

EasyJet rejects takeover approach from rival Wizz Air

Low-cost UK carrier refuses to rule out future M&A, indicating it might become a target or an acquirer

Philip Georgiadis and Oliver Ralph 10 Sept 2021

EasyJet has rejected a takeover approach from rival Wizz Air, as the Hungarian carrier pursues an aggressive expansion into western Europe to take advantage of the worst crisis in the history of aviation.

Luton-based easyJet said on Thursday that it had received an approach in a “low premium and highly conditional” all-share deal, which the board “had no hesitation in rejecting”. The unsolicited approach was from Wizz Air, according to a person briefed on the matter. Despite rejecting the approach, easyJet’s leadership believes consolidation in the airline industry following the pandemic is inevitable, said a different person familiar with the situation. The company refuses to rule out M&A in the future, indicating it might become a target or an acquirer, this person added.

The group revealed the approach as it announced a £1.2bn rights issue to help it through the crisis, which is set to dilute the influence of founder and largest shareholder Sir Stelios Haji-Ioannou.

Haji-Ioannou is unlikely to participate in the equity raise, which means his 25 per cent stake will be diluted, according to a person close to the businessman.

The news undermined the share price, which dropped 10 per cent to 706.80p by mid-afternoon in London. With the company’s stock at half its pre-pandemic price, the offer, which was made in the past few weeks, “significantly undervalued” the group, said chief executive Johan Lundgren.

The carrier is no longer considering an offer, he added, stressing his confidence that easyJet can grow as the industry starts to recover from the pandemic. EasyJet did not comment on who made the approach and Wizz Air declined to comment.

A tie-up would have united two airlines that have pursued different strategies in the European short-haul market at a time when aviation is still reeling from the Covid-19 crisis.

Wizz Air’s chief executive Jozsef Varadi has promised to use the crisis to expand aggressively into western Europe. The carrier has grown rapidly over the past 10 years through an ultra-efficient business model, including particularly low staffing costs. It is one of a few airlines with shares trading above their pre-pandemic levels.

In contrast, easyJet does not have the sort of ultra-low-cost base to match Wizz Air or Europe’s other main budget airline Ryanair. Despite pioneering no-frills airlines of the 1990s, the airline has since shifted focus on to winning market share from national flag carriers such as British Airways, Air France-KLM and Lufthansa.

The rights issue is a sign of the continuing stress for airlines, with the carrier hoping it will help withstand “potential prolonged market challenges”, including the risk that travel restrictions last into 2022, the company said.

Haji-loannou, who supports the raise in principle but has clashed repeatedly with the current management, has previously said he would only put more money into the business if management agreed to trim the size of its fleet.

The rights issue is priced at 410p a share, representing a deep discount of 36 per cent on the airline's closing share price on Wednesday.

EasyJet lost more than £2bn during the crisis, including suffering its first annual loss in its 25-year history in 2020. The company expects to fly less than two-thirds of its normal flight schedule for the rest of the year.

Despite the challenges, Lundgren said the carrier was in a position to grab market share from legacy airlines that face a longer and more difficult path to recovery. It has already identified take-off and landing slots that have become available as other airlines retreat, he said.

The carrier had access to £2.9bn of liquidity at the end of June, having raised more than £5.5bn since the start of the crisis, including a £400m share placing in June 2020.

Mark Simpson, an aviation analyst at Goodbody, said the new funding "clearly resolves all issues with regards to its balance sheet".

"We didn't feel they had to raise more cash at this time," he added.

Alongside the rights issue, easyJet said it had secured a new \$400m revolving credit facility from its banks.