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Consolidation of airlines in Europe. Potential acquisition of Norwegian by EasyJet

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Abstract

Europe is one of the largest airline markets with a significant share of passengers withing Europe being flown by low-cost carriers, while long-haul passengers are almost entirely transported by traditional flag carriers.

While Full-Service airlines have been actively trying to penetrate the low-cost market, Norwegian and some other LCCs entered the long-haul market. As this industry is risky and capital extensive, while also being highly competitive, we may expect a consolidation of European airlines. A merger between the second-largest low-cost carrier in Europe EasyJet and smaller but operating rather unique business model Norwegian would allow a boost of passengers for both airlines, open new markets, and deliver significant revenue and cost synergies especially on the side of struggling to fill their planes and maintain its margins Norwegian, and would create a new second-largest airline in Europe. We expect a transaction between two Airlines to happen in the last quarter of 2020, EasyJet is suggested to pay the premium of 20% over the market price, the total purchase would cost £1040m and generate £524m in Net Synergies after transaction costs. Suggested financing assumes using existing cash, debt, and stock issuance. The industry is highly dependent on the developments related to the COVID-19 outbreak, therefore we suggest constant revaluation of the deal as long as the new information appears..

Abstrato

A Europa é um dos maiores mercados da aviação, com uma parte significativa dos passageiros a serem transportados por companhias low-cost, no entanto os passageiros de longo curso viajam maioritariamente usando transportadoras nacionais.

Enquanto as companhias aéreas de serviço completo (LCCs) têm ativamente tentado penetrar o mercado low-cost, a Norwegian bem como outras empresas aéreas low-cost entraram no mercado de longo curso. Tratando-se de um mercado ariscado, com elevada intensidade de capital e altamente competitivo, é expectável que várias fusões aconteçam entre empresas europeias de aviação. A fusão entre a segunda maior companhia low-cost aérea europeia, a EasyJet, e uma companhia mais pequena, mas com um modelo de negócio único como a Norwegian levaria a um aumento do número de passageiros, à entrada em novos mercados, ao aumento significativo das receitas e a sinergias de custos, criando a segunda maior companhia aérea europeia. A acontecer no último trimestre de 2020, a aquisição da Norwegian pela EasyJet pelo valor total de £1040M deverá geral sinergias de £524M após custo de transação, usando um prémio de aquisição de 20%. O financiamento sugerido assume o uso de reservas de liquidez, dívida e emissão de ações. Este setor é altamente dependende dos acontecimentos relativos à pandemia da Covid-19, como tal, aconselhamos a reavaliação desta aquisição à medida que nova informação relevante se materialize.

Acknowledgements

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Glossary

Term	Definition
A	Actual
APV	Adjusted Present Value
ASK	Available Seat Kilometers
ATC	Air Traffic Controller
Block hour	Time since closure of doors until opening, measures utilization of aircrafts
Capex	Capital Expenditures
CoD	Cost of Debt
CoE	Cost of Equity
CY	Current Year
DCF	Discounted Cash Flow
E	Expected
EBIT	Earnings before interests and taxes
EBITDA	EBIT + depreciation and amortrization
EBITDAR	EBITDA + rental costs
EPS	Earnings Per Share
EV	Enterprise Value
EZJ	EasyJet
F	Forecast
FSC	Full Service Carrier
FY	Fiscal Year
GBP	Pound sterling
GDP	Gross Domestic Product
H1	First half of a year
H2	Second half of a year
IFRS	International Financial Reporting Standard
LCC	Low Cost Carrier
Leg	One segment of a flight
Load-factor	RPK/ASK or Passengers Carried/Seats Flown, measures how full is an aircraft
LTM	Last Twelve Months
NAS	Norwegian
ND	Net Debt
NOK	Norwegian Krone
NWC	Net Working Capital
PP&E	Property, Plant and Equipment
PV	Present Value
RPK	Revenue Passenger Kilometers
TGR	Terminal Growth Rate
USD	United States Dollar
WACC	Weighted Average Cost of Capital
Yield	Ticket Revenue / RPK, average fare per kilometer

1. Executive summary

Airlines are a very important sector in the modern economy that allows the connection of people and good across the world and is one of the pillars of globalization. This industry is risky due to high capital intensity and a high proportion of fixed costs. In order to become more efficient and create additional value for shareholders, airlines often collaborate via the creation of alliances and mergers. In this paper, we suggest that a potential deal between two large European low-cost airlines, EasyJet and Norwegian, should happen in the last quarter of 2020. Our proposed purchase price per share of Norwegian is £0.53, corresponding to a 20% premium over the closing price as of May 15th, 2020. The total cost of the deal is £1040m including £54m in advisory fees. In order to proceed with the transaction, we suggest using £300m cash from the current EasyJet balance, issuance of £592m in debt, and stock issuance for the remaining part. This merged would generate £524m in net synergies and be accretive for shareholders EPS starting in 2022. The industry is highly dependent on the developments related to the COVID-19 outbreak, therefore we suggest constant revaluation of the deal as long as the new information appears.

EasyJet is the second-largest low-cost airline in Europe that operates its short-haul flights connecting people in almost every country in Europe, the Middle East and Northern Africa and looking for additional ways to increase its earnings in the region with limited airport capacity, while Norwegian provides both short and long-range services, but also troubles to have their planes filled while maintaining its fares. Our analysis justifies this transaction as it would provide significant revenue synergies due to access to new markets, network optimization, and joint pricing, as well as costs synergies on the sales, marketing, and general expenses.

In section two we discuss common valuation techniques and give an overview of typical M&A process and characteristics, section three provides an analysis of current macroeconomic and industrial trends, section four contains a description of businesses of the companies, and analysis of their operating and financial performance. Section five provides a valuation of both companies standalone and a forecast of their performance for the next years.

The main question of the paper is whether EasyJet should proceed with this deal and if the synergies justify the premium paid. Answer to this question can be found in section six where we analyse the merged company and value potential synergies, as well as provide suggestions for the transaction process.

2. Literature review

2.1 Mergers and Acquisitions

Mergers and acquisitions are highly technical, complex, and expensive processes that most companies would not really initiate, but they must. Companies living in a world of macroeconomic instability, changing customer priorities and globalization have no better way to grow their operations than engaging in costly deals. For them, it is a way to reinvent themselves and adapt to a new environment (Bruner, 2004).

2.1.1 Motives for M&A

There are no two identical M&A deals, thus there is a countless number of unique combinations of reasons to do this type of deal. A lot of researches tried to tackle this problem, for example, Trautwein (1990) provided efficiency, monopolization of the market, empire-building among the other theories, while Berkovitch and Narayanan (1993) in their article tried to classify all the reasons into synergy, agency and hubris buckets categories. Mukherjee, Hiymaz and Baker (2004) show results of a CFOs survey on their opinion on M&A where most respondents state synergy as the main rationality behind their deals, while the second most often given answer is related to potential diversification benefits, and for some CFOs the deal was necessary in order to change the structure of the company or simply use excess cash.

2.1.2 Deal process

In order to achieve the aforementioned goals, more than just buying a company is required. Ashkenas, DeMonaco, and Francis (1998) describe a typical M&A process, using GE Capital as an example. This company adopted the Pathfinder Model which was based on industry best practices to make the acquisition process go smoother. The first stage is everything that happens before the actual acquisition. Here the company performs due diligence of a potential target, engages in negotiation with owners, and finally closes the deal. In the second stage, the foundation is being built. It includes integration strategy forming, the orientation of managers to a new culture, and their following engagement. After that the company enters the third stage of the process where the strategy is finally being rapidly implemented, progress is constantly being evaluated and feedback is used to adjust the plan. Having the integration almost finished, the company enters the stage of assimilation involving long term plan evaluation and adjustments, destruction of former culture (by using education centers and managers exchange), and, finally, capitalization on success.

2.1.3 Deal structure

After a company has decided on a potential target, it should make one more important decision. Deal structuring is known as a process of selecting a payment form or a mixture of forms, and merger structure to minimize all potential tax consequences of the deal, while still complying with relevant regulation and not giving away a lot of possible future benefits of the merger (DePamphilis, 2014).

In the past, the choice of payment form was mostly between purely cash and purely stock, but as M&A activity has experienced significant changes in the last decades, more and more deals are done using a mixed form of payment. Boone, Lie, and Liu (2014) in their work describe a surge of choice of mixed forms from 10 to 30%, while the stock form of payment, after being the most popular form in the 90s with a share of 60%, dropped to just 20% nowadays. On the contrary, pure cash payment experienced its best years and doubled to 50% compared to the 90s.

Cash is the best option when the acquirer has significant excess cash reserves, is able to borrow sufficient amounts of funds quickly and with attractive rates, thinks that its shares are undervalued, or doesn't want to dilute ownership. Borrowing funds is also used when there is a demand for changing the leverage level of the deal and the combined company. Stocks are a likely choice when the acquirer's stocks are assumed to be overvalued or there are constraints on new debt issuance. For the sell-side, shares can be especially attractive in case of high future growth expectations. Moreover, stock payments allow parties to split the potential risks of the deal. Besides cash, stocks, and their mixture, real estate, intellectual property, royalties, and other assets can be used (DePamphilis, 2014).

Boone, Lie, and Liu (2014) find evidence supporting adverse selection theory stating that companies tend to choose stock payments over cash in times when there is a lot of valuation uncertainty regarding the future of the acquirer or target. Additionally, in their work, they find a direct relationship between capital gain tax rate and share of purely cash deals.

2.1.4 Synergies

As we said before, many managers see synergies as the main rationality behind the deal. Damodaran (2005) describes synergy as the additional value that is generated by the combination of two firms when this combination creates opportunities that were not accessible to two separate businesses. Synergies can usually be divided into operating and financial synergies.

Operating synergies are giving the combined firm a possibility to increase operating income or accelerate growth while keeping existing assets unchanged. Most commonly operating synergies include:

1. *Economies of scale* making a combined firm more cost-efficient and as a result generating higher profits. Most commonly observed in horizontal mergers.
2. *Greater pricing power* resulting in decreased competition on the market and a higher market share of a combined company. This type of synergy is more likely for oligopolistic markets and horizontal mergers.
3. *Combination of strength*. This type of synergy is possible to achieve in basically any type of a merger when one company has a remarkable strength in one function that another firm lacks.
4. *Higher growth* in a new or existing market. This is a very likely scenario in cross border mergers when a large multinational corporation enters new markets and can boost its sales via cooperation with some well-known local players.

The second type of synergies is related to higher cash flows of a merged firm or lower cost of capital and is called Financial synergy. Typically, they can be viewed in the following forms:

1. A merger of a firm holding high cash reserves with a cash strapped firm that is engaged in high-yield projects. As an example, the acquisition of tech start-ups by tech giants from Silicon Valley.
2. A combined business may result in more stable and predictable operating cash flows, which will result in higher borrowing abilities of a merged firm. Subsequently, it might create tax benefits that translate into a lower cost of capital.
3. Tax benefits can be extracted by writing up assets of an acquired company or using net operating losses to decrease taxes paid by a profitable acquirer.
4. One of the most controversial sources of financial synergy is diversification. While, for public companies, investors can achieve their diversification goal more efficiently by investing in different companies and sectors, private company holders can benefit more from diversification of their business.

2.1.5 M&A in the Airlines industry

Unlike many other industries, airlines have always been very keen on collaborating with each other. One of the forms of collaboration was the creation of Alliances[1] since the 90s. Initially, the idea of this collaboration was to get as many passengers to as many destinations as possible

[1] European Competition Authorities define alliance as cooperation between airlines that includes integration of their networks and services and operation as if they were a single entity while keeping their identity

and all airlines tried to get new partners onboard (Doganis, 2005). Overall, this should result in economies of traffic density (increasing load factor, aircraft employment), optimization of their costs (fleet optimization, joint purchases, promotional campaigns), quality and marketability of services enhancement, and boost customer loyalty. Moreover, Alliances also help to overcome regulatory risks and constraints, as airlines are one of the most regulated companies in the world and dealing with market uncertainty (Iatrou, Oretti, 2007). Synergies can be achieved in both alliances and mergers, nonetheless, realized increase in value can be different (Merkert and Morrell, 2012). Besides, Gudmundsson and Lechner (2011) say that additional merger synergies of two airlines can be achieved only if they were not a part of an alliance prior to the merger.

Synergies in the airline sector can also be classified into two big groups, namely revenue and cost synergies (Schosser, Wittmer, 2015). Revenue synergies are produced by access to new markets, increased network, improved loyalty, common pricing, and increased availability of market information. Costs synergies are mostly referring to the optimization of network, fleet, labor, sales and marketing costs, joint training and maintenance, increased availability of infrastructure and lower financing costs.

2.2 Valuation methods

Valuation of target and acquirer are essential parts of every M&A analysis. While building valuation models, analysts work assuming an efficient market in which the market value of an asset is the best possible estimate of its value and the model should justify this assumption. Contrary, inefficient markets price the asset incorrectly and it will get corrected to our estimated price. According to Damodaran (2011), there are 3 main approaches to valuation: intrinsic valuation, relative valuation, and contingent claim valuation, although only the first two are widely used to value a business.

2.2.1 Intrinsic valuation

This approach is based on an asset's intrinsic characteristics, including its ability to generate cash flows and its risk profile. The most common methods to calculate the intrinsic value of an asset are Discounted Cash Flow and Adjusted Present Value analysis which assume intrinsic value being equal to the expected present value of future cashflows.

For the purpose of building a DCF-model, analysts are required to estimate the lifetime of an asset, future cashflows, and an appropriate discount rate. In case of business valuation, an indefinite lifetime is a fair assumption. The most common DCF approach (Rosenbaum, Pearl, 2013) involves a calculation of Free Cash Flows to the Firm (FCFF) using the following equation:

$$FCFF = EBIT(1 - T) + D\&A - Capex - Increase\ in\ NWC \quad (1)$$

The discount rate to calculate the present value of free cash flows, in this case, is supposed to be WACC and is calculated as:

$$WACC = CoE * \frac{Equity}{Capital} + CoD * (1 - T) * \frac{Debt}{Capital} \quad (2)$$

In order to calculate WACC, we need to compute the cost of equity (CoE) which can be obtained using the CAPM model and the Cost of Debt is possible to get using multiple methods, including corporate bond yields, rating spreads or information provided by the company. This formula incorporates tax shields in the cost of debt calculation, assuming all interest payments lower our tax base and thus make debt a cheaper source of financing.

There are numerous advantages to this method according to Damodaran (2011):

1. The company is valued based on its internal characteristics, thus it should be less sensitive to market changes in mood and expectations;
2. It's a good approach to compute the value of a whole business, not just a single stock;
3. DCF requires a deep understanding of underlying business, its strengths and weaknesses.

At the same time:

1. It requires much more data to build a model than any other approach;
2. As models are often become complex and require a lot of inputs which are not easy to estimate, one can manipulate the value and get the desired price;
3. It is also possible to find intrinsic value proving the current market price and not give a room for recommendations.

Overall, this method is good for estimating long term value and for the firms that have a stable financing structure.

As the WACC method has some limitations, Myers (1974) introduced the Adjusted Present Value method that can improve the quality of valuation in some cases. APV separated the value into two parts according to Luehman (1997):

1. Best case value which assumes the value of a project as if it was entirely equity financed
2. Value of all financing side effect (tax shields, financial distress, subsidies and many more)

APV provides users with additional flexibility and can be tailored in order to satisfy all tastes and extraordinary events that might be modelled. Besides, APV would most likely work when WACC works, but it would also work when it is not possible to apply a more traditional FCFF/WACC approach.

In order to do this type of analysis we need to:

1. Forecast cash flows of the selected business;
2. Calculate the PV of these cash flows and terminal value using CoE;
3. Compute the PV of Financial side effects;
4. Sum both parts of the analysis to get the final value.

This method has its own disadvantages, but it can provide many more insides for companies where financial side effects are especially significant, for example being in financial distress.

2.2.2 Relative valuation

One more common approach to valuing companies is relative valuation, which in practice is often the most used method. This approach is based on a multiplication of some specific ratio calculated using comparable universe by the performance measure (such as EBITDA, Sales, Cash Flow, Earning and etc.). Analyzing trading or transaction multiples provides analysts with a market benchmark against which they can build a valuation of a private or public company.

The trading multiples method relies on the following assumptions (Kaplan, Ruback, 1996): all companies in the comparable universe are expected to share similar future cash flow growth and risk exposure, and on top of this a change in performance measure by a given percentage should lead to an increase in value by the same percentage. If these assumptions were perfectly valid, we would receive a much more accurate result than with other methods, but as there are no perfect comparable companies it can cause some errors.

In order to build the analysis, it is necessary to first select your universe of comparable companies, gather all the necessary information, build key statistics and multiples around the universe, benchmark companies in your universe, and then perform valuation (Rosenbaum, Pearl, 2013).

There are numerous discussions among researchers and analysts regarding the choice of appropriate multiples and when it is better to use them. There are two main types of multiples: Equity and Enterprise value multiples. The first type employs measures that flow only to equity holders (for example earnings), while denominator in enterprise value multiples is usually some financial metric like Revenue or EBITDA that flows to both equity and debtholders (Holthausen, Zhmiyevski, 2012).

Among equity multiples, the most common one is Price to Earnings ratio which is the result of a division of Share price by Diluted EPS and implies how much would an investor be willing to pay for a euro of company's current (LTM P/E) and future (Forward P/E) earnings. While this ratio is widely used, it also has some limitations, due to the inability to use multiples for

companies with zero or negative earnings. Besides, earnings really depend on capital structure and a lot of other factors which makes the comparison even harder.

To account for the aforementioned factors, one can use Enterprise Value multiples. One of the most widely used financial performance measures is EBITDA due to its ability to make a comparison of companies with different tax systems and depreciation regimes much easier. Moreover, some analysts call it “proxy to free cash flows”.

While EV/EBITDA multiple is the most commonly used multiple, there are also ratios that are more appropriate in different industries, for example, EV/Reserves is widely used in Mining, Oil, Gas and other Natural resources companies, while Price/Book Value is more common for valuing banks or homebuilders. For airlines, retailers, and restaurants EV/EBITDAR is a valid measure due to its ability to incorporate rental costs.

The second widely used method in relative valuation involves the employment of information from previous comparable transactions. Overall, selecting deals is similar to comparable company selection. While analysing multiples of precedent transaction it is possible to observe that they are usually higher than trading multiples, mostly due to specific deal considerations, synergies and premium for control. It also makes this type of multiples more suitable for valuing M&A deals. While this method benefits from being market-based, simple and objectivity, it may be hard to find all the appropriate recent information and is exposed to acquirers’ bias.

2.2.3 Conclusion

While both relative valuation and intrinsic valuation are very commonly used, analysts prefer to not use them standalone and always analyse the value of the company considering as many methods as possible. Overall, while valuing public companies and merging deals, DCF, market comparables, and precedent transaction methods should guide the current market valuation of the business to make sure that as much relevant information is incorporated and that the analysis is comprehensive and valuable to decision making.

3. Macroeconomic and industry overview

Airlines are a very competitive industry which grew dramatically over the last 50 years. Mobility is necessary for the rapid growth of the global economy and, according to IATA estimates, 1% of growth in GDP should result in a 1.5% increase in passenger traffic, while in Europe this multiplier is estimated to be the highest in the world and exceed 2, which makes aviation particularly sensitive to external shocks. Therefore, it is necessary to analyse both macroeconomic and industry trends.

3.1 Macroeconomic situation in the World and Europe

The global economy has been experiencing one of the most stable decades in its history, having the last recession in 2009 when global GDP decreased by almost 2%. Since then it has been growing by 2-4% every year, but in 2019 growth slowed down to 2.5% as global trade, investments, and consumption fell below the long-term average. GDP expansion is expected to accelerate in the coming years and remain at a pace of 2.8-2.9% each year according to the forecast of the World Bank. As the main contributors to future growth, non-commodity-exporting emerging countries are expected to grow by 5% each year, commodity exporters will not exceed 3% of annual growth on average. Developed economies are lagging behind with average growth of 1.5% until 2022.

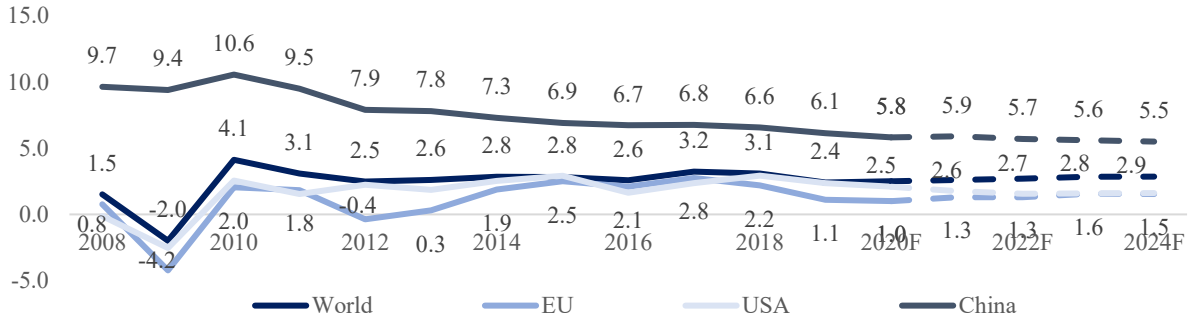


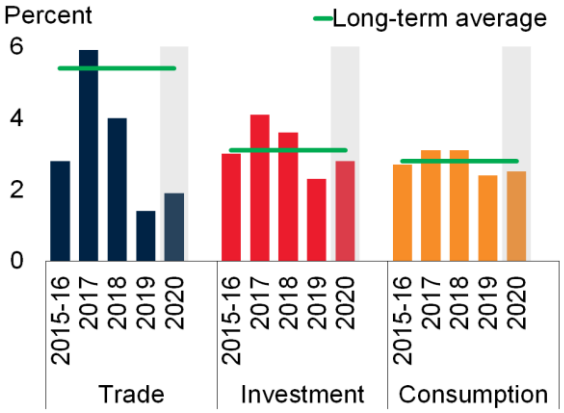
Figure 1. GDP development of selected markets, IMF data.

