



Kenneth C. Ricci

EDITORS' NOTE *Kenneth Ricci is a 35-year aviation industry veteran. He began his aviation career as an Air Force ROTC cadet at the University of Notre Dame and started his first company, Corporate Wings, in 1980. He founded Nextant Aerospace, an innovator in aircraft remanufacturing, and in 2005, he led the restructuring of the Mercury Air Centers and sold the company to Macquarie Infrastructure Trust in 2007 in a deal valued at \$615 million. Ricci was honored as an Ernst & Young Entrepreneur Of The Year in 2000 and has been named one of the most influential people in aviation by Aviation International News. In 2010, he received the Harvard Business School's Dively Entrepreneurship Award and, in 2012, he was the youngest recipient of the prestigious William Ong Award for extraordinary achievement and extended meritorious service to the general aviation industry. This January, he received the Lifetime Aviation Entrepreneur Award from the Living Legends of Aviation. He is an airline transport pilot with extensive international experience and was Governor William Clinton's pilot when he ran for President in 1992. Ricci graduated from the University of Notre Dame and the Cleveland Marshall School of Law where he was named as their distinguished alumnus of the year in 2016. He is the author of Management by Trust.*

COMPANY BRIEF *Founded in 1981, Directional Aviation Capital (directionalaviation.com) owns various aviation enterprises including Flexjet, Flight Options, Sentient Jet, SkyJet, Nextant Aerospace, N1 Engines, and Constant Aviation. Together, these companies have over \$1.5 billion in revenue and operate over 150 aircraft.*

Where did your passion for aviation develop?

My father did work for the Cleveland National Air Show, and my high school years were spent working at the show. I spent a lot of time around aviators and was always attracted

Investing in Private Aviation

An Interview with Kenneth C. Ricci,
Principal, Directional Aviation Capital

to the romance of flying and the opportunity to learn and travel.

When I went to college, I needed some sort of financial help. This was in the 1970s, and the unpopularity of the Vietnam War had meant that a lot of people shied away from joining the military. I was visiting Notre Dame, and I asked about getting financial aid. They said I was a bit late for the academic aid, but that the ROTC program was always looking for students.

I had always wanted to be in the Navy, and when I went to apply, the Navy office was closed since it was a Saturday. However, the Air Force office was open. I guess it worked out for the Air Force recruiter to come in on the weekend.

While I was in school, I went through an accounting program, but everything about aviation had been appealing to me. At that time, I never thought that I'd become an aviation entrepreneur. I wanted to be a pilot and aviator, and to get to explore the world.

My career from 1978 to 1993 was mostly spent as a pilot. I did travel the world and I loved every minute of it.

Will you discuss your vision in creating Directional Aviation Capital?

After spending 20 years in various aviation endeavors from just piloting aircraft to building a charter company to performing aviation services, I found myself leading Flight Options. Flight Options was one of the pioneers in the booming fractional ownership industry which I had started in 1998. Flight Options was unique in that it provided fractional shares in preowned aircraft. By 2000, our company had grown to over \$300 million in sales, we were on a rapid growth path, and it seemed like a good opportunity to take the company public. However, no one had taken a fractional ownership company public, and the auditors took a longer time than anticipated to outline the accounting policies. This meant that our offering was delayed, and in the meantime, the public markets collapsed because of the dot-com downfall.

During the whole process, I met many bankers and private equity firms who were interested in private aviation.

In 2003, Flight Options merged with Raytheon Travel Air, and when Raytheon took a larger role in the day-to-day operations, I decided it was time to cash out.

I was approached by several private equity firms to work full time for them sourcing and investing in private aviation, but my partner Mike Rossi and I didn't want to align ourselves with any one banking firm. Instead, we partnered with several firms rather than being committed to only one. This was the genesis of Directional Aviation Capital as it exists today.

In 2005, we bought 20 percent of the Mercury Air Centers in concert with Allied Capital, and after we sold it in 2007, we generated enough capital to then take more controlling interests in aviation properties. We still partner on some of the really large deals, but for the most part, Directional is putting our own capital to work.

