Spirit Airlines (NYSE: $SAVE)

Fundamental Investments – Special Situations Group

Current price (03/22/2024): $4.700 | Target Price: $6.050 | Implied 29% Upside

DATE 03/23/2024

Table of Contents

Algory Capital
Special Situations Group

Industry Overview

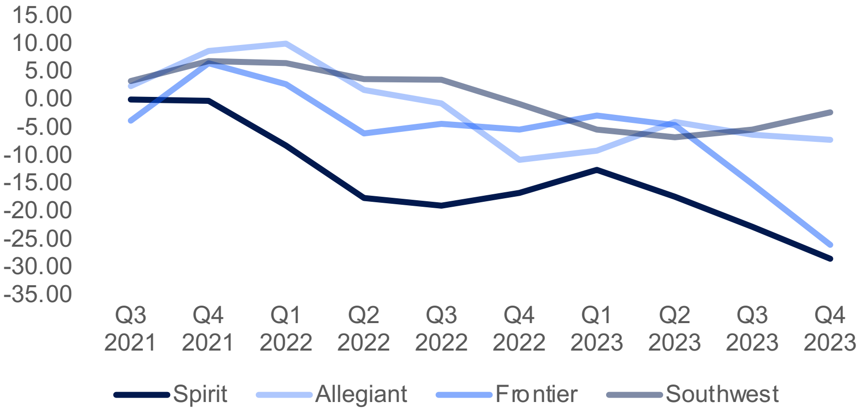
Ultra Low-cost Airlines

ULCCs deem as an opportunistic industry given overlooked merits

Pricing Strategy

- These carriers compete almost entirely on price leadership, the lower the price of a ticket, the more customers a carrier attracts.
- Spirit employs a “no-frills, bare bone” service which translates to which allows them to save on cost which carries onto the customer.
- Spirit’s revenue is mostly generated through ancillary revenue such as bag check in or in-flight refreshments.
- Ultra low-cost airlines can get away with offering flights at less convenient times due to low cost.

Industry Free Cash Flow Yield Comparison



Point to Point Model

- Ultra low-cost airlines use a point-to-point model unlike legacy carriers that use a hub and spoke model.
- The hub and spoke model has an originating hub that planes leave and arrive, however are more costly.
- The point-to-point model sends planes from destination to destination and are cheaper.
- They can have faster turnaround times which allows them to carry more passengers in shorter periods.

Single Aircraft Family

- Ultra low-cost carriers operate using a single family of aircraft from a single company.
- Spirit operates an all-Airbus fleet from the A320 family.
- Single family fleets lower training costs for all employees, reducing overall operational costs.
- Maintenance is also streamlined which reduces operational disruptions and maximizes overall aircraft availability.

Industry Landscape

Spirit leads ultra low-cost airlines in market share, capacity ratings, and key metrics

Company	Available Seat Miles in Millions (4Q23)	CASM –X (4Q23)	Departure	Revenue Passenger Miles in Millions	Total Operating Revenue per ASM	Aircraft-End of Period (Passenger)
spirit	14,778 miles	6.75 cents/mile	77,636	11,830 miles	8.94 cents	205
FRONTIER AIRLINES	10,013 miles	5.91 cents/mile	52,094	7,817 miles	8.90 cents	136
allegiant	4,607 miles	8.94 cents/mile	29,733	3,691 miles	13.16 cents	126
sun country airlines	1,554 miles	7.3 cents/mile	6,688	1,316 miles	11.25 cents	42

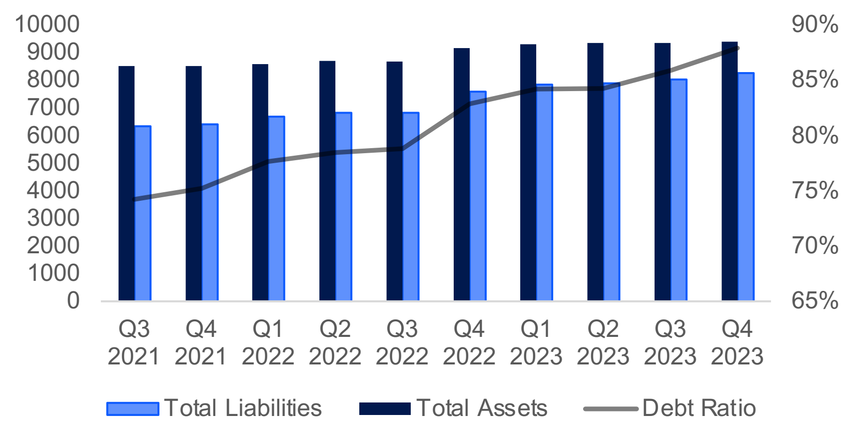
Competitive Advantages and Disadvantages

Spirit's operational advantages overshadowed by debt and poor liquidity

Destinations

- Spirit offers flights to hot destinations like San Juan, Las Vegas, and the Caribbean which is atypical for ultra low-cost carriers.
- Competitors like Allegiant often utilize secondary market cities that are less desirable to travelers.
- Spirit is big in the east coast and South America which differentiates it from competitors, like Frontier which primarily operates out of the Midwest.
- Spirit also operates primarily using the point-to-point model which is more efficient and resilient to delays, etc.

