Gulfstream Quarterly Market Update

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Is the G650 Market Braced for a Hard Landing?

Deutsche Bank's aerospace and defense analyst, Myles Walton, recently downgraded General Dynamics' stock citing "alarming" inventory and sales trends surrounding its Gulfstream business jets. He said the G650 inventory and price trends are "quickly becoming a problem." He went on to note that production has been as much as 20-30% ahead of true demand.

The article's release prompted a buzz in the business aviation community that wasn't a surprise to those of us who have been closely watching the G650 market over the past 12 months. It was less than a year ago when pre-owned G650s demanded a sizable premium, earning several order holders as much as $10M or more from their initial contract price. Demand came primarily from buyers who did not participate in the introductory 2008 lottery.

But how solid is the backlog? In April, 2008 when buyers signed contracts for G650’s, it was before the “Great Recession”. Placing a non-refundable deposit with Gulfstream for a few million dollars appeared to be a safe and smart bet. The first airplanes wouldn’t deliver until late 2012 and for most order holders, their large deposits wouldn’t come due until 2014/2015. Furthermore, Gulfstream increased the base price by nearly 10% for all subsequent orders, so most speculators thought they had some cushion.

The first G650 resale closed in September, 2013. Prices started in the high $60 millions, quickly crept into the low $70’s, and topped out in the mid $70’s in January, 2015. There was little or no supply of aircraft for sale in the secondary market and the manufacturer was the only option due to backlogs of over 3 years. Position holders who no longer needed or wanted their G650’s proceeded with their contractual obligations and took delivery of their airplanes with intent to re-sell them for premiums. It worked for a while until the supply started to increase in mid-2015.

There have been approximately thirty-six G650 resale transactions since 2013 which means that nearly 20% of the current fleet has been re-sold over that time period. With an average of one selling per month, the current supply of 21 aircraft for sale means we have almost a two-year absorption rate.
Today, transaction levels are slowing substantially. Demand has diminished because the majority of the buyers who were frustrated by the wait between 2013 and 2015 have already purchased used G650’s. Today, potential G650 buyers are struggling to sell their existing aircraft, having lost nearly 50% of their value in the past 5 years. In many cases, owners of G650’s intending to keep their aircraft, continue to struggle to sell their older aircraft.

There are 9 Ferry Time Only aircraft currently on the market, none of which have sold since last September. It’s time to acknowledge that buyers no longer need to pay a premium for a new G650 and they don’t need to get in line at the OEM.

Very large deposits come due one year ahead of delivery for original order-holders. If an order-holder is uncertain whether they plan to put the aircraft into service, they will need to make a decision to forfeit their liquidated damages or complete their contractual obligations and face a potentially more competitive re-sale market?

Speculative order-holders look to the strength of the secondary market as a basis to determine whether selling is a viable option. Therefore, with increased market weakness, there’s a good chance that Gulfstream will begin to see a trend of canceled orders. Keep in mind, the majority of G650 order-holders intend to put their aircraft into service. However, 20% of speculators or those who’s financial situation has changed will continue to list their aircraft and bring this market down - thus making it harder for the OEM to sell new positions.

Duetsche Bank estimates that two thirds of the profit in the aerospace segment is coming from G650 deliveries. GD already reduced production for the G550 and G450 models citing weak foreign demand. Although initial demand for the new G500 has been good, the first airplane won’t deliver until 2018. It’s also possible that potential G500 and G600 buyers will be cannibalized by pre-owned G650’s that will sell for less and offer greater cabin size and capability.

General Dynamics routinely avoids the conversation about pre-owned inventories during their quarterly earnings calls but it’s unlikely they can avoid it much longer.