Looking at a number of your acquisitions and the companies you created, what is your view on how best to manage them?

We only invest in the aviation space. We do that because we know most of the players in aviation and we understand their financing needs. By super specializing, we don't have to manage a large group of diversified businesses and investment professionals. There are only five of us that look at the investments at Directional, but that makes us hyper focused and quick to react.

When we look at a business, we seek to find its unique competitive advantage. If we can't answer the question about what unique competitive advantage the company has, then we won't invest. If we tried to find the unique competitive advantage across a multitude of industries, it would be hard to have the breadth of knowledge to know all you would need to know to make a smart investment. The best investments are when we identify companies that can change a market or revolutionize an industry.

We decided that if we stick to a narrow range of private aviation and we focus on identifying the unique advantage of companies, then that would be a successful investment strategy.

We then marry this advantage with a CEO who is passionate about aviation and invested in the outcome of their business.

When the opportunity presented itself to acquire Flexjet, what made you feel it was the right fit?

After the industry started to recover from the slowdown in 2008, there was consolidation and a renewed focus on the value side

of the business. There was an effort by new entrants to find ways to lower costs. Flight Options, which we had repurchased in 2008, was primarily a light-jet operator, and we thought its products would be the most vulnerable to attack.

We had made a decision to move away from the light jets and move to the mid-cabin and large-cabin aircraft. During this process, the opportunity to buy Flexjet materialized, and we saw it as a way to fast track our move into what we thought was a more unique, higher end, and perhaps less vulnerable part of the business.

Looking at the individual brands, is it hard to differentiate among them?

That was the challenge we had in 2015. First, we had to buy Flexjet. Then we had to figure out how to assimilate it, and then we had to bring a vision to bear.

We recognized we had to find a differentiator in our product. That is when we introduced our Red Label program. Our Red Label products have unique and distinguishable differences from our competition. Most importantly, each aircraft is flown by a dedicated crew. It's the way the military does it – it's why the military pilot has his name on the side of the aircraft. He will know his plane better, it's a safer operation, and the dedicated pilot takes pride in his aircraft.

This has really resonated with our customers, and since we started Red Label, we have continuously outsold the competition and gained market share.

How important was it to expand internationally, and do you anticipate strong growth in some of those markets?



A Flexjet Challenger 350 (above); a Flexjet Embraer Legacy 450 (below)

There has been a trend aligned with globalization and the expansion of international markets, for our clients to demand aircraft that can serve these needs. Large-cabin aircraft provide service all over the globe. The private jet market is 50 percent in the U.S., 35 percent in Europe, and 15 percent in the rest of the world. It was not feasible for us to expand into larger aircraft without addressing service to areas outside the U.S. Last year, we entered the European market. We were able to do this when business was a bit slow in Europe and the value of the dollar was up against the Euro, so we were able to make an attractive acquisition that has proved significant in our overall growth strategy at Flexjet.

We have conducted operations into over 100 countries, and we are continuing to add

more aircraft. In fact, our large-cabin fleet will more than double over the next 12 months.

Did you see signs of your entrepreneurial interest early on?

People always say that I have an entrepreneurial spirit, but I think I am just doing something I enjoy and am passionate about. I don't necessarily focus on the end result; I focus on where I can best spend my efforts. For me, that is usually cultivating our leadership teams, focusing on the diligent deployment of capital, and guiding the strategic vision.

When it comes to bringing in talent, is it more about the personality and culture fit or the resume and experience?

It is all about culture. I think many times companies undervalue how important it is to focus on who we hire. We spend significant time on the hiring process and, as a result, our senior leadership has no turnover and we have excellent employee retention.

Due to the growth at Flexjet, we have begun hiring pilots for the expansion. It has been almost 10 years since we have hired pilots. We have spent over six weeks going through the hiring process and educating our team on how we're going to go about interviewing and hiring.

We have researched our existing pilots to identify the traits and talents we want to hire to maintain our culture. If we do this right, these employees will be with us for the next 20 years, which means we've solved a ton of problems in the future.

In a service business, if we retain our employees, then we retain our customers. ●

