

Expert Feedback: 2023 Biz Jet Utilization Trends with WINGX

Replay available upon request.

We hosted Richard Koe, Managing Director of WINGX Advance for a discussion around biz jet utilization. Key Takes: 1) Expecting a slowdown in growth rates in biz jet activity in 2023 but still 10% above 2019; 2) US corporate jet activity outperforms all other regions w/ 85% share of global activity and 18% above 2019; 3) The trend towards fractional brings aircraft utilization to 70-75 hrs/mo vs 60-65 hrs/mo for branded charters.

WINGX Overview. WINGX researches and tracks biz av market data to build analytics and assist decision-making. Customers include airports, operators, manufacturers, investors, and financial analysts. WINGX provides data across the industry for clients to better understand surrounding flight plans and aircraft positions in both the commercial and rotary side of the business.

Biz Jet Activity Over the Last Few Years. The last 10 years leading up to 2020 brought a modest recovery in the corporate jet market w/ fairly flat aircraft utilization rates across the world. However, there was a shift in the last two or three years. When lockdowns first began, biz jet activity fell 70% in April 2020. Biz jet demand grew later in 2020 and into 2021 driven by a need for healthy transportation and repatriation. 2022 and 2021 were record years for jets, reaching peak utilization levels of ~20% above 2008 (prior to the financial crisis) in March 2022. Business aviation activity started to taper towards the end of 2022 w/ a continuing slowdown expected in 2023. Still, 2023 is expected to be the second or third most active year historically, although lower than in 2022.

Regional Breakdown of Corporate Jet Market Activity. North Am represents over 85% of global biz jet activity w/ 2022 activity up 18% vs 2019. European biz jet activity was up 14% vs 2019. However, European activity tapered towards the end of 2022 to just 2-3% above 2019 in December. The US market has also slowed down, but January 2023 activity is still up 10-12% over the same period in 2019, but down 1% vs 2022. For 2023, Europe is expected to fall to 2019 levels, while US will likely remain above pre-pandemic levels. In branded charter, business activity in January is down DD vs 2022. That being said, the branded charter market is still 15% above pre-pandemic levels. Additionally, corporate flight departments (~30% of overall activity) had a weaker recovery post-COVID and it is softening as well. Corporate flight department activity is short of what it was last year and more or less flat from 2019.

European Jet Market Highly Impacted by War with Ukraine. The European biz jet market was highly affected by the Ukraine war, particularly in the heavy jet class. European heavy jets were highly exposed to Eastern Europe and Russia, which has largely disappeared from Europe. Russian biz jet activity is down 65% since the onset of the war. The Eastern Europe/Russia market is now traveling to Turkey and the Middle East rather than into Europe.

Biz Jets and Emerging Markets. In 2011, WINGX expected the China market to grow exponentially, but overall activity in the region still lags. The lockdown hindered growth further. Last year the biz jet market in China was down over 50% in terms of tracked movements in the country. There are some signs of optimism this year w/ China up 26% in January vs the year prior, helped by the reopening. However, the market is still small at 1% of US jet activity. On the other hand, the Middle East has strong potential w/ Jan active flights 100% over 2019 levels. Turkey, in particular, has had strong activity, benefiting from the influx of wealth into the region.

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Sheila Kahyaoglu * | Equity Analyst
(212) 336-7216 | sheila.kahyaoglu@jefferies.com

Greg Konrad, CFA * | Equity Analyst
(212) 284-2391 | gkonrad@jefferies.com

Ellen Page * | Equity Associate
(212) 323-3381 | epage@jefferies.com

Scott Forbes * | Equity Associate
(212) 778-8779 | sforbes@jefferies.com

Kyle Wenclawiak * | Equity Associate
(212) 323-7671 | kwenclawiak@jefferies.com

Andres Loret de Mola * | Equity Associate
(212) 778-8954 | aloretdemola@jefferies.com

Fares Falling from 2022 Surge. WINGX does not typically track Charter fare prices, however, there is some color on the general landscape. For reference, the European market had a ~26% increase in charter rates in 2022. Charter operators have pointed out that fares have fallen over the last few months. Fuel prices coming down has impacted the drop, but demand is still the primary reason for prices leveling.

Florida Becomes Corporate Jet Hub. As a testament to the US dominance in biz jets, the top five airports for corporate jets are all located in the US. Florida, especially, became a large hub for business aviation during the pandemic. You can also find active corporate jet airports in the Northeast including New Jersey and New York. The more common commute is going from the Northeast to Florida. The US not included, Paris-Le Bourget is the busiest airport followed by London. That being said, London metro as a whole is almost 3x busier than Paris.

Ultra-Long Range Jet Class the Laggard Throughout the Recovery. The early days of the pandemic saw a surge in activity for entry-level and very large corporate jets. These platforms were followed by super mid-size which has maintained growth throughout 2022. In particular, the Challenger 300, 350, and Longitude have had sustained demand. The ultra long range class saw strong demand at +22% in 2022 vs 2021. That being said, they have been lagging the rest in terms of a recovery from 2019 levels. Aircraft used for Transatlantic transport have not really softened very much and are expected to come back fully in the NT.

Outperforming Brands. The biggest lift since 2019 has been Embraer, specifically in the Super Light platform. The Phenom 300, in particular, is an extremely popular aircraft. Legacies and Praters have also performed extremely well, less so in Europe as the OEMs were highly exposed to Russian markets. Among the ultra long range, the Gulfstream 650 and 550 platforms had very high demand in 2022 vs 2019.