General Dynamics has three options to address the over production of G650’s. 1) They can cut production at the expense of their shareholders but increase values for their customers; 2) they can continue current production rates and flood the market with unwanted aircraft which will drive values down and eventually cannibalize their new product line with used G650’s or 3) they can pray that the Global Economy has a dramatic recovery in the next 24 months.
Gulfstream G650

Current Supply of G650’s in the market: 21

In production: 166
Deals Pending: 0
Net For Sale: 21
% Of Fleet For Sale: 12.5

Available For Sale 24 MO High: 21 - Q1 2016
Available For Sale 24 MO Low: 4 - Q1 2015
Transactions YTD: 1
Transactions Same period 2015: 2

Advertised Price Reductions: 13
Average Price Reduction: -3.84%
Current G650 Ask Price Range: $58.75M - $73M USD (Incl. ER)
Avg. YTD Sales Price (1 Trade): NA
Current G650 Avg. Ask Price: $66.69M USD
% Available w/Fwd Galley: 90
% Equipped w/ Crew Rest Area: 85
% Enrolled on Engine Program: 61

Gulfstream G650 Value/Transaction History

Gulfstream G650 Historical Supply and Transaction Levels

G650 Market Summary

There are 21 used G650/ERs on the market with no deals pending, representing 13.2% of the fleet. 5 of the 21 aircraft for sale are G650ERs, representing 29% of the ER fleet.

The pre-owned G650 supply has increased by 320% since this time last year. The supply of G650’s is much higher than the G550 at 6.8% and even the GV at 7.1%. This segment shifted from a Buyer’s Market to a Seller’s Market in mid 2015 once supply hit 10 aircraft.

Among the 21 Aircraft for Sale, 9 have Ferry Time Only. There has not been a Ferry Time Only G650 to sell since September, 2015. Also of note, 11 of the 21 aircraft for sale were built in 2015. In many cases, owners have been unable to sell their older aircraft and have listed both the G650 and their old aircraft in hopes of reducing their fleet size.

With an average of 1 G650 selling each month, the current supply has a 2 year absorption rate.
Gulfstream G550

Current Supply of G550’s in the market:

- **In production:** 528
- **Deals Pending:** 4
- **Net For Sale:** 32
- **% Of Fleet For Sale:** 6.8

**Available For Sale**
- 24 MO High: 35 - Q1 2016
- 24 MO Low: 23 - March 2015
- Transactions YTD: 11
- Transactions Same period 2015: 13

**Advertised Price Reductions:** 18
- Avg Price Reduction: -6.57%
- Current G550 Ask Price Range: $17.95M - $44.95M USD

**Avg Sale Price Q1 2016**
- $27.16M USD
- Q1 2016 Sale Price Range: $20.5M - $46M USD

**2016 transaction levels are down slightly by 15% compared to this time last year but are up 22% over the previous quarter.** Ask prices continue to deteriorate demonstrated by 18 advertised price reductions accounting for an average price reduction of -6.5%. The G550 market is still trading actively with an average of more than 3 deals per month. Eleven aircraft have gone under contract and closed or are expected to close imminently. Inventory levels have remained stable with a net gain of 1 aircraft added to the market over the previous quarter.

**The G550 market continues to have a healthy balance of supply vs transactions but the market is experiencing accelerated depreciation that is now common in the large cabin segment. G550 sale prices are approaching a sub $20M price point for aircraft on engine programs.** The reason for this decline is often caused by significant price reductions from frustrated sellers of aircraft that have unfavorable interiors, high hours or foreign ownership history and have been on the market for prolonged periods of time. Current buyers have become aware of the depreciation trend and will wait strategically to acquire an aircraft until a “deal comes along”. G550 values have depreciated 23% over the past 36 months but 17.4% depreciation has occurred in the past 12 months.

**G550 Market Summary**

- **% Enrolled on Engine Program:** 80.5%
- **% Equipped with Crew Rest Area:** 61
The G450 market finally saw some activity in Q1 2016 after 2 consecutive quarters of limited transactions. Historically, around five G450’s sell in a quarter. In Q1 2016, there have been 11 transactions. Inventory has remained consistent with the previous quarter as 5 aircraft were added to the market in March, 2016. However with 4 deals pending, we expect supply to drop below previous record highs.

