

Onex's Buyout of WestJet Airlines

Deal Discussion

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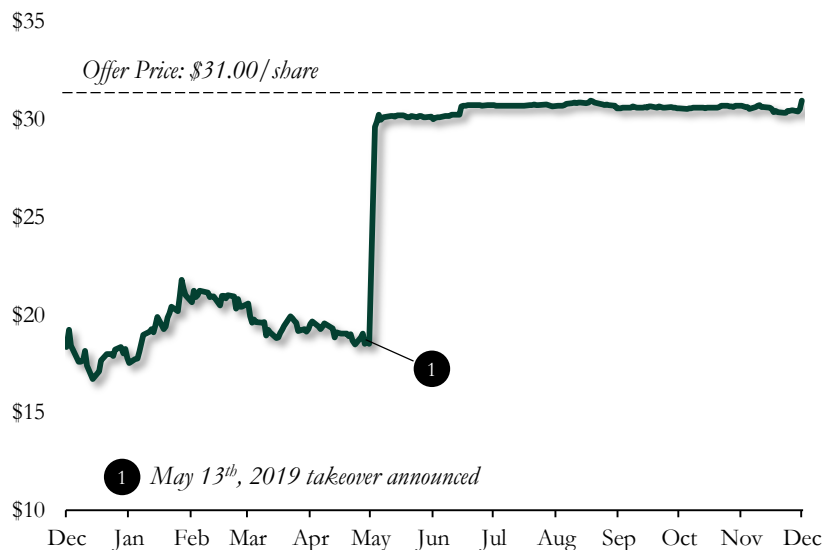
Transaction Overview

Proposed Transaction Overview

Transaction Overview

- On May 13th, 2019, Onex announced that it will pay \$31.00 a share for WestJet (TSX:WJA) which represented a 67% premium over its previous closing price
- The transaction valued WestJet at \$3.6 billion and was worth \$5 billion in total including assumed debt
- The transaction officially closed on December 11th, 2019 after receiving approval from the Canadian Transportation Agency (CTA)

LTM Stock Performance



Illustrative Transaction Analysis

(in US\$ Millions)	Pre-Announcement	13-May-19	11-Dec-19
Share Price	\$18.52	\$29.61	\$30.98
FD Shares O/S	115	115	115
Market Cap.	\$2,130	\$3,405	\$3,563
(+) Total Debt	\$2,743	\$2,743	\$2,343
(-) Cash & Cash Equivalents	\$1,365	\$1,365	\$1,365
(+) Minority Interest	-	-	-
(+) Preferred Shares	-	-	-
Enterprise Value	\$3,508	\$4,783	\$4,541
EV / LTM EBITDAR	3.65x	4.97x	4.72x
P / LTM EPS	20.7x	20.9x	16.8x

Market Views

- Onex's shares rose 4% after the announcement

"It was a surprise to us because we had a market perform rating on the stock and it's a 67% premium...it's a **huge premium** and it enables WestJet probably to do what they've been doing over the past couple of years in terms of **diversifying away** from the core business of just being a low-cost airline within Canada **expanding internationally without prying eyes**"

COWEN

13-May-19

Overview of Financial Sponsors

Overview of Financial Sponsor



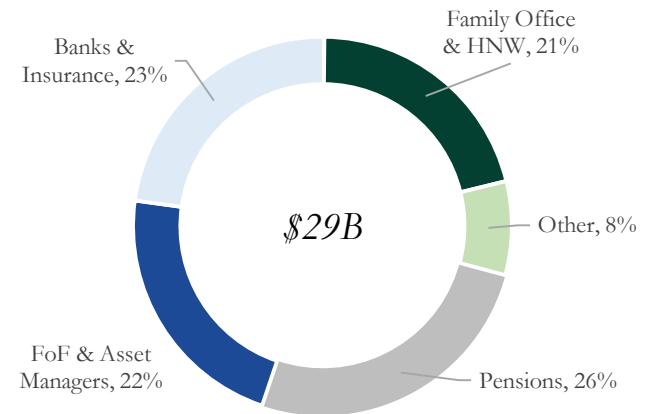
Overview

- Founded in 1984, Onex Corporation is a Toronto-based asset manager with approx. \$36B AUM
- Onex first started investing in North American private equity opportunities with their own capital, only starting to raise vehicles with third-party capital in 2000
- The company's assets have grown at a 32% CAGR over the past 13 years, with a 27% IRR on their private equity investments

Investment Platforms



Client Capital



Attempted Takeover of Air Canada

- In 1999, Onex attempted a hostile bid for Air Canada in an attempt to merge it with Canadian Airlines
- Critics speculated that Onex's decision to invest was driven in part by Gerry Schwartz's desire to own a flagship brand
- In a 10-week period, Onex and Air Canada bid the price up to \$17.50 a share, representing a 67% premium
- The deal was ultimately struck down in court as a Quebec judge ruled that buying and merging the two airlines was against the law

