

Contingency planning for distress

22 May 2020



Welcome

Tim O'Connell
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Grant Thornton

IBA in a nutshell

We are an award winning Appraiser with a leading Aviation Intelligence Platform and a large Asset Management and Technical Team

- Over 30 years in operation
- Over 60 staff worldwide, offices in UK, US, Japan and Ireland
- 6 ISTAT Certified Appraisers, 5 of which are Seniors, 1 of which is a Senior Appraiser Fellow
- Successful Aviation Intelligence Platform- IBA.iQ
- 21 Full-Time Analysts across Valuations and Advisory
- Active Asset Management Team – Seeing live data, maintenance costs, values, lease rates
- Active Technical Management Team – Direct contact inside airlines, transitioning aircraft, technical knowledge, maintenance and airline experience

IBA's Certified ISTAT Appraisers



An aerial, top-down view of a white commercial airplane with two red engines, parked on a grey tarmac. The aircraft is oriented diagonally from the top right towards the bottom left. Yellow ground markings are visible on the tarmac surface. A dark shadow is cast by the aircraft onto the ground. In the upper left, there is a semi-transparent grey box with a purple vertical bar on its left side containing text. In the lower right, there is another semi-transparent grey box with a purple vertical bar on its left side containing text.

As of mid-May 13,000 commercial aircraft, over 50% of the global fleet, are parked/stored. The knock-on effect for lessors throughout the globe is deferral requests across the vast majority of their portfolio.

Repossession and remarketing are not viable options as the demand for aircraft is extremely depressed. Depending on specific circumstances, leasing companies will be able to ride-out a period of deferrals - the large unknown is how long before the market will return. A detailed, meaningful contingency plan, through to crafting restructuring solutions is required.

Agenda



Debt restructuring

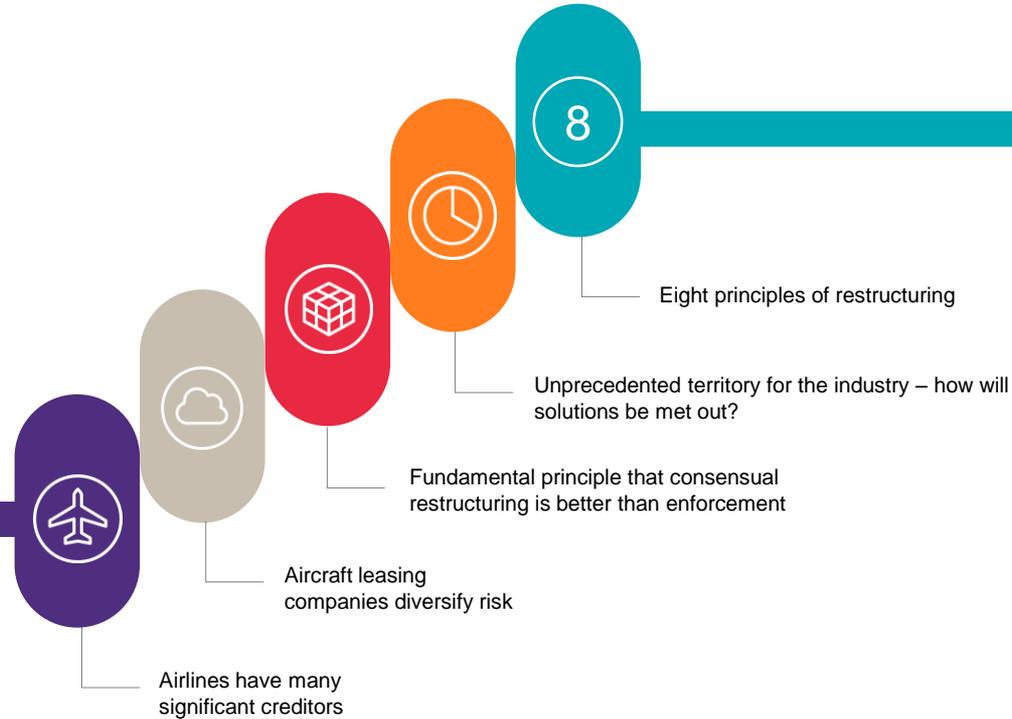
Paul McCann

Partner, Global Head of Advisory

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Principles of Multi-Creditor Workouts



1

Standstill

When a debtor is in trouble
creditors should allow
standstill period

E.g. Quinn Insurance

2

Equity principle

Creditor refrains from taking enforcement

Creditor position relative to other creditors does not worsen during standstill

Big issue for aircraft leasing companies now

No creditors are preferred

Cash flow visibility

3

Debtor

Debtor does not take action during the standstill period that worsens the creditor's position

