# EASYJET PLC (EZJ:LSE)

## INVESTMENT THESIS

- **Introduction to EasyJet**: EasyJet is a leading European ultra-low-cost carrier, offering short-haul flights, holiday packages, and ancillary services for both leisure and business travellers. Leveraging its EasyJet Holidays division and growing demand in high-potential markets like northern Africa, the company can surpass consensus estimates of a £624M net income in 2028 by 10%. With low financial leverage (0.8x vs. the industry's 2.3x), EasyJet is well-positioned to invest in innovation as ULCCs approach pre-pandemic valuations. Our coverage issues a Buy rating and a £6.69 price target, reflecting 36% upside from the current share price.
- **Margin Expansion Driven by EasyJet Holidays**: EasyJet Holidays is poised to become a major growth driver. As the UK's fastest-growing holiday package provider, we are confident that the domestic demand will be replicated across newly launched European departure countries. Holidays revenues are expected to nearly double to £2.1B by 2027, representing 18% of total sales. With holiday packages in Europe offering margins 3x higher than traditional fares, EasyJet can challenge established players like Booking.com and Expedia by capitalising on its existing network.
- **Betting on Medium Haul**: Unlike other ULCCs, EasyJet is expanding medium-haul routes across Europe and northern Africa, while simultaneously strengthening its presence in major airports. EasyJet's longest route generates 4.6x the gross profit per seat compared to its most popular route. This strategic push into medium-haul flights is set to boost margins in EasyJet's core operations.
- **Late Reaction Pivot**: Between May 2020 and March 2024, Ryanair's 147% rebound outpaced EasyJet's 36% recovery, reflecting market preference for liquidity and rapid capacity recovery. However, EasyJet now mirrors Ryanair's 2020 financial strength, boasting high cash reserves and low debt. Trading at a 41% P/E discount to Ryanair, EasyJet's improved fundamentals and growth outlook support our Buy rating.
- **EasyJet as a Frontrunner in Expansion**: EasyJet is expanding its network through new bases, investing in fleet upgrades with larger, more efficient aircrafts to support profitability by increasing capacity without additional slots. Some competitors face delivery delays or slower growth, EasyJet's swift, balanced expansion, positions it to capture market opportunities.

**February 25th 2025**

**BUY** ↑ **36%**

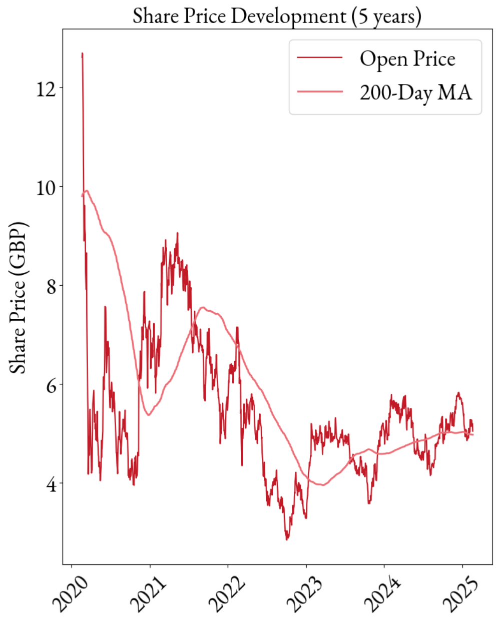
| **Current Price** | **Price Target** |
|---|---|
| GBP 4.91 | GBP 6.69 |

25/02/2025 LSE Close

| | |
|---|---|
| Market Cap (GBP M) | 3,779 |
| Capital IQ | LSE:EZJ |
| Bloomberg | EZJ.LN |

**Share data**

| | |
|---|---|
| Shares Outstanding (M) | 750.9 |
| Ex. Dividend Yield (%) | 2.46 |
| 30D Avg. Trading Volume | 5,771,499 |



JEME CAPITAL

# STOCK SUMMARY

**Current Price** GBP 4.91

**Target Price** GBP 6.69

EasyJet is a **leading European ultra-low-cost carrier**, operating over 1,000 routes across more than 35 countries and offering short-haul flights, holiday packages, and ancillary services for both leisure and business travellers.

- **Margin Expansion Driven by EasyJet Holidays**: EasyJet Holidays could nearly double revenues by 2027, offering a major growth opportunity with triple the margins of standard fares.
- **Betting on Medium Haul**: EasyJet is expanding medium-haul routes, with a higher RASK, across Europe and northern Africa while strengthening its major airport presence.

## Income Statement Summary

| GBP M | '20 FY | '21 FY | '22 FY | '23 FY | '24 FY |
|---|---|---|---|---|---|
| Total Revenue | 3,009 | 1,458 | 5,769 | 8,171 | 9,309 |
| EBITDAR | (358) | (425) | 539 | 1,126 | 1,359 |
| EBITDA | (359) | (430) | 537 | 1,126 | 1,359 |
| EBIT | (899) | (910) | (27) | 453 | 589 |
| EBT | (1,273) | (1,036) | (208) | 432 | 602 |
| Net Interest Expenses | (64) | (117) | (122) | (47) | 11 |
| Income taxes | 194 | 178 | 39 | (108) | (150) |
| Net income | (1,079) | (858) | (169) | 324 | 452 |
| Basic EPS | (265) | (159) | (22) | 43 | 6 |
| Diluted EPS | (265) | (159) | (22) | 43 | 6 |

## Balance Sheet Summary

| GBP M | '20 FY | '21 FY | '22 FY | '23 FY | '24 FY |
|---|---|---|---|---|---|
| Net income | (1,079) | (858) | (169) | 324 | 452 |
| D&A | 503 | 480 | 564 | 673 | 770 |
| WC Change | 150 | (771) | 478 | 849 | 399 |
| CAPEX | (371) | (275) | (813) | (1,148) | (1,429) |
| Gross Debt Change | 1,539 | 1,005 | (136) | (1,426) | 396 |
| Surplus A&L Change | (47) | 35 | 159 | (9) | 201 |
| FCFE | 695 | (384) | 83 | (737) | 789 |
| Dividends Paid | (174) | 0 | 0 | 0 | (34) |
| Net Debt Change | 863 | (140) | (404) | (719) | (151) |
| FCFE per Share | 0.01 | (0.01) | 0.00 | (0.01) | 0.01 |

## Growth and Margins

| % | '20 FY | '21 FY | '22 FY | '23 FY | '24 FY |
|---|---|---|---|---|---|
| Revenue growth | (52.9) | (51.5) | 295.7 | 41.6 | 13.9 |
| EBITDA growth | (137.2) | (19.8) | 224.9 | 109.7 | 20.7 |
| EBIT growth | (292.9) | (1.2) | 97.0 | 1,777.8 | 30.0 |
| EPS adj growth | (285.7) | (3.5) | 87.2 | 315.8 | (85.4) |
| FCF growth | (16.2) | (155.3) | 121.6 | (988.0) | 207.1 |
| EBITDA margin | (11.9) | (29.5) | 9.3 | 13.8 | 14.6 |
| EBIT margin | (29.9) | (62.4) | (0.5) | 5.5 | 6.3 |
| NIM | (35.9) | (58.8) | (2.9) | 4.0 | 4.9 |

## Key Ratios

| % | '20 FY | '21 FY | '22 FY | '23 FY | '24 FY |
|---|---|---|---|---|---|
| Gross Margin | (8.9) | (45.5) | 13.9 | 16.9 | 16.8 |
| SG&A to Sales | 17.7 | 26.0 | 14.0 | 11.3 | 10.9 |
| Operating Margin | (25.9) | (69.0) | 0.1 | 5.6 | 6.4 |
| Net Margin | (35.9) | (58.8) | (2.9) | 4.0 | 4.9 |
| FCF Margin | (41.4) | (80.6) | 4.8 | 10.7 | 7.4 |
| Capex To Sales | 23.1 | 10.2 | 9.2 | 9.2 | 10.0 |
| Return on Assets | (13.0) | (9.4) | (1.7) | 3.2 | 4.3 |
| Return on Equity | (44.2) | (37.8) | (6.5) | 12.2 | 15.7 |

## Valuation Metrics

| % | '20 FY | '21 FY | '22 FY | '23 FY | '24 FY |
|---|---|---|---|---|---|
| Price/Sales | 68 | 245 | 39 | 40 | 42 |
| Price/Earnings | 0 | 0 | 0 | 990 | 850 |
| Price/BV | 120 | 190 | 88 | 115 | 0 |
| Price/TBV | 175 | 244 | 115 | 150 | 0 |
| Price/CF | (347) | (345) | 288 | 209 | 263 |
| Price/FCF | (164) | (304) | 812 | 371 | 574 |
| Dividend Yield | 0 | 0 | 0 | 105 | 233 |
| EV/EBIT | (436) | (587) | 96,804 | 695 | 626 |
| EV/EBITDA | (1,234) | (1,123) | 512 | 281 | 273 |
| EV/Sales | 113 | 405 | 50 | 39 | 40 |
| Total Debt/EV | 101 | 75 | 148 | 91 | 88 |

## Key Risks

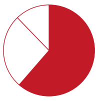
- **Regulatory Exposure**: the EU's "Fit for 55" initiative, aiming for a 55% reduction in greenhouse gas emissions by 2030, could increase compliance costs and necessitate substantial operational adjustments. Moreover, penalties for flight cancellations highlight the region's stringent regulatory landscape.
- **Narrow Profit Margins**: in FY24, EasyJet's operating margin improved to 6.4% but remains modest due to the high costs of primary airports. This exposes the airline to risks such as rising fuel expenses, which account for 26.3% of costs, amid broader economic uncertainties.

# COMPANY OVERVIEW

EasyJet is a British **ultra-low-cost carrier** (ULCC) and a **leading European airline** with over 25 years of experience in providing **affordable air travel**. The airline operates on a **point-to-point** network across Europe and has newly added routes across Africa, focusing on **efficiency** and **high aircraft utilization** while serving leisure and business travelers. EasyJet's **key revenue** segments include **passenger fares (£5.71B)**, **ancillary services (£2.45B)**, and **holiday packages (£1.13B)**, contributing to its competitive position in the aviation industry.

The company, like the rest of the industry, was significantly affected by the pandemic-induced recession. In September 2021, EasyJet **proactively addressed financial challenges** by launching a fully underwritten rights issue, raising **£1.2B**, and securing a new $400M revolving credit facility. Since then, EasyJet has continued **de-leveraging** and **restructuring debt**, including the use of **sale-and-leaseback** transactions of aircraft to increase the firm's net cash inflow and **liquidity by £1.4B** between FY20 and FY24.

