transat

# Results for quarter and year ended October 31, 2021

Positive signs since the resumption of our operations on July 30

**Net cash burn lower than previous quarter due to increased bookings and continuing cost controls**

**INVESTOR’S PRESENTATION**
DECEMBER 2021

# Caution regarding forward-looking statements

This presentation contains certain forward-looking statements with respect to the Corporation, including those regarding its results, its financial position, the impacts of the coronavirus [“COVID-19”] pandemic, its outlook for the future and planned measures, including in particular the gradual resumption of certain flights and actions to improve its cash flows. These forward-looking statements are identified by the use of terms and phrases such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “will,” “would,” the negative of these terms and similar terminology, including references to assumptions. All such statements are made pursuant to applicable Canadian securities legislation. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions. Forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements.

We draw your attention to the MD&A’s section 7, Financial position, liquidity and capital resources and note 2 to the consolidated financial statements which describe an environment, events and conditions, specifically in the context of a pandemic, which indicate the existence of material uncertainty that may cast significant doubt on the Corporation’s ability to continue as a going concern.

The global air transportation and tourism industry has faced a collapse in traffic and demand. Travel restrictions, uncertainty about when borders will reopen fully, both in Canada and at certain destinations the Corporation flies to, the imposition of quarantine measures and vaccination and testing requirements both in Canada and other countries, as well as concerns related to the pandemic and its economic impacts are creating some demand uncertainty, at least for fiscal 2022. For the first half of winter 2021, the Corporation rolled out a reduced winter program. On January 29, 2021, following the Canadian government’s request to not travel to Mexico and the Caribbean, and the introduction of new quarantine measures and COVID-19 testing requirements, the Corporation announced the complete suspension of all its regular flights and the repatriation of its clients to Canada. Starting July 30, 2021, the Corporation partially resumed its operations and gradually rolled out a reduced summer program. The Corporation cannot predict all the impacts of COVID-19 on its operations and results, the pace at which the situation will improve or precisely when conditions will become normal again. The Corporation has implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash. The Corporation is monitoring the situation daily to adjust these measures as it evolves. However, until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results. While progress on vaccination and the lifting of certain restrictions have made it possible to resume operations at a certain level during 2021, the Corporation does not expect such level to reach the pre-pandemic level before 2023.

The forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, economic conditions, changes in demand due to the seasonal nature of the business, extreme weather conditions, climatic or geological disasters, war, political instability, real or perceived terrorism, outbreaks of epidemics or disease, consumer preferences and consumer habits, consumers’ perceptions of the safety of destination services and aviation safety, demographic trends, disruptions to the air traffic control system, the cost of protective, safety and environmental measures, competition, the Corporation’s ability to maintain and grow its reputation and brand, the availability of funding in the future, fluctuations in fuel prices and exchange rates and interest rates, the Corporation’s dependence on key suppliers, the availability and fluctuation of costs related to our aircraft, information technology and telecommunications, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third party lawsuits, the ability to reduce operating costs, the Corporation’s ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties section of this presentation.The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect any of the Corporation’s forward-looking statements.

The reader is also cautioned to consider these and other factors carefully and not to place undue reliance on forward-looking statements.

The forward-looking statements in this presentation are based on a number of assumptions relating to economic and market conditions as well as the Corporation’s operations, financial position and transactions. Examples of such forward-looking statements include, but are not limited to, statements concerning:

- The outlook whereby until the Corporation is able to resume operations at a sufficient level, the COVID-19 pandemic will have significant negative impacts on its revenues, cash flows from operations and operating results.
- The outlook whereby, subject to going concern uncertainty as discussed in the Basis of preparation and going concern uncertainty section of the MD&A and note 2 to the interim condensed consolidated financial statements, the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and its borrowing capacity.
- The outlook whereby, subject to going concern uncertainty as discussed in Section 7. Financial position, liquidity and capital resources of the MD&A and note 2 to the consolidated financial statements, we believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

In making these statements, the Corporation has assumed, among other things, that travel and border restrictions imposed by government authorities will be relaxed to allow for a resumption of operations of the type and scale expected, that the standards and measures imposed by government and airport authorities to ensure the health and safety of personnel and travellers will be consistent with those announced or currently anticipated, that travellers will continue to travel despite the new health measures and other constraints imposed as a result of the pandemic, that credit facilities and other terms of credit extended by its business partners will continue to be made available as in the past, that management will continue to manage changes in cash flows to fund working capital requirements for the full fiscal year. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this presentation.

The Corporation considers that the assumptions on which these forward-looking statements are based are reasonable.

These statements reflect current expectations regarding future events and operating performance, speak only as of the date this presentation is issued, and represent the Corporation’s expectations as of that date. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by applicable securities legislation.

# Non-IFRS financial measures

This presentation was prepared using results and financial information determined under IFRS. In addition to IFRS financial measures, management uses non-IFRS measures to assess the Corporation's operational performance. It is likely that the non-IFRS financial measures used by the Corporation will not be comparable to similar measures reported by other issuers or those used by financial analysts as their measures may have different definitions. The measures used by the Corporation are intended to provide additional information and should not be considered in isolation or as a substitute for IFRS financial performance measures.

Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. Management believes that such non-IFRS financial measures are important as they provide users of our consolidated financial statements with a better understanding of the results of our recurring operations and their related trends, while increasing transparency and clarity into our operating results. Management also believes these measures to be useful in assessing the Corporation's capacity to fulfil its financial obligations.

By excluding from our results items that arise mainly from long-term strategic decisions and/or do not, in our opinion, reflect our operating performance for the period, such as the change in fair value of fuel-related derivatives and other derivatives, gain (loss) on business disposals, restructuring charges, asset impairment, depreciation and amortization, foreign exchange gains (losses) and other significant unusual items, and by including premiums for fuel-related derivatives and other derivatives matured during the period, we believe this presentation helps users to better analyze our results, as well as our ability to generate cash flows from operations. Furthermore, the use of non-IFRS measures helps users by enabling better comparability of results from one period to another and better comparability with other businesses in our industry.

