GLOBAL JET CAPITAL

Overview

Q1 2020 can be looked at as two separate stories. Leading up to the World Health Organization's (WHO) announcement on March 11 that COVID-19 was an official pandemic, most key business aviation metrics were in good shape when measured against Q1 2019. Following the WHO announcement and ensuing social distancing measures, the industry entered into a forced hiatus, negatively impacting flight operations, aircraft production, and deal flow. We are now in a period of uncertainty that looks to continue through the second quarter.

Overall, key business jet market indicators were mixed in Q1 2020.

- Business jet operations declined 9.7 percent compared to the same period last year, a trend that had started internationally in late Q4 2019 and accelerated globally late in Q1 2020.
- While OEM backlogs remain healthy, a mix of shutdowns and furloughs across the production ecosystem led industry forecasters to reduce supply side forecasts between 25-50%. While difficult for everyone in the industry, this unusual dynamic may act as a guardrail on aircraft values as the full impact of the pandemic plays out.
- While inventories, as measured by the percentage of the active fleet for sale, have been inching up since Q1 2019, they ended Q1 2020 below 10%. This is a historically sound position. Furthermore, to date, there has not been a major increase in new aircraft being listed for sale.
- The overall fleet continues to show signs of aging, with 55% of the fleet now greater than 13 years in age. While there is evidence that operators are flying aircraft longer, these data suggest a growing need for fleet renewal.
- There is evidence that the business jet market was undergoing a fleet renewal before the outbreak of COVID-19. Operators were retiring older aircraft in response to mandated upgrade requirements, while new deliveries led to a modest increase in younger aircraft in the fleet.
- Overall, new and pre-owned transactions for the quarter were down 6.7 percent by unit volume and 16.4 percent by dollar volume versus the same period last year. Most of the drop-off was felt in March as the industry hit the "pause" button.
- Residual values experienced modest declines in Q1 2020 as model-by-model volatility continued.

Looking ahead, the full effect of the coronavirus on the market remains unknown, although speculative comparisons to 2008 and the impact of the Great Recession are rampant.

The current environment demonstrates some important differences to 2008, however. The cause of the economic disruption is a virus, not widespread failures in financial regulation. Banking systems and capital markets are not in a state of seizure. Government reaction and intervention has been swift and expansive. OEM production has been curtailed in a disciplined fashion to protect backlogs and ultimately aircraft values. This is clearly a different environment.

Special Feature on the Global Economy

The following commentary comes from Jason Thomas, Managing Director and Head of Global Research for The Carlyle Group, one of Global Jet Capital's investors.

1. When people don't work, shop or travel, it shows in the economic data. March's economic collapse continued in April with implied growth rates deeply negative across virtually every Indicator we track. Yet, when measured relative to March 31, a slow and uneven recovery in China and the first signs of life in Europe caused our (i.e., the Carlyle Group's) forward-looking index to rise despite further deterioration in U.S. data.

2. Officially, the U.S. economy contracted at a -4.8% annualized rate in Q1-2020, a remarkable result considering that official data were consistent with 2% annualized growth through the first 10 of the quarter's 13 weeks. Our data suggest real consumption fell - 32% annually in April, as spending on experiences (travel, tourism, events, etc.) and big-ticket goods fell to a fraction of pre-crisis levels. The drop in industrial and logistics volumes appears less steep, but energy development is in free fall.

3. Despite worse U.S. data, U.S. stocks rebounded sharply over the month, with the S&P 500 up by 33% from its March lows and forward price-to-earnings ratios 13% above their February peak. While much of this may be explained by the scale of announced fiscal and monetary policy support, improving public health data also play a role. The level of the S&P 500 has risen in lockstep with the decline in new COVID-19 cases (new infections net of recoveries) and projected U.S. COVID-19 mortalities.

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4. Ironically, the improvement in public health data may have come at the expense of the private health sector. The sharp decline in non-essential medical, surgical, and dental procedures subtracted 2.25 percentage points from U.S. GDP in Q1-2020, a result that implies that revenues at private health care providers and clinics are suffering every bit as much as those in the retail, energy, or airline sectors. Our data suggest U.S. health care hiring is down -15% over the course of the pandemic.

