## FTAI Aviation

NASDAQ:FTAI

Update - Cash Flow Mirage

**SHORT** 

September 2025



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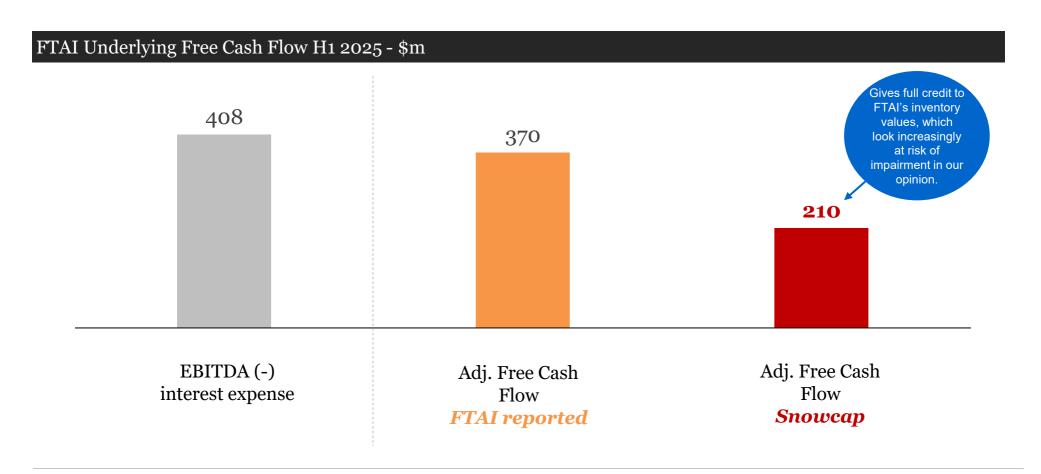
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## **Executive Summary**

- FTAI Aviation ("FTAI" or the "Company") has surged nearly 50% on recent results, in which it claimed to generate \$370 million of "Adjusted Free Cash Flow" in the first half of 2025 supposedly dispelling concerns around its cash generation and prompting analysts to declare that the investment debate is "turning back towards the bulls".
- We believe this is a mirage. Our analysis reveals that nearly half of this supposedly underlying cash flow was generated by FTAI liquidating its engine fleet<sup>1</sup> which shrank by roughly 70 engines in just six months and a one-off insurance payment. Not from underlying operations.
- This went unnoticed because FTAI's disclosures appear engineered to mislead. Management present "Adjusted Free Cash Flow" as a measure of underlying cash generation. Yet this metric is deeply flawed because it makes <u>no</u> adjustment for the depletion of FTAI's fleet in H1. Investors missed this because FTAI uses misleading terminology like "replacement" capex which footnotes reveal is <u>not</u> sufficient to sustain earnings.
- After appropriately adjusting for fleet shrinkage, we calculate underlying free cash flow was just \$210 million in H1 2025<sup>1</sup> a fraction of the headline figure. Our calculation is highly generous, as it gives full credit to FTAI's inventory values, which have continued to balloon and look increasingly inflated and at risk of impairment in our view.
- Investors who might disregard our own analysis should note the gross inconsistencies in FTAI's own disclosures. Since February, FTAI has quietly and materially rewritten the rules for calculating Adjusted Free Cash Flow, disposing of prior principles, like the need to replace leasing engine sales. The result? A conveniently higher number that papers over what otherwise would have been a massive guidance miss.
- In short, we believe the very metric FTAI introduced to defend concerns around its accounting is in itself entirely bogus. Far from putting the bear case to rest, FTAI's recent results combined with the recent change in auditor strengthen our belief that its EBITDA is substantially inflated.

# The very metric introduced by FTAI to defend investor concerns over its accounting, is itself entirely bogus – in our opinion. We *still* believe EBITDA is hugely inflated





## In response to concerns over its accounting, FTAI has introduced a new non-GAAP "Adjusted Free Cash Flow" metric

In January, we – and others – outlined why we believe FTAI's accounting policies have enabled it to materially inflate reported EBITDA numbers. As part of this, we pointed to FTAI's highly unusual and confusing cash flow accounting, which we believe has masked poor underlying cash flow generation that has lagged well behind the headline profit metrics reported by FTAI.

