A Financial Analysis of Ryanair in UK Market

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Abstract. This report evaluates external environment and internal environment of Ryanair. It has certain competitiveness in the UK market, but it still faces challenges from potential entrants, suppliers, buyers, substitutes and industry competitiveness. In order to remain competitive in the market and meet customer needs, Ryanair airlines need to continuously innovate and improve services, while establishing long-term and stable cooperative relationships with partners to achieve sustainable development. The conclusion is that Ryanair has recovered from the pandemic downturn in 2023 financial year. Its risks are identified and risk management measures are analysed. First, Ryanair faces legal risks as it faces increasingly complex data protection laws and regulations. Second, in a highly competitive industry, the company faces operational risk from being exposed to significant price and other pressures. Third, Ryanair faces financial risks. Fourth, Ryanair faces cybersecurity risks and may incur increasing costs to minimize these risks. Within the company, Ryanair has established a clear functional organizational structure and clear division of responsibilities and authorities including the appointment of head of internal audit and the chief risk officer. Ryanair has implemented a risk management program across the company, with senior management responsible for reviewing and monitoring the financial and non-financial controls in place to manage risks to the business.

Keywords: Ryanair, Airlines Industry, External and Internal Environment.

1. Introduction

Malighetti et al. found that in 1991 Ryanair carried 0.7 million passengers after restructuring and re-launching as a low-cost carrier and it took only 7 to 8 years for Ryanair to catch up other low-cost carriers [1]. Low-cost carrier network overlap increased significantly in the late pre-pandemic period and especially during the pandemic, and the network overlap development during the pandemic is considered to be an indicator of the intensity of competition among European low-cost carriers after the pandemic [2]. Low-cost carrier aviation industry features fierce competition before, amid and after the covid-19 pandemic. Ryanair is a key European player in this industry.

Ryanair Holdings plc is Europe’s largest airline group and parent company of Ryanair, Ryanair UK, Buzz, Lauda and Malta Air [3]. This report aims to study performance of Ryanair operating in UK market. Ryanair is in aviation industry and it is mainly operating passenger services. It offers the lowest fares in Europe and operates over 240 destinations in over 40 countries [3]. The financial ratios of Ryanair show that it has recovered from the pandemic downturn and this will be analysed in following parts. This report will evaluate external environment and internal environment of Ryanair. Its risks are identified and risk management measures are analysed.

2. Evaluating the External Environment of Ryanair

The Porter’s Five Forces Model is used to analyse external environment of Ryanair.

2.1. Competition from Rival Sellers

Ryanair’s competitiveness in the British market is average. Although this low-cost airline provides air services with reasonable prices, high-quality services, and punctual flights, its market share is not large.

The number of employees employed by airlines registered in the United Kingdom (UK) has fallen significantly over the past two decades. Although after significant cuts during the recession, numbers
are slowly growing again [4]. According to CAA.co.uk, for Passenger Services, 'Number of Passengers Uplifted' can show the popularity and market share of different airline companies in UK [5]. It shows that, as of September of 2023, most popular airlines are EasyJet UK (3,936,037), British Airways (3,341,355 (passengers, the same below)), Jet2.com (2,146,374), TUI Airways (1,463,111), Virgin Atlantic Airways (439,248), Wizz Air UK (401,158), Ryanair UK (366,456), BA EuroFlyer DBA British Airways (328,101), BA CityFlyer (218,699) and so on. It shows from CAA database that Ryanair ranks only seventh largest market share and it is only 1/10 of that of EasyJet UK with largest market share. In addition, there are also international players in aviation industry in UK, and there are Lufthansa, Air Berlin, Air France, Iberia, Safran, Emirates, KLM Royal Dutch Airlines and so on.

In order to maintain its current competitiveness, Ryanair needs to continuously optimize its route network, improve flight punctuality, and reduce operating costs. In addition, Ryanair also needs to actively expand the market and add partners to further expand market share.

