

Asset Management & Remarketing

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Overview

- Assessment of exposure
- Selection of re-marketing services provider
- On-going management of exposure



Assessment of Exposure

- What is it?
 - Aircraft
 - Engine
 - Debt/Equity
 - Other
- What are your rights?
 - Senior/Junior
 - Equity Holder



Asset vs. Cash Flow

Dealing with Asset



Aircraft
Engines
Spare Parts
Gates/Slots

In operation
Parked
Long Term
Short Term

Operations
Long haul
Domestic

Maintenance
Airframe
Engines

Retention
Rejection
New schedule
New operations
Economics
Fleet
Replacement

Tangible vs.
Intangible

Jurisdiction

If aircraft,
correct engine?

Market segment

Operating
environment

Labor Issues

Return Conditions
Change, if any

How old is it?

Rationalization



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Plan of Action

Aircraft Sales and Leasing Program



Asset Management



Remarketing

Aircraft Sales and Leasing Action Plan

- Develop course of action based on ING's financial requirements and market conditions
 - » Sale/ Lease
 - » Marketing time horizon
 - » Level of continuing involvement
 - » Level of risk
- Marketing Execution
 - » Analyze current existing worldwide fleet for potential upgrading or expansion opportunities
 - » Direct Mail campaign to all current/potential operators
 - » Personal direct or voice contact with high potential operators – aircraft on order/ known in the market airlines
 - » Advertise as appropriate – trade publications, distribution databases
 - » Support potential customer aircraft analysis/requirements and alternative comparison research
 - » Assist in ancillary support as needed: financial, technical,spares, training, short-term “CMI” support, etc.
 - » Develop competitive pricing strategy and aggressive sale/lease terms and conditions
 - » Develop benchmark for Operating Lease – analyze and develop airframe and engine accrual content
 - » Vet all prospective purchase/lease customers for financial and operational stability/capabilities – Source and arrange credit enhancement, if required.
 - » Work with manufacturers – aircraft/ engine
 - » Liaise with Operating Lessors



Remarketing

Aircraft Sales and Leasing Action Plan

– Closing

- » Develop negotiating strategy
- » Develop term sheet
- » Open negotiations, draft term sheets
- » Liaise with legal counsel on contract development and negotiation
- » Attend and assist with closing and delivery
- » Deliver the aircraft, memorialize the delivery conditions



Asset Management

- Remarketing Period
 - Audit and receive the aircraft
 - Develop baseline component and condition file
 - Arrange ferry and storage
 - Monitor asset
 - Advise on maintenance requirements and obtain third-party bids
 - Show aircraft and provide oversight of asset during buyer inspection
 - Arrange Interim Insurance



Asset Management

- Operating Lease

- Monitor monthly usage
- Accept lease payments
- Monitor/ analyze/receive reserve payments
- Review operator requests for maintenance
- Monitor lease compliance
- Corroborate and approve 3rd party maintenance



Asset Management

- Return

- Inspect for return compliance
- Document for potential legal position
- Capture necessary records
- Locate and secure other assets not currently attached to asset
- Obtain appropriate permits, retain flight crew and ferry aircraft
- Store and oversee any maintenance performed on assets



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Asset Management

- Ancillary Technical Support
 - Inspect asset on a routine basis (predicated on operator stability) for contract compliance, airworthiness, operator records security and supporting documentation.

