



# TAP Credit Story

Transportes Aéreos Portugueses, S.A.

May 2023



# Executive Summary

TAP is **Portugal's flag carrier and market leader** in a **highly attractive home market** with a **unique geographical location** offering operational and economic advantages

TAP is **recovering faster than most of its peers** and its **restructuring plan is delivering record results**, resulting in a **strong balance sheet**

TAP **aims to start deleveraging to further improve its financial profile** and continue to be an attractive investment to its bondholders



# Introduction

**TAP** AIRPORTUGAL



# Portugal's flag carrier and #1 commercial passenger airline



AIRPORTUGAL



EUR **3.5**bn

Revenues 2022

**7.1%**

Recurring EBIT Margin  
in 2022

**<5** years

Avg. Airbus NEO fleet age



**53%**

Market Share 2022  
@ LIS airport



**67%**

Share of neo aircraft in  
long/medium-haul fleet



**95**

Passenger Aircraft  
at Q1 2023



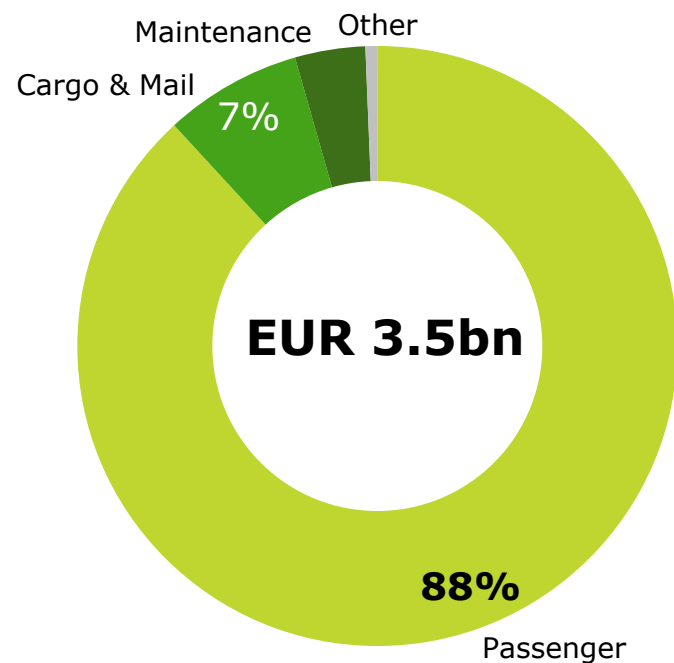
**14**m

Passengers 2022

# Focused on its core passenger business

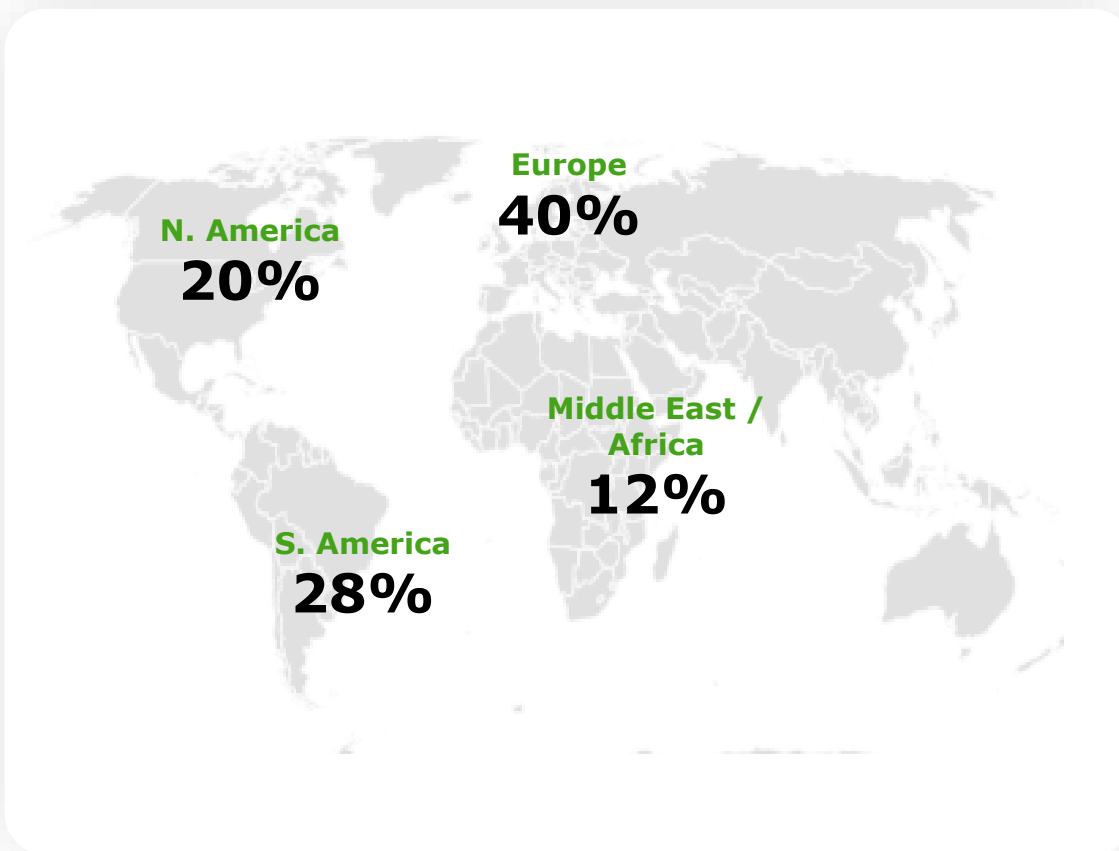
## Revenue by activity

2022



## Passenger Revenue<sup>1</sup>

2022

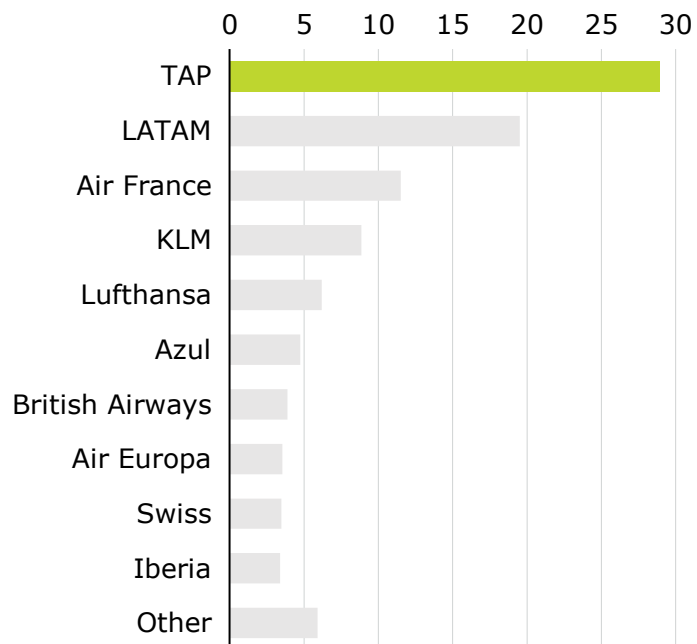


1. Flown allocatable passenger revenues (fare, fuel surcharge and flight related ancillaries)

# Natural gateway to Brazil and North America

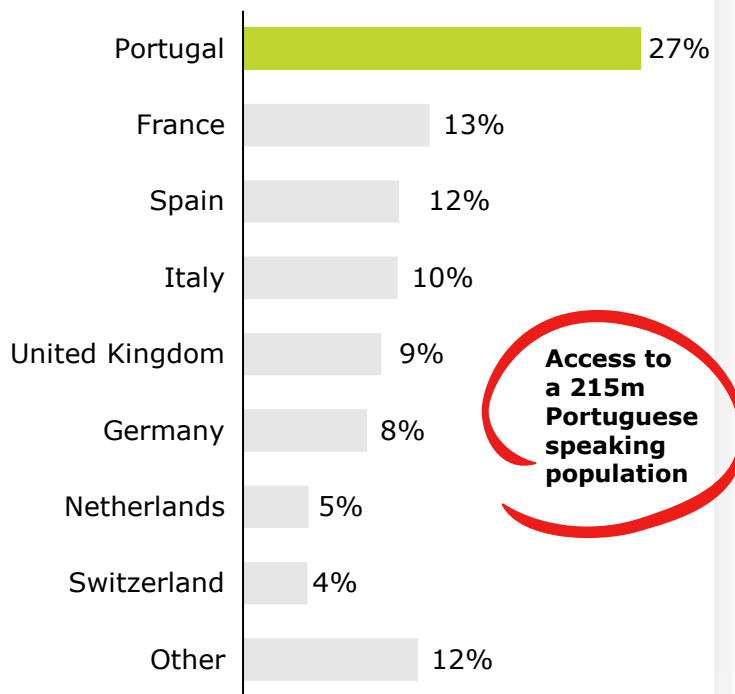
## Market leader in Europe – Brazil traffic

Europe – Brazil market share



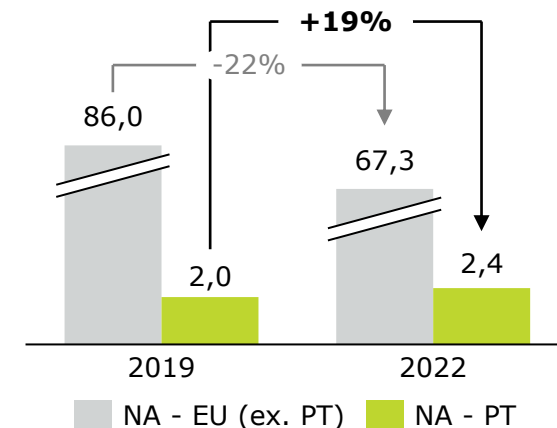
## Airline and destination of choice for Brazilian passengers

European market sizes from Brazil

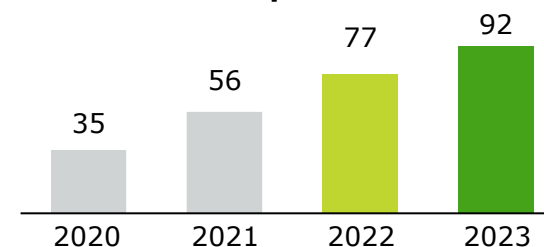


## Increasing exposure to North American market

Passenger flows N. America - Europe



