Icelandair Group

Initiation Report – Public Version - Issued 30/06/2025.

All information and calculations based on closing prices on 16/06/2025.

Disclaimer

Author: Alexander Jensen Hjálmarsson

Responsible Party: Akkur – Greining og ráðgjöf ehf. („AKKUR“)

ID no. 480107-0710

www.akkur.net

akkur@akkur.net

Acceptance

By receiving and reading this presentation, the recipient agrees to comply with the terms of the publication and is aware of and accepts the disclaimers it is bound by. Distribution of this analysis, in part or in whole, is prohibited without the consent of the author/responsible party. Any media coverage of this analysis is prohibited without approval from the author.

Not Investment Advice

The analysis does not constitute personal investment advice within the meaning of Act No. 115/2021 on markets for financial instruments (lög nr. 115/2021 um markaði fyrir fjármálagerninga), nor any kind of recommendation, advice, or suggestion to engage in any transactions. This analysis is intended solely for informational purposes and should not be the basis for any decision to trade in financial instruments. Generally, it is recommended that transactions in financial instruments be based on one's own research or analysis, or, where applicable, with the advice of professionals.

Information in the Report

The analysis found in this report is entirely based on public information available at the time the analysis was conducted, including information published by the company itself. The main sources are annual reports, interim reports, and other information published on the stock exchange or in other public manners. The author/responsible party assumes that the information is correct, reliable, and accurate but cannot guarantee it. If the information on which the analysis is based proves to be misleading, incorrect, or changes, the results of the analysis or the conclusions drawn therein may change accordingly.

Uncertainties and Future Predictions

No guarantee, warranty, or assurance is provided that the forecasts, plans, or assumptions on which the analysis is based will come to fruition or prove correct. Forecasts and future estimates are always subject to various uncertainties and variables, including external conditions.

Conflicts of Interest

AKKUR, employees, managers, or related parties may have interests in connection with certain financial instruments that analyses, or valuation reports discuss. Such interests may also apply to other content that the company publishes.

Otherwise, reference is made to AKKUR's code of conduct, which can be found here (in Icelandic): www.akkur.net/starfsreglur

TABLE OF CONTENTS

Icelandair

Key Findings

- 2025 year-end target price of 2,10kr per share.
- Target price is the average of two approaches, a DCF model and a normalized EV/EBITDA multiple.
- WACC of 9,09%, an implied WACC in DCF model of 12,7%.
- Cash flow model assumes income taxes are paid annually so we add the deferred tax assets to the results.
- Investments in associates are added at book value.
- Current valuation implies an EV/EBITDA of 2,5x and 7,4x P/E for 2027 according to AKKUR estimates.

2025 year-end target price of 2,10kr.

WACC of 9,09%.

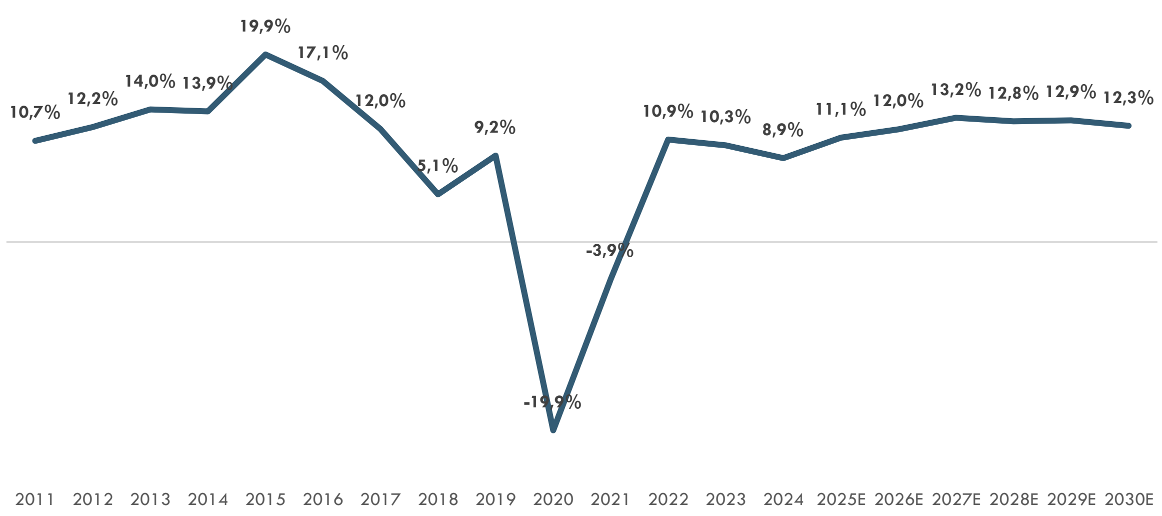
2027E EV/EBITDA: 2,5x
2027E EV/EBIT: 8,0x
2027E P/E: 7,4x

Cash Flows from Operations 2026E-2028E higher than current Enterprise Value.

Icelandair

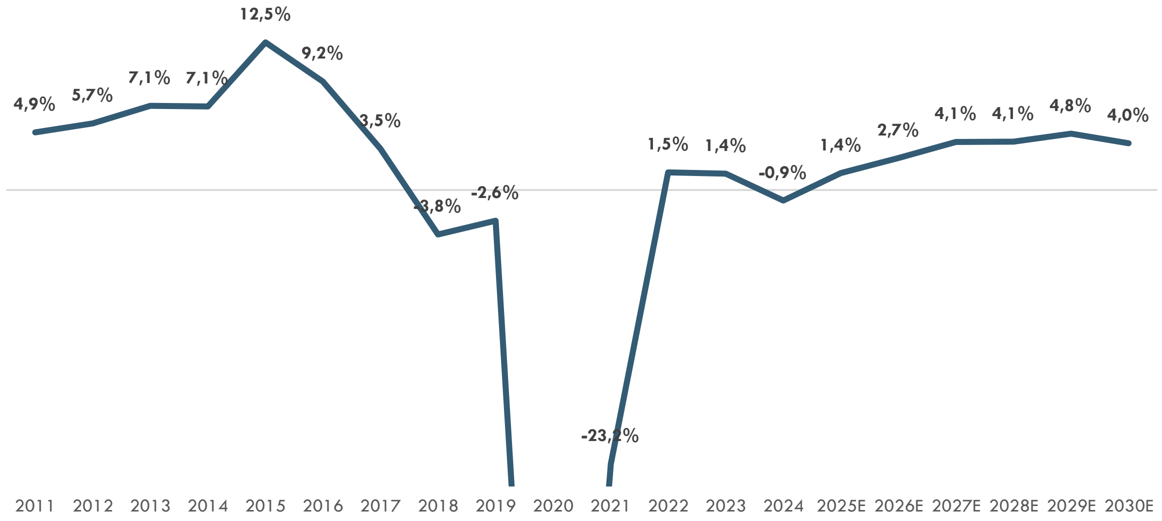
Key Financial Metrics

EBITDA margin %

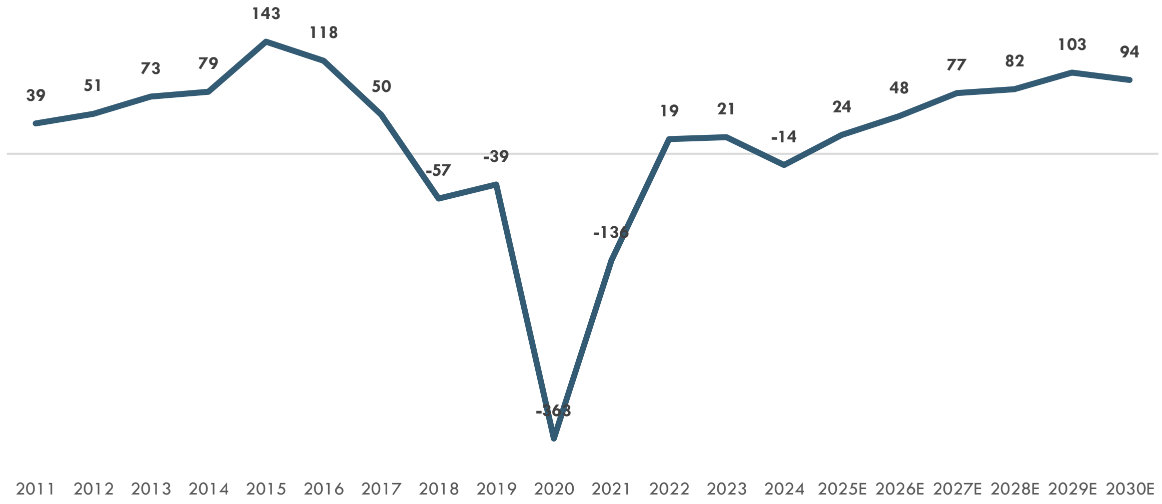


EBITDA (USD millions)

