

A Work Project, presented as part of the requirements for the Award of a Master's degree in Management from the Nova School of Business and Economics.

Mayday: is TAP Air Portugal worth saving? At what extent should the national flag carrier be a state-owned company?

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## Abstract

TAP has struggled in the past with financial problems, mainly due to the mismanagement of the government. Since the beginning the company made several bad investments and strategic decisions that left the company vulnerable, leaving the company in risk of insolvency. Therefore, in 2015 the company went through a privatization process, and give a future back to the company. Atlantic Gateway acquired 61% of TAP, privatizing the company to prevent insolvency. At the time, the equity position was negative, costs were high, and money was being lost from most of their investments.

The "Growth route strategy" was born, consisted in making TAP a hub-spoke-carrier, taking passengers to Portugal to do a layover to then continue to the America's with TAP which is where the profits were possible to make. The short-haul flights were never profitable for the company as they have a high-cost structure and cannot compete with the low-cost airlines. The acquisition of a new fleet was also made, to be more efficient with the fuel burn and travel longer distances increasing their margins in the long-haul flights. The intention was to dominate the "Atlantic" market taking advantage of the geographic positioning of Portugal. Smaller decisions were also taken, such as creating programs to incentive tourism in Portugal and rebuilding the digital ecosystem to look like a modern company.

The new TAP strategy seemed to be effective in the four years of control under Atlantic Gateway. The EBITA of the company was improving and we could see a significant increase in RPK. Their leverage went down from a 10,5 to a 4 from 2016 to 2019 and the long-haul routes were bringing profitable.

But then, the pandemic arrived and brought the worst year for the airline industry. However, in this challenging time TAP still had a plan to recover, but the Portuguese government had other plans. TAP requested financial aid from the government while Atlantic Gateway would keep the decision-making power. But the government wanted the power, and therefore expelled the private company and acquired a new 22,5% of TAP ownership to regain the decision-making power of the airline.

As we have seen in the past TAP has never been positive under government control. Customer perception went down, and inefficiency and bad strategic decision came into play. A flagship airline can never be managed by a government because of conflicts of interest, therefore several options for the future of the company need to be considered to save TAP again from bankruptcy.

Keywords: Portugal, Business Strategy, TAP, Government, Privatization

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# Mayday: is TAP Air Portugal worth saving? At what extend should the national flag carrier be a state-owned company?

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## Abstract

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This theses seeks to analyze the evolution of TAP Air Portugal current situation while evaluation the role that the government had in it. In the process there will be a focus on the current state of the industry, company profitably in the privatization and government era, strategy decisions and while evaluating at what extend the flag carrier should be a state-owned company. Furthermore, this study will give a recommendation for the future of TAP, reaching a conclusion of either is worth saving or not the company, while evaluating the best path to successfully recover the Portuguese flag carrier.





# Agenda - Research Questions and Methodology

| Sections                                | Research questions                                                                                                                                                                                                                                                                                                                                                                                                                                            | Methodology                                                                                                                                                         |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1</b> Context                        | <b>1.0. Who is coming on top on an adapting aviation industry, flag carriers or low-cost airlines?</b><br>1.1. How did the Covid-19 pandemic affect the travel and tourism industry?<br>1.2. How is the aviation market segmented and how differ low cost and flag carrier?<br>1.3. What are the competitive dynamics, and which are the key profitability KPIs ?<br>1.4. What is the current profitability situation of flag carriers and low-cost carriers? | <ul style="list-style-type: none"> <li>• Exploratory Research</li> <li>• Market Analysis</li> <li>• Financial Statement Analysis</li> <li>• Benchmarking</li> </ul> |
| <b>2</b> TAP Struggle                   | <b>2.0. How did TAP got to the current situation and what was the government role on it?</b><br>2.1. How did TAP Air Portugal privatization and the new strategy turned out?<br>2.2. How did COVID-19 challenge and affect the organizations strategy?<br>2.3. Is TAP Air Portugal better or worse off today after being nationalized again?<br>2.4. Is the role of the state as owner of TAP an advantage or a disadvantage for the airline?                 | <ul style="list-style-type: none"> <li>• Literature Review</li> <li>• Expert Interviews</li> <li>• Financial Statement Analysis</li> <li>• Survey</li> </ul>        |
| <b>3</b> Alternative Scenarios Analysis | <b>3.0. Is TAP worth saving? What are alternative scenarios to turn around TAP Air Portugal?</b><br>3.1. What are the key dimensions to be considered while assessing potential alternatives?<br>3.2. Which alternative scenarios are conceivable?<br>3.3. What effects did the cases have on their home countries?<br>3.4. What are the key takeaways from the cases for TAP Air Portugal?                                                                   | <ul style="list-style-type: none"> <li>• Literature Review</li> <li>• Expert Interviews</li> <li>• Benchmarking</li> <li>• Exploratory Research</li> </ul>          |
| <b>4</b> To save or not to save         | <b>4.0. Is it worth to save TAP if they follow the strategy proposed on chapter three?</b><br>4.1. How does the new strategy affect TAPs structure and the success factors?<br>4.2. How will TAP become more profitable and competitive with the new strategy?<br>4.3. Is it worth for the government to save TAP and keep investing resources in it?                                                                                                         | <ul style="list-style-type: none"> <li>• Literature Review</li> <li>• Expert Interviews</li> <li>• Financial Statement Analysis</li> <li>• Survey</li> </ul>        |

# Agenda - Chapter 2

| Sections                                    | Research questions                                                                                                                                                                                                                                                                                                                                       | Methodology                                                                                                                       |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| <b>2</b> Key Question                       | <p><b>How did TAP got to the current situation and what was the government role on it?</b></p> <p>Keywords: TAP, privatization, government, strategy</p>                                                                                                                                                                                                 |                                                                                                                                   |
| <b>2.1</b> Privatization strategy           | <p><b>How did TAP Air Portugal privatization and the new strategy turned out?</b></p> <ul style="list-style-type: none"> <li>• What were the main factors that triggered the need for a privatization and a new strategy?</li> <li>• How did the privatization process developed and what it meant?</li> <li>• 2016 – “Growth Route” strategy</li> </ul> | <ul style="list-style-type: none"> <li>• Exploratory Research</li> <li>• Market Analysis</li> </ul>                               |
| <b>2.2</b> Covid-19 strategy                | <p><b>How did COVID-19 challenge and affect the organizations strategy?</b></p> <ul style="list-style-type: none"> <li>• New strategy and major company changes</li> <li>• Why the 2016 strategy didn’t work?</li> <li>• COVID-19 and the new challenges it brought to TAP</li> </ul>                                                                    | <ul style="list-style-type: none"> <li>• Exploratory Research</li> <li>• Market Analysis</li> <li>• Financial Analysis</li> </ul> |
| <b>2.3</b> Private vs Government Management | <p><b>Is TAP Air Portugal better or worse off today after being nationalized again?</b></p> <ul style="list-style-type: none"> <li>• Strategy comparison</li> <li>• Costumer perception</li> </ul>                                                                                                                                                       | <ul style="list-style-type: none"> <li>• Exploratory Research</li> <li>• Market Analysis</li> <li>• Financial Analysis</li> </ul> |
| <b>2.4</b> Role of government               | <p><b>Is the role of the state as owner of TAP an advantage or a disadvantage for the airline?</b></p> <ul style="list-style-type: none"> <li>• Investment analysis</li> <li>• Incentives</li> </ul>                                                                                                                                                     | <ul style="list-style-type: none"> <li>• Exploratory Research</li> <li>• Benchmarking</li> </ul>                                  |

# TAP Air Portugal in numbers and through the lens of customer perception

Today TAP is state owned with 72.5% being from the government, 22.5% from businessmen Humberto Pedrosa and 5% by workers of the company.



**17 million** passenger  
flew with TAP in 2019.



More than **80 tons** of  
**cargo** transported in  
2018



More than **100 aircrafts**



More than **14 thousand**  
employees in TAP group



Flying to **4** different  
continents and over **80**  
**destinations**



More than **4 million**  
registered in TAP loyalty  
program



More than **470**  
**thousand** stopover in  
Portugal by end of 2019.



More than **20 prizes**  
awarded in 2019

“First word that comes to your mind when you think about TAP”

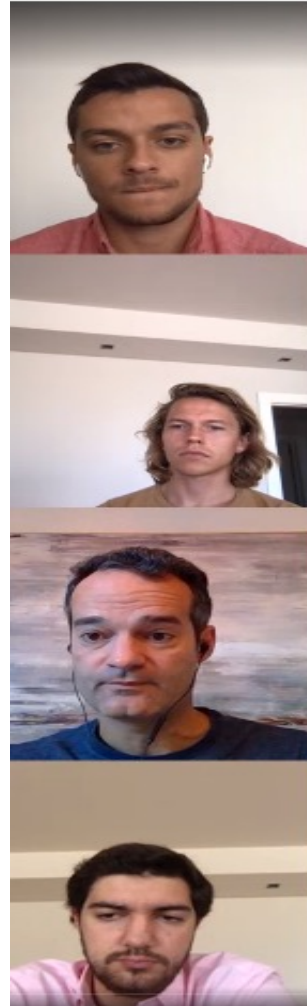


# Antonoaldo Neves the Ex-CEO of TAP talks about his experience leading the Portuguese company and tells his view on the aviation industry and the future.

