MARKET REPORT Q4 2023

The Falcon 6X was certified in November, but deliveries began only in February 2024. The aircraft is posied to lift Dassault Aviation's results in 2024. (Photo: Dassault)

Industry Remarks

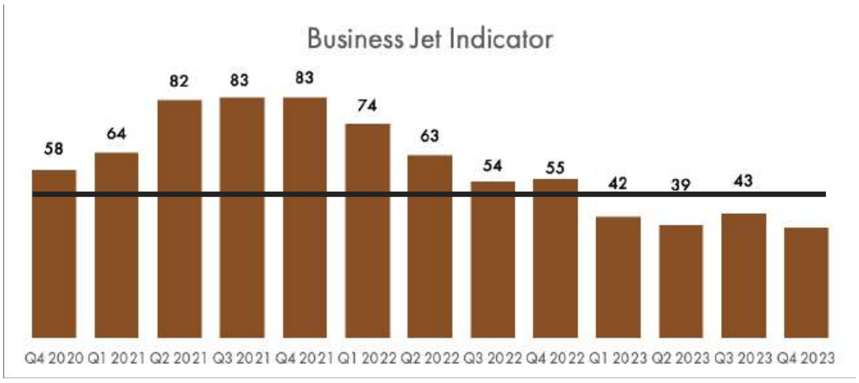
- The number of used jets for sale grew by 40% during 2023, an average incremental rate of 2.8% per month. Interestingly, the average price in December was 5% higher than in January, while the number of days on the market fell by 17% over the period. There was a curious combination of increased supply and liquidity with price recovery.

- If we look at the increase in transactions on the secondary market, we find an average growth rate of 3% between January and December - see graph. The last few months of the year registered a peak in resales, consistent with functioning of the market. The year ended with 4.58% of jet stock available for sale, a healthy figure for the industry.

- For the large and ULR segment, stock ended the year 44% higher and average days on market fell 7%. However, in this category, the average asking price dropped 11% between January and December, a more coherent relationship between the indicators. This combination still shows a market that is consistent and tending towards stability.

Indicators

The Barclays Business Jet Indicator showed industry confidence below 50 throughout the year and settled at 38 in December 2023. The industry still needs to recover from supply chain issues, problems with engine maintenance, and global geopolitical issues.



Stabilithy Threshold = 50

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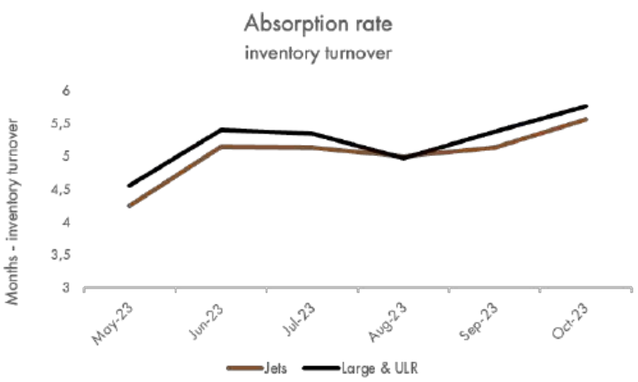
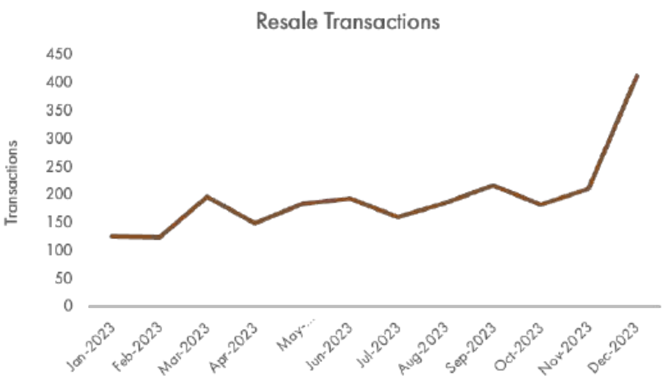
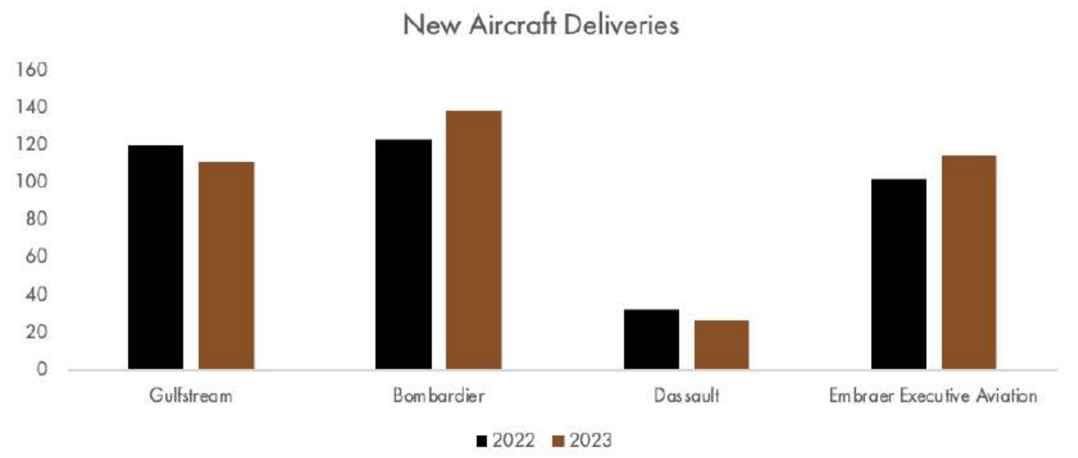
Source: Bombardier/Barclays
* The Business Jet Indicator is a measure of market confidence from industry professionals, gathered through regular surveys of brokers, dealers, manufacturers, fractional providers, financiers and others.

