

2018 Annual Conference



ASAAFRA

24-26 JUNE 2018 - SCOTTSDALE, AZ

LEASE MANAGEMENT STRATEGIES

AIRCRAFT TRANSITIONS

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25 JUNE, 2018



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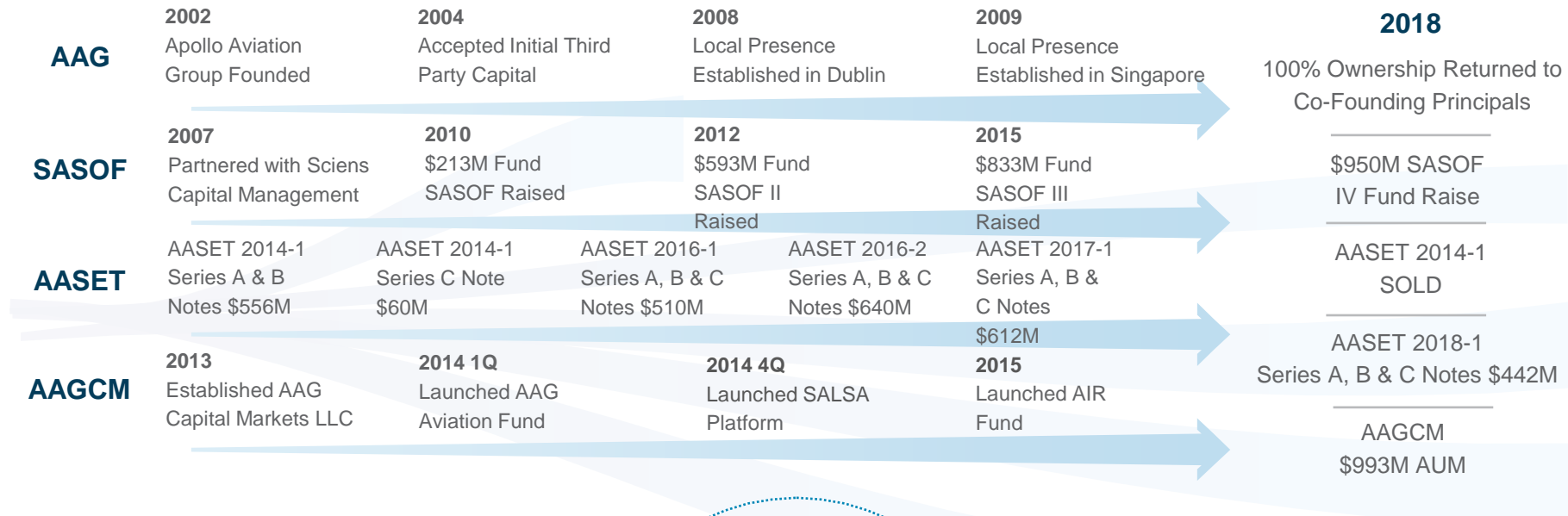
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- ▶ Introduction to Apollo Aviation Group
- ▶ Industry Growth
- ▶ Commercial Aircraft Fleet – Utilization
- ▶ Order, Delivery and Retirement Trends
- ▶ Oil Price Trend
- ▶ Projected Existing Technology Aircraft Share
- ▶ Shop Visit Forecast
- ▶ Used Aircraft Transactions
- ▶ Apollo Aircraft Transitions
- ▶ Global MRO Market Demand Forecast
- ▶ Evolution of Part-out Players

ORGANIZATIONAL HISTORY AND EVOLUTION



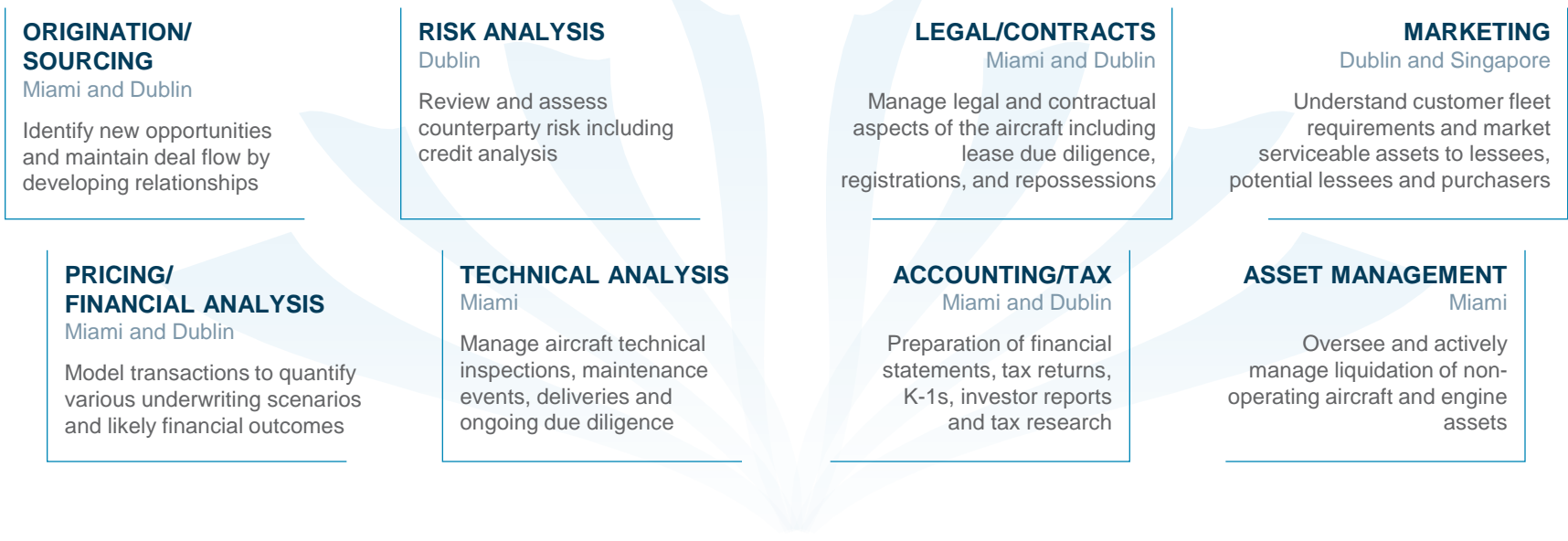
Note:

