GECAS PROFILE

Twenty years at the top

More than 20 years ago Gecas acquired GPA, then the world's largest lessor. Dickon Harris talks to Norm Liu, Gecas' chief executive officer, on the history of the aircraft-leasing firm and its plans for the future.

About 20 years ago GE made history when it acquired GPA, then the world's largest aircraft lessor and an early aircraft-leasing pioneer. This seminal deal created a new leasing giant, Gecas, and created the modern landscape for today's aircraft leasing industry.

In the two decades since its creation Gecas has remained the world's largest lessor. It has thrived despite numerous challenges, including airline bankruptcies, the financial crisis and the impact of 9/11.

Gecas' history mirrors the development of the industry. Many of the current crop of aircraft leasing chief executive officers were trained at GPA, or at Gecas. The initial success of GPA is arguably one reason why Ireland remains the centre for aircraft leasing. Gecas, along with its close rivals, helped place aircraft for countless start-ups across the emerging markets, and Gecas has played a large role in helping to establish the portfolio of many Chinese lessors.

The challenge the lessor faces is how to ensure it can continue to expand. One method has been diversification. Gecas has numerous businesses, including part-out and consultancy services; however, the aircraft lessor may be looking at new sectors, such as shipping and helicopter financing.

Collapse of GPA

In 1990 GPA placed an order for 700 aircraft worth $17 billion. Despite the war in Iraq a

Gecas was created by GE after it bought a stake in GPA.

year later and airlines cutting capacity, GPA launched a $1.1 billion initial public offering (IPO) in 1992. Tony Ryan, its founder and chief executive officer, hoped to value the company at $3 billion, but only 50 million of the 85 million shares on offer were purchased.

The failed IPO dented market confidence in the company. GPA, which had been relying heavily on the IPO for fresh capital, struggled to raise funds for its incoming aircraft. In addition, the lessor was managing an unwieldy bank group of more than 100 banks as it grappled with mismatching maturities for its aircraft.

After breaching several banking covenants on about $5 billion of existing debt,

1993

General Electric, Gecas' parent company, buys a stake in Guinness Peat Aviation (GPA), then the largest lessor in the world. Norm Liu assists with the merger, working in GE Transportation's merger department.

1994

GE appoints Jim Johnson as Gecas chief executive officer and president to merge Polaris, GE's existing aircraft leasing subsidiary, and the remaining GPA team working as Gecas, together.

1996

By the mid-1990s Gecas has become one of the world's leading lessors, owning 445 aircraft and managing more than 430 aircraft for investors, giving it a network large enough to place an order worth $6 billion for Boeing jets.

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as it became overleveraged, the firm began a restructuring. Despite the underlying leasing business remaining relatively profitable, it faced large impairment charges and several losses. A company worth potentially $3 billion suddenly faced bankruptcy in the space of less than a year, and was desperately searching for additional equity in the middle of a painful, and public, restructuring.

"It was just such a complex restructuring. When we went out looking for buyers for the company there was nobody. Everybody thought this is too big, and way too complicated," says Thomas Hollahan, global head of aviation at Citi.

Norm Liu, Gecas' president and chief executive officer, recalls GE first considered a GPA deal when its then aviation financing team asked for approval to acquire a small portfolio of assets from a distressed GPA. The request ultimately went to Jack Welch, GE's chairman and chief executive officer. GE's top management immediately sensed something bigger, says Liu.

A Marriott structure

Working out exactly what deal to offer GPA was left to Gary Wendt, head of GE's financial services division, a "brilliant deal maker". Liu, who was vice-president of mergers and acquisitions at GE Capital at the time, assisted Wendt and top GE Capital executive Denis Nayden on the deal. GE went from originally considering $300 million-worth of assets to a much bigger deal.

GE wanted to acquire some GPA assets immediately but also wanted an equity upside option. However, this posed a problem for GPA's bank group.

"If you buy the assets and have an option, how do you keep the employees motivated and around to manage the assets?" says Liu.

The solution GE came up with was to use a structure the Marriott hotel chain had used to split its business between a hotel ownership company and a franchise management company.

In late1993 GE Capital announced it was creating a new subsidiary, GE Capital Aviation Services (Gecas), to manage GPA's assets. The Marriott structure saw GPA essentially split into two companies: Gecas and what was left of GPA. Gecas acquired 44 of GPA's 464 aircraft outright for $1.3 billion but also negotiated a nominal cost option to buy a nearly two-thirds stake in GPA. Under the deal, GE extracted key parts of GPA, including GPA's organization its core remarketing team, its state-of-the-art IT aircraft tracking systems and a carefully selected portfolio of aircraft.

Gecas also had a service agreement to manage the assets on the remaining portion of GPA. Liu says that the service management agreement was the most interesting part of the deal.

"I think we ended up paying $35 million. We bought $1.3 billion of aircraft well, but the best part of the deal was the management contract. It paid back in a few years and also enabled us to take over one of the largest asset management teams at the time."

One banker on the deal recalls: "The brilliance of the deal was that they got everything they wanted without having to assume any of the debt obligations of GPA."

Early years

GE management appointed Herb Depp, then head of GE-owned leasing platform Polaris, a mid-tier Californian lessor, as the first president of Gecas. Polaris' business at the time was largely US-centric, whereas GPA was more international.

"The GPA guys were well travelled. They were going behind the iron curtain, places like Hungary and Czechoslovakia – that was pioneering back then," says Liu. "They also had strong technical skills as much of the team was ex-Aer Lingus. What they needed more of was risk underwriting and balance sheet management discipline – a hallmark of GE."

