MERGERS AND ACQUISITIONS – AIRLINE INDUSTRY

CASE BETWEEN AMERICAN AIRLINES AND U.S. AIRWAYS

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Abstract

Not that many inventions are considered to be so life changing as the airplane invention. The airline industry is by far one of the most competitive industries with the highest growth expectations in the world. Nowadays, the sector of air transportation is radically different from what it was prior to 1978. As a consequence, the sector witnessed a massive restructuring with a significant increase in M&A activity. For this reason, the merger between American Airlines and U.S. Airways – two U.S. companies, will be the focus of this dissertation. Taking into account the industry and firm's conditions and potential, the estimated synergies were valued at $984 million for the first relevant year - 2013, including revenue growth and cost savings. The overall synergies will yield a final equity value of $27.897 million that represents an increase of approximately 71,2%, when compared with the sum of the standalone equity values of both companies. This deal is suggested to be an all-stock deal that leads to the issue of 236 million shares to U.S. Airways shareholders and, as a result, American Airlines stakeholders will own 65% of the new company and the remaining 35% will be owned by U.S. Airways shareholders.

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Contents

Introduction

The present dissertation has as main objective to analyze a merger and acquisition deal by presenting not only the strategic and financial reasons to engage in it, but also, the potential synergies arising from it. In order to perform this analysis, the valuation steps and considerations of a transaction between two U.S. listed companies, more precisely, U.S. Airways (LCC) and American Airlines (AAMRQ) will be described in detail. Additionally, to conduct this study and guarantee its validity, the information and data used were mainly collected before the year 2012.

Over the last 40 years, air transport markets and the airline industry have been changing the way people see the world. Consider one of the most relevant catalyzers for globalization, air travel facilitates: economic growth, world trade, international investment and tourism. Additionally, it is an industry that constantly walks towards improvement and growth, for instance: the decrease in the real cost of travel, the enhancement of safety and smaller environmental impact.

Despite the good long-term perspectives for this industry, the years subsequent to the financial crisis, 2010 and 2011, were characterized for a global recession in the majority of industries. Air transport, as a cyclical industry, was not an exception, which consequently provoked M&A deals to rise, so that, firms could overcome severe times. Besides this economic background, the Deregulation Act in 1978 still appears as a strong motive for airlines to undertake M&A deals.

Regarding the two companies which are the subject of this dissertation, it will be shown how affected they were by the industry reorganization. With a special focus on the domestic market and AAMRQ bankruptcy condition, this strategic deal will appear as a way to increase profitability and to long-term sustainability of the new company.

The remainder of the paper is organized as follows. In the next section the literature review will be presented, which will cover the relevant academic literature to conduct the companies analysis and valuation. Then, Section II includes an overview of the industry, as well as of the firms. In Sections III and IV the standalone valuation of the companies, the merged entity company and its transactional process will be summarized. Finally, in the last section one will be able to find the major conclusions of this study with a deep insight of the post-merger period.

Section I Literature Review

Damodaran A. (2012) mentions that there are four sequential steps in performing a transaction deal: "The first is the development of a rationale and a strategy for doing acquisitions (…). The second is the choice of a target for the acquisition and the valuation of the target firm, with premiums for the value of control and any synergy. The third is the determination of how much to pay on the acquisition, how best to raise funds to do it, and whether to use stock or cash. (…) The final step in the acquisition (…) is to make the acquisition work after the deal is complete."

Therefore, in order to provide a framework of the M&A transactions, this section contains a literature review of the relevant research with regards to this activity and to the core valuation techniques.

A Mergers & Acquisitions activity

A.1 Analysis and trends

Before going into detail in the M&A topic some definitions will be first clarified. According to Bruner F. (2009), while a merger is defined as a consolidation of two firms that for legal purposes create a new, an acquisition happens when one company takes over another and establishes itself as the new owner. In addition, within acquisitions one can observe two types: friendly or hostile takeover. Finally, as it is described by Hennart F. and Reddy S. (1997) a joint venture is an agreement with a finite term, a new entity and new assets by contributing equity.

Moreover mergers tend to place among in one of three major types of deals: horizontal, vertical and conglomerate deals. According to Moeller S. and Brady C. (2014), the first happens between "competitors or those in the same industry operating before the merger at the same points in the production and sales process". The more common - vertical deals, are typically conducted between buyers and sellers of the same industry being therefore in different stages of the production. Finally, conglomerates are usually done between unrelated companies. Relevant for this dissertation, AAMRQ and LCC deal fit in the first type. Usually the advantages of a horizontal merger arise from two sides: expenses savings and revenues growth.

In order for investors to achieve the desired success in a transaction, several aspects should be taken into account. Particularly, as Koller T. *et al.* (2010) mention, to create a fair value the performance of the new company needs to improve by more than the value of the premium offered for the target. Furthermore, in the decision-making process managers need to be critical and make realistic estimates regarding cost and revenue improvements that the target company can realize under new ownership. Additionally, not only the approach of payment but also the timing of the investment influences risk distribution. Concerning timing, Bruner F. (2009), enhances its importance by mentioning the waves in M&A activity to be usually synchronized with equity market conditions. Consequently this causes the transactions to carry a "cachet of excess, hype, and passion that swirl in the booms", more details in appendix 1. Martynova M. and Renneboog L. (2008) found that the takeover activity is mainly disrupted in moments of bad performance in the financial markets, which then affects the whole economy.

A.2 Reasoning behind

In agreement with Chroust G. (2015) the "Profitability, fast growth, efficiency, agility, and industry leadership are the exigent requirements of a corporate survival". Consequently, this makes survival sometimes to come at a cost for companies – an M&A deal. Hence, the several archetypes that motivate enterprises to acquire or merge will be described based on the arguments given by Koller T. *et al.* (2010) and Bower L. (2001).

Synergies describe the most important of all reasons for M&A activity and can be divided into operating and financial synergies. Particularly, this can basically be explained due to cost savings, higher growth, tax savings, debt capacity and cash slack (Damodaran A., 2012). The goal is to always improve a behavior, strategy or results from the past throughout joining two forces and keeping the best of both. Therefore one could expect that if a company does not pursue an M&A transaction it constraints growth, investments in production plants, capital expenditures and the ability to undertake profitable projects. In appendix 2 it is possible to see with more detail the importance of rationalities for M&A activity. Within this transaction between the two U.S. carriers the reasoning arises from a strategic point of view. Being together will then create the biggest carrier in the U.S. and overcome all the other competitors. It will then enable the new entity to be financially strong and flexible and expand even more their services.

However, synergies can be overestimated, which makes the premium paid and integration costs to be higher and the wealth of acquirer's shareholders to be diluted. Therefore, managerial interests (Damodaran A., 2012) or behavioral biases (Koller T. *et al.,* 2010) such as hubris or agency conflicts reflect a choice based on self-interests instead of economic rationale. As Roll R. (1986) defines it, it is the tendency of the acquirer's management to overstate their ability to capture performance improvements.

A.3 Value: Creation and Destruction

Concerning valuation, what actually differentiates a standard firm from a target firm, which is expected to be acquired or merged, is computing the value for control and premium. Nevertheless, one should consider the two sides of the same coin, the bidder and the target gains.

Firstly, Koller T. *et al.* (2010) define value creation for the acquirer as the difference between the value received and the price paid. Value received includes the intrinsic value of the target as a stand-alone company added to the present value of any performance improvement. According to Damodaran A. (2005), the premium often takes into account some or even all of the synergies from which the acquirer intends to generate value. On the other side, there are also gains with respect to the target shareholders. Throughout 25 studies, Bruner F. (2009) finds the target firm shareholders to earn positive returns. Mainly due to the sharp rise of stock prices caused by the good news of an M&A deal announcement (Martynova M. and Renneboog L., 2008). However, several problems can also arise from a deal: the destruction of value to the shareholders and the entire collapse of the merged firms (appendix 3). Hence, to avoid failure is advisable to: pick the strongest advisors, do not exaggerate in the transaction premium and finally prefer deals where there are fewer bidders competing.

In conclusion, as Eccles G. *et al.* (1999) states "there is no single correct price for an acquisition". Instead of just focusing on the absolute value of a transaction one should consider if the bidder is or not paying more than what is actually worth it for that buyer.

A.4 Means of payment

An acquirer has three possibilities to pay for the target: by stock, by cash or using both.

Rappaport A. and Sirower L. (1998) find that during 1998, 50% of the value of large deals was paid entirely in stock and surprisingly only 17% in cash. For this M&A case it will be a merger of 100% fixed-share deal with a majority of shares owned by AAMRQ stakeholders.

One of the differences between these two options is who will carry the risk: trough cash the bidder shareholders carry the risk and capture synergies or losses, however through stock the risk is distributed between the target and acquirer shareholders. Therefore, the former can be considered a clear-cut. In order to facilitate the understanding of how is the risk distributed one can find in appendix 4 a further explanation.

The other difference arises from the signaling effect. The more overvalued the bidder shares are in comparison to the target's, the better it is for the acquirer to proceed with shares. Moreover, the more confident the investor is, the faster he should choose cash. The reason for these is due to the asymmetric information - managers know more than investors. However, in order to achieve a successful acquisition and avoid losses due to wrong expectations, earn-out clauses appear as an excellent solution. The idea of these clauses is it to build a bridge between different estimates of the target's value and so, there will be payments dependent if the bidder achieves certain milestones or if is satisfied with certain conditions.

B Valuation approaches

In theory, the fair value of an asset is determined by the meeting of a willing, but not anxious, buyer and a willing, but not anxious, seller.[1] Irrespective of what any theoretical valuation indicates, in practice a business or an asset is only worth what a purchaser will pay for it. However, it is extremely important to keep in mind the purpose for which the valuation is intended. Since this thesis is devoted to value a transaction, this subsection has a strong focus on the methods relevant to perform it.

B.1 Discounted Cash Flow approach (DCF)

According to Kaplan N. and Ruback S. (1996), the commonly used DCF approach is to discount

[1] Betts J. and Wines G. (2004)

the relevant cash flows at the weighted average cost of capital (WACC). Moreover, Luehrman A. (1996) explains it as an analysis with regards to "business as a series of risky cash flows stretching into the future". Fundamentally, it works as a simple relationship between present value and future value. The later corresponds to the future business cash flows, CF. However, since future CF are uncertain, their value will be predicted. Regarding timing, because the CF occurs over many periods, one must locate them in time to assess their value in today's monetary terms and then adds them all up. Nonetheless, appendix 5 will bring an overview of the framework of the different possible models.

B.1.1 Cost of Capital

Many authors, like Luehrman A. (1996), argue that the use of weighted average cost of capital (WACC) as a discount rate to be an obsolete method. Conversely, Kaplan N. and Ruback S. (1996) support its importance by stating "that the most reliable estimates were those obtained by using the [traditional] DCF and the comparable methods together"[2]. In an oversimplified view, the company's WACC is calculated by utilizing the following:

$WACC = \frac{D}{D+E}K_d(1-T_m) + \frac{E}{D+E}K_e$[3]	Cost of Debt	Company borrowing cost after tax
	Cost of Equity	$K_e = K_f + \beta(R_m - R_f)$[4]
	Market value weights	$\frac{D}{D+E} + \frac{E}{D+E}$

Figure 1: WACC items

Intuitively, the formula already takes into account the company's capital structure - the equity- and the debt-ratios. Furthermore, the reason to deduct the marginal tax rate is because the interest

[2] Traditional DCF is defined as the method to use WACC as discount rate.
[3] K_d – Return required by debt holders; K_e- Return required by the equity holders; T_m- Marginal tax rate; E – Equity; D - Debt
[4] K_f – Risk-free rate; β – Beta; $R_m - R_f$ – Market Risk Premium

tax shields (ITS) have been excluded from free cash flow. In appendix 6, some particularities about the interest tax shields will be explained.

The cost of equity uses the expected return implied by the Capital Asset Pricing Model (CAPM) for the firm. Starting by the risk free rate requirements, Damodaran A. (2012) gives two good insights: "there can be no default", which makes government bonds the only securities eligible and also "there can be no reinvestment risk", which just includes zero-coupon bonds. Moving now to the beta, Damodaran A. (2012) defines as the risk that the investment adds to the market portfolio. Furthermore, in appendix 7, the two first inputs - type of business and the degree of operating leverage will be covered in a greater detail. So, using the fundamental approach to differentiate the leveraged risk one arrives to the following:

$$\beta_L = \beta_U\left[1 + (1 - T_m)\left(D/E\right)\right]_{if\ \beta_D=0} = \beta_U\left[1 + (1 - T_m)\left(D/E\right)\right] - \beta_D(1 - T_m)\,D/E \quad [5]$$

Naturally, a rise in leverage increases not only the variance in net income, but also, the riskiness of the equity investment. The second term applies in cases where debt has market risk associated, meaning, its' beta to be greater than zero. The final component of the risk premium is the market risk. Since the measurement of risk depends directly on the model used, this section will only address the one related to CAPM - based on the use of a diversified portfolio that includes all traded investments, relative to their market value weight (other models in appendix 8). Moreover, Ross A. et al. (2008) show risk premium results that range from 1.6% until 13.8%, more detailed in appendix 9.

B.1.2 The Free Cash Flow to the Firm (FCFF)

In order to measure the free cash flows, Kaplan N. and Ruback S. (1996) present two methods: one starts with the net income and the other by with earnings before interest and taxes (EBIT). In addition, Damodaran A. (2012) adds another perspective by beginning with cash flow of equity. The table below separates the formulas into several steps:

5 β_L- Levered beta for the equity in the firm; β_U- Unlevered beta of the firm; β_D- beta of debt

PANEL A: FCFF calculation

Net Income	EBIT	FCFE
+ Depreciation and Amortization	- Corporate taxes (EBIT * Tax rate)	+ Interest expenses (1 – tax rate)
- Change in net working capital (ΔWC)	+ Depreciation and Amortization	+ Principal repayments
+ Interest (cash and non-cash)	- Change in net working capital (ΔNWC)	- New debt issues
- Capital expenditures (CAPEX)	- Capital expenditures (CAPEX)	+ Preferred dividends
+ After-taxes asset sales	+ After-taxes asset sales	

= Free Cash Flow to the Firm (FCFF)

PANEL B: the value of the firm using FCFF

$$Value\ of\ firm = \sum_{t=1}^{t=n} \frac{FCFF_t}{(1+WACC)^t} = \sum_{t=1}^{t=n} \frac{FCFF_t}{(1+WACC_{hg})^t} + \frac{[FCFF_{n+1}/(WACC_{st} - g_n)]}{(1+WACC_{hg})^n}$$ [6]

Figure 2: The sum of the cash flows to all claim holders in the firm

As the authors Kaplan N. and Ruback S. (1996) explain, the method one and two differ in the corporate taxes and interest items. EBIT-based method relies on estimates of future tax payment, which makes it less desirable for investors.[7] First one starts by "$EBIT\ (1 - tax\ rate)$" followed by adding back depreciation and amortization because they do not actually represent cash outflows. Afterwards, ΔNWC adjusts the cash balance for in- and outflows related to inventory as well as accounts receivable and payable and also accounts for large year-to-year swings. Lastly, CAPEX is deducted, which represents outflows in connection with capital investments like property, plant and equipment.

[6] Hg: high growth; St: stable growth

[7] Kaplan N. and Ruback S. (1996) especially emphasize the need to use this method in cases of management buyouts (MBOs) or leverage recapitalizations.

B.1.3 Terminal Value

According to Fruhan E. (1998), in an acquisition of a business it is usual to find a terminal value [TV] representing a majority of the total present value of the transaction. Given its importance, the author proposes five different approaches to compute the terminal value: as growing perpetuity cash flow, as a stable perpetuity cash flow, as a multiple of book value, as a multiple of earnings and terminal value in liquidation. Addressing only the most common method: growing at a constant rate forever, Koller T. *et al.* (2010) and Damodaran A. (2012) define the following:

$$Value\ of\ the\ firm = \sum_{t=1}^{t=n} \frac{CF_t}{(1+WACC)^t} + \frac{Terminal\ Value_n}{(1+WACC)^n}$$

$$Terminal\ Value_t = \frac{[FCFF_{n+1}/(\mathrm{WACC} - g_n)]}{(1+\mathrm{WACC})^n}$$

Therefore, there is a point where investors stop forecasting the CF and just add the discount terminal value. As Damodaran A. (2012) mentions, the advantage of stable growth is permitting firms to reinvest some of their cash flows back into new assets and extend their lives. In appendix 10 one can find the key assumptions about stable growth based on empirical literature.

B.1.4 The Adjusted Present Value (APV)

As stated by Luehrman A. (1996), the APV method is "designed to value operations, or assets-in-place; that is, any existing asset that will generate future cash flows". But, should an investor have any preference over the classical DCF that uses WACC? Actually, the majority of literature defends that an investor should prefer APV. Luehrman A. (1996) argues this methodology to be much more "versatile and reliable". In order to explain why, Koller T. *et al.* (2010) and Luehrman A. (1996) compile the following formula:

$$APV = Entreprise\ Value\ as\ if\ the\ Company\ was\ all\ Equity\ Financed + Value\ of\ all\ financing\ side\ effects$$

Hence, the different financial impact can be separately computed, which permits one to adjust the discount rate, cost of capital and to reflect the financial enhancements. The logic is as follows: through reducing the taxable income, by the amount of interest, it will additionally decrease the tax bill.

B.2 Multiples valuation approach

By Kaplan N. and Ruback S. (1996) multiples serve as a good complement to a DCF approach. Because DCF approaches hinge to a great degree on the accuracy of forecasts, it is advisable to rely on additional market-based valuation approaches like provided by valuation multiples. Like any other method, misleading results are always a problem. And so, Greenwood R. and White L. (2006) propose some basic principles. First, the use of multiples needs to be done by comparing assets from the same nature. They also will be easier to interpret if they are stable across similar assets. Lastly, one should take into account the fact that multiples change over time. Based on the material given by these two authors, appendix 11 will show multiples formulas.

B.2.1 Comparable Company Analysis

As stated by Damodaran A. (2012), multiples of comparable companies are based on estimating the peer-group of comparable firms. Greenwood R. and White L. (2006) suggest the following technique to compute them: pick the firms with a similar CF prospects; verify if the expected growth rate is similar among the group; add the market value of equity to debt, resulting in firm value, and then divided the enterprise value by an appropriate unit (e.g. EBITDA). Finally, as step 5 the median of the multiples of the comparable firms should be calculated.

B.2.2 Comparable Transaction analysis

Even though multiples derived from comparable companies are more frequently used, the transaction analysis is also relevant. Because it creates a different peer group it enables the investor to have a different angle of the firm values. Since it gathers firms that were acquired in recent M&A deals, the prices paid already include a premium paid for control by an acquirer. It is also noteworthy that the final purchase price can always be a very subjective matter and vary

greatly from deal to deal, which makes it necessary to understand the comparable transaction in all its details.

Conclusion

In conclusion, throughout the literature review one can have a good idea of how academics see M&A activity and valuation approaches. Additionally, to go further in detail, the appendixes work as a complement to some specific topics. Unfortunately, because of its relevance for this valuation, some topics like leverage buyouts, cross-border transactions, hostile takeovers, takeover defenses were not covered.

Section II Industry and firm analysis

In order to build reliable information with valid forecasts, it is important to gain a good knowledge about the business and the market in which LCC and AAMRQ operate. Consequently, the purpose of this Section is to offer an overview of the airline industry as well as an analysis of the companies which would be object of valuation. In order to make comparison between different sectors, it is going to be used mainly data from the U.S., as well as other relevant markets.

C Industry Overview

According to the IATA[8] Vision 2050 Report, the airline industry can be differentiated trough segmentation, which includes: cargo or passenger and different classes of passenger service. Under the topic of this thesis, the Cargo segment will not be studied, since it is not relevant for the overall activity of the two firms– American Airlines and U.S. Airways.

C.1 Air transport industry in the U.S. economy

Not that many inventions are considered to be so life changing as the airplane invention. According to Carter A. et al. (2006), the airline industry is by far one of the most competitive and with interesting growth expectations in the whole U.S. market. To start, the airline industry will be compared to other industries along some key performance measures.

[8] International Air Transportation Association

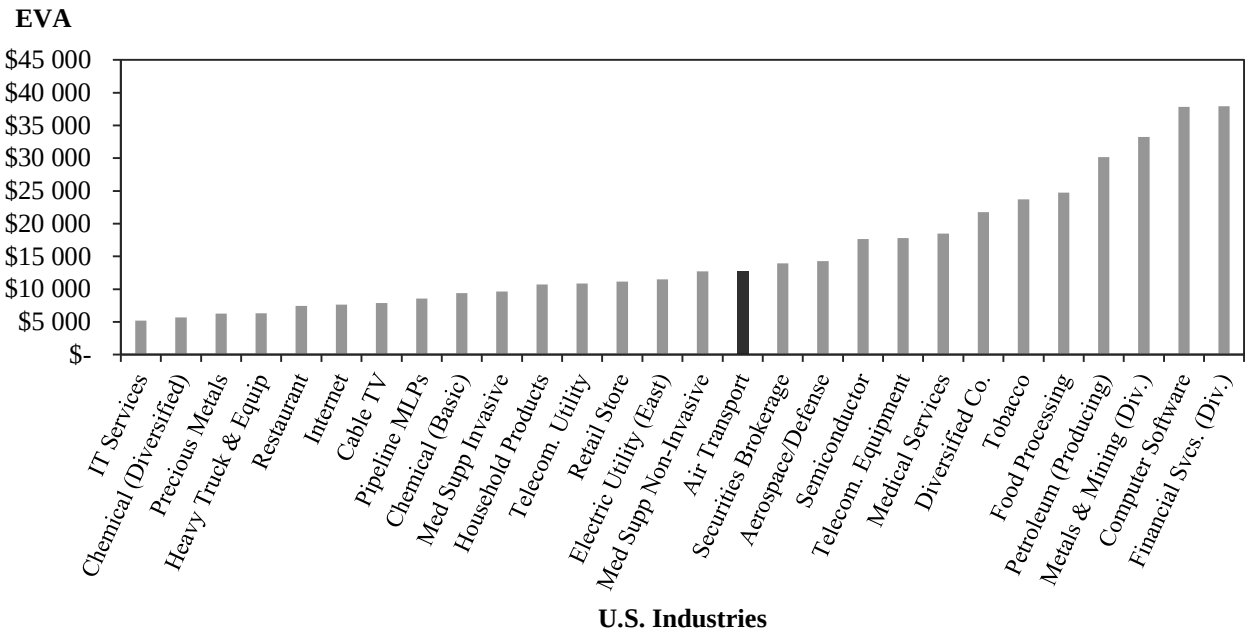


Figure 3: Measurement performance - U.S. industries, 2011; Economic Value Added [9]

Data Source: Damodaran Online

EVA is defined by Damodaran A. (2012) as a "measure of the dollar surplus value created by an investment or a portfolio of investments"[10]. However, one should take into consideration that rather than just comparing income, EVA actually enables to determine the true profitability of an industry or enterprise. Figure 3 shows that within a range of 100 industries the air transport is in the top 20% percentile. While this industry had an EVA of $12.792,99 million, other sectors like retail automotive ($920,32 million), railroad ($4.079,99 million) were not even considered in the graph.

