

Spirit airlines

[Environment](#), [Air](#)



Thomas Line Advanced Managerial Finance IPO Paper Spirit Airlines This paper will be about an IPO that was filed by Spirit Airlines for \$300 million dollars in September of 2010. According to [www. marketwatch. com](http://www.marketwatch.com), Spirit Airlines is the first airline to go public in 3 years. The last airline to go public before Spirit was Gulfstream International group in December 2007. Spirit plans to use half or 150 million for cash reserves , working capital, and other corporate purposes. The other 150 million of the IPO will be used to terminate a service agreement that Spirit Airlines had with Indigo Florida LP which totals 1. 6 million.

Spirit will pay 450 thousand dollars to three individual stockholders. The rest of the \$150 million will be used to pay any unpaid commitment fees and to pay down debt held by their principle stockholders, Indigo and Oaktree Capital Management. Indigo and Oaktree provide Spirit Airlines with guarantees of \$11. 8 million in credit facilities In 2004, Oaktree invested funds and changed Spirit's business strategy as a low cost carrier. According to Market Watch, Spirit Airlines represents less than 1% of annual passenger traffic in the U. S. Spirit Airlines currently provides service to the East coast, Caribbean, and Central America.

In 2009, Spirit Airlines posted a profit of 83. 7 million which is 3. 18 a share. In 2008, Spirit had a profit of 33. 3 million which was 1. 29 a share. Spirit Airlines has not reported a loss since 2006. However, the first six months of 3009 had reported losses because of spiking fuel prices. The first six months of 2009, passenger revenue decreased 18% but non-ticket revenue increased 26%. Since Spirit was redefined as a budget airline in 2006, they have reduced their cost structure to one of the lowest in the United States, <https://assignbuster.com/spirit-airlines/>

while unbundling their service from its base fare to charging separately for seat selection and baggage.

By using these efforts, Spirit was able to cut their ticket prices 40% and increase profit. Spirit also became the first airline to charge for carry-on baggage in April 2009. Marketwatch. com seems to believe that the airlines seem to have a bright future . They state than in 2008, the airlines were forced to retire a lot of their older jets due to skyrocketing fuel prices and greatly reduced business travel because of a worldwide recession. By 2010, according to Market Watch, airlines were expected to earn profits of 2. billion which was predicted by the International Air Transport Association who claims that revenues have increased 13%. According to Market watch, analysts are speculating that eventually the airline industry will evolve into 2-3 major carriers who will serve mostly long international routes and low cost carriers such as Spirit and Southwest will be feeder airlines from regional areas into the major hubs. This information came from Market Watch. com. Here is the link to the website. [http://www. marketwatch. com/story/spirit-airlines-files-for-a-300-million-ipo-2010-09-20-1145110](http://www.marketwatch.com/story/spirit-airlines-files-for-a-300-million-ipo-2010-09-20-1145110)

Spirit Airlines was founded in 1964 as Clippert Trucking Company. In 1974, they changed their name to Ground Air Transfer and in 1983 to Charter One a Detroit based company providing travel to Las Vegas and the Bahamas. The final name change to Spirit Airlines came in 1992. At this point, they Bought jet airplanes into providing travel to Fort Lauderdale which is their main base point, Myrtle Beach, Detroit, and Los Angeles. They moved to

their current headquarters in Miramar Florida in December of 1999 and added service to Chicago and coast to coast service to Los Angeles.

Since 2001, service has expanded to Puerto Rico, Mexico, Domingo Republic, and Washington DC. In 2007, Spirit started providing service to Latin America. Starting this year, they are now providing service to New York, Niagra Falls and Dallas, Texas Lastly, in 2004 Spirit Airlines transitioned its aircraft to all Airbus aircraft. With this strategy, they believe they can keep costs down by burning less fuel with smaller more efficient air craft. This information was provided from a link on their website. Here is the link.

<http://www.spirit.com/Content/Documents/en-US/Spirit%20Airlines%20History.pdf>