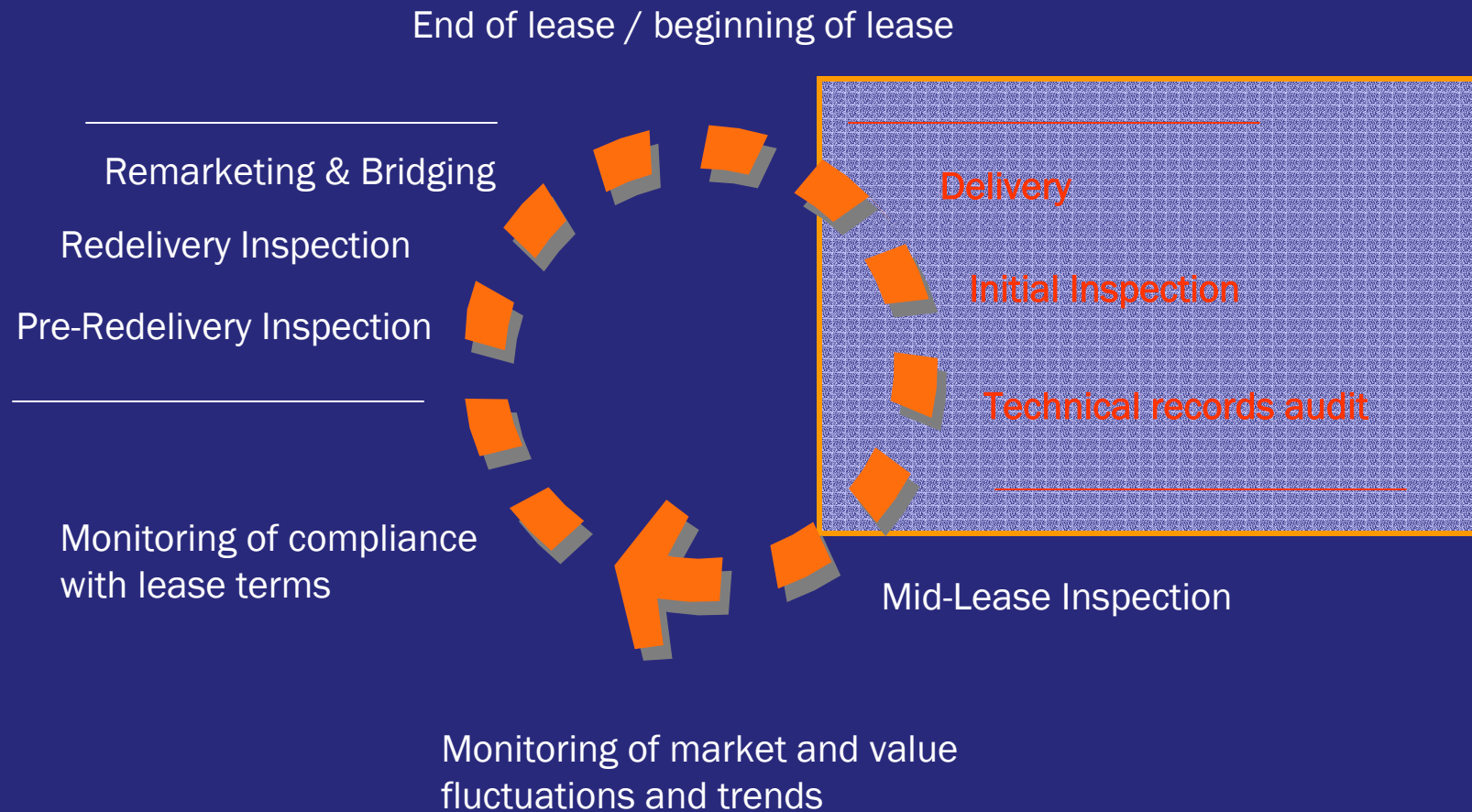


Asset management & remarketing – Questions that will be addressed:

- What is the asset life cycle ?
- What are the phases of the asset life cycle?
- How does asset management work?
- What do you need to know about the industry?
- What do you need to know about the operator?
- What do you need to know about the asset?
- What is the role of remarketing?



Asset management is the tool that guides the aircraft through the various stages of its life cycle.





Asset management addresses the inherent risk mainly from the commercial & technical perspective of the lease.

The tool to implement is a *lease monitoring program*.