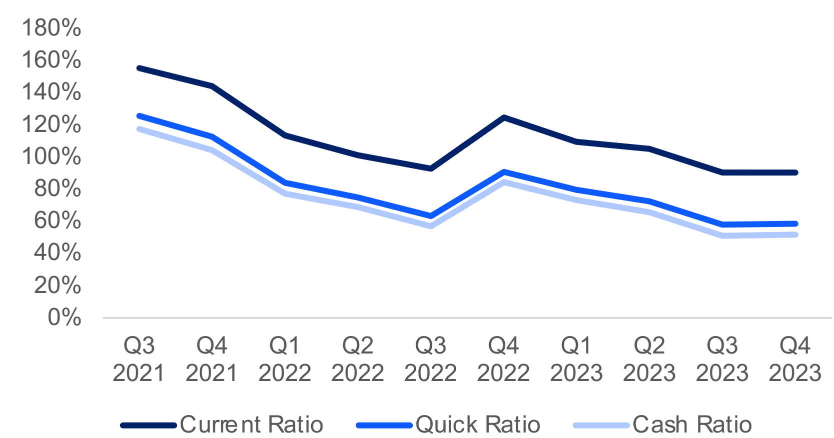
Disadvantage - Debt Ratio Increasing y/y



Association with Low Cost

- Spirit is the first brand that comes to mind when people think of cheap flights, this is due to its superior marketing in the industry.
- Spirit's Saver$ Club, which cost $69.95 per year, gives members access to special deals and discounts on ancillaries.
- Saver$ incentivizes frequent fliers to stick with Spirit because of the perceived sunk cost on the membership.
- Spirit has a credit card with VISA that promotes retention.

Liquidity – Current, Quick, and Cash Ratio



Algory Capital
Special Situations Group

Company Overview

Business Fundamentals

Spirit Airlines faces fare headwinds, but strong ancillary segments aims to offset most issues

Notes on Demand

- Demand for domestic Ultra Low-Cost Carriers (ULCC's) has slowed, as customers are increasingly opting for international travel and more amenities post-pandemic.
- Available Seat Miles (ASM) growth is still expected for Spirit Airlines as demand continues to recover to pre-pandemic levels, largely as a function of capacity rather than load factor gains.
- Spirit Airlines has struggled with softer than expected domestic and off-peak demand.

Capacity Issues

- Spirit is currently dealing with widespread groundings due to issues with the Pratt & Whitney engines used in about over 70% of Spirit's current fleet.
- Currently around 25 planes are grounded as a result, which is expected to grow to around 40 by end-of-year.
- Spirit has dealt with excess capacity in certain markets, including Florida, due to competition and route selection.
- A total of 27 mostly A321neo's are expected for delivery this year.

Margins Outlooks

- Long term understaffing and underinvestment in air traffic control has reduced utilization, by slowing critical air travel processes.
- Labor costs have risen for crew and ground positions, including around 20% for pilots.
- Spirit is increasingly operating larger and more fuel efficient A321neo aircrafts.
- Higher load factor and utilization are important for ULCC's to minimize per passenger costs and maximize volume.

Ancillary Revenue

- Spirit makes roughly 55% of its revenue from in-flight ancillary offerings including baggage, seat selection, and in-flight meals.
- Spirit is the first ULCC to institute dynamic pricing of ancillaries.
- Ancillary products have higher margins that the ticket itself, boosting profitability, and offer more flexibility to customers.
- Spirit also receives around $100 million in revenue per year from its credit cards reward program.

Internal Analysis – Bankruptcy Risks

Spirit's management looks to refinance over restructuring, liquidity is indeed strong, calming bankruptcy rumors

Refinancing

- Spirit Airlines has $1.1 billion in senior secured debt maturing in 2025. They currently do not have enough cash to cover their upcoming debt obligations for 2025.
- The debts are secured against Spirit's loyalty program which only hold value as long as Spirit is operational.
- Refinancing looks to be a very likely outcome as Spirit's management has stated their opposition to restructuring.
- Spirit will most likely wait for rate cuts to refinance in order to achieve better rates.

Bankruptcy

- The most likely trigger for a bankruptcy would be the inability to meet the payments for the upcoming debts in 2025.
- If Spirit were to go to bankruptcy, Chapter 11 would be enacted as they have historically proved profitability and are expected to return to profitability by '24Q3.
- DIP financing is a solution, with PATAM and Aeromexico have undergone DIP financing during Chapter 11.
- However, according to our liquidity analysis, Spirit will most likely be able to cover their debt obligations.

