

# The long-haul

**Helicopters proved their worth during the worst of the COVID-19 pandemic, with operators and individuals liking the ability to isolate themselves from other travellers. But, as Michael Doran discovers, those in Europe have remembered the lessons learned, with lessors now barely able to keep up with the demand for helicopters from across the continent.**

It is interesting that as aviation starts to work its way out of its forced hibernation, the two sectors that are doing best, helicopters and business jets, are proving so popular that aircraft demand is starting to outstrip supply.

While the downturn in the oil and gas market still casts a shadow over helicopter leasing, there is plenty of activity happening in sectors such as emergency medical services, wind farms and search and rescue to grab a lessor's attention, be they in Europe or anywhere else.

Bill Wolf, President and CEO of Aldeburgh-based Lobo Leasing, says the market is now reaching a state of stability, and while COVID "seized it up for a while, it has come back fairly quickly in the non-passenger markets".

« I think the industry has recovered, particularly in Europe, which is a very important market, although not all segments are necessarily doing as well. »

*Christopher Grainger, Vice-President of Marketing, LCI*

"So, this is mission-critical services, search and rescue, emergency medical services and other industrial uses, and that type of flying has stabilised," he tells EUROPEAN ROTORS. "Also, new capital has stopped flowing into the broader market, so the only place you really see new capital being deployed is in EMS and wind farms.

"There are still many S-92s not flying, but with people parting out the excess capacity and no new capital coming in, we're in as good a shape as we've been in since the downturn."

When assessing a new leasing opportunity, Wolf says he is more interested in how the aircraft will be used than which part of the world it will operate. Lobo Leasing has aircraft in Europe, North and South America, Australia and Africa, so he is happy to locate them wherever it makes business sense.

"Europe is right now the best marketplace for EMS and wind farm and is where you see growth. However, the US EMS market is totally different from what they do in Europe, so you've got to think through the underlying business

Leonardo's AW169 can fill a variety of roles, including in the growing wind farm sector.  
Photo: Leonardo





Legacy aircraft like the PUMA have long and productive operational lives. Photo: Lobo Leasing

model and how that impacts the leasing. It's a great public service for governments or charities to provide, and there are neat, new use-case helicopters needed, so it's a growth market," he says. "The developing world needs EMS helicopters, so some of the ones being retired in the developed world are moving into those countries."

When new capital began flowing into helicopter leasing, it was not only the additional quantum that disrupted the market but also the inexperience of new lessors mistakenly thinking that leasing helicopters and fixed-wing aircraft were pretty much the same things.

"We think the only thing that fixed-wing aircraft and helicopters have in common is the fact that they fly through the air," Wolf reveals. "That's part of how a lot of capital got unhappily deployed into the helicopter space because people over-analysed the connection between the two, but they're separate businesses."

Wolf believes two key differences make all the difference between fixed and rotary-wing aircraft: the cost of lease-end transitions, which are much higher as a percentage of the value of a helicopter and the residual value in rotatable parts also being much higher over the life of the helicopter.

"If you have a helicopter flying offshore for AB in one part of the world and you're going to move it to work for XY in another part of the world, the configuration and safety standards, while both extremely high, may need to be changed and that requires the owner to spend a lot of money to make that transition."

With helicopters not being pressurised, the airframe has a very long life, so Wolf says there's a different parts value equation between helicopters and fixed-wing aircraft. No matter how well fixed-wing aircraft are cared for, they can only go through so many pressurisation cycles before they require expensive repairs or face retirement, which is not the same with a helicopter.

"That's why the Marine 1 helicopter that the President of the US flies on is 50 years old. It's because all they have to do is take good corrosive care of it and make sure the paint job's good. Everything else on the inside like the avionics, rotatable parts, gearbox and engine all get changed out," he adds.

#### MOVING IN THE RIGHT DIRECTION

LCI specialises in leasing helicopter and commercial aircraft with a broad spread of types leased to operators around the globe. Its Vice-President of Marketing, Christopher Grainger, tells EUROPEAN ROTORS that while times have been tough for everybody, the helicopter market has bounced back strongly from early 2020 and is entering a period of growth, particularly in the top-performing sectors like EMS, SAR and wind farms.

"I think the industry has recovered, particularly in Europe, which is a very important market, although not all segments are necessarily doing as well," he says. "All in all, we are seeing a significant level of activity, and more importantly, we're seeing growth opportunities across the place."

