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Flybe



# Delivery and Future Direction

January 2013

# Delivery and Future Direction - Agenda

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Context and Introduction

Medium Term Plan  
- Measurable Goals and Benchmarks

Reshaping Flybe UK

Building on Flybe's Leadership in Short Haul Outsourcing Solutions

Conclusions and Updating on Progress



## *Context: November 2012 – 2012/13 Interim Results*

- **As part of our 2012/13 interim results announcement, we committed to brief all Stakeholders in Q4 2012/13 on a clear turnaround plan, including:**
  - **Profit targets**
  - **Cost reduction targets in Flybe UK**
  - **Clear action plan**
- **This is the plan**

## *What is in Today's Presentation?*

- **A clear medium term plan with measurable targets and benchmarks**
- **Addressing the immediate challenges and opportunities:**
  - **Outlines a new slimline business model for Flybe UK by implementation of transparent cost reduction and de-risking plan**
  - **Prepares for the opportunities available in the European outsourced aviation market by grouping together all outsourcing activities into one division**
  - **Restructuring of Flybe Group to create a leaner and more focussed divisional structure to implement this plan**
- **Medium term target for operational profitability of Flybe Group activities**
- **This is phase one of a two phase plan – phase two will deal with revenue enhancement initiatives and delivering further business efficiencies**

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# Delivery and Future Direction – *Medium Term Plan*

## Medium Term Operational Profit Targets

### Unit profit targets

	Year 1 13/14	Year 2 14/15	Medium Term 3 to 5 years
<b>Flybe UK (i)</b> - profit per seat (£)	<b>B'even</b>	<b>0.60</b>	<b>3.00</b>
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# Delivery and Future Direction – *Restructuring of Flybe Group*

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1. **Flybe currently has three divisions - this will be reduced to two:**
  - i. ***Flybe UK*** – all Flybe’s UK based scheduled services, division headed by Andrew Strong
  - ii. ***Flybe Outsourcing Solutions*** - all outsourced services provided by Flybe to third party customer, including contract flying and MRO and training services, division led by Mike Rutter
  
2. **In addition Flybe will reduce its Board and overhead headcount:**
  - Reduction in Board headcount
  - Reduction in management and supervisory headcount

## ***5 Simple Principles that Underpin the Plan***

### ***Flybe UK***

- 1. A cost based turnaround**
- 2. Business reshaped in a new slimline model – support activities potentially outsourced**
- 3. Actions to de-risk the delivery of our operational profit targets in the UK**
- 4. The announcements today represent phase one of our UK plan - phase two will include review of revenue and network strategies**

### ***Flybe Outsourcing Solutions***

- 5. Build upon all of Flybe's existing outsourcing services to create one unified customer offer, for this rapidly growing market place**



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# Delivery and Future Direction – Flybe UK

## Flybe UK - Turnaround Plan

	Year 0 12/13 £m	Year 1 13/14	Year 2 14/15 £m	Medium Term 3 to 5 years
<b>Consensus loss per seat (£)</b>	<b>(1.30)</b>			
<b>Cost reduction per seat (£)</b>		<b>2.20</b>	<b>0.80</b>	
<b>Less - anticipated 'in year' headwinds per seat (£)</b>		<b>(0.90)</b>	<b>(0.20)</b>	
<b>Target profit per seat (£)</b>		<b>B'even</b>	<b>0.60</b>	<b>3.00</b>
<b>Total cost reduction - cumulative (£m)</b>			<b>35</b>	} <b>Further delivery of cost reduction and efficiency</b>
<b>Components of cumulative cost reduction (£m):</b>			26	
- Business efficiency and cost reductions			9	
- Supplier costs			<b>35</b>	

# Delivery and Future Direction – *Flybe UK*

Flybe today also confirms the review of support activities for Flybe UK, whereby the division will focus on the delivery of a range of core services while potentially outsourcing the remainder

## New slimline Flybe UK

### Outsourced Activities

Call Centre

Catering

### Core Activities

- Commercial functions
- Flight operations and In-flight service delivery
- Financial control
- Asset Deployment
- Contract management

### Outsourced Activities

Base Maintenance

Line Maintenance

Ground Handling

This is a new long term model for the business

# Delivery and Future Direction – *Flybe UK*

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- **Business efficiency and cost savings include:**
  - **Proposed roles being made redundant**
    - **20% of management**
    - **10% of overhead and production (production efficiencies not network rationalisation)**
  - **Above envisaged to result in c300 (10%) UK based roles being made redundant**
  - **Automation and potential further outsourcing of ground handling**
  - **Fuel efficiency**
  - **Outsourcing of call centre**
  - **Potential outsourcing of on board sales**
  - **Potential outsourcing of line maintenance**
- **Supplier cost reductions include airports and maintenance suppliers**
- **Restructuring costs estimated at c£10m-£12m – majority will be provided in 2012/13 accounts**

## De-risking the business by removing surplus and growth aircraft

- Targeting the sale of 4 owned Q400's – contract signed on 2 sales already, at prices above book value
- Planned removal of 2013/14 growth aircraft
- Operating fleet reduction of 7 aircraft compared with Summer 2012 plan
  - Each aircraft would require revenue of c£10m per aircraft to cover aircraft ownership, crew and operating costs
  - The reduction of 7 aircraft therefore removes c£70m of revenue risk per annum

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# Delivery and Future Direction – *Flybe Outsourcing Solutions*

