SSP Rights Issue

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Simon Smith Group CEO

Today's agenda covers three key areas. Firstly a brief reminder of SSP's track record. The impact that Covid has had on our business and the actions that we have taken throughout the crisis. Secondly Jonathan would outline in detail the Rights Issue in our financial strategy. And finally I will present our future plans and the significant growth opportunity for SSP as the market recovers.

Just before getting into the detail I would like to start with a brief overview. Before Covid, SSP was a successful business with a strong track record of growth and commercial excellence. And one which consistently delivered good shareholder returns. The impact of Covid has been widespread, severely affecting our business for the last twelve months. Now throughout the crisis we have taken quick and decisive action to protect our business and position us for the recovery. I have no doubt that the market will recover but as we all know the recovery has been pushed out and the timing of the recovery remains uncertain. So it is really against this backdrop and our debt maturities including the repayment to the CCFF in February 2022 have now come into sharper view. So it is our judgement that the time for action is now and today we present a holistic solution for the balance sheets. A Rights Issue of £475 million, the extension of bank debt maturities to January 2024 as well as a further couple of wavers.

Now we are confident that this solution in the reasonable worst case scenario provides resilience through the recovery phase and it allows us to benefit from the opportunities that would then arise in the disrupted competitive landscape. And under our base case this solution resets our balance sheets and provides significant capacity for future growth enabling SSP to return to delivering long-term sustainable growth for all of our stakeholders.

So moving to slide 7, as you can see on this slide SSP has had a consistently strong track record of both growth and efficiency since our IPO in 2014. We have delivered strong revenue growth and operational improvement growing our revenues by about 9% each year since the IPO and increasing our margin by over 300 basis points. We have more than doubled our operating profits to £221 million and we also expanded and diversified into high growth markets with the US and rest of world now accounting for a third of group revenue. And we consistently delivered top quartile total shareholder returns.

We also delivered solid like for like growth and in recent years we have accelerated our new business growth delivering around 5% of net gains since 2017 and a further 6% of net gains had been won in our financial year 2020 prior to Covid. Our MNA has also delivered high returns in countries including India. Now importantly we are a highly cash generative business. The strong cashflow has funded all of our growth, enabled us to return dividends and £250 million cash while staying within our leverage guidance.

As you know Covid-19 has had an unprecedented impact on the business. Like for like sales were severely impacted down 95% in April and May last year and continued to remain low at around 80% down. The majority of our stakes remain closed but we have been flexible in reopening in line with demand as was evidenced towards the end of last summer. And looking at the impact on restrictions on passengers demands its national air passenger volumes have been most severely affected but we are seeing early signs of a rebound in China, India and the US in the domestic air segments. Rail demands saw some recovery in the summer, but since contracted with the further lockdowns. However positively we have seen that when restrictions do ease rail comes back quickly and again we saw that especially in France and Germany.

So our focus at the outset of this crisis has been our people and our business. You have seen these actions at our previous presentations. We acted quickly, decisively, created the liquidity we needed whilst at the same time removing significant cost, renegotiating our concession fees and minimising our cash usage.

Now you can see the operating cost reductions that we have made in response to Covid and to protect our business. They have been significant. In half to 2020 we reduced our operating costs by nearly £600 million through savings and concession fees, labour costs and reduced overheads. We reduced our rental costs by well over £200 million year on year in half two, mainly through agreeing minimum annual guarantee wavers in about two-thirds of the business as well as negotiating lower concession fees in some cases. We reduced our labour costs by about 70% through careful management of the unit opening programme and using Government furlough support schemes where available as well as through redundancies in the absence of Government support. We have also been able to reduce the rest of our cost base. So despite both the low and volatile sales we have forensically controlled our cash and minimised its usage with our monthly cashflow consistently running in the range of £25-30 million.