See the Non-IFRS financial measures slide in Appendix for more information

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# 1

# Key Highlights of the Quarter

# Transat's Recent Journey

## ❖ Airline and Commercial Operations

- Since the resumption of its operation on July 30, 2021, the Corporation's activity kept growing and **exceeded the objectives** it had when it relaunched operations during the last quarter
- Despite the new variants, the Corporation remains optimistic that activity will gradually **return to a more normal level** during the Winter season
- Continue the fleet transformation through agreements to **early return 3 additional A330s** during the quarter
- **Air Transat and WestJet have signed a codeshare agreement** that will soon allow customers to book transatlantic travel involving both carriers on a single ticket with through-checked bags. The agreement is scheduled to be implemented in early 2022, subject to the receipt of all customary regulatory approvals.
- Assuming no more material shutdowns or restrictions related to COVID-19, our commercial activity would look as follows:
  - During Winter season, the Corporation foresees that it would operate from 8 Canadian airports to nearly 35 destinations including **two new ones: Miami and Fort Myers**.
  - The Corporation will deploy capacity varying **between 50-75% of pre-pandemic level** and intends to increase capacity during Summer season with the introduction of two new routes in Europe and two new destinations in United States
  - We started the year with more than **2,000 active employees compared to only 750** during the peak of the crisis and we expect to recall 1,500 employees in 2022

## ❖ Changes in Leadership and Board of Directors

- Patrick Bui appointed as Chief Financial Officer on November 15, 2021
- Effective December 31, 2021, Mr. Jean-Yves Leblanc and Mr. Louis-Marie Beaulieu announced their departure from the Board of Directors and will be replaced by Mr. Daniel Desjardins and Mrs. Julie Tremblay

## ❖ Financing and Liquidity

- Unrestricted liquidity of about **$603 million** as at October 31,2021, which includes:
  - $433 million of cash & cash equivalents
  - $170 million of available in undrawn funds from credit facilities
- Net Cash burn of fourth quarter reduced to $15 million per month as bookings increased

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# Financial Results and Position

# Most Recent Financial Results

| *(in millions of C$, except per share amounts)* | Quarter ended October 31 | | | 12-month period ended October 31 | | |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| **Revenues** | **62.8** | **28.4** | **34.4** | **124.8** | **1,302.1** | **(1,177.3)** |
| Adjusted EBITDA [(1)] | (58.4) | (90.7) | 32.4 | (213.9) | (122.2) | (91.7) |
| **Adjusted net income (loss)** [(1)] | **(118.4)** | **(156.4)** | **38.0** | **(446.4)** | **(355.3)** | **(91.0)** |
| *per share* | *($3.14)* | *($4.14)* | *$1.01* | *($11.83)* | *($9.41)* | *($2.41)* |
| **Net income (loss) attributable to shareholders** | **(121.3)** | **(238.1)** | **116.7** | **(389.6)** | **(496.5)** | **107.0** |
| | | | | | | |
| **Cash flow supplementary information's** | | | | | | |
| Cash flow from operating activities | (28.3) | (123.5) | 95.2 | (518.4) | (46.1) | (472.3) |
| Cash flow from investing activities | (1.6) | 7.6 | (9.2) | 4.5 | (60.4) | 65.0 |
| Repayment of lease liabilities | (30.8) | (33.6) | 2.8 | (74.5) | (82.5) | 8.0 |
| **Free cash flow** [(1)] | **(60.7)** | **(149.5)** | **88.8** | **(588.4)** | **(189.1)** | **(399.4)** |
| **Net cash burn** [(1)] | **(44.9)** | **(127.5)** | **82.6** | **(319.7)** | **(109.6)** | **(210.2)** |

(1) Refer to Non-IFRS Financial Measures in the Appendix

## ❖ Highlights of the Fourth Quarter

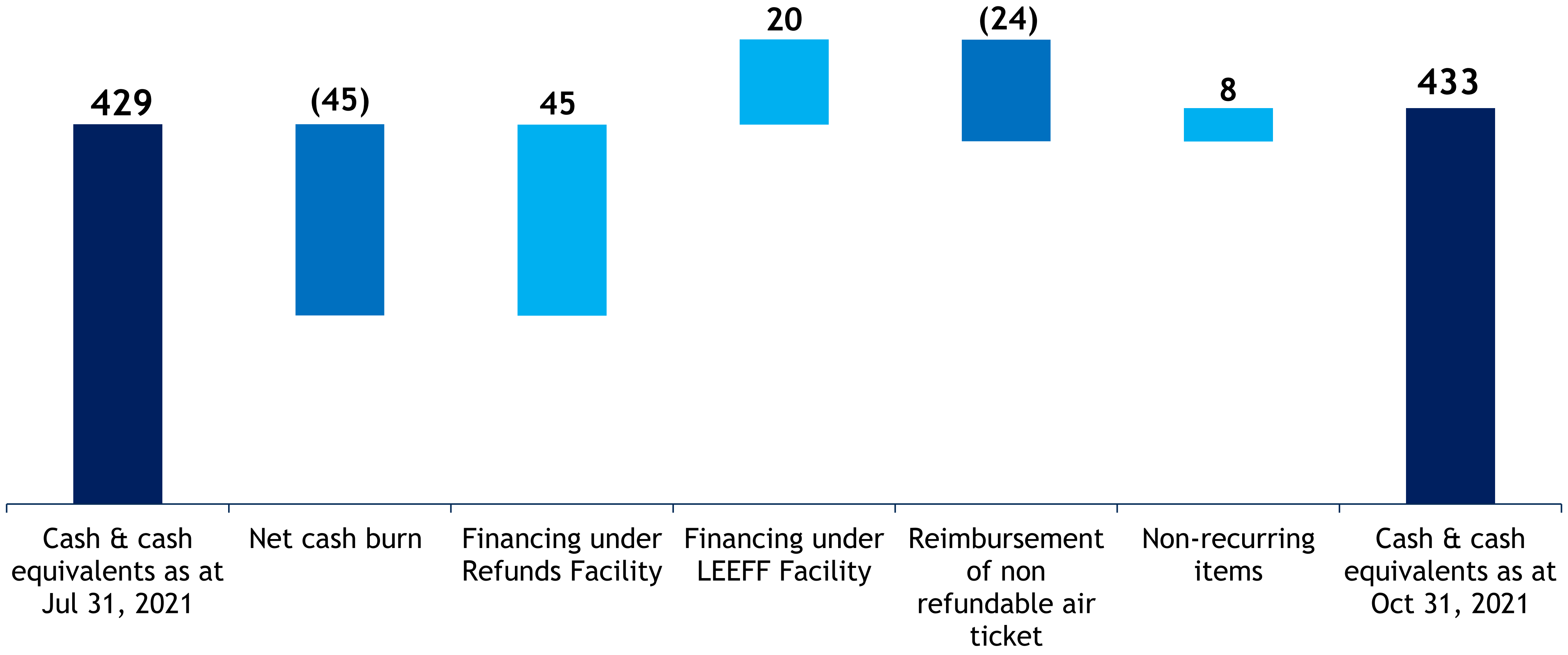
- Revenues increased by +121%: This is attributable to a more pronounced partial resumption of activities compared to 2020
- Effective cost controls during the gradual ramp-up of activities account for a similar improvement in Adjusted EBITDA

