



As part of Boeing Capital Corp.'s efforts to work closely with Chinese banks to encourage their involvement in aircraft leasing, BCC has sponsored three in-country aircraft leasing seminars in recent years. Here, BCC President Walt Skowronski (left) visits with Chairman Liu Mingkang of the China Banking and Regulatory Commission at a November "reunion" of seminar graduates.

# Manage to get ahead

Boeing Capital Corp. navigates through today's market uncertainties

By John Kvasnosky

**M**aybe you've thought recently about selling a home or refinancing a mortgage. Did you wonder about questions such as: Have home prices bottomed out? Where are mortgage rates heading? What's my place worth in today's market?

If so, you can relate to the challenge of managing finances in the face of the most severe economic crisis since the Great Depression. Now imagine what it's like to be at a finance company, where products sell for tens to hundreds of millions of dollars a copy, and customers from across the world wanting deliveries seek loans from sources across many time zones.

Nowadays, work life is anything but routine at Boeing Capital Corporation, Boeing's financing unit. The BCC team is greeted daily with news of lenders cutting back or withdrawing from sectors, falling confidence levels in the world economies and wide swings in lending rates. The 160-strong work force of Boeing's smallest business unit is navigating through an extremely dynamic financial environment, looking to ensure customers are supported while minimizing associated risks that could impede the company's own ability to perform.

In the early part of the decade, BCC provided financing for Boeing and non-Boeing purposes. Today, however, it focuses solely on providing financing solutions to buyers of Boeing commercial and defense products. It does this primarily by connecting customers with third-party financing sources, with the goal of ensuring that no product deliveries are delayed by lack of financing. BCC's success also depends on its ability to manage risks in its own financing portfolio—concerns such as keeping its aircraft on lease and managing through airline defaults, to name a few.

Since BCC refocused its mission from one of growth to customer support, it's worked hard to reduce the size of its commercial aircraft portfolio—from \$12 billion in 2003 to \$6 billion today—and bring down its debt obligations (\$9.2 billion to \$3.7 billion in this period), to be prepared for any change in market conditions. In the process, it chalked up solid business-plan performances including an impressive string of large dividend payments to Boeing (see box on Page 54).

"We have had five years of tremendous accomplishments and success with our new mission. The good news is that our mission hasn't changed. The bad news is that everything else has," said

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*—Kostya Zolotusky, managing director for capital markets development, Boeing Capital Corp.*

BCC President Walt Skowronski.

The current global economic turmoil has left few unaffected. Airlines in particular have been hard hit. They’ve dealt with rising fuel prices (which have retreated from all-time peaks this summer). Then came the credit crunch, which squeezed their liquidity—access to available money to fund operations or acquire new aircraft—and threatened their ability to find affordable financing. To that, add reports of recent declines in global air travel due to recessionary fears.

As a result, BCC is again working together with customers in responding to restructuring challenges and preparing to potentially use the company’s balance sheet to finance deliveries or provide other key support.

“For the last few years, we have been very good at getting our airplanes financed using third-party money. We haven’t directly financed an airplane for more than two years,” Skowronski said. “We monitor the market conditions closely, and we’re seeing impacts to some of the key sources for aircraft financing, which means we could likely again find ourselves doing some direct customer financing in 2009.” (See chart on Page 54)

Unlike typical “captive” financing companies, whose business revolves primarily around lending associated with product sales, BCC views product financing more as an enabler for closing some airplane deals, with Boeing being the “lender of last resort” when other financing is unavailable.

Despite the market turmoil, aircraft financing continues to be available, thanks in part to BCC’s investor outreach work and financiers’ belief in the value of Boeing products. At today’s airliner production rates, and given current backlogs, there’s a combined manufacturers’ demand for between \$60 billion to \$100 billion annually in airplane financing.

BCC’s success with third-party financing support is thanks in no small part to

its comprehensive outreach program. It is aimed at informing and educating bankers and financiers, whose institutions fund aircraft purchases.

“Every time there’s been a crisis, there’s been a concern that the industry won’t return to growth. But we know from experience that’s not the case: People need to fly, and they will, on good, fuel-efficient airplanes. And as long as bankers and financiers see evidence of that demand, they’ll support it,” said Kostya Zolotusky, BCC’s managing director for capital markets development. “Our job is to bring all the stakeholders together and present the facts and data on our airplanes, their performance and our customers’ fleet needs. And that’s the core of our message: The demand for aircraft is real.”

For the near term, it appears that most airplane deliveries into early 2009 have financing secured. Going forward, however, financiers are likely to be highly selective, loaning or leasing to airlines with the best credit ratings.

European banks, which have been major players in recent years, have pulled back recently but are expected to return in early 2009. Meanwhile, regional banks—throughout Asia, especially in China, as well as Africa, the Middle East and elsewhere—have continued to increasingly support their local airlines. In fact, Skowronski recently returned from China, where Boeing Capital signed agreements with four leading Chinese banks doing airplane lending to jointly work to increase their global presence.

