The Next Chapter

A Case Study of SAS's Chapter 11 Process

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Abstract

This case study examines SAS's decision to undergo a Chapter 11 reorganization in the United States, analyzing its rationale and impacts on the airline and its stakeholders. Chapter 11 was chosen for its established reputation in the industry, providing a unified reorganization procedure. It also facilitated access to airline restructuring expertise and well-developed capital markets. SAS met several objectives through the Chapter 11 process, including restructuring its fleet and realizing cost savings through renegotiated union agreements and rejection of executory contracts. However, SAS failed to raise its targeted amount of equity, resulting in a leveraged capital structure primarily comprised of convertible debt. Recovery for unsecured creditors is expected to be limited and negatively affected by prolongation of the court process. The Chapter 11 process also affected SAS's pilots, lessors, and previous equity holders, who all made substantial concessions. New ownership, led by Castlelake, the Danish State, and Air France-KLM, is expected to influence SAS's strategy and operations, including an announced airline alliance shift. SAS's new ownership arrangement must be approved through a Swedish Company Restructuring procedure. We conclude that Chapter 11 was a long and costly process, but allowed SAS to accomplish many of its initial goals.

Keywords: chapter 11, financial distress, airline industry, reorganization, case study

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1 Introduction

On July 5, 2022, Scandinavian Airlines (*SAS*) began a court-supervised procedure in the United States, by voluntarily filing for Chapter 11 bankruptcy. Roughly two years after the Covid-19 pandemic's widespread effects on air travel hit, SAS was facing a multitude of challenges, including significant amounts of debt, diminishing cash resources, a need of fleet restructuring, and an ongoing pilot strike. SAS had launched the business transformation plan *SAS FORWARD* in February 2022, but failed to implement key elements of the plan, and therefore turned to Chapter 11.

Chapter 11 is not a new phenomenon in the airline industry. Numerous major U.S. carriers, including Delta, United, and American Airlines, have all entered into bankruptcy protection, as deregulation and increased competition have created an airline industry in "a seemingly cyclical and perpetual financial crisis" (Vasigh and Rowe, 2019, pp. 6–7). Chapter 11 has contributed to the significant consolidation among U.S. airlines, such as the American and US Airways merger in 2013, a trend which has contributed to reduced competitive pressure and better performance for U.S. airlines compared to their international peers. Several Latin American airlines have undergone Chapter 11 procedures as well, with recent examples being Colombian airline Avianca and Chilean airline group LATAM, whom both filed in 2020 (Avianca, 2021; LATAM group, 2022).

Prior to SAS, however, no major European airline had filed for Chapter 11. The explanation is not a lack of financial distress, recent examples include Norwegian's Examinership procedure in Ireland in 2020, Lufthansa's government-bailout in 2020, and Air Berlin ceasing operations after German insolvency proceedings in 2017 (DW, 2017; Lufthansa, 2020; Norwegian, 2021). European reorganization law has previously both lacked harmonization across the European Union (*EU*) and efficient tools to successfully reorganize viable businesses, rather than forcing them into liquidation. However, this was addressed through a new EU directive on insolvency in 2019, incorporating many of the features found in Chapter 11 (European Commission, n.d.).

Aforementioned developments, and the lack of prior comparable examples, makes SAS a particularly unique and interesting case. Through a case-study methodology, we aim to answer the following research questions:

1. Why did SAS initiate a Chapter 11 process?

2. How did the Chapter 11 process affect SAS and its stakeholders?

Our results indicate that SAS chose the Chapter 11 process as it is widely recognized within the airline industry, it facilitated a single unified reorganization process, it enabled SAS to access airline reorganization expertise, and provided access to U.S. capital markets. Through the Chapter 11 process, SAS managed to partially raise new capital as envisioned, restructure its fleet, and realize cost savings through renegotiated union agreements and

rejected executory contracts. SAS's stakeholders were forced to significant concessions through these measures. Recovery for unsecured creditors was limited, but likely higher than in the case of a liquidation. However, the process took longer and was likely more costly than expected.

The primary objective of this thesis is twofold. First, it seeks to understand the background and implications of SAS's Chapter 11 process in-depth. By doing so, this study aims to contribute to the broader understanding of Chapter 11 reorganization for European companies, with a particular focus on its implications within the airline industry. Second, this research aims to serve as material for a future teaching case at the Stockholm School of Economics Department of Finance, offering insights into the complexities of corporate reorganization and the strategic considerations involved in managing financial distress.

The first question focuses on why SAS needed to reorganize, why they went through an in-court procedure, and why Chapter 11 was chosen. Since Sweden was SAS's legal domicile at the time of commencement, Chapter 11 has been contrasted to Swedish Company Restructuring Law. As other reorganization options have not been evaluated, this constitutes a limitation in scope. The second question covers the outcome of SAS's Chapter 11 process for SAS itself, as well as its stakeholders. The stakeholders examined in this analysis are limited to creditors, shareholders, and SAS pilots. A further limitation of this thesis pertains to the sources, as we rely upon publicly available information and voluntary interviews.

In Section 2, we introduce relevant legal frameworks and airline specific literature. Section 3 focuses on methodology, including data collection and a discussion on the quality of the selected method. In Section 4, we present relevant historical context for SAS and the airline industry, and in Section 5, we outline SAS's Chapter 11 process (the *Case*). In Section 6, we discuss our findings, and in Section 7, we provide our conclusions.

2 Theoretical Framework

2.1 Regulatory Framework

2.1.1 U.S. Chapter 11

Introduction to Chapter 11

In the United States Bankruptcy code, Chapter 11 is frequently referred to as a *reorganization* bankruptcy. During the Chapter 11 process, the focus lies in reorganizing the assets and liabilities of a debtor, aiming for the debtor to be able to keep operating the business whilst also establishing a viable plan to repay creditors. In contrast to other types of bankruptcy such as Chapter 7, the debtor remains *in possession* instead of the court appointing a trustee. This means that the debtor controls its assets and holds the duties of a trustee, such as overseeing the court process by for example filing and submitting reports, during the entirety of the court case (United States Courts, n.d.[a]).

Filing and Eligibility

The Chapter 11 process allows for both voluntary filings, where the debtor initiates the petition for relief in bankruptcy court, and involuntary filings, where creditors file the petition. However, the focus in this section is voluntary filing, where the debtor actively seeks relief under Chapter 11. At the start of the Chapter 11 process, the debtor-in-possession (from here on the *debtor*), must provide schedules of its current and historical finances and financial affairs including current creditors, a *plan of reorganization*, as well as operational information including unexpired leases and executory contracts. These serve as grounds for creditors and the court to make informed judgements about the plan (United States Courts, n.d.[a]). Additionally, upon filing, a company can decide to exclude or include subsidiaries in the reorganization. The choice is often influenced by factors such as extent of control and the individual bankruptcy status of each entity (PwC, 2023).

Among numerous court districts specialized in insolvency, the District of Delaware has the highest number of Chapter 11 *mega cases*, meaning cases with assets exceeding USD 50m. Delaware is followed by the Southern District of Texas and the Southern District of New York (Fuller, 2022). To be eligible for filing with a bankruptcy court, the debtor must have a "domicile, residence, or principal place of business" in the area which the court serves (United States Courts, n.d.b). Couwenberg and Lubben (2021) discuss what this means for global debtors, stating that there is no requirement for the legal entity filing for Chapter 11 to have been formed under American law, or to be insolvent itself. Consequently, global businesses with, for example, a subsidiary in the U.S. can file for Chapter 11. However, it is important to note that the results of the reorganization may not be enforced or recognized by the court in a non-American company's legal domicile.

Thus, Couwenberg and Lubben highlight that creditors not linked to the U.S. are exempt from this procedure and will only be affected if they choose to engage voluntarily.

Mechanisms During Chapter 11

This section examines fundamental mechanisms of Chapter 11, including automatic stay, the operational constraints of the debtor, DIP financing, and rejection of executory contracts.

Chapter 11 provides multiple frameworks which allow financially distressed companies to reorganize their capital structure. A core feature is the legal provision of automatic stay, meaning that the debtor is granted a temporary relief. The stay comes into effect immediately upon the filing of a Chapter 11 case, prohibiting creditors from pursuing any claims they have against the debtor for a certain period, such as repossession of property and foreclosures. Essentially, it provides the debtor a temporary breathing spell, blocking pre-petition creditors from seizing collateral or collecting debt in the form of principal and interest payments (United States Courts, n.d.[a]).

During the time of temporary relief, the debtor has the power and duties of a trustee. This means that the debtor may continue to operate its business, albeit the debtor must seek court approval for any actions that fall outside the scope of regular business activities (D. G. Baird, 1993, p. 215). The scope of these activities is determined by the debtor's *First Day Orders* which need to be approved by the court. These may include but are not limited to matters such as cash management systems, employee compensation, critical vendor arrangements, and administration (Craig, 2010).

Another important mechanism under Chapter 11, is the ability to take on new debt, known as *DIP financing*, often used to fund the business during the reorganization. DIP financing refers to any debt that extends beyond what has been settled in First Day Orders and represents an important source of funding to bankrupt companies (Bankruptcy Reform Act, 1978; Gilson 2012). According to Gilson (2010), DIP financing is commonly provided by specialized investors focused on distressed companies, and a significant market for providing it has developed. Gilson explains that DIP financing can constitute attractive investment opportunities, due to the chargeability of high fees and interest rates, and low default risk attributed to high priority status (p. 28).

The DIP financing can have varying degrees of priority status, determined by a need-based court assessment. Oftentimes, the debtor is unable to find sources of unsecured DIP financing, meaning that they may be eligible for DIP financing with superpriority status. The superpriority status grants the lender a prioritized claim over all administrative expenses, unencumbered assets, and encumbered assets with junior lien. If the debtor still is unable to secure financing, they are allowed to grant potential lenders a priming lien, placing it above pre-existing liens on collaterals. In doing so, the debtor ensures that the lender's claims will be settled before all existing claims with the same collateral. This

type of lender can exercise substantial control over the debtor through debt covenants, relating to both operational and financial aspects with high requirements on reporting (Chung and Kaplan, 2020). Upon the conclusion of the Chapter 11 case or when the plan of reorganization is fully implemented, the debtor is required to fully pay back the lender in cash. However, the DIP financing terms might include an option to convert the loan to equity in the reorganized entity (Clement, 2018).

Chapter 11 further enables distressed companies to target operational liabilities. Becker and Josephson (2023) underline that Chapter 11 allows for management of non-financial commitments through rejection of executory contracts, that is, contracts in which both parties still hold obligations to fulfill. Chapter 11 permits debtors to either assign (hand over to another party), assume (keep), or reject (discard) such types of contracts. Whilst assumed contracts keep their status as obligations of the debtor, rejected contracts turn into general unsecured claims, which are relatively junior in status. Examples of executory contracts are licensing agreements, vendor-contracts, and leasing agreements. Consequently, altercation to the nature of these contracts may reduce a debtor's future obligations significantly.

Raising Capital under Chapter 11

Under the Chapter 11 process, the debtor can utilize the automatic stay to reorganize its capital structure and liabilities. In doing this, the debtor can replace old claims with more beneficial ones. Gilson (2010) outlines three main approaches, which may be combined, to achieve this: "(1) a stand-alone debt-to-equity conversion, (2) a new money/funded plan, and (3) a sale or merger of the firm." (p. 59)

In a stand-alone debt-to-equity conversion, the firm's old debt is wiped out and replaced with a new, less leveraged capital structure. Creditors are paid through claims on this new equity and debt, in contrast to being paid in cash. Consequently, pre-petition creditors hold both equity and debt post the transaction (Gilson, 2010, p. 59).

New money/funded plan involves a combination of the aforementioned approach and debt or equity investments from external actors. As this approach entails debt-to-equity conversion, old claims are wiped out and the new investment is thus not burdened by the debtor's pre-petition obligations. The cash raised may be used by the debtor to manage its operations post Chapter 11 or distributed to pre-petition claim holders to encourage their approval of the plan. If the cash raised is distributed to pre-petition claim holders it replaces some or all their claims on the new capital structure. As such, the external investor will own a relatively larger stake than if the cash is retained by the reorganized firm (Gilson, 2010, p. 60).

The debtor may also sell all or some of its assets in return for cash. If the sale is incorporated in the plan of reorganization, it must be approved by the claim classes. Since the debtor still manages day-to-day business under the reorganization, they might

encounter sales opportunities during the process. If such sales are not a part of the plan of reorganization, or settled in the First Day Motions, the debtor must seek approval from the court to commit to such sales. The proceeds from the sale are distributed to claim holders and creditors in accordance with the plan (Gilson, 2010, p. 60).

Gilson explains that firms under reorganization are unpredictable investments due to significant operational, asset, and capital structural changes. These restructurings often lack precedents, adding to their complexity and making them difficult to evaluate. The extensive information provided in prospectuses can also pose analytical challenges. This complexity can make it difficult to correctly value the company for potential investors. Furthermore, the credibility of management plays an important role, as this influence how the viability and potential success of reorganizational plans are received (Gilson, 2010, pp. xxii–xxiii).

Plan of Reorganization

This section outlines how the debtor reaches approval of the plan of reorganization from the claim classes to exit Chapter 11. To gain approval of the plan and thus exit the Chapter 11 procedures, the debtor needs to demonstrate three key financial aspects:

- The plan must ensure that each impaired class of claims are compensated at least as much as they would have in the case of liquidation (i.e., what they would have received in a Chapter 7 proceeding).
- The plan is achievable.
- All groups in the plan approve of it or that non-accepting claim classes are to receive fair and equitable treatment.

(Wex Definitions Team, 2022)

In a Chapter 7 bankruptcy, the court appoints a trustee to liquidate the debtors' assets, with the objective of maximizing the returns for unsecured creditors. Consequently, a company stands to benefit from filing under Chapter 11 if the value allocated to unsecured creditors exceeds what would have been received in a Chapter 7 liquidation (United States Courts, n.d.[b]). To demonstrate this, a liquidation analysis may be incorporated into the Chapter 11 plan, providing a calculation of the anticipated distribution to creditors under liquidation, known as the Best Interest Test (PwC, 2022).

The debtor must include a description of how different claims are classified and will be treated in the plan of reorganization. Creditors with alike interests, claims, and priority status are typically grouped in the same claim class in the plan (United States Courts, n.d.b). Table 1 outlines the hierarchy of claim classes from most senior to most junior.

According to Gilson (2010), Chapter 11 often requires claim holders to make concessions, that is, accepting a lower value on their claims against the firm. Consequently, disputes regarding distribution may arise. Since this might disrupt the reorganization

Table 1: Claim Status Hierarchy in the Chapter 11 Plan of Reorganization

1.	Secured claims
2.	Superpriority claims (e.g., DIP financing.)
3.	Priority claims (e.g., administrative expenses including legal fees, wages, salaries, commissions, tax claims.)
4.	General unsecured claims
5.	Preferred stock
6.	Common stock

Gilson (2012)

process, the management of the debtor must make sure to mitigate these concerns (p. xxi). Management's negotiations with each claim class typically revolves around the degree and type of recovery they will receive in the post-reorganization company (i.e., new cash, equity, or debt). In parallel to meeting the requirements of the creditors, management must also offset the risk of becoming too leveraged in their new capital structure (p. 1).

When a creditor's claim is impaired, meaning they will be paid less than face value or their contractual rights are modified, they can vote on the acceptance of the plan by ballot. Unimpaired claims are considered to have accepted the plan automatically (United States Courts, n.d.[a]). Vice versa, fully impaired claims, meaning that they will not receive any compensation under the plan, are automatically considered to have rejected it (Ivashina et al., 2016). A class of claim is deemed to have approved the plan if creditors holding at least 2/3 of the total amount and more than half of the total number of claims in that class vote in favor of the plan (United States Courts, n.d.[a]).

If unable to reach approval, the court has the authority to enforce the plan on dissenting classes through a *cram down* if: (a) these classes are not worse off than they would be in a liquidation scenario; (b) at least one impaired claim class accepts the plan; and (c) the classes ranking below them receive nothing according to the plan, known as the *absolute priority rule* (Eidenmueller, 2023; Bankruptcy Reform Act, 1978). Determining the liquidation value entails a judicial valuation. However, due to the unpredictability of judicial valuations, parties often negotiate to allow for junior creditors to receive, for example, equity shares or warrants, which can gain value if the business manages to reach financial stability (Levin and Klee, 2012). According to Gilson (2010, p. 61), deviations from the absolute priority rule are common as creditors in senior classes do not want to incur costly valuation negotiations with the creditors in the junior claim classes.

Prior Literature on the Efficiency of Chapter 11

Gilson (2012) outlines several elements making Chapter 11 beneficial for distressed companies in the form of provisions targeting the ability to reduce debt, generate liquidity, and manage the business. Despite historical criticisms labeling Chapter 11 as "costly,

slow, and inequitable", Gilson argues that more recent evidence challenges this perspective. The automatic stay, DIP financing, and the ability to reject leases and other forms of executory contracts are highlighted as beneficial features. Additionally, Gilson argues for the treatment of classes and voting under Chapter 11, that is, majority voting and cram down, as key elements in getting reorganization plans approved. This is contrasted against out-of-court reorganization, where changes to debt generally must be approved by all creditors, giving them the power to block or delay plans. Gilson concludes that Chapter 11 played an important role in the U.S. economy's recovery from the 2008 financial crisis and underscores the importance of bankruptcy law for the competitiveness of U.S. companies.

Couwenberg and Lubben (2021) find Chapter 11 to be the dominant and most versatile single in-court reorganization system for global businesses, for both financial and operational reorganization measures. Global businesses have debts, assets, and legal arrangements scattered across the world, and can subsequently be bound to several jurisdictions. Consequently, when a global business is in financial distress, it faces the risk of creditors from different jurisdictions claiming different assets, resulting in multiple processes in different countries.

Becker and Josephson (2023) suggest that the ability to reject non-financial liabilities such as leases plays an important role for firms' debt capacity and thus allows for more leveraged capital structures. The authors further highlight that lease rejections are commonplace in Chapter 11 cases, and that being able to address both operational and financial obligations increases the chances of successful reorganizations.

Furthermore, Bris et al. (2006) find that Chapter 7 liquidations often take almost as long to resolve, require similar fees, and provide creditors with lower recovery than comparable Chapter 11 procedures. They also observed that Chapter 11 preserves assets better, leading to higher creditor recovery rates, thereby leaving Chapter 7 liquidation with few advantages.