One of the most important developments in the last years was the trade war outbreak, mainly driven by the USA. The constant introduction of new tariffs by Trump's administration was probably put on hold for some time after the signing of a Phase One agreement between the US and China in October 2019[2]. This agreement is meant to reduce the level of global uncertainty and bring confidence to manufacturers. Nevertheless, the share of the global economy under

[2] The New York Times, Trump reaches "Phase 1" deal with China and delays planned Tariffs, https://www.nytimes.com/2019/10/11/business/economy/us-china-trade-deal.html

the tariffs increased from 4% on average in 2013-17 to 6.7% in the last two years according to the World Bank's estimate[3].

Despite the improvement of the situation on the Chinese vector, the US has imposed additional protectionist measures on European goods as a row over EU subsidies to Airbus, including 10% duties on European planes and 25% for agricultural products imported to the US[4].



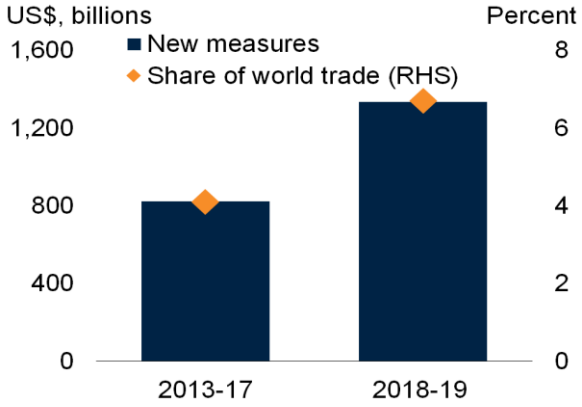


Figure 2. Trade, Investment and Consumption development, World Bank data.

Figure 3. Tariff impact on global trade, World Bank data.

The European economy is probably one of the most problematic nowadays, with GDP growth slowing down and some countries being close to recession in 2019. The German economy, as the largest in Europe, appears to be especially vulnerable to external shocks, as the industrial sector there is struggling with falling demand in Asia and changing preferences of customers in the automotive sector. Long-lasting discussions on Brexit did not stimulate growth as well. While the UK left the block at the end of January, the level of uncertainty regarding the future relationship with the EU is still high.

Monetary stimulation policy is expected to continue its current trend on further quantitative easing in order to boost economic activity.

Coronavirus pandemic outbreak will most likely change all the forecasts for 2020 and it is really hard to predict the full impact due to the rapid situation change in some countries. According to the OECD estimates, each month in a lockdown might result in a loss of 2 percent of annual

[3] World Bank, Global Economic Prospects, World Bank publications, WB website, https://openknowledge.worldbank.org/bitstream/handle/10986/33044/211469-Ch01.pdf

[4] Deutsche Welle. US imposes record $7.5 billion tariffs on European goods. Deutsche Welle news section, October-19, DW website, https://www.dw.com/en/us-imposes-record-75-billion-tariffs-on-european-goods/a-50880622

GDP growth, while tourism and related industries are facing the most damage and can drop by 70%. Recession is highly likely for many economies.

Taking into account the structure of the economies it is possible to expect that on average the monthly output would decrease by at least 15% after the closure of businesses in major economies initially, with Spain, Germany, and Greece losing more than 25% of their GDP.

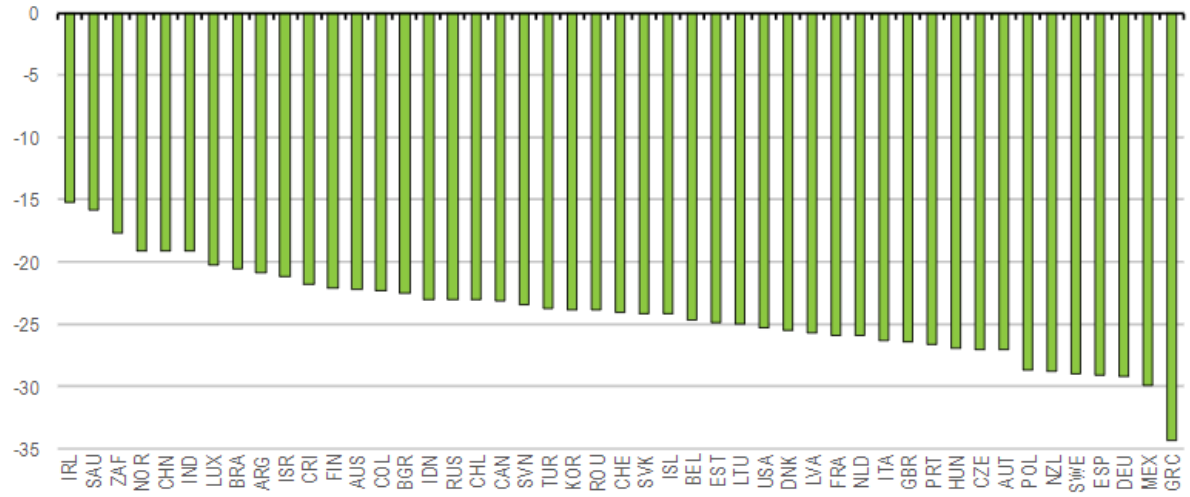


Figure 4. Monthly loss of GDP as a result of lockdown, OECD data.

3.2 Global Industry overview

Aviation is a relatively new industry but probably one of the most global nowadays, connecting people from all over the world, mixing cultures, facilitating business, giving opportunities to grow and create something new. In 2019 there were over 1300 scheduled airlines in the world operating out of 3759 airports and flying 31 717 airplanes each day. While being heavily criticized by the environmental community, airlines give the opportunity for people to be inexpensively and safely connected with the rest of the world, for local business to become global, access foreign demand and supply chains, enhanced global connectivity also allows easy flow of capital from developed to emerging markets, quick response to emergencies and humanitarian crisis. The global aviation market has been doubling every 15 years and is expected to double once again in the next 20 years. Aviation supporting industries are also growing proportionally to the main industry, creating new jobs and value in manufacturing, maintenance, food, and other sectors. All direct, indirect, induced and catalytic contributions of the sector sum up to 2.7 trillion USD and 65.5 million jobs that are comparable to the United Kingdom's economic size and population.

Worldwide airlines carried 4378 million passengers in 2018, 4540 in 2019, and were expected to deliver 4723 in 2020, which corresponds to 6.9%, 3.7%, and 4.0% growth Y-o-Y, while

revenue Passenger Km (RPK) is growing even faster. Despite this rapid growth, overall penetration of airlines' services and connectivity remain low with more than 900 destination-weighted seats per person in North America, around 450 in Europe and even lower numbers in other regions, which means that globalization and growth of economies will boost passenger travel in the following years.

	2014	2015	2016	2017	2018	2019E	2020F
Global	6	7.4	7.4	8.1	7.4	4.2	4.1
NA	3	4.3	4	3.9	5.3	3.8	3.8
Europe	6.5	5.8	5.3	9.1	7.5	4.5	3.8
Asia-Pac	7.8	9.6	11.1	10.9	9.5	4.7	4.8
ME	11.9	9.6	11.4	6.8	5	2.6	2.5
LA	6.3	6.7	4.5	7.4	7	4.2	4.3
Africa	0.6	3.4	7.3	7	6.1	3.7	3.8

Table 1. RPK development, %, IATA data.

Aviation is traditionally one of the most vulnerable industries in times of instability. Normally airlines' business model is built on high efficiency and thin margins. While prospering in times of high demand and appealing prices, the industry can generate substantial profits, an external shock might vanish EBIT margins, which are already close to zero or negative for some regions and airlines. As seen from the table below, only North American and European airlines have strong EBIT margins.

	2014	2015	2016	2017	2018	2019E	2020F
Global	4.6	8.6	8.5	7.5	5.7	5.1	5.5
NA	9.1	14.4	13.7	11.2	9.1	9.6	9.1
Europe	3.1	5.5	6.1	7.9	6.2	4.7	5.3
Asia-Pac	2.4	6.9	7.4	6.3	4.7	3.5	4.7
ME	3	6.3	2.2	-3	-4.6	-5.2	-4.2
LA	5	5	5.6	6.2	2.7	3.6	3.7
Africa	-2.7	-2.1	1.1	0.8	1.5	1	1.1

Table 2. EBIT margin development, %, IATA data.

One of the main problems of the industry that leads to this particular vulnerability is its high portion of Fixed costs that account for more than 49% of their expenses, and Depreciation, Insurance, and Leases being the most inflexible components drowning the airline in bad times.

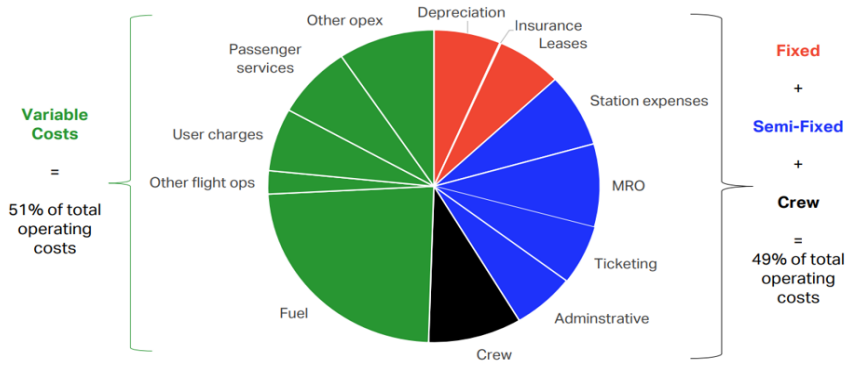


Figure 5. The cost structure of an airlines business, IATA data.

As we can also see from the chart above, one of the biggest costs for the industry remains fuel. A steep decrease in oil prices in 2014 was one of the reasons behind the overall increase in industry efficiency and growing passenger numbers. As prices keep going down, we might see more long-distance traveling due to the increased efficiency of airplanes and low fuel costs.

Figure 6. Brent crude oil price development and forecast, USD/bbl, Bloomberg data.

3.3 European Industry overview

EasyJet and Norwegian are European low-cost airlines and for them, Europe is the main market, even though Norwegian has developed a large network of long-haul flights to other continents, besides these airlines operate solely passenger flights.

Europe is known as the most liberalized aviation market due to the EU single market agreement (1997) and the creation of the European Common Aviation Area (ECAA) in 2006. Together with additional agreements (CAA, EMAA) open sky above Europe exists for airlines from 36 countries. While most of the European airlines belong to the flag carrier group, low-cost airlines operating short point-to-point flights are prospering the most on this deregulation. Nowadays, approximately 50% of all international passengers in the world are carried by European carriers. In 2012 the European market also became the largest in the world in terms of RPKs surpassing

North America as the long-term aviation leader. As one of the main contributors to this growth was the extremely high load factor on European flights that was higher than the world's average since 2011. One more important factor in the European sky is the increasing share of low-cost carriers which surpassed 40%.

In order to enable free traveling between continents, the EU-US Open sky agreement was signed in 2007 by the members of the EU and the US, with more European countries added later. Due to this liberalization 52 new connections have been created between the two continents and major savings for passengers flying on these routes.

While major airports in Western Europe have already reached their capacity maximums and cannot contribute to the overall growth on the continent, emerging Europe accelerates traffic in the region. According to the ICAO forecast, Europe will be the second slowest growing region with an annual increase in passenger travel by 3.3% annually until 2045. This increase will still lead to an increase in airline-related industries jobs by 49% in 2036 (18m jobs) compared to 2016 and USD 1.6 trillion in contribution to GDP (up by 90%).

Europe to:	2015-2025
Middle East	3.8
North Africa	3.9
North America	2.5
North Asia	2.1
South East Asia	4.1
Latin America	3.6
Sub Saharan Africa	2.5
Domestic	2.4

Table 3. Expected annual growth of passenger aviation, ICAO data.

Despite many positive sides of the European market, a high degree of competition and regulative costs led to the world's highest breakeven load factors in the world, which exceeded 70.4% in 2019. As a response to this, companies invest in more efficient planes, while low fuel cost also contributes to high margins.

3.4 Coronavirus impact on aviation in 2020

In December 2019 the rapid spread of a coronavirus disease began in the city of Wuhan, China. Over the following months, the virus has been registered in most of the world’s countries, that reacted by closing borders and cancelling flights. Especially severe measures were introduced in Europe. Globally international seat capacity declined by 80% by the end of Q1 2020, causing 50% of the airline's fleet to be grounded. According to forecasts of OAK data firm, it might take several years to fully recover from this pandemic and come back to 2020 previous expectations, while IATA estimates 60% drop in Q2 2020, 40% in Q3 and 10% in Q4 y-o-y with a full recovery to initially expected numbers in the next year.

The pandemic will most likely result in severe industry job cuts around the world, with over 11m jobs in Asia-Pacific and 5.6m jobs in Europe being at risk. This may be caused not only because of the fleet grounding but also due to possible airline bankruptcies. As we discussed

earlier in this chapter, airlines have overall low margins and require high efficiency to operate profitably, which is not possible during this crisis. Besides, airlines have a tremendous amount of fixed costs that are supposed to be paid even while having their planes on the ground. According to the IATA estimate, the average airline has enough cash reserves to survive 2 months, but as long as the pandemic lasts longer, even airlines with a strong balance sheet will not be able to survive without strong and industry-specific governmental support.

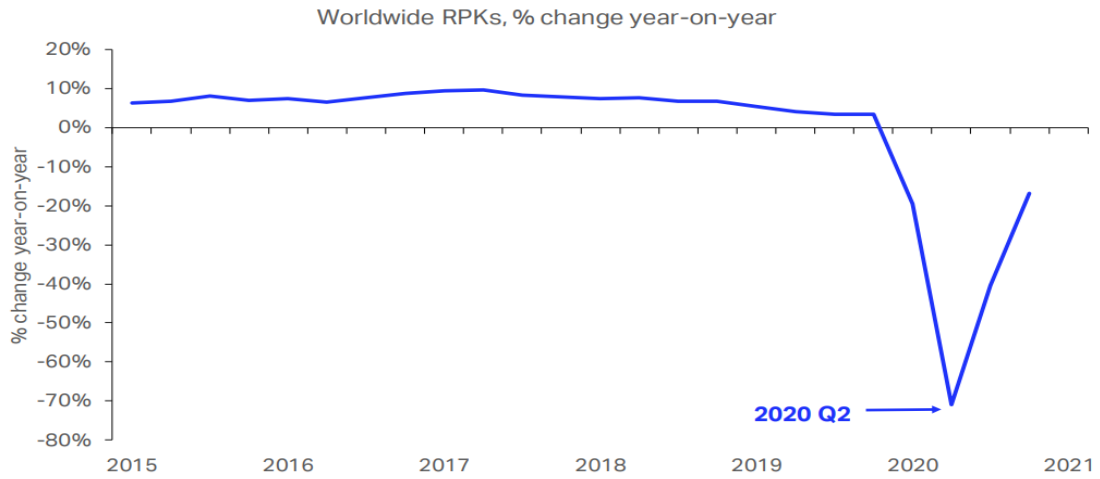


Figure 7. Worldwide RPKs development, IATA data.

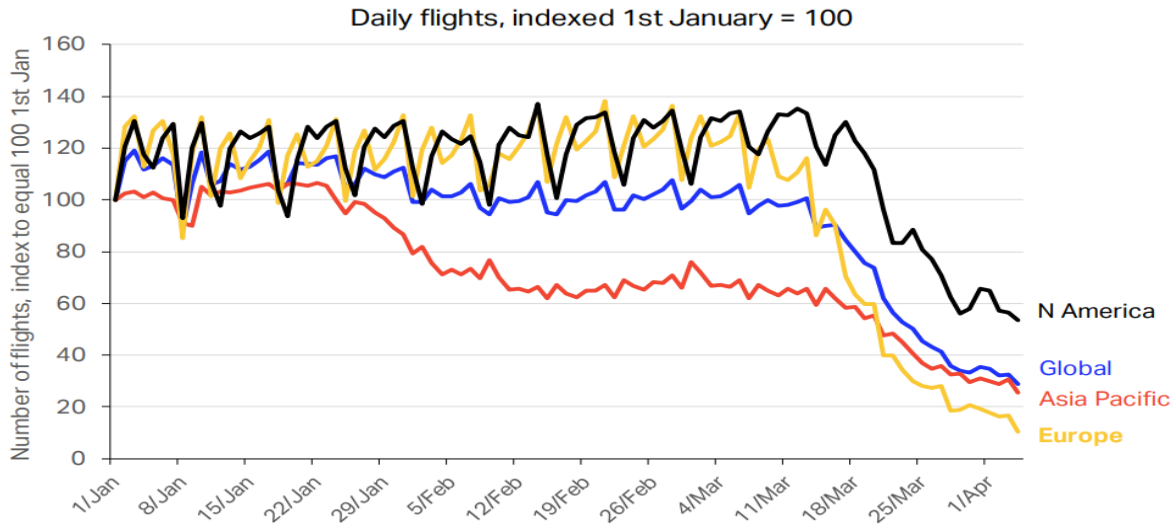


Figure 8. Daily flight number development, IATA data.

The first European airline to fall due to the virus was British regional airline Flybe, which could face over 100m USD in lost revenue in 2020. Some airlines, including Russian Pobeda LCC and second-largest European LCC EasyJet,[5] decided to fully ground their fleet until further

[5] EasyJet grounds all its planes, BBC News, BBC website, https://www.bbc.com/news/business-52084003

notice. The industry might expect a series of further bankruptcies and consolidation of the industry as the result of the outbreak.

3.5 Segmentation in European aviation

In order to analyse possible mergers, we need to understand how the European airline market is structured. Typically, airlines are engaged in transporting passengers and goods, but as both EasyJet and Norwegian AS operate only passenger planes, we will focus mostly on this segment.

While US airlines went through a period of consolidation after the 9/11 terrorist attacks and the latest financial crisis, the European market is still much more fragmented. For example, five major US airlines control almost 80% of the market, the share of 5 major European airlines slightly exceeds 50%. The oligopolistic market structure in the US results in a more stable performance of the players and higher profitability.

Airlines can be classified depending on their service offer (from full service to no-frill) and typical distance flew (short to long haul). BCG divides all major European airlines into 6 groups according to their business model.

Europe's 3 major full-service carriers (Lufthansa, AirFrance-KLM, IAG) represent the Global FSC group, all these airlines operate hub-and-spoke model, collecting people from various cities in their global hubs (e.g. Frankfurt, Paris, London), regrouping them and sending to their final destinations. To be able to serve crowds of people and fly both short flights like Frankfurt-Hamburg and ultra-long flights like London to Jakarta, they require different types of aircraft and investments in their hub airports, which results in large costs for carriers. Due to the high ticket price, Global FSCs target customers with low price sensitivity, mostly business travelers.

On the opposite side of the matrix, we can find pure Low-Cost Carriers with Ryanair, WizzAir, and Jet2.com as the most well-known representatives. These companies operate only one type of aircraft, fly short distances and between small airports only. In order to deliver profits while charging small fees, it is necessary to be maximally efficient and avoid flying empty planes. Even though Global FSCs charge premium prices, they also reported large losses in difficult years, while pure LCCs managed to keep their bottom line positive even during the crisis.

Besides the two aforementioned groups, Medium FSCs/Point-to-point carries are SAS, LOT Polish Airlines, Alitalia, AirEuropa and Aegean operate mixed model mostly on short distances, Medium FSCs/hub players like Icelandair, Finnair and TAP Air Portugal connect passengers in their hubs in order to send them to their competitive advantage markets (North America, North Asia, and Latin America respectively).

Hybrid LCCs Eurowings, Transavia and Vueling represent subsidiaries of Global FSCs and attract less price-sensitive passengers while flying out of primary airports instead of small local havens. EasyJet can belong to both of these groups as it operates with low fares and both types of airports. While typical LCCs are mostly interested in short-haul flights, Norwegian AS and WOW Air tried to tackle the long haul low-cost segment.

3.6 Airline consolidation in Europe

As it was mentioned above, the European market is highly competitive and fragmented. As one of the reasons behind it, researchers from Oliver Wyman find differences in the culture and language of EU member states. Across the Atlantic, carriers are operating in one country with a single language, while in Europe most of the carriers belong to the flag carrier group, which means that AirFrance is the national carrier of France, while passengers of Austrian airlines are traveling via Vienna. It drastically reduces the benefits of airline mergers in Europe. Besides, in order to operate in different countries, airlines require additional certificates and more complex structures (e.g. subsidiaries of Norwegian in the UK and Ireland, subsidiaries of EasyJet in Switzerland and Austria).

Three major global FSCs in Europe were formed in a process of multiple mergers. Lufthansa Group was formed in a way of multiple acquisitions and spinoffs of the German leading carrier, while AirFrance-KLM Group was born in 2004 as a result of a merger between national carriers of France and the Netherlands, both members of SkyTeam alliance. The conglomerate was engaged in multiple transactions and hold minor interest in many airlines around the world as presented in Exhibit #. International Airlines Groups was created after Spanish Iberia and British Airways closed the merger agreement in 2011 having created one of the world's largest airline groups with hubs in Madrid and London. Subsequently, they created a number of subsidiaries including LEVEL airline that is now a direct competitor on long-haul routes with Norwegian. Besides, IAG announced its interest in Norwegian AS in 2018 and started the takeover process, but the deal was rejected by the target’s shareholders.

European largest airline and LCC “Ryanair” had been sticking to a “single airline” strategy but abandoned it in 2018 creating Polish subsidiary Ryanair Sun. Further that year it also acquired Austrian Laudamotion. In 2019 the Irish airline announced the creation of a new company jointly with the government of Malta.

European airlines keep looking for a way to gain market share and grab new markets, it is also highly likely that uncertainty will accelerate this process in order to create large firms able to withstand any circumstances.

