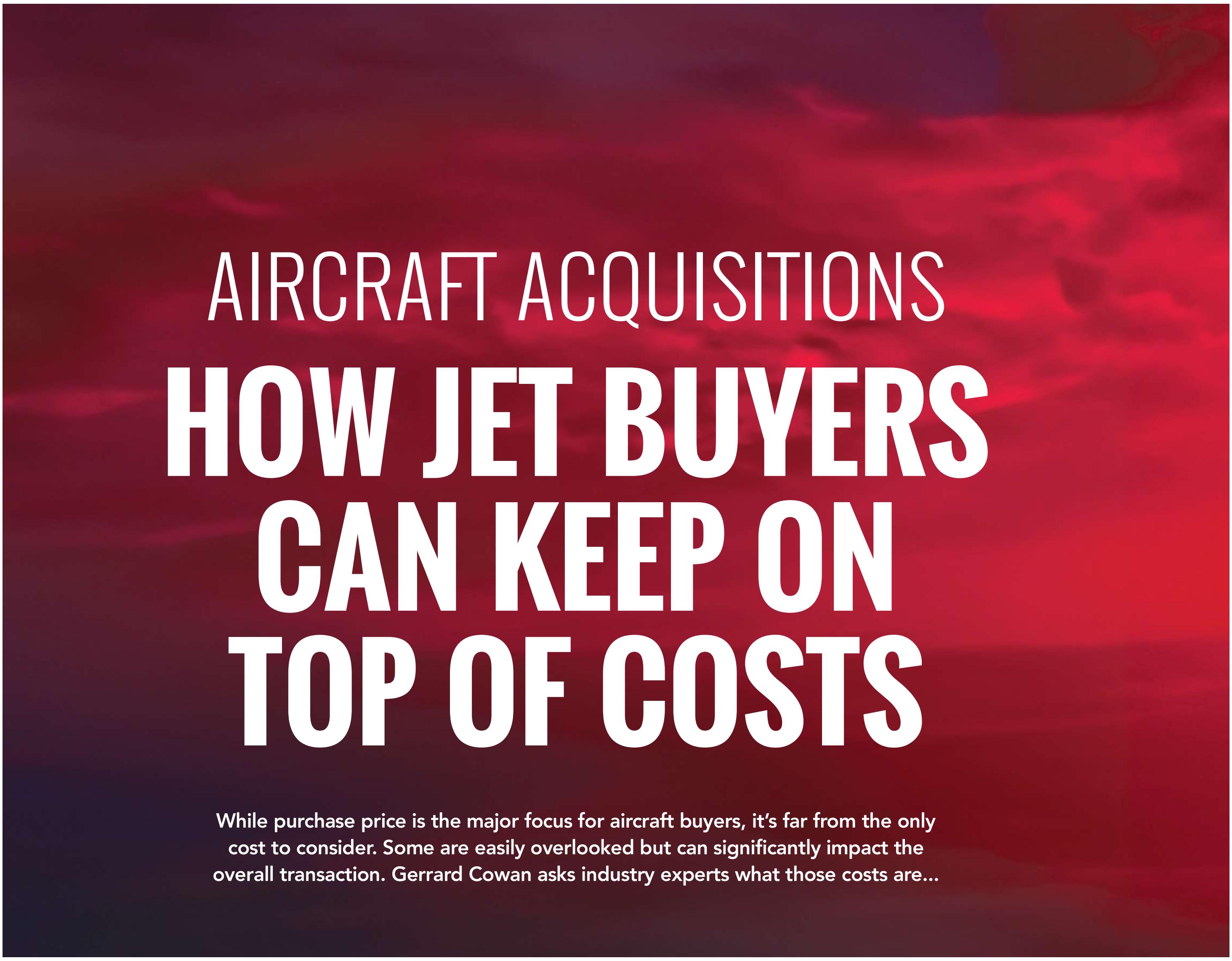


AIRCRAFT ACQUISITIONS

HOW JET BUYERS CAN KEEP ON TOP OF COSTS

While purchase price is the major focus for aircraft buyers, it's far from the only cost to consider. Some are easily overlooked but can significantly impact the overall transaction. Gerrard Cowan asks industry experts what those costs are...

The real cost of an aircraft transaction extends well beyond the purchase price. A prime example can be found with the Pre-Purchase Inspection (PPI), where costs can change quickly.

