

Successfully flying through the Danger Zone:

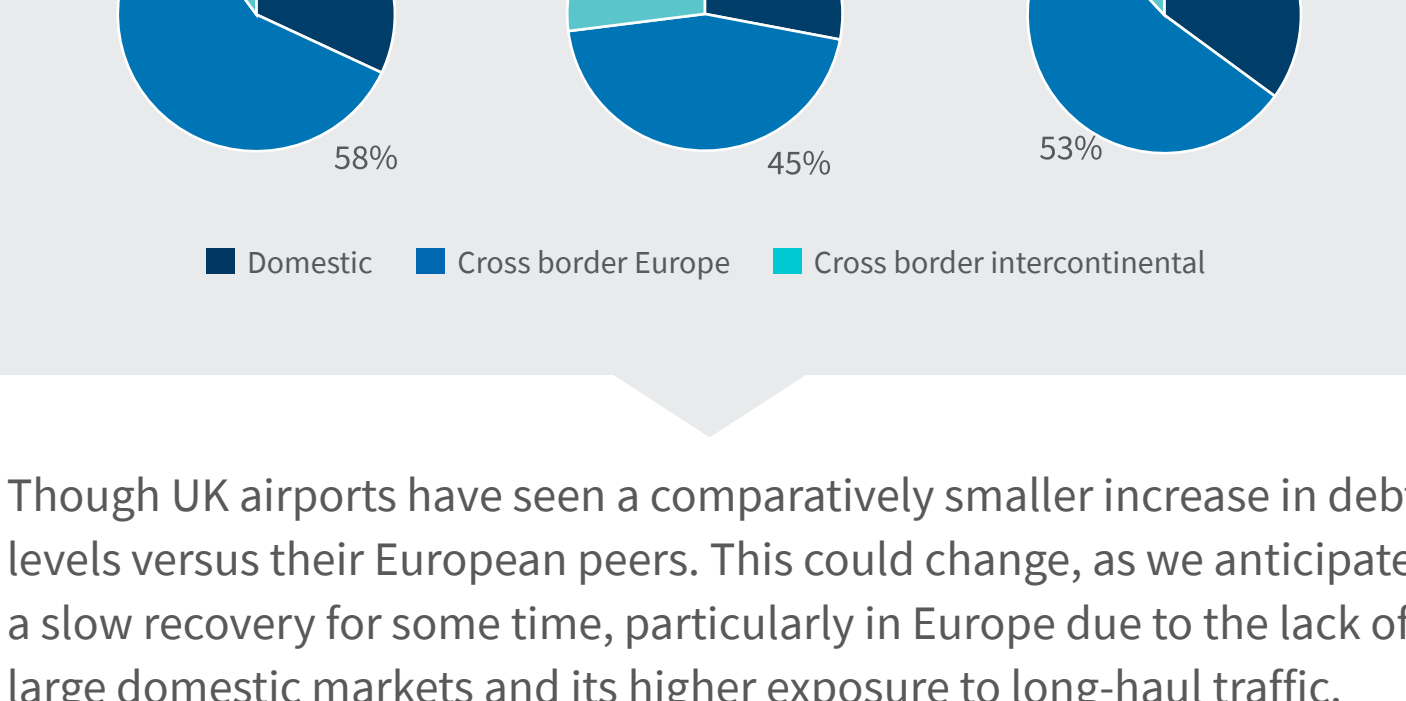
Part Two: Flight through the Danger Zone

In Part One of our FTI Consulting analysis, we showed that although the European aviation industry has so far avoided mass bankruptcies and consolidation due to crisis response programmes, significant government support and an increase of debt, they may now be at a crucial tipping point. Part Two further demonstrates the key dynamics at play within the industry, and why the next 24 months will be so critical.



Out of the top 5 European aviation markets the **UK** and **Germany** could face the **most challenging recovery** due to their relative small domestic markets and high exposure to intercontinental markets.

