Maintenance Rights Assets

Hello and welcome to our investor education section. The idea of these videos is to explain topical issues that arise from time to time in no more than a couple of minutes.

Today's video is all about Maintenance Rights Assets – what they are, how they arise, and how they are accounted for from a lessor's standpoint.

What is a Maintenance Right Asset?

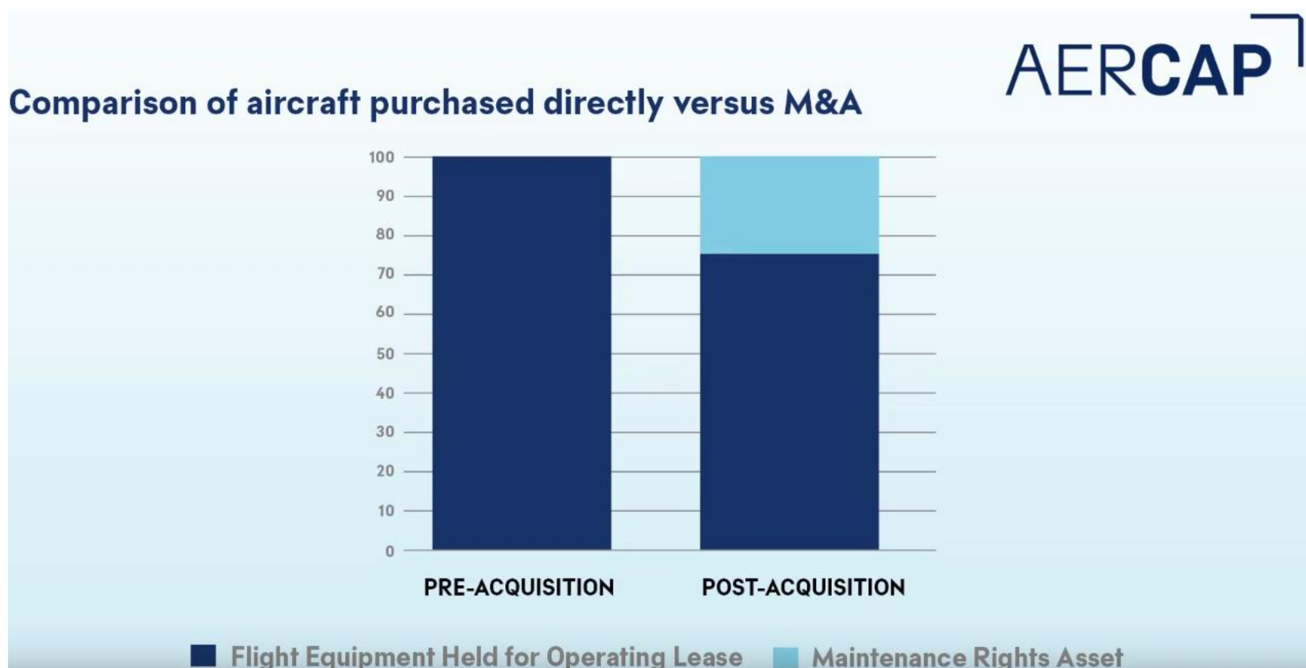
MRA are assets created upon the acquisition of aircraft with existing leases attached – usually through M&A. They represent the right of the new owner to receive the aircraft back in an improved maintenance condition, relative to the condition of the aircraft at the closing of the acquisition.

How do MRA arise?

The concept of MRA is really only impactful to lessors who engage in large-scale M&A as it's a feature of Purchase Accounting. This was the case with AerCap after the purchase of ILFC in 2014 and the purchase of GECAS in 2021, both of which gave rise to substantial MRA on our B/S.

How are aircraft that have MRA different to other aircraft assets?

A unique feature of Purchase Price Accounting is that the value of the acquired aircraft must be split into two distinct components on the acquirer's balance sheet.



The first is flight equipment held for operating lease, best thought of as the 'metal value', of the aircraft on acquisition.

The second is the value of the maintenance contract tied to the lease, which is known as the MRA.

