



## Norwegian Air Shuttle ASA

Q4 2019 Presentation

13 February 2020

# Agenda

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Welcome

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Q4 2019 Presentation and Outlook

Geir Karlsen, CFO

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The Way Forward

Jacob Schram, CEO

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Q&A

Jacob Schram, CEO and Geir Karlsen, CFO

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# Highlights Q4 2019 and full-year 2019

## Q4 2019 Highlights

- Improved EBITDAR excl other losses/(gains) to NOK 436 million in Q4 2019 (NOK -118 million), driven by optimization of route network and #Focus2019
- Significant actions to increase financial headroom and established JV with CCBLI
- Successfully completed private placement and convertible bond, securing NOK 2.5 billion in gross proceeds in Q4
- Sale of Argentinian subsidiary to JetSMART

## Improved results and operational performance in 2019

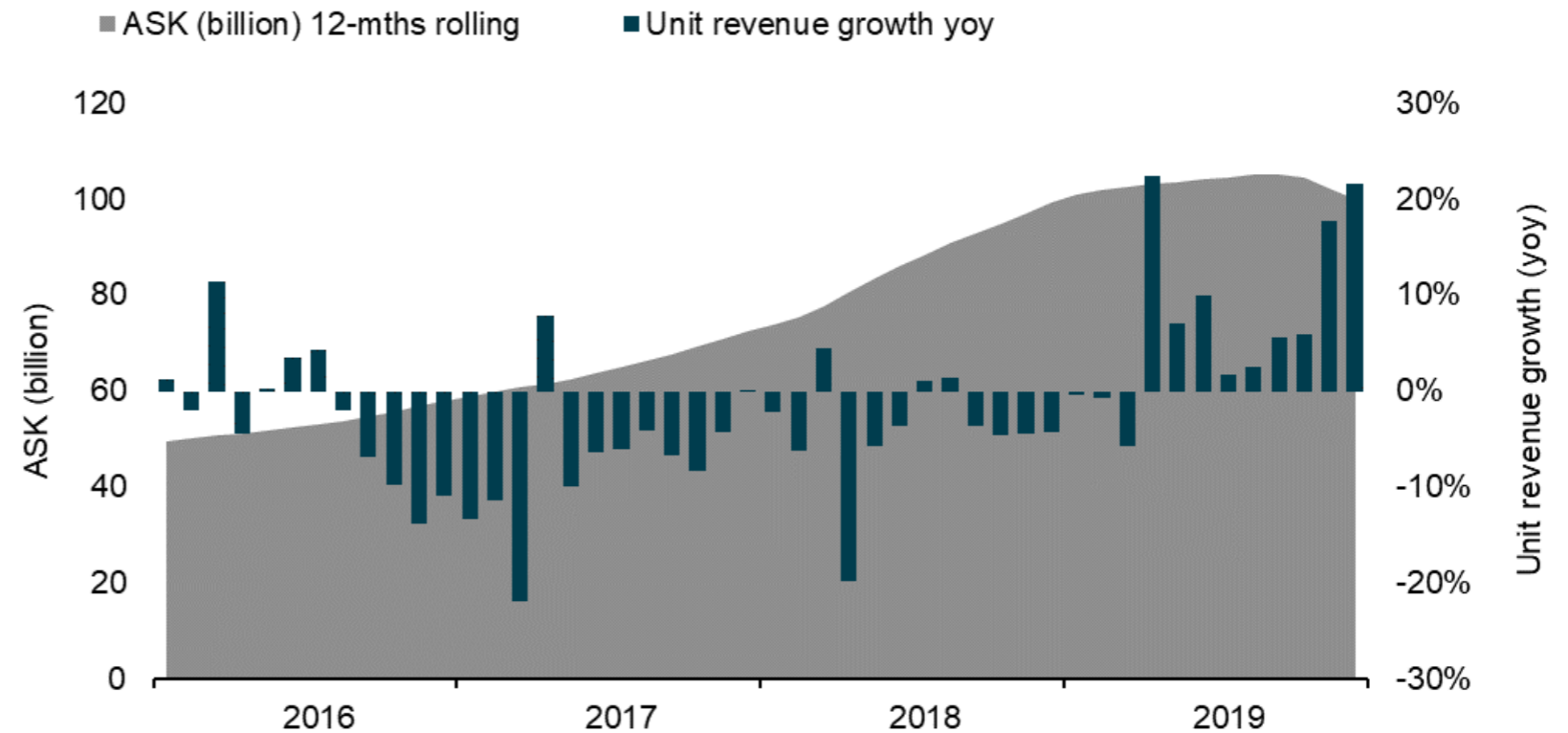
- EBITDAR excl other losses/(gains) of NOK 6.5 billion for the full year, in the high end of guidance (NOK 6.1-6.5 billion) and a doubling compared to NOK 3.2 billion in 2018
- #Focus2019: Delivered on target with cost reductions of NOK 2.3 billion
- Unit revenue increase driven by maturing routes and optimization of network
- Six consecutive quarters with improved punctuality

# Focus on profitability showing results



- ASK growth of 1% in 2019 compared to 37% in 2018
- 7% increase in unit revenue for FY 2019 (-4% in 2018)
- Higher load factor – up 0.8 p.p. to 86.6% for the full year

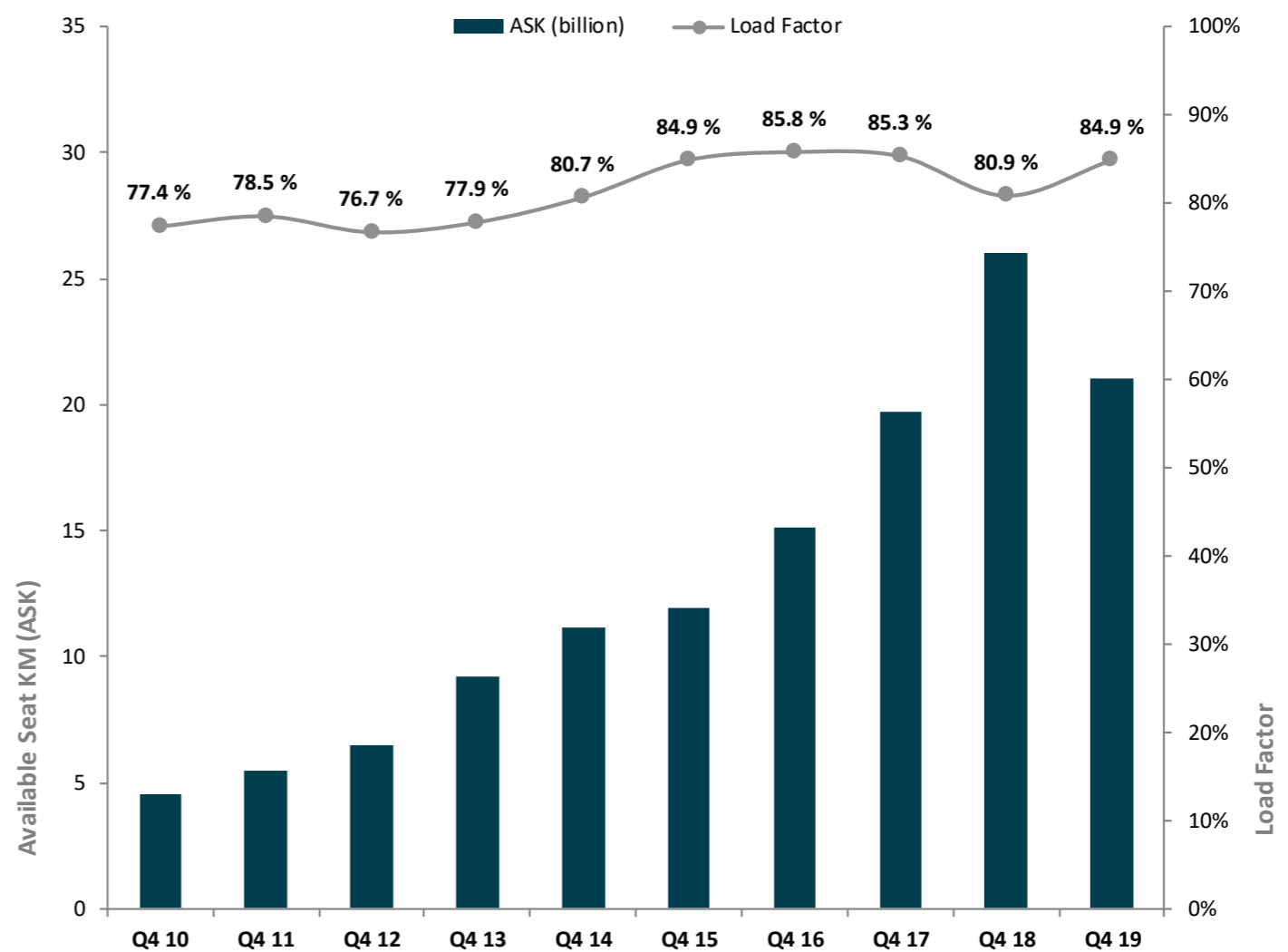
## UNIT REVENUE DEVELOPMENT VS. SAME MONTH LAST YEAR



# Yield and load improvements in Q4



- 19% reduction in production (ASK) and 15% reduction in traffic (RPK) in Q4 2019, compared to 32% and 25% growth in Q4 2018
- Yield up 10% and load factor up 4.0 p.p.

