

Aviation Finance Summit 2009

Opportunistic Aircraft Investments

Ziki Slav, SHZ Aviation LLC

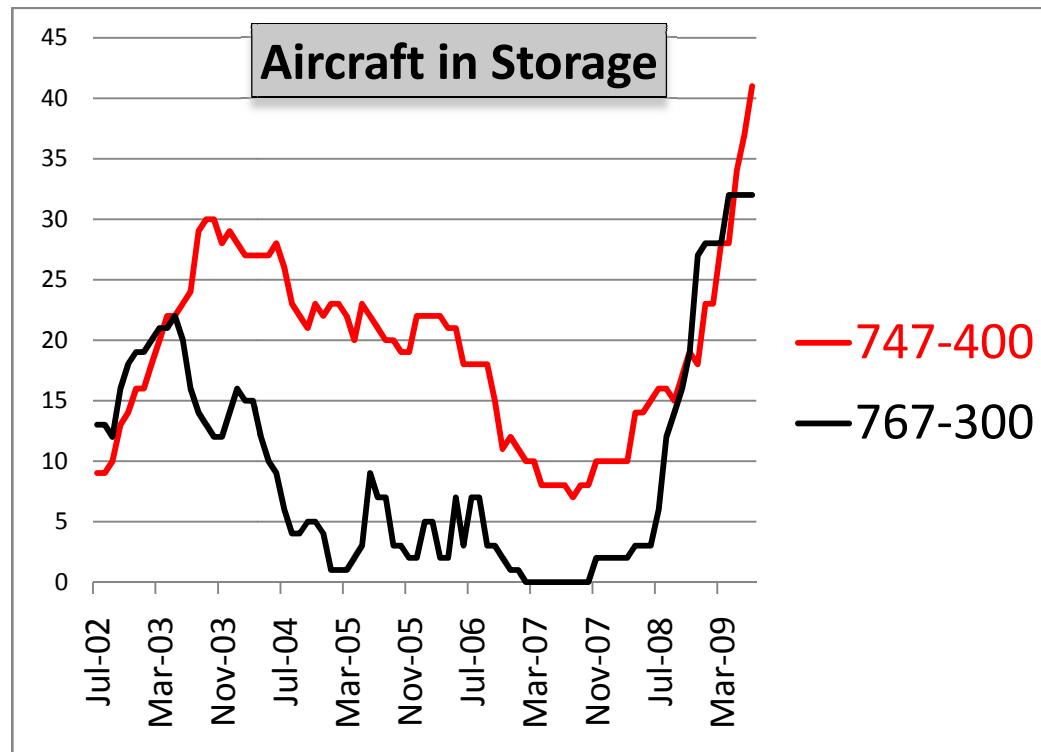


Where are we in the cycle?

