Facing headwinds

The aviation sector has endured a difficult two years amid border closures and lockdowns. In spite of persistent volatility and uncertainty, our survey finds that senior executives are cautiously optimistic about the state of global aviation financing in 2022

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Foreword

The past two years has been a period of intense turbulence for the aviation sector, with a number of bankruptcies, bailouts and collapsing revenues brought about by the coronavirus pandemic. The impact on airline receipts has been challenging. Indeed, the gap between projected and actual receipts suggests that airlines have lost passenger revenues worth nearly US$1 trillion as a result of the pandemic.

Rebuilding balance sheets and restoring passenger confidence is going to take time. Uncertainties lie ahead, and (as the rapid spread of COVID-19 variants remind us) there is no room for complacency. Yet as this survey shows, there are also tentative grounds for optimism.

First, airlines and lessors now have access to a wider range of funding opportunities than ever before. Innovative financing is the order of the day: In addition to traditional sources, such as banks, capital markets and export credit agencies, the aviation sector is increasingly tapping into funding from alternative capital providers, including private equity and hedge funds. High-net-worth individuals and family offices are now part of the mix as well, along with new capital market products, such as green bonds.

Second—and closely linked to the evolving financing environment—is the rising awareness of environmental, social and governance (ESG) considerations within aviation. Airlines and lessors—and the investors who back them—are making the first steps towards decarbonizing aviation with initiatives that span everything from the development of sustainable aviation fuel (SAF) to the first, albeit short-range, electric aircraft.

This matters, because the future of aviation is as much a battle for hearts and minds as it is about technology. COVID has turned many of us into teleworkers, while the rise of the "staycation" has reminded travelers of the good times they can have close to home. Winning back passengers—business travelers in particular—may not be easy. Against this background, travelers of all types are increasingly aware of the environmental impact of their journeys. Seen in this light, even small steps toward boosting the green credentials of airlines could make all the difference.

The aviation sector that emerges from the pandemic is likely to look very different from the one that went into it two years ago. But it is also a sector that is likely to be more flexible, leaner, a little greener and—above all—better adapted to whatever the future has in store.

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Methodology

In the fourth quarter of 2021, White & Case, in partnership with Mergermarket, surveyed 100 senior-level executives at entities that have either financed or invested in the aviation industry in the past three years. The aim of the survey was to analyze sentiment regarding aviation finance. Organizations surveyed included airlines, operating lessors, banks, export credit agencies, private equity and other alternative capital providers. Job titles included CEO, CFO, director level and heads of investment.


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Overall investment outlook for global aviation finance

Aviation sector executives expect to maintain or increase investment in 2022, despite continuing headwinds caused by COVID-19 and concerns about the global economy

The year 2021 was another turbulent one for aviation, as governments raced to combat new COVID-19 variants with travel bans and border closures. From the rise of the Delta variant in the first half of the year to the first appearance of Omicron at the end, 2021 was a year in which disruption lurked around every corner.

Despite this, passenger demand began to recover. Estimates published by IATA suggested that total revenues from global commercial airlines were likely to reach US$472 billion in 2021.[1] While this is far below the US$838 billion revenue total achieved on the eve of the pandemic in 2019, it represents an increase of more than 26 percent compared with 2020. Scheduled passenger numbers also staged a recovery. The passenger total for 2021 is expected to reach 2.27 billion—a huge improvement on 2020 (1.8 billion), but still far short of 2019's 4.54 billion.

While passenger traffic has been hit hard by the pandemic, air cargo shines as a rare COVID success story. The rapid reboot of economies and the race by businesses to obtain—along with bottlenecks in ocean shipping—helped to propel airfreight to new heights. The year ahead could be a record breaker with expected air cargo revenues of US$175 billion (compared with US$128.8 billion in 2020 and US$100.8 billion in 2019[2]).

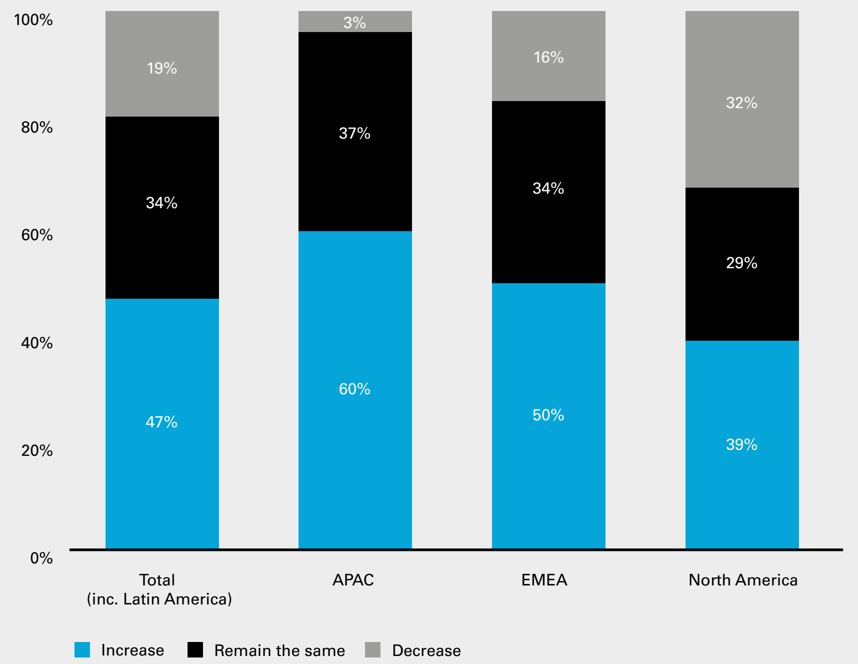
Our survey found that respondents are cautiously optimistic. Looking first at expectations for the global aviation sector as a whole, 81 percent expect that investment will be maintained or increased in 2022, with 47 percent suggesting an increase. Only 19 percent of respondents expect aviation investment to decrease.

Asia-Pacific stands out as the region where sentiment is most positive, with 60 percent expecting global aviation sector investment to rise in the year ahead—the highest of any region. From the perspective of APAC, this positive sentiment may not be surprising: The region's growing middle class and favorable demographics support growth in the aviation sector. A managing director of a leading APAC-based bank says: "Investments will increase in 2022, because there are fresh prospects for growth in the aviation sector. The investments will derive optimum returns, because development is taking place in many locations. This will stabilize the sector and help growth."

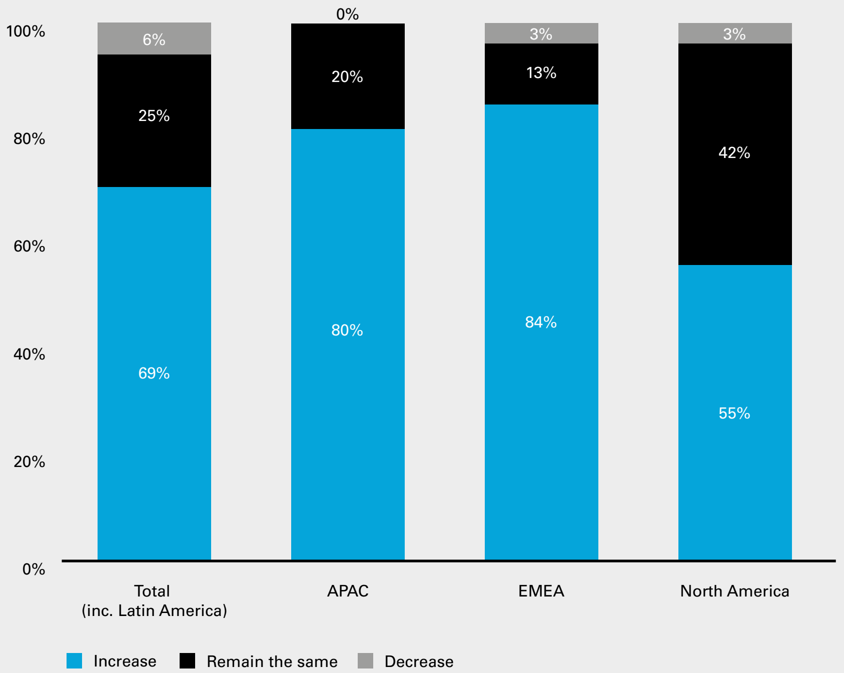
47%

of respondents expect investment in the global aviation sector to increase in 2022

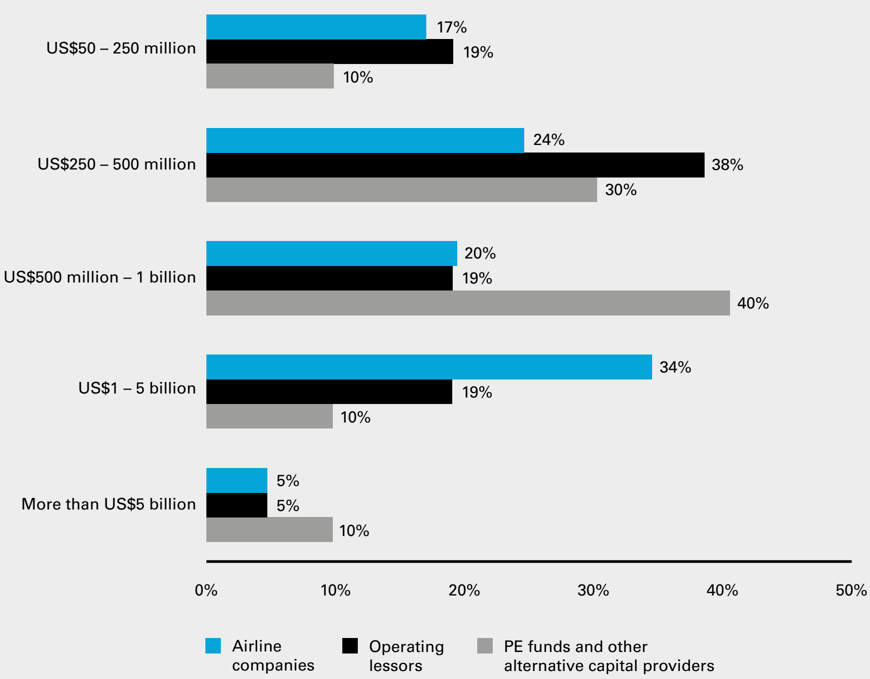
Do you think overall investment in the global aviation sector will increase, decrease or remain the same during 2022?



