

VALUATION MASTER CLASS



Is EasyJet's cash injection enough to fund tough recovery?



Valuation Master Class

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Is EasyJet's cash injection enough to fund tough recovery?





Europe's second-largest low-cost airline operating in more than 30 countries

Our estimate:

GPX679 (Upside 7%)

HOLD

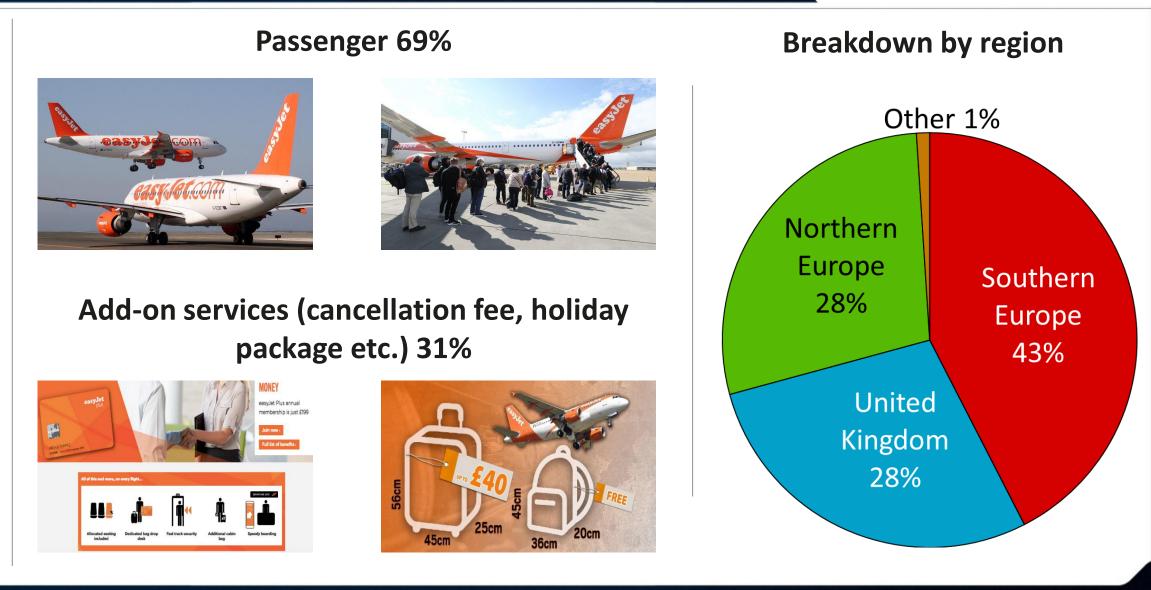
Key statistics		
Analyst consensus (23)	PB ratio	Dividend yield
GPX730	1.8 x	0%
(Upside 15%)		(suspended over past 2 years)
BUY		, ,

3 things to know about this company

- Cash injection to avert another takeover attempt
- Rival price cutting puts strong pressure on margin ★
- One-stop solution provides scalable synergies