EBIT margin %

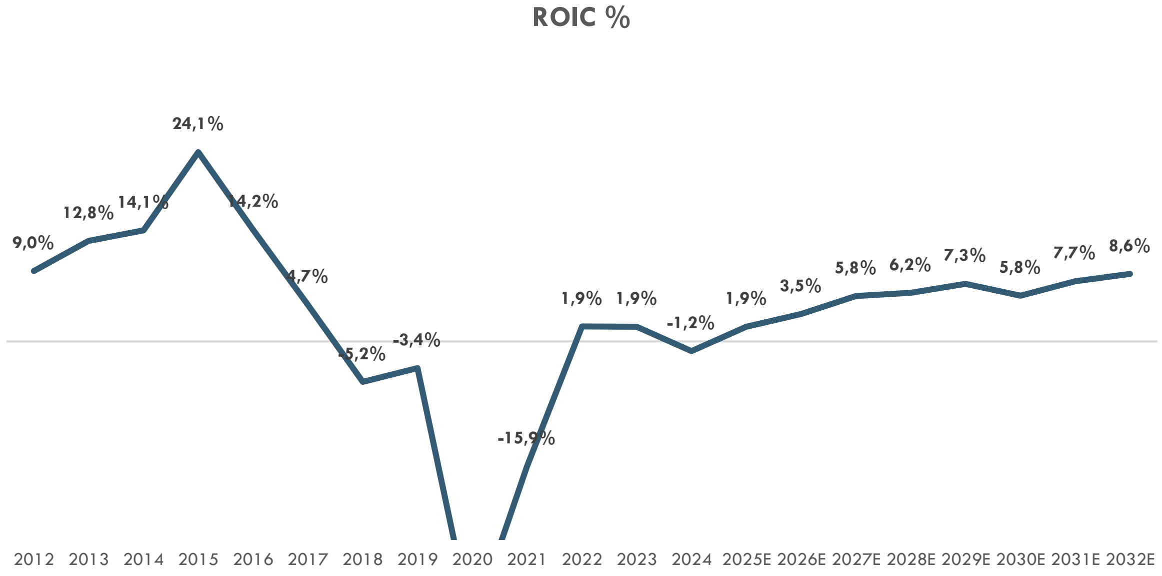


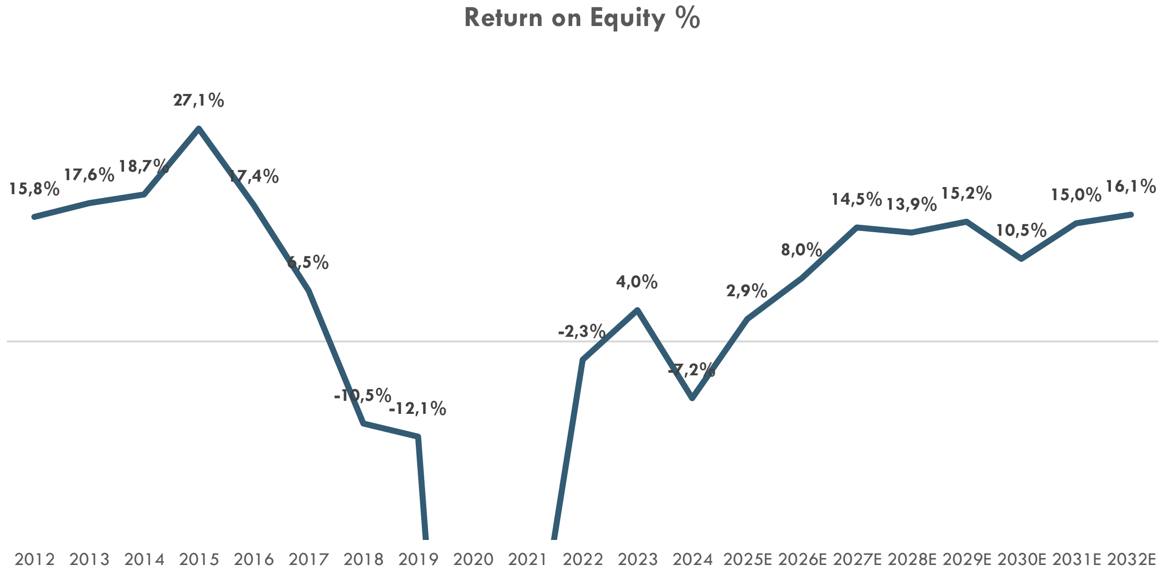
EBIT (USD millions)