No sale of stock/assets/SLBs

E.g. Morans

4

Herding cats

The interests of creditors are best done by coordinating their response

E.g. Bingham McCutchen

E.g. K&L

5

Information

The debtor needs to give
really good information

Tax can be important

Full IBR/IBA/CRBE

6

Law

Proposals for resolving difficulties should reflect applicable law and the relevant creditor position at the start of the standstill commencement date – Cape Town Convention

7

Confidentiality

Creditors need access to
information but they must
keep confidential

Pre-pack sale of businesses

8

Super senior

Any additional funding that comes in during the standstill period should rank super senior

Dealing with counterparties in Examinerships

Paul McCann

Partner, Global Head of Advisory
Grant Thornton



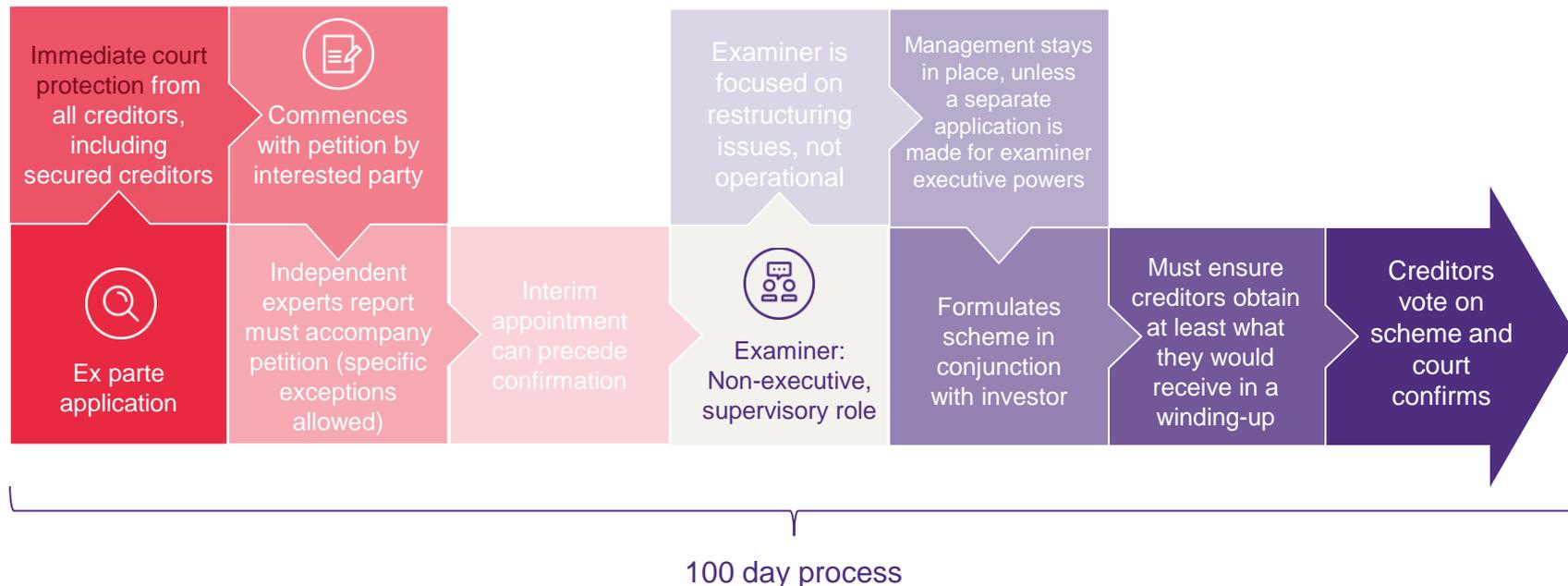
Purpose of Examinerships

To facilitate the survival of the whole or part of the undertaking (the Company), by dealing with historical liabilities through a scheme of arrangement and the future profitability of the company by:

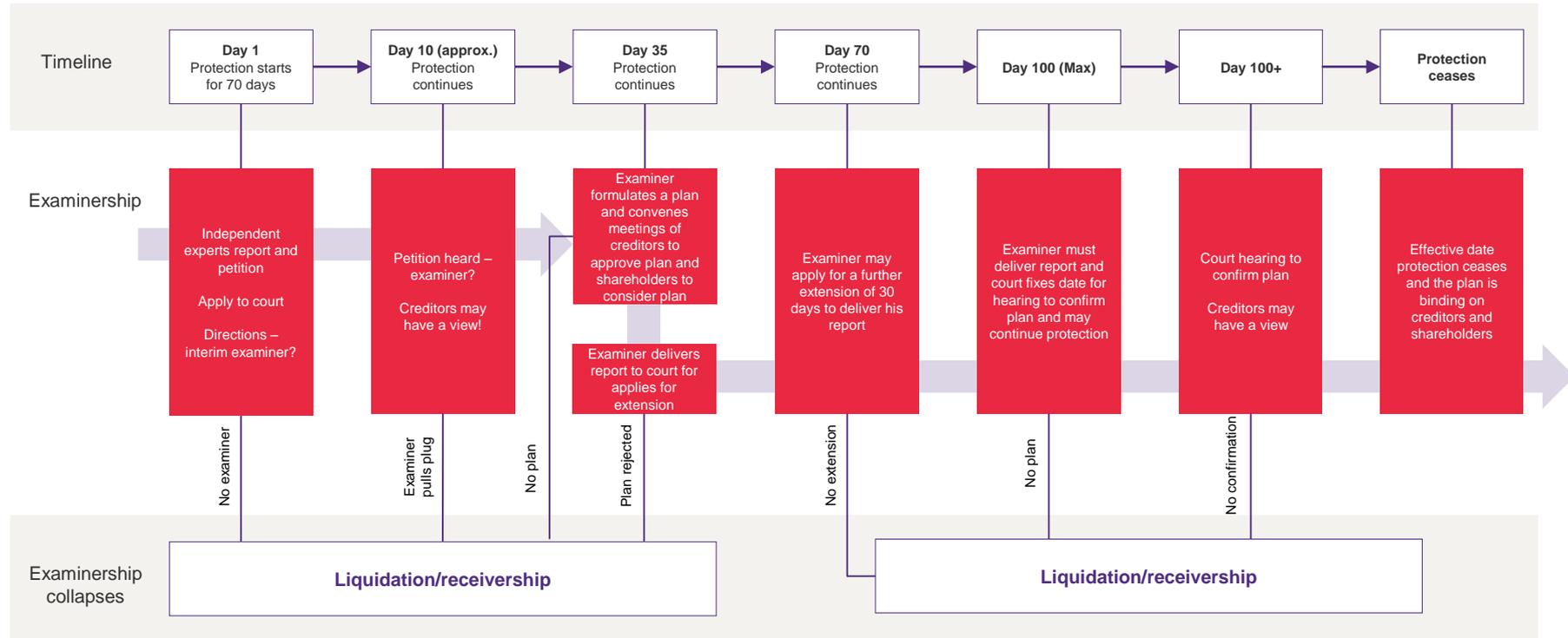


It is not the sale of assets for the highest price, as in a liquidation or a receivership

