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SEABURY

DELIVERING COMPREHENSIVE SOLUTIONS FOR AVIATION CLIENTS WORLDWIDE

24 March 2015



Moscow Restructuring Symposium

Michael B. Cox

Vice Chairman

SEABURYGROUP.COM

Agenda

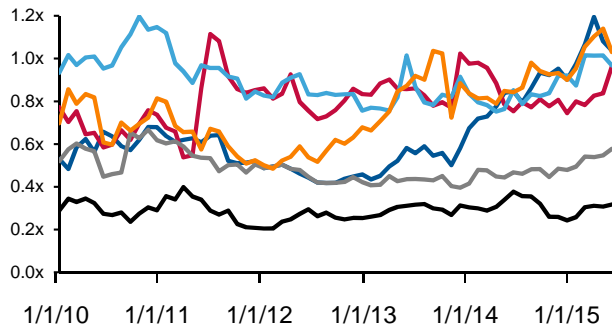
- Current state of the airline industry
- Focus on Russia
- Elements of successful airline restructurings
- Case studies

Strong airline market capitalization rates for most regions

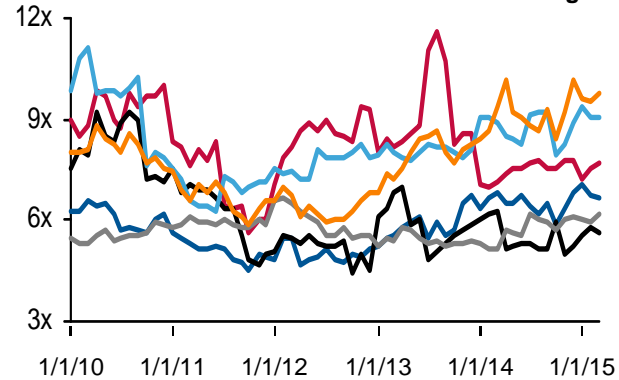
Equity markets are open for well performing airlines – unlike much of the past 25 years – but as a group, European carriers are significant laggard



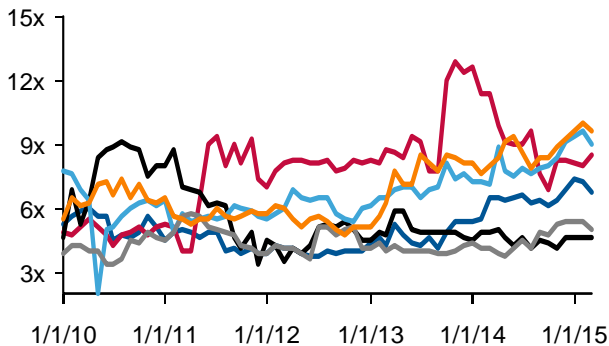
TEV / Total Revenue 2010 Average: 0.63x
2015 Average 0.82x



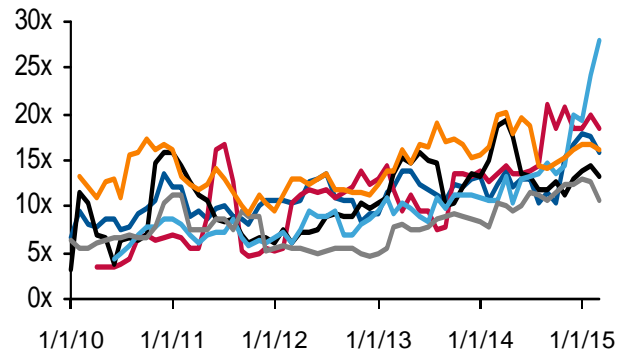
Adj. TEV / EBITDAR 2010 Average: 7.0x
2015 Average 8.3x



TEV / EBITDA 2010 Average: 5.7x
2015 Average 7.4x



P / E 2010 Average: 8.5x
2015 Average 10.8x



- North America
- LatAm
- Europe
- Asia/Pacific
- Regional
- LCC

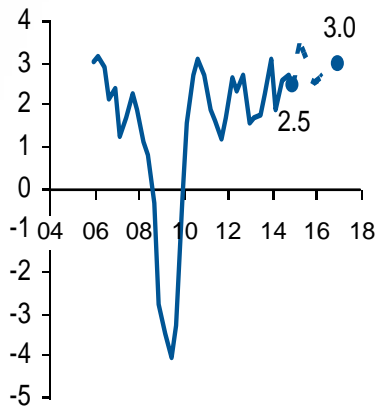
But real warning signs are flashing

GDP recovery is faltering in many regions except China, India, and the US

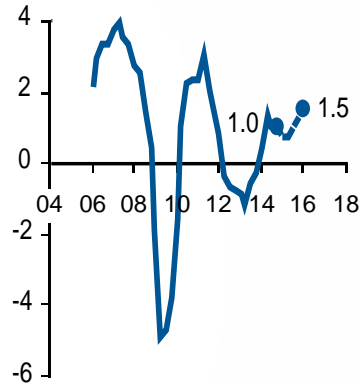
Real GDP trend analysis (as of March 3, 2015)



