Start of Transcript

Operator: Good day. Welcome to the Air New Zealand 2021 Annual Results call. During the presentation, your phone lines will be placed on a listen-only mode until the question and answer session. Could you please refrain from asking questions until that time. With that, I'll turn the call over to Air New Zealand's General Manager of Corporate Finance, Leila Peters. Thank you. Please go ahead.

Leila Peters: Thank you and good morning everyone. Today's call is being recorded and will be accessible for future playback on our Investor Centre website which you can find at www.airnewzealand.co.nz/investor-centre. Also on the website you can find our annual results presentation, shareholder review and financial report, media release and relevant stock exchange disclosures.

Speaking on the call today will be Chief Executive Officer, Greg Foran, and Chief Financial Officer, Richard Thomson. I would like to take a moment to remind you our comments today will include certain forward-looking statements regarding our future expectations, which may differ from actual results. We ask you to read through the disclaimer and in particular the forward-looking cautionary statement provided on slide 2 of the presentation. I will now hand the call over to Greg.

Greg Foran: Thank you, Leila. Kia ora and good morning everyone. Thanks for joining us on today's call. Earlier this morning, we released Air New Zealand's results for the 2021 financial year. Despite strong domestic operations and additional revenues from the airline's Cargo business, which I will talk about in more detail shortly, we reported a loss before other significant items and taxation of $440 million. The statutory losses before taxation were $411 million and statutory loss after taxation were $289 million. These results are a reflection of the continued challenges of the COVID-19 pandemic which has significantly affected our ability to fly beyond New Zealand shores.

Of course, today here we sit in a nationwide level 4 lockdown, battling this latest variant of the virus. We are reminded that COVID-19 is complex and our recovery is unlikely to be linear. The airline has been running a skeleton domestic network since last week as well as critical cargo operations only. It all feels eerily similar to where we were back in April 2020.

However, I am hopeful, because I know the airline is well prepared for these situations. Our teams have adapted and built operational muscle the whole way through this pandemic. Air New Zealanders continue to be integral to our success. They have rallied together to support both our customers and each other and to meet the vast and varying challenges thrown their way. Our ability to flex and manoeuvre in the face of these challenges wouldn't be possible without their determination and dedication, so I do once again want to thank everyone for their efforts.

Our purpose is to connect New Zealanders to each other. We were thrilled to see, until very recently, kiwis travel confidently throughout our vast domestic network. We've watched as they embraced exploring their own backyard as well as visiting friends and relatives around the country.

Our corporate customers had also returned to the skies in recent months at an average of around 90% of pre-COVID levels during the second half of the year. In fact, in the last quarter, that figure increased to 95%. Seeing that customer group travelling at scale again and embracing the value of human connection is important, demonstrating that online meetings can never fully replace in-person interactions. The combination of local leisure and corporate demand help to partially offset the lack of international visitors flying on the domestic network.

Overall we had been operating at around 93% of pre-COVID activity for the past three months prior to this lockdown. For the full 2021 financial year, this number was around 77%.

Air New Zealand remains a crucial part of the country's infrastructure and economy, keeping vital cargo moving around the globe. Our Cargo business has driven a 71% increase in cargo revenues, strongly supported by the government airfreight connectivity schemes primarily in New Zealand but also from parts of Australia.

The trans-Tasman and Cook Islands bubbles opening in April and May were well received by New Zealanders and Australians alike with healthy bookings initially and positive forward momentum. The pause on quarantine-free travel to and from Australia and the Cook Islands highlights the large degree of uncertainty remaining around the timing and shape of international recovery.

Air New Zealand entered this crisis 18 months ago with a resilient balance sheet and an investment-grade credit rating. With the support of the Crown Standby Loan Facility and the swift and decisive efforts of our team to meaningfully reduce operating costs, we have $1.15 billion in undrawn funds remaining on that facility.

As communicated previously in our market disclosure on 13 August, we expect to draw down further on the Crown Standby Loan Facility, reflecting the impact of both the New

Zealand lockdown and the trans-Tasman travel bubble suspension on our cash flows combined with upcoming planned payments relating to aircraft.

As you are aware, the decision was made to further postpone our capital raise until early in the 2022 calendar year due to the continued uncertainty in Australia with the delta variant of COVID, which is now elevated as we deal with the current situation in New Zealand. When we do launch, the Crown has again confirmed its longstanding commitment to maintaining a majority shareholding in the airline and, as such, that it will participate in the capital raise early next year subject to Cabinet approval.

