Irish share of aviation market set to take off

The air finance industry is one of Ireland's most significant success stories

BY MARGARET O'BRIEN


Tom Woods, partner and head of Aviation Finance and Leasing at KPMG Ireland

Of the 19,000 passenger aircraft criss-crossing the globe, approximately 8,000 – or more than 40 per cent – are leased, and approximately half of those are leased out of Ireland.

It's an impressive statistic for a small island nation on the edge of Europe.

"Almost all of the major leasing companies have operations in Ireland," said Tom Woods, partner and head of Aviation Finance and Leasing at KPMG Ireland.

"KPMG conducted a survey last year which indicated that approximately $115 billion worth of aviation assets are leased from Ireland with the main concentration of business carried out in Shannon and Dublin.

"Not only that, but there is a further $65 billion worth of aircraft directly on order with the manufacturers, and an expectation that there will be a significant amount of additional business directly with the airlines and lessors."

In total, there are approximately 21,000 aircraft in service, including cargo aircraft. This is anticipated to double to 42,000 over the next 20 years, due to expected growth largely in the Asia Pacific region.

"It is estimated that just shy of 38,800 aircraft, valued at $5.2 trillion, will be required for growth and fleet replacement over the period. In the next year alone, over $120 billion of aircraft will be delivered," said Woods.

"Irish leasing companies are in a growing industry with a growing market share."

Leasing has come of age in recent decades, to the point where almost half of the narrowbody aircraft in use are leased.

"Most airlines tend to, at the very least, have a mix of leased and owned aircraft," said Woods. And while there is a high degree of variation, the trend indicates a greater shift towards leased.

KPMG is the lead adviser in the sector having, as Woods put it, "grown up with Tony Ryan and GPA and then worked with the generations inside and outside the GPA stable that followed".

"There is immense pride within KPMG to be part of the growth and continual development of this industry. The energy and commitment from the teams is huge."

The KPMG Aviation Finance and Leasing team is 16 partners strong with 150 professional and support staff.

"It is an extremely deep bench, across audit, tax and advisory," said Woods. "We have advised on practically every single capital markets deal and every major transaction within the industry.

"It's a global business and KPMG has a global reach. We have led the advice on deals in over 150 countries."

He has no doubt that Ireland will continue to be a major player in this arena internationally.

"Ireland is attractive for many reasons. The deep expertise found locally, the professional services infrastructure that supports the industry, the tax treaty network, to name a few.

"We are constantly looking at ways to improve Ireland's competitiveness. The government has been supportive of the industry. For example, recent changes to our insolvency rules will see lenders, lending against aviation assets, qualify for similar protection as US lenders have under US Chapter 11–10."

Woods continued, "That US protection has created an active and vibrant capital market within the US. We are already the largest global player in aviation leasing. This latest legislative change will create a platform to develop Ireland's credentials as an aviation finance centre.

"The government continues to extend Ireland's tax treaty network and that too, is very significant and important for the aircraft leasing industry here."

Among other positive changes cited by Woods is the new aviation platform introduced by the Irish Stock Exchange.

"There is already $12.7 billion of aviation debt listed on the Irish Stock Exchange. We now have a number of key elements coming together to drive Ireland as a financing centre."

UCD is also introducing a postgraduate masters dedicated to aviation finance later this year.

KPMG and a number of lessors are proud to sponsor this initiative which should help develop the future leaders of the industry.

Woods views the growth of the air finance industry in Ireland as one of the most significant success stories in the development of Ireland's international financial services industry and is confident that its future looks bright.

Lease financing returns to favour as a funding option

BY MARGARET O'BRIEN

Like most business advisory firms, HLB McKeogh Gallagher Ryan carefully examine client finance arrangements to ensure that cashflow is being managed effectively and that excess credit charges or solvency issues are avoided

"As with any financial product, you need to ensure that asset finance is priced competitively and the payment schedule is tailored to match income and cashflow," said Eoin Gallagher, partner at HLB McKeogh Gallagher Ryan.

"During the recession, there was a sharp decline in lease financing. Many construction companies had used lease financing to fund heavy machinery and capital, and when they downsized or closed, the leasing companies took heavy losses and many withdrew from the Irish market.

"However, we are now seeing a reversal of this trend. In the last 24 months, there is a definite increase in the amount of lease financing arrangements being approved. There are also more providers. Most of the major banks provide asset finance, as do dedicated leasing companies. Many manufacturers – particularly in the automotive sector – directly provide lease finance."

Leasing has many benefits. "The primary benefit is cash flow," said Gallagher. The full cost of the asset does not have to be paid up front, hence cash is not used up, nor does money have to be borrowed, thus preserving other bank and credit lines.

"It allows businesses to control and deploy assets without a significant drain on working capital.

