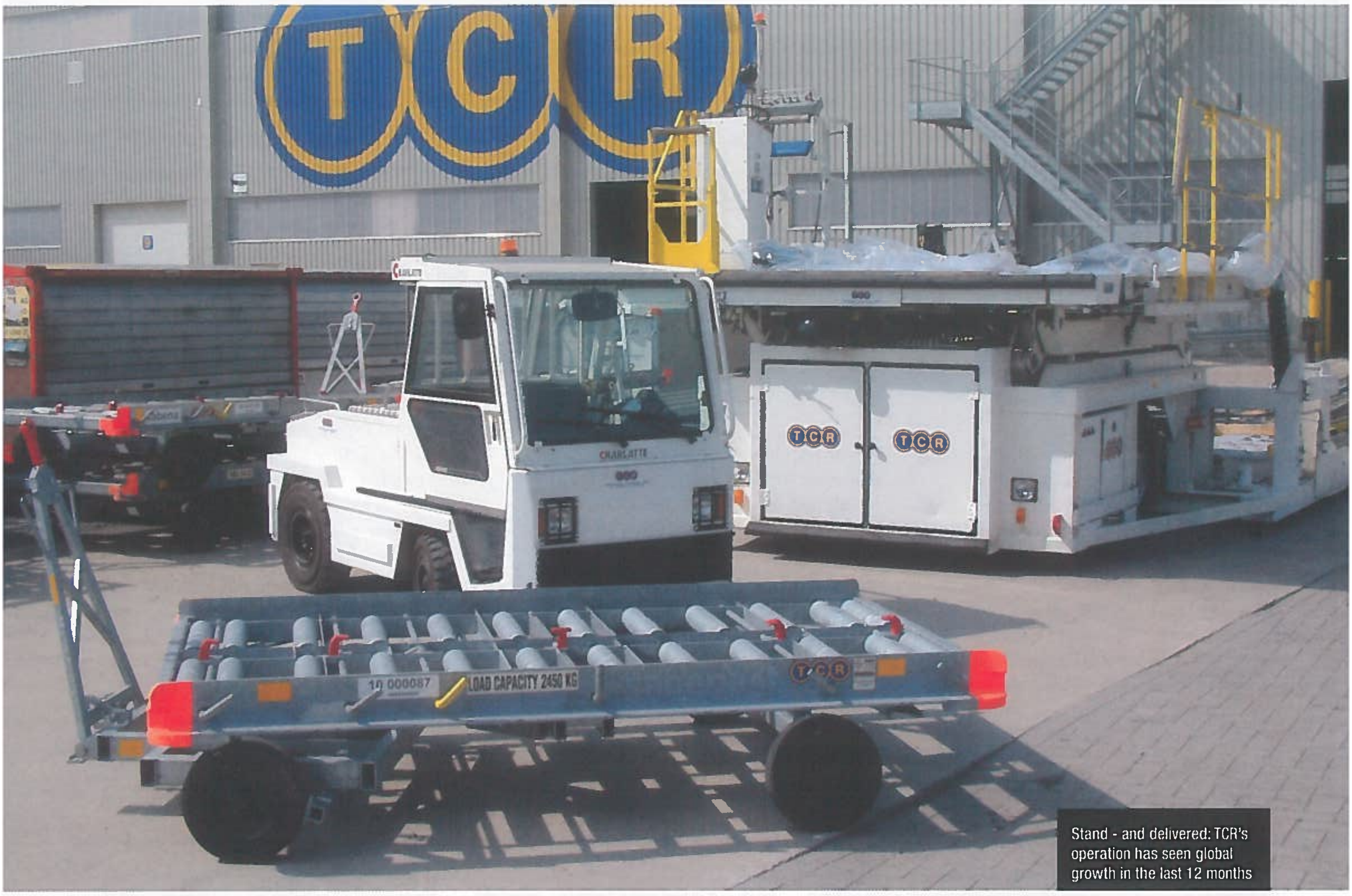


Stand - and delivered: TCR's operation has seen global growth in the last 12 months

Capital assets

Refurbished, leased or pooled? The Editor considers some of the choices available to the handler today when it comes to operating GSE.

To be honest, there's no simple answer to what's best when the subject is GSE acquisition: much will depend upon the size of an operation and the duration of a contract. Traditionalists still like to purchase their GSE new whilst others are quite receptive to reconditioned or rebuilt units. Leasing, as an option, has come more and more into focus over the last few years – and the recent growing publicity given to pooling suggests that herein may lie a hitherto neglected avenue, one that is also worthy of exploration.

