

Helicopter Leasing Companies

A Brief History

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The Past

This report was prepared by Cogency Group Partners Inc. It provides some general information on the helicopter leasing business and most of the players. The report has a Canadian perspective. A pioneer in helicopter leasing was Calgary based Eagle Copters Ltd. It was founded by Mel O'Reilly in 1975. Today the Calgary based private company has a substantial domestic and international sales, leasing and MRO business. It is well known as a Bell Helicopter service partner. A second pioneer in helicopter leasing was Newcourt Credit Group Inc. founded by Steve Hudson in 1984. Following the sale of Newcourt in 1999, Mr Hudson joined the board of CHC Helicopter Corporation, an important Newcourt customer. Five years ago the helicopter leasing business started changing. In 2010 Rick Santulli, ex-NetJets and Goldman Sachs, founded Milestone Aviation Group. It was the first of a number new operating lease companies. Here is a brief history.

Name	Leader	Year	Transaction Amount	Investors
Milestone Aviation Group	Rick Santulli	2010	\$500 million	Jordan/Nautic
Lobo Leasing Limited	Bill Wolf	2011	\$200 million	2014-Blackstone-NYSE:BX
LCI Helicopters Ltd.	Crispin Maunder	2012	\$100 million	2014-KKR/Libra
Waypoint Leasing Limited	Ed Washecka	2013	\$375 million	MSD/Soros/Cartesian
Element Aviation Finance	Tony Bergeron	2013	\$243 million	Element-TSX:EFN
Macquarie Rotorcraft Leasing	Jeff Pino	2013	not known	Macquarie-ASX:MQG
Amur HFS	Neil Calvert	2014	not known	Amur Capital Group

In recent years investors have been attracted by substantial market growth, mostly from increased offshore oil & gas activity, and a new appreciation for helicopters as a unique and attractive asset class. Helicopters retain their value. They have high residual values.

More Recently

Last October Milestone was acquired by GE Capital Aviation Services (“Gecas”) for US\$1.8 billion-a significant premium to book. Oddly only 10 months before a sister company, GE Corporate Aviation Finance, sold its helicopter portfolio to Element Aviation Finance for US\$243 million. The acquisition of Milestone changes the character of the helicopter leasing market. It is now dominated by commercial aircraft leasing companies-Gecas, LCI and Macquarie and includes fewer pure helicopter plays-Waypoint and Lobo. The helicopter market is small compared to commercial aircraft. Gecas will need to be aggressive to move the needle.

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More Recently cont'd

Waypoint Leasing Ltd. was founded by Ed Washecka, ex-ERA. The company's growth has been staggering-a \$1.2 billion fleet in less than 2 years. However many industry observers believe this growth has been achieved with overly aggressive pricing and excessive concentration in CHC. Waypoint was expected to be sold or to go public in 2015. The decline in the oil & gas market and the CHC issue may make both these alternatives difficult in the short to mid-term. We believe that Waypoint may become receptive to vertical integration opportunities-i.e. buying out operators.

LCI Helicopters was established by Lease Corporation International (LCI), a major player in commercial aircraft leasing. LCI is a subsidiary of the Libra Group, the "international business group" owned by the Logothetis family. In 2014 KKR invested over \$100 million in LCI Helicopters, taking a minority stake in the company. KKR is a well-known investor in the helicopter business-Avincis, Westar and Air Medical Group. LCI Helicopter's strategy has been to acquire new helicopter positions on spec and market the machines globally. This was effective when the price of oil was high but there are challenges with this today. The owners will be patient with this investment.

Element Aviation Finance got back in the helicopter business in 2013 with the GE Corporate Aviation Finance transaction. Element Financial Corporation was founded by Steve Hudson, ex-Newcourt, in 2011. Tony Bergeron, ex-GE, is President of Element Aviation Finance and is based in Montréal. Jarrod Burton heads up Element's helicopter business from Calgary. While Element's institutional commitment to the helicopter business in the future is unclear, we believe Mr Hudson personally could again be a player directly or through another investment vehicle.

Amur HFS was established by Amur Finance Group, the private finance company based in New York. Amur's founders and key financial executives were all senior bankers at UBS. Neil Calvert, ex-Heli-One, heads up Amur HFS (helicopter financial services). We understand that Amur has had difficulties achieving its business and financial objectives. We believe they may also consider vertical integration.

The Future

The helicopter leasing business has been negatively affected by both too many players and the decline in oil prices. We acknowledge the downturn is significant but believe it is temporary. We are bullish. Vertical Magazine, a leading industry publication, predicts that the "more than \$3.5-billion market that could triple in five years." Annual growth in civil helicopter deliveries is estimated at over 4% through 2020. 5% of all helicopters are currently leased, this is expected to increase to 20% in the next 4 years. Offshore oil & gas is the most important segment. Douglas-Westood (KKR advisor) sees the offshore market as "a long-term growth story" and "resilient." The overcapacity that currently exists will be resolved with time and international & domestic consolidation. This includes vertical integration.

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