(1) Assets under management include all assets under management (which includes, in addition to invested capital, indebtedness, aircraft committed to purchase and uncalled capital commitments) of products and other investment vehicles serviced by Apollo Aviation and is as of March 31, 2018. Neither SASOF II nor SASOF III were the issuers in the AASET transactions as these were third party issuances.

DEEP ORGANIZATION



70+ professionals provide wide range of internal capabilities



APOLLO ENTERPRISE MANAGEMENT SYSTEM (AEMS)

Proprietary tool to integrate and leverage efficiencies

Modules Include:

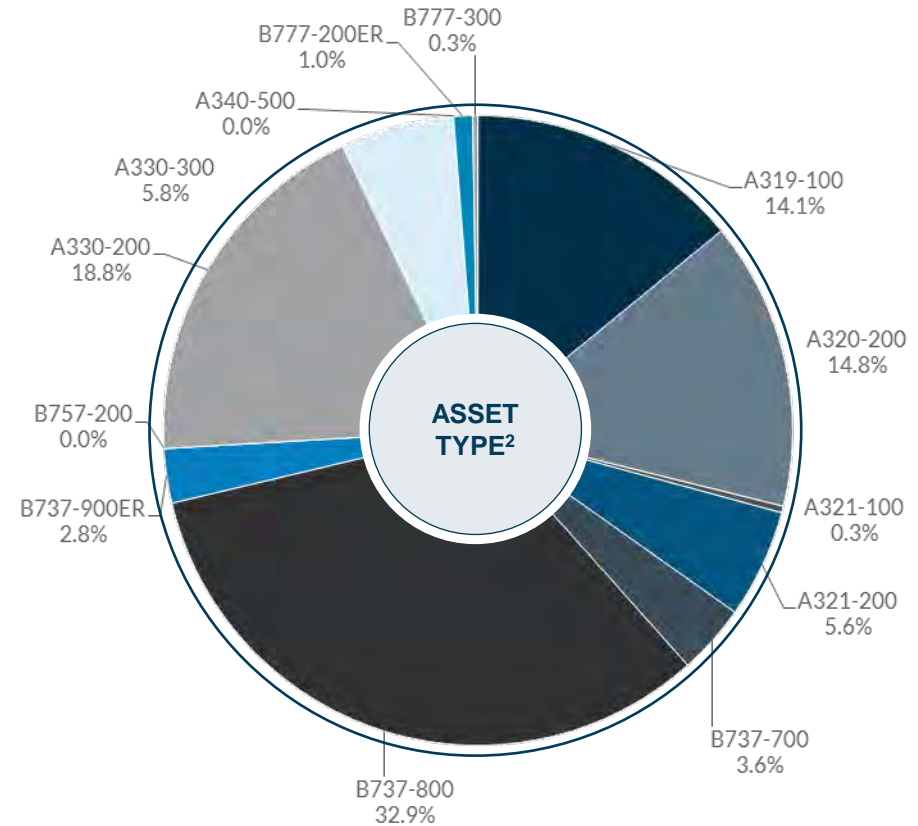
- New Deal Tracking
- Maintenance Forecasting
- Technical
- Consignment Analysis
- Purchasing/Payables
- Legal

FLEET ATTRIBUTES

AIRCRAFT	200
IN-PRODUCTION ASSETS ²	98%
NARROW BODY/WIDE BODY ²	74%/26%
# OF LESSEES	92
# OF COUNTRIES	52

OTHER METRICS

WEIGHTED AVERAGE AGE (YEARS) ⁴	16.0
WEIGHTED AVERAGE LEASE LENGTH (YEARS) ⁴	3.6



Notes:

- (1) Gross purchase price, which reflects the contracted purchase price.
- (2) Weighted by gross purchase price, which is the contracted purchase price.
- (3) Apollo Aviation or SASOF III is not the issuer in these transactions. SASOF III is the initial holder of all of the interests in the E certificates issued in AASET 2016-1, AASET 2016-2, AASET 2017-1 and AASET 2018-1.
- (4) Weighted by net purchase price, i.e., the gross purchase price less transfers at closing.

