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Mehmet Nane: “We will Look Towards a Brighter Tomorrow with Hearts Full of Hope

Muhammed Yılmaz, one of our magazine's authors conducted a live interview with Mehmet Nane, CEO of Pegasus Airlines, on his Boardinginfo Youtube Channel on April 1, 2020. CEO Nane expressed his views and opinions for the first time on the damages caused by the Coronavirus in the aviation sector, his projections, the company's strategies and discussed Istanbul Sabiha Gökçen Airport's 2nd runway, which is under construction for quite a long time. We've compiled the highlights of this exclusive interview for you, the readers of Aviation Turkey.

✈ Muhammed Yılmaz: We are at the office of the CEO of Pegasus Airlines, Mr. Mehmet Nane. As you know, we have a heavy agenda as the whole world battles against the coronavirus pandemic and the aviation industry is one of the sectors most affected by the pandemic. Nearly all global airline companies temporarily grounded approximately 95% of their aircraft. Operations have almost been suspended and Pegasus Airlines is one of the aviation companies that adopted such measures. How do you evaluate

this situation, as the CEO of an airline that now has most of its airplanes temporarily grounded?

Mehmet Nane: Not only the aviation sector, nearly all sectors, excluding a few, have been adversely affected by this crisis in an unprecedented way in our history as this crisis does not proceed similarly with the economic crises or other epidemics we have experienced before. The deaths occurring due to the rapid spread of the virus will unfortunately make every citizen of the world remember this

crisis. In this perspective, one can perceive that this is an extreme case. Therefore, without doubt, it is natural to launch unique action plans and implement certain measures in such unusual cases. Hardly any of the previous crises stopped the pace of life to the extent that we are seeing now. Sanctions such as the closure of national borders and the lockdowns have not been imposed before and the hospitals did not exceed their capacity either. This led countries to internalize their economies. Consumption habits of individuals

became rather focused on healthcare and food. The lack of consumption in other areas has caused problems in the production of services and goods. The aviation industry is one of the main sectors that have been affected from such circumstances where global measures and restrictions have been applied. This outbreak decimated the demand for travel. Finally, upon the decree adopted on March 28th, domestic flights have been suspended and it was decided upon to conduct flights with the permission of the related governorship only under certain conditions.


 **Muhammed Yilmaz:** You are also a member of the Board of Governors of the International Air Transport Association (IATA). The IATA follows the crisis very closely and reveals various scenarios on its reflections over the industry, and the losses in the sector in terms of passenger and finance. We also follow these developments closely as well. A possible loss of US\$ 131 billion was announced as part of the worst-case scenario in the report published in the beginning of March. However, the IATA updated its reports as the crisis gained depth and the figures proceed towards terrifying levels. According to the latest

scenario, a revenue loss is expected to reach US\$ 252 billion. How will Pegasus Airlines be affected in this scenario that projects a financial loss of US\$ 252 billion? In other words, taking into consideration the prominence of the aviation industry on a global scale, what does this huge revenue loss signal to us and where does Pegasus stand in this process?

Mehmet Nane: The scenario revealed by the IATA is merely related to the commercial losses of its member states and companies, but the indirect impact of this crisis will be far worse. An individual will stay at a hotel when visiting a place, will dine at a restaurant or two and perhaps buy a few things at a store. New business connections are built during business travels, setting the scene for new opportunity. Therefore, tourism intrinsically affects trade very significantly. When we consider the turnover loss of the airlines, similar conditions also apply to Pegasus. When the IATA revealed its projections in the beginning of March, we were still conducting flights abroad and we were also carrying out domestic flights. All our international flights were suspended on March 23rd in line with the measures adopted by our country. Five days later, on March