## ❖ Highlights of the Twelve-Month Period

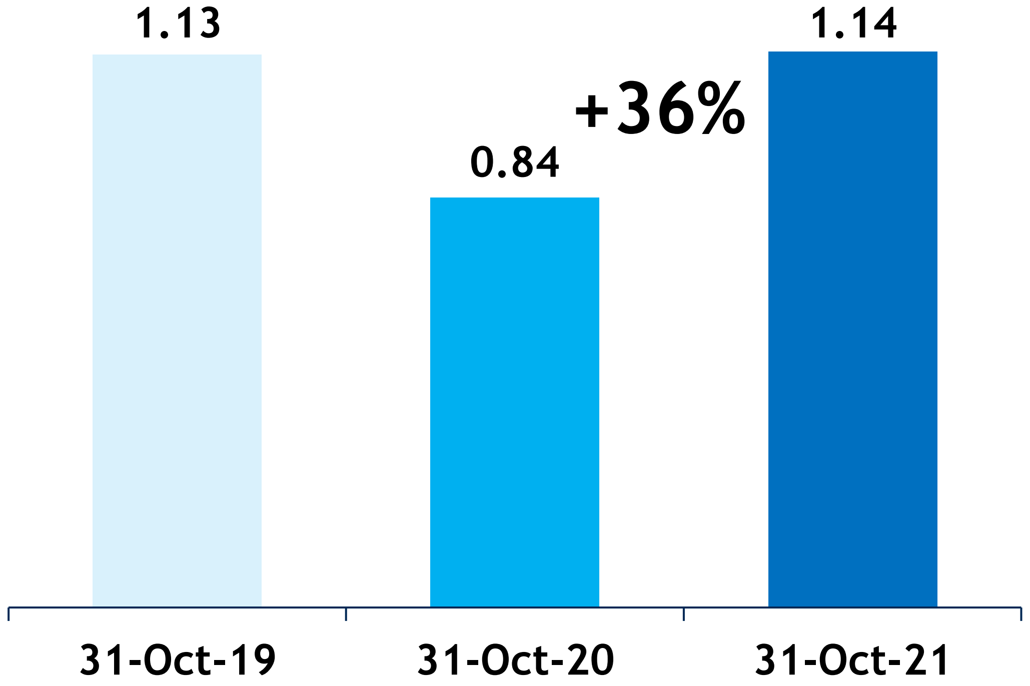
- For the first half of Winter 2021, demand was very weak, and the Corporation's capacity represented a fraction of the 2020 level.
- On the contrary, since the resumption of our operations, demand continuously progressed, and load factors were higher compared to 2020.
- However, the capacity deployed is largely lower than the one of 2019

# Current Financial Position

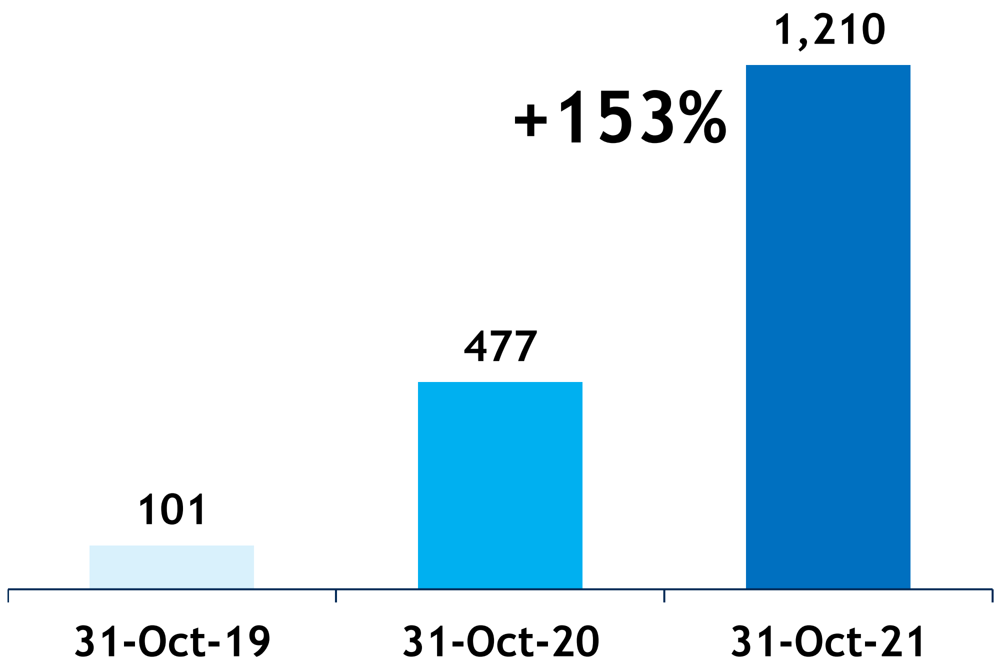
## Net Movement in Cash During the Quarter