Moreover, figure 4 compares the GDP per capita for each country with the value of trips per capita. More particularly, it shows that in a country with a good/bad performance along the horizontal axis, citizens are traveling more frequently/rarely. Being one of the strongest economies in the world, the U.S. appears with high GDP per capita along with a trip frequency above the average. Appendix 12 will show how does the market profiles may affect there outcomes. For example, the phase 3 (mature, private ownership and deregulated) description completely fits U.S performance in the graph.

[9] The graph only shows the data for the industries with an EVA above $5.000 million and less than $45.000 million

[10] $\text{EVA} = (\text{Return on capital invested} - \text{Cost of capital}) * (\text{Capital invested}) = \text{After tax operating income} - (\text{Cost of capital} * \text{Capital invested})$

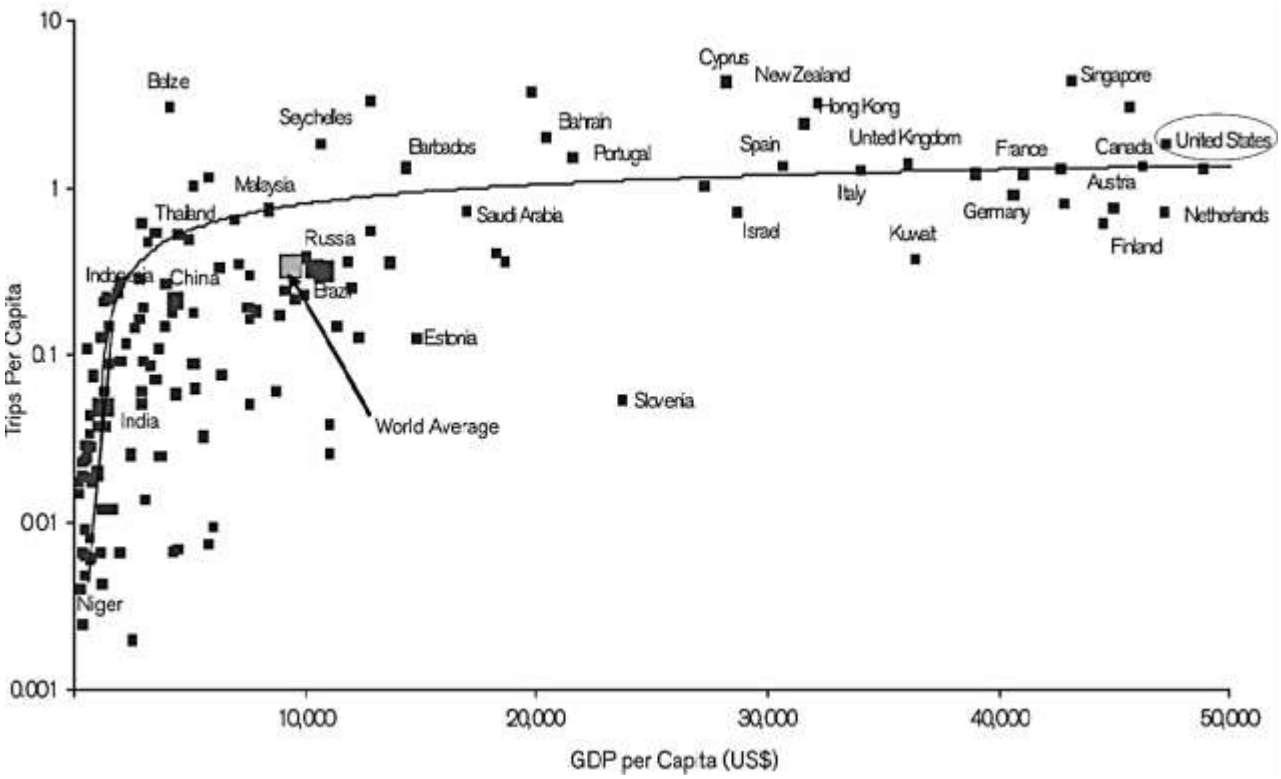
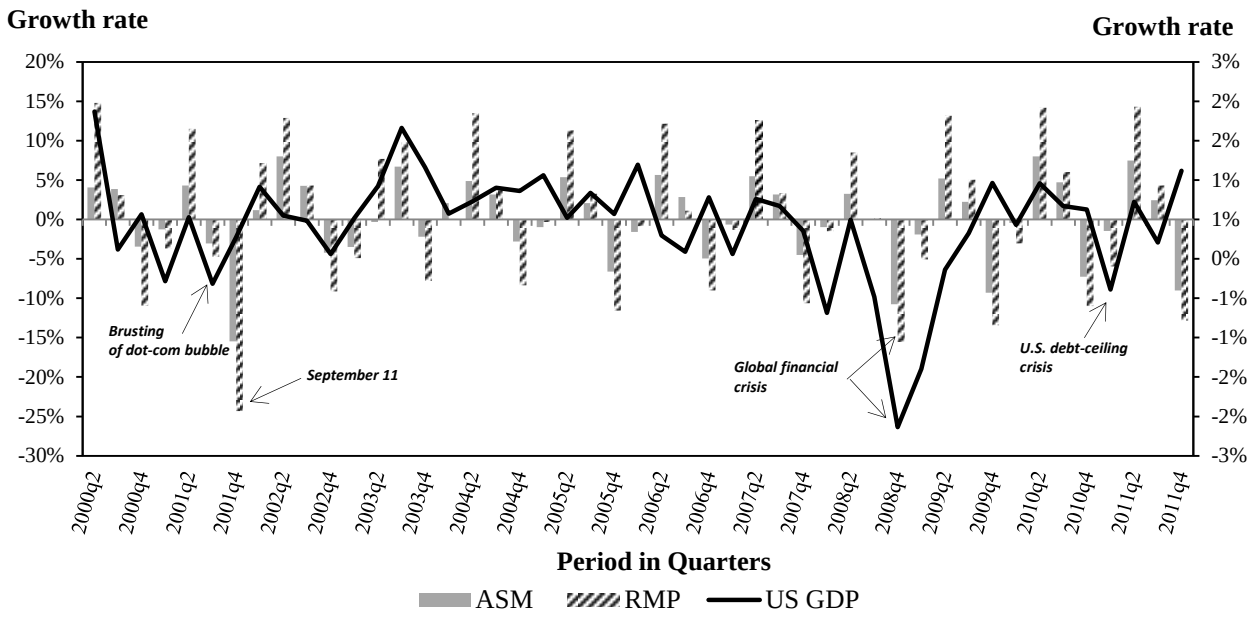


Figure 4: Stages of development of different markets, 2011

Source: IATA Vision 2050 Report

C.2 Consolidation and the restructuring of the airline industry

According to David S. (2012), "[…] a series of inter-related, largely symbiotic developments" have dramatically changed the airline industry. These include: economic conditions; technology breakthroughs; airline de-regulation; terrorism attacks; new managerial approaches, etc. Therefore, what is relevant for this valuation is to identify the events that had the largest influence on this industry, which will be investigated according to the RPM (revenue passenger mile) and ASM (available seat mile) for U.S. airlines in comparison with their country GDP for the past eleven years.



ASM: Available seat mile; RMP: Revenue seat mile; U.S. GDP: U.S real GDP in terms of 2009

Figure 5: Key indicators impacting airline industry performance

Data source: U.S department of commerce

Figure 5 includes two airline industry growth rates, RPM – measure of demand and ASM- measure of airline capacity. The figure above shows that both measures are positively correlated with the U.S. economic growth. Additionally, it is also evident that the RPM measure is more volatile compared to ASM. In other words, demand reacts much faster to the economic health than airlines capacity. Consequently, this evidences air transportation to be a cyclical industry. For instance, the global financial crisis, which had a tremendous negative impact on economic growth, -2,14% in the last quarter of 2008, translated into a sharp decrease in demand for airlines, -15,5% in RPM. Likewise, the September 11 terror attack in New York, U.S. and the U.S. debt-ceiling crisis, which are political factors, have also led to significant drops in demand, -24% and -11%, respectively.

Over time, one can observe the air transportation industry to be subject to dramatic changes. To start, the threat of terrorism, especially supported by the attacks on the twin towers on 9/11, and also the recurring fear of plane crashes make the airline industry very sensitive to those kinds of dramatic events. This sensitivity could also be observed in the crash of the Air France Flight

4590 in July 2000, the famous supersonic Concorde, which lead to the cancellation of the whole venture three years later.

Moreover, the environmental concern is also changing the industries strategy. Particularly, along with the rise of aircraft movements there is an increase in each carrier costs. According to IATA vision 2050 report: noise, local air pollution and greenhouse gases are the major worries. Despite the technological advances in this field, which are constantly decreasing each passenger relative contribution to climate change, it is not sufficient to cover the increase in the absolute level of CO_2 emissions.

Furthermore, since the Deregulation Act many carriers have been questioned about their efficiency. Low-cost carriers, for example, were able to cut costs by 40-50% and develop a market labor cost advantage, which presented them with an excellent and rare opportunity for entering into this industry without many obstacles (Morrell P. 2005). Also called the 1978 Act, it is defined as the "deregulation of the airline industry (…) [that] eliminates federal control over many airline business practices", as stated by Rachel T. (2013). However, with regards to air safety, the regulatory power is still enforced by the Federal Aviation Administration (FAA). Fundamentally, the main consequence of this Act was the stimulation for small and low-cost carrier's to enter into the market. As a snowball effect, the old airlines started to be highly exposed to the market conditions, which then led them to differentiate and named the network legacy carriers – NLCs[11].

In addition, as Carter A. et al. (2006) mentioned, jet fuel prices can be classified in historical regimes concerning their volatility and prices. The author suggests: low prices and volatility (1992-1996); declining prices (1997-1998); increasing prices (1999-2000), and high prices and volatility (2002-2003). In figure 6, one can observe costs development after 2000 and realize that there was a significant increase. Especially during the financial crisis years (2008-2010), the domestic costs experienced a sharp increase.

[11] In appendix 13, one can find the classification and criteria for each type of airlines.

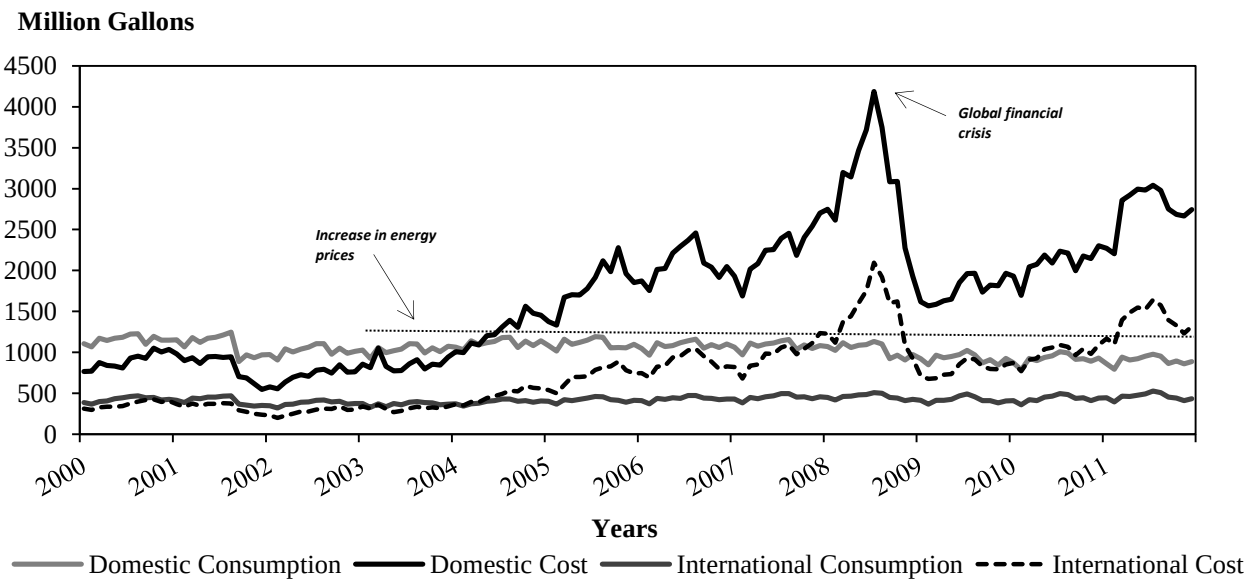


Figure 6: Monthly Cost and Consumption (millions)
Data Source: U.S. Department of Transportation (DOT)

In conclusion, one can observe an industry that faces constant challenges. Consequently, this makes the airline industry one of the most competitive in the U.S. market, which not only requires the constant need to be more efficient but also to be always adapting.

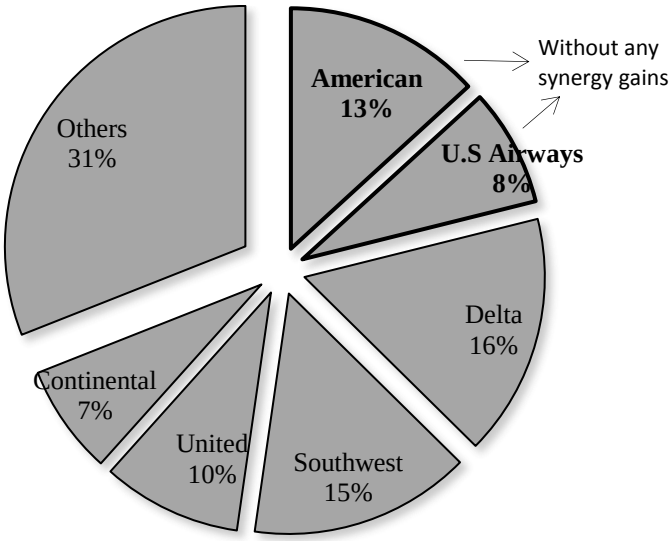
C.2 Competitive forces analysis

Under a strategic topic, Porter E. (2007) developed a tool for companies assess their industry attractiveness. The five forces analysis is divided into how trends will affect industry competition, which industries a company should compete in, and how companies can position themselves for success (appendix 14 provides a theoretical support with some forces detailed).

C.2.1 Internal rivalry: U.S. market

The industry of air transport is characterized to be a cutthroat competitive industry that according to Rachel T. (2013) intensified due to the Deregulation Act. In accordance to IATA Vision 2050 Report, the causes for such an environment are: rapid but volatile growth, limited product differentiation; high sunk costs; low marginal cost per passenger; limited economies of scale; significant exit barriers and multiple direct and indirect rivals.

Moreover, regarding the rivalry, the authors Johnston A. & Ozment J. (2011) offer a detailed study of the concentration[12] and equality[13] measures. For 39 years (1970-2009) the airline industry was moderately concentrated with some variations in certain periods. However, the constant increase in market share among major airlines is making them significantly more powerful (figure 7). Regarding the measure of equality, the authors describe the industry to be very unequal. They mention the correlation between the Gini index and the number of carriers to be 0.8165, indicating that as the number of carriers increases so does the inequality in market share between them.



Others: Includes all the remaining U.S. airline carriers, e.g.: Jet Blue; Alaska and Sky west Airlines.

Figure 7: Market share based on revenue passage miles for U.S. airline carriers (2011)

Data Source: U.S. Department of Transportation (DOT)

As one can confirm, for this industry approximately 70% of market's total sales is concentrated in the six biggest airlines. This concentration is mainly split between Delta (16%), Southwest (15%) and American (13%). However, with the transaction deal, the distribution would be even more unequal. Instead of AAMRQ being in third place it would be by far the most dominant airline with 21% of market share. In order to emphasize both companies potential it will be shown in figure 8 the flight routes over the U.S. for each of them and also the shared ones that could be achieved.

[12] Measure by the Herfindahl-Hirschman Index - HHI
[13] Measure by Gini Index

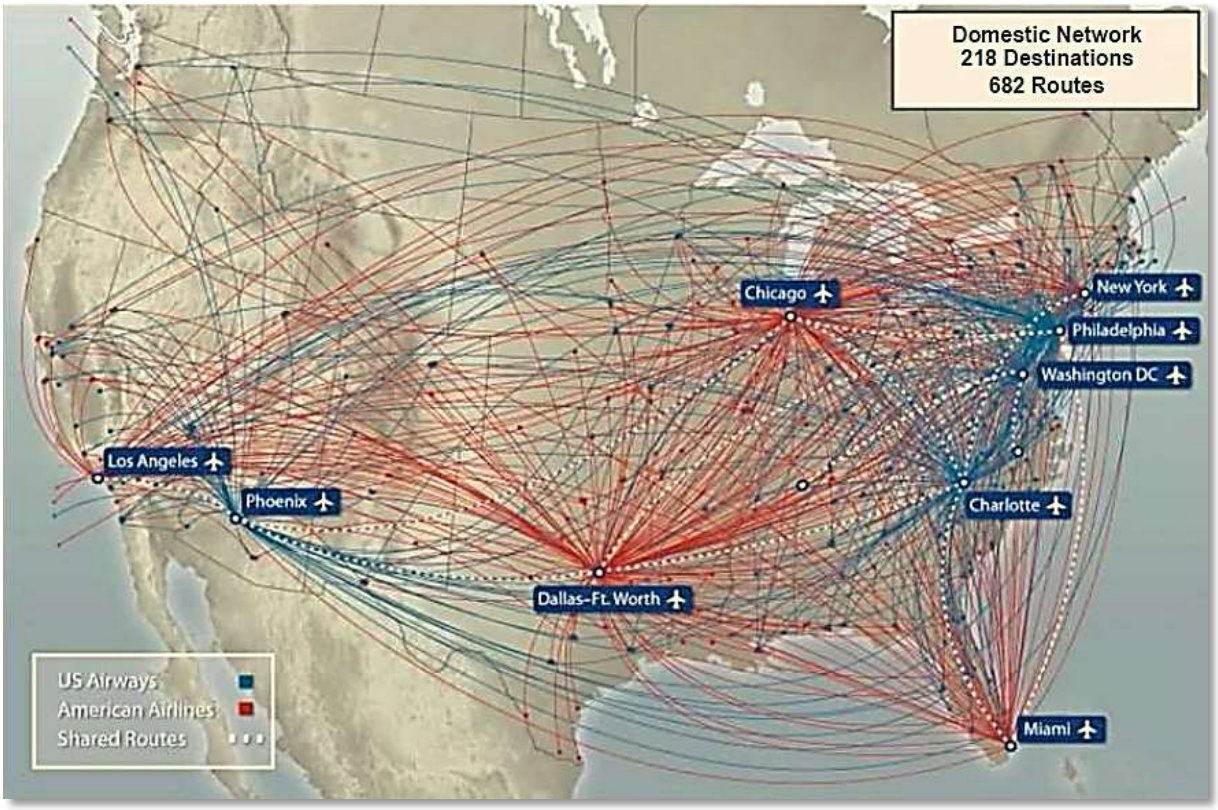


Figure 8: Domestic network between U.S. Airways and American Airlines
Source: Diio- Data In. Intelligence Out.

C.2.2 Internal rivalry: international market

International markets are increasingly being explored by U.S. carriers. Consequently, this part is dedicated to explore how much potential do foreign markets have for LCC and AAMRQ. Figure 9 illustrates the ASM evolution since 2009 until 2011 for the NLC U.S. carriers. Overall, there is an increasing tendency in the capacity of the five airlines. Delta, in the last two years 2010 and 2011, appears with the largest growth – from 2009 to 2011 almost doubling its capacity internationally. Again, the transaction deal between AAMRQ and LCC could strengthen their position and reach the international ASM level of Delta. Figure 10 will further differentiate international ASM depending on the respective markets – Atlantic, Latin America and Pacific.

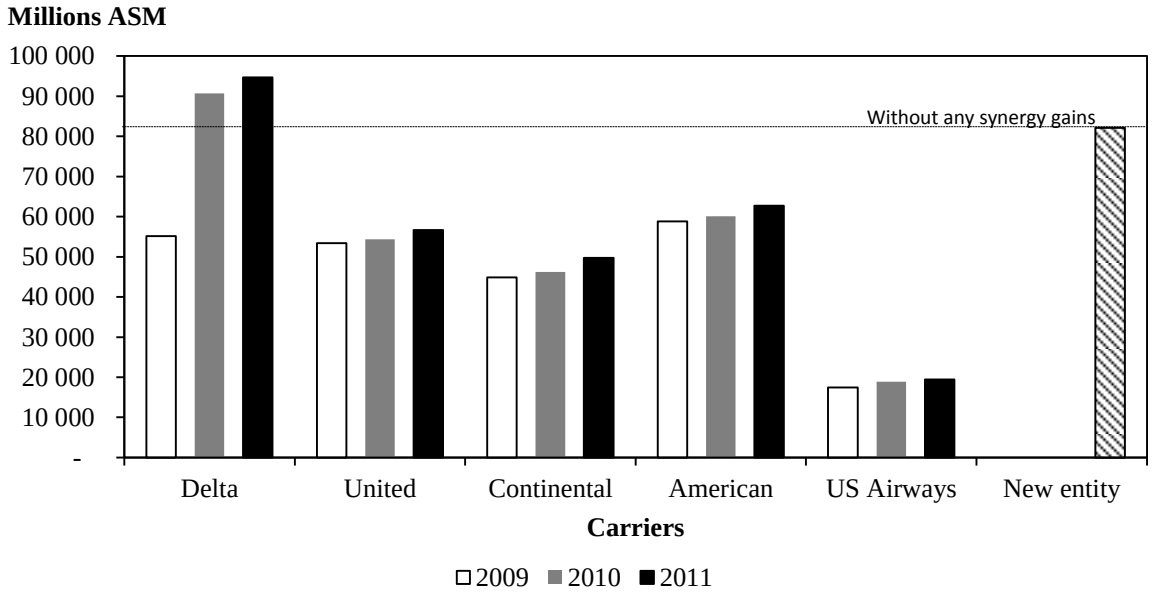
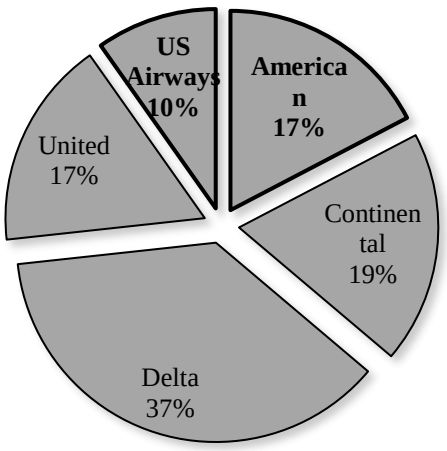
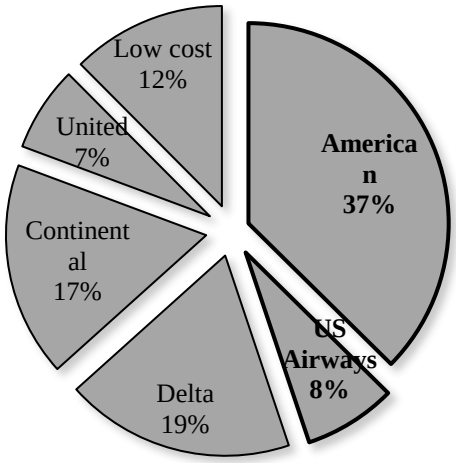


Figure 9: International available seat miles

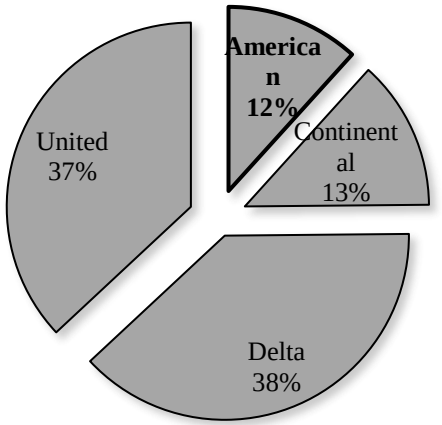
Data source: Massachusetts Institute of Technology (MIT) – Global Industry Program



Atlantic available seat miles



Latin America available seat miles



Pacific available seat miles

Figure 10: International markets – market share based on available seat miles in 2011
Data source: Massachusetts Institute of Technology (MIT) – Global Industry Program

The international capacity supremacy of Delta can mainly be attributed to the Atlantic region. In the Latin American region, American shows the highest share, followed by Delta. Pacific is almost just covered by Delta and United carriers. Besides this, low cost carriers were just considered relevant in the Latin American market. Lastly, the transaction deal between American and U.S. would allocate the shares as follows: Atlantic 27%; Latin America 45% and Pacific 12%. The greater impact would be in the Atlantic: both carriers would pass from the smallest shares to the second largest.