Do you expect aircraft financing in the global aviation sector to increase, decrease or remain the same during 2022?



What is your annual global aviation capital investment? (Airline companies, operating lessors and PE funds only)



Respondents in the more mature markets of EMEA and North America are more cautious, with 50 percent and 39 percent, respectively, anticipating increased investment in the year ahead—somewhat lower than APAC. That said, a number of respondents in these regions have an eye on emerging opportunities—notably investments in decarbonization.

"The project pipeline looks promising," says the head of investment and capital markets at a North America–based lessor. "There are many green funds emerging that will support these projects." The managing director of an EMEA-based bank that invests US$1 to US$5 billion per year in aviation adds: "The emphasis on ESG will prompt younger-generation investor audiences to invest."

Turning to aircraft financing, respondents are upbeat about the year ahead. Globally, 69 percent expect aircraft financing in the global aviation sector to increase in 2022.

Looking more closely at specific regions, EMEA-based respondents have the most positive outlook, with 84 percent pointing to a rise in financing, followed by APAC with 80 percent. Notably, no respondents in APAC expect aircraft financing to decrease in the year ahead. North America–based respondents are less optimistic, with only 55 percent expecting aircraft financing globally to rise in 2022.

Future increases in aircraft financing will be determined, primarily, by the extent to which passenger numbers recover. But both survey data and comments by respondents suggest that there are two new factors in play as well.

The first of these is the need to boost the efficiency and environmental performance of aircraft fleets against a background of rising ESG imperatives. This point was made by a number of respondents, including airlines, lessors, banks and alternative capital providers. "I expect aircraft financing to increase because equipment upgrades are required," says the partner of an APAC-based PE firm. "Older aircraft will have to be replaced because they have a high level of fuel consumption."

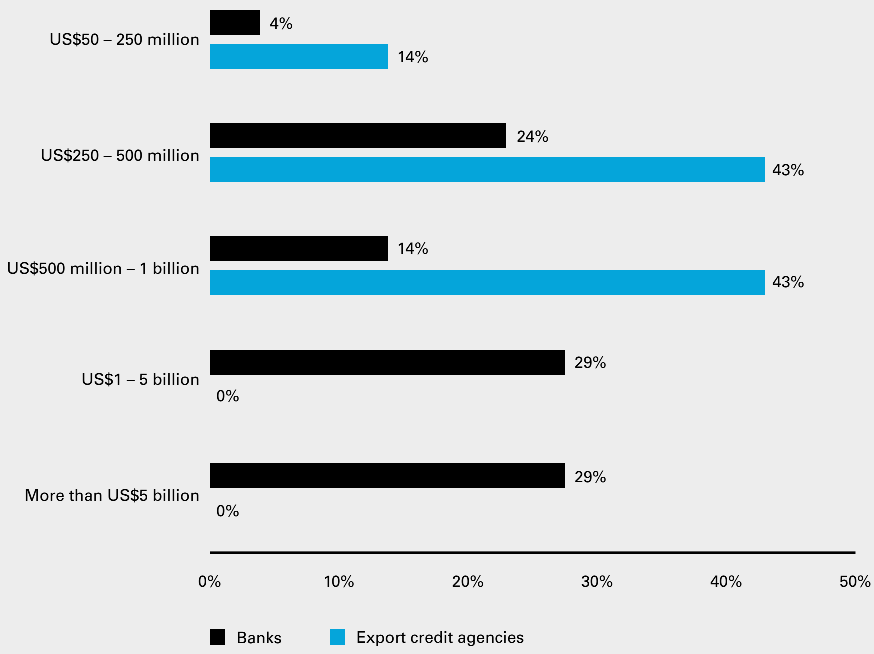
This point is echoed by the CEO of an EMEA-based lessor who expects spending on aircraft development to rise: "Post pandemic, the emphasis on low-carbon aircraft will increase further."

The second factor is the rise of new sources of financing. Banks—traditionally a mainstay of aviation financing—have reduced their exposure to the sector since the onset of the pandemic. The vacuum they have left behind is being filled with everything from green bonds to private equity. Indeed, the past two years has seen an upsurge in private equity and hedge fund activity. Armed with ample dry powder, buyout firms have been on the hunt for opportunities, from debtor-in-possession loan financings, to setting up aircraft leasing companies. "Many private equity firms have started collective funds for aircraft financing," says the managing director of an EMEA-based bank. "Sustainable development goals in particular have been an important part of their decision to support the low-carbon transition in the aircraft industry."

The ability to tap into wider and deeper pools of capital bodes well for the aviation sector. But our survey data shows that the distribution of investments by airlines, lessors and PE funds has shifted since the peak of the cycle, with a trend towards higher volumes of lower-value investments, reflecting changing risk appetites.

An interesting feature of this shift is that private equity and other alternative capital providers are now competing right across the value spectrum—10 percent currently invest in the US$50 to US$250 million bracket at one end, while another 10 percent are investing in the US$5 billion-plus bracket at the other. This is a broader spread than has been seen in the past. At the same time, the proportion of operating lessors making high-value investments has declined, with just under a quarter (24 percent) currently investing US$1 billion or more. In a similar vein, fewer airline companies currently invest more than US$5 billion, down from previous years.

What is your annual global aviation finance investment? (Banks and export credit agencies only)



Bank and export credit agency (ECA) financing has also changed, with respondents reporting less activity at the higher end of the value spectrum. For example, our survey shows that ECAs have stepped back from making the highest-value allocations, with no respondents providing finance in either the US$1 to US$5 billion or US$5 billion-plus categories. Bank lending has tended to be more consistent, and the proportion of respondents who report lending in the highest bracket (more than US$5 billion) is only marginally less than the pre-pandemic level.

"69 percent expect aircraft financing in the global aviation sector to increase in 2022.

1 IATA Industry Statistics Fact Sheet: https://www.iata.org/en/iata-repository/pressroom/fact-sheets/industry-statistics/

2 IATA Cargo Market Analysis: https://www.iata.org/en/iata-repository/publications/economic-reports/air-freight-monthly-analysis---october-2021/

Funding sources

Our survey shows that a majority of respondents expect funding to increase in 2022—and from a wide range of sources

Asset-backed securitization (ABS) is the funding mechanism that most respondents expect will increase in 2022, as players look to tap the value tied up in their aircraft and aero engines. ABS is a popular choice for EMEA-based respondents, with 91 percent expecting asset-backed securitization to increase and none expecting it to decrease.

Slightly fewer respondents expect commercial bank lending to rise in 2022. Indeed, 10 percent of EMEA-based respondents expect it to decrease. With the exception of top-tier credits, commercial banks have become notably more cautious about lending to the aviation sector since the onset of the pandemic. "Funding for projects has been withdrawn by banks because of the insolvencies that have been reported in the past couple of years," notes a managing director at a US-based private equity fund.

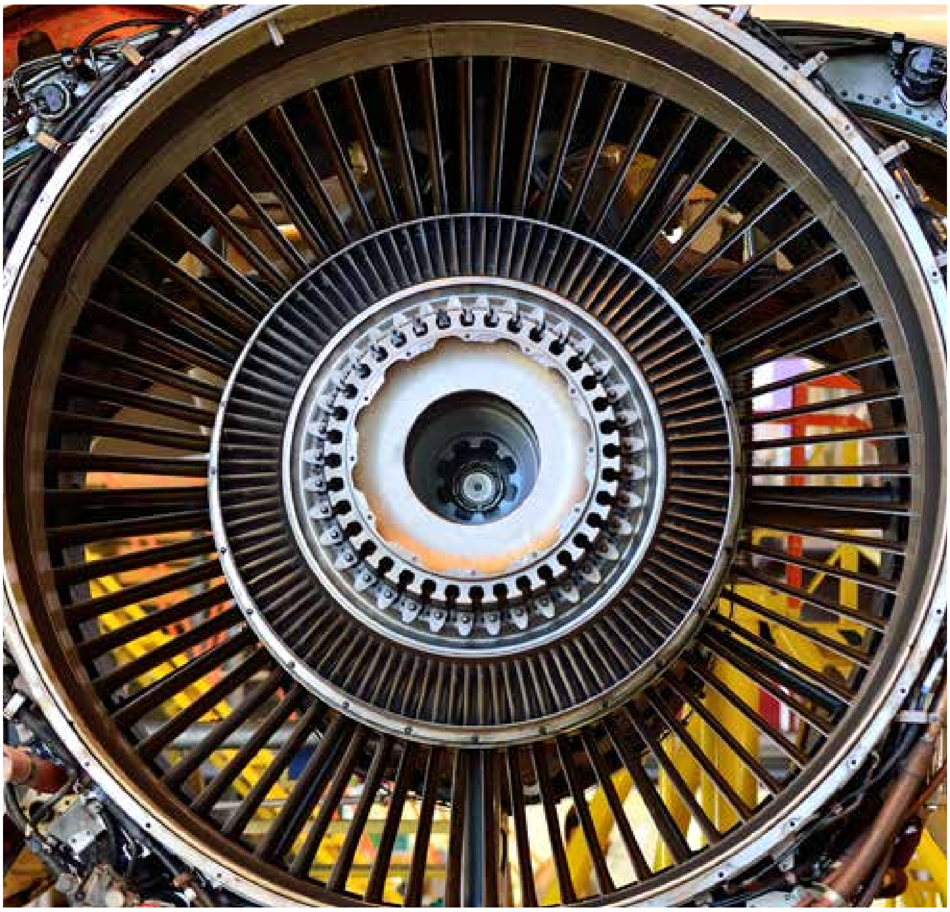
COVID-related contraction is not the only factor causing banks to think twice about backing aviation. The managing director of an EMEA-based bank says: "Investing in global markets is quite risky. There are many geopolitical tensions between countries and this could affect the profits of each sector differently. We are investing in assets that we can exit from within a shorter timeframe."