Revenue breakdown 2021





Sales

Story

FVMR

Value

WCB

Risks

Price remains bearish, but volume is good

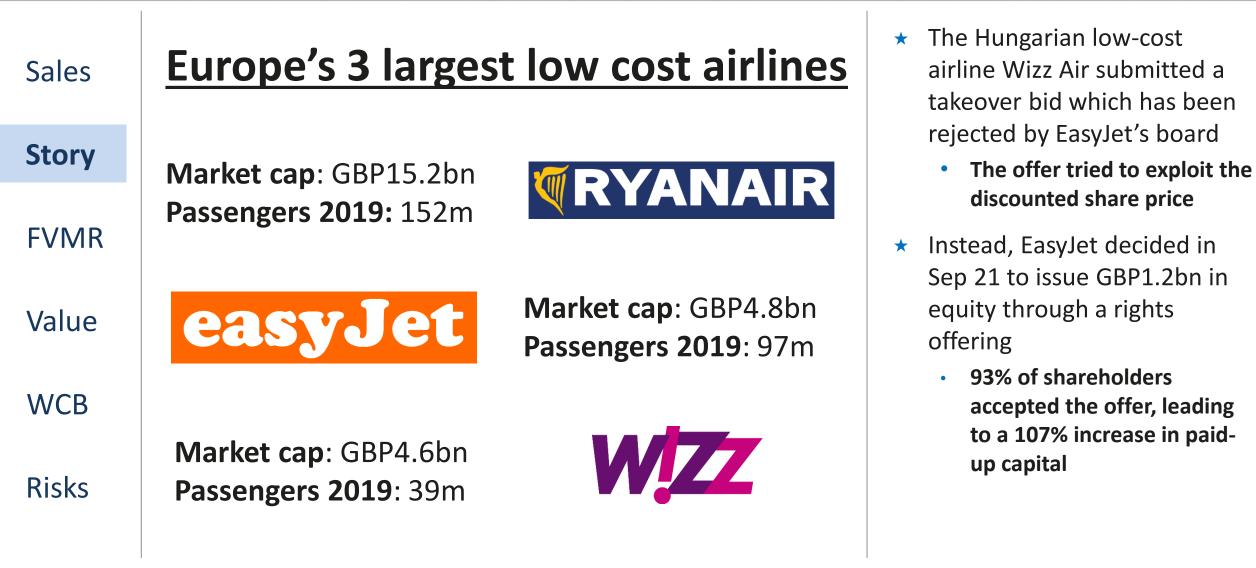




- ★ Since 2H21, EasyJet faced a severe decline of 33% in its share price
- The 50 DMA line is far below the 200 DMA, which provides a clear bearish signal
- The RSI-Volume has recently been falling towards the 50%-line which, if continues, could be a bearish sign

Cash injection to avert another takeover attempt





What are the benefits of right offerings vs public issuance of new shares?

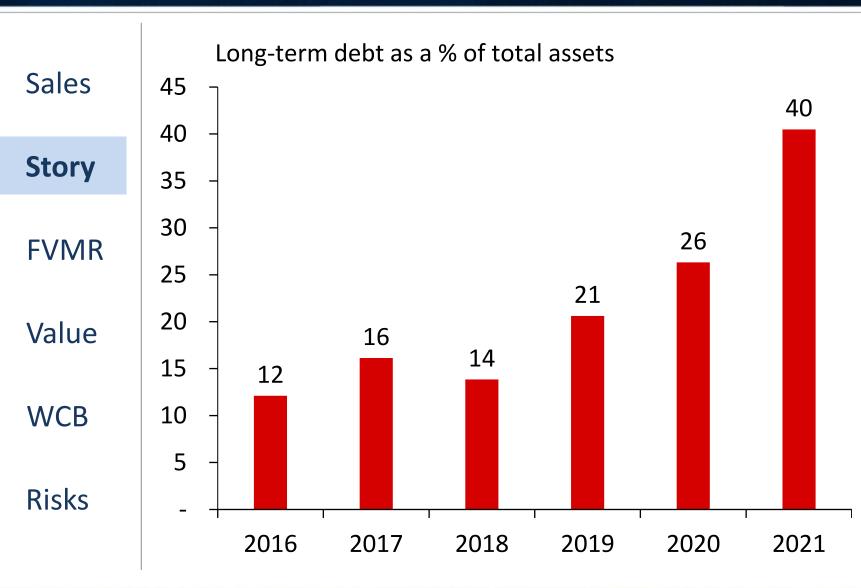
ASK

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Andrew

- In a rights offering, the company offers <u>existing shareholders</u> to purchase additional shares (generally at a large discount to market price)
 - No underwriting fees
 - Fast way of raising capital
 - Shareholders can avoid dilution by exercising the right

