



Boeing  
Capital  
Corporation

## Aircraft Financing Outlook and Aircraft Finance Structures



# Aircraft Financing Outlook

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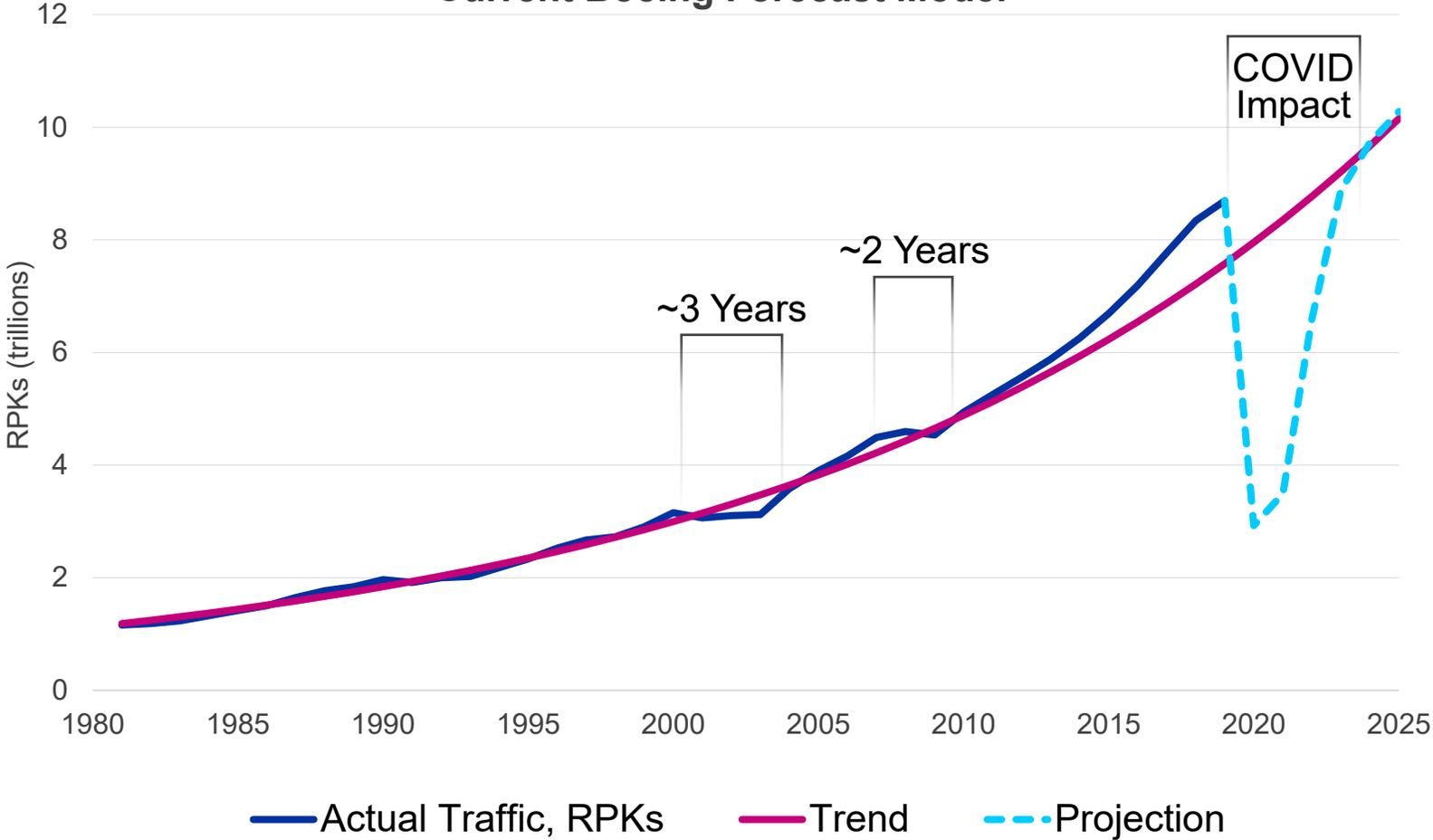
# Caution Concerning Forward Looking Statements

Certain statements in this document may be “forward-looking” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “may,” “should,” “expects,” “intends,” “projects,” “plans,” “believes,” “estimates,” “targets,” “anticipates” and similar expressions generally identify these forward-looking statements. Examples of forward-looking statements include statements relating to our future plans, business prospects, financial condition and operating results, as well as any other statement that does not directly relate to any historical or current fact. Forward-looking statements are based on expectations and assumptions that we believe to be reasonable when made, but that may not prove to be accurate. These statements are not guarantees and are subject to risks, uncertainties and changes in circumstances that are difficult to predict.

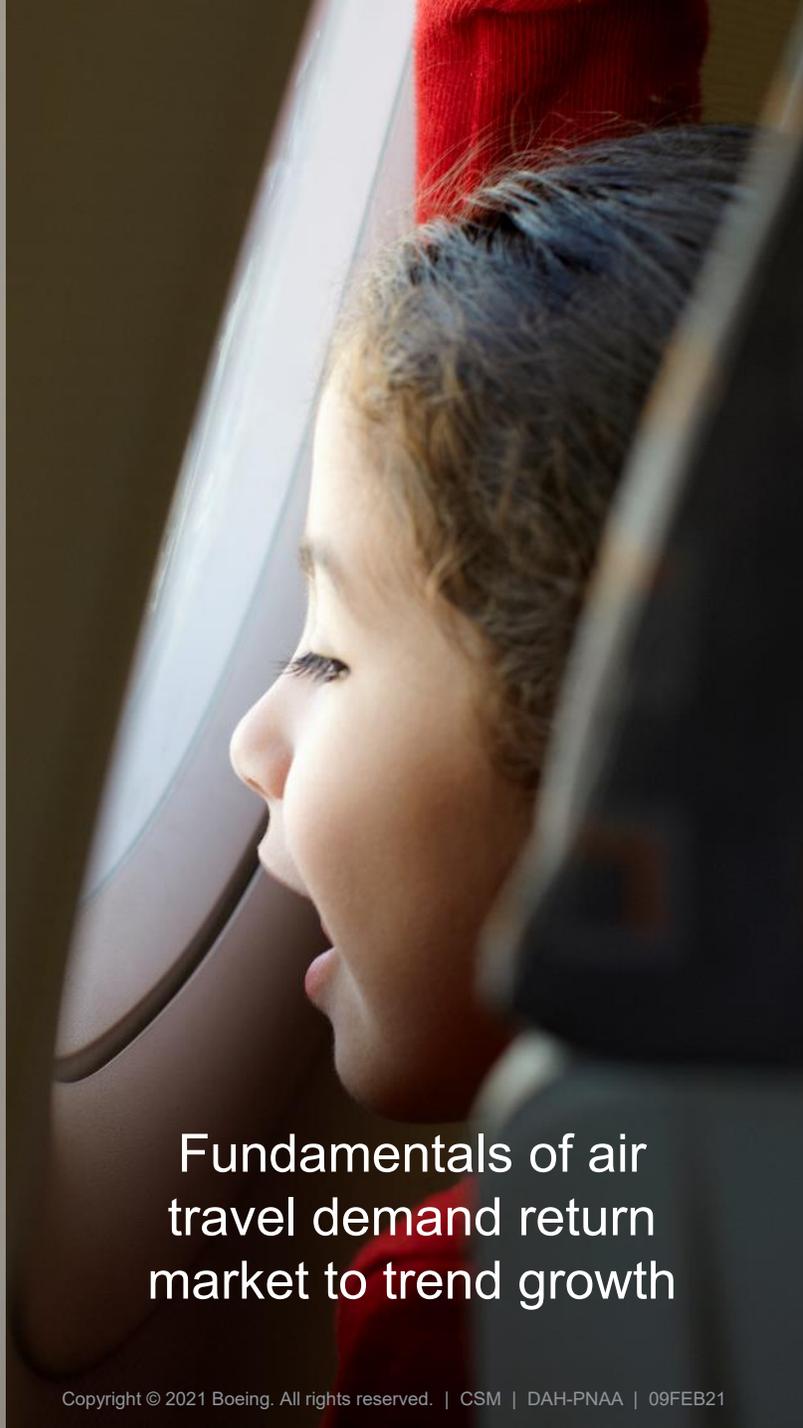
Many factors could cause actual results to differ materially and adversely from these forward-looking statements, including the COVID-19 pandemic and related industry impacts; the 737 MAX, including the timing and conditions of 737 MAX regulatory approvals, lower-than-planned production rates and/or delivery rates, and increased considerations to customers and suppliers; economic conditions in the United States and globally; general market and industry conditions as they may impact us or our customers; reliance on our commercial customers, our U.S. government customers and our suppliers; the overall health of our aircraft production system, as well as the other important factors disclosed previously and from time to time in The Boeing Company’s filings with the Securities and Exchange Commission. Any forward-looking statement speaks only as of the date on which it is made, and we assume no obligation to update or revise any such statement, whether as a result of new information, future events or otherwise, except as required by law.