To make sure it is a part of that growth, LCI has raised more than US\$1 billion in capital

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since 2109, which is clearly significant in a time when Grainger says banks and financiers have been turning their backs on aviation.

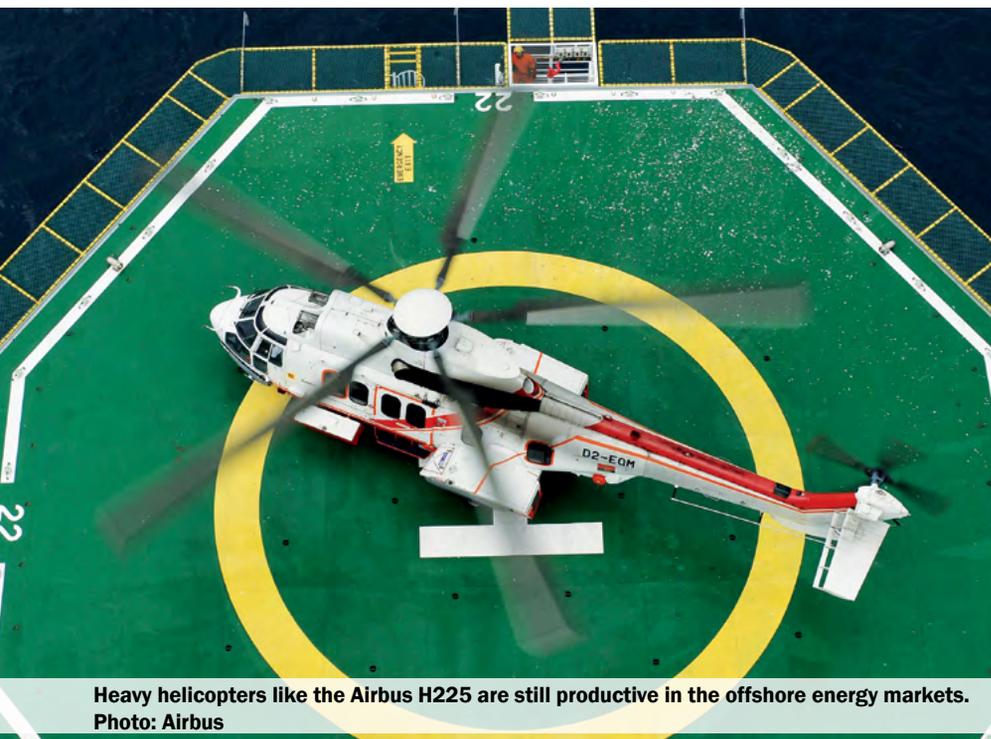
"It's no secret that we're talking to several operators who tell us that they have difficulties financing their helicopters, so let's not dream helicopters are in a different world," he says. "And the operators we are talking to now are going for new technology, which is very exciting. And I think it's driving the markets in the right direction to bring more deals in the future."

Two things that make helicopters an attractive investment are their long operating lives and the types of missions and customers that operator's contract with to provide services. The long lifecycles come from being non-pressurised aircraft, and Grainger points to aircraft such as Pumas and S-61s that have transitioned into new roles as examples.

"When you see aircraft more than 50 years old still being used, not necessarily for their original offshore applications but in utility work or firefighting, that's pretty amazing," he adds. "The second reason is more linked to the end-users, and in some European countries, an EMS contract can be for terms beyond 10 years, which is unique."

Putting the sanctity of contracts to one side, lessors still need to be aware that contracts can be terminated, as seen in the oil and gas sector, and he says it's vital they know their operator and what they are getting into.

"Of course, you have to be selective, so when we're approached with an opportunity, we like digging a bit further into the project



Heavy helicopters like the Airbus H225 are still productive in the offshore energy markets. Photo: Airbus

to understand who's the end-user and what's the underlying contract," he explains. "And all that together gives us a lot of security to the contract."

Leasing aircraft to operators with firm contracts in hand seems to be a more effective strategy than selecting a popular aircraft type and adding that to a lessor's fleet. Light to medium twin-engine aircraft form the backbone of LCI's fleet, including Leonardo AW139/169, Airbus H135/145 and the super-medium H175 and AW189.

