



# MANCHESTER AIRPORTS GROUP

FY22 Q1 UPDATE  
OCTOBER 2021

# Introduction



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A flock of birds, likely geese, is shown in silhouette against a clear blue sky. They are flying in a V-formation, with the lead bird at the top left and the rest of the flock following in a diagonal line towards the bottom right. The birds are spread out across the frame, with some in the foreground and others further back, creating a sense of depth and movement.

# EXECUTIVE SUMMARY

# Executive Summary

MAG continues to maintain strong liquidity to cover the operating costs of the business, required capex and finance charges. H1 PAX are below the Management Case but above the Downside Case estimates shared as part of the consent solicitation process as a result of travel restrictions suppressing demand over the summer period. The removal of the traffic light system and reduced testing regime for vaccinated passengers should support stronger recovery through the winter.

## INTERNATIONAL TRAVEL UPDATE

- Travel restrictions suppressed demand in H1 and traffic continued its slow recovery
- The removal of the traffic light system and reduced testing regime for vaccinated passengers should support stronger recovery through the winter
- The path of the pandemic and the UK's travel policy remain the most important near-term determinants of recovery
- The vaccine roll out is progressing and the macro picture has improved, with UK GDP expected to exceed 2019 levels in 2022

## FY22 TRADING PERFORMANCE

- H1 PAX are below the Management Case estimate shared as part of the consent solicitation process as a result of travel restrictions suppressing demand over the summer period, however, H1 PAX are above the Downside Case estimate
- August YTD Revenue and EBITDA are behind the Management Case due to the slower than expected PAX recovery but net cash flow and cash headroom remains ahead due to working capital and opening cash benefits

## LIQUIDITY UPDATE

- MAG continues to maintain strong liquidity to cover the operating costs of the business, required capex and finance charges
- Actual cash balances to September 2021 are ahead of projections shared with banks and bondholders as part of the consent solicitation process
- Current liquidity position of over £430 million and expected to remain above £400 million for the six month period to March 2022





A blue-tinted image of an airplane cockpit. The main windshield is divided into four sections, each showing a different world landmark: St. Basil's Cathedral in Moscow, Christ the Redeemer in Rio de Janeiro, the Shanghai skyline with the Oriental Pearl Tower, and the Taj Mahal in India. The instrument panel below the windshield is visible, showing various gauges and screens. The overall image has a monochromatic blue color scheme.

# INTERNATIONAL TRAVEL UPDATE

# Short-term aviation outlook

Travel restrictions suppressed demand in H1 and traffic continued its slow recovery. The removal of the traffic light system and reduced testing regime for vaccinated passengers should support stronger recovery through the winter.

## Key developments

Traffic light system continued to suppress demand in H1.

UK Government announced that the traffic light system will be replaced with reduced testing requirements for fully vaccinated passengers from 4-Oct and the day 2 PCR test will be replaced by a cheaper lateral flow from the end of Oct.

The US will allow fully vaccinated passengers from the UK and EU from November onwards.

Vaccine roll out continues to progress in the UK and EU, >65% and >60% are fully vaccinated respectively.

Experts still believe that the winter will be challenging for the health service. The Government's winter plan B could implement more domestic restrictions if enacted.

Variants continue to pose a large risk, the latest variant of concern listed by the Government was in April and the latest variant under investigation was in May. However, the WHO recently identified another "variant of interest" on 30-Aug (Mu).

## Impact on outlook



Softer H1 than expected, daily traffic recovered from 3% of pre-covid levels at the start to a maximum of 52% by the end of the period.



This will simplify travel, remove some of the uncertainty and reduce testing costs for vaccinated travellers supporting stronger recovery.



Directly supports recovery on the trans-Atlantic market for Manchester, indirectly likely to boost confidence in the wider market and allow airlines to spool-up their networks.



Supports suppression of the virus, the easing of travel restrictions and demand recovery.



This may increase uncertainty and deter people from travelling.



Travel restrictions will likely tighten if a new variant develops that is highly transmissible and reduces the efficacy of vaccines.

