



Cinven acquires global aircraft leasing business

Cinven, together with two other private equity firms, has taken a controlling interest in aircraft leasing company Avolon. Each will contribute US\$250 million of equity capital as part of a US\$1.4 billion equity and debt capital-raising exercise.

Caspar Berendsen, a Partner in the Financial Services team, said: "Because we know the airline industry and its cycles well, we believe the airlines will welcome the emergence of a global aircraft lessor that offers them the modern fuel efficient aircraft that they are most in need of, on attractive terms. We are excited about the prospects for Avolon, which has a highly experienced management team that will be able to draw on the sector expertise of committed shareholders that have the capacity to make further investments."



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US\$1.4 billion equity and debt capital

**Dublin
New York
Hong Kong
Shanghai**

20 aircraft leasing professionals

The business

Headquartered in Ireland, Avolon is led by one of the most experienced management teams in the sector. Dómnal Slattery, formerly the founding CEO of RBS Aviation Capital, one of the largest aircraft lessors in the world, is Avolon's Chief Executive. He leads a team of 20 aircraft leasing professionals that has a proven track record and a wide network of senior contacts in the airline, aircraft manufacturing and airline banking industries.

Avolon has offices in Dublin, New York, Hong Kong and Shanghai and provides aircraft leases and lease management services to airlines around the world, focusing on the acquisition of the latest generation of narrow-bodied, fuel-efficient aircraft. These aircraft are the most liquid as a result of high levels of demand from numerous operators in the resilient short-haul and economy markets.

The transaction

The Cinven Financial Services team has been targeting specific subsectors within financial services for opportunities arising from the structural dislocation in the financing markets over the past two years - the aircraft leasing industry being one of those subsectors. In addition, Cinven has benefited from an excellent track record and significant insights into the aerospace and aviation sectors given the Third Cinven Fund's successful investment in Amadeus and the Fourth Cinven Fund's investment in Avio.

At closing Avolon had capital commitments of US\$1.4 billion which includes a US\$400 million warehouse debt financing (a type of asset backed revolving credit facility) arranged by UBS together with Credit Agricole, Deutsche Bank and KfW IpeX-Bank. The Cinven Financing team played an instrumental role in securing the warehouse facility and this can be considered a landmark deal as it is the first financing of this kind since the onset of the credit crunch. Avolon also secured a US\$215 million term debt facility provided by DVB Bank.

Avolon has already made significant progress and to date has executed contracts and letters of intent for the purchase of more than 35 aircraft comprising Airbus A320s, Airbus A330s and Boeing 737NGs. These aircraft are leased to airlines around the world.

The opportunity

Avolon's strategy is focused on building an attractive aircraft portfolio of scale, consisting of young new generation narrowbodies, through sale and lease back transactions with a broad group of strong operator credits in favourable jurisdictions.

The primary focus will be on acquiring narrowbody A320 and B737NG aircraft as these aircraft offer the most attractive risk adjusted return given (i) high liquidity; (ii) value retention; and (iii) low value volatility. These factors are underpinned by the forecast for narrowbody aircraft demand which stems from resilient short-haul and economy travel demand, the aircraft's fuel efficiency, the rise of the Low Cost Carrier ("LCC") model and the narrowbody fleet replacement cycle.

The investment strategy for Avolon is centred around building a global aircraft leasing business with the scale, resources and expertise to successfully compete with the world's leading aircraft lessors. We believe that the current supply and demand dynamics in the global aviation sector present a clear market opportunity for Avolon. Approximately 35% of the global aircraft fleet - more than 6000 civil aircraft - are funded through leasing and recently leasing has become increasingly important as a source of finance as credit conditions have tightened: around 40% of all new aircraft deliveries are currently financed in this way. Capital-constrained established airlines and newer, emerging airlines experiencing rapid growth look to leasing to help them adapt to changing levels of demand. Avolon will focus on narrow-bodied, fuel-efficient, low maintenance aircraft which are in demand because they help control operating costs and offer flexibility in the resilient short haul and economy travel markets.

Avolon have put in place a disciplined portfolio risk strategy which sets prudent parameters for aircraft purchases with regards to (i) aircraft types and specifications; (ii) lessee counterparties; and (iii) geographical and jurisdictional concentration. Avolon also pursues a conservative funding policy, ensuring that it is both duration and interest rate matched. As leasing is an asset-based financing technique, lessors have built-in protection against default by their customers. In this eventuality, leased aircraft are re-possessed and can quickly be re-deployed to new customers.

Avolon's entry into the market is well-timed. With a highly experienced management team and the backing of Cinven and its partners, we have every confidence in its ability to succeed.