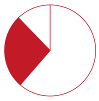
### Passenger Fares



**61.39%**
of revenues

EZJ's **core revenue** stream, driven by low-cost pricing and high aircraft utilization on short-haul routes

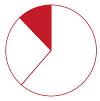
### Ancillary Services



**26.39%**
of revenues

Baggage fees, seat selection, priority boarding, and in-flight purchases, enhancing **customer choice**

### Holiday Packages



**12.22%**
of revenues

**Bundled flights, hotels,** and **travel services,** targeting mostly leisure travelers in the UK

### Target customer (Passenger Fares and Ancillary Services)

- **Budget travellers** who seek low fares
- Cost-sensitive **professionals** who fly short-haul routes
- **Leisure travellers** who are willing to pay for extras
- Frequent fliers who choose **flexibility**

### Target customer (Holiday Packages)

- **Vacation seekers** who prefer all-in-one travel deals
- **Budget tourists** who seek hassle-free holiday bundles

### Competitors (Passenger Fares and Ancillary Services)

Ultra-low cost

- Ryanair
- Wizz
- Norwegian

Premium

- Air France KLM
- Lufthansa
- IAG International Airlines Group

### Competitors (Holiday Packages)

- Jet2holidays
- TUI
- Booking.com
- Expedia

## Company History

**1995** – EasyJet is **founded** and commences operations with flights from London Luton

**2000** – EasyJet becomes **publicly traded**, listing itself on the London Stock Exchange

**2002** – EasyJet **acquires** rival airline **Go Fly**, expanding its network and fleet

**2019** – The airline launches EasyJet Holidays, offering customers **package holiday** options

**2024** – EasyJet's **annual profits** increase by **34%**, following a record-breaking summer

## Shareholder Structure

EasyJet has **750.9 million** outstanding **shares**, with its founder, Stelios Haji-Ioannou, holding **9.5%**, and his brother, Polys Haji-Ioannou, holding **5.9%**. The brothers collectively own 15.4% of the 15.5% held by company insiders. Institutional investors hold **67.2%**, the largest of which being UBS (**5.0%**) and BlackRock (**4.2%**). **14.1%** is publicly held by investors, while **2.5%** is allocated to employee ownership plans.

## Management Team

**Kenton Jarvis**
**Chief Executive Officer**

- Became CEO on **1 January 2025** after serving as CFO since 2021
- He co-created **EasyJet's strategy**, focusing on data-led insights to drive performance
- Previously, he held senior roles at **TUI Group**, including **CEO** of **Aviation**
- As CEO, he aims to **modernize** the fleet with larger aircraft and improve sustainability

**Jan De Raeymaeker**
**Chief Financial Officer**

- De Raeymaeker was appointed as EasyJet's CFO on **20 January 2025**
- He was previously **CFO** of **Lineas**, the largest private rail freight operator in Europe
- Prior to Lineas, he was **CFO** of **Brussel Airlines**, driving significant passenger growth
- Earlier in his career, De Raeymaeker held management roles at Arthur D. Little

**David Morgan**
**Chief Operating Officer**

- Morgan became EasyJet's Chief Operating Officer in November 2022
- He previously served as **interim COO** in **2019** and **2022**, improving operations
- Morgan joined EasyJet in 2016 and held key leadership roles in **flight operations**
- His aviation career spans global roles, including **Wizz Air** and the **military**

**Garry Wilson**
**CEO EasyJet Holidays**

- Wilson has over **25 years of experience** in the travel and tourism sector
- He was **Managing Director** at **TUI Group**, leading global commercial strategies
- He also held the position of **Director** of **EMEA** at Orbitz Worldwide (now **Expedia**)
- Wilson has been a board member at the Travel Foundation, Travelife, and ABTA

**Robert Birge**
**Chief Customer & Marketing Officer**

- Before joining EasyJet in 2022, Birge was **Chief Growth Officer** at **ASOS**
- Under his lead, ASOS' revenue growth increased from 13% in 2019 to 21% in 2021
- Previously, Birge spent six years at **KAYAK** as **CMO**, leading it to its IPO
- He was also part of the startup team that **created** US online travel agency **Orbitz**

**Sophie Dekkers**
**Chief Commercial Officer**

- Dekkers joined EasyJet in 2007 and joined the **Airline Management Board** in 2020
- She was **Director** of **Scheduling**, implementing systems and process improvements
- She has also led the airline in the **UK** as **Country Director** for 5 years
- Previous roles in EasyJet include Head of Change Management and Customer Insight

# SHARE PRICE DEVELOPMENT

## Rights Issue & Rejected Takeover

In September 2021, EasyJet announced a **£1.2 billion** rights issue at a discount of around **36%** to its prevailing share price, aiming to bolster liquidity amid ongoing pandemic pressures. Around the same time, EasyJet confirmed that it had received and **rejected** a preliminary **takeover** approach. While the rights issue helped shore up the airline's balance sheet, some investors were concerned about share dilution.

## Profit Upgrade

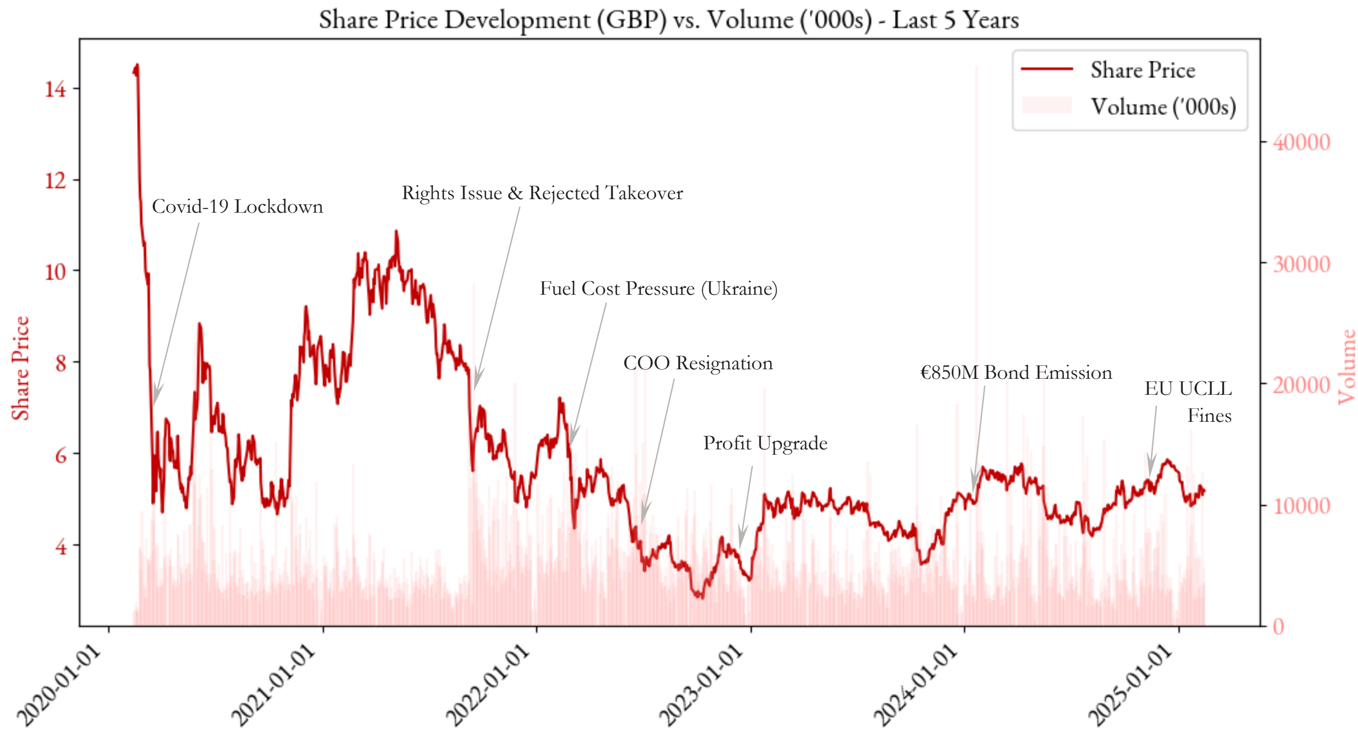
In November 2022, EasyJet issued an **optimistic trading statement**, upgrading its full-year profit forecast from around £450M to **£500M** driven by stronger-than-anticipated passenger demand and the success of its **cost-cutting initiatives**. This marked a pivotal moment in the airline's recovery, as it showed that pent-up travel demand and successful cost-cutting measures were driving better-than-expected financial performance. This announcement highlighted EasyJet's favourable position in a still-recovering airline sector.

## £850M Bond Emission

Seeking to further reinforce its liquidity, EasyJet issued **£850M in bonds** in May 2023, carrying a coupon rate of **3.5%**. This move was part of a broader strategy to manage near-term debt maturities and support fleet renewal. Although adding to the airline's overall debt load, the bond issuance was generally viewed by as a prudent step, ensuring EasyJet maintained sufficient cash buffers.

## EU UCL Fines

In late 2024, the European Commission imposed fines of **€29M** on EasyJet due to practices deemed abusive by regulatory authorities. The infractions cited included charging passengers for hand luggage, imposing fees for reserving adjacent seats for children and dependents, and lacking price transparency, hindering consumers' ability to make informed decisions. These fines were target against other 4 ULCCs in Ryanair, Vueling, Norwegian, and Volotea, amounting to a total of €179M. EasyJet's CEO criticized the fines, labelling them "illegal and baseless" announcing plans to **appeal the decision.**



# PASSENGER FARES

## Routes

### Route Operation Strategy

EasyJet uses a **point-to-point model** to cut costs, i.e. the airline operates multiple hubs from which routes either start or end. This allows for **bespoke direct routes**, a market that EasyJet and other ULCCs monopolize. Ultimately, this results in lower fuel consumption per passenger, reduced costs, and **improved profit margins**.

**Seasonality is a key component of EasyJet's strategy,** as the airline **aligns** its **destinations with peak travel periods**. For example, during the summer, EasyJet operates increased flights to warmer destinations, as demonstrated by the FY24 opening of the seasonal base in Alicante, Spain. During the winter season the demand increases for colder climates, hence EasyJet adjusts route offerings to increase flights to higher-demand locations. This strategy allows the **load factor** to be consistently and comparably **higher** at **89.3%** both during FY23 and FY24.

Additionally, EasyJet has further differentiated itself from other ULCC airlines in recent years by shifting its strategy to **target both primary and secondary airports**. This shift is exemplified by EasyJet's expected expansion at Linate Airport and Rome Fiumicino. Ultimately, this strategy creates a competitive advantage by attracting cost-conscious travelers who prefer to fly with ULCCs while still departing from their preferred airports.

EasyJet's **point-to-point** model and **strategic route selection**—combined with its focus on **seasonal demand** and **primary airports**—position the airline as a **competitive**, leading low-cost carrier across the region. These strategic choices effectively **balance cost efficiency** with **passenger convenience**, **driving sustained profitability** while **achieving market growth**.

### EasyJet's Route Expansion Strategy

**EasyJet has announced 158 new routes**, indicating that the company is expanding its presence at major airports in Europe. The addition of these new routes is projected to meet demand, particularly in the areas of leisure travel and business trips.

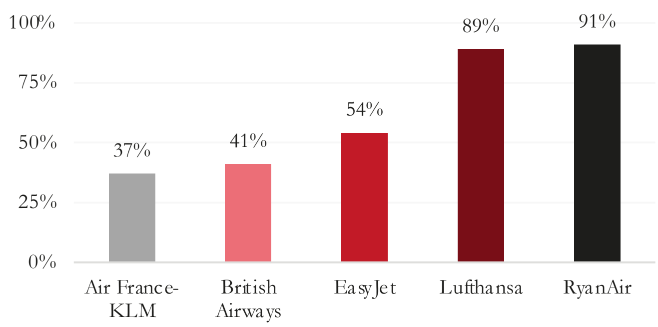
EasyJet's **expansion strategy focuses on growing leisure travel** to Southern Europe, North Africa, and the Mediterranean while also strengthening connectivity to key business hubs like Zurich, Basel, and Athens.