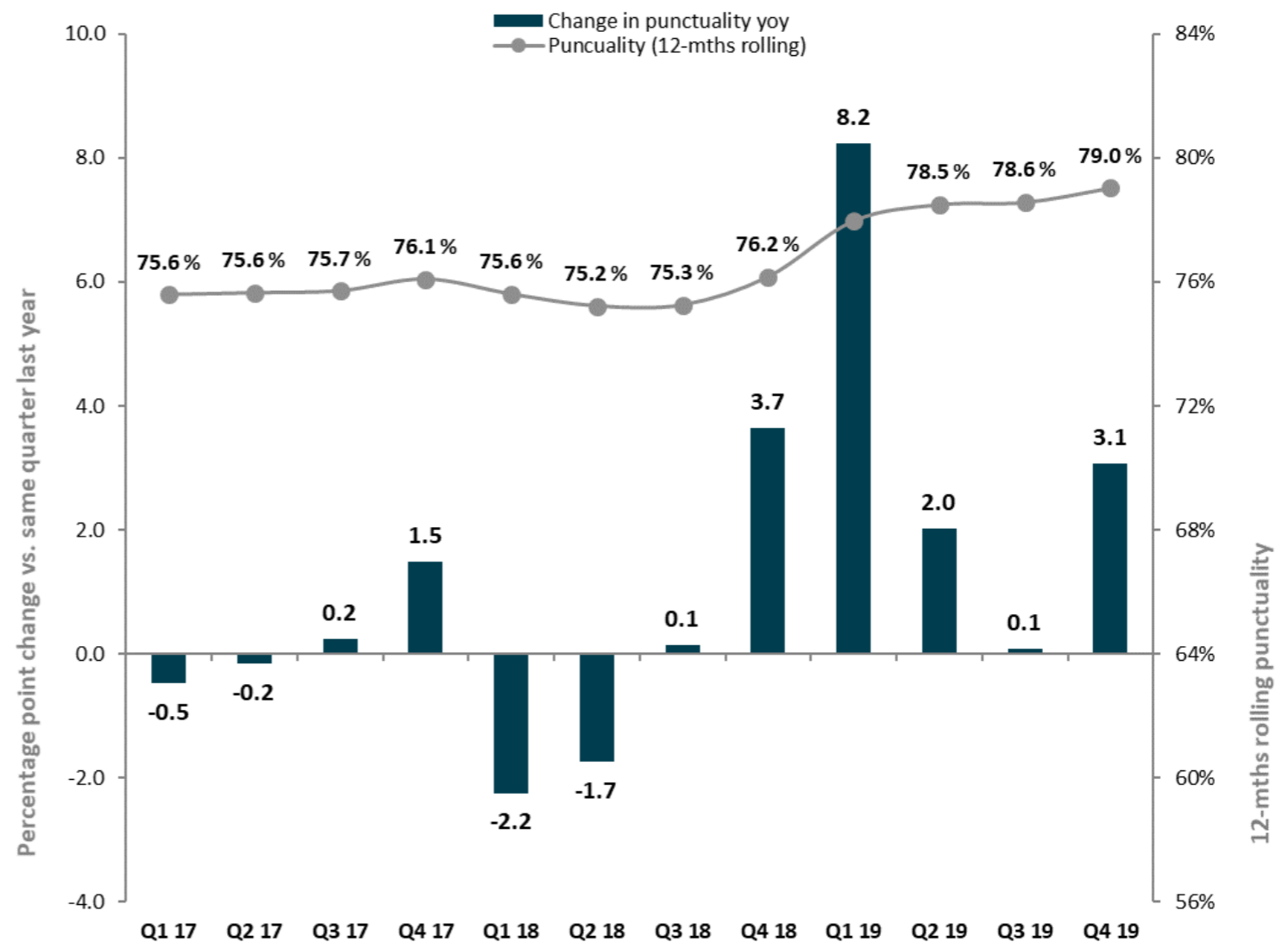


ASK (million)	4,516	5,461	6,517	9,176	11,142	11,909	15,109	19,704	26,058	21,018
Load Factor	77.4 %	78.5 %	76.7 %	77.9 %	80.7 %	84.9 %	85.8 %	85.3 %	80.9 %	84.9 %

# Improved punctuality with 3.1 p.p. in Q4 2019

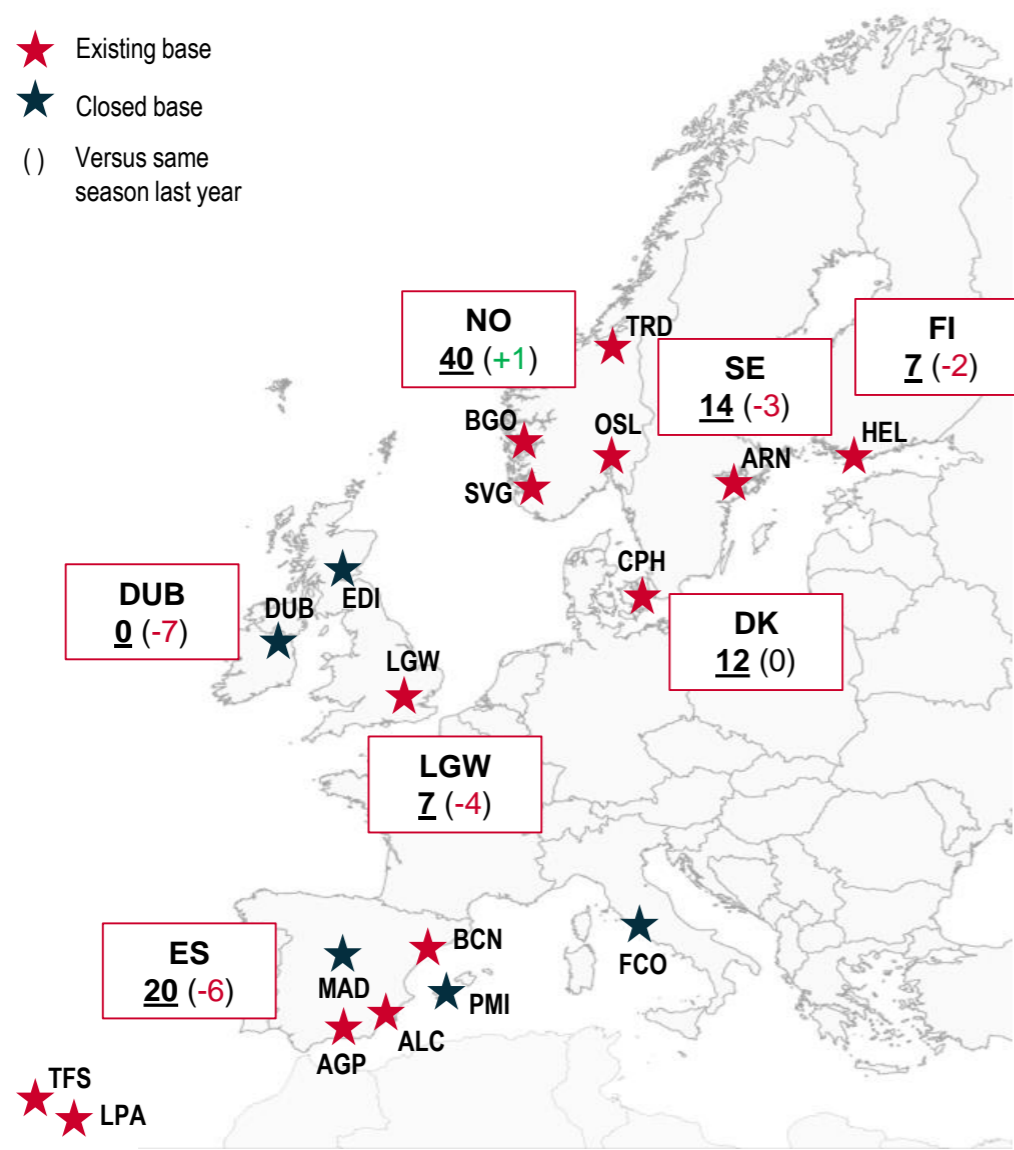


- Punctuality improved to 79% in 2019
- Six consecutive quarters with improved punctuality



# Exhaustive review of the short-haul operation

## SUMMER 2020 AIRCRAFT ALLOCATION



Focus on Nordic core

Short-haul network connectivity and density

Support long-haul feed, where appropriate

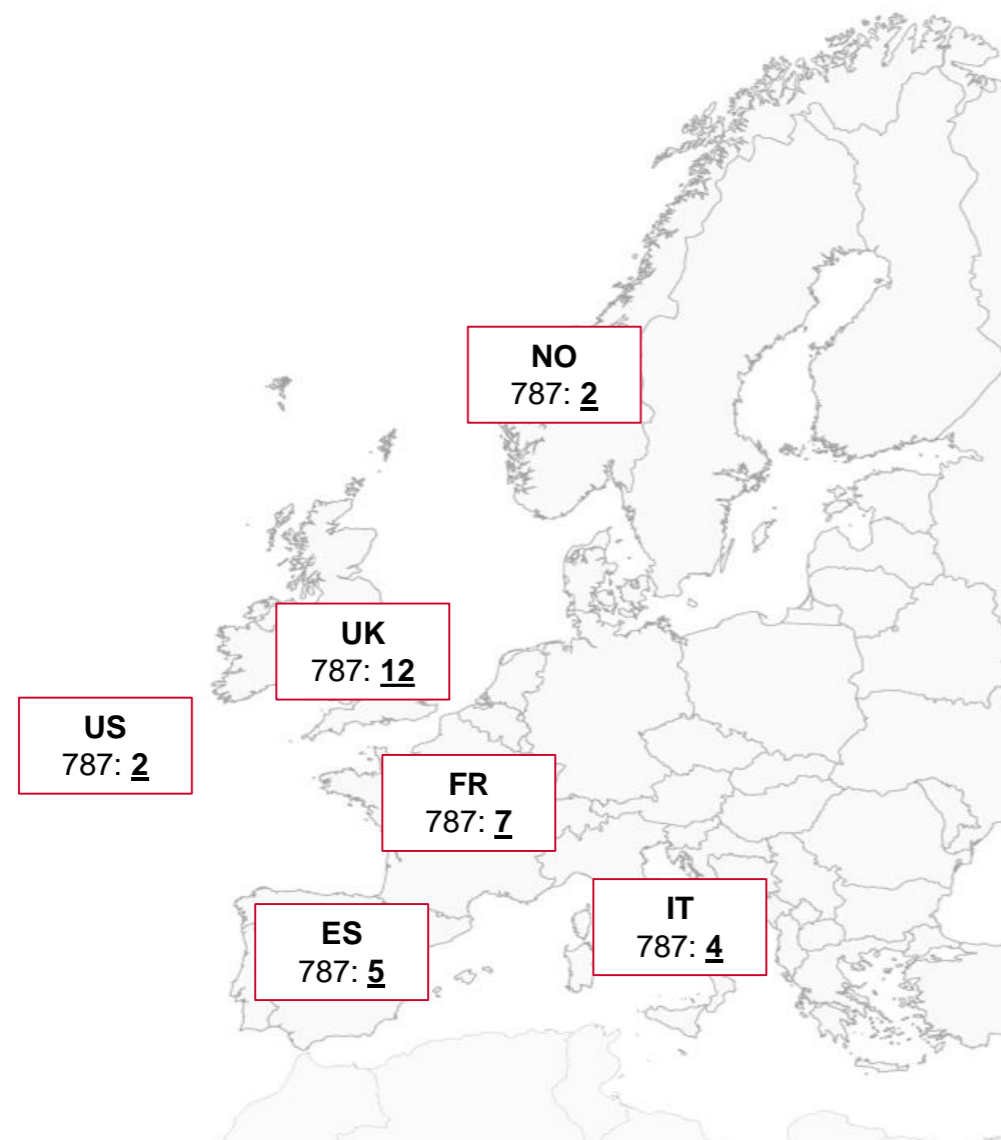
Closed down more than 50 routes with main cuts in non-Nordic network

