

BUSINESS AVIATION

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advisor

The Business of Business Aviation

Demand for New Aircraft Models Mirrors Improving Economy

Choices Abound in New and Affordable Used Bizjets



JUSTIFY YOUR AIRCRAFT'S VALUE

SIX ESSENTIAL QUESTIONS FOR AIRCRAFT ACQUISITION SUCCESS

NEW RULES GOVERN INTERNATIONAL FLYING

MANAGE YOUR AIRCRAFT OPERATING COSTS

What's It REALLY Worth?

Justify Your Aircraft's Value

BY ANTHONY KIOUSSIS

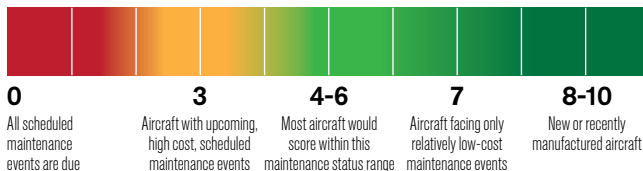
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You've made the financial commitment to sell and replace your aircraft. Then you receive an offer that is below your asking price. How do you justify its value?

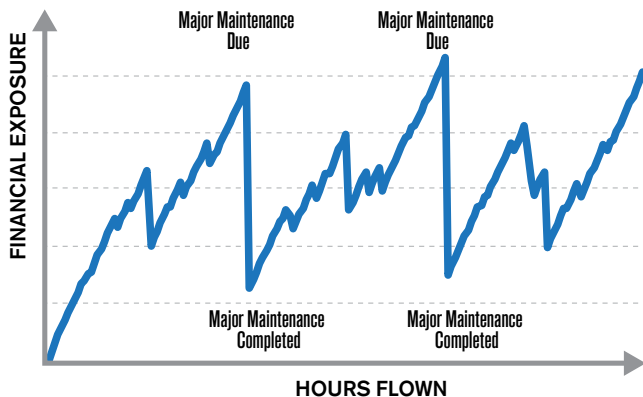
Traditionally, you could counter the prospective buyer's offer – and negotiate against yourself. Or, you could objectively justify your ask price by directly comparing your aircraft's maintenance condition to similar make/model aircraft available for sale.

An aircraft's maintenance condition represents its greatest "wild card." But maintenance analytics are not simple calculations with respect to its value. Before reviewing an offer:

1. Using a standardized scale, compare, or "grade," your aircraft's current maintenance condition against its "optimum maintenance condition" (the day it came off the production line) while taking into account the cost of each maintenance event.



2. Compute your aircraft's accrued Maintenance Exposure Value (the accumulated maintenance expense to be paid at some future date). A new aircraft has no accumulated maintenance expense. Once in service, its Maintenance Exposure grows as hours are flown, bringing it closer to its next inspection, and decreases when maintenance events are completed, as follows:



This calculation determines the likely value of the aircraft's maintenance condition. With a high Maintenance Financial Exposure, the aircraft's price is likely to be reduced by more than just the cost of the accrued maintenance expense. Buyers usually are unwilling to incur weeks of additional finance carrying charges waiting for maintenance to be completed.

3. If you are purchasing another aircraft and need to sell yours, your best strategy may be to conduct maintenance sufficient to make the aircraft "sellable," as defined by existing market conditions. While you incur upfront costs, your aircraft's Maintenance Financial Exposure Value will decrease, making it less likely your "cost basis" will include additional carrying expenses (financing charges, insurance costs, additional scheduled maintenance, etc.).

4. Calculate the value of any Hourly Cost Maintenance Program (HCMP) covering your aircraft. Three entities can help: *Aircraft Bluebook Price Digest* (www.aircraftbluebook.com), Vref (www.vrefpub.com), and Asset Insight (www.assetinsightinc.com).

HCMP services cover an aircraft's maintenance expense, including the cost for all but "routine" aircraft scheduled maintenance. Suppose, for example, you are evaluating two aircraft. Aircraft "A" has a Maintenance Financial Exposure value of \$1.15M, while the exposure value for aircraft "B" is \$2.25M. However, aircraft "B" has its engines and auxiliary power unit (APU) enrolled on HCMP and the value of that coverage is worth \$1.1M. Applying that benefit decreases the asset's Exposure Value to \$1.15M, the same as aircraft "A."

Most experienced operators will tell you that aircraft "B" is more valuable, as its scheduled and unscheduled Engine and APU maintenance are covered by its HCMP. Would you pay the same price for these two assets? If your aircraft is not enrolled on HCMP, might the cost of enrollment be less than the cost to conduct early maintenance?

While this may sound complicated, professional advisors, such as National Aircraft Resale Association Certified Brokers (www.naraaircraft.com), can help. They will guide you in establishing a pricing strategy tailored to your aircraft's maintenance and existing market requirements, thus optimizing your aircraft's value.

You cannot manage what you cannot measure. An objective analysis of your asset's maintenance condition will allow you to treat your aircraft as you would any other major investment, and:

- Pay the lowest possible price for the best-rated asset,
- Continually grade the asset and compare it to market,
- Improve the asset as required by market conditions, and
- Sell the aircraft at the most opportune time and with the lowest possible investment.

Following these steps to justify your aircraft's value will help you get the best price for your asset. **BAA**



ANTHONY KIOUSSIS is president of Asset Insight, Inc., which developed an Asset Grading System Process for evaluating an aircraft's maintenance condition. His more than 35 years of aviation experience includes GE Capital Corporate Aircraft Finance, Jet Aviation, JSSI, and British Aerospace.