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What Lessors Need

A study of three critical asset
management scenarios

Donal Lowry

Head of Asset Management



Table of Contents

Acknowledgement.....	3
About author.....	4
Preparing for different scenarios	5
<i>Scenario 1 – Accident / incident</i>	<i>5</i>
<i>Scenario 2 – Financial distress.....</i>	<i>7</i>
<i>Scenario 3 – Scheduled return</i>	<i>8</i>
Concluding remarks.....	11



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About author

Donal Lowry

Head of Asset Management



An experienced aviation professional with more than 40 years in the industry.

Donal has previously held Technical Director Senior Advisor roles with blue chip leasing companies, including Orix Aviation Systems, DAE Capital and Elix Aviation Capital where he was instrumental in shaping optimized asset management procedures. Donal has vast experience in negotiating technical aspects of sale and lease back agreements, aircraft purchase agreements, power by the hour (PBH) with OEMs / service providers and technical lease return conditions.

In addition, Donal has experience managing many challenging projects including lease returns, early redeliveries and repossessions.

Donal trained as an aircraft engineer with Aer Lingus and has held licenses and approvals for both Boeing and Airbus aircraft. Donal also held the position of Chairman of the Dublin Branch of the Royal Aeronautical Society.

Preparing for different scenarios

Whether it's an aircraft on ground (AOG) due to accident / incident; bankruptcy or a scheduled lease return, careful planning and timely execution is key to preserving the value of the asset and ensuring the asset is revenue generating again within prescribed timelines.

This paper touches upon the key inflection points of three types of scenario, in turn, and offers insight as to the role the lessor's representative / project manager plays in successfully and efficiently navigating each of them.

Scenario 1 – *Accident / incident*

Aircraft has suffered an incident (for e.g. Runway excursion, FOD damage on the ramp, hard landing resulting in airframe damage)

Swift mobilization and timing are key in this scenario; there is no justification for delay. The aircraft most probably is disabled in an active movement zone and needs to be cleared quickly.

Communication is key and it is important that the lessor's representative establishes contact with the operator's key account managers and appropriate airport authority promptly. They must be proactive in ensuring security / airside access passes are arranged prior to arrival on site.

When on site, an initial assessment of the damage needs to be performed and photographic evidence of the aircraft needs to be collected prior to an asset being moved. Permission may be required from the relevant airworthiness authority so this must also be acquired ahead of time.

The lessor's representative needs to provide the lessor with initial damage observations and findings promptly, an example is shown in fig 1 below. The representative needs to be cognisant of the impact

of using specific terminology. For example, avoid suggestion that the “aircraft is a write-off” unless this has first been authenticated by qualified expert(s) or OEM following assessment of the damage. In addition, the representative must provide repair estimation and costs as quickly as possible.

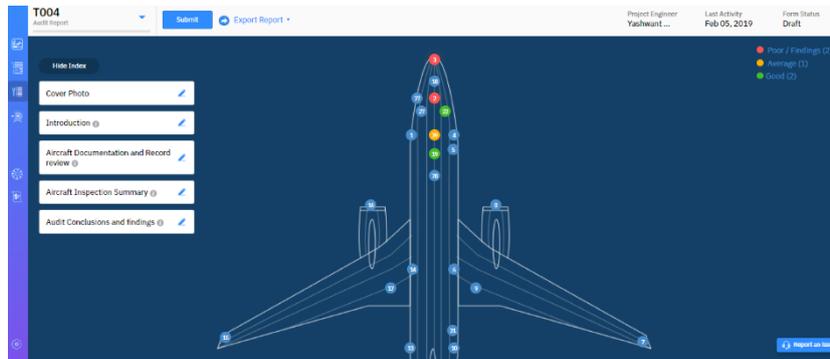


fig.1 Example of a findings report using SPARTA.AERO technical platform

Once the damage has been assessed, the decision needs to be taken regarding the involvement of insurance, regulatory authority and OEMs. A repair shop / MRO may need to be sourced. Upon the selection of a repair station the aircraft will need to be prepared for flight ready condition, workscope defined and ferry permit secured following completion of minimum approved workscope.

On completion of repairs, it may be necessary to engage the services of a certified appraiser to perform an aircraft valuation to determine if and to what extent the repair may have affected residual value.

Upon completion of rectification work the representative needs to ensure that the lessor is furnished with full details of repair(s) including drawings, certification and photos.