28th, our domestic flights were suspended as well. This resulted in a decrease in our turnover each day. If we project our turnover for this year roughly as €2 billion, as Pegasus Airlines, we will fail to achieve at least €1 billion of this projection. When we review Q1 data, we have only realized one third of the aforementioned turnover figures. We presume that we would achieve a turnover of € 600 million more in the remaining period on the presumption that domestic flights resume. I believe that it will end up in a positive way; I believe we will achieve the remaining €1.5 billion out of the projected turnover of €2 billion, surely on the condition that domestic flights will resume as of July. Even we cannot make a clear projection; we can barely design different scenarios such as a-b-c-d. What if we only see that domestic flights are restarted? What happens if both international and domestic flights become active again? These scenarios also have their own breakdowns. We are a publicly traded and listed company. Normally, we reveal an outlook including our projections at the beginning of the year. But this year we failed to do so, as the measures and restrictions escalate day by day. When the date of the flights become clear, the course that will

follow will also become clearer. When this date becomes definite, we will finalize the outlook and will launch one of the scenarios we designed or will be implementing one of our transition scenarios. Based on daily data, the IATA looks over the loss incurred by the aviation industry. When we look at this situation from a wider perspective, many product and service suppliers ranging from tourism to trade will be affected adversely from this crisis.

 **Muhammed Yilmaz:** The reports published by the IATA suggest that this process will proceed in a U-shaped sharp fall, followed by a prolonged contraction and then a recovery, rather than a V-shaped fall followed by a rapid recovery. According to this scenario, many airline companies will not be able to maintain their operations with their existing cash-flow. Even major airline companies may go bankrupt. There are also some terrible scenarios forecasting that all airline companies will go bankrupt if this process lasts for 3 months. Overall, is it probable that Pegasus Airlines will fail? What is the outlook for your company in being able to continue its operations after this crisis? What are your alternative plans?

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Mehmet Nane: As a publicly held company, we already have financial reports that have been declared and audited and we made it public in the beginning of March. You see certain items in the balance sheet and one of them is the cash assets. You can find our balance sheet at the official website of the stock exchange or at our corporate website. Both websites contain our year-end financial statements of 2019 audited by an international audit company. As Pegasus Airlines we do not have such a pessimistic scenario, and I hope we will never have one. We believe in the strength of our financial structure. I am certain that our financial reports also put forth this stance quite clearly.

M u h a m m e d Yılmaz: State aid has come to the fore in this process. Today, even the company Boeing has asked for a sizable amount, US\$ 60 billion directly from the state. The IATA's report and other sectoral reports reveal that the survival of airline companies without state stimulus package will not be possible. Have you asked for direct support from the state, as Pegasus Airlines, since the beginning of the crisis?

Mehmet Nane: The stabilization program



announced by our President does not address only one sector, it addresses sectors all over Turkey. As a company that remains a prominent player among the top 50 companies of Turkey, providing employment opportunities to 6,600 people, we will benefit from these stabilization and recovery programs. At the first stage, we applied for the short-term working allowance and a program composed of 19 items that are available for our company. There may be certain breakdowns based on sectors in time. Both regarding the rule makers and also, we do not know where this process is heading. As Pegasus Airlines, the investment planned to be made this year for new airplanes is nearly US\$ 1 billion. This crisis has affected our company in two aspects. Firstly, the cash outflows

had to be taken under control, because the cash outflow could only be managed properly in the existence of the cash inflows. Secondly, we must maintain new cash inflow and in our case the availability of the utilization of credit limits may allow us to achieve this. Companies own certain credit limits under normal circumstances, we do not have any other demand other than the availability of the utilization of these credit limits. We need new cash inflows to return to normal, if our approved credit limits are launched, we can say that we can overcome this as an industry. We will surely be pleased if additional programs are provided. At this point, the priority sectors should be determined. Tourism is one of the industries that build our main sources of income, and our guests

in the country and in foreign countries need to be transported to vitalize this industry. Here, the airlines play the key role as carriers. Turkey hosted 50 million international tourists last year and achieved over US\$ 30 billion in tourism income. We thought we would break this record this year but unfortunately, the world encountered the coronavirus crisis. For instance, if you attempt to bring 25 million tourists via road transportation or by seaborne or railways in this period, you will see that neither the highways nor the train stations will suffice to achieve this. Aviation is truly more importance from this point of view. But if we fail to protect the aviation industry, it will lose strength and weaken in Turkey. Then, if foreign carriers gain more prominence in Turkey, this will lead to a loss of added value achieved in Turkey which will create an advantage for foreign countries. As we underline the prominence of the Turkish aviation industry for Turkish tourism, we see that the survival of aviation is also becoming a critical component that enables the survival of Turkish tourism.