The airline is investing in UK regional airports, including Birmingham, Liverpool, and Glasgow, to enhance accessibility beyond London. By **balancing year-round and seasonal routes**, EasyJet aims to capture peak travel demand while maintaining long-term efficiency and profitability.

## Planes

The European aviation market relies on a diverse set of aircraft. Narrow-body aircraft, such as the **Airbus A320 family** and **Boeing 737 family**, **dominate short-haul and regional routes**. The additional **running cost** starting at **$3,000-$5,000 per hour** makes them the backbone of ULCCs.

*Percentage of Aircraft Owned by Airline*




Source: EasyJet, Ryanair FY24 Report, Air France-KLM, British Airways, Lufthansa FY23 Report

Airlines adopt different fleet strategies to align with their business models, **balancing ownership and leasing based on cost efficiency** and operational flexibility. ULCCs increasingly favour leasing models to maintain a flexible asset structure, as seen with **EasyJet, which leases 46% of its fleet**. In contrast, Ryanair owns 95% of its fleet, leveraging long-term stability to minimize expenses.

Premium carriers have historically preferred **high ownership** structures to reduce long-term costs. **Lufthansa**, for example, owns **89%** of its fleet. However, over the **past 50 years**, the percentage of leased aircraft relative to total operating aircraft in Europe has risen from below **10%** to just under **70%**. This shift has allowed **airlines** to **maintain greater liquidity** in an already volatile market.

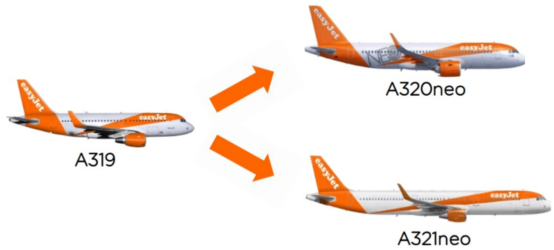
| Aircraft Type | Current Ownership |
|---|---|
| A320neo & A321neo | 77% |
| A320ceo | 58% |
| A319 | 20% |

EasyJet currently owns 77% of its neo aircraft and expects this to rise to 81% by September 30, 2025, as all aircraft deliveries for **FY24 and FY25 will be owned rather than leased, improving fleet efficiency**, reducing leasing costs, and strengthening long-term financial stability.

**EasyJet plans to retire 88 A319 aircraft**, which account for 25% of its current fleet, as part of its long-term strategy to modernize operations and improve cost efficiency. The phase-out process is expected to be substantially completed by FY28, allowing a transition toward a more streamlined and fuel-efficient fleet. To replace the retiring A319s, **EasyJet will introduce the A320neo and A321neo models**, which offer greater seating capacity and improved fuel efficiency.

This shift in the fleet's makeup is **projected to reduce costs by $3 per seat** through lower fuel consumption, reduced maintenance expenses, and enhanced operational efficiency.

By upgrading to newer aircraft, EasyJet aims to strengthen its cost structure, improve sustainability, and maintain its competitive edge in the low-cost airline market.




EasyJet's competitors are, however, facing significant issues with their fleet. **Ryanair** has **cut** its **passenger forecast twice** in four months due to Boeing aircraft delivery delays, and Wizz Air has grounded approximately 19% of its fleet until FY26 due to manufacturing issues of their Airbus A320neo engines. With **EasyJet's** competitors facing significant fleet challenges, the airline **stands out for maintaining its operational stability** and **leveraging strategic growth** to **strengthen** its **market presence**.

## Infrastructure

Paris CDG led Europe in 2023 with 70M passengers, followed by Amsterdam Schiphol (67M), Madrid Barajas (66M), and Frankfurt Main (62M), where premium airlines dominate.

While EasyJet operates **key hubs such as London**, **Milan**, **Berlin**, **and Geneva,** Ryanair's largest base is in Dublin, reflecting its different strategy of focusing on a single primary hub rather than multiple centrally located ones. To ease congestion and **improve** connectivity, some major European **airports**, including CDG and FRA, are increasingly **integrating** high-speed **rail** networks.

## ANCILLARY REVENUES

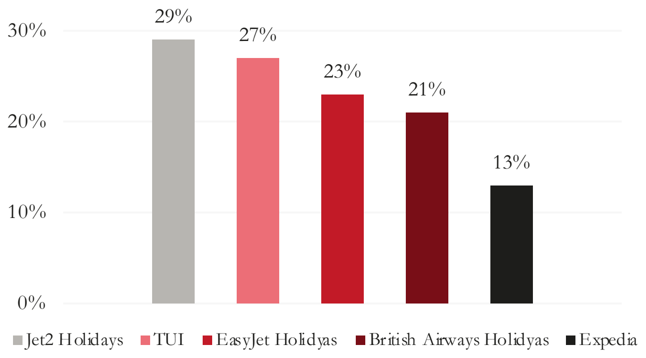
ULCCs generate revenue through a combination of ticket sales and ancillary services. This business model is essential for these airlines, as the low base ticket prices are offset by income from additional services. Since the basic ticket usually only includes the flight and a limited number of essential services, passengers are often encouraged to purchase extra offerings, such as baggage, seat selection, or food and drinks, thereby increasing the airline's overall revenue. The company's ancillary revenues have grown at a **CAGR** of **55.15%** since 2021. Shifting to another metric, **Ancillary Revenue per Passenger** (including holiday business revenue) has also shown strong growth, with a **CAGR** of **21.3%** reflecting a positive trend on a per-passenger basis.

## EASYJET HOLIDAYS

EasyJet Holidays launched its services in late 2019, with the first customer departure taking place on January 6th, 2020. Since its inception and through the end of FY24, EasyJet Holidays has served approximately **5 million customers**, building strong brand recognition in the travel market. This success is reflected in high customer satisfaction, with over **82%** of customers expressing a likelihood to **rebook** and through the end. EasyJet Holidays targets travelers who may spend modestly on flights but are willing to invest in upscale accommodations. This strategy unlocks the potential for EasyJet to capture a **broader range of customer spending** by offering travel packages and partnering with renowned hotels.

EasyJet Holidays differentiates itself from OTAs (Online Travel Platforms) like Booking.com and Expedia by focusing on a more **targeted and strategic approach**. Unlike these platforms, that list millions of hotels, EasyJet does not need such a vast inventory. Instead, the company established relationships with a select number of the most popular and beloved hotels in the destinations it flies to and exposes these through a dedicated EasyJet Holidays website.

*Top 5 Most Used Package Holiday Portals in the UK*




Source: Statista

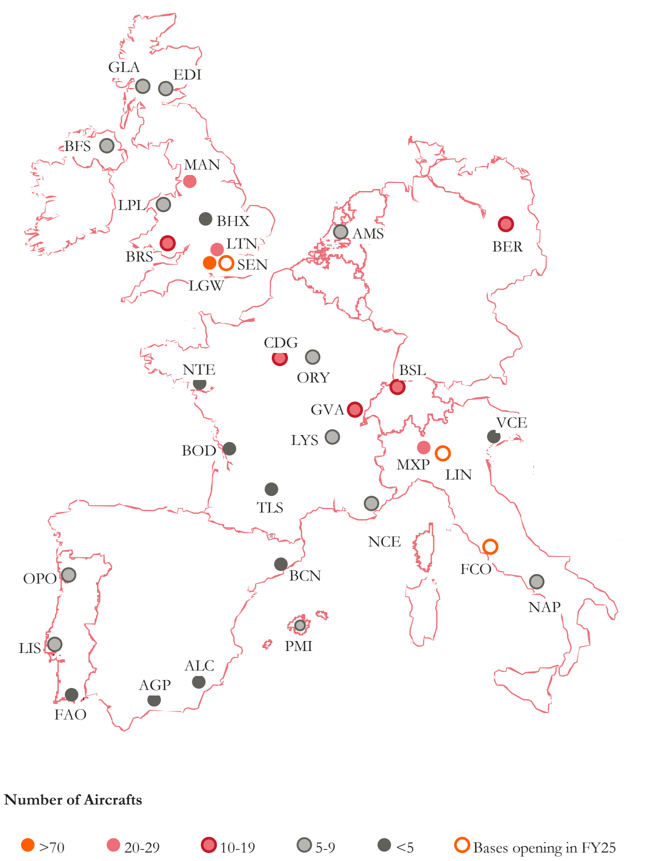
**Margins** in the holiday segment (which include flights) are considerably **higher** than those in the airline and ancillary services business, with holiday segment margins nearly three times greater. This highlights the higher profitability of EasyJet.

EasyJet's payment structure with hotels follows a **commission-based model**, where the airline earns a fixed cut on each room booked through its platform, rather than directly setting the hotel prices. The commission is typically agreed upon in advance with the hotel partners and remains unaffected by fluctuations in the room price itself. When hotel prices decrease, the overall cost of the holiday package can become more attractive to customers, leading to higher volumes of bookings. While EasyJet's revenue per booking remains stable, the increase in bookings due to lower prices results in a higher total revenue.

Roughly **95%** of the **costs** in the holiday business are **variable**, which means that as revenue from holiday bookings grows, the costs, especially those linked to hotel reservations, will increase proportionally. On the other hand, this allows for flexibility in case of revenue decreases.

EasyJet Holidays benefits from an exceptionally **low customer acquisition** cost, with 86% of its bookings made directly through unpaid channels like its website or app. EasyJet Holidays, which initially only operated from UK airports, has recently **expanded its departure portfolio** to include France, Germany, and Switzerland. This enables the company to leverage its established network and cost-efficient operations to penetrate the broader European holiday package market, estimated at approximately **$70 billion** annually.

## EasyJet EU Network

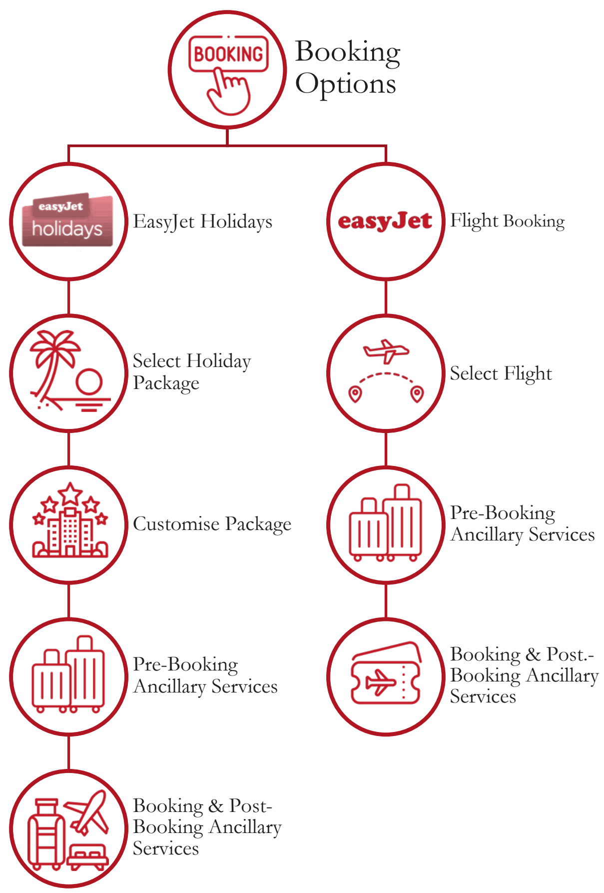



Source: EasyJet FY24 Financial Results

With 30 bases spanning 160 airports, EasyJet maintains an extensive network that underpins its status as a major player in Europe's short-haul market. Currently, the UK accounts for the **largest share** of total revenue at **54.5%** (£5.08B), followed by France at 10.1%, and Switzerland at 9.4%.

