Airfinance Annual

2020/21

www.airfinancejournal.com

AIRFINANCE JOURNAL

Living with effects of Covid-19

This year is one to forget for the aviation industry, but the pandemic has left a legacy that will be felt not only in 2021 but also for a long time to come, writes Olivier Bonnassies.

No one would have predicted on 1 January 2020 that a pandemic would bring the entire aviation industry to its knees.

The International Air Transport Association published an update in June saying 2020 will be the worst year in history for airlines (projected net loss of $84.3 billion) with losses to continue in 2021, albeit to a lesser extent.

The slowdown in terms of passenger demand is affecting not only the airlines but also the whole chain in air transport: aircraft and engine original equipment manufacturers (and their suppliers), aircraft and engine maintenance organisations, aircraft and engine lessors, traders, remarketing companies, banks, financiers, airports, catering companies, etc.

Airfinance Journal, being the leading industry air finance publication, has kept close track of developments with the different stakeholders and has published reports on the squeeze on liquidity.

Ironically, the industry as a whole has more liquidity than ever before. This is the consequence of the availability of collateral that has proved attractive to banks, bond and other investors, including governments. Significant increases in credit pricing has also assisted.

Government support has helped US, European and select Asia-Pacific network carriers avert a liquidity crisis, But government aid has been unevenly distributed across the regions and airlines in Latin America, Middle East and Africa have barely received any financial support. Three Latin American carriers are in Chapter 11 bankruptcy protection.

Airfinance Journal's latest estimate is that in the year to 31 August, the world's airlines have raised a total of $176 billion of liquidity.

The big unknown is how long it will take for passenger demand to recover to close to 2019 levels and whether the existing liquidity will be sufficient to see airlines through to the other side. The barrel of apples for many airlines is almost empty.

Carriers will also have to cope with very significant increases in leverage resulting from all the recent fund raising. Deleveraging after the Covid-19 crisis will be a challenge for the sector, which is known for extreme cyclicality in free cash-flow generation.

Aircraft storage levels, having reached a high percentage in the second quarter of 2020, will gradually decrease overtime but airlines could also accelerate their fleet's transformation into new-generation aircraft. As a consequence, a wave of retirements is expected to remove older aircraft from the global fleet earlier than expected.

The investment appetite for new aircraft is likely to remain subdued going forward. Airlines and operating lessors have pushed back deliveries for firm orders towards the middle of the decade while options are now scheduled in the second part of the decade.

As airlines brace for reduced operations over the next few years, their fleets will consequently shrink.

While many airlines have almost exhausted their availability of unencumbered assets, sale of aircraft, engines as well as secured financings through airport slots and gates and loyalty programmes continue to be on their agenda. Ordinarily, airlines would expect to use sale and leasebacks to generate liquidity, and many have done already. Another unknown is the financial capacity of some of the lessors to provide significant additional support to the airlines.

Lessors will similarly need a structured plan to weather the crisis. With airline revenues in sharp decline, most lessees are seeking commercial concessions from lessors, either from near-term rent deferrals or restructurings.

At the *Airfinance Journal* Japan 2020 virtual conference, Stratos chief executive officer, Gary Fitzgerald, said lessors can survive for a period of time but 2021 "will be extremely challenging for lessors".

Fitzgerald sees half of the top 50 lessors having liquidity problems.

"Any platform where you have substantial equity behind, they are much more affected by mark-to-market. If they find that their equity is 'underwater' and the amount of debt they owe on the portfolio is more than the portfolio is worth, then we are going to see real question marks on if they are going to keep the platform," he said.

As a result, Fitzgerald anticipates some platforms disappearing and some portfolios getting merged.

In this year's industry review, consultancy Alton Aviation details the impact on industry players through three potential scenarios of recovery contingent on how the macroeconomic and global health factors of the pandemic are handled: the full recovery, the lasting impact and the second wave.

It will be interesting to see how this develops over the next 12 months.

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Printed in the UK by Buxton Press, Buxton, Derbyshire.

Flying unfriendly skies

Alton Aviation Consultancy's Industry Altimeter 2020 looks at the state of commercial aviation and aircraft leasing.

The performance of the commercial aviation industry has historically been tied to the world's macroeconomic environment. However, 2020, in the grip of a global pandemic, has demonstrated that economic activity alone is but one driver of air traffic demand and that historical trends have limited applicability to the nature of this "black swan" event.

Covid-19 has crippled travel and tourism worldwide, evaporating demand and stalling expectations of a full traffic rebound in the immediate future. Any potential recovery will be driven by a re-growth of the economy coupled with effective and thorough preventative measures or treatments for Covid-19.

Before 2020, the commercial air travel industry enjoyed expansive growth and profitability for more than nine years. The onset of Covid-19 has reset demand to the same levels experienced more than a decade ago during the aftermath of the 2008 financial crisis, but with more emphasis on regional or domestic demand rather than longer-haul international traffic. As such, airlines are scrambling to save cash and reducing spending to survive.

In June, the International Air Transport Association (Iata) estimated a $419 billion decrease in revenue for commercial air transport, a 50% decrease from 2019. While Iata does forecast a recovery in revenues in 2021, they are expected to rise to only $598 billion – 29% of 2019's high – painting a pessimistic picture of the road ahead.

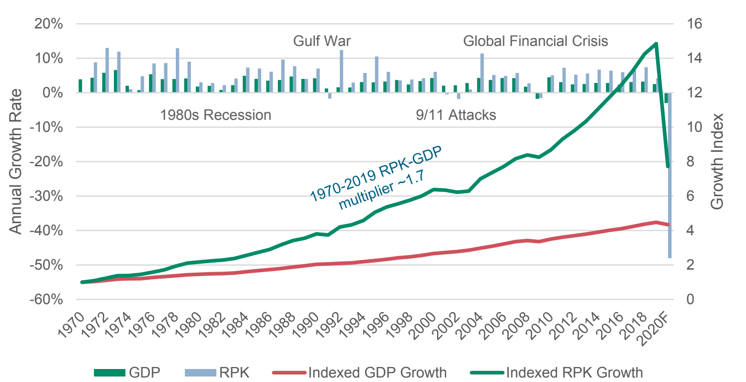
The global reduction in capacity necessitated by the evaporation of demand has also forced airlines to reduce significantly the size of their active fleets.

According to CAPA's fleet database, out of the global fleet of more than 26,000 narrowbody, widebody, regional jet and turboprop passenger aircraft, nearly 45% were inactive at the end of July, down from a high of almost 70% in May, though many of those flying are operating at below-typical levels.

The great aviation pause

Covid-19 and its effects on demand are unprecedented in the history of the aviation industry. Air travel has been especially battered by the fast spread of the pandemic and resultant government-mandated protective measures, with more pernicious effects than any previous downturn.

Figure 1: Historical and forecast of air traffic and GDP growth



Sources: IATA, IMF, USDA ERS, Fitch Ratings, The Airline Monitor, CAPA Fleet Database

As with any unprecedented black swan event, the situation is ever evolving and the future is uncertain. Writing as the end of the third quarter of 2020 approaches, however, the pandemic and economy seem to be trending slightly positive compared with the deepest phase of the crisis. The virus spread has been relatively contained in most developed regions with expanded testing and vaccines in development – but there have been spikes in the Americas, along with rising rates as Europe returns from the summer holidays. Economies are slowly beginning to reopen with the aid of government stimulus and businesses being able to adapt to the new normal.

How has Covid-19 affected air traffic demand?

The Covid-19 impact on aviation has largely been driven by a decline in the confidence of individuals to fly safely in a confined vehicle close to strangers, together with government travel advisories and travel bans made to restrict the cross-border spread of the virus. These restrictions are aimed at all types of commercial passengers and include strict measures such as mandatory quarantine and compulsory testing.

The UN World Tourism Organization reported, as of May 2020, that all countries have some form of Covid-19-related travel restrictions in place, of which 75% continued to have their borders completely closed for international tourism. Subsequently, authorities in some countries have engaged in discussion on easing the restrictions and taking steps towards borders reopening.

Before Covid-19, global gross domestic product (GDP) was forecast to grow on average 2.7% a year over the next two decades, and Boeing estimated that airline traffic would grow about 4.6% a year over the same period.

According to Boeing, the Asia-Pacific region would be a lynchpin in this growth, with a forecasted 5.1% growth in demand requiring nearly 40% of all passenger aircraft deliveries over the next 20 years. Subsequently, Covid-19 has rendered many of these long-term growth projections outdated, with global GDP forecasted to shrink by 5% in 2020, and airline traffic shrinking by more than 50%.

While these numbers certainly will not persist forever, they represent a deep decline that will require time to rebound to pre-Covid levels, depending on the state of the world.

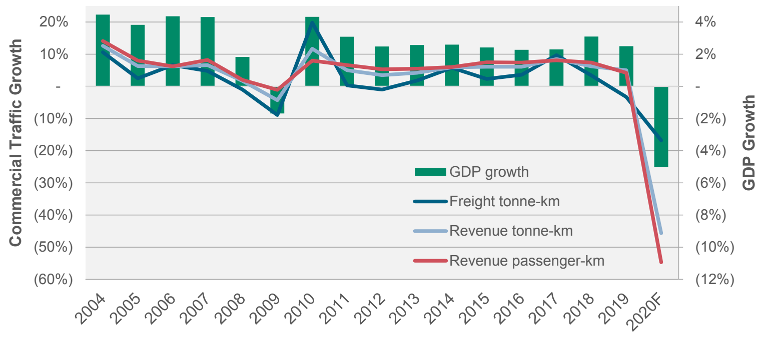
In the short-to-medium term, Covid-19 has devastated air travel demand. Revenue passenger kilometres (RPKs), commonly used as a measure for air traffic demand, fell globally by 42% between January and June. Airlines' response to lower demand is to reduce capacity, commonly measured by available seat kilometres (ASKs). Between January and June, global ASKs declined by 49%.

But these numbers represent an uptick from the deepest point of the crisis in April and May, showing that the situation may be inching toward improvement.

Iata's latest reports indicate that, compared with June 2019, global RPKs for June 2020 are down 87% while global ASKs are down 80%. January saw a slight increase in RPKs and ASKs given Covid-19 restrictions did not commence until late that month. In February, the fall in domestic RPKs and ASKs outweighed the fall in international markets because of a significant reduction in Chinese domestic demand. However, travel restrictions enforced across all regions by March resulted in a significant drop in year-on-year RPKs and ASKs.

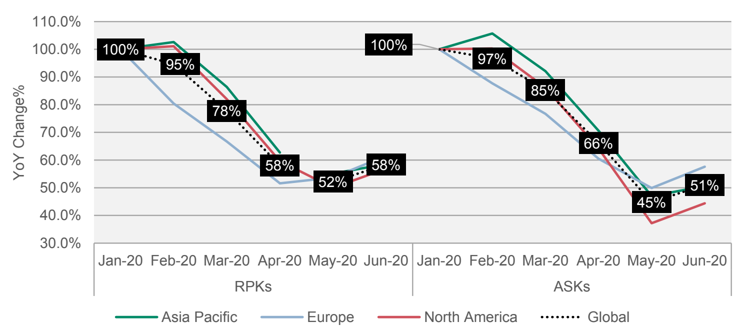
The March figures also indicate a higher degree of impact on international markets, with RPKs dropping 56% year-on-year compared with domestic markets with a 48% drop. The April and May figures might represent the lowest point of the crisis because they were the first full months of the global-scale lockdown. By June, countries had started to ease their lockdown, with some airlines partially resuming their operations, causing an increase in total RPKs and ASKs.

Figure 2: Historical growth of commercial airline traffic



Source: ICAO Annual Reports (2013-2016), ICAO News Release, December 2018, IATA Industry Statistics June 2020, Alton analysis

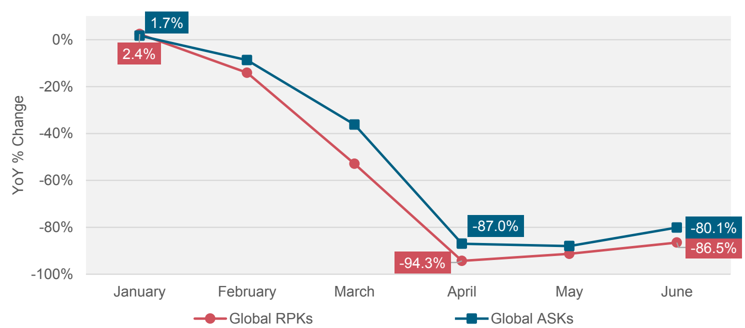
Figure 3: 2020-to-date RPK and ASK changes in major markets



Sources: IATA, Alton analysis

RPK: Revenue Passenger Kilometers. ASK: Available Seat Kilometers

Figure 4: Year-on-year RPK and ASK change



Sources: IATA, Alton analysis

RPK: Revenue Passenger Kilometers. ASK: Available Seat Kilometers

Nonetheless, any evidence of a quick snap-back return to pre-Covid-19 levels has yet to show.

Before Covid-19, global passenger airline load factors were at an all-time high: rising from 76% in 2009 to 83% in 2019. The expectation was that load factors would remain high, with regions such as Africa and the Middle East gradually growing in load factors towards 80% as seen in other regions.

The Covid-19 crisis has put pressure on load factors across all regions with year-to-date load factors down to 70% as of June, according to Iata's Air Passenger Market analysis report. Declining load factors indicate that, even with substantial reductions in capacity, airlines are finding it difficult to fill seats. This implies demand recovery has lagged behind airline expectations, perpetuating a mismatch between supply and demand when compared with conditions pre-Covid-19.

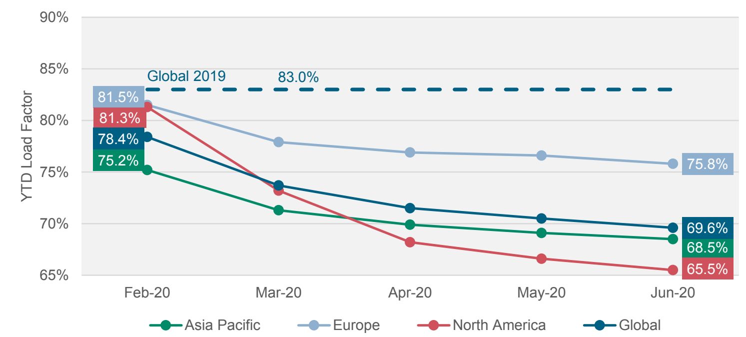
Covid-19 has resulted in a substantial oversupply of aircraft, which will likely translate into falling aircraft values. While nearly all passenger aircraft will decline in value, the value of used aircraft with lease contracts ending in the short run are expected to decline more notably as finding new lessees becomes more difficult – forcing lessors to realise the value reductions in the near term. The average age of retirement is likely to decline in the coming years, with more aircraft retiring earlier than in previous years.

To highlight the impact of Covid-19 on supply and demand, data from OAG and the TSA shows the US market dropping substantially in mid-March. Weekly data, available since March from the TSA's daily throughput statistics, highlights that supply changes lag demand changes. By the week commencing 23 March, passenger throughput had fallen by 90% year-on-year. In contrast, scheduled flights for the same week had dropped only 5% year-on-year. The lag indicates that airlines took the time to adjust their scheduled services relative to the demand shock.

The 2019 changes in passenger throughput and scheduled flights over the same period are minimal, indicating that during normal times demand and supply move in tandem. The unprecedented impact of Covid-19 has, therefore, resulted in an oversupply of capacity relative to traffic demand. However, the USA benefits from a domestic market that has persisted – albeit at lower levels – during the crisis.

Conversely, passenger movements and schedules flight data from Hong Kong SAR's passenger movements and scheduled flights exemplify the Covid-19 effect on a country without a domestic market and subject to exceptionally strict entry requirements.

Figure 5: 2020-to-date passenger load factors in major markets



Sources: IATA, Alton analysis

As early as February, Hong Kong SAR's flagship carrier, Cathay Pacific, along with its regional subsidiary, Cathay Dragon, announced the cancellation of more than half their flights for February and March.

Hong Kong SAR's proximity to China and Cathay's extensive route network in mainland China had an abrupt impact on Hong Kong SAR's passenger travel figures, with strict travel restrictions and quarantine policies likely compounding the effect.

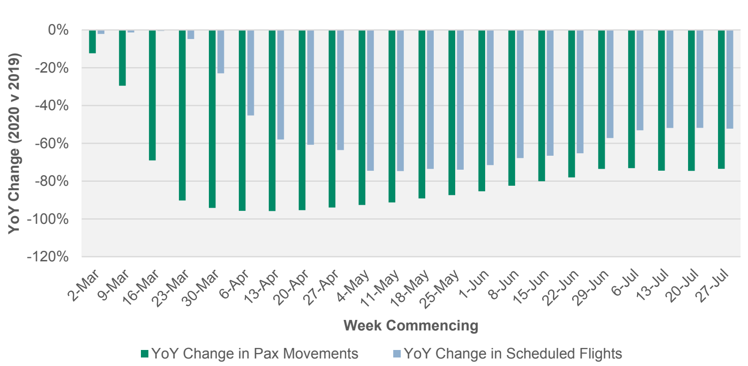
By February, passenger movements had dropped 68% year-on-year and, by March, the decline had widened to 91%. Over the same period, data from OAG indicates that, by February, the number of scheduled flights fell 47% from 2019 levels and, by July, had dropped further to 91% less than the same period in 2019.

Similar to the global trend, Hong Kong SAR also experienced the lowest point in April with year-on-year passenger movement, dropping 99.5% and the year-on-year number of scheduled flights declined 93.4%, with only minor recoveries in subsequent months.

How are airlines handling drop in demand?

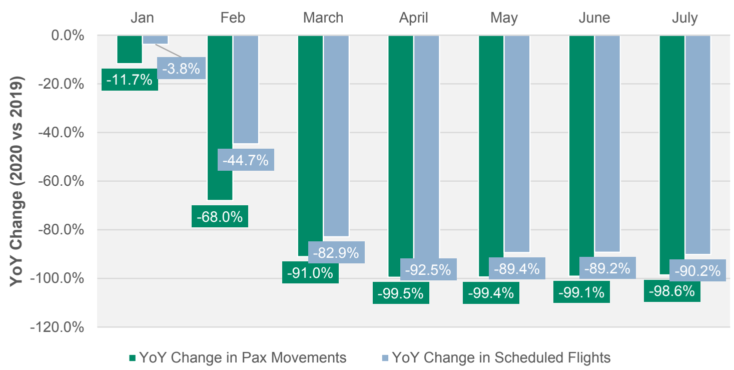
The global reduction in capacity necessitated by the evaporation of demand has forced airlines to shift their focus from day-to-day crisis management towards a broader view as they plan on how to resume operations as the world begins to pivot to the new normal. This includes adopting and maintaining superior health and safety standards, reducing crowds and enforcing social distancing – all of which will help

Figure 6: US weekly Pax throughput and scheduled flights



Sources: TSA, OAG, Alton analysis

Figure 7: Hong Kong SAR monthly Pax movements and scheduled flights



Sources: HKIA, OAG, Alton analysis

regain consumer confidence and help alleviate the current fear of travelling, which could persist even after Covid-19 restrictions are lifted.

A survey conducted by Iata indicated that 60% of respondents anticipated travelling within one to two months post-containment of Covid-19 while the remainder indicated they were open to waiting for six months or more.

Some airlines have also considered reducing ticket prices to spur demand. A consumer survey by Boston Consulting Group identified low prices and automatic upgrades as two of the chief non-health-related drivers to incentivise travel. Chinese carriers cut average fares by 40% when their domestic market reopened, and some, such as China Eastern Airlines, have also rolled out discount passes offering unlimited flights in 2020 for low prices.

On top of addressing consumer concerns, airlines are also reassessing their fleet composition, as they contemplate which aircraft to retain, retire, or return in the coming months. Because of limited demand combined with the current liquidity environment, many airlines have actively restructured their existing orderbooks, through cancellations and/or deferrals.

Airlines with unencumbered assets have looked to leverage them to enhance their near-term liquidity. Generally, it is anticipated that airlines will aim to simplify their current and future fleets – reducing the variety of aircraft types and configurations that they operate.

Airlines had enacted capacity cuts in response to the deteriorated demand environment, but as domestic restrictions began to lift during the summer, more aircraft were put back into service. As of the end of July, 45% of all passenger aircraft were inactive, down from the low of 68% in May. Latin America and the Middle East/North Africa consistently show the highest rates of inactive aircraft.

North America's particularly strong domestic market shows it maintaining a lower inactive rate than most other regions, with Europe hitting similar levels in the late summer. The Asia-Pacific region performed strongly, as countries eased up on earlier restrictions and had generally lower inactive rates during the deep phase of the crisis.

In terms of aircraft segments, 42% of narrowbody aircraft were still inactive in July, up from 6% at the end of 2019. Inactive widebody aircraft have also increased significantly, reaching 51% of the fleet up from 7% at the end of 2019.

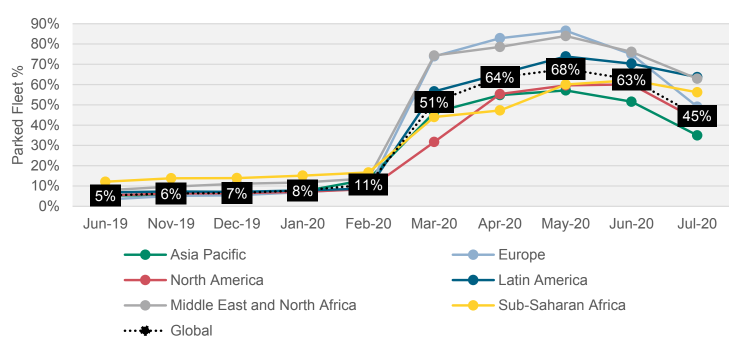
As of the end of July, aircraft across all age ranges have an inactive rate close to 50%, up from the May low of 68% with mid-life aircraft experiencing the largest growth in the parked fleet when compared with June 2019.

Since mature assets have higher maintenance costs and are less fuel efficient to operate, it is expected that younger aircraft to be the most utilised cohort and, as of the end of July, only 34% of zero to five-year-old aircraft have remained inactive, with aircraft on the older end (16 to 25 years) hovering at about 56% inactivity. In fact, zero to five-year-old aircraft are returning to service nearly twice as fast as the two oldest cohorts.

As demand eventually recovers, these older inactive aircraft may be retired by larger carriers rather than returned to service.

Asia-Pacific airlines have begun to reverse the trend, returning aircraft to resume select services. Air Asia resumed all domestic services in Malaysia in July. China Southern Airlines also resumed travel at the end of April, with capacity at 25%

Figure 8: Inactive passenger fleet % by region



Sources: CAPA Fleet Database, Alton analysis

Note: Inactive % = Inactive / (Inactive + Inservice). Excludes aircraft older than 25 years old. Excludes aircraft with no region tag.

below 2019 levels. However, because of new Covid-19 clusters in Beijing in June, some domestic services to and from the capital were temporarily suspended again.

The deep phase of fleet inactivity seems to have passed, with many more aircraft returning to service in the later summer months across all fleet types, regions and ages. Barring further untoward developments, it is expected for this trend to continue through the rest of 2020.

As widely used narrowbody variants, the Boeing 737-800 and Airbus A320 models have a similar proportion (37% to 44%) of parked fleet, with the 737-800 enjoying more activity because its next-generation replacement, the Max, is still experiencing problems. Additionally, more A320 operators have gone bankrupt, increasing the size of its inactive fleet.

In the widebody segment, all four representative models shown in the accompanying chart have lower inactive rates than the 51% inactive rate for the entire widebody fleet as of the end of July. As the model with the oldest average fleet among these, the A330-300 has a high inactive rate of 44%, while the 787-9 and A350-900 are among the youngest widebody variants with rates of 35% and 41%, respectively, though the 787-9 may skew downwards because of ongoing engine problems.

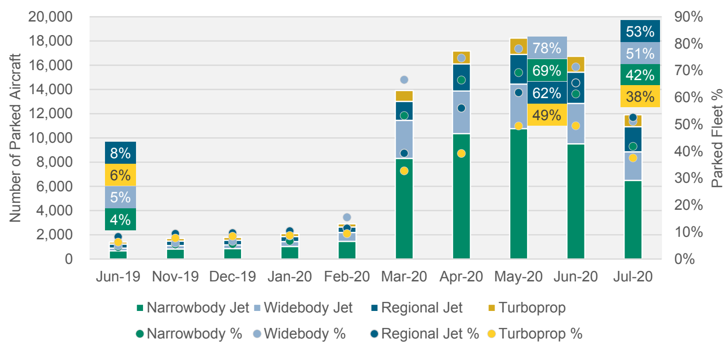
In the current-to-medium term, widebodies are likely to maintain high levels of inactivity, because long-haul operations will lag as government restrictions are lifted, and customers find it safe to travel internationally again.

Until then, most usage will likely be because of cargo. In fact, carriers such as American Airlines have recently filled passenger 777-300ERs with freight alone, helping to support the variant's relatively low inactive rate in a dearth of long-haul passenger demand.

How has Covid-19 affected the aircraft leasing industry?