The respondents most likely to point to an increase in commercial bank lending are those based in North America (88 percent) and in APAC (87 percent), where regional banks have a strong track record of financing aviation in their domestic markets. Export credit agency (ECA) financing—a vital prop for the aviation sector when times are hard—is expected to increase by 84 percent of EMEA-based respondents, but only 68 percent of those based in North America.

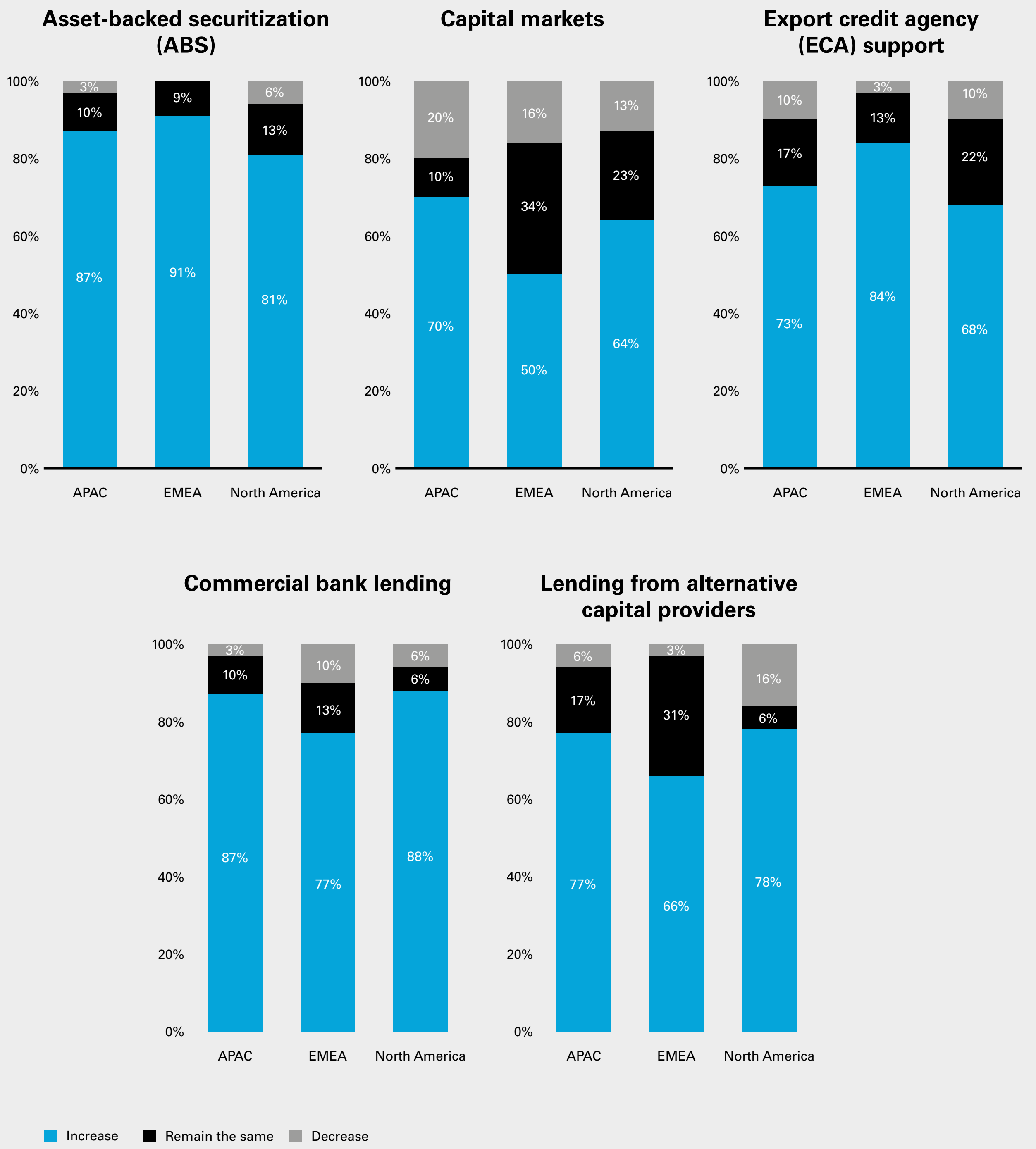
Funding from alternative capital providers (non-bank lenders, including private equity) is expected to rise by 78 percent of North American respondents and 77 percent of APAC-based respondents. Meanwhile, capital market funding is generally expected to grow less strongly than other sources in 2022. This view is most notable among EMEA-based respondents, only 50 percent of whom expect capital market funding to rise—the lowest proportion for any geography and for any funding source.

91%

of EMEA-based respondents expect asset-backed securitization to increase



Do you expect the volume of funding from the following aviation funding sources to increase, decrease or remain the same in 2022?



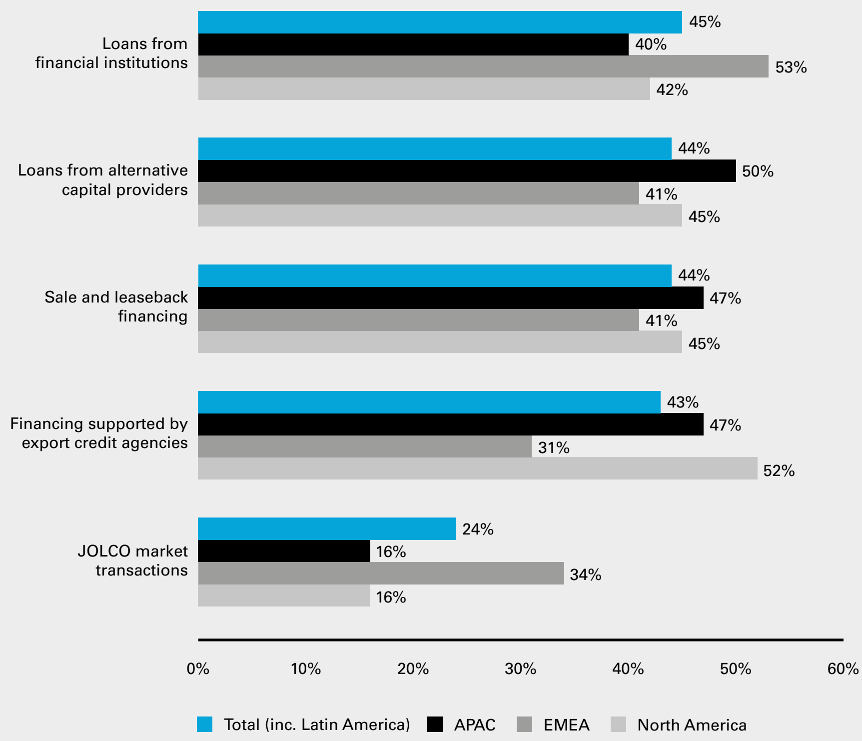
Diverse funding sources have so far played a big part in helping the aviation sector to weather the COVID crisis.

But what if access to debt and equity markets were to narrow?

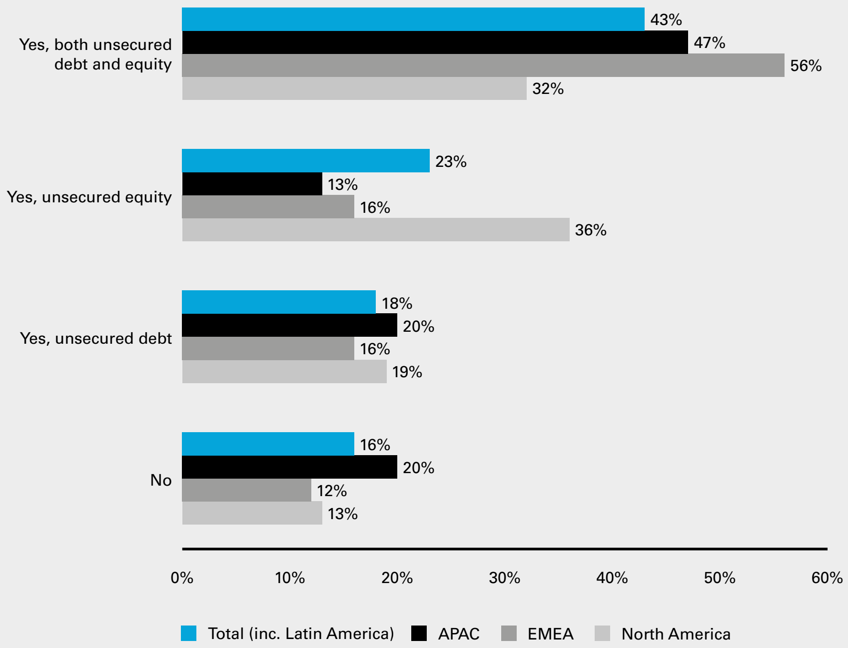
EMEA respondents most commonly say they would be most likely to replace capital market funding with loans from financial institutions (53 percent), followed by sale and leaseback financing, and loans from alternative capital providers. Private equity is increasingly active in this sphere. "Capital into new European markets has proved to be favorable, and we want to source new opportunities in 2022," says a partner in an EMEA-based private equity firm.

Half of APAC respondents also expect they would look to loans from alternative capital providers, but they also see financing supported by ECAs as a likely avenue (47 percent). The latter of these options is the most popular route selected by a majority of North American respondents (52 percent). Meanwhile, EMEA respondents are more likely than either APAC or North America–based respondents to look to JOLCO (Japanese operating leases with call option) transactions, which give lessees the option to buy the aircraft either during the lease or at its end.

