

# High flier

LOW-COST AIRLINE EASYJET HAS BEEN ON A FAST GROWTH TRACK SINCE IT WAS FOUNDED 12 YEARS AGO. GROUP TREASURER PAUL PHILLIPS TALKS TO **GRAHAM BUCK** ABOUT HOW THE GROUP PLANS TO MAINTAIN GROWTH WHILE STRENGTHENING ITS GREEN CREDENTIALS.

PHOTOGRAPHER: ROGER HARRIS

**A**mid the rather grey environs of Luton airport, the vivid orange of easyJet's head office stands out like a beacon. In keeping with the low-cost airline's economic ethos, staff at the airline moved into Hanger 89 – a former aircraft hanger built in the 1970s – in March after a £3.1m refit to convert the interior into 30,000 sq ft of office space. Yet that ex-hangar retains some room for its former purpose, and can house up to three Airbus 319s or Boeing 737s.

"The group operates on a very egalitarian basis, with no designated parking spaces for senior management and a completely open-plan office," says Paul Phillips, the company's Group Treasurer. He thinks that staff appreciate the lack of hierarchy. Last year, easyJet launched an annual survey to gauge staff attitudes towards the employer, with Pulse 2007 finding that employees enjoy working for easyJet.

"The survey shows 92% of respondents think their colleagues are friendly and 89% said they are committed to meeting the group's objectives," Phillips adds.

Phillips himself joined easyJet in August last year, so did not witness first-hand some early landmarks in the group's development such as its flotation on the London Stock Exchange in November 2000 and its £374m acquisition of competitor Go in 2002.

Even 12 years after it was founded by the high-profile (now Sir) Stelios Haji-Ioannou, easyJet is still growing strongly and aims to maintain the momentum. Targets are a 15% increase in seats flown per year and a 15% return on equity.

New routes added over the past 12 months include Marrakech and Istanbul, although these destinations mark about the furthest extent the group's A319s can travel and still meet its low-cost criteria. These include a turnaround time of no more than 20 minutes to prepare planes for their return journey – something that would not be possible were easyJet to compete on flights to North America and other longer-haul destinations.

The group still believes that Luton has enough capacity to accommodate its projected growth, but it has also been developing its continental Europe bases such as Milan and Madrid.

Although he remains a non-executive director, Sir Stelios is no longer involved in easyJet's day-to-day management and focuses his attention on the group's other "easy" brands, such as car hire, cruises and hotels. All are completely separate from easyJet, which even has its name licensed to it by easyGroup.

Phillips says the group's strategy can be summed up in the phrase "low fares, with care and convenience".

"We compete with the traditional carriers, rather than Ryanair, by using the main airports of the cities that we fly to.

"For example, our Paris service is to Charles de Gaulle and Orly, whereas Ryanair uses Beauvais, which is about 100km from the city. Similarly, for Barcelona we use El Prat and Ryanair uses Girona, which is a similar distance away."

He adds that around 20% of easyJet passengers are travelling on business and the most popular business routes are London to Edinburgh and London to Amsterdam.

"We offer speedy boarding for the business traveller, with an allocation of up to 20 seats for speedy boarders. In return for a small fee, they can board early and select where they want to sit."

Although Phillips has advanced to his present position of Group Treasurer, geographically his career has almost turned full-circle as it began in nearby Dagenham in the early 1980s.

"After completing my articles with a small accounting practice, my first job was in the motor industry, with Ford's UK operations," he recalls. "At the time, the group's Dagenham plant was highly profitable – so much so that *The Financial Times* dubbed it the First

## The green code at easyJet

One policy area the treasury team is involved in is the group's environmental code, which is based on three pledges:

- to be environmentally efficient in the air;
- to be environmentally efficient on the ground; and
- to lead in shaping a greener future for aviation – for example through carbon offsetting and shaping future aircraft design through initiatives such as the ecoJet.

The most recent manifestations of the environmental strategy include easyJet's carbon offsetting initiative. Launched in July, and according to Paul Phillips "very much a team effort, with a range of different disciplines involved", it offers passengers the opportunity to carbon-offset their flight, and introduces a lot of transparency as to where the funds are directed. For example, easyJet calculates that Gatwick to Geneva generates 75kg of carbon per passenger, which costs 98p per person to offset.

The proceeds are directed to carbon emission reduction certificates for UN-approved projects and the amount of carbon saved is certified.

Passengers are informed where their money is going. Perlabi, a hydro project in Ecuador, is the first to be supported by the group.

Another environmental issue has been easyJet's campaign, spearheaded by Chief Executive Andy Harrison, against airline passenger duty (APD), which the group criticised for penalising aircraft that operate effectively with full or near to full capacity. The average load factor on easyJet flights is 85%, and the company points out that the average age of its fleet is only 2.5 years, while it uses the latest-generation engines, which are the most efficient.

Phillips says that easyJet recognises the need for the airline industry to "do its bit" to reduce climate change, but believes a move to the Emissions Trading Scheme (ETS) would be more equitable. Indeed, our interview took place only days before Chancellor Alistair Darling conceded the need for change in his pre-Budget statement and announced that, from 2009, duty would be levied per flight instead of per passenger.

