



Equity Valuation of the EasyJet Company

Ana Carolina Fonseca
152418072

Dissertation written under the supervision of José Carlos
Tudela Martins

Dissertation submitted in partial fulfilment of requirements for the MSc in
Finance, at the Universidade Católica Portuguesa, June 15th 2020.

Abstract

EasyJet is a British low cost airline based in London Luton. The company carried more than 96 million passengers in FY19 and recorded a total revenue of £6.3 billion. Focused on their customers' satisfaction the company has followed key value such as, innovation, integrity, one team, and above all safety.

The purpose of the current dissertation is to achieve the most accurate and robust value of EasyJet's equity value. Following this, the Discounted Cash Flow Method and Multiples valuation approaches was applied, reaching a price per share of £6,51 on 30 June, 2020.

Furthermore, a sensitivity analysis was performed in order to understand the impact on the company's value on changing the expected crash in 2020 and the number of years necessary to EasyJet recover to the levels before Covid-19 pandemic. Additionally, it was study the impact on enterprise value by changing the WACC and the terminal growth rate.

Lastly, a comparison between the conclusion of current dissertation and the ones reached by investment report's analyst from Market Screener was made. The conclusion from the current dissertation was that a recommendation to hold EasyJet shock.

Resumo

A EasyJet é uma companhia aérea britânica cuja base está localizada no aeroporto de Luton em Londres. No último ano, a empresa transportou mais de 96 milhões de passageiros e registou um total de vendas no valor de £6,3 mil milhões. Focada na satisfação dos seus clientes, a EasyJet rege-se por valores como, inovação, integridade, trabalho em equipa e segurança.

O objetivo da presente dissertação é de alcançar o verdadeiro valor de capital da empresa. Para tal, foram efetuados os métodos dos Fluxos de Caixa Descontados e de avaliação Relativa através dos Múltiplos, obtendo um valor por ação de £6,51 a 30 de junho de 2020.

De seguida foi efetuada uma análise de sensibilidade, cujo objetivo é estudar o impacto das variações na percentagem total na queda das vendas em 2020 e no número de anos que a EasyJet necessita para voltar aos níveis registados antes da pandemia do Covid-19. Adicionalmente, também foi estudado o impacto de variações no WACC e na taxa de crescimento da economia.

Para concluir, foi efetuada uma análise comparativa entre as conclusões da presente dissertação e aquelas que foram obtidas pelos analistas do relatório de investimento do Market Screener. A conclusão da presente dissertação é a recomendação de manter as ações da EasyJet.

Acknowledgments

Fistly, I would like to take this opportunity to express my gratitude towards Professor José Carlos Tudela for his support and availability during the last months on this dissertation.

Secondly, I would like to express my profound gratitude to my parents and to my brother for providing me with unfailing support, words of motivation and continuous encourgment through this journey. This accomplishment would not have been possible without them. Thank you.

I would also to thank to my boyfriend and to my closer friends, who played a decisive role in my life. I am thankful for their aspiring guidance, friendship, support and the words of motivation in the last months.

Finally I would like to express a word of gratitude to all professors who made part of this achievement.

Contents Index

- 1.Introduction 9
- 2.Literature Review 10
 - 2.1.Discounted Cash Flow Valuation Method 10
 - 2.1.1.Free Cash Flow to the Firm and Free Cash Flow to Equity 11
 - 2.1.2.Ajusted Present Value..... 15
 - 2.2. Dividend Discount Model..... 16
 - 2.3. Economic Value Added..... 17
 - 2.4. Multiples Valuation 18
 - 2.5. Conclusion 20
- 3. Business Overview 20
 - 3.1. Key resources for EasyJet success 21
 - 3.2. EasyJet Strategies 22
 - 3.3. Dividend and shareholder’s policy 24
- 4. Industry Overview 25
 - 4.1. Full Services Airline vs Low Cost Carriers 26
- 5.Macroeconomic 27
 - 5.1. Fuel 27
 - 5.2. Currency 30
 - 5.3. GDP 31
- 6. Financial Analysis 33
 - 6.1. Operating Revenues..... 33
 - 6.2. Operating Expenses 36
 - 6.3. EBIT 39
 - 6.4. Capex and property, plant and equipment 40
 - 6.5. Debt..... 41
 - 6.6 Effective Tax Rate 41
- 7. Valuation 41
 - 7.1. Discounted Cash Flow 41
 - 7.1.1. Free Cash Flow to the Firm 41
 - 7.1.2. Weighted Average Cost of Capital (WACC) 42
 - 7.1.3. Terminal Value 43
 - 7.1.4. Estimated Price 43
 - 7.2. Multiples Valuation 44

7.3. Sensitivity Analysis	46
8. Equity Research Comparison	47
9. Conclusion.....	48
10. Appendixes	50
10.1 Balance Sheet 2019-2024F	50
10.2 Balance Sheet 2024F-2030F	51
10.3 Income Statement 2019-2024F	52
10.4 Income Statement 2024F-2030F	53
10.5 Total Seat Revenues 2019-2024F	54
10.6 Total Seat Revenues 2024F-2030F	54
10.7 Cash Flow Statement 2019-2024F	55
10.8 Cash Flow Statement 2024F-2030F	56
10.9. Net Working Capital 2019-2024F	57
10.10. Net Working Capital 2024F-2030F	58
10.11. Impact of Brexit.....	59
11. References	61

Figures Index

Figure 1: EasyJet Fleet 21

Figure 2: Total Revenues 22

Figure 3: EasyJet Stakeholders 24

Figure 4: Return on Invested Capital versus WACC 26

Figure 5: Worldwide Market Share 27

Figure 6: Average Price per Barrel of Crude Oil 27

Figure 7: Industry Fuel Costs and Net Margins 27

Figure 8: Fuel Hedging Requirement..... 28

Figure 9: Losses/Gains on Cash Flow Hedge 29

Figure 10: Fuel Efficiency and Jet Fuel Prices 29

Figure 11: Proportion of Revenues and Costs..... 30

Figure 12: World GDP Growth..... 32

Figure13: Air Passengers and World GDP Growth 32

Figure14: UK and Europe GDP Growth 33

Figure 15: Seats Flown..... 35

Figure16: Kilometers Flown 35

Figure 17: Operating Revenues and Operating Costs 36

Figure 18: Operating Expenses 37

Tables Index

Table 1: Total Aircraft per year 34

Table 2: Forcast of Total Revenues 2018-2030 36

Table 3: Forecast of Crude Oil Price..... 37

Table 4: Historical and Forecasted Crew Cost 38

Table 5: Forecast of Operating Profit..... 39

Table 6: Forecast of EBIT 2018- 2030 40

Table 7: Forecast of FCFF 2020-2030 42

Table 8: Market Value of Operating Leases 43

Table 9: DCF Estimated Price 44

Table 10: Median of Growth Rate and Median of EBITDA of EasyJet 44

Table 11: Financial Information of Peer Group 45

Table 12: Multiples of Peer Group..... 45

Table 13: EV/EBITDA Valuation..... 45

Table 14: P/E Valuation 46

Table 15: Sensivity Analysis - % change in TV growth and WACC 47

Table 16: Sensitivity Analysis – Change in the n° of years to reach 2019 levels and chang in crash of 2020 47

Table 17: Forecast – Dissertation versus Investment Report..... 48

1. Introduction

EasyJet started flying in 1995 and since its early years the company has won several numeral awards for costumers 'preference. Focused on their costumers' satisfaction the company has followed key value such as simplicity, innovation, integrity, one team, passion, and above all safety. The company is one of the low cost airline leading in Europe, carrying more than 96 million passengers in the last financial year and recording a total revenue of £6.3 billion.

Nowadays, the airline industry is facing a global crisis resulting from Covid-19 pandemic. This global problem has affecting passenger traffic, air cargo demand, airport workforce and incoming revenues. For FY20, it is expected a decreased on EasyJet's total revenues and consequently on enterprise value. However, it is also expected that EasyJet will recover from this crisis within three years, returning to the levels before Covid-19 pandemic.

The current dissertation will be divided on four main parts. The first one is literature review in order to explain the concepts behind the valuation and the methods used. Then, an overview about the business, industry and macroeconomic environment will be present to give a closer perception to the reader. The third part is mentioned as the methodology of valuation, once it will include the forecasts for the next years, the valuation itself, using the DCF and multiples approaches and a sensitivity analysis. The final part is the comparison of the valuation reached from the current dissertation to the one achieved by a team of investors.

Concluding, the current dissertation's purpose is to value the company's business in order to achieve the most accurate and realistic final share price per unit. Afterwards, this final share price will be compared with other market research to conclude whether investors should buy, hold or sell their position.

2. Literature Review

“The goal of company valuation is to give owners, potential buyers and other interested stakeholders an approximate value of what a company is worth”, Steiger (2008). According to Damodaran (2016), the idea behind a successful investment and management of the financial and real assets is to understand where such value of each company is coming from. Fernandez (2013) noted that the valuation of a company is an indispensable requisite for anyone involved in the field of corporate finance.

Every asset can be valued, however, some assets are easier to value than others and the information needed to determine a truthful valuation differs from case to case. According to Fernandez (2013), the value of a company is subjective and arduous to reach with the right price, once the future is unpredictable and a fair company’s value may not be the same for sellers and buyers. Typically, a company’s valuation depends on many factors such as industry, economic conditions, performance of company and valuation methods. However, there is no one way to find the certain company’s value, and the best fit to determine a strong and adjustable valuation is to use more than one approach.

The main objective throughout this section will be the theoretical explanation and description of the four most used approaches in order to evaluate a firm: Discounted Cash Flow Method, Dividend Discount Model, Economic Value Added and Multiples Valuation.

2.1. Discounted Cash Flow Valuation Method

According to Damodaran (2002), the Discounted Cash Flow Valuation Method (DCF) “is the foundation on which all other valuation approaches are built” and it “values the company non basis of the net present value of its future free cash flows which are discounted by an appropriate discount rate”, as Steiger (2008) states. In other words, the DCF method struggles to figure out the present value of the expected company’s future cash flow to evaluate the attractiveness of an investment opportunity. This approach is based on predictions and according to Damodaran (2002) it can differ from the firm’s price in the market.

In a more practical way, according to Steiger (2008), to evaluate a company through the DCF method is fundamental to complete different stages. Firstly, it is required to predict the future cash flows for the subsequent five to ten years. Afterwards, the weighted average cost of capital

(WACC) should be determined, as an appropriate discount rate, to discount all the future free cash flows (FCF) in order to determine the net present value. The next stage is to figure out terminal value (TV) which is the value of a company beyond the forecast period. Then, the TV should be discounted to the valuation date using the discount rate. Lastly, to obtain the value of the company, the net present values of the discounted cash flows must be summed up with the discounted terminal value. The DCF Method can be summarized in the equation below:

$$Enterprise\ Value = \sum_{t=0}^n \frac{Expected\ FCF}{(1 + WACC)^t} + \frac{Terminal\ Value_n}{(1 + WACC)^n}$$

Damodaran (2002) reports that there are three most used approaches to discounted cash flow that will be explained in this section. The first one is to value just the equity in the business, the second one is to value the entire firm and the third and last one is to value the firm beginning with its operations and adding the effects on value of debt and non-equity claims.

2.1.1. Free Cash Flow to the Firm and Free Cash Flow to Equity

In order to compute the DCF valuation, there are two approaches of free cash flow. The first approach is Free Cash Flow to the Firm (FCFF), which is the cash flow that is available to all providers of the company's capital, both debtholders and equity holders. The second approach is Free Cash Flow to Equity (FCFE), which is the cash flow available only to equity holders, Damodaran (2016).

The main difference of using the FCFF and the FCFE as a basis for the valuation analysis is that using the FCFF the result is the enterprise value of the company whereas using the FCFE the result is the equity value of the company. Since an investor usually takes over all liabilities, debt and equity, the FCFF is more relevant than the equity approach, as Steiger (2008) observes.

a) Free Cash Flow to the Firm

According to Damodaran (2002), there are some steps to follow in order to obtain the value of the company using the free cash flow to the firm.

Firstly, it is necessary to compute the **free cash flow to the firm**. For that, it is required to figure out the net operating profit after taxes, which is calculated by deducting taxes from the company's earnings before interest taxes (EBIT). In addition, all non-cash expenses found on the company's income statement, such as depreciations and amortizations, should be added

back. The capital expenditure (CAPEX) and the changes in the net working capital (NWC) should be deducted because they are not reflected in calculations of the EBIT and it is possible to occur an increase in cash requirements, respectively. The following equation summarizes this first step.

$$FCFF = EBIT(1 - T) + Depreciation - \Delta NWC - CAPEX$$

Where T is the effective tax rate.

Subsequently, it is required to compute an **appropriate discount rate**. According to Steiger (2008), “determining the discount rate requires an extensive analysis of the company’s financing structure and the current market conditions.” The discount rate is one of the most important inputs, once it is “the function of riskiness of the estimated cash flows, with higher rates for riskier assets and lower rates for safer assets”, Damodaran (2002). Furthermore, small changes on the discount rate will cause large changes on the company’s value. As mentioned earlier, the rate used to discount the free cash flows will be the weighted average cost of capital, WACC.

