

Transat A.T. Inc. - Results for fourth quarter and fiscal 2017

Excellent summer results and several major achievements

For the fourth quarter:

- Revenues of \$698.6 million, compared with \$612.1 million in 2016.
- Operating income of \$59.5 million, compared with \$26.9 million in 2016.
- Adjusted operating income¹ of \$78.5 million, compared with \$46.5 million in 2016.
- Net income attributable to shareholders of \$148.1 million, compared with \$34.9 million in 2016.
- Adjusted net income³ of \$46.4 million, compared with \$24.2 million in 2016.
- Sale of the minority interest in Ocean Hotels for US\$149 million [\$185.6 million] on October 4, 2017.

For the year:

- Revenues of \$3.0 billion, compared with \$2.9 billion in 2016.
- Operating income of \$34.7 million, compared with an operating loss of \$30.3 million in 2016.
- Adjusted operating income¹ of \$102.0 million, compared with \$25.8 million in 2016.
- Net income attributable to shareholders of \$134.3 million, compared with a net loss attributable to shareholders of \$41.7 million in 2016.
- Adjusted net income³ of \$29.1 million, compared with an adjusted net loss of \$15.5 million in 2016.

MONTREAL, Dec. 14, 2017 /CNW Telbec/ - Transat A.T. Inc., one of the largest integrated tourism companies in the world and Canada's holiday travel leader, posted revenues of \$698.6 million for the quarter ended October 31, 2017, compared with \$612.1 million for the same period in 2016, an increase of \$86.4 million, or 14.1%. The Corporation recorded adjusted operating income¹ of \$78.5 million, compared with \$46.5 million in 2016. Net income attributable to shareholders amounted to \$148.1 million (\$4.00 per share, basic and \$3.97 per share, diluted) for the fourth quarter of 2017, compared with \$34.9 million (\$0.95 per share, basic and diluted) in 2016. Before non-operating items, Transat reported adjusted net income³ of \$46.4 million (\$1.24 per share) for the fourth quarter of 2017, compared with \$24.2 million (\$0.66 per share) in 2016.

"The fourth quarter, like the summer as a whole, was excellent. Financially, our summer results were among the best in our history and significantly improved our results for the year compared with last year. From a strategic standpoint, we made great strides towards establishing our hotel division and in several other major areas, including fleet composition, and corporate leadership succession," said Jean-Marc Eustache, President and Chief Executive Officer of Transat.

Fourth-quarter highlights

The Corporation posted revenues of \$698.6 million, compared with \$612.1 million in 2016. This increase of \$86.4 million (14.1%) resulted mainly from an 8.7% increase in total travellers in the transatlantic market, the main market for that period, while average selling prices were up 4.0%. In this market, the Corporation increased capacity by 8.5% compared with 2016, while overall capacity was up nearly 5%. In the sun destination market, the Corporation's capacity was down 3.8% compared with 2016 due to hurricanes Irma and Maria, which resulted in the repatriation of passengers particularly in Cuba and the Dominican Republic and the cancellation of certain flights. As a result, total passengers were down 2.7% in that market, while average selling prices rose 7.2%.

Our operations generated \$78.5 million in adjusted operating income¹ compared with \$46.5 million in 2016. The improvement in adjusted operating income¹ was driven primarily by higher average selling prices across our markets, as well as by higher capacity and load factors in the transatlantic market.

On October 4, 2017, the Corporation completed the sale of its 35% minority interest in Ocean Hotels to H10 Hotels, ahead of the anticipated November 2, 2017 closing date. As announced on July 19, 2017, the sale closed for US\$150.5 million [\$187.5 million], received in cash on October 4, 2017. The disposed interest had a carrying value of \$97.3 million as at October 4, 2017. The Corporation recorded a gain on disposal of an investment of \$86.6 million, net of transaction costs of \$1.7 million, as well as a foreign exchange gain of \$15.5 million realized on the transaction. The selling price remains subject to certain adjustments, estimated to US\$1.5 million [\$1.9 million] as at October 31, 2017, which would reduce the selling price to US\$149.0 million [\$185.6 million]. Transat remains committed to becoming a full-fledged hotel operator, as set out in its strategic plan.

Highlights for the year

The Corporation posted revenues of \$3.0 billion compared with \$2.9 billion in 2016 and adjusted operating income¹ of \$102.0 million, compared with \$25.8 million in 2016. During the summer, the Corporation increased its product offering in the transatlantic market by 7.9%, and average selling prices were higher across our markets. All markets combined, total travellers were up 8.2% for the year.

