

# *SAS*

## **Q2 2019/2020**



May 28, 2020

# Highlights Q2-20

## Financial drivers

- Virtually non-existent demand during second half of quarter
- Government support packages
- Cash preservation measures
- Negative effect from fuel hedges
- Implementation of IFRS 16

## Headwinds and tailwinds

- + Government tendered traffic in Norway
- + High demand for all cargo flights
- Large uncertainty with regards to travel restrictions to/from all of SAS' destinations
- Concerned travelers
- Negative GDP development
- Weak Swedish and Norwegian krona

Q2-20	CHANGE VS. Q2-19
<b>EBT</b>	
<b>MSEK -3 722</b>	<b>MSEK -2 506</b>
<b>Capacity (ASK, total, mill. km)</b>	
<b>5 906</b>	<b>-47.4%</b>
<b>Unit Revenue, PASK (SEK, currency adjusted)</b>	
<b>0.59</b>	<b>-15.2%</b>
<b>Passenger yield (SEK, currency adjusted)</b>	
<b>1.02</b>	<b>+3.7%</b>
<b>CASK ex. fuel (SEK, currency adjusted)</b>	
<b>0.90</b>	<b>+32.3%</b>

# Strong momentum prior to COVID-19

**Market share**



Increasing market share in declining market

**PASK**



21 consecutive months of improved R12 PASK

**Operational quality**



High punctuality and regularity

**CSI**



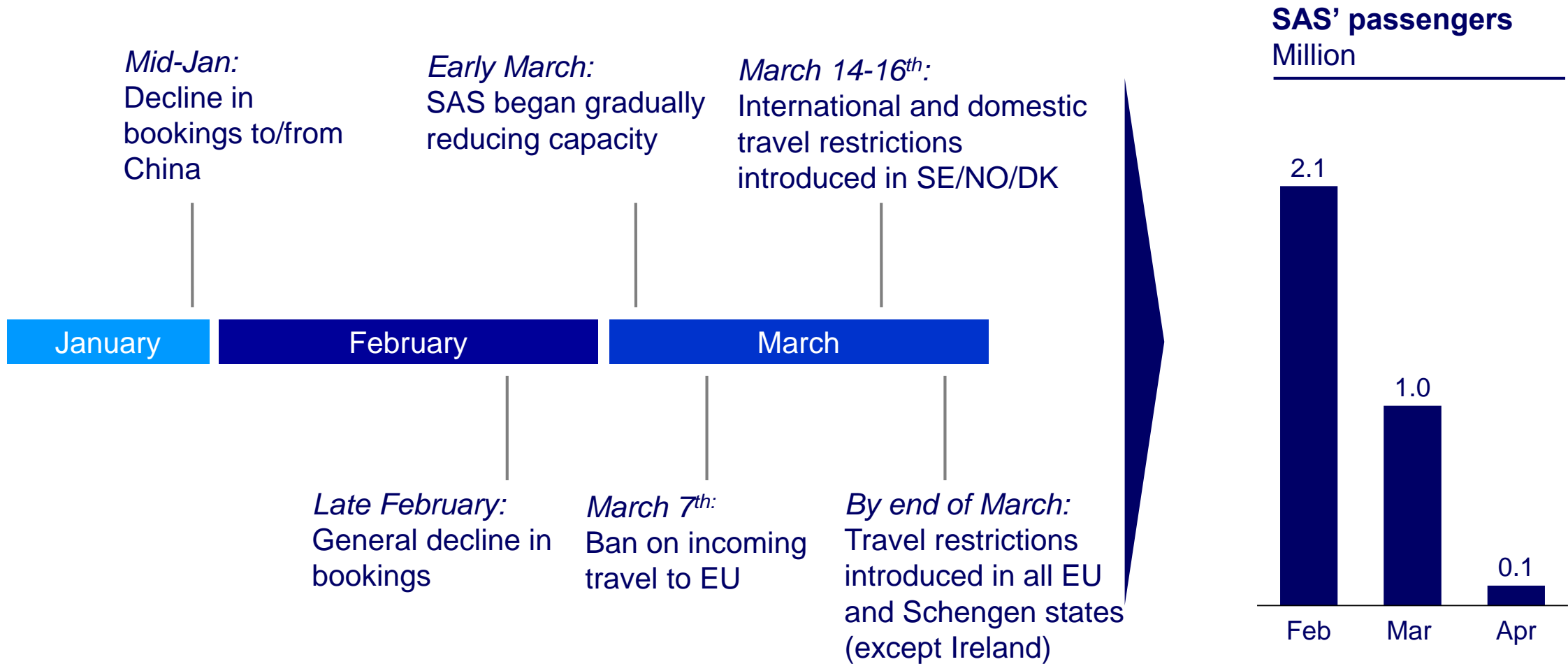
Strong customer satisfaction trend and record high CSI in January (75)

