



## NORWEGIAN AIR SHUTTLE ASA<sup>1</sup>

### The Company

Norwegian Air Shuttle ASA (NAS), often referred to only as Norwegian, is a Norwegian low-cost airline founded in 1993 by Bjørn Kjos. The company is a continuation of part of the business of Busy Bee of Norway, a Norwegian company that was owned by Ludvig G. Braathens shipping. Busy Bee of Norway was founded in 1966 and went bankrupt in 1992.

Like Busy Bee of Norway, Norwegian positioned itself to operate the same routes as former Braathens SAFEs coastal water routes, as was its short-haul routes on the west coast of Norway. Norwegian began with a fleet of three Fokker 50 machines, which they bought from Busy Bee when they went bankrupt.

Norwegian Air Shuttle operated these routes until August 2002, when they changed its operating strategy. The company was repositioned and was a pure low-cost airline. The company opened the 1st of September 2002 its first low-cost routes. These went from Oslo to Bergen, Trondheim, Stavanger and Tromsø. Norwegian had on that time six Boeing 737-300 machines.

The 18th of December 2003, Norwegian was listed on the Oslo Stock Exchange.

Now the company is the second largest airline in Scandinavia and the third largest low-cost airline in Europe, operating 68 aircrafts at the end of 2012 and 85 aircrafts at the end of 2013.

In January 2012, Norwegian placed an order with both Boeing and Airbus to purchase 222 aircraft - whereof 100 Boeing 737 MAX8, 22 Boeing 737-800 and 100 Airbus A320neo. The order is Europe's largest ever-single aircraft order. When the airline's older 737-300s are phased out, it will have one of the most modern, efficient and environmentally friendly fleets in commercial operation. Norwegian has also ordered eight Boeing 787-8 Dreamliner for its long-haul operation.

Norwegian has 13 bases in Norway, Sweden, Denmark, Finland, Spain, the UK and Thailand. They have a route portfolio that stretches across Europe into North Africa and the Middle East, as well as Thailand and the US. With competitive prices and customer friendly solutions and service, the company has experienced significant growth in recent years. Roughly 17.7 million passengers flew with the airline in 2012 and 20,7 million passengers in 2013. Norwegian operates 411 routes to 125 destinations and has approximately 3.965 employees.

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<sup>1</sup> Case written by Guillermo Nafarrate, Eirik Lopez Gran, Nuno Ferreira and Gerard De Manresa, with the collaboration of Oriol Amat and Luz Parrondo, Barcelona School of Management, Universitat Pompeu Fabra, 2014.

## **Vision**

The company has a strong vision, which is, *'everyone should afford to fly'*. By giving everyone the opportunity to travel by air, they have been attracting customers from all over the world. Their vision entitles them to offer competitive, low fares and a high quality travel experience based on operational excellence and helpful, friendly service. The company values and place strong emphasis on several priorities that give Norwegian Air a competitive advantage. The firm values simplicity, directness, relevance, and has an operational priority on safety, service, and simplicity.

## **Ownership**

NAS is owned in 23% by HBK Invest AS, a company which the CEO of NAS, Bjørn Kjos, owns 77 % of. The company's chairman, Bjørn Halvor Kise, owns 8 %. The CEO and founder of NAS, Bjørn Kjos has a huge amount of control in NAS.

Understanding the ownership structure of the company is critical in entrusting the future of the firm. As intelligent investors, we like to see that the control of the firm is in good hands.

## **Competitors**

Main competitors are Scandinavian Airlines (SAS), which is the biggest, but Ryanair is also a large competitor on international flights from Norway and Sweden. From Copenhagen, EasyJet is the largest LCC competitor on international flights.

## **Qualitative Analysis**

The human capital can be seen as a major strength of the company. Bjørn Kjos has developed a business strategy that has been proved to succeed, and on top of this, he is an intelligent, tactical and strategic CEO. The CEO of SAS has a fixed salary of \$8.7 million NOK, that amount is 7.4 million NOK more than the salary of Bjørn Kjos, CEO in Norwegian. This is a signal to investors that the CEO of Norwegian is willing to take his potential salary and dump it back into the company for future growth. The business strategy implemented by the firm can also be seen as a major strength. The company has been adhering to corporate values, attracting customers and stimulating markets by offering competitive low fares and a quality travel experience based on low operating costs.