"The APD campaign highlights the fact that despite our 85% load factor, everyone has to pay, and this works out at around £1,500 per flight. It's absurd that a dirty plane only flying a quarter-full pays less APD than we do, while a cargo or business aircraft pays nothing.

"We feel that APD is the wrong way of charging and want a measure that's more reflective of CO<sub>2</sub> emissions."

He adds that aviation currently accounts for no more than 1.6% of carbon dioxide emissions, but this figure is projected to rise to 3%-5% by 2050. "We regard ourselves as a responsible airline in taking intelligent and well-considered actions to counteract it."

National Bank of Dagenham when it loaned funds to its parent."

In 1982, he moved to the ship management company Canadian Pacific, where his tasks included providing cash to its agents and managing the cash pooling systems. He was also involved in corporate issues such as ship sales.

This was followed by a two-year stint at cement manufacturer Blue Circle, whose treasury policy involved borrowing in US dollars and investing in sterling. The policy proved very effective. Anyone who held a mortgage at the time may ruefully recall UK interest rates doubling over a relatively short period. Having been cut to 7.5% in May 1988, within 18 months they had hit 15%.

In 1990, Phillips moved to power generator National Grid at the time Margaret Thatcher's Conservative government was privatising the electricity industry, which sparked off inevitable change. "This

**“LOOK AT MOST AIRLINES’ CASH POSITION AND YOU’RE LIKELY TO FIND A SUBSTANTIAL CASH BALANCE. SO WE’VE LOOKED AT REINVESTING SOME CASH IN THE BUSINESS, PARTICULARLY IN ACQUIRING AIRCRAFT.”**

gave us a blank sheet to work in a lot of new areas,” says Phillips, and the virgin territory included obtaining a credit rating, issuing a debut bond and starting up telecoms company Energis – as a competitor to BT and Mercury – which was subsequently floated on the stock market in 1997.

National Grid also went on the acquisition trail in North America and Phillips was closely involved in the takeovers of the New England Electricity System and Niagara Mohawk. This was National Grid’s first foray into mergers and acquisition and occurred at a period when the group was actually reducing its headcount. Work “proved very challenging but also very interesting”.

His time with National Grid spanned 12 years to 2002 and included the period of the group’s union with British Gas’s network – then named Lattice – to form National Grid Transco. Although offered a position with the new group, Phillips decided to move on and the following January saw him in the brand-new role of Deputy Treasurer at brewing group SABMiller. The group, formerly South African Breweries, was formed by its purchase of US brewer Miller after it had moved its primary listing to the London Stock Exchange in 1999.

Although a large company, SABMiller’s treasury department was small – effectively three full-time individuals and one part-timer, and that’s how it remained for more than three years although “it has built up significantly since I left”.

One of his first tasks was to obtain a credit rating, as SABMiller was then unrated. A \$2bn debut bond issue then followed.

Phillips says the company was new to the market and went to the US, where rates were then more attractive. He recalls that it was “a shaky time as the markets were falling, but we held our nerve”. As one of the best-known US brands, the Miller name “undoubtedly

helped to attract investors”. Treasury locks were used to maintain the underlying rate and the issue proved a big success.

As with this previous job, much time was taken up with M&A activity. Brands acquired included Italy’s Peroni and Bavaria “which is actually based in Colombia despite its name”. Working in Latin America proved a “great experience” which involved meeting with and using the facilities of several local banks.

The most recent change came just over a year ago, when easyJet offered him the opportunity of moving from a position as Deputy Treasurer to being a Group Treasurer. Phillips describes working for the airline as very different from his previous position.

At Hanger 89, he heads a team of three. “Victoria Goodenough is our Capital Markets Manager and oversees aircraft financing. The pace of delivery is enormous; in April, easyJet took delivery of its 100th Airbus over a period of just three years – on average one every 12 days,” he reports. The total fleet currently stands at 137 aircraft.

“We have a valuable deal with Airbus and this is one of the factors underpinning our performance.”

Dan Shepherd, the team’s Treasury Operations Manager, looks after market-facing activities such as jet fuel hedging, foreign exchange and money markets. The airline began hedging its fuel costs and its US dollar foreign currency exposures back in 2003, just as the price of oil began to climb.

Leigh Jacobs oversees the day-to-day credit card acquiring. The airline now derives around 97% of its revenue from tickets purchased via the internet and its bank collects the funds. The change is reflected in the aircraft fleet, which now prominently displays the website address.

Phillips adds that he reviewed all the group’s treasury policies shortly after joining easyJet, including its \$250m standby facility. “All of our financing is effectively asset-based and we have a combination of operating and finance leases and bank loans.

“Look at most airlines’ cash position and you’re likely to find a substantial cash balance. So we’ve looked at reinvesting some cash in the business, particularly in acquiring aircraft.” This also means the group is one of several airlines that opt to reinvest rather than pay a dividend to shareholders.

Overseeing a lean and mean treasury department means the team hasn’t got too involved with the group’s other areas of risk management such as insurance “as there is plenty for us to be getting on with as it is”.

Graham Buck is a Reporter on *The Treasurer*.  
[editor@treasurers.org](mailto:editor@treasurers.org)