The British economy is relatively stable, the aviation industry is one of the important industries in the UK, and Ryanair's operations in the British market rely on the UK's economic growth. UK economic growth returned to pre-pandemic status in 2023, still just over 0%, with household spending falling by 0.4% [6]. This shows that the overall economic environment has not improved. This is not conducive to Ryanair's operations in the UK. Revenue of the flights market in the United Kingdom is expected to continue growing between 2023 and 2027, totaling $3.0 billion (+12.25%); after a seventh consecutive year of growth, the metric is expected to reach $27.44 billion in 2027, and hit a new peak [7].

2.2. Competition from Potential New Entrants to the Industry

Ryanair's position in the UK market is relatively strong, but there is still the threat of potential entrants. If new entrants are able to offer more competitive prices and services, they may pose a threat to existing market players. However, given Ryanair's long operating history and strong brand awareness in the UK market, potential entrants face greater challenges.

2.3. Competition from Producers of Substitute Products

Air transportation is a highly competitive industry with many alternatives such as ground transportation, rail and automobiles. UK airlines' international flight distances have been growing, suggesting more long-haul flights are being offered; at the same time, domestic flight distances are decreasing, possibly due to people using other modes of transport to travel domestically [4]. For passengers, there are different alternatives to choose from depending on their needs and budgets. Therefore, Ryanair needs to continuously innovate and improve services to maintain its market competitiveness.

2.4. Supplier Bargaining Power

Ryanair has a large number of suppliers in the UK market. Chief among these suppliers are airports. The bargaining power of the airport is relatively strong because it is irreplaceable. In order to remain competitive, airlines usually establish long-term and stable cooperative relationships with suppliers and seek the most cost-effective solutions. According to Starkie, the role of low-cost carriers (LCCs) in driving privatized airport industry reform in the UK, and the profound impact airlines have had on the airport industry [8]. The core of the traditional relationship between airports and airlines is the posted tariff of charges (the most important of which is the rate reflecting the weight of the aircraft), and the related "conditions of use". What's interesting about this traditional approach is its informality: users do not need to sign a contract with the airport, but simply accept the “conditions of use” by paying the published rate. Under this arrangement, the airport effectively assumes the long-term traffic risk. Additionally, liberalization of the aviation industry has allowed airlines to change routes and airports at will. The result is a significant increase in competition between airports and a corresponding increase in the bargaining power of airlines. The catalyst for this change process was
the introduction of formal, concrete long-term vertical supply contracts between airports and downstream airlines. This reduces bargaining power of airports.

In addition, Ryanair has many other suppliers. Suppliers provide a variety of raw materials and services that are critical to airline operations. If suppliers increase prices or reduce service quality, it will directly affect the airline's operating costs and profitability. Ryanair currently sources the majority of its aircraft and many associated aircraft parts from Boeing. Therefore, if Boeing is unable to deliver the aircraft in a timely manner, or if Ryanair is unable to purchase additional aircraft or sufficient spare parts from Boeing, it could have a material adverse effect on Ryanair's product operations [9]. This shows the supplier bargaining power is high.

2.5. Customer Bargaining Power

Ryanair's buyers in the UK market are mainly passengers. Passengers have high bargaining power over flight prices, services and flight punctuality provided by airlines. Passengers can choose the right airline by comparing prices and services of different airlines, thereby influencing the airline's pricing strategy. In order to cope with the bargaining power of buyers, airlines usually provide flexible fare policies, quality services and on-time flight services to meet the needs of passengers.

In short, Ryanair Airlines has certain competitiveness in the UK market, but it still faces challenges from potential entrants, suppliers, buyers, substitutes and industry competitiveness. In order to remain competitive in the market and meet customer needs, Ryanair airlines need to continuously innovate and improve services, while establishing long-term and stable cooperative relationships with partners to achieve sustainable development.