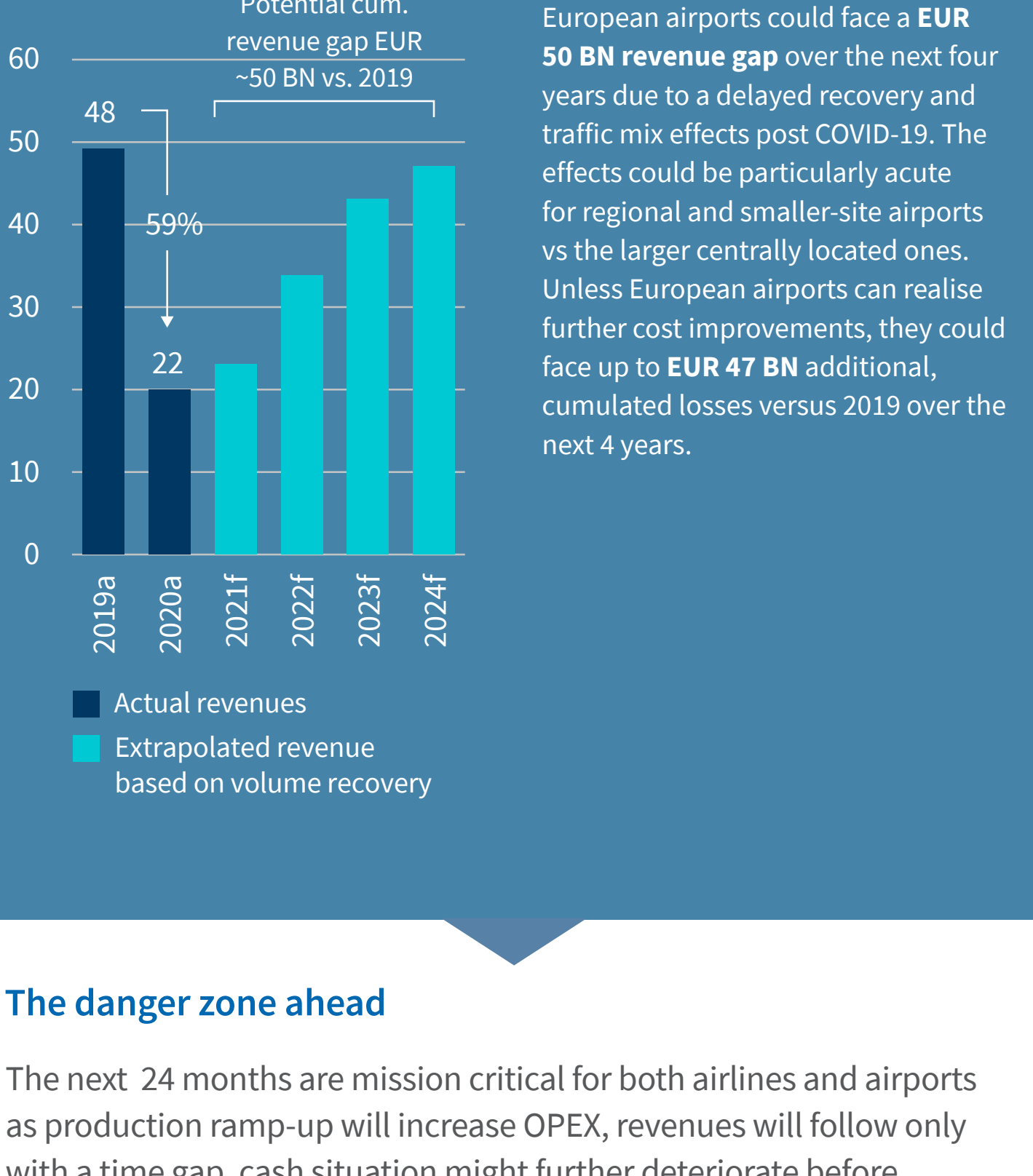
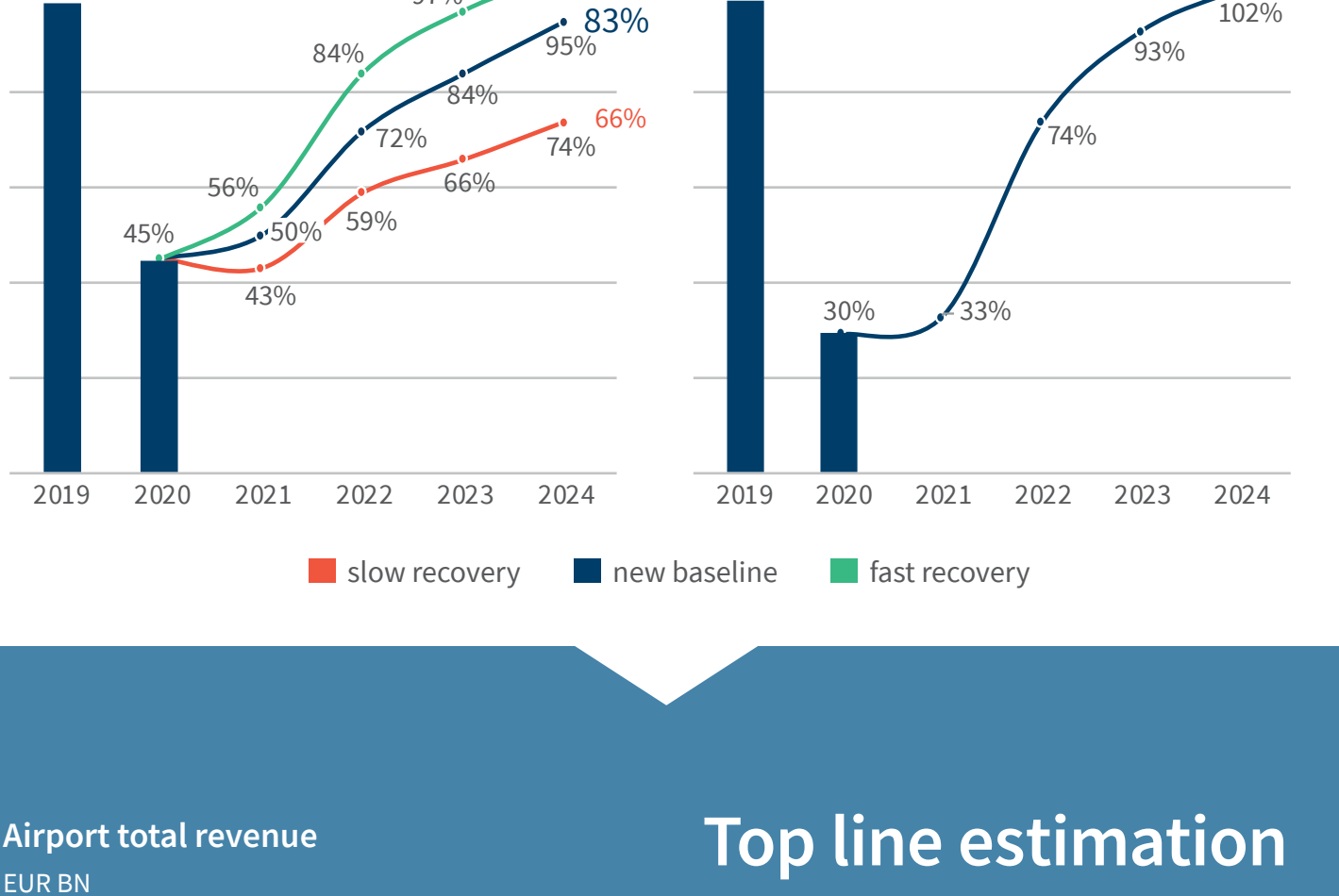
Exposure of top 5 aviation markets to destination portfolios