Financial flexibility helps to ride recovery wave

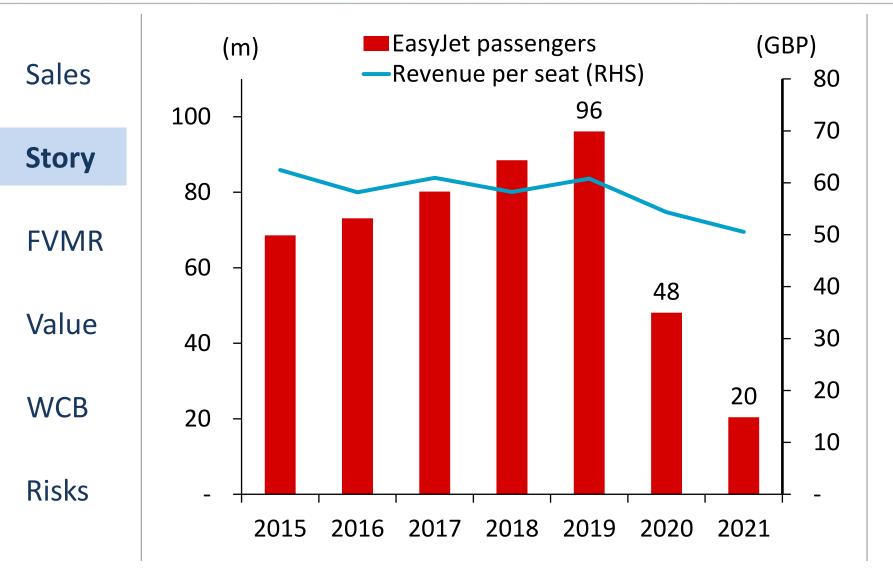




- Part of the proceeds are allocated to repay its longterm debt which has swollen to 3.8bn in 3Q21 (1.5bn in 1Q20)
- The enhanced liquidity also allows for flexible expansion of its fleets and securing additional slots at key destinations
 - The company is not constrained by capacity to capture the likely rebound in 2022

) Rival price cutting puts strong pressure on margin





- Returning to its almost 100m passengers a year requires EasyJet to even further decrease its prices
 - Its closest competitors continue to scale up by competing on prices as well
- Price pressures make it almost impossible to return to a gross margin of 36-38% that it achieved between 2015-2019
 - It might take up to 5 years to just return to 33-35%

One-stop solution provides scalable synergies



Sales

- **Story**
- **FVMR**
- Value

WCB

Risks

- ★ Launched in 2019, EasyJet established its digital platform that offers the booking of travel packages including accommodation
 - In 2021, it signed 40 new exclusive partnerships with hotels
- Being a one-stop solution with attractive deals helps to drive growth
 - 4-5 years from now, this segment could contribute GPB100m, equaling around 15-20% of overall EBIT

easyJet holidays

Selected partners





What Is Going to



What Is Going to Happen with Inflation?

By Valuation Master Class Student

Many forces at work impact inflation. There are current trends that cause both inflationary and deflationary measures. Whether we'll see inflation or deflation in the future depends on which of these forces dominate.

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By Andrew Stotz

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By Andrew Stotz

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What Does It Mean to Be Financially World Class?



What Is Liabilities To Assets Ratio?



What Is Growth Year Over Year?

FVMR Scorecard

* Measures a stock's attractiveness relative to all other companies * Attractiveness is based on four elements Fundamentals, Valuation, Momentum, and Risk Scale from 1 (Best) to 10 (Worst)

EARNINGS MANAGENENT -FVMR PRICE

Ranked the worst in the UK



VALUATION MASTER CLASS

				Wor	st	Ne	eutral Best					
Sales	Rank relative to all ot	her con	npanies	*								
	Fundamentals	w				В	Valuation	w	,			В
Story												
	(%)	Sep-17	Sep-18	Sep-19	Sep-20	PTM**	(x)	Sep-17	Sep-18	Sep-19	Sep-20	PTM**
	Operating profit margin	7.9	9.8	6.1	(26.3)	(67.1)	Price-to-sales	1.3	0.8	0.4	1.6	2.0
	Recurring net margin	6.0	7.9	5.5	(31.9)	(62.1)	Price-to-earnings	20.9	9.6	7.6	nm	nm
VMR	Asset turnover	88.1	91.0	84.3	36.2	16.0	Price-to-book	2.3	1.4	0.9	2.8	1.5
	Return on assets	5.3	7.2	4.7	(11.5)	(9.9)	PE-to-EPS growth (PEG)	nm	0.2	nm	nm	nm
	Recurring return on equity	11.1	15.4	11.4	(39.3)	(39.9)	EV/EBIT	15.1	7.0	7.8	nm	nm
alue												
'alue	Momentum	w				В	Risk	W	/			В
	Momentum		7 Sep-18	Sep-19	Sep-20					Sep-19	Sep-20	
		W Sep-17 8.1		Sep-19 8.3	Sep-20 (52.9)	B PTM** (51.5)	Risk (x) Current ratio	<mark>м Sep-17</mark> 1.0	/	Sep-19 0.8	Sep-20	PTM**
	Momentum (%)	Sep-17	. 16.9		· · · · · ·	PTM**	<u>(x)</u>	Sep-17	Sep-18			PTM**
	Momentum (%) Revenue growth	Sep-17 8.1 (30.2)	16.9 52.2	8.3	(52.9)	PTM** (51.5)	<mark>(x)</mark> Current ratio	Sep-17 1.0	Sep-18 1.0	0.8	0.7	PTM** 1.6 34.5
'alue VCB isks	Momentum (%) Revenue growth Recurring EPS growth	Sep-17 8.1 (30.2)	16.9 52.2 195	8.3 (36.0)	(52.9) (365.0)	PTM** (51.5) 15.4	<mark>(x)</mark> Current ratio Net debt-to-equity (%)	Sep-17 1.0 (12.7)	Sep-18 1.0 (12.2)	0.8 10.9	0.7 59.2	PTM** 1.6 34.5 nm 3mth