Reduce complexity

Mitigate fleet deficit from MAX grounding

# Consolidating long haul to major hubs

## SUMMER 2020 AIRCRAFT ALLOCATION



32 aircraft deployed on long-haul network

Closed down more than 20 routes on long haul

Low growth and wet lease due to engine issues

Consolidate into fewer airports (SFO, JFK) and consolidate Nordics operation to OSL

Concentrating on London, Rome, Paris, Barcelona and the US

Maximizing summer and reducing winter capacity is improving yields

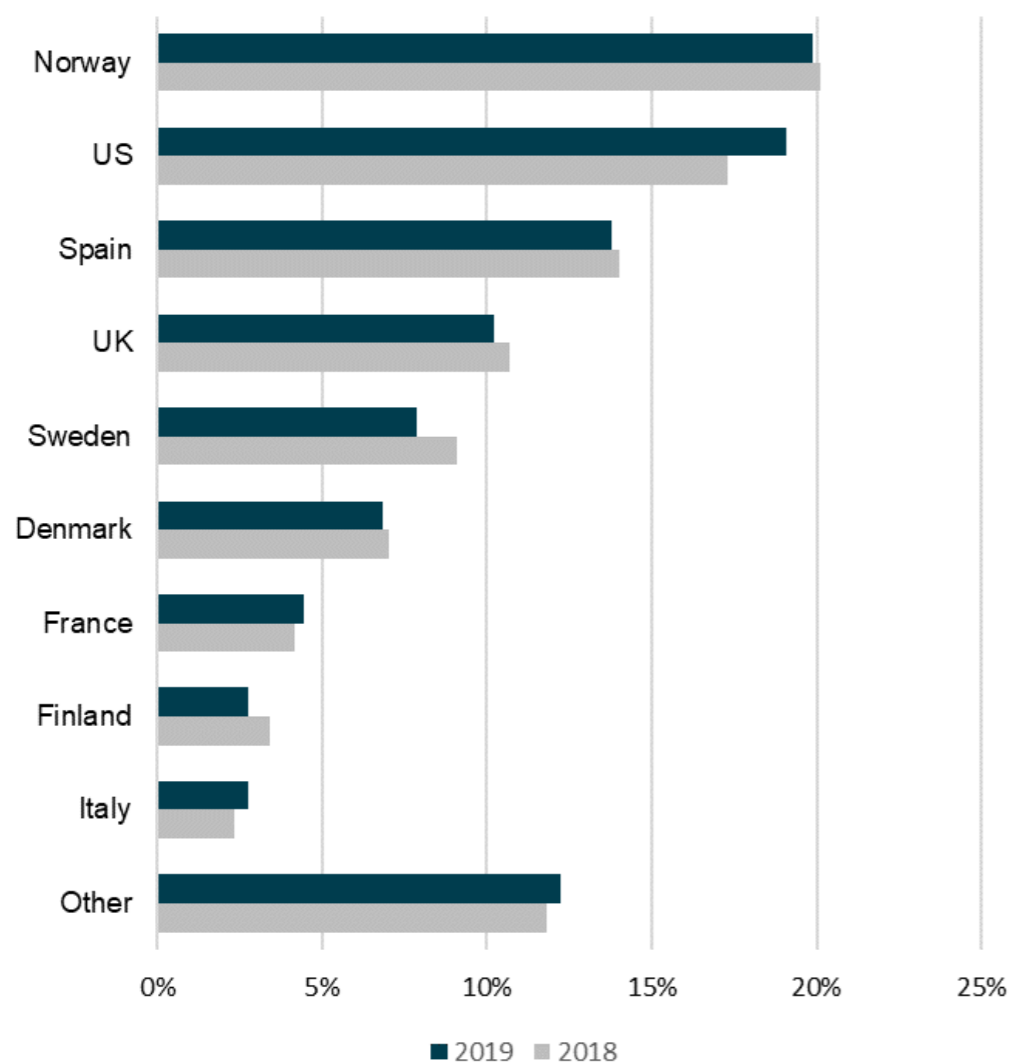
Working to develop feeder traffic with JetBlue & EasyJet



# Growth in revenue outside Scandinavia in 2019

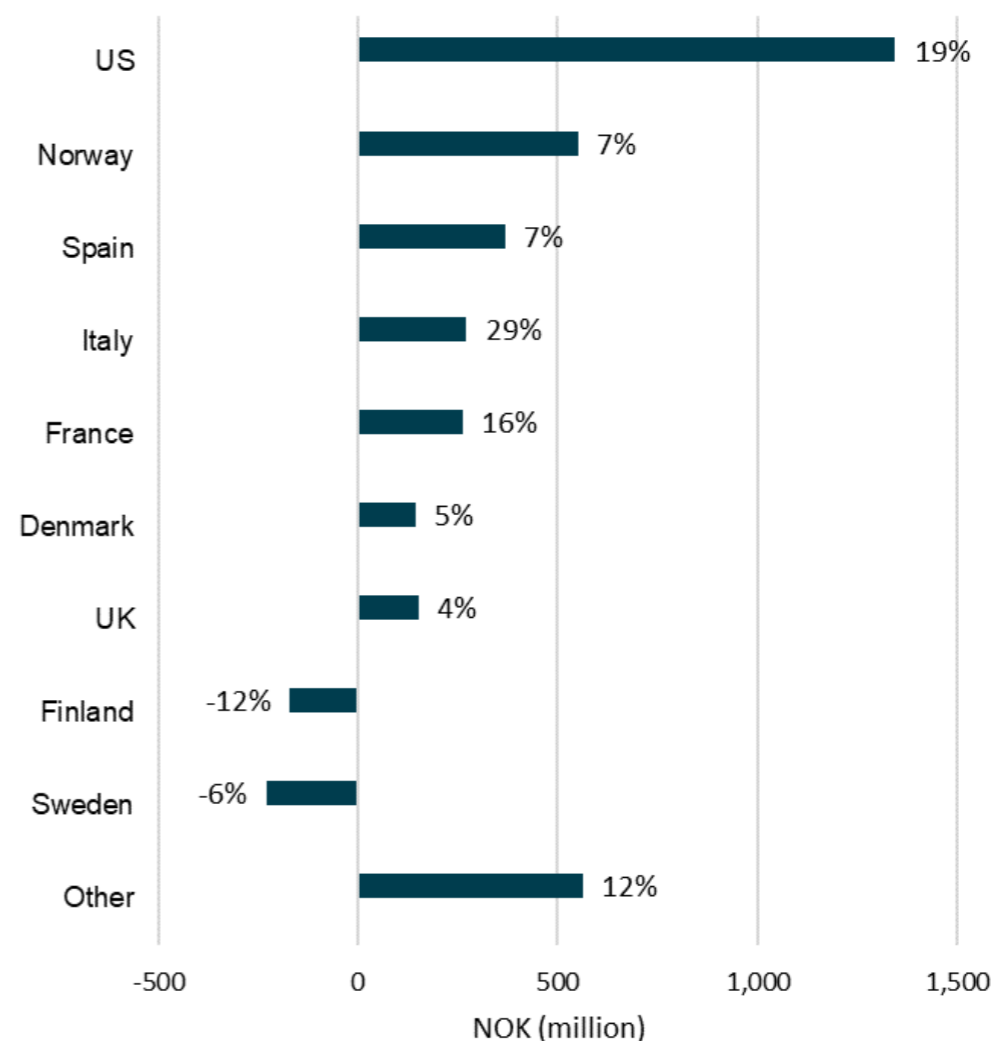
## Revenue split by origin in 2019:

- Share of customers outside Scandinavia has increased significantly, with the strongest customer growth in the US



## Revenue growth yoy:

- 19% revenue growth from the US
- High growth in the key European markets on transatlantic routes (France, Italy and Spain)



# Financials

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# Lower operating expenses more than offset impact from capacity reduction on revenue

## INCOME STATEMENT Q4 2019

<i>NOK million</i>	Q4 2019	Q4 2018
Passenger revenue	7,179	7,693
Ancillary passenger revenue	1,375	1,523
Other revenue	390	441
<b>Total operating revenue</b>	<b>8,944</b>	<b>9,658</b>
Personnel expenses	1,695	1,766
Aviation fuel	2,722	3,420
Airport and ATC charges	941	1,027
Handling charges	1,118	1,497
Technical maintenance expenses	809	916
Other operating expenses	1,223	1,151
<b>EBITDAR excl other losses/(gains)</b>	<b>436</b>	<b>-118</b>
Other losses/(gains)	80	1,807
<b>EBITDAR</b>	<b>357</b>	<b>-1,925</b>
Aircraft lease, depreciation and amortization	1,635	1,668
<b>Operating profit (EBIT)</b>	<b>-1,278</b>	<b>-3,593</b>
Net financial items	-661	-389
Profit (loss) from associated companies	-86	37
<b>Profit (loss) before tax (EBT)</b>	<b>-2,024</b>	<b>-3,945</b>
Income tax expense (income)	-151	-933
<b>Net profit (loss)</b>	<b>-1,873</b>	<b>-3,012</b>

7% lower revenue driven by capacity reduction

13% lower operating expenses driven by #Focus2019, fuel and handling

EBITDAR excl other losses/(gains) improved to NOK 436 million (NOK -118 million)