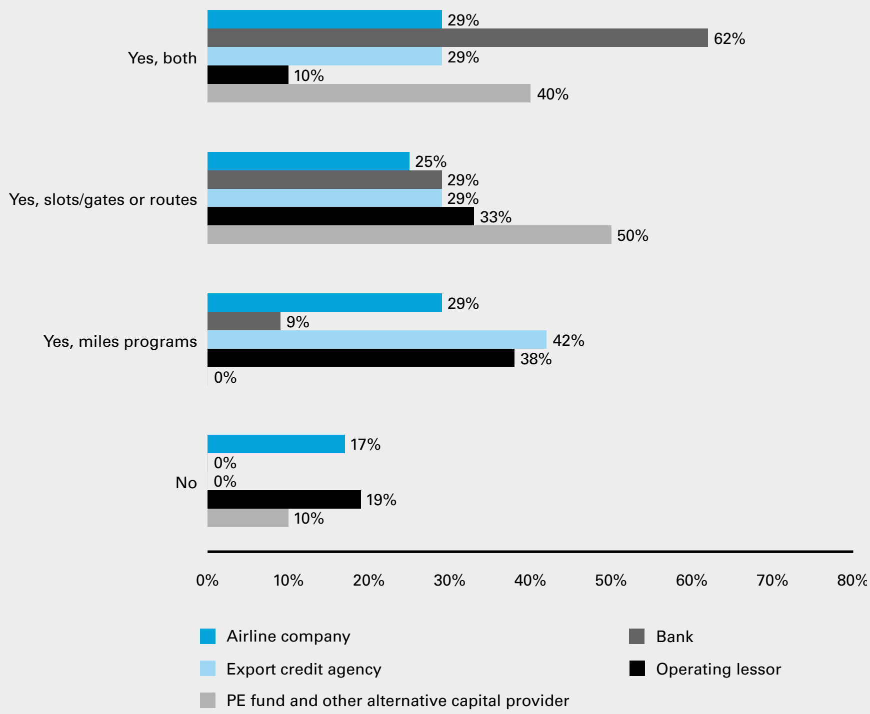
If access to the US capital markets were to narrow, which of the following sources would your company most likely replace it with? (Select up to two)



Do you have plans to seek unsecured sources of funding during the next 12 to 18 months?



Do you expect to seek or provide financing that is secured by miles programs or slots/gates or routes in the next 12 to 18 months?



> **Diverse funding sources have played a big part so far in helping the aviation sector to weather the COVID crisis.**

Unsecured funding is another avenue that most respondents are exploring. Globally, 84 percent of respondents plan to seek unsecured funding over the next 12 to 18 months. Delving into the data, EMEA respondents are the most likely to tap into unsecured funding, with 88 percent of respondents looking to seek unsecured sources of funding, including 56 percent looking to make use of both unsecured debt and unsecured equity.

The aviation sector is also increasingly using new types of collateral to unlock funding. A majority of respondents say they will seek or provide financing secured by miles programs or slots/gates and routes in the coming 12 to 18 months. Banks and export credit agencies were most likely to do so, with 100 percent of those surveyed from both categories responding that they were planning to seek or provide financing using either or both options. Financing secured by slots/gates or routes was especially popular with private equity funds and other alternative capital providers—50 percent planned to engage in this type of financing in the next 12 to 18 months, with an additional 40 percent planning to engage in financing secured by both miles programs and slots/gates or routes.

Liquidity and refinancing

Capital and liquidity remain a primary preoccupation for the aviation sector

Looking at the current picture, 60 percent of respondents globally say that the aviation finance sector does not have enough capital and liquidity. Meanwhile, 32 percent believe that the sector has just the right amount of capital and liquidity. Only 8 percent believe there is too much capital.

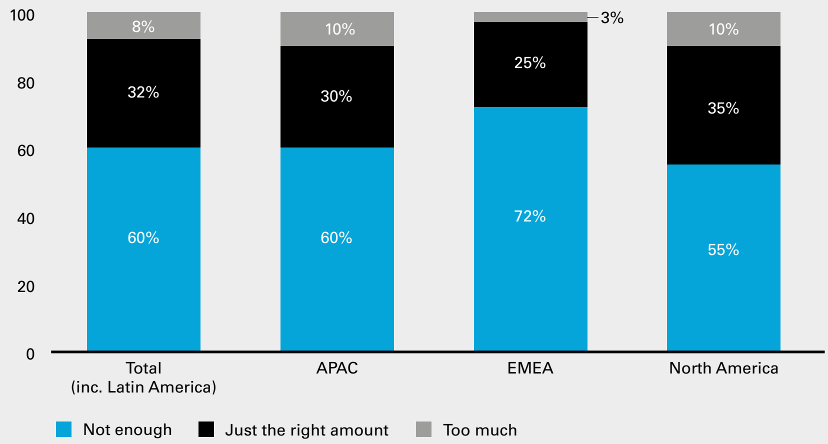
Focusing on regions, EMEA-based respondents are most likely to believe that there is not enough capital and liquidity (72 percent), followed by those in APAC (60 percent). North America–based respondents are the least likely to say there is not enough capital and liquidity (55 percent)—they are also the most likely group to report that there is just the right amount (35 percent).

Few respondents report that there is too much capital and liquidity. Historically, excess liquidity has created problems for the aviation sector, as it did toward the end of the cycle immediately pre-pandemic—a period that saw a flood of new Chinese leasing capital chasing a finite number of assets, pushing up the price of aircraft.

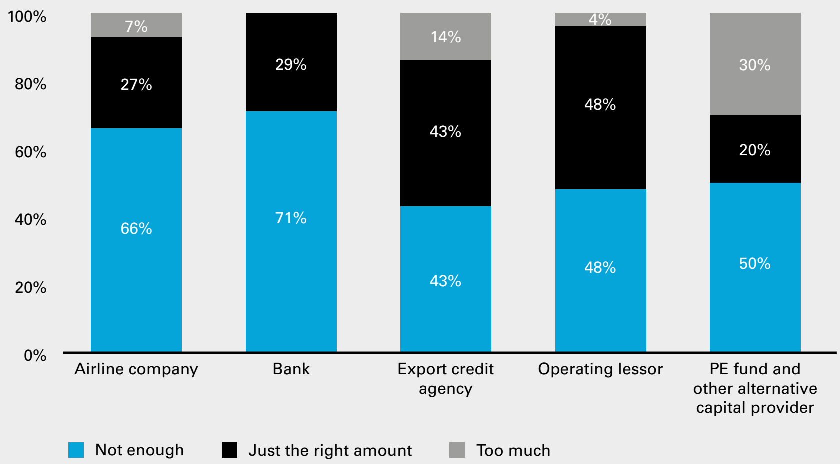
Private equity funds and other alternative capital providers are the respondent group most likely to say that there is too much capital and liquidity (with 30 percent saying this, compared to 7 percent of airline companies and no banks surveyed in agreement with this). With more than US$1 trillion of dry powder looking for deals, this point of view may not be surprising.

Looking ahead, majorities of respondents across all regions think that capital and liquidity in the aviation sector will rise in 2022,

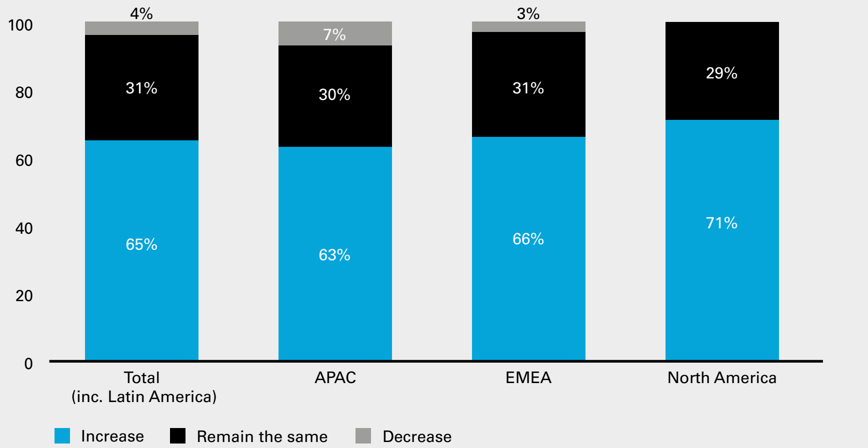
Do you believe the aviation finance sector currently has too much, not enough or just the right amount of capital and liquidity?



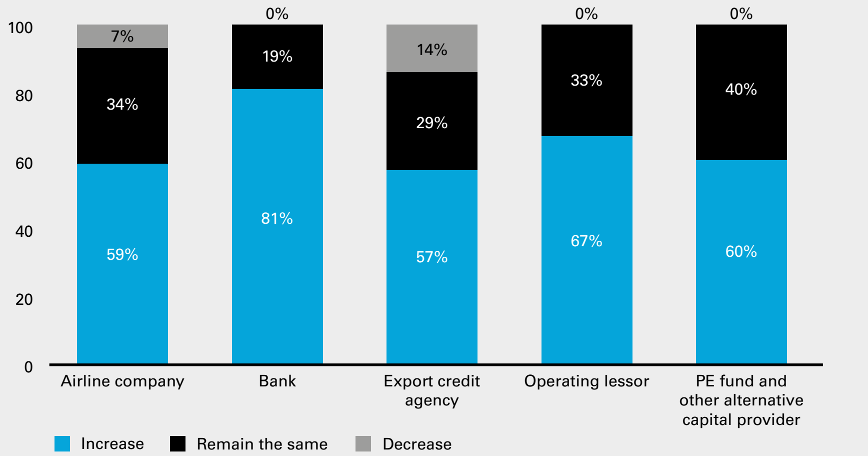
Do you believe the aviation finance sector currently has too much, not enough or just the right amount of capital and liquidity?



In 2022, do you expect capital liquidity in the aviation finance sector to increase, decrease or remain the same?



In 2022, do you expect capital liquidity in the aviation finance sector to increase, decrease or remain the same?