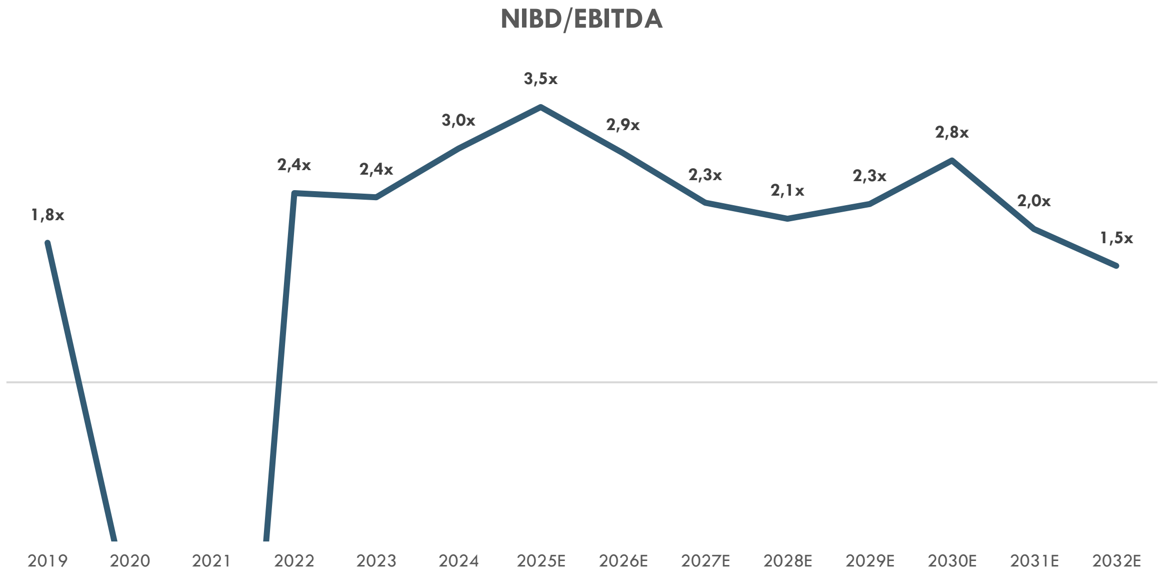


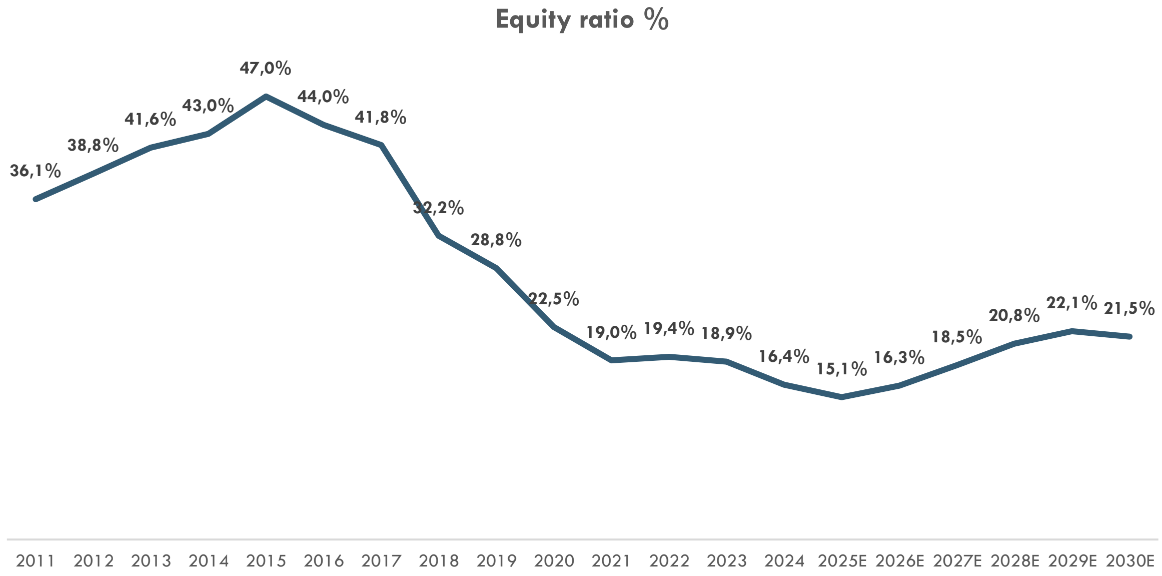
Icelandair

Key Financial Metrics





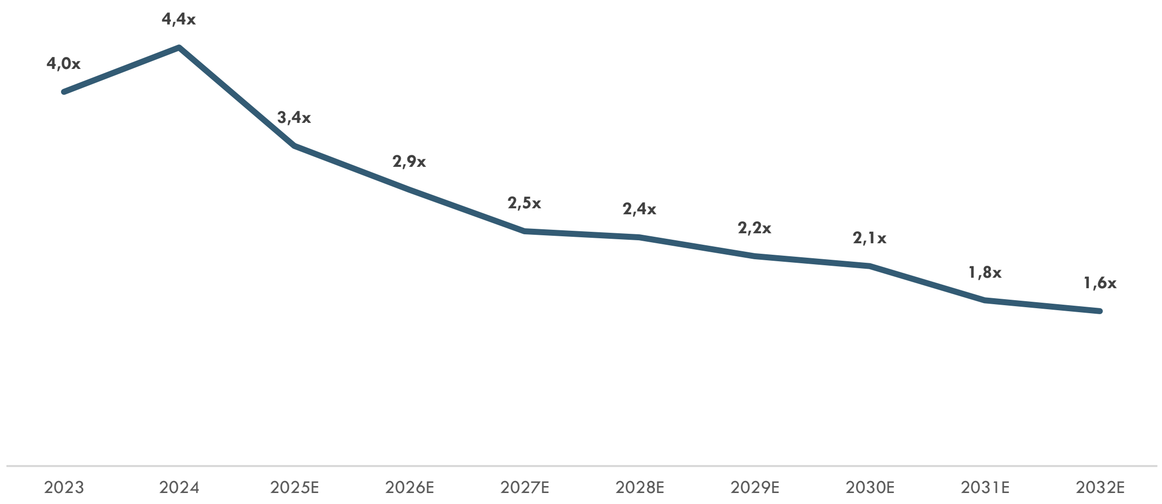




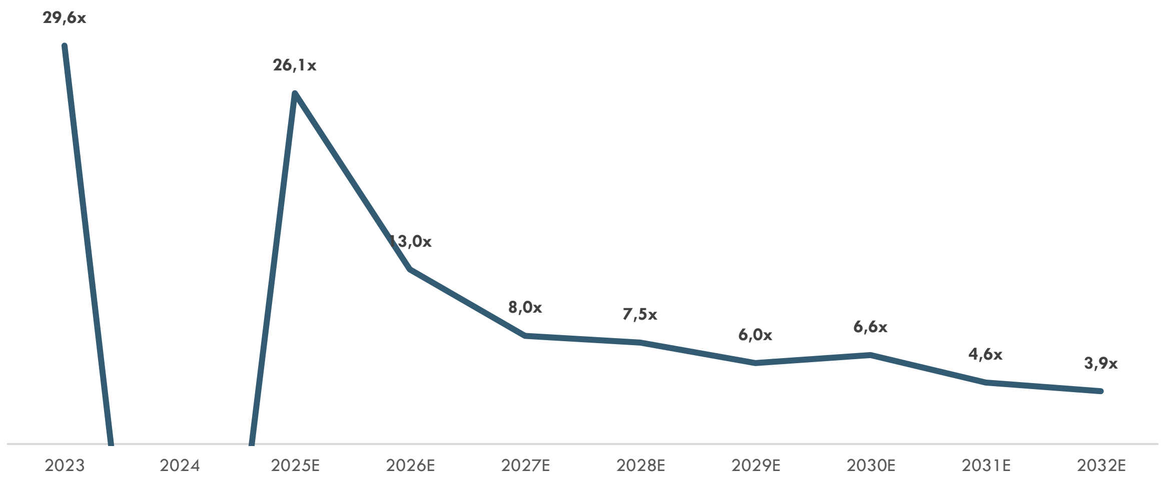
Icelandair

Key Financial Metrics

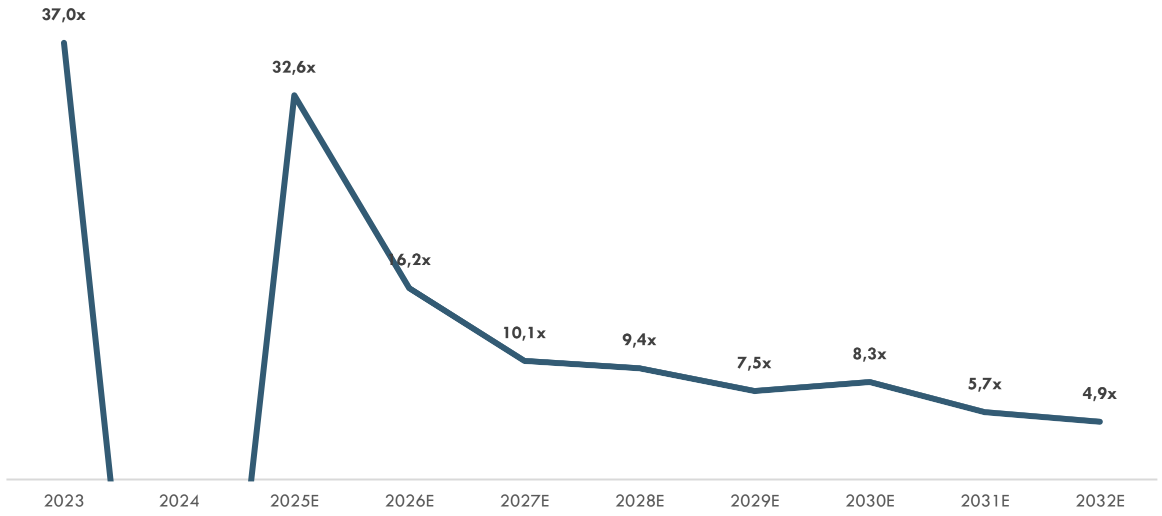
EV/EBITDA



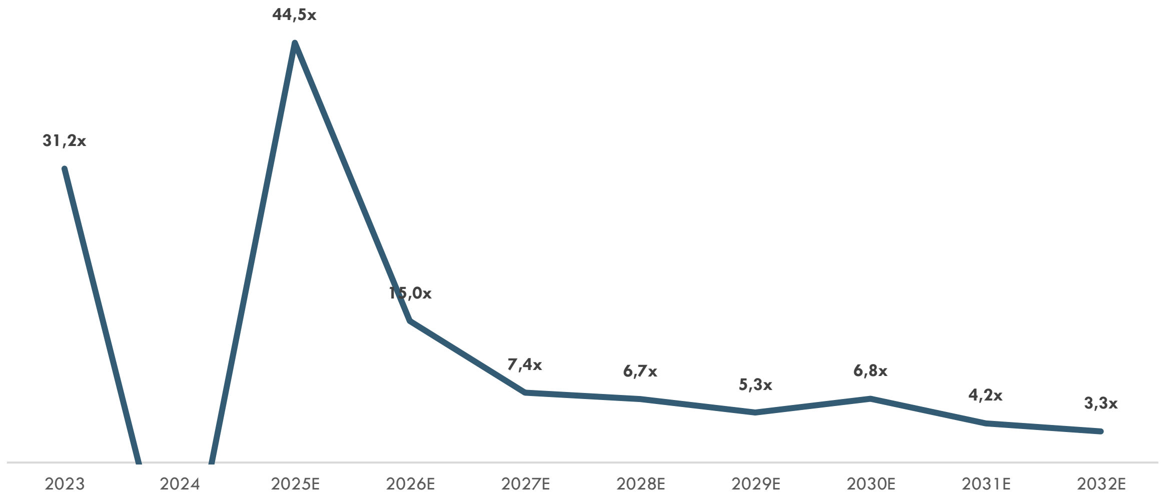
EV/EBIT



EV/NOPLAT



P/E



Icelandair Group

Key Figures

Key Figures																						
	Historical Numbers														AKKUR estimates							
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Transport revenue	507.463	604.499	702.882	811.002	848.868	947.823	1.050.101	1.093.314	1.159.524	265.523	453.868	1.138.408	1.378.188	1.401.819	1.453.391	1.563.527	1.678.842	1.777.785	1.925.138	2.131.122	2.359.706	2.499.396
Lease income	136.615	120.815	117.969	74.754	83.356	84.574	87.701	120.113	91.647	64.739	42.676	58.510	71.317	93.731	117.750	121.309	124.975	128.752	132.644	136.653	140.784	145.039
Other operating income	146.575	173.552	202.106	227.541	207.475	253.177	280.185	297.091	253.324	103.329	88.369	68.200	74.064	75.057	79.191	83.862	88.845	93.295	99.455	107.679	116.722	122.731
Total revenue	**790.653**	**898.866**	**1.022.957**	**1.113.297**	**1.139.699**	**1.285.574**	**1.417.987**	**1.510.518**	**1.504.495**	**433.591**	**584.913**	**1.265.118**	**1.523.569**	**1.570.607**	**1.650.332**	**1.768.698**	**1.892.662**	**1.999.833**	**2.157.237**	**2.375.453**	**2.617.211**	**2.767.165**
Salaries and related expenses	-152.414	-168.377	-195.491	-226.029	-229.789	-295.001	-381.970	-446.078	-429.308	-207.892	-215.485	-308.591	-391.564	-406.030	-427.753	-460.112	-478.655	-517.665	-559.855	-634.875	-673.539	-714.558
Aviation expenses	-380.089	-411.463	-432.991	-457.296	-401.194	-420.250	-456.012	-552.669	-568.455	-171.451	-235.453	-570.630	-635.868	-652.340	-643.727	-676.171	-717.843	-756.612	-816.473	-901.570	-995.549	-1.049.368
Other operating expenses	-173.215	-209.380	-250.765	-275.634	-282.050	-350.478	-409.929	-435.292	-368.756	-140.742	-156.779	-248.171	-339.673	-372.381	-396.100	-420.658	-446.810	-469.607	-502.129	-546.282	-594.728	-625.332
EBITDA	**84.935**	**109.646**	**143.710**	**154.338**	**226.666**	**219.845**	**170.076**	**76.479**	**137.976**	**-86.494**	**-22.804**	**137.726**	**156.464**	**139.856**	**182.751**	**211.756**	**249.354**	**255.948**	**278.781**	**292.726**	**353.395**	**377.908**
EBITDA%	*10,7%*	*12,2%*	*14,0%*	*13,9%*	*19,9%*	*17,1%*	*12,0%*	*5,1%*	*9,2%*	*-19,9%*	*-3,9%*	*10,9%*	*10,3%*	*8,9%*	*11,1%*	*12,0%*	*13,2%*	*12,8%*	*12,9%*	*12,3%*	*13,5%*	*13,7%*
Depreciation and amortization	-46.313	-58.859	-70.699	-75.329	-83.826	-101.408	-120.431	-133.447	-177.273	-276.502	-113.136	-118.875	-135.477	-154.067	-158.907	-163.862	-172.109	-173.597	-175.381	-198.742	-217.238	-219.294
