Aircastle LTD
Form 10-K
February 13, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
þ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2017
or
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number 001-32959
AIRCASTLE LIMITED
(Exact name of Registrant as Specified in its Charter)

Bermuda	98-0444035
(State or other Jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

c/o Aircastle Advisor LLC
201 Tresser Boulevard, Suite 400, Stamford, CT 06901
(Address of Principal Executive Offices)
Registrant's telephone number, including area code: (203) 504-1020

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

The aggregate market value of the Registrant's Common Shares based upon the closing price on the New York Stock Exchange on June 30, 2017 (the last business day of registrant's most recently completed second fiscal quarter), beneficially owned by non-affiliates of the Registrant was approximately $1.04 billion. For purposes of the foregoing calculation, which is required by Form 10-K, the Registrant has included in the shares owned by affiliates those shares owned by directors and executive officers and shareholders owning 10% or more of the outstanding common shares of the Registrant, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

As of February 8, 2018, there were 78,676,917 outstanding shares of the registrant's common shares, par value $0.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Documents of Which Portions Are Incorporated by Reference	Parts of Form 10-K into Which Portion Of Documents Are Incorporated
Proxy Statement for Aircastle Limited 2018 Annual General Meeting of Shareholders	Part III (Items 10, 11, 12, 13 and 14)

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PART IV

SAFE HARBOR STATEMENT UNDER THE
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

All statements included or incorporated by reference in this Annual Report on Form 10-K (this “Annual Report”), other than characterizations of historical fact, are forward-looking statements within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not necessarily limited to, statements relating to our ability to acquire, sell, lease or finance aircraft, raise capital, pay dividends, and increase revenues, earnings, EBITDA, Adjusted EBITDA and Adjusted Net Income and the global aviation industry and aircraft leasing sector. Words such as “anticipates,” “expects,” “intends,” “plans,” “project “believes,” “may,” “will,” “would,” “could,” “should,” “seeks,” “estimates” and variations on these words and similar expressi intended to identify such forward-looking statements. These statements are based on our historical performance and that of our subsidiaries and on our current plans, estimates and expectations and are subject to a number of factors that could lead to actual results materially different from those described in the forward-looking statements; Aircastle can give no assurance that its expectations will be attained. Accordingly, you should not place undue reliance on any such forward-looking statements which are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this Annual Report. These risks or uncertainties include, but are not limited to, those described from time to time in Aircastle’s filings with the Securities and Exchange Commission (“SEC”), including as described in Item 1A, and elsewhere in this report. In addition, new risks and uncertainties emerge from time to time, and it is not possible for Aircastle to predict or assess the impact of every factor that may cause its actual results to differ from those contained in any forward-looking statements. Such forward-looking statements speak only as of the date of this Annual Report. Aircastle expressly disclaims any obligation to revise or update publicly any forward-looking statement to reflect future events or circumstances.

WEBSITE AND ACCESS TO COMPANY’S REPORTS

The Company’s Internet website can be found at www.aircastle.com. Our annual reports on Forms 10-K, quarterly reports on Forms 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge through our website under “Investors — SEC Filings” as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Statements and information concerning our status as a Passive Foreign Investment Company (“PFIC”) for U.S. taxpayers are also available free of charge through our website under “Investors — SEC Filings”.

Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and Board of Directors committee charters (including the charters of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee) are available free of charge through our website under “Investors — Corporate Governance”. In addition, our Code of Ethics for the Chief Executive and Senior Financial Officers, which applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Treasurer and Controller, is available in print, free of charge, to any shareholder upon request to Investor Relations, Aircastle Limited, c/o Aircastle Advisor LLC, 201 Tresser Boulevard, Suite 400, Stamford, Connecticut 06901.

The information on the Company’s website is not part of, or incorporated by reference, into this Annual Report, or any other report we file with, or furnish to, the SEC.

PART I.
ITEM 1. BUSINESS

Unless the context suggests otherwise, references in this Annual Report to “Aircastle,” the “Company,” “we,” “us,” or “our” re to Aircastle Limited and its subsidiaries. References in this Annual Report to “Aircastle Bermuda” refer to Aircastle Holding Corporation Limited and its subsidiaries. Throughout this Annual Report, when we refer to our aircraft, we include aircraft that we have transferred into grantor trusts or similar entities for purposes of financing such assets through securitizations and term financings. These grantor trusts or similar entities are consolidated for purposes of our financial statements. All amounts in this Annual Report are expressed in U.S. dollars and the financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).