"Depending on the aircraft, the work scope of the PPI and discrepancies identified during inspection can introduce material adjustments and extend timelines," notes Todd Jackson, Senior Vice President of Sales at Elliott Jets.

The cost of any subsequent downtime is frequently overlooked by buyers, according to Jackson. Delays tied to inspection findings or post-close work can affect operations in ways not reflected in the initial purchase price.

"The impact can be meaningful," Jackson warns. "It is not uncommon to see total transaction costs increase by 5-10% once inspection findings and initial post-close work are fully accounted for."

Most importantly, such oversights introduce uncertainty, Jackson adds. When expectations are misaligned, deals tend to slow down, require renegotiation, or even fall apart late in the process. "This creates both cost and lost opportunity – particularly if other aircraft were under consideration."

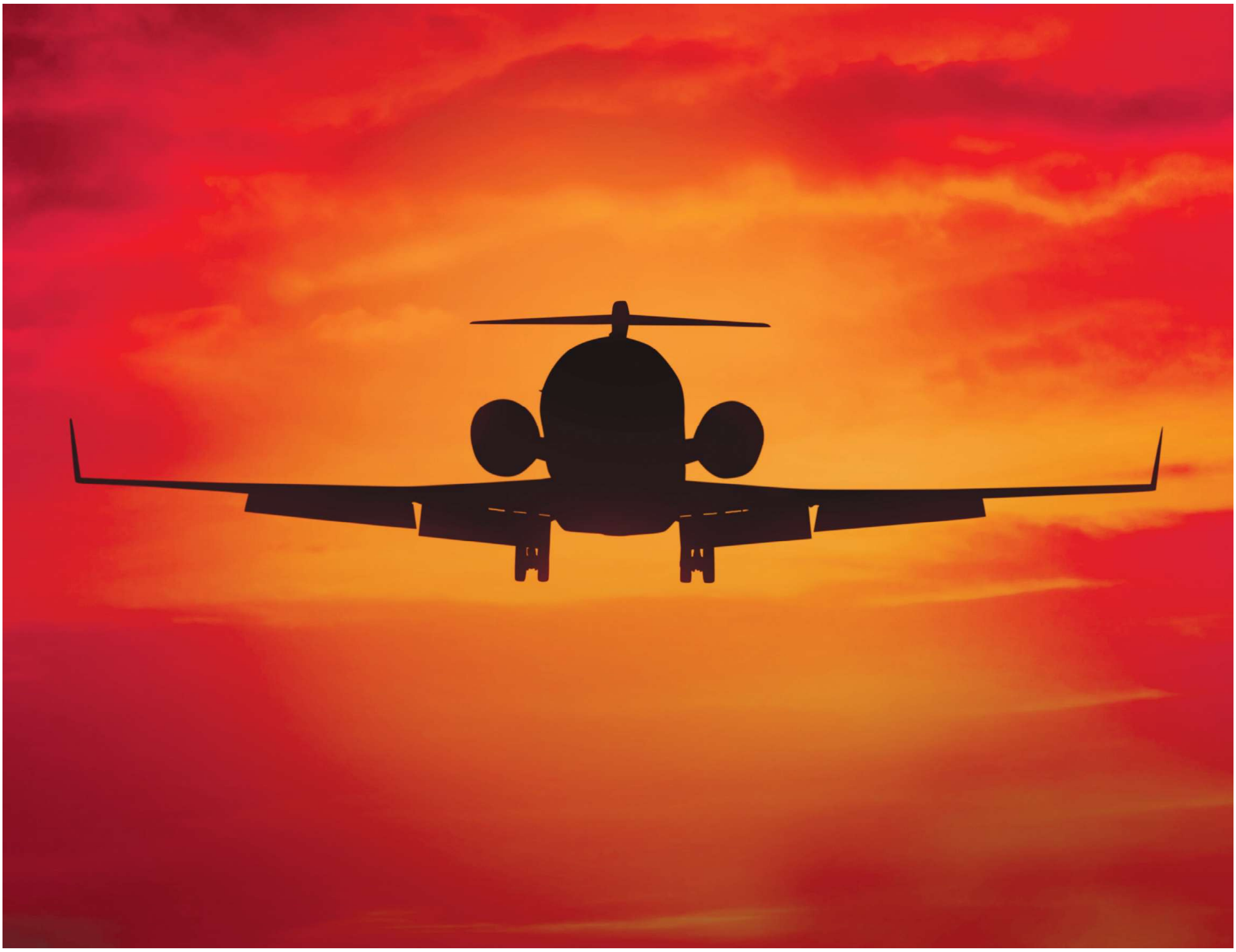
Aircraft Acquisition: Set Realistic Expectations

Christopher Lee, President of the Aircraft and Specialty Finance Deposit Divisions at 1st Source Bank agrees that the purchase price is only one component of a successful outcome.

