Stocks & Shares

Moneybag$

Aer Lingus in for a bumpy ride

AFTER THE high-profile industrial relations stand-off at Aer Lingus, the airline is in the bad books of its owner, International Airlines Group (IAG). The underwhelming performance of the Irish business in the first six months of this year reflects the turbulence and, with senior management focused on the other airlines in the group, Aer Lingus could be in for a pretty bumpy ride.

It was hard for Aer Lingus management to accept that a group of highly paid workers like the 800 airline pilots would effectively bypass the Labour Court and opt to strike at the start of the holiday season, resulting in the cancellation of 80,000 bookings.

The starting salary for the pilots is €60,000 pa, eventually hitting €207,000 annually for a senior captain. With add-ons for shift allowances along with other top-ups, this latter more typically works out at around €250,000 pa.

The bolshy pilots referred regularly to Aer Lingus's profitability, with the airline having made €225m in 2023, which reflects trading margins of 9.9% – the lowest of the four other airlines in IAG (Iberia, British Airways, Veuling and Level).

It is hard to imagine that Willie Walsh, whose own experience as a pilot gave him a particular insight, would have nodded through the deal, especially given the initial impact on Aer Lingus's order for six long-haul Airbus 321s, which were due to be deployed to expand its transatlantic routes at a capital cost of €750m. (The first two were instead diverted to Iberia.)

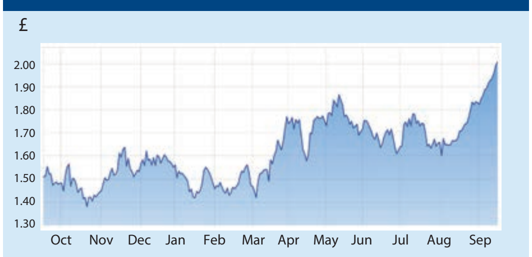
The whole IAG group made an operating profit of €3.5bn, nearly three times the €1.25bn it made in 2022 and nearly 10% up on the €3.25bn it made in the pre-pandemic 2019. This represented an average operating margin of 11.9% but Aer Lingus returned margins 2% lower.

If you go back to the pre-Covid era, Aer Lingus impressed within the group, returning sales of €2.1bn in 2019, an operating profit of €276m and trading margins of 13%.

In 2018, the airline was actually IAG's star performer, with sales of €2bn, on which it returned operating profits of €305m and margins of 15.5%. The return on capital worked out at over 30%.

Given that the group managed to lose over €10bn during the two worst pandemic years – 2020 and 2021 – it was probably touch and go at one stage whether IAG would survive at all. It would almost certainly have crash-landed were it not for the hugely damaging placing/rights issue Walsh pulled off in September 2020, when he raised €2.75bn.

IAG



The heavily indebted group might not be around today without the thee-for-two issue but the transaction resulted in 60% dilution damage for shareholders, with the shares priced at 92c a share – a 36% discount on the €1.44 price at the beginning of 2020.

In the same two Covid-impacted years of 2020 and 2021, Aer Lingus turned in a combined operating loss of €1bn – a point no doubt hammered home by management during the strike by Aer Lingus pilots.

The Irish airline is clearly flying at a lower altitude than its fellow group airlines. In the first six months of the current year, on sales up 8% to €14.7bn, IAG turned in a group operating profit up 4% to €1.3bn, to return trading margins of 10%. For Aer Lingus, however, the operating profit in the first half of the current year to the end of June 2024 (which was mostly not affected by the strike as it only really kicked in around the end of June) fell to a near insignificant €9m, to return margins of under 1%. This looks pretty damning when compared to IAG's margins of 10%.

Luis Gallego

It is inevitable, given the extra costs associated with the pilots' pay of over €40m, that Aer Lingus is being closely examined at headquarters in London and the Irish airline is clearly no longer the darling of the group. Indeed, without Walsh's significant influence, Aer Lingus can hardly have the sort of rosy future it had under during his reign as CEO up to late 2020.

Sean Doyle was plucked out of Aer Lingus to run British Airways three years ago, while Lynne Embleton was brought over from the UK to run Aer Lingus.

It seems likely that, if returns don't improve in the short term, the parent group will start to focus more on where the returns are greatest.

At this stage, it looks like the other four airlines in IAG are looking far more profitable than Aer Lingus and inevitably are going to dominate management's focus. It is clear that IAG has been focusing on increasing its profitability and is targeting operating margins of between 12% and 15% and a return on investment of 13%-16%, leaving little room for sentiment.

