Getting Back to Business:
Planning Networks and Fleet beyond 2020
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Rob Watts
Director, Advisory
ACC Aviation
Market Snapshot
The Evolution of Global Capacity

Comparison of total seat capacity by region
(7-day average, YoY compared to 2019)

Key Trends
- Asia/Pacific capacities hit earlier than others due to proximity to source of pandemic, rest of world followed in March
- Chinese and US domestic market most resilient through summer period
- Europe saw end of summer uptick but has reversed within the last two months
- Africa together with the Middle East and Latin America hit the hardest in terms of total and prolonged capacity reductions (absence of large domestic markets)

Source: ICAO
Impact on Airlines

- **Covid19**
  - Jan 2020 - WHO first notified of outbreak in China
  - Mar 2020 - Travel restrictions deployed rapidly on a global scale

- **Collapse of Demand**
  - IATA forecasts global passenger demand levels to be down 66% vs. 2019
  - As of August, RPK’s for Africa have fallen 87.4% YOY and load factors averaged 39%

- **Travel Restrictions**
  - Government imposed travel restrictions in play since March 2020
  - To date, travel restrictions remain in place for 85% of the globe (186 / 220 countries) and for 80% of Africa (43 / 54 countries)

- **Airline Overcapacity**
  - Globally ASK’s are down 55.3% YTD
  - Approximately 30% of the global fleet is currently inactive

- **Large Fixed Cost Base**
  - Airlines are struggling to cut costs and scale down
  - Around 50% of airlines costs are fixed, or semi-fixed, at least in the short term

- **Record Losses**
  - As a result, airlines globally are expected to lose $84.3 billion in 2020 with a net profit margin of -20.1%, the worst year in the history of aviation

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**Need for Action**

1) Predict the future
2) Scale the business accordingly
3) Secure sufficient capital to survive
1) Predicting the Future

Modelling Recovery Scenarios

ICAO Recovery Scenarios
- “Nike Swoosh” – shaped path
- V – shaped path
- W – shaped path
- U – shaped path
- L – shaped path

... clearly there is still a lot of uncertainty
Forward planning is still required nonetheless
1) Predicting the Future

Workflow for projecting passenger demand, and required network and fleet

Generally

- Aircraft Type
- Market Size
- Market Share
- Product Offering
- Passenger Demand Capture
- Schedule & Utilisation
- Required Fleet Size
- Network / Business Model
- Economic Growth
- ASA’s, travel restrictions, etc.
- Consumer confidence / behaviour

Key considerations in the current environment

1) How long will the pandemic last and what will be the severity levels?
2) How deep and how long will the global recession be?
3) How long will lockdowns and travel restrictions continue?
4) How fast will consumer confidence in air travel be restored?
5) Will there be a structural shift in industry and consumers’ behaviours?
6) How long can the air transport industry withstand the financial adversity?

n.b. the diagram is not representative of all considerations
The workflow is applicable across time and across routes
1) Predicting the Future

Sample Airline: Scenario Forecasting

Recovery Scenarios
The graph on the left illustrates projected fleet utilisation levels for a hypothetical airline through the actual impact of Covid19 YTD, as well as continued impact projected through Q1 2020.

In practice, an airline would need to run its own network recovery scenarios as part of this exercise, depending on the nature of the market / region it operates in.

Assumptions
- 10 aircraft fleet, single type operations
- Average utilisation of 7.9 block hours per day under normal market conditions
- All utilisation figures are in block hours
- Scenario utilises ICAO scenario projections for Africa as a whole. Reality will be significantly different on an airline to airline basis

Note. V-shaped recovery (green) represents airlines latest published schedules. It is an information-only scenario that reflects airlines' most recent expectation or a "signal" of airlines' plan to the market (not necessarily realistic)
1) Predicting the Future

Sample Airline: Scenario Forecasting

Average Daily Utilisation per Aircraft with 10 Aircraft

Required Fleet Size at Potential Recovery Scenarios
1) Predicting the Future

Sample Airline: Scenario Forecasting

**Required Fleet Size**

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**1.0 Units**
Fleet not required next 12 Months

**4.0 Units**
Next 12 Months required fleet
Subject to market recovery

**5.0 Units**
Core Fleet
## 2) Scaling the Business Accordingly

### Options available for scaling fleets (and unlocking capital)

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**Potential Strategies**
1) Retain core fleet... nothing surprising

### Other Considerations
- Unencumbered or debt financed aircraft can be utilised to raise additional capital via refinancing or sale and leasebacks
- Where aircraft are on operating lease, lease agreements can be renegotiated for temporary deferrals or power-by-the-hour arrangements

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Unit’s not required immediately but expected to be required through the next 12 months of market recovery, subject to some uncertainty

**Potential Strategies**
1) Parking and preservation
2) Offer aircraft into ad-hoc charter and ACMI market
3) Medium term sub-lease

In reality, likely a combination of the above. 2 and 3 are more challenging to come by but are revenue generative

### Other Considerations
- Refinancing, sale and leasebacks, and renegotiation of lease rental deferrals or power-by-the-hour still relevant

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**Potential Strategies**
1) Outright disposal, part-out or scrap
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3) Repurpose i.e. freighters

Aircraft type, maintenance condition, and market conditions will determine optimal exit strategy

### Other Considerations
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What is it?

- A joint initiative between the African Airlines Association (AFRAA) and global aviation service provider, ACC Aviation
- Aim of realising a sustainable, interconnected and affordable air transport industry in Africa and unlocking the potential of Africa’s aviation industry
- The strategic partnership provides a platform for raising the profile of African airlines globally, effectively maximising their fleet utilisation and delivering a range of consultancy services designed to help them improve organisational resilience and respond even more effectively to global market opportunities

Why use it?

- Projects will be delivered in collaboration between AFRAA and ACC Aviation, engaging and utilising locally available talent where possible to drive knowledge transfer and skills development
- A percentage of all project fees will be retained by AFRAA to support the funding of additional AFRAA programs and initiatives, for the benefit of AFRAA members
AFRAA Portal  https://portal.afraa.org/login

Fleet Related Services
- Charter In / Out
- ACMI In / Out
- Dry Lease In / Out
- Aircraft Acquisitions / Disposals
- Aircraft Transaction Advisory

Corporate Related Services
- Business Planning
  - For restructuring
  - For capital raising
  - For business transformation
- Hands on Implementation & Project Management
- Corporate Transaction Advisory