"The transactions that run smoothly, and ultimately create the most value, are almost always those where both parties have realistic expectations from fully understanding the entire cost ecosystem surrounding the deal, not just the asset itself."

From a financing and structuring perspective, the difference between a 'good' and 'great' transaction often lies in how well secondary costs are anticipated and managed, Lee highlights. He draws particular attention to the PPI and related costs, highlighting that this is the most common large item where 1st Source sees confusion.

"A thorough PPI is one of the most important steps in protecting asset value," he says. However, there are many parts to the process, which could be underestimated. This includes the inspection costs themselves; transport costs to the



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inspection facility; incremental findings that must be addressed; and lost time while discrepancies are negotiated.

"In some cases, we've seen PPIs uncover mid-six-figure discrepancies," he recalls. "While that may result in a purchase price adjustment, it can just as easily lead to unexpected out-of-pocket expense or deal friction."

Aircraft transactions are unlike almost any other type of purchase, notes Robin Dunlop, founding partner at ALTEA. "They are technical, international, heavily regulated, and operationally sensitive all at the same time."

Again, he stresses the importance of buyers focusing on the PPI. "Buyers need to find out what is really going on 'under the bonnet', so carrying out a proper PPI through a reputable Part 145 facility alongside independent technical oversight is essential."

The consequences of overlooking such costs can be substantial, both financially and operationally, says Dunlop.

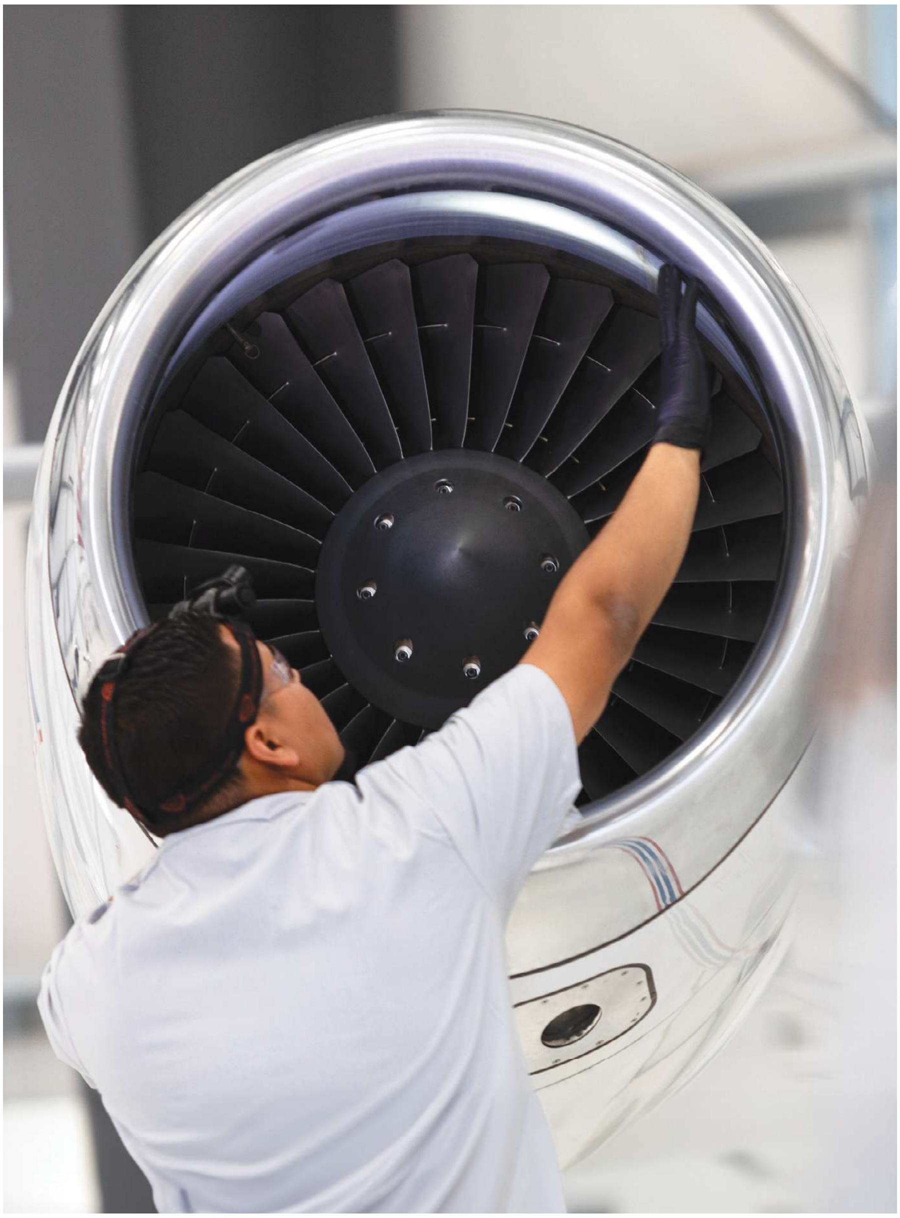
> *...buyers might need a range of upgrades to meet their unique profile...*