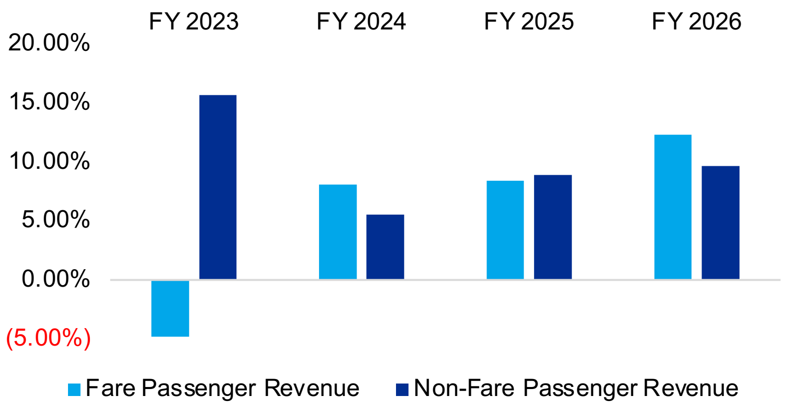
Liquidity Analysis

24' Q2 Beginning cash balance	1,097.10
24' Free cash flow	1,097.10
A319 sales proceeds	196.00
Revolver drawdown & interest	222.46
24' Additional sale & leaseback cash proceeds	400.00
Financial lease yield	9.00%
24' Additional aircraft lease cost	(36.00)
Pratt & Whitney settlement	231.00
24' Debt principal paydown	(40.85)
24' Ending cash balance	**2,005.16**
25' Q1 - Q3 Cash Flow	1,910.96
Other cost	(136.00)
25' Debt principal paydown	(26.89)
END OF 25 Q3'	
Cash balance	1,748.07
Maturity wall size	(1,258.00)
Cash	**490.07**
Check	***PASS***

Investment Thesis

Spirit has potential to turn around operations, positive on additional liquidity being provided

Spirit YoY Revenue Growth



Optimized Routes

SAVE focusing on high-growth markets and cutting down unprofitable routes

Capacity Right Sizing

Delaying deliveries of new airplanes while preventing over-capacity as demand growth slows

Necessity to Passenger

Serve almost 20% of domestic passengers, while maintaining strong competition that reduce fairs by 20%

Liquidity Forecast

- Spirit current has $1.3 billon of liquidity, including $300 million of available revolver credit.
- Projections estimates that cash burn-rate is moderate, around $100 million in cash by the end of 2024.
- Spirit has long-term debt principal payments of $1,264 million and $670 million due in 2025 and 2026 respectively.
- With 2024 liquidity stable, Spirit will likely remain above the $150 million minimum revolver liquidity, given enough time for the airline to pursue alternative options.

Price Target of $6.05: 29% Upside from $4.700

Exit Valuation	
Operational efficiency multiples adjustment	-30%
Downward adjusted EV/EBITDAR	3.6x
Adj. EBITDAR FY ($MM)	1,084.00
Enterprise value	3,898.96
Debt outstanding @EOY 2025 (enter as -)	(3,593.50)
Cash & equivalents	360.58
Equity value	**666.04**
Fully-diluted shares outstanding	110.11
Share price target	**6.05**
Current share price	4.70
Upside/(Downside)%	**28.7%**

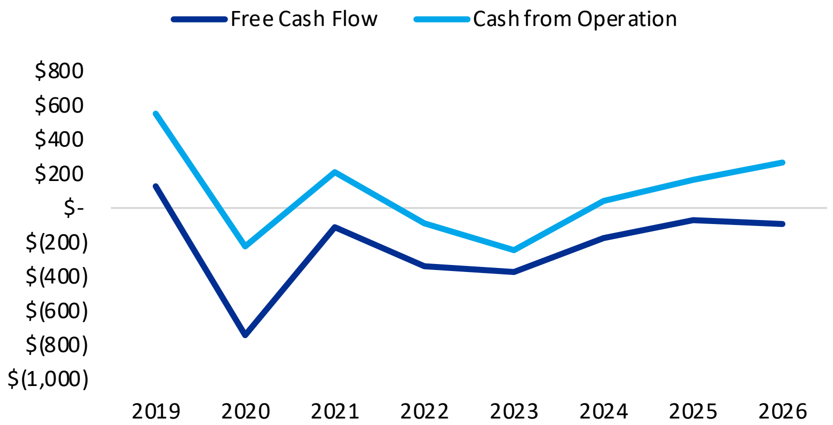
Algory Capital
Special Situations Group

Catalysts

Catalyst 1: Better Than Expected Liquidity Runway

Sale Leaseback and lowering expectations of cash burn aim to strengthen liquidity till a solution is found

Expected Cash Outflow Recovery



Sale-Leaseback to Preserve Liquidity

- Spirit sold 25 planes to meet debt repayments generating $419 million in net cash proceeds.
- Spirit will use the 419mn proceeds to repay $465 million in debt related to the aircraft.
- Spirit entered into an agreement to sell 29 of its owned A319-100s to Gryphon Trading Company, which will generate up to another $200 million.
- 22 unencumbered planes that could be used for future sale-leasebacks, which is worth ~$400 million.