There is no question that the difficulties facing the airline industry have affected lessors. As of July, 53% of all parked aircraft are owned by lessors, with the top 10 lessors having more than 1,950 aircraft parked, down from a May high of 3,100. Naturally,

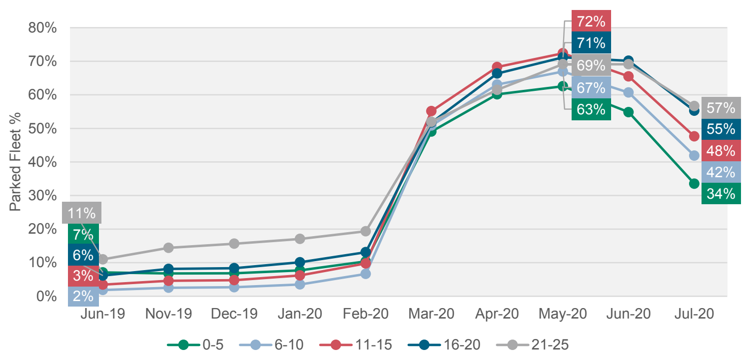
Figure 9: Inactive passenger fleet by aircraft segment



Sources: CAPA Fleet Database, Alton analysis

Note: Inactive % = Inactive / (Inactive + Inservice). Excludes aircraft older than 25 years old. Excludes aircraft with no region tag

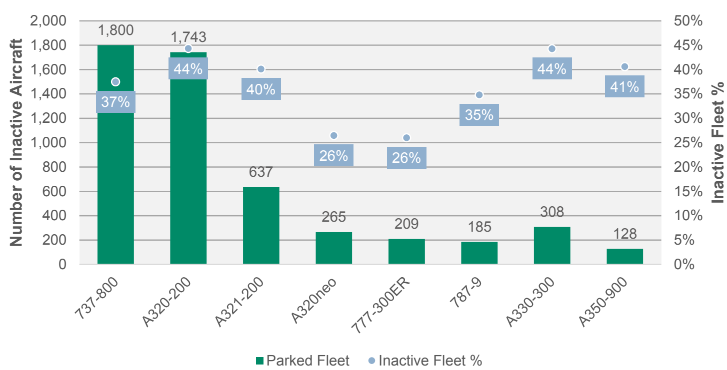
Figure 10: Inactive passenger fleet by age range



Sources: CAPA Fleet Database, Alton analysis

Note: Inactive % = Inactive / (Inactive + Inservice). Excludes aircraft older than 25 years old. Excludes aircraft with no region tag.

Figure 11: Inactive passenger fleet of selected narrowbody and widebody models



Sources: CAPA Fleet Database, 31 July 2020

Note: Inactive % = Inactive / (Inactive + Inservice). Excludes aircraft older than 25 years old. Excludes aircraft with no region tag.

lessors have a high share of parked narrowbody fleet because they own nearly 60% of all narrowbody aircraft in commercial operation.

While lessors have fared comparatively well in past downturns, no amount of financial engineering or diversification could have prevented the impact from the global Covid-19 pandemic. Lessors have at least three approaches that they can take concerning existing leases:

1. **Require the payment of leases:** contractually, most lease agreements contain lease provisions that require airlines to pay lessors regardless of the airline's revenue streams and usage of the aircraft. Given the current liquidity crunch many airlines are facing, requiring payment may force airlines with poor liquidity to use up their cash reserves on leases over a two- to three-month period. Once liquidity dries up, lessees would effectively stop making payments and default under their existing lease agreement.

   However, lessee defaults would require that lessors repossess the aircraft, update their insurance policies for those aircraft, and incur storage costs indefinitely since there is little demand to lease aircraft in the short term. Generally, lessors want to avoid this scenario and are keener to pursue other options.

2. **Provide lease payment deferrals:** restructuring lease payments provides airlines with the time and ability to carry out some degree of liquidity management such as raising new capital. In its first-quarter 2020 update, one of the world's largest lessors, Avolon, stated that 80% of its customers were seeking rental relief and it had agreed to several rent deferral arrangements with an average period of three months, expecting to provide some sort of short-term rental deferral arrangement with the majority of its customers.

   Avolon's second-quarter update confirmed a lease revenue collection rate of 68% during the first half of 2020, with most of the shortfall due to deferrals. As of the end of June, Aercap announced it has entered into at least $430 million-worth of deferrals – about 9% of its annual lease revenue – with a typical three-month holiday and repayment requirements starting within four to six months. In addition to rent deferral, several lessors are expecting maintenance reserves to be deferred for these components that are collecting payments on a calendar basis. Most maintenance reserves are hour/cycle based, so collections will naturally decline when aircraft are parked, but so too will value degradation.

3. **A combination of 1 and 2:** lessors are at their discretion as to the timing and combination of either approach 1 or 2 and are likely to make a case-by-case evaluation. In general, lessors are more likely to pursue approach 1 with lessees that receive government backstopping, while approach 2 could be used in instances where lessees lack government support.

Regardless of approach, lessors will likely not stand to benefit from the early return of aircraft or early lease agreement termination. Looking past the difficulties of aircraft repossession (locked down airports and court closures), deteriorated passenger demand would mean difficulties in re-leasing an aircraft to other airlines. Additionally, valuation challenges in the current environment and lease rate deterioration would mean placing an aircraft with a new lessee at a significantly lower rent than existing pre-Covid-19 contracts.

While many lessees requested deferrals on the order of three months at the start of the crisis, as the crisis extended and deepened, they have had to go back to lessors to request extensions on their deferrals or sought to restructure altogether. Many lessees – LATAM, Avianca, Virgin Australia and Aeromexico to name a few – have declared bankruptcy, as well, requiring their leases to be restructured or aircraft returned, further adding to the losses of lessors.

Manufacturers have seen an increase in order cancellations and deferrals because airlines and lessors are looking to right-size their fleets. By the end of the third-quarter 2020, Airbus had recorded 67 order cancellations, while Boeing had received a staggering 416 cancellations.

Lessors had continued to place orders during 2020, but at a

Figure 12: Lessor aircraft order cancellations and deferments

	Month	Airline/Lessor Name	Quantity	Aircraft Family	Deferred/Cancelled
Lessors	February	Air Lease Corporation	9	737 MAX	Converted to 3 787s
		Japan Investment Adviser	10	737 MAX	Canceled
	March	ALAFCO	40	737 MAX	Canceled
		Avolon	75	737 MAX	Cancelled
			9	A320neo	Deferred
			4	A330neo	Canceled
	April	GECAS	69	737 MAX	Canceled
		CDB Aviation	29	737 MAX	Cancelled
			20	737 MAX	Deferred
	June	SMBC Aviation Capital	68	737 MAX	Deferred
	July	AerCap	15	737 MAX	Canceled

Source: FlightGlobal, Simple Flying, Airbus, Alton analysis significantly slower pace that reduced from 166 aircraft in January to nine aircraft in April and none in the subsequent months. Some lessors have also made moves to defer or cancel their orders from aircraft manufacturers, and certain lessors also seek to place some aircraft orders with lessees in exchange for restructuring current leases.

Furthermore, some aircraft on order were purchased with lease commitments from airlines which have already entered administration/ bankruptcy proceedings.

In line with airline stocks, lessor stocks have also fallen since the end of 2019 and, as of 14 June, were down 44% compared with the end of 2019. In contrast, the FTSE All-World index was down only 7% over the same period, indicating the market continues to price lessors lower given their exposure to airlines.

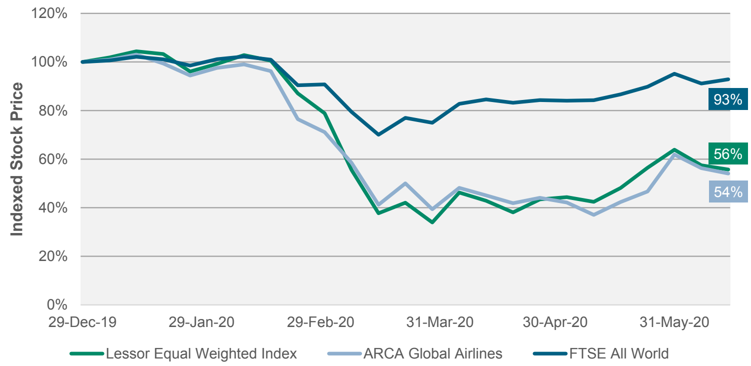
Lease extensions are likely to face pressure as well because there are a significant number of aircraft scheduled to reach lease expiration in the coming years. A favourable environment in 2019 would have seen many 2020 expirations and some 2021 expirations already extended, but as time continues the number of aircraft needing to be remarketed will increase.

On top of natural roll-off, without demand recovery on the horizon, more lessee defaults will likely occur in the next few quarters, and with reduced demand, it will be harder to find alternative homes for these aircraft.

Many lessors have sought to boost liquidity and reduce capital spending by deferring new deliveries and drawing down on credit lines. In its July 2020 financial results, Aercap stated that it had $10 billion in liquidity, $27 billion of unencumbered assets, a low debt-to-equity ratio and capital expenditure mitigation measures, which would allow it to emerge from this crisis stronger than before.

Lessors with aircraft on lease to good credit lessees of high importance are likely to benefit indirectly from government bailouts. For instance, Aercap has a significant portion of its fleet placed with Chinese flag carriers and US majors which have received government support.

Figure 13: Listed aircraft lessors versus FTSE All-World index



Sources: Google Finance, Business Insider, Alton analysis

Note: Lessor Equal Weighted Index refers to an index of AerCap, Air Lease Corporation, Fly Leasing, and Avation

Lessors doing business with less prominent operators which may not have the same access to government funds will likely see less indirect benefits from state aid.

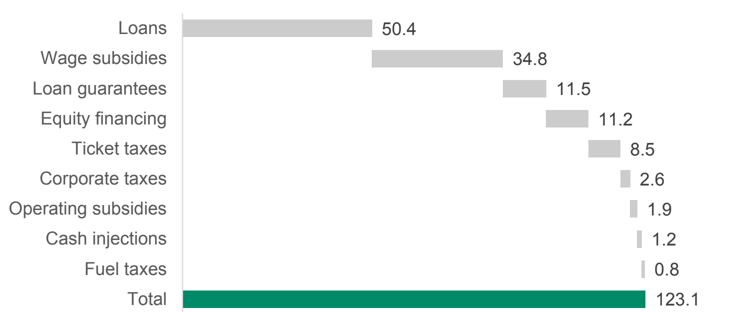
Bank-owned lessors, such as BOC Aviation, ICBC Leasing and CCB Leasing, are likely the most stable and secure given the strong support from their parents, and will be better equipped to carry out new deals, but that does not mean midsize lessors are at immediate risk. Many independent lessors have drawn down a significant amount of debt to enhance liquidity and are active in the sale and leaseback market.

Some concern exists around lessors which do not have strong shareholdings and banking relationships, and their ability to weather the storm. However, there are spots of opportunity for lessors in this crisis. New lessors could see the pandemic as an entry point to the leasing market and existing lessors may find an opportunity to engage larger carriers which were previously difficult to access.

Long-term damage has been done

While Covid-19 has forced the industry to face unprecedented short-term headwinds, the need for air travel in the future remains inevitable. Passengers will eventually return to the skies to do business, visit friends and relatives, and once again go on holiday. The industry has gone through cycles of downturns and exogenous shocks before – most notably after 11 September 2001 and

Figure 14: Government aid to airlines during Covid-19, by type ($ billions)



Note: Information as of May 15, 2020

Source: IATA Economics using public information and data from SRS Analyzer, DDS, Flightradar24 24, TTBS, ACIC, Platts, Airline Analyst, annual reports, Alton analysis the global financial crisis in 2008. But the effects of the Covid-19 pandemic will linger long after the aviation industry resumes a more normal operating schedule.

The aviation industry traditionally contributes about 3.6% of world GDP through employment, freight services, tourism, and many other factors. Its importance has forced world governments to support the sector during the pandemic by providing $123 billion in aid, nearly half of it in the form of loans tied to various conditions, including conversion to equity ownership in the future.

Despite this, more than 25 airlines – including LATAM, Virgin Australia and Aeromexico – have failed since February 2020. They have either ceased operations or entered either liquidation or administration/bankruptcy reorganisation. Filing for bankruptcy reorganisation is not uncommon and several airlines underwent such proceedings after 11 September 2001 and the 2008 financial crisis.

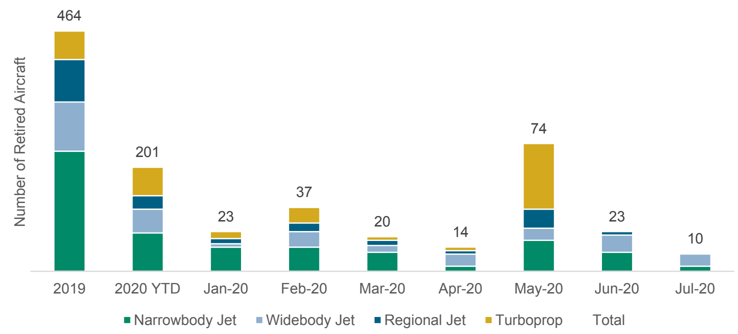
When an airline enters administration/bankruptcy reorganisation, it typically has between 30 and 60 days of protection from creditors and lessor payments. After this period, it either pays for the lease or return any lessor-owned aircraft. If a lessor believes the right thing to do is remove the aircraft, it will not hesitate to do so. In several cases, the airline can emerge from reorganisation and, in these situations, it has historically maintained the majority of its fleets.

Liquidation, on the other hand, is a more extreme circumstance, wherein the airline's assets are reduced to cash for payment distributions to creditors.

The demand evaporated by Covid-19 has caused an oversupply of aircraft, and airlines with the flexibility to do so are downsizing their fleets and cancelling new orders. Even before Covid-19, there were reports of some difficulty placing forward orders with operators, particularly Maxs and widebodies.

Given the current market, lessors with orderbooks likely see them as a liability and are subsequently trying to shed such commitments where possible. The backlog for the Max stood at 4,545 at the end of 2019, but through 31 July 2020, the backlog had been reduced to 4,129 – none of which can be attributed to deliveries. This means the Max programme has sustained 416 cancellations in the first seven months of 2020.

Figure 15: Passenger fleet retirements a month, by aircraft segment



Source: CAPA Fleet Database, Alton analysis

GECAS, Avolon, CDB, Aercap, and Gol Airlines have all publicly announced cancellations. Lessors are looking to right-size their fleets for reduced future demand, with Avolon, Aercap, Air Lease, GECAS and Japan Investment Adviser all trying to minimise their near-term obligations.

It is not just Boeing bearing the brunt of order cancelations; Airbus has seen cancellations and deferrals from Easyjet, Cathay Pacific, Iberia, SaudiGulf, LATAM, and many others.

Initially, the pre-Covid-19 trend of low aircraft retirement rates was expected to continue into 2020, bolstered by low fuel prices and high levels of demand, but Covid-19 has forced airlines worldwide to execute accelerated retirement plans as they look to restructure their fleets and remove aircraft with higher maintenance and operational costs, while simultaneously dealing with the current oversupply in the market.

In the six months before May 2020, narrowbody aircraft experienced the highest number of retirements (67 aircraft) followed by turboprops (50 aircraft). It should be noted that there is a significant delay in reporting aircraft retirements, and it is likely that many more aircraft may have been retired as we went to press.

By historical standards, the useful life of an aircraft has been between 20 and 30 years. In recent years, however, retirements before the age of 25 have sometimes been motivated by part-out opportunities with attractive values (particularly for engines) compared with the available options for subsequent leases, for example.

Most aircraft retired over the beginning of 2020 were 25 years of age or older, followed by those between 21 and 25 years. Going forward, particularly post-Covid-19, there is an expected increase of retirements across both age brackets, and even of younger aircraft in the 16- to 20-year-old range.

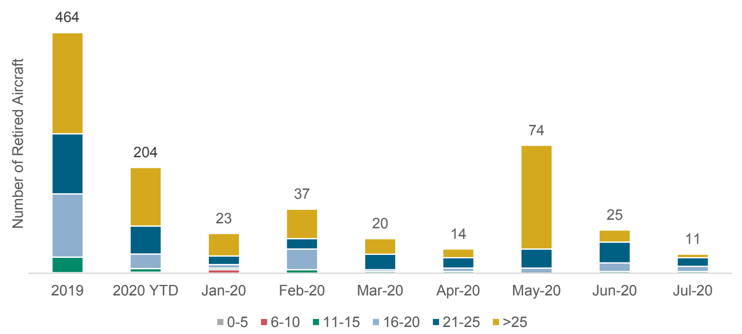
Aircraft that are more costly to operate and maintain, as well as larger, older-generation aircraft in need of heavy maintenance or with better early part-out value, will be the most likely candidates for retirement.

Additionally, a proportion of the current parked fleet is likely to be permanently retired, particularly ageing widebodies such as the A340, 777-200/-200ER, 777-300, older A330s, older 767s, A380s, as well as older narrowbody platforms such as the MD80/90 and passenger 757 types.

Medium-term trends and path to recovery

Demand for air travel has not historically wavered long in the face of exogenous shocks. Most significantly, the events of 11 September 2001

Figure 16: Retired passenger fleet a month, by aircraft age



Source: CAPA Fleet Database, Alton analysis

and the 2008 global financial crisis negatively impacted traffic demand in the short term (and profitability in the medium term), but subsequently, demand has rebounded.

Furthermore, in the wake of these crises, many bankruptcies ensued, spurring merger and acquisition activities that consolidated the market and resulted in restructuring to more robust operating models. They also triggered a cost consciousness and financial discipline in many airlines which have endured.

However, the Covid-19 situation involves a series of cascading sudden economic stops, which is unprecedented. The economy is in a weaker state compared with earlier events, with numerous threats in the form of geopolitical pressure already on the horizon, further adding to the uncertainty.

In its latest pre-Covid-19 20-year outlook, Boeing forecasted economic growth of 2.7% and traffic growth of 4.6% on average each year, equivalent to a traffic-growth-to-GDP multiple of 1.7 from 2019 to 2038. As a result of the Covid-19 outbreak, top economic and aviation experts have predicted a severe fall in both GDP and air traffic demand in 2020.

Although the airline industry has historically been a challenging area for investment returns, the industry has recently (pre-Covid-19) enjoyed more stable and profitable returns, with high levels of profitability at margins not seen in decades.

Specifically, from 2000 to 2009, the industry experienced losses in all but three years, while conversely, the industry has seen profits in each year since 2010.

According to Iata, the industry had a 3.1% net profit margin in 2019 and was originally anticipated to continue to see positive margins in 2020. Iata's latest publication estimates that 2020 margins will be -20.1% and -2.6% in 2021. Furthermore, even in the event of a full recovery, the large volume of debt airlines have accumulated to survive the pandemic will likely impact investor returns for the immediate future.

Amid all the gloom and doom, there are a few tentative signs of a medium-term economic reset. Early signs of a travel rebound suggest that the phase of deep crisis may come to an end in the not too distant future. Lockdowns have begun to ease in many countries, and some aircraft are beginning to re-enter service, especially in Asia-Pacific markets, while worldwide RPKs and ASKs have begun to tick upwards for the first time in months, as a tentative recovery begins.

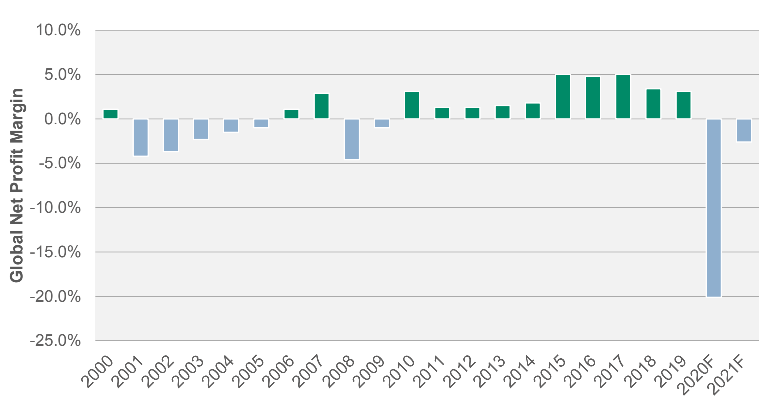
As of July, aircraft inactivity has begun to reverse from the deep crisis in April and May. Some countries, such as Australia and New Zealand, have begun negotiations to establish a "travel bubble" to allow for exclusive international travel between the two countries. However, these bubbles have been delayed until 2021 because of the emergence of new cases in the past month. When established, these travel bubbles would benefit local airlines but also provide a boost to trade and tourism.

China has seen domestic capacity recover since early March as the number of new Covid-19 infections dropped. At the end of April, domestic seats were 83% of the January seats. Actual passenger numbers are expected to be lower given load factors are unlikely to be high.

In contrast, international seats are still at only 8% of the January total. This aligns with travel restrictions in place for foreign travellers entering China. Similarly, South Korea has seen a recovery in domestic seats, although the decline was not as severe as China's.

As economies worldwide begin to reopen, there will be an improvement in job growth. For example, US jobs data showed improvement during summer 2020 – largely a result of some states beginning to reopen – adding 1.8 million jobs in July, though

Figure 17: Historical global airline net profit margins, 2000-2021F



Source: Airlines for America: Annual Financial Results: World Airlines (Data for 2000-2003), IATA Industry Statistics June 2020 (Data for 2004-2021F) still being down 13 million jobs overall because of the pandemic. These trends are likely to be mirrored across much of the world as countries gradually ease lockdown measures and businesses are allowed to operate.

As such, economists forecast that, in the best-case scenario, dependent to a significant extent on the success of containment measures, GDP will return to 2019 levels in 2022. While the IMF forecasts a recession during the remainder of 2020, with -4.9% GDP growth for the year, it predicts a 2021 rebound in the global economy with a GDP growth of 5.4%.

After the economy recovers, the aviation industry will eventually return to 2019 activity levels. Long-term air traffic growth is expected generally to follow projected pre-Covid-19 trends. The industry will eventually follow a three-phase recovery path:

1. The current phase of a deep crisis.
2. A period of recovery with a large Covid-19 overhang.
3. An eventual “new normal”.

How well industry players weather the turbulent Covid-19 overhang period will determine their condition on arrival at the new normal.

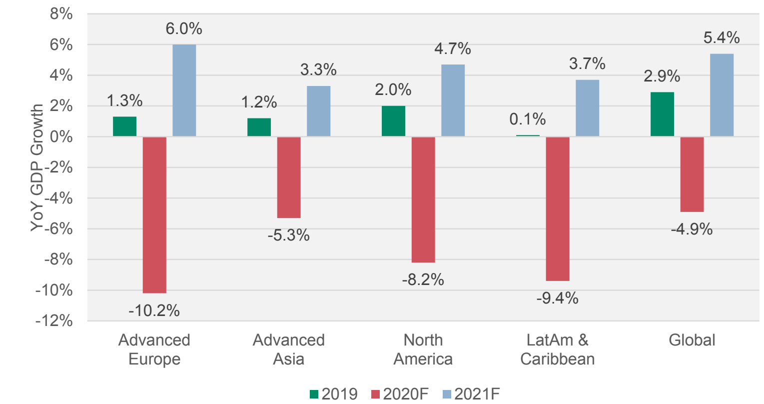
Potential recovery scenarios

Alton has put forward three potential recovery scenarios, contingent on how the macroeconomic and global health factors of the pandemic are handled and how those would impact the aviation industry. Covid-19’s lack of historical precedence means there is not a strong basis for predicting which of the conceptual scenarios is most likely, but exploring the impact of each can be informative.

Full recovery

The first potential post-Covid-19 scenario assumes an, admittedly optimistic, rapid full recovery of the industry, reaching pre-Covid-19 normalcy with little long-term impact. This full recovery scenario assumes an effective public health response, slowing down the spread of the virus in the near term with a limited or non-existent second wave, a vaccine is assumed to have been successfully developed and deployed globally by early 2021, and government support and stimulus packages would be effectively deployed to limit the recessionary impact.

Figure 18: IMF GDP projections, by region



Source: IATA: IMF World Economic Outlook June 2020, Alton analysis

AIRLINES

In the event of a full recovery, the initial decreased traffic demand would be limited to 2020, with airlines seeing pre-Covid-19 traffic levels by early 2021. Given a limited change in propensity to travel, airlines would benefit from a long-term RPK growth rate of about 4.7% by 2022, exceeding pre-Covid-19 levels.

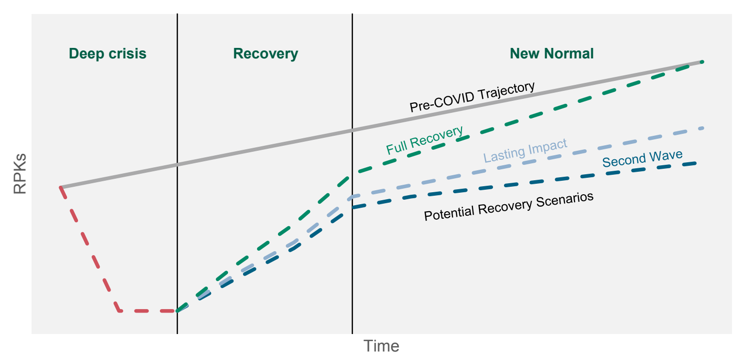
Post-Covid-19, the Asia-Pacific region would continue to experience higher RPK growth rates than developed markets in Europe and North America. Emerging markets such as Latin America, the Middle East, and Africa would have high economic and air traffic growth rates, allowing them to grow faster than the global average.

A full recovery would help prevent more airlines exiting the industry through bankruptcy, with limited levels of consolidation with an overall constant industry growth rate.

LESSORS

In a post-Covid-19 market with the fortune of a full recovery, by 2023 lessors would find limited challenges to place aircraft with lessees with lease rates and value retention returning to pre-Covid-19 levels. However, lessors would still have to

Figure 19: Forecast of post-Covid-19 potential recovery trajectories



Source: Alton analysis

contend with pre-Covid-19 issues, such as widebody oversupply and excessive speculative forward orders.

As demand for aircraft would be expected to return completely, any additional negative effects on lessors would be minor, aside from the forced downtime of the initial deep crisis period.

