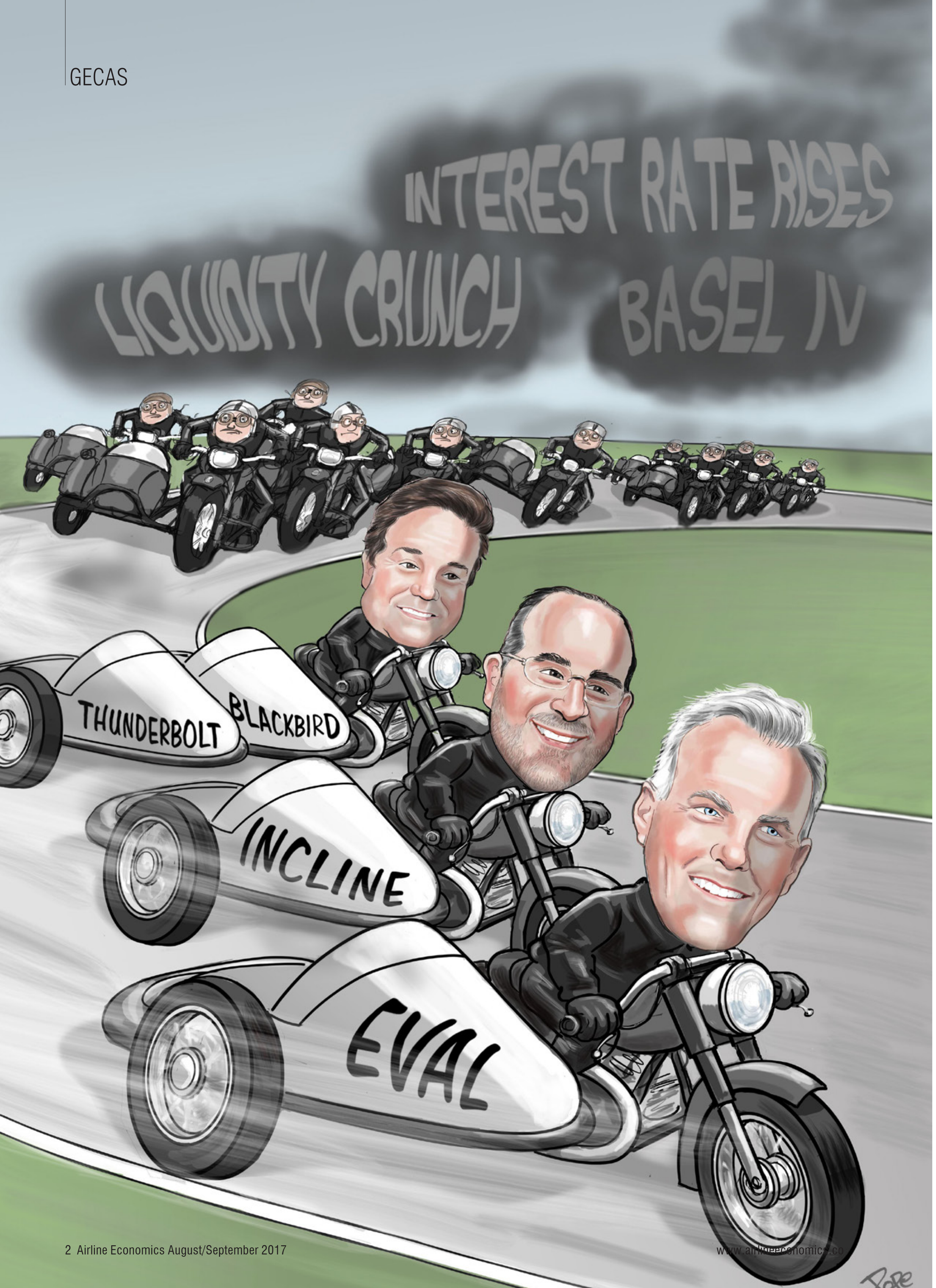






# GECAS at 50

The oldest aircraft leasing company – GE Capital Aircraft Services (GECAS) turned 50 in September. After a brief celebration, the company is firmly focused on the future with the anticipated launch of its new investment platform – Einn Volant Aircraft Leasing (EVAL) – with Caisse de dépôt et placement du Québec (CDPQ). Victoria Tozer-Pennington speaks to GECAS president and chief executive Alec Burger.

General Electric already has a firm place in aviation history in the development of the modern jet engine with the Bell X P-59A that used two versions of Sir Frank Whittle's turbojet engine, but it also closed the first aircraft lease transaction in September 1967 for three DC9-30s to Allegheny Airlines. GECC Leasing Corporation – now known as GE Capital Aircraft Services (GECAS) has come a long way in 50 years and has been at the forefront of the development of the leasing industry, participating in many significant milestones along the journey: the purchase of Polaris Aircraft Leasing in 1986 and Guinness Peat Aviation (GPA) in 1993, as well as kicking off engine leasing in 1999.

"It really is an amazing achievement," says Alec Burger, chief executive of GECAS. "I've been with General Electric for 27 years but with GECAS for just two years. It is almost humbling to see how this business has evolved and grown over that period."