# Aviation proven resilient over and over again

Current Boeing Forecast Model



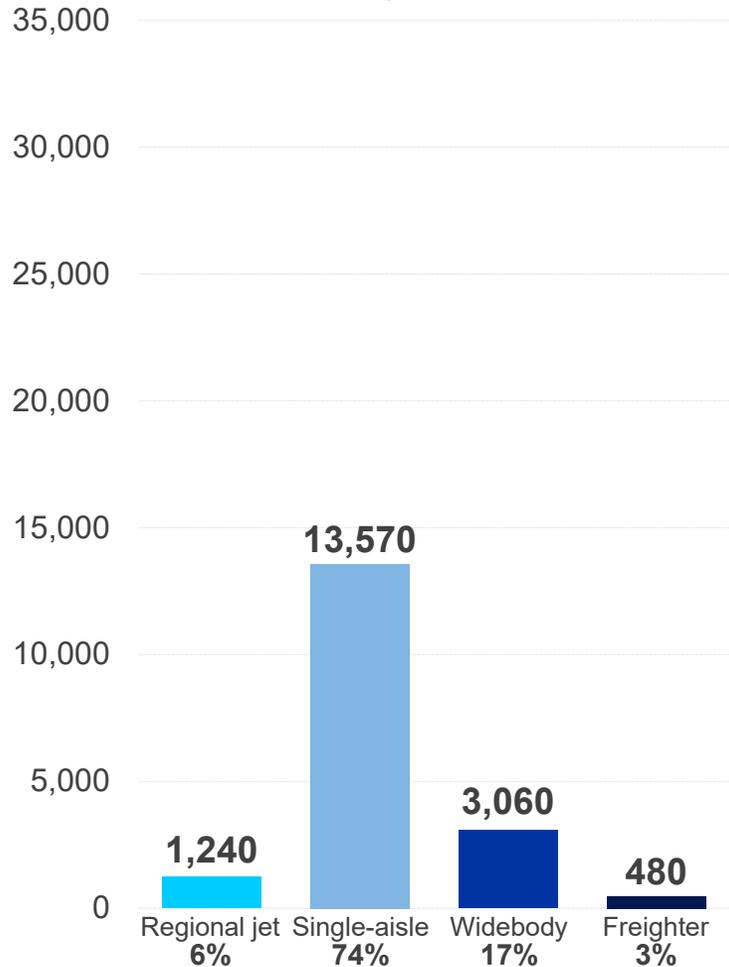
RPKs = Revenue Passenger Kilometers  
SOURCES: 2000-2020 IATA stats / 2020F IATA Oct. 2020, Internal Demand Model R3



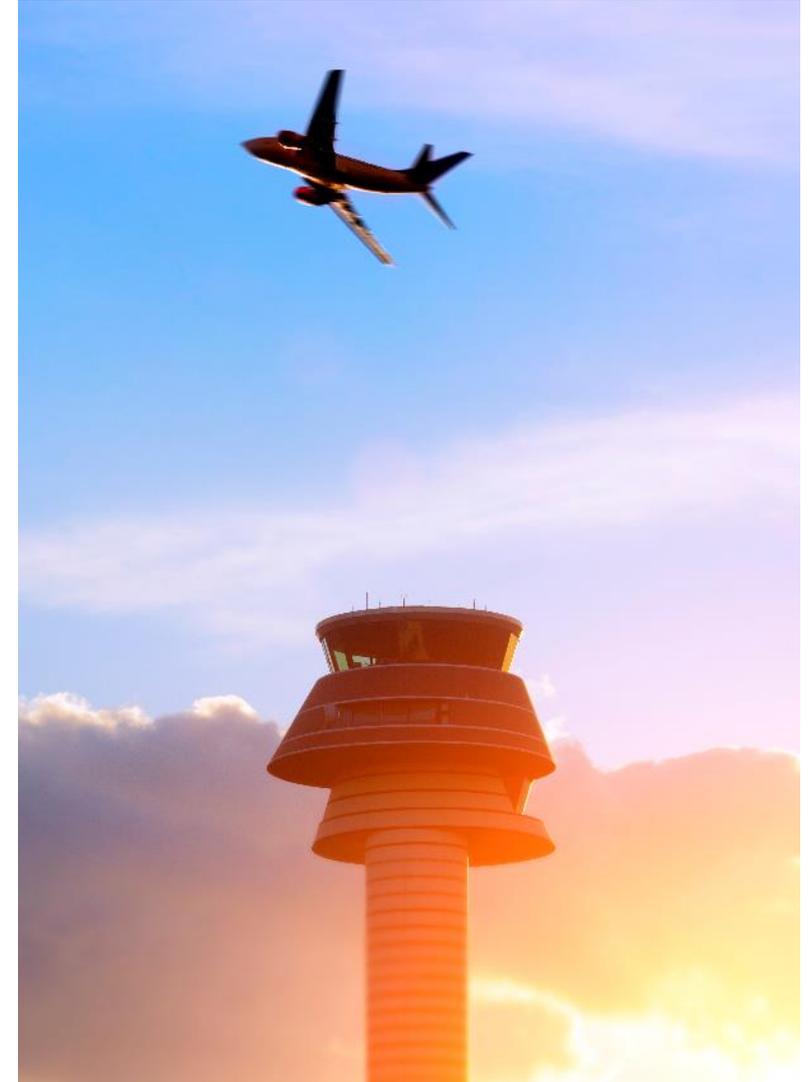
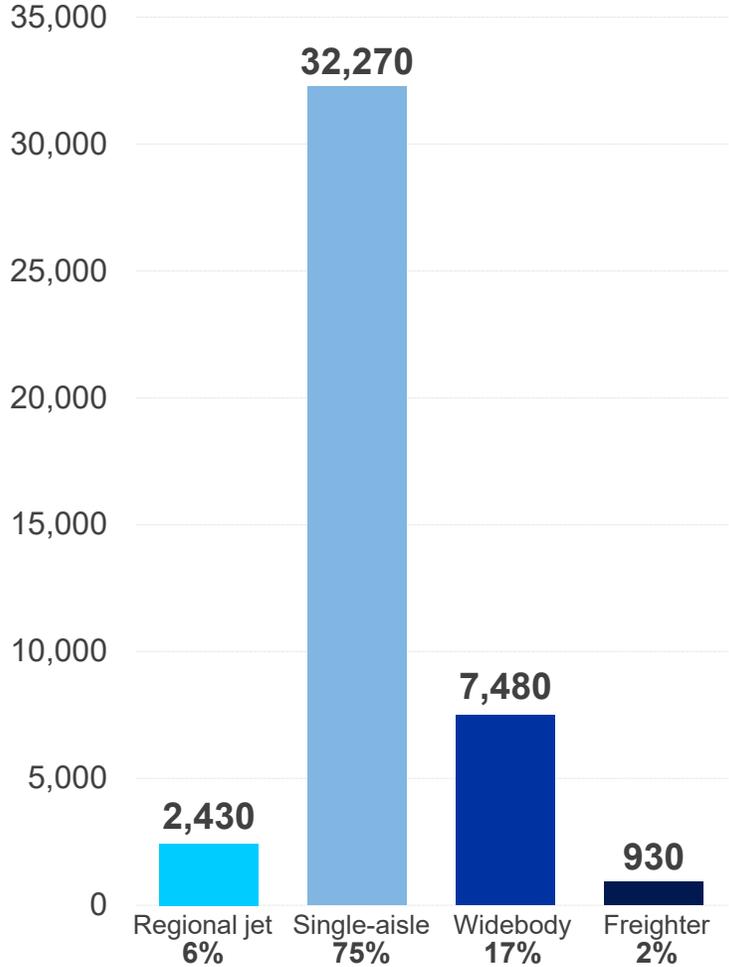
Fundamentals of air travel demand return market to trend growth

