

Summary of How We Got Here:

The core thesis is the merger with JetBlue Airways (Ticker \$JBLU) which was announced on July 7, 2022. So let's get to the key points there before some light commentary on this special situation of fun and profits.

- All cash deal presented at \$31/sh from Jetblue originally in the Summer of 2022 when the stock was trading at low \$20/sh.
- Bidding war with Frontier Group (\$ULCC) - \$JBLU wins with a new \$33.50 all cash offer (nice) + a \$400 million breakup fee (not nice) and a \$2.50 special share dividend for Spirit shareholders on approval, and wait there's more, \$0.10 ticking fee that started January 2023
- The stock has traded relatively in a tight range this year, even below the original deal announcement
- The DOJ has sued to block the deal with the trial having started Oct 16, 2023

The Current Situation: The stock drop of -50% at the end of October.

The merger aside, the stock suffered a terrific drop in price post earnings but before that had a few issues we need to dive into because there is an issue with the overall thesis if the deal breaks (it could, but likely does not).

- October 20: flights canceled with inspection of 25 planes for signs of cracking around fasteners - [article here](#).
- Net loss of \$157.6 million or \$1.44 per diluted share
- Weaker demand and some adjustments made



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Spirit Airlines Reports Third Quarter 2023 Results

MIRAMAR, Fla., October 26, 2023 - Spirit Airlines, Inc. ("Spirit" or the "Company") (NYSE: SAVE) today reported third quarter 2023 financial results.

	Third Quarter 2023 (unaudited)	
	As Reported	Adjusted ¹
Total operating revenues	\$1,258.5 million	\$1,258.5 million
Operating income (loss)	\$(188.8) million	\$(178.6) million
Operating margin	(15.0)%	(14.2)%
Net income (loss)	\$(157.6) million	\$(149.8) million
Diluted earnings (loss) per share	\$(1.44)	\$(1.37)

"Softer demand for our product and discounted fares in our markets led to a disappointing outcome for the third quarter 2023. We continue to see discounted fares for travel booked through the pre-Thanksgiving period. And, unfortunately, we have not seen the anticipated return to a normal demand and pricing environment for the peak holiday periods. Given these continued trends, we are evaluating our growth profile and our competitive position. We have already taken the first steps by modifying the cadence of our aircraft deliveries through the end of the decade and slowing our capacity growth in the near term. We continue to believe merging with JetBlue and creating a viable competitor to the Big Four US airlines is in the best interest of consumers, Team Members, and shareholders. We are prepared to make the necessary strategic shifts to enable Spirit to compete effectively in this new demand backdrop," said Ted Christie, Spirit's President and Chief Executive Officer. "Our Team Members are among the best and most innovative in the industry. I am confident that whether the Spirit of tomorrow is different from today or whether the aircraft tail says JetBlue or Spirit, their dedication to take care of our Guests and each other will not change."

Third Quarter 2023 Financial Results

For the third quarter 2023, Spirit reported a net loss of \$157.6 million, or a net loss of \$1.44 per diluted share. Excluding special items, adjusted net loss for the third quarter 2023 was \$149.8 million¹, or an adjusted net loss of \$1.37 per diluted share¹.

For the third quarter 2023, Spirit reported a pre-tax loss of \$203.6 million and a pre-tax margin of negative 16.2 percent. Adjusted pre-tax loss for the third quarter was \$193.5 million¹ and adjusted pre-tax margin was negative 15.4 percent¹.



This drop post Q3 earnings presented the best time to begin acquiring shares and select duration calls. Unfortunately, at that time I was unwinding housing shorts from later Summer so this passed by me.

So that is how we got here to this point.

Let's move on to where we are taking off (nice) in the future.


The Case for \$20/share

Originally, this was never on my radar even though I did see the announcement a while ago, it just becomes hard to speculate on deals like this because of the time to completion, and like we've seen, litigation.

After-all, event-driven and special situations are where a lot of money is made, if understood thoroughly and also (probably more importantly) structured correctly from the execution standpoint - a part that many amateur day-traders and trading indicator enthusiasts tend to fall short on.

But this was brought to me by an investor who many have called (in certain social circles) "The Oracle of Southlake" - and this began to make sense the more that I looked at it.

November 15, 2023 - Tweet on the @TheLongVol Twitter Posted

The LongVol 
@TheLongVol Promote ...

As **\$SAVE** gaps up pre-market a few new technical notes to consider on this - this is a catalyst/fundamentally driven long idea but a lot of technical damage done so this matters.

- ✓ \$10.50-\$11.50 will slow price/be met with resistance
- ✓ If we sell off there as long as \$9.50 holds that's fine.