There is only one Irish director now on the board of IAG, Heather Ann McSharry, who was previously CEO of Boots Ireland and then Reckitts Ireland. She is also currently on the board of Jazz Pharmaceuticals.

The IAG board is now chaired by Spaniard Javier Ferrán, who is also the chairman of Diageo, while the CEO is also Spanish, 56-year-old Luis Gallego, whose appointment Walsh claimed was the best move he ever made in his career.

Given his age, Gallego could be in the IAG cockpit for many years to come and is presumably not one bit pleased by the wage increase the Aer Lingus pilots squeezed out of the group or the manner in which they achieved their goal.

PASSENGER CAP

As he previously ran the Iberia airline, the Spanish business is probably where he is most focused, at a time when Dublin Airport's 32 million passenger cap means that Aer Lingus is already looking to cut back services.

It is starting with the dropping of one of the daily Dublin-Heathrow flights, with others presum-

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Oneview Healthcare in search for right medicine

IT WAS considered a surprising move when Darragh Lyons jumped ship from Malin Corp last Christmas, at a time when he seemed to be doing a decent job of sorting out the company's various ailments. It is surely even more surprising that he has joined up with Mark McCloskey's Blackrock-based Oneview Healthcare, taking over as finance director from Helena D'Arcy, whose resignation was announced a couple of months ago. Lyons is to join the board at the AGM on October 17 but the big question is what does Lyons actually see in the troubled company.

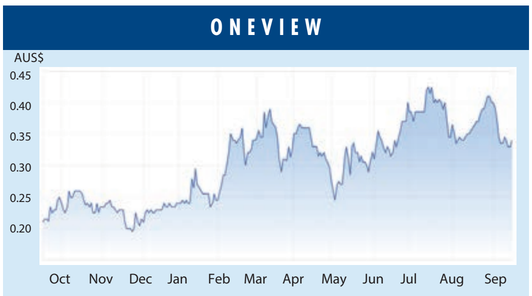
James Fitter

Oneview is an unusual example of an Irish company in that it listed on the Australian stock market and is still only listed there. As a result, it attracts little or no attention from the Irish investment community.

The company was set up in 2008 after founder McCloskey had been in hospital for a knee operation. He says he was struck by the fact that there seemed to be no systematic routine recording of patients' vital signs and no automatic feedback.

For example, having spent time in a four-patient ward (with one TV and one remote control), he noted: "Whenever a nurse or doctor came into the room, they asked the same questions over and over… and on top of being woken every morning at 6am… to decide what we wanted for breakfast, lunch and dinner… I would come back from physio and the lunch that I ordered would be on the tray and it would be cold."

McCloskey had spent most of his time in telecoms and financial services and so used these skills to set up Oneview to help develop solutions for the issues he had observed.



The obvious answer was to extend existing patient care records but he assumed that the big players in the field would not encourage a newcomer on to their patch to provide extra functionality to their systems. His strategy, therefore, was to build a separate system, independent of these big hospital systems, that would be easy to install.

McCloskey spent four years developing a suitable product for patient use and in 2012 managed to demonstrate it to the Epworth Healthcare group in Australia, which was suitably impressed and also suggested add-ons.

Back in Ireland, he met Australian financier James Fitter, who agreed to help him raise $8m from family, friends and angel investors, and quickly started to win contracts. The first deal was signed with the Lifehouse group in Australia and UCSF Medical centre. Epworth followed suit. Around this time, Fitter joined Oneview as CEO.

The company went on to supply entertainment systems for patients and demonstrated a medical tablet developed by Zebra at the World Healthcare (HIMSS) Conference, which showed that Oneview's bedside software was able to create a better patient experience.

The idea is actually a simple one – to bring all the patient-focused applications to one place. This included not just entertainment such as movies but also bedside video-calling technology. The tablet can be used to order meals and for service requests, rather than relying on the nurse call button. The system can also be used to control lighting and allow patients to access their electronic medical records.

Moreover, the Zebra tablets enable medical staff to pull up medical records, MRI and X-ray results etc, speeding up the information flow.

Oneview expanded from the initial three hospital groups in Australia, adding three in California, two in Dubai and the Laura Lynn children's hospice in Ireland. On the back of this, the company floated on the Australian stock market, raising AUS$40m in 2016.

It is clearly a significant challenge to get any system into hospitals when huge operators such as Epic, Cerner and McKesson supply fully integrated electronic hospital systems. Although McCloskey and Fitter managed to win a few contracts in Australia and the US, it was always going to be difficult to satisfy the sort of software development demands hospitals would make on Oneview when agreeing to take its system onboard.

