

**We invest in winners.** This means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

### Deutsche Lufthansa AG Bond 2021 (27)

Lufthansa is an aviation group with operations worldwide, with 105,000 employees and more than 300 subsidiaries and affiliates. The Group's business segments Network Airlines, Eurowings and Aviation Services generated revenues of EUR 17 billion in the past financial year. Lufthansa can look back on an eventful history since it was founded in 1953, with plenty of highlights as well as a number of serious crises. The air transport industry is facing extremely complex and costly challenges that demand a high level of investment. Despite its dominant market position, the Group regularly fails to earn its cost of capital. Exogenous shocks such as soaring oil prices and air traffic disruptions caused by strikes, terrorist attacks, volcanic eruptions and pandemics are a regular source of pressure on financials. The company actually faced the threat of bankruptcy in 1991 and 2020. State aid worth EUR 9 billion bailed out Lufthansa during the coronavirus pandemic. All of these government loans and investments have now been repaid. The last set of conditions ended with the Economic Stabilization Fund's sale of its remaining stake in Lufthansa in September 2022. The airline is now back in the black and its debt burden has been significantly reduced. The situation was eased last year by a capital increase aimed at restructuring the company, which raised

around EUR 2 billion, much to the frustration of the existing shareholders. This business model does not make the company a winner in terms of a long-term equity investment. Nevertheless, the capital increase is a positive event which directly strengthens the position of Lufthansa's creditors.

Accordingly, following a historic downturn on the bond markets, we focused on a EUR 0.9 billion bond issued by Lufthansa on 16 November 2021 with an institutional denomination of EUR 100,000.00, which is part of a EUR 10 billion Debt Issuance Programme (DIP). The bond will reach maturity at full par value on 16 November 2027. The coupon is 2.875%. The prospectus excludes any reduction in the nominal value or a coupon default if Lufthansa suffers another year of losses. We acquired a nominal bond volume of EUR 50 million in November at 85% of par value. This represents a yield of 7.0% p.a. until maturity in five years. The trading price today stands at 88%. Standard & Poor's raised the rating a few days ago from BB- with stable outlook to BB with positive outlook due to Lufthansa's positive operating performance and solid financials, while raising its EBITDA forecast for this year by EUR 1 billion to as high as EUR 3.6 billion. We expect another positive rating trigger in the BBB range (investment grade) in the year ahead and that current risk spreads will continue to narrow.

Sincerely yours



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