Air Canada Reports First Quarter 2020 Results

MONTREAL, May 4, 2020 /CNW Telbec/ - Air Canada today reported first quarter 2020 EBITDA[1] (earnings before interest, taxes, depreciation and amortization) of $71 million compared to first quarter 2019 EBITDA of $583 million The airline reported an operating loss of $433 million compared to operating income of $127 million in the first quarter of 2019. At March 31, 2020, unrestricted liquidity amounted to $6.523 billion compared to unrestricted liquidity of $7.380 billion at December 31, 2019.

"Our first quarter results reflect the severity and abruptness of the impact that the COVID-19 pandemic has had on Air Canada, which started to be felt across the global airline industry in late January with the suspension by many carriers, including Air Canada, of services to China. The impact was exacerbated during the month of March with mandated social distancing, unprecedented government-imposed travel restrictions in Canada and around the world and the shutting down of economies. As significant as the financial damage has been, our prime concern remains the health and safety of our customers and our employees, whom I thank for their unwavering dedication under impossible conditions. I also want to acknowledge the pandemic's effects upon all of our other stakeholders, particularly those in the travel trade community. Be assured that we are resolutely committed to bringing our airline successfully through this crisis," said Calin Rovinescu, President and Chief Executive Officer of Air Canada.

"The past quarter was the first in 27 consecutive quarters that we did not report year-over-year operating revenue growth. Our solid January and February results gave us every encouragement that this performance would continue until the sudden and catastrophic impact of COVID-19's onset in Europe and North America in early March. We are now living through the darkest period ever in the history of commercial aviation.

"Over the last decade, we have infused entrepreneurial spirit, resilience, innovation and discipline into Air Canada's DNA and these attributes will serve us well as we navigate through this crisis. Due to disciplined long-term capital allocation we ended 2019 with $7.380 billion in unrestricted liquidity and still have access to significant unencumbered assets to support additional financings. We reacted quickly to the severity and abrupt impact of the COVID-19 pandemic, taking numerous measures, including drawing down credit lines and completing other financings to increase our liquidity, reducing our close-in capacity by more than 90 per cent, instituting a significant cost reduction and capital reduction and deferral program and implementing a temporary furlough of the majority of our unionized and management workforce, as well as management wage reductions for continuing employees.

"We have developed a plan to manage through a protracted downturn, recognizing that the pandemic and its fallout will materially impact both customer demand and our liquidity in the short and medium term. Moreover, while the duration of the pandemic and its fallout remain unknown, it is our current expectation that it will take at least three years to recover to 2019 levels of revenue and capacity. We expect that both the overall industry and our airline will be considerably smaller for some time, which will unfortunately result in significant reductions in both fleet and employee levels. While it is not possible to predict the course of the pandemic globally or indeed the changes that will be required of the airline industry, our determination is to ensure that our company is positioned to emerge in the post-COVID-19 world as strong as possible and capitalize on the opportunities that will inevitably arise," concluded Mr. Rovinescu.

Air Canada has taken or will take the following measures in response to the COVID-19 pandemic:

- Air Canada has reduced second quarter 2020 capacity by 85 to 90 per cent when compared to 2019's second quarter. Third quarter 2020 capacity is expected to be reduced by approximately 75 per cent when compared to the third quarter of 2019. The airline will continue to dynamically adjust capacity and take other measures as required to account for health warnings, travel restrictions, border closures globally and passenger demand.