**Sustainability**



SAS seen as a global front runner in sustainable aviation

# COVID-19 has resulted in virtually non-existent demand for air travel

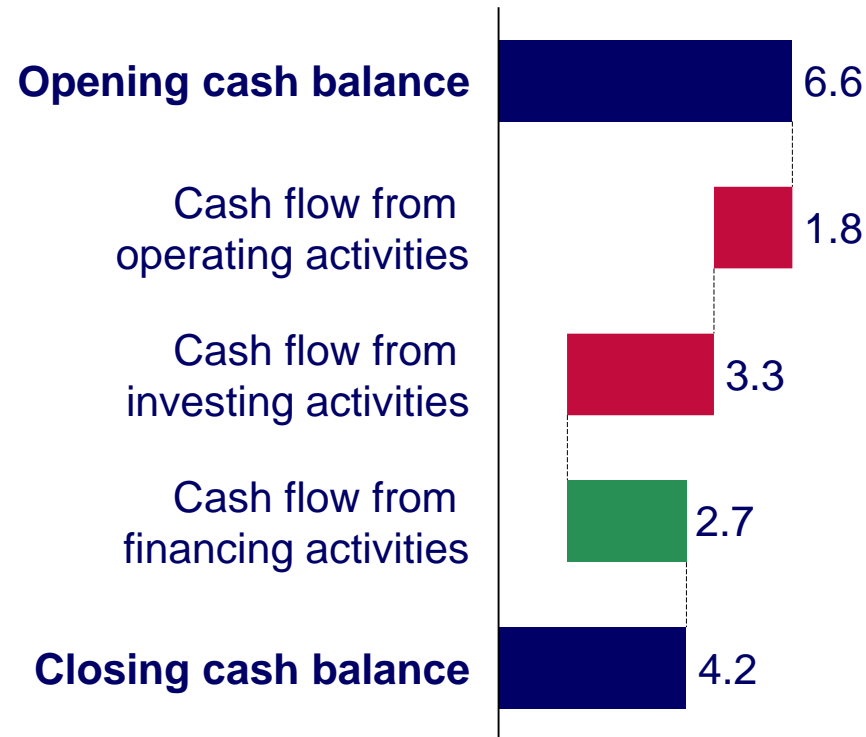


# SAS has taken rapid measures to preserve cash

## Measures taken

- Majority of fleet grounded – in April SAS’ ASK was down 95%
- 90% of staff on temporary lay-offs
- All non-essential spend and projects suspended
- Payment holidays or discounts from majority of suppliers (incl. Lessors)
- Standstill agreements with wet lease providers
- Reduced CAPEX through delayed aircraft deliveries

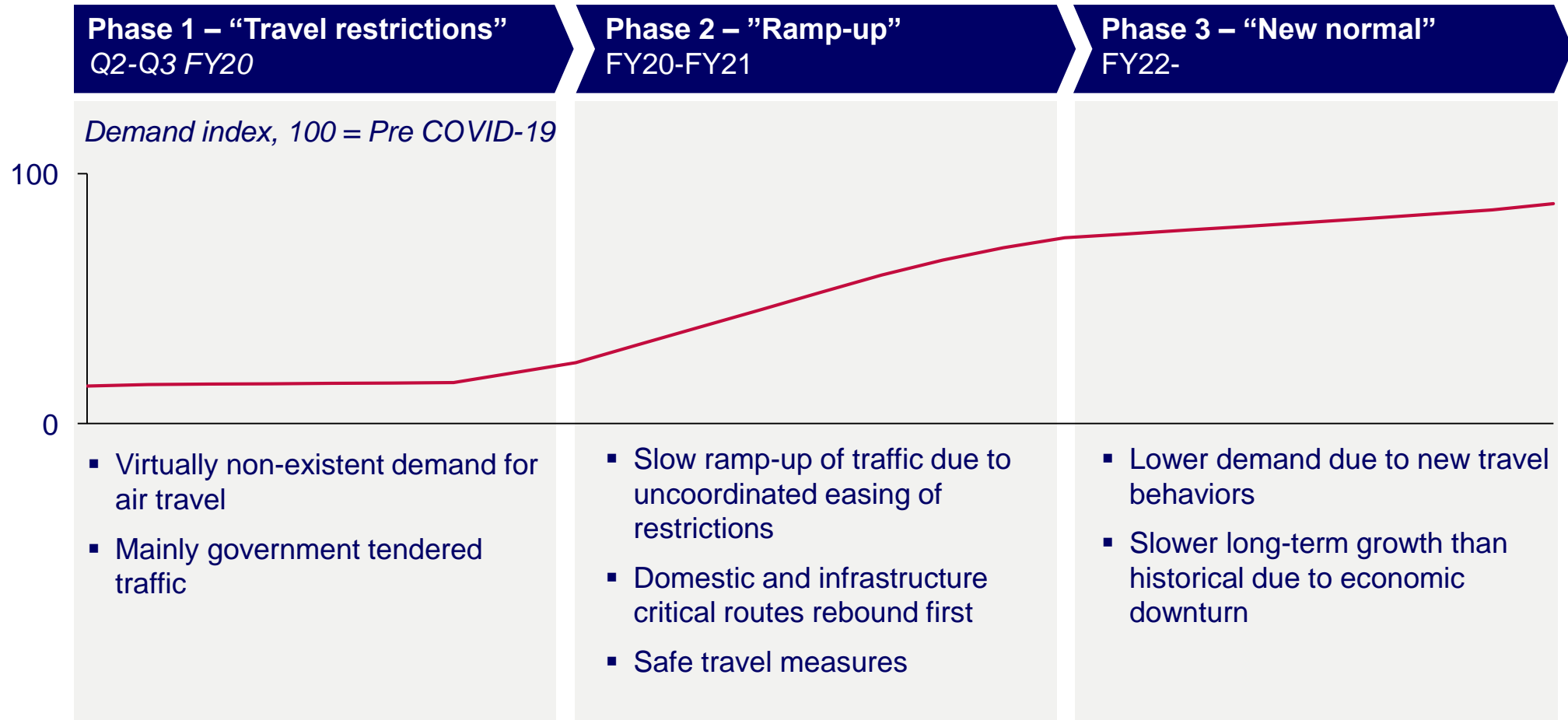
## Cash development during Q2-20 SEKbn



## Cash outlook

- Secured SEK 3.3bn guaranteed facility
- Monthly average operating cash burn of MSEK 500-700 until end of FY20
- 5 A320neo spare engines financed in May (56 MUSD)

# COVID-19 will impact aviation demand for the years to come – SAS expects 3 phases of recovery



# SAS is supporting Scandinavian society during the “travel restrictions” phase

## Helping citizens

- Special flights for repatriation of citizens from countries such as Spain, UK, USA, Peru, Brazil and Pakistan

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## Shipping medical supplies

- Air bridges for essential medical supplies, in close cooperation with the three governments and the Knut and Alice Wallenberg foundation

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## Securing infrastructure

- Maintaining flights that are critical to society, as certain domestic flights and flights between the three Scandinavian capitals

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## Supporting society

- Employees on temporary lay-off retrained to support healthcare and schools



# During “ramp-up” phase, SAS must ensure flexible and cost efficient operations while addressing concerns about traveling

## Ramp-up characterized by

- High uncertainty with regards to travel restrictions and demand
- New safety measures imposed
- Concerned travelers

## SAS' ramp-up measures

### Cost-efficient ramp-up

- New analytics dashboard to monitor travel restrictions, travel intent and early booking trends
- Ramp-up program with efficient add-on “blocks” that are easy to schedule for crew, tech and ground
- Adjusted revenue management principles to maximize revenue in low demand environment

### Safe travels

- Safety has been in SAS' DNA since 1946
- SAS' aircraft are equipped with HEPA filters with high circulation of air
- In addition, SAS has introduced
  - New on-ground and on-board procedures
  - Deep cleaning and sanitization of aircraft
  - Protective face masks until end of August