Since then, FTAI has introduced a new "Adjusted Free Cash Flow" metric – which it presents to investors as a measure of the underlying cash generation of its business.

\$370 million 1H 2025 Adj. Free Cash Flow<sup>(1)</sup>

Operational execution & innovative strategy creating strong growth and Adj. free cash flow

# FTAI's stock ripped 50% on the back of recent results in which it claimed to generate \$370 million of "Adjusted Free Cash Flow" in H1, supposedly dispelling concerns around its cash generation

### Morgan Stanley | RESEARCH

August 20, 2025 04:01 AM GMT

We see the investment debate beginning to turn back toward the Bulls as FTAI generated positive cash flow in 2Q25.

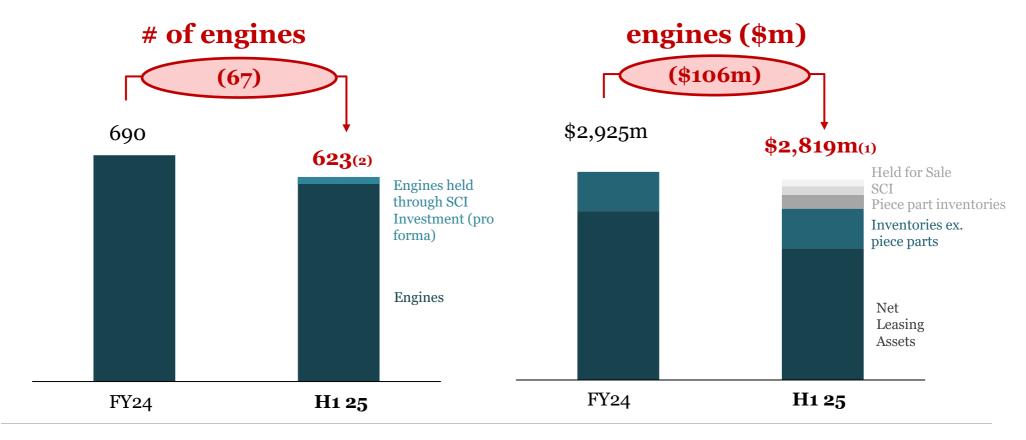
### Sustained Positive Cash Generation is the Catalyst

FTAI has been a much debated stock for the better half of the last year. We sum up the debate as one largely focused on cash generation and valuation. We see the investment debate beginning to turn back toward the Bulls as FTAI generated positive cash flow in 2Q25.



# ► We believe this is a mirage. A significant portion of this cash flow came from FTAI liquidating its engine fleet - which decreased by ~70 engines in just 6 months

Net Change in FTAI's Engine Fleet – H1 2025 (Snowcap calculation)



Source: Company Filings

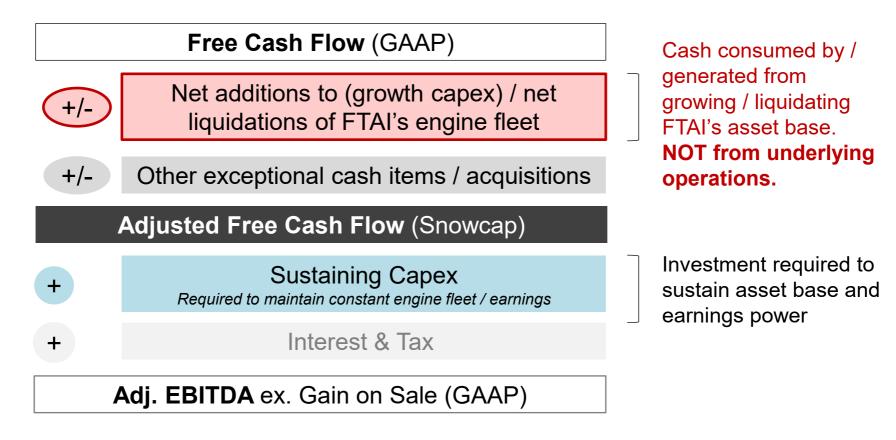
<sup>(1)</sup> Engine fleet defined by Snowcap as net leasing assets + assets held for sale + inventories.