So finally in terms of current trading our sales have remained low down 80% in Q1 falling down to 83% in January/February and down 80% in March. Now our tight cost control has enabled us to contain the impact of the low sales in Quarter One converting at 22% on the loss sales better than the 25% that we indicated at the Prelims. £120 million cash usage in the first four months of the financial year including around £11 million of one-off restricting costs is in line with the cashflow and guidance that we had previously given. And this leaves liquidity at £420 million at the end of January 2021. We also continue to expect our cashflows to remain in this current range if sales remain at the low levels that we have seen in the first four months of our financial year.

So as you can see, whilst current trading remains weak and the recovery may be prolonged, we have relentlessly protected our business.

I will now hand over to Jonathan to take you through the package of financial proposals that we are making today.

Jonathan Davies CFO

Thank you Simon and good morning. So the impact of Covid-19 on the travel market has been even more severe prolonged than anyone anticipated in March last year. And indeed as recently as in December when we announced our Prelims. And even since then we have seen a rapid change in the outlook with the advent of further lockdowns and travel restrictions around the globe and particularly across Europe. Facing the current high level of uncertainty over the timing of the recovery of both air and rail travel and our forthcoming debt maturities notably the Bank of England CCFF next February, we want to take action now to put in place a holistic solution to the balance sheet.

The package of measures that we are announcing today is a fully underwritten rights issue of £475 million of growth proceeds. In addition we have agreed an 18 month extension of our bank facilities of around £520 million and we have agreed wavers or resets on all our principle covenants on both our bank debt and our US private placement notes through to 2024. The rationale for the Rights Issue is to strengthen the balance sheet against a wide range of scenarios for the recovery of the travel market.

First and foremost we want to create the liquidity we require to cover the reasonable worst case scenario which I will describe in a moment. An essential part of creating sufficient liquidity is an extension of our bank facilities as well as covenant wavers all of which will be conditional on raising equity. Most importantly this will give us the financial capacity to invest in the many opportunities we expect to arise as the market recovers and we are confident that it will.

The size of the Rights Issue has been determined by our reasonable worst case scenario which of course has been thoroughly reviewed and tested by the reporting accountants on behalf of our sponsor and the underwriters. The reasonable worst case assumes that the current restrictions on travel remain with almost no recovery in the second half of this year and passengers remain at around 20% of pre-Covid levels in line with the current run-rate. Beyond this it assumes another severely disrupted autumn and winter, that is the first half of our 2022 financial year with passenger numbers only reaching around half of pre-Covid levels by this time next year before beginning a gradual recovery thereafter.

Under this scenario we would continue to use cash over the period through to late 2022. As we stated previously we need to see sales over 50% of pre-Covid levels before we are operating at breakeven levels of EBITDA.

The Rights Issue will cover our liquidity requirements under this reasonable worst case so we would expect our current cash burn between £25 and £30 million a month to continue certainly through the third quarter leaving us with just below £300 million of available liquidity by the end of June. Given our expected cash usage over the following twelve months and the forthcoming CCF maturity we would clearly require additional funding under this scenario.

So you can see from the chart the Rights Issue of £475 million will allow us to repay the £300 million CCFF and meet our minimum liquidity test of £150 million, but still leave us with around £300 million of available liquidity to cover the period over which we will continue to use cash. And this would cover the reasonable worst case and give us some additional headroom.

Now looking at the balance sheet and our facilities in more detail. As I have said we have extended the 370 senior facilities and the 150 million RCF by eighteen months through to January 2024 and that is with an additional margin of 125 basis points taking it to three and a half percent regarding our US private placement notice of £325 million they already have fairly long maturities of between 2025 and 2031. And there has been no further increase in the coupon as part of this transaction. The covenant tests are the same across all lenders, there is a net debt test set at £800 million and a minimum liquidity test set at £150 million from next year after the CCF repayment compared to the current 200 million.

The leverage tests have been waved until 2023 when they are reinstated but at higher levels in line with the reasonable worst case and indeed giving us some headroom against the reasonable worst case. And they only revert to the original levels of 3.25 times in 2024.