EBIT	**38.622**	**50.787**	**73.011**	**79.009**	**142.840**	**118.437**	**49.645**	**-56.968**	**-39.297**	**-362.996**	**-135.940**	**18.851**	**20.987**	**-14.211**	**23.844**	**47.894**	**77.245**	**82.351**	**103.400**	**93.984**	**136.157**	**158.615**
EBIT%	*4,9%*	*5,7%*	*7,1%*	*7,1%*	*12,5%*	*9,2%*	*3,5%*	*-3,8%*	*-2,6%*	*-83,7%*	*-23,2%*	*1,5%*	*1,4%*	*-0,9%*	*1,4%*	*2,7%*	*4,1%*	*4,1%*	*4,8%*	*4,0%*	*5,2%*	*5,7%*
Net finance items	-10.077	6.661	-1.963	899	-2.617	1.674	-1.003	-10.842	-33.304	-74.839	5.880	-18.673	-13.198	-10.596	-14.073	-18.889	-18.547	-17.773	-21.289	-29.586	-31.378	-26.985
Earnings before taxes	**28.545**	**57.448**	**71.048**	**79.908**	**140.223**	**120.111**	**48.642**	**-67.810**	**-72.601**	**-437.835**	**-130.060**	**178**	**7.789**	**-24.807**	**9.771**	**29.005**	**58.698**	**64.578**	**82.111**	**64.399**	**104.779**	**131.629**
Income tax	4.763	-13.173	-14.630	-15.483	-29.000	-31.043	-11.104	12.240	14.822	61.658	25.263	-5.998	3.380	4.638	-1.954	-5.801	-11.740	-12.916	-16.422	-12.880	-20.956	-26.326
Other matters after tax	3.002	0	0	2.074	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net income	**36.310**	**44.275**	**56.418**	**66.499**	**111.223**	**89.068**	**37.538**	**-55.570**	**-57.779**	**-376.177**	**-104.797**	**-5.820**	**11.169**	**-20.169**	**7.817**	**23.204**	**46.958**	**51.662**	**65.689**	**51.519**	**83.823**	**105.304**
Net margin	*4,6%*	*4,9%*	*5,5%*	*6,0%*	*9,8%*	*6,9%*	*2,6%*	*-3,7%*	*-3,8%*	*-86,8%*	*-17,9%*	*-0,5%*	*0,7%*	*-1,3%*	*0,5%*	*1,3%*	*2,5%*	*2,6%*	*3,0%*	*2,2%*	*3,2%*	*3,8%*

Multiples									
	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Current valuation									
EV/Sales	0,4x	0,4x	0,4x	0,3x	0,3x	0,3x	0,3x	0,2x	0,2x
EV/EBITDA	4,4x	3,4x	2,9x	2,5x	2,4x	2,2x	2,1x	1,8x	1,6x
EV/EBIT	-43,7x	26,1x	13,0x	8,0x	7,5x	6,0x	6,6x	4,6x	3,9x
EV/NOPLAT	-54,7x	32,6x	16,2x	10,1x	9,4x	7,5x	8,3x	5,7x	4,9x
P/E	-17,3x	44,5x	15,0x	7,4x	6,7x	5,3x	6,8x	4,2x	3,3x

Unit Economics

A Hypothetical Example

- On the granular level, a single flight mostly has fixed or semi-fixed costs.
- The expenses of operating a flight include fuel costs, employee costs, handling costs, landing fees and maintenance costs.
  - This is just a simplified example, and actual operations most likely include other costs.
- Most of these expenses are fixed or semi-fixed and are roughly the same irrespective of the load factor or number of passengers.
- As the example illustrates the marginal operating profit is extremely high or over 90%.
  - Only variable cost here is the landing fee per passenger of $20 or 1/15th of the ticket price.
- **This example is purely hypothetical and ignores all overhead expenses which also need to be factored in when analyzing the company.**

