Nicholas Pastushan
EVP and Chief Investment Officer, Transportation Finance
CIT Aircraft Leasing

A Discussion On The Impacts Of The Credit Crunch And
The Oil Price Spike On Commercial Aircraft Demand

Abstract: Financing markets in turmoil, Economic issues spreading around the globe and a record spike in energy prices. What will this all mean to order and delivery activity for commercial aircraft? Hear a top executive in the leasing business discuss the forward view of travel demand, and how the financing markets will recover from their shocks to fund a record level of order backlog.
CIT Overview

CIT (NYSE: CIT), a leading global commercial finance company, provides a comprehensive set of financial products and services to clients in more than 50 countries around the world. A leader in middle market financing, CIT has more than $70 billion in managed assets and provides financial solutions for more than half of the Fortune 1000.

Our diversified business platform serves more than one million clients in more than 30 industries. We serve a wide variety of industries including manufacturing, transportation, retailing, wholesaling, healthcare, communications, technology, energy, financial sponsor and various service-related industries. Each business has industry alignment and focuses on specific sectors, products and markets with portfolios diversified by client and geography.

Our century of growth has been fueled by an unyielding focus on meeting our client’s financial needs and is balanced by our deep credit and risk management culture. The CIT brand platform, Capital Redefined, articulates our value proposition of providing our customers with the relationship, intellectual and financial capital to yield infinite possibilities. Founded in 1908, CIT is celebrating its Centennial throughout 2008.
Commercial Segments

Corporate Finance
Provides lending, leasing and other financial and advisory services to middle market companies, with a focus on specific industries, including healthcare, financial sponsors, energy, communications, media and entertainment.

Trade Finance
Provides factoring, lending, credit protection, receivables management and other trade finance services to companies that sell into retail channels of distribution.

Transportation Finance
Provides lending, leasing, and advisory services to the transportation industry, principally aerospace and rail.

Vendor Finance
Provides innovative customer financing and leasing solutions that support global, regional and local manufacturers and distributors in technology, office products, diversified industries, telecommunications and healthcare.
CIT Transportation Finance Structure

CIT Transportation Finance
$13.9 BN Managed Assets

CIT Rail
- $4.5BN Managed Assets
- 107,829 Railcars
- 537 Locomotives
- Strong utilization > 95%
- Lease rates strong but coming off cyclical high

CIT Aerospace

Commercial Airlines
- $8.4BN Portfolio
- 317 Aircraft
- 107 Customers
- 51 Countries
- 114 new aircraft on order
- Offices in New York, Ft. Lauderdale, Los Angeles, Dublin and Singapore

Business Aircraft
- ~$950MM Portfolio
- Products:
  - Loans
  - Leases
  - Fractional Share Financing
- Customer base primarily corporate users
- Expanding scope internationally
- Strong manufacturer relationships

Financial Institutions Group
- 2007 Volume ~$625 MM
- Third Party Transactions
  - Debt
  - Sale Leaseback
  - EETC

CIT Transportation Leveraged Finance
- $4.8BN League Table Volume
- Financial solutions to rail, aerospace, defense, homeland security manufacturers, distributors and service providers
- Offices in New York, Stamford, London, Los Angeles, Chicago
Today’s Agenda

- Oil Prices
- Aircraft Supply and Demand Impact of Oil
- Sources Of Aircraft Financing
- Leveraged Loans for private equity buyouts in the aerospace supply chain
- Outlook and Predictions
The 2008 Oil Price Spike Has Been Dramatic

- Consumer Spending Power Impacted
- Slowing Economy Hurts Business Travel Demand
- Higher Ticket Prices as Costs Passed Along

Multiple Sources of Pressure on Global Traffic Growth
Supply and Demand Outlook (Assuming Continued High Oil Prices)

Global Traffic Growth 2008 = 1.8% 2009 = -1%   Production and Retirements impacted

Long Backlog Slows Reaction Time of Production Rate
Aircraft Manufacturing Outlook

• Virtually all industry participants expect a slowdown in OEM deliveries over the next several years.
  – Most expect a shallower trough, however.

• Key broad OEM sector trends:
  – Increased international deliveries (China, India and Middle East).
  – Fuel economy benefits driving replacements.
  – Overall fleet conversion to widebody aircraft.
  – Significant pent-up demand for new aircraft in the U.S.

• Trend toward widebodies will buoy demand for the near-term forecast period.
  – Widebodies require 3x the material content of narrowbody aircraft.
  – Maintenance requirements are more significant as well given the high utilization of widebody aircraft.
Financing Sources for New Deliveries

- Operating Leasing
- Bank Debt secured by specific aircraft
- Unsecured Financing
- Airline Cash or General Bank Facility
- Export Credit Agency Financing
- Capital Markets transactions (structured debt like EETC’s)
- Manufacturer Financing
Operating Leasing

• 100% financing of acquisition cost
• Currently finances 1/3 of the world fleet and expected to continue growth
• Modern aircraft types still in demand, though many airlines have turned cautious about adding capacity
• A380 and 787 delays are prolonging a shortage of widebody lift
• A fleet with staggered lease expiries gives airlines the ability to add or reduce to meet demand
• New orders from lessors have slowed as most have robust order backlogs
EETC Market Yields Have Widened Significantly
Recent issues (2007) have not done any better
EETC B Note Spread is 3.5 times historical levels
Bank Lending Secured by Aircraft, Securitizations etc

- European and Asian Bank financing of aircraft is still available and attractive
- These are primarily direct financing for airlines
- Export finance transactions are very attractive to borrowers and will remain a good source through a downturn

- Pooled Securitization (high advance) markets are on hold now
- Many securitizations were wrapped (AAA insured), and problems with the insurers are holding up new issues

- Manufacturer Financing is still a backstop / lender of last resort, and will likely grow in the next few years
UAL recently tried to finance aircraft and yield requested was ~13%.
Syndicated Leveraged Loan Market

- These are the preferred source of financing for M&A activity
- They are used heavily by the private equity shops for their business acquisitions
- Current market clearing pricing is a spread over LIBOR of ~5%
- Structures are more conservative, with lower leverage and a full covenant package
- Most existing A&D financings in the market are trading at a significant discount to Par to meet the yield expectations above
- New issue activity is quite slow now
Financing Market Update

- Pricing for middle market transactions has stabilized.
- While new issues remain sparse, stream of unsold deals starting to come off the shelf.
- Deeper diligence, wider flex, club execution and bank participation characterize new deals.

**“In” features:**
- Tighter covenants
- Minimum equity requirements (30% and up)
- Amortization
- Call protection
- LIBOR floors

**“Out” features:**
- Synthetic letters of credit
- Delayed draw term loans
- Post-close syndication
- Covenant-lite
- PIK-toggles
- Pricing grids

Source: S & P’s Leveraged Commentary & Data.
Outlook

- Modest global traffic growth in 2008, Reductions really kick in in the fall schedules
- After 3 years of book to bill of >2X, orders will slow down sharply
- Financing markets will adjust, and quality assets will still find attractive financing
- Energy prices, environmental concerns and infrastructure constraints will hold traffic growth rates in the next 10 years to less than the past 10 years
- 2/3 of the parked passenger aircraft will never fly again
- Retirements will be accelerated by fuel costs, the cheapest 10% of the seats in the active fleet are only 1% of the fleet value