# We are pleased to re-open routes in June



- SAS constantly monitors travel restrictions, travel intent and bookings to assess ramp-up demand
- As a consequence of positive demand trends, SAS is planning to double number of aircraft in traffic to 30 by mid-June
- In total, 25 new routes including
  - Increased Domestic and Intra-Scandinavian traffic
  - Selective European majors and leisure destinations
  - Return to North America

# In the “new normal” phase , SAS will continue to focus on a strong Scandinavian footprint to serve Scandinavia’s frequent travelers

## Customers



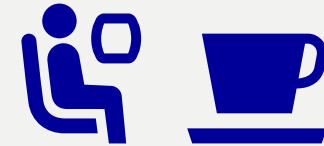
- Focus on SAS’ core customer segments – corporate customers and frequent travelers
- Complement with seasonal leisure

## Network



- Prioritize main flows within Scandinavia and to European majors
- Maintain CPH as main long haul hub, right-size selective routes from OSL/ARN with A321LR

## Product



- Focus on care and feeling safe
- Strengthen sustainability position
- Strengthen EuroBonus value proposition

# However, reduced demand will require airlines to transform – SAS has set an ambitious business plan to secure competitiveness

## Components of SAS’ revised business plan



**Employees**

- Initiated reduction of work force by up to 5 000 full-time positions to meet lower expected demand for air travel
- Zero based re-sizing of administration



**Fleet**

- Delayed Airbus deliveries, and negotiated increased flexibility in external wet lease platform
- Accelerated phase out of older aircraft to reach single-type fleet



**Productivity**

- Increased productivity of 15-25% in all areas of the business, requiring new CBA agreements, continued digitalization and enhanced planning
- Structural measures and increased outsourcing




**Suppliers**

- Negotiated discounts with large suppliers
- Initiated cost saving program across categories incl. brand, marketing, IT, product cost, and facilities



**Sustainability**

- Maintained sustainability ambition to support “Green restart” of societies



- **SEK 4bn additional efficiency improvements**
- **Increased flexibility to adapt to changes in market conditions**

# Active and constructive dialogue on recapitalization plan

## SAS' societal contribution

**SAS' contributes SEK 70+bn\* to Scandinavian economies, incl.**

- **Direct contribution through employment and taxes**
- **Value creation by suppliers and companies in supply chain**
- **Macro economic benefit from increased connectivity**

**Aviation has an important role to play in restart of economies**

## Status refinancing and recapitalization

Given the impact of COVID-19, SAS will need to secure further funding in order to continue as the **most important airline infrastructure provider** in Scandinavia. This will require support from the Scandinavian governments

As a first step, the Danish and Swedish governments have provided **90% guarantees for the SEK 3.3bn RCF**. SAS also continues its efforts to secure support from the Norwegian government

SAS is currently in **active, intensive and constructive discussions with the company's major shareholders** and selected stakeholders on a recapitalization plan to ensure the future of SAS. This includes realization of key business priorities of **increased productivity** and continuation of the **green transition**

Any potential **solution will require both government and market participation**, as well as **burden sharing measures** involving stakeholders in the company

Different options are currently being considered, and **we aim to present a plan to the market in June 2020**

\* Source: Report by Copenhagen Economics in 2019

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**FINANCIALS**



# Highlevel Summary – Q2-20

## Key Financials

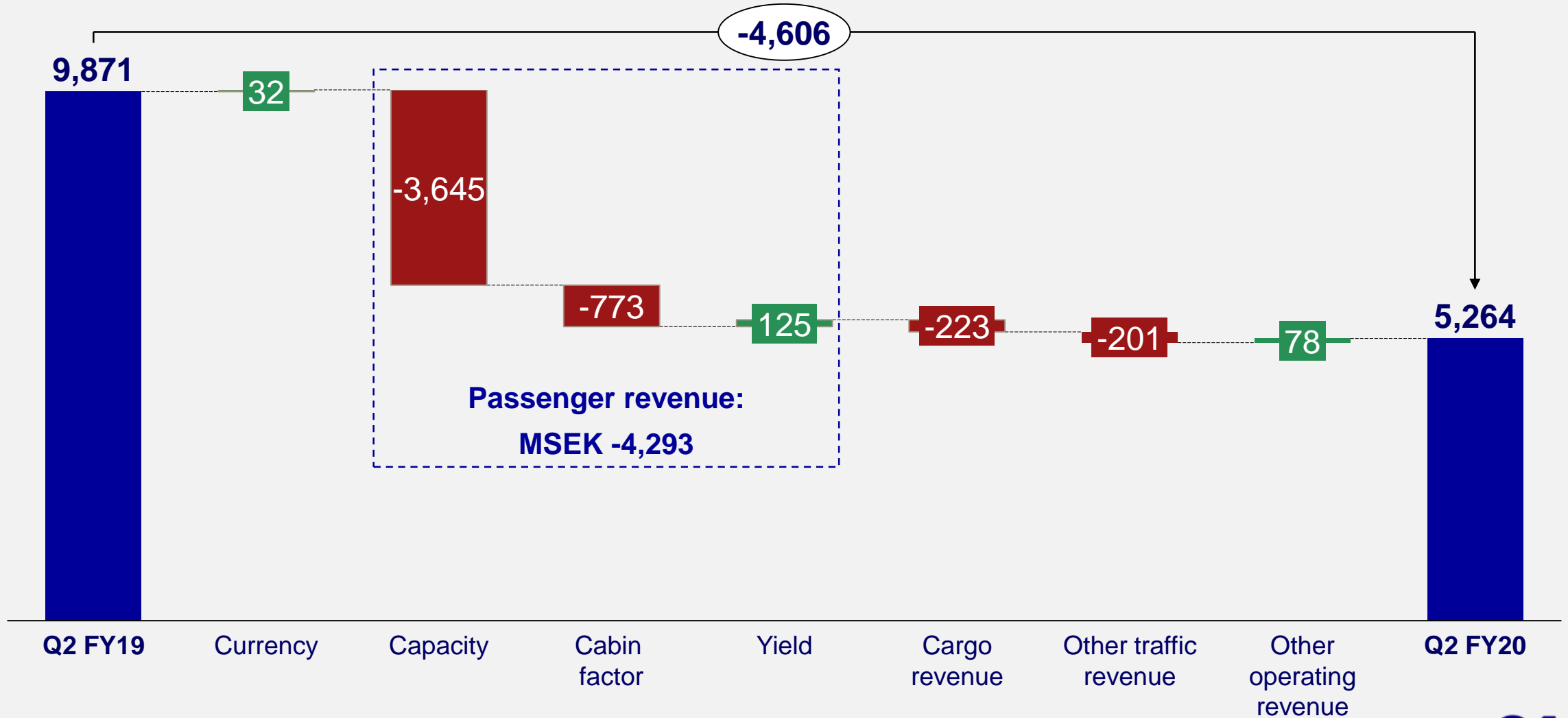
	Q2-20	Q2-19	Pct. Change	Currency
<b>Total Revenues</b>	<b>5,264</b>	<b>9,871</b>	<b>-46.7</b>	<b>32</b>
<b>Total operating expenses before i.a.c</b>	<b>-8,571</b>	<b>-10,996</b>	<b>22.1</b>	<b>315</b>
<b>EBIT before i.a.c</b>	<b>-3,307</b>	<b>-1,125</b>	<b>&lt;-100%</b>	<b>347</b>
<b>EBIT margin, %</b>	<b>-62.8%</b>	<b>-11,4%</b>	<b>-51.4 p.p.</b>	
<b>EBT before i.a.c</b>	<b>-3,714</b>	<b>-1,211</b>	<b>&lt;-100%</b>	<b>260</b>
Items affecting comparability	-8	-5		
<b>EBT</b>	<b>-3,722</b>	<b>-1,216</b>	<b>&lt;-100%</b>	<b>260</b>
<b>Cash flow from operating activities</b>	<b>-1,757</b>	<b>2,344</b>		

