



Ares, GIP Muscle into Aviation Market with New Deals

By Tom Stabile January 13, 2021

Ares Management, Global Infrastructure Partners, and **Tikehau Capital** have kickstarted 2021 with new aviation market moves, each targeting different segments but together signaling that private capital sees opportunity in the expected rebound of a sector hit hard by the coronavirus pandemic's economic shock.

Most investors are looking forward to an economic rebound at some point this year, and will especially focus on investment sectors such as aviation that absorbed heavy damage, says **Michael Rosen**, principal and CIO at Angeles Investment Advisors, an investment consultant.

"There could be a major pickup in economic activity, concentrated in areas that have been severely beaten down, and travel and tourism is one of them," he says. "The key will be to execute on these strategies."

Ares is jumping in with **Vmo Aircraft Leasing**, a new portfolio company that aims to grow by supplying capital to borrowers in today's badly distressed aviation market. Ares announced yesterday that it has pumped in \$500 million through its flagship private equity strategies to back an experienced team that will seek lease deals for new or recently built aircraft.

GIP this week announced its offer of \$4.6 billion to acquire **Signature Aviation**, a London-based private jet operator, appearing to outflank earlier bids by Blackstone Group and Carlyle Group. And Tikehau's **Ace Capital Partners** subsidiary last week secured a 100 million euro investment for its most recent aeronautical investment fund from **Crédit Agricole Group**.

Ares tends to seek private equity deals where it can back experienced management teams in industries facing dislocation, transformational change, or distress, and this deal is squarely in that vein, says **Scott Graves**, co-head of private equity and head of special opportunities strategies at the \$179 billion fund manager.

"Aviation is an industry at the most acute level of dislocation and transformational change," he says.

International Air Transport Association (IATA) data shows that global airline passenger traffic, measured by revenue per passenger and distance traveled, was down 66% for 2020 through November compared to 2019. IATA estimates global airlines lost \$118 billion in operating revenue last year and are set to lose more in 2021.

Aviation had been a growing market in recent years for private fund capital, particularly in the aircraft leasing and finance area, with players such as Carlyle, Apollo Global Management, and Bain Capital bulking up their presence through fund investments or acquisitions of specialist managers.

GIP, a \$71 billion manager focused on infrastructure and real assets deals, appears to be building on its experience owning airport assets in its offer to acquire Signature, an outfit backed in part by capital from **Cascade Investment**, **Bill Gates's** family office.

And Crédit Agricole's move is the latest among several large institutions and the French government in backing the Tikehau-affiliated private aviation fund, which has a goal to help domestic players – including major aircraft manufacturer **Airbus** – recover from the pandemic.

Experienced managers in the market also have been active, including **Castlelake**, which last month announced a partnership to provide up to \$5 billion worth of financing to customers of Seattle-based Boeing, an aircraft manufacturer. That two-year partnership, with renewal options, will involve senior secured debt, mezzanine finance, and loan-to-value finance leases to airlines seeking to add to their aircraft fleets, according to Castlelake.

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The Ares deal differs slightly from the more typical private credit investment angle in aviation – in which funds directly acquire planes and lease them to airlines – by participating through private equity ownership of Vmo. Ares is backing several aviation market veterans, including **Bob Brown**, **Sean Sullivan**, and **Will Hudson**, as leaders of Vmo, which will focus on acquiring and leasing commercial aircraft globally.

Despite the difficult economy, the timing of Vmo's launch may provide an edge, Graves says.

"We will be one of the only companies in the market without being plagued by assets that have undergone this tremendous downturn due to the recession and pandemic," he says.

Brown, who is CEO of the new Vmo outfit, says prior crises impacting the aircraft leasing industry, such as the Gulf War, Sept. 11 attacks, and 2008 global financial crisis have shown such markets are the best to build a portfolio.

"Many established players are working out issues that the crisis gave them," Brown says. "We have the opportunity to be of service to airlines where their balance sheets are very stressed."

It's also a market with a long road ahead, Brown says. "Our view is that there has been so much damage done, that the industry will be years in recovering," he says.

Vmo's model will entail typically financing 100% of the cost of acquiring a new aircraft, Brown says. It is aiming at three main sourcing options – sale leaseback deals directly with airlines that own and want to monetize their fleets; purchasing existing leases from other leasing firms; and buying aircraft in production by the major manufacturers but not yet sold.

Vmo will primarily target Boeing and Airbus aircraft that are new or less than five years old, largely focusing on “narrow” 737-style planes used for short and medium haul trips, he says.

Winners in the aviation finance marketplace will be the strategies that have intimate knowledge about the nature of leases for existing aircraft and can make accurate judgments on the value of available aircraft on the market, Rosen says. Having deep relationships with the manufacturers and airlines is also a critical element, as is the ability to do business in Asia, where much of the global demand will come from for new airplanes, he says.

“It’s a good business if you know what you’re doing,” he says. “And it’s a business with a lot of leverage, so that magnifies the potential wins or losses.”

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