Alliance Aviation Services Limited

Results Presentation
1H FY2023

8 February 2023

Contents

Key Messages

Alliance Aviation Services Limited announces a half year result which includes:

- A return to statutory profitability of $9.5 million;
- Significant increase in contracted wet lease activity and revenue from October 2022;
- Growth in earnings from contract charter clients; and
- Record flight hours as a result of significant increases in wet lease hours.

Underlying profit before tax of $13m[1]

CASH

Strong cashflow on existing business which continued to fund growth

Revenue from operations of $235m, up 40%

6 x E190 aircraft added to the operating fleet – Fleet total, 62[2]

Contracted wet lease hours increased by 282%. Significant increases commenced October 22

GROWTH

Flight hours up 55% to 32,365. Growth to continue

1. Underlying PBT and underlying cash flow are a non-statutory measures and used for the purpose of assessing the performance of Alliance during the year against comparable measures in the previous year.
2. This number includes three E190 aircraft currently on dry lease.

E190 Deployment Activity

Alliance has continued to invest in E190 crew and aircraft. Alliance is currently meeting demand. Recruitment and training programs will continue to ensure further demand is met.

Activity	Status – December 2022	Status – June 2022
Wet lease activity	18 options exercised with 16 delivered. Balance of two aircraft have been called up in January 2023.	18 options exercised with 13 delivered.
E190 recruitment	An additional 65 FTE pilots and 76 Cabin crew have been employed in the half to deliver the E190 fleet. Recruitment will continue throughout the remainder of FY2023.	Staff employed to deliver our E190 fleet: 116 E190 pilots 135 E190 cabin crew 40 E190 licensed engineering staff
Rockhampton Hangar	Project Status Awaiting electrical connection – March 2023 Practical Completion – March 2023 Certification – April 2023 First maintenance check – June 2023	Project Status Final slab – 23/08/2022 Roof cladding – 01/09/2022 Wall cladding - 04/10/2022. Practical Completion – 21/12/2022 Operational – February 2023
E190 simulator	Negotiations are well advanced, with a third-party training organisation, for the provision of a second E190 simulator.	To increase training throughput, up to 44 pilots will conduct simulator training overseas. One additional E190 simulator being sourced and expected in service in Brisbane late CY2023

Five Revenue Streams

Contract Revenue

Wet Lease

RPT Revenue

Charter Revenue

Aviation Services

Wet lease activity experienced strong growth in 1HFY2023. Contract revenue continues to increase from a mix of fuel price and margin increases.

1

Contract Revenue

Long-term contract flying

- Growth in revenue (19%) and a small reduction in hours (-2%) compared to prior comparative period (pcp).
- Sustained activity in the resources sector in addition to a number of charter customer conversions.
- One contract renewal in the half- year with two others before the end of FY2023.

2

Wet Lease

Operating Alliance aircraft for other carriers

- Wet lease revenue grew by 316% in the year.
- 16 E190's operating on wet lease routes at balance date with the Fokker fleet also servicing wet lease customers.

3

RPT Revenue

Regular public transport services to regional ports

- RPT revenue decreased by 30% on the pcp as a result of a strategic decision of the Group to further reduce its RPT footprint and focus on high utilisation wet lease and contract charter customers.

4

Charter Revenue

Short-term income from ad-hoc requests

- Charter revenue reduced by 24% when compared to pcp reflecting the reduction of available capacity.
- Charter client conversion to contract revenue in late FY2022.

5

Aviation Services

Allied aviation services

- Aviation services revenue consisted of simulator sale, balance of F50 sale, part sales and engine transactions during the year.
- Aerodrome management continues to contribute positively.
- Dry lease income is shown as Other Income in the financial statements.

Operational Metrics

Alliance delivered a strong operational performance. Record wet lease hours in the last quarter paved the way for positive returns.