# First decade delivery impact, longer-term resilience driven by single-aisle

New airplane deliveries **2020-2029**  
**18,350**



New airplane deliveries **2020-2039**  
**43,110**



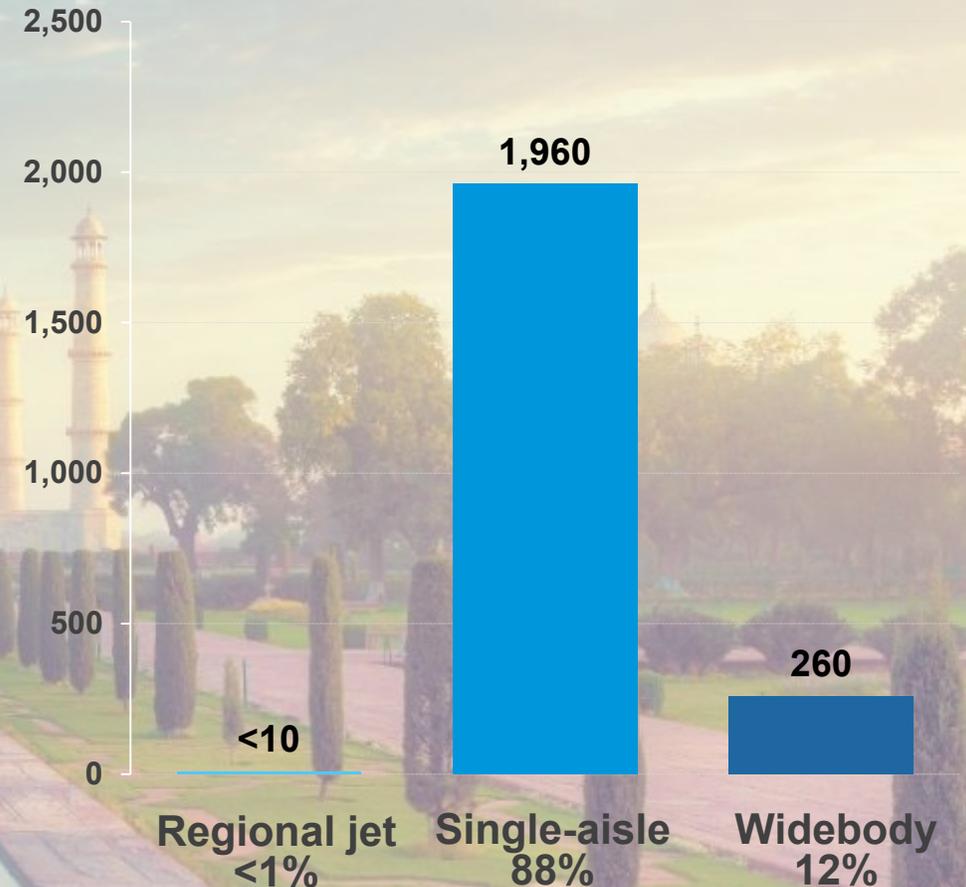
# India Passenger Jet Fleet Size



# 20 year forecast new airplane deliveries to India

New airplane deliveries: 2,230 (\$320B)

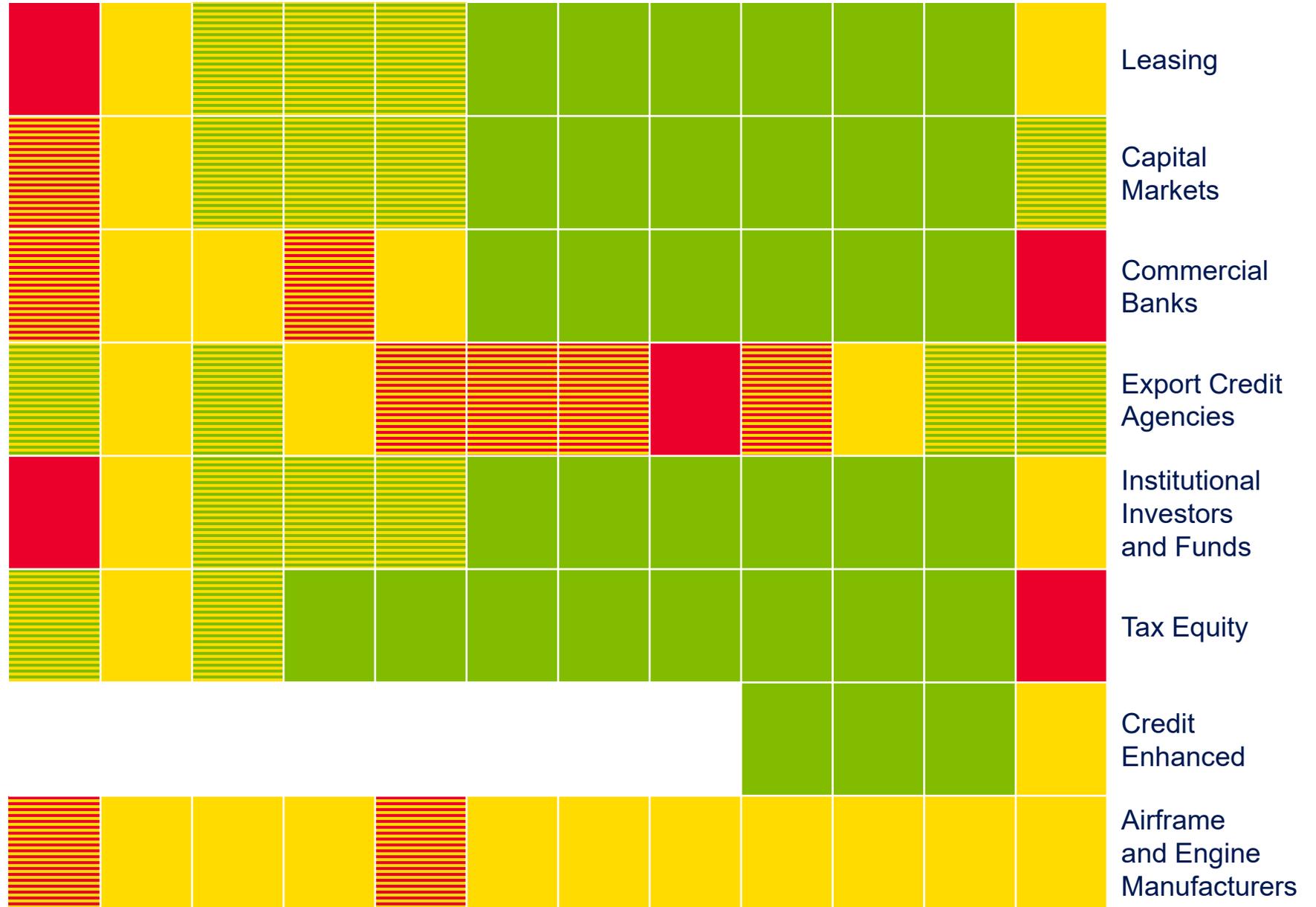
2020 - 2039



# Aircraft Financing Environment

2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020

- Satisfactory
- Cautionary
- Major concern





# Leasing

Rent deferrals, holidays and work-outs

Shoring up liquidity, facility drawdowns and new capital

Risk management and parental strength



# Commercial Banks

Large facility drawdowns,  
new facilities committed last  
year but cooling off

Risk management and  
regulatory capital limits

Retrenchment to better  
credits, stronger relationships  
and domestic markets

# Credit Enhanced



Actively reviewing deals in  
the pipeline

Re-evaluating risks and  
risk appetite

Product tested during  
the crisis

# Export Credit Agencies



Open and ready for business

Evaluating a solid pipeline  
of deals



# Capital Markets

Both primary and secondary markets have seen stress

Equity, convertible debt,  
private deals and  
innovative collateral

Capital markets open



# **E** Environmental **S** Social **G** Governance

**In the long run,  
aviation's  
fundamental  
investment thesis  
remains intact**

Growing  
business with  
globally  
balanced  
demand

Stable product  
profile

Mature, diverse,  
and global  
aircraft finance  
market





# Aircraft Finance Structures

Patricia Lodge  
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Boeing Capital Corporation



# A G E N D A

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## Aircraft Finance Principles

Operating Lease & Sale Leaseback

Bank Debt

Private Sector Credit Enhanced Products

Export Credit Agencies

Capital Markets

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# Airline leasing versus ownership

## ADVANTAGES PURCHASE

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- Maximum airline control of airplane configuration
- Airline acquires equity in fleet
- Significant tax benefits (varies by country)
- Benefits to airline from aircraft's residual value
- Possible increase in operational flexibility

## DISADVANTAGES PURCHASE

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- Large investment and financing requirements
- Residual value risk
- Restrictions included in loan covenants
- Less fleet plan flexibility than operating lease

## ADVANTAGES LEASE

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- Capital investment requirements reduced
- Can increase fleet plan flexibility
- Airplane may be available for earlier delivery
- Lessor assumes aircraft residual value risk

## DISADVANTAGES LEASE

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- Airline does not gain equity in the fleet
- Airline must satisfy lease contract requirements (administrative, reporting, maintenance)
- Lessor may restrict the use of the aircraft
- Airline exposed to lease rate fluctuations
- May have smaller tax benefits than purchase
- Lessee pays withholding or other additional taxes