Source: Onex, BNN Bloomberg, Globe and Mail, Global News

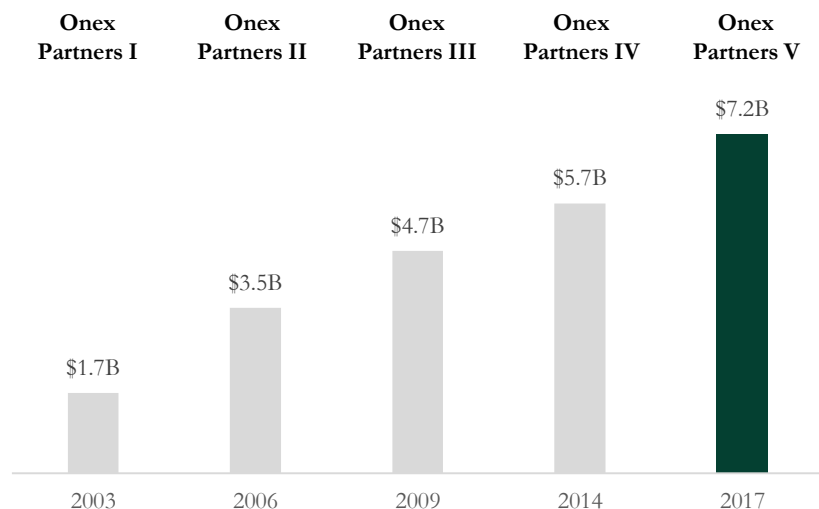
Overview of Financial Sponsor



Onex Partners

- Onex Partners is the firm's large-cap private equity platform, aiming to invest in opportunities in the US, Canada and Europe that require \$200 million or more of initial equity capital
- Onex closed Onex Partners V in November 2017, surpassing its original \$6.5 billion target to raise \$7.15 billion and committing \$2 billion of their own capital
- Onex boasts an exceptional track record in private equity, generating a gross MOIC of 2.8x and gross IRR of 28% over its 33-year history

Funds Raised to Date



Source: Corporate Disclosures

Investment Criteria

- ✓ **Stable Recurring Cash Flows**
 - Assets that generate sufficient cash flows to service the leverage taken on to fund the acquisition
- ✓ **Opportunities to Cut Costs**
 - Onex typically leverages its industry and operational expertise to increase margins where possible
- ✓ **Strong Management Teams**
 - This allows Onex to focus on possible changes to be made and other higher-level strategy

Recent Transactions

Company	Location	Year of Investment	Total Transaction Value
ONEDIGITAL HEALTH AND BENEFITS	USA	2020	\$2.2 Billion
EMERALD	USA	2020	\$400 Million
Independent Clinical Services	UK	2020	Undisclosed
convex	UK	2019	\$1.8 Billion

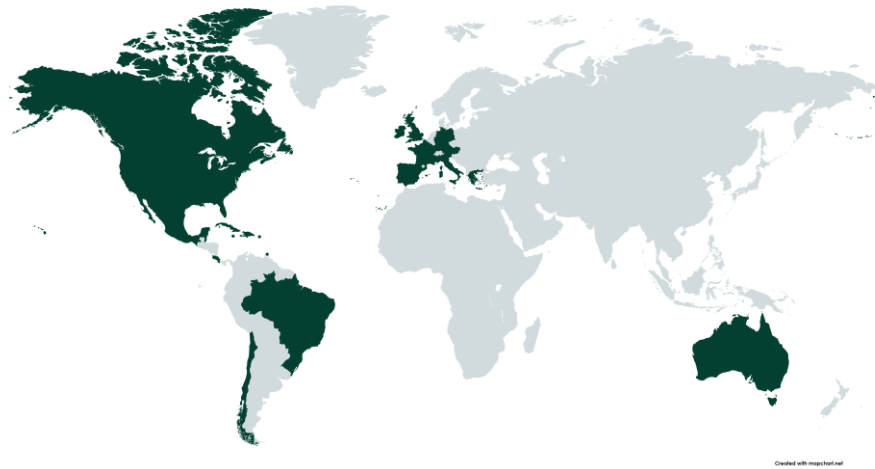
Company Overview

WestJet Airlines Ltd. (TSX:WJA)

Company Overview

- Launched in 1996 and headquartered in Calgary, WestJet started as a low-cost alternative to Canada's major airlines
- Current product offerings include scheduled flights, cargo and charter services, as well as air, hotel, car and excursion packages through WestJet Vacations
- Their network has grown from only 5 destinations to over 100 destinations across North America, Central America, The Caribbean and Europe with a fleet of over 150 aircraft

Flight Network

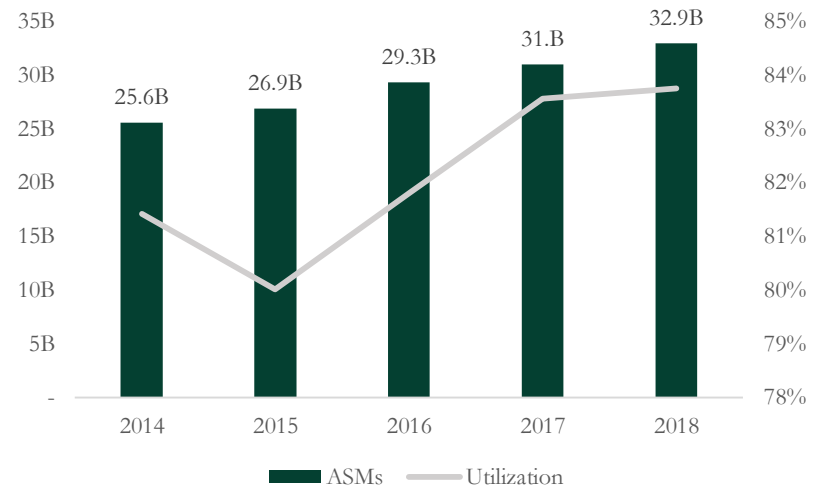


Sources: Company Filings, Capital IQ

Capitalization at Acquisition

Share Price	\$30.99
52 Week Range	\$16.71 – 30.99
Market Capitalization	\$3.59 B
Net Debt, Pref. Shares, NCI	\$0.98 B
Enterprise Value	\$4.57 B
LTM EV/ EBITDA	5.7x
LTM P/EPS	16.9x