MANUFACTURERS

Similar to lessors, manufacturers would not see a large impact in a full recovery scenario. With demand returning to pre-Covid-19 levels, there would be no major oversupply of aircraft – with a slight surplus of 1% to 3% expected in balanced market conditions – and retirements of older aircraft would proceed as expected before the crisis.

Overall fleet demand would be expected to exceed 35,000 aircraft by 2030, with narrowbody jets contributing most to this growth. About 1,500 aircraft retirements are expected during 2020 and 2021.

No further aircraft production rate cuts would be required – assuming Airbus's April 2020 and Boeing's announced July 2020 production rate cuts hold – and rate increases would begin to materialise in 2024, largely for narrowbody aircraft.

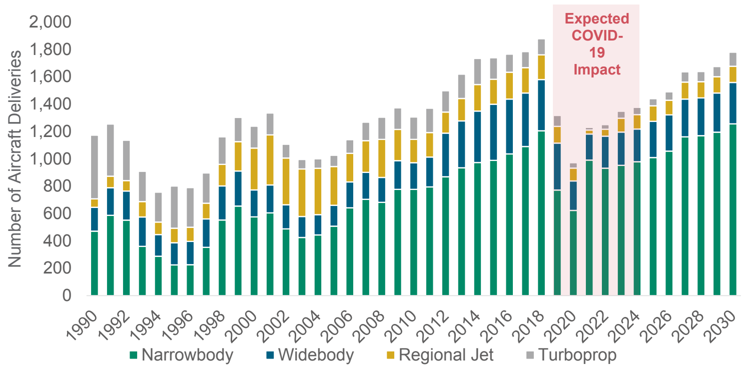
Near-term narrowbody deliveries would be supported by the 425 737 Max aircraft that have been produced but not yet delivered by Boeing, while Boeing and Airbus would be expected to limit widebody production in the short run, given a slower recovery expected for those aircraft.

Under this recovery scenario, the global in-service fleet would reach January 2020 levels by late 2022.

Lasting impact

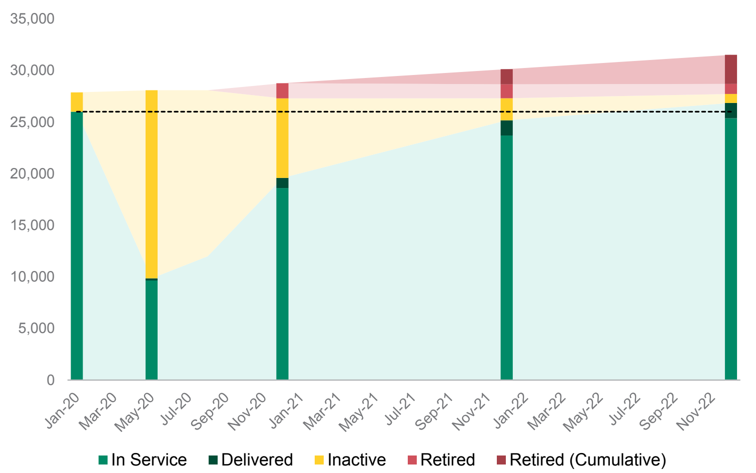
The second recovery scenario assumes a lasting impact left by the Covid-19 pandemic, resulting in a weaker industry that leads to moderate levels of market consolidation. In this lasting impact scenario, the public health response to control the virus is slowed, with a measured and controlled reduction of social distancing measures assuming a limited or non-existent second wave of the virus with no vaccine or treatment available until mid-to-late 2021.

Figure 20: Full recovery scenario commercial aircraft deliveries



Source: Alton analysis

Figure 21: Full recovery scenario global fleet short-term supply changes



Source: Alton analysis

Government support and stimulus packages would be largely ineffectual and there would be stagnated growth in 2020 with a slight, but not extensive recessionary impact. The current state of the world at the end of the third-quarter 2020 and its response seems to align most closely with these assumptions.

AIRLINES

Airlines would be subjected to a decreased propensity to travel, with a soft demand recovery. Pre-Covid-19 traffic levels would not be reached until late 2021 in domestic markets, with the international market following in 2025. Europe and North America would show stagnant air traffic growth in the event of a lasting impact scenario, whereas the Asia-Pacific region would show one of the fastest rates of RPK growth globally.

Emerging markets such as Latin America, the Middle East and Africa would continue to show positive but muted air traffic growth rates. This state of demand would add to the slate of airlines which have already exited the industry through bankruptcies, with moderate levels of consolidation and a moderately decreased industry growth rate.

LESSORS

In a post-Covid-19 market with a lasting impact, lessors would be further challenged to place naked aircraft with lessees at any fixed lease rate when supply significantly exceeds demand. The value retention of lessor-owned aircraft would be relatively poor, especially for older aircraft, with lease rates trending similarly downwards.

While the full recovery scenario expects value degradation and lease rates to reach pre-Covid-19 levels in early 2023, resulting in similar long-term results as pre-Covid-19 forecasts, the lasting impact scenario results in a deeper trough, with no significant catch-up until closer to the end of the decade.

While it would be expected that new-technology aircraft such as the A320neo to fair better and eventually recover, the value recovery for current-technology aircraft – the mid-life siblings, such as the A320 – would be less, mirroring behaviour in past crises.

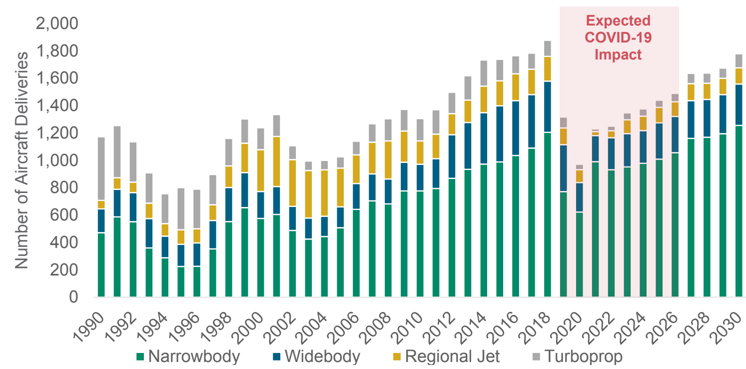
MANUFACTURERS

The effects of the lasting impact scenario would be expected to cause a decrease in widebody demand and a resulting wave of widebody retirements until the end of 2024. Given the market oversupply, new aircraft production rates would not return to pre-Covid-19 levels until 2023-24. The increased retirements and decreased production would only achieve a balance between fleet supply and demand by the end of the decade. Fleet demand would be expected to reach about 30,000 total new aircraft by 2030 with narrowbody jets contributing most to this growth.

Retirements would increase to more than 2,000 aircraft during 2020 and 2021 as opposed to only 325 in 2019 – a 5% increase – with higher medium-term retirements to remove the excess surplus. A younger average retirement age would cause more current-generation aircraft to retire over the next decade under the lasting impact scenario.

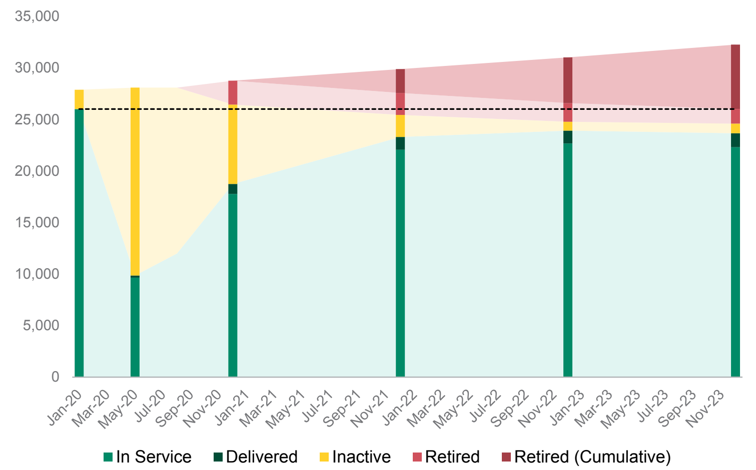
In terms of the effect this would have on manufacturers, no further aircraft production rate cuts would be expected, and any rate increases

Figure 22: Lasting impact scenario commercial aircraft deliveries



Source: Alton analysis

Figure 23: Lasting impact scenario global fleet short-term supply changes



Source: Alton analysis

would only materialise in 2026 and beyond, largely for narrowbody aircraft.

Near-term narrowbody deliveries would once again be supported by the 425 737 Max aircraft that have been produced but not yet delivered by Boeing, while it is expected that the US manufacturer and its European rival, Airbus, would limit widebody production in the short run, given a slower recovery expected for those aircraft.

Under this recovery scenario, the global in-service fleet is not expected to reach January 2020 levels for at least three years.

Second wave

The third scenario assumes a second wave of the Covid-19 pandemic, deepening the immediate crisis and delaying the start of recovery. In this second wave scenario, the public health response would be ineffective, and uncontrolled reductions of social distancing measures result in a moderate-to-severe second wave of the virus.

There would be no effective or available vaccines or treatments for the virus until mid-to-late 2021. Government support and stimulus packages would be ineffective and stagnated growth throughout 2020.

While this is the most pessimistic of the recovery scenarios, given the uncertainty around the nature of Covid-19 as we move into the latter part of the year, it is certainly one path that should be seriously considered as a possibility.

AIRLINES

In this scenario, after decreased traffic demand in 2020, there would be very soft demand recovery during the rest of the decade. Domestic air traffic would not recover until 2025, while international traffic follows in late 2029.

This results in several significant structural changes in the industry, including a large shrinkage of the active aircraft fleet.

Europe would be hit hardest as alternatives to flying – such as rail – are readily available. While North America does have a relative strength in the domestic market relative to other regions, it would not be enough to bolster positive RPK growth.

Even the strength of the Asia-Pacific region, which aided in the other recovery scenarios would be subdued here, with only moderate growth expected.

Emerging markets such as Latin America, the Middle East and Africa would also be hard hit, with a second wave depressing the RPK growth they showed even in a lasting impact scenario.

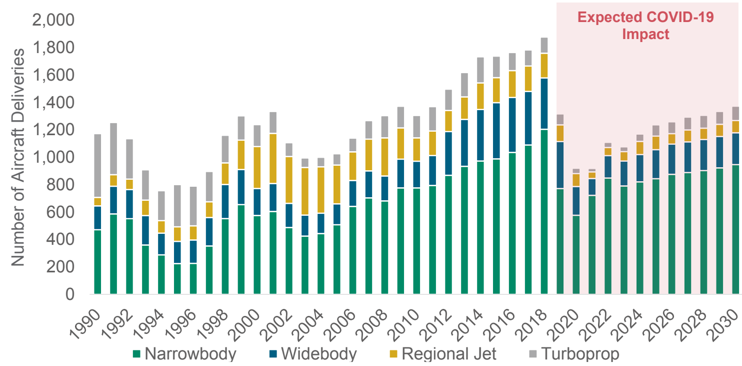
With continued and persisting demand suppression, far more airlines would stop operations and exit the industry, with significant levels of consolidation.

LESSORS

The second wave of Covid-19 would challenge lessors even further, because the oversupply of aircraft would persist, making it difficult to place naked aircraft with lessees at any fixed lease rate. The value retention of lessor-owned aircraft would be poor, especially for older widebody aircraft, with lease rates trending similarly downwards in a deeper, longer-lasting trough that does not recover for many years.

Lease rates and values in a second wave scenario may still face a wide gap from their expected pre-Covid-19 trends by the end of the decade.

Figure 24: Second wave scenario commercial aircraft deliveries



Source: Alton analysis

MANUFACTURERS

In the event of a second wave, aggregate manufacturer deliveries would be expected to remain below 2019 levels for most of the next decade. Widebody and narrowbody ramp-up would be prolonged, with production rates only returning to 2019 levels in 2025 and 2027, respectively. The effects of the second wave scenario cause a large decrease in widebody demand and a bigger resulting wave of widebody retirements. There would be accelerated retirements expected of narrowbodies, as well, as regional demand would be severely impacted.

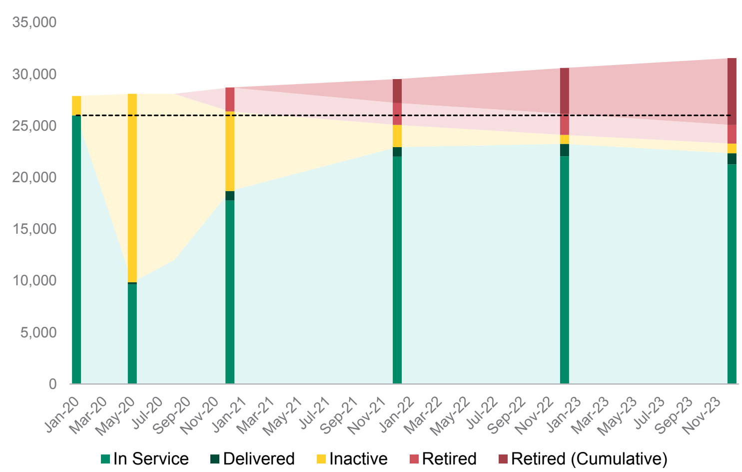
Retirements would be expected to increase to between 2,200 and 2,400 aircraft during 2020 and 2021 – with higher medium-term retirements to remove the further excess surplus. A much younger average retirement age would cause more current-generation aircraft to retire over the next decade under the second wave scenario.

Under this scenario, the global in-service fleet is not expected to reach January 2020 levels over the mid-term, and post-Covid-19 air traffic growth would lead to a higher, longer-term surplus than even in the lasting impact scenario.

Bridges to post-Covid-19 growth

Regardless of which scenario – or combination of scenarios – comes to pass, there are options for the

Figure 25: Second wave scenario global fleet short-term supply changes



Source: Alton analysis

aviation industry to leverage this crisis into an opportunity, especially given the current downtime afforded to all sectors.

AIRLINES

Airlines can use the time of Covid-19 overhang to streamline their operations both internally and externally. The focus must be turned to network strategies, adapting and improving existing planning and scheduling processes that typically take weeks to complete for them to run weekly, keeping up with the rapidly changing demand profile as operations ramp up.

As we transition to recovery, airlines need clear rules for route reopening and scheduling, drawing on the insights from their intelligence task forces, closely monitoring competitor actions, and taking a hard look at their airport slots. Given the impetus to retain or re-attract customers, it would also behove airlines to improve customer service and over-communicate with passengers to help manage operations in this time of uncertainty.

Most importantly, to maintain stability in their bottom line, airlines must look toward slashing costs through productivity improvements, contractual arrangements, basing strategy, process redesign and outsourcing. They must also re-evaluate non-aircraft capital expenses, and institute processes to avoid cost creep and ensure any savings are reallocated to critical areas of need. Many may emerge from the crisis with much smaller operations.

LESSORS

Lessors will similarly need a structured plan if they hope to weather the crisis. With airline revenues in sharp decline, most lessees are seeking commercial concessions from lessors, either from near-term rent deferrals or broader contract restructurings. When considering the scale of airline revenue deterioration, these concessions will be vital mechanisms for airline liquidity preservation, and the absence of such concessions could directly impact the survival prospects of certain operators.

While most global airlines are severely affected by Covid-19, each operator's positioning to deal with the crisis varies in terms of existing capital structure, as well as government and shareholder support. With more restructuring requests coming in the next few months as forward visibility into travel demand improves, lessors should not shy from digging deeply into airlines' business plans and forecasts to make objective decisions on who to support.

For most lessees, initial relief has come in the form of lease deferrals, typically for two to three months. However, this may not be enough, and lessors may be forced to provide further rent relief or early lease termination, leading to revenue reductions and increased exposure to deferred income from riskier lessees. To mitigate these effects, lessors must look for win-win solutions such as accepting lower lease rates in exchange for lease extensions beyond the current term. This will allow airlines to achieve short- to medium-term liquidity relief, while lessors secure further lease terms and avoid future remarketing and reconfiguration expenses.

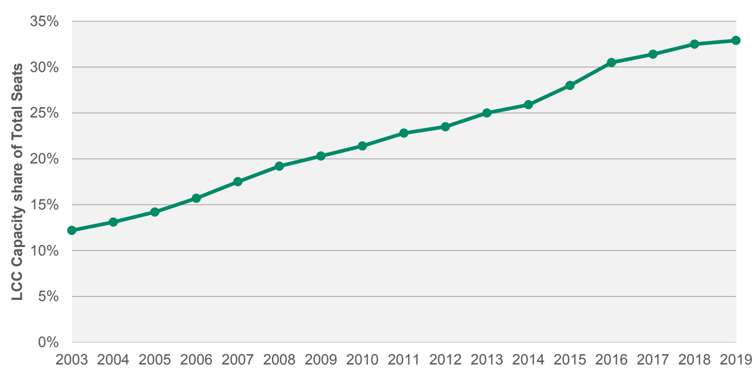
Lessors can also take steps to such as accepting lease rate reductions or prolonged payment deferrals in exchange for sale and leaseback arrangements on airlines' forward orders. As shown by several high-profile sale and leaseback deals in the first half of this year, including Delta Air Lines, Easyjet, Cathay Pacific, and many others, airline demand for liquidity created the opportunity for lessors to gain exposure to top-tier credits at reportedly better yields compared with the pre-Covid-19 environment.

Given the pressure on values and rates and limited market for remarketing, it is not surprising that lessors are reluctant to initiate aircraft repossessions. However, as more airlines enter bankruptcy and administration, repossessions will become more frequent, and lessors will face significant cost and revenue impacts as even new and younger aircraft will likely experience off-lease periods. When the market comes back, lessors will face a trade-off between securing aircraft onto lease at low rates or allowing longer downtime while waiting for rates to improve.

Lessors with obligations to take new aircraft deliveries may see lessees walking away from lease deals. The pressure to place new aircraft could lead lessors to retire some of their mid-life fleets prematurely, before realising the value they initially assessed. At the same time, the oversupply of new aircraft may significantly reduce demand for secondary aircraft, forcing mid-life aircraft lessors to reassess their asset valuation strategy and may turn to passenger-to-freighter conversions of applicable aircraft types to provide some relief.

Some pre-Covid-19 funding options may disappear, at least for a medium term, while others will have increased risk premiums. For example, while many asset-backed securitisation deals have been issued in recent

Figure 26: Annual global LCC capacity share of total seats



Source: ICAO; CAPA: Low-Cost Airports and Terminals Report; OAG years, this option may be closed in the near-to-medium term. After the global financial crisis, the market did not return for more than five years.

Growth demand driver: stimulation from low fares

One of the most significant drivers of pre-Covid-19 growth has been the increased proliferation of low-cost carriers (LCCs). LCCs subscribe to a different business model from that of the traditional full-service carriers (FSC) which enables them to attract passengers with lower fares because of their lower cost base. The general characteristics of the LCC model feature a standardised fleet type of single-aisle aircraft that operate at high-utilisation levels with short turnaround times in a point-to-point mode, often to secondary airports. They distribute sales primarily through direct channels and have eliminated many of the full-service customer offerings while debundling fares so that passengers pay for only what they need.

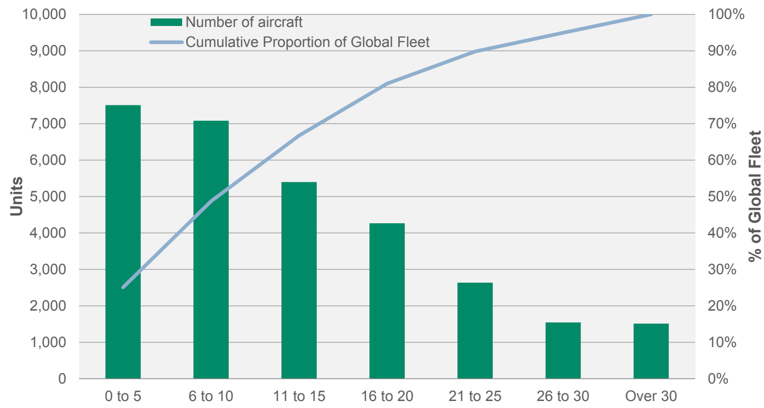
In 2019, LCCs accounted for 33% of the global market by seat capacity, according to data from OAG.

Covid-19 is a significant challenge to the LCC business model, which typically relies on high load factors and operating frequencies. Additionally, very few LCCs are government-owned or -linked, and no governments have offered aid to them in the way they have to FSCs. However, given the health of LCCs before the crisis, they – or at least the strongest among them – may not need as much help going forward. Those in a healthy position can take advantage of their strategy of driving down fares in their markets.

These low fares will allow them to stimulate a great degree of demand that will return during the recovery period, and put them on an equal footing with larger carriers which have also turned to fare-cutting as a mitigation strategy.

Given that Europe and the domestic market in the US should hold strong during reopening, LCCs are well poised to take advantage. Asia, in particular, has seen an uptick in domestic activity in the late summer of 2020, partially because of LCCs returning to activity.

Figure 27: Distribution of in-service passenger aircraft age



Source: CAPA Fleet Database Dec 2019; Alton analysis

Growth demand driver: market liberalisation

Ongoing market liberalisation stemming from the deregulation of the commercial airline industry in the late 1970s has allowed airlines to supply the demand as they see fit in markets they find attractive, with less government involvement. Not only has liberalisation enabled greater competition, it has also enabled greater cooperation among airlines.

The Open Skies Agreement has opened up more routes for competition, and laws about foreign ownership have been relaxed. Domestic deregulation has increased within specific markets, such as India, adding more domestic routes and, in so doing, increasing demand, particularly for narrowbody aircraft.

The overall effect has been a reduction of barriers to entry, enabling more new entrants, most notably LCCs which would not otherwise have been able to overcome regulatory constraints. LCCs have opened up more secondary destinations and added more point-to-point routes while driving down fares for consumers.

Iata determined that, in 2020, the number of unique connected city pairs will exceed 23,000, more than double the figure 20 years ago.

However, with Covid-19 severely impacting travel between regions and countries, we expect some of this progress to reverse in the near term.

First, governments worldwide have put travel restrictions beyond airlines' control, some of which are expected to remain in the near term as countries try to avoid unnecessary travel from bringing secondary waves of infections. As these restrictions are slowly lifted, we expect governments to maintain control over which routes are deemed operational.

Second, airlines worldwide have been asking for government aid to survive the fallout of the pandemic. Having infused financial support to airlines, governments will be more actively involved in the industry.

Replacement demand driver: retirement demand

An aircraft is retired when it reaches the end of its economic life, which is when the cost of operating and maintaining the aircraft exceeds its profit-making ability.

As mentioned previously, the useful life of an aircraft historically has been between 20 and 30 years. But retirements, in recent years, before the age of 25 have sometimes been motivated by part-out opportunities with attractive values (particularly for engines) compared with the available options for subsequent leases.

At the end of 2019, 19% of the fleet, numbering more than 5,600 units, was older than 20 years of age and, as such, are prime candidates for retirement in the coming years. Additionally, as seen in the accompanying chart, a significant volume of aircraft delivered 16 to 20 years ago remains in service; these demographics will cause retirements to increase over the next decade.

While the average retirement rate in the mid-1990s was about 0.6%, retirements reached about 2.5% of the global fleet in the 2009-2013 period. A combination of strong growth demand and a more modest fuel price environment has caused the slowdown over the past five years.

The more significant decrease in narrowbody retirement rates can be partly attributed to the 737 Max grounding because operators are forced to extend the operation of older aircraft that were slated for replacement by the 737 Max. Amid the Covid-19 crisis and beyond, a wave of retirements is expected to remove older aircraft from the global fleet earlier than expected. But while this may remove much existing metal from play, it does allow airlines and lessors an opportunity to reconsider their fleet make-up. Whether this means switching to newer, more fuel-efficient technologies or targeting aircraft to suit their most profitable segments, Covid-19 may be the push aircraft owners and operators need to replace and optimise their fleet to their specific needs.

Replacement demand driver: freighter conversions

Freighter conversion is also a driver of passenger aircraft demand for replacement. A significant proportion of the global freighter aircraft fleet – especially narrowbody aircraft - are conversions from passenger aircraft as opposed to purpose-built production freighters. Conversions are economically feasible when values of passenger aircraft decline sufficiently to make the investment attractive enough for freight operators.

Passenger-to-freighter conversion is only available for certain aircraft types and has served to extend the life and enhance the residual values of aircraft, though of course investment is required.

Boeing forecasts that more than 63% of the freighter deliveries expected in the next two decades will be passenger aircraft conversions. Recently launched conversion narrowbody programmes are providing attractive options – in late 2017, the first 737NG freighter conversion was completed, offering additional capacity and next-generation efficiency advantages.

The conversion programme for the A320/A321 marks the first conversion programme for an Airbus narrowbody. The first converted A321 is due to enter into service in 2020 with a capacity of up to 14 pallets and is expected to have demand as a 757-200 replacement.

For the 737NG and A320/A321 P2F programmes, the availability of attractively priced feedstock has been a limiting consideration. However, as Covid-19 forces airlines to accelerate retirements of older models, the freighter-conversion market will likely see an uptick in feedstock availability.

Light at the end of the tunnel

The aviation industry is going through unprecedented changes. The landscape will be forever altered and undoubtedly many players will emerge with much smaller operations or will not survive the crisis at all. While the fight for survival continues, industry players need to carry on with their medium-term planning and look for ways to bring cash in the door, reduce costs and keep operations running – all while managing a plethora of health safety issues for customers and employees.

Business-as-usual planning will not suffice. Companies must develop several plausible recovery scenarios and evaluate their financial stance and survivability in each of them. For each scenario, they need a clear action plan incorporating no-regret moves, strategic bets and a set of triggers to activate these actions as the situation evolves.

