



The complexity of re-fleeting in an industry short of capital

The state of financing regional aviation today:  
Where is the Money?

**GA-FINANCE**  
Asset Finance Solutions

ERA Prague 2016

**era**  
european regions airline association

## GA-Finance | The Partners

A team with a history of success in aviation and finance. GA-Finance has expanded its management team to equip itself to be able to capture international opportunities.

### Anne-Bart Tieleman, CEO



- Founding partner of GA-Finance, started the company in 2002
- Highly experienced in sourcing and structuring aircraft lease transactions
- Ex Deutsche Bank Director
- Masters in Economics, University of Amsterdam

### Stephen Coultie, CFO



- Previously CEO of RAB Capital plc,
- CFO and COO for Fox-Pitt Kelton
- CFO of capital markets Swiss Re.
- CFO & COO of Mizuho International
- Qualified chartered accountant (ICAEW) having started his career at KPMG
- University of Leeds, Economic History

### Joost Schlatmann, COO



- Experience in aircraft deal structuring
- Experienced financial manager in renewable energy, aircraft leasing
- Tax leasing, M&A, project financing,
- Ex-Deutsche Bank
- Masters in Corporate Finance, Erasmus University Rotterdam

### Angus von Schoenberg, CIO



- A leading expert on regional aircraft sector.
- Experienced consulting on aircraft acquisition, leasing and management.
- Active role in research and development for the European Regional Airlines association (ERA)

### Garry Topp, CCO



- Corporate Financier with a focus on "real assets" and infrastructure at Magpar llp, a specialist PE boutique
- Previously Executive Director at Nomura, specialising in structured solutions across sectors
- Previously Director at Henderson Global Investors

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## Where is the Money? Overview of the fund-raising scene

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### It is tough out there...

- 2016 has started as one of the worst periods for fund raising since the financial crisis
- Equity remains hard to find while debt is available (non recourse and credit based) but there is a wide dispersion in the range of capital cost
- Private Equity is still investing but is very cautious. Many of the major players now have the exposure they need
- Public Equity; some success in 2015 ( eg. Wizz Air ) but 2016 IPO outlook is relatively weak
- Structured Finance; difficult for airlines to access unless large in size. Some lessors have closed securitizations in 2015 but several in late 2015/ 2016 have been cancelled due to market volatility and competition from other asset types
- Lessors favoured by capital markets; demand still strong for business of size and scale – eg Avolon IPO and subsequent sale to Bohai Leasing

## Where is the Money? Overview of the fund-raising scene

Capital currently prefers lessors to airline operators

### Why?

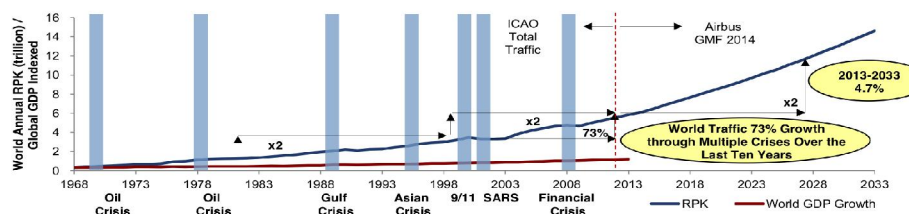
- Potential for larger scale
- More readily diversified credit risk
- Easier to be diversified by aircraft type and geography
- Not in the 'Spot Market'
- Risk is lower and scale can be larger
  - = lower potential cost of capital

As competition increases in regional aircraft leasing, with more lessors of scale in the market, these advantages should benefit operators

## How does the finance world perceive our industry?

The macros explain why investment has been so high for mainstream sector

Source: Goldman Sachs Industry Sector Overview June 2015

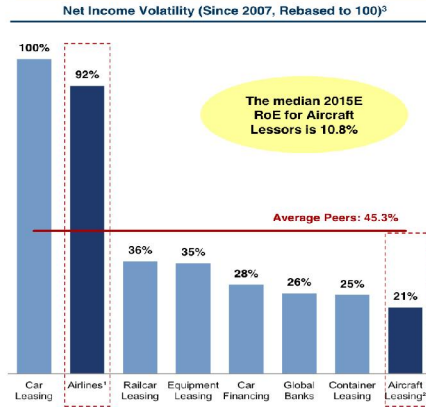


Source: ICAO; IATA forecast as of Dec-2014; International Monetary Fund (IMF), World Economic Outlook, Oct-2014; ICAO, Airbus GMF 2014, IATA ("Global Air Passenger Markets: Riding Out Periods of Turbulence", 2015); Company filings and Ascend; Bloomberg, GS Research  
Note: World Annual Traffic based on Airbus' Global Market Forecast for 2014-2033

## Volatility and Risk – a key factor in support of leasing overall

Source: Goldman Sachs Industry Sector Overview June 2015

- Strong earnings predictability evidenced by low net income volatility driven by resilient core leasing business
- Aircraft leasing peak-to-trough net income change is the best amongst peer sector



