PE Hub

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BUSINESS SERVICES

Apollo found a gap in the market to grow Sun Country Airlines

'We had this vision that we could fundamentally flip the business model on its head,' says Apollo's Antoine Munfakh

Now that Apollo Global Management has fully exited Sun Country Airlines, it's a good moment to take a look at what role the PE firm played in the company's growth.

When Apollo acquired Sun Country Airlines in 2017, the PE firm saw an opportunity to transform the low-cost carrier. "We had this vision that we could fundamentally flip the business model on its head," Antoine Munfakh, partner and head of private equity – North America, told PE Hub.

In February, Apollo fully exited its remaining shares in Sun Country Airlines. PE Hub caught up with Munfakh to chat about the strategies that helped Apollo grow the Minneapolis-based company.

Revenues increased from $560 million when Apollo first bought the company to $1.1 billion today, while total headcount increased from 1,800 to 3,141. The number of annual passengers grew from 2.5 million to 4.5 million.

Before investing in Sun Country, Apollo formed a thesis around the airline sector as a homogeneous entity that was very volatile. But if an investor looked under the hood, they would find more stable opportunities that were recession-resilient.

Sun Country's business model before Apollo's investment was high-cost and high-touch. Founded in 1982 by Braniff International pilots and flight attendants, the company was targeting the same business customers as Delta. Delta had massive share, a much larger network and a frequent-flier program that drove customer loyalty.

Antoine Munfakh, Apollo Global Management

Apollo believed Sun Country was unlikely to be successful competing directly with Delta for its business customers. But the firm saw a company that had a valuable set of assets and established position in the market. Sun Country offered potential with the right business model.

"We thought there was a gap in the market to create a low-cost carrier that had a better consumer product versus existing competitors," Munfakh said. "If we could transform Sun Country into a low-cost carrier, we could help fill some of that gap and turbocharge growth."

During Apollo's hold, Sun Country lowered ticket prices and reinvested in the business digitally. The airline overhauled its website and booking system and installed airport kiosks for the first time. Sun Country also updated its customer call center to omnichannel customer support, which reduced customer wait times.

Munfakh said the company also installed in-flight entertainment and created extra legroom relative to carriers in the low-cost space such as Spirit and Frontier. As a result of those strategies, Sun Country was able to drive growth and take share away from other low-cost carriers.

A year-round business

One of the historical issues plaguing the airline sector was the cyclicality and seasonality of passenger travel. Sun Country created a three-pronged business model that included the passenger business, cargo business and charter business. All three used the same type of aircrafts and pilots and shared the same support.

Having cargo and charter flights allowed for better fixed-cost absorption during seasonally low periods for passenger travel. This model helped protect the business during the covid pandemic. Sun Country has a 10-year contract with Amazon for cargo flights. For charter, the company is in the middle of a five-year deal with Major League Soccer to provide charter service to all of the league's 30 teams.

Apollo took Sun Country public in 2021. The IPO was priced above the range. It was 13x subscribed. The firm sold off shares until the final exit in February. "We had de-risked the investment entirely through the IPO and the initial follow-on trades, but we wanted to be opportunistic and methodical with respect to our sell-down," Munfakh said. "We've effectively taken advantage of those windows over time to sell down the remainder of our stake. We have an institutional focus on consistently returning capital to our investors, and that was what drove the recent decision to sell the remainder of our stake."

Building on aviation interest

Apollo has enhanced its focus in the aviation industry after Sun Country, making a slew of investments since Sun Country.

In 2020, Apollo led a distressed investment in airport baggage handler Swissport, which is based in Opfikon, Switzerland.

In 2022, the firm became the largest shareholder in Aeromexico after the airline company emerged from a bankruptcy filing.

Apollo led a group of investors in partnership with JF Lehman and Hill City Capital in a take-private buyout of Atlas Air Worldwide in 2023. Based in Purchase, New York, Atlas is a provider of outsourced aircraft and aviation operating services.

Also in 2023, the firm made a loan investment in Scandinavian Airlines System (SAS), the national airline of Denmark, Norway and Sweden.

In January, Apollo completed its $3.6 billion take-private acquisition of Barnes Group. The company is a Bristol, Connecticut-based provider of highly engineered products, differentiated industrial technologies and solutions.

Munfakh said one of the lessons from the Sun Country investment was how underappreciated the cargo part of the business is in the airline market. The firm took what it learned and has applied it to subsequent investments like Swissport and Atlas Air Worldwide.

"We learned that the markets value a passenger airline very similarly to a cargo airline, but the businesses have totally different characteristics," he added. "In a passenger airline, individual consumers are buying tickets every day. In a cargo airline, you may have 10-year contracts with annual pricing escalators and minimum volume guarantees." ■