M u h a m m e d Yılmaz: You have over 6,000 employees at Pegasus Airlines and perhaps most of your employees are thinking

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about their future and wish to hear more about what the future holds for Pegasus, from the top executive of their company. What would you like to say to the employees of Pegasus on the topic of paid/unpaid leaves and layoffs, and about the future that awaits them?

Mehmet Nane: Today (April 1, 2020), I conveyed to them my messages clearly via a 4.5-minute video message. Therefore, presently Pegasus employees do not have any hesitations in this area. We started to work from home as of March 23rd. The process of working remotely was supposed to last until

March 31st. Our executive board gathered in a virtual meeting yesterday and as part of the resolution that we adopted, we will be continuing to work from home until further notice. By the way, as part of the support of our government within the scope of the stabilization shield project, we have a short-term working allowance. Last week we submitted our application for this and are waiting for it to be granted. We aim to survive this crisis without losing even a single employee of our 6,545-member team and we wish to look hopefully towards the future as we did yesterday. We are benefiting from all the facilities that are provided

for our company in an ardent effort to avoid any layoffs. We also implemented salary increases as planned for 2020. We distributed the premiums of 2019 that we owed to our employees and we talked about the sacrifices we need to make with our teammates, and we are relieved as our government will provide compensation for this as part of the short-term working allowance. Within the next 3 months, if we could benefit from this allowance after our application, we will not be faced with any financial losses. As part of the executive management team, I took the initiative and declared that I would be working for three months without any salary payment and demanded unpaid leave, then the members of our executive board joined this pledge as well. Our colleagues on the Executive Board and top management positions did not ask for salary increases and we did not receive any raises this year. Surely,

these are all symbolic moves that demonstrate our resilience and ability to shoulder responsibility; we will overcome this hardship together.

M u h a m m e d Yılmaz: What are your projections on the future of the trainee pilots that are continuing their training at your company's flight academy and the prospective pilots that made preparations to apply to this academy in 2020? Similarly, what would you like to say to those individuals wishing to work at Pegasus Airlines?

Mehmet Nane: The name of the program that we launched is the Cadet Program. There are two Cadet Programs in which we offer training to our trainees at home and abroad. We had to suspend the training of our trainees in line with the suspension of the education system in Turkey. The training of our 40 fellow trainees in Ireland continues there.



SAW 24 final approach of Pegasus Airlines TC-AIP Boeing 737-82R WL to Sabiha Gökçen Airport, 04 May 2014.

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We were going to procure 16 more airplanes this year. Two of these airplanes arrived and next week 3 more will arrive, we continue to receive them. Germany's air space is closed so the airplanes of Airbus from Hamburg will be received at the airport of Airbus on our behalf and will wait there (on April 22nd three airplanes were received through the e-delivery method) and we will bring these airplanes to our country once the air space is opened. We will continue to procure these airplanes and we will grow. We foresee that this is a temporary crisis just like others and believe that it will not last forever. As we believe in the dynamism of our country, its growth potential, and since we believe in our country, we will continue to make investments, create employment opportunities and transport tourists to our country.

M u h a m m e d Yilmaz: So, the process continues for the prospective pilots and the ones wishing to take part in this program.

Mehmet Nane: Surely the process will continue. We fly to 35 points in Turkey and to 43 countries and 75 destinations abroad, to a total of 112 points. As our standard flights are relaunched, we will continue to provide employment opportunities again.



Pegasus A320neo

M u h a m m e d Yilmaz: In addition to the airline companies and airports, airplane manufacturers were also hit by this pandemic. Entire production schedules of manufacturers were affected as many airline companies applied for either postponing or cancelling their orders. You have a contractual, significant production plan with Airbus. Have you made any request to Airbus for a change in production or delivery programs? Or do you plan to request changes in the upcoming period?

Mehmet Nane: We need to know when and which product will be manufactured so that we can foresee the course of events. Instead of postponing, we are trying to confirm the alignment of the manufacturer's time schedule. The airplanes that were supposed to arrive next week were scheduled to be delivered in March. So, there is already a 1-month delay.

