

# Survey: Who owns business jet operators?

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## Table of Contents

1.0 Executive summary .....	4
2.0 About Corporate Jet Investor.....	5
3.0 Introduction .....	6
Chart 1: Ownership of largest charter operators.....	6
4.0 Private owners .....	7
4.1 Aviation entrepreneurs.....	7
4.2 Financial investors.....	8
Table 1: Individuals with significant investments outside of aviation .....	8
5.0 Stockmarket listed aircraft managers.....	9
Chart 2: Hangar 8 share price (blue) versus FTSE All-Share Index (red) .....	9
Chart 3: Perfect Aviation one year performance.....	9
Case study: Hangar 8’s failed acquisition plans .....	10
6.0 Airline subsidiaries and subsidiaries of listed companies.....	11
Table 2: Airlines with business jet joint alliances.....	11
7.0 Private equity.....	12
Chart 4: Investments in operators 2005-2012.....	12
Table 3: Significant investments in operators, fractional companies and card programmes .....	13

## 1.0 Executive summary

- The business jet market is extremely fragmented due to regulatory limits on foreign ownership and the few barriers to entry it takes to launch;
- Although regulatory burdens are increasing, many founders (pilots or mechanics) are prepared to cope with these because they are committed to running aviation businesses;
- Most operators are privately owned and run by owner managers that are not looking to sell;
- Private equity companies and high net worth individuals have shown interest in the sector with deals likely to happen in 2013 and 2014 as the market recovers. However, there is a big spread between what investors want to pay and what owners think their business is worth;
- Some consolidation has happened but new start-ups outweigh the number of mergers and this will continue to happen as people's passion for running an aircraft manager outweighs the (significant) risks in starting-up.

## 2.0 About Corporate Jet Investor

*Corporate Jet Investor* provides information, insight and intelligence on business jet and helicopter transactions. Our events bring the market together.

Over 18,000 professionals use the site each month making it one of the most visited specialist websites in the industry.

Our core membership includes: aircraft owners, corporate flight departments, flight departments, family offices, banks, funds, leasing companies, manufacturers, law firms, maintenance providers, consultants, aircraft operators and others in business aviation. More than one thousand people also subscribe to our weekly e-newsletter.

Members use the site to identify opportunities, find potential customers, meet recommended professionals and analyse risk. The site includes data on different aircraft, a list of upcoming deliveries, an interactive business jet finance finder, listings of recommended lawyers, expert articles and the *Official Guide to Aircraft Registration*.

*Corporate Jet Investor* also organises corporate jet and helicopter finance conferences and events around the world. Recent events have taken place in London, Beijing, Johannesburg and Hong Kong. We also organise specialist training courses focused on aircraft finance. So far in 2012, 100% of delegates to our events have said the events were either good or very good.

We also manage the *Corporate Jet Investor Awards* which are chosen by a committee of aircraft manufacturers and leading brokers and are given to financial institutions and transactions.

For the last three years, our events and website have helped members learn, make better decisions, build business strategies, save time, find the best transaction partners, identify risks and accelerate their careers.

**For a free trial and to find out how we can help you please contact:**

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### 3.0 Introduction

Avinode Business Intelligence provides a list of the 50 operators most active in their charter marketplace. As Avinode is the largest supplier of charter data, this is a good sample of the market.

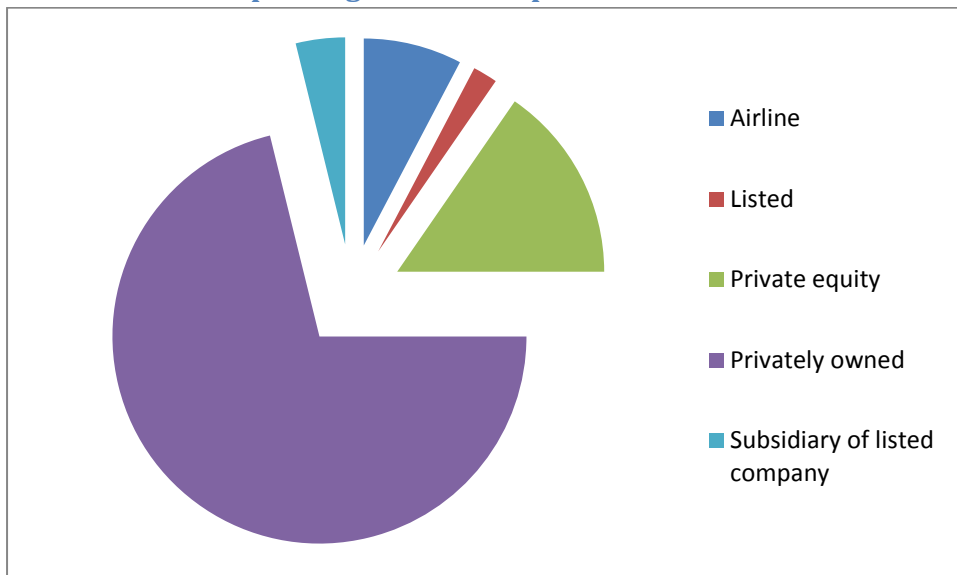
Corporate Jet Investor then added operators that are not part of Avinode and some large third-party managers that do not concentrate on charter.