In brief, figure 9 proves an increasing trend in expansion by showing a 50% annual growth rate for Delta in 2010. Moreover, there is also great potential for the low cost carrier's as they already combine 12% in Latin America, which can be expected to increase in the following years. Finally, by merging the two airlines, LCC and AAMRQ, growth synergies would arise as the carriers would have more resources to not only empower their domestic presence but also to expand abroad. Below it is presented both companies complementarities of the flight routes over the world:

Figure 11: International network between U.S. Airways and American Airlines

Source: Diio- Data In. Intelligence Out.

C.3 Airline industry integration

Nowadays the sector of air transportations is radically different from what it was prior to 1978. As a consequence, the sector witnessed a massive restructuring with a significant increase in M&A activity. As stated by Fan T. et al. (2001), "economic forces inherent in the industry will likely pressure airlines into a greater degree of consolidation". Appendix 15 will illustrate the M&A airlines trends expected by the authors Fan T. et al. (2001). Additionally, the following table shows the recent airlines M&A deals in the U.S.

Year	Carriers	
2001	American Airlines	Trans World Airlines
2005	American West	U.S. Airways
2008	Delta	Northwest
2010	United Airlines	Continental airlines
2010	ExpressJet Airlines	Sky West/ASA

Figure 12: Airline industry major recent deals with U.S companies

Source: Johnston A. & Ozment J. (2011)

Moreover, considering just the deal between LCC and AAMRQ, competition laws might appear as an obstacle. The merged entity would represent such a large share of the market that it could be subject to an antitrust lawsuit. More particularly, in case of mergers and acquisitions the U.S law specifically prohibits "the effect of such an acquisition to substantially lessen competition or to tend to create a monopoly" (Section 7 of the Clayton Act).

D Firms overview – U.S. Airways Group

D.1 History

Back in 1939, U.S. Airways started under the name of All-American Airways. Over several transactions it evolved from a small air-mail delivery firm to one of the biggest airlines of passenger transport. As a consequence of the fuel price development, rise of competition and some other events in 2004 the group filed for reorganization under Chapter 11 of the United States Bankruptcy code.[14] In the following year, U.S. Airways group and America West merged and then, under LCC - ticker symbol, it started to be traded on the New York Stock Exchange (NYSE). By then, LCC became the fifteenth member of the start alliance.

D.2 Organizational structure

As a holding company, U.S. Airways Group forms a corporate umbrella of five companies: U.S. Airways, Piedmont Airlines, Inc., PSA Airlines, Inc., Material Services Company, Inc. and Airways Assurance Limited. U.S. Airways' Chairman and CEO was Doug Parker and the director's board is composed of eight members including two women. In 2011 U.S. Airways' common stock ownership is divided as follows:

[14] See appendix 16

	Total director and excutive board	The Vanguard Gorup, Inc.	BlackRock, Inc.	Appaloosa Partenrs, Inc.	FMR, LCC	Floating shares
Ownership Amount	0,95%	5,20%	5,60%	7,00%	14,60%	66,65%

Floating shares: all persons and entities that beneficially own less than 5% of the outstanding common stock based on reports they filed with the SEC (excluding the board managers).

Figure 13: LCC ownership breakdown[15]
Source: U.S. Airways 2011 proxy statement

D.3 Financial analysis

In accordance with the 2011 annual report, the scheduled passenger services[16] had a frequency of 3,100 flights per day and covered more than 200 communities in: United States, Canada, Mexico, Europe, the Middle East, the Caribbean and Central and South America. Additionally, the company has hubs[17] in four locations: Charlotte, Philadelphia, Phoenix and Washington DC. In order to enrich the firm analysis, a breakdown of operating revenues and expenses is presented below. Firstly, it intends to illustrate the most meaningful segments followed by the pull-backs and finally the locations where the firm operates.

[15] Detailed ownership in appendix 17
[16] Routine air transport service operated in accordance with a timetable
[17] Airports that an airline uses as a transfer point to get passengers to their destination.

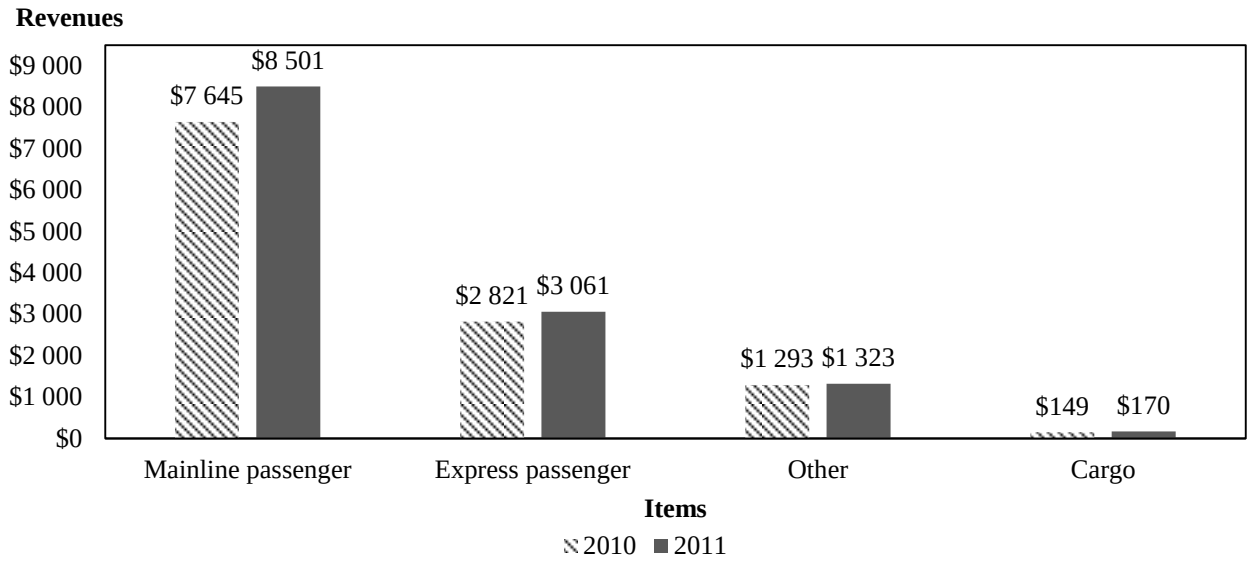
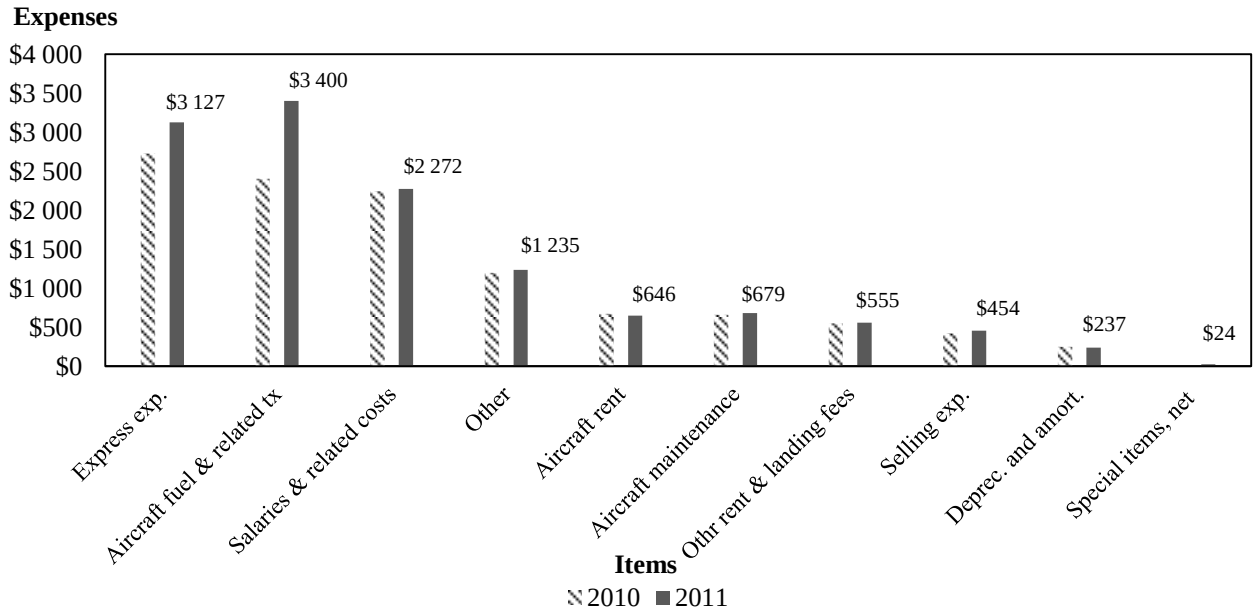


Figure 14: Operating revenues of U.S. Airways Group (Million)

Source: U.S. Airways Group, Inc. (2011) Annual report - Form 10K



Values detailed for 2011

Figure 15: Operating expenses of U.S. Airways Group

Source: U.S. Airways Group, Inc. (2011) Annual report - Form 10K

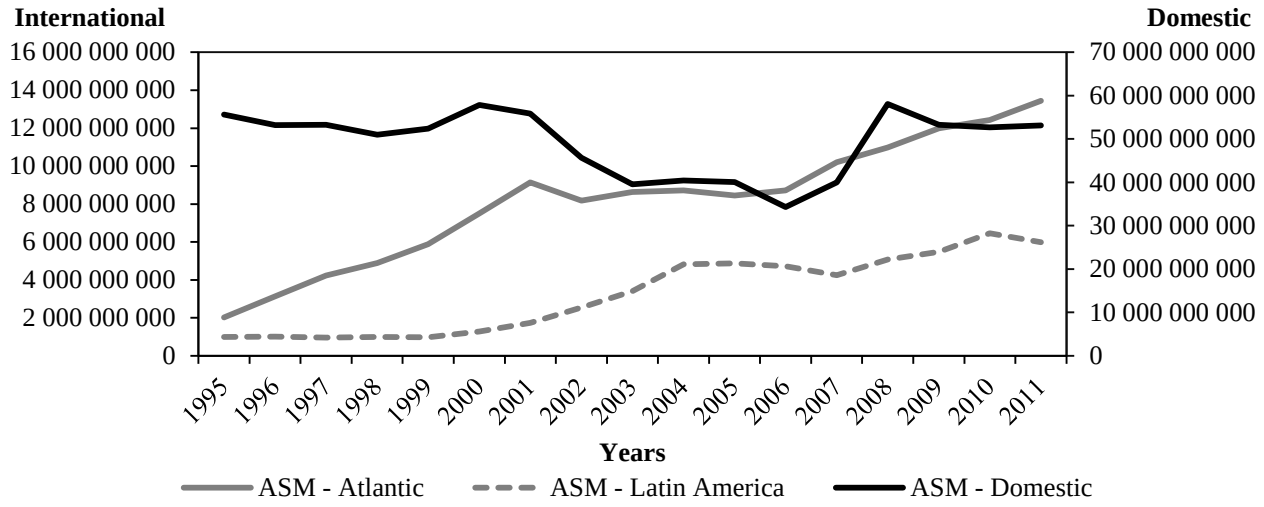


Figure 16: Capacity of U.S. Airways Group by geographic location
Source: Massachusetts Institute of Technology (MIT) – Global Industry Program

Even though the figures are quite straightforward there are some main conclusions to draw. Overall, revenues increased from 2010 to 2011 and the main contribution is by mainline passenger. Here mainline refers to LCC as the company itself, as it represents the group's main operating unit. Operating expenses increased in most of the items, of which fuel and salaries are the most important. The main factors that might have contributed the most are: increases in fuel prices, increases in prices themselves – inflation and due to an increase in activity, which requires more resources. Finally, the group's carrying capacity (ASM) is mainly generated in the domestic market – the U.S. Figure 16 also shows a sharp increase in the Atlantic market.

Moving now to broader financial analysis, the key financial items that describe the past behavior of the carrier are outlined. From a macroeconomic point of view, the uncertain economic context that specially affected the stock market's behavior needs to be considered. In general the data shows a deterioration of the company's performance and results, from 2007 onwards. Nevertheless, optimism gradually returned after 2009, bringing a slow improvement (YoY revenue growth). Measuring a company's operating profitability, its EBIT margin helps to understand how much a company is generating as a profit in comparison with the overall revenues. Unsurprisingly, this ratio was subject to extreme variation in such a short time, moving approximately from 6% in 2006, to -9% after two years, and 7% in 2010. Also, as another way to compute profitability, earnings per share (EPS) exhibit even more extreme variations.

U.S. Airways	2005	2006	2007	2008	2009	2010	2011
Revenue	5077	11557	11700	12118	10458	11908	13055
Growth %		56,1%	1,2%	3,4%	-15,9%	12,2%	8,8%
Net Income/loss	-537	304	427	-2215	-205	502	71
Growth %		276,6%	28,8%	-119,3%	980,5%	140,8%	-607,0%
EBIT	-171	664	387	-1102	118	781	426
Margin %	-3,4%	5,7%	3,3%	-9,1%	1,1%	6,6%	3,3%
Basic EPS	-17,06	3,51	4,66	-22,11	-1,54	3,11	0,44
Growth %		-120,6%	32,8%	-574,5%	-93,0%	-301,9%	-85,9%
Total Assets	2495	2697	3245	4240	4847	5100	5651
Long Term Debt	2749	2907	3031	3623	4024	4003	4130
Total Equity	420	970	1439	-494	-355	84	150
Share Last Price $	37,14	53,85	14,71	7,73	4,84	10,01	5,07
Current Shares Outstanding	82	91	92	114	161	162	162
Market Capital	3033	4916	1351	882	780	1620	822
Number of Employees	36601	37000	39600	37500	31300	30900	31548

EBIT margin: Total EBIT divided by net revenue; Basic EPS: (Net income – dividends on preferred stock)/average outstanding shares

Figure 17: Key statistics for U.S. Airways Group (From 2005 until 2012, Millions of dollars)

Data Source: Bloomberg Data Base

D.4 LCC future strategy

Using the information that the industry analysis provided so far, one easily understands the exposure and constant difficulties that airlines face. For instance, by the time of the 2001 terrorism attack LCC had to lay off 11.000 employees and cut its fleet by 25% to survive. Within this year, LCC recognized losses of $2.1 billion. In order to overcome bad times, LCC merged with America West and branded themselves as the "World's Largest Low-Fare Airline". Therefore, since then the focus was towards a low-cost strategy approach by maintaining a cost advantage. Besides this, the company spent $472 million in investments in 2011, including 8 new airbus aircrafts.

In brief, LCC' future perspective includes maintaining their strategic cost advantage but at the same time increase their airline quality rating (AQR), which serves to compare airlines' quality on combined multiple performance criteria. According to the AQR report in 2011, LCC improved mainly in on-time performance and mishandled baggage. Defensively, one may expect this effort to maintain the company's market share. Offensively, it may include the attack on low-cost carriers and increase of contracts with businesses.

E Firms overview - American Airlines

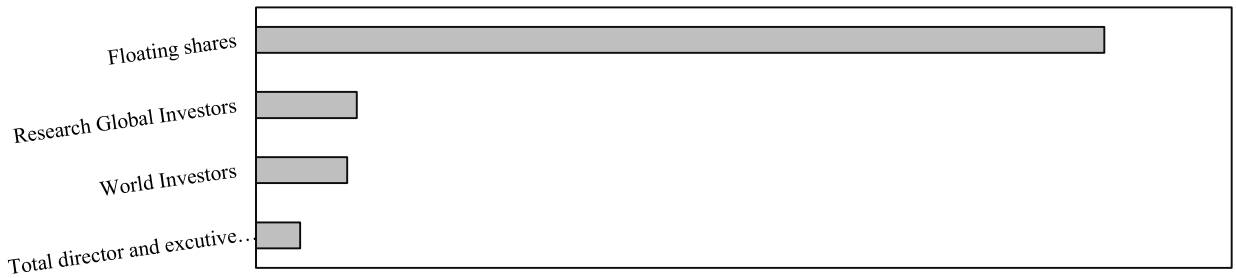
E.1 History

American Airlines Inc. was formed in 1934 and incorporated in AMR's corporation in 1982. The firm began trading on the New York Stock Exchange (NYSE) on 10th of June of 1939 and after 72 years and 6 months it was delisted[18]. The reason was that the company could not assure anymore its commitments with the creditors because of the sharp rise in jet fuel prices as well as in labor costs. Consequently, American Airlines' parent company filed for Chapter 11 bankruptcy[19] on the 29th of November of 2011.

[18] The event happened on the 30th of January of 2012.
[19] See appendix 16 for a deeper knowledge of the Chapter 11 rules and background.

E.2 Organizational structure

AMR was the founding member of Oneworld alliance, which, together with all the other members, provides a service to more than 750 destinations and roughly 8.500 daily departures. This membership allows the carriers to offer their customers more services and benefits. The company's board of directors was composed of twelve members at the end of 2011, all of which are considered independent with the exception of the chairman, president and CEO, Tom Horton. Of those twelve members, two are women and three are minorities. The figure below shows that AAMRQ's ownership (78% of floating shares) is relatively more dispersed than LCC (67% of flowing shares). Also, only half of the shareholders own more than 5% of common equity compared to LCC.



	Total director and excutive board	World Investors	Research Global Investors	Floating shares
Ownership Amount	4,06%	8,40%	9,30%	78,24%

Floating shares: all persons and entities that beneficially own less than 5% of the outstanding common stock based on reports they filed with the SEC (excluding the board managers).

Figure 18: AAMRQ ownership breakdown[20]

Source: AMR Corporation. (2011) Annual report - Form 10K

E.3 Financial analysis

AMR Corporation operates in five primary domestic markets: Dallas/Fort Worth, Chicago O'Hare, Miami, New York City and Los Angeles. According to the corporation's annual report (2011), American, AMR Eagle and American Connection serve more than 250 cities with an average of 3.400 daily flights. Moreover, the principal subsidiary, American, is also one of the largest scheduled air freight carriers in the world providing a wide range of freight and mail

[20] Detailed ownership in appendix 18

services. In order to analyze the segments, the following figures will provide the outputs and the geographic distribution of the activity along with the company values.

