

Transat A.T. Inc. - Results for fourth quarter and fiscal 2018

Margins affected by fuel prices in a year of strong growth

For the fourth quarter:

- Revenues of \$668.3 million, up 8.7%, from retained companies.
- Operating income of \$18.0 million.
- Adjusted operating income¹ of \$35.9 million.
- Net income attributable to shareholders of \$7.8 million.
- Adjusted net income³ of \$16.9 million.
- Land acquired in Puerto Morelos, in Mexico.

For the year:

- Revenues of \$3.0 billion, up 6.0%, from retained companies.
- Operating loss of \$44.6 million.
- Adjusted operating income¹ of \$16.5 million.
- Net income attributable to shareholders of \$3.8 million.
- Adjusted net loss³ of \$24.5 million.
- Sale of the subsidiary Jonview Canada Inc. for \$48.9 million on November 30, 2017.

MONTRÉAL, Dec. 13, 2018 /CNW Telbec/ - Transat A.T. Inc., one of the largest integrated tourism companies in the world and Canada's holiday travel leader, announces its results for the fourth quarter ended October 31, 2018.

"We are very pleased to have completed the acquisition of our first parcel of land in Puerto Morelos, Mexico. This is a major step in the development of our hotel division," said Jean-Marc Eustache, President and Chief Executive Officer of Transat.

"In 2018, we also moved forward on all the initiatives in our strategic plan. This will allow us to achieve our long-term financial objectives, despite a disappointing quarter and year, particularly due to the sharp increase in aircraft fuel prices in the spring. We are also satisfied with the strong growth in our comparable revenues, despite the sale of Jonview, which had annual revenue of \$182.0 million last year."

Fourth-quarter highlights

The Corporation posted revenues of \$668.3 million for the quarter. Excluding the operations of the Jonview subsidiary sold in November 2017, the Corporation's revenues were up 8.7% for the quarter. The number of travellers was up 14.8% in the transatlantic market, the Corporation's main market for the period, while average selling prices were down 1.5%. In this market, the Corporation increased capacity by 13.6% compared with 2017, while overall capacity was up nearly 9%.

Operations generated adjusted operating income¹ of \$35.9 million, compared with \$78.5 million in 2017. Operating income for 2017 included \$8.0 million from the operations of businesses sold since then. The deterioration in operating income also resulted from higher fuel prices which, combined with the foreign exchange effect, resulted in a \$35.3 million increase in operating expenses.

On a comparable basis, excluding the businesses sold recently (Ocean Hotels and Jonview), adjusted operating income¹ decreased by \$34.6 million compared with the previous year.

Net income attributable to shareholders amounted to \$7.8 million or \$0.21 per share (diluted), compared with \$148.1 million or \$3.97 per share (diluted) in 2017. Net income for 2017 included \$97.6 million from the sale of the Corporation's interest in Ocean Hotels. Excluding non-operating items, Transat reported adjusted net income³ of \$16.9 million (\$0.45 per share) for the fourth quarter of 2018, compared with \$46.4 million (\$1.24 per share) in 2017.

Highlights for the year

The Corporation posted revenues of \$3.0 billion for the year. Excluding the operations of the Jonview subsidiary sold in November 2017, the Corporation's revenues were up 6.0% for the year. During the winter, the number of travellers was up 5.4% in the sun destinations market, the Corporation's main market for the period, which resulted from the Corporation's decision to increase its capacity by 7.7% in that market. The increase in revenues for the winter season was also accentuated by an 18.1% addition to capacity in the transatlantic market, resulting in a 14.8% rise in the number of travellers in that market. In addition, average selling prices slightly increased across all markets during the winter season. During the summer, the number of travellers increased by 13.2% in the transatlantic market, the main market during this period, which resulted from the Corporation's decision to increase its capacity by 13.8% in this market, while average selling prices were slightly down.

Operations generated operating loss of \$44.6 million, compared with an operating income of \$34.7 million in 2017. Operating income in 2017 included \$19.1 million from the operations of the wholly owned Jonview subsidiary and the minority interest in Ocean Hotels. The Corporation recognized an operating loss for the winter season amounting to \$54.5 million (3.4%) compared with \$65.7 million (4.2%) in 2017. On a comparable basis, excluding the operating results of Jonview and Ocean, the decrease was \$16.6 million. The decrease in operating loss was primarily due to a higher number of travellers, combined with a slight increase in average selling prices across all markets, as well as the favourable foreign exchange effect which, combined with higher fuel prices, resulted in a \$30.4 million decrease in operation expenses. The decrease in the Corporation's operating loss was offset by lower load factors across all markets. During the summer, operating income totalled \$10.0 million (0.7%) compared with \$100.5 million (7.0%) for the previous year. Operating income for 2017 included \$15.0 million from the operations of businesses sold since then. The decrease in operating results was also attributable to the increase in fuel prices which, combined with the foreign exchange effect, resulted in a \$75.6 million increase in operating expenses.