Potential Compensation from Pratt & Whitney

- Considerate progress in compensation talks with supplier Pratt & Whitney.
- Several jets that were grounded due to a powdered-metal issue in its geared turbofan (GTF) engines.
- According to estimates CFA airline analysis manager Neil Fraser during an IBA Insider podcast, the compensation estimate totaled $231 million.
- Estimated compensation per aircraft: ~ $8.9 million for Spirit's 26 impacted aircraft.

Debt Maturity Outlook

As of Dec. 31, 2023, Spirit had $1 billion of liquidity (1.24bn if drawing down including 80% revolver)

Year	Debt in Millions
2024	305.2
2025	1263.7
2026	670
2027	150.3
2028	252.5
2029 & Beyond	797.4

Catalyst 2: Target for Merger or Getting Acquired

JetBlue + Spirit DOJ block does not suggest an end for Spirit to be pursued again in the future

US Airways Case Overview and Reasoning

- In the early 2000s, US Airways and United seek to merge which would form the biggest airlines in the U.S.
- However, due to many other issues along with potential regulatory and DOJ concerns, two parties eventually called off the merger.
- In 2012, US Airways now seek to merge with American Airlines, DOJ pushed to block again but this time the intended block was voided.
- It is possible that Spirit could be the target for another potential merger or to be acquired again.

DOJ's Historical Motive and Policy

- DOJ's main motive to block airline mergers if there is a vindictive reasoning where the current merger poses greater anticompetitive concerns.
- These concerns can come from cause in potential decrease in competition, increased coordinated behavior, and elimination of head-to-head competition.
- As long Spirit doesn't demonstrate capacity discipline acts to hike fare prices, there shouldn't be more issues.
- If Spirit does face huge fear of pause in operations, DOJ policy will shift to be accommodative.

Benefits of Distressed Airlines Merging

- The Airline Deregulation Act left the industry with spike in bankruptcy and lowering margins.
- This turmoil forced the market to suffer loss of competition with an already concentrated market.
- Consolidation between distressed airlines is a necessary evil to achieve the economies of scale needed in the current climate.
- Mergers initiatives push by senior managements and union leader often prevents job losses and creation of a more efficiently operated airline.

Additional Cases

Catalyst 3: Bankruptcy Aversion

Refinancing potential can come from advisor negotiations, outside sources, or direct lenders and private credit

Debt Terms Renegotiation

- Spirit currently has tapped PWP for debt refinancing and potential term renegotiations.
- PWP have had strong track records in the past doing restructuring and refinance deals, with Nordic Aviation deal as prime example.
- Nordic Deal resulted in a $4.1bn debt reduction, and exited Chapter 11 without liquidation concerns.
- Bond prices spiked with yields calming down followed by refinancing and term renegotiation talks, signaling strong recovery optimisms.

Possible Support From Direct Lenders

- In highly distressed situations, direct lender have come in to conduct refinancing deals without triggering any sort of bankruptcy filings.
- This can be exemplified with Carvana and the Apollo deal - a debt reduction agreement structured with zero equity holders being wiped out.
- ABS financing and direct lending is viewed as a cheap source of funding, and one of the primary options.
- This trend will likely serve as a tailwind for Spirit, with potential opportunistic lenders looking to be involved.

Case For Spirit is Different

- American Airlines declared bankruptcy in 2011 due to extremely rapid fallout and unmanageable debts which far exceeded Spirit's.
- Western Global declared bankruptcy in 2023 due to sharply decreased revenues with high maintenance cost and aging fleet.
- Via Airlines declared bankruptcy in 2019 due to a poor acquisition which caused a large decrease in revenue.
- California Pacific Airlines declared bankruptcy due to pilot shortages for its already small-scale fleet.

Zero Activist Investors That Hold Spirit's Debt

- Top holders of Spirit '25 bonds is currently untouched by any sort of activist funds
- In most situations like the one Spirit is currently involved in activist investors would often force the company into bankruptcy
- Once in bankruptcy, activist holders can pursue liquidation value or interest to take the firm private
- This puts higher assurances that there is currently zero presence of activist fund interests in forming a creditor committee that can force Spirit into bankruptcy

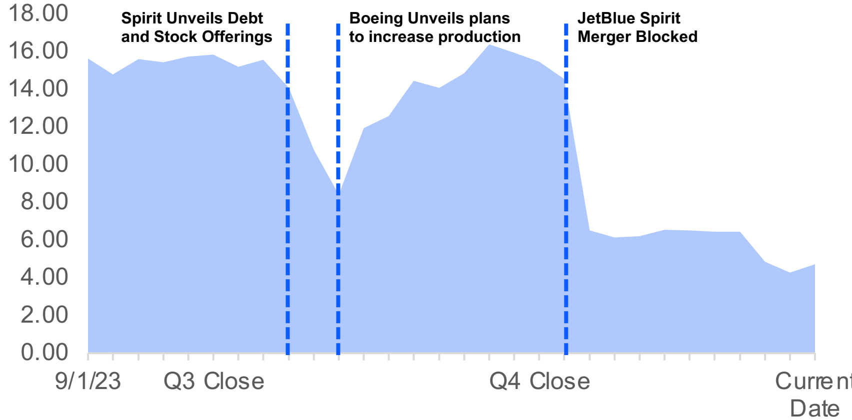
Variant View

Market overestimates bankruptcy while underestimating potential liquidity growth and strong future cap structure

Sale Leaseback

- While the Market perceives a risk of bankruptcy, we believe that a future sale leaseback will cover the initial maturity wall regardless of other financial positions.
- Based on pervious sale leasebacks, a future one could generate ~400 million additional liquidity.
- In addition to cash, cash equivalents, liquid assets, and potential compensation from Pratt & Whitney, a sale leaseback will guarantee the ability to cover debt obligations and provide time to ensure recovery.

