SORTINO M&A GROUP

Stonepeak's $3.1bn Acquisition of ATSG

Stonepeak

ATSG Air Transport Services Group, Inc.

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Deal Introduction

On the 4th November, Stonepeak, announced its definitive agreement to acquire Air Transport Services Group (ATSG) in an all-cash transaction for an enterprise value of $3.1billion

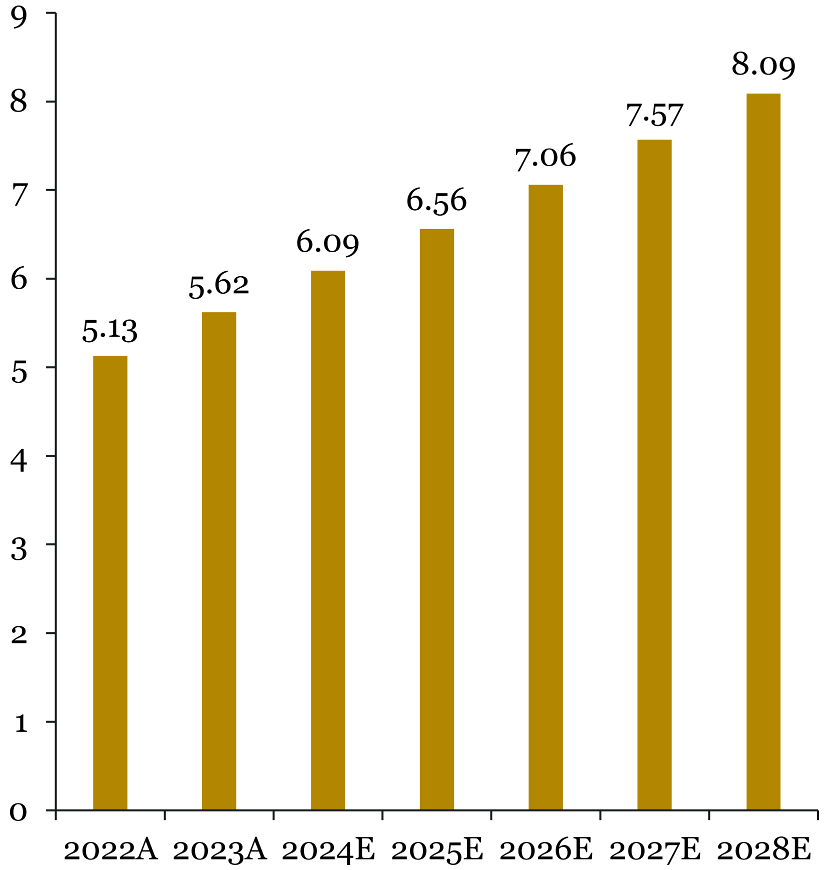
- Stonepeak is expected to pay $22.50 per share, causing ATSG's stock price to jump by 27% to $22 on the day of the announcement
- The transaction is expected to close in Q1/Q2 of 2025 subject to closing conditions, such as a mandatory go-shop period for ATSG lasting until 23rd December.
- Founded in 1980, ATSG provides aircraft leasing and cargo transportation services; ATSG is instrumental in enabling e-commerce growth, where moving cargo by air is vital for e-retailers responding to online shopping traffic and faster delivery times.
- Evercore is acting as financial advisor to Stonepeak and Goldman Sachs serves as exclusive financial advisor to ATSG.
- Simpson Thacher and Hogan Lovells US are serving Stonepeak as their legal advisors and Davis Polk and Vorys, Sater, Seymour & Pease LLP serve as legal counsels to ATSG.

Source: Stonepeak Press Release, Bloomberg

Reasons for Acquisition

"ATSG plays a fundamental role in enabling the growth of e-commerce globally in a world that continues to shift away from brick-and-mortar shopping," - James Wyper, Senior Managing Director and Head of Transportation & Logistics at Stonepeak

Global E-Commerce Sales (in Trillion USD)



E-Commerce

- E-Commerce growth is a key driver behind the Air Cargo sector and is frequently mentioned by ATSG's management and in industry primers and reports. ATSG's core operations concerns the leasing and operating of mid-sized freighters for domestic transport, so their top line is positively impacted by increased air freight volume domestically
- In recent years, large volumes of U.S. air freight stem from China's imports of cheap B2C goods from companies like Temu and Shein. ATSG's conversions and leasing segment (CAM) benefits from the express delivery network's expansion to meet this growing demand
- Cross-border e-commerce share of total air cargo volume: 2017A: 10%, 2022A: 20%, 2027+E: 25-30% - IATA World Cargo Symposium (WCS) 2024
- Express carriers' volume is expected to grow 5.8% per year, compared to 3.6% for general cargo. By 2043, express shipments are projected to account for 25% of all air cargo business, driven by e-commerce sales growth.
- Airfreight shipping volumes are projected to grow at an annual rate of 4%, doubling air traffic over 20 years

The study titled 'The Role of the Top 50 US Cargo Airports and 25 Air Cargo Airlines in the Logistics of E-Commerce Companies' published in *Logistics* by MDPI finds a strong relationship between US cargo airports, air cargo airlines, and e-commerce companies, demonstrated by the COVID-19 pandemic's impact. The study conclusively finds that airports and air cargo carriers are critical partners for e-commerce companies, ensuring speed and reliability in delivery. The pandemic has introduced new demands and opportunities within the aviation and e-commerce sectors.

