Areas often implicated in a turnaround

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

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

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

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

- 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

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

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

Network
Liquidity & Liability Management
M&A, JV, alliances
Strategy & Business Planning
Fleet
Labor
Other Costs
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*
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
- Labor
- Management
- Vendors
- Shareholders & New Money
- Banks
- Lessors
- OEMs
### Types of reorganizations

<table>
<thead>
<tr>
<th>Out-of-Court</th>
<th>Judicial</th>
<th>Bankruptcy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consensual Negotiation</strong></td>
<td><strong>Scheme</strong></td>
<td><strong>Bankruptcy</strong></td>
</tr>
<tr>
<td>- Highly flexible, informal</td>
<td>- UK and Ireland</td>
<td>- US (Ch 11), Canada (CCAA), other</td>
</tr>
<tr>
<td>- In some cases, very quick</td>
<td>- Court-supervised, but not insolvency per se</td>
<td>- Need ~100% participation</td>
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<tr>
<td>- Need ~100% participation</td>
<td>- Corporate statutory process</td>
<td>- Need 2/3 in value, majority in number of a class</td>
</tr>
<tr>
<td>- Can be very difficult to bring parties to the table, and especially to incentivize holdouts</td>
<td>- Need 3/4 in value, majority in number of a class</td>
<td>- Forces stakeholders to actively participate in the reorganization (no holdouts)</td>
</tr>
<tr>
<td>- Is difficult / impossible to restructure certain kinds of deals</td>
<td>- Cramdown of dissenters within class</td>
<td>- Typically yields the greatest concessions</td>
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<tr>
<td>- EETCs, bond deals, etc.</td>
<td>- Under new insolvency law, cross-class cramdown as well</td>
<td>- Ch 11 offers substantial global enforceability</td>
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<tr>
<td></td>
<td>- Possible Cape Town issue / limitation</td>
<td>- Different varieties</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Prepackaged</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Prearranged</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Traditional</td>
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</tbody>
</table>

*Most common approach*

*Useful for targeted restructurings*

*Often appropriate for the most comprehensive reorgs*
Chapter 11 considerations

<table>
<thead>
<tr>
<th>Benefits to Debtor:</th>
<th>Benefits to Creditors:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Predictability</td>
<td>• Predictability</td>
</tr>
<tr>
<td>• Automatic stay</td>
<td>• Transparency</td>
</tr>
<tr>
<td>• DIP financing</td>
<td>• Fairness</td>
</tr>
<tr>
<td>• Rejection of undesirable contracts</td>
<td></td>
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<tr>
<td>• Sale of unwanted assets</td>
<td></td>
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<tr>
<td>• Cramdown</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs:</th>
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</thead>
<tbody>
<tr>
<td>• Scrutiny by court and creditors around all non-routine matters</td>
</tr>
<tr>
<td>• Heightened disclosure</td>
</tr>
<tr>
<td>• Inflexibility as to prepetition matters</td>
</tr>
<tr>
<td>• Administrative costs + distraction</td>
</tr>
</tbody>
</table>
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