

Amedeo CEO says ROI in aviation assets could drop to around 8% in longer-term

Mark Lapidus, the CEO of Amedeo, which has just committed to two new Boeing 777s for Emirates, remains positive about the growth prospect for lessors. At the same time, he sees the continued inflow of equity capital into the industry as likely to drive down returns from their current high levels.

Mark Lapidus, CEO of lessor Amedeo, believes that the sharp increase in lessor liquidity in recent times is going to lead to a reduction in investment returns in the longer term. The industry has demonstrated that it is a steady business typically offering high returns of 13 per cent to 15 per cent. It is not surprising, therefore, that it is attracting a strong inflow of equity capital at a time when other returns are so low, he told *Aviation Finance* in an interview.

'But this will impact on longer-term yield expectations,' he cautions. Pointing out that shipping has typically yielded around 6 per cent in a far more inherently unstable market of many OEMs, Lapidus said it was unrealistic to expect ROI in aviation to remain at current levels. He thought that 10 per cent to 12 per cent, and possibly even around 8 per cent, would be more realistic in the longer term.

Commenting on the current state of the aviation market, Lapidus said the unrelenting 4 per cent to 6 per cent growth in global traffic each year 'soothes Brexit and other anti-globalization woes'. While some regions are in distress, like Brazil, others, like the US, remain highly profitable. But Lapidus also thinks that the ability of the big three US carriers 'to extract excessive economic rents, as their current amazing profitability highlights,' is in large part due to their overwhelmingly dominant positions at their respective hubs, like Atlanta, Dallas, San Francisco and Chicago, and infrastructural barriers to competitive entry, as demonstrated by Virgin America's sale to Alaska. 'The US airlines' profitability and operational brand vision which is not driven by the consumer is begging for Uberization,' Lapidus said.

He is also very excited by the growth of Chinese carriers and sees good opportunities there for the A380 – an aircraft in which Amedeo has specialized - in a strongly growing market. He acknowledges, however, that 'When we bid on sale and leaseback in RFPs there it really is super-competitive and it's very difficult to compete with the local Chinese lessors coming with different investment criteria.'

Lapidus has celebrated his own 20-year long association with Emirates with the planned addition of two new Boeing 777-300ERs to the existing portfolio of six A380 aircraft in the company's LSE-listed 'permanent sidecar', Amedeo Air Four Plus (AA4plus). All these aircraft are on long-term lease with Emirates airline.



Mark Lapidus, CEO, Amedeo

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Lapidus did his first deal with Emirates in 1996 when he was a managing director of Citigroup's Global Asset Finance Group. That involved funding the airline's first Boeing 777, an aircraft that has only just retired.

He told *Aviation Finance* that Amedeo expects to close more business with the Dubai-based airline within the next six to 12 months. And despite its first acquisitions of Boeings, it will continue to focus on A380s. 'The market is very competitive (with Emirates), but we do expect to win more business,' he said.

The latest acquisition reflects the intention of growing AA4plus into a larger, broader platform. The advantage of using the 'sidecar' strategy for Amedeo is that it leaves its own balance sheet clear - 'keeps our powder dry,' Lapidus says - for its own new orders, which could be now available for delivery from 2018. It placed an \$8.3 billion order for 20 A380s with Airbus at the Singapore Airshow in February 2014.

He is continuing to actively seek opportunities to lease the A380 to high quality credits elsewhere in the world. The primary target to date has been those large network carriers amongst the world's top 10 airlines that do not already operate this aircraft. But, Lapidus now says, there may also be opportunities in the future to place aircraft with smaller companies on certain niche routes for which the economics of the A380 is well suited.