

Maximising aircraft transition *Value*

Operators often take on more than they bargain for when taking delivery of an aircraft during a transfer. Senior Vice President and Global Head of Marketing, Apollo Aviation Group, **Pascal Picano**, shares his views on what to look out for when taking the leap.

Transitioning aircraft from one owner to another can be an expensive event with many hidden costs that could otherwise be avoided with good planning, documentation and consideration from both sides. From an owner's perspective, aircraft transitions are all about preserving transferability at no cost and therefore ensuring higher long-term residual value.

The key to achieving a no or low cost transition is to make sure the operator responsible for the redelivery is properly managed. Along with financial risks in selling an aircraft, the main execution risk in the transfer of an aircraft, is taking redelivery from operator A and delivering to operator B.



▲ Pascal Picano, SVP, Global Head of Marketing

MISCONCEPTIONS AND COMPLICATIONS

Many operators have mistaken views as to what is required to effect a transition efficiently. Expensive misconceptions on the part of the current operator are fairly common. For example, many believe that a regular C-check is required at redelivery but, in fact, a transitioning check is actually what is needed. Some believe incorrectly that simply delivering boxes of documents, irrespective of their format or language (if not in English) will satisfy the contractual requirements to meet redelivery conditions. It may be wishful thinking or perhaps a desire to reduce workload, but either way, it is a mistaken perspective.

Moreover, complications may arise because of outdated contractual terms and terminology irrespective of unforeseen regulatory requirements and a variety of other factors (shortage of floor panels was a recent one) which may delay the redelivery beyond the scheduled redelivery date.

Understanding the contractual requirements and addressing these, and other possible misconceptions early, are key to achieving a no-cost and timely aircraft transition.

Record-keeping that is customised to meet an individual operator's need, during the operation of the plane, will require time and resources to bring these records back to a format that facilitates the review by both the representatives of the owner and those of operator B. Specialists are available that can help operator A perform the necessary work to organise aircraft records properly for a smooth transition. These specialists might well be good value for operators, especially considering that many operators have few resources to handle the unglamorous task of redelivering an aircraft or an engine.

Even though the lease documentation usually provides for a penalty rent, in the case of a late redelivery, these penalty rents are never significant enough to incentivise operator A to deploy enough resources to meet the delivery requirements in a timely manner. Even with building some flexibility into the transition, many owners end-up performing a lot of work for which the lessees are responsible in order to expedite the redelivery. This work typically has a cost far in excess of the average penalty rent.

Additionally, some simplification and standardisation together with the use of ICAO issued definitions, as well as references to compliance with the Original Equipment Manufacturer (OEM), will help avoid some of the potential issues.

ROLE OF AVIATION AUTHORITIES

Many aircraft owners and airlines prefer to use standards such as EASA compliance or FAA compliance. Despite their wide acceptance, they may be foreign to

the current operator. Also, some operators do not support the use of these standards because of a perceived burden during the term of the lease which causes the burden of the redelivery to rise exponentially on that same lessee. It is worth noting that the money the operator may have saved by using a locally certified repair provider is likely to be quite small when compared to the cost of recertifying the same component to meet the redelivery conditions years later. The same applies to Airworthiness directives approved by some authorities while other authorities grant dispensations to the carriers under their oversight. There are many other local or regional idiosyncrasies which increase the cost and therefore the risks at the time of the transfer.

DOCUMENTATION

There should be no compromise from the owner when it comes to transferability and lease documentation. Simplification of the definitions and the use of clear terminology are always required but not always achieved. Similarly, technological advances influencing the maintenance manuals and the resulting maintenance programme(s) increasingly necessitate the owner to revisit and update the documentation on a regular basis. While owners must make the effort to track the technical configuration and status of their aircraft by sending teams of inspectors on a regular basis, the lease documentation may get set-aside by many operators until a few months prior to the scheduled redelivery, resulting in a scramble to meet the contractual requirements.

If management on both sides control the process to avoid over-zealous attempts

to renegotiate agreed terms, the costs should be modest. Relatively small reinvestment will improve the transferability and the long-term residual value of the asset. After all, an aircraft with updated records is more valuable. The value rises even further when the lease documentation gives a clear perspective of the projected revenue stream associated with the aircraft, including but not limited to, the means by which to estimate any financial adjustments upon redelivery.

Clear documentation also needs to cover the configuration of the aircraft that will be transferable at the termination of the lease. It is not necessarily the current configuration nor the obvious elements of the configuration such as Maximum Take-Off Weight and engine thrust rating but instead, the configuration of the less obvious aspects such as the cabin lay-out, IFE, avionics and brakes that should be clarified.

Other documentation issues that could adversely affect the ability to remarket the aircraft include fleet-wide retrofitting campaigns that fall below the contractual threshold for notification and/or approval by the owner. Lowering the threshold for notification and approval will allow the owner to keep some control over the configuration and hence the value of the asset.

In order for the aircraft owner to understand how best to unlock and extract the most value from an aircraft at lease termination, the owner must consider the documentation and the configuration together with the revenue stream.

Planning and preparing for an aircraft transition involves a wide range of issues. Surrounding oneself with the necessary resources to understand this complex, almost "living" organism, while maintaining a respectful communication with the operator, is in the best interest of both the lessee and the owner. A proactive approach from the owner and the lessee will benefit all current and future parties, lower costs and increase value. On the other hand, a reactive approach will almost certainly generate higher costs and more execution risk. **AVB**

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