



Brian Foley Associates

News Release

For Immediate Release

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Brian Foley Associates Sees Shrinking Bizav Backlogs

Some OEMs More at Risk Than Others

SPARTA, NJ, November 12, 2008 – In its own proprietary assessment of the industry’s business jet backlog firmness, Brian Foley Associates (BRiFO) observes that the peak likely occurred in the third quarter of this year and has now begun to contract for the foreseeable future. “The industry’s backlog levels were recently at historic highs, but there are now factors that will keep it from growing and will actually cause it to contract” explains BRiFO consultancy President Brian Foley.

In Foley’s view, the worldwide economic crisis, declining company profits, tight credit, strengthening dollar and plethora of available used aircraft will all combine to keep new sales at a trickle. This lack of sales activity will keep the backlog from being refreshed. Simultaneously, shrinkage of the existing backlog has begun in two ways. First, manufacturers are delivering aircraft at unprecedented rates to the tune of over 1000 aircraft per year. This in and of itself will work to deplete the backlog at a meaningful clip. The second factor will be order cancellations and deferrals.

“The OEMs were sincere when they said that there wasn’t a spike in order cancellations immediately following the worldwide financial market collapse, and that’s not surprising” explains Foley. “When a business jet is sold, there’s perhaps a modest 5% due at contract signing and then a series of progress payments made every 6 or 12 months. The OEMS won’t see the order cancellations until these payments come due and a customer is unable to pay. As a result, cancellations don’t come all at once but rather over time as progress payments come due. We won’t know the full extent of the order fallout for another year.”

While OEMs consistently deny it, there's more speculation in this market than there has been any time in the recent past. "Rather than waiting 4-5 years for their aircraft, there were reports of some buyers paying a \$10-20 million premium to purchase delivery positions of big cabin aircraft from those who bought early in the cycle. That didn't escape the eye of speculators. In my own consultancy, I had clients vetting the idea of buying blocks of aircraft with no intent of ever taking delivery. There are also instances of bona fide customers buying multiple aircraft with the intent of keeping only one and flipping the other positions to help offset the cost."

Each manufacturer will suffer to varying degrees, but double-digit percentage order book cancellations will be the norm. Order books of those OEMs with an exposure to start-up charter, air taxi and fractional programs are most at risk, as are those participating in the small end of the market. This will eventually result in more layoffs, temporary plant closings, reduced work weeks and even unsold aircraft known as "white tails". "Most OEMs pledge they've learned from the previous downturn not to overproduce. But inevitably shareholder pressure and greed invoke short memories" laments Foley.

A September 19th BRiFO press release warning of the impending industry downturn concluded that "The OEMs have grown fat, dumb and happy with their current order backlogs and are oblivious to how quickly things will change". In November's third quarter report, Textron's CEO Lewis Campbell confirmed this assertion stating "The order downturn has arrived more quickly than what we were expecting..."

"I guess we can't refer to them as happy anymore" muses Foley.

About Brian Foley Associates (BRiFO)

The Brian Foley Associates consulting practice is used by the investment community to provide market due diligence on business aviation companies and sectors. They're also used by companies involved in the industry for strategic advice and market research. It was formed in 2006 by industry veteran Brian Foley, a former Officer at a major business jet OEM for over 20 years. Through his affiliate, Mr. Foley is a licensed securities representative finding buyers and growth capital for business aviation companies. For more information visit www.BriFo.com.