The **weighted average cost of capital** refers to the opportunity cost that an investor has by investing in the company rather than in another business with comparable risk. According to Fernandez (2011), “the WACC is neither a cost nor a required return, but a weighted average of a cost and a required return”. Following this idea, the WACC is determined by the summing up of the product of both the cost of debt and equity by its relevant weight and those products. The WACC is computed in the following way:

$$WACC = \frac{E}{E + D} * Ke(\text{levered}) + \frac{D}{E + D} * Kd(\text{levered}) * (1 - T)$$

Where Ke is the cost of equity and Kd is the cost of debt.

- **Cost of Equity**

The cost of equity is the rate of return that investors require to make an investment. According to Damodaran (2016), it is very difficult to estimate the cost of equity because it is an implicit cost and can vary across different investors in the same company. However, it is determined with the help of the capital asset pricing model (CAPM). According to Sharpe (1964), the general idea behind the CAPM model is that an investor must be compensated by the time value of the money that is related with the risk free and the price of risk which is the additional

expected return per unit. Following the CAPM, the cost of equity is calculated based on the risk-free rate (rf), the levered beta coefficient and the market risk premium. The equation below demonstrates the computation of the cost of equity by CAPM.

$$\text{Cost of Equity} = \text{Risk free rate} + \text{Beta}(\text{Market Risk Premium})$$

Following the equation, the product of Beta with the Market Risk Premium represents a compensation for the risk in the investment.

- **Levered Beta**

The levered Beta is the risk added to the market portfolio, which means that Beta estimates the exposure of a company to the market risk.

In order to reach the levered Beta, it was computed by using an OLS regression on the returns of company's volatility relative to the returns of market volatility.

- **Market Risk Premium**

The market risk premium (MRP) is a significant input in all of the asset pricing models, according to Damodaran (2016), and it is the excess return obtained by bearing the market risk compared with the risk-free rate. In the current valuation, the market risk premium will be figured out by adding both the risk premium for mature markets and the country risk premium. In order to find these two terms, Damodaran's calculations in January 2019 will be used.

- **Risk-Free**

To conclude, the risk-free rate is the rate of return paid on risk free investment. In other words, it is the expected returns that investors know with certainty. Usually, the choices of risk free are a short-term government debt rate or a long-term government bonds yield to maturity. In the current valuation, as EasyJet has its headquarters located at London, a 10 years UK Government Bond will be used as the risk free rate. A longevity bonds since was used since they are more suitable for the chosen forecast period of 10 years.

- **Cost of Debt**

According to Steiger (2008), the cost of debt is the effective interest rate that the firm must pay for borrowing funds to finance its assets. Usually, this rate has different values every year due to changes in the company's debt structure. Damodaran (2016) states that any investment grade

firm with outstanding long term debt can use the yield to maturity (YTM) on bonds issued by these firms to determine the cost of debt. In EasyJet valuation, the cost of debt will be computed by the weighted average yield to maturity of its bonds issued.

- **Terminal value**

The next step is to figure out the second term of the present value of the firm's equation, the terminal value. This implies that the company achieved a steady state, which means, "the company remains qualitatively similar year by year after the valuation horizon and that it has a stable development of earnings, free cash flows, dividends and residual income", as Levin and Olsson (2000) point out. According to Damodaran (2002) the terminal value can be obtained in three different approaches, which are the Liquidation Value, the Multiples and the Stable Growth Model. This last one is the most used and the practical idea beyond this approach is to know the number of years that the company will take to achieve a stable state and to figure out the growth rate that the cash flows of the company will present going forward from that point. At its maturity stage, this firm's growth rate tends to be reached with the long term economy growth rate of the country where the firm is located or with the global economic growth, "[s]ince no firm can grow forever at a rate higher than the growth rate of the economy in which it operates, the constant growth rate cannot be greater than the overall growth rate of the economy" (Damodaran, 2002).

Afterwards, the constant growth rate together with the WACC, as an appropriate discount rate, allows the use of a simple model to determine the terminal value.

Since all free cash flows to the firm are discounted by the WACC, the terminal value has to be discounted again in order to obtain the net present value of all free cash flows that occur after the predicted scenario period. In order to get the enterprise value, both net present values are then summed up, as it can be observed in the equation below:

$$Enterprise\ Value = \sum_{t=1}^n \frac{FCFF_t}{(1 + WACC)^t} + \frac{Terminal\ Value}{(1 + WACC)^n}$$

Where $Terminal\ Value = \frac{FCFF_{n+1}}{WACC - g}$

b) Free Cash Flow to the Equity

As mentioned before the FCFE estimates the amounts of cash a firm can afford to return to its stockholders, which means that FCFE results on the equity value of the company, according to Damodaran (2002). In order to figure out this value, the net income should be added and then the capital expenditures (CAPEX) and the changes in net working capital (NWC) will be subtracted. Afterwards, both depreciations and amortizations and the net borrowing (NB), which is the difference between the new debts issued and the debt repayments, will be added.

The equation below summarizes the calculations of the FCFE:

$$FCFE = NI + D\&A - \Delta NWC - CAPEX + NB$$

Subsequently, it is required to find an appropriate discount rate to discount all cash flows, which usually is the cost of equity (Ke) that can be computed in the same way as in FCFF.

Finally, and following the same reasoning of FCFF methodology, all free cash flows to the equity, until reaching a steady state, should be discounted by the cost of equity and the terminal value added, as it can be observed in the following equation:

$$Enterprise\ Value = \sum_{t=1}^n \frac{FCFE_t}{(1 + Ke)^t} + \frac{Terminal\ Value}{(1 + Ke)^n}$$

$$Where, Terminal\ Value = \frac{FCFE_{n+1}}{Ke-g}$$

2.1.2 Adjusted Present Values

The Adjusted Present Value (APV) approach helps investors to analyse the company's valuation and to understand where the value comes from. Nowadays, this method tends to be considered one of the best alternatives to value a company, once it "is especially versatile and reliable", according to Luerhrman (1997). Luerhrman (1997) states that "like WACC, APV is used to value operations, or assets-in-place, that is, any existing asset that will generate a stream of future cash flows". However, he agrees that WACC should be replaced by APV, since "APV always works when WACC does and sometimes when WACC doesn't, because it requires fewer restrictive assumptions". One of the biggest advantages of using this approach is to be able "to analyse financial manoeuvres separately and then add their value to that of the business."

According to Damodaran (2002), the adjusted present value valuation consists in the following three steps:

The first step requires estimating a firm's value without debt by discounting all free cash flows to the firm using the unlevered cost of equity.

The second step in this approach is the calculation of the present value of the interest tax savings generated by borrowing a given amount of money, which is called interest tax shields (ITS). If the firm's marginal rate is assumed to stay constant, the ITS "is a function of the tax rate of the firm and is discounted at the cost of debt to reflect the riskiness of this cash flow", states Damodaran (2002).

The last step in this approach is to evaluate the effect of borrowing debt on the default risk of the company and on the expected cost of bankruptcy. To figure out the present value of the expected bankruptcy cost, the probability of default (PD) should be multiplied by the present value of the bankruptcy costs (BC).

The equation below summarizes the process of computing the company's value with the adjusted present value:

$$Enterprise\ Value = \sum_{t=1}^n \frac{FCFF_t}{(1 + Ke(Unlevered))^t} + \frac{\frac{FCFF_{n+1}}{Ke(Unlevered) - g}}{(1 + Ke(Unlevered))^n} + ITS + PD * BC$$

2.2. Dividend Discount Model

According to Damodaran (2002), "when an investor buys stock, she generally expects to get two types of cash flows - dividends during the period she holds the stock and an expected price at the end of the holding period".

The dividend discount model (DDM) is the simplest model used for predicting the expected price of a company's stocks by "forecasting dividends and discounting them to the present" through infinity, (Damodaran, 2002). This model is based in two basic inputs, the expected dividends (DPS) and the cost of equity (Ke), as we can see on the equation below:

$$\text{Value of stock} = \sum_{t=1}^{t=\infty} \frac{E(DPS_t)}{(1 + Ke)^t}$$

According to Damodaran (2002), assumptions about expected future growth rates in earnings and payouts ratios needed to be made to obtain the expected dividends and the cost of equity.

In some cases, it is very difficult to make projections through infinity and the Dividend Discount Model had to be adapted based on different assumptions about future growth. The simplest and most used model is the Gordon Growth Model, which values the company's stocks in stable growth firms with dividends growing at a constant rate, states Damodaran (2002).

This model “relates the value of a stock to its expected dividends in the next time period, the cost of equity and the expected growth rate in dividends”, Damodaran (2002) reports. The following equation summarizes the Gordon Growth model:

$$\text{Value of stock} = \frac{DPS_{t+1}}{Ke - g}$$

In order to achieve a proper value of stock some assumptions must be kept in mind. The measures of the firm's performance are expected to grow at the same rate than that of the dividends, given that the growth rate in the firm's dividends is expected to last forever and this growth rate cannot exceed the growth rate of the economy in which the firm operates, Damodaran (2002) suggests. Since this model is too sensitive to the cost of capital and the expected dividend growth rate, a sensitivity analysis should be performed to mitigate any risks and to ensure that the application of the Gordon growth model is the most accurate possible (Pinto, Henry, Robinson, & Stowe, 2010).

2.3. Economic Value Added

“The economic value added (EVA) is a measure of the dollar surplus value created by an investment or a portfolio of investments”, states Damodaran (2002). In other words, EVA is the measure of a company's financial performance. According to Grant (2003), the economic value added is defined as a difference between the firm's net operating profit after taxes and the cost of capital, as we can see on the equation below:

$$\begin{aligned} \text{Economic Value Added} &= (\text{Return on Capital Invested} - \text{Cost of Capital})(\text{Capital Invested}) \\ &= \text{Net Operating Profit After Taxes} - \text{Cost of Capital} \end{aligned}$$

As it can be observed on the equation above, to compute the economic value added it is necessary to figure out three basic inputs: the capital invested on investments, the return on the capital invested on them and the cost of the capital for those investments.

According to Damodaran (2002), in order to calculate the capital invested on investments, it is necessary to use the book value of capital as a proxy of market value of the firm, since “market values include capital invested not just in assets in place but in expected future growth”. However, the book value of capital not only includes the accounting choices made in the current period, but also includes the assets’ depreciation, the value of inventory and the deal with acquisition. This way, “converting operating leases into debt, capitalizing R&D expenses and eliminating the effect of one time or cosmetic charges”, bring the book value of capital closer to market value of the firm, states Damodaran (2002).

To figure out the return on invested capital, it is necessary to compute the after-tax operating income earned on the investment. Thus, this calculation also requires some adjustments of the operating leases, Research and Development expenses and one time charges, says Damodaran (2002).

The cost of capital should be computed based on the market value of both debt and equity of the firm, states Damodaran, (2002).

Damodaran (2002) suggests that the value of the firm under the economic value added can be define as “the sum of capital invested in asset place, the present value of the economic value added by these investments and the expected present value of the economic value that will be added by future investments”.

In conclusion, this method is used to measure the value a company generates from investments. However, this measure can be manipulated, because the economic value added could increase by reducing the capital invested or making riskier investments, but still end up with a lower value, argues Damodaran (2002).

2.4. Multiples Valuation Method

According to Suozzo et al. (2001), the multiples valuation figures out the firm’s equity value based on the market price of comparable firms or comparable transactions. In other words, the idea behind the multiples valuation is to determine the value of the firm by looking at the market

values of a peer group. This method takes a different approach to value a company than that of the DCF method and in practice is much simpler than the models studied before.

In the multiples valuation method there are two important decisions to be taken. The first one consists on identifying the comparable firms – Peer Group selection. This is the most challenging step, since there are no identical firms within the same industry. In this stage it is required to decide the optimal size of the peer group and the criteria used to choose the comparable companies. According to Koller et al. (2015) “a good peer group must not only operate in the same industry, but also have similar prospects for ROIC and growth”.

The second one consists on deciding about which type of multiples will be used. According to Suozzo et al. (2001), there are two main groups of multiples: the equity and enterprise value multiples.

The first one, also known as earnings multiples, remains the most used measure of multiples valuation, according to Damodaran (2002). This type of multiples expresses the value of shareholders' claims on the firm, Suozzo et al. (2001) state and the most popular equity multiples are the Price to Earnings Ratio (PER), Price to sales (P/S), Price to Book Value (P/BV) and Price to Cash Flow (P/CF)

Otherwise, the enterprise value multiples expresses the value of all claims related to the whole firm, claim Suozzo et al. (2001). The most popular enterprise value multiples are Enterprise Value to EBITDA (EV/EBITDA) and Enterprise Value to Sales (EV/Sales).

In the current valuation, the Price Earnings Ratio multiple and the Enterprise Value to EBITDA multiple will be used. The first one determines the company's shares in an apples-to-apples comparison and it is defined as the market value per share divided by earnings per share, according to Damodaran (2002). It is recommended to use this multiple when surprises that are not expected occur or when the companies are stable, since it is very difficult to value a company when the earnings per share are negative.

Regarding Enterprise Value to EBITDA, “this multiple has acquired a number of adherents among analysts”, mainly because differences in depreciation methods across different companies do not affect EBITDA and this multiple can be compared across firms with different levels of leverage, states Damodaran (2002). This multiple can be defined as the sum of the market value of equity and the market value of debt minus cash divided by EBITDA.