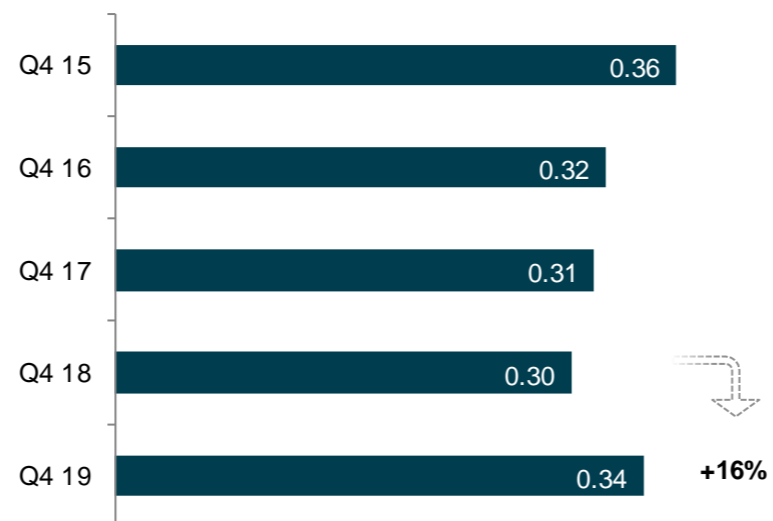
# 11% higher unit revenue in constant currency



- Q4 unit revenue (RASK) +16% to 0.34 (+11% in constant currency)
- 4% reduction in average sector length
- Ancillary revenue per passenger increased by 8% to NOK 182 (169)

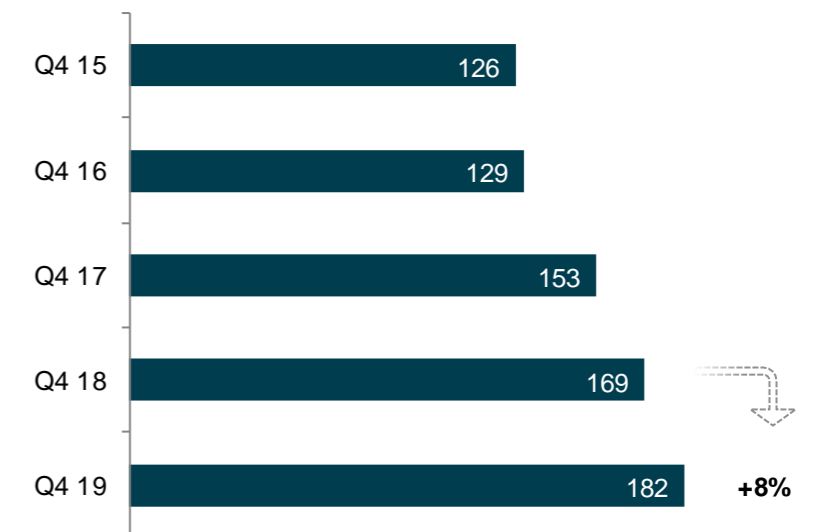
## UNIT REVENUE

NOK



## ANCILLARY PER PASSENGER

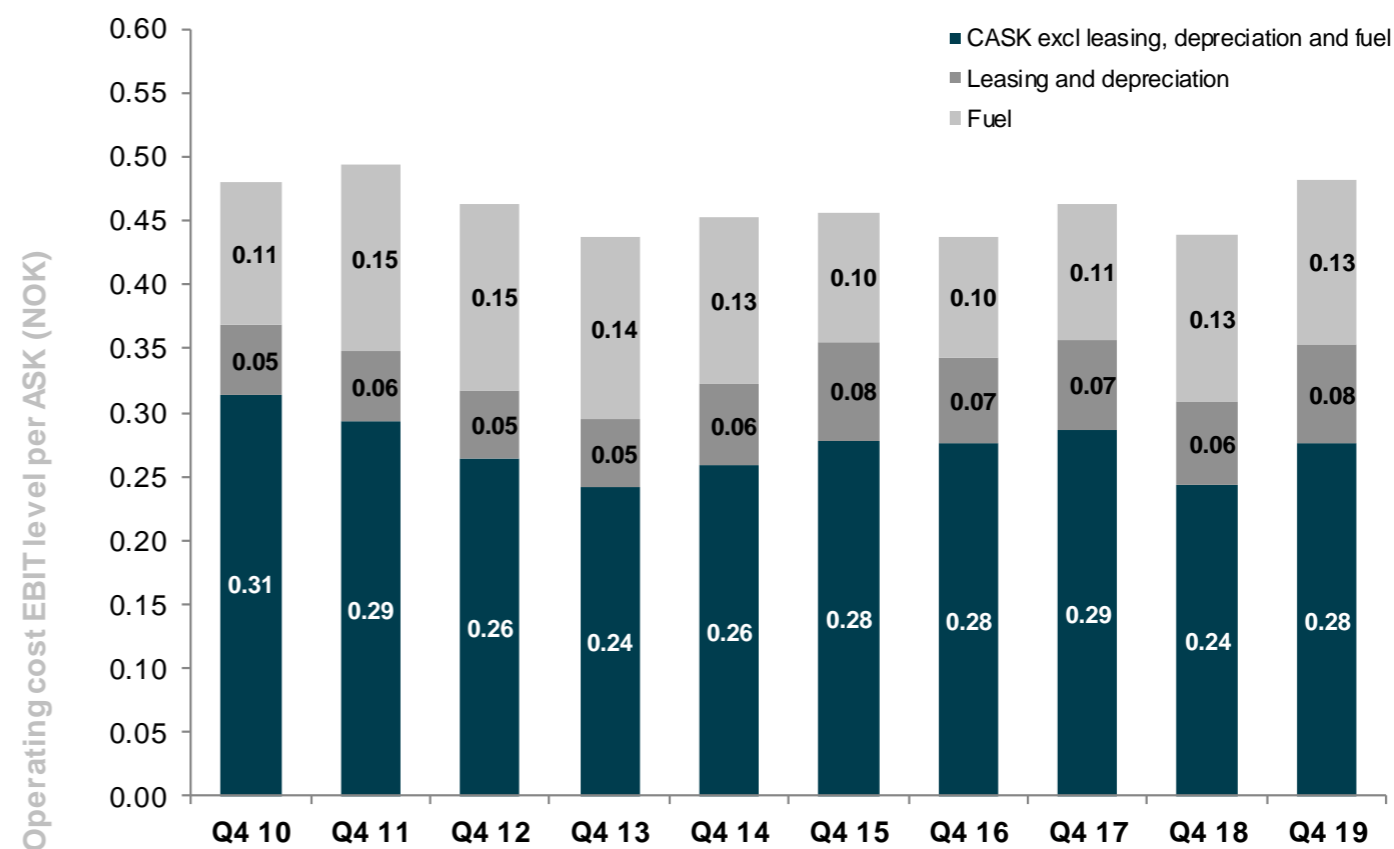
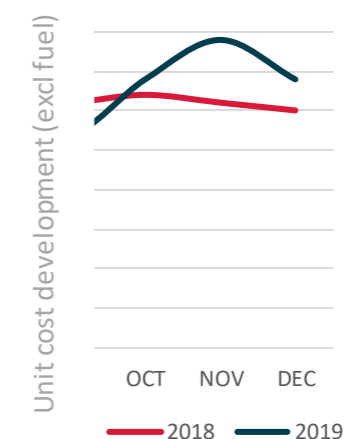
NOK



# 10% increase in unit cost excl fuel in constant currency



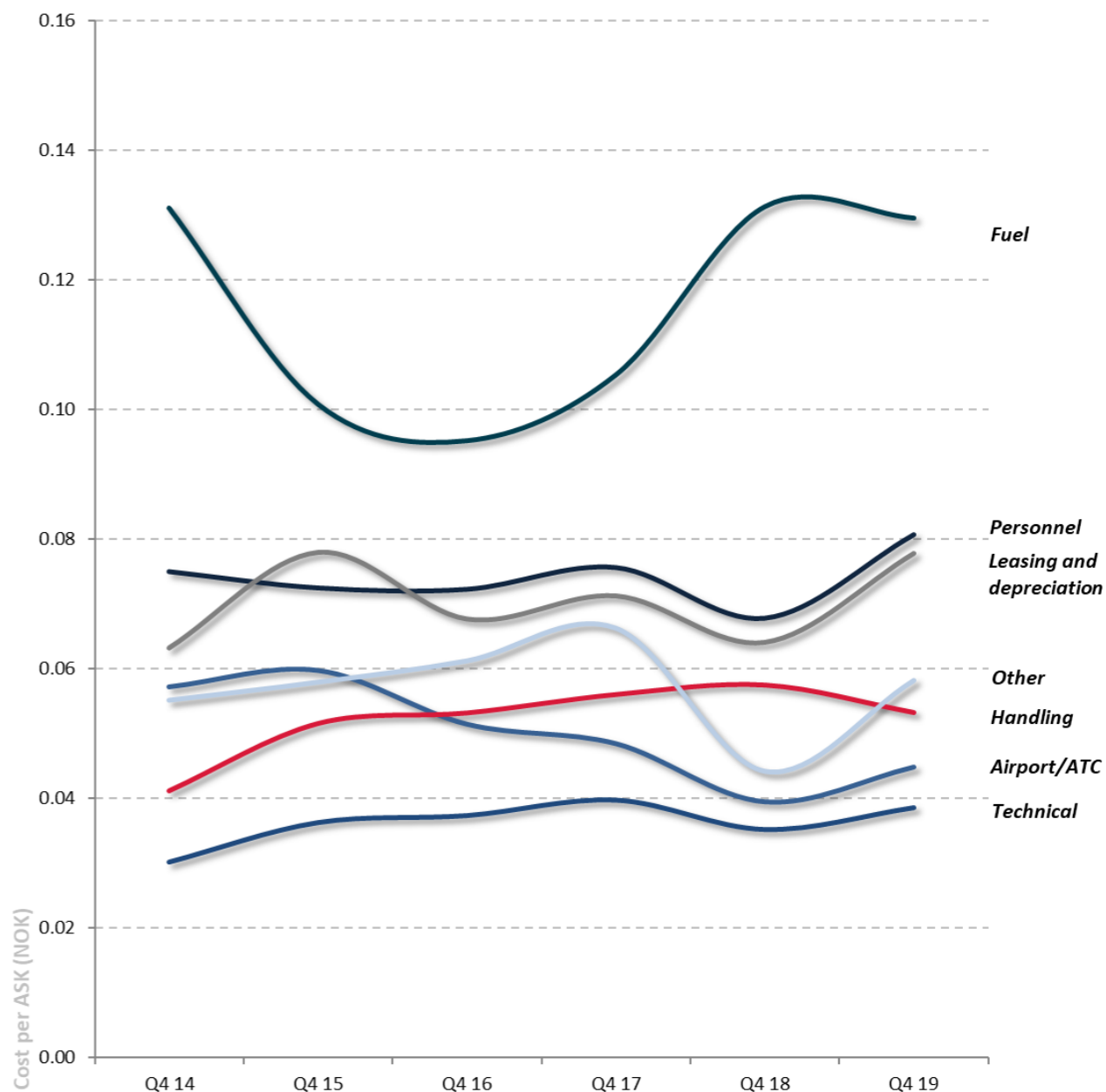
- Unit cost incl fuel increased by 10% yoy (4% in constant currency)
- Unit cost excl fuel increased by 15% yoy (10% in constant currency)



