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Transportation

After bankruptcy court, Spirit sees future as a higher value airline 'for years to come'

By DAVID LYONS | South Florida Sun Sentinel

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When Spirit Airlines filed its Chapter 11 bankruptcy petition in New York last week, one of its top executives offered the court a note of optimism.

The troubled South Florida-based airline, said Fred Cromer, an executive vice president and chief financial officer in a court declaration, was entering its financial overhaul process "with an eye towards continuing to deliver low-cost, high-quality service to its loyal customers, and to do so for years to come."

The question is, does the pioneering discounter have enough time to transform its service profile from a maverick bare-bones carrier to a more upscale airline?

On approach to one of the busiest Thanksgiving travel seasons in memory, Spirit flew as usual last week after filing a "prearranged" Chapter 11 bankruptcy petition designed to quickly reduce a large chunk of debt in a restructuring deal with lenders that calls for the creditors to take $350 million in newly created equity in the airline. They're also lending Spirit a fresh $300 million to finance operations during the Chapter 11 process.

The lender deal became bad news for existing shareholders, whose stock will be canceled when the airline expects to exit bankruptcy at some point in March. Between now and then, U.S. Bankruptcy Judge Sean H. Lane and a lender-dominated creditors committee will be co-piloting the airline.

Here is where Spirit stood less than a week after it filed its Chapter 11 petition on Nov. 18:

- **Operating Cash:** The judge signed an array of orders that allows Spirit to pay routine operating expenses ranging from employee salaries and fuel bills to a small army of vendors and airport landlords.
- **The Stock:** As promised by management, Spirit's battered common stock was delisted from the New York Stock Exchange, with trading moved to the over-the-counter market. Now the shares are acting as a penny stock (symbol SAVEQ), changing hands at 15 cents a share Friday. Before the delisting, the 52-week high for the stock (symbol SAVE) exceeded $17 with the low at $1.08.
- **Retention Bonuses:** Six days before the Chapter 11, the Spirit board authorized $5.4 million in retention bonuses to five upper echelon executives led by CEO and president Ted Christie, who would receive $3.8 million, according to a regulatory filing. Companies typically use such bonuses to keep critical leadership in place during stressful times, according to compensation specialists. Christie, who joined the company in 2012 as chief finance officer, has piloted Spirit through a number of challenges: Spirit's rough-hewn customer relations, COVID-19, two ill-fated merger/takeover attempts by Frontier Airlines and JetBlue Airways, a manufacturer's engine recall that is grounding multiple aircraft, debt restructuring talks, and the Chapter 11 bankruptcy filing.
- **Airbus Sales:** The bankruptcy court apparently is taking a look at a proposed pre-bankruptcy deal where Spirit agreed to sell 23 Airbus jetliners to the Fort Lauderdale-based aviation firm GA Telesis. A hearing is scheduled for next week, according to the court docket. Asked whether it anticipates that the deal will be approved, a GA Telesis spokesperson said: "YES — We have full intention as does Spirit to continue with the transaction as documented."

Spirit did not immediately respond to emailed questions about the stock, retention bonuses, aircraft deal and whether travelers might be booking away from the airline.

Bondholders in control

As outlined by Cromer in his declaration to the court, approximately $1.635 billion of outstanding funded debt would be restructured and the company's total funded debt would decline by approximately $795 million with the lenders collectively receiving $840 million in secured notes and new common stock in the reorganized company. The lenders are, in effect, holding most of the cards, analysts say.

The airline is emphasizing a "business as usual" posture, stating that employees, vendors, landlords and anyone else doing business with the company will be paid on time during the Chapter 11 proceedings while the airline flies the schedule it laid out for the fourth quarter of this year. It currently serves more than 80 destinations in the U.S., Latin America and Caribbean.

"In sum," Cromer wrote, "Spirit seeks to implement a financial restructuring that positions it for future stability, growth, and success without impacting its vendors or other commercial counterparties and without interrupting its ability to serve its guests during the Chapter 11."

As of the Chapter 11 filing, Spirit employed approximately 12,800 "direct employees," approximately 84% of them unionized. They include approximately 3,400 pilots, 5,800 flight attendants, 740 aircraft maintenance technicians, 400 ramp service employees, 330 customer service agents, and 100 flight dispatchers. Their labor agreements would remain intact. The airline contracts out work to nearly 10,000 other workers.

Encroachment by rival airlines

After evolving from a trucking company into a charter airline in Michigan in 1990, Spirit relocated to South Florida in Miramar in 1999 and started operating as an "ultra low-cost carrier" offering customers rock bottom "unbundled" base fares. If they wanted anything else such as checked baggage, seat assignments, priority boarding, refreshments, or Wi-Fi, they would pay for those services a la carte. Spirit used those low fares "to address underserved markets, which helps it to increase passenger volume and load factors on the flights it operates," Cromer noted in his court declaration.

