

The Seabury logo features the word "SEABURY" in white, uppercase, sans-serif font, centered within a dark blue horizontal bar. To the left of the bar, there is a diagonal orange and white graphic element.

SEABURY

DELIVERING COMPREHENSIVE SOLUTIONS FOR AVIATION CLIENTS WORLDWIDE

March 9, 2015



Keynote Address

John E. Luth

Chairman & CEO

The Istat Americas logo consists of the word "ISTAT" in a grey, sans-serif font, followed by a blue triangle containing a white stylized globe icon. To the right of this is the word "AMERICAS" in a large, orange, handwritten-style font.

ISTAT  AMERICAS

ISTAT Americas – A Call for Action

Prosperity is not globally shared and therefore complacency should be avoided – there is a need to fundamentally change *How* and *When* we engage in collaboration



AIRLINES



**OEMs &
MROs**



**LESSORS &
BANKS**



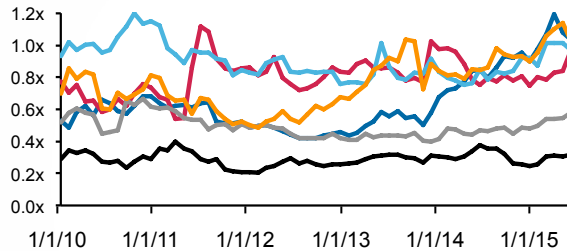
ADVISORS

Strong Airline Mkt. Capitalization Rates For Most Regions

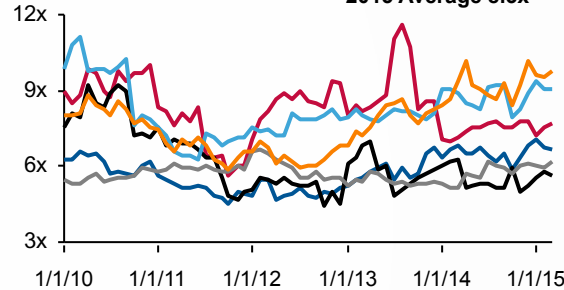
Equity markets are open for good performing airlines – unlike much of the past 25 years – but as a group, European carriers are significant laggard



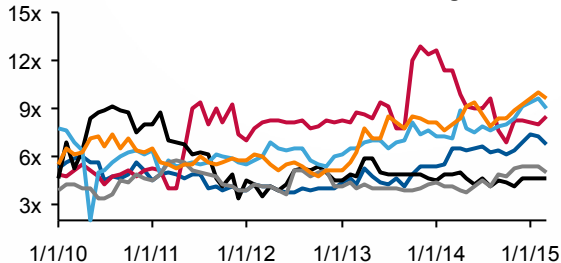
TEV / Total Revenue 2010 Average: 0.63x
2015 Average 0.82x



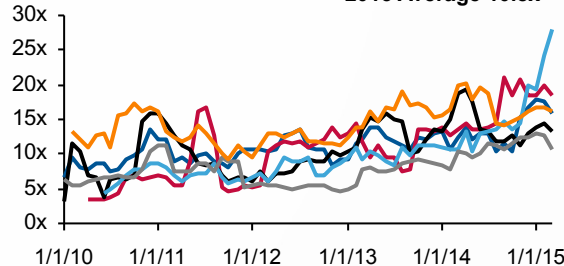
Adj. TEV / EBITDAR 2010 Average: 7.0x
2015 Average 8.3x



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

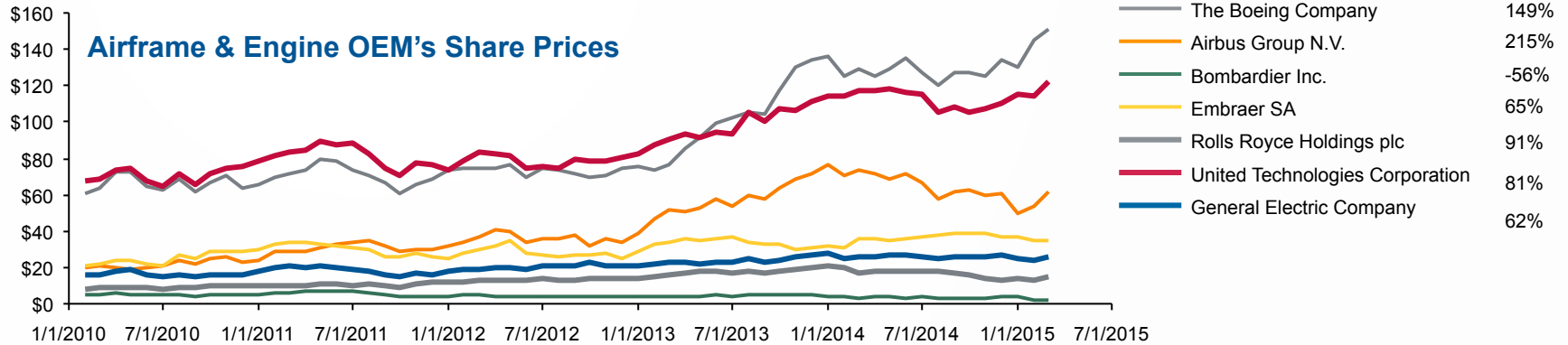
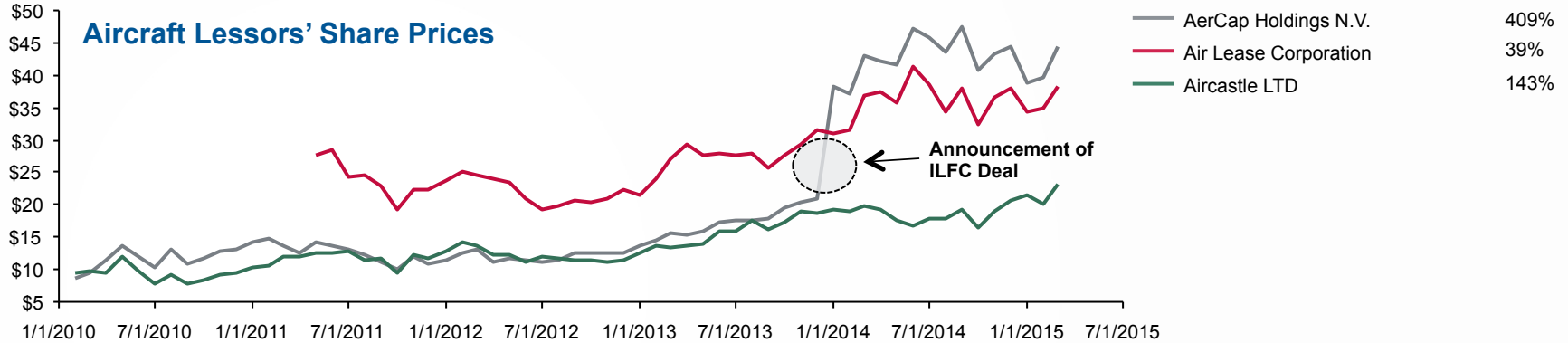
Source: Capital IQ as of February 3rd, 2015