Notable Market Movers



Long Term Cap Structure

- Once debt obligations for the initial maturity wall are covered, Spirit will benefit from higher credit ratings and reduced cost of borrowing.
- Additionally, Spirit would experience a significant reduction in interest expenses associated with servicing its debt, which could enhance profitability and free up cash flow for expansion or debt reduction.
- Finally, with a cleaner balance sheet Spirit will have increased access to capital markets for future financing needs.

Multiples Recovery

Operational efficiency multiples adjustment	0%
Downward adjusted EV/EBITDAR	5.1x
Adj. EBITDAR FY ($MM)	1,084.00
Enterprise value	5,569.95
Debt outstanding @EOY 2025 (enter as -)	(3,593.50)
Cash & equivalents	360.58
Equity value	**2,337.02**
Fully-diluted shares outstanding	110.11
Share price target	**21.22**
Current share price	4.70
Upside/(Downside)%	**351.6%**

Analysis

Liquidity Analysis – Case 1

Base Case - Also our most likely case - 55% chance - Revolver drawn 80% and sale lease-back done

INPUTS	
Enterprise value (*@03/22/24*)	2,109.34
Cash (*@03/22/24*)	1,097.10
SOFR	5.31%

ASSUMPTIONS - Case 1	
Potential bankruptcy filing time	End of 25' Q3
Revolver drawdown	**TRUE**
Sale & leaseback	**TRUE**
Pratt & Whitney settlement	**FALSE**
Revolver SOFR spread	2.00%
24' Free cash flow	(105.40)
25' Q1 Free cash flow per quarter	31.20
25' Q2 Free cash flow per quarter	9.30
25' Q3 Free cash flow per quarter	(134.70)
Liquidity discount	
Short-term investments and marketable securities	80%
Accounts receivable	60%
Other receivables, Net	0%

Liquidity check - $150M required in short-term liquidity post debt paydown

Securities	Face value	Liquidity discount	Discounted value
Cash	268.07	100%	268.07
Short-term investments and marketable securities	92.51	80%	74.01
Accounts receivable	216.09	60%	129.66
Other receivables, Net	119.40	0%	-
Total Liquidity			**471.73**
Requirement			150.00
Check			***PASS***

Liquidity Analysis	
24' Q2 Beginning cash balance	1,097.10
24' Free cash flow	(105.40)
A319 sales proceeds	196.00
Revolver drawdown	240.00
Revolver interest	(17.54)
24' Additional sale & leaseback cash proceeds	400.00
Financial lease yield	9.00%
24' Additional aircraft lease cost	(36.00)
Pratt & Whitney settlement	231.00
24' Debt principal paydown	(40.85)
24' Ending cash balance	**1,774.16**
25' Beginning cash balance	1,774.16
25' Q1 Free cash flow per quarter	31.20
25' Q2 Free cash flow per quarter	9.30
25' Q3 Free cash flow per quarter	(134.70)
Pre-delivery deposits	(100.00)
25' Additional aircraft lease cost	(27.00)
25' Debt principal paydown	(26.89)

END OF 25 Q3'	
Cash balance	1,526.07
Maturity wall size	(1,258.00)
Cash	**268.07**
Check	***PASS***

Liquidity Analysis – Case 2

Upside Case - Somewhat likely (10%) - In addition to Case 1, Pratt & Whitney pays Spirit the settlement

INPUTS	
Enterprise value (*@03/22/24*)	2,109.34
Cash (*@03/22/24*)	1,097.10
SOFR	5.31%

ASSUMPTIONS - Case 2	
Potential bankruptcy filing time	End of 25' Q3
Revolver drawdown	**TRUE**
Sale & leaseback	**TRUE**
Pratt & Whitney settlement	**TRUE**
Revolver SOFR spread	2.00%
24' Free cash flow	(105.40)
25' Q1 Free cash flow per quarter	31.20
25' Q2 Free cash flow per quarter	9.30
25' Q3 Free cash flow per quarter	(134.70)
Liquidity discount	
Short-term investments and marketable securities	80%
Accounts receivable	60%
Other receivables, Net	0%

Liquidity check - $150M required in short-term liquidity post debt paydown

Securities	Face value	Liquidity discount	Discounted value
Cash	490.07	100%	490.07
Short-term investments and marketable securities	92.51	80%	74.01
Accounts receivable	216.09	60%	129.66
Other receivables, Net	119.40	0%	-
Total Liquidity			**693.73**
Requirement			150.00
Check			*PASS*

