July/August 2020

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AIRFINANCE JOURNAL AWARDS 2019

Timing is **everything**

With the aviation industry mired in the deepest crisis it has ever experienced, the coming months look crucial in assessing the true prospects for recovery, writes **Oliver Clark**.

Airlines across Europe have started to ramp up their operations amid hopes that they can claw back some revenues during what would traditionally be their peak business season.

Ryanair resumed 40% of its normal schedule from 1 July, buoyed by plans by Spain, Portugal, Italy, Greece and Cyprus to ease arrivals restrictions.

Virgin Atlantic plans to resume services from 20 July, and plans to have opened up 17 long-haul routes by August, even while it is reported that the airline is in crunch talks for a financial-support programme worth up to £900 million ($1.1 billion).

Easyjet and British Airways plan to reactivate a significant portion of their networks in July.

Some airlines appear to be using the crisis as an opportunity to gain market share, with Wizz Air so bullish as to announce new bases across Europe and an aggressive increase of operations.

Airline scheduling data provider OAG reports that airlines added the most new seats in the week commencing 22 June, than at any time since the Covid-19 crisis, with 8.2 million seats added, up 21% on the week before.

Capacity stands at 41% of that available in the same week last year, some seven percentage points up on the previous week; quite a "remarkable rate" of growth as airlines, travellers and stakeholders around the world scramble to save the summer, reports OAG.

It will be a bittersweet moment for airlines. On the one hand, they can finally begin generating the revenues they need to pay their bills, rebuild their cash reserves and enhance their chances of surviving the crisis.

On the other hand, the expectation that demand will meet capacity is based on an educated guess, and airlines are taking a big risk in significantly increasing operations given the costs that this will entail. Whether demand will bounce back will likely come down to how confident the travelling public is that air travel is safe.

Then there is the spectre of a "second wave" of Covid-19, a phenomenon that is difficult to pin down, but which some worry is already gripping the USA and is appearing in localised outbreaks in places such as Beijing, Seoul and Germany's Gutersloh district.

Speaking on OAG's recent *Boom and Bust: Airline Strategies To Get Flying Again* webinar, its chief analyst, John Grant, pointed out that the recovery is extremely fragile.

The recent second spike in China resulting in airlines taking out about one million domestic seats as a result has wiped out the overall gains made in Europe and, to some extent, in the USA. However, in a sign of the resilience of domestic markets, 1 million seats were later added back in China and Chinese domestic capacity in the week commencing 22 June was at 86% of pre Covid-19 levels. An inability to secure sufficient revenues in this crucial season, risks more airline failures this winter or early next year, warns Grant.

"I have more concern now about the period from October this year through to probably April of next year, for airline failures, than I do at this moment in time," he says.

Speaking on the *Airfinance Journal* podcast *Breaking at the Britches*, AMCK chief executive officer, Paul Sheridan, said the need for government support would only increase as global airlines continue to face enormous revenue pressures. "The need for government help will probably be more so in the next six months than it has been initially," he says. For lessors and financiers the stakes are equally high.

As the crisis unfolded, there was a wave of lease deferrals as airlines sought to conserve cash. A large number of requests appear to have been granted. In many cases, three-month deferrals will now be falling due.

A number of lessors such as Aercap and SMBC Aviation Capital have said that some Chinese and Asian carriers are back on track with lease payments, but many others will not be, and the difficult question will now need to be faced as to whether a second round of deferrals will be needed, and approved.

Some lessors have been very bullish amid the crisis, financing new sale and leaseback transactions and grabbing market share. BBAM, BOC Aviation and Standard Chartered have been particularly active in financing sale and leaseback transactions, especially in the USA.

In this issue, we examine the prospects for a second wave of sale and leaseback transactions.

Banking sources have told *Airfinance Journal* that they expect financing activity to ramp-up from July onwards as those with dry powder bet on attractive pricing opportunities coming to market.

However, the likelihood is that banks will step back to some degree from aviation as they focus on pressing local investment needs.

Speaking on the *Airfinance Journal* podcast, Sheridan speculates that this could be the time for alternative financing platforms, such as Aviation Capital Group's Aircraft Financing Solutions (AFS) programme, or Credit Suisse's Scale Aviation, to step up to the plate and provide the liquidity airlines need.

He notes that it remains unclear whether they have the scale to do so.

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Slattery to lead GE Aviation

General Electric announced David Joyce, the vice-chair of GE and president and chief executive officer (CEO) of GE Aviation, will retire from the company after 40 years of service.

Joyce spent his entire career at GE Aviation, including 12 years as its president and CEO.

John Slattery, 51, the former president and CEO of Embraer Commercial Aviation, will assume the role of CEO-elect of GE Aviation, effective 13 July.

He will assume the full role of president and CEO of GE Aviation on 1 September, at which point Joyce will transition to the non-executive chair of GE Aviation on 31 December 2020.

Joyce, 63, also will continue as GE vice chair and advisor to GE Research through to 31 December and subsequently will serve as a strategic advisor to GE Aviation into 2021.

GE Chairman and CEO Lawrence Culp, says: "We worked hard to find a worthy successor to David. In John, we have found a proven aerospace leader whose international commercial experience, strategic acumen, and industry expertise can make our leading aviation franchise even stronger. John's relentless focus on the customer experience over decades in the aviation industry has earned him deep relationships with many of GE's customers, suppliers, and partners. He is well-suited to serve their needs as aviation executes through the current environment and eventual recovery."

Outside in

Slattery like Culp is an outsider to GE. Culp, known for transforming manufacturer Danaher, became the first outsider named as GE's CEO in the company's 126-year history.

He took over in October 2018. That same year, Thomas Horton, the former CEO of American Airlines, joined GE's board and was named lead director.

Slattery became the first non-Brazilian to lead Embraer's Commercial Aviation unit, and during his tenure, the E-Jet installed base doubled, the number of operators grew by 45% and the unit backlog increased by 36%.

"I have long considered GE Aviation to be the leading aviation franchise in the world, and I am humbled to take the helm from David and lead this talented team forward. This is a time of unprecedented change in the aerospace industry yet also an opportunity to reimagine the future of flight and how we can best serve our customers," Slattery says.

GE lead independent director Thomas Horton adds: "I have had a front-row seat on the impact of David's leadership and vision that will continue to shape the future of this business. I have also known John for many years and have confidence that with his proven commercial acumen, strong values, and global customer network, he is the right leader to take GE Aviation forward."

No doubt Slattery will face enormous challenges as customer demand for new aircraft has plummeted.

The Boeing 737 Max, powered by CFM LEAP engines, remains grounded. Also, LEAP engines on the 737 and Airbus A320neo family fall short of on-wing targets. In addition, the 777-9, powered by the GE9X, is already a year late.

Covid-19 also impairs the engine aftermarket business, which is core to the OEM's business model.

GE Aviation's workforce was cut by 10% in March, but this deepened to 25% in May.

The aviation unit saw first quarter revenue slip 13% to $6.89 billion on year-over-year, with profit in the division falling 39% to $1 billion from $1.66 billion. Orders declined by 14%.

First-quarter shipments of LEAP engines totalled 272, or a decline of 152 from the year-ago quarter.

Culp describes Joyce as an "icon" in the aerospace industry. "His greatest legacy may be the thousands of leaders he has mentored and developed throughout his career."

Parent company GE earned $6.16 billion in the first quarter and expects the second quarter to be worse hit. The second quarter will be the first full quarter with pressure from Covid-19, and GE expects that its financial results will decline sequentially.

Cash and cash-equivalent holdings totalled $47 billion at the end of the quarter, and it has access to a revolving credit facility of $15 billion.

John Slattery

CDB Aviation hires head of EMEA

Paul Boyle

CDB Aviation has appointed Paul Boyle as head of Europe, the Middle East, and Africa (EMEA), commercial.

Boyle will drive commercial activity and outreach by engaging with airlines, aircraft manufacturers and other industry participants to cement the lessor's strategic aircraft placement plan and path to growth in the region.

Boyle will report to Peter Goodman, the company's chief marketing officer.

"We are very delighted to welcome Paul to the CDB Aviation leadership," says Goodman, underscoring the addition of Boyle's depth of "industry pedigree and experience" that spans a career at leading aviation organisations, such as Aer Lingus, Airbus Financial Services, SMBC Aviation Capital, Aercap and, most recently, Avolon.

With nearly three decades in aviation and aircraft finance, Boyle has led cross-functional deal teams in a variety of transactions, including remarketing, sale and leaseback, and orderbook placements.

Ornberg to become head of finance at SAS

SAS has appointed Magnus Ornberg as its new chief financial officer (CFO). He was most recently CFO for the SAAB defence and security group, a position he has held since 2012.

Ornberg will take up his new role on 1 October, replacing Torbjorn Wist, who is leaving the Scandinavian carrier in September.

Griffin recruits Air Lease EVP marketing Baer

Griffin Global Asset Management has significantly expanded its team with the addition of Air Lease's Marc Baer, as well as John Beekman and Jared Diamond.

Baer, who joins as president, will lead the organisation across commercial and operational affairs.

He had been Air Lease's executive vice-president marketing since 2010 where his responsibilities included developing and overseeing airline relationships, concluding lease, sale and purchase agreements, and leading aircraft trading efforts. Previously, Baer served as senior vice-president marketing at ILFC where he began his career in 1997.

Baer also served on the boards of Blackbird Capital I and Blackbird Capital II, private equity platforms created to provide Air Lease with blind pools of capital for co-investment.

Beekman will serve as chief financial officer of Griffin, bringing 17 years of financial services investing experience, including 13 years of aviation financing experience at Fidelity Management and Research. He was responsible for analysing and recommending debt instruments in the aerospace/defense, airline, aircraft leasing, and aviation asset backed securities sectors. In this role, Beekman worked closely with banks, issuers (airlines, lessors), and rating agencies in finding debt financing solutions.

Diamond will join Griffin as vice-president. He built a career in asset backed investment banking with roles at Bank of America, Mizuho Securities and BNP Paribas, where he was responsible for the origination and execution of non-traditional debt and equity solutions and bilateral and syndicated lending through non-recourse debt facilities for corporate clients.

Diamond has concentrated significantly in aviation since entering the business in 2013, where he has participated in a variety of portfolio sales, ABS bond financings, bridge and term loans, and M&A transactions.

Former Air Lease's executive Ryan McKenna teamed up with alternative asset investment firm Bain Capital Credit in January to create an aviation leasing and asset management platform.

Under the deal, Bain Capital Credit will provide capital to acquire and lease aviation assets while McKenna, through the launch of Griffin Global Asset Management, will provide all lease management services for the platform.

"We are building a first-class aircraft leasing platform and that starts with exceptional individuals to lead our growing team," says McKenna.

"Marc Baer has distinguished himself throughout his career as an innovator and prominent voice in the aviation industry. Marc is a proven leader with deep relationships across the sector and is the ideal person to be the President of Griffin.

"John Beekman has built a sterling reputation as one of the most thoughtful investors in aviation securities over many years and is the perfect individual to lead our finance organisation.

"Jared Diamond's experience in structuring complex transactions is a major asset for Griffin and he will assume broad responsibilities as we grow the business," adds McKenna.

Market ready for next sale and leaseback wave

Airlines are searching for more funding to help them through the Covid-19 crisis, with sale and leaseback players ready to step in after a quiet period, writes **Olivier Bonnassies**.

The sale and leaseback (SLB) market could see another wave of activity over the next few months as some airlines – including those that secured funds via government aid packages – seek further financing to help them navigate through the Covid-19 crisis.

The market has now gone through an initial wave of requests for proposals (RFPs) from airlines looking at SLBs as one fundraising option among others such as revolving-credit facilities, term loans and government-guaranteed loans.

"Many are forced to demonstrate they have turned over every stone in order to gain state support," comments a leasing source.

While there are still deals in the pipeline, the market is experiencing something of a pause in SLB activity because many airlines have satisfied their near-term liquidity requirements.

"The urgency to secure significant liquidity via sale and leasebacks, from the airlines' perspective, has reduced," says a leasing source. "The airlines seem to now be prepared to do smaller deals than they were willing to do two months ago and the field is open to a wider segment of the lessor community."

Some transactions have also been withdrawn from the market, especially for used aircraft.

Airfinance Journal is aware of a Boeing 777 SLB proposal for seven units, while another RFP that included three 777-300ERs of about 10 years old was not successful. Another transaction featured almost 50 Airbus narrowbody mid-life aircraft across two types: A320s and A321s.

"I personally believe that the fourth quarter will bring a huge wave of SLB deals on used aircraft," says the source. "Airlines are fleeing for the exits when it comes to new deliveries at the moment.

"Manufacturers are struggling to contain the fallout and are pushing innovative financing solutions to ensure at least the widebodies get delivered."

One source describes trades or offers among at least 10 airlines in the past couple of months.

"Based on a number of recent deals, it seems good airlines – those expected to survive the crisis – are able to close sale and leaseback transactions at a small premium above rates seen pre-crisis. This is extremely surprising for us; we had expected at this stage that LRFs [lease rate factors] on used narrowbodies would be 1% or higher, but it remains in the 0.6% to 0.7% range for good carriers.

"For other airlines who don't look as stable or certain to survive, they are having a much harder time getting any offers: lessors and investors are worried about the prospect of holding naked aircraft in the foreseeable future."

But the source observes that lenders have largely departed the scene – leaving most bidders to fund with equity or existing facilities.

"This is clearly closing off the ability of many smaller lessors to lease back aircraft. Our industry remains highly competitive and most still compete on their cost of capital. As the crisis continues to evolve, it will be interesting to see how funding sources evolve for different lessors and if lenders and noteholders or bondholders retain a large appetite to continue funding at low rates," says the source.

New equipment

For new equipment, airlines have been testing the market for operating leases in parallel with finance leases and other funding sources, comparing how efficient they all are.

The level of sale and leaseback transactions in the first quarter was relatively low, but BOC Aviation was a dominant player in this market until April.

In early March, BOC Aviation's managing director and chief executive officer, Robert Martin, said that lessors saw the coming downturn as an opportunity to pick up assets and commit to longer-term customers.

"Lots of those airlines have been through this situation before, like 9/11, Sars or the global financial crisis, and they've kept large numbers of aircraft unencumbered. It is at these times we help the airlines monetise that and help to convert into cash," said Martin.

"If you look back at 2008/09, we ended up committing an additional 45 aircraft over

"If you look back at 2008/09, we ended up committing an additional 45 aircraft over a three-month period worth $2.5 billion of capital expenditure."

Robert Martin, managing director and chief executive officer, BOC Aviation a three-month period worth $2.5 billion of capital expenditure. All those aircraft had 12 to 16 years leases on them. This time around, it is not a financial crisis, it is more to do with revenue hit, but the dynamics are the same – it is rapid and things are changing quickly and people are looking to monetise some of those assets."

Martin says some customers would need support over this period. "That support often comes as a request of short-term rental deferrals. They will then pay back when they hit the summer season generally with some interest on top of that."

He adds: "We are on our way to an air travel recession. You will see a first half where there is going to have lots of problems that need to be solved with many types of certain carriers. The second half will be a period of recovery and payback of deferrals."

Shortly after his comments, the Singapore-based lessor announced an operating lease transaction with American Airlines. The 22 aircraft, all 787-8 models, were ordered from the manufacturer for delivery through 2021.

A week later, BOC Aviation closed a purchase and leaseback deal with Cathay Pacific Airways for six 777-300ER aircraft.

Then came other announcements with United Airlines (six 787-9s and 16 737 Max 9s), Southwest Airlines (10 Max 8s) and Wizz Air (six A321neo aircraft).

But the major transaction in April was Delta Air Lines, with the US carrier seeking $1 billion in new liquidity through relatively new aircraft.

There was no formal RFP from the US carrier as leasing companies were contacted to bid for a portfolio of aircraft. The transaction was concluded inside 14 days, according to sources.

Delta agreed SLBs with Altavair Airfinance, BBAM and Standard Chartered for a total of 40 aircraft.

BBAM signed a letter of intent covering 28 aircraft but 10 units were subject to reconfirmation. The firm 18 units included A321s and 737-900ERs.

Altavair Airfinance signed for six A321s with Delta.

Standard Chartered, via its Aviation Finance subsidiary, also agreed purchase and leaseback transactions with Delta for six A321s. The lessor later announced a transaction for 10 Max 8s with Southwest Airlines.

Bond blowout

In March, yields on many lessors' bonds blew out as investors baulked at the prospect of multiple airline defaults and bankruptcies leading to a glut of aircraft coming onto the market.

However, among the major lessors BOC Aviation's share price and bond pricing has been by far the most stable, protecting

Delta agreed SLBs with Altavair Airfinance, BBAM and Standard Chartered

its debt market access and funding cost. Capacity for other large SLB opportunities may be impacted by capital and liquidity constraints among some of the global leasing companies.

The Singapore-based lessor has an advantage as it remains a strategic subsidiary of state-owned Bank of China, and the company will be backed by its parent and the government, wrote Nomura analyst Nicholas Yap in a pre-pricing note in late May.

BOC Aviation upsized its global medium-term notes programme at the end of the first quarter by $5 billion, to $15 billion.

In May, it issued $750 million of unsecured senior notes at a 2.75% coupon on a five-year term. The transaction came after a five-year $1 billion April issuance at a 3.25% fixed rate. *Airfinance Journal* understands that the five-year bond was more than four times oversubscribed and more than two-thirds was sold to Asian investors.

In January, BOC Aviation issued $400 million of senior unsecured notes at 2.625%.

Speaking on *Airfinance Journal*'s podcast, "A little ray of sunshine", Split Rock Aviation's managing director, Andy Mansell said: "If you look at how the market is settling and the kind of debt in the market that has been raised: Aercap raised $1.25 billion five-year money at 6.5%, BOC Aviation raised $750 million, 3.5-year money, but if my calculation of Treasury is correct, they raised at less than 4%.

"Lots of lessors have liquidity, and BOC Aviation, BBAM and Altavair Airfinance are not the only ones with the liquidity. But while the landscape is murky, most are reluctant to pull the trigger in a big way."

Andy Mansell, managing director, Split Rock Aviation

"Where we are right now, BOC Aviation is in a league on its own. There is a huge competitor's advantage if your funding spread between competitors is wider than 2%."

Mansell said in April: "Lots of lessors have liquidity, and BOC Aviation, BBAM and Altavair Airfinance are not the only ones with the liquidity. But while the landscape is murky, most are reluctant to pull the trigger in a big way."

Sources say more SLB proposals will hit the market later in the year because most lessors were previously busy analysing their credits, and consequently did not bid on all opportunities.

In March, one leasing source told *Airfinance Journal*: "There's lots of talk by leasing companies and deals for four or five aircraft that would have 10 to 15 credible offers.

When you get into the $1 billion range and requirement for quick closings, I would say that there's less than five leasing companies in that race."

Commenting now, the same source says: "The large deals that we saw concluded in April and May were either done by bank-owned leasing companies – who had access to internal debt and likely at rates and on terms not available in the general market – or those who had committed warehouse facilities.

"Airlines can take time to negotiate price and terms. It is still true that certainty is a key decision-maker for airlines – hence, visibility of a lessor's capability of closing is very important – and access to debt will be a key element of any evaluation.

"It will now be interesting to see if airlines find themselves needing more SLB liquidity and, if so, will they be prepared to be selective like now, or will they be reactive like two months ago?" he adds.

As most airlines remain focused on retaining liquidity, the source expects more airlines coming to lessors with aircraft sale proposals.

"The SLB market has focused on used kit. SLBs are an obvious way for airlines to liquidate equity into an asset and I expect them to use this market," says another leasing source.

He predicts operating lessors eventually to own 65% to 70% of the global fleet as a result of the Covid-19 crisis and airlines selling down assets to preserve cash.

An end to **low lease rates**?

The Covid-19 crisis looks set to end the period of historic low lease rental factors, but the pace and extent of change remains unclear, writes **Oliver Clark**.

Before the Covid-19 crisis, competition among lessors had helped drive down lease rate factors (LRF) to historically low levels, but the economic crisis wrought by the virus looks set to throw existing market forces into a state of flux for some time.

In the years before the pandemic, a mixture of new entrants, especially in Asia, entering the leasing space, cheap capital and low interest rates helped depress leasing yields and LRFs for new aircraft to unprecedented lows.

Airlines were most definitely in the driving seat.

Doug Kelly, senior vice-president, asset valuation, at Avitas, tells *Airfinance Journal* that prior to the pandemic, LRF for new narrowbody and widebody aircraft were approaching 0.5% a month, a rate at which "few of the bigger lessors were willing to bid on those deals".

Lease terms were also "eroding" before the pandemic, he notes.

Since the arrival of Covid-19, Kelly says Avitas has become aware of some sale and leaseback deals with LRF in the 0.7% range, while lease terms have firmed up.

This means lease rates may have gone down, but the purchase price has dropped even further, based on negotiated financing deals and not related to open market transactions. Kelly believes lease rates have declined 15% to 25% depending on type and age.

> *Since the advent of Covid-19, the dynamics of the sale and leaseback market have changed dramatically. The balance of negotiation power is no longer with the airlines, as Covid-19 has devastated the global airline industry.*
>
> **Mike Yeomans**, head of valuations, IBA

He says current opinion is that Airbus A320 lease rates are down about 22% from their pre-pandemic level.

Mike Yeomans, head of valuations at IBA, says economic conditions resulting from the pandemic now favour the lessor in lease rate negotiations.

"Since the advent of Covid-19, the dynamics of the sale and leaseback market have changed dramatically. The balance of negotiation power is no longer with the airlines, as Covid-19 has devastated the global airline industry," he says.

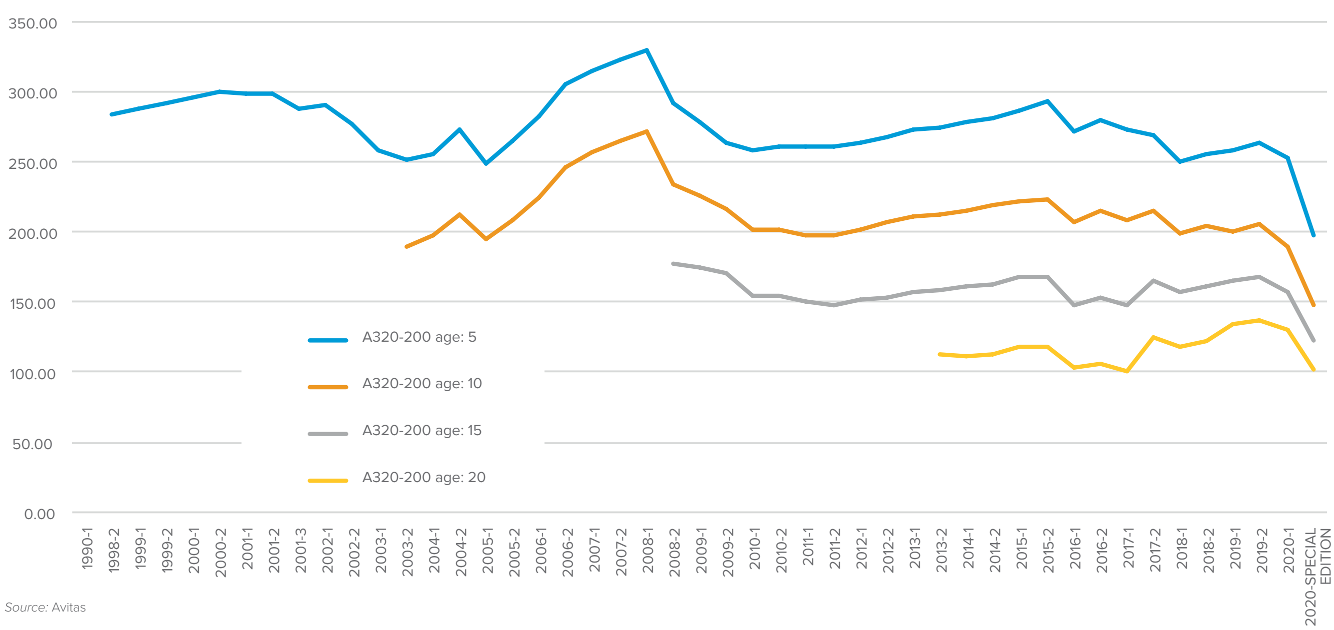
"Airlines engaging in sale and leaseback deals to raise capital has been a feature of the recent post-Covid-19 market. However, the opportunities have primarily been available to traditionally stronger credit airlines. The number of bidders is now much lower and the terms are more favourable to the lessor," he adds.

Yeomans says the suggestion of a LRF of above 0.8% for a young narrowbody aircraft to a Tier 1 carrier would have been "inconceivable" in 2019, but he notes: "We are seeing such deals in the current market. Lease rate factors for the highest-tier airlines with global brands exceed those that would have even been imagined of much weaker credits a year ago."

George Dimitroff, head of valuations at Ascend by Cirium, says the appraiser is seeing a strengthening of LRFs in specific transactions – typically purchase and leasebacks of newer, but also some younger used and even mid-life, aircraft.

"This is indicative of both the changing competitive dynamic, with fewer lessors

A320 historical lease rates constant age



Source: Avitas

able to compete in request for proposals [RFPs] (if there is an RFP process; some of these deals are bilateral between lessor and airline with no competitive bid process), but also the shifting balance of power between airline and lessor.

"Previously, airlines were able to command terms in a very competitive leasing environment to dictate lease rates and lease rate factors. With airlines inter alia now desperate to generate liquidity with sale and leaseback of any unencumbered asset, lessors are increasingly able to dictate terms and will thus drive up lease rate factors whenever possible."

Olga Razzhivina, senior ISTAT appraiser at Oriel, says there has been a "mixed effect" on LRFs so far as a result of the virus.

"The initial airline lease requests were mostly for deferrals with later repayment during the course of the lease, which does not affect the LRF over the full term. However, it is clear that the second wave of requests has already started and there are shifts towards lowering the lease rate, potentially against an extended lease term. This again can be neutral against the total LRF," she notes.

When it comes to the new sale and leaseback transactions, Razzhivina says it appears that the LRFs are rising, especially given that the lessees, so far, are from better credit brackets. The other factor is that the airline credit ratings are declining, reflecting the "increased risk of our industry".

Dimitroff says Ascend by Cirium is aware of some lease deferral negotiations that have included requests for rent reductions typically linked to extensions.

Given that lessors will do their utmost to avoid any additional early redeliveries, he believes that this will incentivise them to consider deferrals and reduced rents.

Oversupply challenge

While there is evidence of a rise in LRF caused by the Covid-19 crisis, several appraisers note a parallel set of market forces that are likely to depress rates as a result of the crisis.

As airlines have sought to cut fleet expenditure, curtail growth plans and return aircraft and, in some cases, have collapsed as a result of the crisis, lessors face the prospect of a growing inventory of uncommitted aircraft.

Rob Morris, global head of consultancy at Ascend by Cirium, says that where a lessor is dealing with scheduled or unscheduled returns, they are "much less likely to have less bargaining power in a weak demand scenario".

He adds: "Therefore, in remarketing scenarios (and lease extensions) where the lessor owns the aircraft, we may see continually low (or even lower, possibly) lease rate factors. The real driver for how bad these get will be unscheduled lease returns as a result of airline failures, and this process is only just beginning."

Airbus A320 lease rates are down about 22% from their pre-pandemic level

"We have already seen an announced wave of fleet exits which includes older-generation aircraft such as Boeing MD80/90-family aircraft and older examples of the 737NG series and A320ceo-family aircraft."

Doug Kelly, senior vice-president, asset valuation, Avitas

Morris estimates that, at the present time, operating lessors globally have some 180 single-aisle and 80 twin-aisle aircraft off-lease and available, an inventory he describes as "relatively manageable".

However, he says a further 490 single-aisle and 110 twin-aisle aircraft are scheduled for lease expiry in the remainder of 2020, plus another 440 and 80 each in 2021.

With the current state of airlines generally, it is not "unreasonable" to expect this availability to be further increased with unscheduled returns/defaults, particularly in the final quarter of 2020 when business support packages will have run out and if traffic demand and revenues have not been able to recover as airlines hope, believes Morris.

Yeomans says that the wave of lease extensions agreed before Covid-19 in response to new aircraft delivery delays and the Boeing 737 Max being out of service means there is a large subset of the fleet on relatively short remaining lease terms.

"This will allow operators to readjust capacity over the coming years. Lessors will be motivated to keep those aircraft with their current lessees because opportunities to move aircraft onto new leases will be fewer and farther between," he says.

"In oversupplied market conditions, we have seen lessors engage in shorter-term leases with lower rents or PBH [power-by-the-hour]-style deals to keep aircraft in operation and to avoid inheriting parking and maintenance costs," adds Yeomans.

He expects this trend to grow as the industry exits the Covid-19 market – noting the example of "out-of-favour aircraft", such as the A330 in 2019.

Kelly says that narrowbody types are likely to fare better than widebodies because there is less oversupply.

With about 800 737 Max aircraft grounded, this helps the "supply/demand equation", while the national restrictions imposed by many nations in the wake of the virus means domestic travel is expected to return to normal levels much sooner than international travel, notes Kelly.

IBA expects older aircraft to be those considered surplus to airlines' requirements over the next 18 months, and some models and classes of aircraft will fare better than others.

Widebodies over 12 years old are identified as "vulnerable" because more than 1,800 aircraft will need to leave the global airline system in the near term. IBA has identified four-engine types such as 747s and A380s, in addition to older twins, including 777-200/ER/LR models, A340s and mature A330s, as those likely to suffer worst.

