

# A new phase in commercial aviation

Moving beyond the post-pandemic recovery

## A unique view of aviation development



**Advisory firm established 2017**

**C-suite experience across six continents**

**Engaged on a range of restructuring & repositioning engagements in established and emerging markets**

# Aviation has always faced challenges

# Aviation's turbulent history..... the challenges we've faced



High capital investment



Protectionism



Highly skilled workforce



Extremely limited M&A



Limited innovation



Powerful trade unions



High levels of regulation



Low margins



"Polluting industry"

But we are in a new phase of opportunity

# Every economic shift offers new opportunities for low cost expansion

- Low-cost brands starting to go global
- Pressure on legacy carrier costs and business models
- But also a major boost to traffic levels





## The Asian Powerhouse is finally back on track after a long lockdown... but has to catch up

- China and its neighbours will be the driving force in air traffic growth in the 2020s
- Connectivity with Asian markets will be critical
- Chinese carriers have an opportunity to become global brands
- Forming new alliances globally

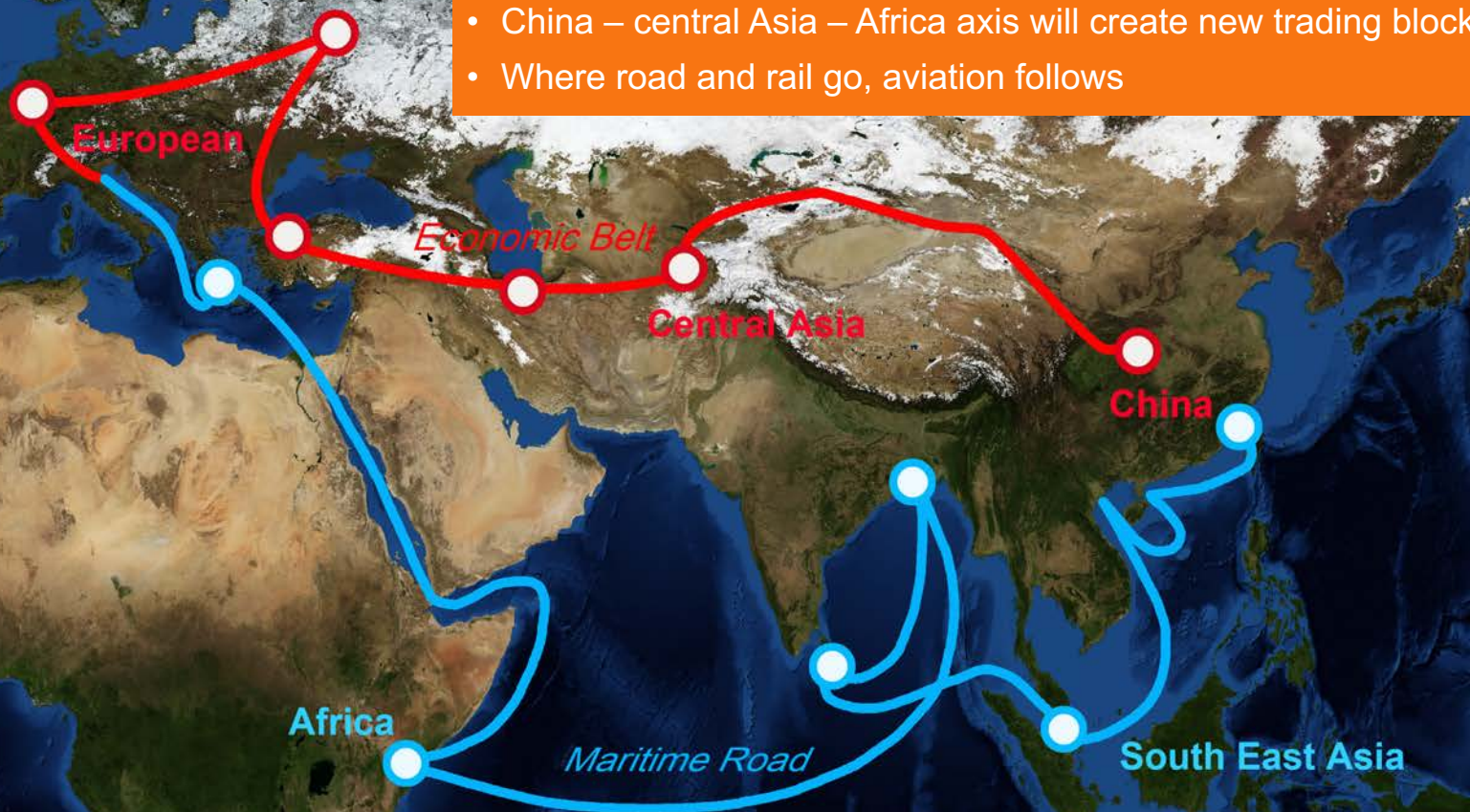
# Africa ...a continent of opportunity and a huge growth catalyst