2.1.2 Swedish Company Restructuring

Introduction to the Swedish Company Restructuring Law

The Swedish Company Reorganization Act (Sw. Lag om företagsrekonstruktion; SFS 2022:964) serves as an alternative to liquidation bankruptcy procedures. This option is tailored for companies experiencing financial challenges yet expected to manage long-term recovery and have the capabilities to eventually settle their liabilities. During the process, the district court appoints a trustee whose task is to review whether the debtor can proceed with its operations and help it establish a reconstruction plan containing actions and potential damage settlements (Sveriges Domstolar, 2024). To be eligible for a Swedish in-court reorganization, the filing entity must have its legal domicile in Sweden (Prop. 2021/22:215. En ny lag om företagsrekonstruktion). Multiple legal entities belonging to

the same company group can initiate separate legal processes, however, they are typically appointed to the same trustee for efficiency (REKON, 2022).

The current law for Swedish Company Reconstruction came into effect on August 1, 2022, aligning Sweden with the EU's insolvency directive (2021/22:215).

The EU's 2019 Insolvency Directive

In 2019, the EU enacted a directive (2019/1023) aimed to help solve inefficiencies in capital markets caused by divergent insolvency legislation amongst EU Member States, and thus encourage cross-border investment. The directive focused on asset recovery, procedural efficiency, and fair distribution of value among creditors (European Commission, n.d.). U.S. Chapter 11 served as an archetype for the directive, and Member States were expected to make domestic adaptations of elements such as DIP governance, claim classification, and cramdown in their laws (K. Baird et al., 2021). In the EU, Member States must recognize each other's insolvency proceedings automatically unless it directly contradicts the legal principles of a state (Skatteverket, 2024).

Adaptations to the Swedish Law

One of the new Swedish legislation's key elements was the reconstruction plan's introduction. Whereas the old legislation focused solely on settlements between the debtor and impaired creditors, shareholders are now subject to the procedures and constitute a separate claim group. In practice, this allows the debtor to raise new capital through equity-based mechanisms, such as issuance of shares to new investors and debt-to-equity swaps as part of the reorganization. Impaired creditors can thus enjoy the possible upside of the debtor post the company reconstruction proceedings, making treatment of shareholders and creditors fairer and more equal (2021/22:215).

The new law also allows for the possibility of managing operational liabilities. If permitted by the trustee, a debtor can now exit long-term agreements for which the contractual parties have not fulfilled their obligations. The counterpart can still demand damages for breach of contract from the debtor if they can show evidence of economic damage (2021/22:215).

Given the trustee's consent, long-term and temporary debt to support the debtor during the reconstruction can now be granted super-priority rights. By making debtors eligible to reach such temporary agreements, the debtor can access a larger pool of resources that can help them operate the day-to-day business during the proceedings (2021/22:215).

The introduction of the reconstruction plan results in new process exit procedures. Similar to the U.S. Chapter 11 law, stakeholders are sorted into claim classes and can be subjected to cram-down under the absolute priority rule if they object to the reconstruction plan (2021/22:215).

2.1.3 Cross-Border Recognition of Insolvency Law

As previously described, the EU has adopted measures to streamline insolvency legislation. Similarly, the United Nations has also tried to harmonize different states' legal frameworks for insolvency, for example, to allow for greater cross-border recognition, through the *UNCITRAL Model Law on Cross-Border Insolvency 1997* (UNCITRAL, 2024b). Whereas the US adopted the UN model in 2005, Sweden has not (UNCITRAL, 2024a).

2.2 Airline Litterature

2.2.1 Industry Characteristics

The airline industry can be characterized by its international nature, intense competition, cyclical demand and profits, and high sensitivity to external shocks such as weather conditions, pandemics, and fuel prices.

According to Vasigh and Rowe (2019, pp. 4–5) the highly competitive airline industry of today stems from the deregulation of the industry, first in the U.S. in 1978 and the EU during the 1990s[1]. Before deregulation, airlines were largely controlled by governments and protected from competition, allowing them to earn relatively stable profits. Post-deregulation, airlines had greater control of aspects such as pricing and thus had the opportunity to earn higher profits. However, the competition introduced also created pressure on airfares and costs. This has led to an environment where many airlines have struggled to stay competitive and have been forced into bankruptcy.

A key trend in the deregulated era of airlines has been the emergence of low-cost carriers (*LCCs*). Sjögren (2015, p. 22) points at maximized aircraft configurations, unit fleets, low pensions, high degree of outsourcing, and competitive collective agreements as characteristics of LCCs. Vasigh and Rowe (2019, p. 5) note that increasing airfares is difficult due to the intense competition in the industry. As such, cost structure and cost control are highly important to be profitable in the airline industry. Simpler and more efficient operations have allowed LCCs to operate with lower overhead costs, which has put increasing pressure on legacy carriers, whose cost structures have often been high and shaped by the monopolistic era before deregulation. Numerous examples of successful LCCs exist in both the U.S. and EU, with some of the largest ones being Southwest Airlines (US), Ryanair (EU) and EasyJet (EU).[2]

The airline industry's cyclical nature can be attributed to volatile demand and input costs. Demand for air travel varies throughout the year, with peaks around certain events such as holidays. Demand also varies throughout a typical week due to business and

[1]EU air travel was deregulated through several packages of the *Single European Act* in 1987, 1990, and 1992 (Council Regulations (EEC) Nos 2407/92, 2408/92 and 2409/92). Sjögren (2015) marks 1993 as the start of the deregulated era for EU air travel.

[2]For an overview of European Airlines sorted by daily flights volume, see Appendix A

leisure travel patterns. In addition, the demand for air travel is significantly influenced by the overall state of the economy. During periods of economic prosperity, demand for businesses and leisure travel increases. Furthermore, unexpected events such as political unrest and pandemics[3] can have severe impacts on air travel. The volatile demand for air travel makes it hard to accurately forecast the prices airlines can charge for their products and services (Vasigh and Rowe, 2019, p. 402). On the cost side, fuel (oil) represents one of the main operating costs for airlines, together with labor. Oil prices thus have a significant impact on the marginal cost and profitability of airlines. Airlines have taken measures to address this fact, such as investments in more fuel-efficient aircraft and weight-saving measures, as well as financial hedging strategies (Vasigh and Rowe, 2019, pp. 14–15).

2.2.2 Financial Performance

According to (Doganis, 2010, pp. 6–7) the financial performance of airlines is determined by its ability to generate unit revenues higher than unit costs. This is determined by the interplay of three key variables: yield, load factor, and unit cost. Yield, calculated as the total passenger revenue divided by revenue passenger kilometers (RPK), measures the average revenue for each passenger per kilometer flown. Load factor measures an airlines utilization level, by dividing RPK with available seat kilometers (ASK). ASK is calculated as the available seats on a given aircraft, times the number of kilometers flown. Unit cost can be determined by the operating cost divided by ASK.

$$\text{Unit Revenue} = \text{Yield} \times \text{Load Factor} = \frac{\text{Passenger Revenue}}{\text{RPK}} \times \frac{\text{RPK}}{\text{ASK}} = \frac{\text{Passenger Revenue}}{\text{ASK}}$$

$$\text{Unit Cost} = \frac{\text{Operating Cost}}{\text{ASK}}$$

Essentially, yield measures how much an airline is able to charge for its services, while the load factor measures how efficiently an airline fills its available seats.

Doganis (2010, pp. 6–7) argues that there is no one single objective for unit costs or unit revenues, both low-cost and high-cost airlines can be unprofitable or financially sound. What matters is the ability to ensure that unit revenue exceeds cost. Unit costs, in turn, can vary drastically between carriers, as apparent by the prevalence of both low-cost carriers (e.g., Ryanair) and high-cost carriers (e.g., SAS and Lufthansa).

Cost Structure

According to Doganis (2010, p. 66), airline operating costs are traditionally divided into direct operating costs and indirect operating costs. The direct operating costs are dependent on the type of aircraft used, flying expenses (e.g., fuel, flight crew salaries, airport and en route charges, and leases), overhaul costs and maintenance, and aircraft depreciation. The indirect costs are costs independent of the aircraft type, meaning all types of

[3]For an overview of Covid-19's impact on European airlines, see Section 4.1

passenger-related costs, cabin crew salaries, and ground costs.

Sjögren (2015, pp. 29–31) highlights that when comparing the operational costs of airlines, one should consider differences in routes. For airlines operating shorter distance routes, the direct costs per passenger kilometer will be higher compared to those of an airline covering the same total passenger kilometers but across fewer routes. Furthermore, what type of routes an airline can operate is dependent on its fleet, as larger aircraft can take on longer routes whilst smaller aircraft typically fly shorter routes. Sjögren notes that airlines which primarily fly shorter routes thus will have relatively higher accumulated fixed costs, and hence they must charge comparatively higher prices. From a value proposition perspective, an airline can justify higher ticket prices through differentiated offerings such as having re-bookable tickets, more staff onboard and free food. However, consumers might have a low willingness to pay a higher price for these additional services.

Doganis (2010, pp. 78–90) underlines that management of an airline possesses varying degrees of power to influence operational cost factors across different cost items. First, management has little degree of control of "externally determined input costs", such as airport, en route costs and fuel prices, due to high supplier power (p. 90). Second, they have some management control of labor costs, aircraft type used, and route network. Degree of control over labor costs and route network are especially limited in the cases where a state holds a significant equity stake in the airline. Third, management holds a high degree of control over the corporate strategy, quality of management, marketing, and financial policy (pp. 78-90).

Aircraft Leases

Vasigh and Rowe (2019, p. 516) explain that aircraft constitute the most significant assets for airlines, both in terms of size and cost. An airline can either own its aircraft or lease them. The benefits of leasing are lower ownership risks and costs and the possibility of liquidity preservation. This is especially relevant for airlines suffering from financial strain, as these might not have enough cash available to purchase an aircraft or have a too-low credit rating to finance the purchase through new debt. Below, we describe capital leases, operating leases, and wet leases.

In the case of a capital lease, the asset is recognized on the lessee's balance sheet. Consequently, the tax benefits from depreciation and interest expenses accrue to the lessee. Furthermore, part of the ownership risk is transferred to the lessee. An airline benefits from a capital lease in contrast to buying, if they can retain an interest rate for the lease which is lower than what they would incur through the issuance of straight debt (Vasigh and Rowe, 2019, p. 522).

In operating leases, the aircraft is instead recorded on the lessor's balance sheet. This means that no ownership risk is transferred to the lessee, and the lease payments are recorded as operating costs (Vasigh and Rowe, 2019, pp. 519–520).

Under a wet lease, the lessor is provided with an aircraft, crew, and insurance, everything needed to operate an aircraft. The most common rationale behind choosing a wet lease contract is to manage short-term demand increases without incurring the costs associated with, for example, acquiring new aircraft and training new staff. However, wet leases may also be used in the longer term if the airline's associated costs are lower than owning and operating the aircraft themselves. One key consideration in this decision-making process is labor costs. Airlines may utilize wet-lease agreements to take advantage of more favorable labor laws, potentially resulting in cost savings. However, labor agreements often impose restrictions on the extent to which wet lease contracts can be utilized (Vasigh and Rowe, 2019, p. 527).

3 Methodology

3.1 Case Study Method

Given the complex and contemporary nature of our research subject, the case study method is a suitable approach for examining our outlined research questions. As Yin (2014) suggest, the case study method is appropriate when analyzing and interpreting questions requiring an extensive and in-depth exploration of some social phenomena, for example, how or why some phenomenon works. Case studies are a common research method in various fields, including psychology, political science, education, and as in this case, business. The relevance of the case study in business research, particularly in the domains of strategy and operations, has been extensively demonstrated (Dul and Hak, 2012). Idowu (2016) points to the case study as an effective tool when seeking to expand the understanding of complex issues beyond what is known from previous research. Moreover, case studies are preferred when studying real-world contemporary events, as the method allows for the combination of data collection sources such as interviews, documentation, and observations (Eisenhardt, 1989; Yin, 2014).

3.2 Data Collection

Primary data collection involved conducting semi-structured interviews. Semi-structured interviews allow for a balance between a prepared topic guide and flexibility in conversation flow (Knott et al., 2022). This format enables in-depth exploration of topics while allowing for deviation from areas deemed less relevant in specific contexts.

Interview participants were categorized into two types: dependent and independent. The dependent participants consist of interviewees directly involved in the Chapter 11 process, potentially influencing its outcome. Independent participants externally observed, monitored, or analyzed the events. Additionally, they may have contributed insights into the broader context, history, or industry, enriching the understanding of the subject matter. Both categories were interviewed with the same topic guide, however, with adaptations to phrasing as necessary. Furthermore, two interviews were conducted with a sole focus on the legal aspects of the process. In these cases, the subject guide was replaced by a questionnaire on legal subject matters; however, it was still conducted in a semi-structured format.

The interviews (outlined in Table 2) took place from February to April 2024, and they were 30-70 minutes long. All but two were conducted online. With consent from the subjects, all interviews were recorded and transcribed. Furthermore, eventual direct quotes were sent for approval to respective participants.

In addition to conducting interviews, complementary documentation and archival records, including news articles, press releases, financial reports, and court filings, were

Table 2: List of Conducted Interviews

Name	Company and Role	Dependent (Y/N)	Date
Jan Ohlsson	Airline industry journalist, freelance	N	24.02.24
Jacob Pedersen	Head of Equity Research, Sydbank	N	24.02.24
Erik Andrén	Group Treasurer, SAS	Y	11.03.24
Anna Almén	Chief Legal Officer, SAS	Y	11.03.24
Bo Becker	Head of the Department of Finance, Stockholm School of Economics	N	18.03.24
Karl Lans	Journalist, Placera	N	18.03.24
Hans Jørgen Elnæs	Aviation analyst, Independent (Winair AS)	N[1]	22.03.24
Carl Brodén	Finance and Restructuring Counsel, Roschier	Y[2]	22.03.24
Jonas Premfors	Head of Restructuring and Insolvency, Sweden, DLA Piper	Y[3]	09.04.24
Anonymous	Unionized SAS Pilot	Y	18.04.24

[1] Hans Jørgen Elnæs has had interactions with SAS representatives during the process, but has not been engaged by SAS in any capacity, nor has he been privy to any non-public information during the Chapter 11 process.
[2] Roshier represented the Danish State in SAS Chapter 11 procedure. The interview focused on general legal considerations and did not cover any subject topics specific to Roshier's involvement in the Chapter 11 process.
[3] DLA Piper was advisers to the Official Committee of Unsecured Creditors on the legal matters in Norway, Sweden, and Denmark in connection with SAS' Chapter 11 process.

used. These sources are important to corroborate and strengthen other sources, as well as proving quantitative information important for analysis (Yin, 2014). For this study, supporting documentation was also important to outline events leading up to the main focal point of our study, providing a more in-depth understanding of how events unfolded.

3.3 Validity and Research Quality

Idowu (2016) highlights various criticisms leveled against case study research, including accusations of casual determinism, non-replicability, subjective conclusions, and biased case selection. Idowu attributes some of the criticism to the preferences of quantitative methodologies amongst certain social scientists, with case studies lacking the scientific rigor to provide generalizing conclusions. In addition, Idowu highlights verification bias, that is, case study research has the tendency to confirm researchers preconceived ideas. Finally, Idowu mentions that construct validity has been a source of criticism, due to potential investigator subjectivity.

However, these claims can be refuted. In the case of scientific rigor, Yin (2014) highlights that rigor criticism stems from procedural rather than inherent methodological

flaws. As demonstrated in the preceding section, this study employs a systematic approach to data collection. We use triangulation as a tool to ensure the validity of findings, as outlined by Bell et al. (2019, pp. 364–365, 575). Triangulation is achieved by using multiple sources, including both qualitative and quantitative data, enabling cross-checking of results. Consequently, triangulation enhances the validity of the findings by considering multiple perspectives.

Regarding the generalization of findings, Yin (2014) distinguishes between analytic and statistical generalization, emphasizing that case studies seek to expand and generalize theories rather than to extrapolate statistical probabilities. This aligns with this study's objectives, which seek to comprehensively understand the events under investigation.

Concerning verification bias and construct validity, Yin (2014) suggests using multiple sources, establishing a chain of evidence, and allowing feedback from key informants after a draft is constructed to manage construct validity concerns. Both dependent and independent sources have been incorporated, along with secondary sources, to ensure the credibility of the findings. However, certain stakeholder groups of interest, including representatives from the investor consortium and official union representatives, could not participate, primarily due to secrecy concerns. This limitation may have affected the depth of our understanding of certain aspects of the process. Additionally, regarding verification biases, note that we maintain no personal or professional relationships with the subjects under study.

4 Case Background

This section is divided into two parts. First, it offers a brief overview of how Covid-19 affected European airlines, providing insight into the market context prior to and during SAS's Chapter 11 procedures. Second, it provides a historical summary of SAS, including its ownership structure, financial history, and the SAS FORWARD plan launched in 2022.

4.1 Impact of Covid-19 on European Airlines

Between 2010 and 2019, the volume of air passengers within the EU experienced a steady increase, with an average annual growth rate of approximately 4.6%. By 2019, the number of passengers transported per year had surpassed one billion. However, the outbreak of the COVID-19 pandemic in February 2020 abruptly halted this growth trajectory, with a decline in passenger numbers to 276m, marking a more than 70% reduction in air travel (Eurostat, 2024).

By May 29, 2020, 32 out of 40 major European airlines had suspended their operations entirely, with an average suspension period of 80 days. This cessation of activities, a direct consequence of the plummeting demand for air travel, had widespread repercussions on the industry's economic landscape (Budd et al., 2020).

Airlines implemented various strategies to mitigate the adverse effects in response to the crisis. First, multiple European carriers received government support through renationalization, government equity stakes, and government-backed credit facilities. Second, airlines initiated fleet restructuring efforts, which included phasing out older aircraft, standardizing fleets, and deferring orders for new planes. Third, capacity reductions became a standard industry practice, with airlines planning to gradually restore their operations to pre-COVID levels as conditions allowed (Budd et al., 2020).

In 2021, European air travel experienced a modest rebound, with passenger figures increasing by 35% compared to 2020. Despite this uptick, the levels remained significantly below pre-pandemic levels, reaching only 34% of the passenger volume recorded in 2019 (Eurostat, 2024).

A more significant return to normal came in 2022. Total passengers amounted to almost 820m, 21% lower than 2019, but almost three times the 2020 figures (Eurostat, 2024). IATA reported system-wide operating margins of 4% for European airlines for 2022, compared to -8.9% in 2021, and several major carriers such as Lufthansa, KLM, and IAG reported positive operating results, reflecting a rebound in the industry's economic health (Capital IQ, 2024; IATA, 2023).