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Monthly median multiples, as of 03/03/2015

Lessors and OEMs Have Also Enjoyed Strong Equity Growth

Stronger airline performance drives higher valuations for OEMs and lessors



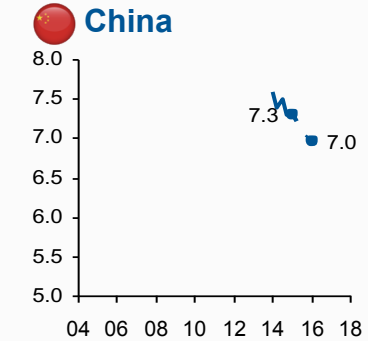
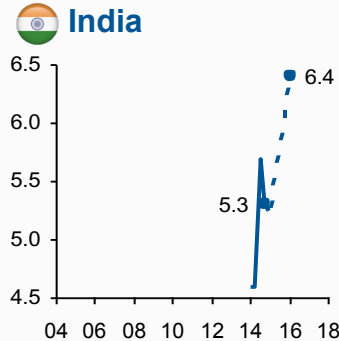
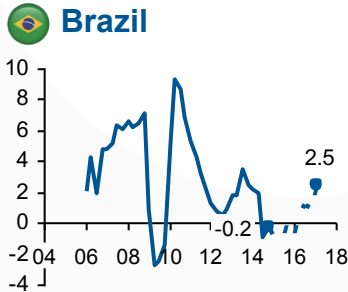
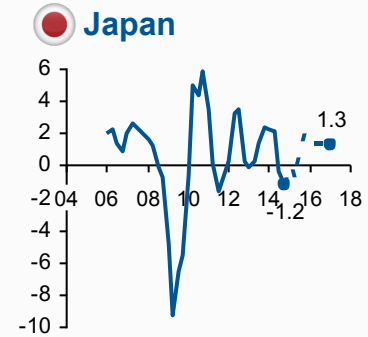
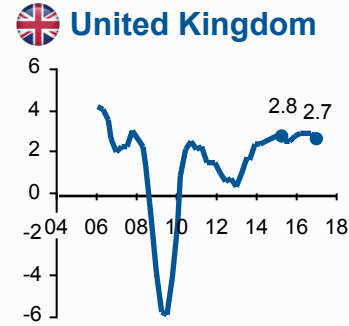
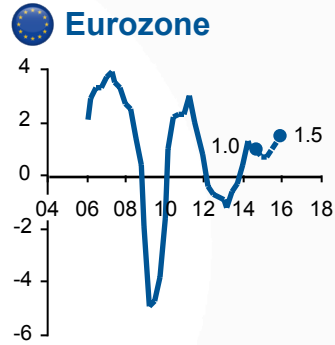
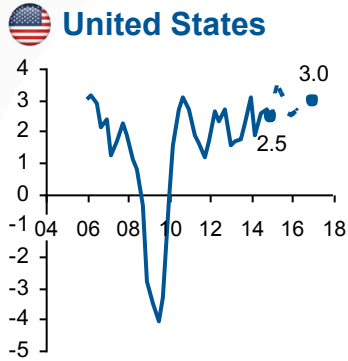
Source: Capital IQ

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)



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

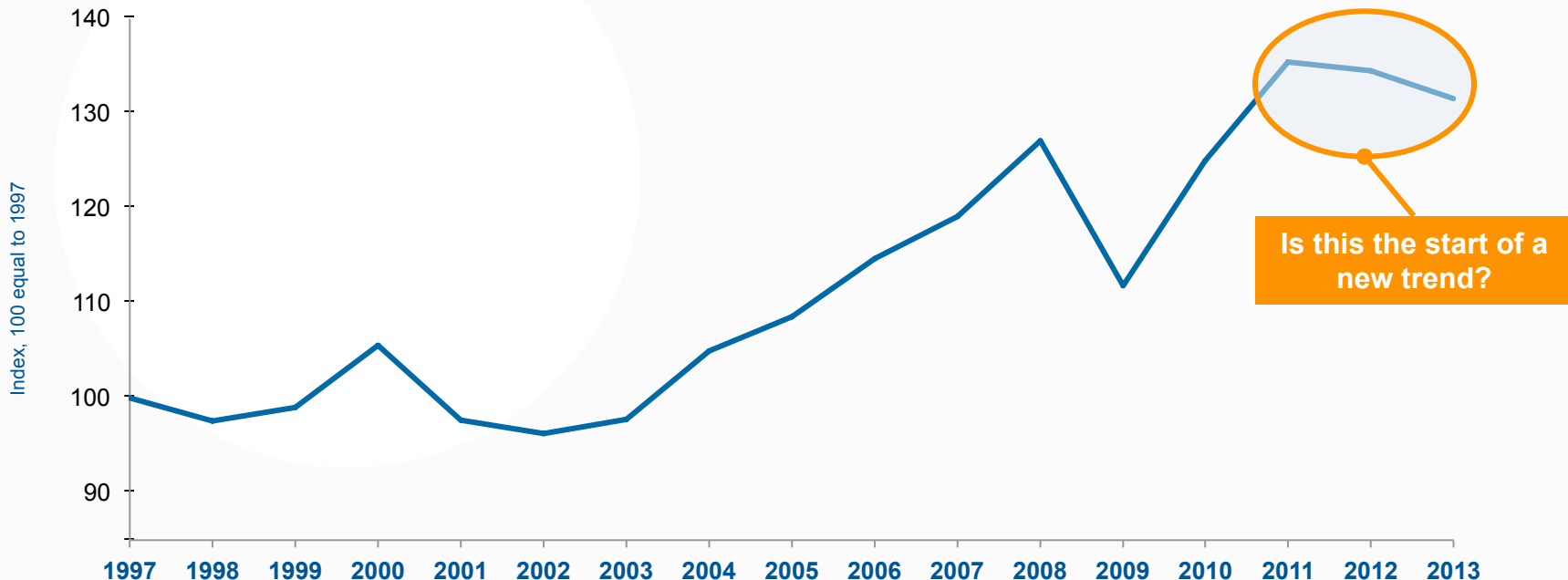
Source: S&P Capital IQ & Bloomberg; % change YoY

Globalization Has Driven Demand, But Is There A Pause?



