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Alliance Aviation Services Limited (ASX code: AQZ)
2023 Annual General Meeting
Managing Director's Address

Thank you, Chairman, and good morning to those present here in Brisbane and those joining us online. It is my pleasure to be addressing the important outcomes from 2023 and share some of our strategies and outlook for the future.

Outcomes of the 2023 Financial Year

As our Chairman commented, the 2023 financial year was one of two halves. The first half being one of continued investment in fleet, infrastructure and people which laid the foundation for the second half which was one of operational and financial growth.

Significant items to note:

Fleet

- 33 Embraer E190, 24 Fokker 100 and 13 Fokker 70 aircraft in service at 30 June 2023.
- Three of the E190 aircraft are dry leased to Airnorth.
- Contracted for the purchase of 30 E190 jet aircraft from AerCap two of which have been delivered since balance date.
- Contracted for the purchase of an additional 4 E190 aircraft from Azorra, two of which have been delivered since balance date.
- Renewed commitment to the utilisation of the Fokker jet fleet for at least the next 6 to 9 years.

Infrastructure

- Completion of construction of the Rockhampton Maintenance Facility which was officially opened on 1st November 2023 and has now started engineering operations on the first aircraft delivered from Aercap.
- Completed the simplification of the Adelaide engineering base and the amalgamation of UAM and Alliance's engineering operations in Brisbane.
- Conversion of the Adelaide base to a full E190 operation.
- Second E190 flight simulator now located in Brisbane.
- Commenced introduction of a new crewing, rostering, day of operations and aircraft allocation system being provided by Lufthansa Systems.

People

- Alliance had 1,082 full time equivalent staff located throughout Australia as at 30 June 2023 and at 31 October 2023 that number is 1,315.

Operational and Financial Overview

During the year, flight hours grew by 58% to 75,195 and revenue increase by 38% to $508m. In the same period, underlying Profit before tax was $56.9m up from $45.3m in FY22.

Net cash inflows from operations decreased by 22% to $40.9m as Alliance invested in crew and crew training, inventory, and other items to support the increase in operational activity.

Debt increased during the period by $45m which included funding for the deposit on the AerCap E190 transaction and working capital requirements.

Overall, the Company’s on time performance (OTP) improved to 96% beating our standard target of 95%.

This is a significant achievement given the major increase in fleet and staff numbers and the addition of new FIFO and wet lease destinations. Since balance date, a number of new FIFO ports have been included in our operations and we have started international wet lease services to Honiara (Solomon Islands) and Wellington (New Zealand).

During the year Alliance retained all material contracts and post the year end has renewed three major FIFO contracts with BHP Iron Ore, BHP Olympic Dam and BHP Nickel West for between five and seven years. These customers have been with Alliance for a total of 41 years in aggregate. This highlights that our customers favour Alliance due to our ability to deliver services that are safe, on time and of a consistently high standard.

Alliance exited contracted tourism operations in January this year. Aircraft and crew operating these services were on very low utilisation and the decision was made to allocate these resources to much higher and more profitable operations. This successful strategy contributed to our strong second half.

I wish to welcome the new staff at Alliance and thank them and our existing staff for all their efforts in achieving the favourable outcomes of 2023. Increasing activity by 58% is a sizable task and one that every staff member should be proud of.

Strategy

Further to the comments in the Chairman’s address our strategy is to remain the pre-eminent Australasian owned provider of quality aviation charter capacity to the mining and resources sector and other domestic carriers within Australia.

We will achieve that by focusing on those parts of our business that we can influence and improve.

We remain convinced that the simplest strategies are the best and that includes having our Senior Management Team KPI's aligned with an emphasis on Safety, On Time Performance and Financial Sustainability.

ESG

A significant part of our environmental focus is on reducing fuel consumption and overall energy consumption. To that end every flight operated is monitored subsequently, to ensure the most efficient use of fuel has been achieved. We have been assisted in this program by GE Digital and the use of their monitoring systems and reporting.

With the Fokker fleet fitted with Rolls Royce Tay engines we are now recording only 3% full power take-offs which ensures minimum fuel consumption and maximises engine life.

With the E190 fleet, fitted with General Electric CF34 engines we have reduced thrust ratings across the fleet to the lowest settings. This again reduces fuel consumption and extends engine life.

Once our base maintenance facility in Rockhampton reaches full operating capacity the company will be saving up to 3.5 million litres of jet fuel per annum in not having to send aircraft overseas.

In a recent test of the electrical supply at our Rockhampton facility and with all electrical consumption at full capacity our solar generating system still had 30% residual capacity.

Alliance remains a major contributor to Breast Cancer Network Australia, Foodbank Queensland, and Queensland Rugby Union. Many other organisations around Australia rely on us to assist them with fund raising and where we can, transport.

Outlook

As stated above our FIFO operations are not only stable but growing and we have had significant success in retaining all major contracts. Our contract book is the strongest it has been since we listed in 2011 and our growing fleet will ensure we have the capacity to take on additional contract business.

Our wet lease operations continue to expand in volume and scale and individual aircraft utilisation will rise progressively over the next eighteen months. This "industrial leverage" results in lower unit costs and either stable or growing margin.

As this utilisation improves over time shareholders will see the results of our very significant capital investment over the last three years. That major capital expenditure commitment into fleet has been previously communicated to shareholders and will provide us with the capacity we need for some years to come. The E190 is the long-term replacement for our Fokker fleet in the next 6 to 9 years.

It is likely that the company will "part out" up to eleven of the Aercap E190's to provide spare parts and engines for the operational fleet which reduces maintenance capex and provides a source of spare parts and engines to sell to third parties.

As we own all our aircraft and engines, increased cash flow from each productive unit stays within the business and allows flexibility in cash use which will be directed to debt amortisation and dividends.

The company is cognisant that shareholders are desirous of a return to dividends and as our Chairman commented we will return to dividend payment at the earliest possible date and where it is pragmatic to do so.

In respect to the outlook for the remainder of FY24, The Board is comfortable with the consensus forecast of $83.7m Profit Before Tax. As with FY23, the second half of FY24 will be significantly stronger than the first half.

Closing remarks

On behalf of the Directors and our shareholders, I would like to thank the professional advisers who assisted us during the year and continue to do so. They are PwC, Norton White, King & Wood Mallesons, Herbert Smith Freehills, and Catapult Partners and to our financiers the ANZ Bank, Pricoa, and NAIF.

I would also like to thank those organisations who conduct and publish research on Alliance being, Ord Minnett, Morgans and Wilsons and all our spare parts, ground handling and fuel suppliers, particularly Viva Energy who are now into their 22nd year of continual supply.

A special thanks to all the contractors, project managers, designers, and engineers for their endeavours in delivering us a world class maintenance facility in Rockhampton.

As we all know aviation is a hugely complex industry that can only work if all stakeholders work together and focus on the basics to achieve a common outcome.

We would not have been able to achieve what we did in the 2023 financial year without all of you working in concert with us.

Scott McMillan

Managing Director