



# Acquisition Opportunity

**Main Charter Schedule Airline based in Milan Malpensa Airport**

## Investment Opportunity

## Strictly Private & Confidential

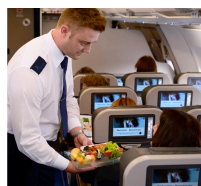
- The shareholders of Livingston Air (the "Company" or "Airline") are looking for a strategic investor to acquire a substantial stake in the Company through a capital increase option
- The strategic investor will have the opportunity to benefit from the Company's well-established charter/schedule operations of the airline which based at Milan Malpensa ("MXP") airport, and at the same time could play a significant role in the expansion of the Company.
- The Company having sound operations, a strong market reputation and a limited amount of debts with banks represents a cost-effective investment and could be the ideal entry market vehicle to Italy's tourism which is the home of the greatest number of UNESCO world heritage sites and besides its art assets is a renowned destination for fashion and business which will be further visited in 2015 thanks to the EXPO
- In June 2014 Livingston has applied for the "**concordato in continuità**" which is an insolvency procedure useful to freeze the current debts of the airline and submit a payment plan to the suppliers in line with the cash projections of the airline.



## Company Overview

- In just one and half year of full operations ranked N.4 in the national market among domestic passengers airline
- Acquired in 2012 for €1 Euro from a national insolvency procedure of the former airline assets of Viaggi del Ventaglio by Riccardo Toto, heir of Carlo Toto, Chairman of a diversified holding with a turnover in excess of 1 Bn Euro and interests ranging from construction, toll-road management, renewable energies and aviation and founder of Air One, Italy's #2 airlines during the 1990-2006 period and among the rescue investors of Alitalia CAI Group in 2008, offers to the new investor a very skilled management base and a unique wealth of relationships with aviation stakeholders in Italy
- The air passenger operations provide ACMI, scheduled flights and seasonal charter services within Italy, East Europe, North Africa, Sub Indian Continent destinations.
- The Company's main air bases is at Milan MXP, from where it operates scheduled pax services to key leisure destinations, such as Lampedusa & Pantelleria Islands, Tirana, Mauritius etc.
- In addition to the European destination, the Company is a unique provider of fully integrated air charter service services to a wide range of Italian based Tour Operators.
- The Company is the preferred airline choice by domestic Tour Operators for long-haul destination such as Mauritius, Cuba, Jamaica, Kenya, Tanzania, Mexico and Dominican Republic. The Company is highly appreciated by passengers for the exquisite service and in-flight service provided on board.

### Unique Experience on Board



- All aircraft of the company are equipped with personal inflight entertainment on each seat and this represents an innovation of the current national offering
- The airlines offers a customized and tailor made services both on the ground and on-board which has become highly popular with passengers when selecting the air provider for their holidays

### Fleet Commonality



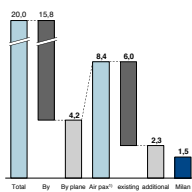
- By having adopted an all Airbus Fleet which include A320/330 models, the Company plans to reduce maintenance costs, especially given the similar and interchangeable parts and practices involved between the aircraft families, reduce cost in crew training and flexibility to adapt service to different destinations

### Richest catchment area in Italy



- Strategically positioned near Milan, MXP Airport has a basin of inhabitants from Lombardia which host 10mn people and attracts traffic from south Switzerland
- MXP is the largest airport in north of Italy and ranks as the 21st among busiest airports in Europe in terms of passengers. Malpensa airport manages 12.9% of total air and passenger traffic and 51.5% of cargo traffic in Italy. In 2013, the airport saw 17.8 Million pax originating and handled over 436,000 tons of cargo

### Expo 2015 + Weak Competition



- Since 2013 MXP is no longer the hub base of Italy a national carrier which relocated to Rome FCO. To this end many slots originating from MXP are available and other international airlines are taking advantage to that (e.g Emirates operating daily).
- The Milan 2015 Expo is expected to contribute to at least a growth of additional 2 Million passenger over one year