If so, what are its implications for passenger and cargo demand growth?

U.S. International Trade / Domestic US Industrial Production



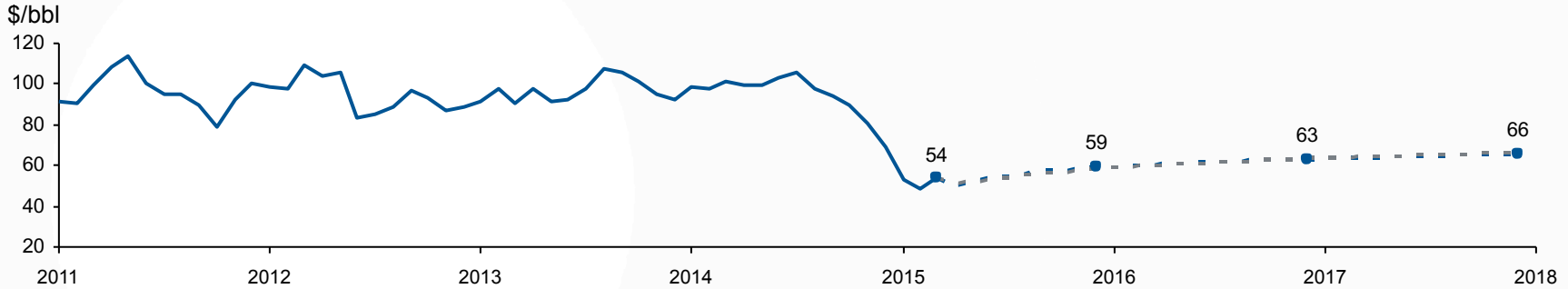
Source: U.S. Census Bureau, Bureau of Economic Analysis

Lower Oil/ Low Interest Rates Have Benefited Industry

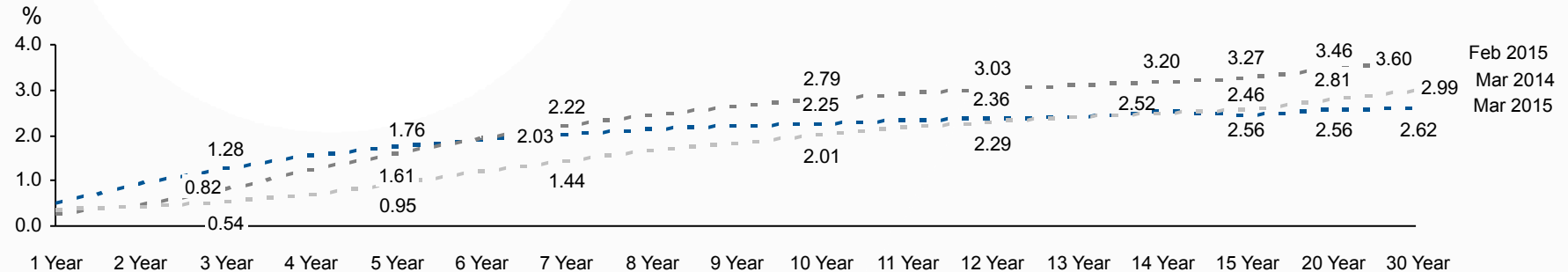


Sheltering our industry – airlines, OEMs and lessors – from what could have been a more difficult period – but for how long will these dual trends continue?