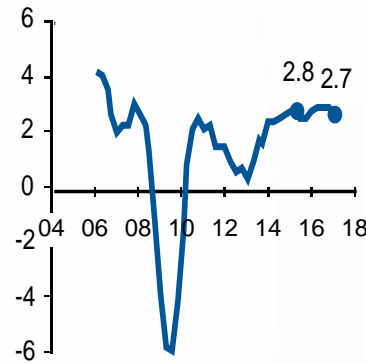
United States



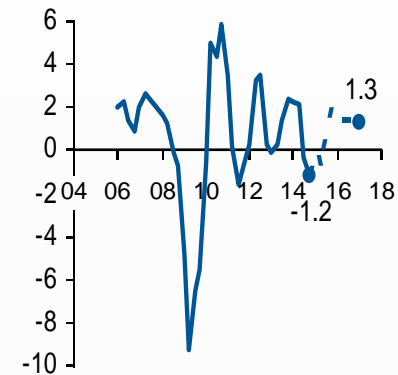
Eurozone



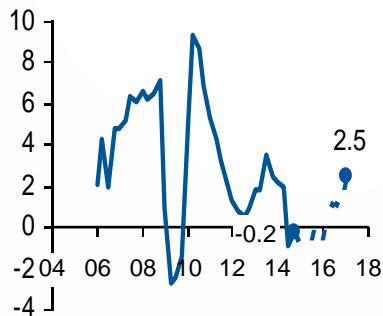
United Kingdom



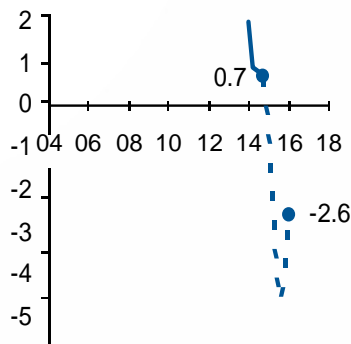
Japan



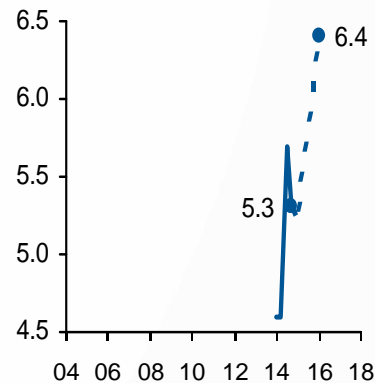
Brazil



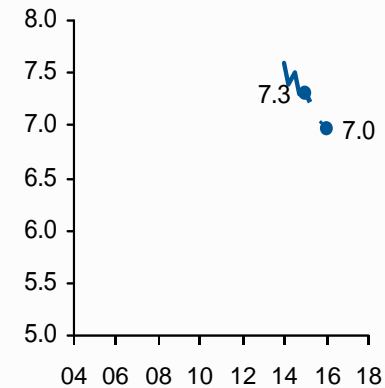
Russia



India



China



"Eurozone" – an economic and monetary union of 16 European Union member states which have adopted the Euro currency as their sole legal tender

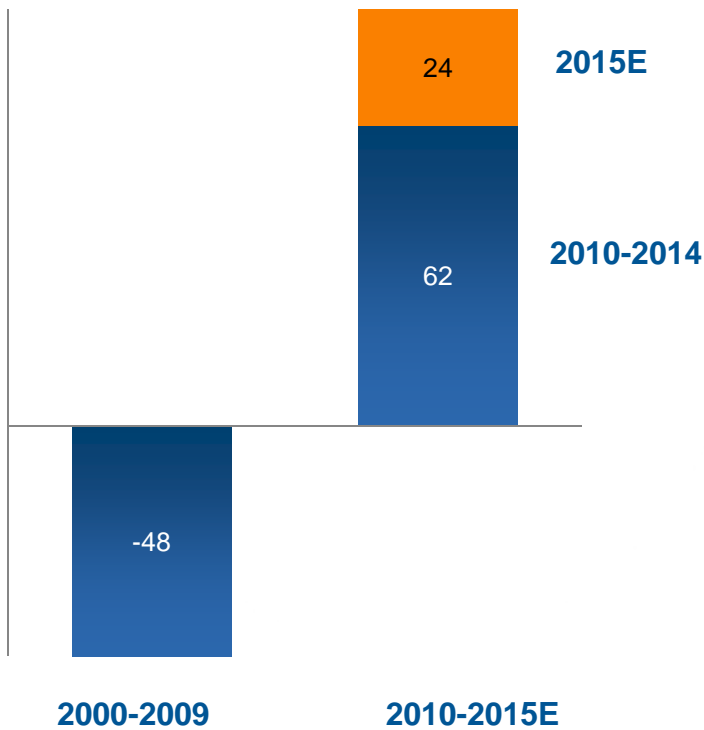
Source: S&P Capital IQ & Bloomberg; % change YoY

Over 75% of profits earned by North Am, Asia/Pac Carriers

Profit performance is subpar in Europe, ME and Latin America, but 2015 outlook for Asia /Pacific is troubling