Secondary Market





Source: AMSTAT



General Dynamics (Gulfstream's Parent Company)

- Reported 4Q 2023 net earnings of $1 billion on revenue of $11.7 billion (a growth of 7.5% over the same period of 2022. Diluted EPS (Earnings Per Share) was $3.64. For the whole year, the company reported net earnings of US$ 3.3 billion and revenue of US$ 42.3 billion (+7.3% over 2022). Diluted EPS was US$ 12.02.

- The company generated a record free cash flow of $ 4.7 billion during the year, or 42% of net earnings.

- Company-wide book-to-bill was 1.1:1, and backlog reached $93.6 billion, the highest year-end backlong in the company's history).

Aerospace Division (includes jet aviation and services)

- Received $3.164 billion in new orders during the quarter, and backlog grew to $20.5 billion. During the year, they had $10.283 billion in new orders, 18% less than in 2022.

- Revenue was $2.744 billion, a 12% increase versus 4Q22. For the whole year, revenue grew 0.6% to $ 8.621 billion in 2023.

- Book-to-bill ratio was 1.15x during the last quarter and 1.19:1 for the year.

Gulfstream

- Delivered 39 units in the last quarter, 1 unit more than in 4Q22. For the whole year, the company delivered 111 jets in 2023, 9 units less than in 2022.

- Expects to deliver around 160 aircraft in 2024. However, the company expects to deliver fewer G280s because IAI, its main supplier, has been affected by the conflict in Gaza.

Bombardier

- 4Q 2023 net earnings fell 11% to $ 215 million during 4Q23, while revenue rose 14% to $ 3.1 billion during the period. Diluted EPS (Earnings Per Share) was $1.37. For the whole year, the company reported net earnings of US$ 490 million (against a loss of US$ 148 million in 2022), and revenue rose 16% to $ 8.046 billion. Diluted EPS was US$ 4.70 for the year.
- The company generated free cash flow of $ 257 million during the year, or 52% of net earnings.
- Company-wide book-to-bill was 1:1, and backlog fell 4% to $14.2 billion.
- The company registered 56 deliveries during 4Q23 (against 49 in 4Q22), and 138 during the year (against 123 in 2022).
- Bombardier plans to increase deliveries in 2024 and targets 150-155 jet deliveries this year.

Dassault

- 4Q 2023 adjusted net income rose to € 886 million during the year (from €830 million in 2022), while revenue fell from €6,929 billion in 2022 to €4.801 billion in 2023. EPS (Earnings Per Share) were € 10.95 for the year.
- Company-wide book-to-bill was 1.72:1, and backlog fell to € 4.646 billion from € 4.690 billion as of December 31, 2022. In 2023, 23 orders were recorded, and 26 Falcon delivered, compared with a guidance of 35, versus 64 orders and 32 deliveries in 2022.
- Dassault Aviation is expecting 35 Falcon deliveries this year. The company should benefit from the results brought in by the Falcon 6X, with the first deliveries finally occurring in February, after gaining certification last year.
- According to analysts, the results from Dassault distinctively seem worse than other peers.
- CEO Eric Trappier pointed to supply chain issues for the declining rate of deliveries, indicating that the problem is more severe with the Falcon production line. “It’s more complicated for the Falcons because there are several supply chains with different suppliers for the 8X, for the 900LX, for the 2000LXS, for the 6X, and also for the 10X,” he told reporters.

Embraer

- 4Q 2023 Adjusted EBIT reached $181.7 million in 4Q23 and revenues fell to $1.975 billion in the period (against $1.991 in 4Q22). For the year, the company reported adjusted EBIT of $350 million and revenues rose 16% to US$5.269 billion in 2023.

- The company generated free cash flow of $318.1 million during the year.

- Company-wide book-to-bill was 1:0, and backlog fell 4% to $14.2 billion.

- The company registered 75 deliveries during 4Q23 (49 executive jets), and 181 during the whole year, a rise of 13% against 2022 (115 executive jets).

Executive Aviation

- The division registered net revenue of $ 603 million during the last quarter of the year. The revenue rose 13% during the entire year to $1.408 billion.

- Book- to-bill ended 2023 at 1.3:1 and backlog rose $400 to $ 4.3 billion.

- Executive Aviation deliveries between 125 and 135 aircraft. Total company revenues in a US$6.0 to US$6.4 billion range, adjusted EBIT margin between 6.5% and 7.5%, and adjusted free cash flow of US$220 million or higher for the year.

How to Interpret the Book-to-Bill Ratio:

The book-to-bill ratio is a valuable metric in industries like aerospace, technology, and manufacturing. It's used to gauge the health of a company by comparing the value of its orders received (bookings) to the value of its products or services billed (revenues) over a specific period, usually a quarter or a year.

Ratio of 1: A book-to-bill ratio of 1 means that the company is billing for as much as it is booking in new orders. This is a stable state and doesn't indicate growth.

Above 1: A ratio greater than 1 indicates that the company is booking more new orders than it can fulfill in the given period, suggesting strong demand and potential for future revenue growth. This is generally seen as a positive sign.

Below 1: A ratio less than 1 suggests that the company is not booking orders as quickly as it is billing them, which could be a warning sign for future revenue contraction.

Factors to Consider:

Cyclical Industries: In industries with long sales cycles, a high book-to-bill ratio might not immediately translate into revenue. It could take time to fulfill these orders.
Supply Chain: A high book-to-bill ratio can be a double-edged sword if the company has supply chain issues. It means there's strong demand, but if the company can't meet that demand, it could lead to customer dissatisfaction.
Economic Indicators: This ratio can also be influenced by broader economic conditions. For example, a low ratio might not necessarily reflect poorly on the company if the entire industry is facing a downturn.