**GLOBAL MID-LIFE AIRCRAFT/
ENGINE LESSOR**

Current Lease Portfolio:

Aircraft – 200

- 31 Wide Body
- 169 Narrow Body

– 92 Lessees

– 52 Countries

Engines – 14

- 7 Lessees
- 6 Countries



**ACTIVE
PORTFOLIO
MANAGEMENT**

**A LEADING AIRCRAFT/
ENGINE PART-OUT FIRM**

Over last 10 years

- Almost **150 Aircraft**
- Over **200 Engines**

– Inventory Line Items - **~183,000**

Current

– 10 Aircraft

– 2 Wide Body

– 8 Narrow Body

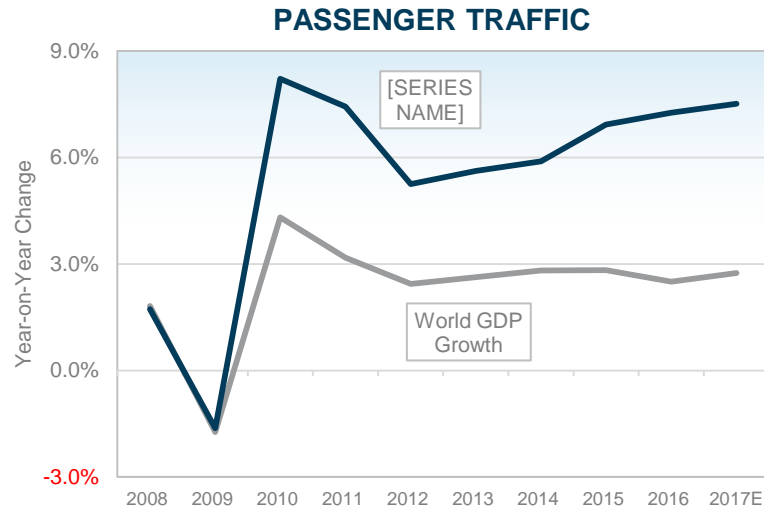
– 14 Engines

Inventory Line Items - **39,000**

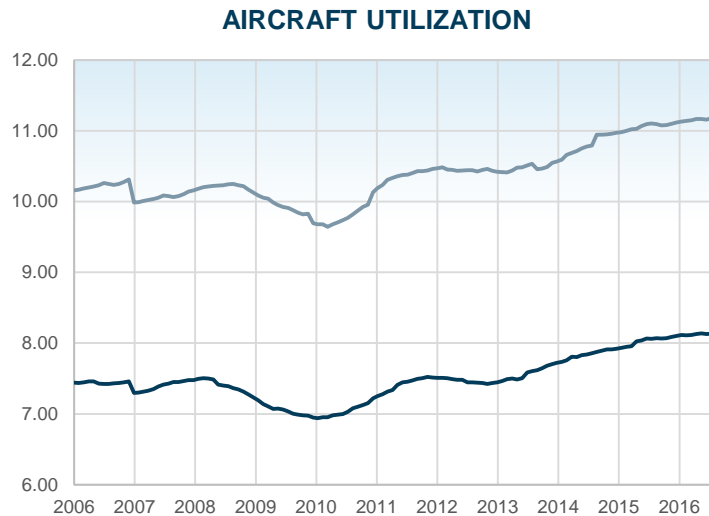
**One of the industry's leading mid to end of life
commercial aircraft Lessors**

Note:

(1) As of March 31, 2018 and includes aircraft committed to purchase.