## Comments

- COVID-19 has had a significantly negative effect on Q2 results
- Sharp decline in capacity and traffic resulting in revenues nearly 50% below LY
- Measures to reduce costs initiated mid-March reflected in 20% lower OPEX
- Operating cash flow down driven by significant drop in forward bookings

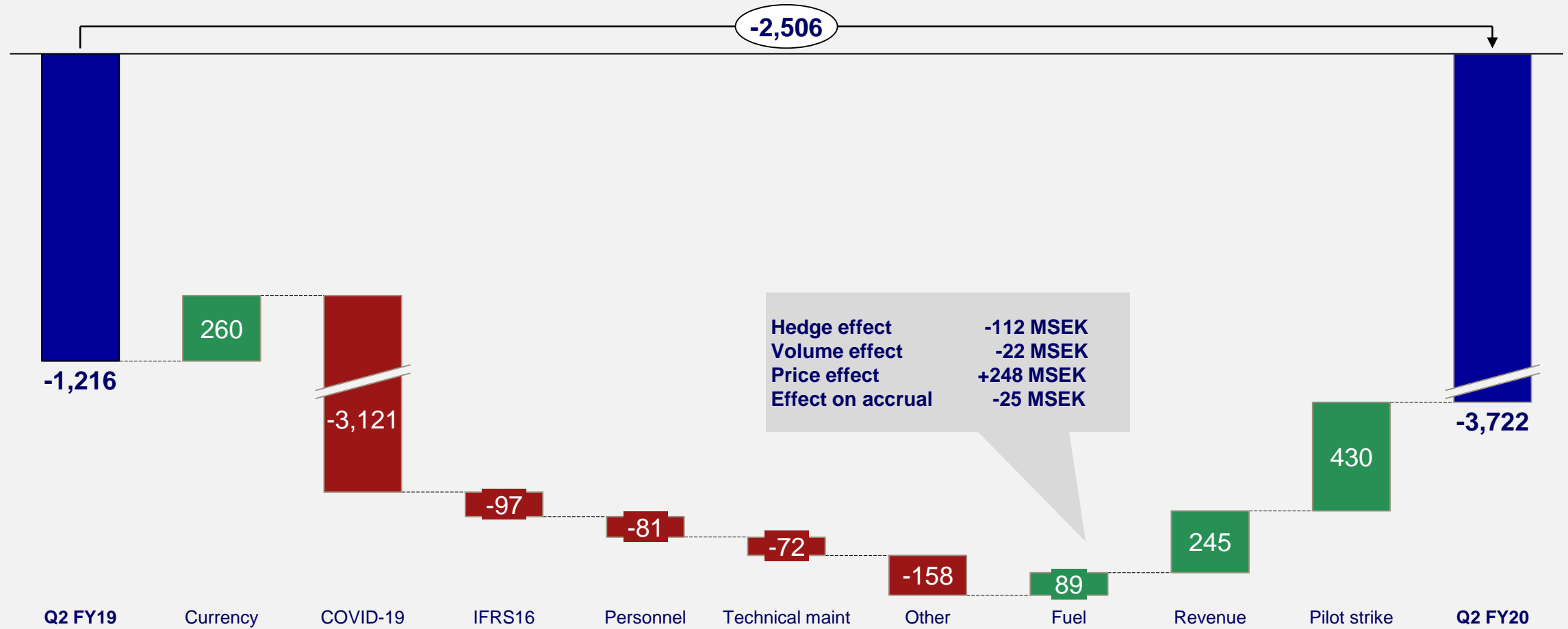
# Revenue Development – Q2-20

MSEK



# Development in EBT – Q2-20

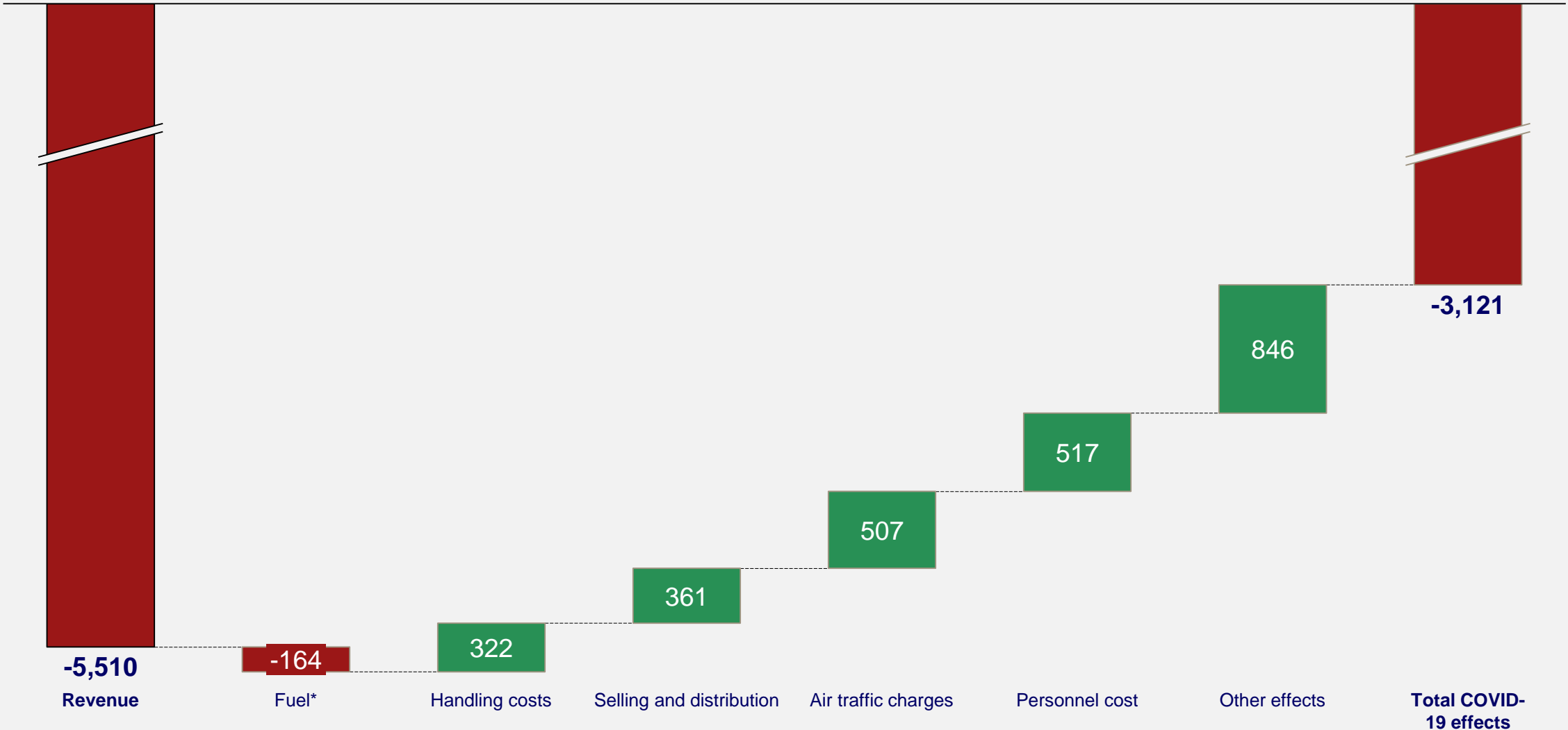