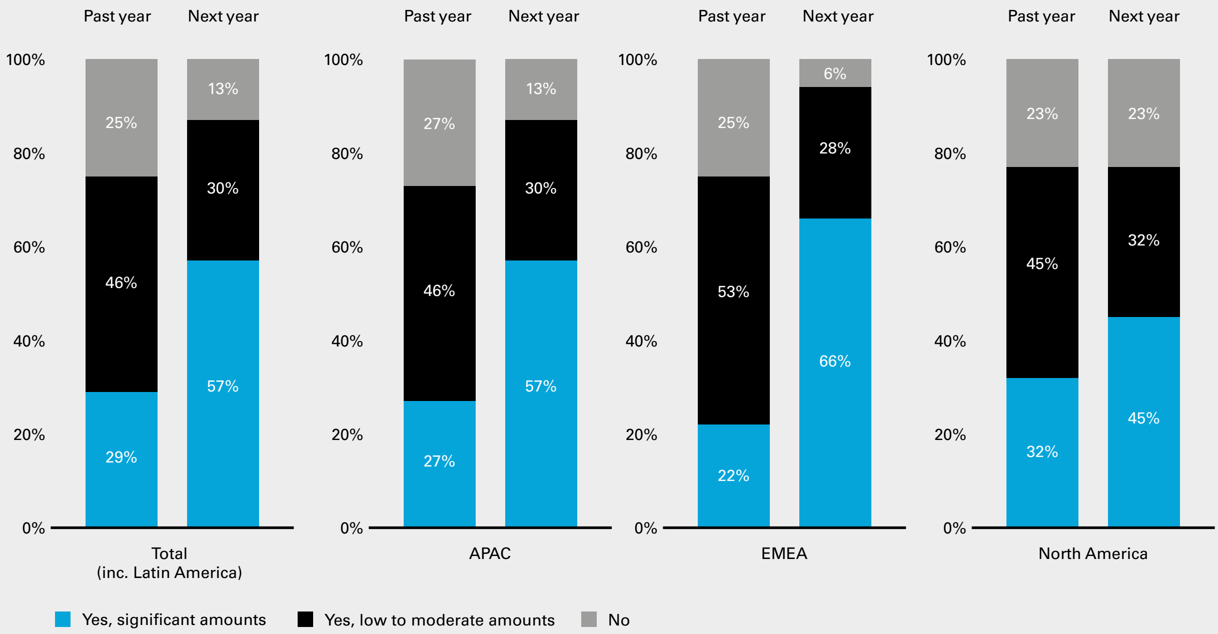
suggesting that the level of financing is set to improve. Globally, nearly two-thirds (65 percent) expect capital liquidity to increase, while only 4 percent think it will fall. North America–based respondents are more likely to predict an increase (71 percent), with those in APAC less likely (63 percent). Looking at respondent types, banks are the group most likely to point to increased capital liquidity in 2022, while export credit agencies are the least likely.

Turning to the question of refinancing, our survey suggests that on the whole, respondents were slower to take advantage of the record-low interest rates of the past year than might have been expected. Overall, only 29 percent say that they refinanced a significant amount of debt. This apparent lack of urgency may not be surprising, given the prevailing low rates and the reluctance of governments (so far) to tighten monetary policy.

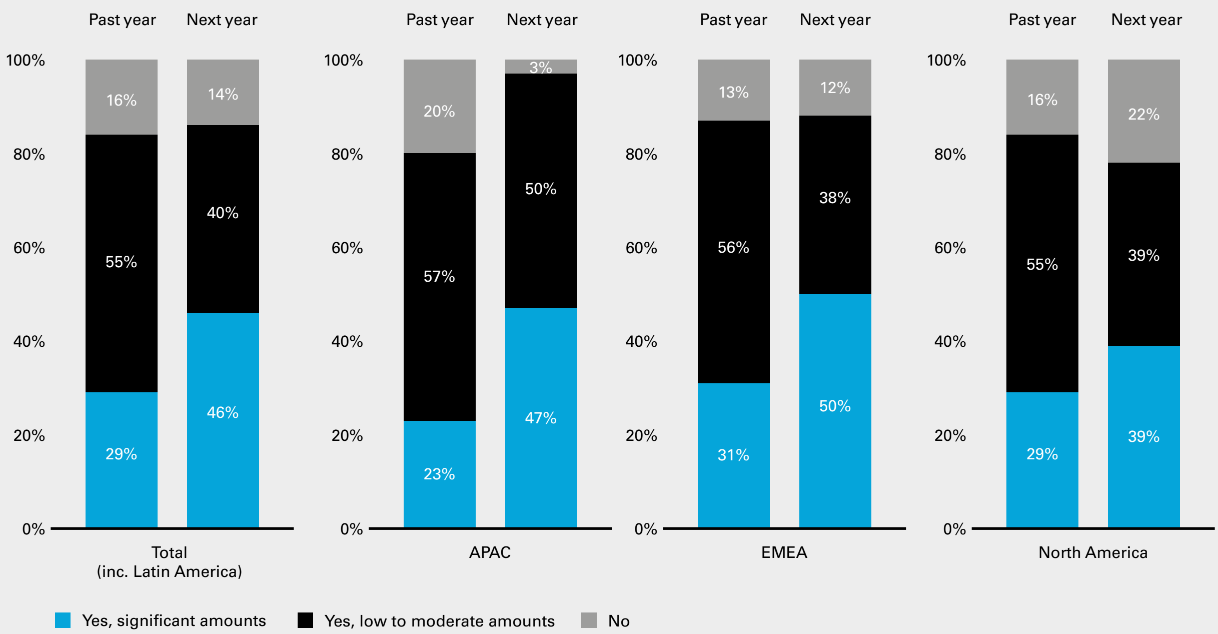
Looking ahead, our survey indicates refinancing is likely to gain momentum in 2022, with 57 percent of all respondents expecting to refinance significant amounts of their existing debt and only 13 percent saying they have no plans to do so. EMEA respondents are the most interested in this course of action (66 percent expect to refinance in the year ahead), and those in North America are the least interested (45 percent).

The rising appetite for refinancing is likely linked to a number of factors. These include the need to refinance

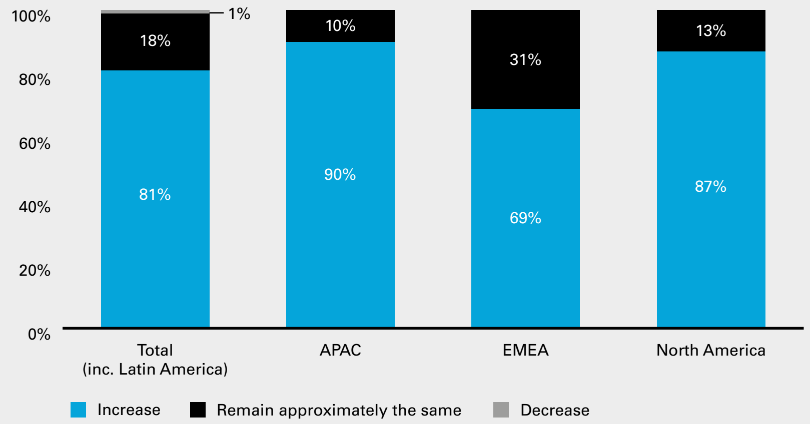
In the past year, did you refinance any of your existing debt to take advantage of currently low interest rates? And over the next year, do you plan to refinance any of your existing debt to take advantage of currently low interest rates?



In the past year, did you open new lines of credit or other debt facilities in order to take advantage of currently low interest rates? And over the next year, do you plan to open new lines of credit or other debt facilities in order to take advantage of currently low interest rates?



Do you expect airline restructurings and insolvencies to increase, decrease or remain approximately the same in 2022?



term debt as it falls due and the opportunity for refinancing driven by higher levels of M&A—a point underlined by the fact that a large majority of respondents expect to see significant airline and leasing company consolidation in 2022. Overshadowing all of this is the fact that interest rate hikes are on the horizon—although even with an increase, they could still remain near historic lows.

Aside from sharpening the appetite for refinancing, low interest rates also look likely to stimulate demand for new lines of credit and other debt facilities in the year ahead. While 29 percent of respondents globally say they took on "significant amounts" of new debt in the past year, 46 percent are looking to do so over the next 12 months. EMEA respondents are most likely to open new lines of credit or take advantage of debt facilities (50 percent), while those based in North America are the least likely (39 percent).

Aviation sector players are clearly confident about their continuing ability to refinance their debt and tap into new sources of funding. At the same time, there is also widespread recognition that the shakeout in aviation is still far from over. Many airlines have already been through painful restructurings, with notable chapter 11 filings in the US by Aeroméxico, Avianca and LATAM—the three most important carriers in hard-hit Latin America.

So what might 2022 have in store?

Our survey shows that a majority of respondents expect restructurings and insolvencies to increase in 2022. This opinion is prevalent in APAC, with 90 percent of respondents expecting such an increase. In large part, this reflects the fact that airlines in Asia-Pacific (along with those in Latin America) generally have not benefited from the same level of government support as airlines in Europe and North America. "The COVID-19 pandemic has affected our repayments, and the debt has mounted ever since," says the head of finance at an APAC-based airline. "We are in the process of restructuring, and this will mitigate the risk of any further loss due to the pandemic."

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Our survey shows that a majority of respondents expect restructurings and insolvencies to increase in 2022.

Change is in the air

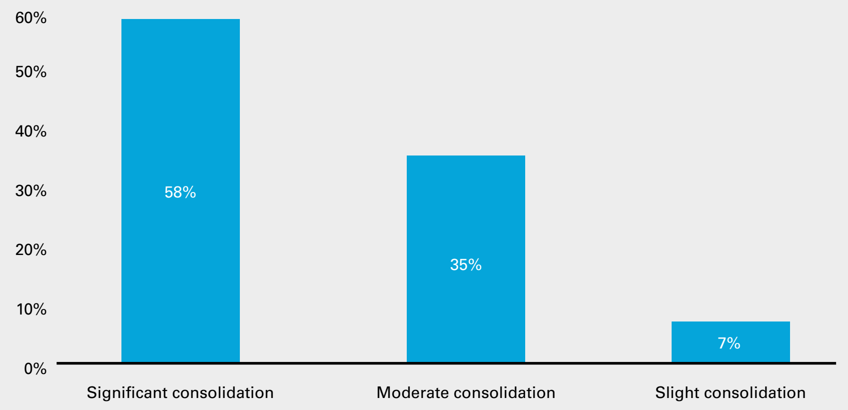
Respondents see COVID-related disruptions, economic contraction and geopolitical instability as the top challenges for the aviation sector in the coming year. But growth is expected, notably in Asia-Pacific and Australasia

The coming 12 months look to be challenging for the aviation sector once again. Most respondents expect to see further airline and leasing company consolidation. Indeed, 58 percent point to "significant" M&A-driven tie-ups during 2022, with a further 35 percent expecting "moderate" consolidation.

