AVIATION FINANCE

Amedeo's 'live' associate raises £202 million equity in $1 billion launch

Public equity leasing specialist Mark Lapidus has launched another A380 publicly-listed vehicle on the London Stock Exchange, aimed at raising funds for four super jumbos. Lapidus was the driving force behind the three Doric Nimrod Aviation (DNA 1, 2 and 3) vehicles which give investors access to a fixed term investment in A380s on lease to Emirates. The latest move from Lapidus has seen the launch of Amedeo Air Four Plus (AA4plus), which is the company's first publicly-listed open-ended aircraft vehicle (a 'permanent side car to co-invest in our activities' in Lapidus' own words), listed on the London Stock Exchange. Aviation Finance's John Stanley spoke with Lapidus about his plans for AA4plus, the DNA transactions and the transition from Doric to Amedeo.

Amedeo Air Four Plus (AA4Plus), which was listed on 13th May, intends to acquire initial aircraft assets of approximately $1.1 billion, possibly $600 million more by the end of this year and even more in the future.

It will initially buy four A380s, which are already or will be on lease to Emirates. Two aircraft were delivered to Emirates last year as part of a sale and leaseback transaction with Amedeo. The next two A380s will be acquired in the second half of this year and the company may further expand its pool of assets later in 2015.

Mark Lapidus

AA4Plus has raised GBP 202 million in equity and $800 million in commercial loan facilities, provided by a bank syndicate led by Westpac and Qatar National Bank. Amedeo holds a strategic co-investment of 5% of the company's share capital and acts as the company's long-term asset manager.

The company, which will not be consolidated by Amedeo, offers institutional investors exposure to a listed, long-term aircraft acquisition, financing and leasing investment. The target aircraft acquisitions will be sourced by Amedeo, although AA4Plus has its own independent board of directors with extensive aviation industry experience, which will review and authorize all future aircraft purchases and lease decisions.

"The company will enhance our ability to execute transactions in the capital-intensive, large widebody aircraft space and will allow us to deploy additional capital, alongside our own, for our ordered A380 aircraft, manage any new customer concentrations within our portfolio, and expand the scope of our activities to support both new aircraft acquisitions and, in time, potential secondary market opportunities", Mark Lapidus said.

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Lapidus told *Aviation Finance* that while the approach is particularly designed to build up more capital off balance sheet for Amedeo's large order for new aircraft, it is also with a view to extending into other activities in the widebody space beyond A380s. "We are certainly looking at the widebody space on a broader scale - although I think Boeing are confused about how to treat us, they haven't figured us out yet," he said.

Timing is also likely to be a significant factor in expansion beyond the A380 order and capitalising on the AA4Plus capital deployment capabilities. "We will look at sale and leaseback deals on other aircraft types, but the A380 market remains key for us," Lapidus said. Amedeo is also looking at opportunities in the secondary market for A380s. Lapidus believes that the company's specialist expertise and relationship with the aircraft's manufacturer will help Amedeo capitalise on opportunities for redeployment as planes come off lease over the next three to four years.

Amedeo's partner in the UK institutional investor market, Nimrod Capital, is again involved as a placing agent and long-term shareholder adviser. Nimrod Capital's partner Marc Gordon observed that "Income generating investments backed by A380 aircraft and an outstanding lessee like Emirates are proving very interesting to investors in the current low yield environment."

Since it was formed in June 2013 Amedeo has focused all its attention on the A380 market. Led by Lapidus, members of Amedeo's senior management team previously co-founded Doric Asset Finance in 2005, where they were the key architects of an aviation portfolio built between 2006 and June 2013 of 35 sale and leaseback aircraft worth about $6 billion.

While at Doric, an asset manager in transport, real estate and energy finance, Lapidus was structuring deals with more equity than most traditional aircraft leasing companies, repaying most or all of the debt in the initial lease period and regarding new widebody aircraft as high-yielding, long-term, stable investments with a good upside chance and a limited downside residual risk. Lapidus expanded his vision at Amedeo by enhancing this approach with availability of principal investment capacity and by placing direct speculative aircraft orders with the OEMs. Amedeo was originally created as Doric Lease Corp, with shareholdings split between the two ventures. All crossholdings were ultimately unwound in February 2014 and the company was renamed Amedeo.

Today Amedeo is pursuing what Lapidus regards as "a versatile business strategy with the aim of building a widebody operating leasing company with multiple capital deployment capabilities."

Amedeo's first deal, **Doric Nimrod Air 3 (DNA3)**, a name which reflected the company's origins and that of its UK advisory partner Nimrod Capital, together with **DNA1** and 2, raised and deployed more than $1 billion of equity investments as part of Initial Public Offerings (IPOs) listed on the London Stock Exchange.

