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'Aviation geek' giving airplanes a new lease on life

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Published August 20, 2006

When Delta Air Lines entered bankruptcy last year, the Atlanta carrier looked to jettison some old airplanes that no longer were fuel efficient. Up stepped Brian Hollnagel.

The brash, 33-year-old Chicago native smelled a chance to acquire some cheap jets and make money by flipping them. Hollnagel bought 26 Boeing 737-200s. While the 20-year-old planes are ancient by domestic-airline standards, they still have some useful flying life left in them.

He already has found a home for many of the planes, including an oil company that needed a plane to ferry workers to Russia and Japan from Sakhalin Island.

"We leave no stone unturned," Hollnagel said.

His company, BCI Aircraft Leasing Inc., owns dozens of jets, but you'll never see the moniker grace the side of a commercial airplane. The company buys planes and leases them to airlines for short periods, typically five to 10 years.

Leasing companies are a growing influence in the global aviation industry, as major carriers restructure their finances and newly formed airlines expand rapidly. One of the byproducts in the massive upheaval is that airlines increasingly choose to lease rather than own their fleets.

Leasing gives airlines much-needed flexibility by allowing them to add or replace planes without adding debt, aviation analysts say. The option can be particularly appealing to start-up airlines that have yet to establish credit histories, as well as to financially struggling carriers short on capital and coping with soaring fuel costs.

Leasing companies also help create a stable market for used aircraft by buying planes that come off lease or are dumped by airlines looking to downsize.

Today, about one-third of the global fleet of more than 17,000 jets is under lease. Ten years ago, about 17 percent of all commercial aircraft were on operating leases. During the same period, the airline-owned fleet has dropped to 48.4 percent from 55.5 percent.

Some large leasing companies that own hundreds of planes, such as GE Commercial Aviation Services and International Lease Finance Corp., dominate the industry. But the popularity of the financial tool has attracted dozens of new players like Hollnagel, who aggressively acquired assets following the industry downturn in 2001.

The ensuing recovery since 2003 has driven up aircraft values and lease rates, making quick

fortunes for many. Hollnagel, who has no financial background but shares a Wall Street trader's appetite for risk, drives a Bentley GT coupe, which has a sticker price of \$164,000, and recently invested in a multimillion-dollar Aspen, Colo., house that he uses for business and pleasure.

On a coming trip to Russia, he plans to co-pilot a MiG fighter jet. He's proud to say he's "an aviation geek."

Hollnagel's fascination with planes started at age 15, when his dad bought him a flying lesson as a Christmas present. His father, who owned a small landscape and construction business, is a recreational pilot and wanted to share his passion with his only child. His mother wasn't thrilled with the idea.

"This was a kid who fell over his feet," said Donna Hollnagel. "I wouldn't fly with him."

Hollnagel loved flying so much that he aspired to become a pilot. He studied aviation administration at Purdue University and would fly home on weekends in a Seneca V twin-engine plane. By that time his parents had moved to a subdivision in Naperville that had a private airstrip.

After graduating in 1995 he landed an internship at United Airlines and then began training to fly Boeing 737s, popular narrow-body planes used for domestic routes. But he never finished his two-year probation.

"The more time you spend around pilots, the less glamor there is," he said. "The lifestyle gets mundane awfully quick."

He went to work for his dad while he figured out a way to turn his love for flying into another career. He scoured the Internet and found an opportunity to broker an aircraft deal.

AAR Corp., a Wood Dale-based aircraft-leasing company, was looking to find a new home for a 737-300. Hollnagel helped match AAR with a charter airline in Greece and earned a small commission.

From there he brokered another lease and began thinking of owning planes. In 1999, he raised \$5 million from friends and local investors and received a loan from Bank of America to buy two 737-200s for \$18 million from AAR that were on lease to Aloha Airlines.

How did someone four years out of college convince cautious bankers to lend him millions of dollars? William Hatamyar, president of the AirBanker division of Bridgeview Bank, which has financed some deals for Hollnagel, admits "it's difficult to believe."

