



Embraer Legacy Market Update

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Compliments of:

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Legacy Market Update

The Legacy has been one of the few airplanes to resist the recent market slowdown. As the world economy began its slowdown and airplane premiums reached an all time high, many owners tried to capitalize on the unprecedented market for newer aircraft and sell their asset to take their profit. For most types, the result has been a large number of aircraft for sale leading to a gradual price decline. Pre-owned Challenger 604s, Gulfstream IVs, Gulfstream GIVSPs, Global Express and XRS aircraft have all experienced this. The Legacy is far different. There are fewer aircraft available now than in the last eight months and prices are firm. The Legacy has not seen the recent price drop of the overall market, largely because it never witnessed the huge premiums that other aircraft experienced. But demand for Legacys is strong, especially in Europe. JAR OPS aircraft outsell US registered aircraft by a factor of 2. Most of the available US airplanes are selling to Europe and the Middle East, even given the truly onerous JAR OPS conversion service bulletin that Embraer mandates. As an example, the average US registered aircraft in on the market for 6 months prior to sale. For JAR OPS aircraft, that time is about 6 to 8 weeks.

*What is a Legacy? A private jet with the performance of a Gulfstream III;
a cabin the size of a Gulfstream V,
but 50% lower operating cost and about a \$20 million lower capital cost.*

Issue for the month: The Pros and Cons of Embraer Executive Care (formerly Total Legacy Care)

I am often asked by our customers if they should buy an aircraft enrolled on Embraer Executive Care. It always raises an interesting discussion about its coverage, its cost, and if it meets the specific needs of that company. Having owned a Legacy in inventory and had the pleasure of operating it around the world for 100 hours, I am personally a great believer in the program. But it might not be right for many operators, and despite its benefits, there are a few drawbacks.

The most obvious benefit of Executive Care is that it gives the operator a firm fixed budget to account for nearly all maintenance of the aircraft. Embraer bears the risk of an expensive part failure, while the operator's only obligation is to ensure that their hourly usage payments are current. This becomes ideal for operators who have a fixed annual budget and cannot afford the cost overruns that airplanes often create. We also highly recommend this program for those who have had a bad experience with unexpected maintenance in the past. One of our customers owned an old Gulfstream, and having been through the surprise million dollar inspection, was extremely wary of aircraft maintenance bills. He found that Executive Care removed the fear of the unknown, and allowed him to operate freely and on a fixed budget. It made the airplane an asset, instead of the hassle his previous aircraft had become.

The downside of Executive Care is it requires you to perform the maintenance at an Embraer Service Facility. For most operators, this requires an additional flight to get to the facility. For those in more remote locations, this entails a multiple hour flight, and therefore increased costs. In an attempt to overcome this problem, Embraer does offer lower coverage

levels that enable an operator's mechanics to perform their own light maintenance and still have Embraer supplied parts. This, however, takes additional time during the inspection while you are waiting for parts shipment. Secondly, Executive Care does not cover corrosion. This is one of the unknowns that most operators want protection against, and sadly, the program does not cover it. This is the largest shortcoming of the program, and it is the one maintenance risk an operator will face. However, the largest drawback of Executive Care is the increased cost. This is a program that is organized to be profitable, and as such, it is more expensive than accomplishing your own maintenance. Executive Care is an insurance program, designed to protect the owner/operator from the huge downside that accompanies an unforeseen failure. For those who are willing to pay a slight premium per hour, it is a fantastic program. For those who operate a Legacy to produce revenue, the extra cost will usually preclude them from enrollment.

What is often overlooked regarding Executive Care is the resale implication. Having sold Legacys enrolled on the program, I have noticed that most buyers are unfamiliar with its capabilities. As there are no other manufacturers offering such a maintenance system, buyers are not familiar with programs with such extensive capabilities. I spend much of my time explaining the program to customers. It takes a few conversations before the concept is fully understood. However, once the buyer understands exactly what is covered, their interest level usually greatly increases. There is a perception that an aircraft on the program has a better maintenance history, largely because it has always been completed at Embraer facilities by Embraer mechanics with Embraer supplied parts. As such, aircraft enrolled on the program will sell for a slightly higher value than those not enrolled. Most importantly, aircraft enrolled on the program will sell faster than those not enrolled. In aircraft transactions, an aircraft's maintenance status is one of the single largest issues that will determine the difference between a successful transaction and an unsuccessful one. Both parties are concerned about whose side will be responsible for what expenses, and inevitably, the buyer wants the next upcoming large inspection to be completed. Having Executive Care makes maintenance Embraer's responsibility, and usually negates the need for early inspections and the time consuming and potentially disastrous negotiations involved with maintenance. Removing that additional step in the sales process makes the transaction far easier for both parties and results in a faster sale.

If you owned a Gulfstream V and flew it for 400 hours per year,
you would fly 195,200 nautical miles
and you would burn 201,200 gallons of fuel.

For that same amount of fuel you can fly your Legacy 600
575 flight hours and cover about 257,000 nautical miles.
So, where did you go with those free 61,800 miles?
Send us a note about the best way to use the free miles...

Currently Available Legacy 600s

As of April 29, there are four airplanes advertised for sale. However, of those aircraft, one is already under contract, and the other is not aggressively marketing their aircraft. Asking prices range from 20 million USD for a high time 2004 model to 26.2 million USD for an extremely low time, late 2007 model.



Serial Number 775 and 1021

Royce Corporate Care and Total Legacy Care, and its asking price is \$20.5 million US Dollars. As a comparison, serial number 1021 is a December 2007 delivery with 300 hours total time, and it is also enrolled on the engine and airframe programs. It has a price of \$26.2 million US Dollars.

The two aircraft that are readily available for delivery are serial number 775 and serial number 1021. Both aircraft are from the United States based Flight Options fractional program and are cosmetically identical. Flight Options has sold the majority of their fleet in the last eight months due to changes in their program. The largest difference though is their time. Serial number 775, with 4,500 hours, is one of the highest time aircraft in the fleet. It is enrolled on Rolls

About Business Air International

Business Air International is involved in the acquisition, sale and brokerage of private jets throughout the world. Personnel in the department have extensive private jet experience and typically do approximately two dozen transactions each year, most of which involve trans-border and cross-border transactions. Business Air International is one of the few aviation professionals who has the capability of purchasing inventory for resale and the structure to buy, hold and resell aircraft strictly within wholly owned European entities. They are expert in the execution of contracts and aeronautical documentation regarding EASA, JAR-Ops, International Registry, FAA and individual country registration and certification. Such knowledge and experience results in smooth, efficient, and successful transactions for clients.



Embraer is fulfilling its April 2005 promise "to invest heavily in business aviation," with the formal launch of two new midsize jets that fit between the Phenom 300 and Legacy 600. The still-un-named jets, introduced as concepts at last year's NBAA Convention are for now called midsize jets (MSJ). Embraer's board of directors approved formal launch of the two-jet program on March 28.

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