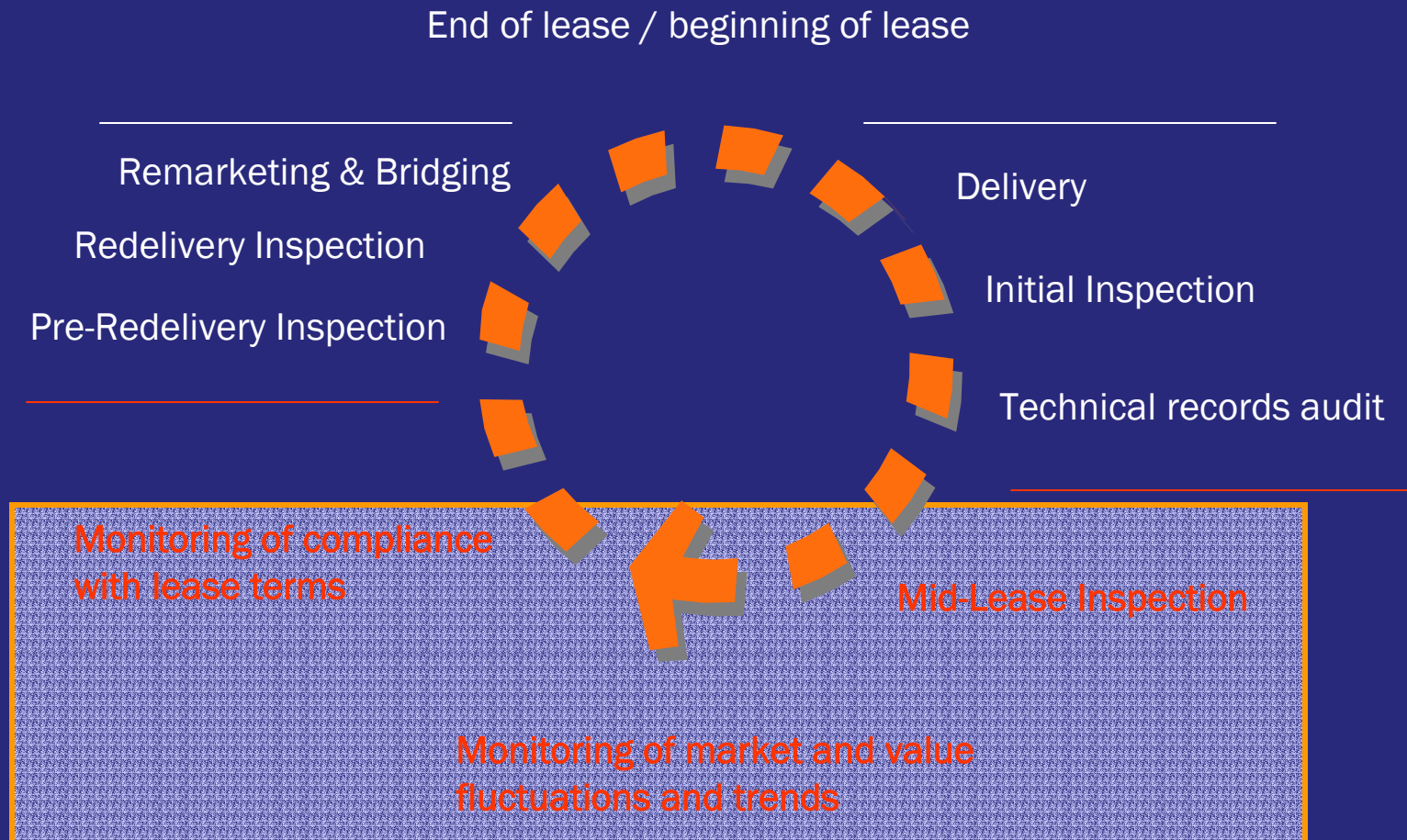


Technical records audit:

- Technical status of the asset must be verifiable by complete, accurate and up-to-date documentation.
- Establishes the level, type and frequency of required maintenance.
- Confirms the existence of a complete maintenance and repair history.
- Highlights financial exposure due to required maintenance such as C and D-Checks.
- Provides assurances as to the ability for certification in major jurisdictions such as the U.S. and Europe.
- Verifies the recording of flight hours, cycles, and time.
- Confirms the status of Airworthiness Directives.



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The Lease Monitoring Program

Objectives:

- Maximize portfolio value
- Ensure adherence to payment schedule
- Minimize risk and exposure
- Maintain the ability to remarket the asset
- Protect asset value
- Ensure compliance with lease terms
- Reduce maintenance expenses

Process:

Structured proactive cycle of commercial and technical management

Physical inspections of asset and records



The lease monitoring program provides flexibility throughout the asset's life cycle by providing up-to-date and accurate information about the asset to the lessor.

This is accomplished by:

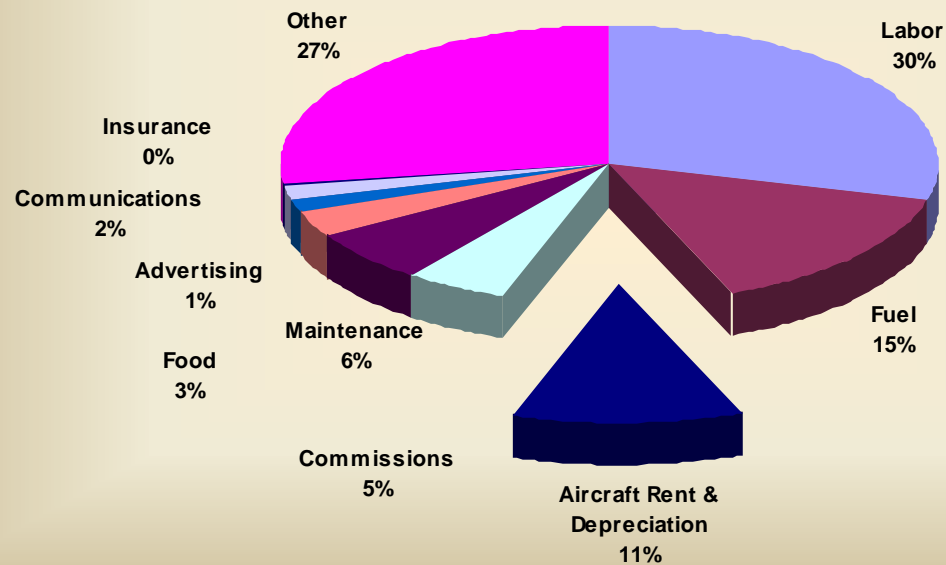
- Mid-lease inspection
 - review of current technical status
 - detailed physical inspection
 - compliance with maintenance requirements
 - Status of maintenance reserves
 - Have any draw downs been made?
 - Were draw downs justified?
 - Examine reserve invoices

- Monitoring of market and value trends
- Monitoring of lessee conduct
- Detecting initial warning sign or trouble ahead



Because aircraft related expenses are one of the major cost drivers for airlines, operators will attempt to take actions in this area during economically challenging periods.

Major Cost Drivers for Airlines' Operating Expenses



Source: The Airline Monitor, February 2002



Especially during economic downturns, anticipate the operator's actions.