MSEK





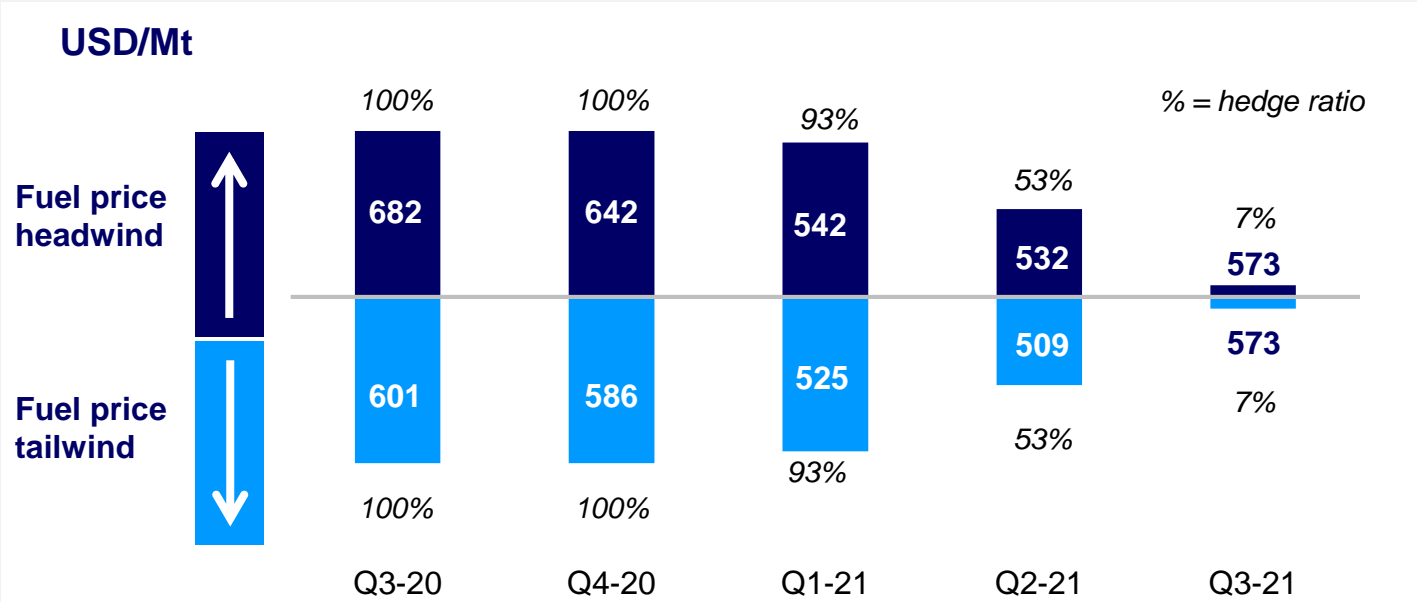
# COVID-19 Effects

MSEK



\*Fuel: Price +1 076 MSEK, Hedge (write down) MSEK -1 240

# Jet fuel and currency hedges



## Sensitivity analysis, jet fuel cost Nov 2019-Oct 2020, SEK billion\*

Market price	Exchange rate USD/SEK				
	8.5	9.0	9.5	10.0	10.5
USD 200/tonne	5.6	5.7	5.8	5.8	5.9
USD 300/tonne	5.6	5.7	5.8	5.8	5.9
USD 400/tonne	5.6	5.7	5.8	5.8	5.9
USD 500/tonne	5.6	5.7	5.8	5.8	5.9