Table 3: Key Financials for Selected European Airlines

Company	Norwegian	Ryanair	AF-KLM	SAS AB	Lufthansa
Financials, FY2022, SEKm					
Total revenue	19,015	49,134	280,605	31,824	328,906
EBITDA	-515	3,329	27,069	-1,971	33,107
EBIT	-636	-3,476	10,972	-3,385	13,152
ASK[1]	27,382	146,446	282,826	34,371	259,428
RPK[2]	22,757	120,698	*NA*	24,317	207,030
KPIs					
EBITDA margin	-3%	7%	10%	-6%	10%
EBIT margin	-3%	-7%	4%	-11%	4%
Unit revenues[3]	0.69	0.34	0.99	0.93	1.27
Unit costs[4]	0.75	0.36	0.95	0.96	1.22
Unit margin[5]	-7.60%	-7.10%	3.90%	-3.70%	4.00%
Load factor	83%	82%	84%	71%	80%
Aircraft average age (yrs)	9.1	14.9	12.1	8.1	13.1

[1] Available revenue kilometers, million
[2] Revenue passenger kilometers, million
[3] Revenue / ASK, SEK
[4] Operating Expense / ASK, SEK
[5] Unit revenue / unit cost
Capital IQ (2024)

4.2 Introduction to SAS

SAS, or Scandinavian Airlines, is an airline headquartered in Stockholm, Sweden, focused on travel to and from Scandinavia. In 2022, the company conducted more than 800 scheduled flights daily to 125 destinations (SAS Group, 2024g). SAS was one of the founding members in 1997 of the airline network Star Alliance, together with United Airlines, Thai Airways International, Air Canada and Lufthansa (Star Alliance, n.d.). SAS's business model is to make life easier for people who travel frequently in Scandinavia by offering "smooth flights for business and leisure travel" (SAS Group, 2023a). SAS has historically focused on catering to the business traveler segment (Hans Jørgen Elnæs, Independent aviation analyst, 22.03.24). To build loyalty, SAS also operates Scandinavia's largest travel-related loyalty program, EuroBonus, with more than 7m members (SAS Group, 2023a). Furthermore, SAS also differentiates itself in the Nordic region as a network carrier, allowing travelers to book flights to destinations beyond SAS's own destinations (Anna Almén, Chief Legal Officer at SAS, 11.03.24).

SAS primarily focuses on routes that connect, originate from, and operate within Scandinavia. In 2022, a significant portion of passenger revenue originated from Norway, followed by Sweden and Denmark, with most revenue per passenger coming from those traveling across Europe (See Appendix G; C.D., ECF No. 1945, 2024, p. 32). SAS manages its routes both via its own fleet for larger traffic flows, with smaller and regional

traffic operated by production partners (SAS Group, 2024h).

4.2.1 Ownership History and Shareholder Structure

SAS has historically been owned by a mix of private investments and major state ownership from Sweden, Denmark, and Norway.

The modern SAS was formed in 1951 through a consortium of Denmark, Norway and Sweden's respective airline companies, DDL, DNL and ABA (SAS Group, n.d.[b]). Swedish ABA had just three years earlier merged with the Wallenberg family's air travel company SILA. The formation of SAS was based on the belief in pooling resources to create the conditions for European and intercontinental air transport (Sjögren, 2015, p. 45).

In 1996, the parent companies' names were harmonized to SAS Danmark, SAS Norge, and SAS Sverige. SAS became a single traded share in 2001, traded on the Stockholm, Copenhagen and Oslo exchanges (SAS Group, n.d.[b]). Changes were also made to how SAS was governed, with the national boards of the holding companies being replaced by a unified board chosen by the shareholder collective. The change in structure had great significance for how SAS was governed in practice. The old structure, according to Sjögren (2015, p. 87), was cumbersome and overly bureaucratic, and it was natural for each national parent company to pursue its own interests at the board level.

In 2018, the Norwegian government divested its 9.9% holding in SAS. Since as early as 2010, the Swedish government was also mandated to reduce ownership in SAS. The Swedish government confirmed its position in 2022, expressing that it would not provide any new capital for a new rescue package (SVT, 2022). As such, the Danish State remained as the sole state with a long-term ownership horizon in SAS.

As of December 2023, prior to approval of the proposed ownership consortium from the Chapter 11 process, the largest shareholders of SAS were the Swedish and Danish states (21.8% each) and Wallenberg Investments (3.42%). No other shareholder owned more than 1% of the SAS shares (SAS Group, 2024c).

4.2.2 Financial History

Since its shares started trading in 2001, SAS has undergone financial turmoil on several occasions, with associated share and bond issues, alongside strategic plans and cost-saving programs.

2008 - 2019: Navigating Post-Financial Crisis Challenges

In the following section, we outline key events from the 2008 financial crisis to the SAS recapitalization plan during the COVID-19 pandemic.

To counteract financial difficulties following the 2008 financial crisis, SAS launched the *Core SAS* strategy in February 2009, supported by a SEK 6b rights issue financed by the Swedish, Norwegian, and Danish states, and the Wallenberg Foundation. Core SAS aimed to strengthen SAS's capital structure, concentrate on the Nordic markets, strengthen business travel services, improve the cost base, and create a more cost-effective organization (SAS Group, 2009). Despite these efforts, an additional c. SEK 5b rights issue was executed in 2010 as part of the package, driven by SAS's cost profile in general and high labor costs in particular. Collective agreements were subsequently renegotiated to improve cost competitiveness for new hires (SAS Group, 2011).

In 2011, SAS launched the strategic program *4 Excellence*, targeting areas such as commercial, sales, operations, and people excellence. However, issues with the cost base persisted, compounded by a new pension accounting standard expected to impact equity negatively (SAS Group, 2012). To reach a solution, SAS unveiled *4XNG* in 2012, aiming to remodel SAS into a network carrier able to compete with low-cost carriers. By divesting assets like Widerøe and real estate, SAS managed to improve its liquidity position under 2013 and return to profitability, resulting in a credit rating upgrade (SAS Group, 2013; SAS Group, 2014; S&P Global Ratings, 2013). However, SAS's CEO noted additional work was needed to reach long-term profitability (SAS Group, 2014), and subsequently, SAS issued preference shares, amounting to SEK 3.5b in February 2014, and completed the 4XNG restructuring program on October 31, 2014 (SAS Group, 2015).

SAS yielded profitable years from 2015 to 2019 (SAS Group, n.d.[a]). This was accompanied by credit rating upgrades, first to B from B- in July 2016, then to B+ in November 2017 (see Appendix B). In 2017, SAS also launched SAS Connect, which aimed to compete with the cost-efficiency of LCCs by the usage of wet-lease operations (SAS Group, 2018). Despite an improved financial position and positive earnings, market observers were still doubtful about whether this was a sustainable development. Jacob Pedersen, Head of Equity Research at Sydbank, comments that:

> "[SAS had] five years of positive earnings, in the period leading up to the pandemic, but was deteriorating. [They] entered the pandemic with high debt [and] low earnings quality."
>
> *(24.02.24)*

2020: Covid-19 Outbreak and Recapitalization

The events leading up to SAS's 2020 recapitalization process are described in detail by Sörensen and Olsson (2021). SAS stated in its Q2 2020 (Feb-Apr 2020), that the Covid-19 pandemic had a severe negative impact on its financial results. In April 2020, passengers' figures were down 96% compared to a year prior (SAS Group, 2020b). Erik Andrén, Group Treasurer at SAS, explains the swift and significant impact of the COVID-19 pandemic on SAS, stating that:

> "When the pandemic hit, we were somewhere at the beginning of March 2020, and we quite immediately came to a complete standstill (...) We had just released our Q1 report (...), where we had also guided the market forward, saying that apart from a loss related to two routes to China that are at a standstill, with an expected revenue loss of 200 million, we were keeping our guidance unchanged. I think it was eleven days later, or possibly twelve, that all our traffic was at a standstill. We basically had no market. It happened that quickly."
>
> *(11.03.24)*

As a first response to the challenges, SAS presented a revised business plan. 90% of the workforce was put on temporary layoff schemes, and permanent reductions of up to 5,000 positions were planned. Savings through renegotiated contracts with suppliers, reduced spend on supporting functions such as marketing and IT, and adaptations to the fleet size were planned. Additionally, SAS mentioned dialogues with major share- and stakeholders over an out-of-court recapitalization plan (SAS Group, 2020b). Said plan was made public on June 30, 2020. The plan, supported by the Swedish State, Danish State, and KAW (*Knut and Alice Wallenberg Foundation*), intended to restore equity by SEK 14.25b, whereof SEK 12b in new funding and SEK 2.25b in debt conversion (SAS Group, 2020a).

After revisions, the final recapitalization plan was announced in October 2020. The implemented equity restoration of SEK 14.25b led to a share dilution of c. 95%. The main part of the package comprised state (Sweden and Denmark) hybrid notes and common share issues of SEK 6bn each, totaling SEK 12b. Out of the 2.25b in debt in the form of fixed-rate bonds, 1.615m was converted into new commercial hybrid bonds, whereas the remainder was converted to equity through an offering to the bondholders (SAS Group, 2020a). SAS's credit rating was upgraded after the completion of the recapitalization in December 2020, from SD (Selective Default) to B-. S&P highlighted that the cash proceeds from the recapitalization should leave SAS with "ample liquidity to withstand depressed air demand and offset negative operating cash flow until trading conditions improve" (S&P Global Ratings, 2020). Improvements were anticipated as COVID-19 vaccines were expected to be readily available by mid-2021.

The state aid provided by the Danish and Swedish states during the 2020 Recapitalization were approved under the EU's Temporary Framework for State Aid. The European Commission further confirmed that the aid was in line with the EU state aid rules (European Commission, 2023).

While the hybrid bonds were treated as equity on SAS's balance sheet, S&P classified the state and commercial hybrid notes as debt due to their complex structure, including multiple coupon step-ups, making the terms less favorable over time for SAS. Although the notes were credited with giving some flexibility for SAS's capital structure, this was

offset by a highly leveraged financial profile, and a weak assessment of SAS's business profile. Sörensen and Olsson (2021) also mentions the hybrid notes and their associated terms as the "main concern" highlighted in expert interviews discussing the recapitalization plan, as their fee structure would result in SAS incurring interest costs that were substantial relative both to costs before the recapitalization and compared to that of their competitors'. This was expected to lead SAS to a position where a new share issue would be necessary within a few years.

2021: Post-Recapitalization Development

After completing the recapitalization plan, SAS's financial position quickly deteriorated. The company's cash reserves dropped by more than 5b in the first quarter of fiscal year 2021, and earnings before taxes for the quarter amounted to SEK -1.9b. Consequently, SAS's credit rating was downgraded from B- to CCC. Credit analysts highlighted that "ongoing restorative measures may not compensate for the cash burn from persisting weak air traffic demand" (S&P Global Ratings, 2021).

SAS secured a SEK 3b credit facility supported by the Swedish and Danish states in July 2021, intended to function as a liquidity buffer. SAS was operating with large losses, and revenues were still well below prepandemic figures (SAS Group, 2021b).

During this time, the airline appointed Mr. Anko van der Werff as the new CEO of SAS, who took office on July 15, 2021. A Dutch native, van der Werff came from a long career in the airline industry, with his latest position being president and CEO of Colombian airline Avianca (SAS Group, 2021a). During his time at Avianca, the airline initiated an 18-month-long U.S. Chapter 11 procedure, which it successfully exited in December 2021 (Avianca, 2020; Avianca, 2021). His career before Avianca included positions at Aeromexico, Qatar Airways and Air France-KLM (SAS Group, 2021a).

SAS ended FY21 with a diminished cash position of c. SEK 4.3b, down from SEK 10.2b at the end of FY20. Financial net debt had increased substantially, and the debt-to-equity ratio was now 4.1, compared to 1.8 at the end of FY20. SAS had only managed to realize around 50% of the cost savings targeted in the 2020 Recapitalization and stated that "a lack of concessions from labor and aircraft lessors" was one of the reasons (C.D., ECF No. 1945, 2024, p. 43; SAS Group, 2022c)

4.3 Key Events Before Chapter 11

4.3.1 SAS FORWARD

A Turbulent Beginning of 2022

> "SAS is now, more than ever, in need of a fresh start"
>
> *- CEO Anko van der Werff, SAS Q2 2022*

Roughly two years after the start of the pandemic and sixteen months after completing its last recapitalization, SAS was in a difficult financial position. Despite maintaining the same capacity as in Q4 2021 and demand increasing in the group's home markets, the number of SAS passengers decreased by 15 % during Q1 2022 (SAS Group, 2022g). Anna Almén comments that "As late as well into 2022, we were still hit by pure covid effects" (11.03.24).

At the same time, operating expenses had increased from SEK 4.4b to SEK 6.9b compared to Q1 2021, the main contributors being COVID-19-related personnel expenses, jet-fuel prices, higher air traffic charges, increased sales and distribution costs, as well as wet leases expenses (SAS Group, 2022g).

SAS experienced increased competition from network carriers in the long-haul segment and LCC's in Europe. Finnair and Delta started operations in Stockholm Arlanda during 2021 and 2022 respectively, affecting SAS's position in the long-haul segment (C.D., ECF No. 1945, 2024, p. 41). In addition, LCC Ryanair initiated operations from Arlanda, with 35 new European routes (Ryanair, 2021). Karl Lans, Journalist at Placera, highlights the profitability of certain segments, stating:

> "(...) the most profitable routes are these short ones within Europe (...) That's how Ryanair [and Wizz Air operate]. And it's primarily these long-distance routes that are risky, expensive, and unpredictable."
>
> *(18.03.24)*

Jacob Pedersen further elaborates on how these market dynamics challenge SAS's strategic position:

> "SAS derives the bulk of its revenue from short and medium-haul flights, facing much more direct competition with low-cost airlines compared to other major airlines. [It's] fierce competition."
>
> *(24.03.24)*

Initiating SAS Forward

Upon releasing its Q1 report in February 2022, SAS announced its new transformation plan SAS FORWARD. As prior transformation efforts had failed to invigorate liquidity,

SAS's aim with SAS FORWARD was to fully transform the business to make the group financially stable. Additionally, SAS aimed to improve the customer experience by adding new routes and increasing frequency while continuing to work with existing strengths such as SAS Plus and SAS EuroBonus. The key areas stated in the plan were to:

- Decrease costs by SEK 7.5b annually.
- Refine network, product portfolio and fleet to position for the future and improve the customer experience.
- Undergo a digital transformation to enhance customer experience and brace financial gains.
- Retain a new position as the sustainable aviation leader by making investments in new technologies and changing customer behavior.
- Accelerate the operational platform to become more agile to market conditions.
- Enhance SAS's financial stability through deleveraging and securing additional capital to strengthen liquidity and revitalizing the balance sheet.

(SAS Group, 2022f)

As a first step of SAS FORWARD, SAS announced the deferral of payments on capital securities with an aggregated value of 7.615b in April 2022 (SAS Group, 2022a).

In Q2, SAS's number of passengers increased by 28% due to the easement of the travel restrictions, accompanied by an 11 p.p. increase in its load factor. Despite this, revenue was still 31% below that of Q2 2019, the corresponding quarter before the pandemic. During the quarter, the SEK 3.0b credit facility secured in 2021 was also drawn (SAS Group, 2022g).

SAS faced immense competition from airlines with lower cost structures and had difficulties realizing the envisioned cost-cutting measures. The company was burdened by being heavily leveraged while experiencing increased jet-fuel prices, poor exchange rates, and challenging geo-political conditions (SAS Group, 2022g).

The Q2 report shed further insights into the progress of the SAS FORWARD plan. SAS was looking into raising at least SEK 9.5b of new equity and converting SEK 20b of hybrid notes and debt into equity, to allow for the implementation of SAS FORWARD, which SAS stated would substantially dilute the existing shareholders. Additionally, SAS announced that the company had ongoing discussions with labor unions. Reducing personnel costs was crucial to the airline's cost-cutting goals, as they represented around 20% of the targeted annual savings (SAS Group, 2022g). SAS also expected to realize SEK 850m to SEK 1b of their cost savings through reducing their aircraft capital and lease costs (SAS Group, 2022b).

SAS highlighted the dependency on stakeholders' participation in burden sharing, meaning raising new capital and debt conversion, for SAS FORWARD to be successful.

However, stakeholders were reluctant to partake. Not being able to implement SAS FORWARD would likely lead to SAS being incapable of managing its liquidity levels and capital structure, resulting in the group not meeting its long-term obligations. Consequently, the SAS board concluded that the group needed to go forth with a reorganization to implement the transformation plan, and that a court reorganization process might be an appropriate solution (SAS Group, 2022g).

> "(...) the completion of the cost reduction programs, the debt-to-equity conversions, the fleet restructuring and the significant equity capital raise are subject to uncertainty and there can be no guarantee of success in such efforts by SAS"
>
> *- CEO Anko van der Werff, SAS Q2 2022*

4.3.2 Pilot Union Strike

On June 9, 2022, SAS-affiliated pilots' unions in Denmark, Sweden, and Norway notified plans to go on strike on July 29, 2022 (SAS Group, 2022k; Wande, 2022). SAS and the pilots' unions had not managed to reach common ground for a new collective agreement, following the expiration of the previous collective agreement in March 2022, with the pilots' unions stating that the wage reductions being too significant (Tuvhag, 2022). The SAS board rebutted, calling the planned strike "shocking and tone-deaf" (Erkenborn, 2022). SAS was known for a historically high annual labor cost base. Both direct costs, such as pension costs, allowances, and salary levels; and indirect costs, such as social welfare taxes and administrations, were significantly higher compared to SAS's competitors in the low-cost segment when accounting for what services and products were offered (C.D., ECF No. 1945, 2024, p. 113).

After the strike was postponed (SAS Group, 2022l), the pilots of SAS were called out on July 4, 2022. SAS voiced that the strike would lead to significant disruption in its air traffic, but that flights operated by SAS Connect, SAS Link, and other external partners would remain unaffected. SAS's CEO Anko van der Werff stated that "a strike at this point is devastating for SAS and puts the company's future together with the jobs of thousands of colleagues at stake. The decision to go on strike now demonstrates reckless behavior from the pilots' unions and a shockingly low understanding of the critical situation that SAS is in, (...)" (SAS Group, 2022m).

4.4 Fleet and Financial Position at Commencement

At commencement of Chapter 11, SAS's fleet comprised 102 aircraft, of which 22 were owned by SAS itself. 15 of the planes were subject to Japanese operating leases with a call option, denoted as JOLCO leases. The cost for operating, financial and JOLCO leases prior to commencement were approximately SEK 342m per month, corresponding

to an annual cost of c. SEK 4,100m. The fleet comprised both Boeing and Airbus planes (C.D., ECF No. 1945, 2024, p. 31).