Available Seat Miles vs Utilization



WestJet Airlines Ltd. (TSX:WJA)

Historical Value Proposition

- Low-cost carrier operating short to medium distance flights mainly within Canada: expanded to the US in 2004 and internationally in 2006
- Launched WestJet Encore in 2013 to better compete with Air Canada on regional routes using smaller turboprop jets
- Competed on price by cutting amenities like on-board entertainment, beverages and food, and using one type of aircraft for its entire fleet (Boeing 737-700/800)

Indexed WestJet vs. Air Canada Share Performance



Sources: Company Filings, Yahoo Finance, Trading Economics

WestJet vs. Air Canada Operating Metrics

	WestJet		Air Canada	
	2018	2014	2018	2014
RASM	14.37	15.54	16.30	18.00
CASM	13.90	13.68	15.20	16.90
MASM	0.47	1.86	1.10	1.10
Available Seat Miles	32,939	25,584	110,866	73,889
Revenue Yield	17.16	19.09	17.60	18.90
EBITDAR Margin	15.4%	22.2%	15.8%	12.6%

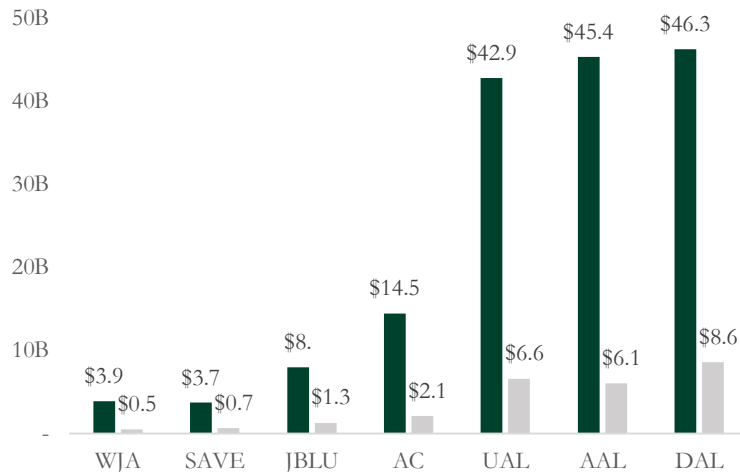
Growth Strategy

- Shift away from discount carrier model into premium segments and longer-distance international flights: Established routes to Europe in 2014 and currently flies to almost all major EU countries
- Launched ultra low-cost carrier, Swoop, in 2017 to assume the legacy low-cost business model while WestJet moves towards becoming a traditional airline
- Plans to order ten 787-9s between 2019-2021 and establish routes to Asia with premium business class seating
- Established its first airport lounge at YYC in October 2020

Industry Overview

Airline Industry Overview

N.A Airlines by Revenue, EBITDA (US\$, 2019)



Key Metrics and Trends

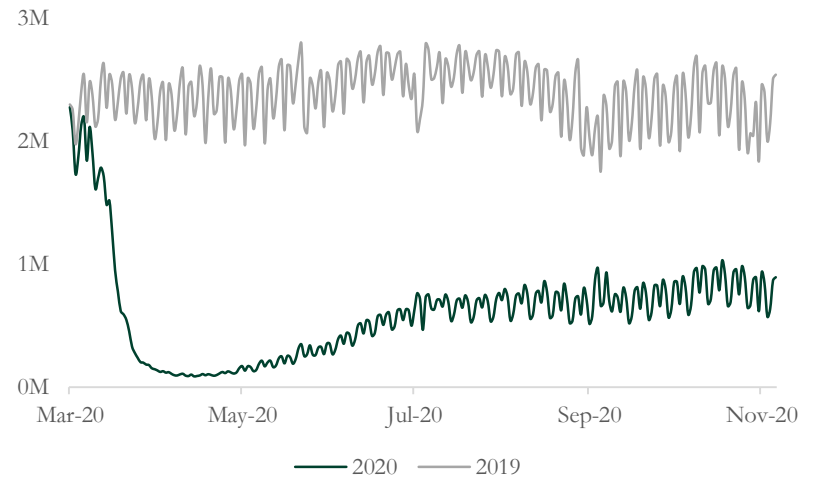
Metric	Measures
Available Seat Miles (ASM)	<ul style="list-style-type: none"> Measure of carrying capacity available Number of miles times number of seats
Revenue Passenger Miles (RPM)	<ul style="list-style-type: none"> Measure of volume of passengers carried Number of passengers times miles travelled
Load Factor	<ul style="list-style-type: none"> RPM divided by ASM; measures efficiency