Refurbishment in the US

Leaving aside outright purchase, there's much to be said for refurbished and renovated GSE: that much is very clear.

JR Gooch of US-based GlobalGSE reports that sales have been buoyant and that for his operation, refurbishment as an option to new is growing in popularity. Tugs are the big sellers in this context and his comments are echoed elsewhere.

"Business is good and the remanufactured GSE market seems to be getting better," remarks Gerry Hoadley of A&V Rebuilding. "As always, we continue to work with many of the large ground handling companies. We are also working with some of the large airlines on a few projects. It appears they are now looking seriously at the cost savings associated with remanufacturing their existing baggage and cargo tractors. I feel that some of them also like the fact that when working with A&V, they can write the exact specification that they desire."

Hoadley adds that the company still builds quite a few tractors using the tried and trusted Ford 300/C6 package; however, many customers are currently leaning towards more efficient, clean burning petrol options. "Last year we installed more Ford MSG425 gasoline/LPG engines than 300s," he remarks, "and we are now beginning to see more requests for the Kubota WG2503 petrol engine, backed by the GM 4L transmission. We are not logging many requests for diesel options for use within the US, though."

Aeroservicios' Gabriel Serrano reports a steady refurbishment business, with some growth, and notes that customers are tending to repeat their orders. "We have added some new customers, though, so things are quite stable.

"In terms of volume of units, it's baggage tractors and beltloaders that are in demand; however, the difference between the overhaul price and that of a new item is the narrowest on reconditioned units. But for customers seeking best value, it's

ZERO TIME LEGACY

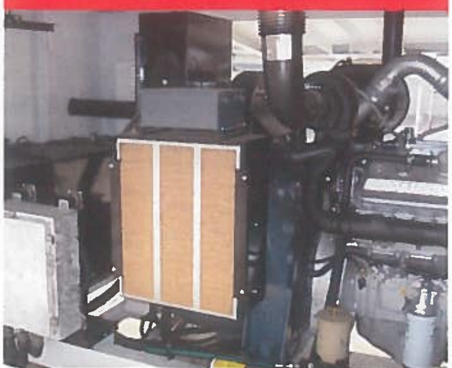
Victory Ground Support Equipment currently supplies three classes of finished product: used/serviceable, re-conditioned and Zero Time refurbished. Jamey Ekerling explains:

"Each of these statuses has a unique place in the GSE marketplace, and with the increased attention paid to timely contractual fulfillment, cost and value of service, the purchasers of refurbished equipment have had a vibrant effect on the community. When a client has an immediate need, the easiest means of a short-to-long range solution is either rental or inexpensive purchase of the desired piece(s) of equipment. This growing popularity is also largely fuelled by the immediate cost savings of purchasing refurbished units, provided the customer has anticipated the timeframe for use of the GSE in question.

"Because of these increased demands and the fluctuation of availability of previously owned equipment, the production lead time lengthens and contracts throughout the year. Currently, we are running about six to eight weeks per unit per order. The more popular the concept becomes, the longer the lead time grows; while the converse is also very true.

"Without the consideration of seasonal climate changes, the most popular GSE are pushback tractors, ground power units, baggage and small towing tractors, followed by air conditioning units, maintenance equipment and, less frequently, catering trucks, lav trucks, ASUs and de-icers.

"We basically invented the Zero Time concept and started the complete overhauling process in the 1970s. To the extent that cost plays a significant role in the customer's budgetary planning, Zero Time processing, including complete reconstruction of the individual piece, starting with the stripping and sand-blasting of the original chassis, or frame, to the final coat of detailing paint, and quality control, results in an incredibly durable item. The life of the new unit is comparable to that of the the original."



Interior of this Stewart & Stevenson air start unit reveals the comprehensive extent of Victory's overhaul process

the loader and pushback area: there, the price differential is greater, so the volumes and values are higher." He adds that the price difference in beltloaders and baggage tractors could be between 25-40%, whilst for bigger loaders, pushbacks, air start and air conditioning units, the differential ranges between 30 to 50%.

Finally, was he experiencing any problems in finding older equipment to work on?

"In short, yes; some items, like loaders, air start and air conditioning units, are hard to find in the US market, so most of our loaders are coming from Europe. And we are sourcing some of our ACUs and ASUs from Europe and Asia."

While the US is a key market for those in the refurbishment business (indeed, many exponents of the art are based there), purveyors of reconditioned equipment are also to be found elsewhere. Aviaco is based in Holland, from where Danny Vranckx says that his enterprise has witnessed a busy 12 month period.

