

## EasyJet: EZJ

### Rating: Sell

Current Price: £5.36 (GBX 536)

Price Target: £3.75 (GBX 375)

### Industry Description (NAICS48111)

### Company Description

#### easyJet

EasyJet plc operates as a low-cost airline, providing scheduled flights across an extensive network of European destinations. In addition to its core air passenger services, the company offers ancillary services such as in-flight sales, baggage options, and car rentals. Founded in 1995, EasyJet is headquartered in Luton, England and is recognised as one of the largest budget airlines in Europe.

### EasyJet's Position Amid Pilot Shortage and Market Pressures

#### • Pilot Shortage and Brexit Labour Constraints

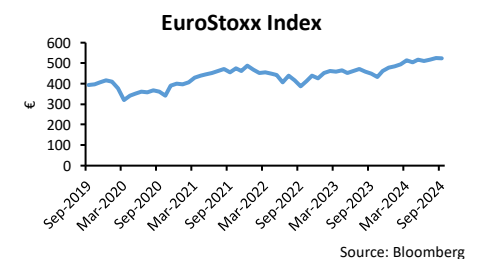
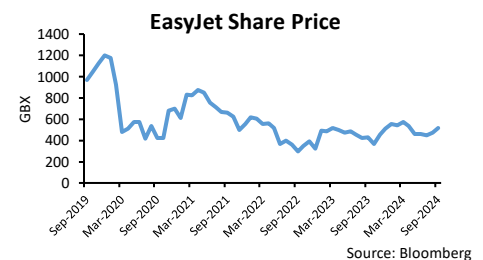
EasyJet, one of Europe's largest budget airlines, is facing a severe pilot shortage worsened by Brexit, which limits access to EU pilots. Competing with British Airways and other carriers that offer higher pay and more varied routes, EasyJet struggles to attract talent. Despite new recruitment initiatives, lengthy training periods mean it could take years to fully onboard new pilots, reducing flight capacity.

#### • Loss of Experienced Pilots: Interview Insights

Our interviews with five pilots from competing airlines, including Ryanair and Aer Lingus, highlighted key factors driving pilot transitions: higher pay, opportunities to operate larger aircraft, more convenient main airport hubs. The interview also reveals that EU citizen pilots are reluctant to work in the UK unless the relocation packages are exceptionally attractive. These insights support our projection that EasyJet could lose around 150 pilots per year to competitors over the next two years. With British Airways and Virgin Atlantic offering more attractive packages and varied long-haul opportunities, EasyJet faces significant challenges in retaining its pilots, which will constrain its flight operations and reduce its revenue potential.

#### • Rising Operational Costs and Profitability Concerns

The pilot shortage, combined with air traffic delays and Brexit-related challenges, is eroding EasyJet's profitability. Given its reliance on frequent, low-cost flights, ongoing pilot shortages and increased costs threaten EasyJet's revenue and its competitive edge in the budget airline market.



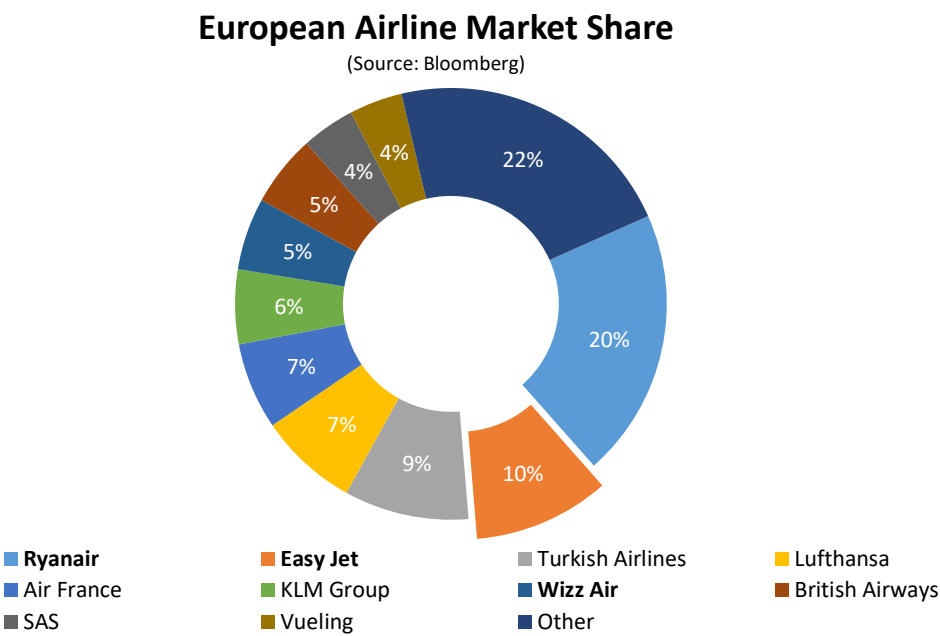
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## Company Overview

EasyJet, founded in 1995, is a British low-cost airline based at London Luton Airport. It was established by Greek-Cypriot entrepreneur Stelios Haji-Ioannou, who became interested in budget air travel after exploring a potential investment in Virgin Atlantic’s Greek franchise. With a £5 million loan from his father, Stelios launched EasyJet, inspired by the low-cost airline model of Southwest Airlines.

