares outstanding (m)	397.21
Implied share price (GBP)	1911.70
Current share price	1087
Implied premium to current share price	75.9%

Table 31: DCF Implied Share Price Calculation (Scenario 1)

7.3 Scenario 2: Cutting Back Costs

easyJet's ground operations costs are high relative to its peers, which is explained (i) by targeting Tier 1 and Tier 2 airports and (ii) by the increased ground operations in Italy and at Gatwick due to the expansion. As a result, this section analyzes the effects from trying to cut back costs. Besides ground operations, employees

[326] Appendix 92 provides a sensitivity analysis.
[327] Appendix 89-90 provide the income statement forecast.
[328] Appendix 91 and 93 provide the 2nd DCF approach as well as the EVA model calculation.

account for a large portion (2016: 31%) of the total operating costs. Based on the ratchet effect and Unite[329], reducing costs per employee seems not a realistic option, therefore, the section focuses on ground operations.

7.3.1 Scenario Considerations

On average, easyJet spends, over the review period, 25% of total revenues on ground operations (Ryanair 22%, Southwest 18%, and Norwegian 14%). Switching from expensive top tier to cheaper regional hubs, cannot be considered a valuable option, as it would change the business model entirely, and would also come at the cost of losing business travelers[330]. Turning back the expansion in Italy and Gatwick is also not considered an option for a growing company. However, easyJet could try to reduce costs by further increasing ground operation efficiency. The time an aircraft stays on ground could be reduced by speeding-up (i) refueling and cleaning, (ii) boarding passengers more efficiently (i.e. by using the technological edge to find new routines for boarding), (iii) by considering operating two or even three bridges[331] instead of only one or (iv) by carrying a passenger stairways inside the aircraft[332], (v) by taking up discussions with the airports' management (trying to negotiate cost reductions, due to its importance for the airports[333], or get approval to park aircraft closer to the terminal, which would allow for "taxiing in and taxiing out", thus no additional ground support like pushback tractors is required), and (vi) by introducing aircraft with autonomous pushback systems (providing aircraft full ground mobility without engine thrust or external tugs).

7.3.2 Valuation Considerations

The scenario assumes that further improvements in the ground operations could hold the ground operations at 1.4% of total ASK each year resulting in overall 2023 COGS c.p. go down from GBP 4,037 m in the base case to GBP 4,098 m (GBP -61 m) As a result, easyJet's implied share price goes to 2,948.06 pence, representing an implied premium of 171.2% to the reference date share price and of 66.9% to the base case. Consequently, reducing ground operation cost can be a value drive[334,335].

Valuation Section	
Sum of FCFO (GBP m)	690
Terminal value (GBP m)	13,538
PV terminal value (GBP m)	10,790
EV (GBP m)	11,480
PV terminal value as % of EV	94.0%
Net debt (GBP m)	-230
Implied market cap (GBP m)	11,710
Shares outstanding (m)	397.21
Implied share price (GBP)	2948.06
Current share price	1087
Implied premium to current share price	171.2%

Table 32: Implied Share Price Calculation (Scenario 2)

7.4 Scenario 3: Proactively Dealing with BREXIT

easyJet serves its European core markets, i.e. operates its flights from and into the UK, as well as its other

[329] Unite is the labor union representing easyJet's workforce. Section 2.3.3. provides more details.
[330] Section 2.7 provides more details.
[331] A third door e.g. may be placed in the center of the fuselage, so near the wing root.
[332] Such air stairs can be extended or retracted while the aircraft is on block, allowing passengers and ground handling staff to deboard and board the aircraft without the need for a mobile staircase or an air bridge.
[333] Section 2.4 shows easyJet is number one or two for most of its airports served.
[334] Appendix 94-95 provide the income statement forecast.
[335] Appendix 96-98 provide the 2nd DCF approach, a Sensitivity Analysis, as well as the EVA model calculation.

intra-EU routes, based on an EU Air Operator's Certificate (AOC). However, it is yet unclear if, and if so, which effects BREXIT will finally have on easyJet's operations. Following a worst-case scenario, UK-domiciled companies could (entirely) lose free access to the EU market and, correspondingly, easyJet's AOC could be waved. As a result, the company could (and even if only temporarily) lose access to the EU's Open Skies agreement, allowing e.g. for flights into and from the EU and also into and from other countries (as far as such flights are also based on agreements with the EU). It is obvious that such a development could harm easyJet's operations, and, consequently, management has to proactively deal with the issue, to find solutions that ideally allow continuing current operations regardless of the BREXIT outcome, as the alternative scenarios include e.g. being taken-over by a "new EU"[336] competitor or even failure[337].

7.4.1 Scenario Considerations

To solve potential issues and to prepare for eventualities, this section looks as an example into two approaches: (i) (early or even "immediate") relocation of easyJet's headquarters into the "new EU" [338] (possibly only "virtually" by getting a "new EU" operating license) and (ii) securing an EU AOC through an (early or even "immediate") acquisition. (However, due to the hitherto unknown BREXIT conditions, both scenarios may not be sufficient or may not even be required to secure operating routes into/from the UK.)

7.4.1.1 Move Headquarters

Theresa May, Prime Minister of the United Kingdom, has stated that the UK wants independence from the European Court of Justice's influence. This would eliminate the possibility that the UK, following BREXIT, will be given the status e.g. Norway has, being considered a part of the European Economic Area, and that the UK, therefore, would lose the benefits from the EU's Open Skies. Moving headquarters into the "new EU" might be an option, and there already have been rumors that easyJet is considering to do so (Pooler, 2016). According to other rumors, easyJet aims to secure a Maltese or Irish AOC before BREXIT (Malta, 2017). There are also rumors the company is trying to pressure the UK government to push EU to ensure Open Skies for UK airlines post-BREXIT (Boffey, 2017). However, such reports have been denied by easyJet. It has also been said easyJet will not pursue any structural or operational changes and, consequently, does not currently have any plans to move (Mirror, 2016). Be it as it may, the company issued conflicting statements: easyJet stated (i) that having UK, Swiss and EU AOC would offer full, and also post-BREXIT, protection of all currently operated routes and (ii) that it is in the process of getting a "new EU" operating license that will

[336] The "new EU" is comprised by all current EU member states excluding the UK and refers to the post-BREXIT EU member states.
[337] Section 4.2 refers to potential BREXIT scenarios in more details.
[338] To base operation on an EU AOC, i.e. to profit from the EU Open Skies agreement (Section 4.2.6.1 provides background on the agreement), requires e.g. that (i) the carrier, and (ii) at least 50% of its shareholders are EU-domiciled, exemptions are granted to e.g. Norway, which is part of the European Economic Area (Gerrard, 2017). Against this context it is worth stating, that easyJet's founder Sir Stelios has both, a British and a Cyprus citizenship, and the family's stake is held via an EU-domiciled holding. However, the family's 33.7% are below the 50% threshold (Topham, 2017).

mitigate BREXIT risk (Smout, 2017). Be it as it may, the noise indicates: easyJet's seems to be concerned and relocation could provide a safe-haven-option for the current flights (apart from routes into/from the UK).

7.4.1.2 Acquisition

To shelter against the BREXIT atrocities easyJet, too, could consider acquiring a "new EU"-based airline, and already in 2016, speculations said easyJet thinks about buying TUIfly, the German carrier, with a plan of using TUIfly's Air Operator's Certificate (AOC) to secure maintaining its current operations (Day, 2016).[339] Alternative to an airline acquisition, under which license easyJet could then continue operations, it could consider buying an AOC license from, e.g. a failed airline[340]. Be it as it may, an acquisition could also provide a safe-haven-option for the current flights (but maybe apart from routes into/from the UK).

7.4.2 Valuation Considerations

Due to the level of uncertainty, no meaningful numerical adjustments to the model can be made that account for a proposed pro-active reaction to BREXIT. Consequently, no financial (i.e. numerical) analysis is possible, and therefore, the impact on the implied share price is not investigated. However, this section gives a brief qualitative analysis regarding the options (i) to relocate and (ii) to acquire.

7.4.2.1 Move Headquarters

The model impact of relocation (e.g. in 2018) would have an immediate effect on the relocation year's income statement. However, all relocation related cost components would be considered "non-operating" and, accordingly, would have no effects on the model's outcome. However, other, and ongoing changes in operating numbers (depending on the country chosen) may also occur, e.g. regarding: (i) tax rate and (ii) employee costs. Relocating e.g. to Cyprus (lower tax rates), or to Ireland (lower tax rates and, possibly, partially lower employee costs) may also lead to cost saving. Overall, there is reason to assume, relocation c.p. would (financially) only have limited effects on easyJet's business model's valuation, apart from being able to operate post-BREXIT.

7.4.2.2 Acquisition

easyJet has experience in acquiring and integrating smaller regional low-cost carriers and has a positive track record here, so looking to replicate would be an option. The model would be affected in many ways by an acquisition; the overall outcome would e.g. depend on (i) the price paid and its financing, (ii) the revenues and costs, and (ii) the potential synergies and disynergies. However, as all potential sellers would know about easyJet's dilemma, they (i) may ask for a lion's share of the combined unit's potential and (ii) they may even

[339] These allegations were later denied by TUIfly representatives (Davies, 2016).
[340] For instance, Northwest Airlines bought FLYi's license in 2006 and operated flights on this basis (The Associated Press, 2006).

expect easyJet to pay an enormous premium (i.e. to overpay), counting on its desperateness. Be it as it may, in both cases many positive effects in terms of value creation and maybe limited or even more might be transferred to the seller(s), via the transaction value. Therefore, even if an acquisition would potentially have positive effects on income statements and balance sheet, there is reason to assume, it c.p. would (due to its highly defensive character) not positively influence easyJet's business' valuation, it may even be (more) likely to decrease.

7.5 Results

The sensitivity analysis for two main areas of concern (non-seat revenues and costs) shows reasonable upside potential (i) from boosting entertainment and recreation sales (under the model assumptions this delivers a 10% increase in the implicit share price), and (ii) from cutting costs (+20%). However, pro-actively dealing with BREXIT may, due to the overall defensive nature of possible moves, not lead to any substantial implicit share price improvement. The analysis even leads to the conclusion that, though it may be an option to secure operating business (at least part of it), as easyJet's shareholders tend to be forced buyers and may even be willing to transfer value to sellers of airlines and/or licenses to avoid destroying more value by alternatively exiting the market in one way or another. The problem is: Even, if it were value destroying, if might be the ultimate ratio and the best of all remaining options (apart from selling now).

8 Conclusion: Markets Underestimate easyJet's Strategy and Options

By using e.g. capital market theory, corporate finance, corporate governance, inter-firm relations and industrial organization, international finance, and macroeconomics, the analysis applies and draws from a range of economic and finance theories, models and tools for the purpose they were constructed: to better understand a (realistic) problem (in this case the problem statement formulated at the beginning). They provide the measures used to analyze and assess easyJet's strategy and options, (i) to get insight and to discuss how instruments for e.g. hedging against price fluctuations are used, (ii) to learn about the effects such changes or investment decisions, meant to improve the competitive position, have on the value of an enterprise, (iii) to understand the influence economic growth and different levels of productivity have, (iv) to look into the effects of politics and shocks on the economy, (v) to perform academically founded econometric analyses (also for forecasting statements) and: they all prove to be extremely relevant and valuable for finding an answer to the research question. Where they, due to theories' nature and as, therefore, to be expected, do not provide a perfect blueprint solution for validating the problem statement or the sub-questions of an individual section or the problem at hand, the analysis takes up the issue. However, it is only fair to say: they always pointed into the direction, where and how to find an answer, and allowed, to balance the problems addressed and the methods applied.

8.1 Summary

Based on the findings from (i) the various in-depth financial analyses (e.g. operational drivers, trend and common size, DuPont, profitability, asset and liability, liquidity and solvency ratios, DCF, EVA, etc.) and (ii) the detailed strategic analyses (including PESTEL, Porters' Five, VRIO, SWOT, TOWS, etc.) with respect to: (i) the company, (ii) its international peers (Norwegian, Ryanair, and Southwest), and its (iii) European competitors (Air France-KLM, Deutsche Lufthansa, IAG, Norwegian, and Ryanair), covering: (i) the low-cost and (ii) the full-service carriers operating European markets, and building on easyJet's and its peers: (i) historic statements (covering the years 2011 to 2016, i.e. the review period) and (ii) the projections (referring to the years 2017 to 2023, i.e. the forecast period), (iii) its fair value is proposed, and (iv) easyJets' shortcomings and areas of major concern are analyzed, in order to: (i) examine numerous sub-questions and (ii) to finally answering the research question (whether or not reference date's markets properly reflect easyJet's achievements, its business model and its prospects relative to its peers and competitors and its theoretical (i.e. the "true" or "fair" value), as follows:

easyJet's business model and strategy do create shareholder value, however, reference date's market capitalization and share price do underestimate the value of its strategy and options.

The analyses, consequently, suggest:

easyJet is better suited relative to its international peers and its competitors in the European low-cost and full-service carrier markets, than reference date's market price suggest and/or investors on average assume higher uncertainty (and e.g. implicitly apply higher discount rates), than derived for the model based on current and historic market and company data and/or make more conservative assumptions regarding top- and bottom-line development than justified by the findings of the various in-depth financial and strategic analyses conducted with respect to the company and both, its international peers and its European competitors, and for both, the low-cost and the European full-service carrier's, covering the years 2011 to 2016 and the subsequently modeled years 2017 to 2023.

8.2 Main Findings

The analysis and assessment of easyJet's strategy and options:

(i) proves a statistically relevant and strong relationship between the highly regulated, capital-intensive airline industry's (and its individual companies') top-line (i.e. revenues) growth and profitability and the overall condition of the economy operated in (e.g. GDP growth rate, oil price development, and currency changes), in terms of both, region and target passengers (i.e. leisure and/or business)

(ii) shows how in extremely competitive markets (by region, by passengers, as well as by business model), which nevertheless show a tendency for oligopolies on specific routes and for alliances, an individual

carrier's bottom-line (i.e. the profit margin) is largely a function of (i) finding the right place in the value chain, (ii) differentiating services, and (iii) building comparative (cost) advantages

(iii) reveals that its business has, relative to its LCC peers, to cope with (i) higher costs, and has relative to its European competitors to handle issues such as (ii) low non-seat revenues, (iii) higher ground operations costs, and (iv) rather low profitability, meaning it is facing challenges with respect to both, top- and bottom line, regarding both, LCC and FSC peers and/or competitors , and despite its high load factors

(iv) derives its theoretical value (i) based on the analyses of financials, strategy, and options, (ii) using multiples and present value approaches (based on both, DCF and EVA models), and (iii) challenging the results by multiple sensitivity analyses, concluding a theoretical value of shares in easyJet of 1,259.7 to 1,766.44 pence per share, indicating a premium relative to the reference date's LSE closing price

(v) looks at the sensitivity of three areas of concern (non-seat revenues, costs, and BREXIT) indicating upside potential from both, a strategy of (i) boosting entertainment and recreation sales (under the assumptions this c.p. delivers a 10% increase in the implicit share price) and (ii) cutting costs (+20%); however, measures pro-actively dealing with BREXIT, also due to their overall defensive nature, do not give reason to expect any substantial implicit share price improvements and may even inherit downside potential

8.3 Key Characteristics

easyJet:

(i) shows strong seat revenues, but has room for improvement in the field of non-seat revenues
(ii) is profitable and profits from running its business model efficiently (e.g. in terms of load factor)
(iii) has a better profit margin and assets turnover compared to its peers, however, a rather low ROE
(iv) has a relatively low return on invested capital, but collects its money quick compared to its peers
(v) depends like all carriers on the current state of the economy, oil prices and currency developments
(vi) is subject to politics (international conflicts, BREXIT, etc.) and operates in a regulated environment
(vii) is a technology leader and a market leader within its peer group and among its European competitors
(viii) shows potential for revenue growth and further streamlining allowing to further cutting operating costs

8.4 Implicit Share Price

With respect to easyJet's implicit share price, the analysis concludes:

(i) based on the analyses of financials, strategy and options, using multiples and present value approaches (based on DCF and EVA models) the theoretical value of easyJet calculates from 1,324.82 to 2,208.05 pence per share, with an average price on reference date of 1,766.44 pence per share

(i) the range from 1,324.82 to 2208.05 pence per easyJet share indicates a premium of 21.9% to 103.1%,

relative to the London Stock Exchange closing price on the reference date (1,087 pence)

(ii) benchmarking the result with analyst research shows, their discount/premium fluctuates from -13.6% to 105.8%, indicating the analysis' results equal almost the brokers' researches' average

(iii) benchmarking the result with the all-time high (1,892 pence) and the all-time low (251 pence) indicates a premium of -30% to 16.7%, 427.8% to 779.9%, respectively

(iv) challenging the results by sensitivity analyses for the key drivers (i) WACC, (ii) tax rate, and (iii) fuel costs show large changes, however, it requires sizeable disadvantageous changes to diminish the base case's premium completely, and e.g. despite the high level of sensitivity found for WACC, it is less relevant, (i) as easyJet during the entire review period has held its leverage ratio equal to its target and (ii) as in a world of falling interest rates no significant short-term increase in cost of debt is to be expected

(v) looking c.p. at the sensitivity of three areas of concern (i) non-seat revenues, (ii) costs, and (iii) BREXIT indicates upside potential from boosting entertainment and recreation sales (+10%) and cost cutting (+20%), however, pro-actively dealing with BREXIT may even inherit downside potential[341]

8.5 Valuation Considerations

The valuation approaches used, offer a range of values, as not unusual for such analyses. Practitioners primarily use discount cash flows or EVA (referring to an internal view), while the multiples (referring to an external view) are meant to challenge or support the model. The findings suggest enterprise values varying from GBP 770 to 8,483 m. Even though economic theory widely refers to efficient markets, i.e. including correctly all available information in market prices, experience shows in real life short-term factors are weighted disproportionally high (Brown & Warner, 1985), and while market multiples derived from the peers can be considered negatively biased, due to a recent overweight of negative press related to politically driven issues such as the BREXIT, this might not reflect the (average) price (level) in the long run. The advantage of using transaction based multiples is that they account for potential premiums paid by strategic investors[342]. However, the price information gained from previous transactions is limited due to the small number and the fact, that they took place in the 2000's, and valuations do therefore not necessarily reflect current markets. As shortcomings of

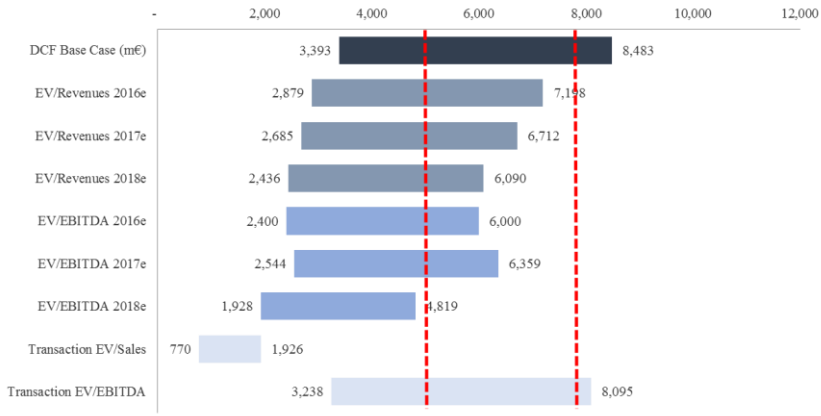

Figure 58: Football Field

[341] Section 7.2, Section 7.3, and Section 7.4 provide more details.
[342] This analysis, however, is written from the viewpoint of a non-strategic individual (institutional or retail) investor.

both multiple approaches can be taken into account by a cash flow-based model, it is believed that these models provide a more reliable estimate of the fair value of easyJet, which the DCF model (like the EVA) calculates at GBP 1,087 m. Furthermore, it is fair to conclude, that cutting off "extremely" high and "extremely" low prices, all models (despite EV/Total Revenues multiples derived from historic transactions[343]) produce a reasonable range of GBP 5,000 to 8,000 m[344].

9 Thesis in Perspective: Theory Has Limits, but Helps to Face the Truth

This analysis is written in a time where the European airline industry, and the entire market for travelling larger distance, face potentially drastic changes. Several airline companies recently failed, including Alitalia, or were close to, such as Air Berlin. Even weathered FSC (such as Deutsche Lufthansa) complain loudly about attacks from comparatively novice LCC (such as Ryanair). Already historically there has been a lot of uncertainty and volatility in the market, especially regarding demand, and technology development, and environmental issues, as well, which have forced carriers to constantly and substantially improve their efficiency. In addition, the industry is subject to political factors (e.g. air rights, environmental issues, landing rights, employment, and airport costs) especially if and when they are not publically owned. The demand, too, is hard to predict in detail, even though one may agree: it will be "strong", how strong, however, depends on a number of factors: prices on substitute products, possible trade restriction, economic development, etc. Furthermore, it was not looked in detail into potential takeover targets. As it was felt that, for the purpose of this analysis, it would be appropriate to focus on the most likely effects on the model. However, it would of course be interesting to analyze in more detail, how such take-overs would affect the value of easyJet going forward. All these exemplary mentioned factors and of course additional, too, will determine the forecasts accuracy. The analyses tried to provide for this uncertainty by introducing scenarios and models (e.g. Monte Carlo); however, theory is always working with a limited number of variables. As a result, it is always worth keeping in mind (i) a models' limitations and (ii) what is attributed to Robert Storm Petersen (the Danish cartoonist, writer, animator, illustrator, painter, and humorist) known by his pen name Storm P[345]:

"Det er svært at spå, især o m fremtiden."

[343] That EV/Revenue multiples derived from history produce outliers may also prove, that a valuation based on earnings is superior, as is factors in the ability to turn revenues into profits, and this is the number equity investors look at, as they are entitled to.
[344] The ranges, that illustrate the first and third quartiles of the values, account for uncertainties and to give a feel for a reasonable overlapping enterprise value range.
[345] The English translation of the quote attributed to Robert Storm Petersen by Karl Kristian Steincke (the Danish politician), reads: It is difficult to make predictions, especially about the future.

