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AVIATION AFRICA 2019

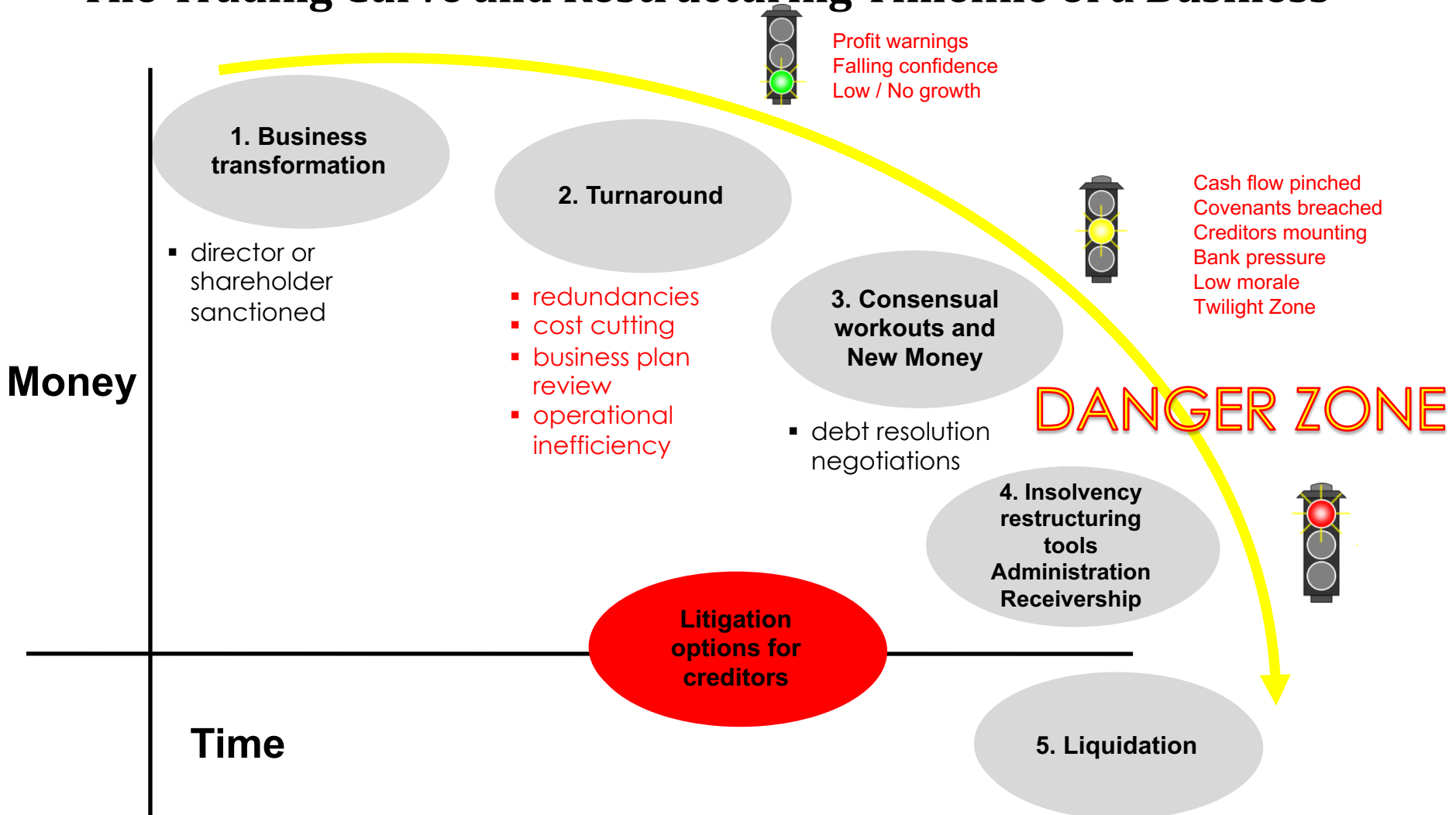
28 February 2019

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Restructuring vs. Liquidation