Today, EasyJet is one of Europe’s largest budget airlines, operating over 300 aircraft and serving more than 150 airports across 30+ countries. Following a low-cost model similar to Ryanair, EasyJet uses unbundled pricing, allowing passengers to pay separately for services like seat selection and luggage.



## Current Landscape

### European Air Transport Industry

Air transport plays a vital role in the European economy, with over 100 scheduled airlines, a network exceeding 400 airports and 60 air navigation service providers. The aviation sector directly employs between 1.4 and 2 million people and supports between 4.7 and 5.5 million jobs directly and indirectly. This growth can largely be attributed to the creation of a single European market for aviation in the 1990s. Previously, the industry was highly regulated, dominated by national flag carriers and state-owned airports. The establishment of the internal market removed all commercial restrictions for airlines operating within the EU, including limitations on routes, the frequency of flights and fare-setting. This liberalisation allows EU airlines to operate on any route within the Union, resulting in significantly lower prices, the emergence of new business models and a dramatic increase in route options. Low-cost carriers such as Ryanair, EasyJet and Wizz Air have led this progress, intensifying competition and expanding choices for travellers.

Since the pandemic, Europe’s air transport industry has shown significant recovery, but it now faces several post-pandemic challenges.

- **Labour Shortages: Pilot Shortage**

A major shortage of pilots is straining the sector due to pandemic-era layoffs, early retirements and limited new pilot training. <sup>i</sup>By 2032, Europe could face a shortfall of 19,000 pilots, adding €1.4 billion annually in labour costs, training expenses and operational disruptions. This shortage has led to increased delays and cancellations across the industry.

- **Air Traffic Control (ATC) Delays and Congestion**

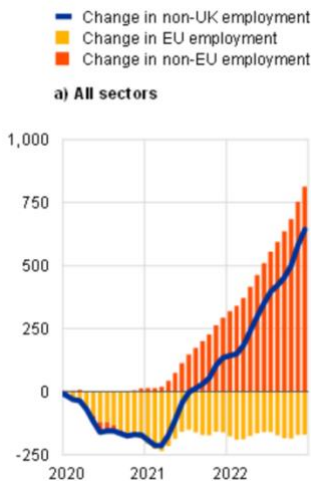
<sup>ii</sup>Traffic across European airspace has surged by 10-20% compared to 2019 (pre-pandemic levels), marking the highest growth rate in Europe’s aviation history. <sup>iii</sup>In June 2024, the daily average reached 33,671 flights, up from 32,010 in June 2023 - an increase of 5.2% network-wide. However, this increase has led to greater delays, with June 2024 experiencing 4.7 million minutes of delay, a 1.1 million minute increase over June 2023’s 3.6 million minutes.

These delays are costing airlines an estimated €2-3 billion annually in extra operational expenses and passenger compensation and are affecting the broader European economy by €15-17 billion due to inefficiencies. Eurocontrol has identified adverse weather conditions as a leading cause of these delays, alongside growing air traffic and infrastructure limitations. Without significant modernisation of air traffic control (ATC) infrastructure, congestion and associated economic costs are expected to continue rising.

- **Brexit Impact on Single Market Regulation and Passengers/Employment Trend Changes**

Brexit has introduced new regulatory complexities, particularly affecting airlines that operate between the EU and the UK. British airlines no longer have automatic access to the EU’s single aviation market, which previously allowed them unrestricted access to EU routes. This change has forced British airlines to restructure operations or set up subsidiaries within the EU to retain market access, increasing operational costs and complexity. EU airlines flying to and from the UK are also impacted, as they must navigate new regulatory and tax obligations.

The UK's post-Brexit immigration rules now require most EU citizens to apply for work visas, which has reduced the influx of EU workers and encouraged many employers to seek talent outside Europe. EU employment in the UK has continued to decline due to the end of free movement. This restriction has not only reduced EU workforce numbers but also led to labour shortages in several industries, further accelerating the trend toward recruiting non-EU workers.