# SOURCES OF PDP FINANCING

## CASH

Cash generated  
by airline's  
operations  
Unsecured  
financing

## BANKS

Regulatory  
environment  
dependent  
Relationship or  
asset-based

## LESSORS

Standalone  
short-term loans  
Advance SLB  
financing

## OTHERS

Private  
placement  
Capital markets



# SOURCES OF AIRCRAFT FINANCING

LEASING

DEBT

CAPITAL  
MARKETS

EXPORT  
CREDIT

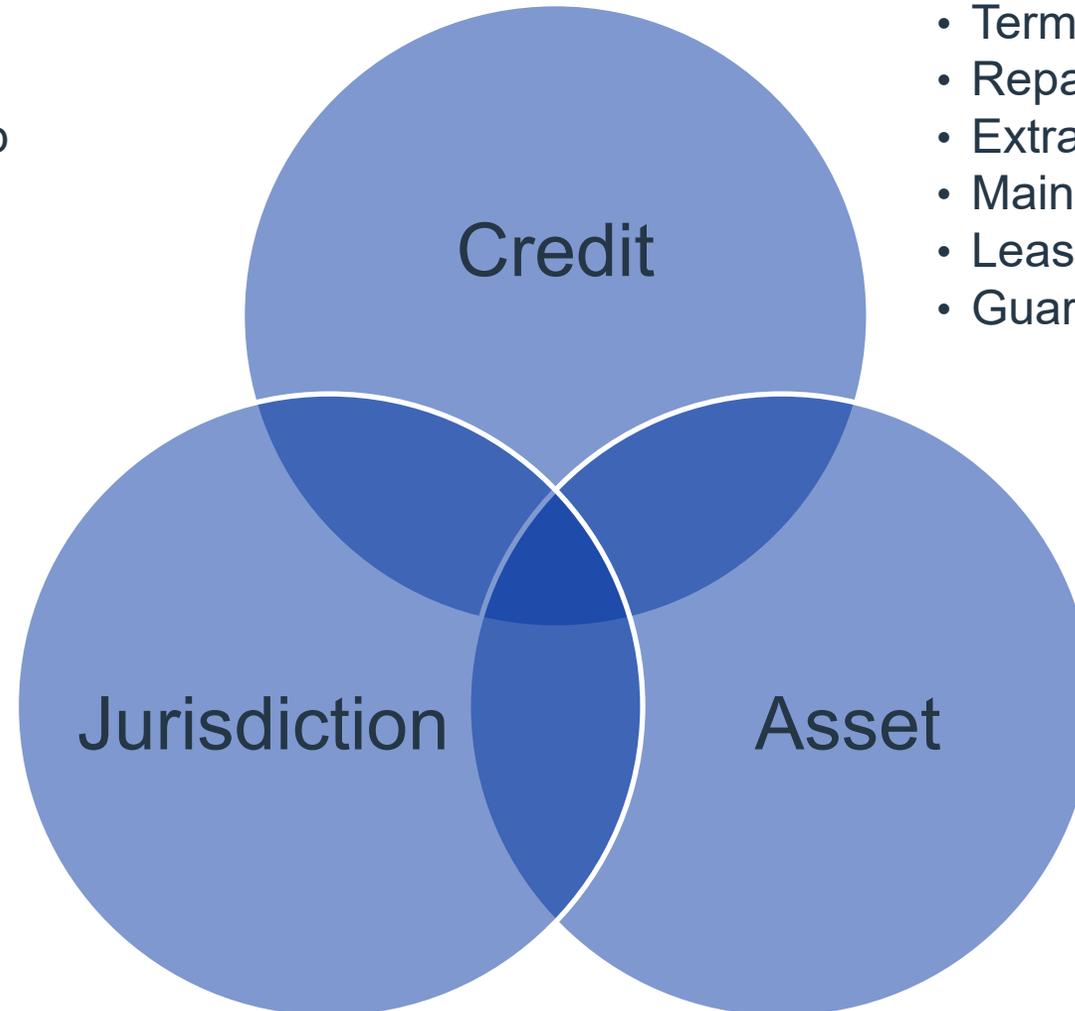
# Aircraft finance fundamentals

## Jurisdiction risk mitigation

- Local knowledge and relationships
- Government advocacy
- Cape Town Convention
- Aviation Working Group

## Credit & Asset risk mitigation

- Advance rate (loan-to-value)
- Term
- Repayment structure
- Extra collateral
- Maintenance reserves
- Lease fee
- Guarantees





# A G E N D A

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Aircraft Finance Principles

**Operating Lease & Sale Leaseback**

Bank Debt

Private Sector Credit Enhanced Products

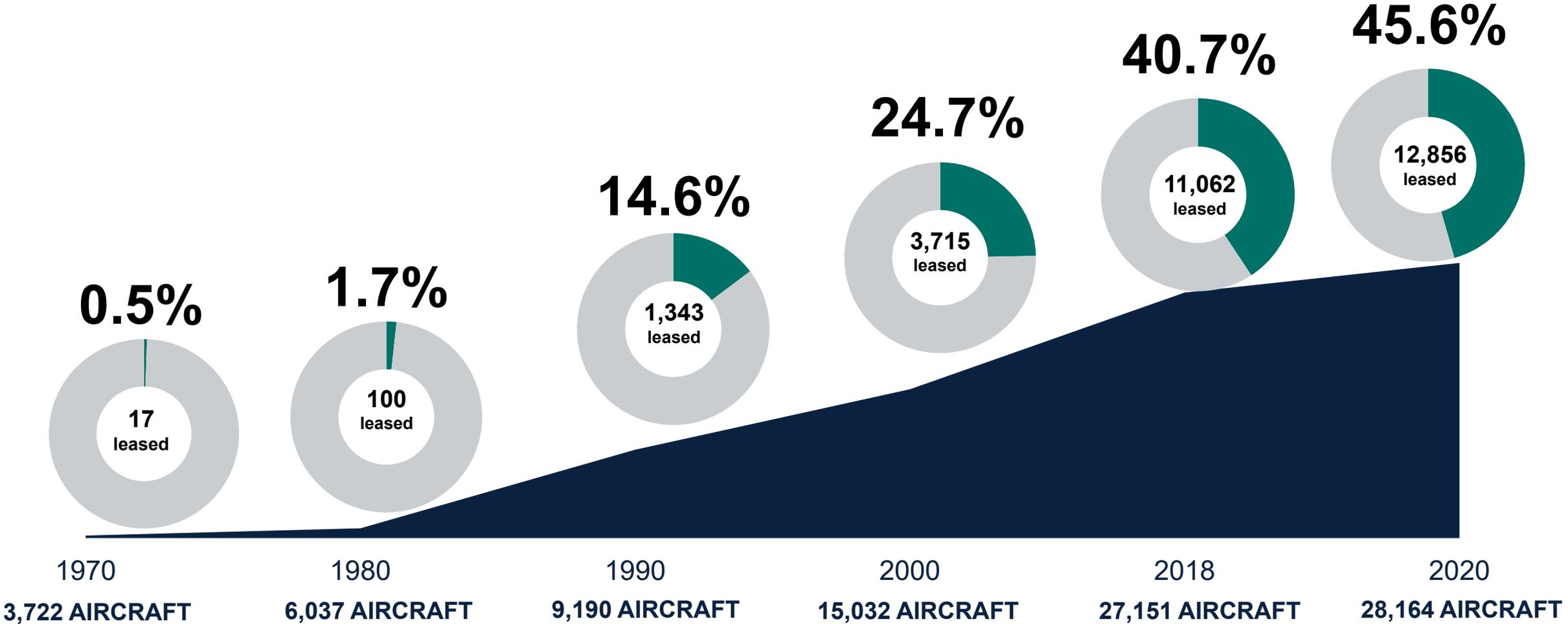
Export Credit Agencies

Capital Markets

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# Leasing industry has grown rapidly