Aircastle acquires, leases, and sells commercial jet aircraft to airlines throughout the world. As of December 31, 2017, we owned and managed on behalf of our joint ventures 236 aircraft leased to 81 lessees located in 43 countries. Our aircraft are managed by an experienced team based in the United States, Ireland and Singapore. Our aircraft are subject to net leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs. In many cases, however, we are obligated to pay a portion of specified maintenance or modification costs. As of December 31, 2017, the net book value of our flight equipment (including flight equipment held for lease and net investment in finance and sales-type leases, or “net book value”) was $6.73 billion compared to $6.51 billion at the end of 2016. Our revenues and net income for the year ended December 31, 2017 were $796.6 million and $147.9 million, respectively, and for the fourth quarter of 2017 were $177.4 million and $55.1 million, respectively.

Growth in commercial air traffic is broadly correlated with world economic activity. In recent years, commercial air traffic growth has expanded at a rate 1.5 to 2 times that of global GDP growth. The expansion of air travel has driven a rise in the world aircraft fleet. There are currently approximately 21,000 commercial mainline passenger and freighter aircraft in operation worldwide. This fleet is expected to continue expanding at a three to four percent average annual rate over the next twenty years. Aircraft leasing companies own approximately 42% of the world’s commercial jet aircraft.

Notwithstanding the sector’s long-term growth, the aviation markets have been, and are expected to remain, subject to economic variability due to changes in macroeconomic variables, such as fuel price levels and foreign exchange rates. The aviation industry is also susceptible to external shocks, such as regional conflicts and terrorist events. Mitigating these risks is the portability of the assets, allowing aircraft to be redeployed to locations where demand is higher.

Air traffic data for the past several years has shown strong passenger market growth. According to the International Air Transport Association, during 2017, global passenger traffic increased 7.6% compared to 2016. During 2017, air cargo traffic increased 9.0% compared to 2016.

Demand for air travel varies considerably by region. Emerging market economies have generally been experiencing greater increases in air traffic, driven by rising levels of per capita income. Air traffic growth is also being driven by the proliferation of low cost carriers, which have stimulated demand through lower prices. Mature markets, such as North America and Western Europe, are likely to grow more slowly in tandem with their economies. Airlines operating in areas with political instability or weakening economies are under pressure, and their near-term outlook is more uncertain. On balance, we believe air travel will increase over time and, as a result, we expect demand for modern aircraft will continue to remain strong over the long-term.

Fuel prices and interest rates have had a substantial effect on our industry. The price of oil dropped by $67 to $36 per barrel in the four years prior to December 2015. This allowed airlines to reduce ticket prices and stimulate aircraft traffic while retaining enough of this benefit to achieve record profit levels. A low interest rate environment and the strong overall performance of the aircraft financing sector attracted significant new capital, increasing competition for new investments. The downward trend in fuel prices and interest rates appears to have ended as fuel prices started rising in 2016. In 2017, the price of fuel has averaged approximately $52 per barrel. Likewise, interest rates have started to rise in the U.S., with Federal Reserve guidance suggesting multiple future rate hikes in the Federal Funds rate in 2018.

Capital availability for aircraft has varied over time, and we consider this variability to be a basic characteristic of our business. If pursued properly, this represents an important source of opportunity. Strong U.S. debt capital market conditions benefit borrowers by permitting access to financing at historic lows while export credit agency ("ECA") availability has

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been curtailed, both in the U.S. and in Europe, due to political issues. Commercial bank debt continues to play a critical role for aircraft finance, although we believe regulatory pressures may limit its role over time.

While financial market conditions remain attractive, geopolitical issues may increase capital costs and limit availability going forward. We believe these market forces should generate attractive additional investment and trading opportunities for which we are well placed to capitalize given our access to different financing sources, our limited capital commitments and our reputation as a reliable trading partner. Over the longer term, our strategy is to achieve an investment grade credit rating, which we believe will reduce our borrowing costs and enable more reliable access to debt capital throughout the business cycle.

