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Airline treasury team of the year: **American Airlines**

American Airlines scoops the prize this year for carrying out major investment in its fleet and for using a broad range of financial structures.

Last year, the airline invested $4.4 billion in new aircraft, comprising 55 new mainline and 42 new regional aircraft. It took advantage of historically low interest rates to finance this fleet renewal and tapped a variety of markets.

The airline has been a prolific issuer of enhanced equipment trust certificates (EETC) for years, but in 2016 it tapped this market more than any other airline by issuing $2.8 billion in three separate EETC deals. The deals were well priced, with an average fixed interest rate of 3.63%.

"Something like 37% of the outstanding EETC paper was issued by an entity that is now subsumed within American Airlines", said Tom Weir, vice president and treasurer at the airline. "We were mindful of the potential that we could go to that market too often. But right now, there's no obvious pricing penalty that we're paying for over-allocating our financing to that market," he adds, noting that there was plenty of Asian appetite for recent EETC deals.

The airline also closed $1.8 billion in other loans, bearing interest at fixed and variable rates of LIBOR plus margin, which averaged 2.96% at the end of the year.

On top of this, the airline issued $844 million of special facility revenue bonds ("JFK bonds") via the New York Transportation Development Corporation (a special vehicle that issues debt for infrastructure projects), to refinance a prior issuance. The deal was rated "BB" by Fitch Ratings, which is one notch higher than the airline's long-term issuer default rating. This is due to the strategic importance of American's position at JFK airport.

"The repricing of the JFK bonds was a very good transaction for us. We felt we had good cooperation from the port authority and I think our timing was very good," adds Weir.

> *"The repricing of the JFK bonds was a very good transaction for us."*
>
> **Tom Weir**, *vice president and treasurer, American Airlines*

The deal involved bringing together local authorities and lenders in a complicated deal. But it closed successfully despite the number of parties involved.

American Airlines also tapped the capital markets in August 2016 through a private placement covering two Boeing 737-800 deliveries. BNP Paribas acted as the sole structuring and placement agent. This transaction was to diversify funding sources and gain access to a new investor base different from the typical investor base for public EETC issuances. It was the first primary issuance by American Airlines to be placed with Japanese investors. The transaction features straight line amortisation for the senior and junior notes, one Japanese rating agency (Rating & Investment Information, Inc.), and Reg S format.


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Lessor treasury team of the year: **AerCap**

The year 2016 was a pivotal one for operating lessor AerCap. The lessor was upgraded to investment grade by two ratings agencies, it diversified its financing sources and re-priced several deals. In February 2017, AerCap won an investment grade rating from a third agency, reflecting the improvements it made throughout the year.

The lessor closed $4.6 billion in new deals in 2016, bringing the total amount of financing raised to $27 billion since it announced the acquisition of ILFC at the end of 2013. It also sold 141 aircraft and recorded $2.37 billion in proceeds from the sale or disposal of assets - $800 million more than the year before.

“We continued to focus on proactive portfolio management initiatives, which have resulted in executing over $3 billion in asset sales. This, combined with signing a record 279 lease agreements, illustrates the scale of AerCap’s platform and the expertise of its people,” said AerCap’s chief executive officer Aengus Kelly.

Explaining their decisions to upgrade the lessor, the ratings agencies noted AerCap’s deleveraging efforts, declining average fleet age, and increasing number of unencumbered assets.

AerCap reduced its total debt by $2 billion to $27.7 billion in 2016. The lessor’s adjusted debt/equity ratio was 2.7 down from 2.9 in 2015.

The Irish-based lessor ended the year with 1,566 aircraft that were owned, on order or managed. Its owned fleet’s average age was 7.4 years and the average remaining contracted lease term was 6.4 years.

AerCap teamed up for the first time with Financial Products Group (FPG) in 2016 to execute a Jolco structure. The senior debt was provided by SMTB and CA-CIB.

“We are most proud of developing the diversity of our funding sources and the successful completion of our first deals in the Korean market, in addition to adding Japanese operating lease with call option (Jolco) transactions to our liability structure”, says Paul Rofe, group treasurer at AerCap.

This year, the lessor will try to build on its momentum to further improve its credit profile.

“We will continue to source diverse forms of long term committed financing from multiple geographies in addition to managing our liquidity profile,” adds Rofe.

Aviation woman of the year: **Amelia Anderson**

American Airlines' managing director and assistant treasurer, Amelia Anderson, has been chosen as *Airfinance Journal*'s Aviation Woman of the Year based on a public nomination process, which ran through the month of February.

Anderson, whose team is responsible for the execution and administration of American's corporate debt, completing over $20 billion of financing transactions in the three years following the merger with US Airways in December 2013, won the process by an overwhelming majority of submissions received from the global aviation industry.

She is the first recipient of *Airfinance Journal*'s Aviation Woman of the Year award. In addition to her work at American, Anderson is known as the co-founder of Advancing Women in Aviation Roundtable (AWAR), a grassroots initiative working with senior executives to build awareness and develop strategies to promote the development and advancement of women leaders. "In many ways I share this award with my AWAR co-founder, Dana Barta of Morgan Stanley," she says.

Anderson also serves as co-chair of American Airlines' women's leadership programme, and she is actively involved in American Airlines' MBA recruiting process.

According to Anderson, one of the best ways to "drive change" for women starts with education and having more girls and young women engaging in "stem subjects" or science, technology, engineering and mathematics.

"When you look at women in CEO positions, they are disproportionately likely to hold degrees in engineering, math or computer science," Anderson tells *Airfinance Journal* in an interview. "So, yes, there is a strong link."

However, according to the Women in Science and Engineering (Wise) campaign's 2016 analysis of UK labour market statistics, women make up just 12.8% of the Stem workforce.

Amelia Anderson, *managing director and assistant treasurer, American Airlines*

The proportion had increased by only 0.2 percentage points since their analysis in 2012.

Anderson acknowledges the road to becoming a CEO is still a difficult one for women, with only 5% of company chiefs being female at Fortune 500 companies.