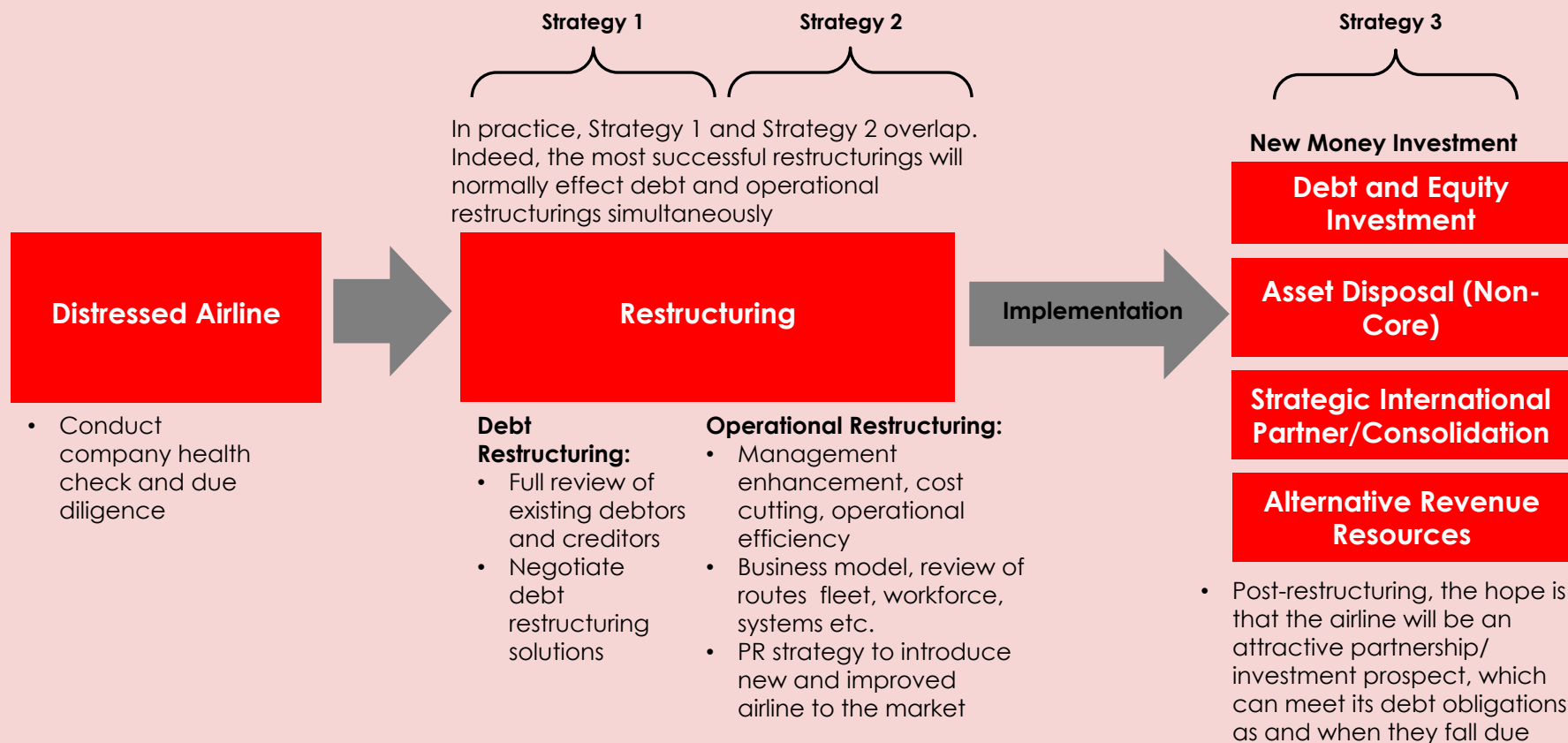
- Distress or insolvency usually leads to either restructuring or liquidation
- **Insolvency Test**
 - — cash flow test
 - — balance sheet test
- **Liquidation**
 - — Involves the sale of the assets with proceeds distributed to creditors in accordance with their priority
 - — kill not cure: job losses, fire sales, value dissipation, proceeds are usually less than claims of creditors
- **Restructuring**
 - — an alternative to liquidation and a viable option only where the going concern value exceeds the liquidation value – therefore valuation is key
 - — tool for creditors/ debtors/ investors
 - — usually saves company, saves jobs, preserves value

The Trading Curve and Restructuring Timeline of a Business



Aviation Restructuring Roadmap

Brown Rudnick's approach to restructuring is an all-encompassing and comprehensive one, designed to create a sustainable model with an implementable roadmap and clearly defined action items.