Domestic flying was strong and relatively stable this past financial year as kiwis embraced visiting their own backyard, reflected in leisure demand up 130% in the past three months compared to pre-COVID levels. We had seen strong performance on our regional routes with increased in inter-island travel demand. Routes such as Tauranga to Christchurch and Hamilton to Christchurch were performing well above pre-COVID levels along with New Plymouth, Kerikeri and Invercargill.

During the past year, we've been busy reimagining our customer proposition for domestic. This included in-flight trials of new food and beverage offerings and the reintroduction of our much-loved Fast Bag service. We were excited the Napier Lounge reopen after a renovation that doubled the seating capacity for this very popular regional port.

Reflecting the ongoing uncertainty with COVID our customers have been facing, we also simplified our compassionate fare scheme, invested in digital solutions that will soon improve the call centre experience for our customers and provided flexibility to change or credit domestic bookings.

Recently we commenced a trial of a subscription product that unlocks last-minute leisure travel, offering discounted fares on what would otherwise be empty seats. The response to date, while still early days, has been encouraging with plenty of positive customer feedback.

Going forward we will be focused on further unlocking that demand and making the regions even more accessible for customers as part of our domestic network strategy. This will involve giving customers even more choice to travel throughout regional New Zealand. Core to unlocking this demand is increased flight frequency, better connections and reasonable fares, which is expected to eventually result in capacity increases of over 100% in those markets compared to pre-COVID levels.

While we are uncertain as to when unrestricted travel will recommence in New Zealand, we are confident that kiwis will once again seek to enjoy the wonders of our own country as soon as they are able. We can't wait to welcome them back onboard.

I think this slide paints a really important picture. It shows that while domestic has been the backbone of our recovery, far exceeding our expectations, passenger revenue at around $1.5 billion is only 30% of pre-COVID levels. That is clearly a significant decline.

Prior to COVID, our Domestic business in total represented only about a third of our total overall revenue base. Around 20% of that was driven by inbound tourists travelling on the domestic network. Without international passenger flying, there continues to be a significant gap in our earnings. While we have been fortunate to maintain a degree of international flying, which has been strongly supported by the government's Maintaining International Air Connectivity scheme, in 2021 we still only flew around 55% of the network we operated prior to COVID-19.

We're pleased to see further progress being made both here in New Zealand and globally with the rollout of the vaccine. The government's plan to have the majority of kiwis vaccinated by the end of the year will put the country in a strong position.

We have an outstanding rate of vaccination among Air New Zealanders with 84% of our frontline employees now having had at least one vaccine and 81% who are fully vaccinated. A huge thank you to everyone who has opted to receive the vaccine as we know how important this line of defence is to keep ourselves, our customers and communities safe and will be essential to getting borders opened up.

We were pleased with the government's recent announcement that it is committed to opening up borders and has a stepped risk-based plan to allow for this once the majority of kiwis and those globally are vaccinated. Although we're not expecting a swift recovery of pre-COVID international demand in the near term, we are confident that when demand returns, Air New Zealand is well positioned to succeed.

As mentioned, alongside our domestic networks, cargo has been a critical source of revenue for the airline this year, contributing $769 million in revenue, an increase of 71% including FX. This growth is primarily due to the government airfreight support schemes such as the International Freight Assistance Mechanism through the Australian government and the extension of government support flights under the MIAC scheme until October 2021.

Additional flying and some cargo-only charter flights, which were not included under the support schemes, also contributed to revenue in the year. Cargo flights supported by the New Zealand government's airfreight support schemes have seen our team deliver chilled meats, seafood, stone fruits, berries and dairy products all across the globe. These flights have also supported goods coming into the country, allowing New Zealanders to continue accessing international products they may need.

Critically they have also enabled us to carry vital medical supplies and PPE into New Zealand and supported to repatriation of around 100,000 Kiwis. Whilst the Trans-Tasman bubble has closed, we are flying an average of 50 flights per week to 16 destinations, including Los Angeles, Hong Kong, Shanghai, Australia and key Pacific ports.

Through the pandemic we have proven time and time again that we have a strategy in place that allows us to be agile and respond quicky to ever-changing situations. We have developed new operational muscle and skills which have given us the ability to react quickly. For example, within hours of the New Zealand Government announcing the opening of a Trans-Tasman bubble, and later a Cook Islands bubble, we had our schedules confirmed and seats for sale.