# Key demand factors

The path of the pandemic and the UK's travel policy remain the most important near-term determinants of recovery. However, recovery is continuing, the vaccine roll out is progressing and the macro picture has improved, with UK GDP expected to exceed 2019 levels in 2022.

Ability to travel	Propensity to travel	Willingness to travel
<i>Spread and containment of Covid-19 and the resulting travel restrictions</i>	<i>Macro-economic impacts</i>	<i>Are people willing to travel or will behaviour change</i>
<ul style="list-style-type: none"> <li>Travel restrictions: The traffic light system was replaced by a two-tiered system on 4-Oct (red list and rest of the world) and fully vaccinated travellers from non-red list countries will have a reduced testing regime.</li> <li>Vaccine: Over 65%<sup>1</sup> of the UK population and over 60%<sup>1</sup> of the EU population have been fully vaccinated. Countries are vaccinating at different rates, supply, vaccine eligibility and hesitancy continue to influence immunity levels.</li> <li>Virus: The Delta variant is now dominant throughout the world and variants still pose a risk to traffic. The virus will likely become endemic with localised outbreaks for years to come.</li> </ul>	<ul style="list-style-type: none"> <li>GDP will not be the constraining factor on recovery over the next few years. UK GDP is estimated to grow by c. 6.7%<sup>1</sup> in 2021 and exceed 2019 levels in 2022.</li> <li>People have been saving during the pandemic, economists are anticipating a consumer spending boom as savings are unwound.</li> <li>The unemployment rate has increased to 4.6% (May-Jul), which is lower than previously forecast. Unemployment is still forecast to increase in 2021 to an average of 5.0% but then decrease thereafter.</li> </ul>	<ul style="list-style-type: none"> <li>MAG's latest travel sentiment survey (Aug-21) shows that passengers are more likely to travel short-haul before long-haul.</li> <li>There has been some improvement since March, with more people likely to travel in the one month or less timeframe. However, this is also indicative of the uncertainty that the UK's travel policy is having on people's ability to plan beyond a few weeks.</li> <li>Increases in the in the one to three and three to six month windows will indicate improved passenger confidence in planning travel.</li> </ul>

Source: FactSet, Office for National Statistics, MAG/YouGov Aug-21 survey, Our World in Data. Note: (1) as of 16-Sep-21



# UK Traffic Light System and MAG's legal challenge update

The traffic light system was replaced by a two-tiered system on 4-Oct (red list and rest of the world) and fully vaccinated travellers from non-red list countries will have a reduced testing regime.