We believe our business approach is differentiated from those of other large leasing companies. Our investment strategy is to seek out the best risk-adjusted return opportunities across the commercial jet market, so our acquisition targets and growth rates will vary with market conditions. We prefer to have capital resources available to capture investment opportunities that arise in the context of changing market circumstances. As such, we limit large, long-term capital commitments and are therefore much less reliant on orders for new aircraft from aircraft manufacturers as a source of new investments.

Competitive Strengths

We believe that the following competitive strengths will allow us to capitalize on future growth opportunities in the global aviation industry:

- Diversified portfolio of modern aircraft. We have a portfolio of modern aircraft that is diversified with respect to lessees, geographic markets, lease maturities and aircraft types. As of December 31, 2017, our aircraft portfolio consisted of 236 aircraft, comprising a variety of aircraft types leased to 81 lessees located in 43 countries and lease expirations for our owned aircraft are well dispersed, with a weighted-average remaining lease term of 5.0 years. This provides the company with a long-dated base of contracted revenues. We believe our focus on portfolio diversification reduces the risks associated with individual lessee defaults and adverse geopolitical or economic issues, and results in generally predictable cash flows.
- Flexible, disciplined acquisition approach and broad investment sourcing network. Since our formation, we have acquired 430 aircraft for approximately $14.0 billion. Our investment strategy is to seek out the best risk-adjusted return opportunities across the commercial jet market, so our acquisition targets vary with market opportunities. We source our acquisitions through well-established relationships with airlines, other aircraft lessors, manufacturers, financial institutions and other aircraft owners. Since our formation in 2004, we built our aircraft portfolio through more than 155 transactions with 88 counterparties.
- Significant experience in successfully selling aircraft throughout their life cycle. Since our formation, we sold 206 aircraft for approximately $4.9 billion. These sales produced net gains of $286 million and involved a wide range of aircraft types and buyers. Our team is adept at managing and executing the sale of aircraft. We sold 140 aircraft that were over fourteen years old at the time of sale; many of these being sold on a part-out disposition basis, where the airframe and engines may be sold to various buyers. We believe our competence in selling older aircraft is an essential portfolio management skill and one of the capabilities that sets us apart from many of our larger competitors.
- Strong capital raising track record and access to a wide range of financing sources. Aircastle is a publicly listed company, and our shares have traded on the New York Stock Exchange (“NYSE”) since 2006. Since our inception in late 2004, we raised approximately $1.7 billion in equity capital from private and public investors. Our largest shareholder is Marubeni Corporation (“Marubeni”), with whom we maintain a strong, strategic relationship. We also obtained $13.4 billion in debt capital from a variety of sources including the unsecured bond market, commercial banks, export credit agency-backed debt, and the aircraft securitization market. The diversity and global nature of our financing sources demonstrates our ability to adapt to changing market conditions and seize new opportunities.
- Our capital structure is long-dated and provides investment flexibility. Our business is currently financed under debt financings with a weighted-average debt maturity of 3.5 years. We also have $635 million available from unsecured revolving credit facilities that expire in 2019 and 2020, thereby limiting our near-term financial markets exposure. Given our relatively limited future capital commitments, we have the resources to take advantage of future investment opportunities. Our access to the unsecured bond market and our unsecured revolving lines of credit, due to our large

unencumbered asset base, allow us to pursue a flexible and opportunistic investment

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strategy.

- Experienced management team with significant expertise. Each member of our management team has more than twenty years of industry experience and we have expertise in the acquisition, leasing, financing, technical management, restructuring/repossession and/or sale of aviation assets. This experience spans several industry cycles and a wide range of business conditions and is global in nature. We believe our management team is highly qualified to manage and grow our aircraft portfolio and to address our long-term capital needs.
- Global and scalable business platform. We operate through offices in the United States, Ireland and Singapore, using a modern asset management system designed specifically for aircraft operating lessors and capable of handling a significantly larger aircraft portfolio. We believe that our current facilities, systems and personnel are capable of supporting an increase in our revenue base and asset base without a proportional increase in overhead costs.

Business Strategy

Aircraft owners have benefited from the low interest rate environment in recent years. Particularly strong conditions in the debt capital markets have provided select borrowers, including Aircastle, access to attractively priced, flexible financing. This provides us a competitive advantage over many airlines and lessors that lack similar access. Geopolitical and macroeconomic events may increase the cost of capital and limit its availability in the future, which may provide more attractive investment opportunities for Aircastle.