Narrowbodies over 16 years old will face pressure, with about 3,400 single-aisle aircraft forecast to be superfluous over the coming years.

"We have already seen an announced wave of fleet exits which includes older-generation aircraft such as MD80/90-family aircraft and older examples of the 737NG series and A320ceo-family aircraft," he notes.

Long-term

Kelly expects a "shakeout" in the leasing industry that will benefit the stronger players and lead to more rational pricing.

He says: "In the long-term, lease rates should increase as interest rates and inflation return to higher levels. We expect passenger traffic to return to 2019 levels by around 2023."

Government investment is **Cathay's only option**

Cathay Pacific announced its recapitalisation plan in June. Patrick Healy, the carrier's chairman, says that, given the extent of the Covid-19 pandemic, the company could collapse without the plan. **Elsie Guan** reports.

A multi-billion recapitalisation plan that will see the Hong Kong Special Administrative Region (HKSAR) take a stake in Cathay Pacific is essential to the airline's survival, according to its chairman, Patrick Healy.

"The recapitalisation plan is basically the only plan available to Cathay Pacific," says Healy. On 9 June, Cathay Pacific Airways unveiled a HK$39 billion ($5 billion) recapitalisation plan comprising three tranches.

Cathay will issue HK$19.5 billion in preference shares with detachable warrants to the HKSAR government after requisite shareholders' approval has been obtained.

Cathay will also launch an HK$11.7 billion rights issue to existing shareholders after requisite shareholders' approval has been obtained. The rights issue proposal is on the basis of seven rights shares for every 11 existing shares held and would raise about HK$11.7 billion.

Furthermore, the HKSAR government, through the special purpose vehicle Aviation 2020, will provide a HK$7.8 billion bridge loan facility to Cathay, available for drawdown immediately.

This three-part plan is designed to provide Cathay Pacific with sufficient funds to withstand the industry-wide downturn, and a stable financial platform from which it will be able to conduct the wholesale review of operations required to transform its business to reflect the new global travel market dynamics.

The equity injection means the Hong Kong SAR government, Swire Pacific, Air China and Qatar Airways will hold 6.08%, 42.26%, 28.17% and 9.38% in Cathay Pacific, respectively, after the recapitalisation.

But Healy says the carrier needs to "redouble" efforts to transform the business in order to become more competitive. As such Cathay Pacific has announced a new round of executive pay cuts, and a second voluntary special leave scheme for its employees.

The government would not have voting rights in Cathay Pacific. "It is an investment by the government. The government is expecting and planning to make a reasonable return on the investment funds through preference shares, warrants and loan facility," he says.

"The government does not have the intention to remain a long-term shareholder and also does not have the intention to engage in operations. The rule of the observers of the government is to provide the visibility that the government require to safeguard their investment and obviously that's something we are very much welcome," adds Healy.

Cathay Pacific started the year with about HK$20 billion under the unrestricted liquidity, and the current cash burn is in the region of about HK$2.5 billion to HK$3 billion a month.

"The reality is, without the new recapitalisation plan, we will very shortly be running out of cash with serious risks of collapse. Therefore, the recapitalisation plan is absolutely critical to the survival of Cathay Pacific," says Healy.

Since the middle of 2019, the social situation in Hong Kong has led to a sharp decline in passenger traffic and this challenging environment has been exacerbated by the outbreak of the Covid-19 pandemic.

Most industry analysts forecast very gradual recoveries over a protracted period. The International Air Transport Association anticipates international passenger demand not to return to pre-crisis levels before 2023 at the earliest.

The Cathay Pacific Group is even more vulnerable than most of its global airline peers, given that its airlines have no domestic network and are wholly reliant on cross-border travel.

"The prospective for recovery at the moment is very difficult to say. We are certainly hopeful of a gradual relaxation in travel restrictions in many of our markets but the situation remains very dynamic and the capital remains fragile and flexible, and we react to the situation as it develops," says Healy. The Group posted an attributable profit of HK$1.7 billion for 2019, down 27% from HK$2.3 billion the previous year.

Cathay Pacific has been agile in responding to this unprecedented crisis and has remained focused on cash conservation.

The many actions it has taken to preserve cash have included cutting passenger capacity by 97%, implementing executive pay cuts, deferring new aircraft orders and carrying out the early retirement of older aircraft, as well as implementation of a voluntary special leave scheme, which had an 80% employee uptake.

"We continue to negotiate with our suppliers on deferral of new aircraft orders, and we will be continuing to examine all possible ways of minimising cash, and in addition looking for opportunities to offset the very deep cut we have seen in passenger revenue," says Healy.

One example of that is how lively the team has been in exploring cargo opportunities. Cathay Pacific has been very alert in not only running its freighter fleet at 100% capacity but also running several hundred peers of flights per month using passenger aircraft to fly cargo to maximise cargo revenue to the best possible levels in order to offset a very dramatic drop in the passenger revenue.

By the fourth quarter of this year, the Cathay Pacific management team will recommend to the board the optimum size and shape of the Cathay Pacific Group to meet the air travel needs of Hong Kong SAR, while keeping the company's financial status at a healthy level.

"Tough decisions will need to be made in the fourth quarter of this year to get Cathay Pacific to the right size and shape in which to compete successfully and thrive in this new environment," says Healy.

But he remains optimistic over its long-term prospects. "Once we have right-sized the airlines to adapt to our new reality, our long-term prospects remain as bright as ever," says Healy.

The company will benefit from an outstanding 70-year-old brand; a world-beating premium service offering through Cathay Pacific and Cathay Dragon; together with a newly acquired low-cost carrier in HK Express; and an unrivalled position in the Greater Bay Area, a region which will be the growth engine for the world economy over the next few decades. "Our short-term challenges are significant, but our long-term future remains bright."

Airfinance Journal's 2019 deals of the year awards

Airfinance Journal reveals the winners of our prestigious annual Awards, recognising the most innovative deals, individuals and teams in aviation finance.

Africa Deal of the Year: Air Austral Five Aircraft Commercial and PDP Loans

Borrower/Issuer: Air Austral

Structures: Pre-delivery financing facility, revolving credit private placement note issuance

Assets financed: Two ATR72-600s, three A220-300 PDPs

Lawyers (and roles): White & Case acted for Air Austral; Holman Fenwick Willan (HFW) acted for Ewa Air; and Watson Farley & Williams represented Investec. Hogan Lovells represented La Banque Postale

Banks: Investec as lead arranger, security trustee, agent and lender for all transactions. La Banque Postale provided a structurally subordinated loan in respect of the tax benefit covering the French tax lease of the ATR72s

Amount: $16 million and €35 million

Date mandated: 8 November 2019

Date closed: 20 December 2019

French carrier Air Austral mandated Investec to finance a pair of ATR72-600s, for Mayotte-based subsidiary Ewa Air. The transaction, which was the inaugural deal between the parties, involved an initial bridge loan and long-term refinancing through a unique note structure.

Investec Bank acted as lead arranger, security trustee, agent and lender in the transaction. La Banque Postale provided a structurally subordinated loan in respect of the tax benefit covering the French tax lease for the ATR72s.

The loan was immediately flipped to a seven-year bond in the private placement market. The deal marked the first time that a bond was used to fund a French tax lease structure. It was also the first aircraft secured private placement note relating to the French tax lease of two ATR72-600s using the rare credit d'impot outre-mer.

The French tax lease was atypical in that the aircraft-owning special purpose vehicle was owned by the airline, rather than the bank (as is typical in French tax leasing), so that the airline obtained the tax benefit.

The transaction marketed the first debt raised by Ewa Air and the first revolving credit private placement note issuance for a French carrier.

The use of the private placement note structure for the ATR72-600 transaction created a precedent that was replicated in the revolving credit facility.

The mandate also included pre-delivery financing payments (PDP) for a total of three Airbus A220-300s. This was the first PDP financing transaction for the aircraft type in Africa.

Asia-Pacific Deal of the Year: Ortus Aircraft Leasing II $300m Aviation Fund

Borrower/Issuer: Ortus Aircraft Leasing II Fund

Structure: Equity fund with institutional investors from Japan

Assets financed: Two Airbus A321neo aircraft at time of the submission

Lawyer: Clifford Chance

Banks: Sumitomo Mitsui Trust Bank with Novus Aviation Capital as overall arranger

Amount: $300 million

Date mandated: 1 February 2019

Date closed: 30 September 2019

The Ortus Aircraft Leasing II Fund was the largest equity commitment for a Japanese funded aircraft leasing fund last year.

The Ortus fund brand was initiated with the launch of Ortus Aircraft Leasing I in 2016, which raised $200 million. It was a pioneering fund geared to Japanese investors only and investment philosophy of not placing any aircraft from the portfolio.

Ortus Aircraft Leasing II attracted a wide variety of investors (including pension fund, trust bank, regional banks, infrastructure company, universities, school foundation, asset management company, most of which are first time investors into the aircraft space.

The fund launched in February 2019 and closed at the end of September 2019. This was one of the fastest-closing funds that Sumitomo Mitsui Trust Bank had sponsored and invested in as a limited partner across asset classes.

The fund's target was to raise $200 million initially but was oversubscribed by early summer and closed at around $300 million.

The partners spent over one year to perfect the terms and conditions of the fund to fit the Japanese market. Novus Aviation Capital said the partners were seeking a diverse range of investors to meet all the needs and demands with continuous education, and perseverance.

Out of the 21 institutional investors, there were only eight repeat investors from Ortus I, proving the growing interest in the market for aircraft investment and the fund's success.

The fund invested in two Airbus A321neo aircraft that were acquired and leased on a long-term basis to an Asian carrier.

Ortus II will continue the Ortus fund's focus and strategy on acquiring commercial aircraft leased to airlines. The fund consists of a portfolio of global airlines, covering commercial aircraft from both Airbus and Boeing.

The fund faced some competition in the market because a few other lessors began marketing their funds in Japan. However, Novus's track record and acceptance of its investment philosophy was evident in the amount raised and number of new and diverse investors in Ortus Aircraft Leasing II.

Novus Aviation Capital recognises the importance and the result of educating investors in aircraft leasing and investment in Asia since the start of its activities in this region.

Europe Deal of the Year: Avolon $2.5bn Bond Issuance

Borrower/Issuer: Avolon Holdings Limited

Structure: Multi-tranche bond issuance

Banks: Bookrunners included Barclays Capital, BNP Paribas Securities, Credit Agricole Securities (USA), Deutsche Bank Securities, Fifth Third Securities, ING Financial Markets, J.P. Morgan Securities, Mizuho Securities (USA), Morgan Stanley & Co, Natixis Securities Americas, SG Americas Securities, SunTrust Robinson Humphrey and Wells Fargo Securities

Lawyer: Weil, Gotshal and Manges

Amount: $2.5 billion

Date mandated: 11 April 2019

Date closed: 16 April 2019

Avolon's massive $2.5 billion senior note issuance marked a cornerstone moment for the lessor as it entered into the investment- grade rating universe.

Since re-entering the global capital markets in 2017, Avolon has become an active market participant with over $12 billion of publicly traded debt outstanding at the end of 2019.

Following the introduction of ORIX Aviation as a shareholder in late 2018, and the associated implementation of an enhanced governance framework, the final impediment to moving to an investment-grade ratings profile was the transition of Avolon's capital structure to majority unsecured debt – specifically moving Avolon's ratio of secured debt to total assets to 30% or below.

Avolon issued $1.1 billion unsecured notes in January 2019 and it ended the second quarter with a 29% secured debt ratio with the $2.5 billion notes.

The senior unsecured bond offering was in three tranches: $750 million of 3.625% senior notes due 2022 with a yield to maturity of 3.650%; $1 billion of 3.950% senior notes due 2024 with a yield to maturity of 4.064%; and $750 million of 4.375% senior notes due 2026 with a yield to maturity of 4.454%.

The offering was upsized significantly from $1.8 billion at launch, reflecting the demand from institutional investors.

On completion, Moody's upgraded Avolon's corporate family and senior unsecured ratings to investment grade (Baa3), followed by Fitch and Standard & Poor's (BBB-).

Avolon raised a total of $4.1 billion of unsecured debt in 2019 and has continued to build on that pipeline having issued a further $1.75 billion in the first few weeks of this year.

Andy Cronin, Avolon's chief financial officer, says: "An investment-grade rating will provide us with even greater financial flexibility and access to a deep pool of capital. The strong market demand for this offering reflects confidence in Avolon's credit profile and the longterm prospects for the business."

Latin America Deal of the Year: Avianca $4.5bn 53-Aircraft Lease and Debt Re-Profiling Programme

Borrower/Issuer: Avianca Holdings and subsidiaries

Structures: Commercial financing leases, European ECA finance leases and Jolcos

Assets financed: 53 aircraft

Lawyers (and roles): Allen & Overy as legal advisers to European ECAs. Milbank, Greenberg Traurig, Smith Gambrell, White & Case and Grindal PC to Avianca. Vedder Price, Pillsbury, Clifford Chance and Norton Rose as legal advisers to various banks. Robert Wray as counsel to US Ex-Im, Holland & Knight as counsel to various lessors, Hughes Hubbard as counsel to United Airlines, Cadwalader as counsel to Kingsland, and Cahill as counsel to Bank of America as global coordinator of exchange offer

ECAs: Bpifrance, Euler Hermes, SACE, UKEF, US Ex-Im

Advisers: Seabury Securities as financial adviser to Avianca and Burnham Sterling

Date mandated: 1 July 2019

Date closed: 17 December 2019

Avianca renegotiated over $4.5 billion of aircraft lease, debt and other obligations as part of its 2021 strategic plan. The transaction included an offer to exchange its $550 million 8.375% senior unsecured notes due in May 2020 for new senior secured notes due 2023, and a $325 million convertible term loan facility provided by United Airlines, Kingsland International Group, and certain Latin American investors.

The transaction, which was achieved in less than five months, required negotiations with more than 125 creditors and suppliers, a 100% participation in lease and debt re-profiling by all lessors and lenders, including Japanese operating lease with call option (Jolco) lenders.

The transaction was innovative because it combined capital markets, bank, ECA and lease obligations in a single re-profiling programme.

Part of the 'Avianca 2021 Plan' involved bondholders exchanging their existing 8.375% senior unsecured notes on a par-for-par basis for senior secured notes. Avianca was also soliciting consents to amendments that, among other things, eliminate substantially all covenants.

On 31 December 2019, the new notes automatically converted into "9% senior secured notes due 2023" on the closing of the $250 million-plus investment led by United and Kingsland.

> *"Our plan incorporates a comprehensive profit boost, to be executed over the coming 24 months, that is designed to drive better unit revenue and cost performance by Avianca."*
>
> **Anko van der Werff**, chief executive officer, Avianca

"Our plan incorporates a comprehensive profit boost, to be executed over the coming 24 months, that is designed to drive better unit revenue and cost performance by Avianca," said Avianca's chief executive officer Anko van der Werff at the time.

Seabury said that the turnaround plan and financial support from United and Kingsland "gave us the ability to collectively persuade Avianca's creditors, lessors, and other key stakeholders to commit to continuing to support Avianca". The transaction represented the largest lease and debt re-profiling programme of a Latin American carrier.

North America Deal of the Year: Hawaiian Airlines Six Aircraft Commercial Loans

Borrower/Issuer: Hawaiian Airlines

Structure: Japanese Yen-denominated senior secured loans

Assets financed: Two Airbus A321neo and four A330-200 aircraft

Lawyers (and role): Hughes Hubbard as airline counsel; Nishimura & Asahi, K&L Gates represented the lenders

Adviser (and role): Burnham Sterling & Company as exclusive financial and placement adviser for Hawaiian Airlines

Financing Tenor: 12 years (A321neo) and about 5.5 years (A330-200)

Date mandated: 8 July 2019

Date closed: 30 September 2019

Hawaiian Airlines returned to the Japanese yen-denominated loan market for the refinancing of four Airbus A330s, delivered in 2011 and to fund the delivery of two new A321neo aircraft delivered in February and May 2019. Burnham Sterling & Co acted as exclusive financial adviser. The company structured and placed the transaction with eight institutional investors in Japan, all of which were first-time investors in Hawaiian.

The deal followed two A321neo deliveries financed in 2018 for 12-year tenors and coupon of approximately 1%. Burnham Sterling structured and placed that inaugural transaction with two institutional investors in Japan.

Japanese yen-denominated loans financing provides a natural hedge against Hawaiian's growing Japanese yen revenues at all-in equivalent financing costs that are well below the airline's US dollar debt pricing. The transaction involved a syndicate of eight Japanese lenders consisting of institutional investors, regional and trust banks 100% new to Hawaiian Airlines. Some lenders were new to aviation finance. New and post-delivery aircraft were financed in the deal for up to 12-year maturity.

The transaction achieved record low pricing for Hawaiian Airlines, in both Japanese yen and on a swapped equivalent basis in US dollar (against the airline's US dollar debt pricing).

The financing faced potential obstacles such as loan-to-value (LTV) under currency volatility. A potential Japanese yen appreciation over time may result in LTV volatility. The financing LTVs at closing were typical.

Middle East Deal of the Year: Dara Aviation $500m Islamic Financing for 18 Aircraft

Borrower/Issuer: Dara Aviation

Structure: Shariah-compliant warehouse facility

Assets financed: Large seed aircraft portfolio from Aercap

Lawyers (and roles): Hughes Hubbard & Reed acted for the lenders; Milbank acted for the borrower and Clifford Chance; A&L Goodbody as Irish counsel

Banks: Citi as mandated lead arranger, co-underwritter, global coordinator, structuring agent and co-hedge provider. BNP Paribas as mandated lead arranger, co-underwritter and co-hedge provider

Tenor: Five years

Amount: $500 million

Date mandated: 14 March 2019

Date closed: 29 July 2019

The Dara Aviation was the first Sharia-compliant non-recourse revolving warehouse facility, employing a Murabaha commodity structure.

The transaction marked National Commercial Bank Capital (NCB Capital) second aircraft acquisition investment after the Aercap joint-venture's acquisition of 21 aircraft, called Peregrine Aviation, in December 2017.

Citi, having been a structuring agent and lender in Peregrine Aviation, was hired along with BNP Paribas as mandated lead arranger, co-underwritter, and co-hedge provider.

The initial seed portfolio from Aercap (which acts as seller and servicer) is comprised of 19 aircraft with an average age of 11 years and a remaining lease term of four years spread across 17 lessees globally.

Aercap's chief executive officer (CEO), Aengus Kelly, says the lessor has sold or contracted to sell approximately $1.4 billion of mid-life assets to NCB since 2017. "This innovative transaction and the application of new Shariah-compliant credit facilities reaffirms NCB Capital's commitment to being at the forefront of the local and regional asset management sectors. We are delighted to have partnered once again with leading financial institutions and Aercap," said Sarah Al Suhaimi, CEO of NCB Capital.

The facility was structured to facilitate refinancing and take-out within the same legal vehicle. No additional novations were required to refinance, minimise lessee disruptions. The Sharia-compliant facility amounts to $500 million. It features a 24-month availability period followed by 36-month term period.

The structural highlights included an advance rate and borrowing base tiered according to aircraft age, a slower amortisation during the availability period and faster annual amortisation during the term period with supplemental cash sweeps in the final two years of term period. It also featured an initial margin step up annually after the second year throughout the term period.

Bank Loan Deal of the Year: PK AirFinance **$3.6bn Commercial Loan**

Borrower/Issuer: PK AirFinance

Structure: Commercial loans not exceeding 60 months

Banks: Citigroup Global Markets, RBC Capital Markets, and Mizuho

Adviser: RBC Capital Markets as financial adviser to Apollo, Citi and Goldman Sachs as financial advisers to GE Capital

Lawyers (and roles): K&L Gates for the lenders, Milbank as counsel for Apollo Global Management (for financing), Paul Weiss for Apollo (on acquisition), Clifford Chance for General Electric, Shearman & Sterling for Redding Ridge (CLO Manager), Sidley Austin for Athene Holding, Latham & Watkins for Merx Aviation, Nixon Peabody for US Bank (as Trustee), McCann Fitzgerald as Irish counsel to Apollo, Anderson Mōri & Tomotsune as Japanese counsel to Apollo

Amount: $3.6 billion

Date mandated: 30 July 2019

Date closed: 12 December 2019

General Electric entered into a definitive agreement for Apollo Global Management and Athene Holding to purchase PK AirFinance, an aviation lending business, from GE Capital's Aviation Services (GECAS) unit.

The transaction involved Apollo acquiring the PK AirFinance aircraft lending platform and Athene acquiring PK AirFinance's existing portfolio of loans. Apollo and Athene formed an entity Aurora Bidco in its agreement to purchase PK AirFinance's loan portfolio. By acquiring PK AirFinance, it provided Athene with a large, diversified portfolio of high-quality loans with attractive risk-adjusted returns.

The transaction was financed by a $3.6 billion collateralised loan obligation (CLO), the first CLO with an aircraft secured loan portfolio.

Citi, Royal Bank of Canada and Mizuho provided the CLO facility that allowed the issuer PK Air Ltd to acquire the entire PK AirFinance loan portfolio.

The main challenge faced by the teams was to find a sustainable structure, which married aircraft finance and CLO structures to function as one. CLOs are typically used for receivables or mortgages and their successful application to complex aviation loan structures has the potential for creating a new debt capital market product.

One major challenge was to overcome asset risk (typical for aviation finance transactions) versus credit risk (typical for CLO transactions). This transaction set out a workable structure to provide aviation investors with choices that go beyond the asset-backed security and enhanced equipment trust certificate markets.

Guaranteed Financing Deal of the Year: El Al **$150m 787-9 AFIC Covered Jolco**

Borrower/Issuer: El Al Israel Airlines

Structure: AFIC supported financing combined with Jolco

Banks: Development Bank of Japan as initial lender and loan agent, Bank of Utah as facility agent and security trustee

Arranger: ABL Aviation as overall arranger

Payment protection insurers: Sompo Japan Nipponkoa Insurance (SJNK), Allianz Global Corporate & Specialty, AXIS Capital, Fidelis and Sompo International

Lessor: SBI Leasing arranged the Jolco equity and established the Tokumei Kumiai that acted as the Japanese lessor

Lender: Development Bank of Japan (DBJ)

Lawyers (and roles): Milbank to the AFIC insurers, Bryan Cave Leighton Paisner to El Al Israel Airlines, Norton Rose Fulbright to the initial lender and loan agent, Nishimura & Asahi to SBI Leasing, Herzog Fox and Neeman as Israeli counsel to the insurer representative, the security trustee, the facility agent, the initial lender and loan agent

Advisers (and roles): AFIC advisory and operations as adviser to the AFIC panel of insurers, Marsh UK (AFIC credit specialties) and Marsh Tokyo, as broker and adviser regarding AFIC Non-Payment Insurance to DBJ as initial lender and loan agent and to the subsequent Japanese lenders as transferees

Amount: $150 million

Date mandated: 24 April 2019

Date closed: 18 June 2019

Prior to this transaction, El Al had acquired six Boeing 787s under operating leases and three direct deliveries, but this ABL Aviation coordinated Development Bank of Japan funded, Sompo Japan Nipponkoa Insurance fronted, AFIC supported, SBI arranged Japanese operating lease with call option (Jolco) financing was the first time an AFIC-supported financing was combined with a Jolco.

The transaction, called Jerusalem Jolco, was a significant milestone because it was El Al's first AFIC, AFIC's first SJNK-fronted AFIC- supported financing and first AFIC-supported financing that is 100% Japanese (equity, the debt, and the fronting insurer are all based in Japan). The transaction also marked ABL's first AFIC-supported financing and DBJ's first financing for El Al.

The Jerusalem Jolco brought together an Israeli carrier, a Moroccan equity and debt arranger and transaction coordinator, a Japanese bank, a Japanese fronting insurer, four London-based insurance companies as reinsurers, and an American security trustee, the facility agent.

The transaction resulted in the most attractive 100% financing of any AFIC-supported aircraft as of June 2019. One of the main complexities in creating this new Jolco tax product with AFIC-supported debt was developing the documentation.

As it was the first time that the product had ever been structured, technical points had to be incorporated into the documentation, which had to work from the perspective of the borrower, lender and insurance entities in the deal. Two unique aspects of the deal were the technical inputs and annual physical inspection of the aircraft, had never been introduced into a Jolco-structured lease agreement.

As a result of this transaction, other Jolco equity providers are now looking to work with AFIC to combine AFIC-supported debt with their equity. The result of DBJ successfully selling down a portion of the AFIC-supported loan to half a dozen Japanese regional banks was the viability of the "originate and distribute within Japan" business model for AFIC-supported loans.

Tax Lease Deal of the Year: TAP Air Portugal $200m French Tax Lease for Two A330neos

Borrower/Issuer: SPC lessors (Vasco and Gama SAS)

Structure: Structured French tax lease

Banks: BNP Paribas as bookrunner, mandated lead arranger, lease arranger, swap counterparty, senior lender, agent and security trustee. Tamweel Aviation Finance II (a fund by Novus Aviation) as junior lender

Lawyers (and roles): Norton Rose Fulbright as legal adviser of BNP Paribas and the SPC lessors, Clifford Chance as legal adviser of Tamweel Aviation Finance II, REN Legal as legal adviser of TAP Portugal

Assets: Two Airbus A330-900s

Amount: More than $200 million

Date mandated: 26 April 2019

Date closed: 17 December 2019

The transaction marked the inaugural structured French tax lease product for TAP Air Portugal.

It also represented the first French lease combined with a continuing airworthiness management and aircraft storage programme entered with Airbus, TAP Air Portugal and the special purpose company (SPC) lessors. This structure allowed a timely delivery from Airbus in the fourth quarter of 2019 and a lease/commercial operation starting in the first quarter of 2020.

The financing featured a French lease structure arranged by BNP Paribas, combined with a senior loan provided by BNP Paribas and a mezzanine facility from Tamweel Aviation Finance II (TAF II). The combination of senior and junior financing delivered circa 90% loan to value.

TAF partners include Novus Aviation Capital, Airbus, the Development Bank of Japan and Norddeutsche Landesbank Girozentrale (Nord/LB).

The transaction allowed TAP Air Portugal to diversify its financing sources.

To finance its fleet, the Portuguese flag carrier has turned initially to the lessor market, completing sale and leasebacks for nine A330-900 and eight A320neo aircraft. But in December the carrier completed a 5.625% €375 million ($413 million) senior bond issuance with a five-year term. The senior notes issuance was upsized from its initial €300 million target. The goal is to finance the renewal of the fleet of aircraft, and the bond issuance will give a long-term structure to TAP's debt in line with the profile of its cash flows.

The €375 million issuance followed TAP's inaugural offering in the Portuguese bond market in June. The flag carrier quadrupled the initial amount of its ongoing debenture loan to €200 million. The 4.375% bond matures on 23 June 2023.

TAP Air Portugal was rated for the first time by international credit agencies last year, reflecting the earnings recovery trend observed in the second and third quarters of 2019. Standard & Poor's was the first agency to rate the carrier. It assigned a BB- rating, three levels off investment grade, with a stable outlook. Moody's Investors Service assessment of TAP's credit rating was a B2 rating, the fifth level of speculative investment, with a stable outlook.

Structured Lease Deal of the Year: Crianza Aviation 787-9 Commercial Loan

Borrower/Issuer: AP Leasing 39665 DAC

Structure: Euro-denominated facility with lease rentals including both euro and US dollar components

Banks: First Abu Dhabi Bank as bookrunner, mandated lead arranger, facility agent, security trustee, escrow agent and hedge provider. Woori Bank as senior lender, KEB Hana as senior lender

Arranger: EastMerchant Capital as arranger and asset manager

Lawyers (and roles): Vedder Price for the lenders, Watson Farley & Williams for the borrowers, Matheson as Irish law firm and tax adviser, Jipyong as Korean law adviser to lender and Yulchon as Korean law adviser to junior noteholder

Assets: One Boeing 787-9

Amount: Approximately €90 million

Financing tenor: 12 years

Date signed: 28 June 2018

Date closed: 4 February 2019

Korean lessor Crianza Aviation added three Boeing 787-9 aircraft to its portfolio in early 2019. The aircraft were acquired under 12-year purchase and leaseback transaction from Etihad Airways. This year's Structured Lease Deal of the Year relates to the delivery and lease of one new Boeing 787-9 delivery.

The transaction was funded by First Abu Dhabi Bank, KEB Hana Bank and Woori Bank as senior lenders, while Korean institutional investors served as mezzanine financiers.

The financing was structured as a euro-denominated facility with lease rentals including both euro and US dollar components. The multi-currency, multi-tranche facility was one-of-a-kind given most other financings are in US dollars.

First Abu Dhabi Bank acted in multiple roles as mentioned above and was instrumental in closing of the facility.

EastMerchant acted as arranger and asset manager to the transaction in cooperation with Newnham/Cerritos, who were arranger and adviser for the Korean financing structures.

The innovative structure was an operating lease with debt in euros, which was converted to US dollars at the time of funding and aircraft delivery for payment to the manufacturer.

The lessor also acted as borrower and entered into financing arrangements with senior and junior lenders – for both funded debt and interest rate hedging to mitigate Euribor fluctuations. The transaction was very challenging given the diversity of the participants, geographic locations and the overall financing structure.

Given the parties were in different timezones (UAE, Germany, South Korea and the UK) and to mitigate counterparty risk, First Abu Dhabi Bank also acted as escrow agent to minimise interruptions and ensure the delivery.

