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INTERVIEW: Norm Liu on NAC's turnaround

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- Oliver Clark

When the pandemic hit in early 2020, Norm Liu could have ridden out the storm in semi-retirement. Instead, the former GECAS chief executive decided to accept an offer to take the helm at Nordic Aviation Capital and implement a turnaround strategy for the ailing regional lessor.

"During Covid, you sort of rethink things. You could either look at the golf course forever, or if these people ask you to be CEO you might as well utilise that limited skill base that you have," Liu tells Cirium in an interview.

NAC RESTRUCTURING

As an industry veteran with 30 years of experience in aircraft leasing, including six at the helm of GECAS, Liu was well positioned to offer NAC's management advice as the company's financial position unravelled in the face of the pandemic.

Liu was already familiar with the lessor through his dealings with founder and former chair Martin Moller, and as a senior adviser to the company since 2019.

When Covid-19 lockdowns came into effect in March-April 2020, NAC found itself particularly exposed. The company had raised almost $2 billion in the private-placement market in December 2019 and February 2020, which proved to be ill timed.

As demand for air travel dwindled, NAC's lessees began deferring lease payments which led to an inevitable cash crunch at the company.

In June 2020, long-term shareholders EQT Partners, KIRKBI Invest, GIC and Moller injected $60 million of new equity. A month later, NAC entered into a form of debt restructuring called a scheme of arrangement in Ireland under which it halted interest payments on its debts for six to 12 months.

NAC chair Moller, who had founded the company in 1990, stood down in January 2021, as did Liu from his position as a committee member. But the former GECAS chief remained at the lessor's disposal as an adviser. He would ultimately be offered the role of president and chief executive.

Liu admits that another enticement for his taking the top job was the challenge of navigating a lessor through a complex restructuring process.

"Another motivator for me was that while I had worked on a lot of financial restructurings with airlines, I had never been the party restructuring”.

“This is the biggest-ever aircraft leasing company [to go into restructuring]. Guinness Peat Aviation, which GECAS bought the platform and some of the assets, never really went bankrupt," he observes.

STRATEGY SHIFT

Liu says he realised that NAC was going to "give back the keys" (assets) to the company's creditors. With many of these creditors having little experience of the aircraft leasing business, they turned to Liu for guidance.

"The creditors said: 'Well, what do we do?' And I said: 'Well, it's not too complicated: you probably have to file [for US Chapter 11 bankruptcy protection]; and, second, you have to change strategy'," he recalls.

With liquidation amid the crisis not a good option, Liu outlined a new strategy that would leverage on NAC's size as a leading regional lessor and on the infrastructure it already had in place to bridge the company to a future beyond the Covid crisis.

"You are still in the midst of Covid, you wanted to bridge to another time and, hopefully, a different price outcome," Liu explains.

"You might as well use the scale because you have the infrastructure and then you have got some great team members coming on board, but why not go to the natural adjacency, which is narrowbodies," he adds. "You had to craft a strategy that befit our financial situation and our past footprint, but try to maintain scale as well."

Liu outlined a strategy that would involve a move from being overly concentrated in asset classes such as Embraer E1 E-Jets and De Havilland Canada Dash 8-400s to a portfolio balanced with ATR 72 turboprops and narrowbodies including Airbus A220s, A320s and Boeing 737s.

While a large lessor would typically have a preponderance of narrowbodies and a "smidgen" of widebodies on its book, Liu says NAC doesn't currently have the balance sheet to allow it to add twin-aisle types.

But before a new NAC could be scaled up, the company would need to restructure further. In December 2021, it filed for Chapter 11 bankruptcy protection.

At the time, NAC had total debts of almost $6 billion, over $2 billion of which was represented by the private-placement notes. The company worked to reduce or cut debt by selling assets, while other aircraft were siloed off into packages controlled by various creditors.

"It was sort of an odd phase, and it’s a very complex process: lawyers, bankers galore all over the place, abetting the different creditor groups," he recalls.

An added complexity was the continued Covid-19 restrictions. Where possible, Liu met creditors face to face, with masks, but there were inevitably meetings involving teleconferencing. He describes the implementation of the new business plan as an evolution.

Some creditors decided to remove their assets from the business entirely, but others were convinced to remain and would go on to become shareholders through debt-to-equity transfers. NAC was also keen to restructure and retain some aircraft, especially those financed by the export-credit agencies.

"We very much wanted to keep the export agencies in, because we have a new orderbook to fund and it was the right thing to do for governmental agencies. So that was a bit complicated, but we got there."

THE GECAS FACTOR

Liu says that during his tenure at GECAS, he came to the conclusion it was the human capital that was valuable; and that he was fortunate to be able to bring a number of his former colleagues over to NAC, in no small part thanks to AerCap's acquisition of his former employer.

"It's one thing to change this thing – I can write a strategy in my library in my pyjamas during Covid – but what hit me at the same time [was] AerCap and GECAS were closing on the merger and a lot of folks were calling me for career advice," he says.

Liu was able to recruit several former GECAS employees to join NAC, and today eight of his direct reports and 30% of the management team count themselves as alumni of the US leasing giant. This has proven a boon for implementing strategy, he observes.

"When you have everyone from the same system, it's easier to make change than if you had one each from six different firms. So that has been very helpful to get everyone aligned on objectives," says Liu.

Another advantage he sees is that GECAS formerly has a regional aircraft portfolio, and so the team is well versed in both regional and narrowbody types.

THE NEW NAC

NAC emerged from Chapter 11 bankruptcy protection in June 2022 with a reduced debt pile and orderbook, and has since then been implementing its new strategy.

Liu says 40% of the current portfolio is made up of ATRs, 35% of E1s and Dash 8-400s, and 25% of narrowbodies.

