

# Transat A.T. Inc. - Results for fourth quarter 2019

**Fourth quarter and annual results are up;  
Acquisition of the Corporation is pending regulatory approvals**

**For the fourth quarter:**

- Revenues of \$693.2 million.
- Adjusted operating income<sup>1</sup> of \$50.9 million (Operating income of \$23.5 million).\*
- Adjusted net income<sup>3</sup> of \$27.2 million (Net income attributable to shareholders of \$20.3 million).\*

**For the year:**

- Revenues of \$2.9 billion.
- Adjusted operating income<sup>1</sup> of \$38.0 million (Operating loss of \$49.8 million)\*
- Adjusted net loss<sup>3</sup> of \$9.4 million (Net loss attributable to shareholders of \$33.2 million).\*

**Transaction with Air Canada:**

- Transaction expected to close by the second quarter of the 2020 calendar year if the required regulatory approvals are obtained and conditions are met.
- Approval process underway in the relevant jurisdictions, particularly Canada and Europe

MONTREAL, Dec. 12, 2019 /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, 2019.

"We're working to obtain the required approvals to complete our transaction, while focusing significant efforts on serving our customers and improving our results," stated Jean-Marc Eustache, President and Chief Executive Officer of Transat. "I salute our employees' professionalism which has allowed us to achieve these last two objectives this year."

\* NOTE: Figures in parentheses and not designated as adjusted on this page refer to IFRS financial measures for the current year.

## **Fourth-Quarter Highlights**

The Corporation posted revenues of \$693.2 million for the quarter, up \$24.4 million (3.6%) compared with 2018. This increase resulted from higher average selling prices across all programs, as well as growth in ancillary revenues.

Operations generated adjusted operating income of \$23.5 million, compared with \$6.9 million in 2018, an improvement of \$16.6 million. The increase in operating income resulted primarily from higher average selling prices across all programs, and growth in ancillary revenues, partially offset by the costs associated with the transaction with Air Canada and by higher aircraft maintenance costs due to a larger number of maintenance events than last year. Adjusted operating income<sup>1</sup> amounted to \$50.9 million, compared with \$31.5 million in 2018, an improvement of \$19.4 million.

Net income attributable to shareholders amounted to \$20.3 million (\$0.54 per share, basic and diluted) compared with \$6.8 million (\$0.18 per share, basic and diluted) in 2018. Net income attributable to shareholders included expenses of \$10.1 million recorded in connection with the transaction with Air Canada. Before non-operating items, Transat reported adjusted net income<sup>3</sup> of \$27.2 million (\$0.72 per share) for the fourth quarter of 2019, compared with \$13.7 million (\$0.36 per share) in 2018.

### **Highlights for the year**

The Corporation recognized revenues of \$2.9 billion, up \$88.2 million or 3.1% from 2018. During winter, higher revenues were partially offset by a greater proportion of flight-only sales, which generate lower revenue per unit than packages. During the summer season, revenues were \$58.7 million higher than in 2018. The higher revenues were driven primarily by the increase in average selling prices and load factors across all programs, as well as growth in ancillary revenues.

The Corporation recognized an operating loss for the winter season amounting to \$65.7 million (4.2%) compared with \$46.7 million (3.1%) in 2018. The increase in operating loss resulted primarily from the increase in fuel prices, combined with the weakening of the dollar against the U.S. dollar and from the additional costs incurred for the transition and optimization of the Corporation's fleet, which in total exceeded the increase in the average selling prices of packages.

During the summer, operating income totalled \$15.9 million (1.1%) compared with an operating loss of \$3.9 million (0.3%) for the previous year. The improvement in operating income was driven by higher average selling prices and load factors across all programs, and growth in ancillary revenues. The increase in operating income was partially offset by the costs associated with the transaction with Air Canada, amounting to \$23.9 million, and by higher aircraft maintenance costs due to a larger number of maintenance events than last year.

For the year, operations resulted in an adjusted operating income<sup>1</sup> of \$38.0 million compared with \$17.2 million in 2018, an increase of \$20.8 million. This increase resulted from the higher adjusted operating income<sup>1</sup> during the summer season, partially offset by the increase in adjusted operating loss<sup>1</sup> for the winter season.

Net loss attributable to shareholders amounted to \$33.2 million or \$0.88 per share (basic and diluted) compared with net income of \$6.5 million or \$0.17 per share (basic and diluted) for the previous year. Net income for 2019 included after tax expenses of \$17.5 million related to the transaction with Air Canada, while net income for 2018 included a \$31.3 million gain on the sale of the Corporation's subsidiary Jonview. Excluding non-operating items, Transat reported an adjusted net loss<sup>3</sup> of \$9.4 million (\$0.25 per share) for the period ended October 31, 2019, compared with \$24.0 million (\$0.64 per share) in 2018.