- In March 2020, Air Canada drew down its US$600 million and $200 million revolving credit facilities for aggregate net proceeds of $1.027 billion. As at March 31, 2020, Air Canada's unrestricted liquidity amounted to $6.523 billion.
- In April 2020, Air Canada concluded a 364-day term loan in the amount of US$600 million, secured by aircraft and spare engines, for net proceeds of $829 million. After giving effect to this facility and estimated declines in asset valuations as a result of COVID-19, Air Canada's unencumbered asset pool (excluding the value of Aeroplan and Air Canada Vacations) amounts to approximately $2.6 billion. As part of Air Canada's ongoing efforts to increase liquidity levels, additional financing arrangements continue to be pursued.
- In late April 2020, Air Canada concluded a bridge financing of $788 million for 18 Airbus A220 aircraft which may be used for general corporate purposes and which Air Canada expects to replace with longer-term secured financing arrangements later in 2020 with the same lender.
- In addition to cost savings associated with the significant capacity reductions, workforce reductions and other mitigation programs, Air Canada has initiated a company-wide cost reduction and capital reduction and deferral program which has now reached approximately $1.050 billion, increased from an initial target of $500 million, and continues to seek additional opportunities for cash preservation.
- Air Canada is accelerating the retirement of 79 older aircraft from its fleet – Boeing 767, Airbus 319 and Embraer 190 aircraft, with the Embraer aircraft exiting the fleet immediately. Their retirement will simplify the airline's overall fleet, reduce its cost structure, and lower its carbon footprint.
- Air Canada suspended share purchases under its Normal Course Issuer Bid in early March 2020 and does not intend to renew it upon its expiry.
- To assist with global requirements of goods and personal protective equipment during the pandemic, Air Canada has operated more than 500 all-cargo international flights since March 22, 2020, and plans to operate up to 150 all-cargo flights per week in the second quarter using a combination of Boeing 787 and Boeing 777 aircraft as well as four newly converted Boeing 777 and four converted Airbus 330 aircraft where it has doubled available cargo space by removing seats from the passenger cabin.
- Air Canada has adopted the Canada Emergency Wage Subsidy (CEWS) for most of its workforce which allowed it to return previously furloughed Canadian-based employees to its payroll for the March 15 to June 6, 2020 period.
- Air Canada announced special benefits and accommodations for Aeroplan and Altitude members in light of COVID-19. These include pausing mileage expiration, grandfathering mileage-earned status, waiving certain change and redeposit fees, and launching new promotions so that members can earn additional Aeroplan Miles without leaving home.
- Air Canada makes safety its first consideration in all that it does and has been continually incorporating new information about COVID-19 into its health and safety policies and procedures for travelers and employees in all workplaces, airports and onboard aircraft. This includes a requirement for customers to wear a protective face covering and measures to implement social distancing, as well as enhanced protective personal equipment for airport agents and crews, the encouragement of safe practices such as frequent hand washing and collaborating with the Canadian federal government to screen passengers to determine fitness for flying of all customers. For more details on preventative measures and policies please see: https://www.aircanada.com/covid19updates
- To underscore its commitment to customer and employee safety, Air Canada will soon be introducing Air Canada CleanCare+. This program sets out all the health and safety measures being implemented at every touch point of the flight journey.

First Quarter Summary

Air Canada recorded a net loss of $1.049 billion or $4.00 per diluted share compared to net income of $345 million or $1.26 per diluted share in the first quarter of 2019. The first quarter of 2020 included foreign exchange losses of $711 million while the first quarter of 2019 included foreign exchange gains of $263 million. The airline reported an adjusted net loss(1) of $392 million or $1.49 per diluted share in the first quarter of 2020 compared to adjusted net income(1) of $17 million or $0.06 per diluted share in the first quarter of 2019.

Net debt of $4.170 billion increased $1.329 billion from December 31, 2019, reflecting the drawdown of Air Canada's US$600 million and $200 million revolving credit facilities, partially offset by debt repayments of $509 million. The unfavourable impact of a weaker Canadian dollar, as at March 31, 2020 compared to December 31, 2019, increased foreign currency denominated debt (mainly U.S. dollars) by $692 million. At March 31, 2020, Air Canada's leverage ratio(1) (net debt to trailing 12-month EBITDA ratio) was 1.3 versus a leverage ratio of 0.8 at December 31, 2019.

In the first quarter of 2020, net cash flows used in operating activities amounted to $20 million, a decrease of $3,131 million from the same quarter in 2019 on a deterioration in operating results and lower cash from working capital as a result of lower advance ticket sales, reflecting the severe and abrupt impact of the COVID-19 pandemic. Cash flows from operating activities in the first quarter of 2019 were favourably impacted by receipts amounting to $1,612 million in conjunction with Air Canada's acquisition of Aeroplan. In the first quarter of 2020, net cash inflows from financing activities amounted to $387 million, an increase of $689 million from the first quarter of 2019.