Assumptions *Figures in US $ unless otherwise stated*			
Flight & Plane		**Staff**	
Plane	Airbus 320	Pilots	2
Capacity (seats)	187	Cost per hour	500
Average ticket price	300	Cost	3.000
Seats sold	150		
Load factor	80,2%	Cabin crew	4
Distance (km)	1.900	Cost per hour	150
Hours	3	Cost	1.800
Landing, Navigation and Airport Fees		**Fuel expenses**	
Fees per passenger	20	Fuel consumption (L/km)	5,00
Landing and airport fees	3.000	Fuel (L)	9.500
		Fuel cost ($/L)	0,92
Handling fees	3.500	Fuel cost	8.740
Maintenance expense	4.000		

Estimated Operating Profit of Flight *US $*	
Revenue	45.000
Fuel cost	-8.740
Salaries	-4.800
Landing and airport fees	-3.000
Handling fees	-3.500
Maintenance expense	-4.000
Operating margin	**20.960**
Operating margin %	*46,6%*

Hypothetical Operating Profit ($ million)

Average price ($) \ Seats sold	120	130	140	150	160	170	180
270	9,0	11,5	14,0	16,5	19,0	21,5	24,0
280	10,2	12,8	15,4	18,0	20,6	23,2	25,8
290	11,4	14,1	**16,8**	**19,5**	**22,2**	24,9	27,6
300	12,6	15,4	**18,2**	**21,0**	**23,8**	26,6	29,4
310	13,8	16,7	**19,6**	**22,5**	**25,4**	28,3	31,2
320	15,0	18,0	21,0	24,0	27,0	30,0	33,0
330	16,2	19,3	22,4	25,5	28,6	31,7	34,8

Hypothetical Operating Margin (%)

Average price ($) \ Seats sold	120	130	140	150	160	170	180
270	27,7%	32,6%	36,9%	40,6%	43,9%	46,8%	49,3%
280	30,2%	35,1%	39,2%	42,8%	45,9%	48,7%	51,1%
290	32,6%	37,3%	**41,3%**	**44,7%**	**47,8%**	50,4%	52,8%
300	34,9%	39,4%	**43,2%**	**46,6%**	**49,5%**	52,1%	54,4%
310	37,0%	41,3%	**45,1%**	**48,3%**	**51,1%**	53,6%	55,8%
320	39,0%	43,2%	46,8%	49,9%	52,7%	55,1%	57,2%
330	40,8%	44,9%	48,4%	51,4%	54,1%	56,4%	58,5%

ONE Transformation Journey

Estimated Impact of $70m

- In 2024 Icelandair initiated the ONE transformation journey.
- The initiative is expected to make a significant contribution towards Icelandair achieving it's 8% EBIT margin goal.
- The transformation is expected to increase operating profits by $70m on an annual run-rate basis by the end 2025.
- Initiatives with estimated annual gains of $40m already implement at the end of Q1 25.
- Keeping this in mind, AKKUR's estimate of increased profitability is very modest going forward as can be seen to the right.

ONE transformation journey											
	Adjusted historical figures			**AKKUR estimates**							
	2022	**2023**	**2024**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**
Actual EBITDA	137.726	156.464	139.856								
ONE effects	70.000	70.000	70.000								
Adjusted EBITDA	**207.726**	**226.464**	**209.856**	**182.751**	**211.756**	**249.354**	**255.948**	**278.781**	**292.726**	**353.395**	**377.908**
Adjusted EBITDA%	*16,4%*	*14,9%*	*13,4%*	*11,1%*	*12,0%*	*13,2%*	*12,8%*	*12,9%*	*12,3%*	*13,5%*	*13,7%*
Actual EBIT	18.851	20.987	-14.211								
ONE effects	70.000	70.000	70.000								
Adjusted EBIT	**88.851**	**90.987**	**55.789**	**23.844**	**47.894**	**77.245**	**82.351**	**103.400**	**93.984**	**136.157**	**158.615**
Adjusted EBIT%	*7,0%*	*6,0%*	*3,6%*	*1,4%*	*2,7%*	*4,1%*	*4,1%*	*4,8%*	*4,0%*	*5,2%*	*5,7%*
Actual Earnings befor taxes	178	7.789	-24.807								
ONE effects before taxes	70.000	70.000	70.000								
Adjusted Net Income	**56.142**	**62.231**	**36.154**	**7.817**	**23.204**	**46.958**	**51.662**	**65.689**	**51.519**	**83.823**	**105.304**
Adjusted EBIT%	*4,4%*	*4,1%*	*2,3%*	*0,5%*	*1,3%*	*2,5%*	*2,6%*	*3,0%*	*2,2%*	*3,2%*	*3,8%*

Shareholders

20 Largest Shareholders and Changes YTD

- Biggest shareholder is managed by Bain Capital.
  - Cost price of ca. ISK 1,47 per share.
- Most pension funds are shareholders although most have a relatively small position compared to other investments.
- At least 4 private investors among the 20 largest.
- In May, only one out of eleven equity funds covered by AKKUR had Icelandair as a top 10 position.
- Icelandair makes up 2,8% of the OMXI15 index and 2,2% of the OMX All Shares index.

	31/05/2025		31/12/2024		Changes YTD	
Shareholder list	**Shares**	**Stake %**	**Shares**	**Stake %**	**Shares**	**Stake %**
Blue Issuer Designated Activit	7.073.868.087	17,2%	7.073.868.087	17,2%	0	0,0%
Gildi - lífeyrissjóður	1.945.178.965	4,7%	1.945.178.965	4,7%	0	0,0%
Brú Lífeyrissjóður starfs sveit	1.478.149.141	3,6%	1.478.149.141	3,6%	0	0,0%
Lífeyrissj.starfsm.rík. A-deild	1.257.604.157	3,1%	1.257.604.157	3,1%	0	0,0%
Almenni lífeyrissjóðurinn	998.984.111	2,4%	998.984.111	2,4%	0	0,0%
Arion banki hf.	898.363.493	2,2%	718.970.071	1,7%	179.393.422	0,4%
Birta lífeyrissjóður	715.849.302	1,7%	715.849.302	1,7%	0	0,0%
Sólvöllur ehf.	663.704.375	1,6%	663.704.375	1,6%	0	0,0%
Lífsverk lífeyrissjóður	636.953.291	1,5%	636.953.291	1,5%	0	0,0%
Íslandsbanki hf.	629.352.460	1,5%	338.070.908	0,8%	291.281.552	0,7%
Stefnir - Innlend hlutabréf hs.	605.150.468	1,5%	514.887.328	1,3%	90.263.140	0,2%
Fossar markaðir Safnreikningur	550.800.000	1,3%	0	0,0%	550.800.000	1,3%
Lífeyrissjóður verzlunarmanna	512.361.239	1,2%	512.361.239	1,2%	0	0,0%
Landsbréf - Úrvalsbréf hs.	490.987.506	1,2%	477.575.575	1,2%	13.411.931	0,0%
John Shrimpton	420.000.000	1,0%	420.000.000	1,0%	0	0,0%
Nautica ehf	409.358.385	1,0%	409.080.274	1,0%	278.111	0,0%
Arcus Invest ehf.	381.272.661	0,9%	358.000.000	0,9%	23.272.661	0,1%
Lífeyrissjóður Vestmannaeyja	355.857.799	0,9%	355.857.799	0,9%	0	0,0%
Söfnunarsjóður lífeyrisréttinda	336.124.247	0,8%	336.124.247	0,8%	0	0,0%
VÍS tryggingar hf.	325.000.000	0,8%	0	0,0%	325.000.000	0,8%
20 largest shareholders	**20.684.919.687**	**50,3%**	**19.211.218.870**	**46,7%**	**1.473.700.817**	**3,6%**

Pros and Cons

A Short Summary of Pros and Cons

Pros

- Flexible business model.
- Network effect with high marginal profits.
- Strong brand awareness in key markets.
- Limited capacity growth currently in key markets.
- Fleet has mostly been renewed with more cost-efficient planes.
- Access to new markets when Icelandair takes delivery of the A321XLR.
- Management still believes they can achieve an 8% EBIT margin through the cycle.

Cons

- Complex operations with a lot of moving parts.
- Highly competitive and volatile market.
- Capital-intensive business that struggles to male sufficient return on invested capital.
- Both supply and demand can be greatly affected by factors that Icelandair has no control over.
- Strong real exchange rate of ISK and a weak USD.