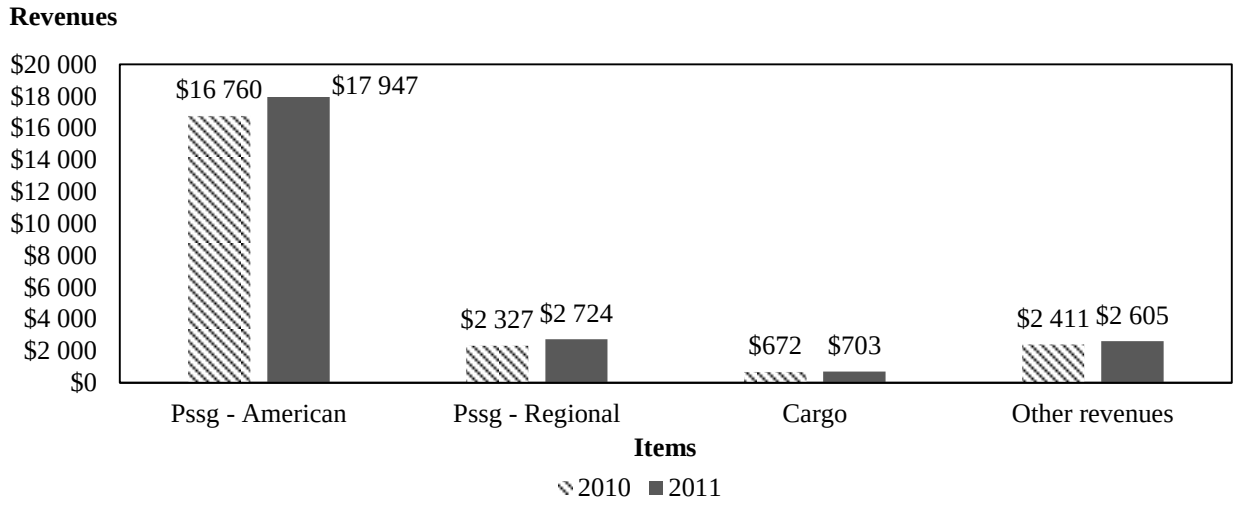
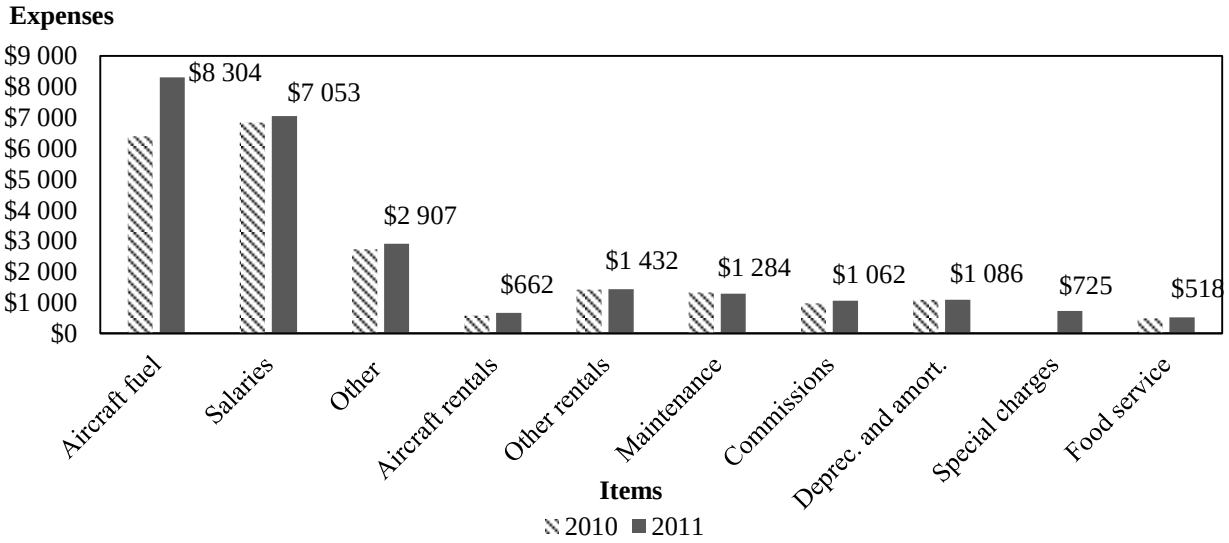


Figure 19: Operating revenue American Airlines (Million)

Source: AMR Corporation. (2011) Annual report - Form 10K



Salaries: Wages, salaries and benefits; Other: Other operating expenses; Other rentals: Other rentals and landing fees; Maintenance: Maintenance, materials and repairs; Commissions: Commissions, booking fees and credit card expense; Values detailed for 2011

Figure 20: Operating expenses American Airlines (Million)

Source: AMR Corporation. (2011) Annual report - Form 10K

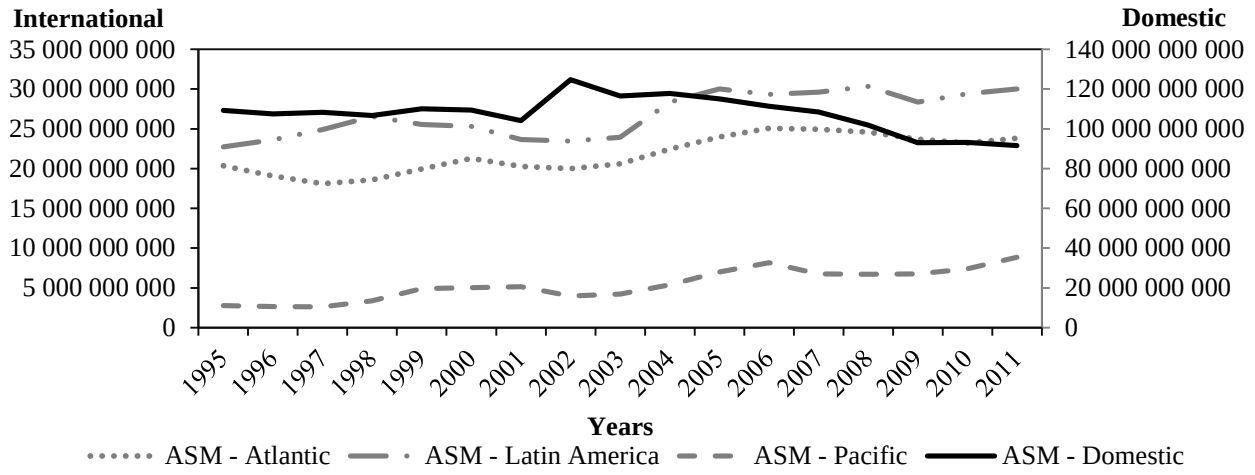


Figure 21: Available Seat Miles for America Airlines by geographic location

Source: Massachusetts Institute of Technology (MIT) – Global Industry Program

Comparing the values of U.S. Airways with AMR, a difference in their volume of activity can be noticed. Even though both carriers have the same structure, AMR has four times higher revenues for the cargo segment and twice as much for the mainline passenger (for 2011). In terms of expenses, salaries and jet fuel stand out as the main cost drivers and both categories show an increase from 2010 to 2011. This development could be explained by the increase in activity since 2011 was already a year of recovery from the 2009 financial crash in the U.S. economy. Also, the increase in fuel prices and inflation are factors that added to the increase in expenses. Lastly, activity is geographically mostly concentrated in the domestic market, where the carrier capacity is decreasing since 2000. According to AMR's annual report (2011) the "company's operating revenues from foreign operations (flights serving international destinations) were approximately 40 percent of the company's total operating revenues […]".

Similarly to U.S. Airways, American Airlines Corporation was also affected by the financial crash in 2009. Additionally, since it filed for Chapter 11 bankruptcy by 2011, it experienced a decrease in firm value. Bankruptcy is defined as the legal status of an entity that cannot repay debts it owes to its creditors. This deterioration of value is observable by analyzing the companies share last price: from $20,23 in 2005 to $0,35 in 2011. While earnings are positive in almost half of those seven years, the EBIT margins are just significantly positive two (2006 and 2007) at approximately 4% and negative or not even meaningful in all others. Lastly, EPS also only shows positive performance in 2006 and 2007.

AAMRQ	2005	2006	2007	2008	2009	2010	2011
Revenue	20712	22563	22935	23766	19917	22170	23979
Growth %		8,2%	1,6%	3,5%	-19,3%	10,2%	7,5%
Net Income/loss	-857	231	504	-2118	-1468	-471	-1979
Growth %		471,0%	54,2%	-123,8%	44,3%	211,7%	-76,2%
EBIT	-89	1060	965	-676	-1004	308	-1054
Margin %*	-0,4%	4,7%	4,2%	-2,8%	-5,0%	1,4%	-4,4%
Basic EPS	-5,18	1,13	2,06	-8,16	-4,99	-1,41	-5,91
Growth %		558,4%	45,1%	-125,2%	63,5%	253,9%	-76,1%
Total Assets	29495	29145	28571	25175	25438	25088	23848
Long Term Debt	13456	12041	10093	9005	10583	9253	6702
Total Equity	-1430	-606	2657	-2935	-3489	-3945	-7111
Share Last Price	22,23	30,23	14,03	10,67	7,73	7,79	0,35
Current Shares Outstanding	183	222	249	279	333	333	335
Market Capital	4062	6718	3499	2976	2571	2598	117
Number of Employees	88400	8963	8963	84100	78900	78250	80100

EBIT margin: Total EBIT divided by net revenue; Basic EPS: (Net income – dividends on preferred stock)/average outstanding shares

Figure 22: Key statistics for American Airlines (From 2005 until 2012, Thousand dollars)

Data Source: Bloomberg Data Base

E.4 AAMRQ future strategy

Contrary to LCC, AAMRQ's strategy is mainly focused on growing into international markets in order to retain market share. Throughout 2011, the company was able to add more than 30 destinations. Figure 21 as well as an analysis of the industry factors confirms this growth. Especially the Pacific market, which has the highest average YoY growth, illustrates the current strategy of this carrier.

Moreover, other strategic concern all address costs savings: cut the labor costs and continue fuel efficiency initiatives. AAMRQ, by being one of the carriers with the highest labor costs, has the constant pressure from unions to drive labor cost upwards. Lately, in an attempt to decrease labor costs, the Airline laid off employees and resorted to business outsourcing, such as, mechanical work. Furthermore, the fact that fuel prices are sharply rising pressures carriers to look for more fuel-efficient initiatives. As figure 6 illustrates, there is only an increasing or stable tendency. As stated in a company's press release in 2008, AAMRQ is investing in advanced technologies, so that it can benefit from substantial fuel cost reduction.

Conclusion: Stock performance in comparison to the economy and industry

The following stock performance figure compares cumulative total shareholder return on an annual basis on common stock with the cumulative total return on the Standard and Poor's 500 Stock Index and the AMEX Airline Index[21]. The comparison assumes $100 was invested in 2006 for both companies common stock and in each of the foregoing indices and assumes reinvestment of dividends. Figure 23 shows a divergence between the company stock price and the two indices. Overall, this proves the companies to be in a bad financial state. Especially once compared to the S&P 500, it shows a completely different performance.

[21] NYSE Amex Composite Index is a market capitalization-weighted index - weight of each stock depends on the price of the shares and how many are outstanding.

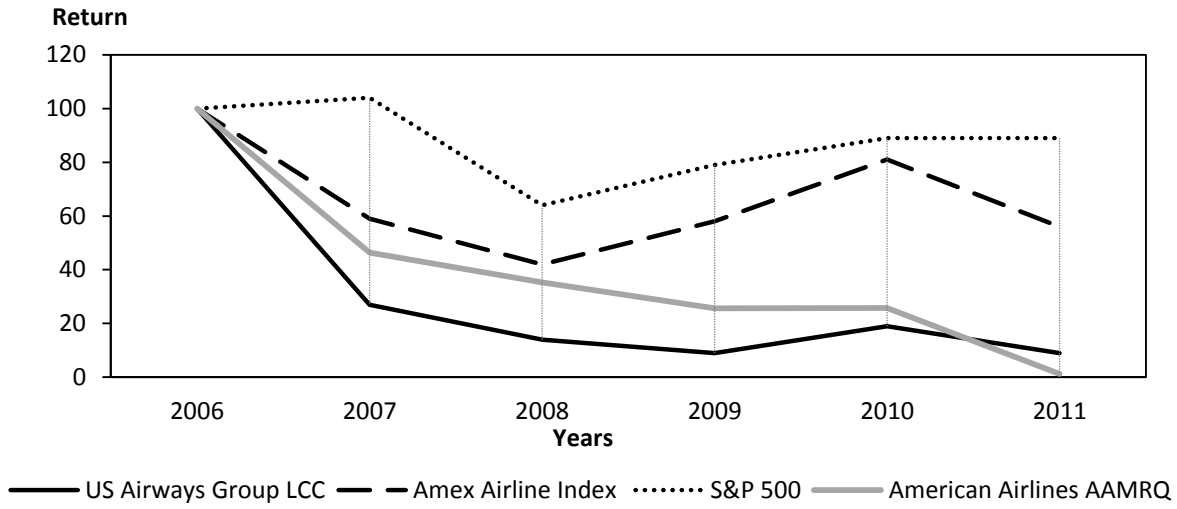


Figure 23: LCC and AAMRQ stock performance

Data source: U.S. Airways Group, Inc. (2011) Annual report - Form 10K and AMR Corporation. Annual reports - Form 10K

Section III Valuation

According to Damodaran A. (2012) and Bruner F. (2002), when an investor wants to value a transaction the safest way is in "steps, starting with the status quo valuation of the firm, and following up with a value for control and a value for the synergy". Therefore, Section III is dedicated to the explanation of the valuation process that will lead to the final value of the transaction, Section IV.

F Valuation Standalone

In order to determine the enterprise value of both companies as standalone, some mechanics of forecasting need to be performed. Most of them are constant throughout the standalone, joint and merged valuation process. Based on the authors Koller, T. *et al.* (2010) the forecast performance has to consider the: period length, how detail it should be, where to collect data and how to organize it.

F.1 Length of the estimation period

In order to conduct a proper valuation, one needs to divide time into relevant periods. Firstly, the historical period considered in this valuation ranges from 2005 until 2011, inclusive. These seven years of previous performance are considered most relevant because: they include the 2009 financial crisis; it is common to use a period between five to ten years (Koller T. et al., 2010); they include recent major events for both companies – the Chapter 11 filing; and they exclude the speculation during the proposal of the deal – in 2012.

Secondly, the following eight years after 2011 are considered the forecasting period. As Damodaran A. (2012) emphasizes, a period "long enough for the company to reach a steady state" needs to be selected, meaning that it reached a normalized or mature level. Consequently, it was assumed that until 2019 all the main events were incorporated in the company's information, so that it reached a steady state level.

F.2 Income Statement

First of all, the main growth ratios assumptions impacting revenue will be given in appendix 19. Additionally, in appendix 20 one can find the income financial statement with both historical and forecast period assuming that the two would remain independent from each other. Historical data was mainly collected from the Bloomberg database and the annual reports of the firms, detailed in the references.

F.2.1 Operating revenues forecasts

Forecasting revenues is considered one of the most important steps of a valuation, according to Koller T. *et al.* (2010). As a solution, the author proposes to build the forecast that takes into account the industry dynamics and company competitive position, as well as to use historical evidence of corporate growth. Therefore, in order to achieve to the growth ratios, historical and projections data from the U.S. Department of Transportation (DOT) and World Databank were collected, as well as and information from the industry and firm analysis (Section II). Regarding the data inputs, the following must be considered: the main macroeconomic indicator - GDP

growth by region, and the air flight's passenger carrying capacity - workload expectation by region using ASM. The logic was to historically observe the correlation between the two firms ASM growth rate and the GDP, by region. Having these results, the growth in revenues was in the first five years equal to the expected ASM growth rate[22] and in the last three years there is an approximation of the expected GDP growth rate for each region.

As appendix 19 shows, operating revenues were divided by markets. In general, a more conservative growth for the domestic than for all the other markets can be observed. The reason for this is that the U.S. economy has reached a development stage that ranks it as one of the most mature economies in the world (figure 4). The advantage of developing markets is mainly the sharp rise in their population number, which is enabling a fast economic growth. Hence, Latin America and Pacific are the markets with higher growth potential followed by Atlantic and finally domestic. However, the same trend is not observed in the volume of revenues, meaning that the U.S. is by far the more relevant market for both carriers representing on average 56% for American Airlines and 74% for U.S. Airways within the historical and forecast period.

As presented in figure 52 and 53, both carriers were not at the same stage of development and historically did not performance equally, which is why AAMRQ was assumed to have a slower growth than LCC. To start with, since American is a much bigger company - in 2011 its revenues were the double of U.S. - it has less growth opportunities. Additionally, in the same year the company voluntarily filed for Chapter 11, which revealed its financial distress. Despite the fact that LCC had also filed for Chapter 11, its strategic decisions, like the merger with America West in 2005, enhanced the company's competiveness and strength.

F.2.2 Operating expenses forecasts

The main inputs to forecast operating expenses were the revenues growth expectations. The idea was to compute from 2012 to 2019 the weight of each company's items expenses in total revenues. As an exception, depreciations were forecasted to be 5% - for LCC, and 4% - for AAMRQ, of the gross property plant and equipment.

[22] Growth rate for all the airline industry

In line with figure 15 and 20, the two firms continue with a tremendous weight in aircraft fuel and salaries. For the overall forecasting period, LCC fuel and salaries expenses represent 24% and 18% of the total expenses, respectively. Even more pronounced AAMRQ, has 30,5% and 31% of total expenses explain by these lines. In brief this means that approximately half, 42% for LCC and 61,5% for AAMRQ, of total expenses incurred in the forecast period are simply explained by two lines. As mentioned in Section II, airlines face several challenges: the employee's syndicates and the rise in energy costs are proved to be one of the more relevant.

F.2.3 Financial income forecasts

As Koller T. *et al.* (2010) explains "interest expense (or income) should be tied directly to the liability (or asset) that generates the expenses (or income)". Interest expenses were therefore forecasted as a function of the year's total debt times the cost of debt, while interest income, due to its complexity and some limitations on the data available, was based on each company's historical results.

F.3 Balance sheet

The balance sheet (appendix 21) represents the summary of the company's condition applied for a single point in time, in this case the end of the business' calendar year. In this case, instead of dividing the analysis into assets and liabilities, it was split into two types of items: the key lines and the non-fundamental lines. The key lines were forecasted using more complex assumptions and will therefore be described in more detail in the following sub sections. The non-fundamental lines were forecasted by taking into account the each company's historical results. Lastly, in order to assets equal liabilities and shareholder's equity, it was made adjustments in short-term investments and emission of new debt.

F.3.1 Operating working capital

Working capital is defined as current assets, excluding marketable securities, less current liabilities, excluding current interest bearing debt/notes. If it increases from one year to the other it means that cash is being invested into the business, which means a deduction from Free Cash

Flow, and vice versa. Starting with accounts & notes receivables, revenues were used as their forecast driver. The logic was to define a median historical day's outstanding ratio. The same applies for inventories and accounts payables, but instead of using revenues, costs of sales were considered as the forecast driver. Cash, other current assets and other current liabilities were forecasted using expected revenues and expenses median historical growth, respectively. As an exception, change in postretirement benefits was also assumed to be current liability of the company. This line was estimated by using salaries and related costs.

Starting with LCC, once comparing the historical results with the final estimation of change in WC one observes a positive increased. Meaning, the investment activity is rising and this is mainly explained due to the increase of current assets. On the contrary, AAMRQ shows different results – a decrease in WC. In brief, the change in working capital tells to an analyst that if there is an increase it means that cash is being invested, which makes the amount increase to be discounted from FCF, and vice versa. In the case of AAMRQ, this decrease is explained because of an increase in accounts payable – payments to the suppliers – that means an outflow to the firm, consequently decreasing the change in WC and an increase in FCF. In sum, it can be concluded that AAMRQ is expected to have inflows and less investment activities than LCC (detailed of the final results in appendix 22).

F.3.2 Debt: long and short term

The baseline assumptions consider the expected commitment payments[23] and the historical values. From 2012 onwards, it is observe a decrease in the indebtedness in the short and long term. For AAMRQ, this results in an average decrease of 9% in the debt over total assets ratio and for LCC 10% less.

F.4 DCF approach

The DCF method (figure 2) as well as the APV and multiples approach were already mentioned in the literature review (Section I) in the valuation approaches (part B). Hence in this part the

[23] Forecasts from: AMR Corporation. (2011) Annual report - Form 10K and U.S. Airways Group, Inc. (2011) Annual report - Form 10K

focus will be on the assumptions made to justify the final company's standalone value. In appendix 23 one can find relevant inputs to arrive to the enterprise value – WACC, terminal growth rate, DCF and APV approach.

F.4.1 Inputs for the DCF and terminal value

First of all, a clarification of the relevant inputs for the cash flow estimations. Regarding taxes, a rate of 40% for both companies was assumed. This decision was based on Damodaran online database, which distinguishes by years and industry. As figure 1 illustrates, WACC can be broken down into three parts. Market value weights can be seen in figure 60. The cost of debt was assumed as the sum of three inputs: default spread for the firms; country probability of default and finally the risk free rate. Using information from each company's annual report, the credit ratings were assumed to be B^- for LCC and CCC^+ for AAMRQ. Then, matching this information with Damodaran online database the firms probability of default for LCC was 5,25% and for AAMRQ 8%. Additionally, the same source defines the U.S. default spread to be 0%. Moreover, the risk free rate applied was 1,8762%, which represents the U.S. ten years zero coupon bond last priced on the 30/12/2011 as retrieved from the Bloomberg database. Moreover, using the cost of equity was computed using CAPM formula. The market risk premium was assumed to be 5,5% using the information provided by Fernandez P. *et. al.* (2011). The levered beta, which is 1,99 for LCC and 5.45 for AAMRQ, was retrieved from the Data Stream. Since this coefficient relies on the firm-specific capital structure, each company had different values.

Regarding terminal value, it determines a significant amount of the overall company value. Since most inputs to the formula have already been described, only the growth rate will be devoted special attention in this part. Usually, the reasonable perpetuity growth is determined by the inflation plus any real changes. Hence, using World Bank data, the expected average inflation rate is assumed[24] to be between 1,6 and 2,0, for the long run. However, if one considers the two companies to keep their independence it is understandable to define a 2,0% rate for LCC and a 1,8% for AAMRQ, due to firm specific differences in performance. Lastly, because LCC is

[24] Source: Federal Reserve Governors and Reserve Bank

smaller than AAMRQ, the enterprise value of the first was $8.918 million compared to $15.327 million (more detailed in appendix 23).

F.5 APV approach

In line with almost all inputs of the DCF method, the APV approach stands out by its transparency and accuracy (Luehrman A., 1996). Here, instead of taking WACC as the discounted factor the unlevered cost of equity will be used. Hence, it was assumed the average industry for the global markets, 0,6, taken from Damodaran Online. The forecast of distress cost was calculated by multiplying the PV of the unlevered company by the default probability and bankruptcy costs, which are assumed to be 5,25%[25] and 20%[26], respectively. Similar to DCF results, LCC EV using APV method is $9.303 million while for AAMRQ is $15.978 million. The main difference comes from the terminal value in the DCF that is discounted at a much higher rate, especially for the first (more detailed in appendix 23)

F.6 Multiples

The multiples method hinges on a carefully selected peer group, as mentioned in Section I part B.2.1. To choose an appropriate peer group, the comparable companies should be similar to the firm of interest along the following measures: growth perspectives, geographic dispersion of their business, exposure to a specific market or to activities outside of their core business, capital structure, etc. Therefore, using the applicable peer group for these two companies from Bloomberg database as a starting point, the careful analysis of the historical comparable performance left 12 companies selected. However, for the comparable transaction analysis, only 5 recent deals in the U.S. airline industry were chosen. The results will be show below in the table:

[25] Bris *et. al.* (2006)
[26] Standard Poors article: 2011 Annual U.S. Corporate Default Study And Rating Transitions

Comparable Company Analysis

Ticker	Company name	Country	Market Capitalization	EV FY11	EBITDA FY11	Revenue FY11	EV/EBITDA FY11	EV/Revenue FY11
SAI	Singapore Airlines Ltd.	Singapore	9 402	6 713	2 382	11 523	2,82	0,58
UAL	United Continental Holdings, Inc.	United States	6 236	11 217	3 309	37 003	3,39	0,30
LHA	Deustche Lufthansa AG	Germany	5 439	8 870	3 119	37 301	2,84	0,24
AF	Air France-KLM	France	1 548	12 293	1 785	32 950	6,89	0,37
QAN	Qantas Airways Ltd.	Australia	3 390	5 667	1 939	15 945	2,92	0,36
DAL	Delta Air Lines, Inc.	United States	6 853	7 220	3 386	35 115	2,13	0,21
1055	China Southern Airlines Company Ltd.	China	5 289	15 329	2 408	13 863	6,36	1,11
LUV	Southwest Airlines Co.	United States	6 664	17 014	1 220	15 658	13,95	1,09
670	China Eastern Airlines Corp. Ltd.	China	4 699	15 371	2 091	13 093	7,35	1,17
IAG	Inter. Consolidated Airlines Group, S.A.	Spain	4 250	6 108	2 217	20 904	2,75	0,29
9202	ANA Holdings, Inc.	Japan	7 056	17 038	2 085	16 381	8,17	1,04
601111	Air China Ltd.	China	8 430	20 660	3 049	15 291	6,77	1,35

	EV/EBITDA FY11	EV/Revenue FY11
Max	13,946	1,351
1. Quartile	7,004	1,091
Median	4,877	0,478
3. Quartile	2,837	0,300
Min	2,132	0,206

Comparable Transaction Analysis

Buyer	Target	Date	Deal Value	Modelled EV	Bid Premium	LTM EBITDA	LTM Revenue	EV/EBITDA	EV/Revenue
Delta Air Lines	Northwest Airlines	15/04/2008	3 587	7 624	14,2%	1 939	15 191	3,93	0,50
United Airlines	Continental Airlines	01/10/2010	3 190	6 624	1,5%	499	12 713	13,29	0,52
American Airlines	TWA	09/04/2001	4 267	4 352	N/A	12	3 328	374,97	1,31
Southwest Airlines	AirTrain Airways	02/05/2011	3 423	3 966	69,1%	188	2 621	21,06	1,51
SkyWest Inc.	ExpressJet Holdings Inc.	15/11/2010	114	74	105,8%	-15	685	N/A	0,11

	EV/EBITDA	EV/Revenue
Max	374,973	1,513
1. Quartile	109,539	1,308
Median	17,174	0,521
3. Quartile	10,948	0,502
Min	3,932	0,107

Figure 24: Comparable Company Analysis for 2011 and Comparable Transaction Analysis (Millions of dollars)

Data source: Data Stream, Thomson Financial and Bloomberg Database

	AAMRQ		LCC		AAMRQ		LCC	
	EBITDA'11	Revenues '11	EBITDA'11	Revenues '11	EBITDA'11	Revenues '11	EBITDA'11	Revenues '11
Inputs	32	23 979	688	13 055	32	23979	688	13055
	Comparable companies				**Comparable transactions**			
Max	446	32 397	9 595	17 638	11 999	36 278	257 981	19 751
1. Quartile	224	26 171	4 819	14 248	3 505	31 353	75 363	17 070
Median	156	11 457	3 356	6 238	550	12 494	11 815	6 802
3. Quartile	91	7 203	1 952	3 922	350	12 034	7 532	6 552
Min	68	4 930	1 467	2 684	126	2 574	2 705	1 402

Figure 25: Final enterprise values for AAMRQ and LCC in 2011 (Millions of dollars)

Data source: Data Stream, Thomson Financial and Bloomberg Database

Overall, the enterprise value using the comparable companies is lower than that using comparable transactions. This is because of the control premium – the value that enables one company to have control over a business, rather than simply owning a minority stake. Conditionally on the EBITDA values, AAMRQ's value is much lower using the $EV/EBITDA$ multiple than $EV/Revenues$. For LCC the median EV's are lower than the value derived through the DCF. These differences come mainly from the fact that DCF takes into account positive expectations in terms of growth in activity. Additionally, the fact that 2011 EBITDA was too low it depreciates both companies value. For instance, once comparing with the values projected for 2010 or 2012 the EBITDA of AAMRQ would go from \$32 million to \$1.401 million and \$1.915 million, respectively.