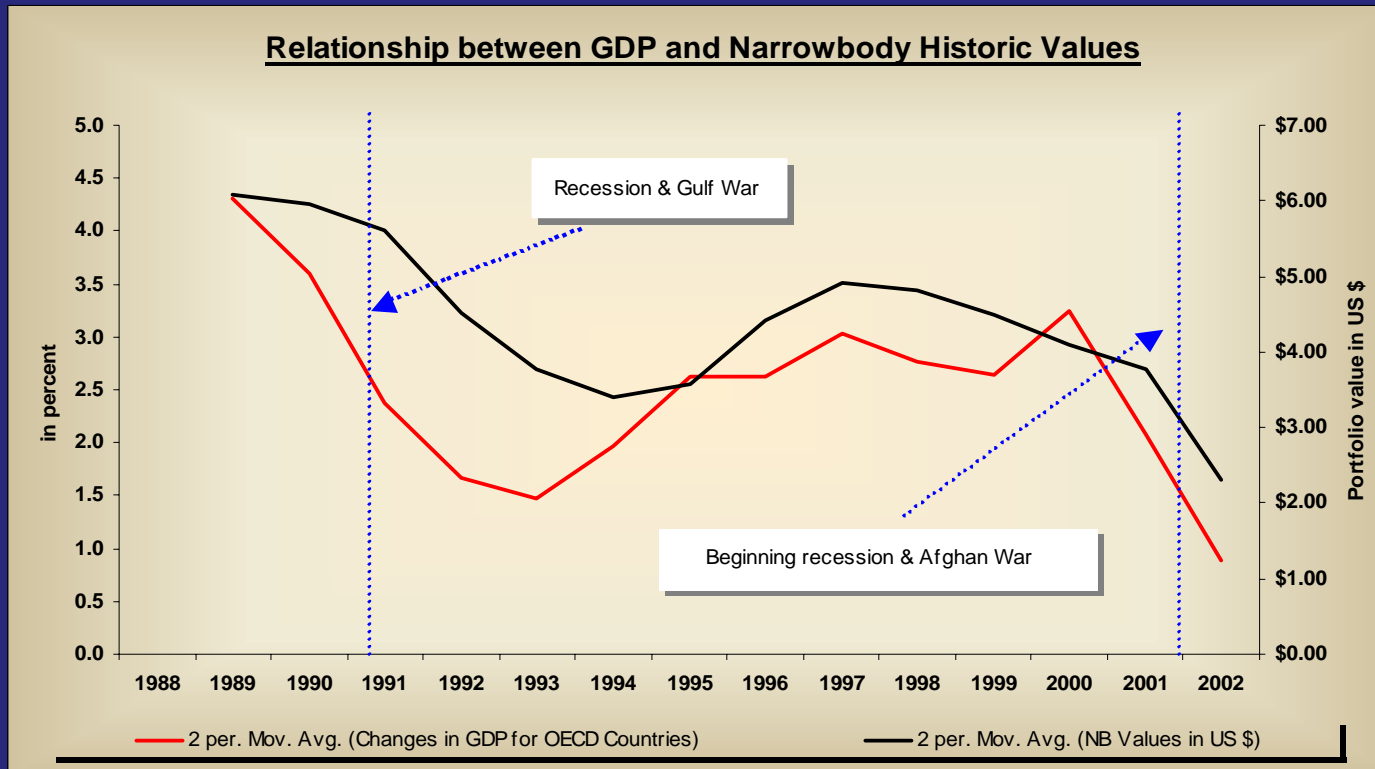
Such actions may include:

- Seek bankruptcy protection
- Seek governmental protection
- Cannibalize the aircraft for parts
- Lower maintenance standards
- Renegotiate the terms of the lease
- Renegotiate return conditions
- Default on the payments
- Return the asset

These actions can have a significant negative impact on the value of the asset.