Now moving on and looking at the base case. Because of the unprecedented uncertainty that we face there is a very wide divergence between our base case and the reasonable worst case. It is important to understand this is mainly about the timing of the recovery through the rest of 2021 and 2022. Our central view is that the travel market will recover more rapidly and to near pre-Covid levels in the medium term with leisure and domestic travel returning fastest following by short-fall air with long-haul and business air travel being the slowest to recover. We have based this view on a number of external sources including research we have commissioned specifically to evaluate the impact of some potential structural changes to the travel sector including the use of video meeting technology and working from home.

Looking at the air sector, leisure travel is expected to make a full recovery in the medium term with the ongoing structural growth a lot of which will come from the developing markets broadly mitigating the reduction in business travel.

However in the rail sector working from home and reduced commuter traffic could impact passenger numbers in our major markets by around 5%.

Now looking at the timing of the recovery, whilst passenger numbers only return to around 50% of pre-Covid levels by the very end of this financial year they get back to around 80% by the second half of 2022 and return to near pre-Covid levels in the medium term.

So turning to the outlook under the base case scenario we would expect like for like sales to return to pre-Covid levels by around 2024 driven by the recovery of passenger numbers as well as price inflation. On top of this the current pipeline should deliver a further 10-15% of net gains over this period. In the medium turn that is like for like sales back at pre-Covid levels, we would anticipate EBITDA margins being back at 2019 levels.

Even though underlying passenger numbers and volumes may not have fully recovered we would expect to retain some of the benefits of the actions that we have taken to restructure and reduce our cost base over the last twelve months. Most importantly in this scenario we have additional financial capacity to invest in driving growth. And I would like to take a moment just to reiterate our financial strategy and our priorities for the use of cash which are the same as they have always been.

Firstly, for organic growth which is where we typically get the best returns we have consistently delivered three to four year discounted paybacks on organic capital investments over many years. Secondly, we will look for infill or bolt-on acquisitions when they meet our financial hurdle criteria. Only then would we look to return surplus cash to shareholders as we have done in the past. However I should point out we will anticipate returning to our previous ordinary dividend policy in due course.

Our medium leverage target then remains unchanged, that is returning to leverage of one and a half to two times net debt to EBITDA. Now under our base case scenario we would be below this range in the medium turn and therefore we would have the capacity for further investment of up to an additional 350 to 400 million while still operating within the target range of leverage.

I will now pass back to Simon to talk about our strategy looking forward and the scale of that market opportunity.

Simon Smith

Thank you Jonathan. So I now want to switch gears and talk about the future and why I think SSP can emerge from this crisis a stronger and a bigger player in our sector. Firstly we have a very clear plan and forward agenda. We will continue to minimise cash usage through the Covid period and are prepared and ready to reopen our units as demand recovers.

We also have lots of previously one units to then build and open as well as brand new business development opportunities both of which will profitably expand our footprint and all of our plans are supported by a very strong position in the travel markets.

So just by way of reminder pre-Covid we operated in a large and growing, but also a fragmented market where the top four competitors have a little over a third of the sales and with a very long tail of small and single growing competitors. Now as you can see we hold a very strong position in all of our key markets. Prior to Covid air have been growing passengers by around 7% with rail at about 3% and over the medium term both channels are expected to continue to grow. So the travel sector remains a structurally attractive market.

We expect to be broadly back to pre-pandemic passenger levels by 2024 and we think the early recovery will come from domestic and shortfall leisure travel as people go back to offices, travel domestically and have much needed holidays. Importantly as you can see from the table on the right we are very well placed to benefit from the shape of this recovery with 60% of our overall sales driven by domestic passenger travel. And again around 60% of our overall sales underpinned by leisure passengers. And the majority of our air sales are driven by short haul and regional travel.

Now we have many structural and competitive advantages. So we have leading market positions and we are the food travel experts. Our local insight combined with international scale has enabled us to develop a multi unit and a multi brand portfolio for all of our clients. And those client relationships are in turn further strengthened by our highly experienced colleagues and local management teams. We also have a proven strategy to deliver long-term sustainable growth. Now the scale of the business gives us access to a wealth of consumer insights and we will continue to use this to deliver the right proposition investing in product innovation and digital solutions to grow our profitable like for like sales.