G Valuation Merged

G.1 Valuation merged firm without synergies

In this part the valuation of the two firms without any additional value that may be generated through a combination will be presented. This step involves summing each line item for LCC and AAMRQ. This entails the sum for the balance sheet items, the income statement items, capital expenditures and variations in working capital. Overall, the value of the joined company is \$24.245 million using the DCF and \$25.281 million using APV.

G.2 Synergies

In Section I, several particularities of synergies generated by M&A deals were described. The method to calculate them consists of the following key considerations. First, based on the peer group of companies used in the transaction multiples calculation, their expected synergy gains were compared with the gains actually achieved. Then, taking into account the firm's overview (part C: domestic and international market share; restructuring the industry; growth perspectives), it is possible to estimate how much the two firms could accomplish by joining resources. Before going into more detail, the breakdown of synergy value will be illustrated.

Item line	Synergy PV	% in total synergy	EV without Synergies	EV with Synergies
Domestic Revenues	1 740	15%	24 245	25 985
Atlantic Revenues	660	6%	24 245	24 904
Latin America Revenues	768	7%	24 245	25 013
Pacific Revenues	1 788	15%	24 245	26 032
Aircraft fuel and related taxes	2 631	23%	24 245	26 876
Salaries and related costs	2 924	25%	24 245	27 169
Other expenses	963	8%	24 245	25 208
CAPEX	90	1%	24 245	24 334
Synergies	11 564		24 245	35 809
Restructuring costs	**1 083**			34 725
Gains in synergy combination	**3 728**			
Total synergies with adjustments	**15 291**			**38 453**
Net synergies	14 208			

Values forecasted using 5,62% as the discount rate (figure 60)

Figure 26: Breakdown in synergy gains (Millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019
Domestic	121	202	210	218	225	232	149	154
Atlantic	60	126	131	136	142	147	38	40
Latin America	68	142	150	159	168	174	45	47
Pacific	63	134	141	149	157	166	176	187
Total Revenues gains	**313**	**603**	**632**	**662**	**692**	**720**	**409**	**427**
Aircraft fuel and related taxes	103	216	225	234	244	252	261	269
Salaries and related costs	98	102	212	221	230	297	307	317
Other expenses	15	64	66	69	72	89	92	95
Total expenses savings	**216**	**381**	**503**	**524**	**546**	**638**	**660**	**682**
Reestructuring costs	**1 000**	**400**	**400**	**200**				

Figure 27: Annual synergy gains - before taxes (Millions of dollars)

To start, it is important to mention that 2012 was assumed to be a year of adaptation for both enterprises. According to Moss L. (2013), operational synergies can be forecasted into three different groups: "quick wins", "possible quick wins" and "long-term synergies". In the case of this transaction, the short term gains considered are: the optimization of a combined network; higher revenues due to stronger connections and rationalization at the corporate level. In the long-term perspective, lower maintenance costs and salaries expenses and a cut in redundant facilities can be expected.

First of all, once comparing the joined company with Delta Air Lines or United Continental it is possible to confirm a tremendous potential in the Pacific region and in the fuel cost savings. Secondly in terms of revenues, the new company is expected to expand their flight and destinations into the Pacific market because LCC is not present in that region yet. For the domestic market, the synergy gains will be lower when compared to the international regions because of the industries high competition levels and the company's remarkable position in the U.S. Moreover, expenses can be expected to decline especially due to improvements in salaries and fuel costs. Nowadays, airlines have a constant need to improve their efficiency. By agglomerating, the new entity could make even more investments in advance technologies, so that each flight would consume less jet fuel – part E.4. Salary expenses would drop: with cuts in redundant facilities, fewer people would be necessary. Additionally, higher use of outsourcing activity can be expected when structuring the new company. Furthermore as Damodaran A. (2005) mentions, in horizontal mergers economies of scale arise much more naturally. Therefore, almost all expense lines can be expected to decrease in value. In terms of further cost savings, capital expenditures are expected to fall due to rationalization – relatively less need for investments in PP&E, which then also decreases depreciation. Lastly, as a result of the synergy combination, such as economies of scale, it is forecasted a gain.

G.3 Restructuring costs

In accordance to academic literature, the failure of a merger is very often related to a bad integration of both companies. To avoid this, companies incur significant costs of this nature, such as: integrating information systems, standardizing aircrafts; combining schedule flights;

labor integration, etc, during the transaction process. Based on this information and past airline merger integration costs, higher expenditures for restructuring in the first two years and smaller values in the following two years were derived. Figure below summarizes restructuring costs incurred by other companies, as well as a this merger restructuring costs in relation to all synergies:

Date	Buyer	Target	Predicted efficiencies (annual)	% Efficiencies in LTM Revenue	Estimated costs	Actual costs	% Costs in LTM Revenue
27/09/2005	U.S. Airways	America West	600	N/A	N/A	N/A	N/A
15/04/2008	Delta Air Lines	Northwest Airlines	2.000[1]	20,8%	500	1.500	16%
01/10/2010	United Airlines	Continental Airlines	1.100[2]	11,9%	1.200	1.600	17%
02/05/2011	Southwest Airlines	AirTrain Airways	400[2]	22,6%	500	391	22%

N/A: not available; **(1)**: beginning 2012; **(2)**: beginning 2013

Figure 28: Integration costs of airline merges (Millions of dollars)
Source: American antitrust institute

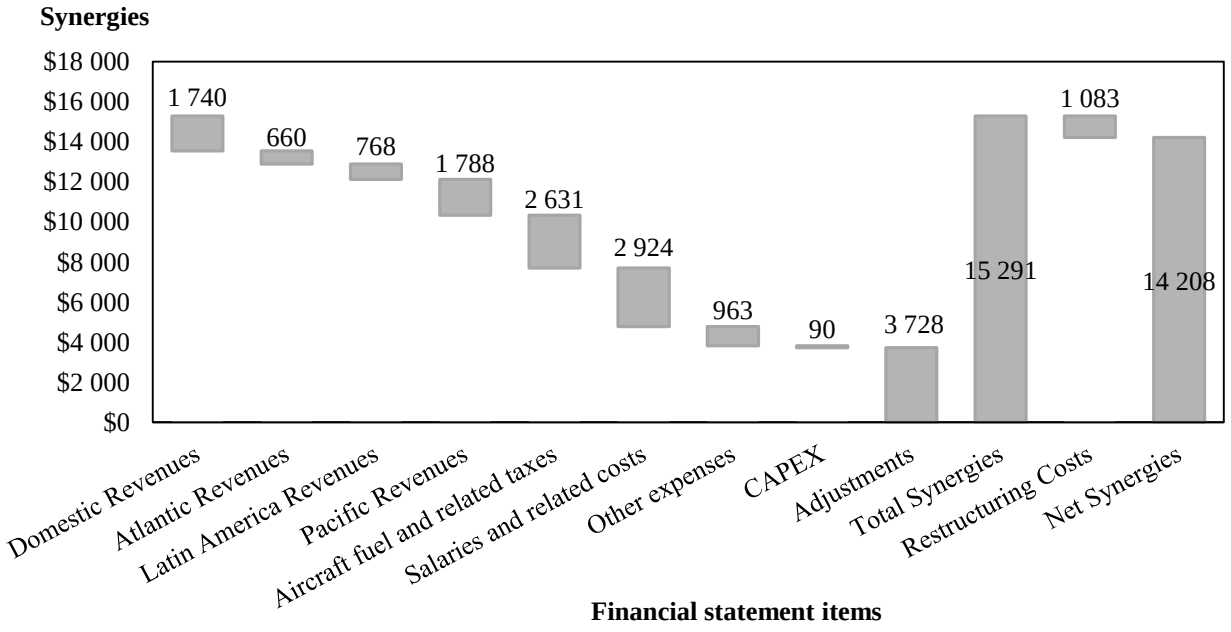


Figure 29: Overall synergies gains including restructuring costs (Millions of dollars)

G.4 DCF, APV

The main differences that arise from the merged valuation mostly arise from synergy gains and decrease of risk. Regarding risk, the new entity cost of debt was assumed to improve, which means to AAMRQ to go from a CCC^{+} credit rating to B^{-}. Besides, since the capital structure is less dependent on debt the cost of equity was assumed to decrease. Therefore, the final enterprise value with synergies was $38.453 million and $41.837 million, using the DCF and APV method.

H Sensitivity analysis

In accordance to Koller T. *et al.* (2010): "a valuation can be highly sensitive to small changes in assumptions about the future". Consequently, this implies several critical assumptions that make the valuation as accurate as possible. In order to cover uncertainty about those assumptions in the output value, a sensitivity analysis is performed[27].

Panel A: LCC EV

	-3%	-1%	0%	1%	3%
Revenues	$8 869	$8 901	$8 918	$8 934	$8 967
Expenses	$15 772	$11 203	$8 918	$6 633	$2 064

WACC \ Growth rate in TV	-3%	-1%	0%	1%	3%
-3%	$9 252	$9 345	$9 393	$9 441	$9 539
-1%	$8 940	$9 027	$9 071	$9 116	$9 207
0%	$8 791	$8 875	$8 918	$8 961	$9 049
1%	$8 647	$8 728	$8 769	$8 811	$8 896
3%	$8 371	$8 447	$8 485	$8 524	$8 604

Planel B: AAMRQ EV

	-3%	-1%	0%	1%	3%
Revenues	$14 975	$15 209	$15 327	$15 445	$15 683
Expenses	$25 081	$18 578	$15 327	$12 076	$5 573

WACC \ Growth rate in TV	-3%	-1%	0%	1%	3%
-3%	$15 943	$16 061	$16 121	$16 181	$16 302
-1%	$15 418	$15 528	$15 584	$15 640	$15 754
0%	$15 166	$15 273	$15 327	$15 381	$15 492
1%	$14 921	$15 025	$15 077	$15 130	$15 237
3%	$14 452	$14 549	$14 598	$14 647	$14 748

EV: Enterprise value without synergies

Figure 30: AAMRQ and LCC sensitivity analysis (Millions)

Regarding figure 30, one can observe four possible values change: revenues and expenses separately and WACC and the growth rate for the terminal value in combination. Naturally, as the revenues and growth in TV increase or expenses and WACC decrease, the enterprise value

[27] From here onwards, the DCF model will be assumed as the preferred one.

increases. For instance, in a very optimistic scenario LCC would almost double its EV: $ 15.772 million. For AAMRQ it would have a lower increase rate, but still in the best extreme scenario would value $25.081 million. In contrast, in a worst case scenario the EV for LCC would be $2.064 million and for AAMRQ $5.573million.

Section IV Transaction process

I.1 Creation of value

According to Damodaran A. (2005), the premium often takes into account some or even all of the synergies from which the acquirer intends to generate value. Therefore, in order to make the deal friendlier to shareholders only an improvement payment of AAMRQ to LCC is assumed in the premium. It was performed two different methods. The first assumes that each company will have a proportion over synergies. This percentage will be weighted according to their stand-alone EV in the total joined EV: 37% or $5.226 million for LCC and 63% or $8.982 million for AAMRQ. The second method will define the creation of value as the difference between the valuation resulting from the comparable and transaction multiples.

Using DCF model		**Using the multiples model**	
Total Synergies	14.208	Comparable EV/EBITDA	3.356
% Synergies in relation to EV	36,8%	Transaction EV/EBITDA	**11.815**
Synergies regarding EV	5.226	Difference in EV/EBITDA	8.460
Book Equity value [EV –Net Debt]	6.299	Comparable EV/Revenues	6.238
Equity value with Synergies	**11.525**	Transaction EV/Revenues	**6.802**
In relation to Equity value	**82,97%**	Difference in EV/Revenues	564
		In relation to EV/EBITDA	**252,1%**
		In relation to EV/Revenues	**9,1%**

Figure 31: Merger value creation for U.S. Airways (Millions of dollars)

As one can notice, LCC's final value varies between: $6.802 million and $11.525 million. In relation to the equity value, the gain amounts to 83%, which is understandable due to the positive assumptions made. Moreover, the multiples method yields an expected enhancement of 9% or $564 million in relation to the revenues multiple and 252% in relation to EBITDA multiple. This

high percentage shows the tremendous potential of LCC not only to expand its activity, but also to have a cut in expenses, in comparison to its peer's.

I.2 All-stock transaction

As described in the literature review, a stock deal distributes the risk between the shareholders of both sides. More precisely: the "synergy risk is shared in proportion to the percentage of the combined company the acquiring and selling shareholders each will own"[28], detailed in part I.1. Moreover, the strategic decision of pursing a stock deal avoids the acquirer to issue new debt to finance the deal. Lastly, it is also proof that both companies are highly involved in improving the new entity and in the creation of value. In order to determine the combined entity number of shares, the formula derived from the exchange ratio, suggested by Gaughan A. (2010) will be used:

$$New\ shares\ issue_{AAL,new\ entity} = \frac{Share\ Price_{LCC} * Outsanding\ shares\ _{LCC}}{Share\ price_{AAMRQ}}$$

	LCC	AAMRQ
Enterprise Value[1]	$14.144	$24.309
Net debt	$2.619	$7.937
Market equity[1]	$11.525	$16.372
Price per share	$71	$49
Shares Outstanding	162	335

New shares issued	236
New shares AAL	571

Ownership distribution				
	Debtholders	Stockholders	Stakeholders	
AAMRQ	99	335	434	65%
LCC	-	236	236	35%
Total	**99**	**571**	**670**	100%

1) Values with synergies

Figure 32: New shares issued and equity distribution by the new entity and (Million)

Therefore, the combined company would have initially 571 million shares outstanding, as a result of 236 million shares issued for LCC shareholders. Additionally, as a consequence of AAMRQ filed Chapter 11, liabilities subject to compromise: $4.843 million will be paid back through the merger agreement (visible in appendix 24). These represent the "damage claims created by the debtors' rejection of various executory contracts and unexpired leases"[29]. Consequently, AAMRQ'S stakeholders will own 65% of the new company and the remaining will by LCC's

[28] Harvard Business School: "Stock or Cash?: The Trade-Offs for Buyers and Sellers in Mergers and Acquisitions"
[29] AMR Corporation. (2011) Annual report - Form 10K

shareholders. Overall, this implies the $38.453 million merged company EV (figure 63) and $5.713 million net debt to yield a market equity value of $32.740 million.

Section V - Discussion

This section aims to one have deeper insight of some particularities observed in the post - merger[30] time. The following table shows the equity value for the separate companies until 2013 and then the new entity after 2013.

AAMRQ			LCC			AAL (new entity)		
Date	Price	Number	Date	Price	Number	Date	Price	Number
30/12/2011	$0,35	335,27	30/12/2011	$5,07	162,12	31/12/2013	$25,07	261,07
31/12/2012	$0,80	325,33	31/12/2012	$13,50	162,50	31/03/2014	$36,34	649,95
31/12/2013	$11,39	261,07	31/12/2013	$22,55	N/A	30/06/2014	$42,66	720,50
						30/09/2014	$35,32	717,26
						31/12/2014	$53,52	717,26

N/A: Not available

Figure 33: Historical share price and shares outstanding (Million)

Source: Bloomberg database

As one can observe, until the end of 2014 the financial markets reaction was very positive, before and after the deal. In just two years, from 2011 to 2012, American's stock jumped by 348% and U.S. by 149%, which proves the impact of speculation before the M&A deal and a non-fair assessment made by the market. After 2013, as the share price and number of shares keep raising it strength the value of the enterprise. Consequently, this also made the market equity to be from $20.068 million in the end of 2013 to $49.393 million in 2014. The relevant differences between the estimated and actual values are described in the table below:

[30] Data mainly retrieved from Bloomberg Database

Forecasts	Enterprise Value (EV)						Reality
	LCC	**AAMRQ**	**Merged**		**LCC**	**AAMRQ**	**Merged**
EBITDA/EV Cp	$3.356	$156	$3.512	EV 2012	$4.611	-	-
Revenues/EV Cp	$6.238	$11.457	$17.695	EV 2013	-	-	**$20.068**
EBITDA/EV Tr	$11.815	$550	-	EV 2014	-	-	$49.393
Revenues/EV Tr	$6.802	$12.494	-				
DCF	**$8 918**	**$15 327**	**$38 453**				
APV	$9 303	$15 978	$41 837				
Average	$7 739	$9 327	$40 145				

	Net Debt						
	LCC	**AAMRQ**	**Merged**		**LCC**	**AAMRQ**	**Merged**
Net Debt	$2.619	$7.937	$5 713	Net Debt 2012	$2.417	$4.643	$7.060
				Net Debt 2013	-	-	$13.476
				Net Debt 2014	-	-	$10.926

	Equity						
	LCC	**AAMR**	**Merged**		**LCC**	**AAMRQ**	**Merged**
Market Cap. 2011[1]	$822	$117	**$939**	Market Cap. 2012[2]	$2.194	$260	$2.454
Market Equity 2011	$6 299	$7 390	$32 740	Market Cap. 2013[3]	$2.974	$3.664	**$6.638**
				Market Cap. 2014[4]	-	-	$23.619
				Market Cap. 2014[5]	-	-	$38.388
				Market Equity 2013	-	-	$6.592
				Market Equity 2014	-	-	$38.467

Forecasts	Synergies						Bidder Expectation
	LCC	**AAMRQ**	**Merged**		**LCC**	**AAMRQ**	**Merged**
12/2013 (annual)[6]	-	-	**$984**	02/2013 (annual)	-	-	**$1.050**
Restructuring Costs	-	-	**$1.083**	09/2013 (annual)	-	-	$650
Total	$7 091	$12 132	$14 208	Restructuring Costs[7]	-	-	**$1.200**

Share price in: **(1)** 31/12/2011; **(2)** 31/12/2012; **(3)** 31/12/2013; **(4)** 31/03/2014; **(5)** 31/12/2014; **(6)** Expected synergy for the revenues growth and cost savings; **(7)** Expected to happen in the first years of the merger

Figure 34: Comparison: forecasts versus reality (Million)

Source: Bloomberg Database and American antitrust institute

On the left side of Figure 34 the forecasted values are shown, based on all assumptions previously mentioned, as well as on the existing information until the end of 2011. On the right

side, it includes public data from the beginning of 2012 onwards. On the one hand, the enterprise value is observed to have a great jump in value. The explanation for such difference stem from: the complete integration of the standalone companies to the new entity happen with a year lag and the markets positive response to this transaction deal, previously described. However, by the other hand net debt has been reducing. Despite the fact that the new entity had been upgraded in its credit rating such higher debt level could be seen riskier once compared to its peer companies. Regarding annual synergies for 2013, the new entity observes a lower value than the one forecast for the begging of the period. This was mainly because of the "Salaries and related costs" item, which required higher labor harmonization costs and the rise in jet fuel prices.

Regarding the new company organization, Thomas Horton, AAMRQ chairman, keeps his position until the merger is completed – end of 2014. Douglas Parker, LCC chief executive, will then be the chairman of the new entity. Pursuant to the agreement, LCC shareholders receive a 28% stake of the combined company, while AAMRQ stakeholders and shareholders and debtors receive 72% of the combined company. Additionally, through this merger LCC will start to be Oneworld partner[31]. Consequently, this makes the new entity: stronger, more efficient and able to increase its services, such as, the flight destinations. Overall, the aim of this deal is accomplished and creates a premier global carrier, being the largest airline in world.

Despite all, once comparing to other deals, like Delta with Northwest or United with Continental, is observed more challenging agreement. This is mainly explained due to the Justice department that had blocked the merger. The department's argument was that the merger would be a combination of "highly complementary networks with access to the best destinations around the globe"[32]. As a result, to reach a final settlement the new entity was required to give up of slots and rights at seven key airports to the low-cost airlines.

Conclusion

Throughout the last decades, the airline industry has witnessed a dramatic change, which consequently increased the number of transaction between carriers. The Deregulation Act in

[31] Alliance of the world's leading Airlines
[32] CNN international edition by Evan Perez, 2013

1978, the terrorist attacks, the increase in environmental concern, the financial crisis, the sharp increase in fuel prices and the increase in tourism activity are just examples that have imposed a change on the industry. Without exception, American Airlines and U.S. Airways were also affected. Mainly because of the rise in competition, U.S. filed for Chapter 11 - bankruptcy protection in 2005 and six years later American also does. In order to strengthen the company's position, both enterprises have been responding with strategic deals: in the case of AAMRQ it acquired three different airlines while LCC acquired one.

Therefore, this strategic deal appears as a way to increase profitability and sustainability in the long-term for the new company. Firstly, from a strategic point of view this transaction deal creates the biggest carrier in the U.S. and allows the new entity to conquer a bigger market share in the foreign markets, especially in emerging countries. Secondly, in order to enhance value for all stakeholders, this merger allows the full recovery of AAMRQ creditors. Lastly, it offers a higher quality service to passengers and an increase in employee's benefits.

