AIRFINANCE JOURNAL EVENTS

DAY 1
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How **Norwegian** is financing its fleet

Scandinavian low-cost carrier Norwegian is set for a busy year with 32 new aircraft deliveries planned in 2017.

The Oslo-based carrier says in a presentation that it will add 17 new Boeing 737-800s, along with the first six 737 Max 8 aircraft. Norwegian will also take nine 787-9s this year, including five units under operating lease agreements.

In the meantime it will redeliver four 737-800s to lessors.

Norwegian operated 116 aircraft at the end of 2016, of which 104 were 737-800s.

A total of 30 737-800s were financed in the US capital markets with 10 units through Enhanced Equipment Trust Certificates (EETC) and another 20 under private placements and commercial banks transactions.

The Scandinavian carrier used the export credit agencies for the financing of another 34 737-800s, while a total of 17 units have been financed through the sale and leaseback market.

Of its 104 737-800 fleet, 23 units have been acquired under operating lease contracts.

Norwegian has financed its 787 fleet using a mix of operating leases and export credit support.

Norwegian added four 787-9s last year. Those units joined eight 787-8s that delivered between 2013 and 2015.

The Scandinavian carrier is on course to expand capacity further with another 11 787-9s delivering in 2018. Its widebody fleet will account for 32 units by the end of 2018.

Norwegian says 95 % of aircraft financing are on fixed-rate deals. Long-term aircraft financings carry a 3.7% average interest rate.

In 2017, aircraft capital expenditure is expected to reach $1.8 billion, says Norwegian, while in 2018, capex plans are expected to total $2.1 billion.

Liquidity for PDPs

Last year Norwegian invested Nkr6.5 billion ($779 million) in new aircraft financing of which Nkr3.2 billion was financed with its own cash. It added 13 new 737-800s on the balance sheet in addition to four 787-9s.

Its solid liquidity position has allowed for the pre-delivery payment financing of its Boeing products as well as its new Airbus A320neo fleet.

At 31 December 2016, the carrier held Nkr2.3 billion in cash and had a Nkr700 million undrawn facility.

The carrier has all PDPs in place for its 50 Airbus A320neos. To date, two aircraft have been delivered for forward lease to Hong Kong Express, which will take a total of 12 units. Another three are expected to be delivered in 2017. One A320neo delivery will be financed with commercial debt.

Early this month Norwegian's leasing platform Arctic Aviation Asset has closed the pre-delivery payments financing with DVB Bank of four Boeing 787-9 aircraft, for which the carrier is in discussion with UK Export Finance for long term financing.

For this year's deliveries the Scandinavian carrier has raised financing against its first batch of six 737 Max 8 aircraft with an insurance guaranteed financing product.

Norwegian also signed sale and leasebacks on three 737-800s. All 15 new 737-800s that are scheduled to deliver through June this year will now be financed through sale and leaseback transactions.

Norwegian continues to boost its funding lines, with SKr800 million ($90.6 million) in funding raised through a senior bond with a 3.5-year tenor earlier this month.

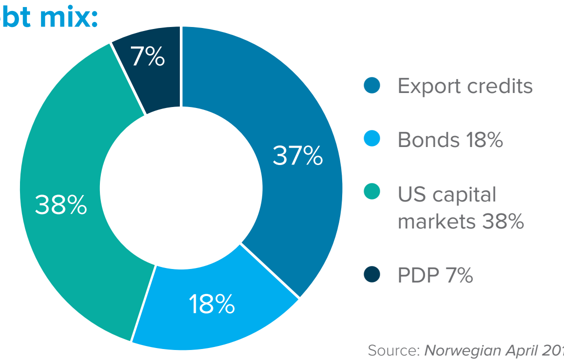
Last September Norwegian tapped the capital markets with a €60 million ($68 million) issuance, which carried a 7.25% interest rate per annum. The unsecured bond, which matures on 11 December 2019, is also used for general corporate purposes.

The transaction followed a tap issue of 6.72% Nkr250 million unsecured bond in August.

A credit facility of up to Nkr1 billion was also established last year, in order to strengthen Norwegian's liquidity buffer. The credit facility is part of the group's financing strategy to ensure solid and flexible funding.

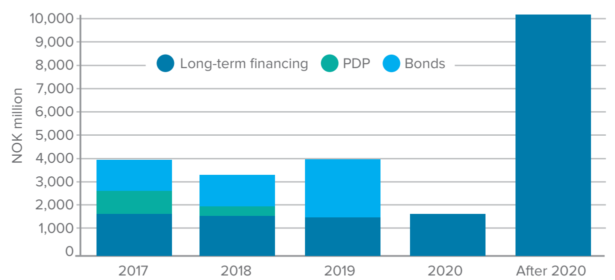
The carrier's debt maturity profile includes approximately Nkr1.8 billion in long-term financing per year over the next four years, as well as PDP financing and bonds repayments. This year, Norwegian has approximately Nkr4 billion worth of aircraft debt to pay.