Number of Frequencies to NA



# TAP's network builds upon its natural strengths

## Network strategy

- **Focus on Lisbon hub** and capturing key long-haul flows
  - ✓ Europe to Brazil
  - ✓ Central and Southern Europe to North America
  - ✓ Europe and North America to W/S Africa and the Islands
- **Reduce cost gap** to low-cost competitors in short-haul markets whilst leveraging hub advantages at Lisbon
- Deepen relationships with key strategic partners to **secure economies of scale** and improve access to non-Portuguese points of sale

## Unique competitive position



### Geographical position of Lisbon

Lisbon on the periphery of Europe, ideal for transatlantic hub connections – offering the **shortest and most cost-efficient transfers from Europe**



### Ability to operate cost-efficient Narrow-Body aircraft on transcontinental routes

In addition to hub-and-spoke system strength, TAP can strategically and tactically deploy **Narrow-Bodies on transatlantic routes**



### Cultural Ties

Well established **cultural, linguistic and historical ties in Brazil and Africa**, which are leveraged for sustainable passenger flows, as well as in North America and Venezuela with Portuguese communities



# FY 2022 Review and 1Q23 Results





# Strong results despite significant headwinds

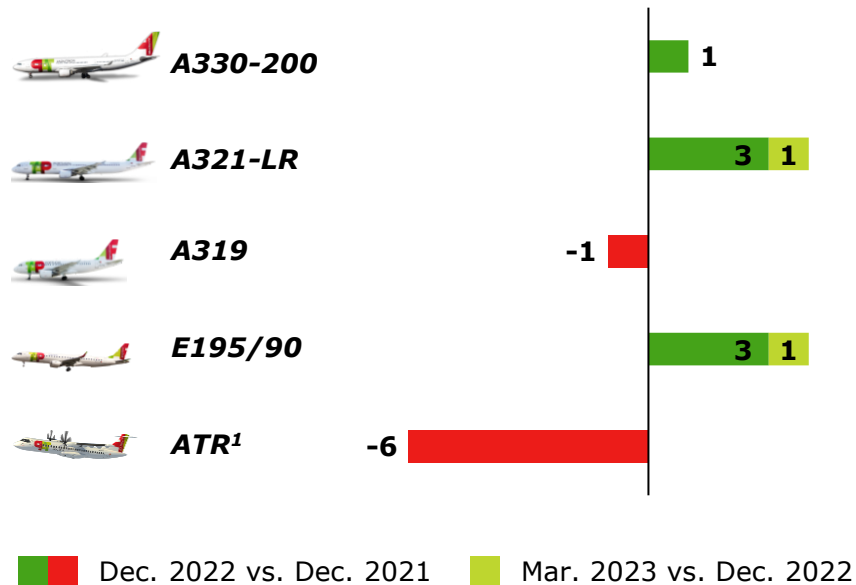
- **Capacity recovered faster than peers mainly through a change of aircraft mix**
- **Customer experience enhanced**
- A challenging environment impacting **operational performance**
- **Significant progress made** in the first year of execution of its **transformation plan**
- **Achieved positive results** that need to become consistent
- On the **right path**, but still challenges ahead