"He's got the characteristics of a pure entrepreneur and a personality that makes people trust him," he said. "He's got the tenacity and a sharp sense of what's happening in his industry."

It also turns out that Hollnagel has a good head for numbers. Chris Keller, one of BCI Aircraft's first employees and now executive vice president, recalls a meeting he and Hollnagel had with a New York hedge fund recently.

"They underestimated him at first," Keller said. "But he starts rattling off numbers from his head that the hedge fund guys, who probably all went to Harvard, had to calculate on their spreadsheets."

Fallout from 9/11

Hollnagel's two airplanes soon grew to 11, and he opened an office above a Potbelly sandwich

shop in downtown Naperville. But his start-up venture nearly went belly up in 2001, when people stopped traveling after the terrorist attacks.

Ten out of his 11 leases defaulted or had to be restructured. Hollnagel and his three employees scrambled to meet with the airlines and his banks, extending leases with some carriers that needed to lower monthly rent payments.

He emerged relatively unscathed compared with banks and other large lenders with large portfolios of jets that had to be parked in the desert because demand dried up as United Airlines and other carriers filed for bankruptcy protection.

"The big banks were licking their wounds," said Jonathan Bogaard, an attorney specializing in aircraft finance at Chicago law firm Vedder Price. "And those guys did not have much of an appetite to get back in the market to finance aircraft."

Hedge funds and other financiers, looking for cheap assets, stepped in to fill the gap. Oaktree Capital Management invested \$250 million in Pegasus Aviation Finance Co. in 2004 to help the leasing company buy newer aircraft and build a portfolio that now exceeds 200 planes.

Another private investment firm, Fortress Investment Group, formed its own leasing company, Aircastle Ltd., in 2004 with \$400 million in capital. In two years, Aircastle has purchased 42 jets that it leases to passenger and cargo airlines, such as Air India, US Airways and Swiss International. Aircastle went public this month and is trading 20 percent higher than its opening price of \$23 a share.

US Airways resurrection

With a limited track record and a niche business of buying older jets, Hollnagel did not attract much interest from hedge funds, but for the first time he had "direct access to all airlines," he said. BCI Aircraft struck some small deals with higher-profile airlines, such as Air France, KLM and British Airways.

But the transaction that helped put BCI Aircraft on the map came in 2004 when it purchased 15 737s from bondholders of US Airways, which was teetering toward collapse.

"Everyone thought I was absolutely crazy for doing this deal," Hollnagel said. "But you need to be buying when everyone else is selling."

The gamble paid off, as America West Airlines acquired US Airways in bankruptcy last year. The combined carrier last month reported a second-quarter profit of \$305 million.

The resurgence in air travel has been a boon to leasing companies, as airlines, especially in Asia and the Middle East, expand their fleets. The worldwide commercial jet fleet is expected to grow by 35 percent, to 23,000 aircraft, by 2015, according to the Airline Monitor.

Lease rates have recovered. After the Sept. 11 terrorist attacks, it cost about \$200,000 a month to lease a Boeing 737-800, a popular narrow-body plane. Now, it's not unusual for monthly lease payments on the same plane to hit \$300,000. A 5-year-old 737-800 sells for about \$30 million.

In the highly cyclical airline industry, demand can turn on the dime. Yet the trends give Hollnagel confidence to continue expanding his portfolio, which stands at 97 planes valued at nearly \$1 billion--still a niche player by industry standards. Despite the meteoric rise, Hollnagel maintains a casual atmosphere in the workplace, which is an office on the 28th floor of the IBM building in downtown Chicago. He walks around in jeans and flip-flops, as do many of the 15 employees.

His kid-like fascination for planes also remains. The base of an office conference table is made from the wing of a C-130 cargo plane. He also bought a galley cart that was converted into a table.

"Aviation is my passion," Hollnagel said, "and there has never been a better time to be in the industry."

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