Likewise this agility has enabled us to rapidly initiate cargo flights to Guangzhou, a destination we have never flown to before. It also allowed us to respond efficiently to the recent suspension of the Trans-Tasman bubble so our customers had greater certainty over their future travel plans. It has meant that we were able to swiftly and safely get Kiwis back home as the government instituted a strict nationwide Level 4 lockdown last week.

I am so grateful to our people for the sacrifices they have made and continue to make for the Airline. While we sadly farewelled more people across the year, the Trans-Tasman bubble and Cook Islands bubble enabled us to welcome back many cabin crew, pilots and airport employees. We have a good training system in place that helped make sure we were ready to start flying as soon as that demand increased.

While external uncertainties continue to be frustrating, we are focused on controlling those things that we can. Such as ensuring our core domestic offering is even more attractive to customers. Having the infrastructure and resources in place to move rapidly when demand increases. Maintaining the cost reductions we have made. We have also been working on new optimised international network schedules so we have the agility to put on strategic capacity once borders open.

Our team is in continuous contact with government and international authorities to monitor travel guidance and engaging with relevant stakeholders on border requirements, both in New Zealand and abroad. We have also worked closely with the government to improve conditions for our people in terms of regular testing and time in isolation. It's pleasing to see some progress has been made around saliva testing, which will make the testing process much more pleasant.

While the vaccine rollout continues in the uncertainty that has arisen with new strands of COVID-19, we are mindful that recovery to a near-normal state is going to take longer, and no-one is in a position to predict when that will be. What we do know is the foundation of New Zealand, who we are, what we do, our passion for customers and innovating to deliver a superior service has not and will not change.

To maintain this we know we need to continue to invest and commit to those things that make us a world-class airline. This includes supporting and protecting our people and our customers by providing more care than any other airline. Enhancing our domestic network and product offering for customers to further grow this part of our business. Building back to a Pacific Rim-focused international network that meets its full potential.

This will be underpinned by our strong alliance partnerships and having increased focus on cargoes roll and our long-haul profitability. Structurally improving our operating costs with the transition to our modern and fuel efficient fleet. Driving greater engagement from our customers with exciting developments planned in our loyalty program over the next 12 months to 18 months.

Finally and critically, committing to taking action to achieve our goal of net-zero emissions by 2050. This includes supporting the development and deployment of sustainable aviation fuel, and actively partnering with manufacturers of next generation technologies looking to commercialise electric aircraft, hybrid aircraft and hydrogen aircraft. It also includes near-term targets such as continuing to prioritise fuel efficiency in the air and on the ground.

Across the long-term our continued focus on our people, customers and digital excellence will shape and prepare us for the future growth once borders reopen and demand increases. With the backing of our people and customers I am confident we will emerge from COVID-19 ready to thrive.

I will now hand over to Richard to go through the financial results.

Richard Thomson: Thank you Greg. Good morning everybody. Turning now to slide 11, the key financial results for the 2021 financial year. Operating revenue was $2.5 billion, down 48% on the prior year. Reflecting the first full 12 month period of significant travel restrictions on international travel to-and-from New Zealand. Network flying is measured in seat kilometres flown, was significantly reduced, down 55% on the prior year, and about 60% down on pre-COVID-19 levels.

Domestic performed strongly. Domestic corporate customers came back to close to pre-pandemic levels. Cargo had a very good year, supported by government air freight support schemes.

Overall however we are reporting a loss before other significant items and taxation of $440 million, and a statutory loss before taxation of $411 million. The statutory net loss after taxation for the year was $289 million.

Turning to the profitability waterfall chart on slide 12. I won't go into each of these in detail. You can see the decline in profitability this year is again driven by the $2.3 billion reduction in revenue. This is despite the strong performance of both domestic and cargo, and emphasises the significant diseconomies of scale associated with the missing portion of revenue from international flying.

The waterfall also shows further declines across all areas of our cost base. Whilst some of this is to be expected, given the large reduction in capacity flown this year, it also reflects our continued cost discipline and the actions management took early on in the pandemic to safeguard liquidity. The ongoing reduction in the cost base is particularly pleasing when you take into account the additional costs this year associated with the opening of two travel bubbles and the holding costs incurred to ensure operational readiness when international borders reopen. It is worth noting that several of the cost lines in the chart benefited from government support packages, which I'll talk about further on the next slide.