3.7 Deal rational within industry trends

EasyJet as the second largest European LCC is most likely looking for a way to compete with Ryanair and boost its value. For large LCCs there are three main ways to grow their business according to BCG:

1. Close markets gaps
2. Expand into long haul business
3. Feed FSCs long haul flights

EasyJet has a strong position in the UK, Western and Southern Europe, while Norwegian AS is mostly operating out of the Nordic region, where EasyJet has a relatively limited presence. The merger would be a fast way to close this gap and increase pressure on FSCs as Ryanair and WizzAir also have a limited presence on the Nordic market.

One of the main advantages of Norwegian AS is its unique long haul business model. As EasyJet does not participate in this market, and will not enter it any time soon due to large costs and significant risks of this expansion, Norwegian seems to be a fast way to enter the market with their fleet of efficient Boeing 787 aircraft and operating flights out of major European hubs.

Feeding FSCs which seems to be unrealistic for direct competitors was confirmed by both major European LCCs and Ryanair has been acting as a feeder for Spanish AirEuropa and its flights to the Americas.

EasyJet chose the strategy to enable partnership with Norwegian and feed its long haul network, which is growing every year and by the end of 2019 included North and Latin America, South-East Asia. Norwegian was also in discussion with the government of Russia in order to get access to the Siberian sky which would give it access to Chinese, Japanese and Korean markets.

We can observe that the deal between EasyJet and Norwegian would fit industry trends and may result in a giant player that can operate globally and compete with full-service carriers. And as we know from history, when LCCs try to compete with FSCs, the advantage is usually not on the side of traditional players. Besides industry trends, this merger can catch additional synergies which will be explained after analysing both companies in detail.

4. Company overview

Analysing key macroeconomic and industry trends can give a clear understanding that Airlines in Europe are looking for new strategic initiatives to attract new clients, fly to more cities, enter new segments, and boost their profits. A merger between EasyJet and Norwegian is a good business combination according to the industry trends and to further investigate this opportunity, it is necessary to study these standalone companies further.

4.1 EasyJet

EasyJet PLC is a British low-cost airline founded in 1995 and headquartered in the town of Luton, near London. As of the end of 2019, the company was the 5th largest Airline group in Europe, having carried more than 90 million passengers. It operates more than 1000 scheduled domestic and international flights in more than 30 countries in Europe, Northern Africa, and the Middle East serving 159 airports with 331 aircraft and over 15,000 employees. EasyJet ends its fiscal year on September 30th.

4.1.1 Company ownership

The company was founded by Sir Stelios Haji-Loannou, a Greek-Cypriot who was interested in aviation and asked his father for a start investment. 25 years later Haji-Loannou family remains the largest shareholder of the airline with 33.72% as of the 18th of March 2020, other major shareholders include institutional investors like Invesco, BlackRock, Phoenix asset management partners, and Norges Bank, with remaining companies and individuals holding no more than 3% each.

Haji-loannou Family	Invesco	BlackRock	Phoenix AMP	Norges Bank	Other
33.7%	7.4%	3.4%	3.3%	3.2%	49.0%

Table 4. Major shareholders, Bloomberg.

4.1.2 Share price development

EasyJet is a publicly-traded company with the main listing on London Stock Exchange under the Ticker EZJ. The company went public on November 5th 2000 and is currently a component of the main British benchmark FTSE 100. Comparing to the industry benchmark NYSE Arca Global Airline Index, since 2016, EasyJet had a worse performance. Because of the coronavirus pandemic outbreak, as of the May 15th 2020 EasyJet lost 64.2% versus 57.2% for the benchmark.

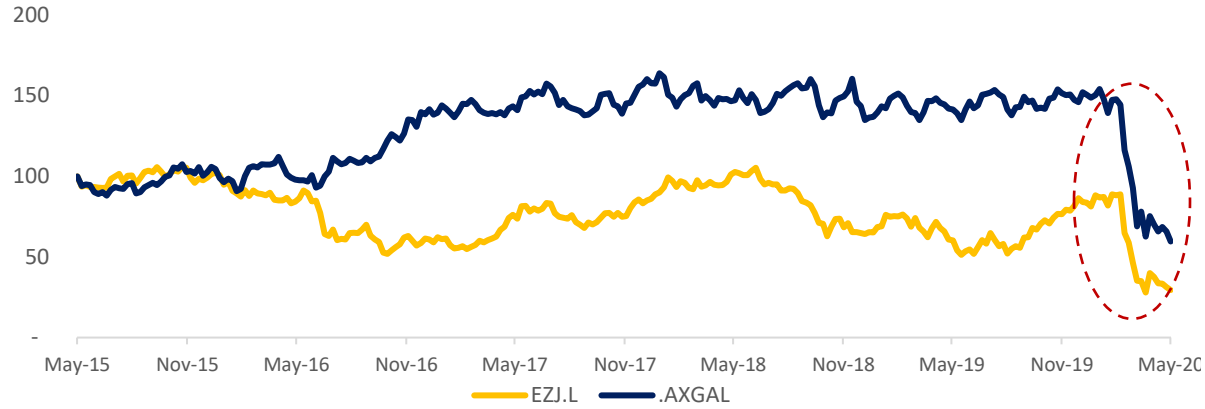


Figure 9. EasyJet price development versus NYSE Arca Global Airline Index, Thomson Reuters.

4.1.3 Operating revenue

The typical business model of a low-cost Airline implies selling seats cheaper than legacy carriers while getting more revenue selling additional services to the clients which have much higher margins than tickets. Passenger revenue reported by EasyJet includes net ticket and admin fee, all other revenue is included in ancillary revenue. Due to the high margin of non-ticket revenue, EasyJet has been actively trying to collect more of it and by the end of FY2019 the portion of ancillary revenue streams reached 21.6%. In 2016 EasyJet experienced a small decline in revenue due to aggressive pricing, terrorist attacks, and Brexit related issues according to the FY2016 Annual report.

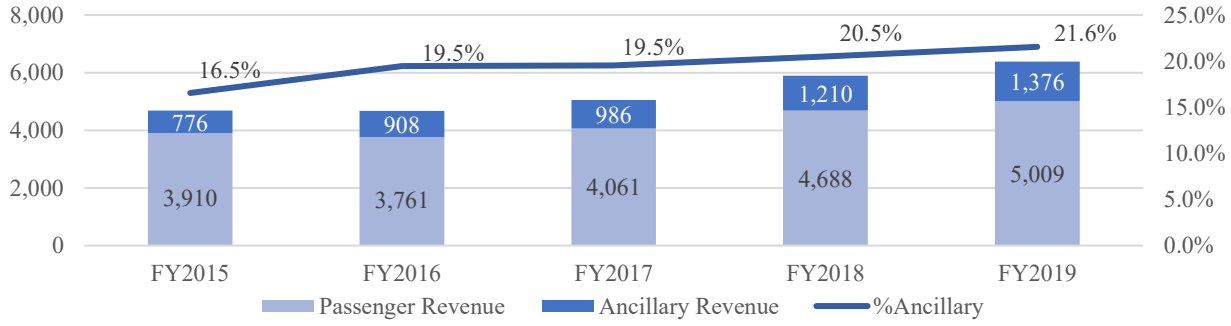


Figure 10. EasyJet revenue breakdown, millions GBP, EasyJet annual reports and Bloomberg.

Lack of stability on the market did bring a large impact on the revenue of the company. We can see that even though the company had increased its load factor, the number of aircraft and passengers carried in 2016-2017, it is revenue declined by 0.4% in 2016, mostly driven by seat revenue which declined significantly in H2 2016 by 8.5% under constant currency. Over the last 5 years, EasyJet increased the number of passengers by 40%.

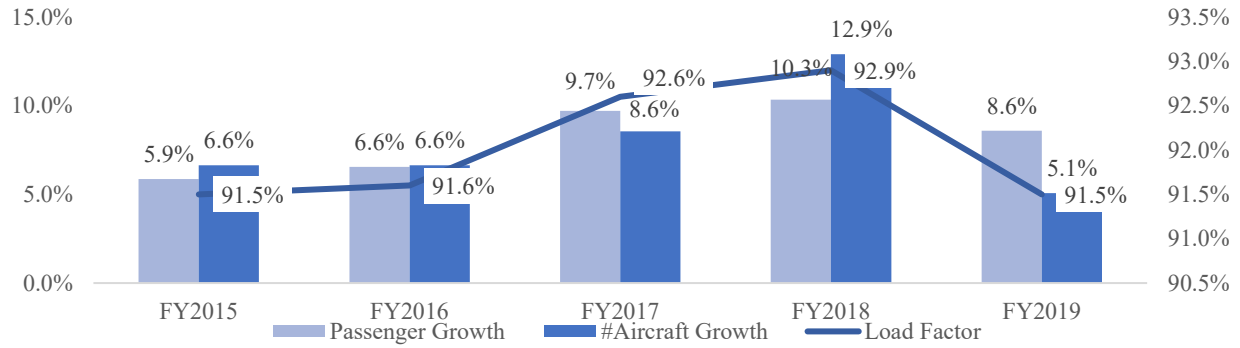


Figure 11. Revenue drivers' growth, EasyJet annual reports and Bloomberg.

4.1.4 Operating costs

As EasyJet operates the low-cost carrier model, it tries to minimize all the types of expenses. Nevertheless, the main outflow for the airline is related to fuel costs, which have fluctuated from 25.6% of revenue in 2017 to 20.1% in 2018, and 22.2% in 2019 or 26% of all operating costs. Besides, airport and ground handling expenses rose from 23.9% in 2015 to 28.9% of revenue in 2019 or 34% of all operating costs since the company has been increasing the number of flights from major airports.

Figure 12. Operating costs structure in FY2019, EasyJet annual reports and Bloomberg .

Costs of running the business remained more stable than revenue and were growing each year along with the customer flow over the last 5 years. Not very successful revenue management and growing costs resulted in EBITDAR margin decline from 20.1% in 2015 to 15.2% in 2019.

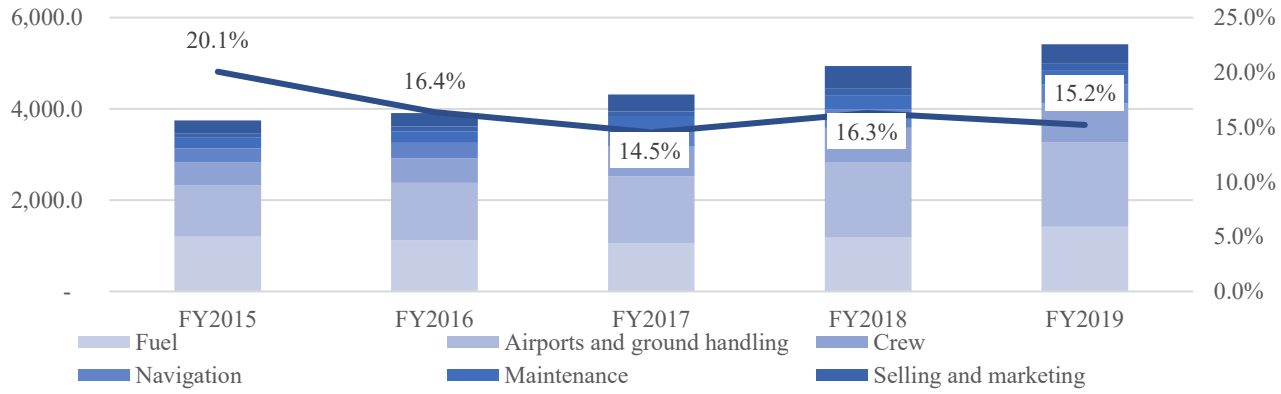


Figure 13. Operating costs development, EasyJet annual reports and Bloomberg, mGBP.

In 2019 operating costs per passenger kept increasing and reached 56.3 GBP which was mainly driven by the increase in fuel expenses and airport handling, while the main decrease was done my managing Other expenses, which include head office and everything not included in separate categories.

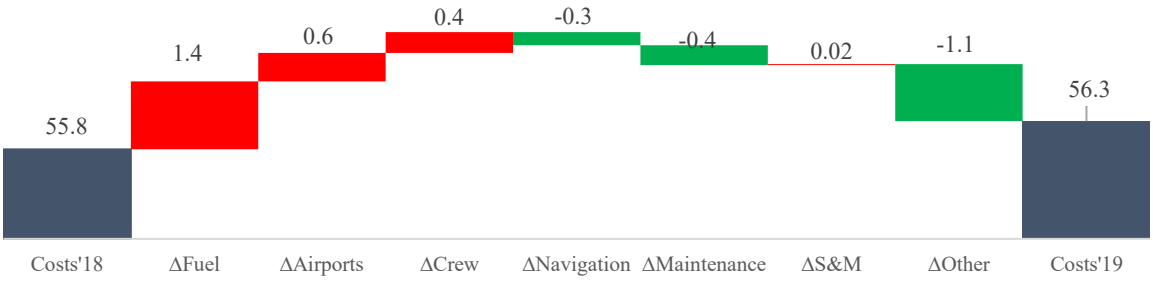


Figure 14. Operating costs per passenger, EasyJet annual reports and Bloomberg, GBP.

Besides aforementioned costs, EasyJet has large costs of leasing/owning airplanes. While the airline can obtain airplanes significantly cheaper than many of its competitors due to large size of orders and operating only Airbus A320 family, aircraft costs has been increasing as a result of introduction of more efficient but more expensive A320neo airplanes as well as British Pound depreciation versus Euro. Due to recent accounting policy changes operating leases of airplanes were converted into capital leases and we can see the shift from rental costs towards increased depreciation expenses in the last year.

	FY2015	FY2016	FY2017	FY2018	FY2019
Depreciation	125	157	181	199	484
Rental costs	114	103	110	152	5
Total aircraft costs	**239**	**260**	**291**	**351**	**489**
#Aircraft	241	257	279	315	331

Table 5. Aircraft owning/leasing expenses, EasyJet annual reports and Bloomberg.

4.1.5 Key Financial Indicators

EasyJet managed to survive Brexit uncertainty relatively successfully, even though currency exchange rates lead to a significant decrease in profits over the years and lead to a decrease of EPS from 1.39, 5 years ago, to only 0.89 now. Market capitalization has shrunk and continued falling in 2020. Nevertheless, the company remained profitable and kept a very low ND/EBITDAR ratio which means that it should be able to borrow a significant amount of cash relatively cheap and fast to finance an acquisition.

	FY2015	FY2016	FY2017	FY2018	FY2019
Revenue	4686	4669	5047	5898	6385
growth		*-0.4%*	*8.1%*	*16.9%*	*8.3%*
EBITDARadj	**940**	**764**	**733**	**961**	**970**
margin	*20.1%*	*16.4%*	*14.5%*	*16.3%*	*15.2%*
EBITDAadj	826	661	623	809	965
margin	*17.6%*	*14.2%*	*12.3%*	*13.7%*	*15.1%*
EBITadj	688	492	428	595	466
margin	*14.7%*	*10.5%*	*8.5%*	*10.1%*	*7.3%*
Net Income	548	427	305	358	349
margin	*11.7%*	*9.1%*	*6.0%*	*6.1%*	*5.5%*
EPS basic	1.39	1.08	0.77	0.91	0.89
EPS diluted	1.38	1.08	0.77	0.90	0.88
Total Assets	4,828	5,505	5,971	6,993	8,163
Total Equity	2,249	2,712	2,802	3,233	2,985
Total Liabilities	2,579	2,793	3,169	3,760	5,178
Net Debt	-435	-213	-357	-396	278
Net Debt/EBITDAR	-0.5x	-0.3x	-0.5x	-0.4x	0.3x
Market Capitalization	7,055	3,998	4,831	5,217	4,566

Table 6. Key financial indicators, EasyJet annual reports and Bloomberg, mGBP.

4.2 Norwegian Air Shuttle

Norwegian Air Shuttle is registered and was founded in Norway in 1993 as a regional airline, but later in 2002 changed it business model into a low-cost carrier. It was the 9th largest airline in Europe in 2019, 4th largest low-cost carrier (after Ryanair, EasyJet and WizzAir) and the largest airline of the Nordic Region.

Unlike many LCCs, Norwegian operates both short-haul and long-haul flights, carried over 36 million people in 2019 on its 156 aircraft of the Boeing 737 and 787 families between cities within Europe, and to the Americas and Asia.

4.2.1 Company ownership

Norwegian largest shareholder, KBK Holdings AS, belongs to the founder and former CEO of the company Bjørn Kjos. The second-largest shareholder is The Government Pension Fund of Norway. Top 20 shareholders own 43.8% of the airline as of December 31st 2019.

HBK Holding AS	Folketrygdfondet	Keskinäinen eläkevakuutusyhtiö Varma	Danske Capital	Pareto Asset Management	Other
8.7%	6.7%	4.6%	3.9%	2.5%	73.6%

Table 7. Major shareholders, Company Q4 Report.

4.2.2 Share price development

Norwegian went public on Oslo Stock Exchange on December 18th 2003 with a ticker NAS. Currently, it is a part of the OBX Index that includes 25 most liquid public companies of Norway. The latest debt restructuring plan proposed conversion of debt into equity which sent the stock price immediately deep down. Due to poor financial performance, constant losses and thread of bankruptcy Norwegian share price lost approximately 97% of its value over the last 5 years and 87% of value since the beginning of the year, which is significantly worse than NYSE ARCA Global Airline Index.

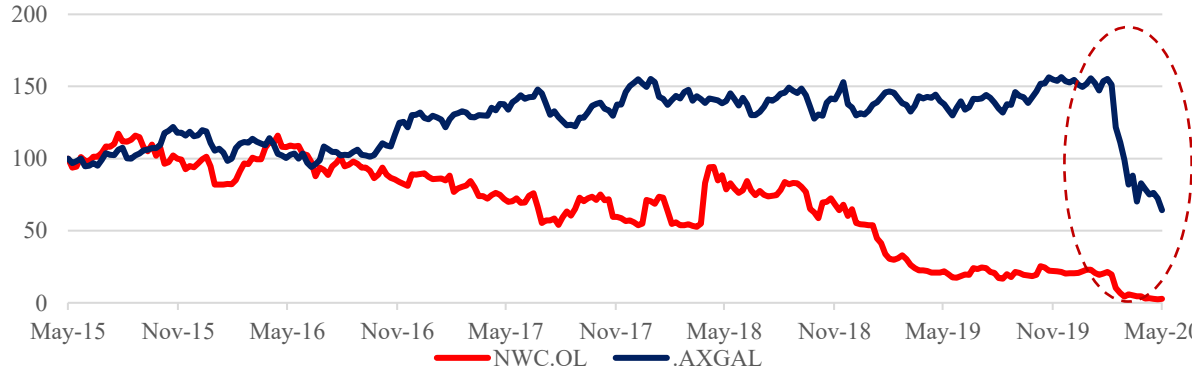


Figure 15. Norwegian share price development versus NYSE Arca Global Airline Index, Thomson Reuters.

4.2.3 Operating revenue

Norwegian separates its key revenue components into Passenger, Ancillary, and other revenue (mostly cargo). The company is experiencing a period of rapid growth and has more than

doubled its revenue in the last 5 years. The most successful in terms of growth year was 2018 when revenue grew by 30.1% year-over-year. This was mainly related to a large delivery of aircraft during the previous year, improving its position as an important player on the transatlantic market. All three segments showed impressive growth with Passenger Revenue increased by 90.3%, Ancillary by 103.1%, and Other by 135.5% over these years.

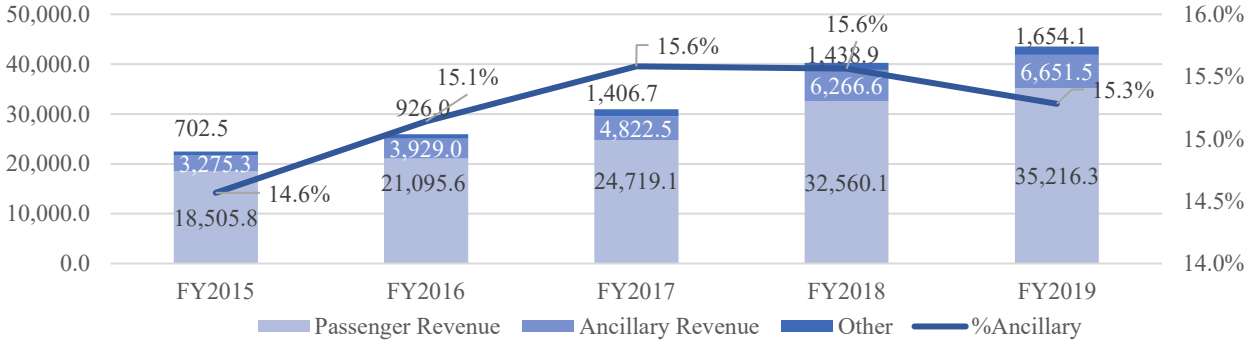


Figure 16. Norwegian revenue breakdown, Norwegian annual reports and Bloomberg, mNOK.

As many low-cost carriers, Norwegian tried to boost its ancillary revenue stream and managed to get the improvement from 14.5% of total revenue to 15.3%. One of the ideas behind the typical low-cost carrier model is its high load factor which is necessary to maintain a high level of efficiency and low prices. Norwegian struggled to fly full planes and due to the large delivery of aircraft in 2017 could not get enough costumers the year after, significantly worsening its financial position. Implementation of a new strategy in 2019 and a focus on profitability lead to improvements, but the load factor is still lower than in 2016 when it reached 87.7%.

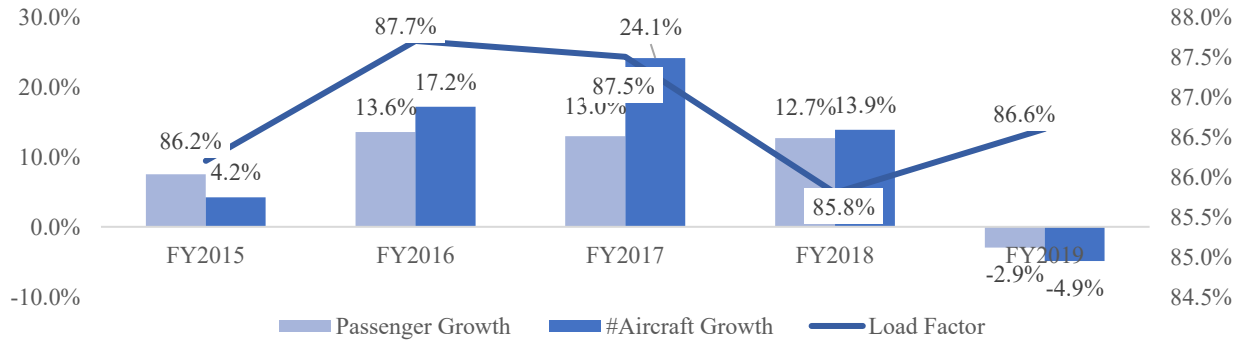


Figure 17. Revenue drivers' growth, Norwegian annual reports and Bloomberg.