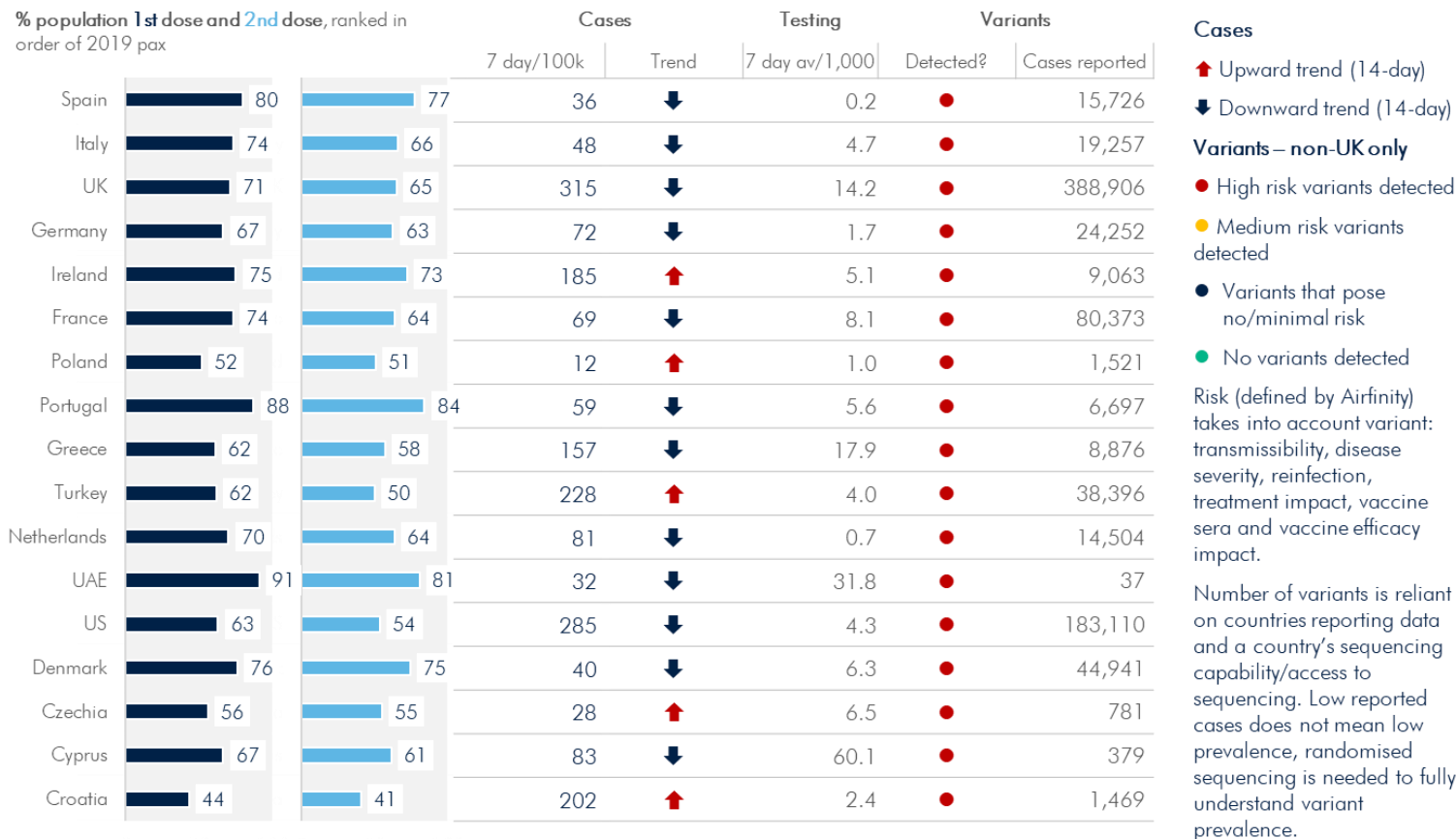
Previous system Red/amber/green list reviewed every three weeks		Revised travel system Red list and the rest of the world from 4-Oct
	Fully vaccinated travellers from green/amber require two tests, costing on average £90-£120 (two tests).	Fully vaccinated travellers from non-red list will only require one lateral flow, c. £30
Fully vaccinated	<ul style="list-style-type: none"> <li>Green and amber – pre-departure PCR, LAMP or antigen and day two PCR.</li> <li>Red list – as per green and amber plus day eight PCR and 10 day managed quarantine in hotel.</li> </ul>	<ul style="list-style-type: none"> <li>Rest of the world – no pre-departure test (4-Oct) and day two PCR replaced with lateral flow (end of Oct).</li> <li>Red list – no changes.</li> <li>Locator form still required.</li> </ul>
Partially and not vaccinated	<ul style="list-style-type: none"> <li>Green – pre-departure PCR, LAMP or antigen and day two PCR test.</li> <li>Amber – as per green plus self-isolation for 10 days with optional day 5 PCR under test-to-release, and day eight PCR.</li> <li>Red list – as above.</li> </ul>	<ul style="list-style-type: none"> <li>Rest of the world – as per current amber rules.</li> <li>Red list – no changes.</li> <li>Locator form still required.</li> </ul>
Other	<ul style="list-style-type: none"> <li>Transiting travellers to follow rules for highest risk country.</li> </ul>	<ul style="list-style-type: none"> <li>Follow rules for country of origin.</li> </ul>

## MAG legal action against the Government

- MAG launched legal action to seek transparency from the Government, calling for full publication of the data and methodology that has driven their 'traffic light' decisions. Five airlines joined this action as interested parties – Ryanair, Virgin Atlantic, IAG, easyJet and TUI.
- Unfortunately, the court found against MAG and in support of the Government
- However, taking the case to the High Court has successfully raised transparency into the centre of the debate around remaining Covid-19 restrictions, increased media coverage of this issue and driven improvements in travel policy from the Government

# Vaccine Rollout

Vaccine roll out continues to progress in the UK and EU, >65% and >60% are fully vaccinated respectively. This supports suppression of the virus, the easing of travel restrictions and demand recovery.