Debt mix:



Source: *Norwegian April 2017*

Debt maturity profile:



Source: *Norwegian April 2017*

DAE ups narrowbody exposure with AWAS: Fleet Tracker

Dubai Aerospace Entreprise (DAE) will further diversify its portfolio in terms of aircraft assets and customers through the acquisition of Terra Firma's AWAS portfolio.

The Dubai-based operating lessor, which has exposure to narrowbody and widebody passenger and freighter aircraft, expanded its scope by entering the turboprop market in 2014. It committed to 20 ATR72-60s as well as 20 options.

Since then, DAE has acquired ATR72-600s from airlines through sale and leaseback deals.

It also acquired 14 aircraft of the type from GECAS with leases attached in March of this year.

"DAE firmly believes in the potential of the ATR72-600 in regional networks, both in terms of its technical capabilities as well as the superior customer experience it provides. Especially in emerging markets, the ATR72-600 has proven to be an invaluable asset that we will continue to invest in," says DAE's managing director Khalifa AlDaboos.

The acquisition falls in line with DAE's long term strategic interest in ATR aircraft, of which DAE ultimately expects to own up to 100 units.

DAE's current portfolio includes 111 aircraft in service, of which 48 are ATR72-600s, 35 narrowbody aircraft and 28 widebodies, according to *Airfinance Journal*'s Fleet Tracker.

Almost half the lessor's footprint is in Asia (40 aircraft) while Middle East and Latin America follow with 23 and 20 aircraft, respectively.

Fleet Tracker shows DAE has 10 aircraft in Europe and five in North America. The remaining two are with African operators.

The acquisition of the AWAS portfolio will diversify the lessor's business on products types and consolidate its regions presence.

AWAS' portfolio includes 224 commercial aircraft with customers along with a pipeline of 23 aircraft deliveries through the end of 2018.

The majority of the portfolio is focused on current narrowbody aircraft with the Airbus A320 model accounting for 37.1%. The Boeing 737-800 model represents 31.7% of the portfolio.

AWAS also has 12 A319s and 10 A321s in operation, six 737-700s and a pair of 757s.

More Asian presence

The widebodies account for 36 units, with most of the exposure around the A330 models.

The Irish-based lessor has 13 A330-300s and seven A330-200s in its portfolio with the majority of leases being with Asian operators.

Fleet Tracker lists Asiana Airlines, AirAsia X, China Eastern Airlines, Garuda Indonesia, Hong Kong Airlines, Qantas, Philippine Airlines and Singapore Airlines as operators along with Brussels Airlines, BH Air and Ukraine International.

AWAS' portfolio also includes eight 767-300ERs, three 787-8s, a single 777-300ER as well as four 747 freighter aircraft.

About 40% of the portfolio is with Asian airlines, with 17 aircraft in China, Fleet Tracker shows.

By acquiring AWAS, DAE also consolidates its presence in Europe and North America with 50 and 24 more aircraft, respectively.

The move also opens new markets in the CIS region with a number of Russian lessees that include Aeroflot Russian Airlines, Pobeda Airlines, VIM Airlines and Azur Air.

Orders

The Dublin-based lessors placed an order for 15 A320 family aircraft in June 2016, comprising 12 A320s and three A321s. So far it has announced placements of 11 units.

AWAS has agreed to lease five A320s to All Nippon Airways low-cost subsidiary Vanilla Air. The lessor has also announced a three-aircraft lease agreement with China's Spring Airlines and another three with India's IndiGo Airlines.

It has also contracted a purchase-leaseback agreement with Brazil's GOL Linhas Aereas for a total of five 737 Max 8 aircraft. Delivery of the aircraft are scheduled between June 2018 and November 2018. The lease terms are 12 years.

Too close to call between regional rivals

The competition between Embraer and Bombardier is at its fiercest in the 70- to 90-seat market. **Geoff Hearn** looks at how the manufacturers' respective models compare in terms of operating cost and market values.

Comparison of the competing Embraer and Bombardier aircraft in the 70- to 90-seat range is made more difficult by the plethora of models and variants in the category.

The Bombardier CRJ700 comes in three versions: Series 700, Series 701 and Series 702. The Series 700 is limited to 68 passengers, the 701 to 70 passengers and the 702 to 78 passengers. The CRJ700 also has three fuel/weight options: standard, extended range (ER) and long range (LR). The -ER version has an increased fuel capacity, as well as a higher maximum take-off weight, which in turn increases its range. The -LR version increases those values further.

The CRJ900 is a stretched 76- to 90-seat version of the CRJ700 model. It is available in standard, -ER and -LR versions.

Despite what might be inferred from its nomenclature, the CRJ705 is a variant of the CRJ900, certificated with a reduced maximum seating capacity. The aircraft was designed in the context of the Air Canada Pilots Association agreement with the airline management that limited the maximum seating capacity of any jet aircraft at Air Canada Express to 75 seats.

Jazz Aviation, a subsidiary of Chorus Aviation, operates

16 CRJ705s on behalf of Air Canada and is currently the only operator of this version. However, this type of agreement (known as a scope clause) has wider implications for aircraft in this market segment (see below).

The Embraer model range is also complicated by a number of options, with both the Embraer 170 and 175 available in standard, -LR and advanced-range (AR) variants.