The company did prove successful at raising funds. After the initial $40m at the 2016 flotation, a further $25m was raised in 2019. Oneview, however, was bound to run into some cash-flow problems, given that it had only built up a revenue base of $8m in 2018 and was still working on a software development programme costing $12m pa, resulting in an operating loss of $20m in 2018.

This scenario repeated itself in 2019 but sales actually fell 15% to $7m, while development costs were maintained at $12m. There were inevitable cutbacks but Oneview still reported an operating loss of just on $17m in 2019.

Although the company's system was in use for 9,000 hospital beds by 2020, it clearly had to find a way to stop losing money at the rate it had been and so a more significant cost-cutting programme was put in place, with the head count reduced by nearly 40% from 109 to 70, along with a slashing of development costs to $7m. This, however, still resulted in an $9m operating loss in 2020.

As the founder and president, McCloskey took responsibility and resigned in November 2020. It is difficult to understand why Oneview paid him a termination bonus of €410,000 when he was only entitled to €150,000 under his

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ably set to follow in due course.

Aer Lingus recorded an operating loss of €82m in the first three months of the year, admittedly the seasonally worst months, while the IAG group as a whole recorded a profit of €68m, albeit representing just 1% of its first-quarter turnover of €6bn.

In the second quarter, Aer Lingus turned in an operating profit of €91m, to bring its six-month total contribution to a mere €9m – almost 75% down on the corresponding period in 2023.

SHARE PRICE

The whole IAG group recorded a half-year profit of €1.3bn, driven mainly by improving returns at British Airways, where Doyle appears to be doing a rather good job.

His performance stands up very well when compared with the 46% drop in Ryanair's profits for most recent quarter ending June 30 last.

Based on the first half returns, IAG (despite Aer Lingus's underwhelming contribution) is on track to beat last year's record €3.5bn operating profit total.

The group's shares have recovered to £2 from £1.50 at the start of 2024, albeit just two-thirds of the £3 share price at the beginning of 2020.

This leaves it standing on a remarkably low price/earnings multiple of just 4.7, the sort of rating that would apply to a dud stock.

CLEAR EYE

IAG, however, does have net debt of €9bn but, in the context of operating profits up at €3.5bn, this should be no problem.

That said, Warren Buffet has always eschewed airlines for two reasons – the industry's erratic record and the fact that not only are the companies flying depreciating assets, but they will always end up flying even more expensive (if more efficient) planes to replace these.

The fact that the suits in charge tend to have a dedicated airline background doesn't help.

Heather Ann McSharry

Although Gallego has an airline industry background, he appears to have a clear eye, which is good news for shareholders but not necessarily for Aer Lingus, as the Irish airline could be high on his 'to do' list given recent developments – especially that pilots' strike.

Aer Lingus could have done with Walsh still calling the shots in London.

Oneview continued from page 23

contract if he was sacked or given notice, so clearly there were major problems inside the company. Indeed, assorted other directors had resigned, with John Kelly, Mark Cullen and Daniel Petre going in January 2019.

The cancellation of the development of the Senior Living care management contract with the Australian Regis aged care operator was clearly a major setback, resulting in Oneview initiating legal proceedings, seeking AUS$21m for breach of contract.

FUNDRAISING

During this period Fitter remained *in situ* as CEO to help keep the company afloat. Former chairman Joe Rooney was installed as interim chairman in July 2023 on the death of the previous chair, Irish lawyer James Osborne. Rooney is quite the high-flier and was head of legal strategy at Lehman Brothers and later a global strategist at Autonomy Capital.

Surprisingly, Mark Cullen rejoined the board after McCloskey's exit in October 2023, having previously resigned in 2019. He is another heavyweight investment banker, having worked with Deutsche Bank and DWS Asset Management.

Impressively, the new board managed to raise AUS$23m in July 2023 and planned significant growth courtesy of Oneview's cloud-based virtual care integration package and software server business model. Fitter continued to steer the ship to the best of his abilities and landed a bonus last year to give him a total remuneration package of €557,000.

This is not to say that Oneview had found itself totally out of the woods. The company reported a 4% increase in sales last year to just over €9m but, taking into account the cost of sales and administration as well as continuing high product development costs of €8.3m, the company ended up with an operating loss of over €8m last year. Given this scenario, it is hard to understand why Oneview would pay its CEO a bonus of €195,000 but, possibly, it is partly down to the fact that he has stuck with the job in very trying circumstances.