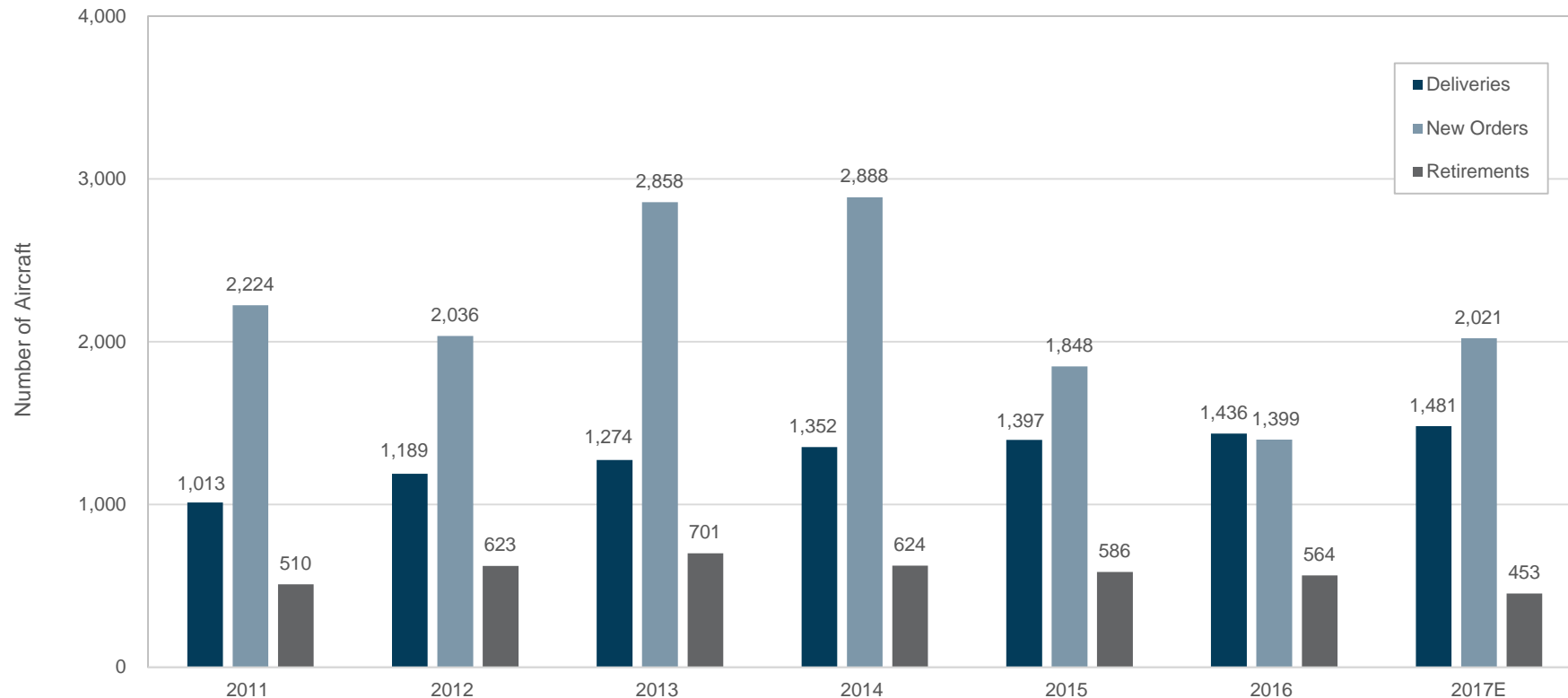
- ▶ Above trend traffic growth for the last 10 years, 5.4%
 - 6.6% average growth over the last five years
- ▶ Record global passenger load factors (“PLFs”)
 - For the third successive year global PLFs were >80%
- ▶ Eight successive year of airline profitability
 - U.S. airlines a significant driver
- ▶ Nine year order backlogs at manufacturers
 - Near term production rate relatively fixed
- ▶ Three years of lower fuel prices
- ▶ Last ten years aircraft utilisation has increased ~15%
 - Compared to 2007 aircraft fly an additional 1.25 hrs/day



Notes:

- (1) Sources: The Airline Monitor, Commercial Aircraft Monitor, February 2016; The World Bank, GDP Growth, July 2016; The World Bank, Global Economic Prospects, March 2017, IATA Economic Outlook, December 2017, Bernstein report 2018.
- (2) RPK = Revenue Passenger Kilometers, the total number of revenue passengers carried on each stage multiplied by the flight distance.
- (3) GDP = Gross Domestic Product.