## Unit profit targets

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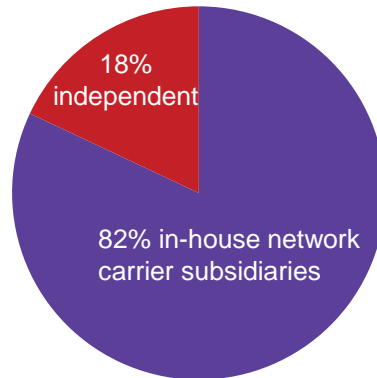
# Delivery and Future Direction – *Flybe Outsourcing Solutions*

**Flybe believes that the European scheduled contract flying market is set for substantive growth over the next few years, and that it is best positioned to exploit this ‘low risk’ market**

**US Model of regional contract flying is transferring to Europe**

- Fixed fee with escalations for cost
- Predictable cash flows
- Predictable profit streams
- No risk on fuel, statutory charges, revenue

**82% of Scheduled contract flying in Europe is currently delivered by loss making in-house subsidiaries of the network carriers**



**Major Outsourcing Opportunity**

**Over the last 15 months, Flybe has developed into the largest independent scheduled contract provider in the Europe regional sector**

Company	Sectors per Month
<b>1. Flybe</b>	<b>4,942</b>
2. Augsburg	2,479
3. Aer Arran	1,964
4. Airlinair	1,785
5. Golden Air	1,241

# Delivery and Future Direction – *Flybe Outsourcing Solutions*

**The pressure on network carriers and small scale state owned airlines to outsource will only increase**



# Delivery and Future Direction – *Flybe Outsourcing Solutions*

Over the last 18 months Flybe has grown to become one of Europe's largest scheduled contract flying providers

## Contract Flying Dimensions Annualised 12/13 Run Rate

Number of Aircraft deployed	- 26
Number of passengers carried	- 2.8m
Number of airports served	- 50
Number of seats flown	- 4.4m
Turnover	- c£250m

### Key Customers:

- Finnair (One World Alliance)
- Brussels Airlines (Star Alliance)



# Delivery and Future Direction – *Flybe Outsourcing Solutions*

## Finnair Case Study



- **Autumn 2011 – first contract awarded**
  - 6 ATR's
  - 2 E170's
- **August 2012 – second additional contract awarded**
  - 12 E190's
  - Other work since awarded
  - Now deliver 1/3<sup>rd</sup> of Finnair's short haul service
- **Operational Performance**
  - Over 90% on time performance
  - Customer satisfaction higher than in-house

"This contract flying agreement with Flybe covers approximately one third of our European flights," says Mika Vehviläinen, Finnair CEO. "Flybe offers a cost efficient platform for operating this traffic, and enables us to continue to offer a wide network and multiple frequencies to both our Finnish customers and our customers flying between Europe and Finnair's Asian destinations."

## Brussels Airline Case Study



- Spring 2012 contract awarded
- Contract has grown to 4 lines of flight and maintenance support
- Europe and UK-Europe mission
- 400 flights / 15,000 pax per month

## Olympic Air Case Study



- 2009 awarded contract to support start up of Olympic Air
- 4 lines of flight / 11,447 sectors flown
- Full outsourced solution (crew/maintenance/station management)

*The mission to deploy the aircraft in full ACMI was successfully completed in difficult conditions with Flybe committing to the project as if their own. We have no hesitation in recommending Flybe as a partner in similar or other projects. "*

**Thanos Pascalis – CEO Olympic Air**

# Delivery and Future Direction – *Flybe Outsourcing Solutions*

**Model delivers predictable profit streams and cash flows per aircraft. Other than contracting risk, there is lower commercial risk. Business risk is focused on cost control and contract exit costs.**

Commercial Innovation	Low Cost	Capacity to Grow	Experienced Pedigree
<ul style="list-style-type: none"><li>• Strong innovation culture to find solutions to customer's challenges</li><li>• Solution set includes:<ul style="list-style-type: none"><li>• Operations</li><li>• Industrial relations mgt</li><li>• Commercial Solutions</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Crew cost lower than legacy airline costs</li><li>• Flexible labour agreements</li><li>• Good labour relations</li><li>• In house MRO</li><li>• In house training</li><li>• Low overheads</li></ul>	<ul style="list-style-type: none"><li>• Scalable facilities requiring only volume related investment</li></ul>	<ul style="list-style-type: none"><li>• 30 years of airline experience</li><li>• Professional management approach</li><li>• Solid financial disciplines</li><li>• Strong product delivery</li><li>• Robust contract management</li></ul>

**Low Risk Growth Opportunity**

**Predictable cash flow and profit stream produce an 'annuity style' earnings flow**

# Delivery and Future Direction – Flybe Outsourcing Solutions

***Business will be measured as follows:***

## **Contract flying**

- **Contract flying profitability per aircraft deployed**
- **Contract wins**
- **Unit cost control**

## **MRO**

- **Man hours billed**
- **Contract wins**

## **Training**

- **Billed hours**
- **Contract wins**

***Medium term financial targets for this business - beyond those detailed today - are being developed and we will update at 2012/13 year end presentation***

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***As part of the plan, we commit to updating on progress every six months***

### ***Regular Updates***

- **Starting with 12/13 full year results**
- **Updating at each interim and full year results**
- **Full reporting on each project and cost target**

### ***Summary – Today’s Announcement Defines:***

- **A significant cost reduction plan to return Flybe UK to profitability**
- **A new slimline structure for Flybe UK**
- **A clear plan for Flybe Outsourcing Solutions to build upon our leading position in the European contract flying market, and take advantage of this growing market**