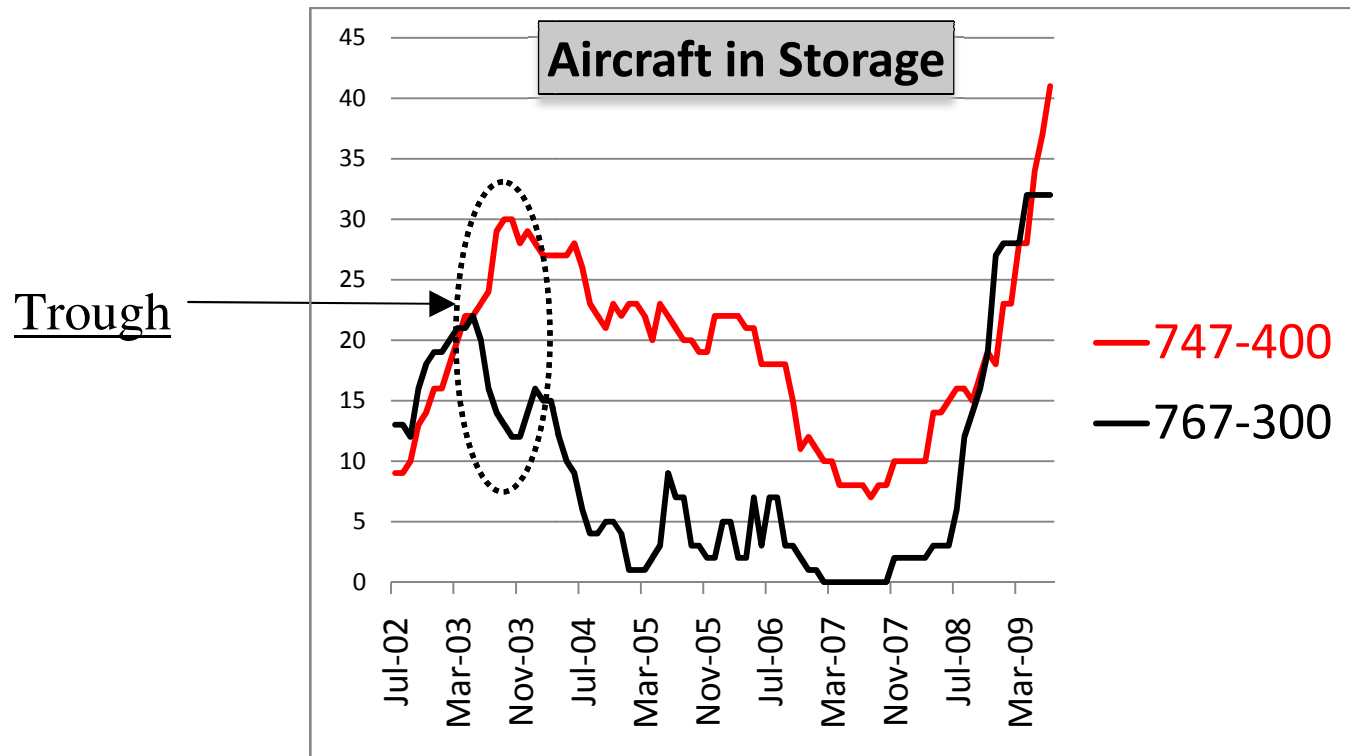
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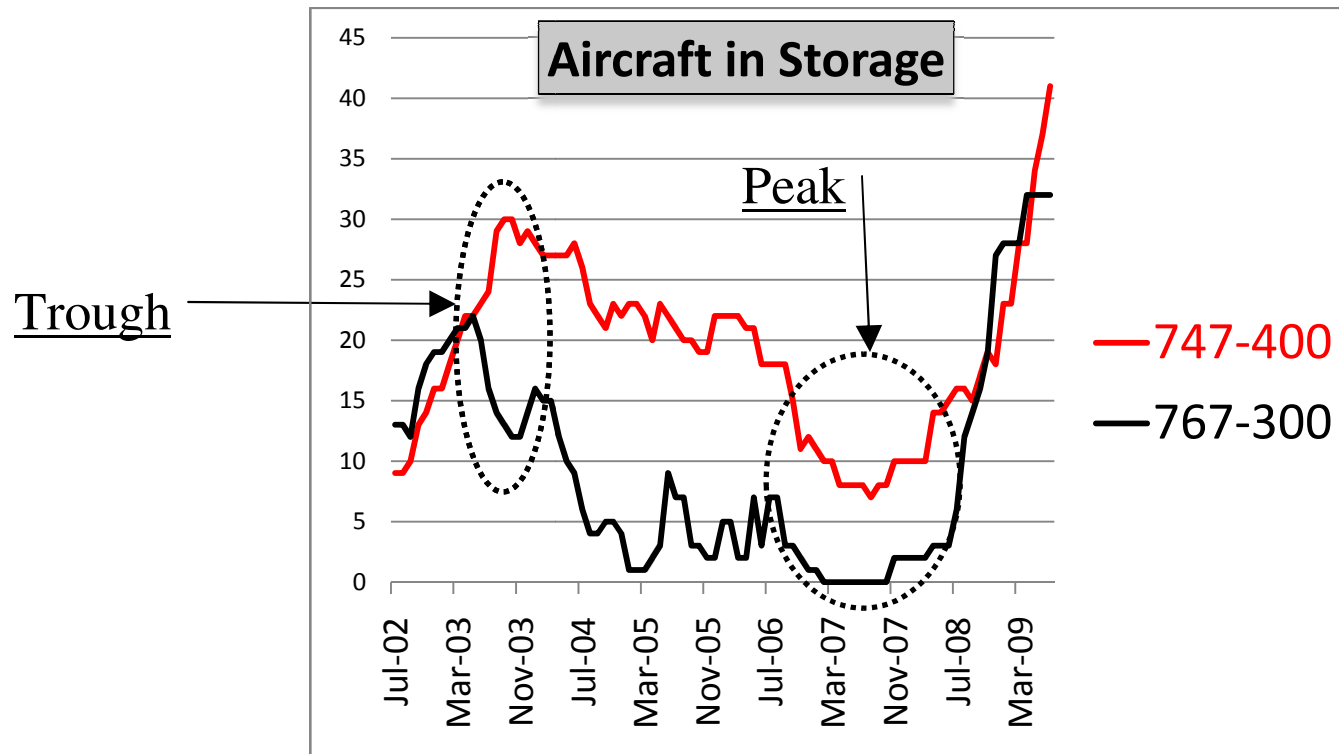