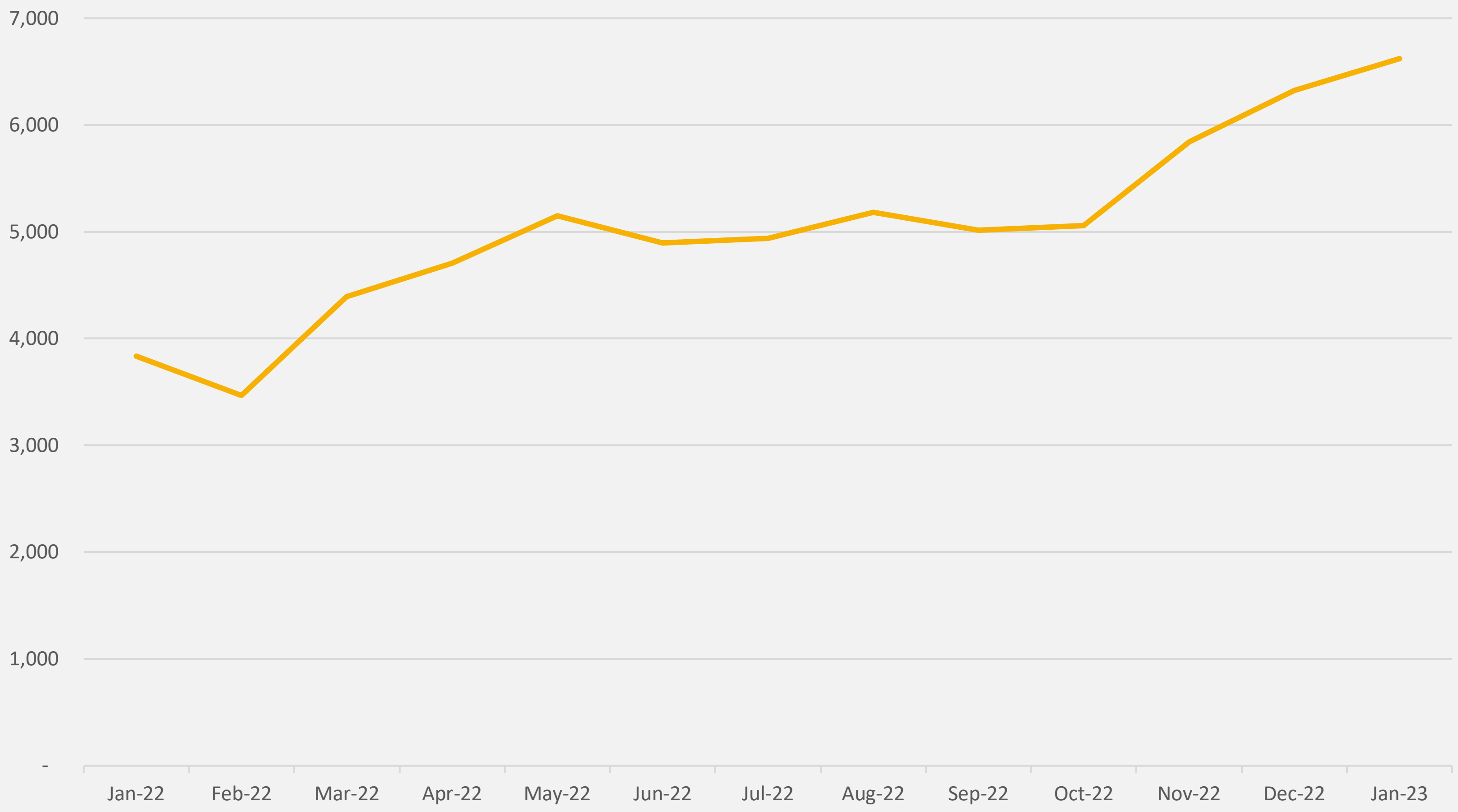
Detail	31-Dec-22	31-Dec-21
Aircraft in service – Fokker [1]	37	43
Aircraft in service – Embraer [2]	25	14
Flight Hours – contracted	13,578	13,892
Flight Hours – wet lease	17,248	4,517
Flight Hours – RPT	561	1,249
Flight Hours – charter	608	871
Flight Hours – other (incl. maintenance)	370	314
Total Flight Hours	**32,365**	**20,843**
Closing Staff Numbers (FTE)	1,063	804
Contract revenue as a % of Total Revenue	64%	75%

[1] *Includes all operational aircraft whether flying or in base maintenance. Reduction relates to the disposal of the F50 fleet.*
[2] *Includes all operational aircraft whether flying or in base maintenance. Includes three E190's on dry lease to a third party.*

Flight Hour Activity

Alliance has experienced strong growth in wet lease hours from October 2022. Total flight hours for the half year increased by 55%

Flight Hours – Jan 22 to Jan 23



Financial Summary

For the half-year ended 31 December 2022

Income Statement

Observations:

- Wet lease revenue reported the most significant increase in the half-year due to increased activity from mid-October 2022;
- Contract revenue grew as a result of increases in prices as a result of higher fuel prices and margin growth;
- The RPT footprint continues to reduce as Alliance focuses on supplying high utilisation wet lease and contract charter capacity;
- Dry lease revenue of $3.9 million is included in Other Income;
- Operating expenses have increased as a result of the E190 program with labour costs up 34%. $3.8 million associated with the proposed Qantas scheme of arrangement and associated ACCC responses were also incurred in the half year;
- Finance costs have increased due to the higher levels of debt; and
- Depreciation has increased in line increased fleet numbers and utilisation.