## Contacts:

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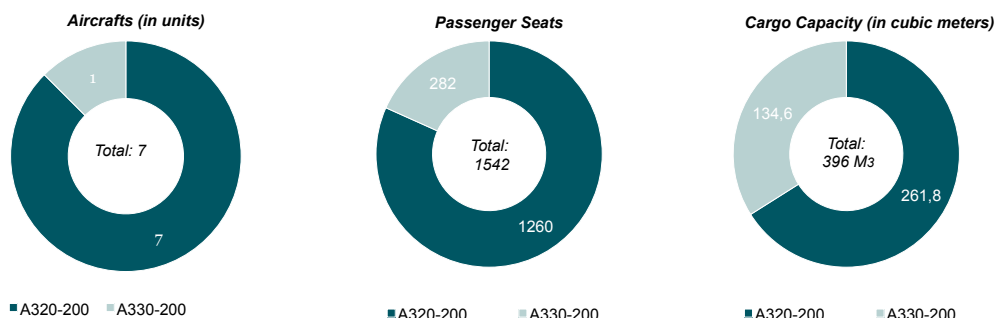
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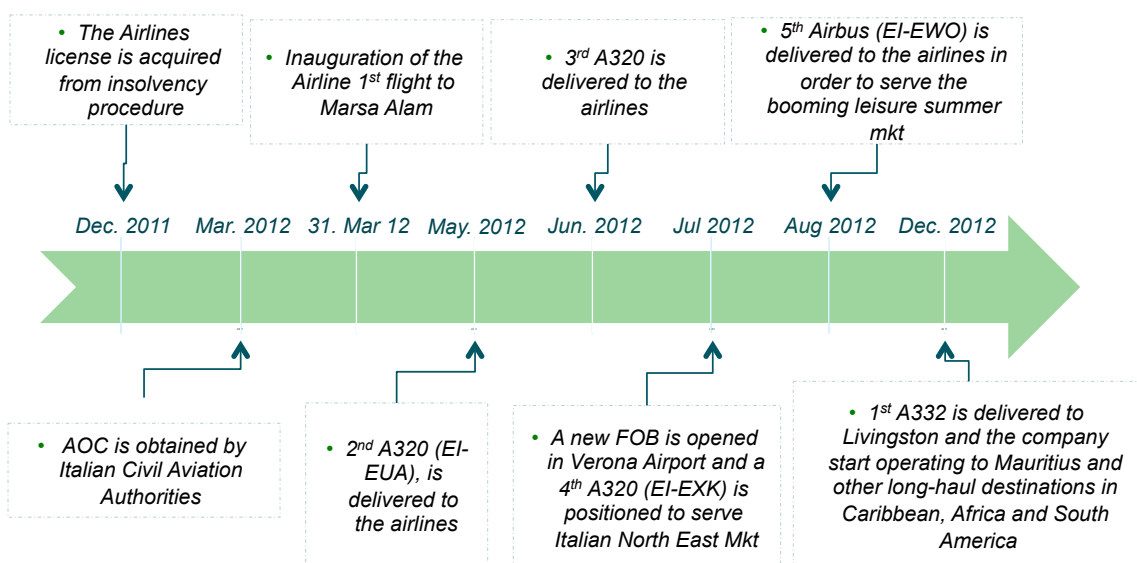
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- In 2011, the shareholder acquired the Company for EUR 1 in a bankruptcy procedure. Since then, the Company has been expanding its route network. It currently has 7 aircrafts under operations, details of which are as below:



#### Major events under Toto's Management



- Over the course of 2013, the Company identified a strong opportunity for growth in the local ethnic Balkan and North African community and established scheduled flights from its main hub in MXP and from Rome FCO to Tirana (Albania), Skopje (Macedonia), Moscow and other east European destinations as well as Mediterranean destinations.
- Given the promising load factors on the routes originating from Italy to Albania, the company reached an agreement with the main Albania Tour Operator ("FlyAlbania") which is now the main commercial partner in the Balkans
- The Company is looking for a strategic investor to make a cash injection as current operations are experiencing working capital constraints. However, the Company is currently fully operational and is meeting all of its obligations with suppliers and well as customers both a consumer and corporate level