According to Damodaran (2002), there are advantages and disadvantages regarding the use of multiples. One of the biggest advantages of this method is that it requires few assumptions and is easy to apply. However, it can be challenging when there are no good direct comparable firms or when these firms have negative earnings or cash flows. Furthermore, multiples valuation could be built in errors because the market could be over or undervaluing.

2.5. Conclusion

In order to evaluate the EasyJet, the Discounted Cash Flow (DCF) approach, by applying the Free Cash Flow to the Firm (FCFF) of the company, and the Multiples approach will be used. As we mentioned earlier and according to Steiger (2008), the investor usually takes over all investor liabilities, debt and equity and for this reason is more relevant to use the Free Cash Flow to the Firm on this valuation than the Free Cash Flow to the Equity. The Discounted Cash Flow method is the most appropriate for this company due to the amount of information that is available to get, which made it possible to reach the enterprise value. Otherwise, the Dividend Discount Model is not suitable since EasyJet dividends distribution is uncertain. For the Multiples approach, both multiples will be used: Enterprise value to EBITDA (EV/EBITDA) and Price to Earnings (P/E). In order to achieve the reasonable target price, a peer group will be selected from a large sample of airline groups, taking into account a number of specific criteria in order to create a group of comparable companies in terms of structure, dimension and risk.

3. Business Overview

EasyJet is one of the major players in the low-cost airline industry and its headquarters are in London Luton Airport. The company was founded in 1995 by Sir Stelios Haji-loannou to offer low-fares flights in Europe. Since its early years the company has invested in new routes and bases, it has innovated with new data, making efficient decisions and shaping the future of travel, and it has created a differentiated service to its customers, giving them the leading offer in the airports they want to fly to. In the end of 2019, EasyJet operated in 159 airports with a total of 1 051 routes and achieved seven number one airports. Following this, the company has **won several awards for customers' preference** and others.

EasyJet implements a customer focused strategy by following a set of values, such as: **simplicity**, focusing on the things that really matter; **integrity**, following always what they believe in and what they say; **one team**, believing that together they become more efficient;

passion, thinking about the customers, in order to deliver the best service; **pioneering**, anticipating the future and creating new ways to make travel easy and affordable; and **safety**, which is the most important value for EasyJet, once the company believes that safety should be always secured in order to keep the customers’ loyalty.

3.1. Key resources for EasyJet success

The EasyJet company has a **strong capital base**, with a market capitalization of £4.6 billion and a credit rating of BBB+/Baa1 (EasyJet 2019), which is the strongest credit rating in the world for airline business.

Aircraft	Owned	Leases	Total
A319	69	56	125
A320 with 180 seats	17	23	40
A320 with 186 seats	109	20	129
A320 neo	31	-	31
A321 neo	6	-	6
Total	232	99	331

Figure 1: EasyJet fleet
Source: easyJet Annual Report 2019

The company is able to defer new aircrafts order, to extend aircraft leases or return to the lessor and it is able to sell them or reduce the utilization at times of low demand, in order to generate an effective and efficient utilization of the resources and to generate returns. EasyJet has a total fleet of 331 **aircraft** in 2019 (Figure 1).

The company has been investing in **technology** in order to create a strong brand and to improve the existing systems, which helps to deliver a better quality service. In the last financial year, the airline company introduced new data products and created a new team in order to provide insight on unexpected recent events and identify opportunities to improve. EasyJet has also created a team to work directly with external bodies involved in air traffic management in order to reduce delays. Moreover, in 2019, there were 700 million visits to all digital platforms and EasyJet was voted the best airline app at the World Aviation Awards.

EasyJet cares about its **people** and believes they are one of the most important assets for its business. “With the warmest welcome in the sky, EasyJet customer-facing employees are the very best in the industry and contribute significantly to the positive experience that customers enjoy, leading to increased loyalty and repeat business”, (EasyJet, 2019). At the end of the

financial year of 2019, EasyJet employed over 15,000 people, such as pilots, cabin crew and other staff.

The company interacts with a significant number of stakeholders who are increasingly demanding for a business that is focused on environmental and social factors and innovation. In this context, EasyJet has invested in new fleet and technology in order to reduce its impact on the environment and to improve its customers' services and working conditions for employees. Furthermore, the company created various self-help initiatives over the summer with decisive management actions recording a summer profit performance. Following this, EasyJet has increased its **relationship with stakeholders**, which can be proved with the record number of 96.1 million passengers flying in its flights, resulting in an increase of 8.6% from 2018. (EasyJet report, 2019).

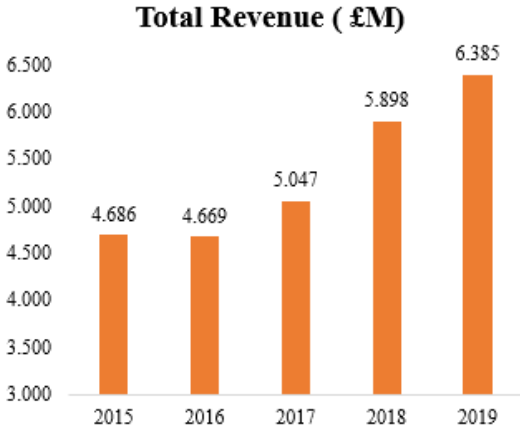


Figure 2: Total Revenues
Source: easyJet Annual Report 2019

The combination of these resources is responsible for a great and continuous performance delivered by EasyJet, which can be shown by the growth throughout the years (Figure 2). The good results observed in the last five years made it possible to keep the company's investments not only in its services but also in expansions and acquisitions.

3.2. EasyJet strategies

Network - investing in number one and two airports: the company aims to provide its customers the airports they want to flight to. In the last financial year, the company has consolidated its position on the airline industry with 112 new routes, becoming number one or two on 27 airports, such as of London, Venice and Hamburg.

EasyJet has been establishing a strong position in France. In this context, in April of 2019 EasyJet opened a new base in Nantes.

Moreover, the company has identified a number of potential airports for the coming years where the GDP and passengers volume is high enough to become the number one in Europe.

Value by efficiency: the importance of a sustainable business has been notable in EasyJet. In this context, in July 2018 the Airbus A321neo aircraft joined the company fleet. This new aircraft has 235 seats and it is expected to reduce 9% of the cost per seat compared to A320neo and also reduce the environmental footprint by 15%. This increased capacity will give EasyJet the opportunity to grow at slot-constrained airports and offers possibilities to more people on most popular routes.

Winning customers' loyalty: EasyJet continues to focus on customers' loyalty and satisfaction through investing in the brand and service, innovation and strong operational performance. As a result of this, the company was named "Best Value Short-Haul Airline" by Skyscanner and was voted "Best Low-Cost Airline" by Business Traveller magazine in 2018.

In the following years, EasyJet observes a strong opportunity in changing its holiday offers, creating more value through the offer of great hotels based on its understanding of customers' needs. In this context, it plans to build a direct relationship with hotel, ensuring an attractive price to EasyJet customers. Consequently, the company builds greater holiday experience to its customers.

The company has also started to design a new programme in which customers earn points for every purchase with EasyJet and its partners and can use these points to purchase exclusive rewards to improve their trips. This strategy will give the opportunity for EasyJet to build a strong and loyal relationship with its customers.

The right people: EasyJet believes that people are an important input for the company's success, and it has consciously invested in a better place to work. Following this, the company introduced the Peakon. The Peakon is a new employee listening tool, in which the employees give real time honest feedback on a more regular basis about EasyJet as an employer, helping the company to make better decisions. Overall, in the end of the year, employees gave a good score to the company which it is seen as a good place to work on.

Innovating with data: EasyJet also continues investing in the digital in order to become the world’s leading data-driven airline, thus improving the customer experience. In this context, the company is focusing on creating new sources of data to offer simulation capabilities and to deliver a competitive price for tickets, becoming an attractive company to fly to.

3.3. Dividend and shareholder’s policy

The EasyJet corporate governance includes a **Board of Directors**, who are responsible for the company’s performance and they are responsible for the development and implementation of the strategy; an **Airline Management Board**, who is responsible for managing the allocation of capital and central funds, **Board Committees**, which include safety, nominations, audit, finance and remuneration committee; a **Chairman**, who is responsible for the leadership of the board and ensures that it operates effectively; and **The Board**, who is responsible for setting and managing priorities in a way that ensures sustainable long-term growth, taking into account the interests of the stakeholders (EasyJet, 2019).

The **shareholder structure**, on figure 3, consists in four main divisions. The first one is composed by four main shareholders that hold around 34% of the company’s shares: Haji-loannou family - easy Group Holdings Limited, Polys Holding Limited, Stelios Haji-loannou and Clelia Haji-loannou. Apart from these there are a few other relevant shareholders such as Invesco Asset Management, holding 10% of the company’s shares and BlackRock Investment Management, holding just 5%. The other 51% of the company is owned by individual investors and other institutions.

EasyJet Shareholders

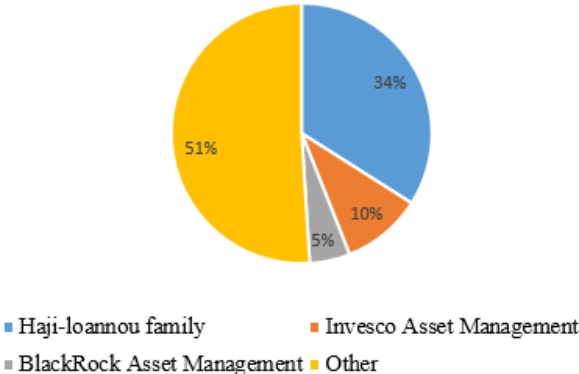


Figure 3: easyJet Shareholders
Source: Thomson Reuters

In order to reflect the long-term prospects, the company reported a pay-out ratio in 2019 of 50% of earnings after tax. In the last financial year, EasyJet paid dividends of 43.9 pence per share (EasyJet, 2019).

4. Industry Overview

The airline industry has been competing between the companies with an intense focus on the price and cost reduction, which leads to a greater efficiency. The number of passengers who have booked a flight with a commercial airline has been increasing over the last 15 years. This continuous demand in air travel has been reinforced by an increase in low cost carriers, by the growth on global middle class that has increased the number of people able to afford air travel; and by the growth of airports, which has increased the global carrying capacity.

The last reason is enforced by the increase of the **available seat kilometres** in the last financial year. As a result, the **passenger load factor**¹ marked up slightly to a record of 82.4% and for 2020 IATA forecast period the passenger load factor will reach to 82%. This increase is related with the improved industry financial performance of recent years (IATA 2019).

In the last financial year, the **total aviation sector** observed a **net profit** of 26bn dollars, a reduction of around 4% compared with 2018. This reduction is highly related with the sector's main cost driver increase, such as labour, infrastructures, fuel and crew costs. In the following years, in order to avoid this huge oil costs, commercial airline is expected to invest in new aircrafts, making a significant contribution to increase fleet fuel efficiency (IATA, 2019). Otherwise, in 2020 IATA projects \$29 bn net profit for global airline industry. This positive projection is related with the slower than expected global economic growth in 2019, which contributed to lower demand for crude oil with a decrease of the price per barrel of Brent Crude.

Moreover, since 2014, the airline industry has been observing a return on invested capital greater than WACC on figure 4. This means that investors have seen their investment being returned on average above its invested capital.

¹ Number of passengers as a percentage of number of seats flown.

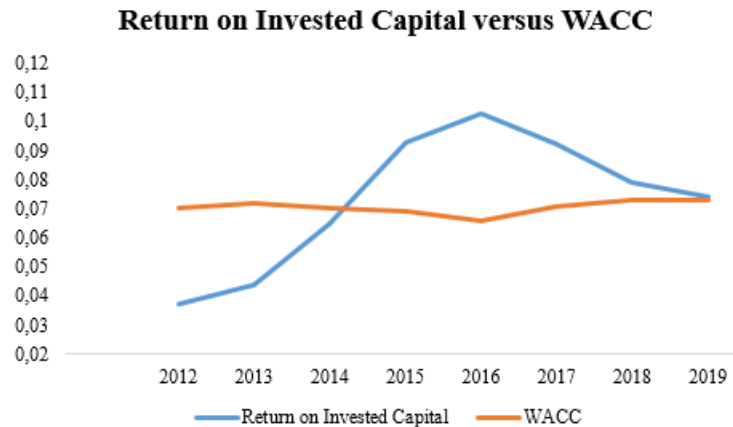


Figure 4: Return on Invested Capital versus WACC
Source: IATA reports 2012-2019

The decline in return on the invested capital from 2016 to 2019 was driven by a demand slower than the capacity growth and an increase in breakeven load factors. However, the level of profitability is still very high compared to the industry's standards.

However, the recent news about Covid-19 pandemic will change this estimates, once it is an unknown situation and companies was not prepared to fight this crisis and was forced to stop their activities.

4.1. Full Services Airline vs Low Cost Carriers

The full services Airlines (FSA) are considered the traditional way of flying and still dominate the airline industry. The price on FSA is higher than on low cost carriers. Although the services on board of FSA are more complete and the passenger gets more benefits than what is already included in the price.

On the other hand, the Low-Cost Carriers (LCC) are known by their focus on cost reductions, in order to offer competitive prices and low fares to customers, although this type of companies usually does not provide extra services, such as on board meals and drinks. EasyJet is considered a low-cost company.

