



Navigating Volatility & Distress – Aviation Sector

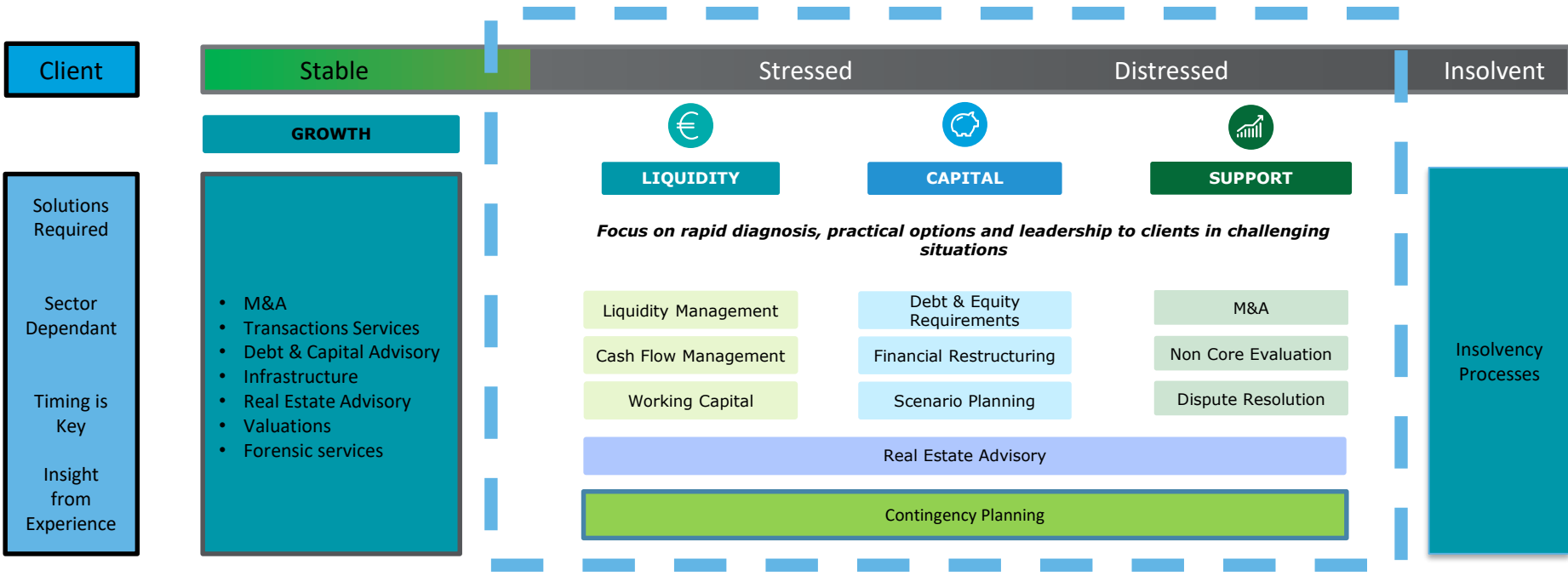
Deloitte Restructuring Services - Ireland

Financial Advisory Services Restructuring – Aviation Sector

Navigating Volatility – Covid-19

We have deep experience advising businesses in a stable environment. In a Post Covid-19 environment a significant amount of sectors are stressed. We can provide **leadership and support** to clients through this period of volatility by combining skills across our business.

Our Financial Advisory team have a combined focus of returning our clients business situation to “Stable”.



Aviation Sector - Leasing

Our team can leverage significant sector expertise to deliver innovative services and superior results for clients.

Sector Challenges

Immediate issues



Liquidity



Cash burn



Supply Chain

Post-crisis Concerns



Working capital requirements & Profitability



Second Wave of Covid

Medium / Long-term Impact



Business Failure



Finance Risk / Costs



Consolidation

- Focus on liquidity and model a range of scenarios and understand the available levers to generate cash.
- Limited cash reserves in some circumstances, but high debt repayment requirement during standstill period.
- Large OEM order books and contractual commitments in a distressed market.
- Customers seeking early lease terminations, significant lease deferrals and restructuring.

- Trading and cash flow forecast for the next 12 months: base case and downside scenarios.
- Negotiate lender standstill agreements, revised OEM commitments.
- Cost of restarting industry, immediate cost burden for airlines and risk of a second wave - contingency planning.

- Risk of long term damage to the sector through slow recovery and failure of airlines.
- Additional geo-political, macro economic head winds – oil prices etc.
- Inability to access previous low interest markets due to heightened risk within sector.
- Consolidation of airline groups and a reduced requirement in aircraft numbers.

