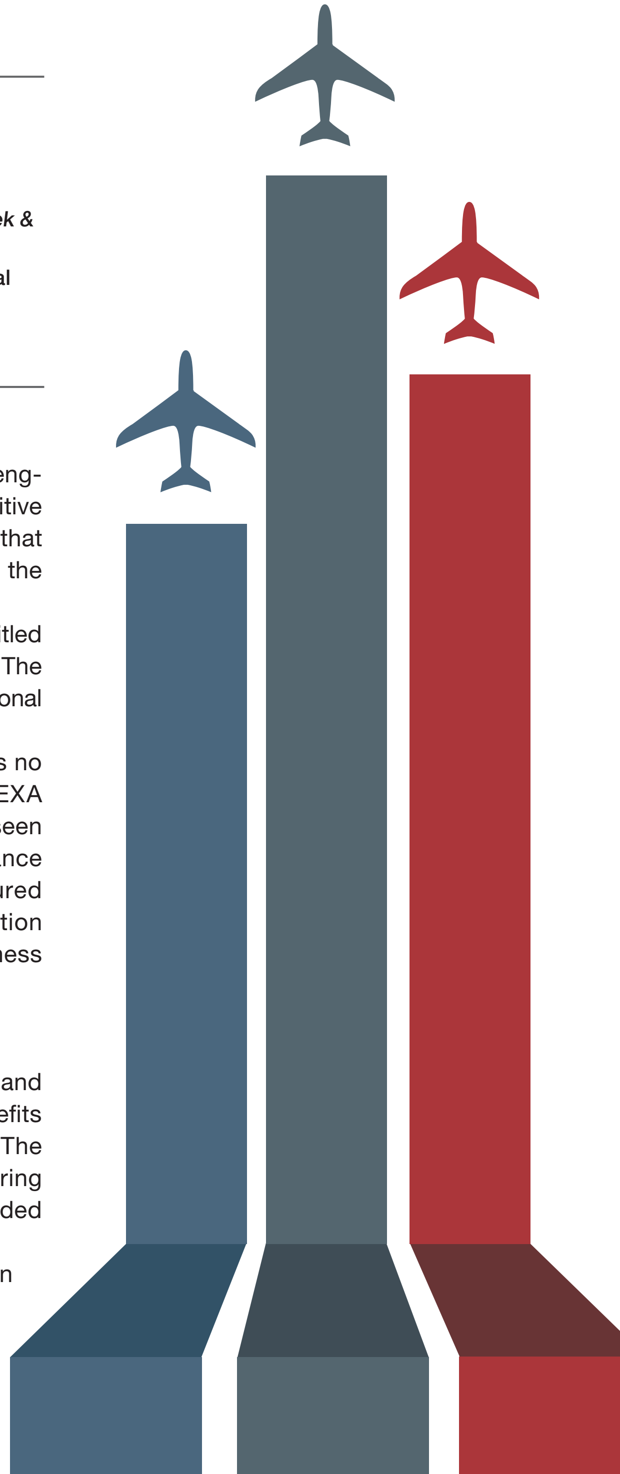
Business Aircraft Acquisition + Financing Guide

Written by
TONY VELOCCI

Tony Velocci is the former editor-in-chief of *Aviation Week & Space Technology* magazine and was twice named Aerospace Journalist of the Year by the U.K.-based Royal Aeronautical Society. He is a member of the Board of Directors of the National Aeronautic Association.



Success in today's global, fast-paced economy is getting more challenging all the time, with companies on a never-ending quest for competitive advantage amid rising customer expectations. But here's an insight that management teams would be wise to consider: The best-run enterprises in the world are avid users of business aircraft.

Recent updates to a widely respected 2010 report by NEXA Advisors, entitled "Business Aviation—An Enterprise Value Perspective," confirmed as much. The study, perhaps the most comprehensive of its kind, had the support of the National Business Aviation Association (NBAA).

"The correlation between business aircraft use and business success is no coincidence," says Michael Dyment, founder and managing partner of NEXA Advisors. "Evidence of the value provided by business aircraft use can be seen in the remarkably consistent correlations between the aggregate performance of companies and industry sectors using business aircraft when measured against those which do not." Among the Global 2000, a Forbes compilation of leading companies, no less than 88% of the top 50 were users of business aircraft, he notes.

A Strong Business Case

Since 2007, managers have been especially challenged to sustain revenue and profit growth while maintaining healthy balance sheets. Here, too, the benefits of business aviation are measurable and significant, according to NEXA. The updated study examined the performance of the S&P 500 companies during and after the Great Recession, between 2007 and 2011. Key findings included the following:

- Business aviation users in 2011 represented 84% of the companies listed on the S&P 500 and accounted for 96% of total revenue.
- Of the companies added to the S&P 500 between 2007 and 2011, 74% use business aviation.

- A significant number of companies that dropped from the S&P 500 during the same period were non-users of business aviation.
- S&P 500-listed companies using business aviation mitigated revenue losses and recovered more quickly from the Great Recession than non-users.

