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RECOMMENDATION OF THE CONNECT AIRWAYS OFFER

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FLYBE GROUP PLC ("Flybe" or the "Company")

BACKGROUND TO AND REASONS FOR THE BOARD'S RECOMMENDATION OF THE CONNECT AIRWAYS OFFER

This announcement is made in compliance with Article 17 of the Market Abuse Regulation (EU) No. 596/2014

The below comprises an extract from the announcement made earlier today by Connect Airways Limited ("**Connect Airways**") of a recommended cash offer for all of the issued and to be issued share capital of the Company (the "**Formal Offer Announcement**"). Capitalised terms used and not otherwise defined in this announcement have the meanings given to them in the Formal Offer Announcement.

Extract:

"Flybe plays a vital role in the UK's transport infrastructure. Since the appointment of Christine Ourmières-Widener as CEO, Flybe has implemented a clear strategy focused on tighter fleet management, improving revenue per seat performance and increasing load factors. Delivering this new strategy has required management to address several material legacy issues such as engine and aircraft contracts, which have significantly increased cash requirements.

Flybe's pursuit of operational excellence has led to a significant reduction in maintenance lead-times and higher customer satisfaction. In addition, Flybe's UK regional network positions itself well to benefit from growing demand by long-haul carriers for passenger feeder traffic, as evidenced by Flybe's growing revenues from airline partnerships.

The current broader market for air travel remains challenging for all parties. There have been a number of airlines who have gone out of business over the past year. While Flybe has made tangible progress in delivering its strategy, maintaining momentum has been hampered by the challenging market environment: Ongoing fuel and currency impacts have presented particularly significant headwinds for Flybe as has the rapid and significant tightening on Flybe's liquidity from the card acquirer market. In addition, the general economic outlook and conditions have impacted the business recently leading to a further weakening in consumer demand, affecting cash, revenues and profit adversely.

The Company's card acquirers normally pass on cash for credit card bookings for future flights, less a proportion retained as security. However they are contractually entitled to retain enough cash to ensure that they are fully secured. The Company's card acquirers have recently begun to retain significantly more cash against their exposure and this change in position has materially and rapidly weakened the Company's unrestricted cash position.

The Flybe Directors have taken into careful consideration the risks inherent to the successful execution of Flybe's business plan given these developing factors versus the opportunity that a cash bid and the offer of funding for the business provides. Such risks include further softening in demand in the short-haul market, potential for further cash flow challenges in the short-term, weather events and further adverse movements in fuel prices, sterling and customer sentiment.

On 17 October 2018, Flybe announced that, due to weak consumer demand in domestic and near-continent markets, together with higher fuel prices and a weaker sterling, the Company's profit performance would be lower than previously expected. On 14 November 2018, Flybe announced that it was undertaking a comprehensive strategic review of its options, including a potential sale of Flybe by way of a Formal Sale Process under the Code.

Following the announcement of the Formal Sale Process, Flybe received a number of expressions of interest. These expressions of interest included proposals for the acquisition of Flybe as a whole and also for parts of the business or certain assets. After initial discussions with the interested parties, Flybe shortlisted a smaller number of potential offerors to conduct initial due diligence based on a range of criteria, including deliverability, financial capability and strategic fit. The selected potential offerors were asked to submit proposals for Flybe and subsequently Flybe entered into detailed discussions with a small number of parties. These discussions led to the current offer.

The Flybe Directors see a business combination with Connect Airways as one that will be highly attractive to Flybe's customers, employees and the wider community. Flybe's access to increased scale and significant financial resources through such a combination would deliver greater stability during times of market turbulence and enable the business to focus on profitable growth. The Flybe Directors believe that adding the long-haul network, connectivity experience, successful airline partnerships and the wet lease operations of the owners of Connect Airways will provide the opportunity to develop enhanced customer experience, optimise operational performance and accelerate partnerships with other airline operators. It also confirms Flybe's feeder capabilities at key airports including Manchester Airport and London Heathrow Airport.

The Flybe Board therefore believes that, taking into account Flybe's current difficult financial position and the expectation that the pressure on Flybe's cash flow will continue, the Acquisition and funding from Connect Airways represent the most realistic means of securing Flybe's future and deliver an attractive option for Flybe's employees, pension scheme members and creditors."

ENDS

Enquiries

Flybe Group plc	+44(0)13 9236 4520
Christine Ourmières-Widener	
Maitland/AMO	+44(0)20 7379 5151
Andy Donald	