GLOBAL REACH. GLOBAL SCALE.

SEABURY
CAPITAL GROUP

ISTAT Learning Lab

Airline Restructurings During the COVID-19 Crisis

Doug Walker

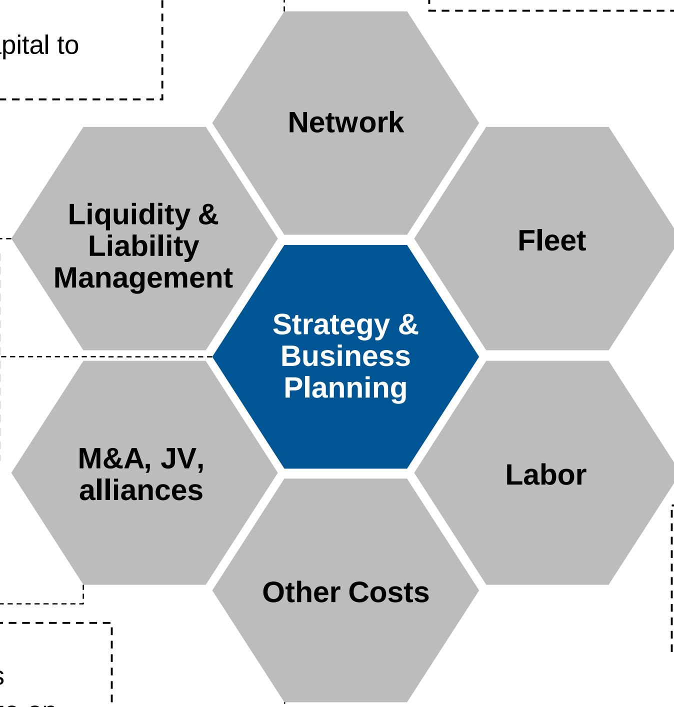
November 2020

Areas often implicated in a turnaround

- Optimize network and schedule for demand environment
- Enhance sales, revenue management as necessary to close any gaps

- Immediately develop detailed cash forecasts
- Implement a cash conservation program
- Secure equity and debt capital to finance business plan

- Adjust size and shape of current and future fleet to match network plan and growth strategy
- Identify opportunities for sale or financing / refinancing of aircraft



- Review and redefine airline strategy and vision given current market conditions
- Develop a corresponding new business and financial plan
- Manage corporate turnaround

- Implement organizational redesign
- Identify, recruit, manage and retain talent
- Negotiate new CBAs as necessary

- Assess opportunities for strategic realignment, especially M&A and JVs
- Pursue targeted approach to capitalize on upside and / or narrow any competitive disadvantage

- Review / renegotiate primary vendor contracts
- Review / benchmark other key cost drivers across all major business functions

The typical, integrated approach to an airline restructuring

Develop Plan

- Develop a comprehensive plan that creates a path to sustainable and competitive financial performance
  - Design an organizational structure in support of the restructuring plan
  - Revise the network to eliminate or restructure low-performing routes while maximizing profitable flying
  - Develop a fleet plan tailored to the new network
  - Produce detailed, credible financial forecasts for the business
  - Create a roadmap to cost reductions in support of the financial metrics required
  - Develop concessionary 'asks' of the various stakeholders in support of the restructuring plan

Implement Restructuring

- Implement organizational redesign and any non-CBA labor changes
- Present the plan to key stakeholders and related projections and backup
- Present and defend the 'asks' of stakeholders and the methodology / logic behind them
- Negotiate and document stakeholder support
- Access and collaborate with subject matter experts across key commercial and operational areas (RM, maintenance, ground handling, airports, catering, etc.) to optimize performance
- Continue aggressive cash conservation

Raise Liquidity

- Finalize the assessment of required capital from results of the restructuring program and detailed cash forecasts
- Prepare marketing materials, leveraging prior phases of the process
- Identify and solicit prospective investors and lenders
- Conduct the due diligence process, negotiate terms and document and fund the transaction(s)

Develop & Implement Cash Conservation Program

First 60 Days ***4-12 Months***

SEABURY CAPITAL GROUP

Elements of successful and lasting turnarounds

A successful turnaround revolves around identifying a need, building a shared vision and aligning all stakeholders towards a common and ‘self-binding’ plan