## Current Ratio (1)




## Net Debt (1)




### Highlights of the Quarter

- ❖ **Fourth quarter monthly net cash burn of $15 million compared to $20 million in previous quarter:**
  - **Cash flow from operating activities**: -$14.0M adjusted for non-recurring items such as reimbursement of non-refundable air tickets;
  - **Cash flow from investing activities**: -$1.6M (reduced capital expenditures program)
  - **Cash flow from financing activities**: -$30.8M which is mainly due to a reduction in lease liabilities adjusted for drawdown on credit facilities
- ❖ **The Corporation expects to maintain a net cash burn between $15-20 million in the coming months as the level of activity is growing to normalized level**
- ❖ **Return to pre-pandemic current ratio level**
  - Improvement of current ratio by replacing current liabilities ($460 million of refunds) with long-term debt
    - Reimbursement of travel credit vouchers through 7-year loan at 1.2%
- ❖ **Continuous increase of net debt vs. 2020 attributable to:**
  - **Amount drawn on credit facilities (financial debt)**: +$600M
  - **Lease liabilities**: +$102M *(detailed in note 14 of the 2021 Annual Report)*
    - Delivery of 4 new A321neoLR (Initial NPV of US$45M each), aircraft leases amendments and interest portion of deferred rent offset by aircraft lease early terminations of A330 and B737, repayment of lease liabilities incurred during the year and exchange rate difference (1.24 vs. 1.33)
  - **Liability related to warrants**: +$37M out of which $22M (60%) are vested as at October 31, 2021
  - **Cash & cash equivalents**: Similar unrestricted cash position
- ❖ **Off-balance sheet arrangements excluding agreements with suppliers of $550 million**
  - Mainly related to the outstanding delivery of the 7 A321neoLR

(1) Refer to Non-IFRS Financial Measures in the Appendix

# 3

# Sustainability Measures and Outlook

# Resilience Throughout the COVID-19 Pandemic

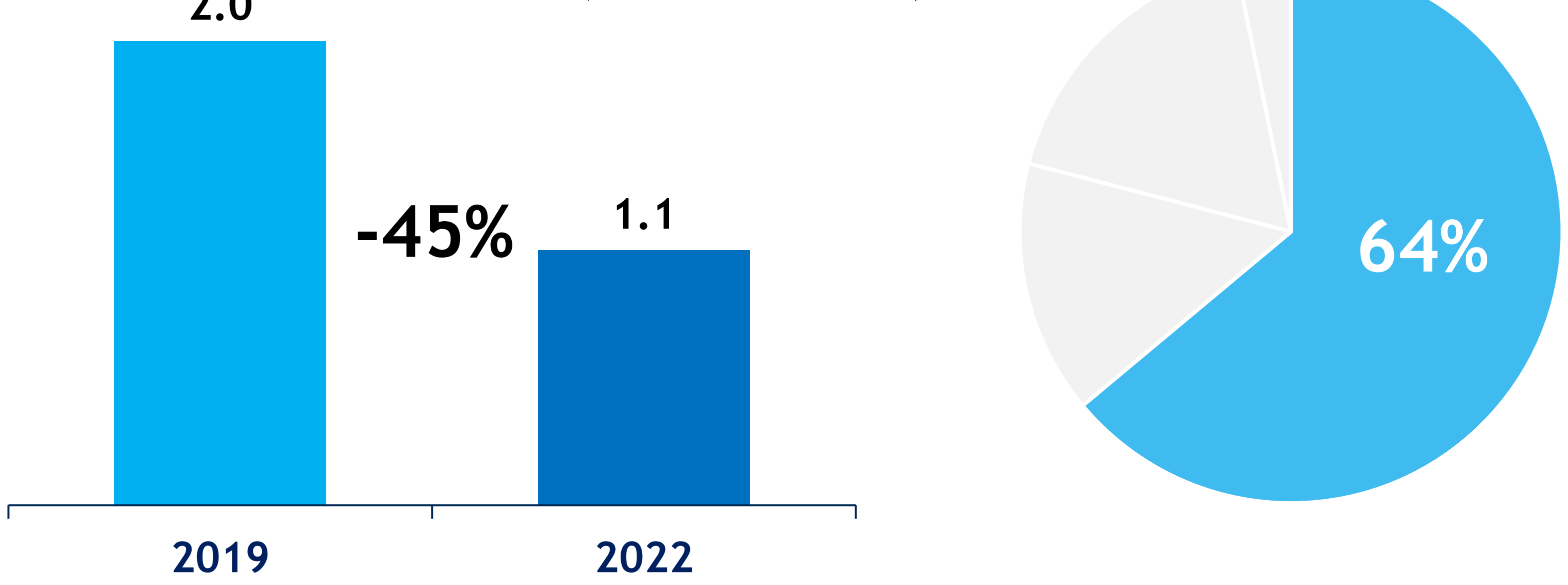
| | |
|---|---|
| **Airline and Commercial Operations** | • Continuously adjusting the flight schedule as the situation evolves<br>• Offering a reduced program of international flights departing from Montreal and Toronto that the corporation intends to enhance gradually<br>• Launched the *Traveller Care program* regarding health measures, which program is regularly updated in compliance with recommendations issued by regulatory authorities |
| **Fixed Cost Reduction Measures** (permanent vs. temporary) | • Voluntary and temporary pay cuts by Management and the Board of Directors<br>• The Corporation temporarily laid off 85% of its employees at the beginning of the pandemic and benefitted from the Canada Emergency Wage Subsidy ("CEWS")<br>• Significant resizing of the fleet to be well positioned for the relaunch (1)<br>• Continuous negotiations with suppliers, including aircraft lessors, to benefit from cost reductions and favorable adjustments in payment terms<br>• Implemented measures to reduce capital investments to the minimum required |
| **Financing and Liquidity** | • To protect its cash position, the Corporation issued to its customers whose flights and packages were cancelled fully transferable travel credit vouchers without expiry date<br>• The Corporation has drawn $50 million on existing revolving credit facility and implemented new credit facilities totalling $770 million ($70 million of subordinated loan from Export Development Canada and National Bank of Canada; and $700 million of secured and unsecured loan from Government of Canada)<br>• The Corporation's total available financing is $820 million, of which $650 million was drawn as at October 31, 2021(2) |

