



CASE STUDY

# European Airline: Hedge Book Analysis and Restructuring

FTI Consulting (“FTI”) team advised a European airline in the restructuring of its jet fuel derivatives hedge portfolio.

## SITUATION

A European airline was facing a liquidity crisis in 2020 due to a decline in travel and losses incurred on its jet fuel hedge book from sharply lower fuel prices.

As part of its restructuring plans, and to limit upfront cash payments, the airline was looking to partially roll forward the losses on its existing hedge positions into new trades with longer maturities and traded at a premium over fair market value.

The airline needed FTI’s assistance in evaluating multiple proposals by its various counterparties for the hedge book restructuring and in negotiating new terms, including the formulation of counterproposals and alternative structures.

## OUR ROLE

- The FTI team integrated the restructured hedge book as proposed by each counterparty into FTI Quantum, our proprietary analytics and risk management system, and provided real time valuation and risk analysis.
- We analyzed each of the proposals and valued the previous hedge positions which they replaced. The proposals consisted of calendar swaps and options on jet fuel with different maturities and volumes by counterparties.
- As the trades were uncollateralized, the FTI team estimated an appropriate credit premium that the airline would be charged by each counterparty. We considered multiple scenarios since the airline did not have a liquid market for its bonds or CDS.
- Given the estimated credit premium, we assessed the breakdown of the hedge proposals' premium, which included both the credit premium and the premium from the loss roll-over from the airline's previous hedge portfolio.
- One of the proposals had a higher loss roll-over amount. We advised the airline on amended terms that would make the different proposals comparable.
- FTI further assisted in the airline's negotiations with its hedge counterparties. We provided the airline with additional alternatives to reduce its upfront cash costs.

## OUR IMPACT



The FTI team helped the airline evaluate the different proposals to find the best fit for the company's strategy and cash requirements.



The FTI team provided the airline with critical advice and helped negotiate with the counterparties in order to limit its costs and to achieve more favorable terms.



With FTI's assistance, the airline successfully replaced its existing hedge portfolio and entered into a new, and capital efficient, hedge portfolio.



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