

# Arnold & Porter

Innovative. Integrated. Industry-Focused.

## Energy Transition / Aviation Symposium - Structured Solutions to Support Dynamic Industrial and After-Market Financing Challenges

September 20, 2023



# Panel Introduction



**Thomas Giuntini**  
**Managing Director, Global Financial Solutions | MUFG**

- Managing Director in MUFG's Global Financial Solutions group, with 20 years of structured finance experience, including securitizations, leasing, and hybrid capital.
- Focused on developing structured solutions with accounting, tax, regulatory, and/or credit considerations that meet key client objectives
- MBA from Columbia University; BSBA from Bucknell University



**Bob Peart**  
**CEO & Founder | volofin Capital Management**

- 30+ years of experience in commercial aviation industry with executive roles at aviation finance, airline, investment management, engine leasing, and asset management firms.
- Previously worked with Magnetar Capital LLC, Aircastle Advisors, Guggenheim Partners, Bank of Montreal among others
- Bachelor of Arts degree, with a major in accounting, from Bradley University
- MBA coursework at Northwestern University's Executive Master Program



**Nik Nunes**  
**CEO & Founder | Industrial Development Funding**

- 25+ years at General Electric, most recently as the Managing Director of Strategic Investment Partnerships leading over \$15Bn of strategic partnerships
- Master of Science in Materials Engineering (Georgia Institute of Technology)
- Masters in Business Administration (New York University), Bachelor of Science in Mechanical Engineering (University of Massachusetts)



**Chip Toth**  
**Vice President | Mitsubishi Power Americas**

- Head of Capital Markets at Mitsubishi Power Americas, Inc., since Apr'19
- Managing Director at Czech Asset Management from Jan'15 to Feb'19
- Managing Director at GE from Aug'10 to Dec'14 and Managing Director at EFS from 2007 to 2010
- Held various positions at GE from 1995 to 2006
- MBA from University of North Carolina at Chapel Hill – Kenan Flagler Business School

# Panel Introduction

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**Catherine Young Hagerty**  
**Counsel | Arnold & Porter**

Catherine Young Hagerty advises financial institutions, other lenders and borrowers, and equipment leasing companies on the structuring, documentation, and administration of various forms of complex debt financings. She represents clients in a wide variety of industries, including construction, container leasing, engineering, healthcare, pharmaceuticals and medical devices, retail, semiconductor equipment manufacturing and timber management, and technology. Catherine's work involves multiple types of credit facilities, including asset-based, cash flow, subscription backed, and warehouse, with extensive experience creating bankruptcy-remote vehicles to serve as borrowers or issuers of notes, or sellers of receivables. Her structured finance experience spans a broad spectrum of industries, assets, and transaction structures.



**Scott Berson**  
**Partner | Arnold & Porter**

Scott Berson is co-head of Arnold & Porter's Structured Finance & Derivatives practice. He has 25+ years of experience representing lenders and borrowers in structured and more conventional financings—both secured and unsecured—as well as in other related transactional matters. Serving major commercial banks, other financial institutions and companies, Scott focuses primarily on receivables transactions—particularly those structured as “true sales”—originating across a wide range of industries and products, including industrial equipment and energy generation, cloud services, auto parts, chemicals, technical support, and toy/consumer goods. He also represents both purchasers and sellers in matters involving not only direct transfers, but also those structured as sales through supply chain platforms.



**Daniel Hartnett**  
**Partner | Arnold & Porter**

Dan Hartnett is co-head of Arnold & Porter's Structured Finance & Derivatives practice. He has extensive experience representing financial institutions, investment managers, servicers, trustees, issuers and investors in securitization transactions and investment fund transactions, particularly those involving residential and commercial real estate and loans, aviation assets and loans, farm credit loans, synthetic assets and agency loans. He has been involved in CDO, CLO, CRE CLO, CBO, CFO, CMBS, MSR, mortgage banking, real estate investment trust, real estate mortgage investment conduit, farm credit loan, aviation asset and loan, PACE lien, tax lien and synthetic securitizations, and investment fund transactions across the country and around the world. He has worked extensively on restructuring and workout transactions involving loan origination platforms, investment funds, asset-backed commercial paper conduits, CLOs, CFOs, CMBS, credit default swaps and total return swaps. Dan is a frequent lecturer on aviation, securitization, investment funds and derivatives topics.