### **Financial Position**

As at October 31, 2019, cash and cash equivalents totalled \$564.8 million compared with \$593.7 million as at October 31, 2018. This change resulted primarily from the purchase of a replacement engine for the Airbus A321neo LR fleet (\$16.8 million), from the purchase of land in Mexico (\$15.8 million), from the change in the calculation of cash and cash equivalents to be held in trust following the adoption of the new revenue recognition standard IFRS 15 (\$14.4 million), from professional fees related to the transaction with Air Canada (\$10.3 million) and from the settlement of a litigation in the courts of the state of New York (\$6.7 million), partially offset by positive cash flows generated by operations.

The working-capital ratio was 1.23, compared with 1.33 as at October 31, 2018.

Deposits from customers for future travel amounted to \$561.4 million, compared with \$517.4 million

as at October 31, 2018.

Off-balance-sheet agreements, excluding contracts with service providers, stood at \$2.2 billion as at October 31, 2019, compared with \$2.5 billion as at October 31, 2018. This \$296.6 million decrease resulted mainly from repayments made during the year, combined with a decrease in estimated future rent payments for the Airbus A321neo LRs to be added to the fleet by 2022 due to lower long-term interest rates.

### **IFRS update**

On November 1, 2018, the Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*. The 2018 comparative figures have been restated to reflect these changes.

In short, the adoption of these standards resulted in a \$2.6 million increase in shareholders' equity as at October 31, 2017. For the year ended October 31, 2018, the adoption of these standards resulted in an increase in net income attributable to shareholders of \$7.6 million. The main changes related to the adoption of IFRS 9 and IFRS 15 are described in note 4 to the consolidated financial statements for the year ended October 31, 2019.

### **Future Changes in Accounting Policies**

IFRS 16, *Leases* introduces a single lessee accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. The application of IFRS 16 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2019.

Considering that the Corporation is committed under numerous operating leases, the adoption of IFRS 16 will have a significant impact on its consolidated financial statements. The Corporation will be required to recognize a right-of-use asset and a liability at the present value of future lease payments. Amortization of the right-of-use asset and interest expense on the lease obligation will replace rent expense related to operating leases.

As at October 31, 2019, the Corporation operated 31 aircraft under operating leases for which right-of-use assets and lease obligations will be recognized upon application of IFRS 16; these aircraft are part of the permanent fleet.

For the permanent fleet, right-of-use assets will be broken down and eligible maintenance costs will be capitalized and depreciated over the shorter of the lease term or expected useful life. In addition, eligible maintenance costs over the lease term will be capitalized and depreciated over the shorter of the lease term or expected useful life. As a result, the maintenance expense of leased aircraft will decrease and the depreciation expense will increase following the adoption of IFRS 16. The Corporation will also recognize a provision for the return conditions of leased aircraft and engines upon application of IFRS 16.

All aircraft-related operating leases are denominated in U.S. dollars. The lease obligation in respect of leased aircraft and the provision for return conditions are denominated in U.S. dollars and must be revalued at the prevailing exchange rate as at the reporting date. Accordingly, the volatility of the foreign exchange gain (loss) recognized in the consolidated statements of income (loss) will be higher on the application of IFRS 16.

The Corporation is party to real estate leases, in particular for spaces in airports, offices and travel agencies. Right-of-use assets and lease obligations will be recognized upon application of IFRS 16 in respect of such leases, except for short-term leases and leases that include a substantial right of substitution.

## Outlook

**Winter 2020** – In the sun destinations program, the Corporation's main program for the period, Transat's capacity is higher by 6.7%. To date, 56% of that capacity has been sold, bookings are ahead by 13.1%, and load factors are 3.4% higher compared with 2019. The impact of fluctuations in the Canadian dollar, combined with decreased fuel costs, will result in a nil increase in operating expenses if the dollar against the U.S. dollar and aircraft fuel prices remain stable. Margins are currently at slightly higher levels compared with the same date last year.

In the transatlantic program, where it is low season, load factors are tracking 1.6% higher than last winter. Prices are currently up 4.2% from the same date last year.

If the current trends hold, the Corporation expects its results for the winter season to be slightly higher than those of last year.

## Discussions relating to the sale of the Corporation

On June 27, 2019, the Corporation announced that it had concluded a definitive arrangement agreement that provides for Air Canada's acquisition of all issued and outstanding shares of Transat and its combination with Air Canada.

On August 23, 2019, a significant majority of the Corporation's shareholders voted in favour of the special resolution approving the plan of arrangement entered into on June 27 pursuant to which Air Canada will acquire all of the issued and outstanding Class A variable voting shares and Class B voting shares of Transat for a cash consideration of \$18.00 per share.

On August 29, 2019, the Corporation announced that the Superior Court of Quebec issued a final order approving the plan of arrangement with Air Canada. The arrangement remains subject to certain customary closing conditions, including regulatory approvals, particularly those of Canada and the European Union. Notably, a public interest assessment regarding the arrangement is being undertaken by Transport Canada with input from the Commissioner of Competition. If the required regulatory approvals are obtained and conditions are met, it is expected that the transaction will close by the second quarter of the 2020 calendar year.

The management information circular dated July 19, 2019 contains additional information regarding the arrangement.