Liquidity Analysis	
24' Q2 Beginning cash balance	1,097.10
24' Free cash flow	(105.40)
A319 sales proceeds	196.00
Revolver drawdown	240.00
Revolver interest	(17.54)
24' Additional sale & leaseback cash proceeds	400.00
Financial lease yield	9.00%
24' Additional aircraft lease cost	(36.00)
Pratt & Whitney settlement	231.00
24' Debt principal paydown	(40.85)
24' Ending cash balance	**2,005.16**
25' Beginning cash balance	2,005.16
25' Q1 Free cash flow per quarter	31.20
25' Q2 Free cash flow per quarter	9.30
25' Q3 Free cash flow per quarter	(134.70)
Pre-delivery deposits	(100.00)
25' Additional aircraft lease cost	(36.00)
25' Debt principal paydown	(26.89)

END OF 25 Q3'	
Cash balance	1,748.07
Maturity wall size	(1,258.00)
Cash	**490.07**
Check	*PASS*

Liquidity Analysis – Case 3

Downside Case 3 - Somewhat likely (10%) - No sale & leaseback from base case

INPUTS	
Enterprise value (*@03/22/24*)	2,109.34
Cash (*@03/22/24*)	1,097.10
SOFR	5.31%

ASSUMPTIONS - Case 3	
Potential bankruptcy filing time	End of 25' Q3
Revolver drawdown	**TRUE**
Sale & leaseback	**FALSE**
Pratt & Whitney settlement	**FALSE**
Revolver SOFR spread	2.50%
24' Free cash flow	(105.40)
25' Q1 Free cash flow per quarter	31.20
25' Q2 Free cash flow per quarter	9.30
25' Q3 Free cash flow per quarter	(134.70)
Liquidity discount	
Short-term investments and marketable securities	80%
Accounts receivable	60%
Other receivables, Net	0%

Liquidity check - $150M required in short-term liquidity post debt paydown

Securities	Face value	Liquidity discount	Discounted value
Cash	(14.82)	100%	(14.82)
Short-term investments and marketable securities	92.51	80%	74.01
Accounts receivable	216.09	60%	129.66
Other receivables, Net	119.40	60%	71.64
Total Liquidity			**260.49**
Requirement			150.00
Check			***PASS***

Liquidity Analysis	
24' Q2 Beginning cash balance	1,097.10
24' Free cash flow	(105.40)
A319 sales proceeds	196.00
Revolver drawdown	300.00
Revolver interest	(23.43)
24' Additional sale & leaseback cash proceeds	400.00
Financial lease yield	9.00%
24' Additional aircraft lease cost	(36.00)
Pratt & Whitney settlement	231.00
24' Debt principal paydown	(40.85)
24' Ending cash balance	**1,464.27**
25' Beginning cash balance	1,464.27
25' Q1 Free cash flow per quarter	31.20
25' Q2 Free cash flow per quarter	9.30
25' Q3 Free cash flow per quarter	(134.70)
Pre-delivery deposits	(100.00)
25' Additional aircraft lease cost	-
25' Debt principal paydown	(26.89)

END OF 25 Q3'	
Cash balance	1,243.18
Maturity wall size	(1,258.00)
Cash	**(14.82)**
Check	***FAILED***

Liquidity Analysis – Case 4

Downside Case 4 - Somewhat possible (15%) - No revolver drawdown

INPUTS

Enterprise value (*@03/22/24*)	2,109.34
Cash (*@03/22/24*)	1,097.10
SOFR	5.31%

ASSUMPTIONS - Case 4

Potential bankruptcy filing time	End of 25' Q3
Revolver drawdown	**FALSE**
Sale & leaseback	**TRUE**
Pratt & Whitney settlement	**FALSE**
Revolver SOFR spread	2.00%
24' Free cash flow	(105.40)
25' Q1 Free cash flow per quarter	31.20
25' Q2 Free cash flow per quarter	9.30
25' Q3 Free cash flow per quarter	(134.70)
Liquidity discount	
Short-term investments and marketable securities	80%
Accounts receivable	60%
Other receivables, Net	0%

Liquidity check - $150M required in short-term liquidity post debt paydown

Securities	Face value	Liquidity discount	Discounted value
Cash	36.61	100%	36.61
Short-term investments and marketable securities	92.51	80%	74.01
Accounts receivable	216.09	60%	129.66
Other receivables, Net	119.40	0%	-
Total Liquidity			**240.28**
Requirement			150.00
Check			***PASS***

Liquidity Analysis

24' Q2 Beginning cash balance	1,097.10
24' Free cash flow	(105.40)
A319 sales proceeds	196.00
Revolver drawdown	240.00
Revolver interest	(17.54)
24' Additional sale & leaseback cash proceeds	400.00
Financial lease yield	9.00%
24' Additional aircraft lease cost	(36.00)
Pratt & Whitney settlement	231.00
24' Debt principal paydown	(40.85)
24' Ending cash balance	**1,551.70**
25' Beginning cash balance	1,551.70
25' Q1 Free cash flow per quarter	31.20
25' Q2 Free cash flow per quarter	9.30
25' Q3 Free cash flow per quarter	(134.70)
Pre-delivery deposits	(100.00)
25' Additional aircraft lease cost	(36.00)
25' Debt principal paydown	(26.89)