The low-cost carriers have been speedily expanding their shares of the global air travel market over the last decade, which proves that this type of companies have a big impact on the Airline industry. Otherwise, the FSA have been negatively affected by this rapid rise. In the last financial year, LCC represented 31% of the worldwide air share, an increase of 1 pp compared

to 2017 (figure 5). The rise of the LCC is justified by the preference of a large part of consumers for competitive prices over some comfort.

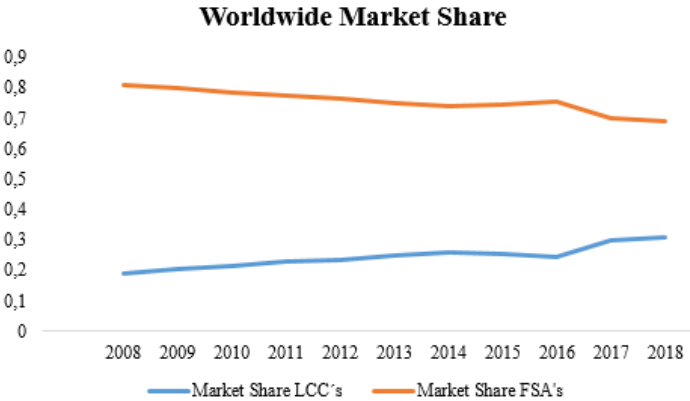


Figure 5: Worldwide Market Share
Source: Statista

As it is possible to observe on figure 5, these two airline’s segments have recorded an approximation in terms of share of total flights. If the FSA desire to compete with the LCC, the first must maintain a high service standard in order to add value to the customer experience and decrease their tickets price. Otherwise, the LCC, like EasyJet, must unceasingly improve their competitive advantage, ensuring the importance to deliver high quality and low-cost services to their customers, in order to guarantee their continuous growth.

5. Macroeconomic Environment

5.1. Fuel

Fuel is one of the most volatile and the biggest cost that the airline sector faces. The airline sector is highly exposed to fuel fluctuations and their net margins are extremely correlated with its performance. In the last financial year, fuel represented 22% of EasyJet total costs.

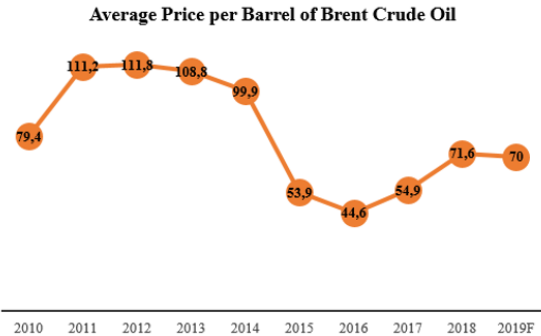


Figure 6: Average Price per Barrel of Brent Crude Oil
Source: IATA

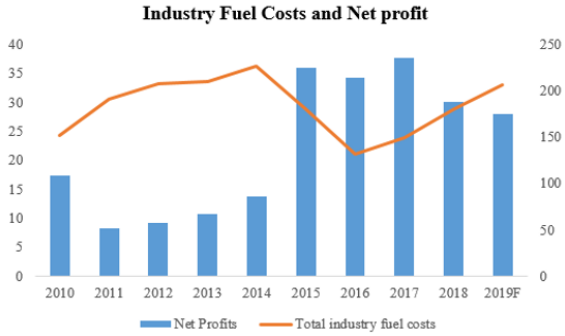


Figure 7: Industry Fuel Costs and Net Margins
Source: IATA

An overall drop in crude oil prices has been observed, which is the source for jet fuel oil, in the past years (Figure 6). This has a positive impact on the airline companies' net profit (Figure 7). As it can be observed, between 2014 and 2015 occurred a sharp decrease in the oil price from \$99,9 per barrel to \$53,9, and consequently the companies' net profit recorded a high increase from \$13.3 billion to \$36 billion.

This reverse relationship is related with the unchanged ticket prices when the main cost driver of the airline companies decreases. Furthermore, people in general have more money to spend when oil price decreases and the number of trips per passenger and the number of passengers could increase.

To mitigate the volatile risk of the fuel price, the airline companies take hedging positions, taking an offset position in order to prevent losses from the increase of fuel oil prices.

Following this, EasyJet hedges 65% to 85% of the next 12 months anticipated fuel requirements in order to stabilize fuel prices. Additionally, the company is also significantly reducing profits and cash swings, representing an overall reduce on the risk of the company.

Fuel Requirement	
Six months to 31 March 2020	
Percentage of anticipated requirement hedged	74%
Average Rate	£632/metric tonne
Full year ending 30 September 2020	
Percentage of anticipated requirement hedged	68%
Average Rate	£655/metric tonne
Full year ending 30 September 2021	
Percentage of anticipated requirement hedged	45%
Average Rate	£643/metric tonne

Figure 8: Fuel Hedging Requirement
Source: easyJet Annual Report 2019

As of 30 September 2019, EasyJet had settled forward jet fuel contracts for the 2020 and 2021 fiscal years. The company was covering through forward contracts 74% of its fuel requirements, at an average price of £632 per tonne until 31 of March 2020. Moreover, the company also entered in forward contracts that covered 68% of its fuel requirements, at an average of £655 per tonne for full year of 2020 and for the 2021FY, the company has 45% of its fuel need covered by forward contracts that settled an average rate of £643 per tonne (Figure 8).

	2015	2016	2017	2018	2019
Fuel	299	375	38	(206)	(150)

Figure 9: Losses/(Gains) on Cash Flow Hedge (million)

Source: easyJet Annual Report 2019

Figure 9 show the losses/gains on fuel cash flow hedge in the last 5 years. It is possible to observe that between FY2015 and FY2017 EasyJet has been successfully offsetting the fuel price risk. The company recorded a gain of £299, £375 and £38 million in 2015, 2016 and 2017, respectively. However, in the last two years, the company recorded losses of £206 and £150 in 2018 and 2019, respectively.

Another way to mitigate the impact of oil prices on airline companies is to introduce more fuel-efficient aircraft. According to IATA, each new generation of aircraft is on average 20% more fuel-efficient than the previous model. Figure 10 shows the improvements of fuel efficiency in terms of capacity use and the oil price fluctuations over the years. IATA forecasted a decline of around 22% on average operating costs due to the delaying effect of hedging and continuation of low oil price. The new fleet and the efforts of the governments to remove inefficiencies from the airspace and airports contribute significantly to improve fuel efficiency in the next few years.

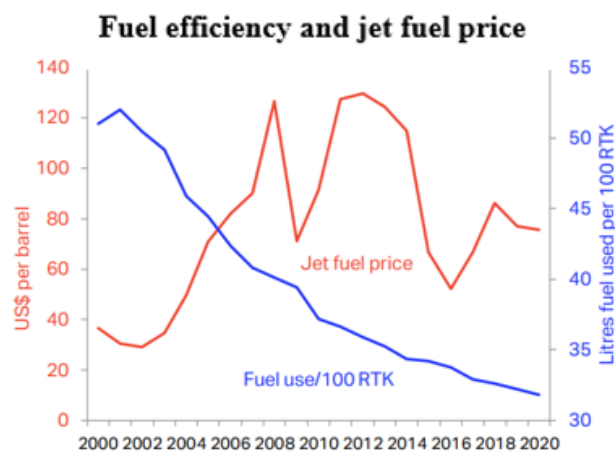


Figure 10 Fuel efficiency and jet fuel price

Source: IATA

EasyJet has continued to invest in new aircraft over the years. In 2018, the company started to operate a new generation of Airbus A320, which is 15% more fuel efficient than the previous ones, and it is also planning to increase its fleet with the Airbus A321neo.

5.2. Currency

The international nature of the airline industry means that this type of companies is exposed to currency fluctuation risk. The primary economic environment in which a subsidiary operates is its functional currency.

Regarding EasyJet, its consolidated accounts are presented in Sterling, since its headquarters are based in England and its main foreign currencies are U.S. Dollar, Euro, Swiss franc and South African rand.

The main airline companies’ costs, such as fuel, maintenance, aircraft purchase and lease payments are valued in U.S. Dollars. Since the United Kingdom voted to leave the European Union, the Sterling has significantly fallen in value against U.S. Dollar and Euro.

Currency	Revenue (2019)	Costs (2019)
Sterling	43%	30%
Euro	46%	38%
U.S. Dollar	1%	26%
Other	10%	6%

Figure 11 :Proportion of revenue and costs.
Source: EasyJet reports 2019

A strong U.S. Dollar increases the fuel prices in terms of the Sterling, which causes a negative impact on both EasyJet profit and capital expenditures, given that the absolute value of costs in U.S. Dollars is much higher than the revenues earned in the named currency. However, a strong Euro results in a benefit to EasyJet, since its revenues are higher than its costs in the same currency (Figure 11).

According to IATA, there are three main ways through which changes in foreign exchange rates typically affect an airline company.

Firstly, demand can shift sides when the exchange currency changes, because it has a direct impact on the prices. For instance, the appreciation of the Euro against the Sterling could lead to an increase in demand for Eurozone passengers and a possible decrease in demand for British passengers.

Secondly, the foreign exchange has impact on an airline company through the supply, since change in the exchange rate can influence airline supply decisions. In the short-term, the decisions of supply are not affected by the foreign exchange rate, since a higher demand should

be managed by allocating aircraft in locations with higher passenger traffic or fly more frequent routes with higher demand. However, in the long-term it does affect supply, once the main cost, such as aircraft, is denominated in foreign currencies. For instance, given that EasyJet airplane supplier is Airbus, if the U.S. Dollar appreciates, the cost with fleet acquisition will be much higher.

Lastly, the financial accounts of the companies must be converted to the primary environment currency and this can be either positive or negative. In the following years, it is expected that the U.S. Dollar and Euro keep performing stronger than the Sterling, due to the uncertainty of Brexit negotiations, and, therefore, the foreign exchange risk is going to be always a concern.

To mitigate this risk, airline companies take an offset position in order to prevent losses. Therefore, EasyJet hedges foreign currency forward contracts to avoid the foreign exchange risk.

5.3. GDP

The global economic outlook was favourable in the last five years. In 2017 the World GDP increased as a result of the acceleration of China's economic activity for the first time in seven years. In 2019 the world GDP decreased as a result of the deceleration of India's economic activity and of a slowdown on manufacturing and construction around the world.

Moreover, in the first semester of 2020 the World was forced to implement severe quarantines and social distancing in order to contain de Covid-19 pandemic. In addition to the substantial uncertainty in future, many countries are facing multiple crisis, such as, health and financial crisis and a collapse in commodity prices. Following this, IMF projected a severe decrease of Global GDP to -3% in 2020.

However, the IMF predicted that pandemic fades in the end of 2020 and the actions around the world to prevent mostly the extended job losses and system wide financial strains are effective, resulting in a global growth of 5,8% in 2021 (Figure 12).

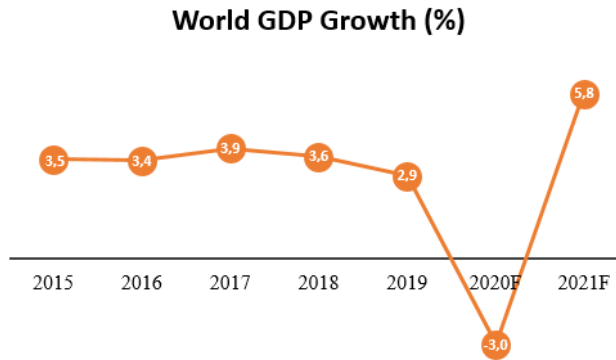


Figure 12: World GDP Growth
Source: IMF

The GDP and air passengers are highly correlated. The development of air transportation boosts the economy, since it allows people to have more mobility and the companies to internalize more easily. Moreover, the GDP growth and its multiplying effect increases/decrease the power purchase and, consequently, the number of passengers is also expected to increase/decrease (figure 13). Since the expected World GDP will recorded a sharply decrease it is also anticipated a highly decrease on air passengers growth.

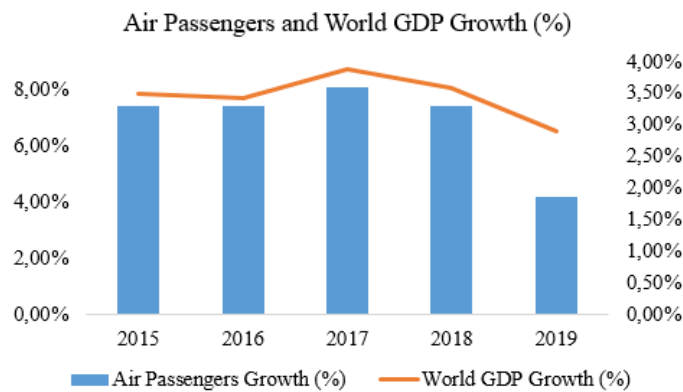


Figure 13: Air Passenger and World GDP Growth (%)
Source: IMF and Statista

In addition, in the current valuation, the focus will be in the United Kingdom, where EasyJet headquarters are located, and in overall Europe, since it is where the company operates. The United Kingdom is the second largest economy in Europe and its economic outlook is favourable. Between 2014 and 2016 the UK GDP growth had a huge drop, as a result of the backdrop of a declining global economy. Furthermore, between 2017 and 2019, the UK GDP recorded a second drop, as a result of Brexit announcement and uncertainty regarding

negotiations which has affected the European economy. Although Brexit has been leading the UK into political crisis, the economy appeared to be reacting well until 2019. For 2020 it is estimated a huge drop, as a result of Covid-19 pandemic that lead to a recession on global economy. For 2021 it is expected that economy recover to the level before the Covid-19 crisis (figure 14).