Trends
<ul style="list-style-type: none"> Increased importance of using customer data to create a “travel ecosystem” and more effectively implementing dynamic pricing
<ul style="list-style-type: none"> Fleet composition shifting towards smaller aircraft would allow for more point-to-point routes to become viable, increasing margins

COVID-19 Impact on Airlines

- Both international and domestic traffic was decreased by ~60% YoY
- RPM declined by 54.7% driven by the decrease in business and leisure travel
- Air travel is projected to be impacted into 2023, resulting in decreased capital expenditure and increased cost-cutting industry-wide
- Air Canada, WestJet’s closest comparable, reported a loss of \$1.75B in August

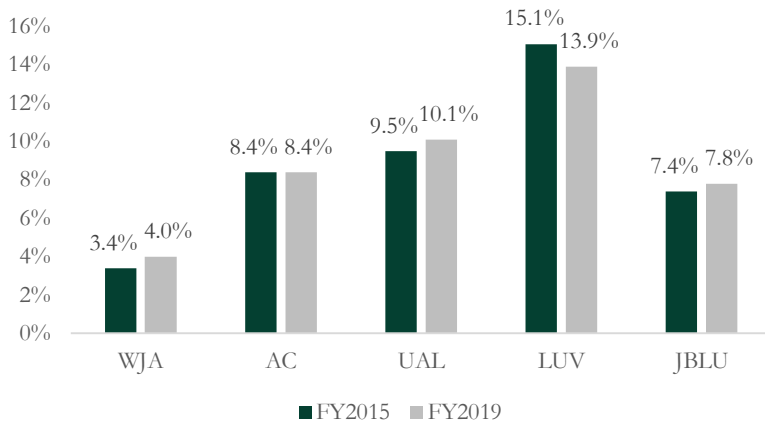
TSA Checkpoint Travel Numbers



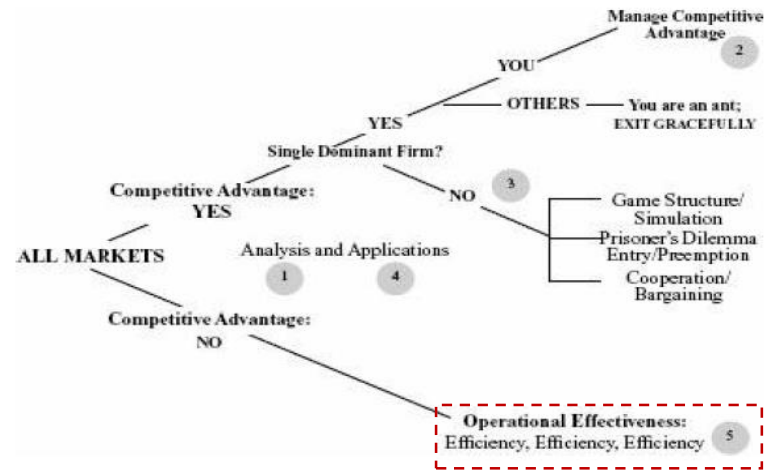
Source: Capital IQ, JP Morgan, Financial Times

Investing in the Airline Business

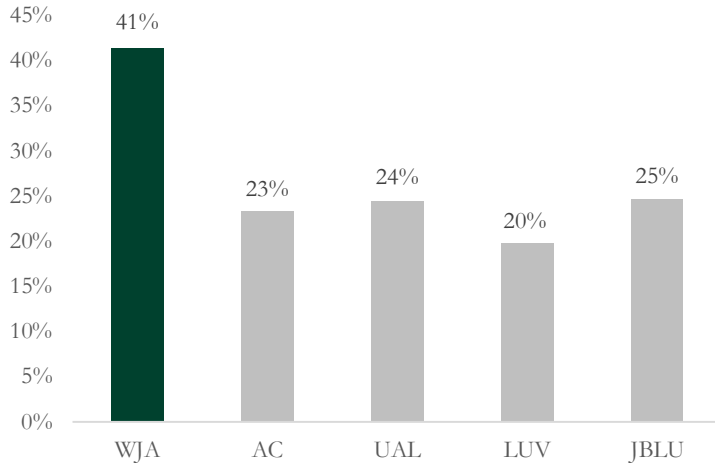
Comparable Airline ROICs (2015, LTM 2020)



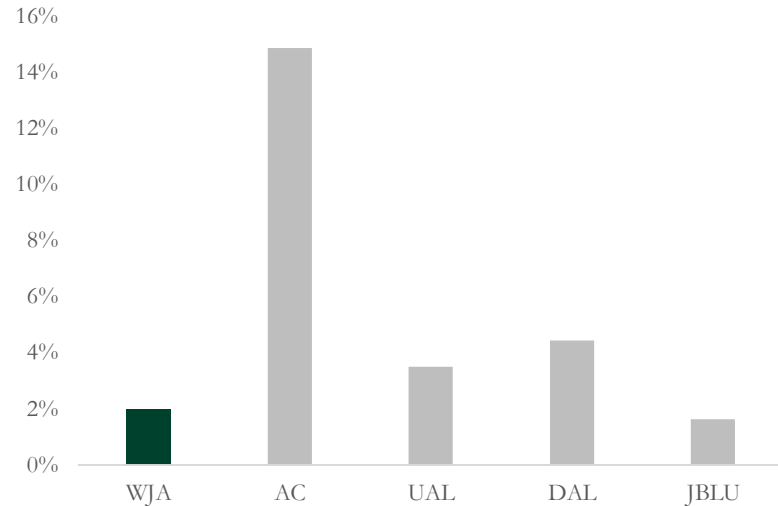
Competitive Dynamics



Operating Expense Margins



Comparable FCF Yield (FY2019)



