FRACTIONAL market

An AIN Special Report

In this report:

Is the fractional business model broken?

Yes, say some observers, and changes are on the way

by Jeff Burger

Not long ago, the idea of selling fractional shares in business jets looked like a winner. Industry pioneer NetJets–which Warren Buffett had acquired for Berkshire Hathaway in 1998–appeared prosperous, and so did the several other companies that had formed to take advantage of the business model. Flexjet started in 1995, PlaneSense launched a year later, Flight Options debuted in 1998 and CitationAir by Cessna (then called CitationShares) opened its doors in 2000. Avantair–which, like PlaneSense, focuses on turboprops–came along in 2003. There was, it seemed, business enough for all of them.

Today, though, the news about the fractional-share industry doesn't concern the startup of companies–at least not national ones with ambitious plans. With the Great Recession having taken a toll on business jet travel and residual aircraft values, the news these days at the major U.S. fractional providers largely concerns red ink and efforts to stop its flow. NetJets, for example, had accumulated a staggering $1.9 billion in debt as of April 2009 and has since cut staff, moved its headquarters from New Jersey to Ohio and replaced its CEO, industry founder Richard Santulli. Avantair and PlaneSense appear to be doing at least relatively well on a much smaller scale, but CitationAir, Flexjet and Flight Options have all struggled to varying degrees. We've seen furloughs, layoffs, reorganizations and downsizings.

Increasingly, the question being asked is whether the fractional business model even makes sense anymore. And if it does, what do the providers need to do to survive? To address these questions, we talked with industry consultants as well as CEOs at the leading fractional providers. (NetJets CEO David Sokol declined our request for an interview for this article.) None of them predicted the business model's demise but most suggested that significant changes lie ahead.

Upfront Profits

A key problem for the industry is that providers have relied on share sales rather than on operations for their profits, according to New Jersey-based business aviation analyst Brian Foley. "Until recently, they could make all their money on the front end by buying aircraft at deep discount from the manufacturers," he noted. "They were buying in fleets and then divvying up the aircraft at list price to their clients. So they could almost be unprofitable on the operational side because they'd make it up on the front end.

"With the economic change in 2008," Foley continued, "the number of fractional shareowners went down, so suddenly the cash flow made on the front end of the sale went away and the providers had only the operational income to fall back on, and that was apparently a money loser."

Avantair CEO Steve Santo echoed these comments. The traditional business model for fractional operators involved making "a lot of profits on the sale of the aircraft…and not on the operations side," he said. "If you bought a share in a Hawker 400, you were paying considerably more [on a proportional basis] than a person who bought a full aircraft from Hawker. So you've already taken a depreciation hit on the day you sign the contract. And I think those days are really over. The consumer has become so educated on the residual values of the aircraft."

Avantair CEO Steve Santo

Another problem, said Foley, is that the market simply isn't as big as the providers apparently hoped. "Even before the '08 collapse," he noted, "it was clear that fractional owner growth wasn't logarithmic anymore and it appeared to plateau. The providers discovered that there is a limit to that market and maybe there were even too many players out there to support it."

Flight Options placed its first order for the Phenom 300 in 2007 and has been operating the type since May.

Industry: NetJets Phenom 300 Order a 'Good Sign'

Kenn Ricci is principal of Directional Aviation Capital, which owns fractional share provider Flight Options as well as maintenance and modification companies Nextant Aerospace and Constant Aviation. At the NBAA Convention, Nextant announced that Flight Options placed an order worth $150 million for 40 Nextant 400XTs, a re-engined version of the Hawker Beechcraft 400 with new Rockwell Collins Pro Line 21 avionics. Deliveries of the Flight Options 400XTs are scheduled to begin next year.

Flight Options has ordered 100 Embraer Phenom 300 light jets and has been operating the type since May. "I'm glad they're playing follow the leader," Ricci commented when asked what he thought of the NetJets Phenom 300 order. 'We compete with NetJets on different product lines. We'll have a couple of years head start [by the time NetJets begins receiving its Phenom 300s]. We're still the value provider; we're the right guys to take them on."

Consultant and forecaster Brian Foley, president of Sparta, N.J.-based Brian Foley Associates, said that the NetJets Phenom orders "are good news for the industry, but we have to place that into perspective. The average age of NetJets airplanes today is around eight years. What we see happening is a gradual replacement of the fleet. It's not growing. And they're trying to shrink the fleet through selling pre-owned airplanes. We envision NetJets trying to go to four different models to save costs, and we think their first venture into trying to standardize is beginning with the Phenom 300."

