# THE UK SHAREHOLDERS' ASSOCIATION INVESTIGATES AIM COMPANIES' ANNUAL REPORTS

## DART GROUP PLC – Number 5 in the Investors Chronicle 'AIM 100', April 2016

## Annual Report for year ended 31 March 2016

### INTRODUCTION

In 1983, Philip Meeson, the Chairman/Chief Executive, took control of a business flying fresh flowers across the channel and this has been developed into Dart Group, with a fleet of UK based passenger aircraft flying under the JET2 banner and specialising in package holidays and charter flights, principally to European destinations. This Leisure Travel division contributed 95% of profit before tax and accounted for 84% of Shareholders' Equity with the balance being a logistics division, Fowler Welch, distributing temperature controlled products for the food industry.

Revenues have grown at 20% pa over the last 5 years to reach £1.4bn with operating profits growing at 39% pa to £105m, up from £50m in the previous year. At the year end there was net cash of £321m, with customer deposits standing at £386m. Shareholders' Equity was £318.7m (£157.2m) including £6.8m of goodwill. There is a small dividend, covered 15x by earnings.

There are currently 59 aircraft, 45 owned and 14 leased; during the year 3 second-hand aircraft were added and two were retired. In late calendar 2015 the company agreed to buy 30 new Boeing 737-800NG aircraft for delivery before April 2018. The cost of the transaction, before "*significant*" Boeing discounts, will be US$2.9bn to be funded from internal resources and debt. The market appears to be worried about this expansion, about Brexit and the slide in value of the £, because the share price fell to £3.65 from a peak of £6.70 in May of this year; it has since recovered to £5.03 following a reassuring half year statement. The Chairman's view is that, whilst he is disappointed at the result of the referendum, he is confident that people will still be "…*keen to travel from our rainy islands to the sun spots…and to European Leisure Cities"*.

### THE REPORT

We asked for a hard copy of the report and this was delivered promptly. The report is unique in having no photographs of directors – congratulations! It is clearly presented with black print and some red highlighting on a white, glossy ground, is relatively jargon free and gives us the bonus of simple 5 year comparatives on the inner cover. There are 78 pages, including covers and a fold-out, with 15 of the pages being effectively presented PR and photos. There is a separate statement of the parent company accounts covering 9 pages which leaves a fairly short 54 pages for the core report. This brevity is helped by the fact that the Chairman is also chief executive and confines his statement to 2 pages of text with a further 5 for the Business/ Financial Review.

The Key Performance Indicators (KPIs) are briefly and clearly stated for both business activities but we are given no targets and there is no formal discussion of Strategy or Strategic Objectives, only a few vague mentions in the text. Shareholders should be given comprehensive information about the strategy behind the c. £2bn commitment to new aircraft over two years, as this will dramatically alter the balance sheet, the gearing and the risk profile. We are not even told how many old planes will be retired and what will be the increase in capacity.

There is a 2 ½ page risk review. The group's policy is to hedge up to 90% of its €/$ fuel and operational costs up to 30 months ahead but no mention is made of hedging the all important aircraft purchases. The risks of changes in demand due to economic conditions are recognised.

The Directors', Remuneration and Corporate Governance Reports take up only 9 pages, as pay and share options are straightforward (see later).

### JET2

The Leisure Travel division currently flies to 61 holiday destinations, ranging from Berlin in the north, Larnaca in the east and Tenerife in the west; there are very few trouble spots on the list and there are no destinations in North Africa. UK departures are from 7 northern airports with Birmingham and Stansted being added later this year.

Jet2 is split into two sectors, scheduled flights (Jet2.com) and package holidays (Jet2holidays). The flight only business is established and stable, with the sales being booked almost exclusively through the company's web site. The expansion effort is being put into package holidays, which are sold 33% by travel agents, 50% online and 17% by the call centre. We are not given a full breakdown but, from figures provided in the Business Review, package holidays account for 40% of departing customers and around 64% of Jet2's £1,261m revenue. Year-on-year, package revenue grew by 27% and flight-only was stable, with higher prices matching lower volume.

**FOWLER WELCH**

The division generates profit before tax of £5.4m on revenue of £144m and shareholders' equity of £52.1m. There is 847,000 sq ft of temperature controlled warehouse space served by 428 tractor units and 629 trailers. In the absence of any guidance from the report, it is difficult to see any benefits or synergies from owning a distribution business accounting for only 5% of profit before tax and making a return of 10% on equity employed.

**THE ACCOUNTS**

The figures and notes are clearly presented and, unusually, we are given a detailed breakdown of operating expenses which, combined with the KPIs, would be very helpful for making a detailed analysis of the business. Total fixed assets at the balance sheet date were £420m (compared with shareholders' equity of £319m), with £365m being aircraft, which inevitably puts the focus on their depreciation. In addition there were off-balance sheet leasing commitments of £116m (incl. aircraft £77m). Aircraft acquisition costs are broken down into the major components. Engines and similar components are then written off over the period to the next major overhaul, which could be as short as 2 years: on overhaul, the costs are added to capital and depreciation starts again. The structure of the aircraft is depreciated over 20-30 years, with the costs of any major refits being added to capital, subject to tests on the remaining life. Historically this policy appears to have been satisfactory but the numbers are small compared with the future cost of the enlarged fleet.

**DIRECTORS, EMPLOYEES & SHAREHOLDERS**

There are 4 male directors, as follows,

- 1983. Philip Meeson, Chairman/Chief Executive, took control of the original business.
- 2009. Mark Laurence joined the board as a non-exec. Stephen Heapy joined the group as Chief Commercial Officer of Jet2.com and Jet2holidays.
- 2013. Gary Brown joined the group as Chief Financial Officer and became a director, together with Mr Heapy.

The executive directors' salaries and benefits for the year were £1.3m, evenly split between the three. Mr Meeson does not participate in either the share option or deferred cash/share award schemes. No options were granted for the year but Mr Heapy and Mr Brown shared £0.6m as cash/share awards.
Excluding directors, there were 5,129 employees on average earning £39k each.
Mr Meeson owns 38% of the equity, followed by Schroders at 8% and 4 other institutions totalling 15%.

**CONCLUSION**

A user-friendly Report giving a clear picture of Dart Group's performance during the year and of the year-end balance sheet. What readers are not given is any Strategic Plan or any justification for a company with shareholders' equity of £319m ordering c. £2.9bn (before significant discounts) of new aircraft. Furthermore, the £/$ rate has fallen by nearly 20% since the order was placed and there is no mention of hedging. The Company's response to our concern over the aircraft is that *"We believe this is adequately covered in page 6 (Chairman's Statement) and page 11 (CFO's report)".* Readers can make up their own minds.

HPB
24/12/2016