



Embraer Market Newsletter

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Compliments of:

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General Market Update

The first half of the year has been a powerful one in the new, large cabin aircraft. Inventory levels have dropped dramatically as buyers have rushed in to capitalize on low prices. In markets with such a limited supply, a slight difference in inventory can result in sometime dramatic inverse price moves. We have seen few, if any, price increases thus far, but there has been a noticeable firming of prices in the late model, long range segment.

The mid cabins are not quite as fortunate. With supply levels still above the levels in January 2009, the resurgence seen in the large cabin has still yet to gain as much traction. Certain markets have done well, such as the Citation XLS, but others continue to languish, such as the 800XP. Across most models, pricing declines are still in occurrence.

The small cabins are somewhere between the success of the large and the frustration of the mid cabin units. A new normal has started to develop in the newer small cabins, with newer age aircraft becoming a healthy market place, while older units continue to stagnate. In general terms, the marketplace has found a happy medium in pricing for some of the new units (CJ3s for example), but prices are still too high for many of the classic models, such as the Citation II. Some further correction in the older aircraft is in store.

Issue for the Letter:

CJ4 vs the Phenom 300: the implications behind the new welterweight competitors



VS



Cessna's Citation Jet 4 and Embraer's Phenom 300 have become two of the most widely discussed and reviewed new aircraft in recent years. The analysis of both has been extremely positive in all regards, from interior completion, passenger amenities and daily interface to performance and flight characteristics. However, there is another side of the introduction of these two aircraft that has yet to receive a great amount of attention. Cessna and Embraer are squaring off in a very intense competition to win this segment of the market. At stake is nothing less than several hundred million dollars and leading market share of a lucrative segment of long term customers who have the greatest proclivity to move up the product line to larger and larger aircraft.

Embraer's Phenom 300 was designed to provide a large cabin for up to seven people to travel just over 1,900 miles. Focusing on passenger usability, they included one of the largest baggage compartments in its class, all while maintaining low operating costs. Their mission: to provide a longer range, faster, more comfortable aircraft than the competitors for a lower operating cost.

Not to be outdone, Cessna promptly announced the CJ4, designed to take more passengers with greater load on longer missions than its hugely successful CJ3. Both aircraft were squared off against each other, each targeting a virtually identical price point, mission profile and target market.

Make no mistake; both aircraft are exceptional machines, each exceeding their design specifications and receiving tremendous welcome with their customers. As their development stages progressed from paper to metal and finally towards certification, serendipity had them racing to the final government acceptance at a virtually even pace. What emerged was a de facto neck and neck surge, each trying to outdo the other. Embraer announced a range increase of over 5% to the original design specification, meeting or beating virtually every operating parameter they promised their customers. Cessna announced similar performance enhancements, bringing the competitors to within miles of each other's offering. Very clearly, they had set their sights on one another and were determined to not be outdone.

Without going into separate flight reviews of each aircraft (copious amounts of material are available on both), we were more interested in the long term implications for both companies. What are the messages beneath the hype of each aircraft, and what do these signal to the consumer about each company's long term goals?

For Embraer, this is a major feather in their cap. Having certified and delivered the light jet Phenom 100 barely a year prior, the Phenom 300 marks its second new aircraft in a year. Most importantly, this makes Embraer a true market player. Long a company whose fortune was made on the successful Legacy 600, this vaults them into the major manufacturer category. Their sights are clearly set on being a company who can bring a buyer in for their first aircraft and remain within the family through the ultra large cabin segment. Embraer is the only company that can offer this. Cessna, Hawker, Dassault, Gulfstream and Bombardier all had segments they ignored. They focused on carving out their niche and avoided too much direct competition in segments where they did not typically focus. For competing manufacturers, this should serve as a stark wakeup call that Embraer is a serious contender at their door. With over 150 Phenom 100s already delivered, and well over 200 Phenom 300s ordered so far, Embraer has received full market acceptance at this point and has been rewarded with a now complete market identity. Within a few intense years, the market's understanding of Embraer has come from outsider to significant competitor.



Phenom 300 Interior

For Cessna, the implications are more direct, although they do hold an enviable position of having to defend their status as opposed to winning it. The market leader in the light jet category, they are known for a fierce customer loyalty, tremendous service, and aircraft that not only surpass expectations, but do so reliably and efficiently. However, Cessna's bread and butter, and to a lesser extent its market identity, is the light jet category. Every order that Embraer books in its Phenom line is one less order for Cessna. While in the short term Cessna's existence is under no threat, in the long term, there is a significant threat. Cessna understands that standing idly by would allow a foot in the door to its own market, one that may never be closed. Given Cessna's reaction, they showed the market they have no intent of giving up their title without an enormous fight.



CJ4 Interior

Both manufacturers understand that the market segment occupied by the Phenom 300 / CJ4 is the leading entry into the more lucrative mid size and larger segments. Having a solid presence in the field opens the door to a number of future possibilities and sales. Missing the first step makes it exponentially harder to move up the chain to the bigger cabin aircraft. What they are both after is not just market share, but long term customers and eventual market superiority.

So for those reading this opinion, what does this mean? Greater competition, better products, and better prices. New technology abounds in these aircraft, a wonderful development for the consumer in an industry where innovation is often cost prohibitive and status quo can last for decades. In the quest for sales, both companies have made their products as cutting edge as possible, both in design and in equipment. Both are at a pricing point that offers great value in comparison to other aircraft in the segment. So who do you choose? It is a highly subjective question with two different answers arrived at in hundreds of different ways.

Watch this race closely. It will be a fascinating one.

Embraer Market updates

Phenom 100

There is a large, and growing, supply of available inventory in this marketplace. As of this writing, approximately 20 aircraft are on the market, with an additional 15 delivery positions available for sale. Pricing for many of the already delivered 2009 model aircraft has dropped beneath the 3 million dollar level, with a few very early serial numbers trading in the 2.8-2.9 million range. Price drops have been initiated by the privately owned delivery positions. There are a number of slots that are for sale that the owners are trying to sell prior to delivery. Competition amongst them has kept pricing of these units so far in the 3.1-3.3 three million dollar range, depending upon outfit and options.

Phenom 300

It is still a little hard to tell about this market. With a limited number of deliveries, this pre-owned market has yet to define itself. Once a few delivered aircraft are delivered and up for sale, a much more indicative view of the market's overall opinion will emerge. However, one salient difference is that there are far fewer 300 delivery positions for sale than in the 100 market, a positive sign that bodes well for this aircraft.

Legacy 600

The Legacy 600 market is showing remarkable signs of life. The last 6 months or so witnessed 5 Legacy transactions. Mostly focused on the later model aircraft (2007-2008), buying has been rapid as purchasers hurry to lock in recessionary pricing. One item of caution for the Legacy owners: demand has not yet been strong enough to merit price increases. A number of aircraft have come on the market in recent days with prices that are pushing the upper boundary of where the market has been recently. So far, these have been passed by. Given the inventory available, this is still a buyers market, so if selling is a necessity, take a realistic approach to pricing. For buyers out there, the better deals are disappearing, so if you are going to purchase, do so quickly.

About Business Air International

BAI is one of the only pre-owned aircraft dealers in the world to specialize in Embraer products. Keeping a close track on market trends, they provide clients with up to date information to enable them to come to commercial decision that suit their needs at the time. With its main focus on the brokerage of private Embraer aircraft, BAI has extensive experience with multinational transactions of all types, with international, ex-United States deals accounting for 75% of its annual business. BAI is a frequent creator of monthly video market updates, available on its website at www.businessairinternational.com.

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