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Table of Tables

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Table of Equations

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Abbreviations

3D	Three-dimensional space
adj.	Adjusted
AOC	Air Operator Cerficate
API	Application Programming Interface
ASK	Available Seat Kilometers
Bn	Billion
BoE	Bank of England
BREXIT	United Kingdom's planned withdrawal from the EU
c.p.	Ceteris Paribus
CAA	Civil Aeronautics Authority
CAB	Civil Aeronautics Board
CAGR	Compound Annual Growth Rate
CapEx	Capital Expenditures
CAPM	Capital Asset Pricing Model
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Information Officer
CML	Capital Market Line
CNBC	Consumer News and Business Channel
CO2	Carbon Dioxide
CoF	Cost of Fuel
COGS	Cost of Goods Sold
CRM	Customer Relationship Management
D&A	Depreciation & Amortization
D/E Ratio	Debt to Equity Ratio
DCF	Discounted Cash Flow
e.g.	exempli gratia
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization
EEC	European Economic Community
EFTA	European Free Trade Association
EPA	Environmental Protection Agency
et al.	et alii
etc.	et cetera

Abbreviations (cont'd)

EU	European Union
EUR	Euro
EV	Enterprise Value
EV/EBITDA	Enterprise Value / Earnings before interest, taxes, and Depreciation & Amortization
EV/Total Revenues	Enterprise Value / Total Revenues
EVA	Economic Value Added
EZJ	easyJet's Ticker
FCF	Free Cash Flow
FCFO	Free Cash Flow from Operations
FDI	Foreign Direct Investment
FRG	Federal Republic of Germany
FSC	Full-service Carriers
FTA	Free Trade Agreement
FTSE100	Financial Times Stock Exchange 100 Index
g	gram
GBP	British Pound
GDP	Gross Domestic Product
GDS	Global Distribution Systems
H1N1	Influenza-A-Virus
HSBC	Hongkong & Shanghai Banking Corporation Holdings PLC
i.e.	Id est
IAG	International Airlines Group
IAS	International Accounting Standards
IATA	International Air Transport Association
IFRS	International Financial Reports Standards
IPO	Initial Public Offering
IT	Information technology
kg	kilogram
KLM	Koninklijke Luchtvaart Maatschappij
LCC	Low-cost Carriers
LSE	London Stock Exchange
LT Growth Rate	Longterm Growth Rate
Ltd.	Limited

Abbreviations (cont'd)

m	million
MCS	Monte Carlo Simulation
MM	Modigliani & Miller
MPT	Modern Portfolio Theory
MT	Metric Tons
NBC	Net Borrowing Costs
NGO	Non-governmental Organization
No.	Number
NOK	Norwegian Krone
NOPAT	Net Operating Profit after Taxes
NTB	Non-tariff Barriers
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
p.a.	Per annum
PESTEL	Political, economic, social, technological, environmental, legal
PP&E	Property, Plant, and Equipment
PTA	Preferential Trade Area
PV	Present Value
p-value	probability value
PWC	PricewaterhouseCoopers
RBC	Royal Bank of Canada
rf	Risk-free Rate
ri	return
RI	Residual Income
rm	Market Risk Premium
RoA	Return on Assets
RoE	Return on Equity
ROIC	Return on Invested Capital
RPK	Revenue Passenger Kilometers
S&P	Standard & Poor's
SES	Single European Sky
SG&A	Selling, General and Administrative Expenses
SML	Security Market Line
SWOT	Strength, Weaknesses, Opportunities, Threats

Abbreviations (cont'd)

t	today
t-1	today -1
TOWS	Threats, Opportunities, Weaknesses, Strength.
TP	Transaction Price
TP/EBITDA	Transaction Price / Earnings before interest, taxes, and Depreciation & Amortization
TP/Total Revenues	Transaction Price / Total Revenues
TUI	Touristik Union International
TV	Terminal Value
UAE	United Arab Emirates
UBS	Union de Banques Suisses
UK	United Kingdom
US	United States
USD	United States Dollar
VRIO	Valuable, Rare, Imitable, Organization
vs.	versus
WACC	Weighted Average Cost of Capital
Wi-Fi	Wireless local area networking
WTO	World Trade Organization
βi	beta

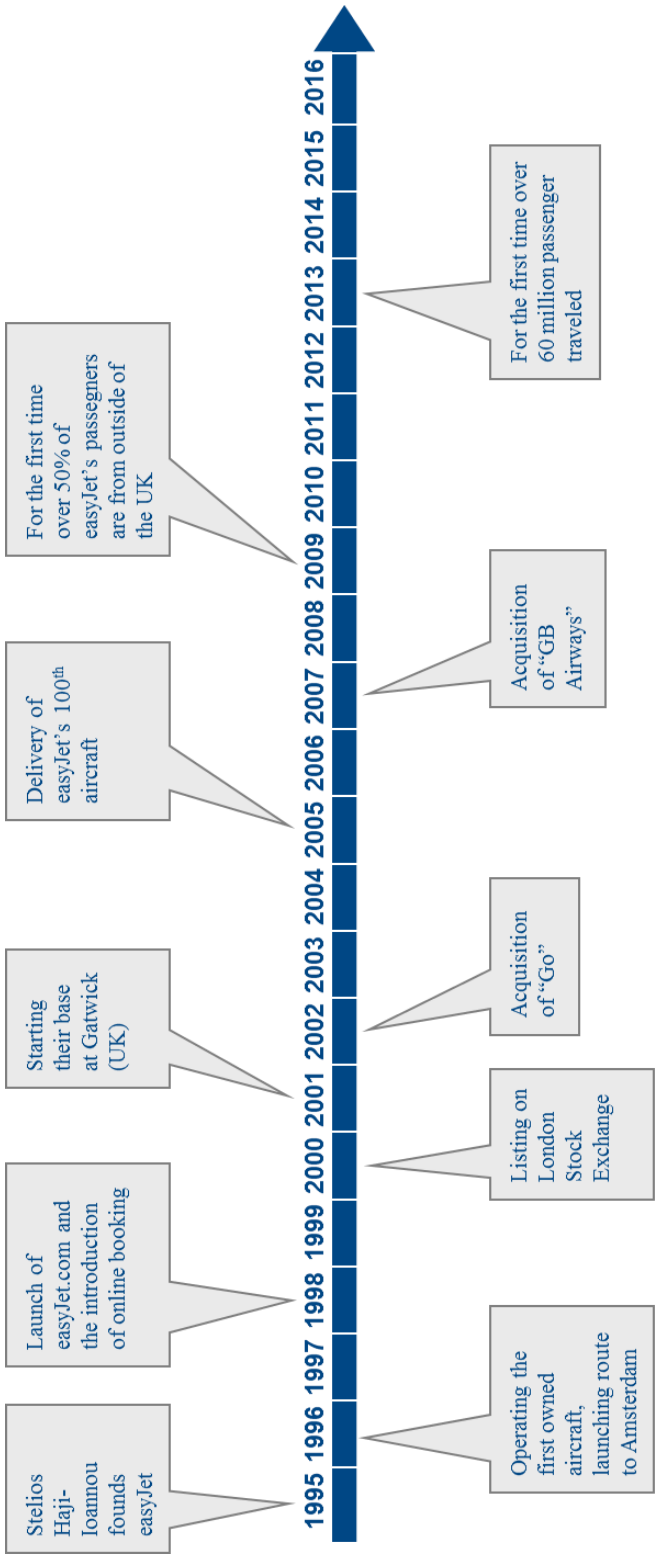
Appendix

Appendix (cont'd)

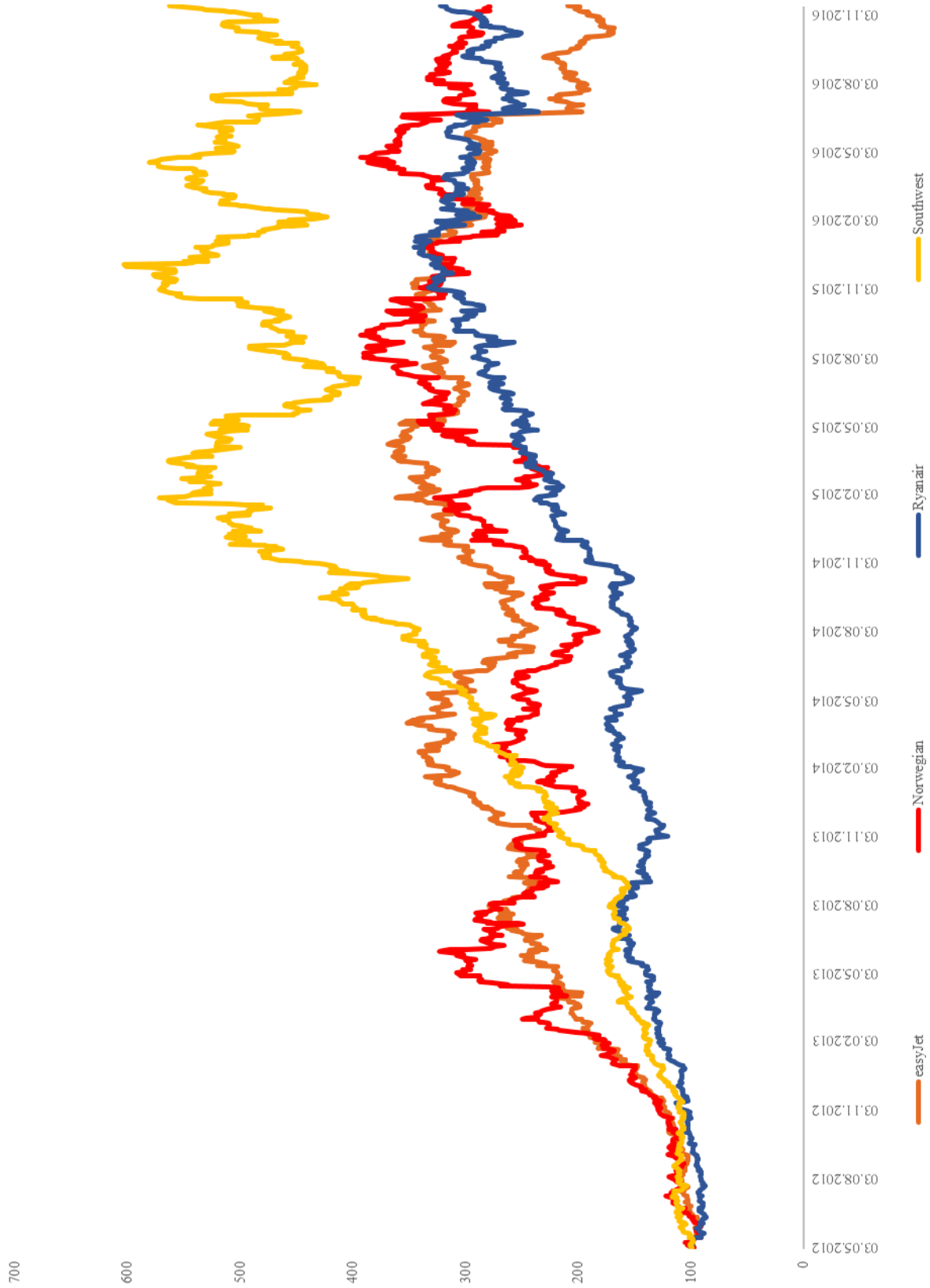
Appendix (cont'd)

Appendix (cont'd)

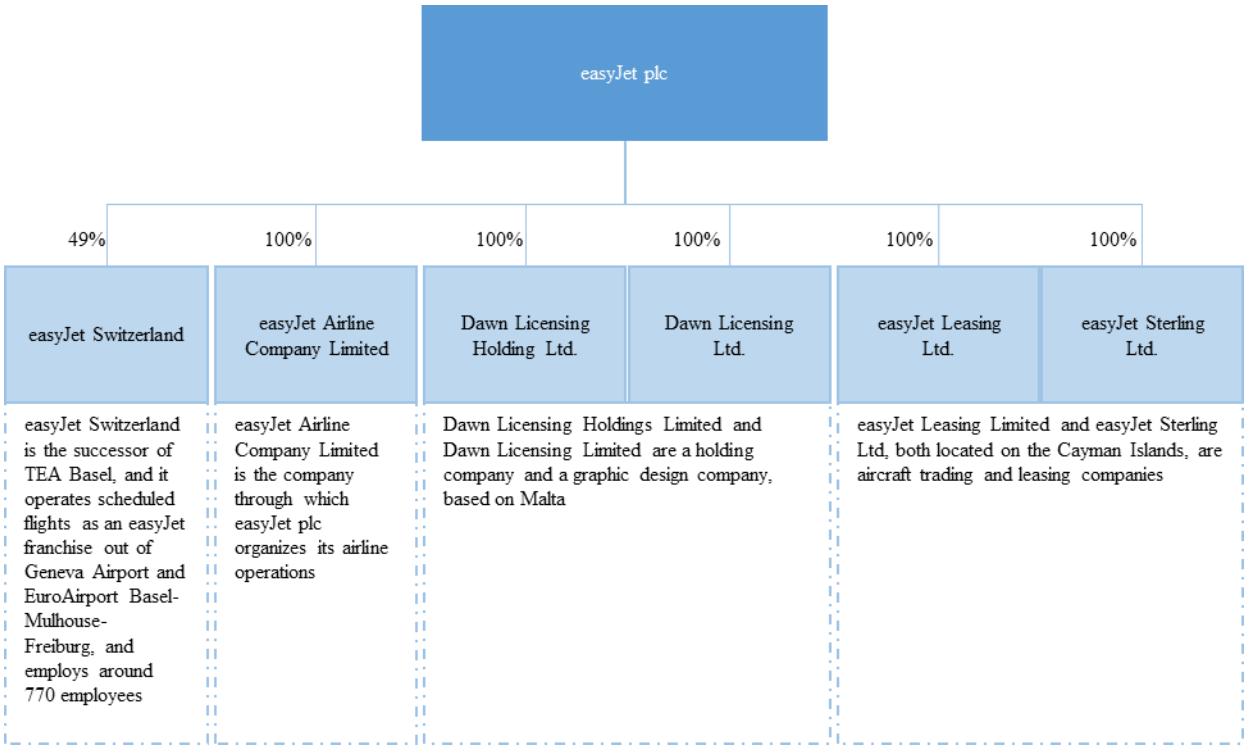
1 Timeline easyJet



2 Share Price Development of easyJet and Selected Airlines



3 easyJet's corporate structure



4 Management Team of easyJet

Dame Carol McCall
Chief Executive Officer

- Joined easyJet on 1 July 2010
- Previous roles:
  - Chief Executive Guardian Media
  - Director of Lloyds
  - Director of Tesco

Cath Lynn
Group Director Strategy

- Joined easyJet in 2002
- Previous roles:
  - J Sainsbury

Chris Browne
Chief Operating Officer

- Joined easyJet on 1 October 2016
- Previous roles:
  - Chief Operating Officer TUI Travel
  - Managing Director Thomson Airways
  - MD First Choice Airways

Chris Brocklesby
Chief Information Officier

- Joined easyJet on 1 February 2015
- Previous roles:
  - CIO of Tesco Bank
  - CIO of Tesco.com

Kyla Mullins
Company Secretary

- Previous roles:
  - Company Secretary of Mtie Group
  - General Counsel of EMI Music

Paul Moore
Communications Director

- Joined easyJet in November 2010
- Previous roles:
  - Communication Director of FirstGroup
  - Corporate Affairs of Virgin Airways

Peter Duffy
Chief Commercial Officer

- Joined easyJet in February 2011
- Previous roles:
  - Marketing Director of Audi UK
  - Marketing Services Director at Barclays

Jacky Simmonds
Group People Director

- Joined easyJet in January 2016
- Previous roles:
  - Group HR Director at TUI

Andrew Findlay
Chief Financial Officer

- Joined easyJet on 2 October 2015
- Previous roles:
  - CFO at Halfords

5 Star Alliance Members

Adria Airways Slovenia	Aegean Greece	Air Canada Canada	Air China China
Air India India	AirNewZealand New Zealand	ANA Japan	Asiana Airlines Koera
Austrian Austria	Avianca Brazil	brussels airlines Belgium	CopaAirlines Panama
Croatia Airlines Croatia	Egyptair Egypt	Ethiopian Ethiopia	Eva Air Taiwan
Lot Polish Poland	Lufthansa Germany	Scandinavian Swden	Shenzhen Air China
Singapore Air Singapore	South African South Africa	Swiss Switzerland	Tap Portugal Portugal
Thai Thailand	Turkish Turkey	United United Staates	

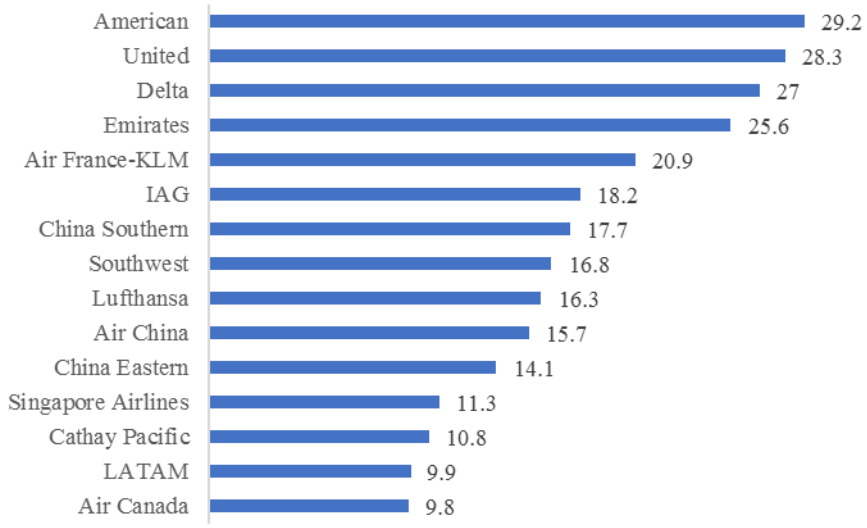
6 SkyTeam Members

Aeroflot Russia	Aerolineas Argentina	AeroMexico Mexico	Air Europe Spain
Air France France	Alitalia Italy	China Airlines China	China Eastern China
China Southern China	Czech Airlines Czech Republic	Delta United Staates	Garuda Indonesia
Kenya Airways Kenya	KLM Netherlands	Korean Air Korea	MEA Lebanon
Saudia Saudi Arabia	Tarom Romania	Vietnam Airline Vietnam	Xiamen Air China

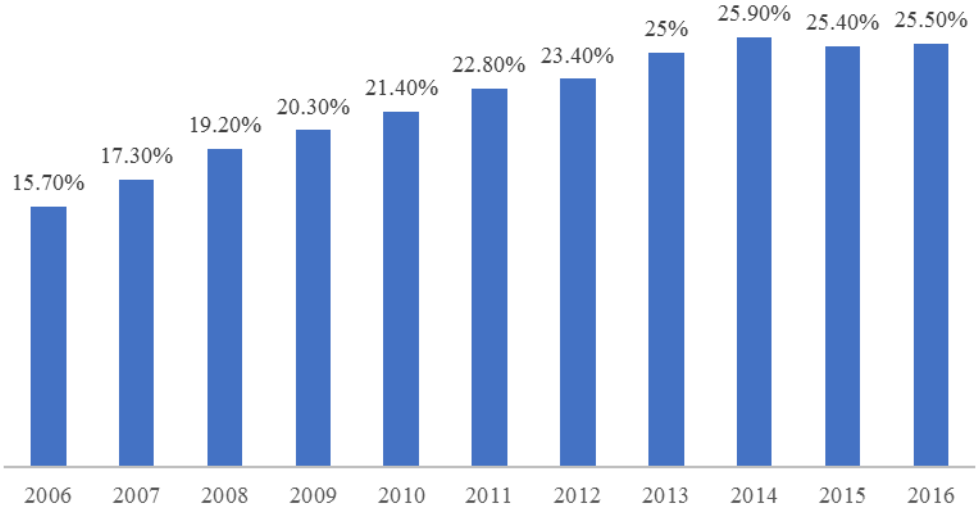
7 oneworld Members

Air Berlin Germany	American United Staates	British Airways UK	Cathy Pacific Hong Kong
Finnair Finland	Iberia Spain	Japan Airlines Japan	LATAM Chile
Qatar Airways Qatar	Malaysia Malaysia	Qantas Australia	SriLankan Air Sri Lanka
RoyalJordanian Jordan	S7 Airlines Russia		

8 Leading Airlines on Revenue Passenger Kilometers



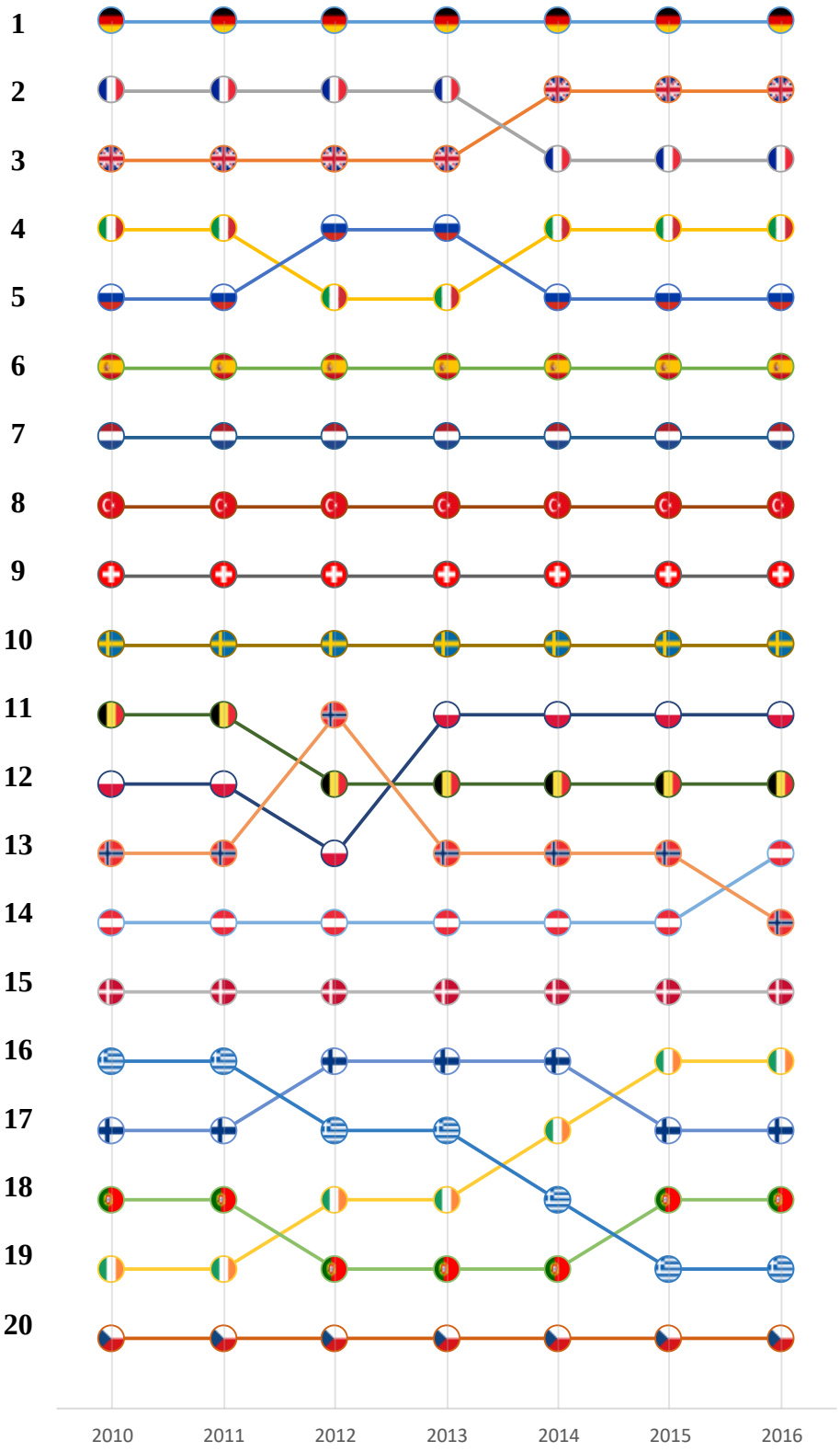
9 Market Share of LCC



10 Most Frequent Airports

Rank	Airport	City	Country	Passengers 2016
1	Heathrow Airport	London	UK	75,711,130
2	Charles de Gaulle Airport	Paris	France	65,933,145
3	Amsterdam Airport Schiphol	Amsterdam	Netherlands	63,625,664
4	Frankfurt Airport	Frankfurt	Germany	60,786,937
5	Istanbul Ataturk Airport	Istanbul	Turkey	60,119,215
6	Adolfo Suarez Madrid-Barajas Airport	Madrid	Spain	50,420,583
7	Barcelona El Prat Airport	Barcelona	Spain	44,154,693
8	London-Gatwick Airport	London	UK	43,119,628
9	Munich Airport	Munich	Germany	42,261,309
10	Leonardo da Vinci-Fiumicino Airport	Rome	Italy	41,744,769

11 TOP 20 GDP Europe



12 Company Profile – Air France-KLM

Air France-KLM

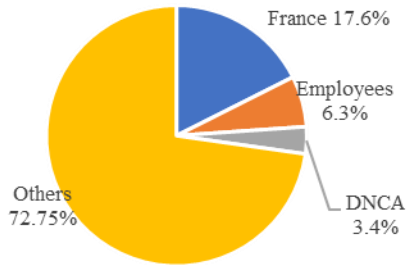
Company Overview

- Air France-KLM SA ("Air France-KLM") is a French aviation company
- The Company's include: passenger transport, cargo, aeronautics maintenance, and other air-transport-related activities, such as catering
- The company has two main sub-groups, namely: Air France and KLM, next to these they operation Transavia
- The company's network is organized around the hubs at Paris-Charles de Gaulle and Amsterdam-Schiphol
- Air France-KLM offers around 320 destination in over 115 countries
- Air France-KLM, founded in 2004, is headquartered in Paris and employs 96,417 people as of 2016

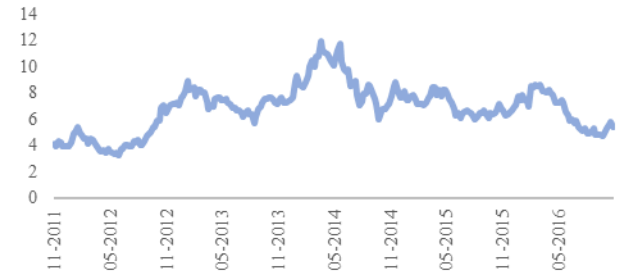
Key Financials(1)

(EUR in m)	2013	2014	2015	2016
Revenue	25,530	24,930	25,691	24,846
EBIT	130	(637)	(330)	207
Net Income	(1,827)	(225)	118	792
Current Ratio	0.7	0.6	0.6	0.8
Profit Margin	31.21%	29.27%	28.50%	31.95%

Shareholder Structure(2)



Share Price Development (in EUR)(2)



1) Company Reports
2) Bloomberg, as of 15 November 2016

13 Company Profile – Deutsche Lufthansa

Deutsche Lufthansa

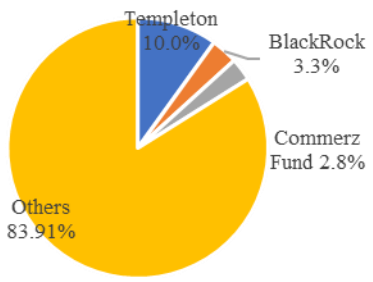
Company Overview

- Deutsche Lufthansa AG ("Deutsche Lufthansa") is a German aviation company
- The Company's segments include: passenger transport, logistics, maintenance, report and overhaul services, Catering, and Other
- Lufthansa operates four airlines: Deutsche Lufthansa, SWISS, Austrian Airlines, and Eurowings
- The Company's route network consists of more than 220 destinations, in more than 80 countries
- Lufthansa is one of the five founding members of Star Alliance, the world's largest airline alliance, formed in 1997
- Deutsche Lufthansa, founded in 1953, is headquartered in Frankfurt and employs 120,262 people as of 2016

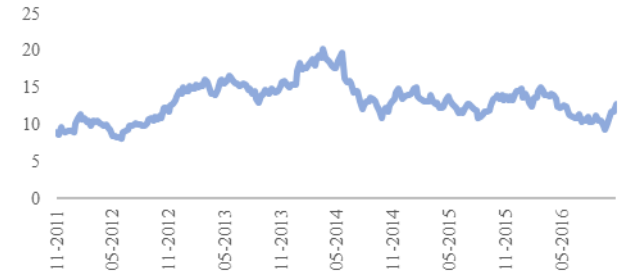
Key Financials(1)

