

Financing New Aircraft: What is the appetite?



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7th Annual European
Aviation Summit
22-24 November, Amsterdam



Outline



- What is the current bank appetite for new market products?
- What are the key indices that banks look at for determining financeable assets
- How do these indices fit for:
 - 7E7
 - A350
 - A380
 - Embraer 170/190
- What role will the ECAs have and how much support will they offer?



Current Appetite



- Is there a perceived ubiquity
- What kind of carriers are ordering this aircraft
- Are operating lessors ordering it?
- Residual values
- Where does this aircraft go on the secondary market?
- Excitement about the transition costs:
 - Interchangeable engines (7E7)
 - Less variation and options offered
 - Regional Jet market, becoming segmented



Current Appetite

7E7

"Demand for the 7E7 programs appears to have been disrupted at least temporarily by Airbus' A350 proposal and the quality of demand for the aircraft remains unclear," J.P. Morgan

Sept 28, 2004

7E7-300

289 Pax, 3,500nm

7E7-800

217 Pax, 8,500nm

7E7-900 (2012)

257 Pax, 8,300nm

- Generally felt as “bankable”
 - Good size
 - Good applicability
 - Subject to market demand (767-400ER)
- Things to watch:
 - Finalized technical/performance specs (MD-11)
 - Airbus competition (A350)
- Biggest financing hurdle faced by the first carrier (A330)
- Freighter possibilities
- Could be the RJ of widebodies



Current Stats 7E7



Courtesy Boeing

Order Book

- Blue Panorama (4)
- First Choice, UK (6)
- ANA, Japan (50)
- Air New Zealand (2)

- 62 firm orders
- Carriers: 4
- Others on the horizon:
 - Goal: 200 aircraft by year-end
 - 30 airlines, 600 aircraft
- List price \$120mm
 - Base Value would start around \$90mm
- Goes into service in 2008
- Total demand forecast 3500 aircraft
- Engines: GE/Rolls-Royce



Where does this aircraft fit in the market?

Development costs currently ranging from \$8-10 billion

- Fills thin capacity for both short and very long haul
- Fills the “point-to-point” mantra
- Does it fill a “secondary” market?
- Are mainline carriers ready to order?
- Are North American carriers ready to order?
- First real launch with only ONE mainline carrier



Residual Affects



- (+) 767 market hot for the moment
- (-) 767 market will cease once 7E7 comes on-line
- (-) A330-200 market could see some damage
- (+) A350??
- (-/+) 7E7 Market Segmentation



Current Appetite A350



Development costs
currently ranging between
\$3-5 billion

- First of all, is it real?
- If so, could be viable competition
- Concerns
 - No interchangeable engines
- Freighter possibilities
- Other issues:
 - What happens to the A330?
- 2003 Global Market Forecast
 - Projected 1782 deliveries over 20 years



Current Appetite A380



**Development costs
currently ranging around
\$12 billion**

- Could be a tough asset to finance
 - Residual value guarantees
 - Steeper residuals?
 - Limited aftermarket
 - A340-600 issues
- Things to watch:
 - Continued orders
 - Commencement of deliveries (or lack thereof)
 - Operational performance issues
- First aircraft to be launched as a passenger and a freighter



Current Stats A380



Order Book

- Air France (10)
- Emirates (43)
- FedEx (10)
- ILFC (10)
- Korean (5)
- Lufthansa (15)
- Malaysia (6)
- Qantas (12)
- Qatar (2)
- Singapore (10)
- Virgin Atlantic (6)

- 129 firm orders, 60 options
- Carriers: 11
- List price: \$220mm
 - Base Values would start around \$160mm
- Goes into service in 2008
- Total demand forecast aircraft
- Engines:



Current Appetite Embraer 170/190



- There seems to be very strong interest in this segment
- Scope clauses are being relaxed
- Things to watch:
 - Quality of backlog
 - US Airways ?
 - Geographical concentration
- Boeing forecasts 4248 aircraft delivered over 20 years



Current Stats Embraer 170/190



Order Book

- Air Caraibes (2)
- Alitalia (6)
- Cirrus Airlines (1)
- Crossair (30)
- Finnair (12)
- GE Capital (65)
- LOT Polish Airlines (6)
- Regional Airlines (10)
- Republic Airways (23)
- US Airways (85)??

- 195 firm orders, 203 options
- Carriers: 10
- Current Market Value (170): \$22mm
- Went into service 2004
- Engines: CF34-8E5



ECA Financing US Ex-Im Bank



Courtesy Boeing

- Still dependent on credit-worthiness of the airline/lessee
- Along with the security by the finance lease structure – first priority on the finance aircraft
- LTV still around 85% - (not more than 100% of the US Content of the aircraft)
 - Special deals have been done as requirements have been softened
 - Exposure can be adjusted where risks are considered significant
 - Maximum repayment terms dependent on age of aircraft



Summary



Courtesy Boeing

7E7-300

289 Pax, 3,500nm

7E7-800

217 Pax, 8,500nm

7E7-900 (2012)

257 Pax, 8,300nm

- Financing community not as robust as it once was
- Aircraft market is more fragmented – niche aircraft for everyone's niche
 - Manufacture competition does not seem to be lightening up
- What are the new financing terms?
- The appetite will exist for aircraft that are solid winners, will be tougher for those that might have a limited life
- Financing still dependent on the creditworthiness of the operator (or parent operator)



Thank You

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Development costs currently ranging from \$8-10 billion

A380 is pegged around \$12 billion

