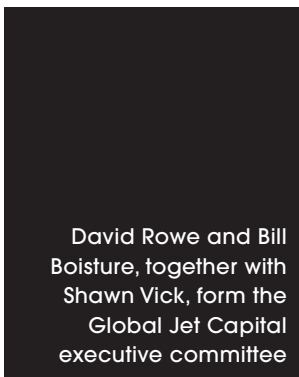




Lease, don't buy – best advice for large cabin?

Anthony Harrington talks to Shawn Vick, Chairman, Global Jet Capital

Global Jet Capital is the best capitalised new entrant to the private aircraft financing market that we have seen in decades. Launched at NBAA 2014, the company represents the coming together of three global investment firms, GSO Capital Partners (a Blackstone company), The Carlyle Group, and AE Industrial Partners. The new company has the financial resources to fund in excess of US\$2 billion worth of new and pre-owned large-cabin, long-range jets. Global Jet Capital is already in the final stages of several major deals and has a full pipeline of prospective financings that should complete this year. EVA talked to Global Jet Capital's Chairman, Shawn Vick, General Partner at AE Industrial Partners, who together with Bill Boisture; well known as the former CEO of Beechcraft; and David Rowe; another seasoned industry professional and the founder and managing partner of AE Industrial Partners; form the Global Jet Capital executive committee.



David Rowe and Bill Boisture, together with Shawn Vick, form the Global Jet Capital executive committee



Q: What led to the formation of Global Jet Capital?

A: The concept for the Global Jet Capital business model goes back several years. The original conversations with Claude Franco, David Rowe, Bill Boisture and myself began

around the time of the 2008 financial crisis. We started evaluating the possibility of launching an aircraft financing business that would specialise in operating and finance leases for large cabin private aircraft. We believed this platform should not only provide leasing solutions but also lending products such as progress payment financing as well as senior and junior loans for private aircraft. The opportunity to launch Global Jet Capital reached an optimal point in 2014 as demand for private aircraft financing started to pick up.

Q: Please elaborate on the various lease and loan products you are offering, remembering that not all of our readers may be familiar with financing terminology

A: Let's first talk about the different kinds of leases. Operating and finance (or capital) leases are perhaps the most important products we offer to the market. Both lease structures finance all or nearly all of the cost of the aircraft. This is important when you consider the price of a new long range aircraft. Banks typically will want to limit the amount they lend against a private aircraft to 65 or 70% of its value. This can leave the customer having to come up with \$10 or \$20 million of additional capital to acquire the jet. Both operating and finance leases address this concern by providing full financing.

In both lease structures, Global Jet Capital acquires the aircraft from the current owner (or the manufacturer) and leases the aircraft back to the end user. The lease is for a set term which can be as little as five years and as long as 12 years. The lessee (the end user) pays a monthly rental at a rate that is set at closing. During the term of the lease, the lessee will enjoy the full use and enjoyment of the aircraft. The lease contract will specify that the aircraft must be properly managed and we will take a view of the aircraft management company the end user wants to put the aircraft with, but for all practical purposes, it is their aircraft for the duration of the lease, which may well be for a good chunk of the life of the asset.

At the end of a finance lease, title to the aircraft will pass to the lessee when the final rent has been paid. A finance lease is effectively

a high loan-to-value loan and is typically accounted for as such.

The operating lease has a very different outcome. At the end of an operating lease, the end user simply returns the aircraft to the lessor. If the customer would like to extend the lease or purchase the aircraft, the lessor will explore those options, but in most cases the lessee is moving on to another aircraft. And the lessee is happy about that because it gives him or her a chance to move to another aircraft model. Maybe the motivation is to get into the latest technology offering or maybe a larger (or smaller) aircraft to better fit the mission profile. Regardless, the flexibility that an operating lease offers is compelling.



For clients looking for more traditional term loan financing for their new and pre-owned aircraft, we are able to provide 70 to 100% financing over seven to 12-year repayment terms

In the operating lease structure, the lessor takes all of the aircraft residual value and aircraft liquidity risk. If the aircraft is worth half of what everyone thought it would be or if it takes nine months to find another lessee or buyer for the aircraft, it is the lessor's problem – not the lessee's.

Operating leases also allow end users to avoid having to own an asset, which can have privacy or on-balance sheet accounting implications. From a budgeting standpoint, not having the variability of the residual value at the end of a finance lease (or a loan) allows the CFO to accurately project the cost of flying a private aircraft.

Q: You mentioned progress payment and other lending products when describing the vision for Global Jet Capital

A: Yes, in addition to the finance lease product – which is a form of lending effectively – Global Jet Capital will provide other types of loans to help finance private aircraft. We will work with clients to provide progress payment financing in connection with their new aircraft orders. For clients looking for more traditional term loan financing for their new and pre-owned aircraft, we are able to provide 70-100% financing over seven to 12-year repayment terms.

