

7 Pitfalls to Avoid When Buying a Pre-Owned Aircraft

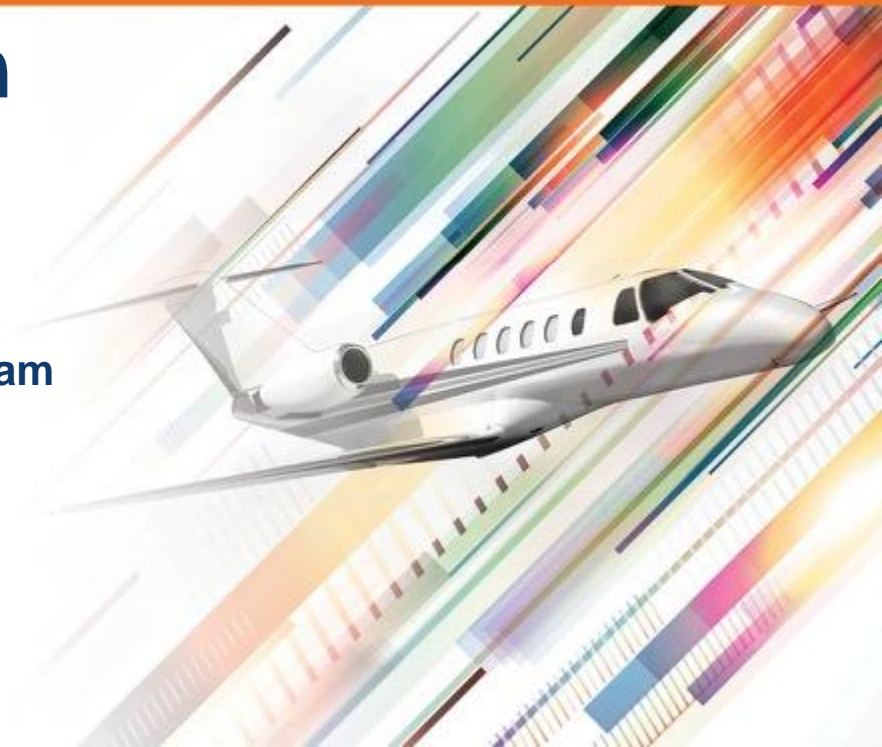
Wednesday October 11, 2017 | 9:15 am - 10:00 am

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Moderator: Keith Hayes – PNC Bank



Fake News

Fact Check > Fauxtography

Plane Lands Safely After Losing a Wing?

A video clip that shows an airplane making a safe landing after losing a wing was a promotional gimmick.

“Fake” News

Definition:

Fake news is a type of journalism or propaganda that consists of deliberate misinformation or hoaxes spread via traditional print and broadcast news media or online social media. Fake news is written and published with the intent to mislead in order to gain financially or politically, often with sensationalist, exaggerated, or patently false headlines that grab attention.

Pitfall #7

Fake Planning

- Operations
 - The first and most important step in acquiring an aircraft is determining the **right aircraft** for your **mission profile**
 - Most data sources do not provide **detailed trip planning** and **significantly underestimate operating costs**
- Timing
 - Many times, buyers are also sellers
 - Think though timing of the exit of the existing asset (Sale, trade, etc.)
 - Have you planned through a 1031LKE?

Pitfall #6

Fake Friends

- Use **extreme caution** when a friend **offers** to sell his or her aircraft to you
 - Treat the transaction like any **business transaction**
 - Always perform appropriate **due diligence**
- Just because you have a **pilot** friend, don't rely on him/her to assist you in buying an aircraft
 - Some pilots are good at some the **technical aspects** of the transaction, but fail on the business aspects
 - Would you let a **doctor** build a **hospital** for you or a paralegal manage a complex legal negotiation and argument in a court of law?