(EUR in m)	2013	2014	2015	2016
Revenue	30,027	30,011	32,056	31,660
EBIT	(98)	440	823	1,404
Net Income	313	55	1,698	1,776
Current Ratio	0.9	0.8	0.7	0.9
Profit Margin	12.33%	38.36%	40.75%	41.25%

Shareholder Structure(2)



Share Price Development (in EUR)(2)



1) Company Reports
2) Bloomberg, as of 15 November 2016

14 Company Profile – IAG

International Airlines Group

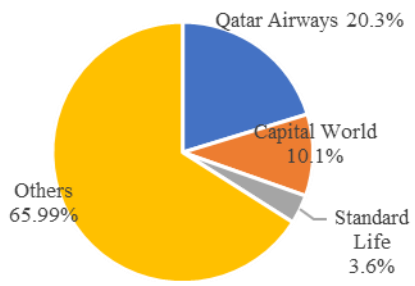
Company Overview

- International Consolidated Airlines Group S.A. ("IAG") is a British aviation company
- Through its subsidiaries IAG is engaged in: providing airline marketing, airline operations, insurance, aircraft maintenance, storage and custody services, air freight operations, and cargo transport services
- The company operates six brands: British Airways, Iberia, Vueling, Aer Lingus, IAG Cargo, and Avios
- The Group over around 280 destinations worldwide
- IAG's fleet consists of Airbus A318, Airbus A319, Airbus A340-600, Boeing 787-800, Embraer E190, and Boeing 777-200, among others
- Air France-KLM, founded in 2011, is headquartered in Madrid and London and employs 63,387 people as of 2016

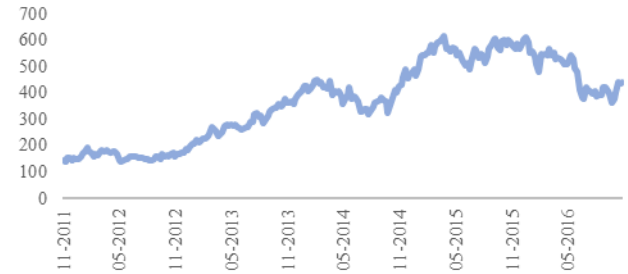
Key Financials[1]

(GBP in m)	2013	2014	2015	2016
Revenue	18,675	20,170	22,858	22,567
EBIT	826	1,431	2,385	2,649
Net Income	122	982	1,495	1,931
Current Ratio	0.7	0.8	0.8	1.0
Profit Margin	23.91%	55.33%	58.71%	61.86%

Shareholder Structure[2]



Share Price Development (in GBP)[2]



1) Company Reports
2) Bloomberg, as of 15 November 2016

15 Company Profile – Norwegian

Norwegian

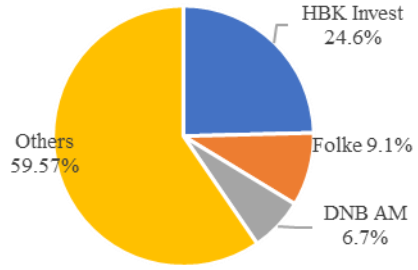
Company Overview

- Norwegian Air Shuttle ASA ("Norwegian") is a Norway-based low cost carrier
- Norwegian's route portfolio stretches across Europe into North Africa and the Middle East, as well as long-haul routes to the United States and Southeast Asia
- The company offers around 450 routes to more than 140 destinations
- Norwegian's fleet consists of different types of aircraft, including B788, A320neo, B737 Max 8, B738, and B738 S&LB, among others
- Norwegian is the parent company of the Norwegian Group and operates through subsidiaries, including Norwegian Air Shuttle Sweden AB, Call Norwegian AS, Artic Aviation Assets Ltd and Norwegian Air UK Ldt.
- Ryanair, founded in 1993, is headquartered in Oslo and employs 4,576 people as of 2016

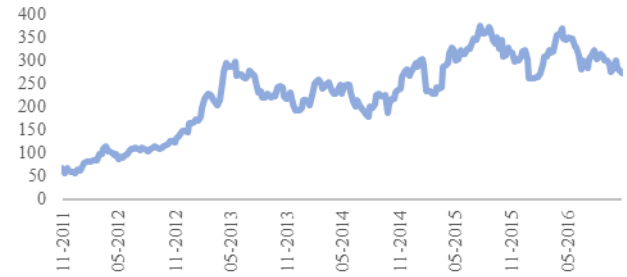
Key Financials[1]

(NOK in m)	2013	2014	2015	2016
Revenue		19,540		26,066
EBIT		(1,958)		1,820
Net Income		(1,070)		1,135
Current Ratio		0.5	0.5	0.4
Profit Margin		25.92%		36.75%

Shareholder Structure[2]



Share Price Development (in NOK)[2]



1) Company Reports
2) Bloomberg, as of 15 November 2016

16 Company Profile – Ryanair

Ryanair

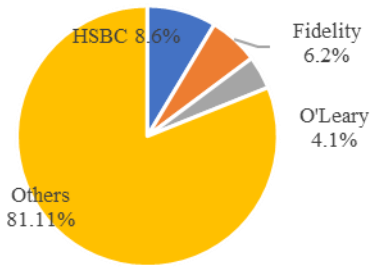
Company Overview

- Ryanair Holding plc ("Ryanair") is a Irish low-cost airline
- The Company offers more than 2,000 scheduled short-haul flights per day serving around 200 airports across Europe
- Ryanair, as of 30 June 2016, had a principal fleet of over 350 Boeing 737-800
- The company serves the short-haul market, with point-to-point routes between Ireland, the United Kingdom, Continental Europe, Morocco, and Israel
- Next to the transportation services, Ryanair provides various ancillary service, Internet-related services, and the in-flight sale of beverages, food and merchandise.
- Ryanair markets accommodation services and travel insurance through its Website. It provides hotel and accommodation services.
- Ryanair, founded in 1985, is headquartered in Dublin and employs 11,458 people as of 2016

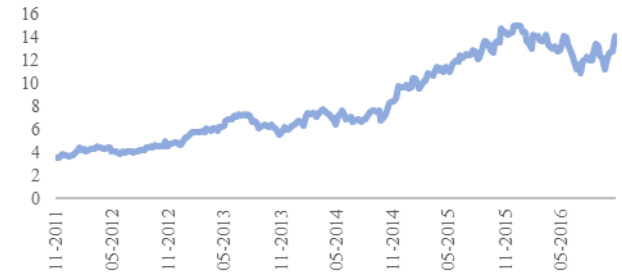
Key Financials(1)

(EUR in m)	2013	2014	2015	2016
Revenue	4,884	5,038	5,654	6,536
EBIT	718	659	1,043	1,460
Net Income	569	523	867	1,559
Current Ratio	2.0	1.5	1.7	1.4
Profit Margin	14.71%	13.08%	18.45%	22.34%

Shareholder Structure(2)



Share Price Development (in EUR)(2)



1) Company Reports
2) Bloomberg, as of 15 November 2016

17 Company Profile – Southwest

Southwest

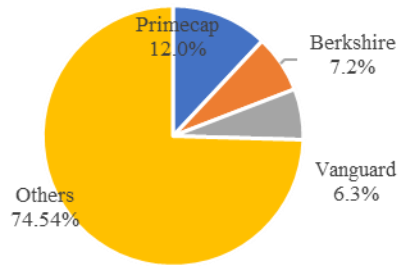
Company Overview

- Southwest Airlines Co. ("Southwest") is US-based low cost carrier
- The company offers scheduled air transportation in the United States and near-international markets
- Southwest's routes network consists of more than 100 destinations, including e.g. Mexico, Jamaica, Cuba
- Next to the passenger transportation, Southwest offers ancillary services, such as Southwest's EarlyBird Check-In and transportation of pets and unaccompanied minors
- Southwest operates a fleet of 723 Boeing 737 aircraft
- Ryanair, founded in 1967 and commenced its operations in 1971, is headquartered in Dallas and employs 53,536 people as of 2016

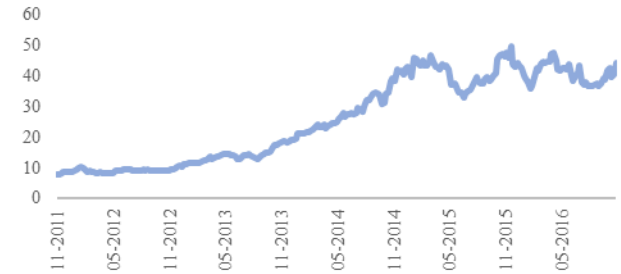
Key Financials(1)

(USD in m)	2013	2014	2015	2016
Revenue	17,699	18,605	19,820	20,425
EBIT	1,364	2,351	4,155	3,760
Net Income	757	1,140	2,188	2,246
Current Ratio	0.8	0.7	0.5	0.7
Profit Margin	54.27%	58.95%	69.55%	69.12%

Shareholder Structure(2)



Share Price Development (in USD)(2)



1) Company Reports
2) Bloomberg, as of 15 November 2016

18 Reformulated Income Statement - easyJet

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Total revenue	2,973	3,452	3,854	4,258	4,527	4,686	4,669
Total operating costs	2,612	2,984	3,323	3,547	3,704	3,746	3,899
EBITDA	**361**	**468**	**531**	**711**	**823**	**940**	**770**
Amortization	6	7	8	10	12	13	12
Depreciation	72	83	97	102	106	125	157
Lease depreciation	56	63	55	59	72	66	60
EBIT	**227**	**315**	**371**	**540**	**633**	**736**	**541**
Corporate tax	33	23	62	80	131	138	68
Tax shield	16	16	13	15	12	12	11
Operating tax	49	39	75	95	143	150	79
NOPAT	**178**	**276**	**296**	**445**	**490**	**586**	**462**
Fair value gains in the year	91	122	109	(82)	(2)	(510)	10
Gains transferred to income statement	(9)	(152)	(74)	(42)	50	229	347
Loss transferred to PPE	-	-	-	-	-	3	(28)
Related tax	(23)	9	(7)	27	(10)	56	(66)
Dirty surplus	**59**	**(21)**	**28**	**(97)**	**38**	**(222)**	**263**
NOPAT incl. dirty surplus	**237**	**255**	**324**	**348**	**528**	**364**	**725**
Net financial expenses	20	21	14	19	-	2	3
Lease interest	46	46	40	43	52	48	43
Total financial expenses	**66**	**67**	**54**	**62**	**52**	**50**	**46**
Financial tax (24%)	16	16	13	15	12	12	11
Profit	**187**	**204**	**283**	**301**	**488**	**326**	**690**
Check	*ok*	*ok*	*Ok*	*ok*	*ok*	*ok*	*ok*

19 Reformulated Operational Balance Sheet - easyJet

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Non-current assets							
Goodwill	365	365	365	365	365	365	365
Other intangibles assets	87	86	91	102	113	127	152
PP&E	1,928	2,149	2,395	2,280	2,542	2,877	3,252
Derivative financial items	8	24	21	13	36	44	154
Other non-current assets	54	63	57	185	152	130	121
Capitalized leases	763	763	665	714	868	798	721
Total non-current assets	**3,205**	**3,450**	**3,594**	**3,659**	**4,076**	**4,341**	**4,765**
Current assets							
Assets held for sale	73	-	-	-	-	-	-
Trade and other receivables	194	165	241	194	200	206	217
Derivative financial instruments	53	83	73	17	53	128	268
Total current assets	**320**	**248**	**314**	**211**	**253**	**334**	**485**
Total operating assets	**3,525**	**3,698**	**3,908**	**3,870**	**4,329**	**4,675**	**5,250**
Current liabilities							
Trade and other payables	829	916	1,021	1,093	1,110	495	564
Unearned revenue	-	-	-	-	-	619	568
Derivative financial instruments	10	52	26	60	87	368	275
Current tax liabilities	28	9	29	58	53	43	21
Maintenance provisions	71	45	59	81	79	61	53
Total current liabilities	**938**	**1,022**	**1,135**	**1,292**	**1,329**	**1,586**	**1,481**
Non-current liabilities							
Derivative financial instruments	4	27	24	41	23	101	49
Non-current deferred income	56	59	46	68	62	47	35
Maintenance provisions	144	177	141	171	147	165	235
Deferred tax liability	148	179	198	144	186	176	237
Total non-current liabilities	352	442	409	424	418	489	556
Total operating liabilities	1,290	1,464	1,544	1,716	1,747	2,075	2,037
Invested capital	2,235	2,234	2,364	2,154	2,582	2,600	3,213

20 Reformulation Financial Balance Sheet - easyJet

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Liabilities							
Capitalized lease	763	763	665	714	868	798	721
Borrowings current	127	155	129	87	91	182	92
Borrowings non-current	1,085	1,145	828	592	472	322	664
Total liabilities	**1,975**	**2,063**	**1,622**	**1,393**	**1,431**	**1,302**	**1,477**
Assets							
Loan notes	13	11	10	7	4	-	-
Restricted cash non-current	23	90	130	-	23	6	-
Restricted cash current	33	33	29	12	9	6	7
Money market deposits	260	300	238	224	561	289	255
Cash and cash equivalents	912	1,100	645	1,013	424	650	714
Total assets	**1,241**	**1,534**	**1,052**	**1,256**	**1,021**	**951**	**976**
Equity	**1,501**	**1,705**	**1,794**	**2,017**	**2,172**	**2,249**	**2,712**
Net interest bearing debt	**734**	**529**	**570**	**137**	**410**	**351**	**501**
Invested capital	**2,235**	**2,234**	**2,364**	**2,154**	**2,582**	**2,600**	**3,213**
Check	*ok*	*ok*	*ok*	*ok*	*ok*	*ok*	*ok*

21 Reformulation - Norwegian

Revenues

Norwegian Airlines revenues consist out of passenger, ancillary revenue, other revenues, and other income. As for the whole peer group passenger and ancillary revenues are seen as revenues directly driven by their core business, and therefore are included in their reformulated income statement. As for the others, it was looked into the other revenues and other income in more detail. Another revenue comprises revenues, such as wet-lease, cargo and revenue from business activities in subsidiaries which are not airlines, including the customer loyalty program ("Norwegian Reward"). These activities cannot be directly associated with NAS operations, but as they can be seen as indirect part, they are included. Other income consists of gains from sales of tangible assets, as the sale of tangiblee assets, is not part of NAS's operations and cannot be indirectly allocated to the core operations, so it was excluded from the reformulated income statement[346].

Operating Expenses

NAS's operating expenses mainly consists of expenses that can be directly allocated to the core business operations of Norwegian, such as fuel or handling charges. Similar to the others, the lease costs as well as Depreciation & Amortization were excluded, from the reformulated income statement. Furthermore, NAS reports Other Losses (gains), which are mainly impairment losses arising from a fair value lower than initial costs of financial instruments. As this number is volatile over the investigated time horizon, and cannot be allocated to NAS's operations, they were identified as a special item.

Financial Charges / Other Income (Expenses)

Financial Charges consists of Inter Income, Interest expenses, and other financial items. As these items have mainly financing function, they are included in the financing part of the reformulated statement.

Non-Current Assets

Items from the operational section of the balance sheet of NAS include to typical items such as intangibles assets, buildings, aircraft, and equipment. Furthermore, deferred tax assets were included on the operational side, as those arise mainly from different recognize dates, as no further separation has been made on the origin of these tax assets, they were included them on the operational side. Financial leases, prepayment for aircraft, and investment in associated are also included on the operational balance sheet. It can be argued that they should not be a part of NAS core operations. But due to their importance for Norwegian's operations, they were included in the operational part.

[346] In 2010, other income comprised a compensation NAS received from SAS as a result from a law suit.

On the other side investment in shares, other long-term receivables, and financial assets available for sale are clear financing items, and therefore included in the financing part of the balance sheet.

Current Assets

Similar to the other companies, current assets such as Inventory, Accounts Receivables, and Derivative financial instruments were allocated as operational items. Derivative financial instruments are driven by gains and losses on NAS forward foreign exchange contracts and forward commodity contracts. As these contracts are used to minimize the risk of fuel and / or exchange rates volatility, they are clearly related to Norwegians operational activities.

Investment in Shares, Financial assets available for sale, and cash are items which can be allocated directly to the financing activity of Norwegian.

Current Liabilities

Current liabilities follow mostly the current assets. Therefore accounts payable, tax payable, and derivative financial instruments are allocated to Norwegian operations. On the other side, short-term borrowings are allocated to the financing section of the balance sheet. Air traffic settlement liabilities are related to Norwegian's customer, and suppliers and hence are operating activities.

Non-Current Liabilities

Non-Current Liabilities are the equivalent to non-current assets and therefore are treated in a similar way. Provisions for periodic maintenance and deferred taxes are allocated to the operational balance sheet, as they are a driver or driven by Norwegian's core operations. On the other side pension liabilities, long-term borrowings, and financial lease liabilities are used for financing Norwegian's operations.

Shareholders' Equity

Shareholders' Equity is shown on the financial balance sheet.

22 Reformulation Income Statement - Norwegian

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Passenger transport	6,881,910	8,739,461	10,685,988	12,902,872	15,674,460	17,949,122	20,623,962
Ancillary revenue	986,132	1,188,406	1,358,744	1,639,095	2,522,987	3,163,739	3,776,289
Other revenue	334,144	21,972	241,788	339,624	457,371	661,778	640,893
Total Revenue	**8,202,186**	**9,949,839**	**12,286,520**	**14,881,591**	**18,654,818**	**21,774,639**	**25,041,144**
Sales and distribution	158,301	194,259	249,730	323,354	435,176	569,011	755,086
Aviation fuel	1,902,519	2,804,159	3,633,514	4,320,208	6,185,803	5,444,863	4,815,675
Airport charges	1,229,662	1,498,213	1,692,569	2,039,017	2,661,345	2,875,210	3,238,313
Handling charges	836,994	949,251	1,075,491	1,223,434	1,767,917	2,181,744	2,806,285
Technical maintenance	663,667	687,396	828,697	806,665	1,240,120	1,621,235	1,733,047
Other aircraft expenses	386,528	637,387	94,357	1,194,732	397,542	794,131	794,891
Personnel costs	1,472,675	1,782,811	2,003,694	2,475,402	2,909,694	3,406,187	3,742,703
Other operational expenses	425,373	229,235	936,808	31,836	1,377,019	1,263,477	1,699,485
Share of profit (loss) from associated companies	(6,487)	(16,328)	(29,718)	(42,140)	(50,197)	(86,331)	(199,341)
Total operating costs	**7,069,232**	**8,766,383**	**10,485,142**	**12,372,508**	**16,924,419**	**18,069,527**	**19,386,144**
EBITDA	**1,132,954**	**1,183,456**	**1,801,378**	**2,509,083**	**1,730,399**	**3,705,112**	**5,655,000**
Lease depreciation	452,090	502,829	619,716	732,773	1,045,991	1,321,306	1,677,854
Depreciation and amortization	183,474	252,907	367,050	492,544	678,425	979,038	1,324,687
EBIT	**497,390**	**427,720**	**814,612**	**1,283,766**	**5,983**	**1,404,768**	**2,652,459**
Tax	83,695	95,314	112,616	204,335	(440,983)	(46,984)	(58,714)
Tax shield	85,051	42,975	111,255	15,464	107,640	120,427	138,829
Operating tax	168,746	138,289	223,871	219,799	(333,343)	73,443	80,115
NOPAT	**328,644**	**289,431**	**590,741**	**1,063,967**	**339,326**	**1,331,325**	**2,572,344**
Special items							
Other losses (ganis) – net	39,259	179,032	(33,480)	296,315	113,548	(599,651)	(790,050)
Other income	-	191,328	3,471	17,851	68,326	-	230,803
Total special items	**39,259**	**370,360**	**(30,009)**	**314,166**	**181,874**	**(599,651)**	**(559,247)**
Earnings before interest - after special items	**367,903**	**659,791**	**560,732**	**1,378,133**	**521,200**	**731,674**	**2,013,097**
Financial items	23,073	(158,699)	12,588	(399,712)	(264,974)	(390,239)	(545,878)
Lease interest	280,680	312,182	384,751	454,942	649,404	820,334	1,041,697
Net financial items	**303,753**	**153,483**	**397,339**	**55,230**	**384,430**	**430,095**	**495,819**
Financial tax	85,051	42,975	111,255	15,464	107,640	120,427	138,829
Profit	**149,201**	**549,283**	**274,648**	**1,338,367**	**244,410**	**422,006**	**1,656,107**
Available-for-sale financial assets	1,608	2,768	-	-	1,158	(1,158)	-
Total comprehensive income	**150,809**	**552,051**	**274,648**	**1,338,367**	**245,568**	**420,848**	**1,656,107**
Check	*ok*	*ok*	*ok*	*ok*	*ok*	*ok*	*ok*

23 Reformulation Operational Balance Sheet - Norwegian

	AR 2010	AR 2011	AR 2012	AR 2013	AR 2014	AR 2015
Non-current assets						
Intangibles assets	210,293	236,216	237,774	225,270	206,826	206,675
Deferred tax assets	270	2,069	4,293	28,517	518,915	593,626
Aircraft, parts and installations on leased aircrafts	2,092,136	3,869,159	5,579,757	7,526,707	12,527,932	18,507,706
Equipment and fixtures	26,175	31,991	58,476	72,972	83,687	79,508
Buildings	9,525	9,525	9,525	14,966	252,236	285,674
Financial lease assets	31,203	27,882	24,562	21,242	19,234	-
Investments in associate	62,272	82,091	116,050	164,575	223,594	328,127
Prepayment aircraft manufacturers	2,002,600	2,126,954	2,844,359	2,514,882	4,102,664	5,939,281
Tangible assets	-	-	-	-	-	-
Total non-current assets	**4,434,474**	**6,385,887**	**8,874,796**	**10,569,131**	**17,935,088**	**25,940,597**
Current assets						
Capitalized operating leases	4,340,798	5,448,877	5,807,669	7,230,405	8,990,765	12,921,580
Inventory	66,191	81,994	68,385	74,135	82,851	104,141
Trade and other receivables	842,143	1,072,497	1,096,558	1,623,079	2,173,522	2,550,716
Other receivables	-	-	-	-	-	-
Derivative financial instruments	43,395	242,790	-	37,389	-	-
Total current operating assets	**5,292,527**	**6,846,158**	**6,972,612**	**8,965,008**	**11,247,138**	**15,576,437**
Total operating assets	**9,727,001**	**13,232,045**	**15,847,408**	**19,534,139**	**29,182,226**	**41,517,034**
Operating liabilities						
Provisions for periodic maintenance	94,961	81,865	175,306	412,737	835,480	1,177,513
Deferred tax liabilities	89,483	134,646	301,042	443,991	169,851	-
Total non-current operational liabilities	**184,444**	**216,511**	**476,348**	**856,728**	**1,005,331**	**1,177,513**
Trade and other payables	1,063,436	1,230,935	1,564,955	1,949,693	2,680,445	2,862,566
Air traffic settlement liabilities	954,232	1,208,326	1,739,681	2,566,519	2,965,427	4,014,428
Derivative financial instruments	15,003	539	190,356	-	458,958	782,523
Tax payable	976	488	-	2	2,211	32,123
Total current operating liabilities	**2,033,647**	**2,440,288**	**3,494,992**	**4,516,214**	**6,107,041**	**7,691,640**
Total operating liabilities	**2,218,091**	**2,656,799**	**3,971,340**	**5,372,942**	**7,112,372**	**8,869,153**
Invested capital	**7,508,910**	**10,575,246**	**11,876,068**	**14,161,197**	**22,069,854**	**32,647,881**

24 Reformulation Financial Balance Sheet - Norwegian

	AR 2010	AR 2011	AR 2012	AR 2013	AR 2014	AR 2015
Liabilities						
Capitalized operational leases	4,340,798	5,448,877	5,807,669	7,230,405	8,990,765	12,921,580
Net recognized pension liabilities	121,672	151,187	-	127,821	201,883	134,516
Other non-current liabilities	-	-	-	-	-	80,338
Long-term borrowings	1,943,903	2,682,888	4,166,854	5,736,896	9,950,228	16,543,406
Short-term borrowings	520,972	1,551,918	1,349,359	768,401	3,330,387	3,041,388
Financial lease liabilities	20,007	15,485	10,853	6,860	3,227	-
Total liabilities	**6,947,352**	**9,850,355**	**11,334,735**	**13,870,383**	**22,476,490**	**32,721,228**
Assets						
Other long-term receivables	53,242	113,061	135,562	199,036	421,060	501,811
Investment in shares	-	-	-	-	-	-
Financial assets available for sale (non-current)	2,689	2,689	2,689	82,689	82,689	82,689
Financial assets available for sale (current)	-	-	10,172	11,158	-	-
Cash and cash equivalents	1,178,416	1,104,946	1,730,895	2,166,126	2,011,139	2,454,160
Total assets	**1,234,347**	**1,220,696**	**1,879,318**	**2,459,009**	**2,514,888**	**3,038,660**
Total equity	**1,795,902**	**1,945,588**	**2,420,651**	**2,749,826**	**2,108,251**	**2,965,312**
Net interest bearing debt	**5,713,005**	**8,629,659**	**9,455,417**	**11,411,374**	**19,961,602**	**29,682,568**
Invested capital	**7,508,907**	**10,575,247**	**11,876,068**	**14,161,200**	**22,069,853**	**32,647,880**
Check	ok	ok	ok	ok	ok	ok

25 Reformulation - Ryanair

Revenues

Ryanair divides its total revenue into two items, namely: scheduled revenues and ancillary revenues. Comparable to easyJet's seat revenue, Ryanair's scheduled revenues cover revenues gained from transportation services provided, consequently allocated to their revenues from operations. Ancillary revenues include additional revenue through services including travel insurances or the supply of internet. Following the same approach as for easyJet, these revenues are included in the revenues from operations.

