



Embraer Market Newsletter

4th Quarter 2009

Compliments of:

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Embraer Market Overview

What a difference a few months have made! Activity and interest are again returning to the Embraer markets for the Legacy 600, the Lineage 1000 and Phenom 100. A number of transactions are underway, as buyers interest increases and realistic sellers are finally recognizing the pricing expectations of the market. In the Legacy 600 market, two aircraft are under contract. One is a mid-2009 model, with about 100 hours total time, under contract for just under \$20 million. The other is a 2005 model, with about 2400 hours, under contract for just under \$15 million. These two sales mark a substantial increase in activity levels, and show that there are some savvy buyers and educated sellers getting together. Embraer reports they sold one of their Lineage 1000s to a Middle Eastern customer during the Dubai Airshow, due largely to the impressive ramp presence and cabin size that the purchaser instantly loved. We toured it ourselves and were equally impressed. Finally, Phenom 100s have continued their impressive market activity, with numerous sales throughout the world. Their popularity is both a testament to the design and market niche.

Issue for the letter: The Legacy 650

At this year's NBAA convention in Orlando, Florida, Embraer announced the development of its latest aircraft: the Legacy 650. Designed as a longer range version of the Legacy 600, it was built with the express purpose of overcoming one of the most commonly cited, albeit rare, shortcomings of the Legacy 600: range. With a range of 3,900 nautical miles, it will connect London and New York, as well as Dubai and London in either direction. Importantly, it will put the Legacy 650 into direct competition with Dassault Falcon's 2000LX, and Bombardier's Challenger 605, offering comparable range, lower operating costs, and an additional entire cabin section. The 650 has an impressive list of attributes that make this an exceptional aircraft.

The Legacy 650 is priced at \$29.950 million, as compared to \$27 million for the Model 600. What does the introduction mean for the future of the Legacy 600, and importantly, the current Legacy 600s? While at the Dubai Airshow in mid-November, we meet with the Embraer Executive Jets' management team which gave us the chance to ask a few questions, and get their insight into the future of the Legacy 600, as well as some of the improvements the 650 will bring to the 600.

Our most pressing question was concerning the future of the Legacy 600. Now that the 650 will be produced and sold within 10% of the price of the 600, does this signal a de facto beginning to an end of the 600? Luis Carlos Affonso, the Executive Vice President of the Executive Jets program, made it very clear that there is no intention to shut down production of the Legacy 600. These aircraft will be produced as a complement to each other, each offering a unique capability that serves its own market. Throughout their marketing research in launching the 650, they found that there are a number of people who do not need the additional 600 miles of range, and for whom, the Legacy 600 offers a perfect combination of price, operating cost and range. On the other side, there are a number of customers for whom the increased range will allow a connection of city pairs that are vital for their business operations. Embraer did not want to force their prospective purchasers with shorter range requirements to pay more money for a capability that they did not need, and so decided to keep the production line open for the 600s. They believe that it is the customer who should

select the product that best suits their profile and financial position, and not Embraer who will force the customer to suit their needs.

Interestingly, many of the changes that are making the 650 so capable are also going to be incorporated into the Legacy 600. Of particular importance is the newer flight deck, the Honeywell Primus Elite system. From the middle of 2010, the much improved flight deck will be installed and delivered in the 600, giving the aircraft a much needed avionics upgrade to keep it comparable with other competing private jets. Importantly, this signals Embraer's commitment to keeping production open on the 600. We have seen time and time again that the introduction of a new model precipitates the closing of its predecessor. This does not appear to be Embraer's intention with the 600/650 line. This will likely have a beneficial impact upon the resale value. Typically in the business jet world, the end of a production run switches market demand to the new model. Less demand for the previous model means residual values decrease. This does not appear to be in the immediate future with Embraer.

The most apparent change you will notice on the Legacy 650 will be the improved and upgraded motors. The Rolls Royce Allison A3007-A2 motors are to be installed on the 650. This is, in essence, an A3007-A1E (Legacy 600 motors) with a new fan blade. With increased thrust and reduced fuel consumption, they are a vital component of the range increase. Despite the increased weight of additional fuel, initial Embraer figures show that long range trips will experience a modest fuel savings, a testament to the motor's efficiency. The additional fuel tanks, and subsequent weight increase, are the main adaption to the 600 in creating the 650. The new fuel tanks are located just aft of the wing in the lower fuselage. To allow for the weight of the fuel, a new wing structure and a reinforced landing gear were installed. Maximum take off weight has increased to 53,572 pounds from 49,604 pounds, and impressively, the full fuel payload has also increased, to 1,715 pounds from 1,506 pounds.

So, this marks an important decision for current Model 600 owners. First, it shows the maturation of Embraer as a manufacturer. Having first entered the private jet market in 2002, they have since vaulted into the majors, announcing a total of five new aircraft in three years. But this marks an interesting point in their life as a private jet designer and builder: they are now focusing on improving the existing fleet as well as new projects, a clear signal that their quest for market share has turned a new corner as they have already penetrated various market segments. And it shows their determination to meet the needs of their existing customers, versus the desire to merely 'up sell' into a newer model by keeping the existing one intentionally dated. Finally, it proves that Embraer has managed to remain focused on the most important element of their company ---its customer---even while committing to produce five new airframes. And, as an Embraer customer, this should be the most important item of all to you.

Embraer Market Movers

Legacy 600s

Since the last newsletter, two aircraft have once again reset the marketplace. The first of which is S/N 1025, a 2007 model with 900 hours that has reduced their price an additional one million, to a new total of \$17.6 million. With EASA specification, a forward crew lavatory and aft passenger



lavatory, and high speed internet, it continues to be the value leader in the late model market.

Of the earlier model aircraft, S/N 775 has set the bar as the new low cost leader. A 6,200 hour 2004 model aircraft with a forward lavatory, they reduced their asking price from \$13.7 million to \$10.5 million, making this the lowest priced Legacy. Driven by an end of year tax event, it becomes the lowest cost entry yet for ownership of a Legacy.



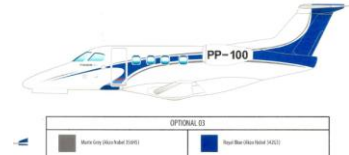
Lineage 1000



Embraer recently announced the sale of their second Lineage 1000 to a Middle Eastern customer. The aircraft, used as a demonstrator, has greatly increased Embraer's presence in the large cabin market, and it has been a tremendous benefit for their marketing presence. They recently announced a price increase to \$48.95 million in June 2010 economic conditions.

Phenom 100

With a number of recent sales, this market has held up well throughout the recession. One of the first EASA aircraft, delivering in November 2009, has come to the market. The owner is asking for \$3.25 million, inclusive of all escalators and options. It marks one of the few EASA aircraft to be sold at a figure that represents no premium to the owner. It will arrive in the UK in early December and can be delivered immediately.



About Business Air International

BAI is a global private jet acquisition and sales dealer. While we make markets in everything from a Citation I to Gulfstream 550, we particularly focus on Embraer's Legacy, Lineage and Phenom aircraft. We think their combination of size, performance and price are outstanding values.

Our principal business is the confidential acquisition of private jets, with the majority being organizations outside North America. Our proprietary market analyses enable us to clearly demonstrate to our clients that by the selection of the correct model, total ownership costs will be reduced by \$2+ million.

We would welcome the opportunity of working with your organization and look forward to communicating with you further.

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