In Q4 2015, inventory jumped to a record 35 aircraft for sale. Many of these new aircraft placed on the market were priced more in-line with current G450 buyer’s expectations. The airplanes that were introduced to the market in late Q4 2015 triggered new pricing expectations. As a result, there were 11 advertised price reductions in Q1 2016, for an average price reduction of 9.0%. The increased number of G450 transactions can be directly attributed to aggressive pricing strategies employed by sellers.

Gulfstream G450 Value/Transaction History  
As of March 31, 2016
There are 14 GV’s advertised with 4 Deals Pending and 2 aircraft for lease only which reduces the net available aircraft for sale to 8. Ask prices currently range from $11.5M for a 1996 vintage with over 6,500 hours and Plane Deck to $15M for a 2002 vintage with 5,000 hours and Rolls Royce Corporate Care.

Q1 2016 has been a very active start to the year with 9 aircraft to close or go deal pending. Once the current round of deals close, the supply will be the lowest in the Gulfstream fleet with only 4% for sale. The recent transactions were prompted by 10 advertised price reductions averaging 8% decline since the beginning of the year.

Recent sale prices have ranged from $5M for an airplane needing Overhauls to $14M for late model aircraft on Corporate Care with good ownership history and decent paint and interior with good avionics.

Now is an ideal time to sell a GV as Supply has shrunk to new lows and demand seems to be strong.
Gulfstream IV-SP Value/Transaction History  As of March 31, 2016

GIV-SP Market Summary

There are currently 43 Gulfstream IV-SP, G300 and G400s for sale on the pre-owned market. Supply has more than doubled in the past 12 months. Current supply represents 12% from a fleet of 339 aircraft built between 1993 and 2004.

Similar to all large cabin pre-owned markets, transactions are being driven by lower prices. Values have dropped 6% over the previous quarter and 16% over the previous year. The late model G400’s are being pushed down by early model G450’s selling in the $11’s and older GIV-SP’s are being pulled down by the older straight GIV models which are capped out at $3.5M. Many potential GIV-SP Buyers are now considering GV’s as alternative purchases for $3-4M more but getting much better capability.
Current Supply of G280’s in the market:

As of March 31, 2016

There are 3 G280s on the market with no deals pending representing 3.5% of the entire fleet of 85 aircraft built between 2012 and 2016.

In the first half of Q1 2016, G280 inventory reached historic levels with 6 aircraft publically advertised on the market. By the end of March 2016, 3 aircraft were withdrawn presumably due to lack of interest and no transactions.

Ask prices currently range from $15.5M for a 2013 vintage with 1,400 hours to $20.995M for a 2014 model with US Fortune 50 ownership pedigree and ferry time only.

There were 5 advertised price reductions in 2016, representing an average ask price reduction of 7.2% as sellers look to distinguish their aircraft from the market and trigger the first pre-owned sale in this segment.
Current Supply of G200’s in the market:

- Available For Sale 24 MO High: 40 - Q1 2016
- Available For Sale 24 MO Low: 25 - Q1 2014
- Net For Sale Transactions YTD: 8
- Net For Sale Transactions Same period 2015: 6
- % Of Fleet For Sale: 16

Number of Price Reductions: 20
Average Price Reduction: 9.16%
Current G200 Ask Price Range: $3.895M - $9M USD
Current G280 Avg. Ask Price: $6.1M USD
Avg Sale Price Q12016: $5.9M USD
Q1 2016 Sale Price Range: $10M - $3.75M USD
% Based in US: 52
Average Days On Market: 270

Gulfstream G200 Value/Transaction History

- Average Days On Market: 270
- % Based in US: 52
- Current G280 Avg. Ask Price: $6.1M USD
- Current G200 Ask Price Range: $3.895M - $9M USD
- Average Price Reduction: 9.16%
- Number of Price Reductions: 20
- Net For Sale Transactions Same period 2015: 6
- Net For Sale Transactions YTD: 8
- Available For Sale 24 MO Low: 25 - Q1 2014
- Available For Sale 24 MO High: 40 - Q1 2016
- % Of Fleet For Sale: 16

G200 Market Summary

There are 40 G200s for sale on the pre-owned market with 4 aircraft currently under contract. Current pre-owned inventory has risen to an all-time high with over 16% of the fleet for sale. Supply increased a net 8 aircraft in the past quarter.