(1) Source: Association of American Railroads (AAR), McKinsey, Competition Demystified

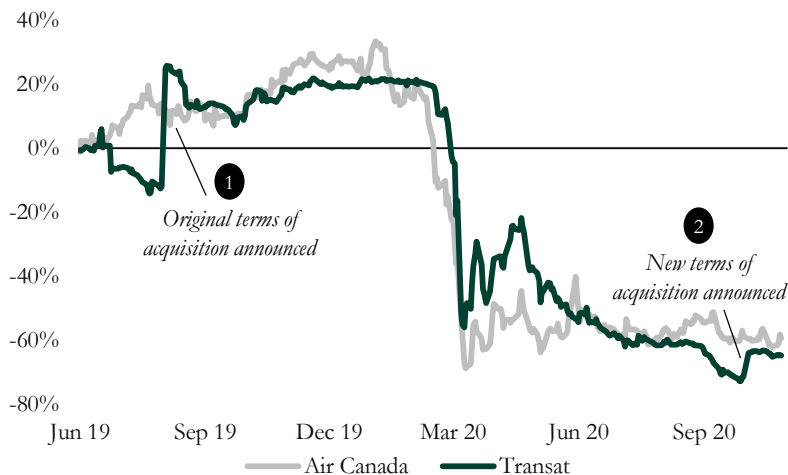
Transaction Case Studies

Case Study: Air Canada Acquires Transat (Ongoing)

Transaction Overview

- In August of 2019, Air Canada reached an agreement to acquire Transat A.T. Inc (“Transat”) for a purchase price of \$720M CAD. The all-cash deal would have seen all of Transat’s outstanding shares bought for \$18 per share
- However, the execution of the deal was delayed as both sides awaited approvals by Canadian and European Union regulators over anti-competitive concerns
- As the pandemic wreaked havoc on the industry and depressed valuations, new terms were drafted such that Air Canada would now acquire Transat for \$180M CAD (\$5 per share) in an all-stock deal; it is currently under review

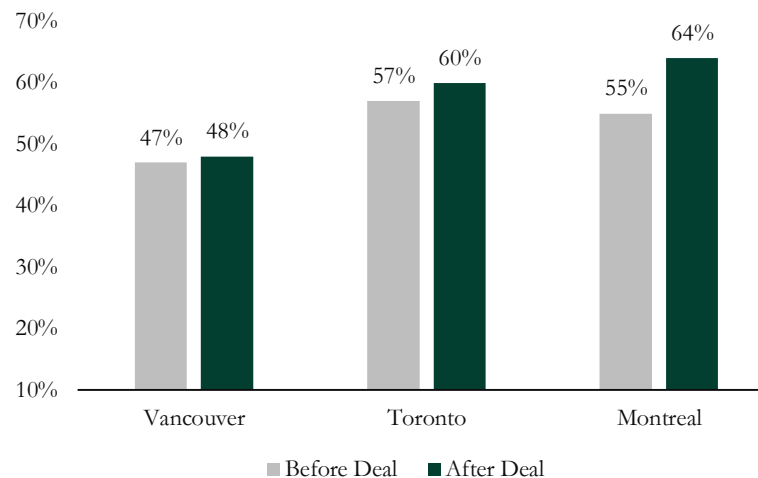
Air Canada and Transat Stock Performance



Deal Rationale

- ✓ **Greater Ability to Compete at Global Level**
 - In order to load its planes in other countries, Air Canada must offer internationally competitive service; the acquisition would allow for a higher share of seat capacity at flight hubs
 - Air Canada would have a better chance competing against international carriers in the global arena
- ✓ **Increased Local Dominance**
 - Air Canada would serve 58% of transatlantic air travel from Canada and see increased seat capacity at Canadian airports — consolidation over specific flight paths could allow for more supplier leverage