Turning now to slide 13. The overall result for 2021 benefited from various government support mechanisms, in particular government wage subsidies and other aviation industry relief measures, such as the government's Maintaining International Air Connectivity Agreement, or MIAC scheme. In 2021 these support schemes totalled $448 million. While some government support is carrying over into 2022, it is not currently expected to be at a similar level.

Turning now to slide 14. Last year we talked about the swift and decisive action taken to reduce costs in response to the impact COVID-19 was having on our revenue and liquidity. We have maintained our focus on keeping operating costs under tight control. Costs in the second half of 2021 reflect the continued benefit of this cost discipline. This has been partially offset by lower levels of subsidy support and holding costs associated with the travel bubbles to Australia and the Cook Islands. Including bringing back some crew, pilots and airport employees to support the increased number of flights.

When we compare the first half of the year with the second half, the cost improvement is lower. But this is due to the wage subsidies and other support schemes that we received in the first half. As you can see, we also had significantly reduced capacity in the first half due to lockdowns and changes in alert levels. A 65% reduction in capacity in the first half versus 38% reduction in capacity in the second half.

Turning now to slide 15. As you can see operating cash flow in the second half strengthened due to the strong performance of the domestic network and cargo, as well as the initiation of Trans-Tasman and Cook Islands quarantine-free travel. As anticipated, the second half also saw reduced levels of refunds and redundancies, and continued to benefit from the deferral of some aircraft deliveries and fuel hedging gains.

As a consequence cash burn improved from $96 million-negative per month in the first half of 2021, to a monthly average of $9 million-positive in the second half. It is also worth noting that operating cash flow for the 2021 financial year benefited from the one-off deferral of around $254 million in PAYE and FBT payments. An additional $60 million of PAYE and FBT is expected to be deferred in the first quarter of the 2022 financial year, and all repaid from January 2022.

Looking ahead to the first half of the current financial year, and prior to the current domestic lockdown. We were expecting to have a higher level of cash burn, largely due to the pause in the Trans-Tasman bubble for an indeterminate period of time, which has led to a decrease in forward bookings. We also have to commence our regular FBT and PAYE payments of about $20 million per month from October this year. As well as the repayment of the deferred amounts from January 2022, as discussed earlier.

Aircraft deliveries, the two A320neos and one ATR72-600, are expected in this period as well. But will be financed after delivery, so the net cash impact will be mitigated.

Turning now to slide 16, which shows our other significant items for this financial year of $29 million. The large majority of which are non-cash. The largest of these are exchange gains on unhedged foreign denominated debt of $143 million, as the New Zealand dollar strengthened against the US dollar during the course of the year. This relates to significant decline in expected foreign currency revenues due to COVID-19 and the subsequent de-designation of revenue hedges in the prior year.

Other significant items also include the sale of Heathrow landing slots, as discussed last year. The majority of those gains were offset by aircraft impairment and lease modification costs, reorganisation costs, and foreign exchange hedge losses. The foreign exchange hedge losses relate to amounts transferred from cash flow hedge reserves where the forecast transaction was no longer expected to occur.

Turning now to slide 17. Our approach to hedging has remained unchanged, and we continue to hedge the majority of our fuel exposure for the next 12 months, with the largest proportion of those hedges in place for the next 3 months. Of course the level of hedging has dropped substantially from pre-COVID-19 levels when our fuel volumes were approximately 9 million barrels per annum.

As a reminder, we executed a significant level of fuel and FX hedge closeouts towards the end of the last financial year that impacted cash flow.

Our hedging profile since then has reduced substantially reflecting about one-third of pre-COVID levels of fuel hedging. This meant for the 2021 financial year that hedging was largely focused on domestic and international cargo operations.

For the 2022 financial year, we have continued with a similar philosophy looking to hedge primarily long haul flying that is driven by cargo and to a lesser extent, domestic driven volumes. For the first half of this year, we're 80% hedged and those hedges would pay out approximately $22 million if realised based on spot prices taken last week. The second half is currently hedged around 40%.

We continue to assess best strategies to protect our fuel risk and use of a mix of fixed prices and optionality. The board has granted temporary exemption to certain aspects of the airline's treasury policy, particularly with regard to required hedging levels while COVID-19 drives uncertainty of future capacity. Turning now to slide 18.