3. Evaluating the Internal Environment of Ryanair

The two best indicators of how well a company’s strategy is working are whether Ryanair is recording gains in financial strength and profitability, and whether Ryanair’s competitive strength and market standing are improving. This part will analyse these two aspects. The first part is to study whether Ryanair is recording gains in financial strength and profitability. This part will refer to financial analysis on macrotrends.net, which has credibility and is used by many large companies in publications [10].

| Table 1. Key financial ratios of Ryanair [10] |
|-----------------------------|-----------------------------|
| Ratios                      | 31-03-2023 | 31-03-2022 |
| Current ratio               | 0.7965      | 1.0142      |
| Long-term debt/capital      | 0.3358      | 0.4011      |
| Debt/equity ratio           | 0.6929      | 0.8907      |
| Asset turnover              | 0.6568      | 0.3169      |
| EBIT margin                 | 13.3882     | -7.0737     |
| ROA                         | 8.0081      | -1.5895     |
| ROI                         | 15.4634     | -2.6005     |

Based on the data provided above, Ryanair's key changes from March 31, 2023 to March 31, 2022 financial metrics are as follows. As can be seen from the current ratios and asset turnover in Table 1, Ryanair's cash flow position is good, but the asset turnover has declined. This may mean that companies need to pay more attention to asset management and improve the efficiency of using assets. The long-term debt to capital ratio fell to 0.3358 from 0.4011, while the debt-to-equity ratio fell to 0.6929 from 0.8907. This could mean that Ryanair is reducing debt levels to reduce financial risk. This could mean Ryanair is optimizing its capital structure to increase shareholder value.

Compared with the data in 2022, Ryanair has seen a significant increase in asset turnover, EBIT margin, ROA and ROI. In 2022, Ryanair has incurred significant costs as a result of the pandemic, including enhanced aircraft cleaning and other measures to limit transmission among customers and personnel, and above measures have a negative influence on the business of Ryanair [9]. In 2023,
Ryanair's profitability rises. This is due to the recovery of the global air passenger market after the pandemic, which has allowed Ryanair to regain significant cash flow and profits.

Combining the above factors, overall Ryanair may have faced some challenges in the past year. However, the overall financial situation has been stabilized and restored due to the optimization of the financial situation and the improvement of the cash flow situation. Further analysis is required of Ryanair's specific business and market environment to determine the specific causes and effects of these changes. At the same time, Ryanair also needs to pay attention to the future market and competitive environment to formulate appropriate strategic and financial plans.

The second part is to study whether Ryanair’s competitive strength and market standing are improving. This involves improved competitiveness at strategic level of Ryanair. As a representative of low-cost carriers, Ryanair's competitive advantage lies in improving services to reduce the gap with full fare carriers. Ryanair, for example, has recently made efforts to attract travelers beyond the leisure market. These efforts are mainly focused on elements not related to the in-flight product, but rather on airport services such as priority boarding, expedited security checks, extra baggage allowance, and priority boarding [11]. For example, a flight between Helsinki, Finland and Stansted, UK departs on January 17, 2023. This means that for a fare of 75 euros, Ryanair customers can add a range of preferential services to their basic ticket, including priority. Boarding, two carry-ons, seat selection, fast security, and free airport check-in [11]. These benefits bring on-ground and pre-flight experience closer to a business class ticket on a full-fare airline. This means that the main real difference between low-cost and full-fare airlines is usually limited to the in-flight experience.

According to annual report of Ryanair, taking advantage of Ryanair’s good fuel hedging and Ryanair’s capacity growth, Ryanair has gained market share by keeping airfares low while adding approximately 300 new passengers in FY23 new routes and new bases [9]. Currently, Ryanair has become the leading airline in many EU countries by passenger traffic, and with the delivery of more than 110 new Boeing 737-8200 "Gamechangers" over the next three years, Ryanair expects to further expand its market share.

4. Risk Management

There are many risks for Ryanair, though it has gone out of clouds of the covid-19 pandemic. Although the COVID-19 pandemic is currently easing and increasing testing, quarantine requirements and travel restrictions are being partially or fully lifted, the economic downturn has affected our business, results of operations, financial condition and cash flow may be adversely affected. in a global economic environment. have a negative impact [9]. Ryanair board of directors and managers have established a sound risk management system.