"We have seen cases where inspections or record reviews have revealed issues resulting in major renegotiations, delayed closings or substantial remedial costs. In many cases the issue itself is manageable, but it becomes expensive because it was identified too late in the process."

Aurelie Millet, Vice President of Sales at Opus Aero, identifies that while, most obviously, the PPI could lead to immediate maintenance or cosmetic work – "a PPI may uncover engine, avionics, or corrosion issues that require significant corrective action" – more broadly, buyers might need a range of upgrades to meet their unique profile, such as Wi-Fi, avionics, interior refurbishment and beyond.

Aircraft Acquisition: Escrow, Registry & Tax Need to Factor

Brian Macbean, Director of Credit & Sales at AOPA Finance, highlights the impact of escrow, international registry and tax implications, based on the desired ownership structure. These costs go beyond money to include the buyer's time, which can often outweigh the financial implication alone.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> *The greatest cost is often time...*

"If any one of these aren't completed correctly up front, the cost in terms of both time and money increases dramatically," he shares. "The combination of the immediate and long-term costs of having to correct something can easily equal or exceed the deposit for the aircraft."

Stephan Krainer, CEO of Primus Avia, meanwhile, stresses the potential impact of legal fees, escrow, title search and similar costs. Missed liens from incomplete title searches have delayed closings by months, he says, noting that the combined costs of legal, title search and escrow fees can be tens of thousands of dollars.

"Buyers who fail to budget properly often face cash-flow strain or must renegotiate (or walk away) after significant sunk costs in inspection and legal work," he says, additionally highlighting the impact from ferry/delivery costs, initial insurance deposits, sales and use tax, registration fees, and more.

Dunlop agrees, noting that buyers often underestimate a range of legal and transactional costs, which can also include financing fees, insurance adjustments, ferry flights and customs or VAT. "Softer costs can also quickly accumulate," he adds. "So it's important to factor in management time, delays, downtime, and the impact of poor coordination between parties."

Cross-border transactions, especially, can become complicated very quickly, Dunlop says. "Export requirements, customs duties, VAT, insurance obligations and financing structures all need careful consideration.

"If decisions are left too late, buyers can expose themselves to avoidable costs, delays, or regulatory complications."

Millet highlights some of the potential costs related to charter or registry standards, which can be substantial if the aircraft is not already configured to the intended specification. Additionally, there might be costs if the purchase is delayed, such as chartering a supplemental aircraft, or retaining crew while closing is postponed.

"These expenses are often modest compared with the purchase price, but together they can materially change the all-in acquisition cost," she says.