Though UK airports have seen a comparatively smaller increase in debt levels versus their European peers. This could change, as we anticipate a slow recovery for some time, particularly in Europe due to the lack of large domestic markets and its higher exposure to long-haul traffic.

27% of flights (a measure of volume offered) and **34% of passengers** (demand) could be missing in average over the next four years.

Air travel recovery scenarios for Europe



The danger zone ahead

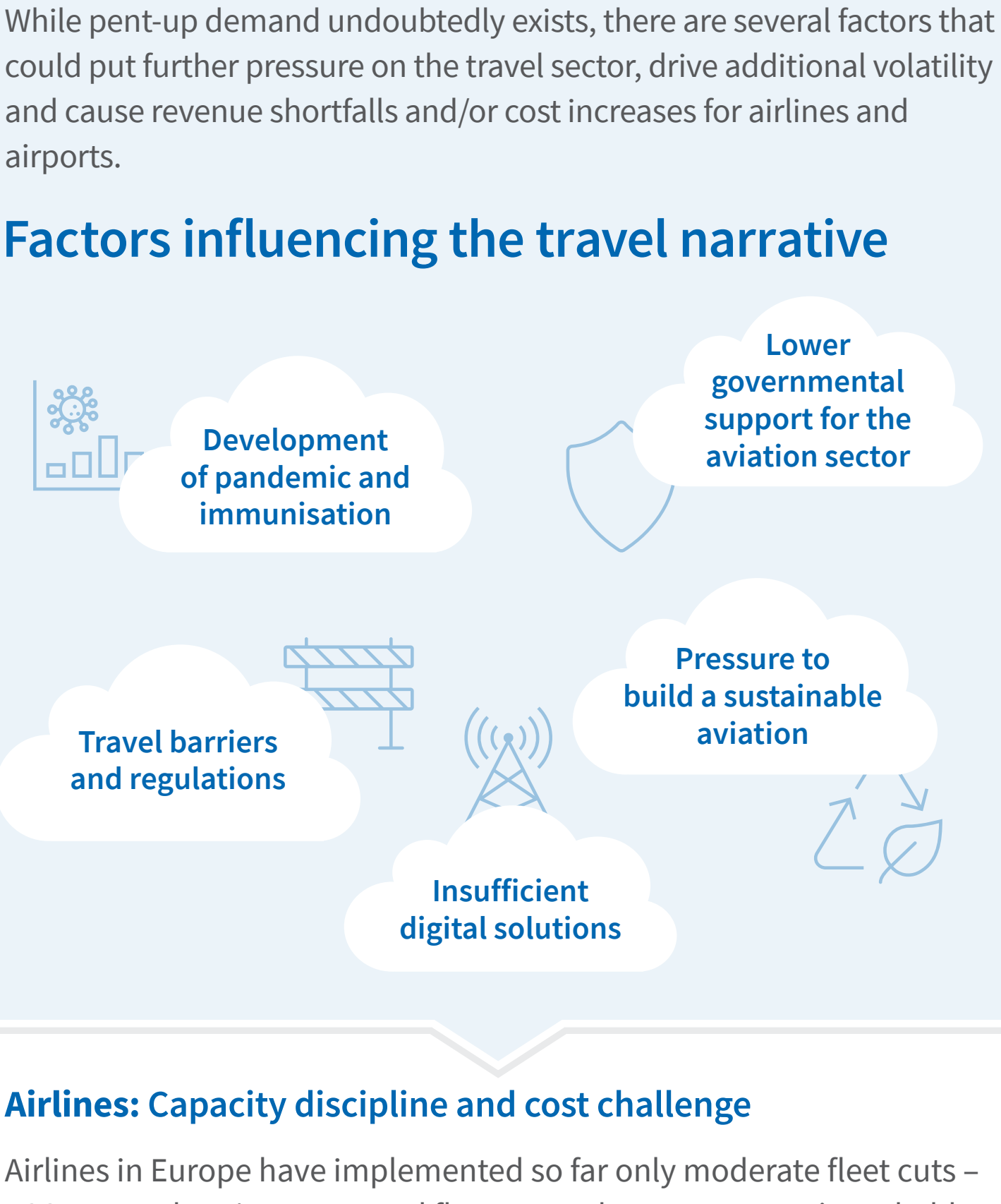
The next 24 months are mission critical for both airlines and airports as production ramp-up will increase OPEX, revenues will follow only with a time gap, cash situation might further deteriorate before improving, and risks of virus disruptions stay high.



The sector continues to see an unstable future

While pent-up demand undoubtedly exists, there are several factors that could put further pressure on the travel sector, drive additional volatility and cause revenue shortfalls and/or cost increases for airlines and airports.