Increased Seat Capacity % at Canadian Airports



Source: Capital IQ, BNN Bloomberg, Financial Times

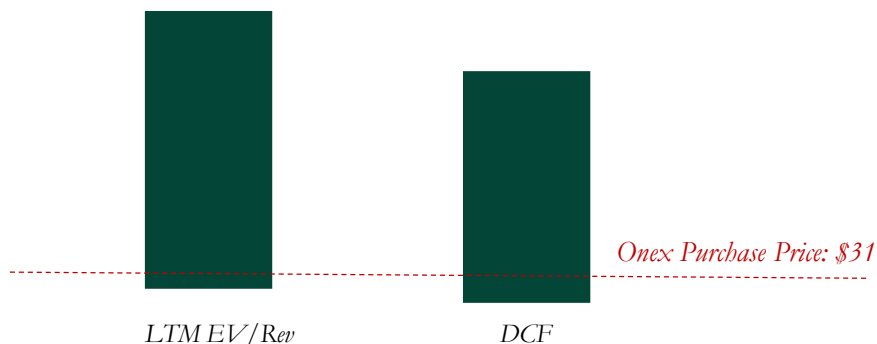
Valuation & Returns Analysis

Preliminary Views on Value

Football Field

Type	Description	Valuation	Implied Price (US\$/share)	Upside / (Downside)
DCF: Exit Multiple	Exit Multiple: 3.5x – 5.5x WACC: 6.5% - 8.5%	\$25.78 [Redacted] \$44.74	\$35.26	14%
LTM EV/EBITDA	5.8x - 11.5x	\$55.58 [Redacted] \$101.89	\$78.73	154%
LTM EV/Rev	0.4x - 0.9x	\$28.53 [Redacted] \$53.64	\$41.08	33%
NTM EV/EBIDAR	4.8x - 5.4x	\$47.65 [Redacted] \$65.08	\$56.36	82%
LTM EV/EBITDAR	3.3x - 5.6x	\$42.83 [Redacted] \$66.94	\$54.88	77%

IPC Analysis



Commentary

- Domestic and international air passenger volume were down 51%, and 81% respectively in Aug 2020
- Passengers now prefer non-stop travel due to restrictions and potential exposure of COVID
- Limited flight schedules has led to less connecting flights
- The use of smaller long-range aircrafts have been accelerated, pushing forward the use of P2P model
- IPC believes that Onex paid a fair price using pre-COVID assumptions and over-paid given COVID developments

Source: Capital IQ, McKinsey

Illustrative LBO Scenario Analysis

Onex Returns (40% Equity Contribution)

<i>(in CAD\$ Millions)</i>	2019E	2020E	2021E	2022E	2023E
Revenue	\$4,994	\$5,268	\$5,268	\$5,698	\$5,812
<i>% Growth</i>	<i>6%</i>	<i>6%</i>	<i>4%</i>	<i>4%</i>	<i>2%</i>
Unlevered Free Cash Flow	\$201	\$212	\$200	\$208	\$441
<i>% Margin</i>	<i>4.02%</i>	<i>4.00%</i>	<i>3.80%</i>	<i>3.65%</i>	<i>7.59%</i>
Initial Investment	(\$2,023)				
(+) Cash	-	-	-	-	-
(-) Debt	-	-	-	-	\$2,677
(+) Exit Proceeds	-	-	-	-	\$5,813
Net Cash Flow	(\$2,023)	-	-	-	\$3,136

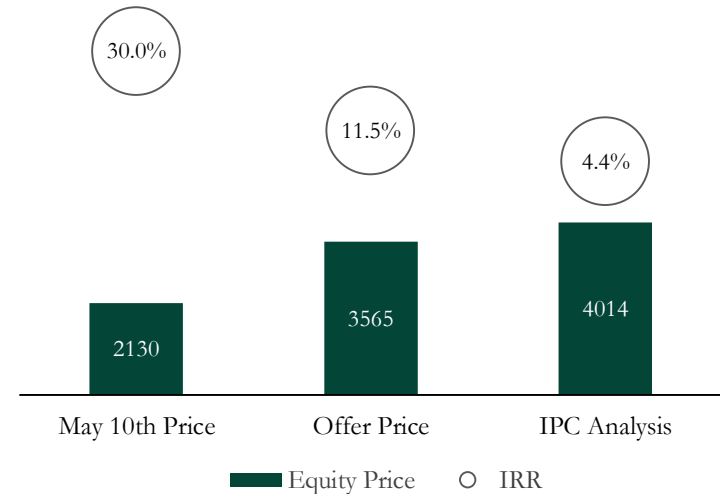
IRR

11.5%

Sources & Uses

Sources		
<u>Equity:</u>		
Onex Contribution	\$2,012	2.9x
Total Equity	\$2,012	2.9x
<u>Debt:</u>		
Term Loan B	\$1,207	1.8x
Long-Term Notes	\$1,811	2.6x
Total Debt	\$3,018	4.4x
Total Sources	\$5,030	7.3x
Uses		
Purchase Price	\$3,565	5.2x
Existing Net Debt	\$1,385	2.0x
Financing Fees	\$30	0.03x
Transaction Fees	\$50	0.07x
Total Uses	\$5,030	7.3x

Scenario Analysis



IPC Commentary

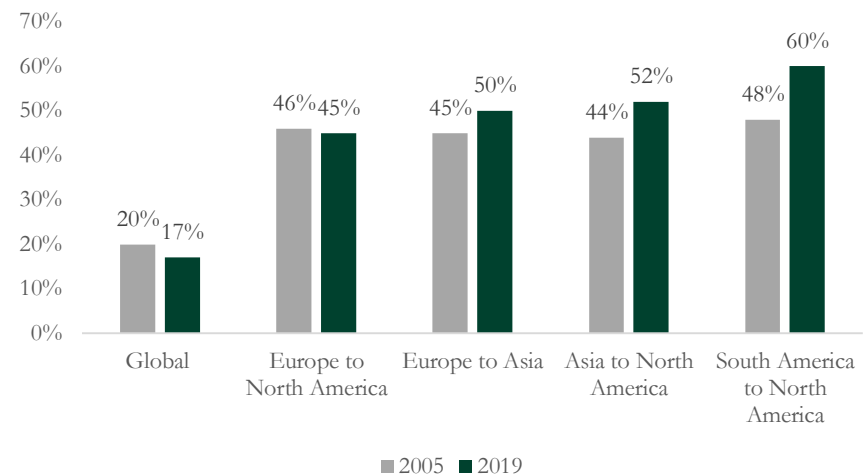
Deal Commentary

- Shifting its growth strategy from a focus on available seat mile (ASM) production to a more holistic approach to expanding its business
 1. building partnerships
 2. developing corporate and ultra-low cost segments
- Given that the airline industry has low margins and has been heavily impacted by COVID, Onex will need to focus on improving its operation efficiencies and hold it for a longer - than anticipated period
- WestJet will expand more routes in Eastern Canada and likely streamline its aircraft fleet