The company held some internal regional celebrations in September but although a brief period of reflection is more than justified after 50 years in the business, there is an internal push to ensure the leasing company remains competitive. "It's a great moment to look back but I would also say that we're over it. There is a huge desire and commitment to keep this business at the top of the game," says Burger. "That means investing time to consider current trends and our strategy to continue to compete and win, as well as continue to be able to attract and retain some of the best people in the industry."

Expansion beyond the constraints of its balance sheet is one of the elements in GECAS current growth strategy, which is why it entered into a new agreement with institutional asset manager Caisse de dépôt et placement du Québec (CDPQ) in June of this year to establish a $2bn global aircraft financing platform, named Einn Volant Aircraft Leasing (EVAL).

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| | Owned | Serviced | On Order (sep'17+) | Owned, Serviced & On Order |
|---|---|---|---|---|
| Fixed wing | 1,207 | 83 | 395 | 1,685 |
| Rotary | 250 | | 60 | 310 |
| Total | 1,457 | 83 | 455 | 1,995 |

"Coming into GECAS, it was clear that we have an extremely global business and where there is almost more opportunity to invest than we have on our balance sheet," explains Burger. "We identified an opportunity to work with a like-minded investor, which was attracted to the aircraft finance business. The EVAL platform, when compared to the broader strategy for our business, fits with the consensus that we plan to pursue modest growth in terms of our on-balance sheet acquisitions but we will grow our asset management or off-balance sheet vehicles."

GECAS has a large portfolio of airline customers, having an off-balance sheet vehicle will allow the lessor to expand those relationships that are reaching capacity in terms of single airline exposures.

The platform will focus on sale-leaseback transactions for new technology aircraft with diverse global airlines. GECAS will source the transactions and will co-invest in aircraft ownership opportunities alongside the platform to further align its interests with those of EVAL. GECAS will also act as servicer for the platform.

"Our current portfolio is weighted towards narrowbody aircraft," says Burger, "since as commodity items they are easier assets to redeploy. With that in mind, this vehicle will look somewhat similar to our portfolio but there will be some widebody assets, while it will be capable of a slightly higher percentage of non-GE product assets."

While a large number of GECAS's current global fleet currently is powered by GE engines; Burger says that the sidecar vehicle provide more capacity for non-GE and CFM engines, expands EVAL's flexibility to be more present and competitive on the purchase-leaseback market.

Although the $2bn initial investment target seems high, it will likely reach that target relatively quickly once the delivery streams of new technology aircraft start to ramp up again. However, Burger says that $2bn is a good starting point for this new venture with CDPQ.

"Our view is that number is a material starting point, which is something we will evaluate going forward," he says.

The intention is for the venture to source $500 million worth of new business each year but this is a fluid plan. "One of the things we love about working with CDPQ is the degree of flexibility we have to assess deals as they emerge without any real constraints. I feel very confident that we'll right size the total fund amount when it makes sense to do more."

GE has a long history with CDPQ as


an investor and partner in its commercial real estate business but this is the first time the company has participated in aircraft finance.

"People often describe the difference between real estate and aircraft, is that you can move the latter," says Burger. "Both industries are very global, very transaction-oriented business and include very long-term relationships."

The roadshow process was an enlightening journey for Burger. "When we began to raise money for the new sidecar, I found it was surprisingly easy because GECAS is so well respected in the marketplace. We ended up in the finish line with three really world-class investors that wanted to be with GECAS and that was probably an amazingly high-class problem to have to make a decision to partner with just one investor."

GECAS is not the first leasing company to launch a new sidecar venture of late – BBAM has launched Incline Aviation I, a $881 million investment fund, Air Lease Corporation has initiated Blackbird and Thunderbolt ABS vehicles that enable them to add capacity off balance sheet – although Burger is convinced that EVAL offers a more unique selling point.

"This is not a "me too" strategy," he says, "we have a fairly unique platform and a strong investor to help capitalise on the many opportunities to grow the business. GECAS has a very strong customer base. This strategy makes the most sense for us to offer more value to our customers and extend those relationships."

Burger adds: "This platform is the right time for us strategically and it is important that we get this right. We will still have a very strong core on-balance sheet business, but the execution and performance of our first major side car venture is central to our growth strategy."

Although this is the first sidecar for GECAS in its long 50-year history (and still subject to required regulatory approvals), it will not change the company's focus on stringent underwriting standards and disciplined risk-based approach to new business. "One of the reasons GECAS has survived and thrived for so long is because we have maintained a healthy discipline in terms of how we consider deals. The side car will not change that at all but what it will do is to allow us to do a little bit more for some existing customers, and increase the amount of non-GE products."

GECAS has a large orderbook and the lessor is due to take delivery of between 40 to 50 aircraft every year, which Burger says is a manageable number to place considering is recent successes in placing new orders of the Max and Neo aircraft. Equally, Burger has no reservations at all about the issues the new technology engines are having at the moment – describing the problems with the CFMi Leap engines as "teething pains". The delays with deliveries of the new tech aircraft however is pushing up lease rates for the A320current engine option (CEO) aircraft, with enquiries spiking for those aircraft types.