($ in millions)	31 December 2022 Actual	31 December 2021 Actual	% PCP Change
Revenue			
Contract revenue	152.1	127.9	19%
Wet lease revenue	62.0	14.9	316%
Charter revenue	7.7	11.0	(30%)
RPT revenue	8.1	10.6	(24%)
Aviation services	5.1	5.8	(13%)
Other (Incl. FX)	3.5	(0.1)	-
Total revenue	238.5	170.1	40%
Operating expenses	(196.2)	(148.7)	(32%)
EBITDA	42.3	21.4	97%
Depreciation and amortisation	(27.2)	(22.5)	(21%)
EBIT	15.1	(1.1)	
Finance costs	(5.6)	(3.4)	
PBT	9.5	(4.5)	
Income tax expense	(2.9)	1.1	
NPAT	6.6	(3.4)	
Basic EPS (cents)	4.1	(2.1)	

Statement of Financial Position

Observations:

- Six E190 aircraft were added to the operational fleet with a further five aircraft at various stages of entry in service maintenance;
- The F50 fleet retirement was completed in the half year;
- Trade and other payables increased due to the increasing activity levels and timing of half year end payments;
- Provisions increased due to the impact of CPI adjustments on annual and long service leave balances;
- The increase in borrowings was a result of increases in facilities for E190 purchase, working capital requirements and funding of the Rockhampton Maintenance Facility construction; and
- Borrowings increased by $6 million to $196 million. Net debt at 31 December was $202.1million.

($ in millions)	31-Dec-2022 Actual	30-Jun-2022 Actual	% PCP Change
Cash	6.0	20.9	(71%)
Receivables	74.7	57.1	31%
Inventory	86.4	82.4	5%
Disposal grouped held for sale	-	4.6	(100%)
Total current assets	167.1	165.0	1%
PP&E & Intangibles	519.6	474.2	10%
Right of use assets	26.2	27.2	(4%)
Total non-current assets	545.8	501.4	9%
Total assets	712.9	666.4	7%
Bank overdraft	12.1	-	n/a
Trade & other payables	91.1	76.6	(19%)
Borrowings	6.4	5.2	(23%)
Current tax liabilities	0.2	1.2	83%
Lease liabilities	2.5	2.6	4%
Provisions / other	16.7	15.2	(10%)
Total current liabilities	129.0	100.8	(16%)
Borrowings	189.5	184.8	(3%)
Deferred tax liability	46.8	39.2	(19%)
Lease liabilities	26.3	26.9	2%
Provisions / other	1.4	1.3	(8%)
Total non-current liabilities	264.0	252.2	(5%)
Total liabilities	393.0	353.0	(8%)
Net assets	319.9	313.4	2%

Cash Flow Statement

Observations:

- Statutory operating cash flow remained relatively static for the half year. This reflected the ongoing investment in pilots, cabin crew, engineers and other overhead required to fulfill forecast activity;
- Operating cash flow includes $3.3 million of inventory settlements, and $3.8 million of legal costs associated with the proposed Qantas Scheme and ACCC review;
- Payments for PP&E consisted of $29.2 million in Embraer fleet capex and $12.4 million in Fokker maintenance and engine program costs;
- $8.5 million was drawn down in the year for the Rockhampton Hangar Project.

($ in millions)	31-Dec-22 Actual	31-Dec-21 Actual
Receipts from customers (inclusive of GST)	262.4	205.6
Payments to suppliers (inclusive of GST)	(237.2)	(175.7)
Net interest (paid)/received	(4.7)	(3.0)
Income tax paid	3.1	-
Net cash inflow from operating activities	23.6	26.9
Net payments for aircraft, property, plant & equipment	(55.0)	(60.3)
Free cash flow	(31.4)	(33.4)
Proceeds from borrowings	20.4	13.5
Repayment of borrowings	(2.6)	(2.1)
Principal elements of lease payments	(1.4)	(1.2)
Net cash inflow from financing activities	16.4	10.2
Net decrease in cash and cash equivalents	(15.0)	(23.2)
Effects of currency translation on cash and cash equivalents	-	-
Cash & cash equivalents at the beginning of period	20.9	36.2
Cash & cash equivalents at the end of period	5.9	13.0

Capital Expenditure

Observations:

- Fokker capital expenditure stable with additional aircraft due for maintenance in 2HFY2023 as utilisation has increased;
- Engine care program costs have increased as activity on the Fokker fleet has increased;
- Capital expenditure was incurred on the Rockhampton Hangar project and E190 entry into service maintenance checks, ferry flights, livery and other associated costs to enter six aircraft into the fleet; and
- Payments for Embraer program included the balance of payments for the final E190 acquisition and additional costs for modifications on E190 aircraft.