Operating Expenses

Ryanair's operating expenses are similar to those of easyJet and therefore, besides the operating leases and depreciation, are included in the operating expenses shown in the reformulated income statement.

Financial Charges / Other Income (Expenses)

Ryanair's main items under other income (expenses) include gains on available for sale financial assets, finance income (expenses), and foreign exchange gain (losses). The last two items can clearly be allocated to the financing activities of Ryanair and are therefore included on the reformulated income statement. Gains on available for sale financial assets that only occurred in the year 2016 can be identified as non-recurring gains, and are not included in the reformulated income statement (Ryanair, Annual Report 2016, 2016).

Non-Current Assets

Ryanair's non-current assets are similar to those of easyJet and organized using the same approach. Solely available for sale financial assets are included in the financial section of the balance sheet.

Current Assets

Items from the operational section of the balance sheet of Ryanair include inventories, current tax, trade receivables, and derivative financial instruments, as they can be directly allocated to the operations of Ryanair, while cash cannot. The reported other assets include prepayments and interest receivable and are therefore allocated to the core business of Ryanair.

Current Liabilities

Ryanair's trade payables, current tax, derivative financial instruments, and debt are treated the same way as its counterparts under current assets, and easyJet's current liabilities. The reported item accrued expenses and other liabilities consists of accruals, taxation, and unearned revenue, and is included in the operational section.

Non-Current Liabilities

Ryanair's other creditors consist of deferred gains arising from the sale and leaseback of aircraft. During the fiscal year, 2016 Ryanair returned eight sale-and-leaseback aircraft were. They were included it in the financial balance sheet because it was interpreted this as a form of financing and less as an item of operations.

Shareholders' Equity

Shareholders' Equity is shown on the financial balance sheet

26 Reformulation Income Statement - Ryanair

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Total revenue	3,403	4,160	4,784	5,033	5,319	6,157	6,536
Total operating costs	2,562	3,152	3,620	3,865	3,970	4,269	4,533
EBITDA	**841**	**1,009**	**1,164**	**1,168**	**1,349**	**1,888**	**2,003**
Amortization	-	-	-	-	-	-	-
Depreciation	260	298	323	342	365	398	427
Lease depreciation	62	54	58	63	67	73	70
EBIT	**519**	**656**	**783**	**763**	**918**	**1,417**	**1,505**
Corporate tax	48	64	80	81	98	154	163
Tax shield	13	13	11	13	13	13	13
Operating tax	61	76	91	95	111	167	175
NOPAT	**458**	**580**	**691**	**668**	**807**	**1,250**	**1,330**
Net movements in cash-flow hedge reserve	108	56	-90	-47	59	221	-156
Net movements in available for sale financial	47	-49	43	80	-10	153	-304
Dirty surplus	**154**	**7**	**-47**	**33**	**49**	**374**	**-460**
NOPAT incl. dirty surplus	**613**	**587**	**644**	**701**	**856**	**1,624**	**870**
Net financial expenses	61	65	53	66	61	56	56
Lease interest	40	35	37	40	43	47	45
Total financial expenses	**101**	**100**	**90**	**106**	**104**	**103**	**101**
Financial tax (12.5%)	13	13	11	13	13	13	13
Profit	**524**	**499**	**565**	**609**	**765**	**1,534**	**782**
Check	*ok*	*ok*	*ok*	*ok*	*ok*	*ok*	*ok*

27 Reformulation Operational Balance Sheet - Ryanair

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Non-current assets							
Intangibles assets	47	47	47	47	47	47	47
PP&E	4,685	4,804	4,934	5,016	5,158	5,738	6,613
Derivative financial items	15	25	5	-	114	221	64
Capitalized leases	715	623	664	722	767	839	806
Total non-current assets	**5,463**	**5,499**	**5,650**	**5,785**	**6,085**	**6,844**	**7,529**
Current assets							
Current tax	-	-	-	-	-	-	-
Inventories	3	3	3	3	3	2	3
Other assets	87	168	91	72	138	158	159
Trade receivables	48	57	67	58	61	60	57
Derivative financial instruments	63	88	130	16	180	435	236
Total current assets	**201**	**315**	**291**	**148**	**382**	**655**	**455**
Total operating assets	**5,664**	**5,814**	**5,941**	**5,933**	**6,467**	**7,500**	**7,985**
Current liabilities							
Trade and other payables	214	222	264	185	166	251	318
Accrued expenses and other liabilities	808	900	963	1,030	1,255	1,487	1,396
Derivative financial instruments	59	22	35	78	145	586	168
Current tax liabilities	7	1	33	52	78	98	84
Total current liabilities	1,089	1,145	1,295	1,345	1,643	2,422	1,966
Non-current liabilities							
Derivative financial instruments	25	66	61	47	41	60	14
Deferred tax liability	241	310	347	351	413	419	441
Provisions	127	95	118	133	150	168	146
Total non-current liabilities	**392**	**471**	**526**	**530**	**604**	**646**	**600**
Total operating liabilities	**1,480**	**1,616**	**1,821**	**1,875**	**2,247**	**3,069**	**2,566**
Invested capital	**4,183**	**4,198**	**4,120**	**4,058**	**4,221**	**4,431**	**5,418**

28 Reformulation Financial Balance Sheet - Ryanair

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Liabilities							
Capitalized lease	715	623	664	722	767	839	806
Borrowings current	296	342	349	404	462	397	387
Borrowings non-current	2957	3154	3335	2882	3295	3824	3441
Other creditors	117	133	121	109	73	39	21
Total liabilities	**4086**	**4252**	**4468**	**4118**	**4596**	**5098**	**4655**
Assets							
Available for sale	166	106	165	242	226	0	0
Restricted cash current	61	35	31	19	18	4	12
Financial assets cash:	1029	2054	2706	2226	3058	3818	2928
Cash and cash equivalents	1936	1035	1196	1216	1299	1375	965
Total assets	**3192**	**3231**	**4097**	**3703**	**4601**	**5197**	**3905**
Equity	**3289**	**3177**	**3750**	**3643**	**4225**	**4530**	**4669**
Net interest bearing debt	894	1022	371	415	-5	-99	750
Invested capital	**4183**	**4198**	**4120**	**4058**	**4221**	**4431**	**5418**
Check	*ok*	*ok*	*ok*	*ok*	*ok*	*ok*	*ok*

29 Reformulation - Southwest

Revenues

Southwest Airlines revenues are divided into four items, namely: passenger, freight, other revenue, and special revenue adjustments. Passenger and freight revenues are the core of Southwest business and therefore are included in the reformulated Income Statement. Other revenues mainly include ancillary revenues, and therefore is included in the reformulated income statement. Special revenue adjustment only occurred in the year 2015, and consists of a one-time non-cash reduction to the deferred revenue liability as a result of the July 2015 amended agreement with Chase and the resulting change in accounting methodology. As this revenue is not related to Southwest core operations and is non-recurring, they were excluded from the reformulated income statement.

Operating Expenses

Southwest operating expenses mainly includes expenses which can be directly allocated to the core operations, such as Employee Costs, Fuel & Oil, maintenance materials, and landing fees. Further Southwest reports other operating expenses, which consist of distribution costs, advertising expenses, personnel expenses, professional fees, and other operating costs, and therefore can be included in the reformulated income statement. Southwest also reports volatile acquisition and integration costs over the time horizon. In 2015 for example, these costs were related to the AirTran integration, and consist of Employee training or facility integration. As these costs are related to a specific transaction, and non-recurring, they were excluded from the reformulated income statement.

Financial Charges / Other Income (Expenses)

Southwest's financial charges consist of interest expenses, capitalized interest, and interest income, and therefore is included in the reformulated income statement. Furthermore, the company reports other (gains) losses, which mainly consist of the Company's hedging activities, and therefore are included.

Non-Current Assets

Southwest's non-current assets include PPE and Goodwill, which can be allocated directly allocated to the core operations of the company. Other non-current assets include customer relationship, trademarks, and owned domestic slots, and therefore can be clearly associated with the core business operations.

Current Assets

Accounts & other receivables, inventory, deferred income taxes, and prepaid expenses & other current assets can be clearly allocated to the core operations of Southwest. In the other side, cash and short-term investment are typical financial items, and therefore allocated to the financing section of the balance sheet.

Current Liabilities

Following the logic of the peer group, accounts payable, accrued liabilities, and air traffic liabilities were allocated to the core operations of Southwest. Long-term debt is mainly a financing item and is therefore allocated to the financing section.

Non-Current Liabilities

Southwest non-current liabilities consist of Long-term debt, deferred income taxes, deferred gains from sales & leaseback of aircraft, and other non-current liabilities. Long-term debt, deferred gains from sale & leaseback of aircraft, and other non-current liabilities, consist of unrecognized funded status, are items which can be allocated to the financing activities, while deferred income taxes, following the approach used for the entire peer group, can be allocated to the operational section.

Shareholders' Equity

Shareholders' Equity is shown on the financial balance sheet.

30 Reformulation Income Statement -Southwest

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 -Sep 2013	Sep 2013 -Sep 2014	Sep 2014-Sep 2015	Sep 2015 -Sep 2016
Passenger	11,128	13,774	16,033	16,490	17,446	18,155	18,524
Freight	125	134	154	165	169	181	174
Other	449	756	836	789	790	963	1,629
Total revenue	**11,702**	**14,664**	**17,023**	**17,444**	**18,405**	**19,299**	**20,327**
Employee costs	3,609	4,182	4,697	4,948	5,328	6,115	6,747
Fuel & oil	3,475	5,089	6,109	5,901	5,492	3,986	3,494
Maintenance materials	718	912	1,100	1,112	972	973	1,077
Landing fee and other rentals	787	906	1,045	1,100	1,104	1,149	1,197
Other operating expenses	1,369	1,768	2,012	2,089	2,199	2,209	2,464
Total operating costs	**9,958**	**12,857**	**14,963**	**15,150**	**15,095**	**14,432**	**14,979**
EBITDA	**1,744**	**1,807**	**2,060**	**2,294**	**3,310**	**4,867**	**5,348**
Lease depreciation	105	150	211	210	180	143	135
Depreciation & amortization	623	682	812	867	911	1,002	1,167
EBIT	**1,016**	**975**	**1,037**	**1,217**	**2,219**	**3,722**	**4,046**
Tax	273	124	320	381	690	1,098	1,327
Tax shield	75	147	4	34	68	220	113
Operating tax	348	271	324	415	758	1,318	1,440
NOPAT	**668**	**703**	**713**	**802**	**1,460**	**2,404**	**2,605**
Interest expense	172	184	163	132	131	125	122
Capitalized interest	(20)	(11)	(20)	(22)	(25)	(28)	(42)
Interest income	(11)	(11)	(7)	(7)	(6)	(7)	(21)
Other (gains) losses	82	319	(272)	(120)	42	687	297
Financial items	223	481	(136)	(17)	142	777	356
Lease interest	76	109	153	152	131	104	98
Net financial items	**299**	**590**	**17**	**135**	**273**	**881**	**454**
Financial tax	75	147	4	34	68	220	113
Profit	**444**	**261**	**700**	**701**	**1,256**	**1,743**	**2,265**
Check	*ok*	*ok*	*ok*	*ok*	*ok*	*ok*	*ok*

31 Reformulation Operational Balance Sheet - Southwest

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Current assets:							
Accounts and other receivables	289	369	430	463	468	465	848
Inventory	231	459	544	521	429	308	331
Deferred income taxes	63	-	219	233	237	465	-
Prepaid expenses and other current assets	80	110	224	228	291	239	214
Capitalized leases	1,267	1,813	2,548	2,534	2,177	1,729	1,631
Total current assets	**1,930**	**2,751**	**3,965**	**3,979**	**3,602**	**3,206**	**3,024**
Non-current assets:							
Total PPE b. D&A	10,566	11,834	12,572	13,203	13,965	14,929	16,546
Goodwill	-	970	970	970	970	970	970
Other non-current assets	535	487	619	418	619	687	690
Total non-current assets	**11,101**	**13,291**	**14,161**	**14,591**	**15,554**	**16,586**	**18,206**
Total assets	**13,031**	**16,042**	**18,126**	**18,570**	**19,156**	**19,792**	**21,230**
Current liabilities:							
Accounts payable	707	1,083	1,140	1,134	1,185	1,235	1,021
Accrued liabilities	944	1,193	1,040	1,172	1,277	2,049	2,146
Air traffic liability	1,423	2,058	2,524	2,981	3,377	3,513	3,677
Total current liabilities	**3,074**	**4,334**	**4,704**	**5,287**	**5,839**	**6,797**	**6,844**
Non-current liabilities:							
Deferred income taxes	2,140	1,856	2,701	2,937	3,360	3,111	3,209
Total non-current liabilities	**2,140**	**1,856**	**2,701**	**2,937**	**3,360**	**3,111**	**3,209**
Total liabilities	**5,214**	**6,190**	**7,405**	**8,224**	**9,199**	**9,908**	**10,053**
Invested capital	**7,817**	**9,852**	**10,721**	**10,346**	**9,957**	**9,884**	**11,177**

32 Reformulation Financial Balance Sheet - Southwest

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Current liabilities:							
Current maturities of long-term debt	113	986	265	259	607	287	972
Capitalized lease	1,267	1,813	2,548	2,534	2,177	1,729	1,631
Total current liabilities	**1,380**	**2,799**	**2,813**	**2,793**	**2,784**	**2,016**	**2,603**
Non-current liabilities:							
Long-term debt less current maturities	3,350	3,220	2,961	2,616	2,125	2,381	2,323
Deferred gains from sale and leaseback of aircraft	92	78	66	54	521	684	989
Other non-current liabilities	424	926	1,114	1,198	658	931	661
Total non-current liabilities	**3,866**	**4,224**	**4,141**	**3,868**	**3,304**	**3,996**	**3,973**
Total liabilities	**5,246**	**7,023**	**6,954**	**6,661**	**6,088**	**6,012**	**6,576**
Assets							
Current assets:							
Cash and cash equivalents	1,031	1,016	1,168	1,333	1,832	1,740	1,966
Short-term investment	2,348	2,640	2,067	1,995	1,728	1,356	1,480
Total current assets	**3,379**	**3,656**	**3,235**	**3,328**	**3,560**	**3,096**	**3,446**
Total assets	**3,379**	**3,656**	**3,235**	**3,328**	**3,560**	**3,096**	**3,446**
Total shareholders' equity	**5,950**	**6,485**	**7,002**	**7,013**	**7,429**	**6,968**	**8,047**
Net interest bearing debt	1,867	3,367	3,719	3,333	2,528	2,916	3,130
Invested capital	**7,817**	**9,852**	**10,721**	**10,346**	**9,957**	**9,884**	**11,177**
Check	**ok**	**ok**	**ok**	**ok**	**ok**	**ok**	**Ok**

33 Trend analyses - easyJet

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Seat revenue	100%	141%	158%	175%	186%	192%	191%
Non-seat revenue	100%	11%	11%	11%	11%	12%	14%
Total revenue	**100%**	**116%**	**130%**	**143%**	**152%**	**158%**	**157%**
Fuel	100%	125%	157%	161%	171%	164%	152%
Ground operation	100%	115%	119%	134%	138%	139%	157%
Crew	100%	121%	129%	135%	143%	150%	161%
Navigation	100%	111%	109%	115%	120%	122%	131%
Maintenance	100%	101%	115%	120%	120%	129%	134%
Selling and marketing	100%	111%	113%	110%	112%	111%	116%
Other costs	100%	80%	94%	106%	115%	130%	139%
EBITDAR	**100%**	**130%**	**147%**	**197%**	**228%**	**260%**	**213%**
Aircraft dry leasing	100%	107%	93%	100%	122%	112%	101%
Depreciation	100%	115%	135%	142%	147%	174%	218%
Amortization of intangibles assets	100%	117%	133%	167%	200%	217%	200%
Loss of disposal of assets held for sale	100%	0%	0%	0%	0%	0%	0%
Operating profit	**100%**	**155%**	**190%**	**286%**	**334%**	**395%**	**286%**
Interest receivables and other financing Income	100%	129%	157%	71%	157%	129%	143%
Interest payable and other financing charges	100%	111%	93%	89%	41%	41%	48%
Net finance charges	**100%**	**105%**	**70%**	**95%**	**0%**	**10%**	**15%**
Profit before tax	**100%**	**161%**	**206%**	**310%**	**377%**	**445%**	**321%**
Tax charge	100%	70%	188%	242%	397%	418%	206%
Profit for the year	**100%**	**186%**	**211%**	**329%**	**372%**	**453%**	**353%**
Other comprehensive Income							
Cash flow hedges							
Fair value gains in the year	100%	134%	120%	-90%	-2%	-560%	11%
Gains transferred to income statement	100%	1689%	822%	467%	-556%	-2544%	-3856%
Loss transferred to PPE						100%	-933%
Related tax	100%	-39%	30%	-117%	43%	-243%	287%
Currency translation difference	100%	0%	0%	0%	0%	0%	0%
Total comprehensive income for the year	**100%**	**113%**	**156%**	**166%**	**270%**	**180%**	**381%**

34 Common Size analyses - easyJet

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Seat revenue	81%	98%	98%	98%	98%	98%	99%
Non-seat revenue	19%	2%	2%	2%	2%	2%	1%
Total revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Fuel	-25%	-27%	-30%	-30%	-28%	-28%	-28%
Ground operation	-27%	-27%	-25%	-25%	-25%	-25%	-24%
Crew	-11%	-12%	-11%	-11%	-11%	-11%	-11%
Navigation	-9%	-8%	-7%	-7%	-7%	-7%	-7%
Maintenance	-6%	-5%	-5%	-5%	-5%	-5%	-5%
Selling and marketing	-3%	-3%	-3%	-3%	-2%	-2%	-2%
Other costs	-7%	-5%	-5%	-5%	-5%	-5%	-5%
EBITDAR	**12%**	**14%**	**14%**	**14%**	**17%**	**17%**	**18%**
Aircraft dry leasing	-3%	-3%	-2%	-2%	-2%	-2%	-3%
Depreciation	-2%	-2%	-3%	-3%	-2%	-2%	-2%
Amortization of intangibles assets	0%	0%	0%	0%	0%	0%	0%
Loss of disposal of assets held for sale	0%	0%	0%	0%	0%	0%	0%
Operating profit	**6%**	**8%**	**9%**	**9%**	**12%**	**12%**	**13%**
Interest receivables and other financing Income	0%	0%	0%	0%	0%	0%	0%
Interest payable and other financing charges	-1%	-1%	-1%	-1%	-1%	-1%	0%
Net finance charges	**-1%**	**-1%**	**0%**	**0%**	**0%**	**0%**	**0%**
Profit before tax	**5%**	**7%**	**8%**	**8%**	**11%**	**11%**	**13%**
Tax charge	-1%	-1%	-2%	-2%	-2%	-2%	-3%
Profit for the year	**4%**	**7%**	**7%**	**7%**	**9%**	**9%**	**10%**
Other comprehensive Income							
Cash flow hedges							
Fair value gains in the year	3%	4%	3%	3%	-2%	-2%	0%
Gains transferred to income statement	0%	-4%	-2%	-2%	-1%	-1%	1%
Loss transferred to PPE	0%	0%	0%	0%	0%	0%	0%
Related tax	-1%	0%	0%	0%	1%	1%	0%
Currency translation difference	0%	0%	0%	0%	0%	0%	0%
Total comprehensive income for the year	**6%**	**6%**	**7%**	**7%**	**7%**	**7%**	**11%**

35 Trend analyses - Norwegian

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Passenger transport	100%	127%	155%	187%	228%	261%	300%
Ancillary revenue	100%	121%	138%	166%	256%	321%	383%
Other revenues	100%	7%	72%	102%	137%	198%	192%
Other income		100%	2%	9%	36%	0%	121%
Total operating revenues	**100%**	**124%**	**150%**	**182%**	**228%**	**265%**	**308%**
Sales and distribution expenses	100%	123%	158%	204%	275%	359%	477%
Aviation fuel	100%	147%	191%	227%	325%	286%	253%
Aircraft leases	100%	111%	137%	162%	231%	292%	371%
Airport charges	100%	122%	138%	166%	216%	234%	263%
Handling charges	100%	113%	128%	146%	211%	261%	335%
Technical maintenance expenses	100%	104%	125%	122%	187%	244%	261%
Other operating expenses	100%	165%	24%	309%	103%	205%	206%
Salaries and other personnel expenses	100%	121%	136%	168%	198%	231%	254%
Depreciation and amortization	100%	138%	200%	268%	370%	534%	722%
Other operating expenses	100%	54%	220%	7%	324%	297%	400%
Other losses /(gains)	100%	456%	-85%	755%	289%	-1527%	-2012%
Total operating expenses	**100%**	**122%**	**150%**	**174%**	**242%**	**275%**	**307%**
Operating profit	**100%**	**188%**	**148%**	**441%**	**-205%**	**-41%**	**342%**
Interest income	100%	110%	124%	167%	385%	563%	167%
Interest expenses	100%	152%	280%	325%	903%	1467%	1836%
Other financial items	100%	-608%	298%	-1453%	-318%	-248%	266%
Net financial items	**100%**	**-688%**	**55%**	**-1732%**	**-1148%**	**-1691%**	**-2366%**
Profit / loss from associated company	100%	252%	458%	650%	774%	1331%	3073%
Profit before tax	**100%**	**117%**	**148%**	**266%**	**-260%**	**-145%**	**181%**
Income tax expenses	100%	114%	135%	244%	-527%	-56%	-70%
Profit for the year	**100%**	**119%**	**153%**	**276%**	**-146%**	**-184%**	**289%**
Allocated to other equity							
Available-for-sale financial assets	100%	172%	0%	0%	72%	-72%	0%
Total comprehensive income for the period	**100%**	**119%**	**152%**	**274%**	**-144%**	**-183%**	**287%**

36 Common Size analyses - Norwegian

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 -Sep 2013	Sep 2013 -Sep 2014	Sep 2014-Sep 2015	Sep 2015 -Sep 2016
Passenger transport	83,9%	86,2%	86,9%	86,6%	83,7%	82,4%	81,6%
Ancillary revenue	12,0%	11,7%	11,1%	11,0%	13,5%	14,5%	14,9%
Other revenues	4,1%	0,2%	2,0%	2,3%	2,4%	3,0%	2,5%
Other income	0,0%	1,9%	0,0%	0,1%	0,4%	0,0%	0,9%
Total operating revenues	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**
Sales and distribution expenses	1,9%	1,9%	2,0%	2,2%	2,3%	2,6%	3,0%
Aviation fuel	23,2%	27,7%	29,6%	29,0%	33,0%	25,0%	19,1%
Aircraft leases	8,9%	8,0%	8,2%	8,0%	9,1%	9,8%	10,8%
Airport charges	15,0%	14,8%	13,8%	13,7%	14,2%	13,2%	12,8%
Handling Charges	10,2%	9,4%	8,8%	8,2%	9,4%	10,0%	11,1%
Technical maintenance expenses	8,1%	6,8%	6,7%	5,4%	6,6%	7,4%	6,9%
Other operating expenses	4,7%	6,3%	0,8%	8,0%	2,1%	3,6%	3,1%
Salaries and other personnel expenses	18,0%	17,6%	16,3%	16,6%	15,5%	15,6%	14,8%
Depreciation and amortization	2,2%	2,5%	3,0%	3,3%	3,6%	4,5%	5,2%
Other operating expenses	5,2%	2,3%	7,6%	0,2%	7,4%	5,8%	6,7%
Other losses /(gains)	-0,5%	-1,8%	0,3%	-2,0%	-0,6%	2,8%	3,1%
Total operating expenses	**97,0%**	**95,4%**	**97,0%**	**92,6%**	**102,7%**	**100,5%**	**96,6%**
Operating profit	**3,0%**	**4,6%**	**3,0%**	**7,4%**	**-2,7%**	**-0,5%**	**3,4%**
Interest income	0,4%	0,4%	0,4%	0,4%	0,7%	0,9%	0,2%
Interest expenses	-0,4%	-0,5%	-0,8%	-0,8%	-1,8%	-2,5%	-2,6%
Other financial items	0,3%	-1,4%	0,6%	-2,3%	-0,4%	-0,3%	0,2%
Net financial items	**0,3%**	**-1,6%**	**0,1%**	**-2,7%**	**-1,4%**	**-1,8%**	**-2,2%**
Profit / loss from associated company	0,1%	0,2%	0,2%	0,3%	0,3%	0,4%	0,8%
Profit before tax	**3,4%**	**3,2%**	**3,4%**	**5,0%**	**-3,9%**	**-1,9%**	**2,0%**
Income tax expenses	1,0%	0,9%	0,9%	1,4%	-2,4%	-0,2%	-0,2%
Profit for the year	**2,4%**	**2,3%**	**2,4%**	**3,6%**	**-1,5%**	**-1,6%**	**2,2%**
Allocated to other equity							
Available-for-sale financial assets	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Total comprehensive income for the period	**2,4%**	**2,3%**	**2,4%**	**3,6%**	**-1,5%**	**-1,7%**	**2,2%**