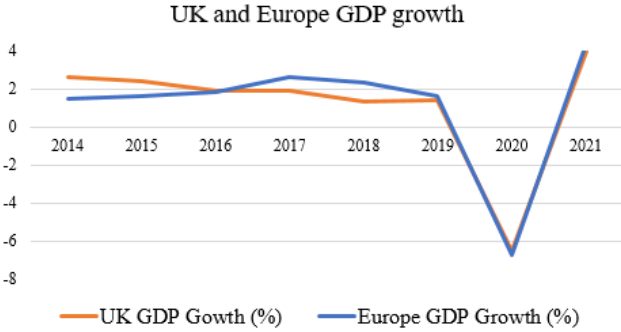


Figure 14: UK and Europe GDP Growth (%)
Source: IMF

6. Financial Analysis

The understanding of financial statements, such as the statement of financial position, income statement and cash flow statement is a fundamental stage to achieve an accurate valuation and company’s price. Following this, in the next chapter each main component of EasyJet business will be detailed and the reasoning behind the assumptions made will be explained in order to reach the projected forecast.

6.1. Operating Revenues

According to EasyJet CEO and EasyJet FY2019 Annual Report, the company has taken a diverse and exhaustive strategy with competitive prices in the last years. The current valuation will project the next ten years.

There are two main sources of EasyJet operating revenues: **seat revenues** and **ancillary revenues**. The seat revenues represent the majority of EasyJet total operating revenues.

The forecast of seat revenues was computed using two different methodologies. According to International Civil Aviation and Organization (ICAO), it is expected a decreased of 60% on total seat revenues on FY20, as a result of the current crisis, and it was presumed that company

will return to the levels recorded on FY19 within three years. Following this, in the subsequent two years it was predicted a slow and continued growth.

For the next future years, the total seat revenues was reached by multiplying the revenue per Available Seat kilometres (ASK) and the ASK itself. Following this, the changes in the ASK is the key to understand variations on revenues. The ASK will depend on several factors, such as, load factor, seat flown and, most importantly, the number of aircraft.

According to the company’s CEO “EasyJet is pleased to announce that it has reached an agreement with Airbus which ensures continued delivery of aircraft from 2024 and executes some fleet flexibility”, which means the airline is able to either increase or decrease the fleet as well as to deploy capital.

The covid-19 pandemic has had a significant impact on aviation sector, once the global economy stopped. Following this, airlines industry have been facing a situation of uncertainty and it was predictable a recession in the following years.

Consequently and according to EasyJet, it is expected to shrink the total fleet by 15% to 302 aircrafts by the end of 2021. However, EasyJet is likely to recover to the level before Covid-19 pandemic by the end of 2023, to 332 aircraft. Additionally, the company has scheduled deliveries for new aircraft to replace the old ones and to increase the number of aircrafts as well in 2024 and it is also expected a significantly increase on total fleet in the subsequent two years. From 2027 it is estimated a slow increase on total fleet. As part of this, the company intends to maintain leased fleet in the future that also plays an important role on the number of the total fleet. Additionally, the company has been early adopted IFRS 16 on its aircraft leases, which it provides a single lessee accounting model specifying how leases are recognised, measured, presented and disclosed.

	2018	2019	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Number of aircraft - owned	220	232	232	232	232	232	243	251	259	264	268	273	278
Number of aircraft - operating leases	90	99	82	70	82	99	100	104	108	109	111	113	115
Total number of aircraft	315	331	331	302	314	331	343	355	367	373	380	386	393

Table 1: Total of aircrafts per year
Source: Own computations

Table 1 shows the **total fleet** for the next years which was based on the recent news of Covid-19 pandemic, schedule of deliveries and the projections of the company.

The **load factor** considered the average of the value of the last five years, between FY15 and FY19, reaching a percentage of 92,02%. The number of **seat per aircraft** is 175 for the next

years. This value is expected to remain constant since the size of the airplane does not change in a major scale. The seats flown depend of the number of passengers per aircraft and it is expected a decrease of the number of seats flown on FY20, FY21 and FY22, as a result of the Covid-19 pandemic. For the subsequent years it is expected a moderate growth (Figure15).

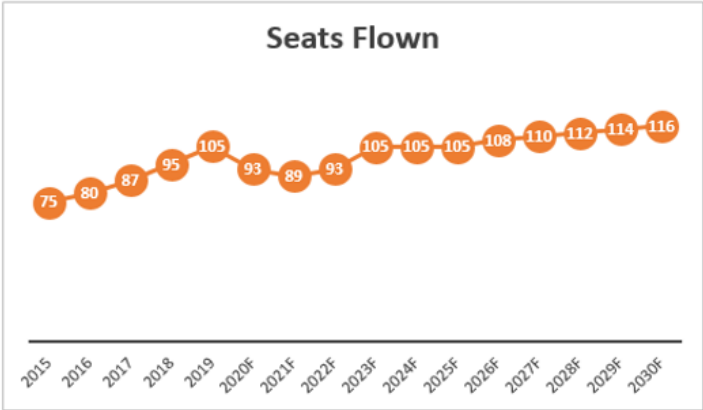


Figure15: Seats Flown (million)
Source: Own computations

Apart of this, it was also forecast a sharp decrease of ASK in the next three years, once this pandemic promoted a rise of cancelled flight during the second quarter of FY20. Moreover, the number of passenger per flight and the number of flight is expected to recorder lower levels until FY23. Following this and as it was mentioned above, it is expected a decreased of 60% on seat revenues and consequently on kilometres flown on FY20. In the subsequent two years, it is expected a slow and continuous increase and on FY2023 it is presumed that EasyJet will recover the kilometres flown to the levels before the pandemic crisis (Figure 16).

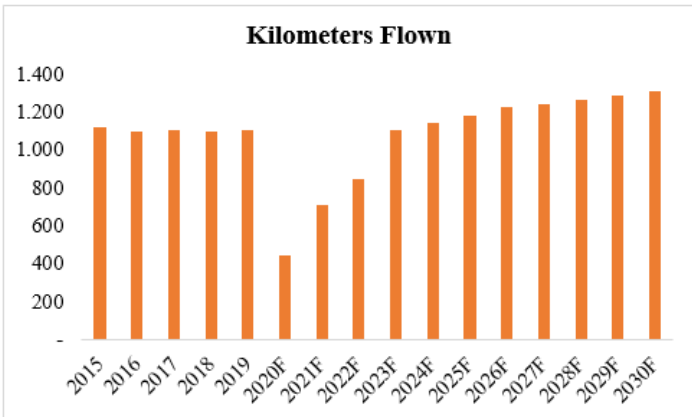


Figure16: Kilometers Flown (million)
Source: Own computations

Furthermore, although it plays a smaller role, EasyJet also reported ancillary revenues. These revenues are related with non-flight schedules, in-flight sales and internet-related. Ancillary revenues have been growing over the years reflecting EasyJet customer focus products. In the last financial year, ancillary revenues represented around 21,5% of the total revenues. For the forecast period, it was estimated that the ancillary revenues will represent 21,5% of the total revenues.

Following this, non-seat revenues will perform in the same trend of the seat revenues, it is also expected a decrease on the current financial year and a recovery in the next years.

Table 2 shows the forecast operating revenues until 2030. As it is expectable, the total revenues will recorded a severe decrease on the current year, as a result of Covid-19 pandemic. On FY23, EasyJet will recover to the level recorded on FY2019. In the subsequent years, it is expected a continuous increase on total revenues.

	2018	2019	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Seat Revenues	4.688	5.009	2.004	3.005	4.007	5.009	6.323	6.774	7.239	7.414	7.593	7.777	7.964
Non-seat Revenues	1.210	1.376	486	730	973	1.236	1.584	1.724	1.871	1.946	2.023	2.103	2.186
Total Revenues	5.898	6.385	2.490	3.735	4.980	6.245	7.908	8.498	9.110	9.360	9.616	9.879	10.150

Table 2: Forecast of Total Revenues 2018-2030
Source: Own computations

6.2. Operating Expenses

It is important to notice that operating cost and operating revenues are moving on the same trend, once the increase of EasyJet main costs depend on the increase of revenues (Figure17).

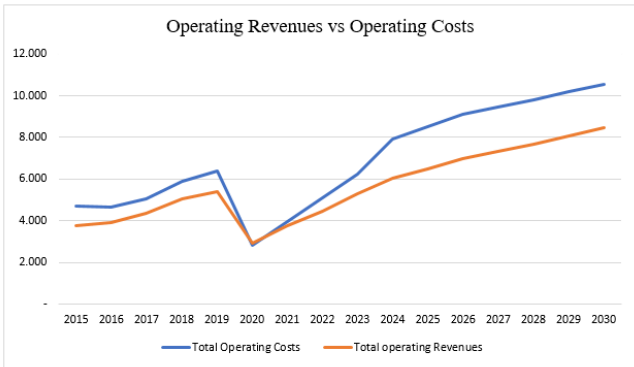


Figure 17: Operating revenues vs operating costs 2015-2030
Source: Own computation

EasyJet operating revenues are divided into seven sources: **fuel, airport & ground handling, crew, navigation, maintenance, selling & marketing and administrative & operational.** Taking EasyJet report into account, figure 18 demonstrates the weight of each source on the

operating total. It is possible to conclude that fuel, airport and ground handling are the most representative expenses with nearly 60%.

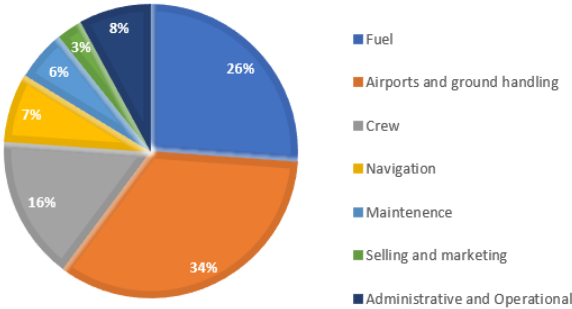


Figure 18: Operating Expenses
Source: EasyJet report 2019

The ongoing coronavirus pandemic has had a catastrophic impact on the global **oil and gas** industry, once consumer demand has been decreased speedily and the high levels of production output are threatening to exceed oil storage capacities. According to World Bank, it was estimated a decrease of 47% on oil barrel price in FY2020. The World Bank predicts that oil and gas industry may recover to the prices levels before Covid-19 crisis after 2025 (Table 3).

	2019	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Crude oil average £/bbl	50,55	26,80	32,17	34,08	35,99	38,14	40,36	42,57	44,78	46,98	49,19	51,40
g	-3,37%	-46,97%	20,00%	5,95%	5,62%	5,96%	5,82%	5,47%	5,19%	4,93%	4,70%	4,49%

Table 3: Forecast of Crude Oil Price
Source: World Bank

As it was mention on section 5.2, EasyJet settled fuel forward contracts for FY2020 and FY2021, which means that in the next 2 years fuel price per barrel are higher than the current price. However, fuel costs are related with kilometres flown. Once, the kilometres flown were estimated to reduce significantly on the current and next year, fuel costs will correspondingly decrease. In the subsequent years it is expected that the levels of fuel costs remain lower than the ones recorded before crisis, once the company will hedge its fuel position at the current price.

Its main driver, **airports and ground handling**, recorded an increase of cost per seat by 1.5% in the last financial year. This increase reflected a rise in the number of passengers transported, the increase of Tegel flying and the continued inflationary increase at regulated airports. These costs include 50 % of fixed costs related with contractual agreements with the airports as well

as 50% of variable costs related with ground handling. Since the company does not disclose the breakdown, it was forecasted half of 2019 cost would grow at inflation rate and the other half would be a percentage of revenue.

To forecast the **Crew Costs** the historical number of employees, average cost per employee and number of employees per million of seats flown were investigated. The number of employees increased over the last years to support the experienced growth, whereas the average cost per employee has slightly risen and the number of employees per million of seats flown has remained relatively stable.

	2016	2017	2018	2019
N° of Employees	10.273	11.655	13.104	14.751
growth (%)		13.45%	12.43%	12.57%
Average Cost per Employee	(0.0528)	(0.0553)	(0.0581)	(0.0582)
growth (%)		4.89%	4.94%	0.27%
N° of Employees per Million of Seats Flown	129	134	138	140

Table 4: Historical Crew Costs
Source: easyJet report

During the first quarter of 2020, EasyJet announced the intention to reduce the workforce by 30% to offset some of the Covid-19 losses and the expected decrease in demand. As a result for 2020 the workforce is expected to diminish 30% to 10.326. Then, it is forecasted to grow gradually and reach the 2019 level of 14.751 employees in 2023. Thereafter, the methodology is the 2019 figure of 140 employees per million seats flown times the million seats flown in each year. The average cost per employee is expected to grow at the inflation rate.

