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A New View of Cause and Effect:

Are valuations unduly impacted by external factors?

Jay Mesinger explores how factors not directly related to equipment characteristics might impact the market for business aircraft.

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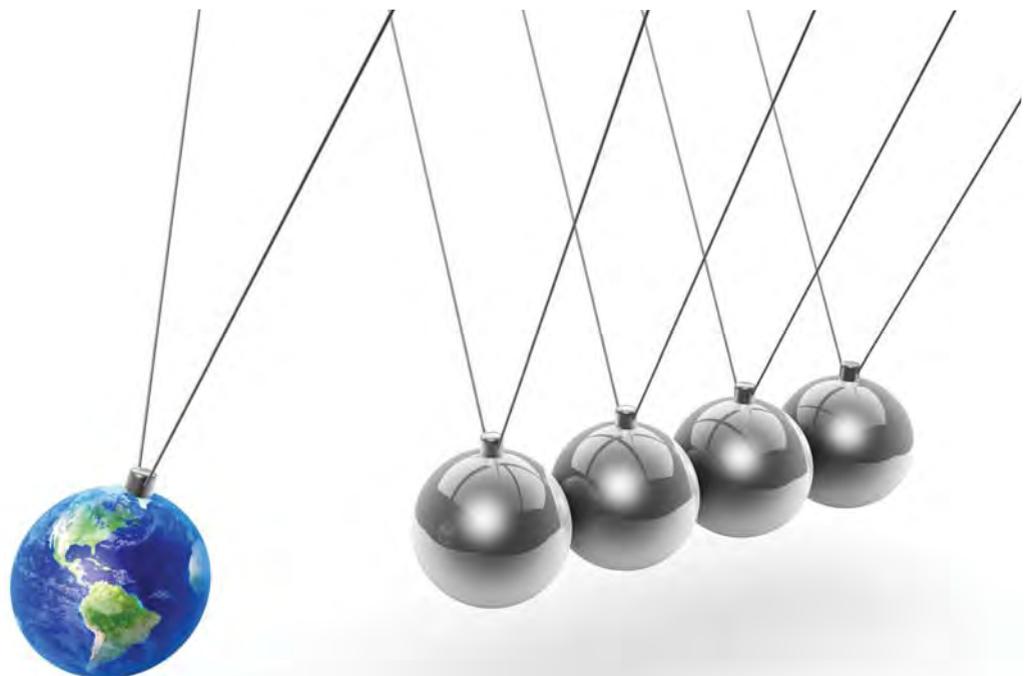
In the general view of valuation we tend to think of technical items that impact the value of business aircraft. By technical items I refer to definitive, easily quantified measures such as airframe time, whether the model is in production or out of production, capabilities of the aircraft's avionics suite, and the newness of its paint and interior refurbishments.

All these items are important criteria for establishing value of one aircraft or model over another. In fact, the two reporting books most used by the resale community (Aircraft Bluebook and Vref) list these criteria as definitive for adjusting

the value of aircraft. Basic valuations in these books are based on actual sales in preceding quarters, adjusted for the technical factors.

This article will deal with different (and potentially greater) factors in valuation—ones that could affect the entire industry. For simplicity, let's call them non-technical factors. They are items that are not related to the specifics of any individual aircraft.

Non-technical factors are those world events taking place daily that create headline news and affect the psyche of buyers and sellers. For example, they cause stock markets to surge or pull



What the Boardroom needs to know about Business Aviation



back, move 24/7 news programming into high gear, and before you know it may have changed dramatically the direction of our valuation models.

TODAY'S CHANGING EVENTS

As the recovery in our industry gathers pace, we are all particularly sensitive to disruptions in marketplace trajectory. Let us consider what non-technical events, as I have defined them, mean to us. We have experience with the cause and effect of technical characteristics (e.g., Aircraft A has twice the flight hours of the fleet average, or the cosmetics of Aircraft B are not as nice as the cosmetics of Aircraft C). Technical issues are easy to grasp.

The cause and effects of non-technical issues are not so easy to discern. You might say they are soft considerations with hard impacts.

Let's take a closer look at non-technical issues such as global or regional military conflicts. Crimea is a perfect example. This geo-political power-grab is unfolding a world away, but it may be unsettling a buyer of business aircraft closer to home. Russia flexes its muscles to exert influence; the G8 reacts; financial sanctions are imposed and the Russian stock market is affected. Then stock markets around the world react, and the economy hits a speed bump. Is this a momentary distraction or an economic game changer?

Malaysian flight MH370 goes missing, the loss of life seems unfathomable and questions arise about airline safety and the idea of criminal intent or 'mere' mechanical failure surfaces. Stock prices of the companies involved with the aircraft, its systems and its operation (and airlines in general) take a hit. Is this tragic event a distraction in the world economic recovery or will it be a game changer as was the effect of 9/11? Could this non-

technical factor cause a buyer to pause in deciding whether to acquire an aircraft? Or could the opposite happen and demand be stimulated among entrepreneurs who want greater control over their travel options?

IMPACT ON MARKET DYNAMICS

The idea of non-technical events having great impact on the valuation of our aircraft in a fragile recovery could be real. How do we bracket the real impact and work to shore up our recovery so as not to be so vulnerable to these events? As an industry we in Business Aviation must assess events and quantify their impact. Are non-technical events distractions or real game changers? Will they have a lasting and large affect compared to events that have short term, minimal impact on global economies? Each event has to be analyzed and evaluated against many factors.

As strategists and economic leaders grapple with global events, it is critical that those of us involved with Business Aviation keep our wits about us. Our reactions must be responsible, and as an industry we must watch, listen and respond to inputs from those who really are capable of analyzing and shaping outcome.

It is important to reflect on why our industry is recovering. Business Aviation is vital to business. In fact, business could not be conducted as we know it without Business Aviation. We must react to non-technical events cautiously, keeping level heads and separating distractions from game changers.

The value of Business Aviation is real. This recovery is real. Hold on to it and protect it. It is worth fighting for!

Do you have any questions or opinions on the above topic? Get them answered/published in World Aircraft Sales Magazine. Email feedback to: Jack@avbuyer.com
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