# Fleet mix supports sustainability and customer experience

## Ongoing passenger fleet modernization

Dec. 2022 vs. Dec. 2021 / Mar. 2023 vs Dec. 2022



1) Two ATRs in December 2022 not operated by TAP. In transition from White to next operator

## Up-gauging

bigger aircraft for improvement in customer experience, financial performance and operational reliability

## 67%

share of next generation aircraft in Airbus fleet, enabling noise reduction and higher efficiency in terms of CO<sub>2</sub> emission and fuel consumption

## Customer experience

improved with reduction of ATR fleet, e.g., leading to an extra +15 NPS points on "Ponte Aérea" (LIS-OPO)

# TAP made good progress in the 1<sup>st</sup> year of its transformation plan

## 5 pillars of the transformation plan

### CUSTOMER

- ✓ **Improved call center** response rate with new best-in-class provider (30% → 80%)
- ✓ Opened **31 new lounges**
- ✓ **Reduced refund backlog** by 82%

### REVENUE

- ✓ **+21% RASK** vs. 2019
- ✓ **Cargo and M&E** important contributors to revenues (11%)
- ✓ Reorganized **commercial team**
- ✓ Optimized **network**
- ✓ **Re-boost ancillary revenues** (+28% per pax vs. 2019)
- ✓ Review **pricing structure** and **branded fares**

### COST

- ✓ Total savings of c. EUR 150m by renegotiating c. **2,900 contracts** with suppliers
- ✓ **Fuel efficiency** measures (c. EUR 9m savings)
- ✓ Savings of c. EUR 1.5m per year through aircraft **weight reduction**

### PEOPLE/ ENABLERS

- ✓ **Invested in training** offer (more than EUR 1m investment)
- ✓ Hiring of **779 new employees**
- ✓ All CLAs denounced and **start of negotiations** (i.e.: end of part-time, increase of minimum guarantee, retention measures )

### FOCUS ON AVIATION BUSINESS

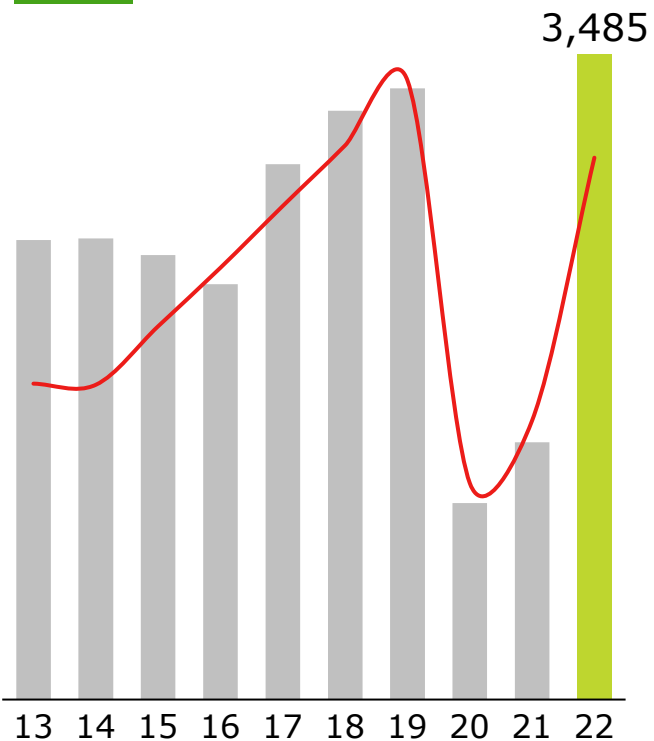
- ✓ **Operation shutdown** in M&E Brazil
- ✓ **Groundforce** (in progress) – subscription agreement signed with Menzies Aviation

