

Our investments continued

Financial services



Avolon

www.avolon.aero

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|---------------------------------------|---|
| Activity | Aircraft leasing |
| Location | Ireland (global operations) |
| Acquired | May 2010 |
| Transaction value | US\$1,365 million |
| Total assets under management* | US\$855.3 million |
| Employees | 26 |
| Cinven representatives | Caspar Berendsen, Peter Catterall, Maxim Crewe |
| Senior management | <i>Chairman</i> Denis Nayden <i>CEO</i> Dómhnal Slattery <i>CFO</i> Andy Cronin |

*at December 2010 (actual)

Company description

Avolon is a global aircraft leasing business headquartered in Dublin and with offices in New York, Hong Kong and Shanghai. Avolon provides aircraft leases and lease management services to airlines around the world, focusing on the acquisition of the latest generation of narrow-body, fuel-efficient aircraft, for which there is a liquid market.

Cinven origination

Ahead of Cinven's investment in Avolon, the Financial Services team had been targeting sub-sectors within financial services for opportunities arising out of the structural dislocation in the financing markets that followed the collapse of Lehman Brothers; the aircraft leasing industry is one of those sub-sectors. Cinven has significant expertise in the aerospace sector as a result of the third Cinven fund's successful investment in Amadeus and the fourth Cinven fund's investment in Avio. This experience, coupled with the

Cinven Financing team's capability, was critical to the success of the transaction. After researching the market extensively, Cinven identified the management team at Avolon as the best positioned because of their experience in establishing one of the largest aircraft lessors before the financial crisis.

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Investment rationale and strategy

Leasing continues to be an increasingly important source of financing for the airline industry. Currently, more than 40% of new aircraft deliveries are leased, compared to less than 20%, 15 years ago. However, due to structural issues with their parent companies as a result of the financial crisis, two of the three largest aircraft lessors are no longer active in the market.

Against the background of long-term growth, Cinven's strategy is to take advantage of the current market dislocation to create a leading global aircraft lessor that can benefit from the cyclical upswing in the aviation industry over the next five years as passenger travel rebounds and demand for aircraft outweighs supply, particularly for young, narrow-bodied aircraft. These are typically the most liquid assets in the aviation industry because of the demand in the short-haul and 'economy' segments of the market and their relative fuel efficiency. Avolon is particularly well placed to execute this strategy because it has an experienced management team and a 'clean' operating platform. Cinven's Portfolio team in Asia has been involved in expanding Avolon's capability in these markets, which will be particularly important in the future growth of the aviation industry.

The investment in Avolon is a compelling opportunity for the fourth Cinven fund as a result of the favourable conditions for purchasing highly sought-after aircraft, the contracts that underpin Avolon's revenues and a financing structure that ensures that the business's liabilities match the cash flow from its assets. Along with Avolon's efficient operating platform, these factors allow the company to maintain best-in-class operating performance and operate a highly scalable business model.

Cinven value creation

Cinven has been working closely with the management team to put into practice the value creation opportunities identified at the outset and to position the business to fully realise them. Initiatives to date include:

- implementing a disciplined portfolio strategy by setting prudent parameters for aircraft purchases at attractive prices;
- enhancing Avolon's capability in Asia by working closely with the Cinven Portfolio team;
- putting in place funding policies that ensure that both the duration and cost of liabilities match the cash flow profile of assets;
- improving Avolon's market-leading position through profitable trading of assets throughout the cyclical upswing in prices; and
- recruiting key personnel.