Total sales of all the variants of the two CRJ types exceed those of the competing Embraer models, but this is to some extent explained by the earlier entry into service dates of the Bombardier aircraft.

The backlog for the Embraer aircraft appears healthier, albeit that it consists almost entirely of E175 orders. The prospects for the Bombardier models look less promising, with the CRJ700 having virtually no unfilled orders and the CRJ900 having an orderbook of fewer than 40 units.

Although the CRJ900 backlog is not large, Bombardier has continued to receive regular orders for the type and was given a boost in early 2017 when CityJet placed a firm order for six aircraft with an option for a further four of the type. The Irish carrier will wet-lease the aircraft to Scandinavian Airlines and the order is indicative of the CRJ900's wide geographical spread of operators.

In contrast, the CRJ700 is viewed by the market as a North American aircraft, with more than 80% of the fleet based in the region. Another plus for the larger Bombardier model is its technical reputation in the market. Several sources indicated to *Airfinance Journal* that they considered the CRJ900 to be a much-improved aircraft compared with the CRJ700, particularly in terms of maintenance costs.

Operating cost

The results of *Airfinance Journal*'s analysis indicate that the CRJ900 and E170 are very closely matched in terms of trip cost and that the Bombardier aircraft has an advantage of between 3% and 4% over the E175. The CRJ700 costs about 5% less in cash operating terms than its larger stablemate.

When cost per seat is

Leading characteristics of the 70- to 90-seat market

Model	Entry into service	MTOW (tonnes)	Engines	Maximum pax	Typical pax	Range (nm)	In service	On order	Customers
CRJ700	2001	33	2xCF34-8C5B1	78	70	1,220	335	2	26
CRJ900	2003	36.5	2xCF34-8C5B1	90	88	1,040	392	39	25
E170	2004	36	2xCF34-8E	80	70	2,100	195	2	27
E175	2005	37.5	2xCF34-8E	88	78	2,000	397	154	20

Source: *Airfinance Journal research based on manufacturers' published data*

Indicative relative direct cash operating costs for new single-aisle aircraft

	CRJ700	CRJ900	E170	E175
Relative trip cost	-5.2%	Base	+0.9%	+3.6%
Relative seat cost	+9.4%	Base	+13.6%	+5.9%

Assumptions: figures are based on *Airfinance Journal*'s interpretation of manufacturer claims and published data. Additional assumptions: 500-nautical mile sector, typical seating layouts.

considered, the CRJ900's advantage is increased significantly thanks to its typical configuration accommodating about 10 more passengers than even the larger of the Embraer models. The exact difference in capacity is, of course, a source of some debate between the manufacturers.

In North America, which is the key market for 70-seaters, the arguments around seating capacity and associated seat-mile cost are to some extent academic because the scope clauses in place between the major carriers and their pilot unions (similar to the example cited above for Air Canada) limit the size of aircraft that regionals can operate. The debate therefore centres on trip costs.

Sources that have been involved in placing aircraft with North American carriers tell *Airfinance Journal* that the major airlines typically credit the CRJ900 with a 5% cash operating cost advantage over the E175 – a slightly higher figure than that indicated by *Airfinance Journal*'s analysis.

The four-abreast cabin configuration of the Embraer aircraft is generally perceived as superior to the CRJ's three-abreast layout, but this is somewhat mitigated by the superior seat-pitch that the CRJ900 can offer in a 70-seat configuration.

The backlog for the E175 would suggest that Embraer has a competitive edge in the current market. The Brazilian company is, however, faced with a problem because the second-generation (E2) version of the E175 will not meet the requirements of the various pilot scope clauses in terms of maximum take-off weight. The manufacturer has mitigated the situation by planning for the E175-E2 to be the last of the family to enter service, but it is nonetheless banking on a relaxation of the limits.

However, given the relatively healthy state of the major carriers, it seems unlikely that their pilot unions will be in any hurry to concede ground. A related concern for operators of regional aircraft is that pilot shortages are driving up salaries, which removes a significant part of their cost advantage over the in-house operations of the major carriers.

Values and lease rates

Inputs from appraisers (see tables) suggest that the Embraer models have higher current market values for corresponding years of build and that their average lease rates are marginally higher than those of the Bombardier aircraft. Collateral Verifications values a new E175LR at about $4 million more than the competing CRJ900ER model. This is despite the equivalent list price for the CRJ900 being higher than that of the E175.

If list prices are used in the assumptions, *Airfinance Journal*'s analysis indicates that the total direct operating cost per trip of the CRJ900 and E175 are virtually the same. This is probably unsustainable for the Bombardier aircraft, particularly in the North American market where, as detailed above, it gains no advantage for its extra capacity. The views of appraisers on the higher values for the Embraer models are therefore in line with the results of *Airfinance Journal*'s analysis of operating costs.

Future values

Gueric Dechavanne, vice-president, commercial aviation services, Collateral Verifications, points out that the values of the Embraer and Bombardier models do not only depend on the competition between the two families.