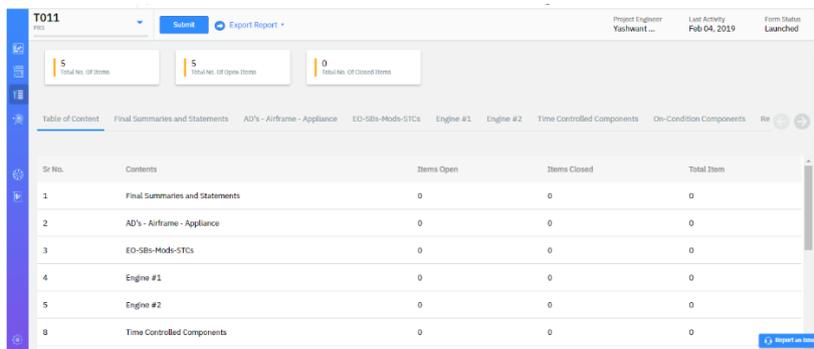
Scenario 2 – Financial distress

Operator is in financial distress and is behind on payments. There is a possible repossession risk

This is very time critical situation. Delays are considered in hours not days and one area of key importance is that of Intelligence gathering. However, it is equally important that this activity be carried out discreetly as financial distress / potential bankruptcies are sensitive and often emotionally charged situations. The lessor's representative needs to keep a track on all the aircraft and engines movements. If any are in shop, direct contact with engine MRO maybe required to be established promptly.

A core team led by a designated project manager needs to be formed for such scenarios covering all of technical, legal, finance and other skill sets as required. A lessor would tend to choose a project manager who can provide all of these functions in-house.

Status of the technical records need to be reviewed, prioritized and summarized immediately. If the records are not digitized, a team of expert scanners equipped with high speed scanning equipment need to be deployed on site as soon as possible to scan the records. These records need to be reviewed, critical lists given priority, gaps identified and followed up immediately with the operator. Generation of a real time gap report, similar to the one included in fig 2 below, is essential.



Sr No.	Contents	Items Open	Items Closed	Total Item
1	Final Summaries and Statements	0	0	0
2	AD's - Airframe - Appliance	0	0	0
3	EO-SB's-Mod's-STC's	0	0	0
4	Engine #1	0	0	0
5	Engine #2	0	0	0
8	Time Controlled Components	0	0	0

fig.2 Example of a real time gap report using SPARTA.AERO asset management platform

Bankruptcies may involve interaction with various third parties such as MROs, customs, airport authorities, vendors, fuel suppliers and ground handling companies. Dues maybe outstanding to all or some of these service providers with settlement required before aircraft is permitted to ferry fly. Early engagement with key contacts / accountable managers in third party companies is recommended to remove the possibility of potential roadblocks ahead of time. Engagement with Ferry flight vendors and flight plan generation also required and the lessor \ is to be kept appraised and updated during all stages of the repossession process until the aircraft is in a safe jurisdiction in storage or a MRO.

Further Continuing Airworthiness Management Organization (CAMO) may be required during the storage or transition period.

Scenario 3 – *Scheduled return*

Aircraft is due for lease return in next one year. An onsite pre-redelivery Inspection needs to be performed

Pre-planning is key in order to secure a smooth redelivery. Apart from a technical perspective, end of lease (EOL) returns need to be managed from a team management prospective. The project manager needs to be fully aware of return conditions, technical specifications and current status of aircraft and main constituent parts of the aircraft.

A pre- lease return meeting needs to be held with key account managers of the operator at least one year prior to the scheduled redelivery date. At this meeting the operator needs to confirm the out of service date, EOL proposed workscope and approved MRO details. The projected condition of the aircraft, engines, landing gear and APU will also be required together with the fund balance projection and will be based on the predicted utilization forecast. An example of the fund balance projection is included below in fig.3.

The EOL workscope to be evaluated to ensure it fully meets the requirements of the return conditions. If engines require shop visits, workscope to be provided and agreed well in advance. Approved (EASA/FAA) engine MRO also to be advised at early stage to Lessor.

Any shortfalls in MR funds to be identified and notified to the lessor.

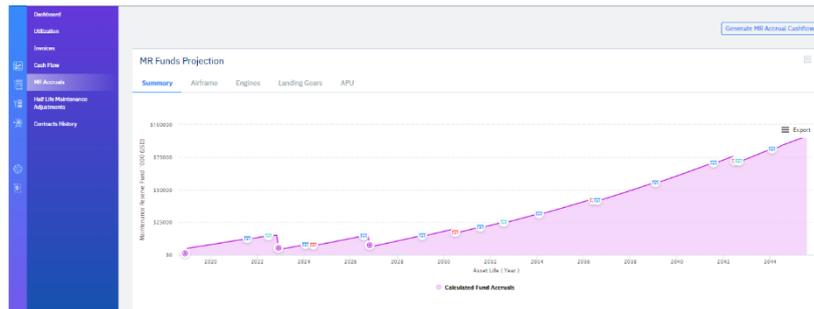


fig.3 Example of MR fund projection - SPARTA.AERO asset management platform

Any interior reconfiguration changes / modifications require pre planning by operator as long lead times on interior parts normally apply in the industry. Approved interior drawings (LOPA), see fig 4, will also need to be provided well in advance of EOL.



fig.4 Example of LOPA - SPARTA.AERO asset management technical module

A thorough records review of the aircraft / engines is required to check for the AD and SB compliance (see fig 5). This facilitates the building up of delivery binders for the next lessee, which is helpful here to use an intelligent records management system which can provide support offsite and can help in identifying and closing gaps quickly.