We then used a mixture of internet research, telephone interviews and face to face meetings to determine their ownership.

The survey purely looks at company ownerships and does not look at the relative size of fleets.

The initial survey took place in November 2011 and we updated it in November 2012.

**Chart 1: Ownership of largest charter operators**



*Source: Corporate Jet Investor*

## 4.0 Private owners

Over 70% of the world's largest aircraft operators are privately owned.

This large proportion should make the industry an attractive one for both consolidation and primary private equity deals.

However, private owners can be split into two types: aviation entrepreneurs and individuals with significant investments outside aviation – and aviation entrepreneurs rarely sell.

### 4.1 Aviation entrepreneurs

The majority of all operators are run by what we call aviation entrepreneurs.

The characteristics of an aviation entrepreneur are:

- Love aircraft and usually very competent pilots or mechanics;
- Typically worked as pilots at other operators and have convinced themselves that there is a gap in the market;
- Usually hard to manage and less interested in administration than operations;
- Often keen to make money by diversifying. This includes broking aircraft, training, selling charter, maintenance and others activities. But with the exception of property investments, they rarely diversify from aviation. These side-activities can also make businesses less attractive to investors due to their volatility;
- Tend to over-value the business to reflect the thousands of hours they have invested and its goodwill rather than its potential return for an investor – this prevents most deals from happening;
- Committed to a career in business aviation and often hope that their family will continue to run the business.

These characteristics mean that while they are often exceptionally good at running an aircraft operator, they rarely sell their businesses.

In several cases, once aviation entrepreneurs have sold out, they later return to the industry with new ventures – Addo Air in Johannesburg launched by one of the founders of ExecuJet is just one example.

## 4.2 Financial investors

As well as aviation entrepreneurs there are some individuals that have made money in other industries and – with the exception of VistaJet’s Thomas Fohr – are typically less active owners.

These financial investors are important to the industry and also take a long-term view of their investment.

“XXX turns down offers regularly,” says a senior manager at one of the largest operators. “He knows exactly what he wants and is in no hurry to sell.”

**Table 1: Individuals with significant investments outside of aviation**

	<b>Source of wealth</b>	<b>Business aviation company</b>	<b>Location of business aviation company</b>
<b>Dermott Desmond</b>	Broking, online gambling, property	ExecuJet	Switzerland
<b>Thomas Flohr</b>	Computer leasing	VistaJet	Switzerland
<b>Manuel Lao Hernandez</b>	Gambling (Nortia Corporation)	Executive Airlines	Spain
<b>Dr. Lutz Helmig</b>	Inherited(through ATON GmbH)	DC Aviation	Germany
<b>Sir Michael David Kadoorie</b>	Power generation (CPL Holdings)	MetroJet	Hong Kong
<b>Andrew Lessman</b>	Vitamins (ProCaps Laboratories)	TWC Aviation	US
<b>Mansour Ojeh and Aziz Ojeh</b>	Technology and others (Techniques Avant Garde SA)	TAG Aviation	Switzerland

