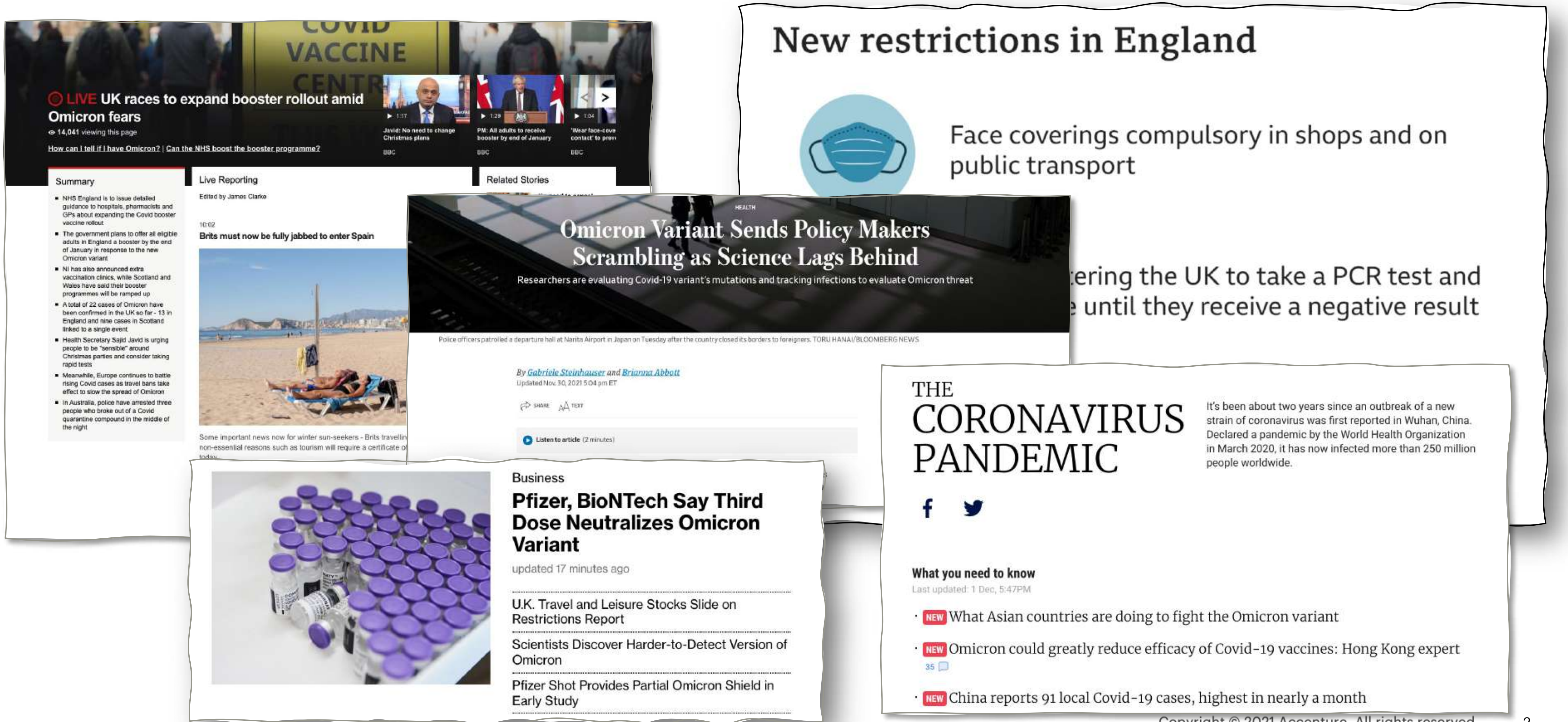
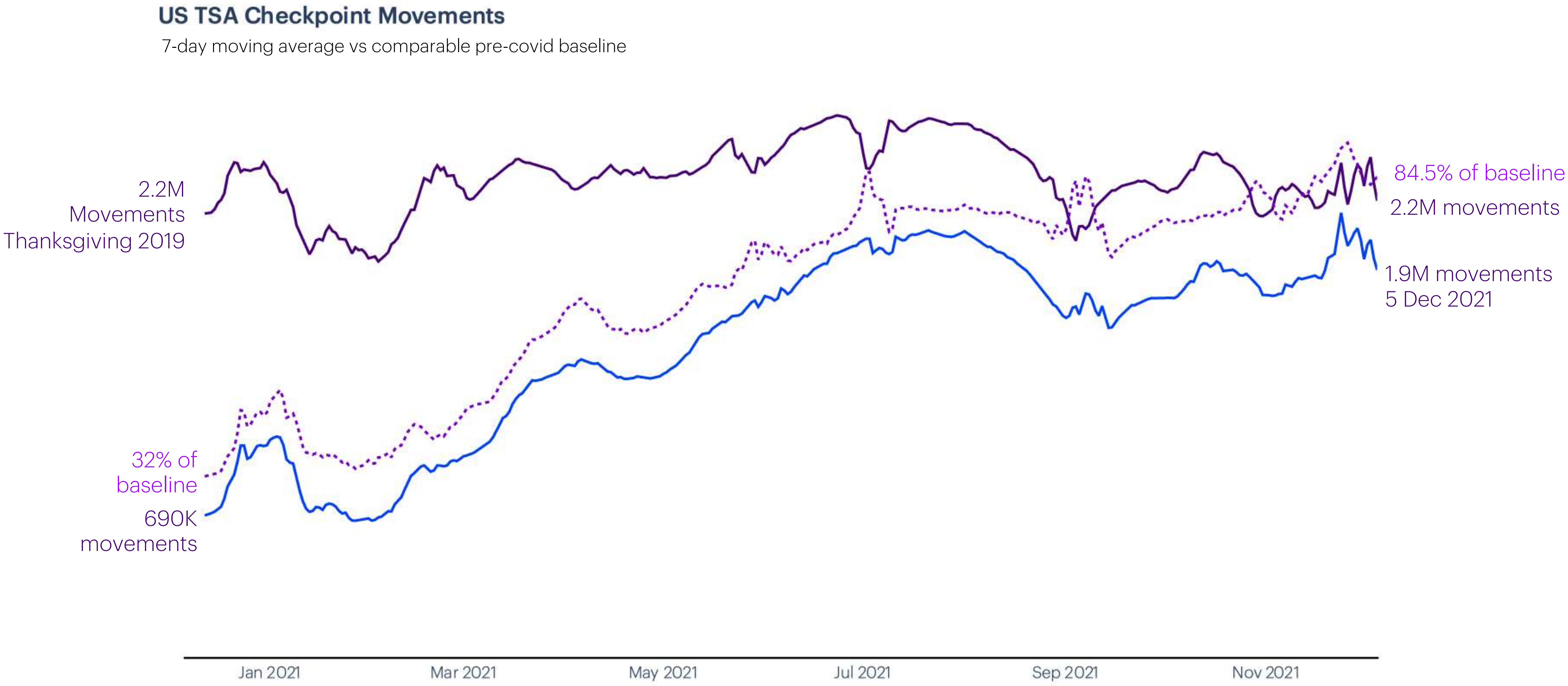
COVID changes everything in Travel

Travel is a quickly changing landscape