Operations generated adjusted operating income¹ of \$16.5 million, compared with \$102.0 million in 2017. On a comparable basis, excluding the businesses sold recently (Ocean Hotels and Jonview), adjusted operating income¹ decreased by \$64.7 million compared with the previous year.

Net income attributable to shareholders amounted to \$3.8 million for the year ended October 31, 2018 or \$0.10 per share (basic and diluted), compared with \$134.3 million or \$3.63 per share (basic and diluted), for the previous year. Excluding non-operating items, Transat reported an adjusted net loss³ of \$24.5 million (\$0.65 per share) for 2018, compared with adjusted net income³ of \$29.1 million (\$0.79 per share) in 2017.

Sale of Jonview Canada Inc.

On November 30, 2017, the Corporation completed the sale of its subsidiary Jonview, which has an incoming tour operator business in Canada, to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution. The selling price was \$48.9 million, and the Corporation recognized a gain on business disposal of \$31.3 million.

Financial position

As at October 31, 2018, cash and cash equivalents amounted to \$593.7 million, compared with \$593.6 million on the same date in 2017. The working capital ratio was 1.38, compared with 1.51 as at October 31, 2017. Deposits from customers for future travel amounted to \$510.6 million, compared with \$433.9 million as at October 31, 2017, an increase of \$76.7 million attributable to the higher booking volume for the winter season.

Off-balance-sheet agreements, excluding contracts with service providers, amounted to \$2,506.9 million as at October 31, 2018, compared with \$1,745.2 million as at October 31, 2017. The \$761.7 million increase resulted primarily from agreements entered during the year to lease thirteen aircraft, including five Airbus A321neo LR, four Airbus A321neos, two Airbus A321ceos and two Airbus A330s, and also from the weakening of the Canadian dollar against the U.S. dollar, partially offset by repayments made during the year. The Airbus A321neo LR will gradually integrate the fleet starting in spring 2019 as the A310s are retired and will also replace certain wide-body Airbus A330s with leases expiring through 2022.

Outlook for the first half of fiscal 2019

Winter 2019 – In the sun destinations market, the Corporation's main market for the period, Transat's capacity is higher by 2% than the previous year. To date, 52% of that capacity has been sold, bookings are ahead by 5.6%, and load factors are 3.8% higher compared with 2018. The impact of fluctuations in the Canadian dollar, combined with increased fuel costs, will result in a 3.4% increase in operating expenses if the dollar against the U.S. dollar and aircraft fuel prices remain stable. Margins are currently at similar levels compared with the same date last year.

In the transatlantic market, where it is low season, load factors are tracking 9% higher than last winter. Prices are currently down 3.3% from the same date last year.

However, the Corporation considers that it is still too early to give any guidance regarding final results for the winter season.

Progress on strategic plan

Fiscal 2018 was the first year of the 2018–2022 strategic plan, and has seen the implementation of many plan components, which will have their impact in the years to come.

First, in the fourth quarter and November 2018, the Corporation acquired two adjacent parcels of land to be combined into one in Puerto Morelos, Mexico, on which it will soon be able to begin construction of its first hotel complex.

In addition, a number of actions have been implemented to improve air and distribution operations.

In particular, the transition to an all-Airbus fleet was initiated by the introduction of the first A321s and the ordering of additional A321neo LRs. Revenue and network management capabilities have been strengthened to optimize overall revenue. Agreements have been concluded with easyJet (GatwickConnects) and SNCF (TGV AIR) to give customers new options.

The Corporation has also made progress in its cost reduction and margin improvement initiatives, in particular through rent reductions on the Airbus A330s and the development of ancillary revenues. As a result, a no-luggage fare (Eco Budget) has been introduced for departures as of April 1, 2019.

Work to optimize sales channels continued, which saw direct sales exceed the \$1 billion mark for the first time in October.

The foundations are therefore laid for the Corporation to achieve its objectives over the horizon of the plan.

