

# Aviation M&A trends

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**T**here has been significant activity in terms of mergers and acquisitions (M&A) activity in recent years especially in the aviation leasing and finance sector, as well as consolidation in the underlying airline industry. This “alternative asset class” has reached record levels of popularity, which has fuelled M&A activity. There are also record highs in terms of the number of funds for alternative and real asset classes along with record high amounts of dry powder to deploy. This is in the backdrop of still historically low interest rates and additional looser quantitative monetary policies which has increased asset pricing overall while

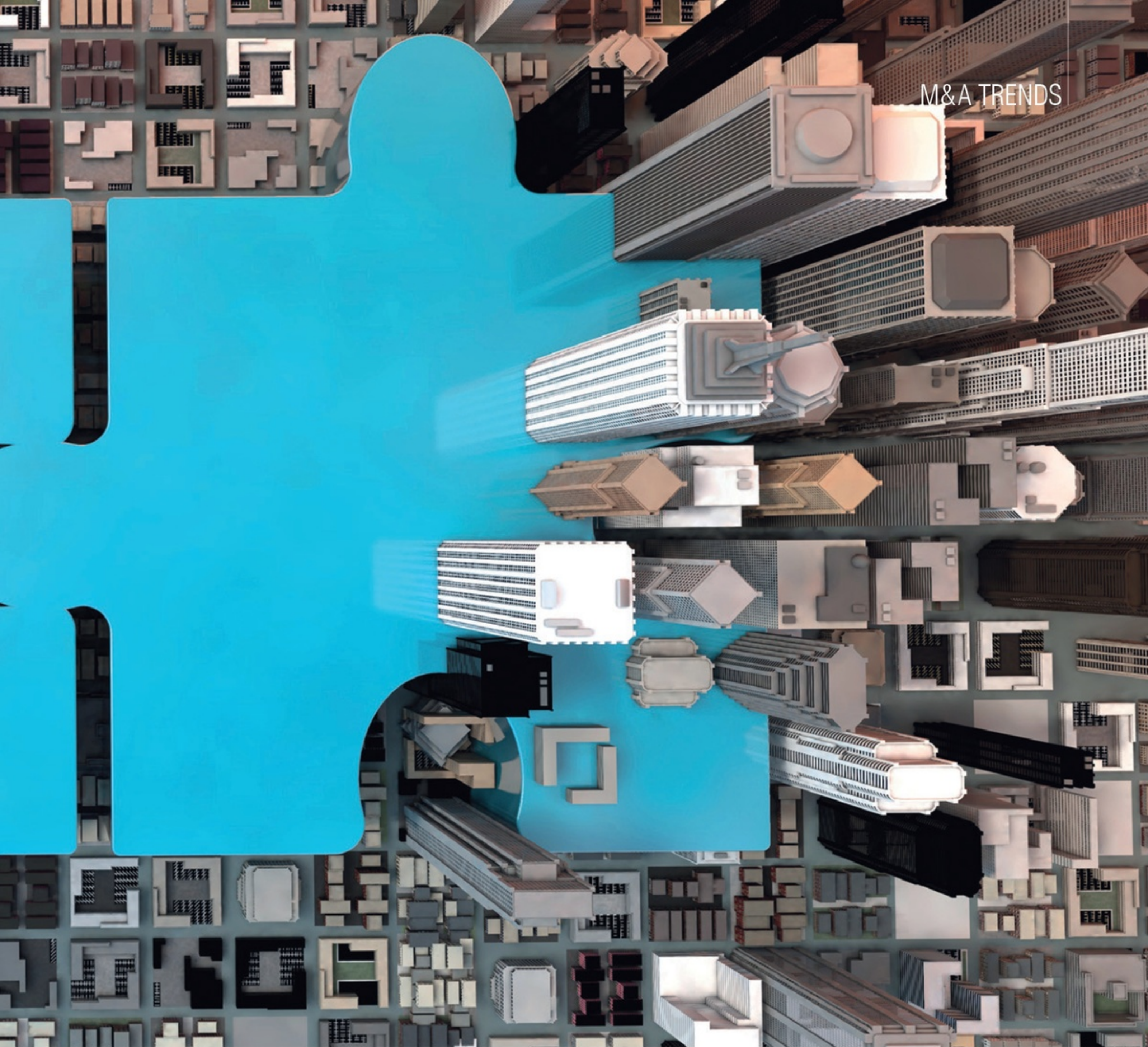
large capital increases coming into the real assets space have deflated yields and rental incomes. There has been a continued ongoing search by investors for incremental yield through all the real asset classes including aviation.