# TAP needs to achieve stable profits avoiding historic volatility

Record performance with less capacity

## Revenues

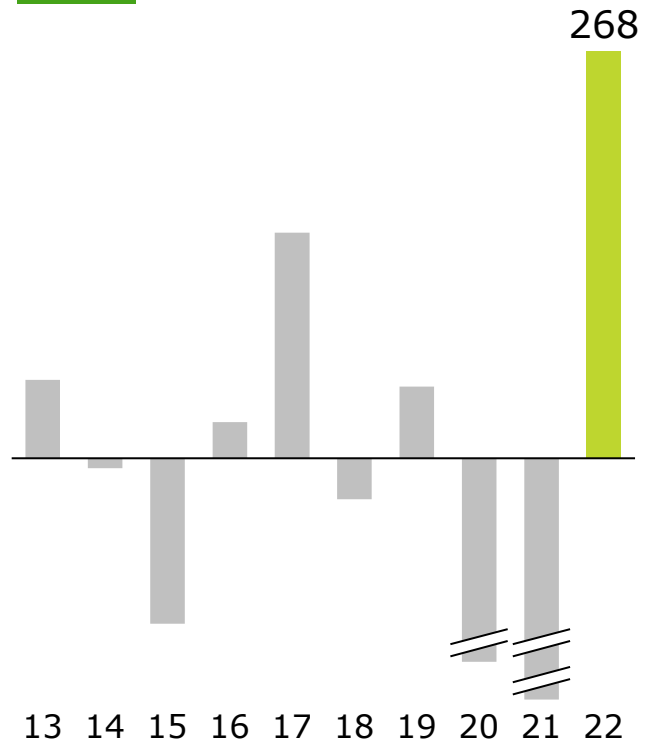
EURm



— ASK

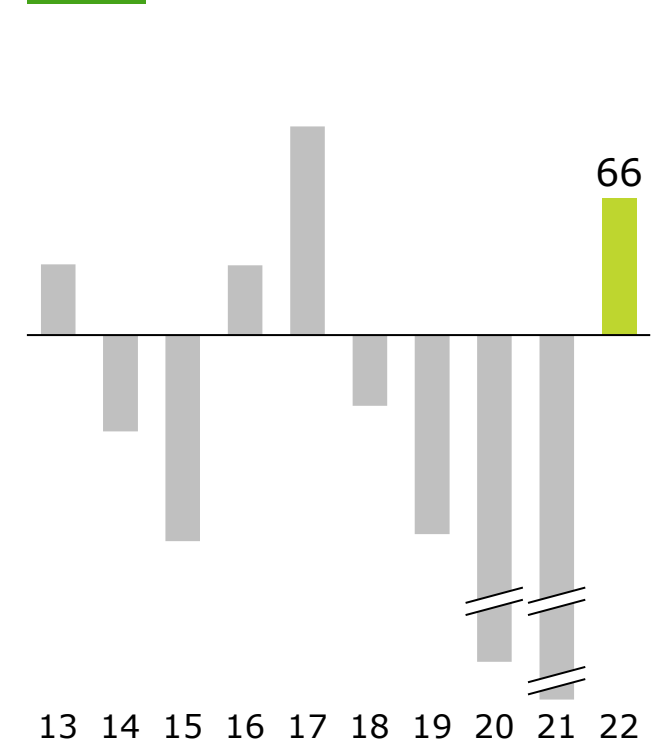
## EBIT

EURm



## Net Income

EURm



# TAP performing in all financial metrics

## Revenues

**FY 2022**

(vs 2019)

**EUR 3,485m**

**6%**

**1Q 2023**

(vs. 1Q22)

**EUR 836m**

**70%**

## Recurring EBITDA

**EUR 758m**

**43%**

**EUR 120m**

**63%**

## Recurring EBIT

**EUR 249m**

**372%**

**EUR -10m**

**78%**

## Recurring EBIT Margin

**7.1%**

**+5.5 pps.**

**-1.2%**

**+8.3 pps.**

## Net Income

**EUR 66m**

**+EUR 161m**

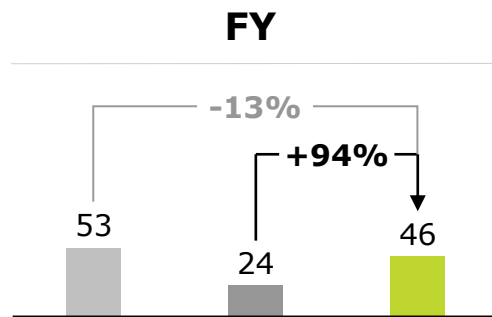
**EUR -57m**

**+EUR 64m**

# Volume metrics recovering from pre-crisis levels

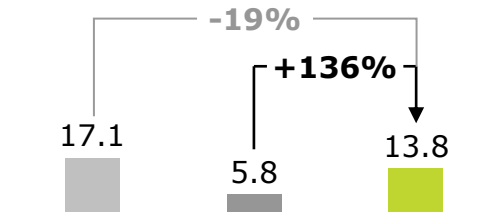
## ASKs

Billions



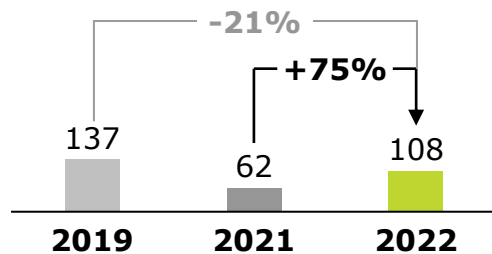
## Passengers

Millions

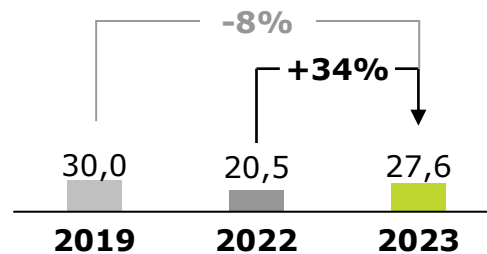
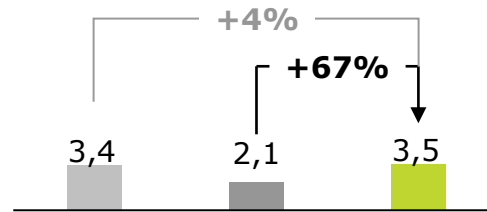
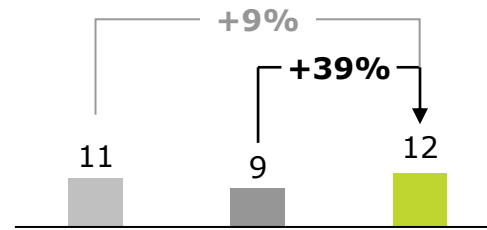


## Departures

Thousands



## 1Q



## Comments

Volume metrics increasing in 2022 and exceeding pre-crisis levels in 1Q23

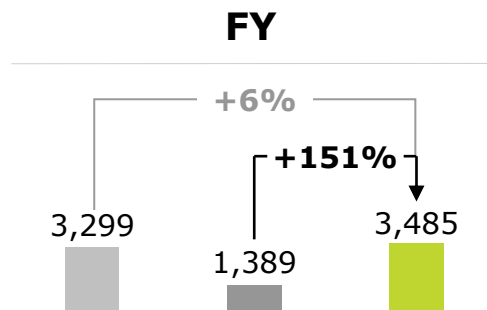
Number of passengers more than doubled in 2022 versus 2021, exceeding pre-crisis levels in 1Q23