- Population growth from 1.3bn to 2.5bn by 2050
- Opportunity for GDP per capita to grow
- As with China and India, a growing middle class will lead to more domestic and international travel
- Needs significant capital for aviation development





- China – central Asia – Africa axis will create new trading blocks
- Where road and rail go, aviation follows



# The new Silk Roads - fundamental shift in global markets and trade patterns

# The waking giant

- Aviation and tourism aspirations in Vision 2030
- Emerging competition to Gulf aviation power hub
- Passengers to grow from 110m to 300m by 2030, airports from 95 to 150
- Linked to vast infrastructure projects to attract tourists

## Vihaan - the beginning of a new era in Indian aviation



- Air India under new ownership - “firing on all cylinders”
- Consolidation of key players into a single well capitalised group
- Significant planned aircraft orders
- Huge change in Indian aviation infrastructure and global connectivity
- Alter dynamics of travel over the Gulf

- Asian carriers and Gulf mega-connectors grew thanks to aircraft technology...
- ...but now can be by-passed by the next generation
- An existential threat to carriers that rely on network traffic

## Consolidation... back on the global aviation agenda

A photograph of several light-colored wooden blocks arranged on a surface. The top row of three blocks is stacked to spell out 'M & A' in large, bold, black letters. Below them are more blocks, some stacked, creating a sense of depth. The background is blurred, showing what appears to be a laptop screen and some papers.

**M & A**

Consolidation is accelerating again

- Economies of scale
- Enhanced decision making
- Greater reach
- More customer choice

# Airlines that integrated have demonstrated significant revenue gains

- Significant airline mergers have achieved large revenue benefits
- In the short-term:
  - British Airways and Iberia (IAG) +\$2.1 Billion (9%)
  - Air France and KLM +€4.1 Billion (22%)
  - Delta Air Lines and Northwest +\$5.0 Billion (16%)
- Network, revenue and guest benefits arise from enhanced connectivity
  - New destinations
  - Shorter connections
  - More routing options

Indexed growth of group' operating revenue since year of completed merger



Source: Airline Financial Statements, U.S. DOT Form 41, CAPA

## And in the Gulf.....

- As well as Qantas, Emirates has agreements with United Airlines and several STAR alliance partners, plus Lufthansa.
- Qatar continues to build with stakes in IAG, Latam, Cathay, and China Southern.
- Where should the next consolidation be?

# Connecting global markets



- The pandemic demonstrated the importance of a strong flexible air logistics system
- Cargo kept the global economy on life support
- Always the most reliable first indicator of global economic trends and market activity
- Looming economic challenges will drive down 2023 revenues
- Critical to embrace technology that will further reduce carbon emissions



Now that demand is back, we should use this moment to shape the future for success