Proceeds from borrowings of $1,027 million in the first quarter of 2020 reflected the drawdown of Air Canada's US$600 million and $200 million revolving credit facilities in March 2020. Debt repayments amounted to $509 million. Negative free cash flow(1) of $393 million deteriorated by $972 million from the first quarter of 2019, reflecting lower cash flows from operating activities due to the severe and abrupt impact of the COVID-19 pandemic, partially offset by a lower level of capital expenditures year-over-year.

Outlook and Major Assumptions

As indicated above, Air Canada expects to reduce second quarter 2020 capacity by 85 to 90 per cent when compared to 2019's second quarter. Third quarter 2020 capacity is expected to be reduced by approximately 75 per cent when compared to the third quarter of 2019. The airline will continue to dynamically adjust capacity and take other measures as required to account for health warnings, travel restrictions, border closures globally and passenger demand.

In light of the COVID-19 pandemic and significant uncertainty around resulting travel restrictions and passenger demand, concerns about travel due to the pandemic or precautions such as physical distancing, as well as the overall economic environment and recent significant volatility in fuel prices and foreign exchange rates, Air Canada is not providing assumptions around GDP, fuel prices or foreign exchange rates. In addition, Air Canada is withdrawing all guidance, including as previously announced, all first quarter and full year 2020 guidance as well as its full year 2021 guidance (including its free cash flow guidance for the 2019-2021 period).

(1) Non-GAAP Measures

Below is a description of certain non-GAAP financial measures used by Air Canada to provide readers with additional information on its financial and operating performance. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for, or superior to, GAAP results. Readers are advised to review the section entitled Non-GAAP Financial Measures in Air Canada's 2019 MD&A for a further discussion of such non-GAAP measures and a reconciliation of such measures to Canadian GAAP.

- Adjusted net income (loss) and adjusted earnings (loss) per share – diluted are used by Air Canada as a means to assess the overall financial performance of its business without the after-tax effects of foreign exchange gains or losses, net financing expense relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on debt settlements and modifications, gains or losses on disposal of assets, and special items as these items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

- EBITDA (earnings before interest, taxes, depreciation and amortization) is commonly used in the airline industry and is used by Air Canada as a means to view operating results before interest, taxes, depreciation and amortization as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. Air Canada excludes special items from EBITDA as these items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.
- "Leverage ratio" refers to net debt to trailing 12-month EBITDA leverage ratio and is commonly used in the airline industry and is used by Air Canada as a means to measure financial leverage. Leverage ratio is calculated by dividing net debt by trailing 12-month EBITDA (excluding special items). As mentioned above, Air Canada excludes special items from EBITDA results (which are used to determine leverage ratio) as these items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.
- Free cash flow is commonly used in the airline industry and is used by Air Canada as an indicator of the financial strength and performance of its business, indicating the amount of cash Air Canada is able to generate from operations and after capital expenditures. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment and intangible assets, and is net of proceeds from sale and leaseback transactions. Free cash flow in 2019 also excludes the one-time proceeds related to the Aeroplan acquisition.

Air Canada's First Quarter 2020 Consolidated Financial Statements and Notes and its First Quarter 2020 Management's Discussion and Analysis of Results of Operations and Financial Condition are available on Air Canada's website at aircanada.com and will be filed on SEDAR at www.sedar.com.

For further information on Air Canada's public disclosure file, including Air Canada's Annual Information Form dated March 30, 2020, consult SEDAR at www.sedar.com.

First Quarter Analyst Conference Call

Air Canada will host its quarterly analysts' call today, May 4th, 2020 at 08:30 E.T. Calin Rovinescu, President and Chief Executive Officer, Michael Rousseau, Deputy Chief Executive Officer and Chief Financial Officer, and Lucie Guillemette, Executive Vice President and Chief Commercial Officer, will be available for analysts' questions. Immediately following the analysts' Q&A session, Mr. Rousseau and Pierre Houle, Managing Director and Treasurer, will be available to answer questions from term loan B lenders and holders of Air Canada's bonds.

