

# ASSET FINANCE HELPS VIRTUAL AVIATION SPREAD ITS WINGS

Forward thinking finance.



## THE STORY IN BRIEF:

- Virtual Aviation Ltd were seeking asset finance to help them acquire a B737 flight simulator to expand their pilot training offering
- A flight simulator is an unusual asset type, but we were keen to explore the opportunity as we knew the business had a good track record
- Following detailed examination of the asset type and the business plan, and with input from our risk assessment team, we provided the finance to enable the purchase of the simulator and its associated software license
- We have also provided a pre-approved credit line for the acquisition of a second simulator, an A320

## FACT FILE:

**Sector:** Aviation

**Turnover:** £2m–£5m

**Purpose:** Virtual Aviation Ltd were looking for help to fund new flight simulators to support their business expansion

**Solution:** Pre-inception loans enabled them to acquire a B737 fixed-base simulator, which we converted to an eight-year-term Hire Purchase agreement on installation

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“ Lombard put time and effort in to understand this asset type; they were fast, flexible – and came up with a fantastic deal.

”

James Stevenson, Founder, Virtual Aviation Ltd



## Flightpath to growth

Flight simulators allow novice pilots to gain flying experience without risk to themselves or others, or indeed a real aircraft. Unaffected by the weather, programmable to replicate particular situations or environmental conditions, simulators are also considerably less expensive to ‘fly’ than a real aircraft. However, these masterpieces of engineering, packed with complex software, are still a costly investment. When James Stevenson founded Virtual Aviation Ltd to offer simulated flight experiences he did so by renting spare capacity on simulators owned by major airlines. In the intervening years, James has grown the company from a niche business into a leading provider of training to the Commercial Aviation sector.

Today, Virtual Aviation is an EASA Approved Training Organisation (ATO), authorised by the CAA to provide simulator and classroom-based pilot training. In 2012, the business took on the lease of a B737 simulator but with the business going from strength to strength, James’ longer-term strategy has been focused on increasing capacity and developing more airline training courses. To do so required the acquisition of a new B737 simulator. “In the last few years there has been a big shift in fixed-base simulator technology, enabling them to be used for more types of training,” James explains, “Our existing simulator still had plenty of useful life in it, but we wanted one with greater capabilities to allow us to expand the range of training we offer. We also wanted to own the new simulator; we were only in effect renting the other one – we paid around £600,000 over the five years we operated it, but at the end we didn’t own any of it.”

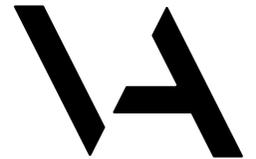
## Pre-flight briefing

Looking for funding to help acquire the new simulator, the business spoke to several providers. “To begin with, it looked as though we were going to struggle to get the finance,” says James. “We’re a relatively young business and a simulator is an unusual and expensive asset type, plus we wanted to spread the cost over a relatively long term.” At this point, Damian Dunphy, Origination Director at Lombard, got in touch. He had been introduced to James by his colleague Moazil Miah a couple of years earlier and, having heard through the industry grapevine about Virtual Aviation’s plan to acquire the new simulator, thought we might be able to produce a suitable asset finance proposal.

“Other providers were reluctant to even consider our request because they weren’t familiar with this type of asset,” comments James. “I was impressed by the fact that Lombard were much more open-minded, they saw it as an opportunity. They visited us and asked very pertinent, searching questions, and they showed genuine interest in the business.”

Gill Atkinson from our Risk Evaluation team spent time with James and Andrew Armour, Financial Director, working through different scenarios of potential usage of the new simulator and associated revenue. Gill and Damian’s calculations were assisted by the expertise of Hugh Cowen, one of our asset managers, who advised on the quality of the technology and likely lifespan of the simulator that Virtual Aviation wanted to purchase. The research process confirmed the viability of asset finance as a route to purchase. Furthermore, because of the lifespan of the simulator, we decided it was reasonable to spread the repayment schedule over eight years rather than the standard five-year term.

“We were really impressed by the management team at Virtual Aviation,” says Damian, “and what we saw convinced us of the company’s capabilities and also the capacity for growth. These factors also contributed to our decision to provide the funding.”





## Flexible approach

Hire Purchase cannot be provided against machinery until it has been installed and commissioned, but the simulator manufacturer required staged payments prior to delivery. To overcome this funding gap, we provided a series of pre-inception loans. Once the simulator was in-situ at Virtual Aviation's Cambridge site, we converted the entire sum into a Hire Purchase agreement. "Our monthly repayments now are similar to what we were paying to lease our previous simulator," says James, "but the difference is that at the end of eight years we'll own this one and it will still have many years of use."

The new simulator has been pivotal in enabling Virtual Aviation to launch its new AirlineReady™ APS MCC course (Airline Pilot Standard Multi-Crew Co-operation Course) – the first of its kind in the UK to be approved by the Civil Aviation Authority. Completion of the course requires up to 40 hours' simulator training.

## Looking ahead

The acquisition of a second simulator, an A320, is now on the horizon. This will allow the business to offer airlines use of the simulators for type rating (certification of a pilot to fly a certain aircraft type) for both the B737 and A320. We have already pre-agreed the funding for the A320 and James hopes it will be operational by the end of 2018. "As well as enabling type rating courses on both aircraft types, having two simulators increases our training capacity at time when there is a record level of demand for airline pilots" he says, "there are an unprecedented number of opportunities right now and the new equipment will allow us to take advantage of that and expand the range of pilot training courses we can deliver to airlines."

In total, we provided a credit facility of £2.5m to Virtual Aviation. Approximately half of this has been drawn down for the B737 simulator and associated software license, the remainder is available for the acquisition of the second simulator.

James is openly appreciative of our input and appetite to lend, saying "Lombard make us feel that they really value our business and want to help us. The service is fantastic – attentive and responsive in a way you don't often experience with large financial providers. It's a good partnership, and we're looking forward to continuing to work with them as our business grows."



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