5. While investors may be looking past the "lockdown" and focused instead on the reopening, business managers are taking a more cautious tac. Our proprietary data point to another leg down in the labor market, with hiring intentions off significantly across virtually every sector of the economy. The initial boom in grocery, delivery and logistics hiring has subsided as those businesses have scaled up to meet demand. Overall, job postings have declined by -40% over the past six weeks and capex budgets have been cut by -18%. Cancellation of jobs, projects, and equipment purchases signals that management teams are preparing for a future that looks far less sanguine than the one pictured by stock market investors.

6. The only economy where hiring intentions increased over the past month was Italy's. There were other signs of life in Europe: more workplaces were open and more work trips occurred, contributing to more electricity consumption and better manufacturing numbers. In many European economies, more retail establishments were open at the end of April than the end of March. Online sales continue to grow rapidly.

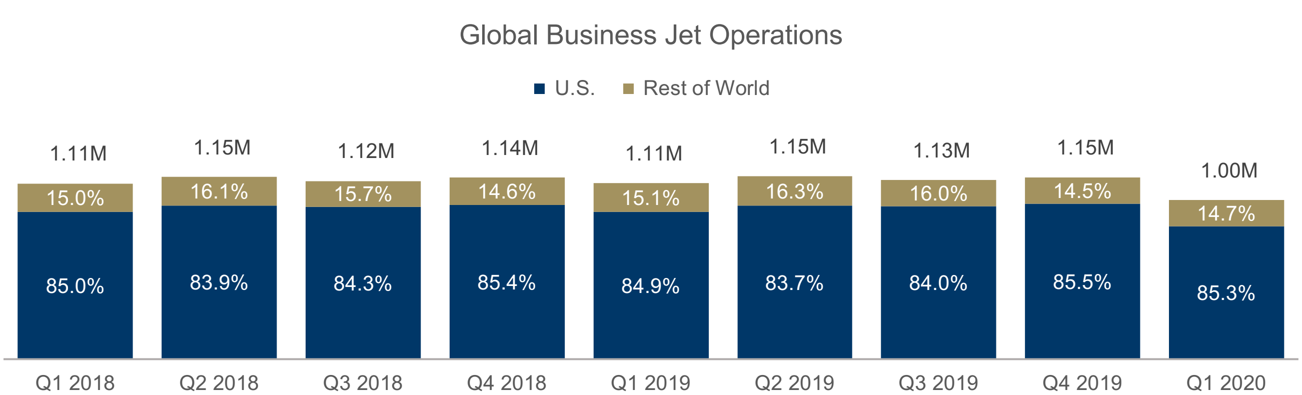
7. Despite these hopeful signs, the euro zone economy continues to contract at even more dramatic rates than those observed in the U.S., with a -14% annualized fall in Q1-2020 GDP and an implied annualized decline in April retail sales of nearly -40%. Unfortunately, the economies hardest hit by the virus, Italy and Spain, will also be among the most impacted by any travel restrictions that extend into summer given tourism's ~15% contribution to GDP.

8. China continues to recover at a pace that looks either remarkably fast or frustratingly slow depending on your point of view. Over a span of six weeks, China went from fully locked down to operating at 95% of capacity – an impressive achievement. Rather than experience setbacks in April, the economy consolidated these gains with over 98% of retail locations in operation, an impressive 34% rebound in logistics volumes, and ongoing improvement in real estate markets. To detractors, the Chinese economy looks soft. Declines in retail foot traffic, air travel, and subway ridership all point to skittish consumers worried about a "second wave" of infections.

9. Interestingly, the same concerns that depress transit ridership also bolster auto sales. After declining by -80% in February and - 40% last month, auto sales in China dropped by just -7% in April relative to the same month last year. An 11% annual increase in Beijing auto traffic relative to April 2019 also suggests auto demand has risen measurably. Overall retail sales continue to contract on an annual basis but at a much slower rate than observed a month ago.

10. The effect of India's lockdown was evident in the April data. Equipment sales fell at a -34% annual rate, suggesting that the economy is in the midst of its worst performance since the 1991 reforms.

