



Carlyle Aviation
PARTNERS

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Platinum player gains scale

Celebrating its 20th anniversary this year, Carlyle Aviation Partners, has succeeded in navigating the downturn with skill and finesse, emerging from one of the bleakest years the industry has ever experienced as a stronger, larger-scale aircraft lessor, focused on serving its customers and investors.

In many ways, Carlyle Aviation Partners Chairman Bill Hoffman and President Robert Korn make a perfect team. Robert is the public face of the business, speaking at many conferences and meeting airlines and trading partners, with Bill working diligently and tirelessly behind the scenes to deliver on shareholders and investor expectations.

The pair formed Apollo Aviation in 2002, quickly becoming a leading multi-strategy institutional investment manager with demonstrated capabilities and expertise across all segments of the aviation industry. In 2007, half of the business was sold to an alternative asset manager to help bring capital into the management company to grow the business. The firm grew from \$100 million to \$5.0 billion AUM under that ownership structure. In 2017, through an unexpected series of events, the founders were able to purchase the shares back and consolidate ownership again. There was no specific timeline set, but the team expected to identify a new strategic partner to help continue to expand its footprint within the aviation industry. That opportunity came in 2018 when discussions opened with the Carlyle Group that resulted in the full sale of the business. Rather than result in an exit strategy for Korn and Hoffman, the transaction with Carlyle solidified their long-term vision for the business, to grow their portfolio to tap into the projected growth of the commercial aircraft fleet over the next 20 years.

The evolution of Carlyle Aviation Partners is a real industry success story. Celebrating its 20th anniversary in February 2022, the business has evolved from engine rebuild to mid-life aircraft lessor, to strategic capital provider, asset manager and financing partner, identifying opportunities throughout the spectrum

of aircraft age. The team has continued to grow the platform throughout the pandemic crisis, making the decision to evolve from a mid-to-end-of-life lessor into a full-service aviation finance platform, which it has achieved with the acquisition of FLY Leasing and most recently AMCK from CK Asset Holdings.

“Throughout our 20 years in operation, we have always looked at thoughtful opportunities to grow the business,” says Hoffman. “We believe that scale is important in this business and being able to offer a broader range of financing solutions to our industry partners should allow us to better compete on behalf of our investors.”

Carlyle Aviation Partners completed its acquisition of Fly Leasing (FLY) in August 2021, although the deal was first announced in April. Under the terms of the agreement, FLY shareholders received \$17.05 per share in cash, representing a total equity valuation of approximately \$520 million. The total enterprise value of the transaction is approximately \$2.36 billion. FLY’s portfolio of 84 aircraft and seven engines is on lease to 37 airlines in 22 countries. The per-share cash consideration represented a premium of approximately 29% to FLY’s closing price on March 26, 2021.

For Carlyle Aviation, the attraction was the portfolio, which had very few widebodies to remarket. It was acquired at an approximate 30% discount to the book value of the portfolio that had already been impaired.

“At the beginning of 2021, we had three active platforms,” explains Korn. “Our dedicated PDP financing platform and our young aircraft leasing strategy both closed multiple deals in 2021, and we believe the deal pipelines are strong going into 2022. The FLY acquisition fit very well into our mid-life leasing strategy. We viewed it

as a ready built portfolio that had very similar attributes to what we might have historically constructed from five or six smaller transactions with other lessors/traders, so it was a very efficient way to acquire assets.”

Always open to new opportunities to grow the business for the benefit of their stakeholders, Hoffman and Korn were well acquainted with the CK Asset Holdings team from the time they entered the business as Accipiter in 2014. The company was renamed AMCK in 2020 following the consolidation of Accipiter and Mitsubishi’s MCAP business. Carlyle Aviation initiated discussions with AMCK with the goal to sign an agreement before the end of the year.

CK Asset confirmed on December 23 that it had agreed to sell its portfolio of 125 aircraft managed by AMCK Aviation (previously Accipiter) to an entity managed by an affiliate of Carlyle Group – Maverick Aviation Partnership – for \$4.28bn. The transaction also includes an order book for 20 Airbus narrowbody aircraft. Maverick Aviation Partnership’s primary investor is an affiliate of CPPIB Credit Investments, a wholly owned subsidiary of Canada Pension Plan Investment Board.