## Antonoaldo's Biography:



- Antonoaldo is 45 years old and has a double nationality, Portuguese and Brazilian.
- In his early years he started in McKinsey, eventually becoming a global partner.
- After a few years of being a global partner he decided to leave and move on to the aviation industry as the CEO of Azul a Brazilian carrier.
- In 2015 he was already involved in the negotiations of privatization of TAP, becoming the CEO in 2016.



## Interview thinking process:

The low-cost industry **outperforming** the flagship airline business model. It is **impossible to compete** as legacy carriers have higher cost structures.

Explaining TAP privatization process and how the company was before 2015. **Financial situation overview** on how the TAP was entering bankruptcy.

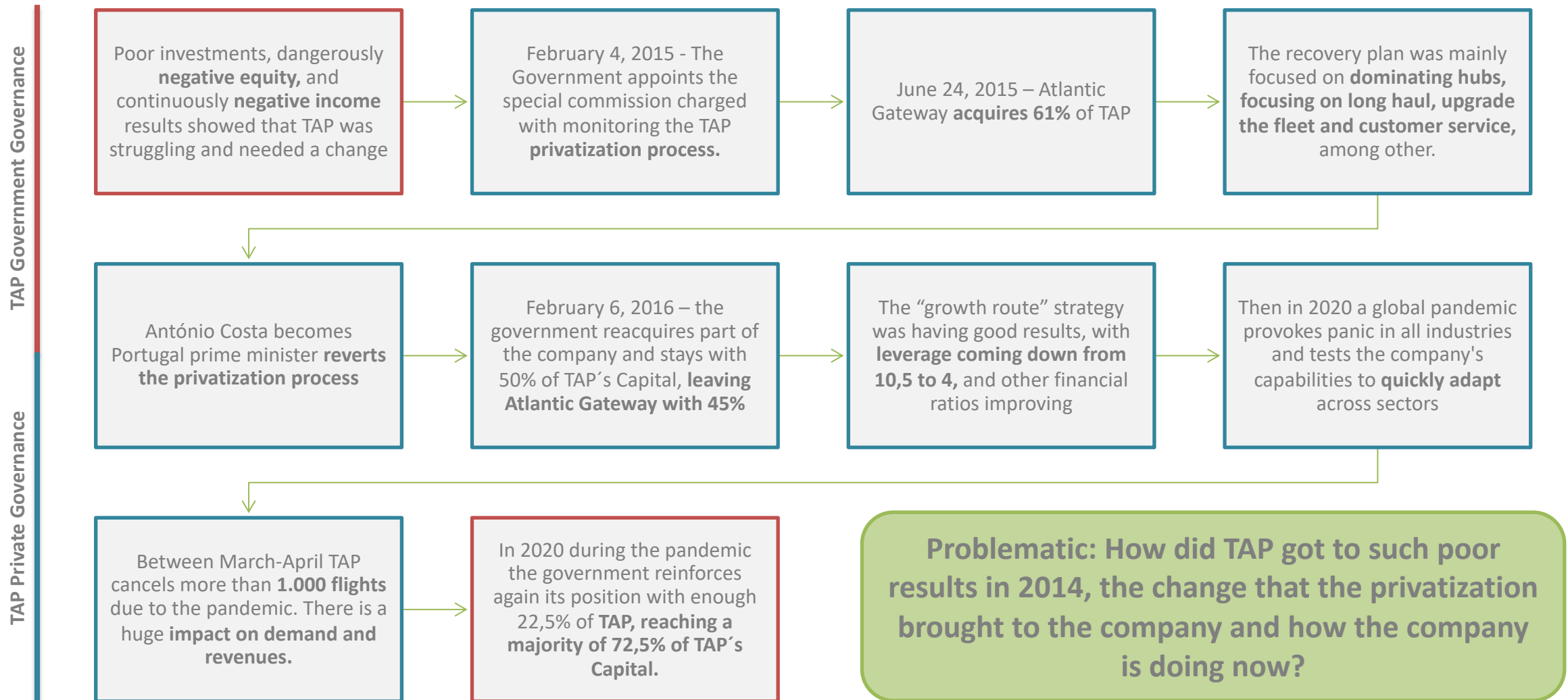
The new strategy of TAP in 2016. Implementation of the **new fleet** and **opening the new destinations**.

How the new management **increased the profitability** of the company and how that **opened doors** to new negotiations.

Covid Outlook, how the company reacted and what happened with the management of the company. The government stepping in and **taking control**.

The **future of TAP**, with a **proposed solution** and overview.

Over the years TAP have been under government and private management, but which one has brought the best results for the airline?





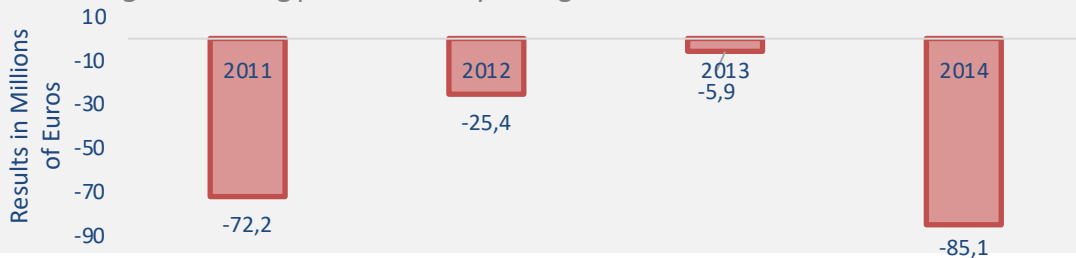
# Throughout the government management losses were accumulating, TAP was on the verge of insolvency in 2014, something had to be done...

...that's why in 2015 the government had no choice than to start the privatization process of TAP to prevent an insolvency process.

## TAP – Net Income Results 2011-2014

### Continuous negative results pushed TAP in even deeper problems

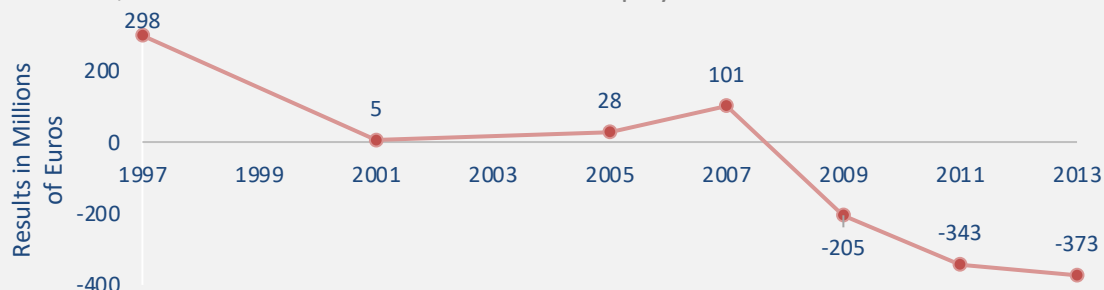
- TAP registered losses for the **4 years prior to the beginning of the privatization** process reaching the breaking point in 2014 by having more than **85 million euros in losses**.



## TAP Total Equity

### Since 1997 TAP has been continually losing equity reaching dangerous values in 2013

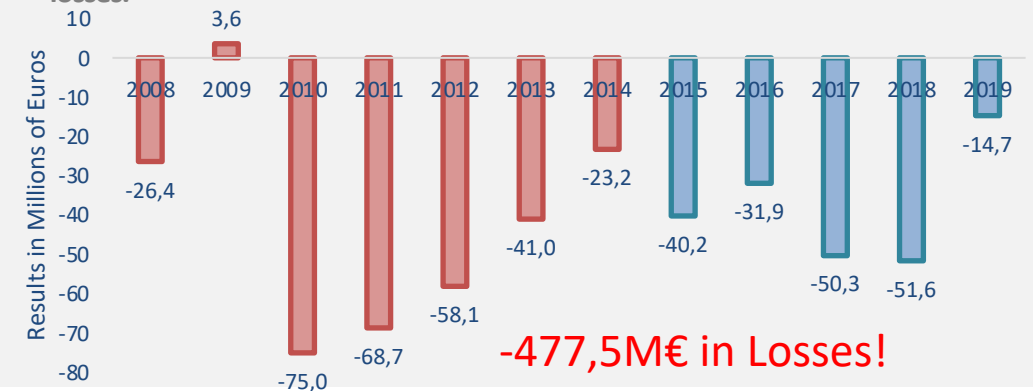
- In 1997 TAP underwent a recapitalization process, leaving the company with a positive equity position of **+298 million euros**.
- Starting in 2007, as a result of poor investments and the industry's expansion of low-cost airlines, TAP's financial situation reached a total equity of **-372 million euros in 2013**.