	Q4 10	Q4 11	Q4 12	Q4 13	Q4 14	Q4 15	Q4 16	Q4 17	Q4 18	Q4 19
<b>Unit cost</b>	<b>0.48</b>	<b>0.49</b>	<b>0.46</b>	<b>0.44</b>	<b>0.45</b>	<b>0.46</b>	<b>0.44</b>	<b>0.46</b>	<b>0.44</b>	<b>0.48</b>
Unit cost excl fuel	0.37	0.35	0.32	0.29	0.32	0.36	0.34	0.36	0.31	0.35

# Lower fuel and handling cost, but negative impact from capacity reduction and currency

- Lower **fuel cost** (-1% per ASK) driven by lower share of wet lease and lower jet fuel spot prices (-7%), partially offset by stronger USD vs NOK (+8%)
- Higher **personnel cost** (+19% per ASK) due to grounded aircraft and decreased production
- Higher **lease and depreciation** (+22% per ASK) due to currency effects and grounded aircraft (+13% in constant currency)
- Higher **other operating expenses** (+32% per ASK) due to lower sales and distribution expenses in Q4 2018
- Lower **handling cost** (-7% per ASK) driven by improved punctuality (reduced cost related to customer compensations)
- Higher **airport/ATC cost** (+14% per ASK) due to currency headwind, reduced production and sector length, partially offset by #Focus2019
- Higher **technical cost** (+10% per ASK) due to currency headwind (+2% in constant currency) and larger share of leased aircraft in the fleet



# #FOCUS2019: Successfully delivered on FY target with savings of NOK 444 million in Q4

Cost area	Completed cost initiatives	Actual Q4 (MNOK)	Actual FY 2019 (MNOK)
<b>Airport, handling and technical costs</b>	<ul style="list-style-type: none"> <li>Renegotiated technical/MRO agreements providing recurring and one-off effects</li> <li>Reduced airport charges by consolidating network and re-negotiating terms</li> <li>Improved station efficiency to reduce handling cost while enforcing policies</li> </ul>	<b>269</b>	<b>1193</b>
<b>Operating efficiency</b>	<ul style="list-style-type: none"> <li>Reduced fuel burn through new 'big data' tools to improve flight practices</li> <li>Crew efficiency improved despite operational issues and base restructuring</li> <li>Systematic data-driven approach to improve on-time performance</li> </ul>	<b>36</b>	<b>618</b>
<b>Procurement, administration and IT</b>	<ul style="list-style-type: none"> <li>Category-by-category procurement review</li> <li>Chatbot &amp; automated disruption management enabled more efficient customer handling</li> <li>Reduced overhead costs through office consolidation and nearshoring</li> </ul>	<b>104</b>	<b>281</b>
<b>Commercial, marketing and product offering</b>	<ul style="list-style-type: none"> <li>In-flight initiatives to improve customer offering, optimize loading &amp; reduce waste</li> <li>Standardized product offering / bundles to get scale economies</li> </ul>	<b>35</b>	<b>200</b>
<b>Total</b>		<b>444</b>	<b>2,292</b>

# Underlying EBITDAR doubled to NOK 6.5 billion in 2019 from NOK 3.2 billion in 2018

## INCOME STATEMENT FY 2019

<i>NOK million</i>	Full year 2019	Full year 2018
Passenger revenue	35,216	32,560
Ancillary passenger revenue	6,651	6,267
Other revenue	1,654	1,439
<b>Total operating revenue</b>	<b>43,522</b>	40,266
Personnel expenses	6,817	6,665
Aviation fuel	12,607	12,562
Airport and ATC charges	4,140	4,373
Handling charges	5,260	5,200
Technical maintenance expenses	3,379	3,494
Other operating expenses	4,850	4,806
<b>EBITDAR excl other losses/(gains)</b>	<b>6,468</b>	3,165
Other losses/(gains)	-846	994
<b>EBITDAR</b>	<b>7,313</b>	2,171
Aircraft lease, depreciation and amortization	6,457	6,022
<b>Operating profit (EBIT)</b>	<b>856</b>	-3,851
Net financial items	-2,530	1,232
Profit (loss) from associated companies	-14	129
<b>Profit (loss) before tax (EBT)</b>	<b>-1,688</b>	-2,490
Income tax expense (income)	-78	-1,036
<b>Net profit (loss)</b>	<b>-1,609</b>	-1,454

8% revenue growth mainly driven by improving unit revenue and increasing ancillary per passenger

Net financial items for 2018 include a gain related to fair value adj. of NOFI of NOK 1,940 million

Negative impact from IFRS 16 adjustments on EBT of NOK 756 million



# Reduced assets and long-term debt

## BALANCE SHEET

<i>NOK million</i>	31 DEC 2019	30 SEP 2019
Intangible assets	2,871	2,821
Tangible fixed assets	66,379	71,937
Fixed asset investments	1,485	1,410
<b>Total non-current assets</b>	<b>70,734</b>	<b>76,168</b>
Assets held for sale	1,205	-
Inventory	176	189
Investments	-	958
Receivables	10,133	11,297
Cash and cash equivalents	3,096	2,934
<b>Total current assets</b>	<b>14,609</b>	<b>15,377</b>
<b>ASSETS</b>	<b>85,343</b>	<b>91,545</b>
<b>Equity</b>	<b>4,125</b>	<b>5,249</b>
Non-current debt	52,593	56,485
Other non-current liabilities	4,598	4,741
<b>Total non-current liabilities</b>	<b>57,192</b>	<b>61,226</b>
Air traffic settlement liabilities	6,106	6,759
Current debt	8,784	8,165
Other current liabilities	9,136	10,146
<b>Total current liabilities</b>	<b>24,026</b>	<b>25,070</b>
<b>Liabilities</b>	<b>81,218</b>	<b>86,296</b>
<b>EQUITY AND LIABILITIES</b>	<b>85,343</b>	<b>91,545</b>

No additions of aircraft in Q4, completed sale of five 737-800s

# Reduced interest-bearing debt (excl IFRS 16) by NOK 6.7 billion

## CASH FLOW

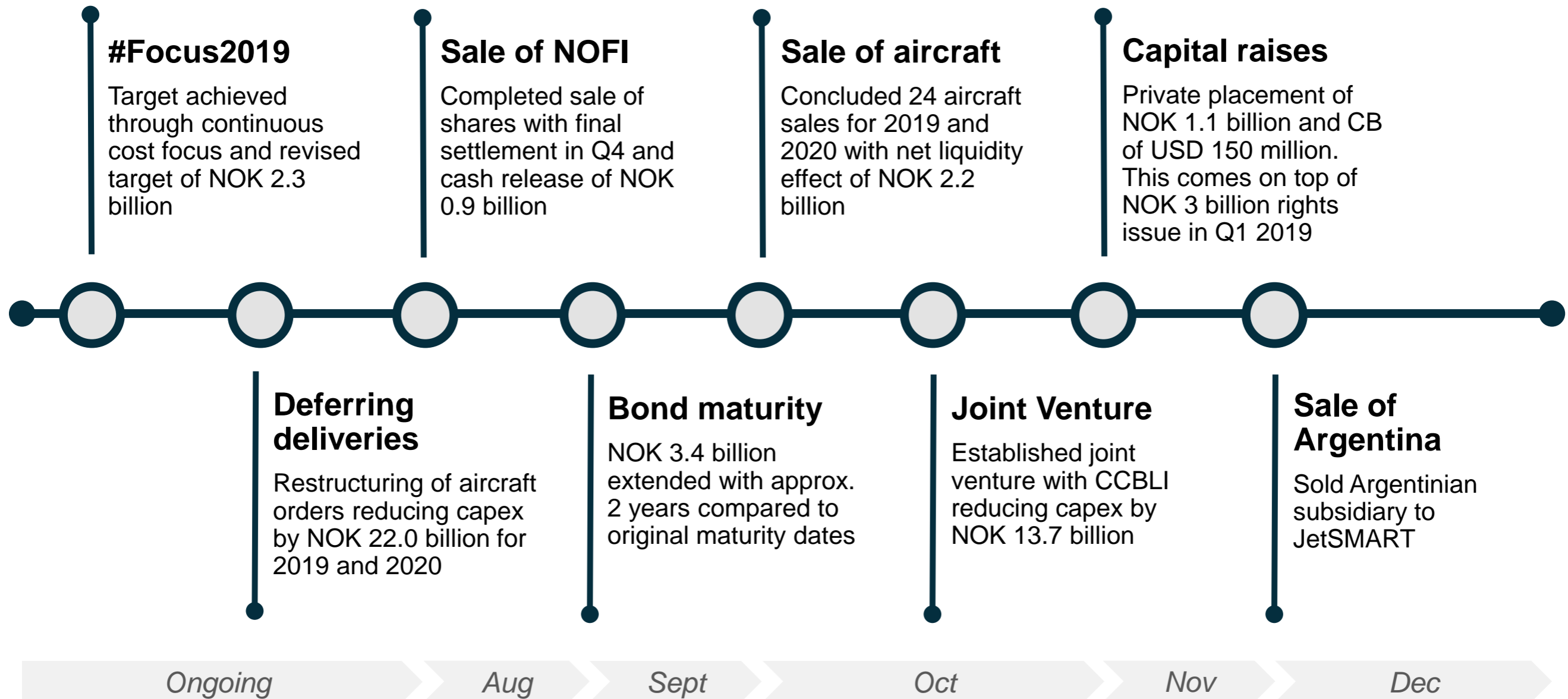
<i>NOK million</i>	Full year 2019	Full year 2018
Profit before tax	-1,688	-2,490
Paid taxes	-38	-23
Depreciation, amortization and impairment	6,457	1,668
Changes in air traffic settlement liabilities	-801	414
Changes in receivables	-3,380	-2,548
Other adjustments	2,487	3,442
<b>Net cash flows from operating activities</b>	<b>3,038</b>	<b>463</b>
Purchases, proceeds and prepayment of tangible assets	6,039	-8,782
Other investing activities	2,293	219
<b>Net cash flows from investing activities</b>	<b>8,332</b>	<b>-8,563</b>
Loan proceeds	2,408	12,547
Principal repayments	-13,218	-6,519
Financing costs paid	-3,345	-1,500
Proceeds from issuing new shares	3,961	1,456
<b>Net cash flows from financing activities</b>	<b>-10,193</b>	<b>5,984</b>
Foreign exchange effect on cash	-3	-2
<b>Net change in cash and cash equivalents</b>	<b>1,174</b>	<b>-2,118</b>
Cash and cash equivalents at beginning of period	1,922	4,040
Cash and cash equivalents at end of period	3,096	1,922