#### The Business model:

- The shareholders of Livingston have identified a strong customer service gap in the Italian aviation market which is evidenced by the poor performance of Alitalia CAI namely known for low interior comfort and amenities of its aircraft fleet and poor catering and which has recently led Etihad Airways to acquire a 49% stake in the national flag carrier in order to rescue the national transportation infrastructure
- Livingston's goal is to provide passengers with a remarkable aviation experience that adds value to purchased trip combining safety, reliability and comfort with a modern in-flight entertainment and productivity system available only with international airline leaders like Emirates, Etihad Airways or Qatar Airways to name few
- The rationale underlying the business model was to create a highly customized and tailored made service in line with the standards of Middle East carriers and to offer an overall travel experience which is able to combine a refined economy class experience with the high-end service of premium classes
- The Company strives to implement a stylish service that is cost competitive and attractive for a budget conscious travellers
- Since its establishment the airline also implemented an e-commerce experience in order to capture a growing number of "self-managed" "tech-savvy" travellers that do not require assistance for the overall flight experience and are keen to buy value added services prior to the flights

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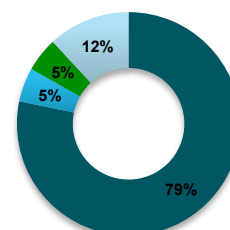
- Since 2011 the Airline **has become the air service provider of the leading Italian Tour Operators**. The airlines as reached the following operational results:
  - ✓ More than 20,000 flown hours
  - ✓ Over 900,000 passengers carried
  - ✓ Over 100 destinations served
- Some of the prominent corporate customers are set out below:



#### Financials:

In EUR € millions	2012(a)	2013(a)	2014(e)	2015(f)
Revenues	46,9	94,4	70,22	124
Growth %	N/A	101%	-26%	77%
EBITDAR	5,47	8	4	10
EBITDA margin%	12%	8%	6%	8%
EBIT	-1,13	-11,08	-6,37	5,42
Net profit	-0,98	-8,39	-7,87	1,00
Net Invest Capital	7,21	10,70	N/A	N/A
Aircraft fleet	5	5	3	5

#### Revenues breakdown by product line 2013-14



■ Charter ■ Scheduled ■ Long Haul ■ Sardegna PSO

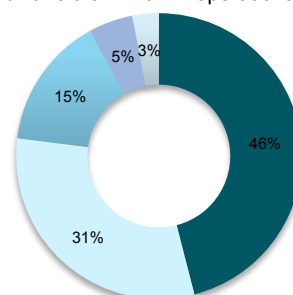
- Thanks to its management expertise and despite the overall economic crisis affecting the Italian economy and its population, the company has managed to successfully become the 4<sup>th</sup> largest Italian player in the national aviation industry scoring in just two years of operations a +100% growth in revenues
- The losses of FY 2013 were mainly imputed to the North African countries unstable political situation and in particular to the Egyptian market which has deprived the overall tour operating industry and has resulted in a dramatic cancellations for flights by customers and Tour Operators
- Having its bulk of operations from the charter segment the company has adopted a quite lean aircraft organization which enable the company a maximum flexibility during summer and winter season in terms of fleet and inventory
- The company as of FY 2014 expect a loss of €8,4 Million Euro mainly due to an on-going litigation with Sardegna region from which the airline secured through a public bid an annual contract to transport passengers between Rome FCO and the island. The airline has filed a compensation claim for €8,8 Million Euro against the Sardegna region. The outstanding €2.4 Million Euro loss has been generated by doubtful receivable with Rimini Airport and a European Tour Operator

#### Livingston's restructuring pan is centered on a mixture of cost discipline and revenue strengthening initiatives:

- The company has initiated a new cost-reduction drive, including changing its employee compensation structure from salaries to an hourly-pay system and eliminating several positions altogether at back-office level
- The airline is also moving towards a more complex fare structure that will allow it to boost revenue by more effectively matching price and inventory
- Livingston is also focusing on improving fleet utilization through increased ACMI services, project management initiatives to support emerging market economies to establish national airlines (e.g Ghana and Armenia) and expand commercial activities in former CIS and Balkan markets where the company enjoys a strong reputation and has well places commercial operations with local TO and GSAs

- Improved Fleet Management:** Redelivery of N.2 A320 under leasing from SMBC with a savings of € 3.0 Million (Inclusive of the additional cost to rent N.2 A320 in ACMI for the summer season)

- Turnaround plan will generate within 18 month c. € 6.5 Million in operational savings**



■ Fleet Reduction ■ Staff Part-time  
■ Top Management salary cut ■ Consultancies Reduction  
■ No Extra Bonus

- Overheads reduction:** Redundancies of 20 FTE at back-office level
- Voluntary salary reduction of the top management
- Reduction of 30% cost of all the employees from the back-office function by applying a part time rotation scheme
- Creation of a no extra hours system whereby every extra hour is not paid but can be reused for the holidays.
- Reduction in consultancies' expenses

