



USED PARTS PUSH MEANS OPPORTUNITIES FOR COMPONENT OEMS

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The rising demand for surplus parts that is re-shaping airline aftermarket strategies presents component manufacturers with clear opportunities to follow their engine-producing colleagues by grabbing larger slices of the growing used-parts pie.

The used serviceable material (USM) market was \$3.5 billion in 2013, according to consultancy ICF SH&E, including about \$2.2 billion in engine parts and \$1.3 billion in components . By 2023, the USM market is expected to hit \$6.2 billion, including \$3.8 billion in engine parts and \$2.2 billion in component spares.

Engine OEMs —notably General Electric and Pratt & Whitney —account for almost half of the engine USM market, industry analysts calculate. They source parts and integrate them into customer engines through their own repair shops —all part of an effort to keep operators ' costs low, while maintaining guaranteed reliability rates.

While engine OEMs have a greater share of aftermarket work on their own products than do component manufacturers, operators are moving more toward long-term component agreements . Fulfillment of these deals is often via a major MRO provider, like Lufthansa Technik or AJ Walter. The shift toward non-engine power-by-the-hour and other guaranteed service level agreements gives USM a more prominent role, which increases demand for the parts.

So far, few component providers have capitalized on the trend, with Rockwell Collins —via its Intertrade subsidiary —and Honeywell standing out as notable exceptions. Most others have limited their USM involvement to repairing components sent to them by MROs or independent

suppliers, which then offer the materials to operators or other MROs.

Analysts at Canaccord Genuity see this changing as the USM market matures.

“As the evolution of long-term component agreements has accelerated, we believe USM in the component and other non-engine parts of the aircraft will continue to accelerate,” Canaccord writes in its latest quarterly Commercial Aerospace MRO Survey. “In our view, there has been a substantial increase in the capitalization of the USM market, most recently on the component side, which will continue to help this sub-market evolve and become more sophisticated.”

The survey, which gathered input from more than 60 MRO providers, including some OEMs, found that 29% of parts purchased in fourth-quarter 2013 were USM, compared to 66% new parts.

Analysts believe that USM availability could tighten near-term as mid-life aircraft are kept in service —or, in some cases, pressed back into service—to meet rising traffic demand. UBS calculates a flight-hour increase of 3-4% in the first half of 2014 compared to last year, “which, along with mid-life aircraft returning to service from the park, we think will drive strong aftermarket results near-term.” New deliveries scheduled for the back half of the year will help airlines meet capacity demand with new metal, which will slow usage of older jets, UBS notes.

Canaccord projects that the same factors will help limit USM growth to “low-single digits” in 2014.

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