Operating Lease Deal of the Year: Vietjet Air 10-Aircraft Operating Leases

Borrower/Issuer: Vietjet Air

Structure: A mixture of sale and leaseback and financing deals

Lessor: Novus Aviation Capital

Lawyers (and roles): Novus Aviation Capital in house legal and K&L Gates as Vietjet's counsel

Assets: 10 aircraft: three A321s and two A321neos closed at time of submission

Date signed: 1 July 2019

Novus Aviation Capital and Vietjet Air signed a memorandum of understanding (MoU) for the sale and leaseback transaction covering 10 aircraft in July 2019.

The agreement covers multiple aircraft types and a mix of both operating leases as well as finance leases, with support from Novus' mezzanine funds, Cedar Aviation Finance (CAF) and Tamweel Aviation Finance II (TAF II), offering high loan to value financing.

Five aircraft deliveries, three A321s and two A321neo closed in 2019 while the remaining aircraft are scheduled in 2020. The following delivery was due in the second quarter of this year under a finance lease structure with high loan to value.

The transaction showed Novus Aviation Capital's ability to provide customers with a wide range of products (multiple financing structures and different tenors covering a variety of aircraft types).

The lessor had closed a sale and leaseback transaction with the Hanoi-based carrier in 2018 on two A321 deliveries.

Both aircraft were financed in the banking market with BNP Paribas and Korea Development Bank as joint lead arrangers of the deal.

In this transaction Vietjet benefits from the economies of scale, repeat documentation, attractive pricing and flexibility in financing structures, tenors, aircraft types and delivery.

The completion of the mandate has been delayed due to delivery issues from Airbus and Boeing, respectively. Novus says this was a challenge as it had to extend the availability period to weather delays in aircraft deliveries. Another specificity of this transaction was creating the funding availability from its various operating and finance lease vehicles to support the MoU.

With this diversified and large underwriting solution, this is a strong tool allowing delays in deliveries (both Neo and Max), movement in interest rates as well as potential volatility in the market.

Sale and Leaseback Deal of the Year: Air Europa $215m Sale and Leaseback and PDP Financing

Borrower/Issuer: Segura Aviation DAC

Structure: Sale and leaseback with pre-delivery payments financing

Amount: $215 million

Assets: Boeing 787-9s, two to be delivered in 2021 and one in 2022

Tenor: Approximately two years (PDPs)

Lessor: Goshawk

Banks: Natixis as mandated lead arranger, security trustee/facility agent, senior lender.

Lawyers (and roles): Herbert Smith Freehills for the lender, Walkers as Irish adviser, Dentons Europe Abogados as Spanish adviser for senior lenders and Goshawk. Holman Fenwick Willan as Air Europa representative

Date signed: 20 February 2019

Date closed: 12 October 2019

This year's sale and leaseback winning transaction included a pre-delivery payments (PDP) financing tranche, which was structured as a three-tranche solution to optimise the size and keep an efficient all-in cost: a senior tranche underwritten by Natixis, a subordinated tranche also underwritten by Natixis and a junior tranche underwritten by operating lessor Goshawk.

In the middle of the discussion a third aircraft was added to the initial two units mandated. This third aircraft had a delivery date one year later than the earlier two. As a consequence, the discussion around escalation, debt pricing, etc. had to be relaunched. Ultimately, Natixis managed to support Goshawk securing the purchase and leaseback on the third aircraft.

The environment in which the mandate closed was challenging: there were discussions of the acquisition of Air Europa by International Airlines Group (IAG). In early November, IAG agreed to buy the Spanish carrier for €1 billion ($1.1 billion). It expects to close the deal during the second half of 2020 after receipt of "relevant approvals".

Air Europa is also a Boeing 737 Max operator with an orderbook and this PDP funding helped ease certain discussions with Boeing but it took longer than expected to close the PDP facility because of the complex intricacies.

The $215 million financing includes a senior loan facility of $155 million as well as an approximately $60 million junior facility.

The financing is recourse to different parties (airlines, airlines' parent, lessor and to a certain extend to the original equipment manufacturer) and creates all sorts of inter parties' rights layers of complexity.

Natixis says that the transaction, a supposedly simple PDP facility, became a sophisticated funding tool that helped the parties beyond the sole purpose of financing these three aircraft.

Used Aircraft Deal of the Year: Sunclass Airlines **Lease Restructuring for Three A321s**

Borrower/Issuer: Thomas Cook Airlines/ Thomas Cook Scandinavia/ Sunclass Airlines

Structure: Operating lease

Assets: Three Airbus A321s

Tenor: 12 years

Lessor: CCB Leasing

Banks: MUFG Bank as security agent, facility agent

Lawyers (and roles): Bird & Bird as lessor's representative, White & Case for the lender, Gorrissen Federspiel as representative for Thomas Cook Scandinavia/Sunclass Airlines, White & Case as law firm for Thomas Cook Airlines

Date signed: 12 August 2019

Date closed: 30 September 2019

Bird & Bird acted for Chinese lessor CCB Leasing in connection with the insolvency of the UK airline Thomas Cook Airlines and the Danish carrier Thomas Cook Scandinavia. This transaction involved advising on strategy for the exercise of default remedies and redeployment together with the restructuring of the leasing for three aircraft to allow for operation by the new Danish carrier Sunclass Airlines.

The re-leasing of the aircraft to Sunclass Airlines was enabled by an innovative pre-pack insolvency procedure in Denmark in respect of Thomas Cook Scandinavia, allowing for a seamless transition of assets and operations to the new carrier. The transaction was completed within a very tight deadline and against a background of other lessors repossessing their aircraft following the Thomas Cook UK liquidation. The final lease restructuring for Sunclass Airlines was documented and completed within less than one week and prior to Thomas Cook Scandinavia filing for insolvency.

The transaction saw the creation of a new Danish airline within a very short timeframe through the transfer of assets from Thomas Cook Scandinavia together with new third-party investment.

Under the transaction, CCB Leasing was able to obtain a favourable outcome. The lessor avoided repossessing and remarketing the three assets through its ability to navigate the combined complexities of UK and Danish insolvency laws. At the same time, it maintained an open dialogue with the carrier, when the easiest option would have been to step in and repossess.

Equity Deal of the Year: Titan Aviation **$400m Aviation Fund**

Borrower/Issuer: Titan Aircraft Investment

Structure: Equity investment

Investor: Bain Capital

Amount: $400 million

Lessor: Titan Aviation Holdings, a wholly-owned subsidiary of Atlas Air Worldwide Holdings

Banks: BNP Paribas as financial adviser and placement agent. BNP Paribas as left lead arranger of warehouse facility

Lawyers (and roles): Pillsbury Winthrop Shaw Pittman as borrower legal adviser, Kirkland & Ellis as equity legal adviser

Date closed: 18 December 2019

American private investment firm Bain Capital and Titan Aviation, a wholly-owned subsidiary of Atlas Air Worldwide Holdings, announced the formation of a $1 billion joint venture to develop a diversified freighter aircraft leasing portfolio in late 2019.

The joint venture, which will benefit from $600 million in debt financings, is the largest capital raise ever for a dedicated freighter sidecar.

Bain Capital and Titan Aviation committed to provide $360 million and $40 million of equity capital, respectively, which may be supplemented with additional commitments over time, to acquire aircraft over the next several years.

The transaction represented the first all-freighter joint venture. It was also the largest cargo warehouse facility.

Titan Aviation will provide aircraft- and lease-management services to the venture. The joint venture, which will benefit from $600 million in debt financings, is the largest capital raise ever for a dedicated freighter sidecar.

As a single investor for a $360 million equity commitment, the deal represents Bain's largest investment in aircraft leasing.

The timing was important because Titan Aviation needed financing during cargo conversions. Strategically a third-party capital will help Titan Aviation expand its fleet and capitalise on the growing express cargo and e-commerce trends.

Since its inception in 2009, Titan Aviation has grown to become the third-largest freighter lessor globally by fleet value with more than 30 aircraft and book value of over $1.5 billion. Its fleet includes Boeing 777-200F, 767-300F, 757-200F, 737-800F and 737-300F aircraft.

The transaction was also the first sidecar vehicle for Titan Aviation Holdings and Atlas Air Worldwide and will lift Titan's ranking to become the largest freighter lessor: it currently sits behind GECAS and DAE Capital by asset value and fourth by aircraft count behind GECAS, DAE Capital, Vx Capital.

M&A Deal of the Year: MUFG-DVB Bank €4bn M&A

Structure: M&A

Amount: €4 billion

Advisers: Goldman Sachs as financial adviser to DZ Bank. Bank of America as financial adviser to MUFG Bank

Lawyers (and roles): Freshfields and Norton Rose Fulbright as DVB Bank counsels, Linklaters as MUFG Bank law firm; A&L Goodbody as Irish counsel for DVB and Clifford Chance

Date signed: 1 March 2019

Date closed: 19 November 2019

MUFG completed the €4 billion ($4.5 billion) acquisition of DVB Bank's aviation finance lending business in November 2019.

MUFG and its consolidated subsidiary MUFG Bank signed an agreement for the purchase and transfer of DVB's aviation finance division to MUFG Bank and BOT Lease, MUFG Bank's affiliate, in March 2019.

The asset purchase agreement covers the entire aviation finance client lending portfolio, employees and other parts of the operating infrastructure. The transaction also includes the acquisition of DVB's aviation investment management and asset management businesses, which will be transferred to a newly established subsidiary of BOT Lease in the UK.

In an interview with *Airfinance Journal*, Phillip Hall, MUFG Bank's managing director, head of structured finance office for EMEA, said aviation finance is a growth pillar for MUFG, and the DVB acquisition will take the Japanese lender to another level.

Many aspects of the DVB team give an edge to MUFG. The Japanese bank has an origination and lending capability but DVB will complement this offering.

"We don't currently have the investment management and asset management aspects, so while these are new businesses to us, we can see how beneficial they are to the overall platform," said Hall.

At the time, the transaction was the latest for Japan's biggest bank in a spate of acquisitions abroad as it seeks to make up for low returns in a country that is beset by rock-bottom interest rates and slow economic growth.

"The bank has been looking to expand overseas partly because domestically Japan is not performing as well as everyone might like," says Hall. "This transaction will be our first aviation acquisition at MUFG Bank. We have a number of strategic investments across Asia."

Aviation finance is a growth pillar for MUFG, and the DVB acquisition will take the Japanese lender to another level.

Phillip Hall, managing director, head of structured finance office for EMEA, MUFG Bank

Lessor Unsecured Bond Deal of the Year: Nordic Aviation Capital $786m Private Placement

Borrower/Issuer: NAC Aviation 29

Structure: Senior unsecured notes

Amount: $786 million

Tenors: Five years and seven years

Banks: Citi acted as lead placement agent. Citigroup Global Markets, Goldman Sachs & Co, RBC Capital Markets and Deutsche Bank Securities collectively acted as the placement agents

Lawyers (and roles): Clifford Chance as issuer's law firm. Morgan, Lewis & Bockius as representative to investors. McCann FitzGerald and A&L Goodbody as Irish law firm advisers to the issuer

Date signed: 1 January 2019

Date closed: 27 February 2019

Aircraft lessor Nordic Aviation Capital (NAC) completed its third senior unsecured private placement in the first quarter of 2019. The issuance, rated BBB by Kroll Bond Rating Agency, was launched at $250 million and was 3.8 times oversubscribed, allowing NAC to upsize to $786 million.

This dual tranche private placement, which was another step to migrate to unsecured financing, was the largest US private placement by an aircraft leasing company at the time.

The transaction consisted of five- and seven-year tranches, with the proceeds being used to refinance aircraft within its portfolio. The $527.125 million five-year tranche had a 5.58% final coupon. The $259.125 million seven-year tranche had a 5.83% final coupon.

The transaction was able to maintain the private placement, note purchase agreement-model form format while also taking into account the company's covenants specific to other unsecured financings it has in place.

Citi brought in 15 of the 22 total investors that participated in the deal, of which 10 were new investors. Goldman Sachs brought in a total of $480 million of orders, which was 61% of the final transaction size.

The placement agent banks structured a backstop facility in the last week of December to cover the potential $581 million existing private placements subject to the Change of Control par put offer.

Nordic Aviation Capital returned to the US private placement market in February 2020 with an $858 million offering with three-, five- and seven-year tranches in a deal arranged by Citi, Credit Agricole and Goldman Sachs. The initial target size was $250 million but that grew to $858 million on the strength of demand. Final spreads were 235 basis points (bps), 245bps and 250bps over US Treasuries, respectively.

Airline Unsecured Bond Deal of the Year: IAG €500m Bond Issuance

Borrower/Issuer: IAG

Structure: Senior unsecured notes

Amount: €500 million

Tenor: Four years and eight years

Banks: BNP Paribas and J.P. Morgan Securities acted as joint global coordinators and, together with Merrill Lynch International, as joint lead bookrunners. Banco Santander and Credit Agricole-CIB acted as passive bookrunners

Date signed: 16 June 2019

Date closed: 28 June 2019

On 28 June, IAG priced its inaugural DCM transaction: a dual-tranche senior unsecured bond issue consisting of €500 million ($569 million) four-year tenor and €500 million eight-year series at MS+95 basis points (bps) and MS+165bps, respectively.

In parallel with the new issue process, IAG launched a buyback offer (24-26 June) on its outstanding €500 million 0.25% convertible bonds due November 2020. The rest of the proceeds were used for general corporate purposes.

IAG acted fast because it had only invited holders of the 2020 bonds to tender their bonds to the company four days earlier, on 24 June. The final offer was €100,350 for every €100,000 of bonds held, but only non-US holders were eligible.

The results of the tender offer were announced on 27 June. As reported by *Airfinance Journal* that day, IAG got a positive response from bondholders representing €447.4 million or 89.5% of the aggregate outstanding principal amount. However, IAG also noted that if and when those bonds were cancelled, it had the right to redeem the remaining bonds that had not been tendered at their principal amount.

The series A bonds pay interest at a 0.5% rate and mature on 4 July 2023, while the series B bonds pay 1.5% interest and mature on 4 July 2027.

As a result of the book-building process, the A and B bonds were issued at 99.417% and 98.803% of their principal amounts, respectively, but redeemed at 100% on their respective maturity dates. BNP Paribas and J.P. Morgan acted as joint global coordinators and, together with Merrill Lynch International, as joint lead bookrunners. Banco Santander and Credit Agricole-CIB acted as passive bookrunners.

In parallel with the new issue process, IAG launched a buyback offer (24-26 June) on its outstanding €500 million 0.25% convertible bonds due November 2020.

The buyback was executed through a reverse book-building over three trading days.

In a challenging environment of decreasing interest rates and no material sensibility, the company was able to price at the lower range of the second guidance representing a spread tightening from initial pricing thoughts of 35bps and 25bps in the short and long tranches, respectively.

EETC Deal of the Year: American Airlines $650m Engine EETC Private Placement

Borrower/Issuer: American Airlines

Structure: EETC class A, class B and class C certificates

Amount: $650 million

Tenors: Seven years, five years and three years

Banks: Goldman Sachs and Bank of America Merrill Lynch acted as joint structuring agents and joint lead placement agents. Credit Agricole-CIB acted as joint lead placement agent

Date signed: 12 June 2019

Date closed: 18 June 2019

On 18 June 2019, American Airlines, via pass-through trusts, issued class A and class B pass-through trust certificates in an enhanced equipment trust certificate (EETC) transaction in the private placement market.

The pass-through trust certificates represent the right to payment under series A and series B equipment notes that are full-recourse obligations of American and are secured by spare aircraft engines owned and operated by American Airlines.

The 3.53% class A certificates were issued in an aggregate face amount of $445 million rated at A+ by Kroll Bond Rating Agency. The 3.93% class B certificates were issued with an aggregate face amount of $102 million and rated at BBB+. The issuer also issued 4.13% $103 million C certificates that were unrated.

It resulted in a blended coupon of 3.69% across the three tranches. The A tranche has a seven-year tenor and pricing represented a 160 basis points spread. The B tranche tenor is five years and the spread is 205 basis points. The C tranche tenor is three years and the spread is 245 basis points.

The initial loan-to-values were 65%, 80% and 95%, respectively. The transaction represented the first broadly distributed private placement engine EETC for the issuer, with 18 investors ultimately participating in the transaction.

Investors responded with strong demand across tranches, with the overall transaction being well-oversubscribed from the initial launch size.

The collateral pool consisted of 79 different engines including 64 narrowbody engines and 15 widebody engines, with a total appraised base value of around $684 million.

ABS Deal of the Year: JOL Air **$554m ABS for 15 Aircraft**

Borrower/Issuer: JOL-Air Limited

Structure: Asset-backed securitisation

Arranger/Servicer: Stratos

Amount: $554 million

Collateral: 15 aircraft

Banks: Goldman Sachs acted as lead structuring agent and lead left bookrunner, Deutsche Bank Securities as joint structuring agent and joint lead bookrunner. Natixis Securities Americas acted as joint lead bookrunner and liquidity provider while Mizuho Securities USA and SMBC Nikko Securities Americas acted as joint bookrunners and arrangers

Lawyers (and roles): Milbank as issuer's law firm advising on the structuring, issuance and acted on behalf of the warehouse borrower. Clifford Chance advised the lenders on the warehouse facility and acted as ABS counsel. K&L Gates as acquisition and novation process adviser. Walkers as Cayman Island counsel, Nishimura & Asahi as Japanese counsel. Multiple local counsels supported the novation and ABS transition including Hogan Lovells, Stephenson Harwood, HFW, Blakes, Tay and Partners, Sycip, Dentons, Arias, Morris & James and DFPHJ

Equity underwriter: JP Lease Products and Services

Advisers: KPMG advised on ABS due diligence accounting and tax advice. Phoenix American Financial Services (Ireland) as managing agent. Wilmington Trust as facility agent, security trustee, operating bank and trustee

Rating Agencies: KBRA, Standard & Poor's

Date closed: 29 May 2019

This year's asset-backed securities (ABS) Deal of the Year winner marks an innovative transaction: it was the first ABS to feature securitised debt with equity sourced from the Japanese operating lease (Jol) market.

Stratos issued JOL-Air 2019-1 in May 2019 and, up to that point, Jol equity had only ever been offered on single aircraft investments.

Equity investors are traditionally credit sensitive, asset conservative and very sophisticated. Arranging a cross-collateralised pool of aircraft equity sell-down into the Japanese aircraft had never been attempted prior to the JOL-Air issuance.

ABS lenders are also very conservative about such structures, and want to avoid Japanese bankruptcy remoteness risks. Consequently, this structure was designed to look like any normal ABS from a debt perspective.

The transaction marked the first aircraft securitisation issued by Stratos and the first time Jol investors were introduced to a cross-collateralised pool of aircraft.

"From a Jol equity perspective, the major benefit of JOL-Air is portfolio exposure – as opposed to investing in an individual asset that can be rejected on a standalone basis – which brings diversification and stability on the overall portfolio performance that covers for one aircraft, if rejected," says aircraft investment firm Stratos chief executive officer Gary Fitzgerald.

Stratos arranged the equity, acquisition and novation of the aircraft, the debt bridge funding, warehouse loan and ABS issuance, and will service the portfolio through to lease maturity. JP Lease sponsored and underwrote the equity and arranged the sell-down to a diversified pool of Japanese corporate clients. The lead structuring agent on the bridge and warehouse was Deutsche Bank and Goldman Sachs was joint structuring agent. The securitisation, led by Goldman Sachs and Deutsche Bank, featured A and B notes totalling $530 million.

The ABS comprised a 4% $456 million class A debt tranche, a 5% $73.8 million class B debt tranche and $20 million class C tranche. The debt portion was distributed to 40 lenders in the USA, mainly insurers and fund managers. Stratos and JP Lease retained the C notes which are non-rated, non-amortised and carries a nominal coupon of 7%. The Japanese equity placement amounting to about $300 million, which is unique in the transaction, is provided by over 200 Japanese investors via the Jol structure.

Benefits of JOL-Air

In addition to the unique Jol structuring and the tax benefits for Japanese investors, the transaction included a number of innovative features, such as a 100% cash sweep at the bottom of the waterfall (for the benefit of the class A and class B notes) before the equity is paid. Jol investments are time sensitive because of the fiscal nature of the investment. As a result, Stratos needed to arrange the novation of all aircraft on the same day into the same Japanese structure. The rating agencies were obliged to hire outside counsel to advise on the structure as they had never been presented with such novel underlying economics.

Fitzgerald says the transaction was the most complex deal the firm had arranged. In an interview with *Airfinance Journal*, he recalls its genesis. According to him, JOL-Air was initiated in August 2018, when Stratos was challenged on the economical aspect of some Jol transactions. "Every single Jol transaction needs a separate loan for funding and this is not optimal," comments Fitzgerald.

"Jol investors focus on the credit and young assets but over time it becomes challenging to buy sufficient numbers of these prime assets without paying a substantial premium," he adds.

Context also helped to initiate the JOL-Air structure, because, in August 2018, Japan was about to change tax laws. "We proposed a portfolio of aircraft to be financed in the capital markets along with the $300 million equity commitment," he says. One of the big hurdles to overcome was convincing Japanese investors to invest in multi-credits. "Japanese investors had become comfortable with multi-asset aircraft investments, but never multi-credits," he says. The 15 securitised aircraft were acquired from two separate sellers, GECAS and Standard Chartered, and have leases attached to Air Canada, Scoot, Qatar Airways, Flydubai, Gulf Air, AirAsia, Malindo, Philippine Airlines, TACA, Brussels Airlines and Batik Air. Fitzgerald says the $300 million equity commitment limited the portfolio to 15 aircraft, which is the lowest number of aircraft ever securitised via ABS.

The composition of the portfolio consists of 13 narrowbody aircraft (63.4% by value) and two widebody aircraft (36.6% by value).

Fitzgerald says widebodies are difficult to include in ABS transactions and so Stratos opted for new-technology aircraft: the 787-9 and A350-900 models.

Another pair of aircraft, two A320neo units, are also new-technology aircraft.

"We wanted to make sure that more than 50%, in value terms, were new-technology aircraft. Environmental, social, and governance is becoming a hot topic, especially for Japanese investors," he says.

The JOL-Air transaction has seen little secondary trading since issuance, with an estimated $40 million of transactions on both tranches. By the time of the Covid-19 peak, a small number of A notes were trading at 96 cents on the dollar.

"There is uncertainty at the moment in the aviation industry but JOL-Air has performed extremely well. We are ahead of schedule in terms of amortisation of the A and B tranches," says Fitzgerald. Could the transaction be replicated? "JOL-Air 2 Limited will be done, but we are waiting for market conditions to return," says Fitzgerald.

He adds: "The transaction received a phenomenal reception and today we are not short of debt for another transaction. There is also interest on the equity side, but the credit situation needs to improve before we can venture back into JOL-Air 2. In the meantime, we're keeping busy working for various airlines, investors and lenders to manage their way through this crisis and mitigate losses insofar as possible.

ABS Equity Deal of the Year: Horizon 2019-2 $541m ABS for 18-Aircraft

Borrower/Issuer: Horizon Aircraft Finance III Limited and Horizon Aircraft Finance III LLC

Structure: Asset backed securitisation

Amount: $101.2 million of unrated E-notes

Assets: 11 Boeing 737-800s, seven Airbus A320s

Manager/Servicer: BBAM as seller, servicer and minority equity holder

Banks: Citibank and Mizuho Securities as joint structuring agents and joint lead bookrunners

Lawyers (and roles): Clifford Chance as issuer's counsel, Milbank as underwriters' counsel

Rating agencies: Kroll Bond Rating Agency, Fitch Ratings

Date closed: 18 October 2019

Following a successful offering in the Horizon 2018-1 and 2019-1 transactions, Horizon 2019-2 marked the third tradeable E-note aircraft asset-backed securities (ABS) transaction issued by the BBAM platform.

In the Horizon 2019-2 transaction the three-tranche $440 million debt and $101 million equity certificates were offered under Reg S/144A format to eligible investors, with the joint bookrunning banks supporting trading and liquidity in the secondary market. Horizon 2019-2 was the first tradable equity certificates offered to passive equity investors without an anchor investor, according to Mizuho Securities.

The deal also marked the first-ever 144A aircraft equity Dutch auction process. Mizuho Securities says it ran the Dutch-auction process, initiated equity outreach and solicited bids from 80% of the allocated equity investors (including cultivating a new equity entrant).

The transaction saw eight accounts placing orders for the equity certificates in ticket sizes ranging between $1 million and $35 million.

Citi says the class C and equity books were marketed together in a bid process run prior to the senior classes.

BBAM interests were fully aligned with investors through the purchase of 10% of the equity certificates, via its managed entities. BBAM as asset manager also participated in 20% upside sharing at a 12% IRR hurdle rate.

At the time of the closing it was the lowest E-note pricing of 2019 at 18.375%, and the lowest senior debt yield in any aircraft ABS portfolio sale.

The Horizon 2019-2 transaction was well-received by the market following a five-day roadshow, resulting in strong oversubscription despite competing deals in the aircraft ABS market.

Innovative Deal of the Year: Avation Commercial Loan for Three ATR72-600s

Borrower/Issuer: Avation plc

Structure: Senior loan

Term: 10 years

Assets: Three ATR72-600s

Banks: Deutsche Bank

Lawyer: K&L Gates

Adviser: Vigeo Eiris-ESG rating company

Lessee: Braathens Regional Airways

Date mandated: 19 July 2019

Date closed: 19 December 2019

The Avation commercial loan marked the first green loan aircraft finance certified by Environmental Social and Governance (ESG) rating company Vigeo Eiris on the basis of reduced CO_2 emissions and fuel consumption.

The three aircraft covered by this 10-year loan, exclusively funded by Deutsche Bank, were leased to Sweden's Braathens Regional Airways (BRA). The loan has an amortising tranche in euros and a non-amortising tranche in dollars. The first green financing of an aircraft had to include two key components: an asset that has the means to be aligned with the green loan principles (GLP), developed by the Loan Market Association (LMA) and an airline that is at the forefront of the ESG initiatives. BRA has been proactive in this field, having performed its first biofuel flight (on an ATR72-600 aircraft in 2017), using a blended biofuel sourced from used cooking oil. BRA was also the first commercial airline to offset 110% of its emissions of greenhouse gas (GHG), in 2019.

The ATR72-600 has a significant environmental advantage over regional jets and other turboprops, emitting 40% less CO_2.

By issuing a green loan to finance the purchase of low fuel-consuming aircraft, operating lessor Avation coherently responds to its commitment in terms of development of a more sustainable aviation transportation, as well as addressing a crucial issue of the sector in terms of environmental contribution and responsibility.

The senior loan follows the GLP. Independent agency Vigeo Eiris believes the project of replacing ageing regional jets with new ATR72-600 aircraft at BRA is aligned with the GLP established by the LMA. The agency assessed the coherence between the green loan and the borrower's sustainability strategy and commitments, the loan's potential contribution to sustainability and its alignment with the four core components of GLP 2018: use of proceeds, proceeds for project evaluation and selection, management of proceeds and reporting.

Overall Capital Markets Deal of the Year: Norwegian Air Shuttle **$340m Amendment to Commercial Bonds**

Borrower/Issuer: Norwegian Air Shuttle

Structure: Senior bond issues

Term: Two-year extension over maturity dates of the bonds

Assets: London Gatwick slots

Banks: DNB Markets and Pareto Securities as financial advisers

Lawyers (and roles): Bahr as Norwegian counsel to Norwegian Air Shuttle, Watson Farley & Williams as special UK counsel to Norwegian Air Shuttle, Wikborg Rein as counsel to financial advisers

Date closed: 1 August 2019

The Norwegian Air Shuttle transaction was a consent solicitation to amend and extend two series of Norwegian Air Shuttle bonds. The request asked for a two-year extension to the maturity dates in consideration for certain enhanced legal rights including indirect collateral over Norwegian Air Shuttle's portfolio of London Gatwick airport take-off and landing slots.

The carrier said 89.8% of the bondholders approved the amendment of the 7.25% €250 million ($274 million) senior unsecured bond issue that was due to expire on 11 December 2019.

About 99.6% of the bondholders approved the amendment of the 7.25% SEK963.5 million ($100 million) senior unsecured bond issue that was due to expire on 7 August 2020. Norwegian extended the bonds to November 2021 and February 2022, respectively.

The primary issue in relation to the financing of slots as an asset class is in the methodology and ability effectively to ring-fence the slots on an insolvency of the airline holding the operating licence and on which the continued entitlement to and value of the slots relies.

The first successful European slots transaction was rooted in traditional principles of asset securitisations and the ability to ring-fence UK slots from the insolvent airline through legal devices.

The subsequent European airline transaction financed the slots on-balance sheet. Both deals took direct security over the slots and included comprehensive covenants and financial covenant controls, typical for securitisation transactions. The Norwegian transaction was a third variation with no direct security being granted over the slots themselves. Instead, the entire slot portfolio was transferred into a wholly owned subsidiary of the principal operating airline coupled with back-to-back arrangements for the "lease back" of the slots to the principal operating airline.

The direct collateral granted in favour of the bondholders was comprised only of a pledge over the shares of the special purpose vehicle (SPV) and the covenant regime in relation to the slots was a "super-lite" version of the previous transactions.

The SPV owned the minimum number of aircraft necessary to be entitled to its own independent operating licence, separate from that of the principal operating airline.

The structure was not designed to create a traditional asset-backed recourse financing to the slots but rather a form of credit enhancement feature for previously unsecured bondholders as an incentive to extend the maturity of the bonds for a further two years.