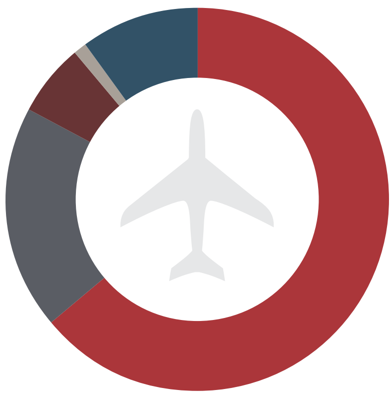
As more companies around the world have discovered the potential of business aviation to help them respond to market opportunities and capture value, the demand for business aircraft as a return-on-investment tool has expanded. According to NEXA, from 2008 to 2009, when the global recession was at its worst, annual GDP contracted on a worldwide basis by 0.6%. During the same period, the worldwide installed base of business jets and turboprops grew by 4.4%, according to the study.

In 2012, there were 19,258 fixed-wing jets and 13,762 turboprops operating around the world, for a total of 33,020 aircraft. That's up from 23,720 in 2004—a 39% increase. In North America, principally the U.S., business aviation has continued to expand, albeit at a slower pace since the Great Recession.

Between the wide range of innovative aircraft-acquisition programs and the availability of favorable financing—not to mention the numerous airplane models to fit every conceivable need—business aviation has never been more accessible. But that doesn't necessarily mean chartering, leasing or even purchasing a whole aircraft are the only choices.

Photo courtesy of NetJets

Reasons for Business Aircraft Use



64% Support schedules not met by commercial airlines

19% Reach locations scheduled airlines do not serve

6% Industrial or personal security reasons

1% Make connections with scheduled airline flights

9% Other

Note: Total does not equal 100 due to rounding. Source: Harris Interactive Survey, 10/2009

Best of Both Worlds

An increasingly popular alternative is fractional ownership, which is designed to provide all of the benefits of whole aircraft ownership at a fraction of the cost. Owners get guaranteed access to an airplane on short notice; they are able to fly where they want to go, when they want to go; and they avoid the burden of management responsibilities.

The undisputed leader in fractional ownership is NetJets, a Berkshire Hathaway company. NetJets pioneered the concept of fractional ownership in the mid-1980s. A NetJets entry-level share provides 50 annual flight hours, and customers can purchase additional shares in 25-hour increments, up to 800 flight hours annually.

For customers who need fewer than 50 flight hours a year but still want the advantages of private aviation, there is the NetJets Marquis Card. "It allows prospects to realize the benefits of fractional ownership before signing up," says Adam Johnson, senior vice president of global sales, marketing and service. The Marquis Card is sold in one-year, 25-hour increments. Since it requires no long-term commitment, the program is especially popular with companies that already own a business aircraft and need supplemental airlift capacity. They simply prepay for the 25 hours of occupied flight time for the specific aircraft type selected. Nearly 4,000 individuals and companies participate in the Marquis Card program.

There are nearly as many NetJets fractional owners—a group that includes some of the world's most admired companies and numerous prominent individuals in business, sports and entertainment. Becoming a NetJets fractional owner involves a one-time purchase of a specific serial-numbered aircraft. The size of the share and the aircraft type dictate the price. There also is a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monthly management fee, plus a cost to cover the hours that the owner actually occupies his aircraft, depending on the type, and fees to cover such necessities as hangaring.

The minimum commitment is 24 to 36 months, again depending on the aircraft type. Direct financing is available. From a tax and legal standpoint, a NetJets share is similar to purchasing a whole aircraft: owners get all the financial benefits of a capital-equipment acquisition. As an added benefit, customers can exchange the aircraft type in which they have a fractional ownership for any other airplane type in NetJets' U.S. fleet that may better satisfy a specific travel requirement.

NetJets recently introduced the Supplemental Lift Assurance program, with guaranteed access to the entire NetJets fleet worldwide, based on comparable cockpit configuration, in as little as four hours. Here, too, there is no long-term commitment and no obligation to commit to a specific aircraft type or a specific number of flight hours.

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>
> —MICHAEL DYMENT
> NEXA ADVISORS

As the world's largest fractional ownership provider, NetJets has flown more hours and has more customers than all other fractional aircraft companies combined. By any measure, its fleet is huge—more than 700 aircraft in every category of size, range and cabin features—and it manages more than 300,000 flights annually to more than 170 countries.

As unrivaled as NetJets is currently, the company plans to renew its fleet over the next ten years. On order are 670 next-generation aircraft, customized from design through product development. The initiative, called the NetJets Signature Series, will include advanced cockpit and cabin technologies to ensure maximum safety, reliability and operating efficiency, as well as advanced in-flight entertainment systems. NetJets recently took delivery of the first of these new models: the Global 6000 and the Embraer Phenom 300.

88% OF THE TOP **50 COMPANIES** ON THE **FORBES GLOBAL 2000** ARE BUSINESS AIRCRAFT USERS.

Source: NEXA Advisors

The Signature Series was conceived during the height of the Great Recession in 2009, when the pace of industry activity dramatically slowed. NetJets reached out to owners and pilots to ask how their needs were likely to evolve. "We spent a lot of time looking at avionics and cabin comfort, including noise attenuation," says Johnson.