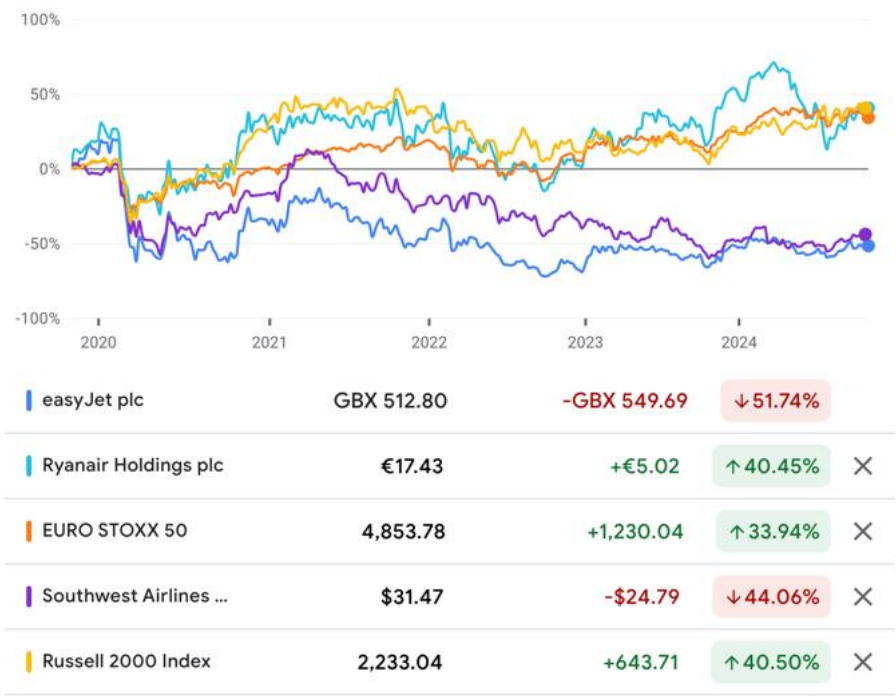


Source: Office of National Statistics (UK), 2024

• Key Challenge to EasyJet

Considering the key challenges mentioned above, we found that air traffic control delays and congestion affect airline companies across Europe relatively equally. However, the pilot shortage has a more varied impact, affecting different airlines to different extents. Brexit impacts British airlines more significantly, especially those with routes focused on the UK, but the long-term regulatory changes and direction are challenging to quantify for forecasting purposes. Therefore, our forecast focuses on the pilot shortage, which we can quantify with concrete data.

To support our key assumption regarding the pilot shortage issue, we investigated its impact on Southwest Airlines, which serves as a business model for EasyJet and its major competitor, Ryanair. The pilot shortage has emerged as a significant challenge for Southwest Airlines, contributing to a decline in its share price. We compared the relative performance of EasyJet, Ryanair and Southwest Airlines, as well as the overall market performance in Europe and the U.S. over the past five years. The results show:



Source: Google Finance as of 1 November 2024

## Pilot Shortage Issue

Compared to other sectors, operational resources in the airline industry can be relatively straightforward to identify, as they revolve around securing and managing core resources like aircraft, pilots and fuel. The success of an airline’s business model can thus be assessed by its ability to acquire these resources and operate them efficiently. Given the intense competition among airlines for a limited pool of qualified pilots, our analysis focuses on how effectively EasyJet recruits and retains its pilots. Currently, EasyJet is dealing with a substantial pilot shortage. <sup>iv</sup>The airline has responded by launching a campaign to recruit 1,000 new pilots since April and it continues to accept applications. However it faces strong competition from <sup>v</sup>British Airways and other airlines vying for talent. While pilot shortages are affecting airlines across Europe, British carriers face additional challenges due to restricted labour mobility following Brexit, which has exacerbated the difficulty in securing qualified personnel from the EU.

easyJet

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CONSUMER

easyJet reopens applications for 2024 Pilot Training Programme in drive to recruit 1000 new pilots

- easyJet reopens applications for 200 aspiring pilots to join its 2024 Generation easyJet Pilot Training Programme, as part of drive for 1000 new pilots to join the airline by 2028
- With only 6% of pilots worldwide being women easyJet has been working to tackle stereotypes and misconceptions about the job and encourage more women to apply



While EasyJet is actively recruiting pilots through its training programme, candidates must undergo an extensive training period, typically lasting between 18 and 36 months, followed by in-flight training as part of their placement. To put this timeline into perspective, it is comparable to a three- to four-year university degree. Additionally, candidates are generally required to log a minimum of 1,500 flight hours to qualify fully as pilots. Historically, the programme has seen an average drop-off rate of around 80%, reflecting the rigorous standards and commitment required to complete training successfully. Regarding the 2024 Pilot Training Programme, the aim is to recruit approximately 200 pilots over the next three years. In the airline industry, the estimated cost for recruiting and training this number of pilots ranges between £20–25 million (over £100,000 cost per head). This figure accounts for recruitment expenses, intensive training programs and mandatory in-flight hours required for full certification.

Airlines

# British Airways and easyJet battle to recruit pilots at Gatwick

21st Oct 2024, 16:29. Written by William Hollowell



<https://www.thetimes.com/business-money/companies/article/pilot-wars-ba-and-easyjet-fight-for-staff-as-air-travel-rebounds-6sl2vxvh0>



# Forecast Methodology

Our forecast incorporates the impact of the pilot shortage on revenue projections. The underlying formula is provided below, and we also include a pilot movement scenario analysis to quantify the expected number of pilots transitioning during the forecast period.