EasyJet plans to open an **additional base in London**, its highest-traffic market, and **two new bases in Italy**, signaling a strategic emphasis on **high-demand regions**. In particular, the airline is doubling its presence in Milan with the opening of a new base at Linate Airport, which offers convenient city access for both business and leisure travelers. At the same time, EasyJet is expanding its operations at Rome Fiumicino, one of Italy's busiest airports, aiming to capture a greater share of both domestic and international traffic. By investing in these key locations, EasyJet reinforces its position in Europe's major travel corridors and diversifies its route network, which can help support stable revenue growth and mitigate market-specific risks.

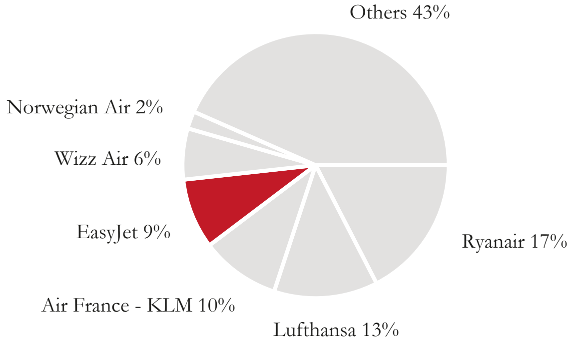
## EasyJet Profit Pathway




Source: JEME Capital

## COMPETITIVE OVERVIEW

The European airline market **is highly competitive** and was valued at **$67.75 billion** in 2024 and it is expected to grow at a CAGR of **2.98%** until 2030 when it will be worth approximately **$80 billion**. Ryanair leads the market with a 17% share, followed by Lufthansa at 13%, Air France-KLM at 10%, **EasyJet at 9%** and Wizz Air at 6%.




### Ryanair

Ryanair is **Europe's largest airline** by market share and is expected to lead the airline market in 2025 due to its **structural resilience** and **operational efficiency**. Ryanair has already completed €800M out of a €1.5B share buyback program, representing roughly 10% of its market capitalisation set for 2025, underscoring a strategic initiative to optimise its capital structure.

Ryanair faces risks in the coming years due to uncertainty surrounding its aircraft supplier, Boeing, and fuel price volatility caused by geopolitical events. In Q1 of 2025, the airline has confirmed that **9 out of 38 aircraft** projected for delivery will be available before summer, potentially limiting growth and operational flexibility. This news is unlikely to cause operational issues, but additional delays may create **investor uncertainty**. Simultaneously, **geopolitical tensions** and events have led to increased **fuel price volatility**, posing a near-term threat to profitability.

### Wizz Air

Wizz Air continues to expand as a leading ULCC and is projected to become the second-largest ULCC in the coming years. Benefiting from a young, fuel-efficient fleet underpinned by its "sale and leaseback" strategy and innovative **membership programs**, including the "all you can fly" offering, it is expected to **expand operations** from primarily Eastern Europe to a more even coverage of the continent.

However, operational headwinds persist, with a **large guidance reset** and another one expected in the coming months due to weakness in shares. Furthermore, the **high costs** encountered during FY24 fuel the expectation that the coming financial report will underperform. Finally, with **20% of its fleet set to remain grounded until June** 2025 due to necessary maintenance checks on the new GTF engines, we remain cautious on Wizz Air's near-term prospects through FY25.

### Lufthansa

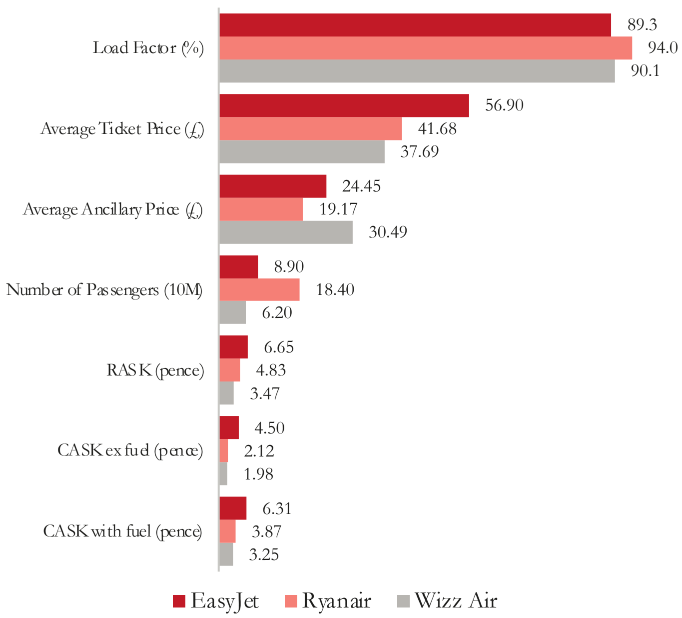
The Lufthansa Group, the leading European premium carrier, is composed of a diversified portfolio of companies, including Swiss Air and ITA Airways. Even though the group is still experiencing **operational inefficiencies** stemming from the 2020 pandemic, it could sustain stable growth in the next few months, especially if the restructuring plan announced to guide its return to financial stability proves to be successful.

However, Lufthansa is facing significant **headwinds** due to intense competition from U.S. and Chinese airlines on global routes, which have rebounded swiftly from the pandemic. In addition, Lufthansa is burdened by rising wage inflation and **low productivity** levels compared to 2019. Given these challenges, we remain cautious about the airline's near-term performance.

## KPI ANALYSIS

The European ULCC **sector** is led by key players such as EasyJet, Ryanair, and Wizz Air employing distinct strategies to **maximise efficiency, revenue generation, and market share**. This analysis evaluates operational KPIs of these carriers, highlighting cost structures, revenue strategies, and competitive positioning.

*Main KPIs for EU ULCCs*




Source: EasyJet, Ryanair, Wizz Air Annual Reports 2024

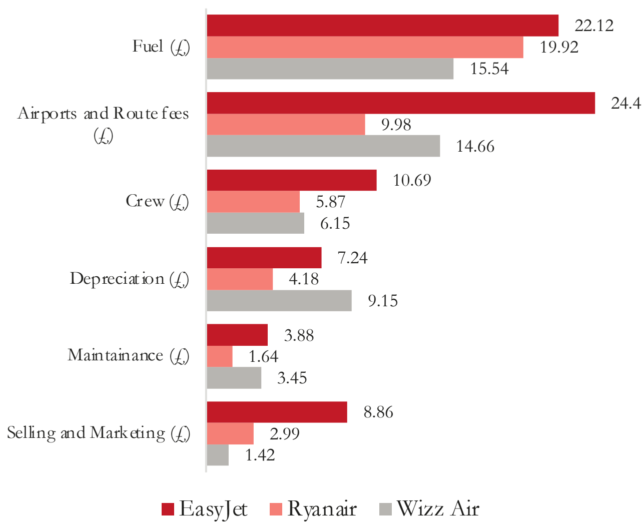
EasyJet leads its peer group with a **RASK** (Revenue per Available Seat Kilometre) of **6.65 pence**, outperforming Ryanair (4.83 pence) and Wizz Air (3.47 pence), and approaching Air France's 7.76 pence — a notable achievement for an ULCC. This superior revenue efficiency stems from EasyJet's strategic emphasis on operating from **primary airports**, which attracts **higher-yield passengers**. Given that EasyJet's customer base tends to be less price-sensitive, we believe the airline is better equipped than other ULCCs to withstand the incoming revenue volatility during the current periods of geopolitical uncertainty. This **resilience**, reinforces our positive investment outlook for EasyJet.

The airline's load factor of 89.3% is comparable to Ryanair's (94.0%) and Wizz Air's (90.1%). Concurrently, this success, unlike the competitors, was achieved organically through conventional pricing, **without** providing aggressive **last-minute discounts**. This metric is another indicator of the customer's low-price elasticity and appreciation for EasyJet's services, which is especially valuable in periods of turmoil.

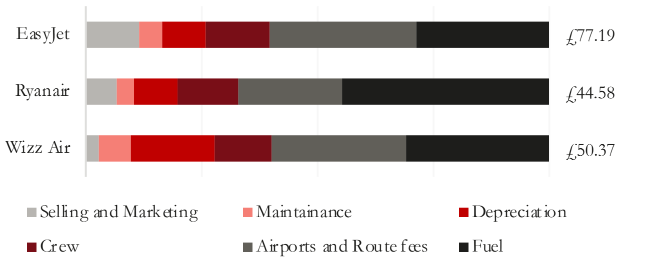
EasyJet's higher **CASK** (Cost per Available Seat Kilometre) ex-fuel of 4.5 pence relative to Ryanair (2.12 pence) and Wizz Air (1.98 pence) is largely a result of its operations being concentrated in **higher-cost airports**. The airline's low bargaining power in such venues further contributes to its higher operating expenses. However, **we expect a reduction in CASK ex-fuel** over FY25 and FY26 driven by EasyJet's expansion into smaller, lower-cost airports in key Mediterranean destinations, which will reduce landing fees and enhance its bargaining power.

### Cost Breakdown

As result of the KPI analysis, **cost** is the primary constraint for EasyJet's profitability. A thorough assessment of the airline's **cost-per-seat structure** has been conducted to identify the **critical areas** where improvements will be expected in the coming months.



*Cost per Flight per Passenger Breakdown*




Source: EasyJet, Ryanair, Wizz Air Annual Reports 2024

EasyJet's cost breakdown per available seat demonstrates great near future potential. Notably, **fuel costs per passenger-route** (standardized for every carrier at EasyJet's average sector length of 1,223 km) is currently impacting EasyJet (£22.12) significantly more than the competitors (£19.92 and £15.54), which are expected to align with the other carriers' costs as existing fuel hedging contracts expire and new ones are formulated.

During **FY25**, as EasyJet's strategic expansion plans unfold, we expect **airports and route fees** to incur a slight reduction from the current £24.4 per passenger-route, leading to increased margins and higher profitability.

As demonstrated by the reduced winter losses presented in the Q1 FY25 report, once these cost adjustments will fully take place, EasyJet's **superior revenue structure** will drive its profitability outlook and share price.

## Debt Exposure

It terms of **debt exposure**, EasyJet has a prudent approach to debt management which we consider to be an advantage for the company.