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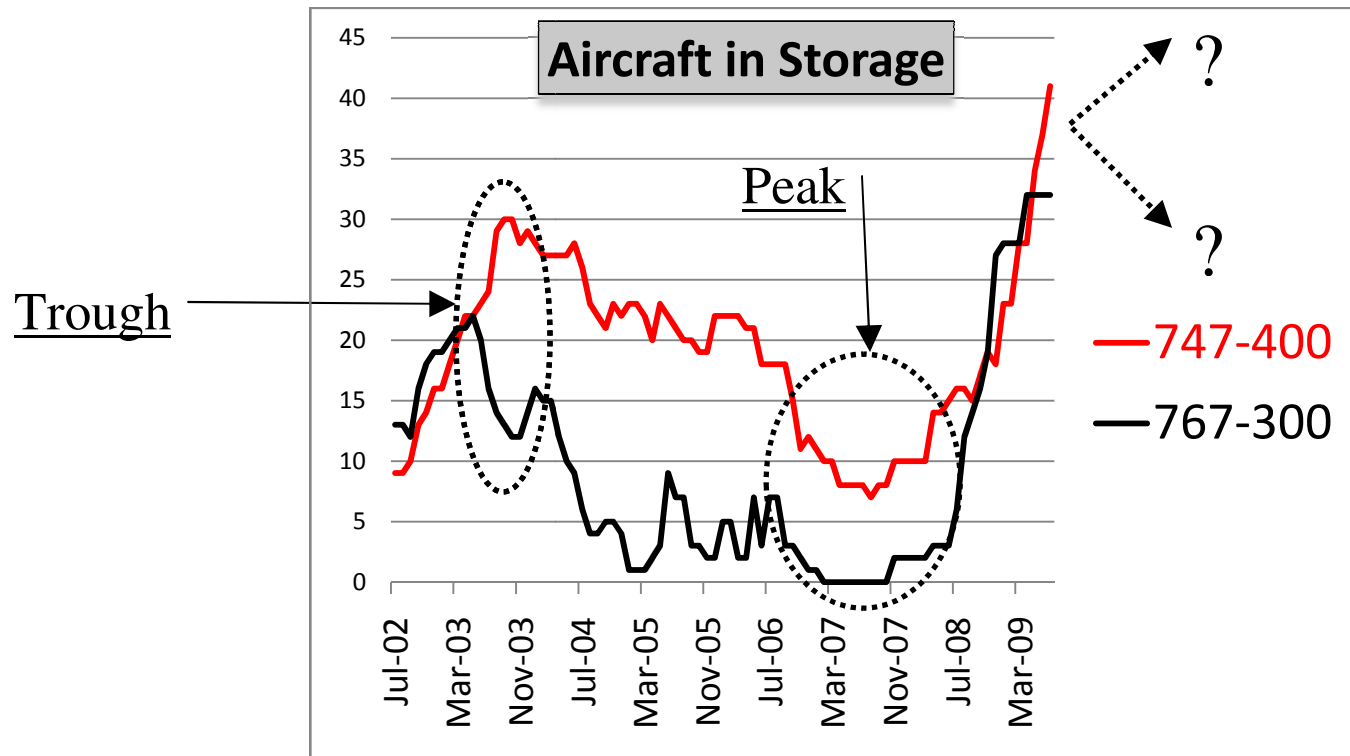
Where are we in the cycle?