Departures still below 2019 levels

# Revenues above pre-crisis level

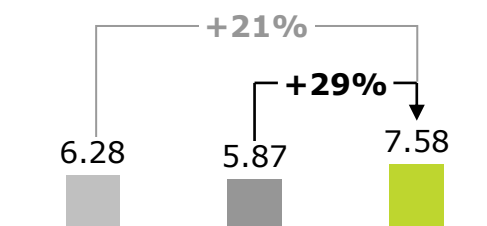
## Total operating revenue

EUR Millions



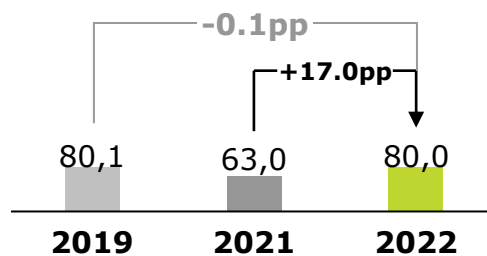
## RASK

EUR cents

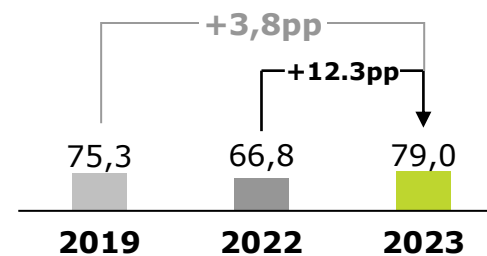
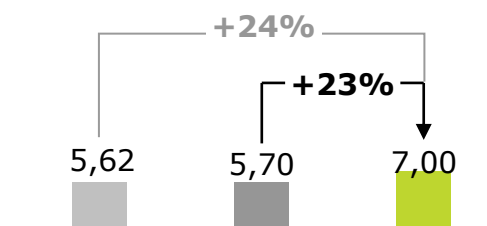
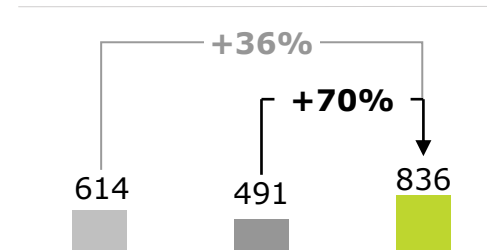


## Load factor

%



## 1Q



## Comments

Consistent growth in revenues, exceeding pre-crisis levels in FY'22 and 1Q23

Unit revenues clearly above 2019 level driven by higher fares and strongly improved load factors

Sustainable load factor increase in 1Q23 vs 1Q22 and 1Q19



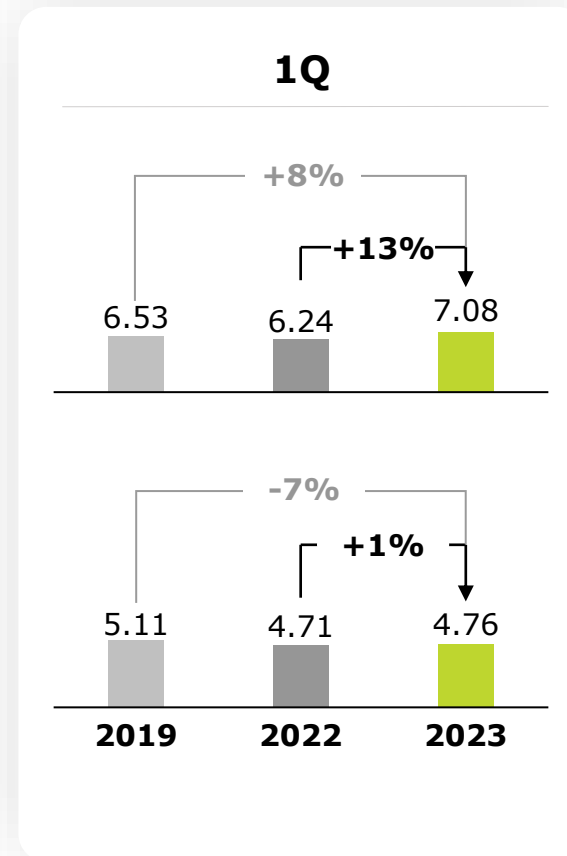
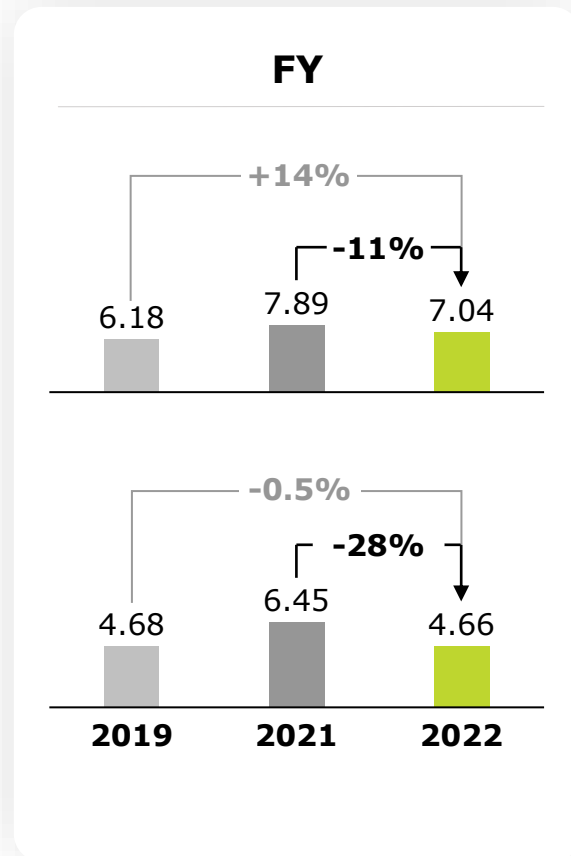
# Ex-fuel unit cost in line with restructuring plan objectives

## Recurring CASK

EUR cents

## Recurring CASK ex-fuel

EUR cents



## Comments

Year-on-year CASK development impacted by further increased fuel prices

CASK ex-fuel decreased versus 2019 (both 2022 and 1Q23).