Norwegian offers a comprehensive network of high frequency business destinations to main airports and vast desirable destinations to leisure travelers. The company uses a state of the art passenger revenue management to ensure continuous maximizing of revenue. The company also has a strong brand name, which they have effectively utilized while they also utilize efficient distribution channels to further increase revenue year after year. The company uses a flat organizational structure which can be effective in the decision making process by establishing a simple and direct concept, enabling the company to easily adapt to changes and possibilities in the market environment.

The company also has an innovational approach with good customer focus and good reputation among customers. The company also plans on becoming one of the first long-haul LCCs in the world, as it also tries to expand its reach by establishing new routes to international destinations.

By other hand, Norwegian is not a member of any airline alliance. The frequency of flights to international destinations is low, but increasing. Competitors, such as other

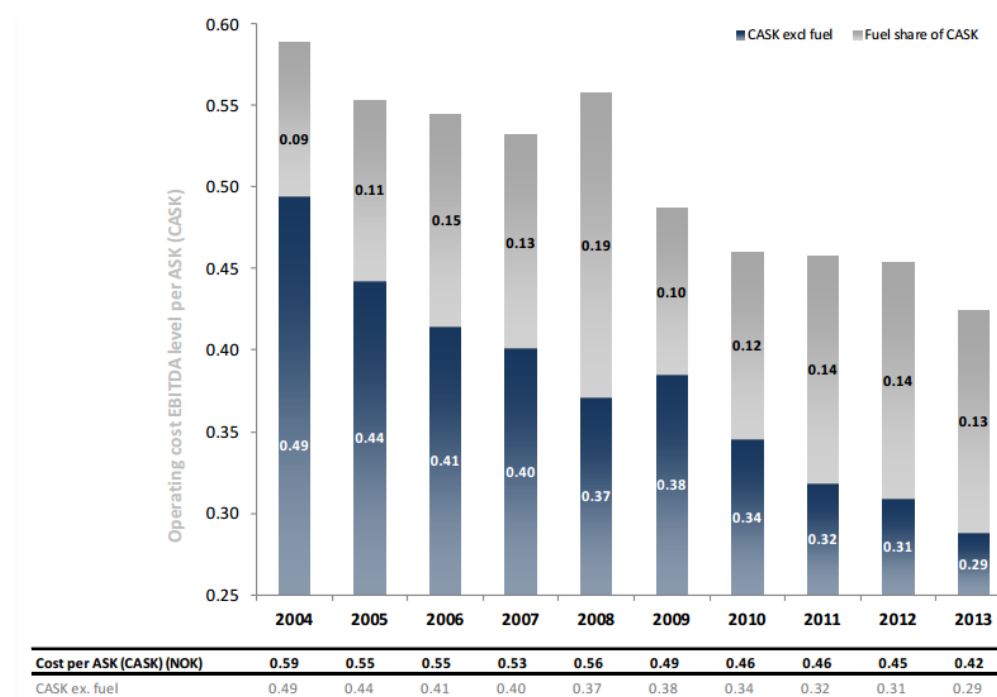
low cost companies (LCC), are now attempting to mock the strategy of Norwegian due to their current success.

Norwegian Air has been fighting Norway’s labor unions and politicians over plans by the company’s CEO, to use low-wage Asian crewmembers on Norwegian-registered aircraft - a measure that has been scuttled by Oslo officials. A significant weakness is that Norway is the most expensive country in the world, and if the company wishes to compete in the low cost market, they have to consider their high wage salaries that employees demand.