### Jet fuel

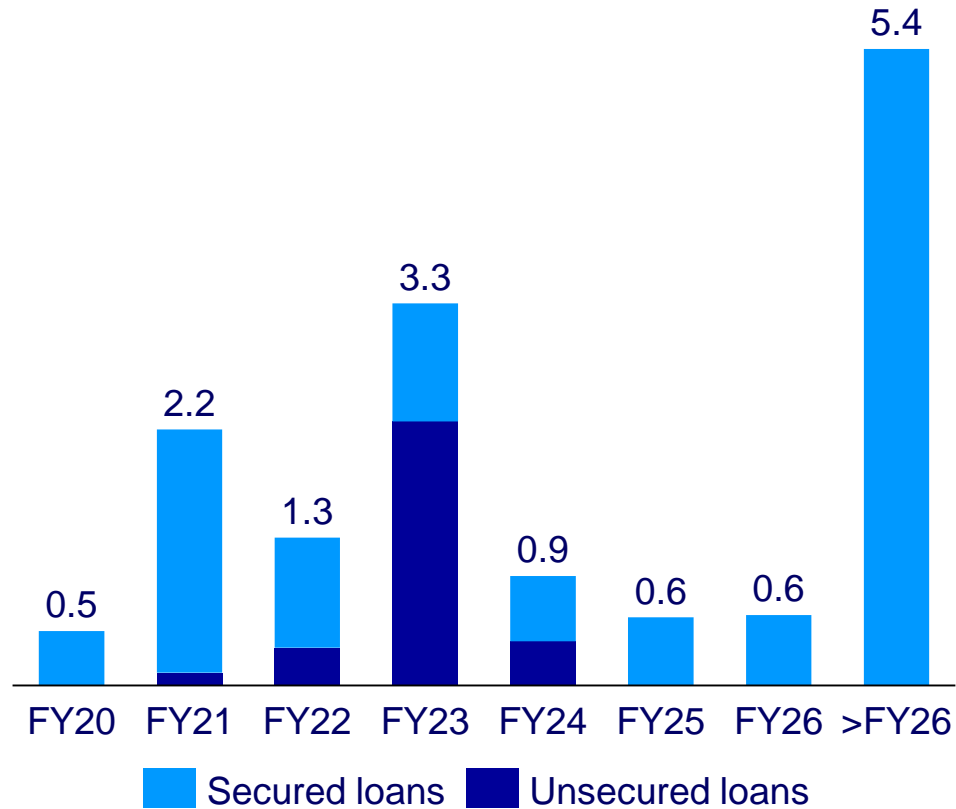
- Policy to hedge 40-80% of expected fuel consumption for the next 12 months and up to 50% for the following six months. Position consists of a mixture of call options, collars and swaps
- For the forthcoming 12 months, SAS has 79% of the fuel consumption hedged at an average maximum price of USD 606/Mt.
- If the fuel price goes below USD 536/MT for the forthcoming 12 months, 79% of SAS' fuel consumption would be hedged at an average price of USD 547/MT.
- Beyond the next 12 months 7% of the fuel consumption is hedged at a price of USD 573/Mt.

### Currency

- Policy to hedge 40-80% of expected currency deficit/surplus for the next 12 months
  - 40% of USD hedged next twelve months
  - Over 100% of NOK hedged next twelve months