Aviation Sector - Leasing

What we do

- Restructuring Services – can identify the optimal financial advisory solution(s)
- Short-term liquidity analysis – cash management / working capital / stakeholder management
- Protecting long-term business value – assessment of medium to long term strategic direction
- Contingency planning and options analysis –
 - Part 9 Scheme of Arrangement
 - Examinership
 - Sale and leaseback programme

Our Team



Martin Reilly,
Partner, Dublin
NSE Financial Advisory Services Lead
FAS Ireland Lead

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Phone: 01 4172212

- Leads the Deloitte North South Europe (NSE), Financial Advisory Department, with over 25 years Financial Advisory experience;
- He has focused on delivering a range of advisory services to institutions regarding credit risk, deleveraging, impairment provisioning, regulatory reviews and other ad hoc assignments;
- Martin serves on the Executive Committee of the firm.



Ken Fennell,
Partner, Dublin
Head of Restructuring Services
Ireland

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Phone: 01 4178803

- Over 30 years' experience in restructuring services and delivery of client engagements;
- Market leader in restructuring advisory services;
- Has acted on behalf of financial institutions, shareholders and creditors in multiple sectors;



Mark Degnan,
Director, Dublin
Restructuring Services Ireland

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- 15 years' restructuring and advisory experience working with stakeholders to assess options, develop and implement solutions, including taking various insolvency appointments
- Has acted on behalf of financial institutions, private equity funds and shareholders in multiple sectors;

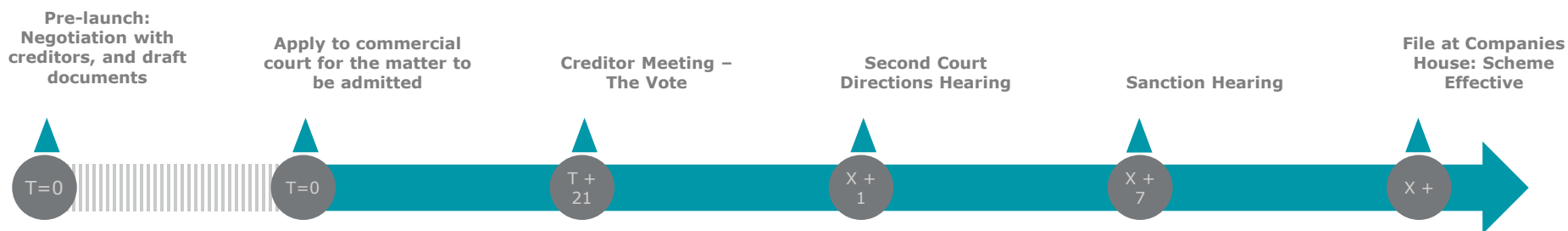
Appendices

Financial Advisory Services Restructuring – Aviation Sector

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Implementation Options

Implementation Options

Scheme of Arrangement: indicative timeline and process



What is it?

- A Irish Companies Act procedure, which can be proposed by any company subject to the jurisdiction of the ROI courts. (COMI / Governing Law).
- It permits a company compromise with its members or creditors (or any class of them) and must be fair and equitable.
- If approved by the requisite majority and then sanctioned by the Court, it will **bind all parties within the relevant class**, whether or not they voted in favour of what was proposed.
- It is not a formal insolvency process. **A company does not have to be insolvent**, or facing imminent insolvency, before it can propose a Scheme. No insolvency practitioner is appointed, and the company directors retain control. There is no statutory moratorium available.

Process

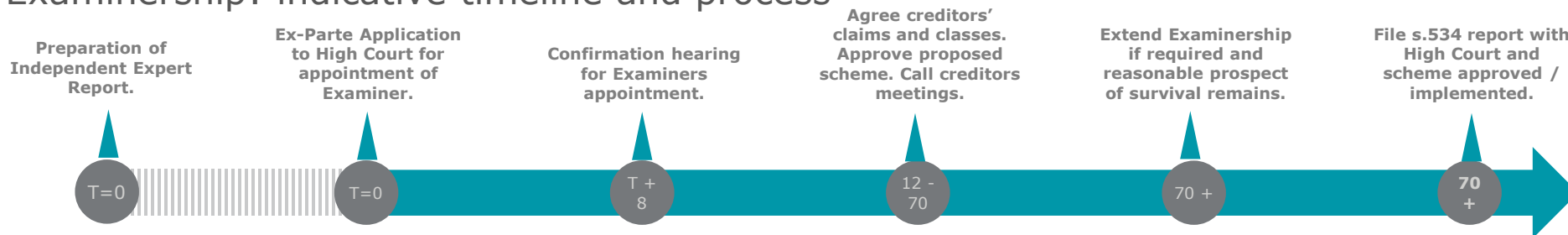
- An illustrative timeline is above. Typically, commercial terms will be discussed and agreed with key stakeholders prior to launch, and a "lock-up" will be agreed.
- At the application stage, the company will seek to have the matter admitted to the Commercial Court and seek directions in regards the convening of the creditors meeting.
- Every notice summoning a meeting of creditors must be accompanied by a scheme circular explaining the effect of the Scheme and stating any material interests of the directors of the company and how the directors would be affected by the Scheme in so far as it differs from the like interests of other persons.
- Where the Scheme affects the rights of debenture holders, a similar explanation in relation to debenture trustees must be given.
- Once sanctioned by the Courts, a "copy court order" must be delivered to the Companies Registration Office (CRO) within 21 days of the order being made by the Commercial Court.
- The Scheme takes effect immediately on delivery of copy order to CRO.

