

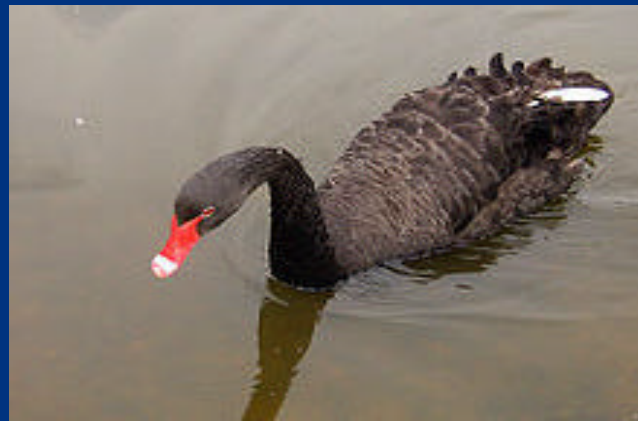


*PMA: A Leasing Company Perspective –  
2009 Update*

Robert Matson



**Black Swan theory (Taleb) refers to a large-impact, hard-to-predict, and rare event beyond the realm of normal expectations.**





## *Black Swan Event*

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- Financial Meltdown was a Black Swan Event
- Last year, it was easy to sing the praises of the financial community connection.
- Being owned by insurance companies, hedge funds, banks is no longer an advantage, at least temporarily
- Airlines pulling back capacity and returning aircraft
- Bottom line, leasing companies are investment vehicles and have been hurt by current state of the investment community



## *PMA is Still a Concern*

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- Asset Value
  - Dealing with loss in asset value
  - Even greater emphasis to protect the value
- No Universal Acceptance
  - Improving consistently
- Maximum Flexibility
  - Required even more in today's market



## *Leasing Company Presence*

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- Leasing Companies own or manage over 51% of the most used narrow body aircraft
- Opportunities will grow when airlines re-grow/re-fleet
  - Silver lining in the dark clouds
- Leasing Companies will continue to have a strong influence in the PMA arena



## *What Has Changed Since 2008*

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- Industry turned on its ear again
  - Fuel price crunch of the summer
  - Worldwide recession causing loss of passengers
- PMA demand figures to continue to grow
- Pratt seems more of a question mark with loss of UAL
  - No compelling reason for ACG or other Lessors to sign up
- Same fundamental challenges to PMA use still exist for Leasing Companies
  - Universal acceptance
  - Asset value
  - Critical areas
- Still not seeing much creativity from the PMA Industry to promote use
- More aggressive stance by OEM's on asset value programs



## *PMA Use Today*

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- Not all PMA is off limits
  - Non-critical areas
  - Expendables
  - Interiors
  - Few Objections
- Growth is in the high energy parts of the engines among others
  - High dollars, high use, short supply
  - Higher risk, affect value



## *What Will Influence Policy Change*

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- Directly address concern areas
  - Last year there appeared to be understanding of the need to address Leasing community concerns
  - Limited Progress noted
- Costs/Bottom Line
  - *Creative ideas working with Airlines*
- Where an asset is in its Life Cycle





## *Asset Value*

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- Tremendous Pressure on Asset Value
  - Every Financial entity challenged by this today
  - Demand influences value/price
  - 2 Years ago not enough aircraft to go around
    - Lot's of aircraft on the market now
  - Aging aircraft
  - Dramatic drop in engine prices
    - PMA Content affects price



## *Life Cycle*

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- Where an asset is in its Life Cycle will affect PMA use
  - Far more likely to allow PMA use in a 20 plus year old engine
  - Where is the right point to consider PMA
  - Influence on engine costs
  - Direct Lessor contribution to Maintenance Costs



## *Appraisers*

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- Value of older aircraft is usually tied to value of the engines
- One of the first questions asked is PMA content
  - Very competitive market right now to sell assets
  - Any opportunity to lower price is afforded
  - Some market for repaired PMA parts but limited
  - Volatile market makes a direct percentage difficult to quantify



## *Airlines*

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- Few Airlines directly ask to use PMA in Leases
  - More likely to ask on a one off basis
- Most Airlines are temporary users of the asset unconcerned about Life Cycle Cost
- Open to discussion but.....



## *Creative Scenario*

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- When Leasing Company has direct exposure to restoration costs
  - Older assets
  - Still a concern on acceptance and risk
- Still waiting for Creative solutions to our concerns from PMA suppliers
  - No substantive dialog since last April's conference



## *Summary*

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- Black Swan event has occurred affecting Leasing as well as industry as a whole
- Leasing is a large part of the airline landscape worldwide and will grow with recovery
- Protecting asset value is an even greater imperative
- Seeing Asset Values affected by PMA content
- Leasing company issues regarding the use of high end PMA are still open
- Life Cycle Costs need to be addressed
- Still open to changes in the industry climate or creative approaches to PMA use



**PACIFIC LIFE**

- Questions??