37 Trend analyses - Ryanair

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Scheduled revenues	100%	124%	143%	144%	152%	177%	187%
Ancillary revenues	100%	117%	133%	161%	172%	196%	212%
Total operating revenues	**100%**	**122%**	**141%**	**148%**	**156%**	**181%**	**192%**
Staff costs	100%	112%	120%	126%	130%	150%	162%
Depreciation	100%	115%	124%	132%	140%	153%	165%
Fuel and oil	100%	135%	165%	179%	181%	181%	189%
Maintenance, materials and repairs	100%	111%	125%	131%	142%	148%	145%
Aircraft rentals	100%	87%	93%	101%	107%	117%	113%
Route charges	100%	120%	123%	135%	135%	151%	162%
Airport and handling charges	100%	113%	124%	131%	138%	162%	174%
Marketing, distribution and other	100%	114%	129%	121%	138%	168%	190%
Icelandic volcanic ash related cost							
Total operating expenses	**100%**	**121%**	**138%**	**147%**	**152%**	**164%**	**174%**
Operating profit	**100%**	**130%**	**156%**	**151%**	**183%**	**286%**	**305%**
Other income / (expenses)							
Finance income	100%	152%	178%	84%	74%	81%	76%
Finance expense	100%	126%	131%	109%	95%	87%	87%
Foreign exchange gain / (loss)	100%	-177%	-169%	-292%	38%	308%	192%
Loss on impairment of available for sale financial asset							
Gain on disposal of PPE	100%	0%	-1156%	0%	0%	0%	0%
Gain on disposal of available for sale financial asset							
Total other expense	**100%**	**107%**	**87%**	**108%**	**101%**	**92%**	**92%**
Profit before tax	**100%**	**133%**	**166%**	**157%**	**195%**	**314%**	**336%**
Tax expense on profit on ordinary act.	100%	0%	166%	169%	202%	319%	337%
Profit for the year - all attributable to equity holders of parent	**100%**	**151%**	**166%**	**156%**	**194%**	**314%**	**336%**
Other comprehensive income:							
Net actuarial (loss) / gain f. retirement							
Cash-flow hedge reserve-effective portion of fair value changes							
Effective portion of changes in fair value of cash-flow hedges	100%	49%	-203%	-21%	20%	110%	467%
Net change in fair value of cash-flow hedges transferred to PPE	100%	91%	-66%	-28%	1%	240%	237%
Net change in fair value of cash-flow hedges transferred to profit or loss	100%	29%	-502%	28%	-48%	-134%	1841%
Net movements in cash-flow hedge reserve	**100%**	**51%**	**-84%**	**-44%**	**55%**	**205%**	**-144%**
Available for sale financial asset							
Net increase (decrease) in fair value of available for sale asset	100%	-147%	130%	243%	-31%	462%	-38%
Impairment of available for sale financial asset reserve	100%	0%	0%	0%	0%	0%	0%
Net movements in available for sale financial asset	**100%**	**-104%**	**92%**	**173%**	**-22%**	**328%**	**-653%**
Total other comprehensive (loss) income for the year	**100%**	**8%**	**-35%**	**21%**	**31%**	**241%**	**-297%**
Total comprehensive income for the year - all attributable to equity	**100%**	**109%**	**107%**	**116%**	**146%**	**292%**	**149%**

38 Common Size analyses - Ryanair

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Scheduled revenues	78%	79%	79%	76%	76%	76%	76%
Ancillary revenues	22%	21%	21%	24%	24%	24%	24%
Total operating revenues	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Staff costs	-11%	-10%	-9%	-9%	-9%	-9%	-9%
Depreciation	-8%	-7%	-7%	-7%	-7%	-6%	-7%
Fuel and oil	-32%	-35%	-38%	-39%	-37%	-32%	-32%
Maintenance, materials and repairs	-3%	-2%	-2%	-2%	-2%	-2%	-2%
Aircraft rentals	-3%	-2%	-2%	-2%	-2%	-2%	-2%
Route charges	-11%	-11%	-10%	-10%	-10%	-9%	-10%
Airport and handling charges	-14%	-13%	-12%	-12%	-12%	-13%	-13%
Marketing, distribution and other	-5%	-4%	-4%	-4%	-4%	-4%	-4%
Icelandic volcanic ash related cost	0%	0%	0%	0%	0%	0%	0%
Total operating expenses	**-86%**	**-85%**	**-84%**	**-86%**	**-84%**	**-78%**	**-78%**
Operating profit	**14%**	**15%**	**16%**	**14%**	**16%**	**22%**	**22%**
Other income / (expenses)							
Finance income	1%	1%	1%	0%	0%	0%	0%
Finance expense	-2%	-2%	-2%	-2%	-1%	-1%	-1%
Foreign exchange gain / (loss)	0%	0%	0%	0%	0%	0%	0%
Loss on impairment of available for sale financial asset	0%	0%	0%	0%	0%	0%	0%
Gain on disposal of PPE	0%	0%	0%	0%	0%	0%	0%
Gain on disposal of available for sale financial asset	0%	0%	0%	0%	0%	0%	0%
Total other expense	**-2%**	**-2%**	**-1%**	**-1%**	**-1%**	**-1%**	**-1%**
Profit before tax	**12%**	**13%**	**14%**	**13%**	**15%**	**21%**	**21%**
Tax expense on profit on ordinary act.	-1%	0%	-2%	-2%	-2%	-3%	-2%
Profit for the year - all attributable to equity holders of parent	**11%**	**13%**	**13%**	**11%**	**13%**	**19%**	**19%**
Other comprehensive income:							
Net actuarial (loss) / gain f. retirement	0%	0%	0%	0%	0%	0%	0%
Cash-flow hedge reserve-effective portion of fair value changes	0%	0%	0%	0%	0%	0%	0%
Effective portion of changes in fair value of cash-flow hedges	5%	2%	-7%	-1%	1%	3%	13%
Net change in fair value of cash-flow hedges transferred to PPE	0%	0%	0%	0%	0%	-1%	-1%
Net change in fair value of cash-flow hedges transferred to profit or loss	-1%	0%	5%	0%	0%	1%	-14%
Net movements in cash-flow hedge reserve	**3%**	**1%**	**-2%**	**-1%**	**1%**	**4%**	**-2%**
Available for sale financial asset	0%	0%	0%	0%	0%	0%	0%
Net increase (decrease) in fair value of available for sale asset	1%	-1%	1%	2%	0%	2%	0%
Impairment of available for sale financial asset reserve	0%	0%	0%	0%	0%	0%	0%
Net movements in available for sale financial asset	**1%**	**-1%**	**1%**	**2%**	**0%**	**2%**	**-5%**
Total other comprehensive (loss) income for the year	**5%**	**0%**	**-1%**	**1%**	**1%**	**6%**	**-7%**
Total comprehensive income for the year - all attributable to equity	**15%**	**14%**	**12%**	**12%**	**14%**	**25%**	**12%**

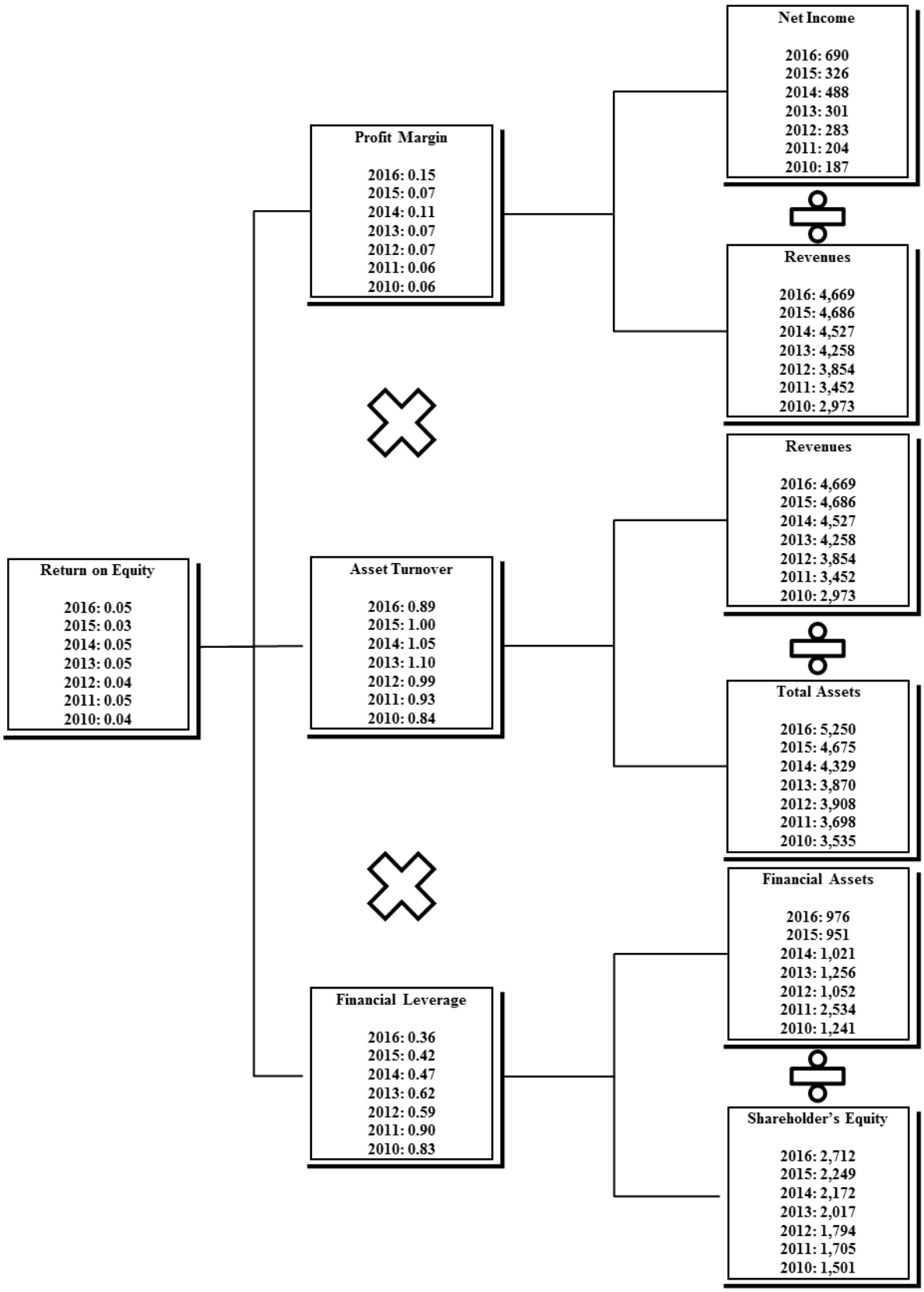
39 Trend analyses - Southwest

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Passenger	100%	124%	144%	148%	157%	163%	166%
Freight	100%	107%	123%	132%	135%	145%	139%
Special revenue adjustment							
Other	100%	168%	186%	176%	176%	214%	363%
Total revenues	**100%**	**125%**	**145%**	**149%**	**157%**	**166%**	**174%**
Employee costs	100%	116%	130%	137%	148%	169%	187%
Fuel & oil	100%	146%	176%	170%	158%	115%	101%
Maintenance materials	100%	127%	153%	155%	135%	136%	150%
Aircraft rentals	100%	143%	201%	200%	172%	136%	129%
Landing fee and other rentals	100%	115%	133%	140%	140%	146%	152%
D&A	100%	109%	130%	139%	146%	161%	187%
Acquisition and integration	100%	10400%	20500%	8100%	9800%	8000%	700%
Other operating expenses	100%	129%	147%	153%	161%	161%	180%
Total operating expenses	**100%**	**129%**	**152%**	**153%**	**153%**	**146%**	**152%**
Operating income	**100%**	**81%**	**72%**	**105%**	**212%**	**395%**	**420%**
Interest expense	100%	107%	95%	77%	76%	73%	71%
Capitalized interest	100%	55%	100%	110%	125%	140%	210%
Interest income	100%	100%	64%	64%	55%	64%	191%
Other (gains) losses	100%	389%	-332%	-146%	51%	838%	362%
Total other expenses (income)	**100%**	**216%**	**-61%**	**-8%**	**64%**	**348%**	**160%**
Income before taxes	100%	39%	114%	140%	258%	410%	501%
Taxes	100%	45%	117%	140%	253%	402%	486%
Net income	**100%**	**35%**	**112%**	**140%**	**261%**	**414%**	**510%**

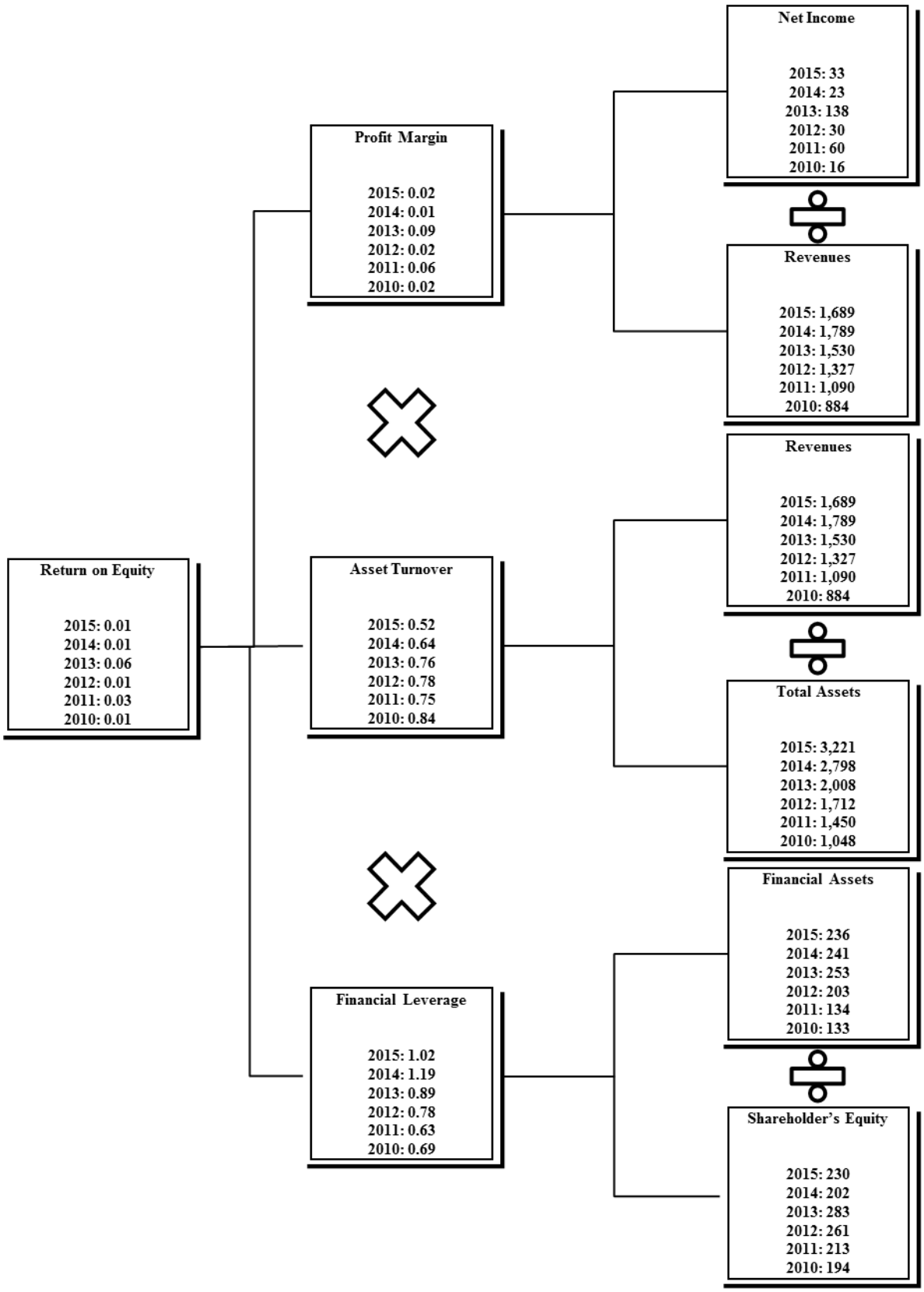
40 Common Size analyses - Southwest

	Sep 2009-Sep 2010	Sep 2010-Sep 2011	Sep 2011-Sep 2012	Sep 2012 - Sep 2013	Sep 2013 - Sep 2014	Sep 2014-Sep 2015	Sep 2015 - Sep 2016
Passenger	95%	94%	94%	95%	95%	93%	91%
Freight	1%	1%	1%	1%	1%	1%	1%
Special revenue adjustment	0%	0%	0%	0%	0%	1%	0%
Other	4%	5%	5%	5%	4%	5%	8%
Total revenues	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Employee costs	31%	29%	28%	28%	29%	31%	33%
Fuel & oil	30%	35%	36%	34%	30%	20%	17%
Maintenance materials	6%	6%	6%	6%	5%	5%	5%
Aircraft rentals	2%	2%	2%	2%	2%	1%	1%
Landing fee and other rentals	7%	6%	6%	6%	6%	6%	6%
D&A	5%	5%	5%	5%	5%	5%	6%
Acquisition and integration	0%	1%	1%	0%	1%	0%	0%
Other operating expenses	12%	12%	12%	12%	12%	11%	12%
Total operating expenses	**92%**	**95%**	**96%**	**94%**	**89%**	**81%**	**81%**
Operating income	**8%**	**5%**	**4%**	**6%**	**11%**	**19%**	**19%**
Interest expense	1%	1%	1%	1%	1%	1%	1%
Capitalized interest	0%	0%	0%	0%	0%	0%	0%
Interest income	0%	0%	0%	0%	0%	0%	0%
Other (gains) losses	1%	2%	-2%	-1%	0%	4%	1%
Total other expenses (income)	**2%**	**3%**	**-1%**	**0%**	**1%**	**4%**	**2%**
Income before taxes	6%	2%	5%	6%	10%	15%	18%
Taxes	2%	1%	2%	2%	4%	6%	7%
Net income	**4%**	**1%**	**3%**	**4%**	**6%**	**9%**	**11%**

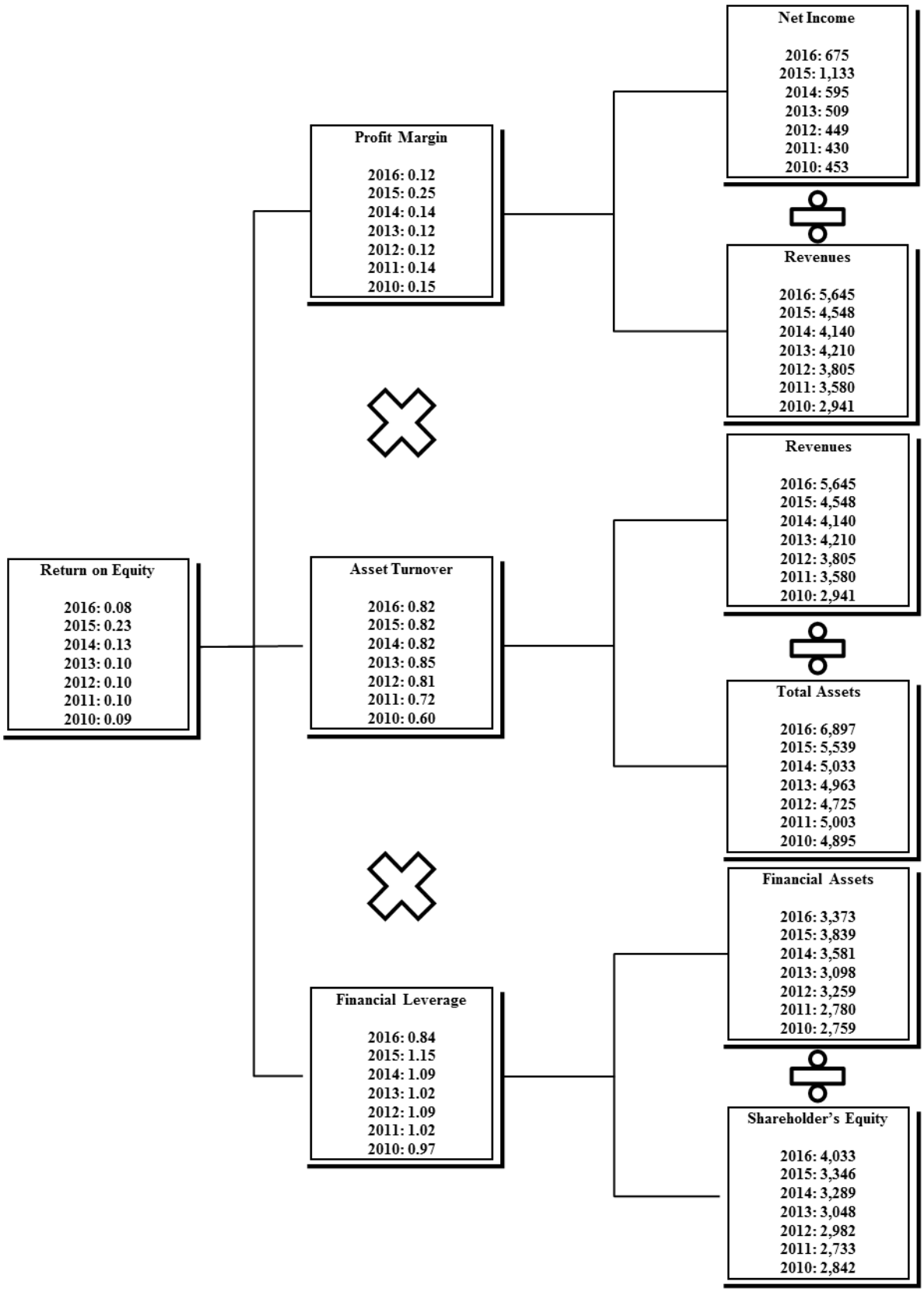
41 Du Pont - easyJet



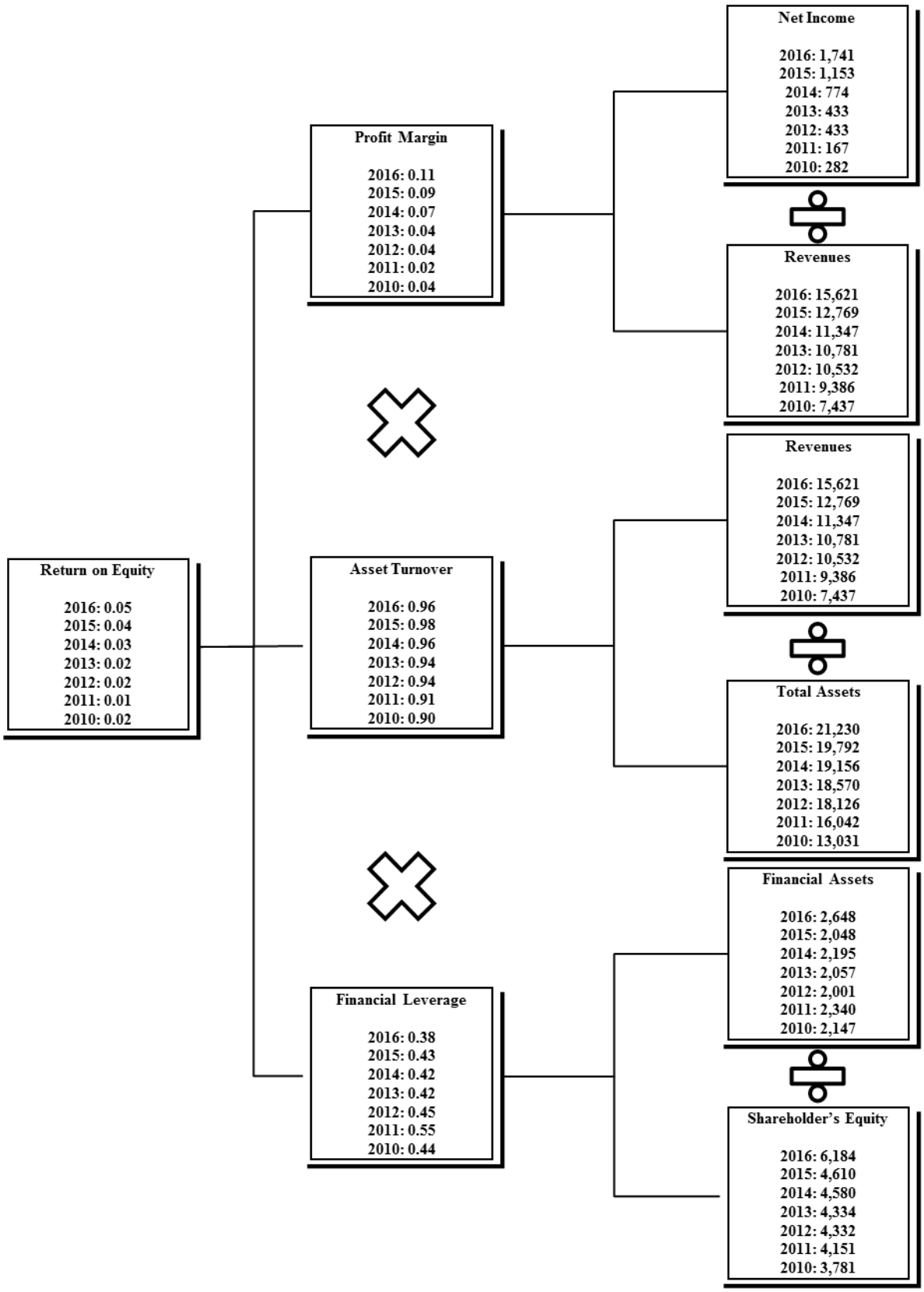
42 Du Pont - Norwegian



43 Du Pont - Ryanair



44 Du Pont - Southwest

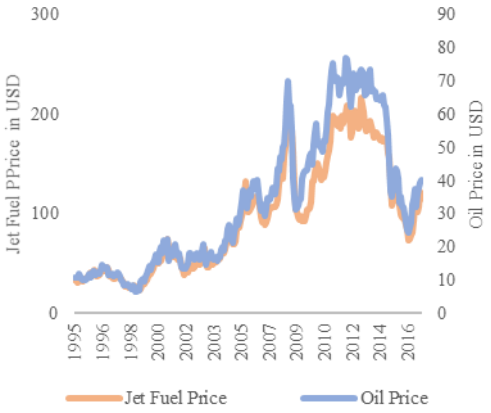


45 Jet Fuel & Oil Regression

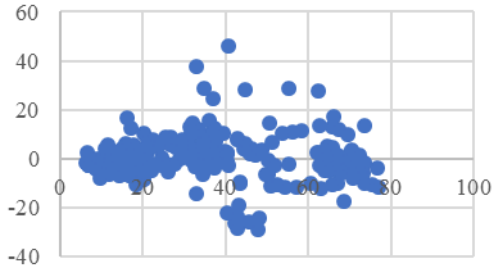
Regression Statistics	
Multiple R	0.98704553
R Square	0.974258878
Adjusted R-Square	0.974161374
Standard Error	9.04769583
Observations	266