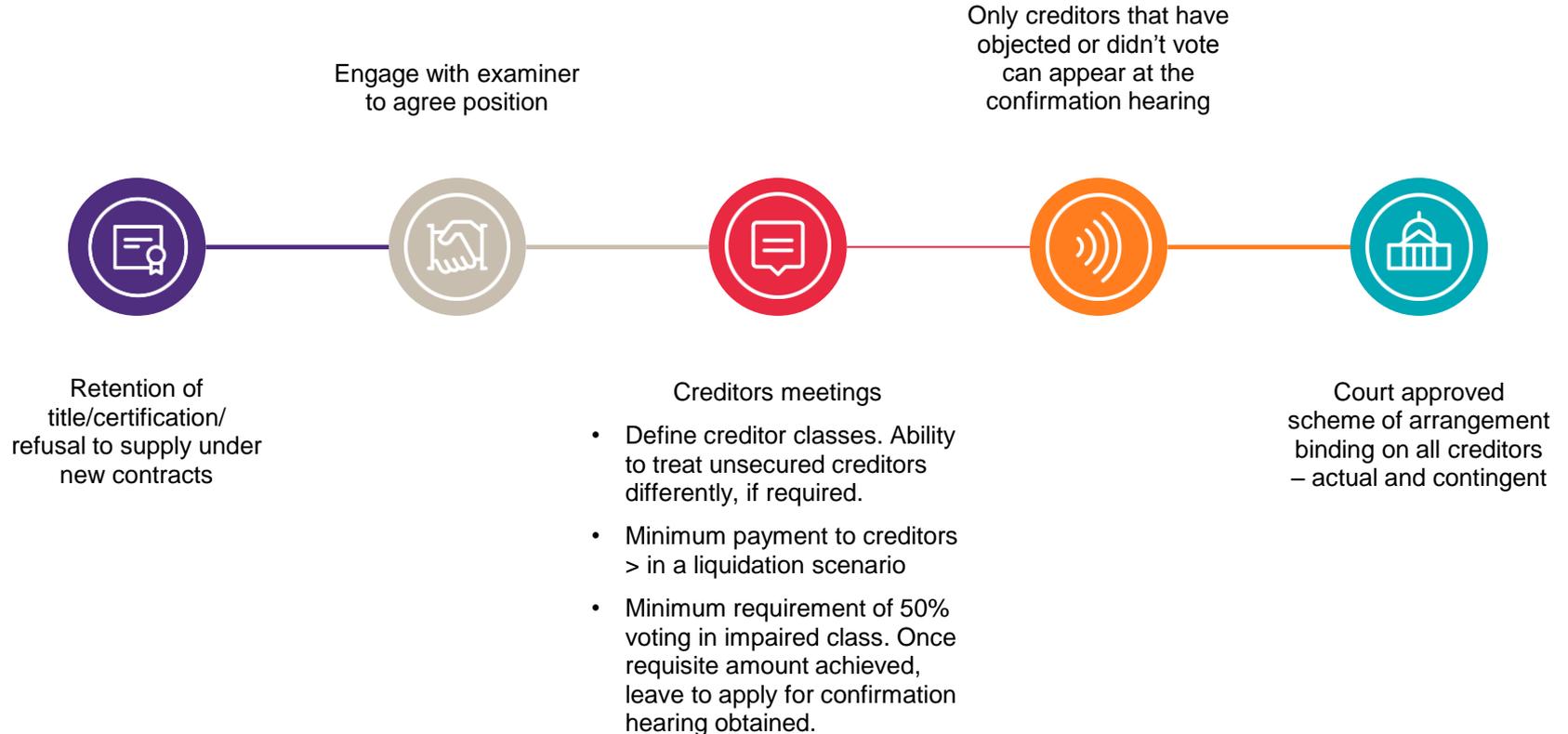
Overview of the process



Timelines



Creditors



Independent business reviews

Tim O'Connell

Partner, Head of Aviation Advisory
Grant Thornton

Philip Seymour

Company President,
IBA



Cashflow forecasting



Fixed
rent



Variable
rent



Deferral
principle



Deferral
interest



MR
costs



Total care
costs



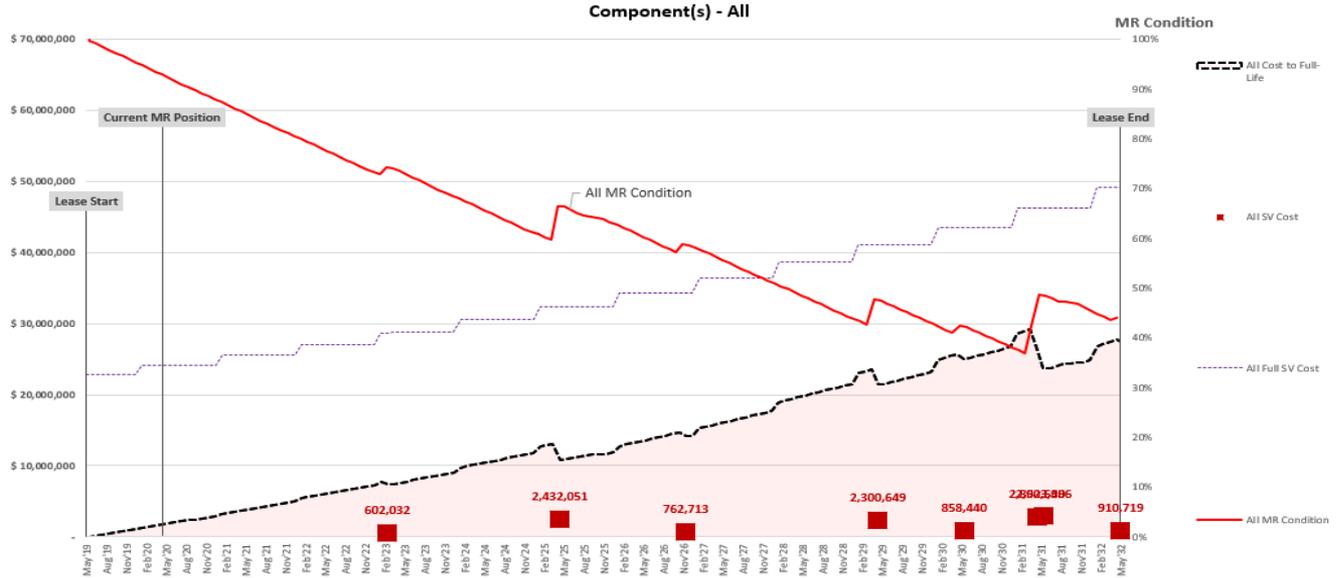
Event
costs
(outside
MR/total care)