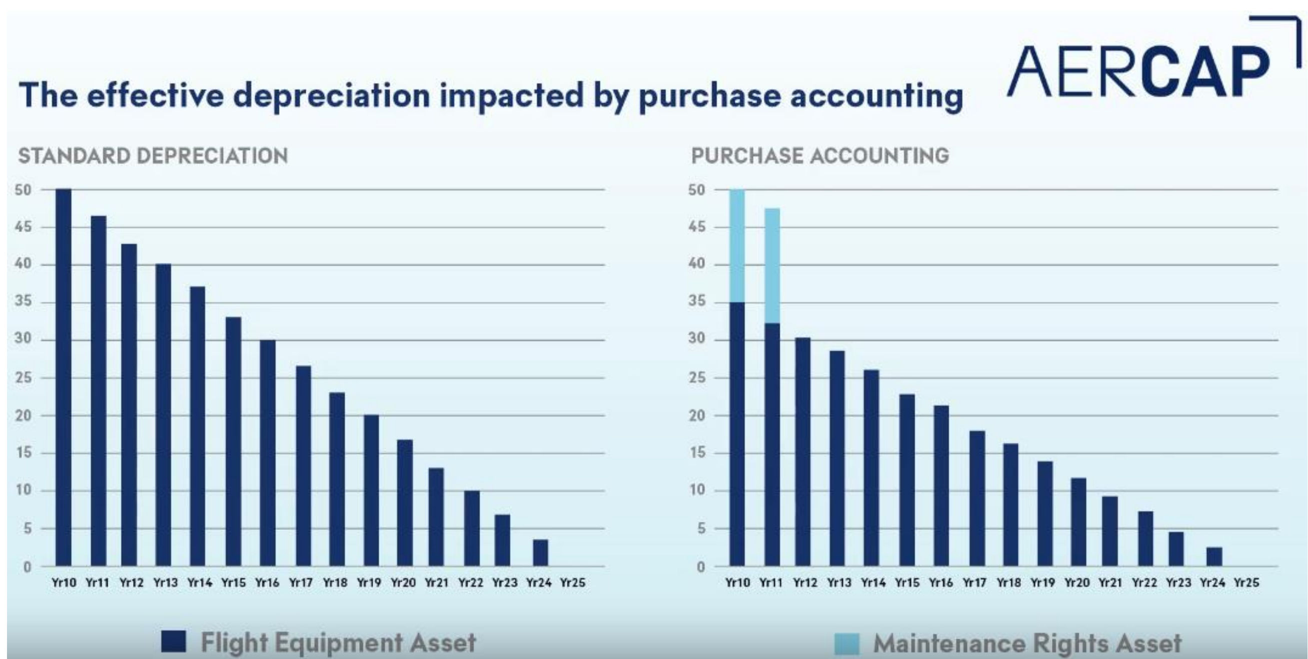
Why does this matter? Does it impact the accounting?

While the metal and the Maintenance Rights Asset are considered part of the aircraft's value, and trade together during sales, there is a difference in how they are treated from accounting perspective.

The metal value will be depreciated on a straight-line basis over the remaining life of the aircraft, as standard, similar to if the aircraft was purchased from new. The MRA, however, is amortized on an event-driven basis over the remaining life of the lease. Such events can include the end of the lease, the sale of the aircraft, or a shop visit occurring. This significantly increases the effective depreciation of the assets under these policies.

So, let's finish with an example.

Suppose Company A acquires a 10-year-old aircraft for $50m with an existing 2-year lease attached during M&A. The redelivery condition documented in the lease contract is $15m better than the actual physical maintenance condition at the date of acquisition.



In this example, Company A would be required to separate the $50m acquisition cost into a $35m flight equipment asset held for operating lease, and a $15m MRA. The $35m flight equipment held

for operating lease would be depreciated on a straight-line basis over the remaining 15-year life of the aircraft, while the $15m MRA would be amortized by an event in the following two years.

As a result, relative to buying the exact same aircraft with the exact same economics outright from new as opposed to M&A, the company would record higher depreciation, lower asset values, and lower profits in the earlier years post-the closing of an M&A.

I hope you found this video useful, and I look forward to adding more content in the year ahead.