WTI – Historical Prices & Futures



Historical Swap Rate Curve



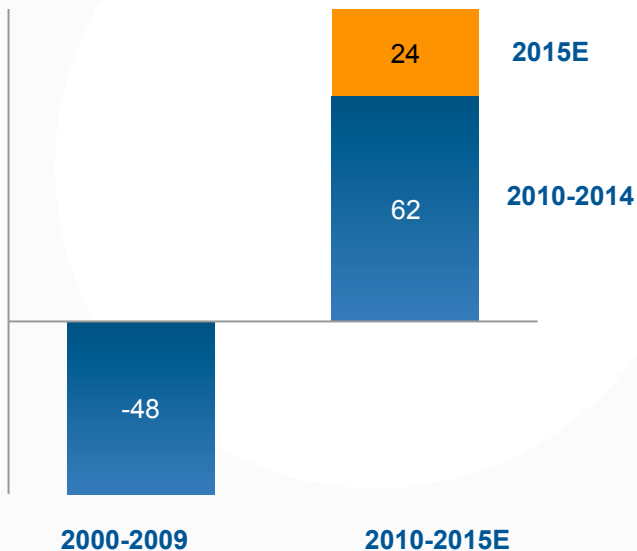
Source: Capital IQ

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

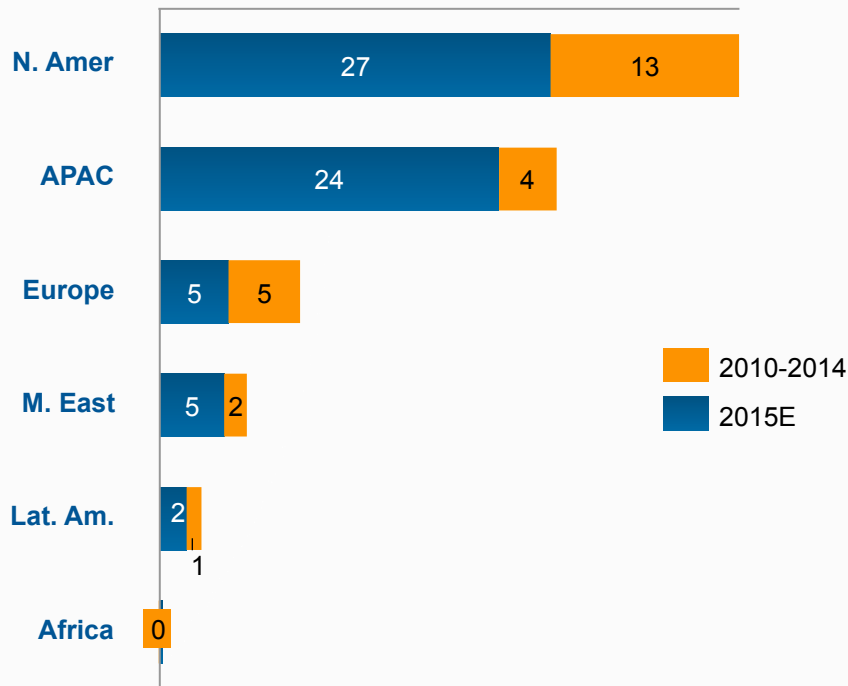
Global Industry Profitability

Aggregate net income, US\$ Billions



2010-2015E Aggregate Net Income

US\$ Billions

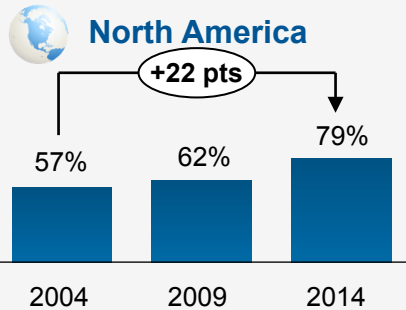


Consolidation, Post-Restructuring Boosted NA Carriers



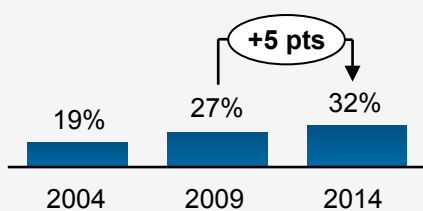
~79% controlled by Top Four, with LCC penetration slowing vs. European market, Asia/
Pacific also has troubling signs

ASM share
Top Four
(%)

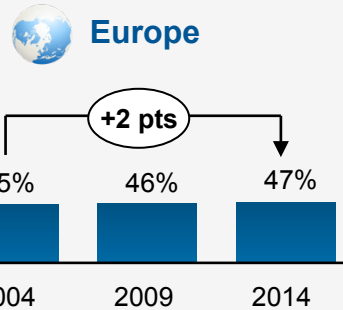


Strong consolidation

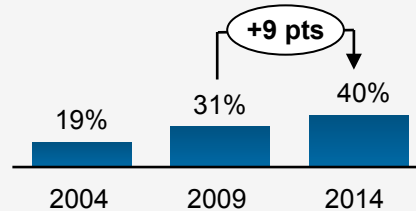
LCC Share
ASMs (%)