Pitfall #5

Fake Profit

- You **can not** make money chartering
- **NEVER!**
- Many management companies will often present **financial proformas** that show a profit from chartering, but they cannot show all measures of the profit nor risks assumed to gain said profit
- If aircraft made money, **everyone** would own one

Pitfall #4

Fake Sellers

- Not all **Sellers** are who they say they are!
- Insure that all **counterparties** in a transaction have the **wherewithal** to perform
- Be cautious in **back to back** transactions
- Buyer beware ...know who all parties in the chain of title are and be able to connect the dots at closing

Pitfall #3

Fake Pricing

- In all markets, there is a significant **bid-ask** spread
 - New and Preowned
- **Price reference guides** are 6-9 months **behind** the market
- Rely on a **broker/buyer's agent** whom you've **engaged** to accurately identify pricing
- Recommend focusing on **value** rather than price
- Always ensure the value-add items on the **specification** are included in the purchase

Pitfall #2

Fake Maintenance

- **Always, Always, Always** do your own **pre-purchase inspection!**
- Be aware of **pending maintenance**
 - Ensure that you receive and review a **maintenance due list** for two years and 800 hours
- Before closing, ensure that **all programs** are in good standing, have positive balances, and are fully transferable
- **WARNING** – do not purchase if Seller will not allow or limits the scope of your inspection

Pitfall #1

Fake Brokers

- Build a **team** to support your acquisition
- A good team should consist of:
 - Reputable broker
 - Aviation legal counsel
 - Technical consultant
 - Finance advisor/banker
 - Flight operations team/Management Co.
 - Escrow agent
 - Accountant/Tax planner
 - Inspection facility
 - Completion consultant
 - Appraiser
- The aircraft brokerage space is currently **unregulated**, any broker who says he can do it all, cannot!

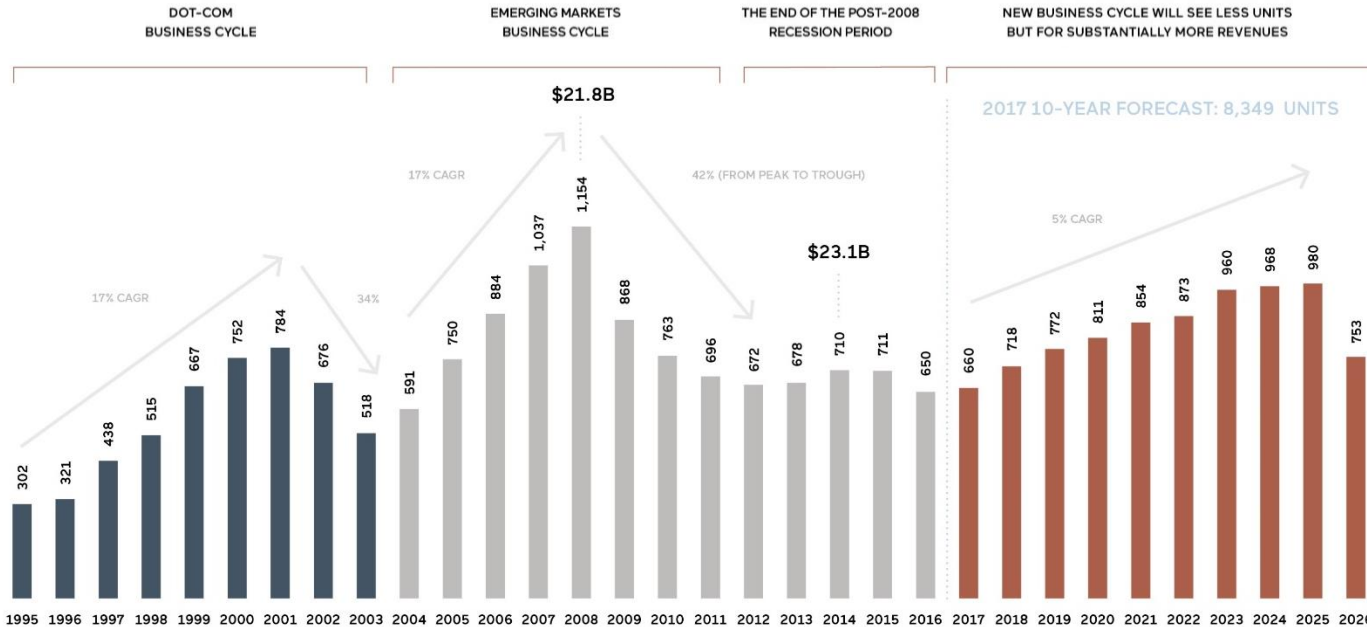
“Real” Market Data

Definition:

Data reflecting current trading information to include pricing and volume and other additional information related to the trade. **Market data** helps traders and investors learn as much as possible about daily trades. In finance, *market data* is associated with investment instruments.