Source: S&P Global, Boeing, Logistics, IATA, eMarketer

Reasons for Acquisition

"ATSG's deep relationships with some of the world's largest e-commerce companies and integrators, combined with the scale and capacity of their fleet and relentless focus on safety and on-time performance, gives us confidence in the Company's trajectory as a sector leader." - James Wyper, Head of Transportation & Logistics at Stonepeak

Operational Fundamentals

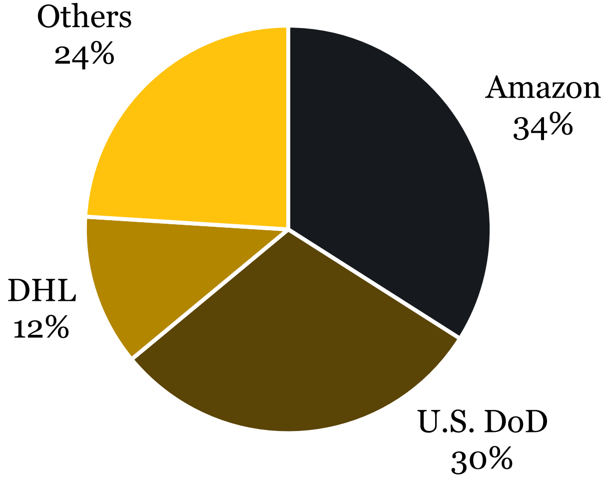
Strategic customers form strong recurring revenues

- Amazon constitutes around 34% of annual revenues as of 2023. The agreement between the two companies is due to be open for renewal in 2026 owner's account for around 30% of consolidated revenues. DHL represents the smallest strategic customer, contributing 12% to ATSG's consolidated revenues
- Amazon have signalled their faith in ATSG by agreeing to fly another 10 further aircraft for them in Q1 2024. Their agreement is newer compared to the other two strategic size customers, with their first contract coming into effect in 2015

Financials

- ATSG has declining historical net income over the last 3 years, but has still had as high as 4x the air cargo industry's net income margins of 2.79%
- It remains since 2022 one of the top 5 most profitable air cargo companies in the U.S. with regards to operating margins
- In 2022 growth CapEx contributed towards a significant reduction of FCF. The conversion process of wide-body and narrow-body freighters is extremely capital intensive, and the company was growing their fleet, so this is unsurprising. When you stipulate a scenario in which the company optimises for profit and not high growth, the price / owners' earnings ratio was around 6.5x, a far cry from the 11.6x P/E they were trading at. The disparity in these metrics is a signal that the company is potentially undervalued, given the level of CapEx that they currently have. It's possible that Stonepeak could slow their growth to improve profitability and generate free cash flow for owners

Customers Share of Revenue (as of FY2023)



Lease+Plus Strategy

- ATSGs business segments are highly complementary, providing a unique competitive advantage. Their primary segment of leasing + conversions (CAM) is well supported by ASCI services (operations, maintenance, ground support etc.) Management has discussed this strategy as providing a 'one stop shop' from which customers can obtain aircraft and the entire suite of necessary services to maintain and operate them. Naturally, given the nature of the industry, high switching costs is also a competitive advantage, which shields ATSG from the risk of losing their large customers

Reasons for Acquisition

COVID-19 has left the air cargo industry vulnerable, and investors are seeking returns

Weak Recent Financial Performance

- ATSG has faced declining EBITDA, operating income and net income since 2021. Its current TTM financials show that the company is currently unprofitable (facing negative earnings). Since the beginning of 2023, their share price continually declined by over 50% to June 2024. Despite these shortcomings, their TTM FCF is positive for the first time since 2021, signalling perhaps to Stonepeak that the business will be able to pay down its debt and increase shareholder value going forward
- If consensus expectations of ATSG's share price followed through, they would have been trading at a 13.2x P/E in 2027, compared to the US Air Transport industry's 12.6x P/E today
- ATSG's Debt to Equity ratio currently just about exceeds 100%. Their sizable debt relative to market cap is a cause for concern considering that it is not well covered by their EBIT

A Particularly Tough 2023

- **Lower Demand in Leasing Segment:** ATSG experienced lower demand in its leasing segment, which impacted its financial performance. This was partly due to fewer leased Boeing 767-200 freighters in service
- **Reduced Military Flying:** Flying for the U.S. military decreased throughout the year, which also negatively affected ATSG's results
- **Increased Expenses:** Higher expenses and fewer block hours flown contributed to a decline in earnings
- **Supply Chain Constraints:** The company faced challenges related to supply chain constraints, which impacted its operations and financial results