($ in millions)	1HFY 2023 Actual	2HFY2023 Forecast	FY2023 Forecast
Existing fleet maintenance			
Cash outflows			
Base maintenance providers	4.1	7.0	11.1
Engine care program/Engine Maintenance	8.3	12.3	20.6
Other miscellaneous	0.9	2.5	3.4
Operating costs capitalised	0.6	0.9	1.5
Total cash outflows	13.9	22.7	36.6
Non-cash			
Parts from inventory used in base maintenance	17.5	5.0	22.5
Total existing fleet maintenance	31.4	27.7	59.1
Growth capital expenditure			
Cash outflows			
Embraer program	29.2	4.5	33.7
Rockhampton Hangar Project	12.5	6.5	19.0
Operating costs capitalised	1.3	1.1	2.4
Total cash outflows	43.0	12.1	55.1
Non-cash			
Parts from inventory used in base maintenance	3.2	3.5	6.7
Total growth capital expenditure	46.2	15.6	61.8
Total capital expenditure [1]	77.6	43.3	120.9

1 Equates to movement in PP&E plus depreciation (adjusted for Right of Use Depreciation)

Growth Strategy

FY2023 and beyond

Deploying the E190's

33 E190 aircraft have been acquired and will be deployed as follows:

- 18 Contracted to Qantas under a wet lease contract
- 9 Alliance Fleet
- 3 Dry Lease
- 3 In Maintenance when at full capacity

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Number of Aircraft in Australia	23	24	30	33	33
Number of Aircraft in Service	19	21	25	29	33
Annualised Block Hours Available	~57,000	~63,000	~75,000	~87,000	~99,000

Rockhampton Maintenance Hangar (Update)




Hangar Construction Status

- The construction of a three bay 10,000 square metre maintenance facility at Rockhampton Airport is nearing completion.
- Power connection will occur in March 2023 with practical completion shortly thereafter which will allow for employment and training of staff to commence on site.
- The facility will become operational from April 2023, with Alliance's first maintenance scheduled to commence in June 2023.

Business Case for the Hangar

- Alliance's continued support of regional Australia with a development at Rockhampton Airport which will likely incentivise more aviation investment in Central Queensland.
- Alliance will recruit up to 25 apprentices from the Central Queensland community with an indigenous commitment
- The project has created local employment opportunities and Alliance will also advertise nationally for skilled personnel to relocate to the fast-growing Rockhampton region
- State-of-the-art energy efficient building with a 200kw solar array and storage on site
- Water harvesting with 500kl water tanks
- The saving of approximately 1.5 million litres of fuel burn per annum.

Outlook

Observations:

- Wet lease revenue will continue to grow from both additional aircraft capacity and increases in utilisation;
- Contract revenue will continue to increase as activity levels are expected to increase from existing clients and prospective clients.
- The Embraer fleet expansion project is nearing completion and will reap significant rewards from FY2023 onwards.

Alliance retains a positive outlook for the 2023 financial year. Investment in growth has occurred in FY2022 and 1HFY2023. 2HFY2023 is the period of delivering increased profitability.