Flight Operations



[i]

In 2019, the FAA reported 4.53 million flight operations (defined as a takeoff and landing) around the globe, representing a 0.3 percent increase from 2018. Operations appeared to continue their steady growth in 2020, increasing 1.2 percent year-over-year in January and February. However, the outbreak of COVID-19 disrupted global flight operations. Flight operations increased in early March as people flew to their sheltering locations.[ii] However, flights decreased over the course of March, leading to a 9.7 percent year-over-year decline for the quarter.

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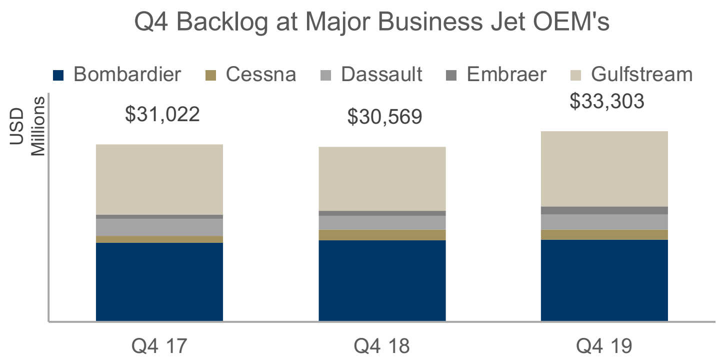
OEM Backlogs



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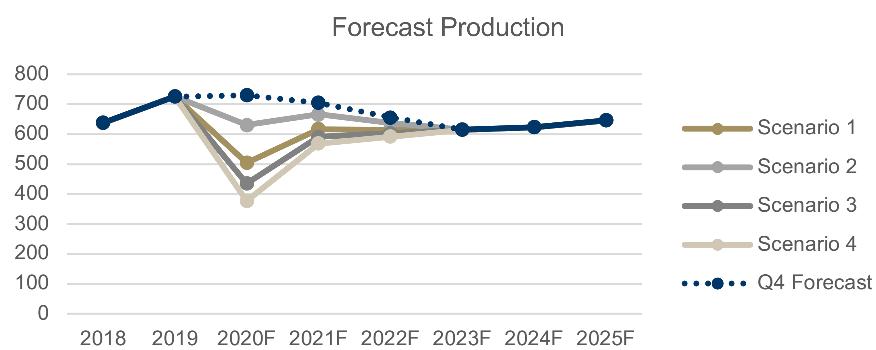
Backlogs at major business jet manufacturers increased in Q4, driven by strong demand for recently certified new models. In Q4, backlogs at five major OEMs reached $33.3 billion, an 8.9 percent increase from a year earlier. Strong quarterly results from Dassault, Embraer, and Gulfstream drove the gains. Orders for new aircraft will likely decline as a result of COVID-19 and the efforts to contain it, putting downward pressure on backlogs. At the same time, manufacturers have reduced production levels, which could stabilize backlogs despite lower order intakes.



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There are many unknowns that will affect the market in the future, such as how long the virus will last and what the long-term economic effects will be. As a result, many analysts are suggesting a number of scenarios, rather than using a single model to forecast production. For example, Rollie Vincent of JetNet iQ, laid out four scenarios, with production forecasts ranging from 377 to 630 aircraft versus a Q4 2019 forecast of 730. Each scenario makes different assumptions about a range of factors, including sold to unsold delivery positions by OEMs, announced and additional production furloughs, and other factors. At this point, JetNet iQ expects business jet deliveries to be down 40-50 percent year-over-year in 2020 in its most likely scenario.

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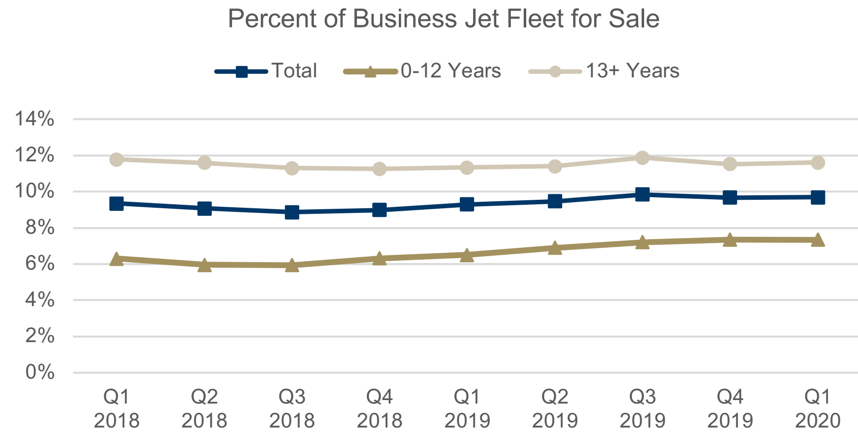
For-Sale Inventory



