THE AIRLINE STRATEGY AWARDS
AIRLINE BUSINESS

FINANCE

AMERICAN AIRLINES

American Airlines

> **"The principal was to obtain a lower cost of capital to pay down more expensive debt"**
>
> **TOM WEIR**
> Treasurer, American Airlines

Few treasurers will face the daunting task of managing the balance sheet of a major carrier through the midst of the world's largest airline merger.

That is exactly what the finance team at American Airlines, led by chief financial officer Derek Kerr and treasurer Tom Weir, did after the merger of American and US Airways closed in December 2013 – managing a multibillion dollar balance sheet through a period of turbulence as dozens of new aircraft arrived; all while keeping Wall Street happy.

"It was really collaborative as we sat down and discussed the merger and the capital that could be raised," says Weir. "I don't think there was a difference in philosophy, the lessons learned on both sides were how to access capital in difficult circumstances."

Going into the merger, both carriers raised cash levels through a series of opportune debt financing deals to a combined $9.25 billion at the end of 2013. This gave American a cushion for the integration process that stood at $9.17 billion at the end of March.

This cushion is largely the result of an adept and opportune use of debt markets. American repeatedly took advantage – sometimes defying Wall Street concerns – of low interest rates to raise funds, refinance high cost debt and finance new aircraft.

It renegotiated the terms on $1.15 billion in secured facilities, reducing the interest rate by 50bp and shrinking the collateral pool in April, closed $1.96 billion in new aircraft and unsecured financing with an average interest rate below 4% in the first quarter and closed $3.3 billion in financing transactions with a blended rate of 4.1% in the fourth quarter of 2014.

"The guiding principle was to take advantage of very strong debt markets and obtain a lower cost of capital, and to use part of the proceeds of that to pay down more expensive debt," says Weir.

The $3.3 billion in the fourth quarter alone saved the airline at least 100bp in interest expenses, he says. "It shows how one can capitalise on financial strength and a favourable credit market to reduce your cost of capital," said the judges.

The strategy has earned the praise of Wall Street. Standard & Poor's upgraded American a notch to BB- in June, while numerous analysts have applauded the incremental revenue gains from lower financing costs and anticipate further revenue gains as the integration concludes.

American is not done. Cash will remain high through at least the end of the year as it works to combine both airlines on a single reservations system – something that could occur as early as October – and it will likely need to raise additional debt for its new aircraft deliveries.

"We'll continue to take aircraft at a pretty significant pace based on the existing contracts. That will necessitate some additional borrowing," says Weir. "Exactly how much additional borrowing will be determined by the operating cash flows going forward."

Capital expenditures will average $3.64 billion for aircraft deliveries annually through 2019, American's most recent quarterly financial statement shows. It plans to take delivery of more than 60 mainline and regional aircraft annually during the period.

EDWARD RUSSELL


American Airlines

Weir: looking at more borrowing

PAST WINNERS

2014 SAS Group | **2013** Ryanair | **2012** Etihad Airways | **2011** AviancaTaca | **2010** Continental Airlines | **2009** Southwest Airlines | **2008** AirAsia | **2007** Cathay Pacific Airways | **2006** ACE Aviation Holdings | **2005** Hawaiian Airlines | **2004** America West Airlines | **2003** US Airways | **2002** JetBlue Airways