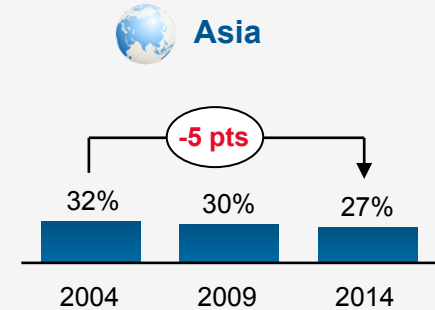
Modest LCC growth



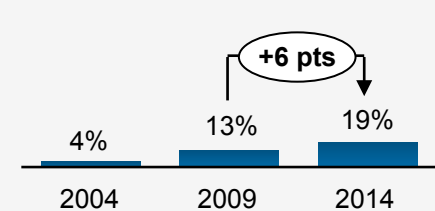
Weak consolidation



Strong LCC growth



No consolidation



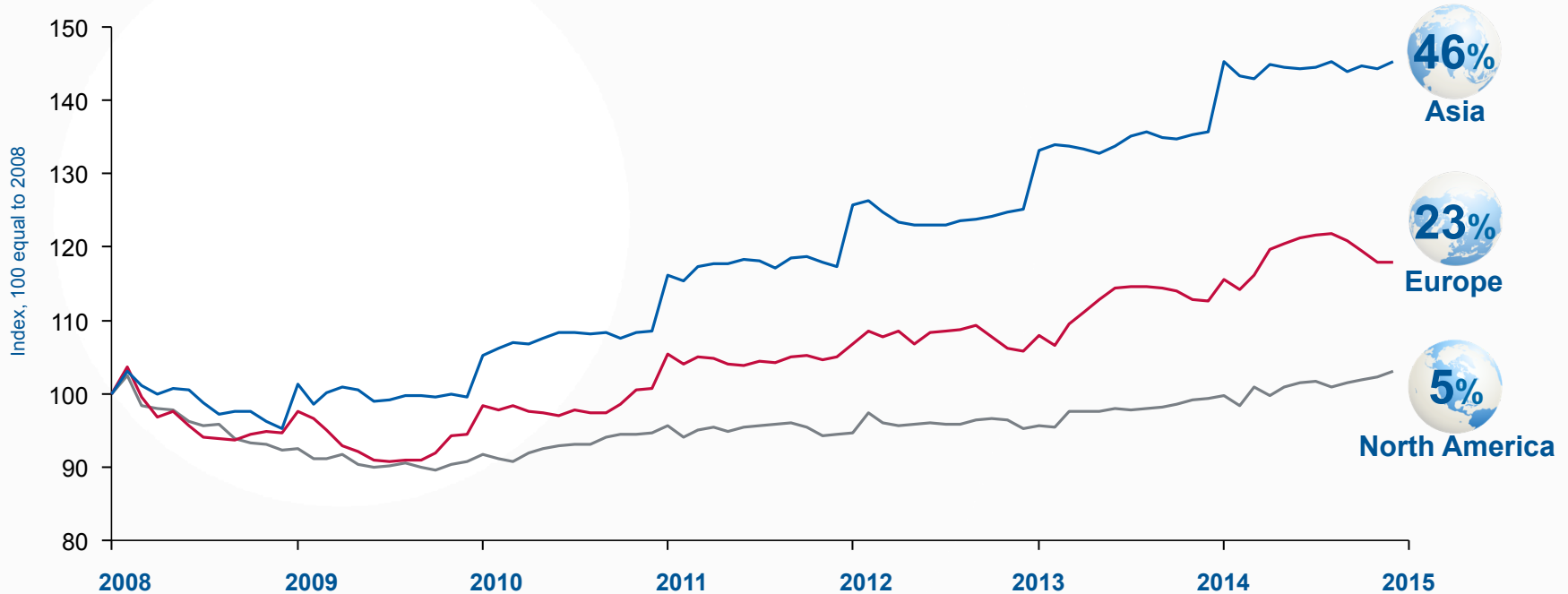
Modest LCC growth

Capacity Discipline: Key Driver For NA Carriers' Profits



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

Seasonally Adjusted Index of Monthly ASMs by Airline Registration Region



Source: Diio Mi, Seabury analysis

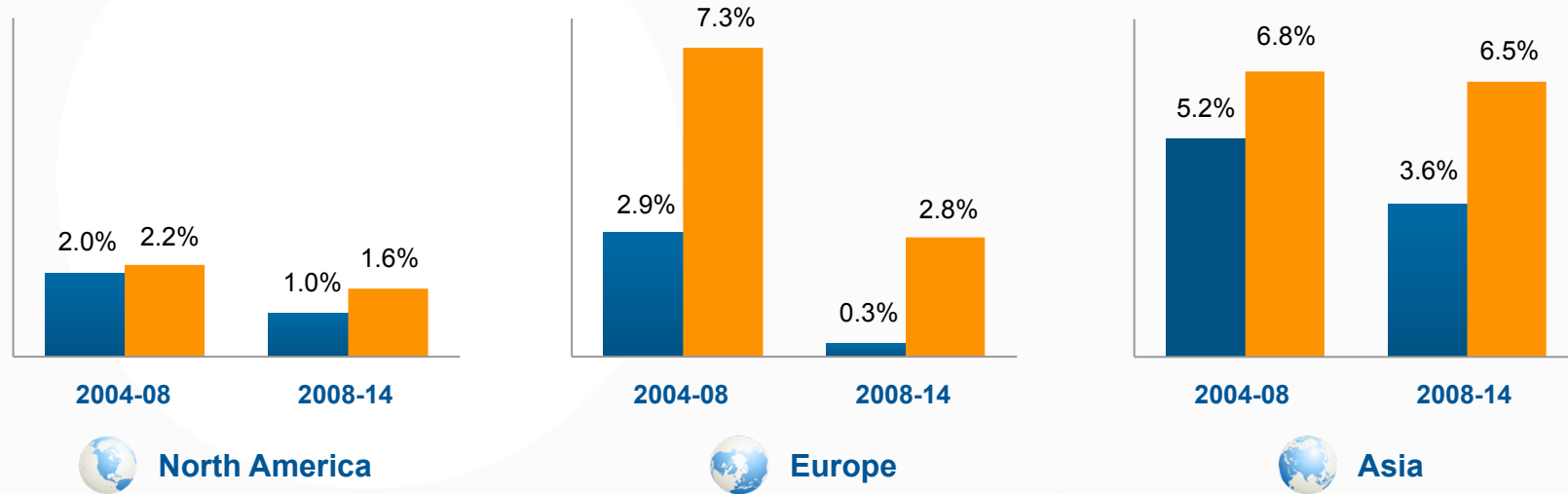
Europe/Asia Look Very Exposed To Excess Capacity



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

Growth in Real GDP and ASMs by Region

CAGR %



■ GDP growth
■ ASM growth

Global Consolidation Is Happening At Faster Pace

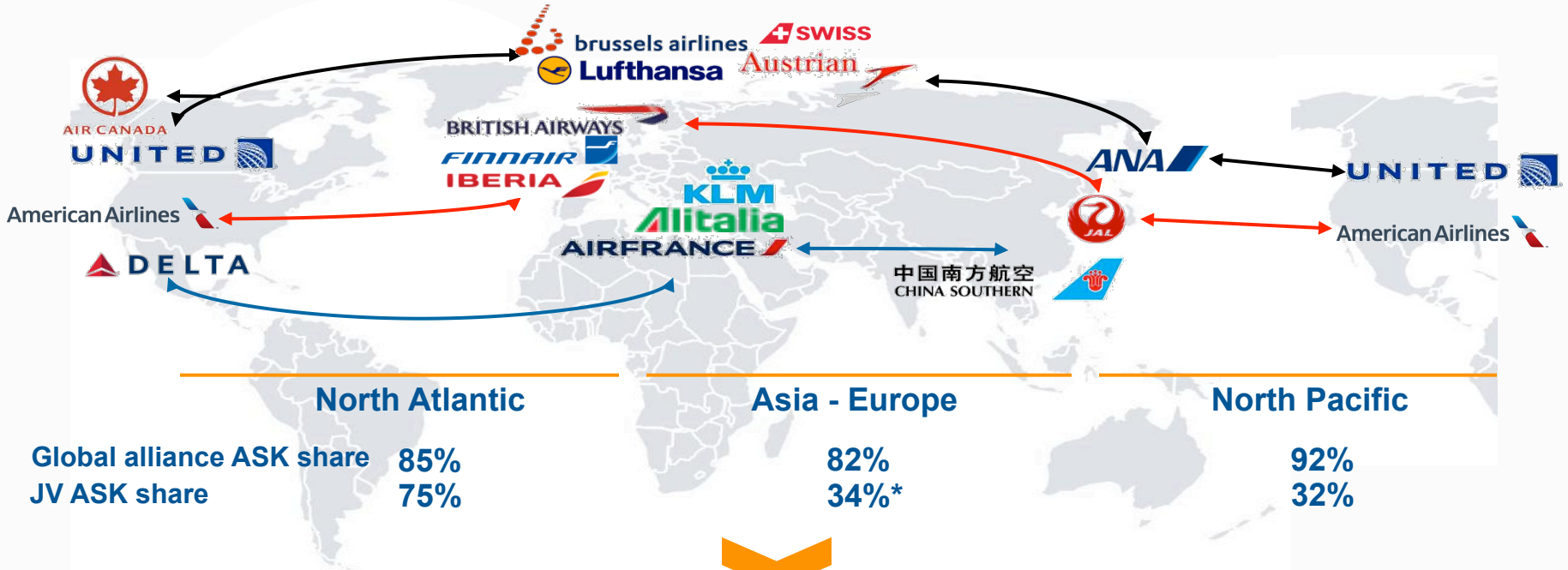
Capacity discipline globally is being driven by top American & European airlines through JVs – but at the expense of medium/small airlines



JVs Are Supplanting Global Alliances In Importance



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



Access to the USA for many European airlines has now come via interline/SPA agreements instead of codeshare