"We have a very positive long-term view of the super-medium, which more and more are competing with the heavier types," he says. "We have a few heavies, so we're not excluding anything, but the 139 and 169 are the core of our fleet at the moment."

The commercial helicopter market leans heavily towards owned aircraft. Industry consultant IBA estimates less than 10% of the total commercial turbine fleet of nearly 24,000 aircraft is leased, which Grainger sees as a great opportunity for LCI.

"There's huge potential, but it needs a very thorough and strict analysis project-per-project and operator-per-operator, so we take a meticulous approach," he adds. "We don't exclude anything in principle, but we certainly can't and don't take everything."

An integral part of leasing is knowing what your asset is worth and the person to talk to about that is Alastair Fallon, Helicopter

Aviation Analyst at IBA. However, the COVID-induced lack of activity makes valuing helicopters problematic these days.

"At the end of the day, helicopters run their life, and they need to be replaced, particularly in the HEMS section where a helicopter has got a much shorter life and generally needs to be replaced every eight to 12 years," he explains to EUROPEAN ROTORS. "A helicopter designed for simpler tasks might go on for 20 to 40 years without a major reconfiguration, but HEMS helicopters are much more specialist, and the equipment on board has got a shorter lifespan."

Looking at the market, Fallon says there is still an over-supply of heavy helicopters used in the offshore utility market, and while it had started to recover marginally, he doesn't see the excess being mopped up anytime soon.

"There's not been a rise in the value of heavy helicopters for several years, but maybe it will look a little rosier around 2025," he forecasts. "As for new helicopters, there's been very few, and I'm specifically considering the S-92 that's been a major servant to offshore oil and gas. For anything closer to shore, there is a good competition happening with super-medium helicopters, like the AW189 and H175 both doing well, and there have been far more new ones coming on the market over the last three or four years."

Fallon also backs the view that leasing helicopters into public sector markets, like

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*Alastair Fallon, Helicopter Aviation Analyst, IBA*

SAR and HEMS, is becoming a more significant part of the market with many of those aircraft leased. "It's 10 years worth of solid income already in place regardless of whatever happens to the world economy, so leasing in that space is sought after, and the people who own them are happy."

As the market settles, there is also the expectation that more leasing activity will follow, particularly in those sectors where helicopter demand is starting to outstrip supply. Fallon believes there is a healthy appetite among lessors for new transactions and that the lessons of overexposure to the oil and gas sector have been learned.

"The lessors that are active still have a large number offshore, but they are less exposed with their stakes in things like HEMS," he adds. "It's a particularly good long-term investment that's going to stay, so there will be more investment."

#### TRACKING MARKET TRENDS

As well as leaning on valuations, lessors also like to see what's happening in the used sales market and tracking that activity is Aero Asset, a specialist aircraft broker with offices in Canada, the US, UK, France and Mexico. Aero Asset produces its Heli Market Trends on a quarterly and annual basis. EUROPEAN ROTORS spoke with Aero Asset's VP of Sales, William Sturm, to pick his brain on how the market is travelling. He says that when COVID hit, many deals that were ready to go went on life-support with very little visibility of what would happen in the future, but then around 12 months ago, sales demand picked up exponentially.

"The majority of it came from the larger operators, basically because they have the foresight to see this is a temporary situation," he says. "So, they went on a bit of a buying



In utility and energy markets, the Airbus EC135 is a productive helicopter for aerial maintenance. Photo: Airbus

spree picking up helicopters that were similar configuration to what's in their fleet already to maintain conformity."

He says the result is a lot of aircraft that were sitting on the market for a while, including 135s, 145s and 109s, quickly started getting picked up, and this has resulted in supply drying up in a number of those categories over the last 12 months.

"There is a shortage of aircraft, and with the late-model aircraft all gone, the demand is just starting to trickle down into legacy variants that were previously difficult to sell or

teetering on the brink of being parted out or removed from service," he says. "We're finding new homes for them in Europe, Asia and a lot of interest is coming out of Australia."

Another factor in the shortage is that due to COVID, the OEMs limited their production, so few new aircraft came on the market, which Sturm reveals has "buoyed pre-owned pricing and kept the market flowing. They're ramping production up now, but it's still looking like 18 to 24 months for a 135, 145 or 109."

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*William Sturm, VP of Sales, Aero Asset*

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