Forecast: Metal Value and Maintenance Costs



Shop Visits in Chronological Order

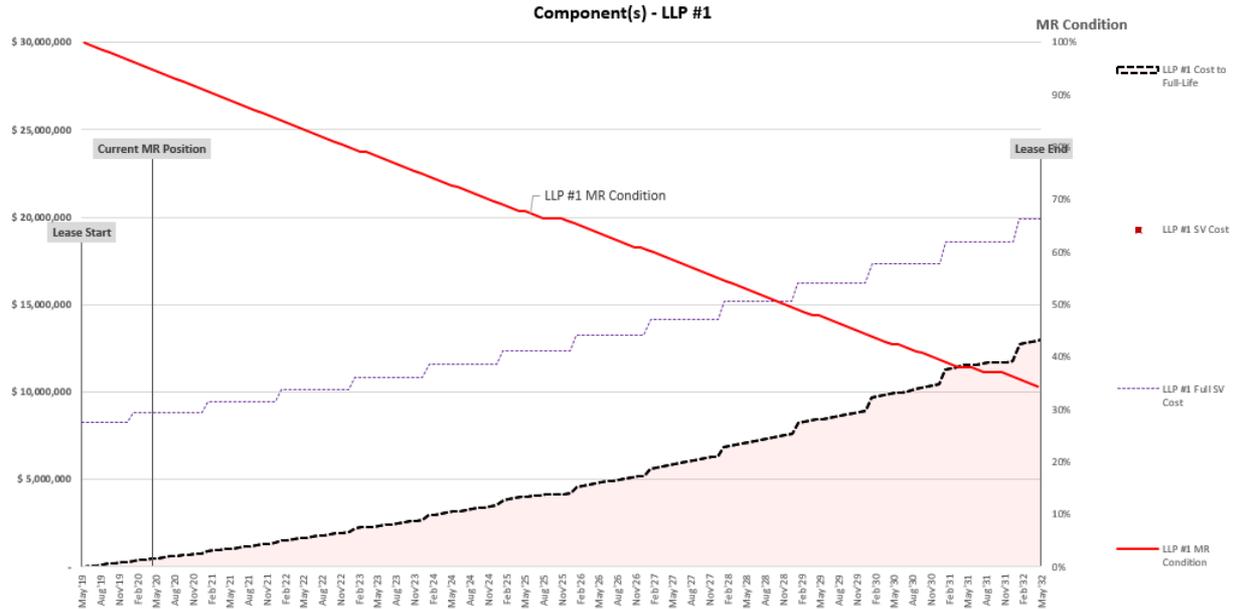
1. APU Refurb Cost \$602k
2. 6 Yr Check Cost \$2,400k
3. APU Refurb Cost \$762k
4. Landing Gear Check \$2,300k
5. APU Refurb Cost \$858k
6. 6 Yr and 12 Yr Check, \$2,900k and 2,700k Respectively
7. APU Refurb Cost \$910k



Forecast: Metal Value and Maintenance Costs



No Event Triggered, but costs are significant.