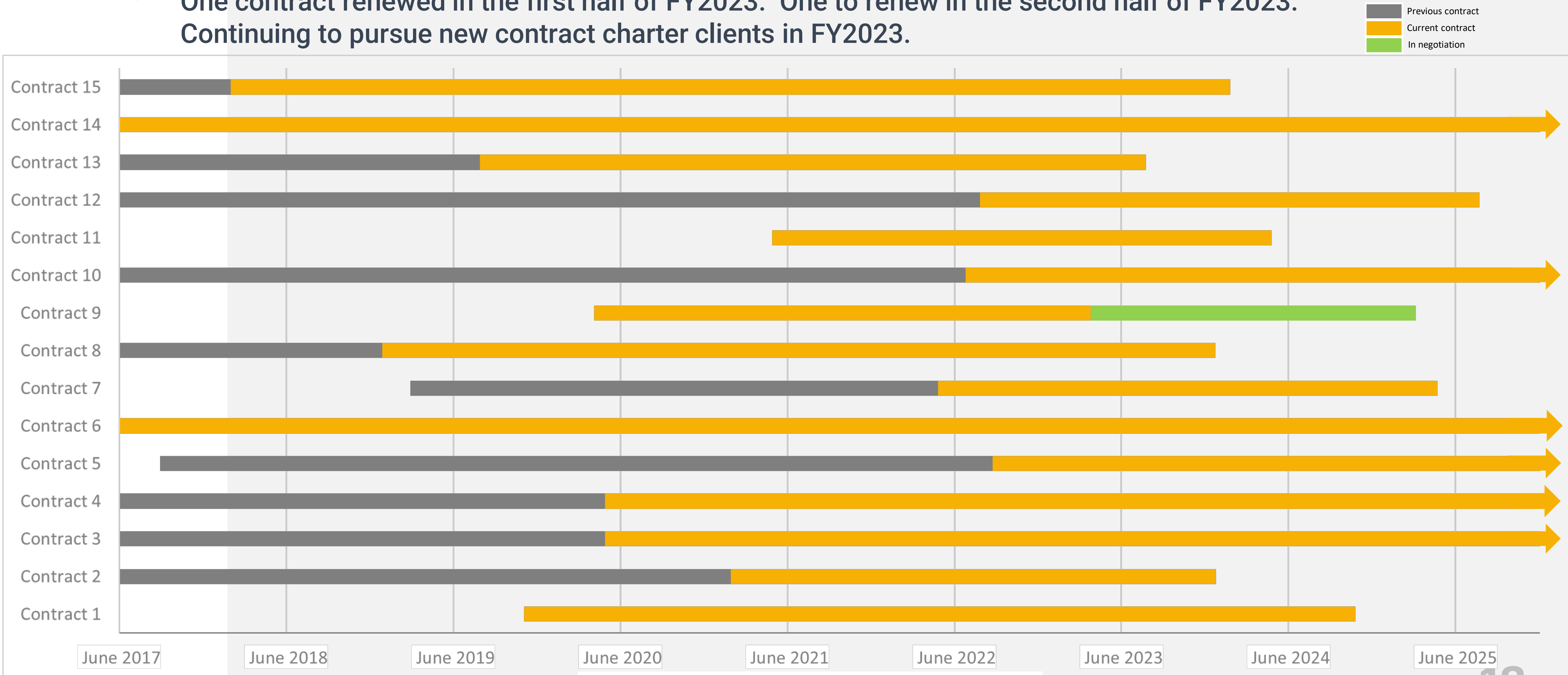
- Contract revenue will continue to grow organically along with continued opportunities for new contracts. The full year impact of transitioned clients will also occur in FY2023.
- Charter activity will benefit in the latter half of FY2023 as more capacity becomes available.
- We lease revenues are forecast to increase in the second half of FY2023.
- Alliance has three aircraft on dry lease as at reporting date. No further increase in dry lease aircraft forecast.
- RPT revenues will continue to decrease during the year in line with Alliance's strategic goal of being a wholesaler of capacity. These revenues are an immaterial part of Alliance's business
- Alliance will have deployed 33 E190 aircraft by the end of June 2023
- Alliance is providing guidance for a full year 2023 profit before tax of between $50 million to $55 million. In respect to financial year 2024, the Company is comfortable with the current consensus estimate of $77 million profit before tax.
- Given the Company is still in the process of completing its fleet expansion and continuing to incur associated operating and capital expense requirements, the Board has opined not to pay an interim dividend.

Other Information

For the half-year ended
31 December 2022

Growing Contract Client Base[1]