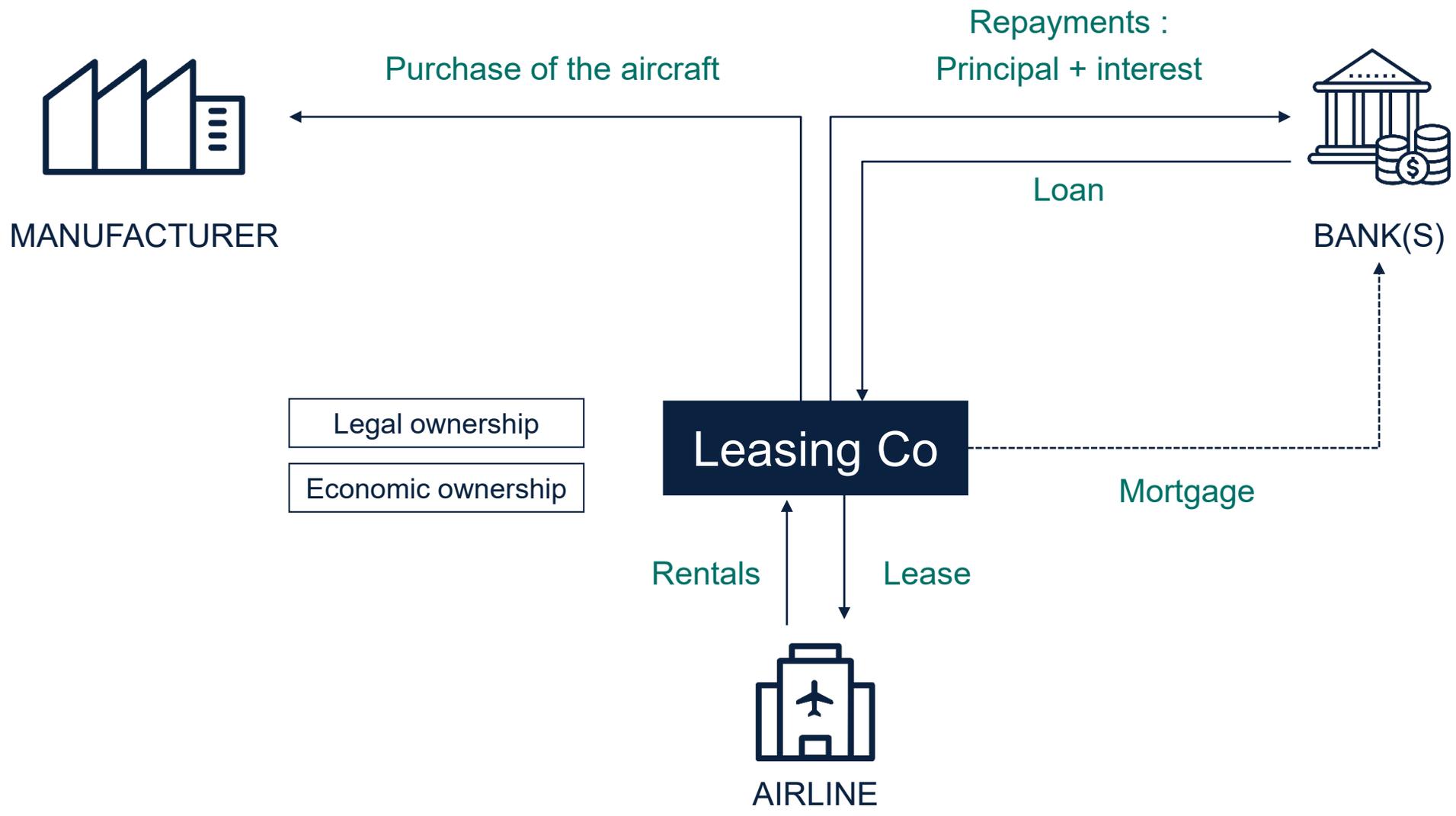
Percent of global fleet on lease



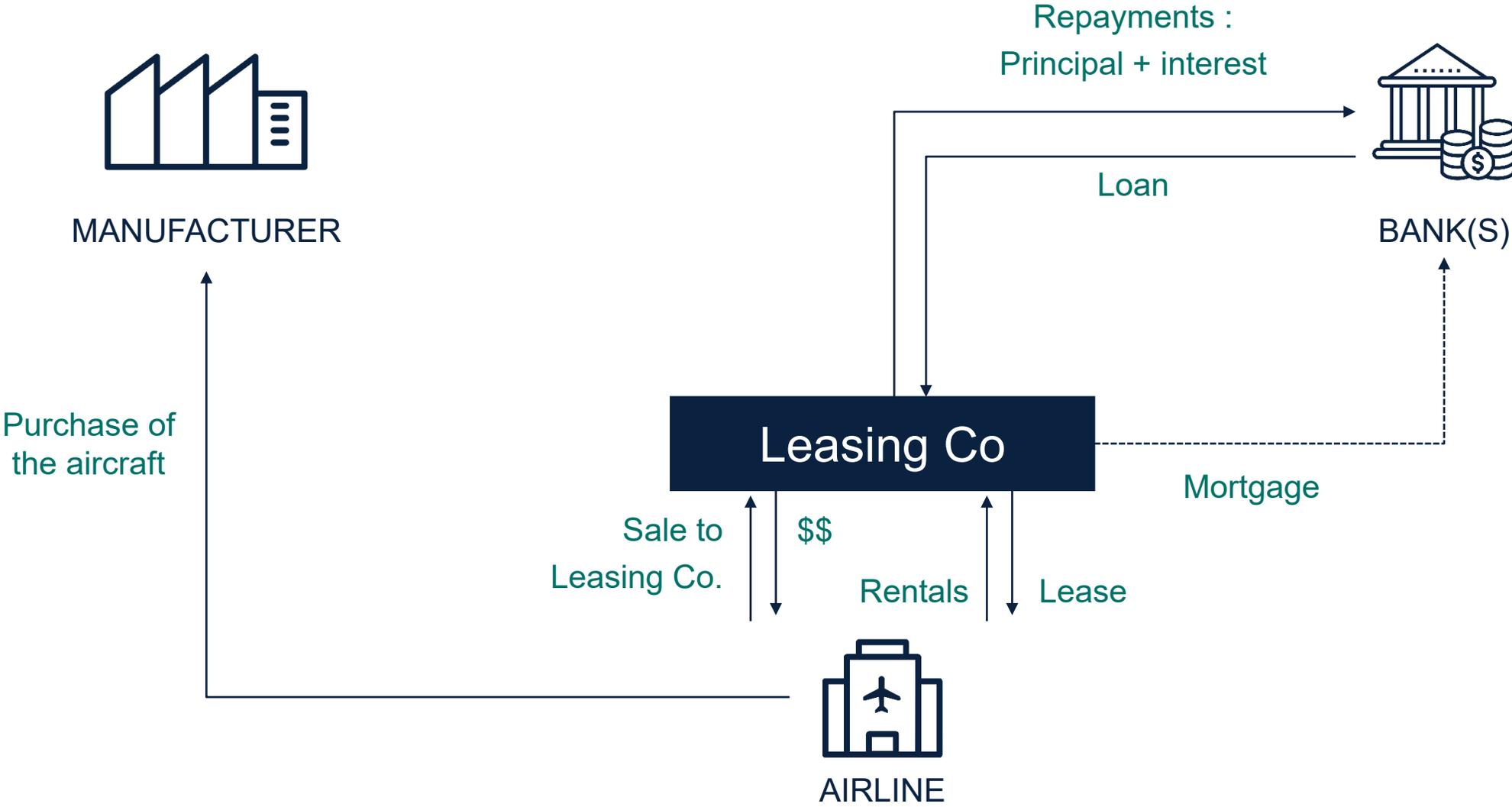
Source: Cirium data analysis

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# Operating lease



# Sale-Leaseback



# Characteristics of operating leases



Lessor acquires an aircraft from a manufacturer



Airline leases the aircraft from the lessor



Lease term varies by aircraft type and or lessee/lessor



Airline returns airplane to lessor when lease ends



Airline may have option to renew lease or purchase aircraft at fair market value

# Three major components of operating lease costs



## LEASE TERMS

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Typically about 0.7% to 1.0% new aircraft cost per month

Actual lease rates are determined by aircraft supply and demand

Proper negotiation of aircraft return conditions critical



## MAINTENANCE RENT

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Available for scheduled maintenance

Typically equal to mature maintenance cost but can vary widely



## LEASE FEE

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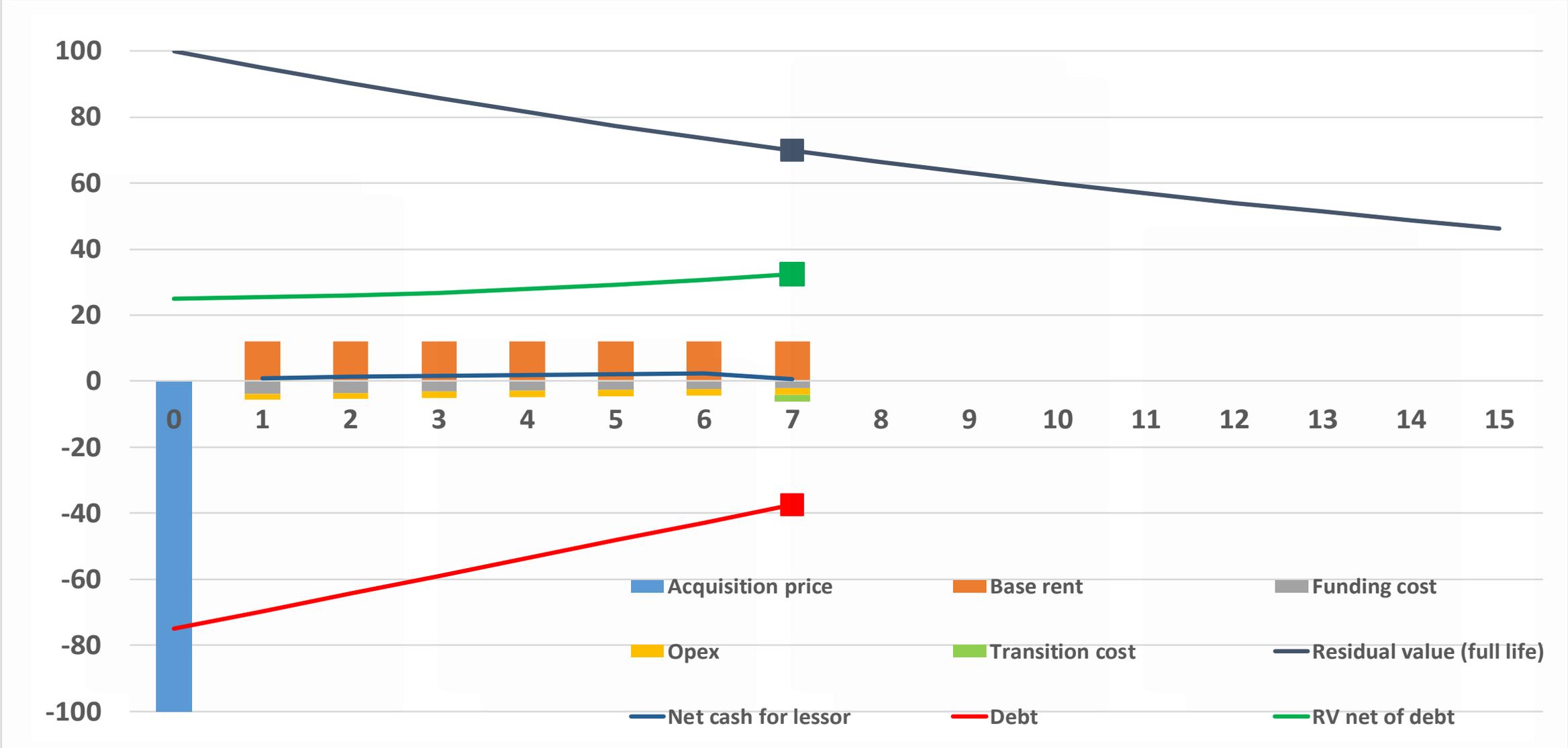
Commitment fee / deposit