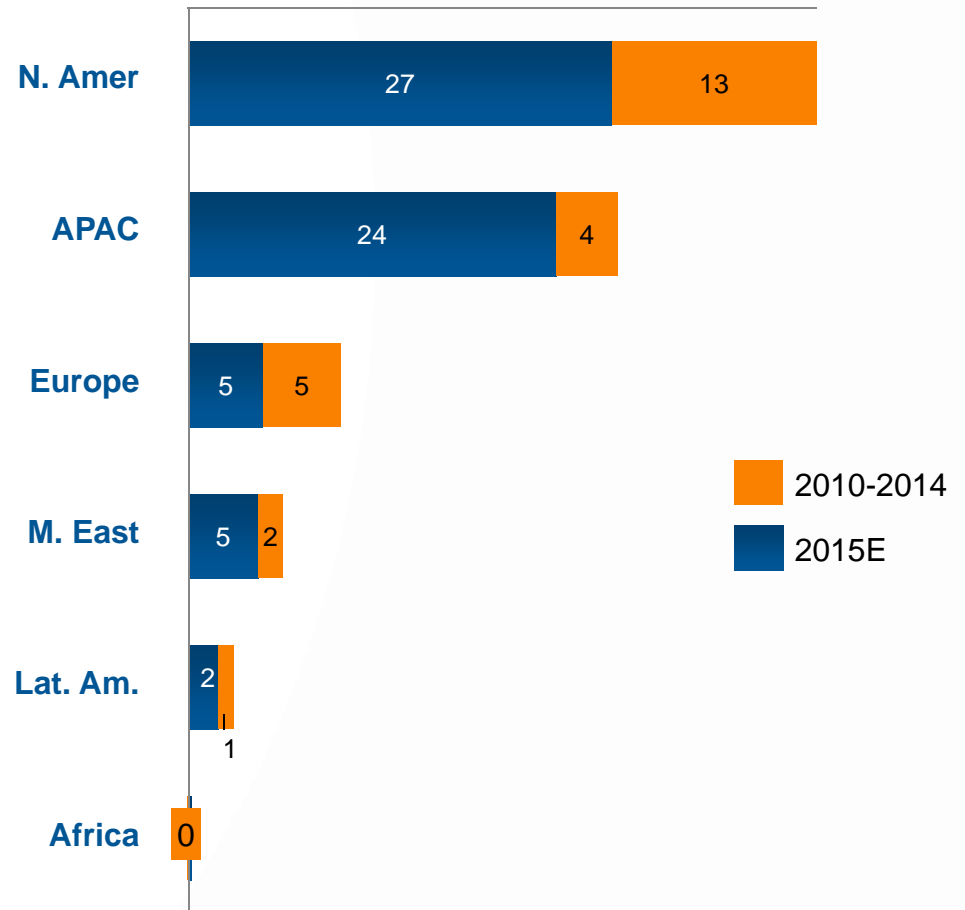
Global Industry Profitability

Aggregate net income, US\$ Billions



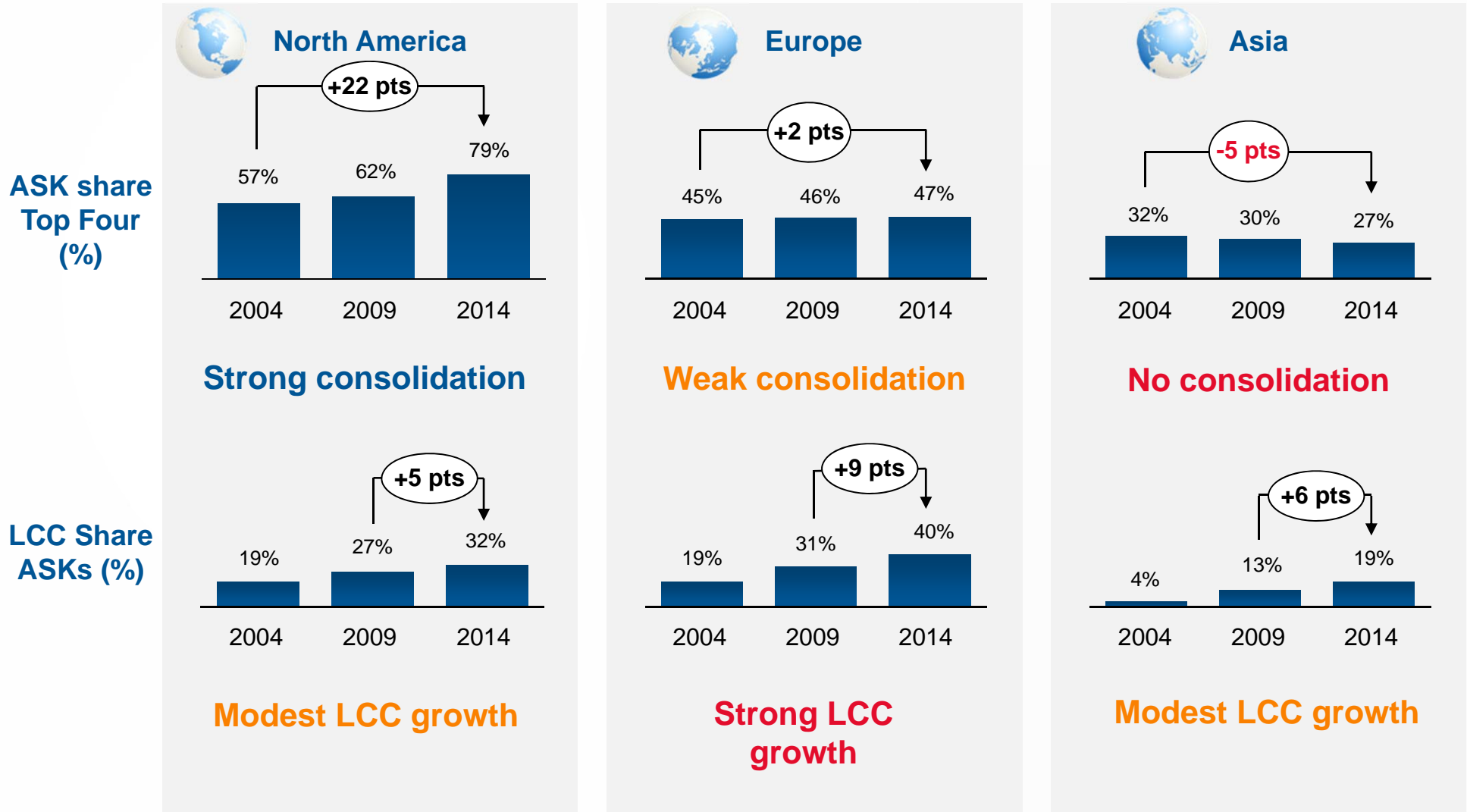
2010-2015E Aggregate Net Income

US\$ Billions



Consolidation, post-restructuring boosted NA carriers

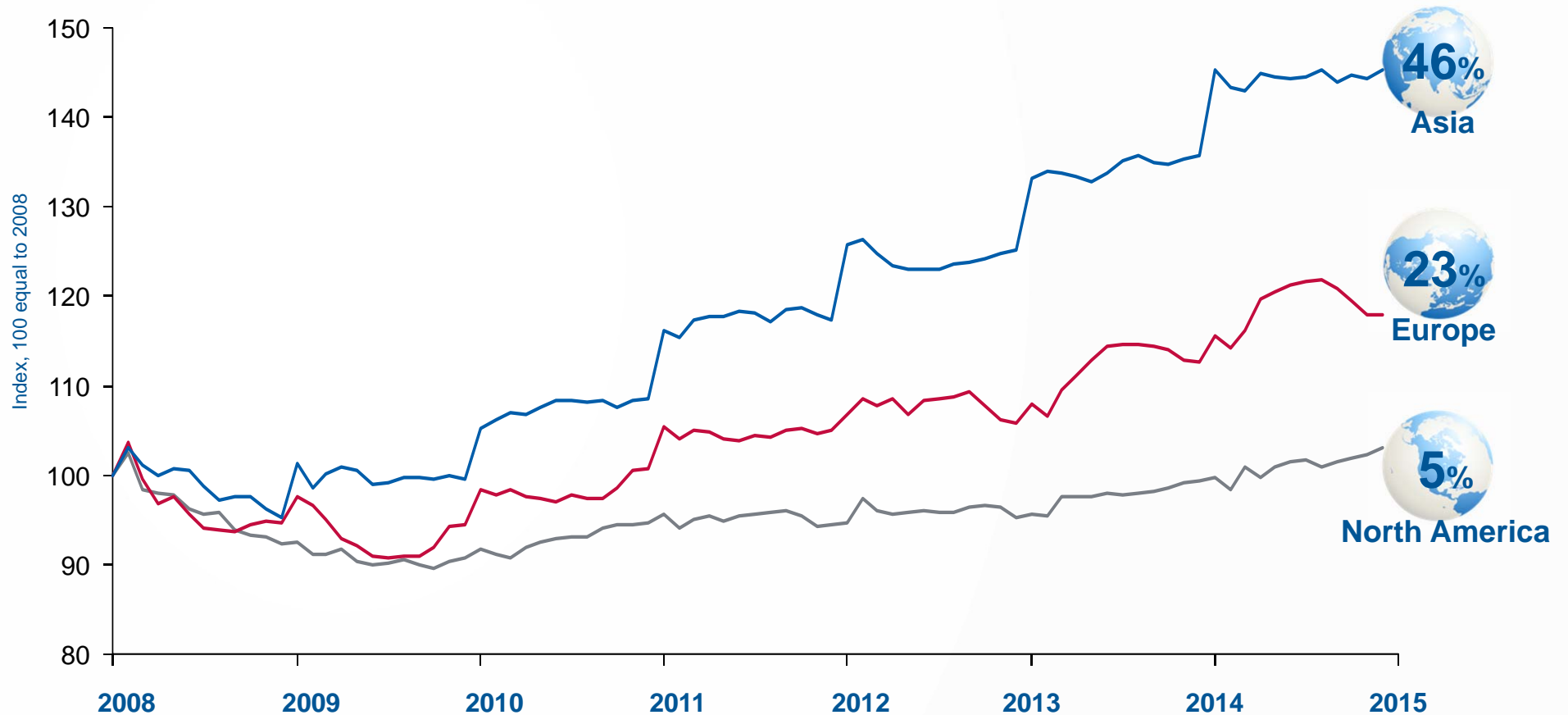
~79% controlled by Top Four, with LCC penetration slowing vs. European market, Asia/ Pacific also has troubling signs