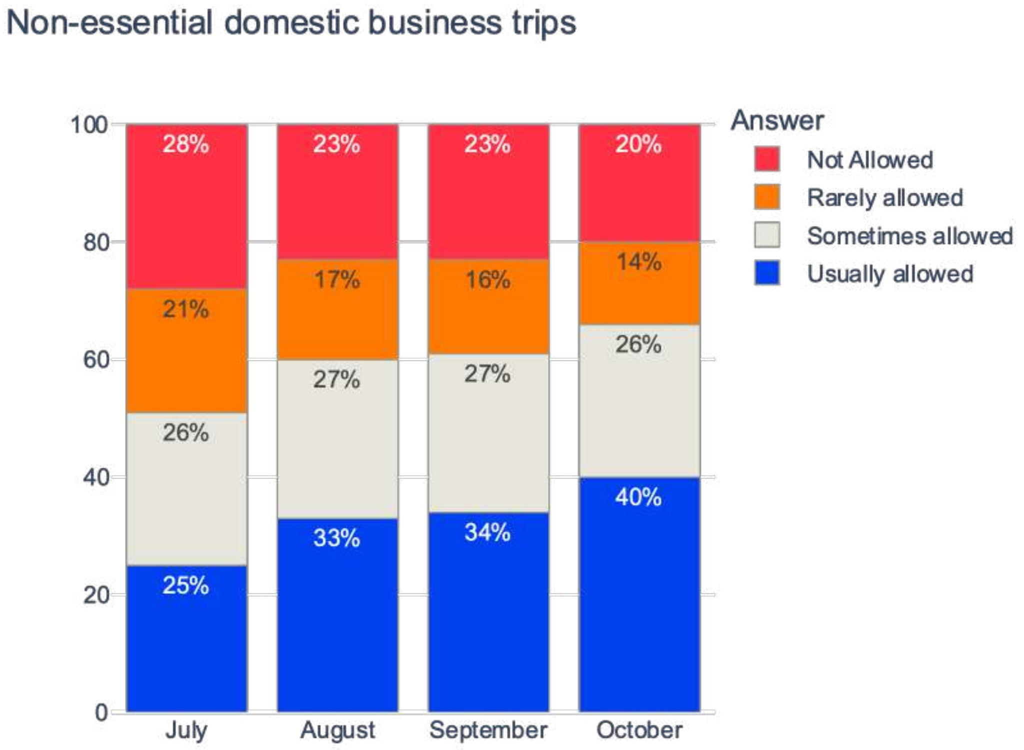


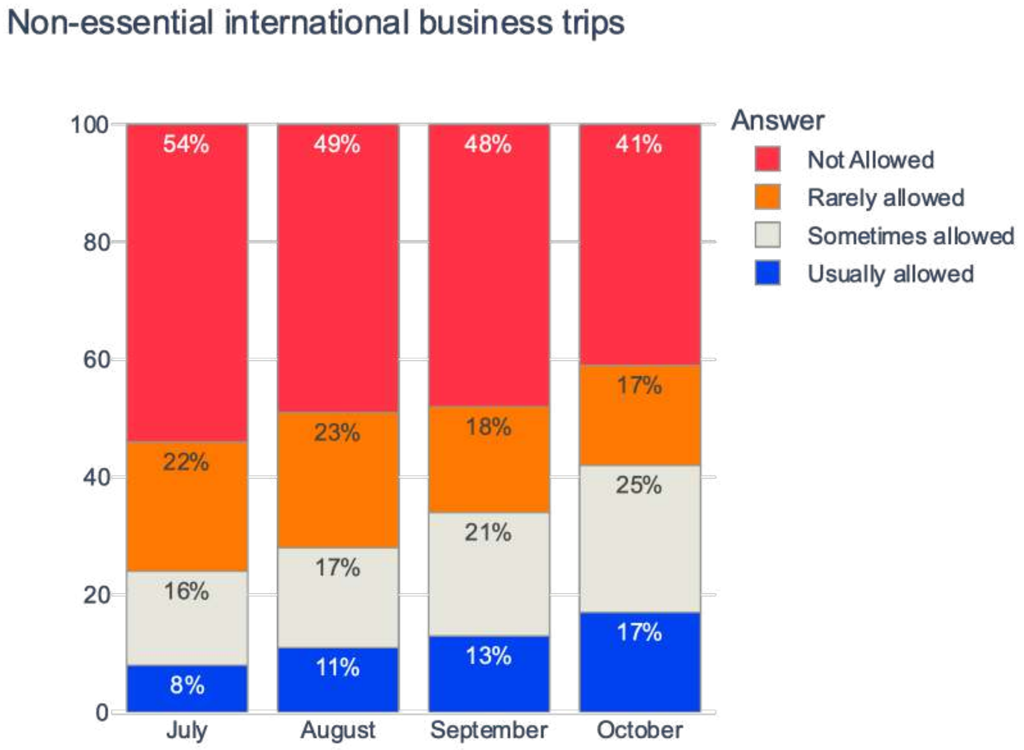
The opening of US borders and holiday