*Source: Corporate Jet Investor*

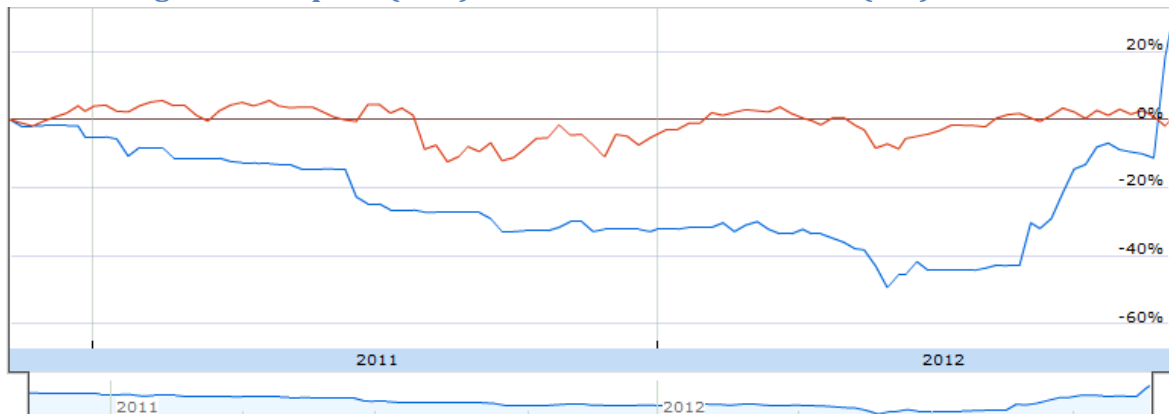


## 5.0 Stockmarket listed aircraft managers

Although there are aircraft managers that are subsidiaries of listed companies, UK operator Hangar 8 – which is listed on the London Stock Exchange’s smaller Alternative Investment Market – is the only listed business jet manager in the 50 most active operators. The only other significant listed aircraft manager is Perfect Aviation, which floated on the SIX Swiss Exchange in 2009. It manages aircraft for owners.

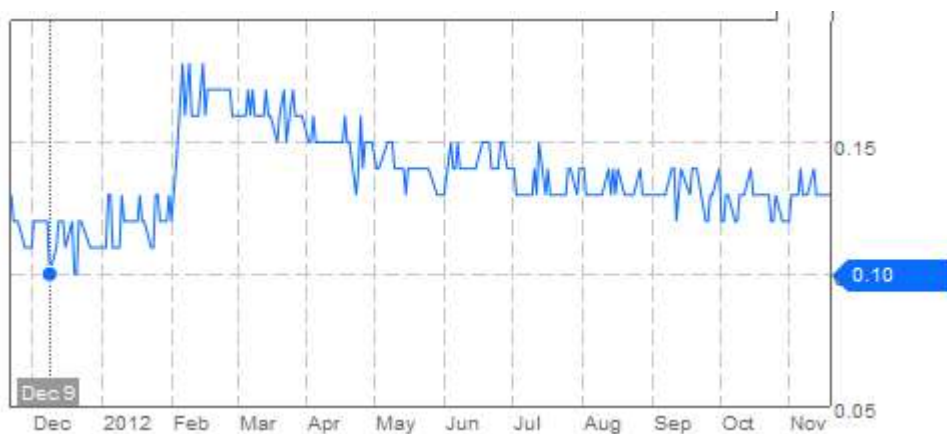
Most of Hangar 8 is still owned by its founder and – like many on the secondary AIM exchange – is not widely traded.

**Chart 2: Hangar 8 share price (blue) versus FTSE All-Share Index (red)**



Source: Google Analytics

**Chart 3: Perfect Aviation one year performance**



Source: Bloomberg

## Case study: Hangar 8's failed acquisition plans

Dustin Dryden, the founder and CEO of Hangar 8, still retains 65% of the company. Dryden is another example of an aviation entrepreneur who chose to get a pilot's license rather than attend university and founded Hangar8 using credit cards. The chief pilot is another significant owner.

It cost Hangar 8, the UK business jet manager, over £800,000 (\$1.2 million) to float on London Stock Exchange's Alternative Investment Market in 2010. A significant amount considering the total value of the shares it sold was about £2 million.

When Hangar8 floated it said it would use the cash to pay for the cost of moving more light maintenance in-house and for acquisitions of smaller operators.

"It was a hell of a lot of money," says Philip Brady, Hangar8's chief financial officer, speaking a year later, "but it has helped us win new customers. They appreciate the transparency and know that if they give us a £250,000 deposit they can be confident about getting it back."

While it has been successful in building its maintenance business, the acquisition strategy has been less successful. Two years later it had used the cash to form a joint venture on Malta and acquire Star-Gate Aviation a South African operator with two aircraft on its air operator's certificate (AOC).

The Star-Gate acquisition took over a year. "It has taken us a long-time to acquire Star-Gate but it is 18 months quicker than setting up on our own AOC," says Dryden.

Hangar8 was able to meet restrictions governing ownership because Dryden, the listed company's majority shareholder, has South African citizenship.

Chris Perry, the founder and owner of Star-Gate, has been issued with shares in Hangar8 worth £330,000 (\$500,000).

"Having the AOC is important to us because it is difficult to find financing for an aircraft in Africa which is not registered on the South African register and 90% of all aircraft are financed," says Dryden. He says Investec, Rand Merchant Bank and Standard Bank - South Africa's most active corporate aircraft lenders - have all approved Star-Gate.