Looking now at future fleet, you can see the expected phasing of our aircraft capital expenditures through to 2028. First, I'd like to note that the 787 order contracted in May 2018 was originally intended to be a replacement fleet for the 777-200. With that fleet permanently grounded and impaired in 2020, the wide body fleet has reduced from 29 to 21 aircraft. The 787s that will enter the fleet from the 2024 financial year will now replace the 777-300 fleet which is expected to be phased out within this decade.

Moving on, the committed aircraft capital expenditure profile you see on slide 18 reflects the deferral of two Boeing 787s. One aircraft moving from financial year 2023 to 2024 and another from 2024 to 2026. An important distinction in the graph this year is that we've tried to provide more colour on our committed aircraft CapEx Profile across a longer period of time. As such, this chart also includes an assumption around the contractual slide rights we expect to utilise based on current assumptions of demand and border reopenings.

Clearly, there is a lot of uncertainty associated with these assumptions. But hopefully, this provides some good insights into how we are currently thinking about the fleet. Also reflected in the committed aircraft CapEx are the expected deferrals of two A321neo domestic aircraft originally due for delivery in the 2024 financial year and now expected to arrive in 2027 based on an assumed exercise of deferral rights.

We don't have any committed aircraft orders beyond 2028 with the current fleet age of 6.7 years, we're expecting that average fleet age to drift up during the forecast period.

Finally, we are turning our minds to the need for an interior refit program on our existing fleet of 14 787s. The interiors on that fleet will start to require a refresh at some point beyond the 2023 financial year which will require additional CapEx that is not currently reflected in the chart. When we know more about the timing and quantum of that program of work, we will communicate that to you.

Turning now to slide 19. You can really see here the journey that we've been on. A journey that started long before COVID-19 and one that will see us very well-placed from a cost and strategic perspective when demand eventually recovers. In fact, COVID has enabled us to accelerate our fleet simplification plans and redesign the composition of our wide body fleet from eight types with 10 different engines in the 2011 financial year to four types with six engines expected by the 2027 financial year.

By reducing the size of the current fleet and changing the phasing of the fleet investment program, we are now set to have an all 787 fleet for our long haul business by 2027. Not only do these aircraft represent the best in currently available technology, but they'll also bring about significant simplicity benefits in all areas of our operations, crewing, engineering and maintenance and flight operations to name a few.

I'll now pass you back over to Greg who is going to discuss the outlook and leave you with some closing remarks.

Greg Foran: Thanks, Richard. At the annual results last year, I said we had a difficult road ahead of us and that continues to be true as we see how New Zealand's current lockdown situation plays out. However, the vaccine rollout along with the success we have seen with domestic demand, not only here in New Zealand, but also in other countries around the globe makes me optimistic about the future of travel demand.

So while in the near term, there certainly are challenges we must face into, we remain focused on the things we can control and that will put us in a strong position to compete and win once travel opens up more widely. In the short term, we will be concentrating our efforts on setting up processes to maintain and strengthen operational integrity and agility and ensure the safety and well-being of our people.

When restrictions lift, we will continue to build our domestic network by encouraging Kiwis to fly and creating a seamless experience for our customers and making sure our cargo operations support the recovery of the New Zealand economy. While the pandemic continues, we will remain laser-focused on cost to reduce our cash burn and look to complete our capital raise early in the new calendar year which will see us restore our balance sheet and put us in a strong position for recovery.

As we look out further to the medium term, we will need to protect our competitive advantages and look to leverage our strong brand presence and customer loyalty base in New Zealand to stimulate travel on international routes as they open up, including Australia and the Pacific Islands. Key to this will be prioritising our people and customers and investing in solutions in digital technology that puts greater control and flexibility in customer's hands.

With our ambition of being the world's leading digital airline, innovation will be at the heart of this, allowing us to create more bespoke travel experiences and enabling our people to spend their time looking after our customers. The online credit redemption tool is an example of this as it has enabled customers to access their credits through self-service and taken some much-needed pressure off our customer service team. This will all help us build back a profitable airline.

Our long-term focus is making sure we can generate sustainable levels of earnings again. This will be supported by having modern, fuel-efficient aircraft, an optimised network that leverages the strengths of our cargo business, a strong loyalty program and the right sized cost base. Understanding what customers want from the international travel experience and where and how they want to travel in a post-COVID world will enable us to pivot as necessary to take advantage of the expected [unclear] back in demand.

