Houlihan Lokey

# Virgin Atlantic Airways Ltd.

CASE STUDY

SEPTEMBER 2020

HLI
LISTED
NYSE

# Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank.

## Corporate Finance

**2019 M&A Advisory Rankings**
**All U.S. Transactions**

| | Advisor | Deals |
|---|---|---|
| **1** | **Houlihan Lokey** | **184** |
| 2 | Goldman Sachs & Co | 167 |
| 3 | JP Morgan | 141 |
| 4 | Morgan Stanley | 122 |
| 5 | Evercore Partners | 112 |

*Source: Refinitiv (formerly known as Thomson Reuters)*

**No. 1** US M&A Advisor

**Top** 10 Global M&A Advisor

**Leading** Capital Markets Advisor

## Financial Restructuring

**2019 Global Distressed Debt & Bankruptcy Restructuring Rankings**

| | Advisor | Deals |
|---|---|---|
| **1** | **Houlihan Lokey** | **76** |
| 2 | PJT Partners Inc | 43 |
| 3 | Moelis & Co | 36 |
| 4 | Lazard | 29 |
| 5 | AlixPartners | 19 |

*Source: Refinitiv (formerly known as Thomson Reuters)*

**No. 1** Global Restructuring Advisor

**1,000+** Transactions Completed Valued at More Than $2.5 Trillion Collectively

## Financial and Valuation Advisory

**2000 to 2019 Global M&A Fairness Advisory Rankings**

| | Advisor | Deals |
|---|---|---|
| **1** | **Houlihan Lokey** | **1,057** |
| 2 | JP Morgan | 929 |
| 3 | Duff & Phelps | 734 |
| 4 | Morgan Stanley | 621 |
| 5 | Bank of America Merrill Lynch | 612 |

*Refinitiv (formerly known as Thomson Reuters). Announced or completed transactions.*

**No. 1** Global M&A Fairness Opinion Advisor Over the Past 20 Years

**1,000+** Annual Valuation Engagements

# Case Study—Virgin Atlantic Airways Ltd.

virgin atlantic

has raised £170m new debt and £200m new equity financing as part of its c.£1.2bn restructuring transaction implemented as the first restructuring plan under the new Part 26A of the UK Companies Act

Company Advisor

September 2020

## Company Profile

- Virgin Atlantic Airways Ltd. (Virgin Atlantic) was founded 36 years ago by entrepreneur Sir Richard Branson and carried approximately 6 million customers in 2019.
  - Headquartered in London, the airline and its holiday business, Virgin Holidays, employs approximately 6,500 people worldwide, serving 25 destinations across four continents.
  - Alongside Delta Air Lines and Air France-KLM, Virgin Atlantic operates a leading transatlantic joint venture between the UK and the US with onward connections to more than 200 international destinations, offering a comprehensive route network and set of flight schedules, competitive fares, and frequent flyer benefits across all carriers.

## Situation Background*

- Global aviation was the most severely impacted industry following the outbreak of the COVID-19 pandemic, and Virgin Atlantic's passenger volumes fell by 98% in Q2, with a return to pre-crisis levels not anticipated until 2022/2023.
  - The airline implemented operating measures, including workforce reduction, pay cuts, fleet retirements, the closure of the London Gatwick base, and a temporary shift to cargo-only flying.
  - Despite these measures, the unrestricted cash position was forecasted to fall below the minimum threshold to operate the business by mid-September, eventually triggering the rights of certain creditors to start enforcement action over the airline's landing slots at London Heathrow and, ultimately, threatening the company's ability to continue to operate as a going concern.
- In May 2020, as passenger demand plummeted to unprecedented levels, Virgin Atlantic commenced discussions with its stakeholders to address its capital structure and generate sufficient liquidity to support the business through the pandemic and back its operational turnaround plan.

## Houlihan Lokey's Role

- Houlihan Lokey was formally retained alongside Allen & Overy to assist the company in (i) raising third-party financing and (ii) engaging in the restructuring negotiations with the company's key stakeholders.
- On 14 July, following intense negotiations—in record time—to secure the support from credit card acquirers, lessors, and all other stakeholders, the company announced the agreement in principle with the majority of stakeholders for a solvent recapitalisation of the airline to rebuild its balance sheet and enable it to return to profitability from FY22 onwards.
- Houlihan Lokey also had to assist in negotiations with the UK government, including organising an "any and all" offers invitation that was circulated to more than 300 investing institutions and elicited more than 140 requests for further information under NDAs.

