FLYBE BOSS PRIMES AIRLINE FOR TAKE-OFF

News / Airlines

When Saad Hammad took the controls at Flybe almost three years ago, he knew he was in for a challenge at the ailing regional airline. But no amount of due diligence could have prepared the former easyJet executive for the crisis he faced when he touched down.

“Running out of cash, loss-making, in disarray,” is how he describes Flybe’s predicament then. Floated at 295p a share in 2010, the airline had acquired a reputation for being one of the London Stock Exchange’s worst floats. The share price stood at 46½p when Hammad was appointed chief executive.

“I literally came in and realised: 'God, this could be very, very serious very quickly’,” he says of Flybe’s finances when he arrived in August 2013. “I thought I had a bit more time.”

Indeed, there were moments during his first few weeks and months when it looked like Flybe would drop out of the sky altogether.

“We had in that summer around six days, at one point, of free cash left. And then in January 2014 that had gone down to three days of free cash flow.”

Hammad, 53, was forced to make painful cuts to rescue the business. About 1,000 jobs were slashed not long after he took charge; a third of the work-force. The process was “really harrowing”, Hammad admits, but “I decided I wasn’t going to do it by remote control”.

So he visited all of Flybe’s bases to speak to as many employees who were to lose their jobs as possible. In the end, he addressed 843 of them.

“Having to part ways with these folks through no fault of their own was really tough,” he says. Fast-forward three years, and the prospects for Exeter-based Flybe, which flies from 37 UK airports on routes where there is limited demand, look altogether brighter. The airline, which flew 8m passengers last year on its fleet of mainly turboprop aircraft, is on course to generate annual profits of £3.3m. After Hammad’s drastic early measures saw 55 routes dropped or cut back and six of 13 bases closed, it is expanding in Europe.

“After several years of underlying losses we are going to be profitable this year,” Hammad declares.

An executive whose career has spanned consumer goods to logistics, the Flybe boss concedes the carrier still faces “a tough environment”. The airline’s last two updates bear this out. In January, it warned investors that November’s Paris terrorist attacks had stunted demand for travel. And last month it cautioned would take a £7m hit from the strong dollar.

But thanks to Hammad’s turnaround, Flybe, the biggest regional airline in the UK and Europe, is in a stronger position than it was three years ago.

Hurt by the economic downturn and UK aviation taxes, which hit the domestic-focused carrier particularly hard, when Hammad joined the business he was confronted by an “unbelievably dysfunctional” organisation where annual losses stood at £40.7m.

“We didn’t really have a cost culture when I came onboard; it was extraordinary some of the things that were going on,” he says, his eyes widening as he recalls the state of the carrier when he took over from executive chairman Jim French, who had built up the airline. It was very “siloed”, with different divisions actively “not helping each other, giving a third party revenue”, says Hammad, speaking from Flybe’s offices in Hammersmith, London.

Too many of its routes and bases were unproductive and the company had bought “super expensive” aircraft, unsuitable for its regional business.

Saad Hammad

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“Like many entrepreneurial businesses it reached a point where seat of the pants doesn’t suffice any more,” says Hammad. The Flybe boss describes the overhaul he has orchestrated as having three “chapters”. The first was restructuring the business – cutting jobs, routes and bases, and building a new management team. The second saw Flybe take the £150m it raised from investors in March 2014 and bolster the balance sheet and re-launch its brand, adopting purple as its colour.

The third chapter, which Hammad closed last year, saw Flybe rid itself of about £750m in liabilities that would have crippled the business. He managed to wriggle the airline out of an order it had made for 20 E175 jets, which would have cost it around £485m. Another £100m liability was removed by selling its holding in its Finnish joint venture to partner Finnair for €1. Hammad also found ways to redeploy the 14 E195 jets that Flybe had leased but were surplus to requirements, cutting an estimated £120m obligation to £40m.

A varied career helped prepare him for the challenge of reviving Flybe’s fortunes. Born in Beirut, he left Lebanon at the age of six to attend boarding schools in Sussex, fulfilling the wishes of his late father, who died when he was four and had been “obsessed” with the English education system.

“Coming from a warm Mediterranean it was freezing cold,” he says with smile. “I liked a lot of things about my English education but I think it can be a little over the top sometimes in terms of the disciplining side of the equation.”

He read politics, philosophy and economics at Oxford, where he met his wife, Kathy. An MBA from business school INSEAD followed, after which he joined Procter & Gamble’s international operations, working on brands ranging from Pampers nappies to Vicks cough medicine. Five years later he left for the Boston Consulting Group, and then had a variety jobs, including leading the international expansion of Vision Express and leading a start-up backed by Avis Europe and car dealer Inchcape. He became immersed in aviation during four years as chief operating officer of easyJet where, working with boss Andy Harrison, he helped to turn the airline around.

Harrison famously fell out with easyJet founder Sir Stelios Haji-Ioannou and Hammad left in 2009, when board tensions began to mount.

“Stelios is an interesting individual,” he says carefully of the outspoken Greek-Cypriot entrepreneur. “One has to give Stelios a lot of credit for what he’s achieved. Unfortunately, he can be his own worst enemy.”

Hammad left to join American private equity house The Gores Group and stumbled across the Flybe job when a friend who was a headhunter mentioned he had heard that the carrier was looking for a new boss.

He speaks passionately about the issues facing Flybe and the wider industry. “We lack a national aviation policy,” he argues, pointing out that much of the current debate is from a “myopic south-east perspective”, focusing on whether to build a new runway at Heathrow or Gatwick.

Heathrow

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While the airport capacity crunch in the South East waits to be solved, Britain should “leverage the capacity we do have”. Flybe has proposed that RAF Northolt, which is used by private jets, be opened up to commercial flights, but Hammad says the Government has stalled making a decision on the plan until the saga over Heathrow and Gatwick expansion is resolved.

“I’m really stunned by that,” he says of the Northolt delay.

Still, prized slots at Heathrow could provide Flybe with an opportunity. Hammad wants to try where Virgin Atlantic’s Little Red service failed and use some of the Heathrow slots British Airways has to vacate for free to domestic rivals –as part of the conditions imposed of BA’s purchase of British Midlands in 2012 – to fly routes to Aberdeen and Edinburgh. The plan would only work if Heathrow agrees to cut its sky-high charges, Hammad says.

He is also eyeing Europe, which he hopes will be key to chapter four of Flybe’s recovery. While the airline already flies between the UK and the continent, flights within Europe present an attractive opportunity.

“There are 39m customers in mainland Europe that are under-served,” Hammad argues. The business is already launching flights from Hanover to Lyon and Milan Malpensa this August and is considering opening a base in Europe. While Hammad has boosted the number of codeshares Flybe has with long-haul carriers such as Cathay Pacific to 10, he says he would like to agree a couple more and talks are ongoing. Acquisitions are not core to his growth plan and he dismisses the suggestion Flybe could tie-up with leisure travel-focused Monarch, which is thought to be up for sale.

Still, despite Hammad's successes, he has much work to do if he is to shake off that unwanted reputation Flybe has of being one of the stock market's more disastrous floats.

The shares stood at 56¾p at the end of last week, 81pc below the flotation price. But Hammad is optimistic the business is on the right flight path.

“We're ready to get onto our next phase of what we're calling profitable growth.”

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