Air Cargo Transportation & Aircraft Leasing Industry

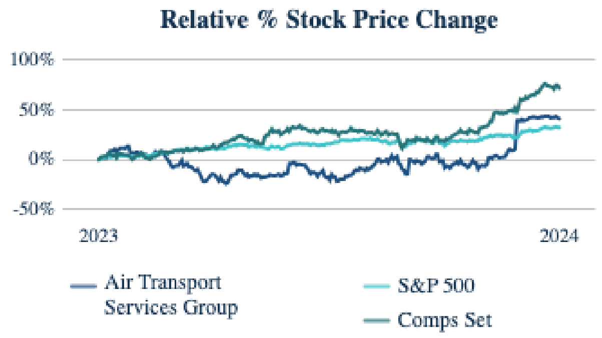
Robust Growth Drivers, Shadowed by Capacity Strains and Geopolitical Risks

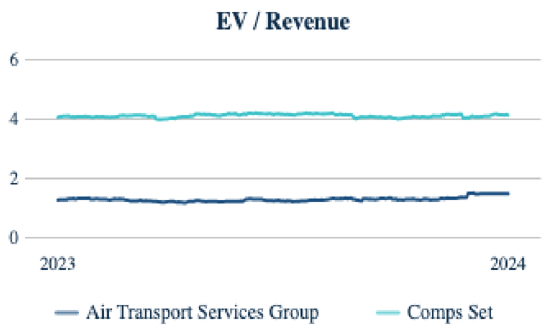
Industry Overview

- ATSG leverages a dual operating model: operating freight aircrafts and leasing freight aircrafts for cargo transportation.
- This involves leasing freighter aircrafts to cargo operators globally under long-term agreements, as well as operating dedicated cargo networks and charter services for major clients such as Amazon Air and DHL.
- With a projected CAGR of 6.5% from 2024 to 2034, the market is expected to reach USD 296.58 billion by 2034. Industry players are set to capitalise on key drivers for resilient growth ahead.
    - **Structural Tailwinds: (1)** surging e-commerce demand globally and **(2)** growing competitiveness against sea cargo transportation alternatives.
- However, companies should remain cautious with several significant headwinds and uncertainties ahead.
    - **Downside Risk Factors: (1)** lingering post-Covid-19 disruptions **(2)** capacity constraints due to aircraft shortages and **(3)** geopolitical risks—such as trade tariffs.

ATSG vs. Rest of the Industry

- **Relative % Stock Price Change:** The industry closely tracks the performance of the S&P 500 but outperformed in late 2024, whereas ATSG lagged behind its industry peers.
- **EV / Revenue:** The industry maintains a steady multiple slightly above 4x, while ATSG lags at, approximately 1.2x likely driven by persistent quarterly revenue declines and poor investor sentiments on company's outlook.





Key Industry Players

FedEx Express, Air Lease Corporation, Cathay Cargo, Atlas Air Worldwide, cargolux, AerCap, DHL Express

**** Atlas Air: a global cargo airline and aircraft lessor, was acquired in 2023 by a private equity consortium led by Apollo Global Management.*
→ signals strong Private Equity interest for this industry, more PE-led acquisitions to be anticipated?

History Recap: An Unfortunate Case of Poor Timing?

- **COVID-19 Pandemic (2019-2021):** the airfreight industry surged to unprecedented highs as businesses sought alternatives to disrupted supply chains.
- **2022-2023:** Collapsing market demand and plummeting freight rates—down 40-50% for much of 2023—drove revenues to historic lows.
- In response, **many all-cargo carriers scaled back operations, deferred aircraft investments, and tightened budgets**.
- For instance, Lufthansa Cargo reported no profit in Q3 2023 compared to $352 million the prior year. Similarly, Air Canada reversed an order for two Boeing 777 freighters, and Cargojet abandoned plans to convert four 777s into freighters. ATSG, facing customer cancellations and declining demand, paused Boeing 767 freighter conversions and dismissed CEO Rich Corrado over continued capital expenditures during a market downturn and underwhelming stock performance.
- **By late 2023, air cargo volumes rebounded sharply**, fueled by rising e-commerce demand for fast fashion and electronics.

- **While this resurgence signals a potential industry revival, many players may struggle to fully capitalize on the recovery due to scaled-back readiness—an unfortunate case of poor timing.**

Source: FACT.MR, Pitchbook

Bright Future Ahead

An Essential Service?

Structural Tailwinds

- **Global air cargo traffic has recovered to pre-pandemic 2019 levels, with profitability returning to the sector following a challenging 2023.**
- From a macroeconomic perspective, moderating inflation and the beginning of interest rate cuts should point to further increase in consumer spending and e-commerce activity.