The NetJets Phenom 300 order, said Keith Plumb, president and COO of Executive AirShare, "really reaffirmed our decision to be involved with the Phenom 100 and 300. That ratified the decisions we made several years ago. The airplane is ideal for that type of environment. We fly a lot, in a higher-frequency environment. Their [Phenom 300s] start delivering in 2013, so at least we have a head start. We'll have a good mature fleet in operation before NetJets takes its first delivery." *–M.T.*

Nextant's 400XT will join the Flight Options fleet next year.

CitationAir CEO Steve O'Neill commented similarly and went further, saying he dismissed the traditional fractional business model two years ago as being "irrational." Added O'Neill: "There are essentially no new sales of fractional contracts taking place, meaning that there is no new money coming into the fractional business. We give the customers the right to sell us back a share anytime they want and don't get paid for that option. We give them the right to have the aircraft any day of the year and don't get paid for that. It's just not a business model that has proved effective. There's too much risk in it and too much cost for both the provider and the customer."

His solution? "Our current business model has us owning no airplanes," O'Neill said. "We have no core fleet to speak of–I think we have two core airplanes." Instead, he explained, CitationAir sells fractional shares in aircraft that it merely manages. "We've got as much lift as we need–we just don't own it. So we don't have the balance-sheet risk and the exposure to falling aircraft prices that our competitors have.

An Enduring Business

"Fractional is slightly more than 50 percent of our business and it'll probably not get any bigger than that," O'Neill added. "From my perspective, it'd be fine if it got smaller."

Still, there will continue to be a place for fractional aircraft shares, believes James Butler, who is CEO of the private aviation consulting firm Shaircraft Solutions. "There will always be those who want the convenience of being able to call one number and have a single fleet managed by a company that hires and trains its own pilots and has aircraft available and you don't have to do any research or bid out your flight," Butler said. "There'll be people who are willing to pay for that as opposed to a block-charter program where the aircraft come from a menu and there may be some you like and some you don't like and pilots with different experience and training."

Flight Options CEO Kenn Ricci agreed, commenting, "I really don't think the model is broken. When I see the bad press that's been put on corporate ownership [of aircraft], I say, 'Wow, that really does bring us more to a fractional model.' Of course, if I thought that [the model was broken], we never would have made the investment to be in the marketplace. It's just becoming more and more onerous to be on the airlines. I see only a bright future for [the fractional field]."

Other insiders also spoke optimistically about the business model. "Not only do I think it is viable–I think there's plenty of objective proof that shows it's viable," said Flexjet CEO Fred Reid. "Sure, the number of jets in fractional service has dropped, but we're seeing a modest increase in new business. What you've got to keep track of is the exit rate, but it's pretty normal right now."

While declining to provide numbers, Reid claimed that Flexjet has more net customers than it had a year ago and that "by

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WHAT'S WRONG WITH FRACTIONALS?

Fractional share providers need to change to meet the desires of existing customers and potential buyers, according to Brian Foley, president of Brian Foley Associates, Sparta, N.J. One area that he believes is ripe for change is the guaranteed buyback, under which providers agree to buy back shares, usually at market value. Buybacks might have accounted for part of the massive losses at NetJets last year, and Foley said that offering such a guarantee can be "suicidal" for a fractional provider. He believes that more fractional companies will shift to a model like Avantair's, which doesn't include a guaranteed buyback except for customers who sign much longer (seven-year) contracts.

Fractional providers need to look at simplifying their programs more than worry about residual values of shares and overall costs, according to Foley. Jet cards are popular because they are simple and they eliminate the residual risk of ownership and potential drops in value of the asset, he said. For fractional customers, he added, "In our studies it's not about the price with the customers. What's more important to them than price is simplicity and understanding what they're signing." Fractional contracts can be so convoluted that it can take months and teams of lawyers to close a deal, he explained. "[Potential buyers] want to pay today and fly tomorrow. Our advice would be to keep it simple."

Providers could also offer shorter terms, he said, because many buyers are reluctant to sign up for the five-year terms that are typical. Buyers know that business aviation is expensive and their decisions to buy fractional shares aren't necessarily price-driven.