## TAP – Brazil Maintenance – Financial Liquid Results

### Government bad investment in Brazil maintenance resulted in more than 477M€ in losses over the last 12 years

- TAP's investment in a company called Varig resulted in the acquisition of "Manutenção Brasil" with TAP supporting its losses over the years.
- This investment was a good opportunity for TAP to establish itself as the largest foreign airline in Brazil, but over the years, it generated over **477 million euros in losses**.



## TAP Employees Strikes

### Just in 2014 22 strikes had a negative impact of 110 million euros on TAP

- In 2014 alone, **22 strikes** impacted TAP;
- Each day of strike resulted in an average loss of around **5 million euros**, totalling around **110 million euros** the impact that these strikes had for TAP.

# The privatization brought in a new strategy for the company hoping to improve company performance and achieve better results in the future

The new strategy was focused on a new era of innovation and renovation, with a refocus from short-haul flights to long-haul flights

## TAP current strategy: "GROWTH ROUTE"

### A new strategy focused on innovation, renovation and strength relationships

In 2016 the company took a step back to look at the **big picture** and understand what had to be done to **succeed in the future**. A new era of **innovation and renovation began**. Since then, TAP became a more **modern airline** that is in line with the **customer satisfaction** of today. This new strategy consisted of 3 pillars; **revolutionising the fleet, reaching far beyond and strengthening their relationships**.

"TAP costs can be lower than all the other hub-spoke carriers in Europe" – Antonoaldo

### Focus on long-haul flights and take advantage of Portugal geographic position

- One of the reasons for the acquisition of TAP was because the analysis showed that the company could be **very profitable in the long-haul flights**.
- The decision was therefore, to focus on the **Atlantic competition** and not on to fight low-cost carriers such as Easyjet or Ryanair.
- The **geographical position** of Portugal gives a **big advantage to TAP** as it is closer than any other country in Europe to the America's, as we can see by the charts below.
- In addition to that there is **not a lot competition** as it is mainly joint venture such as KLM and Air France or Lufthansa and United. This means they choose the same prices meaning there are only **3 big players in the Atlantic**. The idea was then to be the fourth one with much lower costs.

Lisbon – Rio De Janeiro

|                                                                                     |                                                                                     |                                                                                     |
|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
|  |  |  |
| 4778                                                                                | 7690                                                                                | 4152                                                                                |
| Miles                                                                               | Kilometers                                                                          | Nautical miles                                                                      |
|  |  |  |
| 9 h 32 min                                                                          | 3 h                                                                                 | 555 kg                                                                              |
| Flight duration                                                                     | Time difference                                                                     | CO2 emissions                                                                       |

Frankfurt – Rio De Janeiro

|                                                                                     |                                                                                       |                                                                                       |
|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
|  |  |  |
| 5930                                                                                | 9544                                                                                  | 5153                                                                                  |
| Miles                                                                               | Kilometers                                                                            | Nautical miles                                                                        |
|  |  |  |
| 11 h 43 min                                                                         | 4 h                                                                                   | 707 kg                                                                                |
| Flight duration                                                                     | Time difference                                                                       | CO2 emissions                                                                         |

## Strategy intention was to grow on the long-haul:

### Strategy focused on "attacking" the Americas market

- TAP already dominated Brazil with about **30% of the seats and 82 flights per week**.
- The strategy was then to **"attack" the United States** and get as much market share as possible like they were doing for Brazil by opening new destinations like Toronto, San Francisco, Los Angeles.

## Profitability of the destinations:

### No short-haul is profitable but long-haul destinations started paying off

- At the beginning when the privatization was made only **5 destination in Brazil were profitable and 0 in the North Americas**.
- At the beginning of Covid all 10 destination to Brazil and the 7 to North America's were profitable**.
- NO SHORT-HAUL DESTINATION WAS PROFITABLE**
- TAP will **never** be able to compete with the low-cost of EasyJet and Ryanair as they don't have the cost base for that.

## The Cost base of TAP:

### TAP salaries are too high and old aircrafts increase maintenance costs

- A Ryanair Pilot makes **40 thousand dollars** a year a TAP pilot makes **90 thousand dollars** and that is very hard to change.
- The types of aircrafts used also make the cost structure more **expensive** as they operate more models meaning they need more **specialized engineers** **increasing the overall cost**.

Sources:  
TAP, Neves, air  
miles

# The new strategy brought a new approach to the fleet of the company and a new digital ecosystem

Big investments had to be made in the TAP's fleet and digital platforms in order to make the company more updated and increase competitiveness.

## New strategy, new fleet:

**Old planes "falling apart" the company required investments in a new fleet**

- In 2016 the fleet that TAP had was **very old and "falling apart"** as Antonoaldo said.
- Some planes were flying with only **20 cycles** in each engine before they had to be changed which is **very dangerous**.
- A lot of orders were made for new planes and deliveries were late creating a problem where the company almost had **no planes to fly** leading to delays and cancellations.

## The choice of the new fleet:

**The new airplanes would increase profitability and improve the carbon footprint**

- TAP chose the new airbus NEO aircrafts that consisted in the **A320, A321LR and A330**. The planes were ordered not only to **increase profitability** but also to improve **carbon footprint** and provide **more comfortable** cabin space for passengers.
- Some older planes that were in good conditions were also **retrofitted** to be similar to the current fleet by **refurbishing** interiors to provide more space and comfort in all classes.

## The strategy behind the new aircrafts:

**Cost reduction in maintenance and fuel consumption and new airplanes for long-haul destinations**

- The new NEO aircrafts were a **big investment** made by TAP but also brought a lot of profitability to the company.
- An A330 NEO brings a **12% fuel consumption** reduction than a normal A330 meaning TAP can save millions and increase the routes profitability.
- In addition to that the choice of buying the new **A321LR** that would make **30%** of the flights to the Americas was a strategic decision **to increase profitability**. This was because nobody in Europe could be using it to make the flights cross Atlantic. The trip cost of a A321LR is **half the cost** of a A330. So, for example TAP could do **daily flights** to Washington with the plane and if the competitors put a daily flight, they will **lose money** as the plane will not be full and costs will be higher.

**World's first A330neo**  
Powering into the future

- 25%** Fuel burn per seat
- New high-span wing** with composite Sharklet
- New Composite Nacelle**
- New Rolls-Royce Trent 7000 engine**
- Innovative cockpit systems**
- Latest generation In-Flight Entertainment System**
- Quietest cabin in its class**
- A true new generation aircraft**

**First A330-900 to TAP Air Portugal**  
November 2018  
Launch operator

**21 A330-900** acquired

Almost **30 years** partnership with Airbus

**70+** Airbus aircraft in their fleet

**TAP AIR PORTUGAL** **AIRBUS**

## TAP also decided to design a new digital ecosystem:

**Increasing customer experience and promoting the airline heritage**

- Completely **new digital ecosystem** offering better browsing experience, tailored formats and a new personal area. Also introducing TAP corporate for business travellers allowing companies to earn balance in cash in exchange for flights.
- Proudly **promoting Portugal** by only serving Portuguese products aboard.

Sources:

TAP, Neves,  
expresso

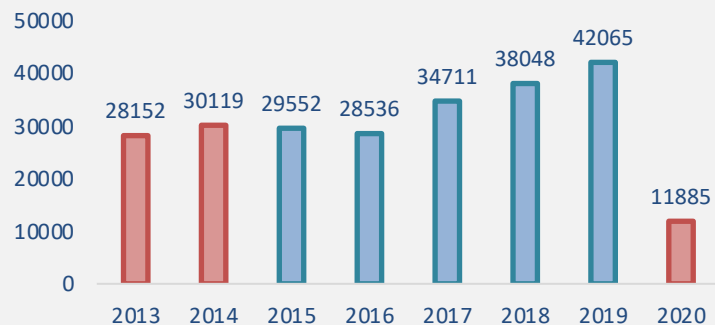
# The effectiveness of the new strategy is clear by analyzing the financial data from TAP, the airline entered in an upper trend over this period

The new strategy increased profitability, decreased the company debt, among many other variants, but overall increased TAP competitive advantage and it reminded that the airline could perform well and not be a company that will always generate losses...

## TAP – RPK results 2013-2020

**TAP started increasing consistently their RPK results reaching values the company never saw before**

- From 2013 to 2016 the RPK was suffering major changes over the period. Although small between 2014 and 2016 there was a small decrease of the ratio;
- From 2017 to 2019 with the new strategy coming into play the **RPK started increasing reaching 42065 millions** in 2019 a new high value for the metric;
- 2020 once again due to the coronavirus pandemic plunged the **RPK to 11885 million**.