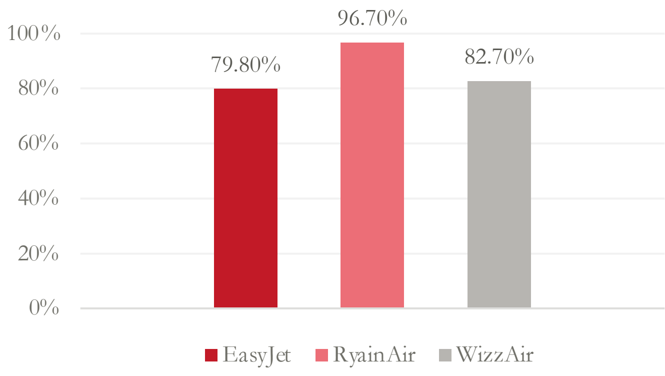
In reviewing the **capital structures** within the group, it is important to highlight that Wizz Air's ratios differ markedly from both EasyJet and Ryanair.

Wizz Air's extremely low equity ratio of 0.02%, paired with an exceptionally high debt-to-equity ratio of 4,303 and a leverage ratio nearing 6,000, underscores a highly **leveraged position** driven by a minimal equity base.

In contrast, EasyJet maintains a more conservative financial posture, characterized by a **debt ratio** of 30%, a **debt-to-equity ratio** of 1.12, and an **equity ratio** of 26.9%, which collectively indicate a robust equity buffer and a lower risk profile.

EasyJet's well-balanced **capital structure** provides a competitive advantage over Wizz Air and Ryanair, ensuring a more resilient financial foundation with a moderated risk profile.

*Long-term Debt Ratio*




Source: EasyJet, Ryanair, Wizz Air Annual Reports 2024

# TAILWINDS

## Trends Supporting Airlines' Growth

### Medium-term European Union Recovery

Europe has faced and is still navigating a period of big **challenges** including inflation, war, and recession in its key countries. The global **geopolitical** scenario remains highly uncertain, and public opinion on the European Union is likely at its lowest since its foundation.

However, with sentiment at an all-time low, we see significant potential for a strong recovery across the continent, driven by ongoing discussions about resolving the war in **Ukraine**, which have gained momentum in recent weeks. Moreover, despite the typical inertia of European leaders, unexpected actions by the United States have forced them to coordinate on financing and defense. While this initially drove market yields lower, we believe that greater cooperation among leaders will ultimately create a more favorable business environment.

On the inflation front, the European Central Bank (ECB) implemented a series of **interest rate hikes**, peaking at 4.75% in September 2023. However, as inflationary pressures eased and the need for economic stimulus grew, the ECB began **cutting rates** starting in June 2024. By February 2025, the deposit facility rate had been reduced to 2.75%, the main refinancing operations rate to 2.90%, and the marginal lending facility rate to 3.15%.

An end to the conflict between Ukraine and Russia, combined with a recovering European economy and easing inflation, could boost **consumer confidence**. This revival may lead to the reopening of key trade and travel routes, lower fuel prices, and increased demand for air travel. As a result, European airlines stand to benefit, along with a broader recovery in holiday travel.

### Ending Middle East Conflict

The ongoing Israel-Palestine conflict has significantly impacted European Airlines flight operations. In response to escalating tensions and security concerns, many airlines **suspended** all flights to Tel Aviv, including Ryanair and EasyJet.

The suspension of flights to Israel, along with a general decline in booking demand due to the conflict, resulted in **relevant financial losses** for airlines. In January 2024, EasyJet reported that Middle East unrest had cost it over £40M.

Airlines are now planning to **restart flights** to Israel, with EasyJet announcing the resumption of **38 weekly flights** on routes connecting Tel Aviv with London, Geneva, Amsterdam, Milan, Berlin, Basel, and Nice starting from June 1, 2025.

### Growing Worldwide Middle Class

The rapid expansion of the global middle class, projected to exceed 5.3B by 2030, is a **key driver** of airline growth. Rising household incomes will **boost demand** for affordable air travel, both for short-haul and international flights. This **structural shift**, supported by low-cost carriers and technological advancements, presents a big long-term opportunity for airlines.

### Increased Popularity of Ancillary Packages

Many airlines including budget carriers and luxury airlines, allow customers to book combination packages of flights, hotels, experiences, and car rentals all through their website. The airlines' **accessory services** convenience and reliability allow for a considerable revenue stream. Airlines act as **intermediaries**, booking hotels and other services through their **platforms**, taking a commission from customer payments before passing the remainder to hotels and car rental companies. Holidays revenue accounted for more than **10%** of EasyJet's total **revenue** during 2024.

# HEADWINDS

## Trends Hindering Airlines' Growth

### Supply Delays

Operating in a *de facto* duopoly, Boeing and Airbus dominate the commercial aircraft supply market. Recent developments, including labour strikes and corporate scandals, have underscored the structural challenges inherent in this dynamic.

Airbus **fell short** of its 2024 delivery **target** of 770 aircraft by five units due to supply chain disruptions and engine availability **issues**. However, the company has proactively **mitigated** these **risks** through new engine supply agreements, positioning it to deliver 820 aircraft in 2025 – a 7% year-over-year increase.

Boeing has faced **significant headwinds**, delivering only 348 aircraft amid ongoing quality control issues, heightened scrutiny by FAA, supply chain constraints, and labour strikes. These challenges have resulted in **production delays** and fleet shortages for airlines. Nevertheless, Boeing is projected to deliver 384 aircraft next year, representing a 10% increase.

Despite industry-wide aircraft shortages, EasyJet, relying exclusively on Airbus, has maintained operational **stability**. This resilience is to be attributed to a disciplined approach to order book management, ensuring that fleet expansion remains on track.

### Geopolitical Uncertainty

The airline industry remains particularly sensitive to geopolitical events, which influence **fuel costs**, air routes, and overall **demand**.

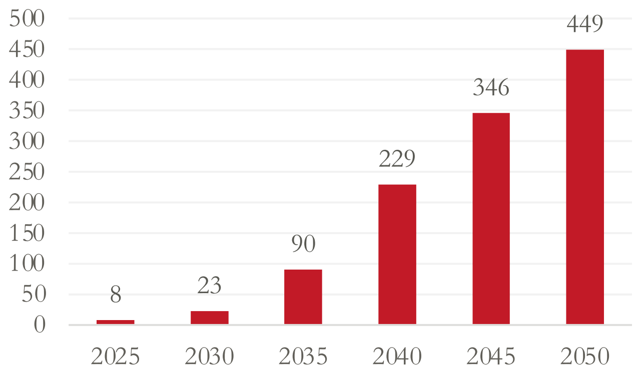
Global tensions have also contributed to fluctuations in global fuel prices. As of February 24, 2025, the average jet fuel price in Europe & CIS stood at $736.38 per metric ton, reflecting a 1.9% decrease from the prior week, 2.1% lower than the prior month's average and 6.7% below the prior year's average.

Despite these challenges, airlines have demonstrated **resilience** by implementing risk management strategies, including route **optimization**, fuel **hedging**, and flexible capacity deployment.

### Sustainable Aviation Fuel

Sustainable aviation fuel (SAF) is key to achieving **net-zero carbon emissions** by 2050. While SAF production tripled to 600 million liters in 2023, it still makes up only 0.2% of global jet fuel use, with 449 billion liters needed by 2050. While the **cost** of SAF remains **higher** than traditional kerosene, ongoing investments and **technological advancements** are expected to **drive prices down** from $2,400 per ton in 2023 to $880 by 2050. Airlines are increasingly forming **long-term partnerships** with energy producers to secure supply agreements, which will stabilize prices and drive down volatility over time. SAF adoption may raise airline costs by 4-6%, but airlines are offsetting this through efficiency measures. Furthermore, it appeals to consumers, with over **60%** willing to pay **premiums** for more sustainable flights, giving airlines investing in SAF a **long-term competitive advantage**.

*Expected SAF use to Reach Net Zero (Billion litres)*




Source: Statista

## KEY RISKS - EASYJET

### Narrow Profit Margins

While EasyJet's operating margin of 6.32% in FY24 reflects an **improvement** from the pandemic years, it remains modest for an airline operating in costlier primary airports. On the one hand, this positioning exposes EasyJet to **idiosyncratic risks** stemming from airport decisions, such as unexpected increases in landing or handling **fees**, which do not fall under the airline's direct control. On the other hand, **fuel costs** represent 26.3% of total expenses and are expected to rise, highlighting the company's susceptibility to market risks, which also include broader macroeconomic conditions.

### Operational Complexity

EasyJet's **earnings performance** has been inconsistent in recent quarters, with investors now expecting an earnings beat to restore confidence and improve sentiment around the stock. In FY2024, EasyJet reported a 14% increase in group headline costs, excluding fuel, amounting to £6,476M, up from £5,683M in 2023. This rise is partly attributed to higher capacity and the expansion into longer routes. These **costs** are expected to **rise** as the expansion further develops. Operational complexity further increases when considering that medium-haul flights necessitate longer **ground times** for tasks such as cleaning, and maintenance. Short-haul operations often achieve turnaround times under 30 minutes, medium-haul services can take 45 minutes or more, reducing aircraft utilization efficiency.

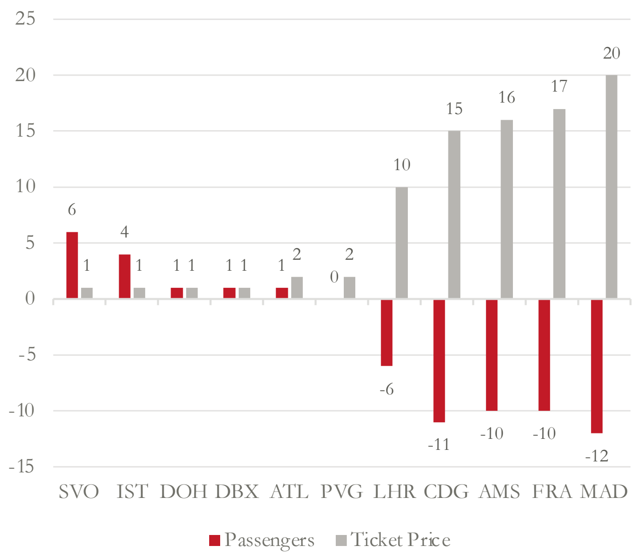
The **uncertainty** surrounding the impact of this expansion on EasyJet's short and medium-term profitability may **delay the market's ability to price the growth potential** that we identified.

### Regulatory Exposure

In April 2021, EasyJet was **fined €2.8M** for issues related to flight cancellations and the communication of customer refund options during the post-lockdown period. This sanction underscores the broader regulatory risks facing airlines as consumer protection and transparency standards continue to evolve across Europe.

With **increasing regulatory oversight**, particularly regarding how cancellation and refund procedures are communicated, additional enforcement actions may be on the horizon. In addition to these consumer-facing regulatory challenges, the aviation sector is also navigating the implications of the European Union's **"Fit for 55"** initiative. Aimed at reducing net greenhouse gas emissions by 55% by 2030 relative to 1990 levels, this ambitious climate policy could lead to increased compliance costs, necessary operational adjustments, and substantial investments in greener technologies.

