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TURNAROUND KING

Seabury

Seabury takes on even the toughest airline financial challenges.

BY KAREN WALKER

You know that old joke about how to become a millionaire? Answer—start off as a billionaire and buy an airline. There's one man in this industry for which the state of airline industry affairs is never a joke. And if he can turn the joke on its head, he will.

John Luth founded Seabury Group and its subsidiaries in 1995 after leaving Continental Airlines, where he was CFO and CIO. Since then, Seabury has secured a track record of coming in and assisting aviation and aerospace companies through their most difficult times and challenges. In all, Seabury has partnered with more than 300 clients on over 1,100 cases involving consulting, investment banking, principal investment and merchant banking, and data products and software. This year, the company expects to execute some 125 engagements worldwide.

With airlines alone, Seabury has advised on over $200 billion of aircraft orders, $80 billion of financings and $90 billion debt restructurings. These include the restructuring and sale of Monarch Airlines combined with a $200 million capital raise [see sidebar]; advising Chorus Aviation/Jazz on a new 11-year capacity purchase agreement with Air Canada; assisting Etihad Airways through a $60 billion new aircraft order; and organizing out-of-court restructurings for US regional Chautauqua Airlines and US low-cost carrier Frontier Airlines.

Luth also led liquidity capital raises for Air Canada of $1 billion in 2009 and $1.1 billion for US Airways.

It all adds up to an experience that has given Luth and his team a sharp eye for spotting what makes the difference between success and failure in the airline industry.

Luth started Seabury as a North American-centric company, but expanded it to the global brand it has become. He explained the company's basic philosophy and approach to airlines that seek their advice and/or restructuring or fleet planning assistance.

"Ultimately, what we seek to do is understand the position of the airline," Luth told *ATW* in his Manhattan office. "We often see that the airline's structure tends to be siloed and we try to elevate it if we can to make sure that we have the C-suite element there, because as soon as you make changes in one place—whether it's in tech ops or maintenance or elsewhere—it affects another place. A fleet change means there will be a labor/pilot change and so on. And often, not as much is done as

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people think they have done. So you have to build a case so you can then provide the best tools that will ensure everything works. We always want to take the most comprehensive approach that we can.”

An assessment of the situation and what needs to be done typically takes around 10 weeks, at which point the company will have a proposal.

“Whether it’s aircraft, an alliance, a joint venture, we always go back to taking an approach that is comprehensive-looking,” Luth said. But that does not mean an army of people is required. “We only need to use particular people for particular needs. We can plug-and-play. At the start, we might have 40 or 50 professionals on the engagement, but that is only for one or two weeks.”

Nor does Seabury walk into an engagement with a pre-thought plan in mind. “Every single time, we think of it as new and our mindset is that every airline is different,” Luth said. “But having said that, there are still a lot of similarities and we often come in at a time when there is a dire need and that means high stress levels. So we try as much as possible to leverage those things that are common. For example, we know a lot about aircraft performance and can apply that expertise.”

Software Tools

Luth says Seabury has also developed, or acquired through strategic acquisition of specialized companies, a set of software tools that can model the outcomes of any number of routes, aircraft, labor and operational changes to highlight inefficiencies or revenue producers.

“The software that we have is at the top of the game,” Luth said. “I could never have dreamed of such systems and achieving this standard of excellence 25 years ago when I first joined this industry. These systems put into practice far higher standards of capital discipline than the industry has ever seen.”

There is another element that Luth attributes to the value that a consultancy can bring to an airline.

“People don’t know what they don’t know, so we can do that work for them. And you could say that we have the unfair advantage of being in lots of different places all the time and seeing people’s mistakes.”

Though it may therefore sound counterintuitive, Luth says the best customers are the most sophisticated customers.

“You think it would be the reverse, but when airlines are in distress, they are not organized to be turned around on a dime.”

However, Luth stresses, an airline that has very high-level capabilities, such as a strong network planning team, can more quickly implement the changes that might be identified as necessary by Seabury. “What we want to be able to do is bring in the extra firepower that’s needed so that we can orchestrate the changes in partnership. What we are not is a substitute for management. We help management to get across the lake—we show up and we can provide the boat, if you like, but it has to be a partnership.”

But Luth adds that he does attribute the underlying trend of airline profitability—especially in North America—to smarter management and the use of better tools. “Carriers that consistently make good decisions and adapt their structures and business models to the market needs produce sustained profitability,” he said.

“Carefully executed strategic decisions are key to successful operation and sustained profits and top industry performers maximize leverage to procure services and goods on exceptional terms, adopt different product/pricing approaches to match their local markets, employ the network, fleet and revenue management optimization tools, and continually study their customers and competitors to right size their service offerings and product delivery costs.”