As a result, all of these advantages translate into synergies, which are expected to be valued in 2013 at: $603 million for the network revenue - mainly from the potential of the Pacific market; and $381 million in cost savings - especially from the cut in salary expenses and decrease in fuel costs. Overall, the synergy forecast leads then to a equity value of $27.897 million that represents an increase of approximately 71,2%, when compared with the sum of the standalone equity value. This deal is suggested to be an all-stock deal that leads to the issue of 236 million additional shares to LCC's shareholders and 99 million to AAMRQ's debtholders, leading to a total of 434 million for AAMRQ's stakeholders. AAMRQ'S stakeholders will own 65% of the new company and the remaining 35% will be owned by LCC's shareholders. In brief, throughout this dissertation one can confirm that this merger will join two companies with promising futures.

Appendixes

Appendix 1. Waves in the M&A activity from 2003 until 2011

The empirical literature on the topic of M&A waves as examine in detail those of the early 1900s, the 1920s, the 1960s, the 1980s and the 1990s. However, as stated by Martynova M. and Renneboog L. (2008), the more recent waves are bringing outstanding results in terms of size and geographic dispersion.

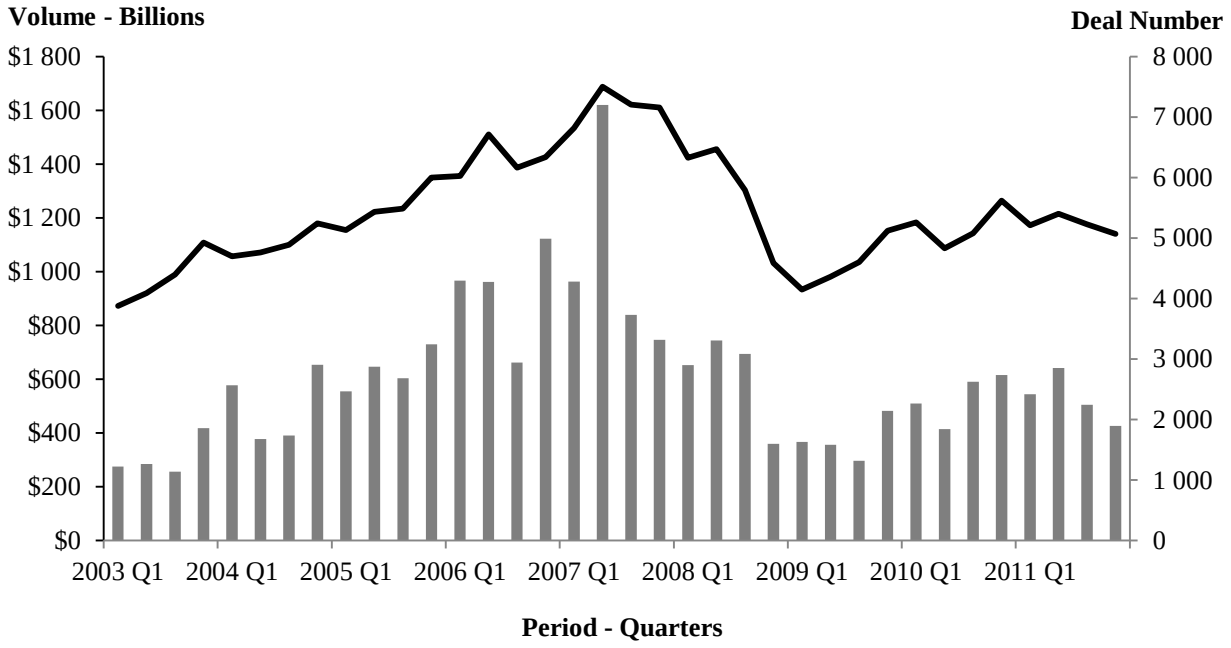
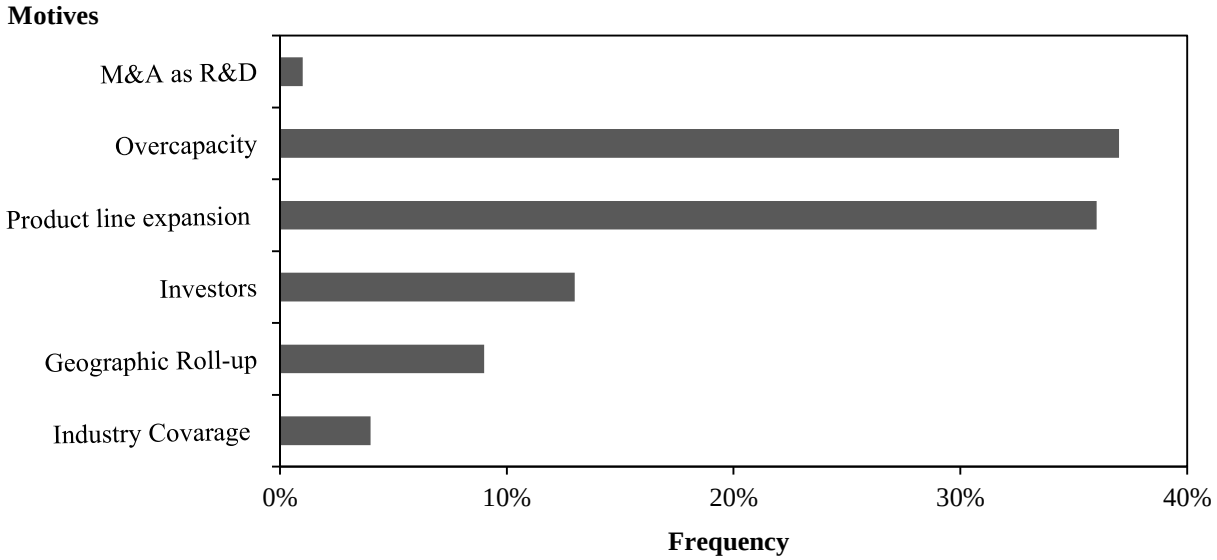


Figure 35: Number of deals successfully completed, in each quarter (From 2003 to 2011)
Data Source: Bloomberg Data Base

The figure above goes in accordance to what Bruner F. (2009) mention in their work. If the equity market conditions perform well the number and volume in the transactions increases, if not, they decrease by number and volume. Especially in the period affected by the financial crisis one can observe a decrease in deal count of approximately 48%, from the third quarter to the last of 2007 and from the last of 2008 to the beginning of 2009.

Appendix 2. Rationalities for an M&A deal

As Bower L. (2001) presents in his paper there are motives more common than others. In order to know their importance the author gathers data from the U.S. deals made between 1997 until 1999.



Contains 1.036 U.S. deals with over $500 million

Figure 36: Rationalities for M&A activity

Data Source: Bower L. (2001)

As one can immediately capture, overcapacity and product line expansion are without any doubt the more common while R&D and industry coverage appear less frequently. Regarding the excess of capacity, as Koller T. *et al.* (2010) also describe, it occurs when acquirers are large and want to bring more efficiency to their activities. The creation of market access is especially useful in cases where relatively small companies, with innovative products, have difficulty in accessing the entire potential market for their products. Despite the fact that these motives only describe economic and not behavioural reasons, one needs to take into account that all of them always involve considerations. For instance, in the geographic roll-up if the culture in the target market is different in their values, it is advisable for the company to enter subtly and gradually.

Appendix 3. Outcomes in M&A activity

Regarding M&A outcomes, on average only 20% of all mergers in the market are expected to succeed (Bruner F. (2009)). First, and even before a deal is completed, there are failures to be consider. These maybe caused for some reasons, such as, when acquires invest in a widely different industry than the buyer, when acquires are not coming from a side of power or when the market is in a presence of a bubble. Secondly, in order to understand why some do not perform well, it is presented a table of the possible outcomes of a transaction.

Value Creation	**Description**
Destroyed	Investment returns are less than those required by investors. When an investor, by taking the same risk, did not choose the better opportunity.
Created	The investment earns a rate of return higher than required.
Conserved	The investment just earns its required rate of return. In other words it fairly compensates the investor.

Figure 37: Outcomes after a deal being completed - measurement of performance by the investor require return

Source: Bruner F. (2009)

In conclusion, this appendix aims to illustrate how outcomes of a transaction can be more complex than a completed, or not, status. Therefore, the managers should be almost 100% certain of their expectations, before taking any decision.

Appendix 4. How risk is distributed between Acquirer and Seller

	Preclosing market risk	**Postclosing operating risk**
All-Cash Deal		
Acquirer	All	all
Seller	None	None
Fixed-Share Deal		
Acquirer	Expected percentage of ownership	Actual percentage of ownership

Seller	Expected percentage of ownership	Actual percentage of ownership
Fixed-Value Deal		
Acquirer	All	Actual percentage of ownership
Seller	None	Actual percentage of ownership

Figure 38: Risk Distribution

Source: Rappaport A. and Sirower L. (1998)

Appendix 5. Framework for DCF-Based Valuation

Model	Measure	Discount factor	Assessment
Enterprise discounted cash flow	Free cash flow	Weighted average cost of capital	Works best for projects, business units, and companies that manage their capital structure to a target level.
Discounted economic profit	Economic profit	Weighted average cost of capital	Explicitly highlights when a company creates value.
Adjusted present value	Free cash flow	Unlevered cost of equity	Highlights changing capital structure more easily than WACC-based models.
Capital cash flow	Capital cash flow	Unlevered cost of equity	Compresses free cash flow and the interest tax shield in one number, making it difficult to compare operating performance among companies and over time.
Equity cash flow	Capital cash flow	Levered cost of equity	Difficult to implement correctly because capital structure is embedded within the cash flow. Best used when valuing financial institution

Figure 39: Framework for DCF – Based Valuation

Source: Koller T. *et al.* (2010)

Appendix 6. Interest tax shields considerations

Under this topic the authors Koller T. *et al.* (2010) make a good summary to explain why should an investor move ITS from FCF to the cost of capital. The reason is basically based in what comparisons each method allows. Just valuating the equity it will enable a comparison of across companies and as well over time with no concerns with the changes in capital structure. Luehrman A. (1996) also gives an interesting input by highlighting the importance differentiating the sources and distribution of value.

Appendix 7. Determinants of betas: Type of Business, Degree of Operating Leverage

Variables	Function of	Beta
Type of Business	Risk of a firm relative to a market index	The more sensitive a business is to market conditions, the higher the beta.
Degree of Operating Leverage	Relationship between fixed costs and total costs	The higher the variance in operating income, the higher the beta. (Because high operating leverage leads to variability in operating income)

Figure 40: Variables affecting beta riskiness

Source: Damodaran A. (2012)

Appendix 8. Equity Risk Premium - risk and returns for the different models

Damodaran A. (2012) divides in four possible approaches: CAPM, APM (Arbitrage Pricing Model), multifactor model and proxy model. The figure underneath summarizes:

Models	Assumptions	Measure of market risk, Beta measure
CAPM	No transaction costs or private information.	Against the market portfolio
APM	Investments with the same exposure to market risk are traded at the same price *i. e.*, no arbitrage.	Against several market risk factors

Multifactor	No arbitrage.	Against macroeconomic factors
Proxy	Higher returns on investments are expected to bring a higher market risk.	Proxies for market risk

Figure 41: Assumptions for each measure of risk

Source: Damodaran A. (2012)

Appendix 9. Historical Risk Premiums

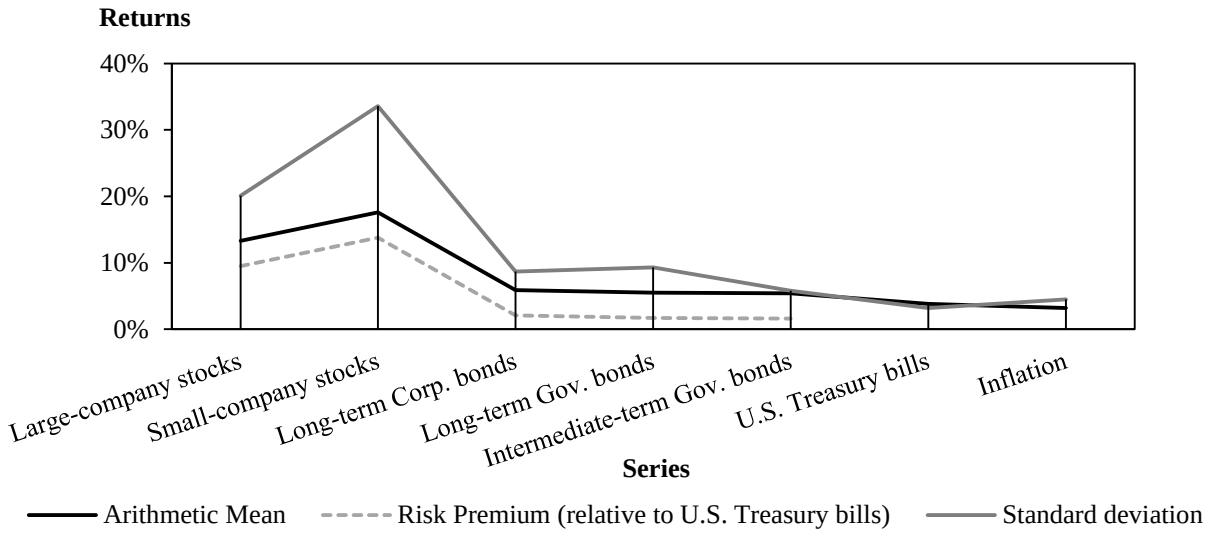


Figure 42: Total Annual Returns (From 1926 until 1999)

Data Source: Ross A. *et al.* (2008)

Even though Ross A. *et al.* (2008) illustrate the results in a different way, figure 42 gives the reader the sensibility of how different is each series behave. Additionally, it shows how the risk premium decreases when moving from large and small companies stocks to corporate or government bonds. Logically, if an investor requires a lower risk it will imply also a lower premium. Hence, the longer an investor holds and the more secure the entity is, the lower the premium. Regarding the historically development, Damodaran A. (2012) estimates the risk premium "in the U.S. markets by different investment banks, consultants and corporations range from 3% at the lower end to 12% at the upper end".

Appendix 10. Key assumptions in stable growth

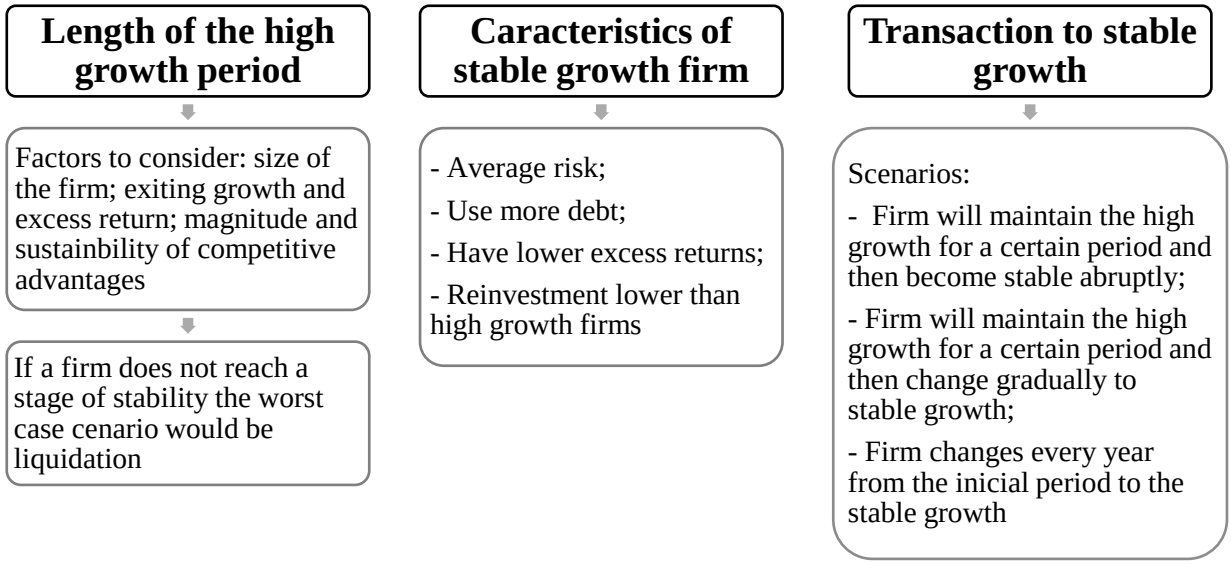


Figure 43: Three baseline assumptions for the stable growth rate

Source: Damodaran A. (2012)

Appendix 11. Multiples Used in Valuation

Quantity		Multiple	Terminology		Value
Cash Flow	x	Firm Value / Cash Flow	Cash flow multiple	=	Value of Firm
EBITIDA	x	Firm Value / EBITDA	EBITDA multiple	=	Value of Firm
Sales	x	Firm Value / Sales	Sales multiple	=	Value of Firm
Costumers	x	Firm Value / Costumers	Customer multiple	=	Value of Firm
Earnings	x	Price per share / Earnings	Price-earnings ratio	=	Share Price

Figure 44: Computation of several multiples

Source: Greenwood R. and White L. (2006)

Appendix 12. Airlines evolution

	PHASE 1	PHASE 2	PHASE 3
Market profile	Small demand Government owned Highly regulated	Fast demand growth Mix private and government-owned Significantly regulated	Large, mature demand Private ownership Largely deregulated
Outcomes	High Prices Low efficiency Low profitability	Prices dropping Efficiency improving Profitable	Price low Efficiency high Margin fluctuating around low average
Examples	Large parts of Africa	Emerging economies	Mature OECD countries

Figure 45: Airline Evolution

Source: IATA Vision 2050 Report

Appendix 13. Airlines classification

Name	Sub-name	Revenue	Characteristics
Majors		> $ 1 billion	National and worldwide service
National		$100 million - $1 billion	Serve particular regions of the country, although some provide long-haul and even international service
Regional	Large	$20 million - $99 million	Service limited to a single region of the country
	Medium	< $19 million	Less than 61 seats
	Small	Not official	Less than 61 seats
Cargo	Cargo	-	Transports passengers and cargo
	Freighters	-	Transport only cargo

Figure 46: Airlines classification by their revenue value

Data Source: U.S. Department of Transportation (DOT)

Appendix 14. Porter Fiver Forces Framework

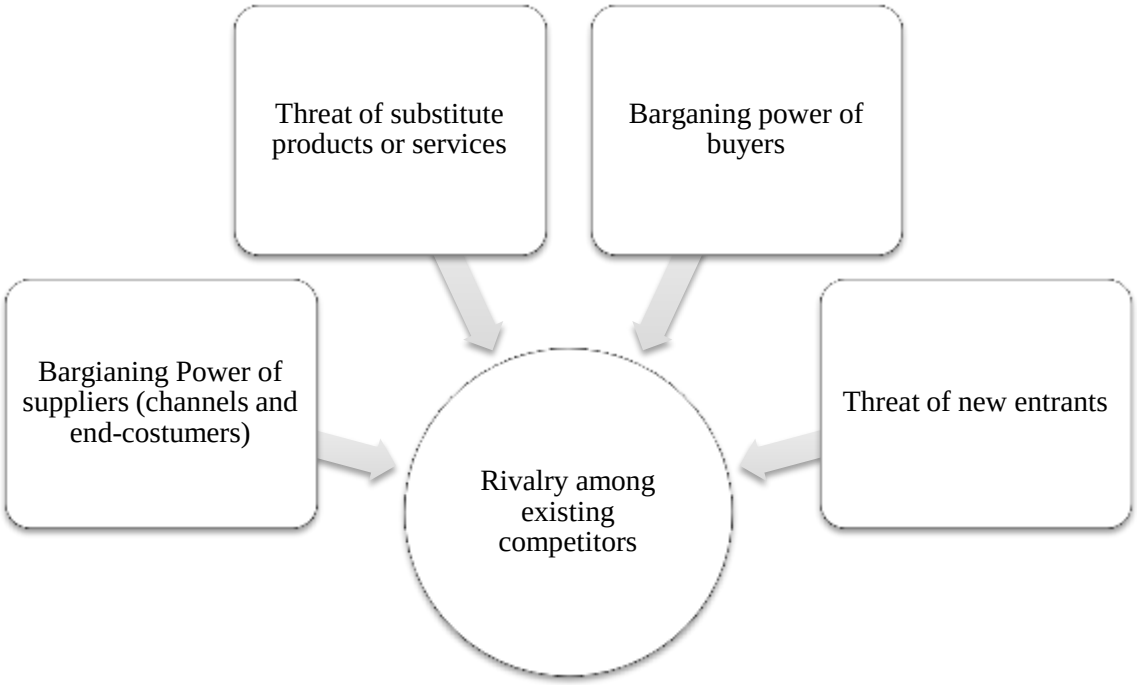


Figure 47: Porter Five Forces Framework

Source: Porter E. (2007)

Two sides need to be considered when assessing bargaining power: the suppliers and buyers. The former can be: Labor Unions, especially powerful when controlling operations at network hubs; aircraft engine products, usually concentrated in oligopolies; airports, organized in local monopolies (David S. 2012) and finally the financial sources that have a controlling stake over airlines carriers. Then, on the buyer's side are the channels and the end-costumer. Channels include: global distribution systems, highly concentrated; websites, characterized by their transparency and travel agents, which always try to offer good deals to their corporate buyers. Generally, the end-costumers are fragmented and as travel has a meaningful share of discretionary spending they are also price sensitive. Further, low switching costs between the different price options offered by carriers can be observed.

Regarding threats they have a medium to high strength. By one hand, other modes of transport like trains, boats or automobiles and alternatives to travel such as technology for web-conferencing are examples of substitute products. Additionally, environmental issues, delays or purchase power still represent a barrier for airlines to get more costumers. On the other hand, new

entrants may threat the overall industry or just an expansion to specific geographic markets. Expansion is usually common because it does not only cost less but also provides demand-side benefits of scale and easy access to distribution channels.