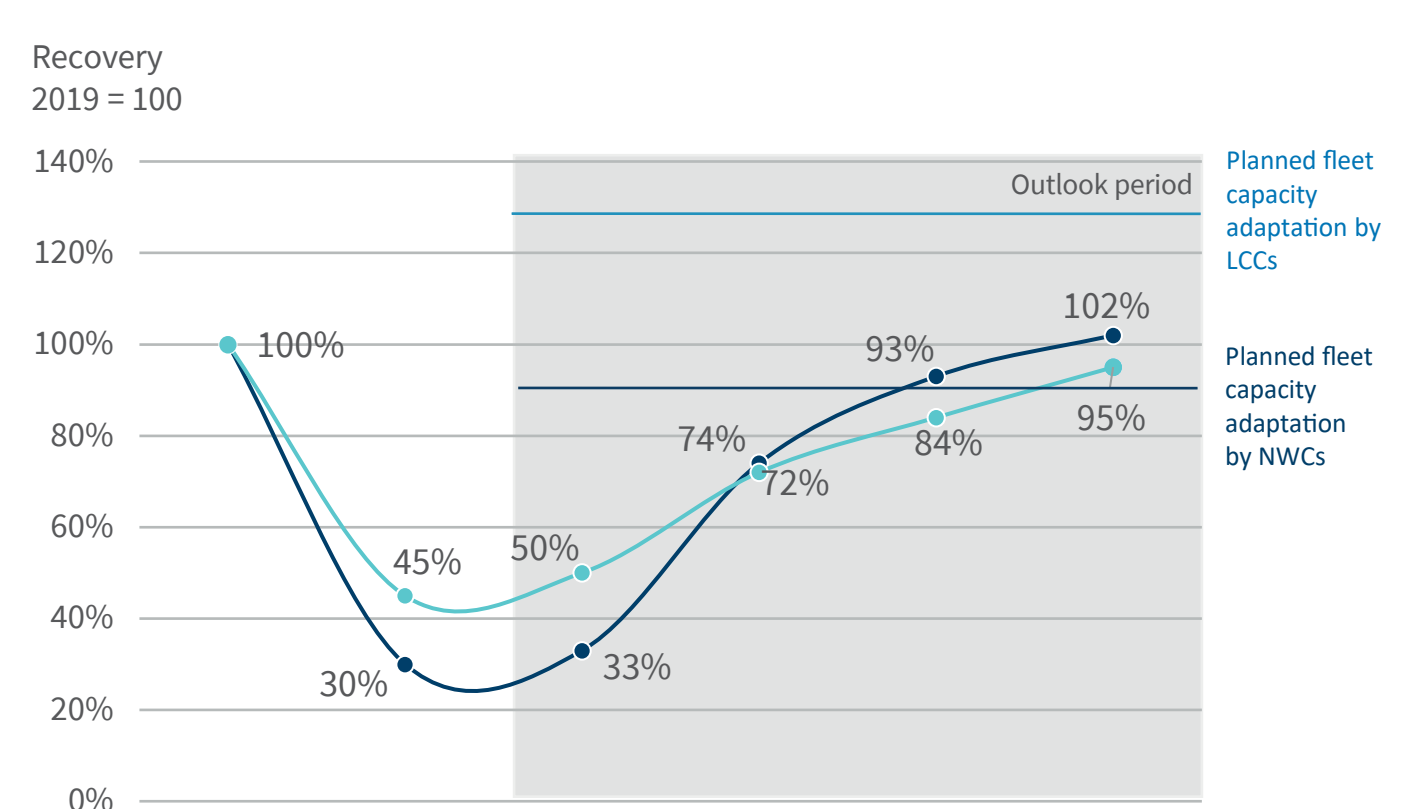
Factors influencing the travel narrative



Airlines: Capacity discipline and cost challenge

Airlines in Europe have implemented so far only moderate fleet cuts – LCCs even planning to expand fleets over the next years. It's probable, that airlines might face an oversupply of capacity incl. higher cost which could endanger the financial recovery.

