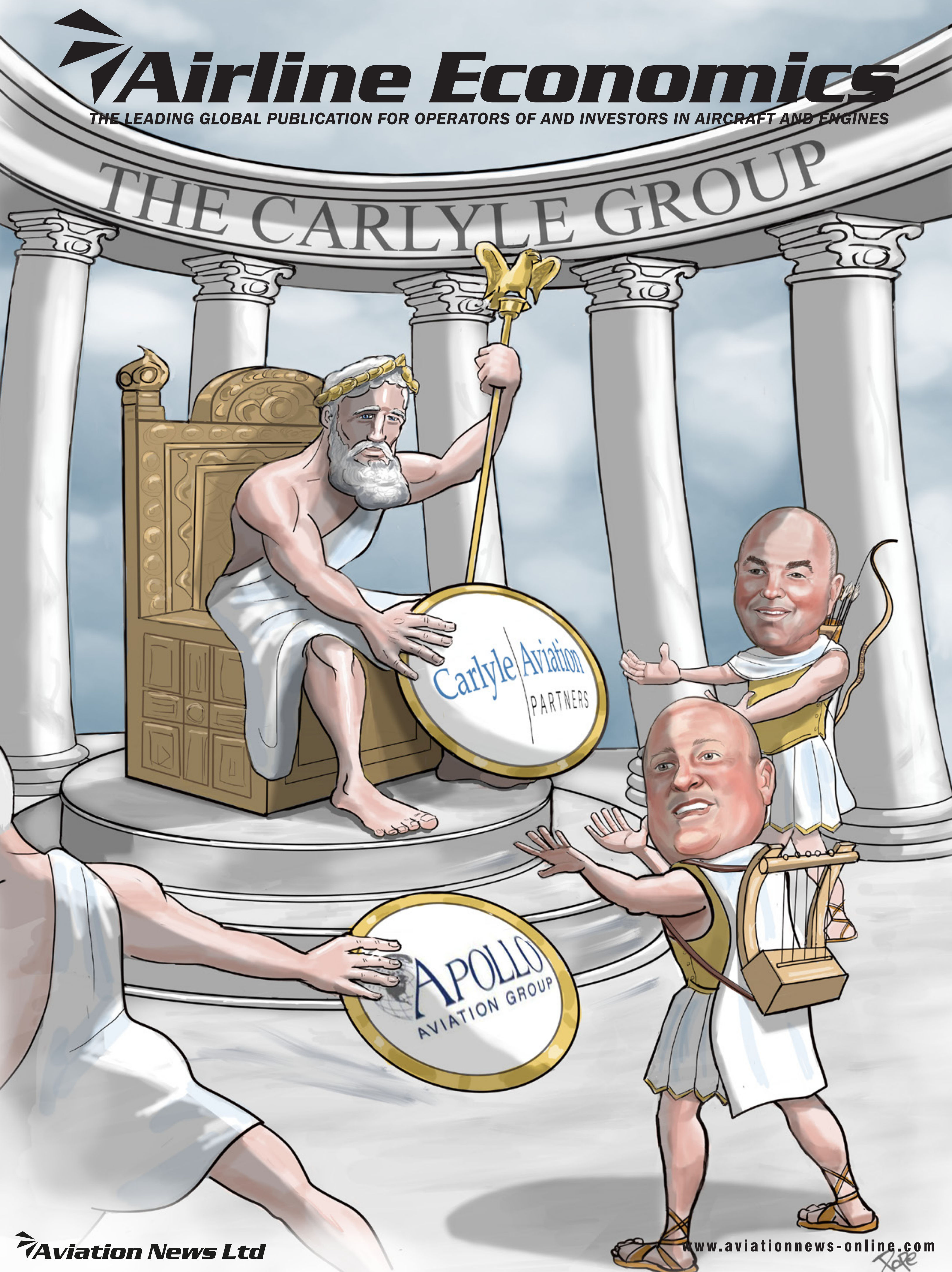
ISSUE FORTYSIX

OCTOBER-NOVEMBER 2018

Airline Economics

THE LEADING GLOBAL PUBLICATION FOR OPERATORS OF AND INVESTORS IN AIRCRAFT AND ENGINES



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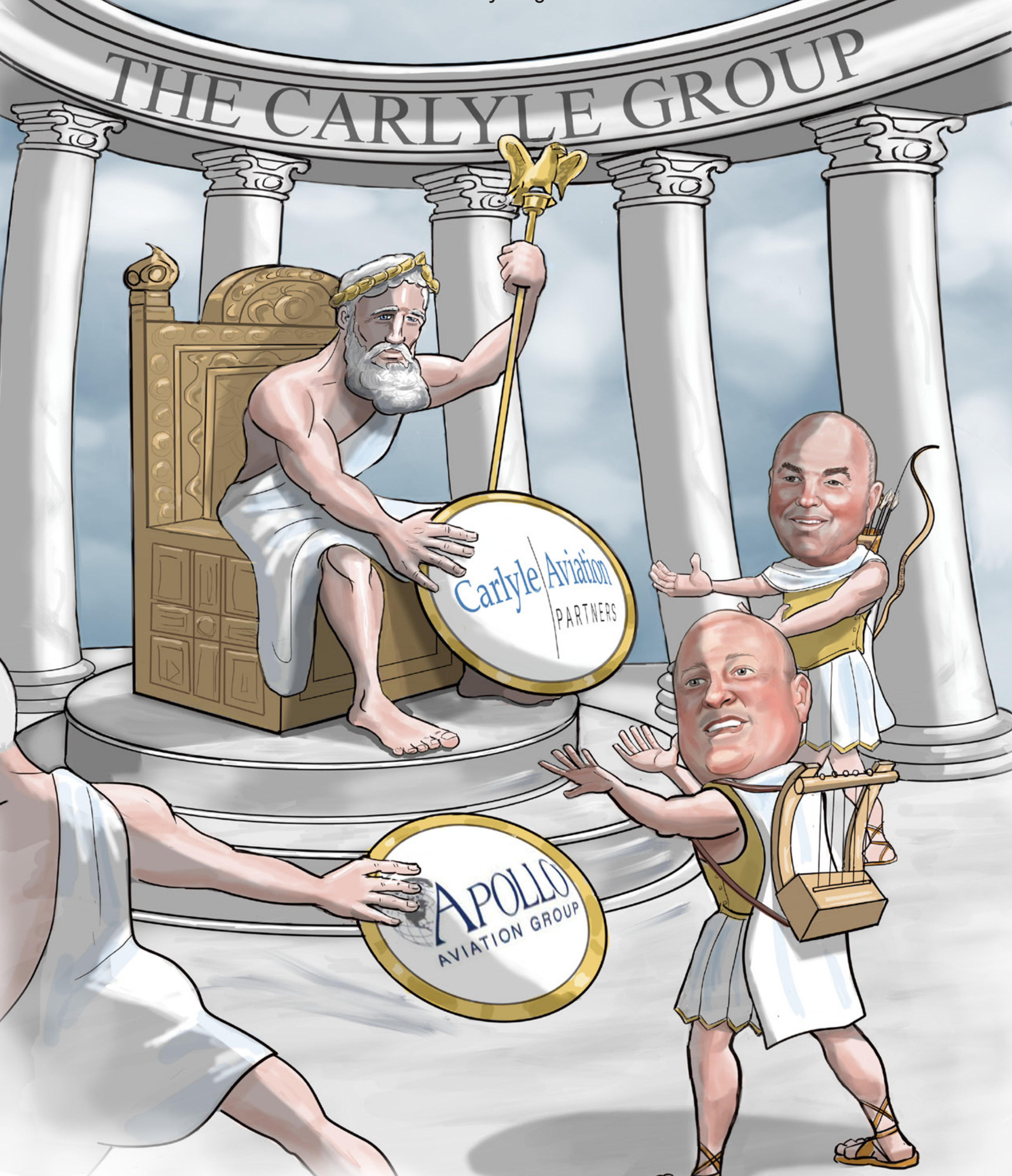
Apollo Transforms

Apollo Aviation Group transforms into Carlyle Aviation Partners as it enters its next evolutionary stage.



The news that The Carlyle Group had agreed to acquire Apollo Aviation Group ("Apollo" or "AAG") was greeted with congratulations from the aviation industry. The leasing sector was united in agreement that this was the right move for Apollo Aviation, and at the right time, as it enters a more mature phase of growth.