She speaks globally through AWAR trying to raise awareness about the factors impacting women as they transition from entry level to middle management and then to the boardroom.

"Women tend to have those natural behaviours that lend themselves to team building and people development, but as you move up in an organisation, especially in operational or finance roles, you have to do more than just lead and develop your team, you also have to be able to compete and to go toe-to-toe with your competition," she says, adding: "Business is still a rough and tumble place, and there are times women have to be comfortable taking a tough stand. So, we need to recognise our traditional behavioural styles, and be aware of situations when those behaviours may need to change."

Anderson holds an MBA in corporate finance from Georgia State University in Atlanta, and a BS in finance and economics from the University of Alabama in Huntsville.

Young person of the year: **Ahsan Gulabkhan**

Having left university a little over 10 years ago, Ahsan Gulabkhan is now senior legal counsel at UK carrier Virgin Atlantic, where he oversees a broad range of legal matters including fleet financing, engineering, operations, airport issues and alliances and strategy.

Gulabkhan studied law at Nottingham University, graduating in 2005. He stayed there for law school and then joined Norton Rose as a trainee solicitor in 2007 (as it was then known, before its merger with Fulbright & Jaworski in 2013). He qualified in January 2009, into the asset finance team, which is where he gained his first experience in commercial aviation law.

He joined Virgin Atlantic in September 2013, where he has since gained exposure to a number of challenging and innovative deals.

"It's been a very busy three years," he tells *Airfinance Journal*.

One stand-out deal was the £220 million ($283 million) Heathrow airport slots securitisation. This deal, which won the "New structures" category in AFJ's 2015 Deals of the Year, saw the airline attract blue-chip investors to an innovative, low-cost deal.

"It was not an easy transaction to do," Gulabkhan notes. "It involved setting up the subsidiary airline [Virgin Atlantic International – the issuer of the notes] which is not a small-scale operation. It took the best part of a year to do it, but being involved in a deal like that is one of those career highlights."

Under his tenure at the airline, Virgin Atlantic has undertaken an ambitious re-fleeting programme that has seen it replace older Boeing 747s with new 787s. The airline has used a combination of cash purchases, sale and leasebacks and Japanese operating lease with call option (Jolco) financings.

For Gulabkhan, aviation has always been a passion: "I always knew that it was something that I wanted to do", he says. As a child, he collected aircraft magazines and, whenever at the airport, was "pressed up against the glass looking at the runway".

Ahsan Gulabkhan, *senior legal counsel, Virgin Atlantic*

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>
> **Ahsan Gulabkhan**, *senior legal counsel, Virgin Atlantic*

Since making it a career, he has made friends in the industry and enjoys the "wonderfully close-knit community" of professionals that he gets to meet on a regular basis.

When he gets a chance, Gulabkhan enjoys squash, badminton and cricket. He also plays the guitar and enjoys food and travel. Having recently returned from a week's holiday in Barbados, he is now ready for the next milestone: getting married this August.

Most improved airline of the year: **United Airlines**

During the past two years, United's financial fundamentals have seen a significant improvement, according to *Airfinance Journal*'s Financial Ratings model.

The model evaluates four key ratios:

- **EBITDAR**: United's margin of 22.1% for 2016 was ahead of American's and just a touch behind Delta's;
- **Fixed charge cover**: United was ahead of American;
- **Liquidity**: United's position was a strong second place behind American;
- **Leverage**: United's at 2x (improved from 3.2x two years ago) also puts it in second place.

Underlying some of these improvements was strong operational performance. United set new all-time records for departure performance, arrival performance, completion factor and baggage handling.

United ended the year 2016 with $5.8 billion in unrestricted liquidity, including $1.35 billion of undrawn commitments under its revolving credit facility.

Operating cash flow was $5.5 billion and free cash flow $2.2 billion for 2016, permitting some reduction in debt.

United ended the year 2016 with $5.8 billion in unrestricted liquidity, including $1.35 billion of undrawn commitments under its revolving credit facility.

The company continued to invest in its business through capital expenditures of $3.2 billion for the full year. Including assets acquired through the issuance of debt and airport construction financing and excluding fully reimbursable projects, the company invested $3.3 billion for the full year in adjusted capital expenditures.

Gross debt balance at year-end, including capitalized operating leases, was $16.5 billion, about $600 million less than at the end of 2015.

The company has publicly stated that maintaining a strong balance sheet remains the top strategic priority which lends confidence that the balance sheet improvement will continue and that an investment grade rating should not be out of reach on a two-three year view.

Lifetime achievement award: **Tom Budgett**

Tom Budgett, a partner at Berwin Leighton Paisner (BLP), wins this prestigious award for a career that has spanned 45 years.

Budgett graduated from Cambridge with an MA in law in 1969. He joined a provincial firm in 1970 and left for Clifford Turner (now Clifford Chance) in early 1973. He became a partner there in 1981 and stayed for another 20 years.

In 2001, feeling like he'd had enough of the law, he then left for investment banking, with a team that was acquired by Investec in 2002. He left the bank in 2006, "having noticed that everybody I was working with was probably younger than my oldest son." After that he returned to BLP, in 2006, where he remained until his retirement this March.

Commercial aviation finance has changed dramatically in the course of his career, and Budgett has played an important role in that change. In the last 10 years, he notes, operating leasing has become far more widespread. Far more investors are entering the space as aircraft become better recognised as a stable source of long-term income. And aircraft-backed capital markets products, traditionally seen only in the USA, have blossomed in other regions such as Europe and Asia.

Among decades of deals, Budgett is especially proud of advising on a couple of landmark transactions. He worked on a fully defeased European ECA-supported Japanese leveraged lease for an Indian carrier at a time when European ECAs were still new to the market. This deal had every bell and whistle contemplated at that time. He also advised on CityJet's purchase of up to 32 Sukhoi Superjet in 2015, which was the first time that a European buyer had purchased that aircraft type.

Although formally retired, Budgett continues to work for a BLP service called Lawyers on Demand, which supplies legal advice on select projects. He intends to also focus on pro bono work by advising air ambulance services in

Tom Budgett, *partner, Berwin Leighton Paisner*

"His global experience with Clifford Chance and Investec, has been an invaluable asset."