A long-time charter/management industry veteran told **AIN** that he applauds the NetJets purchase of jet card provider Marquis Jet. The deal makes sense, he believes, because the fractional-share model is slowly shifting away from airplane ownership to jet cards, which are easier for buyers to understand and avoid the need for buyers to invest in an expensive asset that might not hold its value. "I think [NetJets chairman and CEO David] Sokol is brilliant," he said. "He's the man with the plan, and I think this is a great move on his part. It makes so much sense because they [Marquis and NetJets] need each other." *–M.T.*

How Fractional Offerings Might Change

What changes might customers see in the years ahead as fractional providers tweak their business model? Here are some of the predictions we heard:

Fewer aircraft models. Some providers, such as Flight Options, have already cut back on the number of models they offer. "I'm not sure there needs to be anything more than a small, a medium and a large offering by a company," commented consultant Brian Foley. "If you have a dozen models, you have the associated costs–different pilot training and maintenance–for each."

Avantair CEO Steve Santo agreed. "We're not going to see companies that have 15 types of airplanes anymore," said Santo, whose operation already limits itself to one aircraft, the Piaggio Avanti twin turboprop. "Before, if you were owned by a manufacturer, you were going to try to offer everything the manufacturer sells to help it sell airplanes. From an efficiency standpoint, that doesn't work."

Higher prices. "I think prices will escalate modestly as jet prices escalate," commented Flexjet CEO Fred Reid. Santo, meanwhile, said, "I think operating costs are definitely going to go up," and Foley predicted, "They'll all raise rates and monthly management fees. In the past, if one tried to raise prices, the others didn't have to follow, but I think everyone's sort of in the same boat now and if you see price-increase leadership, the others will be more than happy to follow."

CitationAir CEO Steve O'Neill, however, said, "I think we should actually see lower prices on operating rates. If we get our cost structure in line, that can happen."

No buyback guarantees. A promise to buy back shares from customers at a given rate "caused a lot of money to go out the door for fractional providers," Foley said. "Avantair doesn't have that provision, and we suspect the others could be following suit." But, said Reid, "The buyback guarantee is one of the selling points of the product. I wouldn't want to speculate that that is going to disappear."

More product types. "There won't just be pure fractional like there was in the past," Foley predicted. "For example, we'll see more flavors of fractional jet cards. The cheaper ones might have more restrictions and blackout days; the premium ones will be more flexible. We'll also see more companies like XOJet, which isn't really a fractional provider and isn't really a charter provider–it's somewhere in between."

Added Reid: "I think the menu is broadening. Perhaps [there will be] easier movement between aircraft types. That's not brand new but we're seeing more of it." Reid also cited his company's five-year-old Versatility Plus program, which allows users who under-fly their hours to sell what they don't use to other owners. "That's an example of adapting to the marketplace," he said. "Also, you can have a Walkaway Lease [another Flexjet product], which confers all the benefits of fractional, costs ever so slightly more because you don't have the capital investment but also provides some flexibility because you don't have the capital investment."

Smaller service areas. "Because of the competitive nature [of the business]," Santo said, everybody kept expanding their service areas and it led to more repositioning. People were flying deep into the islands and we didn't have any chance of somebody flying back. So we were positioning the airplane at our cost. I think we're going to see some shrinking of the service areas."

New alliances with airlines. Fractional providers are starting to cut deals with airlines, making it easier for their shareowners to arrange and make trips that involve both private flights in the U.S. and first-class airline flights internationally. Two examples: Flexjet's new collaboration with Korean Air, which Reid described as "an example of creating sources of revenue that didn't exist before," and CitationAir's recently announced alliance with British Airways.

More variable pricing. James Butler, CEO of Shaircraft Solutions, said providers will need to match services more closely with costs. "For example," he explained, "I see a company like CitationAir basically saying, 'Look, if you want to have first right [to aircraft] on 340 days, it costs this and if you want 350 days, it costs that.' [We'll see] those kinds of things, where people can choose the level of service they want and the cost that goes with it."

Said O'Neill: "Most of our customers choose the nonpeak-day options and enjoy the savings of not having to pay a premium to fly any day of the year. I think it's likely in the future that we'll also see differentiated pricing on locales. So, for example, if you fly routinely from Teterboro to Palm Beach, you should not pay as much as the person who flies from North Dakota to Oklahoma."

And, said Santo: "I think you'll see a business-usage plan where the guy is going to fly Monday to Thursday. And then you'll see a higher-priced program for people who are flying on the busier days. So you'll see more of an airline approach, I think, to a lot of the programs."

More light-jet and turboprop shares. Flight Options has ordered 100 Embraer Phenom 300s, hoping that the model's relatively low operating costs will appeal to customers. Meanwhile, Butler predicts more interest in turboprops. "I see people taking a very sharp pencil to the cost side and looking to see whether much of their flying can be serviced by the turboprops," he said. "Especially people flying up and down the East Coast or Texas to California, Texas to Colorado, those kinds of flight.