Dryden admits that it has been hard to find acquisition targets. "The problem is that so many of the companies we have looked at are so badly run," says Dryden. "Star-Gate is well run so we bought it."

However, despite bidding for several operators it has been unable to agree either on price or on what Brady describes as "the removal of toxic assets from the target company's balance sheet". He adds: "The main problem is the value gap, and in some cases where we have agreed the price operator's trading has fallen and then you have to negotiate again. As operating regulations become tougher and tougher we expect to see more opportunities with legislation closing out smaller operators."

He says they are also looking at setting up new business organically, with Hangar 8 turning its attention towards emerging markets. "We have established an operating base in Nigeria and are looking at a base in Central Asia," says Brady. "One way that we are reducing risk is through selling a contract with guaranteed hours to other charterers. It also allows us to investigate new markets."

## 6.0 Airline subsidiaries and subsidiaries of listed companies

The final category of owner is large corporates. NetJets (Berkshire Hathaway), Jet Aviation (General Dynamics), FlexJet (Bombardier) are examples of these.

The other significant group is airlines that operate business jets.

Delta Private Jets and Brazil's TAM are the best known airline of operators. However, the fastest growing is DeerJet (also known as Beijing Capital Airlines), which is owned by Chinese conglomerate HNA Group, which also owns Hainan Airlines. It also launched Hong Kong Jet, run by Chris Buckholz, formerly of MetroJet.

United Airlines cancelled plans to launch a business jet operator during the airline downturn following the September 11 terrorist attacks. Both Lufthansa and Swiss have cancelled business jet divisions preferring to rely on alliances.

**Table 2: Airlines with business jet joint alliances**

<b>Airline</b>	<b>Business jet operator</b>	<b>Announced</b>
Singapore Airlines	JetSuite	August 2011
Lufthansa	NetJets	March 2011
British Airways	Citation Air	June 2010
Korean Air	FlexJet	May 2010

*Source: Corporate Jet Investor*

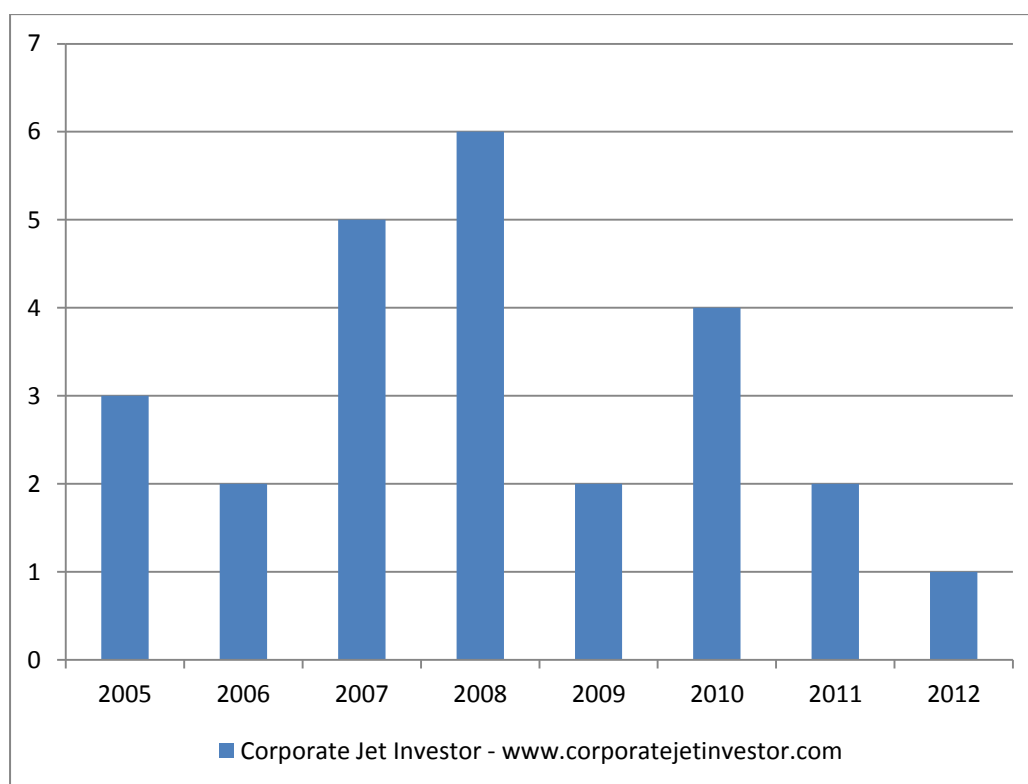
## 7.0 Private equity

Operators and managers account for more than half of all transactions on Corporate Jet Investor's database of significant investments into corporate aviation and this trend looks set to continue with several unannounced deals expected to close in early 2012.