Adjusted by Snowcap to include FTAl's share of engines owned through its SCI investment which we estimate at ~20 engines on a pro forma basis. "Engines" – as reported by FTAI, which includes 8 seed portfolio aircraft (16 engines) to be sold to SCI, reported as held-for-sale assets on FTAI's balance sheet.

## This is NOT from underlying operations and should not be included in FTAI's Adjusted Free Cash Flow, in our view

Snowcap's framework for thinking about FTAI's underlying free cash flow

Source: Snowcap





## Yet FTAI's self-reported "Adjusted Free Cash Flow" makes NO adjustment for this fleet depletion...

Footnotes buried on slide 21 of FTAI's recent investor presentation reveal that its "Adjusted Free Cash Flow" contains NO adjustment for the net depletion of its engine fleet.

### FTAI Adjusted Free Cash Flow – Bridge to Cash Flows

Snowcap recreated based on Company Filings

Generated \$370 million Adj. Free Cash Flow in 1H 2025<sup>(3)</sup>

- 21

2. This is a Non-GAAP measure. 1H 2025 Adjusted Free Cash Flow comprised of net cash used in operating activities of \$(136.3) million, net cash provided by investing activities of \$496.1 million plus adjustment for 50% joint venture investment in QuickTurn Europe of \$10.0 million for the six months ended June 30, 2025

\$m	H1-25
Cash from Operations	(136)
(+) Cash from Investing	496.1
Free Cash Flow	359.8
Adjustments	
(+) Investment in Quickturn Europe (Rome)	10.0
Adjustment for fleet depletion	NONE
Adjusted Free Cash Flow - Reported	370

Source: Q2 2025 Investor Supplement, Slide 21





## ...Contradicting even management's own logic!

"to be clear, **if you sell \$200 million of assets** in order to keep the business going, you should buy \$200 million of assets. That's the intellectually honest way to look at that number."

- FTAI CEO Joe Adams, Q4 2024 on "Replacement Capex"

## Investors missed this because FTAI's own disclosures seem designed to mislead and obfuscate

- Misleading terminology: so-called "replacement capex" is not sufficient to sustain earnings
- Gross inconsistencies with methodology used in FY24
- **X** Bridge to audited cash flows buried in appendix

## Misleading terminology: footnotes reveal that socalled "replacement capex" is NOT sufficient to sustain earnings

Misleadingly, FTAI uses the term replacement capex to describe – what appears to be – just its actual capital expenditures incurred in the period<sup>1</sup>. This implies that they are somehow sufficient to sustain the business. Yet FTAI's own footnotes admit that these are only sufficient to **partially** offset the lost earnings from the sold engines. So not replacement capex at all.

\$s in Millions - Rounded	1H 2025
Adj. EBITDA excluding gain on sales and claims <sup>(3)</sup>	\$534
Aviation Leasing Asset Sale Proceeds	\$67
Russian Claims	\$54
Maintenance Capex	(\$86)
Net Interest Expense	(\$126)
Net Total	\$443
SCI Net Cash Flow Adjustments	
Seed Portfolio Sales	\$397
Replacement Capex <sup>(4)</sup>	(\$320)
SCI Investment	(\$109)
Subtotal	(\$32)
Inventory & Other <sup>(5)</sup>	(\$41)
Adjusted Free Cash Flow	\$370

(4) "Replacement Capex is defined as acquisition of Aviation Leasing Equipment, primarily off-lease CFM56 and V2500 Engines, intended to partially offset the reduction in earnings contribution from assets sold to the SCI."

Note: "Replacement Capex" appears to be capex FTAI spent in H1 2025 (less what it classifies as maintenance capex)<sup>1</sup>. It does not contain ANY adjustment for the depletion of FTAI's fleet.

