



13 March 2020 | [Financial](#) <sup>[1]</sup>

## Virgin Australia Group update on COVID-19 response <sup>[2]</sup>

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### **Key points:**

- ? Group capacity reduction to increase from 3 per cent to 6 per cent in 2H20 and increase to 7.7 per cent in 1H21
- ? Domestic capacity reduction to increase from 3 per cent to 5 per cent for 2H20 and increase to 6.2 per cent in 1H21
- ? International capacity reduction to increase from 4.8 per cent to 8 per cent in 2H20 and increase to 10.3 per cent in 1H21
- ? This includes reducing Los Angeles, Japan, and Trans-Tasman services and the exit of Auckland services between Tonga and Rarotonga
- ? Temporary reduction in Chairman and Independent Board Director fees by 15 per cent
- ? Additional cost reduction measures include a removal of management bonuses, no base salary increases for non-EA team members, and leave initiatives
- ? Earning guidance suspended due to uncertainty and the evolving nature of the COVID-19 situation

**13 March 2020:** The Virgin Australia Group today announced additional reductions in capacity and cost measures to address the impact of COVID-19 and has also reassured guests of the onboard health and safety measures to enhance their protection.

Over the past two weeks, the global travel industry has seen a significant decline in forward bookings due to the rapid spread of COVID-19 and consumer uncertainty surrounding overseas travel.

As a predominately domestic airline, the Virgin Australia Group is insulated from some of the broader international impacts. The Group's domestic operations account for 88 per cent of passengers and 78 per cent of flight revenue. However, the Group is taking action to reduce capacity in the international markets it operates in and reduce domestic capacity in line with weakened demand in certain markets.

The Group continues to maintain its high health and safety standards for all guests and crew. As an extra precaution during this time, it has also recently implemented additional hygiene measures in the air and on the ground.

### **Domestic changes**

Across the Group, domestic capacity will be cut by 5 per cent for 2H20, driven by a reduction of 7 per cent in Q4. This is an increase on the 3 per cent reduction previously announced on 26 February 2020 due to continued market softness and decreased demand and forward bookings.

Services that will be reduced are mainly on markets that have multiple daily frequencies, minimising disruption to guests.

### **International changes**

The Group has observed increasing weakness in international forward bookings and is reducing international capacity by 8 per cent in 2H20 to meet current and expected demand. The international changes announced today follow the Group's recent withdrawal from Hong Kong services.

Key changes are:

- ? Reducing the daily Brisbane to Haneda service to three times per week from 29 March until 3 May.
- ? Reducing the daily Sydney to Los Angeles service to five times per week from early May to early June.
- ? Further reducing Trans-Tasman services from a 2.6 per cent reduction to 6 per cent for 2H20, including the strategic reduction of frequencies on Auckland-Melbourne to daily from May and a temporary reduction on Auckland-Sydney services.

In addition, the Group also announced an exit of the following services as a continuation of the ongoing network strategic review:

- ? Auckland-Tonga to cease on 1 May.
- ? Auckland-Rarotonga to cease on 21 July.

The Group will continue to assess any impact from COVID-19 and respond with relevant changes as conditions evolve.

### **Continued focus on cost reduction**

In addition to the already announced 750 non-Enterprise Agreement (EA) role reductions and middle and senior management salary freezes, the Group is also undertaking further measures to reduce costs including:

? Seeking relief on Government charges.

? A decrease in marketing spend.

? Stopping all discretionary spend and non-critical capital expenditure.

? Targeting a reduction in hotel accommodation charges.

? Leave initiatives including using accrued annual leave or unpaid leave or reducing standard working hours where operationally available.

? A freeze on all external recruitment and the use of consultants for the remainder of FY20.

? Chairman and Independent Directors to reduce their base fees by 15 per cent temporarily. Nominee Directors do not currently receive fees.

? Reducing all bonuses to zero across the Group for FY20.

? No base salary increases for non-EA team members.

### **Advice for guests**

While the overall risk in Australia of contracting COVID-19 in the community remains low, the Group has taken a number of steps to enhance protection on its flights.

All aircraft are cleaned to the highest standards daily, crew maintain the highest hygiene standards on board, and all flights are equipped with hand sanitiser and face masks.

There is also a commercial policy available for guests wishing to change their travel due to COVID-19. Virgin Australia guests with new or existing international bookings through to 30 June 2020 have the option to change their flight to a later date and/or to a different destination, without incurring any change fees<sup>1</sup>.

As a result of the new measures announced today, guests with any changes to their bookings will be contacted directly with alternative travel arrangements including refunds for any routes that the Group is no longer servicing.

### **Update on financial position**

The Group is suspending earnings guidance for FY20 due to ongoing uncertainty of the COVID-19 situation.

The Group currently has a cash position in excess of \$1 billion, with no significant debt maturities until October 2021 and no new aircraft deliveries until July 2021.

### **CEO commentary**

Virgin Australia Group CEO and Managing Director Paul Scurrah said the global industry has seen a significant decline in demand and the Group continued to assess its response to the evolving situation.

?We have already announced a number of measures to mitigate the impact from COVID-19, however the pace of the global spread and decline in demand has required us to implement further changes today to minimise the future financial impact,? said Mr Scurrah.

?As a largely domestic airline, we are less exposed to the impact on international travel, however we remain disciplined in our focus on managing capacity in response to forward bookings and continuing to reduce costs across the business. It?s worth noting that domestic operations account for 88 per cent of our passengers and 78 per cent of our flight revenue.

?The reductions in services will also mean reduced flying for our crew and we are committed to working with them through this period and providing a range of options.

?Pleasingly, our travel bookings to Western Australia and local leisure destinations such as the Gold Coast, Sunshine Coast, and Hamilton Island continue to be ahead of where they were at the same time last year. This demonstrates Australians are continuing to travel within our own backyard and support local tourism.

?These measures announced today are intended to soften the impact from COVID-19 and safeguard our company for the future.?

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