We will be enhancing our air points loyalty program to further strengthen customer loyalty by expanding our partner ecosystem to introduce new improved benefits such as improved upgrades, greater personalised service and greater ability to share benefits among family and friends. The team is also looking at how we identify and leverage ancillary revenue opportunities.

Sustainability and climate change are big topics we need to be involved in solving. As mentioned, we will continue to lead and advocate for action on decarbonisation through our various sustainability initiatives and partnerships on sustainable aviation fuel and zero emissions aircraft. I believe if we stick to our strategy and the plans we have to achieve this, we will be ready to face the future and succeed no matter what challenges continue to be thrown our way.

Looking now to our outlook for the financial year 2022. Given uncertainty surrounding the current national lockdown, ongoing international travel restrictions and uncertainty regarding the level of demand as these restrictions lift, Air New Zealand has suspended 2022 earnings guidance.

Thank you for your time today and listening as we've shared our results. I know you will have lots of questions, so operator, please open up the line.

Operator: Thank you very much. We will now begin the question and answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Please stand by as questions queue. Once again, it is star one and wait for your name to be announced, thank you.

Once again, it is star one. We have some questions in queue. Our first question comes from the line of Mr Andrew Steele from Jarden. Andrew, please ask your question.

Andrew Steele: (Jarden, Analyst) Good morning, guys. Just the first one for me is on your expected cash burn on a weekly basis under current lockdown restrictions? Can you give us the steer on that?

Richard Thompson: Hi, Andrew. Richard here. As you would have seen from the release, we've suspended earnings and cash burn guidance at least until we've got a clearer picture of the lockdown duration. What I would say however is and as you can see from the charts and the presentation, with domestic and Tasman operating per the second half of 2021, operating cash is certainly positive and we are in a position with the Crown standby facility where we feel very comfortable being able to manage the cash position through this lockdown period. But we won't - I won't be drawn on sort of weekly cash guidance.

Andrew Steele: (Jarden, Analyst) Great, thank you and just in terms of your aircraft CapEx program, you pushed some aircraft back and payments for that back. What's the flexibility in terms of that profile for the FY22 year, how much of a swing factor could that be if you needed to reduce it further?

Richard Thompson: FY22, Andrew is largely committed. So we have two 320neos and one ATR600 turning up in October and then we've got another neo turning up in June, but they are now firmly committed.

Leila Peters: Yes, and Andrew, those aircraft had previously been deferred at the beginning of the pandemic, so those are pretty much committed.

Richard Thompson: Yes, I think probably the only comment I would make, Andrew on this is that as you've seen over the course of the last year, domestic and even the Tasman when it's open is performing strongly and we've seen demand return strongly. So while it's easy to get sort of lost in the moment with our current nationwide level four lockdown, actually, we do expect as that lockdown lifts, for domestic and short-haul international demand to return strongly and remain sort of very comfortable in having the right narrow body lift available to us that - satisfy that demand.

So I think if we are going to have - if we're bringing aircraft into the fleet over the course of the next 12 months, the ATR and the neo is just the aircraft we're after.

Andrew Steele: (Jarden, Analyst) Great, that makes sense. Thank you. You noted a couple of times your cost structure and your focus on that. Are you happy with the current cost structure in terms of the size and flexibility or are you - there’s still further work to be taken on that front through the course of FY22?

Richard Thomson: I’ll have a go at this and Greg can follow me if he’s got anything else to add. As you’ve seen from the investor presentation, we have taken a significant amount of cost out of the business.

So obviously we have a number of directly variable costs which have moved down over the course of the last year. The workforce has been reduced from close to 12,000 people down to 8,000 people. We’ve deferred CapEx where we can. We’ve pressed key suppliers for financial concessions where we can.

There are a number of other smaller levers we could push in the short term to get costs down but ultimately, if we want to be ready to re-activate the airline, there is a limit to how - or to the extent to which we can variabilise the cost base.

So there are some cost savings we can push forward with but we've pulled the big levers in the last 12 months.

Greg Foran: The only other bit I'd add, Richard, is that we're going to continue to work on digital innovation in the Company. I'll just give you one example that I've spoken about before but it's just sitting there as an opportunity for us to get after and we are getting after it. But take call centres.