Capacity discipline: Key driver for NA carriers' profits

Asia's ASK growth is largely tied to GDP growth, which is not true for Europe

Seasonally Adjusted Index of Monthly ASKs by Airline Registration Region



Source: Diio Mi, Seabury analysis

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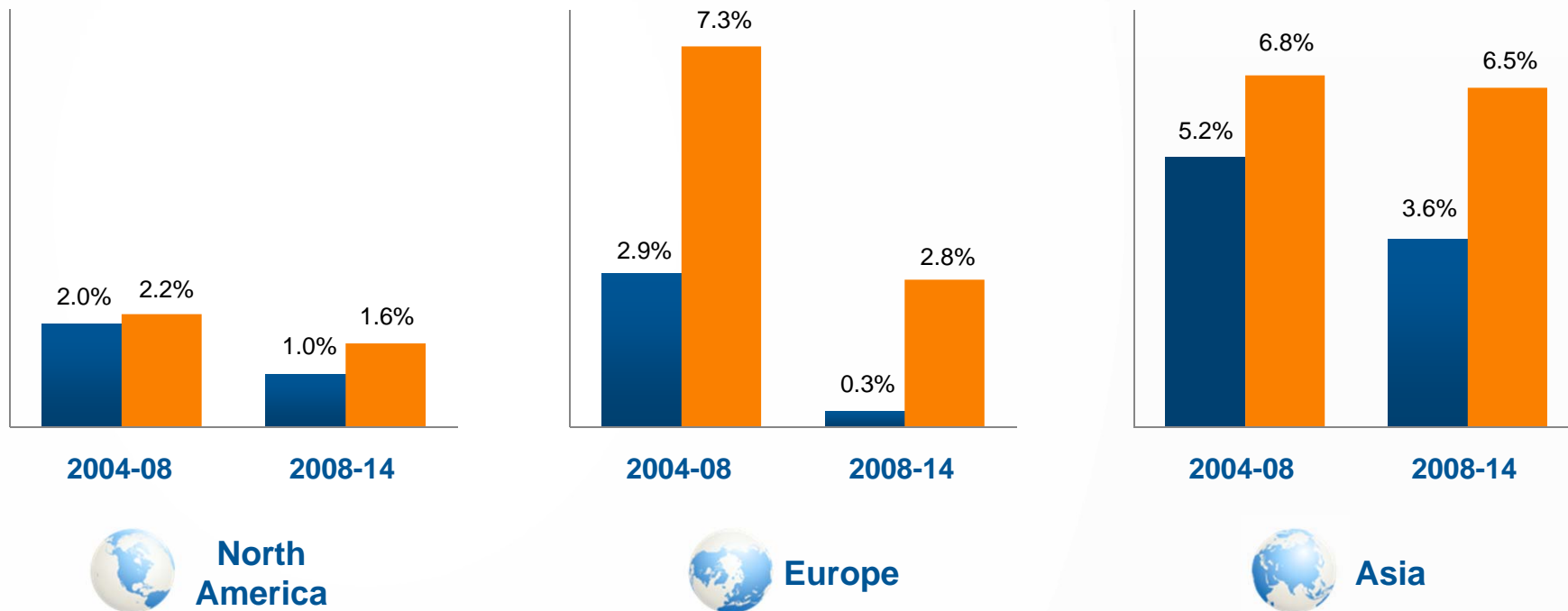


Europe/Asia look very exposed to excess capacity

Europe, and to a lesser extent Asia, look very exposed to a correction

Growth in Real GDP and ASKs by Region

CAGR %



■ GDP growth
■ ASK growth

JVs are supplanting global alliances in importance

North Atlantic JVs are setting the “template” for future global consolidation of capacity



Access to the USA for many European airlines is now via joint ventures instead of codeshare

Source: IATA Pax IS 12 months to March 2015

*Excludes Middle East JV's

Global consolidation is happening at faster pace

Capacity discipline globally is being driven by top American & European airlines through JVs – but at the expense of medium/small airlines



Airlines that restructured are driving global profitability

Restructuring problem airlines with permanent fixes has allowed these airlines to earn the lion's share of the industry's global profits since 2008