Sold twelve 737-800 and two A320, and added five 787-9 to the fleet

Sold all shares in NOFI

The IFRS 16 effect was NOK 5.7 billion on operating activities and NOK 5.7 billion on financing activities

# Significant actions to increase financial headroom while transforming the business



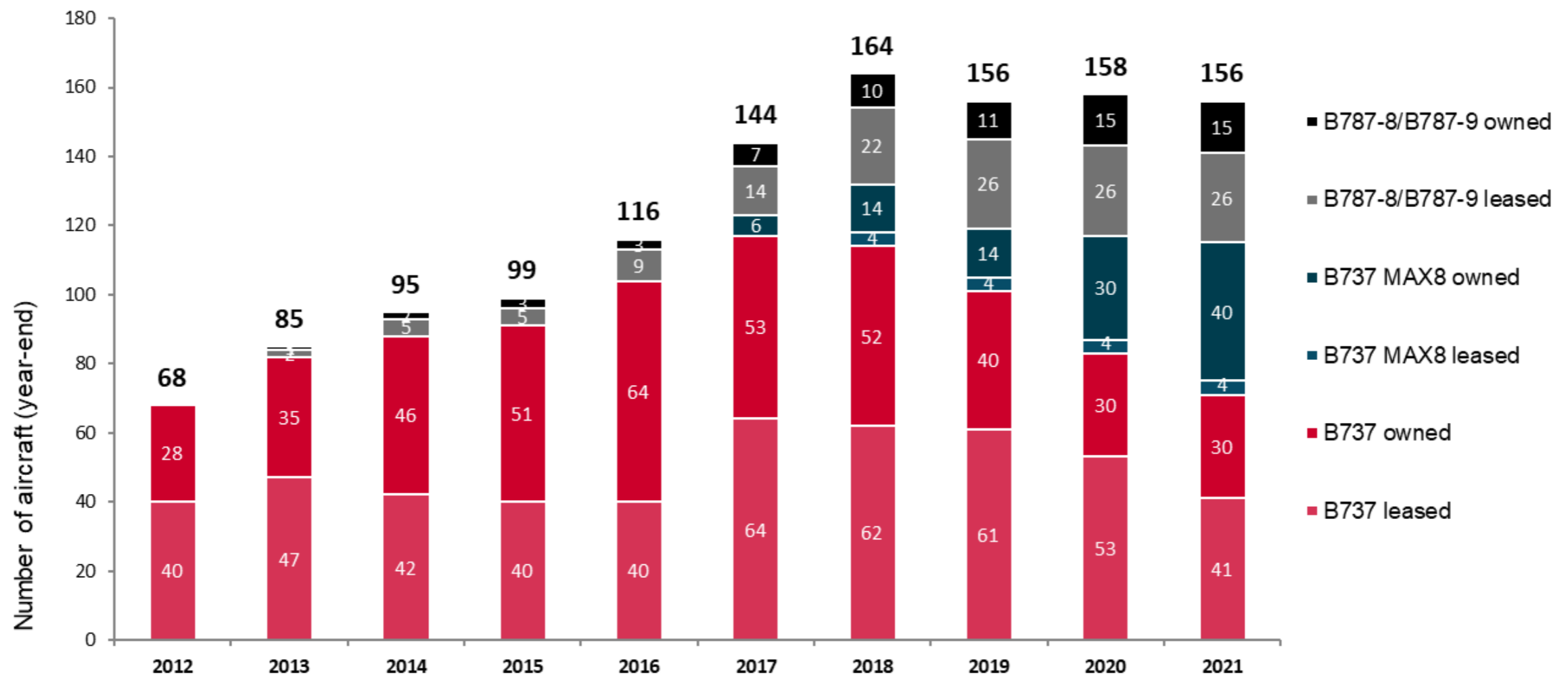
Continued work on developing supplementary sources of finance

# Outlook

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# Guidance on fleet plan and capital expenditure

	Capital commitments*	Deliveries B737 MAX8	Deliveries B787-9
<b>2020:</b>	USD 1.5 billion (previous estimate USD 1.4 billion)	16 (16)	4 (4)
<b>2021:</b>	USD 0.6 billion	10 (10)	0 (1)



\* Total contractual commitments (all aircraft incl PDP)  
 The deliveries of MAX aircraft are currently on hold, and the delivery schedule for these aircraft is subject to change.

# Disruptions to operations



## → Grounding of the 737 MAX

- Optimizing the network and securing leased capacity to make sure the core production is covered for Summer 2020 without the MAX
- An estimated negative impact on P&L of NOK 1 billion in 2019
- Still in discussions with Boeing regarding compensation

## → 787 Dreamliner engine issues

- An estimated negative impact on P&L of NOK 750 million in 2019 including lost cargo sales
- Expected to continue in 2020

# Outlook and guidance for 2020



## → Estimated production (ASK)

- 13% to 15% ASK reduction in 2020 (previous estimate: -10%)

## → Guidance for 2020

- Unit cost incl depreciation excl fuel of NOK 0.33-0.34
- Unit cost incl depreciation and fuel of NOK 0.44-0.45
- The company targets a positive net profit for 2020

## → Assumptions

- Based on the current route portfolio and return to service of the MAX in September
- Fuel price of USD 552/mt, USD/NOK 9.01, EUR/NOK 10.02
- Hedged 35% of H1 2020 at USD 578 and 25% of FY 2020 at USD 571
- Reach a solution regarding fleet disruptions

# The Way Forward

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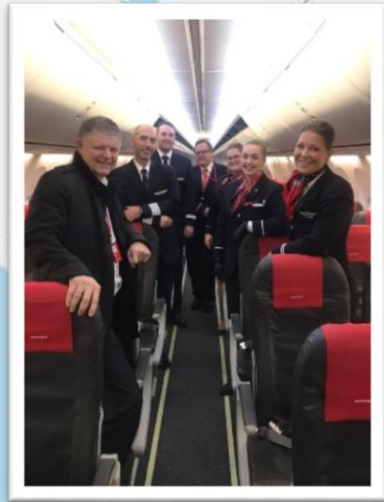
# First impressions

I've met over **900** passionate employees in the air and on the ground



Been to... **Dublin, Barcelona, London, Fornebu and OSL/Hangar**

1:1 meetings with **50 senior managers** from more than **30 departments**



# More than 250 initiatives identified across six workstreams



## 6 Workstreams

1. Network
2. People
3. Product, pricing and revenue management
4. Operational performance
5. Cost reduction/procurement
6. Value proposition



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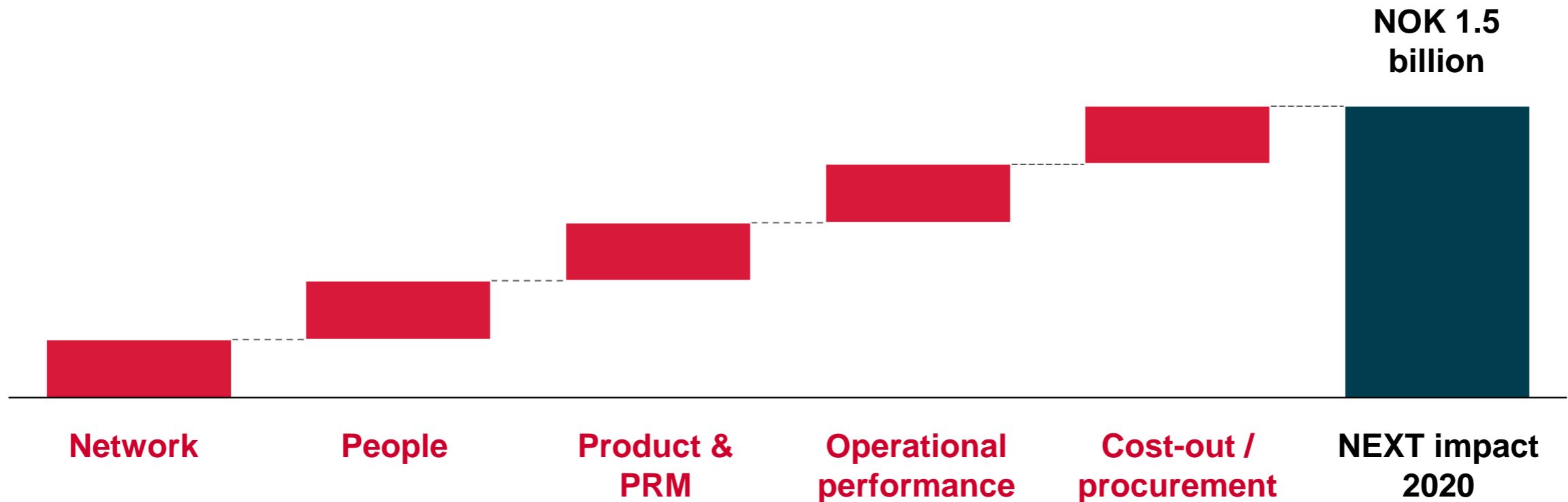
Identified initiatives



40

Completed initiatives

# Driving NEXT to deliver significant value in 2020



Key focus areas for 2020

- Cut loss-making routes
- Consolidate airports
- Interlining

- W19/20 crew reductions
- Crew utilization improvements
- New crew optimization support system

- New core system
- Supporting tools - e.g. fare ladders
- New bag policy
- Improved RASK & yield focus

- Support tools and training to reduce fuel
- System to optimize tail allocation
- Disruption management improvements

- Optimized ticket inclusions
- Reducing MRO cost
- Reducing hotel cost

# My long-term ambition: *Establishing Norwegian as a great global enterprise within future mobility*

Optimizing the organization & positioning for profitability

*Until summer*

GOOD organisation within aviation industry

*From fall and next 3-5 years*

GREAT enterprise within future mobility

*From 2025 onwards*

## 8 building blocks to support the journey:

New **STRATEGY**, where and how to compete, strategic platform as internal compass

Right **LEADERS**, competence & behaviour, level 1-3

Clear **GOVERNANCE MODEL**, what arenas, who, how often, what agenda?