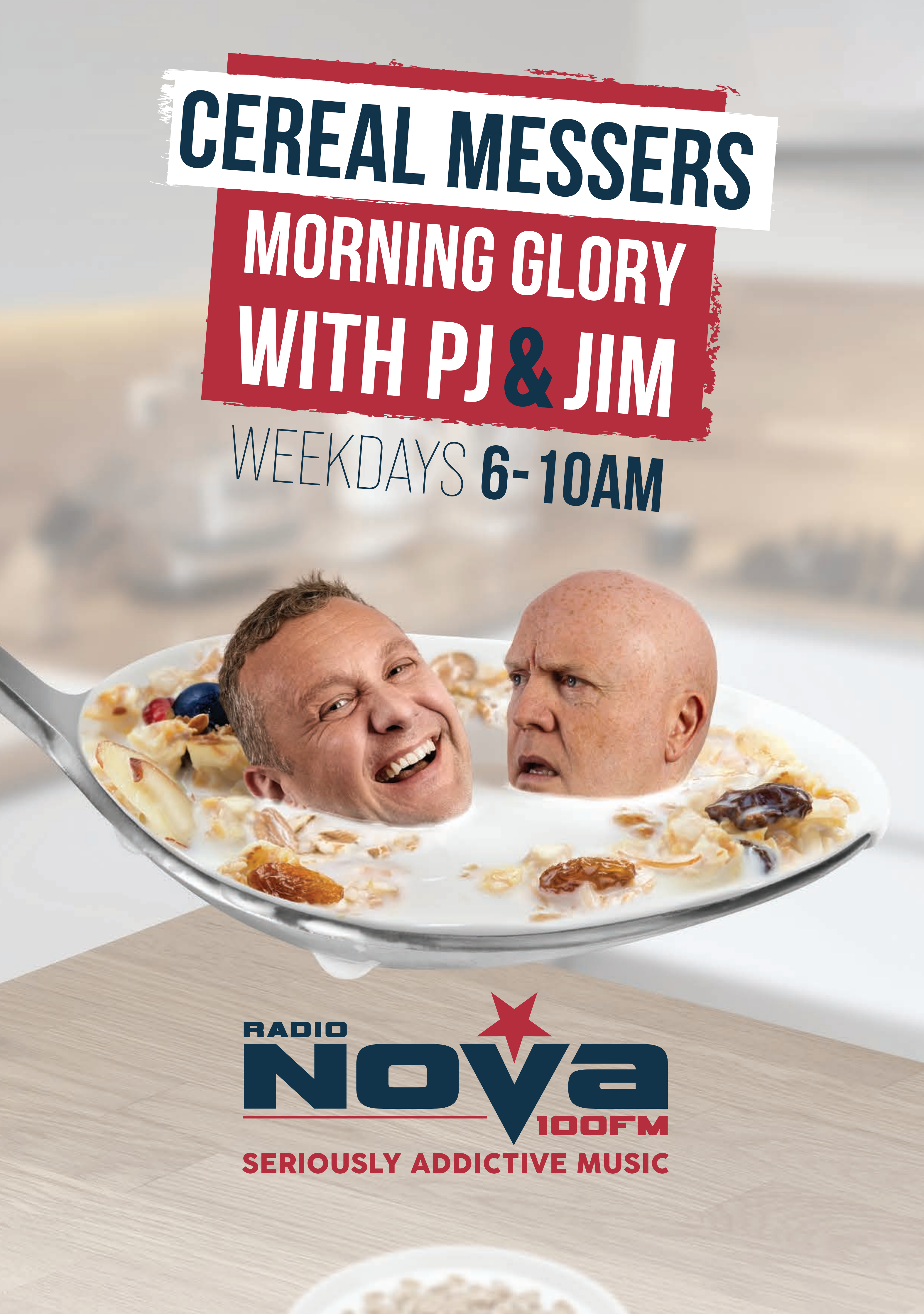
In the most recent half-year to June 2024, sales for the six months were up 7% to €4.7m, while the net loss was 3% higher at €5.5m. Oneview's technology was live in over 10,000 hospital beds, with contracts for a further 8,000 and its reseller agreement with the US Baxter Healthcare Inc has gone well, delivering several contracts under this agreement, representing a further 8,000 contracted beds. The rollout of the beds pipeline will be essential to deliver the additional revenue required to give Oneview any real chance of survival.