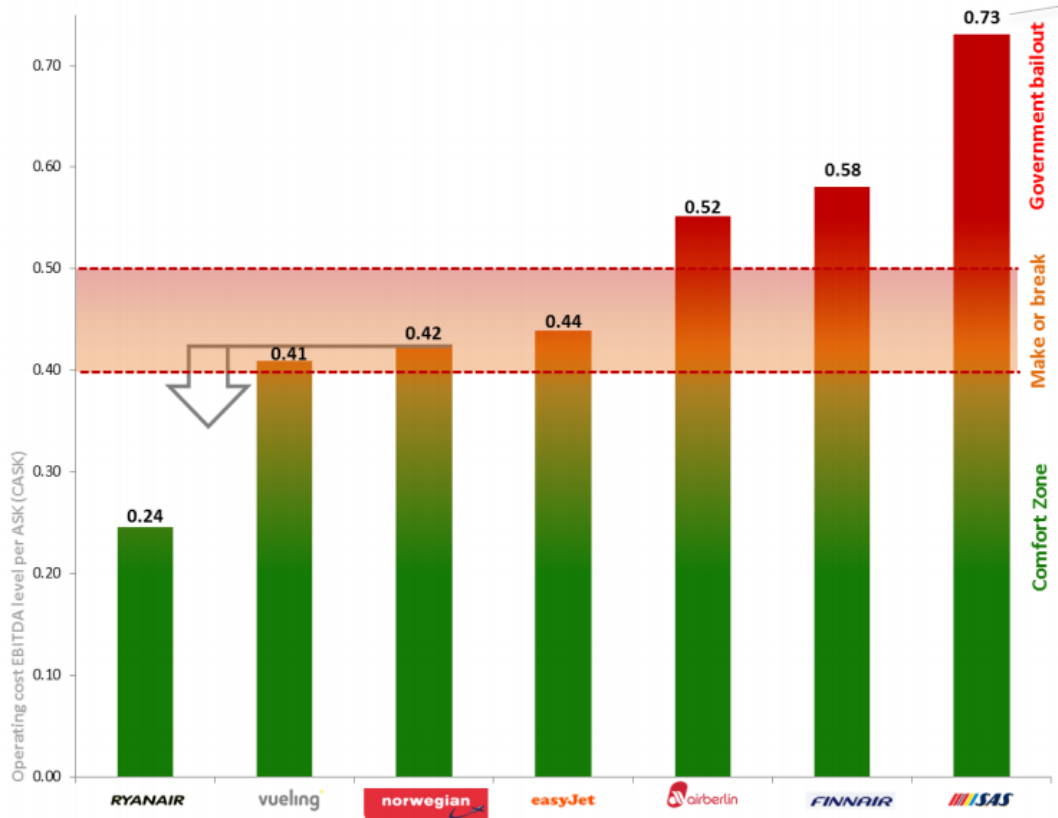
Moreover, the high tax rates can be considered a weakness for the firm, which could potentially affect profits, comparing to other international companies. The company also charges additional fees for in-flight meals as well as a baggage fee for flights that are considered non-long distance. Finally, a significant weakness is the fact that SAS is government owned by Norway, Sweden and Denmark who supports SAS, giving it a competitive edge over Norwegian. Of course, with all airline companies, the rising cost of fuel is considered a weakness. Better marketing campaigns undertaken by rivals may dilute brand image as well.

### Operating measures

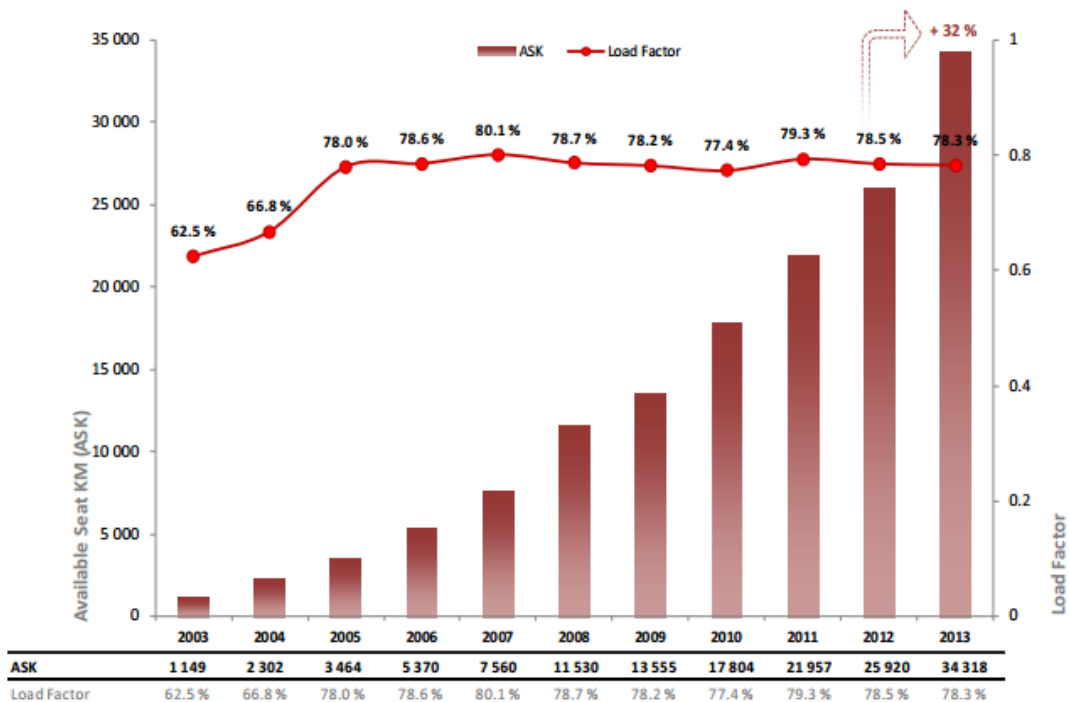
**CASK:** is the cost per available seat kilometer, an industry-wide cost level indicator. It is usually represented as an operating expense before depreciation and amortization over produced seat kilometers (ASK). The CASK of Norwegian has decreased over the years:



The operating cost per ask is one of the lowest in the industry:



**Load factor:** The passenger load factor of an airline, sometimes simply called the load factor, is a measure of capacity utilisation. It informs about how much of an airline's passenger carrying capacity is used. It is passenger-kilometres flown as a percentage of seat-kilometres available. The load factor of Norwegian is around 78% among the highest in the industry, but a little bit lower than Ryanair and Easyjet:



## Threats and opportunities in the Aviation Industry

### Threats

- Looking at the aviation industry we see that the main threat is the fluctuation in jet fuel prices as mentioned.
- The CEO of the International Air Transport Association (IATA), Tony Tyler stated that, "*The airline industry is fragile. The fall in oil prices was good news in 2012, but unfortunately the price fall came too late and ended up in the shadow of weaker demand, more capacity and less coating on the planes.*"
- He also points to the troubled economic conditions in Europe and falling consumer confidence, as two signs of weakness in the airline industry.
- "*The airlines were expected to deliver a profit of three billion U.S. dollars in 2012 of revenues of 631 billion dollars. This would give a margin of 0.5 per cent*", says the IATA chief. This shows that the industry is fragile and that the companies operate on razor margins.
- The industry has a high rivalry because of intensive competition from new Low Cost Companies, low prices and aggressive market share capturing. The airlines compete against each other on ticket prices, service, punctuality, passenger loyalty to the company and much more.
- The airline industry is a volatile and growing industry and the threat of new competitors entering the market and pushing the prices down is high.
- The airline industry is also a popular industry to "attack" during wage conflict, because the industry affects many people and itself is seen as a threat to its own operations.
- Since the aviation industry is a high-regulated industry, changes in the regulations can have a huge impact on the companies.