Source: IATA Pax IS 12 months to March 2015

*Excludes Middle East JV's

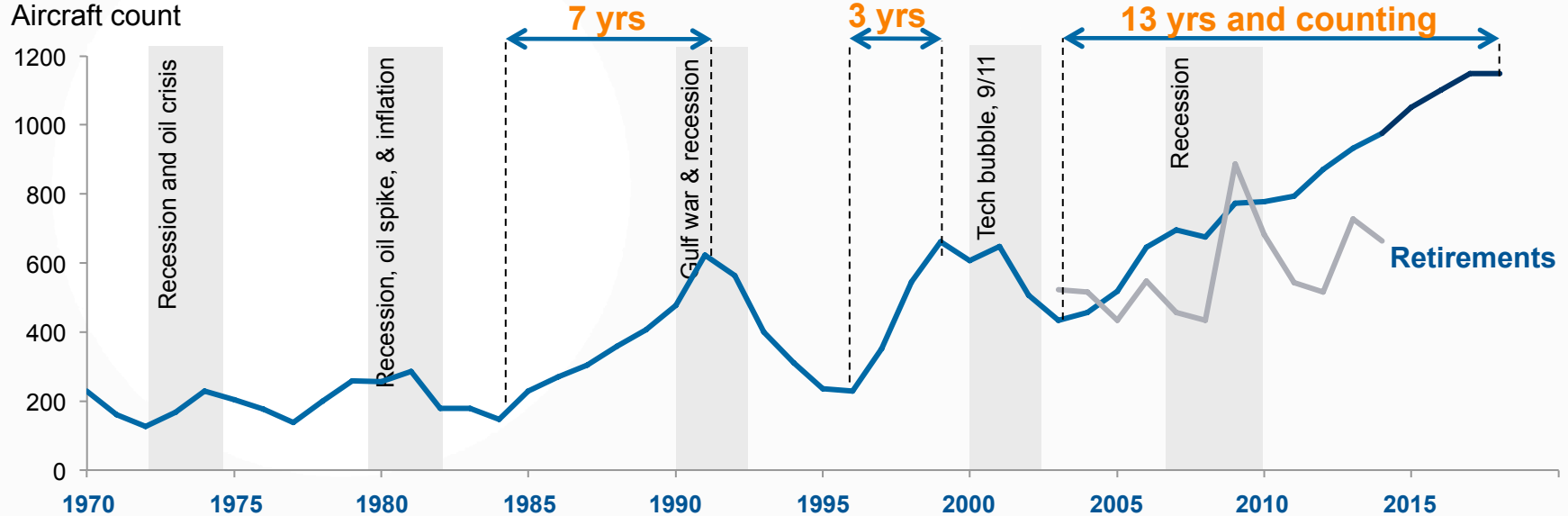
New Aircraft Delivery Cycle: 13 Years And Counting



The confluence of slow down in global GDP growth and consolidation of capacity will have an impact ultimately on the strength of OEMs' substantial order caches

Western NB Production

Aircraft count



Narrowbody production is at an all-time high and rates are headed higher

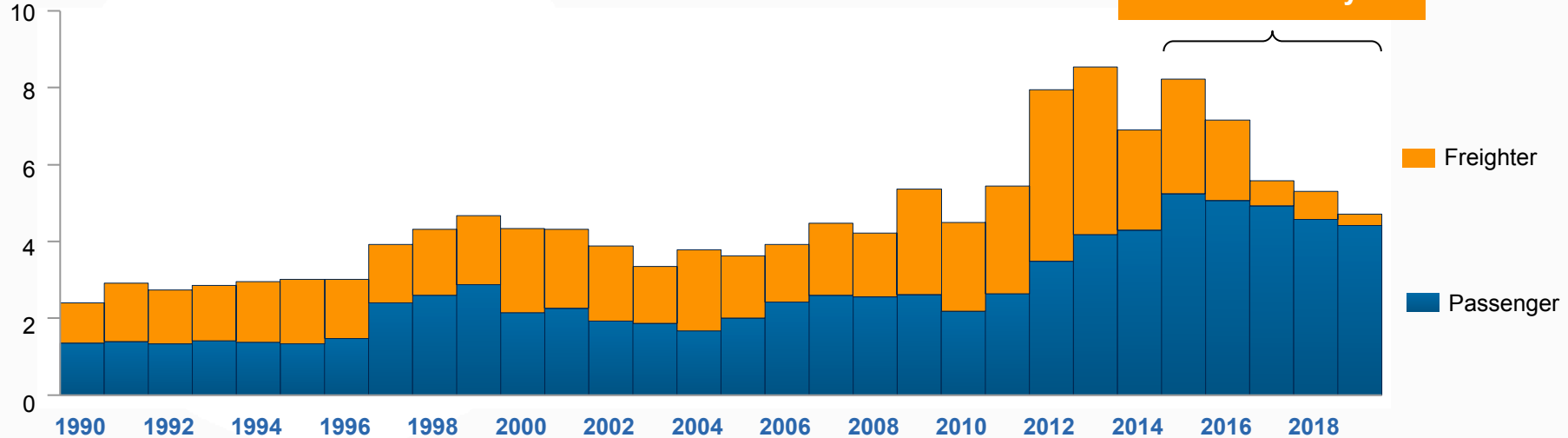
Pax Aircraft Deliveries Driving Cargo Capacity



Limiting the demand for new build freighters

Factory Built Freighter & Belly¹ Capacity on Firm Order

Thousand tonnes



Dedicated freighter growth most likely to arise from Asian express-type airlines

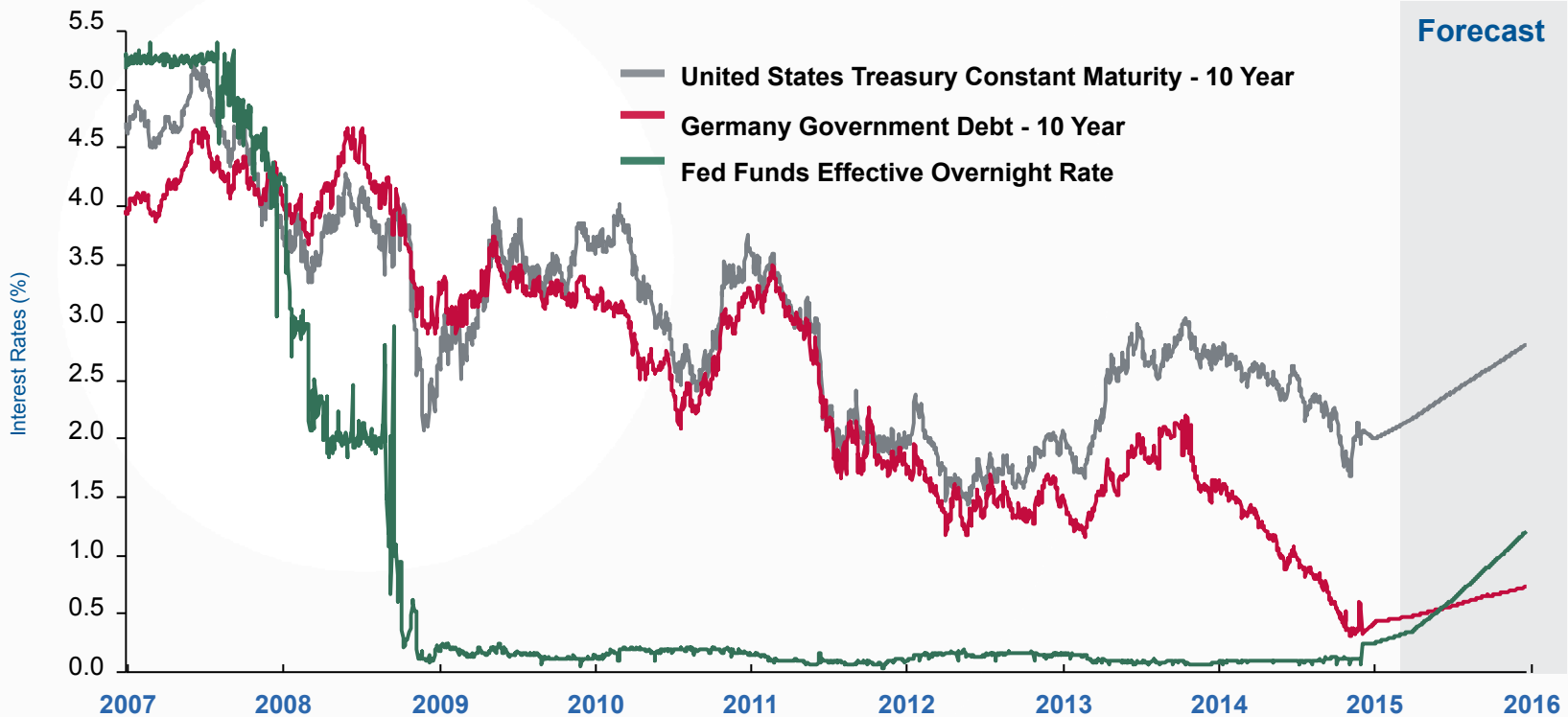
¹Widebody passenger aircraft (incl. mixed passenger/freight combinations); only firm OEM orders considered; years represent build years

