HEICO

Maintenance Costs – Myths and Realities
About HEICO

HEICO Corporation is a rapidly growing aerospace and electronics company focused on niche markets and cost-saving solutions for our customers.

Our products are found in the most demanding applications requiring high-reliability parts and components, such as aircraft, spacecraft, defense equipment, medical equipment, and telecommunications systems.

- Founded in 1957, over 55 years in business
- NYSE listed (HEI, HEI.A)
- Annual net sales of $1b
- Over 4,100 Team Members in 43 facilities in the United States (16 states), Canada, Europe, the Middle East, and Asia
- Forbes Best Small Companies:
  - Seventh year in the top 200, with three years of inclusion in the top 100
  - Ranked second out of the five companies listed in the Forbes Aerospace & Defense and Airline Industry categories of 2013
- Forbes World’s Most Innovative Growth Companies of 2014
Industry Leaders

HEICO’s Well Respected Board of Directors include, among others:

Wolfgang Mayrhuber
Chairman of the Supervisory Board, Deutsche Lufthansa AG
Chairman of the Supervisory Board, Infineon Technologies AG

Samuel L. Higginbottom
retired Chairman, President & CEO, Rolls-Royce, Inc.

Dr. Alan Schriesheim
retired Director, Argonne National Laboratory (US government’s largest laboratory)

Laurans A. Mendelson
Chairman and CEO, HEICO Corporation

Victor H. Mendelson
Co-President, HEICO Corporation

Eric A. Mendelson
Co-President, HEICO Corporation
Realities of Our Industry
We Have All Seen This Before
“...the OEM’s increasingly tight grip on the aftermarket means Delta’s spares costs double about every seven years. Without TechOps parting out engines to bolster spares and coming up with other alternatives to OEM-supplied support, that increase could be even steeper...

...“We’re pretty good at sourcing outside the OEMs...

...“and we’re always working to develop those alternatives.”

- Richard Anderson
Why is the industry in this situation?

- Changes in the Supply Landscape
- Changes in Suppliers’ Strategies
- Weakness of the Airline Industry
OEM consolidation is limiting the airline choice

GLOBAL MRO TRENDS – CHANGING ROLE OF THE OEM

**Tier 1 supply chain model continues to evolve as OEMs consolidate their aircraft manufacturing programs…**

**Component MRO Spending Distribution**
**B777 versus B787**

**Supplier Consolidation**
**Tier 1 supply chain model; redefined system architectures**

Source: ICF SH&E Analysis, Airframer, Teal Group

icfi.com/aviation | Passion. Expertise. Results.
Myths

Safety & Quality Myths
- PMA’s / DER’s are not safe
- PMA parts are of inferior quality to the OEM parts
- OEMs are the experts in Maintenance.

Costs Myths
- PMA parts decreases the value of your asset
- True engine and similar products provide value and increase safety
- It’s justified for a Toilet Seat Cover should cost $3000 because it’s an OEM part
- Power (cost per) by the Hour agreements are cheaper than Time and Material.
- New technology is cheaper in the long run (debatable if …there is no residual value to engine/and mtce is monopoly/parts are monopolies)
FAA Aviation Safety Repair, Alteration and Fabrication (RAF) Team spent 18 months evaluating aftermarket safety.

- Owner/Operators have a variety of sources to obtain parts; TC/PC Holder, PMA Holder, TSOA, repair or alter existing parts, fabricate parts during maintenance, owner produce parts, etc.
- FAA concludes “No difference” in airworthiness of parts from these sources
- Team did not find substantive evidence of failures or unsafe conditions from non-TC/PC holder developed data
- Population of PMA parts….has increased substantially …yet the occurrence of service difficulties and AD’s have not….
Information Myths

- It’s a regulatory requirement to follow the OEM’s recommendations.
- You should only do your maintenance in OEM certified repair shops.
- You can only use OEM ICA on OEM parts.
- If you put in a PMA part your warranty is void
- Airlines Don’t want PMA’s or DER’s
- Lessors will not allow the use of PMA Parts
- All parts are Critical in an airplane
“It is not appropriate for a DAH to place limitations on the use of its ICA between the owner/operator and the maintenance provider, whether the maintenance provider is rated or not, to perform that maintenance...“

“.a DAH may not inhibit an owner/operator from distributing ICA to current or potential future maintenance providers. Therefore, it is not acceptable for a DAH to limit the distribution of ICA through restrictive access or use agreements, or by adding restrictive language that would control the use of ICA by an owner/operator with respect to the maintenance of its product.”

**FAA Policy Statement**

PS-AIR-21.50-01

OEMs cannot restrict
Owner/Operator’s use of ICA
Reality – Airlines want Options

* A sample of our Major Airline Customers