Source: Q2 2025 Investor Supplement

<sup>&</sup>quot;Replacement Capex is defined as acquisition of Aviation Leasing Equipment, primarily off-lease CFM56 and V2500 Engines, intended to partially offset the reduction in earnings contribution from assets sold to the SCI. Comprised of Acquisition of Leasing Equipment of \$323.2 million, acquisition of lease intangibles of \$2.8 million less maintenance capex of \$86.2 million." – FTAI Q2 2025 Investor Supplement.

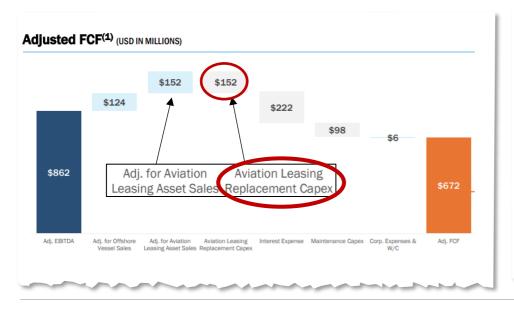
## Inconsistent methodology: FTAI quietly abandoned a capex provision used in FY24 for replacing engines sold in its leasing business

In FY24, FTAI (appropriately) made a provision for the replacement capex needed to replenish *engines sold in its leasing* business.

But in its recent H1 2025 results, FTAI makes no such provision, inflating its Adjusted Free Cash Flow.

### **FY24** Adjusted Free Cash Flow

### **H125** Adjusted Free Cash Flow

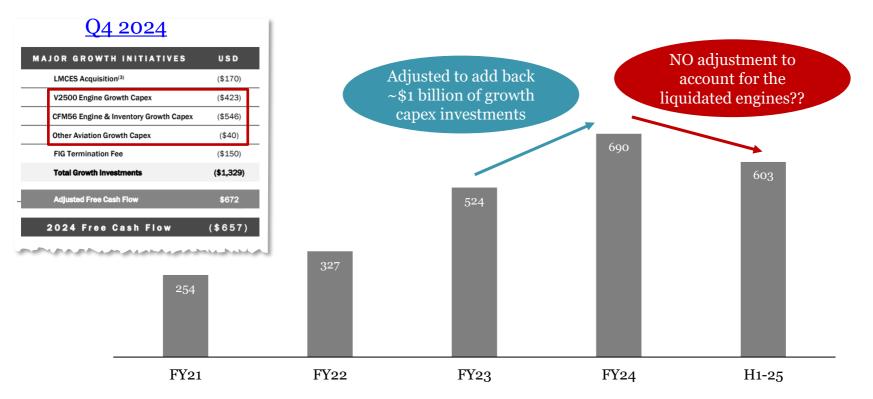


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► FTAI's inconsistencies exposed. In FY24, FTAI heavily adjusted its free cash flow to exclude capex spent growing its fleet. But in H1, it made NO adjustment for the depletion of its fleet??

### Total # of Engines (including inventories)



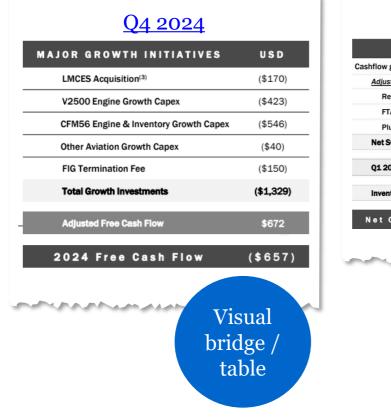
Source: Company Filings

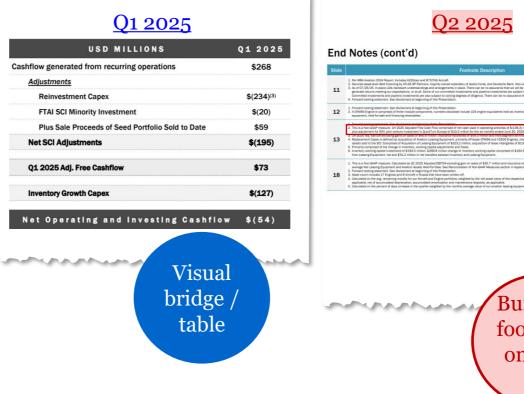
Note: excludes engines held through minority SCI investment.