**Transat implemented a series of operational, commercial and financial measures, including new financing and cost reduction measures, aimed at preserving its cash**

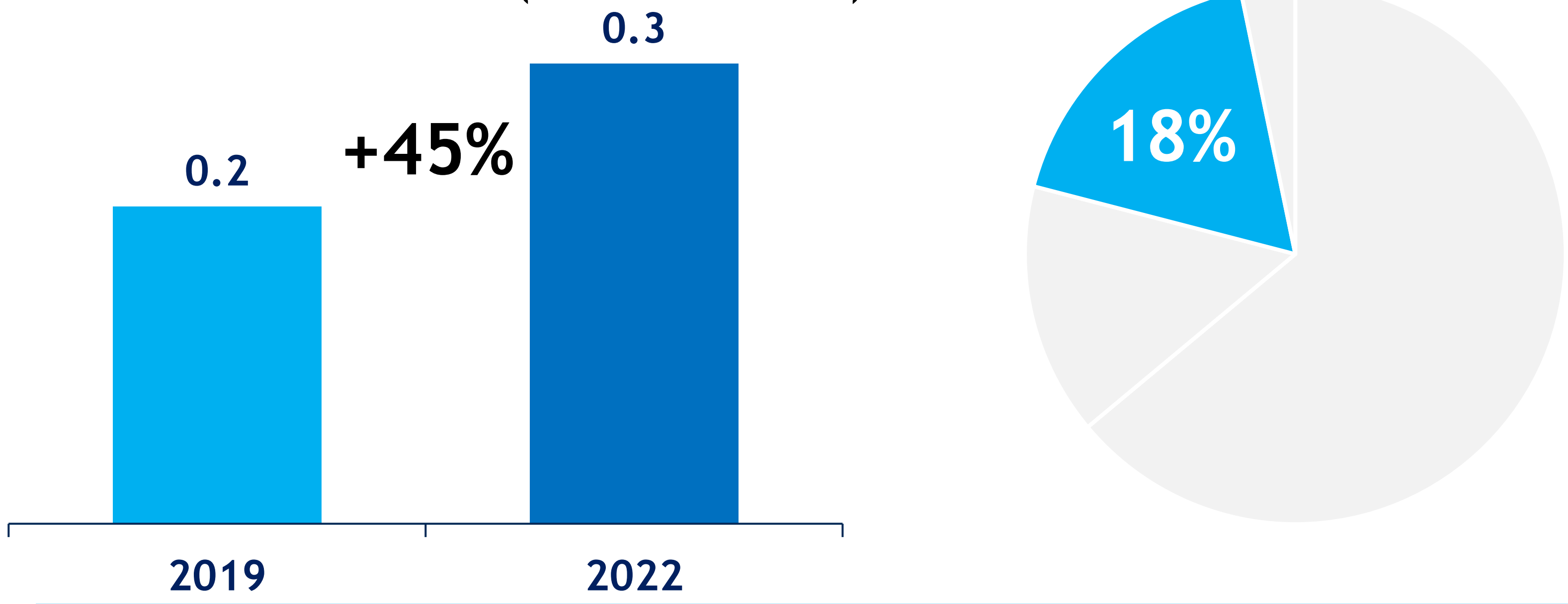
(1) Completely withdrew all remaining Airbus A310 from its fleet and 8 Airbus A330s + 4 Boeing 737-800 were returned to lessors since the beginning of the pandemic
(2) Of the amount that was drawn down, $310M were used to repay travelers who were scheduled to leave after February 1, 2020, and who were issued a travel credit

# Outlook for Upcoming Winter Season

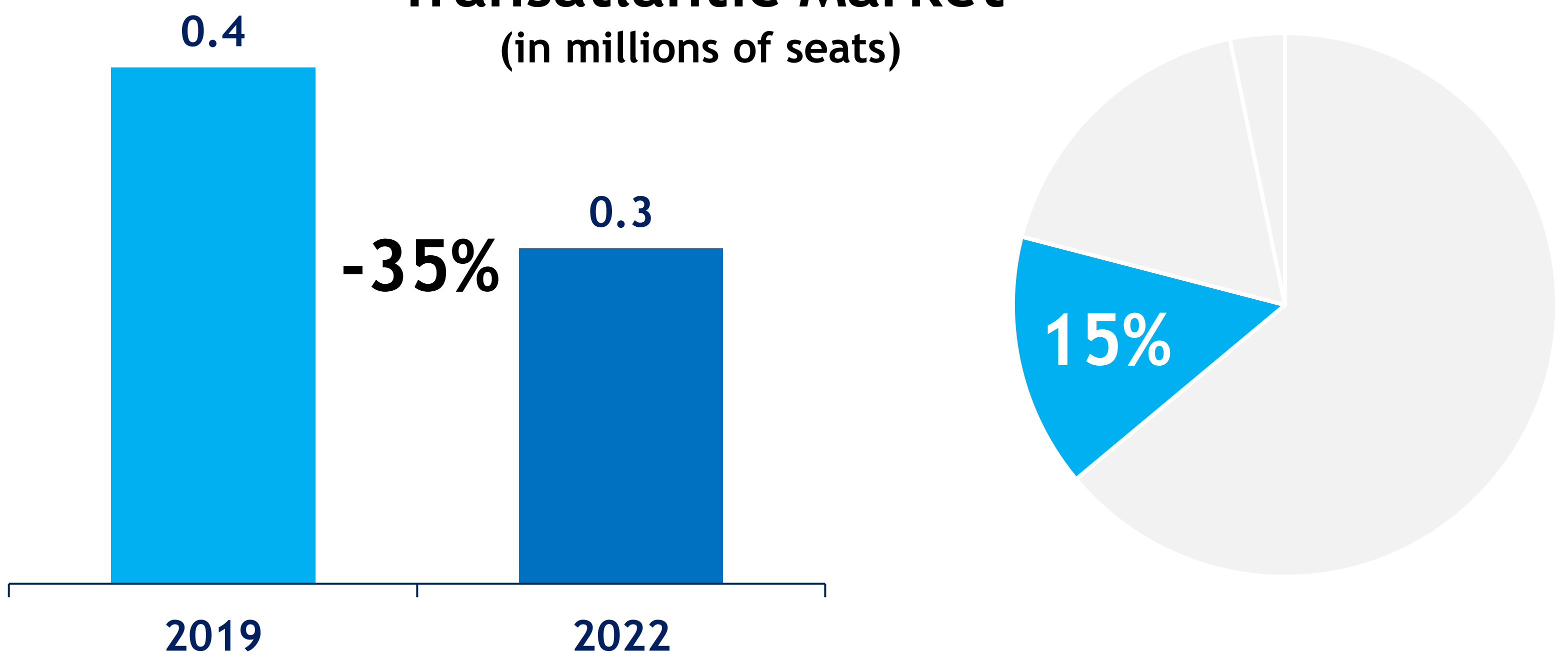
### Sun Destination Market
(millions of seats)



