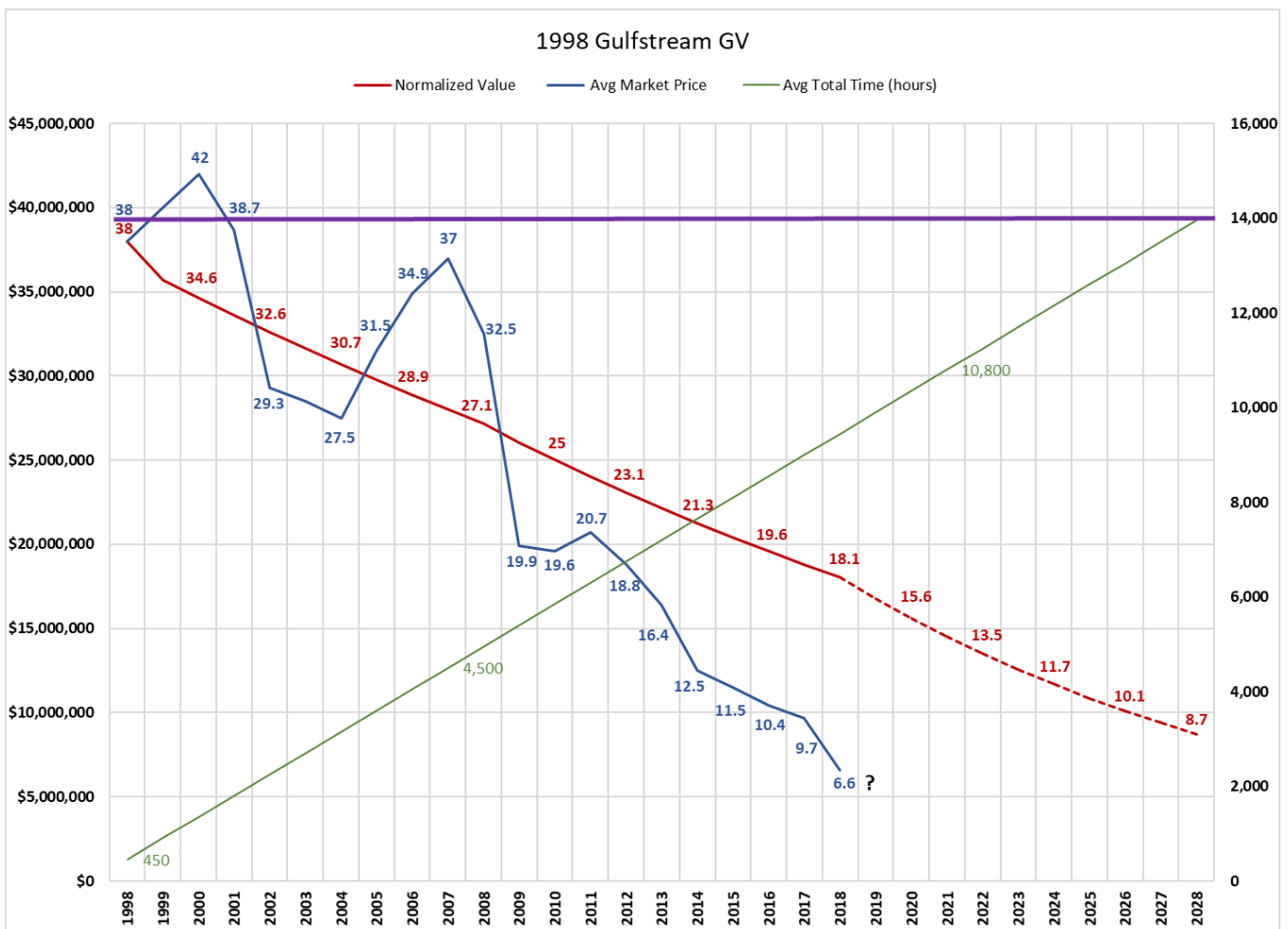


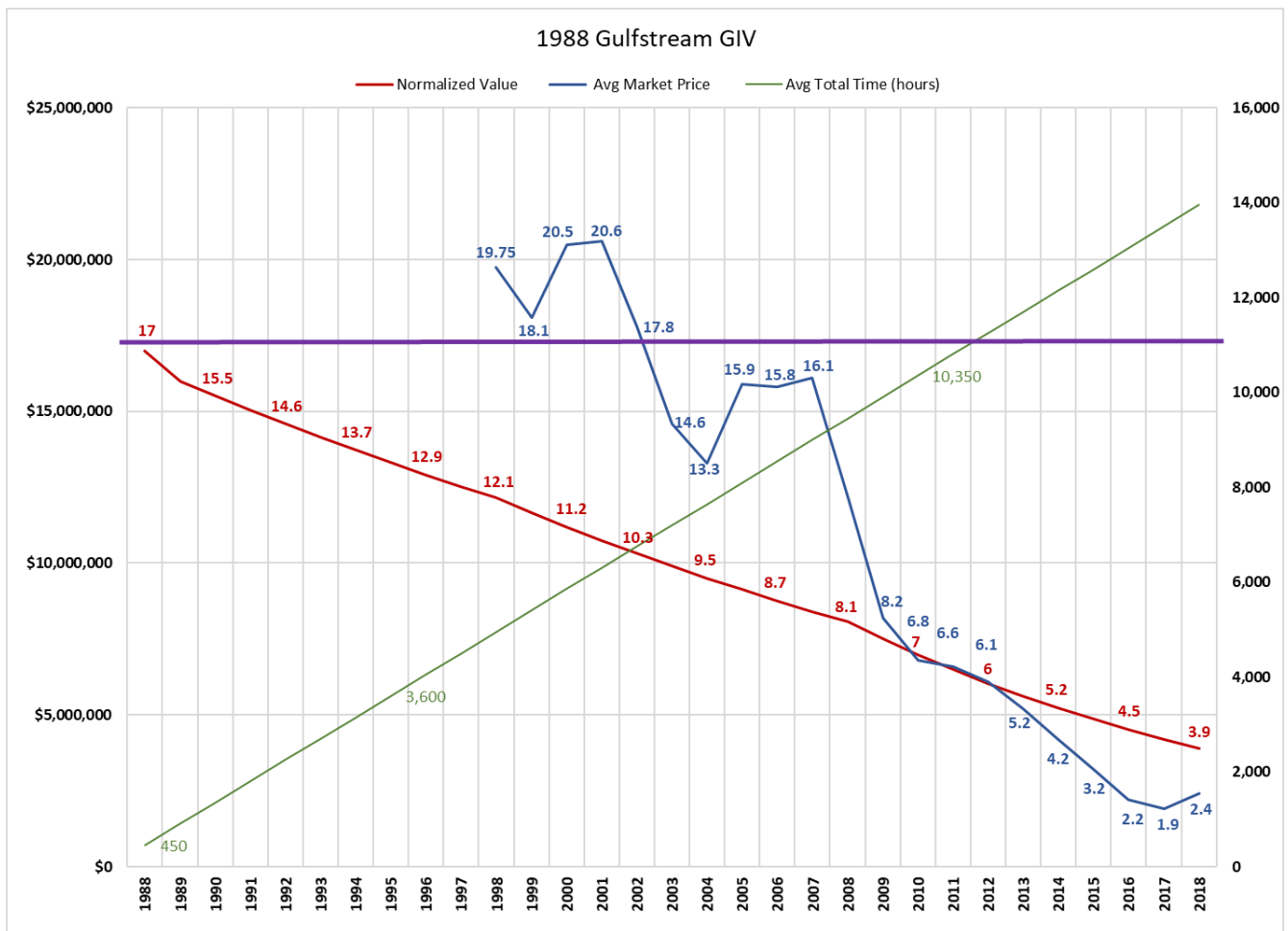
There has been much talk over the last few months regarding YOY (2017-2018) price *increases* and low inventory levels in the preowned business jet market. To preface, we should first revert to the state of our industry over the last 10 years where our preowned markets experienced an unprecedented increase in selling prices from 2005 – 2008, in most cases exceeding the original cost new. As is the case with many market dynamics the old adage of ‘what goes up must come down’ applied in the business jet sector as evidenced by the post-recession decline in selling prices.