The junior loan product we offer can often be combined with a customer's relationship bank to provide 90-100% financing if desired. A junior loan – sometimes called a mezzanine loan – is the tranche of financing that comes as a kind of top-up to the senior loan amount, generally at a somewhat higher interest rate, since the junior lender is taking on the additional financing risk beyond the point that the bank deems it prudent to go.

Q: In the years following 2008 we saw the world's banking industry retracting mightily, withdrawing from a number of funding areas. In trade finance as banks pulled out, we saw capital market players coming into the trade finance space with dedicated funds. Is that a parallel with your thinking about the opportunities in aircraft financing?

A: That's a great example. The banks by and large are still somewhat reserved about making large ticket loans for non-core assets like private jets. Many lending institutions that were in the aircraft financing business prior to the 2008 financial crisis found having to mark those aircraft assets to market through the lean years was an extremely painful process. We are also, incidentally, in talks with a number of banks who are exploring the fit between our business model and their end customers. Leasing is not for everyone, particularly banks. If we can work with financial institutions to deliver operating lease products to their clients, we will be creating a win for all involved.

Q: You make a compelling argument for the operating lease. But can you persuade those who incline towards owning the jet outright to change their view?

A: Some aircraft owners are really invested in the idea of ownership. We expect a good number of clients to continue to pay in cash or utilise the more traditional, lower advance bank loans to partially finance the aircraft acquisition. But when relatively new large cabin jets fall by over 10% in value in consecutive years like we have just seen, the number of parties interested in operating leasing grows and it's reflected in the calls we are getting.

Q: So what made for the current timing for the launch of Global Jet Capital?

A: Over the last two years it has become clear that the large-cabin, long-range jet market has begun to stabilise. The industry has seen a good return to growth for this segment and manufacturers have built a solid backlog of orders. The super-midsize market has also picked up somewhat, though beneath that class of aircraft the market continues to be challenged. Anyway, two years ago we all got together again and started putting the Global Jet Capital concept together in earnest. We gathered two very capable financial partners, in the Blackstone subsidiary GSO Capital Partners and The Carlyle Group, with whom both Bill and I have had a relationship that goes back over a decade. We looked at the kind of growth that had taken place in the market, at the generally negative attitudes in the banking industry toward private aviation, the projections for growth in jet sales from Bombardier and Gulfstream and decided that now was a very good time to get into the business with a seriously competitive offering.

Q: Which markets are responding to your financing capabilities?

A: We are very purposely targeting the \$25 million and above asset class as the reasonable and

sound end of the market to invest in. The proposals that we are looking at from interested borrowers and lessees are global in scope. We literally have proposals from every continent and are looking at transactions in North America, Europe, Africa, Asia and South America. The aircraft under consideration range from Gulfstream 280s to 550s and Bombardier Global Expresses as well as Falcon 7Xs, Boeing BBJs and Airbus ACJs. The conversations include both finance leases and operating leases. Candidly, the interest in operating leases has exceeded our initial expectations.

Partially, what is driving this move to leasing is the way the price of new jets has rocketed in the last two to three decades. If you go back 20 to 30 years, the high-end jets were in the high teens and low 20s. The large-cabin aircraft like Boeing were for head of state or military use. Today you are looking at \$50 million to \$60 million for a new large-cabin aircraft. Tying up \$50 million in an aircraft does not make good business sense for most people.

Q: What makes you confident that you can judge residual values well enough not to get burned by them?

A: Our crystal ball is no better than anybody else's. But the way we have organised our platform allows us to thoughtfully manage residual value risk on a

portfolio basis. And that's the key. An individual or a corporation does not have the benefit of portfolio diversification and financing maturities that are spread out over many years. If you buy a new, expensive private aircraft in 2015 and plan on buying your next model in five years' time, you are subjecting yourself to the vagaries of the overall economy and the specific demand for that aircraft model in 2020. If that year turns out to be a down year, or if that particular model has been replaced by newer technology, you may bear the economic brunt of a lower than projected residual value. If we owned that aircraft, we would mitigate the risks of that particular lease expiry date and aircraft model with a diversified portfolio.

Our team has strong credentials in the private aircraft business and we are using that experience to build a portfolio to absorb the kind of volatility we have seen recently in aircraft values. Our capital is also very different to bank capital. We have permanent and patient capital that will allow us to invest across the aviation business cycle. If an aircraft comes off lease in a depressed market we are not compelled to sell. If conditions favour re-leasing it, we'll do that instead.

Q: Do you do anything other than financing?

A: We are a finance company. That being said, our long individual histories in private aviation allow us to offer a unique perspective. We can provide clients with a complete package solution, which together with financing may include a power by the hour type support programme for the jet and its engines.

We can blend in a complete solution for prospects, including the financing. One client is returning to the charter business after a three-year hiatus doing other things. The client had eliminated all of his infrastructure when he left and is now looking for infrastructure that goes with managing and operating aircraft to be funded as well. We are putting together a complete funding package for him. ■