VMC Student Report

Recently, I created a short online course explaining my FVMR investing approach

I usually sell it for \$97 but for a limited time I am offering it for FREE

FVMR

MANAGENENT

EARNINGS

PRICE

Consensus mixed, but majority sees upside

Analyst consensus valuation



Sales

Story

Recommendation	Oct-21	Nov-21	Dec-21	Current
Strong buy	4	4	5	5
Buy	10	11	11	10
Hold	7	6	5	6
Sell	1	-	-	-
Strong sell	-	1	2	2
Average score	2.2	2.2	2.3	2.3
Price target	Oct-21	Nov-21	Dec-21	Current
Median	776	800	735	730
Mean	783	766	731	730



 \star

Upside: 15%

Value

WCB

Risks

FVMR

Analyst consensus 3-year forecast						
(%)	18	19	20	21E	22 E	23E
Revenue growth	2.5	(52.9)	(51.5)	255.6	32.6	8.6
Gross margin	34.6	21.3	3.7	16.5	18.1	28.0
EBIT margin	7.3	(24.7)	(63.6)	3.1	8.1	7.4
Net margin	5.5	(35.9)	(58.8)	1.0	5.4	5.0

- 15 analysts issued a BUY recommendation as the stock price still trades at a large discount to its pre-pandemic level
 - 2 analysts expect the company to struggle in its recovery (STRONG SELL)
- Consensus expects recovery in margin but it will be a long way to return to 35%+

Profit & loss statement

Sales

Story

FVMR

Value

(YE Sep, £ m)	2020A	2021A	2022E	2023E
Revenue	3,009	1,458	5,132	6,518
Cost of goods & services	(2,369)	(1,404)	(4,183)	(4,954)
Gross profit	640	54	949	1,564
SG&A	(1,014)	(777)	(513)	(782)
Other operating (exp)/inc	(370)	(204)	(198)	(192)
EBIT	(744)	(927)	238	590
Interest expense (net)	(49)	(118)	(181)	(171)
Other non-operating inc/(exp)	386	(8)	-	-
Earnings before taxes (EBT)	(407)	(1,053)	57	420
Income tax	194	178	(11)	(80)
Earnings after taxes (EAT)	(213)	(875)	46	340
Equity income/Minority interest	-	-	-	-
Earnings from cont. operations	(213)	(875)	46	340
Forex/Exceptionals before tax	(866)	17	-	-
Net profit	(1,079)	(858)	46	340

- Net profit could return \star positive in 22E after facing 2 years of losses
 - The bottom-line mainly • depends on a demand rebound in traveling and no further gov't restrictions to combat COVID

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Risks

WCB

Balance sheet - assets

Sales					
Story	(YE Sep, £ m)	2020A	2021A	2022E	2023E
	Cash & short-term investments	2,316	3,536	3,146	3,549
	Accounts receivable	108	198	285	362
FVMR	Inventories	-	-	-	-
	Other current assets	139	431	308	391
	Total current assets	2,563	4,165	3,739	4,302
1.1	Long-term investments	33	30	30	30
Value	Net fixed assets	5,053	4,735	4,915	5,034
	Intangible assets	232	217	211	206
	Goodwill	365	365	365	365
WCB	Other long-term assets	227	261	264	266
VVCD	Total assets	8,473	9,773	9,524	10,202

EasyJet has the flexibility to \star increase its fleet as most orders include a purchase right but no obligation

> With the demand recovery, I • expect the company to return to higher capacity

Risks



Balance sheet - liabilities

Sales					
	(YE Sep, £ m)	2020A	2021A	2022E	2023E
Story	Overdrafts & short-term loans	1,242	547	170	172
,	Accounts payable	735	798	813	894
	Other current liabilities	1,849	1,332	1,283	1,629
	Total current liabilities	3,826	2,677	2,266	2,695
FVMR	Long-term debt	2,230	3,957	4,076	4,117
	Other long-term liabilities	518	500	505	510
	Total liabilities	6,574	7,134	6,847	7,322
Value	Minority interest	-	-	-	-
value	Paid-up capital - Common shares	1,176	2,373	2,373	2,373
	Paid-up capital - Preferred shares	-	-	-	-
	Retained earnings	960	111	148	352
WCB	Revaluation/Forex/Others	(237)	155	155	155
	Total equity	1,899	2,639	2,676	2,880
	Total liab & shareholders' equity	8,473	9,773	9,524	10,202