TABLE OF CONTENTS

Valuation Discussion

Target Price Based on Two Different Approaches

- The target price is calculated at year-end 2025 with two different approaches.
- A discounted free cash flow model.
- A normalized EV/EBITDA multiple.
- The target price is the average of the two approaches, or 2,10kr at year-end 2025.

Valuation Approach	Weight	Result
DCF valuation	50,0%	2,45
Normalized EV/EBITDA	50,0%	1,75
Target price		**2,10**

Weighted Average Cost of Capital

Based on Damodaran Dataset

- Based on Damodaran's data for betas and Market Risk Premiums.
- Global beta for airline industry is 0,77.
- The risk-free rate is based on 10-year government yields weighted by Icelandair's revenue split by currencies.
  - The split can be seen to the right.
  - The European risk-free rate is weighted by the tourist arrivals in Iceland by countries.
  - Other countries/currencies are assigned a 4% risk-free rate.
- Market Risk Premium for Iceland 5,27% according to Damodaran.
- For the capital structure, a target equity ratio of 25% is assumed and a cost of debt equal to a 3% premium to the risk-free rate.

- Since airline operations is a quite volatile business, it could be argued that the target equity ratio should be higher.
- If we assume a 50% target equity ratio the WACC drops to 9,09% ignoring any potential effects on the cost of debt.

Weighted Average Cost of Capital	
Risk Free Rate	4,71%
Unlevered Beta	0,77
Market Risk Premium	5,27%
Target Equity Ratio	25,0%
Target Debt Ratio	75,0%
Income Tax Rate	20,0%
Levered Beta	2,62
Cost of Equity	**18,51%**
Risk premium	13,80%
Debt Premium	3,00%
Cost of Debt	7,71%
WACC	**9,25%**
Risk premium	4,54%

Revenues by Geographic Segments	
North America	51,0%
Europe	23,0%
Iceland	21,0%
Other	5,0%
Total	**100,0%**

10Y yields	
North America	4,42%
Europe	3,60%
Iceland	6,84%
Other	4,00%
Weighted average	**4,71%**

Europe	# Tourists	Weight	10Y Yield
UK	266.246	27,0%	4,53%
Germany	141.879	14,4%	2,53%
Poland	108.486	11,0%	5,61%
Italy	98.701	10,0%	3,47%
France	95.589	9,7%	3,23%
Spain	71.848	7,3%	3,14%
Netherlands	67.550	6,8%	2,75%
Denmark	57.659	5,8%	2,51%
Switzerland	28.887	2,9%	0,30%
Norway	24.795	2,5%	4,12%
Sweden	24.631	2,5%	2,35%
Total	**986.271**	**100,0%**	**3,60%**

Free Cash Flow Model

Terminal Value

- Terminal value is calculated with three different methods;
  - Key Value Driver (KVD)
  - Gordon's Growth Model (GGM)
  - EV/EBITDA multiple
- Each of the methods has pros and cons so AKKUR uses the average for all three methods.
- ROIC trending towards 10% in the model hence the 10% RONIC in the KVD calculation.
- Terminal growth estimated 2,5%.
  - Could be argued the terminal growth is low when compared to a revenue CAGR of 5,5% from 2011-2024.

Terminal Value	
Terminal growth (g)	2,5%
RONIC	10,0%
EV/EBITDA	4,5x
KVD	837.312
GGM	1.431.745
EBITDA multiple	956.636
Average	**1.075.231**

Free Cash Flow Model

Summary

Discounted Cash Flow Model																						
	Historical Numbers														AKKUR estimates							
																0,5	1,5	2,5	3,5	4,5	5,5	6,5
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenue	790.653	898.866	1.022.957	1.113.297	1.139.699	1.285.574	1.417.987	1.510.518	1.504.495	433.591	584.913	1.265.118	1.523.569	1.570.607	1.650.332	1.768.698	1.892.662	1.999.833	2.157.237	2.375.453	2.617.211	2.767.165
Salaries and related expenses	-152.414	-168.377	-195.491	-226.029	-229.789	-295.001	-381.970	-446.078	-429.308	-207.892	-215.485	-308.591	-391.564	-406.030	-427.753	-460.112	-478.655	-517.665	-559.855	-634.875	-673.539	-714.558
Aviation expenses	-380.089	-411.463	-432.991	-457.296	-401.194	-420.250	-456.012	-552.669	-568.455	-171.451	-235.453	-570.630	-635.868	-652.340	-643.727	-676.171	-717.843	-756.612	-816.473	-901.570	-995.549	-1.049.368
Other operating expenses	-173.215	-209.380	-250.765	-275.634	-282.050	-350.478	-409.929	-435.292	-368.756	-140.742	-156.779	-248.171	-339.673	-372.381	-396.100	-420.658	-446.810	-469.607	-502.129	-546.282	-594.728	-625.332
EBITDA	**84.935**	**109.646**	**143.710**	**154.338**	**226.666**	**219.845**	**170.076**	**76.479**	**137.976**	**-86.494**	**-22.804**	**137.726**	**156.464**	**139.856**	**182.751**	**211.756**	**249.354**	**255.948**	**278.781**	**292.726**	**353.395**	**377.908**
EBITDA %	*10,7%*	*12,2%*	*14,0%*	*13,9%*	*19,9%*	*17,1%*	*12,0%*	*5,1%*	*9,2%*	*-19,9%*	*-3,9%*	*10,9%*	*10,3%*	*8,9%*	*11,1%*	*12,0%*	*13,2%*	*12,8%*	*12,9%*	*12,3%*	*13,5%*	*13,7%*
Depreciation and amortization	-46.313	-58.859	-70.699	-75.329	-83.826	-101.408	-120.431	-133.447	-177.273	-276.502	-113.136	-118.875	-135.477	-154.067	-158.907	-163.862	-172.109	-173.597	-175.381	-198.742	-217.238	-219.294
EBIT	**38.622**	**50.787**	**73.011**	**79.009**	**142.840**	**118.437**	**49.645**	**-56.968**	**-39.297**	**-362.996**	**-135.940**	**18.851**	**20.987**	**-14.211**	**23.844**	**47.894**	**77.245**	**82.351**	**103.400**	**93.984**	**136.157**	**158.615**
EBIT %	*4,9%*	*5,7%*	*7,1%*	*7,1%*	*12,5%*	*9,2%*	*3,5%*	*-3,8%*	*-2,6%*	*-83,7%*	*-23,2%*	*1,5%*	*1,4%*	*-0,9%*	*1,4%*	*2,7%*	*4,1%*	*4,1%*	*4,8%*	*4,0%*	*5,2%*	*5,7%*
Taxes	-7.724	-10.157	-14.602	-15.802	-28.568	-23.687	-9.929	11.394	7.859	72.599	27.188	-3.770	-4.197	2.842	-4.769	-9.579	-15.449	-16.470	-20.680	-18.797	-27.231	-31.723
NOPLAT	**30.898**	**40.630**	**58.409**	**63.207**	**114.272**	**94.750**	**39.716**	**-45.574**	**-31.438**	**-290.397**	**-108.752**	**15.081**	**16.790**	**-11.369**	**19.075**	**38.315**	**61.796**	**65.881**	**82.720**	**75.187**	**108.926**	**126.892**
CAPEX	-61.068	-58.204	-88.797	-88.519	-181.119	-231.560	-153.459	-213.930	-104.033	-16.795	26.642	-199.760	-133.516	-107.491	-154.025	-164.539	-175.147	-190.248	-359.320	-479.830	-210.060	-217.581
Change in NWC	15.049	25.253	68.489	52.508	33.876	5.729	48.454	10.139	4.143	-94.769	83.238	56.315	52.965	30.836	-1.515	30.838	32.288	27.704	41.259	57.675	64.004	39.113
Free Cash Flow	**31.192**	**66.538**	**108.800**	**102.525**	**50.855**	**-29.673**	**55.142**	**-115.918**	**45.945**	**-125.459**	**114.264**	**-9.489**	**71.716**	**66.043**	**22.443**	**68.477**	**91.046**	**76.934**	**-59.960**	**-148.225**	**180.108**	**167.717**
PV of Free Cash Flow																65.512	79.727	61.662	-43.987	-99.529	110.693	94.346

Free Cash Flow Model

Results

- The Free Cash Flow model gives us a target price per share of 2,45kr at year-end 2025.
  - 2,24kr when discounted at the cost of equity to today.
- The implied WACC is 12,7%, i.e. the WACC required for the model to return the market price per share, or an 8% premium above the risk-free rate.
- Fleet renewal is modelled through CAPEX to capture the effect while in reality, a large part will not show up in CAPEX.
  - Leased planes won't show up in CAPEX and instead through lease liabilities and right-of-use assets.
- CAPEX estimated as11,3% of total revenues during forecast period, well above the historical rate of 10,0%.
- As mentioned before, deferred tax assets are added to the DCF results as they assume full payments of income taxes and investments in associates are added back at book value through Non-Operating Assets.