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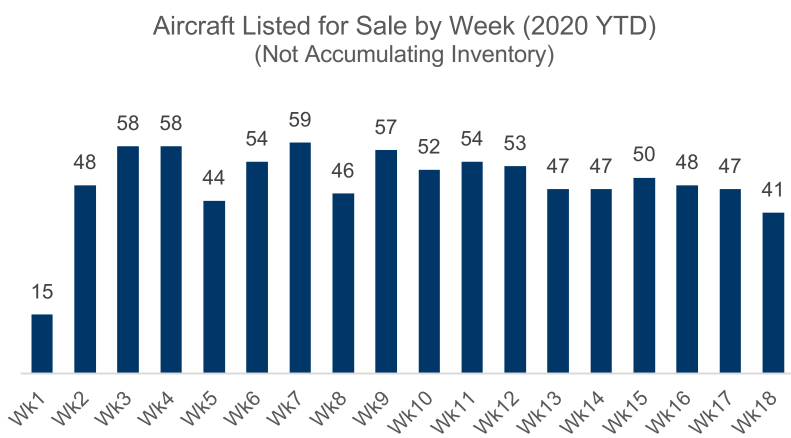
Pre-owned inventory has gradually increased from historical lows in mid-2018. As a percentage of the overall fleet, increases have been gradual and remain below 10 percent, considered a historical average. Jets younger than 13 years old are typically seen as more desirable aircraft.



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The number of aircraft listed for sale each week has remained consistent throughout 2020, despite disruptions due to the COVID-19 outbreak. There has been some mention of "shadow inventory," or inventory intended for sale but not officially listed. However, available data reflects stability. Throughout 2020, the average number of aircraft listed for sale has been 48, with a peak of 59 in mid-February. For comparison, as the Great Recession took hold in 2008, new listings averaged 70 per week with peaks of 106, 115 and 120 in Q4 2008. One reason for the steady listings may be that aircraft owners are waiting to see how the COVID-19 pandemic plays out and what effect it will have on the economy before deciding what to do with their business jets. It also suggests an absence of speculative activity and excessive leverage, which may serve to cushion the effect of a drop-off in demand.

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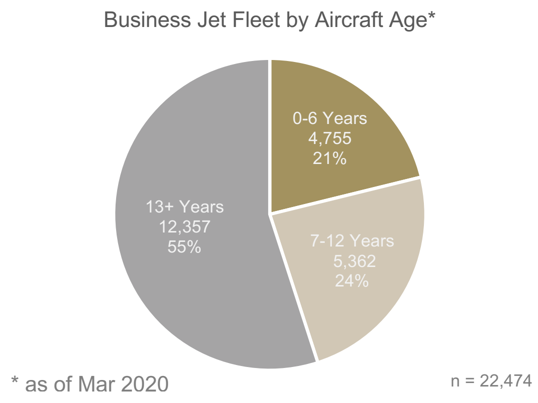
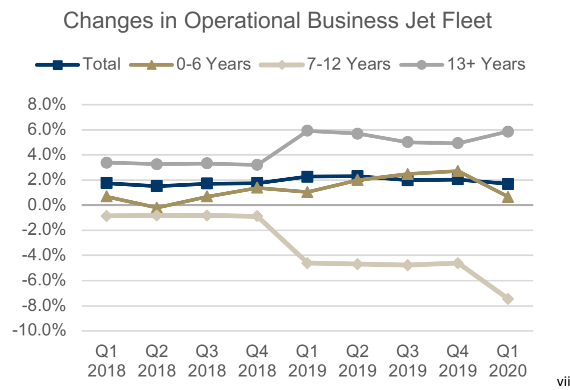
Fleet Status