## Revenue Forecast Formula

- $R = P \times F \times A$

Where:

- $R$ : Total Revenue
- $P$ : Average Passenger Fare
- $F$ : Number of Flights Operated
- $A$ : Average Number of Passengers per Flights

## Influence of Pilots on Flights Operated

- $F = k * N / 2$

Where:

- $F$ : Number of Flights Operated
- $k$ : Average number of flights per pilot
- $N$ : Total Number of Pilots

In this formula,  $k$  represents the average number of flights operated by each pilot. Since each flight requires 2 pilots, the total number of flights operated  $F$  is calculated by dividing the product of  $k$  and  $N$  (the total number of pilots) by 2.

## Pilot Movement Scenario

### 1. Key Assumption:

This analysis focuses on pilot movement among three major UK-based airlines—EasyJet, British Airways and Virgin Atlantic (partially owned by Delta Airlines) - against the backdrop of intense competition for pilot recruitment stemming from a global pilot shortage. We have excluded the possibility of EasyJet hiring pilots from outside the UK due to Brexit-related restrictions on EU employment. Additionally, the ongoing global pilot shortage, which affects regions from the Americas to Asia, suggests that EasyJet will encounter challenges in recruiting pilots internationally.

### 2. Interview Insights:

To understand the key incentives driving pilot movement, we interviewed five pilots—three from Ryanair and two from Aer Lingus. The participants, aged mid-30s to late 40s, include Irish, German and Dutch nationals, reflecting the average European pilot profile. While the sample size is small, the findings align with the priorities recognised by airline HR departments, as confirmed by an informal interview with an HR manager from an Irish airline.

From the interviews, key Pilot Movement Incentives Identified:

- Compensation Schemes (Salary Increases)
- Opportunities to Operate Larger Aircraft (Enhanced Pilot Experience)
- Loyalty/Pride (National Flag Carrier/Preference for Globally Recognised Airlines)
- Working Environment (Convenience of Main Airport Hub)
- Work-Life Balance (Family and Educational Considerations)

The interview reveals that EU citizen pilots are hesitant to work in the UK unless the relocation packages are very attractive. This reluctance is due to factors like the need for additional documentation (work/resident visa post-Brexit), currency differences (GBP for families in the Eurozone), and the lack of an automatically transferable pension scheme.

3. Comparison

Based on insights into pilot movement incentives from the interviews, our analysis presents the following comparison among the three major UK-based airlines:

Criteria	EasyJet	British Airways	Virgin Atlantic
Pilot Average Salary	£65,000	£90,000	£74,000
Aircraft Experience Opportunity	Short-Haul within Europe	Short and Long-Haul (including A380-800)	Short and Long-Haul
Loyalty/Pride	Neutral	National Flag Carrier	Neutral
Main Airport Hub	London Luton	London Heathrow	London Heathrow
Average Pilot Contract Period	1-3 years (Budget Airline)	3-5 years (European Standard)	3-5 years (European Standard)
Pilot Recruitment Plan	200	200	100

Source: Company websites, Informal interviews

British Airways offers pilots diverse aircraft experiences, including long-haul models like the A380-800, while EasyJet focuses on short-haul flights. British Airways also carries a sense of prestige as the national carrier, making it more attractive to British pilots. Both British Airways and Virgin Atlantic offer extensive international routes, providing valuable long-haul experience that enhances pilots' qualifications. Additionally, British Airways and Virgin Atlantic operate out of London Heathrow, easily accessible via public transport, while EasyJet's Luton hub is less convenient. Heathrow's accessibility offers advantages for pilots seeking work-life balance, especially for those living in London, making it a more appealing choice for professionals.

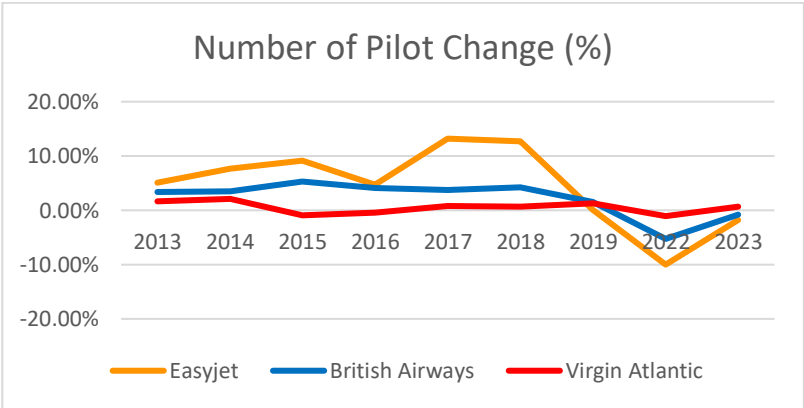
4. Forecast

We projected that 300 experienced pilots (the total number being hired by competitors) would leave EasyJet over the next two years, with this exit happening uniformly throughout that period. This scenario is based on the following factors:

- (1) After the pandemic, when the pilot shortage became a significant issue, EasyJet experienced the largest loss of pilots, indicating that EasyJet has the weakest pilots retention capability compared to its competitors.