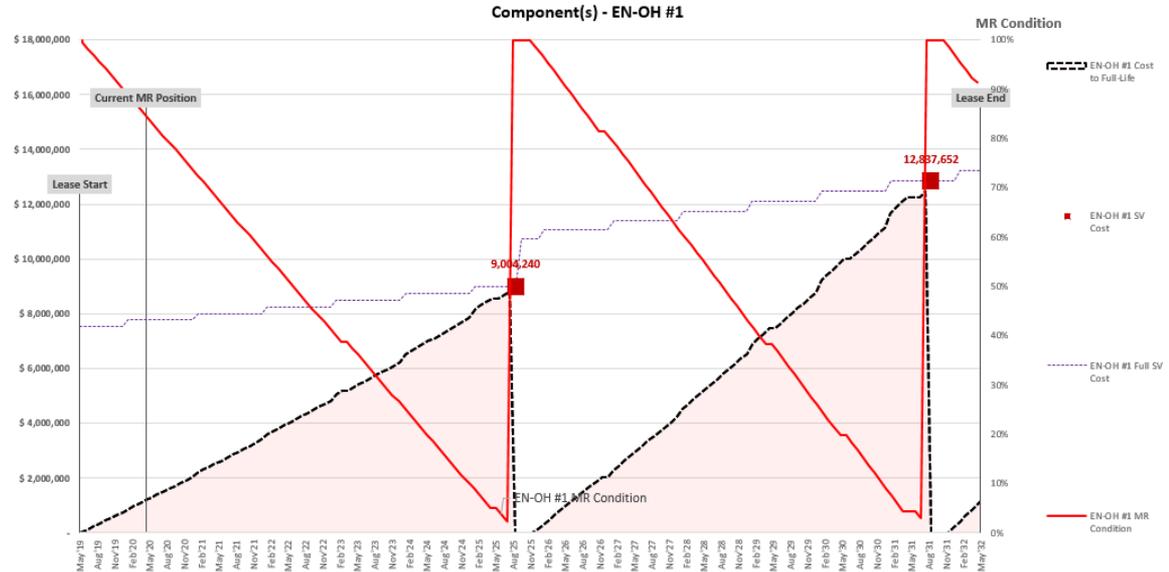


Forecast: Metal Value and Maintenance Costs



Shop Visits in Chronological Order

1. PR SV 1 Cost \$9m
2. PR SV 2 Cost \$13m



Additional maintenance and support costs: Off lease scenario

There will be significant costs which may not have been modelled and/or fully assessed initially if control is handed back to the lessor/bank:



Ferry flights, maintenance release from place of redelivery to formal storage location. Location of titled engines, possible engine swaps.



Regulatory liaison – export C of A, change of regulation.



Ongoing CAMO – continuous airworthiness management.



Redelivery process, collation of records, negotiation of redelivery and early return. Payment of liens if lessee failed.



Possible that titled engines will be off-wing, in shop, on other aircraft requiring engine changes at ABS cost.



Performance of maintenance tasks, airworthiness directives falling due (usually deferred until out of storage check or delivery to next lessee/buyer) – bridging check to next operator program and additional requirements.



Insurance and prep for storage



Collation of records to as close to redelivery condition as possible (at ABS cost).

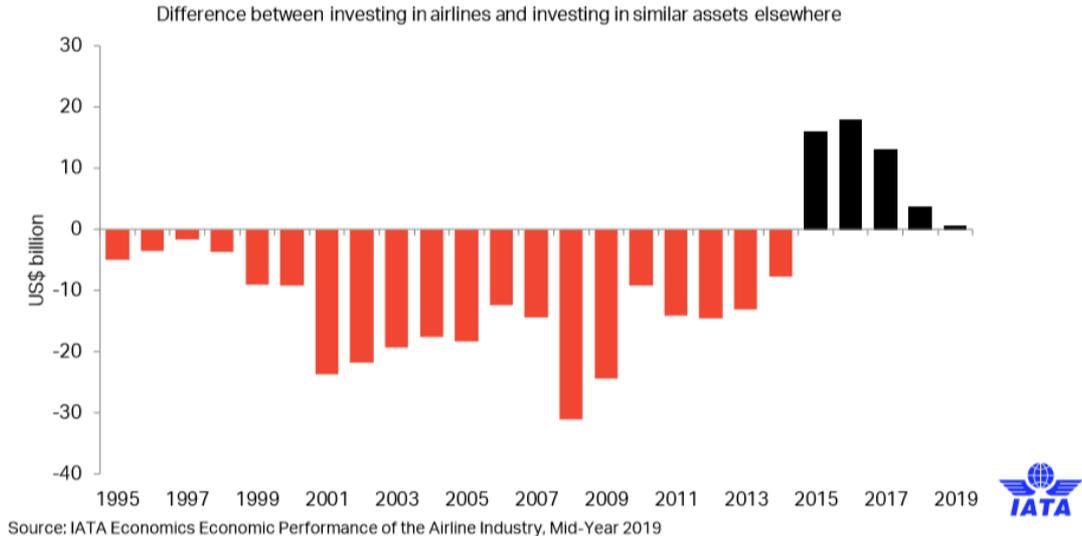


Reconfiguration – potentially the highest cost exposure to place aircraft into next operator delivery condition, painting.

Airline profitability is a recent phenomenon.....

It has been largely overlooked that the airline industry as a whole has seldom produced investment grade results.

In the past operating leasing has benefited from the need of airlines to grow without reliance upon commercial debt/capital markets.