But there is light for many at the end of the tunnel. As countries gradually lift quarantine measures and selectively resume domestic and international travel, we are cautiously optimistic that the deep crisis phase may come to an end in the not-too-distant future.

In the Covid-19 overhang phase, expect further dips and rebounds as various global regions are impacted until a vaccine is widely available. While it is unclear how long this period will last, it seems increasingly likely that it may be at least 12 to 24 months until air travel settles down into the new normal.

At the same time, we are confident that players across the entire value chain who can take advantage of the shakeout will emerge from this crisis smarter, more focused and more risk-averse. For industry stakeholders, this means bracing for challenging times and managing ambiguity – but also an opportunity to come out of the crisis better positioned than before.

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Navigating the M&A integration process

Managing risk has never been more imperative as aviation businesses are charting their paths toward recovery – and the eventual resumption of growth – while eyeing emergent investment opportunities amid the Covid-19-strained global operating environment. Zeevo Group discusses the resources, processes and commitments required to manage successfully enterprise risk during the M&A integration process.

With a constantly shifting business landscape compounded by the effects of the Covid-19 pandemic and the uncertainty surrounding the industry's nascent recovery, mergers and acquisitions (M&A) can be a crucial tool for the long-term strategic growth of businesses, particularly in the case of aircraft leasing platforms, which are poised to enter new markets or augment their fleet portfolios.

Joey Johnsen, Zeevo Group chief executive officer, stresses: "The success of the integration process lies in the business's ability to extract maximum value from an M&A transaction."

Transactions in the leasing space require long-term planning and strategic integration to optimise returns. M&A transactions alter the risk profile of the combined organisation as existing risks evolve and new risks emerge during the integration process.

"In fact, the ability to effectively manage operational and internal control risks can be a deciding factor for the combined company's survival," asserts Johnsen. "It is imperative to identify and mitigate risks related to people, processes and systems as a key component of the integration process."

While the immediate focus during an integration of two companies is on external customers, vendors and employees, the post-implementation challenge requires building an efficient infrastructure to capture synergies, particularly in finance, accounting, governance and compliance.

"The complexities of the integration process often result in companies being overwhelmed by the process, focusing solely on the technical aspects of the integration, while assuming the control environment will be properly addressed," warns Johnsen.

While lessors may be well-prepared with effective risk management and internal control structures, supported by strategic planning and analysis, and trading teams, these structures are not likely designed to meet the needs of the combined organisation.

Johnsen explains; "The lack of focus on integrating and right-sizing the control environment is among the most common reasons why lessors fail to achieve synergy goals during the integration and post-M&A implementation phase."

Solid PMO/IMO

Embedding a controls team within the overall project team and developing an integration strategy for risk and internal control transformation will ensure the combined organisation successfully captures synergies and builds for the future.

Figure 1: Balancing compliance with process improvements and risk assessments

Figure 2: Risk and internal controls strategy informing decisions at all stages of integration process

"The integration planning must run in parallel with deal negotiations," stresses Johnsen, pointing to the need for leadership to ensure functional representatives from finance are at the table from the get-go.

"Establishing a dedicated finance arm of the project/ programme management office (PMO) or integration management office (IMO) to track milestones and identify and address identified integration issues is key to a successful integration," he adds.

Internal controls work stream

The internal controls work stream should include key risk and internal control professionals, with each focused on specific business process and technical work streams. The risk and internal controls strategy must be anchored in proactively addressing critical areas during the integration process by considering its impact on people, systems and processes.

"An effective risk and internal controls strategy will provide a guideline to govern decision-making related to risk and controls for the combined organisation, making it less likely for leadership to overlook critical areas and for decisions to be ad-hoc," elaborates Johnsen.

People

The effectiveness of the resulting business process can be significantly affected by culture. The internal controls team must take into account the combined entity's different cultures, risk tolerances and working styles in considering the adoption of new processes and controls to adapt effectively to the new risk profile.

Johnsen emphasises that analysing these differences and clearly defining risk and control objectives will result in an approach that the internal control team can adopt to "eliminate the common cultural obstacles and define the necessary changes in the combined organisation" that will bring cultures together, drive better control execution and ensure the effectiveness of the resulting processes.

Systems

Designing and implementing interim and bridge controls while addressing the to-be processes are the requisite steps to leverage system functionality effectively during the integration process.

"Understanding technology risks and ways to mitigate and control IT system development projects and applications, data quality and integrity are key to an effective final system integration," declares Johnsen.

By granting the right access to systems while restricting it where necessary, the internal control team will eliminate conflicting duties during the integration process. The team must also be tasked with the design and development of user monitoring processes to address the risk of uncontrolled access and resolve existing issues as part of implementing the new process and system design.

"Key stakeholders from across the business, who understand the data and its importance to the user community, must be involved from the get-go in the design of the to-be environment," stresses Zeevo Group's chief technology officer, John McCartney.

Figure 3: IT management framework delineates the roles and capabilities of the information technology organisation in terms of processes, tools and performance measures

These stakeholders' understanding of differences affecting data integrity, as exemplified by work orders, a key input to the asset unitisation process where data elements are usually different among the entities, will help arm the combined organisation with appropriate controls for data cleansing, conversion and validation processes, ensuring there are no issues with asset unitisation in the to-be data model down the line.

Processes

The differences in various business processes, including external and management reporting, will affect the end-state operations of the combined organisation. The internal control team must evaluate these differences and determine the desired process and procedure for each relevant business process.

The internal controls team should collaborate with the finance organisation to develop an accounting policy playbook that evaluates differences and their impact on data conversion, transaction recording, and operational and financial reporting.

Some key questions the internal controls team should ask during design to understand these differences include:

- how are items classified when they are initially recorded – are they considered inventory, or are they capitalised on the balance sheet as financial assets?
- how are purchase requisitions (PRs) and orders (POs) maintained in each companies' respective system(s)?
- what PRs and POs need to be transferred to the combined company's system of record (eg, open PRs and POs only, how much historical data will be brought across)?
- what does the new signing authority/delegation/ grant of authority matrix look like, and at what level of detail must supporting documentation have to make purchasing decisions, investment decisions, etc?

The internal control team should clearly understand the differences between each entity and assist in the creation of routines that bridge these differences. In addition, the internal control team assists in enabling the development of to-be processes based on the combined entity's policies, procedures and external/internal reporting requirements.

Clearly, understanding and documenting the process differences and affirmatively making a decision about the end-state processes and procedures provides the foundation to achieve completeness and accuracy of information and reporting.

Finance, treasury and tax are central to a merger's success

The chief financial officer's (CFO) organisation, along with its finance, treasury and tax teams, are central to a merger's success and face numerous challenges during the integration process.

"While assisting the finance transformation efforts for a range of publicly listed, global organisations across industries, the first priority I always communicate to client teams is to determine the priority plan for things needing to change by arraying the integration responsibilities across the dimensions of size, risk and effort needed," reflects Johnsen.

Typically, the highest value, lowest risk, and the easiest to analyse responsibilities should be addressed first. Then, successive waves of responsibility should include those that are of lower value and need more time to analyse and implement to minimise risk.

However, the entire process can be altered depending on the type of entities merging and their individual sizes.

Governance, risk and compliance

An effective, internal control environment provides confidence to leaders that their organisations can meet the demands of changing environments. Lessors must comply with regulations, respond to events of non-compliance and improve processes around information systems that support governance, risk and compliance.

"An ounce of prevention is worth a pound of cure," explains Debbie Anderson, Zeevo Group chief accounting officer and internal controls expert. "Sound governance, internal controls and compliance practices demonstrate credibility to regulators, investors and analysts."

Moreover, sweeping regulatory mandates, such as Sarbanes-Oxley (US legislation from 2002 to combat corporate fraud), complicate the integration process by adding to the complexity already created by industry-specific and country-specific regulations.

Contract compliance

Strategic alliances are increasingly important in today's business environment. Extended business relationships, formed through partnerships, vendor relationships and outsourcing arrangements, are pervasive and have replaced the traditional closed-end business structure of yesteryear. This collection of relationships is often referred to as the "extended enterprise".

Aircraft lessors increasingly:

- rely on original equipment manufacturers to manufacture and source aircraft and engines;
- depend on advisers to market, sell and deliver on promises to lessees and prospective lessees; and
- use vendors to provide support services.

"Organisations must understand the complexities and nuances of a range of business contracts, processes and procedures while maintaining and improving relationships with clients and business partners throughout the integration and transition into the combined entity," stresses Anderson.

Accounting policies

Companies often underestimate the time and expertise required to standardise accounting policies for the merged organisation during the integration process.

A vital step in an integration of two companies is to reconcile accounting policy differences and identify short- and long-term plans to address any underlying issues.

Bringing in accounting policy experts to consult with the new entity's leadership usually helps to put in place a solid plan and timeline for the unification of the differing policies and processes:

- develop a new regulatory reporting calendar for the combined organisation; and
- recognise data strategy issues and accounting policy differences early to fix any underlying issues.

Cash management

During the integration process, the lack of controls around cash management often will lead to fraudulent activities, missed filing deadlines and improperly accounting for transfer pricing transactions. Treasury is primarily about liquidity and ensuring your company has enough cash to survive – cash is king! – it is the life/heart of any organisation, and treasury keeps the heart pumping.

It is critical to reconcile cash and bank account balances on day one while implementing proper cash management controls. Companies also need to integrate hedging and foreign exchange (FX) cash management strategies while addressing the cash flow needs of the newly combined business:

Figure 4: The extended enterprise

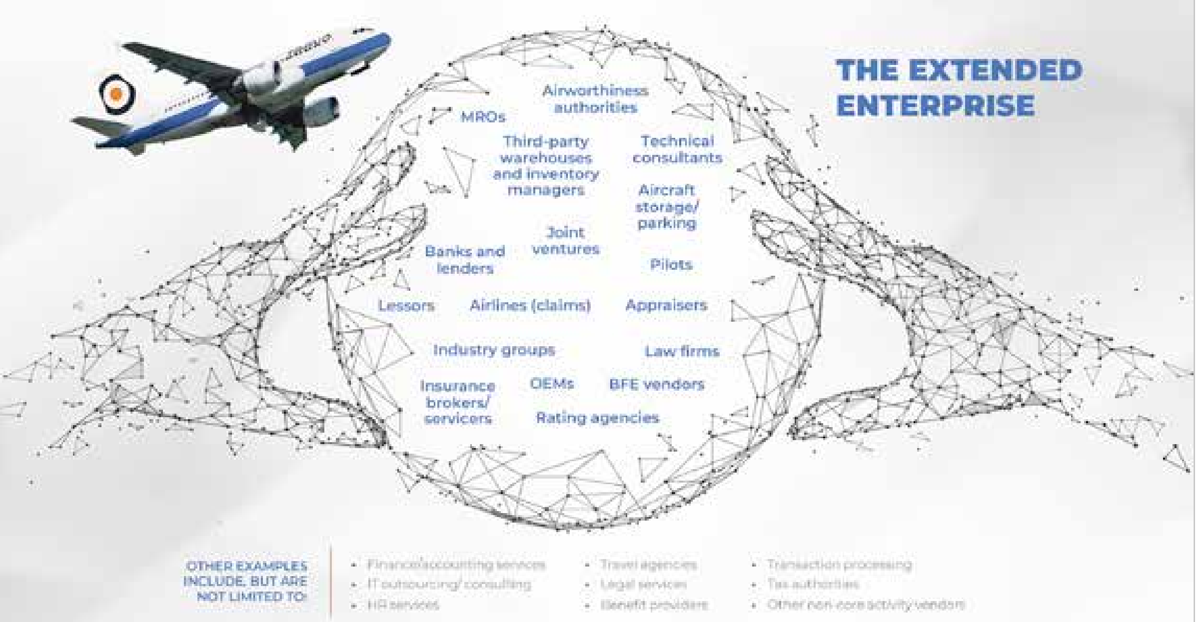


Figure 5: Controls around treasury, accounting and cash management

- determine who has cash management authority and reconcile cash and bank accounts on day one; and
- integrate hedging and FX cash strategies and develop transfer pricing accounting procedures.

Paul McDowell, Zeevo Group senior adviser, singles out contingent liabilities as an "all-too-often overlooked aspect of cash management". McDowell explains that there are usually several contingent liabilities that might be unnoticed.

"Even with smaller deals, you will find contingent liabilities with credit card programmes, certain contract obligations and operating leases. Since these liabilities are not recorded on the balance sheet, they get overlooked and are sometimes unaccounted for during due diligence," he says.

In addition, during the integration process, integration teams must account for bank accounts, bank relationships, potential rating agencies, venture capitalists, investors (debt and equity) and ongoing transaction execution – all within a well-controlled environment.

Reporting

It is critical for leadership to understand the limits of and adjust their expectations for reporting post-acquisition, while carefully planning for data migration and storage of historical financial information to allow for comparative and performance analyses:

- understand limits for reporting post-acquisition and plan for the first combined set of reports; and

Figure 6: Synergy analysis identifying the incremental flows that impact the valuation of the target company

Figure 7: Zeevo's comprehensive approach to integration execution

- communicate the expected synergy capture to the finance functions during budgeting and planning activities.

"Leadership must take early action to develop a regulatory reporting calendar and an interim approach to data strategy, bridging differences, and planning for a longer-term fix," adds Anderson.

Accounts receivable
Improperly monitoring accounts receivable (AR) during the integration process will result in increased enterprise risk and negatively impact the new combined entity's cash flows.

"Organisations must ensure a clean cut-off of lockbox and remittance guidelines to limit post-day one AR reconciliations," stresses Anderson.

Companies can successfully manage enterprise-wide risk with day one credit and receivables reporting until one customer, order management and AR data warehouse exists for all customers:

- manage enterprise-wide risk with day one credit and receivable reporting; and
- ensure a clean cutoff of lockbox/remittance guidelines to limit post-day one accounts receivable reconciliations.

Cost synergies
One of the key benefits of merging two companies into one entity is cost synergies. However, integration teams often fail to recognise the importance of unifying internal procurement policies and expense approval processes immediately post the merger. In turn, expenses and capital expenditures can run afoul and the combined leadership's ability to negotiate competitive contracts with vendors can be hampered.

The standardisation of purchase order, invoice and employee expense approval limits and processes for all levels across the new organisation should be top of mind for integration teams. In addition, it is critical to develop consistent capital expenditure approval process and reporting for the merged organisation, and review vendor contracts to reflect the new merged legal entity:

- take advantage of the merger to renegotiate vendor discounts with terms which will improve cash flow; and
- standardise purchase order, invoice and employee expense approval limits and processes for all levels.

"Leadership must take early action to develop a regulatory reporting calendar and an interim approach to data strategy, bridging differences, and planning for a longer-term fix."

Debbie Anderson, chief accounting officer and internal controls expert, Zeevo Group

Zeevo Group can assist
An effective, internal control environment provides confidence to leaders that their organisations can meet the demands of their changing environments.

With extensive backgrounds in finance, technology, operations, risks, as well as all aspects of aircraft leasing and M&A transactions, our team of industry experienced professionals are well versed in assisting CFOs and executives across their enterprises in strengthening their internal control environments and risk-related decision-making processes.

Zeevo Group's multidisciplinary M&A service offerings can help unlock the value of an investment by touching all dimensions of shareholder value through our road-tested approach to executing the integration process.

We have assisted companies across industries in achieving success by ensuring the integration process is executed as needed against the different M&A strategies.

For more information, visit **zeevogroup.com**.

Navigating volatility and distress

Mark Degnan, director, Deloitte Financial Advisory Services (Restructuring), says acting early will provide more options to your business.

In the midst of Covid-19, the aviation sector has been one of the hardest hit with an all but collapse in passenger numbers after widespread travel bans and global lockdowns. As of June, the International Air Transport Association (Iata) expects the airline industry to lose up to $419 billion, with 7.5 million flights having already been cancelled.

Given the uncertainty surrounding a vaccine for Covid-19 and reopening of travel routes generally, estimated losses could increase further, while impacting all stakeholders to include airlines, lessors and lenders within the sector.

While airlines worldwide slash employment numbers, seek government support and deferrals of lease payments, many stakeholders need to look beyond the short-term effects of Covid-19, and at their options for long-term survival.

With this landscape in mind, the focus of this article is to outline some of the restructuring options available to all stakeholders within the sector, and through some recent cases and our market experience outline the range of processes which can be accessed for a successful conclusion and restructure of a business in the current stressed environment.

Key challenges

The key challenges in the sector have been discussed by many commentators and experts since the onset of the current pandemic, and while there is no certainty as to when the sector will reopen for business, there is a general consensus that it will remain in a state of distress for a considerable period of time.

While we all hope for a vaccine in the near future, many sectors will suffer the long-term effects of a global economic downturn and subsequent lack of consumer confidence, which is key for any sector to recover.

The key challenge for the sector at present is a significant liquidity issue, on the back of a complete collapse in revenue.

In the immediate aftermath of the pandemic, many airlines, not anticipating the length and depth of the crisis, drew down on available credit facilities while seeking to secure further funding by providing unencumbered aircraft as security to lenders, resulting in debt-laden balance sheets and a narrowing ability to raise further debt on the back of a smaller asset pool.

To prevent events of default and insolvency in the sector, airlines require significant creditor and state support ultimately to survive the crisis. Payment holidays and deferrals have become normal course; however, the scale of the underlying issues has resulted in some creditors initially receiving requests for three months, with such requests now being extended to twelve months and beyond.

While airlines are seeking such deferrals on their individual fleets, the lessors have received multiple such requests, which has placed significant pressure on the leasing sector and their funding partners.

Key stakeholders

The principal stakeholders within the sector which will be engaged in the restructure processes will be airlines, lessors and secured creditors, with original equipment manufaturers playing a key role in helping both participants arrest capital expenditure commitments in the near term.

The airlines have been front and centre of the immediate impact on trade and will continue to be affected by the inability to generate revenue for a considerable period of time.

Beyond the airlines, the aircraft lessors are also facing significant pressures, across multiple portfolios, to engage in short-term restructures, which in turn creates issues for the secured and unsecured lenders that have provided funding for aircraft.

The current level of commercial aircraft subject to lease is estimated to be about 40%, with Ireland holding a 60% share of the global leasing market. The relationship between airlines and lessors is a typical debtor creditor relationship. In the current crisis, airlines' ability to generate revenue has been decimated with lease defaults and/or deferrals, as referred to above, becoming a more regular feature of the market.

Some aircraft lessors have cash reserves to enable them to ride out the current crisis for some time. Many investment-grade aircraft lessors were fortunate to access the capital markets up to the end of the first quarter of 2020 in private placement, bond issuance or asset-backed securitisations.

"The current level of commercial aircraft subject to lease is estimated to be about 40%, with Ireland holding a 60% share of the global leasing market."

Mark Degnan, Director, Deloitte Financial Advisory Services

The secured lenders in this sector previously would have held comfort in loan-to-value metrics where they would lend to a maximum of 80% of an asset value and created a buffer against their debt. However, given the collapse in the sector, asset values will have diminished, at least in the near term, and created a higher level of risk for the secured lenders.

The aforementioned liquidity challenge will in itself create other challenges for airlines and lessors with regards meeting underlying financial and performance covenants, which regularly form part of finance and leasing transactions. Some of these risks are:

Risk of non-payment – risk of default

Based on Iata's impact assessment (March 2020) and its June 2020 report, 75% of airlines have less than three months' cash to cover costs, while net debt to earnings before interest, taxes, depreciation, amortisation and restructuring or rent costs (Ebitdar) in 2019 was 4.6 times, this would be negative in 2020 and maybe 16 times in 2021.

Based on such figures, the risk of non-payment or default in the sector is at its highest levels, and where deferral agreements or restructures have not been agreed, it may not be long before a number of other airlines default on their payment obligations.

Given the ongoing uncertainty in the sector, airlines will find it difficult to raise debt or equity, and if either is available, it will be at a higher price than that was previously achievable within the markets.

Financial covenants – risk of default

Financial covenants are a key term in any finance and leasing agreement on which the lender can rely. Such covenants and their underlying tests, in normal circumstances, can give a lender early warning signs that a customer is not performing as planned.

The principal test which lessors may rely on, and which may now be under the most scrutiny, is the loan-to-value test to ensure the lender's security covers the remaining debt of the customer. Given the current distress in the market, the potential number of insolvencies, and subsequent impact on asset values, this will heighten the risk of covenant breaches for lessors.

Maintenance/holding covenants – risk of default

Given the number of fleets that have been grounded, airlines also must be cognisant of the non-financial covenants of their underlying agreements and specifically the maintenance covenants for aircraft not in use.

Many leasing agreements have specific covenants that a lessee must undertake to maintain and preserve the underlying secured assets. As multiple fleets have been grounded, the underlying cost of meeting such covenants is high for lessees and engagement with the lessors is crucial to ensure a technical default does not occur.

Addressing the underlying concerns – what are my options?

Early engagement with specialised advisers is extremely important to allow all stakeholders determine the optimum strategy to protect value in the business and its underlying asset base. Given the levels of distress in the aviation sector, engaging early and therefore having a suite of options should be the preferred choice versus a lender being "forced" to take a position because of an event of default.

Traditional options available to secured lenders in an event of default may also now be limited, in that repossession of aircraft from a practical, logistical and value perspective may not be a preferred route to recover funds. Lenders and lessors will have to review each of their portfolios on a risk-appropriate basis and take action where there is a lack of engagement or an appropriate strategy to meet current market issues.

"Ireland is fast becoming a preferred base for complex restructuring processes and this has been seen most recently in the case of Nordic Aviation Capital."

Mark Degnan, Director, Deloitte Financial Advisory Services

Restructuring options

There are a number of restructuring options available to companies across various jurisdictions where a court process may be used to negotiate formally a preferred outcome. In this article we will focus on Part 9 Scheme of Arrangement (Ireland), Examinership (Ireland) and Chapter 11 (US), in addition to reviewing briefly some direct stakeholder approaches which can also be considered.

Part 9 Scheme of Arrangement – Ireland

Ireland is fast becoming a preferred base for complex restructuring processes and this has been seen most recently in the case of Nordic Aviation Capital (NAC) DAC, which successfully applied to the Irish courts for a restructure of its positions under a Scheme of Arrangement, after negotiations with its principal stakeholders.

While NAC is the first such restructure in the aviation sector, the Part 9 Scheme of Arrangement process has been successfully used by other large multijurisdictional entities such as Ballantyne RE plc, an Irish reinsurance special purpose vehicle, to restructure its reinsurance obligations and $1.65 billion of senior New York law-governed debt.

The Nordic scheme effectively provided the company with a 12-month standstill from its creditors for certain payments of interest and principal on its borrowings. In addition, and critically, the scheme also waives a number of covenants, such as those mentioned previously, which likely would otherwise have been breached as a result of the current market distress.

The scheme was implemented across 89 different facilities governed by a mixture of English, New York and German law and reflecting a variety of different financing structures.

Commenting on the process, NAC stated in a press release on 9 July: "Whilst NAC entered the current global crisis in a strong liquidity position, the fall out in the aviation sector as a result of the Covid-19 outbreak resulted in the Company receiving requests from the majority of lessees seeking to defer some or all elements of their lease payments. To mitigate this, the Company has been liaising with its lenders and their advisors since April to agree a standstill on and deferral of its debt obligations. This agreement will ensure NAC's stability as the aviation market gradually recovers."

Given the positive feedback in general from the Irish courts about such schemes, and the speed at which the process can be implemented, we believe Irish-led schemes will become more prevalent given the concentration of lessors based in Ireland and the relative flexibility of the process.

What is a Part 9 scheme?

The process is an Irish Companies Act procedure, which can be proposed by any company subject to the jurisdiction of the courts of the Republic of Ireland. This can be achieved through centre of main interest (COMI) or by virtue of the parties governing law being in Ireland.

The process is very flexible and allows a company to compromise with its members or creditors (or any class of them), subject to it being deemed fair for all classes subject to the restructure. If the scheme is approved by the requisite majority and then sanctioned by the court, it will bind all parties within the relevant class, whether or not they voted in favour of what was proposed.

A key point for this process is that it is not a formal insolvency process. A company does not have to be insolvent, or facing imminent insolvency, before it can propose a scheme. No insolvency practitioner is appointed, and the company directors retain control throughout the process.

However, compared with Irish Examinership legislation, there is no statutory moratorium available with regards ongoing payments during the process, and therefore a company should always be aware of its underlying liquidity position throughout such a process.

The process

Before the launch of the formal scheme, negotiations and commercial terms will be discussed and agreed and a "lock up" formalised to ensure the scheme meets the requisite approvals.

This period of negotiation is fluid and will be dependent on a number of factors to include experience of advisers, engagement of all creditors and complexity of the company's funding structures which may be subject to the scheme.

In the case of NAC, the process commenced in April and concluded in July, with the court process taking about 28 days from application. Therefore, the lock-up period in this case was about three months, which when considering the broad range of creditor classes, quantum of debt and company structure, demonstrates the ability to restructure quickly with adequate engagement from all stakeholders.

At the court application stage, the company will seek to have the matter admitted to the Commercial Court and seek directions in regards the convening of the creditors' meeting. Every notice summoning a meeting of creditors must be accompanied by a scheme circular explaining the effect of the scheme and stating any material interests of the directors of the company and how the directors would be affected by the scheme in so far as it differs from the like interests of other persons.

Where the scheme affects the rights of debenture holders, a similar explanation in relation to debenture trustees must be given.

Once sanctioned by the courts, a copy court order must be delivered to the Companies Registration Office (CRO) within 21 days of the order being made by the Commercial Court and the scheme takes effect immediately on delivery of copy order to the CRO.