Judicial Restructurings



Non-Judicial Restructurings



Labour

Competitive costs

Network

Aligned to demand

Capacity

Reduced capacity

Fleet

Match fleet obligations to capacity

Other Costs

Eliminate other costs

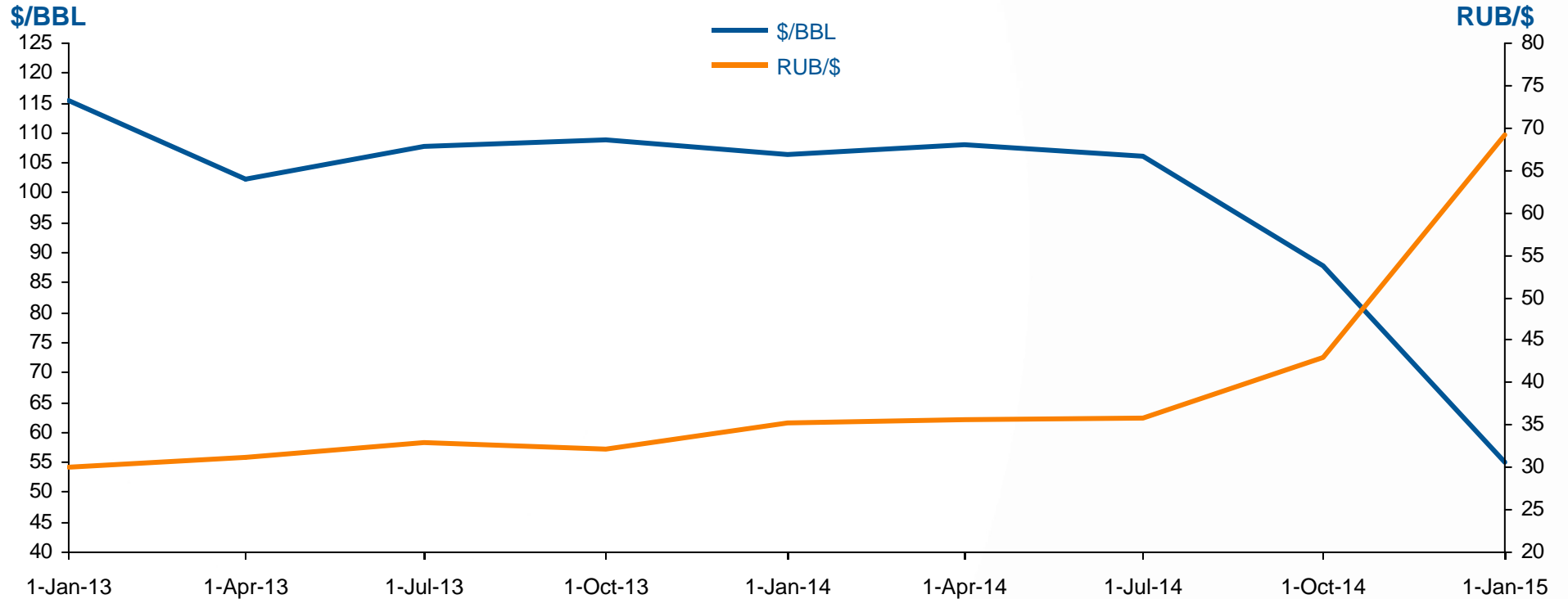
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Market pressures are mounting

The recent price drops of crude and petroleum coupled with Russia's currency depreciation and international sanctions has increased market volatility

Oil prices vs Exchange rate

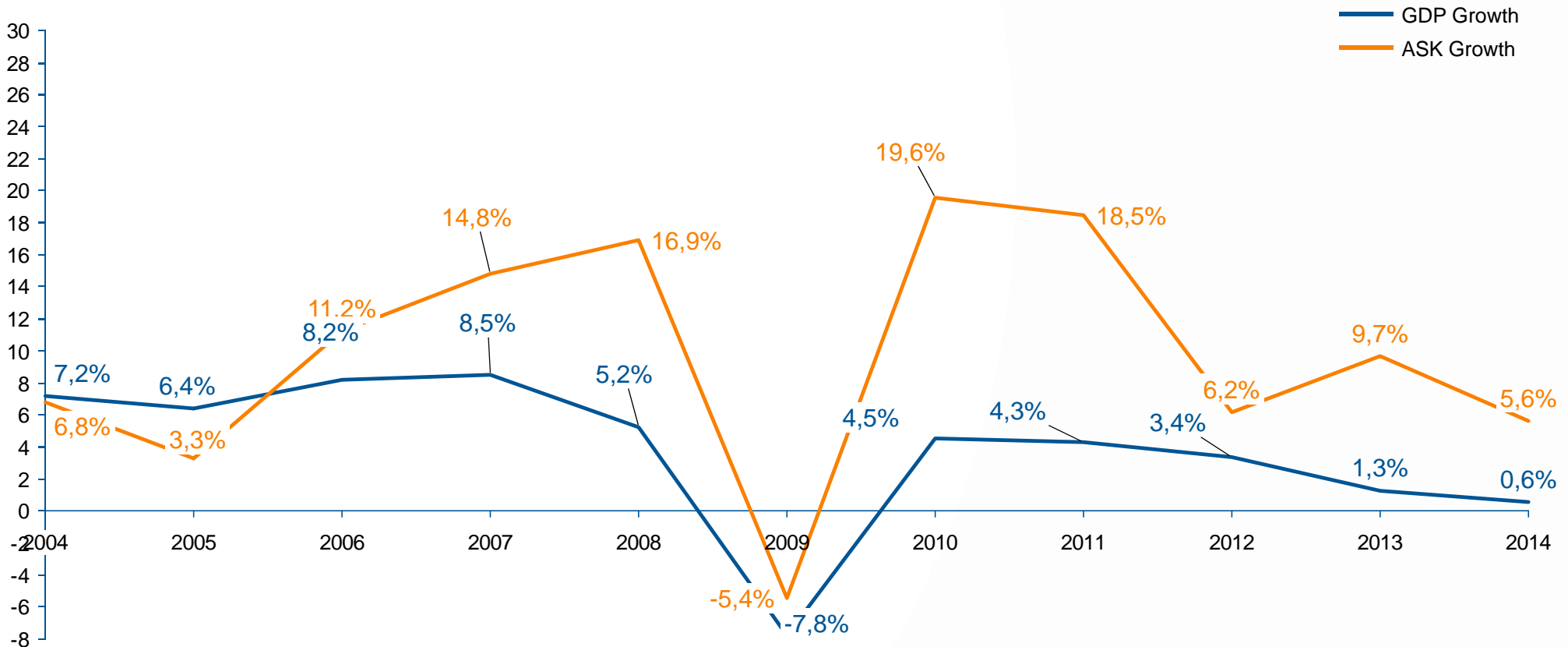


Indicator	2014	2013	%
Brent, \$/bbl	98.9	108.6	-8.9%
Urals, \$/bbl	97.6	107.7	-9.4%
ESPO, \$/bbl	100.3	110.5	-9.2%
Exchange rate, RUB/\$	38.42	31.85	20.6%