The transaction is expected to close in the second quarter of 2022, pending regulatory approvals. Goldman Sachs is leading the acquisition financing for the transaction. Milbank is acting as legal counsel to the Carlyle Aviation Partners-managed investment vehicle, with Kirkland & Ellis advising on the formation of Maverick.

Carlyle Aviation Partners had three active platforms at the beginning of 2021: a dedicated PDP financing platform, a young aircraft leasing strategy and a mid-life leasing strategy. “The AMCK transaction was a little different from the FLY acquisition,” adds Hoffman. “We

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Robert Korn



believe it’s a very good portfolio that had been thoughtfully constructed by CK and the management team, and has performed well during the pandemic. When we were initially shown the opportunity, we knew these were assets we wanted to manage and had confidence we could create value from them. We were pleased to partner with one of our current investors to underwrite the opportunity.”

In a notice to the stock exchange in December, CK Asset noted that the reason for the sale was due to the “paradigm shift in the aircraft leasing sector” where the “risk and return dynamic has become volatile and unpredictable”, which the industry has mitigated by increased consolidation, mergers and acquisitions. CK Asset added that, following the internal consolidation of its aircraft leasing business, the company considered it an “opportune time to exit the aircraft leasing sector”, allowing it to “unlock the underlying value of its aircraft portfolio and realise a satisfactory gain”. CK Asset confirmed that its aggregate profit from the sale would be approximately US\$170 million, which would be utilised for general corporate purposes.

Both FLY and AMCK have been acquired by funds managed by Carlyle Aviation with its institutional investors providing the equity capital. The team has actively utilised the aviation asset-backed securitisation (ABS) market to provide long-term debt financing for the investment platforms. The company has issued 13 (includes the refinancing of two earlier deals) ABS transactions under the “Apollo Aviation Securitization Equity Trust” AASET moniker since 2014,

raising a total approximate amount of almost \$7.1bn. The team was one of the last companies to issue an aviation ABS transaction ahead of the market shutdown due to the pandemic in January 2020 and was one of the first to resume issuance, closing two successful deals in 2021.

“We remain a major issuer of aircraft ABS having issued two deals in Q4 of last year,” Korn says. “After a pause in 2020, we have seen that market heat up again and we expect to be able to provide lenders with attractive portfolios moving forward. We think this is an extremely efficient tool for long-term financing of these assets and pairs well with the structure of our equity investment platforms.”

The resurgence of the aviation ABS market has been a welcome surprise to the aviation market with issuance in terms of number and volume deals, which are almost back to 2019 levels. Korn intends to continue to make full use of this deep source of capital in the future. “The resilience of the structures through the current pandemic environment have demonstrated to investors, banks and issuers that they are very robust and well thought through. We think the market will be open and well supported this year.”

Carlyle Aviation’s 2021 acquisitions, once closed, will catapult the company solidly into the top ten largest leasing companies as ranked by number of aircraft. But it may not end there. The team are “always seeking opportunities,” in the PDP lending, mid-life and new and young aircraft spaces they focus on.

“We are fortunate to have the ability to invest across the lifecycle of aircraft, from

pre-delivery to end of life, and will go where the opportunities are,” says Hoffman. “If you look at what we’ve achieved in 2021, clearly the portfolio is getting a bit younger, is more concentrated in narrowbodies, and reflects that we have acquired our first new technology aircraft.”

For an aircraft leasing company, scale is important – it provides a broader view of the marketplace allowing you to serve clients more effectively, while also providing leverage and influence over suppliers, and it also gives access to the most talented individuals. Although Korn recognises these many benefits, there are also certain dangers.