At its peak, we can run 700 people in call centres and the fact that we've been able to digitise some of that process has meant that there's been about 70,000 less telephone calls to the call centre over this last week because 52,000 people have put their fares directly into credit themselves and another 20,000-odd have been able to go and make bookings themselves.

Now, we're getting close to getting ourselves underway with the new platform for loyalty. So as we begin to roll that out, that will potentially reduce call centre volumes by another 20% because one in five calls to the call centre are people ringing up to understand what's happening with air points.

So this new platform will allow, once again, customers to self-serve. So one of the things that we're going after and we haven't been sitting on our hands, we're just going to get on and invest sensibly where we need to so that we emerge on the other side of this more efficient, better experienced for our customers and our staff and a lot of these things are going to add up to an improved cost structure for the airline.

Andrew Steele: (Jarden, Analyst) Great, thank you. Just one last one from me and you have spoken of this previously but just to be clear on it. What are the target debt metrics that you're sizing the capital raise for and where do you expect them to be post-raise?

Richard Thomson: So we just sort of de-linked the capital raise from the metrics for a moment. Capital management policy is targeting over the medium- to long-term, a 45% to 55% net gearing ratio. That remains our target.

Then from an earning's perspective, a bit of gross debt to EBITDA metrics of 2 to 3.3 times. So we remain committed to those metrics.

It's as I say, the medium- to long-term metrics and I'd like to keep them independent to the extent we can from the capital - size of the capital raise at the moment because we won't be drawn on that in any detail until it's time to execute that.

Andrew Steele: (Jarden, Analyst) That's all from me. Thanks, guys.

Leila Peters: Thanks Andrew.

Greg Foran: Thanks, Andrew.

Operator: Just a reminder, to ask a question, it is star one. Our next telephone question is from Andy Bowley from Forsyth Barr. Andy, please ask your question.

Andy Bowley: (Forsyth Barr, Analyst) Thanks, Operator and good morning, guys. I've got a couple of questions here, the first of which is around the learnings from the trans-Tasman bubble. What can you tell us in terms of how you anticipate demand to evolve when borders re-open next year for long-haul in particular in light of what you saw from the trans-Tasman bubble?

When I mean demand here, I mean both one, for ticket demand and you gave the useful slide in the pack this time around in terms of ticket demand over the last 12 months or so, but also revenue recognition in terms of bums on seats in light of the longer booking cycle for long-haul?

Greg Foran: Yes, I'll maybe say a couple of comments and then pass to you on this one, Richard. I think a bubble is quite an interesting concept and I am not convinced in my own mind that we're going to see too many more bubbles or even a return to bubbles.

The reason I make that distinction is that a bubble makes it quite a seamless experience for a customer. You're not having to do a pre-departure test. You're not having to prove you've been vaccinated. There was a sense, certainly after a couple of weeks, that I probably was going to be reasonably safe.

I'm not sure that even in a few months that Australia becomes a bubble again. I do think that we open up to Australia but in all likelihood, we may end up operating Australia like we do with many countries where we feel travel is safe.

That is, I can imagine you're probably going to have to be vaccinated. You're probably going to have to do a pre-departure test. You're probably going to have to agree to some testing at designated clinics at set intervals when you arrive. You're probably going to have to do a test on the way home and you're probably going to have to do a test when you arrive back in the country.

So all of this is unfolding before our eyes at the moment. It's what we're seeing in other countries around the world. It's what Singapore has just announced with Germany and Brunei. It's what Canada are putting in place.

So I guess some of the learnings that we got out of the Tasman, we'll just have to be a little bit careful that if it's not a bubble, it may not be exactly the same but Richard, you can talk about what the experience was like when it was a bubble, which in a word was - it was pretty good.

Richard Thomson: Yes, thanks, Greg. It will be a wee bit different this time just because of the sentiment, if you like, around Delta.

But yes, speaking from the experience of the last six months, as we saw the Tasman open up and the Cooks, I think there was probably an expectation prior to that, that there was this concept of pent up demand and that you'd have an avalanche of travellers looking to get back on the plane almost immediately as these bubbles re-opened.

That's not really what we saw. What we saw is a short sharp spike in what we saw VFR or visiting friends and relative markets. So these were family members that hadn't seen each other for a long time and they were very quick to book and get on the plane.

The balance of the market, the leisure market to a lesser extent, the corporate market, just started to book relatively normally. So relatively normal booking volumes. I think I mentioned previously we saw a stronger rebound in demand out of Australia than we did out of New Zealand, I think it's fair to say.