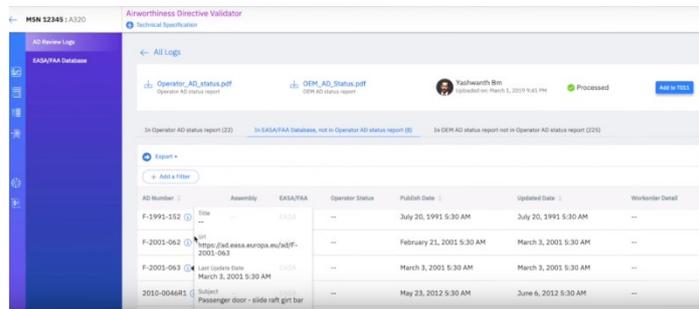


fig.5 Example of AD Validator - SPARTA.AERO asset management platform

Lease return management continues until the aircraft is re-delivered to the next lessee, which will involve ground runs, function checks, test flight(s) and engine borescope inspections. A point to note is that a final walk around inspection needs to be performed preferably with the next lessee. Lastly, assistance with ferry flight arrangements for next lessee may also be required before the process is concluded.

Concluding remarks

Drawing attention to the opening paragraph of this article, in all the three scenarios, careful planning and efficient execution is key. It always helps to have a professional asset manager with a global presence (see fig.6) to work with lessors and have easy to use, fully capable and fit for purpose asset management software to aid in the efficient and timely transfer of information enabling the smooth redelivery of aircraft within a defined timeframe and budget.

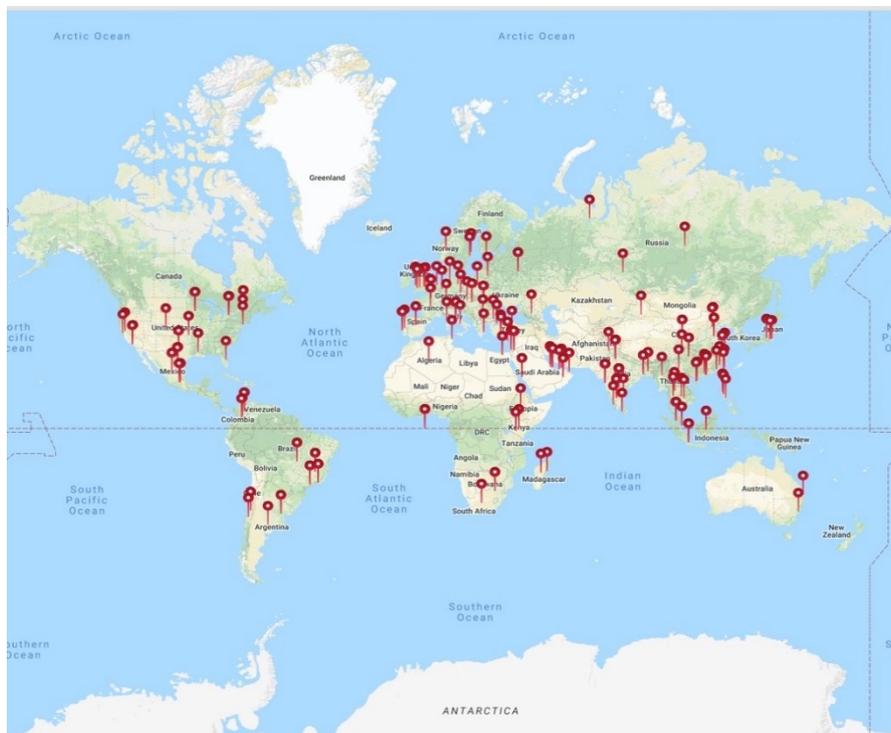


fig.6 Acumen's global presence - SPARTA.AERO asset management platform

Please write to info@acumenaviation.in or donal.lowry@acumenaviation.ie if you would like to get in touch to discuss more about the topic, or for any requirements.

Acumen Aviation Europe Ltd.

Canal House
Northumberland Road
Dublin 4, D04 P9V4
Ireland

Phone: +35315677106
info@acumenaviation.in
www.acumenaviation.ie