HEICO

Winds of Change

Gorham Conference

March 26, 2009

Agenda

A Changing World

The OEM Perspective – Their View of Change

The FAA Perspective

Conclusions

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A Changing World – Driving Forces

- This is the largest down turn since 9/11 and getting worse
- These economic condition are quite different this time
- First it was Oil …now it is the financial situation
- Un-employment continues to increase and public spending has slowed substantially
- Capacity is being taken out as fast as possible to maintain load factors…but is not keeping up

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A Changing World – Driving Forces

- Supply chains are starting to see further contraction
- Cash availability and debt vehicles are creating a squeeze on the system
- Bankruptcies are likely
- As bad as things are now without the growth of alternative parts things could be much worse
- But even before all this, changes in the PMA industry were already coming fast
- To get a good picture of this changing world you need to go back…

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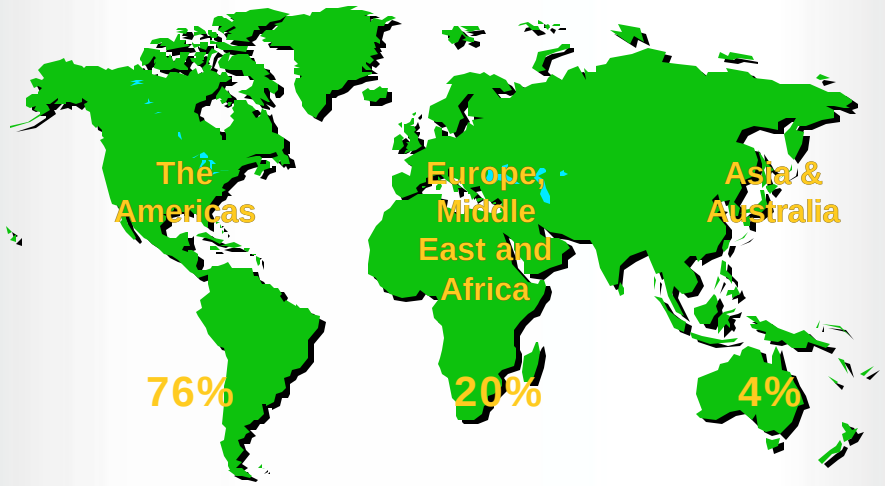
A Changing World – PMA Market Distribution in 1997



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A Changing World – PMA Market Distribution in 2008

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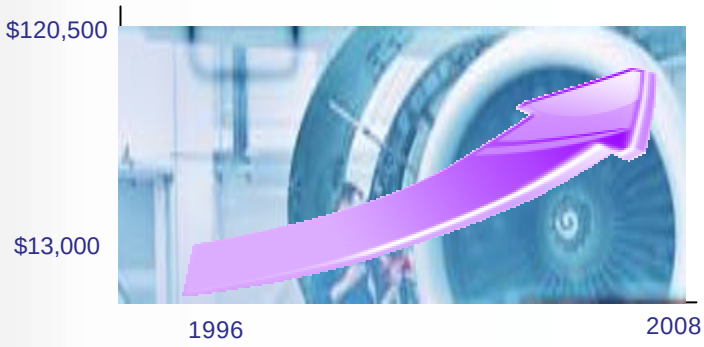
A Changing World – Savings Increasing Quickly



Product offering is the largest it has been in many year and Driving the savings higher with every shop visit!!

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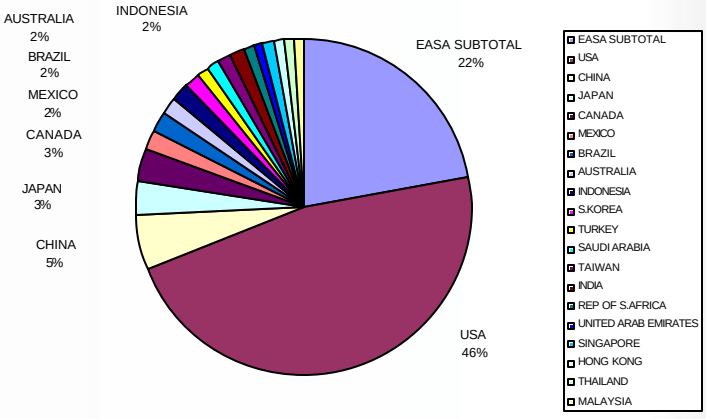
A Changing World – Marketability

85.2% of the worlds large commercial aircraft operate in just 20 jurisdictions



HEICO currently sells parts directly to all these areas and many others - Globally Accepted