Discounted Cash Flow Model	
Present Value of Free Cash Flow	268.425
Terminal Value	1.075.231
Enterprise Value	**1.343.656**
Interest Bearing Debt	-205.754
Lease Liabilities	-636.102
Cash & Cash Equivalents	201.980
Net Interest Bearing Debt	**-639.876**
Income Tax Asset	77.060
Non-Operating Assets	32.700
Equity Value (US '000)	**813.540**
Equity Value (ISK mn)	100.879
Per Share (ISK)	**2,45**
PV	2,24

		WACC						
		7,75%	8,25%	8,75%	9,25%	9,75%	10,25%	10,75%
g	1,0%	2,96	2,66	2,39	2,16	1,95	1,76	1,59
	1,5%	3,11	2,78	2,50	2,24	2,02	1,82	1,64
	2,0%	3,30	2,93	**2,61**	**2,34**	**2,10**	1,89	1,70
	2,5%	3,51	3,10	**2,75**	**2,45**	**2,19**	1,96	1,76
	3,0%	3,77	3,30	**2,91**	**2,58**	**2,30**	2,05	1,83
	3,5%	4,09	3,55	3,11	2,73	2,42	2,15	1,91
	4,0%	4,50	3,85	3,34	2,92	2,56	2,26	2,01

Sensitivity analysis showing the effect of change in the WACC and the terminal growth rate

		Change in Load Factor						
		-3,0%	-2,0%	-1,0%	0,0%	1,0%	2,0%	3,0%
Change in Yield	-0,30	-0,30	0,18	0,65	1,12	1,59	2,07	2,54
	-0,20	0,13	0,61	1,09	1,57	2,04	2,52	3,00
	-0,10	0,56	1,04	**1,53**	**2,01**	**2,49**	2,98	3,46
	0,00	0,99	1,48	**1,96**	**2,45**	**2,94**	3,43	3,92
	0,10	1,42	1,91	**2,40**	**2,90**	**3,39**	3,88	4,38
	0,20	1,84	2,34	2,84	3,34	3,84	4,34	4,84
	0,30	2,27	2,78	3,28	3,78	4,29	4,79	5,30

Sensitivity analysis showing the effect of change in the load factor and the yield

EBITDA Multiple Valuation

Valuation Based on Normalized EBITDA Multiple

- One method of valuation is an EBITDA multiple on an estimated normalized EBITDA in 2027.
- The model assumes revenues of $1,9bn in 2027.
  - RASK of 7,8 US cents and a yield of 9,5 US cents.
- A peer group is expected to generate an EBITDA margin in the range of 8-26% with the average estimate of 17% in during 2026-2027.
- AKKUR estimates Icelandair's normalized EBITDA margin at roughly 13%.
- The same peer group trades at 2027 EV/EBITDA multiples ranging from 2-6x with the average multiple at 4x.
- Management still believes they can achieve an 8% EBIT margin through the cycle – if correct that means the EBITDA margin will be in the 16-18% range.

- **AKKUR's opinion that this is a conservative estimate of 2027 revenues and EBITDA.**

		Normalized EV/EBITDA						
		3,0x	3,5x	4,0x	4,5x	5,0x	5,5x	6,0x
EBITDA %	10,0%	0,12	0,41	0,69	0,98	1,27	1,55	1,84
	11,0%	0,29	0,61	0,92	1,24	1,55	1,87	2,18
	12,0%	0,46	0,81	**1,15**	**1,50**	**1,84**	2,18	2,53
	13,0%	0,64	1,01	**1,38**	**1,75**	**2,13**	2,50	2,87
	14,0%	0,81	1,21	**1,61**	**2,01**	**2,41**	2,81	3,21
	15,0%	0,98	1,41	1,84	2,27	2,70	3,13	3,56
	16,0%	1,15	1,61	2,07	2,53	2,99	3,44	3,90

TABLE OF CONTENTS

Assumptions and KPIs

Overview

Assumptions and KPIs																						
	Historical Numbers														AKKUR estimates							
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Airline KPIs																						
ASKM	6.169	7.178	8.320	9.673	11.084	13.653	15.245	16.241	16.679	3.190	5.963	13.253	15.665	17.158	18.359	19.277	20.241	21.253	22.847	25.132	27.645	29.027
RPKM	4.892	5.778	6.598	7.777	9.211	11.223	12.603	13.149	13.674	2.144	3.895	10.568	12.767	14.180	15.238	16.000	16.800	17.640	18.963	20.859	22.945	24.092
Load Factor	79,3%	80,5%	79,3%	80,4%	83,1%	82,2%	82,7%	81,0%	82,0%	67,2%	65,3%	79,7%	81,5%	82,6%	83,0%	83,0%	83,0%	83,0%	83,0%	83,0%	83,0%	83,0%
RASK (US cents)	7,6	7,9	7,9	7,9	7,3	6,6	6,5	6,4	6,6	6,2	6,1	7,9	8,2	7,7	7,5	7,7	7,8	7,9	8,0	8,1	8,2	8,2
Yield (US cents)	9,6	9,8	10,0	9,9	8,8	8,0	7,9	7,9	8,1	9,3	9,4	9,9	10,1	9,3	9,0	9,2	9,5	9,5	9,6	9,7	9,8	9,9
CASK (US cents)	9,3	8,8	8,3	7,8	6,3	5,9	6,2	6,8	7,0	15,6	9,3	8,5	8,7	8,3	8,0	8,1	8,1	8,2	8,2	8,3	8,2	8,2
CASKx (US cents)	6,4	5,7	5,4	5,0	4,3	4,3	4,6	5,0	5,0	13,2	7,4	5,7	6,4	6,2	6,2	6,3	6,3	6,4	6,4	6,5	6,4	6,4
Revenue Growth																						
Passenger revenue		20,0%	16,8%	16,2%	5,2%	11,0%	11,0%	4,1%	6,4%	-81,9%	84,1%	185,8%	23,1%	2,7%	3,5%	7,6%	7,6%	6,1%	8,6%	11,1%	11,1%	6,1%
Cargo and mail revenues		7,9%	8,3%	3,5%	-4,7%	23,4%	7,9%	3,6%	0,1%	13,8%	31,4%	4,0%	-2,9%	-13,1%	7,1%	6,8%	3,2%	3,1%	3,1%	3,1%	3,1%	3,0%
Lease income		-11,6%	-2,4%	-36,6%	11,5%	1,5%	3,7%	37,0%	-23,7%	-29,4%	-34,1%	37,1%	21,9%	31,4%	25,6%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%
Other operating income		18,4%	16,5%	12,6%	-8,8%	22,0%	10,7%	6,0%	-14,7%	-59,2%	-14,5%	-22,8%	8,6%	1,3%	5,5%	5,9%	5,9%	5,0%	6,6%	8,3%	8,4%	5,1%
Total revenue		**13,7%**	**13,8%**	**8,8%**	**2,4%**	**12,8%**	**10,3%**	**6,5%**	**-0,4%**	**-71,2%**	**34,9%**	**116,3%**	**20,4%**	**3,1%**	**5,1%**	**7,2%**	**7,0%**	**5,7%**	**7,9%**	**10,1%**	**10,2%**	**5,7%**
Revenue Growth - CAGR																						
Passenger revenue CAGR (l. axis)		20,0%	18,4%	17,7%	14,4%	13,7%	13,3%	11,9%	11,2%	-9,1%	-2,5%	7,5%	8,8%	8,3%	7,9%	7,9%	7,9%	7,8%	7,8%	8,0%	8,2%	8,1%
Cargo and mail revenues		7,9%	8,1%	6,5%	3,6%	7,3%	7,4%	6,9%	6,0%	6,8%	9,1%	8,6%	7,6%	5,8%	5,9%	6,0%	5,8%	5,6%	5,5%	5,4%	5,3%	5,2%
Lease income		-11,6%	-7,1%	-18,2%	-11,6%	-9,1%	-7,1%	-1,8%	-4,9%	-8,0%	-11,0%	-7,4%	-5,3%	-2,9%	-1,1%	-0,8%	-0,6%	-0,3%	-0,2%	0,0%	0,2%	0,3%
Other operating income		18,4%	17,4%	15,8%	9,1%	11,6%	11,4%	10,6%	7,1%	-3,8%	-4,9%	-6,7%	-5,5%	-5,0%	-4,3%	-3,7%	-3,1%	-2,6%	-2,1%	-1,6%	-1,1%	-0,8%
Total revenue		**13,7%**	**13,7%**	**12,1%**	**9,6%**	**10,2%**	**10,2%**	**9,7%**	**8,4%**	**-6,5%**	**-3,0%**	**4,4%**	**5,6%**	**5,4%**	**5,4%**	**5,5%**	**5,6%**	**5,6%**	**5,7%**	**6,0%**	**6,2%**	**6,1%**
Expenses																						
Labor Cost %% Passenger Revenue	19,3%	18,7%	19,1%	20,3%	20,2%	22,9%	26,9%	29,5%	28,5%	47,9%	36,8%	24,4%	25,7%	25,9%	25,9%	26,0%	25,3%	25,9%	26,0%	26,7%	25,7%	25,8%
Labour Cost per ASK (USD '000)	24,7	23,5	23,5	23,4	20,7	21,6	25,1	27,5	25,7	65,2	36,1	23,3	25,0	23,7	23,3	23,9	23,6	24,4	24,5	25,3	24,4	24,6
Fuel Expenses %% Transport Revenue	35,4%	36,4%	34,5%	33,5%	26,4%	22,5%	22,4%	27,3%	27,9%	28,8%	26,4%	32,9%	26,9%	25,7%	23,2%	22,2%	21,7%	21,5%	21,3%	21,2%	21,0%	20,9%
Total Aviation Expenses %% Passenger Revenue	42,6%	33,9%	28,8%	24,2%	22,0%	23,1%	22,2%	24,5%	22,2%	47,7%	31,5%	18,7%	20,5%	22,0%	22,4%	22,4%	22,3%	22,3%	22,2%	22,2%	22,1%	22,1%
Total Other Operating Expenses %% Passenger Revenue	36,8%	37,1%	38,0%	36,0%	35,0%	39,1%	41,3%	42,1%	33,5%	70,7%	42,8%	23,7%	26,3%	28,1%	28,9%	28,5%	28,1%	27,9%	27,5%	26,9%	26,3%	26,1%
Total Operating Expenses %% Revenues	89,3%	87,8%	86,0%	86,1%	80,1%	82,9%	88,0%	94,9%	90,8%	119,9%	103,9%	89,1%	89,7%	91,1%	88,9%	88,0%	86,8%	87,2%	87,1%	87,7%	86,5%	86,3%

