

HIGH YIELD MID-AGE AIRCRAFT LEASE AND TECHNICAL RISKS



TODAY'S PRESENTER



TOMAS SIDLAUSKAS
Vice President Sales &
Member of the Management Board

- Joined the Group in 2013, is experienced sales and business development professional
- Member of the Board since 2014
- Responsible for establishment and development of relationships with the decision makers of aircraft producers, financiers and other stakeholders. Specializing in aircraft finance fund raising and active relationship with airlines in EMEA and Asia-Pacific regions
- Participated in the Sale-Lease-Back transaction for more than \$2Billion
- Arranged Bank Debt Financing for more than \$150million
- Participated in more than 20 aircraft Lease and Sale transaction

AVIAAM LEASING AT A GLANCE



A **Warsaw Stock Exchange** listed global aviation holding



Narrow-body aircraft and high-potential **regional jets**



Avia Solutions Group
Strategic partnership:
40 locations, 1600 clients
Revenue: **\$330m** (2016)



Airfinance's TOP50:
238% Liquidity
41,8% Profit Before Tax



More than 40 transactions in 2016 (incl. CMBL and ICBC)



\$900m-worth lease deal with 20 aircraft
Target region: China
In 2017



40 aircraft
Fleet and
Managed



50 transactions
\$3bn worth
in 2017

AVIATION MARKET ECONOMIC OUTLOOK 2016 IN COMPARISON TO 2015

Demand trends:

- Passenger traffic  6%
- Freight traffic  1,5%
- World GDP  3.4%*
- Load factors  81,1%
- Orders  1399**

Supply factors:

- Deliveries  3,6%**
- Parking levels  <5%***

**International Monetary Fund estimates*

***Boeing and Airbus planes*

****For Boeing 737NG and Airbus A320ceo aircraft*

Source: IBA Jet Data, Airbus, Boeing



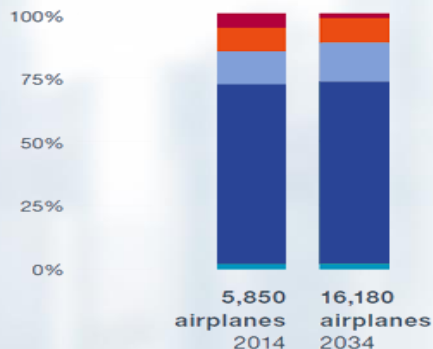
AVIATION MARKET IN THE NEXT FEW DECADES

\$746 billion industry

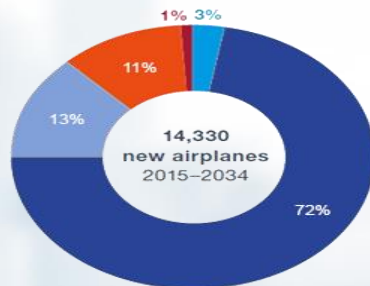
Annual 5%
growth forecast

Demand for **additional
36.000 aircraft** in the next
20 years

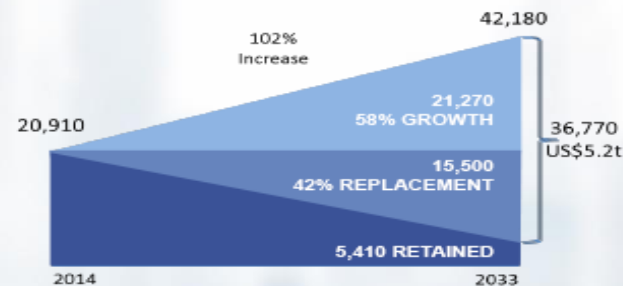
SHARE OF FLEET



DELIVERY UNITS



2014-2034 YEAR NEW AIRCRAFT DEMAND FORECAST



AIRCRAFT FINANCE: DEMAND FOR FUNDING

Financing requirements continue to rise, leading to increased lessor share

INCREASED FUNDING NEEDED TO SUPPORT RISING DEMAND



AIRCRAFT FINANCE: INVESTORS' APPETITE



40% of world's fleet
already leased and
managed by Leasing
Companies

Growing interest from
Asian investors:
✓ 5 Asian banks are
among **Top 15 lessors**

In 2017, **over \$130bn**
required for new
aircraft financing

Most popular –
narrow body planes with
1400 orders (2016)

Dilemma:

- ✓ Risk vs. Return on Asset
- ✓ Mid-age vs. New Aircraft
- ✓ Local vs. Global Region

Problem:

- ✓ No High-Yield Deals
- ✓ Risk Mitigation
- ✓ Asset Manager

AIRCRAFT FINANCE: WHY MID-AGE AIRCRAFT

New aircraft lease
rate factor of
0,7-0,8 percent

Used aircraft
lease rate factor
of **0,8-1,5 percent**

Mid-size: airlines
with **good credit
rating** pay higher
lease premium

80% of commercial
aircraft are **narrow
body aircraft**

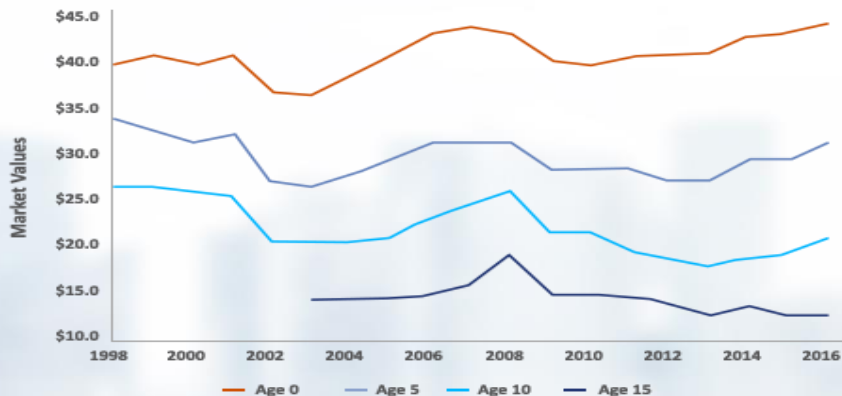
Boeing 737-800 and
Airbus A320 Family
are easy to re-lease



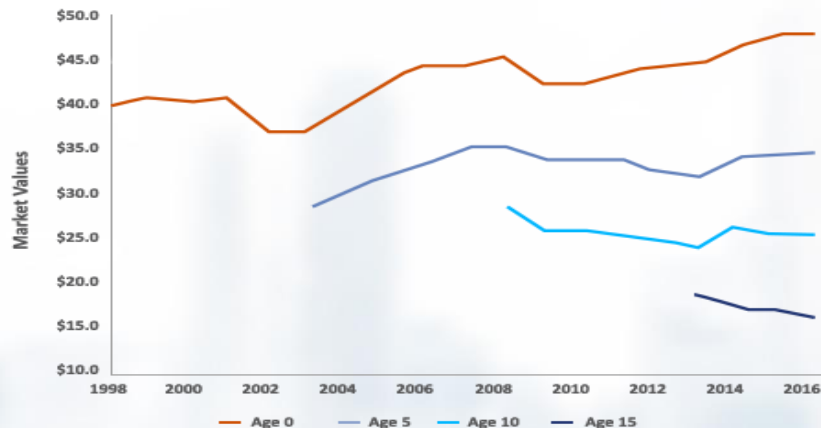
AIRCRAFT FINANCE:

AIRBUS A320 AND BOEING 737-800 VALUES

A320 MARKET VALUES – CONSTANT AGE



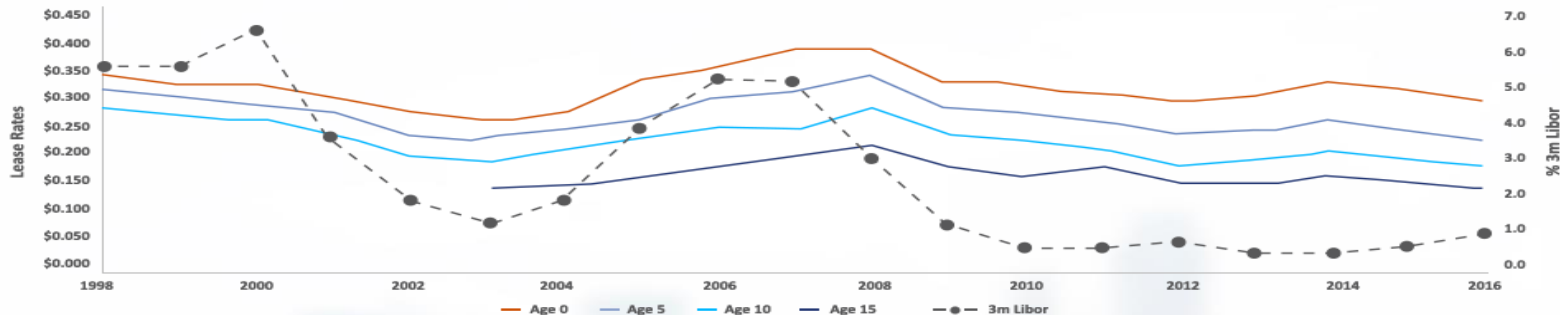
737-800 MARKET VALUES – CONSTANT AGE



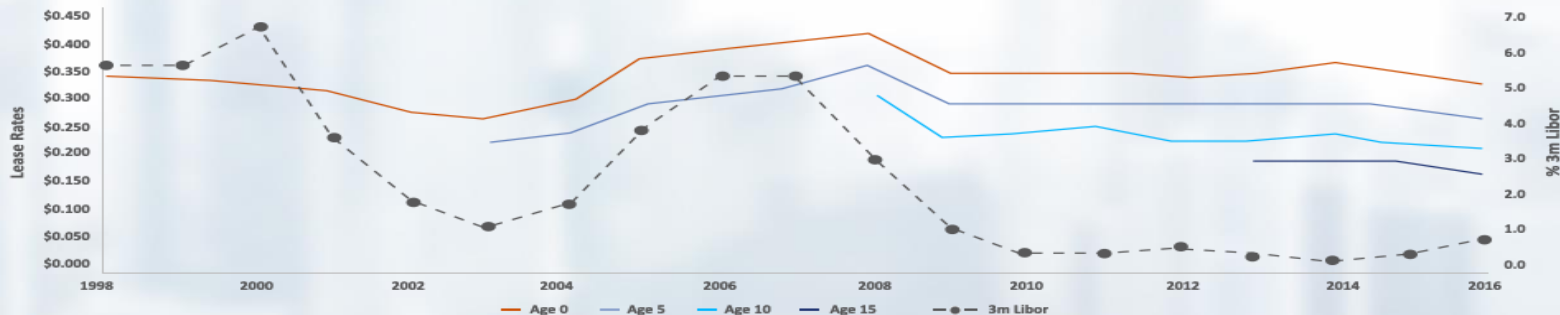
AIRCRAFT FINANCE:

AIRBUS A320 AND BOEING 737-800 LEASE RATES

A320 LEASE RATES – CONSTANT AGE



737-800 LEASE RATES – CONSTANT AGE



AIRCRAFT FINANCE:

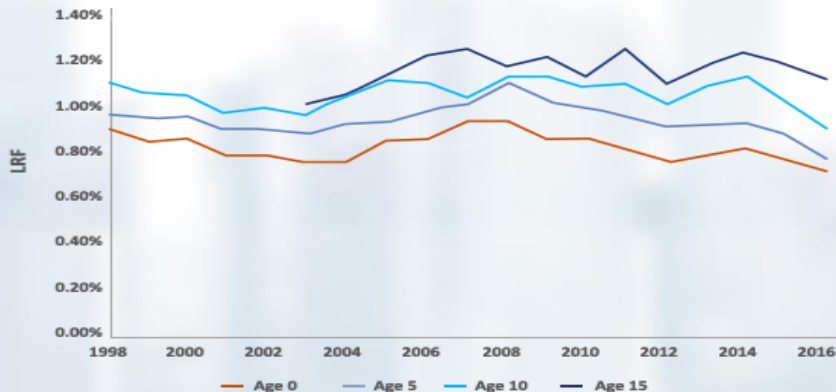
AIRBUS A320 AND BOEING 737-800 LRF

LRF (lease rate factor): the periodic lease or rental payment expressed as a percentage (or decimal equivalent) of equipment cost.

