



MERGER OF AMERICAN AND US AIRWAYS

- Scenes before merger
- Justice Department intervention & settlement
- Who got what!
- Management styles of CEOs
 - American (Tom Horton)
 - US Airways (Doug Parker)
- Challenges ahead

Scenes

Since 2001, American has been rapidly losing momentum while incurring losses totaling more than \$12 billion

Before

The American-US Airways tie-up is the fourth major merger in the US airline industry since 2008

Merger

According to government statistics, airfares were 18 percent lower in 2013 than they were in 1999 when adjusted for inflation

Mergers will shape the industry for years to come, with only a small number of airlines controlling most domestic and international flights.

The expectation is that industry competition will become more severe, resulting in lower airfare increases and faster industry innovation

Justice Department Intervention and Settlement

Justice Dept. has not expressed concerns before this merger for any such settlements

According to them, if this merger allowed, there will be excessive concentration and airfares would spiral upward as airlines gained pricing power

The Justice Department urged American to forgo the merger reorganisation and return to its previous intention of reorganising as a separate airline

Regulators believed that American could not compete as an independent carrier, it faced re-entry into bankruptcy and eventual liquidation with significant job losses, and higher fares

Since both the firms have only 12 overlapping routes and 60% market share at Reagan National Airport, a number of settlements were induced by Justice Dept.

Who got what?

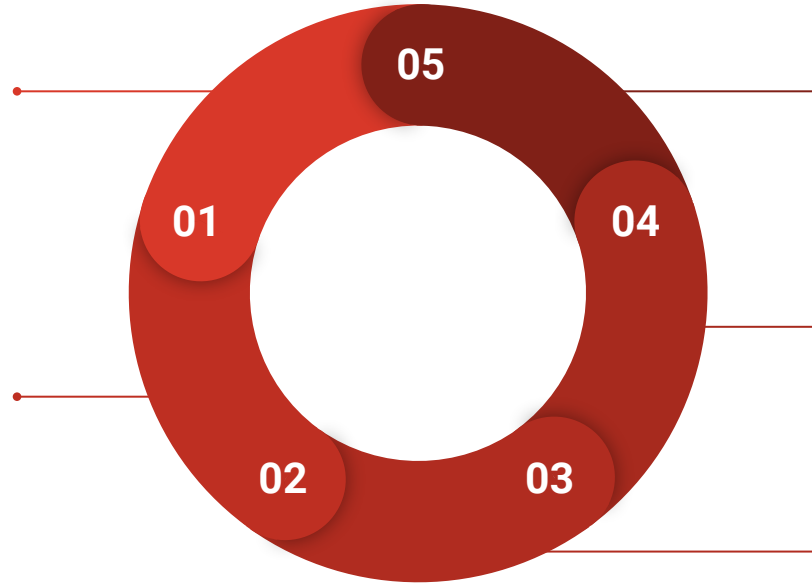


Investors

For each US Airways share they possessed, investors received one share of the amalgamated airline's common equity

Creditors

Merger provides for full recovery for secured creditors and a sizeable portion of the debt owed to unsecured creditors, as well as 3.5% of shares in the new company going to American's pre bankruptcy shareholders



Labour unions members

American labor unions and other employees received 23.8% of the stock of the combined airlines

Stock Position: American

American shares jumped by 6% to \$12 per share

Stock Position: US Airways

At the end of the day, US Airways Group Inc.'s stock rose \$0.25 to \$23.52 after a deal with the Justice Department was reached.



Management styles of CEOs: American (Tom Horton)

- In November 2011, the board of directors decided to file for Chapter 11 bankruptcy and appointed Horton as CEO
- 2 creditors group:
 - the court-appointed Unsecured Creditors Committee (UCC), a combination of representatives from American's unions, trade creditors, and trustees
 - hedge funds that had acquired unsecured bonds for pennies on the dollar around the time of bankruptcy
- Horton pressed the unions to make concessions, threatening that if they didn't, American would exit Chapter 11 without labour contracts, putting labor's future in jeopardy
- US Airways increased its initial offer from it owning 50.1% of the firm to one in which American's shareholders would own 70% of the new firm, which later increased to 72%
- Horton is described as unflappable and a believer in detailed planning. He saw bankruptcy as American's salvation.



Management styles of CEOs: US Airways (Doug Parker)

- At age 39, Parker headed America West and later bought US Airways out of bankruptcy in 2005
- Parker aimed to make America West a national airline rather than a regional one. While Delta was in bankruptcy protection in 2006, he attempted to merge with it. But creditors rejected it
- Parker had also discreetly negotiated with American's three unions, a first in an airline merger, and had reached binding contracts with each union if the merger went through
- Union leadership was lauding Parker publicly as a savior and cheering for the merger
- Parker was to become the CEO with Horton serving as Chairman for no more than 12 months
- It was clear that it took the behind the scenes negotiating skills of Horton to line up creditor support for the merger and Parker's ability to garner union support.



Challenges ahead



It can take up to 2 years for airlines to merge fleets, repaint planes, plan new routes, and to seamlessly tie together complex computer systems

While the management will come from US Airways, the technology will come from American



Until they acquire a new operating certificate from the FAA, which could take 18-24 months, American and US Airways will continue to operate as separate companies under a joint management team

Justice Department and Department of Transportation require the new airline to maintain all hubs and expand service to some new cities, history shows merging airlines tend to make fewer flights





THANK YOU!

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