Weitz INVESTMENT MANAGEMENT

An Introduction to Vista

Vista Global Holding Limited (Vista) is a private aviation platform comprised of two established brands, VistaJet and XO. While headquartered in Dubai, 57% of flight revenue is generated in the U.S. and 23% is generated in Europe. The company has six operations hubs and over 20 offices worldwide.

VistaJet, founded in 2004, is a value-driven flying solution for corporate leaders and private individuals. VistaJet passengers have flown to over 1,900 airports in 187 countries, covering 96% of the world. VistaJet's subscription model offers guaranteed availability with as little as 24 hours' notice, globally, on a consistent branded fleet. The VistaJet Members' fleet of over 360 aircraft is capable of continental trips on super-midsize and large-cabin aircraft, to long-range trips connecting continents, and even non-stop 17-hour flights with Vista's stable of 18 Bombardier Global 7500s. Through a three-year contract, VistaJet offers three types of memberships which are largely dependent on the number of hours an individual or entity desires to fly at a transparent, fixed hourly rate. Variability in fuel prices is a non-issue for Vista as costs are passed through to its members.

XO, founded in 2018 as XOJET, offers whole aircraft private charter flights as well as seats on shared charters, seamlessly and instantly bookable through the XO mobile app. Members and clients can request flights on over 2,400 aircraft worldwide, including the 360+ aircraft in the Vista Members' fleet and the safety-vetted XO alliance fleet of 2,100+ private aircraft covering all cabin classes.

Vista has a diversified client base across industry and geography. The top 20 clients contribute to less than 6% of the group's revenues.

DAVID KRATZ

Fixed Income Research Analyst

David joined Weitz Investment Management in 2004. He has held multiple roles with the firm, including client services representative, equity intern, internal wholesaler and product specialist. In 2017, he joined the fixed income team as a research associate. David has a bachelor's in finance, a master's in security analysis and portfolio management, and an MBA from Creighton University.

Prepared for Future Growth

We initiated our coverage of Vista in January 2020. Since then, Vista has transformed from a highly leveraged travel alternative trying to keep up with demand, to a company with improved fundamentals, scaled for future growth with no current need for further fleet investment.

Since our initiation, Vista's revenues have doubled, secured debt as a percentage of total debt has decreased from 67% to a pro forma 49%, and net leverage has decreased from 8.2x to 4.5x. The member fleet has expanded from 115 to more than 360 aircraft. Participants in VistaJet's Program membership (the company's most comprehensive personal membership with a fixed hourly rate and guaranteed aircraft availability) have increased from 500 to 970. Pro forma liquidity is healthy at $280 million, including a fully available revolving credit facility of $145 million.

Vista spent 2022 preparing for future growth. The COVID-19 pandemic led to rapid growth and healthy demand, which encouraged significant expansion of Vista's fleet. Vista added 115 new dedicated aircraft in 2022 through planned aircraft deliveries and acquisitions. Production shortfalls created challenges for Vista and other industry participants to acquire new aircraft, forcing Vista to turn to acquisition for fleet growth. Vista acquired Air Hamburg – the largest private jet operator in Europe by number of flights, and Jet Edge – a leading U.S. provider of large-cabin and super-midsize charter and aircraft management services. Combined, they considerably expanded Vista's scale, offering flexibility and efficiency to their customers. Vista added 240 program members in 2022 and appears on pace for an additional 240 program members in 2023.

Today, Vista's fleet is underutilized, as the company has added fleet faster than customers. Management desires 70% of revenues to be generated by their VistaJet members, but today that number is closer to 50%. In the meantime, XO members can access the VistaJet Members' fleet which is higher margin for Vista than using the XO alliance fleet. In turn, this access to the VistaJet Members' fleet may persuade those using the ad hoc XO mobile app to sign-up for a VistaJet membership. Future growth is expected to be largely driven by transitioning those that own or are contemplating buying an aircraft to instead purchase a VistaJet membership. VistaJet, like most private aviation companies, does not publish a specific price list. Its online comparison tool entices potential members by sharing how much they could save using the Program membership compared to owning a jet. For example, if you were to own a Bombardier 6000 and fly around 50 hours per year, you could expect to save over $150,000 per flight hour with a VistaJet membership based on depreciation and running costs. Even at today's pace of VistaJet member adoption, Vista has years to reach full capacity. Historical retention of VistaJet members has been approximately 90%.