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These IPOs attracted a diverse range of investors - from insurance companies and corporate pension funds to asset management companies and private wealth managers. The investor universe for AA4Plus, which adds another $300 million of equity to the team's efforts in this market so far, is even broader, Lapidus said, and demand was sufficiently strong that applications had to be pared down. Amedeo itself, which had committed to taking a 10% stake, had to be scaled down to half that.

The DNA 1, 2 and 3 issues, along with the C Shares, encompass 12 A380s on lease to Emirates. Debt finance from commercial banks funds four of these aircraft and innovative EETC funding the other eight.

The 2010 **DNA1** listing was followed by **DNA2** on the Specialist Fund Market of the London and Channel Islands stock exchanges in July 2011, which raised GBP145m to finance three A380s, and in 2012 about GBP200 million by the issue of C-Shares to finance another four A380 aircraft. The first three A380s had a purchase price of $234 million each. The senior debt financing was provided by Westpac Banking Corp, Commerzbank, Australia & New Zealand Banking Group and Sumitomo Mitsui Banking Corp. The subsequent four aircraft were financed with EETC debt raised in the US capital markets.

DNA3, listed on the London Stock Exchange in July 2013, was part of an ambitious $1 billion transaction with equity capital sourced in the UK institutional investor market and debt capital raised via an EETC issue in the US capital markets. For DNA3 Amedeo is the asset manager while Doric has an on-going technical asset monitoring role. Future remarketing will be solely Amedeo's responsibility. DNA3 investors are expected to receive a dividend yield equivalent to 8.25% per year during the term of the lease. After that, disposal of the aircraft will determine the ultimate return for investors.

Differently to DNAs, AA4Plus is structured not as a one off vehicle with a set investment proposition and a fixed term, but an open ended entity which can grow and looking to the future, Lapidus does not rule out further EETC issues for both new AA4Plus deliveries and Amedeo’s owned aircraft. "Over time we will go back to the US capital markets," he said, "but commercial bank debt liquidity at present allowed us to secure very competitive terms for the first four AA4Plus aircraft."

Amedeo now has six A380s "under management", which will become eight when scheduled next two deliveries for AA4Plus take place this summer, and has another eight "under oversight" from DNA 1 and 2 transactions, all on lease to Emirates. Demonstrating its absolute faith in the future of the A380, at the Singapore Airshow in February last year Amedeo placed an order with Airbus for 20 A380s for delivery between 2017 and 2020.

The success of the AA4Plus issue belies the concerns expressed by some industry observers about the future of the A380. Last December Bloomberg reported that Airbus Chief Financial Officer Harald Wilhelm had expressed doubt over the future of the A380 programme while speaking to the Airbus Group’s shareholders at an investor event in London.

Those remarks were subsequently "clarified" by Airbus president and chief executive Fabrice Bregier, who said “the A380 has a long-term and bright future,” and that “top management was fully aligned” in its thinking on the jet. But this clarification only came after a 10% drop in the plane-maker's share price. The remarks had a similar effect on the share prices of DNA 1, 2 and 3, which also dipped sharply, but subsequently recovered. DNA2, for example, dropped to 211.5p in January but is now around 250p.

Lapidus maintains that Wilhelm's comments were misinterpreted and taken out of context by the news agency. He remains convinced that "things are back on track" following this hiccup. While VLCs are a niche market they are still a large market which is growing – estimated by Boeing at 600 units and Airbus at 1,500.

Lapidus is also enthusiastic about the role that he sees the A380 playing in a fundamental change taking place "in what it means to be an airline in the modern world of aspiring new consumer-driven travelling public". The leasing executive is convinced that the airlines of tomorrow must think of themselves as brands, maximising the value that they can create for their customers.

"With safety and punctuality both now absolute givens, the challenge is to stimulate traffic, and this is where the brand lies. Think Apple, not just a transport company trying to optimise yield. This applies to all airlines, even low cost ones like AirAsia or EasyJet. If you focus on brand and air travel becoming a lifestyle choice you'll realise what the A380 can do for you."

Lapidus believes there is a new understanding amongst airlines of the true unit cost represented by the A380 and its potential for revenue and profit generation, allowing them to optimise market segmentation, including such features as direct boarding from the lounge onto the premium Upper Deck of the A380. "The aircraft offers unique real estate allowing the creation of tailored passenger environment," he says. "To me it's all about people appreciating the brand and embracing the lifestyle and travel experience the airline is aiming to project."

He points to the recent bold promotion run by British Airways on its website of the luxury benefits provided on its partner American's new 777-300ERs between Heathrow and New York as an example of the growing business appreciation of different product strategies and brand extending. "What does this make BA on the JFK route, British American? It's an exciting time in the airline industry and the A380 is right in the middle of it," he said.

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