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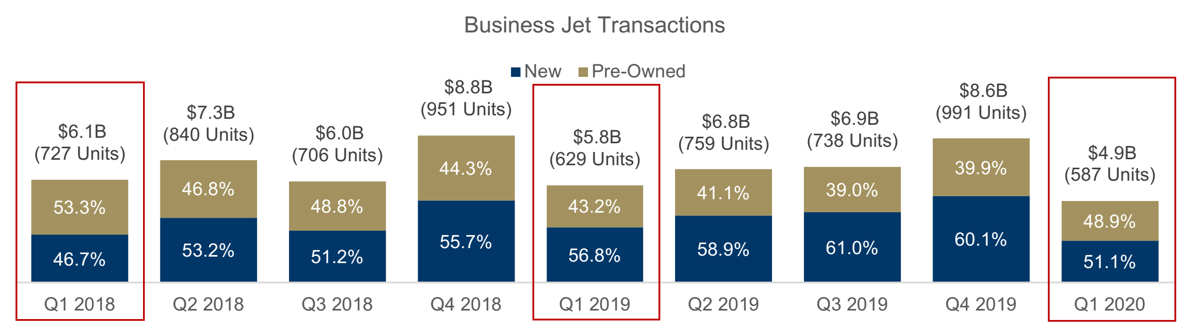
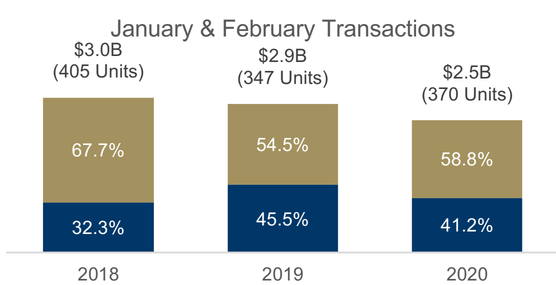
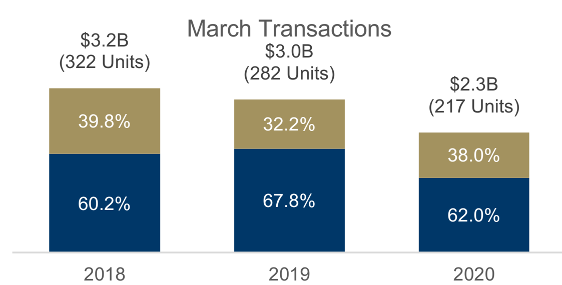
Following the financial crisis of 2008, reduced new production and longer lifespans for in-service jets led to an aging fleet increasingly made up of older jets (defined as aircraft older than 12 years). More recently, however, that trend has slowed. Mandated upgrades (such as ADS-B Out and FANS 1/A) led to some older aircraft being taken out of service. As a group, older aircraft continue to increase as aircraft built around the financial crisis age. However, young aircraft (defined as aircraft younger than 7 years old), continue to increase as OEM deliveries of new models increase.

Transactions ($ Volume)







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In January and February 2020, transaction unit volume was 6.6 percent higher than the same period in 2019. However, transaction value was down by about 13.8 percent due to lower new deliveries and a higher proportion of smaller aircraft transactions taking place. The market performance in January and February set the stage for a stable year of business jet transactions.

However, the outbreak of COVID-19 had an effect on business jet transactions in March. The World Health Organization (WHO) officially declared COVID-19 a global pandemic on March 11, 2020.[ix] As a result, transaction numbers in March 2020 were down 23 percent compared to a year earlier and transaction value was down 21.6 percent. As nations implemented social distancing and "stay-at-home" orders, it became difficult to conduct the necessary activities to buy and sell aircraft (e.g. inspect the aircraft, travel to a location to deliver or pick up the aircraft, etc.). Furthermore, many business jet OEMs and suppliers shut down or slowed operations, delaying new deliveries. Overall, transactions for the quarter were down 6.7 percent by number and 16.4 percent by value.

Note that transaction metrics are preliminary and may require adjustment if additional transactions are reported by the U.S. FAA.