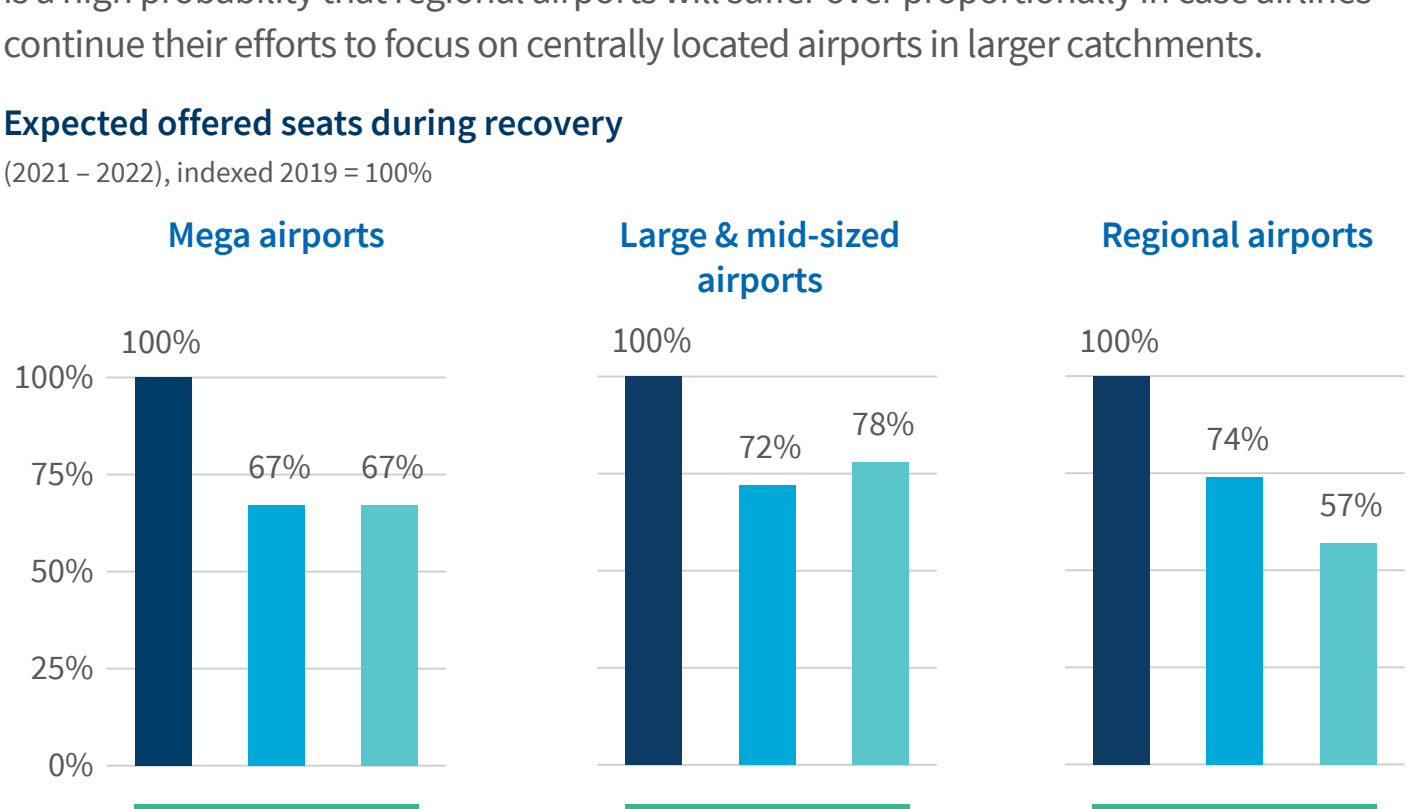
Sizing strategies of European airlines and key issues ahead



Airports: Potential volume gaps and shifts

UK airports will have different recoveries triggered by their different traffic mix – there is a high probability that regional airports will suffer over proportionally in case airlines continue their efforts to focus on centrally located airports in larger catchments.