Despite the differences of history and culture among the Polaris, GPA and GE Capital units, the bulk of employees stayed at this new company called Gecas. Liu later left GE Capital for a brief time to join Kidder Peabody & Co, GE's investment bank, which was struggling at the time.

After Kidder was sold, Liu came back to

GECAS: the past twenty years

1997
Henry Hubschman is appointed president and chief executive officer of Gecas.

1998
GE Capital drops option to buy the remainder of GPA. Instead, GPA is sold to Texas Pacific Group, changing its name to AerFi. AerFi is later acquired by debis AirFinance, an affiliate of DaimlerChrysler and then eventually sold in 2005 to Cerberus Capital and subsequently renamed AerCap.

1999
Between 1998 and 2003 Gecas expands into other segments. It starts leasing engines in 1999, financing aircraft by 2000 and converting aircraft into freighters by 2002. It also enters the cargo market and orders regional jets.

2001
The September 11 terrorist attacks devastate passenger demand in the US. Gecas, which has large exposure to US carriers, negotiates favourable creditor positions among US carriers as many begin restructuring. At the same time the lessor focuses more on emerging markets, leading Gecas to open 10 new regional offices.

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Norm Liu, Gecas’ president and CEO

the lessor when GE appointed Gecas’ second president, Jim Johnson, in late 1994 after Depp was transferred to a senior role at GE Engines. Johnson’s task was to further integrate the firms into one Gecas.

In 1996 Gecas then posted its first order for more than $6 billion-worth of Boeing and Airbus narrowbodies.

“With the enhanced capabilities of the new Gecas, we had the confidence to make a big order from Boeing and Airbus. After we made this big commitment, it was a cathartic event, because it showed everyone in the organization that Gecas was serious about the business. It changed the dynamic inside the company, and that was when Gecas really congealed,” remembers Liu.

Henry Hubschman became Gecas president after Johnson’s departure in the summer of 1997 to become a top executive at business jet maker Gulfstream Aerospace. Under Hubschman’s decade-long leadership, Gecas began to diversify by offering a wider range of products and services.

“There were probably three strands of growth during this period,” says Liu. “The first one was fleet diversification from narrows to wides, to regionals to freighters to props. The second area was financial and ancillary product expansion. We acquired PK AirFinance as a debt unit and became very active in the capital markets. We also added services like engine leasing in 1999, our airframe parts business with the acquisition of The Memphis Group in 2006 and aviation consulting through the acquisition of AviaSolutions. The other big spoke was geographic diversification, especially in the emerging markets.”

Future of Gecas

Gecas has 23 different regional offices and has the largest aircraft portfolio of any lessor. Since the GPA acquisition the industry has increased in size dramatically. At the end of 2013 Gecas had total assets of about $45.9 billion.

Liu points out that Gecas buys more aircraft in one year than GPA’s entire portfolio. In any given year the lessor sells between $3 billion and $4 billion to renew its fleet, and will buy $6.5 billion to $7 billion of assets. The lessor also has $3.5 billion of depreciations and amortization in any one year.

“We have used the GPA platform to grow much bigger,” reflects Liu.

Typically, Gecas acquires $2.5 billion to $3 billion of new orders a year, and relies on the remaining $3.5 billion to $4 billion of fundings to be acquired through sale/leasebacks, loans and engine activity.

One dilemma Gecas has had is how to expand further. Its revenue has stayed flat at $5.3 billion for the past two years.

Two ideas that Gecas seems to be evaluating are whether to expand into helicopters and shipping. According to one press report, Gecas could invest $2 billion financing helicopters to oilfield service companies and another $2 billion offering shipping loans through its lending arm, PK AirFinance. Both strategies are still undergoing internal review, says Liu.

“I view helicopters as maybe a $2 billion opportunity. GE makes three out of the four rotors for the medium- and heavy-duty side of the helicopter market. It is an interesting niche, but I don’t know if it is an opportunity as a lessor or as a lender. My first instinct is that we have our PK AirFinance unit investigate doing some lending.”

Rise of a new competitor

AerCap’s bid for ILFC, if successful, will increase its total number of aircraft to more than 1,300 priced at over $41 billion and will create the second-largest lessor in the world after Gecas. The merged lessor represents the first competitor able to come even close to Gecas in terms of total fleet.

Liu has a different perspective. “For many years ILFC was the lead player under the umbrella of AIG, which was strongly rated and led by Steve Hazy, one of the best in the business. And we had to compete against that formidable tandem for years, so I think we can hold our own in the future. But it’s very good to have a stable, experienced number two player versus all these asset sales scenarios.”

It has not been plain sailing for Gecas. Last year the lessor booked $732 million of pre-tax impairments in 2013, its largest charge in at least 10 years. The write down, about half of which was caused by older freighter aircraft models, was also responsible for Gecas’ diminished profitability of $896 million in 2013.

In comparison, the lessor boasted $1.2 billion in profits in 2012. It is very unlikely that Gecas will announce any sizeable impairment in the next 12 months.

The industry, including *Airfinance Journal,* widely expects Gecas to exceed $1 billion in profits for 2014. The more interesting question will be whether the lessor, through its subsidiary, PK Finance, will move into either helicopter or shipping finance to help it do so.

2006
Gecas expands into airframe parts distribution by purchasing The Memphis Group.

2010
Hubschman retires. Gecas appoints Norm Liu as chief executive officer. The lessor opens offices in South Africa and Ghana, and starts an airport consulting unit, AviaSolutions. Gecas and Chinese lessor CDB Leasing are launch customers for Comac’s C919 aircraft.

2011
Gecas makes its first order for A320neos and ATR 72-600s.

2013
Gecas orders its first 787 Dreamliner, while Boeing delivers its 350th 737 to Gecas.