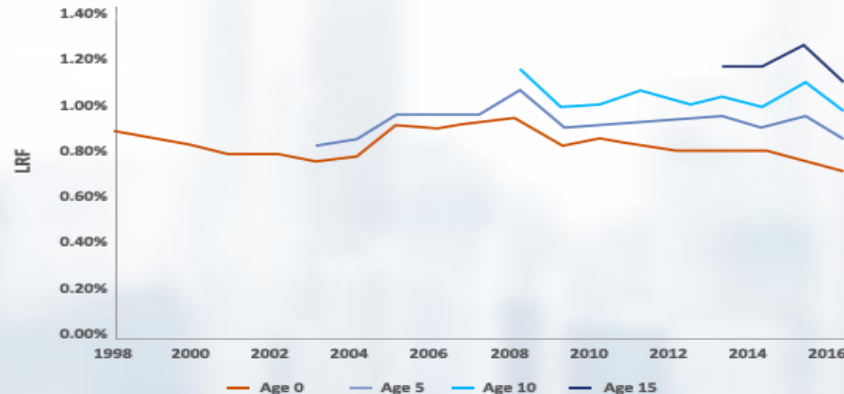
LRF of new aircraft:
0,65 - 0,85

LRF of mid-age aircraft:
0,8 – 1,5

A320 LRFs – CONSTANT AGE



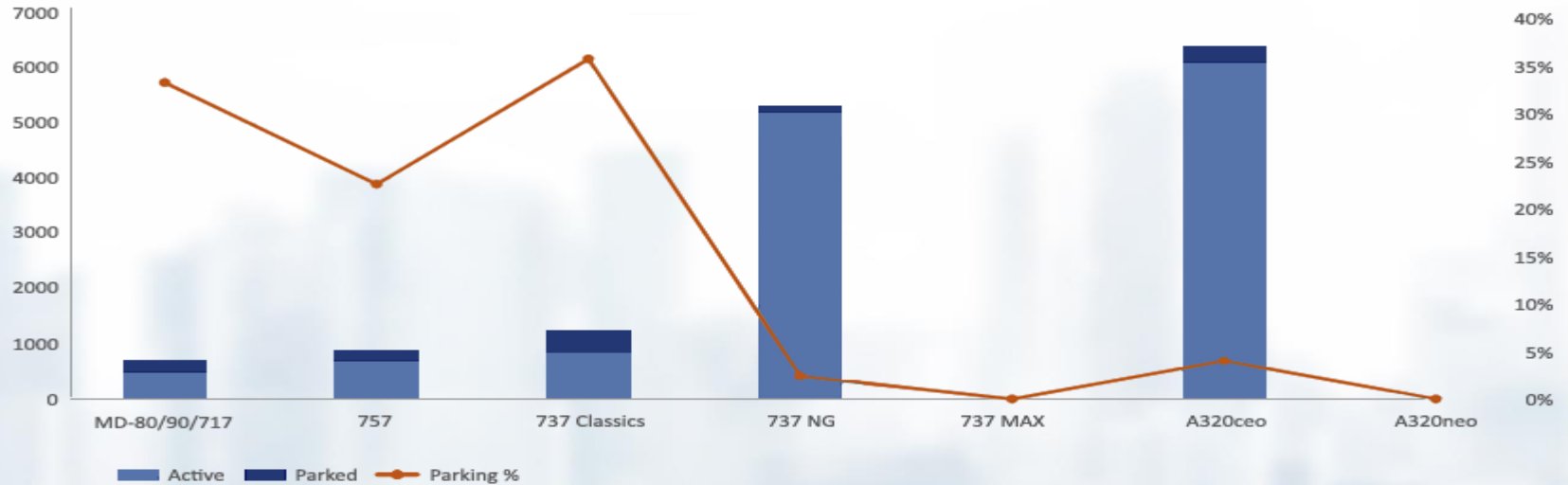
737-800 LRFs – CONSTANT AGE



AVIATION MARKET

FALLING PARKING NUMBERS

ACTIVE & STORED



AIRCRAFT FINANCE:

WHY INVEST WITH LEASING COMPANIES

- **Capital-intensive** investment – from \$1m to \$1bn
- **Asset security** via international treaties (**Cape Town Treaty**, etc.)
- **Cyclical** business, **predictable** value retention
- Long-term contracts (**6-12 years**)
- **Low volatility**: leasing was **profitable** even with \$30bn airline losses in 2008 – 2009
- **Know-how**: in managing assets during the whole lease period and overcome difficulties if they arise



AIRCRAFT ASSET MANAGEMENT: HOW IT WORKS

1. ACQUISITION OF AIRCRAFT

Preliminary analysis

Due diligence, structuring
and pricing

Legal documentation and closing



2. LEASING PROCESS

Preparation

Leasing

Monitoring



3. ASSET REMARKETING

Utilization of asset value

Asset repossession

Sale / release



AIRCRAFT FINANCE: HOW IT WORKS

BUILDING MID-AGE AIRCRAFT PORTFOLIO - \$300M Example

1. Identify/acquire the most profitable asset
2. Aircraft lease structuring with financially stable airlines
3. Technical modifications as per end operator's requirements
4. Legal solutions for operating region
5. Schedule for delivery date and technical requirements
6. Post-delivery asset management services

AIRCRAFT FINANCE: RISK MITIGATION

WHAT TO LOOK FOR WHEN INVESTING IN MID-LIFE AIRCRAFT

- **Condition** of airframe, engines, avionics, separate components
- **History** of repairs, replacements, overhauls performance restorations
- **Aircraft popularity** among airlines and **spread** among regions
- Low direct operating and capital **costs**
- Aviation economy **cycle**
- **Partners**