Furthermore, SAS had total outstanding funded debt of c. USD 1.35b. The debt obligations are outlined in Table 4, all of which were unsecured, mainly comprising the state aid SAS received from the Swedish and Danish states during 2020 and 2021. As of Q2 2022, the latest quarterly report before commencement, SAS's financial net debt amounted to c. SEK 30b, with total interest-bearing liabilities including leases amounting to c. SEK 40.5b (see Table 5).

Table 4: SAS's Funded Debt at Chapter 11 Commencement[1]

Instrument	Outstanding Principal[2] *USD million*
Norwegian Term Loan	152
Commercial Hybrid Bonds	158
Swiss Bonds	133
State Hybrid Bonds 1	489
State Hybrid Bonds 2	98
Danish Term Loan	152
Swedish Term Loan	152
Total Funded Debt	$\approx 1,350$

[1] For SAS AB and consortium constituents
[2] Based on FX rates as of commencement date
C.D., ECF No. 1945 (2024, pp. 36–37)

Table 5: Condensed SAS Group Balance Sheet[1]

Item	*SEKm*
Cash and cash equivalents	8,478
Current receivables	3,922
Other assets	47,047
Total assets	59,447
Shareholders equity	2,172
Interest bearing liabilities	22,390
Interest bearing leasing liabilities	18,157
Other liabilities	16,728
Total equity and liabilities	59,447

[1] As of April 30, 2022
SAS Group (2022g)

5 The Case - SAS's Chapter 11 Process

This section covers the main events and processes from SAS's Chapter 11 commencement up to approval of the plan. Each subsection focuses on a thematic aspect, resulting in a non-linear case presentation. However, within each subsection, events are presented chronologically. For a detailed timeline of key events, refer to Appendix C. Amounts are presented in the currency specified by SAS. Conversions for key figures (in parenthesis) are calculated using the exchange rate provided with the winning bid announcement (USD/SEK 11.0).

5.1 Process Initiation

SAS had been unsuccessful in negotiating with creditors and lessors in making the type of concessions needed to realize the required restructuring targets set up in SAS FORWARD out of court. As a result, the SAS management reached the conclusion that they needed to initiate an in-court process (Anna Almén, 11.03.24). Following this decision, on July 5, 2022, SAS took the next step of SAS FORWARD, initiating the U.S. Chapter 11 Process in the U.S. Bankruptcy Court for the Southern District of New York (SAS Group, 2022e).

> "The on-going strike poses significant challenges to our ability to succeed with our transformation. The Board has concluded that legal tools are required to make progress in our ongoing negotiations with key stakeholders, and ultimately to succeed in making SAS a competitive and financially strong business."
>
> *- CEO Anko van der Werff, SAS Q2 2022*

In the initial press release, SAS highlighted that while its cash position of c. SEK 7.8b (USD 787m) was deemed sufficient to meet business obligations in the near term, the impact of the ongoing pilot strike could become material. It also announced the initiation of securing DIP financing of up to USD 700m to ensure adequate funding for the reorganization process. In addition to reaching agreements with stakeholders, SAS aimed to "restructure the Company's debt obligations, reconfigure its aircraft fleet, and emerge with a significant capital injection". The court process was expected to be completed in 9-12 months (SAS Group, 2022e).

On July 7, 2022, two days after the initial filings, SAS received court approval of its First Day Motions to continue operating its business. This included paying wages and benefits, continuing to operate EuroBonus, and operating the airline normally. Following the filing, SAS credit rating was downgraded from CC to D, the lowest possible rating (S&P Global Ratings, 2022).

5.2 Resolving Stakeholder Challenges

5.2.1 Managing the Pilot Strike

Anna Almén sheds further light on how the strike affected the decision to enter Chapter 11:

> "(...) of course, it affected the timing (...) if the pilots were to go on strike, we were afraid that someone would try to do something against SAS and file for bankruptcy (...)". *(11.03.24)*

Erik Andrén confirms that:

> "(...) at this point we were of course well prepared for a potential filing [for Chapter 11], (...) before any decision was taken. But that was the triggering factor one could say, in terms of the timing." *(11.03.24)*

The next step in resolving the conflict occurred on July 11, 2022, when SAS notified the intention to resume mediation for an agreement to end the strike (SAS Group, 2022i). Three days later SAS's CEO Anko van der Werff emphasized the imperativeness of reaching an agreement swiftly. The much-needed DIP financing package depended on SAS's ability to demonstrate a roadmap for all savings in SAS FORWARD, which the ongoing strike was hindering. SAS noted that not reaching a solution would potentially necessitate downsizing and significant strategic asset sales for SAS (SAS Group, 2022d).

On July 19, 2022, SAS and the pilots' unions concluded mediation, resulting in a new 5.5-year collective bargaining agreement. Regular flight schedules were set to resume as fast as possible. Key terms of the agreement included the withdrawal of pending litigation from pilots and the pilots' unions, commitments to rehire more than 450 pilots in conjunction with flight operation ramp-ups in 2024, increased productivity, and lower unit costs for SAS's pilots. Pilot salaries were reduced to closer match the pay scales at low-cost competitors. Productivity measures included a reduced number of pilots with fixed flying patterns, modified working hours per week, and an increased capacity for SAS to enter into wet-lease agreements (SAS Group, 2022h; C.D., ECF No. 309, 2022, p. 50). The agreement also included an unsecured claim against the consortium, amounting to SEK 1b. After revisions, the agreements gained court approval on December 8, 2022 (C.D., ECF No. 1945, 2024, p. 45).

The strike had a significant impact on SAS's operations. During the 15 days, approximately 3,700 flights had been canceled, affecting 380,000 passengers and resulting in a financial impact of more than SEK 1.5b (C.D., ECF No. 1945, 2024, p. 45).

5.2.2 Ryanair Litigation

Coinciding with the Chapter 11 procedures was a court process SAS's competitor Ryanair drove against the European Commission.

After EU approved of state aid to SAS from the Swedish and Danish states during the initial phase of the Covid-19 pandemic in April of 2020, Ryanair challenged this decision before EU courts on claims of unlawful discrimination. In April of 2021, the General Court of the European Union dismissed Ryanair's actions as the aid was deemed compliant with EU law. The Court argued that SAS had a significantly larger market share than its competitors in the Swedish and Danish markets and was thus disproportionately affected by the pandemic-induced restrictions, justifying the aid as proportional to the damage suffered (*Ryanair DAC v European Commission* 2021).

Ryanair proceeded by challenging the Court's decision on May 4, 2021. This ultimately led to the Court overturning the prior approval on May 10, 2023. The key consideration for overturning the decision was the absence of a step-up mechanism in the state aid, a requirement under the EU's Temporary Framework (*Ryanair DAC v European Commission* 2023). This mechanism sought to incentivize debtors to repay state financing by offering additional remuneration, such as granting the states additional shares after a specific period (European Commission, 2021). In a press release following the decision, Ryanair's spokesperson commented: "The Court's intervention is a triumph for fair competition and consumers across the EU." (Ryanair, 2023)

Market observers speculated whether the Ryanair litigation would prolong the Chapter 11 process. Jacob Pedersen states that:

> "[The Ryanair state aid lawsuit] has made things very, very difficult for SAS. [It] really put the company at a spot where it did not really know if they were to pay back billions in state aid or what was going to happen."
>
> *(24.02.24)*

On July 4, 2023, the European Commission launched an investigation into the matter, completed on November 29, 2023. It concluded that while the State aid provided for SAS's 2020 Recapitalization complied with EU law, it needed to incorporate step-up mechanisms. The mechanisms were implemented through a unilateral agreement between SAS and the parties. New hybrid notes were to be issued if SAS failed to reduce the state ownership shares by 40% until October 2024, and further increased by October 2026 if the state ownership was not completely reduced. This however only pertained to the additional equity held through the state aid (C.D., ECF No. 1945, 2024, p. 46).

The General Court's ruling that the Commissions previous approval of state aid to SAS did not comply with state aid rules came unexpectedly for SAS. Anna Almén, Chief Legal Officer at SAS, commented on its effects on the Chapter 11 process:

> "When unexpected things happen in a process like this, everyone you work with gets a little shaky. If you say that the State aid process is running as anticipated and then it turns out that it's not running as expected , well, then you suddenly have a burden of explanation: 'Why didn't it proceed and is

there anything else that we should be worried about' and so on. So, it was unfortunate that it came, of course, but thankfully, it's been sorted out."

(11.03.24)

5.3 Securing Capital

5.3.1 DIP Financing

On August 14, 2022, SAS announced it had entered a DIP financing credit agreement for USD 700m financed by Apollo Global Management, an U.S. based alternative asset manager. The financing package was structured as a *non-amortizing senior secured superpriority DIP delayed-draw term loan facility*. This means that the DIP financing was secured against virtually all SAS's assets, such as the immaterial rights to the EuroBonus loyalty program. Subject to court approval, half of the amount would be made available to SAS. The other half would be available upon satisfaction of additional criteria (SAS Group, 2022j).

The DIP financing also included two equity-linked features, a call option and tag right. The tag right allowed Apollo to acquire equity in the reorganized SAS on the same terms as any external investors. The call option granted Apollo the opportunity to convert the DIP facility to equity, either partially or wholly, based on an enterprise value for SAS of USD 3.2b (C.D., ECF No. 1945, 2024, p. 51).

Table 6: Condensed DIP Financing Terms Provided by Apollo

Interest rate	SOFR + 9%
Rate increase per annum	2%
Advisory fee	1% of Total Aggregate Commitment
Upfront fee	1% of Total Aggregate Commitment
Initial work fee	USD 1 million
Maturity	9 months[1]

[1] With up to 3 3-month extensions subject to fees (0.75%, 1.25%, 1.5% of Total Aggregate Commitment)
SAS Group (2022j)

5.3.2 Initiating Equity Soliciation Procedures

On April 5, 2023, SAS filed a motion with the Court seeking approval for its *Equity Solicitation Procedures*, its exit financing. In the filings, SAS highlighted that progress in the Chapter 11 process had been made. This included securing DIP financing, reaching agreements with the pilots' unions, restructuring the fleet, and refining the business plan. SAS's focus was consequently on the path out of Chapter 11. This entailed seeking investors willing to invest in the reorganized company, aiming to maximize value for creditors and gain their support (C.D., ECF No. 1945, 2024, p. 60).

The process aimed to facilitate a "fair and reasonable marketing and diligence process for potential financial and strategic investors, with clear qualification and selection processes" (p. 60). Skandinaviska Enskilda Banken (*SEB*), and Seabury Securities (*Seabury*), were appointed as investment bankers for the process, to contact parties that may be interested of investing, and lead the banking process. The goal was to "obtain the highest or otherwise best proposal". Interested parties could participate in two categories:

1. *Category One* was for bidders interested in taking a lead position as Plan Sponsor for the transaction. The minimum bid in this category was USD 350m.

2. *Category Two* was for bidders interested in investing alongside other parties, either with a Category One bidder or another Category Two bidder. The minimum bid for category two bidders was USD 25m.

(C.D., ECF No. 1945, 2024, p. 60)

In addition, the Equity Solicitation included special terms for the Danish State. The terms specified that the Danish State could subscribe to new common shares on the same terms and enterprise valuation as any winning bidder. The commitment was to provide the Danish State with an ownership stake of 21.8-29.9% of fully diluted shares in the reorganized SAS. The Danish State was also entitled to expense reimbursement of 2% of its new equity commitment at a cap of SEK 62.5m (SAS Group, 2023c; C.D., ECF No. 1061, 2023, pp. 61–64).

On May 15, 2023, the Equity Solicitation Procedures received court approval. SAS set the planned deadline for final bids 13 weeks later. On this day, SEB and Seabury also contacted parties they believed could be interested in the transaction. Over 200 parties were contacted in total, and provided with a "teaser" of the investment opportunity (C.D., ECF No. 1631, 2023). The Letter of Intent (*LOI*) bid deadline was set to June 26, 2023, and final bids to August 14, 2023 (C.D., ECF No. 1061, 2023, pp. 60–62).

On June 15, 2023, SAS announced the timeline would be extended by approximately four weeks, now planning to complete the process around the year-end 2023. The decision was based on "initial discussions with potential investors", where SAS claimed it saw "substantial interest from potential financial and strategic investors to participate." (SAS Group, 2023e) This meant the LOI bid deadline was extended to July 17, 2023, and final bid deadline to September 25, 2023 (C.D., ECF No. 1155, 2023, pp. 60–61). During the first round of bids, twelve interested parties had expressed interest and signed a non-disclosure agreement (*NDA*), gaining access to a virtual data room (*VDR*) and confidential information memorandum (*CIM*; C.D., ECF No. 1631, 2023, p. 5).

Between the launch of the process and before the LOI deadline, SAS and its advisors decided to seek "alternative forms of capital". John E. Luth, CEO of Seabury, noted that "initial feedback showed narrow appetite for equity in airlines, [although] a focused group of investors showed interest in investing equity" (C.D., ECF No. 1631, 2023, p. 5).

While SAS had preferred a pure common equity investment, the alternative structure was proposed to "gain further interest and increase competitive dynamics". Seabury and SEB followed up with potential investors, saying that SAS would consider convertible debt solutions in addition to equity. Illustrative term sheets for the new structure were uploaded to the VDR on June 22, to assist interested parties in preparing their bids (C.D., ECF No. 1631, 2023, pp. 5–6).

On July 17, 2023, the LOI bid deadline, SAS received first-round bids from seven potential investors. Of the seven interested parties, two were Category One bidders, interested in taking the lead position as plan sponsor, whereas the remaining five were Category Two bidders. The bidders included "global private equity funds, alternative investors, and strategic investors". To refine the selection process SEB and Seabury requested bidders interested in an alternative structure, that is, convertible debt in addition to equity, to submit revised bids by August 7, 2023. In addition, parties were requested to submit governance term sheets by August 14, 2023, and a proposed Chapter 11 term sheet markup by August 28, 2023. Revised bids were required to be higher than the initial round. Similar to the Category One and Category Two bid options in the initial rounds, there were now two options:

1. Submit a bid of at least USD 500m in capital, with a minimum of 33% in equity.

2. Provide at least USD 150m, with the same minimum equity, and be willing to partner with other bidders to offer a collective proposal exceeding USD 500m.

(C.D., ECF No. 1945, 2024, p. 61)

By August 7, 2023, the revised bid deadline, SAS had received two bids for the alternative structure alternative, one of which was alternative investment firm Castlelake L.p.. Based on discussions with SAS, the Creditor's committee[4] together with the Danish State, paired Castlelake with another interested party, the airline group Air France-KLM, together forming the *consortium*. The consortium and the other party who placed a revised bid under the alternative structure were invited to submit final bids (C.D., ECF No. 1945, 2024, p. 61). After initial meetings on September 11, 2023, Danish family office Lind Invest joined the consortium (C.D., ECF No. 1631, 2023, p. 7).

On September 25, 2023, the final bid deadline, SAS had received two bids satisfying the criteria of a qualified third-party bid. In addition, the Danish State submitted a final bid under the special terms for their investment. The following week, SAS and its advisors continued discussions with the two interested parties, seeking revised proposals for higher bids. Both bidding parties submitted revised bids on September 29, 2023. In addition, the consortium submitted a second revised final bid on October 1, 2023 (C.D., ECF No. 1945, 2024, pp. 61–62). In addition to SAS's valuation, the selection process for

[4]The Creditor's committee consisted of Airbus SAS, Dr. Malte Daniels, Jackson Square Avitaion and Flying Food Group, which represented the unsecured creditors in the Chapter 11 process.

a winning bid considered compliance with the EU's ownership requirements, capital and investment structure, and investors' track records and reputations. Regarding the track record, focus was on investors with "relevant airline or turnaround investment experience to protect Reorganized SAS's long-term prospects." (C.D., ECF No. 1631, 2023, p. 8)

5.3.3 The Winning Consortium

On October 3, 2023, SAS presented the winning bidder consortium in its exit financing procedures. The consortium[5] consisted of four parties: Castlelake, Air France-KLM S.A., Lind Invest ApS, and the Danish State. The winning consortium's bid represented an enterprise value of the reorganized SAS of USD 1,175m (SEK 12,925; SAS Group, 2023d).

In conjunction with the announcement, SAS also communicated that the listed common shares for SAS AB, and listed commercial hybrid bonds, were expected to be cancelled, redeemed, and delisted. No value was to be expected for current equity holders, and only a limited recovery was expected for the hybrid bonds. The delisting was planned for the second quarter of 2024 (SAS Group, 2023d).

Castlelake, one of the parties in the winning consortium, committed to providing a *replacement DIP facility* to allow SAS to repay the original DIP financing provided by Apollo. The replacement DIP facility had a principal amount of USD 500m, which was expected to be sufficient financing for SAS until the emergence from Chapter 11. The main terms of the replacement DIP facility were a lower interest rate of SOFR + 8%, with maturity nine months from closing, with up to 2 three-month extensions subject to fees (SAS Group, 2023d; C.D., ECF No. 1945, 2024, p. 52).

Following the selection and announcement of the winning consortium, SAS engaged with the investors in extensive negotiation and finalized the terms of the investment agreement, including a term sheet with the main terms and conditions of the plan. As the final investment agreement was announced on November 4, 2023, the bid's debt portion was increased by USD 25m, and investment stakes were finalized (shown in Table 7). The final agreement stipulated an investment of USD 1,200m (SEK 13,200m; SAS Group, 2023b).

On November 21, 2023, the investment agreement gained court approval (C.D., ECF No. 1945, 2024, p. 62).

5.3.4 Revised Chapter 11 Plan

On February 4, 2024, SAS filed an amended Chapter 11 plan, implementing the completed Equity Solicitation Procedure's results. The amended plan served as grounds for SAS's exit from Chapter 11, amongst other things, and included information on the new capital structure and expected payouts to unsecured creditors (SAS Group, 2024c). The

[5]For biographies of each consortium member, see Appendix D

Table 7: Proposed Capital Structure for SAS's Winning Consortium

Party	Equity Stake	Equity Investment *USDm*	Convertible Debt Stake	Debt Investment *USDm*
Castlelake	32.00%	152	55.20%	400
Danish State	25.80%	123	30.00%	218
Air France-KLM	19.90%	95	4.80%	35
Lind Invest	8.60%	41	10.00%	73
Prior creditors, recovery	13.60%	65	-	-
Total	100.00%	475	100.00%	725

Note: Investment stakes are approximate
C.D., ECF No. 1945 (2024, pp. 66–67)

Creditor's Committee expressed their support of SAS's proposed Plan of Reorganization, stating that it aligned with the interests of parties possessing General Unsecured Claims and or other interests in SAS. Thus, the Committee urged the claim holders to approve the plan (C.D., ECF No. 1945, 2024, p. 12).