Watson Farley & Williams acted in relation to the legal, financing and regulatory aspects of UK airport take-off and landing slots including the EU slot regulations.

Overall Deal of the Year: Apollo Global Management/ Athene **$3.5bn M&A**

Structure: M&A

Seller: General Electric

Buyers: Apollo Global Management, Athene Holding

Banks: Citigroup Global Markets, RBC Capital Markets, and Mizuho

Adviser: RBC Capital Markets as financial adviser to Apollo, Citi and Goldman Sachs as financial adviser to GE Capital

Lawyers (and roles): Paul Weiss as counsel for Apollo (on acquisition), Clifford Chance as counsel for General Electric, Shearman & Sterling as counsel for Redding Ridge (CLO manager), Sidley Austin as counsel for Athene Holding, Latham & Watkins as counsel for Merx Aviation, McCann Fitzgerald as Irish counsel to Apollo, Anderson Mōri & Tomotsune as Japanese counsel to Apollo; A&L Goodbody as Irish counsel for GECAS and K&L Gates as lenders counsel

Date closed: 12 December 2019

General Electric entered into a definitive agreement for Apollo Global Management and Athene Holding to acquire PK AirFinance, an aviation lending business, from GE Capital's Aviation Services (GECAS) unit.

The transaction involved Apollo acquiring the PK AirFinance aircraft lending platform and Athene acquiring PK AirFinance's existing portfolio of loans.

Apollo and Athene formed an entity, Aurora Bidco, in its agreement to purchase PK AirFinance's loan portfolio. By acquiring PK AirFinance, it provided Athene with a large, diversified portfolio of high-quality loans with attractive risk-adjusted returns.

This was a complex transaction involving the sale of an entire business with subsidiaries, assets and employees located in a number of countries.

There were a number of complex Japanese and Luxembourg regulatory issues to work through.

The sale of PK AirFinance was one of the two main M&A events in the aviation finance sector in 2019. In March 2019, MUFG Bank agreed to acquire the aviation business of DVB Bank from parent DZ Bank.

Airfinance Journal exclusively reported the proposed sale of the lending arm of aircraft lessor GECAS in the second quarter of 2019 citing sources.

PK AirFinance is the provider and arranger of loans secured by commercial aircraft, aircraft engines and helicopters.

At the time, sources said the PK AirFinance business included $3.5 billion-$3.6 billion of exposure.

More than two-thirds of its lending activity was exposed to the narrowbody market while widebodies represented 19%, regional jets 4%, turboprops 2% and freighters 2%. The remaining 6% comprised engine-related financings.

The disposal of PK AirFinance allowed General Electric to continue shrinking its balance sheet.

The transaction was financed by a $3.6 billion collateralised loan obligation (CLO) financing, the first CLO with an aircraft secured loan portfolio.

Editor's Deal of the Year: Cargolux Airlines **Two 747F Jolco Refinancing**

Borrower/issuer: Cargolux Airlines

Structure: Jolco

Tenor: Eight- and 13-year leases

Assets: One Boeing 747-400F and one 747-8F

Banks: Credit Agricole-CIB as Jolco arranger, mandated lead arranger and lender. DVB Bank as lender on the 747-400F. Korea Development Bank, Credit Industriel & Commercial, Shinsei Bank as mandated lead arranger on the 747-8F

Lawyers (and roles): Norton Rose Fulbright as counsel to lenders, Allen & Overy as counsel to lessee

Date mandated: 1 November 2018

Date closed: 1 July 2019

Cargolux Airlines closed its first Japanese operating lease with call option (Jolco) transaction for a Boeing 747-400 freighter aircraft in January 2019.

Credit Agricole-CIB acted as overall arranger, facility agent and lender, while DVB Bank was co-lender.

The transaction is the first of its kind for Cargolux in the selective Japanese market.

"It reflects Japanese investors' confidence in Cargolux and it opens further refinancing opportunities for our company. We see the Jolco as the perfect complement to our existing finance portfolio," says Maxim Straus, Cargolux executive vice-president and chief financial officer.

The European carrier returned to the Jolco market a few months later, this time for a 747-8F model.

French bank Credit Agricole-CIB acted as overall Japanese operating lease with call option arranger and facility agent for a 747-8F transaction.

The freighter aircraft was delivered to Cargolux Airlines.

It follows the Luxembourg-based carrier's inaugural Jolco, which closed in January for a 747-400F.

The transaction marked the first ever Jolco financing for a pure air cargo operator outside Japan.

The 747-400F unit, being 11 years of age at the time, was a challenging asset to convince investors. As a result, Credit Agricole-CIB opened a new market for refinancing widebody freighters in excess of 11 years of age.

> *"It reflects Japanese investors' confidence in Cargolux and it opens further refinancing opportunities for our company."*
>
> **Maxim Straus**, executive vice president and chief financial officer, Cargolux

The challenge was educating the investors about the air cargo market and the 747-400F and the 747-8F assets in order to make them comfortable with the investment as equity into Jolco financings.

Later in 2019, Cargolux Airlines refinanced a 747-400ERF aircraft with DVB Bank and JP Lease under a Jolco financing.

Last year Cargolux also closed a secured loan to refinance two 747-8F aircraft with other lenders including Korea Development Bank.

Event of the Year: **Launch of the Airbus A321XLR**

The launch of the Airbus A321xtra long-range (XLR) model at the 2019 Paris air show was expected because the European manufacturer was anticipating its US rival, Boeing, not launching its New Midsize Airplane.

The A321XLR becomes the next evolutionary step which responds to market needs for even more range, and creates more value for the airlines by bringing 30% lower fuel burn per seat than previous-generation competitor aircraft.

To give the aircraft a range of 4,700 nautical miles (8,700km) – 15% more than the A321LR – with increased revenue payload, the A321XLR will feature a new permanent rear centre tank (RCT) for more fuel volume, replacing the A321LR's two added rear fuel tanks. Additionally, a forward additional centre fuel tank can be incorporated in the A321XLR. The new aircraft also has a modified landing gear for an increased maximum take-off weight of 101 metric tonnes and an optimised wing trailing-edge flap configuration to preserve the same take-off performance and engine thrust requirements as today's A321neo.

In particular, the new optimised RCT holds more fuel than several optional additional centre tanks (ACTs) did previously, while taking up less space in the cargo hold – thus freeing up underfloor volume for additional cargo and baggage on long-range routes.

In the six-month period to December 2019, Airbus logged more than 450 orders and commitments from 22 operators and two lessors for the type.

In Paris, operating lessor Air Lease was the launch customer with a memorandum of understanding for 27 units. The lessor was the launch customer for the A321LR in January 2015 with a 30-aircraft order.

Final assembly of the first A321XLR is planned for 2021, with the aircraft's entry into airline service targeted in 2023.

Aviation Finance House of the Year: **BNP Paribas**

For the second consecutive year, BNP Paribas wins the Aviation Finance House of the Year Award by demonstrating a broad variety of transactions, as well as creativity across many financing structures.

For yet another record year, BNP Paribas' Aviation teams in Europe, the Middle East and Africa, the Americas and Asia-Pacific were able to deliver significant value to its partners in a challenging context and providing them with innovative solutions to ever-growing challenges.

BNP Paribas' constant innovation effort, expanding range of product offerings and its teams' adaptive mindset and ability to innovate to better serve their clients and prospects, are further testimonies to an outstanding fully fledged aviation-financier platform, with a longstanding track record of support brought to the industry.

During 2019, the French bank was involved in over $49.5 billion-worth of financings for airlines ($15.7 billion) and lessors ($33.8 billion), totalling around $11 billion of bank loan financings and about $39 billion of capital markets and revolving credit facilities.

Despite a marginally lower volume of transactions than in 2018, BNP Paribas stepped up its role and engagement in the industry by being at the forefront of complex and innovative solutions, leading to a record-year of achievements. The aviation franchise recorded many firsts: the first Balthazar in the market for Turkish Airlines supporting five Airbus A320neo deliveries; the first-ever Balthazar and first-ever French lease for Ethiopian (A350-900); the first French leases for Virgin Atlantic; Turkish Airlines, the first Japanese operating lease with call option and the first aircraft financing for Wizz Air and the financing of the first A350-900 delivery for Air France.

The bank also closed the first French leverage lease for Air New Zealand for an Airbus aircraft and the first-ever French lease for TAP Air Portugal, a complex transaction that combined a continuing airworthiness management and aircraft storage programme. The bank maintained its activity in the capital markets with lead roles in Air France's convertible bond, Easyjet's unsecured bond and IAG's unsecured bond and convertible bond buyback transaction, alongside participation in large unsecured issuances by aircraft lessors such as Aercap Avolon, BOC Aviation, Bocomm Leasing and ICBC Leasing.

BNP Paribas notably underwrote $450 million in Nordic Aviation Capital's secured debt facility and was the joint structuring adviser of the first green bond ($600 million) from ICBC Leasing.

During 2019, the French bank was involved in over $49.5 billion worth of financings for airlines and lessors.

The bank was involved in nine asset-backed securities issuances and refinancings, totalling about $1.4 billion. It also acted as the sole financial adviser in the equity raise of the first-freighter joint venture and first cargo sidecar for Titan and Atlas Air.

BNP Paribas was also active in portfolio transactions through two Castlelake mandates: as joint lead arranger in a large non-recourse facility to finance Castlelake's acquisition of 22 aircraft from CMIG Aviation, and as mandated lead arranger and bookrunner in a highly innovative dual tranche financing for the second sale and leaseback of a large portfolio of aircraft by Castlelake from Airasia.

The bank was also co-underwriter and joint lead arranger in the first-ever Sharia-compliant warehouse facility, $500 million to NCB Capital to finance acquisition of a large-seed-portfolio from Aercap.

Lessor Treasury Team of the Year: **Avolon**

Avolon wins this year's Lessor Treasury Team of the Year award rounding up an impressive 12-month period in terms of trading, financing and ordering new aircraft.

But the highlight of the year was the upgrading of its corporate family and senior unsecured ratings to investment grade with a rating of Baa3 and BBB- respectively by Moody's Investors Service, Fitch Ratings and S&P Global Ratings.

This event was triggered by a massive $2.5 billion bond issuance (this transaction won European Deal of the Year) in April 2019. The senior unsecured notes offering was initially sized at $1.8 billion but was upsized by $700 million, reflecting significant institutional investors' demand.

The investment-grade rating provides Avolon with even greater financial flexibility and access to a deeper pool of sustainable capital at a competitive price. Additionally, the ratings upgrade materially enhanced the risk profile of Avolon's capital structure. Lastly, the strong market demand for this offering reflects confidence in Avolon's credit profile and the long-term prospects for the business.

The addition of ORIX as a minority shareholder resulted in Avolon having no structural obstacles to reaching investment grade. The remaining barrier to achieving an investment-grade profile was reducing the proportion of secured debt in Avolon's capital structure.

During the first quarter of last year, Avolon made progress in increasing its unencumbered assets and the level of unsecured debt in its capital structure – successfully closing a private offering of $1.1 billion of senior unsecured notes, upsized from an initial launch size of $750 million because of significant investor demand. It also closed an inaugural $500 million three-year unsecured term loan facility, which was oversubscribed and upsized by over 60% based on the original launch size of $300 million. The achievement of an investment-grade credit profile was ahead of Avolon's expected timeframe, reflecting the progress, work and dedication of the Avolon finance and capital markets team. By the end of 2019, Avolon had successfully raised a total of $5.1 billion of debt including $3.6 billion of senior unsecured notes, $500 million of unsecured term loan debt and $1 billion of warehouse and other revolving credit capacity – leaving Avolon strongly positioned heading into 2020 as an investment -grade company.

The finance team was busy on other fronts. In 2019, Avolon repaid $3.7 billion of secured debt during the year, materially increasing unencumbered assets, and repriced its senior secured term loan B to Libor plus 1.75%.

The lessor extended the maturity of its unsecured revolving credit facility by 21 months to April 2024 and reduced the facility margin to 1.25%, while increasing the size to $3.2 billion.

Lessor of the Year: Tokyo Century

Tokyo Century was voted the Lessor of the Year in 2019 after completing the acquisition of US-based Aviation Capital Group (ACG).

The Japanese company held a 20% investment in ACG since December 2017 before starting its journey to fully acquire the California-based lessor last year.

This was performed in two phases.

In March, Tokyo Century agreed to invest a further $200 million in ACG, bringing its stake to 24.5% as the Japanese company decided to provide growth capital and increase its ownership in ACG, aiming to accelerate ACG's growth and further expand Tokyo Century group's aviation business.

In September, Pacific Life announced it had agreed to sell all of its outstanding interest in ACG to Tokyo Century for approximately $3 billion. The book value of the Tokyo Century's stake as of 30 June was approximately $3.6 billion. In December 2019, Tokyo Century completed its acquisition of ACG, buying the remaining 75.5% interest for approximately $3 billion, which represented a premium of approximately 10% on top of ACG's book value.

Tokyo Century acquired the remaining stake in ACG via SKY-U, its wholly-owned subsidiary in the US. Mitsubishi UFJ, Morgan Stanley Securities and Mizuho Securities acted as financial advisers for the ACG buyout, and on its completion Moody's assigned issuer and senior unsecured debt ratings of Baa2 to ACG, saying this reflected the lessor's long history of profitable operations, high-quality fleet composition, diverse funding sources and effective liquidity management.

With its acquisition of the remaining interest in ACG, Tokyo Century plans to improve its aviation business value chain through collaboration among its own aviation financing business, which is driven by Japanese operating lease products and aircraft aftermarket-related businesses that leverage GA Telesis' expertise in used aircraft and parts. "With the ACG acquisition we have now built a very strong full-service platform, especially for operating leases," Tokyo Century chairwoman and president of specialty finance Mahoko Hara told *Airfinance Journal* earlier this year.

Following the ACG acquisition, Tokyo Century grew its portfolio from approximately 40 aircraft to approximately 360 aircraft. The Japanese corporation also inherited ACG's original equipment manufacturer orderbooks, which will add more than 140 Boeing and Airbus aircraft in the coming years.

Hara said that ACG will continue to focus on new and mid-life narrowbody aircraft going forward but she would not want to narrow down what an "ideal future fleet size" may look like.

"ACG does have a strong orderbook which is not just Maxs but a good combination of other narrowbody aircraft as well. We don't have a target number of aircraft or an ideal fleet size but we're still looking to grow, although more moderately than in the past given the headwinds in the market," she said.

Last year, Tokyo Century was also involved in two major transactions via its shareholding in ACG. In October, it sold a 24-aircraft portfolio to South Korea's Meritz Securities.

The transaction was valued at $686 million and the portfolio comprises Airbus and Boeing narrowbodies with leases attached to 19 airlines.

The equity sale was the third asset-backed securitisation (ABS) equity sale in South Korea and was described as the fastest ABS equity sale in the country from start to finish.

On 1 October, ACG launched a dual-tranche (ABS) totalling $477 million.

Special purpose vehicles MACH 1 Cayman and MACH 1 USA issued the 3.47%, $403 million series A notes and 4.34%, $44 million series B notes. The proceeds from that issuance were used to acquire a portfolio of 24 aircraft on lease to 19 lessees.

Aviation Person of the Year: Rich Wiley

Rich Wiley is the executive chairman of US leasing platform and aircraft asset manager Sky Leasing.

With over 35 years of industry experience, Wiley has become a leading executive in the aircraft leasing industry, especially in the M&A market.

Over the past 25 years, Wiley and its management team have established several leasing platforms with equity provided by private equity companies and pension funds.

Wiley and his previous management team co-founded Pegasus Aviation Finance (PAF) in 2004, securing $300 million in equity from Oaktree Capital & Management. PAF was sold to Terra Firma, the parent company of AWAS, in 2007.

Subsequently the executive team founded Sky Holding, a mid-life aircraft leasing platform, in September 2007.

It returned to Oaktree Capital & Management for $500 million in equity in 2010 and established Jackson Square Aviation. That platform was sold to Mitsubishi UFJ Lease & Finance two years later.

In October 2015, the company's management formed Sky Aviation Leasing Management (Sky Leasing) along with ATL Partners and PSP Investments. Sky Leasing had over $250 million of initial equity capital available to provide sale and leaseback financing solutions to commercial airlines. An additional $200 million was later approved to bring the capital base to $450 million.

In June 2018, Goshawk Aviation entered into an agreement to buy Sky Aviation Leasing International, the subsidiary of Sky Leasing. The Dublin-based lessor had a fleet of 51 owned and committed aircraft when the acquisition completed in the third quarter of last year.

His latest fund, Sky Fund I Irish, secured $300 million equity investment from M&G Investments in the autumn of 2019. In January 2020, the fund finalised a $600 million warehouse debt financing facility, with MUFG Bank and Citibank acting as co-structuring agents and joint lead arrangers. Bank of America, Morgan Stanley Bank and Natixis acted as joint lead arrangers.


Rich Wiley

Aviation Woman of the Year: **Marilyn Gan**

The 2019 Aviation Woman of the Year award goes to Marilyn Gan based on two nominations last year.

MUFG Bank (MUFG) appointed Gan as managing director and head of origination of Asia-Pacific aviation in November 2019, following the completion of the first phase of its acquisition of the DVB Bank aviation business.

MUFG's head of global corporate and investment banking for Asia-Pacific, Richard Yorke, said at the time: "With Marilyn's wealth of experience and know-how in this field, I am confident she will play a pivotal role in elevating MUFG's standing in the aviation sector in Asia."

Gan, who is based in Singapore, oversees the strategic growth of MUFG's aviation financing portfolio in the Asia-Pacific region.

Before transferring to MUFG, Gan had worked for DVB since 2006, most recently as regional head of aviation finance for Asia-Pacific. She has also worked in the bank's London office as deputy regional head of aviation Europe, Middle East and Africa.

During her time at DVB, Gan was instrumental, as part of the senior management team, in enhancing the bank's reputation and franchise across its platform of (aviation) lending, investment and asset management, and advisory services.


Marilyn Gan

Prior to DVB, Gan served as assistant vice-president at insurance broker Marsh & McLennan, where she had moved to after a six-year stint at Singapore Aircraft Leasing Enterprise (now BOC Aviation).

"With Marilyn's wealth of experience and know-how in this field, I am confident she will play a pivotal role in elevating MUFG's standing in the aviation sector in Asia."

Richard Yorke, head of global corporate & investment banking for Asia Pacific, MUFG

In 2019, Gan was also elected to serve a two-year term on the International Society of Transport of Aircraft Trading (ISTAT) executive committee, with one aim being to help promote and enhance the ISTAT brand and activity in Asia-Pacific. Her appointment becomes effective next March, after ISTAT America 2021.

Gan's election resulted in her being one of the two females (along with Mary Prettyman, head of customer marketing at Pratt & Whitney) elected to the executive committee for the first time in ISTAT's history.

Lifetime Achievement Award: **Tom Hollahan**

Tom Hollahan recently retired after a 40-year career at Citigroup, where he was the bank's global aviation industry head. He was responsible for a team of bankers in New York, London, Dubai, Hong Kong SAR and Dublin devoted to meeting the corporate banking needs of the aviation industry around the world.

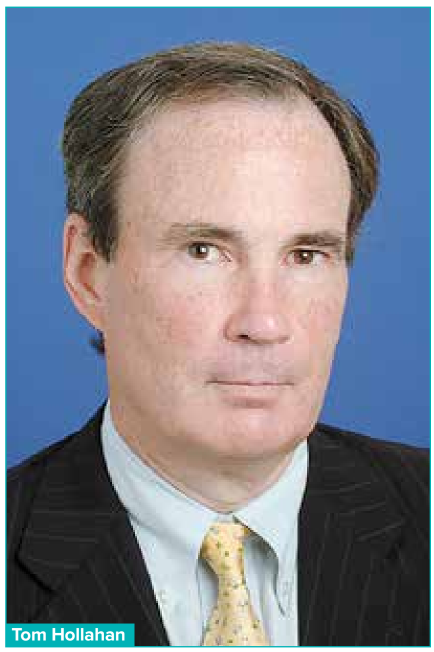
Hollahan joined Citibank in 1979 and spent his first six years in the petroleum, metals and mining department. In 1986, he joined the global aviation department and, from 1986 to 1998, he was the bank's senior aviation industry analyst. In that position, his responsibilities included understanding airlines' operating and financial performance, equity value, optimal capital structure and debt capacity for the purpose of advising issuers, supporting Citibank investments and trading positions and advising investors in airline debt and equity issuance.

Hollahan assumed his present position in 1998.

He has had extensive deal experience in the aviation industry. He had a pivotal role in a number of significant aviation transactions, including the GPA restructuring, the Aercap acquisition of ILFC and several groundbreaking financings for US airlines in the post-9/11 environment. These included the United Airlines and Northwest Airlines debtor-in-possession and exit financings, and America West's Air Transport Stabilization Board (ATSB) loan. More recently, he was instrumental in establishing Citi's leadership position in the debt capital markets for both secured (enhanced equipment trust certificates and asset-backed securities) and unsecured debt, for both airlines and aircraft lessors on a global basis.

In 2002, *Airfinance Journal* named him one of the "50 Airfinance Market Shapers" over the past 20 years.

Hollahan earned his MBA from the University of Chicago and his BA from the University of Illinois.


Tom Hollahan

Cool operator

Jeff Chatfield, Avation PLC founder and executive chairman, uses a steady hand to guide the Singapore-based lessor through the most challenging chapter in its 14-year history. He tells **Dominic Lalk** about Avation's recent sale process and shares his views on delinquent Virgin Australia.

Singapore-based lessor Avation has formally ended its sale process after the Covid-19 pandemic forced the industry to its knees, resulting in record aircraft groundings and expected to halve airline revenues in 2020 to $419 billion, according to the latest update from the International Air Transport Association.

The arrival of Covid-19 and its grim implications meant many potential buyers withdrew their interest and ran for cover as it became obvious that liquidity could become a real issue.

"We were approached by a bona fide lead buyer, they had the money, so as a public company we hired an adviser [Wells Fargo Securities] to test the market to see what the valuations were. They had over a 100 people looking at the thing, and then Covid-19 came along and then people pulled out. We ran the process but the result was simply that most people said 'goodness me this isn't the time to make investments like that', so it all came to a screaming halt," Jeff Chatfield, Avation's founder and executive chairman, tells *Airfinance Journal* in an exclusive interview.

Quizzed on who approached them, Chatfield says: "I can't comment on all of the 100 or so people that were interested but there were certainly a few leasing companies. It came from everywhere basically. There were a number of sovereign wealth-backed funds, funds with private equity, the whole gambit. It was a fascinating lineup of potential investors and a fascinating process overall, but clearly this isn't the right time to be considering M&A activity unless you are a buyer. Right now is the best time in world history perhaps to be a buyer," he says.

Founded in 2006, London Stock Exchange-listed Avation has a 50-unit fleet, "no Max aircraft" and is a beneficiary of the Singapore Aircraft Leasing Scheme tax incentive (benefitting from a reduced 8% tax rate through April 2024).

Avation's portfolio comprises: 21 ATR72-600s, seven Airbus A321s, six ATR72-500s, six A220-300s, five Fokker F100s, two A320s, one A330-300, one Boeing 737-800 and a 777-300ER. Five aircraft are fully unencumbered.

The average fleet age (weighted average inclusive of finance leases) of the Avation portfolio is 3.7 years, and the remaining lease term is 7.1 years. Avation has 18 airline customers and leases aircraft into 15 countries. Two of its customers, Virgin Australia and Braathens, have entered administration during the ongoing Covid-19 crisis. They accounted for about 19% and 2%, respectively, of Avation's run-rate revenue as of 31 March.

Yet, Chatfield believes its exposure to Virgin Australia is "manageable", after the airline returned five ATR72-500s to Avation, leaving the Brisbane-based carrier with six ATR72-600s and two F100s on lease from the lessor.

"Virgin Australia don't need thousands of people in a big head office doing very little. They need a lean, mean machine that generates profits."

Jeff Chatfield, founder and executive chairman, Avation PLC

Virgin Australia

Avation is owed $97 million by the administrators of Virgin Australia, of which about 40% is rent payments. Total debt associated with these aircraft is a "manageable" $45.9 million, with the book value "significantly" exceeding this, notes Chatfield.

"Virgin is a sizable customer for us so we're obviously watching the developments closely," says Chatfield, adding that he believes whoever takes over must maintain, if not grow, the airline's regional business.

"The remaining bidder probably would be smart enough to try and grow the regional business because Australia needs a second large network carrier, not just Qantas. We need at least a duopoly for competition. Australia is a very high cost market but also a very high revenue market, especially regional. Whoever ends up buying it, if they run it properly, they will probably end up doing extremely well," he adds.

In late June, Virgin Australia's administrator agreed to sell the airline to US firm Bain Capital after rival bidder Cyrus Capital Partners surprisingly withdrew its offer, citing a lack of engagement from the Deloitte team.

Bain now needs approval from Virgin Australia's more than 12,000 creditors, who will vote on the sale in mid-August. A crucial element for the deal to go ahead will be agreement from the airline's more than 9,000 workers.

Bain wants to retain airline chief executive officer Paul Scurrah and his extended team. Their expertise will be tested as Bain seeks approval for its takeover from the airline's unionised workers and from Virgin Australia's bondholders, who are considering making a separate offer that could be put directly to creditors at their August meeting.

Boston-based Bain believes the future Virgin Australia should be as a smaller operation as its network has become too cumbersome and costly. It wants the airline to refocus on "the middle of the market," with a streamlined Boeing 737 operation going forward, similar to the old Virgin Blue brand of the early 2000s. This would mean the end of long-haul A330 and 777 operations as well as intra-state ATR and Fokker services.

"I think Virgin needs to offer a differentiated product. It needs to offer a full regional and national service network in order to be able to prosper. Some 42% of intra-state travel in Australia is health-, federal-, state- or local government-related travel. It's a huge market and your fares are pretty much guaranteed if the government and corporates are your customer. So there's a lot of merit in remaining a robust national and regional network, including intra-state travel, but what you need is the right-sized equipment. These are thin routes – the ATR72 is perfect," says Chatfield, an Australian who is very familiar with Virgin after Skywest Airlines Australia – where he was executive chairman – was sold to the Virgin Australia Group in 2013.

"They should increase the size of their regional and national network, in fact – that's where some value is created – and then they'll have a proper business going, a proper airline. They don't need thousands of people in a big head office doing very little. They need a lean, mean machine that generates profits," says Chatfield.

"I think the issue with Virgin over the past seven to eight years has been poor governance and low-cost discipline. They've had extremely low productivity. Their enterprise bargaining agreements with their staff resulted in low productivity which made the whole operation rather inefficient. The costs and corporate overhead have been too high. They've always had a massive corporate overhead, which has added little value. There's been poor governance issues with the company," he continues.

Before it entered administration, Virgin Australia's main shareholders were Etihad (21%), Singapore Airlines (20%), HNA and fellow Chinese shareholder Nanshan, which both held 20%, and UK-based Virgin Group (10%). The airline employed more than 10,500 staff.

"I think there's been a real agency problem with the management; a disconnect in management to the owners, the shareholders. The management would constantly ask for money without sensibly returning a profit. That created a lot of discontent. They had A$5 billion [$3.4 billion] in revenues so they could have easily generated a profit but for whatever reason they just didn't decide to do that," says Chatfield, who adds: "Then Covid-19 came and I think it just accelerated the inevitable," says Chatfield.

He adds: "The administrators were suggesting buyers could make A$1 billion in Ebitda [earnings before interest, taxes, depreciation and amortisation] per year, so clearly you could run that business at a profit. When we ourselves took a very brief look at Virgin we had a view that it should make at least A$400 million a year in net profit but instead the thing's just been sitting there racking up losses. It's a classic agency problem.

"Shareholders didn't really do their jobs. They could have used their influence, their shareholdings, to change things and the board and management to turn things around but they didn't. Now they finally have a good chance again. They can cut the overhead, fix industrial relations agreements and, if they do things sensibly, then they have a chance to survive and prosper."

> *It makes little difference if you have an ATR or, say, a 777. The amount of procedures to follow from the lessor perspective is the same, the work flows and systems are the same.*
>
> **Jeff Chatfield**, founder and executive chairman, Avation PLC

There have been suggestions that Virgin's future owners could limit the airline's network to domestic trunk routes only but Chatfield is quick as ever to dismiss that as "rubbish", saying that "if they really did that they would just burn another couple billion dollars or so in a few years" because Qantas already controls the pricing on the trunk routes, not least through its Jetstar low-cost carrier.

Regional aviation in Australia

Regional aviation has garnered a lot of attention in Australia in recent years but particularly since the collapse of Virgin exposed the necessity of maintaining a solid national network.

This prompted Sydney-based Regional Express Airlines (REX) to initiate talks with turboprop manufacturer ATR and private equity investors about support for the carrier's expansion into ATR and narrowbody services between Australia's big cities. Until now, REX has served small cities and communities across Australia with a fleet of 60 Saab 340 aircraft.

The non-binding MoU between REX and ATR includes sale and leaseback (SLB) opportunities for the Saab 340 fleet and ECA financing support for new ATR42 and ATR72 acquisitions, such as the one offered by ATR's partner export credit agencies, BPI France and SACE.

Another operator, Qantas-affiliated Alliance Airlines, announced in June it was seeking an equity raise of up to A$122 million to acquire more used regional aircraft.

"REX principally has a 40-year-old fleet of very small aircraft so they sure need to do something if they're serious about offering trunk route connectivity between capital cities. The obvious thing for them to do is to deploy a good-sized fleet of ATRs. That would make the most sense for them," says Chatfield.