Operational Restructuring

A

- Identify where efficiencies and cost savings can be made and new revenue streams be developed
- Cash management strategy – cash is king in times of distress
- Management enhancement
- Route review & fleet rationalisation (use of current fleet more efficiently)

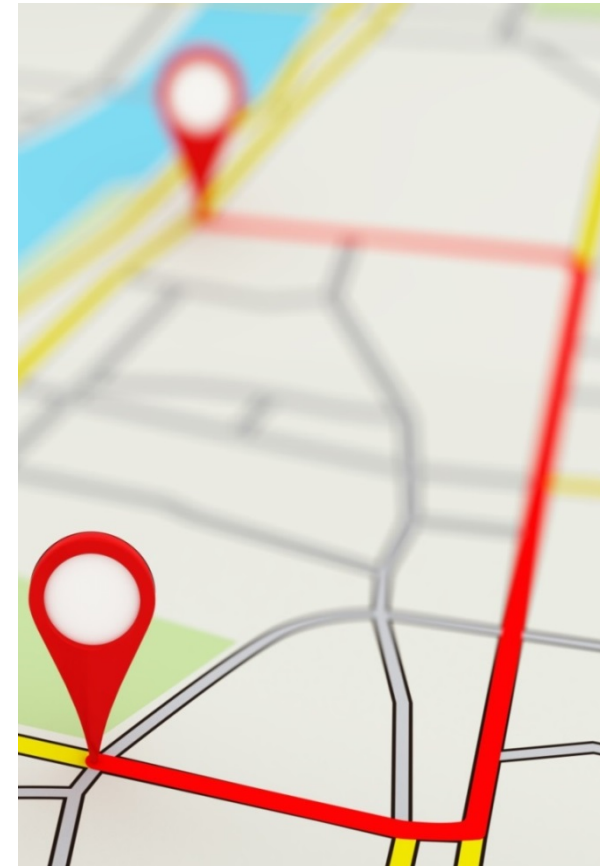
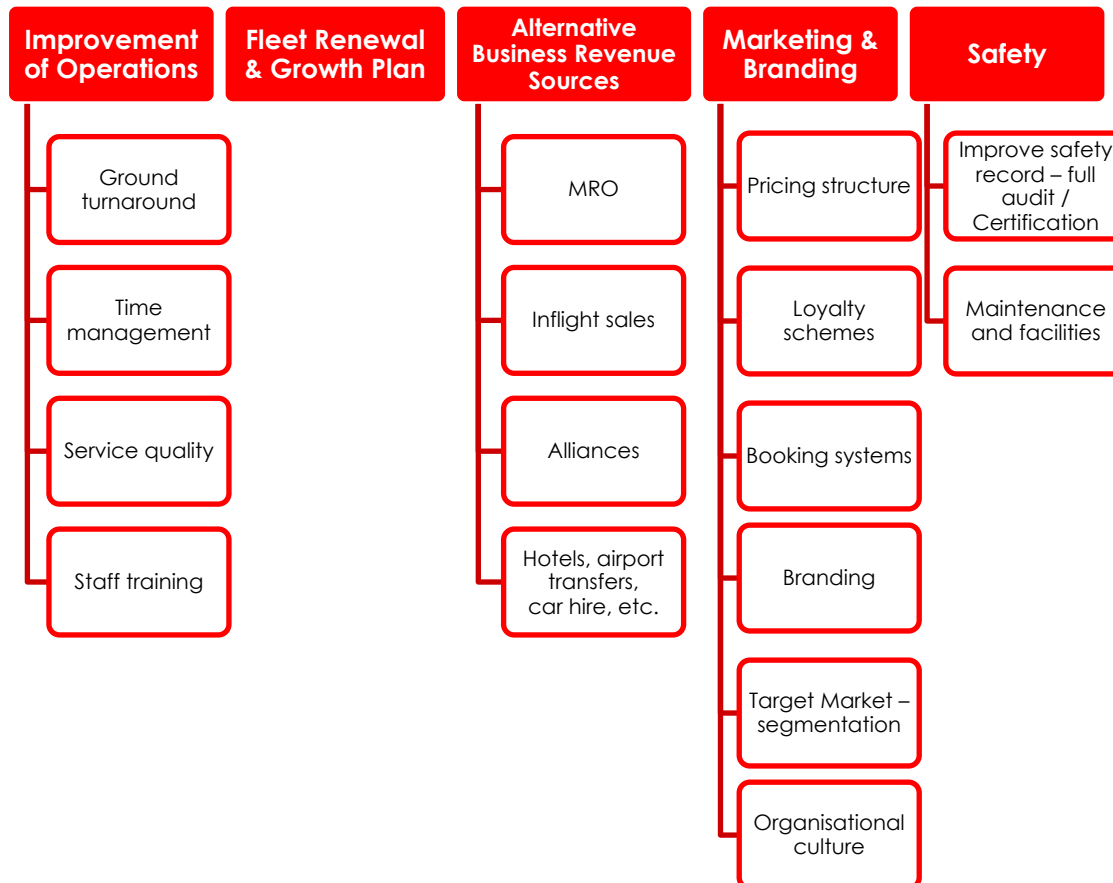
B