# Five levers to re-write the future

1

**Deregulate** – allow market forces to shape the industry

2

**Restructure** – airlines need systemic change

3

**Innovation & technology** – create new models of what airlines are

4

**Engage** – create new models of employee engagement & motivation

5

**Accelerate** – move faster to deliver climate change solutions

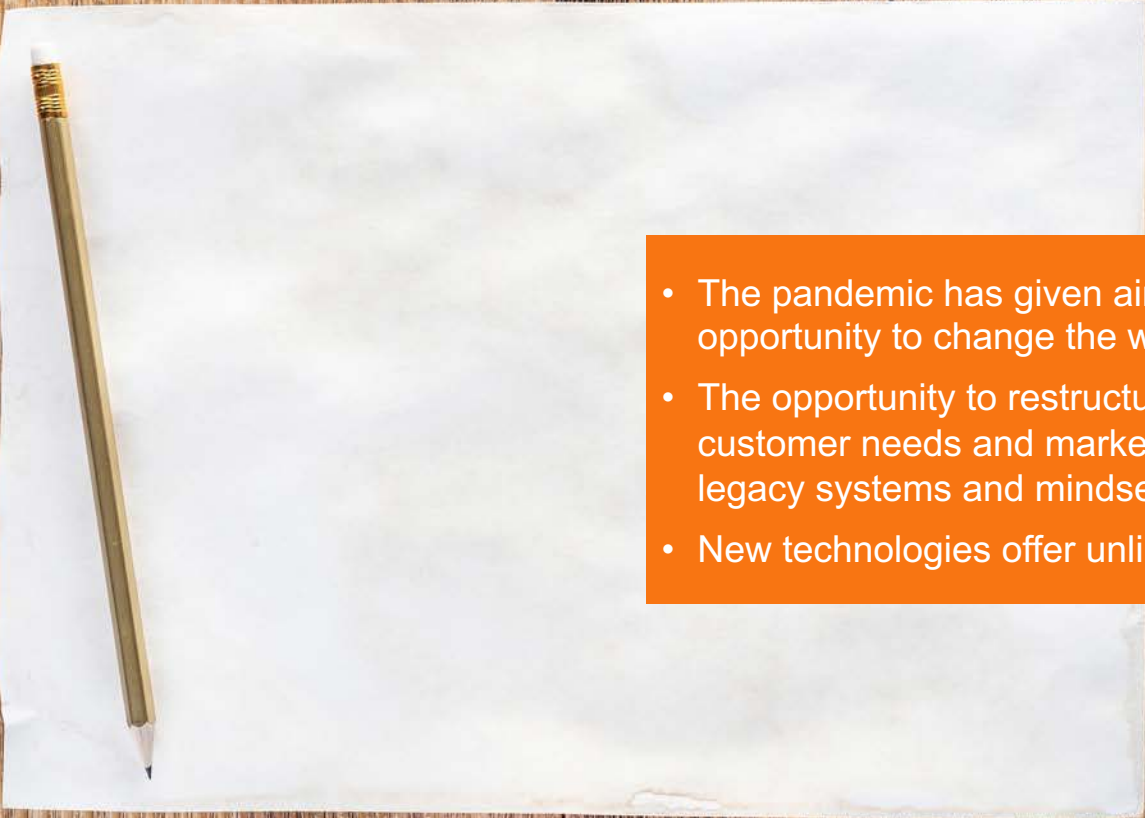
# The Three Cs Of Deregulation

- As we approach the 80<sup>th</sup> anniversary of the Chicago Convention, it is time for a re-think...
- True Open Skies would bring true market forces to the industry
  - Competition
  - Commercial operations
  - Consolidation
- The industry needs to lobby together for this change



Credit: Dominique Hymans  
(ayant-droit de certaines archives de Max Hymans, CC BY-SA 3.0)

# Change the system

- 
- The pandemic has given airlines a new window of opportunity to change the way they work
  - The opportunity to restructure according to customer needs and market dynamics – not legacy systems and mindsets
  - New technologies offer unlimited opportunities

# Innovation...

A man in a dark suit and tie is seated in a private jet cabin. He is smiling and looking out of the window. He is holding a white coffee cup in his right hand and a smartphone in his left. A laptop is open on the table in front of him. The cabin has large windows and a wooden table.

- Customer service has become commoditised
- But customers still need value for money and an element of surprise

## ...and technology

- 
- Greater investment in technology
  - Strong strategy led by the right people
  - Use AI and new data to inform better decision making across the business
  - Interact with other travel and tourism organisations and data in the cloud

## Engage: People make the difference



- Airlines may be capital-intensive businesses – but it is people who make the difference
- Brands which showed flexibility, compassion and care in the Pandemic emerged as winners
- As airlines get back into hiring mode, its more important than ever to invest in employee engagement as the point of difference