A spec situations trade was issued in **#DeltaOne** on this yesterday - to be clear we expect this to be a 60+ day idea, not 1 week.

[#stockmarket](#) [#thelongvol](#) [#trading](#)



6:27 AM · Nov 15, 2023 · 5,578 Views

While this is not a technically motivated investment, it does matter (and did) - and given the dramatic selling pressure the stock saw post-earnings the \$10.50-\$11.00 a share mattered.

This area will matter in the future if we see downside selling pressure, which there could be as you'll see below.

\$20/Sh Target - How do we get there and why is this a 'fair value'

In any deal like this there are unknowns that cannot be accounted for (which originally kept me on the sidelines as stated above).

4 Week Trial & Decision- The trial was intended to be four weeks but here we are at week 4 and there are a few days left in this. This is a bench trial, no jury so we're going to get a decision soon: maybe next week maybe next year.

You can read the DOJ & Spirits bullet point defense points [here via Bloomberg Law](#).

choose flights to get there."

No Jury

- The trial is slated to last another four days before US District Judge William G. Young, who was nominated by former President Ronald Reagan in 1985. There isn't a jury. The proceedings are being heard as a bench trial, meaning Young will rule on whether the sale should be permitted to proceed.

The case is US v. JetBlue, 23-cv-10511, US District Court, District of Massachusetts (Boston).

--With assistance from Marv Schlangenstein

So the first question to be asked is: "What happens if the merger is ruled against?"

My view: If we do see that ruling then this puts the Company back into where it was trading post earnings and where the stock price area (listed above on the Tweet) comes into play once again.

The Company, if that happens, is still in a bad position because it is one of the most levered airlines and net debt has increased several years in a row. And even with a potential financial payment from Pratt & Whitney for the engine issues it still makes this a tough name to own.

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we are taking action. In addition to evaluating different strategies to drive higher revenue per departure, we have identified \$100 million of structural cost reductions and are evaluating how best to capture those savings in 2024," said Scott Haralson, Spirit's Chief Financial Officer. "Our team is resilient and nimble, and we are committed to returning Spirit to sustained profitability."

Fleet
During the third quarter 2023, Spirit took delivery of three new A320neo aircraft and five new A321neo aircraft, retired four A319ceo aircraft and ended the quarter with 202 aircraft in its fleet.

Neo Engine Update
Pratt & Whitney recently notified the Company that all the geared turbofan (GTF) neo engines in Spirit's fleet, including the engines slotted for future aircraft deliveries, for a yet undetermined period, are in the potential pool of engines subject to the inspection and possible replacement, of the powdered metal high-pressure turbine and compressor discs. Pratt & Whitney has provided an initial analysis on an inspection and removal schedule for these engines. Based on this analysis, for the fourth quarter 2023, Spirit anticipates an average of 10 neo aircraft will be grounded. For 2024, Spirit assumes the average number of grounded neo aircraft will climb steadily from 13 in January to 41 in December, averaging 26 grounded for the full year 2024. This expectation drives a dramatic decrease in the Company's near-term growth projections. For the full year 2024, Spirit estimates capacity will range between about flat to up mid-single digits compared to the full year 2023.

The Company has begun discussions with Pratt & Whitney regarding fair compensation for financial damages related to the GTF neo engine availability issues; however, the amount, timing and structure of the compensation that will be agreed upon is not yet known.

Liquidity and Capital Deployment
Spirit ended third quarter 2023 with unrestricted cash and cash equivalents, short-term investment securities and liquidity available under the Company's revolving credit facility of \$1.2 billion.

And to be clear - if there is no deal, this stock does not have my interest anymore primarily because capital is better allocated in other ideas especially with what I believe 2024 outlook in markets to be.

The second question to be asked: "What if the merger is approved, what then?"

My view: If the merger is approved we then potentially face a revision in the deal price. This is not an opinion, I am merely stating what has already been brought to the table - and to be clear, an opinion I agree with.

[Airline Weekly - November 1, 2023](#)

"In light of punishing fundamentals and sub-\$5 share prices, we believe JetBlue and its board would be remiss in not pursuing revised deal economics," J.P. Morgan analyst Jamie Baker wrote on Wednesday. His reference to "sub-\$5 share prices" referred to what many think the price of Spirit shares could fall to.

It's hard to see a world wherein the DOJ loses that this is then not brought up by bankers, further hindering the merger deal price.

So who really knows what price this will get purchased at though I hope it does become \$30-\$33 the 'safer " bet is to target \$20.

If there is an approval, I'd fully expect the stock reaction to have an initial "pop" into \$16-\$20 based on some factors.

