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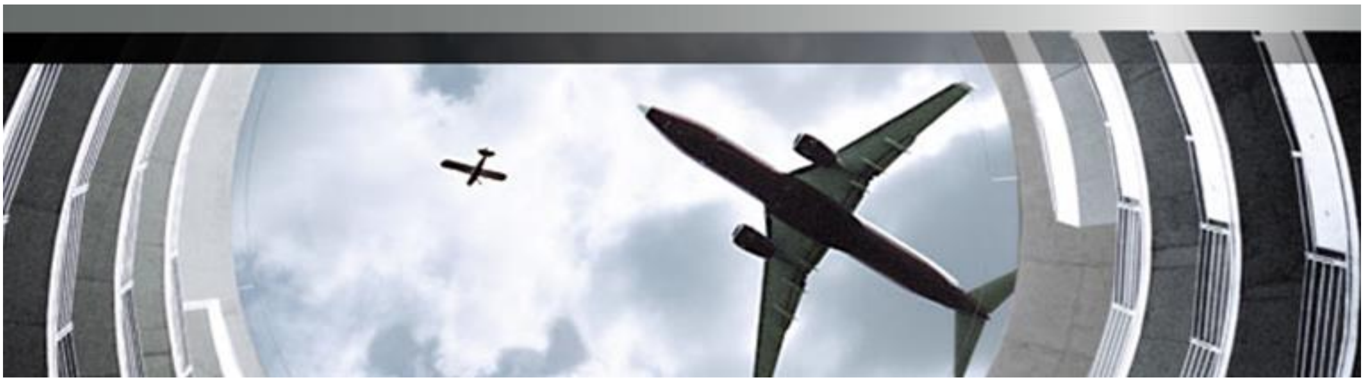

Aviation Debt

Newsletter Q1 2020

Global Aviation Q1 2020 Overview

- The Covid-19 pandemic has severely impacted the aviation industry across the globe. Border closures and travel bans affect 98% of international air passenger revenues.
- A large part of the global fleet is grounded and flights are cancelled all around the world. This will impact passenger growth and airline revenues for 2020. Passenger numbers have plummeted to the level of 2006 and IATA estimates a 48% decrease in airline revenues for 2020.
- Prime Capital did not close any transactions in the first quarter. However we are currently pursuing attractive opportunities, which have developed during the crisis. These usually involve Tier 1 names at very attractive pricing with lower LTV's and shorter tenors. Also the secondary market seems to become more active, with banks willing to sell some of their exposure at a discount.
- **Conclusion:** Covid-19 has significantly impacted the airline and aircraft market. The long term growth trend has experienced a severe drop and the industry will take some time to recover. The exogenous shock will lead to a consolidation in areas, where an oversupply has been prevalent for the past years and some airlines are in a position to gain additional market share, once weaker competitors exit the market. Spreads have increased significantly in some cases from double-digits to more than 300 Bps. Deals for Tier 2 or 3 airlines, are currently rare and it is mainly Tier 1 names looking for secured financing. We currently see a generic spread for a narrow-body loan around 300 Bps, but with significantly improved credit on the airline side.

USD 1 bn invested

More than200 aircraft

Airlines in 39 countries

USD 1,2 bn committments

6 Airline Defaults

USD 0 realized loss

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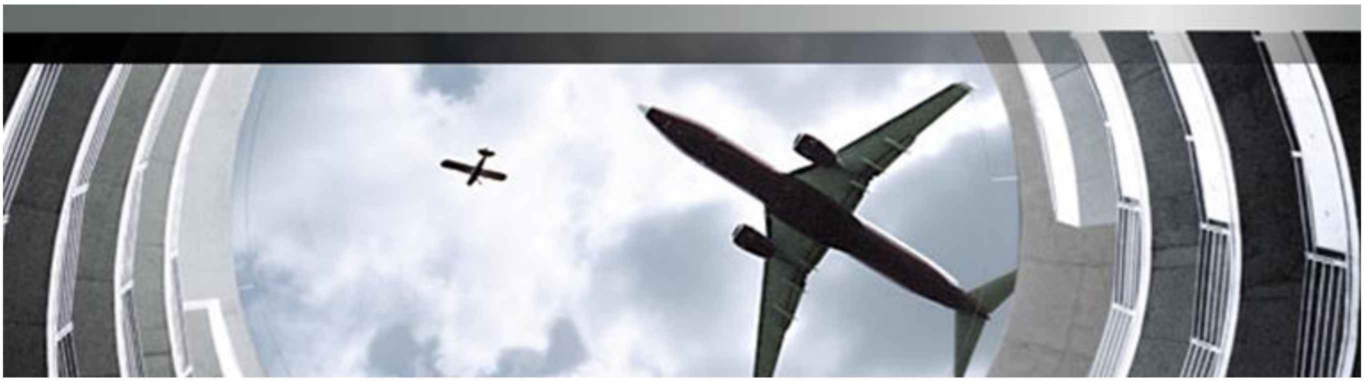