"One company that I think is doing sort of well is Avantair," Butler added. "It is offering a slightly slower aircraft that people like and the cost structure is attractive. I hear people who have been in cards or with the major fractionals saying, 'I can accomplish much of what I want to do at Avantair and the other stuff I can figure out with charter or something like that.'" Avantair's statistics appear to back that up, as it claims that 80 percent of its recent new business has come from customers who previously owned shares with one of the four largest providers. *–J.B.*

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disposing of a small number of airplanes and rightsizing the staffing," his company returned to profitability in November 2009. "Since the beginning of the downturn in the fourth quarter of 2008," Reid said, "we've already seen people get out of fractional, buy a card, the card expires and they come back to fractional. So we've seen movement down and back up the food chain."

Flight Options' Ricci did concede that jet cards could wind up being more popular than fractional shares. "It all depends on the price that companies in the aircraft financing business put on residual-value risk," he remarked. "If they price it based on what happened in 2008, the cost of leasing aircraft will push jet card prices so high that it may drive people back to the fractional model. Once you tell me what my financing costs are going to be…I can tell you where cards will be priced versus fractional. When we know that, we can decide what model's better."

Flight Options CEO Kenn Ricci

Regardless of what happens with financing and residual values, however, Butler foresees shrinkage in at least one segment of the fractional market. "What's going to be more and more difficult to sell to non-business travelers is the idea of using their capital to purchase the aircraft," he said. "Fractional will continue to work for businesses that can use the depreciation and that otherwise might be looking at purchasing an aircraft and having to manage it and have a flight department. But I think

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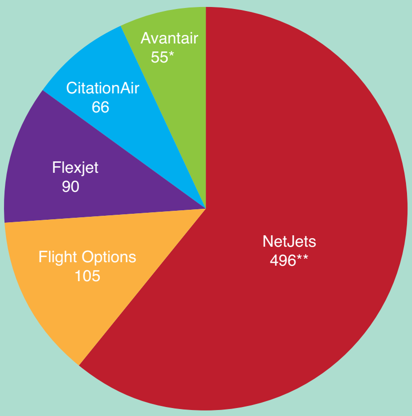
FRACTIONAL FLEET SNAPSHOT

The fleets of the major fractional providers have changed little over the past year, according to numbers provided by the fractionals and researcher Pierre Parvaud. In its latest quarterly report, Berkshire Hathaway reports that its NetJets subsidiary "continues to own more aircraft than required for present operations and we expect to continue to dispose of selected aircraft over time." Clearly, the fractional providers have been in a stable mode for some time, at least with regard to the sizes of their fleets.

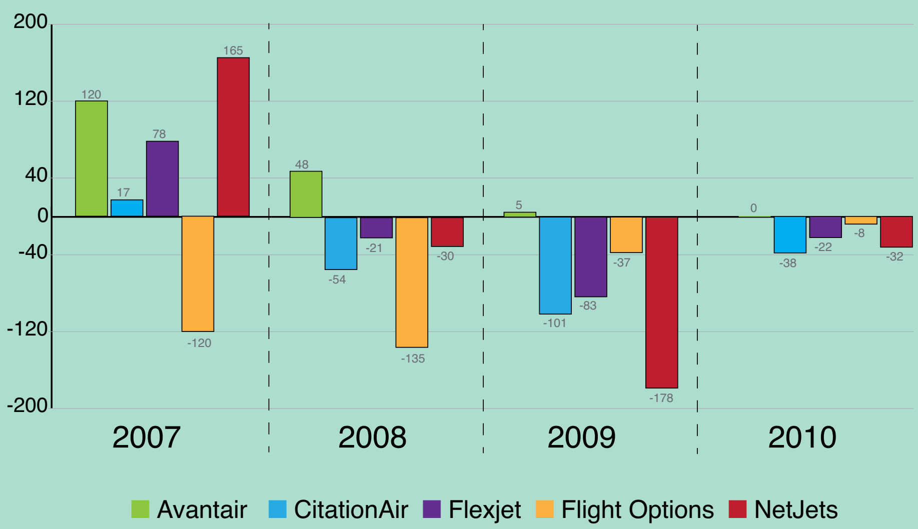
The owner numbers show that Avantair has weathered the downturn fairly well in terms of fractional share owners, while the other companies suffered some losses of owners through the downturn. Those losses seem to be stabilizing, especially at Flight Options. NetJets chairman and CEO David Sokol, however, reported that through September NetJets has gained more owners than it has lost, although he didn't say what specific period he was referring to. Sokol also said that the NetJets fleet will shrink by nine jets this year. ■