5.4 Process Outcome

On March 19, 2024, SAS announced court approval of the amended Chapter 11 plan. However, for the plan to be completed, including the delisting and cancellation of the listed shares of SAS AB, SAS needed to complete a restructuring under Swedish law for SAS AB. This was both expected and planned, as the U.S. court procedures are not automatically enforceable under Swedish law (SAS Group, 2024e). Carl Brodén, Finance and Restructuring Counsel at Roschier, explains that:

> "The Chapter 11 plan purports to change the share structure of SAS AB. However, the U.S. Chapter 11 is not recognized under Swedish law. Since SAS AB is incorporated in Sweden, it must go through a Swedish procedure to implement changes."
>
> *(22.03.24)*

The Swedish company restructuring process was initiated on March 27, 2024, and limited to SAS AB, the listed parent company of SAS Group. SAS stated that a "successful completion of the Swedish reorganization proceeding is a condition for the Chapter 11 Plan to become effective." (SAS Group, 2024a)

5.4.1 Post-Reorganization Capital Structure

The court approval meant that the investment agreement, USD 475m (SEK 5,225m) in equity and USD 725m (SEK 7,975m) in convertible notes, between SAS AB and the winning consortium was approved (C.D., ECF No. 1945, 2024, p. 66).

Table 8: Condensed Convertible Debt Terms in Investment Agreement

Parameter	Terms
Principal amount	725,000,000
Interest rate	Term SOFR[1] + 650bps per annum
Interest payment terms	Payable quarterly in cash (USD), starting 3 months after closing
Issue discount (OID)	1.5% of committed amount, which may be netted from proceeds
Upfront fee	3.025% of committed amount, which may be netted from proceeds
Maturity	7 years after closing
Conversion	Convertible into common shares at an amount equal to (principal+accrued interest) * (applicable conversion premium)
Conversion premium	Premium increases every year, from 125% in FY2024 to 160% in FY2031.

[1] Secured Overnight Financing Rate
C.D., ECF No. 1579 (2023, Ex. B)

The convertible notes, as shown in Table 8, were subject to a rate of Term SOFR plus 650 basis points. Furthermore, the agreement outlined rights for the conversion to equity. Over the maturity period, an increasing conversion premium gave convertible holders the right to convert their outstanding principal to a greater equity amount. The applicable valuation of shares for the conversion was to be based on (a) an EBITDA multiple based on the trading of comparable airlines or (b) an automatic conversion based on the value of an IPO, in the case SAS decided to go public.

5.4.2 Recovery for Creditors

SAS was to allocate a total of USD 325m (SEK 3,575m) to general unsecured claims. The composition of this was (a) USD 250m in cash and (b) c. USD 75m in equity, representing c. 13.6% of unlisted equity in the newly reorganized SAS (C.D., ECF No. 1945, 2024, p. 12).

Approximately USD 108m of cash and equity was to be distributed after the completion of the reorganization procedures. The rest of the funds, approximately USD 217m in cash, were restricted, and subject to distribution based on certain conditions relating to previously received state aid. As shown in Table 9, most funds were to be distributed against claims of SAS AB.

The equity portion of recovery funds was to be distributed to certain classes of creditors, which included the Swedish, Danish, and Norwegian states, pilots' unions, and aircraft lessors, amongst others. Commercial bond holders, and smaller claim holders, were expected to receive cash-only recovery (SAS Group, 2024c; C.D., ECF No. 1945, 2024, p. 10).

Table 9: Claim Pools per SAS Group Entity

Debtor *USDm*	Claim pools	Est. Initial recovery
SAS AB[1]	1,023.0	86.1
Gorm Entities	440.0	4.0
SANA	1.0	0.0
Consolidated Debtors[1]	1,879.0	18.7
Total	3,343.0	108.8

The Table show the estimated initial distribution to general unsecured creditors with claims against respective SAS Group entity, and the total claim amounts. For an overview of SAS Group's structure, see Appendix E.

[1] Distribution adjusted for intercompany claims held by SAS AB against the Consolidated Debtors. C.D., ECF No. 1945 (2024, p. 10)

Table 10: Consolidated Estimated Recovery for Creditors[1]

Claim	Debtor	Claim Class	Amount USDm	% Recovery Eff. date[2]	% Recovery Max	Est. recovery *USDm* Eff. date	Est. recovery *USDm* Max
Commercial H.B	SAS AB	5	158	9.4%	25.0%	14.9	39.5
Norwegian T.L.[3]	SAS AB	4	152	9.4%	25.0%	14.3	38.0
Danish T.L.	Cons.	4	152	2.7%	7.7%	4.1	11.7
Swedish T.L.	Cons.	4	147	2.7%	7.7%	4.0	11.3
Lease, Trade and Union Claims	Cons.	3	547	2.7%	7.7%	51.4	136.7
	SAS AB	3	431	9.4%	25.0%	11.6	33.2
	Gorm	3	404	1.2%	3.7%	4.9	15.0
Convenience class[4]	Cons.	6	3	10%	10%	0.3	0.3
Total recovery						105.4	285.7
Estimated distributable funds						108.8	325.0

This Table illustrate estimated distribution to selected creditors in accordance with the approved Plan of Reorganization.

[1] See Appendix F for a comprehensive table.
[2] Max of estimated initial recovery range.
[3] Norwegian Term Loan is guaranteed by the consolidated debtors, total recovery may be higher.
[4] Class for creditors with small claims.
Data compiled from: C.D., ECF No. 1945 (2024) and C.D., ECF No. 2311 (2024)

5.4.3 Fleet Restructuring

SAS had reconfigured its aircraft fleet and reached amended lease agreements with 15 lessors, representing 59 aircraft, comprising 52 narrow-body and 7 wide-body planes. With the renegotiated terms, SAS expected to reach its targeted cost savings of SEK 1.0b in reduced aircraft lease expenses and cash flow items relating to aircraft financing. The total fleet, upon the emergence from Chapter 11, was to consist of 134 aircraft, including 35 wet-leased aircraft, 22 owned aircraft, and 77 leased aircraft (C.D., ECF No. 1945, 2024, p. 54).

SAS now had a fleet primarily comprised of narrow-body A320 Airbus planes, whereas

Table 11: SAS's Fleet Development Under Chapter 11

Type	Aircraft Model	Commence-ment	Emergence	Change
Owned	Airbus 319	4	4	0
	Airbus 320	2	0	-2
	Airbus 321	5	4	-1
	Airbus 330	3	3	0
	Boeing 737	16	0	-16
Operating Lease	Airbus 320	9	9	0
	Airbus 320neo	41	63	22
	Airbus 321	3	0	-3
	Airbus 321neo	3	3	0
	Airbus 330	5	5	0
	Airbus 350	3	4	1
	Boeing 737	1	0	-1
	Embraer 195	1	11	10
JOLCO[1]	Airbus 320neo	9	9	0
	Airbus 350	3	0	-3
	Boeing 737	3	0	-3
Finance Lease	Boeing 737	2	0	-2
Wet Lease	Airbus 220	4	0	-4
	ATR 72	7	6	-1
	Bombardier CRJ900	29	20	-9
Total, fleet development		153	141	-12
Of which	Airbus	94	104	10
Of which	Boeing	22	0	-22
Of which	Other	37	37	0

Rejected aircraft leases	No. rejected
B737-700	1
A350-900	2
A321-200	2
A320-200neo	1
A330-300	1
Total, rejected aircraft leases	8

The table shows SAS's amended and rejected lease contracts and development of its fleet under Chapter 11. The table is stated in accordance with the information provided in the disclosure statement, and may not fully reconcile with the total fleet expected upon emergence from Chapter 11.

[1] *Japanese Operating Leases with Call Option*
C.D., ECF No. 1945 (2024, pp. 55–56)

the fleet previously consisted of both Boeing and Airbus flights. SAS highlighted that the new, simplified fleet would lead to higher fuel-efficiency, and "increased efficiencies throughout the organization, including in-flight scheduling maintenance, sparing and training" (C.D., ECF No. 1945, 2024, p. 192).

In addition to the renegotiated lease terms, SAS rejected certain unexpired leases for surplus aircraft and engines throughout Chapter 11. The rejections were made between August 2022 and January 2023 (C.D., ECF No. 1945, 2024, p. 55).

5.4.4 Strategic Outcome

SAS announced that with Air France-KLM as a new major owner, further commercial cooperation with the airline and its subsidiaries was to be expected. Furthermore, SAS was expected to leave Star Alliance for Air Franc-KLM's corresponding alliance SkyTeam.

> "With its well-established position in Scandinavia and strong brand, SAS offers tremendous potential to Air France-KLM"
>
> *- Benjamin Smith, CEO, Air France-KLM (SAS Group, 2023d)*

On April 29, 2024, SAS announced it had signed a *Alliance Adherence Agreement* for joining SkyTeam on September 1, 2024 (SAS Group, 2024f).

5.5 Financial Development Under Chapter 11 Process

During the Chapter 11 process, SAS continued to operate with negative operating margin for the majority of quarters (as shown in Table 12). Albeit traffic figures and SAS's load factor improved, the cost base remained high. In SAS's Q1 report for 2024 (Nov-Jan), SAS CEO Anko van der Werff commented on the Chapter 11 process's impact on the cost base:

> "Many of the cost efficiencies of the SAS FORWARD plan are ramping up over time, and some have been implemented but cannot be recognized in our financial results until after emergence from Chapter 11, including cost savings from the fleet restructuring."

5.6 SAS's Share Price and Market Capitalization Development

When announcing Chapter 11, SAS communicated that existing shareholders should expect substantial dilution upon exit of the in-court procedure. However, in the winning consortium announcement, SAS stated that existing shares were expected to be canceled and delisted, rendering them worthless. This change in outlook led to a significant drop in SAS's shares. At court approval of Chapter 11, SAS's total market capitalization was SEK 217m, more than 98% lower than at the completion of the 2020 recapitalization.

Table 12: SAS's Financial Development under Chapter 11 process

SAS	2022				2023				2024
SEKm	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	5,545	7,048	8,580	10,651	7,896	8,955	13,173	12,019	8,923
EBITDA	-985	-476	-908	398	-2344	-874	1849	-382	-878
EBIT	-1,357	-822	-1,250	44	-2,640	-1,141	1,581	-668	-1,134
RPK	3,712	4,604	6,452	6,670	7,169	6,521	9,248	8,745	8,060
ASK	6,745	6,975	8,366	9,181	10,567	8,843	11,509	11,402	11,410
Load Factor	55%	66%	77%	73%	68%	74%	80%	77%	71%

This table shows SAS financial development during the Chapter 11 procedures. SAS FORWARD was launched in Q1 2022. Chapter 11 was initiated during Q3 2022 (furthermore affected by the Pilot Strike).

SAS Group (n.d.[a]) and Capital IQ (2024)

Table 13: SAS's Share price and Market Cap Development

Date	Event	Share price *SEK*	Price change *%*	Market cap[1] *SEKm*
2020-10-23	2020 Recapitalization plan completed	2.152	0.9	15,637
2022-02-22	Launch of SAS Forward, Q1 22 release	1.057	-1.3	7,680
2022-07-05	Commencement of Chapter 11[2]	0.554	-10.2	4,025
2023-10-04	Winning consortium announcement[3]	0.053	-82.2	385
2024-03-19	Court approval for Chapter 11	0.0298	-5.4	217

This Table illustrate SAS's share price (close), intra-day change in price, and market capitalization at selected key events form 2020-2024.

[1] Based on 8 649 529 469 outstanding shares post recapitalization.

[2] SAS communicated "substantial dilution to existing shareholders".

[3] SAS communicated "no value for SAS AB's existing shareholders".

Capital IQ (2024)

5.7 Valuation of the Reorganized SAS

The winning consortium's bid values the reorganized SAS at USD 1,200m, the equivalent of SEK 13,200m. In accordance with Chapter 11 regulation, SAS provided financial projections to substantiate the plan's feasibility. Cash flow, balance sheet, and income statement projections are available in Appendix H. The ensuing section presents a valuation comparison for the reorganized SAS, using forward-looking analyst estimates for selected competitors. Table 14 illustrates that, based on the winning consortium's bid and forecasted operating income (EBIT), the implied valuation multiple (EV/EBIT) for SAS in FY24 stands at 12.2x. This multiple can be compared to an average of 7.5x observed among some key competitors for the same period. The implied valuation multiple of SAS declines progressively over the forecast period, attributed to the anticipated sig-

Table 14: Multiples Valuation of SAS

Period	FY24	FY25	FY26
Forward-looking EBIT multiples[1]			
Norweigian	6.4x	6.0x	5.6x
Ryanair	11.2x	8.2x	7.7x
Air France-KLM	6.9x	6.1x	5.6x
Lufthansa	5.6x	4.8x	4.5x
Average, peers	7.5x	6.3x	5.9x
Financial projections[2]*, SEKm*			
SAS, projected revenue	48,101	54,064	59,412
SAS, projected EBIT	1,084	3,959	6,583
SAS, projected EBIT margin	2.3%	7.3%	11.1%
Implied EBIT multiple @ EV SEK 13,200m	12.2x	3.3x	2.0x
Implied SAS EV @ Avg of Peers Multiple	8,158	24,840	38,578
Valuation difference[3]	5,042	-11,640	-25,378

[1] Capital IQ (2024) *Consensus estimates, Data retrieved 24.04.17*
[2] C.D., ECF No. 1945 (2024, Exhibit D, p. 189)
[3] (SEK 13.2b - Implied SAS EV from average peer multiples)

nificant improvement in SAS's operating margin, projected to reach 11.1% by FY2026. Consequently, SAS's valuation is highly sensitive to the forecasted margin and the chosen valuation base year. To contextualize SAS's financial projections, Table 15 shows SAS's revenue and operating margin, as well as average margins in the airline industry. SAS's projected EBIT-margins of above 10% is above both industry averages and SAS's historical figures.

Table 15: Comparative Figures for Financial Projections

Period	2017	2018	2019	2020	2021	2022	2023E	2024F
SAS, revenue (SEKb)[2]	42.7	44.7	46.7	20.5	14.0	31.8	42.0	48.1[1]
EBIT margin (%)								
SAS[2]	5.1	5.7	2.5	-46.3	39.4	-10.5	-6.4	2.3
Industry average[2]	7.9	6.2	4.8	-32.0	-8.9	4.0	6.5	6.0

[1] Refer to SAS's financial projections in Appendix H
[2] SAS Group (2024b, p. 152)
[3] For European commercial airlines, IATA (2021) and IATA (2023)

6 Discussion

This section consists of a discussion related the two research questions outlined in the introduction.

1. Why did SAS initiate a Chapter 11 process?

To answer this question, we first examine the underlying contributors from the time before SAS filed for Chapter 11. To methodically analyze these contributors, the first part of the discussion will focus on why SAS (a) needed to reorganize, (b) needed to opt of an in-court process, and (c) chose to do so under Chapter 11.

Need for Reorganization

SAS needed to undergo a reorganization due to its unsustainable financial situation, resulting from a failure to fully implement the 2020 Recapitalization, prolonged COVID-19 effects, as well as strategic challenges.

According to SAS, they did not expect COVID-19 to last so long as it did when designing the 2020 Recapitalization. Erik Andrén states that:

> "(...) the first recapitalization we did was really dimensioned to cover the loss incurred [during the first wave of COVID-19], without actually having taken into account, or being able to anticipate, that there would be more to come"
>
> *(11.03.24)*

Based on the plan at the time, SAS anticipated that they would be able to start paying down the debt relatively near term (Anna Almén, 11.03.24), but as COVID-19 continued SAS's liquidity position worsened. Subsequently, SAS did take on additional debt during the following year, 2021, with debt-to-equity increasing from 1.8 to 4.1. As the 2020 Recapitalization was constructed under the premise of being a short-term solution, it became increasingly costly over time, resulting in further financial distress.

Furthermore, it has been questioned whether a recapitalization was the right move in retrospective. Jacob Pedersen states that:

> "The recap in 2020 was really a missed opportunity. (...) Best time "ever" to let the company go [bankrupt and] restart it. (...) Would have been very different to what [the competitors] were doing, but the best time to do it"
>
> *(24.02.24)*

Anko van der Werff shared the view on SAS's decision on the 2020 Recapitalization being the wrong move at the time. Speaking to Aviation Week, he suggests that the airline should have instead opted for Chapter 11 bankruptcy during the crisis, commenting:

> "That was the logical moment—when the entire industry went in. That was the moment to do it. So, when I arrived in 2021, there was a reluctance—a hesitation—to do anything."
>
> *- Anko van der Werff (Moores, 2024)*

Furthermore, SAS was still struggling with its cost base. This issue has been at the forefront of various strategic programs in SAS's modern history, with the latest being its 2020 recapitalization plan. By the end of 2021, SAS had only managed to realize half of its indented cost savings from the 2020 recapitalization, as it had failed to reach sufficient concessions from lessors and its labor base. SAS's unit costs were well above those of competitors such as Norwegian and Ryanair (see Table 3).

Hans Jørgen Elnæs highlights the "heritage of being state owned" as one key factor for the persistent problems. Elnæs notes how the historical state ownership provided a safety net in ensuring capital availability for SAS, which reduces the pressure to stay competitive and control costs. This, in addition to the complexities of having three state owners, as well as strong labor unions, have made it difficult for SAS to be agile and competitive compared to companies like Ryanair (22.03.24). This conclusion is consistent with literature on the airline industry, where LCCs' lower cost bases are noted as a key reason for legacy carriers' struggle to be competitive. Furthermore, the question of whether SAS kept unprofitable domestic routes to protect the interest and demand of the states is raised by market observers (Jan Ohlsson, Freelance Airline Industry Journalist, 24.02.24). However, Anna Almén denied this, stating that "No, that may still be an attitude that persists and continues. (...) We are, of course, always interested in flying profitable routes" (11.03.24).

In addition, external factors such as increased jet fuel prices, and costs associated with higher air traffic volumes, amplified the cost problem. The situation further became more acute due to SAS's significant debt and associated financial costs. Hans Jørgen Elnæs attributes the need to manage its financial debt and to renegotiate leasing terms, as the two primary issues SAS was facing in 2022 (22.03.24).

SAS was also struggling with its ability to generate revenues due to weaknesses in their corporate strategy. SAS's 2022 load factor at the time was significantly lower compared to competitors, as seen in Table 3. Such results can be explained by a mismatch between SAS's forecasted and actual demand. Furthermore, SAS had difficulty rebounding its air traffic volume from COVID-19 as the market's total air travel volume increased due to its layoffs during the pandemic. As seen in Appendix A, SAS's post-COVID recovery in traffic volume, when comparing 2019 to 2022 figures, was at the lower end compared to its competitors. Jacob Pedersen highlights that SAS's layoffs made it difficult to bring back the staff necessary to increase the traffic volume (24.02.24).