# volofin and IDF Introduction

## volofin Overview



- HQ: London (Offices in SC and NY)... Founded: 2019
- CEO: Bob Peart
- FCA Authorized and Registered Investment Advisor  
Specialty finance and alternative asset management firm focused solely on the commercial aviation market, with a long-term approach and a differentiated strategy
- **Solutions**
  - Focused on providing recourse and limited-recourse bespoke financing solutions for the commercial aviation market – airlines, lessors and aviation investment firms
  - Also invests in original issue and secondary offerings of public and private aviation debt and securities
- **Focused Sector:** Commercial Aviation
- **Capital Deployed:** \$1.2bn

## IDF Overview



- HQ: NY (Offices in FL, India)... Founded: 2015
- CEO: Nik Nunes ... COO: Doug Rivenburgh
- Registered Investment Advisor and provides captive off balance sheet sales and product solutions for global industrial companies by investing in a product or project in exchange for a portion of their future cash flows
- **Solutions**
  - Product Sales Funding: Captive off-balance sheet sales finance program that helps win more deals at better terms
  - Product Development Funding: Create non-recourse, off balance sheet capacity for acceleration of critical product development
- **Focused Sectors:** Energy Transition, Heavy Transportation and Digital Infrastructure
- **Capital Deployed:** \$1.8bn

# Front End Financing Solution Matrix for New Capex

Product	Description	Collateral
<p>1</p> <p><b>Construction Payment Deferral / Pre-Delivery-Payment (PDP) Financing</b></p>	<p>Construction financing backed by invoiced receivables through commercial start date / Pre-Delivery-Payment financing from order through Aircraft delivery. Off-Balance Sheet for OEM</p>	<p>May include:</p> <ul style="list-style-type: none"> <li>• Unsecured Parent Guarantee</li> <li>• Residual Guarantees</li> </ul>
<p>2</p> <p><b>Long Lead Item Deposit Financing</b></p>	<p>Financing of long-lead items, prior to start of project. Off-Balance Sheet for OEM</p>	<ul style="list-style-type: none"> <li>• First / Second Liens</li> <li>• Letters of Credit / Payment Bonds</li> <li>• Export Credit Agency Guarantees</li> <li>• Revenue Guarantees</li> </ul>
<p>3</p> <p><b>Asset as a Service</b></p>	<p>Lease as bridge to technology acceptance or capex budget approvals. Off-Balance Sheet for OEM</p>	

# 1 Example Construction Payment Deferral Transaction

## Key Deal Terms

Original Equipment Cost	\$300MM
Total Invoices Deferred	\$200MM
Total Deferred Payments	\$250MM
Deferral Term	4 Years

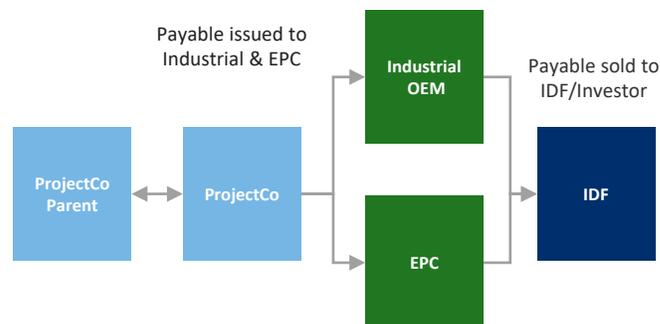
## Project Summary

- Industrial OEM provides ProjectCo with equipment, with limited/no payments till end of project, and backstopped by ProjectCo Parent guarantee
- Industrial defers total invoices of \$200MM in exchange for a single payment of \$250MM at Date Certain post project completion
- Grossed up invoice payments will be guaranteed at Date Certain by ProjectCo Parent
- Payment obligation is included in EPC documentation

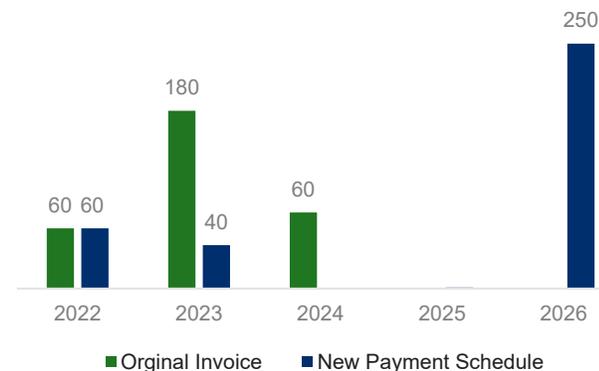
## Key Collateral

- ProjectCo acknowledgement of invoices as payable with out contingencies at Date Certain
  - No performance setoffs or other defenses against payment obligations
- Deferral payments are senior to future cash receivables from the project owed to OEM.
- ProjectCo Parent guarantee