Focusing on the global regions that respondents think are likely to see the fastest aviation sector growth in 2022, Asia-Pacific (excluding Australasia) stands out and is highlighted by a large majority (85 percent) of respondents. The region's fundamentals are sound: Asia-Pacific's burgeoning middle class and strong regional travel market are key factors, as is China's growing influence in the region. "China wants to become the most influential economy in the region, and its Belt and Road Initiative will help the aviation sector in Asia," says a partner at a South Korea–based private equity firm. Meanwhile, the United States' new focus on the Indo-Pacific region under the Biden administration could provide further stimulus.

Ranking the other regions selected by respondents, Australasia and Africa take joint second place, each selected by 33 percent, followed by North America (26 percent). The Middle East, Europe and South America are the regions least likely to see the fastest aviation sector growth in the opinion of respondents, cited by 16 percent, 7 percent and 0 percent, respectively.

How do you expect the rate of M&A-driven airline and leasing company consolidation to change during 2022?



58 percent expect significant M&A-driven airline and leasing company consolidation, and 35 percent expect moderate consolidation, in 2022.

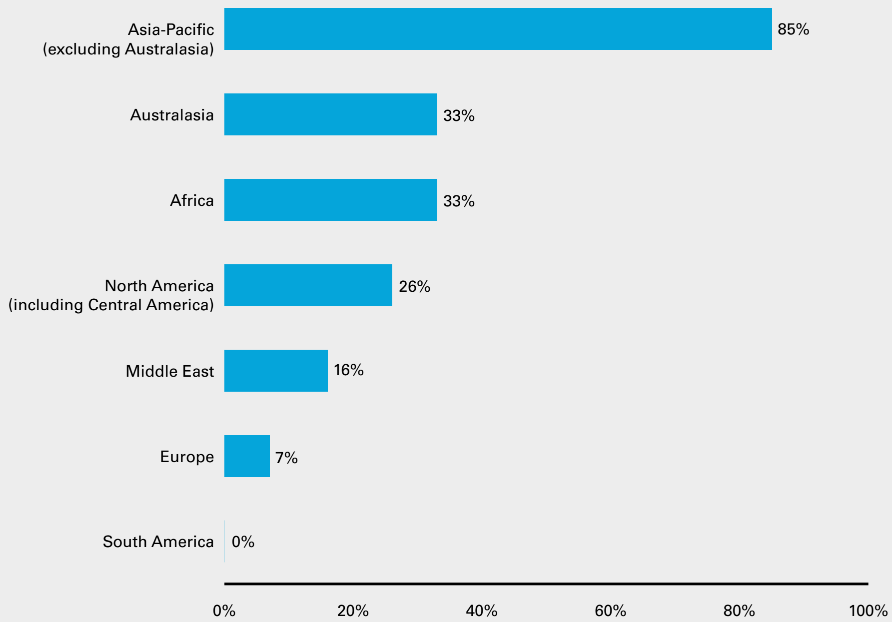
Turning to the question of which regions are most in danger of slowing growth or recession in the year ahead, 64 percent of respondents point to Europe. This may not be surprising. While IMF data suggests the Euro area may see approximately 4.3 percent GDP growth in 2022, this is still some way behind emerging and developing Asia-Pacific (6.3 percent) and the United States (5.2 percent).[1] Meanwhile, more than half of all respondents (55 percent) predict slowing growth in South America, where forecast GDP growth is 3 percent for the region in 2022 and just 1.5 percent for its struggling powerhouse economy, Brazil.

Delivery delays and suspended operations of certain types of aircraft continue to be a headache for many airline companies and lessors. Nearly three-quarters of respondents in these groups (74 percent) report negative impacts lasting weeks or months. COVID-related manufacturing bottlenecks are one of the principal reasons. The grounding of Boeing's 737 Max was another factor—although the suspension was finally lifted in 2021.

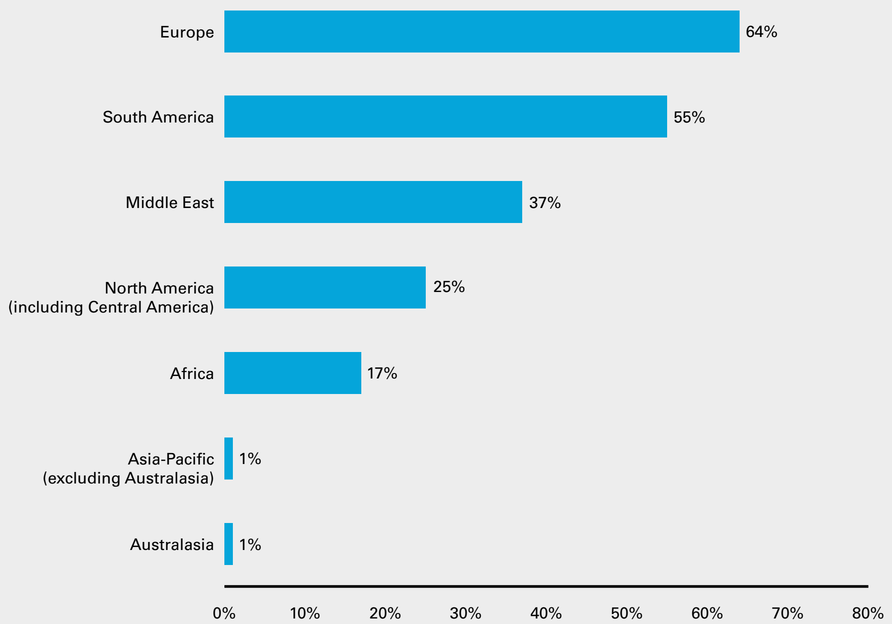
For airlines and lessors facing lackluster passenger demand, manufacturing hold-ups could act as a blessing in disguise—particularly for those with wide-body aircraft on order. Passenger traffic on the long-haul routes that depend on this type of aircraft has been the hardest hit by COVID. Demand for narrow-body aircraft for domestic and regional operations has been less affected. Globally, 71 percent of airlines and lessors have pushed back some or all of their deliveries, with 15 percent saying they had to defer all of them. APAC-based airlines and lessors are the most likely to defer (80 percent) and those in North America the least (61 percent).

Looking ahead, pandemic-related restrictions are predicted to be one of the greatest threats to profitability by 63 percent of airlines and 71 percent of ECAs over the next 12 to 18 months. "Travel restrictions are a huge hindrance for the business," says the head of finance at a Malaysia-based airline. "Passenger numbers have dropped drastically, and this is the main point of concern."

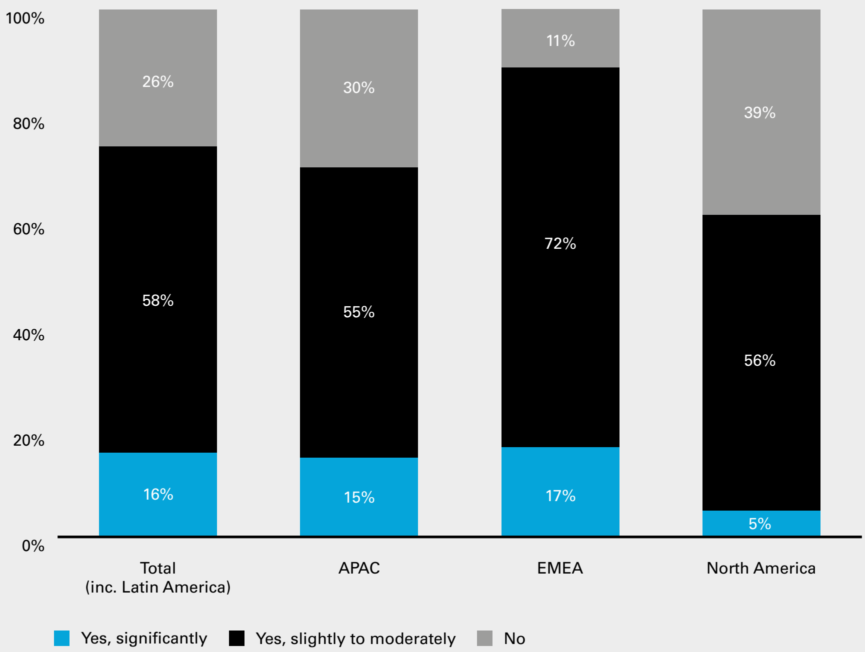
Which of the following regions do you think are likely to see the fastest growth and expansion in the aviation sector in 2022? (Select up to two)