"If they do choose to do that, then I'd say they'd need to be very careful because an A320 and everything that comes with it in terms of cost and infrastructure has nothing to do with their current operations. Imagine switching from a Saab 340 to an A320 operation. They have no idea what kind of costs they'll be looking at – everything's much more expensive – so I hope they'll have enough investment ready if they really want to do it," says Chatfield.

"Effectively, REX has a monopoly regional operation going in Australia right now and frankly I think they'd be better off focusing and doubling down on that. They got more in Australian government money in the form of subsidies than everyone else combined. They get buckets of money every year, so really they'd be much better off building a good-sized ATR network than adding jet aircraft," he says. Chatfield, though, is quick to add that Avation still has a number of ATRs on the ground that it will be happy to remarket, so "REX should really have a look".

Avation's other under-administration customer, Sweden's Braathens, has just two ATR72-600s on lease from the Singapore lessor, but they are very young aircraft, having been delivered only six months ago under the world's first green aviation loan from Deutsche Bank.

"In due course they'll let us know if they're shutting or recommencing and then we'll know. I don't have an update right now but I'm quite optimistic about them actually. There's been a lot of goodwill going around from governments in Europe to help airlines get through the crisis and so I hope that Braathens will make it," says Chatfield.

Rental holidays short-sighted

Lessors which agree short-term, fixed-lease rental holidays with their airline customers because of the Covid-19 pandemic are not doing particularly "smart deals" because they take no account of the duration of the crisis, believes Chatfield.

"Those are not particularly smart deals because if the crisis goes on for a long time then there won't be any catch up," he says, adding: "A lot of lessors gave them holidays – we are getting cash every month. It's very important that the airlines pay us money each month."

Avation has taken a different approach to the crisis, he says, by agreeing to reduce, but not freeze, monthly rental payments for 15 of its 19 airline customers by varying amounts each month. A typical deal will see an airline convert part of its outstanding rent for three to six months into effectively a loan to Avation, which accrues interest.

The money owed is then paid back in six, nine or 12 months, explains Chatfield. During this period, the airline continues to pay maintenance reserves and continues to store and maintain the aircraft as necessary.

"From day one we were planning for at least a 12-month problem. We knew from the beginning that we'll be in this for the long run. We needed to quickly reach agreements with our airline customers before things got too bad for them. What people need to understand is: when you turn an airline back on, it's going to take it quite some time to recover, to make the same kind of money again that they did before, so if you simply give them a rental holiday for, say, three months then you can't assume that on the fourth month you'll suddenly get four times your money because where would it have come from, they don't have the revenue," explains Chatfield.

"Instead of giving them holidays and allowing freezes, we've said, 'ok, this is a long-term problem so we will allow you to pay us less money every month but you will need to continue to pay us'. That helps both of us in maintaining visibility on current and future cash flows," says Chatfield, although he stopped short of disclosing just how much Avation continues to collect from its lessees each month.

"I'd say on average we still collect a majority of the lease rentals but it depends on customer and individual agreements," he adds.

Financing

Avation has worked with senior lenders to adjust the amortisation profile of senior loans to "enhance near-term liquidity", says Chatfield. In principle, agreements are in place with its largest bank lenders representing more than $370 million of senior debt. To date, banks have agreed to reschedule 31% of loan amortisation in 2020, representing $25 million.

While a couple of banks have yet to agree new terms, Chatfield indicates that "they will do something", adding that the banks have been "really supportive" and noting that one European bank described Avation's rental reductions versus freezes strategy as the best one adopted by any lessor to deal with the current crisis.

Avation will not take any new aircraft in the foreseeable future in order to slash capital expenditure: it has no aircraft lease expiries before August 2021, no scheduled commercial debt maturities before August 2021. Its $350 million senior notes offerings mature in 2021.

> *"The narrowbody market over the past five years has been ridiculously overvalued."*
>
> **Jeff Chatfield**, founder and executive chairman, Avation PLC

In 2018, the lessor issued two unsecured bonds under its global medium-term note programme with bookrunners Wells Fargo Securities, BOC International and Goldman Sachs (Asia). A $300 million 6.5% senior notes offering is due in May 2021. Another $50 million senior notes offering is due in November 2021.

"We are constantly reviewing all parts of our capital structure. Normally what you'd expect us to do is, come next May, we'd issue a new bond to service the old one but naturally there are other things we could do – for example, we trade assets all the time, we're in the process of selling a couple of aircraft, we could also sell shares. There's many options," says Chatfield.

Aircraft trading

Chatfield says that Avation has two A321 aircraft available for sale and is considering adding a third. "There's still transactions going on right now – people are still selling and buying aircraft. It'll definitely be a good buyers' market for quite some time to come.

"Assuming the financial markets return to normal, we would be biased toward being a buyer rather than a seller over the next months because we think aircraft valuations should come down. So to answer your question, I'd say we are still looking to grow the fleet beyond the current portfolio size. Our shop is open," Chatfield explains.

Avation says it does not "restrict itself" to certain aircraft types only because it does not make sense.

"As you know, there's lessors who say we only do regional aircraft and others say we only do narrowbody aircraft. But why should we restrict ourselves like that. Essentially, it makes little difference if you have an ATR or, say, a 777, the amount of procedures to follow from the lessor perspective is the same, the work flows and systems are the same. It's just a bigger asset, so the money and risk are greater but that's it," says Chatfield.

The vast majority of Avation's fleet is comprised of regional and narrowbody aircraft except for an A330-300 placed with Eva Air and a 777-300ER on lease to Philippine Airlines.

"For the 777, we stepped in for another lessor who didn't have the money to take that aircraft from Boeing. It was a good deal, an opportunistic buy. The other one [A330] we bought in the secondary market. Same story, good opportunity," recalls Chatfield.

"What we shop for really depends on value. There was a time a few years ago when ATR was building way more aircraft than the market needed and was ready to absorb so rates were very low and there were good deals to be had. Similarly, the narrowbody market over the past five years has been ridiculously overvalued. We've looked at some proposals where it was almost impossible for you to ever get your money back. They were completely out of whack," he says.

Aircraft valuations

Chatfield predicts that narrowbody valuations will come down significantly over the next 12 months but expects widebodies largely to retain their values.

"In recent years a lot of people still invested in these overvalued narrowbodies because they were essentially spending other people's money. There was an influx of liquidity from naïve investors – they bought stuff that was overpriced so that it obviously was not sustainable at all. Securitisations were promoted to extreme levels of valuation that simply did not hold up. Narrowbody valuations should come back to reality," says Chatfield.

"Widebody and regional aircraft valuations on the other hand were never that inflated. There's a lot of concern about widebody valuations going around but in our view they're not bad. They produce a steady stream of revenues, certainly better than over-inflated narrowbody aircraft trading at ridiculous valuations that will actually become a liability because they will never be able to meet the purchase price," he adds.

Chatfield has nothing but praise for the A220 programme after closing six A220-300 sale and leaseback transactions with European carrier Air Baltic, and dismisses residual value concerns.

"I think the market has been wrong about the A220. I'd go so far as to say it's the best and most useful aircraft that's come out in a long time. The operating economics are fantastic, the value is very high, airlines that operate them have a good chance at making a profit," says Chatfield.

"I don't think it's a real residual value concern," he adds. "I think it's more a concern of where the market is at in terms of operator base. There's not enough operators yet and that's why some people may have been taking a, let's say, more cautious approach. With more operators you get better trading opportunities and eventually this translates into better residual value assumptions. Airbus needs to sell more A220s to more people."

E2 family faces future alone

The collapse of the planned joint venture between Embraer and Boeing is widely seen as a major blow to the Brazilian manufacturer. **Geoff Hearn** looks at the prospects for the company's commercial aircraft products.

Brazilian manufacturer Embraer will have to rely on its own resources to make a success of its second generation (E2) of jets after the demise of its joint venture (JV) with Boeing at the end of April. This would have been challenging before the Covid-19 pandemic, but the task will be much greater given the damage that the outbreak has caused to potential customers.

The company is already feeling the effects of the pandemic, with its first-quarter 2020 results showing a $292 million loss, partly as a result of the inclusion of special items for the impact of Covid-19.

The market Embraer was targeting was relatively small even before the virus outbreak.

Demand for new products in the 100-seat to 150-seat market accounts for 15% to 20% of the narrowbody market over the next 20 years, depending on which manufacturer's forecast you believe.

Embraer will have to rely on its own resources to make a success of its second generation of regional jets

Slow start

The sales record of the second-generation models in the years before Covid-19 does not suggest that the Brazilian manufacturer has been convincing many customers to replace or expand existing fleets with the latest variants of its regional jet family.

The E190-E2 recorded a net reduction in firm orders from 74 to 27 between the first quarter of 2018 and the first quarter of 2020, while the E195-E2 registered just an additional 38 sales, taking it to 144 in total. The E175-E2 has no sales as yet, although the first-generation version continued to sell in significant numbers before Covid-19 arrived on the scene.

The company is building the different generations on the same production line and has said it will continue to build first-generation aircraft as long as there is a demand for them.

Gueric Dechavanne, vice-president, commercial aviation services, Collateral Verifications (CV), thinks the current economic environment makes it even more difficult for the E2 models to penetrate the market.

"With the price of fuel remaining so low, this has made it very difficult for airlines to justify paying a premium for the aircraft, especially for those already operating the previous generation of Embraer E-Jets," he says.

No helping hand

Improved access to Boeing's large customer base and the power of the US manufacturer's marketing organisation were among the major advantages that the joint venture would have brought to Embraer. It was hoped that there would be a boost to Embraer's second-generation sales similar to the impetus that Airbus had provided to Bombardier's CSeries under its new A220 identity.

Whether Embraer's larger E2 models can compete with the A220 family is a source of concern for the Brazilian manufacturer. The E190-E2 and the E195-E2 compete more directly with the A220-100 than the larger and more successful A220-200. The relatively low sales of the A220-100 compared with its larger stablemate might imply a smaller market, but Embraer would suggest that its models have more optimal designs for the 100-seat market.

Dechavanne believes that middle model of Embraer's latest family is perhaps the best placed to succeed.

"The E190-E2 has had a slow start but should perform well in the long term as operators move to replace their ageing E190s. The low fuel environment has certainly slowed this process, but this will most likely change as traffic recovers and airlines once again shift their focus to more efficient and environmentally friendly aircraft. CV feels that, with a current operator base of 67 airlines, orders should be forthcoming for the aircraft as airlines look either to grow or replace their in-service fleet. However, this may not occur until the industry comes out of the current Covid-19 crisis, which will probably take several years."

Dechavanne is less optimistic about the largest member of Embraer's new family.

"The E195-E2, which started delivering in 2019, will most likely continue to be used for certain niche markets as has occurred with the first-generation fleet. With the A220 now in production as well, this will increase the pressure to obtain additional orders as the A220 is viewed by many as a more capable aircraft."

Scope clause issues

The situation for the smallest member of the second-generation Embraer family is more nuanced. In theory, the E175-E2 will face competition from the recently renamed Mitsubishi Spacejet, but the Japanese aircraft continues to suffer delays in its development programme, with the Covid-19 crisis providing the latest hurdle. The most recent setback has led to Mitsubishi slashing the development budget and dropping the M100 variant, which was aimed at meeting US pilot scope-clause restrictions. This should be good news for the Brazilian manufacturer, although they are unlikely to say so publicly.

The first-generation E175 provides a good customer base for Embraer to target with its second-generation replacement, but like the baseline Spacejet, the E2 model does not meet the weight and capacity restrictions of the US scope clauses. Given the importance of the North American market, which accounts for about 50% of all regional jets, Embraer needs to find a solution to this situation.

Dechavanne suggests the problem may not be solved any time soon.

"Unless scope clauses change in the US, which is unlikely in the near term, the E175-E2 will not have a great future in the USA, which is unfortunate as this is where the E175 has had and continues to have so much success," he says.

It is possible in the current environment that the scope clauses might be relaxed as the pilot unions are faced with a collapsing industry. However, even if this is the case, and as Dechavanne implies history would caution against it, the benefits are likely to be offset by the reluctance of airlines to invest in new equipment for a market that has all but disappeared.

Secondary market offers little consolation

Some commentators suggest that social distancing limitations, which look likely to be with us for sometime, will pose a particular challenge on smaller aircraft, but not everyone believes that the regional aircraft market is going to be disproportionately badly impacted.

Chris Beer, managing director, Skyworld Aviation, says there are opportunities in the sector resulting from the pandemic. In particular, he says many airlines with larger single-aisle aircraft are looking to match capacity to reduced demand by moving into smaller aircraft.

Skyworld, which specialises in regional aircraft marketing and lease management services, has been busy helping to source aircraft and operators to meet this requirement. However, Beer does not see that this situation offers much in the way of opportunity for new regional aircraft and he believes that Embraer is facing some tough challenges.

The departure of Embraer Commercial Aviation chief executive officer (CEO) John Slattery, to head up GE Aviation, is considered by some to be a further blow to the Brazilian manufacturer at this critical time. As the company press release on Slattery's departure says: "John has played a central role at Embraer during a challenging time."

Arjan Meijer, the new president and CEO, will certainly have his work cut out navigating the newly integrated company division through the next few years.

Family background

Embraer launched the second generation of E-Jets at the 2013 Paris air show, designating the new models as E2 variants. The main changes for E2 models are the switch to Pratt & Whitney geared turbofan (GTF) engines and a redesign of the wings. Embraer says that fuel and maintenance costs of the latest generation of aircraft offer "double-digit savings" over their respective predecessors.

As part of a rationalisation of seating capacity, the new family includes only three models. The E190 and the larger E195 have entered service. The smaller E175 has completed its first flight and is embarking on a certification process. Embraer had hoped to see the E175-E2 enter revenue service around December 2021. The company has not indicated how this schedule might be impacted by the Covid-19 crisis.

Leading characteristics

	E175-E2	E190-E2	E195-E2
Max seating	90	114	146
Typical seating	88	104	132
Indicative range (nm/km)	2,020/3,730	2,850/5,280	2,600/4,800
MTOW (tonnes)	44.8	56.4	61.5
OEW (tonnes)	29.0	33.0	35.7
Max payload (tonnes)	10.6	13.5	51.8
Fuel capacity (litres)	16,500	16,500	16,500
Engines	2xPW1700	2xPW1900	2xPW1900
Thrust (lbf/kN)	15,000/67	19,000/85	23,000/102

Source: Manufacturer's data and *Airfinance Journal* research

Fuels and times

	E175-E2	E190-E2	E195-E2
Block fuel 200nm	1,000kg	1,140kg	1,260kg
Block fuel 500nm	2,030kg	2,300kg	2,440kg
Block time 200nm	51 minutes	51 minutes	51 minutes
Block time 500nm	89 minutes	89 minutes	89 minutes

Source: Airfinance Journal estimates based on manufacturer's published claims

Problem **widebodies**

Values for widebodies such as the A330-300 and the 777-300ER were under pressure before the Covid-19 outbreak. The trend has been amplified by the impact of the virus. **Geoff Hearn** looks at what future there is for these older widebody models.

There is a consensus among industry observers and analysts that the single-aisle market will recover more quickly than widebody demand from the Covid-19. This view is held in the light of trends that were emerging before the pandemic struck.

According to *Airfinance Journal*'s Fleet Tracker, about 600 orders were placed for widebody passenger aircraft between January 2018 and December 2019. This compares with 2,230 orders for single-aisle aircraft over the same period, despite only 69 orders being placed for the Boeing 737 Max in 2019. In this context, the values of older widebody types are under increasing pressure. The highest-profile casualties are previously successful types, such as the 777-300ER and the Airbus A330-300.

A330-300 characteristics

The first A330-300 variants entered service in 1992 but aircraft delivered from 1999 onwards have a higher standard maximum take-off weight (MTOW) of 230 tonnes and are normally identified as higher gross weight (HGW) versions. The latest version has a 242-tonne MTOW, which provides a range of about 6,340 nautical miles (11,750km) with 270 passengers.

The A330 cross-section offers underfloor cargo holds that accept industry-standard LD3 containers. Airbus offered the A330-300 with three engine choices: the General Electric CF6-80E, the Pratt & Whitney PW4000 and the Rolls-Royce Trent 700. The Rolls-Royce option has captured nearly 65% of the total orders.

The A330-300 total orderbook came very close to 800 units with more than 700 aircraft remaining in service today. However, its backlog now stands at only 25 aircraft.

Airbus formally launched re-engined versions of its A330-200 and A330-300 models at the 2014 Farnborough air show. The replacement models were designated as the A330-800 and A330-900, respectively, and, in line with the company's single-aisle family, were assigned the marketing designation Neo (new engine option). The aircraft are intended to complement the European manufacturer's A350 models and help compete against the smaller models in the 787 family. The A330neos are the same size as the aircraft they replace, but incorporate an A350-style cabin, which allows an increase in capacity.

A330-300

777-300ER

777-300ER

The 777-300ER (extended-range) model, which entered service in 2003, became the benchmark long-haul high-capacity twin-engined aircraft. The aircraft featured a higher MTOW than the original 777-300 and also offered increased fuel, giving a maximum range of about 7,370 nautical miles with 365 passengers. The General Electric GE90-115 is the single-source engine for the type.

Boeing launched the 777X family as the 777-300ER's successor in late 2013. Entry into service was originally targeted for 2020, but this has been pushed back. The manufacturer originally offered two variants of the replacement model.

The 777-9 provides seating for more than 400 passengers in a two-class configuration and has a range of 7,600 nautical miles. The second member of the family, the 777-8, would seat more than 350 passengers and offer a range capability of 8,700 nautical miles. However, that development of the 777-8 has been put on hold.

Model	A330-300	777-300ER
Engine	PW4000 CF6-80 Trent 700	GE90-115
Thrust per engine (lbf)	68,000-72,000	115,300
Max seating	440	550
Typical seating	250-290	365
Typical range (nm/km)	6,340/11,750	7,370/13,650
Entry into service	1993	2003

Pre-Covid-19 market

Both the 777-300ER and the A330-300 have been success stories for their respective manufacturers, but recent years have seen the popularity of both models decline.

The 777-300ER was particularly popular with first-tier carriers. More than 820 aircraft have been delivered since entry into service. However, sales have been declining rapidly, with only 15 orders in 2018 and 2019. About 10% of the fleet was in storage before the Covid-19 crisis.

The declining momentum of the 777-300ER sales was clearly a factor in the launching of the 777X. However, the advent of a replacement has further depressed sales of the existing model, despite Boeing's efforts to introduce performance improvements to the current-build standard.

Despite its popularity with the first-tier airlines and a single-source powerplant supplier, the secondary market for the 777-300ER has been difficult and lease rates have been below early expectations.

The A330-300 has not quite matched the success of the 777-300ER, but it has provided Airbus with a solid orderbook, which was boosted by delays of the 787 programme. The aircraft has achieved close to 800 sales, but orders had dried up as the A330-900 became available. In the pre-Covid-19 secondary market, the A330-300 had suffered from oversupply of twin-aisle capacity with lowered value and lease-rate expectations. Close to a quarter of the A330-300 fleet was in storage as Covid-19 struck.

Post-Covid-19 outlook

The full impact of the Covid-19 crisis on the widebody market is dependent on how quickly economies can recover with some return to normality for air travel.

Aviation consultancy IBA has adjusted its views on market values post-Covid-19 based on an estimate that there will be an oversupply of about 1,300 widebody aircraft through 2021. IBA's calculation is that more than 1,800 aircraft currently in service will need to leave the system over the same period to balance new aircraft deliveries and market oversupply.

The consultancy and appraiser firm believes that 777-300ER and A330-300 values will take another hit. Values for three-year-old models of both types were expected to decline by about 9-10% by 1 July 2020, which compares to 4% and 5% drops for similarly aged 787-9s and A350-900s, respectively. Drops in values are much more severe for older examples of the two current-generation types. IBA had already downgraded values at the beginning of this year, prior to the impact of Covid-19; however, further downgrades are expected of up to 24% on A330-300s delivered in the early 2000s and up to 20% on early-build 777-300ERs.

Relative cash cost at December 2019 fuel price

($1.80 per USG)

	787-9	A330-300	777-300ER
Cash cost per trip	100%	115%	136%
Cash cost per seat	100%	123%	109%

Relative cash cost at current fuel price

($0.9 per USG)

	787-9	A330-300	777-300ER
Cash cost per trip	100%	113%	132%
Cash cost per seat	100%	120%	106%

Assumptions: 2,000 nautical-mile sector, Airfinance Journal cost model.

777X delays offer respite

Mike Yeomans, head of valuations, IBA, says some 777-300ER lessors will get a reprieve from the delays to the 777X programme. He points out that Dubai-based carrier Emirates Airline has already extended some of its 777-300ER leases as a result of the delays. Yeomans says: "We expect to see operators looking to defer their 777X deliveries in the near term, as long-haul markets are forecast to be the slowest to recover. This would be a relative positive for the 777-300ER as fewer aircraft would be displaced from their existing operations."

IBA has also seen operators extending their 777-300ER leases to avoid large compensation payments due at redelivery from their current lease contracts. Such payments can run into the tens of millions of dollars.

Flood of A330-300s

The A330-300 market suffered from a wave of fleet replacements before Covid-19 struck and this looks likely to continue over the coming years, which will put further pressure on values.

The return of aircraft from Singapore Airlines at the end of their six-year leases is a high-profile indicator of the state of the market. Yeomans says: "This availability of younger A330s in a market awash with mid-life and older aircraft made placement a real challenge, even at reduced rates. We saw some eye-wateringly low lease rates in the market and the advent of Covid has only worsened the situation."

Cargo market

There is a passenger-to-freighter (P2F) conversion option for the A330 family and the A330-300 appears set to be the more popular variant, with aircraft already operating for DHL. As values of passenger aircraft continue to decline, IBA expects to see more aircraft follow this route.

The 777-300ER also has a P2F programme, which was launched last year with GECAS and Israel Aerospace Industries (IAI).

The prototype aircraft has recently been delivered to IAI to undergo conversion. The programme is certainly a positive for 777-300ER owners and will create an option for aircraft leaving passenger service, while supporting demand for GE90-115 engines in the long term.

However, the potential for converting aircraft is limited.

Yeomans cautions: "There is a large fleet of over 800 777-300ERs and not all will be converted. Despite the positive aspects of the freight-conversion programme for owners, it is not a panacea for values."

Cost comparison

The A330-300 and 777-300ER are not direct competitors in terms of size, but in an increasingly difficult widebody market their relative economics are important in determining future prospects.

Previous cost comparisons by *Airfinance Journal* prior to the Covid-19 crisis, with relatively high fuel prices, have shown the A330-300 and the 777-300ER coming under pressure from new-generation aircraft.

The latest models have significantly lower cash operating costs. For example, at the December 2019 fuel price of $1.80 per US gallon, the A330-300 had a 23% lower cost per seat than the 787-9.

The latest-generation Boeing model even has a significant seat-cost advantage over the much larger 777-300ER. These differences are less pronounced at lower fuel prices, but the new-technology aircraft still has lower cash costs.

Whether this cash cost advantage is sufficient to justify the capital cost of acquiring new aircraft is open to debate, but it will eventually add to the pressure to retire older models.

Rating agency unsecured ratings

Airlines

	Fitch	Moody's	S&P
Aeroflot	BB-(neg)	-	-
Air Canada	BB-(neg)	Ba2(neg)	BB-(watch neg)
Air New Zealand	-	Baa2(stable)	-
Alaska Air Group	BB+(neg)	-	BB-(neg)
Allegiant Travel Company	-	Ba3(neg)	B(neg)
American Airlines Group	B(watch neg)	B2(neg)	B-(neg)
Avianca Holdings	D	-	D(NM)
British Airways	BB+(neg)	Ba1(neg)	BB(neg)
Delta Air Lines	BB+(neg)	Baa3(neg)	BB(watch neg)
Easyjet	-	Baa3(neg)	BBB-(watch neg)
Etihad Airways	A(stable)	-	-
Grupo Aeromexico	-	Caa1(neg)	B-(neg)
GOL	B-(watch neg)	Caa1(neg)	B-(watch neg)
Hawaiian Holdings	B+(neg)	B1(neg)	B(watch neg)
International Consolidated Airlines Group	-	-	BB(neg)
Jetblue	BB(neg)	Ba2(neg)	B+(neg)
LATAM Airlines Group	D		D(NM)
Lufthansa Group	-	Ba1(stable)	BB+(watch neg)
Qantas Airways	-	Baa2(neg)	-
Ryanair	BBB(neg)	-	BBB(watch neg)
SAS	-	Caa1(stable)	CCC(watch neg)
Southwest Airlines	BBB+(neg)	Baa1(neg)	BBB
Spirit Airlines	BB-(neg)	-	B+(watch neg)
TAP Portugal (Transportes Aereos Portugueses, S.A.)	-	Caa1(neg)	B-(watch neg)
Turkish Airlines	-	B3(neg)	B(neg)
United Airlines Holdings	BB-(neg)	Ba2(neg)	BB-(watch neg)
Virgin Australia	D	Ca(developing)	D(NM)
WestJet	B+(neg)	B3(neg)	B-(watch neg)
Wizz Air	BBB-(neg)	Baa3(neg)	-

Source: Ratings Agencies - 19/06/20

Lessors

	Fitch	Moody's	S&P	Kroll Bond Ratings
Aercap	BBB-(neg)	Baa3(neg)	BBB(neg)	-
Air Lease Corp	BBB(neg)	-	BBB(neg)	A-(neg)
Aircastle	BBB(stable)	Baa3(neg)	BBB-(stable)	-
Avation PLC	B(watch neg)	-	B(watch neg)	-
Aviation Capital Group	BBB-(neg)	Baa2(neg)	BBB-(neg)	A-(neg)
Avolon Holdings Limited	BBB-(neg)	Baa3(neg)	BBB-(neg)	BBB+(neg)
AWAS Aviation Capital Limited	-	Baa3(neg)	BB+(stable)	-
BOC Aviation	A-(stable)	-	A-(neg)	-
CDB Aviation Lease & Finance	A+(stable)	A1(neg)	A(stable)	-
Dubai Aerospace Enterprise	BBB-(neg)	-	BB+(stable)	BBB+(neg)
Fly Leasing	-	Ba3(neg)	BB(neg)	BBB(neg)
ILFC (Part of Aercap)	BBB-(neg)	Baa3(neg)	-	-
Park Aerospace Holdings	BBB-(neg)	Baa3(neg)	-	-
SMBC Aviation Capital	A-(neg)	-	A-(neg)	-
Voyager Aviation	BB-(watch neg)	B1(neg)	B(watch neg)	BB-(neg)

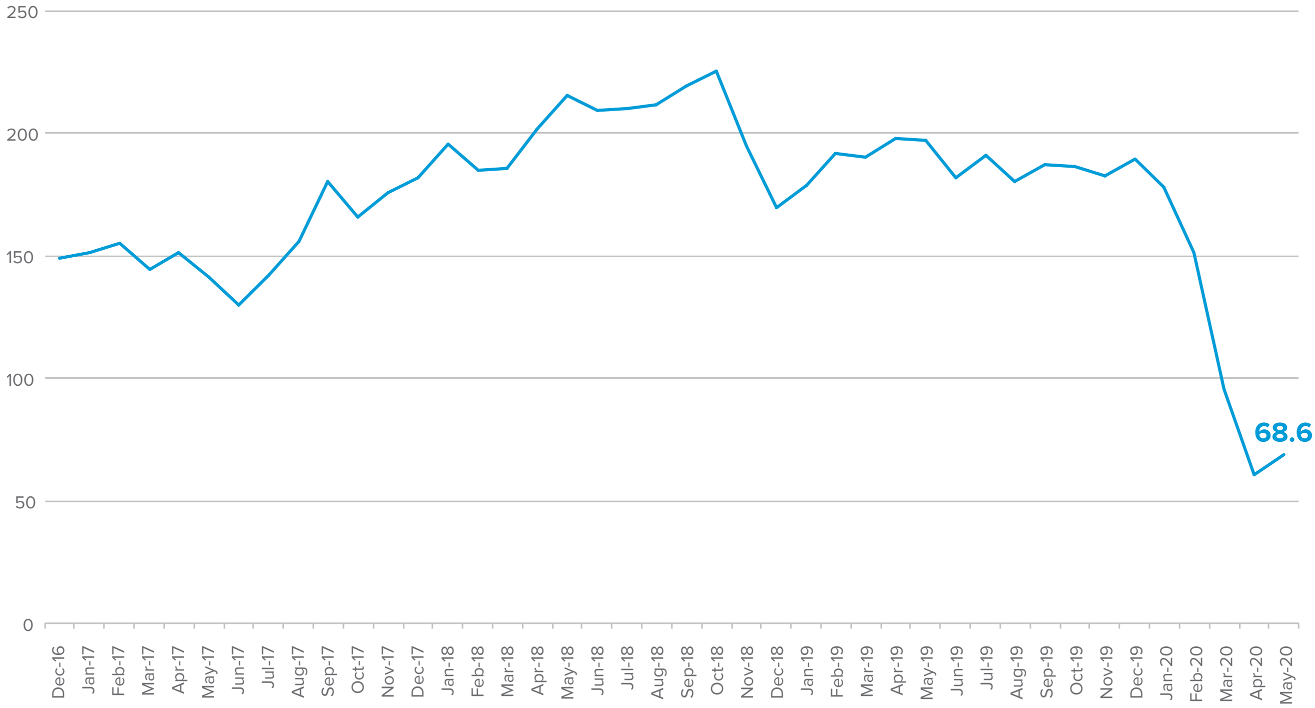
Source: Ratings Agencies - 19/06/20

Manufacturers

	Fitch	Moody's	S&P
Airbus Group	A-(neg)	A2(neg)	A(neg)
Boeing	BBB(neg)	Baa2(neg)	BBB-(stable)
Bombardier	CCC	Caa2(neg)	CCC+(neg)
Embraer	BB+(neg)	Ba2(neg)	BB+(neg)
Rolls-Royce plc	BBB+(neg)	Baa3(neg)	BB(neg)
Raytheon Technologies Corp	-	Baa1(stable)	A-(neg)

Source: Ratings Agencies - 19/06/20

US Gulf Coast kerosene-type jet fuel (cents per US gallon)



Source: US Energy Information Administration

Recent commercial aircraft orders (May-June 2020)

Customer	Country	Quantity/Type
Avolon	Ireland	8 A320neo, 1 A321neo
FedEx Express	USA	1 767-300F
UPS	USA	5 767-300F, 2 777-200F

FedEx Express ordered one more Boeing 767-300F

Based on *Airfinance Journal* research up to 27/06/20

New aircraft values ($ million)

Model	Values of new production aircraft*
Airbus	
A220-100	33.2
A220-300	37.8
A319	34.3
A319neo	37.2
A320	43.7
A320neo	49.3
A321	51.8
A321neo	57.1
A330-200	85.9
A330-200 Freighter	94.4
A330-300	98.2
A330-900 (neo)	110.4
A350-900	149.4
A350-1000	169
A380	219.2
Boeing	
737-800	46.3
737-900ER	48.6
737 Max 8	51.3
737 Max 9	52.5
747-8I	155.6
747-8F	183
777-300ER	153.9
787-8	118.5
787-9	143.6
787-10	150.5
ATR	
ATR42-600	16.2
ATR72-600	20.2
Bombardier	
CRJ700	24.1
CRJ900	26.2
CRJ1000	28.2
De Havilland Aircraft of Canada	
Dash8-400	20.7
Embraer	
E175	28.5
E190	32.1
E190-E2	34.5
E195	33.9
Sukhoi	
SSJ100	23.3

*Based on ISTAT appraiser inputs for Air Investor 2020

New aircraft lease rates ($'000 per month)

Model	Low	High	Average
Airbus			
A220-100	204	262	233
A220-300	276	303	289.5
A319	230	283	256.5
A319neo	266	293	279.5
A320	295	353	324
A320neo	340	383	361.5
A321	350	424	387
A321neo	380	444	412
A330-200	640	745	692.5
A330-200 Freighter	657	715	686
A330-300	690	833	761.5
A330-900 (neo)	801	872	836.5
A350-900	1,050	1,195	1,122.5
A350-1000	1,233	1,342	1,287.5
A380	1,503	1,950	1,726.5
Boeing			
737-800	310	364	337
737-900ER	330	394	362
737 Max 8	350	394	372
737 Max 9	368	404	386
747-8I	990	1,264	1,127
747-8F	1,178	1,570	1,374
777-300ER	1,050	1,300	1,175
787-8	815	931	873
787-9	950	1,200	1,075
787-10	1,053	1,146	1,099.5
ATR			
ATR42-600	117	153	135
ATR72-600	144	185	164.5
Bombardier			
CRJ700	153	220	186.5
CRJ900	170	235	202.5
CRJ1000	182	255	218.5
De Havilland Aircraft of Canada			
Dash8-400	140	200	170
Embraer			
E175	205	240	222.5
E190	230	275	252.5
E190-E2	239	263	251
E195	211	280	245.5
Sukhoi			
SSJ100	153	205	179

Commercial aircraft orders by manufacturer

	Gross orders 2020	Cancellations 2020	Net orders 2020	Net orders 2019
Airbus (31 May)	365	66	117	768
Boeing (31 May)	40	317	-277	54
Bombardier -Mitsubishi	0	0	0	15
De Havilland of Canada	0	0	0	10
Embraer	20	0	20	55
ATR	5	0	5	43

Based on *Airfinance Journal* research and manufacturer announcements until 27/06/20

Times have changed but wise decision-making has not

In these times of turmoil you still need common sense and an understanding of aviation to make proper investment decisions, writes Adam Pilarski, senior vice-president at Avitas.