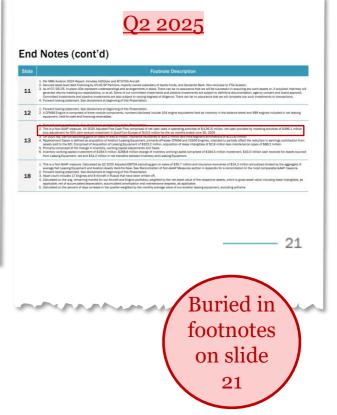


## FTAI buried the bridge to audited cash flows in its appendix, obfuscating the inconsistencies and flaws in its methodology

#### **Bridge to Free Cash Flow**



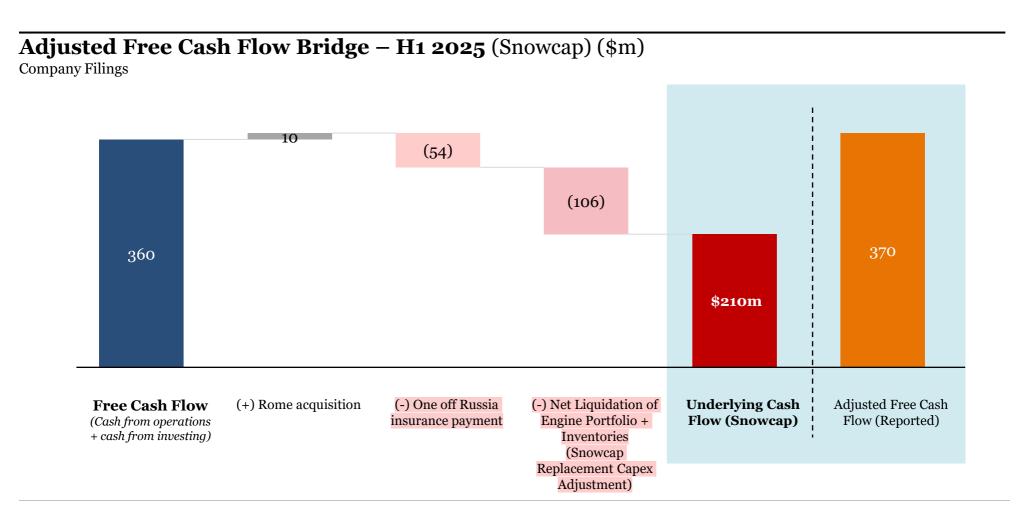




Source: Company Filings



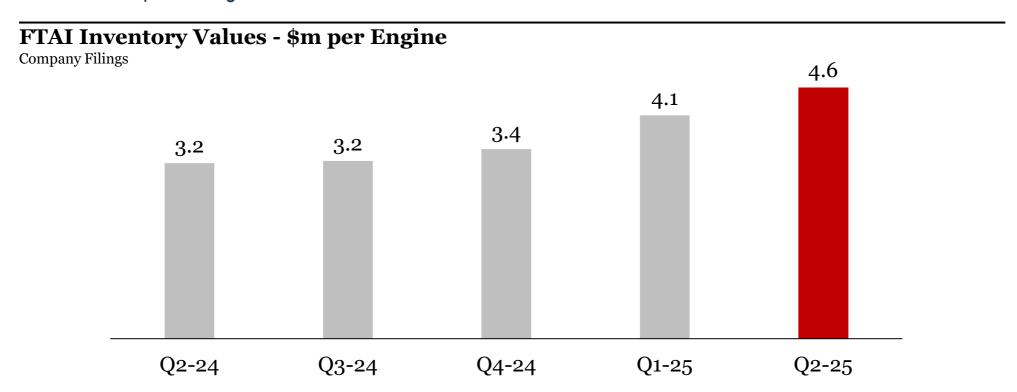
Adjusting for the net depletion of FTAI's engine fleet and the one-off Russia insurance payment, we calculate underlying cash flows in H1 2025 were just \$210m





# ► Our calculation is highly generous because it gives full credit to FTAI's inventory values — which look increasingly inflated and at risk of impairment in our view

FTAI's inventory values have continued to balloon – which we believe draws into question the sustainability of FTAI's Aerospace margins.