Anova					
	df	SS	MS	F	Significance F
Regression	1	817950.1122	817950.1122	9991.963355	0.00000
Residual	264	21611.25116	81.86079984		
Total	265	839561.3633			

	Coefficient	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	7.552763989	1.049336202	7.197658835	6.3601E-12	5.486630978	9.618897	5.486630978	9.618897
X Variable 1	2.668011045	0.026690838	99.9598087	7.9282E-212	2.615457039	2.7205650512	2.615457039	2.720565051



46 Jet Fuel & Oil Plot



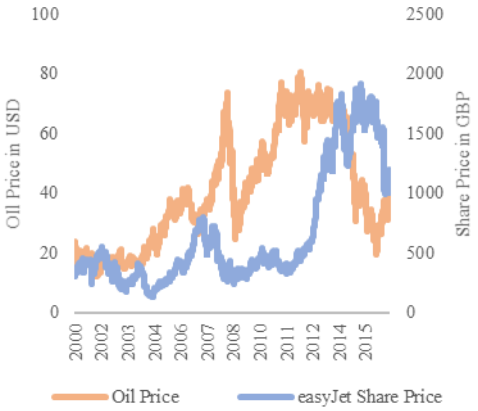
47 easyJet & Oil Regression

Regression Statistics	
Multiple R	0.269852131
R Square	0.072820173
Adjusted R-Square	0.072589013
Standard Error	462.9463584
Observations	4013

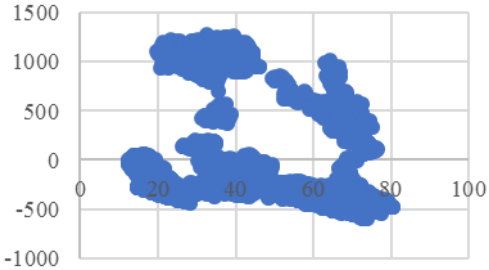
Anova

	df	SS	MS	F	Significance F
Regression	1	67515227.78	67515227.78	315.0216433	0.00000
Residual	4011	859634835.8	214319.3308		
Total	4012	927150063.5			

	Coefficient	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	378.4795715	17.07249796	22.16896275	8.1159E-103	345.00799	411.951153	345.00799	411.951153
X Variable 1	6.706300036	0.37784422	17.74884907	6.53347E-68	5.965515434	7.447084639	5.965515434	7.447084639



48 easyJet & Plot

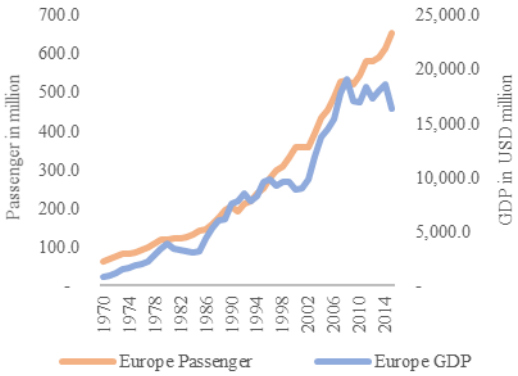


49 GDP Europe & Passenger Regression

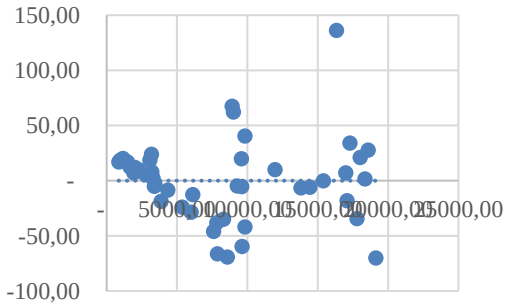
Regression Statistics	
Multiple R	0.979052559
R Square	0.958543913
Adjusted R-Square	0.957601729
Standard Error	37.61727989
Observations	46

Anova					
	df	SS	MS	F	Significance F
Regression	1	1439630.905	1439630.905	1017.364044	0.00000
Residual	44	62262.62884	1415.059746		
Total	45	1501893.534			

	Coefficient	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	20.21807842	9.828953285	2.056992015	0.04564503	0.409124683	40.02703216	0.409124683	40.02703216
X Variable 1	0.030455593	0.000954836	31.89614465	4.71493E-32	0.028531247	0.032379939	0.028531247	0.032379939



50 GDP Europe & Passenger Plot



51 easyJet & GDP Regression

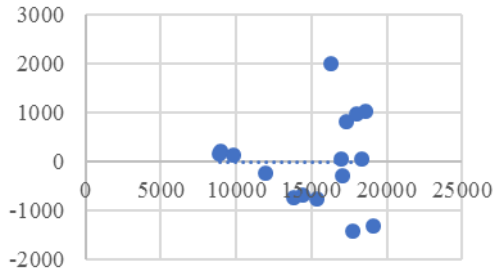
Regression Statistics	
Multiple R	0.80576566
R Square	0.649258298
Adjusted R-Square	0.62420532
Standard Error	933.2710619
Observations	16

Anova

	df	SS	MS	F	Significance F
Regression	1	22572192.22	22572192.22	25.91541336	0.00016
Residual	14	12193928.25	870994.8749		
Total	15	34766120.47			

	Coefficient	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-3022.213726	1070.39195	-2.82346455	0.013539998	-5317.976132	-726.4513202	-5317.976132	-726.4513202
X Variable 1	0.350567162	0.068863987	5.090718354	0.000164483	0.2028686	0.498265724	0.2028686	0.498265724

52 easyJet & GDP Plot



53 Lufthansa & GDP Regression

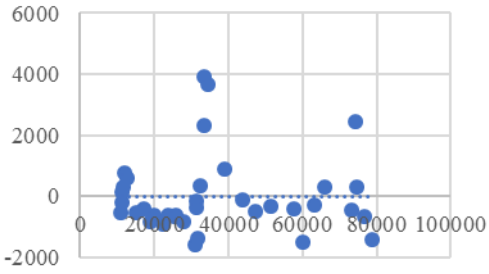
Regression Statistics	
Multiple R	0.989972542
R Square	0.980045633
Adjusted R-Square	0.97945874
Standard Error	1296.579927
Observations	36

Anova

	df	SS	MS	F	Significance F
Regression	1	2807280780	2807280780	1669.887695	0.00000
Residual	34	57158063.26	1681119.508		
Total	35	2864438844			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-952.5620646	430.871063	-2.210782172	0.033879691	-1828.197416	-76.92671267	-1828.197416	-76.92671267
X Variable 1	0.411980455	0.010081682	40.86425939	1.72896E-30	0.391492013	0.432468898	0.391492013	0.432468898

54 Lufthansa & GDP Plot

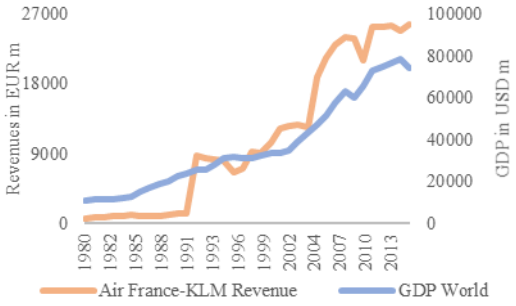


55 Air France-KLM & GDP Regression

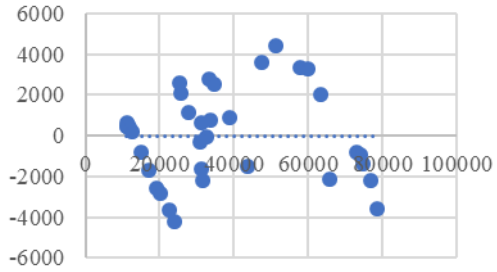
Regression Statistics	
Multiple R	0.971638292
R Square	0.944080971
Adjusted R-Square	0.942436294
Standard Error	2253.561144
Observations	36

Anova					
	df	SS	MS	F	Significance F
Regression	1	2915192449	2915192449	574.0220016	0.00000
Residual	34	172670286.1	5078537.828		
Total	35	3087862735			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-4509.503379	748.8888768	-6.021592147	8.07434E-07	-6031.428687	-2987.578071	-6031.428687	-2987.578071
X Variable 1	0.419824039	0.017522781	23.95875626	7.13354E-23	0.384213463	0.455434614	0.384213463	0.455434614



56 Air France-KLM & GDP Plot

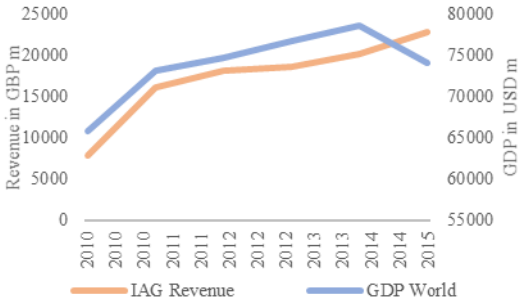


57 IAG & GDP Regression

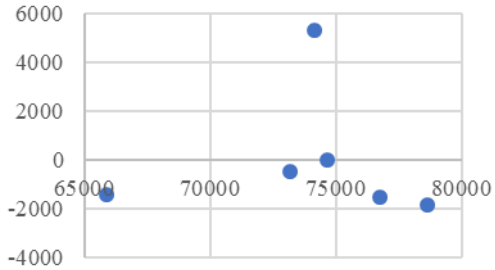
Regression Statistics	
Multiple R	0.852691841
R Square	0.727083376
Adjusted R-Square	0.65885422
Standard Error	2997.470662
Observations	6

Anova					
	df	SS	MS	F	Significance F
Regression	1	95746762.53	95746762.53	10.65649084	0.03095
Residual	4	35939321.47	8984830.369		
Total	5	131686084			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-56249.20071	22564.32041	-2.492838237	0.067279784	-118897.7977	6399.39625	-118897.7977	6399.39625
X Variable 1	0.995580219	0.304978449	3.264428103	0.03095127	0.148824298	1.84233614	0.148824298	1.84233614



58 IAG & GDP Plot

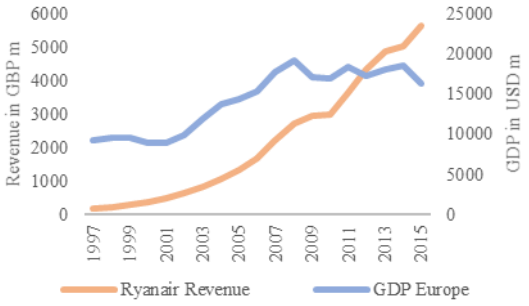


59 Ryanair & GDP Regression

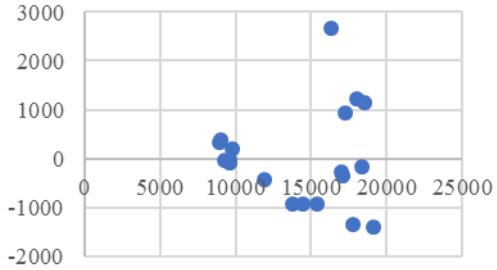
Regression Statistics	
Multiple R	0.837690338
R Square	0.701725103
Adjusted R-Square	0.684179521
Standard Error	1023.363347
Observations	19

Anova					
	df	SS	MS	F	Significance F
Regression	1	41885041.18	41885041.18	39.99440409	0.00001
Residual	17	17803633.19	1047272.541		
Total	18	59688674.37			

	Coefficient	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-3482.954746	926.5302465	-3.759137663	0.001563591	-5437.762693	-1528.146798	-5437.762693	-1528.146798
X Variable 1	0.397174916	0.062803261	6.324112909	7.62462E-06	0.264671617	0.529678215	0.264671617	0.529678215



60 Ryanair & GDP Plot



61 Income Statement Assumptions

	2017	2018	2019	2020	2021	2022	2023
Number of aircrafts	259	264	264	267	269	271	273
ASK per aircraft	340	340	340	340	340	340	340
Seats per airplane	166	166	166	166	166	166	166
Routes covered by one aircraft	3.2	3.2	3.2	3.3	3.3	3.4	3.4
Daily frequency of routes	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Yield	0.0572	0.0572	0.0572	0.0572	0.0572	0.0572	0.0572
Non-seat revenue per passenger growth	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Jet fuel MT per ASK	0.0327	0.0327	0.0327	0.0327	0.0327	0.0327	0.0327
Ground operation as % of ASK	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Staff per airplane	42	42	42	42	42	42	42
Wage growth	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
Navigation as % of ASK	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Maintenance as % of ASK	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Selling & marketing as % of ASK	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Other costs of % of ASK	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Aircraft dry leasing as % of Sales	47.3%	47.3%	47.3%	47.3%	47.3%	47.3%	47.3%
Interest receivables as % of Sales	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Interest payables as % of Sales	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Dividend as % of net income	51.3%	51.3%	51.3%	51.3%	51.3%	51.3%	51.3%

62 Forecasted Income Statement

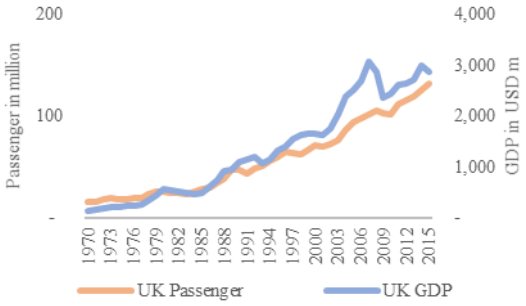
	2017	2018	2019	2020	2021	2022	2023
Revenue	**4,669**	**4,715**	**4,732**	**4,751**	**4,771**	**4,792**	**4,816**
Seat revenue	4,585	4,627	4,642	4,658	4,675	4,693	4,713
Non-seat revenue	85	88	90	93	96	99	102
Cost of goods sold (COGS)	**(3,883)**	**(3,999)**	**(3,991)**	**(4,029)**	**(4,054)**	**(4,075)**	**(4,098)**
Fuel	(1,104)	(1,112)	(1,095)	(1,090)	(1,083)	(1,071)	(1,061)
Ground operation	(1,247)	(1,316)	(1,316)	(1,331)	(1,341)	(1,351)	(1,361)
Crew	(555)	(576)	(585)	(602)	(617)	(632)	(647)
Navigation	(345)	(352)	(352)	(356)	(359)	(361)	(364)
Maintenance	(241)	(246)	(246)	(249)	(251)	(252)	(254)
Selling & marketing	(119)	(121)	(121)	(123)	(124)	(125)	(126)
Other costs	(270)	(275)	(275)	(278)	(280)	(282)	(284)
EBITDAR	**787**	**716**	**741**	**722**	**717**	**718**	**717**
Aircraft dry leasing	(123)	(125)	(125)	(126)	(127)	(128)	(129)
Depreciation and amortization	(194)	(219)	(243)	(267)	(290)	(312)	(334)
EBIT	**470**	**372**	**373**	**328**	**299**	**277**	**254**
Interest receivables and other financing income	10	10	10	11	11	11	11
Interest payable and other financing charges	(13)	(13)	(13)	(13)	(13)	(13)	(13)
Net interest expense	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**
Pre-tax income	**467**	**369**	**370**	**325**	**297**	**274**	**252**
Tax of the year	(91)	(72)	(72)	(63)	(58)	(53)	(49)
Total comprehensive income	**376**	**297**	**298**	**262**	**239**	**221**	**203**
Dividend paid	(193)	(153)	(153)	(134)	(122)	(113)	(104)
Share incentive schemes	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Retained earnings	**175**	**137**	**137**	**120**	**108**	**100**	**91**

63 UK & GDP Regression

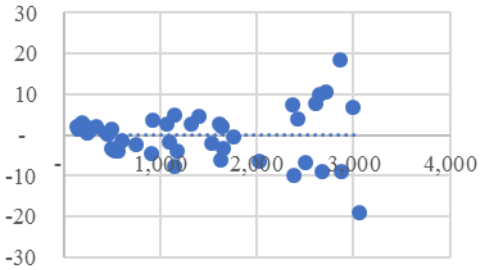
Regression Statistics	
Multiple R	0.984230734
R Square	0.968710138
Adjusted R-Square	0.967999005
Standard Error	6.331553182
Observations	46

Anova					
	df	SS	MS	F	Significance F
Regression	1	54608.89513	54608.89513	1362.206259	0.00000
Residual	44	1763.896891	40.0885657		
Total	45	56372.79202			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	8.773436016	1.608026901	5.45602565	2.11164E-06	5.532670742	12.01420129	5.532670742	12.01420129
X Variable 1	0.036485926	0.000988562	36.90807851	9.62111E-35	0.03449361	0.038478242	0.03449361	0.038478242



64 UK & GDP Plot

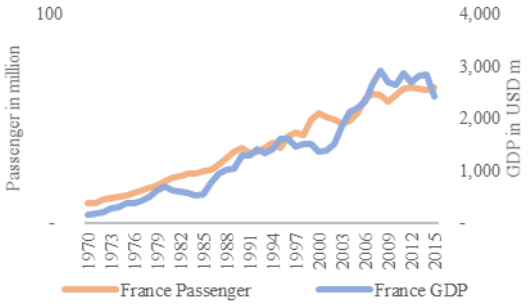


65 France & GDP Regression

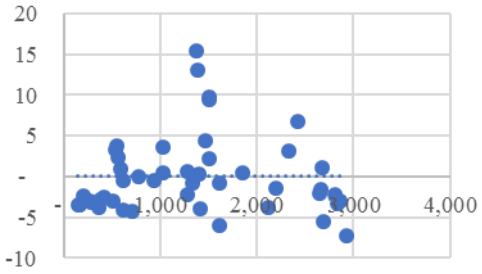
Regression Statistics	
Multiple R	0.965207947
R Square	0.931626381
Adjusted R-Square	0.930072435
Standard Error	4.838891295
Observations	46

Anova					
	df	SS	MS	F	Significance F
Regression	1	14037.75364	14037.75364	599.5230491	0.00000
Residual	44	1030.254234	23.41486896		
Total	45	15068.00787			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	9.631069405	1.322441401	7.282794835	4.41093E-09	6.965863886	12.29627492	6.965863886	12.29627492
X Variable 1	0.020116358	0.000821573	24.48515977	2.88392E-27	0.018460585	0.02177213	0.018460585	0.02177213



66 France & GDP Plot

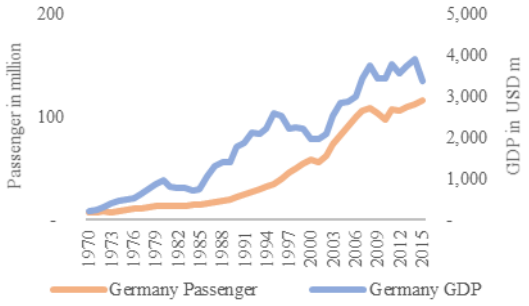


67 Germany & GDP Regression

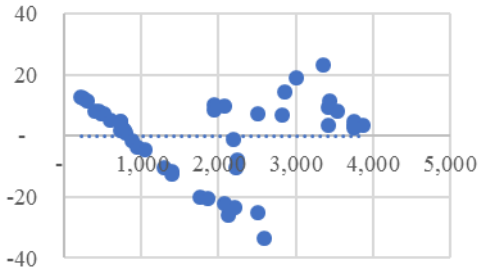
Regression Statistics	
Multiple R	0.942049861
R Square	0.887457941
Adjusted R-Square	0.884900167
Standard Error	13.038331
Observations	46

Anova					
	df	SS	MS	F	Significance F
Regression	1	58983.37305	58983.37305	346.9649461	0.00000
Residual	44	7479.915314	169.9980753		
Total	45	66463.28836			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-13.03974108	3.680025803	-3.543383057	0.000949612	-20.45634576	-5.623136405	-20.45634576	-5.623136405
X Variable 1	0.031278819	0.00167922	18.62699509	1.70377E-22	0.027894574	0.034663064	0.027894574	0.034663064



68 Germany & GDP Plot

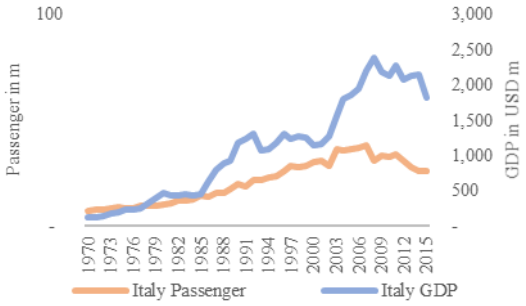


69 Italy & GDP Regression

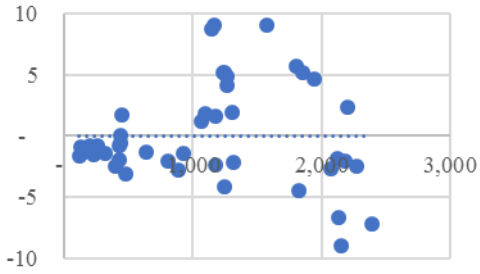
Regression Statistics	
Multiple R	0.917421169
R Square	0.841661602
Adjusted R-Square	0.838063002
Standard Error	4.083571362
Observations	46

Anova					
	df	SS	MS	F	Significance F
Regression	1	3900.176342	3900.176342	233.8858483	0.00000
Residual	44	733.7244229	16.67555507		
Total	45	4633.900765			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	6.885242037	1.105996941	6.225371681	1.5732E-07	4.656251664	9.11423241	4.656251664	9.11423241
X Variable 1	0.012975492	0.000848441	15.29332692	3.19386E-19	0.011265571	0.014685414	0.011265571	0.014685414



70 Italy & GDP Plot

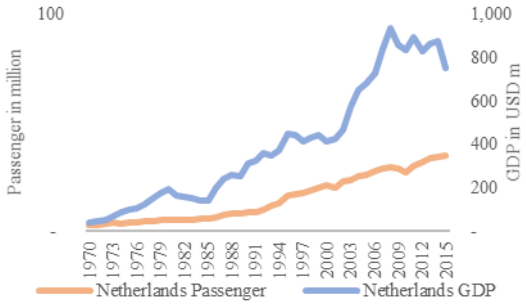


71 Netherlands & GDP Regression

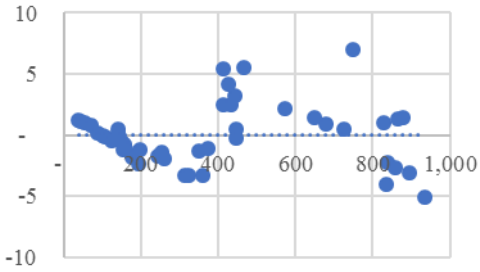
Regression Statistics	
Multiple R	0.971306884
R Square	0.943437063
Adjusted R-Square	0.942151541
Standard Error	2.56875698
Observations	46

Anova					
	df	SS	MS	F	Significance F
Regression	1	4842.612228	4842.612228	733.8945383	0.00000
Residual	44	290.3345466	6.598512423		
Total	45	5132.946775			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.281097771	0.660718469	0.425442581	0.672587785	-1.050492808	1.61268835	-1.050492808	1.61268835
X Variable 1	0.036713334	0.001355211	27.09048797	4.42108E-29	0.033982085	0.039444583	0.033982085	0.039444583