We plan to grow our business and profits over the long-term while maintaining a countercyclical orientation, a bias towards limiting long-dated capital commitments and maintaining a conservative and flexible capital structure. Our business strategy entails the following elements:

- Pursuing a disciplined and differentiated investment strategy. In our view, aircraft values change in different ways over time. We carefully evaluate investments across different aircraft models, ages, lessees and acquisition sources and re-evaluate these choices as market conditions and relative investment values change. We believe the financing flexibility offered through unsecured debt and our team's experience with a wide range of asset types provides us with a competitive advantage. We view orders from equipment manufacturers to be part of our investment opportunity set, but choose to keep our long term capital commitments limited.
- Originating investments from many different sources across the globe. Our strategy is to seek out worthwhile investments by leveraging our team's wide range of contacts. We utilize a multi-channel approach to sourcing acquisitions and have purchased aircraft from a large number of airlines, lessors, original equipment manufacturers, lenders and other aircraft owners. Since our formation in 2004, we have acquired aircraft from 88 different sellers.
- Selling assets when attractive opportunities arise. We sell assets with the aim of realizing profits and reinvesting proceeds when a sale generates the greatest expected cash flow or when more accretive investments are available. We also use asset sales for portfolio management purposes, such as reducing lessee specific concentrations and lowering residual value exposures to certain aircraft types.
- Maintaining efficient access to capital from a wide set of sources while targeting an investment grade credit rating. We believe the aircraft investment market is influenced by the business cycle. Our strategy is to increase our purchase activity when prices are low and to emphasize asset sales when competition for assets is high. To implement this approach, we believe it is important to maintain access to a wide variety of financing sources. Our objective is to improve our corporate credit ratings to an investment grade level by maintaining strong portfolio and capital structure metrics while achieving a critical size through accretive growth. We believe improving our credit rating will not only reduce our borrowing costs, but also facilitate more reliable access to both secured and unsecured debt capital throughout the business cycle.
- Leveraging our strategic relationships. We intend to capture the benefits provided through the extensive global contacts and relationships maintained by Marubeni, which is our biggest shareholder and one of the largest Japanese trading companies. Marubeni has enabled greater access to Japanese-based financing and helped source and develop our joint venture with the leasing arm of the Industrial Bank of Japan, Limited ("IBJL"). We also have a joint venture ("Lancaster") with Ontario Teachers' Pension Plan ("Teachers'"), currently our second largest shareholder.
- Capturing the value of our efficient operating platform and strong operating track record. We believe our team's capabilities in the global aircraft leasing market places us in a favorable position to source and manage

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new income-generating activities. We intend to continue to focus our efforts in areas where we believe we have competitive advantages, including new direct investments as well as ventures with strategic business partners.

- Intending to pay quarterly dividends to our shareholders based on the Company's sustainable earnings levels. Aircastle has paid dividends each quarter since our initial public offering in 2006. On October 31, 2017, our Board of Directors declared a regular quarterly dividend of $0.28 per common share, or an aggregate of $22.0 million for the three months ended December 31, 2017, which was paid on December 15, 2017 to holders of record on November 30, 2017. These dividend amounts may not be indicative of any future dividends. Our ability to pay quarterly dividends will depend upon many factors, including those as described in Item 1A. "Risk Factors" and elsewhere in this Annual Report.

Declaration Date	Dividend per Common Share	Aggregate Dividend Amount (Dollars in thousands)	Record Date	Payment Date
October 31, 2017	$ 0.28	$ 22,039	November 30, 2017	December 15, 2017
August 4, 2017	$ 0.26	$ 20,464	August 31, 2017	September 15, 2017
May 2, 2017	$ 0.26	$ 20,482	May 31, 2017	June 15, 2017
February 9, 2017	$ 0.26	$ 20,466	February 28, 2017	March 15, 2017
October 28, 2016	$ 0.26	$ 20,434	November 29, 2016	December 15, 2016
August 2, 2016	$ 0.24	$ 18,872	August 26, 2016	September 15, 2016
May 2, 2016	$ 0.24	$ 18,915	May 31, 2016	June 15, 2016
February 9, 2016				