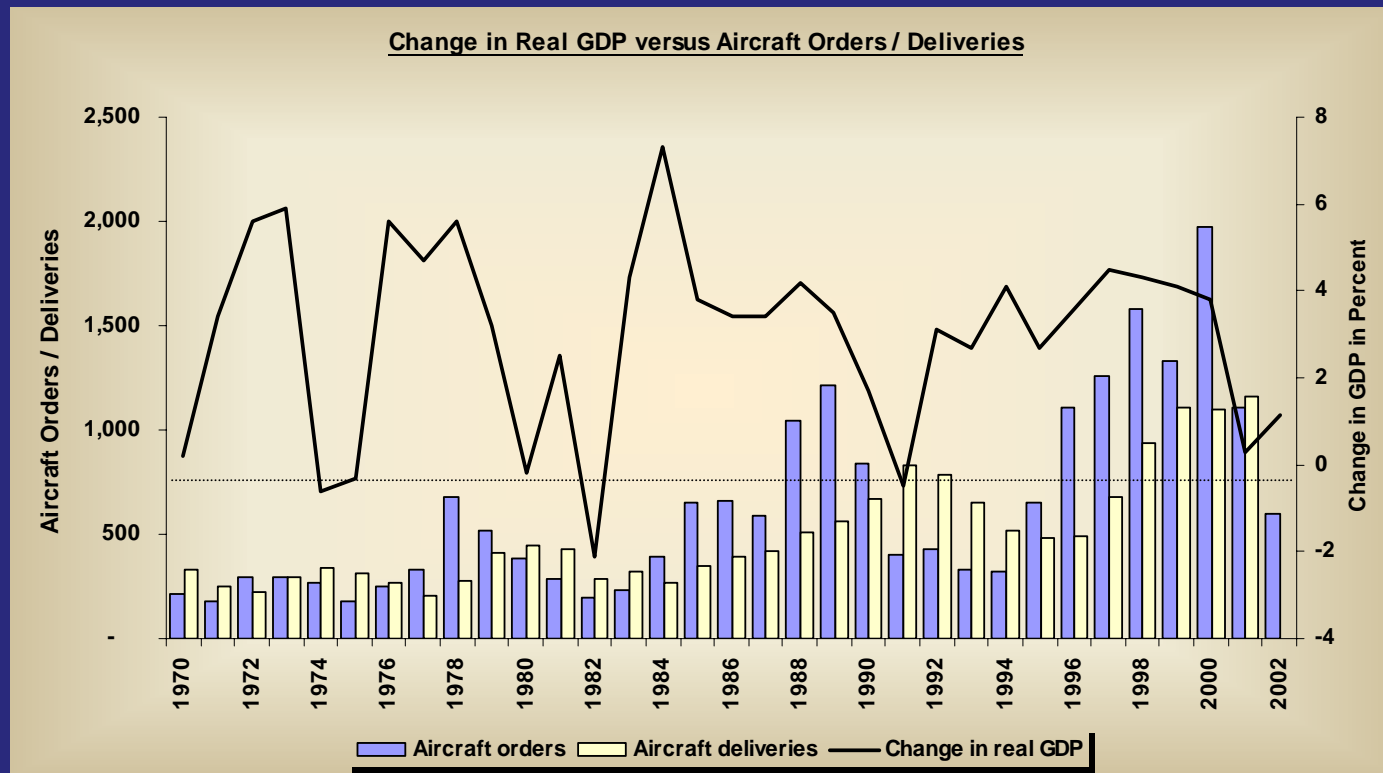


Economic downturns have a direct impact on aircraft values, in this case a portfolio of older narrowbodies.



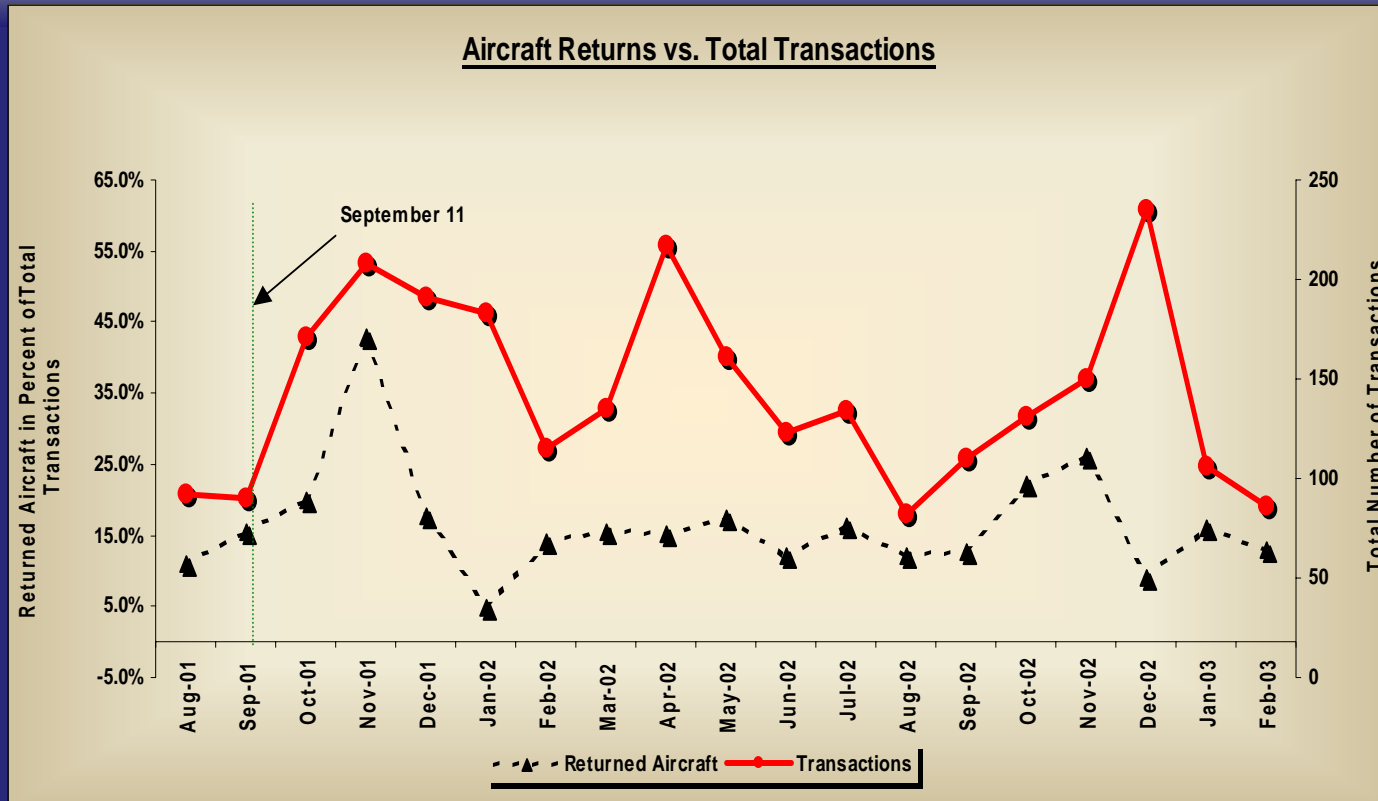
Source: OECD monthly statistics and MBA historic values