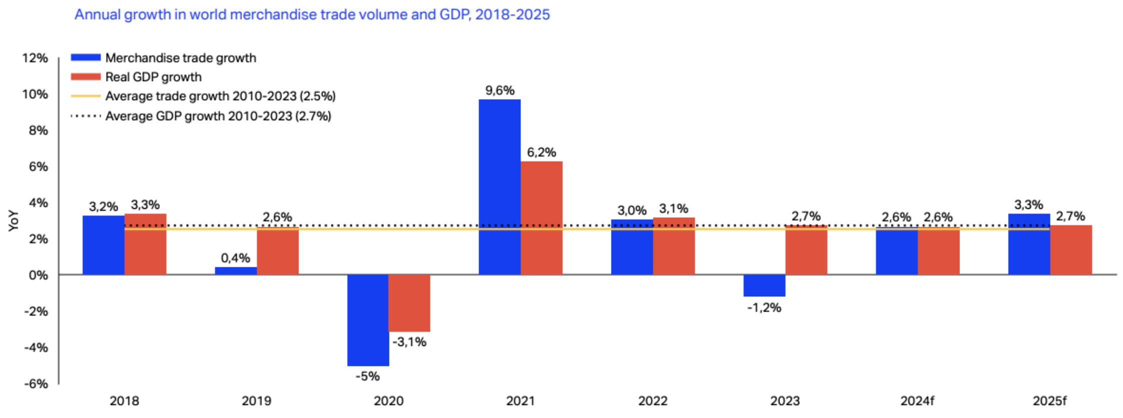
- **Booming E-Commerce:**
- With COVID-19, the adoption of technology and online shopping has accelerated. Given the vast globalisation of supply chains today, manufactured goods now move across borders frequently and air cargo is strategically positioned to capitalize on this trend, offering the speed and reliability needed to meet rising demand.

- **Disruptions in Sea Container Shipping:**
- Renewed disruptions in sea container shipping in late 2023—stemming from issues such as the Red Sea crisis, the Panama Canal drought, and the Baltimore Bridge accident—have highlighted air cargo's strategic advantages. This has brought about a sharp drop in relative air cargo rates over maritime in the first Q1 2024 [as shown in the chart on the right], radically increasing air cargo's competitiveness.

- Additionally, with heightened demand for cross-border delivery services, delays in deliveries has been on the rise. Firms may now opt for air cargo to improve delivery time and manage with higher frequency and volume of deliveries.

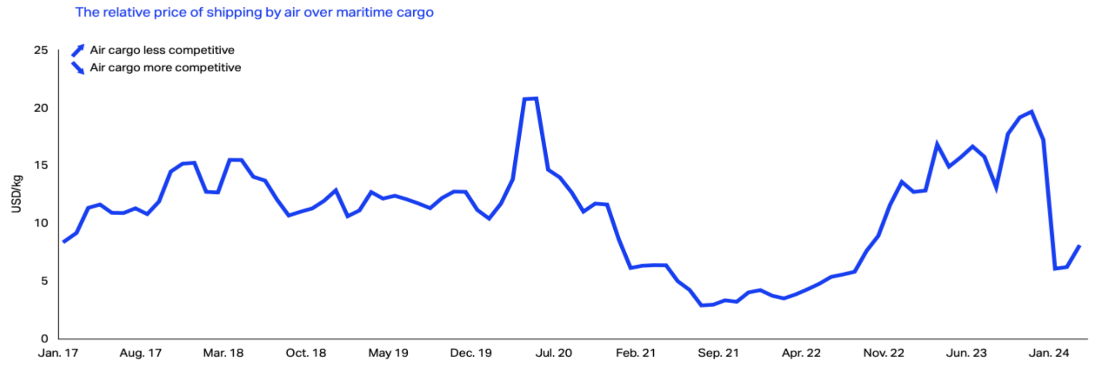
- **Derived Demand from Emerging Industries:**
- The air cargo industry will continue to grow alongside with key emerging industries such as Pharmaceutical, Technology and Electronics, Automotive. These industries rely heavily on fast, reliable, and secure logistics solutions, directly aligning with air cargo's strengths. As these sectors continue to scale, air cargo stands to benefit proportionally.

WTO Projects 3-Year High YoY Growth in Merchandise Trade for 2024, but Warns Considerable Downside Risks to Forecasts



Source: WTO Global Trade Outlook and Statistics, April 2024

Shipping by Air or by Sea? Temporary or a Lasting trend?



Source: IATA Sustainability and Economics, IATA CargoIS, Freightos Baltic Index

Trump-Era Challenges on the Lookout

The Next Few Months Could Alter Industry Trajectory.

Downside Risk Factors

- **Trump's Tariffs:**

- The air cargo sector remains vulnerable to geopolitical tensions, particularly the potential reintroduction or **escalation of tariffs under a renewed "Trump-style" trade regime targeting China and other nations**.
- Although specific details regarding such tariffs are yet to be confirmed, their likelihood appears high, with China expected to bear the brunt of these measures. **Given that a significant portion of e-commerce goods originates from China, such developments could negatively impact air cargo volumes tied to the region.**
    - In response, the industry must adopt a cautious "wait-and-see" approach while remaining agile to capitalize on emerging trends. **Supply chains are actively diversifying away from China, with many shifting to Southeast Asia or reshoring to Europe.** Air cargo operators should position themselves strategically to support these evolving trade routes, ensuring they can **adapt swiftly to changing market dynamics**.

"Goods still have to be made and still have to be shipped to the US. The tariffs and rates, how that will work with e-commerce and on other products, we don't know, but it will happen for sure, that's what [Trump] says."