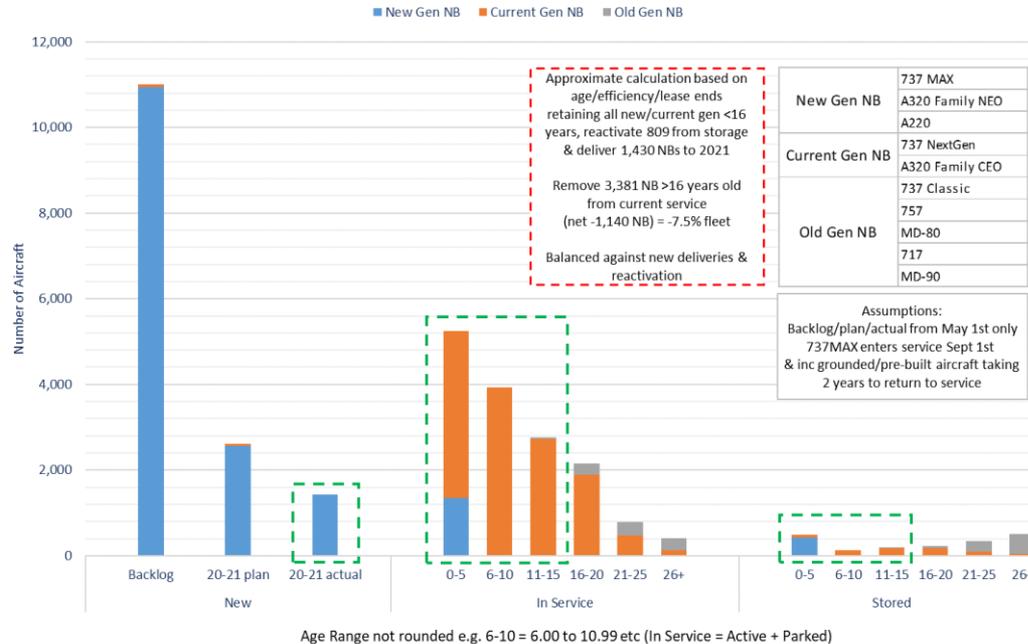


Hard & Easier Fleet Decision Factors For Airlines

- **Easiest decisions for removals from Fleet**
 - Oldest types >20 years old
 - Off lease aircraft
 - Leased aircraft closer to lease end
 - Failed airlines don't have decisions to make
 - Aircraft in need of heavy maintenance
 - Aircraft expensive to operate
 - Aircraft that are hardest to fill
 - Those already identified for replacement/conversion before Covid-19
 - Those aircraft that may have a ready conversion program in demand
 - Those already in storage or where there is difficult to reactivate
- **Hardest to remove from Fleet**
 - Youngest and most efficient types
 - Those aircraft that have a long period before lease expiry
 - Aircraft that have undergone recent interior fit-outs
 - Aircraft fresh from maintenance
 - Lessors willing to negotiate on rentals & extensions
 - Very near term expected deliveries or those deliveries that will lead to a high financial penalty
 - Aircraft that offer flexibility