Source: The Airline Monitor, December 2002; Bureau of Economic Analysis, April 2003



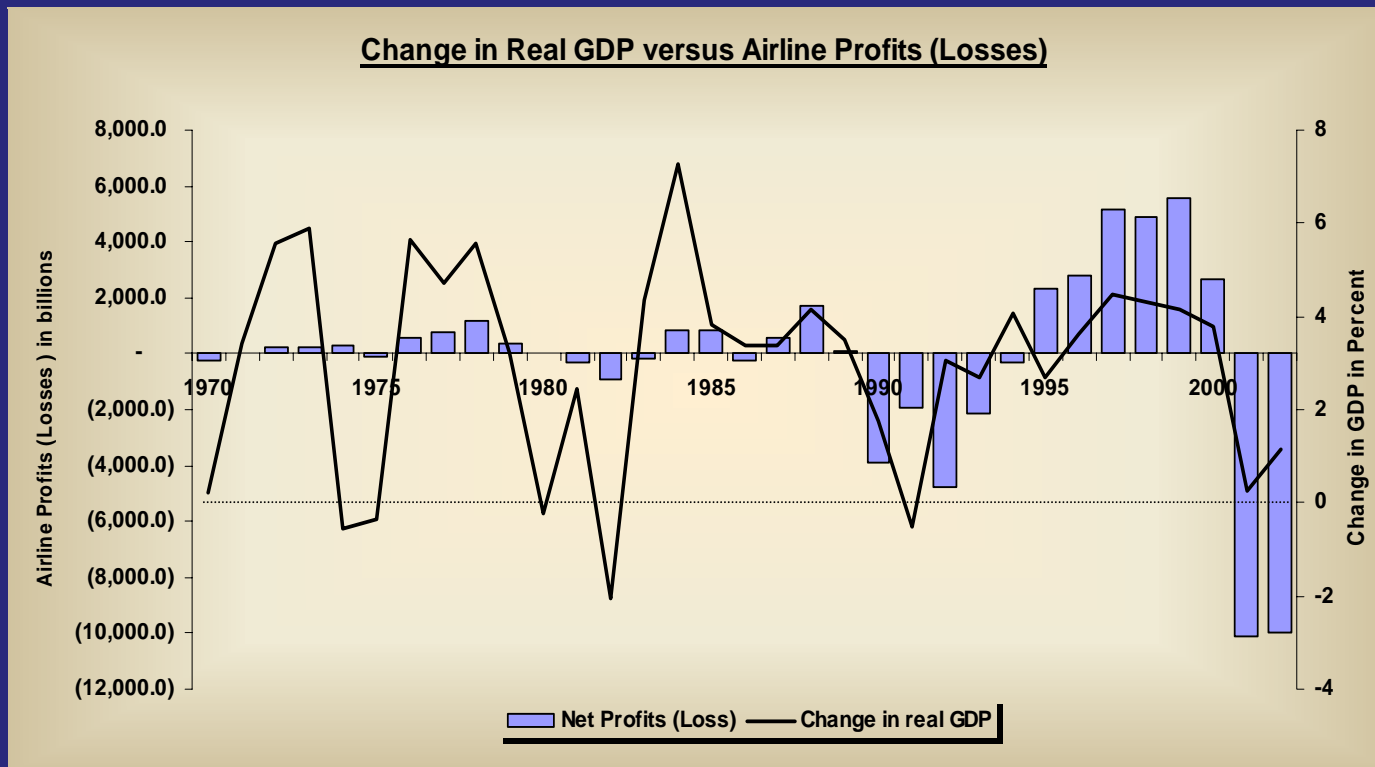


Source: BACK AvSolutions - JetMart

Steep inclines in the number of total transactions after 9 - 11 were to a large degree driven by aircraft returns. Since April 2002, this trend has reversed itself, only to return in the latter part of 2002. Transactions, as well as return levels, have retreated to levels recorded prior to the terrorist acts.