First, Ryanair faces legal risks as it faces increasingly complex data protection laws and regulations. Ryanair's operations involve the large-scale storage and processing of personal data relating to business partners, customers and employees. Ryanair is subject to related national implementing regulations (Ireland Data Protection Act 2018) and the European Union's GDPR, and this will impose important requirements on the companies involved [9]. If its operations are found to be in violation of such laws and regulations, Ryanair could be exposed to large administrative, civil, and criminal losses and fines. There is also reputational damage. This could have a material negative impact on the business, financial condition and management. Ryanair's risk management strategy is to ensure compliance with data protection laws, although this involves significant costs.

Second, the company faces operational risk from being exposed to large price and other pressures in a highly competitive industry. Ryanair operates in a highly competitive market, competing with its competitors and other airlines on price, service frequency and reliability, brand awareness, passenger facilities and other passenger services throughout the route network [9]. Ryanair may be competing with state-owned flag carriers with greater brand awareness and resources from their respective governments and this unjust competition will threat Ryanair [9]. The airline industry is susceptible to price discounts. Ryanair's risk management strategy is to sometimes directly offer low-cost air tickets.
on a considerable part of its route network in response to the liberalization of the EU air transport market and public acceptance of the low-cost model.

Third, Ryanair faces financial risks. The lack of liquidity, substantial debt and fixed debt obligations of Ryanair make it have an adverse influence on the financial condition of the company. Ryanair currently holds debt related to aircraft financing commitments and will continue to hold it for maintenance and other obligations [9]. Although Ryanair has historically been able to generate sufficient cash flow to service debt and other fixed debt obligations, the risks described by Ryanair may limit the company from doing so in the future and may affect its overall liquidity adversely [9].

Fourth, Ryanair faces cybersecurity risks and may incur increasing costs to minimize these risks. Ryanair has established a clear functional organizational structure and clear division of responsibilities and authorities within the company, including the appointment of head of internal audit and the chief risk officer. Ryanair's Board of Directors has overall responsibility for the company's internal control and risk management systems and is responsible for reviewing their effectiveness [9]. Ryanair has an ongoing process for identifying, assessing and managing any material risks, which was in place during the year under review and is reviewed regularly by the Board. In addition, Ryanair has established a systematic and procedural approach to identify, control and report key risks. The Audit Committee and Management Committee are responsible for monitoring these risk exposures. Ryanair has implemented a risk management program across the company, with senior management responsible for reviewing and monitoring the financial and non-financial controls in place to manage risks to the business [9].

5. Conclusion

This report evaluates external environment and internal environment of Ryanair. It has certain competitiveness in the UK market, but it still faces challenges from potential entrants, suppliers, buyers, substitutes and industry competitiveness. In order to remain competitive in the market and meet customer needs, Ryanair airlines need to continuously innovate and improve services, while establishing long-term and stable cooperative relationships with partners to achieve sustainable development. The conclusion is that Ryanair has recovered from the pandemic downturn in 2023 financial year. Its risks are identified including legal risks, operational risks, financial risks and cybersecurity risks. Ryanair has established a clear functional organizational structure and clear division of responsibilities and authorities within the company, including the appointment of a chief risk officer and head of internal audit. Ryanair has implemented a risk management program across the company, with senior management responsible for reviewing and monitoring the financial and non-financial controls in place to manage risks to the business.

In the future, Ryanair should pay close attention to the global economic situation and political dynamics and formulate corresponding risk management strategies, including insurance, contingency plans and crisis response mechanisms. During the economic downturn, Ryanair should prioritize the resilience of market demand, readjust its route network, and reduce unnecessary operating costs. Ryanair should reduce costs by improving operational efficiency, including improving flight punctuality, optimizing crew configuration, and improving flight utilization. In addition, Ryanair needs to maintain a flexible price strategy, strengthen cooperation with suppliers, and reduce operational risks. Ryanair should also pay more attention to environmental protection and sustainable development to reduce climate change.

References


