

20<sup>th</sup> March 2020

## Alliance Aviation Services Limited (ASX Code: AQZ)

### TRADING UPDATE AND COVID-19 REPOSE

Alliance's Managing Director, Scott McMillan, states, "To understand the impact of the COVID-19 virus on Alliance it is essential to understand the Company's operating philosophy and how the business has been constructed and managed since inception. Alliance has always sought to diversify its activities to minimise the effect of an event such as is occurring at the moment. This ensures strong revenue streams from those activities not affected by the downturn."

"Alliance's core business has always been supplying charter services to the resource sector where it continues to have long term contracts with prominent mining companies with bases across the country. The level of activity in this sector is increasing in the current environment."

Mr McMillan continued, "Most importantly, Alliance is positioned to move quickly and efficiently to cope with any downturn or upturn in market conditions, and has the flexibility and expertise to take advantage of any opportunity that arises as the aviation industry changes, particularly in difficult and challenging times."

### **Market Update**

#### Contract Revenue

- (1) Resource Sector – the Company's contracted revenue is with major mining companies in production and there has been no negative impact due to COVID-19 on services operated for those customers. Schedule frequency is **actually increasing** as our resource customers deal with the impacts of COVID-19 on their workforce. The Company predicts that contract revenue will **rise** to be between 70% and 80% of total revenue as a result of these changes.
- (2) Inbound Tourism – as forecast at the time of release of the 1HFY20 results, there has been a reduction in the number of services operated by the Company for its tourism clients. The FY20 season is ending in April 2020 and the FY2021 season is due to commence in September 2020.

### Wetlease

Alliance has been requested by Virgin Australia (VAH) to reduce the minimum number of wetlease hours it operates during 2020. This reduction could be up to 2,000 hours per calendar year and will have an impact on 2HFY20 earnings.

### Charter Revenue

The market for ad hoc charter is unpredictable as a result of COVID-19. While discretionary travel has reduced, a number of new opportunities have presented as a result of the virus. Alliance has already operated a number of private ad-hoc charter services directly over the last few weeks and a number of further opportunities are being finalised. Alliance is agile and able to react quickly and effectively and with increased capacity can better service charter opportunities.

### Aviation Services

Aviation Services has a direct correlation to flight activity in the global aviation market. Given the current softness in the current market, Alliance expects that the 2HFY20 contribution to be marginally less than the first half.

### Regular Public Transport (RPT)

Alliance operates 30 RPT services per week from Brisbane to Gladstone, Bundaberg and Port Macquarie. Alliance expects a reduction in RPT services for the remainder of CY20 in the order of 30%. The continuation of flying of these routes is under review.

### **Employment Costs**

In order to address the reduction in flight hours, Alliance has been taking measures to reduce costs. During 2HFY20 Alliance has reduced staff numbers by 37 (6%) and a recruitment freeze has been implemented.

The Company has a significant annual and long service leave provision and the current climate has presented an opportunity to reduce these balances.

The Performance Incentive Program applicable to the senior management team has been suspended for FY20.

### **Earnings Guidance**

COVID-19 is unprecedented and unexpected. Alliance has reacted immediately to absorb the impacts of the virus. Earnings will be impacted; however, based on increasing contract revenue Alliance still expects to sustain a high level of profitability for FY20 and beyond. The result may be lower than FY19s profit before tax; however, due to the evolving nature of the impacts of COVID-19, the Board is unable to give more precise earnings guidance.

### ***Fleet & CAPEX***

Alliance currently has 43 operational aircraft in the fleet and will continue with the entry into service of an additional F100 which is scheduled for delivery in June 2020.

In order to balance fleet numbers and mix, scheduled heavy maintenance visits of two F70 jet aircraft will be deferred from FY20 into FY21 and the aircraft will be stored in April and May 2020. Alliance has entered into an agreement with Asia Pacific Aircraft Storage in Alice Springs for the storage of these aircraft and four other spare aircraft already owned by Alliance but not currently in service.

The net effect of fleet changes will result in a total operational fleet number of 42 at the end of FY20.

The Company's current fleet plan does not foresee any significant change to its previous Capital Expenditure guidance.

Alliance has superior operating leverage to other Australian aviation participants. Alliance owns all its aircraft, spares and parts and has low gearing levels. Alliance does not have aircraft lease liabilities and its fleet is low cost which means that the fleet does not represent a significant fixed cost burden. This gives the Company the ability to scale both up and down, which is unique in this industry.

### ***Dividend***

Alliance has paid down a substantial amount of debt over the last few years resulting in a debt to EBITDA ratio of 1 times for FY2019. The Board of Alliance continues to focus on balance sheet strength, even more so in these times of uncertainty. Accordingly the Board has decided to cancel the interim dividend which was declared on 5 February 2020.

The Board will continue to focus on the Company's capital management program and will review payments of dividends once the full impacts of COVID-19 become clearer in the coming months.

***[ ends ]***

*This trading update has been approved by the Alliance Board of Directors.*