EasyJet rejects Wizz bid and raises $1.7 billion from shareholders

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FILE PHOTO: An Easyjet Airbus aircraft taxis close to the northern runway at Gatwick Airport in Crawley, Britain, August 25, 2021. REUTERS/Peter Nicholls

EasyJet (EZJ.L) has rejected a takeover approach from Wizz Air that would have created a low-cost airline to rival Ryanair, opting instead to raise $1.7 billion from shareholders and go it alone in an industry battling to recover from the pandemic.

EasyJet declined to name its suitor, but a source familiar with the matter told Reuters it was Wizz Air (WIZZ.L). Wizz also declined to comment.

EasyJet said the all-share approach fundamentally undervalued its business, and added the potential bidder had since said it was no longer interested in a deal.

The approach was “highly conditional in its nature which made it very uncertain in terms of the deliverability,” easyJet CEO Johan Lundgren told reporters, without giving details.

EasyJet said the fundraising, its second of the pandemic, would strengthen its balance sheet should the COVID-19 downturn continue and allow it to operate more aggressively once the recovery arrives. It has identified landing slots across Europe it could acquire, including in Paris, Amsterdam and Milan.

“I believe this is really a once in a lifetime opportunity,” Lundgren said.

EasyJet, which during the pandemic sunk to its first ever annual loss and cut 4,500 jobs, wants to steal market share from legacy carriers like British Airways owner IAG (ICAG.L) and Air France-KLM (AIR.PA) as they retract their short-haul operations.

But it faces stiff competition from Ryanair, Europe’s largest budget airline, and rapidly expanding Wizz, both of which have recovered faster than easyJet this year.

Wizz is strong in eastern European destinations like Poland and Romania, while easyJet is well-positioned in countries including Britain, Italy, Switzerland, Germany and France. Adding to their potential good fit, both also operate all-Airbus (AIR.PA) fleets.

“EasyJet has always been a strategic target for Jozsef Varadi,” said a senior industry source of the Wizz CEO.

Based on passenger data from last year, when fewer people travelled during the pandemic, a combination of the pair would still lag Ryanair by almost 20 million passengers.

Wizz, which counts aviation veteran Bill Franke as its chairman and his Indigo Partners as its biggest shareholder, has a market value of 5.1 billion pounds ($7 billion), while easyJet is worth 3.3 billion pounds. Its share price has also outperformed easyJet's.

Shares in Wizz had bounced back to pre-pandemic levels by November 2020 and hit an all-time high of 5,595 pence in March. EasyJet's stock, by contrast, had recovered 70% of its pre-pandemic value by May 2021 before starting another decline.

Illustrating the ongoing travel slump, easyJet said that over July-September it expected its capacity to be about 57% of pre-pandemic levels. Ryanair flew around 75% of its normal passenger numbers in August, and Wizz flew over 85% that month.

For the last three months of 2021 easyJet expects to fly up to 60% of 2019 levels, held back by Britain's slower return to international travel than the rest of Europe.

The drawn out recovery has already forced easyJet to raise 5.5 billion pounds from shareholders and debt markets, and by selling and leasing back aircraft. It also announced a new $400 million debt facility on Thursday. ($1 = 0.7264 pounds)

In June 2020, easyJet raised 419 million pounds from investors, but its biggest shareholder, founder Stelios Haji-Ioannou, did not participate. The new rights issue, raising 1.2 billion pounds, represents a 35.8% discount on the theoretical ex-rights price of 638 pence per share on Sept. 8.

Shares in easyJet, which were trading around 1,550 pence before the pandemic hit in early 2020, were down 10% at 710 pence at 1105 GMT, while Wizz was down 2%.

James Halstead, managing partner at consulting firm Aviation Strategy, said the takeover announcement would normally mean easyJet was in play, but there were few alternative buyers due to high industry debt levels and competition issues.

The rights issue is underwritten by BNP Paribas, Credit Suisse, Goldman Sachs, Santander and Societe Generale.

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