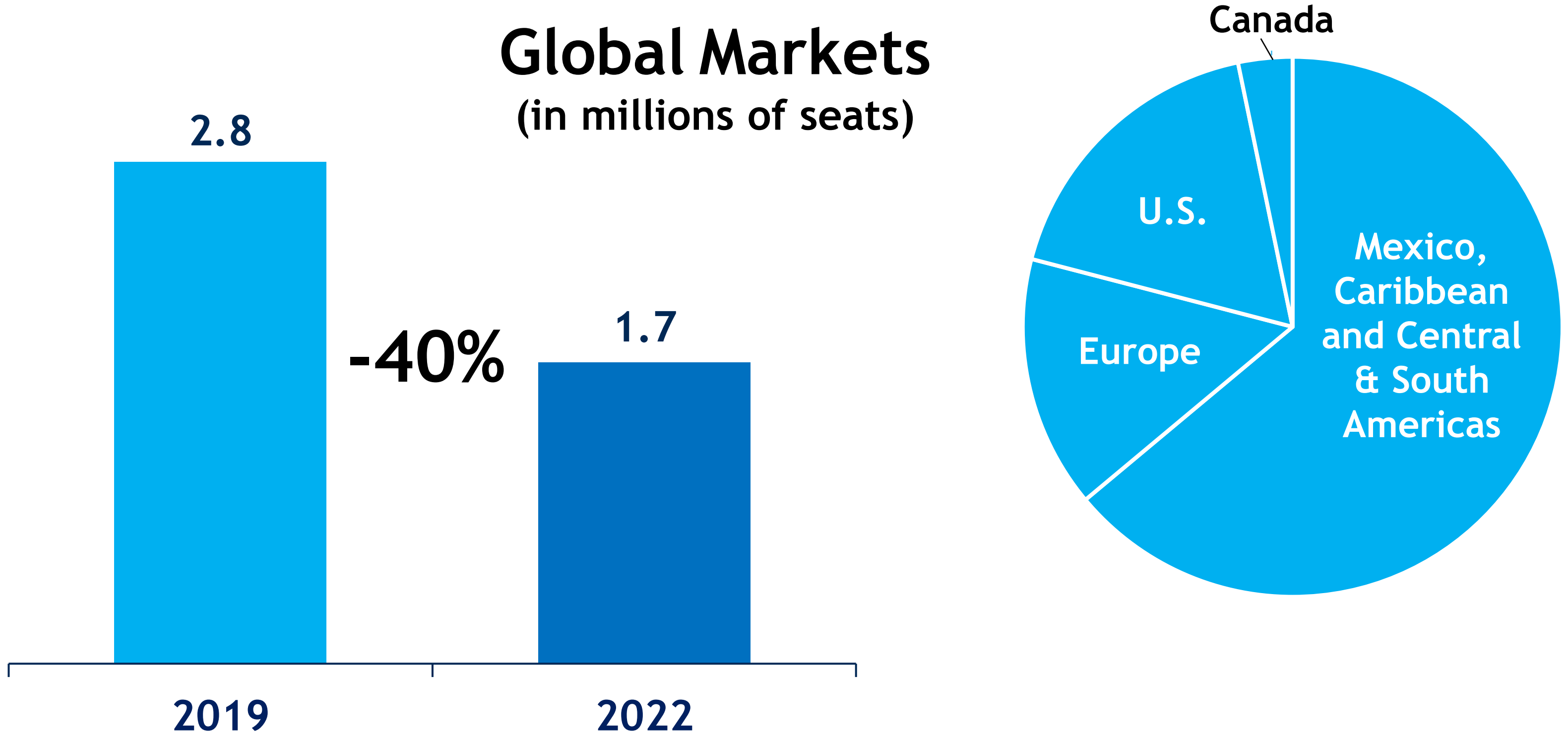

### Transborder Market
(millions of seats)




### Transatlantic Market
(in millions of seats)




### Global Markets
(in millions of seats)




**Transat's capacity is between 50-75% of its 2019 depending which periods; Despite positive signs in terms of bookings, it is not possible to predict the impact of COVID-19 on future bookings**

