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Graysky launches with SLB package in sights

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Graysky Aviation, the new leasing platform that specialises in mid- to late-life commercial aircraft and engines, has agreed a letter of intent for a package of aircraft under a purchase and leaseback transaction, according to founder and chief executive officer, Stratton Borchers.

“That is in the mix and working on closing and we will have the aircraft inspected in March. Ideally, we aim to close by the end of this month or April at the latest,” he tells *Airfinance Global* in an interview.

Borchers confirms to *Airfinance Global* the involvement of Luminarx Capital Management in his new venture.

“I have had strong relationships with private equity firms and institutional investors over the last decade. It is important that when we got our seed investment to launch Graysky, it is an investor set with a different mentality.”

“I worked with the Luminarx team, even before they were Luminarx Capital Management, and that has just carried over to Graysky Aviation.”

He says Luminarx Capital Management is associated with the current project but there are a number of other institutional investors or family offices that he has developed a similar type of relationship with that will also deploy capital and manage assets on its behalf.

“Each of them has aviation experience but slightly different criteria and preferences so they actually act as great partners complementing each other's strategies.

“Based on the different capital sources, we are able to allocate funds to the right structuring relative to origination pipeline.”

The goal in the next six to nine months is to build Graysky’s balance sheet.

“We view this as complementary to the asset management business, as well as our diversification to our own needs. The hybrid between the two provides the right amount of balance and flexibility because if your business is asset management only, you cannot run a stable business and compensate appropriately until you hit major scale.

“This can be exceptionally challenging for your P&L in a period like Covid when you might have to renegotiate 80% of your leases and they all end up halved.”

Borchers says Graysky was two times oversubscribed for the initial equity, but that ultimately the leasing platform did not over-raise.

“If you raise too much capital, you lose your scrappiness and creativity.”

But he adds that Graysky will be back in the market for a Series B or other type of structure to provide funds to the balance sheet.

Borchers initially aimed to deploy $185 million and trade $20 million this year but should the LOI for the narrowbody package close it will have already surpassed the first 14 months of projections.

By the end of this year Borchers hopes the platform will have deployed close to $300 million.

He says the firm works on a five- or five-to-seven-year investment period.

Prior to founding Graysky Aviation, Borchers was co-founder of True Aero’s leasing business.

During his nearly 10-year tenure at True Aero, he had responsibilities over investor relations, strategic business planning, origination activities, investment management, underwriting, legal and risk. Borchers began his career with ConocoPhillips, advancing through various competitive analytical and commercial roles to become a commodities trader while leading multiple investment ventures in real estate.

"Trust and integrity are essential and in my case, it has been maintained over the decades allowing me to set up Graysky rapidly," he comments.

Borchers says although there is an absolute need for private equity funding to access capital, the leasing platform has retained a level of autonomy in how it approaches the business, underwriting and managing deals.

In the end, Graysky Aviation raised funds in fewer than three months, with its investment thesis fully formed for the next five to seven years.

"Our origination pipeline will be exclusively on narrowbody and widebody current generation aircraft," he says.

"I cannot necessarily say that the values will continue to appreciate at the rate they have, and I don't believe lease rates can go much higher because the market is reaching a critical inflation point for airlines, but those markets will continue to be exceptionally robust."

The current market conditions favour this strategy, he opines, as the industry continues to see new delivery delays and engines coming off wing for early unscheduled shop visits.

"I cannot underwrite a $45 million new tech engine acquisition right now with confidence that I have a general understanding of the predictability of the outcome of the investment. Certainly, there will be an AD that will take the asset off wing and we might not be covered on warranty and my entire underwriting is imploded," he comments.

Borchers says the Boeing 737-800 is the best aircraft at the moment because the model has a single, reliable engine choice.

"The 737-800 gives you the broadest remarketing in the broadest pool of need right on the engines. This is why the market sees the most aggressive pricing both on spare engine lease rates and values."

Assets are challenging to source as there are no 737-800 aircraft offered without leases attached, according to him.

"It is going to be platform specific because once an asset approaches mid-to-end life, engines represent 80-95% of the value. Whether you opt for a low thrust CFM56-7B or high thrust -7B it is inconsequential because you still have the versatility."

Borchers has benefited from his past experience in the USM market to better his understanding of end-of-market and residual values.