Where are we in the cycle?



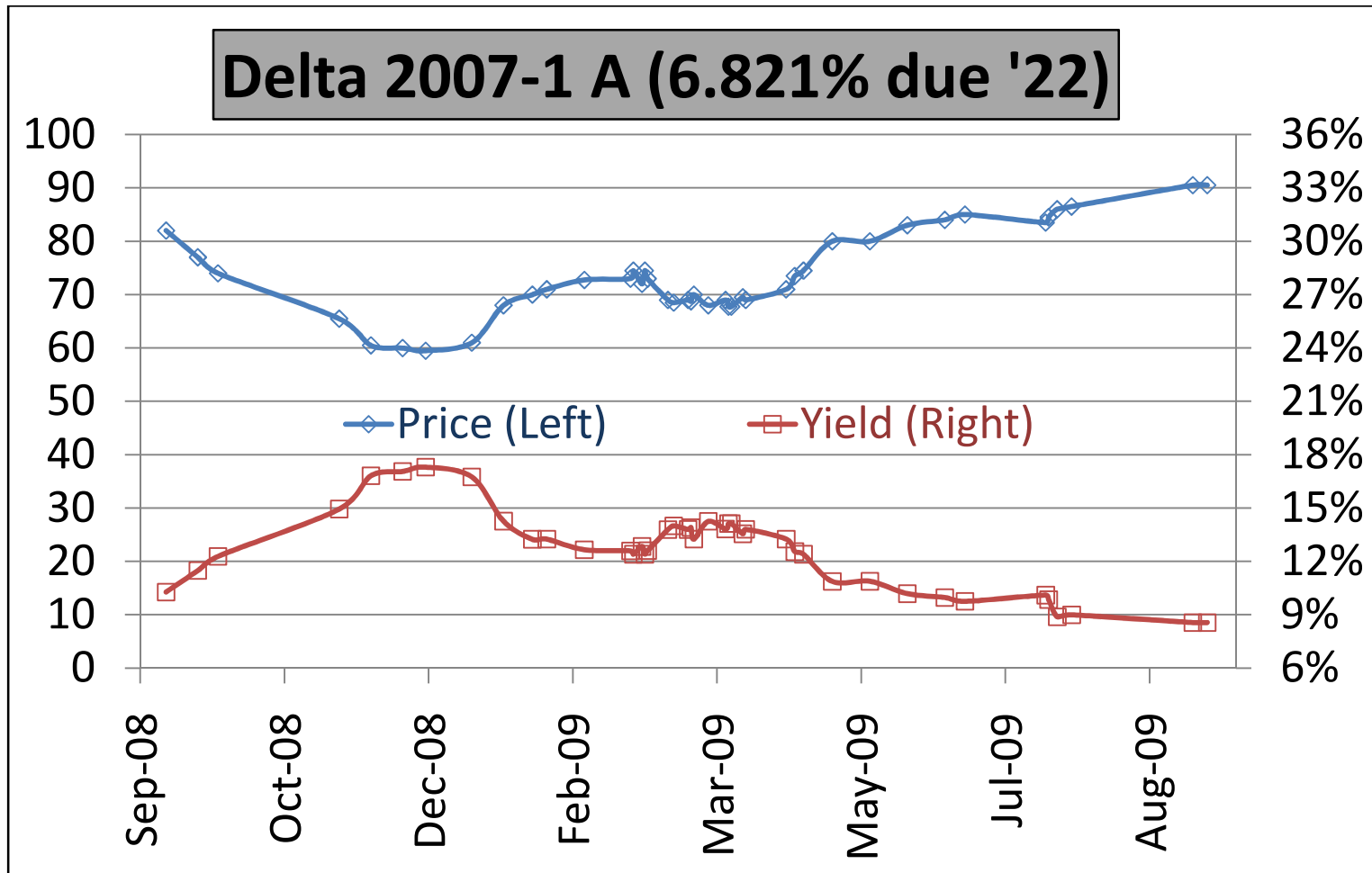
Where are we in the cycle?





If we make it through winter without a major airline filing for bankruptcy, probably we'll be looking up.

EETCs Came a Full Circle Since 9/08:





Low Hanging Fruits in the EETC Market Are Gone. More Homework is Now Required.

Here are some examples...

EETC 1

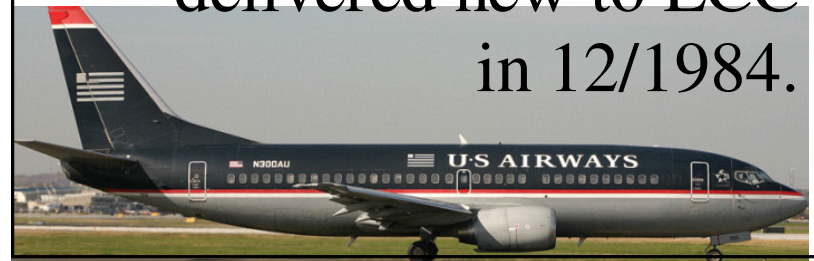
Collateral: one 737-700,
delivered new to LUV
in 7/2009.



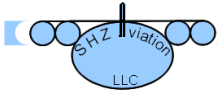
Debt:
\$30MM, 10 Yrs, 10% Yield

EETC 2

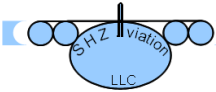
Collateral: one 737-300,
delivered new to LCC
in 12/1984.