Source: Airfinity, UK Government, Our World in Data. (Data based on latest reported by country)

Note: Variant data now includes the Delta (B.1.617.2) variant



# TRADING PERFORMANCE

# FY22 YTD Traffic Performance

H1 PAX are below the Management Case estimate as a result of travel restrictions suppressing demand over the summer period but above the Downside Case. The removal of the traffic light system and reduced testing regime for vaccinated passengers should support stronger recovery through the winter.

- MAG published two scenarios with different dates for the lifting of international travel restrictions: a Management Case, assuming a June opening; and a Downside Case, based on a September opening. These estimates assumed pax for FY22 at 40% and 25% of pre-COVID levels respectively.
- In these scenarios the lifting of restrictions was a binary impact with subsequent pax estimates being driven by other macro factors with clear Government signalling in respect of traffic light classification and criteria for each country.
- H1 PAX are below the Management Case estimate as a result of continued and varying travel restrictions along with strict testing requirements for passengers which have weakened consumer confidence and suppressed demand over the summer period.
- The removal of the traffic light system and reduced testing regime for vaccinated passengers should support stronger recovery through the winter.

Traffic v Estimates			
PAX (% of Pre-COVID)	Actual	Mgmt. Case Estimate	Downside Case Estimate
FY22 Q1	6%	6%	3%
FY22 Q2	29%	41%	5%
FY22 H1	18%	25%	4%
FY22 Q3	Not Available	55%	41%
FY22 Q4	Not Available	64%	63%
FY22 Total	Not Available	40%	25%

# FY22 YTD Trading Update

Revenue and EBITDA are behind the Management Case due to a slower than expected PAX recovery. Net cash flow and cash headroom remains ahead of the Management Case due to working capital and opening cash benefits.

FY22 August YTD £m	Actual (Unaudited)	Mgmt. Case	Variance	Downside Case	Variance
Revenue	103.1	120.2	(17.1)	32.0	71.1
Operating Costs	(99.5)	(112.5)	13.0	(103.0)	3.5
<b>EBITDA</b>	<b>3.7</b>	<b>7.7</b>	<b>(4.1)</b>	<b>(71.0)</b>	<b>74.6</b>
Exceptional items	(0.0)	(5.7)	5.7	(5.7)	5.7
Net working capital	(21.1)	(58.2)	37.0	(16.2)	(4.9)
Operating Cash Flow	(17.5)	(56.2)	38.7	(92.9)	75.4
Capex	(16.0)	(23.0)	7.0	(23.0)	7.0
Tax	-	(3.5)	3.5	4.4	(4.4)
Pension	(4.4)	(4.4)	-	(4.4)	-
Other	(21.9)	(5.0)	(16.9)	(5.0)	(16.9)
Interest	(14.2)	(15.3)	1.1	(15.1)	0.9
<b>Net Cash Flow</b>	<b>(74.0)</b>	<b>(107.4)</b>	<b>33.4</b>	<b>(136.1)</b>	<b>62.1</b>
Cash Headroom	457.8	378.6	79.2	349.9	107.9

- Revenue and EBITDA are behind the Management Case due to a slower than expected PAX recovery over the summer period.
- Short-term performance remains dependent on further travel restriction actions taken by Government to control the virus in the UK.
- Net cash flow is ahead of the Management Case as a result of lower working capital outflows than expected to August, however, this benefit will partially unwind in the balance of year.
- Actual cash headroom also benefits from an improved opening cash position compared to the estimate used in the Management and Downside Cases.