"When looking at the CRJ700/900 and E170/175, the introduction of newer, more efficient aircraft, such as the Mitsubishi MRJ, Comac ARJ21 and Embraer's E2 models, may affect future values. I believe that these new entrants to the market will impact residual values should they show any signs of success.

However, the delays in the MRJ and ARJ21 programmes are helping to stabilise values and lease rates of the current Embraer and Bombardier models until the new generation of aircraft become available in larger numbers. The next few years should determine what the 70-seat market requires, and some of these aircraft could become outdated with the introduction of new competitors and/or replacements. Until then, I feel that the existing fleet of aircraft should continue to be in demand from the current operator base along with new potential operators looking to grow and develop markets by replacing ageing 50-seat regional jets or 50-to 70-seat turboprops."

CRJ900 and E175 in demand

Airfinance Journal's analysis suggests there is little to choose between operating costs of the Bombardier and Embraer 70- to 90-seat families. The order backlogs suggest that the CRJ700 and E170 may be coming to the end of their production runs, but demand for new models of both the CRJ900 and the E175 looks set to continue, in part because of the delays to new-generation aircraft in this market niche. The E175, in particular, remains a popular aircraft with virtually no availability on the secondary market.

Current market value ($m)

Build year	2009	2011	2013	2015	2017
CRJ700LR	13.15	14.85	17.75	–	–
CRJ900ER	14.10	16.24	19.65	21.73	25.60
E170LR	14.76	16.97	19.68	22.30	–
E175LR	16.19	18.13	21.56	25.09	29.74

Source: *Collateral Verifications, March 2017*

Indicative lease rates ($'000s/month)

Type	Lease rates range
CRJ700	150-228
CRJ900	180-233
E170	170-230
E175	190-245

Based on spread of inputs from appraisal firms for Air Investor 2017

Embraer's next phase

AFJ speaks to Embraer Commercial Aviation's president and chief executive officer **John Slattery** about life after the E2 and how his banking and leasing background is influencing his business approach.

You are the first non-Brazilian to take the helm of commercial aviation; what does that mean for Embraer?

I wouldn't read anything into this move by Embraer. We are a global company with approximately 18,000 employees from over 20 countries. We have facilities in the USA, The Netherlands, Portugal, UK, France, UAE, Singapore and China and of course Brazil. One of our values is: 'global presence is our frontier'; so, broadening the profile of our leadership aligns perfectly with that value. When I was invited by Paulo César to take the helm of Commercial Aviation I had already worked side by side with him for over five years, this allowed for optimal continuity of our strategy and execution.

I think our employees, customers, suppliers and financing partners appreciated this orderly transition. With Paulo now as our Group chief executive officer, my leadership team and I continue to have full access to him and his valuable inputs as we chart our course through the entry into service of the E2 and the many other projects we have going on. In summary; no big changes, steady state.

Does it foreshadow a different approach? What do you bring to the table? What is your vision and what do you want to accomplish?

We are already a global company with leadership team members from around the world. With around 100 jet operators from more than 60 countries, we can't but be a global organisation if we want to remain successful - it's a basic expectation of our customers.

I hope my experience in the aircraft banking and leasing worlds before I joined Embraer brings value to the company. I think about protecting residual value a lot - that's engrained in me from my past life and helps drive a rigor into my decision making every day.

Regarding what my teams and I want to accomplish, our immediate targets are to deliver the E2 on time, on budget and with the design specification that we promised the market and maintain momentum on sales and increase our global footprint.

On a longer term basis, I want to support the team in facilitating the debate around what the E3 looks like.

Our success is a good function of our team, not any one individual; I'm just pleased to be part of the team.

Lessors - they can prove to be a good weapon to promote the product, and a variety of them is needed to maintain competitiveness. NAC is approaching monopoly position on certain types of aircraft for leasing - is this a good thing for Embraer?

Today we have approximately 30 lessors owning and trading E-Jets. They have proven to be powerful allies to our business as they own about one-third of our in-service fleet helping us to promote our products, to increase our franchise footprint all over the globe and in supporting liquidity of the airplanes.

NAC is an expert in regional aircraft and are increasingly a strategic partner for Embraer.

It also has an order for E1s which we are working with them on placing, principally amongst their existing customer base many of whose we didn't have exposure to hitherto.

While it's not appropriate for me to comment on NAC's strategy, it is definitely committed to the E-Jet platform as a core component of it's fleet going forward.

Our business is far too big to accommodate anyone with monopolistic ambitions, and I will always want our airlines to have a choice when looking for lessors.

I believe NAC shares that view as trading assets between lessors has proven an integral component in the business plan of any insightful lessor.

Embraer E2 - What is the vision? How many do you expect to sell and why? Will you be protective about lessor sales?

Our market outlook estimates a demand for 6,400 jets in the 70 to 130-seat capacity over the next 20 years. Today, Embraer accounts for over 60% of total deliveries in the segment and our team is working hard to maintain that market share as we go forward.

We designed the aircraft to be the most competitive offer in the segment to keep our share of the market.

We explored every opportunity to introduce new technologies that could bring value to the customer and in this regard 75% of the aircraft is new. The efficiency in terms of fuel burn and lower maintenance costs has no parallel in the market and our hope is that the E-Jets E2 will be even more successful than the first generation.