72 Netherlands & GDP Plot

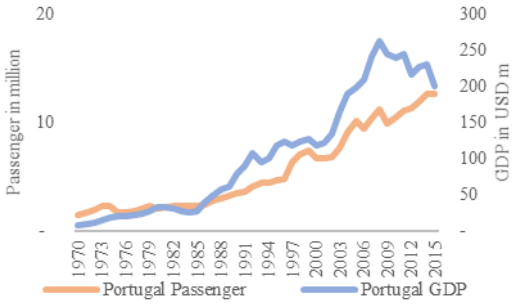


73 Portugal & GDP Regression

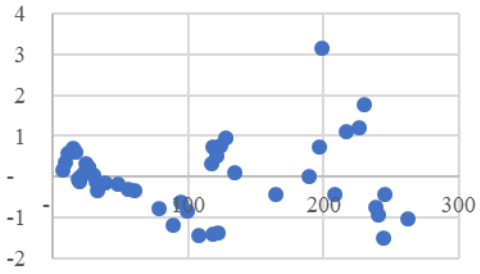
Regression Statistics	
Multiple R	0.97069777
R Square	0.942254161
Adjusted R-Square	0.940941755
Standard Error	0.893004797
Observations	46

Anova					
	df	SS	MS	F	Significance F
Regression	1	572.5423646	572.5423646	717.9596601	0.00000
Residual	44	35.088133	0.797457568		
Total	45	607.6304976			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.907207667	0.215030211	4.218977708	0.000120608	0.473842752	1.340572581	0.473842752	1.340572581
X Variable 1	0.043066221	0.001607262	26.79476927	6.97495E-29	0.039826997	0.046305446	0.039826997	0.046305446



74 Portugal & GDP Plot

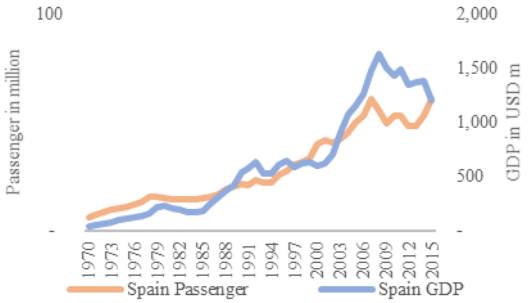


75 Spain & GDP Regression

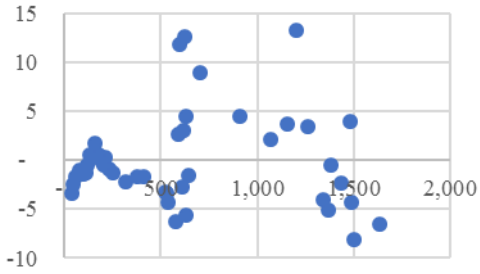
Regression Statistics	
Multiple R	0.960391429
R Square	0.922351698
Adjusted R-Square	0.920586963
Standard Error	4.75033164
Observations	46

Anova					
	df	SS	MS	F	Significance F
Regression	1	11794.10863	11794.10863	522.6575912	0.00000
Residual	44	992.8886303	22.56565069		
Total	45	12786.99726			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	8.44507592	1.130729552	7.468696567	2.36443E-09	6.166240247	10.72391159	6.166240247	10.72391159
X Variable 1	0.032637198	0.001427592	22.86170578	4.75784E-26	0.029760074	0.035514321	0.029760074	0.035514321



76 Spain & GDP Plot

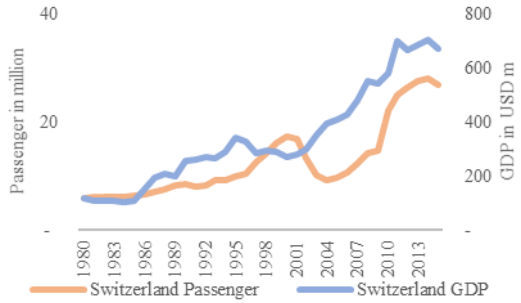


77 Switzerland & GDP Regression

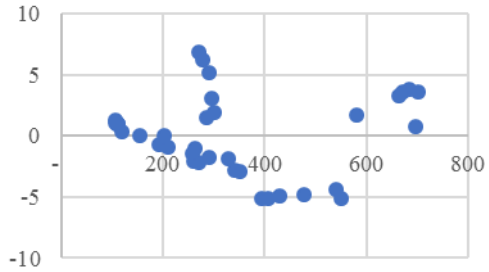
Regression Statistics	
Multiple R	0.87943528
R Square	0.773406412
Adjusted R-Square	0.766741894
Standard Error	3.293652829
Observations	36

Anova					
	df	SS	MS	F	Significance F
Regression	1	1258.910071	1258.910071	116.0483762	0.00000
Residual	34	368.8370645	10.84814895		
Total	35	1627.747135			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	1.741151538	1.157585135	1.504123961	0.141782867	-0.611344496	4.093647573	-0.611344496	4.093647573
X Variable 1	0.032103606	0.002980124	10.77257519	1.67704E-12	0.026047266	0.038159946	0.026047266	0.038159946



78 Switzerland & GDP Plot

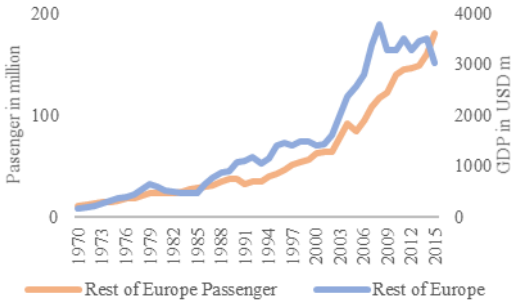


79 Rest of Europe & GDP Regression

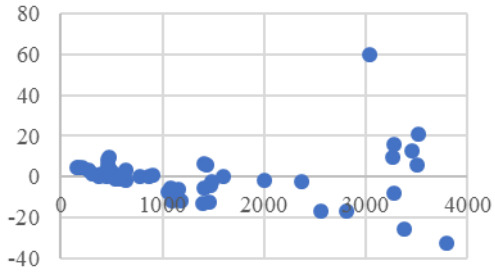
Regression Statistics	
Multiple R	0.958051266
R Square	0.917862229
Adjusted R-Square	0.915995461
Standard Error	13.57540444
Observations	46

Anova					
	df	SS	MS	F	Significance F
Regression	1	90613.48113	90613.48113	491.685342	0.00000
Residual	44	8108.830647	184.2916056		
Total	45	98722.31178			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.800775739	3.280492897	0.244102263	0.808286296	-5.810623273	7.412174751	-5.810623273	7.412174751
X Variable 1	0.039427225	0.001778085	22.17397894	1.64233E-25	0.03584373	0.043010721	0.03584373	0.043010721



80 Rest of Europe & GDP Plot



81 Revenue Forecast Structure

82 Balance Sheet Assumption

	2017	2018	2019	2020	2021	2022	2023
Accounts receivable as % of sales	4.65%	4.60%	4.55%	4.50%	4.45%	4.40%	4.35%
Derivative financial instruments as % of sales	5.74%	5.94%	6.14%	6.34%	6.54%	6.74%	6.94%
Other ST as % of sales	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%
CapEx as % of sales	11.77%	11.78%	11.79%	11.80%	11.81%	11.82%	11.83%
Depreciation as % of previous PPE	5.97%	6.07%	6.17%	6.27%	6.37%	6.47%	6.57%
Derivative financial instruments as % of sales	3.32%	3.34%	3.36%	3.38%	3.40%	3.42%	3.44%
Loan notes as % of sales	0.18%	0.18%	0.18%	0.18%	0.18%	0.18%	0.18%
Restricted cash as % of sales	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%
Other non-current assets as % of sales	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%
Trade and other payables as % of COGS	14.57%	14.67%	14.77%	14.87%	14.97%	15.07%	15.17%
Unearned revenue as % of sales	12.17%	12.17%	12.17%	12.17%	12.17%	12.17%	12.17%
Derivative financial instruments as % of sales	5.44%	4.99%	4.54%	4.09%	3.64%	3.19%	2.74%
ST borrowings as % of sales	2.17%	2.37%	2.57%	2.77%	2.97%	3.17%	3.37%
Maintenance provisions as % of sales	1.14%	1.14%	1.14%	1.14%	1.14%	1.14%	1.14%
Current tax liabilities as % of sales	0.84%	0.84%	0.84%	0.84%	0.84%	0.84%	0.84%
Derivative financial instruments as % of sales	1.05%	1.05%	1.05%	1.05%	1.05%	1.05%	1.05%
Non-current deferred income as % of sales	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
Maintenance provisions as % of sales	4.21%	4.21%	4.21%	4.21%	4.21%	4.21%	4.21%
Deferred tax liabilities as % of sales	4.52%	4.52%	4.52%	4.52%	4.52%	4.52%	4.52%

83 Forecasted Balance Sheet

	2017	2018	2019	2020	2021	2022	2023
Assets							
Cash	714	721	724	727	730	733	736
Receivables	217	217	215	214	212	211	209
Derivative financial instruments	268	280	291	301	312	323	334
Other ST assets	353	356	358	359	360	362	364
Total current assets	**1,552**	**1,574**	**1,587**	**1,600**	**1,614**	**1,629**	**1,644**
PPE	3,607	3,943	4,258	4,551	4,824	5,079	5,314
Goodwill	365	365	365	365	365	365	365
Derivative financial instruments	155	157	159	160	162	164	166
Intangible assets	152	152	152	152	152	152	152
Other assets	137	138	139	139	140	140	141
Total non-current assets	**4,416**	**4,756**	**5,072**	**5,368**	**5,643**	**5,900**	**6,138**
Total assets	**5,968**	**6,330**	**6,659**	**6,968**	**7,258**	**7,528**	**7,782**
Liability & equity							
Trade and other payables	1,134	1,160	1,165	1,177	1,187	1,197	1,207
Derivative financial instruments	254	235	215	194	174	153	132
Other current liabilities	193	205	215	225	236	246	257
Total current liabilities	**1,581**	**1,600**	**1,595**	**1,596**	**1,597**	**1,596**	**1,596**
Long-term debt	664	664	664	664	664	664	664
Derivative financial instruments	49	49	50	50	50	50	51
Other liabilities	471	475	477	479	481	483	486
Total non-current liabilities	**1,184**	**1,189**	**1,191**	**1,193**	**1,195**	**1,197**	**1,200**
Total liabilities	**2,765**	**2,789**	**2,786**	**2,789**	**2,792**	**2,794**	**2,797**
Shareholders' equity	**3,203**	**3,541**	**3,874**	**4,179**	**4,466**	**4,735**	**4,985**
Total Liabilities & equity	**5,968**	**6,330**	**6,659**	**6,968**	**7,258**	**7,528**	**7,782**
Check	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*

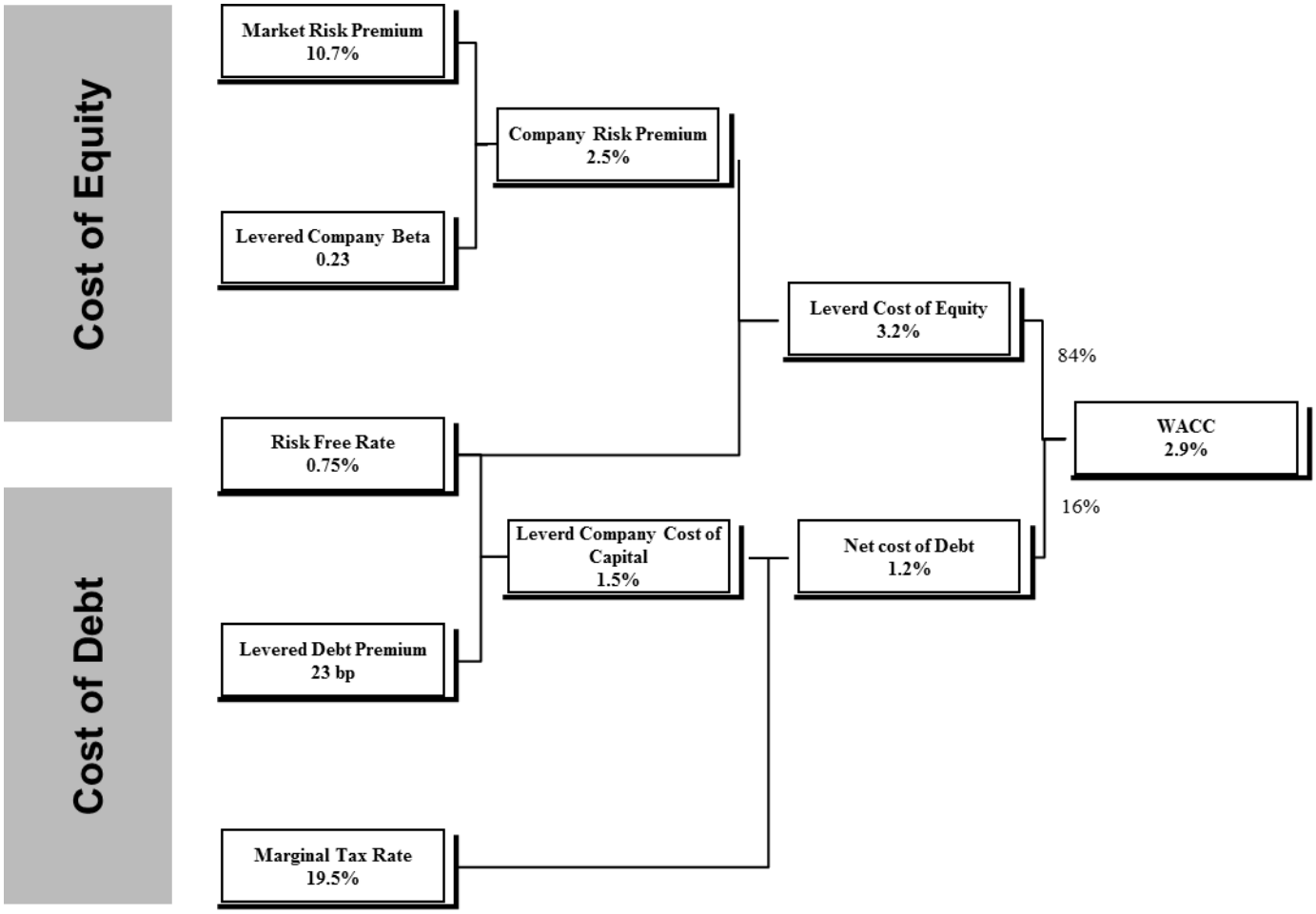
84 Past Transaction - LCC

Date	Target	Target description	Target country	Bidder	Deal Type (%)	TP	EV/Total Revenues	EV/ EBITDA
Nov-13	Flybe	LCC	GB	Averforth Partners	48,10%	41	0,1x	n.a.
Mar-13	Vueling	LCC	ES	Veloz	51,67%	143	0,3x	6,9x
Nov-12	Vueling	LCC	ES	Veloz	54,1500%	113	0,2x	5,2x
Oct-12	Olympic	LCC	GR	Aegean	100,00%	72	0,3x	6,9x
Aug-11	Ryanair	LCC	IE	Manning & Napier	5,05%	1	0,0x	0,0x
Apr-10	Niki	LCC	AT	Air Berlin	50,10%	41	0,2x	3,2x
Feb-10	Niki	LCC	AT	Air Berlin	25,90%	21	0,2x	2,2x
Feb-10	Aegean	LCC	GR	Alnesco	9,48%	26	0,4x	8,7x
Oct-09	Vueling	LCC	ES	Investors	14,31%	47	0,7x	n.a.
Jul-09	Aegean	LCC	GR	Mr. Constantakopoulos	6,22%	0	0,0x	0,1x
Jul-09	Aegean	LCC	GR	Mr. Vassilakis	6,86%	0	0,0x	0,1x
Mar-09	Air Berlin	LCC	GB	ESAS	15,30%	31	0,1x	2,1x
Jan-09	Air Berlin	LCC	GB	Unknown	18,94%	58	0,1x	3,2x
Dec-08	Norwegian	LCC	NO	Stavanger	5,44%	5	0,3x	4,3x
Dec-08	Air One	LCC	IT	Alitalia	100,00%	300	0,4x	9,9x
Nov-08	easyJet	LCC	GB	easyGroup	11,33%	151	0,5x	8,1x
May-08	Air Berlin	LCC	GB	AI Aviation	18,94%	101	0,2x	4,7x
Apr-08	Air Berlin	LCC	GB	Access Industries	18,56%	89	0,2x	4,2x
Jul-08	Clickair	LCC	ES	Vueling	100,00%	175	0,4x	n.a.
Jan-08	Air Berlin	LCC	GB	Haarlem One	15,41%	126	0,3x	7,2x
Oct-07	Vueling	LCC	ES	Hemisferio	10,90%	17	0,7x	n.a.
Sep-07	Air Berlin	LCC	GB	Deutsche Bank	6,28%	56	0,6x	8,3x
Aug-07	easyJet	LCC	GB	Blackrock	5,09%	143	1,2x	14,4x
Jul-07	Vueling	LCC	ES	Chase	5,75%	20	1,5x	n.a.
Jun-07	Vueling	LCC	ES	Atalaya	20,97%	97	2,0x	n.a.
Apr-06	easyJet	LCC	GB	Unknown	16,90%	380	1,2x	18,1x
Feb-06	Vueling	LCC	ES	Hemisferio	50,00%	30	0,2x	n.a.
Sep-05	Norwegian	LCC	NO	Unknown	10,44%	12	0,8x	n.a.
Sep-05	Norwegian	LCC	NO	Lufttransport	7,42%	10	0,8x	n.a.
Oct-04	Pegasus	LCC	TR	ESAS	100,00%	12	0,1x	n.a.
Oct-03	Fly Me	LCC	SE	Array	100,00%	1	0,1x	n.a.
Mar-05	Sterling Kommandit	LCC	DK	Fons	100,00%	54	0,1x	26,3x
Jun-03	Transvia	LCC	NL	KLM	20,00%	1	0,0x	0,1x
					Average	**72**	**0,4x**	**6,5x**
					Median	**41**	**0,3x**	**5,0x**

85 Past Transaction - FSC

Date	Target	Target description	Target country	Bidder	Deal Type (%)	TP	EV/Total Revenues	EV/ EBITDA
Aug-16	Air France-KLM	Airline	FR	Unknown	5,11%	79	30,8x	n.a.
Oct-15	Bromma	Airline	SE	Kvalitena	100,00%	10	0,7x	2,2x
May-15	Travelucion	Airline	ES	MPH	20,00%	0	1,6x	128,5x
Jul-15	Travelucion	Airline	ES	MPH	80,00%	1	0,7x	28,7x
Nov-14	Finnair	Airline	FI	Unknown	5,70%	18	0,2x	n.a.
Nov-13	Fastjet	Airline	GB	Unknown	11,27%	2	0,6x	n.a.
Aug-13	IAG	Airline	ES	British Airways	7,49%	566	124,8x	n.a.
Apr-13	Meridiana	Airline	IT	Meridiana	10,09%	6	0,2x	n.a.
Feb-13	Meridiana	Airline	IT	Meridiana	38,71%	30	0,2x	n.a.
Feb-13	Meridiana	Airline	IT	Unknown	26,66%	14	0,1x	n.a.
Jan-13	Meridiana	Airline	IT	Meridiana	12,05%	8	0,2x	n.a.
Jan-13	Meridiana	Airline	IT	Meridiana	26,66%	14	0,1x	n.a.
Jun-13	IAG	Airline	ES	Investors	12,09%	675	93,8x	n.a.
May-13	Wideros	Airline	NO	Fjord	80,00%	231	0,8x	8,4x
Aug-12	Rubicon	Airline	GB	easyGroup	6,05%	5	1,1x	n.a.
May-12	British Midland	Airline	GB	Sector Aviation	100,00%	10	666,7x	n.a.
Dec-11	Rubicon	Airline	GB	Artemis	8,33%	1	0,6x	n.a.
Dec-12	Virgin	Airline	GB	Delta Air	49,00%	275	0,2x	n.a.
Dec-11	British Midland	Airline	GB	IAG	100,00%	211	0,2x	n.a.
Sep-10	British Airways	Airline	GB	Unknown	5,14%	170	0,4x	5,6x
Sep-10	Air Italy	Airline	IT	Management	40,00%	11	0,2x	1,8x
Jul-11	Finnair	Airline	FI	Flybe	100,00%	25	0,3x	n.a.
Mar-10	Meridiana	Airline	IT	Karim Aga Khan	18,18%	9	0,2x	n.a.
Jun-15	Aereos	Airline	PT	Atlantic	61,00%	490	0,3x	11,6x
Feb-09	Condor	Airline	DE	Thomas Cook	24,90%	77	0,3x	4,8x
Dec-08	Livingston	Airline	IT	Ellememe	100,00%	59	5,3x	77,7x
Jun-08	SkyEurope	Airline	AT	Focus Capital	7,24%	0	3,7x	n.a.
Oct-08	Alitalia	Airline	IT	Alitalia	100,00%	1.000	0,2x	13,4x
Mar-08	Finnair	Airline	FI	Unknown	12,69%	114	0,5x	19,2x
Mar-08	Avionord	Airline	IT	NGC	100,00%	3	0,7x	n.a.
Dec-08	Austrian Airlines	Airline	AT	Deutsche Lufthansa	41,56%	162	0,2x	n.a.
Dec-07	Finnair	Airline	FI	Unknown	11,70%	127	0,7x	n.a.
Dec-07	Alitalia	Airline	IT	Unknown	5,12%	62	0,3x	n.a.
Dec-07	Iberia	Airline	ES	Ahorros	6,42%	220	0,6x	9,4x
Oct-07	GB Airways	Airline	GB	easyJet	100,00%	139	0,4x	9,7x
Oct-07	Wingo	Airline	FI	Eriksson	100,00%	1	0,2x	n.a.
Dec-07	VLM	Airline	BE	Air France-KLM	100,00%	180	2,2x	19,6x
Apr-07	Nordic Airlink	Airline	SE	Norwegian	100,00%	16	0,2x	n.a.
Oct-07	Belair	Airline	CH	Air Berlin	49,00%	0	0,0x	n.a.
Mar-07	SkyEurope	Airline	AT	Unknown	12,05%	24	230,4x	4911,0x
Feb-07	SkyEurope	Airline	AT	RPR	8,73%	38	501,1x	10678,7x
Feb-07	SkyEurope	Airline	AT	Mr. Pecik	5,00%	8	185,4x	3951,6x
Dec-06	Finnair	Airline	FI	FL Group	10,37%	115	0,7x	43,4x
Dec-06	Alitalia	Airline	IT	Unknown	27,50%	409	0,3x	16,2x
Dec-06	Alitalia	Airline	IT	Unknown	5,20%	69	0,3x	14,3x
Nov-06	Air Nostrum	Airline	ES	Ahorros	22,00%	75	0,6x	7,4x
Nov-06	Alitalia	Airline	IT	Unknown	12,00%	156	0,3x	14,1x
Nov-06	Alitalia	Airline	IT	Unknown	9,21%	105	0,2x	12,4x
Nov-06	BA Connect	Airline	GB	Fylbe	100,00%	156	0,3x	n.a.
May-06	Uni Air	Airline	FR	Prado	100,00%	6	1,1x	n.a.
Mar-06	Livingston	Airline	IT	Eurofly	100,00%	50	4,5x	65,8x
Nov-07	Iberia	Airline	ES	Ahorros	6,99%	240	0,6x	9,4x
May-05	IAG	Airline	CH	Airtrust	15,00%	46	0,1x	1,4x
Feb-05	Lagun	Airline	ES	Mr. Llamas	100,00%	3	0,4x	n.a.
Nov-06	Portugalia	Airline	PT	Aeros	99,81%	140	0,9x	n.a.
Dec-04	Jetops	Airline	IE	Planestation	70,00%	4	1,0x	n.a.
May-04	Jetops	Airline	IE	Planestation	30,00%	3	1,7x	n.a.
Jan-04	Euralair	Airline	FR	Angel Gate	100,00%	0	0,0x	n.a.
Nov-03	Spainair	Airline	ES	SAS	21,00%	74	0,4x	n.a.
Mar-04	Gandalf	Airline	IT	Alitalia	100,00%	7	0,1x	n.a.
Sep-03	Azzurraair	Airline	IT	7 Group	99,86%	15	0,1x	n.a.
Oct-04	Virgin	Airline	BE	SN	100,00%	54	0,3x	524,3x
May-03	Aurigny	Airline	GB	Guernsey	100,00%	7	0,2x	n.a.
Jan-06	Swiss	Airline	CH	Airtrust	100,00%	217	0,1x	1,0x
Oct-09	British Midland	Airline	GB	LHBD	20,00%	44	4222,2x	n.a.
Mar-03	Air Dolomiti	Airline	IT	Deutsche Lufthansa	31,00%	40	21451,8x	n.a.
Oct-02	Denim Air	Airline	NL	MBO Team	100,00%	4	n.a.	0,3x
Aug-02	Aerolyn	Airline	FR	Superior Network	49,00%	2	0,0x	n.a.
Jul-02	Air Atlantique	Airline	FR	Seine-Maritime	70,00%	7	0,6x	n.a.
Apr-10	Iberia	Airline	ES	IAG	86,85%	2.298	0,6x	n.a.
					Average	**130**	**362,6x**	**625,9x**
					Median	**46**	**0,4x**	**13,4x**