For the winter season, the Corporation posted an operating loss of \$65.7 million (4.2%) compared with \$54.2 million (3.4%) in 2016. The deterioration in our operating loss was due to a rise in air costs and the unfavourable foreign exchange effect which, combined with an increase in fuel prices, resulted in a \$39.3 million increase in operating expenses for the winter, which higher average selling prices for sun destination

packages could not offset.

During the summer, operating income amounted to \$100.5 million (7.0%), compared with \$23.9 million (1.9%) for the previous year. The improvement in our operating income was driven primarily by higher average selling prices, capacity and load factors across our markets.

For the year, our shares of net income of Ocean Hotels, the sale of which closed on October 4, 2017, and Rancho Banderas All-Suites Resort together amounted to \$11.1 million, compared with \$6.3 million in 2016. The increase was attributable to Ocean Hotels' higher operating profitability, combined with an unfavourable foreign exchange effect in 2016.

Subsequent events

On November 30, 2017, the Corporation completed the sale of its subsidiary Jonview Canada to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution. The selling price of \$44.0 million, received in cash on that date, may be adjusted subsequent to the final closing of accounts and completion of their audit within 90 days following the closing of the sale due to a working capital adjustment.

As at October 31, 2017, the assets and liabilities of Jonview have been reported as held for sale in the consolidated statements of financial position. Since Jonview's operations do not represent a principal and separate line of business for the Corporation, its results are included in the Corporation's net income from continuing operations reported in the consolidated statements of income (loss) and comprehensive income (loss) for the year ended October 31, 2017. The transaction had no other impact on the financial statements of the Corporation for the year ended October 31, 2017.

Strategic plan

In 2017, and particularly in the last six months of the year, a number of initiatives were carried out to bring the 2015–2017 strategic plan to a close and lay the foundations for the 2018–2022 plan.

These include the announcement of the leases entered into for 10 Airbus A321neo LR, to be operational from the beginning of 2019, the extension of existing A330 leases under better financial conditions, the addition of new A330s, and the agreement entered into with Thomas Cook under which it will provide the Corporation with A321neos in the winter to replace the Boeing 737s currently operated by Transat. All these agreements delineate by 2022 an Airbus-only fleet that will be more efficient, less costly to operate and will provide a more consistent customer experience.

In addition, the disposal of the minority interest in Ocean Hotels and the interest in Jonview provides Transat with the funds to begin development in 2018 of its wholly owned hotel division.

Over the past three years, the Corporation reduced costs and improved margins by \$105 million, exceeding its \$100 million objective, and intends to keep up its effort in this direction for the years to come.

Financial position

As at October 31, 2017, cash and cash equivalents amounted to \$593.6 million, compared with \$363.7 million as at the same date in 2016. The working-capital ratio was 1.51, compared with 1.28 as at October 31, 2016. Deposits from customers for future travel amounted to \$433.9 million, compared with \$409.0 million, with the increase due to higher bookings and selling prices compared with last year.

Off-balance-sheet agreements, excluding contracts with service providers, stood at \$1,745.2 million as at October 31, 2017, compared with \$710.3 million as at October 31, 2016. This \$1,034.9 million increase stems from aircraft lease agreements entered into or renegotiated, partially offset by the repayments made and the strengthening of the dollar against the U.S. dollar. The agreements are those entered into to lease ten Airbus A321neo LR (to be gradually integrated into the fleet starting in spring 2019), those entered into for four Airbus A330s and the renegotiations of agreements for several Airbus A330s already in our fleet.

Outlook for the first half of fiscal 2018

In the sun destination market outbound from Canada, the Corporation's main market segment during the winter, Transat's capacity is up 8% compared with last year. To date, 50% of that capacity has been sold, bookings are ahead by 9.2%, and load factors are similar. Due to the strengthening of the Canadian dollar, offset by rising fuel costs, operating expenses are currently down 2.1%. Margins are currently up 2.0% from the same date last year.

In the transatlantic market, where it is low season, Transat's capacity is up 20% from last winter. To date, 47% of that capacity has been sold, bookings are ahead by 15% and load factors are down 2%. Margins are currently down 1.6% from the same date last year.

