William Blair

Why General Aviation—and M&A Activity for Fixed Base Operators—Remain in a Strong Position

A rebound that started in the second half of 2020 portends good things for general aviation and the fixed base operators (FBOs) that serve the nation's airports—even in the face of broader economic headwinds. That means strong long-term FBO deal potential and short-term opportunities in the right markets.

Industry Commentary

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During the early days of COVID-19, experts predicted a sharp decline in private air travel and a pause on the recent stretch of consolidation of fixed base operators (FBOs)—the companies that provide fuel and services at U.S. airports. And for a matter of months, that's exactly what happened.

But a rebound began in second half 2020, one that went on to exceed most expectations. The reasons behind it should stoke optimism when it comes to general aviation and FBOs, even in the face of broader economic headwinds. Signs point to long-term FBO deal potential and short-term opportunities in the right markets.

We regularly advise FBOs across the country on matters related to mergers and acquisitions (M&A), including the recent sale of TAC Air to Signature Flight Support and the subsequent divestiture of three locations from Signature to Atlantic Aviation. The following outlines what has transpired in the sector over the past two-and-a-half years and the clues that it provides about what lies ahead. Importantly, while strategic buyers will continue to play a large role in FBO consolidation, another group—investors specifically focused on infrastructure and real estate—are zeroing in.

Pent-Up Demand Meets Emerging Models, Technology

General aviation and deal activity involving FBOs were strong in early 2020, with private air travel nearly returning to the peaks seen immediately before the global financial crisis more than a decade earlier. That ended abruptly in March amid pandemic shutdowns that kept people from getting on planes.

As it was for much of the economy, those early pandemic months were dark for companies in general aviation. But, even then, they appeared better positioned to bounce back than their counterparts in the commercial space. Experts predicted that passengers would eventually fly again, and amid concerns about their safety, they would probably avoid busy airports and crowded flights, provided they could afford to do so. Those predictions began to bear out in 2020's second half—as new business models and technologies that had been emerging over the previous five years became mainstream.

The list of innovations was long. Charter disruptors began offering lower-cost options, in part through the disintermediation of brokers, with minimal long-term commitments. More "empty leg" flights—where a plane is available after a cancelation, or its previous occupants booked only a one-way trip—became available at discounts to travelers willing to be flexible. In addition, seat-sharing arrangements increasingly allowed travelers to pay a subscription fee for the opportunity to buy individual seats on general aviation flights.

Mobile apps, algorithms, and digital marketplaces expanded consumer access and improved real-time direct booking, pricing, and travel planning. Many of the offerings came from new players, but established companies moved aggressively in the face of new competition, broadening the general aviation landscape, and making it more accessible to consumers and more efficient and profitable for companies providing services.

As a result, general aviation caught up with its pre-COVID levels in just one year and reached new peaks in early 2022, but commercial carriers remain below pre-pandemic levels. Meanwhile, corporate travel levels which are still lower than they once were should at least somewhat recover as the pandemic ebbs—and travelers' view of general aviation appears forever changed.

Just over half of the subscribers surveyed by the private aviation buyers' guide Private Jet Card Comparisons stated that they are or will fly privately more because of current chaos and cancelations with airlines and airports. Perhaps more significantly, 96% of those travelers who started flying private after the pandemic began are continuing to do so.[1]

Strong Demand for Private Jets

General aviation's recovery in the U.S. and abroad actually caused fractional ownership companies to pause sales and private jet makers to increase production.[2] JETNET reported earlier this year that the inventory of pre-owned jets—i.e., the proportion of aircraft for sale compared with the total aircraft in existence—had reached a record low.[3]

Increased demand created some service issues, but consumers kept flying. Indeed, some jet buyers were so intent on traveling that many who had never owned planes started to do so by purchasing top-of-the-line aircraft like the high-end Gulfstream 650. In summer 2022, Gulfstream's backlog had grown more than 65% since the fourth quarter of 2018, according to recent regulatory filings by General Dynamics, which produces the aircraft.[4] Similarly, the backlog for Textron Aviation, which makes the iconic Cessna, Beechcraft, and Hawker brands, is up 209% compared with the first quarter of 2018, according to that company's filings.[5]

Halo Effect on FBOs

Demand also rose for places to store aircraft and the fuel to power them—the primary sources of earnings for FBOs. As a result, FBOs across the country are reporting record volumes and earnings. As shown in the chart below, FBO operations (take-offs and landings) increased approximately 20% over the last two years, after growing slowly but surely over the prior decade.

