



Scandinavian Airlines

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## **SAS initiates process to raise equity financing, provides updated financial projections and confirms expectations for existing shareholders and creditors**

*SAS AB (“SAS” or the “Company”) announces that it is taking the next step in its comprehensive business transformation plan known as SAS FORWARD by initiating a process to solicit equity investment in the reorganized SAS. As part of its chapter 11 process, SAS will today file a motion (the “Equity Solicitation Procedures Motion”) with the U.S. Bankruptcy Court for the Southern District of New York (the “Court”), seeking approval of procedures that will govern the Company’s equity solicitation process. The Company has previously stated that it aims to raise at least SEK 9.5 billion of equity financing. However, the final amount of equity financing raised will depend upon the competitive equity raise process along with the Company’s ongoing ability to generate additional liquidity.*

*Through these procedures, SAS will run a competitive and broad solicitation process to secure the best available terms and conditions for new equity capital. Potential investors can place bids to take a lead position or be paired with other investors in acquiring equity interests of the reorganized SAS. SAS will continue to operate the business and serve its customers as usual throughout this process.*

*Given the substantial debt reductions or conversions anticipated (i.e., approximately SEK 20 billion in claims) combined with the need for substantial new equity capital, SAS expects that there will be only modest recovery for general unsecured creditors and little or no recovery for subordinated unsecured creditors upon emergence from the chapter 11 process. Further, given that shareholders are lower in priority of payment in relation to creditors, there is currently an expectation that there will be no or very little value for existing shareholders in SAS AB at the end of the Company’s restructuring proceedings.*

*SAS is also announcing updated financial projections (the “Updated Projections”), based on a revised business plan which reflects optimized network and route planning, improved expectations on demand and capacity, agreements with lessors that allow for increased cost savings, and better developments in the Company’s cash position during the winter. The key changes in the Updated Projections concern the long-term revenue and EBT forecasts, as well as the short-term liquidity forecast. For fiscal year 2026, revenues are now expected to reach up to approximately SEK 58 billion, vs. SEK 49 billion previously set forth in projections disclosed by the Company through its September 30, 2022 press release (the “Prior Projections”). Under the Company’s Updated Projections, the Company expects to produce earnings before tax (“EBT”) margin of approximately 9-10 percent in fiscal year 2026 (vs. 6-8 percent in the Prior Projections). In the Prior Projections, the Company had forecast the fiscal year 2023 year-end liquidity level<sup>1</sup> to reach 15 percent. Under the Updated Projections, the liquidity level is expected to significantly exceed that liquidity level (subject to actual Company financial performance, actual size of equity capital raise, any changes in future*

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<sup>1</sup> Cash and cash equivalents divided by revenue (rolling 12 months).



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*fleet plan or other material capital expenditures, among other factors). The liquidity level is expected to remain at such higher levels throughout the Updated Projections period.*

Anko van der Werff, President and Chief Executive Officer of SAS, says:

“With the equity raise process we are initiating today, we are taking the key next step in SAS FORWARD, our transformation plan that aims to improve our financial strength, secure long-term competitiveness and fortify our position as Scandinavia’s leading airline. We will commence a competitive and broad solicitation process to secure equity capital that will help drive our airline forward and facilitate our emergence from the chapter 11 process”.

### **SAS’ strategy and market**

SAS aims to be the first choice for all Scandinavian travelers, with the strongest network both within Scandinavia and from Scandinavia to the rest of the world. With a population that has higher GDP per capita and travels frequently, Scandinavia has long been one of the most stable and attractive markets for air travel in Europe. SAS is a leader in this market with positive brand affiliation and capacity strength. Through an improving cost structure and by adding new mid-size aircraft to the fleet, the Company has opportunities to maintain its market position while also driving revenue growth and profitability.