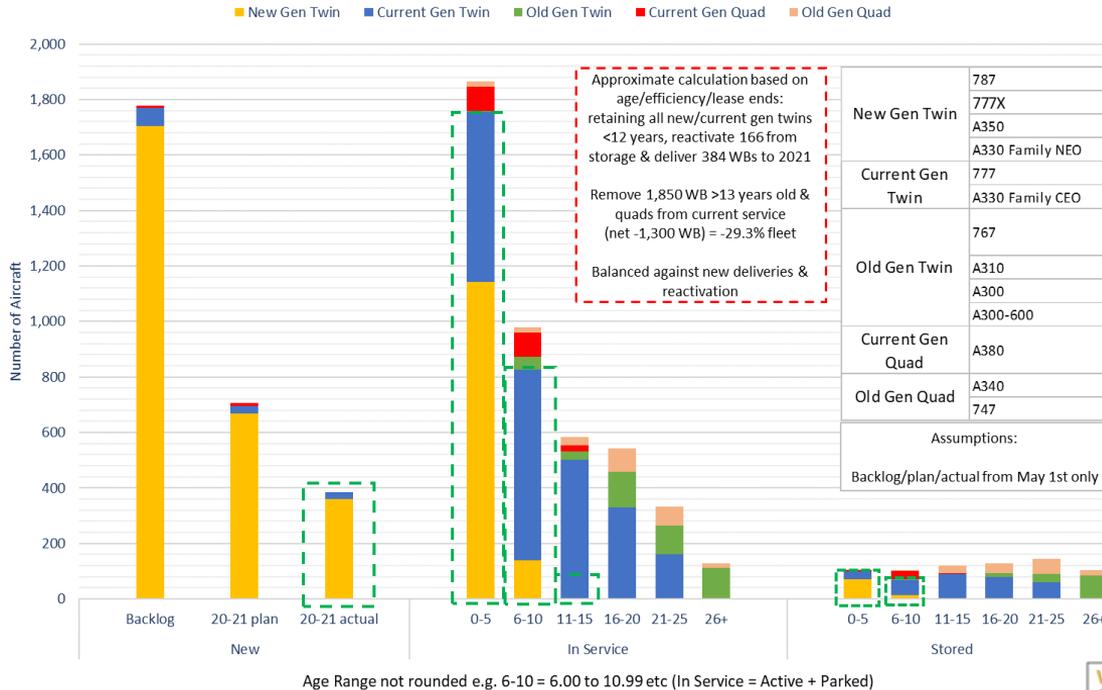
Initial Narrowbody Fleet Scenario

Passenger Narrowbody Fleet Age Profile - Scenario based on ~2,500 NB/WB aircraft oversupply



Initial Widebody Fleet Scenario

Passenger Widebody Fleet Age Profile- Scenario based on ~2,500 NB/WB aircraft oversupply



Valuation approach and considerations

Lessors are less reliant on market value.

There are many different ways of looking at an asset valuation....



There are **numerous definitions of value**, both ISTAT-defined and others created by independent appraisal firms...

- Market Value (ISTAT)
- Base Value (ISTAT)
- Lease Encumbered Value (ISTAT)
- Soft Value (IBA)
- Distressed Sale Value (ISTAT)
- Salvage/Part-Out Value (ISTAT)



There are also **numerous scenarios in which an appraisal may be needed...**

- An early lease return
- A liquidator or administrator looking for a quick sale to return money to an investor
- For impairment testing purposes
- Testing of Loan to Value Covenants



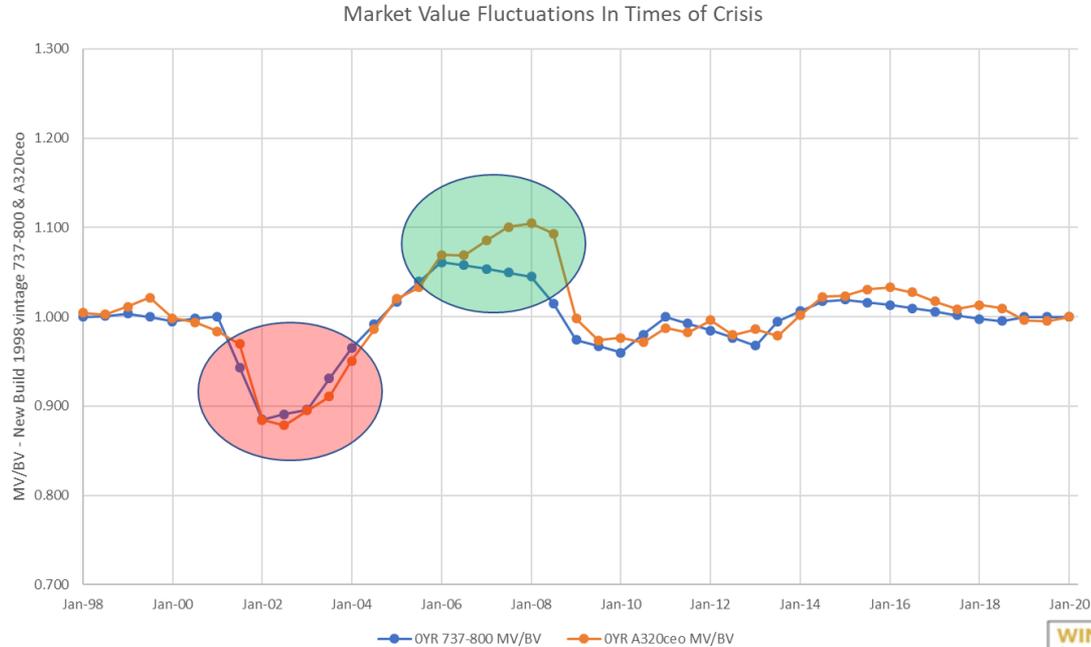
Transaction participants

- What are the technical capabilities/resources?
- Pressure to dispose of the asset?
- What is the owners business model?
- Airline, Lessor, Bank?
- Liquidity
- Can the seller ride out the storm?



For operating lessors, the ISTAT definition for market value seldom suits. **Base value and/or lease encumbered valuation is more relevant.**

Relative MV:BV Relationships



Questions?