Voting and sanction

It is a condition that a majority in number representing 75% in value of the creditors (or each class of creditors) present and voting at the relevant meeting, either in person or by proxy (the Special Majority), votes in favour of a resolution agreeing to the scheme before the scheme can become binding.

Provided the Special Majority approves the scheme, it is immaterial that those present at the meeting (whether in person or by proxy) may only constitute a fraction of those entitled to vote.

Once approval has been obtained at the scheme meetings, the Commercial Court will be updated and directions sought in relation to the sanction hearing. At the sanction hearing, the Commercial Court must be satisfied that:

- scheme meetings were properly constituted, convened and held;
- proposed scheme approved by relevant majority(ies);
- the prescribed majorities acted in good faith; and
- the arrangement is "fair and equitable".

Subject to these requirements being met, the court may then proceed to approve the scheme, or request further information from the applicant company in order to do so.

Another key point that is relevant to an Irish-based scheme is in seeking recognition under Chapter 15 of the US Bankruptcy Code for foreign-based restructures, and to date such schemes have been approved under the said code.

With the ever-increasing potential for a hard Brexit, the recognition of Irish schemes across the European Union (EU) is also of considerable importance, where there is uncertainty regarding the future recognition of UK schemes in the EU, which may also be accessible to companies in the sector.

The key benefits of an Irish Part 9 scheme are in the flexibility and speed of the process. Based on recent applications, the costs applicable to an Irish scheme are considerably less than those which may be incurred in say a Chapter 11 process, which, given the current liquidity and market issues, can only be a further reason for its consideration.

Examinership process – (Ireland)

While Part 9 schemes in Ireland are a consensual process led through the courts, there is an alternative court process in Ireland, which can also be used to restructure a business.

Examinership is an Irish Companies Act procedure, which can be proposed by any company where it can establish COMI in Ireland. It permits a company to compromise with its creditors and propose a viable scheme of arrangement to the court. The appointment of an examiner provides the applicant company with an automatic moratorium from all its creditors, for balances due and owing up to the date of the application.

Any amounts falling due during the protection period, including borrowings or leasing obligations, must be met and an applicant would have to demonstrate they had adequate cash flow for the protection period to meet such costs.

> *"With the ever-increasing potential for a hard Brexit, the recognition of Irish schemes across the European Union (EU) is also of considerable importance."*
>
> **Mark Degnan**, Director, Deloitte Financial Advisory Services

The scheme is only required to be approved by one class of impaired creditors, subject to no creditor being unfairly prejudiced by the scheme and it is a process that can be applied for by companies which are insolvent or likely to become insolvent.

The scheme must demonstrate that all creditors would achieve the same or a better return from such a process versus a liquidation of the company. Such a scheme of arrangement must be prepared and approved by the Courts within 150 days of an application for Court protection being made. (This was previously 100 days, but the Irish government passed temporary legislation in August to extend this period to 150 days, given the current global economic issues. This extension will apply to applications made prior to 31 December 2020).

Initially, the appointment of an examiner, which is normally a recognised insolvency practitioner, is on an interim basis, on foot of an application by the company, and would be by way of an ex-parte application with no advance notification required to creditors. A full hearing would be set down for about one week post-petition. Parties would be put on notice of the hearing and an objection could be made to the appointment at this time.

In order for a company to apply for court protection, an independent experts report (IER) is generally required as part of any petition, the contents of which are detailed under s.511 of the Companies Act 2014. In summary, such a report would provide an overview of the business and reasons for its financial difficulties, and the independent expert must opine on the viability of the business to continue as a going concern and what conditions would allow for this.

Where the petitioner is a creditor (such as a secured lender), it should be possible to file and obtain protection without an IER, on the basis that an IER would be filed within a period of 10 days during which period the directors would be required to assist in its preparation.

The key benefits of examinership, versus those of a Part 9 scheme, are that an examiner's scheme can be negotiated throughout the protection period, and up until its presentation at the various meetings of creditors versus a lock up most likely having to be negotiated in advance of a Part 9 process to ensure its success.

In addition, the company automatically is protected from its creditors for all balances due and owing prior to the appointment of the examiner, whereas in a Part 9 scheme, no such moratorium exists and a creditor could move against a company where a default position arises.

From a lender perspective, an examiner (who when appointed is an Officer of the Court and independent of the company) would be in a position to ensure no assets/limited assets moved during the protection period, to include cash balances which may be subject to a secured position and protect against "cash burn", where a company seeks to meet payments in a stressed scenario.

Examinership facilitates cross-border restructuring because it is a specified insolvency process under Regulation (EU) 2015/848 on insolvency proceedings and subject to limited exceptions, the appointment of an examiner and any proposals under a scheme of arrangement for the company which have been confirmed by the Irish Court are automatically recognised and binding throughout the EU, apart from Denmark.

Examinership is generally a recognised process in the United States under the US Chapter 15 recognition process and is a more cost-effective process than Chapter 11.

> *"Chapter 11 bankruptcy is the most complex of all bankruptcy cases. It is also usually the most expensive form of a bankruptcy proceeding."*

Mark Degnan, Director, Deloitte Financial Advisory Services

While there are a number of benefits to an examinership process, it is not without certain drawbacks, where complex companies with cross-jurisdictional positions may not meet the COMI requirement. There may also be a significant funding requirement during the examinership process to maintain the company as a going concern, which could require external financing from existing lenders. Additionally, if a scheme is not agreed within the period, the courts may order the winding up of the company, if deemed just and equitable.

Chapter 11 – (US)

Chapter 11 is a form of bankruptcy that involves a reorganisation of a debtor's business affairs, debts and assets, and for that reason is known as "reorganisation" bankruptcy. Companies generally file Chapter 11 if they require time to restructure their debts. This version of bankruptcy gives the debtor a fresh start. However, the terms are subject to the debtor's fulfillment of its obligations under the plan of reorganisation.

Chapter 11 as a process has been used heavily within the aviation sector for many years with recent filings under Chapter 11 for LATAM, the Chilean-based airline, Avianca and Aeromexico, and it is envisaged that a number of other such applications will be forthcoming in the future.

The business is not able to make some decisions without the permission of the courts. These include the sale of assets, other than inventory, starting or terminating a rental agreement and stopping or expanding business operations.

The court also has control over decisions related to retaining and paying attorneys and advisers and entering contracts with vendors and unions. Finally, the debtor cannot arrange a loan that will commence after the bankruptcy is complete.

Chapter 11 bankruptcy is the most complex of all bankruptcy cases. It is also usually the most expensive form of a bankruptcy proceeding. For these reasons, a company must consider Chapter 11 reorganisation only after careful analysis and exploration of all other possible alternatives.

Non-formal processes – consensual negotiations

Consensual negotiations should be the default starting position for companies in distress and we have seen a number of such positions in the market, with airlines, for example Azul (Brazil), seeking direct deferrals or payment holidays from their lending and leasing creditors.

While such negotiations can yield quick results, in most circumstances they will not produce a long-term viable restructuring plan, which given the depth of distress in the market will be required.

In addition to the lack of long-term restructuring outcomes, where each creditor is approached individually, some creditors may hold out on agreeing any terms while they await the outcome of negotiations with other creditors and may hold out for what they believe is a better return for them, thus making the process difficult to achieve optimum results.

Furthermore, this process can be expensive and time-consuming for management of the company seeking the consensual agreements of its creditors, with individual engagement and negotiation taking place with each party on a standalone basis and each agreement having to be documented and formalised on an individual basis also.

Given the heightened liquidity risk in the sector already, incurring significant costs in a non-binding process could further add to a company's insolvency risk and

create an event of default prior to all agreements being put in place.

With this in mind, it would be preferable for some level of creditor group negotiation in this scenario to ensure the company has the best chance for survival.

Ad-hoc groups

The formation of an ad-hoc group of creditors, motivated as a group to achieve a long-term restructuring of a business, is an alternative approach to individualised engagements, and has been used successfully in many cases.

The intention of such a group is to negotiate a viable restructuring plan for the business, which can then be brought to a wider body of creditors for approval. This in itself is difficult in normal circumstances, and given the structure of the airline sector, where different groups of creditors will have differing levels of security and positions, achieving consensus for all creditor groups through one ad-hoc group would be challenging.

While providing a benefit of streamlining processes, the informality of the group and narrowness of the focus on one class of creditor is not the most effective route to achieve a long-term and viable restructure. However, it may act as a catalyst for a company to move toward a process of formal restructuring and act as a sounding board prior to seeking an overall lock up of creditor positions.

INSOL Statement of Principles for a Global Approach to Multi-Creditor Workouts (2000)

Coordination committees

Given the complexities highlighted above in the structure of the aviation sector, its key stakeholders, cross-jurisdictional requirements and complex funding positions, a coordinated approach to restructuring should yield the best results for all parties.

Under the above statement of principles, coordinating committees form a key part of multicreditor workouts in cross-jurisdictional processes and should be adopted globally. The use of such committees has been proven to enhance a restructuring process for all parties in multiple sectors.

To assist with the coordinated approach, it is usual for the relevant creditors to appoint one or more representative committees to progress dialogue with the debtor and to help manage the evaluation process and the standstill arrangements. Through the committee, the company can engage in in-depth discussions about its financial position and share information relevant to the restructuring.

While the ultimate commercial decision on whether to accept a proposed restructuring remains with each individual creditor, the intention of such a committee is that reaching an agreement with them, having the members consisting of some or all of the most significant creditors of the company, should indicate that the proposal stands a good chance of being acceptable to creditors as a whole.

Coordinators are best described as facilitators of the negotiation process and coordinators of the provision of information to the relevant creditors (with appropriate professional advice). The appointment of coordinators should, in any case, be for the convenience of the parties and the efficiency of the process.

As part of the process of forming a committee, specialist advisers, both financial and legal, would be retained by the committee, and while not acting directly on behalf of each creditor, they will provide assistance in streamlining the provision of advices generally and remove an element of duplication where each creditor would normally appoint their own individual adviser (the formation of a committee does not preclude a creditor from still seeking further independent advices). The company seeking the restructure will pay the professional fees associated with the committee advisers, but may not be willing to pay individual creditor costs.

One of the principal advantages of using coordinators is that it helps to ensure that all the relevant creditors receive the same information and advice during the restructure process. For the company, the benefit of a committee is that it offers a more efficient and reliable process for pursuing restructuring negotiations with its creditors. Costs should also be reduced by needing to fund only one set of adviser's fees.

Given the current scale of distress in the aviation sector and with multiple stakeholders involved in each potential restructure (airlines, lessors and lenders), the use and formation of such committees can only benefit all parties and are well suited to the structure of such processes.

Conclusion

It is clear that airlines, lessors and lenders at this time are facing significant short-term challenges within the aviation sector, and key strategic decisions will be required for the long-term future survival of many.

Acting early in a time of distress will allow each business and its management team make the most appropriate decision for their continued success and, in doing so, maximise the number of options available to them, whether direct stakeholder negotiation or creditor-supported formal restructuring processes.

Given the underlying liquidity challenges for all parties, by developing an appropriate options analysis and engaging with creditors, a business can successfully navigate this period of volatility.

Deloitte's restructuring advisory team in Ireland, supported by our wider aviation finance services (including tax, risk and accounting advisory teams), is best placed to advise clients in navigating the current trading environment. In addition to our local expertise, Deloitte's wider global team allows us to consider all available processes, across relevant jurisdictions through the preparation of a robust options analysis and cross-border supports.

We have already advised a number of companies in seeking available options and have led a number of coordinating committees in cross-jurisdictional restructures for secured lenders.

Mark Degnan is a director in Deloitte's restructuring advisory department with 15 years' restructuring experience.

Operating lease negotiations in wake of Covid-19

Stephenson Harwood considers what may become the "new normal" in operating lease negotiations after the impact of the global pandemic, taking a look at the lessons learned by counterparties and what they will be looking for as part of their aircraft leasing arrangements.

The Covid-19 pandemic has presented significant and unprecedented challenges for the aviation sector. In what many believed to be a resilient industry, all of the players – airlines, lessors, financial institutions and other stakeholders – have been racing to take steps to keep their operations in balance and find solutions in the face of an extraordinary level of restrictions, which has drastically limited both capacity and demand for global air travel.

Some measures were immediate: extending the validity of frequent-flyer miles, grounding and storing aircraft in a cost-efficient manner, new catering styles for inflight meals. Some will require time to implement: rethinking cabin layouts, maximising cargo efficiency, dealing with contract terms that simply do not contemplate restrictions of this scale.

The aircraft leasing and financing industry has well established and widely accepted documentation, prescribing protocols for all manner of circumstances. This article is an attempt to identify which aspects of the documentation are likely to be reassessed and negotiated in more detail as the industry recovers from the initial shock of the crisis.

What key lessons have been learnt?

In the first half of 2020, travel restrictions on an unprecedented scale brought air travel almost to a standstill. With little to no passenger income, many airlines had no choice but to request waivers or deferrals of rent, maintenance reserves and other routine payments.

The resulting discussions have caused lessors and investors to look beyond the immediate cash-flow problem and to consider how they may protect both the value and integrity of their aircraft assets by reviewing their rights and remedies under their lease agreements as a whole.

As airlines burn through cash reserves and forecast an inability to make upcoming lease payments, their leasing and financing counterparties have, with an eye on surviving the crisis, been flexible, cooperative and have generally not exercised their contractual rights after default. Rather, they have agreed short- to medium-term deferrals of rent and revised repayment arrangements, in the hope that such measures will facilitate the healthier airline's recovery and continued operation.

Almost without exception, lessors have been reluctant to take steps to terminate leasing arrangements and repossess aircraft in a market where there are limited alternative operators with which they may place their aircraft afterwards; nor is there an abundance of new purchasers interested in taking ownership of additional aircraft.

As a result, airlines are starting to consider flexibility within their leases as their new normal, with an ability to compel parties to come to the table for contingency planning and crisis management crucial to their and the sector's survival.

What effect might these lessons have on future lease negotiations?

Lease payments

Airline earnings will continue to be depressed for the foreseeable future, which means that airlines will continue to encounter problems in meeting their ongoing lease payment obligations. Given the relative absence of a secondary market, it appears almost inevitable that significant rental deferrals, rental haircuts and utilisation-linked rentals will continue to be negotiated by leasing parties.

In response to the existing short-term relief being provided by many lessors in the form of rental and other lease payment deferrals, airlines will be considering how they may best meet their ongoing lease payments in a post-Covid environment.

Assuming that passenger air travel returns to some level of normalcy in the longer term, one method of managing the outgoings of operators in the interim could be for lessors to offer airlines the option of leasing aircraft for longer lease terms, spreading the payment of any deferred amounts across an extended period. This may allow lessees to free up much-needed cash as they recover in the short to medium term, and service their more immediate payment obligations to reduce the risk of future default or deferrals across their portfolios.

For lessors, such arrangements may have the benefit of providing a more certain and long-term revenue stream, and delay the need to remarket an aircraft, which may otherwise be approaching the end of its current lease term with limited prospect of placement with a new operator or purchaser. How leasing parties deal with the economics of such extended lease period to reach a mutually acceptable outcome will vary on a case-by-case basis.

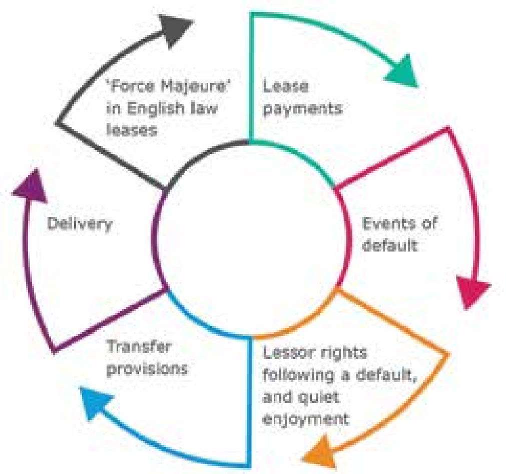
Another concession lessees may increasingly look for is the ability to substitute cash security deposits or maintenance reserve payments with standby letters of credit.

Lessees are likely to want to incorporate mechanisms into their leases that allow for more flexible rent payment terms, triggered at the option of the lessee and/or specific events or circumstances.

Events of default

Lessors and airlines have paid close attention to the circumstances in which Covid-19 and the problems that come with it can bring an operator into default territory under its aircraft lease agreement.

Where to expect negotiation in your lease agreement:



Covid-19 has and is likely to continue to force a wave of restructuring and streamlining of airlines' businesses and corporate groups. As a result, airlines and, indeed, lessors may be reconsidering the scope of the usual insolvency and similar events of default.

For example, parties may wish to remove broadly-defined insolvency-related events of default which are triggered where, for example, the lessee initiates insolvent restructuring, and instead rely on a more prescriptive set of circumstances (such as the formal instigation and survival of insolvency proceedings) which can be objectively determined.

Lessees may also look more carefully at their general cross-default and financial indebtedness triggers, to limit the domino effect of a default under one leasing structure leading to the collapse of multiple others, particularly where the lessee is otherwise able to carry on its business and perform its obligations under its remaining leasing structures.

Lessor rights after a default; quiet enjoyment

Fundamentally, lessors are reluctant simply to terminate leasing arrangements and seek repossession of their aircraft following a lessee default in today's tough economic environment where there are limited opportunities for secondary sales or re-leasing. Lease provisions setting out the lessor's rights (besides any right of termination) after a default have been the subject of particular scrutiny during the Covid-19 crisis.

For example, depending on the terms of the lease agreement, the airline may have the right to pool engines and parts and may have exercised such rights prior to the Covid-19 crisis. Whether lessors can subsequently require airlines to reinstall the original engines and parts on the airframe will depend on whether the pooling right is conditional on there being no default that is continuing for as long as the engines or parts are being substituted.

If the right is conditional only on there being no default at the time of installation, then the lessor's rights to require reinstallation (without terminating the leasing) are limited.

Operating leases invariably include a "quiet enjoyment" provision, pursuant to which the lessor agrees to permit the lessee to have quiet enjoyment and possession of the aircraft, subject to there being no event of default that is continuing. Lease agreements will typically provide the lessor with specific remedies following a default (other than outright termination) such as the ability to carry out more frequent inspections or to enforce performance by the lessee. Lessors will be focused on expanding the list of pre-termination remedies available to them after a default, to provide themselves with as much flexibility as possible in exceptional circumstances where termination may not be a feasible or attractive option.

Some of these remedies – for example, an independent right to ground the aircraft – may encroach on the lessee's use and operation of the aircraft without requiring that the lessee forfeit possession or terminate the leasing. Lessees are likely to see this as operationally burdensome and will wish to preserve their fundamental ability to operate the aircraft in order to generate revenue to service their obligations prior to the lessor terminating the leasing following an event of default.

Lessees may also seek to include an express condition that the lessor may only interfere with its quiet enjoyment of the aircraft, where the lessor has first issued a notice to terminate the lease after an event of default or in other agreed circumstances.

In any event, it is likely that parties will wish to clarify the precise scope of the lessor's pre-termination rights, to avoid disputes in a default scenario where the aircraft remains in the possession of the lessee.

Transfer provisions

The significant and unexpected adversity brought on by Covid-19 has also highlighted the value of a party having unfettered discretion when dealing with its financing and leasing counterparties.

Parties have encountered particular restrictions in the context of certain financing or ownership structures, including asset-backed securitisations or other bond or note financings, where notes are issued to third-party investors which may have little or no other involvement in the aviation industry beyond their ownership of such notes. Parties which wish to negotiate a mutually acceptable compromise on key economic provisions within their leases, such as rent deferral or variation, have found that they are required to obtain consent from their (often unnamed and sometimes numerous) creditors, which process can be slow, laboured and without any guarantee of success.

Such experiences may lead operators to require specific conditions within the lease transfer provisions, such as the necessity for any such structure to involve an experienced servicer or transferee. The importance of the commercial relationships developed between airlines and their lessors is also likely to play a role in affecting discussions around these provisions.

"The significant and unexpected adversity brought on by Covid-19 has also highlighted the value of a party having unfettered discretion when dealing with its financing and leasing counterparties."

Delivery

As a result of the worldwide restrictions on movement, one of the more practical and immediate effects felt by ongoing transactions and leasing arrangements has been the inability of parties to attend physically to their aircraft or to meet in person. Consequently, parties and even the relevant authorities have had to adapt their usual processes, and in the context of new aircraft deliveries, the E-Delivery has emerged as the necessary alternative.

As part of the E-Delivery process, parties have had to consider potential solutions to issues affecting their standard processes, such as:

- **transaction documentation, signings:** parties have used platforms such as DocuSign for remote signings and completions, where access to the equipment otherwise needed for more traditional forms of virtual signing is limited. As part of this process, parties have had to navigate the DocuSign platform while adhering to the legal formalities required to validly execute their documentation;
- **technical acceptance:** operators based around the world whose technical teams have been unable to travel to the manufacturers' delivery locations have been compelled to consider the use of third-party technical service providers to conduct this process and provide confirmation that the aircraft are fit for purpose. During extended periods of unplanned groundings, airlines have had to consider the use of such service providers to fulfil their ongoing operational and maintenance obligations; and
- **aviation authorities:** some aviation authorities have been willing to grant concessions and adapt their usual processes to facilitate closings and the making of local law filings and registrations.

If found to be effective and cost-efficient, it may be that certain of these measures taken during exceptional circumstances will continue to be used in the practice of executing leasing transactions post-Covid. In any event, airlines may wish to adapt current drafting practices to allow greater flexibility to use such solutions as part of any potential remote-delivery scenarios.

Force majeure in English law leases

As airlines started cancelling flights and grounding aircraft because of government-imposed travel restrictions, many contract parties considered whether the concept of *force*

"In order to benefit from any right to terminate or suspend lease obligations as a result of certain specified and exceptional circumstances, an airline may include a concept of force majeure."

majeure[1] would allow airlines to assert that they had been prevented from performing under their contracts.

It is important to note that the concept of *force majeure* means different things in different jurisdictions. Under English law, the term *force majeure* is meaningless on its own; it does not exist in common law or in statute, but rather is a creature of contract. Consequently, where an English law contract specifies that it may be terminated by reason of *force majeure*, but does not define that term, this is unlikely to have any real effect.

Similarly, parties to an English law contract that does not contain any reference to *force majeure* will not be able to invoke any common law right, contrary to what may be available in accordance with the laws of certain civil jurisdictions.

In order to benefit from any right to terminate or suspend lease obligations as a result of certain specified and exceptional circumstances, an airline may include a concept of *force majeure* and prescribe such circumstances in that lease agreement.

Currently, lease agreements generally do not contain clauses which provide for termination or suspension if performance becomes impracticable as a result of specified events outside the parties' control and, as yet, specific *force majeure* provisions have not been commonly adopted in English law aircraft leases.

The continuity of the leasing of the aircraft is paramount to a lessor, so if a lessor agrees to the inclusion of a *force majeure* clause in any future aircraft lease then, in addition to the scope of the clause being carefully negotiated, they would need clearly allocate risk of loss where such provision is invoked, and consider how this may interact with the "hell or high water" or "net lease" provisions.

Whether *force majeure* provisions will be included in English law aircraft lease agreements and serve as a remedy under those leases remains to be seen. In any event, parties considering this option will need to negotiate these provisions carefully to ensure they are fit for purpose.

Defining the new normal

The ultimate impact of the global pandemic is of course yet to be seen and is expected to continue to evolve as time passes and key players navigate their way to recovery. It is not yet certain whether we will see a return to "business as usual", or if what will emerge may be a leaner, more efficiency- and necessity-focused approach to global air travel.

What is clear, however, is that airlines, lessors and other stakeholders will take the time now to consider what they need from their leasing and other commercial documentation, because the agreements reached in the coming months will set documentary precedent and are likely to leave an enduring and wide-reaching legacy for the future of the aviation financing and leasing industry.

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[1] Force majeure: *broadly refers to prohibition by superior forces, "acts of god".*

Rust and stardust – avoiding contentious aircraft repossession

Paul Jebely, co-chair of asset finance and office managing partner, Pillsbury Winthrop Shaw Pittman, offers one prescription to avoid heated aircraft repossessions and another for their speedy resolution – with the help of a Chinese philosopher and Taylor Swift.

The history of the airline sector has been, and will forever continue to be, marked by cyclicity and crisis. Yet, even the 20/20 vision of the most experienced aviator could not have seen the great black swan of 2020 approaching. That proverbial bird strike has been nothing short of catastrophic for the airline sector, which has been subjected to the full fury of the Covid-19 pandemic.

The unprecedented magnitude of the pandemic, and its economic fallout, means that the specter of financial ruin haunts many airlines, for which a liquidity crisis has quickly turned into a solvency crisis. It is a matter of intense speculation which airlines will survive the current and upcoming crisis. Many will not. As for the would-be survivors, debate rages as to who, between governments and the private sector, will be their saviours, and on what terms salvation will be granted.

All airlines (and many lessors) have seen their profit margins scorched as a result of a cascade of distress, default and disputes that test the resolve of even the most coveted lessor-lessee relationships.

The fortunes of aircraft lessors depend foremost on the fortunes of airlines, which, in turn, depend on the fortunes of nations. Aviation leasing is, therefore, a study in the notion that where there is reward, there is risk. This is true even in an environment where, until recently, there appeared to be a barely finite amount of investor confidence.

The preceding five years in particular have witnessed a tsunami of new capital flooding a marketplace already bustling with bright-eyed and yield-chasing neophytes who had not yet experienced the distinct displeasure of a depressed aviation finance market (and were at risk of confusing a bull market for brilliance). Aircraft leasing is a sector where contentious aircraft repossession experience is one of the greatest teachers. Such experience is to any seasoned aircraft leasing professional what pure Damascus steel is to a sword – and nothing will substitute. Yet, such experience also teaches that this proverbial sword should rarely be drawn.