	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
N° of Employees	10.326	11.973	13.620	14.751	13.707	14.204	14.701	15.198	15.381	15.565	15.752
growth (%)	-30.00%	15.95%	13.76%	8.31%	-5.50%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%
Average Cost per Employee	(0.059)	(0.060)	(0.061)	(0.063)	(0.064)	(0.065)	(0.066)	(0.068)	(0.069)	(0.071)	(0.072)
growth (%)	1.70%	1.80%	1.90%	1.90%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
N° Employees per Million of Seats Flown	106	123	140	149	140	140	140	140	140	140	140

Table 4: Forecasted Crew Costs
Source: Own Computation

Navigation cost per seat decreased by 7.5% resulting from the decrease of Euro control rates in January 2019. In the forecast performance, it was assumed the last five years average of the weight navigation cost over total revenues as a suitable proxy for this cost in the future.

Maintenance cost mainly consists on the cost of routine aircraft maintenance cost per seat decreased by 12.3%. This decrease results from the introduction of IFRS 16, which reclassifies

maintenance provision charge into depreciation. In the forecast performance, it was assumed the last five years average of the weight maintenance cost over total revenues as a suitable proxy for this cost in the future.

EasyJet **selling and marketing** includes some cost applicable to ancillary revenues. This cost recorded null variations from 2018 to 2019 in terms of costs per seat. For the next years it was assumed an increase of 1%. In the forecast performance, it was assumed the weight of the selling and marketing cost over total revenues as a suitable proxy.

Finally, administrative and operational cost includes compensation pay to passengers, employee costs, exchange gain and losses and profit or loss on property, plant and equipment. In the last financial years, these costs recorded a decrease of 17.9% on a per seat basis and it was assumed that it will follow the same path for the future. This decrease was driven mainly by an intensive investment in operational resilience, which resulted in a lower number of disruption events and consequently results on a decrease of disruption costs.

	2018	2019	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Total of Operating Revenue	5.898	6.385	2.490	3.735	4.980	6.245	7.908	8.498	9.110	9.360	9.616	9.879	10.150
Total of Operating Costs	5.062	5.415	2.792	3.666	4.434	5.309	6.051	6.492	6.960	7.272	7.578	7.901	8.240
Total of Operating Profit	836	970	(302)	69	546	936	1.857	2.006	2.151	2.087	2.038	1.979	1.910

Table 5: Forecast of Operating Profit 2018-2030
Source: Own computations

On table 5 it is possible to observe a decrease on the total profit in FY20, leading to a negative operating profit, as a result of Covid-19 crisis. It was also estimated that kilometres flown will recover progressively and the company will settled fuel hedge position at low levels of crude oil prices until FY2025, according the World Bank. In the last forecast year it is expected a total operating revenue of £10,6 bn and a total operating cost of £8.5bn.

6.3. EBIT

Apart from the costs mentioned above, aircrafts dry leasing and depreciation & amortization are other two representative costs for EasyJet.

Aircraft dry leasing reflects the cost associated with provisions of aircraft leases. It was estimated that the fleet composition is established by approximately 70% of owned aircrafts and 30% of leased aircrafts.

Aircraft dry leasing decreased by 3% per seat, as a result of adoption of IFRS 16 in 2019. Upon IFRS 16, only leases with short duration or low value are recognized within this line item. The weight of aircraft dry leasing over total revenue in 2019 will be assumed as a proxy to estimate these cost until 2023. In the subsequent year, a constant weight was estimated, resulting from the average of last five years before Covid-19 pandemic. Following this, the weight of the aircraft dry leasing over total revenues was presumed as a suitable proxy for the future. Upon 2023, an increase of aircraft dry leasing in absolute terms is expected, as EasyJet fleet is expected to grow.

Regarding **depreciation & amortization**, it has been increasing over the years, given that the number of assets has also increased. To forecast depreciation, the weight of the depreciation over the fixed assets times the growth of the number of aircrafts was assumed as a suitable proxy for the future. In the event of amortization, the last five years average of the weight of amortization of total intangible assets was assumed as a suitable proxy for the future.

	2018	2019	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Total of operating profit	836	970	(302)	69	546	936	1.857	2.006	2.151	2.087	2.038	1.979	1.910
Aircraft dry leasing	(162)	(5)	(2)	(3)	(4)	(5)	(148)	(160)	(171)	(176)	(181)	(185)	(191)
Depreciation	(199)	(484)	(459)	(442)	(459)	(484)	(548)	(608)	(674)	(715)	(759)	(805)	(855)
Amortization of intangible ass	(15)	(15)	(7)	(10)	(13)	(16)	(21)	(22)	(24)	(25)	(25)	(26)	(27)
EBIT	460	466	(769)	(385)	70	431	1.140	1.216	1.282	1.172	1.073	962	838

Table 6: Forecast of EBIT 2018-2030
Source: Own computations

To complete, EBIT is computed by the sum of the all costs mentioned above. It is clear to conclude, on table 6, that operating profit is significantly higher than EasyJet’s EBIT, meaning these costs are representative in the company.

Again, EasyJet’s EBIT will register a decrease in FY20 which results from Covid-19 pandemic crisis. Moreover, EBIT is expected to recover in 2023 to the EBIT levels before this crisis.

6.4. Capex and property, plant and equipment

The Capital Expenditure of the company is the changes that occur in Property, Plant & Equipment (PP&E) and in Other Intangible Assets. The main EasyJet investment is the acquisition of new airplanes and the secondary investments include expenditures on buildings, plant and equipment and motor vehicles. It is clear that the PP&E is the variable that causes the biggest impact.

EasyJet fleet, as mentioned before, is decreasing as a result of the current crisis. However, in FY2023 it was assumed that company will return to the number of aircraft it detained before

Covid-19 pandemic and it was also presumed that EasyJet has perspectives of continuing to increase its total fleet. For future performance, the weight of owned aircraft over the Net PP&E from the previous year plus the growth of newly owned aircraft in the current year are assumed as a suitable proxy for the future PP&E estimations.

As for another component of the CAPEX, the Other Intangible Assets, these were considered dependent of the company's operations. Therefore, for future performance, the last five years average weight of other intangible assets over total revenues was assumed as a suitable proxy for the future.

6.5. Debt

In the last financial year, EasyJet recorded a decrease in its net debt from £396 million to £326 million. EasyJet debt comprises cash and money market deposits of £1.576 million and borrowings of £1.902 million. Furthermore, borrowing includes lease liabilities of £578 million. The company has also issued €1.500 million in three bonds with maturity dates between 2023 and 2025. For the forecasted years, EasyJet is will only raise debt to fund the Working Capital needs.

6.6. Effective Tax Rate

EasyJet pays taxes in the United Kingdom, so it is affordable to say the effective tax rate is 17,79%.

7. Valuation

In this section the assumptions and conclusions reached through the DCF implemented approach will be presented. As it was mentioned before, the WACC method was chosen due to projected stable capital structure. It was considered 10 years, comprising the fiscal year of June 30, 2020 until June 30, 2030.

7.1. Discounted Cash Flow

7.1.1. Free Cash Flow to the Firm

As it was presented in the literature review, future cash flows were estimated for each year using the FCFF formula:

$$FCFF = EBIT(1 - T) + Depreciation - \Delta NWC - CAPEX$$

As shown in table 7, the company’s EBIT * (1-Effective Tax Rate) presents an increase until the FY 2023, data estimated the EasyJet recover from the Covid-19 crisis. On the other hand, depreciation presented an increase resulting from the acquisition of newly owned aircraft. The change in the net working capital was positive on FY20 and negative in subsequent years. Finally, the CAPEX presents an increase in the following years, as a result of the acquisition of new aircrafts and from lease contracts with Airbus, according to EasyJet report.

	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
EBIT * (1-Effective Tax Rate)	(632)	(317)	57	354	937	999	1.054	964	882	791	689
+ Depreciation	459	442	459	484	548	608	674	715	759	805	855
- change in NWC	1.446	(359)	(335)	(361)	(385)	(176)	(185)	(102)	(102)	(106)	(111)
- CAPEX	341	481	498	524	1.078	1.028	1.108	879	926	977	1.031
FCFF	-1.960	3	354	676	792	755	804	902	816	725	624

Table 7: Forecast of FCFF 2020-2030
Source: Own computations

7.1.2. Weighted Average Cost of Capital (WACC)

As it was presented in the literature review, a set of variables of debt and equity was estimated to reach the discount rate for the future cash flows projected. The WACC is computed through the following equation:

$$WACC = \frac{E}{E + D} * Ke(\text{levered}) + \frac{D}{E + D} * Kd(\text{levered}) * (1 - T)$$

The cost of equity was computed by applying the CAPM formula, using the risk free rate, the beta levered and the market risk premium. Once the main EasyJet headquarters is located in London, the yield of the UK 10 years government bond to reach the risk free of 0,554% was used. Secondly, the beta levered recorded a value of 1,61. Beta levered was computed by using an OLS regression of the company’s returns relative to the market’s returns, over the last five years on a monthly basis. Finally, the market risk premium of 6,92% was considered as the calculations of Damodaran in April 2020. According to the CAPM formula presented in the literature review, the cost of capital recorded a value of 11,33%.

$$Ke = 0,554\% + 6,92\% * 1,61 = 11,70\%$$

Regarding the cost of debt, it was computed by the weighted average YTM of all outstanding Bonds at the end of 1Q 2020. The cost of debt recorded a value of 6,45%. The effective tax rate used of 17,71%, as it was presented before, leading to an after tax cost of debt of 5,31%.

The market value of equity consists on the equity value of preferred stakeholders at the end of FY19, recording a value of £ 5.656 million.

The market value of debt was obtain by converting operating leases into marketable debt and adding the three outstanding bonds, of £500 each. According Damodaran, operating leases commitments are discounted by the cost of debt, taking into consideration its maturity. It was reached a value of £543 million.

Maturity	Commitment	Present Value
<1	230	223
1-5	343	258
>5	64	62
Debt value of lease (£M)	637	543

Table 8: Market Value of Operating Leases
 Source: Damodaran and own computations

The sum of the debt value of lease and the three outstanding bonds let to an overall market value of £2.043 million. Following this, the weight of equity and debt on the company was 73% and 27%, respectively.

After applying the formula, the WACC reached a value of 10,00%.

$$WACC = 73\% * 11,33\% + 27\% * 5,31\% = 10,00\%$$

7.1.3 Terminal Value

Regarding the terminal value computation, EasyJet growth tends to become continuous and linear with the economy’s growth on the regional area where it operates. The measures implemented as a result of Covid-19 pandemic are severely impacting economic activity. According to the International Monetary Fund, the European economy is estimated to contract sharply by -7,5% in 2020 as a result of the current crisis. However, the European economy is projected to grow by 4,7% as economy activity normalizes. Moreover, in the following years it is expected that European economy return to the levels of growth of 1,2% documented before Covid-19 pandemic. Assuming a perpetuity growth rate of 1.2%, a WACC of 10% as well as the company reaches its steady state in 2030, a terminal value of £2.560 million was obtained.

7.1.4 Estimated Price

The company’s enterprise value reached a value of £4.643 million. It was obtained by adding all discounted free cash flows of the forecast periods to the terminal value. Afterwards, the

value of financial assets were deducted, reaching an estimated equity market value of £2.588 million. Finally, the total number of shares of 397 million was divided by the equity market value, leading to a final estimated share price of £6,51. This value represents a downside of 7% when compared to the current price on May 29, 2020 (£6,98).

Estimated price	
Discounted Terminal Value	2.560
Cumulative Discounted FCFF	2.083
Enterprise Value	4.643
Net Financial Assets	(2.022)
Financial Result	(33)
Equity Market Value	2.588
# outstanding shares	397
Estimated share price (30.06.2020)	£6,51

Table 9: DCF Estimated Price
Source: Own Computation

7.2. Multiples Valuation

Initially all companies worldwide classified in the Global Industry Classification Standard (“GICS”) as Airlines were considered, leading to a total 111 companies. To get to the most appropriate peer group, the two most important drivers of multiples were used as filters, the growth rate and operating margin. The proxies for these two variables were the median Revenues Growth rate of the last four years and the median EBITDA margin of the last four years.

By using these two metrics with cut off points 3 p.p. above and below those of EasyJet, it was possible to exclude 106 companies and narrow the range down to the final 5 peers.

Variables	Median of easyJet	Cut off Upper	Cut off Lower
Revenues Growth Rate	8,6%	11,6%	5,6%
EBITDA Margin	14,2%	17,2%	11,2%

Table 10: Median of Growth Rate Revenues and Median of EBITDA Margin of easyJet
Source: Thomson Reuters

Following this and as it be possible to observe on table 11, the selected peer group were China Airline Ltd, Eva Airlines Corp, Gol Linhas Aereas Inteligente SA, Finnair Plc and Air Partner Plc.

Financial Information	Revenues Growth Rate (%)	EBITDA Margin (%)	Capitalization (M€)	EBITDA (M€)
easyJet PLC	8,60%	14,20%	3.004	1.126
China Airlines Ltd	6,50%	16,70%	1.336	1.068
Eva Airways Corp	8,80%	14,80%	1.604	1.087
Gol Linhas Aereas Inteligentes SA	5,60%	12,30%	549	815
Finnair Plc	9,80%	13,70%	451	488
Air Partner Plc	9,1%	11,3%	46	12

Table 11: Financial Information of Peer Group

Source: Thomson Reuters

Then, to arrive at the multiples, which will drive the valuation, the median multiple of both EV/EBITDA and PE were used, to mitigate the impact of outliers.