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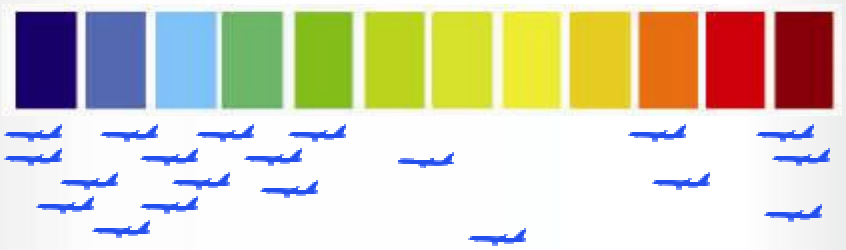
A Changing World – Maintain Ability to Choose

USES ALL QUALIFIED ALTERNATIVES

FORBIDS ALTERNATIVES



The Airline Industry needs alternatives to survive and grow
19 of the top 20 Airlines now work with and fly HEICO parts

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A Changing World – Control Your Destiny

The world is changing fast, now is not the time to sign long term deals that prohibit choice……

Locking up deals for 10+ years could cost you more than you bargained for…..

You need to keep some control over material to cash in on the changes that are taking place right now

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A Changing World – Dealing with Risks

…with all of this uncertainty here is what we are doing to deal with the risk:

- We Maintain a strong balance sheet for times like these – very low debt
- We are Increasing our R&D spending to help our customer's continue to reduce cost at a faster rate
- Increase and improve vertical integration
  - Growing
  - New Focus

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A Changing World – Dealing with Risks

…with all of this uncertainty here is what we are doing to deal with the risk:

- Inventory management
  - Coordination and communication
  - In-house make/buy decisions
  - Strong supplier relationships
- Build on our technical strength
- New partnerships
  - Material management
  - PMA management
- Acquisition environment – we are not slowing down

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A Changing World – Predictions for the PMA Industry

What major consultancies have predicted:

- Consolidation
- Emergence of 4-6 major players
- More OEM's entering the market
- More strategic alliances
- More breadth of product

Aerostrategy predicts PMA penetration could reach 1.8B (8%) by 2018

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The OEM Perspective – Their Vision of Change

ICA Restrictions

- TC/PC holders removing repairs from ICAs
- TC/PC holders putting restrictive statements about non TC/PC holder parts and repairs in ICAs
- OEM stating ICAs are not valid with non TC/PC holder FAA approved parts
- Draft Order 8110.54 address items 2 and 3.

False and Misleading Statements

- Advertisements
- Technical presentations

Customer Notifications

- All Operators Wire (AOW), Service Letters, Warnings
- Threats of reduced technical support
- Threats or warranty denial

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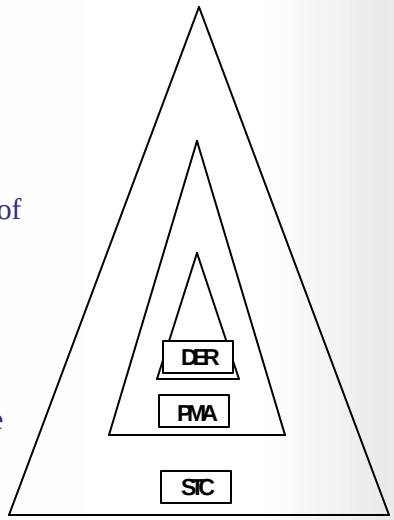
The OEM Perspective – Their Vision of Change

STC versus PMA

- One OEM is touting STC versus PMA
- The Truth is:
  - STC is a major change to type design
  - STC needs to meet the requirement of the type design as does the PMA
  - PMA does not require new ICA
  - Technical oversight is same
- STC is only a design approval
- PMA is still required to sell unless STC holder already has a production certificate



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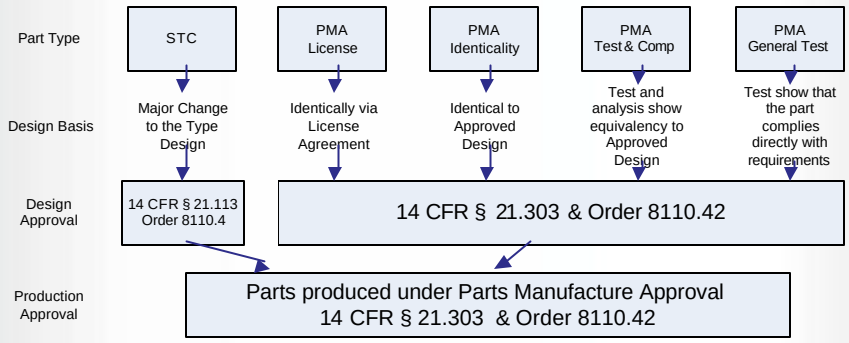
The OEM Perspective – Their Vision of Change