Now as you know, running an efficient operating is a core competency SSP and is deeply embedded into our culture. We will continue to remove unproductive costs and simplified processes to drive efficiencies. And prior to Covid we also had a strong track record of winning new business and once the market recovers we expect these opportunities to emerge as existing and new sites. Now importantly throughout the crisis we have continued to improve our business becoming more flexible and efficient as well as strengthening our client relationships and our customer proposition. The lessons that we have learnt throughout the crisis will improve our agility and our efficiency and this will further strengthen our financial performance as the market recovers. And indeed holding onto the benefits from our actions including our operational flexibility, range rationalisation programmes and technology service improvements will be a very important part of our plans.

Just to give you a couple of quick examples of the reality of these learnings, we found that by simplifying our menus this has brought us multiple benefits, while still offering a breadth of choice we have removed less popular and more complicated items which means less highly skilled labour and fewer ingredients to make the dishes which allows us to simplify our operations and make a greater profit from what we have on offer.

And that sales growth is also supported by a technology service model. Our customers want to experience an easier, contactless experience and this is a trend that has accelerated through the crisis and one we have proactively responded to. Our order at table and virtual kiosk solutions where the customer scans a QR code and orders and pace to their mobile phones is growing average transaction value and improved customer experience as well as creating operational efficiency.

So as well as growing our organic sales our focus will be to extend our current contracts on improved terms as well as mobilising our new units that we have now yet built.

Now our pipeline is substantial and you can see on this slide that we still have over sixty new units that we have previously won prior to Covid and an additional thirty units that we have won more recently to open. These include eight units at St Senati airport, sixteen units in railway stations across Germany as well as eight units across a number of airports in Greece including Konstanz Thessaloniki airports.

Now we also intend to actively pursue new space growth opportunities across all our markets as we do expect reduced local operator competition following a market shakeout due to Covid. And I think our clients have seen firsthand the advantages of larger portfolio players. These advantages include multi-site flexibility, offer and of course financial stability. And I believe this gives SSP a significant opportunity to extend our footprint given the fragmented nature of our markets.

So just to conclude, prior to Covid SSP was a very successful business and it will be again. During the crisis we have taken all the tough but necessary actions to protect the business and position ourselves for that recovery. We believe strongly that the market will recover and that the structural drivers that make it so attractive remain. However it is the timing that remains uncertain which is why we have had to prepare for a reasonable worst case scenario and the holistic solution we are proposing today firstly protects the business for that reasonable worst case scenario which in turn will pave the way for future growth as many competitors would exit the market in this scenario. But really importantly in the base case where the market recovers more quickly, the solution and the strengthening of the balance sheet will provide the investment needed for long-term growth. And in turn we will emerge from this pandemic stronger and more agile than ever and return to delivering long-term sustainable growth for all of our stakeholders.

Many thanks for listening and with that we will hand over to questions.

Questions and Answers

Q1. Jamie Rollo, Morgan Stanley

Thanks, morning everyone, three questions please. First on margins, you are not saying when you expect to get back to that 8% figure, but could you talk perhaps a bit around that. Could you perhaps get there before the full sales recovery? Could you make it quantify any of the permanent savings particularly on the overhead figures you pull out on that slide? And is there a chance you might one day exceed that 8%?

Secondly on the contract figures that 10-15% just to clarify, is that pre-pandemic sales run-rate and how much of that is annualised affect of 2019 and contract actually in the bag and how much is still to come if you like and what is the context on that still to come?

And then on the £350 million plus of excess liquidity, that is obviously quite a lot to spend on organic contract wins. So what is the sort of balance of spending versus returning any excess cash? Thank you.

Answer: Simon Smith

Okay I will pick up one and three and Jonathan if you can pick up two. So just firstly starting with margins Jamie, you are right we said in the medium term a couple of points to make I think. The first point is obviously by 2024 we won't be quite back up to pre-Covid volumes. Now you are absolutely right, we will be seeking to hold onto efficiencies we created during the crisis and I have spoken about those today and before, but those include flexible rents, simplified menus and operations and use of technology. But we do expect to see a return to cost inflation. I think it is widely reported that wage rates will be rising in a number of our large markets.