Media and the public may access this call on a listen-in basis. Details are as follows:

Dial 416-340-2217 or 1-800-806-5484   Passcode: 6758405#

Live audio webcast: https://bell.media-server.com/mmc/p/vqnnjb45

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This news release includes forward-looking statements within the meaning of applicable securities laws. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified using terms and phrases such as "preliminary", "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.   Forward-looking statements, by their nature, are based on assumptions, including those described herein and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in *forward-looking statements due to a number of factors, including those discussed below.*

Air Canada, along with the rest of the global airline industry, is facing a severe and abrupt drop in traffic and a corresponding decline in revenue as a result of the coronavirus (COVID-19) pandemic and the travel restrictions imposed in many countries around the world, including Canada and the United States. The impact of the COVID-19 pandemic began to be felt in traffic and sales figures commencing in early March 2020. These impacts include drastic declines in earnings and cash from operations. There is very limited visibility on travel demand given government restrictions in place; these restrictions and concerns about travel due to the COVID-19 virus and passenger expectations about the need for certain precautions such as physical distancing are severely inhibiting demand. Air Canada cannot predict the full impact or the timing for when conditions improve. Air Canada is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, government actions, and passenger reaction, none of which can be predicted with any degree of certainty.

Other factors that may cause results to differ materially from results indicated in forward-looking statements include our ability to successfully achieve or sustain positive net profitability, economic and geopolitical conditions, the timing and conditions of the return to service of Boeing 737 MAX aircraft in our fleet (including the introduction of those on order and the management of our fleet and operations until their return to service or introduction), industry and market conditions and the demand environment, competition, energy prices, our dependence on technology, our ability to successfully implement appropriate strategic and other important initiatives (including our ability to reduce operating costs), cybersecurity risks, war, terrorist acts, other epidemic diseases, our dependence on key suppliers, casualty losses, changes in laws, regulatory developments or proceedings, our ability to successfully launch and operate our new loyalty program, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), interruptions of service, our dependence on regional and other carriers, our ability to preserve and grow our brand, employee and labour relations and costs, our dependence on Star Alliance and joint ventures, limitations due to restrictive covenants, our ability to pay our indebtedness and maintain liquidity, pending and future litigation and actions by third parties, currency exchange, pension plans, our ability to attract and retain required personnel, insurance issues and costs, as well as the factors identified in Air Canada's public disclosure file available at www.sedar.com and, in particular, those identified in section 14 "Risk Factors" of Air Canada's First Quarter 2020 MD&A and section 20 "Risk Factors" of Air Canada's 2019 MD&A. Furthermore, the acquisition of Transat A.T. Inc. is subject to regulatory approvals and certain customary conditions, and there are no assurances that the acquisition will be completed as described in Air Canada's 2019 MD&A or at all. The forward-looking statements contained or incorporated by reference in this news release represent Air Canada's expectations as of the date of this news release (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether because of new information, future events or otherwise, except as required under applicable securities regulations.

About Air Canada
Air Canada is Canada's largest domestic and international airline. Canada's flag carrier is among the 20 largest airlines in the world and in 2019 served over 51 million customers. Air Canada is a founding member of Star Alliance, the world's most comprehensive air transportation network. Air Canada is the only international network carrier in North America to receive a Four-Star ranking according to independent U.K. research firm Skytrax, which also named Air Canada the 2019 Best Airline in North America. For more information, please visit: aircanada.com/media, follow @AirCanada on Twitter and join Air Canada on Facebook.