NetJets is attracting growing interest from whole-aircraft owners who no longer want the hassle of flight planning, crewing and training, and who would prefer to hand off all of these responsibilities. "We are receiving a lot of calls from individuals and businesses that want to exit whole ownership," says Johnson. The solution: a service in which NetJets can leverage its network of dealers to broker the sale of aircraft and help customers make the transition. "Being a part of Berkshire Hathaway, we have the financial wherewithal to provide this level of support."

Photo courtesy of Jessica Ambats

High Flier

Regardless of how an individual or company chooses to access business aviation—charter, fractional or a traditional purchase—no manufacturer offers more options than Embraer. It produces seven different models, ranging from the entry-level, four-to-six-passenger Phenom 100 with a range of up to 1,356 statute miles, to the Lineage 1000, an ultra-large business jet that can whisk up to 19 passengers in stylish comfort at more than 540 miles an hour, or up to eight passengers some 4,600 nautical miles.

The Phenom 300, part of the NetJets Signature Series, can transport up to six passengers at 520 miles per hour. This is classified as high-speed cruise. With its range of 2,268 statute miles, Boston to Miami would fit well within a typical Phenom 300 flight profile.

The aircraft has proven ideal for Wayne Gorsek, a Las Vegas-based entrepreneur who founded DrVita, a nutritional health company, in 2011. He chose the Phenom 300 after checking out two competing models of similar cabin size. “Nothing else came close, so it was simply a better value all around,” says Gorsek, who first owned a Phenom 100. “I liked the fact that it was a clean-sheet design, and the airplane’s endurance and safety features were unrivaled.” Gorsek uses his Phenom 300 primarily to help him manage the business as it continues to mature.

Like most business aviation users, Gorsek is a stickler for productivity, and therefore is thrilled that he can avoid commercial aviation for most business travel. “How can you trust commercial carriers nowadays to get you to important meetings on time or accommodate unplanned changes in your work schedule? With my Phenom 300, I have all the flexibility I need to be as productive as a start-up demands.”

With its worldwide reputation for innovation in both commercial and business aviation, Embraer recently announced enhancements to two other aircraft in its product line that already had set standards for performance.

The Legacy 500, the world’s first full fly-by-wire midsize business jet, features a six-foot-tall flat-floor cabin—even wider than that of some more expensive aircraft in the super-midsize category. Fly-by-wire offers a smoother ride for passengers because the flight control computers maintain aircraft path, adjusting for environmental changes much quicker and more precisely than humans can react. Eight club seats may be berthed into four beds for complete rest at a cabin altitude no greater than 6,000 ft. As for the Legacy 450, its range was increased to 2,500 nautical miles—200 farther than its initial specifications. The jet shares the same cabin cross-section as the Legacy 500, allowing four club seats to be berthed into two beds.

The enhancements get a thumbs-up from Embraer Executive Jets. “The Legacy 450 will be the best-in-class mid-light executive jet,” says Ernest Edwards, president, Embraer Executive Jets. “We never stop listening to our customers’ input. And, thanks to their invaluable feedback and our commitment to deliver distinctive business aircraft, both the Legacy 450 and the Legacy 500 will offer an above-premium travel experience.” ■

Types of Locations Accessed by Business Aircraft

Note: Each total represents the average number of locations flown into during a six-month period, based on a survey of 305 chief pilots.
Source: Harris Interactive Survey, 10/2009

FLIGHT LOG

Building a new company from the ground up is hard enough, but when customers and suppliers are spread across the country, the job of running the business is that much more demanding. Such is the challenge for entrepreneur Wayne Gorsek, who launched a nutritional health company in 2011.

The company, DrVita, headquartered in Las Vegas, is growing even faster than a similar enterprise he started in 1994, Vitacost, which he built into the world’s largest vitamin retailer. In both cases, Gorsek credits business aviation as one of the keys to his success.

To meet with DrVita suppliers and vendors across North America, Gorsek relies primarily on his Embraer Phenom 300. Soon after earning his single-pilot rating in the aircraft in 2011, he took delivery at the Embraer factory in Brazil.

Gorsek thoroughly enjoyed flying his Phenom 100, which he acquired in 2009, and has found the larger and faster model to be even more versatile. With a top speed of 450 kts and more than 15% greater fuel efficiency than other business jets in its size category—not to mention the ability to fly above virtually any unfavorable weather—it allows Gorsek and his management team to cover a lot of territory in a relatively short time.

He and his vice president of sales and marketing recently flew from Las Vegas to Arkansas to meet with Costco and Sam’s Club buyers, and then on to Seattle for a similar conference with drugstore.com executives—all in a single day. “The same travel and business agenda would have taken me three days to complete flying commercially,” he says. “Our meeting with Costco went three times longer than we originally planned, but that was no problem because we had the flexibility we needed. I’m able to conduct business on my schedule, not commercial aviation’s, and that makes all the difference in the world.”

WAYNE GORSEK
DrVITA

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