Expected offered seats during recovery (2021 – 2022), indexed 2019 = 100%



Airports: Cost and profit challenge

Unless European airports can realise further cost improvements, they could face up to EUR 47 BN additional, cumulated losses versus 2019 over the next 4 years. This might put additional pressure on long-term valuations and financing.

Expected cost and profit development of European airports

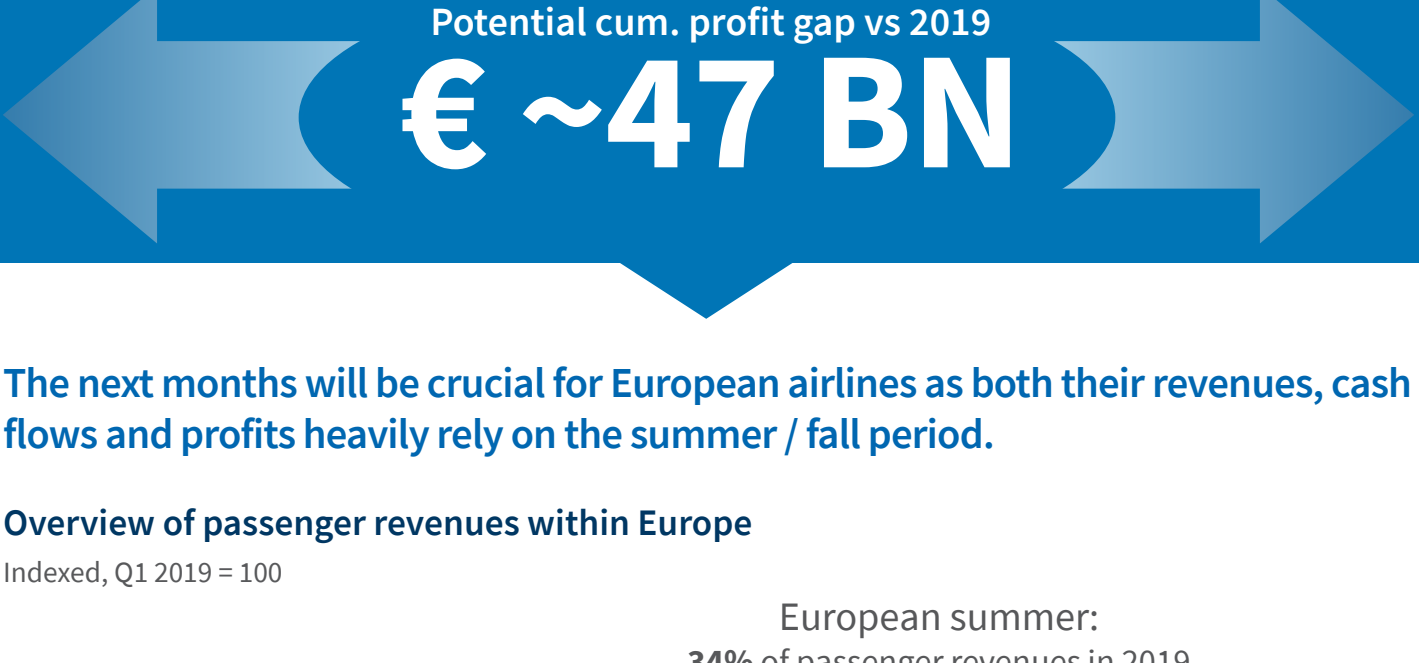


Potential cum. profit gap vs 2019

€ ~47 BN

The next months will be crucial for European airlines as both their revenues, cash flows and profits heavily rely on the summer / fall period.

Overview of passenger revenues within Europe



The next 24 months are mission critical for both airlines and airports as production ramp-up will increase OPEX, revenues will follow only with a time gap, cash situation might further deteriorate before improving, and risks of virus disruptions stay high.

We believe that the perfect storm in Europe's aviation is yet to come. While it's key to create the needed recovery momentum, airlines and airports should consider developing a deeper restructuring & transformation playbook for winning the post-pandemic endgame.



Our Business Transformation team have been helping companies meet these challenges.

For an informal discussion, please contact: BusinessTransformationEMEA@fticonsulting.com

Learn more at fticonsulting.com/covid19

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