Aeropodium
Aircraft Repossession Conference
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Aircraft Value Risk

International Aviation Advisors

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Aircraft Value Risk

- This is still a growth business, but profits are obviously not universal.
- Airlines in 1985: 332 Airlines now: 809
- LCCs in 1985: 1 LCCs now: 84
- Lessors in 1990: 75 Lessors now: 150+
- About 33% of the global fleet is leased, up from 24% in 2000.

Aircraft Value Risk

- Lessors have grown their fleets (and the airline business) by acting as “middle-man” for weaker credits and start-ups…and SIA.
- They’ve helped the manufacturers expand their global market presence, especially for narrowbody aircraft.
- Simple Math: Large Orders = Big Discounts
  Cheap Financing = Money Spinner
- ILFC and GECAS have over 2,700 of the 6,600 leased aircraft.
- Tax benefits can be attractive, and IRRs can be above 25% even for a 10 year term…if you’ve chosen well.

Aircraft Value Risk

- Choosing well is a matter of timing, and avoiding risk altogether…especially in this market.

- Things to avoid:
  - Performance/MTOW shortfalls
  - Last ones produced
  - Obsolescence (Market or Technical)
  - Problems in Maintenance/Records
  - Unusual avionics configuration
  - Substandard galleys
  - Too optimistic cash flow expectations
  - Lack of market knowledge
  - Local limits on rights to repossess
  - Surprises

Aircraft Value Risk

- Things to focus on:
  - Pre-buy Inspection
  - Lessee Credit Analysis
  - Maintenance Reserves / Split
  - Return Conditions
  - Freighter Conversion (?)
  - Market Leadership
  - Moving out on the RV curve
  - The First Day

Market Factors

- IATA forecasts 2010 global airline profit of $2.5bn, or was it a loss of $2.8bn...?   Note: LCC's are not included.
- Airline traffic growth is a function of GDP, historically at a factor of about 1.4 to 1.6.
- Passenger Yield is the most important factor for aircraft values and especially lease rates. The passengers upfront are funding the money spinner…or not.
- Airlines have cut capacity, so about 1,500 aircraft will need to be returned to service.

Market Factors

- External risks are many (Geopolitical/Banks/Europe/etc.), but at least Airfinance has been supported by EXIM/ECAs.

- Fuel price risk actually supports NG aircraft values/lease rates, and increases the demand for new technology.

- This has led airlines to push for more fuel efficiency and lower operating costs…

Interesting Times

- CSeries + GTF = A320 NEO + B737 (?)
- All New B737? Would give the advantage to Airbus, (twice)…unless Boeing knows something that we don't.
- GTF / LEAP: Big threat to useful lives and future values.
- Production increases are the OEM's ATM machine.
- Surprise! OEMs could hurt customer's fleet values in 2011, and then again later with the all-new versions…

Future Values?

- IAA developed fvDynamics to take advantage of computer simulation, probability and logical analysis. The system has evolved into a virtual model of the future aircraft market.
- The usual concept of Base Value market equilibrium ignores the effect of GDP and Passenger Yield, and is not well defined.
- Each future market value and lease rate forecast is a function of the simulation, which is based on a sophisticated Expert System…as well as our opinion of the economic cycle.
- We've also developed a Lessor Investment Return Model, which details the potential cash flow, balance sheet and IRR results from aircraft investments.

Q & A…?

…or should we just have a coffee now.

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