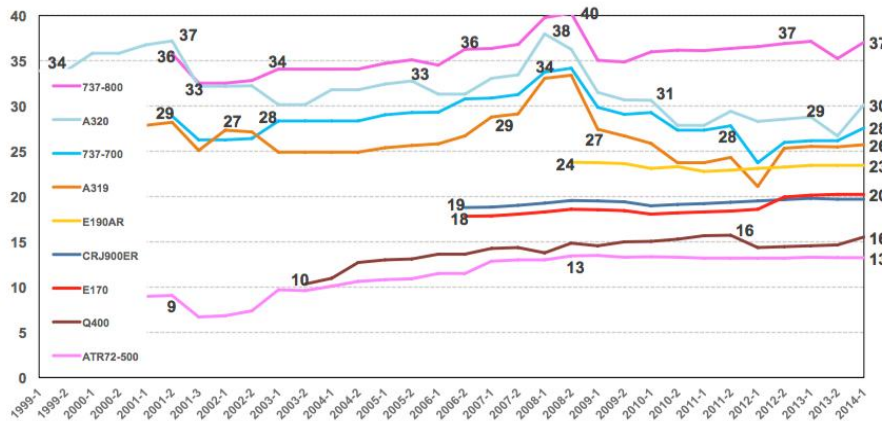
- Investors favour aircraft leasing over other sectors
- Taking Net Income from 2007 to 2014 adjusted for non-cash impairments and transaction costs
- Mainstream sector – Boeing and Airbus operators and lessors. An efficient and very competitive market
- With some exceptions, the mainstream finance world still does not regard the regional sector in the same way it does the mainstream
- Finance sector believes that airlines are riskier than lessors and that regional sector is riskier than mainstream
- Equity investors "discovered" aircraft leasing many years ago, but specialist regional aircraft leasing has only been recognised as a niche opportunity in recent years ( eg, Oaktree, Fortress)

Source: CapitalIQ as of 26 June 2015  
 Note: All Aircraft Lessors' Net Income adjusted for non-cash impairments and transaction costs.  
<sup>1</sup> Airlines includes: Delta Air, American Airlines, Southwest Airlines, United Air Lines, JAL, Air China, Japan Air Lines, Singapore Airlines, China Eastern Airlines, China Southern Airlines, All Nippon Airways, Cathay Pacific Airways, Easy Jet, Virgin, Ryanair, Air France and Lufthansa.  
<sup>2</sup> Aircraft Lessors includes: AirCap, Air Lease, AirCrest, Avolon and FLY Leasing.  
<sup>3</sup> Estimated volatility over last 8 years: standard deviation net income / Average net income over last 8 years.  
<sup>4</sup> Calculated as: (max net income-min net income) / average net income in the period FY 2007-2014.

Industry Overview: Investment Thesis for Aircraft Leasing

## Asset value volatility; A mitigation factor in risk perception favouring the regional sector

Low levels of value volatility throughout industry cycles



AVITAS Blue Book Historic Market Values, US\$m Constant Age 4 Years Old  
 Source: AVITAS & AVS

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Economics of Lease v Purchase

Is separating ownership from operations right for regional airlines?

Some factors;

- The cost and availability of equity and debt
- Lessors are treated differently than airlines by banks and capital markets
- 100% finance vs Max of 75-80%
- Fixed rental vs variable or fixed monthly payments
- Cash-Flow costs & timing



Economics of Lease v Purchase

Example: New ATR72-600

Operating Lease SLB		Secured Loan	
Price:	US\$21m	Price:	US\$21m
Term:	120 mths	Loan Term:	120 mths
Mkt Rent:	185,000/mth	LTV (75%):	US\$15.75m
Deposit:	3 mths	Loan RV:	US\$5.25m (25%)
Engine MR:	US\$180/CYC	Interest (fixed):	1.5%
Airframe MR:	US\$50/FH	Margin:	4%
Gear MR:	US\$20/CYC	Payment/mth:	US\$137,400
Utilisation:	150 hrs/mth		
FH/CYC Ratio:	1:1		

## Economics of Lease v Purchase

### Example: New ATR72-600

Operating Lease SLB		Secured Loan	
Rent:	US\$185,000/mth	Payment/mth (PMT):	US\$137,400/mth
MR/mth:	US\$37,500/mth	MR/mth:	Internal Reserve
Deposit:	US\$555,000	Deposit:	0
Down PMT:	0	Down Payment (DPMT):	US\$5,250,000
Balloon:	0	Loan Balloon:	US\$5,250,000
PV Rent & MR:	US\$21.1m	PV PMT, DPMT & MR:	US\$24.8m *

Purchase requires that the sale price is > US\$6.1m at loan termination to be economically viable over leasing - assuming the aircraft is quickly sold and not taking into account remarketing costs or reconfiguration required. With a leased aircraft, this is the lessors problem.

\* No PDP accounted

for

## Regional Aircraft Leasing – Current Position and the Outlook over the next 5 years

- Leasing will continue its growth in the regional sector and become more popular
- Raising money will remain “easier” for lessors than airlines for some time to come, with the potential for lower costs of capital
- Regional Aircraft leasing market is relatively inefficient compared to mainstream Boeing / Airbus leasing with far fewer operators bidding for SLB. There is a relatively high degree of concentration to a small number of lessors in the regional sector
- Number of lessors focused on regional types set to grow, provided they can access capital at a sensible price.
- Macro factors for the regional sector remain strong. This will continue to support growth and make capital available
- Potential lessees are set to have more choice in available lessors, with the potential for lower capital costs to ultimately be transferred to lessees
- The “market efficiency gap” in terms of finance and the regional market vs the mainstream will narrow and the market will become more efficient - airline operators can expect more lessors to bid for their business in the future

## GA-Finance | Specialists in regional aircraft leasing and management

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