Aircraft Lessors and Financiers

An overview of their commercial priorities

2nd Travel Law Forum
Athens, 17 May 2019

SGI AVIATION
EFFICIENT AND SAFE AVIATION FOR A CONNECTED WORLD

Index

- General principles determining the decision to invest and lease;

- Aircraft asset investment strategies;

- Legal considerations for lessors in different investment strategies;

General principles determining the decision to invest and lease

Investor Perspective

- Meeting the (hopefully high) demand;
- Generating stable cash flow with generally higher returns than other industries;
- Low geographical risk;
- Effective disposition of large capital;
- No asset, operational or performance risks (Triple Net Lease).

Lessor Perspective

- **Core Principle**: Leasing must meet the investment expectations of the investor;
- Shared principles of meeting the high demand and creating cash flow for its own business;
- *What* investment strategy should a lessor adopt?
  - Depends on the financial goals agreed with the investors;
  - Ability and structure to execute it;
  - Willingness to take risks.
- *Where* to lease the aircraft?
  - Based on economic, geographical, political and legal considerations

Aircraft asset investment strategies

New aircraft

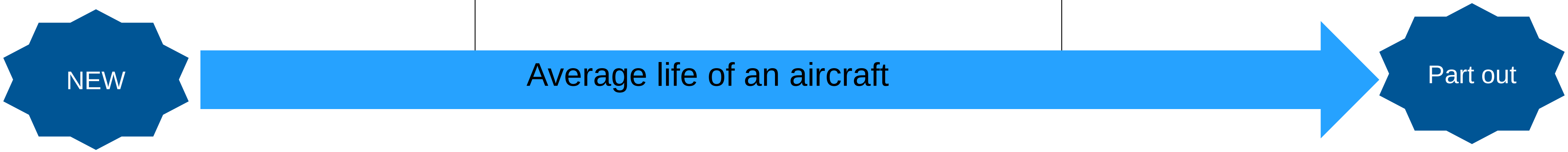
- Long term investment with lower risk and lower return;
- Normally dealing with airlines with high credit ratings;
- Very minor technical involvement needed.
- High marketing risks and high residual value risks;
- Capital efficiency is long-term (around 8-12 years);
- High risk on new aircraft models / technology;
- Very crowded/competitive market;

Investing in a mid-life aircraft

- Due to the age of the aircraft, there is a higher risk in relation to the maintenance costs of the aircraft;
- Residual value risk is less since the aircraft is closer to its retirement;
- Relatively easy to set up, so an ideal entry point for a new lessor;
- Capital efficiency is medium term (4-8 years)
- Not necessary to have multiple orders. Investment in individual deals can result in competitive results;

Lease to part-out/decommission

- Short term investment so capital efficiency is fast;
- High risk, high technical involvement and high returns
- Not necessary to have multiple orders. Investment usually in aircraft for shorter duration;
- Returns based on residual part-out revenue assumption (mainly of engines, aircraft parts and landing gear);
- Lessee credit risk tends to be higher;
- Traditionally attractive to smaller investors;
- Requires an investor who has a specific knowledge and appreciation of aircraft lifecycle;
- Requires a special expertise in order to understand and gain the commercial benefits by parting-out



Legal considerations for lessors in different investment strategies

New aircraft

- Minimal requirement to perform a due diligence;
- Delivery conditions do not require critical examination;
- Redelivery conditions remain significant;
- Quiet enjoyment right for the lessee very strong – difficult for the lessor to gain access for annual inspection.

Investing in a mid-life aircraft

- Extensive due diligence required as the aircraft may have had multiple lessors and lessees from the past;
- Delivery and redelivery conditions both important for the (existing) lessor and the new lessor;
- Generally, when a lessor purchases a mid-life aircraft, it will be attached with a lease, therefore the new lessor will buy into the lease obligations of the lease agreement;
- Risks associated with jurisdiction and/or lessee. For eg – the airline may be suffering from poor financial results or the aircraft records may be missing.

Lease to part-out/decommission

- Extensive due diligence required as the aircraft may have had multiple lessors and lessees from the past;
- The airlines/lessees during this stage may have very low credit ratings and a poor aircraft maintenance culture. Therefore, its compliance with the maintenance provisions of the lease needs to be thoroughly inspected with high frequency;
- Delivery and redelivery conditions both important for the existing and new lessor in this position. Redelivery conditions are of significant importance for a lessor interested in investing in an aircraft at this stage as the commercial incentive rests in the parts of the aircraft;