If these trends continue, Transat expects to achieve better results than in the 2017 winter season.

Additional information

The results were affected by non-operating items, as summarized in the following table:

Highlights and impact of non-operating items on results
(in thousands of C\$)

	Fourth quarter		Year	
	2017	2016	2017	2016
CONTINUING OPERATIONS				
Revenues	698,551	612,111	3,005,345	2,889,646
Operating income (loss)	59,500	26,898	34,720	(30,335)
Lump-sum payments – collective agreement	—	3,063	—	7,263
Restructuring charge	1,575	2,862	2,925	6,562
Depreciation and amortization	19,035	14,703	68,470	50,038
Premiums related to derivatives matured during the period	(1,569)	(1,029)	(4,090)	(7,752)
Adjusted operating income¹	78,541	46,497	102,025	25,776
Income (loss) before taxes	170,800	(2,310)	151,804	(97,374)
Lump-sum payments – collective agreement	—	3,063	—	7,263
Restructuring charge	1,575	2,862	2,925	6,562
Fuel-related derivatives and other derivatives	(5,654)	(30,943)	(9,187)	(6,901)
Loss (gain) on disposal of an investment	(86,616)	—	(86,616)	843
Foreign exchange gain on disposal of an investment	(15,478)	—	(15,478)	—
Asset impairment	—	63,899	—	79,708
Premiums related to derivatives matured during the period	(1,569)	(1,029)	(4,090)	(7,752)
Adjusted pre-tax income (loss)²	63,058	35,542	39,358	(17,651)
Net income (loss) attributable to shareholders	148,147	34,920	134,308	(41,748)
Net income from discontinued operations	—	(55,417)	—	(49,772)
Lump-sum payments – collective agreement	—	2,250	—	5,324
Restructuring charge	1,153	2,194	2,141	4,902
Fuel-related derivatives and other derivatives	(4,139)	(22,649)	(6,725)	(5,049)
Loss (gain) on disposal of an investment	(82,153)	—	(82,153)	615
Foreign exchange gain on disposal of an investment	(15,478)	—	(15,478)	—
Asset impairment	—	63,638	—	75,860
Premiums related to derivatives matured during the period	(1,149)	(753)	(2,994)	(5,674)
Adjusted net income (loss)³	46,382	24,183	29,099	(15,542)
Diluted earnings (loss) per share	3.97	0.95	3.63	(1.13)
Net income from discontinued operations	—	(1.50)	—	(1.35)
Lump-sum payments – collective agreement	—	0.06	—	0.14
Restructuring charge	0.03	0.06	0.06	0.13
Fuel-related derivatives and other derivatives	(0.11)	(0.61)	(0.18)	(0.14)
Loss (gain) on disposal of an investment	(2.20)	—	(2.23)	0.02
Foreign exchange gain on disposal of an investment	(0.41)	—	(0.42)	—
Asset impairment	—	1.73	—	2.06
Premiums related to derivatives matured during the period	(0.03)	(0.02)	(0.08)	(0.15)
Adjusted net income (loss) per share³	1.24	0.66	0.79	(0.42)

Hedging – The Corporation records in the statement of income any gains or losses resulting from mark-to-market adjustments of the derivative financial instruments used to manage aircraft fuel-price risk, as well any gains or losses resulting from mark-to-market adjustments of certain hedging instruments used to mitigate exchange-rate exposure stemming from its expenses and/or revenues in foreign currencies. In the fourth quarter of 2017, this resulted in a \$5.7 million non-cash gain (\$4.1 million after income taxes), compared with \$30.9 million (\$22.6 million after income taxes) in 2016. For the year, this resulted in a \$9.2 million non-cash gain (\$6.7 million after income taxes), compared with \$6.9 million (\$5.0 million after income taxes) in 2016.

The Corporation uses hedging instruments to mitigate exchange-rate exposure stemming from its expenses and/or revenues in foreign currencies. Accordingly, under applicable accounting standards, any fluctuations resulting from mark-to-market adjustments of these instruments are recorded in the consolidated statement of financial position and consolidated statement of comprehensive income rather than in the consolidated statement of income. For the fourth quarter of 2017, Transat recorded a gain of \$21.2 million (\$15.5 million after income taxes) on these foreign-currency hedging instruments, compared with \$6.3 million (\$4.6 million after income taxes) in the corresponding quarter of 2016. For the year, Transat recorded a gain of \$3.2 million (\$2.3 million after income taxes) on these foreign-currency hedging instruments, compared with a loss of \$17.1 million (\$12.5 million after income taxes) in 2016.