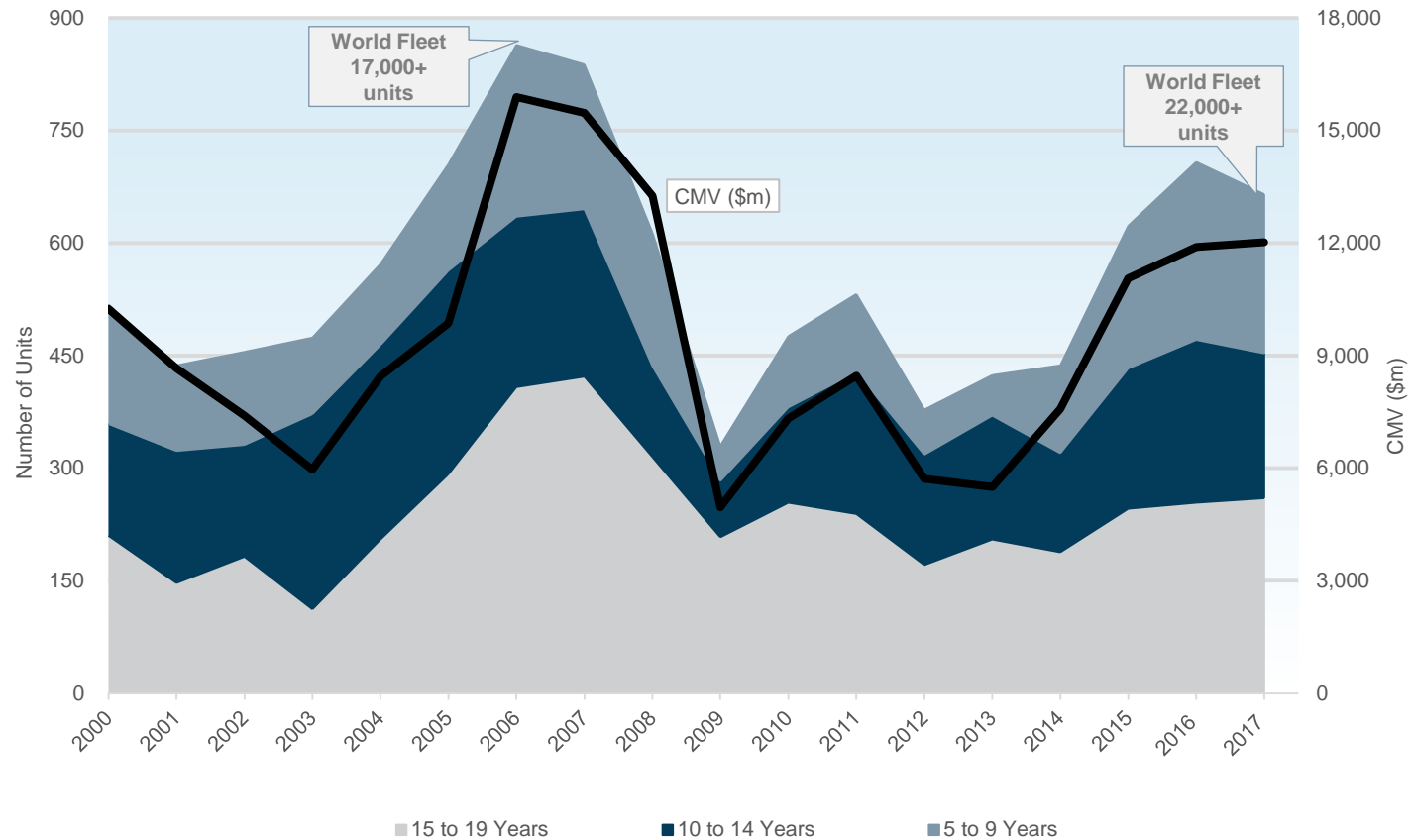
ORDER, DELIVERY AND RETIREMENT TRENDS



Years of Production Backlog	2011	2012	2013	2014	2015	2016	2017E
Years of Production Backlog	8.1	7.6	8.4	9.0	9.0	8.8	8.9
Retirements as % of Delivery	50.3%	52.4%	55.0%	46.2%	41.9%	39.3%	30.6%

Note:
 (1) Sources: Airbus, Boeing, Ascend Flightglobal 2018.