The other point I would make is that we also will be focused on new business. Jonathan will pick up in a minute around the question you have asked. But it is a substantial pipeline of between 10% and 15% additional sales. And remember that new business has a drag on the margin. So overall I think we see this as a good outcome to both take on and deal with the cost inflation as well as open that substantial amount of new business. Remember it is in our DNA to relentlessly look at our efficiencies and our margins and nothing has changed. We will continue to do that, but we will do that in a way that balances short-term margin with long-term compounding growth opportunities.

Jonathan do you want to unpack the?

Answer: Jonathan Davies

Yes so just to clarify that for you Jamie. That 10-15% that we talk about in terms of net gains is all business that is secured. Within that, you are absolutely right, some of that is the role of units that we opened pre-Covid as it were but haven't been trading for or indeed in some cases haven't even opened at all. So if you step back the 10-15% is somewhere around £300-400 million, on that about a third is the units that are already built. And that includes a couple of small acquisitions that we made about this time last year. And then the rest is secured units, that is the hundred units that Simon talked about and those would represent capital investment probably in the region of £100 million over the next couple of years when we would expect to open them.

Further answer: Simon Smith

Good, thank you Jonathan. I am just picking up on your last question around £350-400 million and the capacity it gives us in sort of returning cash. Obviously firstly the process will be used to improve on liquidity headroom, you heard that reduced leverage allows us to repay the CCFF which becomes due early next year. I do then think though that as the pandemic recedes the proceeds that we have raised will give us capacity for investment and take advantage of the many opportunities that will arise. I think there is going to be a window of opportunity Jamie for strong companies coming out of this crisis where due to the market shakeout that we are even beginning to see, it is early days, there will be profitable space for us to target in both existing and new locations. So obviously you have seen close to home the restaurant groups announcement last week which is now public where they announced they won't be reopening forty restaurants in UK airports. We have a strong presence in all those airports and good client relationships. I am now saying we are going to open forty new restaurants, but it just provides you an indication of the market shakeout very close to home. And if I was to take a picture a bit further away, if we take somewhere like India which is actually seeing a pretty decent recovery already due to its domestic bias in terms of its passenger profile. Three of our biggest competitors have already exited a number of locations that we have operations, so someone like Gate Group has exited contracts in Bangalore where we have a successful business. Debierne International Limited, a large local business is completely exited from Deli Terminal three, again where we have an excellent relationship with the client and operations. And a local competitor called Like Like Foods has exited from a number of private airports making our can't tender until late 2023 which again may provide us with further opportunities in due course.

So whilst it is still early days because obviously 2021 is about opening what we have got, renewing the contracts profitably and building those ninety odd units that are still to be built, I think you are going to see quite a substantial shakeout and I want to be ready for it. I want to be ready to take advantage of it and grow our business profitably. Now if after all of that is said and one there is still some cash left then we will be back to our normal model as Jonathan outlined in the presentation, the normal dividend policy and our normal way of operating.

Jonathan did you want to add anything to that?

Answer: Jonathan Davies

Well I would only add that and you saw this on one of Simon's earlier slides, clearly we have operated typically below that medium term target range of one and a half to two times EBITDA because historically we have always wanted to ensure that we have the financial capacity to accelerate our growth. So if you looked back to 2017 or 2018 you could see we were down there a long time. So again I don't think we are in unchartered territory here even in this base case. What we are just illustrating is that this does give us additional fire power should we need it.

Simon Smith

Thanks Jonathan. Jamie does that help answer those three questions for you?

Further question: Jamie Rollo

Yes very helpful. Can I come back to one on the margin one. I appreciate the examples you have given on cost savings, but I know you quantified the magnitude of possible permanent savings. Is there some range you can give us or you still might not come back?

Answer: Simon Smith

No we haven't quantified that and at this time it is frankly too early and unknowable. We are concentrating as you know on getting the units that we closed which is the majority of them reopen and obviously frankly as we reopen units some of those costs are going to come back, but that is what we are focusing on at the moment.