**Accelerate:  
We will be judged in 20 years' time**

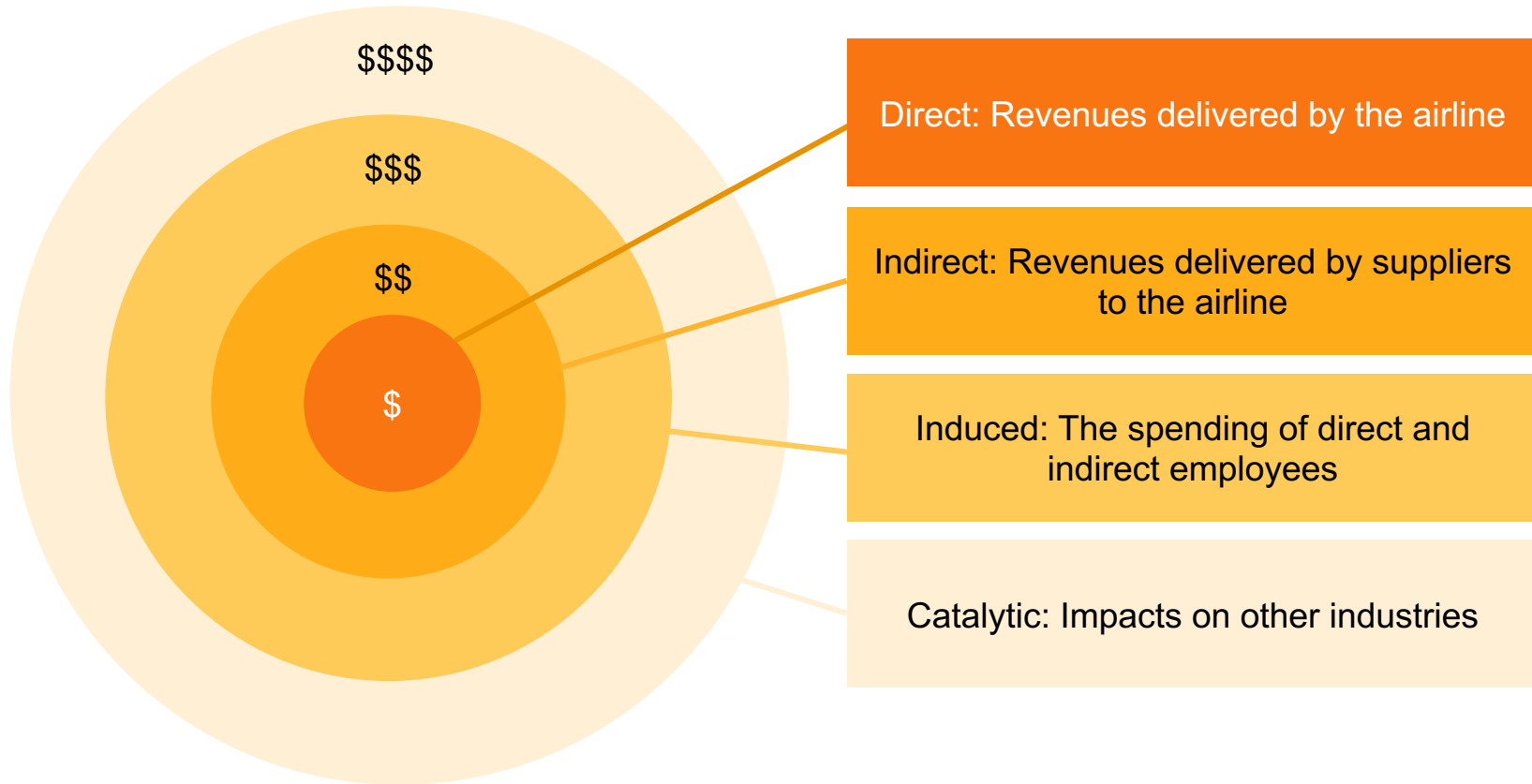
- One of the first industries to take collective position on environment led by IATA and ATAG – Net Zero by 2050
- Aviation's efforts to improve environmental performance are not fully recognised
- But new climate change targets and legislation will force more rigorous changes
- Fuel efficiency, sustainable alternative fuels, electric or hybrid aircraft
- Commitment to reskilling and upskilling for the green economy
- Customers will choose airlines which are environmentally sustainable





Finally, remember the full value chain that  
airlines can deliver

# Airlines are huge drivers of economic growth



# Future size and shape

- Aviation is bouncing back – as it always does
- As with each systemic shock, it will become leaner, smarter and with some key winners
- Legacy airlines and the mega-connectors face new short and long term threats
- The low cost land grab continues – but full-service airlines play an important role
- The long term winners will be the airlines that embrace change
  - Restructure to a new cost base
  - Innovate with new customer-focused services and products that deliver value for money
  - Engage motivated workforces – and weed out legacy issues
  - Embrace new revenue streams
  - Utilise new technology
  - Accelerate action on climate change

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