Russell Clifford, *head of asset finance, BLP*

the UK on their purchases and financing of helicopters. By offering his services for free, Budgett hopes to enable these charities to make substantial savings and direct more resources towards their important work.

"His global experience with Clifford Chance and as a banker with Investec, combined with his acute insight and judgement in problem-solving, has been an invaluable asset to clients and colleagues alike. His career contributions are proportionate to the explosive growth of the aircraft finance sector," says Russell Clifford, head of asset finance at BLP.

Colin Thaine, a consultant at the firm, adds: "We at BLP are proud to be associated with his accomplishments as a partner and consultant advising leading elements of the industry."

Bank loan deal of the year: **Accipiter $1.2bn seven-year recourse financing**

Borrower/Issuer: Accipiter Holdings

Structure: Recourse portfolio financing

Currency/Amount: $1.2 billion

Assets financed: 43 aircraft, two widebodies and 41 narrowbodies

Lawyers (and role): Milbank, Tweed, Hadley & McCloy represented Accipiter, Clifford Chance and A&L Goodbody represented the mandated lead arrangers

Banks (and role): BNP Paribas (MLA, Account Bank, Swap Bank), CACIB and Natixis (MLA and Debt Coordinator), BTMU, BOC HK, CBA, NAB, Citibank, DBS, Deutsche Bank, SMTB (all MLA)

Date mandated: January 2016

Date signed: 17 March, 2016

Date closed: 18 March, 2016

Deal highlights

Dublin-based lessor Accipiter, a unit of Cheung Kong Holdings, closed a $1.2 billion refinancing for aircraft purchased in 2014 from three separate lessors.

The portfolio comprised 41 narrowbody aircraft and two widebody aircraft.

According to a filing with the Hong Kong Stock Exchange, between August and November 2014 Cheung Kong purchased 21 aircraft from GECAS for approximately $816 million. It also purchased 10 aircraft from BOC Aviation for $492 million and 14 aircraft from Jackson Square Aviation for $584.2 million.

At the time, the company paid for the aircraft with cash due to its high cash reserves.

The $1.2 billion facility refinanced these aircraft.

The facility was oversubscribed by a group of 11 banks, including: BNP Paribas, Bank of China, Bank of Tokyo Mitsubishi, CA-CIB, Citi, Commonwealth Bank of Australia, DBS Bank, Deutsche Bank, Natixis, National Bank of Australia and Sumitomo Mitsui Trust Bank.

CA-CIB and Natixis acted as debt coordinators. CA-CIB acted as the facility agent and security trustee and BNP Paribas as the hedge counterparty.

Milbank, Tweed, Hadley & McCloy represented Accipiter and Clifford Chance represented the mandated lead arrangers.

The deal marked the first portfolio financing for Accipiter. Despite the large portfolio and large bank group, the transaction was successfully closed within three months from mandate to closing.

The portfolio and diverse jurisdictions increased the complexity in getting all the applicable security documents and perfection in place for each drawdown.

The financing provided maximum flexibility to Accipiter in terms of managing the portfolio, including the flexibility to substitute aircraft and also rebalance the portfolio, subject to various threshold covenants to maintain diversification.

Most importantly, this transaction helped transition Accipiter from a start-up operating lessor, relying on third-party servicers for asset management to a full-fledge operating lessor, capable of managing and maintaining its portfolio and enhancing its internal capabilities to source for financing and also positioning the platform for future growth.

ECA deal of the year: **SunExpress five 737-800 financing**

Borrower: SunExpress through five SPCs

Amount: approximately $190 million

Structure: Ex-Im French Leveraged Lease

Banks: BNP Paribas acted as lease investor, lease arranger, joint debt arranger, lender and Ex-Im Bank loan paying agent. ING Capital acted as joint debt arranger and guarantee agent. ING DiBa acted as lender

ECAs: US Ex-Im

Lawyers: Norton Rose Fulbright Paris, Dentons, Pillsbury Winthrop Shaw Pittman, Robert Wray, Dikici Law

Collateral: Five Boeing 737-800s

Deal highlights

The transaction marked the first tax lease structure for SunExpress. This transaction is also the first French lease combined with fixed rate euro-denominated debt supported by Ex-Im Bank.

This transaction is the first French lease closed to an airline in Turkey excluding Turkish Airlines' previous French leases.

It also marked the only Ex-Im backed French lease in 2016, which required a firm commitment in June 2015 from the investor and the lenders one year before the actual deliveries.

The five Boeing 737-800s delivered in a very short period (three months to June 2016) through five different special purpose companies.

BNP Paribas says the investor and the lenders had to respond and execute the termsheet quickly in order to allow SunExpress to apply for the Ex-Im approval before it was shut down. The five 737-800s closed between April and June 2016.

The lessor had to acquire the aircraft new and unused from the manufacturer for tax reasons. This required the creation of five special purpose companies and the closing of each delivery in a short time frame (one to two aircraft per month).

In order to get Ex-Im approval before it was shut down, the mandate had to be awarded in April 2015, which required the lenders and the tax investor to provide a firm commitment on the amount and the conditions one year before the actual delivery dates, despite the potential change in the liquidity costs and the lessee's environment.

Debt on the five aircraft was underwritten and held by BNP Paribas and ING Diba only. It was one of the first Ex-Im financing of ING DiBa (Germany) as lender.

SunExpress required a euro-denominated fixed rate financing, and the lease structure had to accommodate the requirement from the Ex-Im bank to convert the lease to US dollars at the election of Ex-Im bank in case of the lessee's default, and to manage the euro fixed rate breakage cost not covered by the Ex-Im Bank.

Because the airline required that the last aircraft was delivered before the end of June, one aircraft had to be delivered on a weekend. This required the Ex-Im loan structure to be managed such that the Ex-Im guarantee could be issued in a satisfactory way although Boeing did not actually receive the cash at the time of the delivery but on the next business day.