But the booking profiles were relatively similar and what I mean by that is people outside of the [unclear far] market weren't booking on a Wednesday to travel on a Friday. They were booking on a Wednesday to travel a month, two months, three months later than that.

To your point, Andy, you'll see that a - I expect we'll see a very similar effect in the long-haul markets but more pronounced given that the time between making a booking and actually taking a flight are even longer in the long-haul international markets than they are in domestic - you know, in Australia.

So I think we'll see more of that. The effect that Greg's describing, we'll just have to wait and see but that's been our experience this year.

Andy Bowley: (Forsyth Barr, Analyst) Sure, thanks. Appreciate that. Just in terms of those booking cycles, could you remind us from a pre-COVID point of view, what was the typical booking cycle for Tasman versus long-haul?

Leila Peters: Tasman was around three months, Andy, pre-COVID and I actually think towards the May, June period, we were starting to see booking curves that were quite similar to that before the outbreak in New South Wales.

Then long-haul is, as you would imagine, longer. It depends on the region. Asia six to seven months booking out and then North America region was a bit longer. Sort of around the nine to 10 months on average. Those are just loose averages but that was the pre-COVID booking experience.

Greg Foran: Andy, you'll talk to Leila, obviously.

Leila Peters: Sorry.

Andy Bowley: (Forsyth Barr, Analyst) Thanks, guys. Final question from me and Greg, you made the comment that you're not sure in terms of where - how the Tasman bubble resurfaces, if it does.

But if I look at the fuel hedging guidance that you've given us, it suggests that fuel volumes for the first half of the next financial year is going to be two million barrels. On my maths, that looks like a modest step up on the second half of '21.

So I guess the question being, what are you assuming for the bubble or other services over the course of the next six months?

Greg Foran: Well I'll begin and you guys will jump in and - we're not expecting to see a lot of Tasman until you get towards the end of the year. So we'd like to think we've got some things up and running there by November, December and if it comes a bit earlier than that, then we'll take it.

In terms of the Pacific - and I'm talking here the broader Pacific Islands. We're not expecting that until towards the end of the first quarter next year…

Richard Thomson: Or in fact beyond that, Greg. I think we're in the - it'll be towards the end of the financial year, now, I think. Outside of the Cooks, which is going extremely strongly. Or has been. So yes, so it's a wee - it'll be a second half of the year recovery again, I think, in the round.

Greg Foran: They may turn on some opportunities to head down a path some other countries are going, depending on their vaccination rates on how things are going and if they are, then we'd certainly be willing and able to do that.

Appreciating that many of those locations we fly to now are several times a week with cargo only flights. So opening those up to passengers is not that big a deal to us.

You know, let's say that we do get a green light to be able to get back to the US and the situation is you've got to be vaccinated, you've got to do a pre-departure test, you've got to do a test on the other side and you've got to do a test when you get back to the airport. Another one when you land here. Then maybe a test three days later.

That potentially is how I could see them beginning to open up to selected countries and I think the timing of that will fundamentally be based on how quickly vaccination is rolled out here and whatever pressure starts to be applied as people want to travel.

We're ready to travel. As I said, we're going to the locations anyway. Every single day in some cases, with cargo planes with no passengers on. It's not that big a deal for us to open up but I'm not expecting if those are the conditions that we will see, to use your term, Richard, an avalanche of people wanting to travel but there will be some.

Leila Peters: Andy, it's Leila. Just further clarify on the assumptions on the fuel hedging volumes. That's predicated primarily on cargo flights in the first and second half that we have fairly good certainty on and domestic volumes which had been quite stable and were about to grow as we saw demand really kick up in the last few months.

Obviously, with the current situation, domestic volumes are very, very small currently but we would expect them to return in the next few months to some levels. Of course the international volume is really what's driving those hedge assumptions.

Andy Bowley: (Forsyth Barr, Analyst) Okay, so that's great. Thanks for that, Leila, and thanks also for listening re: release disclosures. It's very much appreciated. That's all from me.

Leila Peters: Thank you, Andy.

Operator: There are no further questions at this time, I'd now like to hand the conference back to Leila Peters to wrap up today's call. Please, go ahead.

Leila Peters: I just wanted to thank everybody for joining us this morning. If there is any follow up questions on the investor relations perspective, please reach out to me throughout the day. Thank you so much for joining.

End of Transcript