## FTAI's own methodology for calculating Adjusted Free Cash Flow has dramatically changed since February

FTAI claims to be on track to beat its free cash flow guidance of \$650 million for FY25 – as set in February. The catch? FTAI's methodology for calculating free cash flow has dramatically changed – expanding to include one-off proceeds from Russia insurance claims and leasing asset sale proceeds (which in theory, FTAI should provision for replacing).

2025 Target Adjusted Free Cash Flow - Feb 2025

2025 Target Adjusted Free Cash Flow - July 2025

Adjusted FCF(2)

\$m	
Target Adj. EBITDA ex. gain on SCI sales	1,050
Maintenance Capex	(125)
Interest Expense	(225)
Net Total	700
SCI Net Cash Flow Adjustments	
Seed Portfolio Sales	550
Replacement Capex	(310)
SCI Equity	(240)
Subtotal	700
Corp. Expenses & W/C	(50)
Adjusted Free Cash Flow	650

\$s in Millions - Rounded	2025E
Adj. EBITDA excluding gain on sales and claims(3)	\$1,126
Aviation Leasing Asset Sale Proceeds	\$145
Russian Claims	\$54
Maintenance Capex	(\$125)
Net Interest Expense	(\$242)
Net Total	\$958
SCI Net Cash Flow Adjustments	
Seed Portfolio Sales	\$477
Replacement Capex <sup>(4)</sup>	(\$320)
SCI Investment	(\$240)
Subtotal	(\$83)
Inventory & Other <sup>(5)</sup>	(\$125)
Adjusted Free Cash Flow	\$750

Source: Company Filings, Q4 2024 Investor Supplement (February 2025). Q2 2025 Investor Supplement (July 2025)

Note: Snowcap have recreated FTAI's methodology as per the bridge on slide 24 of its Q4 2024 Investor Supplement in table format for ease of comparability.



## FTAI's change in methodology masked a massive guidance miss

Using the same methodology as the one used by FTAI in its February 2025 presentation (when it initially provided guidance for FY25), we calculate that FTAI is way-off its target. In other words, FTAI's supposed guidance upgrade seems entirely predicated on changing the way it calculates Adj. Free Cash Flow.

### Adjusted Free Cash Flow as per February Methodology

	FY25 Guidance	FY25 Updated Guidance	FY25 Updated Guidance
Date	Feb-25	May-25	Jul-25
EBITDA	1,050	1,100	1,126
Seed Portfolio Sales	550	500	477
SCI Equity	(240)	(240)	(240)
Replacement Capex	(310)	(300)	(320)
Interest expense	(225)	(235)	(242)
Maintenance Capex	(125)	(125)	(125)
Corp Exp & NWC	(50)	(250)	(125)
Adjusted Free Cash Flow (Feb 2025 Methodology)	(650	450	551
Aviation Leasing Sale Proceeds Russian Claims		145 55	145 54
Adjusted Free Cash Flow (New Methodology)		650	750

Headline number reported by FTAI



## The deception goes back further: in FY24 FTAI passed off \$300m of what look like recurring costs as "growth" capex, stripping them out of its Adj. FCF

In FY24, FTAI claimed that \$1 billion of its cash costs were "growth" investments - excluding them from its Adjusted Free Cash Flow. Yet its engine fleet grew by just \$700 million that year. We think that ~\$300 million of the supposed growth investments were recurring costs required to keep the business going. Not discretionary growth capex.

#### **Growth Capex vs Change in Engine Fleet** (Snowcap) (\$m) \$1,009m MAJOR GROWTH INITIATIVES USD (\$309m) LMCES Acquisition(3) (\$170)\$700m V2500 Engine Growth Capex (\$423)CFM56 Engine & Inventory Growth Capex (\$546)(\$40)Other Aviation Growth Capex FIG Termination Fee (\$150)(\$1.329)**Total Growth Investments** Adjusted Free Cash Flow \$672 Change in **Growth Capex Engine Fleet Reported by FTAI** 2024 Free Cash Flow (\$657)Change in Net Leasing Assets & Inventories ex. Acquisition

Source: Company Filings. See appendix for full calculation.