Yet airline capacity continues to outpace the economy

Russian GDP is nearing stagnation with growth rates declining precipitously over the past decade yet air traffic capacity continues to grow at higher rates

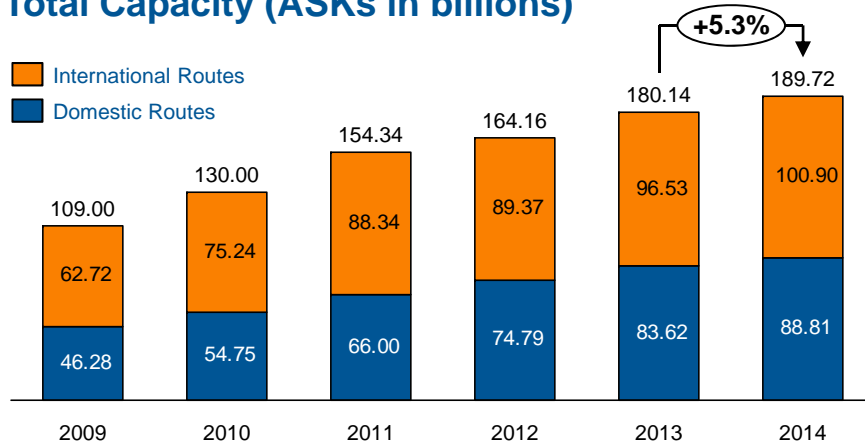
GDP and ASK YOY Growth Rate



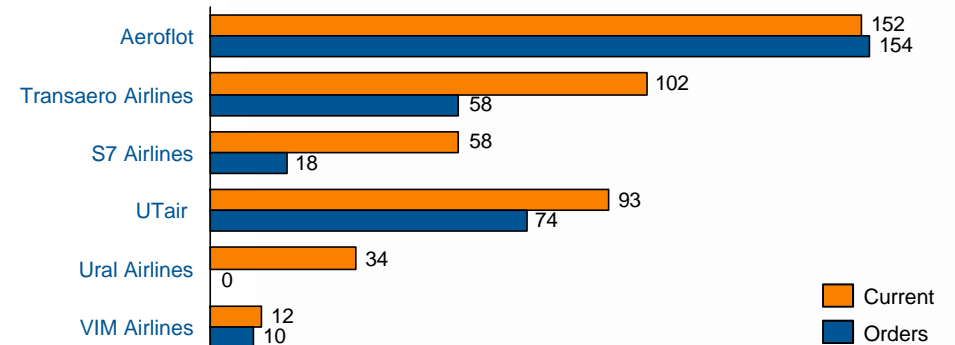
Carriers are fighting for market share

The deteriorating economic situation and the political tensions are adding pressure to an already struggling aviation sector

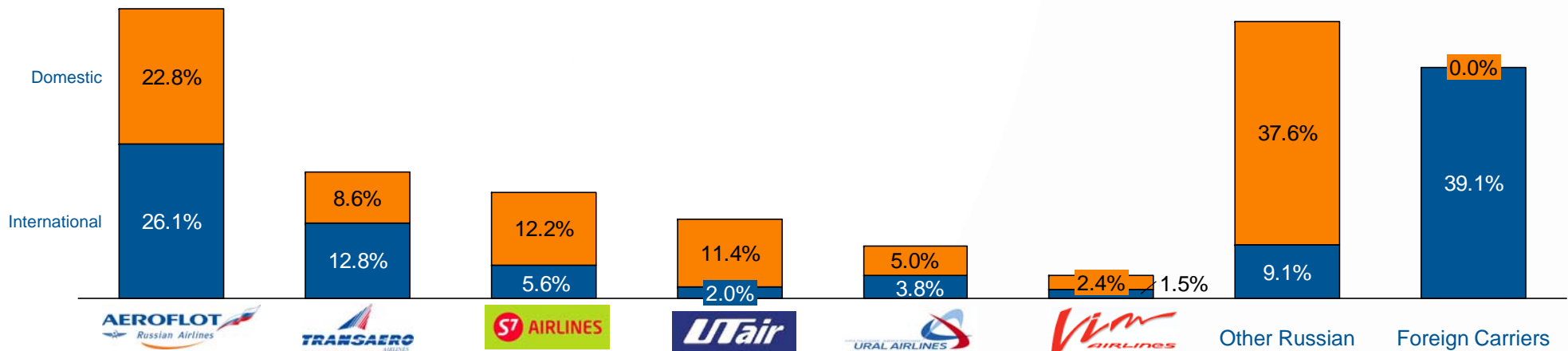
Total Capacity (ASKs in billions)



Existing fleet and orders



Market share based on seats



Source: DIIO Year ending December 2014
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Aviation sector is feeling the pressure

The deteriorating economic situation and the political tensions are adding pressure to an already struggling aviation sector

“Transaero has turned to the government and to creditors for aid last December as the airline was having difficulties meeting its debts obligation and feared it might be forced to ground all of its jets before the end of the year.”

- Travel Weekly, January 2015

“90% of Russian airlines lease their planes from international leasing companies ”

- Moscow Times, August 2014

“AerCap has around 100 airplanes on lease to Russian airlines, out of a total fleet of around 1,300 aircraft”

- Reuters, January 2015

“Deputy Prime Minister Arkadi Dvorkovitch said he was considering credit guarantees and subsidies worth up to 28 million euros (\$45.27 million) to support struggling airlines. He told the business daily Vedomosti that two of the top three domestic airlines, Transaero and UTair, were already in difficulty. ”

- Vedomosti, December 2014

“Russia's new low-cost carrier, Dobrolyot, announced that it was suspending all of its flights following the imposition of EU sanction.”

- Moscow Times, August 2014

“Vladimir Tasun, head of Russian Air Operators Association (also known as AEVT) asked the presidential administration to provide the airlines with state support. The source noted that this refers to four large airlines – Aeroflot, UTair, Transaero and S7. Current order book consists of ~200 aircraft.”

- Ruaviation.com, October 2014

With many predicting crude oil prices to remain well under \$100/barrel, the pressure on the Russian economy and its airlines is expected to continue



Access to aircraft finance is weakening

While Russian carriers need foreign financiers for their aircraft, those financiers are actively mitigating their risk exposure to Russia

“In November 2014 Utair was unable to make bond payment. The company cited insufficient funding for its failure to repay 1.23 billion rubles (\$27 million) and 1.45 billion rubles of installments on two 1.5 billion-ruble tranches of three-year debt.”