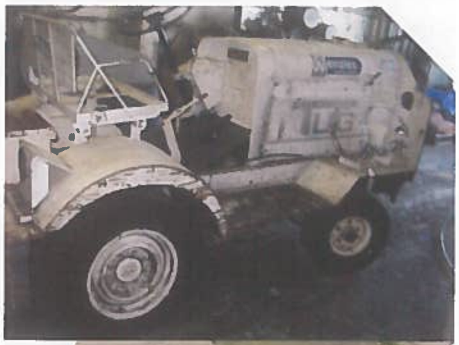
"It has been a top year for us. Refurbishment is our day-to-day job because all of our customers are asking for a certain level in terms of quality, so we are giving our GSE the Aviaco seal of approval. We want to have a name within the marketplace for reliable, refurbished equipment.

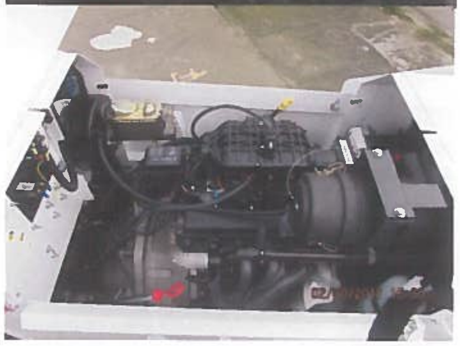
"The most popular destinations have tended to be Asia and Africa – demand in both is high, but there is interest and potential everywhere, if I am honest. We can carry out Zero Hours refurbishment, if required, but this is not so much in demand because it is very expensive and comes closer to the price of new – for those reasons it isn't so popular."

The view from Belgium

TCR's market is broad and as the world's biggest leasing and renting company, predictably there is much going on. Jan De Leeuw is the company's Commercial Director.

"The market for leasing and renting solutions over the last year has continued to grow in all the European countries where TCR is present. We did see growth with the vast majority of our existing customers and welcomed new customers. Spain, the UK, Germany and Italy have proven to be engines of growth for the TCR model. There is also strong demand coming from new countries in Europe in which TCR has no presence yet, and, outside Europe, TCR





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Danny Vranckx
Aviaco

has seen strong growth in Malaysia. The marketplace is continuing to ask for the flexible, qualitative solutions.

"One trend has been the growing interest in and introduction of GSE pooling solutions. We have been partnering with Luton airport to kick start the first stage of an ambitious and pioneering pooling project. Many European airports are looking at the London examples and developing similar pooling concepts. We are in talks about pooling today in Belgium and Italy and in other stations in the UK, but there's also a strong interest in Asia and the US, too.

"We also see a further and continued shift towards leasing solutions away from the "dry rental" GSE. Full service rental or operational lease solutions, including GSE maintenance services, as well as broader

LEASING AND RENTING: THE NEW NORM

A recent newcomer to the world of leasing and rentals is UK-based airGSE. There is obviously room for another player in the arena – but what is MD Tim Rane, who runs the operation, doing differently from other companies in the GSE leasing and rental business?

"Firstly, there's the matter of our finance, which is provided by very large and experienced financial institutions. Our new GSE user-ship model proposition has been developed by experts with decades of experience in high value capital equipment rental, and in the GSE market in particular. We are offering a unique bespoke rental solution to meet the needs of the new standard and we are happy to advise, with a detailed explanation, on how we can help customers implement this new standard seamlessly.

"For customers with very large complex GSE fleets in multiple locations around the world, there are software applications which will take on the reporting of IFRS16 liabilities to auditors. This is an add-on service and forms part of the GSE rental programme, the cost of which is absorbed per unit ordered through us."

GSE fleet services, such as flexibility in terms of quick upsizing or downsizing of GSE, are also popular. Customers like a guaranteed availability level of GSE and a guaranteed reliability level of GSE in terms of operation and in terms of enhanced safety features.

"There is a shift away from the traditional pure financial leasing product, in the sense that the market seems to be realising the limited added value of this product.

"The solution appeals to the quick start-up or the new operation; fleet flexibility and risk of ownership are taken care of by TCR. As for contract length, typically these run from three to seven years; short term contracts are usually for summer peaks."

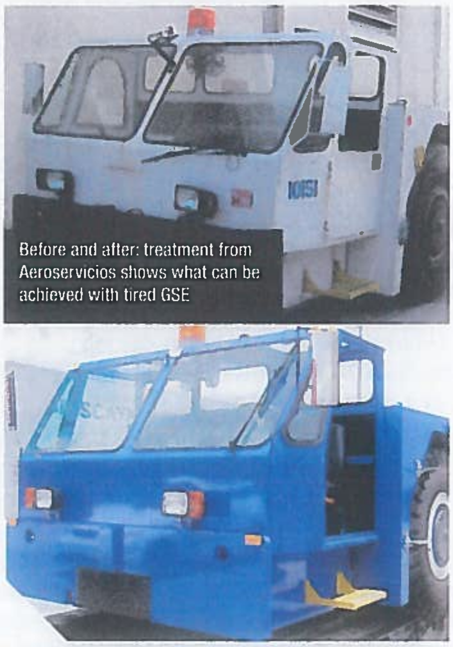
All change for the leasing market?

