

Priority 1 buys European Cargo

Laura Mueller

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Priority 1 Logistics is now the 100% owner of European Cargo following the buyout of its main shareholder.

Doug Brennan, the chief executive officer of Priority 1 Logistics, said during a conference call that the move was made possible in part by a \$230 million secured financing completed in the fourth quarter at 12.65% that drove the capital requirement for the shareholding change.

The financing also allowed the business to refinance existing debt and “transform” the remaining fleet into cargo aircraft, he said.

The bond is backed by 15 Airbus A340 aircraft and Rolls Royce Trent engines that are owned and operated by European Cargo and various spare parts.



Priority 1 Logistics Issuer Designated Activity Company

Detail

ISIN: NO0013387852

Exchange:
Nordic ABM (Apply)

Type: Senior Secured

Redemption Type:
Bullet

Financials

Current Outstanding:
\$230,000,000 USD

Interest Type: Fixed

Interest Frequency:
Bi-Annually

Interest Rate: 12.625%

Dates

Issue Date:
19th November 2024

Maturity Date:
19th November 2027

Type: Senior Secured

Redemption Type:
Bullet

Following the financing, Priority 1 Logistics launched P1 Leasing, an aircraft leasing entity based in Ireland.

It also owns Perishable Centre Nord, a handling business based in Norway.

“We’ve made very significant changes to the business, really putting the business and management teams in place to scale for the year. When we came into the bond offering, we were highly concentrated around one customer. We’ve expanded that customer base.

“That has been a significant game changer for the firm,” Brennan said.

He said management is in active negotiations with multiple additional clients and has renegotiated agreements to deliver “higher than forecasted rates for 2025”. Additionally, all contracts were extended.

The Bournemouth-headquartered carrier began operations during the pandemic when its prior parent company, European Aviation Air Charter, responded to an urgent charter request by the UK government for PPE transport from Malaysia. It started flying with ex-Virgin Atlantic A340s and later added additional aircraft from Iberia and Etihad Airways.

Priority 1 and Blackrock backed European Cargo in early 2022 to convert the passenger-configured A340 aircraft to cargo aircraft. European Cargo began converting its widebody fleet that year, with the first of these certified by the EASA in December.

Priority 1 also acted as the mortgagee and security agent on behalf of lenders in a credit agreement signed in February 2022 that covered several A340-600s for an initial principal amount of \$25 million, regulatory filings show.

Brennan said European Cargo is focused on “steady operations” out of Bournemouth and Cardiff airports and is expanding to target airports in China.

In October 2024, the airline launched a three-times-per-week flight between the Welsh airport and Ürümqi Diwopu International Airport in China.

It has also commenced eastbound flying of perishable goods on its existing network.

“We’ve begun operations to trade and move perishables between the UK and China, a very significant development that changes the nature of cargo trade at its core in the sense that we are more fertile,” he added.

Tariff opportunities

Brennan acknowledged tariffs are a concern for the aviation market but anticipates they will support route expansion at European Cargo.

"It's only been very supportive of what we're trying to do. Particularly, we have new initiatives establishing routes between the UK and Canada, and Canada to China, and we expect, given the imposition of tariffs, that there will be tremendous energy and motivation to make these trades work."

He said Priority 1 Leasing has established offices in Shannon and is looking to expand its capability through ACMI and potentially adding other aircraft to the fleet on either a direct or indirect operational basis.

Total revenue at Priority 1 Logistics reached \$20.2 million for the fourth quarter, representing a 40% increase from the prior-year period. The majority of this was due to the increase in block hours and rotations compared to the previous period, reflecting increased aircraft availability and demand. Block hours rose to 1,623 (+47%), and rotations increased 71% in the period.

Gross profit amounted to \$6.1 million for the period, an increase of \$9.9 million from 2023 due to a decrease in fuel prices as well as "better flight planning" using technology to assist in routing and fuel usage.

EBITDA for the period was negative \$2.2 million, which was comparable to 2023; however, it said there were several one-off costs associated with closing the year that would ordinarily be spread across the full period, including audits and professional services at the Irish companies in order to close the period.

It acknowledged that management changes and upgrades throughout the organisation added cost to the group, but these changes would drive unit cost reduction in 2025.

It noted third-party, independent appraisers valued the company's assets at \$484 million under a lease-encumbered analysis and at \$313 million under a sum-of-the-parts breakup analysis as of August 2024.

Priority 1's portfolio includes 15 A340 aircraft, 84 spare engines, and more than 9,000 spare parts.

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