With everything changing dramatically and the world in a topsy-turvy situation it could be asked whether old paradigms are still relevant. Can the future be predicted at all or is the whole world totally haphazard and random?

So, an old quandary is where to invest in aviation?

Of all the humans who ever lived probably the most successful investor is the "Oracle of Omaha", Warren Buffett. He is reportedly worth about $80 billion and is among the richest people on our planet. And he did it all by pure investing, not creating new products or discovering a better way to live our lives.

Historically, wealth came from developing a new product that changes human welfare, such as Microsoft or Amazon (the sources of wealth of the two richest people on earth). Buffett, though, achieved his fortune by simply investing in other people's creations – hence, he can probably claim the title of best investor in history.

Of course, anybody as successful as Buffett has to have an occasional slip. Aviation provided him an opportunity when he bought US Air stock in 1989 for $358 million when the share price was about $50, only for it to drop to just $4 a few years later. Buffett kept the shares until he eventually recovered his investment and his pride but then got rid of them without his usual huge gains. That process, though, turned him bitter towards aviation.

He then made two famous statements about the aviation industry, badmouthing both the Wright brothers – Orville and Wilbur – in the process. One was: "Karl Marx couldn't have done as much damage to capitalists as Orville did." The other: "If there had been a capitalist down there [at Kitty Hawk, where their first successful flight took place], the guy should have shot down Wilbur!" If humanity followed the advice of Buffett we might never have experienced aviation and all the goodness it created for our civilisation.

One miscalculation is not so bad and does not tarnish the reputation of Buffett as an investor extraordinaire. However, the specific example I mentioned above could have turned out differently if he had asked my advice. I was predicting a bubble bursting in aviation at that time. There were simply too many aircraft in service and on order for the existing market. The simple explanation for this was that airlines could see a promising future in aviation but, at the same time, leasing companies started growing rapidly, raising their share of capacity from a couple of percent in the early 1970s to almost 20% by the end of the 1980s. The gross overbooking was the result of double counting the need for aircraft by airlines and lessors.

Our author at the *Airfinance Journal* Dublin 2020 conference.

> *"I kept repeating the mantra about a forthcoming bubble so frequently that many aviation professionals started calling me the 'Bubble Boy'."*

The slowdown coming as a result of a world recession and the first Gulf War came at the worst time so airlines and lessors were hit very hard, with a number of prominent historical names disappearing forever. All this was quite predictable and I was preaching that outcome at the time.

Fast forward a few decades and, as readers of this column know, I have again been preaching the existence of an ever-growing bubble in aviation, saying we simply have too many aircraft for the market. I kept repeating the mantra about a forthcoming bubble so frequently that many aviation professionals started calling me the "Bubble Boy". A recent article in Chinese papers upgraded me to the "Bubble Prince" a la The Little Prince. Imagine my surprise when I read in 2016 that despite all his venom towards the industry from times past, Buffett had just returned to aviation investments. This time it was not just one airline but a substantial (10%) investment in each of the major carriers in the USA, showing his trust in the industry.

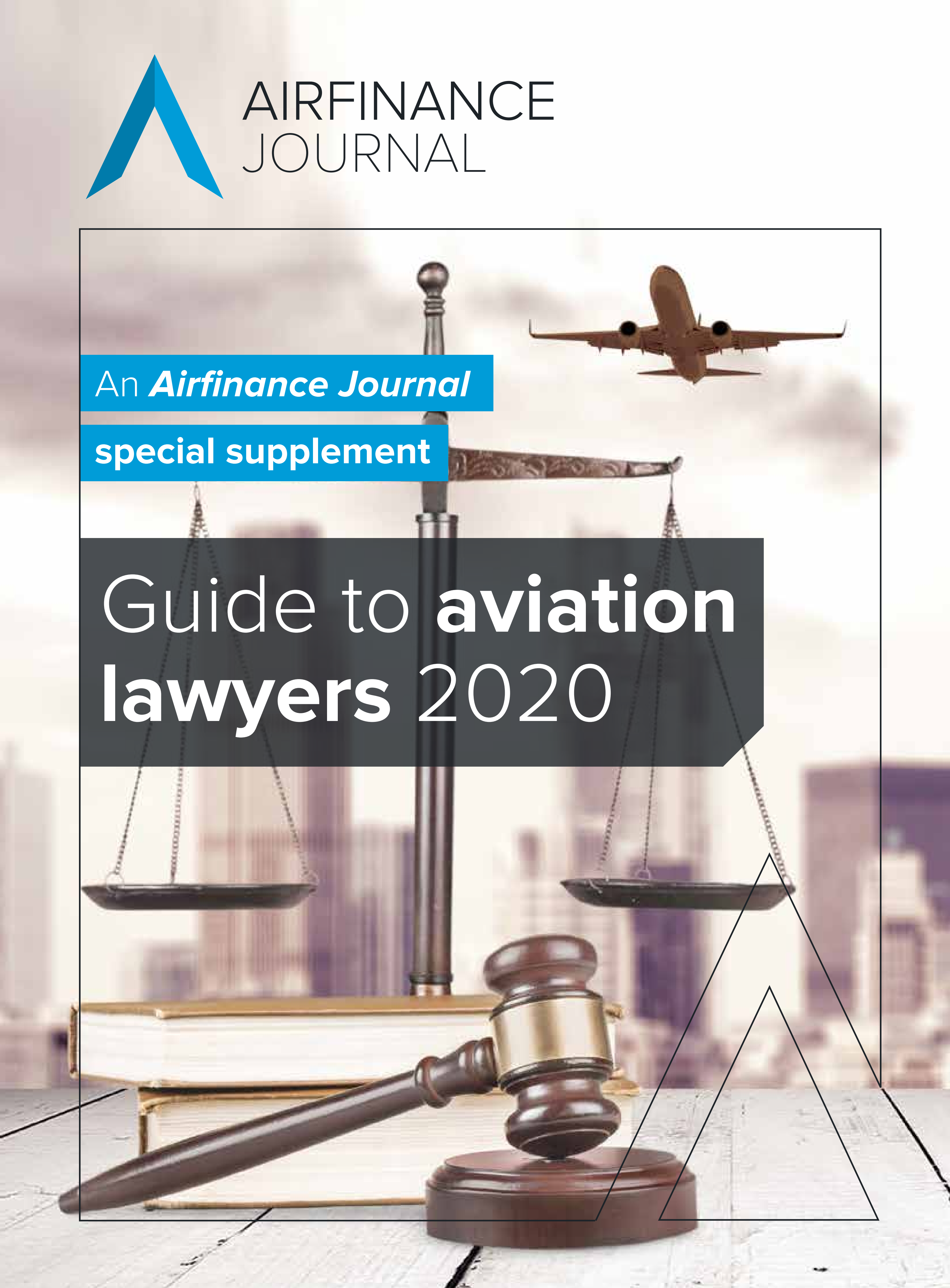
As before, the Oracle of Omaha did not seek out my advice before committing the funds for investments. And as before, the outcome was not positive but this time Buffett cut his losses and got rid of his airline stock entirely this year.

The Coronavirus outbreak could not have been predicted but is not the main reason for the loss. The industry had been ready for a predicted and predictable dramatic downturn for some time. Nobody should have been surprised by the Oracle's eventual losses in his second foray into airline stock investment. Unfortunately, this time he did not provide some humorous quotes saying how bad aviation really is in its core. Again, this does not negate the fact that Buffett is the greatest investor of all time. But it proves that reason explains developments in our industry.

AIRFINANCE JOURNAL

An *Airfinance Journal* special supplement

Guide to **aviation lawyers** 2020



Legal moves 2019-20

Edwards joins CMS as partner


Gwen Edwards

CMS Cameron McKenna Nabarro Olswang has appointed Gwen Edwards as a partner in the firm's asset finance team, based in London.

Edwards joins from Hogan Lovells, where she was in the asset finance team.

She has more than 10 years' experience in asset finance with a specialism in aircraft debt finance and leasing. This experience includes advising banks, operating lessors, borrowers, airlines, rail and shipping companies and private equity firms on cross-border asset finance transactions, tax-based structured finance and restructuring and other general banking work.

Her appointment bolsters the firm's new aviation team: Legal Flightpath – CMS Aviation.

This team comprises more than 70 partners, providing solutions for airlines, airport operators and service providers, air traffic control operators, banks, aircraft lessors, equipment manufacturers, aircraft maintenance services and aviation technology businesses.

Finnigan moves to Conyers

Conyers continues the expansion of its Cayman Islands corporate practice with the hire of Barnabas Finnigan as counsel. Finnigan arrives from Maples Group where he worked for more than eight years as an associate in the Cayman Islands advising on all aspects of Cayman Islands law, but specialising in asset finance, project finance and structured finance transactions and, in particular, shipping and aviation finance, with a focus on aircraft asset-based securities transactions.

His appointment comes during a time of growth for the firm and follows a large number of strategic appointments across its corporate and litigation practices.

Finnigan joins a team with experience in a wide range of corporate and finance matters, including asset and structured finance and fund finance transactions.


Barnabas Finnigan

Before joining Maples Group, Finnigan worked in the shipping finance team at Norton Rose for almost four years. He started his career at Eversheds before joining Richards Butler (now Reed Smith) in London.

Herbert Smith Freehills promotes Catanzariti

Herbert Smith Freehills has promoted Steven Catanzariti to partner within its aviation finance team. Catanzariti joins John Angus in Australia, and Siva Subramaniam, Samuel Kolehmainen, Rex Rosales and Jahnavi Ramachandran in London in supporting the firm's aviation finance clients.

Catanzariti joined the firm in 2009 and specialises in asset and structured finance, with a strong focus on the aviation sector. He advises Australian and international banks, lenders, borrowers, lessees, lessors and arrangers, and was listed as a senior associate.


Steven Catanzariti

Hogan Lovells appoints Cevher Conti

Mehtap Cevher Conti has joined law firm Hogan Lovells as a partner in the New York office. She was previously a partner at Arnold & Porter for two years.

Before that, she was in private practice, where she focused on global transportation finance. Cevher Conti has more than 15 years' experience in finance, particularly in aviation finance. Her broad range of experience includes secured debt and export credit agency-supported transactions, revolving credit facilities, leveraged leases, operating leases, portfolio acquisitions, and asset-backed structured financings and securitisations for commercial and investment banks, insurance companies, financial institutions, aircraft operating lessors and airlines.

Cevher Conti's work in the commercial airline space includes secured debt, export credit agency-supported transactions, sale and leaseback transactions and aircraft portfolio acquisitions.

Matthew Cottis, global head of the finance practice at Hogan Lovells, says the firm has been looking to expand its finance capabilities. He says: "We expect that she will work closely with our capital markets team in New York, as well as with our strong asset finance team in London."

Clifford Chance retains crown

Airfinance Journal had to sift through 1,520 deals to find its 2019 winner, with Clifford Chance's Turkish Airlines Balthazar deal scooping the inaugural Legal Transaction of the Year.

Airfinance Journal would like to thank all the law firms which participated in this year's survey.

Airfinance Journal's annual legal survey includes aviation finance deals based on submissions from law firms as well as *Airfinance Journal*'s Deal Tracker transactions. Those are subsequently aggregated to create the winners. This year, we received submissions from 15 firms, compiling 1,520 deals overall, including transactions gathered from Deal Tracker.

This is the fourth year *Airfinance Journal* has used data transactions from Deal Tracker for our legal survey. It provides a more accurate picture of the 2019 activity because it includes law firms, which were not able to submit or decided not to submit. The firms that did submit have the most accurate representation of their deals in 2019.

This year's survey highlighted the significant increase in the capital markets' activity. In 2019, *Airfinance Journal* recorded 179 eligible transactions compared with 116 the previous year.

The survey also highlighted more activity in the export credit agencies sector. Export credit agency-backed structures have been becoming scarce as a consequence of continued liquidity in the air finance sector. As a consequence, there were fewer transactions in the commercial loan market in 2019 than in 2018.

Today, 37% of the submitted deals originate with European customers versus 40% in the 2016 legal survey. Europe still represents 562 transaction points.

Asia-Pacific is the second region with 410 transactions, or 27%. North America remains third by region with about the same percentage of transactions as in 2018 (21%, or 320 transactions).

Activity in Latin America has slightly decreased over the past three years. Some 5.3% of this year's total involves clients from that region, against 6% two years ago. The activity in Africa remains at the previous year's level, while transactions in the Middle East are slightly lower than the previous year.

This year's survey highlighted the significant increase in the capital markets' activity. In 2019, Airfinance Journal recorded 179 eligible transactions compared with 116 the previous year.

Methodology

Aviation law firms were invited to submit deals to be included in Deal Tracker. The *Airfinance Journal* data team then reviews the different deals and selects those eligible for Deal Tracker. This list is then used to select the most active law firms, which are then selected by region and product type. The legal survey reviews transactions for calendar year 2019 only.

This is significant because we recognise that markets change, as do law firms; however, we felt this was the only way to offer an accurate snapshot of aviation finance legal activity.

Our aim is to continue being transparent and impartial. All of the deals used to judge the winners are eventually loaded into Deal Tracker and can be reviewed by our readers.

In this sense, our survey is unique. Our researchers assess each deal to verify them and to avoid double counting. The benefit of using Deal Tracker is that we can offer a granular presentation of law firm activity by both product type and region. There are limitations to the survey.

Client confidentiality may be an issue for law firms when submitting deals and some firms opted not to participate. As a consequence, the survey does not represent all of the deals happening in the market, but it remains the most comprehensive survey of its type and crucially offers a real insight into the aviation market.

The survey gives a strong indication of which law firms are most favoured for certain deal types and for certain regions.

Airfinance Journal continues to listen to its audience. This year we modified the evaluation criteria to reflect the transaction complexity as well as the law firm's role in a transaction rather than simply count the number of deals.

As a result, law firms were asked to self-assess the complexity of each transaction and their role in the transaction according to the following new set of criteria for which the specified points were awarded:

Complexity:

- Ground-breaking pioneer transaction: 10 points
- Complex transaction, some new parties or jurisdictions: 7 points
- Average complexity, repeat transaction with same players and jurisdictions: 5 points
- Less-complex transaction: 3 points
- Low complexity: 1 point

Role:

- Drafting counsel for major transaction documents: 10 points
- Primary counsel to major transaction parties: 7 points
- Secondary counsel to transaction parties: 3 points

For all Deal Tracker transactions that were not part of the submitted deals, *Airfinance Journal* assigned one point for the complexity of a transaction and three points for the role played by the law firm. This resulted in a total score of four that was assigned to all Deal Tracker transactions that were not part of the submitted deals.

Overall rankings

Like previous years, the survey records the overall number of deals for each law firm. A deal, as defined by the survey, represents one mandate and can include multiple aircraft and law firms.

In addition to presenting the most active law firms by product and region, the survey also aggregates how law firms have performed to produce an overall ranking.

Overall winners

Clifford Chance secured the number one spot among the law firms and topped the Asia-Pacific, Europe, Middle East, commercial loans, operating lease, and guaranteed financing categories.

Like in 2018, K&L Gates and Milbank completed the podium, with Milbank being the law firm which progressed the most year-on-year. Pillsbury pipped White & Case for the fourth spot. Bird & Bird remained sixth in the overall rankings, while Stephenson Harwood was the most improved law firm outside the top six.

Legal Transaction of the Year: Turkish Airlines' 5xA321neo Balthazar-guaranteed commercial financing

Airfinance Journal also introduced the Legal Transaction of the Year award, to recognise the strongest deal in the commercial aviation finance market.

Law firms were invited to submit one nomination for consideration in terms of complexity, timing, innovation, overcoming obstacles and diversity of solutions.

The editorial team selected Turkish Airlines Balthazar-guaranteed financing as the winning submission. Clifford Chance was involved in another first in the aviation industry space, with the successful closing of a new credit risk insurance product for Airbus aircraft financings.

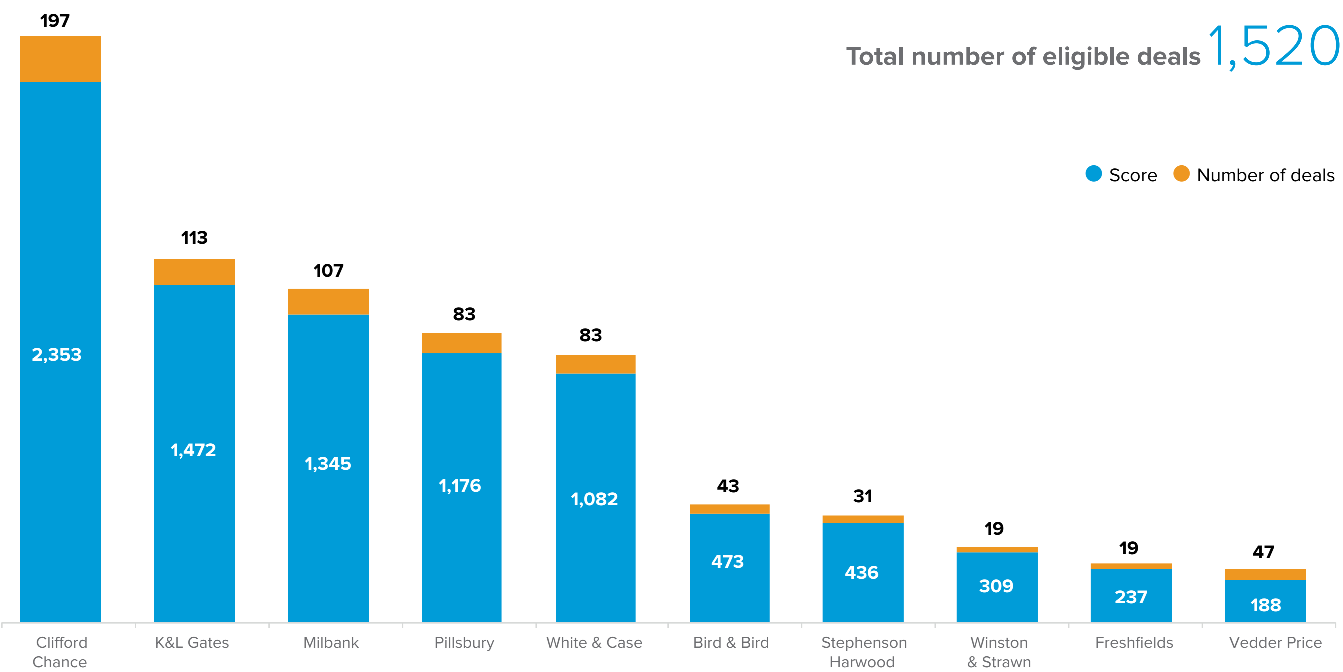
The first of five Airbus A320neo-family aircraft, an A321neo, closed in February 2019 to Turkish Airlines, with financing provided by BNP Paribas, utilising a French structured tax lease. Four further A321neo aircraft were financed during the course of the year as part of this transaction. The lenders have the benefit of a bespoke Balthazar credit risk insurance (CRI) policy, arranged by Marsh (Paris) as a broker, and provided by a syndicate of leading insurers, for repayment of the loan on a credit risk default of the airline.

Key features of the policy include 100% cover, negotiated exclusions and a framework, which balances the regulatory capital standards of aviation financiers with the risk profile of the CRI market.

Notably, the policy has been prepared to take account of EU financial institutions' credit risk mitigation requirements under the Capital Requirements Regulation/ Capital Requirements Directive package, as an alternative product to export credit agency support for similar aircraft financings. Clifford Chance acted as advisers to the insurers on all five deliveries and drafted the underlying Balthazar policy to be used for all such supported financings going forward. The deal team spent more than a year working closely with Airbus, selected banks and the Balthazar underwriting committee in developing the policy framework and was the sole law firm involved in this process.

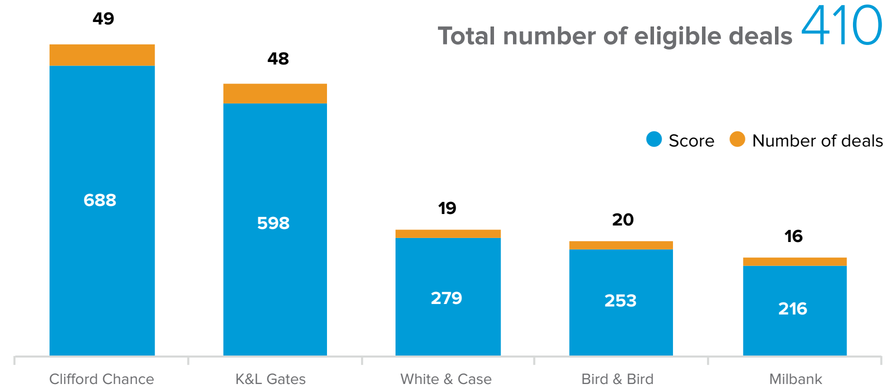
Clyde & Co acted as the borrower counsel, Norton Rose Fulbright was the lender counsel while Morris James was the security trustee counsel in the transaction.

Top 10 law firms by number of deals



Source: law firm submissions and *AFJ Deal Tracker*

Asia-Pacific



Source: law firm submissions and *AFJ Deal Tracker*

K&L Gates closed the gap on Clifford Chance last year in the Asia-Pacific region but Clifford Chance ranked first with a larger overall score.

Clifford Chance was particularly involved in lessors' commercial loan transactions in this market.

Simon Briscoe, a partner at the law firm, says the downward pressure on the commercial debt market continued in 2019, but the competitive market for assets for JoI investors was relatively unabated.

"The year just gone had seen a continuing swing to the operating lessor market to meet the capital funding requirement arising from the growth of the Asian carriers. In turn, those lessors had turned in ever-increasing numbers to the international capital markets, both the secured ABS [asset-backed securities] market and the unsecured bond market, to meet their capital requirements," says Briscoe.

The firm was involved in the $300 million Ortus Aircraft Leasing II Fund, Novus Aviation Capital's second fund which was the largest equity commitment for a Japanese-funded aircraft leasing fund last year. This was one of the fastest-closing funds that Sumitomo Mitsui Trust Bank had sponsored and invested in as a limited partner across asset classes.

K&L Gates' global head of aviation, Robert Melson, observes that private equity funds have been actively looking at opportunities for airline investments in Asia-Pacific. "Carriers who otherwise were doing fine before Covid-19, but who are now facing insolvency are of keen interest to private equity funds," he comments.

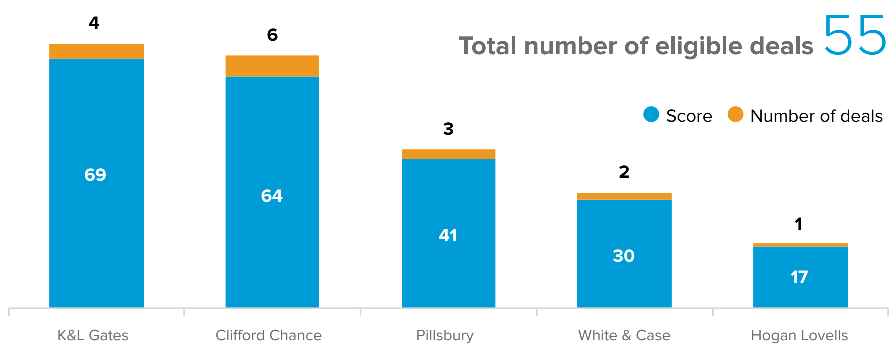
Melson observes that the number of structured leases in the Asia-Pacific has decreased dramatically, as debt and equity are staying on the sidelines until the winners and losers among airlines are determined. "In some cases, that determination is being made by governments who provide bailouts for one or two of their country-based carriers, but not all of them," adds Melson.

James Bradley, a partner at K&L Gates, says Asian airlines were the first to be hit by the impact of Covid-19 and, as such, were among the first to start putting contingency plans in place whether that be voluntary administration (Virgin Australia and Thai Airways), managed early terminations of operating leases, retrenching of aircraft back to the home jurisdiction (Lion Air) or grounding particular sections of their fleet (every airline).

"Depending upon their pre Covid-19 routes, some airlines will be able to recommence flights within their domestic markets to ensure they are able to have aircraft in operation (Australia, People's Republic of China, India, Indonesia and Vietnam). However, for those that rely significantly on international travel (Singapore Airlines and Cathay Pacific Airways), then it is going to be important that the green corridors arrangements are put in place quickly.

"It is clear that a multijurisdictional approach with the support of governments and international organisations is required in order to expedite the recovery of the airlines in this region," he adds.

Africa



Source: law firm submissions and *AFJ Deal Tracker*

The African market recorded a similar level of activity in 2019 as in 2018, with 55 deals.

K&L Gates topped the rankings followed by Clifford Chance and Pillsbury. The US-based law firm closed four transactions last year and scored 69 points.

K&L Gates was particularly involved in the financing closed by Royal Air Maroc (RAM), which was a new Japanese operating lease with call option (Jolco) name within the African market. K&L Gates represented the Japanese equity in the first Jolco to RAM's Boeing 737 Max delivery.

"Year on year, the Jolco market continues to evolve as lenders and lessors welcome new airlines from fresh jurisdictions. RAM are the second African-based airline to utilise the Jolco structure," says K&L Gates partner Amanda Darling.

