

NEW KIDS ON THE BLOCK

Excerpt from Airline Economics

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An EETC-like product has recently been publicized with the disclosure that Avianca had closed a \$153 million privately placement Enhanced Aviation Investment Vehicle private EETC Structure (EAIV) in November and December of 2014. The airline group is also prepping the launch of a much larger repeat transaction later this year.

Burnham Sterling Securities, an investment bank specializing in transportation asset finance, acted as lead arranger and sole book runner on the privately placed transaction for Avianca EAIV 2014. The transaction, which is similar in structure to a traditional US EETC, is secured on two new A320-family aircraft and one new Boeing 787 aircraft.

"This is the first time Avianca has been involved in this type of transaction, and we were very pleased with the execution of the deal and the flexibility it provides us with" said Gerardo Alfaro, Director of Fleet Finance at Avianca.

"We are experiencing strong and growing demand from new investor sources seeking to finance commercial aircraft," said Michael Dickey Morgan, Executive Managing Director at Burnham Sterling. "Burnham Sterling is structuring transactions to channel investor demand to meet the needs of airlines. We specialize in private placements, which provide access to a growing global investor base, bringing new investors and attractive terms to our clients in the airline industry."

Burnham Sterling structured the transaction, arranged the rating and placed the transaction with a major institutional investor.

Burnham Sterling states that this transaction is essentially "identical to EETC" as it works to increase debt issuance to investment grade. Few details of the private deal have been released although the transaction was structured with two tranches, A and B, which both achieved that investment grade rating.

Pricing of the tranches has not been disclosed, although Morgan stated that Avianca tested this transaction against other sources of capital available in the market and determined the EAIV structure was more attractive. The biggest challenge in the structuring of EAIV 2014 for Avianca was the airline group's own operational structure. Since Avianca is a holding company based in Panama, which owns four separate airlines in four countries - Colombia, El Salvador, Costa Rica and Peru-it has to get approval to base all of those three aircraft in all four of those countries, only one of which, Colombia, has implemented the Cape Town Convention.

"Normally, you have an airline that has one jurisdiction, Avianca is one airline but four jurisdictions-this was the biggest hurdle in the transaction," explains Morgan. "We had to get the rating agencies

comfortable with the three non-Cape Town jurisdictions and Colombia, which has Cape Town but we still needed to work with them on Colombia as well. Just because the country has Cape Town doesn't mean it is automatically acceptable. We conducted a significant amount of legal work with law firms in each of those jurisdictions."

Regardless of the structural and legal challenges, the deal was structured relatively rapidly-Burnham Sterling started working with Avianca in May 2014 and the deal closed in November 2014.

Burnham Sterling has entered into a multi-year agreement with Avianca to source capital in new and innovative ways. "Avianca had never done a US private placement before, and they were so happy about it that they want to do it again in 2015," says Morgan.

Burnham Sterling is working with Avianca on a repeat of Avianca EAIV 2014, which will close this year. The new deal will be much larger, closer to \$500 million and will be secured on a mixed pool of new aircraft, mainly 737s and A-320 family aircraft.

The 2015 transaction Burnham Sterling is targeting will involve multiple investor groups from the U.S., Europe and Japan. "We have our investor group already identified for that deal, and we are waiting now for the green light from Avianca" says Morgan.

Burnham Sterling closed approximately \$600 million of EAIV transactions in 2014, which were all privately placed with airlines and lessors, with one secondary transaction. In 2015, the bank hopes to close about \$1bn or more in 2015.

"Burnham Sterling closed over \$1.5 billion of transactions in 2014 and we are especially proud to have introduced so many new investors to our issuer clients", said Morgan. It's looking like 2015 will be an even more active year, and we currently have more than \$500 million of transactions in our pipeline. Our focus is on structuring customized transactions to channel investor demand and efficiently meet the needs of our clients."

The company's transactions in 2014 involved a mix of new and post-delivery mainline and regional aircraft and were completed on behalf of airlines, manufacturers and leasing companies, including Delta Air Lines, AerCap and Pratt & Whitney. Investors in the company's transactions include banks, leasing companies and fund managers.

"We retained Burnham Sterling as our placement agent on refinancing transactions valued over \$600 in 2014, and we were very pleased with their investor access, extensive market knowledge, and speed in execution," said Andy Nelson, Assistant Treasurer of Delta Airlines.



Paul Oechsli, Treasurer of Pratt & Whitney adds "We have a long-standing relationship with Burnham Sterling, and once again we retained them as our placement agent in 2014, and they delivered an impressive outcome on almost \$200 million of transactions for us. Their innovative solutions delivered significant incremental value to Pratt & Whitney which, without Burnham Sterling, we would not have achieved."

There are some in the industry who argue that EAIV's are not true EETC's, which in a sense is correct since they don't issue certificates nor is the cross subordination between the tranches, nor the liquid support. But in essence, an EAIV achieves the same goal as an EETC which is to issue investment grade-rated debt.

For issuers with fewer unencumbered aircraft EAIV's make sense. EETC's are expensive, and it only makes sense for issuers that are securing high value or high volume assets.

Using this structure, airlines can tap into this deep market. In these deals, and other smaller privately placed transactions, insurance companies can ensure their chunky orders stick.

Like EETC's, the EAIV structure can be used on other assets such as engines, parts, etc. Up to \$1.5 bn EAIV transactions are expected to close in 2015. Many more non-US EETC's are expected to come to market during 2015, with many more mandates currently being worked on.

