

## Short route to growth

Republic Airways' alliances with major airlines has seen regional carrier's fortunes, hirings soar

By Ted Evanoff



Spreading its wings: An Embraer 170 is towed out of a hangar at Indianapolis International Airport after servicing. Indianapolis-based Republic, with an employee base that's now 1,500, this week hired nearly 400 flight attendants, including 140 in Indianapolis. - Alan Petersime / The Star

### Republic Airways Holdings

- **What:** Airline holding company that owns Chautauqua Airlines, Republic Airlines and Shuttle America.
- **Ticker:** RJET
- **Headquarters:** 8909 Purdue Road, Indianapolis.
- **History:** Began as Chautauqua Airlines in 1973 in Jamestown, N.Y.
- **Executive:** Bryan Bedford, chairman, president and chief executive officer.
- **Employees:** More than 3,500.
- **Fleet:** 170 regional jet aircraft, including 75 RJ170s.
- **Service:** About 1,000 daily flights to 90 cities in 35 states, Canada, Mexico and the Bahamas.
- **2005 operating revenues:** \$905 million.

Republic Airways Holdings, already the No. 2 carrier at Indianapolis International Airport, has hired 140 local flight attendants as part of a growth strategy that aims to acquire as many as 105 airliners in the next few years.

Known as a minor commuter line under its Chautauqua brand six years ago, Republic Airways now operates 275 weekly passenger flights in and out of the city compared with 280 for Northwest Airlines, the No. 1 carrier here.

Just how Indianapolis-based Republic went from a few dozen employees in the city in the late 1990s to more than 1,500 today reflects the changing fortunes of the airline industry.

As big carriers struggled to make money, unprofitable short and medium routes were outsourced to small lines able to fly more economically. In 2005, about 151 million passengers boarded these smaller lines, nearly double the 2000 volume.

Eager to take on new business, Republic, under the hand of the Connecticut investment firm Wexford Capital, became the nation's fastest-growing regional line and now employs 3,500 nationwide.

United Airlines recently turned over the bulk of its Indianapolis flights to Republic. Republic also landed a contract with Continental Airlines. Its Delta Air Lines business is up for bid, though industry analysts expect Delta will rebook Republic.

"Republic is the pick of the litter, in my opinion, when you look at the regional carriers," said

airline analyst Brian Nelson of investment adviser Morningstar in Chicago.

- **2005 net income:** \$60.7 million.

#### **Republic's leadership**

Republic's largest shareholder is no stranger to airlines. Wexford Capital, through its Wexair LLC unit, once tried to buy Pan American World Airways and invested in Shuttle America, one of Republic's airlines.

Wexford manages \$2.2 billion in investment funds and is headed by Charles Davidson, a one-time general partner of hedge-fund superstar Michael Steinhardt, himself a business contemporary of billionaire George Soros.

Davidson helped engineer Steinhardt's 1994 takeover of troubled appliance maker Sunbeam Corp. – highly publicized when CEO "Chainsaw" Al Dunlap, known for his harsh turnaround techniques, slashed Sunbeam jobs.

Not long after the Sunbeam deal, Davidson went on his own, forming Wexford in 1996, and acquiring a fleet of Embraer jets and bought Chautauqua from insolvent Florida Insurer Guarantee Security Life.

Source: Republic Airways

Nelson figures Republic pockets as profit almost 18 cents of every \$1 in revenue, compared with an industrywide return of about 10 cents.

One of some 80 regional and commuter airlines in the United States, Republic ranges far beyond Indianapolis, flying 1,000 daily flights to 90 cities in 35 states. Many of its cabin crews seldom see Indianapolis, though Republic maintenance crews in a local airport hangar regularly service as many as 15 planes a night.

Flying regional jets on short and medium routes for old-line carriers, the Indianapolis company is like a stealth airline cross-crossing the country. It downplays its own identity.

Republic Airways' three brands – Chautauqua, Republic, Shuttle America – operate 170 regional airliners that bear the names American Connection, Continental Express, Delta Connection, United Express or US Airways Express. The planes' colors and crew uniforms purposely resemble the big carriers they serve.

Seven years ago, Republic was nearly bankrupt, flying an aging fleet of small airplanes driven by propellers. Back then, discount carrier ATA Airlines was Indianapolis' rising corporate star.

Today, both airlines still call Indianapolis home. But ATA scaled back and canceled all local routes during its 16-month-long bankruptcy, while Republic soared. Why that happened goes to the very reason ATA fell.

After the 2001 recession and the suicidal air attacks of New York and Washington, air travel slumped. Desperate lines slashed ticket prices. Then fuel prices surged. Airline profits sank.

Caught in a fare war, ATA, the nation's No. 10 airline in 2004, couldn't make payments on its new fleet of Boeing 737s. In bankruptcy from October 2004 to February 2006, ATA cut its fleet to 29 airliners from 64.

Other carriers also struggled. Many outsourced unprofitable routes to little feeder lines that hauled passengers from smaller cities to hub airports. One lure for Republic: The big carriers pay the full fuel bill, shielding the regional line from soaring fuel prices.

Wexford Capital recruited Bryan Bedford to run Republic. He is a regional airline executive who had had a hand in the start-up of Chicago Express, the ATA feeder line that once frequented Indianapolis.

Republic quickly replaced the propeller Saabs with 170 sleek Embraer regional jets that, depending on size, seat 37 to 55 passengers.

While the RJs, as they are known, haul fewer travelers than a 135-seat Boeing 737, they cost less to fly. Moreover, RJs usually fill up because they have fewer seats. This means carriers don't have to slash fares to lure passengers when the flight is half-empty.

Braced by a new business alliance with Continental, Republic is expanding. Twenty 86-seat Embraer RJ 175s will join Republic's fleet next year, followed by 10 the following year, with options for 75 more of the big RJs beyond 2008, Wilkinson said.

This week, Republic hired nearly 400 flight attendants, including 140 in Indianapolis. More hirings are expected as the fleet grows. Meanwhile, ATA's city employment is 700 compared with 2,300 in 2004 just before its Chapter 11 bankruptcy filing.

"It's been a gradual transition," said Warren Wilkinson, Republic's spokesman. "We fly now for five partners. As long as we continue to deliver value to our partners, we're going to continue to expand our operations."

Nelson and some other industry analysts contend the big carriers have cut costs and can reclaim some routes from regional lines and make money.

Wilkinson, though, doubts Republic will have to scale back. He says Republic's advantages – an ability to finance aircraft acquisitions, low-cost operations, the critical mass to add planes without swamping the company – helped it land the new Continental business.

Shareholders appear to be waiting to see what happens. Shares of Republic, trading under the ticker symbol RJET, have fluctuated between \$14 and \$17 a share for most of the year. On Thursday, the stock closed at \$15.87, up 1 cent.