4.2.4 Operating costs

Norwegian presents its operating cost elements in a similar way as EasyJet. It is possible to see that the largest cost for the carrier was its fuel purchases, which can be easily explained by the bet of the carrier on long-haul flights. While fuel costs accounted for only 19.5% of revenue in 2016, it exceeded 29.0% in 2019.

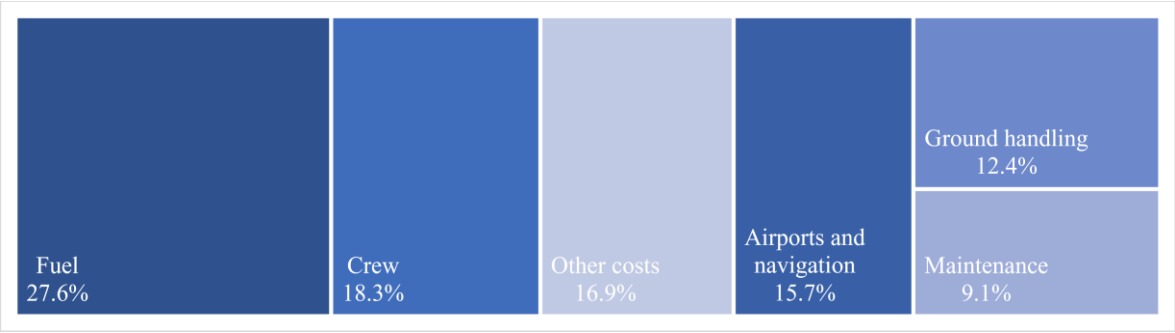


Figure 18. Operating costs structure in FY2019, Norwegian annual reports and Bloomberg .

Over the last 5 years, Norwegian managed to decrease some of its costs relative to sales, but overall margin dropped from the highest 23.0% in 2016 to only 5.4% in 2018 and recovered to 16.8% in 2019 after implementation of the Next strategy that focuses on profitability instead of growth.

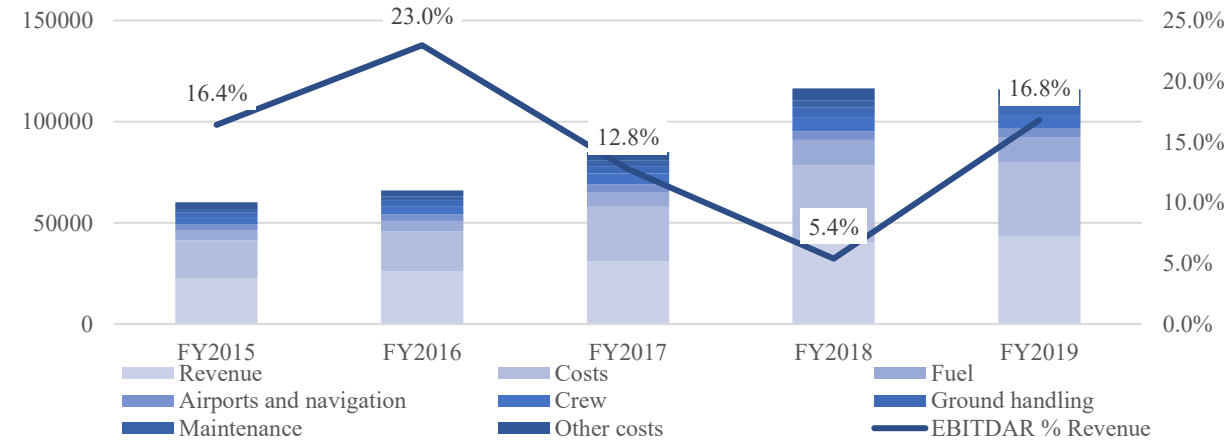


Figure 19. Operating costs development, Norwegian annual reports and Bloomberg, mNOK.

Despite the change of the development strategy and focus on profitability, Norwegian faced increasing costs of operating its flights in 2019, with fuel (decrease in spot prices, offset by exchange rate fluctuation) and providing the most significant portion of this growth, while Airport and ATC fees (load factor increase and renegotiation with vendors), and other costs (one-off cost reduction, unspecified) decreased. As a result, operating costs per passenger excluding aircraft owning/leasing expenses decreased by 2% from 1021.3 to 1000.2 NOK. Due to the implementation of the new strategy, the last quarter results show more positive dynamic than the whole year results.

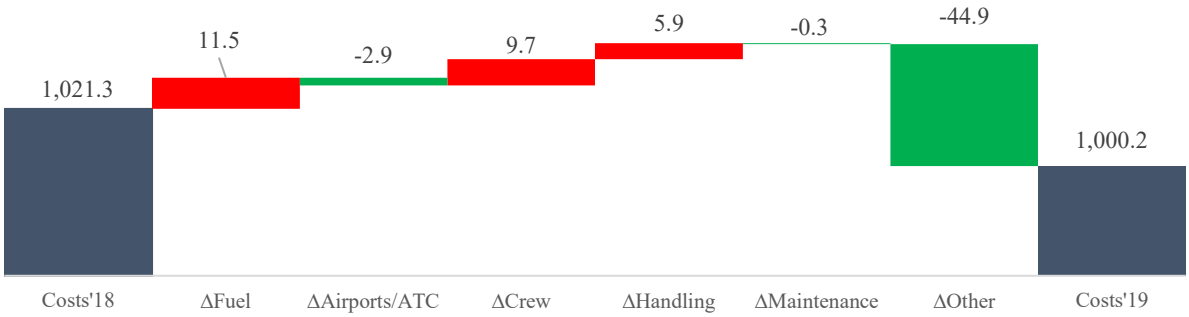


Figure 20. Development of operating costs per passenger, Norwegian annual reports and Bloomberg, NOK.

Besides the aforementioned costs, Norwegian has a large number of Krones dedicated to aircraft leasing/owning. This component is highly dependent on currency fluctuations, as leasing contracts are usually in USD, while reporting currency is NOK. The company operates Boeing 737 planes on its short-haul routes, including the B737-300 model which is on its way to be eliminated out of the fleet, and MAX8 model which is currently grounded. On its long haul routes, Norwegian uses a highly efficient 787-8 Dreamliner model, which is also being investigated due to engine problems.

	FY2015	FY2016	FY2017	FY2018	FY2019
Owned	**54**	**67**	**66**	**76**	**65**
787-8 Dreamliner	3	3	7	10	11
B737-MAX8	0	0	6	14	14
B737-300	51	64	53	52	40
Leased	**45**	**49**	**78**	**88**	**91**
787-8 Dreamliner	5	9	14	22	26
B737-MAX8				4	4
B737-300	40	40	64	62	61
Total	**99**	**116**	**144**	**164**	**156**
Costs	**3346.6**	**4137.7**	**5294.8**	**6021.7**	**6457.5**

Table 8. Aircraft owning/leasing expenses, Norwegian annual reports and Bloomberg.

4.2.5 Key Financial Indicators

The fast growth of the airline is heavily affecting its profitability, with net income, EBIT margin, and EPS being usually below 0. Unlike many European low-cost airlines, Norwegian is actively leasing its aircraft and has a substantial debt amount. Due to accounting policy changes in 2019, debt and assets increased. Overall, Norwegian is one of the most indebted companies on the market and this causes multiple questions from investors. In April 2020 Norwegian had to ask its investors and debtholders for help for the 4th time in the last 2 years, offering conversion of debt into equity in order to meet the Norwegian government requirements, but this agreement would lead to substantial ownership dilution. On May 5th this deal was approved on an extraordinary shareholders meeting, thus diluting the share of existing shareholders and leaving them with only 5% of the company.

	FY2015	FY2016	FY2017	FY2018	FY2019
Revenue	22483.5	25950.6	30948.3	40265.5	43521.9
growth		*15.4%*	*19.3%*	*30.1%*	*8.1%*
EBITDARadj	3,686.7	5,958.2	3,948.6	2,171.0	7,313.5
margin	*16.4%*	*23.0%*	*12.8%*	*5.4%*	*16.8%*
EBITadj	340.1	1,820.5	-1,346.2	-3,850.7	856.0
margin	*1.5%*	*7.0%*	*-4.3%*	*-9.6%*	*2.0%*
Net Income	238.5	1,135.0	-1,793.7	-1,454.3	-1,609.1
margin	*1.06%*	*4.37%*	*-5.80%*	*-3.61%*	*-3.70%*
EPS basic	3.9	18.3	-28.6	-23.2	-21.6
EPS diluted	3.9	18.3	-28.6	-23.2	-21.6
Total Assets	29,979.4	34,903.8	30,641.7	56,245.3	91,545.1
Total Equity	3,185.3	3,586.7	2,676.8	5,277.2	5,248.6
Total Liabilities	26,794.1	31,317.1	38,442.0	50,968.1	86,296.5
Net Debt	17560.4	21593.0	22756.3	30831.8	58281.9
Net Debt/EBITDAR	4.8x	3.6x	5.8x	14.2x	8.0x
Market Capitalization	11,575.4	10,263.0	6,293.7	7,881.1	6,174.3

Table 9. Key financial indicators, Norwegian annual reports and Bloomberg, mNOK.

5. Valuation

5.1 EasyJet

Our valuation will start with building the financial model of EasyJet, estimating Free Cash Flows, and discounting them, later we will analyse the main pears of the company and trading multiples. The financial model will be built on firstly estimating capacity and then moving on with revenue, costs, and other measures.

5.1.1 Capacity

EasyJet as many low-cost carriers experienced aggressive growth in the last years. Despite adding more aircraft to its fleet every year in the past, the company has managed to maintain a high level of Load factor that has always been above 90% and an incredible level of efficiency. Due to the coronavirus outbreak, the management of the company issued a new plan on further growth of the fleet, with some aircraft deliveries being deferred. Minimum and Maximum plans are based on estimated aircraft retirement, committed aircraft deliveries, and potential option exercising. Many experts expect a slowdown in the next years, so the company would not go for the max plan, while demand for low-cost traveling is meant to be large and the company is expected to exercise some of its options and go with modest growth in the next 5 years.

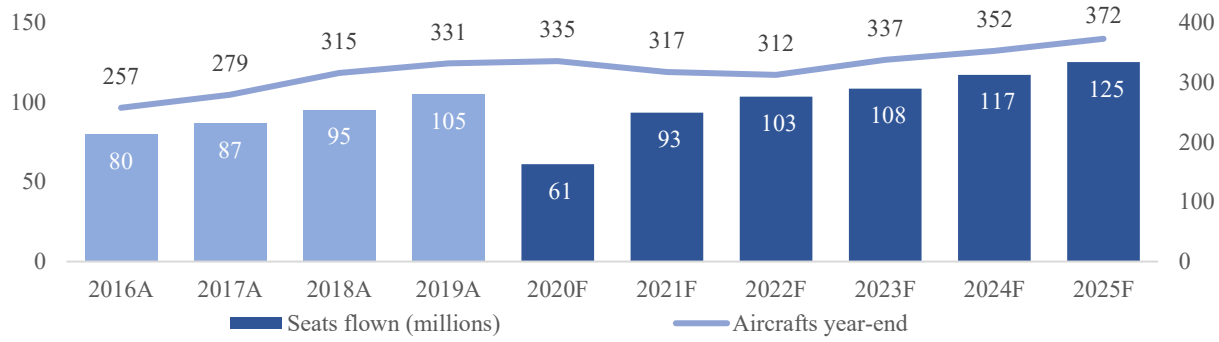


Figure 21. Fleet and capacity development for EasyJet, company data, own calculations.

In 2013 EasyJet announced its plan to replace all their A319 aircrafts with A320neo family, focusing on larger A320 and A321 models, on November 19th 2019 EasyJet announced new increase in orders, the total number of neo-family aircrafts will reach 159[6]. As the result of this shift the company will increase its average seat per airplane[7], while cutting some costs by up to 20%. Sector length and block hours has been very stable over the last years and expected to remain unchanged.

[6] Order of Airbus family aircrafts by EasyJet, Airbus website https://www.airbus.com/newsroom/press-releases/en/2019/11/easyjet-orders-12-more-airbus-a320neo-aircraft.html

[7] A319 model can carry up to 156 passengers, A320 up to 186 and A321 to 235

5.1.2 Revenue

Revenue of the carrier consists of two major components: ticket revenue and auxiliary revenue. We assume load factor and revenue per passenger as main drivers for ticket revenue, and auxiliary revenue per passenger for the second source of income.

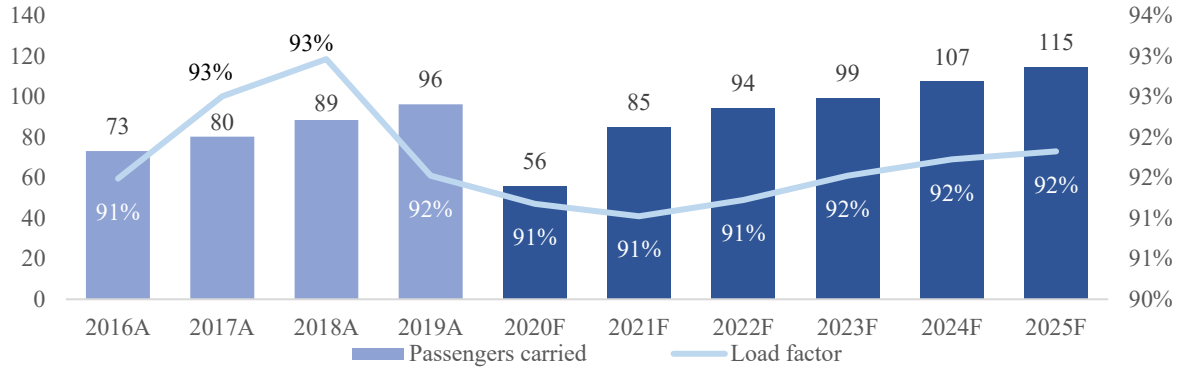


Figure 22. Load factor and carried passenger development for EasyJet, company data, own calculations.

As was mentioned before, the increased aircraft size will allow carrying more passengers while reducing the fleet. The load factor has reached its peak in 2018, but recent coronavirus outbreak leaves the doubt if companies will be able to reach the efficiency of previous years. As we saw in H1 2020, EasyJet would rather cancel flights and group passengers on one aircraft than fly empty planes, we consider load factor largely unchanged, while assuming a larger number of grounded aircraft in the coming years. We estimate that passenger traffic will fully recover only in 2023.

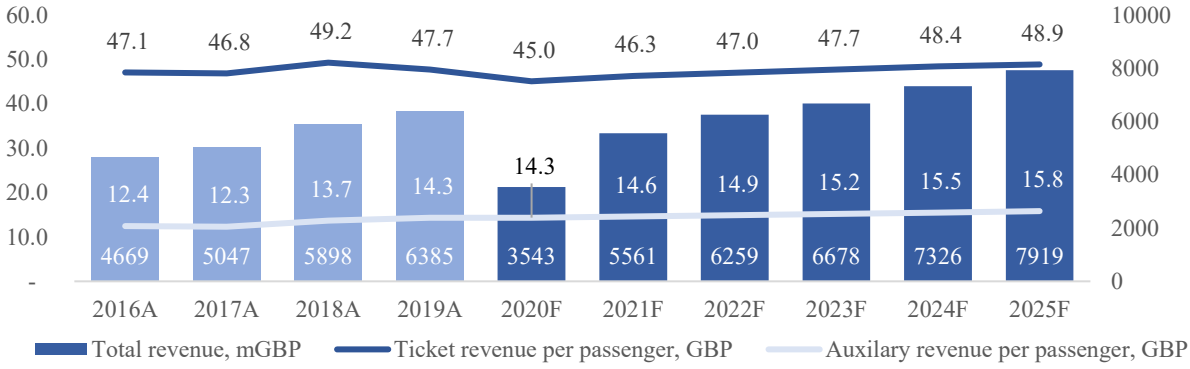


Figure 23. Revenue development for EasyJet, company data, own calculations.

In order to bring a price-sensitive customer on board, companies are estimated to lower their ticket costs, while still earning some additional revenue using auxiliary revenue. We assume that EasyJet will earn per passenger less in the coming years, slowly recovering prices. But at the same time, reduced competition on the market due to bankruptcies will not allow prices to drop too deep. While ticket revenue is highly sensitive to management actions, auxiliary revenue per passenger is already high and not assumed to grow faster than inflation.

5.1.3 Operating costs

Operating costs of the airline consist of fuel and other operating costs. In our analysis we came to the conclusion that airport and ground handling costs are mainly driven by the number of passengers as this component includes a large portion of airport fees per passenger. Crew and navigation expenses are driven by the number of seats flown, as larger airplanes demand more crew onboard and navigation costs increase with the weight of the plane[8]. Maintenance costs per aircraft have gone down in the past due to the rapid introduction of new aircraft, but the latest agreement on deferment of deliveries and the overall fleet reduction will most likely stop this trend. All aforementioned expenses are assumed to increase in line with inflation rates in comparison to FY2019. Selling, marketing and other costs are assumed to be a fixed percentage of revenue equal to average of the last 3 years. 2020 estimates are based on lower efficiency due to pandemic.

	2017A	2018A	2019A	2020F	2021F	2022F	2023F	2024F	2025F
Airports and handling / passenger, GBP	18.27	18.63	19.20	19.57	19.96	20.36	20.77	21.18	21.61
Crew / seat flown, GBP	7.44	7.92	8.18	10.23	9.22	9.41	9.59	9.78	9.98
Navigation / seat flown, GBP	4.39	4.20	3.90	3.96	4.00	4.04	4.08	4.12	4.16
Maintenance / aircraft, mGBP	1.00	1.06	0.94	0.89	0.95	0.96	0.97	0.98	0.99
Selling and marketing % of revenue	2.4%	2.4%	2.5%	2.8%	2.4%	2.4%	2.4%	2.4%	2.4%
Other costs % of revenue	7.4%	8.4%	6.7%	13.7%	7.5%	7.5%	7.5%	7.5%	7.5%

Table 10. Operating costs drivers development, company data, IMF data, own calculations.

Fuel costs are assumed to follow the consensus estimate of brokers on Brent Crude oil prices, with at least 50% hedge of the price change. Besides, as more and more A320neo family aircraft are getting added to the fleet, the more efficient becomes the use of fuel (A320neo needs 20% less fuel than the previous generation, larger aircraft are also more efficient per seat)[9], therefore we assume that fuel consumption per flight will decrease by 2% each year.

5.1.4 Capex, Depreciation and Net Working Capital

In 2019 company adopted IFRS 16 accounting standard which resulted in the transformation of almost all leases into capital and a significant increase in PP&E, Capex, and Depreciation, therefore we relied on the 2019 data to build our forecast.

After deferral of aircraft deliveries, EasyJet has fixed capital commitments for the years 2020-2023 according to management data, with the most significant amount due in 2022 when the company has to spend approximately £1bn and almost no planned outflows for the year 2023.

[8]ICAO recommendation to Airports and ATC, ICAO website
https://www.icao.int/publications/Documents/9082_9ed_en.pdf

[9] Airbus description of A320neo family, Airbus website
https://www.airbus.com/aircraft/passenger-aircraft/a320-family/a320neo.html

After this period we assumed that total level of PP&E will be driven by seats flown as it is common in the industry. Depreciation is calculated as a percentage of beginning PP&E and will stay on a 2019 level.

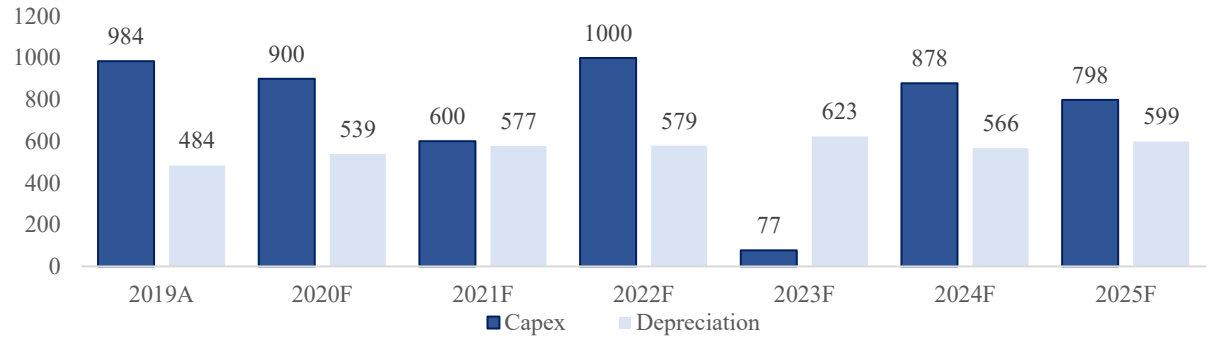


Figure 24.Capex and depreciation, company data, own calculations, mGBP.

Net Working Capital mainly consists of Accounts receivable, Accounts Payable and Deferred Revenue and is highly negative, as passengers pay for their tickets far in advance, while purchased fuel and other products are paid on average 70 days later. We assume Days Sales Outstanding and Days Payable Outstanding to be equal the average of the last 3 years values, while Deferred Revenue as a percentage of revenue as in the last year, due to the tendency of customers to buy ticker further in advance. More details can be found in Exhibit 7.

