For more information on Pem-Air, visit: **pem-air.com**

VERTICAL HOLD

There will be benefits for operators when engine leasing goes vertical

A lessor's function is to provide assets to the end user at the lowest possible cost with the maximum flexibility in utilisation of the asset. Some lessors are only providing financing. This is known as 'dry' leasing, and the lessor does not take an active part in the maintenance of the engine during the term of the lease. The technical status and condition of the engine upon the return of the engine at the end of lease are negotiated and agreed by the lessor and lessee at the lease commencement date. It is the responsibility of the lessee to select how and by whom servicing upon the engine shall be accomplished and the lessee must only ensure that the engine is in the condition agreed upon the date of return of the engine to the lessor.

Other lessors provide varying degrees of maintenance management and technical responsibilities during the term of the lease. This is known as 'wet' leasing and can even include operational/liability insurance for the engine. A wet lessee simply operates the engine and all other responsibilities for the engine lay with the lessor. The lessee is allowed to return the engine to the lessor at any time the engine may not be able to operate on-wing safely. In such circumstances the lessor and lessee must coordinate with each other for required on-wing or off-wing maintenance during the term of the lease and the responsibility for the engine and its technical condition lay solely with the lessor at the date of return at completion of the lease term.

1

"ONLY THE LARGEST AIRLINES CAN MAINTAIN AN EFFICIENT MRO INFRASTRUCTURE WITHOUT AN IMPACT ON TICKET PRICING"

SIMON BENFORD
chief operating officer at component repair organisation Pem-Air

Both dry and wet lessors must both consider the scheduled maintenance cycle of their engines under either leasing arrangement – scheduled heavy maintenance at completion of the lease term prior to being leased out to the next lessee or lighter maintenance during the term of the lease. Of course, unscheduled maintenance required during the term of the lease is less predictable and therefore poses the greatest financial risk to both, but more so to the wet lessor.

COSTLY EVENTS

Any planned or unplanned maintenance event is costly to the lessor or the lessee. The cost of such maintenance can vary greatly. Toward that end, a lessor may benefit greatly by partnering with, owning and operating its own MRO facilities capable of repairing all its engines at the lowest possible cost, allowing it to offer the engine into the marketplace at a competitive price. However, given the diverse portfolios of engine model types and usage this is impractical for most engine lessors.

Legacy airlines followed this model by building out an MRO infrastructure that could ensure flight dispatch reliability near 100%. However, this infrastructure at an extremely high cost resulted in higher ticket prices than those of its competitors following deregulation in the 1970s.

Only the largest airlines can maintain an efficient MRO infrastructure without a negative impact on ticket pricing. Mid-level and small airlines benefit from relationships with engine MRO partners that can spread the cost of such infrastructure across its customer base comprised of numerous smaller airlines, aircraft lessors or trading companies.

An analogous situation exists in respect of engine leasing companies; the largest have entered formal partnerships with MRO providers and smaller leasing

2

companies have a need to secure reliable repair partnerships with MROs like our company, Pem-Air Turbine Engine Services, to secure what we call 'the three Ps', namely priority, price and product reliability.

Let me explain what I mean by the three Ps with an analogy. Imagine having a neighbour that has a vehicle repair shop. Your wife breaks down, your neighbour stops working on other cars and repairs yours and gets your wife back on the road as a priority.

She asks how much for the repair service? He adds a smaller handling charge to the cost for the parts and provides a 'sharp pencil' labour rate to compete on price.

She then drives the car for the next three years without unscheduled maintenance related to the repairs accomplished, and so proving the product quality.

> **"SMALLER LEASING COMPANIES NEED TO SECURE RELIABLE REPAIR PARTNERSHIPS WITH MROS LIKE US"**

Lessors benefit greatly from the three Ps by being able to forecast or project maintenance costs during the term of a lease, focusing on acquisition pricing and residual value assumptions.

THIN MARGINS

To all lessors, margins are thin and shop visits can be the most unpredictable expense, impacting the bottom line, so having a trusted MRO partner can truly be priceless. Pursuing adjacencies such as MRO partnerships are becoming more common in the industry.

Pem-Air can be that partner for a few more select mid-level lessor groups, to join the already existing group of lessor partners working with us to maintain their engines under several highly specialised programmes crafted for their needs from our full offering of MRO services, ranging from full power restoration to worldwide AOG services.

Perhaps the greatest benefit of all to a lessor partner is knowing to a high degree of certainty what its MRO costs are going to be for all its engines during any given year it is retained within portfolio. The company also has programmes for partner lessors to maximise their return on engines when they reach the end of their useful lives.

1 Pem-Air's Florida headquarters
2 Shop visits can be the most unpredictable expense for lessors