Source: Management Information;

Note: The financial information presented in the table above is on a management reporting basis.

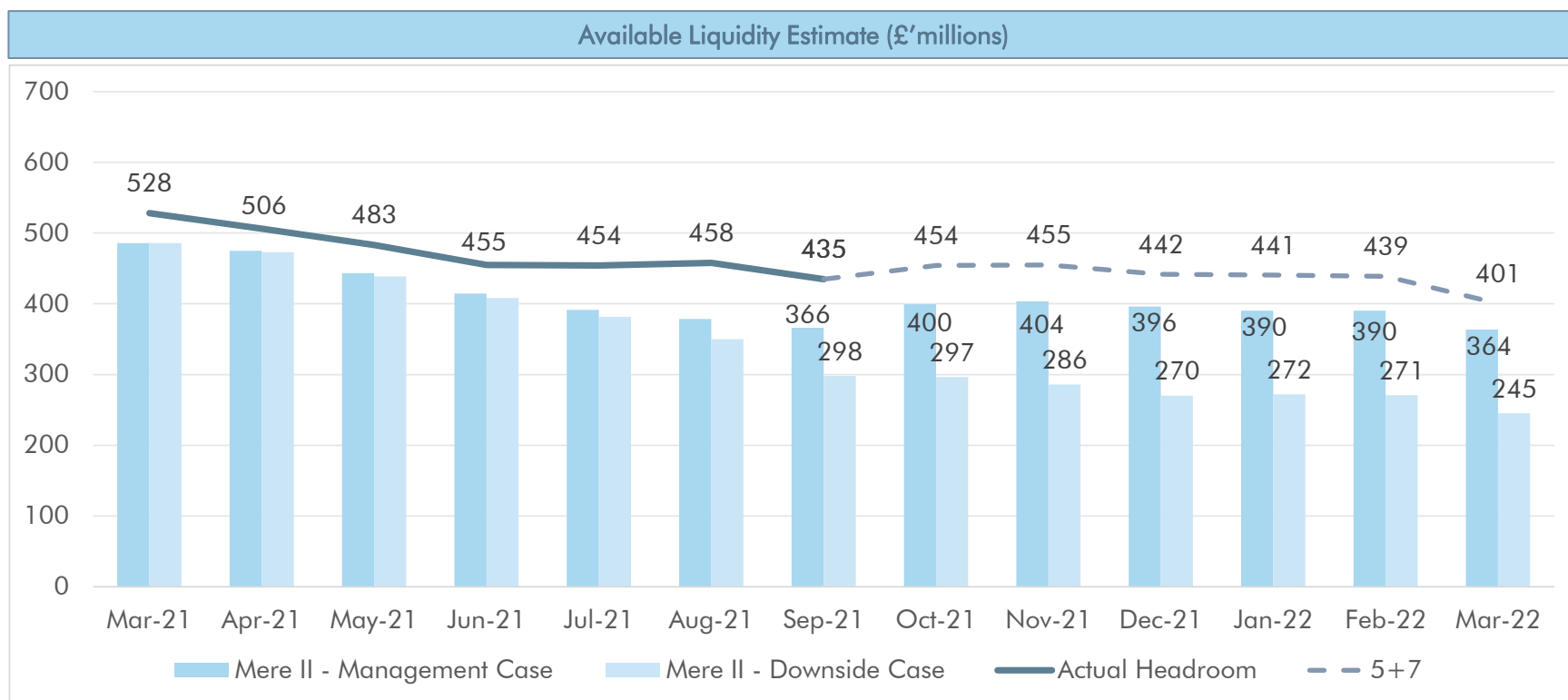




# LIQUIDITY

# Liquidity Management

MAG continues to maintain strong liquidity to cover the operating costs of the business, required capex and finance charges. Actual cash balances to September 2021 are ahead of projections shared with banks and bondholders as part of the recent consent solicitation process. Current liquidity position of over £430 million and expected to remain above £400 million for the six month period to March 2022.



# Q&A



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