Source: Ascend Fleet Database (31 December 2014); Seabury analysis

When Rates Rise, Financing Costs & WACC Will Go Up



Given tenuous nature of global GDP recovery, US interest rates may not rise very fast, but over time rates will climb – which we all need to prepare for

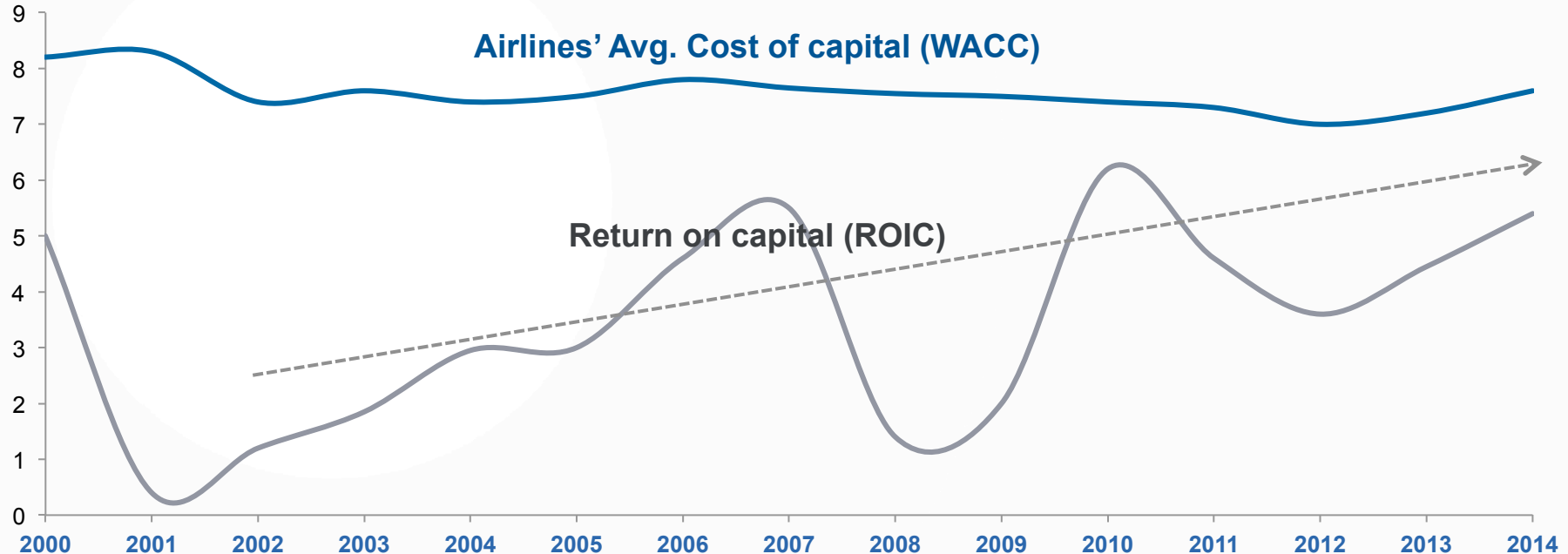


Source: Bloomberg

Industry's ROIC Has Been Climbing For Last 13 Years



Through hard work of restructuring “*problem airlines*” and driving towards “*best practices*” – but more needs to be done to secure sustained ROIC performance