## TAP - EBITDA results 2013-2020

**EBITDA also increase and was kept positive even with the new investments in 2018**

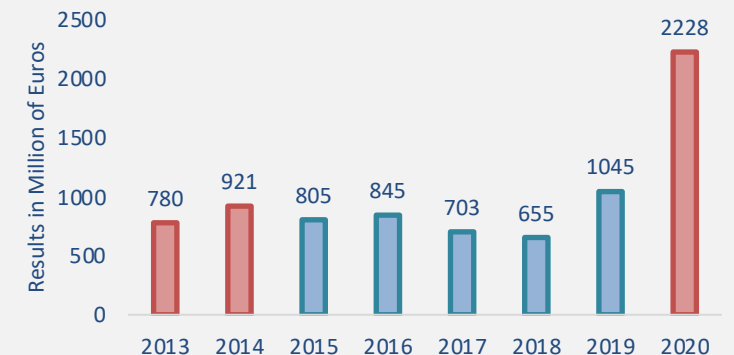
- From 2013 to 2015 there is evidence of a **continuous plunge of EBITDA** reaching 35,9 million euros at the time of the privatization;
- Since 2015 with exception of 2018, we can see that there is an **upper trend** in the EBITDA reaching an astonishing **477,3 million euros in 2019** values that the company didn't manage to keep for too long.
- 2020 brought the pandemic and a dark era to the aviation industry as a whole and TAP wasn't an expectation reaching a negative EBITA of **-498,7 million euros**.



## TAP – Liquid Debt 2013-2020

**Liquid debt started decreasing but covid skyrocketed the value to an all-time high**

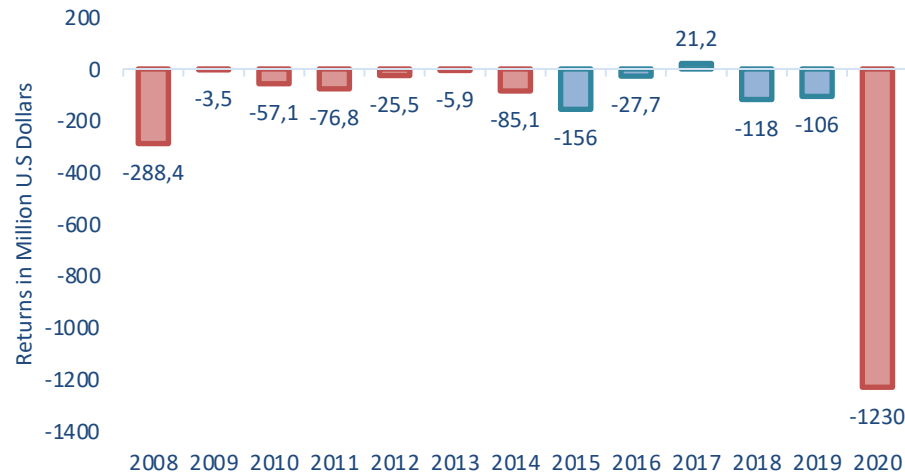
- Since the privatization in 2015 TAP was able to **decrease** their liquid debt from **805 Million euros** to **655 Million euros** in 2018;
- In 2019 there is an increase of liquid debt to the **renew of TAP fleet**.
- 2020 brought the need for external money in order to help TAP survive and unprecedented situation, therefore the liquid debt reached a record value of **2.228 Billion Euros**;



# The pandemic brought losses of 1.2 billion to TAP, leading them to their worst year ever and making them request financial support from the government

TAP was the first airline in Europe to stop operations by grounding their planes and took early measures to reduce company costs and losses.

## TAP returns over the last 12 years



## Main strategy and health decisions that were made during the pandemic

### Airplanes on the ground

- The pandemic led to almost the full **grounding** of the entire fleets of airlines;
- TAP had **90%** of its 107 fleet on the **ground**.
- TAP had to move a lot of the planes across different Portuguese airports to have sufficient space and **to avoid high costs** of the Lisbon airports. Alternatives were, Porto, Beja and Faro.

### Layoffs

With flights being cancelled and airplanes on the ground TAP needed to **save money** and therefore created a plan of **lay-off**.

- TAP went through various **renewals of lay-off** periods;
- The first one was in April 2020 **with 90%** of the workers going into lay-off while receiving **2/3** of their fixed salary.

### Cancelled flights and restrictions

- Uncertainty led airlines to **cancel** most of its flights specially in the beginning of the pandemic;
- **Travel restrictions** from other countries made it difficult for people to travel and restart the sector

### Health measures

The pandemic generated a need for better and stricter health measures when travelling, such as:

- Health screening
- New cleaning standards;
- Increased ticket flexibility;
- Biometric tech;
- New mobile apps

# Atlantic Gateway wanted state support as Lufthansa received, but the Portuguese government had other plans

The government would provide aid and receive a % of the airline shares in return as a guarantee. However, when TAP started repaying back the financial aid, the government would start selling their shares back to the company that they received as a guarantee for the repayment.



## Lufthansa

- Lufthansa received state aid of **9 Billion euros** to help the company survive the difficulties that the pandemic is bringing to the aviation industry;
- Due to this aid the **German government acquired 15%** of Lufthansa shares, however this position has been **already reduced and it will be zero** if Lufthansa **complies** with the contract and reimburse all the capital aid;
- Lufthansa has now **already repaid all the financial aid to the government ahead of time**, showing that the government helped the company **survive and thrive** in an uncertainty scenario where the industry is certainly struggling to recover.

## TAP TAP PORTUGAL

- TAP wanted a similar contract with the Portuguese government, where they would help TAP with capital to save the company, **proportionally to the size of TAP**;
- However, the **decision power would still be from Atlantic Gateway**, there was **no interest** in the government to have a say in the strategy decisions and therefore money allocation of the company.
- But instead, the Portuguese government **expelled Atlantic Gateway** from the management and made them **sell 22,5%** of their TAP ownership. With the government acquired for **55 Million euros**. From June 2020 the government was in control.



## GOVERNO DE PORTUGAL

The State help in 2020 was...

# 1.2 Bilion Euros

- The Portuguese government in 2020 have already injected more **than 1 Billion into saving TAP**;
- Since they are now the **main shareholder** of the company this money doesn't need to be payback to the government.
- While if TAP would still be in control of a **private entity**, such as Atlantic Gateway the company would **need to payback**, and would go through a similar situation as Lufthansa;
- The governments are **not efficient** and don't share the **same incentives**, and therefore will never be **align with what the businesses in aviation requires**. This will be discussed in further slides.



# The customer perception of TAP today is very different then what it was in 2020 before the pandemic during the privatization attempt and restructuring

Customer perception is a very important factor when passengers are thinking about booking their tickets. Before the new strategy of 2016 TAP was suffering with there customer perception, but studies made in late 2019 show that they managed to recover. However, today a surveys and interviews show it went back to what it was before.

Frequent flyers place TAP as having a high price a low-cost experience in a positioning map.

There is a clear change of view from when a private entity was in charge to when the government regained the decision-making process



After the **government take-over** the customer perception of TAP frequent flyers changed. The airline is **not supposed** to be a low-cost carrier but in frequent flyers minds the service offered is **comparable to one**. Prices **are high** and **quality is low** therefore the company might be wrongly positioned. In the past the company was seen as affordable and good experience.

## Some problems that the customers raised during the interviews:

|                                                                                       |   |                         |                                                                                           |
|---------------------------------------------------------------------------------------|---|-------------------------|-------------------------------------------------------------------------------------------|
|    | 1 | <b>Service quality</b>  | Onboard service is perceived as low regarding flight attendants and catering.             |
|    | 2 | <b>Low comfort</b>      | Cabin comfort is criticized and compared to low-cost airlines.                            |
|    | 3 | <b>Delays</b>           | Majority of interviewees say it is very common for flights to be delayed.                 |
|   | 4 | <b>Price / Value</b>    | The price / value of the tickets is low and passengers pay don't seem get an added value. |
|  | 5 | <b>Customer Service</b> | Numerous complaints about poor customer service that is slow and unwilling to help        |

## Consumer Perception of TAP improved during the period that the company was privatized and got worst during the time the government had control

The customer perception of the respondents is that the quality of the service offered by TAP has gotten much worst after the pandemic and from experience from the past that has only happened when the carrier was nationalized. 92% think it should be aviation experts controlling the company and not the Portuguese government.

TAP Government Governance

TAP Private Governance

**275**

Survey answers

**82**

Respondents that do more than 12 flights a year with TAP which makes them frequent flyers

**88%**

Frequent flyers said the quality improved since the privatization until covid.

**72%**

Frequent flyers said flying with TAP from 2016-2020 brought more prestige

**92%**

Frequent flyers said service is better than low-cost before the pandemic

**81%**

Frequent flyers said the quality become worst after the pandemic

**66%**

Frequent flyers said that TAP is having a service similar to a low-cost

**72%**

Frequent flyers said that they are now open to flying with other airlines

**84%**

Survey respondents want TAP privatised again.

**8%**

Of the survey respondents think the Portuguese government should be the one controlling TAP

# The problems of TAP already came from the past, but are reinforced by the government management

From the analysis conducted it was understood that the reason TAP was struggling is partially because of these 4 main factors controlled by the government.



## Investments

### Bad investments increased losses

- Over the years the investments that the government decided to make **didn't bring profit**.
- TAP maintenance one of the branches of the company was one of the failures as too much was invested in Brazil as a result of a bad market study and had over **477,5 million in losses**.
- Another example of bad government investments were **the routes that they were flying at a loss**. Macau and Sao Paulo are two profitable routes that were losing because of bad planning.