END OF 25 Q3'	
Cash balance	1,294.61
Maturity wall size	(1,258.00)
Cash	**36.61**
Check	***PASS***

Models and Comps

Comparable Analysis	Ticker	Adjusted EBITDAR	FCF	Market Cap	Debt	EV	EV/EBITDAR	P/E	EV/FCF
Spirit	SAVE	513.20	(174.30)	514.55	6,354.10	6,430.00	12.5x	N/A	-36.9x
Frontier	ULCC	809.40	5.50	1,500.00	2,659.00	4,390.00	5.4x	11.2x	798.2x
Allegiant	ALGT	516.60	(253.10)	1,320.00	1,819.70	2,710.00	5.2x	44.6x	-10.7x
Sun Country	SNYC	259.20	148.50	736.48	560.00	1,230.00	4.7x	11.5x	8.3x

	EV/EBITDAR
Median	5.2x
Average	**5.1x**

Target Valuation	
Operational efficiency multiples adjustment	-30%
Downward adjusted EV/EBITDAR	3.6x
Adj. EBITDAR FY ($MM)	1,084.00
Enterprise value	3,898.96
Debt outstanding @EOY 2025 (enter as -)	(3,593.50)
Cash & equivalents	360.58
Equity value	**666.04**
Fully-diluted shares outstanding	110.11
Share price target	**6.05**
Current share price	4.70
Upside/(Downside)%	**28.7%**

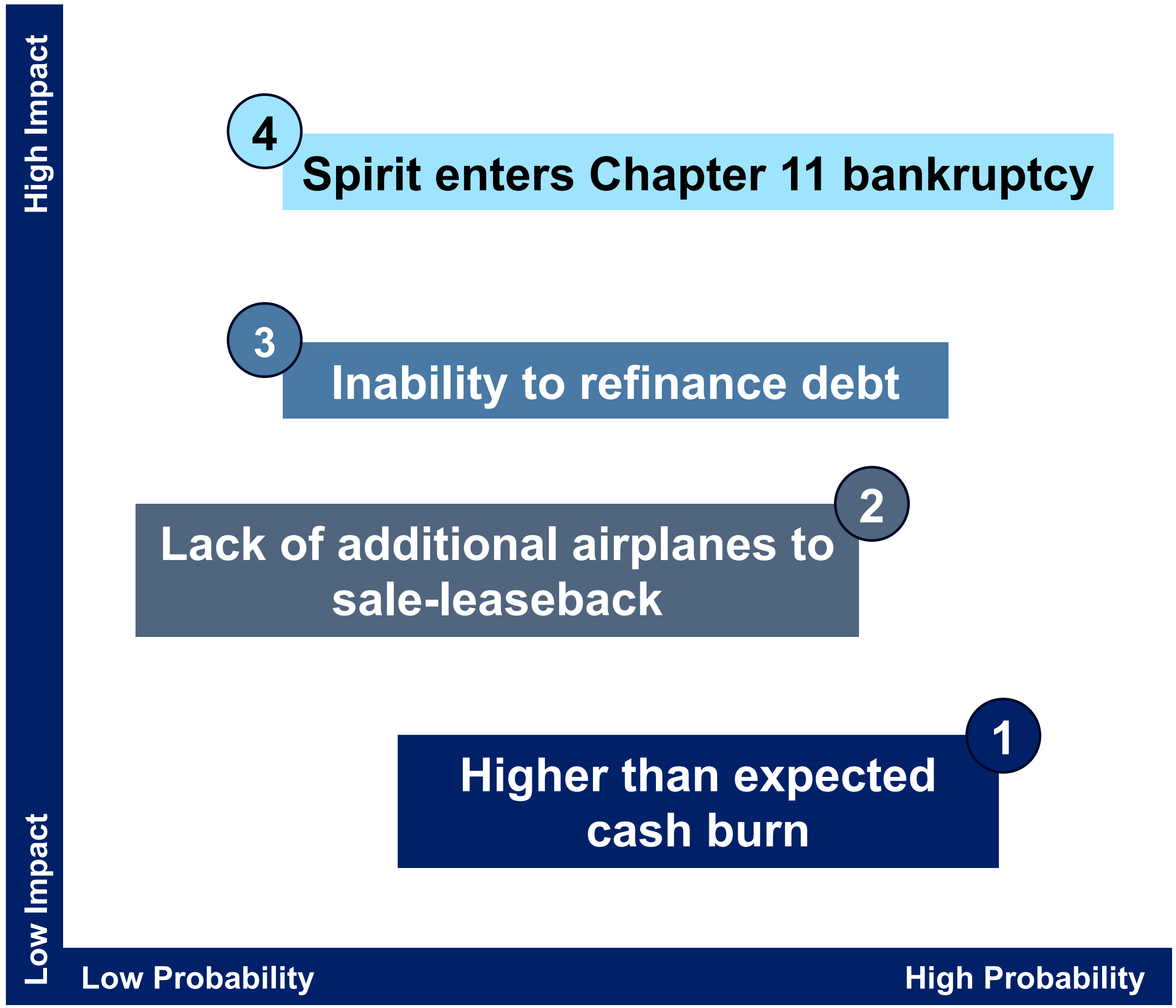
Long-term Valuation	
Operational efficiency multiples adjustment	0%
Downward adjusted EV/EBITDAR	5.1x
Adj. EBITDAR FY ($MM)	1,084.00
Enterprise value	5,569.95
Debt outstanding @EOY 2025 (enter as -)	(3,593.50)
Cash & equivalents	360.58
Equity value	**2,337.02**
Fully-diluted shares outstanding	110.11
Share price target	**21.22**
Current share price	4.70
Upside/(Downside)%	**351.6%**

