



# Commercial Lease Negotiations

June 2022



**EXPERTS IN AVIATION**

# Lessee's Perspective

## Approach



- Generally lessor's have a more detailed understanding of Lease Agreements than airlines – Information is power in negotiation this gap needs to be addressed.
- Fly forward Analysis required to produce Month By Month cashflows from Lease Start to Lease End – Platform used needs to be detailed/ accurate in order to stand up to scrutiny which will inevitably come as part of negotiations.
- Fly forward Analysis should accurately calculate;
  - Maintenance Status of the Aircraft
  - Maintenance Cashflows
  - Non-Maintenance Cashflows
- Output of the Analysis should provide a NPV or comparable benchmark when appraising responses to RFP's
- This should be calculated in conjunction with other considerations such as Fuel Costs etc.
- This methodology provides a Holistic approach as opposed to comparing only elements of the Lease.



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# Fly Forward Methodology

## Maintenance Status throughout the lease period

- Current Status of the Aircraft and it's fitted components (i.e. Tech Spec)
- Anticipated utilisation (Annual Utilisation and Sector Length)
- Anticipated Operating Environment (Harsh, Benign or Moderate)
- Component Intervals (Flexed for Operating Environment)
- Contractual Return Conditions proposed by the Lessor

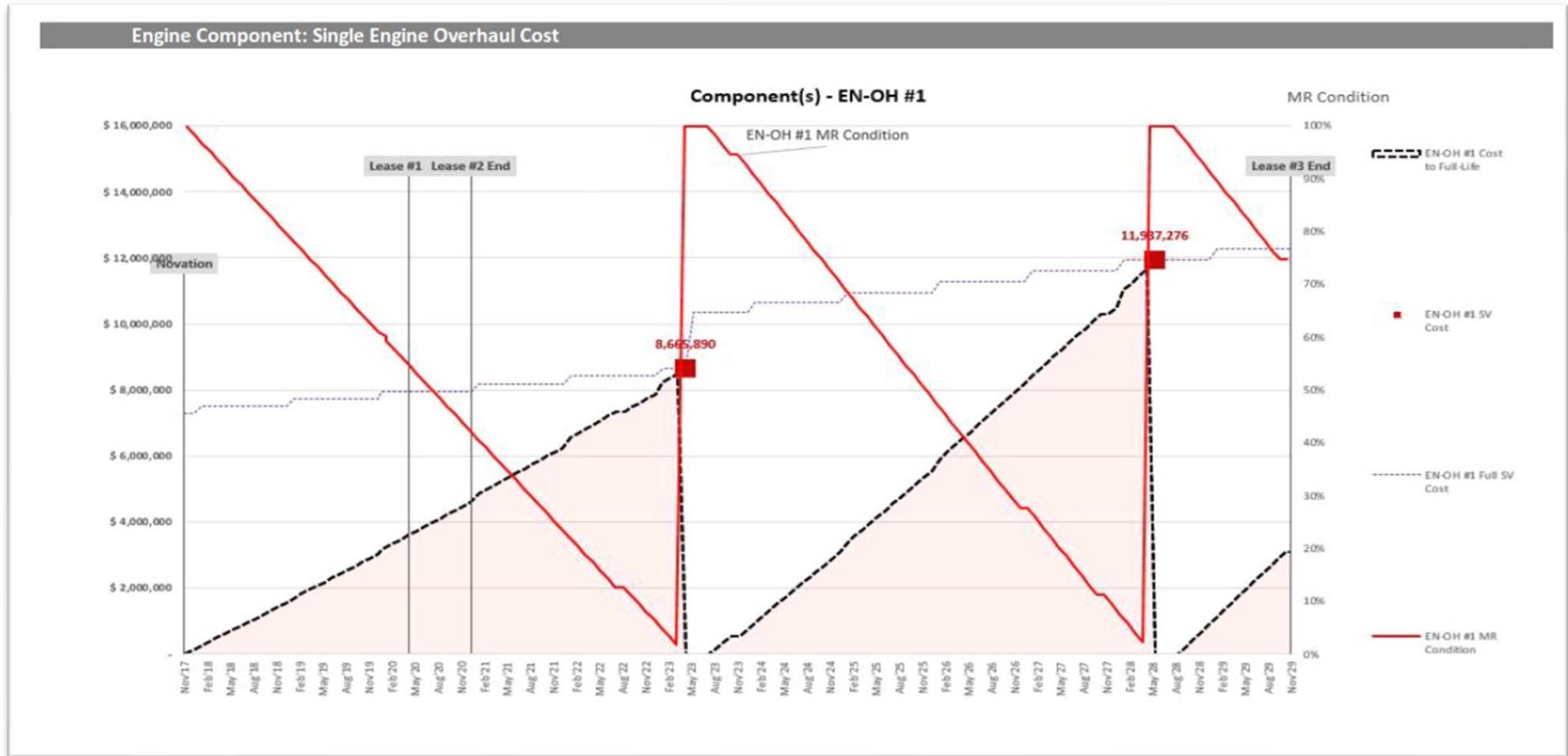
## Maintenance Cashflows throughout the Lease Period

- **Maintenance Scenario per component:** Maintenance Reserve, End of Lease Compensation, MR Cash + True Up, Letter of Credit + True Up etc
- **Maintenance Outflows:** Maintenance Reserve rates or End of lease True Up rates, Event Costs of each Component
- **Maintenance Inflows:** Lessor Contribution, Lessor Reimbursement etc

## Non-Maintenance Cashflows throughout the Lease Period

- Rent (PBH, Fixed, Floating, Stepped)
- Security Deposit (Cash or Letter of Credit)
- WACC of the Airline

# Fly Forward Methodology



# Takeaway

**Holistic Approach allows Lessee to approach the negotiation table knowing the full cost of the Lease**

**It provides a standard benchmark to which a Lessor's proposal can be compared against**

**It reduces the Lessor's information arbitrage**