On a macro level, 2019 thus far has been one of the highest-performing years for global M&A. While M&A statistics in for the third quarter of 2019 (US\$622 billion) are lower compared to recent years, overall activity so far this year is still solid by historical standards. Total value in the first three quarters of 2019, standing at US\$2.4 trillion, surpasses the US\$2.2 trillion record highs in the first three quarters of both 2017 and 2016. In addition, Asian M&A remains

strong. This is despite a 12% fall in volume from the second quarter to 880 deals in the third quarter representing a total of US\$133.7 billion in deal activity. On a volume amount basis, the third quarter represented a 4% increase from second quarter levels. China activity, in particular, has held broadly steady for the last three years, increasing by 11% year-on-year but still short of the 2016 peak (according to analysis from Thomson Reuters, China Ventures and PWC analysis).

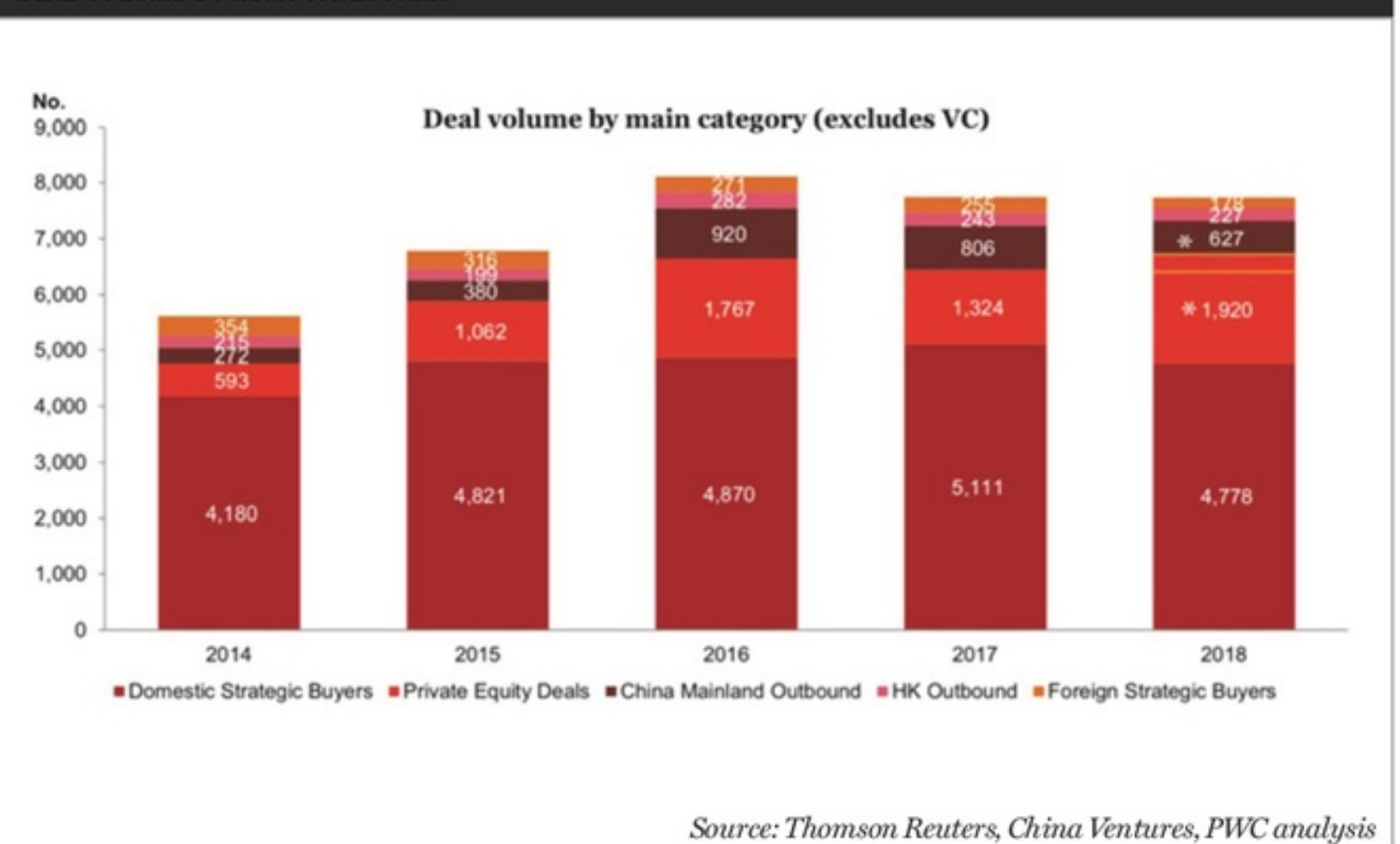
In terms of the underlying airline industry M&A, there have been 493 deals since 2015, totalling US\$73.9 billion. The Asia Pacific region tops the deal league with 201 transactions,





followed by Europe and North America with 150 and 90 transactions, respectively. Historically, there has been more consolidation in the US and European markets. Other regions have more constraints on ownership as well as control constraints and much more fragmented markets. In addition, there has been more control or national ownership restrictions while US and European markets have a more diverse shareholding structures. This is changing, however, as controlling shareholders and first generation founders in Asia have started to investigate how to diversifying their exposures, especially as more succession plans are implemented.