The firm also advised a different Japanese lessor on a Japanese operating lease (JoI) sale/leaseback transaction for four 737-800 aircraft with RAM, two of which were closed without debt financing. "The volume of transactions indicate that there is considerable appetite for Japanese equity in the North African market, as well as for airlines from the region to explore new financing structures," says Misha Kovacevic, counsel at K&L Gates.

RAM was a big issuer in Africa last year. Its activity was on the back of using Aircraft Finance Insurance Consortium (AFIC)-supported financing structures for the first time in 2018.

In 2019, the carrier returned to this market through a French tax lease with AFIC financing for three 787-9s and a 737 Max delivery. Ethiopian Airlines was a big issuer of debt in 2019 in Africa and financed several Airbus A350 deliveries through the Jolco and the export credit market.

Air Mauritius also financed a pair of A350-900s through the Jolco market.

Tunisair financed an ATR72-600 delivery in the structured operating lease market through an Ijarah lease.

Operating leases were the bulk of the activity in the region in 2019 with an estimated 33 transaction points.

Europe

Some 37% of the submitted deals originate with European customers but its share has slightly reduced. In the 2016 legal survey, Europe accounted for 40% of the deals.

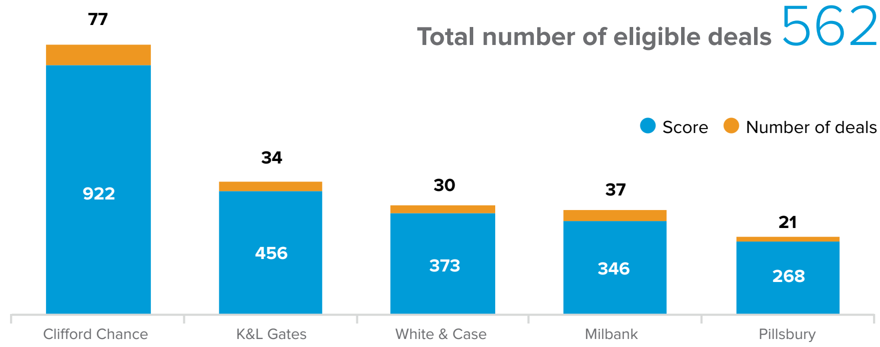
Europe still represents 562 transaction points, up from 539 eligible deals submitted in 2018.

Commercial loans account for 84 transaction points, of which 70 are secured. Among the unsecured activity in 2019, operating lessors represented more than half of the transactions with notably Aercap, Goshawk, Nordic Aviation Capital and SMBC Aviation Capital issuing debt.

The lessor companies continued to tap the capital markets, as a way of financing their growth, using the unsecured market in 2019.

Some, such as Nordic Aviation Capital (NAC), issued debt in the private placement market.

In March 2019, NAC sold a $786.3 million US private placement with Citi, Deutsche Bank, Goldman Sachs and RBC Capital Markets, which the borrower claimed was the largest senior unsecured US private placement ever issued by an aircraft leasing company. The issuance launched at $250 million and was substantially oversubscribed, allowing NAC to raise $786.3 million.



Source: law firm submissions and *AFJ Deal Tracker*

This private placement was a further step for NAC to migrate to unsecured financing.

The lessor returned to the private placement market this year with an $858 million issuance, again being the largest private placement issue by an aircraft lessor in the history of the market.

Clifford Chance acted as counsel for the Danish aircraft lessor. The firm came first with 77 transactions in 2019 with a score of 922 points, followed by K&L Gates (34 transactions and 456 points) and White & Case (30 transactions and 373 score).

The predominant structure in Europe continues to be operating leases with 279 transaction points last year, or just under 50% of all structures. The number of operating leases also reflects the changes in European carrier fleets after some ceased operations.

"Twenty-nineteen was a challenging year for the European airline market, one which saw further consolidation – whether consolidation by elimination (several airlines failed in 2019, including Thomas Cook Airlines, Germania, Wow Air and Aigle Azur), or active M&A activity (including IAG's proposed acquisition of Air Europa)," says Clifford Chance partner Oliver Hipperson.

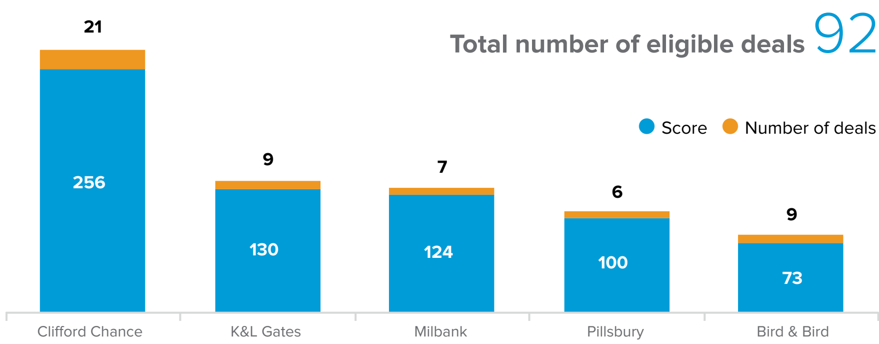
"Last year also saw the implementation of the first step of the United Nation's CORSIA scheme, which aims to make all growth in international flights after 2020 carbon neutral (though the scheme remains optional currently)", he adds. In a similar vein, the flygskam movement continued to gather momentum, which – together with the various airline failures – may have contributed to 2019 seeing the lowest European seat growth numbers since 2013."

Middle East

Clifford Chance ranked first in the Middle East region with 21 transaction points and a score of 256. K&L Gates came second with nine transactions and 130 points, closely followed by Milbank with seven transactions and a score of 124.

"The Middle East remains an important region for the global aviation industry. Over 2019, we saw continued growth from the major players in the region, as well as an increase in funds activity and establishment of new leasing companies on the ground," says Clifford Chance partner Antony Single.

"As with the rest of the world, Covid-19 is having an impact on the Middle East, but we are starting to see some green shoots in the recovery. The Middle East continues to see a wide mix of different financing and leasing structures but we have seen a definite increase in the structuring of transactions through the DIFC and ADGM on both UAE and also regional transactions. We have also seen some exciting initiatives in the green and sustainable development goals space with Etihad Airways becoming the first airline to raise funds tied to United Nations sustainable development goals," he adds.



Source: law firm submissions and *AFJ Deal Tracker*

One of the main transactions in the Middle East was Aercap's sale of a second-hand aircraft portfolio to NCB Capital. The innovative Shariah-compliant $500 million five-year portfolio financing for Dara Aviation Finance involved both Clifford Chance and Milbank as law firms.

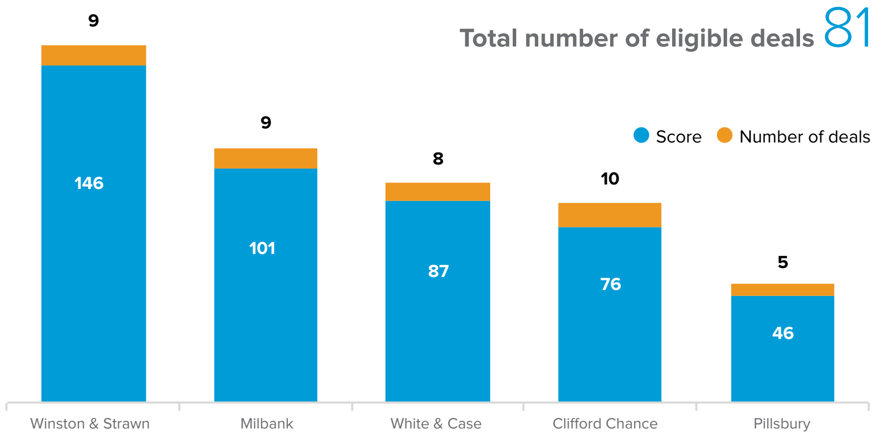
Milbank was again active with another groundbreaking transaction in the region – the AFIC-supported financings for El Al Israeli Airlines with Japanese equity.

K&L Gates' partner Sidanth Rajagopal says the region has been one of the hardest-hit areas, because the entire aviation model was based on a hub-and-spoke model. "This has led to most airlines looking for avenues to increase their liquidity. We have acted for lessors assisting the airlines with sale and leaseback transactions to increase their liquidity," says Rajagopal.

Capital market deals accounted for five transactions with the notable DAE Capital sponsoring Falcon 2019-1 ABS transaction.

Commercial loan structures were popular in the Middle East in 2019 notably with leasing companies. The 17 transaction points included Alafco raising more than $1.5 billion through the Murabaha financing structure. DAE Capital raised $600 million through the commercial loan market and also amended its revolving credit facilities during the year.

Latin America



Source: law firm submissions and *AFJ Deal Tracker*

Four law firms were very active in the Latin America market and, based on *Airfinance Journal*'s newly introduced points system recognising the role and complexity of transaction, Winston & Strawn ranked first, followed by Milbank and White & Case.

Mark Moody of Winston & Strawn notes that airlines in Latin America continued to attract diverse sources of financings last year, with Jolcos, in particular, being very prevalent for some of the leading airlines in the region.

The data shows that almost $1.5 billion-worth of Jolco transactions closed last year with Latin American carriers, notably Copa Airlines and LATAM Airlines.

The assets financed include 737 Max 9 aircraft, A320neo and 787-9s. But LATAM also managed to refinance six used A320s in the Jolco market in a $224 million transaction.

Winston & Strawn was involved in three transactions, representing $939 million.

Milbank partner Drew Fine says the firm was particularly active in Latin America representing Avianca in its debt and lease restructuring transaction. Avianca renegotiated more than $4.5 billion of aircraft lease, debt and other obligations as part of its 2021 strategic plan. The transaction included an offer to exchange its $550 million 8.375% senior unsecured notes due in May 2020 for new senior secured notes due 2023, and a $325 million convertible term loan facility provided by United Airlines, Kingsland International Group and certain Latin American investors.

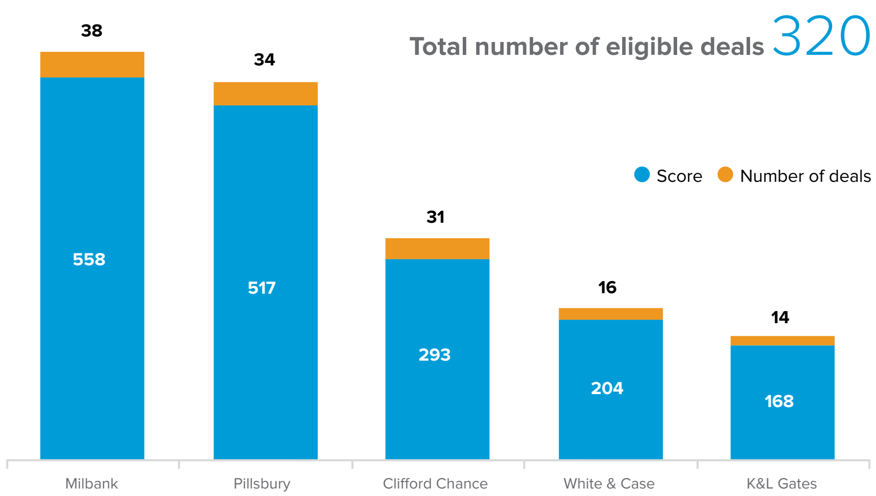
The firm also represented Brazilian carrier Gol in a spare parts engine financing-related transaction, another US Ex-Im financing and a predelivery financing. Milbank also represented the lenders in connection with a US Ex-Im financing for Aeromexico.

Operating leases in Latin America represented about half of the transactions last year, according to the data, while airlines acquired about 20 aircraft under purchase contracts.

Capital markets activity included 11 transactions with Avianca and Volaris issuing secured notes. LATAM Airlines, Viva Aerobus, Azul, Gol and Avianca issued unsecured bonds.

Looking ahead, Moody says that, because of Covid-19, "2020 is of course a different story, with both Avianca and LATAM having now filed for Chapter 11 in the USA. This will undoubtedly have an impact on the availability of future financings for airlines in the region, with such airlines likely having to turn towards supported financings such as those involving the ECAs".

North America



Source: law firm submissions and *AFJ Deal Tracker*

Milbank and Pillsbury were neck and neck in North America, representing more than 70 transactions during 2019, or 23% of the overall deals in the market.

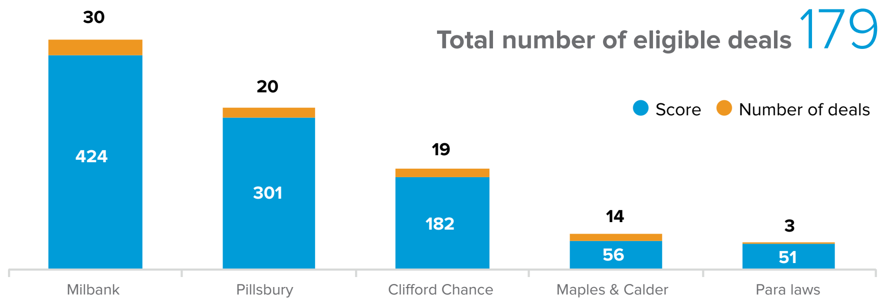
"The North American aircraft finance market had another incredible year in 2019. The capital markets were particularly hot, with aircraft ABS having another record year and plenty of unsecured offerings and EETCs [enhanced equipment trust certificates]," says Milbank's Fine.

The abundance of liquidity in the capital markets was translated in a total of 57 transactions last year in North America. *Airfinance Journal* recorded 17 transactions worth $8.8 billion in 2019 in the ABS market, up from $7.3 billion the previous year.

There was a vague air of optimism in January this year when the commercial aircraft ABS market was predicted to surpass 2019 volumes. Indeed, in the first two months of the year, ABS transactions across five issuances totalled $2.26 billion – and sources told *Airfinance Journal* in early March that another 10 deals were in the pipeline for the first half. However, the initial momentum has stalled because of the Covid-19 pandemic.

Also, there was $5.25 billion-worth of EETC issuances in the US market but 2019 also marked a year with many commercial loan deals in North America. The data shows almost 80 transaction points closing in 2019 with the majority being secured transactions. The lessor community, along with issuing unsecured debt, tapped the secured market through term loans, portfolio finance and revolving credit facilities. "There were also plenty of warehouse, term loan and other acquisition finance facilities. Milbank was delighted to be involved in the vast majority of major US financings in 2019. Overall, a banner year in the US aircraft finance market," adds Fine. The structured lease market activity was minimal in North America last year with six transactions recorded in the Jol market. Aircraft acquisitions and portfolio acquisitions represented about one-third of the total eligible transactions in North America with 118 deals recorded.

Capital markets



Source: law firm submissions and *AFJ Deal Tracker*

North America leads with a third of the capital markets transactions, especially in the ABS and EETC markets.

Airfinance Journal recorded a total of 21 ABS transactions in 2019, 12 of which were issued by US-based sponsors.

Milbank's Fine says: "Following a new record 15 aircraft ABS transactions closed in 2018, a new record 18 aircraft ABS transactions closed in 2019. This included 11 ABS with 144A "tradeable" equity and the first aircraft ABS with Japanese equity. The ABS market continued red-hot with five aircraft ABS deals closing in January and February 2020 until Covid-19 closed down the market."

The appetite for the unsecured bond market last year increased with a total of 106 transaction points recorded overall, of which a quarter was in North America.

Milbank maintained its lead in the capital markets category. The firm was involved as counsel in 30 transactions, three more than the previous year. Pillsbury was second with 20 transactions in 2019 closely followed by Clifford Chance with 19.

The EETC market had a better year in 2019 than in 2018 with almost $4.6 billion-worth of transactions. Last year, the EETC issuers included US carriers such as Jetblue Airways, American Airlines, United plus Delta Air Lines, which returned to the market after a five-year absence.

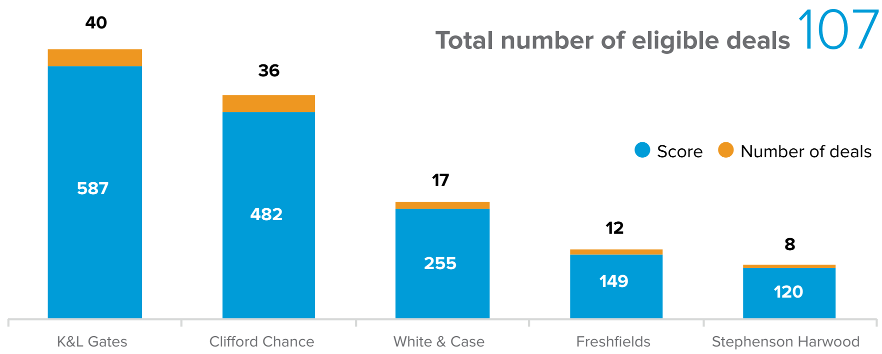
DAL 2019-1 was a very interesting deal because both AA and A certificates were structured with a five-year bullet maturity. The bullet structure is unusual for an EETC transaction, most of which are amortising structures featuring about 12-year tenors and approximately nine-year weighted average lives for senior tranches. The collateral pool included six Airbus A321s, two A350-900s, four 737-900ERs and two A220-100s, all of which were delivered to Delta in 2018.

"Delta, United, American and Jetblue continued to issue EETCs in 2019, and the rated aircraft leasing companies and the major US airlines turned out unsecured note offerings at attractive interest rates. Overall, a stellar year in the capital markets in 2019 and Milbank was the market leader," says Fine.

Non-US carrier issuers included two members of the IAG group. British Airways issued a $1.12 billion transaction that combines senior secured EETCs and Jolco equity in relation to six A350-1000 and two A320neo deliveries. Iberia issued an EETC transaction in the private market for two A320neo and two A350-900 deliveries.

Another milestone transaction included American issuing $650 million of debt in the private market secured by 79 engines. The transaction represented the first broadly distributed private placement engine EETC for the issuer, with 18 investors ultimately participating in the transaction.

Structured leases



Source: law firm submissions and *AFJ Deal Tracker*

Narrowbodies continue to account for the bulk of Jolco deals, particularly the A320neo-family as Boeing's competing 737 Max series remains grounded.

The past year has seen a number of notable developments in the Jol/Jolco space, including the proliferation of more Jolco deals with lessors as a natural adjustment to the shift in aircraft ownership from airlines to lessors. There were also more refinancings of vintage aircraft and more innovative debt structures emerging, combining the traditional Jolco with instruments including ABS, EETCs and AFIC-guaranteed debt.

Jolco financings represented about two-thirds of the structured lease market last year. The overall funding volumes have increased, reflecting the confidence in the product and the credits, but also as a consequence of larger transactions requiring bigger Japanese equity underwriting capabilities.

Last year saw the first Jolco transactions for El Al Airlines, Royal Air Maroc, Air Mauritius, while LATAM tapped the market for new and used assets, as Jolco underwriters became more open minded on the risk. "In 2019, we've seen the market expand, maybe even a bit too much because there was a moment where supply exceeded demand. This forced arrangers to sell down their inventories at a discount. We had hoped this would correct itself back but, unfortunately, this does not look to be the case for 2020," Tokyo Century joint general manager and global head of marketing, Marito Takamasa, tells *Airfinance Journal*.

K&L Gates maintained its lead position in this market, although Clifford Chance significantly reduced the gap.

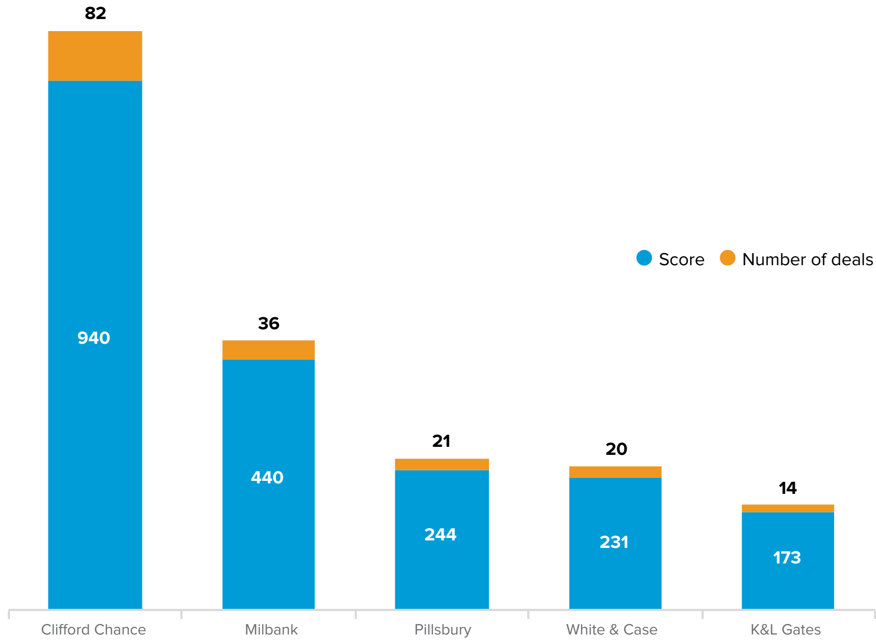
K&L Gates's Melson says 2019 was a big year for the firm. It advised on the JOL-Air 2019-1 ABS, the first ABS to feature securitised debt with equity sourced from the Jol market.

"On the structured lease front, we continued to advise on a majority of the Jolco transactions, including many that involved new airline credits for the product," he says. K&L Gates' Darling says the firm was able to guide clients through structured lease transactions with longstanding counterparties and also helped them institute new relationships, such as welcoming Royal Air Maroc to the Jolco market.

"Representing Japanese lessors on Jol and Jolco structures is an area where the K&L Gates team excel. Our expertise in structured lease transactions spans the globe, we establish knowledgeable teams across various jurisdictions and time zones to provide around the clock client care and encourage transaction momentum," adds Darling.

Commercial loan

Total number of eligible deals 277



Source: law firm submissions and *AFJ Deal Tracker*

The aircraft commercial loan market has been resilient in recent years, despite the abundance of liquidity and structures that have pushed airlines and lessors to opt as alternatives.

In recent years and until the Covid-19 crisis, airlines had never had it so good, as they benefited from aggressive pricing and a wide appetite for financings from traditional banks, new participants and banks which re-entered the sector after long absences.

Furthermore, new asset financing structures have been developed over the past few years, notably the emergence of insurance-backed structures that benefited from the withdrawal of the ECAs. At the same time, a growing list of carriers succeeded in tapping the US capital markets for the first time.

In 2019, *Airfinance Journal* recorded 277 eligible deals in the commercial loan market. However, this was about 100 transactions down from the previous year and, as such, the percentage of commercial loans dropped to 18% of the total transactions from 24% in 2019.

This pattern can be seen among the top three law firms ranked in this category. Clifford Chance came first with 82 transaction points in 2019 (20 fewer than the previous year), Milbank was second with 36 transactions (10 fewer than in 2019) and Pillsbury was third with 21 transactions (11 fewer than in 2019).

Some landmark transactions in 2019 included lessors.

Altavair and KKR secured a $750 million blind warehouse facility for their joint venture after KKR invested $1 billion. The facility has a three-year availability period and four-year term.

Castlelake was particularly active last year with two transactions: an $835 million non-recourse term loan facility to support the acquisition of an aircraft operating lease portfolio of 22 aircraft from CMIG Aviation, and an almost $600 million financing to purchase a 24 Airbus A320-aircraft portfolio from Air Aviation Capital.

Airborne Capital secured a $693 million warehouse facility agreement with three European lenders.

DAE Capital secured a four-year $440 million revolving credit facility syndicated in the Asia-Pacific region and subscribed by 10 Asian banks. Milbank worked on warehouse financings for, among others, Aerocapital Solutions, Apollo Navigator, the KKR/Altavair joint venture, Airborne/Tailwind, TrueNoord and the Napier Park/AAR joint venture.

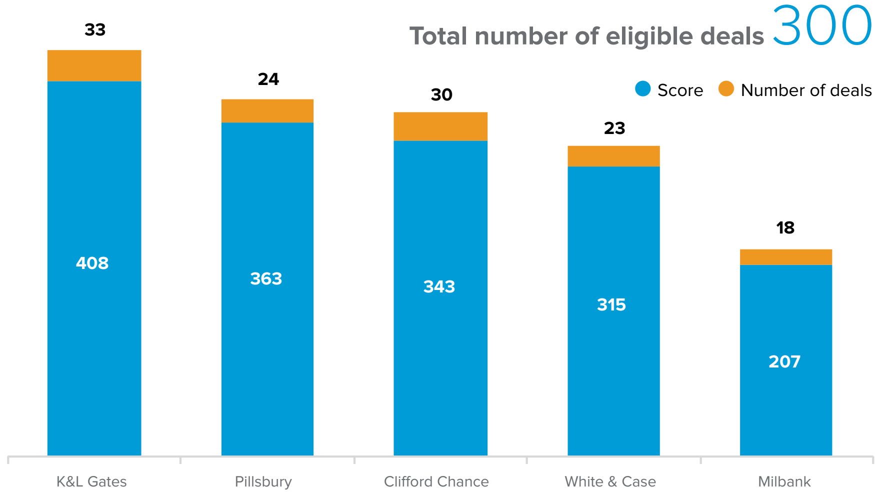
Milbank's Fine says the commercial loan market was very strong, whether it involved term loan facilities, revolving credit facilities or warehouses.

"Large term loan facilities and warehouses were made available with the goal of eventually being taken out by ABS or long-term financing facilities," he says.

The firm also represented the borrower on one of the largest financings of the year – a collateralised loan obligation-like financing of the acquisition by Athene and Apollo from GE Capital of PK Airfinance.

Sales & purchases

Total number of eligible deals 300



Source: law firm submissions and *AFJ Deal Tracker*

K&L Gates was the most active law firm last year in the sale and purchase market, ahead of Pillsbury and Clifford Chance. The firm racked up 33 transaction points and scored 408 points.

However, there were 300 transactions recorded last year, or about 45 transactions less than the previous year.

"Aircraft sale transactions continue to have a bit of a mixed approach from the market but is one area where there will be a reasonable amount of activity as airlines will look to access the sale and leaseback market or sell aircraft (including for part-out) to increase their cash position," comments K&L Gates' Rajagopal.


STEPHENSON
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Legal opinion,
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Operating leases

Clifford Chance and K&L Gates were neck and neck in the operating lease market, while Bird & Bird came third. It was a big change from the previous year when Clifford Chance had closed 40% more transactions than K&L Gates.

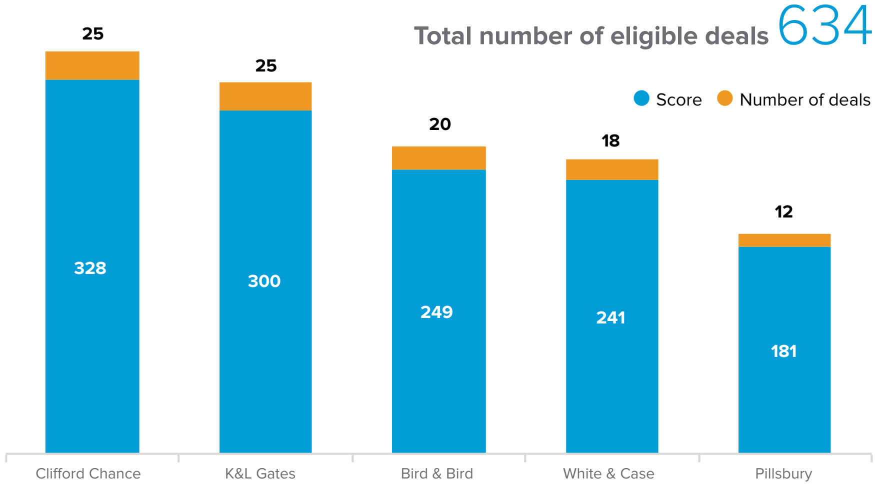
Operating leases continue to be the most popular financing solutions in the market of new aircraft deliveries.

In this year's legal survey, they represented about 42% of all transaction points, with a total of 634 deals versus 584 in 2019.

Europe continues to lead this category with 279 transactions in 2019. Sale and leaseback deals in Europe accounted for 23 deals of one or more aircraft.

The expectations in 2020 are not that optimistic, despite some airlines increasingly looking at unencumbered assets as a way of raising liquidity to offset the drop in revenues because of the Covid-19 crisis.

Total number of eligible deals 634



Source: law firm submissions and *AFJ Deal Tracker*

"The global market for operating leases (sale and leaseback transactions or pure operating leases) for new or old aircraft (except those owned by airlines) will take a bit of a hit until at least the end of the year. This is due to both Covid-19 and the Max issue together with low oil prices, which will see most carriers continuing to use older technology for a bit longer," says Rajagopal.

Guaranteed financing

Total number of eligible deals 23

The number of guaranteed financing transactions in 2019 – 23 – more than doubled compared with the previous year.

Clifford Chance, Bird & Bird, Dentons and Winston & Strawn were the main participants in this market in 2019, with a total of 19 transactions.

However, Clifford Chance and Winston & Strawn ranked first and second, respectively, when scores were added.