Answer: Jonathan Davies

And worth reinforcing that right now today with sales where they are our focus is as you would anticipate on managing our cost base and liquidity very, very tightly. It is unknowable when we are really going to start rebuilding some of the costs of doing business.

Answer: Simon Smith

As you know Jamie, you know how we work, you know what is in our DNA. Nothing has changed at all. I just want as I said to one of your previous questions to be one of the stronger competitors coming out of this so we can take advantage of the opportunities that will arise.

Jamie Rollo

Understood, thank you very much.

Q2. Tim Barrett, NUMIS

Hello, morning both of you. Two things please. Firstly just in terms of helping with the cash flow modelling, are you still expecting a working capital outflow this year? I think you said you are moving before Jonathan. Understanding the dynamic of the working capital would be really helpful.

And then secondly, you kind of hinted about it, but regionally it feels like the businesses are going to go at very different speeds, if continental Europe lags are you going to have to do any more restructuring? Do you anticipate any more one-off cash outflows on that? Thank you.

Simon Smith

Great, so Jonathan why don't you pick up cashflow with capital and I will start with the second question.

Answer: Jonathan Davies
So good point. The real answer is it is again somewhat unknowable and it is very determined by the pace of recovery of sales as we said to you before. The negative working capital of around £200 million plus that we would normally benefit from we think will recover in line with the sales in a pretty linear fashion but clearly it is determined by the sales. I think the other thing we pointed to in December with our results was that very strong working capital position we had achieved at the end of the year and the position that was well ahead of any expectations we had set earlier was to some degree benefiting from deferrals of expenditure particularly on rent and we said that would probably unwind in due course over the next twelve months.

And again you have seen from the presentation this morning and Simon's early slides that we have maintained that very strong grip on cash and liquidity over the first four months of the year. So I think if you took for example our reasonable worst case and our expectations for the recovery over the rest of this year I think you would probably conclude that the recovery and negative working capital would broadly offset the unwind of those deferrals. So I think under that scenario it would be broadly neutral in terms of the overall cashflow. Clearly as you look at the base case we are back to 80% pre-Covid levels by the end of the year. We are starting to generate additional cash from working capital. So that covers it. Simon.

Answer: Simon Smith

Right so I think you question is if continental Europe lags will we have to take further restructuring costs Tim. And as things stand obviously we benefit from furlough so one of the things that provides us with a certain degree of certainty of the duration of that furlough in continental Europe. So in most of the countries that we operate in Europe furlough has been announced to run all the way through this calendar year and that is in some countries into the spring of the following year. So whilst that is in place I wouldn't anticipate having to take any significant restructuring costs.

Tim Barrett

That is really good, thanks both of you.

Q3. James Rowland Clark, Barclays

Hi, morning everyone. I have three questions please. The first is just on market share opportunities. I wonder if you could perhaps put a figure on how much capacity you think is exiting in the market and how that varies by division for you?

And then the second question on market share opportunities, is it more about capacity dropping out of the market or is it more about less competition when you are tendering for new contracts?

And then secondly when you talk about the recovery by 2024 or at least you expect FY19 like for like sales to recover by then. It is still a bit conservative in some respects when you think about the pent up demand there is for travel at the moment. I guess what stops you from thinking that you could maybe get that there a little bit earlier particularly given a lot of pent up demand for leisure travel?

And then finally the third question is, you outline your recovery scenario which includes rail recovery sort of not quite getting there about 90-95% of previous levels because of the working from home risks. But there is no mention in your recovery scenario of air business travel perhaps being inhibited by the adoption of virtual meetings or even less air travel because of the environmental risk around it. Could you just elaborate on why you haven't got a scenario like that in your statement?

Answer: Simon Smith

Sure. So I will try and bucket those up. I will pick up sort of one and two which are around new business, market share capacity. And Jonathan if you can pick up sort of the recovery timeline and the specific question around business travel and air.