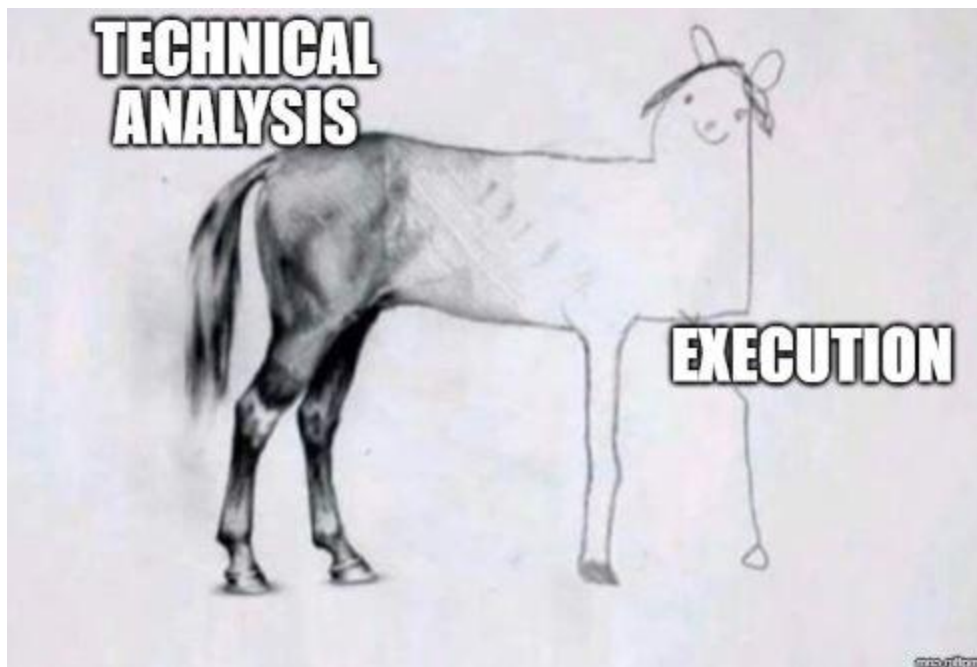
Trading Strategies and Execution

While I know many in “high finance” shun technical analysis, I don’t. In fact, I believe it is an absolutely necessary application whether that’s: special situation investing, event-driven, commodities ... whatever it may be, it has a purpose.

The legend Uncle Stan Druckenmiller agrees -

Another discipline I learned that helped me determine whether a stock would go up or down is technical analysis. Drelles was very technically oriented, and I was probably more receptive to technical analysis than anyone else in the department. Even though Drelles was the boss, a lot of people thought he was a kook because of all the chart books he kept. However, I found that technical analysis could be very effective.

While this is important, so is context, especially in special sits/event-driven trading. More often than not many managers, and amateur investors alike, get it wrong in that the technical analysis is correct but the execution is flawed.



That being said, there are several approaches to the trade, however at this point in the storyline this becomes a binary event/outcome because we are now awaiting a decision.

Prior to the +50% move off the low from last week this is how I expressed the long view:

I purchased shares and calls with DEC & JAN expirations with varying strikes from \$10-\$25 strikes. I sold the majority of the equity into \$12 and held the calls.

The issue with expression of the trade, at this point, is that the implied volatility on the options across all expirations has increased dramatically which has priced in the move based on the DOJ ruling. Some chains have IV higher than +180%!

So the question becomes "is it even worth it at this point?"

Depending on your stance and risk that is a question that has to be asked and for me that answer is a yes. But the key thing in all of this is that this is a special-situations investment and I treat the risk as such - hence selling the majority of the shares off the initial move and keeping long calls as the way to express the long view.

In portfolio management "going all in" is something that is going to cause an implosion and at this point in the storyline it is a binary event/trade. Long equity makes sense with those who are believers in the positive ruling while those who are non-believers are left with paying for overpriced insurance in the form of put options.

I'd normally venture into selling puts on something like this as a way to express the long view but given the lack of premium and potential asymmetric upside on the decision the long equity/long call expression is best for me.

Conclusion:

Special situations investing is hard, especially when the DOJ is involved.

But Spirit and JetBlue have done a great job to make things happen that should free up a positive ruling for the stock so that this merger can happen.

In fact, it needs to happen for the sake of the airline industry at large, in my view.

This is the state of the Company at this point and if the DOJ rules in favor of this there is likely a part two to this analysis because the trade dynamics likely do change then which present opportunity, again.

If they rule against Spirit then the loss is capped to the price of the calls, remaining shares against the prior sold gains on the initial move.

Thanks for reading.