Multiples	EV/EBITDA	PE
China Airlines Ltd	4,7x	0,0x
Eva Airways Corp	3,8x	18,1x
Gol Linhas Aereas Inteligentes SA	4,9x	4,3x
Finnair Plc	3,3x	12,1x
Air Partner PLC	3,5x	
Median	3,8x	8,2x

Table 12: Multiples of Peer Group

Source: Thomson Reuters

Taking into account the financial distress EasyJet is forecasted to experience in the forthcoming years, to properly use relative valuation, and adjusted approach was required. Namely, for 2020 a negative EBITDA and EPS are estimated, and in the next three years the company will not perform at maximum efficiency, therefore both these metrics would not be representative of the companies' long-term growth and margins.

As a result, only the financials of 2024 onwards would be representative of EasyJet's long-term performance. Therefore, the closest date eligible of 2024 was used. Naturally, this will lead to the valuation in December 2024, thus the fundamentals were discounted to June 2020 to get the accurate reference date of the valuation.

EV/EBITDA Valuation	
Year of EasyJet EBITDA	2024
EasyJet EBITDA	1.678
EV/EBITDA Multiple	3,8x
Enterprise Value in 2024	6.321
WACC	10,00%
EV in June 2020	4.528
Debt June 2020	2.043
Equity Value June 2020	2.512
N° Shares	397
Price per share	£6,33

Table 13: EV/EBITDA Valuation (€M)

Source: Own Computation

P/E Valuation	
Year of EasyJet Net Income	2024
EasyJet Net Income	893
PE Multiple	8,2x
Equity Value in 2024	7.314
Cost of Equity	11,70%
Equity Value in June 2020	4.966
N° Shares	397
Price per share	£12,5

Table 14: P/E Valuation (£M)
Source: Own Computation

It is possible to observe on table 13 and 14 the target price per share using EV/EBITDA and P/E multiples valuation respectively. Regarding EV/EBITDA, it was achieved a median multiple of 3,8x, leading to an enterprise value of £4,528 million and an implicit share price of £6,33. Otherwise, P/E generated a median multiple of 8,2, leading to an equity value of \$4.966 million and a final share price of £12,5.

Following this, the price per share achieved by using a EV/ EBITDA multiples represents a downside of 2,8% and the price per share achieved by using P/E multiples represents an upside of 100%. These are historical multiples as forward ones, despite being preferable, were unfeasible. As a result it is expected some disparities between the estimated share price and the current price.

7.3. Sensitivity Analysis

In order to expose and understand the vulnerabilities of EasyJet, a sensitivity analysis was performed. The effects on the estimated share price achieved through the DCF method were explored by changing the WACC and the terminal growth rate. An additional sensitivity analysis to the expected crash in 2020 as a result of Covid-19 pandemic and the number of years that EasyJet needs to recover the 2019 levels, was also performed.

Firstly, the impact of 0,2% in both the terminal value growth (-0,8% to +0,8%) rate and the WACC (-0,6% to +0,6%) were analysed. The terminal value growth is the main variable to compute the enterprise value and it was based on IMF's projections for European Countries. This assumption represents a great level of uncertainty, once it is highly correlated with the stability of all European Countries. The WACC embraces a set of assumptions related with debt and equity.

		% Change in Terminal Value Growth Rate								
		0,40%	0,60%	0,80%	1,00%	1,20%	1,40%	1,60%	1,80%	2,00%
% Change in WACC	9,40%	6,02	6,40	6,80	7,22	7,67	8,14	8,63	9,16	9,71
	9,60%	5,69	6,05	6,44	6,84	7,16	7,71	8,18	8,68	9,21
	9,80%	5,38	5,73	6,09	6,47	6,88	7,31	7,76	8,23	8,73
	10,00%	5,03	5,41	5,76	6,13	6,51	6,92	7,35	7,80	8,27
	10,20%	4,79	5,11	5,44	5,79	6,16	6,55	6,96	7,39	7,84
	10,40%	4,41	4,82	5,14	5,47	5,82	6,19	6,58	6,99	7,42
	10,60%	4,25	4,54	4,84	5,16	5,5	5,86	6,23	6,62	7,03

Table 15: Sensitivity Analysis - % Change in Terminal Value Growth and WACC

Source: Own Computations

Analysing the results from table 15, it is possible to conclude a target price ranging between £4,25 and £9,71, representing a 49% upside and 35% downside potential when compared to the estimated share price of £6,51.

Secondly, it was necessary to understand the impact of changing the number of years that company needs to recover to the level before Covid-19 pandemic and the expected crash in 2020. In the current dissertation is expected a crash of 60% and three years to recover to the level of 2019. Analysing the results from table 16, it is possible to conclude a target price ranging between £0,3 and £13, which represents a 100% upside and 95% downside potential when compared to the estimated share price of £6,51.

		Change in years to reach 2019 levels			
		1	2	3	4
% Change in 2020 crash	51,00%	13,0	11,8	8,5	5,0
	54,00%	12,6	11,2	7,9	4,2
	57,00%	12,1	10,7	7,2	3,4
	60,00%	11,7	10,1	6,5	2,7
	63,00%	11,2	9,5	5,8	1,9
	66,00%	10,7	8,9	5,1	1,1
	69,00%	10,3	8,4	4,5	0,3

Table 16: Sensitivity Analysis - Change in years to reach 2019 level and the crash in 2020

Source: Own Computations

8. Equity Research Comparison

This section compares the dissertation valuation with the one performed by research analysts of Market Screener on May 2, 2020. This investment report used multiples valuation to reach the estimated price. Firstly, it was compared both forecasts. However, on this dissertation it was estimated the income statement until 2030 and the investment report only discloses the next 3 years.

It was possible to observe on table 17 that the current dissertation predicted that EasyJet will recover in three years to the value before Covid-19 pandemic and the investment report's analysts presumed only two years for the company to recover. Furthermore investment report's analysts have a more optimistic outlook than the current dissertation since it estimated higher growth on EBITDA, operating profit and net income, operating revenues and operating expenses. Regarding the price per share, the current dissertation recorded a higher price than the one reached by investment report's analysts.

Year	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Operating Revenues											
Dissertation	2.490	3.735	4.980	6.245	7.908	8.498	9.110	9.360	9.616	9.879	10.150
Investment Report	3.574	5874	6.532	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Operating Expenses											
Dissertation	2.792	3.666	4.434	5.309	6.051	6.492	6.960	7.272	7.578	7.901	8.240
Investment Report	3.600	5.072	5.465	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA											
Dissertation	(302)	69	546	936	1.857	2.006	2.151	2.087	2.038	1.979	1.910
Investment Report	(26)	802	1067	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Operating Profit											
Dissertation	(769)	(385)	70	431	1.140	1.216	1.282	1.172	1.073	962	838
Investment Report	(471)	309	534	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Income											
Dissertation	(665)	(350)	27	329	921	988	1.047	962	887	803	709
Investment Report	(721)	216	481	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Price Per Share											
Dissertation	£6,51										
Investment Report	£5,68										

Table 17: Forecast - Dissertation vs Investment Report

Source: Own computation and Investment report from MarketScreener (02-05-2020)

Paradoxically, the Investment Report has higher fundamentals in the next three years for all variables analysed although the output is a lower PPS than the dissertation. One possible explanation for this phenomenon is that despite forecasting a slower recovery, the dissertation is expecting higher long-term growth prospects. Since the Terminal Value accounts for 60.14% of the valuation, a higher long-term estimate could potentially lead to a higher PPS despite near term gloomier fundamentals.

9. Conclusion

An equity research is a basket with all tools and techniques used by investors to achieve the most accurate and robust value of a company and it seen as the most crucial element of a successful investment decision. The methods most used to find company's value are the DCF and multiples approaches, and it is crucial to take the best insight from each one. Following

this, to reach a value, several assumptions, forecasts, a group of comparable and multiples are created and maintained in the future, so it is extremely important to capture accurate characteristics and findings about the company.

Nowadays, EasyJet and all airline companies are facing a situation of uncertainty, as a result from the Covid-19 pandemic, which are affecting the price per barrel, the passengers demand and the air traffic. However, it is estimated that EasyJet will recover from this crisis within three years, returning to the levels before Covid-19 pandemic.

The comparing the current valuation with the one made by analysts from Market Screener helps clarify contrasts between the two valuations. The investment report presents a more optimistic outlook in short term than the current paper. However, this dissertation higher long term growth prospects. Following this, the current dissertation estimated a price per share higher than the investment report's analysts from Market Screener.

To conclude, the two valuation recommend all investors take a hold position on EasyJet stocks.

10. Appendixes

10.1 Balance Sheet-2024F, in £ million. Source: Own Computation and EasyJet 2019FY Annual Report

	2019	2020F	2021F	2022F	2023F	2024F
Non-current assets						
Goodwill	365	365	365	365	365	365
Other intangible assets	196	78	117	156	195	248
Property, plant and equipment	5.163	5.163	5.163	5.163	5.163	5.641
Other non-current assets	142	54	82	109	137	173
Equity Investments	1.524	-	-	-	876	1.038
Total Non-current assets	7.390	5.660	5.727	5.793	6.736	7.465
Current assets						
Trade and other receivables	372	76	115	153	192	243
- Trade Receivables	79	21	32	42	53	67
- Other Receivables	293	55	83	111	139	176
Derivative financial instruments	273	186	244	295	353	403
Cash and cash equivalents	128	50	75	100	125	158
Total Current assets	773	312	433	548	670	804
Total Assets	8.163	5.972	6.160	6.340	7.406	8.269
Current liabilities						
Trade and other payables	(1.050)	(468)	(614)	(743)	(889)	(1.014)
Unearned revenue	(1.069)	(356)	(533)	(711)	(892)	(1.129)
Derivative financial instruments	(210)	(108)	(142)	(172)	(206)	(235)
Current tax payable	-	(10)	(16)	(21)	(26)	(33)
Provisions for liabilities and charges	(589)	(227)	(298)	(361)	(432)	(492)
Total Current liabilities	(2.918)	(1.169)	(1.604)	(2.008)	(2.445)	(2.903)
Non-current liabilities						
Borrowings	(1.949)	(2.027)	(1.893)	(1.594)	(1.994)	(1.863)
Non-current deferred income	(6)	(2)	(4)	(5)	(6)	(7)
Deferred tax	(305)	(122)	(183)	(243)	(305)	(387)
Total Non- Current liabilities	(2.260)	(2.151)	(2.079)	(1.842)	(2.305)	(2.257)
Total Liabilities	(5.178)	(3.320)	(3.682)	(3.849)	(4.750)	(5.160)
Shareholders' equity						
Share capital	108	108	108	108	108	108
Share premium	659	659	659	659	659	659
Translation reserve	1	1	1	1	1	1
Retained earnings	2.217	1.885	1.710	1.723	1.888	2.340
Total Equity	2.985	2.653	2.478	2.491	2.656	3.108
Total Liabilities and Equity	8.163	5.972	6.160	6.340	7.406	8.269
Total Assets	8.163	5.972	6.160	6.340	7.406	8.269

**10.2 Balance Sheet 2024F-2030F, in £ million. Source: Own Computation and EasyJet
2019FY Annual Report**

	2025F	2026F	2027F	2028F	2029F	2030F
Non-current assets						
Goodwill	365	365	365	365	365	365
Other intangible assets	266	285	293	301	309	318
Property, plant and equipment	6.043	6.458	6.614	6.774	6.937	7.105
Other non-current assets	186	199	205	210	216	222
Equity Investments	1.115	1.195	1.241	1.286	1.333	1.383
Total Non-current assets	7.974	8.503	8.718	8.936	9.161	9.392
Current assets						
Trade and other receivables	261	280	287	295	303	312
- Trade Receivables	72	77	79	81	83	86
- Other Receivables	189	203	208	214	220	226
Derivative financial instruments	432	463	484	504	526	549
Cash and cash equivalents	170	182	187	192	198	203
Total Current assets	863	925	959	992	1.027	1.063
Total Assets	8.837	9.428	9.676	9.928	10.188	10.455
Current liabilities						
Trade and other payables	(1.088)	(1.166)	(1.218)	(1.270)	(1.324)	(1.380)
Unearned revenue	(1.213)	(1.301)	(1.336)	(1.373)	(1.411)	(1.449)
Derivative financial instruments	(252)	(270)	(282)	(294)	(306)	(320)
Current tax payable	(36)	(38)	(39)	(41)	(42)	(43)
Provisions for liabilities and charges	(528)	(566)	(592)	(616)	(643)	(670)
Total Current liabilities	(3.116)	(3.341)	(3.468)	(3.593)	(3.725)	(3.862)
Non-current liabilities						
Borrowings	(1.704)	(1.525)	(1.164)	(845)	(570)	(344)
Non-current deferred income	(8)	(9)	(9)	(9)	(9)	(10)
Deferred tax	(415)	(445)	(458)	(470)	(483)	(496)
Total Non- Current liabilities	(2.127)	(1.979)	(1.631)	(1.324)	(1.062)	(850)
Total Liabilities	(5.244)	(5.320)	(5.098)	(4.918)	(4.787)	(4.713)
Shareholders' equity						
Share capital	108	108	108	108	108	108
Share premium	659	659	659	659	659	659
Translation reserve	1	1	1	1	1	1
Retained earnings	2.826	3.339	3.810	4.243	4.633	4.975
Total Equity	3.594	4.107	4.578	5.011	5.401	5.743
Total Liabilities and Equity	8.837	9.428	9.676	9.928	10.188	10.455
Total Assets	8.837	9.428	9.676	9.928	10.188	10.455