STC versus PMA



STC, T&C, Identically (with/without License)
or General Test is a reflection of the design basis

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The OEM Perspective – Their Vision of Change

The TRUEngineTM designation provides information about specific engine content as of a specific date and is based upon the best information available to CFM regarding service history of engines under consideration for such designation. CFM does not warrant the accuracy of the TRUEngineTM designation, and reserves the right to change or withdraw the designation at any time. No express or implied warranty of value or engine performance is provided by the TRUEngineTM designation, nor does such designation alter or modify the terms of any agreements to which CFM is a party.

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The OEM Perspective – Their vision of Change

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Bottom Line:

- Designation warrants no accuracy, value or engine performance
- Clever but meaningless

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The FAA Perspective – SAIB

OEM Notifications

FAA:

- FAA releases SAIB (Special Airworthiness Information Bulletin)- August 8, 2008
- This SAIB alerts owners, operators and certificated maintenance providers of the responsibilities of TC/PC, STC and PMA holders to support the continued operational safety (COS) of their product or part design.
- Consistent message delivered to customers from FAA
- Highlights include …

FAA SAIB NE-08-40

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The FAA Perspective – SAIB

OEM Notifications

FAA-SAIB:

1. FAA approved TC/PC holder, PMA & STC parts are interchangeable
2. Unless stated otherwise, the life limit for a TC/PC disk is unchanged and remains in effect when PMA blades are installed in that disk
3. Applicants are required to assess the ICA and show that the products ICA are still valid with their part installed
4. TC/PC, PMA and STC holders are responsible for the COS support for their parts and products which they have designed and produced

First time FAA has Addressed These Issues

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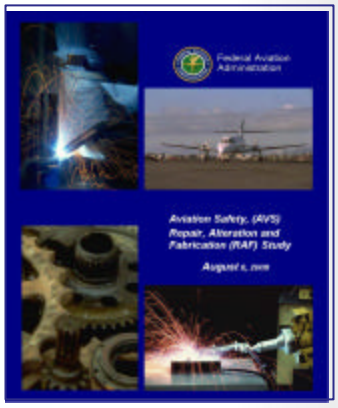
The FAA Perspective – The RAFT Study

- Repair, Alterations & Fabrication Team (RAFT) Study conducted from 2/07 to 8/08
- Study objectively addresses OEM views and regulatory/industry facts about aftermarket parts and repairs
- Team members represented throughout all FAA branches (AVS,AIR, AFS, ANE)
- Guiding principles
  1. Safety, including compliance
  2. Customer service and cost impact
  3. FAA business efficiency and standardization



FAA RAF Study (Draft)

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The FAA Perspective – The RAFT Study

2 Primary Issues:

- "Concern over safety and compliance (real or perceived)"
- "Economic issue of business competition between TC/PC Holders and the aftermarket maintenance and replacement part providers"

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The FAA Perspective – The RAFT Study

Overriding theme and Select Statements from study:

- 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….

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The FAA Perspective – The RAFT Study

Overriding theme and Select Statements from study :

- Fierce competition between TC/PC holders and the independent aftermarket part providers
- TC/PC Holders diversifying into maintenance aftermarket parts supply and aircraft/engine leasing
- TC/PC Holders fighting for share of the same market they criticize and lobby for regulation and policy changes in their favor
- TC/PC Holders have acquired independent companies that hold PMA’s. Once a TC/PC Holder acquires the aftermarket company, the parts they previously complained about suddenly become acceptable

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Conclusion – Closing Remarks

- The world is changing at a faster rate all the time. Airlines, MRO, and suppliers must also change
- Today PMA's and alternative parts are accepted around the world and having these choices reduces operating cost
- Considering today's financial issues – Bankruptcies are cause for concern
- Don't be fooled by the OEM rhetoric and marking ploys
- OEM behavior is primarily driven by commercial factors
- Long term OEM deals may be sealing your fate – keep your options open
- FAA SAIB and RAFT report is very supportive of owner/operators and their need for aftermarket parts and repairs

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Conclusion – Closing Remarks

- FAA concludes there is no regulatory basis or safety data to support most OEM claims
- RAFT report - Maintain current regulatory and policy structure which permits range of FAA approved, non-OEM parts and repairs
- OEMs (TC/PC Holders) will continue to face and fight growing aftermarket competition
- HEICO will continue an aggressive and fact based marketing approach to ensure customers and potential customers fully understand the facts.
- HEICO is in a very strong position to thrive now an in the future