Summary of non-operational items – Before non-operating items, Transat posted adjusted net income³ of \$46.4 million for the fourth quarter of 2017 (\$1.24 per share), compared with \$24.2 million for the corresponding quarter of 2016 (\$0.66 per share). For the year, the Corporation recorded adjusted net income³ of \$29.1 million (\$0.79 per share), compared with an adjusted net loss³ of \$15.5 million in 2016 (\$0.42 per share).

About Transat

Transat A.T. Inc. is a leading integrated international tourism company specializing in holiday travel. It offers vacation packages, hotel stays and air

travel to some 60 destinations in 26 countries in the Americas, Europe and the Middle East. Based in Montreal, the company has close to 5,000 employees. Transat is firmly committed to sustainable tourism development, as reflected in its multiple corporate responsibility initiatives over the past 10 years, and was awarded Travelife Partner status in 2016. The vacation travel companion par excellence, Transat celebrates its 30th anniversary in 2017 (TSX: TRZ).

NOTES

The following are non-IFRS financial measures used by management as indicators to evaluate ongoing and recurring operational performance.

1. **Adjusted operating income (adjusted operating loss):** Operating income (loss) before depreciation and amortization expense, restructuring charge, lump-sum payments related to collective agreements and other significant unusual items, including premiums for fuel-related derivatives and other derivatives matured during the period. The Corporation uses this measure to assess its operational performance before the impact of the above-mentioned factors, thus ensuring better comparability of financial results.
2. **Adjusted pre-tax income (loss):** Income (loss) before income tax expense before change in fair value of fuel-related derivatives and other derivatives, gain (loss) on disposal of an investment, restructuring charge, lump-sum payments related to collective agreements, asset impairment and other significant unusual items, including premiums for fuel-related derivatives and other derivatives matured during the period. The Corporation uses this measure to assess its financial performance before the impact of the above-mentioned factors, thus ensuring better comparability of financial results.
3. **Adjusted net income (adjusted net 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, gain (loss) on disposal of an investment, restructuring charge, lump-sum payments related to collective agreements, asset impairment and other significant unusual items, including premiums for fuel-related derivatives and other derivatives matured during the period, net of related taxes. The Corporation uses this measure to assess its financial performance before the impact of the above-mentioned factors, thus ensuring better comparability of financial results. Adjusted net income is also used in calculating the variable compensation of employees and senior executives.

Conference call

Fourth quarter 2017 conference call: Thursday, December 14, 10:00 a.m. Dial 1-800-926-9801. Name of conference: Transat. Webcast: www.transat.com. The archived call will be available at 1-800-558-5253, access code 2184665, until January 14, 2018.

Non-IFRS measures

Transat prepares its financial statements in accordance with International Financial Reporting Standards (IFRS). We will occasionally refer to non-IFRS financial measures in the news release. These non-IFRS financial measures do not have any meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. They are furnished to provide additional information and should not be considered as a substitute for measures of performance prepared in accordance with IFRS. All amounts are in Canadian dollars unless otherwise indicated.

Caution regarding forward-looking statements

This news release contains certain forward-looking statements regarding the Corporation's expectation that travel reservations will follow the trends. In making these statements, the Corporation has assumed that the trends in reservations and selling prices will continue, and that fuel prices, other costs and the value of the Canadian dollar against foreign currencies will remain stable. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this news release. Factors that could lead actual results to differ include, among others, extreme weather conditions, fuel prices, war, terrorism, market and general economic conditions, disease outbreaks, demand fluctuations related to seasonality in the travel industry, ability to reduce operating costs and workforce, labour relations, collective agreements and labour conflicts, issues related to pensions, exchange rate, interest rates, future funding, evolution of legal environment, introduction of unfavourable regulations, lawsuits and legal challenges, and other risks detailed from time to time in the Corporation's continuous disclosure documents.

These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. The Corporation considers the assumptions on which these forward-looking statements are based to be reasonable, but cautions the reader that these assumptions regarding future events, many of which are beyond its control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect the Corporation. For additional information with respect to these and other factors, see the Annual Information Form and Annual Report for the year ended October 31, 2017, filed with Canadian securities commissions. The Corporation disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by securities laws.

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