WOW Air Bankruptcy (Mar 2019)

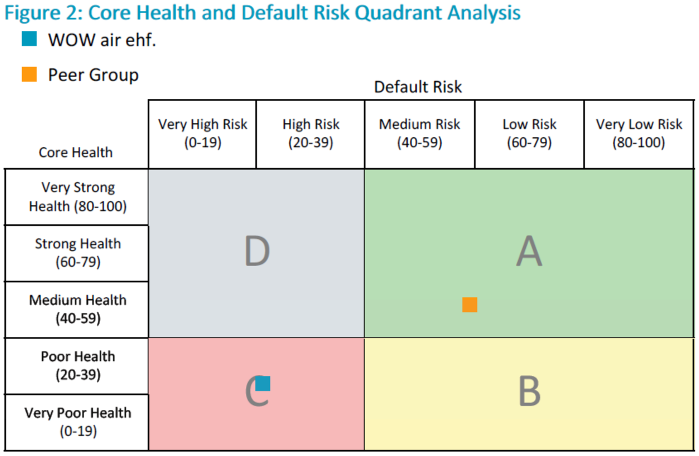
Wow Air, an Icelandic budget airline, canceled all flights and ceased operations on March 28, 2018 with an FHR of 21, **High Risk**. This collapse left travelers stranded at the airports with no warning. Their bankruptcy followed a series of airline shutdowns in Europe as the aviation industry expanded too quickly. Wow Air faced numerous struggles over the past few years, such as, increasing oil costs, stricter payment terms, and failed sales and mergers from which they were expecting revenue.

FHR at default: 21, High Risk

What the ratings tell you.

Wow Air's [FHR](#) dropped 59 points from 2016 -2017 and continued to decline in 2018, clearly signaling the need for risk mitigation. Their FHR is at the bottom of High Risk with an Estimated Probability of Default of 9.4%. With a poor Core Health Score (CHS) of 24 and FHR of 21, Wow Air is placed in Quadrant C. These companies are the riskiest as both their medium-term and short-term outlook are negative. The sector average is well positioned in Quadrant A.

Figure 2: Core Health and Default Risk Quadrant Analysis



Quadrant C: These companies demonstrate poor to very poor Core Health (suggesting the need for efficiency improvements) combined with a high to very high risk of default over the next year.

The *Core Health Score (CHS)* is a measure of medium-term sustainability based on operational efficiency and competitiveness.

The *Financial Health Rating (FHR)* is a measure of default risk in the short- term. It is derived from Core Health and Resilience analysis, which incorporates a company's facility to meet internal and external obligations in the short-term.

Where our analysis tells the story.

Reviewing the performance scores can help you dig deeper into what caused the radical deterioration and show Wow Air was not performing a sustainable manner.

Table 2: WOW air ehf.'s Ratings and Performance Category Trends, YE 2016 to Q3 2018

	Annual	Quarterly	
	YE 2016	YE 2017	Q3 2018
Financial Period End	12/31	12/31	09/30
Financial Health Rating	**84**	**25**	**21**
FHR Annual Delta	n/a	-59	n/a
Core Health Score	86	25	24

Very Low Risk (80 - 100) Low Risk (60 - 79) Medium Risk (40 - 59) High Risk (20 - 39) Very High Risk (0 - 19)

Core Health Performance Scores: Medium-Term Outlook (0-100)

Operating Profitability	90	5	5
Net Profitability	91	5	5
Capital Structure Efficiency	78	90	91
Cost Structure Efficiency	80	38	38

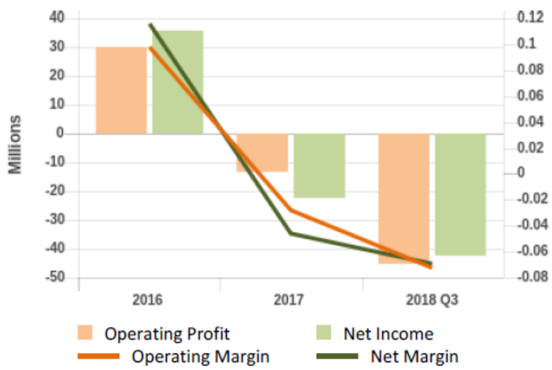
Resilience Indicators: Short-Term Outlook (W - Weak, A - Adequate, S - Strong)

Leverage	W	A	W
Liquidity	W	W	W
Earnings Performance	S	W	W

Note: n/a indicates that data and ratings for this period are not available. This is either due to critical errors in the financials for that period, or the company not reporting on a quarterly basis at that time.

Our analysis showed significant deterioration in Operating Profitability and Net Profitability, which are fundamental factors supporting Core Health. As shown in the below figure, taken from the **Peer Benchmark Report**, the company's operating and net margins deteriorated significantly over recent years. Operating profit is used to cover non-operating expenses, such as debt and interest.

Figure 4: Earnings Measures



Earnings Measures: The figure to the left and the table below display the operating and net margin in percentage, and the inputs for each in USD millions.

Table 6: Earnings Measures

USD Millions	2016	2017	Q3 2018	Sector
Revenues	307.08	486.26	615.95	-
Op Profit	29.94	-13.54	-45.02	-
Net Income	35.49	-22.24	-42.55	-
OP Margin (%)	9.75	-2.78	-7.31	6.57
Net Margin (%)	11.56	-4.57	-6.91	3.48

Our **Financial Dialogue** prioritizes Wow Air's inability to cover interest with operating profit as an area of concern.

Section 1: Priority Items for Financial Review

Table 1 below presents the prioritized review items and recommended questions based on our analysis of the financial statements ending 09/30/2018.

Table 1: Prioritized Items of Concern for Discussion

Items of Concern (4)	
1. Profit Margins: Profitability performance was poor. Both the company's operating profit margin (-7.3%) and net profit margin (-6.9%) show a loss. What caused the losses and what are your profitability improvement plans?	See Page 2
2. Interest Coverage: The company was unable to cover any of its interest ($10 M) with operating profit as it is currently running with an operating loss (-$45 M). Do you expect your interest obligation to change materially over the next year, and do you expect to cover this through operating profit or cash balances?	See Page 3
3. Leverage: The company has a significant level of debt at $207 M, which is 49% of total assets. Do you expect to maintain this level of leverage for the next 12 months?	See Page 4
4. Working Capital: The company's Current Ratio is 0.77x, but it has improved since last period (0.7x). What is your target Current Ratio and will you reach this level of working capital in the next 12 months?	See Page 5

Table 2: Strengths and General Items for Discussion

Notable Strengths (1)	
5. Change in Sales: Sales have increased 26.7%, from $486 M to $616 M in the last 12 months. This is impressive. Is this level of activity sustainable?	See Page 6

This problem of poor interest coverage was amplified by the high level of debt, at 49% of total assets. All these factors contributed to their weak resiliency, demonstrating minimal capacity to meet current obligations.

RapidRatings | 86 Chambers Street, Suite 701 | New York, NY 10007 | **P** 646 233 4600 | information@rapidratings.com | rapidratings.com
Customer Support: support@rapidratings.com | Private Company Financial Statement Submissions: requests@rapidratings.com