Jan Krems
President of United Cargo
[U.S. leader in air cargo, with nearly 50% of the U.S air cargo market]

- **Lack of Aircraft Capacity:**
    - **COVID-19 aircraft orders were either on hold or cancelled.** As such, when demand shot back up, there wasn't enough aircrafts to cope with the demand and only then orders were resumed, but it was too late. **This backlog of Covid-19 order has delayed the pipeline of new aircrafts.**
    - Supply chain issues and aircraft quality issues have caused additional delays in deliveries. Due to production challenges faced by Boeing and Airbus, the number of aircraft deliveries scheduled for 2024 dropped to 1,583 from 1,777 reported six months earlier, a fact that implies 11% less capacity added.
    - **Long-term capacity shortages are likely to be a reality soon.**
        - Besides from building new aircrafts, new capacity can be added by aircraft conversions from passenger to freight.
        - However, there's now **limited feedstock for aircraft conversions** with older planes and passenger travel returning thus needing the passenger plane.
        - **2028 emission standards** by the International Civil Aviation Organisation is anticipated to impact freighter availability. **These standards will limit the production of certain aircraft types, likely exacerbating the capacity shortage**. As capacity remains restricted, competition for available space will drive rates higher.

The Leasing Market – a gold mine?

- **The aircraft leasing market is projected to grow at a CAGR of 7.3% from 2023 to 2033, outpacing the overall air cargo industry.**
- Leasing offers significant advantages over purchasing, including enhanced financial liquidity, capacity flexibility, fleet consistency, and reduced maintenance costs. With **almost 60% of most airline fleets usually leased** and a constrained supply of new aircraft, lessors like ATSG and AerCap are positioned to benefit substantially.
- In fact, private equity firms including Stone Peak has gone into this industry for their leasing businesses. It offers **stable, predictable cash flows through multi-year leases**, which are less influenced by short-term market fluctuations.
- Compared to operating the aircraft, **leasing is perceived as a lower-risk business model**, as operational risks—such as securing cargo and meeting service standards—are assumed by lessees.
- **Given these dynamics, the aircraft leasing market is set to be the hidden gem within the air cargo industry.**

Acquirer Overview

Stonepeak is a leading alternative investment firm based in the United States, founded by Michael Dorell and Trent Vichie in 2011. With approximately $70bn worth of AUM, the firm is recognised for its specialisation in real assets and infrastructure investments, focusing on sectors that encourage consistent economic growth and provide essential services. Investing capital on behalf of pensions, endowments and various other institutions, Stonepeak serves the purpose of creating value for stakeholders through growing critical assets that they believe will deliver sustained public benefit (i.e. they are thematic investors).

A cornerstone of Stonepeak's investment is its focus on strong risk-adjusted returns and downside protection – a distinctive quality of any reputable, successful investment firm. The firm seeks to generate value through investment in defensive, hard-asset businesses that lie in its target sectors: *communications, transportation, energy, power, renewables, utilities and water*.

Stonepeak has been a part of the 'Net Zero Asset Managers' initiative since October 2021. Through this, it tackles GHG emissions by aligning a proportion of its portfolio companies with net-zero emissions. As of 2022, Stonepeak aims to establish a portfolio coverage target of 35% by 2030.

The company are currently juggling a diversified, thematic portfolio of 72 businesses across 61 countries. In general, Stonepeak's investment in critical transportation (i.e. ATSG) is spread across the Americas, Europe, and Asia Pacific.

Acquirer Overview

Officers and Directors:

- Michael Dorrell (COTB, CEO and Co-Founder)
- Jack Howell (Co-President, Senior MD)
- Luke Taylor (Co-President, Senior MD)
- Peter Bruce (Senior MD, CFO and CAO)

Related Companies:

- KKR & Co. Inc: 62% similarity
- Blackstone Group Inc: 58% similarity
- Infravia Capital Partners Sas: 56% similarity