Following the major industry disruption that occurred after the Sept. 11, 2001, terrorist attacks, the U.S. Export-Import Bank (Ex-Im), the country’s national export credit agency, provided major support to Boeing customers seeking financing. Today, thanks to a geographically broader Commercial Airplanes backlog and sustained demand for airplanes, Ex-Im is expected to provide even more support.

“Post 9/11, BCA’s backlog was weighted by U.S. carriers and others who were not eligible for Ex-Im support. Today, more than 80 percent of our customers are eligible for Ex-Im support, whether in the form of loan guarantees or direct lending. And the bank has made its desire to help the industry during this crisis very clear. They’re a valued partner to us and the industry,” Skowronski said. He added that the bank’s airplane lending activities have returned \$1 billion-plus in profits to the U.S. government.

The crisis has also brought BCC a significant increase in the volume of customer requests for financial assistance. Fortunately BCC has seen only limited impacts to date, from some smaller-airline bankruptcies. Unscheduled aircraft returns are running higher than planned, which require additional remarketing efforts.

“We are being very selective in how and when we step in with the goal of helping key customers weather the storm they’re going through. When we do, our goal is to create a win-win situation in which we provide temporary and measured assistance to certain airlines, and those airlines help us accomplish things that are important to us. Today, the potential financing demand we see on the horizon looks very manageable,” Skowronski said.

He said as part of its prudent planning, BCC is preparing to turn to outside financial markets for money to finance customer aircraft if required, and recently BCC renewed with the government its ability to sell bonds if required to raise cash in the future. He added that as BCC looks to support its customers, it puts a high priority on not adding any undue risk to its balance sheet. In fact, BCC is inserting additional risk mitigation terms to further protect Boeing when negotiating new customer agreements.

Skowronski said BCC also is aggressively managing its leased-airplane portfolio. “Our single biggest asset concentra-

tion is our 717 fleet. We're very committed to working with 717 operators, our engine supplier, Rolls Royce, and Commercial Airplanes' Commercial Aviation Services operation to ensure that the 717 fleet continues to fly efficiently. The 717 is a great airplane in a time where fuel efficiency is desired," Skowronski said.

Like a real-estate investor choosing to take a long-term view of the current market crisis, Skowronski reflects on what BCC currently has going for it in its own portfolio of business resources.

"We are looking at an entirely different environment in which to perform our mission. But the mission hasn't changed," he said. "We are financing the best aircraft in the world at a time of high demand for our products. We have the strength of Boeing and its people. We have a very experienced and expert BCC team that's successfully been through many challenges. And we have the support of Boeing's leadership and the Boeing board of directors." ■

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## State of the airplane financing markets

After recovering from disruptions following 9/11, the aircraft financing marketplace mostly hummed along into early 2008. In the last half year, Boeing Capital Corp.'s "stoplight" view of the health of aircraft financing players, particularly key sources, has changed significantly. It gives financiers like BCC pause over whether adequate financial market funding will be available for future deliveries, and prompts prudent planning for possible direct Boeing financing in some cases.

# BCC by the numbers

Here's some of what makes Boeing Capital Corp., the company's smallest business unit, a contributor to the success of Boeing customers as well as a solid financial performer:

**60**

Approximate percentage reduction of BCC's total debt between 2003 and the end of the third quarter of 2008 (\$9.2 billion to \$3.7 billion). The organization has significantly reduced its debt to allow for growth if market conditions demand.

**160**

Current number of BCC employees, most of whom work at its headquarters in Renton, Wash.

**325**

Approximate number of aircraft in BCC's portfolio, of which the largest single type is the fuel-efficient Boeing 717.

**2 billion**

The approximate dividend, in dollars, through third-quarter 2008 that BCC has contributed to Boeing over the last four years. That's helped in Boeing's overall efforts to deliver value to its stockholders.

**6.1 billion**

Current value in dollars of Boeing Capital's aircraft portfolio. BCC ranks among the top aircraft leasing companies.

Capital providers	2003	2004	2005	2006	2007	2008
Leasing companies*	R/Y	Y	G	G	G	Y/R
Commercial banks*	R/Y	G	G	G	G	Y/R
U.S. public debt* / capital markets*	R	R	R/Y	Y	G/Y/G	R
Export credit agencies* (like U.S. Ex-Im Bank)	G	G	G	G	G	G/Y
Private equity / hedge funds	G	G	G	G	G	R
Tax equity funds, mostly in Europe	R	R	Y	Y	G	G/Y
Airframe and engine manufacturers	R	R/Y	G	G	G	Y
New sources of funding* (China, Middle East, other emerging markets)					G	G/Y

**G** Good availability of financing at market prices

**Y** Limited financing capacity and rising borrowing costs

**R** Temporarily not financing, very limited capacity or high borrowing costs

\* Key sources of funding