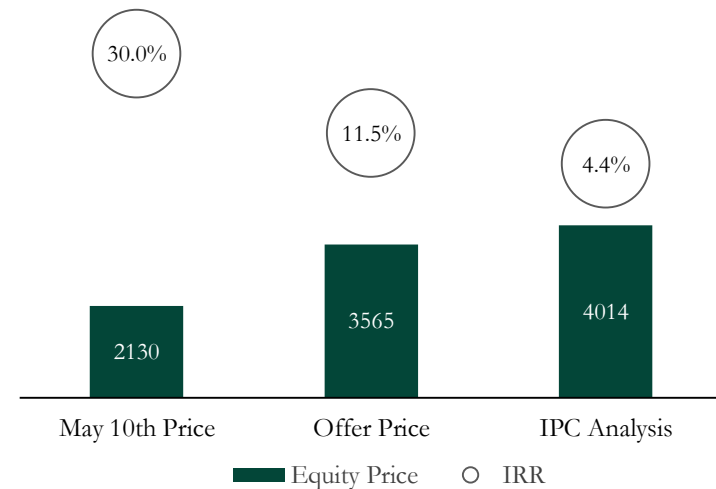
Key Questions Going Forward

- How will WestJet make the shift from low-cost carrier to an international carrier serving major cities?
- How will WestJet respond to consumer preference of the P2P model due to COVID?
- Will WestJet be able to attend to the domestic market with aggressive expansion plans?
- What will Onex do to compensate for lower return due to COVID impacts and a longer holding period?