5.1.5 WACC.

Besides the estimation of free cashflows, we also require the cost of capital. For the equity part, we used 10 years' tenor of UK Government Sovereign Yield curve obtained on Bloomberg, 3-year weekly beta coefficient estimated by Thomson Reuters and Equity Risk Premium from Aswath Damodaran web site for the UK. The computed Cost of Equity is Equal 12.11%.

EasyJet does not have any publicly traded debt instruments, therefore we used the weighted average cost of debt after hedging currency exposure provided in the latest annual report. Tax rate is estimated to be 19%, equal to the statutory corporate income tax rate in the UK. The calculated post-tax cost of debt for EasyJet is equal to 2.07%.

The target capital structure of the company assumes keeping the debt to equity ratio on the existing level and being only 29% debt-financed. Therefore, the calculated WACC for EasyJet is equal to 9.15%. More detail is provided in Exhibit 2.

5.1.6 Discounted FCFFs.

Having estimated all necessary elements, we can construct Free Cash Flows as mentioned in the Literature review section Equation (1). Besides, in order to be in line with the operation continuously hypothesis, we calculate Terminal value using GDP growth rate forecasted by the IMF European after 2025 equal 1.5%. We also applied mid-year convention methodology in

order to capture cash flows equally spread during the whole year. More details are provided in Exhibit 6.

	2021F	2022F	2023F	2024F	2025F	TP
FCFF	386.3	-33.9	858.5	198.9	363.1	4814.7
Discount Period	0.5	1.5	2.5	3.5	4.5	4.5
Discounted FCFF	369.7	-29.8	689.7	146.4	244.8	3246.3

EV	4667.2
Net Debt	2073.5
Equity	2593.7
Share Price	6.5

Table 11. Discounted Cash Flow model for EasyJet, own calculation, mGBP, except Share price.

As an output of the model we can derive EV of the company, equal to 4667.2m GBP, Net Debt level estimated as £2073.5m at they end of FY2020 (September 30th), as such, an Equity Value of £2593.7m which corresponds to £6.5 per share, that is in the range of 4 week-high low (April 2020).

To deepen the analysis, we built a sensitivity model based on changes in WACC and Terminal Growth Rate, concluding that the price can be in a range between 5.59 (WACC+0.5%, TGR-0.5%) and 7.67 (WACC-0.5%, TGR +0.5%) GBP per share.

Share Price on WACC / TGR					
	8.2%	**8.7%**	**9.2%**	**9.7%**	**10.2%**
1.0%	7.51	6.70	5.99	5.36	4.80
1.3%	7.86	7.00	6.25	5.59	5.00
1.5%	8.24	7.32	6.53	5.83	5.22
1.8%	8.65	7.67	6.83	6.09	5.44
2.0%	9.09	8.04	7.14	6.36	5.68

Table 12. Share Price sensitivity analysis, own calculation, GBP.

5.1.7 Trading multiples analysis

While analysing possible peers, we made a decision to split the universe into 3 groups. Tier 1 consists of European and American LCCs, Tier 2 includes LCCs operating in emerging economies plus Southwest airlines that operate in the US but is much larger and therefore doesn't act as a direct peer, Tier 3 includes European FSGs.

After thorough benchmarking, we came to the conclusion that only companies in Tier 1 can be a reliable proxy in order to perform the valuation. In order to capture differences in capital structure, we decided to analyse only Enterprise Value multiples. Besides, due to the current pandemic, values for 2020 are extremely unstable, therefore only LTM (2019 data) and Forward'21 multiples were analysed. Besides, after the IFRS16 introduction, EBITDAR and

EBITDA measures are roughly equal, therefore we didn't analyse EBITDAR multiples. We can see that the current market valuation of companies varies a lot across the market and American companies seem to be extremely vulnerable, while Ryanair multiples outperform its competitors by far. Using mean and median multiples mitigates this difference. More on the multiple analysis can be found in Exhibits 11 and 12.

Company Name	Ticker	EV/Sales'19	EV/Sales'21	EV/EBITDA'19	EV/EBITDA'21	EV'/EBIT'19
Ryanair	RYA.I	1.3x	2.0x	5.9x	12.2x	17.7x
Wizz Air	WIZZ.L	1.1x	1.5x	5.8x	5.5x	8.9x
JetBlue	JBLU.O	0.4x	0.5x	2.6x	3.7x	6.4x
Spirit	SPR	0.5x	0.7x	5.0x	7.2x	7.3x
Mean		0.8x	1.2x	4.8x	7.1x	10.1x
Median		0.8x	1.1x	5.4x	6.3x	8.1x
Mean Share Price		8.0	11.0	6.6	7.2	6.6
Median Share Price		7.6	9.9	7.3	5.9	4.3

Table 13. Trading multiples analysis, Thomson Reuters, own calculation.

With the help of this analysis, we can further develop our DCF model and proceed with the Terminal Multiple approach that assumes sale of the company as at the end of projections using the price derived by the multiple. We assumed the sale of the company using the terminal multiple of 4.5x, slightly lower than average EV/EBITDA'19 multiple for our peer group. As a result of sensitivity analysis, we obtain a price range of £6.17-8.45 per share.

	2021F	2022F	2023F	2024F	2025F	TP
FCFF	386.3	-33.9	858.5	198.9	363.1	4946.2
Discount Period	0.5	1.5	2.5	3.5	4.5	5
Discounted FCFF	369.7	-29.8	689.7	146.4	244.8	3246.3

EV	4667.2
Net Debt	2073.5
Equity	2593.7
Share Price	6.4

Table 14. Discounted Cash Flow model for EasyJet with Terminal Multiple, own calculation, mGBP, except Share Price.

5.1.8 Valuation results

As we can see from the chart below, the share price of EasyJet has been extremely volatile in the last 52 weeks. Our final estimate for the share price of EasyJet is based on the DCF+Gordon growth model range of £5.59 to £7.67 per share with the last close price of £5.68(15/05/2020), which results are confirmed by the relative valuation approach.

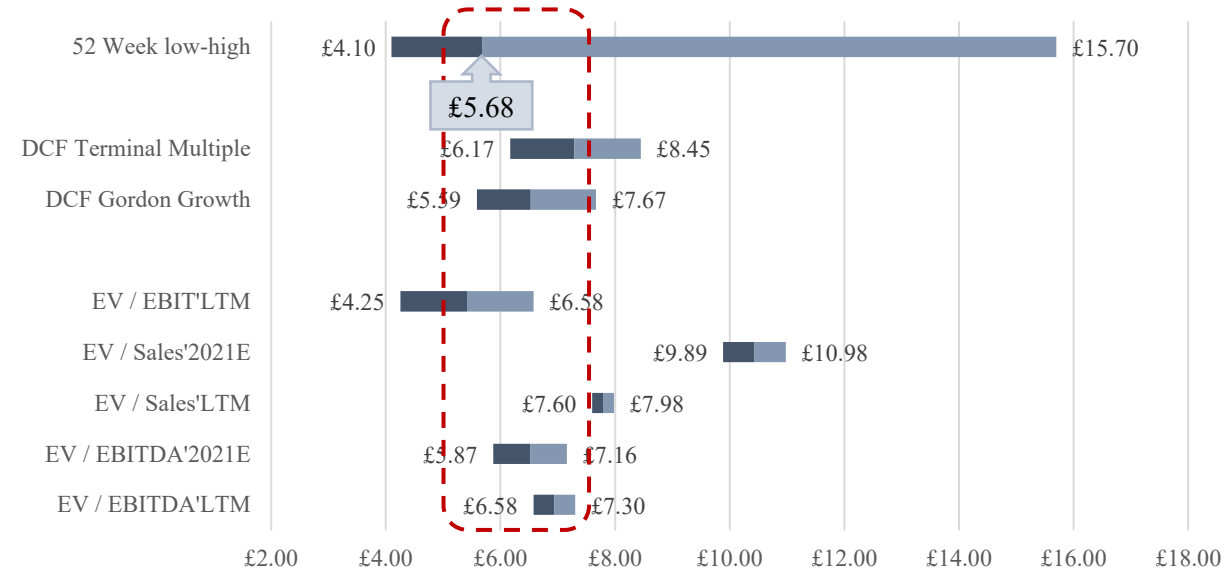


Figure 25. Reconciliation of valuation results, Thomson Reuters, own calculation.

5.2 Norwegian

In this section we will estimate the value of Norwegian using a similar approach as in the section before.

Norwegian has tried 3 different business strategies in the last years, betting on rapid growth until the end of 2018, modest growth and increasing profitability in 2019, while pandemic outbreak made the airline change the strategy once again[10]. Due to massive aircraft grounding Norwegian run out of cash by the end of April and had to ask for the state aid package from the Government. In order to receive 3bn NOK, the company has to raise its equity ratio to 8%, which means a massive conversion of bond and lease obligations into equity and plan an additional equity offering later. This would significantly dilute the share of current owners and leave them with just 5.2%. Moreover, the company introduced a "New Norwegian" strategy that focuses on the capacity reduction and change of priorities.

5.2.1 Capacity

Having changed the business in 2019 under the Next strategy, Norwegian began its fleet reduction program and by the end of the year reduced its fleet by 8 planes. "New Norwegian" strategy assumes operating 110 to 120 aircraft at a steady state. Due to the commitments, it is not so easy to get rid of so many planes, especially taking into account deliveries of the aircraft in the coming years. We estimate Norwegian to reach 120 airplanes and after that begin modest growth. As it was announced, the company expects a 40% reduction in long-haul segments, in line with it, ASK/Airplane measure will also reduce due to a shift in airplane structure.

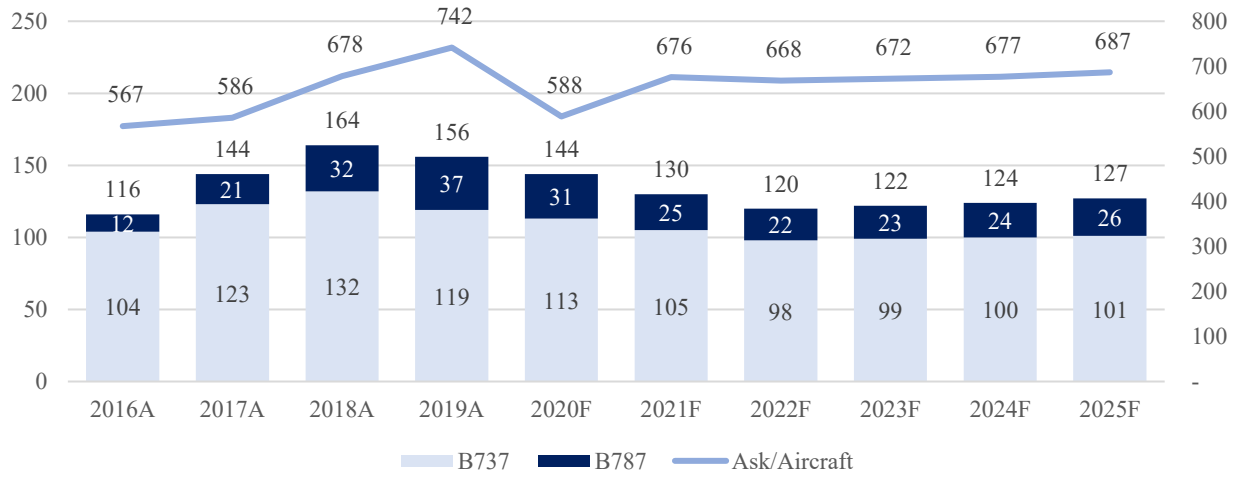


Figure 26.Capacity drivers of Norwegian, company data, own calculation.

[10]Presentation for bondholders, Norwegian website https://www.norwegian.com/globalassets/documents/other/norwegian-air-shuttle-asa_presentation-to-bondholders_27-april-2020.pdf

Due to the pandemic outbreak, Norwegian has grounded 95% of its fleet in Q2 and operates only subsidized flights within Nordics. It expects modest demand recovery in the second half of the year, with some aircrafts being grounded in 2021 as well, with ASK declined by 67% in 2020. Besides, B737MAX aircraft have been grounded since the beginning of 2019 due to technical problems.

5.2.2 Revenue

Operating revenue of the company consists of the ticket, auxiliary, and other/cargo revenue.

Ticket revenue is driven by the load factor (RPK/ASK) which represents weighted by the distance load of flights and Yield (Revenue/RPK) that measures average fare per kilometre paid by a revenue passenger.

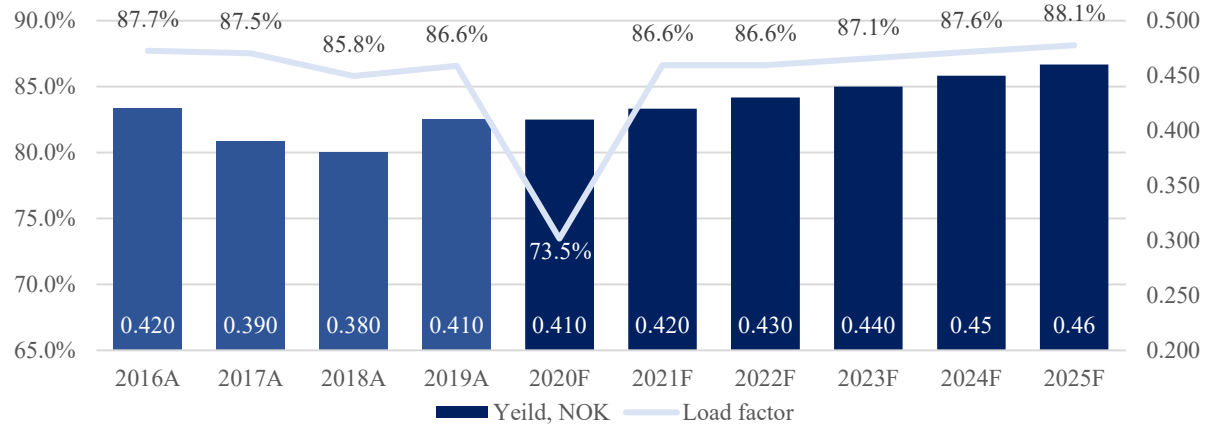


Figure 27.Ticket revenue drivers of Norwegian, company data, own calculation.

Due to rapid growth, Norwegian has substantially damaged its main revenue drivers in the last years, only starting its recovery in 2019. We assume that fleet reduction and destination management will continue this trend in the coming years.

One more promise to investors is the increase of Auxiliary revenue to 21% percent of the total revenue or 25% of Ticket revenue. Norwegian is clearly behind more advanced players like Ryanair or Wizz, it can easily increase this component over the next 5 years. Norwegian doesn't have any plans on increasing other/cargo revenue and we estimate it on average for the last 3 years as 4.9% of ticket revenue.

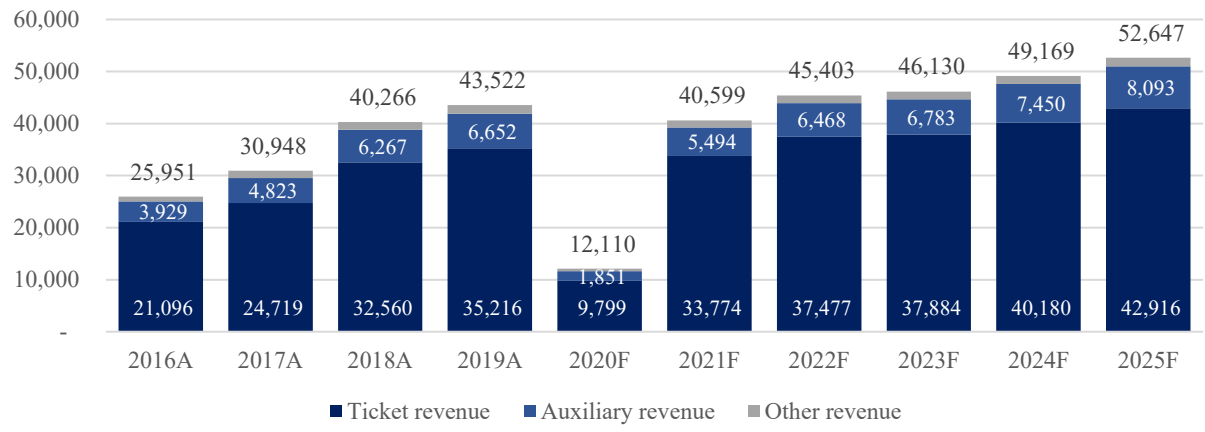


Figure 28.Forecasted revenue of Norwegian, company data, own calculation.

As the result aforementioned actions, Norwegian estimates recovery of its business and further value creation despite overall capacity reduction.

5.2.3 Operating costs

In order to estimate costs for Norwegian we analysed possible drivers and derived ASK as the best suitable proxy for Airports, ATC, Crew and ground handling costs, while maintenance costs depend on a number of aircraft and other costs, which aggregate sales, general, administrative and other costs are estimated as a percentage of revenue.

	2017A	2018A	2019A	2020F	2021F	2022F	2023F	2024F	2025F
Airports and ATC /ASK	0.052	0.044	0.041	0.042	0.043	0.044	0.045	0.046	0.047
Crew/ASK	0.073	0.067	0.068	0.069	0.071	0.072	0.074	0.075	0.077
Ground handling/ASK	0.051	0.052	0.053	0.054	0.055	0.056	0.057	0.058	0.059
Maintenance/Aircraft	20.8	22.7	21.1	21.5	22.0	22.4	22.8	23.3	23.8
Other costs % of Revenue	13.5%	14.4%	9.2%	14.2%	12.9%	12.9%	12.9%	12.9%	12.9%

Table 15. Operating cost drivers, company data, own calculation .

We think that while the company managed to decrease many of its costs in the past due to increased sector length, a new focus on shorter routes will make these achievements vanish and they will grow at least at the inflation rate.

In order to estimate future fuel costs, we calculated historical fuel consumption per ASK and assumed it to be stable over time. The cost of fuel is assumed to be changing in line with Brent crude oil estimate, hedged 50% on currency and price change exposure.

5.2.4 Capex, Depreciation and Net Working Capital

As we explained before, Norwegian has been pursuing a fleet reduction strategy since 2019 and due to the sale of aircraft it recorded negative net Capex in 2019. According to the "New Norwegian" strategy the company is planning on further fleet reduction, which they assume to be cash neutral (sale of old airplanes will cover capex on new deliveries) until the end of 2022. After this period, we calculated possible Capex taking into account book price of new airplanes

and adjusted it by the common industry discount. Besides, we assume that even with cash neutral fleet expansion Capex, the company would need to carry some maintenance Capex, which is expected to be 3% of revenue.

Depreciation is assumed to stay on the level of 2019 which is the only valid year due to the adoption of IFRS 16 and be 8.5% of the beginning PP&E.

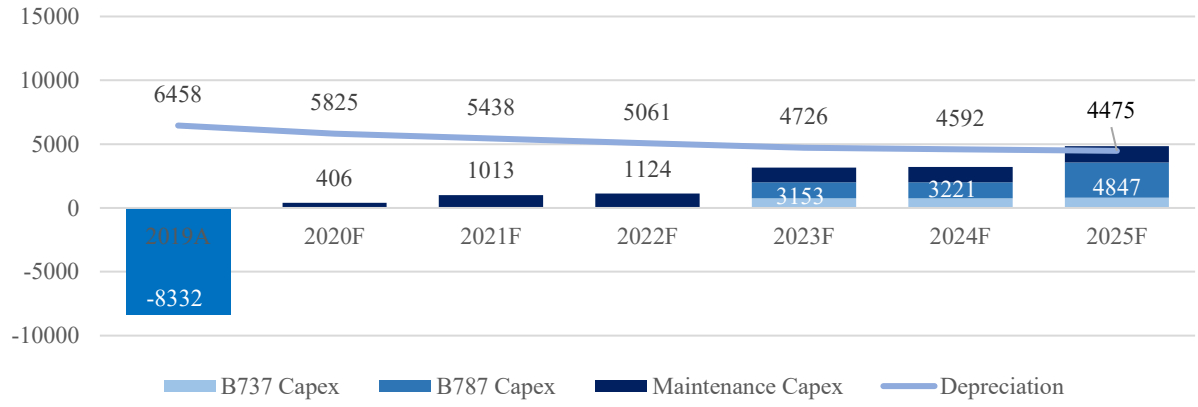


Figure 29.Capital expenditure and depreciation, company data, own calculation, mNOK.

Net Working capital of the airline consists of 3 major items. To forecast accounts receivables, we calculated Days of Sales Outstanding which show a growing tendency, therefore we decided to use the last year value of 85 days. Estimation of Accounts Payables was done using Days of Payable Outstanding with also increasing trend and fixed it on the level of 90 days. Air traffic settlement liabilities (deferred revenue) was based on a percentage of revenue in 2019. Overall, NWC is assumed to remain highly negative in the coming years. More details can be found in Exhibit 10.

5.2.5 WACC

Norwegian has been operating at a leverage level that is not common in the airline industry and this caused a number of liquidity problems in the past. Target capital structure with only 11% of Equity is not sustainable in the long-term period, therefore we calculated WACC based on industry target capital data.

As the starting point in the cost of equity calculation, we obtain Norwegian Sovereign Yield Curve from Bloomberg with a tenor of 10 years and Equity Risk Premium provided by Aswath Damodaran for Norway. We estimate unlevered industry beta based on Tier 1 Peer group and levered it using industry median capital structure of Norwegian. As a result, we estimate Cost of Equity of 10.0%.

In order to estimate costs of debt we take YTM of a Norwegian's bond in NOK and the statutory tax rate in Norway of 22%. Calculated cost of debt is equal to 4.83%.

Applying target capital structure (equity 56%, debt 44%), we can estimate a WACC for Norwegian of 7.25%. More details are provided in Exhibits 3 and 4.

5.2.6 Discounted FCFFs.

We apply a similar approach to the one used on EasyJet in order to calculate the DCF model. Our estimated Enterprise Value reached 66.6bn NOK, subtracting estimated net debt after restructuring we derive an equity value of 12.1bn NOK, which correspond to 6.4 NOK per share, which belongs to the 1-month price range.