Debt:
\$30MM, 10 Yrs, 10% Yield



All else being equal – which EETC will you rather own?



All else being equal – which EETC will you rather own?

Obviously the one backed by the Southwest new 737-700.

(was just making sure that everybody's awake at this hour of the afternoon...)

1. Consider the following two EETCs:

EETC 1

Collateral:

10 aircraft, all
owned by the airline

Equipment Notes:

\$100MM

EETC 2

Collateral:

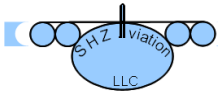
10 aircraft, all *leased*
by the airline

Equipment Notes:

\$100MM

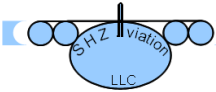


Which one will you rather own?



Which one will you rather own?

Unless you want the planes back – you’d typically prefer the structure where the airline *owns* the aircraft. All else being equal – an airline would rather protect its equity position in aircraft it owns, and would much rather prefer to reject leased assets.



Additional color: the aircraft are '90 vintage MD82s, worth not more than \$3MM apiece.

EETC 1

Collateral:
10 aircraft worth
<\$30MM, all *owned*
by the airline

Equipment Notes:

\$100MM

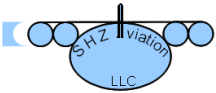
EETC 2

Collateral:
10 aircraft worth
<\$30MM, all *leased*
by the airline

Equipment Notes:

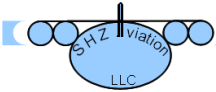
\$100MM

Which one will you rather own now?



Which one will you rather own now?

Now the aircraft are so deep “under water”, that it’s clear they will all be rejected in bankruptcy – leased and owned alike. In such a scenario you’d much rather own the structure backed by the leased *aircraft*, since your deficiency claim is likely to be higher.



2. Here are two pre-2007 EETCs:

EETC 1

Collateral:

2 aircraft, valued at
\$110MM

Equipment Notes:

\$100MM

EETC 2

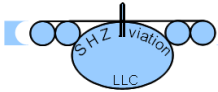
Collateral:

2 aircraft, valued at
\$100MM

Equipment Notes:

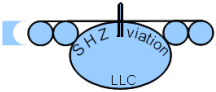
\$100MM

Which one will you rather own?



Which one will you rather own?

All else being equal, you'd rather own the structure backed by higher value collateral (EETC 1).



And now?

EETC 1

Collateral:

Aircraft #1: \$60MM

Aircraft #2: \$50MM

Equipment Note #1: \$40MM

Equipment Note #1: \$70MM

EETC 2

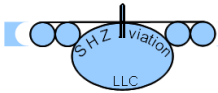
Collateral:

Aircraft #1: \$50MM

Aircraft #2: \$50MM

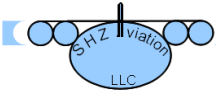
Equipment Note #1: \$50MM

Equipment Note #1: \$50MM



And now?

The catch is that in pre-'07 EETCs, equipment notes are Not cross-collateralized. Therefore, the surplus in value of aircraft #1 over equipment note #1 in EETC 1, can Not “subsidize” the shortfall in the value of aircraft #2 relative to equipment note #2. There could be a scenario where the airline keeps both aircraft of EETC 2 and rejects aircraft 2 of EETC 1.



3. Here's another one..

EETC 1

Collateral: \$100MM value

Debt Certificates:

A Tranche: \$80MM

B Tranche: \$80MM, 17% IRR

EETC 2

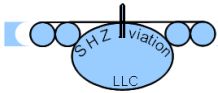
Collateral: \$100MM value

Debt Certificates:

**G Tranche: \$80MM,
*wrapped by MBAC***

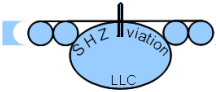
B Tranche: \$80MM, *18% IRR*

Which B Tranche would you rather own?



Which B Tranche would you rather own?

You should much rather be in EETC 1. The wrap provider (EETC 2) will be the “controlling party” in bankruptcy. An “A” tranche bondholder serving as the controlling party might have cross-holdings in junior tranches which he would try to protect. The wrap provider, however, cares only that the A tranche would not be impaired, completely disregarding the junior tranches.



So, where is the current opportunity?

Smaller, less liquid transactions and privates. Like everyone else, we will continue to sit on the fence and wait for a major airline bankruptcy to rattle aircraft prices in create opportunities to acquire distressed assets from forced sellers.