Vista says deleveraging is a top priority. For 2023, management anticipates $250 million of debt repayment through natural amortization as well as continued EBITDA (earnings before interest, taxes, depreciation, and amortization) growth. In addition, the company expects to generate $150 million per year in free cash flow which could be used for additional debt paydown as well. While management does not have a stated leverage target, they have mentioned that a net debt of 3x feels healthy. If we assume $250 million of naturally occurring amortization and $150 million of free cash flow towards debt, it is plausible that net debt could be reduced to 4.0x by the end of 2023; a far cry from the 8.2x in 2020.

Industry

While the pandemic hurt many industries, it actually helped private aviation. Demand increased due to a shift in corporations and high-net-worth individuals' desire to travel safely. New flyers entered the market after the pandemic practically shut down commercial airliners in 2020. These newcomers are generally affluent passengers who would traditionally travel in first-class seats but never thought they needed to fly privately. After experiencing the perks of private aviation – the lack of disruption of canceled flights, crowded airports, and security checkpoints – many will likely be private aviation users for the long haul.

Forbes predicts private jet market growth will continue, and the overall private aviation market will emerge from the pandemic 5% to 10% larger than before. According to Latitude 33 Aviation, prior to the pandemic, only 10% of those who could afford to fly privately did so. Now, research estimates that 79% of people who can afford a private jet are inclined to fly privately. In addition, 53% of new private flyers say they plan to fly privately on a regular basis post-pandemic.

Industry pundits say those that own their own aircraft and fly fewer than 400 hours per year are underutilizing their aircraft. Per the private jet company NetJets, "most evaluations on the cost of a private jet do not account for depreciation, and the variable costs for maintaining and operating a private jet are considerable." This sets the stage for why we believe demand at private aviation platforms such as Vista or the fractional ownership model at NetJets is likely to continue to prosper.

A VistaJet contract and NetJets' fractional aircraft ownership program are quite different. VistaJet is a five-page contract that basically states that Vista has an obligation to transport, and the client has an obligation to pay. Prices range from around $12,000 to $20,000 per hour depending on membership level and aircraft. NetJets has a roughly 150-to-200-page contract including a share-purchase agreement, operating agreement, and surcharge agreement. Fractional ownership requires significant investment and ongoing expenses, including monthly management fees and flight costs.

Currently, Vista has an approximately 2% market share in an estimated $67 billion fragmented market, along with significant whitespace for organic growth. NetJets is the market leader with approximately 10% market share.

Our History with Vista

At our initiation of coverage back in January 2020, Vista was rated: Caa1 by Moody's and B+ by Fitch. As management executed its playbook, positive rating migration followed. Today, Vista is rated B3 by Moody's and BB- by Fitch. As of June 30, 2023, we own Vista corporate bonds maturing in 2027 and 2030 in the Core Plus Income Fund. Our allocation to Vista in Fund is approximately 0.5% of assets and approximately 10% of the Fund's total high-yield allocation. The Vista securities that mature in 2027 trade at approximately 400 bps (4%) wide to B-rated consumer discretionary names, and, if held to maturity, will generate a yield of 11.3%. We believe we are being compensated more than appropriately for the risk.

Looking Ahead

We believe Vista's platform has been scaled to support the next 3-to-5 years of growth. Growth is expected to continue through Vista's contractual, asset-lite offering which continues to demonstrate strong momentum. We believe incremental EBITDA growth can be achieved through fleetwide utilization of program sales and optimizing operations. Currently, management has announced no further M&A targets, no capital expenditure commitments, and no financing needs to bolster liquidity.

In our view, the contractual nature of the program sales combined with Vista's historical retention rate of approximately 90%, ample whitespace for organic growth, lack of additional M&A/fleet needs, low capital commitments, annual free cash flow generation, and reasonable liquidity indicate that strong fundamentals are here to stay through the maturity of our allocation.

Continued deleveraging is expected via EBITDA growth, the natural amortization of fleet debt (which increases free cash flow), possible leverage-neutral unsecured issuances to unencumber the balance sheet and debt reduction via free cash flow. It is conceivable that further ratings upgrades are possible and spread compression warranted.

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