In addition, SAS's strategic value proposition was weaker post COVID-19. SAS's primary routes, short- to mid-distance flights, are also associated with comparatively

higher unit costs than long-distance flights. To make these routes profitable through higher ticket prices, SAS has historically tried to differentiate its value proposition by catering to business travelers. However, COVID-19 changed the behavioral pattern within this segment and subsequently decreased its demand. Erik Andrén explains that SAS started to review their strategic positioning in 2021, explaining that it was anticipated that the market would change post-pandemic with an increasing focus on the leisure segment (11.03.24). Consequently, the discrepancy between SAS's strategic positioning and market demands after COVID-19, could also be a contributing factor to SAS's inability to fully rebound after their 2020 Recapitalization.

Opting for an In-Court Procedure

SAS needed to file with an in-court procedure to enable for successful negotiations with stakeholder and to avoid litigations.

SAS did not reach the concessions needed to realize SAS FORWARD out of court when negotiating with lessors and creditors. Carl Brodén notes that an in-court procedure in most cases is a last resort when other solutions are not possible (22.03.24). Both Chapter 11 and Swedish Company Restructuring allow for the termination of executory contracts and write-downs of debt, allowing SAS to force stakeholders to make concessions legally. Erik Andrén states that "[SAS] had to choose an in-court-process to underscore the initiatives already launched in the reconstruction plan [SAS FORWARD]" (11.03.24).

A contributing factor to SAS lacking "pressure" in their negotiations with the lessors was that they failed to capitalize on the window of opportunity to re-negotiate leasing terms during COVID-19. Lessors were experiencing low demand as air travel had halted, resulting in the possibility for airlines to negotiate for advantageous leasing contracts. This was something which, for example, Norwegian took advantage of (Jan Ohlsson, 24.02.24).

Furthermore, SAS was struggling to raise additional funds out of court. Anna Almén comments, "With state owners, you have the added complexity of navigating state aid rules" (11.03.24). As evident from the Ryanair litigation, state aid is heavily regulated and can lead to legal scrutiny. As the Swedish state previously had expressed its position on SAS, stating that it no longer viewed itself as a long-term investor, it was highly unlikely that SAS, despite following the legal procedures necessary, would have received support from Sweden. Additionally, SAS's non-investment-grade credit rating likely contributed to a weak position for negotiating new lending with commercial banks. These factors can potentially have increased the pressure on SAS to commit to an in-court procedure.

Furthermore, SAS was concerned that its creditors might force SAS into involuntary bankruptcy due to the pilot strike. When filing for Chapter 11 in the US, an automatic stay applies, preventing creditors from taking enforcement actions or seizing assets, and the Swedish company restructuring procedure has similar features (Carl Brodén, 22.03.24). Thus, initiating an in-court procedure served as a tool for SAS to omit this

concern.

Choosing Chapter 11

Despite the recent development in Swedish Company Restructuring, which included adopting many Chapter 11 elements, SAS filed under U.S. Chapter 11. We find that the decision was influenced by four main factors: (a) the framework is well-known amongst SAS's stakeholders, many of whom are active in the U.S. market; (b) it entails a unified reorganization process for global businesses; (c) there is a greater supply of expertise in airline reorganization in the US; and (d) it provided access to the more well-developed capital markets in the US.

SAS's decision to enter Chapter 11 was partially based on the process being well-known within the industry (Anna Almén, 11.03.24). Numerous airlines have previously used Chapter 11 to reorganize, including Avancia, where Anko van der Werff, the at the time recently appointed CEO, previously had been employed. Erik Andrén notes that "I believe that [Anko van der Werff] quite promptly started looking into how to reorganize SAS" (11.03.24).

While Chapter 11 is not recognized in SAS's legal domicile, Sweden, Carl Brodén (22.03.24) explains that many of SAS's stakeholders were assumed to comply with the rules applicable in a Chapter 11 and SAS's Plan of Reorganization. Several of SAS's stakeholders have some type of business activity in the US, such as offices, leases to American airlines and are consequently in practice subjected to U.S. law. To avoid conflict with the U.S. legal system, it was assumed that they would adhere with SAS's Chapter 11 proceedings.

Chapter 11 is also known for catering to the needs of global businesses, as it allows the firm to address both creditors and subsidiaries across legal domiciles through a unified in-court reorganization procedure. If the SAS Group pursued a Swedish in-court process instead, it would not be able to include subsidiaries with legal domicile outside of Sweden, such as the Gorm entities in Ireland (see Appendix E). To reorganize the same entities as under Chapter 11, SAS would have to initiate several parallel processes in the EU, resulting in a less predictable process. SAS AB ultimately had to proceed with a Swedish Company Restructuring. However, one should note that SAS as a group underwent Chapter 11 to implement financial and operational measures. In contrast, only SAS AB is going through the Swedish restructuring to confirm the new ownership structure decided under Chapter 11.

Furthermore, SAS wanted access to U.S. reorganization expertise (Erik Andrén, 11.03.24). In contrast to the United States, Sweden lacks courts that are especially focused on insolvency law, meaning that judiciary in certain courts may lack expertise which adds an element of uncertainty (Jonas Premfors, Head of Restructuring and Insolvency at Sweden DLA Piper, 09.04.24). The new Company Restructuring Act came into force on August 1,

2022, close to a month after SAS's Chapter 11 filing. Carl Brodén highlights that several other air carriers already had undergone Chapter 11 and that Chapter 11 consequently had a more foreseeable outcome compared to the relatively untested new Swedish legal procedure (22.03.24). The new law on Company Restructuring seems to be perceived as fairly complicated among those who work within the legal system in Sweden, and Jonas Premfors shares that "I spoke to a district court judge, and he said that they had had very limited training on this topic [the Company Restructuring Law]" (09.04.24).

Another reason SAS entered Chapter 11 could be that it wanted to access U.S. capital markets, given that it includes more actors specialized in investing in insolvent companies, for example, DIP financing. Such actors are referred to as "special opportunity investors" and would likely be hesitant to invest in a company under a less well-known reorganization process, such as the Swedish one (Jonas Premfors, 09.04.24). Carl Brodén explains that American companies like Apollo and Castlelake would only consider investing in companies undergoing Swedish in-court reorganization if these had sizeable balance sheets. The scale is necessary to offset the cost of learning the Swedish legal system and processes (22.03.24).

2. How did the Chapter 11 process affect SAS and its stakeholders?

To answer the question, we begin by analyzing the winning consortium's bid and the investing parties' intentions. This adds further clarity to deal structure and, consequently, implications for SAS's future strategic direction and financial stability. We further assess how the Chapter 11 process has impacted the recovery of unsecured creditors, by comparing the outcome with SAS's main alternatives to the Chapter 11 procedures. We also discuss the costs of the Chapter 11 process to highlight how SAS and its stakeholders are affected by the choice of reorganization process. Lastly, the discussion addresses how Chapter 11 was used to achieve operational measures, both fleet restructuring and reaching new union agreements, and how these actions affect SAS and its counterparties.

Winning Bid and New Capital Structure

We find that SAS met its capital-raising targets by allowing convertible debt as financing, which resulted in a more leveraged position compared to a fully equity-financed deal. The investing parties gain flexible exit alternatives and higher priority, highlighting their uncertainty about SAS's ability to reach its desired position. This is further reflected in their valuation of SAS.

Initially, SAS sought to raise at least SEK 9.5b in equity capital and reduce or convert SEK 20b in debt. SAS secured USD 1.2b (SEK 13.2b) in new funding through its Equity Solicitation Procedure. However, the equity portion of the financing package amounts to USD 475 (SEK 5,225m), with the remainder being convertible debt. SAS adjusted the

terms of the solicitation process to allow for convertible debts after initial discussions with potential investors, indicating its inability to attract equity bids deemed attractive.

Compared to a purely equity-financed deal, SAS will have to cover the financial expenses associated with the debt, including interest expenses and indirect effects on its ability to raise further debt. Before the reorganization, SAS operated with negative equity. According to Jacob Pedersen, the equity injection is barely enough to restore the equity position, who views the bid as unattractive and below market expectations (24.02.24).

Market expectations on the bid level can further be analyzed through the announcement's effect on SAS's share price. As Table 13 illustrates, SAS's market capitalization was more than SEK 2b prior to the announcement of the winning consortium. Given that the Chapter 11 plan was already initiated then, we can interpret the shares as an option contingent upon the distribution amount resulting from the reorganization, thus dependent on the bid level. The shares would be worthless unless the bid level were high enough to allow equity holders to receive recovery, which indicates the market believed there was a chance of distribution for equity holders. As SAS announced that no value was expected for shareholders, the value of this option essentially became zero, and accordingly, SAS's shares dropped by more than 80% the next day. Following this logic, the drop suggests that pre-announcement market expectations of the value of the reorganized SAS were higher than the winning consortium's bid.

For the investing consortium, the decision to provide part of the financing through convertible debt provides the debt investors with interest income and higher priority in the event of future financial distress as the convertible debt was secured. In addition, the convertible debt can be refinanced in the market, for example, through the issuance of a new bond after the emergence from Chapter 11. This would allow the investing parties to retain equity control while recouping a significant part of their initial investment. This furthermore provides flexibility for the investing parties in their investment horizon.

The relatively low valuation of SAS, compared to multiples of other publicly traded European airlines, could be explained by the risks associated with the transaction. First, the company is heavily distressed, and the outcome of the court procedures is uncertain. This uncertainty, all else equal, implies a lower valuation than if the outcome was known. Second, SAS has historically struggled to maintain profitability despite several reorganization efforts. With little or no history of improvement to look back on, investing parties must have high confidence in the company's ability to improve profitability after the reorganization efforts. As Table 15 shows, SAS's projected operating margins were not only above its historical performance, but also above industry averages. The complexity of the transaction, and the risk involved, may also explain why alternative asset manager Castlelake took such a large share. The involvement of Castlelake, as well as strategic investor Air-France KLM, is explored in detail below.

Castlelake and Air France-KLM

Our findings suggest that the prospect of attractive financial returns drove Castlelake, whereas Air France-KLM appears to also have a strategic rationale behind their investment. We find that Air France-KLM's strategic motives may be twofold, as it seemingly aims to disrupt the current European airline industry and generate traffic growth, actions that can be further reinforced by increasing its ownership stake in the future. The deal structure may have been designed to avoid potential legal scrutiny from the European Commission's department for competition.

Market observers suggest Castlelake, who primarily participated through a significant debt investment, is driven by the prospect of an attractive financial return. Jacob Pedersen points out that their investment hinges on SAS's ability to enhance profitability, with an intention to exit within a few years (24.02.24). This view is shared by Jan Ohlsson and Hans Jørgen Elnæs (24.02.24; 22.03.24). This conclusion is supported by the fact that Castlelake is an alternative asset manager, rather than a strategic actor in the airline industry, and its high convertible debt stake in the transaction. Furthermore, Castlelake has expertise in the aviation sector, which is one of their focus areas.

In contrast, Air France-KLM investment may primarily be strategic. Jacob Pedersen speculates that the investment may be aimed at disrupting the industry and changing the competitive landscape. One point supporting this argument is the implications for Lufthansa, which according to Jacob Pedersen "was by far the most obvious acquirer of SAS" (24.02.24). Lufthansa now loses a partner in Star Alliance, which SAS intends to leave in favor of Air France-KLM's alliance SkyTeam following the reorganization process. Hans Jørgen Elnæs also see the move of SAS into SkyTeam as one of Air France-KLM's goals with the transaction, stating that he thought Air France-KLM "reached that goal at a very acceptable price." Elnæs adds that with the alliance shift, Air France-KLM would also gain access to SAS's EuroBonus program, and its 7m members (22.03.24).

Another strategic consideration for Air France-KLM is gaining access to Copenhagen Airport as a transfer hub to expand its traffic. Hans Jørgen Elnæs underlines that Amsterdam-Schipol, Air France-KLM's primary transfer airport, is facing constraints that limit further traffic growth. Furthermore, Air France-KLM's other major airport, Charles de Gaulle in Paris, primarily serves as a point-to-point airport, in contrast to being a hub, for traffic to and from France. Elnæs comments that consolidating traffic to Copenhagen in a hub-and-spoke model is strategically sound, as it allows for a higher passenger volume and more potential routes. Copenhagen, Elnæs adds, is also strategically located (22.03.24). Jacob Pedersen notes that the Danish State's participation will likely help SAS achieve such objectives but highlights that:

> "Moving entirely out of Oslo and Stockholm on the long-haul flights would probably open up for other competitors – and that is not preferable for SAS. (...) but more flights from Copenhagen and to make that an even stronger

hub for SAS, it would be logical."

(24.02.24)

However, Air France-KLM's 19.9% ownership share is not enough for commercial cooperation or majority control of SAS, which has led observers to believe Air France-KLM may seek to increase its share over time. The rationale behind taking a smaller initial stake may be explained as a cautious measure to avoid regulatory scrutiny. Hans Jørgen Elnæs commented:

> "I think Castlelake's [32% equity stake] is just a parking spot for (...) Air France-KLM, and also to calm down EU's competition agency – so things can be done over time, so they don't have any regulatory issues."
>
> *(22.03.24)*

Jan Ohlsson also shares this perspective and compares the situation to previous airline takeover situations where large airlines have sought majority control, such as IAG's acquisition of Air Europa. The IAG acquisition is under investigation by EU authorities, and Ohlsson notes that EU authorities have increased their monitoring of the airline market. Air France-KLM's low ownership share may thus be a way to avoid potential EU concessions, such as giving up airport slots to competitors (24.02.24). In April 2024, SAS CEO Anko van der Werff commented that he believes Air France-KLM's investment in SAS may trigger EU remedies but does not think it will include surrendering slots. Concerning if Air France-KLM may seek to increase its share, he found it unlikely within the first two years, adding that SAS's focus was on closing the deal (Moores, 2024).

Danish State and Lind Invest

The Danish state's involvement in the transaction was expected, while Lind Invest's motives are less clear.

Market observers attribute the Danish State's continued involvement in SAS to its relevance for Copenhagen Airport as a hub (Jacob Pedersen, 24.02.24; Hans Jørgen Elnæs, 22.03.24). Jan Ohlsson points at Copenhagen Airport and SAS being large regional employers, both directly and indirectly, and that reducing the SAS ownership is a sensitive political matter in Denmark (24.02.24).

Lind Invests' intentions, according to observers, is less known. Jacob Pedersen comments, "I am a bit puzzled by Lind Invest" (24.02.24). Hans Jørgen Elnæs shares, "I have no idea. I don't know why [Lind Invest is] there. Nobody knew this guy" (22.03.24). However, observers speculate that the motivations may lie in supporting the Danish State's interests or being a purely financial transaction (Jacob Pedersen, 24.02.24; Jan Ohlsson, 24.02.24; Hans Jørgen Elnæs, 22.03.24).

Return to Unsecured Creditors

We find that SAS's unsecured creditors received more than under liquidation, and suggest the choice of Chapter 11 may have positively impacted SAS's valuation, which should be weighed against the high costs associated with the process.

As the plan gained approval, the Court concluded that unsecured creditors received more than what they would have under liquidation, the Best Interest Test. SAS's liquidation analysis (in Appendix J) shows that unsecured creditors in most SAS entities would likely have received nothing. Fair and equitable treatment of classes is integral to the Chapter 11 plan. However, with regard to percentage of recovery, most lease claim holders (Class 3) were to receive less than, for example, commercial hybrid note holders (Class 5). This can be understood by SAS's company structure (see Appendix E), where multiple entities were debtors, with a majority of claims being directed toward either SAS AB, the Consolidated debtors, or the Gorm entities. Only the lease claims against SAS AB are, therefore, entitled to the same recovery as commercial hybrid bond holders. The different recovery across debtor entities highlight how Chapter 11 involves significant negotiations between the debtor and its claim holders, who must consider their bargaining power and best alternative. The higher bargaining power of SAS AB's claim holders can be attributed to its status as the parent company within the organization's structure. SAS AB furthermore held a significant unsecured claim against the Consolidated Debtors. The parent entity SAS AB holds control over its subsidiaries and their assets. While structural subordination applies (i.e., that claim holders against a subsidiary must be fully paid before any residual value can be used to pay back claims in, e.g., SAS AB), the position as a parent may have increased their leverage in negotiations. The Gorm entities, who had no or very limited resources to distribute in the case of liquidation, and have control over no subsidiaries with assets, have comparatively low leverage, as evident by the acceptance of a lower recovery.

Furthermore, SAS's Equity Solicitation Procedure under Chapter 11 was subject to market competition, and SAS received bids from multiple interested parties. While only 12 parties signed NDAs and showed interest in participating over 200 potential bidders were contacted initially. The low number of participants thus primarily reflects the investment's high risk and complexity rather than a lack of outreach. Allowing for convertible notes showed SAS's willingness to maximize potential bids, given the limited pure-equity interest. We thus find it reasonable to assume that the valuation of SAS was a fair representation of its market value and that creditors received as much as they were entitled to under the circumstances. However, it should be noted that SAS also considered other aspects than valuation, such as deal certainty, EU compliance and the restructuring expertise of investing parties.

While it is impossible to determine what distribution to the unsecured creditors would have been under a similar process under Swedish legislation, a few factors would differ.

First, the U.S. process ensured all claims and stakeholder matters were managed under a unified process. This was likely essential to gain approval of the plan and thus allow for creditor recovery, as it facilitated fair and equal treatment and burden sharing. This stands in contrast to potentially having multiple European processes, where transparency and equitable treatment could be difficult to achieve. Furthermore, the U.S. process may have assisted in attracting a larger pool of potential investors, such as Castlelake, as they are familiar with the U.S. legislative framework and process. This, all else equal, would positively affect the return to creditors. However, these factors must be weighed against the downside of a long and costly process, as all costs associated with the process have a higher priority than general unsecured claims. This is explored in more detail below.

Cost of Process

The prolongation of SAS's Chapter 11 process has negative implications for SAS's profits and creditors' recovery.

Chapter 11 is, compared to many other in-court reorganizations, very costly (Carl Brodén, 22.03.24). SAS's Chapter 11 process was expected to take 9-12 months, but ended up taking around 20 months, which likely has resulted in the process becoming more expensive than first expected. Anna Almén explains that the fact that there were numerous parties involved in the process resulted in various hurdles prolonging the process, one example being the General Court's ruling on the Commission's state aid decision (11.03.24). Anko van der Werff also stated that leading state shareholders through an in-court reorganization in another jurisdiction likely prolonged the process by nine to twelve months (Moores, 2024).