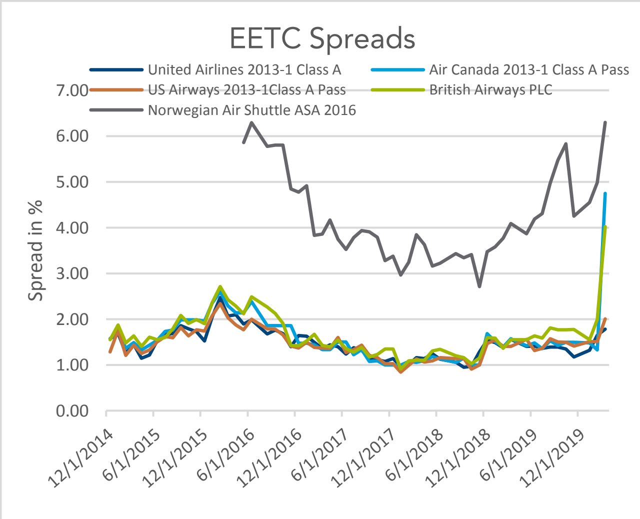
Aviation Debt – Q1 Summary

The first quarter of 2020 was dominated by the global Covid-19 pandemic, which has had a particularly severe impact on the aviation sector worldwide. At times, travel restrictions affect more than 90% of international routes, and domestic air traffic has also come to a standstill due to contact restrictions. IATA expects a decline in Revenue Passenger Kilometres (RPK) of 30% to 40% (y-o-y) depending on the region in 2020, resulting in a USD 314 billion decline in revenue for airlines in 2020, or -48%. In contrast to previous pandemics, such as SARS or MERS, a U-shape recovery seems more likely than a V-shape recovery. This means that instead of a quick recovery to pre-Covid-19 levels, the recovery will take longer. This is mainly due to a fundamental change in travel behaviour and an expected global recession. It is estimated that it could take until 2022 to return to the economic level of early 2020. This will also have an impact on air traffic. As airlines have lost almost all their revenues, they are trying to minimise their costs as far as possible and use the available liquidity for as long as possible. This leads to deferrals for lease payments and in some cases to deferrals at the credit level.

A particular interesting example of this crisis is Norwegian, which has managed to stay in business by securing government support. The support however has been tied to strict conditions, including long payment deferrals for leases as well as a significant increase in the airlines equity ratio. This has been achieved by a debt to equity swap, converting more than USD 1bln into equity. This includes some receivables for leasing companies. TUI was also able to secure EUR 1.8 bln from the German government. The United States have provided USD 25bln in state support to its 10 largest airlines. It is still unclear, when air travel will be opened up again and what restrictions will apply internationally. However some airlines are very well positioned to take over a substantial part of the business from weaker competitors.

Financing Terms

EETC Spreads widened significantly towards the end of March. However it has to be noted that trading was very thin and the spreads only provide some indication. Unsurprisingly the Spread for Norwegian's EETC surged above 6%, a 26% increase compared to the previous month. Spreads for Air Canada and British Airways more than doubled and were priced above 4% at the end of March.



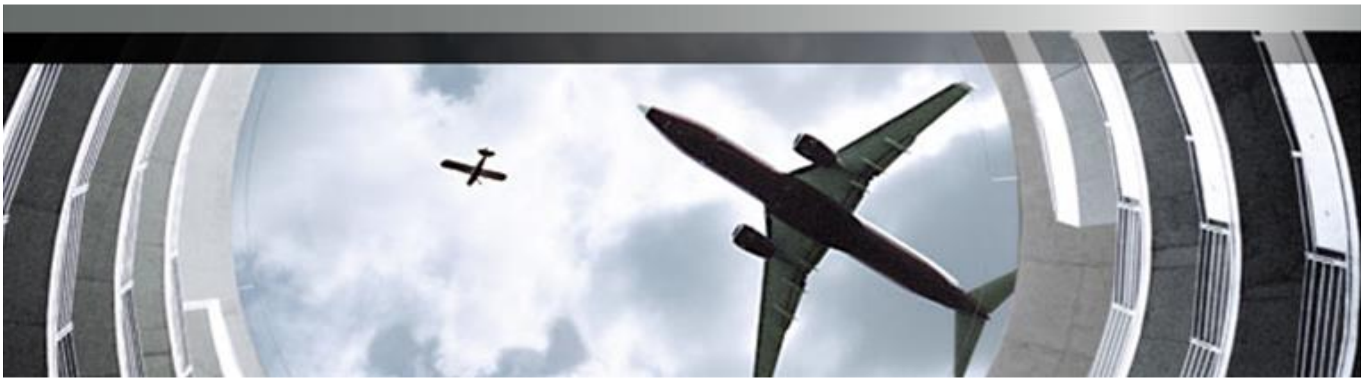
Source: PCAG Research based on Bloomberg Data / the spread is calculated as the difference between the yield and the respective Swap rate