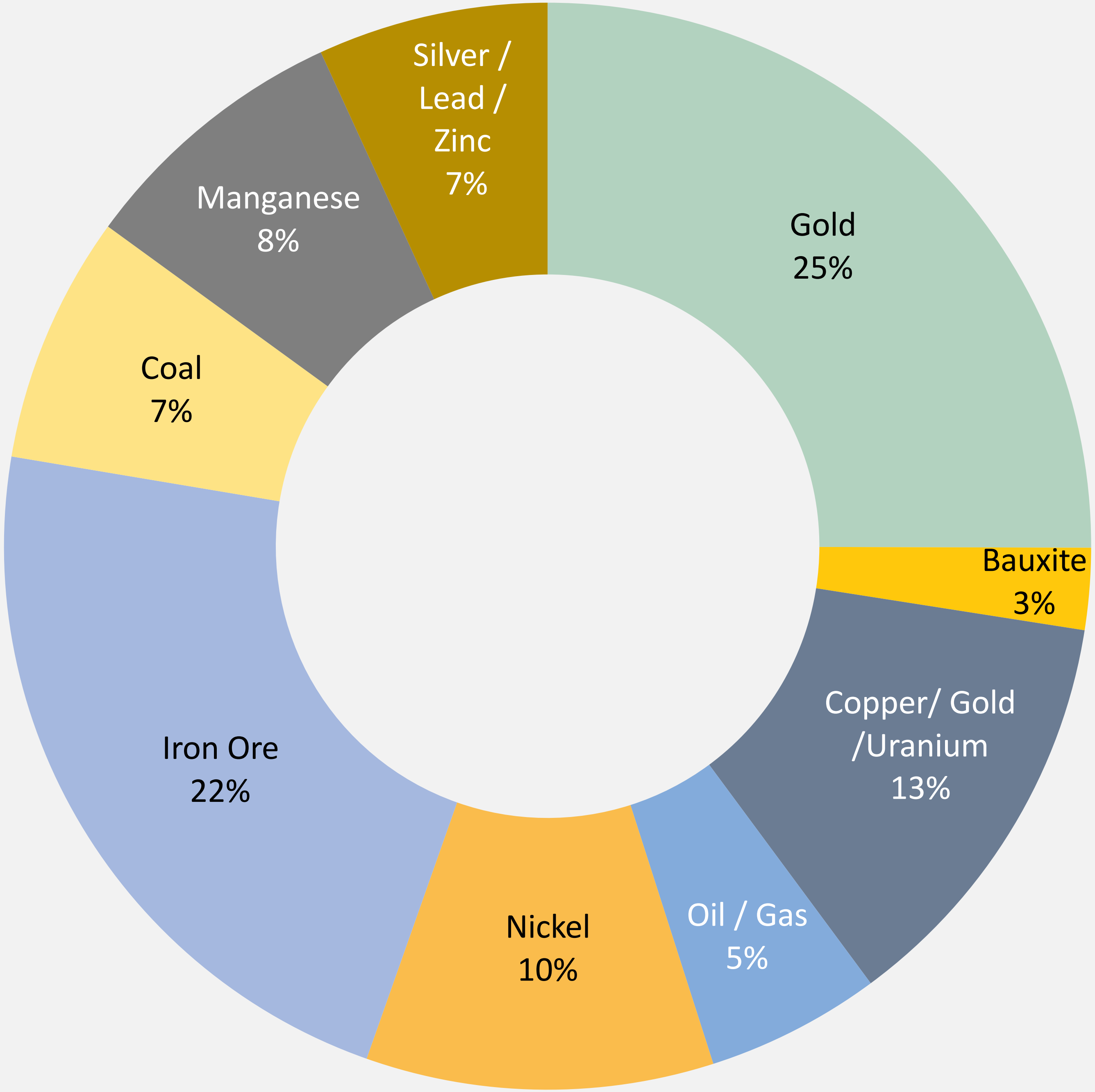
One contract renewed in the first half of FY2023. One to renew in the second half of FY2023.
Continuing to pursue new contract charter clients in FY2023.