- Preparation of an operational business plan for a 3-year, 5-year and 10-year horizon

C

- Implementation of an operational strategy road map

Operational Road Map – some areas for attention



Debt Restructuring and Liability Management

Debt restructuring tools include the following:

Debt Write Down

- Negotiations with creditors in respect of a debt write down.

Debt-to-Equity Swap

- Exchange some of the debt into equity.
- Creditors will need to “buy in” to the future.

Debt-to-Debt Swap

- Exchange some of the existing debt for new debt, on amended terms.

Renegotiate/terminate contracts

- Negotiate (i) variation of existing contracts - interest, MR, rent, return conditions,
- (ii) termination of onerous contracts.

Alternative refinancing

- Alternative and innovative structures such as tradeable tax credits.

New Money Investment

- Debt and Equity Investment
- Asset Disposals (Non-core)
 - **Needs to be carefully and strategically managed**
- Investment from Strategic Partners
- Consolidation
 - **Consolidation is the process by which airlines merge and form a smaller, more efficient, less concentrated aviation market in a given territory**

Airline Consolidation

Advantages

- Mergers usually result in financially stronger carriers allowing them to better compete in the market
- Allows airlines to potentially increase revenues by eliminating unprofitable or redundant routes, and capitalising in other ways (e.g. code share)
- It is generally the ideal way to cut costs without jeopardizing an airline's presence

Disadvantages

- Too much consolidation can create monopolies that distort competition, and create barriers for smaller airlines
- Ensure compliance with competition laws
- For consumers:
 - May lead to poorer service, higher prices due to fewer choices

Airline Consolidation - Example

The United States is a key example of successful airline consolidation. 70% of its aviation market is currently controlled by four primary airlines:

- American Airlines
- Delta Airlines
- Southwest Airlines
- United Airlines

As a result of airline consolidations in the United States, the airline industry has generally become more stable—preventing large-scale turnover of airlines.



Use of insolvency process

- Sometimes it is not possible to achieve a consensual resolution and the assistance of a formal insolvency legislative framework is required
- Challenge for most of Africa – lack of appropriate insolvency legislation or tools
 - a) Moratorium – to “stay” creditor action**
 - b) Cram down any hold out creditors**
 - c) Valuation**
 - d) New money / priming (“super-senior debt”)**
- However, many African countries are modernising their laws – For example Kenya has a new administration law, South Africa has a new business rescue law
- Forum shopping is a possibility, subject to conditions being met – Avianca is an example of where a Colombian airline used US Chapter 11 to effect a restructuring

Questions?

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