Regarding lessors, today the E2 has three respected lessors in the backlog: AerCap, Aircastle and ICBC.

We don't have plans to sell more E2s to the lessors until they have placed a significant percentage of the current orders with those existing lessors for the E2. On a mature basis, I expect we will have 20-30% of the delivery stream direct to lessors.

That said, when we add in

John Slattery, Commercial Aviation's president and chief executive officer, Embraer

sale and leasebacks, I expect the aggregate percentage to grow to 40%.

For the E1s, lessor ownership is already at 33%. We studied the mistakes others have made in overselling into this critical distribution channel and learned valuable lessons from that exercise. In placing new aircraft, we put our lessor's interests ahead of our own - that drives a unique alignment and loyalty.

What more can be done to make BNDES a little more aggressive when it comes to country risk?

BNDES is as active and aggressive as any ECA, I certainly don't see us disadvantaged against any other ECAs bound by the Aircraft Sector Understanding (ASU).

They are experts in their field; real professionals and I'm always glad when I see them on the deal team.

Of course, challenging jurisdictions can sometimes lead to longer times developing the structure of a deal - that's the same for every ECA and frankly any reasonable commercial lender. However, my experience is the Brazilian ECA is very creative in structuring transactions that mitigate the jurisdiction risks and we are always grateful for their support.

An overview of GECAS and its offerings

Over the past three decades, the world's fixed-wing commercial fleet (passenger and cargo) has more than quadrupled, from 5,000 aircraft to nearly 23,000 aircraft. While airline operators have an increasing preference for leasing some portion of their fleet, almost 40% of all commercial planes today are leased, there is an even greater percentage within the narrowbody market.

GE Capital has provided aviation financing for 50 years and, since the formation of GECAS in 1993, has achieved the position of the industry's number-one lessor by fleet size. GECAS delivers leasing and secured debt financing on aircraft (passenger aircraft, freighters, regional jets, and turboprops), as well as helicopters and engines. Currently serving a wide array of operators, from flagship airlines to startups and regional airlines to low-cost carriers, GECAS offers the widest range of aircraft types and financing solutions in the industry.

With 1,660 fixed-wing aircraft owned, serviced or on order, GECAS has one of the largest fleets in the world, as well as a substantial order book with new technology aircraft. Today, nearly one of every 15 commercial planes in operation are in our portfolio. Additionally, GECAS has more than 300 helicopters in our Milestone Aviation fleet and over 570 owned and managed engines in our portfolio.

Source: Airbus

Over the decades, we have developed deep domain expertise and an unmatched breadth of services to provide our clients with full aviation lifecycle solutions. Custom-tailored to meet operator's current and future fleet needs, GECAS' leasing opportunities free up capital, eliminate residual value exposure while delivering increased operational flexibility. Our experienced debt team structures loans to optimize client's balance sheets while supporting their financing needs.

The GECAS suite of offerings includes aircraft and investor servicing, airline and airport advisory services, as well as one of the world's most extensive inventories of recertified airframe and engine components. Additionally, GECAS' technical specialists provide unparalleled expertise on all asset types as well as manage aircraft deliveries and transitions.

Our team of more than 550 employees across 25 offices are strategically located to serve more than 270 clients in over 75 countries and is comprised of the industry's most experienced team of aviation marketing, legal, risk, finance and technical personnel. With the ability to forward commit — as well as take on large, complicated deals involving new order placements, sale-leasebacks, debt financings and take-outs — we offer solutions that many lessors cannot.

Our deep domain and experience helps us to identify opportunities and issues ahead of others. By sharing our insights with clients, we enable them to stay ahead of the curve, while developing long-term and mutually-beneficial partnerships. The scale and scope in which GECAS operates around the globe, coupled with the breadth of resources at GE, provides clients with distinct competitive advantages.

Above & Beyond

GECAS provides clients in 75 countries with deep domain expertise, 50 years' experience in aviation finance, and the industry's broadest range of products and services.

AFJ launches **Credit Quality Index**

Airfinance Journal launched Credit Quality Index in the first quarter of this year.

Credit Quality Index assesses airline credit quality by focusing on four key financial measures including Ebitdar margin, fixed charge coverage, liquidity and leverage based on the data from The Airline Analyst and AFJ Financial Ratings for 150 airlines. The index represents the average of the airlines' individual ratings.

Please note that AFJ Financial Ratings and the Credit Quality Index do not represent credit ratings but are only indicators of intrinsic financial strength based on the four criteria mentioned above and the airlines' financial statements. They should not be relied upon for investment decisions.

Globally airlines have improved their financial positions since 2014 after a period of eight years of stagnation in single B territory. Their overall credit quality index jumped to 4 rating in 2015 and 4.4, or the equivalent of a BB rating last year.

The credit quality index of all 150 airlines reflects the different successes of different performance models in different regions.

We see a significantly increased variation in ratings by region than 10 years ago. In 2006 all regions were clustered around a single B rating. In 2016 the range of regional ratings was approximately three times greater.

