Sounding Board

Five Minutes With Shawn Vick, Global Jet Capital Chairman, CEO

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Shawn Vick is the chairman and CEO of Global Jet Capital, which helps corporations and individuals with the leasing and financing of new and pre-owned business jets. Vick has held leadership positions at British Aerospace, Gulfstream Aerospace, Bombardier, Landmark Aviation and Hawker Beechcraft. He is also a partner and member of the investment committee for AE Industrial Partners, a private equity firm. And he is a private pilot.

Q. At the National Business Aviation Association Convention & Exhibition in October, Global Jet Capital had been having a banner year with an increase in the leasing and financing of business aircraft. Things changed suddenly with the COVID-19 pandemic. What is happening in the pre-owned market today?

A. Leading up to March the pre-owned market–frankly the entire transaction market, new or pre-owned–was performing well when compared to the same period last year. Activity began to slow late in the first quarter as the virus took hold and demanded everyone's attention. I think the beginning of this story is now well understood. Global reaction to the virus resulted in a fundamental shutdown of the world's economies and business aviation was no different. As we sit here today, in the middle of May, flight activity is beginning to pick up–which is a very good sign. Transaction activity remains slow but has not ceased, and we feel there are a lot of owners and operators sitting tight right now waiting to see how this situation evolves. Despite the uncertainty, one thing is very clear–business aviation in the context of a global pandemic will be the most desired form of transportation as the world begins to get back to work.

Q. What is your focus now?

A. Since the beginning of this crisis, we've been primarily focused on the health and well-being of our employees. This began in February with the shutdown of our Hong Kong office and a full review of our disaster recovery plan, which includes a chapter on managing the business remotely. Since that time our Zurich, Danbury, [Connecticut]; Boca Raton, [Florida]; and Mexico City offices closed, and we have all been working remotely. While it's been far from ideal, with the support of our video conferencing platform it's been surprisingly efficient. We've also been using this "pause" in industry activity to focus attention on internal operating efficiency projects, including the transition to a new operating platform and commercial excellence initiatives. With respect to our current portfolio, we've naturally been paying very close attention and I'm happy to report the portfolio is performing very well. From a new business perspective, we entered 2020 with a very healthy backlog fueled by a new predelivery payment financing product we launched last year. As the crisis took hold, we managed to close several deals that were in late stages, and we are currently working with a number of clients on lease renewals and extensions. Moving forward, we are now beginning to explore reopening offices and getting our employees back to work in the safest way possible and in line with local government guidelines.

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Q. What do you see for business aviation in the near term?

A. I think the answer to that question lies in the duration and severity of the financial disruption, and I'm not sure anyone has a crystal ball right now. But if the disruption is limited and we are heading in the right direction in the July/August time frame, with the economy beginning to rebound and the unemployment rate falling, I think that bodes well for our industry. These aircraft are as precious as they've ever been, particularly when one's safety and security are a priority and you factor in social distancing. I think the bottom line is quite simple: If you can afford these assets, you're going to keep these assets–and if you don't have one and you can afford one, you're likely

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going to acquire one.

Q. What about aircraft values?

A. I really think it's too soon to say, but there is data we can look at for guidance, likely the most important of which comes from the OEM production environment. Most industry analysts are predicting a drop in new deliveries in the 30% range, meaning roughly 450 deliveries this year versus the original projections that were well above 700. And, it's important to note, these are supply side forecasts at this stage–not demand side. As difficult as this is for the entire ecosystem, it may well act as a guardrail against significant devaluation. Also, we are not seeing a rash of distressed sales or a spike in new aircraft being listed for sale. In fact, these numbers have been coming down in recent weeks. Our sense is that owners and operators understand the value of these assets in this new context and are sitting tight as the situation unfolds.

Q. How does this downturn compare to the recession of 2008 and 2009?

A. It's interesting that so much of the speculation is based on comparisons with 2008, when there is not much correlation. In 2008 the cause of the economic disruption was widespread failures in the banking systems that put the capital markets in a state of seizure. Right now, we're dealing with the impact of a global pandemic. In comparison to 2008, government reaction and intervention has been swift and expansive. From an industry perspective, OEM production has been curtailed in a disciplined fashion to protect people–but the by-product is protection of backlogs and ultimately aircraft values. This is clearly a different environment.

Q. What about the health of the business aircraft manufacturers?

A. If you look at the impact of the Great Recession, several of the manufacturers got caught between a rock and a hard place with an almost instantaneous shutdown of market demand coupled with long supply chain agreements that were difficult to contractually modify. They really had no choice but to drive new product into a down market. Today, as a result of those lessons learned, the OEMs and the entire supply chain is far more agile. At this stage, this is a supply side problem resulting from shutdowns and furloughs across the entire ecosystem designed to stall the spread of the pandemic. From my perspective, everybody went into this situation together and everybody's going to come out of it together.

Q. What do you foresee as the split in demand from the North American and international markets?

A. During the buildup leading to the Great Recession, the market shifted from being heavily dominated by the U.S. to a 60-40% international versus domestic split. Everyone thought that was going to be the new normal as the BRIC countries [Brazil, Russia, India and China] flourished. But as we now know, due to a variety of internal and external factors, with exception to China, the BRICs have not dominated the global economy as once predicted. The result, in term of business aircraft, is that over the past decade we've seen a dramatic shift back to U.S. dominance of this market. This dominance will likely ebb and flow to some extent over time, but there's not a lot of data to support a major shift back to international dominance.

Q. Are there any concerns on the international front?

A. The sooner we can get through our current trade dispute with our largest trading partner and sit down at the table and have productive, meaningful and material discussions rather than throwing sticks and stones at each other and turning this pandemic into a political discussion, I think the better off we'll all be. I also believe that will ease tensions, creating a more positive environment for the global cooperation that will be required to get the world's economy working gain. I'm off my soapbox.

Q. How has aircraft financing changed or not changed so far?

A. Unlike the Great Recession, where the global banking system suffered from a near-complete lack of liquidity and the capital markets seized up, the banking system right now is in good shape. Liquidity is sound and capital is available. Despite this, lenders are being very cautious for the time being. This is completely in line with the overall industry "pause" that we are all experiencing. The aircraft financing industry will continue to monitor the overall economic environment and the health of the business jet market in order to better understand the impact this disruption is having on demand and, more importantly, aircraft values. Let's face it: Finance and uncertainty do not coexist very well, and you could argue that we are currently at a point of maximum uncertainty. As the impact of the pandemic becomes clearer and key market indicators related to supply and demand settle into a new normal, the aircraft financing industry will follow suit.