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Highlights

The financial and operating highlights for Air Canada for the periods indicated are as follows:

	First Quarter					
(Canadian dollars in millions, except where indicated)		**2020**		**2019**		**$ Change**
Financial Performance Metrics						
Operating revenues		3,722		4,434		(712)
Operating income (loss)		(433)		127		(560)
Income (loss) before income taxes		(1,276)		285		(1,561)
Net income (loss)		(1,049)		345		(1,394)
Adjusted pre-tax income (loss) (1)		(520)		24		(544)
Adjusted net income (loss) (1)		(392)		17		(409)
Operating margin %		(11.6%)		2.9%		(14.5) pp
EBITDA (1)		71		583		(512)
EBITDA margin % (1)		1.9%		13.1%		(11.2) pp
Unrestricted liquidity (2)		6,523		7,039		(516)
Net cash flows from (used for) operating activities		(20)		3,111		(3,131)
Free cash flow (1)		(393)		579		(972)
Net debt (1)		4,170		3,658		512
Return on invested capital ("ROIC") % (1)		11.0%		14.8%		(3.8) pp
Leverage ratio (1)		1.3		1.1		0.2
Diluted earnings (loss) per share	$	(4.00)	$	1.26	$	(5.26)
Adjusted earnings (loss) per share – diluted (1)	$	(1.49)	$	0.06	$	(1.55)
Operating Statistics (3)						**% Change**
Revenue passenger miles ("RPM") (millions)		17,507		21,293		(17.8)
Available seat miles ("ASM") (millions)		23,511		26,016		(9.6)
Passenger load factor %		74.5%		81.8%		(7.4) pp
Passenger revenue per RPM ("Yield") (cents)		18.2		17.8		2.3
Passenger revenue per ASM ("PRASM") (cents)		13.6		14.6		(6.9)
Operating revenue per ASM (cents)		15.8		17.0		(7.1)
Operating expense per ASM ("CASM") (cents)		17.7		16.6		6.7
Adjusted CASM (cents) (1)		13.1		11.6		13.2
Average number of full-time equivalent ("FTE") employees (thousands) (4)		33.0		32.1		2.6
Aircraft in operating fleet at period-end (5)		406		401		1.2
Average fleet utilization (hours per day)		9.1		10.2		(10.6)
Seats dispatched (thousands)		14,163		15,412		(8.1)
Aircraft frequencies (thousands)		115.2		133.5		(13.7)
Average stage length (miles) (6)		1,660		1,688		(1.7)
Fuel cost per litre (cents)		69.2		75.5		(8.4)
Fuel litres (thousands)		1,208,119		1,320,765		(8.5)
Revenue passengers carried (thousands) (7)		9,927		12,031		(17.5)

(1) Adjusted pre-tax income (loss), adjusted net income (loss), EBITDA (earnings before interest, taxes, depreciation and amortization), EBITDA margin, free cash flow, ROIC, leverage ratio, adjusted earnings (loss) per share–diluted and adjusted CASM are each non-GAAP financial measures and net debt is an additional GAAP measure. Refer to section 16 of Air Canada's First Quarter 2020 MD&A for descriptions of Air Canada's non-GAAP financial measures and additional GAAP measures.

(2) Unrestricted liquidity refers to the sum of cash, cash equivalents and short and long-term investments, and the amount of available credit under Air Canada's revolving credit facilities. At March 31, 2020, unrestricted liquidity was comprised of cash, cash equivalents and short-term investments of $6,128 million, and long-term investments of $395 million. At March 31, 2019, unrestricted liquidity was comprised of cash, cash equivalents and short-term investments of $5,876 million, long-term investments of $162 million and undrawn lines of credit of $1,001 million.

(3) Except for the reference to average number of FTE employees, operating statistics in this table include third party carriers operating under capacity purchase agreements with Air Canada.

(4) Reflects FTE employees at Air Canada and its subsidiaries. Excludes FTE employees at third party carriers operating under capacity purchase agreements with Air Canada.

(5) *Such number of aircraft in Air Canada's operating fleet at March 31, 2020 includes a number of aircraft that have been temporarily grounded due to the COVID-19 pandemic as well as 24 Boeing 737 MAX aircraft which have been grounded since 2019. Refer to section 5 "Fleet" of Air Canada's First Quarter 2020 MD&A for additional information.*

(6) *Average stage length is calculated by dividing the total number of available seat miles by the total number of seats dispatched.*

(7) *Revenue passengers are counted on a flight number basis (rather than by journey/itinerary or by leg) which is consistent with the IATA definition of revenue passengers carried.*

SOURCE Air Canada

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