Tax lease deal of the year: **Aeromexico Jolco**

Borrower: Aeromexico

Structure: Japanese operating lease with call option (Jolco)

Assets: One Boeing 787-9

Lawyers (and role): White & Case (Aeromexico); Clifford Chance (Japanese equity); Vedder Price (lenders)

Banks (and role): Natixis – lender, facility agent, security trustee; Development Bank of Japan; Credit Industriel et Commercial

Advisors (and role): SkyWorks Capital (Aeromexico); BBAM Aviation Services & Nomura Babcock and Brown (equity arrangers)

Date mandated: December 2015

Date signed: September 2016

Date closed: 8 November, 2016

Deal highlights

Aeromexico's first ever Jolco was an important step for the airline. Mexico's flag carrier was seeking to diversify its sources of financing. Traditionally reliant on leasing – with the majority of the airline's aircraft fleet still owned by operating lessors – Aeromexico proved last year that it is capable of accessing a wider range of structures to finance its aircraft.

For Aeromexico, the deal achieved a couple of firsts. It was the airline's first financing in the Asia Pacific region and the first Boeing 787-9 aircraft to be delivered to Aeromexico.

The airline's success with last year's Jolco will serve it well with its target of owning around 50% of its aircraft in the medium term. By tapping new markets and proving the airline's appeal to international investors, the deal paves the way for future structures.

At *Airfinance Journal*'s annual conference in Dublin this year, Aeromexico's chief financial officer Ricardo Sanchez Baker said the airline plans to get a public rating in the next couple of years and begin tapping the debt market to finance its incoming narrowbodies.

"We have a strong pipeline of aircraft coming into the company in the next few years, particularly in 2018, when we will start the reception of the 737 Max aircraft," he said.

"And for that, the plan is to do a combination of sale and leasebacks [...] and the other part will be a combination of Jolco, and we want to tap the debt market. At that point, perhaps we will do other types of transactions. Hopefully enhanced equipment trust certificates structures (EETC) could be an attractive alternative for us."

The deal was also significant for Mexico itself. With this transaction, the airline became the country's first to access the Japanese tax-based lease market.

The deal has also paved the way for more similar transactions. In December 2016 and January 2017 the airline took delivery of two more 787-9s, with Jolco financings arranged by Skyworks Capital.

Operating lease deal of the year: **IAFC's 50 Airbus Islamic lease to Saudia**

Borrower: Airfinance SPV (managed by International Airfinance Corporation)

Structure: Operating lease

Currency/amount: $800 million

Assets: 30 Airbus A320s, 20 A330-300s

Lawyers (and role): Holman Fenwick Willan (Borrower's counsel), Allen & Overy (Lenders' counsel)

Banks (and role): Dubai Islamic Bank, Abu Dhabi Commercial Bank, Sharjah Islamic Bank, Gulf International Bank, National Commercial Bank, Saudi Investment Bank, Arab National Bank, Arab Banking Corporation

Date signed: 2 December, 2015

Date closed: August-December, 2016

Deal highlights

Between August and December 2016, International Airfinance Corporation (IAFC) closed 50 operating leases with Saudi Arabian flag carrier Saudia.

The deal consisted of 30 new Airbus A320s and 20 new A330-300s with various deliveries starting from the third quarter of 2016. The A320s are on 12-year leases while the A330s are on 15-year leases.

The total transaction size was $3.5 billion spread over three years. IAFC claims the transaction is largest aircraft leasing transaction in the history of Saudi Arabian Airlines and the largest aviation deal to be secured via Islamic financing.

"Within that short period, IAFC was required to finalise the aircraft configuration, select the buyer furnished equipment and other options, select the engine type and finalise agreements with the engine manufacturers, pay the pre-delivery payments, arrange for long-term senior debt financing and close deliveries at an average pace of three to four aircraft per month," IAFC's president and chief executive officer Moulay Omar Alaoui told *Airfinance Journal*.

Alaoui says the biggest challenge in closing the deal was the "size and rhythm" of the deliveries. A total of 14 aircraft were delivered between August and December 2016. Another 18 aircraft are scheduled to be delivered in 2017 (four had already delivered in first quarter 2017) while the remaining 18 aircraft are due in 2018.

"Very few lessors would have the ability to enter into such a transaction and deliver a positive outcome to an airline customer within such a challenging timeline taking into account the difficult regional market conditions. IAFC is going from strength to strength and we are looking forward to closing more exciting transactions in 2017," he says.

Paul Nelson, a partner in Allen & Overy's London office who worked on the deal, said that the cooperation between the banks – despite the complexity of the deal – was impressive.

"It's quite interesting because even though some banks had less experience of the aviation finance market than others, they all had a lot to contribute and they all had their own specific and interesting points," he said.

Nelson believes this is a landmark transaction for IAFC and will pave the way for more significant deals for the company in future.

"The market sits up, listens and recognises when there is equity in town and a relatively new lessor that's doing these pretty amazing transactions," he says.

"IAFC have equity so they have had an accelerated growth and the expectation is that that will just continue." He adds that the deal was significant for Saudia because the carrier has not been doing new financings recently.

Sale and leaseback deal of the year: **Etihad/Natixis two A380s**

Borrower/Issuer: Etihad

Structure: Etihad/Natixis – sale and leaseback of two Airbus A380 aircraft. Natixis utilised the new ADGM structure and funds from a syndicate of financial institutions (including Natixis, Dubai Islamic Bank (DIB), First Gulf Bank (FGB) and Union National Bank (UNB)) through a combination of Islamic finance (including Ijaraja, Murabaha and Mudaraba) and conventional debt

Currency/Amount: Approximately $570 million in US dollars and euros

Assets financed: Two Airbus A380s

MSNs: MSNs 198 and 199

Lawyers (and role): Bird & Bird for Etihad and Clifford Chance for Natixis

Banks (and role): Each lessor obtained finance from a syndicate of financial institutions

Date Mandated: 17 November, 2016

Date Signed: 28 December, 2016

Date closed: 28 December, 2016

Deal highlights

The deal marks Etihad's first operating lease of an Airbus A380. The transaction included conventional debt in euro and Sharia compliant, Murabaha, Ijara and Mudaraba structures in US dollars.

