

Competition and Markets Authority
Mergers
The Cabot
25 Cabot Square
London E14 4QZ
Attn: Jenny Patroclou, Case Officer |

Please note that [X] indicates text or figures which have been deleted or replaced in ranges at the request of Milestone Aviation Group Limited for reasons of commercial confidentiality.

31 March 2022

Re: Completed acquisition by CHC Group LLP of Offshore Helicopter Services UK Limited, Offshore Services Australasia PTY Ltd, and Offshore Helicopter Services Denmark A/S – Provisional Findings and Notice of Possible Remedies

Dear Mrs. Patroclou:

We thank the CMA for its time in investigating the above case, including for taking into account our submissions to date.

As we provide feedback, we think it would be helpful to provide context around Milestone Aviation Group (“Milestone”) as a lessor and Milestone’s perspective on this case.

Milestone is the world’s largest helicopter leasing and financing company. Milestone partners with helicopter operators worldwide, providing a wide array of financial and productivity solutions, including operating leases, purchase and leasebacks, secured debt financing, engine leasing and fleet advisory services. Milestone supports over 40 customers in more than 35 countries serving a variety of industries, including offshore oil and gas, search and rescue, emergency medical services, police surveillance, mining and other utility missions. Milestone’s largest customers include Babcock International, Bristow Helicopters and CHC Helicopters. By exposure, approximately 60% of the portfolio is focussed on servicing the oil & gas services industry and a significant % of that exposure is operating in the North Sea.

We refer to the CMA's Provisional Findings published and in particular the “*mixed views on how the market has changed in the past five years*” expressed by lessors (CMA's Provisional Findings, paragraph 6.25). In evaluating this feedback, we would ask that in the CMA consider the merits of each of the lessors which have been queried and their relevant experience or exposure to the oil and gas sector. Of the 4 lessors highlighted in the report, we were the first mover and the largest by fleet and customer base, the next largest is Macquarie Rotorcraft. The Macquarie portfolio, as I expect you will be aware, largely consists of the ex-Waypoint Leasing portfolio following the liquidation of the Waypoint portfolio in 2018/2019. Waypoint entered liquidation with significant exposures to CHC and oil and gas markets. In terms of the other players, LCI Helicopters differentiate themselves in the market as having the least oil and gas exposure and this not being a core market or focus for them. LOBO leasing is sub-scale and as I understand it a platform in wind down.

Our request here is that, if not already done so, when considering lessor views, the CMA take into account the relevant exposure and experience within the segment. From our industry experience, there has been for some time universal acceptance across the rotary industry about how challenged the offshore segment has been. We are concerned that the Preliminary Findings point to or suggest mixed views, which appear to be based on input from lessors with relatively little oil and gas sector exposure and do not reflect market reality. Potentially the CMA may wish to consider the views of the appraiser community and how the values of rotary aircraft have performed over recent years, as I would expect this would provide identifiable and verifiable context around how this segment (particularly in oil and gas) has faced – and continues to face – severe challenges which make the prevailing conditions unsustainable.

We appreciate the CMA has welcomed views in relation to the “Remedies” proposed and accordingly, Milestone are taking this opportunity to present our perspective on the transaction and the potential implications of the remedies.

I have highlighted below an excerpt from our December ’21 submission to the CMA:

As part of the change of control over Babcock's offshore oil and gas aviation business which occurred on 31 August 2021, Milestone was required to provide consent in relation to the release of parent guarantees in respect of [REDACTED] leases, representing [REDACTED] in helicopter exposure. We consented to the release of the parent guarantees in respect of the affected leases after completing our own due diligence evaluation of the merits of the CHC/Babcock transaction.

In our view the prevailing condition of the UK O&G Offshore Transportation space is not sustainable. The credit profile of the supply chain participants is too weak to attract any meaningful sources of financing, the contract terms on offer to the helicopter operators from the end-users (i.e., the IOCs), including the ability of the end-users to early terminate contracts, do not support investment in new aircraft. We would argue that the supply chain needs to create margin through economies of scale achieved through administrative and fleet management efficiencies. The remaining independent helicopter operators do not appear to have the ability to achieve further cost reductions without impacting their operations and, potentially, safety.

We would like to take this opportunity to elaborate on the above and to cross reference this to our concerns in relation to the imposition of a remedy involving a divestiture of the Fisher Offshore UK business.

Milestone are fully transparent that CHC represent one of our largest portfolio exposures. Accordingly, and as part of ongoing exposure and risk management, we work closely with our lessees, and this instance CHC to understand the financial condition of the Company and its ability to service lease obligations on an ongoing basis. I would urge the CMA to gain, if it does not already have, a full understanding of the latest financial condition and available liquidity profile of CHC. [REDACTED]. When posed with how to respond to the question of consent to migrate Babcock exposure to CHC exposure, based on standalone analysis of credit worthiness of relative counterparty exposure, our preference would have been to maintain recourse to a lessee with the financial standing of Babcock International. [REDACTED], we were ultimately of the view that the

CHC/Babcock transaction was a [REDACTED] path for CHC to remain as a viable credible operator and attract the required financial backing to support the business.

We note that within the CMA report, the CMA confirms “*We note that CHC has submitted that it expects to achieve approximately \$[%] million USD of synergies as a result of the Merger, as set out in paragraph 3.70. The CMA is of the view that in some instances, mergers can give rise to rivalry-enhancing efficiencies which may prevent an SLC by offsetting any anti-competitive effects.*”²³⁹ *The Parties have not provided evidence on whether and how these synergies would lead to any rivalry enhancing efficiencies. Further, we have limited evidence regarding the value of these savings nor whether they are merger specific. On this basis, we do not consider an assessment of synergies to be relevant to our assessment of countervailing factors.*” The question we ask the CMA to consider, if appropriate, is what happens if these synergies are not available to CHC, is the CMA confident that CHC will remain in situ irrespective of the remedies?

In the context of the remedies, we refer in particular to the CMA concern that any prospective purchaser for the divested businesses “*would not create further competition concerns*”. It is our contention and concern that imposing the remedy of divesting the legacy Babcock business will ultimately result in [REDACTED] a contraction in the marketplace of one of the largest competitors today, [REDACTED]. Our view is that an attempt to maintain these businesses in their previous forms in the UK risks the loss from the market of one or both businesses. We therefore ask the CMA to consider carefully the parties' precarious financial situations and the industry context summarised above in the context of remedies discussions.

We would further highlight for the record that it is our expectation, that in connection with the implementation of any remedy imposed by the CMA, we (Milestone) will retain our rights under our existing lease agreements with CHC such that CHC would be required to obtain our prior written consent to any proposed novation of our leases to a third party or to any change in ownership or control, in each case related to a potential divestiture of the business. Failure to obtain Milestone's consent will be an event of default under our contractual relations with CHC and provide Milestone with remedies and recourse.

[REDACTED]. We would raise a concern that the promotion of additional competitors in what has become a low margin business is potentially mutually exclusive with sustaining a supply chain that can continually prioritise and invest in safety or latest technology.

Should you have any questions regarding the foregoing, please feel free to contact me at my coordinates below.

Sincerely yours,

Patrick Sheedy
President and Chief Executive Officer
The Milestone Aviation Group Limited