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THE MERCHANT OF VAN NUYS

How Jet Edge's **Bill Papariella** plans to spend \$60,000,000



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“We are going to partner with every broker on the face of the planet”



Bill Papariella wants to put money and talent together to create a global aircraft powerhouse. Perhaps one day it will make a good movie. Words: Alasdair Whyte

BILL PAPARIELLA, CEO of Jet Edge International, is not just an aircraft guy. He is a deal guy too. As a child, Papariella dreamed of working in the movies. He achieved this, becoming a vice president for a successful production company on the Universal Studios lot. After launching a start-up to help writers he was recruited to sell jet cards – a role he loved. In 2011 he bought Jet Edge International, based at Van Nuys Airport, Los Angeles, to focus on selling whole aircraft, aircraft management and other aviation business services.

“I love selling aircraft,” says Papariella. “Who wouldn’t want to sell planes?” Jet Edge’s fleet has now grown to 55 heavy jets, with more coming soon. “Aircraft sales drive our fleet. In fact, 90% of the aircraft in our fleet are ones that we sold to that person,” says Papariella. “For us, investing in aircraft sales infrastructure makes absolute sense.”

And Jet Edge is definitely investing in aircraft transactions. In February, Papariella raised \$60 million from private equity firm Solace Capital to expand. The operator has also arranged a large aircraft debt facility – and wants to finance brokers.

“We want to be smart capital for other brokerages and provide value added consulting services via the Jet Edge operations platform. We want to be the largest ‘value added’ transactional group in the aircraft sales market worldwide,” says Papariella. “The only way to do that is by partnering and providing value to every broker around the world. If you want capital, if you want to buy inventory, we are going to be a great source for you. And we are patient capital. We know what you are into, we know how to value aircraft – and at the same time if you are able to transact it where it comes to our fleet, we will bonus you. We want to use all the brokers in the world to bring us planes.”

To ramp the business quickly, Jet Edge recently hired seasoned veteran Kevin White, formerly of Avpro, to lead its new broker-dealer venture as its president: “The addition of Kevin provides Jet Edge with a plug-and-play executive with excellent reputational value within the aircraft sales industry worldwide,” says Papariella.

“Unless you are one of the few really big dealers who have big lines of credit, most brokers are actually borrowing from Bob’s uncle’s sister’s husband who cashed out his company and has \$100 million in the bank and is willing to lend it out, albeit at loan shark terms. Many brokers borrow money from anywhere and anyone they can,” says Papariella. “We want to provide smart capital to this community.”

He believes that many brokers are held back by lack of capital and that this also makes the pre-owned market less efficient or transparent. Papariella says that Jet Edge is prepared to provide more debt. “We could easily go to \$200+ million if the market supported it,” he says.

Raising money

Papariella spent much of the second half of 2018 talking about money. In the middle of the year he hired investment bank Jefferies to help raise equity and debt. They, along with the law firm Michelman & Robinson, helped close the \$60 million investment in February 2019.

He sees the fundraising as validation of Jet Edge as a business. “I have raised tens of millions of dollars in the past, so this was not my first rodeo. Investors also know that our team is capable and highly competent,” says Papariella.

“Explaining our business was not that difficult. We are a profitable business, had zero debt and sophisticated long-term customers, as well as a great culture” he says. The final choice for funding came down to a very large private equity firm and Solace Capital, a Los Angeles firm that focuses on private companies. “I chose Solace because we wanted a firm that is going to help us and add more hands-on value,” says Papariella. “They are not your typical private equity firm; they are not only hands-on financially but provide significant operational guidance.”

As a local Los Angeles based firm, Solace Capital already knew the brand, having seen it grow at Van Nuys airport. “We met with Bill, were instantly impressed with his vision for the business and quickly went to work on structuring an investment to support the company’s strategic objective,” says Christopher Brothers, managing partner at Solace Capital.