[1] Top 15 FIFO contracts – 1H23 Flight Revenue

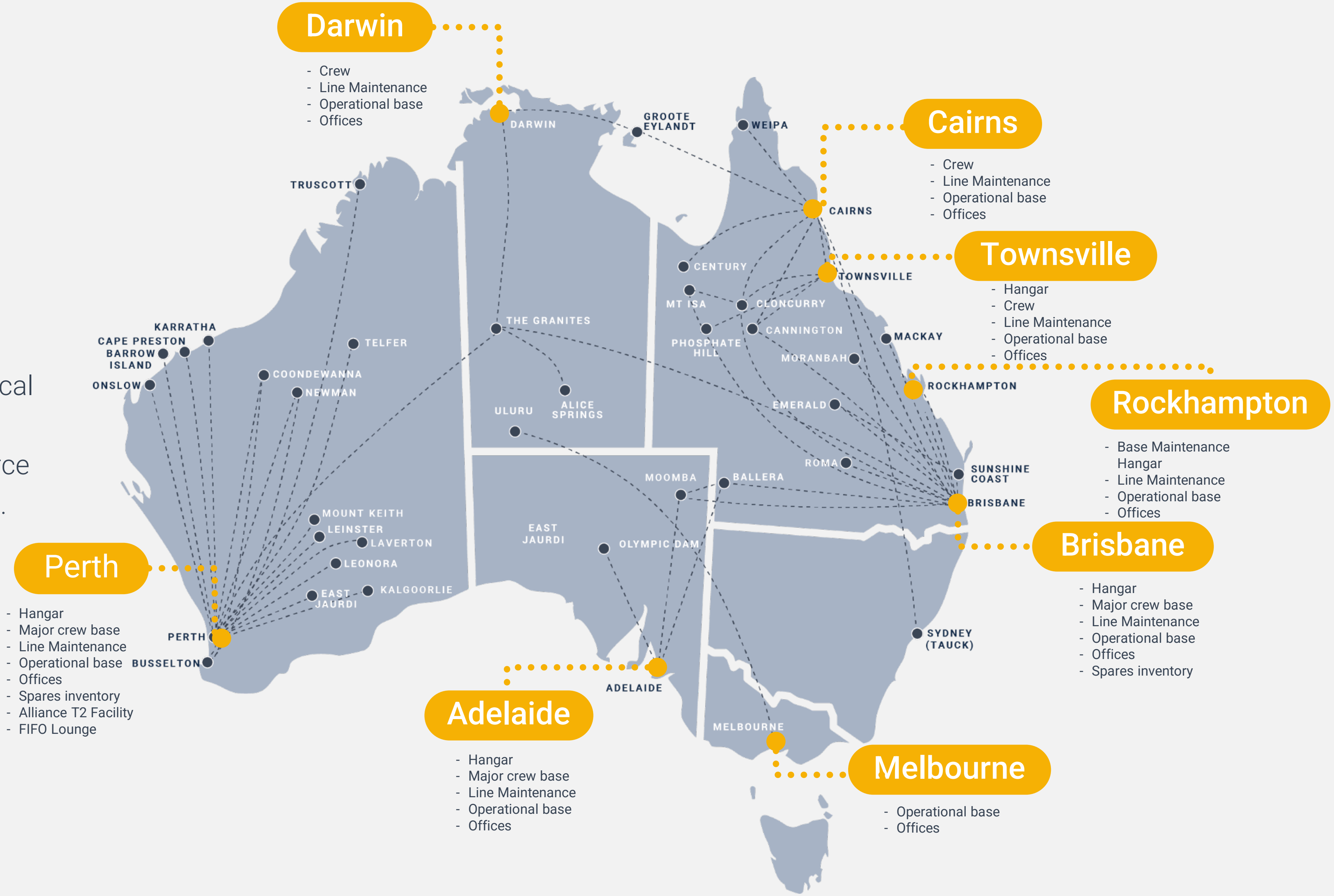
Commodity Exposure

Major commodity exposure as a percentage of the top 15 contracted FIFO clients for the half year ended 31 December 2022.