## The Market

### Bad strategy focus led to the same results

- The Portuguese market is **very small** therefore the strategy of TAP **cannot** be focused on the Portuguese.
- As the main cities Lisbon and Porto are **not hubs** there are less business travelers and the flagship **only brings 30%** of the tourists, meaning to be profitable it needs to rely on another strategy such as the one of being a **hub-spoke carrier** implemented during privatization of 2016.



## Competition

### No innovation decreases competitive advantage

- The product that is offered has always been **inferior** but that has started to change with the new 2016 strategy.
- However, since the pandemic big **shifts in service quality** occurred by changing in-flight service, reducing staff and try to minimize costs at all costs, changing the customer perception negatively. Having now the perception that TAP is becoming a **low-cost** is exactly the opposite of the 2016 strategy. This is opening the door for competitors to gain market share.



## Location

### Conflict of interest lead to non-profitable decisions

- The **location of the Lisbon airport** leaves no room for expansion.
- **Mismanagement** of the airport leads to huge delays as it is operating beyond capacity during activity peaks.
- **Conflict of interests** between the state and TAP in the area of **slot management**. The state has the incentive to create and allocate as many slots as possible to attract passengers to the country. TAP, on the other hand, has the **incentive to own** as many slots as possible and not to give any new ones to other airlines in order to **increase profitability**.

# The growth route strategy implemented by Atlantic Gateway was working but the government once again interfered negatively

The future of TAP under government controls looks uncertain as the company will most likely go into bankruptcy in the next years if there is not a change in management, specially at this time of crisis.

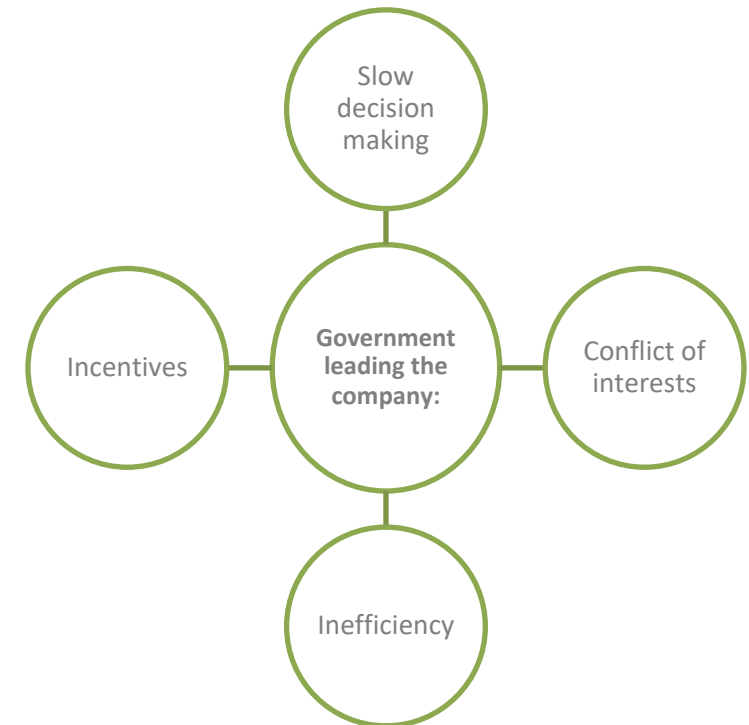
TAP Private Governance

## The strategy under private-owner control and decision making:

- The new strategy of TAP seemed to be **working** until the **unexpected** Covid-19 pandemic arrived.
- Management of the company **was effective**, and results were beginning to follow an **upward trend**.
- The company had **the first positive year in 2017**.
- The restructuring plan was working so well that competitors like Lufthansa, started to worry about **TAP gaining their market share**.
- Customer satisfaction **was high** and many people **“rediscovered”** a new TAP.
- Decision making was always **fast paced** and taken from a **strategic perspective**.

“Competitors were scared of us for the first time as we were stilling their market share and making millions of dollars at the end everyone wanted to be our partners”

VS



TAP Government Governance

TAP Air Portugal has the potential to be a profitable solid company with the right management. However, at this time alternative solutions need to be found and analysed to understand the best possible outcome for the future of the company.

## Chapter 2 – Key Takeaways

### 2.1 TAP Air Portugal context – Interview with former CEO as key methodology to analyze the past strategies

- To analyse the past strategies and the respective results of TAP Portugal next to financial result analyses a comprehensive interview with former CEO of TAP Air Portugal Antonioaldo Neves was executed.
- Mr. Neves was involved in the negotiations of the privatization of the company and also as a consultant for TAP Air Portugal during the transition phase to a new CEO in 2020
- After years of losses (accumulated over €190 million 2010 - 2014) privatization was initiated to prevent insolvency in 2014

### 2.2 Privatization and new strategy - The privatization and new strategy increased TAP performance

- The privatization strategy brought a new approach to the fleet of the company and a new digital ecosystem.
- Strategic changes and privatization (2016-2019) increased profitability including EBITDA results, liquid debts, Return per seat kilometres and customer perception improved likewise.

### 2.3 New strategy analysis - COVID-19 came to reinforce TAP passed struggles with the government taking over

- After government take over and strategic changes financials decreased dramatically. One part can be clearly attributed to influences of the pandemic but analysing the strategic decision at this time it gets clear that mismanagement and strategic mistakes are major reasons for the decreased performance as well.
- Consumer Perception of TAP Air Portugal improved during the period that the company was privatized and got worst during the time the government had control

### 2.4 Current situation – The government is taking decisions that are putting the company at risk

- Today TAP Air Portugal is worse off than ever before concerning debt, future outlook and customer perception.

Concluding the problems of the Portuguese flag-carrier already came from the past but are reinforced by the government management inducing bad investment decision by the government like focusing on unprofitable routes or the investment into TAP Maintenance. Governmental decision on competing with low-cost carrier without having an adequate cost structure and having conflicts of interests regarding slot management are reinforcing financial and strategic issues as well.

# Agenda - Research Questions and Methodology

| Sections                                | Research questions                                                                                                                                                                                                                                                                                                                                                                                                                                            | Methodology                                                                                                                                                         |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1</b> Context                        | <b>1.0. Who is coming on top on an adapting aviation industry, flag carriers or low-cost airlines?</b><br>1.1. How did the Covid-19 pandemic affect the travel and tourism industry?<br>1.2. How is the aviation market segmented and how differ low cost and flag carrier?<br>1.3. What are the competitive dynamics, and which are the key profitability KPIs ?<br>1.4. What is the current profitability situation of flag carriers and low-cost carriers? | <ul style="list-style-type: none"> <li>• Exploratory Research</li> <li>• Market Analysis</li> <li>• Financial Statement Analysis</li> <li>• Benchmarking</li> </ul> |
| <b>2</b> TAP Struggle                   | <b>2.0. How did TAP got to the current situation and what was the government role on it?</b><br>2.1. How did TAP Air Portugal privatization and the new strategy turned out?<br>2.2. How did COVID-19 challenge and affect the organizations strategy?<br>2.3. Is TAP Air Portugal better or worse off today after being nationalized again?<br>2.4. Is the role of the state as owner of TAP an advantage or a disadvantage for the airline?                 | <ul style="list-style-type: none"> <li>• Literature Review</li> <li>• Expert Interviews</li> <li>• Financial Statement Analysis</li> <li>• Survey</li> </ul>        |
| <b>3</b> Alternative Scenarios Analysis | <b>3.0. Is TAP worth saving? What are alternative scenarios to turn around TAP Air Portugal?</b><br>3.1. What are the key dimensions to be considered while assessing potential alternatives?<br>3.2. Which alternative scenarios are conceivable?<br>3.3. What effects did the cases have on their home countries?<br>3.4. What are the key takeaways from the cases for TAP Air Portugal?                                                                   | <ul style="list-style-type: none"> <li>• Literature Review</li> <li>• Expert Interviews</li> <li>• Benchmarking</li> <li>• Exploratory Research</li> </ul>          |
| <b>4</b> To save or not to save         | <b>4.0. Is it worth to save TAP if they follow the strategy proposed on chapter three?</b><br>4.1. How does the new strategy affect TAPs structure and the success factors?<br>4.2. How will TAP become more profitable and competitive with the new strategy?<br>4.3. Is it worth for the government to save TAP and keep investing resources in it?                                                                                                         | <ul style="list-style-type: none"> <li>• Literature Review</li> <li>• Expert Interviews</li> <li>• Financial Statement Analysis</li> <li>• Survey</li> </ul>        |



