

MRO economic challenges: supply chain optimization and consolidation through strong SME presence and access to financing

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THE AEROSPACE SECTOR IN CANADA



- › Over \$12 billion in aircraft exports
 - › More than 700 suppliers
 - › #1 in civil flight simulation
 - › #3 in civil aircraft production
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- **70% of the industry's activity is dedicated to manufacturing, while 30% is in Maintenance, Repair and Overhaul (MRO).**

MRO LANDSCAPE: WHAT IS AN MRO ?

- ▶ Total of 887 companies recognized and approved by Transport Canada across Canada as AMOs, the Canadian term for MRO.
- ▶ These AMO's include:
 - ▶ **Manufacturer's:** Once certified by TCCA, the manufacturer cannot use their Manufacturing Approval (CAR561) to work on the product. A CAR 573 AMO approval.
 - ▶ **Operators:** To replace any part, repair an unserviceability or certify that an inspection has been completed, an AMO approval is required. This includes Airlines, Operators small, medium and large, Flying Schools, Charter services, etc.



MRO LANDSCAPE: WHAT IS AN MRO ?



An Independent MRO:

Is not a manufacturer or an operator

Provides services to an operator (Canadian or Foreign) for:

- Aircraft;
- Engine;
- Avionics;
- Components.

THE CHALLENGES OF A SMALL MRO

As opposed to a medium company:

- Independent;
- Resources
- Doesn't qualify for financial assistance under most government programs;
- Financial challenges
 - ❖ Capital equipment
 - ❖ Inventory
 - ❖ Foreign Exchange
 - ❖ My banker doesn't really understand my industry sector, thus my challenges.



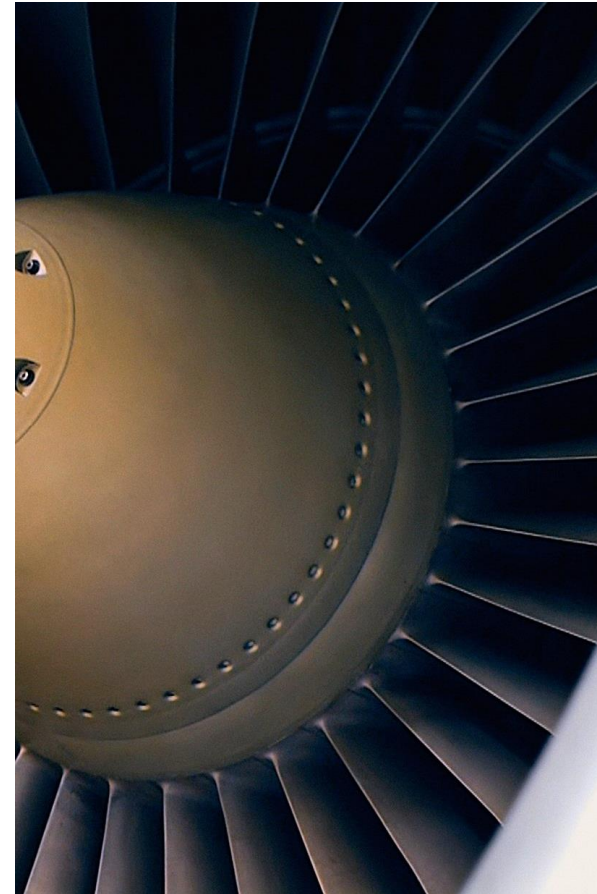
EDC SUPPORT TO THE AEROSPACE INDUSTRY IN 2015



- › Served 142 exporters in the Aerospace Sector
- › Facilitated over \$7.4 billion in exports
 - › \$5 billion in financing
 - › \$2.4 billion of risk mitigation supported
 - › **Over \$1 billion in receivables insured for the MRO sector**

TRENDS AND CHALLENGES: GROWING OPPORTUNITIES BUT SUPPORTING LONGER PAYMENT TERMS

- › **Landing new purchase orders/contracts can mean providing longer payment terms:**
 - › winning a foreign customer might mean additional business but often requires extending your payment terms.
 - › worries about not being paid, foreign jurisdictions, losing out on an opportunity;
 - › Canadian banks could refuse to provide financing for foreign receivables;