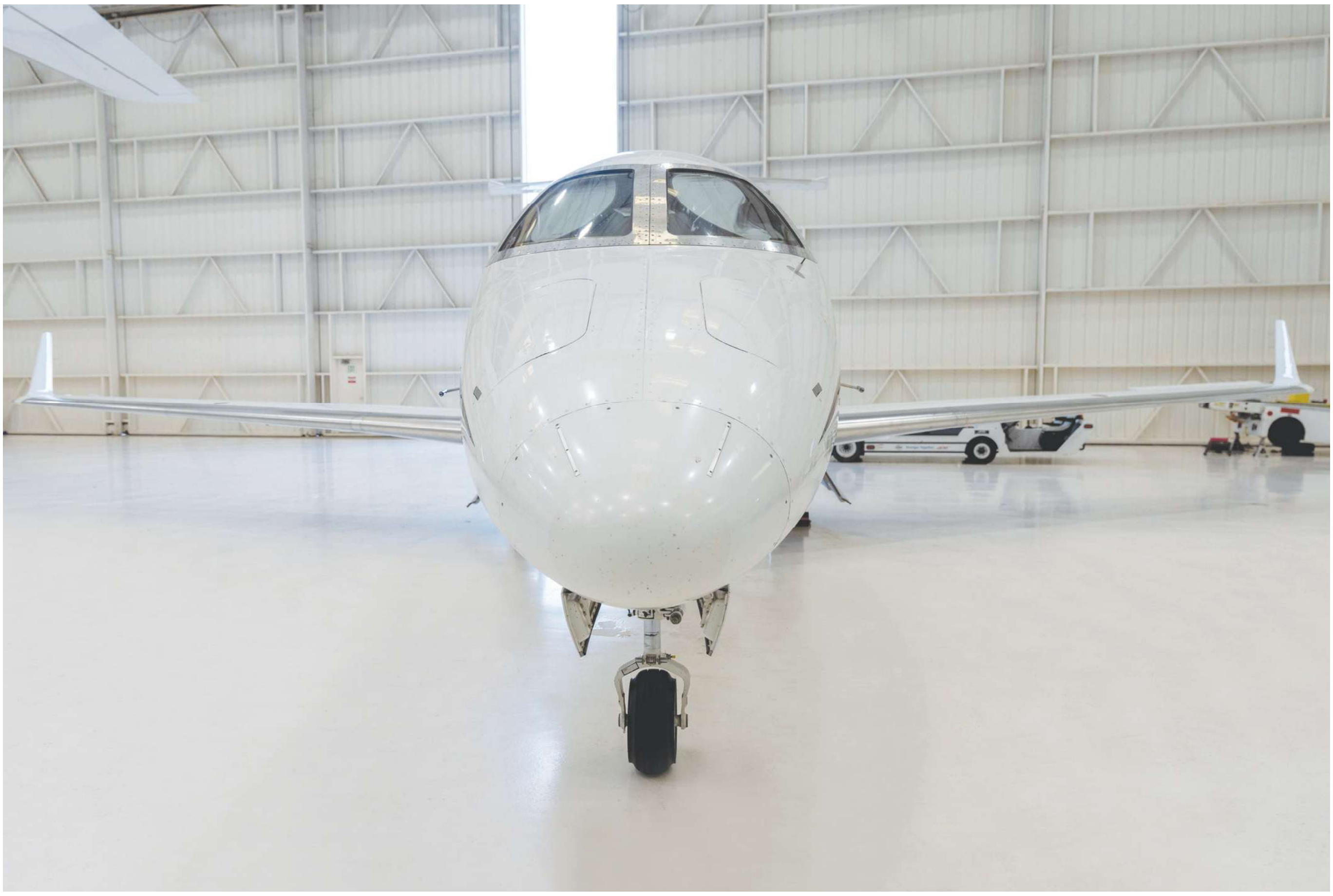
"The impact can range from a few thousand dollars to several hundred thousand dollars, depending on the aircraft and the intended use."

Millet outlines the scenario where a buyer acquires an aircraft believing it's immediately suitable for charter, only to discover that additional equipment, documentation and modifications are needed to meet commercial standards. This can delay entry into service and create six-figure costs, she says.

"The greatest cost is often time," she highlights. "Lengthy inspections, unresolved discrepancies, or title issues can tie up deposits and force the buyer to continue using charter aircraft while waiting to close."

The Cost of Missed Due Diligence…

Tim Barber, working in Aircraft Sales & Acquisitions in the EMEA region for Duncan Aviation, similarly highlights the impact of costs and delays when an aircraft is purchased that doesn't ultimately meet the buyer's needs.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"In short, the aircraft won't be used whilst it's undergoing work, so our focus is always on finding the most precise match for the client's needs," he says.

The "buying frenzy" in the post-Covid period, when "people were being forced to buy with no PPI or a minimal inspection has left a legacy that's still being felt by owners who purchased aircraft without professional support or due diligence," he adds.