	2021F	2022F	2023F	2024F	2025F	TP
FCFF	6926	5607	3447	4284	3567	62989
Discount Period	0.5	1.5	2.5	3.5	4.5	4.5
Discounted FCFF	6688	5049	2894	3353	2604	45974

EV	66561
Net Debt	54508
Equity	12053
Share Price	6.4

Table 16. Discounted Cash Flow model for Norwegian, own calculation, mNOK, except Share price.

To deepen the analysis, we built a sensitivity model based on changes in WACC and Terminal Growth Rate and concluded that the price can be in a range between 4.9 (WACC-0.5%, TGR-0.25%) and 8.2 (WACC+0.5%, TGR +0.25%) NOK per share.

Share Price on WACC / TGR					
	6.2%	6.7%	7.2%	7.7%	8.2%
1.0%	10.0	7.0	4.4	2.2	0.3
1.3%	11.5	8.2	5.4	3.0	1.0
1.5%	13.1	9.5	6.4	3.9	1.7
1.8%	14.9	10.9	7.6	4.9	2.6
2.0%	16.9	12.5	8.9	6.0	3.5

Table 17. Share Price sensitivity analysis, own calculation, NOK.

5.2.7 Trading multiples analysis

Our analysis of comparable companies was based on the 3 Tier group split, of which we used Tier 1 as the most valid peers. Due to the specific operating model and financial performance of the company there are no really close companies, so this analysis will not be used in order to determine the final purchase price of the company.

In order to come closer to Norwegian business, we grouped Ryanair, EasyJet, WizzAir, JetBlue, and IndiGo into Tier 1. EasyJet and JetBlue are also strategic partners of Norwegian in Europe and the US.

Company Name	Ticker	EV/Sales'19	EV/Sales'21	EV/EBITDA'19	EV/EBITDA'21	EV/EBIT'19
IndiGo	INGL.NS	1.1x	1.1x	7.2x	6.5x	17.8x
EasyJet	EZJ.L	0.4x	0.4x	2.4x	3.3x	9.0x
Ryanair	RYA.I	1.2x	1.8x	5.2x	11.9x	120.1x
JetBlue	JBLU.O	0.5x	0.6x	3.2x	3.9x	6.8x
WizzAir	WIZZ.L	1.1x	1.4x	5.5x	5.3x	30.2x
Mean		0.8x	1.1x	4.7x	6.2x	36.8x
Median		1.1x	1.1x	5.2x	5.3x	17.8x
Max		1.2x	1.8x	7.2x	11.9x	120.1x
Max Share Price			3.5		6.4	

Table 18 Trading multiples analysis, Thomson Reuters, own calculation.

Due to the specifics of the company we can derive the positive share price only using maximum forward multiples, therefore we do not use this approach.

We also applied Terminal Multiple methodology similar to EasyJet section using multiple of 6.5 and our valuation is in the range of 4.1 to 7.2 NOK per share.

	2021F	2022F	2023F	2024F	2025F	TP
FCFF	6926	5607	3447	4284	3567	60772
Discount Period	0.5	1.5	2.5	3.5	4.5	5
Discounted FCFF	6688	5049	2894	3353	2604	42830

EV	63418
Net Debt	54508
Equity	8909
Share Price	4.8

Table 19. Discounted Cash Flow model for Norwegian with Terminal Multiple, own calculation, mNOK, except Share Price.

5.2.8 Valuation results

Norwegian stock price has lost almost all the value in the last year and is now traded at 5.5 NOK per share level. This is 50% higher than the minimum over this period, but generally it says only that volatility is very high. We use the DCF+Gordon growth model to determine the final valuation of the company as market volatility is too high.

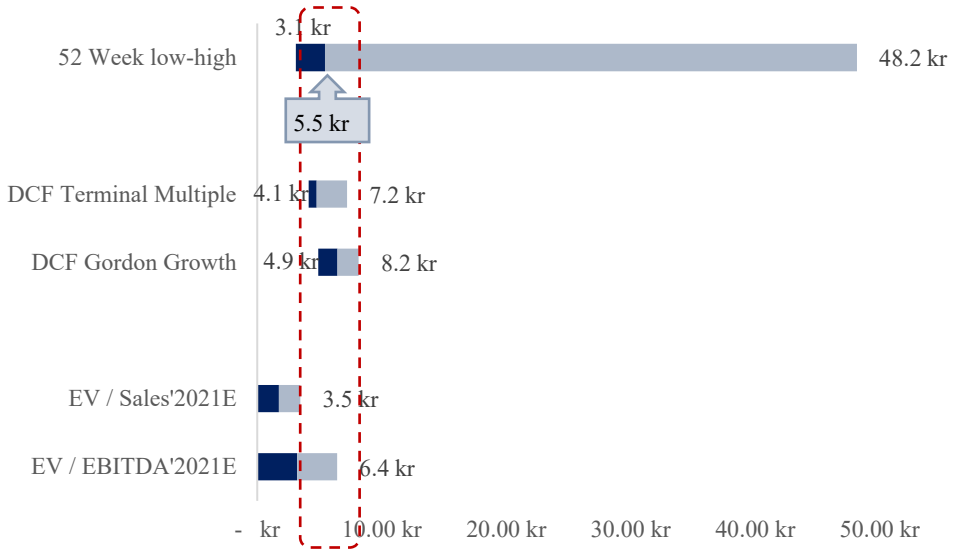


Figure 30. Reconciliation of valuation results, Thomson Reuters, own calculation.

6.Valuation of the merged company and transaction process

6.1 Merged company before synergies

After concluding analysis of both companies in the previous section and determine key drivers of their value, we will continue with the study of potential synergies that the combined company would extract and final valuation of the potential company.

We estimate potential transaction to happen after the closure of the FY2020 for EasyJet, therefore we calculated merged income statement and balance sheet converging new FY to begin on 1st of January 2021. The operating currency of the company is GBP, all information regarding Norwegian was translated into British pounds using the exchange rate as of March 15th 2020 equal 12.3965kr. per 1£, which we assume to remain constant in the future.

6.2 Potential synergies and merged airlines

We discussed potential synergies in the literature review section, and now we can dive into Schosser and Wittmer (2015) improvements in company value related to the case of EasyJet and Norwegian.

Norwegian operates a mixed business model of a short-haul and long-haul carrier. Short-haul flights are mostly located in the Nordic region or between Northern Europe and leisure destinations in Southern Europe. At the same time, long-haul flights are performed out of London, Paris, Amsterdam, Barcelona, Rome, and Nordic capitals, in most of these cities Norwegian does not have a substantial network of short-haul flights that could act as feeders to flights across the Atlantic. At the same time, EasyJet has a wide network of short-haul flights and it states the same airports in the UK, France, the Netherlands, Spain and Italy as the main focus points for its short-haul flights, more in Exhibits 15 and 16. The joint company could achieve significant revenue synergies when combining their efforts in these airports, both companies would receive access to new markets, increase network, and do common pricing, as well as improve market information availability. Both companies are expected to maintain their individual brands, as they are extremely famous in their markets and operating under one name would rather destroy customer loyalty and recognition. We expect revenue synergies to be driven by an increase in load factor (mostly for Norwegian) and ticket revenue per passenger/ASK (both carriers).

On the costs side airlines can also a achieve significant reduction in their expenses. Both companies are able to manage their costs well though many of them are not under the control of the companies (for example airport, ATC and handling), companies are expected to decrease their sales and marketing costs, as well as general costs due to merger of IT infrastructure and head office. Moreover, airlines have offices in each airport they are flying to and this merger

would allow them to leave only one in airports where their presence intersect. It would also allow to decrease the number of check-in points in these airports. Unfortunately, Norwegian operates a full Boeing fleet, while EasyJet has a long partnership with Airbus. Because of this, there will be very limited options to cut maintenance costs and joint training of crews. All cost-cutting is assumed to be done equally between airlines.

Our calculated equity value of merged firms is equal £3.6bn which is a sum of equity values of both companies. Merged company would benefit from mentioned above synergies and increase its value to £4.1bn. We estimated synergies using the following equation:

$$Synergies = PV(FCFF)_{merged} - PV(FCFF)_{EZJ\ premerger} - PV(FCFF)_{NWC\ premerger}$$

As the result we derived synergies of £578m. The merged companies valuation used the discount rate of 8.13% and Tax rate of 20.6%, further details are available in Exhibit 14.

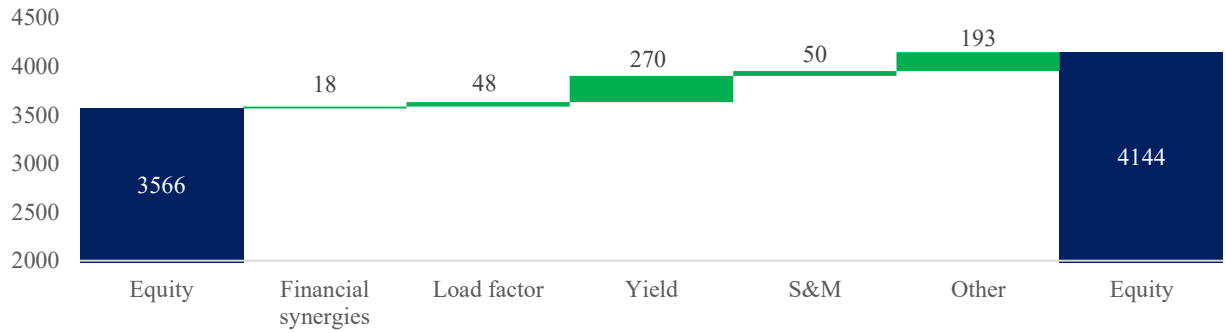


Figure 31. Synergies analysis, own calculation, mGBP.

As we described before, the load factor increase would generate £48m in value, mostly due to improvement in Norwegian flights. At the same time, common pricing and revenue management could generate an additional £270m. Airline revenue management assumes first sale of cheap tickets and further increasing the price of ticket packages sold later, which means that every additional customer pays more for the ticket, besides due to single transaction cost net proceeds from the flight will also be higher.

Sales and Marketing costs are a small portion of expenses, but joint marketing would add an additional £50m. Activities described before can add further £193m savings on other costs. A small portion of synergies is dedicated to capital structure changes and taxes.

6.3 Transaction

Having calculated potential synergies of this deal we can determine the maximum and recommended prices per share. Equity value of Norwegian calculated using the DCF+Gordon method is equal £972m, additional synergies are accounted for £578m, therefore we can estimate maximum price per share of £0.83, which would correspond to 89% premium over the market price.

For the transaction, we advise EasyJet to make a premium offer of 20% over the market price. Norwegian has experienced a conversion of debt into equity in May 2020 leaving 95% of equity to debt and leaseholders. As it is a risky asset for them, shareholders should prefer to receive an immediate gain of 20% rather than waiting for a possible share price increase, taking into account previous company performance. Besides, for most of them Norwegian could be too risky investment and they might not be allowed to hold it due to legal/compliance reasons. As this is subject to further negotiations, EasyJet could increase premium paid up to 89%. We provided the premium analysis in Exhibit 18. The premium of 20% would result in a price per share of £0.53. Transaction fees are assumed to be 1% of target EV.

EasyJet has always been a cash-rich company and even after suffering during the current pandemic, it is assumed to maintain positive cash flow and strong ability to raise debt quickly and cheap, but in order to split the risks and give additional incentives to deliver synergies, we suggest a small portion of the price to be paid in stock. However, EasyJet could include a larger portion paid in cash as it could be a useful instrument in order to persuade the target shareholders to proceed with this deal. Share payment is also popular in times of macroeconomic turbulence (Boone, Lie, and Liu,2014). But as we assume EasyJet stocks being heavily undervalued, our recommendation is to stick to the deal structure provided in Table 20. Ownership dilution analysis is provided in Exhibit 19.

Sources and Uses of Funds		
Equity purchase price	986.6	
Advisory fees	53.8	
Total Uses of Funds	**1,040.4**	
Acquirer's cash	300.0	28.8%
Debt issuance	592.4	56.9%
Stock issuance	148.0	14.2%
Total Sources of Funds	**1,040.4**	**100.0%**

Table 20. Transaction details, own calculation, mGBP.

EasyJet should issue 148m GBP in shares, the exchange ratio is estimated to be 0.0139. More highlights on the deal are in the Exhibit 17. Due to the estimated poor financial performance of Norwegian shareholders would have to face EPS dilution in 2021, but it should be reversed in 2022. As the result of this transaction current EasyJet shareholders will own 93.8% of the new company.

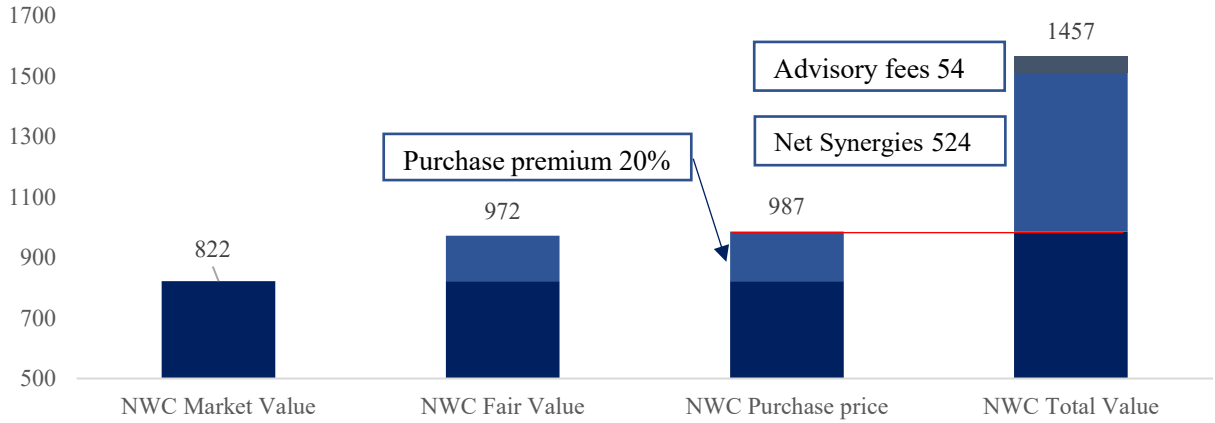


Figure 32. Value analysis, own calculation, mGBP.

6.4 Risk analysis

Airlines is a very complex and highly regulated industry, and it is necessary to account for possible threads for this deal.

- Companies might need to cut some routes in order to get the regulatory approval where merger would lead to monopolization on these routes. Studied companies have a low number of intersections on these routes but some of them might need to be eliminated, but we do not expect severe consequences here.
- Shareholders of Norwegian are highly diluted and lost a lot of value in the previous years, but they might see investment in Norwegian as an option and will demand higher premium. Analysis can be found in Exhibit 18, as it was said before, the premium can go as high as 89%.
- EasyJet's main shareholder is a well-known supporter of a small airline strategy and was against rapid growth of the airline over the last decade, though he is not having control over the company.
- Both companies are headquartered not in the EU, while their main market is there. Reorganization of shareholding structure might be necessary (for example use of EasyJet entity in Austria).
- Macroeconomic risks caused by the current pandemic might result in a long-lasting recession with no comeback to the pre-pandemic targets in the foreseeable future.
- Financing for this deal can be more expensive due to instability in the financial markets.

7. Conclusion

As well as airlines themselves, airline mergers are risky. In the previous years, a tendency to consolidate and grow operations significantly have been observed mainly due to potential gain in market information, price management, as well as many additional synergies. Besides, low costs airlines are changing the market, having proved that they can successfully beat legacy carriers in a war for leisure customers. Decades ago LCCs changed the European sky and made short-haul traveling completely different. Now, Norwegian is also changing the long-haul market.

In our analysis, we saw that markets are highly depreciating the value of airlines in the period of financial instability. It is clear that we cannot rely on market multiples methods when the value of the company can drop by 80% within a month and daily share price change often exceeds 10%. We derived the intrinsic value of Norwegian using the DCF method and found it 18% higher than the close price on May 15th. Potential synergies are expected to account for £578m or roughly 60% of the Norwegian fair value. We also concluded that the maximum premium over the market price can reach 89%, while we assume that poor financial performance history, the pandemic outbreak, and thread of bankruptcy should significantly make shareholders unable to ask for a large compensation. Due to the COVID-19 outbreak, we recommend constant revaluation of the deal with the appearance of new information.

In case of successful completion of this deal, we may observe a new second-largest airline in Europe that can connect people across continents and significantly disrupt traditional markets.

Appendices

Group	Subsidiaries	Group	Subsidiaries
Lufthansa Group	Air Dolomiti	**AirFrance-KLM**	Air France
	Austrian Airlines		Air France Cargo
	Brussels Airlines		Air France Hop
	Eurowings		Transavia France
	Eurowings Europe		KLM
	Lufthansa		KLM Cargo
	Lufthansa Cargo		KLM Cityhopper
	Lufthansa CityLine		Transavia
	Swiss International Air Lines		Martinair
	Edelweiss Air		Minority Interests
	AeroLogic (50%)		Air Corsica 12%
	SunExpress (50%)		Air Côte d'Ivoire 20%
	SunExpress Deutschland		Air Mauritius 2.78%
IAG	Aer Lingus		Air Tahiti 7%
	British Airways		Alitalia 7.08%
	IAG Cargo		Kenya Airways 7.95%
	Iberia		Air Calédonie 2%
	LEVEL		Gol Transportes Aéreos 1.50%
	Level Europe		Royal Air Maroc 1.25%
	Vueling		NS International (high speed rail connections linking Amsterdam to Brussels and Paris) 10%
	Avios Group	**Ryanair Group**	Lauda
			Buzz
			Ryanair
			Ryanair UK
			Malta Air

Exhibit 1. Largest airline groups in Europe, Wikipedia data.

WACC		Source
(Post-tax, GBP, Nominal)		
Risk-free rate	0.246%	Bloomberg
Equity risk premium	7%	http://pages.stern.nyu.edu/~adamodar/
Beta 3y, weekly	1.71	Thomson Reuters
Cost of Equity	12.11%	
Cost of Debt (pre-tax)	2.55%	Company data
Tax rate	19%	KPMG
Cost of Debt (after-tax)	2.07%	
Share of Equity in Invested Capital	0.71	Company data
Share of Debt in Invested Capital	0.29	Company data
WACC	9.15%	

Exhibit 2. WACC calculation for EasyJet, own calculation.

WACC		Source
(Post-tax, NOK, Nominal)		
Risk-free rate	0.385%	Bloomberg
Equity risk premium	6%	http://pages.stern.nyu.edu/~adamodar/
Beta	1,61	Thomson Reuters, own calculation
Cost of Equity	10.0%	
Cost of Debt (pre-tax)	4,83%	Bloomberg
Tax rate	22%	KPMG
Cost of Debt (after-tax)	3.77%	
Share of Equity in Invested Capital	56%	Company data
Share of Debt in Invested Capital	44%	Company data
WACC	7.25%	
Beta Unlevered	0.99	Thomson Reuters, own calculation
Beta Levered	1.61	Thomson Reuters, own calculation

Exhibit 3. WACC calculation for Norwegian, own calculation.

Name	Ticker	Beta	Total Debt	MCap	Debt%	Equity%	Tax rate	Beta unlevered
Interglobe Aviation Ltd	INGL.NS	1.14	22113	357110	6%	94%	25.2%	1.09
Easyjet PLC	EZJ.L	1.68	1902	2111	47%	53%	19.0%	0.97
Ryanair Holdings PLC	RYA.I	1.24	3644	10345	26%	74%	21.8%	0.97
JetBlue Airways Corp	JBLU.O	1.83	2334	2452	49%	51%	21%	1.04
Wizz Air Holdings PLC	WIZZ.L	1.40	1841	2298	44%	56%	24%	0.87
					Median	56%	Average	0.99

Exhibit 4. Unlevered beta calculation for Norwegian, Thomson Reuters, own calculation.