Assumptions and KPIs

Overview

Assumptions and KPIs																						
	Historical Numbers														AKKUR estimates							
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Capital Structure																						
Interest Bearing Debt	196.868	150.906	122.017	61.934	65.530	242.382	289.541	415.801	321.286	263.588	257.785	255.717	252.330	205.754	205.754	205.754	205.754	205.754	305.754	505.754	505.754	505.754
Lease Liabilities	0	0	0	0	0	0	0	0	158.453	146.596	245.658	342.154	386.249	465.103	636.102	571.523	514.411	463.007	416.739	375.095	337.612	303.875
Total Debt	196.868	150.906	122.017	61.934	65.530	242.382	289.541	415.801	479.739	410.184	503.443	597.871	638.579	670.857	841.856	777.277	720.165	668.761	722.493	880.849	843.366	809.629
Cash & Cash Equivalents	106.689	132.794	199.493	215.641	214.119	250.125	225.278	299.460	235.073	159.370	262.964	266.411	270.522	254.797	201.980	159.948	150.469	136.059	89.650	55.274	154.042	249.553
NIBD	90.179	18.112	-77.476	-153.707	-148.589	-7.743	64.263	116.341	244.666	250.814	240.479	331.460	368.057	416.060	639.876	617.329	569.696	532.702	632.843	825.574	689.324	560.076
NIBD/EBITDA	1,1x	0,2x	-0,5x	-1,0x	-0,7x	0,0x	0,4x	1,5x	1,8x	-2,9x	-10,5x	2,4x	2,4x	3,0x	3,5x	2,9x	2,3x	2,1x	2,3x	2,8x	2,0x	1,5x
NIBD/EBIT	2,3x	0,4x	-1,1x	-1,9x	-1,0x	-0,1x	1,3x	-2,0x	-6,2x	-0,7x	-1,8x	17,6x	17,5x	-29,3x	26,8x	12,9x	7,4x	6,5x	6,1x	8,8x	5,1x	3,5x
Equity Ratio	36,1%	38,8%	41,6%	43,0%	47,0%	44,0%	41,8%	32,2%	28,8%	22,5%	19,0%	19,4%	18,9%	16,4%	15,1%	16,3%	18,5%	20,8%	22,1%	21,5%	23,6%	26,4%
Invested Capital	460.253	446.838	468.099	426.989	522.061	810.595	881.076	887.180	962.217	642.993	725.827	871.257	926.926	939.923	1.118.739	1.077.364	1.067.210	1.067.468	1.186.889	1.396.763	1.443.104	1.514.670
Profitability																						
Return on Equity		15,8%	17,6%	18,7%	27,1%	17,4%	6,5%	-10,5%	-12,1%	-105,2%	-46,0%	-2,3%	4,0%	-7,2%	2,9%	8,0%	14,5%	13,9%	15,2%	10,5%	15,0%	16,1%
Return on Invested Capital		9,0%	12,8%	14,1%	24,1%	14,2%	4,7%	-5,2%	-3,4%	-36,2%	-15,9%	1,9%	1,9%	-1,2%	1,9%	3,5%	5,8%	6,2%	7,3%	5,8%	7,7%	8,6%
Captital Expenditures																						
Aircraft CAPEX %% Revenues	11,0%	6,4%	7,7%	6,5%	14,0%	14,0%	6,4%	18,0%	15,5%	8,7%	28,9%	23,3%	7,4%	4,7%	8,5%	8,4%	8,4%	8,6%	15,7%	19,3%	7,1%	7,0%
Other CAPEX %% Revenues	1,1%	1,3%	1,1%	2,6%	2,1%	4,1%	5,0%	3,9%	1,8%	1,1%	0,2%	1,4%	1,5%	2,4%	0,9%	0,9%	0,9%	0,9%	0,9%	0,9%	0,9%	0,9%
Total CAPEX %% Revenues	12,1%	7,7%	8,8%	9,0%	16,1%	18,1%	11,4%	21,9%	17,3%	9,8%	29,1%	24,7%	8,8%	7,1%	9,3%	9,3%	9,3%	9,5%	16,7%	20,2%	8,0%	7,9%
Lease Liabilities																						
Lease Liabilities									158.453	146.596	245.658	342.154	386.249	465.103	636.102	571.523	514.411	463.007	416.739	375.095	337.612	303.875
Lease Payments									43.253	30.906	37.554	50.533	68.574	82.941	93.021	127.220	114.305	102.882	92.601	83.348	75.019	67.522
Lease Payments %% Revenues									2,9%	7,1%	6,4%	4,0%	4,5%	5,3%	5,6%	7,2%	6,0%	5,1%	4,3%	3,5%	2,9%	2,4%
Right-of-Use Depreceation									28.932	20.556	22.477	37.930	50.353	56.970	62.209	64.702	66.079	61.374	56.960	52.814	48.918	45.260