Historically business jets have gradually depreciated over a 30-year life cycle until reaching a point of economic and/or technological obsolescence, which would then translate into salvage value (aka sum of the parts), usually ~15% of its original cost new. Due to the accelerated market depreciation experienced over the last 10 years, that paradigm has transformed a 30-year asset to a 25 year.

An uptick in pricing is not foreign to our industry, as it seems to follow ‘economic bubbles’. More specifically, if we take the case of a 1998 Gulfstream GV with an average price point new of ~\$38M. Historically we could calculate a service life of 30 years and apply age-based depreciation of approximately 6% per year which would take us to salvage value (aka ‘sum of the parts’) or ~\$8M. This formula seemed to work well up until 1999 when the dot com fervor created overnight fortunes and these same people purchased business jets. Unfortunately, supply did not meet demand which in turn sent preowned pricing to historically high price points. As was evidenced in one particular case (see graph), the 1998 GV that should have sold for 34.6M under ‘normal’ conditions, was selling for \$42M in 2000, or \$4M over the original cost new!



Regardless of make/model (M/M), the same dynamic applied to the majority of business jets as evidenced by a 1988 Gulfstream GIV (see graph). However, when the 'dot com bubble' burst in 2001 preowned market inventory increased, resulting in extreme price drops. This downward trend continued until 2004 when once again there was an economic uptick. In this case mortgage standards declined and loans were made far beyond the actual value of the mortgage. Due to the easy credit conditions, business jets followed suit and loans were made, in many cases for 25/35% more than they would sell for under 'normal' market conditions. By 2007/2008 the economy collapsed, the 'great recession' began and in its aftershock the business jet market crashed once again.



Over the ensuing 5 years we were seeing an average 10% market depreciation per year until 2016 when the annualized rate accelerated to ~30%. As a result, from 2016-2017 inventories increased, market prices declined and in most cases the price drops were significant. To better illustrate a 2000 vintage Global Express sold for 24.25M in 2012, 9.6M in 2016, then 9M in 2017. There does not seem to be a corollary between pricing and inventory levels as there were 28 available aircraft in 2012, 25 in 2016 and 28 in 2017.

To put the overall markets into perspective with regard to price increase or decrease or lower inventories, we've arbitrarily selected a YOM for 22 M/Ms and depicted the average selling price YOY to better reflect the state of the market. As can be seen aircraft in the small jet category do not seem to be affected (+/-) from a price perspective although all in that category seem to have a YOY increase of 1% and/or \$100K. The Hawker 800XP / G150 / Lear 60 / Citation Sovereign category are, in sharp contrast, showing YOY declines in price (3-30%) and in most cases, inventories are flat or increasing slightly. For the majority of aircraft in the super midsize category, prices are up on average 5% and inventory levels are down YOY. In the large (long-range) jet category YOY inventory levels have stayed fairly constant whereas pricing is down an average of 7% from 2017 to YTD 2018.