SAS’ strategy is to meet the needs of the Scandinavian business and leisure market with a combination of efficient service, competitive offerings, and a leading position in sustainable air travel. SAS aims to strengthen its market position in the segment for customers who want a high-quality offering with a competitive value proposition, while retaining its leadership in the premium segment. A restructured network is expected to result in profitable increases in capacity over time.

### **Progress on the SAS FORWARD transformation plan**

Since announcing the SAS FORWARD plan on February 22, 2022, SAS has made significant progress in many areas, some of the key items of which are described below.

#### ***State support***


On June 7, 2022, the Swedish government announced its intention to support the conversion of its debt into equity, and that it will not contribute with new capital. On June 29, 2022, the Norwegian government also announced its intention to, under the right circumstances, support the conversion of its term loan to equity and that it will not contribute with new capital. On June 10, 2022, the Danish government announced its intention to support, subject to certain conditions, e.g., burden sharing and sufficient shareholder protections, the conversion of its debt to equity and that it would be willing to make an investment in the Company that would allow Denmark to (i) obtain an ownership stake in SAS between its current ownership level of approximately 21.8 percent and up to approximately 29.9 percent and (ii) retain certain government rights.



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### ***Labor negotiations***

As previously announced, SAS reached agreements with its pilot unions on July 19, 2022 for new 5.5-year collective bargaining agreements. SAS also reached agreements with all of its other unions except for its cabin crews in the following months of 2022. On November 29, 2022 SAS reached agreements with its Norwegian cabin crew unions. Negotiations with the remaining cabin crew labor unions are currently being conducted.

### ***Lessor negotiations***

On January 13, 2023, SAS announced the conclusion of lessor negotiations, an important step in the chapter 11 process, having reached agreements with a total of 15 lessors, representing 59 aircraft. Through amended lease agreements, SAS has achieved annual cost savings exceeding SEK 1.0 billion in reduced aircraft lease expenses and annual cash flow items relating to aircraft financing. However, these savings will only be reflected in the Company's financial results upon emergence from the chapter 11 proceedings.

### ***Other savings***

In February 2023, the Company reached a multiyear agreement renewal with Amadeus, a key travel technology provider for SAS. The agreement will deliver efficiency within Distribution & IT, in line with the target set forth in the SAS FORWARD plan, whilst keeping SAS at the forefront of technology evolutions.

### **Updated Projections**

On September 30, 2022, SAS announced additional details on the SAS FORWARD plan including financial projections. In the Updated Projections announced today, SAS expects that revenues will exceed SEK 40 billion in fiscal year 2023 and return to pre-Covid levels in fiscal year 2024, which is one year earlier than in the Prior Projections. Improved long-term expectations with respect to passenger demand and a faster capacity rebound, including more widebody aircraft, allow higher revenue than in the Prior Projections. Under the Updated Projections, revenues in fiscal year 2026 are now expected to reach up to approximately SEK 58 billion, compared to SEK 49 billion in the Prior Projections.

Furthermore, SAS expects to reach an adjusted negative EBT<sup>2</sup> of approximately SEK 4-5 billion in fiscal year 2023, given that many of the cost efficiencies of the SAS FORWARD plan are either ramping up over fiscal year 2023, or have been implemented but cannot be recognized in the Company's financial results until post emergence from chapter 11, including cost savings resulting from the fleet restructuring. The adjusted EBT in fiscal year 2023 is unchanged in the Updated Projections compared to the projection that SAS announced on February 24, 2023. SAS expects to reach positive EBT in fiscal year 2024, increasing to approximately SEK 5-6 billion in fiscal year 2026, corresponding to an EBT margin of approximately 9-10 percent, when the SAS FORWARD

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<sup>2</sup> Earnings before tax, excluding capital gains and capital losses, and excluding gains or losses related to the emergence of the chapter 11 process.