2 to 3 months lease payments

# Main Elements of Lease Pricing

<b>Element</b>	<b>Impact on Monthly Rent</b>
Aircraft Purchase Price	Very High
Term of Lease	Medium
Expected Residual Value	High
Return Conditions	Medium to High
Lessee Credit Risk	Medium to High
Target Equity Returns	High
Lessor Funding Cost	High
Lessor Leverage	Medium
Lessor OpEx	Low
Transition Costs	Low to High

# Simplified Lease Economics Illustration





# A G E N D A

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# Bank financing is available in various forms

## **SHORT TO MEDIUM TERM FINANCING**

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Pre-delivery financing

Bridge financing

## **TERM FINANCING**

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Senior debt

Junior debt

Export credit agency  
supported financing

# Bridge financing can be offered for special circumstances



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When term financing cannot be put in place in time for aircraft delivery



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Capital market issues; aircraft are bridged until there is sufficient volume to issue public security

# Banks may provide pre-delivery payment (PDP) financing

## BANKS FUND ADVANCE PAYMENTS

Pre-delivery financing is refinanced at aircraft delivery with term financing



### SECURITY

assignment of purchase contract



### RISK

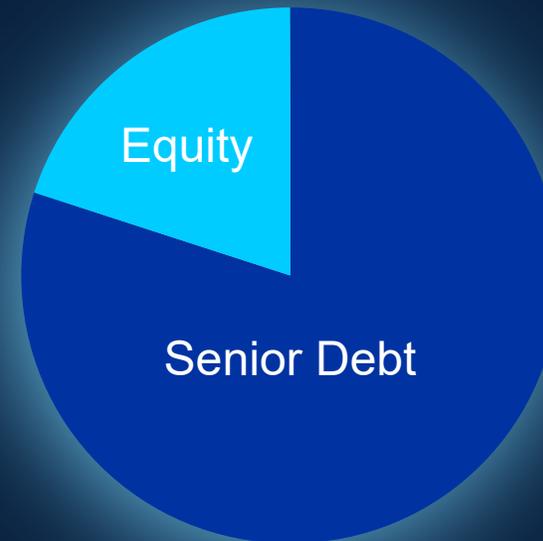
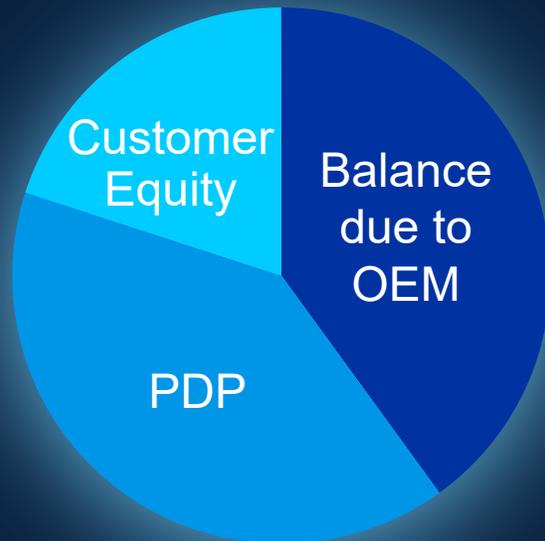
Airline does not take delivery or  
term financing cannot be arranged

**Finding ongoing adequate PDP financing is critical!**

**PDPs are progress payments to the manufacturer while new aircraft is in production.**

# Differences between PDP and permanent financing

	<b>PDP Financing</b>	<b>Permanent Financing</b>
Term	Short term	Long term
Collateral	Contract to purchase aircraft	Hard asset
Jurisdiction	Collateral is with the OEM	Collateral is global
Seniority	Mezzanine position – between equity and senior debt	Advance 80% of value, customer 20%