"The unprecedented magnitude of the pandemic, and its economic fallout, means that the specter of financial ruin haunts many airlines."

Paul Jebely, co-chair of asset finance and office managing partner, Pillsbury Winthrop Shaw Pittman

It is true that the predation of the globalised economy is generally such that there must be winners and losers; the victors to whom go the spoils, and the vanquished who must simply go.

Aircraft leasing is ultimately no different. Still, the fact is that when aircraft leases unravel in an acrimonious fashion, any contentious aircraft repossession and other legal action by lessors that ensue can be ferocious, unedifying and astoundingly expensive.

Outside of the context of a formal airline bankruptcy or restructuring, this brief article offers both a prescription for the avoidance of contentious aircraft repossessions, and a further prescription for their swift resolution.

The best repo is no repo

As the ancient Chinese general and philosopher Sun Tzu espouses: "The greatest victory is that which requires no battle." Aircraft repossession is, at best, an unpleasant and disruptive affair. If the life of the deal is to come to an end, then a friendly return of the aircraft, ideally in expected return condition, should always be the next option that the parties work toward as part of what amounts to mitigation and a negotiated settlement of the lessor's losses.

Most often, however, it is necessary for a lessor to employ the Rooseveltian edict of "speak softly and carry a big stick" – which embodies the principles of coercive diplomacy – to promote friendliness in this context. Use the "carrot and the stick" approach by offering a combination of enticement and threat of harm to try to induce the desired friendly return behaviour.

This idiom (a reference to a cart driver dangling a carrot in front of a mule while holding a stick behind the mule) is used in diplomacy to describe the realist concept of "hard power." It is worth highlighting that it is both carrot and stick (and not carrot or stick) that are to be used. The threat of disruptive, costly (and public) court action itself is likely the most common stick that can be used (and the avoidance thereof can be considered a carrot). In this light, keep in mind that discretion is to be earned by a defaulting party, not assumed.

At this juncture, a good question to ask is: do we even want the aircraft back? "Get the plane back" is a practically innate reaction, and this question is therefore often overlooked. This is especially true with older-generation aircraft where the cost of repossession negates the benefits in favour of a restructure/workout – or, if the life of the deal is to end early, debt recovery by means other than aircraft repossession.

The aircraft value, condition, carrying costs and remarketability are the key considerations in this respect at each stage. One consequence of the foregoing is that many of the factors that supported stable private aircraft values historically will simply not be present in the medium term.

It is mission-critical to both lessor and lessee that lines of communication between them remain open and that both sides remain flexible and ready to negotiate a resolution – be it in the form of a lease restructure, workout, friendly-enough return or other settlement. This is especially true at culminating points of contention. Senior management, especially at the C-suite level, can make a key difference in such negotiations, especially if they are removed from the fray itself.

Flexibility does not equate to indecisiveness, and a willingness to negotiate does not equate to weakness. Almost all things in a lessor-lessee relationship can be variable to one degree or another. Both sides should understand that a negotiated resolution is almost always the better alternative.

"The decision to repossess an aircraft and how to do so should be a rational decision, whereby passion and chance are subordinate to commercial and legal reason."

Paul Jebely, co-chair of asset finance and office managing partner, Pillsbury Winthrop Shaw Pittman

The worst-case scenario of having to get the aircraft back from an uncooperative airline of course requires adequate consideration long before it is time to get it back. Repossession risk in any given lease transaction must be squarely in the realm of "known-known" rather than "known-unknown" (and never in the ether of "unknown-unknown").

This noted, as discussed below, the actual act of getting the aircraft back – what is generally considered legal repossession – is often the anticlimax that follows the physical detention of the aircraft. It is beyond simple semantics, and not widely appreciated outside of a relatively small circle of in-house and external counsel. There are, of course, many intervening steps between an initial default and a termination of a lease. While not the focus here, experience shows there are always early warning signs that an airline is in trouble which are overlooked in hindsight, even prior to – say – a global pandemic.

In any case, when financial distress does become evident, it is best to start by evaluating the need or possibility of a restructuring or workout, while also beginning to formulate the repossession strategy – or, the proverbial nuclear option: the insolvency strategy.

It is important to assemble a team consisting of commercial, legal and technical players to analyse the situation at the outset when trouble first arises. Restructures and workouts are preferred, if the life of the deal (and perhaps the airline itself) is to continue somehow, because they are discreet (reducing risks from other creditors and loss of passenger business), maintain income from aircraft, avoid the need for distressed sale of the aircraft and usually do not involve third-party interlopers such as pensions regulators, suppliers, unions, etc.

If there is a willingness to consider engaging in a restructure or workout such that the life of the deal continues, key considerations are: the lessor's relationship with and total exposure to the airline; and the airline's prospects for recovery (which should include an objective competitive analysis of its routes, operating costs, equipment, management strength, franchise value and market/industry position).

Look what you made me do

As soon as it becomes evident that a friendly return is unlikely to be achieved, lessors need to be as strong and aggressive as possible going forward. In doing so, it may or may not prove productive to listen to the Taylor Swift song noted in the subheading above, on repeat.

Once the final decision to repossess has been taken, the time for further indulgences has passed. Map out a final repossession strategy rooted in a clear understanding of commercially rational and legally sound objectives. Do not take or make it personal.

The decision to repossess an aircraft and how to do so should be a rational decision, whereby passion and chance are subordinate to commercial and legal reason. Apply the principle of "real options analysis", and avoid what is known as "negative target fixation".

Successful aircraft repossession requires intelligent strategy and decisive leadership, foremost by lead (internal or external) counsel. Aircraft repossession is a legal task necessitated by commercial failure. It could be argued that the technical aspects are of near-tantamount importance, but this point will be not argued here. In any case, be aware that aircraft repossession can be an all-consuming affair for those involved in the day-to-day handling of the legal, technical and commercial issues that will arise. The decision-maker(s) with responsibility for the repossession must be empowered to make quick decisions.

If all else fails – and assuming that the lessor actually wants the aircraft back – then by all means, repossess, but focus first on securing physical possession of the aircraft somewhere "nice", which, as discussed below, is not just a reference to the jurisdiction's weather.

It is useful at the outset of an aircraft repossession to (re-)analyse the underlying deal documents with fresh eyes (including with external counsel) and ask the basic questions: such as to ascertain what (if any) debt recovery alternatives to repossession may still be available; confirm when repossession can take place; and perform a "sanity check" to ensure that there are no relevant defects in the original deal documents that could frustrate the repossession.

Select the right local counsel because having an adept and experienced local counsel is critical to the success of your repossession efforts. That noted, do not expect any counsel to work miracles. Request an early honest assessment and encourage frankness, because it is critical that expectations be managed and realistic objectives and timelines be formulated. Do not select counsel based solely on their skills as an apparent fortune-teller, and bear in mind that "tell us what we want hear" is not a productive instruction to local counsel.

The most important considerations in appointing the right local counsel are: the firm and lead lawyer's experience in the substantive and procedural law relevant to aircraft repossession; domestic aviation industry experience/familiarity; and their fees. The order of importance is as presented.

Be aware that there are likely to be other creditors, including super-priority creditors, which may be able to assert statutory or possessory liens and/or exercise detention rights over the aircraft. These creditors can present very significant and firm hurdles to effective repossession.

Most often, it is best that these creditors, including the airport

> *"The ultimate key to any successful aircraft repossession is usually, first and foremost, physical control of the aircraft in a creditor-friendly jurisdiction."*
>
> **Paul Jebely**, co-chair of asset finance and office managing partner, Pillsbury Winthrop Shaw Pittman

authority, are paid (rather than fought in the local court) in order to facilitate the repossession, deregistration and repositioning of the aircraft. In this sense, it is a good idea to hope for the best, but expect the worst. This is especially true when it comes to issues with aviation and airport authorities (which can be a repossessing lessor's best friend or worst enemy in this context, but seldom in between).

To state the obvious: aircraft are designed to cross borders, and almost all engines are designed to be swapped. In that light, it is critical to determine a friendly venue or venues for repossession, which may not be the state of aircraft registration. Flight schedule visibility is necessary to ascertain when the subject aircraft (and/or engines) may be located in a jurisdiction that is amenable to taking interim subject matter jurisdiction and granting injunctive relief in favour of the repossessing party.

One tried and tested method of persuading courts in common law jurisdictions, for example, is to claim that the tort of conversion is being perpetrated in the jurisdiction in question by virtue of the fact that the aircraft and/or engines are located in such jurisdiction in the possession of the airline despite the fact that the airline's bailment of the aircraft and engines was terminated after an event of default.

While on the topic of location, the location and status of the aircraft records are of almost tantamount importance. From a logistical perspective, it is critical to have flight schedule visibility and awareness of records location so that arrangements (such as facility and ramp access, and access for contract flight crew) can be made wherever required in advance, including ensuring that ground-handling, insurance and storage arrangements are in place.

The ultimate key to any successful aircraft repossession is usually, first and foremost, physical control of the aircraft in a creditor-friendly jurisdiction. Self-help may not always be available – and even where it is technically available pursuant to local law, it may not be desirable – and so repossession via court action, or multiple court actions in different jurisdictions, may be required. Typically, this takes the form of applications for interim injunctive relief.

In most cases, the repossession – or, rather, detention – of an aircraft will not immediately secure full possession such that, for example, the lessor can deregister and fly the aircraft away at its will. Regardless, it is almost always in the lessor's best interest to gain physical (although limited) control of the aircraft without delay.

Simple physical control can often be acquired more quickly and therefore less expensively through self-help, freezing/mareva, replevin writ (or other injunctive order) than full possession. A replevin writ enables an interim injunction that orders the airline to return the aircraft to the possession and control of the lessor, pending final judgment or settlement, whereas a freezing order (formerly called a mareva injunction) is an interim injunction that restrains an airline from dealing with the aircraft in order to preserve the aircraft until a final judgment can be enforced.

The lessor will often gain significant leverage in negotiation after securing the detention of the aircraft, even though it has not yet secured actual repossession. Typically at this stage, a defaulting and formerly unfriendly airline becomes highly incentivised to engage in damage control since its strategy to stall the process while continuing to operate the aircraft will have failed. Most often, physical control in this manner yields friendly return behaviour after the fact, and signals the conclusion of the aircraft repossession – though ongoing debt recovery may continue.

Navigating tax landscape through lessor distress

KPMG looks at the key tax issues that can arise on a formal restructuring for a leasing group.

At the outset of 2020 the aviation sector was enjoying an unprecedented period of growth. In aviation finance, the capital markets were buoyant with demand for asset-backed securitisation (ABS)-issued debt and unsecured debt issued by lessors. While the market remained ultracompetitive, the outlook was broadly positive because demand for aircraft across most asset classes was high.

Covid-19 has changed this landscape beyond recognition, and its impact is more acute and sudden than the previous two cyclical downturns the sector has faced, after 11 September 2001 and the global financial crash.

Airline distress has been severe and on a global basis. This has impacted on lessors, which in the first instance dealt with wide-scale rent deferrals but which are now dealing with airline failures and more complicated lease restructuring.

Pre-Covid-19, there was a general expectation that after a relatively quiet period for M&A, lessor consolidation could increase in the hope that scale would bolster returns in the competitive landscape. Post-Covid-19, given expected liquidity pressures and likely impairments, the question is whether this new environment will lead to opportunistic acquisitions or if it could lead some lessors, such as their airline customers, into formal debt-restructuring processes.

"Covid-19 has changed this landscape beyond recognition, and its impact is more acute and sudden than the previous two cyclical downturns."

We wanted to explore the key tax issues that can arise on a formal restructuring for a leasing group, drawing on the practical recent experience of having advised on the Waypoint Leasing bankruptcy process. With more than 160 aircraft on its balance sheet, Waypoint was the largest independent helicopter lessor prior to its filing for Chapter 11 in the United States in 2018.

While the commercial drivers that led to that process are different to those facing fixed-wing lessors now, the same structural issues that arose as part of that unwind will have relevance for most other leasing groups in distress.

Lessor structure and related tax issues

Particularly given the cross-border nature of aircraft leasing, tax is a key factor in determining the optimum structure for an aircraft leasing group. Generally, this has involved an Irish-based platform leasing to airlines across the globe, with capital being invested from outside of Ireland.

In considering the most efficient tax structure for this type of group, it is important to consider taxation at three levels (see diagram below):

1. At the investor and funding level, consideration needs to be given to the ability to manage withholding tax on payments of dividend and interest and (for investors) to minimise tax on an exit event.
2. At the platform level, the employees generally sit in an operating company with the assets held separately underneath in aircraft-owning special purpose

vehicles (SPVs). At this level, issues will include the tax rate applicable on group profits, the tax deductibility of interest payments and the availability of tax depreciation to defer cash tax payments.
3. At the lessee level, the key tax issues are the management of international withholding taxes on lease rentals and the application of transfer taxes to the sale and purchase of aircraft. This is an area that has become more complex in recent years, as global changes to double tax treaties placed more focus on substance and structure of aircraft lessors.

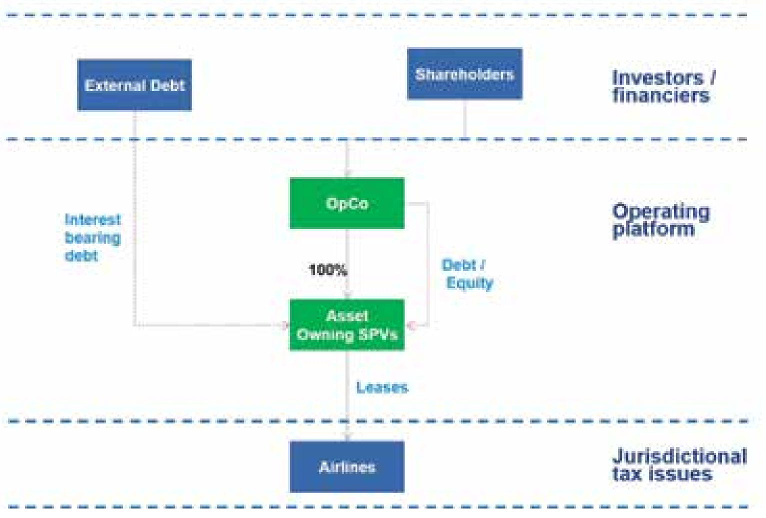
Given the importance of tax on the establishment and ongoing operation of a leasing group, tax also needs to be carefully considered when restructuring or unwinding an aircraft leasing business so as not to trigger adverse tax implications and adversely impact stakeholder returns.

The graphic illustrating a typical aircraft leasing group is simplified for illustrative purposes. Depending on the size and scale of the group, it will likely include numerous holding companies, financing companies, foreign subsidiaries and a multitude of asset-owning SPVs. It will also have a myriad of external and intragroup funding, including both unsecured and secured debt, which may or may not be placed directly with the asset-owning SPVs.

A typical lessor group will evolve and grow organically over time and the legal complexity of a medium/large group will generally be relieved to some degree by the flexibility that comes when transacting within a 100% corporate group. However, in the event of a formal restructuring, the flexibility previously available within a corporate group may disappear as lenders lock down their claim on secured assets.

As a result, the operational complexity of a large leasing group can mean that navigating the rigid framework of a bankruptcy or debt-restructuring process (such as the US Chapter 11 process or Irish/UK scheme of arrangement) can give rise to some significant tax challenges.

Typical aircraft leasing structure



Tax issues arising from lessor financial distress

Below we have set out the key tax issues arising from lessor distress and formal debt restructuring. While references below are primarily in respect of a bankruptcy process (eg, a US Chapter 11 filing), the same issues will be relevant for other forms of debt restructuring (such as an Irish/UK scheme of arrangement).

Freeze on group debt obligations

The process will likely involve the lessor company (or "debtor") being granted a freeze on its obligations to creditors. From a tax perspective, the following needs to be considered:

- internal debt and other intragroup arrangements may be frozen along with repayment obligations to third-party creditors. It is not uncommon for leasing groups to have internal debt structures and the freezing of obligations (ie, which could include the non-accrual of interest) can result in potential cash tax exposures. This can be particularly true where the group has utilised Irish Section 110 companies to hold assets;
- group companies may be prevented from settling payments between one another. In instances where you have a leasing intermediary entity, this can impact on the viability of that structure; and
- intragroup expenses (eg, servicing fees) may continue to accrue but without the ability (either now or at a later date) to settle those intragroup liabilities. The subsequent reversal of these costs at a later date can give rise to unforeseen tax exposures.

It is therefore important to consider the impact that "turning off" internal interest or other expense payments might have on the tax profile of the group as it seeks to restructure its activities during the process. Certain costs may not always be avoidable but advanced planning may help mitigate issues before they arise.

Interim financing

As part of the restructuring, the distressed group may arrange a financing facility to fund the business during the restructuring process with banks that are given preferential creditor status and that will be repaid in priority even to the debtor's secured creditors (ie, a debtor-in-possession – DIP – facility).

The availability of a DIP facility is positive from a lessor perspective and is intended to allow the group to finance the restructuring process. However, it is important to consider how this financing is structured for tax purposes.

For example, lenders may propose that the group borrow at the top holding company level when it may give a better result from an operational and tax perspective to borrow from elsewhere in the group. This could give a better answer from a tax deductibility perspective, and/or that operationally the group will need to access the DIP facility cash in order to pay the group's expenses during the process (noting that movement of funds intragroup or pursuant to intragroup loans may not be possible as noted above).

Similarly, it is important to ensure that there are no withholding taxes or other taxes applicable to repayments to lenders as such costs are likely to be for the debtor's account.

Group reorganisations

As part of a restructuring, a group reorganisation may be required in order to maximise asset values, to separate assets into "good" and "bad" silos for sale, stream performing assets into the group that will be injected with new funding, or to perfect creditor security interests. Such a reorganisation may be required either as part of an asset or business sale process or imposed by lenders themselves.

The complexity of such actions from a tax perspective should not be underestimated, particularly for large corporate groups where assets are segregated into SPVs for commercial or financing reasons.

The tax implications of such a restructuring will be unique to each group but there are some points to bear in mind. Intragroup transfers of assets are generally taxable events, but often some form of group relief may apply. However, this may not be the case in restructuring situations, and clawback provisions could also be triggered where part of a group is subsequently hived off for sale to a third party.

Group reorganisation may also involve breaking a tax losses group or a VAT group. Certain jurisdictions have rules that can have adverse tax consequences where there is a change in ultimate ownership of a group parent or its subsidiaries and this can result in cash tax being triggered.

> *"It is important to ensure that there are no withholding taxes or other taxes applicable to repayments to lenders as such costs are likely to be for the debtor's account."*

Jurisdictional tax issues on aircraft transfers

A reorganisation may involve the movement of assets (ie, aircraft) between group companies. Regardless of whether the circumstances of the asset transfers involve lender-driven restructuring or a sale of the business to a third party, there are material transfer tax implications to be considered.

In the Waypoint case, the limited geographical reach of helicopters (particular on-lease helicopters) meant that aircraft were located on the ground in dozens of jurisdictions at the time of the eventual sale of the Waypoint business. Furthermore, the context of the business sale pursuant to a court mandated sale process meant that the typical flexibility enjoyed by lessors in timing aircraft disposals was not available. The upshot of this was that the transfers of individual helicopters were chargeable to jurisdictional transfer taxes in more than a dozen countries.

While the helicopter case is different to fixed-wing aircraft (particularly non-regional fixed-wing aircraft) and there historically has been significant flexibility when transferring aircraft to manage transfer taxes, Covid-19 brings challenges in this respect. More aircraft than ever are either grounded, in storage or flying on more limited domestic routes. A bankruptcy-driven asset sale or group reorganisation in the current environment could therefore echo the challenges of the helicopter sale process, where asset location "is what it is" and transfer taxes must be borne as part of the process.

In light of the above, we have summarised some of the more material transfer tax issues that we have seen in a bankruptcy sale process:

- **VAT**: the primary transfer tax for any aircraft transfer is VAT, sales tax, GST or the local equivalent in the jurisdiction where the aircraft is located at the time of transfer. In some jurisdictions, it is possible to achieve a VAT exemption for aircraft transfers, most typically where the aircraft are operated internationally. In other jurisdictions, VAT cannot be exempted and market practice would be to arrange transfer in an alternative location. This may not always be possible in a Covid-19 environment. As such, VAT could be a material issue for aircraft transfers in the course of a restructuring.

  It is worth mentioning that there are alternative routes to achieving a VAT exemption that are becoming increasingly common in aviation transactions, particularly in the EU where assets might be transported intra-community as part of a sale transaction or where those assets are stored under customs or VAT suspension.

This route to VAT exemption varies by jurisdiction and is more complex that the traditional "international airline" VAT exemption and can involve registration and compliance formalities to be completed. The primary issue with this approach in this environment is the inherent inflexibility that a lessor may face in moving its assets or in meeting any pre-transfer registration requirements.

- **VAT compliance and refunds**: should VAT arise on an aircraft transfer occurring as part of a restructuring, consideration needs to be given to how such tax will be administered, remitted and potentially reclaimed. This process varies by jurisdiction and should be considered well in advance of closing because there are some jurisdictions where non-compliance with procedural formalities (including in advance

of sale) could risk the recovery of VAT once remitted.

It is worth noting that EU VAT compliance is quite manageable where a seller is an Irish incorporated and tax resident company. If the seller has a more varied fact pattern, including where the seller is non-EU incorporated, additional time should be set aside to work through additional VAT compliance. For example, some EU countries may require a local fiscal representative to be appointed to act on behalf of the non-EU established seller. If aircraft are located in less common jurisdictions, compliance requirements can become more onerous. For example, we have seen some instances in African countries where complying with local requirements would have involved having a local agent handle company funds and actually make a significant tax payment on behalf of the non-resident and face unlimited liability for any errors in the return.

The small silver lining to incurring a VAT charge is that VAT is often (but not always) a recoverable tax where it is remitted, and where the purchaser is willing to register and complete certain compliance obligations. Therefore, VAT may ultimately represent a cash-flow cost to the restructuring process provided all procedural formalities are addressed on a timely basis.

- **Tax rulings:** unfortunately, local transfer tax rules may not always fit neatly with the facts of a sale by a non-resident of an aircraft under a bankruptcy process. In such an instance, it may be necessary to approach a tax authority for a ruling or other confirmation on the transfer tax approach that they might expect. Time needs to be allowed for taking such actions, which in ordinary times can be lengthy and, in a post-Covid-19 era, could add significant delays;
- **income taxes:** income tax may be a transfer tax consideration that needs to be addressed as part of a reorganisation or asset sale. Jurisdictional income tax, where it arises, will likely not be recoverable and may come as a surprise when considered in the context of the geographic location or financial position of the leasing group; and
- **other jurisdictional tax considerations:** while less material than VAT and income tax, jurisdictional aircraft transfers can give rise to documentary taxes such as stamp duty or registration taxes and may trigger local tax filings.

In summary, our experience on lessor restructurings is that jurisdictional transfer taxes are a complex area and require careful navigation. Many of the issues (and cash tax costs) can be managed but usually this position requires timely consideration to ensure minimum tax drag on the bankrupt estate.

Separate to the transfer tax points above but equally important for an asset purchaser or investor in a leasing group is that a reorganisation or sale process may involve the separation of aircraft assets from a group's core operational substance (eg, in the event that a lender exercises their security and takes ownership of an aircraft-owning company).

Leasing groups are generally structured to ensure that the Irish group and lessor companies are considered to have adequate substance in order to access double-tax treaties (and eliminate cross-border withholding tax). Where the asset reorganisation results in this link between aircraft and operational substance being broken, it will be important for an investor or asset purchaser to consider what impact (if any) this might have on the aircraft leases, the jurisdictional leasing tax risk associated with the rental stream and, more generally, on the capacity of that asset portfolio to be remarketed to airlines in the future.

Debt forgiveness and professional costs

A significant part of a formal restructuring will likely be the forgiveness or cancellation of some of the group's debt liabilities. This is a minefield in relation to potential tax outcomes, and the legal and accounting characteristics of any debt forgiveness will be extremely

“The timing of a debt write-off and the recognition of any associated income may be a more important area of focus.”

important to understand. There is a high possibility that debt forgiveness could give rise to taxable income for the group and this possibility is more acute where the group has Section 110 companies within it.

Ultimately, whether a bankruptcy results in the forgiveness of debt for the debtor will be driven by non-tax factors. Therefore, the timing of a debt write-off and the recognition of any associated income may be a more important area of focus, so that the group and relevant stakeholders can plan to minimise the adverse tax implications that could potentially crystallise.

A restructuring exercise will involve substantial legal and other professional costs being incurred by the group. Whether a tax deduction is needed for costs associated with the bankruptcy process will depend on the financial position of the company in question (eg, if the debtor sells its assets and is wound down on an insolvent basis, a tax deduction will not be material). However, the deductibility of restructuring costs may be a point worthy of some consideration.

This consideration from an Irish perspective should be undertaken broadly under two headings: (i) whether the costs are “capital” or “revenue” in nature; and (ii) whether the costs have been “wholly and exclusively” incurred for the purposes of the company's trade. Depending on the nature of the arrangements entered into by the company with creditors and the nature of the trade of the company which will incur the costs (eg, would the costs be incurred by a group servicing company, a non-trading holding company, etc), it may be difficult to support a view that all restructuring costs are fully tax deductible.

Cessation to trade

Ultimately, a restructuring may result in the sale of the group's assets/business and/or a material restructuring of a group of its operations. This will likely result in a cessation to trade for tax purposes which brings its own issues.