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plan is expected to have been fully implemented. In the Prior Projections, the EBT figure and margin for fiscal year 2026 were approximately SEK 3-4 billion and 6-8 percent, respectively. The improvement in EBT amounts and EBT margin is a result of increased projected revenue, mainly due to the increase in assumed demand and capacity, as well as a reduction in financing costs resulting from an assumption that some of the Company's future fleet can be self-financed (acquired without debt or lease financing).

In 2023, debt or debt-like items of SEK 20 billion are expected to have been converted into equity of the reorganized Company or otherwise substantially reduced in value to such creditors through the chapter 11 process. After emergence, SAS expects its net-debt to be at approximately SEK 17 billion (majority of debt comprised of aircraft debt and lease liabilities). Assuming successful completion of the SAS FORWARD plan, SAS expects to attain a strong financial position and expects to be close to net debt-free by the end of fiscal year 2026.

Assuming a raise of SEK 9.5 billion, as modified by actual liquidity results of the Company and its liquidity demands upon exit, SAS also expects its liquidity level to significantly exceed the estimated 15 percent contained in the Prior Projections. This is as a result of stronger cash generation over this past winter due to strong sales and revenue performance. That liquidity is expected to remain at such higher levels throughout the Updated Projections period (subject to actual Company financial performance, actual size of equity capital raise, any changes in future fleet plan or other material capital expenditures, among other factors).

The updated financial projections are premised upon a successful progression and execution of the SAS FORWARD plan, and a demand recovery in line with expectations as described above. Furthermore, assessments of the updated financial projections are based on the following unchanged foreign exchange assumptions: an exchange rate of 10.22 SEK/USD through the end of fiscal year 2023, 9.48 SEK/USD for fiscal year 2024, and 8.75 SEK/USD for fiscal year 2025 and beyond; and the following revised fuel price assumption: an average of 914 USD/MT<sup>3</sup> (previously 946 USD/MT) for the remaining months of fiscal year 2023, gradually reducing up to the end of fiscal year 2025 in which it is assumed to remain constant at 676 USD/MT for fiscal year 2026 and beyond. All numbers are presented on a consolidated basis for the SAS Group.

### **Launch of the equity solicitation process**

SAS has focused on developing a path out of chapter 11 through an exit transaction that will maximize value for key creditors and other stakeholders. To this end, SAS has progressed negotiations with the Official Committee of Unsecured Creditors, and the states of Denmark and Sweden (the "States"), on the terms of SAS' restructuring, as well as the terms of an equity solicitation process to source the capital needed to facilitate SAS' emergence from its chapter 11 proceedings. Based on these negotiations, SAS will file in its chapter 11 court proceedings a motion to approve equity solicitation procedures (the "Equity Solicitation Procedures") that will allow SAS to test the market for the highest or otherwise best offer from parties interested in partnering with SAS

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<sup>3</sup> Metric tons.



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to become a lead investor in the reorganized SAS. Further, the Equity Solicitation Procedures will include certain terms and conditions related to the States' cooperation, regulatory approval processes and, in the case of the state of Denmark, participation in the equity raise, subject to satisfaction of certain conditions precedent for such an investment.

In the light of this and the progress SAS has made on its transformation plan, SAS is now ready to take the next step and initiate the equity raise process. The filing of the Equity Solicitation Procedures Motion with the Court marks the start of this process. The Company is doing so from a new position of strength with significant cost saving achieved and a strong liquidity position. The hearing on the Equity Solicitation Procedures Motion is currently scheduled for April 19, 2023, and the process for selecting a lead investor to invest in SAS is expected to conclude approximately 12 weeks later.

### **Need for exit equity financing**

In order to emerge from its chapter 11 process, SAS must pay off its debtor-in-possession loan ("DIP Loan") and related fees to Apollo Global Management, as well as make potentially other cash distributions to unsecured creditors in relation to their approximately SEK 20 billion in claims. The cash resources of SAS just prior to emergence, and before accounting for successfully closing on exit equity financing, will largely need to be applied to paying off the DIP Loan and meeting those other obligations. Therefore, all or substantially all of the proceeds from the equity raise will be needed to provide SAS with sufficient liquidity to operate.