# Agenda - Chapter 4

| Sections |                        | Research questions                                                                                                                                                                                                                                                                                                           | Methodology                                                                                                                           |
|----------|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| 4        | Key question           | Is it worth to save TAP if they follow the strategy proposed on chapter three?                                                                                                                                                                                                                                               |                                                                                                                                       |
| 4.1      | A new strategy         | <b>How does the new strategy affect the structure of the company and the success factors?</b> <ul style="list-style-type: none"> <li>• Strategy / Fleet Management</li> <li>• What major business strategies would suffer changes?</li> <li>• Cost Structure including Human Resources / New start with zero debt</li> </ul> | <ul style="list-style-type: none"> <li>• Interview</li> <li>• Exploratory Research</li> <li>• Financial Statement Analysis</li> </ul> |
| 4.2      | Fresh start            | <b>How will TAP become more profitable and competitive with the new strategy?</b> <ul style="list-style-type: none"> <li>• Flag carrier's best practices</li> <li>• Low-cost expansion and how TAP can adapt to the market</li> </ul>                                                                                        | <ul style="list-style-type: none"> <li>• Interview</li> <li>• Best Practices</li> <li>• Survey</li> </ul>                             |
| 4.3      | To save or not to save | <b>Is it worth for the government to save TAP and keep investing resources in it?</b> <ul style="list-style-type: none"> <li>• Reasoning and conclusion</li> </ul>                                                                                                                                                           |                                                                                                                                       |

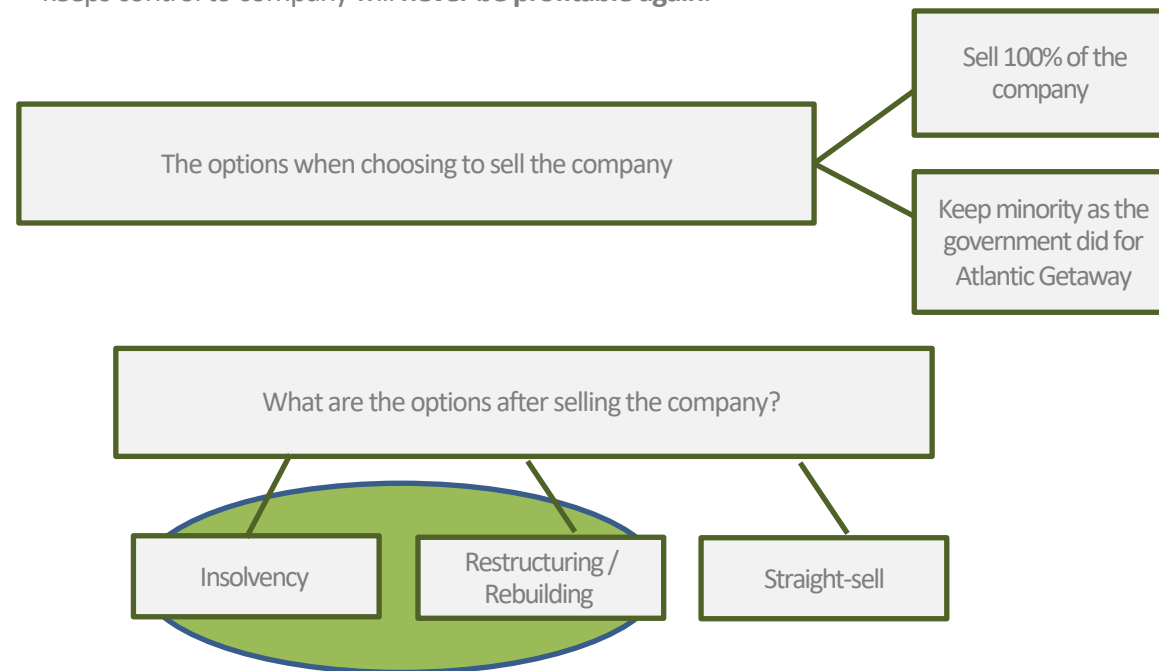
# Privatization through insolvency and restructuring is the strategy that TAP should pursue in order to have more chances to succeed in the future

"If the government tries to restructure the company, in 5 years it will be in worse shape than it was 5 years ago because the stakes are higher now as there are more planes and more debt to deal with." Antonoaldo Neves

What needs to happen for TAP to be profitable again?

In order to be profitable TAP should be sold as a whole or sell the majority to a private-owner after this first step the company should pursue an insolvency and restructuring process

- For the company to be profitable again they **must sell to a private entity** as if the government keeps control to company will **never be profitable again**.



The new privatization through insolvency and restructuring:

The privatization will eliminate conflict of interests and increase the decision-making process

**Privatization:** With the privatization of the company, it would implicate that a **private owner** would be **operating** the company. This will increase the speed of the decisions and **reduce the conflicts of interest** between the government and the airline. The airline would be managed in a completely **independent way**.

The insolvency will reduce the debt ratio and allow the company to sell older assets that need to be substantiated

**Insolvency:** TAP will benefit from an insolvency process giving them the opportunity to **reduce their debt ratio** and start debt free. It will also give the government the chance to **recover cash** a **reallocate the airline's budget** to other national activities. The insolvency procedure will also help in **selling the older assets** that the company has specially some of the older planes that are still in operating and need to be substantiated.

The restructuring process would allow a re-negotiation of salaries and work in the direction to reduce their cost-structure

**Restructuring:** TAP would need to maintain the **hub-spoke model** and keep their fleet at a **minimum of 110 planes** to be efficient. **Airport domination** is another important factor in which TAP needs to maintain their dominance in Lisbon and slowly start to have dominance in Porto's airport has they increase their fleet size. All jobs would be reviewed and contracts with pilots need to be **re-negotiated** in order to decrease the **high cost-structure** of the company. Cost saving techniques would also need to be applied such as **hedging jet fuel** as the volatility and high prices in Portugal make it difficult for the airline to have stable forecasts.

# The new strategy will bring improvements to TAP and allow the government to allocate their funds in other national projects

Having the company privatized would not bring any disadvantage to Portugal, it would instead bring a more stable airline with steady growth.



Overall, the impacts of the new strategy are extremely positive for the future of TAP, since they would increase **profitability, liquidity more efficiency** and a more **data-based decision** process instead of using personal interests for main strategy decisions as the Portuguese government many times did in the past due to the **conflict of interest** of running a country and an airline.

# The cost-structure under government governance increases costs as the decisions taken do not follow the best possible strategy.

The conflicts of interest make the government take decisions for the company that lead them to a bad path for the future.

The cost structure of labor under government governance:

**TAP pays the one of the highest salaries of the industry and the government doesn't take decisions to reduce this costs that are damaging the airline's future**

- Portugal and TAP are both suffering economically and pay one of the **highest salaries** for the flight crews.
- Average TAP pilot salary goes from **84k€ to 260k€ a year**. This is more than **double** than what Iberia and Air Europa pays to their pilots.

|                              | Official Pilot (OP) A320 |          | OP A330         | Pilot A320        |          | Pilot A320-A330    |          |           |
|------------------------------|--------------------------|----------|-----------------|-------------------|----------|--------------------|----------|-----------|
| Time employed by the company | 1 year                   | 5 years  | 10 years        | 10 years          | 15 years | 20 years           | 25 years | 30+ years |
| TAP                          | 84.000€                  | 122.000€ | 150.000€        | 185.000€          | 207.000€ | 219.000€           | 241.000€ | 261.000€  |
| Iberia                       | 40.000 - 45.000€         |          | 85.000-110.000€ | 100.000€-115.000€ |          | 160.000 – 200.000€ |          |           |
| Air Europa                   | 40.000 - 45.000€         |          | 90.000-125.000€ | 115-155.000€      |          | 175.000 – 245.000€ |          |           |

## Privatized labour cost-structure:

- With the company privatised and following the new restructuring plan there is the **opportunity to reduce** the salaries. As the company is being restructured there can be negotiations which is not the case the company remains state-owned.

The cost structure of the fleet under government governance:

**Old fleet with high maintenance costs, and no concerns in renovating it. Strategies not focused on airport dominance and point-to-point strategies that proved not profitable, show that the government didn't knew what they were doing...**

- The fleet of an airline has a big weight on their cost-structure. Before the company being privatized in 2015 the fleet was old, the planes were outdated and there were a lot of costs coming from **extensive maintenance repairs** that had to be made.
- There was no **scalability** of the company as it has under 90 planes meaning the company could never have a **competitive CASK**.
- Under government governance the airline followed a **point-to-point strategy** which did not bring necessary revenue to the company as they were not having **airport dominance** and were flying with inefficient planes.

## Privatized fleet cost-structure:

- During the time of privatization TAP invested a lot of money on the new fleet. It was critical to operate **with bigger, more efficient planes** to increase TAP's margin, by increasing the **company scalability**.
- Critics were made at the time, but the planes are the most significant factor when trying to **reduce the CASK** of the company. It is important that a minimum scale is reached so that you can **dilute the costs** in bigger planes.
- Important to keep the **hub-and-spoke model** to maximise the company expansion and profits.

# Government inefficiency and conflicts of interest make them take the decisions that looks better for the society but leaves them in a weak position

Under government control the company never had access to private investment which means the debt the company was taking was going directly into the country balance sheet having a big negative impact.

## Reasons and examples of the government being inefficient when leading

1. First reason the **government is inefficient** is because there is no success case in which the government is efficient at leading companies in **competitive industries**.

2. The second reason is that aviation is **highly regulated**. All the slots and fares are regulated, and it becomes **inefficient** when having the regulator which is the government also being the one operating in the market. Having the government in a sector that is competitive and is regulated and at the same time have a state-owned airline this cannot be efficient.