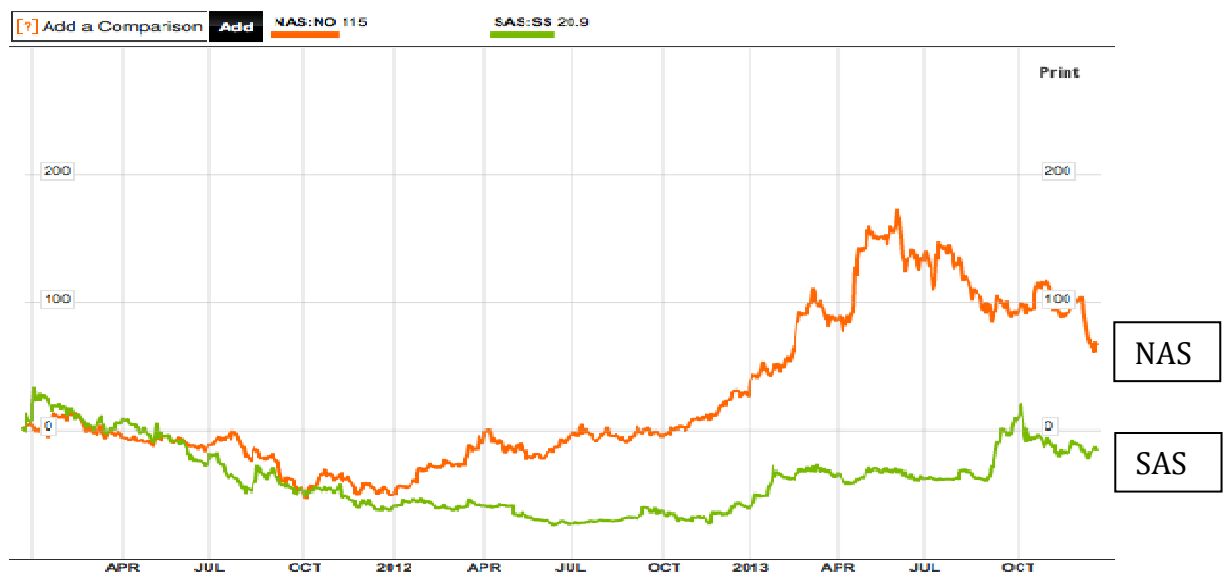
### Opportunities

- Air travel is expected to grow five per cent a year on average over the next 20 years, where India and China account for the largest growth.
- Since there is an increasing demand in the market for air travel, the companies have the opportunity to adjust and take measures to capture the growth and gain more market share.
- It has become cheaper to travel and the industry is growing towards more long-haul flights.
- With higher purchasing power and a higher demand in what consumer is concerned, the companies have the opportunity to focus on other areas, and not only the air transportation.

- As Norwegian has done by offering a credit card, Wi-Fi on the planes and much more, they have increased their revenues by increasing ancillary revenues and becoming the preferred company to travel with.
- Since there is still an increasing demand trend, the companies can look to other sources of revenues, because the purchasing power of the consumers allows them to do so.

### Share price evolution

Within the last 3 years, the stock price has increased by 100%. We can see this from the following table obtained by Bloomberg:



### Questions for discussion

1. Which are the key success factors in the airline industry?
2. Identify the main strengths and weaknesses of the company.
3. Make a proposal of a strategy map for this company

## Appendix. Auditor's opinion, financial statements and ratios of Norwegian



Independent Auditor's Report to the Annual Shareholders' Meeting of Norwegian Air Shuttle ASA

### *Opinion on the financial statements for the parent company*

In our opinion, the financial statements of the parent company are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Norwegian Air Shuttle ASA as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian accounting act and accounting standards and practices generally accepted in Norway.

### *Opinion on the financial statements for the group*

In our opinion, the financial statements of the group are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the group Norwegian Air Shuttle ASA as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

## Consolidated Income Statement

NOTE	(NOK 1,000)	2013	2012
4	Revenues	15,511,218	12,841,191
4	Other income	68,326	17,851
	<b>Total operating revenues and income</b>	<b>15,579,544</b>	<b>12,859,042</b>
5	Operational expenses	11,370,597	9,131,424
6,7,17,18	Payroll	2,478,294	2,068,202
10,11	Depreciation, amortization and impairment	529,825	385,244
5a	Other operating expenses	733,319	534,335
20	Other losses/(gains) - net	-502,148	336,385
	<b>Total operating expenses</b>	<b>14,609,886</b>	<b>12,455,590</b>
	<b>Operating profit</b>	<b>969,658</b>	<b>403,452</b>
8	<b>Net financial items</b>	<b>-578,874</b>	<b>186,888</b>
26	Share of profit (loss) from associated company	46,597	32,840
	<b>Profit (loss) before tax</b>	<b>437,381</b>	<b>623,181</b>
9	Income tax expense (income)	115,817	166,535
	<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>321,564</b>	<b>456,646</b>
16	Basic earnings per share	9.15	13.08
16	Diluted earnings per share	9.02	12.99
	<b>Profit attributable to;</b>		
	Owners of the company	321,564	456,646