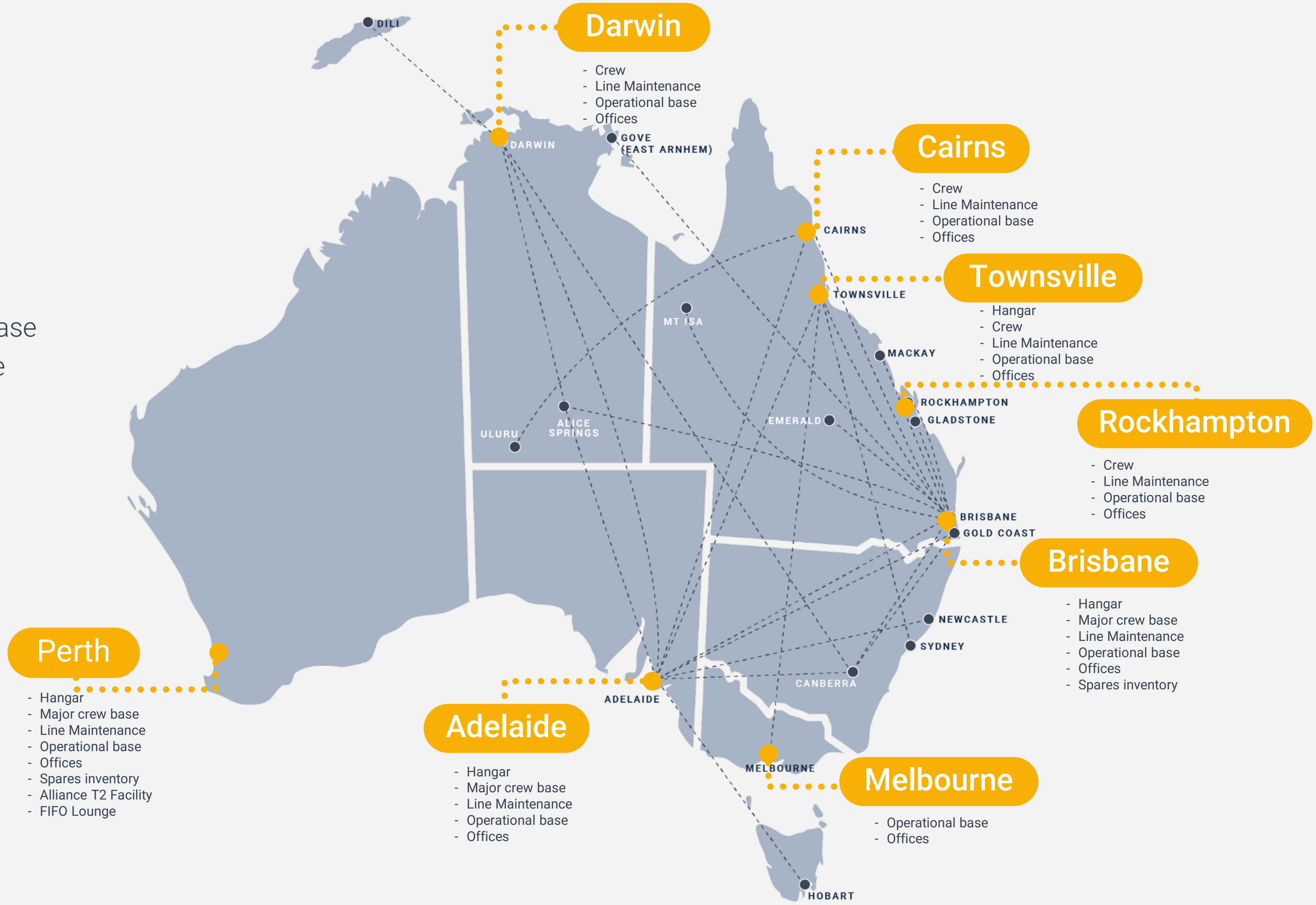
Footprint Contract

Alliance is the leading charter operator in Australia. Our Australia wide network and local presence makes Alliance the number one choice for resource and energy sector companies.



Footprint Wetlease

Alliance is the premier wet lease operator for Australia and the Pacific.



ESG Overview

Environmental

Alliance is committed to embracing opportunities to manage and reduce its impact on the environment. The Company's current initiatives include:

- Contracting General Electric on a special project targeting a reduction of fuel consumption across its fleet.
- Alliance has changed its flight planning provider to one that enables flight path optimisation to reduce fuel consumption and increase efficiencies.
- Alliance offers all of its customers a 100% carbon offsetting solution under its emission offset program.
- The new Rockhampton hangar will be fitted with 500kl water harvesting and a 100kw solar array and related on-site storage.

Social

Alliance is dedicated to supporting the people and communities that it services and operates in.

- Alliance recognises the responsibility the private sector has in creating work opportunities and upskilling staff. There are currently 10 personnel completing their apprenticeship in Alliance.
- Alliance proudly sponsors a number of sporting and community groups across Australia. This year it sponsored the Queensland Reds Rugby team.
- Alliance is supporting Foodbank, one of the largest hunger relief charities in Australia, by funding the acquisition of a refrigerated truck for its operations.
- The Rockhampton Hangar project is also delivering significant social benefits.

Governance

The Alliance Board has ultimate responsibility of the Company and the systems, policies and procedures in place to ensure its acting as a good corporate citizen.

- ESG Risks are incorporated and monitored through the Board risk management framework.
- The Board monitors developments in laws, regulations, ASX principles and business practices to ensure an effective governance framework is in place.
- Safety is the most important operational requirement for Alliance. Alliance has retained its IOSA safety accreditation from IATA since it being first awarded in FY16.
- Alliance also retained its Gold Basic Aviation Risk Standard.

Operational Performance

97% OTP

Alliance Airlines delivered a 97% on time performance figure for the half-year.

Fokker Fleet Forecast FY2023

F100 – 100 Seat Jet Aircraft
No. in fleet – 24

F70 – 80 Seat Jet Aircraft
No. in fleet - 13

E190 Fleet Forecast FY2023

E190 – 94-114 Seat Jet Aircraft
No. in operating fleet – 33
No. in service for Qantas - 18
No. in service for Alliance – 9
No. in service on dry lease - 3
No. in maintenance at full capacity - 3

Safety Certifications

IATA IOSA
IATA Operational Safety Audit

IOSA certification renewal in FY2022

BARS
BASIC AVIATION RISK STANDARD
GOLD
FLIGHT SAFETY FOUNDATION

BARS Gold standard maintained

AUSTRALIAN CIVIL AVIATION SAFETY AUTHORITY
CASA

AOC issued by CASA

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