"Budgeting is easier as the


Eoin Gallagher, partner at HLB McKeogh Gallagher Ryan

payments are fixed over a set period of time, usually averaged between two to five years, and interest payments are usually fixed and spread over the entire repayment period.

"In certain circumstances, payment schedules can be tailored to match income and cashflow; such flexibility of repayment structuring can assist seasonal businesses to reduce monthly outlay by factoring in a 'balloon' payment at the end of the term or certain times in the year."

From an equipment and maintenance point of view, leasing can give businesses access to a higher standard of equipment with a relatively small initial outlay, as 100 per cent finance is usually available.

"With operational lease financing you may not have to worry about maintenance, and in some cases the leasing company carries the risks if the equipment breaks down. During the lifetime of the lease if you need to upgrade the equipment, making a small adjustment to the regular payments may facilitate this.

"In some cases, leasing companies can consolidate all assets and provide finance for their acquisition. This can be very beneficial for businesses such as start-ups and sole traders who are looking to expand and require certain tools or equipment where individually they don't cost more than €2,000, but combined may cost over €10,000," said Gallagher.

"Depending on the kind of leasing required, you may not need to show the asset on the balance sheet (ie operational lease financing), but you will never ultimately own the asset.

"However, once the lease expires you can return the asset and replace it with a new model."

Regarding tax issues, Gallagher said: "There are corporation tax advantages in leasing assets, as the full cost of lease rentals/repayments can usually be deducted from taxable income – even though only the interest element will go through the profit and loss account under general accounting principles.

"Hence financing assets through leasing can be more tax efficient than a standard term loan, as the full lease repayments will be treated as tax deductible expenses, whereas only the interest element of the loan repayment will be tax deductible.

"Where a sole trader or company is not Vat registered or is exempt from Vat it may be advantageous from a cash flow point of view to lease the asset so that the Vat cost is spread over the term of the lease, as opposed to having to incur the full upfront Vat cost on the initial purchase of the asset where a loan is taken out to acquire the asset."

While leasing is not for all businesses, it is an excellent option for some, and Gallagher encourages businesses to properly assess the benefits of leasing options before making a decision.

Alternative Cashflow Solutions

BY MARGARET O'BRIEN


Lucinda Clancy, managing director, Clancy Cashflow Solutions

As Ireland's leading independent specialist providing advice to companies on working capital, Clancy Cashflow Solutions is well placed to offer sound advice about products such as invoice finance, trade finance, stock finance and asset finance.

Founder Lucinda Clancy said: "We have over 20 years experience in the industry, and every year we help hundreds of business owners explore their financing options, giving free independent advice to ensure they make an informed choice and find the best funder and product to match their needs. Our role is to simplify their search for finance in what is a complex and fast-changing market."

Clancy explained that there wasn't a one solution fits all answer to funding requirements. "We discuss needs with each of our clients to identify which funding products will best meet those needs. We inform them about the all the suitable funding options available – advising them on the pros, cons and costs of each product.

"Once they've decided on the product they want, we introduce them to a small selection of suitable lenders and guide them through the process from start to finish, attending meetings, negotiating with the funders and highlighting potential pitfalls.

"Basically, our job is to ensure they make an informed choice, and to save them time, effort and money by helping them to find the most appropriate product and funder to meet their needs."

Clancy and her team find solutions for all manner of businesses, from start-ups to established companies, importers, exporters, companies in turnaround mode, restarts – even companies that can't get support from the main banks.

"If they've been turned down by one provider for finance, we can often find funding with another. It's a matter of knowing who to speak to," said Clancy.

For the many businesses looking to solve cashflow problems or to maximise their cash flow, Clancy suggests invoice finance can be a great option, as it generates cash by turning unpaid invoices from trade debtors into cash immediately.

"Invoice finance is typically used to solve cashflow problems," said Clancy. "If a company wants to fund new opportunities, but doesn't have the cash to pay suppliers, or they might be under pressure to pay suppliers. They might have a lot of money tied up in unpaid invoices, and their customers are slow paying, or a company might simply want to ease the cashflow pressures and have a predictable cashflow, which is exactly what Invoice Finance does."

She is delighted that at last Irish businesses have woken up to the benefits of invoice finance. "There has been a huge growth in the number of companies using invoice finance and there is a much wider acceptance of these alternative working capital products by the general business community."

She acknowledged that banks have played a key role in promoting invoice, and so too the new players in the marketplace, who are promoting a greater range of products, including stock finance, trade finance and asset-based lending.

She concluded, "Banks will continue to be the first port of call for funding, however, more SME owners are looking beyond the bank for funding solutions."

Clancy cautioned: "In a fast-changing financial landscape, with many new providers and products emerging, SME owners need to exercise caution and take independent advice before entering into any financial arrangements."