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	
	2018	2017	2018	2017
Revenues	668,268	698,551	2,992,582	3,005,345
Operating income	17,961	59,500	(44,575)	34,720
Special items	2,262	1,575	2,262	2,925
Depreciation and amortization	15,831	19,035	59,125	68,470
Premiums related to derivatives matured during the period	(169)	(1,569)	(299)	(4,090)
Adjusted operating income¹	35,885	78,541	16,513	102,025
Income before taxes	12,039	170,800	1,418	151,804
Special items	2,262	1,575	2,262	2,925
Fuel-related derivatives and other derivatives	10,353	(5,654)	1,284	(9,187)
Gain on business disposals	—	(86,616)	(31,064)	(86,616)
Foreign exchange gain realized on business disposal	—	(15,478)	—	(15,478)
Premiums related to derivatives matured during the period	(169)	(1,569)	(299)	(4,090)
Adjusted pre-tax income (loss)²	24,485	63,058	(26,399)	39,358
Net income attributable to shareholders	7,762	148,147	3,819	134,308
Special items	1,656	1,153	1,656	2,141
Fuel-related derivatives and other derivatives	7,608	(4,139)	940	(6,725)
Gain on business disposals	—	(82,153)	(30,736)	(82,153)
Foreign exchange gain realized on business disposal	—	(15,478)	—	(15,478)
Premiums related to derivatives matured during the period	(124)	(1,149)	(219)	(2,994)
Adjusted net income (loss)³	16,902	46,382	(24,540)	29,099
Earnings per share – diluted	0.21	3.97	0.10	3.63
Special items	0.04	0.03	0.04	0.06
Fuel-related derivatives and other derivatives	0.20	(0.11)	0.03	(0.18)
Gain on business disposals	—	(2.20)	(0.83)	(2.23)
Foreign exchange gain realized on business disposal	—	(0.41)	—	(0.42)
Premiums related to derivatives matured during the period	—	(0.03)	(0.01)	(0.08)
Adjusted net income (loss) per share³	0.45	1.24	(0.65)	(0.79)

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 manage exchange rate exposure. In the fourth quarter of 2018, this resulted in a \$10.4 million non-cash loss (\$7.6 million after income taxes), compared with a \$5.7 million non-cash gain (\$4.1 million after income taxes) in 2017. For the year, this resulted in a \$1.3 million non-cash loss (\$0.9 million after income taxes), compared with a \$9.2 million non-cash gain (\$6.7 million after income taxes) in 2017.

The Corporation uses derivative financial instruments to mitigate exchange rate exposure arising from its expenses and/or revenues in foreign currencies. Accordingly, under applicable accounting standards, any fluctuations resulting from the effective portion of mark-to-market adjustments of these instruments that are designated as hedging 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 2018, Transat recorded a gain of \$11.0 million (\$8.1 million after income taxes) on these foreign exchange derivatives, compared with \$21.2 million (\$15.5 million after income taxes) in 2017. For the year, Transat recorded a gain of \$7.1 million (\$5.2 million after income taxes) on these foreign exchange derivatives, compared with \$3.2 million (\$2.3 million after income taxes) in 2017.

About Transat

Transat A.T. Inc. is a leading integrated international tourism company specializing in holiday travel. Under the Transat and Air Transat banners, the Corporation offers vacation packages, hotel stays

and air travel to some 60 destinations in more than 25 countries in the Americas and Europe. Based in Montréal, the Corporation has 5,000 employees. Transat is firmly committed to sustainable tourism development, as reflected in its multiple corporate responsibility initiatives over the past 12 years, and obtained Travelife certification in 2018 (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 (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 the operational performance of its activities before the aforementioned items to ensure 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 business disposals, restructuring charge, lump-sum payments related to collective agreements, asset impairment 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 financial performance of its activities before the aforementioned items to ensure better comparability of financial results.
3. **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, gain (loss) on business disposals, restructuring charge, lump-sum payments related to collective agreements, asset impairment and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives 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.

Conference call

Fourth quarter 2018 conference call: Thursday, December 13, 10:00 a.m. Dial 1-800-926-9801. Name of conference: Transat. Webcast: www.transat.com/en-CA/corporate. The archived call will be available until January 12, 2019 at 1-800-558-5253, access code 21881422.

The first quarter results will be released on March 14, 2019.

The Corporation's shareholders' meeting is scheduled for April 30, 2019. On that date, the Corporation will hold both the annual and a special meeting. The purpose of the special meeting will be to approve changes to our articles of incorporation to reflect the new foreign ownership regulatory constraints for Canadian air carriers. The meeting is therefore held slightly later than usual to provide sufficient time to allow for the implementation of such changes.

Non-IFRS financial 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 intended 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. Results indicated in 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 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 Report for the year ended October 31, 2018, 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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