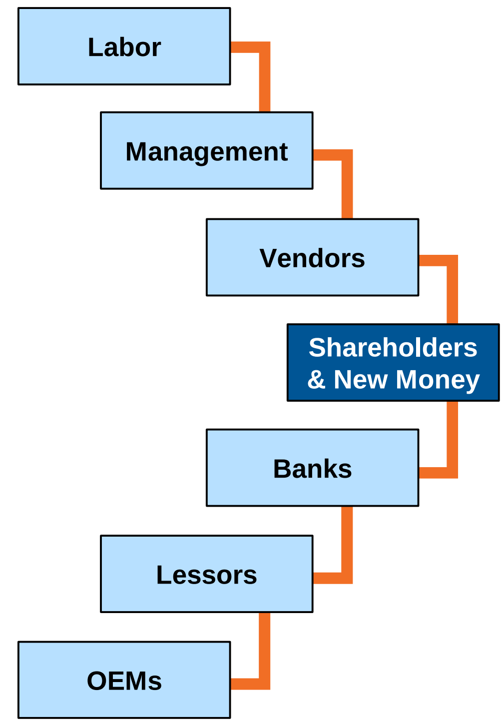
A Need

- Compelling evidence of a need
  - Financial losses
  - Insufficient cash
- Sense of “not good enough” with day-to-day operations
- Shared concern about the future: it won’t work as-is, but change is possible
- Belief that it can be better
- Long-term commitment from key influencers to win over holdouts

A Shared Vision

- Clear strategy/end point
- Value creation opportunities – a credible high-level plan
  - Business improvement: markets **|** customers **|** cost efficiency
  - Capital structure relief
  - Contract renegotiation: long-term future “win-win”
- Decent infrastructure (to reduce capital outlays): physical **/** IT **/** human capital
- Detailed near- / medium-term implementation plan with quick wins
- Day–to-day cash forecast (13+ weeks) and weekly forecast

Aligned & Shared Incentives



SEABURY CAPITAL GROUP

Types of reorganizations

Out-of-Court	Judicial	
Consensual Negotiation	**Scheme**	**Bankruptcy**

Out-of-Court – Consensual Negotiation

- Highly flexible, informal
- In some cases, very quick
- Need ~**100% participation**
- Can be very difficult to bring parties to the table, and especially to incentivize holdouts
- Is difficult / impossible to restructure certain kinds of deals
  - o EETCs, bond deals, etc.

Most common approach

Judicial – Scheme

- UK and Ireland
- Court-supervised, but not insolvency per se
  - o Corporate statutory process
- Need **3/4 in value**, majority in number of a class
- Cramdown of dissenters within class
- Under new insolvency law, cross-class cramdown as well
  - o Possible Cape Town issue / limitation

Useful for targeted restructurings

Judicial – Bankruptcy

- US (Ch 11), Canada (CCAA), other
- Need **2/3 in value**, majority in number of a class
- Forces stakeholders to actively participate in the reorganization (no holdouts)
- Typically yields the greatest concessions
- Ch 11 offers substantial global enforceability
- Different varieties
  - o Prepackaged
  - o Prearranged
  - o Traditional

Often appropriate for the most comprehensive reorgs

Chapter 11 considerations

Benefits to Debtor:

- Predictability
- Automatic stay
- DIP financing
- Rejection of undesirable contracts
- Sale of unwanted assets
- Cramdown

Benefits to Creditors:

- Predictability
- Transparency
- Fairness

Costs:

- Scrutiny by court and creditors around all non-routine matters
- Heightened disclosure
- Inflexibility as to prepetition matters
- Administrative costs + distraction

Key restructuring principles

Relationship to Big Picture

- Carrier-specific v. regional or industry-wide
- Targeted approach to specific issues or wholesale reorganization of business

Process

- Trust, credibility
- Transparency (plan, process, ask)
- Fairness (consistency by class / circumstance)

Substance

- Carrot & stick
- Shared sacrifice, respect for priorities within capital stack
- Arline want v. need
- Plan viability / affordability
- Minimization of harm to the extent possible

COVID issues, observations

Airlines

- Unprecedented v. unforeseeable
- Exacerbation of pre-pandemic weakness, comorbidity
- Different business models
  - Domestic v. international
  - Short-haul v. long-haul
  - Leisure/VFR v. business
- Disadvantages of strength
  - Compression / leapfrogging
- Mixed blessing of government aid
  - Competitive landscape, moving goal posts

Investors

- Market conditions, remarketability
  - §1110, CTC, contractual protections
- Pre-pandemic oversupply of aircraft
  - Max delays
- Peak leasing penetration
- Influx of new entrants, capital
- Huge orderbooks
- Travel / repo restrictions