From a practical perspective, it will bring an acceleration of tax-filing obligations. This is a basic but important consideration because the timely filing of tax returns will be required before any winding up can complete, late filing may give rise to tax exposures through the denial of certain group reliefs and resources will be needed both on the tax and accounting side.

In addition, care is required with respect to the recognition of income and expenses in the pre- and post-cessation periods. It is possible that income, which is recognised late, could result in cash tax charges and impact on plans for a solvent liquidation. There can also be tax issues with the holding of non-euro-denominated balances in the post-cessation period(s).

Other points that may arise

Finally, in terms of some house-keeping points that are useful to bear in mind:

- a bankruptcy or debt-restructuring process could result in a change in group ownership (eg, if lenders were to exercise share pledged) or a suspension of trading in listed shares. This can lead to unexpected withholding tax charges. Many groups rely on their ownership structure as a basis to pay distributions free of withholding tax, and while dividends are unlikely in the context of a bankruptcy case or debt restructuring, reorganisations or other restructuring actions could result in deemed distributions arising;
- as an important point of consideration for the directors of the seller company, it is useful to consider what local transfer tax laws state on secondary liability. In some instances, a director of a seller company may have personal secondary liability for transfer taxes that are not remitted, or filings not made. This can create a tension between the wider bankruptcy process, where a view might be taken on certain local taxes being immaterial or there being insufficient funds in the bankruptcy estate to cover same, and the interests of the directors to ensure that all corporate obligations are satisfied so as to ensure that they do not face personal liability; and
- it is likely that a debt-restructuring process will impose restrictions on intragroup transactions and may ultimately require certain intragroup transactions to be unwound as assets are sold. It is, therefore, important (and will save significant effort in the long run) to ensure that all intercompany balances (eg, receivables and liabilities) are clear and supported by adequate documentation.

> *"Ultimately, distress in the wider aviation and lessor market will provide an opportunity for some."*

Investor outlook

Ultimately, distress in the wider aviation and lessor market will provide an opportunity for some. For a sector that has a long track record of providing solid returns, there is a justified belief that while this shock is seismic, it will pass.

As airlines hopefully return to the sky in a meaningful way in the coming months, they will be dealing with the significant baggage of millions of dollars of additional debt. As such, while demand for aircraft may be down in the near term, the leasing channel as a financing source is likely to grow in popularity. Some will take the opportunity to invest in new platforms, acquiring aircraft at depressed values. Others may seek to maximise value with opportunistic M&A.

It may be the case that the coming months will see increased M&A by established and well-capitalised lessors as well as investors, as well as a potential increase in lender enforcement actions against borrowers. In both cases, there are many tax considerations that need to be worked through in order to preserve value and prevent tax drag on future income streams.

For lenders exercising security and for lessors' or investors' acquired assets or shares at depressed prices, there will be a number of tax issues that will need to be understood early in the process and managed appropriately:

- minimising transfer taxes on asset or share acquisitions;
- managing withholding taxes on lease rentals, including the consideration of the application of double-tax treaty benefits;
- linked to the above, consideration of the required substance in the asset-owning group, both for Irish and international tax purposes;
- maintaining tax residence where required and fitting it within a desired governance framework;
- determining the appropriate funding strategy, to maximise tax deductions for interest, eliminate interest withholding tax and minimise tax drag at the platform level;
- considered cash repatriation and the management of withholding taxes on interest and dividends; and
- looking out to the eventual exit strategy and ensuring minimal tax exposure on an eventual sale or divestment.

Conclusion

Any formal restructuring will test and strain existing lessor structures. Given the design of those structures was heavily influenced by tax factors, it is important to understand how those factors will be impacted in the restructuring process.

The same holds true for those who are looking at opportunistic investment in a distressed environment. A failure to prepare adequately and efficiently execute will lead to additional tax drag and a loss of value for stakeholders.

Authors: **Joe O'Mara**, Partner & Head of Aviation Finance, KPMG in Ireland and **Eamonn Smith**, Associate Director, Aviation Finance, KPMG in Ireland.

No engine spared in current environment

It has become increasingly clear that the market impact of Covid-19 is unlike any recession or any market shock we have ever seen. As a result it is difficult to predict any criteria such as remarketing demand, residual values and appetite for engines.

As one engine source points out, the market is in stasis essentially for the next three to six months.

"The coming out of the airlines from this particular crisis will likely be that capacity will be 25-30% less than when we went into it. Therefore the residual value of engines are only reinforced by an ability to operate them," the source tells *Airfinance Journal*.

It is indeed difficult to gauge the impact on current market values and lease rates across all engine types but in the short-term, the impact on demand is closely linked to general fleet trends.

Engine lessors have grown their fleets significantly over the last decade through sale and leasebacks of new and used engines, giving operators the enticement to free up cash. Lease rate factors have become increasingly lean as competition for sale and leaseback opportunities has developed.

"Sub-0.6% lease rate factors are not uncommon these days and have been part-facilitated by prevailing low financing costs observed within the aircraft and engine finance sector. The ongoing Covid-19 situation and its sudden impact on the aviation industry has clearly created some uncertainty whether financing costs will stay as low going forward," says an engine trader representative.

One engine lessor agrees. "There will be a resetting of the leasing provisions as the low finance rate has encouraged the operators to benefit from advantageous terms, which are now not likely to be considered."

The engine market has been a seller market for a while but many argues there is literally no market at present.

"Every market has dropped and there is oversupply in every asset class. This will accentuate the flood of engines spares," says one source. The MRO shops, which were full at the beginning of the year will be affected as airlines, in order to preserve cash, are not likely to perform engine shop visits.

The widebody fleets will not be as active as the narrrowbody fleet, says one participant in the engine poll.

Even so, demand for leased engines on the narrowbody side will be highly depend on airlines' fleet structures and how operators balance them.

"Which aircraft will be prioritised?" asks one engine lessor's representative.

"Airlines will try to preserve cash and optimise capacity as much as they can. I can see them using engines from grounded aircraft when resuming operations and beyond," he adds.

Another engine source says current low fuel prices removes one barrier to market recovery. "If one looks at the 2008 global financial crisis, that period also coincided with high fuel prices, which exacerbated the pressure on airlines. Low fuel prices and a possible surfeit of used aircraft, can only have a positive impact on short to mid-term demand for engines. As was the case during past downturns, engine fleets with the widest, most diverse network of operators will be best placed in terms of demand when the market recovers."

Narrowbodies

	Investor appeal (out of 7)	Remarketing potential (out of 7)	Residual value (out of 7)
BR715 (717)	1.11	1.30	1.44
CFM56-3C (737 Classic)	2.30	2.91	2.60
CFM56-5A (A320 family)	2.20	2.45	2.50
CFM56-5B (A320 family)	5.40	5.18	5.60
CFM56-7B (737NG)	5.50	5.00	5.30
CFM Leap-1A (A320neo family)	6.38	5.67	6.38
CFM Leap-1B (737 Max family)	5.13	4.22	5.13
IAE V2500-A1 (A320 family)	2.00	2.00	1.80
IAE V2500-A5 (A320 family)	5.00	4.82	5.00
PW2000 (757s)	3.00	3.45	3.00
PW6000 (A318)	0.89	0.90	1.11
PW1100G (A320neo family)	6.00	5.33	5.88
PW1500G (A220 family)	5.75	4.78	5.50
RB211-535 (757s)	2.89	3.40	3.11

Source: *Airfinance Journal*, April 2020

Narrowbodies

The narrowbody fleets should come back first, but one participant anticipates up to 12 months for demand to peak again. In that scenario, the parts market will recover last, as airlines will use spares in lieu of repairs.

For him the CFM56-5B, CFM56-7B and the V2500-A5 engine variants are prime candidates to recover in the leasing space. However, he cautions that because the overcapacity situation, already before the Covid-19, normalisation in those markets will not happen before one year.

One engine lessor agrees those engine models will recover first.

Demand for the -5B engine was healthy prior to March, says the lessor, who admits that the market was starting to get soft towards the end of last year. "We could see some softening in the market as some engines were coming off lease and operators were using green times from other engines," he says.

The V2500-A5 engine falls into the same category and its recovery depends on the airlines' fleet composition post-Covid-19.

For the lessor representative, the -7B engine has the greatest chance of recovery because of the uncertainty of the Max programme. "Airlines were trying to find capacity for the summer period to fill the gap," he says.

"One can expect further A320neo/737 Max order cancellations in the coming weeks and months, which could have a positive impact on CFM56-5B/7B and V2500-A5 lease demand," says another participant.

On trading source points out the solid demand for the -7B models, which benefits from thrust divergence.

The V2500-A5 and CFM56-5B scorings have gone down in the past 12 months in terms of investor appeal, remarketing potential and residual value.

"The healthy aftermarket will keep investors busy with this engine. We do see more V2500s exiting service compared to the CFM56-5B," says a participant.

The LEAP-1A was the best engine for investor appeal, remarketing potential and for residual values, in this year's engine poll.

It scored 6.38 out of seven for investor appeal, 5.67 for remarketing potential and 6.38 for residual values.

As predicted the LEAP-1B engine had a turn of fortunes. In the previous engine poll, which was done before the grounding of the Max fleet, the engine scored the highest for investor appeal, third in remarketing potential and second for residual values.

In this year's poll, the LEAP-1B remarketing potential was, understandably, impacted.

The PW1100G, which came second in the poll, scored slightly less than in 2019 but the perception is more positive, especially as Pratt & Whitney continue to solve the engine's technical problems.

"We think the GTF is turning a corner. It seems to have got over delivery hurdles and is keeping up with intended rates. We expect Pratt & Whitney to start focussing on other GTF engines for other platforms. This is where I would put my money now," says one participant.

At the other end of the market, the main question is the future demand for mature engines.

The Boeing 737 Classic aircraft are prime example as over the years, the CFM56-3C engine market was very active as airlines and lessors retired older aircraft to make way for new models. The green time on mature engines is also perceived as having improved over the years.

"Whilst there are operators, there will still be support, and we still this in North America and Europe. There is still a market for used materials and used life limited parts and commonality does exist on later CFM56 programmes albeit on lower ticket components," says one participant.

Another participant in the poll expects a "niche demand" in the near term.

Widebodies

One engine trading source predicts the cargo market will be a lifeline and saviour for the industry. "The cargo market is only a fraction of the overall market but some engines like the CF6 and PW4000 will perform ok, despite the excess capacity."

The 767 freighter fleet drives the CF6-80C market as airlines are more retiring 747s. It is a strong aftermarket presently. Although on the passenger side, American Airlines is retiring some 767-300ERs, cargo demand is still good with Amazon adding more units. The CF6-80C market benefits from solid lease and parts demand.

The market for the four-engine aircraft is heavily impacted and with the news of many 747s potentially not coming back along with A340s, A380s, it is difficult how trading could benefit.

The CFM56-5C still ranks above the likes of the Trent 553/556 engines, or Rolls-Royce Trent 800/900s and the JT9D models. The PW4000 continues its solid performance. The engine ranked as second best in terms of remarketing potential highlighting diverse market applications: freighter-passenger-military.

"The PW4000 engines power different markets but with commonality particularly in the core. Values have been fairly static. The PW4000-94 benefits by being part of the KC-46A USAF tanker programme."

One trading source observes that Pratt & Whitney are not overhauling many engines and therefore operators of the type are keen to buy.

The GEnX engines remain the best performer in the widebody category in terms of investor appeal, remarketing potential and residual value.

Widebodies

	Investor appeal (out of 7)	Remarketing potential (out of 7)	Residual value (out of 7)
CFM56-5C (A340s)	1.73	2.08	2.00
CF6-80C2 (747s, 767s)	3.20	3.55	3.10
GE90 (777s)	3.33	3.40	3.44
GEnX (787s, 747-8s)	5.75	4.44	5.38
GP7200 (A380)	1.22	1.50	0.02
JT9D (747s, 767s)	1.20	1.45	1.50
PW4000 (A330s, 747s, 767s, 777s)	3.18	4.08	3.18
RB211-524 (767s, 747s)	1.40	1.64	1.70
Trent 553 (A340-500)	1.00	1.09	0.90
Trent 556 (A340-600)	1.00	1.09	0.90
Trent 700 (A330s)	2.60	2.80	2.60
Trent 800 (777s)	1.30	1.45	1.30
Trent 900 (A380)	1.10	1.36	1.30
Trent 1000 (787s)	3.22	3.30	3.22
Trent 7000 (A330neo)	3.38	2.89	3.38
Trent XWB (A350s)	4.22	3.50	4.22

Source: *Airfinance Journal*, April 2020

"The PW4000 engines power different markets but with commonality particularly in the core. Values have been fairly static. The PW4000-94 benefits by being part of the KC-46A USAF tanker programme."

Most operators will be in a programme but new operators of the type will need engines. Most sources agree the GEnX-1B is one of the best asset to have in the widebody market segment.

GEnX-1B is one of the best asset to have in the widebody market

The GEnx-2B is not to be considered in the same bracket although it has somewhat of a freight presence, which should help.

The Trent 700 benefits as a fleet leader, which will generate demand, according a trading source. Rolls-Royce have been outsourcing maintenance work and this is expected to continue.

Secondary market needs yet to develop for the Trent XWB models despite the popularity of the Airbus A350-900/1000 models. Still The XWB ranks second best in this year's engine poll. Of concern is the impact on the GE90-115B models.

One trader points out that later-build models are expensive to maintain and "the market has woken up to this." Appraisers have had to adjust GE90-115 values downwards, and not just a few percentage, he adds.

The widebody market has been in a difficult remarketing environment for a while and the 777-300ER market along with the market for A330s are a tough re-marketing proposition because of their size.

"We should start to see more transition of 777-300ERs from their original operators to secondary markets," says a source, adding that it should create more engine demand.

Regionals

Regional aircraft could benefit from a quick recovery from the Covid-19 crisis, according to an engine lessor.

The governments are keeping some essential services routes performed by regional carriers. But there is an assumption that regional aircraft will provide more flexibility to airlines when resuming operations.

"Airlines will be looking at capacity adjustments through aircraft in operations, slots and frequencies and in a low factor environment, regional aircraft could substitute some narrowbody aircraft," says the lessor.

The Pratt & Whitney PW1919 engine, a relatively new entrant in the poll, is the best performing in-production regional aircraft in the investor's appeal and residual value.

The geared turbofan engine family, currently selected as the exclusive engine for the Airbus A220, Embraer's second generation E-Jets and Mitsubishi SpaceJet, is growing in popularity along with market acceptance.

The PW1919 was ahead of the PW127M model, which has benefitted from the popularity and trading activity of the ATR72-600 since 2011. The PW127M remains a solid performer in terms of value retention. "Major players include Willis and Lufthansa Technik, which speaks volumes to me." Says a trading source.

The CF34-8E engine came first in remarketing potential, reflecting the level of activity of the Embraer 170/175 fleets in the marketplace. Demand for the type has been high as well as for the CF34-8C engine model early into the year.

The CF34-10E has enjoyed even more trading than the -8E market and it is set to continue with some fleets additions at LOT Polish Airlines or start-up Breeze. Beautech Power Systems has had a firm grip on this market over the past two years, having acquired 25 aircraft from Air Canada.

Regional aircraft

	Investor appeal (out of 7)	Remarketing potential (out of 7)	Residual value (out of 7)
CF34-8C (CRJs)	3.22	3.30	3.33
CF34-8E (E170/175)	3.67	3.60	3.33
CF34-10E (E190/195)	3.22	3.20	3.22
PW123 (Dash 8)	2.43	3.00	3.17
PW127E (ATR42-500)	2.63	2.89	3.13
PW127F (ATR72-500)	2.75	3.11	3.38
PW127M (ATR72-600)	3.38	3.22	3.63
PW150A (Q400)	2.63	2.44	2.75
PW1919 (E190/195-E2)	3.86	3.00	3.71

Source: *Airfinance Journal*, April 2020

The PW1919 engine, is the best performing in-production regional aircraft in the investor's appeal and residual value

Airbus triumphs as Max takes a hit

A320neo family tops the charts in *Airfinance Journal*'s investors' poll.

It was a bad year for narrowbodies and, unsurprisingly, the 2019 investors' poll rating reflected the Boeing 737 Max situation at the US aircraft manufacturer.

On 17 December, Boeing opted to halt production temporarily, and while it may seem like a painful step for the embattled US manufacturer, appraisers are of the view that the decision was a logical, probably needed step, and should not have a major detrimental impact on the programme.

The question among those who took part in the survey was more of how big of a hit the Max family takes.

The Max 8 was the most impacted variant of the three-aircraft family and scored 3.73 points, versus 4.32 in the 2018 poll. The Max 10 was 0.43 points down year-on-year, while the Max 9 dropped 0.49 points over the 12-month period.

"Operational success," one of the four criteria in the *Airfinance Journal*'s investors' poll, showed where the Max family was (predictably) mostly impacted. In 2019, the Max 8 scored 2.92 points, or 1.29 points less than the previous year.

"Marketability" also impacted the Max 8 model for those taking part in the survey. In 2019, the Max 8 scored 3.86 points, or 0.72 points less than the previous year.

"Residual value" and "value for money" were understandably the least impacted because the consensus agrees the aircraft is a good investment. In 2018, the Max 8 scored 4.33 points for residual value, behind the Airbus A320neo (4.45), the 737-800 (4.48) and the A321neo (winner in this category with 4.52). In 2019, its residual value was 4.08, not much more than the A320 and the A321 models (4.00 points each), while the 737-800 was 4.18 and the A320/321neo aircraft scored 4.42.

Appraiser firms Ascend by Cirium and IBA do not believe the suspension will necessarily have a negative impact on 737 Max values, but neither do they rule it out given the varied factors and events that could impact on values over time.

"I don't feel there will be any impact on residual values for the Max. In fact, it will probably provide comfort that Boeing will get on top of the situation in a more sensible way," says IBA's Stuart Hatcher after the Boeing announcement to suspend production.

For Hatcher, values are impacted if the demand for the model changes and, in particular, if there are large-scale cancellations. To date, this has not occurred with the Max.

It will be interesting to see how long the suspension of production lasts. Some industry observers talked about three to six months in the wake of the December announcement.

The other point is clearing the backlog. In 2016, the 737 production rate was 42 aircraft a month.

Single-aisles

Aircraft type	Residual value	Value for money	Operational success	Remarketing potential	Overall score	Last year's score	Difference
A321neo	4.42	4.53	4.39	4.44	**4.45**	**4.38**	0.07
A320neo	4.42	4.26	4.26	4.47	**4.36**	**4.24**	0.12
737-800	4.18	3.95	4.24	4.18	**4.14**	**4.57**	-0.43
A320	4.00	4.05	4.24	4.05	**4.08**	**4.36**	-0.28
A321	4.00	3.91	4.14	4.00	**4.01**	**4.26**	-0.25
A220-300	3.77	3.93	3.71	3.64	**3.76**	**3.43**	0.33
737 Max 8	4.08	4.07	2.92	3.86	**3.73**	**4.32**	-0.59
737 Max 10	3.27	3.58	N/A	3.27	**3.37**	**3.80**	-0.43
737-900ER	3.00	3.29	3.14	2.95	**3.10**	**3.16**	-0.06
737 Max 9	3.00	3.36	2.55	2.85	**2.94**	**3.43**	-0.49
737-700	2.88	2.82	3.19	2.82	**2.93**	**3.06**	-0.13
A319	2.85	2.86	3.40	2.52	**2.91**	**2.97**	-0.06
737 Max 7	2.42	2.42	N/A	2.27	**2.37**	**2.55**	-0.18
A319neo	2.27	2.33	2.27	2.20	**2.27**	**2.30**	-0.03

Twin-aisles

Aircraft type	Residual value	Value for money	Operational success	Remarketing potential	Overall score	Last year's score	Difference
A350-900	3.93	4.07	4.13	3.73	**3.97**	**3.86**	0.11
767-300ER	3.81	3.81	4.20	3.81	**3.91**	**3.37**	0.54
787-9	3.81	4.13	3.88	3.56	**3.84**	**4.23**	-0.39
787-10	3.40	3.64	3.64	3.43	**3.53**	**3.34**	0.19
777-9	3.09	3.60	N/A	3.30	**3.33**	**3.32**	0.01
777-300ER	2.84	3.32	3.89	2.79	**3.21**	**3.21**	0.00
A330-900neo	3.13	3.44	3.27	3.00	**3.21**	**3.07**	0.14
A330-300	2.80	3.38	3.70	2.81	**3.17**	**3.40**	-0.23
A350-1000	3.00	3.27	3.40	3.00	**3.17**	**3.17**	0.00
787-8	2.94	3.44	3.31	2.94	**3.16**	**3.45**	-0.29
777-8	2.64	2.80	N/A	2.70	**2.71**	**2.84**	-0.13
A330-200	2.26	2.85	3.37	2.30	**2.70**	**2.78**	-0.08
777-200ER	2.05	2.61	3.29	2.11	**2.52**	**2.16**	0.36
A330-800neo	2.47	2.67	N/A	2.40	**2.51**	**2.32**	0.19
747-400	1.81	2.38	3.53	1.75	**2.37**	**2.05**	0.32
777-200LR	2.07	2.71	2.50	2.07	**2.34**	**2.06**	0.28
747-8 pax	1.67	2.00	2.13	1.80	**1.90**	**1.80**	0.10
A380	1.25	1.88	2.75	1.38	**1.81**	**1.90**	-0.09
A350-800	1.80	1.70	N/A	1.56	**1.68**	**2.38**	-0.70
A340-500	1.31	1.56	1.56	1.56	**1.50**	**1.14**	0.36
A340-600	1.13	1.47	1.87	1.40	**1.47**	**1.23**	0.24

It climbed to 47 aircraft a month in 2017 and 52 a month in 2018. Boeing anticipated 57 aircraft a month for 2019, but the year was at about 42 a month on average. Still, there are about 400 aircraft awaiting delivery.

In the single-aisle category, the A321neo and A320neo models were the highest-rated in 2019, with their average up from the previous year.

The A321neo scored 4.45 points, versus 4.38 the previous year. The A320neo model benefited from the Max problems and scored 4.36 points in 2019, versus 4.24 a year earlier.

The A320neo-family aircraft, though, was subject to delays because of engine issues, affecting monthly production rates.

The current environment has shifted to new-technology aircraft and the 737-800 model has lost its crown. It had topped the charts for many years as the market continued to favour current-technology narrowbody aircraft. The first A320neo aircraft are entering their fourth year of service, while the Max 8 would now have been at about 30 months of service.

Even so, the 737-800 remains among the most remarketable assets of the current-technology aircraft, beating the A320 and the A321 models.

The A220-300 recorded the best improvement of any single-aisle aircraft, perhaps because the market is more accepting of the model. Financing of the A220-300 has broadened over the 12 months and more customers have committed to the type, including leasing companies.

The A319neo and 737 Max 7 models continue to get rated at the same level.

Demand for the 737-700 remains mainly for part-out purposes, with the -7B engine still in high demand because of fewer -800 part-outs than expected. The market is closely watching the Southwest -700 fleet and its future use.

Demand has also been high for -5B engines, although one engine trading source says it has started to soften.

Widebodies

Investors' appetite clearly remains in "mainstream" aircraft, and few investors would venture outside the popular widebody types such as the A350/787 models.

The poll shows the A350-900 topping the widebody charts in 2019, beating the 787-9 in three of the four criteria: residual value, operational performance and remarketing potential.

In 2019, the A350-900 scored better than the previous year in three of the four categories and benefited from a drop in scores for the 787-9. One voter says the 787-9 remains the main sweet spot in the 787 market but engine issues have penalised the model. The A350-1000 and 787-10 models are gaining more acceptance with operators but not much traction with operating lessors.

"The 787-10 is a good aircraft but aircraft price has considerable variance (circa $30 million spread). It has slightly better marketing prospects than A350 but still a tough market (for lessors with forward orders)," says another source.

The availability of A350 and 787 aircraft is impacting the secondary leasing market and residual values, observes one source. The former favourite aircraft, the 777-300ER and A330-300 models, had a stable year. There is a lot of activity in this market but transition costs, at times, can prove difficult to move aircraft. The issue for both models is the number of aircraft hitting the market over the next few years.

The 767-300ER continues to enjoy some resurgence in residual value and remarketability because of freighter demand, according to one trader.

The A330-900neo is gaining more acceptance in the marketplace and this was reflected in the scoring. The in-service fleet was about 40 aircraft at the end of 2019 and, apart from one aircraft going back to the Toulouse factory for a few days, operators seem to be comfortable with the aircraft type's missions.

There has been a range of financial structures backing the model from operating lease, purchase and leaseback, export credit agency-backed cover and finance lease. Lessors accounted for 77 of the 285 direct firm orders for the A330-900 model, but none of the 14 A330-800 orders.

The four-engine models continue to score at the lowest levels. There is no positive prospect for the models, although some aircraft still find applications in the charter/ACMI market.

Regional aircraft

The ATR72-600 maintained its position at the top in the regional aircraft market category scoring 3.74 overall, a small increase over the previous year.

Turboprops have been struggling but the ATR72-600 is widely seen as the stronger player in the market. It benefits from a much higher customer base than the De Havilland of Canada Dash8 and more appetite from the leasing community.

The ATR72-600 variant is approaching 10 years of service and its predecessor, the ATR72-500, is finally seeing more conversions into freighters. De Havilland of Canada announced a fair number of sales at the November Dubai air show, and this will be welcome news for the Dash8 model.

The Bombardier CRJ900 dropped a couple of ranks in the regional table. Backlog is relatively low and the model's future may lie in the hands of Mitsubishi.