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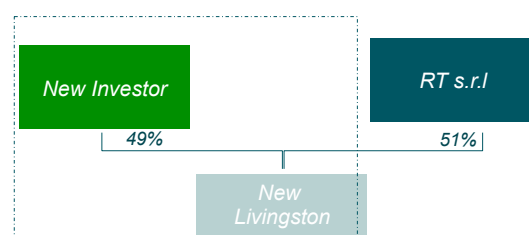


## Key Investment Highlights

- Access to a strategically located base of in Milan, which is a natural freight hub and provides exceptional opportunities both for north of Italy and South Switzerland. Milan is widely recognized as Italy's gravity center for industry, finance and demography – equally distanced from Western and Eastern Europe and Caribbean to Mediterranean.
- The absence of a national carrier at Milan MXP and the upcoming EXPO 2015 will offer to any investor the opportunity to hedge against risk by adding fleet capacity and using efficiently the dry lease option without incurring in additional costs
- Capture further Milan geographical advantage which enable the company to serve efficiently a potential market of 400 million people within 4 to 6 hours flight radius (Europe, CIS, Middle East, Africa).
- Investing in Livingston will provide any Middle East and/or Asian access with a cost-effective and efficient access to regional markets in Europe thanks to the availability of short-medium haul slots at MXP and limited capex program
- Subject to regulatory approval the investor will be able to codeshare on Livingston routes and vice-versa, from a range of western and east European gateways thus improving its branded presence in untapped regional markets
- Through this equity partnership Livingston will further accelerate its growth and positioning, enabling its customers to access the global network of destinations offered by the investor ,while providing fresh options for overseas visitors to travel through Europe on Livingston's flights
- The equity investment in Livingston by an international carrier will contribute to further accelerate cost saving and reinstate profitability thank to achievable synergies like joint A/C programs built on sharing infrastructure, pool maintenance, developing joint training programs, and streamline purchasing activity for engines, rotatables, avionics and in-flight entertainment systems, as well as working jointly on product development for the airbus aircraft type.
- As part of the agreement the new investor will be able to replicate/implement with Livingston its existing cutting-edge, integrated software across reservations, inventory, marketing, planning, e-Commerce, distribution and departure control operations. By sharing these items the Company will be able to score a significant reduction to its technology costs, streamlining its operations, increasing revenues, and accelerating its growth around Europe
- The Company is introducing ACMI operations for serving unprepared airlines in Central Asia (Armenia) and Africa (Ghana) – a step that will help broaden the airline's horizons, and bring a competitive edge to its fleet
- The Company plans to establish a second FBO in Pristina (Kosovo) in order to capture the overseas working segment which is working in main European countries such as Italy, Germany and UK. Kosovo's aviation industry has been steadily growing over the past five years with a number of western European carriers adding capacity to the small south-eastern European nation
- The new investor will be able to acquire a company which has a limited amount of liabilities with banks and suppliers, having been funded entirely by its shareholders. The bank debt is estimated by the end of FY 2014 to amount only to EUR 1.5 Million and EUR 10 million outstanding payables to suppliers

## Proposed Transaction

- Arkios to be appointed as the exclusive financial buy-side financial advisor with regard to this acquisition opportunity.
- The transaction will be based purely on a cash-in transaction basis which will be used to further grow the Airline operations
- Owing to its strong relationship with the Company's sole shareholder, Arkios will be able to run an exclusive one-to-one process on a pre-emptive basis for any interested investor, providing the advantages of first and direct access to the management and shareholders.



- Thanks to a capital increase in the company the new investor will be able to own up 49% in order the airline to retain the EU carrier status

■ Shareholders  
 ■ Shareholders  
 ■ Target  
 ■ Perimeter of the Transaction

## Next Steps

- Stage 1:** Signing of the buy-side engagement letter between Arkios and the investor
- Stage 2:** Execution of the confidentiality agreement with the Company, following which gain access to the Management and the shareholders and access the Company's financial and other relevant information
- Stage 3:** Assist the investor in reviewing the information, arriving at an indicative valuation and help in submitting a Letter of Intent
- Stage 4:** Perform Due Diligence and assist in negotiations, leading to a successful closure of the transaction

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