# Debt Maturity Profile and Aircraft Orders

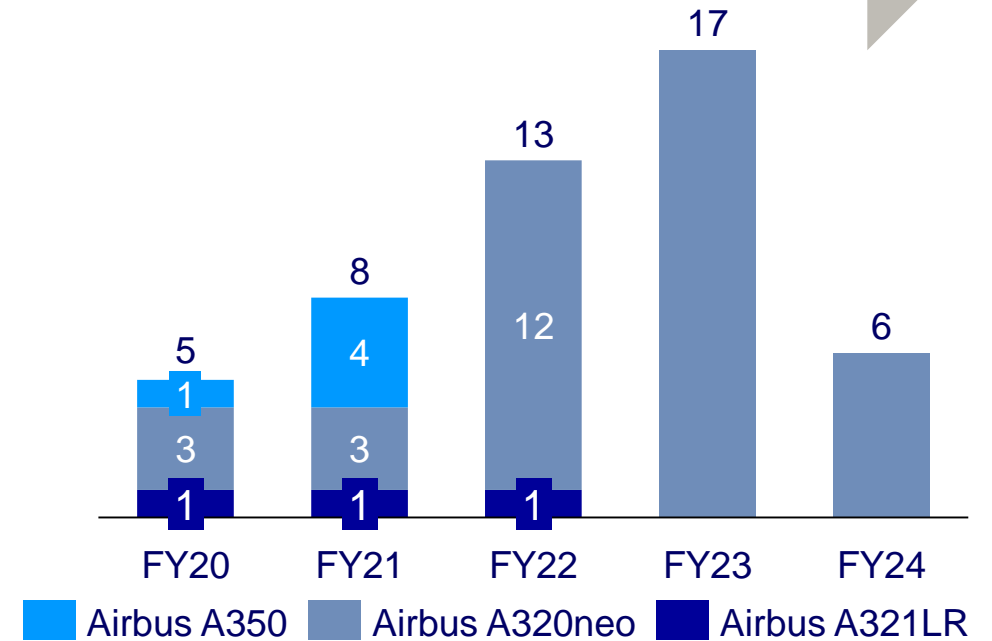
## Maturity profile, SEKbn



Excluding hybrid and perpetual bond

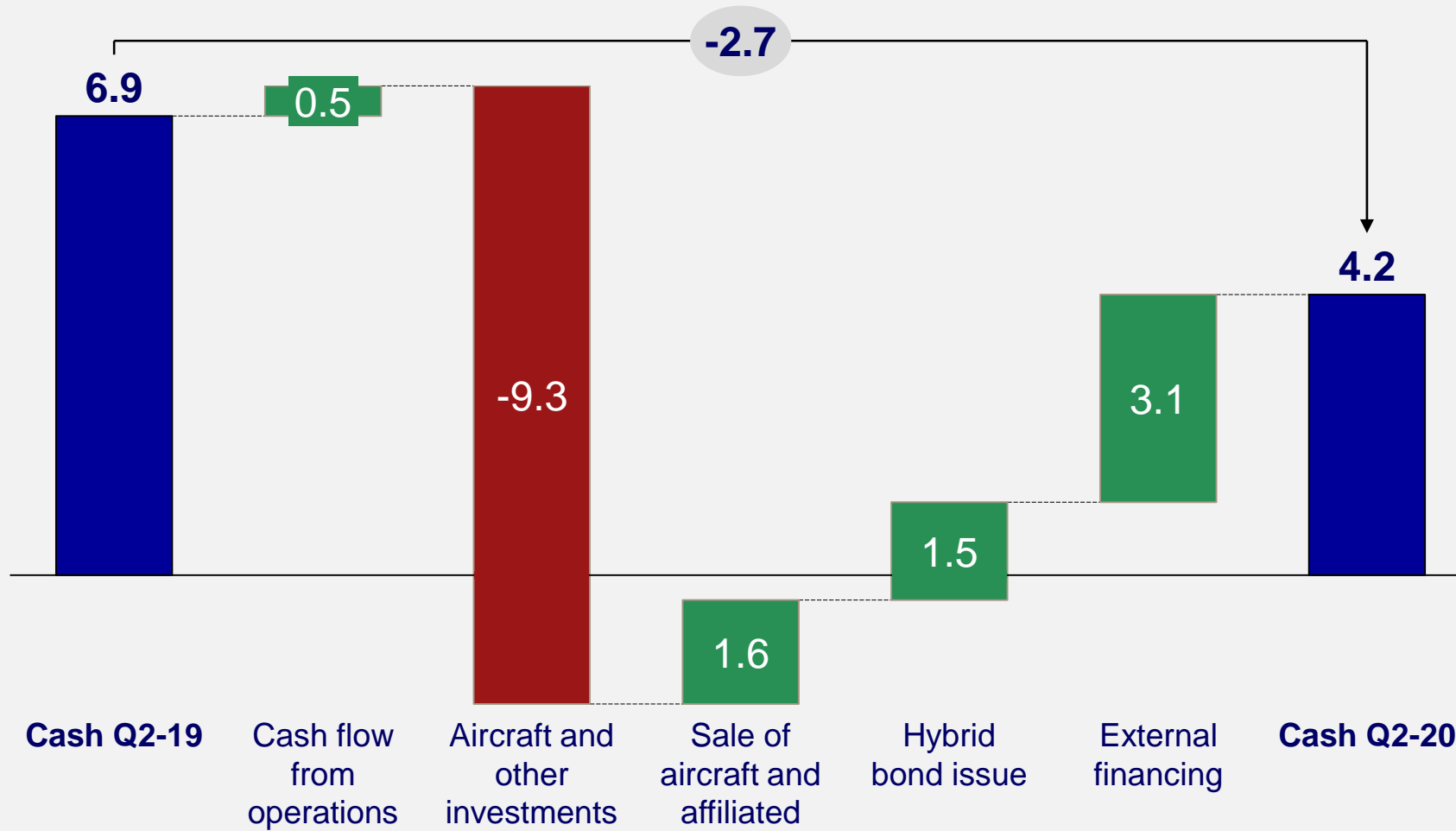
## Aircraft orders, #

Deferral of four A320neos from FY22 to FY24.  
Ongoing discussions with Airbus regarding additional deferrals.



# Development in Cash & Cash Equivalents

SEKbn

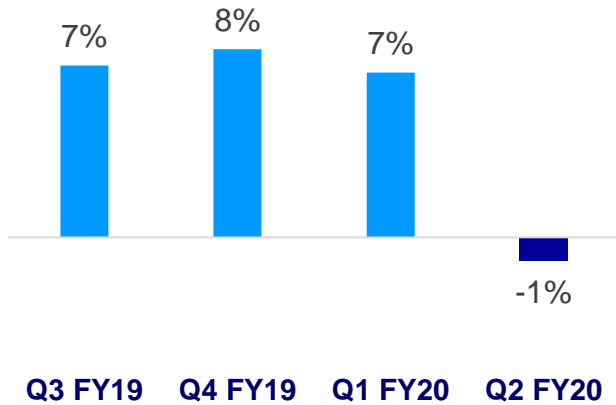


- Events after Q2:
  - Secured SEK 3.3bn RCF, 90% guaranteed by Denmark and Sweden
  - 5 A320neo spare engines financed in May (56 MUSD)

# Financial Targets

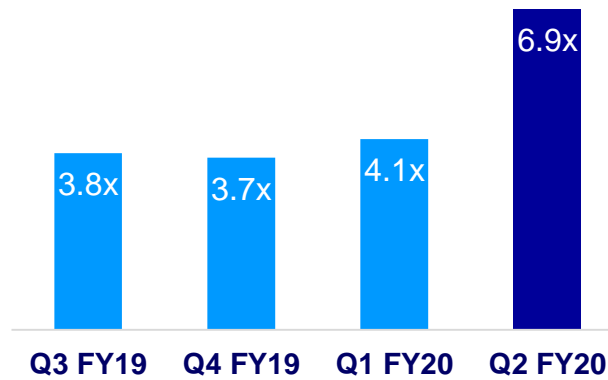
## RETURN ON INVESTED CAPITAL (ROIC)

 >12%



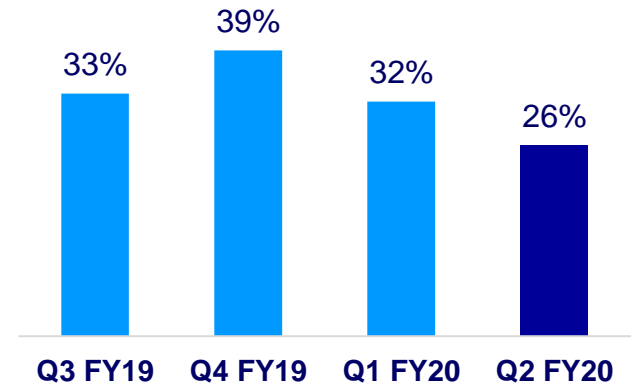
## ADJUSTED NET DEBT /EBITDAR

 <3x



## FINANCIAL PREPAREDNESS

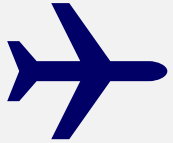
 >25%



## Summary and key takeaways



**Significant negative results despite measures to mitigate effects from COVID-19**



**COVID-19 will impact aviation demand for the years to come**



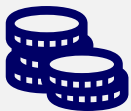
**Community support and safe travel during crisis**