*** Includes 46 fractional ownership, five company-owned core aircraft and four leased and company-managed aircraft (Avantair SEC filings)***

***** Includes 65 Marquis-owned jets***

Net Change in Shareholder Numbers



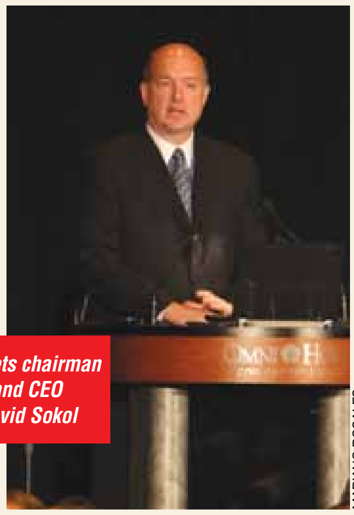
NetJets Surprises with Phenom 300 Order, Marquis Jet Buy

Last year NetJets, the largest fractional share operator, saw massive changes under new leadership sent in to turn around an operation that was losing hundreds of millions of dollars. The changes put in place by David Sokol, the company's new chairman and CEO, included layoffs, new managers and massive cost cutting. Sokol, a big fan of long-range planning, also implemented a 10-year business plan for NetJets, and two recent developments are part of that plan. At the NBAA Convention in October, Sokol announced an order for 125 new Embraer Phenom 300s worth more than $1 billion, and early last month NetJets purchased Marquis Jet Partners, a jet card provider that has worked exclusively with NetJets since Marquis was founded in 2001.

The Embraer deal consists of a firm order for 50 Phenom 300s and options for 75, all of which will be delivered in a "Platinum Edition" configuration available only to NetJets. Features will include cabin amenities and other improvements that customers indicated are important for a light jet. At the NBAA press conference to announce the order, Sokol declined to reveal any further details of the Platinum configuration, but added that more information will be available when NetJets rolls out the marketing campaign for the Phenom 300. Deliveries are scheduled to begin in 2013, and about 20 percent are slated for NetJets Europe customers, according to Sokol. The first 50 aircraft on firm order will be delivered between 2013 and 2015.

Both NetJets and Embraer declined to release any details of the transaction, including whether Embraer is taking any NetJets airplanes in trade for the Phenom 300s. NetJets did sign a support agreement with Embraer.

The Phenom 300s will form one of two small-cabin jet fleets in the NetJets fleet as the company retires older airplanes, Sokol said. "It is our goal long-term over the next seven or eight years to get to where we have only two primary cabin types in the light-cabin aircraft. They fit the basic parameters that our owners have laid out to us." He declined to identify which other airplane type will remain part of the fleet.



NetJets chairman and CEO David Sokol

MARIANO ROSALES

On November 4, NetJets announced the Marquis Jet acquisition. Marquis Jet owned 65 airplanes in the NetJets fleet, and founder Kenny Dichter is now vice chairman of NetJets, reporting to Sokol.

NetJets also revealed that chief legal counsel Jordan Hansell was promoted to president and will oversee plans for the fractional to expand into China, another move that Sokol mentioned at the NBAA Convention. Marquis Jet sales are up 6 percent and NetJets 8 percent (both year-over-year), according to NetJets. "We're excited about this acquisition," Sokol said. "This allows us to use the card and our fractional-share program to customize products for owners. It gives us pricing flexibility by controlling both."

NetJets has recovered under Sokol's leadership and at NBAA he said, "We'll complete the year substantially profitable." Through September NetJets has gained more owners than it has lost, although the company will probably shrink its fractional share fleet by nine jets this year, he said. "It's essentially where we expected to be this year. We expect next year to be net positive aircraft and net positive owners, so we think that the worst is behind us."

NetJets parent Berkshire Hathaway reported that NetJets revenues climbed 17 percent during the first nine months of 2010 compared to the same period last year, "due to an increase in worldwide flight revenue hours and increased fuel cost recoveries, partially offset by lower management fees due to fewer aircraft in the NetJets program." During the first nine months of 2009, NetJets had a pre-tax loss of $531 million, which included asset writedowns and downsizing costs of $436 million, $181 million of which took place in the third quarter. During the same period this year, these costs "were relatively minor," according to Berkshire Hathaway. "The improvement in earnings was due to the increase in revenues and to an overall reduction in flight operations and administrative costs, partially offset by higher fuel costs. NetJets continues to own more aircraft than required for present operations and we expect to continue to dispose of selected aircraft over time. NetJets' operating cost structure has been reduced to better match customer demand, and we believe that NetJets will continue to operate profitably in the future." –*M.T.*

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a lot of people who fly for leisure purposes will look more at other options, having been burned on the way out [when providers repurchased shares].”