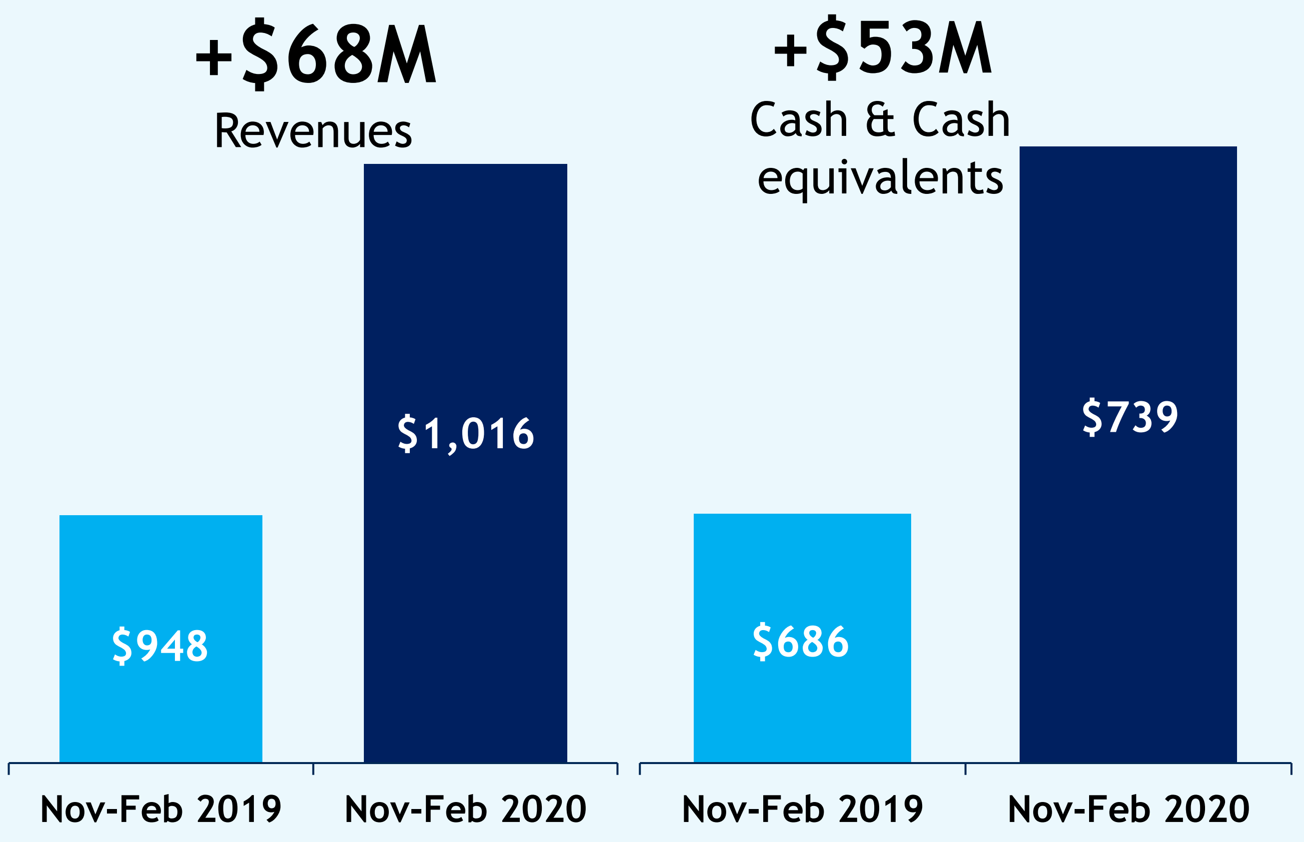
# 4

# Long-Term Strategic Plan

# Major Pre-Pandemic Achievements

## Strategic improvements

## Significant operational efficiency gains




**+10.9% Passengers**

### Key Highlights

- **Strategic improvements implemented in terms of fleet and revenue management optimization:**
  - **Seasonal fleet reduction** (13 aircraft in 2020 vs. 22 in 2019)
  - **12% increase in aircraft utilization** (vs. 2019)
- **These improvements resulted in significant operational efficiency gain:**
  - **9% increase in seats offered despite** a decrease in the number of aircraft (48 aircraft in Winter 2020 vs. 55 in Winter 2019)
  - **7% decrease in unit costs** (CASM) vs. 2019
  - **Improvement of EBIT margin** from -6.9% to -1.3% (+81%)
  - The Corporation was aligned to achieve a **breakeven result for the entire Winter season** for the first time in a decade

# Implementing Changes and Building on our Strengths

**1**

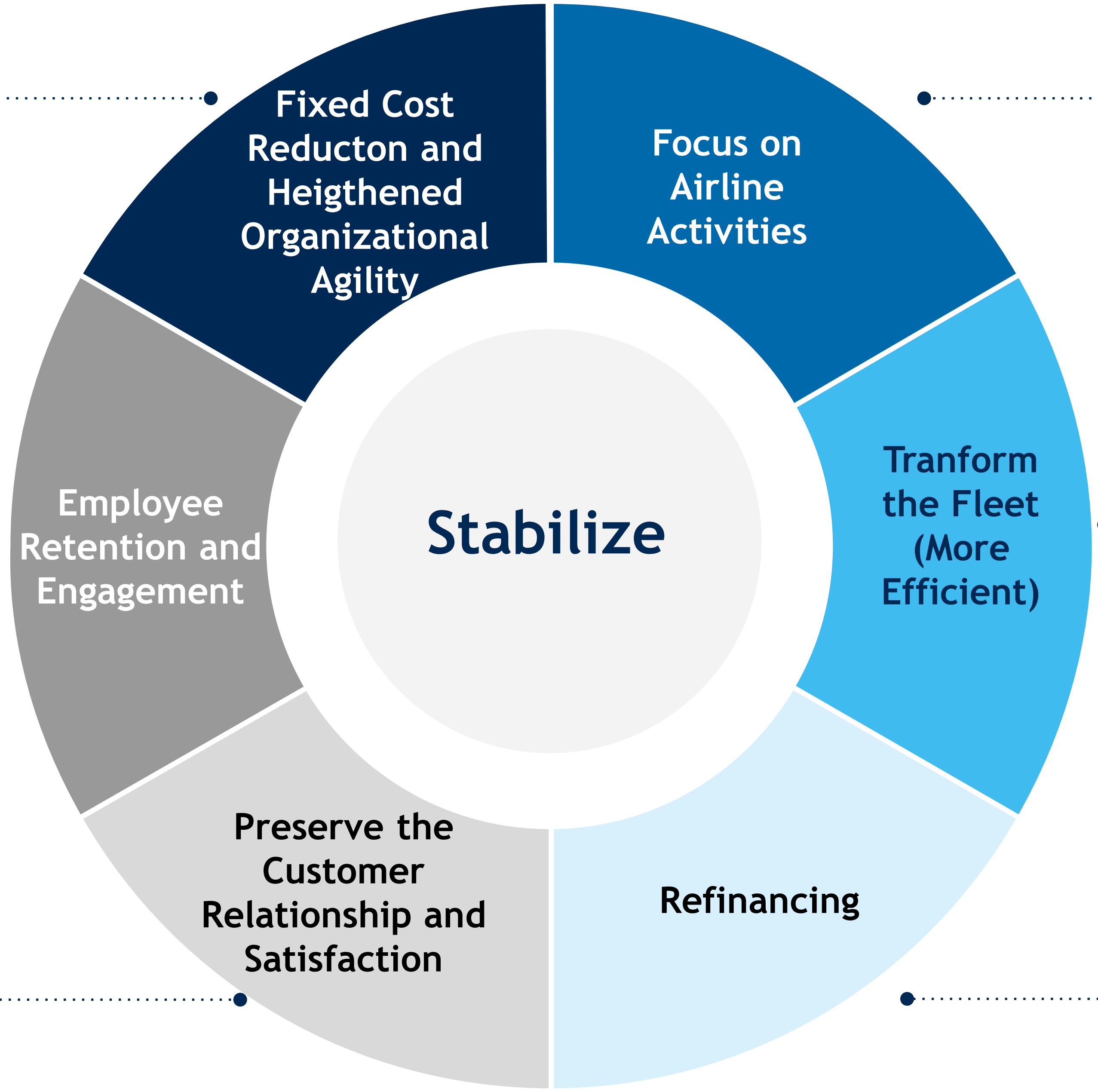
***Flattened organzational structures*** *(automation and digitization of business processes)*
***Renegociation of certain commitments*** *(aircraft, real estate footprint, etc.)*
***Refocusing on principal activities*** *(discontinued hotel operations)*