Cirium fleets data shows that NAC manages 283 aircraft in service and one is on the ground in storage. ATRs make up a large proportion of the portfolio at 136.

The lessor has 20 A220s and 17 ATR 72-600s on order.

In the short term, Liu wants the narrowbody segment to grow to 60% of the book, with 40% ATRs. Over time, as more of the A220s are delivered and more single-aisle jets are acquired, the NAC chief envisages a 70:30 spilt of narrowbodies to ATR turboprops.

Liu sees the ATRs as a central part of its portfolio. While they represent "smaller dollars" in investment terms, they are a green aircraft type.

"ATR have got new folks coming in from Airbus trying to market that green connectivity strategy. We are all for that," Liu declares, adding that the type is still "not fully understood" by the banking sector despite being a "great, stable asset".

Liu says some 80% of NAC's acquisitions are in the primary market with airlines; 20% are purchases from lessors.

NAC's investment approach is not focused on doing shiny deals with "new top-tier credits", but rather reflects a "blended tier approach", which involves placing used aircraft with good airline credits, doing ATR purchase-and-leasebacks, and striking deals for new-technology jets with lower-tier operators.

With his GECAS expertise, Liu says some of the best investments now are narrowbodies, where NAC's team can assess the whole-life cycle investment upside. For example, he sees the A320 as "basically buying an engine for the future, while any 737-800 purchase needs to be understood in the context of a cargo conversion play".

While NAC doesn't rely on the trading market for growth, it does favour the odd "mix and match" asset package, such as a recent deal where it was able to acquire a 737 Max and a 737 NG.

But Liu says one concern he has about the secondary market is the "distorting" effect that the Pratt & Whitney GTF engine issues are having. He says that packages offered by lessors often include a number of GTF-powered jets.

Not only do they represent an uncertain investment, but the engine issues mean that other lessors are trying to talk up the future value of CFM International Leap-powered aircraft and the 737 Max and NG, and pushing for higher prices for these assets based on a higher-residual-value proposition at the end of a lease.

A number of lessors are also selling aircraft with relatively short two- to three-year lease terms remaining. These are challenging to price, given the GTF issues and the "sticky" escalation environment that the industry is witnessing and which Liu expects to continue for several years.

"There is also the escalation, labour is very high, escalation is sticky, and materials: everyone wants the same stuff. Not only is there short-term supply-chain disruption value, but there is escalation built in, which I think is going to be fairly sticky. And most of it is in the engine value – so if buying a A320ceo you're basically buying an engine for the future."

NAC has also been busy selling assets to pay down debts. Liu estimates that the lessor has probably bought seven aircraft but has traded out 130 another.

The lessor is currently in the market seeking to sell 50 of its circa 80 E1s in a process arranged by Greenhill.

Separately, it is marketing a number of Dash 8-400s in the secondary market. Liu says these are largely ECA-financed units and will free up more dry powder for those institutions to finance new aircraft with NAC.

ACCESS TO CASH

Before the pandemic, NAC enjoyed a "B+" investment-grade rating from Kroll Bond Rating Agency and had tapped the private-placement market. It seemed only a matter of time before the lessor could look to raise debt in the public markets.

But Covid-19 put paid to any such hopes: NAC was stripped of its IG rating by KBRA shortly before the lessor entered into its Irish restructuring process.

Liu says unsecured private placements are probably "cost-prohibitive at the moment". Secured placements are a possibility, but the pricing would need to make sense.

Another channel on which lessors have traditionally relied to raise debt has been asset-backed securities (ABS) issuances, but Liu says this is "probably not the most flexible" option either, given current economic conditions.

Where he sees positive movement is from the bank market, which is "showing interest" in NAC. He gives the example of the lessor's recent upsizing of its warehouse, to $750 million from an initial $400 million. Wells Fargo, Fifth Third and Mizuho came in to participate, Liu notes.

"Knock on wood", NAC will get one of the export-credit agencies back on board to finance new orders, he adds. Term loan financing is also an outlet.

Liu envisages NAC doing $600 million of new business each year, but he notes that the lessor is also currently capital-constrained.

In June 2026, $1.6 billion of debt is due to mature, consisting of two tranches secured by a large portion of the legacy fleet. Roughly half is fixed-rate debt at a coupon of 4.75% and the rest is floating-rate debt at SOFR plus 215bps. The company has an interest-rate cap to largely cover off the floating-rate debt.

"We have been doing some debt buybacks. We would like to get it down to $1 billion," Liu notes, adding that NAC will look to use the ATR fleet to leverage a refinancing of the remaining debt when it matures.

NAC can use cash reserves, revenues and seed cash of $500 million, along with its warehouse, for acquisitions.

"We are selling the old furniture to buy new. At some point we will run out of the old furniture, and that's going to be a capital raise or something strategic," he adds.

OWNERSHIP AND FUTURE

NAC does not reveal the identities of its shareholders, but says they include more than 25 institutions, including major insurance companies and hedge funds/asset managers. Liu says the owners fall into two categories, both of which came through the restructuring process.

One group is made up of insurance companies that were private-placement holders and got reinstated through debt-for-equity swaps. Most of these holders are in "work-out", he adds.

Then there are hedge funds that bought below-par paper and also acquired equity through a debt swap.

"They didn't come in to have a 20-year run at aircraft leasing: they are more short-term-orientated. I think it is probably inevitable that there needs to be some transition," he says.

Liu believes that the June 2026 debt refinancing is likely to be the event that brings to a head NAC's future ownership structure. He believes that under a future "growth capital process", the existing shareholders will probably exit in favour "of a transition to a newer group".

The fleet data in this story has been updated.