EasyJet							
Financial year	2019	2020	2021	2022	2023	2024	2025
Start	2018-10-01	2019-10-01	2020-10-01	2021-10-01	2022-10-01	2023-10-01	2024-10-01
End	2019-09-30	2020-09-30	2021-09-30	2022-09-30	2023-09-30	2024-09-30	2025-09-30
Days	365	366	365	365	365	366	365
Period number		0	1	2	3	4	5
	A	F	F	F	F	F	F
1 Balance sheet							
Non-Current Marketable Securities	48.00	48.00	48.00	48.00	48.00	48.00	48.00
Property Plant & Equipment - Net	5,163.00	5,524.10	5,547.50	5,968.47	5,422.00	5,734.35	5,934.05
Other Intangible Assets	196.00	196.00	196.00	196.00	196.00	196.00	196.00
Goodw ill	365.00	365.00	365.00	365.00	365.00	365.00	365.00
Restricted Cash/Investments (Long-Term)	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Other Noncurrent Assets	142.00	142.00	142.00	142.00	142.00	142.00	142.00
Derivative Assets (Long-Term)	126.00	126.00	126.00	126.00	126.00	126.00	126.00
Total Non-Current Assets	**6,044.00**	**6,405.10**	**6,428.50**	**6,849.47**	**6,303.00**	**6,615.35**	**6,815.05**
Current Assets							
Cash and Equivalents	1,285.00	1,678.54	1,492.49	896.55	1,203.36	1,355.79	1,672.35
Derivative Assets (Short-Term)	147.00	147.00	147.00	147.00	147.00	147.00	147.00
Short-Term Investments	291.00	291.00	291.00	291.00	291.00	291.00	291.00
Accounts Receivable And Other Receivables	372.00	372.00	336.63	378.85	404.19	442.24	479.32
Current Income Tax Asset	24.00	24.00	24.00	24.00	24.00	24.00	24.00
Total Current Assets	**2,119.00**	**2,512.54**	**2,291.12**	**1,737.39**	**2,069.55**	**2,260.03**	**2,613.66**
Total Assets	**8,163.00**	**8,917.64**	**8,719.62**	**8,586.86**	**8,372.55**	**8,875.38**	**9,428.72**
Current Liabilities							
Short-Term Borrow ings	219.00	219.00	219.00	219.00	219.00	219.00	219.00
Deferred/Unearned Revenue (Short-Term)	1,069.00	232.12	931.13	1,047.90	1,117.99	1,226.60	1,325.80
Trade Payable And Other Payables	1,050.00	1,349.47	914.97	1,024.54	1,097.26	1,191.97	1,287.12
Income Taxes Accrued/Payable	-	-	-	-	-	-	
Derivative Liabilities (Short-Term)	138.00	138.00	138.00	138.00	138.00	138.00	138.00
Short-Term Provisions	192.00	192.00	192.00	192.00	192.00	192.00	192.00
Total Current Liabilities	**2,668.00**	**2,130.59**	**2,395.10**	**2,621.45**	**2,764.26**	**2,967.56**	**3,161.92**
Long-term Liabilities							
Long Term Debt	1,683.00	3,533.00	3,033.00	2,533.00	2,033.00	2,033.00	2,033.00
Deferred/Unearned Revenue (Long-Term)	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Pension/Postretirement Liabilities	47.00	47.00	47.00	47.00	47.00	47.00	47.00
Deferred Tax Liabilities (Long-Term)	305.00	305.00	305.00	305.00	305.00	305.00	305.00
Derivative Liabilities (Long-Term)	72.00	72.00	72.00	72.00	72.00	72.00	72.00
Other Provisions For Liabilities And Charges	397.00	397.00	397.00	397.00	397.00	397.00	397.00
Total Noncurrent Liabilities	**2,510.00**	**4,360.00**	**3,860.00**	**3,360.00**	**2,860.00**	**2,860.00**	**2,860.00**
Stockholder Equity							
Total Shareholders Equity	**2,985.00**	**2,427.05**	**2,464.52**	**2,605.42**	**2,748.29**	**3,047.81**	**3,406.80**

EasyJet							
Financial year	2019	2020	2021	2022	2023	2024	2025
Start	2018-10-01	2019-10-01	2020-10-01	2021-10-01	2022-10-01	2023-10-01	2024-10-01
End	2019-09-30	2020-09-30	2021-09-30	2022-09-30	2023-09-30	2024-09-30	2025-09-30
Days	365	366	365	365	365	366	365
Period number		0	1	2	3	4	5
	A	F	F	F	F	F	F
1 Income statemenet							
Ticket revenue	5,009.00	2,745.68	4,320.32	4,854.42	5,169.58	5,662.65	6,105.35
Auxilary revenue	1,376.00	796.93	1,241.18	1,404.56	1,508.06	1,663.66	1,813.46
Revenue	**6,385.00**	**3,542.61**	**5,561.50**	**6,258.99**	**6,677.64**	**7,326.31**	**7,918.82**
Costs	5,415.00	3,618.96	4,844.35	5,424.46	5,809.48	6,328.17	6,814.66
Fuel	1,416.00	786.16	1,053.62	1,193.97	1,290.14	1,364.46	1,427.44
Airports and ground handling	1,845.00	1,087.67	1,696.48	1,919.80	2,061.27	2,273.95	2,478.70
Crew	859.00	623.30	860.88	972.07	1,040.28	1,145.11	1,246.86
Navigation	409.00	241.24	373.22	417.29	442.19	481.98	519.67
Maintenance	302.00	296.89	309.29	301.36	314.18	336.99	357.64
Selling and marketing	157.00	97.95	135.34	152.32	162.51	178.29	192.71
Other costs/(income)	427.00	485.75	415.52	467.63	498.91	547.38	591.65
EBITDAR	**970.00**	**- 76.35**	**717.15**	**834.53**	**868.17**	**998.14**	**1,104.16**
Depreciation	484.00	538.90	576.59	579.04	622.98	565.94	598.54
Amortization	15.00	15.00	-	-	-	-	-
Rental	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Operating profit	**466.00**	**- 635.26**	**135.56**	**250.50**	**240.19**	**427.21**	**500.62**
Financing expences	39.00	72.09	89.30	76.55	63.80	57.43	57.43
Abnormal expenses	- 3.00	-	-	-	-	-	-
PBT	**430.00**	**- 707.35**	**46.26**	**173.95**	**176.39**	**369.78**	**443.19**
Income tax	81.00	- 134.40	8.79	33.05	33.51	70.26	84.21
Net income	**349.00**	**- 572.95**	**37.47**	**140.90**	**142.87**	**299.52**	**358.99**

Exhibit 5. Projected financials of EasyJet, company data, own calculation, mGBP

EasyJet								
Financial year		2020	2021	2022	2023	2024	2025	TP
Start		2019-10-01	2020-10-01	2021-10-01	2022-10-01	2023-10-01	2024-10-01	
End		2020-09-30	2021-09-30	2022-09-30	2023-09-30	2024-09-30	2025-09-30	
Days		366	365	365	365	366	365	
Period number		0	1	2	3	4	5	TP
		F	F	F	F	F	F	F
1 Income statemenet								
EBIT		-635.26	135.56	250.50	240.19	427.21	500.62	508.13
Tax expence	19%	120.70	-25.76	-47.59	-45.64	-81.17	-95.12	-96.54
EBIT * (1 - tax rate)		**514.56**	**109.80**	**202.90**	**194.55**	**346.04**	**405.50**	**411.58**
Depretiation		553.90	576.59	579.04	622.98	565.94	598.54	607.52
Capex		-900.00	-600.00	-1,000.00	-76.51	-878.28	-798.25	-810.22
Change in WC		-537.41	299.88	184.13	117.47	165.25	157.28	159.64
FCFF		**-1,398.07**	**386.28**	**-33.93**	**858.49**	**198.94**	**363.07**	**4,814.69**
Discount period			0.50	1.50	2.50	3.50	4.50	4.50
WACC	*9.2%*							
TGR	*1.5%*							
Discount factor			0.96	0.88	0.80	0.74	0.67	0.67
Discounted cash flows			**369.73**	**-29.76**	**689.66**	**146.42**	**244.80**	**3,246.31**
CF %	*30.4%*							
TV %	*69.6%*							
Terminal multiple	4.5							
TV EV	4,612.9		**369.73**	**-29.76**	**689.66**	**146.42**	**244.80**	**3,192.08**
Equity value	2,539.5							
Share price TV	6.4							
EV	4,667.2							
Net debt	2,073.5							
Equity value	2,593.7							
dWASO	397.2							
Share price	6.53							
Current SP	5.68							
Upside/(downside)	*15.0%*							

Exhibit 6. DCF model of EasyJet, company data, own calculation, mGBP

EasyJet							
Financial year	2019	2020	2021	2022	2023	2024	2025
Start	2018-10-01	2019-10-01	2020-10-01	2021-10-01	2022-10-01	2023-10-01	2024-10-01
End	2019-09-30	2020-09-30	2021-09-30	2022-09-30	2023-09-30	2024-09-30	2025-09-30
Days	365	366	365	365	365	366	365
Period number		0	1	2	3	4	5
	A	F	F	F	F	F	F
3 Depreciation and Amortization							
PP&E bop	**4,637.00**	**5,163.00**	**5,524.10**	**5,547.50**	**5,968.47**	**5,422.00**	**5,734.35**
Capex	984.00	900.00	600.00	1,000.00	76.51	878.28	798.25
Depreciation	484.00	538.90	576.59	579.04	622.98	565.94	598.54
PP&E eop	**5,163.00**	**5,524.10**	**5,547.50**	**5,968.47**	**5,422.00**	**5,734.35**	**5,934.05**
Leasing costs	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Intangibles bop		**196.00**	**196.00**	**196.00**	**196.00**	**196.00**	**196.00**
Amortization	15.00						
Intangibles eop	**196.00**	**196.00**	**196.00**	**196.00**	**196.00**	**196.00**	**196.00**
4 Net Working Capital							
Accounts receivable							
Accounts Receivable And Other Receivables	372.00	372.00	336.63	378.85	404.19	442.24	479.32
Revenue	6,385.00	3,542.61	5,561.50	6,258.99	6,677.64	7,326.31	7,918.82
AR days	21.27	22.09	22.09	22.09	22.09	22.09	22.09
Deffered revenue							
Deferred/Unearned Revenue (Short-Term)	1,069.00	232.12	931.13	1,047.90	1,117.99	1,226.60	1,325.80
Revenue	6,385.00	3,542.61	5,561.50	6,258.99	6,677.64	7,326.31	7,918.82
Deffered revenue % of revenue	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%
Accounts pagable							
Trade Payable And Other Payables	1,050.00	1,349.47	914.97	1,024.54	1,097.26	1,191.97	1,287.12
Operating expenses inc fuel	5,415.00	3,618.96	4,844.35	5,424.46	5,809.48	6,328.17	6,814.66
AP days	70.78	68.94	68.94	68.94	68.94	68.94	68.94
NWC	-1,747.00	-1,209.59	-1,509.47	-1,693.60	-1,811.07	-1,976.32	-2,133.60
Increase in NWC	253.00	-537.41	299.88	184.13	117.47	165.25	157.28

Exhibit 7. Capex and Working Capital forecast for EasyJet, company data, own calculation, mGBP

Norwegian AS							
Financial year	2019	2020	2021	2022	2023	2024	2025
Start	2019-01-01	2020-01-01	2021-01-01	2022-01-01	2023-01-01	2024-01-01	2025-01-01
End	2019-12-31	2020-12-31	2021-12-31	2022-12-31	2023-12-31	2024-12-31	2025-12-31
Days	365	366	365	365	365	366	365
Period number	0	0	1	2	3	4	5
	A	F	F	F	F	F	F
1 Balance sheet							
Intangible assets	2,870.60	2,870.60	2,870.60	2,870.60	2,870.60	2,870.60	2,870.60
Tangible fixed assets	66,378.50	60,958.66	56,533.47	52,596.40	51,023.07	49,652.67	50,024.50
Fixed asset investments	1,485.00	1,485.00	1,485.00	1,485.00	1,485.00	1,485.00	1,485.00
Total Non-Current Assets	**70,734.10**	**65,314.26**	**60,889.07**	**56,952.00**	**55,378.67**	**64,833.90**	**64,833.90**
Current Assets							
Assets held for sale	1,204.50	1,204.50	1,204.50	1,204.50	1,204.50	1,204.50	1,204.50
Inventory	175.70	175.70	175.70	175.70	175.70	175.70	175.70
Investments	-	-	-	-	-	-	-
Accounts Receivable	10,132.90	654.29	7,863.41	8,725.45	8,820.15	9,329.15	9,991.82
Cash and cash equivalents	3,095.60	869.31	6,756.00	11,323.69	13,730.86	16,974.83	19,502.29
Total Current Assets	**14,608.70**	**2,903.80**	**15,999.61**	**21,429.34**	**23,931.21**	**27,684.18**	**30,874.31**
Total Assets	**85,342.80**	**68,218.06**	**76,888.68**	**78,381.34**	**79,309.88**	**92,518.08**	**95,708.21**
Current Liabilities							
Air traffic settlement liabilities	6,106.50	297.08	4,738.82	5,258.32	5,315.38	5,637.53	6,021.48
Current debt	8,784.10	8,784.10	8,784.10	8,784.10	8,784.10	8,784.10	8,784.10
Other current liabilities	9,135.60	1,798.86	6,949.70	7,544.60	7,584.21	7,860.98	8,276.66
Total Current Liabilities	**24,026.20**	**10,880.04**	**20,472.62**	**21,587.02**	**21,683.69**	**22,282.61**	**23,082.24**
Long-term Liabilities							
Long Term Debt	52,593.50	46,593.50	46,593.50	46,593.50	46,593.50	46,593.50	46,593.50
Other long-term liabilities	4,598.30	4,598.30	4,598.30	4,598.30	4,598.30	4,598.30	4,598.30
Total Noncurrent Liabilities	**57,191.80**	**51,191.80**	**51,191.80**	**51,191.80**	**51,191.80**	**51,191.80**	**51,191.80**
Stockholder Equity							
Total Shareholders Equity	**4,124.90**	**6,146.22**	**5,224.27**	**5,602.52**	**6,434.38**	**19,043.67**	**21,434.17**

Norwegian AS							
Financial year	2019	2020	2021	2022	2023	2024	2025
Start	2019-01-01	2020-01-01	2021-01-01	2022-01-01	2023-01-01	2024-01-01	2025-01-01
End	2019-12-31	2020-12-31	2021-12-31	2022-12-31	2023-12-31	2024-12-31	2025-12-31
Days	365	366	365	365	365	366	365
Period number	0	0	1	2	3	4	5
	A	F	F	F	F	F	F
1 Income statemenet							
Ticket revenue	35,216.30	9,798.65	26,949.70	29,550.41	29,637.43	31,189.66	33,185.04
Auxilary revenue	6,651.50	1,850.73	5,494.39	6,467.86	6,783.29	7,450.45	8,093.02
Other revenue	1,654.10	460.24	1,330.13	1,458.49	1,462.78	1,539.39	1,637.88
Revenue	**43,521.90**	**12,109.62**	**33,774.22**	**37,476.77**	**37,883.50**	**40,179.50**	**42,915.94**
Costs	36,208.40	15,615.10	28,184.89	30,597.54	30,758.18	31,967.99	33,566.47
Fuel	12,607.10	2,164.33	8,333.74	9,323.13	9,548.18	9,768.90	10,110.24
Airports and navigation	4,140.30	1,346.33	3,186.18	3,480.66	3,459.83	3,610.61	3,811.50
Crew	6,817.50	2,216.90	5,246.43	5,731.32	5,697.03	5,945.30	6,276.10
Ground handling	5,260.20	1,710.50	4,048.01	4,422.13	4,395.68	4,587.24	4,842.47
Maintenance	3,379.20	6,462.72	3,007.38	2,798.84	2,763.47	2,865.33	2,982.03
Other costs	4,004.10	1,714.32	4,363.14	4,841.46	4,894.01	5,190.62	5,544.12
Government subsidy							
EBITDAR	**7,313.50**	**-757.22**	**5,589.32**	**6,879.22**	**7,125.32**	**8,211.51**	**9,349.47**
D&A	6,457.50	5,825.48	5,438.41	5,061.38	4,725.93	4,591.88	4,475.12
Rental							
Operating profit	**856.00**	**-6,582.70**	**150.91**	**1,817.85**	**2,399.39**	**3,619.63**	**4,874.35**
Abnormal expenses	-	-	-	-	-	-	-
Interest Income	204.50	204.50	204.50	204.50	204.50	204.50	204.50
Interest Expense	3,074.80	2,568.70	1,537.40	1,537.40	1,537.40	1,537.40	1,537.40
Other financial expense	340.30	-	-	-	-	-	-
Profit/Loss from associated companies	-13.60	-	-	-	-	-	-
PBT	**-1,687.60**	**-8,946.90**	**-1,181.99**	**484.95**	**1,066.49**	**2,286.73**	**3,541.45**
Income tax	-78.50	-1,968.32	-260.04	106.69	234.63	503.08	779.12
Net income	**-1,609.10**	-6,978.58	-921.95	378.26	831.86	1,783.65	2,762.33

Exhibit 8. Projected financials of Norwegian, company data, own calculation, mNOK.

Norwegian AS								
Financial year		2020	2021	2022	2023	2024	2025	TP
Start		2020-01-01	2021-01-01	2022-01-01	2023-01-01	2024-01-01	2025-01-01	
End		2020-12-31	2021-12-31	2022-12-31	2023-12-31	2024-12-31	2025-12-31	
Days		366	365	365	365	366	365	
Period number		0	1	2	3	4	5	TP
		F	F	F	F	F	F	F
1 Income statemenet								
Revenue		12,109.62	33,774.22	37,476.77	37,883.50	40,179.50	42,915.94	43,559.68
EBIT		**- 6,582.70**	**150.91**	**1,817.85**	**2,399.39**	**3,619.63**	**4,874.35**	**4,947.47**
Tax expence	22%	1,448.19	- 33.20	- 399.93	- 527.87	- 796.32	- 1,072.36	- 1,088.44
EBIT * (1 - tax rate)		**- 5,134.50**	**117.71**	**1,417.92**	**1,871.52**	**2,823.31**	**3,802.00**	**3,859.03**
Depretiation		5,825.48	5,438.41	5,061.38	4,725.93	4,591.88	4,475.12	4,542.24
Capex		- 405.63	- 1,013.23	- 1,124.30	- 3,152.60	- 3,221.48	- 4,846.95	- 4,919.66
Decrease in WC		- 3,667.55	2,383.45	252.36	1.98	89.92	136.96	139.02
FCFF		**- 3,382.22**	**6,926.35**	**5,607.35**	**3,446.83**	**4,283.63**	**3,567.12**	**62,988.59**
Discount period			0.50	1.50	2.50	3.50	4.50	4.50
WACC	*7.25%*							
TGR	*1.50%*							
Discount factor			0.97	0.90	0.84	0.78	0.73	0.73
Discounted cash flows			**6,688.21**	**5,048.63**	**2,893.65**	**3,353.12**	**2,603.55**	**45,973.67**
CF %	30.9%							
TV %	69.1%							
Terminal multiple	6.50							
TV EV	63,417.63		**6,688.21**	**5,048.63**	**2,893.65**	**3,353.12**	**2,603.55**	**42,830.47**
	4.77							
EV	66,560.83							
Net debt	54,508.29							
Equity value	12,052.53							
Shares outstanding	1,869.35							
Share price	6.45							
Current SP	5.45							
Upside/ (downside)	18%							

Exhibit 9. DCF model of Norwegian, company data, own calculation, mNOK

Norwegian AS							
Financial year	2019	2020	2021	2022	2023	2024	2025
Start	2019-01-01	2020-01-01	2021-01-01	2022-01-01	2023-01-01	2024-01-01	2025-01-01
End	2019-12-31	2020-12-31	2021-12-31	2022-12-31	2023-12-31	2024-12-31	2025-12-31
Days	365	366	365	365	365	366	365
Period number	0	0	1	2	3	4	5
	A	F	F	F	F	F	F
3 Capex and D&A							
PP&E tangible + intangible bop	**75,790.00**	**69,249.10**	**63,829.26**	**59,404.07**	**55,467.00**	**53,893.67**	**52,523.27**
Net Capex (-Capex + Proceed from Aircraft selling)	- 8,332.40	405.63	1,013.23	1,124.30	3,152.60	3,221.48	4,846.95
Depreciation & Amortization	6,457.50	5,825.48	5,438.41	5,061.38	4,725.93	4,591.88	4,475.12
PP&E tangible + intangible eop	**69,249.10**	**63,829.26**	**59,404.07**	**55,467.00**	**53,893.67**	**52,523.27**	**52,895.10**
Net Capex		**405.63**	**1,013.23**	**1,124.30**	**3,152.60**	**3,221.48**	**4,846.95**
Aircraft 737 MAX Capex			-	-	746.52	746.52	808.73
Aircraft 787-8 Capex					1,269.57	1,269.57	2,750.74
Maintenance Capex		405.63	1,013.23	1,124.30	1,136.51	1,205.39	1,287.48
4 Net Working Capital							
Accounts Receivable							
Accounts Receivable And Other Receivables	10,132.90	654.29	7,863.41	8,725.45	8,820.15	9,329.15	9,991.82
Revenue	43,521.90	12,109.62	33,774.22	37,476.77	37,883.50	40,179.50	42,915.94
AR days	84.98	84.98	84.98	84.98	84.98	84.98	84.98
Air traffic settlement liabilities							
Deferred/Unearned Revenue (Short-Term)	6,106.50	297.08	4,738.82	5,258.32	5,315.38	5,637.53	6,021.48
Revenue	43,521.90	12,109.62	33,774.22	37,476.77	37,883.50	40,179.50	42,915.94
Deffered revenue % of revenue	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
Other current liabilities							
Trade Payable And Other Payables	9,135.60	1,798.86	6,949.70	7,544.60	7,584.21	7,860.98	8,276.66
Operating expenses inc fuel	36,208.40	15,615.10	28,184.89	30,597.54	30,758.18	31,967.99	33,566.47
AP days	92.09	90.00	90.00	90.00	90.00	90.00	90.00
NWC	- 5,109.20	1,441.65	- 3,825.10	- 4,077.46	- 4,079.44	- 4,169.36	- 4,306.33
Increase in NWC	4,448.10	3,667.55	- 2,383.45	- 252.36	- 1.98	- 89.92	- 136.96

Exhibit 10. Capex and Working Capital forecast for Norwegian, company data, own calculation, mNOK

EasyJet

Benchmarking Analysis – Financial Statistics and Ratios, Page 1

$ in millions, except per share data)

