The Airline Strategy Awards
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Air Canada

FINANCE

# AIR CANADA


BillyPix

Rovinescu: solving the puzzle

The five years prior to 2013 were tough on Air Canada. During that period, the Montreal carrier accumulated net losses nearing C$1.5 billion ($1.1 billion), and its pension deficit spiked higher than C$4 billion.

But in the years since, the Montreal-based airline underwent metamorphoses, with the pension plan swinging into surplus territory as the company reported handsome annual results, including a net profit of C$876 million in 2016.

The turnaround reflects not only an improved business environment, but also a company-wide initiative to address simultaneously several serious and inter-related financial challenges.

"We talk about the analogy of a Rubik's Cube," says Calin Rovinescu, who has been Air Canada's chief executive since 2009. "We really needed to work on all sides of this puzzle at the same time."

The "sides" of the puzzle represented rising fuel costs, scarcity of liquidity following the 2008 recession, the need to renegotiate employment contracts and a surging pension deficit.

Addressing the pension deficit sat high on the agenda. By mid-2009, all five of Air Canada's home country-based unions had ratified new agreements, paving the way for the government to ease pension funding requirements.

Then in July 2009 Air Canada announced it secured about C$1 billion in financing, delayed delivery of Boeing 787s and reduced purchase options for the type.

The company in 2013 swung into the black, reporting a net profit of C$10 million. Meanwhile, the pension deficit was also reversed, reaching a C$89 million surplus by the beginning of 2014.

In 2013 Air Canada announced a target to achieve an adjusted cost per available seat mile (CASM) by 2018 that is 15% less than the 2012 figure. As the plan progressed, it set the bar higher, upping the 2018 target to 21%.

Air Canada's cost-cutting rested on initiatives including new contracts with pilots and flight attendants, acquisition of Boeing 787s, adding seats to existing widebodies and the 2013 launch of low-cost unit Rouge.

Air Canada has said Rouge operates at a 23% to 30% unit cost advantage over mainline aircraft.

Air Canada also secured a reduced-cost capacity purchase agreement with regional partner Jazz Aviation in 2015, updated internal technology, embarked on broad international expansion and strengthened hubs in Montreal, Toronto and Vancouver.

"We can compete with the best hubs in the world," Rovinescu says.

In October 2016, Air Canada closed a C$1.25 billion refinancing that would save it C$60 million annually in interest. Then in June this year, after an upgraded rating from Moody's, it announced it had repriced $1.1 billion of that debt at a 0.5% interest rate saving.

"Once we achieved an improved credit rating we had an automatic opportunity," Rovinescu says. "We are able to borrow large amounts at substantially lower interest rates at better terms."

Jon Hemmerdinger

> "We are able to borrow at substantially lower interest rates"
>
> CALIN ROVINESCU
> Chief executive, Air Canada

## PAST WINNERS

**2016** Delta Air Lines & Virgin Atlantic | **2015** American Airlines | **2014** SAS Group | **2013** Ryanair | **2012** Etihad Airways | **2011** AviancaTaca | **2010** Continental Airlines | **2009** Southwest Airlines | **2008** AirAsia | **2007** Cathay Pacific Airways | **2006** ACE Aviation Holdings | **2005** Hawaiian Airlines | **2004** America West Airlines | **2003** US Airways | **2002** JetBlue Airways