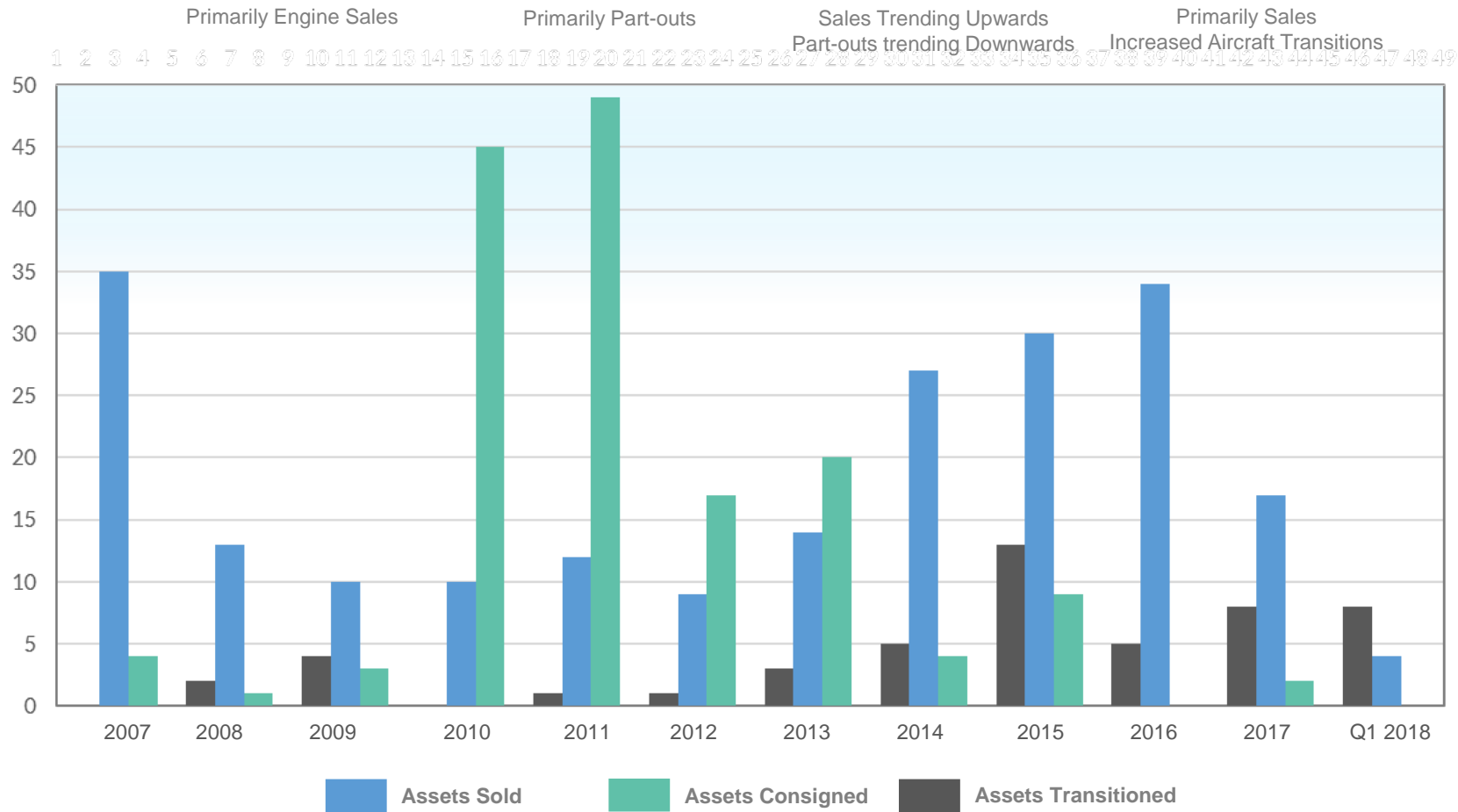
USED AIRCRAFT TRANSACTIONS: 2000 - 2017



Notes:

(1) Source: Ascend, April 2016, April 2017, April 2018.

(2) Transactions refer to used commercial jet sales. Population is defined as western built jets: widebodies, narrowbodies and regional jets with over 100 seats. CMV is Ascend's opinion of the most likely trading price that may be generated for an aircraft under the market conditions that are perceived to exist at the time in question. Transaction values used are Ascend's market value opinion for baseline specification. Market value used is at half-life in the year of sale at the mid-year point. Actual transaction values will depend on the specifics of each deal. Including different aircraft would yield different results.



Note:
 (1) Apollo Aviation analysis.

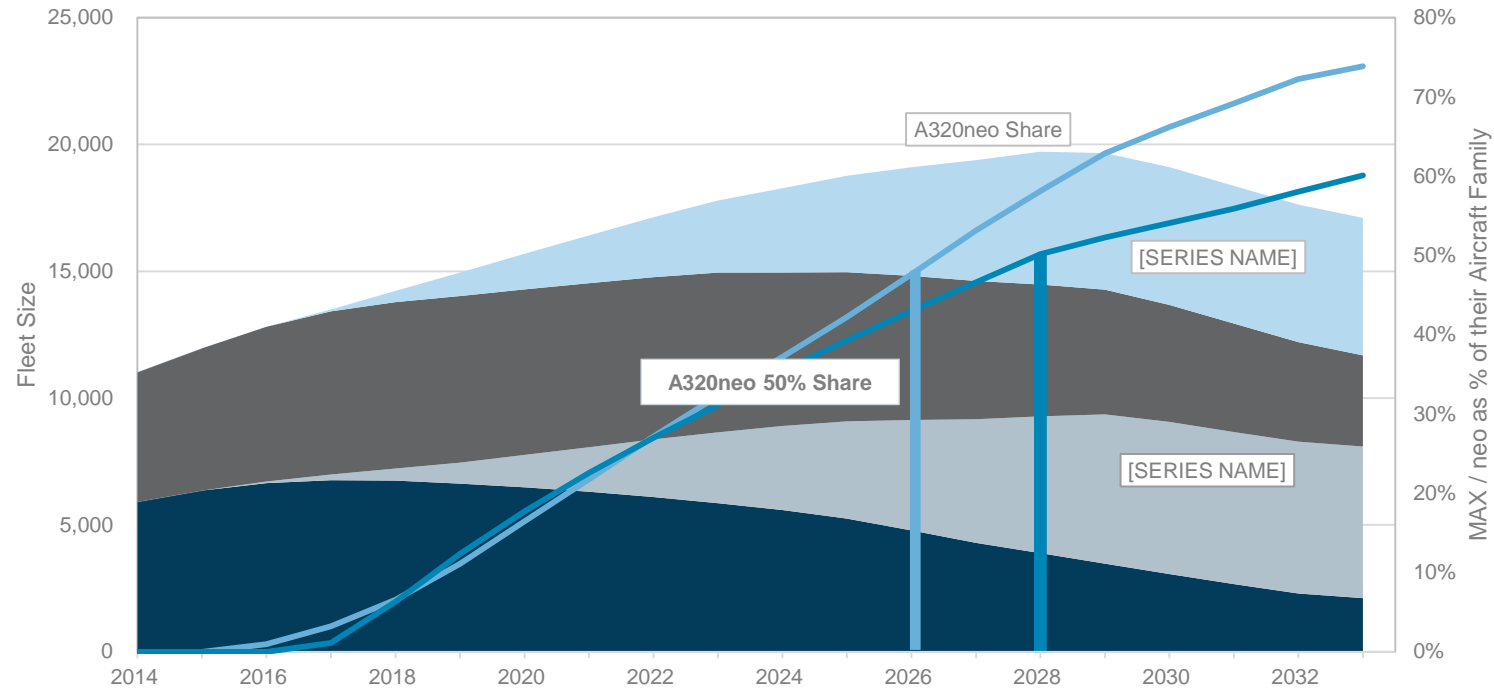
OIL PRICE

- ▶ Oil prices have increased steadily since June 2017
 - OPEC production cuts and increase in global demand
- ▶ IBA forecast oil prices will fluctuate between \$60 and \$80 per barrel in the near term (2020)
- ▶ IATA forecast airline fuel bill will rise to \$156 billion (approx. 20% of average operating costs)
 - IATA base forecast \$60 per barrel



Note:
(1) Source: Macrotrends – Brent Crude Oil Price, June 15, 2018.