Both aircraft were used and were previously delivered and financed with various bridge financing transactions, following the withdrawal of the previously mandated export credit-supported financing.

This marks the first aviation finance transaction in the Abu Dhabi Global Markets (ADGM) since the recent enactment of the Cape Town Convention and Aircraft Protocol 2001 into its insolvency framework to support its ambition to be an aviation financing and asset management hub in the UAE and the MENA region.

The new set of regulations further augments ADGM's strengths as an international jurisdiction for aviation financing and leasing as well as global financial services.

The location of the two special purpose companies that own the aircraft in ADGM reaffirms that it provides a special purpose vehicles regime on par with the best international jurisdictions in terms of features, cost and ease of set-up.

Brett Hailey, Partner at Bird & Bird says: "This first aviation finance transaction in the ADGM, supports ADGM's ambition to be an aviation financing and asset management hub in the UAE and the MENA region. This transaction demonstrates that ADGM is open for business in the aviation sector and should assist it to attract more global aviation financing and leasing businesses to establish their operational presence in ADGM to conduct their regional business. It has also established a special purpose company framework that caters to the aviation industry's financing needs and requirements of leading participants."

The transaction was completed within one month of mandating during a period of extended national and traditional holidays.

Both aircraft were initially funded at delivery by means of various bridge financing by First Gulf Bank and Union National Bank among others. This was a result of the standstill arrangements announced by the export credit authorities one week prior to the delivery of the first aircraft in April 2016 that were, at the time, both mandated to be financed by means of export credit guarantees.

Added complexity to the transaction, both in terms of matching the new financing start periods with the existing bridge facilities termination dates, included finding a suitable window of opportunity to effect the transfer of title of these aircraft, being operated on daily long haul routes, in a suitable legal- and tax free jurisdiction.

The complexity of the transaction also included the sourcing of debt and equity funding sources within a short period from being mandated to closure.

Jim Bell, partner at Bird & Bird says: "We are one of the leading law firms for leasing and so this category is really playing to one of our strengths. It's also testament to our excellent team of friendly, dynamic and highly skilled people that we are being asked to advise on the most sophisticated transactions in the market."

As a result of this transaction, Natixis and ADGM are in advanced discussions for setting up an aircraft investment platform in ADGM, which will target investors looking for high US dollar yields.

This development reinforces ADGM's commitment to provide a dynamic environment for successful aviation transactions, and to attract more global aviation financing and leasing businesses to establish their operational presence in ADGM to conduct their regional business.

It also validates the continued dedication of ADGM's board of directors to support the growth of Etihad Airways and the civil aviation sector by establishing a framework that caters to the aviation industry's financing needs.

> *"This first aviation finance transaction in the Abu Dhabi Global Markets (ADGM), supports ADGM's ambition to be an aviation financing and asset management hub in the UAE and the MENA region."*

Brett Hailey, *partner, Bird & Bird*

Equity deal of the year: **BOC Aviation's IPO**

Borrower: BOC Aviation

Structure: Initial public offering (Hong Kong exchange)

Size: Approx. $1.127 billion

Number of offer shares under the global offering: 208,203,000 shares (comprising 104,101,500 new shares and 104,101,500 sale shares and subject to the over-allotment option)

Number of Hong Kong offer shares: 15,615,400 new shares (subject to reallocation)

Number of International offer shares: 192,587,600 Shares (comprising 88,486,100 new shares and 104,101,500 sale shares and subject to reallocation and the over-allotment option)

Offer price: HK$42.00 per offer share

Use of proceeds: To fund pre-delivery payments for and future purchases of new aircraft to grow the company's owned aircraft portfolio

Joint bookrunners: BNP Paribas, BOC International, Goldman Sachs, Morgan Stanley, Citibank

Joint sponsors: BOC International, Goldman Sachs

Joint global coordinators: BOC International, Goldman Sachs, Morgan Stanley

Financial adviser: BOC International

Pricing date: 25 May, 2016

Listing date: 1 June, 2016

Deal highlights

BOC Aviation became a public lessor on 1 June 2016 after it listed on the Hong Kong Stock Exchange in yet another move to diversify its funding sources.

The lessor said the net proceeds from the $1.1 billion initial public offering (IPO) will pay for pre-delivery payments for future aircraft deliveries.

The IPO was backed by 11 cornerstone investors: China Investment ($100 million), Silk Road Fund ($100 million), China Development Bank ($60 million), China Life Franklin Asset Management ($50 million), Oman Investment Fund ($50 million), Hony Capital Group ($50 million), Elion Resources Group ($40 million), Fullerton Fund Management ($38 million), Fosun International ($35 million), Boeing ($30 million) and China South Industries Assets Management ($30 million). The investors agreed to purchase a total of 107.7 million shares worth HK$4.52 billion ($583 million), or 52% of the global offering size before the exercise of the overallotment option.

The BOC Aviation transaction was the largest ever global aircraft lessor IPO, the largest ever China SOE spin-off IPO and the third largest global IPO in the first five months of 2016.

The landmark transaction was executed in the context of a quiet capital markets pipeline but the deal priced at a premium to book value, at 1.1x 2016E P/B.

The IPO was one of the most heavily subscribed IPOs in Honk Kong in 2016 with the international tranche at more than 10 times and the domestic public offer at around 37 times.

BOC Aviation first whet the appetite of Asian investors by issuing bonds, from 2000 onwards, on an unrated basis from Singapore. Then, in 2012, the lessor received its first corporate ratings of BBB from Standard & Poor's and A- by Fitch Ratings. Standard & Poor's has since upgraded the lessor to A-.

It went on to access the Reg S market, which is the market for debt offerings outside the USA for US and foreign issuers, before finally registering under both the 144A and Reg S together – a move that allows issuers to tap the US investor base. This resulted in a $750 million, 10-year issuance backed by a $3.2 billion orderbook with a final pricing fixed at 99.59% on a coupon of 3.875% to yield 3.925%, or 215 basis points over US Treasuries.