“Scale can be both a benefit – wherein you become much more relevant to a lessee – or it can be a risk if you don’t pick the right credits and are overly concentrated in a downturn,” he says. “Historically, our portfolio has been very diverse, so in the current downturn, while we have faced a number of restructurings, each has only touched 1-4 aircraft. This has kept us very busy working through many different situations, but no individual restructuring has had a material impact on our operating fleet. Having a deep and highly-capable team allows us to deploy resources to solve problems in challenging times, and we saw the benefit of that during the past two years. The more relevant and helpful we can be to our airline customers, the better positioned we can be as an investment manager.”

“Overall, we do believe that scale is our friend in this industry, and we have seen consolidation among competitors which probably means they feel the same way,” adds Hoffman.



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By remaining an opportunistic asset manager, Carlyle Aviation is alert to opportunities to acquire more assets but also to sell assets. The aircraft leasing market is at the same time ultra competitive and collaborative in the sense that lessors actively trade with each other all of the time. Rather than view the creation of a super lessor through AerCap's acquisition of GECAS as a step change in the leasing market dynamics, Korn views it as an opportunity to selectively identify opportunities to acquire portfolios.

“There are many strong and large players that compete with AerCap,” he says. “There is plenty of capital and competition in that space. We look at ourselves more as a collaborator than a competitor. We are looking to selectively identify opportunities to acquire portfolios that we can invest in and generate returns.”

Looking ahead, Carlyle Aviation is focused on engaging with the market to advance the industry's collaborative efforts to decarbonise the industry or at least become much more environmentally friendly. As aviation finance and investor become more focused on sustainable investing, aviation will need to consider ESG – environmental, social and governance – issues for transactions.

As a global aviation investment platform, Carlyle Aviation notes that ESG considerations are increasingly material to aircraft financing and servicing. “Given the impacts of new and impending global regulations, evolving consumer preferences, and developing technologies, ESG is more relevant than ever within aviation,” says Hoffman. “We've had an

opportunity over the last few years to showcase some of the efforts we have made on the ESG front.”

Carlyle Aviation Partners is an active member of industry groups that are focused on bringing the aviation finance community together to establish best practices for measuring and reporting on emissions and ESG performance. The company is a member of the Aviation Working Group's ESG subgroup, which assesses, provides information, and takes action relating to ESG geared to the context of aviation financing and leasing. Carlyle Aviation also has an active role in Aircraft Leasing Ireland, an industry group dedicated to the continued success of Ireland's aircraft leasing industry, in part through its ESG narrative that is raising awareness of the leasing and financing community's role in contributing to the sustainability of the industry.

“Through our own experience and close relationships with airline operators, we understand the links between environmental sustainability and the long-term success of those airlines,” adds Hoffman. “More efficient aircraft and airline operations will help airlines navigate the regulatory and stakeholder pressure to reduce emissions while improving operating efficiency and ultimately cost. We look forward to working with our airline customers with the aim of incentivising them, helping them succeed and minimising the impacts of commercial aviation on our planet.”

“It is critical that we understand the ways in which ESG factors can impact the commercial aviation industry, and that we

continue to monitor the industry's evolving needs in order to be a more effective partner to our airline customers.”

The first sustainability-linked operating lease was closed in 2021, and the belief is that sustainability will soon be baked into all future transactions. “Given the importance placed on ESG initiatives both by industry players and consumers, we expect that financing arrangements will increasingly include ESG-linked components,” agrees Korn. “Due to the enthusiasm we have seen in the industry for more efficient operations, we expect that this will offer us an incredible opportunity to deepen our collaboration with our lessees.”

Heading into 2022, Carlyle Aviation is looking forward to celebrating its 20th anniversary but is, as ever, laser focused on the future and the opportunities that may arise to keep the company on its growth trajectory.

“This year we mark the 20-year anniversary of the partnership Bill Hoffman and I formed, which has become Carlyle Aviation Partners. We couldn't be prouder of our customers, our investors, our partners at Carlyle and the team we have built, which is the lifeblood of our organization. We have all succeeded together.”

“During 2022, we will focus on integrating our 2021 acquisitions, and will continue to look for suitable investment opportunities. We are hopeful the industry will exit in a much stronger environment this year, having seen traffic levels grow to a much higher level than they are at now,” says Korn.