The G200 market is one of the most competitive and active pre-owned markets. There have been 20 price reductions, 12 transactions and 17 aircraft listed for sale since January 1st, 2016 which represents nearly half the current pre-owned inventory. In addition to the 12 retail transactions, there have been at least 6 off market transactions involving former Net Jet Aircraft that typically trade in their own category due to high utilization rates.

Similar to many other Gulfstream markets, transactions have been driven by continued price drops. Book values dropped 6% this quarter. G200s are now worth 13.5% less than this time last year.

The entire G200 market was impacted when a 2002 model dropped their ask price below $4M in February. By the end of March, there were 5 aircraft asking below $4M for models as new as 2004.

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Gulfstream G150

Current Supply of G150s in the market:

Active Fleet 115
Under Contract 0
Net For Sale 9
% Of Fleet For Sale 7.8%

Available For Sale 24 MO High 9 - Q1 2015 & Q1 2016
Available For Sale 24 MO Low 7 in Q2 & Q4 2015
Transactions YTD 2016 1
Transactions Same Period 2015 2
Avg. Transactions Per Month 2016 < 1
YTD Sale Price $5.7M
Current Ask Price Range $4.975 to $9.50M USD
Current Mean/Median Ask Price $6.9M / $5.56M

For Sale w/ High Speed Data 33% (3 of 9)
For Sale w/ Engine Program 88% (8 of 9)
For Sale w/ DFDR 11% (1 of 9)
For Sale w/ U.S. Registration 66% (6 of 9)

Gulfstream G150 Value/Transaction History  
As of March 31, 2016

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As of March 31, 2016

One new G150 delivery occurred in Q1 2016 keeping pace with last year’s annual figure of four aircraft. The single addition improves the in-service fleet to 114. More notably, pre-owned supply increased by three aircraft: s/n 204, 238, and 261. With only one transaction recorded, the net additions bumped supply to 9 units from 7 which is suddenly 8% of the active fleet. That one transaction was s/n 254. It closed in March and was the first since July of last year. Although RETAIL values according to VREF held relatively firm throughout 2015, the value-guided service recorded a $500,000 decrease across ALL the fleet YOMs. The decrease affected values disproportionally from 5% for new models to 10% for older. Falling book values are common and expected in today’s market when below-trend transactions justify the change. But oddly, we knew of no actual G150 transactions for the reported period between October and December to cause the downward adjustment. As commented in our Q1 2015 report, one additional G150 increased the supply-to-fleet ratio by almost 1%. It takes 5 times as many G550s to cause the same increase.
Recent Transactions

**Sold** February 2, 2015

2002 Gulfstream V  
SN: 665

**Sold** March 9, 2015

2004 Legacy 600  
SN: 145770

**Sold** May 6, 2015

2015 Gulfstream G650  
SN: 6117

**Acquired** April, 2015

2007 Gulfstream G550  
SN: 5154

**Acquired** May, 2015

2005 Gulfstream G550  
SN: 5096

**Acquired** June, 2015

2005 Gulfstream G550  
SN: 5068

**Sold** August, 2015

2004 Gulfstream G550  
SN: 5039

**Sold** September, 2015

1995 Gulfstream IVSP  
SN: 1265

**Sold** September, 2015

1996 Gulfstream IVSP  
SN: 1292

**Sold** January, 2016

2000 Gulfstream IVSP  
SN: 1411

**Sold** January, 2016

2009 Gulfstream G550  
SN: 5230
Hagerty Jet Group is a business aircraft brokerage firm providing aircraft sales, marketing and acquisition services to large corporations and high-net-worth individuals. Founded by veteran Gulfstream Specialist James Hagerty, the firm is located in Savannah, Georgia conveniently near Gulfstream’s headquarters.

“In founding Hagerty Jet Group, we set out to build an independent firm that excelled beyond traditional aircraft brokerage.”

- James Hagerty