*Projected Fare Increase Under Fit for 55 vs. Passenger Volume Impact by 2030*




Source: SEO Amsterdam Economics

## FUTURE OUTLOOK

### What the Future of EasyJet Entails

#### EasyJet Holidays Growth

EasyJet Holidays has set ambitious and credible medium-term targets, aiming for a **Profit Before Tax** (PBT) of **£250M**. To achieve this, the company focuses on expanding its UK regional bases, an area where Holidays has a particular competitive advantage. Since the launch of its new Birmingham base, **17%** of all departing airline seats to international destinations have been **occupied** by **Holidays customers**. Additionally, the company has announced the opening of its 10th UK base at Southend in Summer 2025. The recent **expansions** into Switzerland (FY23), France (FY24), and Germany (FY24) have the potential to deliver **similar results** as those seen in the UK in previous years.

Furthermore, **EasyJet Holidays** sees a substantial opportunity to **improve** its **attachment rate**, which currently stands at just **4%**, promising a strong growth avenue for the holiday business when compared to competitors like **Jet2holidays**, which boasts a **69.2**% attachment rate.

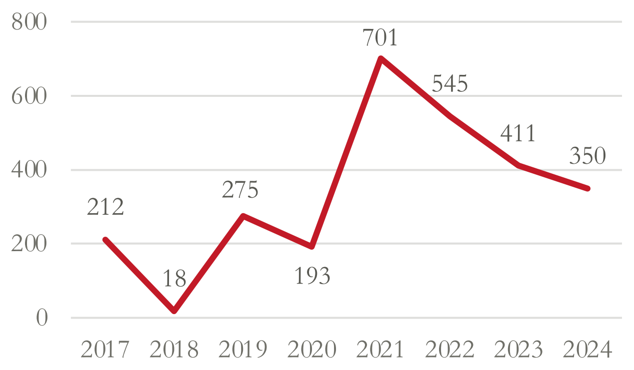
To support its objective of achieving £250M in PBT, EasyJet Holidays targets a **25% CAGR,** whilst EasyJet targets a **5% CAGR**.

The **target market share** for the UK of **10%** from the current **5-7%**, the business model's flexibility, absence of constraints on growth, positions EasyJet to scale effectively.

#### Reduction in Winter Losses

EasyJet's **targeted growth** and focus on **productivity** have contributed to a **reduction** in **winter losses**, a key driver of the company's medium-term objectives. EasyJet achieved a **£61M improvement** in its **headline loss before tax**, which stood at £350M for H1 2024.

*Headline losses before tax in H1 (£M)*




Source: EasyJet Investor Reports 2017-2024

This positive outcome has primarily been driven by **network expansion** in response to **customer demand**, **enhanced fleet utilization**, and the continued **growth** of EasyJet Holidays, returning headline costs to the **pre-COVID standards**.

In Q1 of 2025, **passenger numbers increased** by **7%** compared to Q1 of 2024, reaching **21.2M**. **Revenue per seat** (RPS) **rose** by **6%**, contributing to a **13% increase** in **total revenue**, which reached **£2,037M**, up from **£1,800M** in Q1 FY24. Despite fuel price volatility, EasyJet's hedging strategy helped mitigate the impact, leading to a **13% reduction** in **fuel cost** per available seat kilometre (CASK).

The consistent **expansion** into winter sun destinations will continue to contribute to **lowering winter losses**, with EasyJet expected to benefit from higher load factors. EasyJet is set to further reduce its winter losses in the coming year.

#### Fuel Cost Management

To manage the effect of **jet fuel price volatility** in FY2024, likely through the hedging method of costless collars, EasyJet **hedged 81%** of their fuel acquisitions at $**842** per metric ton. The non-hedged fuel price was $**862** for FY2024. Therefore, the airline **saved** approximately **2.5%** in costs for **81%** of their fuel acquisition, a total of **2% savings** on one of EasyJet's largest costs.

*EasyJet's projected jet fuel hedged position relative to price*

| | Hedged Position | Average Hedged Price ($/MT) |
|---|---|---|
| H1 2025 | 80% | 808 |
| H2 2025 | 59% | 771 |
| H1 2026 | 24% | 761 |

The post-hedge price in 2023 was $**867** per metric ton of fuel, demonstrating a **decline** in **fuel prices** from 2023 to 2024. As shown above in the table, the airline continues to expect a **consistent decrease** in **hedged positions** as the volatility of jet fuel prices is expected to continually decrease.

With a decreased volatility, EasyJet expects to **increasingly rely** on the **open market** for fuel acquisition over time, rather than the possibility of having to pay unnecessary costs for fuel hedging. In addition, EasyJet has secured a **long-term agreement** with Q8 Aviation for Sustainable Aviation Fuel **(SAF) supply** until 2027, positioning itself to meet **growing sustainability mandates** without compromising its cost structure. By combining proactive measures, such as fuel efficiency improvements and strategic SAF procurement, with forward-looking hedging strategies, EasyJet has managed to **stabilise** its **cost base**.

## Decrease in Interest Rates

The recent **decrease** in **interest rates** by the ECB, as mentioned in the Tailwinds section, will have a direct impact on the high interest rates of **EasyJet's cash holdings** in recent years. In FY24, EasyJet reported **net finance income** of **£13 million**, largely due to **interest earned** on its **£5.1 billion** in **cash and money market deposits**. **EasyJet Holidays** earned **£24M** in **net interest income**, leveraging customer prepayments before reimbursing hotels.

**Lower borrowing costs** will however also be advantageous for EasyJet, actively reducing its debt, including the **repayment** of a **€500M Eurobond in FY24**.

## Growth in seat capacity

EasyJet's **future growth** is supported by a strategic approach to aircraft deliveries, which will significantly **boost** the **airline's seat capacity** in the coming years. In FY24, the airline **increased** its total **capacity** by **8%** compared to FY23, reaching **100.4 million seats**, with **passenger numbers** growing by **8%** as well, keeping the load factor constant at 89.3%.

For **FY25**, EasyJet plans a further **3% capacity increase** year-on-year, with nine aircraft deliveries expected from Airbus, alongside three wet leases sourced from ITA Airways in Italy. In particular, the company anticipates a **6% seat capacity** year-on-year **growth** in the first half of FY25 due to **front-loading capacity expansion**. This ability to expand capacity is crucial for EasyJet to meet the growing demand and maximise returns in key markets.

## Expansion of routes and network points

In FY25, EasyJet projects a **45% increase** in **North Africa** flights and the launch of **Cape Verde**, a new network point. Additionally, EasyJet will **absorb** the majority of **slots** ceded at Milan **Linate**, following Lufthansa's acquisition of ITA Airways and commitments with the Italian government to safeguard competition. Consequently, EasyJet plans to **expand** its **network** at **Linate** and Rome **Fiumicino** in H2 2025. These ambitions will be actionable due to the projected **84.6% capex increase** for **fuel-efficient aircraft acquisitions** in FY27.

# VALUATION AND SENSITIVITY

## Valuation Methodology

### Introduction

The **target price** for EasyJet was set at **£6.69**, implying a **36% upside** from current levels. This valuation was derived using a blended approach, assigning a **70%** weight to the **fundamental valuation** (DCF model) and a **30%** weight to the **multiples valuation**.

The robustness of the analysis was confirmed by conducting a sensitivity analysis, which examined the impact of **changes in WACC** and **terminal growth rate** on **equity value**.

### Cost of Equity

We estimated the **cost of equity** using the **Capital Asset Pricing Model** (CAPM).

A **risk-free rate** of **4.37%** – the 12-month average yield on UK 10-year risk-free bonds – was used to smooth short-term volatility and capture long-term trends, mitigating the effects of recent rate fluctuations. We adopted a **UK market risk premium** of **5.7%** based on **Fernandez 2024 data** and applied a **corporate tax rate of 25%**.

To determine the **unlevered beta**, we first selected a **peer group** of low-cost airline companies. For each firm, we adjusted the raw levered beta and then unlevered it using the corresponding tax rate, arriving at an average **unlevered beta of 0.99**. Given EasyJet's negative net debt and strong cash position, we assumed a **debt weight** (D/(D+E)) **of zero** in line with consensus estimates. Consequently, the **levered beta** remains equal to the unlevered beta of **0.99**, leading to a calculated **cost of equity** of **9.98%**.

### Cost of Debt

To determine the cost of debt, we took the sum of the previously mentioned **risk-free rate** to the **credit spread**.

The **credit spread** (1.20%), sourced from Damodaran's model, was based on the **rating** of EasyJet bonds rather than the interest coverage ratio, as the latter was at an **atypical level** that did not fit standard classifications. The **BBB bond rating** was derived from Bloomberg data on EasyJet's **most recent bond issuance** in March 2024, maturing in 2031. This rating reflects a composite of Moody's (Baa2) and S&P's (BBB) assessments.

### Weighted Average

The **final discount rate** is **9.98%**, obtained by weighting the cost of equity and cost of debt by their respective proportions. In this case, the weight for debt was 0%, considering the previous assumption regarding the value of EasyJet's **net debt** at the valuation date – calculated using the **current market value of bonds** of **£2,524 M**, amounting to (**£207.3**) **M.**

*WACC*

| | |
|---|---|
| 10y risk-free rate (average 12m 2024) | 4.37% |
| Levered beta | 0.99 |
| Market risk premium | 5.70% |
| **Levered cost of equity** | **9.98%** |
| Spread on debt | 1.20% |
| **Cost of debt** | **5.57%** |
| Corporate tax rate | 25% |
| Market value of net debt (M) | (£207.35) |
| Market capitalization at valuation date (M) | £3,820.48 |
| D/(D+E) | - |
| E/(D+E) | 100% |
| **WACC** | **9.98%** |

## Assumptions

Our valuation strategy employs a **hybrid approach**, combining both top-down and bottom-up methodologies. We segmented EasyJet's revenue into its three main business lines – **ticket revenue**, **ancillary revenue**, and **holiday revenue** – to better assess their individual growth potential. Since the holiday package industry is less mature than EasyJet's other segments – and the company has entered this market with a **unique competitive advantage** by directly providing flights as part of its packages, unlike traditional OTAs that previously dominated the sector – we expect this segment to experience a **high growth rate**. Quantitatively, we project Holidays revenue to grow by **8.74%** in **FY25** before gradually stabilising at a growth rate of **4.75% between FY28 and FY29**. Comparing our data with analysts' consensus, our projections are more conservative, leading to **slightly lower Holidays revenue estimates**. However, this is **fully offset** by our **higher ticket revenue forecasts**. Since flights linked to holiday packages are treated as **intra-company transactions** and **recorded as ticket revenue**, we anticipate strong ticket revenue growth, further bolstered by the lasting impact of the **post-COVID recovery**.

However, as these recovery effects fade over time, ticket revenue **will decelerate more quickly**, reaching a growth rate of 4.62% between FY28 and FY29. We assume ancillary revenue will follow a **similar trajectory**.

For the OpEx calculations, we determined various cost items as a **percentage of their respective revenues** based on historical trends, with the exception of fuel expenses. Fuel costs were calculated as a **percentage of ticket revenue**, incorporating prior determinations while adjusting the percentage to reflect **management projections** and the rising costs associated with **SAF implementation**.

Our financing and investing assumptions are aligned with **management's future projects**, as outlined in the latest Earnings Call, and **contractual aircraft deliveries**.