M&A deal of the year: **FedEx merger with TNT Express**

Borrower: FedEx

Structure: M&A

Currency/amount: €4.4 billion

Lawyers (and role): Allen & Overy (TNT Express); NautaDutilh (FedEx); Baker McKenzie (FedEx)

Banks (and role): Goldman Sachs (TNT Express); JP Morgan (FedEx)

Date signed: 7 April, 2015

Date closed: 25 May, 2016

Deal highlights

The landscape of the package delivery market changed in 2016 when FedEx closed its €4.4 billion ($4.8 billion) acquisition of TNT Express.

The deal saw the US logistics giant FedEx, which operated a fleet of 650 aircraft at the time, merge with its Dutch rival, whose fleet consisted of around 45 aircraft. With 54,000 employees, operations in 200 countries and more than one million shipments daily, TNT Express was a sizeable purchase and the largest in FedEx's history.

FedEx will now benefit from TNT Express' strong European presence and boost its growth. The combined airlines will be a strong presence in the logistics industry.

FedEx believes that the deal will lead to an improvement to its operating income of between $1.2 billion and $1.5 billion in 2020 compared with the fiscal year 2017.

FedEx says the process is running smoothly, despite having had to invest more than expected in the smaller airline's information technology and operations units, which had been "severely under-invested" in the years running up to the deal, according to its chief financial officer Alan Graf.

The offering price of €8 per share represented a 33% premium to the closing share price on 2 April 2015, the last trading day before the announcement.

The market seems to believe that the merger will be a success. A €3 billion (dollar value) eurobond issuance issued by FedEx in April, the proceeds of which were used to partly fund the takeover, was over five times oversubscribed when it closed. One banker on the deal said there was "stunning interest" from investors, many of whom believe the airlines will merge without any major hiccups.

The deal follows an attempt by fellow air freight operator UPS to buy TNT Express in 2013. UPS was blocked from completing the deal – which valued TNT Express at €5 billion – by the EU's antitrust watchdog.

In March 2017, Europe's highest court annulled the decision, clearing the way for a potential damages claim by UPS. But with FedEx having completed the deal, this will be of little consolation to UPS.

Capital markets deal of the year: **Blackbird ABS**

Borrowers: Air Lease Corporation and Napier Park

Structure: Aircraft asset-backed securities

Currency/amount: $800 million

Assets: 19 aircraft

Lawyers (and role): Hughes Hubbard & Reed (issuers), Milbank, Tweed, Hadley & McCloy (underwriters), A&L Goodbody (Blackbird Capital Aircraft Lease Securitization Limited 2016-1)

Banks (and role): BNP Paribas, Mizuho – joint lead structuring agents & joint lead bookrunners; BofA – global coordinator, joint lead structuring agent & joint lead bookrunner; Citi – joint lead bookrunner and liquidity facility provider; Credit Suisse, Fifth Third Securities, MUFG and Societe Generale – co-managers

Date mandated: 6 September, 2016

Date signed: 9 September, 2016

Date closed: 15 November, 2016

Deal highlights

In November 2016, Air Lease (ALC) and Napier Park Global Capital closed a landmark asset-backed securities (ABS) offering through Blackbird Capital I, secured by a portfolio of 19 aircraft.

The deal stood out for a number of reasons. It was the first aircraft ABS deal to achieve an AA rating since the financial crisis; the tightest A-rated tranche pricing (2.5%); the youngest average aircraft age for an ABS (3.3 years); and more than twice the number of orders and unique investors compared to the previous aircraft ABS.

ALC wanted to standardise the aircraft ABS structure for younger aircraft portfolios and expand the investor base beyond those that typically get involved in aircraft ABS deals. The deal successfully brought in more than 40 investors, including a number from Asia.

"This transaction has set a new benchmark for post-financial crisis aircraft ABS issuances, including the first AA tranche of rated securities, the lowest blended cost of funds through the BBB class, the largest number of investors to place bids, the largest number of investors to get allocated bonds, and the shortest period to execute a transaction in only six weeks," said Ryan McKenna, head of strategic planning of ALC.

The portfolio comprises a mix of narrowbody and widebody aircraft that are serviced by the leasing company.

The deal is made up of three tranches: a $200 million AA tranche priced at 2.487%, a $540 million A tranche at 4.213% and a $60 million B tranche at 5.682%.

Blackbird was the first aircraft ABS since 2012 to feature a AA-rated tranche.

With a weighted average age of 3.3 years, the aircraft in the portfolio was substantially younger than recent ABS transactions.

The AA notes amortised on an eight-year straight-line schedule. The A and B notes amortised on a 16-year straight-line schedule.

Kroll Bond Rating Agency and Standard & Poor's gave ratings to the three tranches of AA, A and BBB.

The loan-to-value ratio is 19.1% on the AA tranche, 70.5% on the A tranche and 76.3% on the B tranche.

The issuers also offered subordinated notes through Blackbird Capital comprised of D notes and an E note, representing the equity interest in BBIRD Cayman, each of which were purchased by an affiliate of Blackbird.

Innovative deal of the year: **Emirates $750m structured sale and leaseback**

Lessee: Emirates

Lessor: Crianza Aviation

Structure: Senior loan, junior notes and subordinated equity notes in respect of aircraft one; senior loan, first priority notes, second priority notes and subordinated equity notes in respect of aircraft two, senior loan, first priority notes, second priority notes and subordinated equity notes in respect of aircraft three, with, in each case, sale and leaseback arrangements with Emirates. The notes were issued into the capital markets as private placements to many different investors (principally Korean) but also included the establishment of an aircraft investment fund in Korea by Crianza Aviation. Crianza established, placed and invested into the Korean fund platforms, which bought the Korean E-Notes, representing the Junior and Equity Tranches of the deal

Currency/amount: $750 million

Assets: Two Boeing 777s and one A380

Lawyers (and role): Bird & Bird (arrangers); Yulchon (certain investors); Pillsbury (Emirates); Allen & Overy (Seraph) and Walkers (lessor SPVs)

Banks (and role): EMP Structured Assets as arranger, DekaBank as lender

Date closed: 20 December 2016 (aircraft one), 19 December 2016 (aircraft two) and 21 December 2016 (aircraft three)

Deal highlights

The most innovative deal of 2016 was Emirates' $750 million structured sale and leaseback transaction, covering the financing for two Boeing 777s and one Airbus A380.