# Positive operating profit, significantly ahead of plan

## Recurring EBITDA<sup>1</sup>

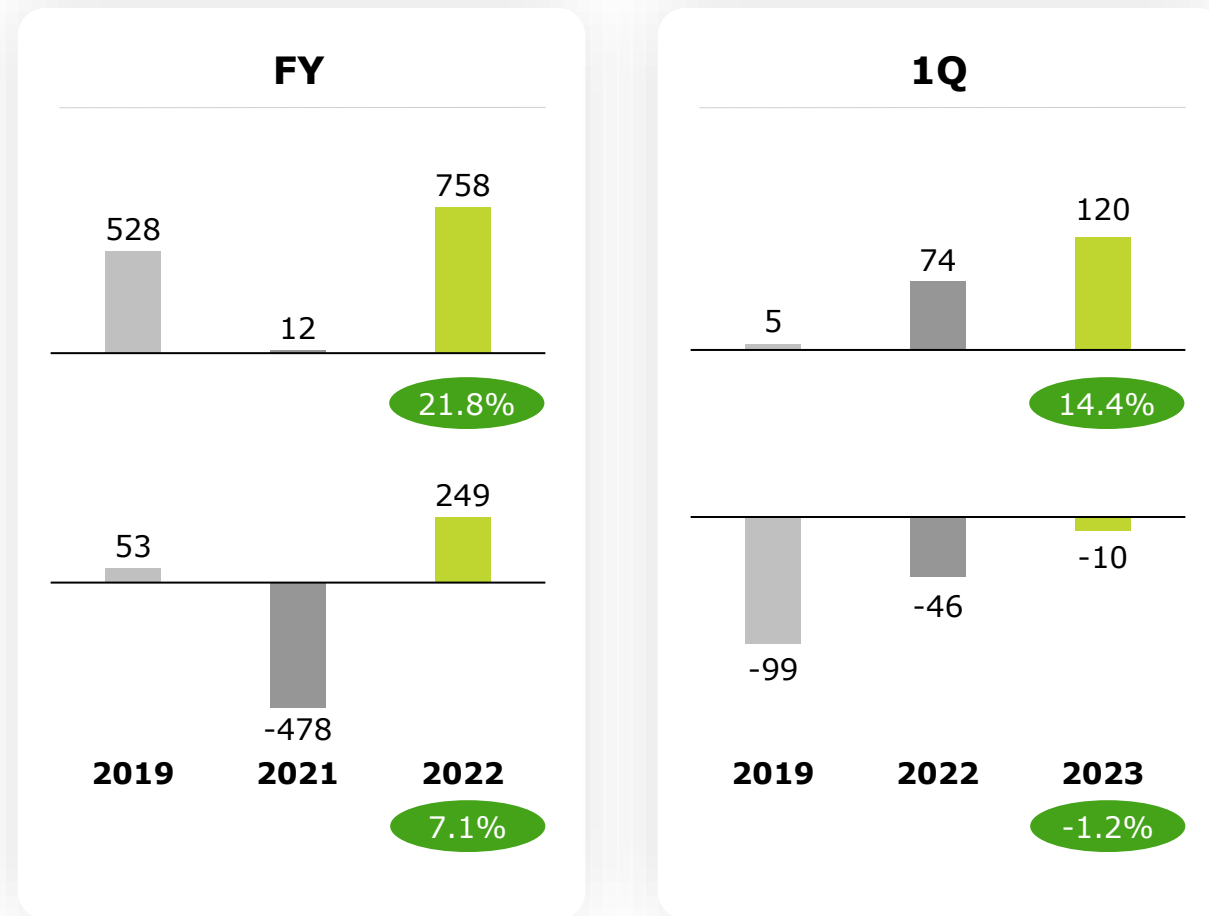
EUR million

### Margin

## Recurring Operating Result<sup>2</sup> (EBIT)

EUR million

### Margin



## Comments

Operating profit significantly higher than pre-crisis, despite higher fuel costs

Significant positive improvement in 1Q23 both in EBITDA and EBIT

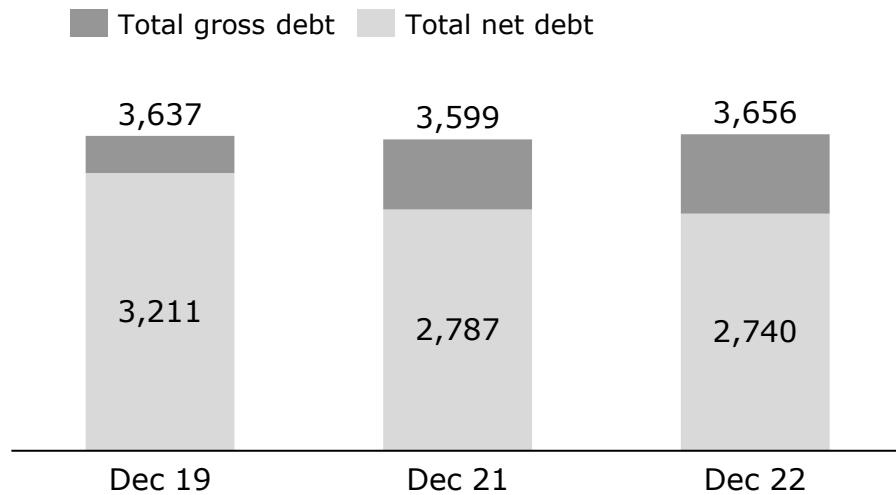
1. Recurring EBITDA = Operating Result + Depreciation, Amortization and impairment losses + Restructuring + Other Non-Recurring items

2. Recurring EBIT = Operating Result + Restructuring + Other Non-Recurring items.

# Debt still high but leverage clearly reduced

## Financial debt position

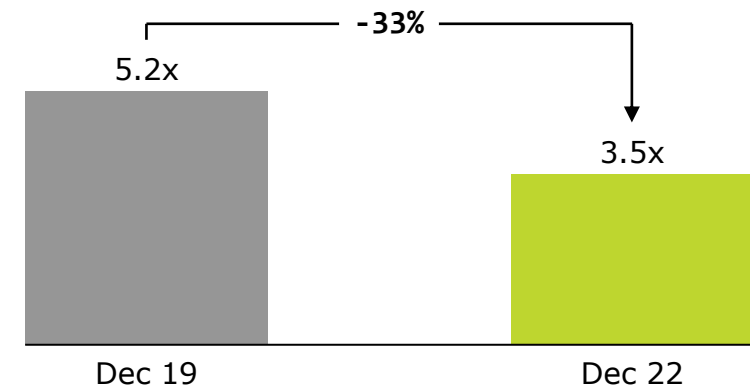
EUR million



- Increase in gross debt on the back of new aircraft leases and USD appreciation
- Shift from operational leases to financial leases
- 78% of debt is fixed rate

