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Billion-dollar baby

Brian Hollnagel, chief executive officer of BCI Aircraft Leasing, tells Airfinance Journal why his firm has been so successful so quickly.



Hollnagel: "We're looking for exponential growth"

At 32, Brian Hollnagel must be one of the youngest chief executive officers of a major aircraft leasing company. BCI Aircraft Leasing, the company he founded, is only seven years old, but in that time it has grown quickly and has a \$1 billion portfolio. The firm hopes to reach the \$1.5 billion mark by the end of the year.

"We're looking for exponential growth at the moment," says Hollnagel, "and beyond that we're looking to add a billion dollars to our portfolio each year. We started out slowly. We paid \$20 million for our 737-200s in 1999 and moved from typical deal sizes of \$10 million to \$20 million to deals of \$80 million to \$120 million. The number of transactions has also increased."

He describes what it was like starting out. "In the beginning, when you don't have a name, you're lucky to have airlines call you back. Right now we are one of the groups an airline would call if they were looking to do a sale/leaseback. Our exposure and success in the market has attracted airlines to us. We help them find financial solutions, through sale/leaseback transactions or alternative liquidity sources," says Hollnagel.

BCI acquires narrowbody aircraft over five to 15 years old and new aircraft, preferably in non-auction style transaction with three- to seven-year operating leases with creditworthy airlines.

The company's latest transactions include the acquisition of five Bombardier CRJ Series 705s from Bombardier Capital. The aircraft were delivered new to Air Canada in 2005 and will continue to be operated by the Canadian flag carrier's regional subsidiary, Air Canada Jazz, via long-term operating leases. Hollnagel describes this first new aircraft acquisition for the lessor as "an investment into the regional jet market. We will look

more seriously at investing in new aircraft when suitable opportunities arise", he adds.

BCI's business jet subsidiary, Genesis Custom Jetliners, also plans to deliver three aircraft per year. The most recent acquisition was for four 737-500s, three from a major European airline and another that is on lease to British Airways.

In addition to his aircraft portfolio, Hollnagel employs 18 experienced members of staff, who hail from companies such as ING Bank and Oasis Leasing in Abu Dhabi. "The people have also made us successful," he says.

Over the past 12 months, the measures of success for a typical aircraft lessor include an IPO, a securitization and a buyout. Aircastle, GATX and Saleé are just three names that have graced the Airfinance Journal headlines in recent issues with their respective securitization, aircraft portfolio sale and outright sale to potential bidders. Why is there so much interest in these companies?

"If you take a look at aircraft orders in the post-9/11 market, a mass of surplus sat in the dessert and nobody ordered aircraft for that entire period when all the airlines were losing money and going through restructurings. GDP continued to grow during that period and people are now trying to catch up for the time when nobody ordered any aircraft. The reality is that the demand for aircraft is significantly higher than supply. Investors, including hedge funds, are realizing that whatever you buy today will be worth more tomorrow. People believe that leasing companies are a good means of taking advantage of that appreciation in the cycle," he says.

How long until BCI Aircraft Leasing considers an IPO, securitization or buyout is unclear but for the time being it is focused on becoming a global player.

In addition to its native US market, BCI is heavily involved in Russia and will soon be delivering the first western-manufactured aircraft to the Russian government.

The lessor also spends a lot of time in Asia and has a three-year awareness campaign for the region, including China.

"We haven't had the success yet but it takes a while," he says of the Asian market. "Russia is an area we have really focused on and we are starting to reap the benefits of our efforts there. There is only one generation where you have seen such major economies, namely Russia, China and India, enter the world market. Especially Russia. This is a major superpower that needs to reflect itself in order to compete on the world stage. So this is a market to watch."

As a financial solutions provider, BCI focuses on the overall transaction, rather than the aircraft type when doing deals. The company recently closed two deals for two A340-300s with the Namibian government. Why is this transaction important?

"These aircraft are out of favour, but with the backing of the lessee and the government, the transaction still makes sense. We continue to focus on newer aircraft. The 767-300ER is an aircraft that has a lot of range to it in terms of value. We will continue to focus on niche rather than individual assets," he says.

Hollnagel says timing and lease expirations are critical in mitigating the cyclicity of the industry. "We're probably looking at a 2013 time horizon where we think the market may over supply itself again. That said, our view would be to be in the assets at a very conservative number when the market may have some exposure to a downturn. We believe in the cyclicity of this space and the best way to mitigate that risk is to take conservative positions in the assets you're investing in today."

All of BCI's transactions are standalone deals, which involve non-recourse debt. What is the reason for these strategies?

"In the event that we would have a problem, the problem would be to isolate an individual transaction, meaning that if a lessee were to default because the cycle had gone down and fuel prices had gone up, typically each transaction has its own specific purpose corporation [SPC]. We hope that would mitigate liability."

For each of BCI's 100 aircraft, the company has 100 SPCs, which hold the beneficial interests and the trust of each aircraft. Each SPC is funded by its own debt which is non-recourse to the parent company. What are the benefits of this structure?
Hollnagel says: "That structure will help us to mitigate the downturn. The good news is that there is a lot of money that can be taken out of this space right now as the market swings up. It also helps to make hay now while the sun shines."

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