	2012	2013	2014	2015	2016	2017	2018	2019	2022	2023
EasyJet	1,985	2,086	2,247	2,453	2,568	2,907	3,276	3,278	2,950	2,898
Change		5.09%	7.72%	9.17%	4.69%	13.20%	12.69%	0.06%	-10.01%	-1.76%
British Airways	3,372	3,486	3,608	3,799	3,956	4,103	4,278	4,346	4,117	4,085
Change		3.38%	3.50%	5.29%	4.13%	3.72%	4.27%	1.59%	-5.27%	-0.78%
Virgin Atlantic	798	811	828	820	816	822	827	838	829	835
Change		1.63%	2.10%	-0.97%	-0.49%	0.74%	0.61%	1.33%	-1.07%	0.72%

Number of Pilots, Source: Company reports, Statista



- (2) Sample interviews suggest that EasyJet is the least attractive airline for pilots. Individual pilots are aware that the most competitive compensation packages are likely to be available within the next two years, before new pilot training programs begin to yield new pilots in the industry.



# Revenue Forecast

Our scenario forecast suggests that approximately 300 experienced pilots from EasyJet will transition to either British Airways or Virgin Atlantic over the next two years. Based on this projection, we applied the formula below to analyse how the number of pilots affects revenues.

## Revenue Forecast Formula

- $R = P \times F \times A$
- Where:
- $R$ : Total Revenue
- $P$ : Average Passenger Fare
- $F$ : Number of Flights Operated
- $A$ : Average Number of Passengers per Flights

Historical Figures:

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2022	FY 2023
Avg Passenger Fare (P)	£ 65.99	£ 70.03	£ 69.90	£ 62.48	£ 58.46	£ 58.23	£ 61.94	£ 60.81	£ 66.23	£ 79.84
Number of Flight Operated (F)	393,427	399,740	424,895	446,026	467,112	504,786	544,000	592,000	469,000	547,000
Avg Number of Passengers (A)	148	152	152	168	171	172	175	177	186	187
Revenues (millions)	£ 3,854.00	£ 4,258.00	£ 4,527.00	£ 4,686.00	£ 4,669.00	£ 5,047.00	£ 5,898.00	£ 6,385.00	£ 5,769.00	£ 8,171.00

Source: Bloomberg

To estimate average figures for the forecast, we excluded data from the pandemic period, as it represents abnormal outliers.

## Influence of Pilots on Flights Operated

- $F = k * N/2$
- Where:
- $F$ : Number of Flights Operated
- $k$ : Average number of flights per pilot
- $N$ : Total Number of Pilots

Based on the data above, we defined the variable  $k$  as the influence factor representing the average number of flights each pilot operates.

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2022	FY 2023
Number of Flight Operated (F)	393,427	399,740	424,895	446,026	467,112	504,786	544,000	592,000	469,000	547,000
Total Number of Pilots (N)	2,052	2,086	2,247	2,453	2,568	2,907	3,276	3,278	2,950	2,898
$k = F*2/N$	384	383	378	364	364	347	332	361	318	378

Source: Bloomberg, EasyJet Company Data, Own Calculation for k

Excluding the pandemic period, we calculated an average  $k$  value of 361, which will be used in our revenue forecast. We do not anticipate this value to exceed 361, as it reflects each pilot operating a flight approximately every two other days throughout the year. Given the current frequency of pilot strikes, it is unlikely the workload will exceed this level.

Based on our scenario projection, we project that these 300 EasyJet pilots will transition over the next two years (2025-2026). Considering average contract lengths (1-3 years) for EasyJet pilots, we will use a uniform distribution for our projection, estimating 150 pilots per year. Following this, we expect the training programme to start filling the gap, anticipating 200 pilots beginning in 2027, with an estimated 100 new pilots per year (2027-2028). EasyJet's current pilot training programme aims to enrol 1,000 participants, and considering an average drop rate of 80%, we expect approximately 200 pilots to complete the program.

- The growth in average passenger fare is projected to align with expected inflation at 2% in UK and Eurozone, consistent with the historical average.
- The average number of passengers is set at 187, reflecting an average fleet capacity of 204 and EasyJet’s historically stable load factor of 0.9.

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2022	FY 2023
Load Factor	88.70	89.30	90.60	91.50	91.60	92.60	92.90	91.50	85.50	89.30

Unit: %, Source: Bloomberg

- EasyJet has no plans to acquire larger aircraft, which we consider impractical given the current pilot shortage.

