

Mente Group: the 'Formula' is Changing

TIM KERN

Note: This is one of the most-revealing and interesting interviews I've ever held on the subject; I thank Mente Group's founder / CEO Brian Proctor and COO Richard Emery for their insights and openness. Quotes are attributed to the specific contributor. –Tim Kern

As the worldwide economy and the U.S. dollar strengthen, do you see new trends in jet sales?

One fundamental trend is that market prices continue to decelerate, even as sales numbers, particularly in the US, are accelerating at a great pace. (Proctor)

With increased demand, Why aren't prices increasing?

There's a strong correlation between prices and international currency markets. We are anticipating that the US dollar will remain strong. International sellers will be attracted to this market. They can drop their price and still perhaps net more than they paid for their airplanes. (Proctor)

Is the increase in demand due to more buyers who are able to afford airplanes, rising costs of maintenance on older jets, looser financing...?

There are a number of factors contributing to the increased



CEO Brian Proctor

demand for aircraft. We're coming out of a cycle where a number of companies have held on to their aircraft much longer than they had planned. Given the economic conditions in some of the developing countries there are aircraft that are coming into the market that are relatively young versus past cycles. When you add the fact that manufacturers have to keep rationalizing their production, which takes time, it creates a very good buyer's market. (Emery)

Is the proliferation of good refurb and completion houses making choices between a used and a new aircraft more or less difficult?

Both, and that is why we have launched our completions and refurb service. A lot more buyers of used aircraft are looking at the value in refurbishment. Look at a G550, a few years old. Maybe it's \$19 million. Then you do a total refurb for \$3 million, and you can have the look and feel of a new, \$45 million dollar G550. And with predictable maintenance programs,



COO Richard Emery

it's easier to estimate future costs, so of course the mission profile figures strongly into the calculus. (Emery)

You mentioned completions. Are there a lot of white tails, just waiting for bargain-hunters?

We're seeing a few more white tails, but the OEMs have done a good job of matching production to demand. There's no glut, though we see inventories here and there.

We have several clients buying new airplanes. A lot of buyers are taking advantage of the general buyers' market. Still, manufacturers are smart, and they have reduced their production schedules over the past few years; prices have dropped a bit, and manufacturers are maintaining their margins as best they can. (Proctor)

Have there been noticeable changes in demand, by size or model?

There's an ebb and flow. There are a lot of super midsize and large-cabin

deals at the moment while the ultra-long range market seems to have slowed a bit. (Proctor)

The long-range airplanes, there's still a demand for those, but it's a finite market. We're seeing an increase in large and midsize transactions. The operating costs aren't all that different, and when you factor in maintenance programs, the proposition becomes pretty affordable. (Proctor)

Examples: there's a lot of people moving up from turboprops into affordable jets. Look at Embraer for a moment. The Phenom 100 is well-placed in charter and air taxi; the cabin is big enough, comfortable enough; range is long enough. It's inexpensive to fly, and easy to maintain.

The 300 is a nice-size cabin, good cockpit, and it's priced right. That's a good combination for an owner-operator. At the other end, Legacy 650 is a niche airplane – you need the right buyer with a particular mindset. (Emery)

How do clients make mistakes?

They don't consider everything, realistically. A \$5 million 900EX looks good, but remember there's a C-check every six years, and it's going to be three quarters, a million, even a little more than that. Can it be a fabulous value proposition? Sure – but compared to what? The 900 might represent a tremendous value proposition, but compared to the Challenger 605 or Falcon 2000 ... you have to look at the whole picture – it's an expensive airplane to maintain. (Emery)

Still, you see the Challengers, 450s, 900s and 2000s – there's a lot of activity in that class right now and we believe the market is firming up. (Proctor)

Any "formulas"?

For some reason, there seems to be a 'magic number' in the market right now. You can buy pretty much any airplane you want for under \$20 million. The market below that is very, very good. (Proctor)

What is the biggest change in buyer behavior that you've seen?

I'd say, it's the idea of zero residual value. A buyer plans to make the investment and fly it six to eight years. They like low entry cost, and plan on low maintenance expenses. After six years, they've had their utility. Residual value isn't in the calculation. The airplane

is used up. And it's a change we see in the lower end of the market. Maybe twenty percent of buyers have this new outlook. (Emery)

An example?

It changes with the airplane class. Look at an older Lear 45 that you can buy for \$2 million. You plan at the outset to put \$200-300,000 into it, right away, and you have a nice airplane, but over 6-8 years, you expect it to depreciate completely. A \$2 million Lear 45 with \$200 thousand in it – all you can lose is \$2.2 million, over 6, 7, 8 years – that's a great deal, better in many cases than fractional ownership – and you have unlimited access to that airplane. (Proctor)

We help clients realize all the costs; not just acquisition. Our number one goal is to help our clients acquire the right transportation solution for them without any surprises. We want our customers to be long-term users of aircraft. (Proctor)

Do you buy Inventory Aircraft?

Once in a while – four, five times a year – we will find an opportunity to purchase an aircraft for inventory. The key to being successful is having very good market data. That's where our combination of transaction and asset management services gives us an advantage. Being in market coupled with our interaction with financial institutions gives us real time data that helps us take advantage of inventory opportunities that arise. (Proctor)

Very occasionally, and we're very open with the client about this, we will facilitate a risk-sharing arrangement with a client. We have a handful of effective options, but as I say, we are very transparent, very careful. (Proctor)

What's the future?

Trick question, but generally, we're optimistic about the market – people are recognizing the need to simplify their business. That is increasingly true in our industry. It's a complicated market. Values, prices are all over the place. It's model-specific. It's probably more crowded than it's ever been.

People come to us based on our reputation – we are entirely customer-oriented, not transaction-based. In this environment, you need help with the process. You can easily find yourself on the wrong side of an airplane

transaction which is very expensive. (Emery)

How do you save clients money?

Some people have flown on an airplane and simply decide to buy an airplane like the one they flew on; they find a guy that'll sell that type of aircraft for what they perceive to be an inexpensive price, but then the operating costs put them out of business. Let's look at a \$6 million G-IV SP, all-up. Sounds good, but one maintenance event can cost you 40% of the value of the airplane. It might be a good deal, but an individual buyer can get lost in the future costs. (Emery)

What is the future of Mente Group, and what should be the ultimate take-away from this interview?

Both Brian and Richard agreed, "Our plan this year is to continue to grow our business and our services, such as our completion management business and our new tool, Smart Value Services, which helps financial institutions and corporate flight departments accurately value their aircraft.

"We provide unmatched market intelligence and a disciplined process that gives our customers a very positive experience. There is no other firm that has the transaction, industry, asset management and technical expertise resident under one roof.

"At the end of the day we typically save our customers a substantial amount of money equal to a very large multiple of our fee. We save you money." ■