## Leverage

Net debt / EBITDA



- Driven by improved profitability

# Positive trend in credit rating analysis

## Credit Rating evolution

### S&P / Moody's



### "Moody's upgrades TAP's CFR to B2; outlook changed to positive"

"The upgrade of TAP reflects both the **strong improvement in operating profitability** of the company since Moody's last upgrade in April 2022 and the concomitant **improvement in credit metrics.**"

*Moody's, 04 Apr 2023*

### "TAP Affirmed At 'B+' On Contemplated Privatization; Outlook Stable"

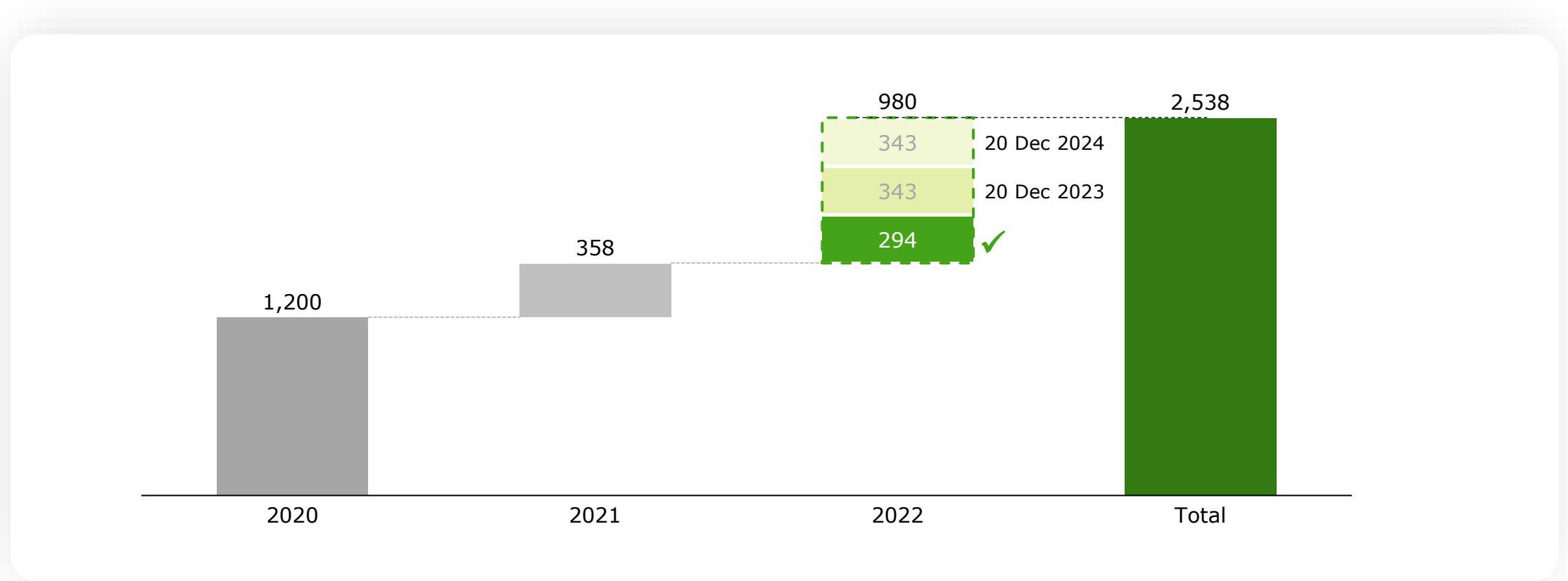
"We **revised up** our **SACP** on the airline to 'b' from 'b-', driven by our view that leverage will be sustainably lower."

*S&P Global, 27 Apr 2023*

# Capital Increase of EUR 980m subscribed on 27 December 2022

## Restructuring Aid

EUR million



# TAP is on the right path, but still challenges ahead

- **A Congested hub airport**
- **A Competition** with capacity to invest
- **New competitive CLAs are critical**
- Cost reduction needed despite **inflation**
- Keep Focus on **cash-flow** generation
- **Deleverage** balance sheet