To survive, Butler added, fractional companies “will have to be well managed and provide what customers are looking for in a cost-effective and profitable way. Or else they will have to be airplane manufacturers that are selling their aircraft into their [own] programs–they make their profit that way.

“I think what will bring more buyers to the table is more of what the industry started out with,” Butler continued. “The main selling point was that your costs were known–you’ll pay this much for the share, this much per month, this much when you fly, and the costs could go up X percent. And they would guarantee you a floor on the value of your share. So you could run the numbers and know your costs.

“Over time,” Butler continued, “the companies have moved toward more of a traditional management model where they’ll manage the aircraft for a fee but the variable-cost risk is yours. I’ve also been surprised that some of the fractional companies have simply changed the rules in the middle of the game. They say, ‘We’re not going to buy back your share like we said we would–we’re going wait a while and we’ll let you know.’ Or, ‘We’re a little worried about our salary structure, so here’s a new surcharge.’

“I think there needs to be a new transparency and level of trust between the programs and their customers. [The relationship] has been strained as the economy has soured and owners have seen the cost of their flying become much more variable.”

Industry Shakeout

Not surprisingly, all the fractional CEOs **AIN** interviewed predicted or implied that their own firm would survive the current economic downturn. Several CEOs and analysts also commented that NetJets would endure because of its impressively sized fleet of large-cabin aircraft and because, as Reid noted, “they have a committed investor [in Berkshire Hathaway] and a committed management team.”

However, a few interviewees suggested that some firms might not be so lucky. “I think there’s a little more volatility among one or two of the players,” is the way Reid put it. “I honestly don’t know [which will survive] and wouldn’t care to speculate.” Added Santo: “I think we’ll see some merger-and-acquisition activity going on. It has to happen.”

Still, he noted that some NetJets competitors could have an easier time going forward. A few years ago, Santo commented, NetJets could charge a premium by claiming to be the safest operator and “people bought into that marketing perception. Now people have realized, hey, everybody flies under the same regulations, everybody’s training at FlightSafety, and everybody’s paying their pilots pretty much the same amount and getting the same type of talent. So that element of branding kind of disappeared. People aren’t willing to pay more now.”

New Markets

Two observers suggested that more fractional operators would follow NetJets’ lead and expand internationally. “There’s less room for domestic providers and perhaps more room for international ones,” said Foley. And, commented Flight Options’ Ricci, “I think you’ll see us go more into the international market. The market is becoming more and more global. We have to start thinking about what products we want to use to access the international market.”

On the other hand, Reid noted that Flexjet has no such plans, “because the market is going to be at its current low levels for a good time to come.” O’Neill also said “absolutely not” to the idea of international expansion for CitationAir. “The cost is prohibitive in this

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FRACTIONAL SEGMENT HAS EARNED A STRONG SAFETY RECORD

Despite all the speculation about the long-term health of the fractional business model, there is one area where fractional-share operators have delivered outstanding performance over many years, and that is safety. According to accident researcher Robert Breiling of Boca Raton, Fla.-based Robert E. Breiling Associates, since NetJets launched the industry in 1986 fractional operations have never injured or killed a passenger and the worst accident thus far was a post-accident fire. Other accidents that have occurred include some landing-gear collapses, although Breiling believes these should have been categorized as incidents. Perhaps the closest call was the August 2006 nonfatal midair between a NetJets Hawker 800XP and a Schleicher sailplane in VMC 16,000 feet over Nevada.

The total number of accidents among fractional operators since 1986 is 20, according to Breiling, and NetJets has logged 12, Flexjet three, Flight Options four and Avantair one. Through June, the accident rate for fractionals (including those that Breiling believes are mis-categorized) was 0.269 per 100,000 flight hours. This is almost the same as scheduled airlines at 0.22 and much better than charter operations at 2.48. Only professionally flown corporate aircraft have a better accident rate at 0.126. “[Fractionals] have accomplished a remarkable record considering they go all places [almost] at any time,” he told **AIN**. *–M.T.*

EXECUTIVE AIRSHARE LOWERS BARRIERS TO ENTRY

Kansas City-based Executive AirShare (EAS), which operates regional charter and fractional-share aircraft, has devised a new way to attract potential share buyers, and it isn’t a jet card. EAS’s new EMBark 32 program is like a lease-to-own program and allows buyers to earn share ownership credit when buying 20- or 25-hour blocks of charter. “We see that as a bridge from charter cards and on-demand charter to fractional shares,” said Keith Plumb, EAS president and CEO.