Although the A380 and 777s are seen as difficult aircraft by some in the market, EMP Structured Assets managed to structure a deal that brought in new investors that had not financed aircraft before, including real estate investors and ultra-high net worth individuals.

The deal featured a senior loan from Germany's DekaBank, junior notes and subordinated equity notes, first priority and second priority notes for three aircraft, all on sale and leaseback deals with Emirates.

The notes were issued into the capital markets as private placements with different (principally Korean) investors but also included the establishment of an aircraft investment fund in Korea. The transaction was arranged by EMP Structured Assets. Seraph was the lease manager.

Bird & Bird acted as legal counsel for EMP Structured Assets and DekaBank, Yulchon acted for certain investors, Pillsbury acted for Emirates, Allen & Overy acted for Seraph and Walkers acted for the lessor special purpose vehicles (together with numerous other local counsel).

Philipp Prior, founding partner, EMP Structured Assets, said: "This was a bit more complicated as we took this as a three-aircraft deal, with different investor groups and included the equity in this and we hadn't done that before with Korea. We brought the equity with German investors and this was the first time we included an equity portion from Korean investors.

"The biggest obstacle was the timing of the delivery of the three aircraft as everything had to be done before the year end. The treasury team from Emirates worked really well with us to get it done on time."

Prior says that the Emirates team realised that the deal was about the amortisation profile and airline credit and not about how remarketable the aircraft was, in a way which helped maximise returns.

"Even a difficult aircraft with a good airline with a strong amortisation profile is a good investment. There was a 0% balloon strategy on those aircraft and this is what the airline understood" he says.

Jim Bell, partner at Bird & Bird says the deal featured a complex and innovative blend of commercial debt, funds and debt and equity notes. "It really showcases our debt capital markets capabilities."

Editor's deal of the year: **Labrador ABS**

Borrower: Labrador Aviation Finance

Structure: Aircraft asset-backed security

Currency/amount: $709 million

Assets: 20 aircraft

Lawyers (and role): Pillsbury Winthrop Shaw Pittman (Mizuho); Vedder Price (Equity counsel); Clifford Chance US (GECAS); A&L Goodbody (Labrador Aviation Finance Limited and its Irish subsidiaries Labrador Ireland); A&L Goodbody (GECAS)

Banks (and role): Mizuho Securities, sole structuring agent and sole bookrunner; Natixis, liquidity provider; Phoenix American Financial Services, managing agent; Wells Fargo Bank, trustee; Korea Investment Management, equity asset manager; Meritz Securities, equity underwriter

Date mandated: March 2016

Date signed: 8 December, 2016

Date closed: 15 December, 2016

Deal highlights

In recent years, Korea has been one of the most active new markets in aviation finance. Traditionally, Korean investors have looked at single aircraft, often widebodies, on long-term leases with airlines with strong credit ratings.

But GECAS' $709 million Labrador Aviation Finance asset-backed security (ABS) broke this trend and set several precedents.

Unlike traditional Korean aircraft financings, this involved the sale of a whole portfolio, predominantly comprising narrowbodies on lease to both legacy and low-cost carriers. Qatar Airways, EgyptAir and Garuda Indonesia represented the three largest lessee concentrations in the offering, making up 37.1% of the portfolio, accounting for 15.3%, 12.4% and 9.4%, respectively.

Labrador was the first ABS deal with equity placed in South Korea and the best priced aircraft ABS transaction on a spread basis in 2016. The transaction's $603 million A tranche priced at 2.83% spread over the 5.57-year swap rate and its $106 million B tranche priced at 3.83% spread over the 5.57-year swap rate.

The A tranche had an initial loan-to-value ratio (LTV) of 65%, rated A by Kroll Bond Ratings Agency (KBRA) and Standard & Poor's (S&P), priced with a coupon of 4.3%; and the $106 million B notes, had an LTV of 76.4%, were rated BBB by KBRA and S&P, and had a coupon of 5.682%.

Some of Labrador's low pricing was due to its portfolio of young, liquid and in-production assets. The notes were secured by a portfolio of 20 aircraft on lease to 16 airlines located in 15 countries. The weighted average age of the portfolio was 4.89 years and a weighted average remaining lease term of 7.3 years.

Compared with other recent aircraft ABS transactions, the average Labrador Aviation portfolio is significantly younger. In addition, the portfolio's weighted average remaining lease term is longer than DVB's DCAL securitisation and comparable with Air Lease's Blackbird 2016-1 and Avolon's 2013 Emerald ABS transactions.

The portfolio is 65% narrowbody and 35% widebody, and carries a total appraised value of $928 million, based on the average of the base values provided by Morten Beyer & Agnew, IBA and Avitas. It comprises 17 narrowbody units, representing 64.6% of the total fleet value, with the remainder of the fleet's value, 35.4%, made up of widebody aircraft, including the Airbus A350.

Labrador was the first 144A/Reg S bond

format aircraft securitisation for GECAS in over a decade. GECAS had not entered the ABS market since 2014 in a long format, when it issued a $670 million ABS offering. The deal was secured against 26 aircraft, valued at approximately $900 million, supported the sale of a portfolio of aircraft to Merx Aviation.

"The Labrador deal was the first large, mixed aircraft portfolio sale in Korea, which allowed investors to deploy significant amounts of capital while diversifying their risk exposure," Greg Conlon, GECAS's executive vice president, Capital Markets tells *Airfinance Journal*. "What made this deal innovative was our co-issuer structure, which split out US aircraft and expanded the equity pool beyond traditional US or European onshore entities. The use of the Asian E-Note with ABS debt in a 144/Reg S structure attracted both US and global investors."