NARROW-BODY FLEET COMPOSITION

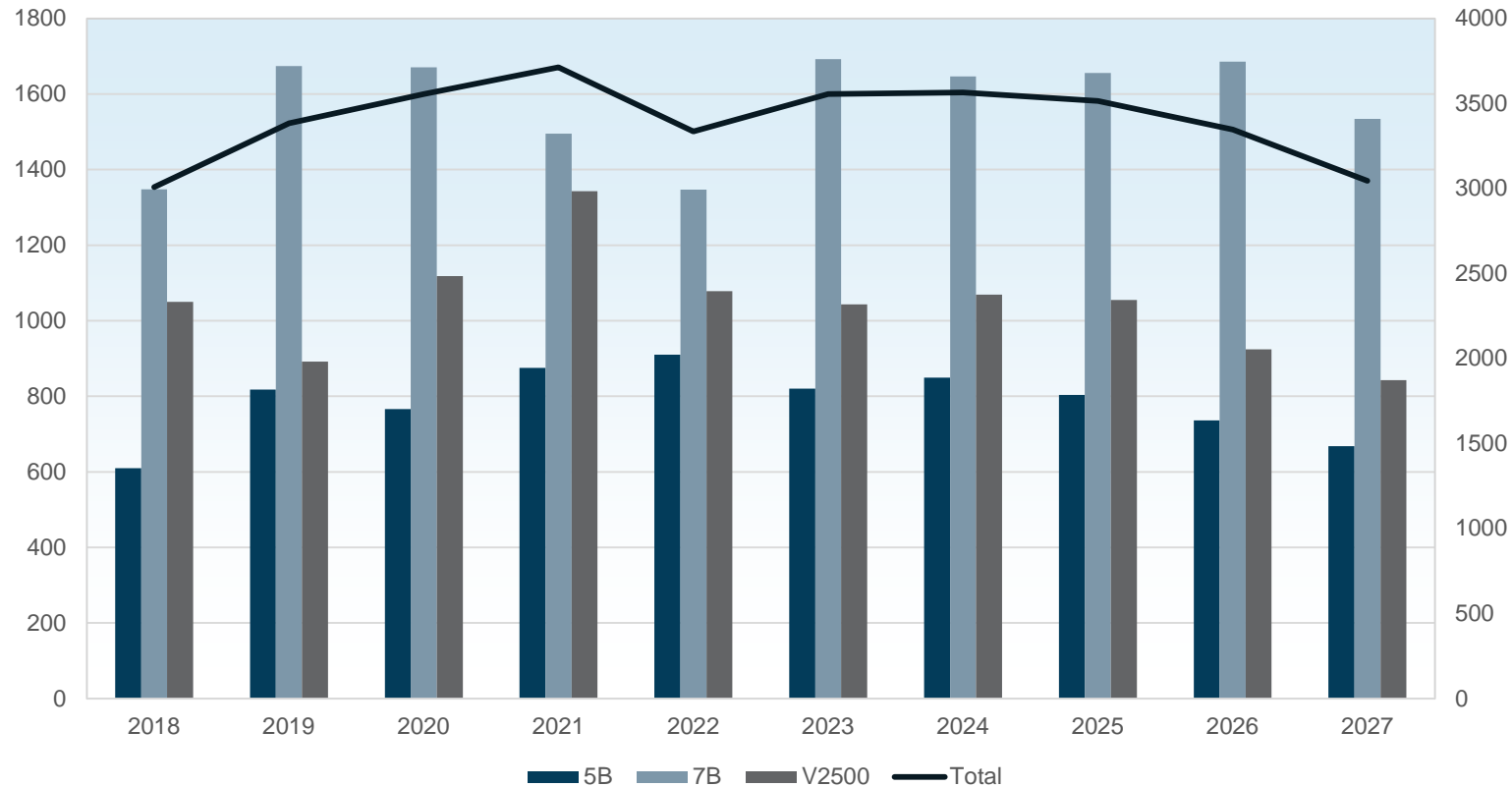


- ▶ New engine narrow-body aircraft from Airbus and Boeing
 - First A320neo delivered in January 2016, first B737 Max delivered in March last year
 - Airframe parts commonality ~75-95%
- ▶ Current gen aircraft will maintain majority share late into the next decade

Notes:

- (1) Sources: ICF International and Apollo Aviation analysis.
- (2) Including different aircraft would yield different results.