EMBark 32 is currently available at EAS’s central-U.S. locations. EAS developed the program because some potential buyers were reluctant to make the commitment to buy a share of an aircraft. Rather than launch a jet card, EAS created the EMBark 32 program to offer these potential buyers a way to buy chunks of charter without having to buy a fractional share, but offering the option to build credit toward share ownership.

Here’s how it works. Customers pay $80,500 up front for 20 hours of one-way travel or 25 hours of round trips in a Phenom 100. After flying 150 hours in the program, customers have “earned” a 1/32nd share in a Phenom 100 and they have the option of buying another 1/32nd and becoming a fractional shareholder. If they choose not to buy the share, they can apply 50 percent of the fair market value of the 1/32nd share to charter flight hours with EAS. The normal per-hour rates are $3,895 for one-way trips and $2,995 for round trips.

Charter buyers normally can’t own any part of the asset that they are paying for, Plumb explained, but with EMBark 32, “as you fly, you’re building credit against a share. [Customers’] money is not going to waste on a charter card that has no value [after it’s used]. This is perfect for customers today whose needs aren’t to fly 50 to 75 hours a year. It has the low commitment level of a charter card and the benefits of fractional ownership.”

EAS also announced a new location in Buffalo, N.Y., the company’s first in the northeast U.S. “We think that area has a lot of promise,” said Plumb. The Buffalo base will offer fractional shares in an EAS King Air 350 and Phenom 100, and more aircraft will be available for that location as share sales grow. Plumb added that EAS is also exploring how to serve the Canadian market from the Buffalo base.

EAS expected to take delivery of its second Phenom 300 this month and currently operates six Phenom 100s, five King Air 350s, five King Air C90Bs and four Beechjet 400As (soon to be three). EMBark 32 customers can interchange with those airplanes, too, although the Phenom 300 won’t be available for interchange until the middle of next year. The company has 32 more Phenom 100s and six more Phenom 300s on order. *–M.T.*

PLANESENSE SEES BUSINESS GROW IN 2010

Fractional-share provider PlaneSense has weathered the economic downturn in excellent shape, according to president and CEO George Antoniadis. The Portsmouth, N.H.-based company “is seeing significant upticks on all of our metrics” compared with last year, he said. The second half of this year has been strong in terms of flight activity, with July the company’s busiest month ever and activity in August, September and October reaching record numbers. PlaneSense flies just one aircraft type, the single-turboprop Pilatus PC-12.

“It’s not just a matter of the existing customers flying more,” he said. “We have expanded our fleet and brought in new shares. And we’re forecasting more such activity for 2011. I believe we have been a successful survivor of the 2008, 2009 experience. Now we’re propelling forward.”

PlaneSense has avoided two features of most fractional operations–buyback guarantees and jet cards. When shareowners need to sell a share, PlaneSense helps remarket the share, Antoniadis said. Before the economic downturn, he added, “remarketing of shares in PlaneSense was extremely rare. In 2009 and 2010, they still represented only single-digit percentage numbers of the fleet size.” The PlaneSense fleet currently stands at 33 PC-12s. “In every case of a remarket,” he added, “we have accomplished it on behalf of the owners and populated the share with new owners. This was not a buyback or guarantee; it’s more helping clients out. What we want to have is clients who want to be in our program.”

PlaneSense’s primary operating area encompasses the eastern half of the continental U.S., including most of the Bahamas and eastern Canada. Many shareowners fly beyond the area, but extra fees are charged. “We do have significant numbers of operations outside the [area],” Antoniadis said. “And as the fleet size increases, we are constantly looking at expanding outside the primary operating area.”

PlaneSense also looks at other aircraft types and at one point had placed an order for 25 Grob SPn jets, before Grob’s bankruptcy and the halting of the SPn program. “The reason we wanted the Grob has not gone away,” Antoniadis said. “Realities have changed between 2007 and 2010, but we’re seriously evaluating and considering other aircraft types.”

New PlaneSense customers often are former shareowners in other fractional programs, according to Antoniadis. He agrees that some potential buyers don’t want to invest in a hard asset by buying a share, but then they end up paying a much higher cost per hour for charter or jet cards. “There’s no question that people have been trained by the industry, [to buy] all these new products from jet cards to block charter of any kind. People seem to be prepared to pay much higher prices per hour for not investing in an asset. If you can provide a high value in the program that you’re offering,” he said, “and this value transcends just economics, then people participate.”