Appendix 15. Evolution of global airline strategic alliance and consolidation, 20th century

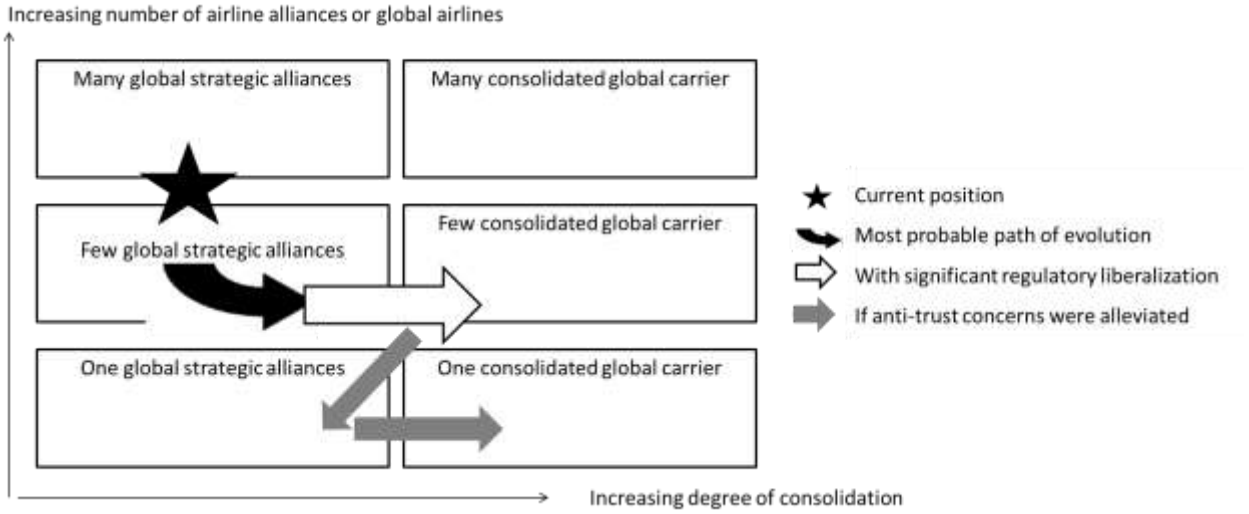


Figure 48: Probable paths of evolution
Source: Fan T. *et al.* (2001)

According to Hansson T. *et al.* (2002) the explanation for this wave of mergers and acquisitions is that "as many carriers struggle to sustain their financial viability, there is a window of opportunity to redesign the airline business model and address historical constrains". However, the authors underline that independently of the industry, half of all deals "fall short of their stated objectives", which can be explained by the following hurdles that airlines integration might face: disregard of the enormous complexities in the whole labor dimension, by the combined company; the acquirer does not fully understand the business; lapses in planning and execution.

Appendix 16. Chapter 11 - Reorganization Under the Bankruptcy Code

Purpose	"Usually proposes a plan of reorganization to keep its business alive and pay creditors over time."
How does it works	"Begins with the filing of a petition with the bankruptcy court serving the area where the debtor has a domicile or residence. A petition may be a

	voluntary petition, which is filed by the debtor, or it may be an involuntary petition, which is filed by creditors that meet certain requirements."
Debtor in possession	"Chapter 11 is typically used to reorganize a business, which may be a corporation, sole proprietorship, or partnership. A corporation exists separate and apart from its owners, the stockholders. The Chapter 11 bankruptcy case of a corporation (corporation as debtor) does not put the personal assets of the stockholders at risk other than the value of their investment in the company's stock. […]."
Monitoring entity	U.S. trustee

Figure 49: Relevant Chapter 11 characteristics

Source: United States Courts: Bankruptcy

Appendix 17. U.S. Airways common stock beneficial owners

Benefitial Owner	Relationship to LCC	Ownership Amount
W.Douglas Parker	Chairman and CEO	985 680
J.Scott Kirby	President	128 440
Robert D. Isom	VC operating officer	20 529
Stephen L. Johnson	VC corp. and gov. affairs	0
Stephen J.Kerr	VC financial officier	5 602
Herbert M. Baum	Director	58 120
Matthew J. Hart	Director	43 264
Richard C. Kraemer	Director	72 673
Cheryl G. Krongard	Director	39 558
Bruce R. Lakefield	Director	39 558
Denise M. O'Leary	Director	57 376
George M. Philip	Director	39 558
J.Steven Whisler	Director	41 779
Total director and executive board		1 532 137
FMR, LCC		23 689 731
Appaloosa Partenrs, Inc.		11 278 238
BlackRock, Inc.		8 995 058
The Vanguard Gorup, Inc.		8 373 673

Figure 50: U.S. Airways detailed ownership

Source: U.S. Airways 2011 proxy statement

Appendix 18. American common stock beneficial owners

Benefitial Owner	Ownership Amount	Benefitial Owner	Ownership Amount
John W. Bachmann	26 500	Judith Rodin	1 000
Stephen M. Bennett	20 000	Matthew K. Rose	1 000
Armando M. Codina	1 000	Roger T. Staubach	5 000
Alberto Ibarguen	9 000	Thomas W. Horton	411 098
Ann M. Korologos	7 800	Isabella D. Goren	249 442
Michael A. Miles	15 000	Daniel P. Garton	357 093
Philip J.Purcell	10 000	Gary F. Kennedy	243 378
Ray M. Robinson	3 000		

Total director and excutive board	1 360 311
Research Global Investors	31 319 699
World Investors	2 811 772

Figure 51: American Airlines detailed ownership

Source: AMR Corporation. (2011) Annual report - Form 10K

Appendix 19. Income Statement main assumptions

	2012	2013	2014	2015	2016	2017	2018	2019
Domestic	3,5%	4,1%	4,1%	4,1%	3,7%	3,0%	3,0%	3,0%
Atlantic	4,5%	4,2%	4,5%	4,4%	4,2%	4,0%	4,0%	4,0%
Latin America	4,4%	5,7%	6,1%	6,3%	6,3%	3,5%	3,5%	3,5%

Figure 52: U.S. Airways assumptions - revenues growth (LTM)

Source: Massachusetts Institute of Technology (MIT) - Industry Database, U.S. Department of Transportation (DOT) and World Databank

	2012	2013	2014	2015	2016	2017	2018	2019
Domestic	3,2%	3,7%	3,7%	3,7%	3,4%	3,0%	3,0%	3,0%
Atlantic	4,0%	3,8%	4,0%	3,9%	3,8%	4,0%	4,0%	4,0%
Latin America	3,9%	5,2%	5,5%	5,6%	5,7%	3,5%	3,5%	3,5%
Pacific	4,4%	5,2%	5,5%	5,6%	5,5%	6,0%	6,0%	6,0%

Figure 53: American Airlines assumptions - revenues growth (LTM)

Source: Massachusetts Institute of Technology (MIT) - Industry Database, U.S. Department of Transportation (DOT) and World Databank

Appendix 20. Income Statement for U.S. Airways and American Airlines

	Historical Period							Forecast Period							
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Domestic	4 575	9 397	9 582	9 659	8 285	9 158	9 709	10 052	10 462	10 892	11 335	11 758	12 111	12 474	12 848
Atlantic	364	1 338	1 443	1 673	1 549	1 862	2 299	2 403	2 503	2 615	2 730	2 844	2 958	3 076	3 199
Latin America	138	822	675	786	624	888	1 047	1 092	1 155	1 225	1 302	1 383	1 432	1 482	1 534
Operating Revenues	**5 077**	**11557**	**11700**	**12118**	**10458**	**11908**	**13055**	**13 546**	**14 120**	**14 732**	**15 367**	**15 985**	**16 500**	**17 032**	**17 581**
Aircraft fuel and related taxes	1 214	2 518	2 630	3 618	1 863	2 403	3 400	3 045	3 174	3 311	3 454	3 593	3 709	3 829	3 952
Loss/gain on fuel hedging	-75	79	-245	356	7	0	0	0	0	0	0	0	0	0	0
Salaries and related costs	1 045	2 090	2 302	2 231	2 165	2 244	2 272	2 303	2 400	2 504	2 612	2 718	2 805	2 895	2 989
Express expenses	1 073	2 559	2 594	3 049	2 519	2 729	3 127	3 104	3 236	3 376	3 522	3 663	3 781	3 903	4 029
Aircraft rent	429	732	727	724	695	670	646	842	877	915	955	993	1 025	1 058	1 092
Aircraft maintenance	344	582	635	783	700	661	679	752	784	818	853	887	916	945	976
Other rent and landing fees	267	568	536	562	560	549	555	628	655	683	713	741	765	790	815
Selling expenses	231	446	453	439	382	421	454	495	516	538	561	584	603	622	642
Special items, net	121	27	99	76	55	5	24	71	74	77	81	84	87	90	92
Depreciation and amortization	88	175	189	215	242	248	237	283	310	338	367	398	430	463	497
Goodwill impairment	0	0	0	622	0	0	0	0	0	0	0	0	0	0	0
Other	557	1 223	1 247	1 243	1 152	1 197	1 235	1 219	1 271	1 326	1 383	1 439	1 485	1 533	1 582
Operating Expenses	5 294	10 999	11 167	13 918	10 340	11 127	12 629	**12 742**	**13 297**	**13 888**	**14 501**	**15 101**	**15 606**	**16 129**	**16 668**
EBIT	**-217**	**558**	**533**	**-1 800**	**118**	**781**	**426**	**804**	**823**	**844**	**866**	**884**	**894**	**903**	**913**
Interest income	30	5 206	172	83	24	13	4	4	4	4	4	4	4	4	4
Interest Expense, net	-147	-295	-273	-253	-304	-329	-327	-322	-263	-401	-294	-253	-250	-227	-251
Other, net	-1	-12	2	-240	-81	37	-13	-13	-13	-13	-13	-13	-13	-13	-13
Nonoperating income (expense)	-118	4 899	-99	-410	-361	-279	-336	**-331**	**-272**	**-410**	**-303**	**-262**	-259	-236	-260
Pretax income	**-335**	**5 457**	**434**	**-2 210**	**-243**	**502**	**90**	**473**	**551**	**434**	**562**	**622**	**635**	**667**	**653**
Income tax provision (40%)	0	101	7	0	-38	0	19	189	220	173	225	249	254	267	261
Extraordinary losses (gains)	202	-1	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income/Profit (Loss)	**-537**	**5 357**	**427**	**-2 210**	**-205**	**502**	**71**	**284**	**331**	**260**	**337**	**373**	**381**	**400**	**392**

Figure 54: U.S. Airways income statement (million U.S. dollars)

Source: Bloomberg Database and Annual Reports

	Historical Period							Forecast Period							
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Domestic	13 245	14 159	14 179	14 135	11 974	13 081	13 804	14 242	14 766	15 312	15 873	16 405	16 897	17 404	17 926
Atlantic	3 115	3 409	3 556	3 671	2 973	3 365	3 499	3 640	3 778	3 929	4 085	4 239	4 408	4 584	4 768
Latin America	3 568	4 024	4 268	4 927	4 114	4 619	5 460	5 674	5 966	6 293	6 647	7 023	7 269	7 524	7 787
Pacific	784	971	932	1 033	856	1 105	1 216	1 269	1 336	1 409	1 488	1 570	1 664	1 764	1 870
Operating Revenues	**20 712**	**22 563**	**22 935**	**23 766**	**19 917**	**22 170**	**23 979**	**24 826**	**25 846**	**26 943**	**28 092**	**29 237**	**30 239**	**31 276**	**32 351**
Wages, salaries and benefits	6 755	6 813	6 670	9 014	5 553	6 400	8 304	7448	7754	8083	8428	8771	9072	9383	9705
Aircraft fuel	5 615	6 402	6 770	6 655	6 807	6 847	7 053	7302	7602	7925	8263	8600	8894	9199	9515
Other rent and landing fees	1 262	1 283	1 278	1 298	1 353	1 418	1 432	1483	1543	1609	1678	1746	1806	1868	1932
Depreciation and amortization	1 164	1 157	1 202	1 207	1 104	1 093	1 086	1243	1305	1369	1437	1507	1580	1656	1734
Commissions and other	1 113	1 076	1 057	1 237	1 280	1 329	1 284	1329	1384	1443	1504	1566	1619	1675	1732
Aircraft maintenance	985	971	1 028	997	853	976	1 062	1093	1138	1186	1237	1287	1331	1377	1424
Aircraft rentals	591	606	591	492	505	580	662	649	676	705	735	765	791	818	846
Food service	507	508	534	518	487	490	518	559	582	607	632	658	681	704	728
Special charges	0	0	63	1 213	171	0	725	68	71	74	77	80	83	86	89
Other operating expenses	2 809	2 687	2 777	3 024	2 808	2 729	2 907	2979	3101	3233	3371	3508	3629	3753	3882
Operating Expenses	20 801	21 503	21 970	25 655	20 921	21 862	25 033	**24154**	**25156**	**26234**	**27361**	**28488**	**29486**	**30519**	**31589**
EBIT	**-89**	**1 060**	**965**	**-1 889**	**-1 004**	**308**	**-1 054**	**921**	**950**	**983**	**1 018**	**1 050**	**1 069**	**1 089**	**1 109**
Interest income	149	279	337	181	34	26	26	26	26	26	26	26	26	26	26
Interest Expense	-957	-1 030	-914	-756	-744	-823	-826	-733	-603	-684	-472	-718	-487	-440	-392
Interest capitalized	65	29	20	33	42	31	40	40	40	40	40	40	40	40	40
Miscellaneous, net	-25	-107	96	360	-80	-48	-47	-47	-47	-47	-47	-47	-47	-47	-47
Nonoperating income (expense)	-768	-829	-461	-182	-748	-814	-807	**-714**	**-584**	**-665**	**-453**	**-699**	**-468**	**-421**	**-373**
Pretax income	**-857**	**231**	**504**	**-2 071**	**-1 752**	**-506**	**-1 861**	**208**	**367**	**318**	**565**	**351**	**601**	**667**	**736**
Reorganization Items	0	0	0	0	0	0	-118	0	0	0	0	0	0	0	0
Income tax provision 40%	0	0	0	0	-284	-35	0	83	147	127	226	140	240	267	294
Net Income/Profit (Loss)	**-857**	**231**	**504**	**-2 071**	**-1 468**	**-471**	**-1 743**	**125**	**220**	**191**	**339**	**211**	**361**	**400**	**441**

Figure 55: America Airlines income statement (Million dollars)

Source: Bloomberg Database and Annual Reports

Appendix 21. Balance Sheet for U.S. Airways and American Airlines

	Historical Period							Forecast Period							
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
							ASSETS								
Cash and Equivalents	1 125	1 116	1 948	1 034	1 299	1 859	1 947	2 015	2 101	2 094	2 079	2 070	2 036	2 001	1 954
Marketable Securities and other ST Invest.	452	1 249	226	20	0	0	0	0	701	0	0	0	0	0	0
Accounts & Notes receivables	353	388	374	293	285	311	327	334	348	363	379	394	407	420	434
Inventory	229	223	249	201	227	231	235	239	249	260	271	282	291	300	310
Others Current asset	400	378	550	870	520	508	540	610	635	663	691	719	743	766	791
Total Current Assets	**2 559**	**3 354**	**3 347**	**2 418**	**2 331**	**2 909**	**3 049**	**3 198**	**4 035**	**3 380**	**3 420**	**3 466**	**3 477**	**3 488**	**3 489**
Flight Equipment and others	2 495	2 697	3 245	4 240	4 847	5 100	5 651	6 193	6 758	7 347	7 962	8 601	9 261	9 942	10 646
Accumulated depreciation and amortization	431	583	757	954	1 151	1 304	1 501	1 784	2 093	2 431	2 798	3 197	3 627	4 090	4 587
Total property and equipment	**2 064**	**2 114**	**2 488**	**3 286**	**3 696**	**3 796**	**4 150**	**4 409**	**4 664**	**4 916**	**5 163**	**5 405**	**5 634**	**5 853**	**6 059**
Goodwill	732	0	622	0	0	0	0	0	0	0	0	0	0	0	0
Other Investments in marketable securities	0	0	353	187	0	57	0	0	0	0	0	0	0	0	0
Other intangibles, net	583	1 067	553	545	477	477	543	543	543	543	543	543	543	543	543
Restricted cash	792	798	466	540	726	364	365	365	365	365	365	365	365	365	365
Other assets, net	234	243	211	238	224	216	228	228	228	228	228	228	228	228	228
Total Assets	**6 964**	**7 576**	**8 040**	**7 214**	**7 454**	**7 819**	**8 335**	**8 743**	**9 836**	**9 432**	**9 719**	**10 006**	**10 247**	**10 477**	**10 684**
							LIABILITIES & STOCKHOLDERS' EQUITY								
Accounts Payable	530	454	366	797	337	386	386	444	463	483	503	524	541	558	576
Curr. maturities of debt and capit. Leases	211	95	117	362	502	397	436	380	1 761	376	275	501	501	501	0
Air Traffic liability	788	847	832	698	778	861	910	892	931	972	1 015	1 057	1 092	1 129	1 167
Accrued compensation and vacations	209	265	225	158	178	245	176	255	266	278	290	302	312	323	333
Accrued taxes	171	209	152	142	141	149	163	133	139	145	151	157	161	167	0
Other accrued expenses	750	842	859	887	853	802	1 089	1 147	1 197	1 250	1 305	1 359	1 405	1 452	1 500
Total Current Liabilities	**2 659**	**2 712**	**2 551**	**3 044**	**2 789**	**2 840**	**3 160**	**3 250**	**4 756**	**3 503**	**3 540**	**3 900**	**4 012**	**4 129**	**3 576**
Long term debt and capital leases	2 749	2 907	3 031	3 634	4 024	4 003	4 130	3 694	3 314	1 553	1 177	902	401	0	0
New debt								392	0	2 319	2 578	2 376	2 599	2 686	3 027
Deferred gains and credits	254	275	318	323	337	336	307	307	307	307	307	307	307	307	307
Postretirement benefits	0	0	138	108	120	141	160	98	102	106	111	115	119	123	127
Employees benefits and other	882	712	563	610	539	415	428	568	592	618	645	671	692	715	738
Total Liabilities	**6 544**	**6 606**	**6 601**	**7 719**	**7 809**	**7 735**	**8 185**	**8 309**	**9 071**	**8 407**	**8 358**	**8 271**	**8 131**	**7 960**	**7 775**
Common par	1	1	1	1	2	2	2	2	2	2	2	2	2	2	2
Additional paid-in capital	1 258	1 501	1 536	1 749	2 107	2 115	2 122	2 122	2 122	2 122	2 122	2 122	2 122	2 122	2 122
Accumulated deficit	-289	-5 879	-522	-97	-2 336	-2 549	-2 047	-1 976	-1 692	-1 362	-1 101	-764	-391	-10	391
Net income	-537	5 357	427	-2 210	-205	502	71	284	331	260	337	373	381	400	392
Accumulated other comprehensive income	0	3	10	65	90	14	2	2	2	2	2	2	2	2	2
Treasury stock	-13	-13	-13	-13	-13	0	0	0	0	0	0	0	0	0	0
Total Stockholders' equity	**420**	**970**	**1 439**	**-505**	**-355**	**84**	**150**	**434**	**764**	**1 025**	**1 362**	**1 735**	**2 116**	**2 517**	**2 909**
Total Lab. and Stockholder's equity	**6 964**	**7 576**	**8 040**	**7 214**	**7 454**	**7 819**	**8 335**	**8 743**	**9 836**	**9 432**	**9 719**	**10 006**	**10 247**	**10 477**	**10 684**

Figure 56: U.S. Airways balance sheet (Million dollars)
Source: Bloomberg Database and Annual Reports

	Historical Period							Forecast Period							
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
							ASSETS								
Cash and Equivalents	138	121	148	191	153	168	283	298	310	323	337	351	363	375	388
Short-term Investment	3 676	4 594	4 387	2 916	4 246	4 328	3 718	674	1 063	2 805	2 032	4 634	3 877	3 138	2 419
Accounts & Notes receivables	991	988	1 027	811	768	738	902	918	956	997	1 039	1 081	1 118	1 157	1 197
Inventory	515	506	601	525	557	594	617	596	621	647	675	702	726	751	777
Others Current asset	844	693	1 066	1 492	918	1 010	1 237	1 142	1 189	1 239	1 292	1 345	1 391	1 439	1 488
Total Current Assets	**6 164**	**6 902**	**7 229**	**5 935**	**6 642**	**6 838**	**6 757**	**3 628**	**4 139**	**6 011**	**5 375**	**8 114**	**7 475**	**6 860**	**6 269**
Flight Equipment and other equipment	27 925	28 188	28 485	25 404	25 444	25 893	24 013	25 254	26 547	27 894	29 298	30 760	32 272	33 836	35 454
less Accumulated depreciation	10 398	11 112	11 854	9 909	10 263	11 055	10 100	10 796	11 519	12 270	13 051	13 864	14 708	15 587	16 499
Own property and equipment	**17 527**	**17 076**	**16 631**	**15 495**	**15 181**	**14 838**	**13 913**	**14 459**	**15 028**	**15 624**	**16 247**	**16 897**	**17 564**	**18 249**	**18 955**
Flight equipment under capital lease	2 080	1 961	1 915	776	866	824	841	841	841	841	841	841	841	841	841
Less accumulated amortization	1 061	1 096	1 152	536	571	580	448	468	486	504	521	537	552	567	580
CL Property and equipment	**1 019**	**865**	**763**	**240**	**295**	**244**	**393**	**373**	**355**	**337**	**320**	**304**	**289**	**274**	**261**
Other assets, net	4 785	4 302	3 948	3 505	3 320	3 168	2 785	2 785	2 785	2 785	2 785	2 785	2 785	2 785	2 785
Total Assets	**29 495**	**29 145**	**28 571**	**25 175**	**25 438**	**25 088**	**23 848**	**21 245**	**22 306**	**24 757**	**24 727**	**28 100**	**28 113**	**28 169**	**28 269**
							LIABILITIES & STOCKHOLDERS' EQUITY								
Accounts Payable	1 078	1 073	1 182	952	1 064	1 156	1 007	1 130	1 176	1 226	1 278	1 331	1 376	1 423	1 472
Accrued salaries and wages	635	551	559	519	488	498	524	478	498	519	541	564	583	604	625
Fuel derivative liability	0	0	0	716	80	0	0	120	124	130	135	141	146	151	156
Accrued liabilities	1 705	1 750	1 708	1 523	1 551	1 587	1 358	1 673	1 743	1 817	1 895	1 973	2 042	2 113	2 187
Air traffic liability	3 615	3 782	3 985	3 708	3 431	3 656	4 223	4 064	4 232	4 413	4 603	4 792	4 959	5 132	5 311
Current maturity of long term debt	1 077	1 246	902	1 849	1 024	1 776	1 518	1 098	1 528	828	1 874	0	0	0	0
Current obligations under cap. leases	162	103	147	107	90	107	0	0	0	0	0	0	0	0	0
Total Current Liabilities	**8 272**	**8 505**	**8 483**	**9 374**	**7 728**	**8 780**	**8 630**	**8 563**	**9 302**	**8 934**	**10 327**	**8 800**	**9 106**	**9 423**	**9 751**
Long term debt	12 530	11 217	9 413	8 419	9 984	8 756	6 702	5 644	5 005	5 403	3 948	5 397	4 931	4 456	3 973
Obligations under capital leases	926	824	680	582	599	497	0	0	0	0	0	0	0	0	0
								716	1 175	3 101	2 474	5 397	4 931	4 456	3 973
Deferred gains	421	372	320	297	272	270	110	110	110	110	110	110	110	110	110
Pension and postretirement benefits	4 998	5 341	3 620	6 614	7 397	7 877	9 204	6 886	7 168	7 473	7 791	8 109	8 387	8 675	8 973
Other liabilities ad deferred credits	3 778	3 492	3 398	2 824	2 947	2 853	1 470	1 470	1 470	1 470	1 470	1 470	1 470	1 470	1 470
Liabilities subject to compromise	0	0	0	0	0	0	4 843	4 843	4 843	4 843	4 843	4 843	4 843	4 843	4 843
Total Liabilities	**30 925**	**29 751**	**25 914**	**28 110**	**28 927**	**29 033**	**30 959**	**28 232**	**29 073**	**31 333**	**30 964**	**34 125**	**33 778**	**33 434**	**33 092**
Common par	195	228	255	285	339	339	341	341	341	341	341	341	341	341	341
Additional paid-in capital	2 258	2 718	3 489	3 785	4 399	4 445	4 465	4 465	4 465	4 465	4 465	4 465	4 465	4 465	4 465
Treasury stock	-779	-367	-367	-367	-367	-367	-367	-367	-367	-367	-367	-367	-367	-367	-367
Accumulated other comprehensive inc.	-979	-1 291	670	-3 177	-2724	-2 755	-3964	-3 964	-3 964	-3 964	-3 964	-3 964	-3964	-3 964	-3 964
Accumulated deficit	-1 374	-1 037	-1 621	-3 965	-3 065	-4 139	-7 115	-7 586	-7 461	-7 241	-7 051	-6 712	-6 501	-6 140	-5 740
Net income	-751	-857	231	504	-2 071	-1 468	-471	125	220	191	339	211	361	400	441
Total Stockholders' equity	**-1 430**	**-606**	**2 657**	**-2 935**	**-3 489**	**-3 945**	**-7 111**	**-6 986**	**-6 766**	**-6 576**	**-6 237**	**-6 026**	**-5 665**	**-5 265**	**-4 823**
Total Lab and Stockholder's equity	**29 495**	**29 145**	**28 571**	**25 175**	**25 438**	**25 088**	**23 848**	**21 245**	**22 306**	**24 757**	**24 727**	**28 100**	**28 113**	**28 169**	**28 269**