Jacob Pedersen also notes the indirect costs of an extended process in terms of potentially lost profits, stating that:

> "Some cost savings do not come through until SAS exits. Having the process extend a year beyond expectations has definitely been a negative. Also with regards to the earnings environment – we have European airlines lining up record profits now again (...) I don't think the earnings environment has been better for the past 20 years than it is right now, and SAS doesn't get any profit on that."
>
> *(24.02.24)*

This is supported by the continued high operating costs and losses SAS incurred under the Chapter 11 process, and CEO Anko van der Werff's statement that savings cannot be fully realized until the process is completed.

Those affected by the high cost of the process, besides the internal organization at SAS, are the creditors. Carl Brodén comments that:

> "[The Chapter 11 process] costs billions, and it is in practice the creditors' money that is being spent. Some have a better understanding of the Swedish system, and would have preferred it to take place [in Sweden]." *(22.03.24)*

Fleet Restructuring

By being able to reject executory contracts through Chapter 11, SAS could realize the goals of decreasing its leasing costs and refining its fleet. Prior to filing with Chapter 11, as a result of the pandemic, SAS's leasing agreements were generally above market in terms of pricing, and consequently a goal in SAS FORWARD was to bring down leasing terms to market levels (Erik Andrén, 11.03.24). SAS had a mix of aircraft which is seen as costly, and requires training of staff (Hans Jørgen Elnæs, 22.03.24). Karl Lans noted that there are many benefits of a unified aircraft fleet, an area where low-cost carriers such as Ryanair have been leading, which SAS now tries to learn from:

> "You only need one type of spare parts, you know how to wash and perform service on this plane – there are more people that know all this stuff, so everything goes smoother."
>
> *(18.03.24)*

Through its Chapter 11 process, SAS managed to realize the fleet restructuring targeted in SAS FORWARD. SAS had pointed out that the more harmonized fleet would result in increased efficiencies and lower costs. This is further confirmed by Hans Jørgen Elnæs, who characterizes the transition from a diverse fleet to predominantly Airbus aircraft as a move towards enhanced efficiency, improving both training of staff and cost management (22.03.24).

Pilot Concessions

SAS was able to use the court process to increase pressure on the pilots' unions to accept concessions, which improved SAS's productivity and reduced costs but worsened the working conditions for its Scandinavia-based pilots.

Jacob Pedersen (24.02.24) notes that SAS's problems with the pilots were not only founded in salary levels, but also productivity and flexibility. Previously, SAS's union agreements have been adapted for business travel, and associated flying schedules. A higher share of leisure travel demands pilots to fly more during the summer and on weekends, as noted by Pedersen. SAS has managed some of its personnel needs by founding new subsidiaries, such as Ireland-based SAS Connect, with wet-lease operations.

According to a unionized SAS pilot, SAS continuously moved the targets for pilots to push for larger concessions in the negotiation process. SAS was able to do this, as they saw a potential strike as an opportunity to launch in-court procedures. The pilot explains that SAS's traffic figures were better than expected, and that SAS's cash position was

not depleted. SAS's financial position by itself, was thus not bad enough to justify the in-court process (18.04.24). Jacob Pedersen notes that:

> "[With SAS] management already being in a tight spot on financials, [they] did the only thing they could, by using [the pilot strike] as an excuse to move into the much needed Chapter 11 process."
>
> *(24.02.24)*

This conclusion is supported by SAS noting the cash position was enough to manage business obligations in the short term, in conjunction with Chapter 11 commencement.

After the commencement of Chapter 11, the threat of shutting down operations in the "old SAS" and leaving unionized employees without jobs served as leverage in the negotiations, according to the pilot. Consequently, the pilots agreed to historically significant concessions in terms of both productivity and salary. This included more hours per week, requirements to work summer seasons, and mandatory unpaid days-off during the winter season (18.04.24). Jacob Pedersen comments:

> "I think the outcome of these negotiations took the pay-scale of SAS pilots to a pay level that was more equal with structures in other parts of SAS - in the cheaper parts of operations."
>
> *(24.02.24)*

Pedersen further notes that from a competitive perspective, a lot of other airlines are facing rising salary costs, something SAS does not (24.02.24).

7 Conclusion

This thesis examines why SAS chose the Chapter 11 process, and how it has affected the company and its stakeholders. We do this through a case-study methodology.

SAS initiated Chapter 11 to address its financial distress and achieve the objectives of SAS FORWARD. SAS had failed to do so out of court and utilized several in-court mechanisms to reach these goals. This included rejecting leases and negotiating for new lease terms, managing its capital structure through an equity solicitation procedure, and having access to additional financing under the reorganization process.

Chapter 11 was chosen as the in-court procedure as it provided SAS access to a well-known and established procedure in the airline industry (compared to the untested corresponding Swedish procedure), a unified in-court reorganization process for all entities, U.S. airline reorganization expertise, and the U.S.' well-developed capital markets.

SAS achieved several of its objectives through the Chapter 11 process, including raising new capital, restructuring its fleet, and achieving cost reductions through renegotiated union agreements and terminated leases. However, SAS failed to raise its desired amount of equity, resulting in a capital structure with significant leverage after the reorganization. The reorganized SAS was valued at low forward-looking multiples compared to its competitors, which can be attributed to the high risk and complexity of the investment.

The new investor group is expected to have strategic and financial implications for SAS. Air France-KLM's investment is expected to have operational implications, including SAS's upcoming shift in airline alliance to SkyTeam.

The Chapter 11 process significantly affected SAS's pre-petition stakeholders, including pilots, lessors, creditors, and previous equity holders, who were all forced to make substantial concessions. The capital raised allowed for a limited but equitable recovery for unsecured creditors. Furthermore, the choice of undergoing the procedure in the United States was a novel move for a European airline, and the process took 8-12 months longer than what SAS expected at announcement. The extended timeline increased the significant costs associated with the reorganization at the expense of return to creditors.

For future research, we have identified two main topics. First, we believe that a follow-up case study a few years after the completion of all legal procedures could contribute insight as to whether the measures taken by SAS were adequate to ensure long-term competitiveness or if additional efforts were necessary. Second, future studies could explore eventual international airline reorganizations completed under the EU legislative directives implemented in 2019 to compare its process and outcome with a Chapter 11 case. The research could help determine whether the new EU directive has led to the development of national insolvency frameworks that serve as effective alternatives to Chapter 11 for cross-border EU companies in general and airlines in particular.

8 References

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9 Appendix

A Daily Flights for European Airlines

Table 16: Daily Flights Amongst European Airlines, 2023

Aircraft operator	Average daily flights[1]			Change (%)	
	2023	2022	2019	'22-23	'19-23
Ryanair Group	2,813	2,534	2,325	11%	21%
easyJet Group	1,477	1,331	1,678	11%	-12%
Turkish Airlines	1,443	1,244	1,336	16%	8%
Lufthansa Airlines	1,134	1,060	1,492	7%	-24%
Air France Group	991	953	1,194	4%	-17%
Wizz Air Group	810	669	591	21%	37%
KLM Group	796	704	856	13%	-7%
British Airways Group	789	641	907	23%	-13%
SAS Group	**614**	**529**	**808**	**16%**	**-24%**
Vueling	596	542	602	10%	-1%

[1] 2022 and 2019 are approximate based on % of 2023 actuals. Eurocontrol (2024)

B SAS's Credit Rating History

Date	Rating (S&P)	Outlook	Comment
03-Feb-09	B	Positive	Affirmed
06-May-09	B	Stable	Affirmed
13-Aug-09	B	Negative	Affirmed
06-Nov-09	B-	Negative	Downgraded
16-Dec-10	B-	Stable	Affirmed
21-Feb-12	B-	Negative	Affirmed
19-Nov-12	CCC+	Negative	Downgraded
19-Feb-13	CCC+	Stable	Affirmed
05-Aug-13	B-	Stable	Upgraded
08-Jul-16	B	Stable	Upgraded
03-Jul-17	B	Stable	Affirmed
13-Nov-17	B+	Stable	Upgraded
20-Mar-20	B	Negative	Downgraded
20-May-20	B	Negative	Affirmed
10-Jun-20	CCC	Negative	Downgraded
02-Jul-20	CC	Negative	Downgraded
28-Oct-20	SD	Selective Default	Downgraded
07-Dec-20	B-	Stable	Upgrade
29-Apr-21	CCC	Negative	Downgrade
28-Feb-22	CC	Negative	Downgrade
07-Jul-22	D	Negative	Downgrade
06-Mar-23	Rating Withdrawn	-	-

S&P Global Ratings (2024)

C Timeline of Main Events Related to SAS's Chapter 11 Case

Date	Event
22-Feb-22	SAS launches SAS FORWARD
04-Jul-22	SAS's pilots called out on strike
05-Jul-22	SAS files for chapter 11
07-Jul-22	SAS receives of its First Day motions
19-Jul-22	Pilot strike ends
14-Aug-22	SAS receives DIP financing from Apollo
15-May-23	SAS gains court approval for its Equity Solicitation Procedures
04-Jul-23	Ryanair Litigation: European Commission launch state aid investigation
03-Oct-23	SAS presents the winning consortium and refinances its DIP financing with Castlelake
20-Nov-23	Ryanair litigation: European Commission investigation ends
29-Nov-23	SAS submits revised Plan of Reorganization
19-Mar-24	SAS gains approval of its revised Plan of Reorganization

D Biographies for Winning Consortium Members

The biographies are presented as in SAS's winning bid announcement press release.

Castlelake

> "Castlelake is a global alternative investment manager focused on investments in aviation, specialty finance and real assets across the risk spectrum, from value-oriented to income and investment grade credit. Founded in 2005, Castlelake manages approximately $22b of assets. The Castlelake team comprises more than 200 experienced professionals, including 90 investment professionals, across seven offices in North America, Europe and Asia."

(SAS Group, 2023d)

Air France-KLM

> "A global player with a strong European base, the Air France-KLM Group's main areas of business are passenger transport, cargo transport and aeronautical maintenance. Air France-KLM is a leading airline Group in terms of international traffic on departure from Europe. It offers its customers access to a worldwide network, covering over 300 destinations thanks to Air France, KLM Royal Dutch Airlines and Transavia, mainly from its hubs at Paris-Charles de Gaulle and Amsterdam-Schiphol. Its Flying Blue frequent flyer programme is one of the leaders in Europe with over 20m members. Air France-KLM is a member of the SkyTeam, the alliance dedicated to providing passengers with a more seamless travel experience at every step of their journey 19 member airlines working together across an extensive global network."

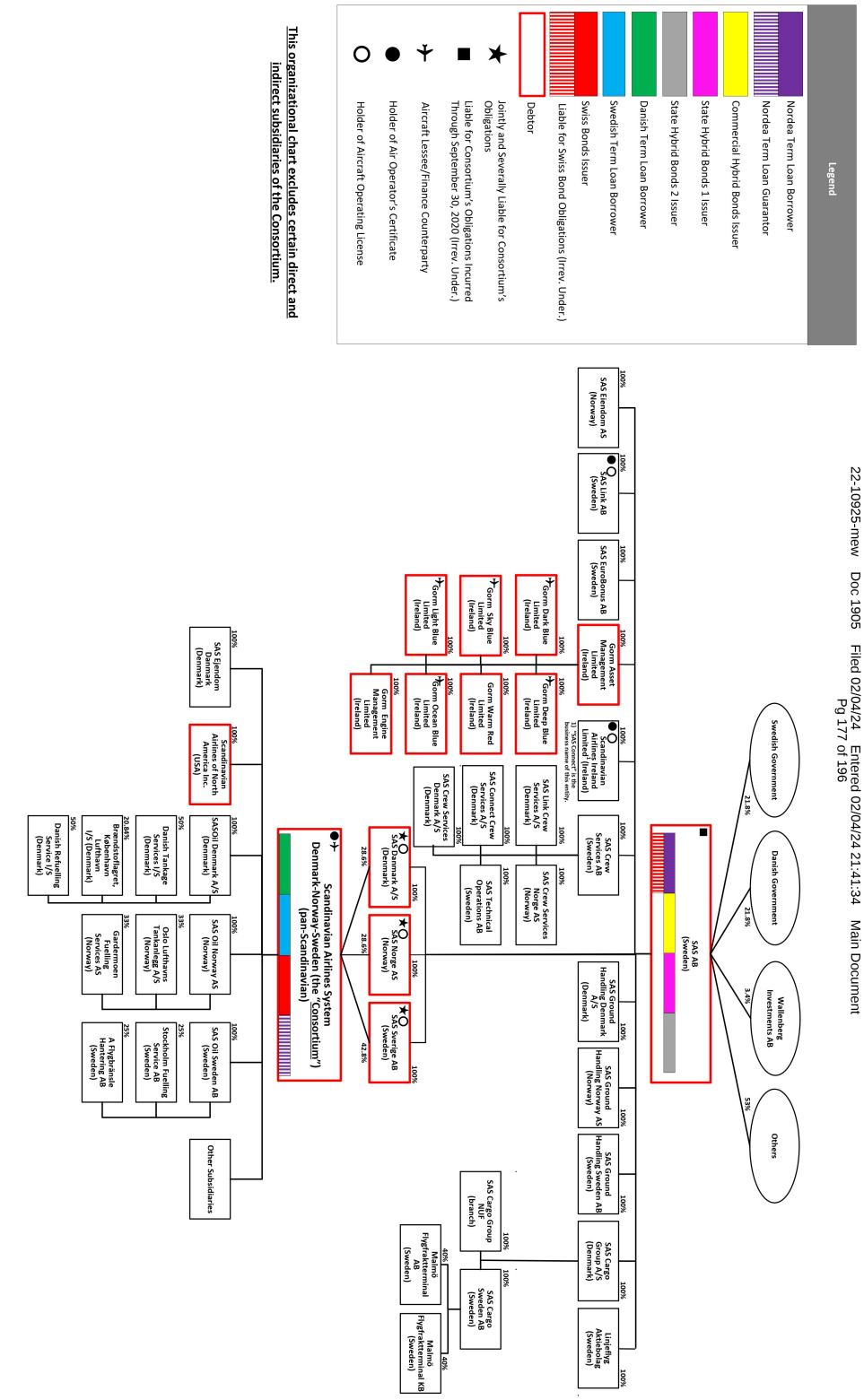
(SAS Group, 2023d)

Lind Invest

> "Lind Invest is a single family office and acts as an independent long-term investor and business owner. Lind Invest was founded by Henrik Lind in 2002, and the company today has $1.2b of equity. Part of the investment strategy is to be opportunistic with a strong ability to execute as an active owner and add value in company transformations and in complex company matter."

(SAS Group, 2023d)

E SAS's Corporate Structure



C.D., ECF No. 1945 (2024, p. 177)

Sources and uses, distribution to impaired creditors

Note: This analysis is for illustrative purposes only and based upon court material made publicly avalible at Kroll. The estimated distribution analysis is not constructed by SAS or any of its affiliates. The calculations are approximations, based on estimated POR and information of claim classes, sizes and types.

1. Sources

Avalible for distribution	Timing	
Avalible cash*	Distributable at eff. date	33,8
New Shares Distribution	Distributable at eff. date	75,0
Of which by SAS AB		86,0
Of which by Cons. Debtors		18,7
Of which by Gorm		4,0
Restricted funds	Distributable later	216,2
Total sources		325,0

2. Uses

			Claim description		Percentage of recovery			Estimated payout (USDm)		
Category	Debtor	Class	Description	Amount (USD)	Eff. Date (Min)	Eff. Date (Max)	Max	Eff. Date (Min)	Eff. Date (Max)	Max
Funded Debt Claims	SAS AB (Guaranteed by C.D.)	4	Norwegian Term Loan*	152 000 000	6,90%	9,40%	25%	10,5	14,3	38,0
Funded Debt Claims	SAS AB	5	Commercial Hybrid Bonds	158 000 000	6,90%	9,40%	25%	10,9	14,9	39,5
Funded Debt Claims	Cons. Debtors	4	Danish Term Loans	152 000 000	1,70%	2,70%	7,70%	2,6	4,1	11,7
Funded Debt Claims	Cons. Debtors	4	Swedish Term Loans	147 000 000	1,70%	2,70%	7,70%	2,5	4,0	11,3
Funded Debt Claims	Cons. Debtors	8	Swiss Bonds	133 000 000	0,00%	0,00%	0,00%	0,0	0,0	0,0
Funded Debt Claims	SAS AB	10	State Hybrid Bonds 1 & 2	587 000 000	0,00%	0,00%	0,00%	0,0	0,0	0,0
Equity interests	SAS AB	11	Equity interests	n.a.	0,00%	0,00%	0,00%	0,0	0,0	0,0
Lease and Trade Claims	SAS AB	3	Lease and Trade Claims	546 811 876	6,90%	9,40%	25%	37,7	51,4	136,7
Lease and Trade Claims	Cons. Debtors	3	Lease, Trade, and Union Claims	430 678 071	1,70%	2,70%	7,70%	7,3	11,6	33,2
Lease and Trade Claims	Gorm Entities	3	Lease and Trade Claims	404 204 064	0,80%	1,20%	3,70%	3,2	4,9	15,0
Convenience class		6	Convenience class (small claims)	3 151 458		10,00%	10,00%		0,3	0,3
Total	SAS AB			856 811 876				59,1	80,5	214,2
Total	Cons. Debtors			729 678 071				12,4	19,7	56,2
Total	Gorm Entities			404 204 064				3,2	4,9	15,0
Total, uses								74,8	105,4	285,7