DEAL VOLUME BY MAIN CATEGORIES





There has been an increased emphasis on size and scale in aviation leasing and finance has been driven by a couple of factors. Underlying fundamentals are good with airline economics generally performing well with the expansion of the economies. This expanding fleet size and also the increase prevalence of leasing overall have driven demand. Globally, airlines operate a fleet of more than 28,000 commercial jet aircrafts valued at over \$700 billion. With over 19,000 commercial aircraft needed by 2025, lessors are expected to provide a significant portion of the financing required. Over 13,500 commercial jet aircraft, valued at approximately \$350 billion, are owned by operating lessors and leased to the global airlines, accounting for more than 48% of the fleet by value. There have been some rumblings from increased costs affecting airlines but this has not dented overall enthusiasm for the sector and M&A.

There are many players in the aviation market and competition has grown since the 2008 financial crisis. With such good fundamentals, significant additional capital has been attracted to the sector. This intense competition from new players has driven the need for consolidation to reach economies of scale benefits both in terms of cost management as well as revenue management in terms of effective coverage of lessees and capital sources. Reaching the lowest member of the top 10 global leasing players by size 10 years ago would only enable that person to be ranked in the twenties today in terms of size rankings.

In aircraft leasing M&A transactions, there have been 91 deals since 2016, totalling for US\$26.1 billion. Among them, Asia Pacific tops with 36 deals, followed by North America and Europe with 36 and 23 deals, respectively.

Plentiful investment firm capital and sponsor driven capital has entered the space. HNA has been one of the acquisitive firms recently by deal volume with the latest CIT Commercial Aviation business acquisition merged into Avolon. Other recent M&A activity has been born out of smaller initial minority investments which later turned into an acquisition of the entire firm. These include Aviation Capital Group (ACG) by

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Tokyo Century Leasing and Aircastle by Maurbeni and Mizuho Leasing. In Tokyo Century's case, they had bought the remainder 75.5% stake it did not already own for \$3 billion after a late 2017 20% initial investment. Maurbeni also took a significant minority stake in Aircastle in 2013, acquiring roughly 15.25% for US\$209 million and subsequently acquired the entire firm.

Tokyo Century's prior acquisitions of the CIT joint venture were a special situation in the acquisition of CIT while investments with GA Telesis represented entering different areas of the leasing space. This resulted in ACG diversified Tokyo Century's other investments in aviation leasing with more focus on newer aircraft. Other transactions in the leasing space include more fund sponsor investors acting as investors, backers or sellers. These include EQT's initial ~50% investment in Nordic Aviation Capital and Nordic's subsequent rollup acquisitions in the regional smaller aircraft sector with Aldus and Jetscape. This was later supplemented by additional sovereign wealth sponsor capital by Singapore's GIC. Carlyle Group's acquisition of Apollo Aviation represented a strategic acquisition by a sponsor as both are fund managers and represented a diversification for Carlyle to expand its assets under management and fund offerings.

Other more strategic tie up between platforms include ORIX Aviation's 30% minority investment into Avolon for \$2.2 billion and the acquisition of Sky Leasing assets by Goshawk, creating a top 10 lessor. The acquisition of AWAS was a strategic acquisition by DAE, controlled by the Dubai government but it was also partly financed by sponsor interests from Terra Firma Capital and Canadian Pension Plan Investment Board. The rebranding of Intrepid as Voyager and sale to Amedeo is a combination of strategic and sponsored backed merger given the sponsor-lead ownership of Intrepid prior to the combination.

Aviation finance firms have also experienced large-scale M&A activity. The recent close of the sale of DVB's aviation finance division to MUFG and affiliates represented continued Japanese interests in outbound acquisition in the space. In addition, General Electric's aircraft lending subsidiary, PK Airfinance, was sold to Apollo and Athene and has recently closed. This was a sponsor-driven deal with both the operating platform company going to Apollo while Athene retained the related portfolio of loans. This might create more acceleration of the dismantling of GE's finance operation which aligns to GE Capital's stated overall strategy to become smaller, simpler and more assets light.

What is clear is that large scale M&A and investment are still being driven out of Asia but now with a higher concentration from Japanese interests rather than Chinese interests like previously. Strategic players are still very active growing through mergers creating ever enlarging platforms. These are sometimes augmented by investment and sponsor capital. At the same time, financial investors have played a significant part in the larger sized M&A and will look to play an even larger role going forward.

*\*All opinions expressed are the authors' own. The author is an investor turned full time finance professor at New York University Shanghai, where he teaches and focuses on cross-border investing and financing along with a specialty in real assets and aviation. He is also Chairman of China Aviation Valuation Advisors. He is the only Senior ISTAT Certified Appraiser in China and N. Asia. His research website is [www.davidyuda.com](http://www.davidyuda.com) and can be reached at [david.yu@nyu.edu](mailto:david.yu@nyu.edu).*