Clear **MANDATE STRUCTURE**, who, what mandates, approval structure

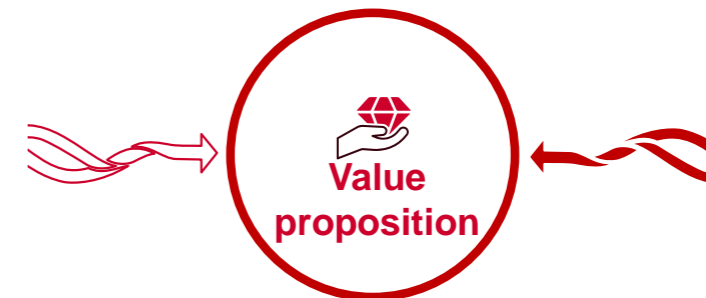
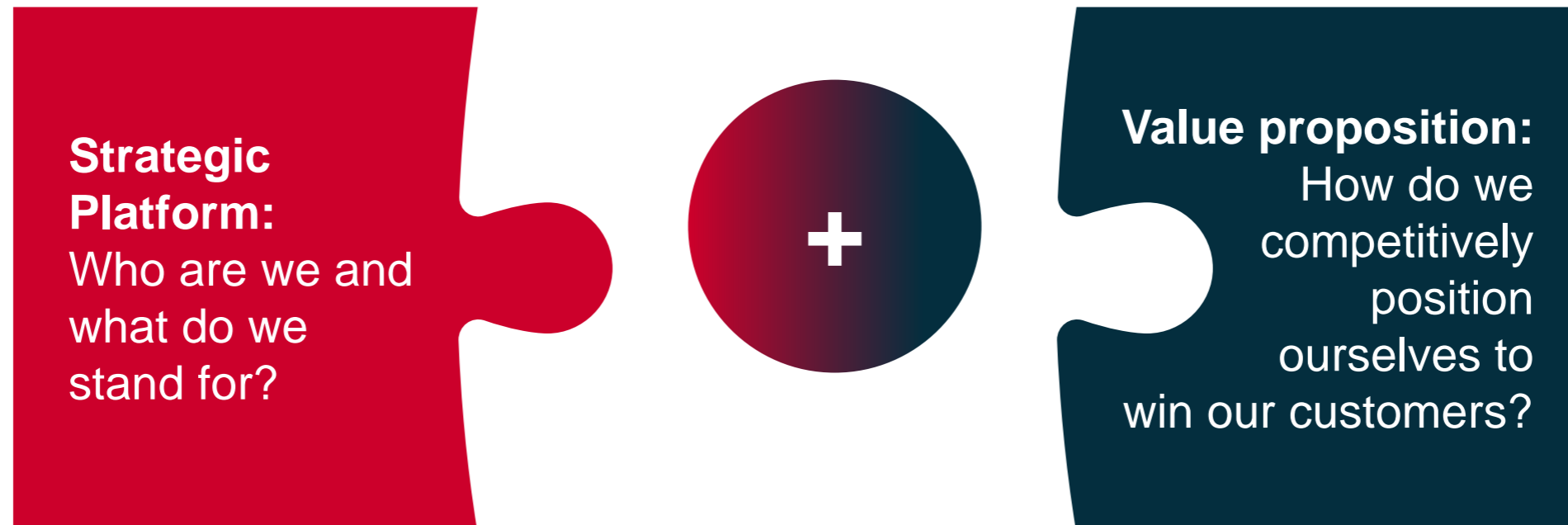
Right **STRUCTURE**, organisation, level 1-3

Common **LEADERSHIP PRINCIPALS**, how do we lead together as one team?

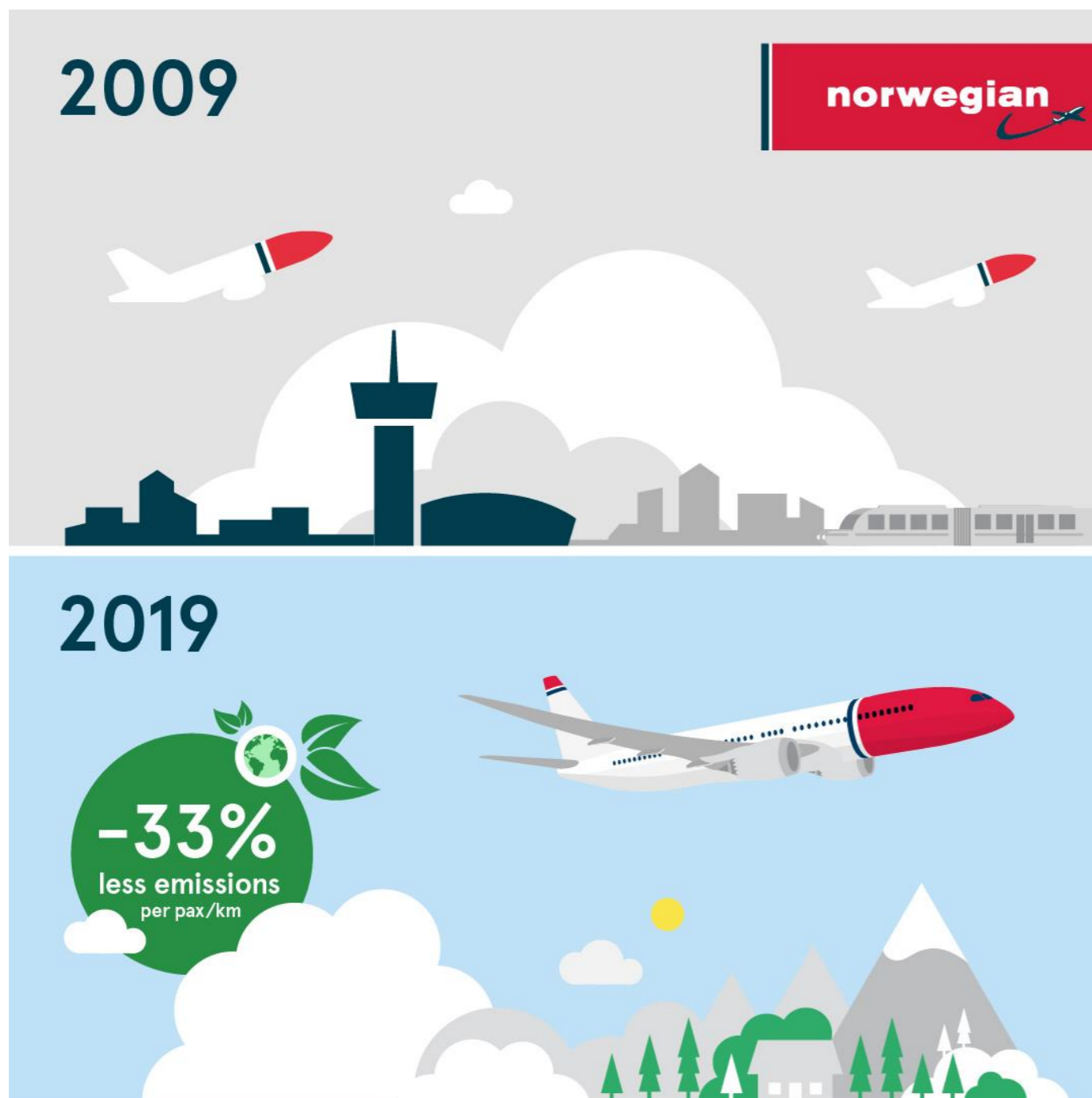
One distinct **OPERATING MODEL**, a cross-functional planning process to drive operating decisions

One **PERFORMANCE MANAGEMENT SYSTEM**, target setting, KPI dashboards, business follow-up

# Defining strategic platform and value proposition for the next phase of Norwegian



# Cost and carbon efficiency advantage go hand-in-hand



**Fleet carbon efficiency**  
70 grams CO<sub>2</sub> per RPK, 4% improvement from 2018

**Net carbon advantage**  
1.7 million metric tons CO<sub>2</sub> saved in 2019 compared to industry average

**Carbon offsets**  
> 40% of total CO<sub>2</sub> emissions offset through EU ETS  
123,000 customers compensated their carbon footprint in December

# Fly Norwegian



Book tickets at [Norwegian.com](https://www.norwegian.com)