 Leveraged increased significantly but was partly offset by the equity right offering

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Risks

Ratios



★ Asset efficiency starts to recover in 22E and 23E

FV	Μ	R	

Sales

Story

Value

WCB

Risks

(YE Sep)	2020A	2021A	2022E	2023E
General growth (YoY, %)				
Revenue	(52.9)	(51.5)	252.0	27.0
Assets	3.8	15.3	(2.6)	7.1
Gross profit	(71.1)	(91.6)	nm	64.8
Operating profit	(259.7)	(24.6)	125.7	147.6
Attributable profit	(409.2)	20.5	105.4	631.4
EPS	(387.5)	38.0	104.6	631.4
Recurring EPS	(159.7)	(268.4)	103.8	631.4
Du Pont analysis (%)				
Net profit margin	(35.9)	(58.8)	0.9	5.2
Revenue per £100 of assets	36.2	16.0	53.2	66.1
Assets/equity (x)	3.4	4.0	3.6	3.6
Return on equity	(44.2)	(37.8)	1.7	12.2
Others (%)				
Effective tax rate	-	-	19.0	19.0
Dividend payout ratio	-	-	16.7	40.0

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Ratios (cont.)

	(YE Sep)	2020A	2021A	2022E	2023E
Sales	Internal liquidity (x)				
	Current ratio	0.7	1.6	1.6	1.6
	Quick, or acid test ratio	0.7	1.6	1.6	1.6
Story	Working cap. mgmt (Days)				
ocory	Inventory conversion period	-	-	-	-
	Receivables collection period	14	38	17	18
	Days from raw mat to coll	14	38	17	18
FVMR	Payables deferral period	129	197	69	62
	Cash conversion cycle	(115)	(159)	(52)	(44)
	Profitability ratios (%)				
Value	Gross profit margin	21.3	3.7	18.5	24.0
	EBIT margin	(24.7)	(63.6)	4.6	9.1
	EBIT return on avg assets	(8.9)	(10.2)	2.5	6.0
WCB	Return on average assets	(13.0)	(9.4)	0.5	3.4
VVCD	Financial risk (x)				
	Liabilities-to-assets (%)	77.6	73.0	71.9	71.8
	Debt-to-equity	1.8	1.7	1.6	1.5
Risks	Net debt-to-equity	0.6	0.4	0.4	0.3
	Times-interest-earned	nm	nm	4.0	6.6
	Effective interest rate (%)	2.2	3.0	4.1	4.0



 Declining leverage as part of the rights offering proceeds are used to repay debt

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Good / Moderate / Weak

Sales

Story

FVMR

WCB

Ratios

Value

Risks

Driver	Potential	Our thoughts
Price	Weak	It continues to pursue its low-cost strategy
Quantity	Good	Fast rebound and trend for cheap travelling continues
COGS	Moderate	Positive surprises in margin possible, but difficult to realize
Opex	Weak	Past cost cutting measures already at peak
		weight and a subscription has the share to us be subscription of the state
	EPS growth	might appear massive, but mainly due to rebound effect
Price	EPS growth	might appear massive, but mainly due to rebound effect
	Potential	Our thoughts
Price Driver PE		
Driver	Potential	Our thoughts

Free cash flow



Cash flow should return \star positive from 22E onward

	(YE Sep, £ m)	2020A	2021A	2022E	2023E
Story	EBIT	(744.0)	(927.0)	238.4	590.2
Scory	Est tax rate (%)	-	-	19.0	19.0
	NOPAT	(744.0)	(927.0)	193.1	478.1
FVMR	Add: Depre & amort	503.0	480.0	489.1	529.9
	Less: CAPEX	43.0	696.0	(655.3)	(634.9)
	Chg in A/R	17.0	(90.0)	(87.1)	(77.0)
Value	Chg in inventory	-	-	-	-
Value	Chg in oth curr assets	279.0	(292.0)	123.1	(83.1)
	Chg in A/P	(229.0)	63.0	15.3	81.1
	Chg in oth curr liabs	364.0	(517.0)	(49.0)	346.4
WCB	Less: Chg in working cap	431.0	(836.0)	2.3	267.4
	Less: Chg in invest cap				
D • 1	Free cash flow to firm	233.0	(587.0)	29.2	640.4
Ricks					