PlaneSense is an attractive alternative, he said, because of the high level of service it provides on top of the PC-12’s efficiency and low cost of operation and the way the company is able to optimize the use of its fleet. “We believe value-driven programs like PlaneSense have a future and have growth opportunities.” *–M.T.*

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economic environment," he explained. "I do not have any interest in expanding into Europe or Asia at this time."

That doesn't mean O'Neill sees no room for expansion; he just has his eye on new products rather than new places. "I believe that a pure 100-percent fractional operator will struggle in this market for a long time," O'Neill said. "It's the complementary products that we offer that allow us to become more effective in the marketplace–jet cards and the jet-management product that gives us the lift we need that we have to pay for on only a variable-cost basis."

Butler echoed that comment. "You'll see a lot of firms going back into standard aircraft management and certainly the cards and charter and those sorts of things," he said.

Foley, meanwhile, envisions opportunity for fractional firms in traditional charter. "Charter really doesn't have a [company with a] national presence yet," he said. "I think some of the fractional providers could have a national charter presence because they have the airplanes and can cover Seattle to Miami without having to do costly deadheads. No one's really cracked that space yet. And probably the only folks in a position to do something like that are the fractional providers. That's probably a missed opportunity right now." ❏

Flight Options Adds Nextant 400XTs

When Cleveland-based Flight Options placed an order for up to 150 Embraer Phenom 300s in 2007, the fractional provider's goal appeared to be to replace its aging fleet of Hawker Beechcraft 400s, but with its October announcement of the purchase of forty 400XT Williams-engined conversions at a cost of $2.9 million per copy from Nextant, the Cleveland-based company showed it still has plans for the airplane formerly known as the Diamond and Beechjet.

"The Beechjet has been really the mainstay of our fleet since we began 12 years ago," said Flight Options CEO Mike Silvestro. "It's a great airplane. It's got a great cabin and it's fast, but it certainly doesn't have the range that you would like it to have." The Nextant 400XT will carry four people 2,000 nm, "which is a phenomenal range given that speed and cabin size."

Despite their similar size, Silvestro said, the 400XT and the Phenom 300 will fill different niches within the company. "The Phenom 300 will be a fractional product, and the XT I believe will be primarily the jet card product," he told **AIN**. "It is a remanufactured airplane and some people just absolutely prefer newer manufactured airplanes, so [the Phenom lets us serve] somebody who has a predisposition toward something that is newer, and [the 400XT caters to] somebody who's a little less sensitive to the age of the airplane." *–C.E.*

Revenues Up at T-prop Fractional Avantair

Avantair is seeing top-line performance improving thanks to increased revenue from maintenance and management fees. "Avantair has been fortunate to experience tremendous growth during the downturn," according to the company. Revenue more than doubled through the fiscal year ending June 30 from hourly card and membership programs, and these are key areas where new customers are introduced to the company. Avantair flies only the Piaggio Avanti twin turboprop in a service area that includes the U.S. and large parts of Canada, the Caribbean and Mexico. Avantair now has 55 Avantis and 52 more on order through 2013.

Avantair doesn't normally guarantee share buybacks but recently added an incentive for buyers of one-sixteenth shares who sign a contract for a seven-year term. For $385,000, buyers of these shares receive a guaranteed 75-percent buyback at the end of the term.

For the fiscal first quarter 2011 ending September 30, Avantair had an operating loss of $3.6 million and EBITDA (earnings before interest, taxes, depreciation and amortization) loss of $2.3 million. During the same period last year, Avantair had an operating profit of $200,000 and an EBITDA profit of $1.7 million. Other metrics during the first quarter included flight hour card sales up to 104 from 86, three new fractional shares sold and Axis Club membership sales to 11 from three, compared with the same period last year. Avantair also saw revenue-generating flight hours climb 11 percent, to 10,418 from 9,356, also up 7 percent over the fourth quarter of fiscal year 2010. Hours flown by share owners grew in the first quarter to 8,498, a new record and up from 8,172 during the first fiscal quarter of 2010.

While total revenue is up 2 percent year-over-year to $35.8 million, sales of fractional shares last year were affected by the economic downturn. During fiscal year 2010, Avantair sold 7.5 shares, down from 38 in fiscal year 2009.

Avantair attributes the loss in the first quarter of FY2011 "to the company's strategic decision to accelerate normal fleet maintenance costs in response to stronger sales, an increasing customer base and the forthcoming peak travel season." *–M.T.*

Avantair is the only one of the major fractional providers to record a positive net number of shareholders since 2007.