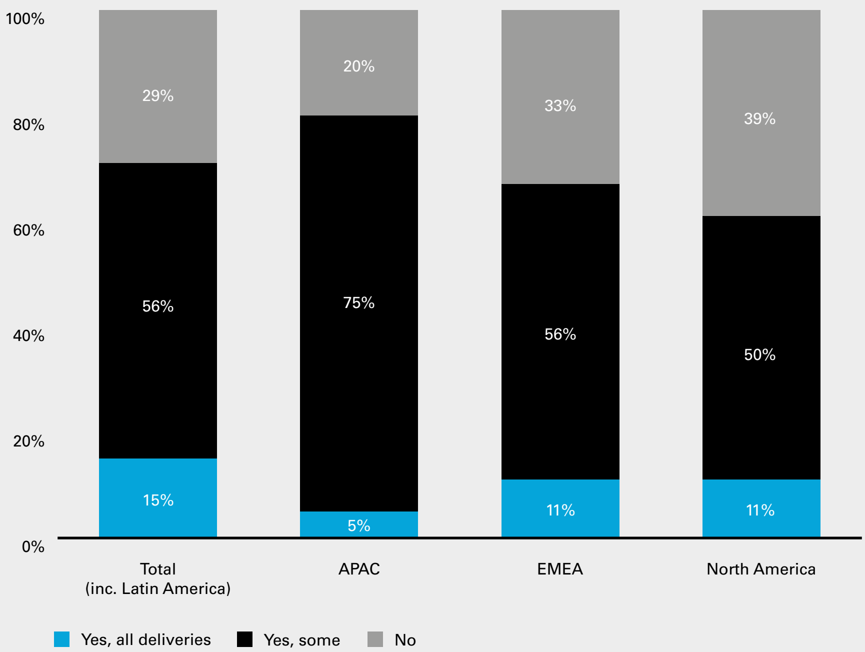
Which of the following regions do you believe are most in danger of slowing growth or recession in 2022? (Select up to two)



Has your organization suffered any recent short-term (weeks or months-long) negative impact due to delivery delays or suspended operations of certain aircraft? (Airline companies and operating lessors only)

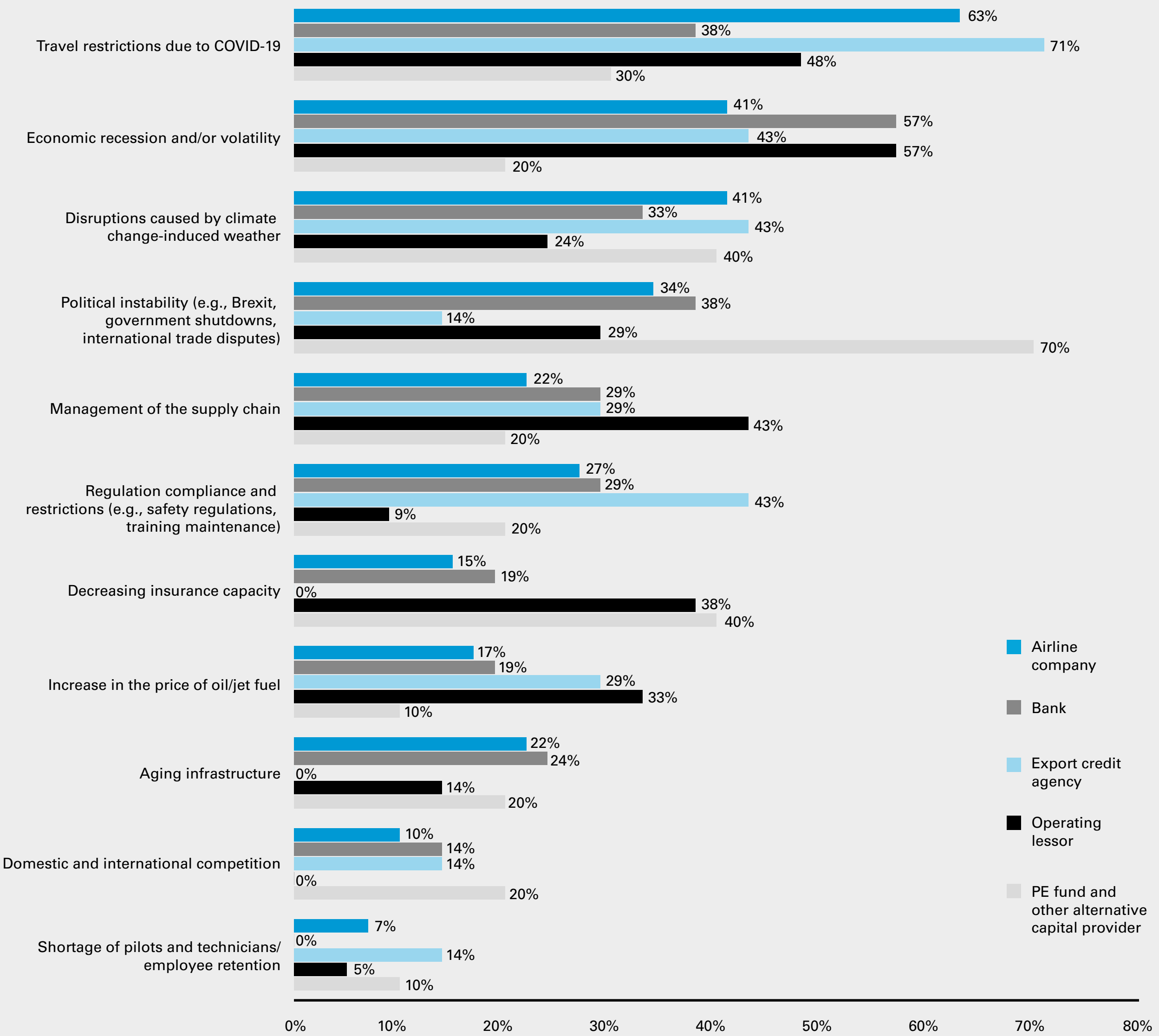


Have you deferred any of your deliveries? (Airline companies and operating lessors only)



85 percent of respondents expect Asia-Pacific to see the fastest growth and expansion in the aviation sector in 2022.

What do you consider to be the greatest threats to the profitability of your business over the next 12 to 18 months? (Select top three)



Worries about the economy are also high on the agenda. These are the greatest concern by lessors and banks (both 57 percent), as they contemplate the threats of rising inflation and economic contraction. Against this background, some fear that new trade barriers may not be far away. "We can see the protectionist attitude of governments increasing," says the CFO of an EMEA-based lessor.

Political instability is widely cited. A managing director at a US-based private equity firm says: "Political instability is something that we cannot predict. Flights might have to be stopped to certain regions if the problem worsens." Meanwhile, European airlines are keeping a watchful eye on simmering tensions on Europe's eastern fringe: "Some issues are cropping up and creating war-like situations," warns the CFO of a Baltics-based airline. "In these conditions, investment decisions become tough."

71%

of airline companies and operating lessors have deferred some or all of their deliveries

The dramatic contraction of passenger numbers since the onset of COVID has raised questions about the number of aircraft currently in the market. Overall, only a minority (29 percent) of respondents think the number of aircraft currently in the market is too high.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How aircraft lessors are weathering the storm

Flexibility in the ascendant aircraft leasing sector

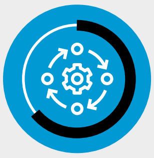
Aircraft leasing companies are the backbone of modern commercial aviation. Lessors now account for an estimated 60 percent of new passenger jet deliveries, up from approximately 45 percent on the eve of the pandemic and just 10 percent in the mid-1980s.

Thanks in part to their ability to access cheaper financing than airlines, the ascendency of aircraft leasing companies has accelerated during COVID. Nonetheless, the sector has experienced consolidations during the pandemic, including the US$31.1 billion acquisition by Ireland-based AerCap of General Electric's aircraft leasing arm, GECAS.

Lessors have demonstrated flexibility throughout the pandemic: 86 percent agreed deferred aircraft lease rentals with their airline customers during the COVID-19 crisis, with a little over half of respondents expecting these deferrals of lease rentals or power by the hour (PBH) to be a short-term measure.

Repossession is a last resort. Reduced demand during the pandemic (particularly for wide-body aircraft) has encouraged lessors to work with troubled airlines rather than taking aircraft back. A third of lessors in our survey say they repossessed less than 5 percent (or none) of their fleet during the COVID-19 pandemic. But 29 percent say they had to take back more than a tenth of their fleet.

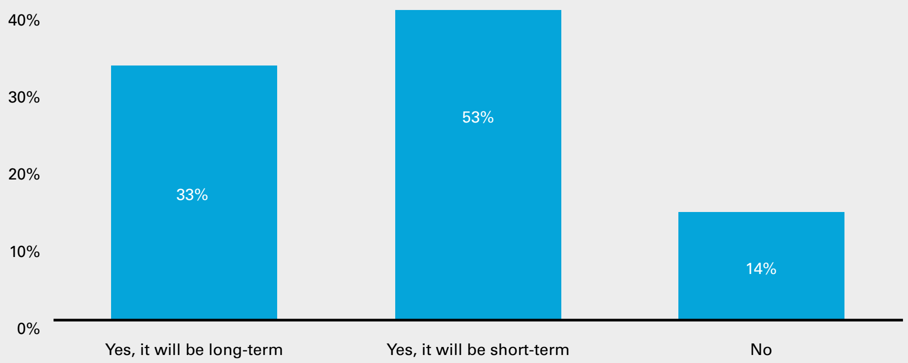
Despite suppressed demand during the pandemic, lessors have been able to re-market aircraft. This requires patience and deep pockets: For most lessors in this study (57 percent), it took three to six months to re-market aircraft, while nearly a quarter (24 percent) say it took six to 12 months. Only one in five found a new taker within three months of return or repossession.