Founded in 2002 by Bill Hoffman and Robert Korn, Apollo Aviation has expanded carefully, diligently seeking mid-life aviation assets to extract the value from the end of life of in-demand aircraft. In 2007, in order to grow the business and add more capital to the company, they sold half of the business to Sciens Capital Management ("Sciens"), an alternative asset manager based in New York and Athens. From 2010, the company raised funds through a series of private equity funds. The first Sciens Aviation Special Opportunities Investment Fund (SASOF) – which raised $213 million – was launched in 2010 to capitalise on the decline in used commercial aircraft values after the financial crisis. The funds were used to purchase mid-life commercial aircraft for short-term lease and part out. SASOF II was issued in 2013, which raised $595 million, followed by SASOF III in 2015 that raised $833 million.

Apollo Aviation has since closed SASOF IV, in April 2018, and is currently in the process of investing the $950 million raised. As of September 2018, Apollo Aviation's AUM stood at $5.6bn (including invested capital, indebtedness, available capital and serviced assets), managing 243 aircraft on lease to 110 lessees across 58 countries, with 85 people across three offices in Miami, Dublin and Singapore.

"Today, we are the twelfth largest aircraft lessor globally by fleet size, and a top five lessor in the midlife space," says Korn. "We have seen our business evolve from engine rebuilding to mid-life aircraft lessor, and now to strategic capital provider, asset manager and financing partner across the aviation industry. We are identifying opportunities throughout the spectrum of aircraft age that we can capitalize on."

Apollo Aviation has been a prolific issuer of aviation asset-backed securitisations (ABS) transactions, having issued six separate deals since 2014. Apollo also purchased the equity and took over as servicer of the Harbour Aircraft Investments (HAIL 2017-1) transaction, initiated by Aergen Aviation in 2017.

As well as a regular ABS issuer, Apollo Aviation has also been a pioneer in helping to evolve the structure to widen its appeal to more investors. Apollo Aviation won the *Airline Economics Aviation 100 Deal of the Year* in 2016 for both its AASET 2016-1 and 2016-2 deals, which raised $1.15bn to finance 67 aircraft. AASET 2016-2 in particular was recognised for the simplification of the ABS structure to eliminate the need for a dual waterfall in the model that had confused investors. Apollo has continued to use ABS structures for its long-term financing needs, closing its latest transaction – AASET 2018-2 – in November 2018 that raised $613 million.

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> *Robert Korn, Carlyle Aviation Partners*

Aside from its primary business, Apollo Aviation launched a liquid products group in 2014 –AAGCM – that today manages close to $1bn of capital focused on acquiring EETCs, and structured finance bonds and loans.

Utilising these funding techniques effectively has enabled Apollo Aviation to expand its portfolio rapidly and confidently to $5bn AUM. "Rapid growth always provides challenges," says Hoffman. "We have tried to be measured in our organisational growth, and we seek to put ample resources and infrastructure in place ahead of on-boarding aircraft into our fleet. We have institutionalised the business model and have developed a scalable platform with repeatable processes."

Together with Sciens, the company grew quickly, but due to what Korn describes as an "unexpected series of events", the founders saw real value in buying back their shares and reconsolidating their ownership. They took back full control at the end of December 2017. At that time, without a deadline or target in place, the pair acknowledged that to fulfil their growth ambitions for the company, they would need to consider options to identify a new strategic partner to help continue to expand their footprint within the aviation industry.

To continue on that growth trajectory and to better compete in the international aircraft leasing sector, a long-term investment partner made sense.

"Over the next 20 years, the commercial aircraft fleet is expected to double in size to approximately 40,000 aircraft and the new aircraft deliveries alone will be valued at more than $6 trillion. For institutional investors worldwide, this is an asset class that should be a growing part of a diversified portfolio and we believe we can provide access to these markets," explains Korn.

The two companies were introduced by a third party that conducts business with both Apollo Aviation and The Carlyle Group. "Shortly after the introduction, they quickly recognised the expertise, credibility and capability of our organisation," says Korn. "As we got to know each other, it became apparent there was business we could do together that would be mutually beneficial. Initial thoughts were around a potential product together, then moved to their purchase of a minority interest, and ultimately we agreed on a purchase of the firm."