The business went well until COVID-19 all but grounded the industry in 2020, a year that saw most of the industry seek financial aid from the U.S. Government.

"As the seventh largest carrier in the United States, Spirit was not immune to the macroeconomic effects of the COVID-19 pandemic, an oversupplied domestic market, and larger rivals who have capitalized on premium and cost-conscious travelers alike," Cromer wrote in his court declaration. "In the postpandemic period, the U.S. airline industry has seen material change as a result of shifting customer demand and operating headwinds."

"Business travel through 2023 had not fully returned to pre-COVID volumes," Cromer added, and "premium leisure demand soared which, in combination with unbundled fare competition," allowed carriers such as Delta and Southwest to "compete for an even greater portion of basic economy share" held by ultra low-cost carriers such as Spirit.

The airline has cut back its route network as it has sought to slash costs ahead of the Chapter 11 filing. Other airlines including discounters Frontier and Allegiant Air have since added routes in and around Spirit's traditional Florida airspace. In the meantime, the so-called "Big Four" carriers that dominate 80% of the U.S. market — Delta Air Lines, American Airlines, United Airlines and Southwest Airlines — have been offering their own economy fares.

In a note to investors, Raymond James analyst Savanthi Syth wrote that Spirit's capacity cuts for November and December along routes that overlapped with other carriers largely benefited Frontier, JetBlue and Minneapolis-based Sun Country, with lesser traffic gains by Alaska Airlines and Southwest.

Project Bravo

In a bid to drive more revenue, Spirit hopes to attract new customers with an upscale program of newly tiered fares and services unveiled over the summer. Dubbed in the court filing as part of a strategic overhaul called "Project Bravo," the company has new premium offerings for customers that became available in August. They included four new travel options called "Go Big," "Go Comfy," "Go Savvy," and "Go," the latter of which is the airline's original base fare category.

In effect, the more passengers pay, the more options they'd receive including free Wi-Fi, cabin baggage, snacks and drinks, "all with the flexibility of no change or cancel fees," Cromer wrote.

Spirit would also add larger overhead bins and introduce premium cabins with access to free streaming Wi-Fi. People holding premium tickets would have dedicated wait lines at some airports; overall, the airline would seek to simplify boarding zones in its terminals.

The airline is already realigning its route system, dropping less profitable destinations in favor of so-called "top value seeker" cities.

The airline would also renew its focus at Fort Lauderdale-Hollywood International Airport, where it stands No. 1 in passengers carried. More "focus cities" would be added in early 2026 where management thinks it could exercise more pricing power.

But bigger airlines such as Delta think they're dealing with a better hand than discounters when it comes to premium services. On an investor call, Delta President Glen Hauenstein took an indirect shot at Spirit, saying larger carriers with premium products "had a little bit of a downdraft" after the pandemic versus airlines focused on price.

"I think we've seen that manifest itself in the bankruptcy we saw filed this week," he said.

Another takeover play?

Cromer in his declaration acknowledged that Spirit had renewed merger talks with Frontier before the bankruptcy filing, but they went nowhere.

"Over the last few months, the Company and Frontier restarted negotiations around a possible merger transaction," he wrote. "In recent weeks, certain members of the Ad Hoc Groups were made aware of such discussions as well. Those discussions were discontinued and are no longer ongoing."

Frontier has declined comment.

Earlier this year, after a Boston federal judge killed a proposed $3.8 billion takeover of Spirit by JetBlue Airways on antitrust grounds, the company's stock value plunged by 60%, Cromer said. It was an event that triggered management's effort to start exploring all of its financial options, while simultaneously figuring out how to drive new business.

Henry Harteveldt, founder and president of Atmosphere Research, a San Francisco-based consulting firm, said another round of buyout talks during the bankruptcy case is not out of the question.

"Nothing is stopping Frontier, or, for that matter, any other airline, from opening discussions," he said.

“Another option,” Harteveldt said, is that other airlines could ask Spirit about acquiring other planes, airport gates or landing slots, or even pilot training facilities.

The outcome

Whether a Spirit Airlines with a lighter debt load and new marketing strategy will emerge from Chapter 11 equipped to become profitable remains to be seen. Joseph “Joey” Smith, an investment banker and aviation specialist at Cassel Salpeter & Co. in Miami, believes the carrier’s history as an industry disrupter will be an important asset going forward.

“How they’ve been operating to date looks like they are really trying to shake things up again,” Smith said. “And I give them credit for that. I have admiration for somebody who is being true to their founding DNA. I think it will be interesting.”

This article has been updated to include the full attribution for the Cassel Salpeter & Co. aviation specialist.

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