**6**

***Maintain employee engagement and satisfaction*** *during the recovery period*

**5**

***Communicate proactively*** *by leveraging our leisure travel brand reputation and customer trust during the recovery period (Offer a healthy and safe travel experience)*




**2**

***Redefine the network*** *through:*

- *Implementation of strategic alliances;*
- *Heightened offer from Eastern Canada (more specifically in Montreal) and;*
- *Heightened offer during the low season to better support fixed costs*

**3**

***Simplification and rejuvenation of the fleet*** *(moving from 4 incompatible aircraft models to 2 complementary models (pilots and training)*
***Integration of A321neoLR*** *(higher performing aircraft which is fully adapted to our two core markets and help increasing aircraft utilization)*
***Improve revenue management practices*** *to optimize RASM*

**4**

***Optimization of our capital structure*** *for the sustainability of the Corporation and to support our strategic plan*

# Appendix

# Resizing of the Fleet

| | Type of aircraft | Capacity (seats) | PRE-COVID Summer 2019 | PRE-COVID Winter 2020 | NEXT 12-MONTH Winter 2022 | NEXT 12-MONTH Summer 2022 |
|---|---|---|---|---|---|---|
| LONG-HAUL | A330-200/300 | 332-375 seats | 20 | 20 | 12 | 12 |
| LONG-HAUL | A310 | 250 seats | 6 | 3 | - | - |
| LONG-HAUL | A321neoLR | 199 eats | 2 | 3 | 10 | 12 |
| LONG-HAUL | **Subtotal** | | **28** | **26** | **22** | **24** |
| MEDIUM-HAUL | B737 (permanent) | 189 seats | 5 | 5 | 1 | - |
| MEDIUM-HAUL | B737 (seasonal) | 136-189 seats | 2 | 5 | - | - |
| MEDIUM-HAUL | A321neo/ceo (permanent) | 190 seats | 4 | 4 | 7 | 7 |
| MEDIUM-HAUL | A321neo/ceo (seasonal) | 190 seats | 0 | 8 | - | - |
| MEDIUM-HAUL | **Subtotal** | | **11** | **22** | **8** | **7** |
| | **TOTAL FLEET** | | **39** | **48** | **30** | **31** |

## Key Highlights

Overview of the fleet that the Corporation intends to operate gradually during the next 12-month

Number of available seats is lowered by -40% and -27% respectively during Winter and Summer 2022 compared to pre-COVID level

# Non-IFRS Financial Measures

The non-IFRS measures used by the Corporation are as follows:

- **Adjusted EBITDA (adjusted operating income (loss)):** Operating income (loss) before depreciation, amortization and asset impairment expense, restructuring charge, lump-sum payments related to collective agreements and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period. The Corporation uses this measure to assess the operational performance of its activities before the aforementioned items to ensure better comparability of financial results.

- **Adjusted EBT (adjusted pre-tax income (loss)):** Income (loss) before income tax expense before change in fair value of fuel-related derivatives and other derivatives, revaluation of liability related to warrants, gain (loss) on business disposals, gain (loss) on asset disposals, restructuring charge, lump-sum payments related to collective agreements, asset impairment, foreign exchange gain (loss) and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives that matured during the period. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results.

- **Adjusted net income (loss):** Net income (loss) attributable to shareholders before net income (loss) from discontinued operations, change in fair value of fuel-related derivatives and other derivatives, revaluation of liability related to warrants, gain (loss) on business disposals, gain (loss) on asset disposals, restructuring charge, lump-sum payments related to collective agreements, asset impairment, foreign exchange gain (loss), reduction in the carrying amount of deferred tax assets and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives that matured during the period, net of related taxes. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results. Adjusted net income (loss) is also used in calculating the variable compensation of employees and senior executives.

- **Adjusted net income (loss) per share:** Adjusted net income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.

- **Unrestricted liquidity:** Cash & cash equivalents plus available in undrawn funds from credit facilities

- **Free cash flow:** Cash flow from operating activities minus Cash flow from investing activities and Repayment of lease liabilities

- **Net cash burn:** Cash used to maintain operations, support capital expenditures, and settle normal debt repayments, all before the net impact of new financing proceeds. It excludes non-recurring items such as refunds for non-refundable fares being processed for flights impacted by the COVID-19 pandemic and other one-time items

- **Current ratio**: Current assets divided by current liabilities (working capital ratio)

- **Net debt**: Amount drawn on credit facilities (financial debt) plus lease liabilities plus liability related to warrants minus cash & cash equivalents

**Note:** The reconciliations between IFRS financial measures and non-IFRS financial measures are available in our 2021 Annual Report by clicking on the following links :
Annual Report 2021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WE WOULD LIKE TO THANK OUR EMPLOYEES, CUSTOMERS, INVESTORS AND FINANCIAL PARTNERS