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Flying HIGH

Amedeo is transforming the aviation industry with its dedication to the efficiency and superiority of the A380.

Images by Ben Lister

As a widebody operating lessor based in Ireland, Amedeo is determined to transform the aviation industry and educate airlines around the world about the benefits of the A380 aircraft. Amedeo secured an equity partnership with a New York-based private equity firm, Pine Brook, for the financing of its A380 order with Airbus, which was announced at the Singapore Airshow in February 2014.

Mark Lapidus, CEO of Amedeo, spoke to *The CEO Magazine* about what lies on the horizon for the evolving company.

The CEO Magazine: How have you transformed Amedeo and created new opportunities in the widebody leasing sector?

Mark: Amedeo did not have to be transformed. It started as a dedicated A380 leasing business, with its goal being to transform how airlines look at the potential of this aircraft and changing some of the currently perceived dogmas.

With the A380, it takes time to get the marketplace and the airlines that could use it to change their mindsets and embrace what is a system-shaker and a status-quo-upsetter. However, that is coming. The facts are too compelling in its favour.

How have you helped companies around the world to improve their fleet economics and utilise their aircraft resources?

With the arguments that we bring to the table when we market A380s, we're broadening the way airlines look at their operations. One thing that comes to mind is yield management—algorithms that airlines use to price their tickets to sell from six months before departure to days before. Many have been programmed more than a decade ago and are out of date with hardwired assumptions buried in the software that are no longer true. Airlines are proud of and proprietary about the information they learn from their ticket sales, but this may be a poisoned chalice of a treasure that ought to be challenged and revisited. Where conditions are right, we are seeing the A380 bend these yield curves in its favour—on the right routes where the extra frequencies do not offer more connectivity, where departure is at a peak time, and where the aircraft's customer pull makes passengers navigate networks to travel on it.

While it has been difficult to penetrate into some airlines, we're breaking the mould, even in the USA. There are 10 daily A380 flights into Los Angeles and seven into New York's JFK and more to come in other North American

cities. With so many successful—that is, both full and profitable—A380 flights into the USA, preserving the status quo only results in lost opportunities for the American carriers. All large carriers have routes where the A380 fits in good times and bad, and when we look at the profitability of having four to six A380 aircraft serving those routes, we can calculate that hundreds of millions of extra profits are being left on the table.

How have you educated the market in regard to the cost and capacity benefits of the A380 and what progress have you made in this area?

We have started to change perceptions and understanding but more work is to be done. We have been forthcoming with releasing a lot of operational data into the market in a way that Airbus perhaps would not normally do, but we felt it had to be done to set the record straight. The facts are simple: the A380, in a comparable comfort configuration to what I call single-barrel widebodies, has the lowest unit cost economics—25 per cent to 30 per cent less than the B777-300ER; the bestselling large widebody aircraft until now; and the A380 will have still lower unit costs than the new large planes being built or designed by Airbus and Boeing—the A350-1000 and B777-9X. >

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We have helped the market understand the capacity of the A380. A simple approach, for example that it is a 500- to 650-seat aircraft, can be tricky, as airlines choose how to configure their aircraft to maximise returns and profitability and therefore the seat density of an aircraft from airline to airline will vary greatly. Some of the early A380 customers had chosen too few seats, with much lower seat density than on their other aircraft, which simply left the aircraft's valuable real estate underutilised. However, whether the airline kits out its aircraft in a four-, three-, or two-class configuration, in a comparable comfort standard, the unit cost economics of the A380 are always on top. We are making sure this is clearly communicated.

Also, there has been a misconception about the efficiency of the A380 because it has four engines. We've released a lot of data demonstrating that, for its size and fit-out, the four engines on the A380 are more efficient than two engines on the big twins. That's something that you can see by simply looking at the physics of the aircraft.

Can airlines introduce a smaller sub-fleet into their operations and improve their efficiency?

In the past, airlines needed large individual fleets to achieve economies of scale in their operations, including how the aircraft were maintained. Nowadays, all airlines accept deals from the engine manufacturers which offer comprehensive support on a power-by-the-hour basis. So they are no longer in the business of running their own large engine maintenance facilities but instead pay the original equipment manufacturer a fee for the hours of usage. It reduces the management time necessary to run those engines, and airlines have embraced the model. The

same can now be done with the airframe, with fleet solutions to maintain the aircraft and procure spare parts. So it is now possible to have a cost-efficient, small sub-fleet that you can use with any aircraft type, not just the A380, to maximise your revenue opportunities. The airlines that will be successful in the future will be those that can manage the complexity of multiple sub-fleets to optimise their revenue opportunities.

How are you working with strategic suppliers and partners to improve efficiency and costs?

The engine manufacturers are a key element for us. With them, we need to focus on working together, not just on cost efficiencies but also on marketing—getting help and assistance in pushing the A380 and the facts about the A380, which we've discovered sometimes aren't that well-known to airlines. With Airbus we have a unique relationship. It is not that of a normal lessor and an OEM; rather, it is a partnership where we jointly pursue marketing in all campaigns, and I cannot think of something similar having been created before.

Where do you see the aviation industry going in the future?

“Navigare necesse est” [“to sail is necessary”], the ancients said, and it is in our nature to want to see the world, and in our economic interest to do so as well. So, this is a very good business to be in, as one of the few that keeps on growing, and I think the high growth rate has decades still to run. It's a changing environment and one which is now altering itself in non-linear ways. You have lots of airlines focusing on a range of opportunities within their markets.

Low-cost carriers [LCC] revolutionised some parts of the aviation business in the past 20 years. But not everyone needs to and wants to fly with a LCC. The very recent emergence of the premium economy class as a key profit maker has caught some airlines off guard, driven by some

companies deciding to become more cost-conscious and stopping the booking of business-class tickets for their employees, as well as the emergence of perhaps older and more affluent tourist travellers who will pay double the economy ticket price for a nicer seat, better food, and entertainment. Airlines that recognise this trend will be able to profit from providing this class of service, but, at the same time, this is not evident everywhere and, in other places, it may be that removing first class can be more profitable. Then again, an airline then must weigh how important first class is to its brand development. In short, the product offering is becoming increasingly segmented, in a drive to higher yields, and so the future is going to be around optimising segmentation, which comes back to what I mentioned about using small sub-fleets to maximise revenue on particular routes. For the A380 this is good news, as with scale comes greater optionality and unique features. A good example is the option of boarding from a premium-product lounge direct into a premium upper deck on the aircraft, which segments and elevates the premium passenger experience.

What is your vision for Amedeo?

We're very specialised and focused on a niche marketplace so, in our short-term future, the A380 will be our dominant business focus. There's a tremendous amount of work we still have left to do to make our vision take hold, but one thing about the A380 is that these various issues play out in a magnified way and it is fascinating to do what we do. Even though our path of swimming against some prevailing views is not always an easy one, I enjoy the challenge and know it will be profitable.

We see Amedeo becoming the dominant A380 player in the market, acting not just in terms of buying new aircraft but also being the clearing house for aircraft that are coming back from airlines some time after 2020. The future for us is to become a robust large aircraft lessor and be dominant in our widebody space. •

“Amedeo's experienced team is very passionate about the industry. When you interact with them, you immediately notice that they've done their homework—they're deep into the details important to their customers. It's an excellent experience working with them.” - Sam Descoteaux, VP Sales and Marketing, Engine Alliance