Middle East carriers have improved dramatically since 2014 overtaking North America since 2015 which suffered a small decline in 2016 after several years of strong improvement.

The Middle East carriers' aggregate rating for credit quality index reached BBB for the first time last year.

North American carriers are now close in aggregate to the credit quality index of Asian carriers, European carriers and Latin American airlines.

African carriers lag behind with an overall credit quality index below B.

There are more disparities between airlines when the credit quality index reflects different business models.

National carriers show no improvement over the past three years. Their overall credit quality index is marginally better than CCC.

On the other hand leisure carriers have seen the most improvement.

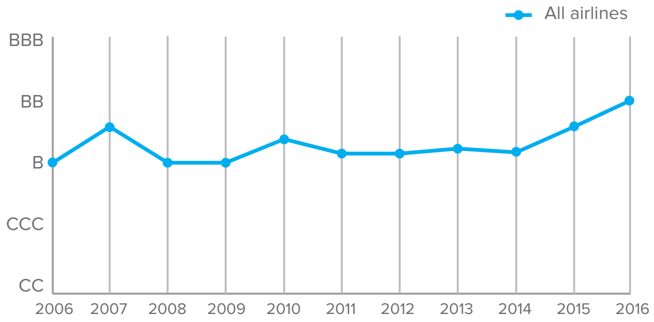
Their overall rating has firmed up from a B rating to above BB rating. Leisure carriers and low-cost carriers have followed the same trajectory since 2015.

Network carriers' credit quality index continue to improve.

"Airline credit quality is on an up-cycle but good analytical models and information are key."

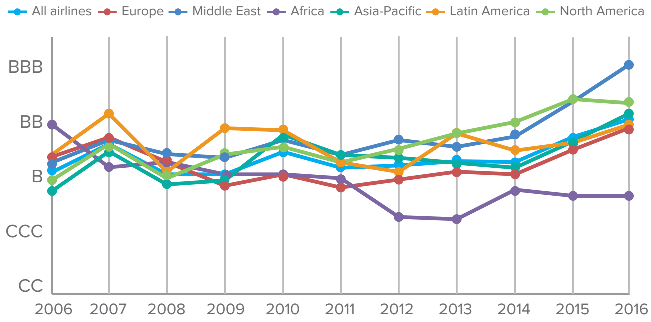
Michael Duff, *TAA managing director, Airfinance Journal*

Global credit quality index



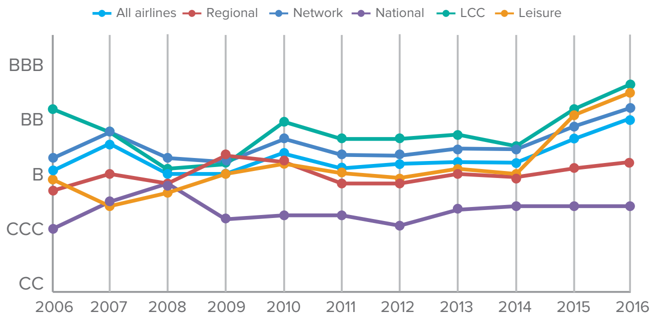
Source: *Company financials and The Airline Analyst*

CQI by region



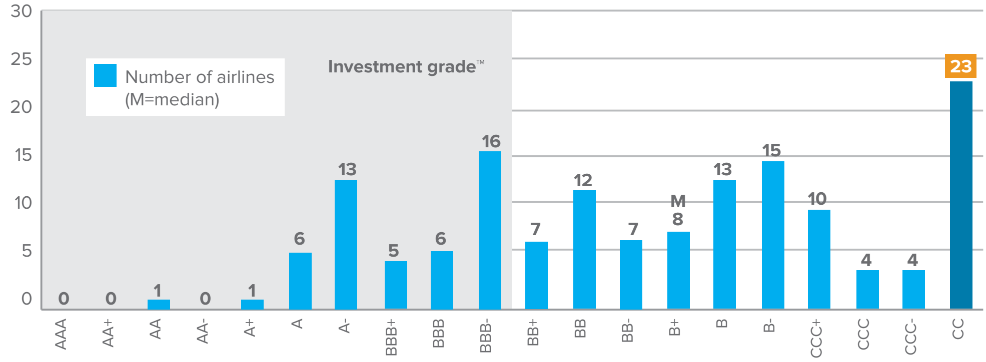
Source: *Company financials and The Airline Analyst*

CQI by business model



Source: *Company financials and The Airline Analyst*

Ratings distribution



Source: *Company financials and The Airline Analyst*

According to Financial Ratings, 64 airlines are above the investment grade, or BBB- rating. The median of the 150 airline rating distribution is B+. A total of 23 airlines are rated CC and are dependent on continued support from parent companies, governments and other sponsors.

"Airline credit quality is on an up-cycle but good analytical models and information are key to developing target market and portfolio strategies, especially the airlines to avoid" says *Airfinance Journal*'s TAA managing director Michael Duff.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USA gains lessor appeal in **Trump tax revamp**

US president Donald Trump's campaign promise of tax reform, which includes slashing the current corporate tax rate of 35%, could be a welcome development for lessors that prefer to be headquartered outside of Dublin.