**Prepared to ramp-up to support “green” restart of Scandinavian economies**



**SEK 4bn efficiency improvements to adapt to a new reality**



**Active and constructive dialogue on recapitalization plan**

*SAS*

# Income Statement Q2

Income statement	Feb20-Apr20	Feb19-Apr19	Change vs LY	Currency
<b>Total operating revenue</b>	<b>5,264</b>	<b>9,871</b>	<b>-4,607</b>	<b>+32</b>
Personnel expenses	-1,987	-2,415	+428	
Jet fuel	-2,504	-2,181	-323	
Air traffic charges	-523	-961	+438	
Other operating expenses	-2,132	-4,135	+2,003	
<b>Total operating expenses*</b>	<b>-7,146</b>	<b>-9,692</b>	<b>+2,546</b>	<b>+369</b>
<b>EBITDAR before items affecting comparability</b>	<b>-1,882</b>	<b>179</b>	<b>-2,061</b>	<b>+401</b>
<i>EBITDAR-margin</i>	<i>-35.8%</i>	<i>1.8%</i>	<i>-37.6 p.u.</i>	
Leasing costs, aircraft	-18	-846	+828	
Depreciation	-495	-455	-40	
Depreciation, Right-of-use	-913	0	-913	
Share of income in affiliated companies	1	-3	+4	
<b>EBIT before items affecting comparability</b>	<b>-3,307</b>	<b>-1,125</b>	<b>-2,182</b>	<b>+347</b>
<i>EBIT-margin*</i>	<i>-62.8%</i>	<i>-11.4%</i>	<i>-51.4 p.u.</i>	
Financial items	-145	-86	-59	
Financial items, IFRS 16	-262	0	-262	
<b>EBT before items affecting comparability</b>	<b>-3,714</b>	<b>-1,211</b>	<b>-2,503</b>	<b>+260</b>
Items affecting comparability	-8	-5	-3	
<b>EBT</b>	<b>-3,722</b>	<b>-1,216</b>	<b>-2,506</b>	<b>+260</b>

\* = Before items affecting comparability



# Income Statement – 6 months

Income statement	Nov19-Apr20	Nov18-Apr19	Change vs LY	Currency
<b>Total operating revenue</b>	<b>14,971</b>	<b>19,276</b>	<b>-4,305</b>	<b>+159</b>
Personnel expenses	-4,553	-4,808	+255	
Jet fuel	-4,524	-4,142	-382	
Air traffic charges	-1,440	-1,877	+437	
Other operating expenses	-5,665	-7,664	+1,999	
<b>Total operating expenses*</b>	<b>-16,182</b>	<b>-18,491</b>	<b>+2,309</b>	<b>+63</b>
<b>EBITDAR before items affecting comparability</b>	<b>-1,211</b>	<b>785</b>	<b>-1,996</b>	<b>+222</b>
<i>EBITDAR-margin*</i>	<i>-8.1%</i>	<i>4.1%</i>	<i>-12.2 p.u.</i>	
Leasing costs, aircraft	-80	-1,633	+1,553	
Depreciation	-995	-874	-121	
Depreciation, right-of-use	-1,782	0	-1,782	
Share of income in affiliated companies	3	-12	+15	
<b>EBIT before items affecting comparability</b>	<b>-4,065</b>	<b>-1,734</b>	<b>-2,331</b>	<b>+133</b>
<i>EBIT-margin*</i>	<i>-27.2%</i>	<i>-9.0%</i>	<i>-18.2 p.u.</i>	
Financial items	-266	-201	-65	
Financial items, IFRS 16	-461	0	-461	
<b>EBT before items affecting comparability</b>	<b>-4,792</b>	<b>-1,935</b>	<b>-2,857</b>	<b>+6</b>
Items affecting comparability	-17	143	-160	
<b>EBT</b>	<b>-4,809</b>	<b>-1,792</b>	<b>-3,017</b>	<b>+6</b>

\* = Before items affecting comparability

# Balance Sheet 30 March 2020

Balance sheet, MSEK	30 April, 2020	30 April, 2019	Change
<b>Non-current assets</b>			
Intangible assets	1,340	1,456	-116
Tangible fixed assets	20,644	14,423	6,221
Right-of-use assets	17,634	-	17,634
Financial fixed assets	5,729	6,171	-442
Deferred tax assets	1,308	754	554
<b>Total non-current assets</b>	<b>46,655</b>	<b>22,804</b>	<b>23,851</b>
<b>Current assets</b>			
Inventories and expendable spare parts	510	367	143
Current receivables	2,041	3,025	-984
Cash and cash equivalents	4,221	6,912	-2,691
<b>Total current assets</b>	<b>6,772</b>	<b>10,304</b>	<b>-3,532</b>
<b>TOTAL ASSETS</b>	<b>53,427</b>	<b>33,108</b>	<b>20,319</b>
<b>Equity and liabilities</b>			
<b>Equity</b>	-65	3,365	-3,430
<b>Non-current liabilities</b>			
Interest-bearing liabilities	14,910	8,867	6,043
Interest-bearing lease liabilities	14,491	-	14,491
Other liabilities	3,614	4,187	-573
<b>Total non-current liabilities</b>	<b>33,015</b>	<b>13,054</b>	<b>19,961</b>
<b>Current liabilities</b>			
Interest-bearing liabilities	4,114	1,308	2,806
Interest-bearing lease liabilities	3,490	-	3,490
Other liabilities	12,873	15,381	-2,508
<b>Total current liabilities</b>	<b>20,477</b>	<b>16,689</b>	<b>3,788</b>
<b>Total shareholders' equity and liabilities</b>	<b>53,427</b>	<b>33,108</b>	<b>20,319</b>

# Investor Relations

## Most recent stock recommendations

Date	Institution	Recommendation	TP
2020-05-20	SpareBank1	-	-
2020-05-20	Sydbank	Sell	-
2020-05-21	DNB	-	-

## Recommendations



## Analyst coverage

Institution	Analyst
DNB	Ole Martin Westgaard
HSBC	Andrew Lobbenberg and Achal Kumar
Nordea	Hans-Erik Jacobsen
Pareto Securities	Kenneth Sivertsen
Sparebank 1 Markets	Lars-Daniel Westby
Sydbank	Jacob Pedersen

## For more information:

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