

**THE FIFTH HERBERT SMITH FREEHILLS AND NLU DELHI INTERNATIONAL
NEGOTIATION COMPETITION 2018**

Preliminary Round 2

THE HAILICOPTER

Negotiations Between

AIRCOACH PLC

and

HIGH DRONES INC.

*Negotiation Plan for: **AirCoach Plc***

*Submitted by: **Team Code 35***

MUTUAL GOAL/S

Cement AHL's first-mover advantage in the air taxi market. This requires significant and immediate capital investment and work streams that can bring in revenue in the short term.

INTERESTS, NEEDS & OBJECTIVES

AirCoach Plc

1. Secure Interline contract by providing \$125m USD in equity at a 20% discount.
2. Increase AC's influence in AHL at both the board and shareholder level.
3. Ensure AHL secures an exclusive license for the technical information developed by AHL such that HD and Pratt & Martin ("P&M") are not able to use AHL technology.
4. Generation of creative, short-term term revenue streams to maintain AC shareholder satisfaction.
5. Agree with HD to change supply of AHL engines from Bold Boys to Romper.
6. Amend the SHA to include restrictions on transfer of shares such as tag / drag-along rights, pre-emption rights, and non-compete and non-solicit provisions in respect of AHL employees.

High Drones Inc. (*likely*)

1. Secure Interline contract by increasing financing, ideally through AC providing \$125m USD in equity at a premium (or equal) to the initial buy in to limit dilution.
2. Maintain control of IP/technology developed by AHL and HD.
3. Expanding AHL's scope and work packages to bring in revenue, including space mining.
4. Identify why there is a change in engine from Bad Boys to Romper, and if in HD's interest, retain Bad Boys as AHL engine supplier.
5. Continue investment, relationship and value creation for P&M.

STRENGTHS & WEAKNESSES

AirCoach Plc

Strengths

1. *Network and Expertise*: Pre-existing network (e.g. Interline) in Europe and Asia, expertise in aircrafts and engines.
2. *Resources*: AC's status as a large listed company with extensive resources (e.g. resources to provide security for loans and further investment) puts AC in a strong bargaining position.
3. *Further Capital Contributions*: HD's reliance on AC for further capital contribution means they may negotiate favourable terms.
4. *Personal Networks*: Strong relationship between Dennis West and HD director Mark Cohen.

Weaknesses

1. *Intellectual Property*: HD retains all necessary IP registrations and patents for the software and technology.
2. *Default Risk*: Potential exposure to \$100 million HSBC working capital loan as AC is granting all the security.
3. *Short-term Revenue*: Risk of no short-term revenue streams from AHL which would dissatisfy AC shareholders.
4. *Burdensome Listing Rules*: Potential breach of continuous disclosure requirements if the investment is to become a "significant transaction".
5. *Confidentiality*: Leakage of information to P&M or other competitors.

High Drones Inc.

Strengths (*likely*)

1. *Intellectual Property*: HD retains all necessary IP registrations and patents for the software and technology used in Hailicopter
2. *Financial Backing*: Strong financial backing from Japanese investors/P&M
3. *Contractual remedy*: Potential claim against AC for breach of SHA by using Romper for supply of engines instead of Bad Boys

Weaknesses (*likely*)

1. *Control*: Strong investor influence from P&M which may detract from HD vision and/or direction
2. *Capital*: Limited capacity to contribute further capital to AHL which may expose HD to dilution of shares or decreased board representation
3. *Confidentiality*: Potential passing of information to P&M or competitors would leave them exposed to remedy

STRATEGY

- **US\$125m capital investment to secure Interline contract**: Leverage AC's capacity for further capital contributions against current high interest rates and HD's lack of available capital to secure this equity investment at a discount to the initial price.
- **Increase AC's influence in AHL at both the board and shareholder level**: Use the US\$125 equity investment to increase shareholder control. Negotiate more board seats to service our larger shareholder base.
- **Ensure AHL secures an exclusive license for technical information**: Explain the commerciality of not retaining all value created within AHL.
- **Propose creative short-term term revenue streams**: Explain that generation of short-term revenue streams are essential for the ongoing viability and success of AHL, and also essential to take on higher risk, long-term projects such as space mining.
- **Agree with HD to transfer supply of AHL engines from Bold Boys to Romper**: Explain the mutual benefits of cost saving without any reduction in quality. AC would be willing to pass on cost saving per engine to AHL to secure agreement.
- **Amend the SHA to include restrictions on transfer of shares**: Agree with HD that both parties are critical to the JV, and as such, restrictions on transfer of shares is required.

ALTERNATIVES TO A NEGOTIATION AGREEMENT

AirCoach Plc

BATNA

1. Sell AC's stake in AHL at a premium (considering the trajectory of AHL).

WATNA

1. Fail to secure lucrative Interline contract.
2. If SHA amendments cannot be agreed to, HD may divest or dissolve the JV.

High Drones Inc.

BATNA

1. Sell HD's stake in AHL at a premium (considering the trajectory of AHL).
2. Alternatively, replace AC with another aeronautical manufacturer.

WATNA

1. Failure to reach a commercial agreement may limit the broader ambitions of HD as their current business model, being limited to developing the technology for Hailicopter, is undiversified.

END