** EETCs are publicly-issued bonds, with full recourse to the airline and backed by liens on a portfolio of aircraft*

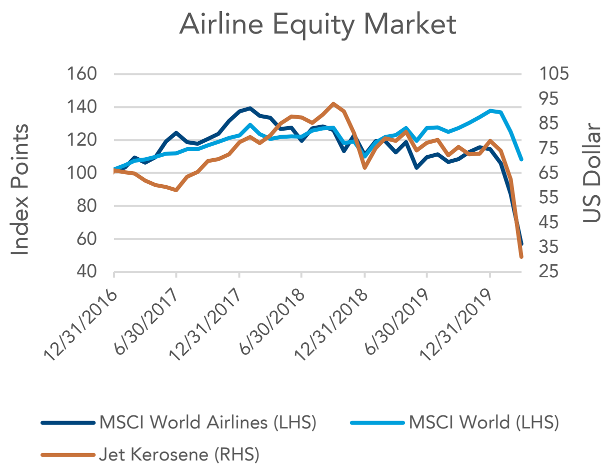
This also reflects the significant price increase in the private markets, where spreads for Tier 1 carriers have increased from double digits to 300+ basis points. This provides very attractive opportunities for investors still active in the market. Also LTV's and tenors have decreased in order to adjust the risk profile. Especially some larger carriers have used their on-balance sheet aircraft in sale and lease back transactions to gain additional liquidity. Aircraft prices have dropped between 5% and 20%; the latter relates to older illiquid models. This also provides some upside for equity investments. However it can be expected that asset prices will take a little longer to recover than in previous crises.

Airline Market

Airline stocks have plummeted since the start of the crisis as many airlines had to shut down their entire operation. Compared to the broader equity market airlines have been one of the sectors hardest hit in the sell-off in March and April. There has been little distinction between the airlines, but some airline stocks have recovered quicker than others. The focus shifted quickly to liquidity and potential government support. IATA estimated at the end of March, that the median liquidity buffer of airlines across the regions would last for approximately 3 months. Since then airlines have worked hard to access additional liquidity. Despite



efforts for additional funding, some casualties can be expected in the second Quarter.

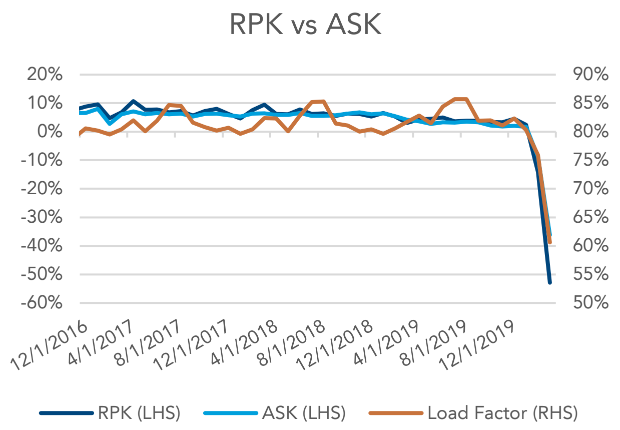


Source: Bloomberg

While Kerosene prices and airline stocks showed a negative correlation in the past, both have dropped in lock step in recent months. Generally airlines should profit from low fuel prices, as these make up a significant part of the operating costs, however with no operations and fuel hedging contracts in place for the next six to twelve months, low Kerosene prices will not provide support for the foreseeable future.

Commercial Aviation

The Covid pandemic has caused severe drops in passenger numbers and load factors, with the majority of the global fleet being grounded and almost non-existent international air traffic.



Source: IATA, Air Passenger Market Analysis Mar 2020, P.1. Available here.

Global revenues passenger kilometers (RPK) measuring the total demand of passenger traffic, fell by a historic 52.9% (y-o-y) in March down from 5.0% in June. Passenger volumes dropped to the level of 2006. Available seat kilometers (ASK) dropped in line with RPK's by -36.2% (y-o-y) in March, while the load factors decreased to 60.6% down from their all-time highs around 80%. IATA conducted a survey on air traveler confidence. About 45% of the people responded, that they would travel within "a month or two" after travel restrictions have been lifted. Another 30% indicated to wait for about six month before considering air travel again. In total IATA estimates a decrease of 48% in total air traffic for 2020, with international routes impacted more strongly than domestic traffic.

Prime Capital Aviation Debt Expertise

- Advice and support for aviation direct investments, portfolio strategy and sector allocation
- Access to leading European and global aviation finance partners for sourcing as well as direct lending activities
- Investments in Senior and Mezzanine debt

Further information about Prime Capital AG can be found on the web site
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