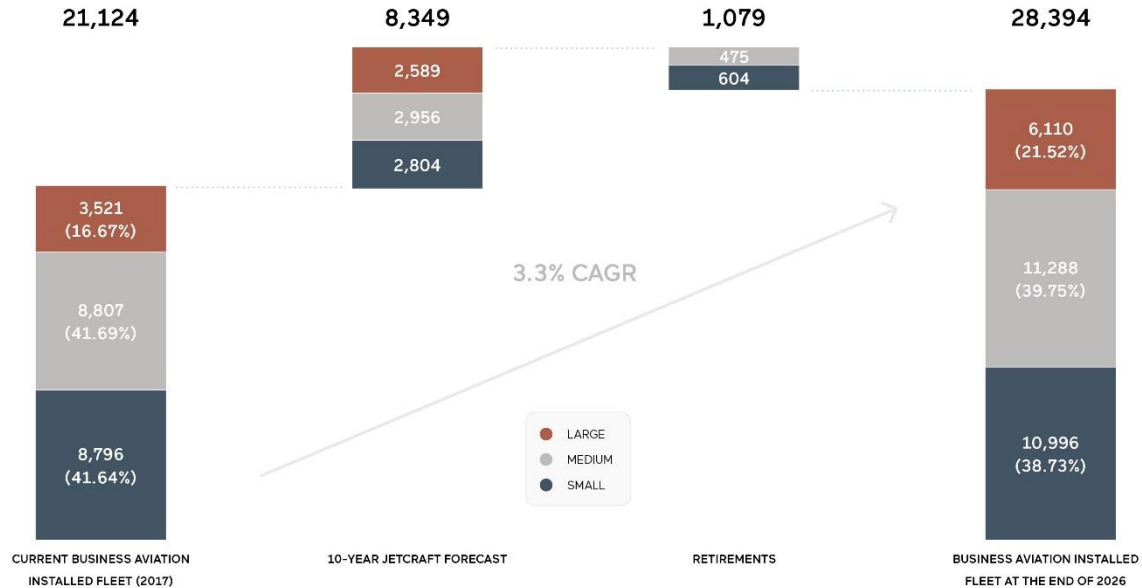
Real Market Data

Business Aviation Transitioning into New Business Cycle

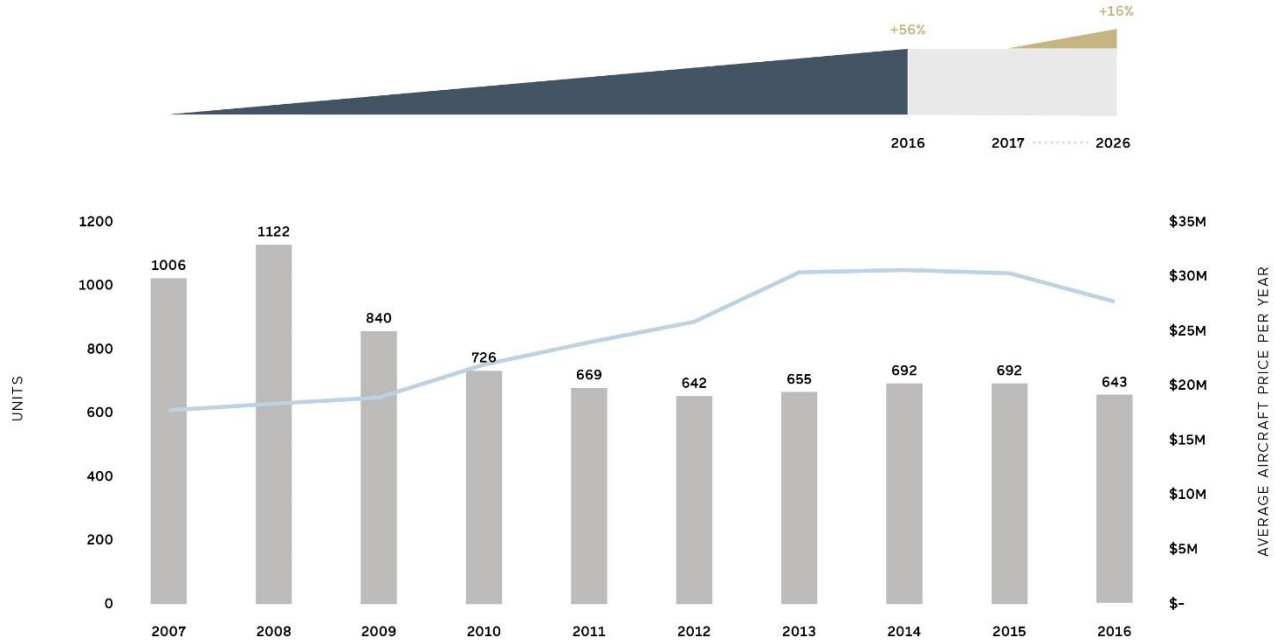


Source: Jetcraft 2017 Ten-Year Business Aviation Market Forecast

Evolution of the Current Business Aviation Fleet

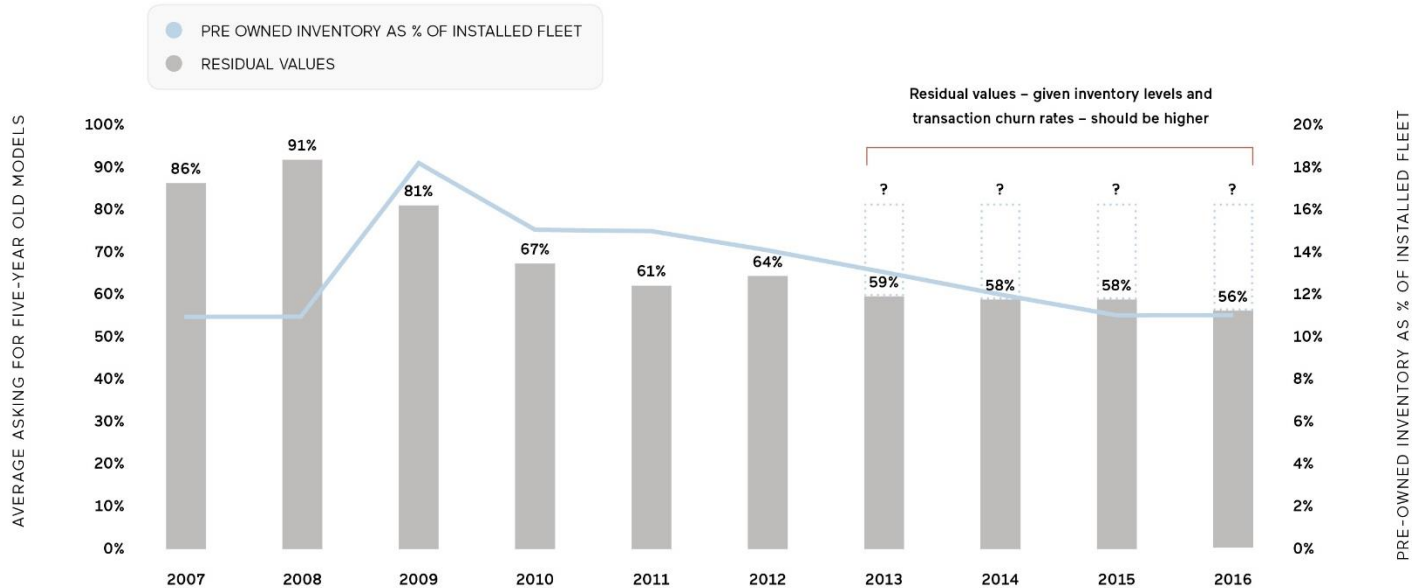


Widebody Preference Drives Unit Prices/Revenues



NOTE: FOR THE CALCULATIONS ABOVE, UNITS AND BILLINGS FROM THE CONVERTED AIRLINER SEGMENT WERE EXCLUDED.

Pre-Owned Inventory at Recovery-Like Levels, Residual Values Elusive



Pace of Pre-Owned Market Predicted to Improve

SOURCE: AMSTAT

VS

	AUG 2007 – JUL 2016			2017 – 2026 (PROJECTED)		
	SMALL (VL, L, SL)	MEDIUM (M, SM, L)	LARGE (SL, ULR, CA)	SMALL	MEDIUM	LARGE
10-year trailing average installed base	9,014 aircraft 13.6%	6,720 aircraft 13.7%	2,985 aircraft 9.3%	9,975 aircraft	8,829 aircraft	4,383 aircraft
10-year trailing average aircraft for sale	1,225 aircraft 6.4%	919 aircraft 6.0%	279 aircraft 6.1%	1,357 aircraft	1,210 aircraft	408 aircraft
10-year trailing average monthly retail-to-retail transactions	78 transactions	55 transactions	17 transactions	87 transactions	73 transactions	25 transactions
Nominal 10-year average absorption rate (days)	471 days	501 days	492 days	468 days	497 days	481 days