## Deal Structure



## Cash Flow Summary (\$MM)



# 1 Sample Pre-Delivery Payment Financing

## Key Deal Terms

Original Equipment Cost	\$160MM
Assumed Discounted Purchase Price	\$120MM
PDP Requirement	\$40MM
Deferral Term	3 Years

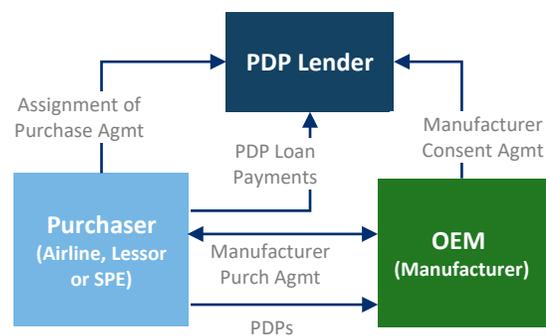
## Project Summary

- Pre-Delivery Financing in support of OEM order for widebody freighter aircraft
- Airline able to defer approximately \$28MM of the \$40MM pre-delivery payments made to OEM over a 3-yr period
- PDP Financing protected by assignment of OEM purchase agreement and OEM incentive to repay lender versus allow lender to step into purchase agreement

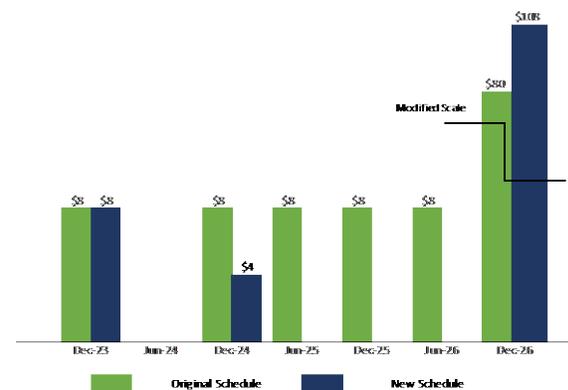
## Key Collateral

- Assignment of Purchase Agreement with ability to realize benefit of majority of credits
- Pledge of shares in applicable SPE
- Airline / Lessor guarantee of SPE obligations under PDP Financing

## Deal Structure



## Cash Flow Summary (\$MM)



# After Market Financing Solution Matrix

Product	Description	Collateral
<p><b>4</b> <b>Maintenance, Repair and Overhauls (MRO) Financing</b></p>	<p>Deferral financing of ongoing maintenance, repair and overhauls of installed base, documented inside Long Term Service Agreement. Off-Balance Sheet for OEM</p>	<p>May include:</p> <ul style="list-style-type: none"> <li>• Unsecured Parent Guarantee</li> <li>• Residual Guarantees</li> </ul>
<p><b>5</b> <b>Upgrade / Conversion Financing</b></p>	<p>Deferral financing of equipment and service upgrades and / or conversions, documented inside Long Term Service Agreement. Off-Balance Sheet for OEM</p>	<ul style="list-style-type: none"> <li>• First / Second Liens</li> <li>• Letters of Credit / Payment Bonds</li> <li>• Export Credit Agency Guarantees</li> <li>• Revenue Guarantees</li> </ul>
<p><b>6</b> <b>Late-stage Inventory Financing</b></p>	<p>Off-balance sheet financing of late stage inventory for expected (but not fully contracted) parts purchases</p>	

# 4 Sample Overhaul Deferral Transaction

## Key Deal Terms

Total Equipment and Service Cost	\$9MM
Total Repayments	\$11MM
Repayment Structure	Fixed + Variable \$/EFH
Deferral Term	5 Years