Labrador was the first ever aircraft ABS transaction with E-Notes sold to Asian (South Korean) investors. There was a fast execution on the debt placement with time between printing of preliminary offering memorandums and pricing only eight business days over Thanksgiving 2016 in a post US-election volatile market.

Mizuho Securities was the sole structuring agent and bookrunner while Phoenix American acted as the managing agent on the transaction. Natixis provided the initial liquidity facility in the transaction. GECAS is the servicer of the portfolio.

Several law firms were involved, including Clifford Chance, which acted for the issuer; Pillsbury Winthrop Shaw Pittman, which acted for the underwriter, and Vedder Price, which acted as counsel to the equity.

Prior to Labrador, the only deals Korean investors had invested in were on one or, in the rare case, where two widebodies are on lease to a flag carrier, according to Vinodh Srinivasan, managing director and co-head of structured credit group, Mizuho Securities USA. "The thinking behind that was: I'll get comfortable with the airline that makes the lease payments, so I don't have to worry about the aircraft type as much," he says.

He adds: "Widebodies allow Korean investors to invest more equity than a narrowbody deal. It took a lot of time for us to realign their thinking for them to care about the aircraft type as well as the airline credit."

The deal allowed investors to diversify away from single airline and aircraft type risk, while having the largest leasing company in the world to service their aircraft. It allowed investors to deploy a large amount of equity but reduce the risk of their investment.

Labrador was the first product to give Korean investors an opportunity to deploy large equity volumes and diversify their risk exposure by buying into a large, mixed aircraft portfolio. The transaction is likely to accelerate the growth of the Korean market, as more investors are educated about the potential returns to be made from aircraft. Labrador illustrated the growth potential for the Korean equity market, which has grown substantially over just a few short years.

Overall deal of the year: **Bohai Leasing's takeover of Avolon**

Borrower/Issuer: Avolon Holdings

Amount: $7.6 billion

Structure: Sale of Avolon to Bohai Leasing

Advisors: JP Morgan, Morgan Stanley, Bravia Capital, UBS

Lawyers: Weil, Gotshal & Manges, Sidley Austin

Closed: 8 January, 2016

Deal highlights

Shenzhen-listed Bohai Leasing closed the purchase of Irish-lessor Avolon on 8 January 2016. The $7.6 billion acquisition saw the subsidiary of the Haikou-based conglomerate HNA Group purchase the entirety of Avolon. At the time, the deal was the largest overseas transaction in history among China's A-share listed companies, and the second largest acquisition of a US-listed company and fifth largest acquisition overall among Chinese companies.

The deal was announced just nine months after Avolon's initial public offering (IPO) against a backdrop of volatile market conditions where the average share price movement was +3% among lessor peers in 2015, along with stagnant markets and falling oil prices.

Avolon delivered a 55% return to shareholders who invested in the IPO in December 2014 – a significant return exceeding all global market indices by a multiple. The IPO was the largest ever listing on the New York Stock Exchange (NYSE) by an Irish-founded company, and the company's exit via the Bohai acquisition was one of the shortest ever tenures on the NYSE.

The merger with Bohai Leasing catapulted Avolon to the top five leasing firm in the world with a fleet of over 400 aircraft and gave it an equity injection of $1.2 billion to drive organic and acquisition growth.

Following the merger, Avolon is now the core leasing brand for Bohai Leasing and its parent HNA Group.

Avolon also assumed management of the Hong Kong Aviation Capital (HKAC) business. HKAC's fleet, processes and systems was fully incorporated into Avolon during the first half of 2016.

"It shows the efficiency and economies of scale when that can be achieved when you combine different platforms," said Avolon's chief financial officer Andy Cronin, speaking to *Airfinance Journal* about the deal.

He adds that one of the challenges of closing the deal was negotiating the differing regulatory requirements of the New York and Chinese stock exchanges.

"In China, there is a much higher level of regulation, with more diligence requirement. There is far more third party evidencing, so for example in the US if you buy an aircraft the regulators don't need to see a bill of sale for an individual aircraft, whereas in China they do. It's a much more forensic, bottoms-up regulation than in the US," he says.

Being part of a huge conglomerate like HNA Group has significant advantages for Avolon, Cronin says.

"From the manufacturers' perspective, we are part of a huge airline group as well as being part of a large multinational conglomerate. You need to look at HNA as significantly more than an airline," he says, pointing to the multiple acquisitions HNA Group has made in recent years. The most recent of these at the time of writing is HNA Group's acquisition of a 16.79% share of the Swiss travel retailer Dufry.

"HNA Group have grown that business from a start-up to be one of the largest companies in the world. They bring an expertise and a perspective on the industry, which is very unique and insightful," Cronin adds.

Avolon's transformation into a Chinese-owned leasing company raises the question of how much of its business will be devoted to China.

"We will track the market. I don't think we will be doing a disproportionate amount of on-shore Chinese financing," says Cronin.

"Chinese airlines often do finance leasing rather than operating leasing. Bohai has a significant finance lease business but Avolon does operating leasing, so we are obviously very well positioned to do a significant amount of operating leasing business in China."

Kartik Hariharan, executive director, Morgan Stanley says the challenges of the deal were "numerous", including the crossborder nature with parties in various geographies, absolute size of the financing and the carve-out nature* of the financials that made valuation complicated. Additionally, tax related structuring issues surfaced at the later stages.

"Having a highly experienced and deal savvy management team at Avolon and Bohai made it easier and faster to deal with the challenges," Hariharan says, adding that the deal showed the ability of Chinese acquirers to pull off complicated cross-border merger and aquistions.

"Finally, it showed that Western debt financing markets love the aircraft leasing space, as evidenced by attractive borrowing rates achieved by Avolon during the financing transaction."

> *We will track the market. I don't think we will be doing a disproportionate amount of on-shore Chinese financing.*
>
> **Andy Cronin**, *chief financial officer, Avolon*

The term "carve-out financial statements" is used to describe the separate financial statements of a business that are derived from a larger parent company. Source: **transactionadvisors.com.*


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