Voting and Sanction

- It is a condition that a majority in number representing 75% in value of the creditors (or each class of creditors) present and voting at the relevant meeting, either in person or by proxy (the "**Special Majority**") votes in favour of a resolution agreeing to the Scheme before the Scheme can become binding.
- Provided the Special Majority approves the Scheme, it is immaterial that those present at the meeting (whether in person or by proxy) only constituted a fraction of those entitled to vote.
- Once approval has been obtained at the Scheme meetings the Commercial Court will be updated and directions sought in relation to the sanction hearing.
- At the sanction hearing the Commercial Court must be satisfied that:
 - Scheme meetings were properly constituted, convened and held;
 - Proposal approved by relevant majority(ies);
 - The prescribed majorities acted in good faith; and
 - The arrangement is "fair and equitable".

Alternative Implementation Options

Examinership: indicative timeline and process



What is it	Process
<ul style="list-style-type: none"> • An Irish Companies Act procedure, which can be proposed by any company where it can establish COMI in ROI. • Maximum period of 100 days and automatically creates a creditor moratorium. (<i>August 2020, Government passed temporary legislation allowing an extension to 150 days for applications made prior to December 2020</i>). • It permits a company compromise with all classes of creditors. • The scheme is only required to be approved by one class of impaired creditors, subject to no creditor being unfairly prejudiced by the scheme. • If deemed fair, it then becomes binding on all classes of creditors. • It applies to companies that are insolvent or likely to become insolvent, including contingent liabilities. • A scheme must demonstrate that all creditors would achieve the same or a better return from such a process versus a liquidation. 	<ul style="list-style-type: none"> • An illustrative timeline is above. Typically, an examinership process will last for the entire 100 day period, being the maximum period allowed, however, if a scheme is prepared in advance or can be negotiated sooner than the 100 days, the scheme can be presented to creditors when ready. • The appointment of an examiner on an interim basis, would be by way of an ex-parte application with no advance notification required to be given to any third party. • An examiner would be appointed on an interim basis, and a full hearing would be set down for c.1 week post petition. Parties would be put on notice of the hearing and an objection could be made to the appointment at this time. • An independent experts report ("IER") is generally required as part of any petition, the contents of which are detailed under s.511 of the Companies Act 2014. In summary, such a report would provide an overview of the business and reasons for its financial difficulties, and the independent expert must opine on the viability of the business to continue as a going concern, and what conditions would allow for this. • Executive powers are not automatically conveyed upon an examiner by virtue of the appointment. In normal circumstances the company and its management would retain full executive powers. • A scheme can be negotiated throughout the period, and up until its presentation at the various meetings of creditors, as opposed to prior to a court application in a scheme of arrangement under Part 9. • During the process, a company must be able to meet its creditors as they fall due, however, any balances due and owing prior to the appointment do not have to be met, and they will form part of the scheme. This may require funding during the period, or the use of existing resources at the date of appointment.

Alternative Implementation Options

Advantages

- Could be a useful means, in event of deadlock negotiations with creditors, of achieving what the company needs to restructure its operations and continue;
- Key advantages over a scheme of arrangement;
 - Immediate moratorium
 - Time to negotiate a consensual deal
 - More flexibility to amend scheme right up to the point of court approval
 - One class approval sufficient (which could admittedly be double edged) if an alternative scheme was proposed
- Examinership facilitates cross border restructuring as it is a specified insolvency process under Regulation (EU) 2015/848 on insolvency proceedings.
- Subject to limited exceptions, the appointment of an examiner and any proposals under a scheme of arrangement for the company which have been confirmed by the Irish court are automatically recognised and binding through-out the EU, apart from Denmark.
- Examinership is generally a recognised process in the United States under the US Chapter 15 recognition process.
- It is open to any company which has its centre of main interests ("COMI") in Ireland. In addition, examinership can also be extended to any related companies in certain circumstances.
- Repudiation of contracts is available during the period, subject to court applications, and the loss to the contracted party will be crystallised and form part of the scheme.
- A more cost effective restructuring process than Chapter 11.

Risks

- The appointment of an Examiner could be challenged by a creditor of the company at the full hearing.
- In cross jurisdictional restructures some subsidiaries and/or group companies may fall outside of COMI.
- An individual scheme may be required for each company and to be approved by creditors of that company, if a group structure.
- The company may require funding during the period of examinership and may require equity to support the business.
- An examiner is deemed to be an officer of the court and must independently assess all viable schemes put forward, in the unlikely event of an alternative scheme being proposed, the examiner would have to give such a proposal due consideration in the process.
- If a scheme is not agreed within the period, the courts may order the winding up of the company, if deemed just and equitable.