Recapitalization sources and transaction structures remain to be determined which is expected to include sourcing capital from institutional investors, pension funds, private equity firms and other similar large investors along with the State of Denmark.

### **Recovery for creditors and shareholders**

The implementation of the court-supervised process in the U.S. is likely to entail additional legal proceedings in other jurisdictions than the U.S. Given the substantial debt reductions or conversions anticipated (i.e., approximately SEK 20 billion in claims that will be compromised) combined with the need for substantial new equity capital, SAS expects that there will be only modest recovery for general unsecured creditors and little or no recovery for subordinated unsecured creditors. Further, given that shareholders are lower in priority of payment in relation to creditors, there is currently an expectation that there will be no or very little value for existing shareholders in SAS AB at the end of the Company's restructuring proceedings.

### **Additional Information About the Chapter 11 Process and Implementation of SAS FORWARD**

On July 5, 2022, to accelerate the implementation of its comprehensive business transformation plan SAS FORWARD, SAS announced that it had voluntarily filed for chapter 11 in the U.S., a well-established and flexible legal framework for restructuring businesses with operations in multiple jurisdictions. Through this process, SAS aims to reach agreements with key stakeholders, restructure the Company's debt obligations, reconfigure its aircraft fleet, and emerge with a significant capital injection.



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At the outset of its restructuring process, the Company's SAS FORWARD plan envisioned raising at least SEK 9.5 billion in new equity capital as well as reducing or converting SEK 20 billion of debt (of which a majority is on-balance sheet debt), including state hybrid notes, commercial hybrid notes, Swiss bonds, term loans from states, aircraft lease liabilities and maintenance contract obligations and other executory contract obligations. The Company's actual capital raise is dependent upon the factors previously listed.

SAS targets to complete its court-supervised process in the U.S. in the latter part of the second half of 2023.

Additional information about the Company's voluntary chapter 11 process is available on the Company's dedicated restructuring website, <https://sasgroup.net/transformation>. Court filings and other documents related to the chapter 11 process in the U.S. are available on a separate website administered by SAS' claims agent, Kroll Restructuring Administration LLC, at <https://cases.ra.kroll.com/SAS>. Information is also available by calling (844) 242-7491 (U.S./Canada) or +1 (347) 338-6450 (International), as well as by email at [SASInfo@ra.kroll.com](mailto:SASInfo@ra.kroll.com).

### **Advisors**

Weil, Gotshal & Manges LLP is serving as global legal counsel, Norton Rose Fulbright is serving as special aircraft finance counsel, and Mannheimer Swartling Advokatbyrå AB is serving as Swedish legal counsel to SAS. Seabury Securities LLC and Skandinaviska Enskilda Banken AB are serving as investment bankers, Seabury is also serving as restructuring advisor. FTI Consulting serves as financial advisor.

### **For further information, please contact:**

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This is information that SAS AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of Erno Hildén, at 03:15 a.m. CEST on April 6, 2023.

*SAS, Scandinavia's leading airline, with main hubs in Copenhagen, Oslo and Stockholm, is flying to destinations in Europe, USA and Asia. Spurred by a Scandinavian heritage and sustainable values, SAS aims to be the global leader in sustainable aviation. We will reduce total carbon emissions by 25 percent by 2025, by using more sustainable aviation fuel and our modern fleet with fuel-efficient aircraft. In addition to flight operations, SAS offers ground handling services, technical maintenance and air cargo services. SAS is a founder member of the Star Alliance™, and together with its partner airlines offers a wide network worldwide. Learn more at <https://www.sasgroup.net>*



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## **ADDITIONAL INFORMATION**

The press release does not constitute an offer to sell or issue, or the solicitation of an offer to buy or acquire, or subscribe for, shares or any other financial instruments in SAS.

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