3. The third point is that the airline industry needs to work with the **logic of the market**. As this is a **capital-intensive** sector, if you don't follow the logic of the market to build a company that is stable the **costs will become too high** and as the margins are very low meaning it would become harder and harder to make profits.

4. There is an argument that TAP should be state-owned to grant that the company exists and that **bring connectivity**. However, this is not true as the reality is that there are countries such as **Spain or Greece** that don't have a state-owned airline and succeed in the tourism industry.

## Example in how TAP being privatized would become more efficient in their decision making:

1. One of the decisions that the privatization process brought to TAP was to **reduce** the number of routes that departed from Porto. This is because they were all **bringing losses** and TAP didn't have the cost structure to profit from them. This allowed to **dominate the Lisbon-Hub**. This strategy was very important to have the hub-spoke model in Lisbon. For an airline to succeed you need to dominate a hub.

**Success Story:** United airlines left the John Kennedy airport to focus their forces to the Newark airport to have dominance of it. This is an example of how privately owned company is managed and how it is more effective than the government.



2. Another difference is that TAP never managed to have **private investment** and always had financing through the state. During the privatization, the management managed to cancel **all the guarantees** that the state gave to the company and took **debt from the private sector**. This reduced the **public debt of the state**. A country like Portugal which has a public debt that is very high, sustain an airline using the money of the government does not make sense.

# TAP is worth saving but not with the government in control and having stakes on it because of the conflict of interests.

Two offers were already made to buy TAP and one of the conditions in the contract is the same which is that the Portuguese government remains with no stakes in the company showing that there is a problem of conflicts of interest.



## TURKISH AIRLINES

### 1.9 Billion Euros

- The 1.9 Billion offer is based on the TAP restructuring program, from which the company already received 1.662 million euros from the state, but which could reach in the worst scenario 3.700 million euros. Turkish Airlines offers is the difference between both values;
- With this offer, Turkish Airlines wants to get a majority position of the company, **but the government has shown that it wants to keep the decision-making power** in the hands of the state;
- The Turkish company's goal with this investment is to **create a cooperative and complementary environment** between the two airlines in order to increase their influence area not only to the East but now also to the West.



## Lufthansa

### ?

- Negotiations with Lufthansa are also on the table. Prior to the pandemic the airline had already made an offer but because of the evolution of the pandemic the deal could not be closed.
- The airline wanted to acquire TAP for strategic reasons as **in the years of privatization they started to gain market share because of the lower prices to cross the Atlantic.**
- **The condition is for the government to remain out.**

TAP could be in a better financial position then what it is if it had accepted the CEO's rescue proposal:

- During the pandemic TAP asked the government the same debt in size percentage compared to Lufthansa. The forecast showed that it would take 5 to 7 years to payback in the worst possible case scenario.
- The government rejected this proposal, and now it could take up to 34,6 years to repay the debt.
- Lufthansa has already repaid the debt they took during the pandemic and according the forecasts the same could have happened to TAP if there was no management complications.



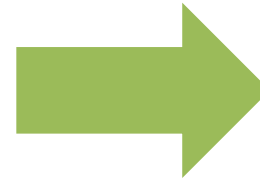
# The future of the Portuguese Airline can be very promising if the necessary actions are taken sooner rather than later

Many things changed in the airline industry after the pandemic and TAP cannot afford to remain with the same management style and following a strategy that will take them to bankruptcy in the future.

## The outlook of the airline industry:

**Focus on business travelers, increase of home office allows travelers to connect anywhere from the world, new investments in leisure travelers are emerging**

- The way most airlines profit is by focusing on the business travelers as it is where they make the biggest margin and are also the persons that travel the most.
- With social distancing and innovation many offices switched to hybrid model of online / in person model meaning many business meetings can be done via conference calls.
- With all major airlines previously investing in their business travelers and leaving leisure travelers as second priority things have now changed.
- As there was a huge decrease in business travelers therefore airlines such as Lufthansa will now invest a lot more in leisure travelers increasing even more the competition.



## The situation for TAP :

- If the government, try to **restructure** the company in 5 years it will be **in worse shape** then what it was 5 years ago.
- With **the stakes being higher** now by having **more planes, more debt** and the **competitive landscape increasing**.
- With more **airlines investing in the leisure market**, it will become more and **more difficult** for TAP to make profits.
- With the **conflicts of interest, slow decision making** and **poor strategic decision making** it will destroy to flag carrier.
- The more time it takes the more likely it will be for the company to **be bankrupt in 5 years**.

TAP is **worth saving**, but **not as a state-owned company**! There is a future for the Portuguese national flag carrier, but it passes by being acquired by a private third-party, which have more clear goals and knows better on how the aviation industry works and how to play with the difficult tight margins of the industry, bringing TAP back to profitable ways.

## Chapter 4 – Key Takeaways

### 4.1

#### A new strategy – Only by cutting ties with the government as main owner TAP Air Portugal can be successful

- TAP restructuring process would mean that TAP would be in worse shape in 5 years than in 2015 when the first privatization process happened;
- The proposed solution is a privatization using an acquisition and restructuring ;
- The new strategy would require the review and re-negotiation of contracts and it would increase TAP prestige and recognition worldwide since its no longer connected to the government.

### 4.2

#### Fresh start – A more competitive cost structure is key for future success

- Under government management the labor and fleet cost structure were extremely high, high salaries, old fleet that required high maintenance costs;
- With the privatization there is a chance to reduce salaries and optimize costs, there is opportunity to continue the investments in new fleet and more efficient planes that will increase TAP margins.

### 4.3

#### To save or not so save? – It is worth saving TAP Air Portugal but only without future involvement of the government

- TAP deserves to be saved but there is only a future for the company with the right strategy, and that's through a privatization with an insolvency and restructuring;
- There are already some airlines interested in acquiring majority stakes of TAP, such as Turkish Airlines and Lufthansa.

TAP is **worth saving**, but **not as a state-owned company**! There is a future for the Portuguese national flag carrier, but it passes by being acquired by a private third-party, which have more clear goals and knows better on how the aviation industry works and how to play with the difficult tight margins of the industry, bringing TAP back to profitable ways.

# TAP Air Portugal is worth saving, but it is not recommended for the national carrier to be state-owned

“Mayday: is TAP Air Portugal worth saving? At what extend should the national flag carrier be a state-owned company?”

## Yes, TAP Air Portugal is worth saving...

- Having a **profitable and functioning** airline in one's own country is good, especially as far as direct impacts are concerned.
- The **strategic changes** from 2016 to 2020 show that TAP can be **successful**. In addition, the **acquisition** offers show that others also see **potential**.
- Reorienting the focus to long-haul should **not** have far-reaching consequences for the airline's **catalytic effects** on Portugal. Other market **players** are ready to **step in**.

## ... state ownership is counterproductive

- The billions of euros in **state aid** did **not** help TAP Air Portugal to **succeed**.
- There is a **conflict of interest** between the state and the airline in the area of slot, compensation and route management. These conflicts prevent win-win situations.
- The government is **inefficient** which is directly reflected in its state airline.

## Success factors for TAP Air Portugal based on the performed analysis

- It is nearly **impossible** to **compete** with **low-cost** airlines in the short haul European market. Focus on **long-haul**.
- An **acquisition** of TAP Air Portugal would most likely bring in the needed expertise, **stop** the government **burning money**, while **keeping** direct, indirect, induced and catalytic **effects**.
- **Cost structure** is main **profitability driver**. Compensation costs, fuel costs and fleet cost structure have to be streamlined and adapted to a market level.

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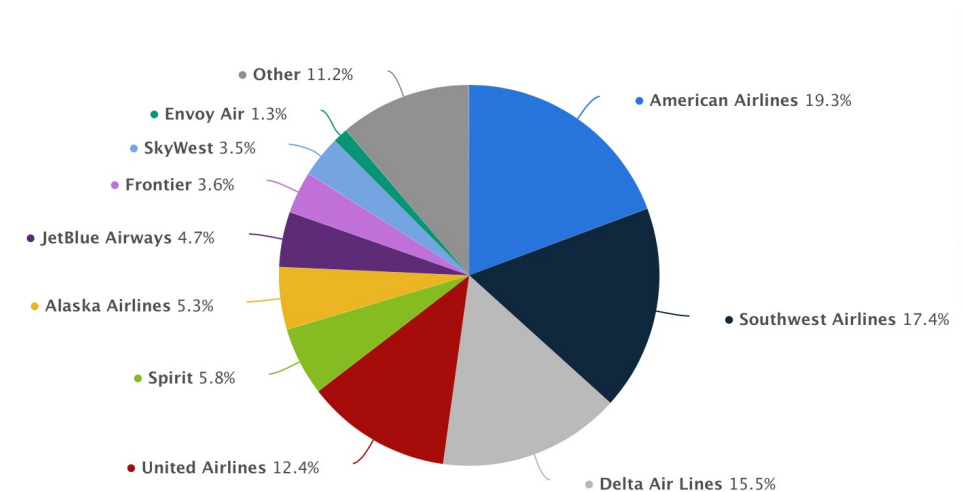
## Appendix 1 – SWOT analysis and market share of US companies

Full-service carriers lead the market share but low-cost carriers have been gaining market share, increasing the competition.

