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AZUL BACKS OFF FROM LATAM OFFER AFTER RESTRUCTURING FILED

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Two days after South America's largest airline LATAM submitted a Chapter 11 plan in New York, one of its Brazilian competitors has backed off from an offer to combine with the Chile-headquartered company.

São Paulo-based Azul revealed in a 28 November statement that it made a non-binding offer to LATAM earlier in the month, which included about US$5 billion of equity financing backstopped by an ad hoc group of creditors.

But the Brazilian airline said a restructuring plan submitted by LATAM in the US Bankruptcy Court for the Southern District of New York on 26 November contained a valuation it did not believe was credible, given ongoing uncertainty in the aviation industry amid the covid-19 pandemic.

As a result, it said it will now continue to focus on the "competitive advantages" of its own network while evaluating future partnerships and consolidation opportunities in the market.

Azul claimed its own proposal would have provided significantly increased network growth, benefited customers of both airlines and increased equity value by over US$4 billion more than LATAM's plan.

The announcement came after LATAM and its affiliates in Brazil, Chile, Colombia, Ecuador, Peru and the US filed a Chapter 11 plan in New York last week, which will see it receive an US$8.19 billion capital infusion if it is approved.

The infusion will cover through a mix of new equity, convertible notes, and debt, which will enable the group to exit its Chapter 11 proceedings with the appropriate capitalization to effectuate its business plan.

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In a motion filed with the plan, the embattled airline said the transactions contemplated in the plan will strengthen it by substantially reducing its existing debt, increasing its available cash at emergence and ultimately de-leveraging the reorganised companies.

LATAM said in an announcement published the same day it expects to have a “conservative” debt pile of about US$7.26 billion and liquidity of about US$2.67 billion when it exits bankruptcy.

If it receives court confirmation, the group plans to launch an US$800 million common equity rights offering that will be open to all LATAM shareholders in accordance with Chilean law.

The offering will be fully backstopped by an ad hoc group of unsecured creditors and certain LATAM shareholders, who entered a restructuring support agreement (RSA) with the airline group on the same day the plan was submitted.

The ad hoc group is led by global investment firms Sixth Street Partners, Sculptor Capital and Strategic Value Partners, while the backstop shareholders include US airline Delta Airlines, Qatar Airways and Chile-based investment group Cueto.

LATAM said in its announcement it expects the US court to hold a confirmation hearing for its disclosure statement and to approve voting procedures in January. If the disclosure statement is approved, the group will commence solicitation and seek approval of the plan from creditors

It has proposed a 4 March voting deadline and a confirmation hearing by 30 March.

LATAM and its subsidiaries in Chile, Peru, Colombia, Ecuador and the US applied for Chapter 11 protection in May last year. The airline’s Brazilian arm followed suit in July.

Restructuring plan

LATAM entered into the RSA following a mediation process initiated on 31 August when retired judge Allan Gropper was appointed to resolve shareholder and Chilean law issues.

The unsecured creditors and shareholders that are party to the RSA hold more than 70% of LATAM’s parent unsecured claims, more than

48% of its 2024 and 2026 US notes and over half of its common equity.

The group's CEO Roberto Alvo said in the announcement that LATAM is grateful to all the parties that came to the table through "a robust mediation process to reach this outcome", which he said provides meaningful consideration to all stakeholders and a structure that adheres to both US and Chilean law.

As part of the Chapter 11 plan, LATAM will issue three classes of convertible notes, all of which will be pre-emptively offered to shareholders.

Class A notes that are not subscribed will be provided to certain general unsecured creditors of LATAM's parent company, while class B convertible notes will be subscribed and purchased by the shareholders.

Class C convertible will also be provided to certain unsecured creditors in exchange for a combination of new money to LATAM and the settlement of their claims.

The backstop shareholders have agreed to waive certain Chilean pre-emptive rights, fully backstop the new convertible Class B notes and consent to certain debtor-in-possession credit agreement extensions.

As a result of the plan, the Class B and C notes will therefore be provided in consideration for US$4.64 billion of new money, fully backstopped by parties to the RSA.

LATAM will also raise a US$500 million new revolving credit facility and approximately US$2.25 billion in total new money debt financing, consisting of either a new term loan or new bonds.

The group said it used and will continue to use the Chapter 11 process to refinance or amend its pre-petition leases, revolving credit facility and spare engine facility.

The court has scheduled omnibus hearings for 29 December and 27 January.

The plan comes after LATAM obtained US$750 million in DIP financing from a group of financiers composed of Oaktree Capital Management, Apollo Management Holdings and certain funds in

September. It had previously secured DIP funds of US$1.3 billion and US$1.15 billion in October last year, after financiers rejected a initial DIP loan proposal a few months earlier.

In the US Bankruptcy Court for the Southern District of New York

In re: LATAM Airlines Group S.A.

Judge James Garrity Jr

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