*Based on Company information and industry statistics

# Case Study—Virgin Atlantic Airways Ltd. (cont.)

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Company Advisor

September 2020

## Restructuring and New Financing Highlights

- On 4 September, the restructuring and new money financing were implemented and provided approximately £1.2 billion in support over the five-year plan, including:
  i. Approximately £600 million of shareholder support over the life of the five-year business plan, including £200 million of new money from Virgin Group and approximately £400 million of shareholder payment deferrals and waivers;
  ii. £170 million of new secured financing provided by Davidson Kempner;
  iii. More than £450 million of payment deferrals from operating lessors, finance lessors, and other trade creditors;
  iv. A three-year extension of the company's $280 million RCF; and
  v. The support of credit card acquirers who will continue to provide their funding line to the business.
- As a result of this transaction, the company achieved a sustainable long-term capital structure and secured sufficient liquidity to support the business through the ongoing pandemic.
- The transaction was fully executed and implemented by means of the first Restructuring Plan under the new Part 26A of the UK Companies Act and a US Chapter 15.
  - The legislation around the English court-sanctioned process was authorised by Royal Assent on 25 June for the express purpose of enabling businesses affected by the pandemic to restructure their debts.
  - The new Restructuring Plan introduced, among other things, a cross-class cramdown mechanism to overcome opposition from a particular class of dissenting creditors.

## Pro Forma Capital Structure Post Transaction (£ millions)

| FY 2020 | Amount |
|---|---|
| New Secured Debt (DK Facility) | 170 |
| Existing RCF | 224 |
| Slots Financing—Notes(1) | 226 |
| Lease Obligations(1)(2) | 1,938 |
| **Gross Debt** | **2,558** |
| Cash(3) | (445) |
| **Net Debt** | **2,113** |

*(1) As per Virgin Atlantic Annual Report FY 2019.*
*(2) Comprises finance and operating lease obligations.*
*(3) Assuming £75 million of minimum cash and £370 million of new money.*

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## Key Features of the Restructuring Transaction

- ✓ First transaction implemented via a Restructuring Plan under the new Part 26A of the UK Companies Act, enabling a cross-class cramdown mechanism to overcome opposition from a particular class of dissenting creditors.
- ✓ Stabilised platform, resulting in a more sustainable long-term capital structure, with gross debt significantly reduced.
- ✓ Lower cash interest and lease payments through the anticipated trough of the COVID-19 pandemic, with flexibility to extend the deferral period in the case of a later flight resumption.
- ✓ No significant debt maturities in the immediate term. Maturities have mostly been extended to 2025, reducing refinancing risk and providing runway for the company to focus on restoring business growth and profitability.
- ✓ Strengthened liquidity profile, providing Virgin Atlantic with sufficient resources to support its business through the pandemic and implement a turnaround plan.

## UK Insolvency Reform—Overview of the Restructuring Plan

| | |
|---|---|
| **New Additional and Stand-Alone Restructuring Tool** | ■ Modelled on the UK Companies Act 2006 scheme of arrangement (i.e. compromise or arrangement between a company and its members or creditors).<br>■ Plan can be proposed by both technically insolvent and solvent companies, provided that they are encountering financial difficulties affecting the ability to carry on the business as a going concern.<br>■ Plan must eliminate, reduce, prevent, or mitigate the effects of the financial difficulties facing the company.<br>■ Creditors and members will be divided into classes based on the similarities of their rights and interests. |
| **Voting and Thresholds** | ■ Secured and unsecured creditors; members (similar to scheme).<br>■ Possibility of applying for exclusion of a class with no genuine economic interest in the company. Must be approved by 75% in value in each class of creditors/shareholders.<br>■ No requirement for the majority in number.<br>■ No requirement for the majority of unconnected creditors. |
| **Cross-Class Cramdown** | ■ Dissenting classes may be “crammed down,” provided that:<br>■ The court is satisfied that no member of the dissenting class(es) would be any worse off than they would be in the event of the “relevant alternative” (i.e. the most likely alternative scenario in the court’s view). |

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