## Consolidated Statement of Financial Position

NOTE	(NOK 1,000)	2013	2012
<b>ASSETS</b>			
<b>Non-current assets</b>			
10	Intangible assets	225,270	237,774
9	Deferred tax asset	28,517	4,293
11	Aircraft, parts and installations on leased aircraft	7,526,707	5,579,757
11	Equipment and fixtures	72,972	58,476
11	Buildings	14,966	9,525
11	Financial lease asset	21,242	24,562
3,20	Financial assets available for sale	82,689	2,689
26	Investment in associate	164,575	116,050
11	Prepayment to aircraft manufacturers	2,514,882	2,844,359
13	Other receivables	199,036	135,562
	<b>Total non-current assets</b>	<b><u>10,850,858</u></b>	<b><u>9,013,047</u></b>
<b>Current assets</b>			
14	Inventory	74,135	68,385
13	Trade and other receivables	1,623,079	1,096,558
3,20	Derivative financial instruments	37,389	0
3,20	Financial assets available for sale	11,158	10,172
24	Cash and cash equivalents	2,166,126	1,730,895
	<b>Total current assets</b>	<b><u>3,911,887</u></b>	<b><u>2,906,011</u></b>
	<b>TOTAL ASSETS</b>	<b><u>14,762,744</u></b>	<b><u>11,919,058</u></b>
<b>EQUITY AND LIABILITIES</b>			
15	<b>Equity</b>		
	Share capital	3,516	3,516
	Share premium	1,093,549	1,093,549
	Other paid-in equity	72,744	63,365
	Other reserves	-11,102	-9,335
	Retained earnings	1,591,119	1,269,556
	<b>Total equity</b>	<b><u>2,749,827</u></b>	<b><u>2,420,652</u></b>
<b>Non-current liabilities</b>			
18	Pension obligation	127,821	0
19	Provision for periodic maintenance	412,737	175,306
9	Deferred tax	443,991	301,042
22	Borrowings	5,736,896	4,166,854
22	Financial lease liability	6,860	10,853
	<b>Total non-current liabilities</b>	<b><u>6,728,304</u></b>	<b><u>4,654,055</u></b>
<b>Short term liabilities</b>			
22	Short term part of borrowings	768,401	1,349,359
21	Trade and other payables	1,949,693	1,564,955
	Air traffic settlement liabilities	2,566,519	1,739,681
3,20	Derivative financial instruments	0	190,356
9	Tax payable	2	-
	<b>Total short term liabilities</b>	<b><u>5,284,614</u></b>	<b><u>4,844,352</u></b>
	<b>Total liabilities</b>	<b><u>12,012,918</u></b>	<b><u>9,498,407</u></b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b><u>14,762,744</u></b>	<b><u>11,919,058</u></b>



## Consolidated Cash Flow Statement

NOTE	(NOK 1,000)	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
	Profit (loss) before tax	437,381	623,181
9	Taxes paid	0	-2,545
10,11	Depreciation, amortisation and write-down	529,825	385,244
	Pension expense without cash effect		81,186
26	Profit from associated company	-46,597	-32,840
17	Compensation expense for employee options	9,379	0
10	Losses/(gains) on disposal of tangible assets	-35,359	-16,401
20	Fair value (gains)/losses on financial assets	-226,587	324,137
8	Financial items	578,874	-186,888
8	Interest received	90,884	51,340
	Change in inventories, accounts receivable and accounts payable	107,483	-128,561
	Change in air traffic settlement liabilities	826,754	531,439
	Change in other current assets and current liabilities	106,818	392,392
	<b>Net cash flow from operating activities</b>	<b><u>2,378,855</u></b>	<b><u>2,021,682</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
11	Prepayments aircraft purchase	-1,460,328	-2,134,161
11	Purchase of tangible assets	-543,159	-574,287
10	Purchase of intangible assets	-42,418	-55,901
20	Proceeds from sales of investment bonds	-81,928	0
26	Payment to associated company	0	-1,119
	<b>Net cash flow from investing activities</b>	<b><u>-2,127,833</u></b>	<b><u>-2,765,468</u></b>
<b>CASH FLOWS FROM FINANCIAL ACTIVITIES:</b>			
22	Proceeds from long term debt	2,309,721	1,991,173
22	Payment of long term debt	-1,829,731	-460,692
15	Proceeds from issuing new shares	0	18,114
	Interest on borrowings	-295,816	-179,161
	<b>Net cash flow from financial activities</b>	<b><u>184,174</u></b>	<b><u>1,369,433</u></b>
	Foreign exchange effect on cash	35	302
	Net change in cash and cash equivalents	435,231	625,949
	Cash and cash equivalents at 1 January	1,730,895	1,104,946
24	<b>Cash and cash equivalents at 31 December</b>	<b><u>2,166,126</u></b>	<b><u>1,730,895</u></b>

### Norwegian Financial Ratios

	2013	2012	2011	2010	2009	2008
Current Ratio	0,74	0,59	0,62	0,81	0,99	1,025
Debt / Assets	0,81	0,80	0,78	0,73	0,68	0,65
Cash flow / Loans	1,10	0,31	0,26	0,61	1,60	1,38
Sales/Assets	1,05	1,08	1,17	1,30	1,38	1,97
FA Turnover	1,4	1,4	1,6	1,9	2,5	3,7
CA Turnover	3,9	4,5	4,3	4,2	3,0	4,2
Net Profit/Sales	0,02	0,03	0,01	0,02	0,04	0,00
Net Income / Total Assets	0,021	0,036	0,016	0,023	0,048	0,001
ROE	11,6%	18.1%	7.2%	8.6%	18.9%	0.4%