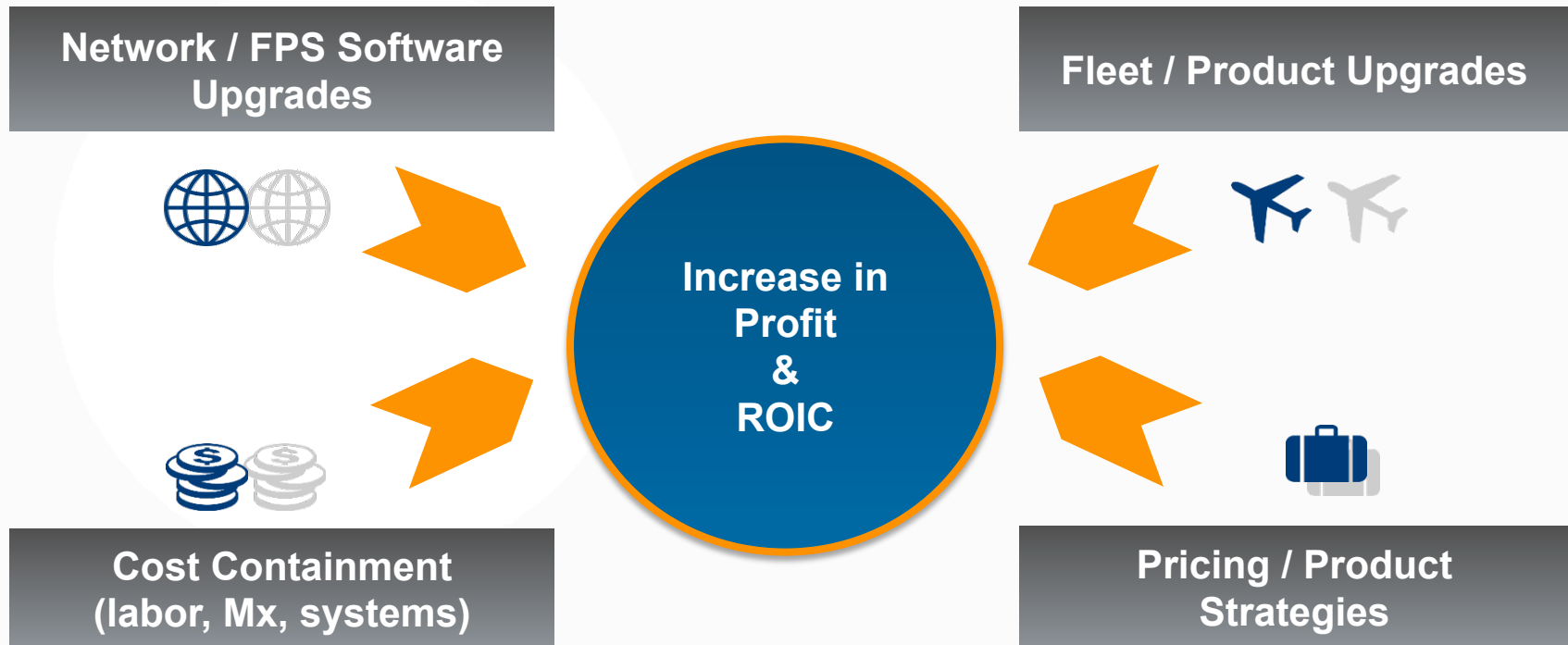
Source: IATA

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Best Practices Drive Higher Industry ROIC Performance



Adoption of best practices is spotty in our experience across some 100 airline clients



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

ER Case Study #1: Air Nostrum (2013-2014)

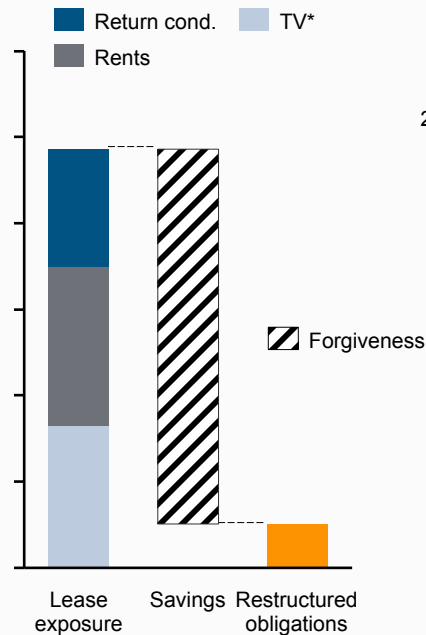


Air Nostrum was close to liquidation – Bombardier, AN's largest creditor, approached Seabury to design and implement a comprehensive turnaround plan

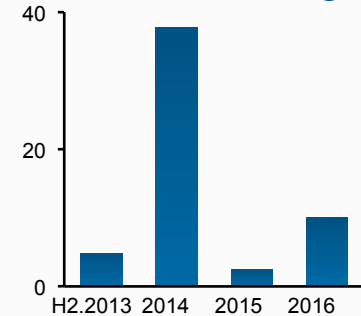
Results:

- 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
- Leading to AN securing a new long-term regional code-share with Iberia Airlines
- Thereby avoiding liquidation which would have been catastrophic for lessors/BBD

Lease obligations



Debt restructuring



ER Case Study #2: Monarch Airlines Group (2014)

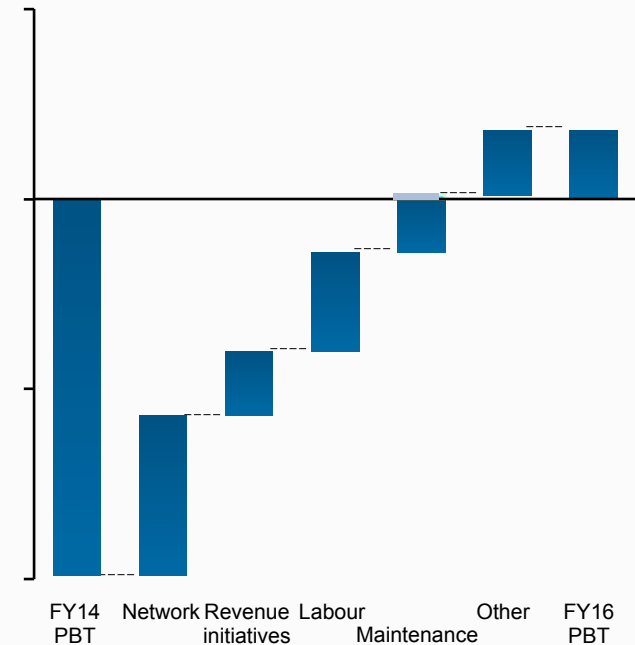


Monarch had less than eight weeks of cash in late July 2014 – Seabury was retained to structure and implement a comprehensive turnaround plan and raised £125 million of new capital

Results:

- We immediately crafted plan to cut ~30% of routes & capacity that produced ~100% of losses
- Optimized fleet, shed two fleet types and consensually restructured the aircraft portfolio
- Achieved material labour concessions ~ 40% reduction in labour costs
- Removed more than £700m of liabilities (principally unfunded pension plan)
- Slashed costs by £200M p.a. driving 14-16% profit increase
- Secured £125M of capital and liquidity facilities
- Thereby avoiding catastrophic losses for lessors and banks

Turnaround plan bridge FY14-16



A Competitive World Means Faster Change/Great Collaboration Required



Airline managements must adopt best practices to drive more rational decision-making

Leading to stronger ROIC performance, higher market capitalization ratios = better talent



OEMs need to manage production cycles and insist on airlines adopting “best practices” driving higher ROICs

Resulting in fewer “boom/bust cycles”, stronger aircraft residual values & ROIC performance



Lessors / banks should be “activist” in requiring airlines to adopt best practices and higher ROICs through credit process

Leading to better portfolio quality, lower WACC, stronger aircraft residual values and higher market capitalizations



Advisors should routinely ***deliver to clients 15-50x their fees in NPV improvements – and their references should be carefully scrutinized***

Driving higher ROICs for all players = better talent