	2016	2017	2018 YTD	YOY % Change
2012 Citation CJ4				
Total CJ4s On Market	19	40	27	1%
Total 2012 YOM Sold	2	4	2	
Average Sale Price	6.6	6.0	6.1	
2014 Lear 75				
Total L75s On Market	4	14	8	1%
Total 2014 YOM Sold	0	2	2	
Average Sale Price		6.1	6.2	
2012 Embraer Phenom 300				
Total PH300s On Market	4	14	8	1%
Total 2012 YOM Sold	0	6	4	
Average Sale Price		5.9	6	
2008 Lear 45XR				
Total L45XRs On Market	25	21	19	0%
Total 2008 YOM Sold	4	5	2	
Average Sale Price (M)	3.45	3.4	3.4	
2009 Citation XLS+				
Total CXLS+ On Market	8	10	11	-14%
Total 2009 YOM Sold	1	3	2	
Average Sale Price	6.0	5.6	4.8	
2000 Lear 60				
Total L60s On Market	71	71	61	0%
Total 2000 YOM Sold	5	3	3	
Average Sale Price	1.8	1.5	1.5	
2008 Lear 60XR				
Total L60XRs On Market	24	26	22	-3%
Total 2008 YOM Sold	4	4	2	
Average Sale Price (M)	3.2	3.4	3.3	

	2016	2017	2018 YTD	YOY % Change
2008 Gulfstream G150				
Total G150s On Market	22	16	21	-7%
Total 2008 YOM Sold	6	3	2	
Average Sale Price (M)	5.5	5.4	5.0	
2000 Hawker 800XP				
Total H800XPs On Market	96	103	86	-30%
Total 2000 YOM Sold	6	3	2	
Average Sale Price (M)	1.9	1.85	1.3	
2008 Citation Sovereign				
Total CSOVs On Market	45	56	48	-3%
Total 2008 YOM Sold	3	7	6	
Average Sale Price (M)	7.4	6.2	6.0	
2000 Citation X				
Total CXs On Market	52	75	53	0%
Total 2000 YOM Sold	2	2	2	
Average Sale Price	3.5	3.2	3.2	
2015 Citation Sovereign+				
Total CSOV+ On Market	8	10	11	-12%
Total 2015 YOM Sold		2	1	
Average Sale Price		12.9	11.4	
2010 Challenger 300				
Total CL300s On Market	80	76	52	4%
Total 2010 YOM Sold	2	5	4	
Average Sale Price (M)	11.0	10.1	10.5	
2014 Gulfstream G280				
Total G280s On Market	10	7	6	-5%
Total 2014 YOM Sold	2	2	3	
Average Sale Price	17.4	16.9	16.1	
2008 Falcon 2000 EASy				
Total F2000 EASy On Market	47	57	31	3%
Total 2008 YOM Sold	2	6	3	
Average Sale Price	14.9	12.0	12.3	
2009 Challenger 605				
Total CL605s On Market	54	53	31	13%
Total 2009 YOM Sold	2	4	3	
Average Sale Price (M)	11.9	8.8	9.9	

	2016	2017	2018 YTD	YOY % Change
2008 Gulfstream G450				
Total G450s On Market	62	63	44	
Total 2008 YOM Sold	9	6	2	
Average Sale Price (M)	14.1	12.3	12.1	
2004 Global 5000				
Total 5000s on Market	35	33	26	
Total 2004 YOM Sold	9	6	2	
Average Sale Price		11.5	9.1	
2000 Gulfstream GV				
Total GVs on Market	27	30	30	
Total Sold	4	3	6	
Average Sale Price	10.9	9.8	9.2	
2000 Global Express				
Total GEXs on Market	25	28	28	
Total 2000 YOM Sold	2	5	2	
Average Sale Price	9.6	9.0	9.1	
2008 Gulfstream G550				
Total G550s On Market	72	74	47	
Total 2008 YOM Sold	5	2	2	
Average Sale Price (M)	21.6	19.6	19.3	
2012 Global 6000				
Total 6000s On Market	25	21	19	
Total 2012 YOM Sold	1	2	2	
Average Sale Price (M)	35.5	31.5	28.5	

Where will our markets go in the 4th Quarter of 2018 is anyone's guess. However, if some of the economic data we're seeing (suggesting a recession in 2019) comes to fruition, we could see some major market movements.