However, congressional failure to overhaul the US healthcare plan raises serious concerns about the Trump administration's ability to deliver on his aggressive economic agenda.

Trump's tax overhaul plan is at the heart of his "America first" initiative, so putting the USA in line with its trading partners and placing US companies on a level playing field with foreign competition.

But would lowering the corporate tax rate to 15%, which is part of a wider five-point tax agenda, or 20% as the Republican congressional blueprint suggests, be enough to prompt operating lessors to relocate from Dublin?

Lessors currently enjoy a competitive corporate tax rate of 12.5% corporate in Ireland.

Manifest destiny?

"The presence of all lessors in Dublin is due to tax considerations. It seems pretty obvious that if those tax considerations become less advantageous every lessor in Dublin will reconsider their presence there," an Asian-based lessor tells *Airfinance Journal*, adding: "It obviously depends on whether other jurisdictions can offer better then whatever the final number is. There are plenty of other jurisdictions that are prepared to offer conditions that will attract lessors. The decision could only hurt Ireland."

A US lessor chief believes talk about lessor relocation moves due to US tax reform is "hugely" premature.

"It depends on which elements of the total tax package are enacted. Anything Trump-related, I view as questionable in terms of being implementable," he says, adding: "If the overall tax rate for US companies goes down, yes, we may see leasing companies revisit the possibility of being US based. But for now, it is way too early to evaluate."

Another US lessor agrees. "There is nothing serious at this stage. Lots of ideas in the White House hopper, but all are quite fluid and unsure, so it is too early to forecast."

A Dublin-based tax specialist is also cautious about what the tax revamp will entail, noting that the drop in US tax rate would "need to be paid for in some way".

He indicates that there is a "growing sense" that the actual tax rate will need to be higher than 20% "to get Republicans over the line" as the "cost would be too great otherwise."

An Irish lessor echoes his view, saying a "meaningful migration of lessors" to the west is unlikely.

"Lessors are more driven by the tax treaty network and the relationship with owners' jurisdiction. Remember, depreciation shelters current taxes," he says, adding: "There is a centre of excellence in Ireland regarding leasing, so there are other reasons why lessors are domiciled here too."

The USA is not the only other option for lessors on the hunt for lower corporate tax rates.

In January, Hong Kong outlined proposed tax reforms and is recommending a 50% reduction in the corporate tax rate to 8.25% for lessors leasing to non-Hong Kong airlines.

However, a banker notes successful implementation of the US tax reforms, as opposed to those in Hong Kong, would have a greater impact on the lessor community in the short term.

"The Trump tax changes are the ones to watch. The USA is an established financial and leasing hub with a double tax treaty and depreciation in place. It will take Hong Kong years to match that," he says, adding: "It is too early to take London off the table as another option for lessors. Who knows what Brexit will mean, so you can't laugh it off just yet."

A Dublin-based lessor doubts the move, noting the UK does not have much interest in promoting cross-border leasing. "If they did, they would have done it by now."

The lessor argues the European Union could revisit the idea of tax harmonisation, threatening Ireland's generous tax rate.

Ireland's 12.5% corporate tax rate has repeatedly come under attack from various governments, particularly the French, which have argued that its attractive rates are forcing businesses to move away from high-tax jurisdictions.

The UK has been Ireland's fiercest ally in avoiding tax harmonisation, resisting a move toward a tax agreement in the then 27-nation bloc in 2012.

The timing for the overhaul of the US tax code is uncertain; however, US Treasury Secretary Steven Mnuchin indicated in an interview with CNBC that he wanted the tax plan to be signed by the president before the August congressional recess.

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The 37th Annual **North American Airfinance Conference**

Tuesday 16th May 2017, New York Marriott Marquis, USA

Day One **Investor Day**

8:00am Registration and refreshments

8:50am Chairperson's opening remarks

Timothy Lynes, *Partner, Katten Muchin Rosenman LLP*

9.00am North American airline market overview
- What is the expected trajectory for US airline unit costs and revenues?
- How are balance sheets positioned in this market?
- Is anyone hedging fuel anymore? And does it matter?
- How do cash flows look in a stressed environment?

Justine Fisher, *Senior Vice President, Goldman Sachs*

9.30am On-stage interview with lessor CEO – Market trends
- How competitive are North American lessors?
- Is there a correlation between airline and lessor profitability?
- How will lessors' financing strategies evolve over the coming year?

John Plueger, *Chief Executive Officer, Air Lease Corporation*
Interviewed by: Mark Streeter, *Managing Director, Airline/Aircraft Credit Research, J.P. Morgan Securities LLC*

10.00am Trends affecting North American carriers profitability = demand for new aircraft deliveries
- Drivers for recent profitability and potential headwinds
- Impact of such trends affecting demand for new deliveries
- "Where to from here?" Growing focus on technology driving revenue/cost changes

John Luth, *Chairman, President & Chief Executive Officer, Seabury Capital LLC & Managing Director & Head of Corporate Advisory, Seabury Consulting, Own by Accenture*

10.30am Values matter: a look at aircraft value retention
- Which aircraft display the greatest value retention?
- What do investors need to know about valuations and methods for valuations?
- What does it mean for investors when market value is higher than base value?

