ASX RELEASE

# VIRGIN AUSTRALIA HOLDINGS LIMITED (ASX: VAH)

## 2019 ANNUAL GENERAL MEETING ADDRESS BY CEO AND MANAGING DIRECTOR, PAUL SCURRAH

**6 November 2019**

Thanks Elizabeth and good morning everyone.

It's a pleasure to speak to you for the first time as the Group's new CEO.

Since joining in late March, I've spent time getting to know our business and people.

We run a strong airline, with an excellent safety record, great people, and exceptional customer experience.

However, I've made no secret that I see room for improvement financially.

Since I started, we have taken immediate steps to turn a great airline into a great business.

To do this, we are reorienting the focus away from market share, revenue growth and network growth towards profit, cashflow generation and return on investment.

**A great market**

There is great opportunity.

Notwithstanding the current softness in the market, we operate in what is fundamentally a very strong, attractive domestic market.

Australia has enjoyed long periods of economic growth.

It's characterised by long distances between major cities with high population concentration, and little alternative for air travel.

This makes routes between Sydney, Melbourne and Brisbane some of the busiest in the world.

It's led to steady passenger growth, with CAGR of 3.5 per cent in domestic passenger numbers since 2000.

Geographically, we're also very well-positioned to capitalise on a new golden era of aviation.

International passenger numbers to Australia are increasing, driven by a growing middle class in nearby China, India and Indonesia.

We already have a strong position in a good, two-player industry that is growing.

**A great airline**

In this great market, we run a great airline.

We now carry more than 25 million passengers a year.

We provide access to more than 450 destinations with a network of airline partners.

We have 10 million members in our award-winning loyalty program.

We have a relatively young fleet, with an average age of 8.7 years.

We now generate $5.8 billion in revenue.

**Key drivers of profitability**

With a great market, and a great airline, we have every reason to be successful.

To do that, there are a number of immediate focus areas that will drive profit.

One, responsible capacity management.

Two, a relentless focus on revenue quality.

And three, a very tight focus on cost management.

These are the ingredients that will help us succeed in turning our business into a profitable position.

Of course, we will do this with an unrelenting focus on safety and delivery of the great Virgin experience people know and love.

**What we have done**

So, what have we done?

Since I started in March, we have taken immediate steps to increase this focus and discipline.

First, we took the opportunity to defer the Boeing MAX order.

Given we have a relatively young fleet, it gives us the opportunity to push capital expenditure down the track and maximise our young fleet age.

We also made changes to the order which gives us access to the superior economics of the MAX 10.

Second, we moved to a simpler organisational structure with single lines of accountability.

We renewed the executive team, who are charged with maintaining our number one focus on safety - with greater focus on profitability and customer experience.

Third, we announced a rightsizing program that will remove 750 roles and save $75 million a year.

Fourth, a review of all suppliers – including airports and aircraft lessors – targeting $50 million in savings.

Fifth, a fleet, network and capacity review that will provide a laser focus on profitable lines of flying.

Given capacity management is a key lever, we have already adjusted our capacity downwards year to date by 1.5 per cent. I have a further announcement today that I'll speak to shortly.

Sixth, we're thrilled to buy back the Velocity business and bring it back under the airline.

Velocity, with its 10 million members, is a very important part of our future.

It's an attractive cash generating growth business. Once the acquisition is complete, we will once again distribute 100 per cent of the cash flows to the Virgin Australia Group.

This acquisition will enable $20 million in synergies.

It also allows us to move from a very successful member acquisition phase to one focused on improving the engagement and earnings quality of those members.

The deal is essentially self-funding. The interest on borrowings will be paid through the increased distribution along with the $20 million of synergies.

In addition to these six initiatives, at the same time we've invested time doing a deeper review of our business.

Coming into the company six months ago, I had a pretty good idea where I wanted to take things. That thinking needed validating.

We've been working to understand our customers and what drives our earnings.

This will see us focus on a number of further improvements.

**Our earnings engines**

Moving forward, you'll see us further capitalise on our core earnings engines – Virgin Australia Domestic and Velocity.

These businesses are the major sources of our profit.

Our domestic business is then supported by our complementary and strategically important businesses, our low-cost carrier, Tigerair, and our international business.

Tigerair complements our offer and allows for customer and route segmentation.

Our international business leverages our virtual global network and strong strategic alliances to drive traffic into our domestic business.

It also gives Velocity members international redemptions which help us continue to attract new members.

**Fleet and capacity changes**

In line with our focus on responsible capacity management, today we've announced a series of changes from our network and fleet review.

They result in at least a two per cent reduction in Group domestic capacity in the second half of the 2020 financial year.

Some of them are about getting the balance right between Tigerair and Virgin Australia.

There are many instances where we have both aircraft operating on the same routes at the same time.

For example, we're looking to focus Virgin Australia on routes that have a business and leisure orientation. We're also looking to re-focus Tigerair flights on key holiday destinations.

Other changes see us exiting uneconomic routes and selecting more profitable ones.

On this note, we are announcing the suspension of Melbourne to Hong Kong. This route has continued to underperform in line with the political landscape and we feel it's best served through Sydney.

However, excitingly, we have also announced our Brisbane to Tokyo route which is a great opportunity.

From a fleet perspective, we'll remove five ageing aircraft in line with these changes.

Two A320s will come out of Tigerair and three Fokker 100s from our regional business.

Flying to the right destinations, with the right customer demand, and the right sized fleet will improve our financial performance.

**Customer focus**

From a customer perspective, you are going to see us focus on delivering the Virgin DNA in everything we do.

A great customer experience is something we are famous for and we want to be even more famous for it.

We have a very attractive business to the corporate sector which we will continue to focus on.

We will continue to have a strong focus on the large, important leisure market.

We'll do this through a balance of our premium and low-cost products, utilising them on the right routes to capture the right market segments. Both carriers will cater to the leisure market.

With Tigerair, we are refocusing our low-cost carrier on leisure destinations that we know it is well-suited to.

This will really help us to position both domestic brands for future success.

**Closing remarks**

Before I close, let me talk to the current market conditions.

We are seeing continued softness in the market, compared to a very robust first half last year.

However, we are continuing to manage capacity very tightly. We are ensuring we're meeting market demand with the right capacity.

We'll continue to be watching that with laser focus to ensure that we keep the cost down during a challenging period.

In closing, I've spoken about turning a great airline into a great business.

I've spoken about reorienting this business from a focus on market share, revenue growth and network growth towards profit, cashflow generation and return on investment.

We'll do that while reinvigorating the unique Virgin brand.

We want to continue to focus on the things that are important, such as safety and on time performance.

We want to offer the best value to customers and retain our good customer satisfaction records by continuing to offer our unique customer experience.

We want to better manage our cost base by acting on the identified initiatives to strengthen Virgin Australia's overall profitability.

I look forward to updating you on our progress.

Finally, a note of thanks.

First, to our Board. Since being appointed, I have had the privilege of visiting all of our major shareholders, including Etihad Aviation, Virgin Group, Singapore Airlines, Nanshan and the HNA Group.

I am very grateful for the warm welcome that I have received and the diverse thinking that a global Board provides.

Next, I would like to thank the people at the Virgin Australia Group for their hard work and contribution.

And finally, I also thank you, our shareholders, for your continued support.

Thank you.