Lastly, we projected a **terminal growth rate of 2.5%**, representing the company's long-term sustainable growth beyond the explicit forecast period. This rate is based on **multiple factors**, including historical performance, industry growth trends, inflation expectations, and broader macroeconomic conditions.

| DCF asset side (FCFO) | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|
| FCFO | 208.8 | 713.8 | 181.8 | 648.2 | 371.4 | 460.1 | 454.6 | 503.9 | 401.7 |
| Discount factor (WACC) | | | | 0.909 | 0.827 | 0.752 | 0.683 | 0.621 | |
| Present value of FCFO | | | | 589.4 | 307.0 | 345.9 | 310.7 | 313.1 | |
| Terminal value | | | | | | | | 5,368.7 | |
| **PV of FCFO** | | | **1,866.0** | | | | | | |
| **PV of TV** | | | **3,336.3** | | | | | | |
| **Enterprise value** | | | **5,202.3** | | | | | | |
| (Net debt) | | | 181.0 | | | | | | |
| Surplus assets, associates and (pensions) | | | (715.0) | | | | | | |
| (Minorities) | | | 0.0 | | | | | | |
| **Equity value** | | | **4,668.3** | | | | | | |
| Number of shares (NOSH) (M) | | | 750.9 | | | | | | |
| **Equity value per share (€)** | | | **6.217** | | | | | | |
| Implied EV / EBITDA 2024A multiple | | | 3.8x | | | | | | |

## Sensitivity Analysis

The sensitivity analysis examines the impact of changes in WACC and perpetual growth on price per share. The results indicate that price per share is **inversely related to WACC** and **positively correlated with perpetual growth**. As WACC increases, the share price decreases, reflecting the **higher discount rate** applied to future cash flows. Conversely, higher perpetual growth assumptions result in greater share price, as a **larger portion of future earnings** is capitalized into the present valuation.

*Price per Share sensitivity: WACC and perpetual growth*

| WACC \ Perpetual Growth | 2.00% | 2.25% | 2.50% | 2.75% | 3.00% |
|---|---|---|---|---|---|
| 8.98% | £6.82 | £7.01 | £7.20 | £7.42 | £7.65 |
| 9.48% | £6.35 | £6.51 | £6.68 | £6.86 | £7.05 |
| 9.98% | £5.94 | £6.07 | £6.22 | £6.37 | £6.54 |
| 10.48% | £5.58 | £5.69 | £5.82 | £5.95 | £6.09 |
| 10.98% | £5.25 | £5.35 | £5.46 | £5.57 | £5.69 |

At a WACC of 9.98% and a perpetual growth rate of 2.50%, the **base case price per share** stands at **£6.22**. As WACC decreases, the share price rises due to the lower discount rate applied to future cash flows. For example, when **WACC is 8.98%** and the **growth rate is 2.50%**, the price per share increases to **£7.20**, whereas increasing **WACC to 10.98%** results in a lower valuation of **£5.46** at the **same growth rate**. Similarly, increasing the perpetual growth rate **from 2.00% to 3.00%** at a **fixed WACC of 9.98%** leads to a share price increase from **£5.94 to £6.54**, showing how stronger growth expectations enhance valuation. Moreover, with the Bank of England's **recent rate cut**, we expect a **decline in the risk-free rate**, which could lead to a **lower WACC**. This would create **favorable conditions for our valuation**, driving further upside.

## Multiples Valuation

In addition to the estimate obtained through the Discounted Cash Flow (DCF) model, EasyJet's valuation was assessed through a **comparative market analysis**, measuring its financial performance against a group of carefully selected industry peers. This method provides insight into how the market prices EasyJet relative to similar airlines by analysing key financial ratios. The peer group includes **low-cost European carriers** as well as **legacy airlines** such as Deutsche Lufthansa, offering a broader perspective on valuation trends. We decided to focus on European players, as American airlines operate in an entirely different environment.

*Market Multiples Valuation*

| Company | EV / Sales Actual | EV / Sales Forward | EV / EBITDA Actual | EV / EBITDA Forward | P/E Actual | P/E Forward |
|---|---|---|---|---|---|---|
| Ryanair Holdings | 1.7x | 1.5x | 8.3x | 7.1x | 11.3x | 13.7x |
| Wizz Air Holdings | 1.5x | 1.2x | 8.3x | 5.2x | 5.1x | 12.3x |
| Air France KLM | 0.4x | 0.4x | 3.6x | 2.9x | 2.3x | 4.6x |
| IAG | 1.0x | 0.8x | 5.2x | 3.8x | 10.9x | 5.3x |
| Deutsche Lufthansa | 0.4x | 0.3x | 9.9x | 3.1x | 7.4x | 5.8x |
| Norwegian Air Shuttle | 0.3x | 0.3x | 1.6x | 1.5x | 8.0x | 7.4x |
| **Average** | **0.9x** | **0.8x** | **6.2x** | **3.9x** | **7.5x** | **8.2x** |
| **Median** | **0.7x** | **0.6x** | **6.7x** | **3.4x** | **7.7x** | **6.6x** |
| **EasyJet** | 0.4x | 0.4x | 2.7x | 1.9x | 8.5x | 4.6x |

One of the key valuation metrics examined was **EV/Sales**, which measures how the market values a company's revenue generation capabilities. EasyJet's EV/Sales multiple **for 2024 and 2025** stood at **0.4x**, which is **lower than the industry medians** of **0.7x** and **0.6x**. This suggests that **EasyJet's revenue** is being **valued at a discount compared to its peers**, potentially indicating weaker revenue growth expectations, different pricing strategies, or a more cautious investor outlook on the company's ability to scale its top-line performance.

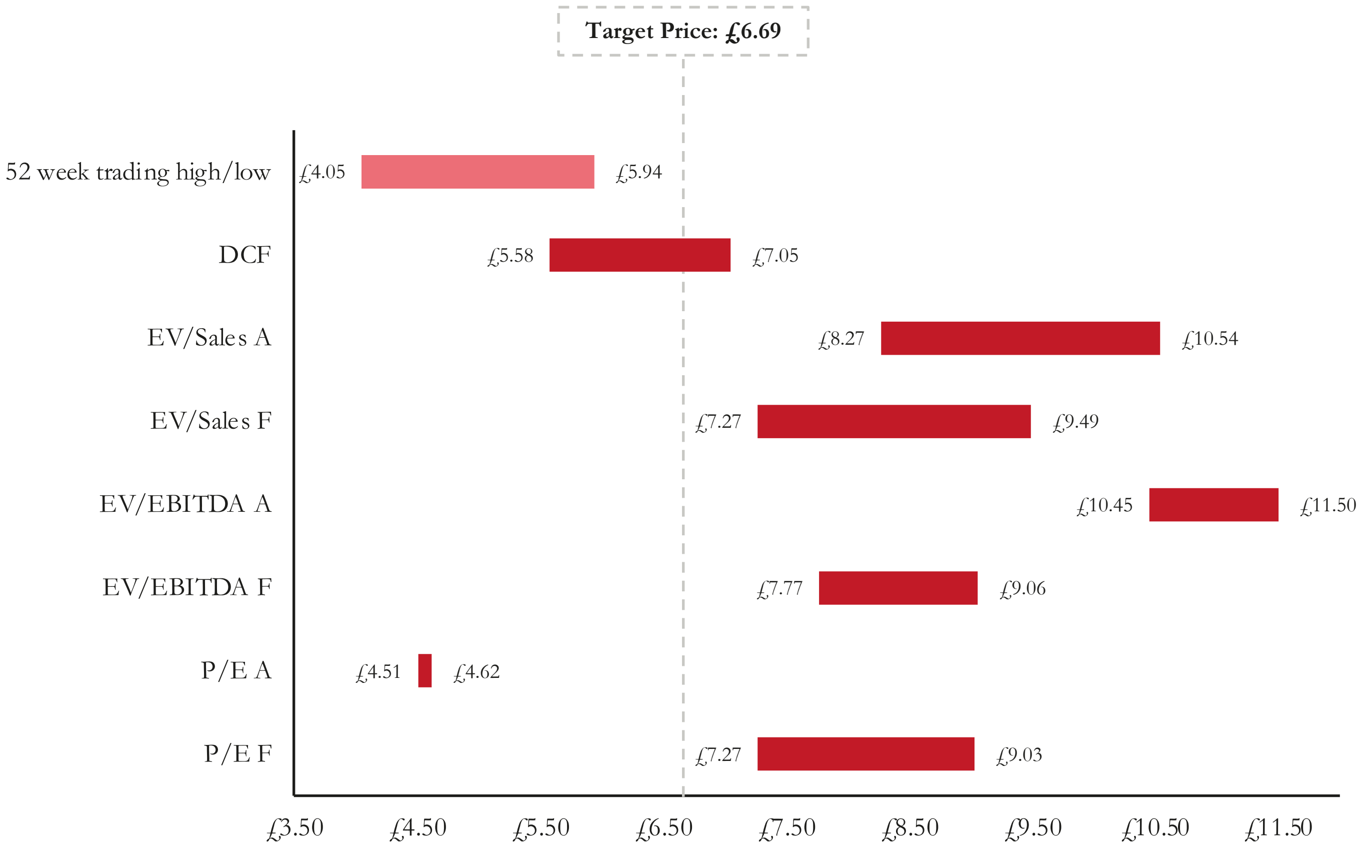
A similar trend is observed when looking at **EV/EBITDA**, which reflects a company's operating profitability relative to its enterprise value. EasyJet's EV/EBITDA multiples for **2024 and 2025** were **2.7x** and **2.0x**, significantly **lower** than the peer group medians of 6.7x and 3.4x. Such a valuation could indicate that the market perceives higher operational costs, earnings volatility, or external factors affecting profitability. However, a lower EV/EBITDA multiple may also suggest that **EasyJet is undervalued relative to its earnings potential**, depending on how efficiently it can manage costs and improve margins.

It has to be noted that we used EBITDA and not **EBITDAR** as a reference metric because, due to accounting standard updates, the two items are now very similar.

When analysing **P/E ratios**, which represent how much investors are willing to pay for each unit of earnings, EasyJet's multiples **for 2024 and 2025** stood at **8.5x** and **4.8x**, closely **aligned with the industry medians** of **7.7x** and **6.6x**. At first glance, this suggests that the market is pricing EasyJet's earnings **in line with its peers**, neither placing a significant premium nor discount on its profitability compared to other airlines. However, the **volatility** of the P/E ratio **raises concerns** about its ability to provide a stable measure of EasyJet's valuation, making it **less reliable** compared to the other two valuation metrics analysed.

To complement this analysis, valuation figures derived **from the DCF model** suggested an **EV/EBITDA** multiple of **11.5x** and a **P/E** multiple of **5.3x**, offering a different perspective on EasyJet's potential worth.