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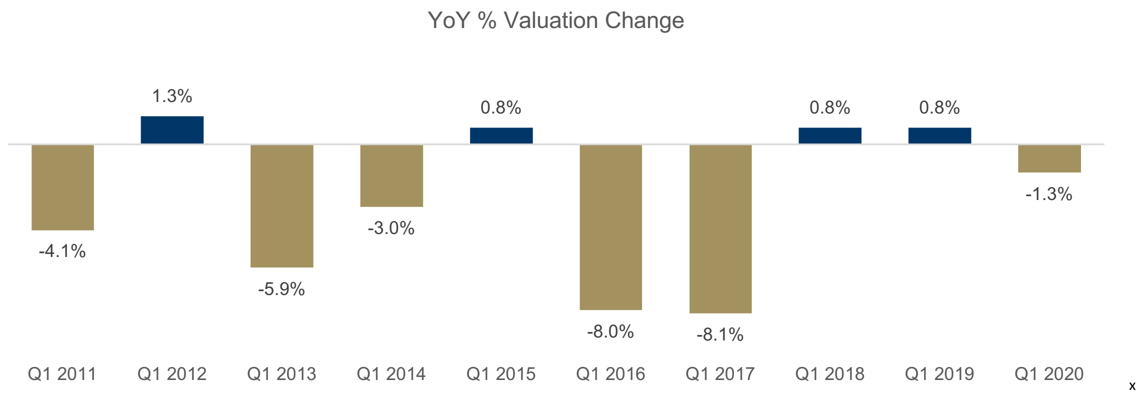
Residual Value



The above chart compares the year-over-year percentage change in value of like-aged aircraft over time (e.g., the difference between value of an eight-year-old aircraft from one year to the next). Global Jet Capital analyzed a basket of aircraft as a proxy for the overall market and increases or decreases in value are not applicable to individual aircraft or aircraft make/model. For the value of a specific aircraft, please contact a licensed aircraft appraiser.

Declining for-sale inventory and strong transaction levels in 2017 and 2018 led to stable residual values in 2018 and 2019. Even with overall market improvements in 2018 and 2019, the values of individual jets varied, particularly heavy jets in late 2019. This period of stability follows a period of decline between 2015 and 2017, led by relatively lower transaction levels and weak demand outside North America. In 2020, the year started off with modest declines in value. It is unlikely the early declines were the result of COVID-19, as the virus did not cause major disruptions until late in the quarter. Instead, the value declines were likely routine fluctuations normally seen from quarter to quarter as a result of multiple factors and patterns. There is not enough data to assess the impact of COVID-19 on business jet valuations quite yet.

Conclusion

Following the official declaration of COVID-19 as a global pandemic on March 11 and the ensuing social distancing measures, the business jet market was forced into a hiatus. As a result, in Q1 2020 flight operations were down 9.7 percent year-over-year, OEM new deliveries dropped, and new and pre-owned transactions were down 6.7 percent by unit volume and 16.4 percent by dollar volume versus the same period last year.

Going forward, forecasting deliveries and transactions will be difficult due to the uncertainty surrounding the virus. As a result, some analysts are suggesting using a number of scenarios to forecast production rather than relying on a single model. For example, Rollie Vincent of JetNet iQ is using four such scenarios in his JetNet iQ Pulse newsletter with production forecasts ranging from 377 to 630 aircraft versus a Q4 2019 forecast of 730.

Many have compared the current situation to the financial crisis in 2008. There are few similarities, however. The current situation was caused by a virus rather than widespread failures in the financial system. Furthermore, swift government intervention combined with a healthy banking sector heading into the crisis has avoided significant capital markets disruption. Within the business jet industry, OEM production has been reduced, which should help protect backlog and aircraft values.

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Global Jet Capital Recent Transactions

Global Jet Capital is a leader in the business jet financing market, providing leases and loans for both new and used aircraft. Our customers are diverse but all value flexible financing solutions for their aircraft. Below is a brief overview of a few transactions that Global Jet Capital facilitated over the previous quarter.

\ Bombardier

Model	New/Pre-Owned	Region	Financial Product(s)
Global 6000	Pre-Owned	North America	Loan

An existing customer's mission profile changed, and the corporate client needed to upgrade aircraft. Global Jet Capital worked with the client and their broker to list the current aircraft for sale and acquire a larger aircraft to meet their operational needs. Global Jet Capital's competitive LTV structure allowed the customer to invest capital in their growing business.