- Bloomberg, November 2014

“Some aircraft financiers have expressed concerns that Western leasing companies may be left with unpaid bills and problems in recovering their aircraft as Russia's airlines grapple with a weakened economy”

- Reuters, December 2014

“Russia’s VEB Leasing has ceased operations of five aircraft—two Sukhoi Superjet 100s and three Bombardier Q400s—for Yakutia Airline. The lessor intends to withdraw the aircraft from the carrier due to constant payment delays, the lessor said in a statement.”

- Atwonline.com, December 2014

“The chief executive of Aircastle said Boeing Co and Airbus jetliner sales to Russia are likely to be squeezed by a falling Russian ruble”

- Reuters, December 2014

“The company achieved revenue growth of 24% as the top-line figure surged to \$238 million. The year-over-year increase came on the back of higher maintenance charges which arose due to the early return of several aircrafts from Russian airlines.”

-Aircastle Annual Report, 2014

“Experts expect at some point in 2015 Aeroflot will get state aid, as the economic situation will bring chaos to its finances”

- aviationdoctor.wordpress.com, January 2015

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Typical restructuring options

The most successful airline restructurings have followed the right structure and venue for the situation

	Cooperation	BOD Appointed CRO	Judicial Proceeding
Typical Scenario	<ul style="list-style-type: none"> Strong management team fully capable of executing restructuring 	<ul style="list-style-type: none"> Concerns about the management team capabilities and/or commitment to comprehensive restructuring 	<ul style="list-style-type: none"> Material change to the business and/or liquidity necessitate significant changes to contracts and/or elimination of surplus Ultra aggressive implementation of tactical tool
Execution	<ul style="list-style-type: none"> Financial advisor becomes the “arms/legs” in support of the existing management team <ul style="list-style-type: none"> Advisors work closely with management on all restructuring fronts leveraging advisor experience and management knowledge of the airline Advisor assists management with design and implementation of a restructuring including: <ul style="list-style-type: none"> contract and labor negotiations early exit of surplus aircraft 	<ul style="list-style-type: none"> CRO reports to the board with authority to implement an aggressive restructuring program <ul style="list-style-type: none"> Aggressive cash conservation program implemented immediately Has authority to negotiate over market contracts and/or early exit of surplus aircraft CRO works with management to transition to a post-restructured environment 	<ul style="list-style-type: none"> File for court protection from creditors such as US Chapter 11 or local proceeding <ul style="list-style-type: none"> Certain relief from creditors automatically preventing them from taking action to collect their debts Potential ability to fully reject burdensome contracts Aggressively restructure / modify debt Forces stakeholders to actively participate in the reorganization
Key Factors	<ul style="list-style-type: none"> Strength of management team and trust in advisors drives level of result 	<ul style="list-style-type: none"> Level of authority entrusted in CRO directly correlates to benefits achieved 	<ul style="list-style-type: none"> Expensive and lengthy Typically yield s the greatest long-term concessions

Key elements of successful airline restructurings

Successful airline restructurings revolve around 6 key interrelated elements supported by a comprehensive strategy and business plan



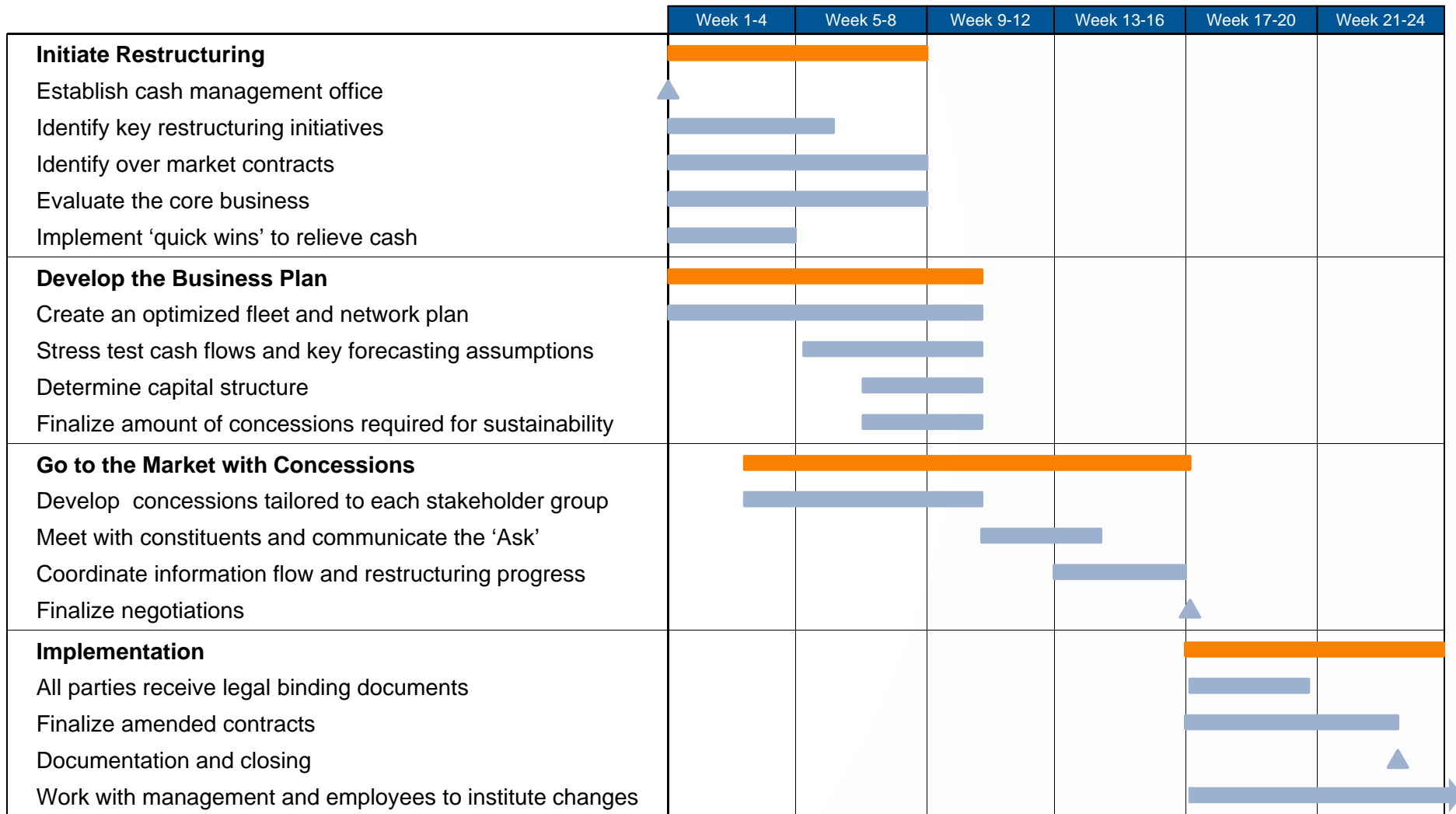
Seabury has the unique capability to implement restructurings