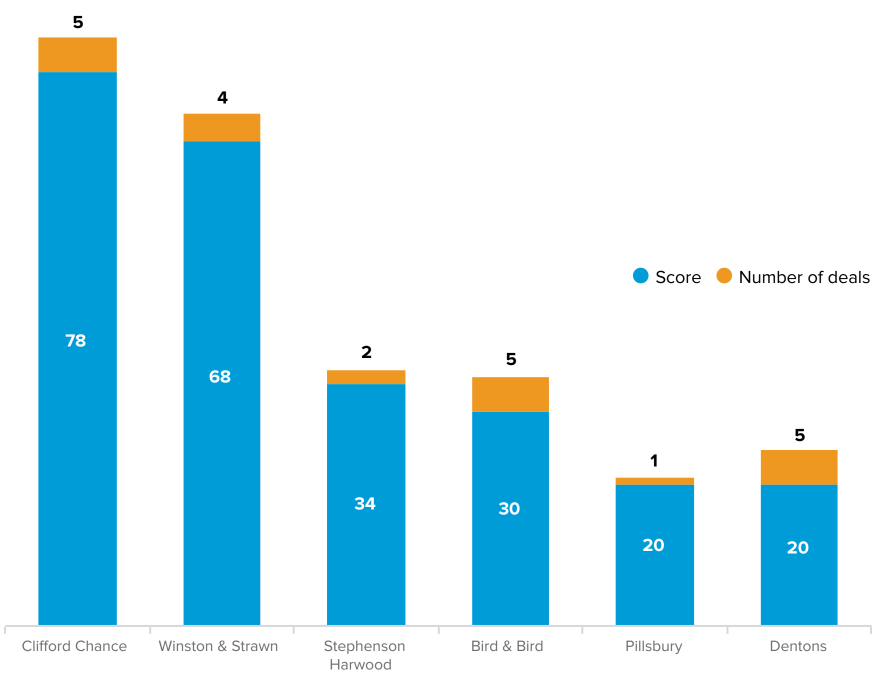
Winston & Strawn worked on export credit agency (ECA) deals for Aviation Capital Group and LATAM last year.

"ECA-supported financing has historically been counter cyclical and was a lifeline to airlines during the last downturn, when access to the commercial bank market became difficult," says Winston & Strawn's Moody.

"As a result of the current Covid-19 crisis, I would very much expect ECA financing to start to play a major role once again in aircraft financing during the next few years," he adds.

Clifford Chance was mainly involved in the development and implementation of insurance-guaranteed deals with French tax lease under the Balthazar product for Turkish Airlines and Ethiopian Airlines.

"Changes to the Basel capital rules are accelerating trends for banks to seek to de-risk on balance sheet assets through credit insurance products. At the same time for various reasons, export credit insurance/guarantee coverage became less available, which prompted the commercial credit risk insurance market to step in to provide 100% non-payment insurance products," says William Glaister, partner and head of Clifford Chance's global asset finance group.



Source: law firm submissions and *AFJ Deal Tracker*

The main transaction in the market last year involved Emirates Airline's financing four Airbus A380s under Bpifrance-covered loans provided by Santander as sole mandated lead arranger. It was the largest aviation transaction since the European ECAs returned to cover Airbus products.

Avianca, LATAM, Malaysia Airlines, Sun Express Airlines and Air Senegal were also active last year in the ECA market, some with refinancing deals.

Rising **stars**

Airfinance Journal recognises six of the most promising legal associates for 2019.

Russell Green

Senior associate, Hogan Lovells
London

“Russell is a highly versatile, intellectually rigorous lawyer with an amazing ability to get to the heart of the important issues in a deal quickly.”

Robert Fugard, head of asset finance, Hogan Lovells

Russell Green is a senior associate in the Hogan Lovells asset finance team with a particular focus on aviation finance. His aviation clients include airlines, leasing companies, funds and banks and he has acted on a wide range of aviation finance products, including operating leases, sale and leasebacks, enhanced equipment trust certificates (EETC), Japanese operating lease with call options (Jolco), capital markets issuances, US and European export credit agency-supported financing and predelivery payment (PDP) financing.

Green has been particularly active in transactions involving groundbreaking insurance-backed aircraft financing solutions developed and launched to market in the past couple of years. He acted for Norwegian on a series of AFIC financings for Boeing 737 Max and 787-9 models, and for the mezzanine lender on one of the first Balthazar financings issued in the market.

Over the past two years, Green has advised on a number of complex, high-profile matters including advising Norwegian on the establishment of a joint venture with CCB Leasing (International) Corporation to finance, own and lease 27 Airbus A320neo-family aircraft that Norwegian has on order.

He also advised Norwegian on its recapitalisation. This project involved the restructuring of the majority of the company’s aircraft operating leases, including the conversion of $912 million of rental obligations into shares or bonds, the adjustment of lease rates, the conversion of rentals until March 2021 into a “power-by-the-hour” arrangement (matching rentals paid to actual utilisation of aircraft) and the early redelivery of certain aircraft.

The recapitalisation enabled Norwegian to achieve an 8% equity ratio and qualified it to receive state aid from the Norwegian government in the form of a $301 million term loan facility. Green also worked with the Scandinavian carrier on PDP financing with Aercap covering five A320neo aircraft.

Other lead roles in Europe include advising Icelandair on its PDP financing and sale and leaseback transaction with BOC Aviation for 11 737 Max aircraft, advising Deutsche Bank on the financing of three ATR72-600 aircraft for Avation on lease to Braathens. The transaction marked the first “green financing” involving aircraft.

Green also plays a leading role in the firm’s Africa finance practice. Over the past year, he has acted for African financial institutions such as Eastern and Southern African Trade and Development Bank as mezzanine lender in connection with the Balthazar insurance-backed financing with French tax lease of two A350-900 aircraft for Ethiopian Airlines. He also advised African Export-Import Bank on the repossession, settlement arrangements and subsequent sale of two ATR72-500s previously operated by airlines in Angola and Ghana.

His range of expertise enabled him to advise engine manufacturer Rolls-Royce on arrangements arising out of Avianca’s out-of-court restructuring plan, as well as engine lessor Shannon Engine Support on arrangements with airlines including China Southern Airlines and Sunwing.

Green is ranked as an ‘Associate to Watch’ for Aviation Finance in Chambers and Partners’ *Chambers UK 2020* rankings, with a client commenting “he is intelligent, hardworking and very responsive under pressure”. He is also recommended in *The Legal 500, 2020* for UK Transport Finance and Leasing, with a client noting he is “always able to keep the client happy” and an “excellent communicator and deal manager”.

Robert Fugard, Hogan Lovells’ head of asset finance, says: “Russell is a highly versatile, intellectually rigorous lawyer with an amazing ability to get to the heart of the important issues in a deal quickly.”

Evgenia Erakhtina

Senior associate, Allen & Overy
London

Evgenia Erakhtina is a senior associate in the structured and asset finance group of Allen & Overy.

She advises on some of the most innovative, complex and high-profile structured and asset finance transactions.

Her experience includes Covid-19 debt finance and debt restructuring, AFIC-supported finance, Islamic finance, operating leasing, joint-venture establishment, debt finance, export finance, PDP finance, sovereign debt, portfolio transfers, portfolio and warehouse financing, tax leasing products and a range of corporate and commercial matters.

One of Erakhtina’s strengths is her expertise in Islamic-based financing transactions. She regularly acts for borrowers and Islamic banks on a variety of aircraft transactions. Recent transactions include advising a syndicate of Islamic lenders on the Ijara financing of five A330 aircraft on lease to Kuwait Airways, and DAE Capital on multiple Ijara and Murabaha transactions with regional Islamic banks.

She has also advised DAE Capital on the PDP and post-delivery financing and leasing of five 787-9s on lease to Gulf Air, First Abu Dhabi Bank on the financing of one 787-10 aircraft and one 777F aircraft for Etihad Airways.

Erakhtina’s largest transaction is the five different syndicated financing facilities, totalling $3.5 billion, to International Airfinance.

She recently completed a secondment with a top-tier aircraft lessor in Dublin, which has provided her with a first-hand perspective on how operating lessor clients operate and their needs.

“Evgenia is an expert at advising on complex cross-border transactions and her intelligence and calmness under pressure have allowed her to build strong client relationships across the market.”

Paul Nelson, partner and global head of aviation, Allen & Overy

Her fluent Russian has helped her to develop strong client relationships with operating lessors and airlines across the CIS region. She has advised VEB-Leasing on the PDP and export credit agency-backed delivery financing of 20 new A320-family aircraft for UTair Aviation, VEB-Leasing in connection with the $1.1 billion US Eximbank-supported financing of 10 777-300ERs on lease to Aeroflot-Russian Airlines, as well as VTB Leasing on US Eximbank-supported financing of 50 737-800/900 aircraft for Aeroflot-Russian Airlines.

Erakhtina has also supported Russian and international operating lessors with restructurings and repossessions involving Russian airlines.

Paul Nelson, Allen & Overy partner and global head of aviation, says: “Evgenia is an expert at advising on complex cross-border transactions and her intelligence and calmness under pressure have allowed her to build strong client relationships across the market.”

Her experiences include being the lead associate advising financiers in a recent £400 million ($500.3 million) financing for Easyjet (Covid-19).

She has also had several adviser roles for AFIC insurer groups: for a French Overseas LODEOM tax lease of two 787-9s for Air Tahiti Nui; a BNP Paribas-arranged and BNP Paribas/KfW and CaixaBank-funded AFIC-supported French lease of two new 787-9 aircraft delivered to Royal Air Maroc; and a French tax lease financing of one 787-9 aircraft and one 737 Max 8 aircraft for Royal Air Maroc. This was the first AFIC-supported financing for Royal Air Maroc and the first AFIC transaction involving KfW and CaixaBank.

Her work with Royal Air Maroc extended to the Jolco financing of two 737 Max 8 aircraft provided by SMBC.

In the lessor segment, Erakhtina has worked with BNP Paribas, Credit Agricole, ING Bank, National Australia Bank, Natixis, Societe Generale, SMTB and Westpac on a $700 million financing of a portfolio of 19 aircraft for CDB Aviation, as well as with PFA Asset Management on Nordic Aviation Capital’s largest unsecured facility.

Pete Buckley

Senior associate, Clifford Chance

London

Pete Buckley is a senior associate in Clifford Chance’s global asset finance group. He advises a wide range of clients across the aviation sector, including financiers, arrangers, insurance companies, manufacturers, export credit agencies, leasing companies and operators.

Buckley has worked on a wide range of financing structures including secured operating lease financings (full and limited recourse), direct airline financings, Balthazar insurance-backed financings, export finance transactions, Jolco financings, PDP financings and structured capital market transactions, as well as acting for a wide variety of leasing companies on numerous aircraft portfolio sales.

He has also worked on M&A transactions in the aviation sector and has experience advising operating lessors and financiers in relation to distressed airlines and their restructurings.

Notably, he advised Airbus, Marsh Paris, a number of selected banks and various insurance companies on the development of the Balthazar credit risk insurance product for new Airbus aircraft financings. He has also advised the Insurer Underwriting Committee on all Balthazar financing transactions completed as *Airfinance Journal* went to press.

Buckley has spent time on secondment with Standard Chartered Bank where he worked with their global aviation finance team in Dublin, gaining valuable insights from the operating lessor perspective.

“Pete has a broad experience and has been the lead associate on a significant number of complex and first-of-their-kind transactions within the sector. Clients like his commercial approach and his ability to close transactions efficiently and smoothly.”

William Glaister, head of global asset finance group, Clifford Chance

“Pete has a broad experience and has been the lead associate on a significant number of complex and first-of-their-kind transactions within the sector. Clients like his commercial approach and his ability to close transactions efficiently and smoothly; he is pragmatic and steady in negotiations with the opposite side,” says William Glaister, head of Clifford Chance’s global asset finance group.

Buckley’s deal highlights include acting as lead associate for the syndicate of insurers on the first-ever Balthazar insurance-backed financing, for five A321neo aircraft for Turkish Airlines with financing provided by BNP Paribas utilising a French structured tax lease.

He recently advised on a Jolco refinancing for BNP Paribas for one 787 aircraft for KLM Royal Dutch Airlines. The transaction was completed in a matter of weeks during the Covid-19 crisis. MUL acted as equity arranger with junior financing provided by NTT Finance.

Buckley has had leading roles in transactions with financiers for the restructuring of certain Jolco transactions for Avianca and its subsequent (and ongoing) Chapter 11 proceedings, on Chorus Aviation's first warehouse facility (provided by Deutsche Bank, Barclays and Royal Bank of Canada) to finance the acquisition of regional aircraft, and financiers on a number of full recourse secured operating lease portfolio financings for Aercap and DAE Capital.

Last year, he advised SMBC Aviation Capital on the aircraft purchases of its Global Aircraft Equipment Leasing (GAEL) fund. This followed work with the lessor on three separate portfolio sales to Aircastle of 40 leased aircraft in aggregate.

His lessor's expertise spans to Avolon in connection with each of its 2018 Sapphire I and 2020 Sapphire II operating lease asset-backed securities (ABS) portfolio transactions, negotiation of a purchase agreement with Boeing for 10 737-800 aircraft for Standard Chartered, and the financing of two A380 aircraft operated by Etihad Airways for Amedeo. The first A380 was financed with senior and junior financing from NBAD and the second was financed through an Islamic Ijara structure with Dubai Islamic Bank.

Clement Leung

Senior associate, Stephenson Harwood

Singapore

Clement Leung is an experienced structured finance lawyer in the aviation sector. He has advised banks, lessors and airlines on various aspects of aircraft financing and leasing transactions involving multiple jurisdictions. He has more than a decade's experience advising on derivative agreements, including ISDA master agreements, catering to a wide variety of products, including interest rates, foreign exchange, equities, credit and commodities.

Of particular value is Leung's ability to advise on, negotiate and execute the hedging aspects of aviation finance transactions, which is unique to the industry. He recently advised on hedging issues in Mirae Asset Securities (HK)'s $450 million acquisition and financing of three 777 aircraft, on lease to China Airlines. The aircraft were purchased by three Cayman Islands-incorporated special purpose vehicles and remain on lease to China Airlines after the acquisition. Two of the aircraft were acquired from ICBC Aviation Leasing entities, with the other acquired from a GECAS entity.

He has also worked on various innovative deals in the Korean market, including advising Meritz Securities on the $147 million acquisition and financing of one 777 aircraft, on lease to Qatar Airways. The aircraft was purchased by a Cayman Islands-incorporated special purpose vehicle, established by Meritz Securities from an Irish leasing company.

Of particular value is Leung's ability to advise on, negotiate and execute the hedging aspects of aviation finance transactions, which is unique to the industry.

The deal was financed using a combination of senior, mezzanine and junior funding. DVB Bank SE Singapore Branch and Australia and New Zealand Banking Group provided senior financing for the aircraft, while the mezzanine and junior financing were provided by Korean institutional investors. The transaction was the first arranged by Stellwagen's office in South Korea.

Leung notably advised Vietjet Air on two landmark transactions: the purchase of 50 A321neos worth up to $6.5 billion and 100 737 Max aircraft valued at $12.7 billion.

Before joining Stephenson Harwood, Leung worked for one of Australia's leading energy companies where he advised on a variety of derivatives and trading matters. Consequently, he is able to provide bespoke solutions to clients on their interest rate and foreign exchange risk.

Leung's significant transactions include advising Transportation Partners on a refinancing of a total of 21 737-900ERs. The aircraft are on lease to Lion Air and other related operating airlines including Batik Air, Thai Lion and Malindo Airways.

US-based global private investment firm Castlelake provided the financing. The transaction was executed within two months, involved seven jurisdictions, staggered closings and multiple drawdowns.

He has led on a Malaysian carrier in restructuring its leasing portfolio from a lessor-owned Labuan vehicle to an airline-owned Labuan vehicle, as well as a Philippine airline on the Japanese operating leases with call option financing of four new A321 aircraft.

Leung has also advised a French bank on the financing for a new A321 aircraft with Vietjet Air and two new A320s with Indigo as the operating lessee; a syndicate of banks on the financing of two new A321 aircraft to be operated by a Vietnamese airline; and a German bank on the Japanese operating lease (Jol) financing of an A320 aircraft and an A319 aircraft operated by a Spanish carrier.

Laura Lewis

Senior associate, Holland & Knight

New York

Laura Lewis is a senior level associate in the New York office of Holland & Knight and plays an essential role in the firm's aviation finance practice.

Lewis grew up in a small town in Finland just above the Arctic Circle and discovered her passion for the aviation world working at the Finnish Civil Aviation Authority (now Finnish Transport and Communications Agency) as a summer intern during law school.

She regularly counsels clients on some of the most complex transactions in the industry.

Lewis advises leasing companies and financial institutions, as well as airlines, on the purchase, sale, lease, novation, interchanges, secured and unsecured financing (including PDP financing) and securitisation of commercial and business aircraft, engines and parts.

Phillip Durham, practice group leader of Holland & Knight's asset finance group, says: "Laura is an immensely talented lawyer. Her intellect, service orientation and calm-under-fire approach have led her to become a key advisor for many of our most valued clients. We're extremely fortunate to have her on our team."

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Phillip Durham, practice group leader asset finance group, Holland & Knight

Lewis undertook a 15-month secondment with the Norwalk, Connecticut, office of GECAS between January 2019 and March 2020, where she advised on a range of aviation matters including operating leases, deliveries and original equipment manufacturer purchase agreements. She worked with marketing, technical, insurance, tax and risk functions gaining a deeper knowledge of aviation and the commercial side of the industry.

Joseph Esposito, senior vice-president and associate general counsel of GECAS, says: "Laura Lewis is an exceptionally gifted attorney who is keenly responsive to her clients. She has great technical, legal skills and also provides strategic, practical legal advice which is instrumental in executing commercial transactions."

She regularly advises aircraft leasing companies such as GECAS, BBAM Aircraft Management and Aircastle, among others, on all aspects of commercial, regulatory and aviation law.

Lewis has had leading roles in transactions for BBAM's sponsoring in the $612 million Horizon I asset-backed securitisation of 29 aircraft on lease to 21 airlines in 19 jurisdictions. This was BBAM's first securitisation since the $1.2 billion ECAF-1 Ltd transaction in 2015.

She also advised BBAM on the lease, portfolio financing and acquisition of 14 engines from Air Asia. This transaction is part of the $1.18 billion acquisition by BBAM of the Air Asia Capital portfolio and involved the establishment of two separate loan facilities and the lease of 14 engines to five different Air Asia-affiliated airlines.

Lewis also advised Aircastle in the portfolio financing by the National Australia Bank of five A320 aircraft on lease to American Airlines, and SMBC Aviation Capital in the lease of five A320neo aircraft to the newly formed Jetsmart.

She advised Jackson Square Aviation in a $500 million facility agreement, which provided financing for more than 10 new sale and leaseback deliveries of Boeing and Airbus narrowbody aircraft with Vivaerobus and Indigo Airlines, among others.

Lewis also advised GECAS in the $381 million aggregate sale of a portfolio of 21 engines on lease with 16 different lessees with lease servicing provided by GECAS after the sale and the novation of all engine leases.

She also serves as a member of the aeronautics committee of the New York City Bar and the forum on air and space law of the American Bar Association.

Niels Jensen

Senior associate, Milbank
New York

New York-based senior associate Niels Jensen is a longstanding member of Milbank's aviation finance practice and has provided invaluable advice and service to the firm's clients.

He graduated from Vanderbilt University law school.

Jensen has extensive experience working with the firm's lender, underwriters and issuer clients. He has particular experience working on capital markets transactions, including EETCs and asset-backed securities transactions.

Over the past few years, Jensen has represented underwriters of EETCs for American Airlines, Delta Air Lines, United Airlines, Air Canada, Jetblue Airways and other airlines including initial issuance of senior tranches as well as subsequent issuance of super C tranches. He has worked on several cutting-edge aircraft ABS transactions, including deals for GECAS, BBAM, DAE Capital, Sky Leasing, Avolon and Stratos/JP Lease.

Jensen worked on START 2018-1 (with GECAS as servicer), which was the first ABS with 144A tradeable equity (as well as the follow-up START 2019-1 and START 2019-2 transactions). He also worked on the Jol-Air 2019-1 for Stratos and JP Lease, which was the first ABS with Japanese equity.

"Niels is a huge contributor to the success of Milbank's clients. He has worked on many first-of their-kind transactions and is also at the forefront in developing solutions to complex issues."

Drew Fine, global head of transportation practice, Milbank

He has also worked on some of the most innovative and largest bank financings, including warehouse facilities for Sky Leasing, Aero Capital Solutions, Castlelake and Stellwagen.

Jensen is known for his deep knowledge of aircraft financing, his problem-solving skills, his calm demeanour and his ability to get deals done successfully.

Milbank's global head of transportation practice, Drew Fine, says: "Niels is a huge contributor to the success of Milbank's clients. He has worked on many first-of their-kind transactions and is also at the forefront in developing solutions to complex issues."

Guide to **cross-border restructuring**

Marie O'Brien, A&L Goodbody partner and head of aviation and transport finance, Dublin, and Maria McElhinney, A&L Goodbody partner, New York, look at key issues affecting lenders and lessors in Irish law arising from the Covid-19 crisis.

The aviation finance industry has encountered unprecedented and challenging changes over the past months. The grounding of the global fleet because of Covid-19 triggered numerous rent deferral requests from lessees and, in some cases, bankruptcies. This has led to existing financing structures being examined for flexibility and/or restructure.

Ireland's dominant position as a hub for aircraft leasing means that a large percentage of the global fleet are owned and leased by Irish companies which are the borrowers under these financing structures. These challenges have resulted in a number of lenders and lessors seeking clarification with regard to the refinancing and restructuring of existing debt obligations.

We have compiled a list of some frequently asked questions addressing Irish law aspects connected with proposed refinancings and restructurings.

Can existing security provided by an Irish company be relied on in the refinancing of a loan with the same lender group?
There are certain factors to consider in determining whether existing security will be sufficient to secure the refinancing of an existing loan. A key factor relates to how the existing security documents are drafted. The obligations secured under the existing security documents (typically defined as the 'secured obligations' or 'secured liabilities') must be drafted in such a manner, whereby the obligations secured would include any additional obligations arising under the refinancing arrangements.

For example, in the event additional monies are provided or there is an increase in the interest rate applicable under the refinancing, such an increase of obligations must be captured within the existing security in order for a lender(s) to continue to rely on such security documents.

Where existing security is sufficient to secure the obligations arising in a refinancing, we would advise that a confirmation be provided by each chargor confirming to the lender(s) that the existing security continues in full force and effect, and continues to secure the obligations of such chargor notwithstanding that the refinancing has taken place.


Marie O'Brien


Maria McElhinney

If the existing security is inadequate to secure the obligations arising in a refinancing, each chargor should enter into new security in favour of the lender(s) to secure the obligations arising under the refinancing arrangements.

In the event additional assets are required to be provided as security as part of the refinancing, we would advise that new security documents are put in place in respect of such additional assets in favour of the lender(s).

What key considerations should a director consider prior to entering into any new security documents?
Before granting any new security, it is critical for the directors to determine that the company providing the security is solvent. Under Irish laws, solvency is determined by the ability of the company to pay its debts as they fall due taking into account its current, contingent and perspective liabilities.

When solvent, an Irish company's directors owe their fiduciary duties to the company. Where uncertainty arises as to whether a company can trade through financial difficulties, directors continue to owe their duties to the company, but must take the interests of creditors into account.

Typically, this means considering the impact of material decisions, on creditors such as granting new security. Although a creditor does not have a direct right of action against a director for a breach, where a liquidator is appointed to the company, the liquidator could take an action against a director if they believed a breach occurred.

The solvency of the company is of particular relevance, where the granting of any new security would constitute the granting of financial assistance pursuant to Section 82 of the Irish Companies Act, 2014. In such circumstances, in order for the company to grant such new security, a summary approval procedure under the act is required to be carried out. This requires all or a majority of the directors of the company making a declaration of solvency that the company is able to pay its debts as they fall due. This is a 12-month 'look-forward' analysis whereby the directors should assess the company's current and projected financial position in order to make such an opinion.

In the event that a declaration of solvency is made and the company is wound up within a 12-month period of making such declaration, and it is unable to pay its debts in full, it is presumed until shown to the contrary, that the relevant director(s) did not have reasonable grounds for making such a declaration. Where a director makes a declaration of solvency without reasonable grounds for doing so, they could face both civil and/or criminal sanctions pursuant to the act.

What key factors should lenders be cognisant of where new security is required?
New security granted by an Irish company will be subject to the risk of being challenged by a liquidator appointed to such company, and rendered unenforceable if it is granted in risk periods (known as the 'hardening periods') on or before insolvency. The length of the risk period varies according to the type of challenge raised by the liquidator. The

solvency of the Irish chargor when granting new security will therefore be of critical concern to any lender and it is prudent that representations as to solvency are obtained prior to the entry into any new security.

In a winding up of an Irish company, a liquidator or creditor may seek to set aside any security entered into, where the effect of such arrangement is to prefer one creditor over the others and such agreement will be rendered invalid as an 'unfair preference'. This right may only be exercised where the company entered into the security within six months before the commencement of a winding up (or within two years for a transaction with a 'connected person' (broadly meaning a director or shadow director or associate of the company which includes a group company). There is a presumption that it was made with a view to giving that person a preference over the other creditors, and hence is presumed to be an unfair preference. The onus is on the creditor to provide that the arrangement was not an unfair practice.

If the new security granted contains a floating charge, the risk period is two years if granted to a connected person. In respect of any other person, the period is one year but only if the company was unable to pay its debts at the time such floating charge was granted, or became unable to pay them as a result of the granting of such floating charge. Any floating charge granted in the risk period will automatically be invalid, except to the extent the company received valuable consideration for granting the floating charge.

How can I enforce a share charge over an Irish company?

It is typical in aircraft financing transactions that a share charge is provided over the shares in the borrower and each of its underlying subsidiaries. For structuring purposes these entities are usually special purpose vehicles and will have no employees. The share charge security is drafted to enable it to be enforced as a self-help remedy and a court order is not necessary for enforcement. Share charges do not create rights under the Cape Town Convention therefore no registrations are required on the international registry.

Under the terms of a share charge, the chargee (usually the lender entitled to the security) will receive ancillary deliverable documents such as letters of resignation of the directors and company secretary and a share transfer form. These documents will be signed but left undated. On the occurrence of an event of default under the share charge, the chargee should be entitled to enforce its security. On enforcement, the chargee will be authorised to date the ancillary documents thereby allowing it to transfer the shares of the borrower into its own name or to a nominee and as a result take control of the borrower and its underlying subsidiaries.

The enforcement of a share charge over the shares in the borrower is an attractive option for lenders to take control over the borrower group and the secured assets. The ease and timeliness of enforcement may be a more straightforward and strategic option than repossession of each underlying aircraft.

Which jurisdiction is the most appropriate to make a bankruptcy filing?

There are a number of factors to consider in this decision, including the location of the debtor, the location of the principal creditors and the governing law of the documents.

In an EU context, one of the most important factors in assessing the jurisdiction in which to file is where the debtor's centre of main interests is located and the prospects of a court accepting jurisdiction of the proceedings. This will also be important in assessing the risk of creditor challenge.

Other factors such as the location of the significant creditors, their familiarity with the available restructuring tools and court processes will also be influencing factors in any decision as to the jurisdiction of making a bankruptcy filing.

Careful consideration is also required in considering the prospects of a successful restructuring, which will be a priority of both the creditors and the underlying debtor group. In order for a restructure to be successful, access to sufficient funding is a requirement. Unless the debtor group has sufficient liquidity to trade through the restructuring, the ability to raise funds to provide a sufficient liquidity buffer is essential.

Will a US bankruptcy process be recognised in an Irish court?

Ireland does not automatically recognise the US bankruptcy code or orders made by US bankruptcy courts. In fact, outside of the EU, there is therefore no automatic recognition of foreign insolvency proceedings. This can present practical challenges in the context of global restructurings in which companies in a number of different states are brought under the umbrella of a US bankruptcy process.

Against this challenge, we would expect an Irish court to respect both the process and orders made by a US bankruptcy court – in particular, if disgruntled creditors sought to relitigate before the Irish courts issues that had already been determined by a US bankruptcy court. The challenge for an Irish court is where there is a disconnect between Irish company law and the actions or orders made in the US bankruptcy process.

How will Alternative A of the Cape Town Convention impact a potential restructuring?

One area that is harmonised to a large extent across a number of jurisdictions is the availability of remedies relating to aircraft assets under the Cape Town Convention. Ireland is one of the contracting states to the Cape Town Convention and applies the Alternative A insolvency remedy. This means a regime substantially similar to the long established Chapter 1110 insolvency remedy in the US applies to aircraft assets the subject of a lease, a security agreement or a conditional sale agreement registered on the international registry applies in Ireland.

The key aspect of this remedy is that within 60 days of an insolvency-related event of a lessee, mortgagor or conditional purchaser, the lessor, financier or conditional seller will either get the aircraft asset back or all defaults (other than the default occasioned by the insolvency itself) will have been cured and an undertaking given as to future obligations. During the 60-day period, the aircraft value must be preserved by the insolvency practitioner or debtor.

The adoption of Alternative A is an exception to the Irish examinership process because it reduces the usual 100-day waiting period to 60 days for qualifying aircraft leasing and security arrangements. The remedy is very much focused on the aircraft assets rather than the company and assumes the aircraft are either located in Ireland or in the possession of the debtor – eg, lessee in question.

Conclusion

Ireland's stable rule of law and clear principles on financing and security are important reasons lenders and investors are comfortable to finance high value assets in Ireland and this benefits lessors in raising the debt needed to expand their business. These principles continue to be of importance in both the refinancing and restructure of existing debt obligations. Lessors, financiers and investors can rely on Ireland's creditor-friendly measures under the Cape Town Convention and domestic law to protect their interests in the current challenging and ever-changing economic landscape.

If you have any questions contact Marie, Maria or another partner in our Aviation and Transport Finance group (**www.algoodbody.com**); Marie O'Brien (**mobrien@algoodbody.com**); Maria McElhinney (**mmcelhinney@algoodbody.com**).

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