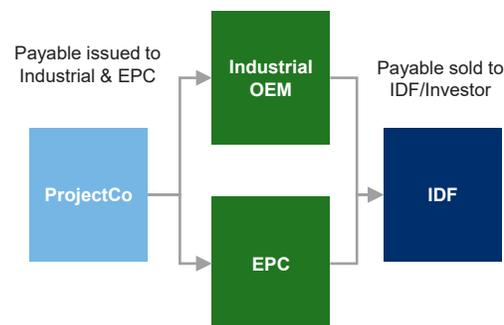
## Project Summary

- Financing of rotor purchase for planned upgrade of a Large Gas Power Plant
- \$9mm Rotor plus installation cost financed via the creation of an \$11mm deferred payment plan spread over five years
- Repayment structured as minimal fixed payments and remaining fixed payment per hour of plant utilization, sharing risk of plant cash generation
- Payment obligation is included in Long Term Service Agreement (LTSA) documentation

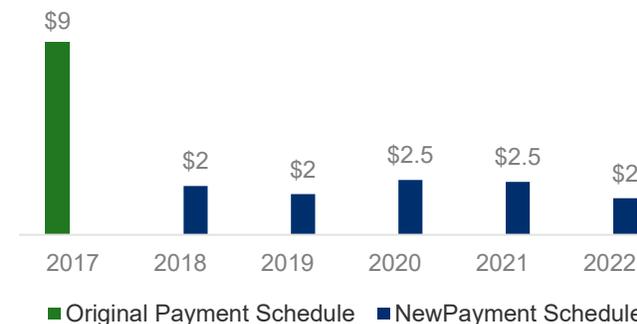
## Key Protections

- ProjectCo acknowledges deferral invoices as payable with out contingencies
  - No performance setoffs or other defenses against payment obligations
- Deferral payments are senior to future cash receivables from the project owed to OEM.
- ProjectCo unsecured guarantee

## Deal Structure



## Cash Flow Summary (\$MM)



# 4 Sample Maintenance Liquidity Facility

## Key Deal Terms

Total Engine Overhaul Exp (x2)	\$18MM
Financed Amount	\$18MM
Repayment Structure	12 months from Mx Event
Deferral Term	Up to 12 months

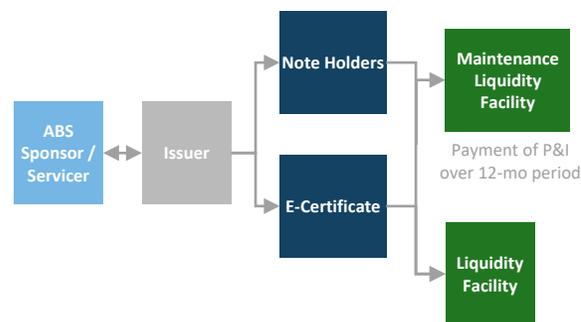
## Project Summary

- Aircraft Portfolio Financing Facility
- Standard structure required servicer to trap cash for future maintenance events over 6-mo+ period based on expected timing for Mx Event
- Maintenance Liquidity Facility displaces upfront contribution or cash trap mechanism and provides better synchronization with actual Mx Events
- Repayment over an up to 12-mo period with proceeds at top of project waterfall
- Equity benefits from elimination of cash trap (prior to actual expenditure)

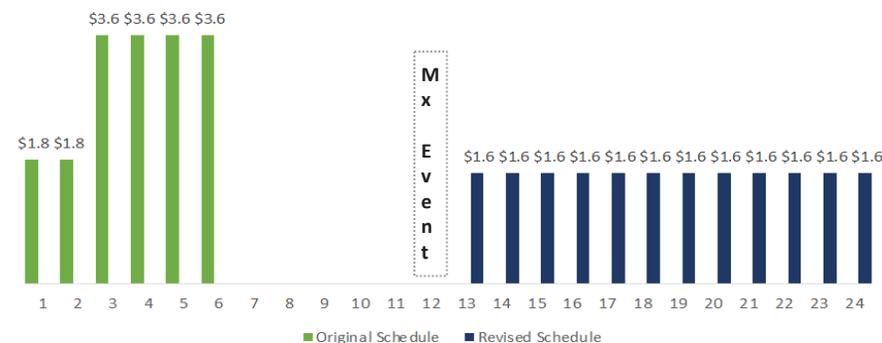
## Key Protections

- Waterfall priority to repay any draws (junior to Liquidity Facility)
- Collateral priority only junior to Liquidity Facility
- Benefit of rent and maintenance cash flows from diversified portfolio
- Earlier repayment from sale proceeds
- Priority position to Note Holders and E-Certificates / Equity

## Deal Structure



## Cash Flow Summary (\$MM)



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# Q&A