Figure 57: American Airlines balance sheet (Million dollars)
Source: Bloomberg Database and Annual Reports

Appendix 22. Net working capital assumptions

	Historical Period							Forecast Period							
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
							Current Assets								
Accounts & Notes receivables	353	388	374	293	285	311	327	334	348	363	379	394	407	420	434
Days Outstanding	25,4	12,3	11,7	8,8	9,9	9,5	9,1	9	9	9	9	9	9	9	9
Inventory	229	223	249	201	227	231	235	239	249	260	271	282	291	300	310
Days Outstanding	16,1	7,5	8,3	5,6	8,2	7,8	6,9	7	7	7	7	7	7	7	7
Others	400	378	550	870	520	508	540	610	635	663	691	719	743	766	791
% Operating Revenue	7,9%	3,3%	4,7%	7,2%	5,0%	4,3%	4,1%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%
Cash and equivalents	1 125	1 116	1 948	1 034	1 299	1 859	1 947	2 032	2 118	2 210	2 305	2 398	2475	2555	2637
% Operating Revenue	22%	10%	17%	9%	12%	16%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Total	**2 107**	**2 105**	**3 121**	**2 398**	**2 331**	**2 909**	**3 049**	**3 215**	**3 351**	**3 496**	**3 646**	**3 793**	**3915**	**4042**	**4172**
							Current liabilities								
Accounts Payable	530	454	366	797	337	386	386	444	463	483	503	524	541	558	576
Days Outstanding	37,2	15,3	12,2	22,2	12,2	13,0	11,4	13	13	13	13	13	13	13	13
Air Traffic and flyer liability	788	847	832	698	778	861	910	892	931	972	1015	1092	1129	1167	1092
% Operating Expense	15%	8%	7%	5%	8%	8%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Other current expenses	750	842	859	887	853	802	1089	1147	1197	1250	1305	1359	1405	1452	1500
% Operating Expense	14%	8%	8%	6%	8%	7%	9%	9%	9%	9%	9%	9%	9%	9%	9%
Pension and postretirement benefits	0	0	138	108	120	141	160	98	102	106	111	115	119	123	127
% Salaries and related costs	0%	0%	6%	5%	6%	6%	7%	4%	4%	4%	4%	4%	4%	4%	4%
Total	**2 068**	**2 143**	**2 195**	**2 490**	**2 088**	**2 190**	**2 545**	**2 580**	**2 692**	**2 811**	**2 934**	**3 055**	**3 157**	**3 261**	**3 370**
Working Capital (Non Cash)	39	-38	926	-92	243	719	504	634	659	685	712	738	759	780	802
Change of Non Cash WC		**-77**	**964**	**-1018**	**335**	**476**	**-215**	**130**	**24**	**26**	**27**	**26**	**21**	**21**	**22**

Figure 58: U.S. Airways net working capital (Million dollars)

	Historical Period							Forecast Period							
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
							Current Assets								
Accounts & Notes receivables	991	988	1027	811	768	738	902	918	956	997	1039	1081	1118	1157	1197
Days Outstanding	17,5	16,0	16,3	12,5	14,1	12,2	13,7	13,5	13,5	13,5	13,5	13,5	13,5	13,5	13,5
Inventory	515	506	601	525	557	594	617	596	621	647	675	702	726	751	777
Days Outstanding	9,6	9,1	10,6	7,8	10,3	10,4	9,4	9,5	9,5	9,5	9,5	9,5	9,5	9,5	9,5
Others	844	693	1066	1492	918	1010	1237	1142	1189	1239	1292	1345	1391	1439	1488
% Operating Revenue	4,1%	3,1%	4,6%	6,3%	4,6%	4,6%	5,2%	4,6%	4,6%	4,6%	4,6%	4,6%	4,6%	4,6%	4,6%
Cash and equivalents	298	310	323	337	351	363	375	298	310	323	337	351	363	375	388
% Operating Revenue	1,4%	1,4%	1,4%	1,4%	1,8%	1,6%	1,6%	1,2%	1,2%	1,2%	1,2%	1,2%	1,2%	1,2%	1,2%
Total	**2 648**	**2 497**	**3 017**	**3 165**	**2 594**	**2 705**	**3 131**	**2 954**	**3 076**	**3 206**	**3 343**	**3 479**	**3 599**	**3 722**	**3 850**
							Current liabilities								
Accounts Payable	1 078	1 073	1 182	952	1 064	1 156	1 007	1 130	1 176	1 226	1 278	1 331	1 376	1 423	1 472
Days Outstanding	20,0	19,2	20,8	14,2	19,6	20,3	15,3	18,00	18,00	18,00	18,00	18,00	18,00	18,00	18,00
Fuel derivative liability	0	0	0	716	80	0	0	120	124	130	135	141	146	151	156
% Operating Expense	0%	0%	0%	3%	0%	0%	0%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%
Air traffic liability	3 615	3 782	3 985	3 708	3 431	3 656	4 223	4 064	4 232	4 413	4 603	4 792	4 959	5 132	5 311
% Operating Expense	17%	18%	18%	14%	16%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%
Pension and postretirement benefits	4 998	5 341	3 620	6 614	7 397	7 877	9 204	6 886	7 168	7 473	7 791	8 109	8 387	8 675	8 973
% Salaries and related costs	74%	78%	54%	73%	133%	123%	111%	92%	92%	92%	92%	92%	92%	92%	92%
Total	**9 691**	**10 196**	**8 787**	**11 990**	**11 972**	**12 689**	**14 434**	**12 199**	**12 701**	**13 242**	**13 808**	**14 372**	**14 868**	**15 381**	**15 912**
Working Capital (Non Cash)	**-7 043**	**-7 699**	**-5 770**	**-8 825**	**-9 378**	**-9 984**	**-11 303**	**-9 244**	**-9 625**	**-10 036**	**-10 465**	**-10 893**	**-11 269**	**-11 659**	**-12 062**
Change of Non Cash WC		-656	1 929	-3 055	-553	-606	-1 319	2 058	-381	-410	-429	-428	-376	-390	-404

Figure 59: American Airlines net working capital (Million dollars)

Appendix 23. DCF and APV approach

	LCC	AAMRQ	Merged
D/V	84,75%	98,59%	93,16%
Kd	7,13%	9,88%	7,13%
Ke	12,82%	32%	24%
WACC	5,58%	6,29%	5,62%
Terminal growth	2,0%	1,8%	1,8565%

Figure 60: Inputs for DCF and APV approach
Data: Bloomberg database, Data stream, annual reports

	2012	2013	2014	2015	2016	2017	2018	2019	TV
				DCF Approach					
EBIT	804	823	844	866	884	894	903	913	
Taxes	322	329	338	346	354	358	361	365	
Depreciation	283	310	338	367	398	430	463	497	
Capex	542	565	589	615	639	660	681	703	
NWC	130	24	26	27	26	21	21	22	
E(Cash Flows)	**93**	**214**	**229**	**245**	**263**	**286**	**302**	**320**	
DCF	**88**	**192**	**194**	**197**	**201**	**206**	**207**	**207**	**11 464**
∑ E(CF)	1 493								
PV of TV	7 425								
Total value	**8 918**								
				APV Approach					
E (Cash-flows)	93	214	229	245	263	286	302	320	
DCF	**88**	**194**	**197**	**200**	**205**	**211**	**212**	**214**	**9 507**
∑ E(CF)	1 521								
PV of TV	6 349								
Unlevered Value	**7 870**								
Interest expense	322	263	401	294	253	250	227	251	
ITS	129	105	161	118	101	100	91	101	
Discounted ITS	**120**	**92**	**131**	**89**	**72**	**66**	**56**	**58**	**1 154**
PV of ITS	684								
PV of TV ITS	665								
Total ITS	**1 349**								
PV Bankruptcy cost	**84**								
Total Value	**9 303**								

Figure 61: U.S. Airways – DCF and APV approaches (Million dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	TV
				DCF Approach					
EBIT	921	950	983	1 018	1 050	1 069	1 089	1 109	
Taxes	369	380	393	407	420	428	435	444	
Depreciation	994	1 044	1 096	1 149	1 206	1 264	1 325	1 387	
Capex	1 241	1 292	1 347	1 405	1 462	1 512	1 564	1 618	
NWC	2 058	-381	-410	-429	-428	-376	-390	-404	
E(Cash Flows)	**-1 753**	**703**	**748**	**785**	**802**	**770**	**804**	**838**	
DCF	**-1 649**	**622**	**623**	**615**	**591**	**534**	**524**	**515**	**21 100**
∑ E(CF)	2 375								
PV of TV	12 952								
Total value	**15 327**								
				APV Approach					
E(Cash Flows)	-1 753	703	748	785	802	770	804	838	
DCF	**-1 666**	**635**	**643**	**641**	**623**	**569**	**564**	**560**	**16 884**
∑ E(CF)	2 570								
PV of TV	11 276								
Unlevered Value	**13 845**								
Interest expense	733	603	684	472	718	487	440	392	
ITS	293	241	274	189	287	195	176	157	
Discounted ITS	**267**	**200**	**206**	**129**	**179**	**111**	**91**	**74**	**931**
PV of ITS	1 257								
PV of TV ITS	438								
Total ITS	1 696								
PV Bankruptcy cost	**437**								
Total Value	**15 978**								

Figure 62: American Airlines – DCF and APV approaches (Million dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	TV
				DCF Approach					
EBIT	1 256	2 363	2 568	2 876	3 179	3 328	3 068	3 139	
Taxes	502	945	1 027	1 150	1 272	1 331	1 227	1 256	
Depreciation	1 275	1 348	1 428	1 511	1 597	1 687	1 780	1 877	
Capex	1 781	1 850	1 929	2 011	2 093	2 163	2 236	2 312	
NWC	2 189	-357	-384	-402	-402	-356	-368	-381	
E(Cash Flows)	**-1 941**	**1 273**	**1 423**	**1 627**	**1 814**	**1 876**	**1 753**	**1 830**	
DCF	**-1 838**	**1 141**	**1 208**	**1 307**	**1 380**	**1 352**	**1 196**	**1 182**	**48 810**
∑ E(CF)	6 929								
PV of TV	31 524								
Total value	**38 453**								
				APV Approach					
E(Cash-flows)	-1 941	1 273	1 423	1 627	1 814	1 876	1 753	1 830	
DCF	**-1 845**	**1 151**	**1 223**	**1 330**	**1 409**	**1 386**	**1 232**	**1 222**	**36 852**
∑ E(CF)	7 107								
PV of TV	24 610								
Unlevered Value	**31 718**								
Interest expense	1 266	1 127	1 464	1 504	1 553	1 491	1 271	1 201	
ITS	506	451	585	602	621	597	508	480	
Discounted ITS	**473**	**393**	**476**	**457**	**440**	**395**	**314**	**277**	**11 958**
PV of ITS	3 224								
PV of TV ITS	6 895								
Total ITS	**10 119**								
PV Bankruptcy cost	**338**								
Total Value	**41 837**								

Figure 63: Merged Company – DCF and APV approaches (Million dollars)

Appendix 24. New entity financial statements: balance sheet and income statement

	Historical Period							Forecast Period							
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
						ASSETS									
Cash and Equivalents	1 263	1 237	2 096	1 225	1 452	2 027	2 230	2 313	2 411	2 417	2 416	2 421	2 399	2 376	2 342
Markt Securities and other Short-term Inv	4 128	5 843	4 613	2 936	4 246	4 328	3 718	674	1 764	2 805	2 032	4 634	3 877	3 138	2 419
Accounts & Notes receivables	1 344	1 376	1 401	1 104	1 053	1 049	1 229	1 252	1 304	1 360	1 418	1 476	1 525	1 577	1 630
Inventory	744	729	850	726	784	825	852	835	870	907	946	984	1 017	1 052	1 087
Others Current asset	1 244	1 071	1 616	2 362	1 438	1 518	1 777	1 752	1 824	1 902	1 984	2 064	2 133	2 205	2 279
Total Current Assets	**8 723**	**10 256**	**10 576**	**8 353**	**8 973**	**9 747**	**9 806**	**6 826**	**8 174**	**9 391**	**8 795**	**11 579**	**10 952**	**10 348**	**9 757**
Flight Equipment and others	32 500	32 846	33 645	30 420	31 157	31 817	30 505	32 286	34 136	36 065	38 076	40 169	42 332	44 568	46 880
Accum. depreciation and amortization	11 890	12 791	13 763	11 399	11 985	12 939	12 049	13 324	14 672	16 100	17 611	19 208	20 895	22 676	24 552
Total property and equipment	**20 610**	**20 055**	**19 882**	**19 021**	**19 172**	**18 878**	**18 456**	**18 962**	**19 464**	**19 965**	**20 465**	**20 961**	**21 437**	**21 892**	**22 327**
Goodwill	732	0	622	0	0	0	0	0	0	0	0	0	0	0	0
Other Investments in marketable securities	0	0	353	187	0	57	0	0	0	0	0	0	0	0	0
Other intangibles, net	583	1 067	553	545	477	477	543	543	543	543	543	543	543	543	543
Restricted cash	792	798	466	540	726	364	365	365	365	365	365	365	365	365	365
Other assets, net	5 019	4 545	4 159	3 743	3 544	3 384	3 013	3 013	3 013	3 013	3 013	3 013	3 013	3 013	3 013
Total Assets	**36 459**	**36 721**	**36 611**	**32 389**	**32 892**	**32 907**	**32 183**	**29 709**	**31 558**	**33 277**	**33 181**	**36 461**	**36 310**	**36 161**	**36 006**
						LIABILITIES & STOCKHOLDERS' EQUITY									
Accounts Payable	1 608	1 527	1 548	1 749	1 401	1 542	1 393	1 574	1 639	1 709	1 782	1 854	1 917	1 981	2 048
Curt maturities of debt and capital leases	1 450	1 444	1 166	2 318	1 616	2 280	1 954	1 478	3 289	1 204	2 149	501	501	501	0
Air Traffic liability	4 403	4 629	4 817	4 406	4 209	4 517	5 133	4 956	5 163	5 385	5 618	5 849	6 051	6 261	6 478
Fuel derivative liability	0	0	0	716	80	0	0	120	124	130	135	141	146	151	156
Accrued liabilities	3 470	3 617	3 503	3 229	3 211	3 281	3 310	3 686	3 842	4 009	4 183	4 355	4 503	4 658	4 645
Total Current Liabilities	**10 931**	**11 217**	**11 034**	**12 418**	**10 517**	**11 620**	**11 790**	**11 813**	**14 057**	**12 437**	**13 867**	**12 700**	**13 118**	**13 552**	**13 328**
Long term debt and capital leases	16 205	14 948	13 124	12 635	14 607	13 256	10 832	10 054	9 494	10 056	7 599	11 695	10 263	8 913	7 945
New debt	0	0	0	0	0	0	0	112	-584	6 250	6 156	5 574	5 392	5 045	4 924
Postretirement benefits other than pensions	4 998	5 341	3 758	6 722	7 517	8 018	9 364	6 983	7 270	7 579	7 902	8 224	8 506	8 797	9 099
Liabilities and deferred credits and gains	5 335	4 851	4 599	4 054	4 095	3 874	2 315	2 455	2 479	2 505	2 532	2 558	2 579	2 602	2 625
Liabilities subject to compromise	0	0	0	0	0	0	4 843	4 843	4 843	0	0	0	0	0	0
Total Liabilities	**37 469**	**36 357**	**32 515**	**35 829**	**36 736**	**36 768**	**39 144**	**36 261**	**37 560**	**38 828**	**38 056**	**40 752**	**39 858**	**38 909**	**37 920**
Common par	196	229	256	286	341	341	343	343	343	343	343	343	343	343	343
Additional paid-in capital	3516	4219	5025	5534	6506	6560	6587	6587	6587	6587	6587	6587	6 587	6 587	6 587
Treasury stock	-792	-380	-380	-380	-380	-367	-367	-367	-367	-367	-367	-367	-367	-367	-367
Net income	-1 394	5 588	931	-4 281	-1 673	31	-1 672	408	551	451	676	584	742	801	833
Accumulated deficit	-1 557	-8 004	-2 416	-1 487	-6 004	-7 685	-7 890	-9 562	-9 154	-8 603	-8 152	-7 476	-6 892	-6 150	-5 349
Accumulated other comprehensive income	-979	-1288	680	-3112	-2634	-2741	-3962	-3962	-3962	-3962	-3962	-3962	-3 962	-3 962	-3 962
Total Stockholders' equity	**-1 010**	**364**	**4 096**	**-3 440**	**-3 844**	**-3 861**	**-6 961**	**-6 553**	**-6 002**	**-5 551**	**-4 875**	**-4 291**	**-3 549**	**-2 748**	**-1 915**
Tot. Liabilities and Stockholder's equity	**36 459**	**36 721**	**36 611**	**32 389**	**32 892**	**32 907**	**32 183**	**29 709**	**31 558**	**33 277**	**33 181**	**36 461**	**36 310**	**36 161**	**36 006**

Figure 64: New entity balance sheet (Millions U.S. dollars)

	Historical Period							Forecast Period							
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Domestic	17 820	23 556	23 761	23 794	20 259	22 239	23 513	24 415	25 430	26 413	27 426	28 388	29 240	30 028	30 928
Atlantic	3 479	4 747	4 999	5 344	4 522	5 227	5 798	6 103	6 406	6 675	6 951	7 224	7 513	7 699	8 007
Latin America	3 706	4 846	4 943	5 713	4 738	5 507	6 507	6 834	7 264	7 668	8 108	8 575	8 875	9 051	9 367
Pacific	784	971	932	1 033	856	1 105	1 216	1 333	1 469	1 550	1 636	1 727	1 830	1 940	2 057
Operating Revenues	**25 789**	**34 120**	**34 635**	**35 884**	**30 375**	**34 078**	**37 034**	**38 686**	**40 569**	**42 307**	**44 120**	**45 915**	**47 459**	**48 717**	**50 359**
Aircraft fuel and related taxes	6 829	8 920	9 400	10 273	8 670	9 250	10 453	10 244	10 561	11 012	11 483	11 949	12 351	12 767	13 198
Loss/gain on fuel hedging instr.	-75	79	-245	356	7	0	0	0	0	0	0	0	0	0	0
Salaries and related costs	7 800	8 903	8 972	11 245	7 718	8 644	10 576	9 653	10 053	10 376	10 819	11 259	11 580	11 971	12 377
Express expenses	1 073	2 559	2 594	3 049	2 519	2 729	3 127	3 101	3 223	3 363	3 508	3 649	3 766	3 888	4 013
Aircraft rent	2 549	3 189	3 132	3 076	3 113	3 217	3 295	3 598	3 737	3 897	4 064	4 229	4 370	4 516	4 667
Aircraft maintenance	1 329	1 553	1 663	1 780	1 553	1 637	1 741	1 843	1 914	1 996	2 081	2 166	2 234	2 308	2 386
Selling expenses	231	446	453	439	382	421	454	494	514	536	559	582	600	620	640
Special items, net	121	27	162	1 289	226	5	749	139	145	151	157	164	169	175	181
Depreciation and amortization	1 252	1 332	1 391	1 422	1 346	1 341	1 323	1 275	1 348	1 428	1 511	1 597	1 687	1 780	1 877
Goodwill impairment	0	0	0	622	0	0	0	0	0	0	0	0	0	0	0
Commissions and expense	1 113	1 076	1 057	1 237	1 280	1 329	1 284	1 328	1 378	1 437	1 498	1 559	1 613	1 668	1 725
Food service	507	508	534	518	487	490	518	558	580	604	630	656	678	701	725
Other operating expenses	3 366	3 910	4 024	4 267	3 960	3 926	4 142	4 194	4 355	4 541	4 735	4 927	5 083	5 254	5 432
Operating Expenses	**26 095**	**32 502**	**33 137**	**39 573**	**31 261**	**32 989**	**37 662**	**36 430**	**37 806**	**39 339**	**41 045**	**42 736**	**44 131**	**45 650**	**47 220**
Restructuring costs	0	0	0	0	0	0	0	1 000	400	400	200	0	0	0	0
EBIT	**-306**	**1 618**	**1 498**	**-3 689**	**-886**	**1 089**	**-628**	**1 256**	**2 363**	**2 568**	**2 876**	**3 179**	**3 328**	**3 068**	**3 139**
Interest income	179	5 485	509	264	58	39	30	30	30	30	30	30	30	30	30
Interest Expense	-1 104	-1 325	-1 187	-1 009	-1 048	-1 152	-1 153	-1 266	-1 127	-1 464	-1 504	-1 553	-1 491	-1 271	-1 201
Other, net	39	-90	118	153	-119	20	-20	-20	-20	-20	-20	-20	-20	-20	-20
Nonoperating income (expense)	-886	4 070	-560	-592	-1 109	-1 093	-1 143	-1 256	-1 117	-1 454	-1 494	-1 543	-1 481	-1 261	-1 191
Pretax income	**-1 192**	**5 688**	**938**	**-4 281**	**-1 995**	**-4**	**-1 771**	**0**	**1 247**	**1 114**	**1 381**	**1 635**	**1 846**	**1 807**	**1 949**
Income tax provision 40%	0	101	7	0	-322	-35	19	272	367	301	451	389	495	534	555
Reorganization Items	0	0	0	0	0	0	-118	0	0	0	0	0	0	0	0
Extraordinary losses (gains)	202	-1	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income/Profit (Loss)	**-1 394**	**5 588**	**931**	**-4 281**	**-1 673**	**31**	**-1 672**	**-272**	**880**	**813**	**930**	**1 246**	**1 352**	**1 273**	**1 393**

Figure 65: New entity income statement (Million dollars)

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