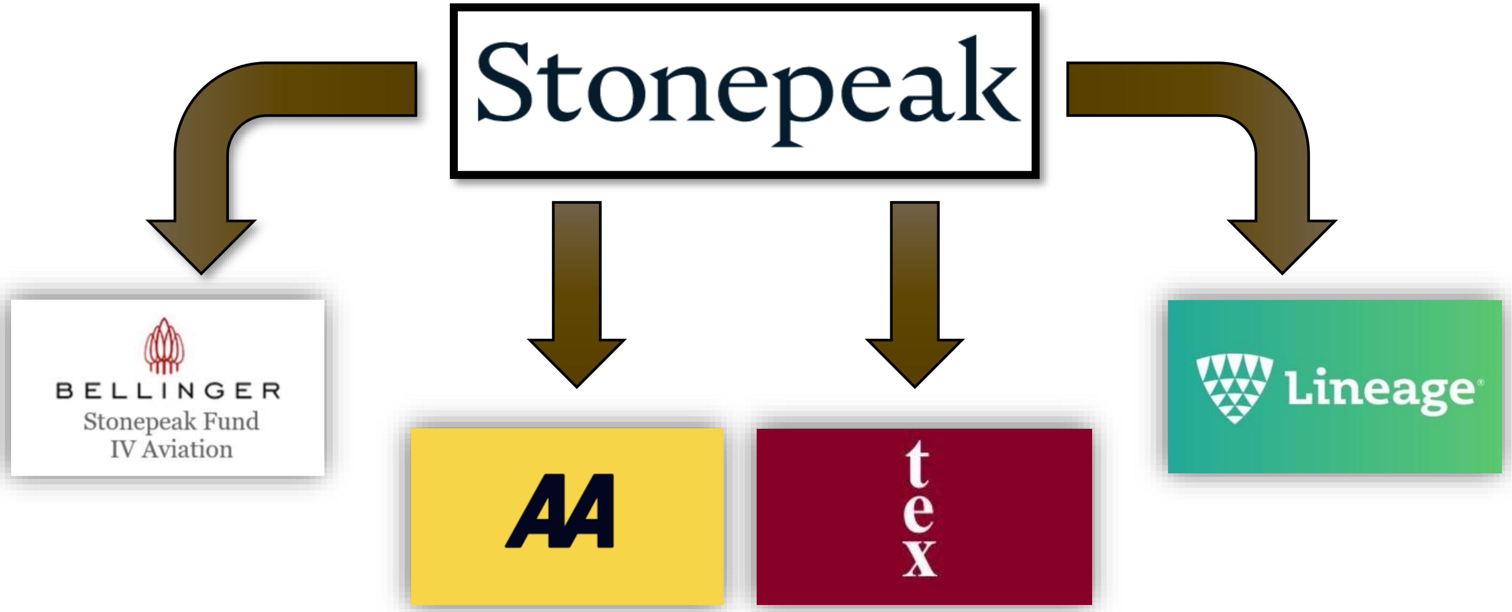
Notable Deals / Projects:

- **Partnership with Bellinger Asset Mgmt. - 'Stonepeak Aviation Platform' (May 2021)**
- **Stonepeak's Investment of £450mn in AA (July 2024)**
- **Stonepeak $7.4bn acquisition of Textainer (October 2023)**
- **Stonepeak's Investment of $700mn in Lineage Logistics (July 2018)**

Stonepeak's acquisition of ATSG demonstrates possible synergies with existing logistics, infrastructure and asset leasing businesses:

Previous acquisition of Textainer Group – Textainer's specialisation in container leasing could nicely complement ATSG's brilliance in freighter aircraft leasing (suggests cross-sector efficiencies in the supply chain).

Investment in Lineage Logistics – LL is a cold storage operator; therefore, synergies could be generated due to the alignment of this with ATSG's role in air cargo (could simultaneously cater to e-commerce demand) – both these investments could potentially support e-commerce businesses such as Amazon, who are a client of ATSG.



Acquirer Overview

Competitors

ACMI Competitors

Firm	Revenue (US$mn)	Destinations	Aircraft fleet size	Largest Customer(s)
ATSG Air Transport Services Group, Inc.	$471	Unknown	134	DHL, Amazon, US Department of Defense
AERCAP	$1950	80	1,722	American Airlines, China Southern Airlines, Azul Airlines
AIR LEASE CORPORATION	$690	59	832	Eva Air, Virgin Atlantic, KLM Group

"While some lessors focus on scaling their fleets to climb industry rankings, we focus on disciplined capital allocation and shareholder returns, which differentiates us from competitors prioritizing fleet size."

Mike Berger
CEO of ATSG
[Extracted from the 2023 ATSG Earnings Call]

CAM Competitors

Firm	Revenue (US$mn)	Destinations	Aircraft Fleet Size
AmeriJet International Airlines	542	38	48
Kalitta Air	4550	70	107
Atlas Air Worldwide	277	14	29

Relative Performance in 2024

Dec 2024
ATSG ($21.9)
AERCAP ($95.6)
AirLease ($49.42)

Source: Refinitiv

Valuation Analysis

A DCF model was used to assess the implied valuation of ATSG, in the eyes of Stonepeak.

Unlevered Free Cash Flow (USD $, m)					
Fiscal Year	2024A	2025E	2026E	2027E	2028E
Unlevered Free Cash Flow	811,962	712,706	815,088	891,720	915,263
EBITDA	493,922	592,699	669,279	696,062	711,652
Projection Year	1	2	3	4	5
Present Value of Free Cash Flow	747,509	604,047	635,983	640,546	605,269

Sensitivity Table

WACC	EV/EBITDA (x) 3.8x	4.8x	5.8x	6.8x	7.8x
6.6%	$47.49	$53.45	$59.40	$65.36	$71.32
7.6%	$45.11	$50.79	$56.48	$62.16	$67.85
8.6%	$42.84	$48.26	**$53.69**	$59.12	$64.55
9.6%	$40.67	$45.86	$51.04	$56.22	$61.41
10.6%	$38.61	$43.56	$48.52	$53.47	$58.42

Implied Share Price Calculation	
Sum of PV of FCF	3,233,354
EV/EBITDA Muliple	5.8x
WACC	8.6%
Terminal Value	3,267,488
PV of Terminal Value	2,160,807
Enterprise Value	5,394,161
(+) Cash	53,555
(-) Debt	1,762,282
(-) Minority Interest	-
Equity Value	3,685,434
Diluted Shares Outstanding (K)	68,641
Implied Share Price	**$ 53.69**