Our revenue forecast, based on these assumptions, is as follows:

	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Avg Passenger Fare (P)	£ 81.71	£ 83.34	£ 85.01	£ 86.71	£ 88.44	£ 90.21	£ 92.02
Number of Flight Operated (F)	505,400	478,325	451,250	460,275	469,300	478,325	487,350
Avg Number of Passengers (A)	187	187	187	187	187	187	187
Total Number of Pilots (N)	2,800	2,650	2,500	2,550	2,600	2,650	2,700
Revenues (millions)	£ 7,726	£ 7,455	£ 7,173	£ 7,463	£ 7,762	£ 8,069	£ 8,386
Revenues Growth	-5.44%	-3.51%	-3.77%	4.04%	4.00%	3.96%	3.92%

## Operating Expenses

### Cost of Goods Sold (COGS)

#### Fuel Costs

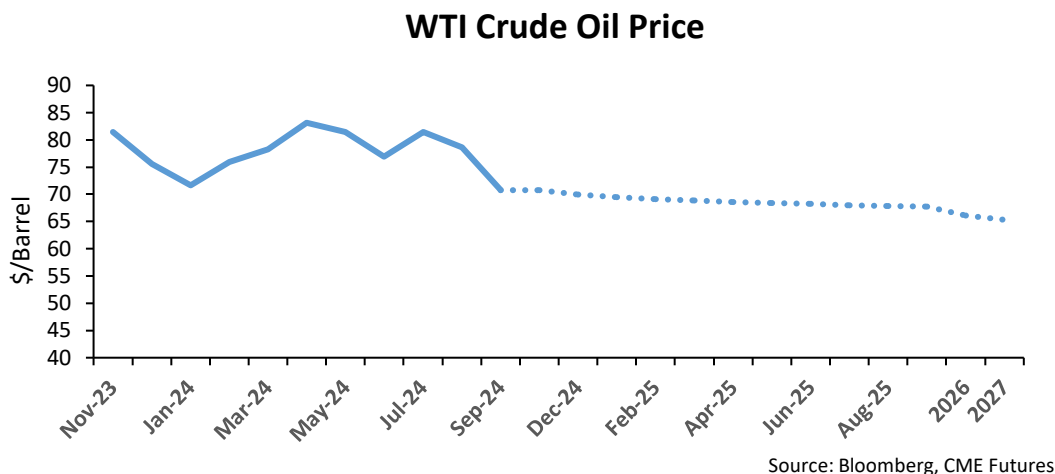
To forecast out Fuel costs we ran a regression with revenue % change YoY (X1) and fuel price % change YoY (X2) as the predictor variables and fuel costs % change YoY as the dependent variable excluding covid years.

$$Y = -0.044 + 1.398X^1 - 0.02X^2$$

Regression Statistics	
Multiple R	0.932259234
R Square	0.869107279
Adjusted R Square	0.803660918
Standard Error	0.108249017
Observations	7

We have taken the expected cost per barrel of Crude Oil from CME Futures.

Year	2024 A	2025 E	2026 E	2027 E	2028 E	2029 E	2030 E
Fuel Price / Barrel (\$)	85	70	69	69	68	67	67



Using the regression equation we form the following forecast for EasyJet fuel costs.

(Unit: £ million, Source: Bloomberg, Own forecast)

	FY 2018	FY 2019	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
<b>Fuel Costs</b>	1,184	1,416	1,279	2,033	1,789	1,622	1,464	1,482	1,500	1,516	1,532
<b>Growth</b>	11.50%	19.60%	-9.70%	59.00%	-12.00%	-9.30%	-9.70%	1.20%	1.20%	1.10%	1.10%

## Salaries/Wages

For Salaries/Wages, it has remained in the range of 11.5% - 13.45% so we have found it prudent to take a 5-year average of 12.73% and grow it out into the future following our revenue projections that account for pilot numbers.

(Unit: £ million, Source: Bloomberg, Own forecast)

	FY 2018	FY 2019	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
<b>Wages</b>	761	859	767	941	966	949	913	950	988	1,028	1,068
<b>% Revenue</b>	12.90%	13.45%	13.30%	11.52%	12.50%	12.73%	12.73%	12.73%	12.73%	12.73%	12.73%

## SG&A

For SG&A we have found it fluctuating around 33%-39% of revenue, so we have taken a rolling 5-year average in order to slowly phase out this volatility and to provide a more accurate forecast. (Unit: £ million, Source: Bloomberg, Own forecast)

	FY 2018	FY 2019	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
<b>SG&amp;A</b>	2,270	2,461	2,363	2,605	2,781	2,803	2,684	2,776	2,829	2,980	3,113
<b>% Revenue</b>	38.49%	38.54%	40.96%	34.00%	36.00%	37.60%	37.42%	37.20%	36.44%	36.93%	37.12%

## Other Operating Expenses

We have found other operating expenses as a percentage of revenue to be increasing on average 1.5% per year and so we have increased it at this rate until 2027 when we have then taken a constant % of revenue of 29.9%.

(Unit: £ million, Source: Bloomberg, Own forecast)

	FY 2018	FY 2019	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Other OPEX	1,087	1,183	1,349	2,119	2,081	2,120	2,147	2,234	2,323	2,415	2,510
% Revenue	18.40%	18.50%	23.40%	25.90%	26.90%	28.40%	29.90%	29.90%	29.90%	29.90%	29.90%

## Capital Expenditures (CAPEX), D&A

### Capital Expenditures (CAPEX)

Capex has remained very constant as a % of revenue barring 2018 and 2019 when the company agreed purchases of new aircraft. As the company have no plans of purchasing further aircraft, we believe it acceptable to take the long run average of 10% as the company’s CAPEX into the future.