### The SWOT analysis of the airline industry

|                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                               |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Strengths:</b> <ul style="list-style-type: none"><li>• High Income</li><li>• Growing Tourism Industry</li><li>• Continued Growth</li><li>• Safe &amp; Speedy</li></ul>                                                                                                 | <b>Weaknesses:</b> <ul style="list-style-type: none"><li>• Slow Rate of Infrastructure</li><li>• High Spoilage Rate</li><li>• Huge Investment</li><li>• Competitive Market</li><li>• Huge Workforce</li></ul> |
| <b>Opportunities:</b> <ul style="list-style-type: none"><li>• Inviting New Stakeholders</li><li>• Worldwide Mailing Services</li><li>• Use Technology to Minimize Cost</li><li>• Market Expansion</li><li>• Better Deals with Supplier</li><li>• Timely Service</li></ul> | <b>Threats:</b> <ul style="list-style-type: none"><li>• Global Economic Crisis</li><li>• Government Intervention</li><li>• Environment Threats</li><li>• Seasonal Threats</li><li>• Pandemic</li></ul>        |

### Domestic market share of U.S companies



One of the characteristics of the industry is the intense competition where major players do not lead the market by a big percentage. An interesting fact is that the 10 biggest airlines only account for 28% of the market.

## Appendix 2 - Key Performance Indicator Analysis – An Overview

### Key Performance Indicators

#### KPI's breakdown:

#### Capacity Measurement

#### Primary Drivers

#### Secondary Drivers

#### KPI

The following indicators are believed to be the most relevant in managing **profitability** and **performance**:

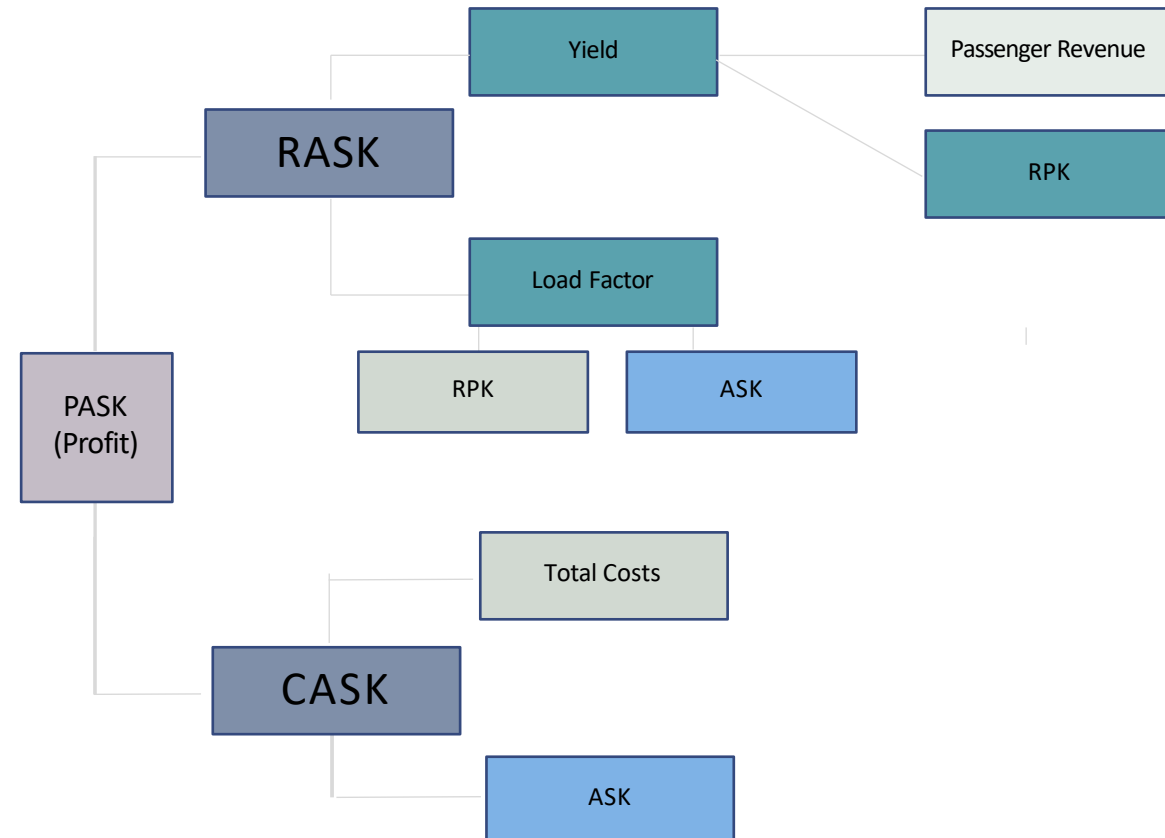
**Passenger Revenue**: represents airlines revenues obtained through ticket selling.

**RPK**: represents number of revenue passengers travelled times kilometers flown.

**ASK**: represents number of available seats travelled times kilometers flown.

**Yield**: represents airlines passenger revenues per ASK.

**Load Factor**: equals RPK divided by ASK measuring average percentage of seats occupied by revenue passengers.





## Appendix 3 - Key Performance Indicator Analysis

| EBITDA in million USD   | 2020     | %     | 2019     | %     | 2018     | %    | 2017     | %    | 2016     | 2 Year Average | 3 Year Average | 5 Year Average |
|-------------------------|----------|-------|----------|-------|----------|------|----------|------|----------|----------------|----------------|----------------|
| Air Croatia             | \$ -19   | -185% | \$ 22    | 521%  | \$ 4     | -17% | \$ 4     | -24% | \$ 6     | -185%          | 160%           | 74%            |
| Finnair                 | \$ -287  | -153% | \$ 547   | -10%  | \$ 605   | 51%  | \$ 400   | 65%  | \$ 243   | -153%          | 36%            | -11%           |
| Air New Zealand         | \$ -52   | -112% | \$ 438   | -28%  | \$ 611   | -21% | \$ 771   | -3%  | \$ 795   | -112%          | -17%           | -41%           |
| Cathay Pacific          | \$ 679   | -71%  | \$ 2.326 | 27%   | \$ 1.836 | 5%   | \$ 1.743 | -19% | \$ 2.141 | -71%           | 4%             | -14%           |
| Singapore Airlines      | \$ 3     | -100% | \$ 1.823 | 0,05% | \$ 1.822 | 611% | \$ 256   | -87% | \$ 2.022 | -100%          | 174%           | 106%           |
| Emirates                | \$ 7.042 | 8%    | \$ 6.529 | -4%   | \$ 6.799 | 17%  | \$ 5.790 | -13% | \$ 6.653 | 8%             | 0%             | 2%             |
| TAP                     | \$ -570  | -207% | \$ 535   | 1251% | \$ 40    | -80% | \$ 195   | 152% | \$ 78    | -207%          | 441%           | 279%           |
| Wizz Air                | \$ 822   | 6%    | \$ 775   | 71%   | \$ 453   | 32%  | \$ 344   | 17%  | \$ 293   | 6%             | 40%            | 32%            |
| Ryanair                 | \$ 2.142 | 15%   | \$ 1.856 | -29%  | \$ 2.631 | 15%  | \$ 2.297 | 10%  | \$ 2.089 | 15%            | -2%            | 3%             |
| Jazeera Airways         | \$ -86   | -283% | \$ 47    | 104%  | \$ 23    | -18% | \$ 28    | -24% | \$ 37    | -283%          | 21%            | -55%           |
| Easyjet                 | \$ -353  | -129% | \$ 1.232 | 16%   | \$ 1.065 | 34%  | \$ 795   | -14% | \$ 920   | -129%          | 12%            | -23%           |
| Gol Transportes Aéreios | \$ 211   | -81%  | \$ 1.108 | 96%   | \$ 566   | 21%  | \$ 468   | 133% | \$ 201   | -81%           | 83%            | 42%            |
| IndiGo                  | \$ 502   | 477%  | \$ 87    | -83%  | \$ 520   | 30%  | \$ 401   | -19% | \$ 496   | 477%           | -24%           | 101%           |

| EBITDA Change %    | 2 Year Average | 3 Year Average | 5 Year Average |
|--------------------|----------------|----------------|----------------|
| IndiGo             | 477%           | 441%           | 279%           |
| Ryanair            | 15%            | 174%           | 106%           |
| Emirates           | 8%             | 160%           | 101%           |
| Wizz Air           | 6%             | 83%            | 74%            |
| Cathay Pacific     | -71%           | 40%            | 42%            |
| Gol Transp.        | -81%           | 36%            | 32%            |
| Singapore Airlines | -100%          | 21%            | 3%             |
| Air New Zealand    | -112%          | 12%            | 2%             |
| Easyjet            | -129%          | 4%             | -11%           |
| Finnair            | -153%          | 0%             | -14%           |
| Air Croatia        | -185%          | -2%            | -23%           |
| TAP                | -207%          | -17%           | -41%           |
| Jazeera Airways    | -283%          | -24%           | -55%           |