- (1) Adjusted to exclude acquired inventory and leasing assets
- (2) Net Leasing Assets exclude offshore investments.

Impact





#### FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): June 17, 2025

#### Item 4.01. Changes in Registrant's Certifying Accountant.

The Audit Committee (the "Audit Committee") of the Board of Directors of FTAI Aviation Ltd. (the "Company" or "FTAI") approved the engagement of KPMG LLP ("KPMG") as the Company's independent registered public accounting firm for the Company's fiscal year ending December 31, 2025, effective as of June 17, 2025.

Prior to KPMG's engagement, the Audit Committee conducted a comprehensive, competitive auditor selection process that included registered public accounting firms that the Audit Committee believed might be able to serve as auditor for the Company, including Ernst & Young LLP ("EY"), which had been engaged as the Company's independent registered public accounting firm since 2016.

In connection with the engagement of KPMG, on June 17, 2025, the Company dismissed EY as the Company's independent registered public accounting firm. The dismissal of EY as the Company's independent registered public accounting firm did not result from any dissatisfaction with the quality of professional services rendered by EY.

Source: Company Filing

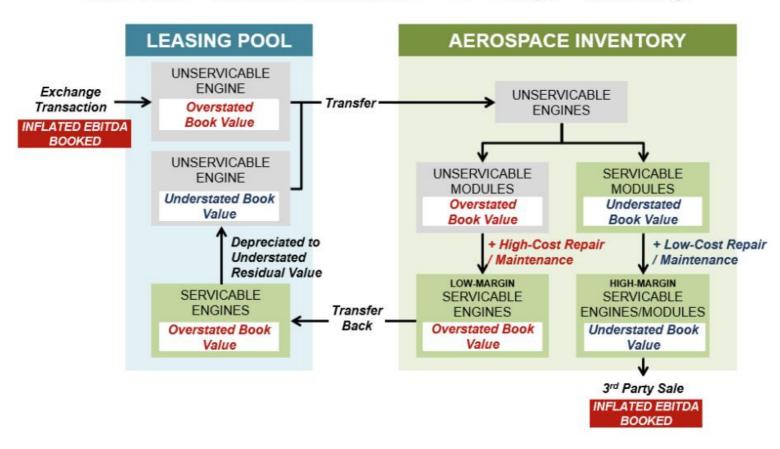


## **Appendix**



## Recap: How FTAI's complex accounting and intersegment transfers allow it to perpetually inflate Aerospace Products EBITDA - in our view

#### Illustrative Potential Flaws with FTAI's Transfer Accounting<sup>1</sup>



<sup>(1)</sup> Engine fleet defined as change in Net Leasing Assets ex. Offshore investments (+) Inventories excluding assets acquired via acquisition.



## **Change in FTAI's Engine Fleet**

Change		(106)
Engine fleet (Snowcap)	2,925	2,819
(+) Assets held for sale	-	122
(+) 2025 Partnership	-	95
Inventory piece parts	-	195
Inventories ex piece parts	551	558
Net Leasing Equipment	2,374	1,849
	FY24	H125

## **Snowcap H125 Underlying Cash Flow Bridge**

	H1-25
Cash from operations	(136)
(+) Cash from investing	496
Free Cash Flow	360
(+) Rome Acquisition	10
Adjusted Free Cash Flow (Reported)	370
(-) One-off Russia Insurance Payment	(54)
(-) Replacement Capex Adjustment (Snowcap estimate)	(106)
Underlying Cash Flow (Snowcap)	210
(-) Investment in inventory piece parts	(195)
Underlying Cash Flow net of piece part investment (Snowcap)	15

### **Inventories per engine – Snowcap calculation**

	Q2-24	Q3-24	Q4-24	Q1-25	Q2-25
CFM56	82	91	99	95	104
V2500	35	61	61	64	61
no. of engines	117	152	160	159	165
Inventories (\$m)	373	491	551	645	753
\$m / engine	3.2	3.2	3.4	4.1	4.6

Source: Company Filings