Strategic Direction	Commercial Strategy	Fleet
	<ul style="list-style-type: none"> Evaluate long-term strategy Rationalize and optimize network and schedule Match aircraft to network plan and growth strategy 	<ul style="list-style-type: none"> Eliminate uneconomic aircraft Mark-to-market aircraft financings Secure future fleet to deliver commercial strategy
Cost Structure	Operational Improvement and Cost Reduction	Labor transformation
	<ul style="list-style-type: none"> Renegotiate customer and vendor contracts Optimize supply chain Design and implement cost reduction and operational improvement initiatives 	<ul style="list-style-type: none"> Improve labor productivity Streamline organization Secure sustainable labor costs
Catalysts	Liquidity	Capital Structure
	<ul style="list-style-type: none"> Preserve and protect liquidity during the restructuring Enhance liquidity position upon completion 	<ul style="list-style-type: none"> Secure capital to finance business plan Secure aircraft financing Support potential acquisitions or divestitures



Typical airline restructuring timeline

The length of each airline restructuring is dependent on the underlying issues but the sequencing is typically as outlined below



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Case Study: Air Nostrum (2013-2014)

Seabury crafted and implemented a comprehensive plan including a revised commercial agreement, €100M in aircraft ownership savings and new capital

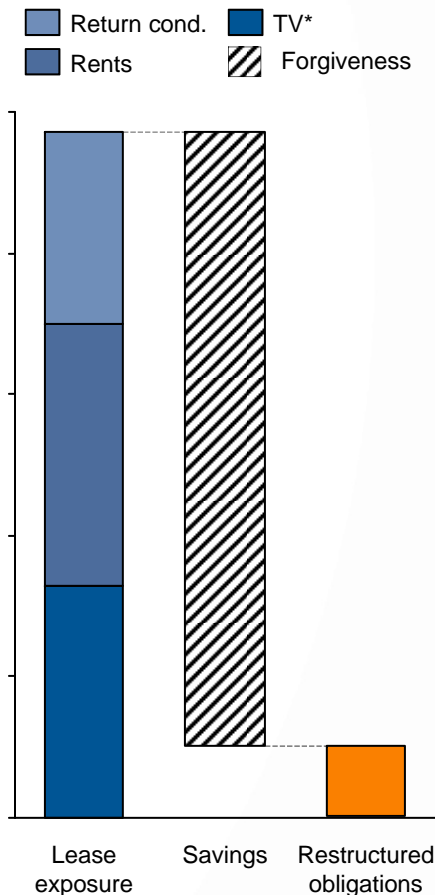
Situation:

- Huge losses on surplus inefficient aircraft driven by adverse environment characterized by high fuel prices, continuous European recession and legacy carrier difficulties
- Complex fleet financing structure involving over 50 different finance parties with material balloon payment obligations
- Airline had grounded most of its surplus inefficient aircraft and taken certain self-help measures

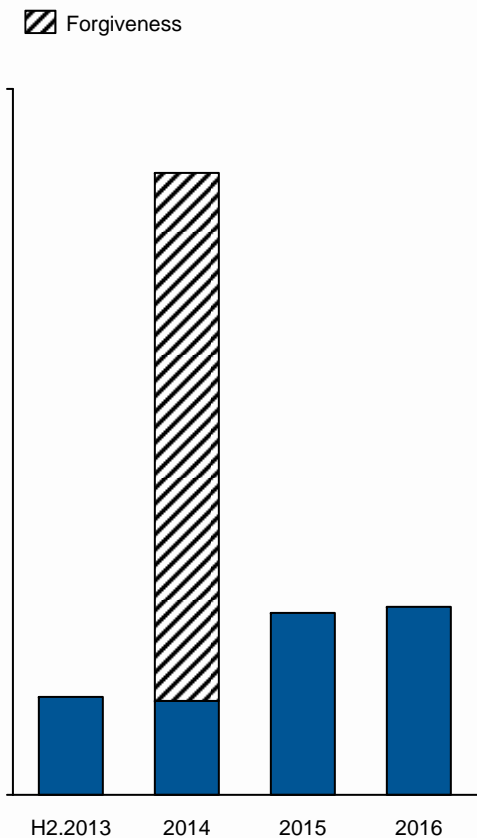
Results:

- Consensual restructuring of liabilities working closely with BBD and lessors
- Saved over €100M thereby paving the way to secure new capital
- Secured €26 million of new equity capital
- Secured a new long-term regional code-share with Iberia Airlines

Lease obligations



Debt restructuring





Case Study: Monarch Airlines Group (2014)

Monarch had less than eight weeks of cash – Seabury was retained to structure and implement a comprehensive turnaround plan and raised £125 million of new capital

Situation:

- Rapid expansion and high cost base prevented Monarch from competing effectively with low-cost carriers and resulted in significant losses
- Mix of charter and scheduled flying created additional costs and complexities
- Highly seasonal business model led to liquidity issues, especially in low season
- Airline operated a fleet of 42 aircraft with 4 aircraft types and 18 variations creating complexity and costs

Results:

- Successfully optimized fleet and restructured the aircraft portfolio
 - Immediately crafted plan to cut ~30% of routes & capacity that produced ~100% of losses
 - Optimized network and exited charter and long haul flying
 - Secured a new Boeing fleet order for 30 737 MAX aircraft
- Reduced annual cost base by £200m p.a. driving 14-16% profit increase
 - Achieved material labor concessions ~ 40% reduction in labor costs
- Removed more than £700m of liabilities
- Secured £125m of capital and liquidity facilities upon successful restructuring

Turnaround plan bridge FY14-16