# Appendix

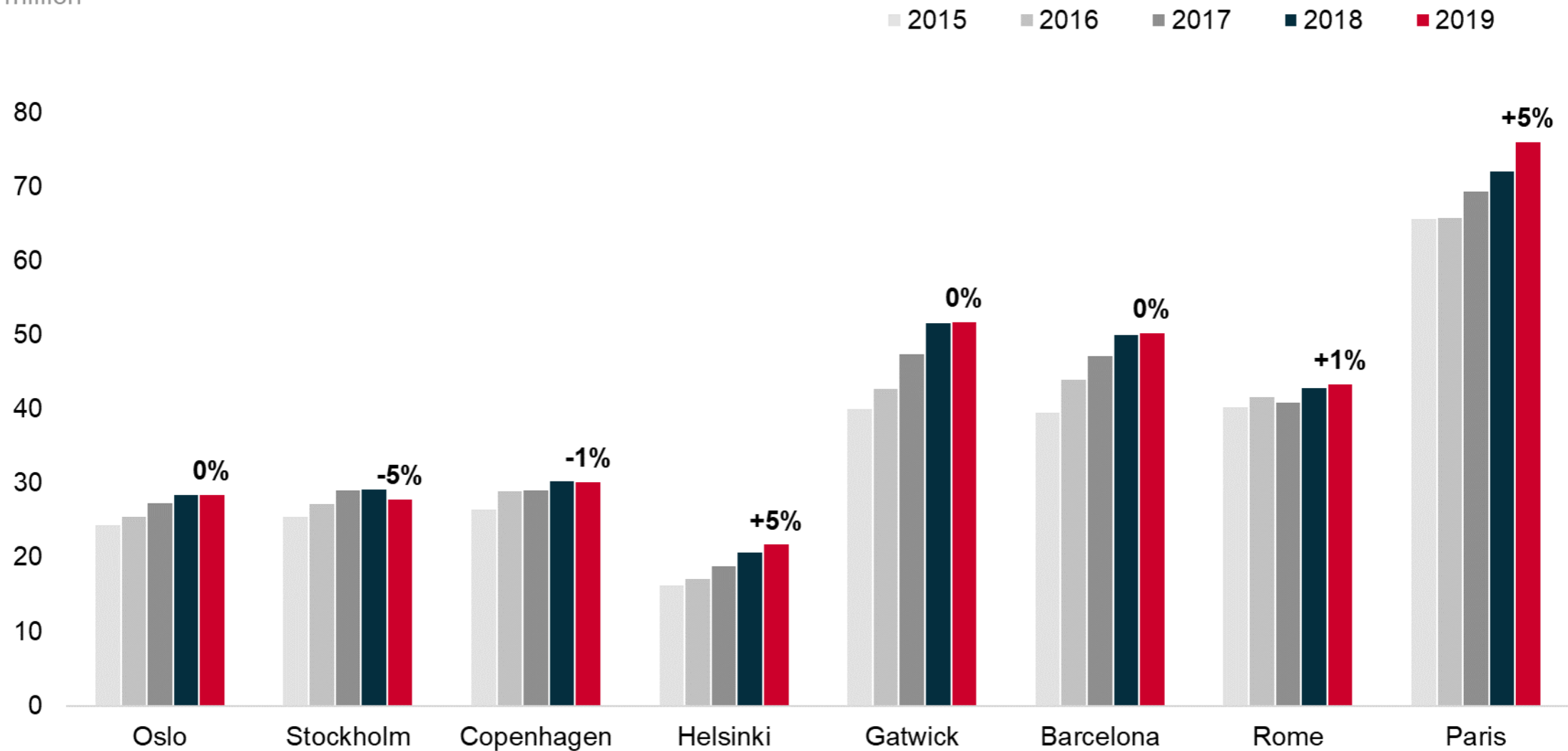
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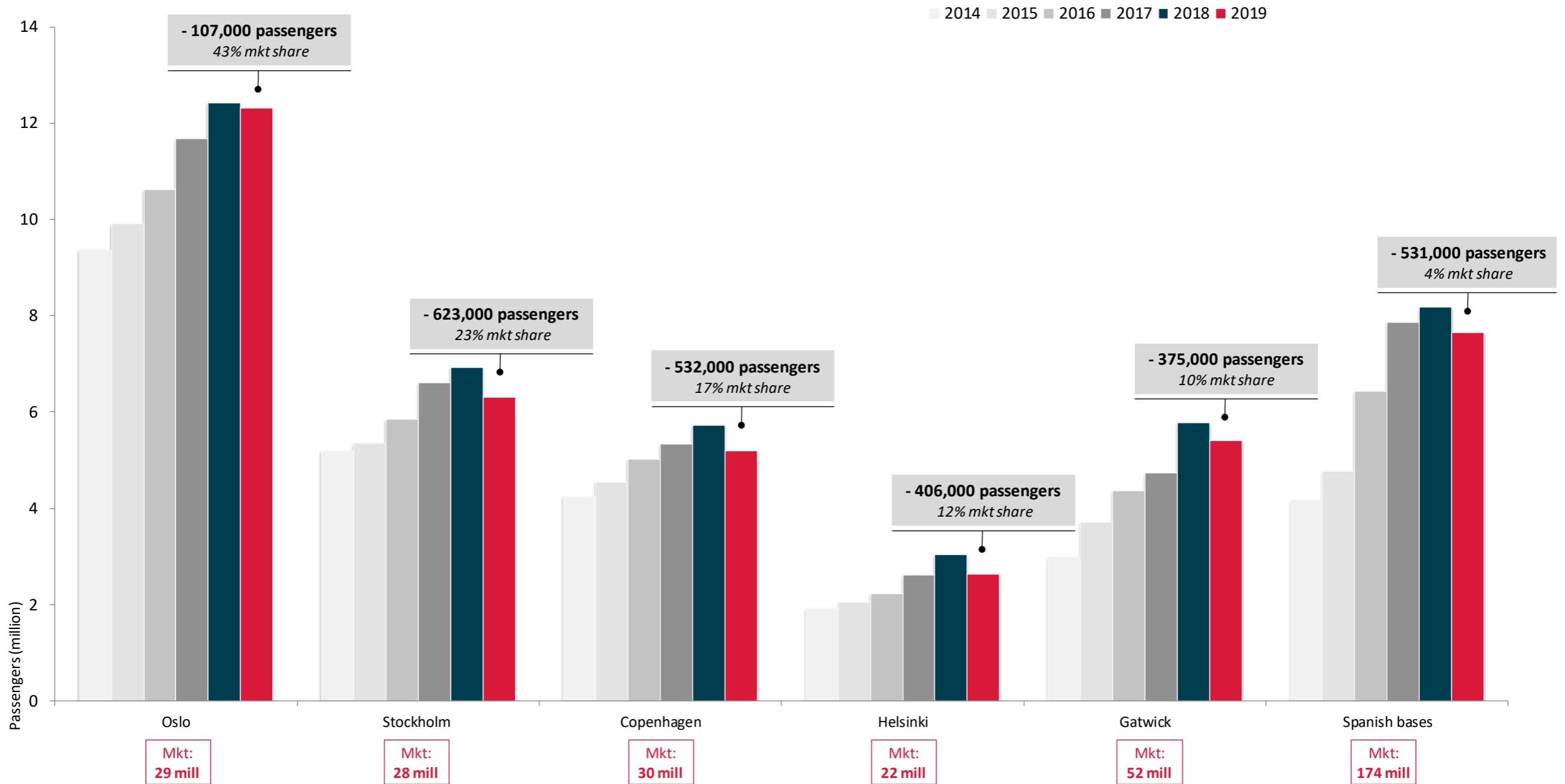
# Stable demand at Norwegian's key airports

## TOTAL PASSENGERS AT KEY AIRPORTS

In million



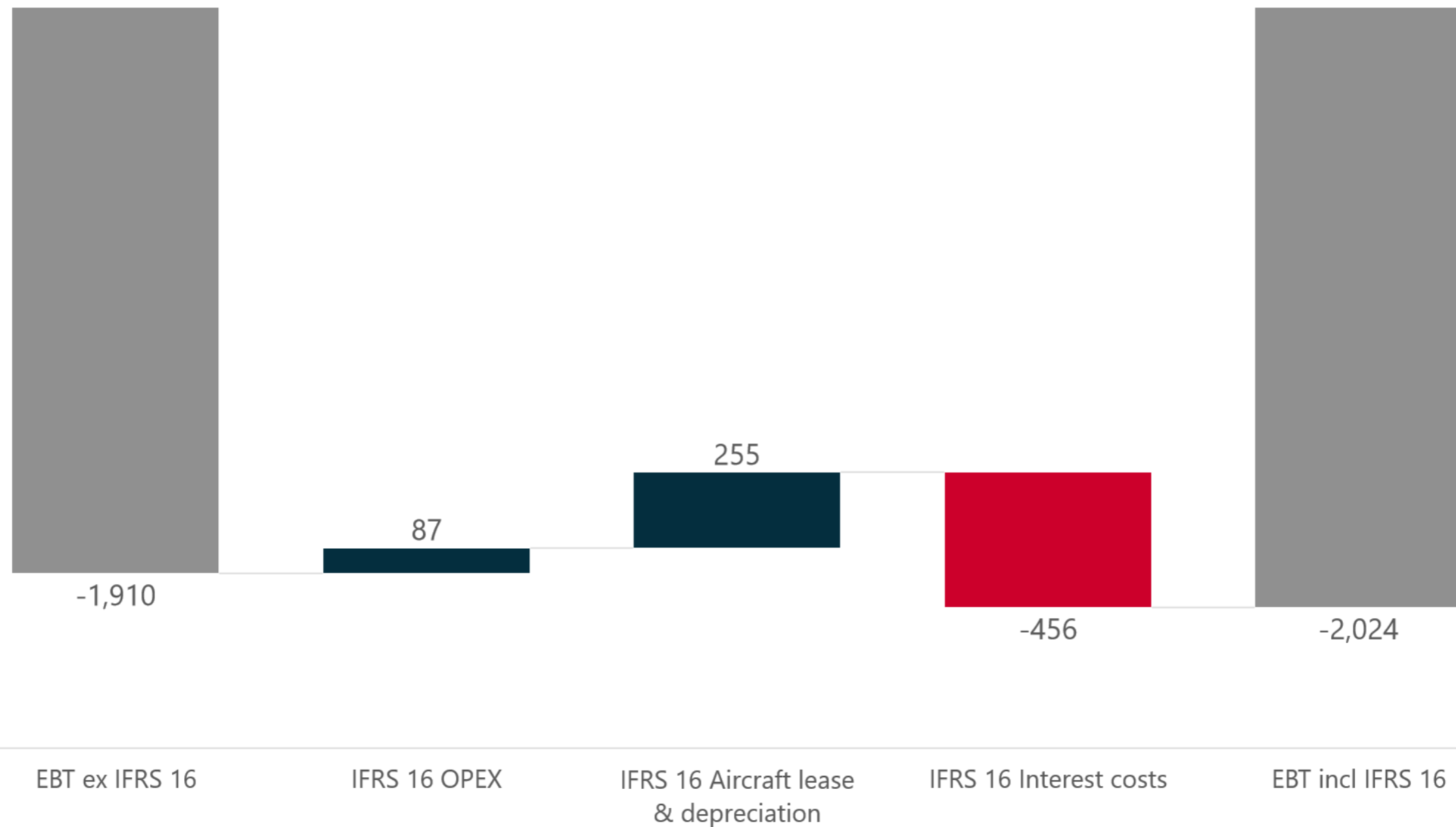
# Market shares at key airports



Source: 12 month rolling passengers as reported by Avinor, Swedavia, Copenhagen Airports, Finavia and Gatwick Airport

# IFRS 16 income statement effects in Q4 2019

NOK million



# IFRS 16 income statement effects in 2019

NOK million

