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QANTAS GROUP MARKET UPDATE – FOCUSING ON REPAIR AND RECOVERY

- Group Domestic capacity at 68 per cent of pre-COVID levels for December, rising to nearly 80 per cent for Quarter Three.
- Maintaining strong liquidity of $3.6 billion.
- Balance sheet repair process expected to begin in Second Half of FY21.
- Restructuring and recovery program remains on track to deliver at least $1 billion in annual savings from FY23.

Sydney, 3 December 2020: The Qantas Group expects to start repairing its balance sheet during the second half of FY21, as the impact of domestic borders re-opening, progress on cost reduction programs and the continued strong performance of Loyalty and Freight divisions help it move in to recovery mode.

While the Group will post a substantial statutory loss for FY21, it expects to be close to break even at the Underlying EBITDA level for the first half and net free cash flow positive (excluding redundancies) in the second half – allowing the repair process to begin.

This assumes no material domestic border closures. It also assumes no material international travel until at least the end of June 2021 beyond an increase in Trans Tasman flying to New Zealand, though this could improve depending on the speed of vaccines rolling out.

UPDATE ON LIQUIDITY

While progress on vaccines provides additional confidence that the worst of this crisis has passed, the Qantas Group intends to maintain strong liquidity to protect against additional, unexpected shocks.

A significant backlog of supplier payments and refunds have now been cleared and, by 31 December 2020, approximately 50 per cent of redundancy payments associated with 8,500 job losses will have been made.

As at 30 November 2020, the Group had $3.6 billion in available liquidity – made up of $2.6 billion in cash and $1.0 billion in an undrawn revolving credit facility. This facility is expected to be increased by about $500 million before 31 December 2020 to provide additional standby liquidity.

Since 30 June 2020 the Group has raised $715m of additional debt[1] and a further $72 million from finalisation of the retail portion of its $1.4 billion equity raising earlier in the year.

There are no further material debts maturing until April 2022 and no financial covenants on the Group's debt. Net debt has risen from $4.7 billion at 30 June to $5.9 billion as at 30 November 2020.

[1] As previously announced, this includes $400 million to refinance a bond maturing in June 2021, $70 million of which has already been repaid.

The Group remains one of only a handful of airlines in the world to retain an investment grade credit rating through the pandemic.

UPDATE ON RECOVERY PROGRAM

Ongoing uncertainty due to the COVID crisis – and structural changes within the aviation industry – underscores the importance of the Qantas Group's own program of restructuring.

The recovery plan announced in June this year is on track to deliver $600 million in structural cost benefits in FY21, reaching at least $1 billion in annual cost improvements from FY23 onwards.

Part of this included a review of Qantas' ground handling operations, with a decision made to outsource the remainder of this function and deliver savings of $100 million a year. Combined with changes at Jetstar, this will regrettably result in a further 2,500 people leaving the company, taking the total number of job losses across the Group due to COVID to 8,500.

Of this total, more than 5,000 roles will have left the business by 31 December this year, the vast majority via voluntary redundancy.

The recent increase in domestic travel has seen the number of full time equivalent roles stood up increase from around 9,000 in October to 11,500 in December; this is expected to increase to around 14,000 in Quarter Three. Currently, approximately 13,500 roles remain stood down.

UPDATE ON KEY BUSINESS UNITS

Group Domestic capacity will increase to 68 per cent of pre-COVID levels for December, rising to nearly 80 per cent for Quarter Three. This compares with 20 per cent capacity in Quarter One and around 40 per cent for Quarter Two.

The Group expects its current domestic market share of above 70 per cent to be maintained.

Changes in the broader domestic market have seen a number of large corporate customers move to Qantas this year, a trend that has accelerated in the past few months.

Qantas continues to work with travel agencies to reduce its selling costs while also creating better selling opportunities for these important partners. New multi-year agreements have so far been finalised with 10 of the top 12 agencies.

The Group's international operations remain largely grounded, with the exceptions being ongoing repatriation services and a limited number of flights to New Zealand under a one-way bubble arrangement.

In October, Qantas restarted repatriation flights from India, South Africa and United Kingdom, bringing the total number of these services run on behalf of the Australian Government to almost 150 since the start of the pandemic. A further 24 flights, operated by its fleet of 787 Dreamliners, are planned in December and January, including direct services from France and Germany. Additional services are expected as quarantine capacity becomes available.

Qantas Freight continues to perform extremely well due to the spike in e-commerce volumes across its domestic freighter network and higher yields on the international freighter network. Additional services have been added between Los Angeles, Sydney and Hong Kong and several passenger aircraft are currently being operated as freighters to provide more capacity. Qantas Freight is also doing preliminary work on logistics for transporting COVID-19 vaccines at cold temperatures.

Qantas Loyalty, while not immune from the impacts on travel demand, has shown a very high level of resilience and continues to generate significant cash flow. Financial services and retail partners were the two main earnings drivers, followed by Loyalty's own ventures. In the past 12 months, members have earned more than 1 billion points on Qantas-branded insurance products. An expansion of those products has been announced today with the launch of Qantas Home Insurance.

A status match offer launched last week aimed at frequent flyers of other airlines has so far resulted in several thousand high-tier members applying to switch to Qantas' program.

CEO COMMENTARY

Qantas Group CEO Alan Joyce said: "We've seen a vast improvement in trading conditions over the past month as many more people are finally able to travel domestically again.

"There's been a rush of bookings as each border restriction lifted, showing that there's plenty of latent travel demand across both leisure and business sectors.

"Between Qantas and Jetstar, there were over 200,000 fares sold for flights to Queensland in 72 hours after the border openings with Sydney and Victoria were announced. We're also seeing people booking several months in advance, which reflects more confidence than we've seen for some time.

"Bringing domestic capacity back to almost 70 per cent in December is very positive compared to where we've been, and so is seeing more of our people back at work. But overall the Group is still a long way off anything approaching normal.

"It's unclear what shape the domestic economy will be in next year, particularly once broader government support winds back. Until a vaccine is rolled out, the risk of more outbreaks remains.

"International travel is likely to be at a virtual standstill until at least July next year and it will take years to fully recover, which means we're carrying the overhead for billions of dollars worth of aircraft in the meantime. We're also facing a revenue drop of at least $11 billion this financial year alone compared to pre-COVID.

"Overall, we're optimistic about the recovery but we're also cautious given the various unknowns. We also have a lot of repair work to do on our balance sheet from the extra debt we've taken on to get through the past nine months.

"That's why we remain focused on delivering on our recovery program, which unfortunately involves following through on some hard decisions to restructure and respond to the new set of circumstances we're faced with."

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