86 Graphical WACC



87 2nd DCF Approach Base Case

Forecast (GBPm)	Projection							
	2017	2018	2019	2020	2021	2022	2023	2014 onwards
Number of forecast period	1	2	3	4	5	6	7	
Net profit	**376**	**297**	**298**	**262**	**239**	**221**	**203**	
Interest expenses	3	3	3	3	3	3	3	
Capital expenditures	(550)	(555)	(558)	(561)	(563)	(566)	(570)	
Net change in working capital	(117)	(7)	(26)	(19)	(21)	(22)	(22)	
Tax Shield on interest expense	(18)	(14)	(14)	(12)	(11)	(10)	(10)	
Delta miscelaneous	317	344	368	393	417	441	463	
FCF	**11**	**68**	**72**	**66**	**63**	**65**	**67**	**69**

88 Sensitivity Analysis EVA Model Base Case

LT growth	WACC				
	1.88%	2.38%	2.88%	3.38%	3.88%
1.0%	2944.3	2946.2	2948.1	2949.8	2951.5
1.5%	2944.3	2946.2	2948.1	2949.8	2951.5
2.0%	2944.3	2946.2	2948.1	2949.8	2951.5
2.5%	2944.3	2946.2	2948.1	2949.8	2951.5
3.0%	2944.3	2946.2	2948.1	2949.8	2951.5

LT growth	Tax rate				
	13.50%	16.50%	19.50%	22.50%	25.50%
1.0%	2989.6	2968.8	2948.1	2927.3	2906.5
1.5%	2989.6	2968.8	2948.1	2927.3	2906.5
2.0%	2989.6	2968.8	2948.1	2927.3	2906.5
2.5%	2989.6	2968.8	2948.1	2927.3	2906.5
3.0%	2989.6	2968.8	2948.1	2927.3	2906.5

LT growth	Beta				
	0.17	0.20	0.23	0.26	0.29
1.0%	2946.1	2947.1	2948.1	2949.0	2950.0
1.5%	2946.1	2947.1	2948.1	2949.0	2950.0
2.0%	2946.1	2947.1	2948.1	2949.0	2950.0
2.5%	2946.1	2947.1	2948.1	2949.0	2950.0
3.0%	2946.1	2947.1	2948.1	2949.0	2950.0

LT growth	Market risk premium				
	4.65%	7.65%	10.65%	13.65%	16.65%
1.0%	2943.7	2945.9	2948.1	2950.1	2952.1
1.5%	2943.7	2945.9	2948.1	2950.1	2952.1
2.0%	2943.7	2945.9	2948.1	2950.1	2952.1
2.5%	2943.7	2945.9	2948.1	2950.1	2952.1
3.0%	2943.7	2945.9	2948.1	2950.1	2952.1

LT growth	Debt premium				
	0.018	0.023	0.028	0.033	0.038
1.0%	2948.1	2948.1	2948.1	2948.1	2948.1
1.5%	2948.1	2948.1	2948.1	2948.1	2948.1
2.0%	2948.1	2948.1	2948.1	2948.1	2948.1
2.5%	2948.1	2948.1	2948.1	2948.1	2948.1
3.0%	2948.1	2948.1	2948.1	2948.1	2948.1

LT growth	Risk free rate				
	0.55%	0.65%	0.75%	0.85%	0.95%
1.0%	2947.3	2947.7	2948.1	2948.5	2948.8
1.5%	2947.3	2947.7	2948.1	2948.5	2948.8
2.0%	2947.3	2947.7	2948.1	2948.5	2948.8
2.5%	2947.3	2947.7	2948.1	2948.5	2948.8
3.0%	2947.3	2947.7	2948.1	2948.5	2948.8

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LT growth	Fuel price				
	-6.00%	-3.00%	0.00%	3.00%	6.00%
1.0%	1515.6	1206.3	897.0	587.7	278.4
1.5%	1993.1	1583.5	1173.9	764.3	354.7
2.0%	3015.0	2390.7	1766.4	1142.1	517.8
2.5%	6747.0	5338.7	3930.3	2522.0	1113.7
3.0%	(19903.3)	(15712.8)	(11522.2)	(7331.7)	(3141.2)

LT growth	Market share				
	-1.0%	-0.5%	0.00%	0.5%	1.0%
1.0%	500.4	698.7	897.0	1095.3	1293.6
1.5%	648.3	911.1	1173.9	1436.6	1699.4
2.0%	965.0	1365.7	1766.4	2167.1	2567.8
2.5%	2121.5	3025.9	3930.3	4834.7	5739.1
3.0%	(6137.1)	(8829.7)	(11522.2)	(14214.8)	(16907.3)

LT growth	Ground operations				
	-6.00%	-3.00%	0.00%	3.00%	6.00%
1.0%	1682.4	1289.7	897.0	504.3	111.6
1.5%	2215.8	1694.8	1173.9	652.9	131.9
2.0%	3357.5	2562.0	1766.4	970.9	175.4
2.5%	7526.4	5728.4	3930.3	2132.3	334.3
3.0%	(22244.2)	(16883.2)	(11522.2)	(6161.3)	(800.3)

LT growth	Non-seat revenue growth				
	-6.00%	-3.00%	0.00%	3.00%	6.00%
1.0%	1469.8	1473.0	1476.2	1479.4	1482.7
1.5%	1936.3	1940.6	1944.9	1949.2	1953.6
2.0%	2934.7	2941.3	2948.1	2954.8	2961.5
2.5%	6580.5	6595.9	6611.3	6626.7	6642.2
3.0%	(19454.8)	(19501.3)	(19548.0)	(19594.9)	(19641.9)

89 Income Statement Assumptions – Scenario 1

	2017	2018	2019	2020	2021	2022	2023
Number of aircrafts	259	264	264	267	269	271	273
ASK per aircraft	340	340	340	340	340	340	340
Seats per airplane	166	166	166	166	166	166	166
Routes covered by one aircraft	3.2	3.2	3.2	3.3	3.3	3.4	3.4
Daily frequency of routes	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Yield	0.0572	0.0572	0.0572	0.0572	0.0572	0.0572	0.0572
Non-seat revenue per passenger growth	2.0%	2.0%	3.0%	3.0%	4.0%	4.0%	5.0%
Jet fuel MT per ASK	0.0327	0.0327	0.0327	0.0327	0.0327	0.0327	0.0327
Ground operation as % of ASK	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Staff per airplane	42	42	42	42	42	42	42
Wage growth	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
Navigation as % of ASK	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Maintenance as % of ASK	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Selling & markting as % of ASK	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Other costs of % of ASK	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Aircraft dry leasing as % of sales	47.3%	47.3%	47.3%	47.3%	47.3%	47.3%	47.3%
Interest receivables as % of sales	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Interest Payables as % of sales	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Dividend as % of net income	51.3%	51.3%	51.3%	51.3%	51.3%	51.3%	51.3%

90 Forecasted Income Statement – Scenario 1

	2017	2018	2019	2020	2021	2022	2023
Revenue	**4,669**	**4,715**	**4,733**	**4,753**	**4,775**	**4,798**	**4,825**
Seat revenue	4,585	4,627	4,642	4,658	4,675	4,693	4,713
Non-seat revenue	85	88	91	95	100	105	112
Cost of goods sold (COGS)	**(3,883)**	**(3,999)**	**(3,991)**	**(4,029)**	**(4,054)**	**(4,075)**	**(4,098)**
Fuel	(1,104)	(1,112)	(1,095)	(1,090)	(1,083)	(1,071)	(1,061)
Ground operation	(1,247)	(1,316)	(1,316)	(1,331)	(1,341)	(1,351)	(1,361)
Crew	(555)	(576)	(585)	(602)	(617)	(632)	(647)
Navigation	(345)	(352)	(352)	(356)	(359)	(361)	(364)
Maintenance	(241)	(246)	(246)	(249)	(251)	(252)	(254)
Selling & marketing	(119)	(121)	(121)	(123)	(124)	(125)	(126)
Other costs	(270)	(275)	(275)	(278)	(280)	(282)	(284)
EBITDAR	**787**	**716**	**742**	**724**	**721**	**724**	**727**
Aircraft dry leasing	(123)	(125)	(125)	(126)	(127)	(128)	(129)
Depreciation and amortization	(194)	(219)	(243)	(267)	(290)	(312)	(334)
EBIT	**470**	**372**	**374**	**330**	**303**	**283**	**264**
Interest receivables and other financing income	10	10	10	11	11	11	11
Interest payable and other financing charges	(13)	(13)	(13)	(13)	(13)	(13)	(13)
Net interest expense	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**
Pre-tax income	**467**	**369**	**371**	**327**	**300**	**280**	**261**
Tax of the year	(91)	(72)	(72)	(64)	(59)	(55)	(51)
Total comprehensive income	**376**	**297**	**299**	**263**	**242**	**226**	**210**
Dividend paid	(193)	(153)	(153)	(135)	(124)	(116)	(108)
Share incentive schemes	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Retained earnings	**175**	**137**	**138**	**120**	**110**	**102**	**94**

91 2nd DCF Approach Base Case 1st Scenario

Forecast (GBPm)	Projection							
	2017	2018	2019	2020	2021	2022	2023	2014 onwards
Number of forecast period	1	2	3	4	5	6	7	
Net profit	**376**	**297**	**299**	**263**	**242**	**226**	**210**	
Interest expenses	3	3	3	3	3	3	3	
Capital expenditures	(550)	(555)	(558)	(561)	(564)	(567)	(571)	
Net change in working capital	(117)	(7)	(26)	(19)	(21)	(22)	(22)	
Tax shield on interest expense	(18)	(14)	(14)	(12)	(11)	(11)	(10)	
Delta miscelaneous	317	344	368	393	417	441	463	
FCF	**11**	**68**	**72**	**68**	**66**	**69**	**73**	**75**

92 Senesitivity Analysis 1st Scenario

LT growth	WACC				
	1.88%	2.38%	2.88%	3.38%	3.88%
1.0%	2016.8	1299.3	965.5	773.1	648.5
1.5%	4514.0	1963.4	1266.8	942.7	755.9
2.0%	(13318.7)	4388.3	1911.7	1235.3	920.6
2.5%	(2520.2)	(12928.2)	4266.8	1861.8	1204.9
3.0%	(1338.9)	(2442.3)	(12550.9)	4149.3	1813.5

LT growth	Tax rate				
	13.50%	16.50%	19.50%	22.50%	25.50%
1.0%	1231.3	1102.0	965.5	821.7	670.7
1.5%	1611.0	1443.8	1266.8	1079.8	882.8
2.0%	2416.5	2172.2	1911.7	1634.7	1340.7
2.5%	5280.1	4796.2	4266.8	3689.3	3060.9
3.0%	(18245.9)	(15264.3)	(12550.9)	(10061.2)	(7760.5)

LT growth	Beta				
	0.17	0.20	0.23	0.26	0.29
1.0%	1333.9	1118.7	965.5	850.9	762.1
1.5%	2047.9	1562.4	1266.8	1068.1	925.5
2.0%	4860.6	2735.2	1911.7	1474.9	1204.4
2.5%	(9928.8)	14699.3	4266.8	2511.8	1788.5
3.0%	(2303.3)	(3910.7)	(12550.9)	10669.1	3783.4

LT growth	Market risk premium				
	4.65%	7.65%	10.65%	13.65%	16.65%
1.0%	2455.8	1376.4	965.5	749.8	617.6
1.5%	7785.0	2155.1	1266.8	906.5	712.1
2.0%	(5781.4)	5551.3	1911.7	1170.7	853.1
2.5%	(2000.4)	(7829.3)	4266.8	1711.1	1085.9
3.0%	(1168.7)	(2161.2)	(12550.9)	3434.8	1543.3

LT growth	Debt premium				
	0.018	0.023	0.028	0.033	0.038
1.0%	965.5	965.5	965.5	965.5	965.5
1.5%	1266.8	1266.8	1266.8	1266.8	1266.8
2.0%	1911.7	1911.7	1911.7	1911.7	1911.7
2.5%	4266.8	4266.8	4266.8	4266.8	4266.8
3.0%	(12550.9)	(12550.9)	(12550.9)	(12550.9)	(12550.9)

LT growth	Risk free rate				
	0.55%	0.65%	0.75%	0.85%	0.95%
1.0%	1087.0	1022.4	965.5	914.8	869.6
1.5%	1498.2	1372.4	1266.8	1176.8	1099.3
2.0%	2534.8	2178.6	1911.7	1704.3	1538.5
2.5%	10147.2	5999.9	4266.8	3315.2	2714.0
3.0%	(4475.9)	(6607.8)	(12550.9)	(118263.1)	16048.5

LT growth	Fuel price				
	-6.00%	-3.00%	0.00%	3.00%	6.00%
1.0%	1584.0	1274.7	965.5	656.2	346.9
1.5%	2086.0	1676.4	1266.8	857.2	447.6
2.0%	3160.3	2536.0	1911.7	1287.4	663.1
2.5%	7083.4	5675.1	4266.8	2858.4	1450.1
3.0%	(20931.9)	(16741.4)	(12550.9)	(8360.3)	(4169.8)

LT growth	Market share				
	-1.0%	-0.5%	0.00%	0.5%	1.0%
1.0%	568.1	766.8	965.5	1164.1	1362.8
1.5%	740.3	1003.5	1266.8	1530.0	1793.2
2.0%	1108.8	1510.3	1911.7	2313.1	2714.6
2.5%	2454.6	3360.7	4266.8	5172.8	6078.9
3.0%	(7155.5)	(9853.2)	(12550.9)	(15248.6)	(17946.2)

LT growth	Ground operations				
	-6.00%	-3.00%	0.00%	3.00%	6.00%
1.0%	1750.9	1358.2	965.5	572.7	180.0
1.5%	2308.7	1787.8	1266.8	745.8	224.8
2.0%	3502.7	2707.2	1911.7	1116.2	320.7
2.5%	7862.8	6064.8	4266.8	2468.7	670.7
3.0%	(23272.8)	(17911.8)	(12550.9)	(7189.9)	(1828.9)

LT growth	Non-seat revenue growth				
	-6.00%	-3.00%	0.00%	3.00%	6.00%
1.0%	954.4	959.9	965.5	971.0	976.7
1.5%	1251.8	1259.3	1266.8	1274.3	1281.9
2.0%	1888.4	1900.0	1911.7	1923.5	1935.3
2.5%	4213.0	4239.8	4266.8	4293.9	4321.1
3.0%	(12387.2)	(12468.8)	(12550.9)	(12633.4)	(12716.3)

93 EVA Approach 1st Scenario

EVA (GBPm)	Projection						
	2017	2018	2019	2020	2021	2022	2023
Number of forecast period	1	2	3	4	5	6	7
Net operating profit after tax	**378**	**300**	**301**	**266**	**244**	**228**	**212**
Invested capital as WACC	321	308	298	289	280	272	264
EVA	**57**	**(8)**	**3**	**(23)**	**(36)**	**(44)**	**(52)**

Valuation Section							
WACC	2.88%						
Implied LT growth rate	2.0%						
Assumed tax rate	19.5%						
PV of EVA (GBP m)	57	(8)	3	(23)	(36)	(44)	(52)
Sum of EVA (GBP m)	-103						
Invested capital (GBP m)	11,509						
PV of change capital (GBP m)	-212						
EV (GBP m)	11,195						
Invested Capital as % of EV	102.8%						
Net debt (GBP m)	-230						
Implied market cap (GBP m)	11,425						
Shares outstanding (m)	397.21						
Implied share price (GBP)	2876.21						
Current share price	1087						
Implied premium to current share price	62.5%						

94 Income Statement Assumptions – Scenario 2

	2017	2018	2019	2020	2021	2022	2023
Number of aircrafts	259	264	264	267	269	271	273
ASK per aircraft	340	340	340	340	340	340	340
Seats per airplane	166	166	166	166	166	166	166
Routes covered by one aircraft	3.2	3.2	3.2	3.3	3.3	3.4	3.4
Daily frequency of routes	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Yield	0.0572	0.0572	0.0572	0.0572	0.0572	0.0572	0.0572
Non-seat revenue per passenger growth	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Jet fuel MT per ASK	0.0327	0.0327	0.0327	0.0327	0.0327	0.0327	0.0327
Ground operation as % of ASK	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Staff per airplane	42	42	42	42	42	42	42
Wage growth	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
Navigation as % of ASK	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Maintenance as % of ASK	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Selling & markting as % of ASK	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Other costs of % of ASK	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Aircraft dry leasing as % of sales	47.3%	47.3%	47.3%	47.3%	47.3%	47.3%	47.3%
Interest receivables as % of sales	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Interest payables as % of sales	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Dividend as % of net income	51.3%	51.3%	51.3%	51.3%	51.3%	51.3%	51.3%

95 Forecasted Income Statement – Scenario 2

	2017	2018	2019	2020	2021	2022	2023
Revenue	**4,669**	**4,715**	**4,732**	**4,751**	**4,771**	**4,792**	**4,816**
Seat revenue	4,585	4,627	4,642	4,658	4,675	4,693	4,713
Non-seat revenue	85	88	90	93	96	99	102
Cost of goods sold (COGS)	**(3,869)**	**(3,940)**	**(3,932)**	**(3,969)**	**(3,994)**	**(4,014)**	**(4,037)**
Fuel	(1,104)	(1,112)	(1,095)	(1,090)	(1,083)	(1,071)	(1,061)
Ground operation	(1,234)	(1,257)	(1,257)	(1,272)	(1,281)	(1,291)	(1,300)
Crew	(555)	(576)	(585)	(602)	(617)	(632)	(647)
Navigation	(345)	(352)	(352)	(356)	(359)	(361)	(364)
Maintenance	(241)	(246)	(246)	(249)	(251)	(252)	(254)
Selling & marketing	(119)	(121)	(121)	(123)	(124)	(125)	(126)
Other costs	(270)	(275)	(275)	(278)	(280)	(282)	(284)
EBITDAR	**801**	**775**	**800**	**781**	**777**	**778**	**779**
Aircraft dry leasing	(123)	(125)	(125)	(126)	(127)	(128)	(129)
Depreciation and amortization	(194)	(219)	(243)	(267)	(290)	(312)	(334)
EBIT	**484**	**431**	**432**	**388**	**360**	**338**	**316**
Interest receivables and other financing income	10	10	10	11	11	11	11
Interest payable and other financing charges	(13)	(13)	(13)	(13)	(13)	(13)	(13)
Net interest expense	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**
Pre-tax income	**481**	**428**	**429**	**385**	**357**	**335**	**313**
Tax of the year	(94)	(84)	(84)	(75)	(70)	(65)	(61)
Total comprehensive income	**387**	**345**	**346**	**310**	**287**	**270**	**252**
Dividend paid	(199)	(177)	(177)	(159)	(147)	(138)	(129)
Share incentive schemes	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Retained earnings	**181**	**160**	**160**	**143**	**132**	**123**	**115**

96 2nd DCF Approach 2nd Scenario

Forecast (GBPm)	Projection							
	2017	2018	2019	2020	2021	2022	2023	2014 onwards
Number of forecast period	1	2	3	4	5	6	7	
Net profit	**387**	**345**	**346**	**310**	**287**	**270**	**252**	
Interest expenses	3	3	3	3	3	3	3	
Capital expenditures	(550)	(555)	(558)	(561)	(563)	(566)	(570)	
Net change in working capital	(119)	(14)	(26)	(19)	(21)	(22)	(22)	
Tax shield on interest expense	(18)	(16)	(16)	(15)	(14)	(13)	(12)	
Delta miscelaneous	317	344	368	393	417	441	463	
FCF	**20**	**106**	**117**	**112**	**109**	**112**	**114**	**116**

97 Sensitivity Analysis 2nd Scenario

LT growth	WACC				
	1.88%	2.38%	2.88%	3.38%	3.88%
1.0%	3111.5	1995.5	1476.2	1177.0	983.2
1.5%	6995.8	3028.4	1944.9	1440.7	1150.3
2.0%	(20742.4)	6800.3	2948.1	1896.0	1406.4
2.5%	(3945.6)	(20135.0)	6611.3	2870.4	1848.7
3.0%	(2108.1)	(3824.4)	(19548.0)	6428.6	2795.3

LT growth	Tax rate				
	13.50%	16.50%	19.50%	22.50%	25.50%
1.0%	1790.0	1637.3	1476.2	1306.5	1128.1
1.5%	2350.6	2153.6	1944.9	1724.4	1491.9
2.0%	3540.1	3253.7	2948.1	2622.8	2277.4
2.5%	7768.3	7216.5	6611.3	5949.5	5228.0
3.0%	(26969.8)	(23079.9)	(19548.0)	(16315.1)	(13334.2)

LT growth	Beta				
	0.17	0.20	0.23	0.26	0.29
1.0%	2049.4	1714.6	1476.2	1298.0	1159.9
1.5%	3159.9	2404.7	1944.9	1635.8	1414.0
2.0%	7535.0	4228.9	2948.1	2268.5	1847.9
2.5%	(15469.5)	22838.8	6611.3	3881.5	2756.5
3.0%	(3608.3)	(6108.5)	(19548.0)	16569.9	5859.4

LT growth	Market risk premium				
	4.65%	7.65%	10.65%	13.65%	16.65%
1.0%	3794.4	2115.4	1476.2	1140.8	935.1
1.5%	12083.8	3326.7	1944.9	1384.4	1082.1
2.0%	(9018.3)	8609.4	2948.1	1795.4	1301.4
2.5%	(3137.1)	(12203.8)	6611.3	2636.0	1663.5
3.0%	(1843.4)	(3387.2)	(19548.0)	5317.2	2375.1

LT growth	Debt premium				
	0.018	0.023	0.028	0.033	0.038
1.0%	1476.2	1476.2	1476.2	1476.2	1476.2
1.5%	1944.9	1944.9	1944.9	1944.9	1944.9
2.0%	2948.1	2948.1	2948.1	2948.1	2948.1
2.5%	6611.3	6611.3	6611.3	6611.3	6611.3
3.0%	(19548.0)	(19548.0)	(19548.0)	(19548.0)	(19548.0)

LT growth	Risk free rate				
	0.55%	0.65%	0.75%	0.85%	0.95%
1.0%	1665.3	1564.8	1476.2	1397.5	1327.1
1.5%	2304.9	2109.2	1944.9	1805.0	1684.4
2.0%	3917.2	3363.2	2948.1	2625.4	2367.6
2.5%	15758.1	9307.1	6611.3	5131.2	4196.0
3.0%	(6987.6)	(10303.8)	(19548.0)	(183980.2)	24937.3

LT growth	Fuel price				
	-6.00%	-3.00%	0.00%	3.00%	6.00%
1.0%	2094.8	1785.5	1476.2	1166.9	857.6
1.5%	2764.1	2354.5	1944.9	1535.3	1125.7
2.0%	4196.7	3572.4	2948.1	2323.8	1699.5
2.5%	9427.9	8019.6	6611.3	5202.9	3794.6
3.0%	(27929.1)	(23738.6)	(19548.0)	(15357.5)	(11167.0)

LT growth	Market share				
	-1.0%	-0.5%	0.00%	0.5%	1.0%
1.0%	1079.6	1277.9	1476.2	1674.5	1872.8
1.5%	1419.4	1682.1	1944.9	2207.7	2470.4
2.0%	2146.6	2547.3	2948.1	3348.8	3749.5
2.5%	4802.5	5706.9	6611.3	7515.7	8420.1
3.0%	(14162.9)	(16855.5)	(19548.0)	(22240.6)	(24933.1)

LT growth	Ground operations				
	-6.00%	-3.00%	0.00%	3.00%	6.00%
1.0%	2226.9	1851.5	1476.2	1100.9	725.5
1.5%	2940.6	2442.7	1944.9	1447.0	949.2
2.0%	4468.2	3708.1	2948.1	2188.0	1427.9
2.5%	10046.5	8328.9	6611.3	4893.7	3176.1
3.0%	(29788.4)	(24668.2)	(19548.0)	(14427.8)	(9307.6)

LT growth	Non-seat revenue growth				
	-6.00%	-3.00%	0.00%	3.00%	6.00%
1.0%	1469.8	1473.0	1476.2	1479.4	1482.7
1.5%	1936.3	1940.6	1944.9	1949.2	1953.6
2.0%	2934.7	2941.3	2948.1	2954.8	2961.5
2.5%	6580.5	6595.9	6611.3	6626.7	6642.2
3.0%	(19454.8)	(19501.3)	(19548.0)	(19594.9)	(19641.9)

98 EVA Approach 2nd Scenario

EVA (GBPm)	Projection						
	2017	2018	2019	2020	2021	2022	2023
Number of forecast period	1	2	3	4	5	6	7
Net operating profit after tax	**389**	**347**	**348**	**312**	**289**	**272**	**254**
Invested capital as WACC	321	308	298	288	280	271	264
EVA	**69**	**39**	**50**	**24**	**10**	**0**	**(10)**

Valuation Section							
WACC	2.88%						
Implied LT growth rate	2.0%						
Assumed tax rate	19.5%						
PV of EVA (GBP m)	69	39	50	24	10	0	(10)
Sum of EVA (GBP m)	182						
Invested capital (GBP m)	11,509						
PV of change capital (GBP m)	-211						
EV (GBP m)	11,480						
Invested capital as % of EV	100.3%						
Net debt (GBP m)	-230						
Implied market cap (GBP m)	11,710						
Shares outstanding (m)	397.21						
Implied share price (GBP)	2948.06						
Current share price	1087						
Implied premium to current share price	62.5%						