GECAS has a broad portfolio – from turboprops and helicopters, to narrowbody and widebody aircraft, which Burger says enables the lessor to provide solutions for its customers. "The one thing I have experienced from coming into the business is that money is not a differentiator in today's world," he says. "You have to be able to provide solutions. This is why it is helpful to have the breadth of product line that we have – the ability to take back aircraft to solve problems for our customers is an advantage. In the ultra-competitive sale-leaseback market, where there are 20-plus bidders for every single deal, by having the diversity of products we have and being able to know where to best reposition assets, we add the most value for our customers."

New entrants into the aircraft leasing space over the past few years have put pressure on all existing lessors and are forcing down margins. "There's no question that margins have compressed over the last 12 months," Burger says. "We are picking our battles where we really want to compete. I feel good about the overall level of activity in the business and GECAS is on track this year to complete more than $5 billion worth of originations at, what I would describe as quite attractive returns."

Although there is more competition, there is a lot more financial capital in the industry right now than there is human capital, says Burger. "What makes GECAS different is the technical capability we have, which is considered as one of the gold standards of the industry. Such domain expertise is pretty unique in our industry. I came into a business where certainly most of my team have been in the industry for 25 to 30 years plus."

Despite the longevity of the company and some of its employees, Burger is not complacent. He is eager to maintain that dedication of its workforce and is constantly assessing what is going to make the next 10, 20, 50 years equally as good and equally as compelling for GECAS, our customers, our employees. That is going to require a continued evolution, if not a revolution."

The entire industry – indeed the world – is undergoing a technological revolution. Mobile phones and devices are becoming more powerful and customers are expecting products and services that are easy to use, flexible, instant and effective. The financial services industry is faced with increasing competition from financial technology





GECAS


companies offering more value-added services such as peer-to-peer lending, instant global money transfers and cheaper insurance products via online brokers – to name only a few. The aviation industry is no exception – paper records are being digitized, new aircraft collect vast amounts of data that is being analysed to help aircraft and engines become more efficient, while passenger data is helping airlines improve the flying experience. GECAS and Burger are preparing for how the industry is likely to change.

"We have to consider every aspect of technology, both in terms of new aircraft, but also how the digital world will change the industry," says Burger. "The space required for the paper records of just one aircraft is mind boggling. Digitizing all the records for our aircraft is a no-brainer. That's a pretty simple solution but those records can be leveraged to provide more value-added services to our customers and to improve our own efficiency and competitiveness.

Along with the new entrants has come a new wave of consolidation in the leasing industry, with one firm blatantly seeking to challenge the top two lessors – GECAS and AerCap – in terms of assets under management. Burger is unfazed by the recent developments. "The new entrants are providing new sources of cheap capital, to me than is more relevant that some of the recent M&A deals. If one company is seeking to continually grow its balance sheet by buying the competition, that doesn't necessarily materially change the competitor dynamics."

"We want to be a leader," he says. "We want to be a leader in the sense of having the best people, the most cutting-edge technology and structuring expertise, and we want to do what we say we're going to do for our customers. I couldn't care less about being the biggest player, so long as we are providing consistent returns for our shareholders. Size for size sake is not something that we are going to chase."

In fact, GECAS is intending to reduce the amount of aircraft it sells in the coming years. "Over the last three or four years, we have been a net seller but we are going to reduce the level of sales going forward to get back to more normalized level of sales."

GECAS is focused on making EVAL a success and it is also working on a second Labrador asset backed securitisation deal (the debut transaction was a run-away success and was awarded the Aviation 100 Editor's Deal of the Year in 2017: see *Airline Economics* Feb/Mar 2017)), as well as an engine-focused managed vehicle.

## Alec Burger

**President and CEO**

Alec Burger is president and CEO of GE Capital Aviation Services (GECAS), the $41 billion commercial aircraft financing and leasing unit of GE.

Alec joined GE in 1991 and was named a GE Company officer in 2007. He is a GE veteran with a proven record of building GE Capital's businesses in both North America and Europe and is known for developing talented teams.

In his previous position as president and CEO of GE Capital Real Estate, he oversaw the unit's $38 billion portfolio.

Prior to that, Alec was president of GE Capital Real Estate – North America and the managing director of GE Capital Real Estate – UK from 2002 to 2006. During his tenure, he grew the UK business through asset and portfolio acquisitions including the successful public company acquisitions of Benchmark and Haslemere.

Before heading GE Capital Real Estate's UK division, Alec was vice president of business development and led a number of major strategic real estate acquisitions in the U.S. including Heller Financial, Debis and Security Capital.

Prior to that, Alec held a number of leadership positions both in the U.S. and England for GE Capital's Equipment Leasing Business, including business development for European Equipment Finance, managing director and subsequently Six Sigma leader for Vendor Financial Services.

Alec joined GE in 1991 from Bain and Company and before that was a mechanical engineer at Cabot Corporation in Boston.

Alec earned a bachelor's degree in mechanical engineering from Trinity College and received his MBA from Northeastern University. He serves on the board of the National Multiple Sclerosis Society. Born in London, Alec has dual citizenship with the U.K. and the U.S.