A number of the larger operators are also looking at opportunities to acquire smaller operators, but many potential sellers are waiting for markets to strengthen. Private equity companies expect more deals in 2012 and particularly 2013.

The number of failed deals where investors chose to back very light jet operators is significant.

**Chart 4: Investments in operators 2005-2012**



**Table 3: Significant investments in operators, fractional companies and card programmes**

Company	Type	Country	Investor	Date	Amount (\$m)
Empire Aviation	Operator	UAE	Airworks	Jun 2012	
Sentient Jet	Broker/cards	US	Directional Capital	May 2012	
Oxygen Aviation	Broker	UK	Perfect Aviation	May 2012	
NetJets China	Operator	China	Hony Jinsi Investment Management (Beijing) Ltd, a subsidiary of Hony Capital; and Fung Investments, (families of Dr. Victor Fung and Dr. William Fung, owners of Li & Fung group)	2011	
JetSuite	VLJ	US	Tony Hsieh	Sep 2011	7
JetSuite	VLJ	US	David Neeleman, Arcadia Woods Partners	Oct 2010	
Keystone Aviation Services	Operator	US	Rizvi Traverse Management, LLC, Starwood Capital Group Global, LP,	Aug 2010	
Nomad Aviation	Operator	Switzerland	FAI acquired 60% as part of MBO	Jul 2010	
FAI rent-a-jet AG	Operator	Germany	MIG Marfin Investment Holdings	Jun 2010	
XOJET	Operator	US	TPG Growth, OCL (Abu Dhabi)	Oct 2009	100
Flight Options	Fractional	US	Directional Capital, Resilience Capital Partners	Mar 2009	
FAI rent-a-jet AG	Operator	Germany	MIG Marfin Investment Holdings	Dec 2008	
JetBird	VLJ	Ireland	Middle East trading group	Sep 2008	15
Sentient Jet	Operator/ Cards	US	Macquarie Global Opportunities Partners	Sep 2008	
Privatair US	Operator	US	Gama Holdings (33% owned Growth Gate and Crescent Investments,	July 2008	
National Air Services	Operator/ Fractional	Saudi Arabia	Kingdom Holding Company	July 2008	
Jet Republic	Fractional	Portugal	European American Investment Bank (Euram), Grupo Salinas, Jonathan Breeze (founder), private investors	June 2008	
Keystone Aviation Services	Operator/ FBO	US	Rizvi Traverse Management	Aug 2008	
Landmark Aviation	Operator/ FBO	US	Encore FBO, GTCR Golder Rauner and Platform Partners	Mar 2008	435
Gama Holdings Ltd	Operator	UK	Growth Gate, Crescent Investment Ltd	Jan 2008	
Gama Middle East and Africa	Operator	UAE	Growth Gate, Crescent Investment Ltd	Jan 2008	
Blink	VLJ	UK	Sir Peter Ogden, Celox SA, one other	Dec 2007	30
Flight Options	Fractional	US	H.I.G. Capital	Nov 2007	

Pegasus Elite Aviation	Operator	US	Merrill Lynch, Pegasus Blue Star Fund.	Aug 2007	400
ExecuJet	Operator/ FBO/MRO	Europe, South Africa	Dermod Desmond	May 2007	
DayJet	Operator	US	new investors including eight institutions and private equity funds as well as numerous individuals	Mar 2007	50
DC Aviation	Operator	Germany	Aton Gmbh (family fund for Dr. Lutz Helmig)	Jan 2007	
Empire Aviation Group	Operator	UAE	Dubai International Financial Centre Investments, Zabeel	Nov 2007	
JetBird	VLJ	Ireland	Conrado Dornier	Nov 2006	
JetDirect Aviation	Operator/ FBO	US	Brantley Partners, HSBC Private Equity, ABS Capital Partners V, AIG Co-Investment Fund	Sep 2006	100.2
Dexter	Air taxi	Russia	International Finance Corporation (World Bank)	May 2006	15
JetBird	VLJ	Ireland	Claret Capital	2006	45
JetSuite	VLJ	US	Claret Capital	2005	
Pogo Jet	VLJ	US	Julian Robertson Tiger Management (\$4 million), William Rutledge, former CEO of Teledyne (\$3 million), Don Burrs/Robert Crandall (\$1 million combined)	2005	8
DayJet	VLJ	US	Various including Gates foundation	2005	68
Keystone Aviation Services	Operator/ FBO	US	Rizvi Traverse Management	2004	

*Source: Corporate Jet Investor*