Stuart Rubin, *Principal, ICF International*
Dick Forsberg, *Head of Strategy, Avolon*
Phil Seymour, *President & Chief Executive Officer, IBA Group*
Moderated by: ***David Tokoph***, *Chief Operating Officer, Morten Beyer & Agnew*

11.00 Networking and morning refreshments

11.30am The deal breakdown session

This session will provide an informative content-led break down of the four main deal types within aviation financing through four deal breakdown discussions of 25min each.

EETC Structure overview
- How are EETCs structured and rated?
- What returns have been seen in the EETC market?
- Who is issuing EETCs in the market?

Scott Debano, *Managing Director, Citi*
Sarah Briand, *Vice President, Morgan Stanley*
Jonathan Root, *Vice President – Senior Credit Officer, Moody's Investors Service*
Helen Kotsovos, *Senior Director, Financing, Air Canada*
Moderated by: ***Mark Lessard***, *Partner, Pillsbury Winthrop Shaw Pittman (HK) LLP*

ABS Structure overview
- How do you evaluate an ABS deal?
- What structural evolutions have been seen?
- Are we likely to see more ABS deals on end of life aircraft?

Keith Allman, *Vice President, Senior Securitized Asset Analyst, Loomis, Sayles & Company, L.P.*
Rahul Vishal, *Vice President, Athene Asset Management L.P.*
Matt Little, *Head of Business Development, Castlelake*
Anthony Nocera, *Managing Director, Kroll Bond Ratings*
Moderated by: ***Timothy Lynes***, *Partner, Katten Muchin Rosenman LLP*

Airline unsecured & other debt
- How are unsecured bonds structured?
- Why do equity investors take a different view from debt investors in airline vs. lessor debt?
- Which airlines are issuing unsecured bonds and what coupon rates can we expect to see?

Patrick Kaufer, *Managing Director, Deutsche Bank*
Craig Fraser, *Managing Director, Fitch Ratings*
Moderated by: Mark Streeter, *Managing Director, Airline/Aircraft Credit Research, J.P. Morgan Securities LLC*

Lessors' unsecured and other debt
- How does lessor unsecured issuance differ from airline?
- How do unsecured coupon rates compare to those achieved by airlines?
- How do public lessors respond to low equity valuations and how does this impact debt markets?

Gregory B. Willis, *Executive Vice President & Chief Financial Officer, Air Lease Corporation*
Michael Inglese, *Chief Financial Officer, Aircastle*
Christian McCormick, Managing Director Finance, CALC
Betsy Synder, *director, Standard & Poor's Ratings Services*
Moderated by: Mark Streeter, *Managing Director, Airline/Aircraft Credit Research, J.P. Morgan Securities LLC*

1.10pm Lunch

2.30pm How attractive are private placements for investors?
- What structures have we seen so far this year?
- What are the pros/cons and what size deal falls in the sweet spot for private placements?
- Is the market under supplied and will demand in this space increase?

Michael Dickson, *Managing Director, Citi*
Michael Dickey Morgan, *Executive Managing Director, Burnham Sterling & Company*
Rafael Kuhn, *Director, Deutsche Bank*
Andrew Kleeman, *Managing Director, Barings*
Moderated by: Marjan Riggi, *Managing Director, Kroll Bond Ratings Agency*

3:10pm Airlines analysed: Credit trends in the global airline industry
- The key indicators
- Overall outlook
- Regional variances
- Different business models

Michael Duff, *Managing Director, The Airline Analyst*

3:40pm Destabilising factors impacting the industry
- How do fuel prices stand to impact airline, lessor & OEM profitability?
- How vulnerable is the industry to international conflict?
- What impact do interest rate changes have on airline, lessor & OEM profitability?

Peter Morris, *Chief Economist, Flight Ascend Consultancy*

4:10pm Are the book to bill ratios of Boeing & Airbus the signs of a downturn?
- It will be the first time since 2009 either manufacturer falls short of their book to bill of one, what does this mean?
- Will Boeing & Airbus be able to shift older generation planes?
- What trends are we seeing in rates of deferrals and cancellations?

Francois Collet, *Vice President, Structured Finance – Banks and Capital Markets, Airbus*
Wendy Sowers, *Director of Product Forecasting, Boeing Commercial Airplanes*
Moderated by: Ray Sisson, *Chairman & CEO, AVi8 Air Capital*

4:40pm Why should investors consider the regional market?
- Why should I get into the regional business?
- What makes regional aircraft a good investment?
- Why should I finance your aircraft?

John Moore, *Head of Global Sales, ATR*
Sergio Guedes, Director Customer Finance, Embraer
Ross Mitchell, *Vice President – Commercial Operations, Bombardier*
Eddie Jaisaree, *Senior Vice President Sales & Marketing, Mitsubishi Aircraft Corporation*
Moderated by: Rod Sheridan, *Vice Chairman of the Board, Nordic Aviation Capital*

5:20pm Chairperson's closing remarks