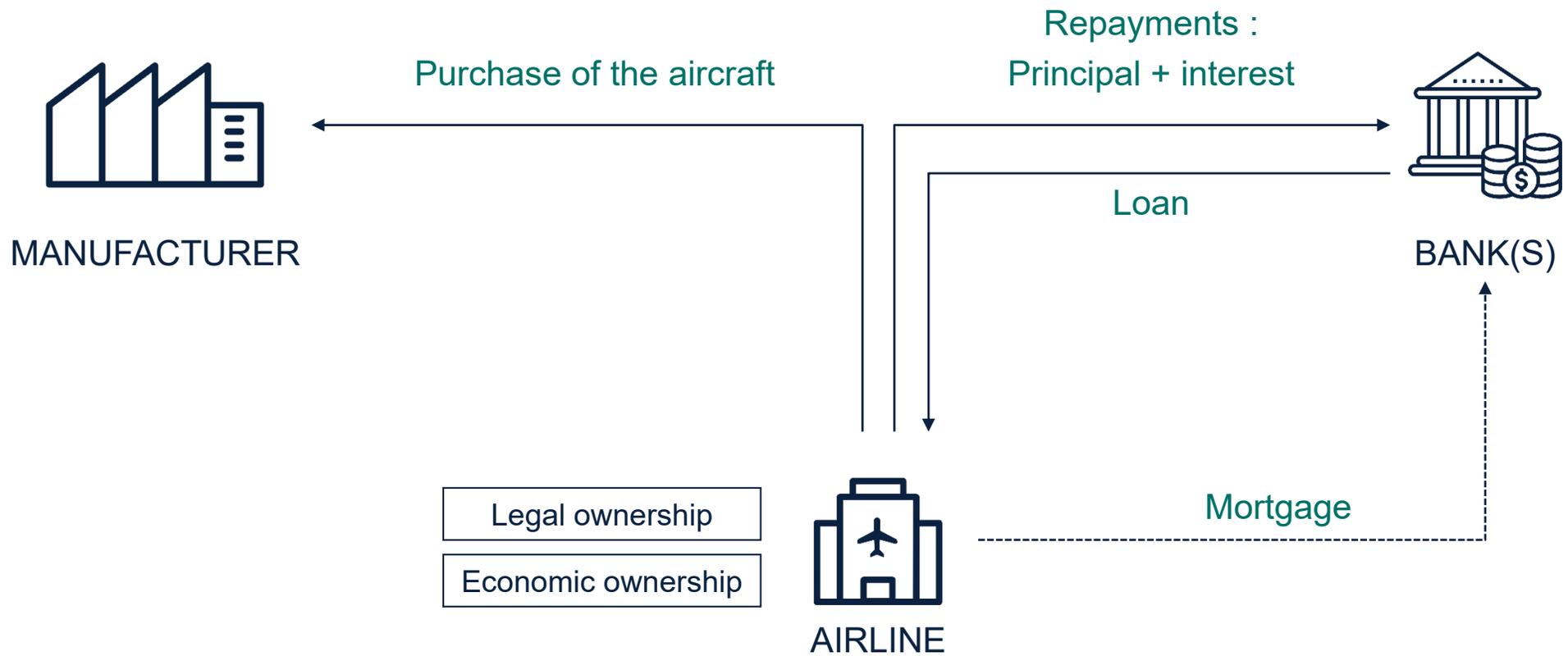


# Senior debt is the most common use of bank financing

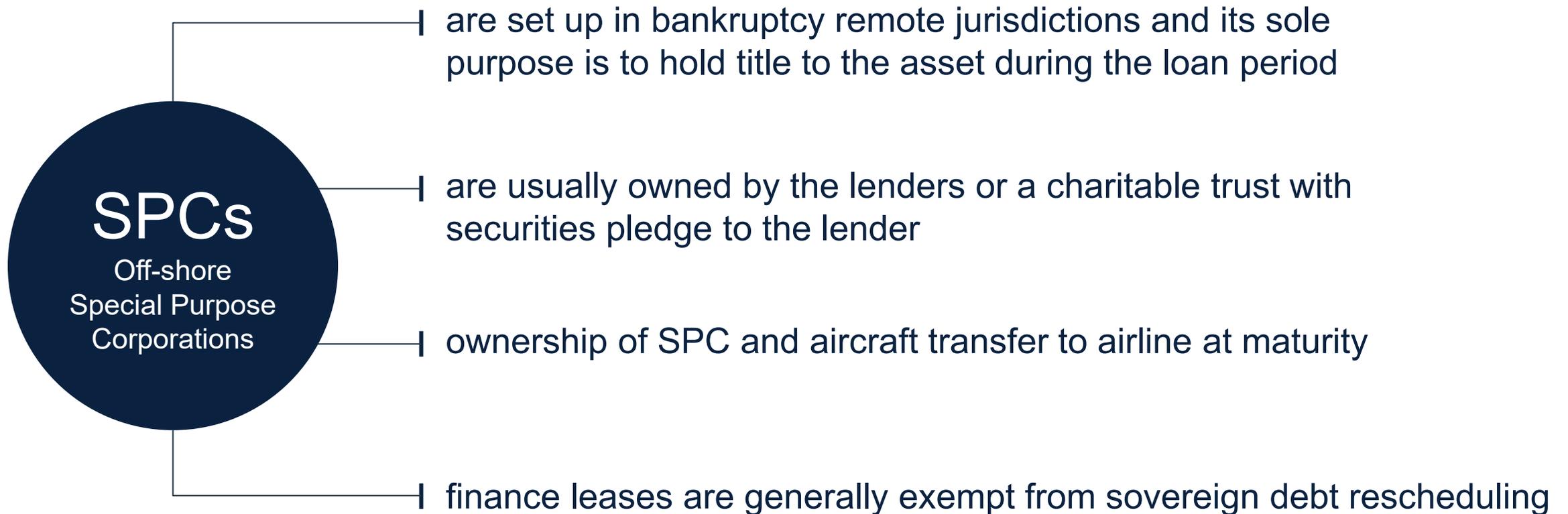
- Tenors are typically 12 years
- Advance rates usually around 80% (70% to 90%)
- First mortgage on Aircraft
- Annuity style repayment
- Loan/value coverage improves over life of deal
- Floating rate or fixed rate
- Loans typically in dollars due to asset values being in dollars



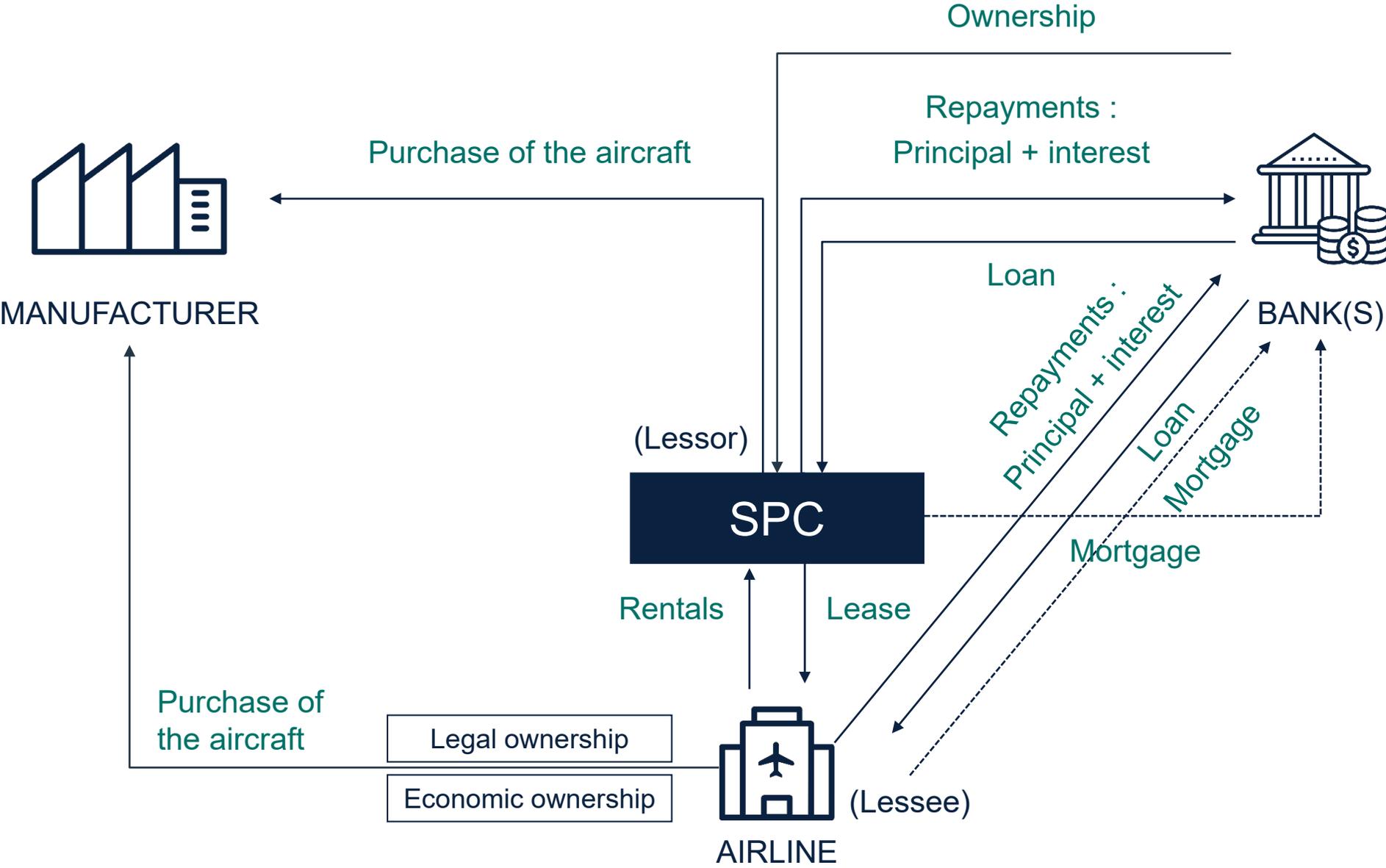
# Mortgage loan



# Finance leases offer greater protection to lenders than a direct secured loan

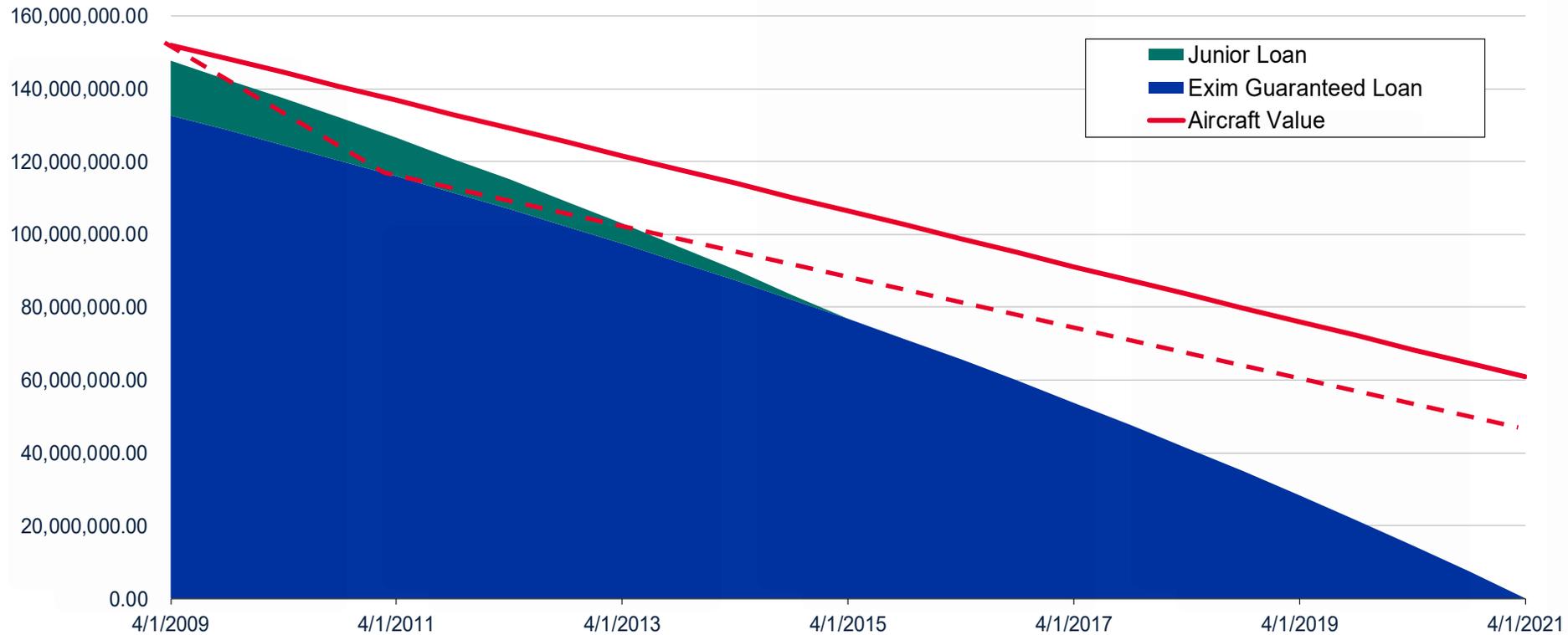


# Finance lease



# Junior debt can be provided by banks or alternative lenders

B777-300ER Exim Financing



Second position  
in security

Collateral coverage  
is generally weak in  
early years

Often shorter tenor  
than senior debt

Most common in  
Export Credit  
Agency/Commercial  
Debt Structure

Addition of Junior Debt can provide airline with up to 100% financing



# A G E N D A

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**Private Sector Credit Enhanced Products**

