

Get it right with growth

CFOs and their teams must be ready to support a broad range of portfolio enhancing transactions to capitalise on evolving market opportunities and prep platforms for post-pandemic re-restart and re-acceleration of growth.

Accretive portfolio acquisition and fleet value-enhancing trading opportunities are becoming increasingly nascent for lessors in the midst of the pandemic-induced, fast-evolving market conditions. To capitalise on these emerging opportunities, lessors must 'get it right with growth,' by establishing a truly world-class finance organisation that will support their efficient post-pandemic re-restart of operations and advance their ambitious growth agenda.

There is an increasing need for chief financial officers (CFOs) and their finance organisations to take on a broader scope of transaction processing and decision support-related responsibilities. Through our work with global leasing platforms of all sizes, the Zeevo Group ("Zeevo") team has amassed deep insights into an array of finance transformation challenges facing CFOs and their finance organisations – and proven strategies to tackle them.

"Understanding the challenges and adopting leading practices will increase the finance function's ability to fulfill their expanded role at the executive table, especially now when the C-suites are focused on weathering the pandemic-related impacts on business and poised to chart the best path forward while taking advantage of emergent growth opportunities," posits Zeevo chief executive officer Joey Johnsen.

Finance transformation is not one size fits all

Each lessors' finance organisation has a different set of priorities and is facing distinct pain points. Value-added finance transformation doesn't need to be a complete overhaul; rather it can be deployed through either a *performance restoration* or *initiative by initiative approach*.

Johnsen underlines that finance transformation does not follow a "one-size-fit-all" approach, because "for one lessor, transformation may mean redefining its target operating model for finance by adding heads in other timezones, while for another, it may mean relying more heavily on estimates to close the books more timely. For yet another, it may mean enhancing usage of lease and asset management systems or implementing a



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new treasury management system. For other lessors, the goal might be to revamp the entirety of its finance operation."

Finance is a service delivery business and finance organisations grow as the businesses they serve expand. Leading lessors' finance organisations are in need of a common and consistent approach to finance that standardises both transactional and business support services across geographies and business units.

To strategically support platform growth, lessor CFOs must recalibrate facets of their finance operations, including those related to organisational effectiveness, information quality, timeliness and consistency, talent management, internal controls and corporate governance, business performance management, among others.

For more than a decade, Johnsen and her team have collaborated with finance chiefs across industries in carrying out finance transformation initiatives that were targeted to fast-track the growth of their evolving enterprises, from start-up

through Fortune 500-sized operations. The following are the key considerations CFOs need to take into account when undertaking efforts to transform their finance organisations:

- Identify the most suitable finance operating model;
- Standardise, integrate, and automate processes;
- Improve decision support;
- Manage risk;
- Enhance cash and treasury management.

Finance operating model

It is common for lessors to have different finance operating models for various regions and lines of business. In particular, companies undergoing growth through M&A activities face certain operational misalignments that may result in increased costs and duplicative activities.

Johnsen points out that "prior to the Aercap acquisition of ILFC, the ILFC finance team was hyperfocused on 'follow the sun' support as it related to finance delivering for and partnering with the rest of the business."

Lessors may benefit from designing an operating model where finance conducts the appropriate activities and delivers the right mix of services based on cost, location, in-house staffing, and outsourcing resources. Johnsen adds that "leading organisations leverage a global talent pool, going offshore as appropriate both for commodity services and to fill leadership and management roles."

CFOs can successfully identify an effective operating model for their finance function by establishing centers of excellence and shared service centres. "To build an effective target operating model, we have provided our clients with a detailed analysis of various factors, such as: locations, technologies, and the skills, knowledge, and abilities of team members," underscores Johnsen.

Standardised, integrated, and automated processes

The key to reaching across siloed systems and unifying business processes, as well as automating an extremely manual process is to develop comprehensive, well-designed workflows.

Whether it's small, departmental processes that handle document approvals, or complex processes, such as new aircraft deliveries, security deposit refunds, or managing reserve claims, Johnsen contends that "it is intelligent workflows will take your operations to a new level."

"We have assisted clients, with portfolios as small as 20 aircraft, to automate their business processes, departmental to organisation-wide, and from a single office location to those that connect to content and systems throughout your global enterprise," she indicates.

Improved decision support

Insufficient access to data, be it fleet, financial, or customer-related, may hinder a lessor's ability to identify and deliver the right information at the right time to the C-suite.