Investors have taken notice, leading to the largest FBO transactions ever, notably the acquisitions of Signature Flight Support and Atlantic Aviation, the world's two largest operators, by infrastructure funds. That preceded a wave of network consolidations, including Lynx, Ross Aviation and TAC Air and revised the thinking around FBO valuations, putting a greater emphasis on on-field development opportunities and available real estate.

Both considerations have always factored into how FBOs are valued, along with their mix of services (fueling and otherwise), fuel volume and their customer mix, location, competition (both from other FBOs at the same airport and others in the area), and lease terms. But the emergence of savvy investors focused on infrastructure and real estate—who can average down their entry multiples through projects like new hangars or ways to utilize the footprint for ESG infrastructure (e.g., solar panels and aircraft charging stations)—is opening doors in a space that is still largely comprised of owner-operators.

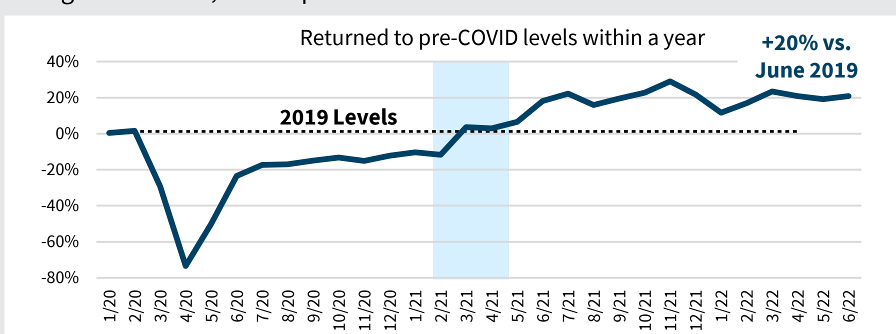
Passing the Pandemic Test

One way to think of the past two-and-a-half years is a test—a successful one—of general aviation's resilience. In addition to setting records, the sector is growing amid new environmental, social and, governance pressures and regulatory scrutiny; some large FBO operators have recently been required to divest newly acquired locations (that are part of larger deals) if they overlap competitively with other locations.

General aviation also largely weathered massive fuel price increases and consecutive months of losses on equity markets, driven in part by inflation at levels not seen in four decades. The sector's endurance tracks with what history has shown—that high-net-

Business Jet Operations are Well Above Pre-Pandemic Levels[6]

Change Since 2019, Total Operations



1. Source: Private Jet Card Comparisons News Release: New Research Shows Airline, Airport Chaos Driving More Private Jet Flights Despite Celebrity Bashing August 1, 2022
2. Source: CNBC: Private jet rage grows as a record number of fliers strain the system, causing plane shortages October 1, 2022
3. Source: JETNET iQ Pulse May 12, 2022
4. Source: General Dynamics quarterly reports
5. Source: Textron Aviation quarterly reports
6. Source: Federal Aviation Administration Traffic Flow Management System Counts

worth individuals will keep flying, even during economic downturns—but is buoyed by recent developments in the sector and broader economy.

This all portends good things for general aviation. It also presents a solid M&A outlook for a still-very-fractionalized FBO market, especially as large operators continue to look for the right opportunities and smaller chains focus on economies of scale through one-off or proprietary acquisition opportunities.

To learn more about these and other trends that are shaping the dealmaking environment for FBOs, please do not hesitate to contact us.

Select William Blair Transactions

Not Disclosed
Signature Flight Support
a portfolio company of Blackstone, Global Infrastructure Partners & Cascade Investments
has divested three FBO locations to
Atlantic
a portfolio company of KKR

Not Disclosed
TAC Air
has been acquired by
Signature Flight Support
a portfolio company of Blackstone, Global Infrastructure Partners and Cascade Investment

Not Disclosed
Atlantic
a portfolio company of KKR
has divested its Stuart, FL location to
APP Jetcenter
a portfolio company of Ridgewood Infrastructure

Not Disclosed
Hawthorne Global Aviation Services
a portfolio company of
NexPhase Capital
has been acquired by
Nova Infrastructure | Wafra

Not Disclosed
Leading Edge Jet Center
has been acquired by
InstarAGF

Not Disclosed
Rectrix
has been acquired by
Ross Aviation