

NetJets Trounces Rivals

Berkshire Hathaway's private-jet supplier is now bigger than Southwest



A quarter share in NetJets' Phenom 300 by Embraer costs \$2.25 million upfront.

By Mark Huber

Photograph courtesy of NetJets

NETJETS SPENT THE RECESSION QUIETLY consolidating its position as the world's leading provider of private-jet services. If it were an airline measured by its 710-airplane fleet, NetJets would be the fourth-largest in the world. Bigger than Southwest, bigger than China Southern, bigger than Lufthansa.

A Berkshire Hathaway company, NetJets has more than 7,000 fractional owners, thousands more customers who buy small blocks of flying hours with the company's Marquis jet cards, and flights to 1,900 airports in 100 countries across the globe. In 2012, it placed the largest single order for general-aviation aircraft in history—\$9.6 billion for up to 425 new jets from Bombardier and Textron's Cessna Aircraft. Aircraft manufacturers deliver its jets with special Signature Series interiors exclusive to NetJets.

Headquartered in Columbus, Ohio, NetJets succeeds by selling a go-anywhere lifestyle wrapped in convenience, taking the hassle out of aircraft ownership. What you are paying for is a consistent level of equipment and service, guaranteed aircraft access, and not having to

manage your own aircraft and crew.

A regular NetJets fractional owner pays an upfront charge for a "fraction" of the aircraft and receives annual flight hours. Example: A 25% share in a new NetJets Embraer Phenom 300 costs a customer \$2.25 million upfront and guarantees up to 200 flight hours per year. But there's also a monthly charge to help defray the fixed costs of ownership—salaries, insurance, storage, refurbishment, and scheduled maintenance—plus additional charges, such as \$2,029 for each "owner-occupied hour" aboard the aircraft. It adds up. Without tax considerations, fractional ownership is more expensive than charter, but add in the depreciation possibilities from owning a share of an airplane, and it can at times be less expensive.

NetJets traces its roots to a company called Executive Jet Aviation, or EJA, founded in 1964 by many legendary pilots, some of whom were retired Air Force generals, including Curtis "Bombs Away" LeMay, who reorganized the Strategic Air Command. In 1984, EJA was sold to former Goldman Sachs executive Richard Santulli, who used it in 1986 as the launching pad for NetJets, which in turn was sold to Warren Buffett's Berkshire Hathaway in 1998. That

was three years after Buffett himself became a customer.

With the help of Berkshire's capital and shrewd fleet buys, consistent service, and high standards, NetJets has grown steadily and today is the undisputed leader in the fractional-ownership game. Buffett's recent Berkshire shareholder letter suggests that NetJets generates more than \$4 billion in annual revenue, and it's believed to have been consistently profitable in recent years.

The company's most vociferous critics at the moment seem to be many of its own 3,000 pilots, who complain of being overworked. During the continuing hardball contract negotiations under way, the pilot union sued NetJets, claiming that the company used a bogus Twitter account where an "impostor" pilot tried to goad members into committing unlawful acts. The suit also charges that NetJets "unlawfully accessed and obtained confidential communications" from a union Internet message board that was allegedly password-protected. The company did not respond to our request for comment.

Buffett admits that NetJets is a slow-growth business and once even conceded that he had been "dead wrong" about its profit potential. NetJets Europe, for example, lost money for a decade before turning the corner in 2012. Furthermore,



The NetJets flight center in Columbus, Ohio, overseeing a fleet of 710 jets.

the firm is surrounded by hungry competitors, such as Flight Options, General Dynamics' Jet Aviation, and even well-run regionals like Executive AirShare.

But NetJets still has a commanding 72% share of the fractional private-jet market, figures an aviation analyst at Rolland Vincent Associates, and it stays ahead of the pack by adapting its business model to a market consistently in search of "more." Patrick Gallagher, NetJets' senior vice president of sales, says the firm helped differentiate itself from the competition by building its own dedicated passenger terminals at airports and by consistently buying "best in class" aircraft. That successful strategy worked effectively right through the 2008 economic downturn, and forced less-nimble competitors into emergency landings.

Today, NetJets' airplanes offer on-board Wi-Fi and customized catering menus. The new Signature Series interiors—a response to customers wanting a more-exclusive club feel—feature increased cabin soundproofing and a proprietary in-flight entertainment system that allows clients to use their smartphones while in the air. Such services earn returns. "The high-water mark in our industry was 2007, in terms of aircraft deliveries and hours flown for the entire industry," Gallagher says, "but our revenues were greater in 2014, and we have more customers than we had in 2007,

[even though] we are still flying fewer hours than we did in 2007."

NetJets' profits, while undisclosed, are probably gaining altitude. The recent fuel price drop has lowered the company's fuel costs by 25%, and prompted some customers to fly more. NetJets' fractional-ownership business model really hasn't changed much. "The majority of customers still buy and pay cash for the share, but leasing has grown since the recession," says Gallagher.

The Marquis jet card lets you buy blocks of charter hours without buying an aircraft share, and hooks first-time customers coming in the door. The jet card now accounts for 25% of the company's business, and users, restricted to the firm's older airplanes, are most likely to trade up and purchase NetJets' fractional shares, particularly when starting to fly over 50 hours a year.

Customers also get access to "money can't buy" events. Earlier this year, Lady Antebellum played for 1,000 customers and guests at the NetJets Super Bowl party. "We do a lot to be involved in more than just the 50 or 100 hours a year you fly with us," Gallagher says. "We want to be engaged with our customers as often as we can." That's a strategy that should keep NetJets on the up and up. ■

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