Model Assumptions and Notes

- An EV/EBITDA multiple of 5.8x was used, mimicking the conditions of the Stonepeak acquisition.
- As ATSG's revenues bore a similar growth rate to their CAGR, we had projected the line items growth as a percentage of revenue. The growth in projected operating expenses were also increased until ATSG is able to find alternative suppliers within the United States to avoid the additional tariff cost. in 2024-2025 and 2025-2026 due to the universal tariffs from president Donald Trump. As ATSG As one of ATSG's two main aircraft component vendor's are located in Israel, the tariffs would significantly increase import costs of components for their operations. Due to the nature of aircraft components requiring assembly and back and forth shipments, it is likely that component sub assembly will become more expensive hence increasing OPEX. The cost of debt was found to be 8.18% and the cost of equity was 9.19%, which led to a WACC of 8.6%
- The Implied Share price after 5 years of projections came out to $53.69. assuming the above assumptions. The high valuation may be seen as overly optimistic, however Stonepeak's low entry point and potential to synergise ATSG with its other portfolio companies has significant cost cutting and operational efficiency potential.

Notable Business Risks

Variables that pose a threat to ATSG's current business strategy

Regulatory and Compliance Risk

- ATSG must maintain operational certifications and comply with regulations from the DOT, FAA, TSA, and other US government agencies which are subject to change.
- Non-compliance could lead to fines or operational suspensions. Additionally, evolving environmental regulations pose cost risks, including emissions standards and safety maintenance requirements that may require fleet wide operational changes and increased inspections.
- Sustainable aviation fuel mandates, carbon offset programs, and emissions trading schemes further add to rising expenses.
- Exacerbating these challenges, a proposed tariff increase on key commodities and aircraft components as outlined in Trump's policy plans, threaten ATSG's ability to maintain low cost structures.

Third Party Reliance Risk

- Commercial to cargo aircraft conversion operations are heavily dependent upon foreign manufacturers.
- Boeing and Israel Aerospace Industries are their two primary vendors for aircraft covnersion operations
- As they are located in Israel, the Israel-Hamas conflict may create labour shortages, supply chain disruptions and lack of component availability. This may push contractual obligations further back, risking the cancellation of key contracts with large customers.

Operating risk

- Costs included in the provision of airline services such as crew productivity, maintenance and aircraft reliability have potential to exceed contractual costs if projections are inaccurate, for example a shortage of pilots and mechanics.
- ATSG's dependence on primarily Boeing 767's increases their vulnerability to technical issues and delays in repairs can lead to additional contractual costs.
- ATSG's contractual obligations include on time reliability requirements, which upon being breached may lead to customer contract termination or other financial liabilities.

Customer Concentration Risk

US Department of Defense

- Since 1995, ATSG has secured yearly 1 year contracts with the department of defense, representing a reliable customer.
- ATSG provides passenger and cargo transportation for the Air Mobility Command. Though they are not sole providers as there are other corporations operating under the "Patriot Team of CRAF airlines".
- The department of defense has provided 30% of all revenues as of 2023. With Trump's second term underway, it is very likely for the U.S defense budget to increase due to his emphasis on "Military readiness" and potential reduced financial support towards Ukraine.
- His "America First" approach and influence of defense hawks have emphasized a redirected spending from overseas operations to internal defense prioritization. This would translate to a low likelihood of the US DOD contracts faltering anytime soon.

DHL

- As stated by ATSG, they are the sole providers of aircraft leasing to DHL. Multi year contracts have been made since 2003 with DHL
- They provide and operate 13 Boeing 767's for DHL.
- In 2022 DHL had agreed to another 6 year extension with ATSG until 2028. DHL's contracts had made up 12% of ATSG revenues in 2023.

Amazon

- Since 2015, ATSG has provided aircraft services to Amazon including logistic support services, flight operations, ground staff and flight operations.
- ATSG's current contracts with Amazon run until 2026 and are then subject to renewal for 3 more years.
- ATSG currently leases and operates 37 Boeing 767's to Amazon. Revenues from these contract's make up 34% of ATSG's revenue.

Legal and regulatory perspective of the transaction

Strategic Transactional Considerations: Costs, Counter-Offers, and Shareholder Value

Long-Term Cost Benefits of Going Private: Regulatory and Fixed Expenses

- One of the long-term advantages of taking a company private is the significant reduction in legal and regulatory expenses associated with SEC filings. By eliminating the need for filings, as well as avoiding Nasdaq fixed expenses like annual listing fees, the company can save approximately $2 million annually in fixed costs and general & administrative (G&A) expenses.
- While these savings will be initially offset by delisting legal and regulatory expenses in 2025, the cost benefits are expected to take effect starting in 2026, or as early as Q3/Q4.