**10.3 Income Statement 2019-2024F, in £ million. Source: Own Computation and EasyJet
2019FY Annual Report**

	2019	2020F	2021F	2022F	2023F	2024F
Total operating Revenues						
Seat revenues	5.009,0	2.003,6	3.005,4	4.007,2	5.009,0	6.323,5
Non-Seat revenues	1.376	486	730	973	1.236	1.584
Total operating Revenues	6.385	2.490	3.735	4.980	6.245	7.908
Total operating Expenses						
Fuel	1.416	303	585	739	1.009	1.102
Airports and ground handling	1.845	1.285	1.469	1.660	1.859	2.129
Navigation	409	172	259	345	432	547
Maintenance	302	128	193	257	322	408
Other costs	427	182	274	365	457	579
Selling and marketing	157	67	111	163	225	313
Crew costs	859	612	722	837	923	875
Total Operating Cost	5.415	2.750	3.611	4.365	5.229	5.954
EBITDA	970	(260)	124	615	1.016	1.954
Aircraft dry leasing	5	2	3	4	5	148
Depreciation	484	459	442	459	484	548
Amortisation of intangible assets	15	7	10	13	16	21
Total oter income (expenses)	504	468	454	476	505	717
EBIT	466	(728)	(331)	139	511	1.237
Taxes	83	(137)	(69)	12	77	203
Net Income After Taxes	383	(591)	(262)	126	434	1.034
Net Income	383	(591)	(262)	126	434	1.034
Earnings per share (EPS)	0,91	(1,67)	(0,88)	0,07	0,83	2,28

10.4 Income Statement 2024F-2030F, in £ million. Source: Own Computation and EasyJet 2019FY Annual Report

	2025F	2026F	2027F	2028F	2029F	2030F
Total operating Revenues						
Seat revenues	6.773,7	7.239,4	7.414,2	7.593,2	7.776,5	7.964,3
Non-Seat revenues	1.724	1.871	1.946	2.023	2.103	2.186
Total operating Revenues	8.498	9.110	9.360	9.616	9.879	10.150
Total operating Expenses						
Fuel	1.201	1.303	1.384	1.468	1.552	1.638
Airports and ground handling	2.243	2.364	2.433	2.504	2.579	2.658
Navigation	588	631	648	666	684	703
Maintenance	439	470	483	496	510	524
Other costs	622	667	686	704	724	744
Selling and marketing	370	437	493	558	630	712
Crew costs	925	977	1.030	1.063	1.097	1.133
Total Operating Cost	6.388	6.849	7.157	7.459	7.776	8.111
EBITDA	2.110	2.262	2.203	2.157	2.103	2.039
Aircraft dry leasing	160	171	176	181	185	191
Depreciation	608	674	715	759	805	855
Amortisation of intangible assets	22	24	25	25	26	27
Total oter income (expenses)	790	869	915	965	1.017	1.072
EBIT	1.319	1.393	1.288	1.193	1.087	968
Taxes	216	228	209	191	171	149
Net Income After Taxes	1.103	1.165	1.079	1.002	915	818
Net Income	1.103	1.165	1.079	1.002	915	818
Earnings per share (EPS)	2,44	2,59	2,37	2,18	1,96	1,72

10.5 Total Seat Revenue 2019-2024F, in £ million. Source: Own Computation and EasyJet 2019FY Annual Report

	2019	2020F	2021F	2022F	2023F	2024F
Seat revenues						
<i>g</i>	6,8%	60,0%	50,0%	33,3%	25,0%	26,2%
Seat Revenues per ASK	5,50%	n.a.	n.a.	n.a.	5,46%	5,46%
Load Factor	92%	n.a.	n.a.	n.a.	92,02%	92,02%
Seat per Aircraft	175	n.a.	n.a.	n.a.	175	175
Seats flown(millions)	105	n.a.	n.a.	n.a.	98	101
Available Seat Kilometers(ASK) millions	116.056	n.a.	n.a.	n.a.	107.816	115.775
Kilometers Flown	1.105	n.a.	n.a.	n.a.	1.105	1.145
Number of aircraft	331	n.a.	n.a.	n.a.	331	343
Seat revenues	5.009	2.004	3.005	4.007	5.009	6.323

10.6 Total Seat Revenue 2024F-2030F, in £ million. Source: Own Computation and EasyJet 2019FY Annual Report

	2025F	2026F	2027F	2028F	2029F	2030F
Seat revenues						
<i>g</i>	7,1%	6,9%	2,4%	2,4%	2,4%	2,4%
Seat Revenues per ASK	5,46%	5,46%	5,46%	5,46%	5,46%	5,46%
Load Factor	92,02%	92,02%	92,02%	92,02%	92,02%	92,02%
Seat per Aircraft	175	175	175	175	175	175
Seats flown(millions)	105	108	109	111	112	113
Available Seat Kilometers(ASK) millions	124.018	132.544	135.744	139.021	142.378	145.815
Kilometers Flown	1.185	1.225	1.240	1.255	1.270	1.285
Number of aircraft	355	367	371	376	380	385
Seat revenues	6.774	7.239	7.414	7.593	7.777	7.964

10.7 Cash Flow Statement 2019-2024F, in £ million. Source: Own Computation and EasyJet 2019FY Annual Report

	2019	2020F	2021F	2022F	2023F	2024F
Core Business						
Net Income	383	(632)	(317)	57	354	937
Depreciation	484	459	442	459	484	548
Operating Cash Flow	867	(173)	125	517	838	1.485
Gross CAPEX	(1.038)	118	(39)	(39)	(40)	(530)
Net CAPEX	(1.522)	(341)	(481)	(498)	(524)	(1.078)
Investment in NWC and Others	566	(1.446)	359	335	361	385
CAPEX + net increase in NWC	(472)	(1.787)	(122)	(163)	(162)	(694)
Investment Cash Flow	(956)	(1.787)	(122)	(163)	(162)	(694)
Core Business Free Cash Flow	(89)	(1.960)	3	354	676	792
Non Core Business						
Non Core Result	(327)	1	2	2	2	3
Invested Capital	444	386	397	407	418	432
Investment Cash Flow	32	58	(11)	(11)	(11)	(14)
Non Core Business Free Cash Flow	(295)	59	(9)	(9)	(8)	(11)
Operational Free Cash Flow	(384)	(1.901)	(6)	345	667	780
Financing						
Financial Result	(19)	(33)	(35)	(33)	(27)	(34)
Net Financial Assets	(425)	(2.027)	(1.893)	(1.594)	(1.118)	(825)
Change in NFA	714	1.602	(134)	(299)	(475)	(293)
Net Cash Transactions with Shareholders	(311)	332	175	(13)	(164)	(453)
Financing Free Cash Flow	(41)	(126)	(1.887)	(1.939)	(1.785)	(1.605)
Net Change in Cash	(425)	(2.027)	(1.893)	(1.594)	(1.118)	(825)

10.8 Cash Flow Statement 2024F-2030F, in £ million. Source: Own Computation and EasyJet 2019FY Annual Report

	2025F	2026F	2027F	2028F	2029F	2030F
Core Business						
Net Income	999	1,054	964	882	791	689
Depreciation	608	674	715	759	805	855
Operating Cash Flow	1,608	1,728	1,679	1,641	1,596	1,544
Gross CAPEX	(420)	(435)	(164)	(168)	(172)	(176)
Net CAPEX	(1,028)	(1,108)	(879)	(926)	(977)	(1,031)
Investment in NWC and Others	176	185	102	102	106	111
CAPEX + net increase in NWC	(853)	(924)	(776)	(825)	(871)	(920)
Investment Cash Flow	(853)	(924)	(776)	(825)	(871)	(920)
Core Business Free Cash Flow	755	804	902	816	725	624
Non Core Business						
Non Core Result	3	3	3	3	3	5
Invested Capital	437	442	444	446	448	451
Investment Cash Flow	(5)	(5)	(2)	(2)	(2)	(2)
Non Core Business Free Cash Flow	(2)	(2)	1	1	1	2
Operational Free Cash Flow	753	802	903	817	727	626
Financing						
Financial Result	(32)	(29)	(26)	(20)	(15)	(9)
Net Financial Assets	(589)	(330)	76	441	763	1,038
Change in NFA	(236)	(259)	(407)	(365)	(322)	(275)
Net Cash Transactions with Shareholders	(485)	(514)	(470)	(433)	(390)	(342)
Financing Free Cash Flow	(1,342)	(1,132)	(827)	(376)	36	412
Net Change in Cash	(589)	(330)	76	441	763	1,038

10.9 Net Working Capital 2019-2024F, in £ million. Source: Own Computation and EasyJet 2019FY Annual Report

	2019	2020F	2021F	2022F	2023F	2024F
Total Current Assets						
Operating Cash	128	50	75	100	125	158
Other Receivables	293	55	83	111	139	176
Derivative Financial Instruments	273	186	244	295	353	403
Trade Receivables	79	21	32	42	53	67
Total Current Assets	773	312	433	548	670	804
Δ Total Current Assets		(461)	121	114	122	134
Total Current Liabilities						
Trade and other payables	1.050	468	614	743	889	1.014
Current Tax	-	10	16	21	26	33
Provisions for liabilities and charges	589	227	298	361	432	492
Unearned Revenues	1.069	356	533	711	892	1.129
Derivative Financial Instruments	210	108	142	172	206	235
Total Current Liabilities	2.918	1.169	1.604	2.008	2.445	2.903
Δ Total Current Liabilities		(1.749)	435	404	437	458
Δ Net Working Capital		1.288	(313)	(290)	(315)	(324)

10.10 Net Working Capital 2024F-2030F, in £ million. Source: Own Computation and EasyJet 2019FY Annual Report

	2025F	2026F	2027F	2028F	2029F	2030F
Total Current Assets						
Operating Cash	170	182	187	192	198	203
Other Receivables	189	203	208	214	220	226
Derivative Financial Instruments	432	463	484	504	526	549
Trade Receivables	72	77	79	81	83	86
Total Current Assets	863	925	959	992	1.027	1.063
Δ Total Current Assets	59	62	33	33	35	36
Total Current Liabilities						
Trade and other payables	1.088	1.166	1.218	1.270	1.324	1.380
Current Tax	36	38	39	41	42	43
Provisions for liabilities and charges	528	566	592	616	643	670
Unearned Revenues	1.213	1.301	1.336	1.373	1.411	1.449
Derivative Financial Instruments	252	270	282	294	306	320
Total Current Liabilities	3.116	3.341	3.468	3.593	3.725	3.862
Δ Total Current Liabilities	213	225	127	126	131	138
Δ Net Working Capital	(154)	(162)	(93)	(92)	(97)	(101)

10.11 Impact of Brexit

Nowadays, the exit of the United Kingdom from the European Union is one of the major issues in Europe which will have a high impact in the companies operating in both regions. However, there is still uncertainty regarding the deals scenarios. The companies are paying close attention to the Brexit updates and they have been preparing for all possible scenarios. Notwithstanding, future relationships between the UK and the rest of the world remain unclear. The airline companies is one of the most impacted, since the main purpose of the airline sector is to carry passengers and cargo around the world and the United Kingdom has a large magnitude in the European skies.

According to IATA Ireland and the United Kingdom were the biggest players in the European Union in terms of number of passengers flying in 2018, carrying 168 million and 165 million passengers respectively. Both Ireland and the UK recorded a significant distance from the rest of the European countries. According to KPMG research, the United Kingdom represents around 35% of the European traffic with a significant distance from the rest of the European countries, meaning that it has the biggest portion of movements among all Europe.

The airlines, with their headquarters in the UK and operating in the EU, will face bigger challenges with Brexit agreements. There are many issues to be considered with the exit of the United Kingdom from the European Union, such as Air Services Agreements, Safety Framework, Aviation Security, Border Management, Air Traffic Management, and Environment. Furthermore, British companies must obtain an operating license from a European Union member to continue moving around Europe. In order to obtain this license, the companies might need to restructure their ownership given the fact that to operate in the EU they will have to be controlled at least 50% by European nationals. In April 2019, approximately 49% of EasyJet shares was already held by European nationalities.

According to IATA and considering all the factors and the uncertainty around the deal or non-deal, two main scenarios can be predicted.

The first one is the **base scenario** in which a withdrawal agreement is agreed upon and a comprehensive UE-UK Air Services Agreements is negotiated. It is also expected that the management of Europe skies will continue unchanged post-Brexit and the UK continues to be a significant player.

The second one is a **no-deal scenario** in which there is no future relationship between the European Union and the UK. This means that the United Kingdom is independent to create its own flying policies and will not have flying rights in the EU and will not have access to other benefits. Furthermore, in terms of security accreditations, EASE (European Union Aviation Safety Agency) Certifications will no longer be valid in the UK and certificates issued by the legal UK entities will also be no longer valid outside of the UK.

With all this uncertainty, EasyJet decided to take some action upon the referendum. EasyJet has established structures with three airlines based in Austria, Switzerland and the United Kingdom since March. This ensures that the airline company will be able to continue to operate flights across both Europe and the United Kingdom, and it was the safest way to diminish the impact of Brexit.

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