*EasyJet Valuation – Football Field*



# APPENDIX: COMPANY HISTORICAL FINANCIALS

| Income Statement (in GBP M) | 2018 FY | 2019 FY | 2020 FY | 2021 FY | 2022 FY | 2023 FY | 2024 FY |
|---|---|---|---|---|---|---|---|
| **Total Revenue** | **5,898.0** | **6,385.0** | **3,009.0** | **1,458.0** | **5,769.0** | **8,171.0** | **9,309.0** |
| Ticket Revenue | 4,688.0 | 5,009.0 | 2,303.0 | 1,000.0 | 3,816.0 | 5,221.0 | 5,715.0 |
| Ancillary Revenue | 1,210.0 | 1,376.0 | 688.0 | 424.0 | 1,585.0 | 2,174.0 | 2,457.0 |
| EasyJet Holidays Revenue | 0.0 | 0.0 | 18.0 | 34.0 | 368.0 | 776.0 | 1,137.0 |
| **COGS** | **(4,329.0)** | **(4,831.0)** | **(2,772.0)** | **(1,636.0)** | **(4,129.0)** | **(5,537.0)** | **(6,139.0)** |
| Fuel | (1,184.0) | (1,416.0) | (721.0) | (371.0) | (1,279.0) | (2,033.0) | (2,223.0) |
| Airports & Handling | (1,649.0) | (1,845.0) | (938.0) | (446.0) | (1,443.0) | (1,800.0) | (1,989.0) |
| Navigation | (400.0) | (409.0) | (206.0) | (102.0) | (339.0) | (422.0) | (463.0) |
| Crew | (761.0) | (859.0) | (629.0) | (495.0) | (767.0) | (941.0) | (1,074.0) |
| Maintenance | (335.0) | (302.0) | (278.0) | (222.0) | (301.0) | (341.0) | (390.0) |
| Advertising | (143.0) | (157.0) | (107.0) | (60.0) | (173.0) | (232.0) | (257.0) |
| Holidays Operating Costs | 0.0 | 0.0 | 0.0 | 0.0 | (273.0) | (582.0) | (840.0) |
| Other Costs & Income (net) | (587.0) | (427.0) | (488.0) | (187.0) | (655.0) | (694.0) | (714.0) |
| *Operating Costs w/o Fuel* | *(3,875.0)* | *(3,999.0)* | *(2,646.0)* | *(1,512.0)* | *(3,951.0)* | *(5,012.0)* | *(5,727.0)* |
| **EBITDAR** | **839.0** | **970.0** | **(358.0)** | **(425.0)** | **539.0** | **1,126.0** | **1,359.0** |
| *Margin* | *14.2%* | *15.2%* | *(11.9%)* | *(29.1%)* | *9.3%* | *13.8%* | *14.6%* |
| *Holidays EBITDAR Margin* | - | - | - | - | *25.8%* | *25.0%* | *26.1%* |
| Aircraft dry Leasing | (162.0) | (5.0) | (1.0) | (5.0) | (2.0) | 0.0 | 0.0 |
| **EBITDA** | **677.0** | **965.0** | **(359.0)** | **(430.0)** | **537.0** | **1,126.0** | **1,359.0** |
| *Margin* | *11.5%* | *15.1%* | *(11.9%)* | *(29.5%)* | *9.3%* | *13.8%* | *14.6%* |
| Impairments | 0.0 | 0.0 | (37.0) | 0.0 | 0.0 | 0.0 | 0.0 |
| Depreciation | (199.0) | (484.0) | (485.0) | (456.0) | (539.0) | (644.0) | (727.0) |
| Amortization | (15.0) | (15.0) | (18.0) | (24.0) | (25.0) | (29.0) | (43.0) |
| **EBIT** | **463.0** | **466.0** | **(899.0)** | **(910.0)** | **(27.0)** | **453.0** | **589.0** |
| *Margin* | *7.9%* | *7.3%* | *(29.9%)* | *(62.4%)* | *(0.5%)* | *5.5%* | *6.3%* |
| Interest receivable and other financing income | 12.0 | 24.0 | 117.0 | 83.0 | (38.0) | 159.0 | 145.0 |
| Interest expenses | (30.0) | (60.0) | (491.0) | (209.0) | (143.0) | (180.0) | (132.0) |
| **EBT** | **445.0** | **430.0** | **(1,273.0)** | **(1,036.0)** | **(208.0)** | **432.0** | **602.0** |
| Income taxes | (87.0) | (81.0) | 194.0 | 178.0 | 39.0 | (108.0) | (150.0) |
| **Net income** | **358.0** | **349.0** | **(1,079.0)** | **(858.0)** | **(169.0)** | **324.0** | **452.0** |
| *Margin* | *6.1%* | *5.5%* | *(35.9%)* | *(58.8%)* | *(2.9%)* | *4.0%* | *4.9%* |
| Dividend distribution | 0.0 | 233.0 | 174.0 | 0.0 | 0.0 | 0.0 | 34.0 |
| Retained portion | 358.0 | 116.0 | (1,253.0) | (858.0) | (169.0) | 324.0 | 418.0 |

# APPENDIX: COMPANY HISTORICAL FINANCIALS

| Balance Sheet (in GBP M) | 2018 FY | 2019 FY | 2020 FY | 2021 FY | 2022 FY | 2023 FY | 2024 FY |
|---|---|---|---|---|---|---|---|
| Trade receivables | 406.0 | 302.0 | 193.0 | 291.0 | 367.0 | 343.0 | 483.0 |
| Trade payables | (1,023.0) | (1,050.0) | (1,242.0) | (1,128.0) | (1,759.0) | (1,764.0) | (1,656.0) |
| Unearned Revenues | (877.0) | (1,069.0) | (614.0) | (844.0) | (1,042.0) | (1,498.0) | (1,737.0) |
| Other current assets | 220.0 | 171.0 | 42.0 | 198.0 | 427.0 | 186.0 | 29.0 |
| Other current liabilities | (151.0) | (330.0) | (759.0) | (216.0) | (193.0) | (232.0) | (435.0) |
| Trade Net Working Capital | (1,425.0) | (1,976.0) | (2,380.0) | (1,699.0) | (2,200.0) | (2,965.0) | (3,316.0) |
| Deferred taxes | (343.0) | (305.0) | (51.0) | 39.0 | 62.0 | (22.0) | (70.0) |
| **Noncash working capital** | **(1,768.0)** | **(2,281.0)** | **(2,431.0)** | **(1,660.0)** | **(2,138.0)** | **(2,987.0)** | **(3,386.0)** |
| Tangible assets | 4,140.0 | 5,163.0 | 5,053.0 | 4,735.0 | 4,629.0 | 4,864.0 | 5,475.0 |
| Financial Assets (incl. Derivative Instruments) | 175.0 | 174.0 | 122.0 | 116.0 | 158.0 | 66.0 | 53.0 |
| Intangible assets | 546.0 | 631.0 | 609.0 | 722.0 | 1,077.0 | 1,317.0 | 1,365.0 |
| **Fixed assets** | **4,861.0** | **5,968.0** | **5,784.0** | **5,573.0** | **5,864.0** | **6,247.0** | **6,893.0** |
| **Core capital employed** | **3,093.0** | **3,687.0** | **3,353.0** | **3,913.0** | **3,726.0** | **3,260.0** | **3,507.0** |
| Other non-operational assets | 133.0 | 146.0 | 138.0 | 136.0 | 94.0 | 140.0 | 169.0 |
| Provision | (364.0) | (444.0) | (377.0) | (457.0) | (590.0) | (633.0) | (823.0) |
| Other Liabilities | (25.0) | (78.0) | (90.0) | (43.0) | (27.0) | (21.0) | (61.0) |
| Surplus assets and other liabilities | (256.0) | (376.0) | (329.0) | (364.0) | (523.0) | (514.0) | (715.0) |
| **Net capital employed** | **2,837.0** | **3,311.0** | **3,024.0** | **3,549.0** | **3,203.0** | **2,746.0** | **2,792.0** |
| ST Debt (Excluding ST Lease Obligations) | 9.0 | 0.0 | 987.0 | 300.0 | 437.0 | 433.0 | 416.0 |
| LT Debt (Excluding LT Lease Obligations) | 968.0 | 1,324.0 | 1,744.0 | 3,067.0 | 2,760.0 | 1,462.0 | 1,690.0 |
| Lease Debt (ST & LT) | 0.0 | 578.0 | 710.0 | 1,079.0 | 1,113.0 | 989.0 | 1,174.0 |
| Gross financial debt | 977.0 | 1,902.0 | 3,441.0 | 4,446.0 | 4,310.0 | 2,884.0 | 3,280.0 |
| Excess cash & equivalents | (1,373.0) | (1,576.0) | (2,316.0) | (3,536.0) | (3,640.0) | (2,925.0) | (3,461.0) |
| **Net debt** | **(396.0)** | **326.0** | **1,125.0** | **910.0** | **670.0** | **(41.0)** | **(181.0)** |

# APPENDIX: COMPANY HISTORICAL FINANCIALS

| Cash Flow Statement (in GBP M) | 2018 FY | 2019 FY | 2020 FY | 2021 FY | 2022 FY | 2023 FY | 2024 FY |
|---|---|---|---|---|---|---|---|
| EBIT | | 466.0 | (899.0) | (910.0) | (27.0) | 453.0 | 589.0 |
| *% statutory corporate tax rate* | | *25%* | *25%* | *25%* | *25%* | *25%* | *25%* |
| (Operational taxes) | | (116.5) | 224.8 | 227.5 | 6.8 | (113.3) | (147.3) |
| **NOPAT** | | **349.5** | **(674.3)** | **(682.5)** | **(20.3)** | **339.8** | **441.8** |
| Depreciation | | 484.0 | 485.0 | 456.0 | 539.0 | 644.0 | 727.0 |
| Amortization | | 15.0 | 18.0 | 24.0 | 25.0 | 29.0 | 43.0 |
| **Gross cash flows** | | **848.5** | **(171.3)** | **(202.5)** | **543.8** | **1,012.8** | **1,211.8** |
| | | | | | | | |
| Change in noncash WC | | 513.0 | 150.0 | (771.0) | 478.0 | 849.0 | 399.0 |
| Tangible CAPEX | | (1,507.0) | (375.0) | (138.0) | (433.0) | (879.0) | (1,338.0) |
| Intangible CAPEX | | (70.0) | 4.0 | (137.0) | (380.0) | (269.0) | (91.0) |
| **FCFO** | | **(215.5)** | **(392.3)** | **(1,248.5)** | **208.8** | **713.8** | **181.8** |
| | | | | | | | |
| Tax shields | | 35.5 | (30.8) | (49.5) | 32.3 | 5.3 | (2.8) |
| Interest income | | 24.0 | 117.0 | 83.0 | (38.0) | 159.0 | 145.0 |
| Interest expenses | | (60.0) | (491.0) | (209.0) | (143.0) | (180.0) | (132.0) |
| Change in gross debt | | 925.0 | 1,539.0 | 1,005.0 | (136.0) | (1,426.0) | 396.0 |
| Change in surplus assets and other liabilities | | 120.0 | (47.0) | 35.0 | 159.0 | (9.0) | 201.0 |
| **FCFE** | | **829.0** | **695.0** | **(384.0)** | **83.0** | **(737.0)** | **789.0** |
| | | | | | | | |
| Dividends | | (233.0) | (174.0) | 0.0 | 0.0 | 0.0 | (34.0) |
| Other movements in group equity (incl. Repurchases) | | (364.0) | 167.0 | 1,598.0 | 63.0 | (70.0) | (232.0) |
| Change in minorities | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Effect of Foreign Exchange Rates | | (29.0) | 52.0 | 6.0 | (42.0) | 92.0 | 13.0 |
| | | | | | | | |
| **Change in cash** | | **203.0** | **740.0** | **1,220.0** | **104.0** | **(715.0)** | **536.0** |

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