Revenue from Business Activities - Total	**2.070,6**	**2.045,5**	**1.734,3**	**1.570,6**	**1.452,2**	**892,4**	**1.068,2**
Operating Expenses							
Cost of Operating Revenue	1.324,9	1.290,1	1.087,6	957,9	857,3	524,7	602,5
Cost of Revenues - Total	1.324,9	1.290,1	1.087,6	957,9	857,3	524,7	602,5
Cost of Revenues - Unclassified	17,49	16,58	14,24	12,47	11,18	5,97	22,27
Depreciation in Cost of Revenues	343,0	331,1	308,5	278,1	257,5	178,9	154,6
Labor & Related Expenses including Stock-Based Compensation in Cost of Revenues	685,9	667,0	591,3	519,0	433,5	300,5	276,1
Material Expenses	278,5	275,5	173,6	148,4	155,0	39,29	149,6
Utility Cost of Revenue - Fuel Expense	278,5	275,5	173,6	148,4	155,0	39,29	149,6
Gross Profit - Industrials/Property - Total	**745,7**	**755,4**	**646,7**	**612,7**	**594,9**	**367,7**	**465,7**
Selling, General & Administrative Expenses - Total	382,8	314,2	296,3	285,9	284,9	206,4	187,4
Selling, General & Administrative Expenses - Unclassified	138,4	121,7	99,19	87,29	98,71	45,82	32,21
Operations & Maintenance (Utility)	212,8	162,1	173,4	179,3	170,2	146,7	141,6

- As can be noted, the above were consistently growing also due to high compliance and regulatory costs typical of the sector and contracting with large customers whose contracts bargaining costs may be high. In this regard, even an estimated 2m/year reduction in the next years is beneficial.

Counter-Offer Expectations During Go-Shop Period

- Rumors of counter-offers are likely to materialize, potentially increasing the transaction price or leading to adjustments in the original agreement. Ensuring fair shareholder premium compensation will be a critical concern.
- The go-shop period, ending either December 8 or 23, 2024, permits the company to entertain third-party proposals with better terms. Given the high probability of a superior counter-offer, the final outcome may hinge on balancing these proposals against Stonepeak's expertise and the transaction's complexity.

Significant Shareholder Gains: A Premium-Backed Delisting

- The delisting offers shareholders a substantial premium, with a purchase price of $22.50 per share. This represents a 29.3% premium over ATSG's closing share price on November 1, 2024, the last full trading day before the announcement, and a 45.5% premium over the volume-weighted average price (VWAP) of the past 90 trading days. This transaction enhances liquidity for major institutional shareholders, including BlackRock, Vanguard, and Amazon.

Potential Antitrust concerns and delays

- Potential delays or challenges to the transaction could arise from concerns by the US Department of Defense (DoD) or the Committee on Foreign Investment in the United States (CFIUS) over strategic national interests, as the company's second-largest customer in 2023 (30%) was the US Military. However, since both entities involved are US-registered and operate domestically, the risk of an impasse remains low.
- Antitrust concerns from the Federal Trade Commission (FTC) are also unlikely, as the acquiring firm, Stonepeak, manages a diversified portfolio and is investing in ATSG for its growth potential with Amazon and e-commerce, rather than dominating the sector—unlike past cases, such as a blocked Lockheed Martin acquisition of Aerojet Rocketdyne Holdings Inc.

Deal Analysis outlook on the ATSG-Stonepeak Acquisition

Risks, Rewards, Future Opportunities: SWOT Analysis

STRENGHTS

•Projected $2M annual savings in G&A expenses from reduced SEC filings and Nasdaq fees starting 2026, enhancing profitability.

•Shareholders gain a 29.3% premium over the November 1, 2024, closing price and a 45.5% premium over the 90-day VWAP, benefiting major institutional stakeholders like BlackRock, Vanguard, and Amazon.

•Both entities being US-registered minimizes risks of delays or objections from regulatory bodies like DoD, CFIUS, or FTC.

•Stonepeak's diversified portfolio and ATSG's e-commerce growth (major client: Amazon) position the acquisition to capitalize on the expanding logistics and transportation sector.

WEAKNESSES

•Initial delisting legal and regulatory expenses in 2025 will offset financial benefits until late 2026.

•Leveraged buyout and take-private structure add financial and operational complexity.

•High dependency on Amazon and the US Military (30% of 2023 revenue) introduces concentration risk, though these customers are financially stable.

•Some shareholders may challenge the per-share price proposed by Stonepeak, although the go-shop period is nearing its end with no updates on counter-offers.

SWOT

OPPORTUNITIES

•Reduced regulatory obligations allow resource allocation to strategic initiatives, such as enhancing e-commerce logistics.

•Private ownership can drive cost optimizations and financial performance, positioning ATSG for a higher valuation exit.

•Freed from public shareholder pressures, ATSG can focus on diversifying its customer base and negotiating long-term contracts. ESG and CSR concerns will be less relevant, allowing greater operational flexibility once the company is private.

•The go-shop period provides a window for potentially better offers, ensuring stakeholder value maximization.

THREATS

•Potential objections from DoD or CFIUS, though unlikely, due to ATSG's military contracts and sensitive data access.

•Counter-offers during the go-shop period could slightly increase costs or delay the transaction.

•Macro-economic changes, such as interest rate fluctuations or e-commerce growth slowdown, could affect ATSG's performance post-transaction.

•Dependence on Amazon and the US Military creates vulnerability to revenue disruptions if these relationships weaken.