The Corporation has agreed to limit its undertakings and expenses related to the execution of its hotel strategy in the period leading up to the closing of the transaction with Air Canada.

## Additional Information

The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the quarterly financial information shown in the table below for 2018.

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	
	2019	2018	2019	2018
Revenues	693,235	668,843	2,937,130	2,848,955
Operating income (loss)	23,491	6,851	(49,783)	(50,593)
Special items	10,144	8,962	23,875	8,962
Depreciation and amortization	17,226	15,830	64,078	59,125

Premiums related to derivatives that matured during the period	—	(169)	(167)	(299)
<b>Adjusted operating income<sup>1</sup></b>	<b>50,861</b>	<b>31,474</b>	<b>38,003</b>	<b>17,195</b>
Income (loss) before income tax expense	28,504	10,709	(38,766)	5,044
Special items	10,144	8,962	23,875	8,962
Fuel-related derivatives and other derivatives	(446)	572	8,664	(8,360)
Gain on business disposals	—	—	(9)	(31,064)
Premiums related to derivatives that matured during the period	—	(169)	(167)	(299)
<b>Adjusted pre-tax income (loss)<sup>2</sup></b>	<b>38,202</b>	<b>20,074</b>	<b>(6,403)</b>	<b>(25,717)</b>
Net income (loss) attributable to shareholders	20,284	6,754	(33,191)	6,451
Special items	7,255	6,601	17,476	6,601
Fuel-related derivatives and other derivatives	(327)	428	6,342	(6,130)
Gain on business disposals	—	—	58	(30,736)
Premiums related to derivatives that matured during the period	—	(124)	(122)	(219)
<b>Adjusted net income (loss)<sup>3</sup></b>	<b>27,212</b>	<b>13,659</b>	<b>(9,437)</b>	<b>(24,033)</b>
Earnings (loss) per share – diluted	0.54	0.18	(0.88)	0.17
Special items	0.19	0.18	0.46	0.18
Fuel-related derivatives and other derivatives	(0.01)	0.01	0.17	(0.16)
Gain on business disposals	—	—	—	(0.82)
Premiums related to derivatives that matured during the period	—	—	—	(0.01)
<b>Adjusted net earnings (loss) per share<sup>3</sup></b>	<b>0.72</b>	<b>0.36</b>	<b>(0.25)</b>	<b>(0.64)</b>

**Hedge accounting** – The Corporation records in the statement of income (loss) 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 derivative financial instruments used to manage exchange rate exposure. In the fourth quarter of 2019, this resulted in a \$0.4 million non-cash gain (\$0.3 million after income taxes), compared with a \$0.6 million loss (\$0.4 million after income taxes) in 2018. For the year, this resulted in an \$8.7 million non-cash loss (\$6.3 million after income taxes), compared with an \$8.4 million gain (\$6.1 million after income taxes) in 2018.

As needed, 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 the consolidated statement of comprehensive income (loss) rather than in the consolidated statement of income (loss). For the fourth quarter of 2019, Transat recorded a loss of \$4.8 million (\$3.6 million after income taxes) on these foreign exchange derivatives, compared with a gain of \$1.2 million (\$0.9 million after income taxes) in 2018. For the year, Transat recorded a loss of \$15.2 million (\$11.1 million after income taxes) on these foreign exchange derivatives, compared with \$2.6 million (\$1.9 million after income taxes) in 2018.

## 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 over 25 countries in the Americas and Europe. 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. Based in Montréal, the Corporation has 5,000 employees (TSX: TRZ).

## NOTES

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

- 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, and including premiums for fuel-related derivatives and other derivatives that 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 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.
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 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.

### Conference Call

Fourth quarter 2019 conference call: Thursday, December 13, 10:00 a.m. Dial 1-800-926-9801. Name of conference: Transat. Webcast: <https://www.transat.com/en-CA/corporate> <https://event.on24.com/wcc/r/2077851/AAAF6E21B60D8B6816977A21F0E512FB>. The archived call will be available at 1-800-558-5253, access code 21916625, until January 11, 2020.

The fourth-quarter results will be announced on March 12, 2020.

### 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 dollar figures 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.*

*This new release also contains certain forward-looking statements about the Corporation concerning the transaction involving the acquisition of all the shares of the Corporation by Air Canada. These statements are based on certain assumptions deemed reasonable by the Corporation, but are subject to certain risks and uncertainties, several of which are outside the control of the Corporation, which may cause actual results to vary materially. In particular, the completion of a transaction is subject to the approval of applicable regulatory and governmental authorities and the satisfaction of other conditions customary for this type of transaction. In addition, statements regarding the results of a potential transaction will depend on the purchaser's plans following the completion of a potential transaction. 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.*

*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, 2019, 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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**For further information:** Media: Christophe Hennebelle, Vice-President, Human Resources and Corporate Affairs, 514-987-1660, ext. 4584; Financial analysts: Denis Pétrin, Vice-President, Finance and Administration and Chief Financial Officer, 514 987-1660

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