3. Reconcilliation

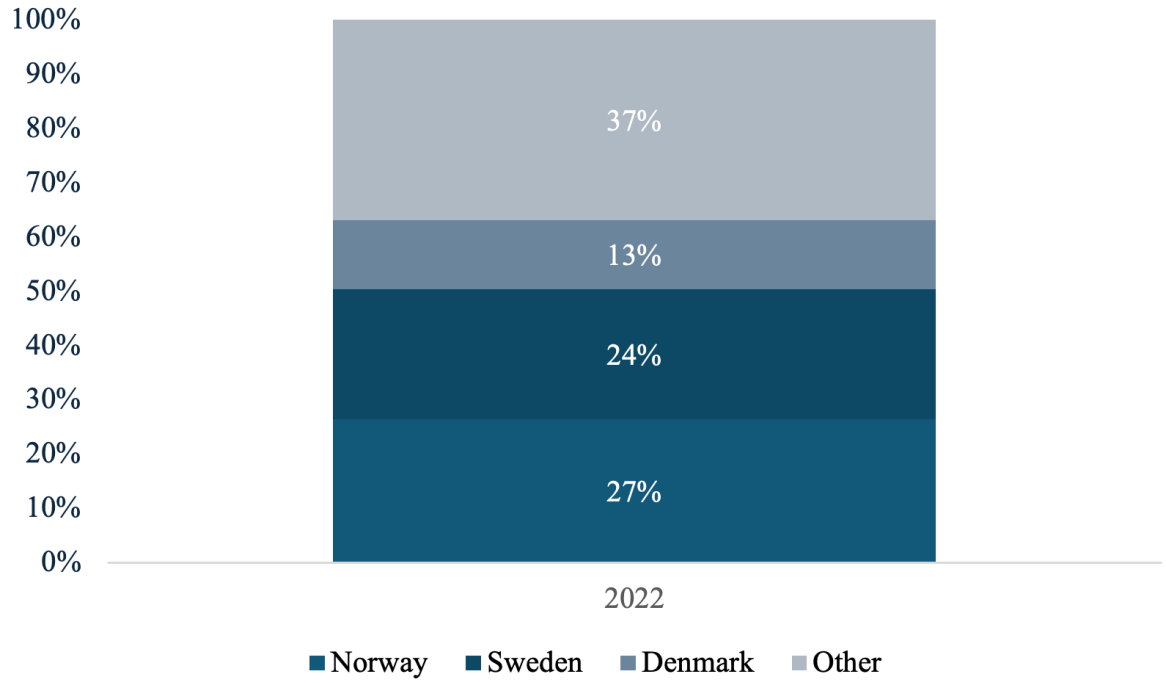
Avalible equity, effective date										
Avalible cash, effective date									108,8	
Avalible cash including GUC										325,0
Reconcilliation, other claims and uses									3,4	39,3

**Norweigian Term Loan is guaranteed by the consortium. As such, the total recovery may differ.*

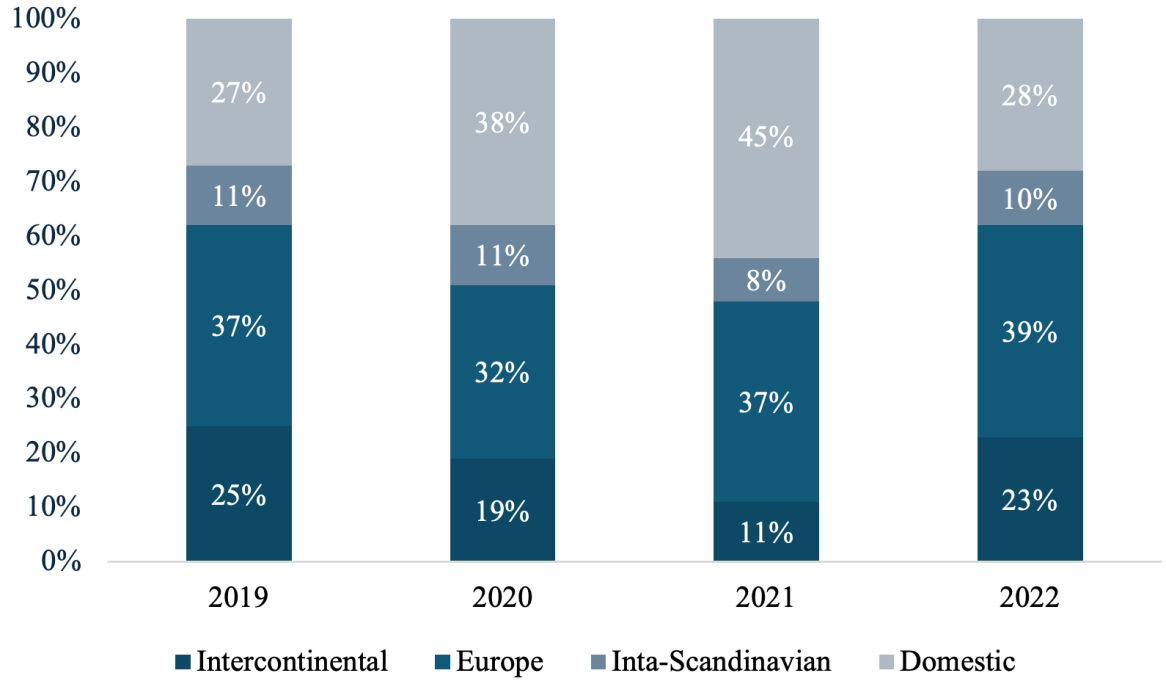
	Lease and Trade claims	1 281 694 011				37,7	51,4	136,7
	Union Claims	100 000 000	1,70%	2,70%	7,70%	7,3	11,6	33,2

G SAS's Revenue Distribution

Segment Distribution of SAS's Passenger revenue, FY2019-2022



SAS's Passenger Revenue per Country, FY2022



Source: C.D., ECF No. 1945 (2024, p. 32)

H Financial Projections

SEK millions	actuals FY-23	forecast FY-24	forecast FY-25	forecast FY-26	forecast FY-27
Revenue	**42,041**	**48,101**	**54,064**	**59,412**	**64,100**
Fuel	(10,940)	(11,052)	(11,102)	(11,024)	(11,934)
Personnel costs	(8,072)	(9,182)	(10,243)	(11,009)	(12,168)
Depreciation	(4,440)	(4,550)	(4,908)	(5,091)	(4,931)
Other operating expenses	(21,440)	(22,233)	(23,853)	(25,705)	(27,397)
EBIT before items affecting comparability	**(2,850)**	**1,084**	**3,959**	**6,583**	**7,670**
Financial items and other non-operating expenses	(2,673)	(1,965)	106	(235)	(1,505)
Taxes	(232)	(0)	(95)	(244)	(389)
Net Income	**(5,748)**	**(882)**	**3,970**	**6,104**	**5,776**

** excludes gains and losses related to the reorganization under chapter 11*

SEK millions	actuals FY-23	forecast FY-24	forecast FY-25	forecast FY-26	forecast FY-27
Intangible assets	663	661	661	661	661
Tangible assets *(includes aircraft, engines, parts, pre-payments and other)*	14,202	10,726	13,741	16,703	22,984
Right-of-use assets	17,164	19,138	19,564	16,636	16,851
Deferred tax assets	1,854	1,842	1,842	1,842	1,842
Participations in affiliated companies	20	20	20	20	20
Other non-interest-bearing assets	1,490	1,840	1,917	2,038	2,042
Pension funds, net	8,001	8,080	8,188	8,295	8,402
Other interest-bearing assets	572	572	528	528	528
Accounts receivable, prepaid exp. & accrued inc.	5,277	4,379	3,942	4,211	4,392
Inventories and expendable spare parts	444	478	494	515	515
Cash and cash equivalents	6,159	12,801	14,258	18,188	17,375
Total Assets	**55,845**	**60,538**	**65,155**	**69,638**	**75,614**
Total shareholders' equity	(6,111)	2,930	7,461	14,341	19,859
Interest-bearing liabilities	20,248	13,105	13,419	11,920	11,193
Interest-bearing lease liabilities	21,427	20,810	19,547	15,586	16,529
Deferred tax liabilities	571	571	571	571	571
Provisions	3,751	5,167	6,246	8,032	7,601
Other interest-bearing liabilities	817	832	484	229	136
Other non interest-bearing liabilities	2,098	2,157	2,171	2,293	2,260
Accounts payable, accrued exp. & prepaid inc.	6,368	7,021	6,879	7,592	8,134
Unearned transportation revenue	6,676	7,946	8,377	9,074	9,330
Total Equity & Liabilities	**55,845**	**60,538**	**65,155**	**69,638**	**75,613**

SEK millions	*forecast* FY-24	*forecast* FY-25	*forecast* FY-26	*forecast* FY-27
Income before tax (EBT)	**(882)**	**4,065**	**6,348**	**6,165**
Add-back of non-cash items:				
Depreciation	4,550	4,908	5,091	4,931
Exchange rate impact on lease liabilities	(992)	(1,950)	(1,384)	-
Other Items	237	(97)	(48)	(53)
Net Adjustment for Non-Cash Items	**3,794**	**2,860**	**3,659**	**4,878**
Tax payments	(0)	(95)	(244)	(389)
Net cash from working capital	4,060	2,104	2,901	211
Cash Flow from Operations	**6,973**	**8,935**	**12,664**	**10,865**
Capital expenditures	(5,056)	(6,859)	(4,515)	(8,016)
Income from asset sales and sale-leasebacks	4,033	1,801	-	-
Cash Flow from Investments	**(1,024)**	**(5,057)**	**(4,515)**	**(8,016)**
Proceeds from borrowings	14,596	1,998	-	-
Repayment of borrowings	(10,088)	(506)	(539)	(771)
Amortization of lease liabilities	(3,605)	(3,279)	(3,092)	(2,456)
Proceeds from equity issuance (net)	2,360	-	-	-
Pensions, deferred social tax and other	(2,570)	(634)	(588)	(435)
Cash Flow from Financing	**693**	**(2,421)**	**(4,219)**	**(3,662)**
Net Cash Flow	**6,642**	**1,456**	**3,930**	**(813)**
Cash and equivalents at start of period	6,159	12,801	14,258	18,188
Cash and equivalents at end of the period	**12,801**	**14,258**	**18,188**	**17,375**

C.D., ECF No. 1945 (2024, pp. 189–194)

TEN-YEAR FINANCIAL OVERVIEW

	2023	2022	2021[4]	2020[2,4]	2019	2018	2017	2016	2015	2014	2013
Statements of income, MSEK											
Revenue	42,043	31,824	13,958	20,513	46,736	44,718	42,654	39,459	39,650	38,006	42,182
Operating income before amortization and depreciation	1,572	1,345	-570	-2,736	2,988	3,783	2,844	2,962	2,877	1,576	3,647
Depreciation, amortization and impairment	-4,440	-4,763	-4,817	-6,703	-1,924	-1,763	-1,635	-1,367	-1,446	-1,443	-1,658
Income from shares in affiliated companies	18	22	10	7	-10	35	4	39	37	30	25
Income from the sale of shares in subsidiaries and affiliated companies	–	13	–	–	0	-4	-21	-7	–	6	700
Income from the sale and return of aircraft, and other non-current assets	145	82	-143	2	112	479	995	265	777	-16	-118
Financial income	1,068	219	214	806	172	129	148	91	124	102	50
Financial expenses	-3,879	-4,733	-1,245	-1,408	-544	-609	-611	-553	-632	-1,130	-999
Income before tax, EBT	-5,516	-7,846	-6,525	-10,097	794	2,050	1,725	1,431	1,417	-918	1,648
Income before tax and items affecting comparability	-5,661	-7,941	-6,382	-8,565	786	2,136	1,951	939	1,174	-697	919
Balance sheets, MSEK											
Non-current assets	43,308	49,303	44,928	44,634	22,281	21,127	20,252	19,319	18,512	18,291	18,600
Current assets, excluding cash and cash equivalents	6,376	5,200	3,516	2,101	2,968	3,316	3,467	4,065	3,556	3,617	3,462
Cash and cash equivalents	6,160	8,654	4,268	10,231	8,763	9,756	8,836	8,370	8,198	7,417	4,751
Shareholders' equity	-6,110	762	6,416	10,023	5,372	7,268	8,058	6,026	6,339	4,907	3,226
Non-current liabilities	33,588	38,596	30,032	28,321	13,525	12,011	9,363	9,822	10,275	10,384	10,173
Current liabilities	28,366	23,799	16,264	18,622	15,115	14,920	15,134	15,906	13,652	14,034	13,414
Total assets	55,844	63,157	52,712	56,966	34,012	34,199	32,555	31,754	30,266	29,325	26,813
Cash-flow statements, MSEK											
Cash flow from operating activities	2,427	1,772	-4,756	-5,176	3,318	4,559	2,443	3,663	3,036	1,096	1,028
Investments	-4,012	-5,093	-4,105	-7,557	-6,207	-6,840	-7,315	-5,960	-4,306	-2,113	-1,877
Sale of fixed assets, etc.	4,173	5,842	2,568	370	1,627	4,161	7,228	3,345	3,193	1,632	1,644
Cash flow before financing activities	2,531	2,521	-6,293	-12,363	-1,262	1,880	2,356	1,048	1,923	615	795
New hybrid bond issue	–	–	–	6,000	1,474	–	–	–	–	–	–
New share issue	–	–	–	5,910	–	1,223	–	–	–	3,500	–
Proceeds from borrowings	1,585	8,515	5,319	11,210	2,292	–	–	–	–	–	–
Amortization	-5,975	-6,179	-5,350	-7,602	-2,362	–	–	–	–	–	–
Redemption of preference shares	–	–	–	–	-1,112	-2,579	–	–	–	–	–
Dividends	–	–	–	–	-26	-228	-350	-350	-350	-175	–

J Liquidation Analysis

(US$ millions)	SAS AB	Consolidated Debtors	Gorm Asset Management Limited	Gorm Engine Management Limited	Gorm Dark Blue Limited	Gorm Deep Blue Limited	Gorm Light Blue Limited	Gorm Ocean Blue Limited	Gorm Sky Blue Limited	Gorm Warm Red Limited	Scandinavian Airlines of North America Inc.	Total Debtors
Available assets and estimated realization												
Cash and cash equivalents	$ -	$ 0	$ -	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ -	$ -	$ 659
Restricted cash	-	-	-	-	-	-	-	-	-	-	-	-
Short term investments and deposits	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable	-	1 23	- 5	- 0	- 0	- 0	- 0	- 0	- 0	- 0	-	28
Intercompany receivables	-	-	-	-	-	-	-	-	-	-	-	-
Tax receivable	-	-	-	-	-	-	-	-	-	-	-	-
Expendable spare parts and inventories	-	3	-	-	-	-	-	-	-	-	-	3
Property and equipment	-	5	-	0 85	-	-	-	219	-	-	-	309
RoU	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-	-	-	-	-	-	-
Intangibles	-	17 607	-	-	-	-	-	-	-	-	-	624
Shares in other companies / entities	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	-
Total assets / proceeds available for distribution	**$ 18**	**$ 1,296**	**$ 5**	**$ 86**	**$ 0**	**$ 0**	**$ 0**	**$ 219**	**$ 0**	**$ 0**	**$ -**	**$ 1,624**
(-) Assumed liquidation costs	(1)	(46)	(0)	(3)	(0)	(0)	(0)	(0)	(0)	(0)	-	(50)
Amounts available to creditors	**$ 17**	**$ 1,250**	**$ 4**	**$ 83**	**$ 0**	**$ 0**	**$ 0**	**$ 219**	**$ 0**	**$ 0**	**$ -**	**$ 1,574**
Amounts available to satisfy claims												
Secured claims												
Aircraft	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 501	$ -	$ -	$ -	$ 501
Non-Aircraft	-	-	-	-	-	-	-	-	-	-	-	-
Total secured claims	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 501**	**$ -**	**$ -**	**$ -**	**$ 501**
Aircraft	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 219	$ -	$ -	$ -	$ 219
Non-Aircraft	-	-	-	-	-	-	-	-	-	-	-	-
Total value of assets encumbered by secured claims	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 219**	**$ -**	**$ -**	**$ -**	**$ 219**
Aircraft	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-Aircraft	-	-	-	-	-	-	-	-	-	-	-	-
Excess distributable value	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Aircraft	$ 282	$ -	$ -	$ -	$ -	$ -	$ -	$ 282	$ -	$ -	$ -	$ 563
Non-Aircraft	-	-	-	-	-	-	-	-	-	-	-	-
Additional general unsecured claims	**$ 282**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 282**	**$ -**	**$ -**	**$ -**	**$ 563**
Amounts available to creditors after satisfaction of secured claim	**$ 17**	**$ 1,250**	**$ 4**	**$ 83**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ -**	**$ 1,355**
Amounts re-allocated due to intercompany claims	**$ -**	**$ 51**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 51**
Senior secured super priority claims (DIP financing facility)												
Allocated DIP claims	**$ 7**	**$ 510**	**$ 2**	**$ 32**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ -**	**$ 551**
Amounts available to creditors after satisfaction of secured claims	$ 17	$ 1,301	$ 4	$ 83	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ -	$ 1,406
(-) DIP satisfaction	(7)	(510)	(2)	(32)	(0)	(0)	(0)	(0)	(0)	(0)	-	(551)
Amounts available to creditors after satisfaction of secured claims and DIP claims	**$ 10**	**$ 791**	**$ 3**	**$ 50**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ -**	**$ 854**
Administrative claims												
Administrative claims	**$ 1,035**	**$ 1,176**	**$ 0**	**$ 1**	**$ 71**	**$ 26**	**$ 770**	**$ 32**	**$ 36**	**$ 35**	**$ -**	**$ 3,180**
Amounts available to creditors after satisfaction of secured and DIP claims	$ 10	$ 791	$ 3	$ 50	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ -	$ 854
(-) Administrative claim satisfaction	(10)	(791)	(0)	(1)	(0)	(0)	(0)	(0)	(0)	(0)	-	(802)
Amounts available to creditors after satisfaction of secured, DIP, and administrative claims	**$ -**	**$ -**	**$ 3**	**$ 49**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 52**
Priority claims												
Priority claims	**$ 7**	**$ 208**	**$ 0**	**$ 1**	**$ 5**	**$ 2**	**$ 5**	**$ 0**	**$ 1**	**$ 0**	**$ -**	**$ 229**
Amounts available to creditors after satisfaction of secured, DIP, and administrative claims	$ -	$ -	$ 3	$ 49	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 52
(-) Priority claim satisfaction	-	-	(0)	(1)	-	-	-	-	-	-	-	(1)
Amounts available to creditors after satisfaction of secured, DIP, administrative, and priority claims	**$ -**	**$ -**	**$ 2**	**$ 48**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 51**
General unsecured claims												
General unsecured claims	**$ 2,312**	**$ 1,479**	**$ -**	**$ 571**	**$ 140**	**$ 425**	**$ 431**	**$ 183**	**$ 100**	**$ 0**	**$ 5,641**	
Intercompany general unsecured claims	**$ -**	**$ 1,059**	**$ 186**	**$ 85**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,331**	
Amounts available to creditors after satisfaction of secured, DIP, administrative, and priority claims	$ -	$ -	$ 2	$ 48	$ -	$ -	$ -	$ -	$ -	$ -	$ 51	
(-) General unsecured claim satisfaction	-	-	(2)	(48)	-	-	-	-	-	-	(51)	
Amounts available to creditors after satisfaction of secured, DIP, administrative, priority and general unsecured claims	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 0**
% recovery	*0.0%*	*0.0%*	*1.3%*	*56.8%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.7%*

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