M u h a m m e d Yilmaz: There was a problem in delivery at the end of 2019 and deliveries were postponed, any comments on this?

Mehmet Nane: Five airplanes were supposed to be delivered in 2019 but the delivery was delayed to 2020. The delivery of four airplanes was delayed to 2021 and after. Europe and the whole world are experiencing the slowdown, and it is just the same in the business realm in Turkey. Production lines are affected similarly by this process. Airbus and Pegasus will decide on the position we will be taking accordingly and on our next steps.

M u h a m m e d Yilmaz: Are all your airplanes currently grounded?

Mehmet Nane: We possess 84 airplanes. Two out of these 84 airplanes are waiting to be returned to leasing companies. Also, two airplanes from

this group are under maintenance abroad. Currently, 80 airplanes are parked position in our country.

M u h a m m e d Yilmaz: Is the whole batch of 80 airplanes in parking position at Istanbul Sabiha Gökçen Airport?

Mehmet Nane: 62 airplanes are in parking position at Sabiha Gökçen Airport and 18 airplanes are parked at various airports across our country. Our main airports are located at Ankara, Izmir and Antalya and 2 in Adana. All these airplanes are now at these 4 airports.

M u h a m m e d Yilmaz: I would like to go back to the topic of Sabiha Gökçen Airport. The tender for the construction of the second runway was held in 2014 and the construction was launched in 2015. As of April 1, 2020, we see

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that the second runway has still not been put into service. As Pegasus Airlines, you conduct 65% of the operations at Sabiha Gökçen and you are considered to be the host of this airport. Both the number of your operations and the capacity of the airport will increase once this runway is completed. Moreover, the traffic at the airport will be less heavy and our country will receive more foreign currency inflow. What are your comments about the completion of this runway?

Mehmet Nane: As a company conducting operations at this airport and utilizing its facilities, we desire the rapid completion of this runway. We were notified that the second runway would be launched to operation in November 2020. Our operations will be executed over two runways after the completion of the new runway in November.

Muhammed Yılmaz: It has been reported that the first runway will undergo maintenance work for 6 months during this process; therefore, the operations will be conducted over a single runway even if the second runway is launched.

Mehmet Nane: Sabiha Gökçen Airport made use of this closure and the

operator company made several attempts to launch the maintenance process. The company launched the required infrastructure operations throughout the period where the airport is closed instead of assigning an additional period for maintenance in order to launch both runways when they are ready for operation.

Muhammed Yılmaz: Finally, I would like to conclude our interview with a general question on the aviation industry. It is considered that many rules in the aviation industry will change after the coronavirus crisis. As you know, many rules that are accepted as norms today were either the

result or the reflection of the September 11 attacks. How do you assess the future of the aviation industry, what will change? As you know, there are rumors on bankruptcies, and it is said that various consolidations will become inevitable. Especially, it is projected that many European based companies will go bankrupt. What is your future projection in terms of the aviation industry in the aftermath of the coronavirus crisis?

Mehmet Nane: The approach of the states is quite critical at this point, but it is unrealistic not to project certain unfortunate incidents.

As a matter of fact, many states announced state aid programs supporting their country's airline companies. Almost all European countries clearly announced that they would be supporting their airline companies even if they are private companies. Therefore, we can only wonder, what type of structure will we witness resulting from these support programs? Will these subsidies be enough for the survival of airline companies? We will surely see the consequences following the re-launch of operations. Any comment I make now would be merely a speculation. After the implementation of state-aid and revitalization programs, and after the recovery period, we will be able to observe the results.

Muhammed Yılmaz: This has been a pleasant and informative interview. We hope that our readers have received the answers to many of their questions. Thank you for your time. I hope to have another pleasant interview with you again when our sector and country, as well as the whole world becomes normalized, when we embrace our good old days.

Mehmet Nane: I hope so, and I believe those days will come soon. We need to keep our unity and solidarity, and we must not lose our hope! Thank you very much... 🌟



Muhammed Yılmaz with Mehmet Nane

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