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Financing Your Way Out of a Pandemic: How Two Airport Companies Restructured Their Debt to Withstand an Economic Crisis

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In a pair of private exchange offers consummated in May 2020, airport operating companies owned by Corporación América Airports S.A. (NYSE: CAAP) in Argentina and Uruguay were able to restructure their existing debt securities in order to withstand the substantial revenue declines associated with the drop-off in air travel as a result of the coronavirus pandemic ("COVID-19").

As the largest private sector airport concession operator in the world, CAAP's business is particularly vulnerable to declines in air travel. In particular, CAAP's Argentinian and Uruguayan subsidiaries, Aeropuertos Argentina 2000 S.A. ("AA2000") and ACI Airport Sudamérica, S.A. ("ACI"), respectively, which together operate 36 airports and have approximately 2,800 employees, faced the prospect of severe revenue shortages as the governments of Argentina and Uruguay imposed strict travel restrictions and outright bans on many types of air travel in March of 2020.

At that time, each of AA2000 and ACI had sizable debt service commitments under outstanding structured notes issued under Rule 144A under the US Securities Act of 1933 (the "Securities Act") as well as locally sourced financing. In March 2020, AA2000 had approximately $350 million aggregate principal amount of Rule 144A notes and $130 million in local bank debt outstanding. Likewise, ACI had approximately $186 million aggregate principal amount of Rule 144A Notes and approximately $17 million in local notes outstanding. In addition to quarterly interest payments with high coupon rates (6.875%), each series of Rule 144A Notes also required sizable quarterly amortization payments.

In April 2020, as the pandemic's severity in Latin America was becoming clear, AA2000 and ACI each had fast approaching payment dates in May and sought to restructure the payment terms of their Rule 144A notes in order to "buy time" and let the pandemic's effects pass. Because it is customary in Rule 144A notes indentures to require unanimous consent from bondholders for amendments that alter the timing or amount of payments due, each of AA2000 and ACI executed the restructuring by offering current bondholders the opportunity to exchange their existing Rule 144A notes for newly issued Rule 144A notes with the needed restructured payment terms (the "New Notes").

For AA2000, its New Notes had

substantially the same terms as its existing notes, except that:

- A portion of the May 2020 interest payment and all of the August 2020, November 2020 and February 2021 interest payments would be paid in kind by increasing the principal amount outstanding on the New Notes;
- Interest, whether paid in cash or in kind, would accrue at a rate of 9.375% until May 2021 (instead of the existing notes' rate of 6.875%);
- Quarterly amortization payments originally scheduled to be paid in May 2020, August 2020, November 2020 and February 2021 would be deferred and added *pro rata* to the remaining scheduled principal payments beginning in May 2021;
- Once during the life of the New Notes, a portion of the New Notes could be redeemed at par up to an aggregate principal amount equal to the total amount of interest paid in kind and principal amount effectively deferred; and
- AA2000's ability to make use of its restricted payments' builder basket and $50 million general basket was conditioned on first having exercised its right to redeem interest paid in kind and principal deferred.

For ACI, its New Notes had substantially the same terms as its existing notes, except that:

- ACI would have the option to pay a portion of interest due in May 2020 and all of the interest due in August 2020, November 2020, February 2021 and May 2021 in kind by increasing the principal amount outstanding on the New Notes;
- Any interest paid in kind would accrue at a rate of 7.875% (instead of the normal 6.875%);
- If ACI elected to pay interest in kind on any payment date, the amortization payment scheduled to be paid in on such payment date would be deferred and added *pro rata* to the remaining scheduled principal payments;
- Exchanging noteholders would receive accrued and unpaid interest to the exchange date on their existing notes in the form of additional New Notes, assuming that the applicable interest rate was 7.870% on such accrued interest;
- A portion of the New Notes could be redeemed from time to time at par up to an aggregate principal amount equal to the total amount of interest paid in kind and principal amount effectively deferred; and
- ACI would not be permitted to make any restricted payments until its debt service reserve account was fully funded and interest amounts paid in kind and principal amounts deferred had been repaid.

Each exchange offer contained several inducements for bondholders to exchange. First, the strongest inducement was the increased interest rate offered on payments made in kind on the New Notes as well as, in the case of ACI, a 1.0% upfront cash payment. Essentially, each company sought to "finance their way out" of the short term revenue crises caused by COVID-19. If bondholders would cooperate to forego short-term payments, they stood to share more in the upside should the companies succeed. Second, each exchange offer had a high minimum participation threshold (75-80%). Third, investors who participated in an exchange offer were required to consent to indenture amendments that stripped the restrictive covenants from the terms of the existing notes. As a result, any bondholder who did not participate faced the risk that an exchange offer would be consummated without them, and they would then hold a lower yielding bond with a smaller trading market and no meaningful covenants. As an added selling point, each exchange offer was conditioned on the respective local debt lenders deferring upcoming principal payments so all creditors would contribute to the short-term liquidity relief.

In the end, each exchange offer was very successful with AA2000 exchanging 86.73% and ACI exchanging 93.60% of their existing Rule 144A notes.

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