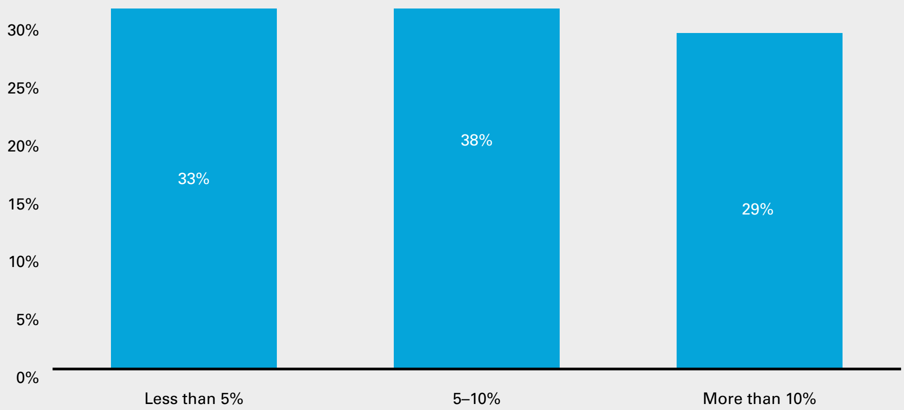
86%

of leasing companies agreed deferred aircraft lease rentals with customers during the COVID-19 crisis

Have you agreed deferred aircraft lease rentals with your airline customers during the COVID-19 crisis, and do you expect deferral of lease rentals or power by the hour to be a short-term or a long-term feature? (Operating lessors only)

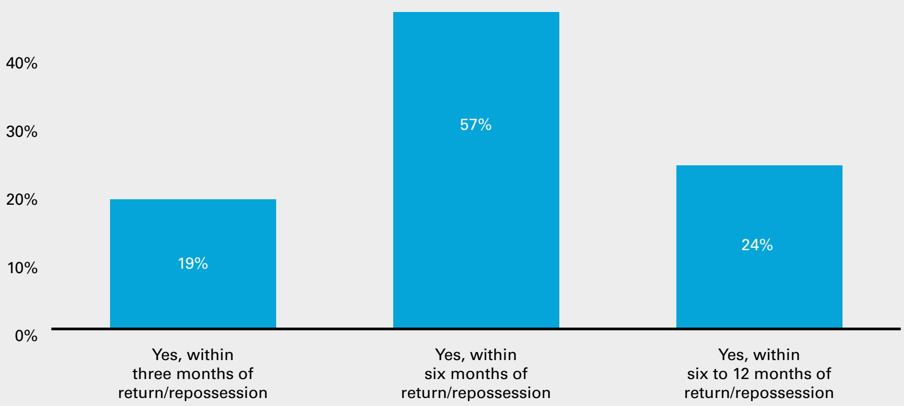


What percentage of your fleet did you have to repossess during the COVID-19 pandemic? (Operating lessors only)



67 percent of lessors have repossessed 5 percent or more of their fleets during the COVID-19 pandemic.

Have you been able to re-market aircraft? (Operating lessors only)



Aircraft numbers cannot easily be flexed. In addition, the considerable longevity of airplanes—25.1 years for passenger planes and 32.5 years for freighters—means that it is necessary to take a long view. "We cannot adjust or reduce the number of aircraft when there are temporary disruptions—especially when we do not know how long these disruptions will last," says the head of finance at a UAE-based carrier.

In terms of future financing, airline companies and operating lessors are divided on whether they see themselves accessing the JOL/ JOLCO market in 2022. A large minority of respondents in these two groups (45 percent) anticipate doing this, but the remaining 55 percent say they either do not anticipate doing this or are unsure on the matter.

Navigating the immediate challenges is the focus for much of the sector. At the same time, there is a growing consensus that the industry needs to change—particularly when it comes to environmental performance and satisfying ESG criteria. At the same time, a growing proportion of institutional funding—including export credit agency sponsorship—now comes with green strings attached.

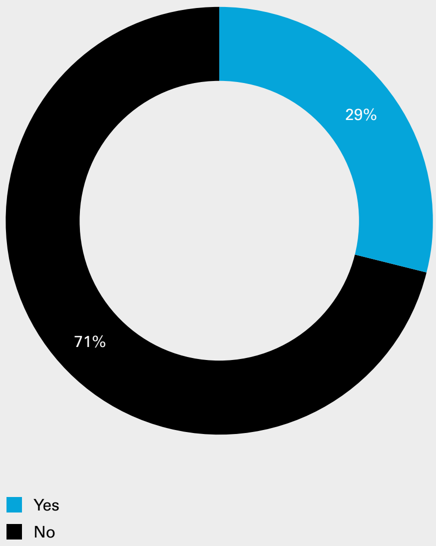
Aviation is the toughest mode of transport to decarbonize.

Nonetheless, a migration path is evolving. Measures include a shift to sustainable aviation fuel (SAF), smart air traffic control, improvements in aircraft efficiency, and the use of fixed electrical ground power (FEGP) to cut airport emissions. There is also growing interest in greener propulsion systems, including the use of hydrogen and electricity, although practical solutions for large-scale aviation are some distance away.

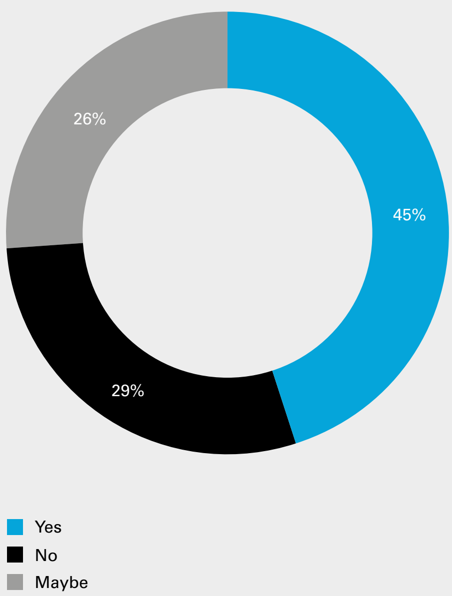
Our survey shows that seven in ten respondents view green bonds and the financing of new equipment as ways to align themselves with the growing trends in sustainability and aviation's energy transition.

Green bonds are already being used to finance everything from fleet renewals to SAF research and sustainable airport buildings. The attractions are clear. "Green bonds

Do you think the number of aircraft in the market is too high?

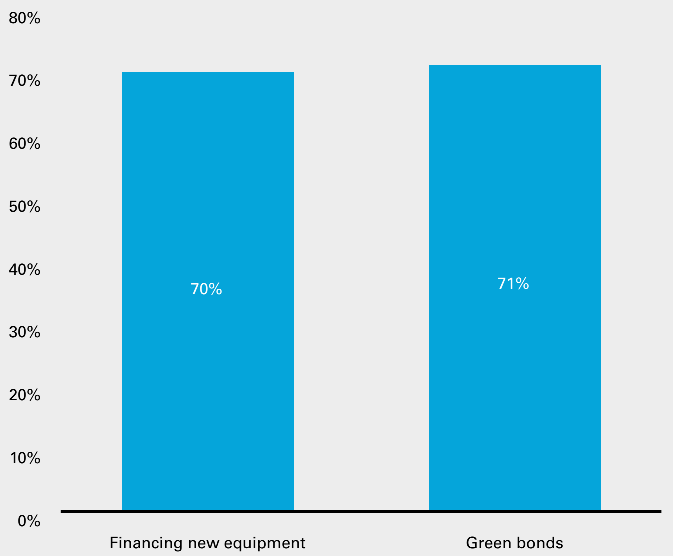


Do you anticipate accessing the JOL/JOLCO market in 2022? (Airline companies and operating lessors only)



> **71 percent are using green bonds, and 70 percent are financing new equipment, as ways to align themselves with growing trends in energy transition and sustainability.**

How does your organization seek to align with the growing trends in energy transition and sustainability?



are the best way to attract new investors," says the managing director of a North America–based ECA. "There are domestic and foreign investors who regard green investments seriously, and they are not investing in companies that cause heavy damage to the environment."

Financing new equipment (whether via bonds or otherwise) is also a key plank in most respondents' ESG platforms. "Our main objective has been to finance new equipment and projects that are aligned to green initiatives and sustainability," explains the head of finance at a Canada-based bank that invests up to US$1 billion per year in the aviation sector. "This has a positive impact on our image as well."

1 IMF, World Economic Output Growth Projections: https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021

Conclusion

Key takeaways from our survey and what they could mean for the aviation industry

The past two years have seen huge disruption in the aviation industry. But as this survey shows, the strength and diversity of the sector's financing ecosystem has played a decisive role in responding to the COVID-19 crisis.

Looking ahead, respondents are optimistic about the outlook for the APAC and North American markets, although they are more circumspect about the prospects for EMEA and Latin America. In any event, the speed and scale of recovery in all markets is likely to be shaped by policy responses to the pandemic.

- APAC is expected to perform well in 2022, thanks to strong GDP growth forecasts of 6.3 percent and increasing demand for regional travel. 85 percent of respondents in this survey expect aviation to grow fastest in this region in the year ahead

- North America is also expected to see strong growth in 2022, with nearly a quarter of respondents forecasting rapid recovery as domestic demand springs back to life

- EMEA's recovery could be hampered by lackluster GDP growth, as well as by overcapacity in some European markets. Only 7 percent of aviation executives in this survey think Europe will be the fastest-growing aviation market in 2022

- Latin America is expected to struggle in the year ahead, with the region's carriers continuing to grapple with restructuring costs against a background of sluggish GDP growth

- Potentially higher jet fuel costs add a further layer of uncertainty, underscoring the need for robust hedging strategies. The price of aviation fuel ended 2021 at 217 cents/gallon—up 60 percent from the beginning of the year

- Most respondents are optimistic about the financing environment in the year ahead, but risks remain—notably tightening monetary policy as central banks hike base rates in response to growing inflationary pressures

- Tighter supply chains, labor shortages and rising energy prices will continue to fuel global inflation in 2022. A key challenge for airlines will be the extent to which they can pass on their own increased costs to passengers and freight customers in terms of higher fares and air freight rates

WHITE & CASE

Justin Benson
Global Asset Finance Practice Leader, Partner, London
T +44 20 7532 2306
E jbenson@whitecase.com

Anna Andreeva
Partner, Miami
T +1 305 995 5265
E aandreeva@whitecase.com

Adrian Beasley
Partner, London
T +44 20 7532 2312
E abeasley@whitecase.com

Simon Collins
Partner, Hong Kong SAR
T +852 2822 8752
E scollins@whitecase.com

Christian Hansen
Partner, Miami
T +1 305 995 5272
E chansen@whitecase.com

Ji Hoon Hong
Partner, Seoul
T +82 2 6138 8816
E ji.hong@whitecase.com

Keisuke Imon
Partner, Tokyo
T +81 3 6384 3230
E keisuke.imon@whitecase.com

Michael Smith
Partner, New York
T +1 212 819 8968
E msmith@whitecase.com

Todd K. Wolynski
Partner, New York
T +1 212 819 8266
E todd.wolynski@whitecase.com