Apollo Aviation was advised by Goldman Sachs and Milbank, Tweed, Hadley & McCloy on the sale.

APOLLO AVIATION GROUP PORTFOLIO (2013-2017)

	Aircraft on Lease	Lessees	Countries
2013	37	20	16
2015	80	35	25
2017	180	86	50
2018	243	110	58

The transaction with Carlyle solidifies Korn and Hoffman's long-term vision for the business, although there are no specific investment deadlines for the newly merged company and no hard and fast targets. The Carlyle Group and Carlyle Aviation Partners, as Apollo Aviation is now known, are in it for the long haul. Having built the business from the ground up, Korn and Hoffman were determined to partner with likeminded individuals from a company with similar investment values and strategy, and the cultural fit of the two organisations was of paramount concern.

"In our meetings with Carlyle's founders and other senior executives (including Kewsong Lee [the co-CEO of the Carlyle Group], Mark Jenkins [the head of Carlyle's global credit segment] and Pete Clare [managing director, co-chief investment officer and co-head of the US Buyout group]), we saw clearly that Carlyle's purpose of investing wisely and creating value on behalf of its investors was, and is, very much in line with our views. The honesty, integrity and the clear sense of purpose that "We work for our investors" helped us decide that this was the right home for Apollo Aviation Group," says Hoffman.

Mark Jenkins, Head of Carlyle's Global Credit Segment, welcomed the deal, praising Apollo Aviation's "expertise in managing and investing in aviation assets and use of long-term structures, [which] allows it to invest well through economic cycles".

Hoffman and Korn will lead Carlyle Aviation, which will operate within Carlyle's Global Credit Segment. The pair say that their day-to-day roles will not change.

"We will report to Mark Jenkins, but otherwise, it will be business as usual," confirms Hoffman. "Carlyle Aviation Partners will essentially be a semi-autonomous business within Carlyle Global Credit. The recurring question from Carlyle is "how can we help" rather than "here's how we want you to do things".

The financial details of the transaction were not disclosed; however, to ensure the continuation of the company dynamic, a long-term retention program for the founders as well as the key business leaders within the organisation was put in place.

Carlyle's Justin Plouffe, managing director and the deputy chief investment officer for Carlyle Global Credit, says that interference from The Carlyle Group will be minimal, but that as part of its Global Credit segment, Carlyle Aviation Partners will "benefit from the global knowledge and resources that allow Carlyle to invest wisely and create value for our clients".

The Carlyle Group has invested in the aerospace and defence sectors for nearly 30 years through its private equity team. The company has completed more than 40 acquisitions representing an aggregate purchase price of $19 billion and $5 billion of invested equity. It holds and has held ownership positions in a range of aerospace and defence firms, from aircraft engine component manufacturers to supply chain management and MRO service providers.

"Carlyle has developed a deep understanding of the critical success factors in the industry and has earned a strong reputation for our commitment to the long-term growth of the sector," says Plouffe. "In addition to our dedicated aerospace and defence investment professionals, we have built an experienced team of senior operating executives, including former industry CEOs and senior military and government officials, who assist in the diligence process and act as advisors to our portfolio companies."

The Carlyle Group was attracted to the substantial growth of the aviation sector that continues to expand rapidly. "We see tremendous opportunity in the sector," says Plouffe. "Approximately 41,000 aircraft with a value of ~$6.1 trillion are forecast to be delivered by 2038, with lessors expected to take an increasing share of the market."

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The acquisition of Apollo Aviation expands Carlyle's Global Credit capabilities, particularly in the growing asset-based credit market, but the team was drawn to AAG's track record. "AAG is a scalable platform with strong growth prospects, an outstanding management team, and a 16-year track record of strong performance," says Plouffe. "We believe that the team will continue producing outstanding returns while also growing the range of products offered to our investors."

As the commercial aviation market embarks on a downward trajectory, which the sector seems to have accepted has begun, Carlyle Aviation Partners, with its long-term investment strategy that is focused on long-term returns, is well-placed to capitalise on the coming operating environment. "We've certainly tried to steer clear of areas where there are investors that are looking to buy market share and less driven by profits. We certainly see that we can achieve the returns we are looking for in the crowded marketplace," says Korn.


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