The most significant unexpected costs are often incurred when buyers simply fail to pay the correct price for the aircraft in the first place, "missing out that they don't have engine programs or don't have full coverage, or there's a significant cost exposure due to a forthcoming check, or the fact that there are blanks in the maintenance/logbook history that will significantly impact resale price."

And Lee points out the potential impact of upcoming major inspections and deferred maintenance, as well as issues such as an impending overhaul for engines or components.

"What initially appears to be a well-priced aircraft can quickly require a significant capital injection shortly after closing if these factors are not fully modeled."

And he warns of costs associated with the negotiation process itself, which can easily be overlooked. In particular, Lee says buyers often miss the cost of prolonged negotiations, which can be a significant issue in dynamic markets.

> *...he warns of costs associated with the negotiation process itself...*

He reveals that he has often observed negotiations for a multi-million-dollar aircraft stall over $10,000 or less, or seen brokers grow frustrated over a $5,000 impasse to a big deal, sometimes even offering to take the sum from their commission to break the logjam.

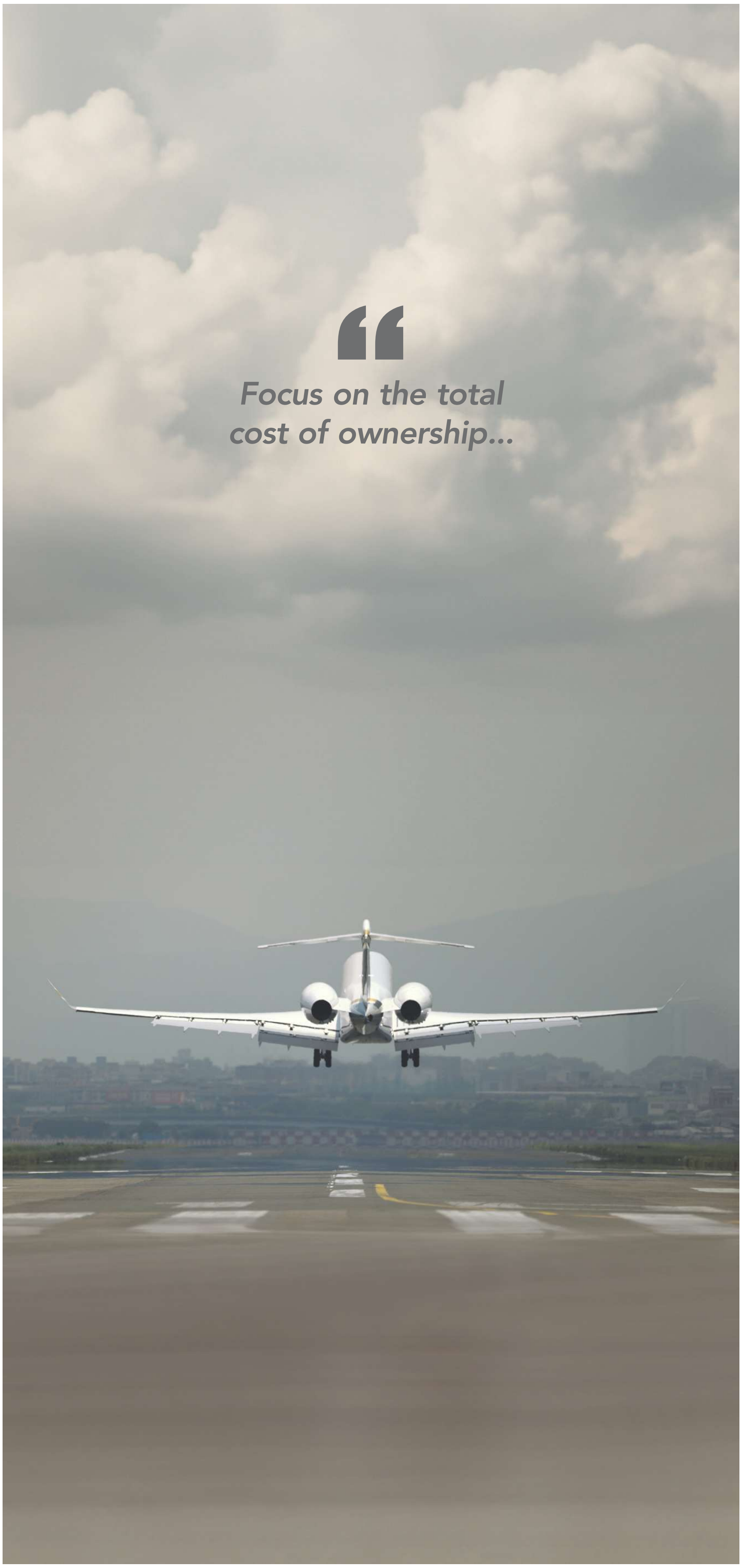
Such issues can bite buyers if the market shifts during negotiation. "The sad truth is we see clients want to get every dime out of the negotiated price or negotiated maintenance completed prior to acceptance and, during that time, the price of the used market shifts upwards," he explains.