Share of Connecting Ticket Sales



Returns Analysis



Source: McKinsey, The Star, CAPA

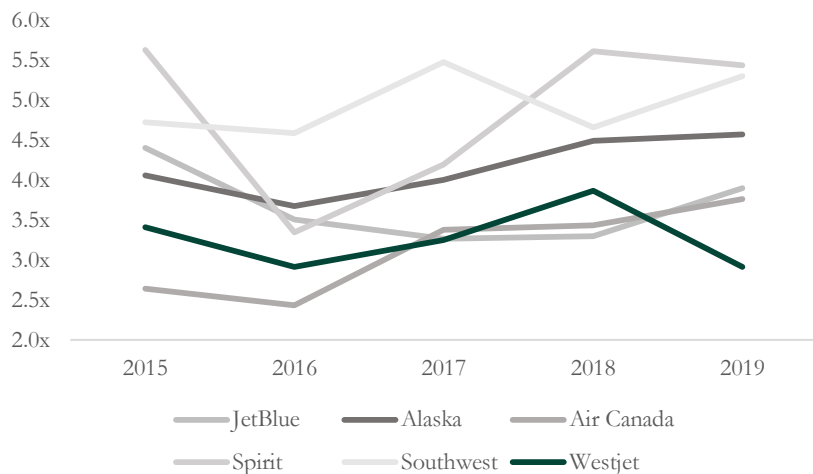
Appendix

Valuation: Comparable Companies Analysis

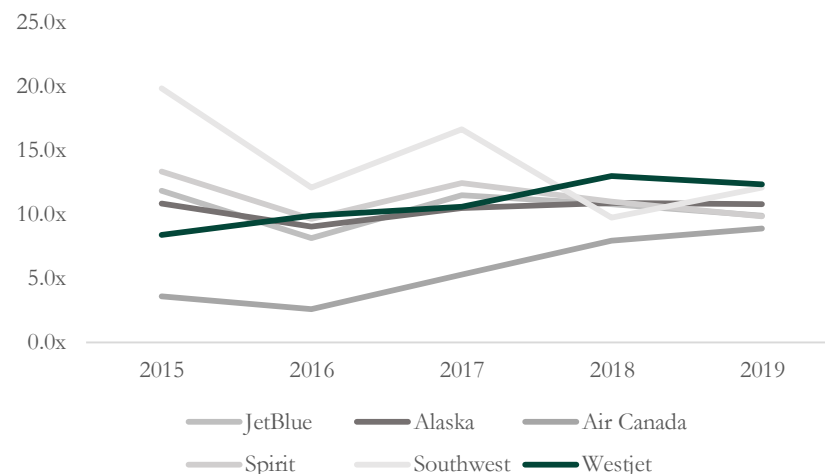
Comparable Companies

Company Name	Market Cap (\$ mm)	EV (\$ mm)	EV/EBITDAR		P/E		Available Seat Miles	Aircraft Utilization (hr/day)	ROIC
			LTM	NTM	LTM	NTM			
JetBlue Airways Corporation (NasdaqGS:JBLU)	4,894.9	5,525.9	3.3x	3.9x	0.6x	1.7x	15,437	11.8	6.4%
Alaska Air Group, Inc. (NYSE:ALK)	7,502.8	8,134.8	4.5x	4.6x	3.5x	5.9x	15,508	10.4	7.4%
Air Canada (TSX:AC)	5,393.5	6,741.2	3.4x	3.8x	0.1x	2.5x	26,016	10.2	8.1%
Spirit Airlines, Inc. (NYSE:SAVE)	3,953.9	4,999.7	5.6x	5.4x	2.3x	6.0x	9,829	12.2	6.9%
Southwest Airlines Co. (NYSE: LUV)	26,136.0	25,784.0	4.7x	5.3x	4.3x	4.7x	37,885	-	13.9%
Mean	9,576.2	10,237.1	4.3x	4.6x	2.2x	4.2x	20,935.0	11.2	8.5%
Median	5,393.5	6,741.2	4.5x	4.6x	2.3x	4.7x	15,508.0	11.1	7.4%
WestJet Airlines Ltd.	1574.1	2097.4	3.9x	2.9x	0.6x	0.9x	8456	10.8	2.0%

NTM EV/EBIT



NTM P/E



Source: Capital IQ

Valuation: Precedent Transactions Analysis

Precedent Transactions

Announced Date	Target	Buyer/Investor	Size (\$ mm)	LTM EV/ Rev	LTM EV/EBITDA	Implied Share Price (\$)	Premium (%)
Oct-02-2018	Omni Air International, LLC	Air Transport Services Group, Inc.	1,083	-	5.8x	NA	NA
Apr-04-2016	Virgin America Inc.	Alaska Air Group, Inc.	3,909	1.6x	11.5x	57	47%
Sep-27-2010	AirTran Holdings Inc.	Southwest Airlines Co.	2,207	0.6x	9.3x	8	69%
Jun-22-2009	Frontier Group Holdings, Inc.	Republic Airways Holdings Inc.	665	0.4x	26.8x	NA	NA
		Median	2,207	0.8x	9.3x	33	58%
		Mean	2,886	0.9x	12.1x	33	58%
May-13-2019	WestJet Airlines Ltd.	Onex Corporation	6,568	1.0x	7.2x	31	67%

Source: Capital IQ

Valuation: Discounted Cash Flow Analysis Summary

Free Cash Flow Build

Revenue Build	2018A	2019E	2020E	2021E	2022E	2023E
Revenue	4,733,462	4,993,802	5,268,462	5,479,200	5,698,368	5,812,335
Revenue Growth %		6%	6%	4%	4%	2%
Operating Expenses	4,578,235	4,497,418	4,744,776	4,934,568	5,131,950	5,234,589
EBIT	150,180	496,384	523,685	544,632	566,418	577,746
EBIT Margin	3.30%	9.94%	9.94%	9.94%	9.94%	9.94%
Taxes	44,417	143,951	151,869	157,943	164,261	167,546
Tax Rate	32.69%	29.00%	29.00%	29.00%	29.00%	29.00%
NOPAT	105,763	352,433	371,816	386,689	402,157	410,200
Add: D&A	429,910	453,555	478,501	497,641	517,546	527,897
% of Revenue	9%	9%	9%	9%	9%	9%
Less: Capex (aircraft additions/disposals, other PPE related)	639,698	674,881	712,000	740,480	770,099	527,897
% of Revenue	14%	14%	14%	14%	14%	9%
Less: Change in NWC		-69,398	-73,215	-56,176	-58,423	-30,380
Unlevered Free Cash Flow		200,504	211,532	200,026	208,027	440,580
PV of UFCF		194,512	193,135	191,768	190,410	345,099

Valuation Summary

Sum of Discounted FCF	1,047,935
Terminal Value	
Final Year EBITDAR	1,270,643
Exit Multiple	4.58x
WACC	6.81%
Terminal Value	5,813,216
Discounted Terminal Value	4,181,128
Implied Enterprise Value	5,229,062
Less: Debt	2,343,100
Add: Cash	1,365,400
Implied Equity Value	4,251,362
Fully Diluted Shares Outstanding	115,760
Projected Share Price	37
Current Share Price	31
Implied Upside	18%

WACC

% Debt	39.51%
% Equity	60.49%
Cost of Debt & Equity	
After-tax Cost of Debt	4.97%
Cost of Equity	8.02%
WACC	6.81%

Sensitivity

		WACC									
		5.81%	6.31%	6.81%	7.31%	7.81%					
Exit Multiple	4.48x	\$37.6	21.4%	\$36.8	18.6%	\$35.9	15.9%	\$35.1	13.3%	\$34.3	10.7%
	4.53x	\$38.1	22.7%	\$37.2	19.9%	\$36.3	17.2%	\$35.5	14.5%	\$34.7	12.0%
	4.58x	\$38.5	24.1%	\$37.6	21.2%	\$36.7	18.5%	\$35.9	15.8%	\$35.1	13.2%
	4.63x	\$38.9	25.4%	\$38.0	22.5%	\$37.1	19.7%	\$36.3	17.0%	\$35.5	14.4%
	4.68x	\$39.3	26.7%	\$38.4	23.8%	\$37.5	21.0%	\$36.7	18.3%	\$35.8	15.6%

Source: Capital IQ, Company Filings