Darragh Lyons

In these circumstances, it is certainly surprising that Lyons jumped from what looked like a rapidly improving situation in Malin Corp to what looks like a rather hazardous position as CFO of Oneview, a position he formally took up on September 9. He has experienced plenty of ups and downs both in Malin and, before that, in Elan and so he is not going into the current chaos lightly. Presumably, then, Lyons must see something in Oneview that is not clear from the outside.

After floating off at AUS$3.50 in January 2016, Oneview hit a high of AUS$5.50 by the end of that year but it has been on a dramatic ride since then. The shares plummeted 99% in 2020 to 7c, after which they rose to hit 40c before dropping to the current 34c. This is, nevertheless, still down over 90% but the trend over the last few months appears to be rising. The addition of Lyons to the executive team has no doubt also helped to calm the markets a little.

If the experienced Lyons can see a future with Oneview, investors may be tempted to back the horse, so it will be interesting to see what happens over the next few months. But unless sales dramatically increase and/or costs dramatically reduce over the next year, it is hard to see a future for this interesting outfit.


CEREAL MESSERS
MORNING GLORY
WITH PJ & JIM
WEEKDAYS 6-10AM
RADIO
Nova
100FM
SERIOUSLY ADDICTIVE MUSIC

OPINION

GOVERNMENT PLANS TO CLAMP DOWN ON VAPES WILL CAUSE CATASTROPHIC DAMAGE TO THE FUTURE HEALTH OUTLOOK FOR THOUSANDS

BY
JOE DUNNE
HALE VAPING

> Remarkably, a Health Minister is proposing to remove the healthier choice of nearly 400,000 vapers that have successfully quit or reduced their smoking.

Irish legislative developments

Health Minister Stephen Donnelly has announced Cabinet approval to commence the drafting of new legislation that proposes introducing the most draconian regulation of vaping anywhere in the developed world by:

- Prohibiting the import, manufacture and sale of single-use or disposable vapes.
- Limiting the c.15,000 available vaping flavours to just one: tobacco flavour.
- Prohibiting point-of-sale display and advertising in shops other than those who only or primarily sell these products.
- Prohibiting all flavour descriptors and language other than basic flavour names.
- Restricting colours and imagery on packaging and devices, as well as a ban on devices resembling or functioning as other products, such as toys or games.

This is despite the fact that the most recent Public Health Bill pertaining to vaping, which outlaws sales to under 18s, has only been in place for nine months, the accompanying licensing regime has yet to even be implemented and there is little to no enforcement.

The Health Minister conducted a public consultation on the further regulation of tobacco and nicotine-inhaling products at the end of last year.

The proposed measures bear no relation to the public consultation results:

Only **32.2%**
of respondents indicated that they supported vaping products being behind the counter and not on display.

Only **27.8%**
of respondents indicated that they favoured regulation of flavours in vaping products.

Only **34.6%**
of respondents indicated that the current laws on smoking should be extended to vaping.

Recap on the Government's vaping facts

- **974,145** people in Ireland have **given up smoking** (Census 2022).
- **676,187** people in Ireland smoke today (Census 2022), and smoking remains the leading cause of preventable disease, causing **6,000 deaths a year**.
- **49%** of those that have smoked in the past year have tried to quit (Healthy Ireland Survey 2023).
- The **most successful aid** used by successful quitters is vaping / e-cigarettes (Healthy Ireland Survey 2023).
- Ireland has **c.400,000** vapers (Healthy Ireland Survey 2023).
- **87%** of e-cigarette users are either current or ex-smokers (Healthy Ireland Survey 2023).

Bad legislation = worse outcomes

To illustrate how draconian Mr Donnelly's proposed measures are: today, 5% of vaping sales are tobacco flavour. The overwhelming majority of smokers attempting to quit are trying to avoid the taste of tobacco. Why else would Nicorette not have any tobacco flavour?

Therefore, these proposed measures are tantamount to an entire prohibition of the vaping sector. It seems perverse to deny access to vaping products that are helping hundreds of thousands of adult smokers quit and stay off cigarettes. The consequences will be catastrophic.

It's also irrational to suggest that an effective prohibition of the entire category is necessary to protect children. That is proven not to be the case with other sectors such as alcohol or gambling, where pragmatic regulation, effective enforcement measures and appropriate penalties ensure adults can make responsible choices while ensuring children are protected.

Moreover, prohibition won't work – in fact, it will make youth access much easier. This is clearly evident in the USA and Australia where excessively restricted access to vaping is resulting in over 90% of sales occurring on the illegal market.