"If the deal falls apart, now the buyer must go back into the market with a larger acquisition budget which may be a lot more than the small amount they lost the current deal over."

Sean O'Leary, Regional Vice President of Sales, Americas, at Jetcraft, says inadequate market research is the number one overlooked cost for buyers, alongside the PPI. He says brokers must work with customers "to ensure there are no nasty surprises for buyers, such as post-closing operational costs or additional import duties."

For example, he says that some buyers haven't budgeted for additional transaction and operational expenses.

"Most importantly, having your finances aligned before the buying process creates the strongest position for negotiations." ↳



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Marton Modis, Chief Commercial Officer - VIP Operations, Klasjet, warns that the most commonly overlooked cost is the infrastructure required for regulatory compliance, specifically when it comes to maintenance.

"Detailed research is required from the maintenance perspective, so that at the first larger maintenance check an unexamined issue does not come up, which can cost seven figures to fix."

He adds that the traditional concept of full ownership may be unnecessary for some operators.

How Business Aircraft Buyers can Prepare for Success

Preparation makes the biggest difference when it comes to avoiding unexpected costs, according to Jackson. This includes engaging experienced advisors in everything from an aircraft broker to the legal team – as well as defining what an acceptable aircraft condition looks like before entering a transaction.

"It is also important to plan for inspection outcomes, rather than assume a clean report," he says. "Building flexibility into both the budget and timeline reduces friction. Most importantly, buyers should focus on the total cost of ownership, not just acquisition cost."

Indeed, Krainer recommends budgeting 8-12% above the purchase price, from the outset, and to treat due diligence as a non-negotiable. "The more detailed the PPI at a reputable independent facility, the better. [Also] use a professional escrow agent and conduct thorough title/lien searches."

Millet stresses how vital it is to conduct a thorough records review before committing to a full inspection. Buyers should use a detailed purchase agreement with clearly defined contingencies, and they should obtain realistic estimates for PPI findings and likely post-closing work.

Additionally, she says buyers should confirm the tax implications and ownership structure in advance, and understand any requirements for charter, financing and registration before making an offer.

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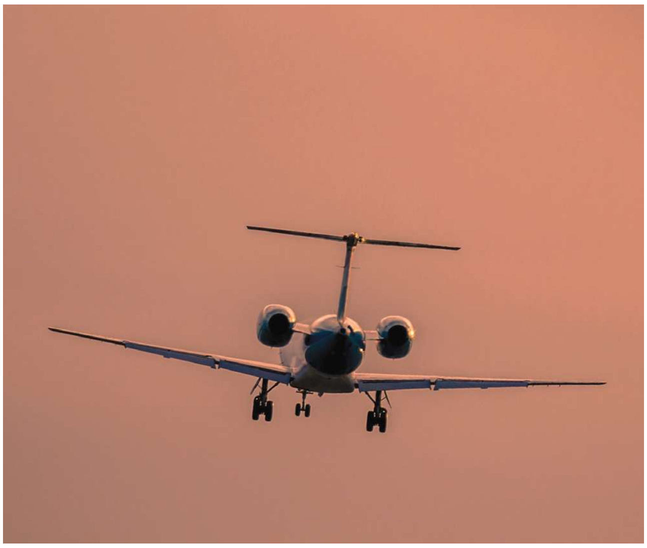

"An experienced broker can often identify hidden costs before they become expensive surprises," she adds.

Understanding the process properly, before making commitments is crucial, adds Dunlop. This includes technical due diligence, proper records reviews, legal oversight, tax planning, and operational requirements before contracts are signed. "Buyers should be prepared to budget for these contingencies."

When buying an aircraft, costs can escalate quickly, often for entirely avoidable reasons, concludes Dunlop. "The key is proper oversight, good communication, and experienced management of the process from beginning to end." ▮

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GERRARD COWAN
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