The key to a successful asset monitoring and remarketing program is to know and understand the market and its driving forces during the entire duration of the lease.



Source: The Airline Monitor, February 2002; Bureau of Economic Analysis, April 2002



The end of the lease is marked by the return of the asset.

Final inspections during this phase improves the transition of the asset from one lease to the next without exposing the lessor to undue financial risk.

Pre-redelivery inspection:

- Determine the asset's ability to meet the lease redelivery and maintenance covenants.
- Report potential for lessor's financial exposure.
- Asses AD sharing issues.
- Determine reserve reconciliation.
- Clarify redelivery conditions.
- Complete audit of associated records.

Redelivery inspection:

- Last inspection before physical exchange of asset.
- Assure asset's compliance with all rules and regulations.
- Check all documents.



Actively managing the asset allows for smooth transitions from lease to lease and thus avoids idle time and the loss of rental income.

Remarketing a crucial phase in the asset's life cycle.

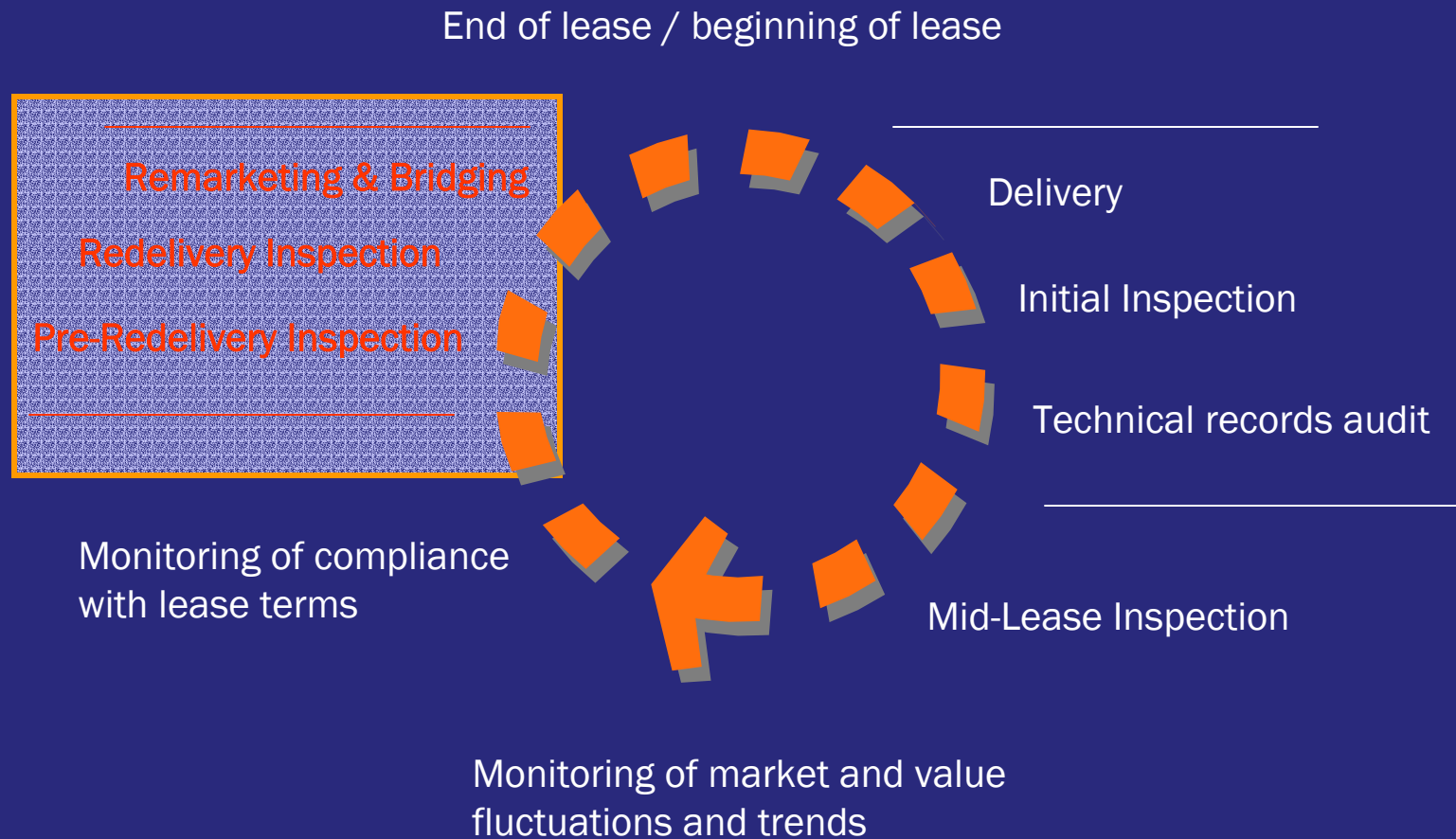
Begins several months before the lease term expires.