Solace invested \$60 million in a mixture of equity and ►

Papariella's CV

Before Jet Edge he spent six years at NetJets, Marquis Jet and Sentient. He started his career at a talent agency eventually becoming vice president of production for a successful production company on the Universal Studios lot. He was co-producer or production executive on several films including Mystery Alaska with Russell Crowe, and Sahara with Matthew McConaughey and Penelope Cruz. He also founded Story Bay, a tech start-up for writers.

Jet Edge focuses on large cabin aircraft

Gulfstream make up
most of Jet Edge's
55 aircraft fleet



debt. Part of the equity was used to provide liquidity events for original investors – including Richard Bard, who has invested in three of Papariella’s prior businesses. *“I still talk to Richard every week, he is family,”* says Papariella. Papariella is still the majority shareholder of Jet Edge.

“We partnered with Jet Edge to support and accelerate the company’s growth plans as it builds a world-class aviation management platform,” says Brothers. *“Specifically, our investment will enable Jet Edge to execute on a number of key strategic initiatives, which include expanding its portfolio of services for aircraft owners and charter clients, implementing best-in-class technology and business practices across the organization and supporting employee development.”*

Jet Edge has raised the money to grow all parts of the existing business and, apart from the aircraft-sales brokerage, the focus is not on acquisitions.

“Our plan is not a mergers and acquisitions strategy – but we are 100% out in the market to be opportunistic,” says Papariella. *“Do not be surprised if in a year’s time we have acquired an operator, but it is not the main objective. If we see value, we will do it.”*

The company is continuing to invest in maintenance, hangars and IT. In fact, at least \$5 million is budgeted for IT upgrades. *“We want to have a digital system that covers everything from bringing aircraft to the fleet, operating/maintaining the aircraft and ultimately the sale”* says Papariella. *“We want to build the industry’s best technology that not only handles back-office functions but, equally important, provides easy access for owners (and the brokerage channel) so as to receive the best customer service. Our focus for owners is to make certain their experience with Jet Edge is unmatched.”*

Growing charter sales and floating fleet

All of Jet Edge’s aircraft fleet is available for charter and Papariella says the company is not looking to compete with charter brokers. *“We are going to take this platform and the people who have got us here to amplify what we are going to do,”* says Papariella. *“My goal is to increase the broker network and invest in these groups and partner with people who have got us here.”*

Jet Edge has quietly grown a floating fleet of eight Gulfstream GIV-SPs in the US. It launched this in October and expects to have 10 aircraft by the end of June. *“These aircraft have really differentiated us on the aircraft-charter side,”* says Jonah Adler, chief revenue officer.

“We now have the most premium, most well-run fleet of heavy jets in the US. Part of the strategy with the floating fleet is to accommodate those that need access to a plane on short notice which is sometimes a challenge for managed aircraft,” says Adler. Adler adds, *“There are no other US based fleets of floating large-cabin aircraft that are supported by the type of safety and operational platform that has been built at Jet Edge. The response from the market has been incredible.”*

The company is not looking to buy aircraft, instead offering older aircraft owners lower fixed costs. When owners need ►

The A-List Team

1. Jonah Adler **Chief revenue & marketing officer**

Jonah was founder and CEO of Noteworthy, a consumer-products design and manufacturing company. After the sale of Noteworthy he founded FORTU.

2. Edward Frank **Chief administrative officer**

A business-aviation veteran, Frank was formerly CEO and CFO at TWC Aviation, before it was acquired by Landmark.

3. Michael Sanders **Chief financial officer**

Sanders spent nine years at E&Y before moving into a variety of fast-growing fashion and baby-care companies.

4. Greg Johnson **Senior vice president, aircraft management sales**

Johnson has specialised in aircraft sales for more than 15 years. Was vice president at ACM Aviation and TWC Aviation.

5. Lynn Sloan **Director of operations**

As a chief pilot for over 25 years, Sloan has hired and trained

hundreds of pilots in Part 135 rules. He has more than 11,000 flight hours.