Algory Capital
Special Situations Group

Risks and Mitigations

Risks Overview

Main risks in this opportunity stems from Spirit's financial woes and liquidity outlooks

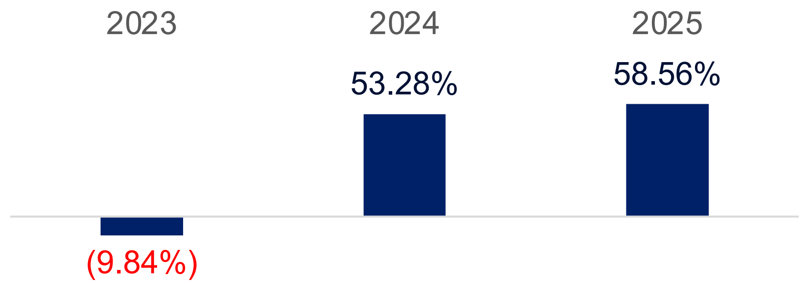


Risks and Mitigants: Operational

Heavy operational risks stems from possibilities of inconsistent cash-burns to future SLB implications

#1: Heavier Than Expected Cash Burn

- Spirit's cash burn could be higher than expected operationally, if internal measures are unable to grow operating revenue or margins and if external headwinds persist.
- Spirit has faced challenges improving operational profitability due to heightened competition, which has hurt prices, persistent higher labor costs, which have hurt margins, and air traffic control issues, which have hurt utilization. In terms of revenue, weaker demand from competition has also continued to hurt volume.
- Spirit has planned several route changes in order to better allocate capacity. Air traffic controller training and funding has also increased significantly for 2024 and likely 2025. Domestic ULCC volume is also forecasted to have low single-digit growth going into 2024.



#2: Long-term Sale Lease-back Implications

- Although sale-leaseback can help with Spirit's liquidity issue in the short run, Spirit is also bleeding out their assets in the long term, which would hinder both operation and refinance, since there will be few assets for them to use as collateral.
- The sale-leaseback can help Spirit to phase out their older model planes to change to more reliable and fuel-efficient planes. By the time Spirit complete refinancing, it will be able to buy newer models planes to improve operation.
- Additionally, the Pratt & Whitney engine issue is only a temporary issue. By the time the grounded planes pass the inspection, Spirit can eventually leverage these planes as collateral.

Risks and Mitigants: Financial

Major financial risks posed for Spirit if debt refinancing fails fuels potential bankruptcy concerns

#1: Failure to Refinance

- Spirit could struggle to refinance due to lack of market confidence in its ability to pay back loans and high market yields of short-term bonds.
- Spirit was recently downgraded to CCC+ by S&P off of operational impairments and weak revenue growth. Fitch also downgraded Spirit from B to B- over near-term liquidity concerns and lack of profit recovery.
- Given the steep discount many of Spirit's bonds are currently trading at, they would likely need to offer high yields in any refinancing deal, further burdening cash flows and operational turnaround.
- Spirit expects positive operating profit in Q3 2024, which could prove future repayment ability to creditors. In addition, creditors have purposed a triple-dip strategy to raise additional liquidity, which could prove more enticing from a repayment standpoint.

#2: Bankruptcy Concerns

- Spirit faces bankruptcy risks as a result of their upcoming debt maturities, especially in 2025 and 2026 in the case if debt renegotiations fails.
- This could happen due to a breach of their revolver, which mandates a minimum of $450 million in liquid assets, of which the revolver itself can constitute $300 million. For the 2025 loans, the minimum liquidity threshold is $400 million.
- While a worse than expected liquidity runway and operational outlook could make bankruptcy a possibility for Spirit, there are ways to mitigate this risk.
- To avoid near-term bankruptcy, Spirit should be able to remain above the 2025 minimum figure by drawing down the revolver and through sale lease-backs. General refinancing, potentially getting acquired, and further sale-leasebacks are all viable alternatives as well.

Algory Capital

Special Situations Group

Thank You – Questions