Risks

Sales

VMC Student Report

Value estimate

Sales

Story

FVMR

Value

WCB

Risks

3-year average	Consensus	My assun	nptions
Revenue growth (CAGR)		72.4	67.4
Gross margin		20.9	20.5
EBIT margin		6.2	6.7
Net margin		3.8	3.9
My valuation method			
Market: United Kingdom			
Market risk-free rate	2.0		
	2.0		
	8.0		
Market equity risk premium		Valuation M	ethod:
Market equity risk premium Market return	8.0		ethod:
Market equity risk premium Market return Company beta (x)	8.0 10.0	Valuation M FCFF	ethod:
Market equity risk premium Market return Company beta (x) COE	8.0 10.0 1.3		ethod:
Market equity risk premium Market return Company beta (x) COE WACC Terminal growth rate	8.0 10.0 1.3 12.0		ethod:



- ★ I am a bit more cautious about the demand rebound in the aviation industry
 - Also, price competition might lead to lower-thanexpected revenue
- It could take a long time to recover its margin to prepandemic level
 - I don't think that it can achieve a margin of 37%+ in the next 5 years like it did before 2019

VMC Student Report

Forecast assumptions

Value estimate



Bull Bear Base Sales **GPX625 GPX679 GPX736** Story (Downside 1%) (Upside 7%) (Upside 16%) **FVMR WCB** Ratios Value **Risks**

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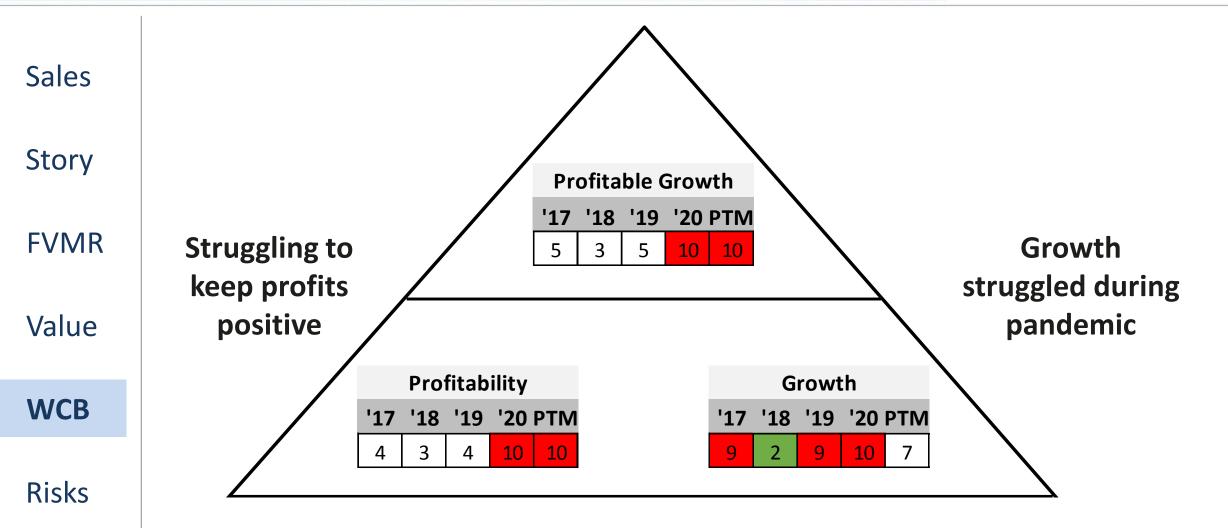
World Class Benchmarking Scorecard

- We identify a company's competitive position relative to global peers
- We use a composite rank of profitability and growth, called "Profitable Growth"
 Scale from 1 (Best) to 10 (Worst)



Poor profitability and below-average growth





Benchmarked against 1,480 large Industrials companies worldwide.



Sales	
Story	 Price reductions by competitors and intensified competition for airport slots
FVMR Value	★ Lower-than-expected demand rebound in the aviation industry
WCB	★ Adverse regulatory changes and environmental liabilities
Risks	

Is EasyJet's cash injection enough to fund tough recovery?





Europe's second-largest low cost airline operating in more than 30 countries

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Key statistics		
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(Upside 15%)		(suspended over past 2 years)
BUY		, ,

CONCLUSION

- Price wars determine which lowcost airlines survive
- Excessive liquidity through rights offering might lead to overinvestments
- With high uncertainty and low upside, at best, hold for now