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Matthew Lynn

Wizz Air's approach puts easyJet on amber alert

Low-cost airline has brushed off the takeover offer from its rival, but consolidation is coming and it must either lead or be swept up

It undervalues the business. It is opportunistic. And the business has a bright future as an independent company. Airline easyJet had no trouble yesterday dismissing a takeover offer from its Hungarian rival Wizz Air. It does not appear, on the surface at least, to have been a serious attempt to combine the two low-cost operators.

The trouble is, easyJet cannot simply tell its rival to Wizz off, tap its shareholders for another billion and sail off into the sunset (or at least the budget airline equivalent, a four-hour delay in Malaga in the middle of the night) to live happily ever after. In truth, the glory days of low-cost flying are over. The sector needs some form of consolidation. And the bright orange airline will need to decide whether it wants to lead that – or simply sell itself to the highest bidder.

Any shareholders hoping for a Morrisons-style auction for easyJet will have been disappointed by the company's statement yesterday. An approach had been made, it noted tersely, understood to be from Wizz Air, but had been swiftly rejected. Instead, it was raising an extra £1.2bn from shareholders to put itself back on a stable path. A few booster jabs, some vaccine passports and we will also be jetting off for long weekends in Dubrovnik and stag parties in Prague the same way we did before any of us had ever heard of Wuhan. The 20-year growth story that had made easyJet one of the most successful airlines of the last two decades would be quickly resumed.

The share price, however, told a slightly different story. The airline's shares fell sharply as investors digested the news. True, much of the drop can be attributed to the deeply discounted share issue designed to repair its balance sheet. But it also tells you something more worrying. No one really believes that budget airlines will ever quite get back to where they were in 2019.

Along with its main rivals, easyJet faces three huge structural problems.

First, the pandemic has grounded the travel industry. And as lockdowns are eased there will be a swift bounce back on demand. Most of us are desperate to start travelling again. And yet, tests and Covid passports will remain with us for a long time to come. The truth is we will still fly, but not as much as we used to. It is too much hassle. Even if travel only drops by 20pc that threatens the viability of the whole industry.

> *'The orange may not be to everyone's taste, but it has built up a formidable brand'*

Next, climate change. Aviation will be the industry that is hardest hit as we move to a net-zero economy. There might be an electric plane one

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day but it is a long way off. Until then, flying is dependent on fossil fuels, and there is nothing that can be done about it. Governments will inevitably start taxing aviation fuel, perhaps at the same punitive rates they now tax diesel. Customers will start flying less and less, and environmentally aware companies will swap meetings for Zoom. Put it all together and the industry will have to be a lot smaller.

Finally, there will be more competition. The vast sums of money thrown at green technologies means high-speed trains will start to rival A320s on many routes (and governments will subsidise them while punishing air travellers). Just as seriously, France, Germany and Italy have all bailed out their national airlines with huge amounts of cheap money. In aviation, the cost of capital is crucial (all those planes are expensive!). The budget airlines are competing with what are effectively state-owned carriers. It isn't fair. But it will still be very tough. The net result? Demand will never get back to where it was and neither will profits.

A permanently shrunken industry will need to consolidate if it is to survive and easyJet should be in a strong position to lead that. The bright orange might not be to everyone's taste, but it has built up a formidable brand. It is trusted and in the flying industry that counts for a lot. It has always smartly positioned itself in the market. It is not a cattle car with wings, like a certain Irish carrier that doesn't need to be mentioned. But nor is it an overpriced, arrogant, over unionised dinosaur like many of the national flag carriers that dominate the skies. Like Tesco, it is somewhere in the middle: excellent value but still a decent product and that is where the long-term mass market is.

It has formidable logistical capabilities and decent IT, the two keys to low-cost aviation. And it has access to the London capital markets to raise money. Add it all up and easyJet should be leading the consolidation of Europe's budget airline industry, rationalising fleets, routes and landing slots so that profitability and services are maintained. If anything it should be taking over Wizz Air and not the other way around. Alternatively, perhaps it should auction itself off to the highest bidder. Either way, there will be takeovers and mergers in the sector over the next few years. EasyJet's board can reject this offer. But sooner or later it will have to start finding partners. If not, there will be higher offers – and it can't tell them all to Wizz off.

Ben Marlow is away

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