# Outlook & next steps





# TAP has the foundations for a sustainable & profitable business



## **Unique geographic location**

being the natural gateway out of Europe

## **Historic and cultural ties to Brazil**

being the market leader in Europe–Brazil traffic

## **Increasing exposure to North America**

being a growing wealthy market to Portugal

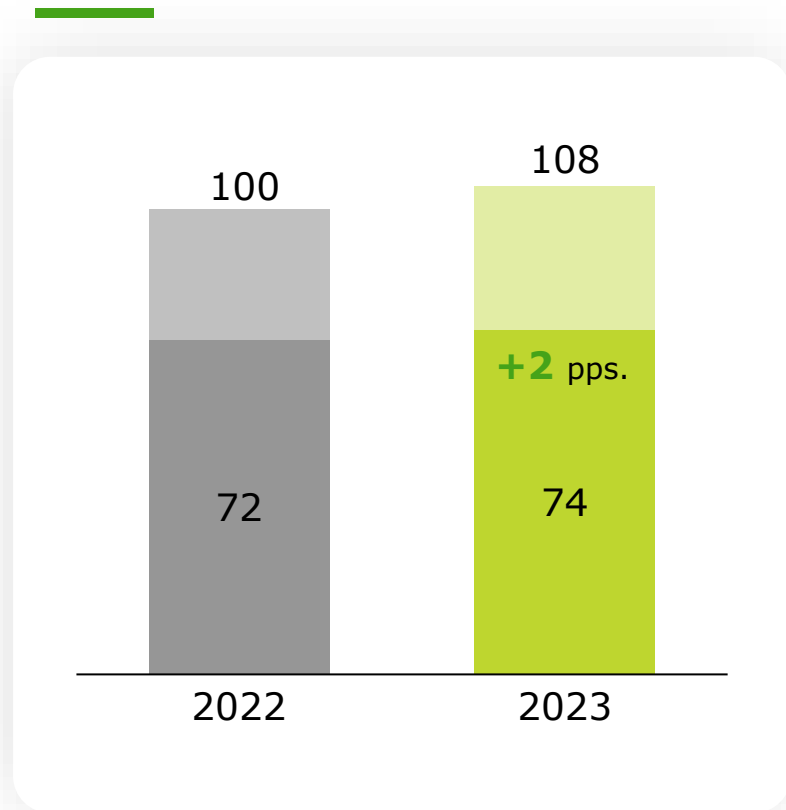
## **Distinctive capacity in Africa**

being a reference in West/Southern AF-EU traffic

# Positive booking outlook confirms positive demand trend

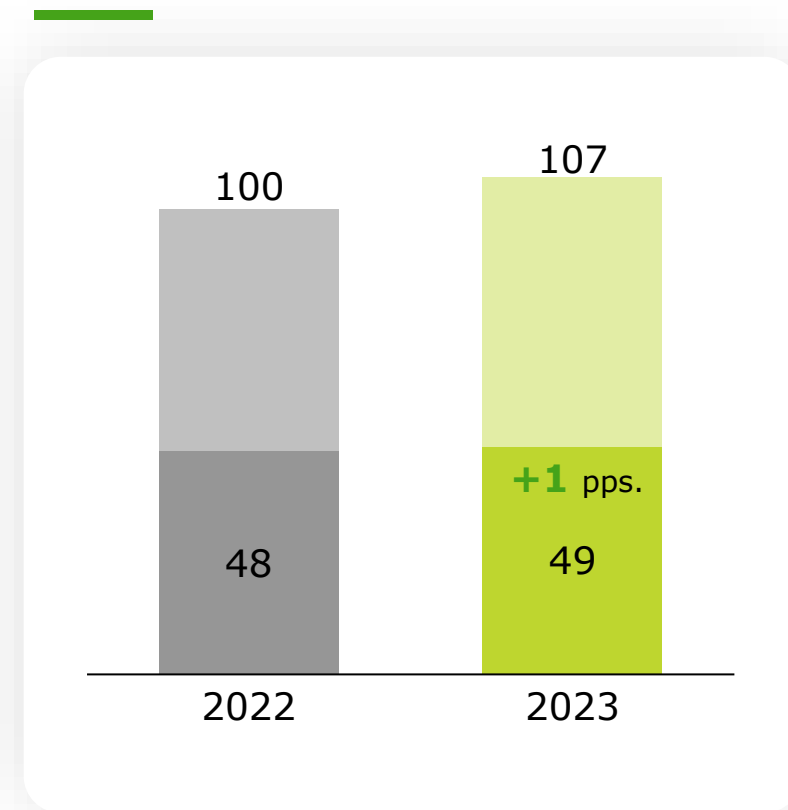
## Booked Load Factor 2Q

As of 9 May 2023



## Booked Load Factor 3Q

As of 9 May 2023



■ 2022 Capacity in ASK base 100% ■ Forward booking load factor 2022

■ 2023 Capacity in ASK in % of 2022

■ Forward booking load factor 2023

# Transformation agenda will continue to be our focus in 2023

## CUSTOMER

- Improve **disruption management & self-service recovery**
- Further optimize **call center** performance & service quality
- Clean **claims** backlog
- Revamp **website and app**
- Enhance **in-flight experience**
- Review benefits of **frequent flyer program**
- Improve **LIS Lounges**

## REVENUE

- Grow capacity in **Brazil and US**
- Relaunch **Stopover** Program
- Enhance **TAP corporate** program
- Continue to improve yield through **dynamic pricing** technics
- Continuously grow **ancillary revenues** through new ancillaries, pricing and communication

## COST

- Re-negotiate **third-party contracts**
- Re-negotiate contracts with **aircraft** suppliers and lessors
- Optimize **inventory management**
- Implement a program of **operational improvement**
- Launch additional **fuel efficiency** measures
- Deploy **new distribution strategy** (NDC)

## PEOPLE/ ENABLERS

- Sign **new CLAs** to promote growth and development by **unlocking productivity**
- Foster a **performance management** culture
- **Transform TAP culture** via new ways of working
- Revamp the **sustainability strategy and SAF sourcing** approach
- Deliver on an **ambitious digital roadmap**

## FOCUS ON AVIATION BUSINESS

- Conclude **Groundforce** process

## Summing up, in 2023 we will continue to focus our transformation ...

- ... investing in **customer experience**
- ... enhancing our **operational resilience**
- ... improving our **cost structure**
- ... engaging **with our employees**
- ... honoring the **investment of the Portuguese**

 **Transforming TAP into a sustainably profitable airline**



# Disclaimer

This document has been prepared by Transportes Aéreos Portugueses, S.A. ("TAP") and may be amended and/or supplemented at any moment. All information contained in this document refers to the document date. Therefore, TAP and its representatives, employees or advisors expressly disclaim any obligation to update said information, nor shall any of them be under any obligation to make any announcement of any amendment or modification thereof.

The information contained in this document is released for general purposes and, if applicable to fulfil legal obligations. This document and does not constitute, or form part of and should not be construed as, a prospectus or an offer (public or private) or invitation for the issue, sale or purchase of any shares, bonds or other securities issued by TAP or as advice or recommendation for investment/divestment in these securities. The information is not intended to constitute professional advice. Neither this document nor the fact of its distribution shall form the basis of, or be relied on in connection with, any investment decision whatsoever in any jurisdiction.

This document may contain forward-looking information and statements, based on TAP's management's current expectations or beliefs. Forward-looking statements are statements that shall not be interpreted as historical facts.

The forward-looking information and statements that may appear in this document are based upon various assumptions and are subject to known and unknown risks, contingencies, uncertainties and several other factors that can cause actual results to differ materially from those described in the forward-looking statements mentioned in the present document, including, but not limited to, changes in regulation, the airline industry, in competition, in financial market conditions and in economic conditions. Forward-looking statements mentioned in the present document may be identified by words such as "believes", "expects", "anticipates", "projects", "intends", "should", "seeks", "estimates", "future" or similar expressions, or also by verbs in the future or conditional tense.

Although these statements reflect our current expectations, which we believe are reasonable, investors, and, generally, all the recipients of this document are cautioned that forward-looking information and statements that may appear in this document are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond our control, that can cause actual future results and developments to differ materially from those expressed in, or implied or projected by the forward-looking information and statements mentioned in the present document. All the recipients of this document are cautioned not to put undue reliance on any forward-looking information or statements that may appear in this document. TAP and its representatives, employees or advisors expressly disclaim any obligation to update or review any forward-looking information or statements mentioned in the present document.

The financial information included in this document is not audited and therefore may still be subject to further adjustments.

Q&A

**TAP** AIRPORTUGAL



**TAP** AIR PORTUGAL