Facts matter

The Taoiseach this week repeated the often said phrase that vaping is 'Big Tobacco's revenge'. This is categorically untrue. Claims that the vaping sector in Ireland is owned or controlled by tobacco interests are false. Well over 90% of the Irish market selling and distributing vaping products are independent Irish companies that have no connection whatsoever to Big Tobacco. Globally, Big Tobacco controls less than 15% of the vaping market.

Instead, vaping has been the single biggest threat to Big Tobacco and their profits in decades.

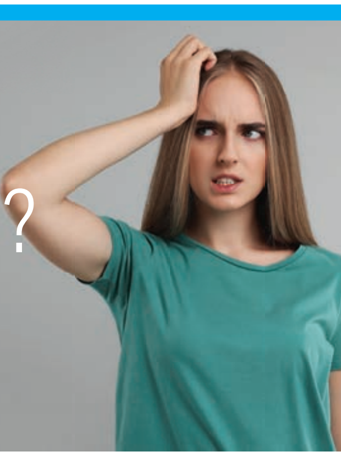
Big Tobacco will be relieved and delighted with Minister Donnelly and the course of action he is proposing. Remarkably, a Health Minister is proposing to remove the healthier choice of nearly 400,000 vapers that have successfully quit or reduced their smoking, lining the pockets of Big Tobacco in the process.

Sales of vapes should be regulated

The sale of vaping products should be regulated. Children should be protected. We passionately advocate more, not less, regulation along the following lines:

- **Vaping products should only be sold from premises that are familiar with age-verification and that are already specialist vape shops or are selling products such as alcohol and tobacco.**
- **The new licensing system for retail outlets selling vaping products must be introduced quickly.**
- **Packaging should be restricted such that it is not overtly child friendly.**
- **Vapes should be restricted to being sold behind manned counters.**
- **Disposable vapes should be subject to a deposit and return scheme.**

GENUINE CONSULTATION?



But what do vapers really think? We asked them to tell their story:

Ursula (52), Dublin

"I smoked up to 15 cigarettes a day for about 30 years. I was having breathing difficulties and frequent chest infections.

I first tried vaping in 2022. I no longer smoke. My breathing is better and I don't get chest infections any more. I vape disposables and prefer the Purple Grape flavour. My advice to other smokers is to go for it. It helped me, it should help you."

James (38), Tipperary

"I smoked for 17 years and was smoking up to 30 cigarettes a day. I first tried vaping in 2019 because of the cost and the damage smoking was doing to my health. Since I started to vape my smoking has decreased a lot and I have completely stopped about six weeks ago. I am noticing less coughing in the morning. I vape rechargeables and my favourite flavour is watermelon."

Caitriona (47), Tipperary

"I smoked for about 20 years and was up to 20 cigarettes a day. I tried vaping for the first time in 2015 because of the cost of cigarettes and the damage it was doing to me. I haven't smoked since I started to vape and I feel a lot healthier. I use a pod system and I like the Sun Stone flavour. My advice to smokers is to give vaping a try and find the flavour that works for you."

Frank (73), Cork

"I smoked for 48 years and smoked about 15 cigarettes a day. It was affecting my health and causing me shortness of breath. I first tried vaping in 2018 and it changed my life. I don't smoke now. Before I had phlegm every day and shortness of breath. But everything is normal now. I had tried to give up smoking loads of times over the years and failed. It was incredible, it was the easiest transition. Now I would never take a cigarette again. I use refillable vapes and my favourite flavour is Royal Velvet."

Wendy (44), Dublin

"I was smoking for about 16 years at about 10 to 15 cigarettes a day. Smoking had become anti-social, and it was bad for your health. I first tried vaping in January 2024 and I haven't had a cigarette since. I have noticed that my skin has improved and I am able to train better without coughing. Everything is different, smoking is disgusting."

Margaret (56), Cork

"I had been smoking for about 30 years at between 10 and 15 cigarettes a day. I first started to vape about five years ago because of the smell and the effect I feel it was having on my kids' health. And I haven't smoked since. I feel better and look better. My face isn't grey as I am not breathless. I use a rechargeable vape and my favourite flavour is Cool Fire. I would advise any smoker to give it a try, and you won't smell!"

Karen (26), Clontarf

"I was smoking for about 6 years at about 50 rollies a week. I wanted to switch from smoking because vaping is cheaper, healthier and more socially acceptable. I found myself waking up after smoking and feeling quite sick. I started to vape in 2019 and now I don't smoke. I have found that my breathing is much better, and I am not as tired as I was when I smoked. I use an Inigon Slide vape and my favourite flavour is Blackcurrant."