

Single waterfall format for mid-life ABS shows Apollo was listening to investors

The lessor's use of a single waterfall format, which enforces sequential pay in downside scenarios and thereby provides greater comfort to investors, is an example of how Apollo took on board investor concerns from previous transactions in its third mid life asset securitisation.

The Apollo Aviation Securitization Equity Trust 2016-2 (AASET 2016-2) is the winner of the *Finance Dublin* Debt Capital Markets Aviation ABS Deal of the Year. AASET 2016-2 was very tightly priced compared to other aircraft ABS issuance in 2016. Somewhat unusually, the portfolio consists of mid to end of life assets while the diverse geographic spread of the underlying lessees, spanning the US and Asia, presented a number of operational and legal obstacles. Above all it was the way Apollo and its advisors used what they learned from listening to investors in previous transactions that particularly impressed.

The \$640 million securitization was Apollo's third ABS and its second in 2016. It followed a successful AASET 2016-1 issuance for \$510 million in April and brought the total amount the company has raised through asset backed securitizations since December 2014 to over \$1.7 billion.

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The cutting-edge structure of the securitisation employs a single waterfall format which enforces sequential pay in downside scenarios and provides greater comfort to investors as the potential leakage of capital to the issuer is lessened. Essentially this format traps more cash, more rapidly in a downside scenario, thereby providing greater confidence for A and B buyers. The introduction of this new structure also allowed the issuer to obtain a higher LTV on the senior tranches than in previous mid-life deals.

The structure benefits from a senior maintenance reserve account, junior reserve account and engine reserve



Robert Korn, President and co-founding Principal, Apollo Aviation.

account. The aggregate initial funding for the senior maintenance reserve account and engine reserve account was approximately \$25 million. Any excess proceeds in these accounts will not be transferred to the collections account for the first six months.

Debt Capital Markets: Aviation ABS

Winner: Apollo Aviation
Value: \$640 million
Date: November

The diversification of the portfolio encompassed 22 individual airlines in 20 countries as well as a good variety in regions and in airline types. The three largest lessees by value represent exactly a quarter of the portfolio while the three largest country concentrations by value represent 36 per cent. This was a less concentrated initial portfolio by lessee and country than other recent aircraft ABS transactions and a smaller initial percentage of the portfolio relative to Apollo's own prior transactions.

The weighted average remaining term of the initial lease contracts was approximately 4.7 years and more than 70 per cent expire in four years or longer. The longer remaining contractual lease terms allow the transaction to rely less on



Bill Hoffman, Chairman and co-founding Principal, Apollo Aviation.

re-leasing activities to amortize the loans.

With 35 aircraft of seven aircraft types in the portfolio - comprising 31 narrowbody aircraft representing approximately 80.6 per cent by value and four widebody aircraft - the portfolio had an initial weighted average age of approximately 12.2 years, with distribution concentrated in mid-life assets and just four end-of-life aircraft.

Given the overall size of the company, with about \$3.5 billion of assets under management, the scale of AASET 2016-1 and AASET 2016-2 combined demonstrates Apollo's ability to continue to deliver high value to investors in the mid-life commercial aviation sector.

Legal advisors on the issue were: Clifford Chance; Milbank, Tweed, Hadley & McCloy LLP.; Norton Rose Fullbright and Walkers acted as special Irish legal Counsel to the transaction. Liquidity facilities were provided by Credit Agricole Corporate who also acted as joint lead arrangers.

The sole structuring agent was Goldman, Sachs & Co. who also acted as Global Coordinator and Left Lead Arranger. DVB Capital Markets LLC, & Wells Fargo Bank, National Association were joint lead arrangers. Appraisers were: BK Associates, Inc; Morton Beyer and Agnew, Avitas, Inc.