Cessna Longitude and Longitude. There has not been a huge surge in utilization figures for the Cessna platforms. Cessna Longitude and Latitudes are engaged in fractional programs which have benefited in the Post COVID-19 period. Many operators have moved over to fractional programs along with aircraft owners and Corporate Flight Departments. The fractional programs have benefited from this transition. The rise in the programs have boosted flight activity in these aircraft.

Utilization Based on Operating Models. Looking at hours per month utilization across different operator models, branded charters are at 60-65 hrs/mo which compares with fractional charters at 70-75 hrs/mo. The US has 20% higher utilization than that in Europe on both operating models. Private and corporate flight departments have significantly lower utilization at 15-25 hrs/mo. If we look at the top private jet operators (NetJet, Vista Global, etc), they are still operating at only 12-13% of the whole fleet with activity in the 20-25% range.

Speaker Bio

- **Richard Koe** is managing director of WINGX Advance GmbH. WINGX, based in Germany and founded in 2011, provides business intelligence for the global private jet market. WINGX researches and tracks market data to build analytics that assist customers in decision-making.
- WINGX customers span the entire industry supply chain, from airports, operators and manufacturers to industry investors and financial analysts. Koe has a background in sales, business development and strategy in the business aviation sector and previously in IT and manufacturing. He has a bachelor's degree from Oxford University and a master's degree from Johns Hopkins University.

Company Valuation/Risks

General Dynamics Corp.

We arrive at a blended price target based on market multiples: 1) 2023 EV/EBITDA; 2) 2023 P/E; 3) 2023 FCF; and 4) 2023 SOTP. Risks to the downside include lower order activity for Gulfstream, execution for Marine, and slowdown in defense spending. Risks to the upside include ability to grow profit HSD with potential better profitability in Aerospace re-rates shares higher.

Textron Inc.

Our price target uses a blend of EV/EBITDA and P/E, based on peer multiples. Risks include: concentration of customers, reduced U.S. DoD spend, and weak biz jets.

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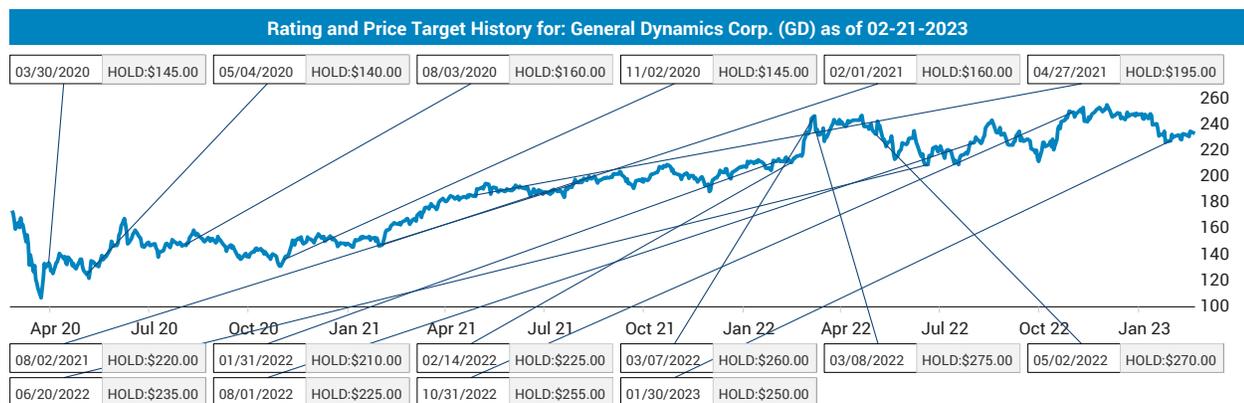
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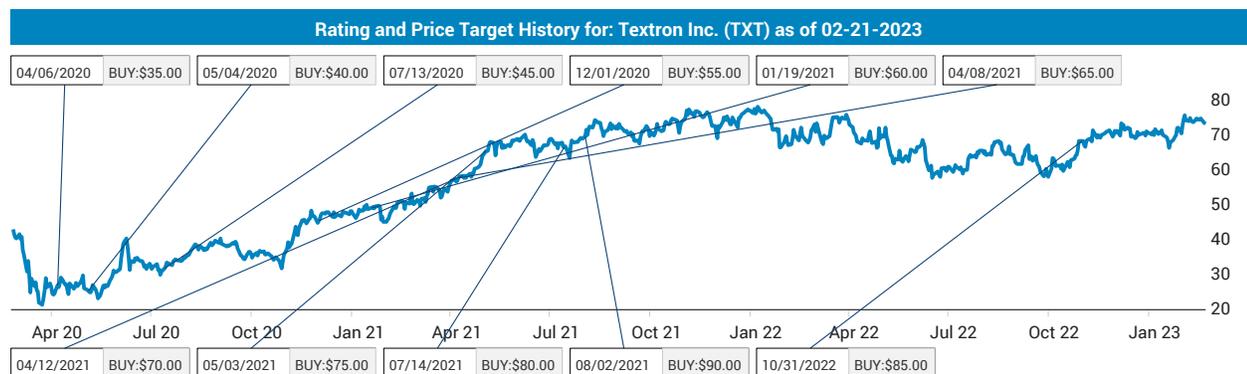
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