Company	RIC	Market Valuation		LTM Financial Statistics					LTM Profitability Margins				Growth Rates	
		Equity Value	Enterprise Value	Sales	Gross Profit	EBITDA	EBIT	Net Income	Gross Profit (%)	EBITDA (%)	EBIT (%)	Net Income (%)	Sales Hist. 1-year	Sales Est. 1-year
EasyJet	**EZJ.L**	**NA**	**NA**	$7,845	$3,330	$1,186	$573	$445	42%	15%	7%	6%	2%	-22%
Tier I: European and US LCC														
Ryanair	RYA.I	$11,206	$12,022	$8,634	$3,577	$1,859	$1,141	$1,024	41%	22%	13%	12%	-2%	-22%
Wizz Air	WIZZ.L	$2,851	$3,267	$2,601	$869	$442	$336	$342	33%	17%	13%	13%	9%	-7%
JetBlue	JBLU.O	$2,452	$3,458	$8,094	$5,679	$1,344	$819	$569	70%	17%	10%	7%	6%	-36%
Spirit	SPR	$2,163	$3,344	$7,863	$1,077	$1,045	$793	$530	14%	13%	10%	7%	9%	-44%
Mean									**40%**	**17%**	**12%**	**10%**	**5%**	**-27%**
Median									**37%**	**17%**	**12%**	**9%**	**7%**	**-29%**
Tier II: Global LCC														
IndiGo	INGL.NS	$4,712	$4,758	$4,119	$861	$39	($71)	$23	21%	1%	-2%	1%	17%	25%
AirArabia	AIRA.DI	$1,296	$1,613	$1,296	$340	$405	$254	$274	26%	31%	20%	21%	15%	-8%
Pegasus	PGSUS	$737	$1,667	$1,854	$454	$610	$349	$235	24%	33%	19%	13%	18%	-6%
Southwest	LUV	$16,031	$13,608	$22,428	$16,718	$4,176	$2,957	$2,269	75%	19%	13%	10%	2%	-37%
AirAsia	AIRA.KL	$599	$2,564	$2,926	$1,144	$637	$151	$47	39%	22%	5%	2%	14%	-18%
Mean									**37%**	**21%**	**11%**	**9%**	**13%**	**-9%**
Median									**26%**	**22%**	**13%**	**10%**	**15%**	**-8%**
Tier III: European FSC														
IAG	ICAG.L	$4,692	$12,950	$28,592	$19,498	$6,041	$3,675	$1,920	68%	21%	13%	7%	3%	-28%
Lufthansa	LHAG.D	$4,032	$11,369	$40,831	$19,373	$5,362	$2,280	$1,394	47%	13%	6%	3%	0%	-30%
Air France - KLM	AIRF.PA	$1,951	$10,168	$30,479	$15,054	$4,504	$1,207	$302	49%	15%	4%	1%	1%	-35%
SAS	SAS.ST	$341	$2,718	$4,843	$2,879	$311	$121	$66	59%	6%	2%	1%	-1%	-4%
Aeroflot	AFLT.M	$1,047	$8,563	$10,948	$7,335	$2,667	$931	$209	67%	24%	9%	2%	25%	-22%
Mean									**58%**	**16%**	**7%**	**3%**	**6%**	**-24%**
Median									**59%**	**15%**	**6%**	**2%**	**1%**	**-28%**
Overall														
Mean									**45%**	**18%**	**10%**	**7%**	**8%**	**-19%**
Median									**44%**	**18%**	**10%**	**7%**	**7%**	**-22%**
High									**75%**	**33%**	**20%**	**21%**	**25%**	**25%**
Low									**14%**	**1%**	**-2%**	**1%**	**-2%**	**-44%**

Exhibit 11. Benchmark Analysis, Part 1, Thomson Reuters Data

EasyJet

Benchmarking Analysis – Financial Statistics and Ratios, Page 2

($ in millions, except per share data)

		General		Return on Investment			LTM Leverage Ratios			LTM Coverage Ratios	
Company	Ticker	FYE	Predicted Beta	ROIC (%)	ROE (%)	ROA (%)	Debt / Tot. Cap. (%)	Debt / EBITDA (x)	Net Debt / EBITDA (x)	EBITDA / Int. Exp. (x)	EBIT / Int. Exp. (x)
EasyJet	**EZJ.L**	Sep-30		9%	11%	5%	29%	2.0x	0.3x	38.6x	17.3x
Tier I: European and US LCC											
Ryanair	RYA.I	Mar-31	1.24	11%	18%	7%	28%	2.3x	0.4x	24.1x	18.4x
Wizz Air	WIZZ.L	Mar-31	1.40	14%	24%	10%	47%	3.9x	0.7x	358.2x	
JetBlue	JBLU.O	Dec-31	1.83	9%	12%	5%	20%	1.7x	0.8x	36.3x	16.4x
Spirit	SPR	Dec-31	2.19	15%	35%	8%	40%	4.6x	1.8x	9.5x	9.7x
Mean			**1.66**	**12%**	**22%**	**7%**	**33%**	**3.1x**	**0.9x**	**107.0x**	**14.8x**
Median			**1.61**	**12%**	**21%**	**7%**	**34%**	**3.1x**	**0.7x**	**30.2x**	**16.4x**
Tier II: Global LCC											
IndiGo	INGL.NS	Mar-31	1.14		2%	1%	9%	3.7x	0.0x	3.3x	
AirArabia	AIRA.DU	Dec-31	0.82		20%	8%	32%	2.7x	0.7x		28.0x
Pegasus	PGSUS.I	Dec-31	1.74	13%	29%	8%	51%	3.0x	1.8x	7.2x	6.3x
Southwest	LUV	Dec-31	1.26	18%	23%	9%	10%	1.4x			
AirAsia	AIRA.KL	Dec-31	2.05		-5%	-1%	50%	4.9x	3.9x	2.2x	1.0x
Mean			**1.40**	**16%**	**14%**	**5%**	**30%**	**3.1x**	**1.6x**	**4.2x**	**11.7x**
Median			**1.26**	**16%**	**20%**	**8%**	**32%**	**3.0x**	**1.3x**	**3.3x**	**6.3x**
Tier III: European FSC											
IAG	ICAG.L	Dec-31	1.53	12%	25%	5%	40%	2.6x	1.4x	17.9x	6.3x
Lufthansa	LHAG.DE	Dec-31	1.05	8%	12%	3%	24%	2.2x	1.5x		9.8x
Air France - KLM	AIRF.PA	Dec-31	0.98	5%	17%	1%	36%	3.8x	2.1x	11.0x	2.8x
SAS	SAS.ST	Oct-31	0.91	6%	11%	2%	30%	8.8x	6.8x	9.1x	3.7x
Aeroflot	AFLT.MM	Dec-31	0.90	10%		1%	61%	3.4x	3.2x	3.3x	1.3x
Mean			**1.07**	**8%**	**16%**	**3%**	**38%**	**4.2x**	**3.0x**	**10.3x**	**4.8x**
Median			**0.98**	**8%**	**15%**	**2%**	**36%**	**3.4x**	**2.1x**	**10.1x**	**3.7x**
Overall											
Mean			**1.36**	**11%**	**17%**	**5%**	**34%**	**3.5x**	**1.9x**	**43.8x**	**9.4x**
Median			**1.25**	**11%**	**18%**	**5%**	**34%**	**3.2x**	**1.5x**	**9.5x**	**6.3x**
High			**2.19**	**18%**	**35%**	**10%**	**61%**	**8.8x**	**6.8x**	**358.2x**	**28.0x**
Low			**0.82**	**5%**	**-5%**	**-1%**	**9%**	**1.4x**	**0.0x**	**2.2x**	**1.0x**

Exhibit 12. Benchmark Analysis, Part 2, Thomson Reuters Data

Merged company						
Financial year	2020	2021	2022	2023	2024	2025
Start	2020-01-01	2021-01-01	2022-01-01	2023-01-01	2024-01-01	2025-01-01
End	2020-12-31	2021-12-31	2022-12-31	2023-12-31	2024-12-31	2025-12-31
Days	366	365	365	365	366	365
Period number	0	1	2	3	4	5
	F	F	F	F	F	F
1 BS						
Non-Current Marketable Securities	48.00	48.00	48.00	48.00	48.00	48.00
Property Plant & Equipment - Net	10,441.51	10,107.94	10,211.63	9,538.84	9,741.55	9,972.25
Other Intangible Assets	427.57	427.57	427.57	427.57	427.57	427.57
Goodw ill	365.00	365.00	365.00	365.00	365.00	365.00
Restricted Cash/Investments (Long-Term)	4.00	4.00	4.00	4.00	4.00	4.00
Other Noncurrent Assets	261.79	261.79	261.79	261.79	261.79	261.79
Derivative Assets (Long-Term)	126.00	126.00	126.00	126.00	126.00	126.00
Total Non-Current Assets	**11,673.86**	**11,340.30**	**11,443.98**	**10,771.20**	**10,973.91**	**11,204.60**
Current Assets						
Cash and Equivalents	1,748.67	2,037.48	1,810.00	2,311.00	2,725.11	3,245.55
Derivative Assets (Short-Term)	147.00	147.00	147.00	147.00	147.00	147.00
Short-Term Investments	291.00	291.00	291.00	291.00	291.00	291.00
Accounts Receivable And Other Receivables	424.78	971.43	1,086.01	1,121.70	1,203.87	1,296.10
Current Income Tax Asset	24.00	24.00	24.00	24.00	24.00	24.00
Other	111.34	111.34	111.34	111.34	111.34	111.34
Total Current Assets	**2,746.79**	**3,581.77**	**3,466.06**	**4,000.03**	**4,493.26**	**5,104.23**
Total Assets	**14,420.65**	**14,922.07**	**14,909.72**	**14,770.31**	**15,465.34**	**16,306.01**
Current Liabilities						
Short-Term Borrow ings	927.60	927.60	927.60	927.60	927.60	927.60
Deferred/Unearned Revenue (Short-Term)	256.09	1,314.71	1,475.89	1,552.85	1,690.01	1,821.98
Trade Payable And Other Payables	1,494.58	1,475.28	1,633.45	1,709.70	1,827.11	1,957.15
Income Taxes Accrued/Payable	-	-	-	-	-	-
Derivative Liabilities (Short-Term)	138.00	138.00	138.00	138.00	138.00	138.00
Short-Term Provisions	192.00	192.00	192.00	192.00	192.00	192.00
Total Current Liabilities	**3,008.26**	**4,047.59**	**4,366.94**	**4,520.14**	**4,774.72**	**5,036.72**
Long-term Liabilities						
Long Term Debt	7,291.60	6,791.60	6,291.60	5,791.60	5,791.60	5,791.60
Deferred/Unearned Revenue (Long-Term)	6.00	6.00	6.00	6.00	6.00	6.00
Pension/Postretirement Liabilities	47.00	47.00	47.00	47.00	47.00	47.00
Deferred Tax Liabilities (Long-Term)	305.00	305.00	305.00	305.00	305.00	305.00
Derivative Liabilities (Long-Term)	72.00	72.00	72.00	72.00	72.00	72.00
Other Provisions For Liabilities And Charges	542.11	956.82	1,004.31	1,007.05	1,028.80	1,062.27
Total Noncurrent Liabilities	**8,263.71**	**8,178.42**	**7,725.91**	**7,228.65**	**7,250.40**	**7,283.87**
Stockholder Equity						
Total Shareholders Equity	**3,148.68**	**2,696.27**	**2,819.69**	**3,026.47**	**3,447.55**	**3,995.84**

Merged company						
Financial year	2020	2021	2022	2023	2024	2025
Start	2020-01-01	2021-01-01	2022-01-01	2023-01-01	2024-01-01	2025-01-01
End	2020-12-31	2021-12-31	2022-12-31	2023-12-31	2024-12-31	2025-12-31
Days	366	365	365	365	366	365
Period number	0	1	2	3	4	5
	F	F	F	F	F	F
1 Income statemenet						
		12.3965				
Ticket revenue	3,536.11	6,498.76	7,251.98	7,583.10	8,211.05	8,819.51
Auxilary revenue	946.22	1,687.81	1,936.60	2,071.36	2,287.99	2,496.26
Other revenue	37.13	107.30	118.06	118.81	125.44	133.59
Revenue	**4,519.46**	**8,293.86**	**9,306.64**	**9,773.27**	**10,624.47**	**11,449.36**
Costs	4,877.64	7,117.31	7,895.90	8,296.20	8,915.25	9,537.89
Fuel	960.75	1,725.88	1,946.05	2,060.37	2,152.50	2,243.01
Airports, ATC, Handling	1,575.50	2,657.92	2,986.17	3,154.04	3,440.79	3,727.51
Crew	802.13	1,284.10	1,434.40	1,499.85	1,624.71	1,753.14
Maintenance	818.22	551.89	527.14	537.10	568.13	598.19
Other costs/(income)	721.04	897.52	1,002.13	1,044.84	1,129.12	1,216.04
EBITDAR	**- 358.18**	**1,176.55**	**1,410.74**	**1,477.07**	**1,709.22**	**1,911.47**
Depreciation	1,008.83	1,015.30	987.33	1,004.23	936.43	959.69
Amortization	15.00	-	-	-	-	-
Rental	5.00	5.00	5.00	5.00	5.00	5.00
Operating profit	**988.83**	**1,010.30**	**982.33**	**999.23**	**931.43**	**954.69**

Exhibit 13. Projected financials of Merged company without taking into account for transaction details, own calculation, mGBP.

WACC Merged	8.13%	
WACC EZJ	9.15%	47%
WACC NWC	7.25%	53%

Tax rate Merged	20.60%	
EZJ	19.00%	47%
NWC	22.00%	53%

Exhibit 14. WACC and Tax rate calculation for the merged company, own calculation.

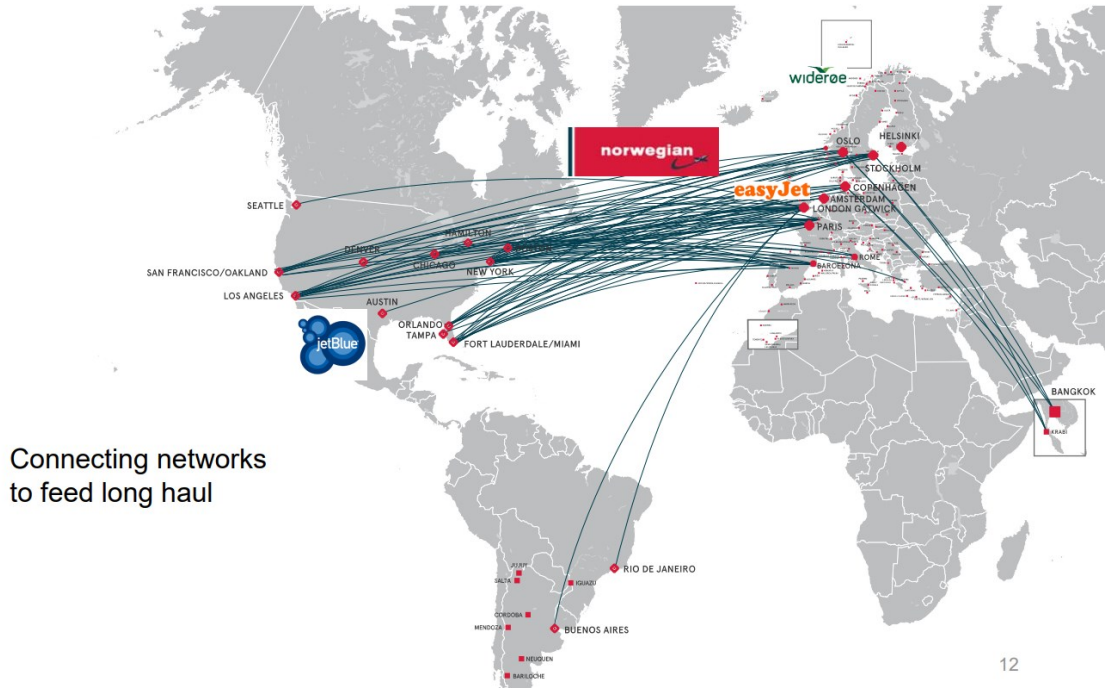


Exhibit 15. Long-haul network of Norwegian, company data.

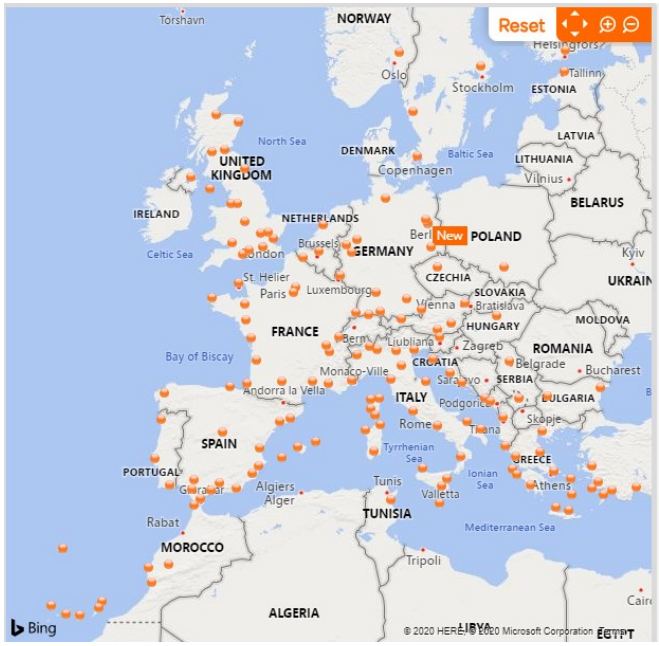


Exhibit 16. Short-haul network of EasyJet, company data.

Deal Summary			2021E	2022E
EasyJet share price	£5.68	EPS acc. / dil. %	(211.8%)	15.6%
Offer share price	£0.53	Add. synergies to break-ev	108.4	0.0
Offer premium	20.0%			
Equity purchase price	987	EasyJet EV / EBITDA	6.0 x	5.2 x
Acquisition EV	5,384	Norwegian EV / EBITDA	11.6 x	9.4 x
		Norwegian unaffected P/E	(11.1)x	26.9 x
% Cash financing	29%	Acquisition P/E	(13.3)x	32.3 x
% Debt financing	57%	EasyJet P/E	(3.9)x	60.2 x
% Stock financing	14%	Debt P/E	41.2 x	41.2 x
Exchange ratio	0.0139	% Acquirer ownership	93.8%	
Cash per share	€0.45	Net Debt to EBITDA	6.3 x	5.2 x

Exhibit 17. Deal summary, own calculation.

	2022 EPS Accretion/Dilution Sensitivity						
	% Stock Financing						
Offer Premium	15.6%	0%	20%	40%	60%	80%	100%
	0%	23.5%	17.8%	12.8%	8.3%	3.3%	(2.2%)
	10%	22.1%	15.9%	10.6%	6.0%	1.0%	(4.7%)
	20%	20.7%	14.1%	8.5%	3.7%	(1.1%)	(7.2%)
	30%	19.2%	12.3%	6.4%	1.5%	(3.2%)	(9.5%)
	40%	17.8%	10.5%	4.4%	(0.7%)	(5.2%)	(11.6%)
	50%	16.4%	8.7%	2.5%	(2.8%)	(7.2%)	(13.7%)
	60%	14.9%	7.0%	0.6%	(4.8%)	(9.2%)	(15.7%)
	70%	13.5%	5.3%	(1.3%)	(6.7%)	(11.2%)	(17.6%)
	80%	12.1%	3.6%	(3.1%)	(8.6%)	(13.1%)	(19.4%)
	90%	10.6%	1.9%	(4.9%)	(10.4%)	(14.9%)	(21.2%)
	100%	9.2%	0.3%	(6.7%)	(12.2%)	(16.7%)	(22.8%)

Exhibit 18. EPS Dilution analysis, own calculation.

	Ownership Dilution Sensitivity						
	% Stock Financing						
Offer Premium	93.8%	0%	20%	40%	60%	80%	100%
	0%	100.0%	93.2%	87.3%	82.1%	77.4%	73.3%
	10%	100.0%	92.6%	86.2%	80.6%	75.7%	71.4%
	20%	100.0%	92.0%	85.1%	79.2%	74.1%	69.6%
	30%	100.0%	91.3%	84.1%	77.9%	72.5%	67.9%
	40%	100.0%	90.7%	83.1%	76.6%	71.0%	66.2%
	50%	100.0%	90.1%	82.1%	75.3%	69.6%	64.7%
	60%	100.0%	89.6%	81.1%	74.1%	68.2%	63.2%
	70%	100.0%	89.0%	80.1%	72.9%	66.9%	61.7%
	80%	100.0%	88.4%	79.2%	71.8%	65.6%	60.4%
	90%	100.0%	87.8%	78.3%	70.7%	64.4%	59.1%
	100%	100.0%	87.3%	77.4%	69.6%	63.2%	57.8%

Exhibit 19. Ownership Dilution analysis, own calculation.

SENSITIVITY ANALYSIS					
Offer Premium	2021 EPS Acc/Dil	Synergies to break-even	2022 EPS Acc/Dil	Synergies to break-even	Net Debt to EBITDA
	(211.8%)	108.4	15.6%	0.0	6.3
0%	(204.3%)	103.5	19.1%	0.0	6.1 x
10%	(208.1%)	106.0	17.4%	0.0	6.2 x
20%	(211.8%)	108.4	15.6%	0.0	6.3 x
30%	(215.6%)	110.9	13.9%	0.0	6.3 x
40%	(219.2%)	113.4	12.2%	0.0	6.4 x
50%	(222.9%)	115.8	10.5%	0.0	6.4 x
60%	(226.5%)	118.3	8.8%	0.0	6.5 x
70%	(230.0%)	120.8	7.2%	0.0	6.6 x
80%	(233.6%)	123.2	5.5%	0.0	6.6 x
90%	(237.0%)	125.7	3.9%	0.0	6.7 x
100%	(240.5%)	128.2	2.3%	0.0	6.7 x

Combo Shares Calculations	
No. shares - acquirer	397.2
No. new shares	26.1
No. shares - combo	**423.3**
Exchange ratio	0.01394

Goodwill Calculation	
Equity purchase price	986.6
Target equity	495.8
- Existing target goodwill	0.0
= Fair value of net assets purchased	**495.8**
GOODWILL	**490.8**

EPS Analysis	2021E	2022E
Combo EPS	-€0.11	€0.41
Acquirer EPS	€0.09	€0.35
Accretion / (dilution) %	**(211.8%)**	**15.6%**
Additional synergies to break-even	108.4	0.0
Acquisition P/E	(13.3) x	32.3 x
Buyer P/E	(3.9) x	60.2 x
Debt P/E	41.2 x	41.2 x

Balance Sheet Information				
	EasyJet 31-Dec-20	Norwegian 31-Dec-20	Adjust.	Combo 31-Dec-20
Cash and cash equiv.	1,678.5	70.1	(300.0)	1,448.7
PP&E	5,524.1	4,917.4		10,441.5
Goodwill	365.0	0.0	490.8	855.8
Other assets	1,350.0	515.5		1,865.5
Total Assets	**8,917.6**	**5,503.0**		**14,611.4**
Financial Debt	3,752.0	4,467.2	592.4	8,811.6
Other Liabilities	2,738.6	540.0		3,278.6
Shareholders' equity	2,427.1	495.8	(401.7)	2,521.2
Total L&E	**8,917.6**	**5,503.0**		**14,611.4**
Check	*OK*	*OK*		*OK*

Exhibit 20. Further deal analysis, own calculation.

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