\ Gulfstream

Model	New/Pre-Owned	Region	Financial Product(s)
G650	Pre-Owned	North America	Operating Lease

Global Jet Capital provided an operating lease to a new customer who upgraded their aircraft. This Latin America-based UHNWI chose Global Jet Capital due to our structuring expertise and ease of doing business.

\ Dassault

Model	New/Pre-Owned	Region	Financial Product(s)
Falcon 2000LX	Pre-Owned	North America	Upgrade Financing

Global Jet Capital financed significant technology upgrades to the customer's aircraft. This enabled the customer to retain the aircraft in a cost-efficient manner while their mission profile is evolving.

\ Bombardier

Model	New/Pre-Owned	Region	Financial Product(s)
Global 7500	New	Asia Pacific	PDP Financing

Global Jet Capital provided pre-delivery payment financing for a new corporate client, allowing the client to redeploy capital back into their core business. At the time of delivery, the PDP financing will convert into a finance lease, demonstrating Global Jet Capital's commitment to providing pre-and-post-delivery financing solutions.

[i] U.S. FAA
[ii] Reuters
[iii] Company financial reports. Since not all OEMs have reported results at the time of publication, Q4 results are used in this report.
[iv] JetNet iQ Pulse, "Issue 1 – The Rules Of The Game Have Changed". April 7, 2020.
[v] JetNet and Global Jet Capital Analysis
[vi] Amstat and Global Jet Capital Analysis
[vii] JetNet and Global Jet Capital analysis
[viii] JetNet and Global Jet Capital analysis. Units are in parentheses
[ix] WHO
[x] Aircraft Bluebook and Global Jet Capital analysis

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Current Available Aircraft Inventory

2015 Challenger 350 s/n 20588

- CPDLC / FANS-1A / ADS-B Out V2 / TCAS 7.1
- Forward Galley with 9 passenger configuration
- Low time
- Engine and APU maintenance programs

Global Jet Capital is pleased to offer this 2015 Challenger 350 for lease or sale. The engines and APU are fully enrolled in the Honeywell MSP program. The 9 Passenger cabin configuration features neutral soft goods with dark hardwood finishes and is excellent condition. The original exterior paint features a traditional white with gold stripe pattern. This low time aircraft represents an exceptional value in the marketplace.

2006 Gulfstream G550 s/n 5130

- Compliant with 2020 US equipment mandates
- Forward galley and crew-rest area
- 16 passenger configuration
- WAAS/LPV, CPDLC, FANS-1A equipped

Global Jet Capital is pleased to offer this exceptional Gulfstream G550 for lease or sale. This aircraft is fully compliant with FAA 2020 mandates including ADS-B Out as well as WAAS/LPV, FANS 1/A and CPDLC. With passenger seating for 16, the well appointed cabin includes an Imarsat phone. This well equipped airplane represents an excellent value in the G550 market place.

2004 Gulfstream G200 s/n 0097

- Compliant with 2020 US equipment mandates
- Forward Galley with 9 passenger configuration
- New paint in late 2016
- Engine and APU maintenance programs

Global Jet Capital is pleased to offer this exceptional Gulfstream G200 for sale. The fully integrated Collins equipped flight deck is equipped with ADS-B Out. The interior is tastefully appointed in rich earth tones with medium wood accents. The exterior is in excellent condition and both the engines and the APU are enrolled in Honeywell's MSP program.

2008 Lear 45XR s/n 0359

- Compliant with 2020 US equipment mandates
- Forward Galley with 9 passenger configuration
- Hi-Speed WiFi
- Engines on MSP Gold

Global Jet Capital is pleased to offer this exceptional 2008 Lear 45XR for sale. The flight deck features the Honeywell Primus 1000 integrated avionics package that has been upgraded with ADS-B Out, while the beautiful and clean interior is appointed with a forward galley, beige leather seating, accented with taupe carpet and medium wood accents. In addition, the cabin features WiFi and telephone connectivity. The engines are enrolled in Honeywell's MSP Gold engine maintenance program.

View Available Aircraft and Detailed Specs ›

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