6. Jim Potter **Chief pilot**

Potter has 30 years of global Gulfstream Series operating experience. He has over 24,000 hours of flight time. Potter was at Jet Edge before it was acquired by Papariella.

7. Adam Parnes **Director of maintenance**

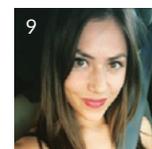
Joined Jet Edge after overseeing the Part 135/145 certificates of Elite Aviation, Jet Direct Aviation, JetCorp Technical Services, and The Air Group.

8. David Cox **Senior vice president, fleet operations**

Ran customer aviation services at MGM Resorts International. Cox has more than 30 years’ aviation experience. He is type-rate in 12 aircraft and has logged more than 22,000 hours in worldwide operations.

9. Araceli Leon, **Senior vice president of customer relations**

Araceli joined seven years ago and has created an award winning customer service team.



to fly they can use any of the fleet. *“We are making the inefficient, efficient,”* says Papariella.

Finding talent

But to meet his plans, Papariella needs great people – or as the former producer calls it: A-list talent.

“We are going out trying to hire as many great people as we can. It is very hard to find business aviation companies that attract A-list talent,” says Papariella. *“One reason is that they are often under-capitalised and second - outside of a few companies like Gulfstream with General Dynamics or NetJets – there is no plan for the next role. Most A-list talent comes in wanting to know what their next role is if they perform – they are looking for somewhere they can grow and become something more that they are today.”*

Jet Edge’s management team demonstrates how the company is keen to look both for experienced aviation professionals and people outside the industry – and retain staff.

Adler recently joined from his luxury tech start-up and Michael Sanders, the new CFO, from fashion. But Jet Edge is also keen to hire industry experts like Greg Johnson, senior vice president sales. *“Greg is an exceptional talent. He is very smart, very hard to find day to day and exceptionally good at what he does,”* says Papariella. *“He has added five aircraft in his first year so now I have a ‘partner’ in that business vertical”.*

So how can you describe Jet Edge now? What is Papariella’s one-minute pitch? *“We are an aviation services company that can provide end-to-end solutions. If you want to pick one or a couple of services from us that is fine. If you want all the services that is fine. We are capable of giving you a full end-to-end solution. We can help you get what you want out of aircraft ownership, operations, chartering, maintenance, financing and leasing. But, in the end, the customer experience we provide is unmatched.”* ■



Jet Edge versus Paul Schembari and Sojitz

Jet Edge has also been in the news after winning a case against a former employee.

AS WELL as raising equity and debt from private equity, in January, Jet Edge was awarded \$11.9 million from a jury trial.

The case came out of a failed joint-venture between Jet Edge and Sojitz, a Japanese trading company. Sojitz and Jet Edge signed a memorandum of understanding (MOU) in July 2013. The Japanese company expressed interest in acquiring a minority shareholding in Jet Edge and the MOU described plans to set up a subsidiary in Asia.

Things started well. Jet Edge added five aircraft owned by four Japanese companies: Sam Cayman, Fast Retailing, Sega Sammy, Pocket Corp and one aircraft owned by an individual, Hideyuki Busujima.

Bill Papariella, CEO of Jet Edge, says that Sojitz encouraged Jet Edge to hire a pilot. In February 2014 Jet Edge hired Paul Schembari to fly one of the Japanese aircraft, based on this recommendation, and he later became vice president of operations – giving him access to other Jet Edge customers.

Schembari resigned on March 14, 2016 to launch his own operator.

He then acquired the Air Operators Certificate for ACP Jets from Alerion Aviation (Alerion had recently merged two operators: ACP and JFI Jets and did not need two certificates). He became CEO of ACP Jets.

The joint venture ended in May 2016, three months after Schembari had left.