IBA ENGINE SHOP VISIT FORECAST



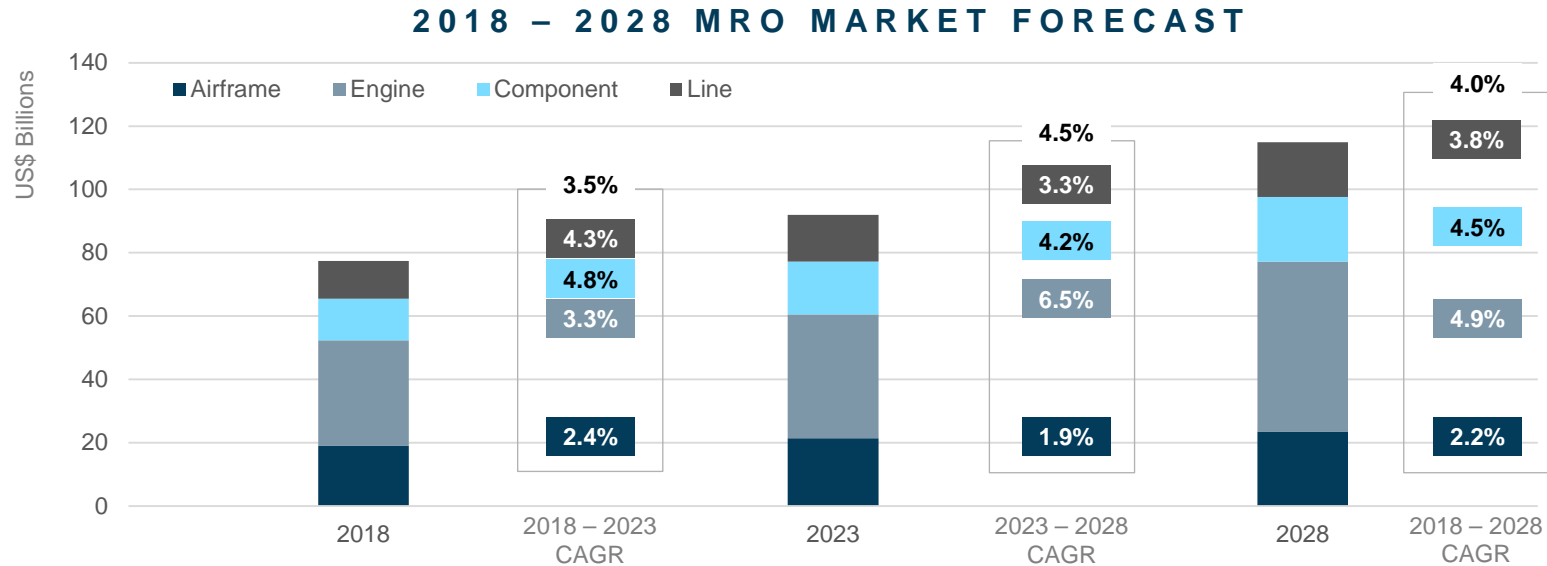
- ▶ Over the next 4 years IBA expect to see a 20% increase in engine shop visits versus today for current generation narrow-body aircraft
- ▶ Positive demand for used parts

Note:
 (1) Source: IBA Engine Market Update, April 2018.

- ▶ Aircraft leasing longer terms = engines staying on wing
- ▶ Lack of facilities to tear down available engines
 - Most engine MROs busy with shop visits
 - Engine MROs do not want to perform teardowns
- ▶ Good opportunity coming for CFM56-5, CFM56-7 and V2500 for part out
- ▶ How long is this window going to last?



GLOBAL MRO MARKET DEMAND FORECAST (BY ACTIVITY)



- ▶ Total MRO spend expected to be \$77.4 billion in 2018 – forecast to grow 3.5% annually to \$91.9 billion in 2023
- ▶ Majority of MRO expenditure is related to narrow-body and wide-body aircraft (~ 89%)
 - Wide-body aircraft make up 20% of the global fleet but account for 44% of MRO total spend
 - Narrow-body MRO expenditure expected to increase more than other aircraft classifications
- ▶ MRO expenditure related to aircraft manufactured since 2000 will grow from 12% today to nearly 50% by 2028
- ▶ Apollo Aviation believes that this has significant implications for anticipated OEM parts revenue

Notes:

- (1) Source: Oliver Wyman Fleet and MRO forecast, January 2018.
- (2) MRO = Maintenance, repair and overhaul.
- (3) CAGR = Compound annual growth rate.

There are many disassembly companies, but not all are the same:

- Investment is required
 - Qualified People
 - Policies and procedures
 - Processes
 - Qualifications
 - Best Practices
 - Complete recycling of waste material

- And there are more joining the party!

- How do we know that?



LOCATION, LOCATION, LOCATION!



- ▶ OEM involvement in part-out
- ▶ CFMM
- ▶ Boeing trying to get involved in MRO services
- ▶ Pratt & Whitney
- ▶ Apollo consignee evolution



- ▶ Everyone is equal, but some are more equal than others.
 - Technical need and ability of facility and personal
 - Marketing Time
 - Quality
 - Over and Above \$
- ▶ What my buyer or consignee wants!



- ▶ Increased Utilization of Aircraft = Positive impact on parts needed volume
- ▶ Reduction in retirements = positive impact on parts prices
- ▶ Change in oil and fuel prices = increase in retirement of older aircraft
- ▶ Inflection point = CEO equipment price changes?
- ▶ Parts that transition model types = better value
- ▶ Engines require more teardown
- ▶ Lack of teardown facilities for engines
- ▶ Apollo will continue to supply part out industry

APOLLO AVIATION: TECHNICAL CONTACT INFORMATION



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