According to airGSE's Tim Rane, there are some important new developments in the realm of asset management.

"The new financial standard is called IFRS16 and this replaces the old financial standard, IAS17. The previous standard has been changed because it does not always reflect lease and rental economic reality from the perspective of the lessee, such as the ground handling companies who use GSE without owning it outright. The new standard will have very little effect on the accounting for leases by lessors, such as GSE finance and rental companies, though.

"According to the IFRS Foundation, the world has around three trillion dollars of leases and rentals, but under the current standard, the tests applied to classify transactions as operating leases result in only a limited amount of operating or operational leases and rentals showing up on the balance sheets of lessee companies. This does not truly reflect the economic reality of companies to their investors and bankers.

"So, educated investors are making their own adjustments when assessing the financial viability of their investments, but many investors don't have the detailed accounting skills to do this accurately.


Before and after: treatment from Aeroservicios shows what can be achieved with tired GSE

"The big change of the new financial standard is that in principle, all leases go on to the balance sheet, which includes those previously classified as operating leases, operational leases, long term rentals and finance leases. The possible exceptions are short term leases of less than 12 months' validity and small ticket items, such as office furniture or laptops. However, the new standard will look at more than just the duration of the arrangement and will test who really controls the use of the asset – and establishing the correct accounting treatment may be a complex matter of judgement. However, this will allow all investors to get a good view of all leases and rentals on the balance sheet, and will not be restricted to just financial leases."

Rane sees benefits ahead, though.

"First, there will be better transparency, through more insight into the liability caused by off balance sheet leases and rentals. A recent example of how things can go wrong was that of a large GSP, who got into financial difficulties, and which put some of its stations under. Despite clean balance sheets showing few debts, at the same time the GSP had huge long term GSE rental liabilities, which were not obvious. In future, these will be visible.

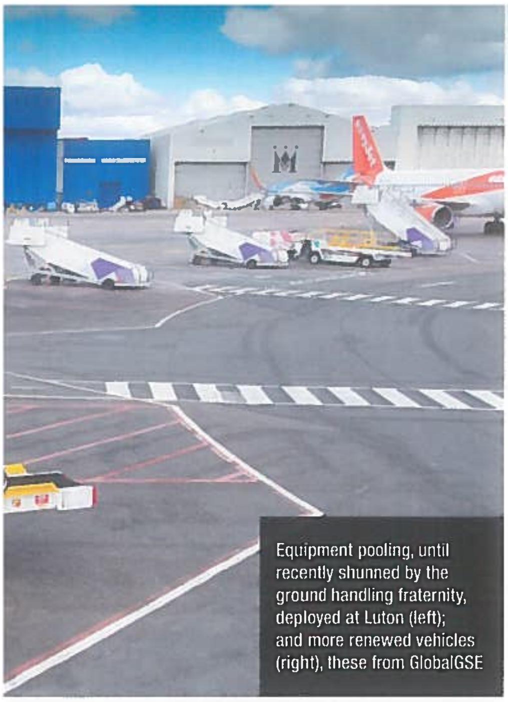
"Second, there will be much better comparability between companies. For example, there are airlines which own most of their aircraft and finance them with loans. On the other hand, there are airlines which lease most of their fleet. In practice they might have similar financing obligations, but the company who owns the aircraft is carrying a lot of debt on its balance sheet; whereas the company which leases most of its aircraft has a clean balance sheet. The new standard will allow investors to make a more qualified decision as to which one has the better investment potential."

And who is likely to be affected by this change?