A year after introducing the Embraer E190-E2 and the E195-E2 models, the Brazilian manufacturer performed the first flight of its final E2 model, the E175-E2, last month. Both types are featured amongst the best improvers year-on-year. The E190/E195-E2 models are expected to continue their ascension towards the top of the table next, as more airlines operate the types.

Meanwhile, sales for the E175 continue and this is reflected in the investor survey: the E175 model scored higher in all four criteria, and was 0.39 points up overall, ending third in the rankings. The E190 model gained three places in the overall table, scoring higher in all four criteria.

Regionals

Aircraft type	Residual value	Value for money	Operational success	Remarketing potential	Overall score	Last year's score	Difference
ATR72-600	3.75	3.78	3.94	3.50	**3.74**	**3.40**	0.34
Dash 8-400	3.44	3.47	3.69	3.27	**3.47**	**3.22**	0.25
E175	3.36	3.36	4.00	3.00	**3.43**	**3.04**	0.39
ATR42-600	3.25	3.53	3.50	3.31	**3.40**	**2.84**	0.56
ATR72-500	2.97	3.47	3.68	3.24	**3.34**	**3.13**	0.21
E190	3.03	3.03	3.77	2.91	**3.18**	**2.83**	0.35
ATR42-500	2.93	3.13	3.27	3.20	**3.13**	**2.87**	0.26
CRJ900	2.86	3.14	3.43	2.96	**3.10**	**3.04**	0.06
E195-E2	2.82	3.09	3.19	3.14	**3.06**	**2.66**	0.40
E190-E2	2.91	3.14	3.15	3.00	**3.05**	**2.68**	0.37
A220-100	2.92	3.23	2.92	2.85	**2.98**	**2.88**	0.10
CRJ700	2.69	3.00	3.23	2.88	**2.95**	**2.45**	0.50
E195	2.73	3.00	3.29	2.70	**2.93**	**2.53**	0.40
CRJ200	1.75	2.67	3.25	2.46	**2.53**	**2.15**	0.38
ERJ145	1.87	2.67	3.21	2.27	**2.50**	**2.03**	0.47
E175-E2	2.27	2.68	N/A	2.33	**2.42**	**2.18**	0.24
E170	2.23	2.46	2.50	2.31	**2.38**	**2.13**	0.25
CRJ1000	1.83	2.42	2.50	1.92	**2.17**	**2.38**	-0.21
M100	1.88	2.00	N/A	1.86	**1.91**	**N/A**	N/A
M90	1.63	1.43	N/A	1.43	**1.49**	**1.76**	-0.27
SSJ100	1.25	1.42	1.25	1.08	**1.25**	**1.34**	-0.09

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AIRFINANCE JOURNAL

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.

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.

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.

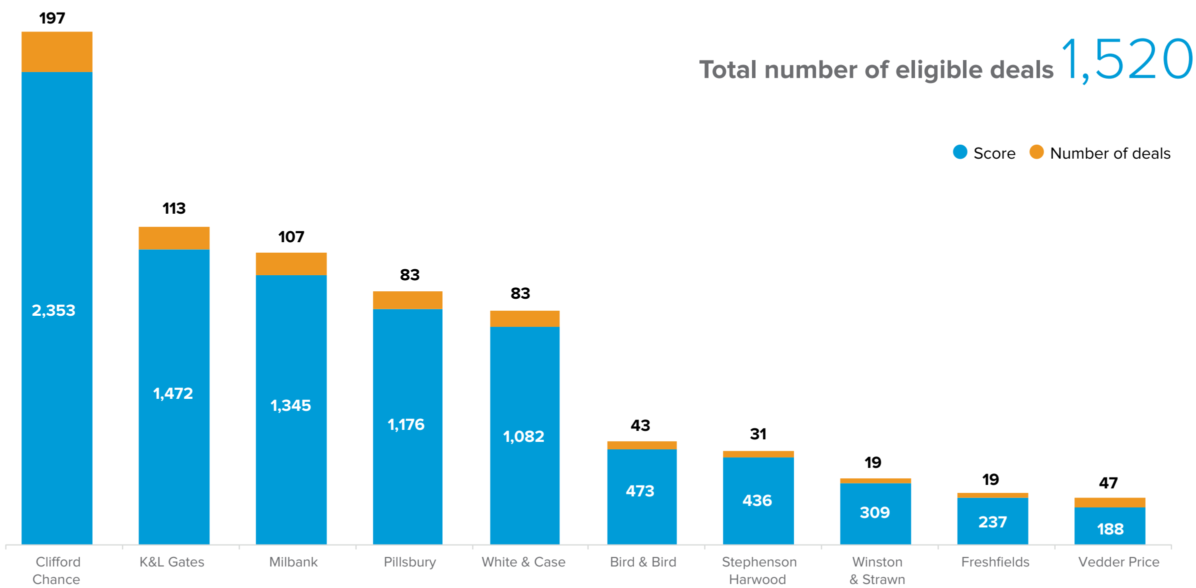
The first of five Airbus A320neo-family aircraft, an A321neo, closed in February 2019 to Turkish Airlines, with financing provided by BNP Paribas, utilising a French structured tax lease. Four further A321neo aircraft were financed during the course of the year as part of this transaction. The lenders 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.

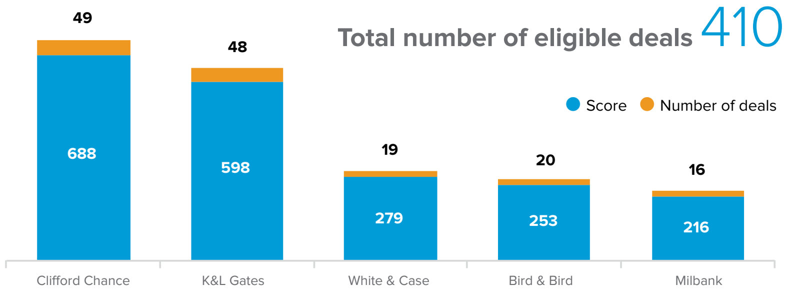
Clyde & Co acted as the borrower counsel, Norton Rose Fulbright was the lender counsel while Morris James was the security trustee counsel in the transaction.

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.

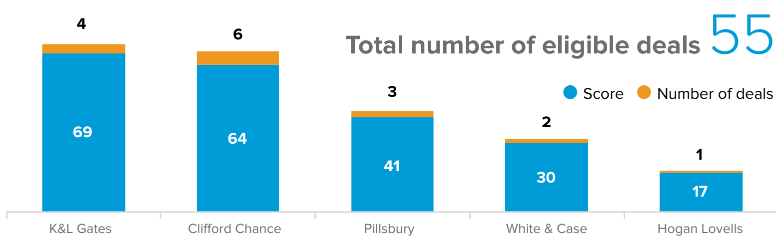
K&L Gates' global head of aviation, Robert Melson, observes that private equity funds have been actively looking at opportunities for airline investments in Asia-Pacific. "Carriers who otherwise were doing fine before Covid-19, but who are now facing insolvency are of keen interest to private equity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

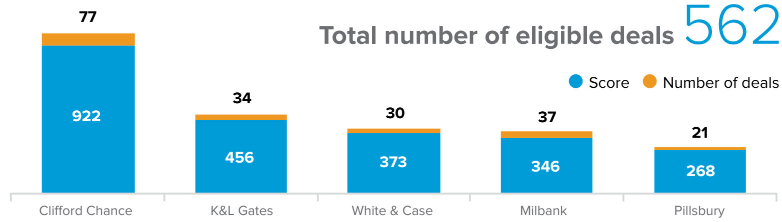
In March 2019, NAC sold a $786.3 million US private placement with Citi, Deutsche Bank, Goldman Sachs and RBC Capital Markets, which the borrower claimed was the largest senior unsecured US private placement ever issued by an aircraft leasing company. The issuance launched at $250 million and was substantially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

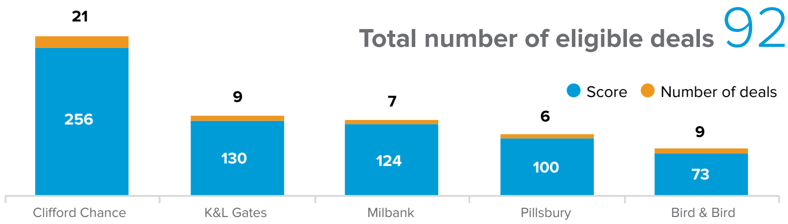
"Twenty-nineteen was a challenging year for the European airline market, one which saw further consolidation – whether consolidation by elimination (several airlines failed in 2019, including Thomas Cook Airlines, Germania, Wow Air and Aigle Azur), or active M&A activity (including IAG's proposed acquisition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



Source: law firm submissions and *AFJ Deal Tracker*

Middle East



Source: law firm submissions and *AFJ Deal Tracker*

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.

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

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.

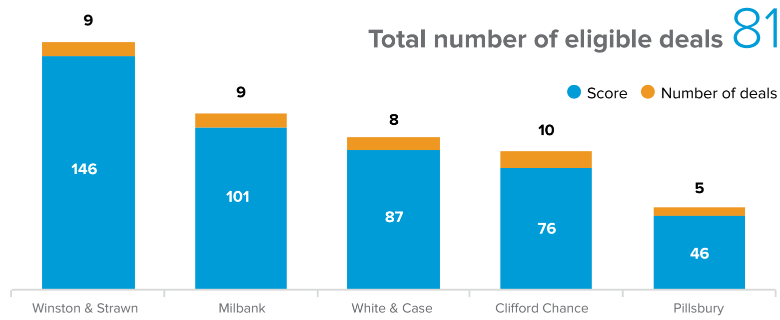
Milbank partner Drew Fine says the firm was particularly active in Latin America representing Avianca in its debt and lease restructuring transaction. Avianca renegotiated more than $4.5 billion of aircraft lease, debt and other obligations as part of its 2021 strategic plan. The transaction included 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".



Source: law firm submissions and *AFJ Deal Tracker*

North America

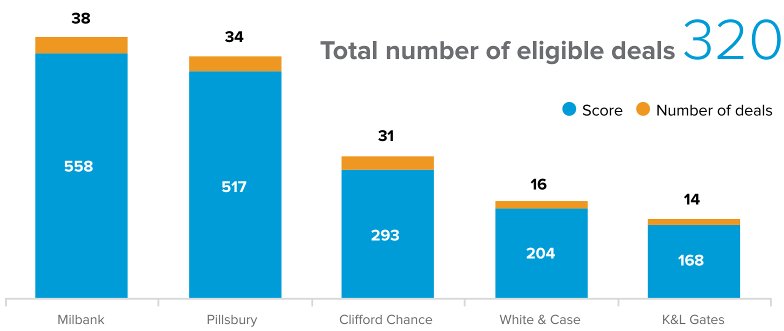
Milbank and Pillsbury were neck and neck in North America, representing more than 70 transactions during 2019, or 23% of the overall deals in the market.

"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.

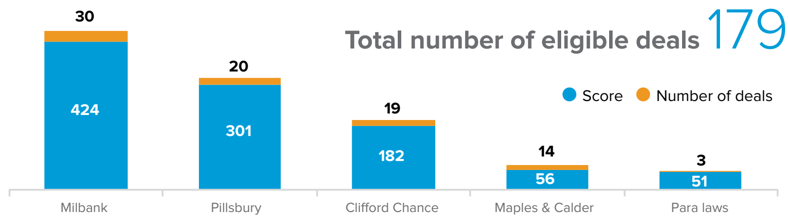
There was a vague air of optimism in January this year when the commercial aircraft ABS market was predicted to surpass 2019 volumes. Indeed, in the first two months of the year, ABS transactions across five issuances totalled $2.26 billion – and sources told *Airfinance Journal* in early March that 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.



Source: law firm submissions and *AFJ Deal Tracker*

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.

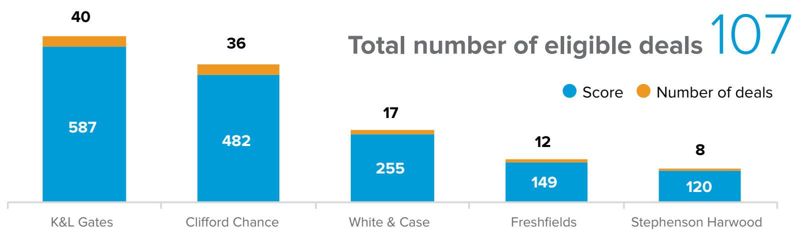
Milbank maintained its lead in the capital markets category. The firm was involved as counsel in 30 transactions, three more than the previous year. Pillsbury was second with 20 transactions in 2019 closely followed by Clifford Chance with 19. The EETC market had a better year in 2019 than in 2018 with 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*.

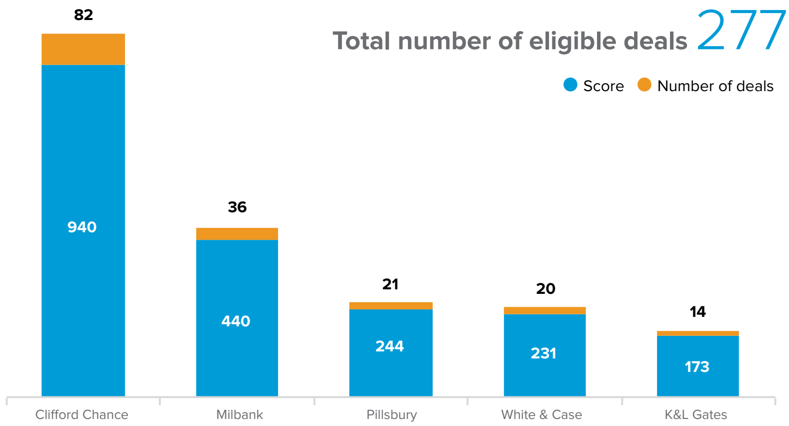
K&L Gates maintained its lead position in this market, although Clifford Chance significantly reduced the gap.

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



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.

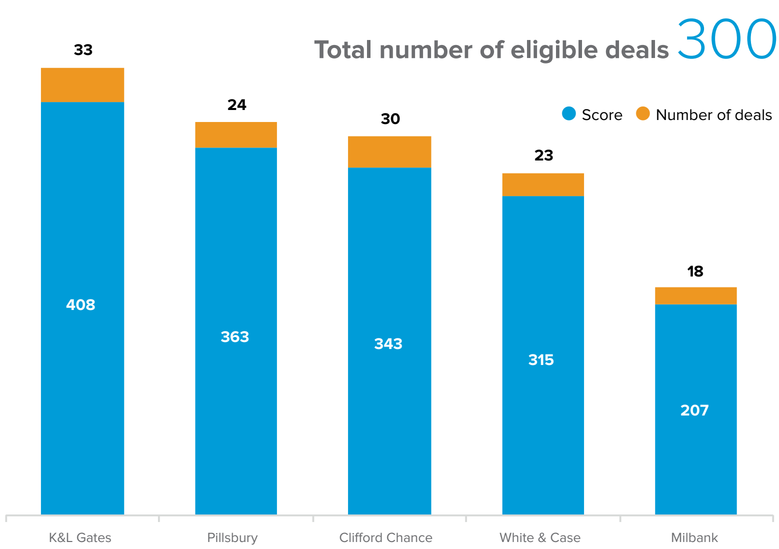
Milbank worked on warehouse financings for, among others, Aerocapital Solutions, Apollo Navigator, the KKR/Altavair joint venture, Airborne/Tailwind, TrueNoord and the Napier Park/AAR joint venture.

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



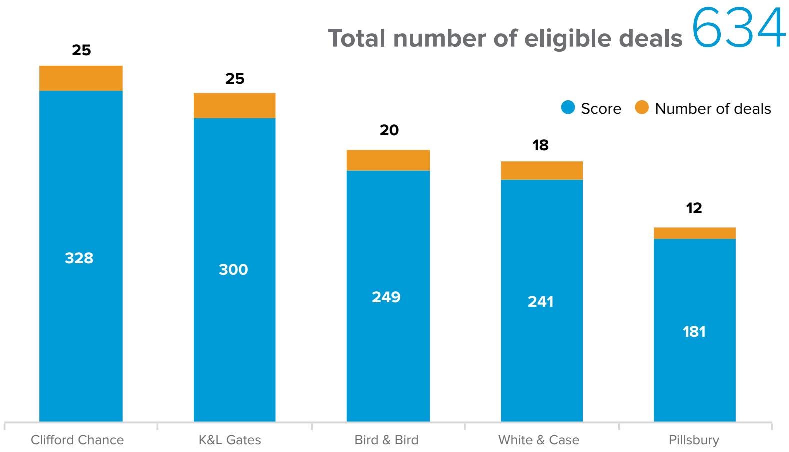
Source: law firm submissions and *AFJ Deal Tracker*

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.

Operating leases



Source: law firm submissions and *AFJ Deal Tracker*

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.

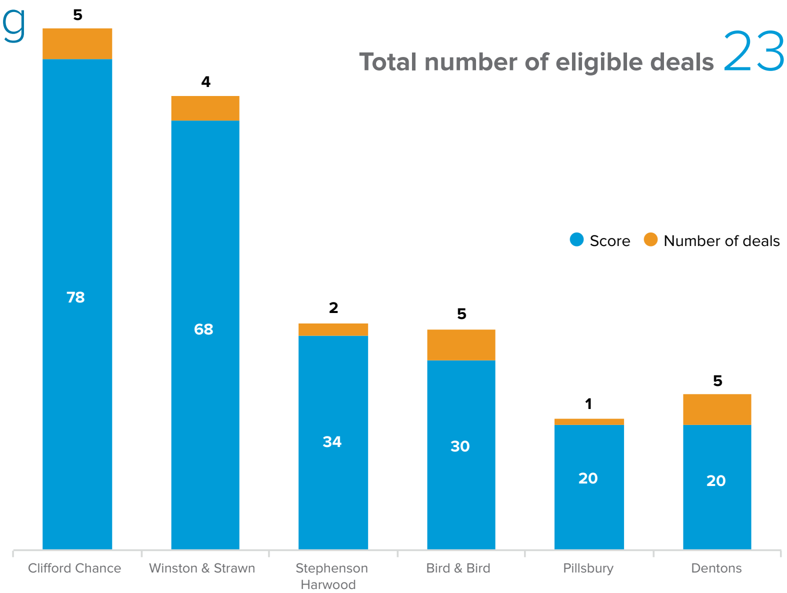
Operating leases continue to be the most popular financing solutions in the market of new aircraft deliveries.

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. "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



Source: law firm submissions and *AFJ Deal Tracker*

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. 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.

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," 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.

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.

"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

"This transaction will be our first aviation acquisition at MUFG Bank. We have a number of strategic investments across Asia."

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.

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. 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).

"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.

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 CO2 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 CO2. 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.

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.

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.

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.

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.

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.

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).

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.

> *"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

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

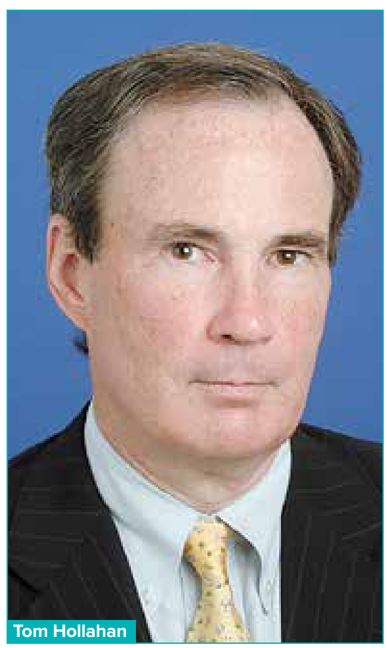
Tom Hollahan recently retired after a 40-year career at Citigroup, where he was the bank's global aviation industry head. He was responsible for a team of bankers in New York, London, Dubai, Hong Kong SAR and Dublin devoted to meeting the corporate banking needs of the aviation industry around the world.

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

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Activities: Freshfields Bruckhaus Deringer is a leading international law firm offering clients dedicated and seamless legal advice in all important economic regions. Amongst its over 2,800 lawyers in 28 offices in 16 countries across Europe, Asia and the US you will find a well-connected team of lawyers from various legal sectors and jurisdictions who are well-experienced in the aviation industry. As a firm, Freshfields Bruckhaus Deringer looks back to more than four decades of legal advice to the aviation industry.

With aviation experts available globally, and strong corporate, capital markets, finance, restructuring, regulatory, antitrust and litigation practices, Freshfields Bruckhaus Deringer can provide the legal support and advice necessary to master strategic opportunities in the aviation sector on a global scale and can call upon other specialists in the firm.

Our aviation team frequently advises on a broad range of matters in the aviation sector, including M&A (sell side and buy side, auctions, private sales, distressed sales), distressed situations (financial restructurings, advice to airlines in financial distress, advice to creditors), insolvencies (insolvency filings, advice to officeholders, creditors), aircraft and engine sales, leases and financings, capital market transactions and litigious matters. With a deep understanding of the industry, we have been advising on a good number of landmark transactions in Europe and beyond over the course of the last few years. Learn more about our aviation practice and visit www.freshfields.com

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AIR WORKS INDIA

Established in 1951, Air Works is India's biggest and highly diversified independent MRO with the largest pan-India network presence in 27 cities. We are the preferred MRO partner to OEMs, aircraft owners/ operators (including Fixed Wing & Rotary Wing), lessors, airlines and the Indian Defence Services and offer a host of services comprising MRO and heavy checks, Line maintenance, Interior & exterior finishing, Avionics upgrades and retrofits, End-of-lease/ redelivery checks, Maintenance training (CAR 147), and Asset Management services to domestic and international clients.

We offer base maintenance services for ATR 42/72, A320 family and B737 fleet of aircraft from our EASA and DGCA-certified facilities at Mumbai, Delhi, Hosur and Kochi, supported by duly certified shops for sheet metal and composites, cabin interiors and refurbishments, heat exchangers, batteries, NDT testing, avionics upgrades as well as aircraft painting.

Air Works also undertakes modification and assembly of rotary-wing aircraft and as a partner to several OEMs and an Authorized Service Centre (ASC) for many, the Company engages closely with Airbus, ATR, Boeing, CFM, Collins Aerospace, Dassault Aviation, Embraer, Goodrich, Gulfstream, Honeywell, Leonardo Helicopters, Pratt & Whitney, Textron Aviation, and, Williams International etc..

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Sarin & Co

Sarin & Co. is one of India's oldest law firms. Originally established in the year 1932, the firm is head quartered in Chandigarh, India. Recently, the Firm has also set up its branch office in New Delhi - the capital of India.

Sarin & Co. branched out into the field of aviation with the joining of Mr Nitin Sarin in 2008. It is the only law firm in India to provide complete aviation law services to banks, aircraft lessors, financial institutions, international airlines and Governments. Since then, the aviation team have handled over $16 billion worth of transactions and have also carried out some of the most complex aircraft repossessions in the country. The Firm has also advised several international airlines in challenging market access transactions. In 2019, the firm successfully paved the way for the first deregistration and export of an aircraft under India's new Cape Town Convention and Aircraft Protocol Regulations.

Sarin & Co's noteworthy clients include the world's top aircraft manufacturers, leasing companies, international airlines and banks.

The Firm's Managing Partner, Mr. Nitin Sarin is a dual qualified Advocate in India and Solicitor in England and Wales.

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Dynam Aviation Ireland Limited

DAIL

Dynam Aviation Ireland Limited (Dynam Aviation) is an Irish based aircraft leasing company with a focus on young, narrowbody aircraft.

Dynam Aviation was established in Dublin in 2019 and is 100% owned by Dynam Japan Holdings Co. Ltd. (DYJH). DYJH is the leading operator and service provider of pachinko halls (a popular form of entertainment in Japan) and is listed on the main board of the Hong Kong Stock Exchange (6889:HK).

DYJH's founder, the Sato family, established a second aircraft leasing company in 2015 - Sato Aviation Capital - which is partnered with Dynam Aviation. The partnership currently owns a fleet of eight aircraft, including two aircraft delivered in Q1 and Q2 of 2020. The short-term plan over the next 2-3 years is for the partnership to build a 30-aircraft portfolio (20-aircraft for Dynam Aviation and 10-aircraft for Sato Aviation). Current lessee's include: Wizz Air, Indigo, Vueling Airlines, Air France-KLM and Volaris.

Dynam Aviation has a team of industry experts with over 50 years of combined experience in financing, origination and marketing. It is partnered with leading service providers including: FPG Amentum, Santos Dumont, KPMG and McCann FitzGerald.

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** According to the Private Equity International (PEI) 300 top PE global firms list. Correct as of 30 April 2020.*

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IQ-EQ is a leading investor services group that combines global expertise with an unwavering focus on client service delivery. With a team of 3,000+ people operating across 23 jurisdictions, we support fund managers, global companies, family offices and private clients operating worldwide – including eight of the top ten private equity firms.*

We are focused on assisting companies with their setup and ongoing administration, providing services such as financial accounting and reporting, provision of directors, company secretarial and payroll services to operating companies and special purpose vehicles (SPVs) incorporated across a number of jurisdictions. Our dedicated team is involved in the day to day management of operations for clients in the aviation sector, including aircraft operating lessors and in lease in, lease out (LILO) aviation transactions, securitisations and other forms of asset finance.

Our people bring the know how and the know you. We are IQ-EQ.

** According to the Private Equity International (PEI) 300 top PE global firms list. Correct as of 30 April 2020.*

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Zeevo Group
Activities: Zeevo Group's extensive team of aviation and 'big four' consulting experienced professionals advise lessors, manufacturers, and airlines on a range of finance transformation, business intelligence, and technology integration initiatives that enable their organizations to better leverage capabilities, optimize operations, and mitigate business risks.

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