FINANCING EXPLAINED

- › **Purchase order with net 30 days (...well more like 60 days...90 days...)**
- › **Pressure on working capital**
- › **Approved ! Line of credit with the bank \$1,000,000 facility:**
 - › 75% of CANADIAN Receivables and 0% of Foreign Receivables;
 - › 300k of CANADIAN Receivables and 200k of Foreign Receivables;
 - › $225k + 0\% = \mathbf{225k \text{ of borrowings}}$
- › **Add Accounts Receivable insurance :**
 - › 90% of CANADIAN Receivables and 90% of Foreign Receivables;
 - › 300k of CANADIAN Receivables and 200k of Foreign Receivables;
 - › $270k + 180k = \mathbf{450k \text{ of borrowings}}$

TRENDS AND CHALLENGES: ESTABLISHING A PRESENCE ABROAD

- › **Financing a portfolio of foreign assets can create the following challenges:**
 - › Canadian banks could refuse to provide financing for foreign AR's, especially if through invoicing is done from the foreign affiliate;
 - › Canadian banks could refuse to provide financing for foreign domiciled inventory;
 - › Foreign banks are hesitant to provide financing to newly established Canadian owned companies in their markets.



EXAMPLE OF SUCCESS STORY



Customer

Aero-Superb Inc. | Mirabel, QC

- › Aero-Superb Inc. is a Medium enterprise who provides MRO services to various airlines, flight schools and independent owners.

Challenge

- › Working capital for large projects requires considerable costs upfront (prior to shipment). Payments are often delayed as some buyers pay their APs on a quarterly basis regardless of payment term established on PO.



EXAMPLE OF SUCCESS STORY



Solution

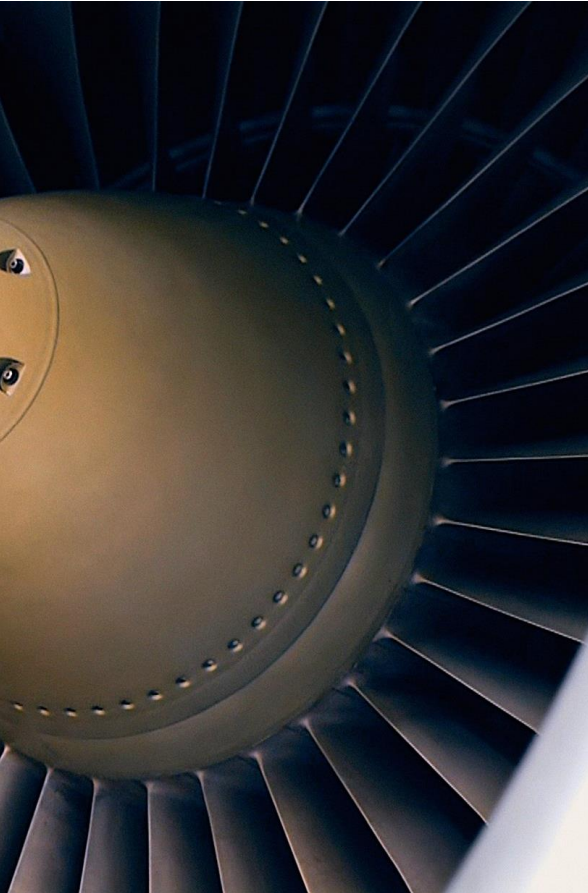
- › Contract financing facility with their Bank, EDC support. Bank finances direct costs to the PO to help cover expenses until components are paid by the buyer.



Result

- › Financing now available to support direct costs (Labour and Material) for purchase orders. Aero-Superb can now bid on opportunities knowing their bank will support their working capital needs.

HOW CAN EDC HELP THE AEROSPACE SECTOR OVERALL?



Strengthen Aerospace Supply Chain

- › Work closely with the Canadian Aerospace Supply Chain to better support and strengthen their liquidity and working capital needs, while mitigating their risks internationally
- › Work with **financial partners** to enable them to better engage and support SME's in this space

Trade Creation

- › Establishing key relationships globally with major OEMs / Tier 1 buyers with the goal to leverage these relationships to develop trade opportunities for Canadian exporters and influence global procurement

THANK YOU !

- › **Alexandra Bell**
Account Manager
- › abell@edc.ca
- › 514-215-7215
- › EDC
- › **David Gregory**
President
- › CanRep Group Inc.