In the case of the US, he adds, “consolidation was not driven by a need to gain profitability, but rather US carriers first restructured their operations and balance sheets before pursuing mergers and then have used consolidation to solidify and grow their return on invested capital. Airline executives are now embracing ROIC versus their firm’s weighted average cost of capital as the best way to measure sustainability of their businesses.”

But he adds that the role of airline CFOs role is “growing in complexity at an unbelievable rate” and that successful CFOs “provide clarity to decision makers by communicating actionable information and analyses, ensure corporate liquidity, and enforce capital discipline for their airlines.”

Monarch & Air Nostrum: A double win

Among some of the best examples of how Seabury works are seen in the cases of two airline turnarounds that the Group took on, UK-based Monarch Airlines and Spanish regional carrier Air Nostrum.

In 2014, Monarch was on the brink of insolvency after more than 45 years of operation. Indeed, it came so close to the end, that the eleventh-hour deal that ultimately saved it, and which Seabury organized, was signed the same day that Monarch's CAA license was due to expire.

In one of the fastest turnarounds in the industry, Seabury worked a deal within 12 weeks that secured $125 million of permanent capital and liquidity from Greybull Capital, anchored by a $50 million capital commitment. The rescue program included a full strategic review of the airline and a restructuring program.

Greybull also acquired 90% ownership interest in Monarch, with the remaining 10% contributed to the Pension Protection Fund.

Greybull, a family office that manages investments in private companies across a diversified range of industry sectors, facilitated a comprehensive turnaround plan that will help the airline return to profitability and reinvent itself as a low-cost scheduled airline focused on short-haul markets.

But it was not easy by any means. As Monarch Group CEO Andrew Swaffield commented, Seabury took on the task of lead investment banker and restructuring advisor at what was "a very difficult turnaround program executed with little time and no margin for errors." He added, "Our management team and Seabury worked flawlessly together, which shows in the final results of our collective efforts. I have rarely in my career witnessed such commitment and professionalism from an advisory firm and Monarch owes them a great debt of gratitude."

Within that restructuring program, Monarch's fleet was reduced from 42 to 34 aircraft, and revised agreements with lessors were made. An order was placed for 30 new Boeing 737 MAX 8s, with deliveries from 2018 to 2020, to provide an efficient and uniform fleet by late 2020. Monarch's long-haul and charter services were ended in April and its network was focused on scheduled short-haul European leisure routes, with increased average frequencies, aircraft utilization, productivity and profitability. Material concessions agreed with employees across the Group also helped to enable the restructuring, including reductions in pay of up to 30%, with more than 90% of unionized staff voting to accept changes, and some 700 redundancies, two-thirds of which were voluntary

Air Nostrum

Earlier in 2014, Seabury facilitated a financial and operational turnaround strategy for Spanish regional carrier Air Nostrum. The restructuring process resulted in the airline's adjustment plan and conclusion of its capital increase operation through which the company expects to see a return to profit in 2015. Carlos Bertomeu has also become the airline's majority shareholder.

As with Monarch, Air Nostrum was close to liquidation. This case was unusual, however, in that the airline's largest creditor, Bombardier, approached Seabury to design and implement the turnaround plan.

Seabury enabled a consensual restructuring of Air Nostrum's liabilities by working closely with all stakeholders, including Bombardier and the airline's lessors. A restructuring program saved over €100 million ($114 million), paving the way to secure €26 million in new equity capital. In turn, that led to the signing of a new long-term regional codeshare with Iberia Airlines and put Air Nostrum back on a firm footing.

As part of the turnaround process, Seabury assisted the airline in undertaking a strategic assessment of its network and relationships, completing fleet optimization work, negotiating a restructuring of all aircraft debt and lease obligations, renegotiating key commercial and vendor contracts, and conducting its equity capital raise.

"Seabury's restructuring experience, aviation expertise, industry connections and its commitment to Air Nostrum have been key to the success of our airline's restructuring. I felt that Seabury representatives were part of my management team and trusted their advice," Bertomeu said.

"In Air Nostrum's case, the long-term strong relationships that the airline's management had built over the years with its key partners and internal stakeholders were instrumental in successfully carrying out this comprehensive restructuring. Carlos Bertomeu's staunch support of Air Nostrum through its management and financial investment proved invaluable in ultimately completing this transformation of the airline," Seabury Advisory Group chairman Michael Cox noted.

Air Nostrum expects to return to profitability in 2015.—*Karen Walker*