



## The “New” Commercial Airline Industry

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Workshop:  
Due Diligence 360



## Outline



- What is different?
- The New Requirements
- The New Players
- Future Trends
- New niches



## What is different?



“Major carriers, especially in Europe, have been fuelling the trend to free up balance sheets and gain a little more fleet flexibility,”

- Airline Business, October 2003

- Everyone wants to be Low Cost, again
- Younger aircraft
- Capacity/Utilization
- Finance not as available, but slowly returning
- Liquidity, Liquidity, Liquidity
- Significant amount of parked aircraft
  - What is the quality of stored aircraft?



# The New Financing Requirements



- Value Definitions
  - Does Base Value still hold water
  - What *is* market value
  - Considering distressed values
- Enhanced Due Diligence
  - Increased technical understanding
- Thorough Market Understanding
  - Heightened awareness of market dynamics
- Liquid Assets
  - What are they?
- Increased manufacturer involvement
  - Financing



## The New Players



"In the past, downturns were short-termed or regional, like the Asian Crisis, and people could shift Equipment around,"

- Tony Simpson, Boeing Capital

- Hedge Funds/Equity Investors
- Regional Carriers
- Low Cost Carriers
- ECAs
  - EX-IM: considering pre-owned aircraft
- Operating Lessors
  - Up to 40% of widebody aircraft are on operating lease
- China
- Eastern Europe
- Institutional Investors
  - But sometimes, not by choice
- Joint Ventures
  - Manufacturers/Financial Institutions



## Future Trends



"...the lack of aircraft standardization can hamper the smooth flow of assets,"

- Airline Business, October 2003

- Right-sizing financial exposure:
  - Airlines
  - Banks
- Sharing of exposure
  - More equity infusion
- Enhanced due diligence
  - Increase investor confidence
- Airline focus on services and not owning metal
- Increased standardization
  - Operating Lessors
  - 7E7
- Softened ownership rules (US)?
- Newer cargo aircraft
  - Shifting widebody demand for 777s/A340s
- Diminishing yields
  - Due to increased competition



## Niches that are being filled



"...the lack of aircraft standardization can hamper the smooth flow of assets,"

- Airline Business, October 2003

- Start-up carriers
- Regional carriers
  - Picking up more slack
- Vertical integration
- Foreign ownership
  - Virgin America
  - Helping out our bankrupt carriers?
- New equipment
  - Can we consider the 7E7 or A380 niche aircraft?
- Business plan realignment



What are we learning today?

Structured Finance

Legal Issues: Default

The Leasing Hurdles

**Due Diligence  
360°**

**Asset Protection**

Technical Understanding

Business Plan: Success or Failure?



Thank You