TYPICAL B737-800 DRY LEASE PROJECT ASSUMPTIONS



Aircraft	B737-800NG (Winglets)
Vintage	2006
Aircraft acquisition price (Y1)	\$20.000.000
Aircraft sale price (Y6)	\$10.000.000
Lease Term	72 months
Lease rental (monthly)	\$220.000
Maintenance Reserves	Collected in Cash*
Utilization	300 Flight Hours/120 Flight Cycles
Bank senior financing	5% Interest; 80% LTV
Balloon**	\$6.000.000

Airframe reserves	per FH	\$62,60
Engine PR reserves	per FH	\$180
Engine LLP reserves	per CYC	\$113
APU reserves	per APU hour	\$41
LG reserves	per CYC	\$26,67

TYPICAL B737-800 DRY LEASE PROJECT CALCULATIONS



YEAR	1	2	3	4	5	6
INFLOWS						
Lease Rentals	\$2.640.000	\$2.640.000	\$2.640.000	\$2.640.000	\$2.640.000	\$2.640.000
Aircraft Sale						\$10.000.000
OUTFLOWS						
Senior Debt Principal	\$-1.214.588	\$-1.276.729	\$-1.342.049	\$-1.410.711	\$-1.482.885	\$-1.558.752
Senior Debt Interest	\$-686.702	\$-624.562	\$-559.242	\$-490.580	\$-418.405	\$-342.538
Balloon						\$-6.000.000
Free Cash Flow	\$738.710	\$738.710	\$738.710	\$738.710	\$738.710	\$ 4.738.710
ROI	18,5%	18,5%	18,5%	18,5%	18,5%	118%
MAINTENANCE RESERVES						
Maintenance Reserves	\$1.923.576	\$1.981.283	\$2.040.722	\$2.101.943	\$2.165.002	\$2.229.952
Maintenance costs*		\$-3.000.000	\$-600.000			\$-5.000.000
Cumulative balance	\$1.923.576	\$904.859	\$2.345.581	\$4.447.524	\$6.612.526	\$3.842.478
EBITDA**	\$ 2.662.286	\$ -280.007	\$ 2.179.432	\$ 2.840.653	\$ 2.903.712	\$ 1.968.662

*Maintenance required: Aircraft structural inspections and Engine performance restoration, APU and landing gear overhaul

**EBITDA is calculated on the basis of lease rentals, aircraft sale income and maintenance reserve flows

SMALL PLANET AIRLINES BUSINESS CASE

AIRCRAFT ACQUISITION FROM AEROFLOT RUSSIAN AIRLINES

AIRCRAFT PREPARATION FOR SMALL PLANET AIRLINES

AIRCRAFT FINANCING

AIRCRAFT DELIVERY

AIRCRAFT AFTERCARE



PART 1:

AIRCRAFT ACQUISITION

ISSUES:

- Last call Aircraft PA agreement execution
- Problems obtaining permit to access the aircraft;
- Delays with access the aircraft logbooks;
- Aeroflot refuse extra maintenance on aircraft during delivery.

SOLUTIONS:

- Consider and execute aircraft PA in advance;
- Deliver aircraft to locations comfortable for the buyer.



PART 2: AIRCRAFT PREPARATION

ISSUES:

- Too many lessee reps on site;
- Out-of-delivery conditions requests;
- Incorrect evaluation of aircraft ground time for modifications and repainting.

SOLUTION:

- Laying out preparation conditions in the Lease Agreement.



PART 3: AIRCRAFT FINANCING

Equity

Capital Market

Bank Debt

Combination
of All

AVAILABLE
OPTIONS

SOLUTION:

✓ Company equity and bank debt

PART 5: POST DELIVERY

ISSUES:

- Bad communication from lessee and lessee's CAMO with relation to aircraft post-delivery service;
- LG OH, 12Y Check and engine CPR – subject for reimbursement.

SOLUTION:

- Strict implementation of Lease Agreement;
- Monitoring and evaluation of all major events.



SUMMARY

Demand for new aircraft grows with increasing global PAX traffic (**6% YOY**)

Mid-age aircraft leasing becomes more popular due to **low fuel prices**, airlines' **low yield** and manufacturers' **long production queues**

Aircraft leasing – **long-term, capital-intensive** investment with **stable returns**

Mid-age planes provide **more than 10% ROI** with proper technical and strategic asset management and wide pool of airlines around the globe





AviaAM Leasing AB

Smolensko st. 10

LT-03201 Vilnius

Lithuania

E. tomas.sidlauskas@aviaam.com

T. +370 698 31877