(Unit: £ million, Source: Bloomberg, Own forecast)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Capex	426	509	549	586	931	954
% Revenue	9.40%	10.90%	11.80%	11.60%	15.80%	14.90%

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Capex	501	677	773	746	717	746	776	807	839
% Revenue	8.70%	8.30%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%

### Depreciation & Amortisation (D&A)

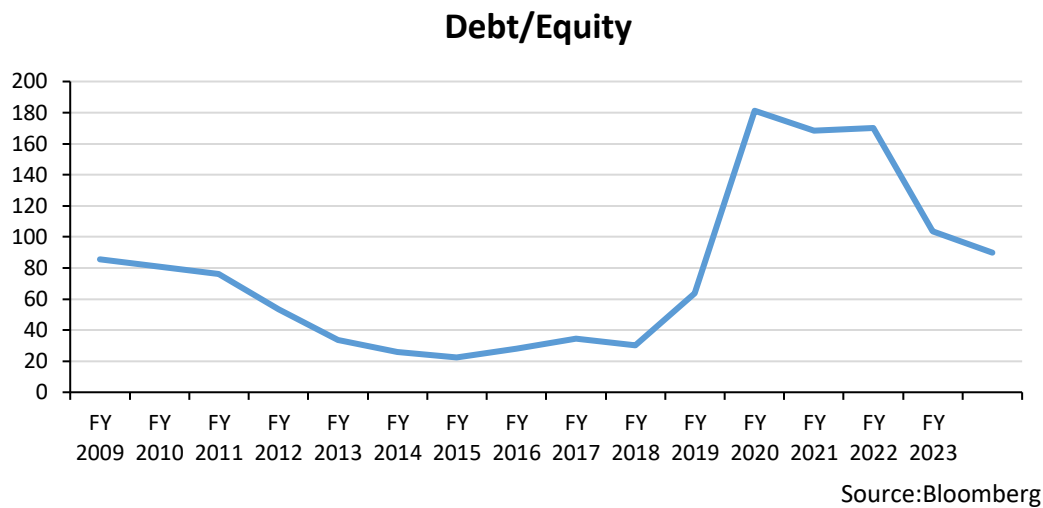
For D&A we have found that the company, due to increased flight volume and aircraft leasing since 2018 has led to an increase in D&A, thus the 4-year average of 8.9% of revenue a better estimate of D&A going forward.

(Unit: £ million, Source: Bloomberg, Own forecast)

	FY 2018	FY 2019	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
D&A	214	499	564	673	665	662	637	662	689	716	744
% Revenue	3.60%	7.80%	9.80%	8.20%	8.60%	8.90%	8.90%	8.90%	8.90%	8.90%	8.90%

## Debt / Interest

Management has made significant strides in optimising the airline’s debt position through a series of repayments and strategic financial adjustments, aiming to create a more resilient balance sheet. As of March 2023, easyJet successfully reduced its net debt to approximately £0.2 billion, a notable decrease from £0.7 billion in September 2022. This reduction included the repayment of a €500 million bond. Management’s focus remains on strengthening the company's financial health as the airline continues to recover from the pandemic. The approach includes aligning capital expenditure closely with revenue growth, maintaining flexibility in its fleet plans, and utilizing cash reserves strategically to minimise debt.



## Net Income Forecast

According to EasyJet’s annual report the effective tax rate is 25.9% for 2024. These rates will be applied for the respective years. Based on our previous forecasts, the estimated future Net Income is shown in the table below:

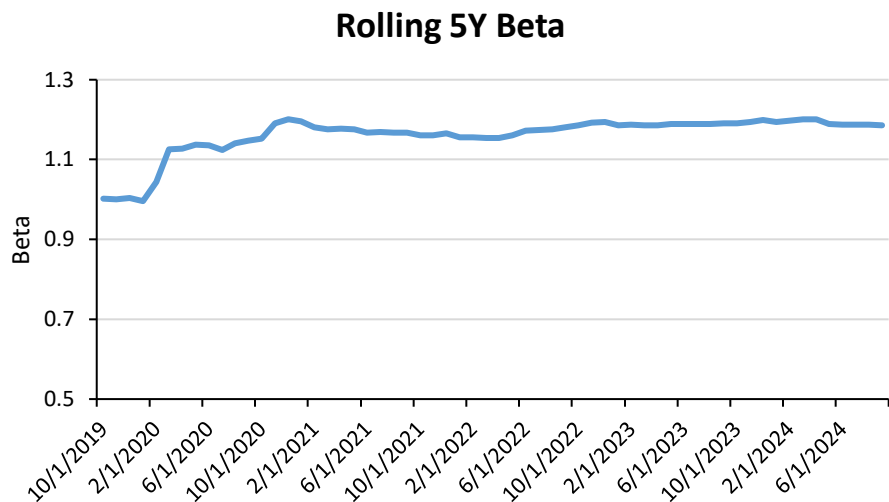
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Revenues	7,726.00	7,455.00	7,173.00	7,463.00	7,762.00	8,069.00	8,386.00
COGS	2,154.59	1,971.31	1,777.84	1,832.64	1,888.05	1,943.57	1,999.99
SG&A	2,781.36	2,802.95	2,684.17	2,775.92	2,828.70	2,980.00	3,112.70
Other Opex	2,080.86	2,119.69	2,147.11	2,233.91	2,323.41	2,415.31	2,510.20
EBITDA	709.19	561.04	563.89	620.53	721.84	730.12	763.12
D&A	665.16	661.56	636.54	662.27	688.8	716.05	744.18
EBIT	44.04	-100.52	-72.65	-41.74	33.04	14.07	18.94
Interest Expense	150	140	140	140	140	130	140
EBT	-105.96	-240.52	-212.65	-181.74	-106.96	-115.93	-121.06
Incomes Taxes	-26.49	-60.13	-53.16	-45.44	-26.74	-28.98	-30.26
Net Income	-79.47	-180.39	-159.49	-136.31	-80.22	-86.95	-90.79

Unit: £ million

# Valuation

## Rolling Beta

To calculate our Beta, we performed a regression with EasyJet monthly excess returns on the Market’s (EuroStoxx600) excess returns.



Source: Bloomberg

As the Beta has remained relatively stable over the past 4 years, we have decided to take our equity beta as **1.2**.

**Risk-free rate:** We have taken our risk-free rate as the current 2-year Euro bond yield which is **2.11%**.

**Market risk premium:** We have taken Damodaran market risk premium for 2024 of **4.6%**.

## Cost of Debt:

EasyJet is currently rated BBB+ by Fitch & Moody’s so for cost of debt we took the current yield on BBB+ corporate bonds of 5.1%.

Parameters	
Equity Beta	1.2
Risk-free rate	2.10%
Cost of Equity	5.40%
Cost of Debt	5.10%
PV debt (million)	£2,800
Market Cap (million)	£4,005
Effective Tax Rate	25.90%
Unlevered Discount Rate	5.80%
Terminal Growth	2.00%



We have also taken the terminal cashflows to average £165M into the future and we believe a terminal growth rate of 2% in line with GDP growth expectations.

Year	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	Terminal FY2030	SUM
EBIT	44.04	(100.52)	(72.65)	(41.74)	33.04	14.07	18.94		
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%		
EBIT*(1-t)	32.63	(74.48)	(53.83)	(30.93)	24.48	10.42	14.03		
D&A	665.16	661.56	636.54	662.27	688.80	716.05	744.18		
Capex	772.60	745.50	717.30	746.30	776.20	806.90	838.60		
Delta of Working Capital	-231.78	-223.65	-215.19	-223.89	-232.86	-242.07	-251.58		
Free Cash Flow	156.97	65.23	80.59	108.93	169.95	161.64	171.19	4,563.16	
Discount rate	n/a	1.058	1.12	1.18	1.25	1.33	1.40	n/a	
PV Cash flow		61.65	72.00	91.98	135.63	121.93	122.06	4,563.16	5,168.42

Unit: £ million

As we believe EasyJet interest rate repayments will be appropriated as such:

Year	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	Sum
Interest Expense	150.00	130.00	130.00	130.00	130.00	130.00	130.00	
Effective Tax Rate	29.5%	29.5%	29.5%	29.5%	29.5%	29.5%	29.5%	
Tax Shield	n.a	33.67	33.67	33.67	33.67	33.67	33.67	67.34

Unit: £ million

Combining all our forecasts, the resulting enterprise value, estimated market capitalisation and share price are as follows:

PV of Free Cash Flow	5,168.42
PV of Tax Shield	67.34
Enterprise Value	5,235.76
PV of Debt	2,800.00
Estimated Market Cap	2,435.76
Share Outstanding	650.00
Target Price	3.75

Unit: £ million (except for share outstanding and target price)

## References:

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<sup>i</sup> <https://www.oliverwyman.com/our-expertise/insights/2021/mar/after-covid-19-aviation-faces-a-pilot-shortage.html>

<sup>ii</sup> [https://transport.ec.europa.eu/transport-modes/air/internal-market\\_en](https://transport.ec.europa.eu/transport-modes/air/internal-market_en)

<sup>iii</sup> <https://www.eurocontrol.int/press-release/eurocontrol-calling-common-action-address-air-traffic-control-delays>

<sup>iv</sup> <https://mediacentre.easyjet.com/story/17354/easyjet-reopens-applications-for-2024-pilot-training-programme-in-drive-to-recruit-1000-new-pilots>

<sup>v</sup> <https://mediacentre.britishairways.com/pressrelease/details/20399>