So in terms of market share opportunities, it is too early James to give an indication by division. I think what I have pointed to is 2021 is all about recovery. So we have only go around 800 units open at the moment and obviously that means we have got 2,000 to reopen and another ninety that we have won to then build and open. If I was giving an indication what I would say is obviously those countries that have got more of a domestic air bias and leisure will recover more quickly and they are most likely to therefore shake out those market share opportunities. So whether that be India as I just mentioned or Australia or even America. That is probably where it will come first. But we are definitely still in recovery phase rather than sort of complete clarity by division on where those opportunities will occur by division.

In terms of the type I think it will be a mix of both. We are seeing early indications in tenders. Because there are still some tenders happening particularly in the rest of world. We are seeing some early indication in tenders that there are fewer competitors tendering. And particularly that sort of tale of often slightly irrational local or single brand competitors that were pre-Covid over excited to enter the market. We are not seeing as many of those tender. But I have to stress this is very early days, it is not like a whole long list of tenders. And equally as I indicated a bit earlier we have seen a number of competitors exit the market. So again sorry I can't be more specific, but it is still early 2021 but I think you will probably work out from that where we are likely to see the opportunities first and then I think the market will be less competitive for a window of time. I don't think this is forever because I think the market will recover ultimately, but for a window of time I think there is going to be opportunities for us to in a very disciplined way target new business.

Jonathan do you want to pick up this other half?

Answer: Jonathan Davies

Pick up the longer term trends. So and I think it is a very good point you make that I think we sense that there is a pent up demand for leisure travel as you put it and indeed when we were talking to you in December I think we pointed to that with a view that of the very early news of vaccines we thought that might be one of the opportunities in the summer of this current year. Clearly one of the reasons that we are talking to you today is we have had to re-set that view because we can't really express the same confidence in the timing of the recovery, but I think you are absolutely right. And as I said earlier we do expect the leisure sector to make a pretty forward recovery certainly in the medium term.

And I think you saw on the slide just to sort of emphasise that point that Simon talked about earlier on, a lot of our business is underpinned by leisure traffic. And within the air sector it is around 70% or so. So I guess one of the factors that gives us confidence in the longer term recovery in the air sector and I think there is an opportunity clearly for that to rebound faster. The reality is we don't have a crystal ball, we don't know. We have set out two scenarios here, but clearly the one thing we can be certain about is they will both be wrong.

With regard to your second point which is have we really factored in the drop in business tracking? Well as I said we have a pretty comprehensive piece of research done by one of the leading consultancies where they have got into quite granular detail trying to understand the impact of working from home and in particular what that might do to the rail sector which we referred to in the presentation. And also how that might affect business travel both short haul and long haul. And as we said earlier, the underlying recovery and structural growth in the leisure sector within air we think will broadly speaking offset the impact of some of the structural trends on the business travel sector. And again as we said in the presentation I mentioned a moment ago, that is only 25-30% of the passenger base on which our air business is currently predicated. So we think the impact is going to be as we said broadly neutral if you are looking out over a sort of 3,4,5 year scenario.

James Roland Clark

Great, thanks.

Q4. Douglas Jack, Peel Hunt

Good morning. I think most of my questions have been answered already. But just really in terms of the lower sales in 2021 and 2022. What kind of drop through on EBITDA do you think we should be factoring in given the changes you have done with the cost base?

Simon Smith

Jonathan do you want to pick up the EBITDA drop through in 2021/22? You are talking about on a reasonable work case scenario?

Answer

Yeah I suppose so yeah absolutely.

Answer: Jonathan Davies

Well I think I would just refer you to our previous guidance which is clearly around about 25% profit conversion on the loss of sales compared to pre-Covid levels. As Simon said earlier we have actually achieved a slightly better outturn over the first Quarter. But I think a note of caution as we look to the rest of the year. But I think that feels like that is the route guidance and again we have reiterated our position in terms of the cash burn in the near term while sales are down at these very low levels around about 80% down on pre-Covid levels.

Douglas Jack

That’s great, thank you very much.

End of Q&A

Closing Remarks

Simon Smith

Well you will be pleased to know you have heard enough from me for one day so on the basis we have answered your questions I just want to say thank you for your ongoing support and we look forward to hopefully meeting up properly in the next few months. So have a good day guys. Take care.

End