In July 2017, the Japanese company issued a press release saying: *“Sojitz Corporation has established Phenix Jet International, a business jet operations support and chartering subsidiary in the US and begins sales under the Phenix Jet brand name. At the same time, Sojitz will conduct a partial equity injection into ACP Jet Charters, Inc. (Head Office: Florida; Representative Director: Paul Schembari), a US business-jet air control company, thereafter utilizing ACP’s Federal Aircraft Administration-issued permit for international non-scheduled air services to provide a one-stop, integrated service including flight administration.”*

By the end of 2017 all of the five Japanese owners had moved their aircraft from Jet Edge International to Phenix Jet.

Jet Edge sues Schembari and Sojitz

An aggrieved Papariella fought back. He called Sanford Michelman, a litigator and chairman of US law firm Michelman & Robinson. *“We only hire A-list legal talent,”* says Papariella.

Schembari was represented by US law firm Duane Morris.

During discovery Michelman & Robinson’s trial team – Mona Hanna, Robert Estrin, Jesse Krompiew and Mariam Tarz – got access to various emails and texts between Schembari and various Sojitz executives.

Michelman & Robinson produced evidence showing that Schembari and Sojitz executives had already started setting up their competing business in 2015 – months before Schembari resigned and the MOU ended. This included emails showing that he had contacted at least one aircraft-finance bank and was working with a consultant in Guam before he told Jet Edge he was leaving.

In filings, the law firm quoted emails between Yohei Sakurai, a manager in Sojitz’s business aviation department (and now COO of Phenix Jet) and Schembari on February 18, 2016. The email discussed a broker agreement between Sojitz and Schembari – he resigned weeks later on March 14.

The court filing states that Sakurai wrote: *“Can’t you sign on this until you resign from JE?”*

Schembari replied: *“Yes, I can sign as I don’t believe details of this agreement will become known to outside of our circle.”*



“Jet Edge is more energized than ever in its pursuit of a related matter filed against Tokyo-based Sojitz Corporation”

Mona Hanna, Michelman & Robinson:

In a video deposition, Bob Seidel, CEO of Alerion Aviation (who sold the ACP certificate), also said that he had begun discussions with Schembari in February 2016 and that he knew by March 10, 2016, that aircraft were being moved from Jet Edge.

Jet Edge accused Schembari of stealing both its clients and its customers and filed against him in California in 2016. The trial was heard in January 2019 and lasted for seven days. During the trial, Schembari submitted a

statement saying that he regretted how he handled his departure from Jet Edge.

\$7.3 million in punitive damages

The jury agreed with Jet Edge. It said that: Schembari had breached his employment agreement with Jet Edge and caused \$330,000 in damages; that he breached his duty of loyalty to Jet Edge causing another \$73,000 in damages; and that the defendants had intentionally interfered with Jet Edge’s contracts, causing damages of \$4.3 million. These were less than the amounts that Jet Edge’s lawyers had first asked for.

However, the jury also found that defendants acted with malice, oppression, or fraud and awarded \$7.3 million in punitive damages. Punitive damages still need to be paid even if individuals or companies declare bankruptcy. Jet Edge’s counsel immediately asked the judge to add interest charges to all of these fees. The judge only added them to the \$73,000 breach of contract claim.

Jet Edge is also suing Sojitz - including three officials at the company and three Sojitz entities - for breaching the MOU. It filed this case in August 2018 claiming that the company had committed seven offences including breach of contract and fraud.

In the filing against Sojitz, Michelman & Robinson wrote: *“This is a case about greed, fraud and deception.”* Jet Edge has asked for \$75 million in damages.

Hanna, chair of Michelman & Robinson’s litigation department, said: *“Jet Edge is more energized than ever in its pursuit of a related matter filed against Tokyo-based Sojitz Corporation, which organized a competing venture to appropriate Jet Edge’s Asian business operations.”*

Sojitz did not reply to emails before press time.

“Michelman & Robinson are experts in this area and masters of trial work. They were able to tell our story to the jury,” says Papariella. *“The jury knew exactly what was going on and was just as offended as we were.”* ■