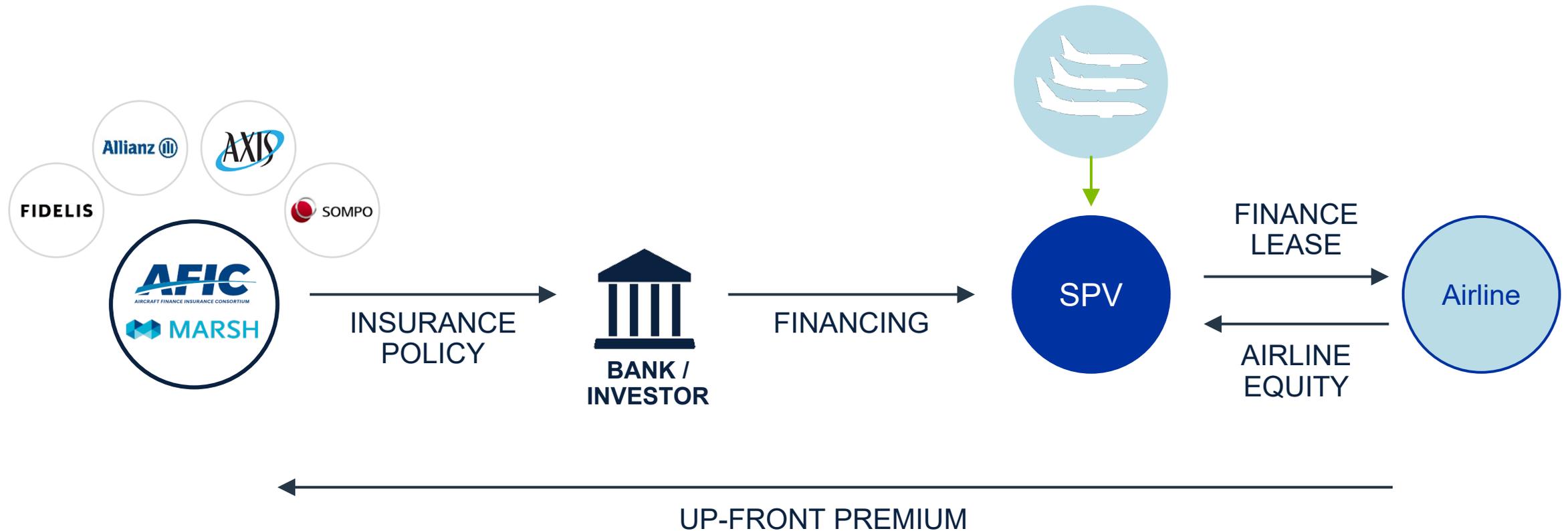
Export Credit Agencies

Capital Markets

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# AFIC Typical Structure

Typical asset-backed finance lease structure with a bankruptcy-remote SPV; AFIC-supported financing can be provided in other forms, including the JOLCO structure





# A G E N D A

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# Export credit helps bridge gaps in commercial financing



**SUPPORTING  
EMERGING  
MARKETS**

**PROVIDING  
STABILITY  
DURING MARKET  
INTERRUPTIONS**

**MAINTAINING  
A LEVEL  
PLAYING FIELD**

# Export-Import Bank of the U.S.

## US OFFICIAL EXPORT CREDIT AGENCY (ECA)

## FINANCES THE EXPORT OF US GOODS AND SERVICES

## OFFERS FINANCING SUPPORT FOR NEW/USED AIRCRAFT, ENGINES AND SPARES

Maintains and creates US jobs

Contributes to a stronger  
economy

Provides guarantees or direct  
loans

Collects fees for its services



Export Credit Agency (ECA) provides loan guarantees to support aircraft financing

**Loan guarantees for up to the lesser of 85% of net price or U.S. content (for EXIM)**

**Maximum 12-year repayment term, fixed or floating interest rate**

**Structured as a cross-border finance lease**

**Security requirements**

First lien security interest in aircraft asset

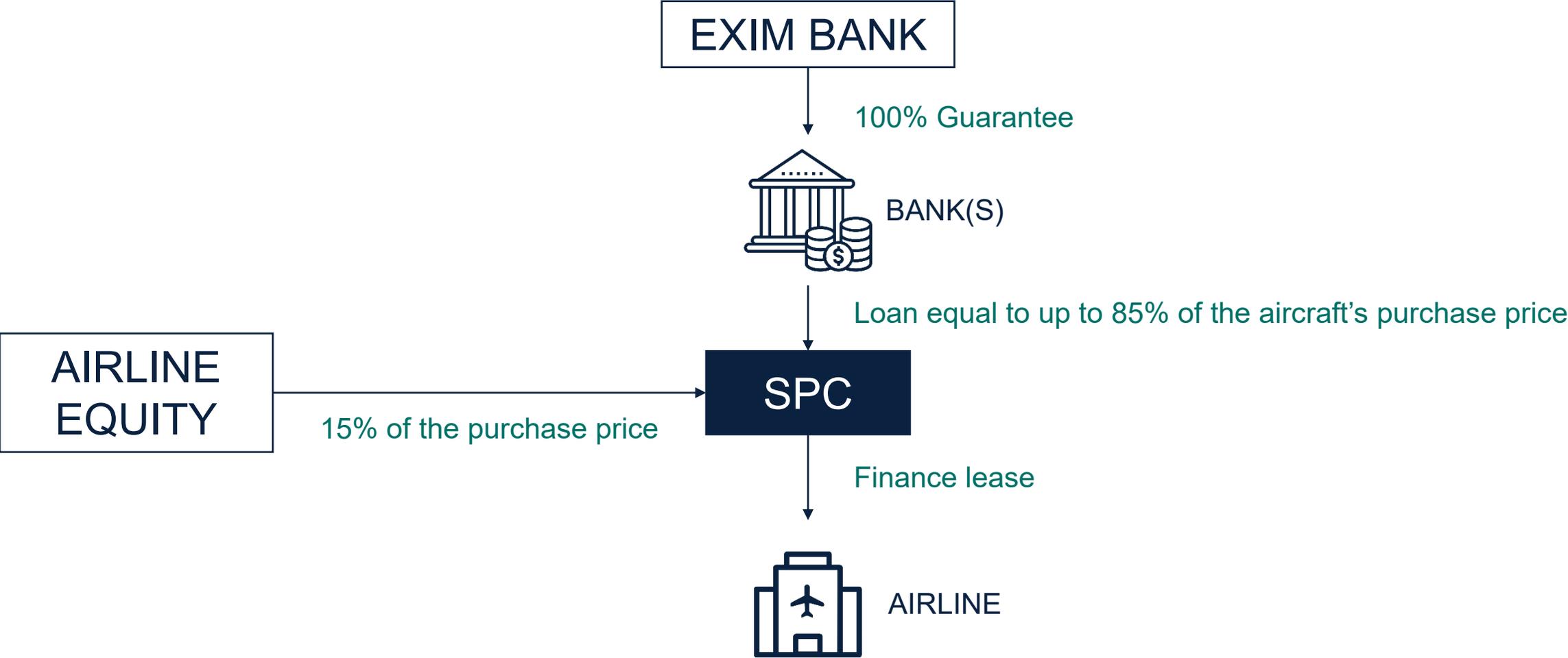
Mandatory risk mitigants\*, cross-collateralization or additional collateral may also required

**Interest rate (of guaranteed lender) based on market conditions**

**Risk based exposure fee can be financed over the loan term**

**Variable Cape Town Discount Allowed**

# EXIM Bank Basic Structure





# A G E N D A

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**Capital Markets**

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# What exactly do we mean by “capital markets”?

## “Non-bank” debt financing issued to institutional investors

### **Common forms are:**

Unsecured notes (usually privately placed, based on airline credit)

Secured Notes (usually privately placed; a/c, gates, tickets)

Corporate Bonds - unsecured (usually issued in public debt markets)

Enhanced Equipment Trust Certificates (EETC) – secured debt with “enhancements” to the deal structure

# What are EETCs?

Enhanced Equipment Trust Certificates (“EETCs”) are sophisticated financing structures developed over time to facilitate the financing of a large volume of aircraft



## CREDIT RATING

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Structural elements enhance transaction rating over airline’s corporate rating



## COLLATERAL

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New or used commercial aircraft or spare parts



## LEGAL FRAMEWORK

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U.S. §1110 and Cape Town provide certainty with ready access to aircraft collateral

A Boeing 777-300ER aircraft is the central focus, shown from a low-angle rear-quarter perspective. The aircraft is painted in a blue and white livery, with a large blue tail fin featuring a white circular logo and the number '777'. The fuselage is white with blue accents, and the number '777X' is visible on the rear fuselage. The aircraft is parked on a tarmac, and other Boeing 777 aircraft are visible in the background. The sky is bright and clear.

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