Especially difficult phase during economic recession:

- Demand for assets declines
- Values become depressed
- Number of stored aircraft increases

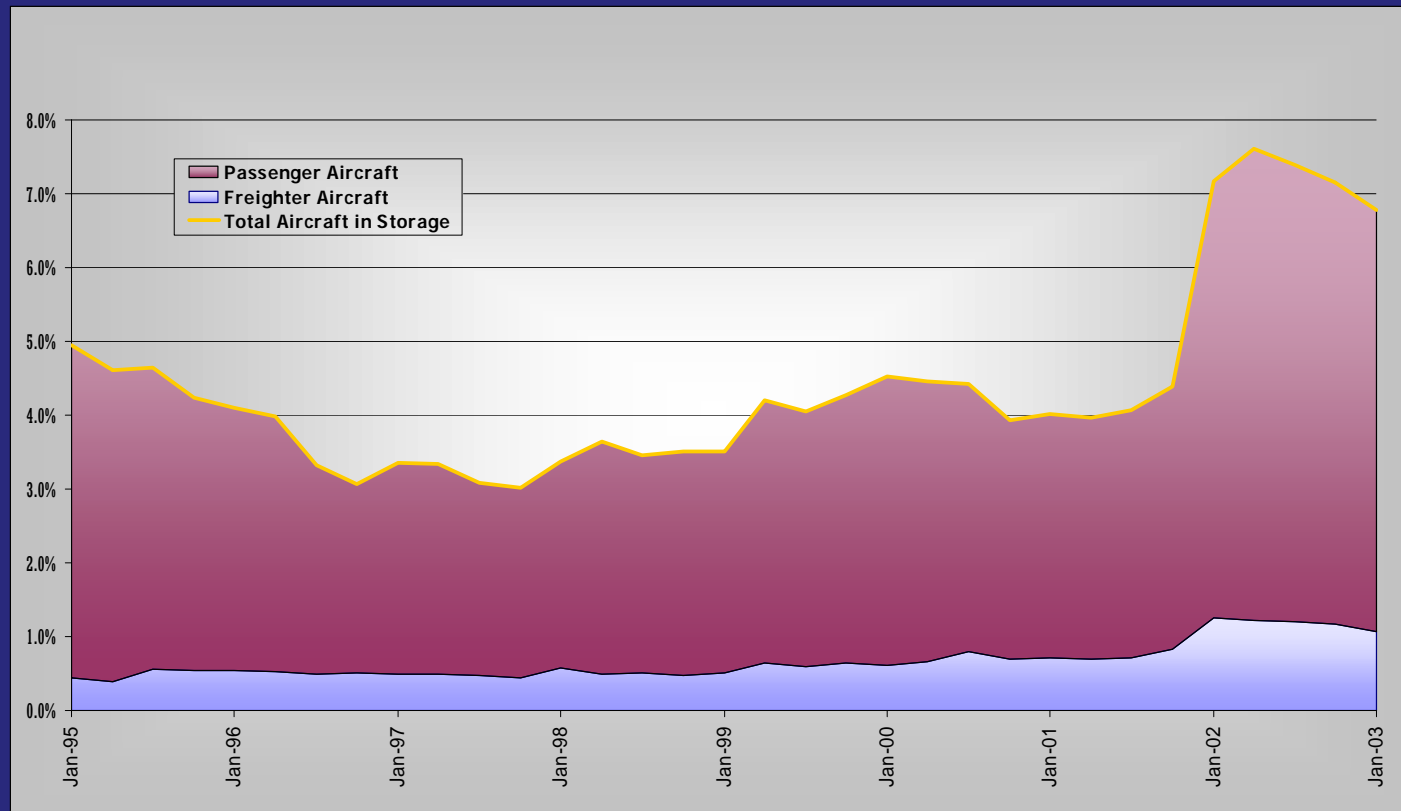


Asset management is the tool that guides the aircraft through the various stages of its life cycle.



Total Aircraft in Storage

As a percentage of World Fleet



A remarketing campaign will be successful if:

- Asset is in excellent condition
- Market conditions are favorable
- Refurbishment and maintenance expenses are minimal
- Records are complete, up-to-date, and in good condition
- Registration is possible in several key markets
- Service provider has strong knowledge of the asset and the market

Goal: Minimize the time the asset is off-lease



Difficulties that might arise during the remarketing process:

- Reconfiguration costs
- Re-registration rules & regulations
- Certification requirements
- Environmental standards
- Operator expertise
- Legal obstacles
- Political circumstances



Conclusion

- ❑ Importance of a solid understanding of the asset and the market forces.
- ❑ Good relationship and communication between lessee and lessor vital.
- ❑ Pro-actively manage the asset, especially during times of economic downturn.
- ❑ Know the lessee and anticipate its actions.
- ❑ Lessee actions and economic conditions directly impact asset value.
- ❑ Asset management addresses commercial & technical risks.
- ❑ A lease monitoring program guides the asset through the term of the lease.
- ❑ Remarketing starts long before lease expiration date.
- ❑ Successful remarketing campaign will minimize the off-lease time.



Thank You