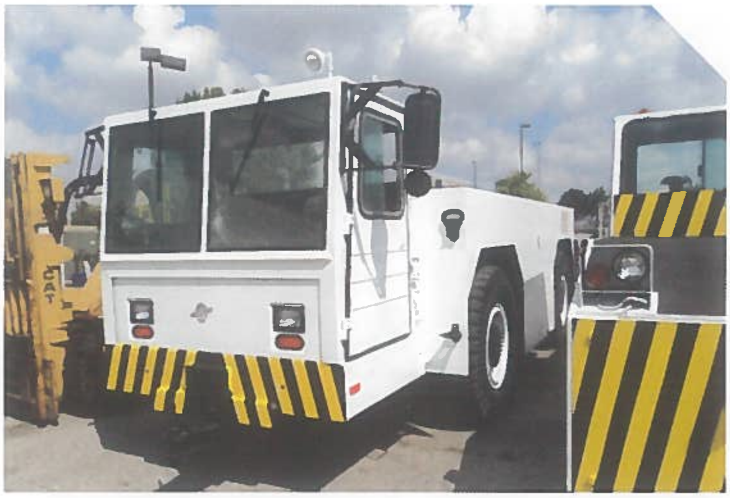
"Approximately half the companies around the world have leases, but the most affected are companies which have a concentrated use of leases and rentals, such as airlines, shipping and ground handling companies, which have to use high value capital equipment to provide their service."

How will the new standard be received by ground handlers who operate on very slim margins?

"It won't be met with enthusiasm, especially for those with covenants stopping them from carrying too much debt on their balance sheets - but it will please their investors. However, the new standard will provide management with a better



Equipment pooling, until recently shunned by the ground handling fraternity, deployed at Luton (left); and more renewed vehicles (right), these from GlobalGSE



insight into the true extent of their lease and rental liabilities, which may lead to better decisions on buying or financing new equipment for new ground handling agreements. It may lead to better capital allocations, improving management decisions by having a new awareness of the true extent of their company's liabilities. In the GSP example cited earlier, its ultimate controlling board would have benefited by this awareness to manage operational risk better."

Did he feel that the new standard would put GSE leasing and rental companies out of business?

"We don't think so, because financing GSE remains a very attractive instrument for many companies, because it is a very flexible way to use GSE assets for short term, multi-year ground handling agreements, without having the full long term risk of ownership.

"The standard becomes effective on January 1 2019, which should give companies ample time to prepare. However, importantly, it is retrospective, so existing arrangements classified under IAS 17 as operating leases will be re-examined and many will be caught and reclassified as finance leases."

Did this mean that assets could be shown twice – on the books of both the lessor and the lessee?

"Yes indeed – the new standard is asymmetrical, unlike IAS17 where the assets would either be on the books of the lessor or the lessee, but not both."

The IFRS Foundation provided the detail to this research and Rane says that this is a good place to start for more information.*

Pooling: brave new world

Not so long ago, pooling was considered a somewhat arcane venture, not really something that was espoused by the majority on the ramp. In consequence, its champions were few indeed. That thinking, though, has changed over the last 36 months.

"The big change of the new financial standard is that in principle, all leases go on to the balance sheet, which includes those previously classified as operating leases, operational leases, long term rentals and finance leases."

Tim Rane

airGSE

Heathrow made the headlines when it decided to trial the pooling concept at Terminal 4 in 2014 (although to be historically precise, equipment supplier TCR had conducted trials at this airport as far back as 2004). This exercise worked well, in great part aided by the deployment of telematics, which helped ensure that GSE could be tracked around the terminal. A follow-up took the procedure further but insofar as the airport authority, the airlines and the handlers were concerned, the concept had already proved to be a viable one; importantly, it had contributed to a more efficient ramp operation, with less congestion and emissions.

While the next stage is being thought through, Luton airport has picked up the pooling baton. Trials began there early in 2017 and again, these were pronounced a success: a full-blown roll-out got underway in the spring of this year. The situation at Luton is slightly different from Heathrow in that the whole airport has signed up to the idea, taking pooling to its logical conclusion. At the time of writing, other UK airports are known to be waiting in the wings, ready to try this strategy.

All of this will not come as any great surprise to the authorities at Schiphol airport, which has had such an initiative in place for many years now. Quite why this concept has not caught on elsewhere before now is a puzzle – but the signs for the future are definitely more favourable.

Insofar as the advantages are concerned, these have been enumerated many times before: less GSE equates to a freed-up ramp (with a lesser likelihood of collisions and ground damage); lower levels of CO_2 pollution can be taken for granted; with leased or rented GSE, it follows that the equipment will be newer and less prone to failure; and finally, pooling helps the handlers, since they do not have to invest large sums in their respective vehicle fleets and tie up valuable capital.

Is, then, this the future – and will the idea of pooling encourage more interest in the renting and leasing of GSE?

Summing up

In conclusion, it is obvious that the traditional concept of buying GSE is increasingly being questioned by the handler. Other options abound, and the benefits of these have been elaborated above. However, with the coming of IFRS16, the ground handling sector could be looking at an even more dramatic shift in GSE provision. ***ghi***

***Readers can find out more about the coming changes at: www.ifrs.org/**