Johnsen poses a number of questions CFOs should ask their teams to determine their level of preparedness to supply critical intelligence to their C-suites. "The data you need already exists in your systems, but that only matters if you can access and present it in a way that is meaningful to your users."

CFOs should ask: "Is our data current, but kept in multiple systems, making it difficult to bring together in one simple report? Is the ability to make fast, reliable decisions based on accurate and usable information essential to your business?"

Operational and management reporting, as well as business analytics, can enable the finance team to predict what will likely happen by combining current and historical asset data with information from other internal and external sources, among them:

- contractual obligations;
- reserve balances;
- cashflow and payment history;
- operator-specific maintenance programmes;
- maintenance, reconfiguration and asset return/delivery costs;
- operator fleet profiles and credit assessments; and
- new aircraft specification costs.

In past engagements, Johnsen recalls, "the core focus has been on how to ensure the information the finance team extracts from their systems is consistently classified and clearly presented across the organisation."

Below is a selection of ways in which the finance team can ensure the reliability and solidity of the presented information:

- Maintenance events, costs, and intervals are tracked and classified properly for forecasting and reserve rate benchmark purposes;
- Utilisation and reserve balances are

accurate with visibility into all related maintenance reserve claims;

- Specification data is standardised and current;
- Aircraft and engine lease agreements are managed according to the lessor's rights and responsibilities;
- Lessor and lessee commitments and contributions, component swaps/exchanges, escalations and reconciliations are clearly visible and concisely executed at the asset, lease, and maintenance reserve fund levels;
- New aircraft/engine specification costs are captured effectively;
- Project budgets are aligning with outgoing purchase orders and incoming invoices;
- Project tracking consistency (e.g., estimated dates, repossession classification details, project notes, assigned resources) across all projects; and
- Deal tracking or market and global intelligence is captured consistently across all customers.

Risk management

"Managing risk has never been more critical—and more challenging—for lessors, especially in the global market environment pummeled by the pandemic," stresses Johnsen.

Johnsen postulates that the effective management of credit, market, environmental, social, and governance (ESG) and climate risks, as well as operational risks, is already "a matter of survival for lessors and will continue that way in the near future, particularly post the pandemic."

Sweeping regulatory mandates and enhanced focus on ESG complicate matters by adding to the complexity already created by industry-specific and country-specific regulations.

"For finance teams to seek external support from management professionals, who are well versed in regulatory oversight and stay on top of developments, is key to helping their organisations comply with regulations, respond to events of non-compliance, and improve processes around information systems that support GRC (governance, risk, and compliance)."

Cash and treasury management

With fast-emerging growth opportunities requiring immediate reaction, lessors are pressured to accelerate their growth rapidly, lagging on carrying out even the most fundamental treasury functions, such as cash management, banking, debt and funding, investments, and risk management for currencies and interest rates.

"Such shortcomings are only amplified as lessors expand into new markets, often lacking an operating model and

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Paul McDowell, senior advisor, Zeevo

infrastructure to support their activities, portfolios, and risks," warns Zeevo Senior advisor Paul McDowell.

Driving free cash flow predictably is fundamental to building corporate value, but aircraft and engine lessors are challenged by manual processes, disparate systems, and lack of automation.

"Precise funding and liquidity management requires a clear understanding of projected in-and-out flows from the business today and in times of stress," explains McDowell. "Knowing cash positions and debt management is at the core of good balance sheet management and that requires a system that can track all of your treasury related needs in one solution."

McDowell reflects on Zeevo's past engagements, saying: "we have walked in lessors' shoes," because the team has directly supported transforming forecasting and treasury through improved process design and technology enablement.

"To build a truly world-class finance organisation, you need in-depth knowledge of treasury management systems and processes, as well as broad exposure to selecting, implementing, and using various treasury management systems," concludes McDowell.

Zeevo can assist

Zeevo is a proven provider of end-to-end finance transformation solutions covering finance strategy and vision, finance organisation and talent strategies, finance process redesign and adoption, as well as finance systems changes.

With the industry-leading expertise and bench strength of our team, well versed in the full spectrum of finance transformation and M&A activities, Zeevo will make sure your business has effective processes that enhance control, create value, and drive performance improvement, among the many other aspects of building your platform's world-class finance function. 

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Accretive portfolio acquisition and fleet value-enhancing trading opportunities are rapidly becoming nascent for lessors in the midst of the pandemic-induced airline and leasing market developments.

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