traffic lifted overall US recovery to 89.5% of pre-COVID at Thanksgiving



Source: TSA.gov, Accenture analysis

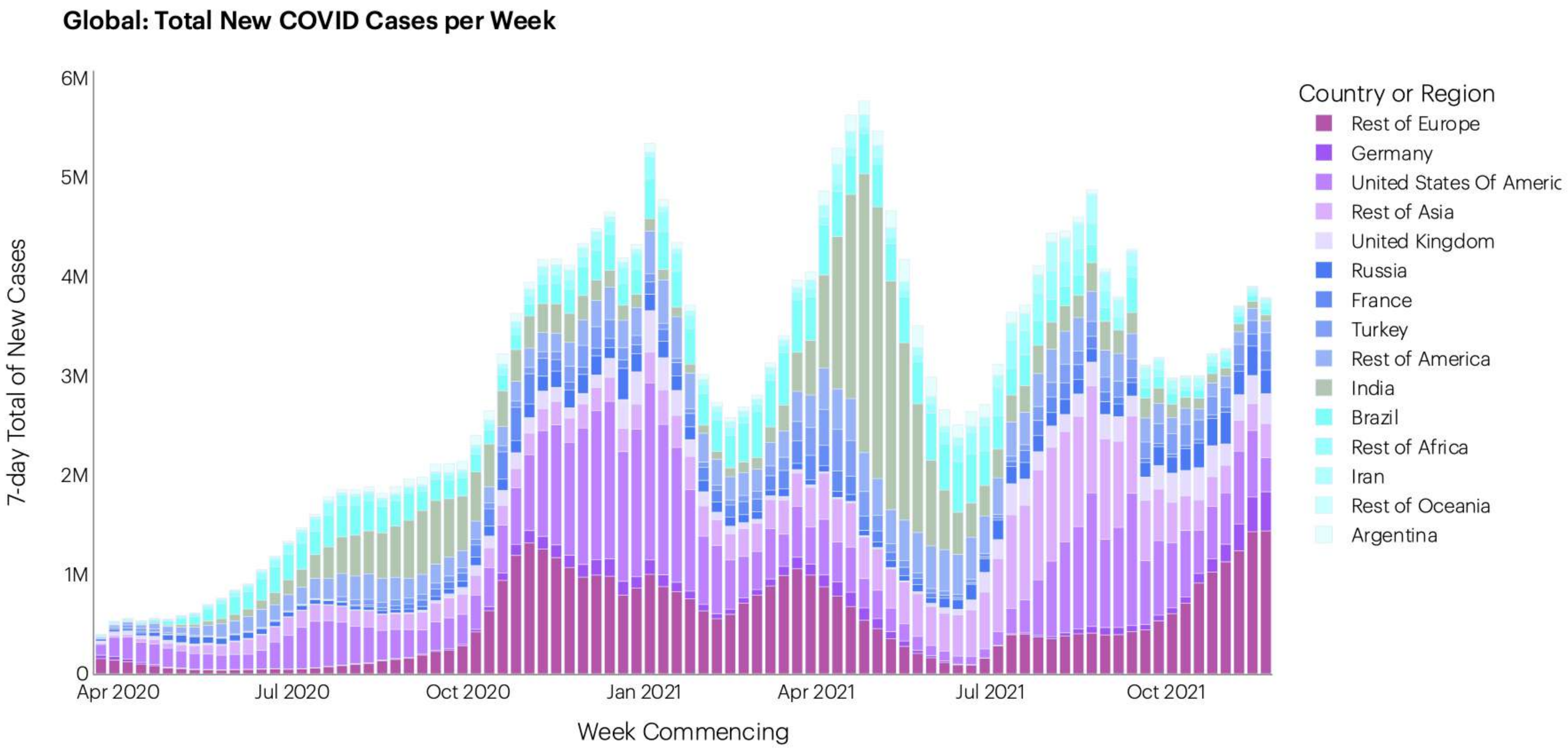
Through October, business travel sentiment and policies were trending positively





Source: GBTA, Accenture Analysis

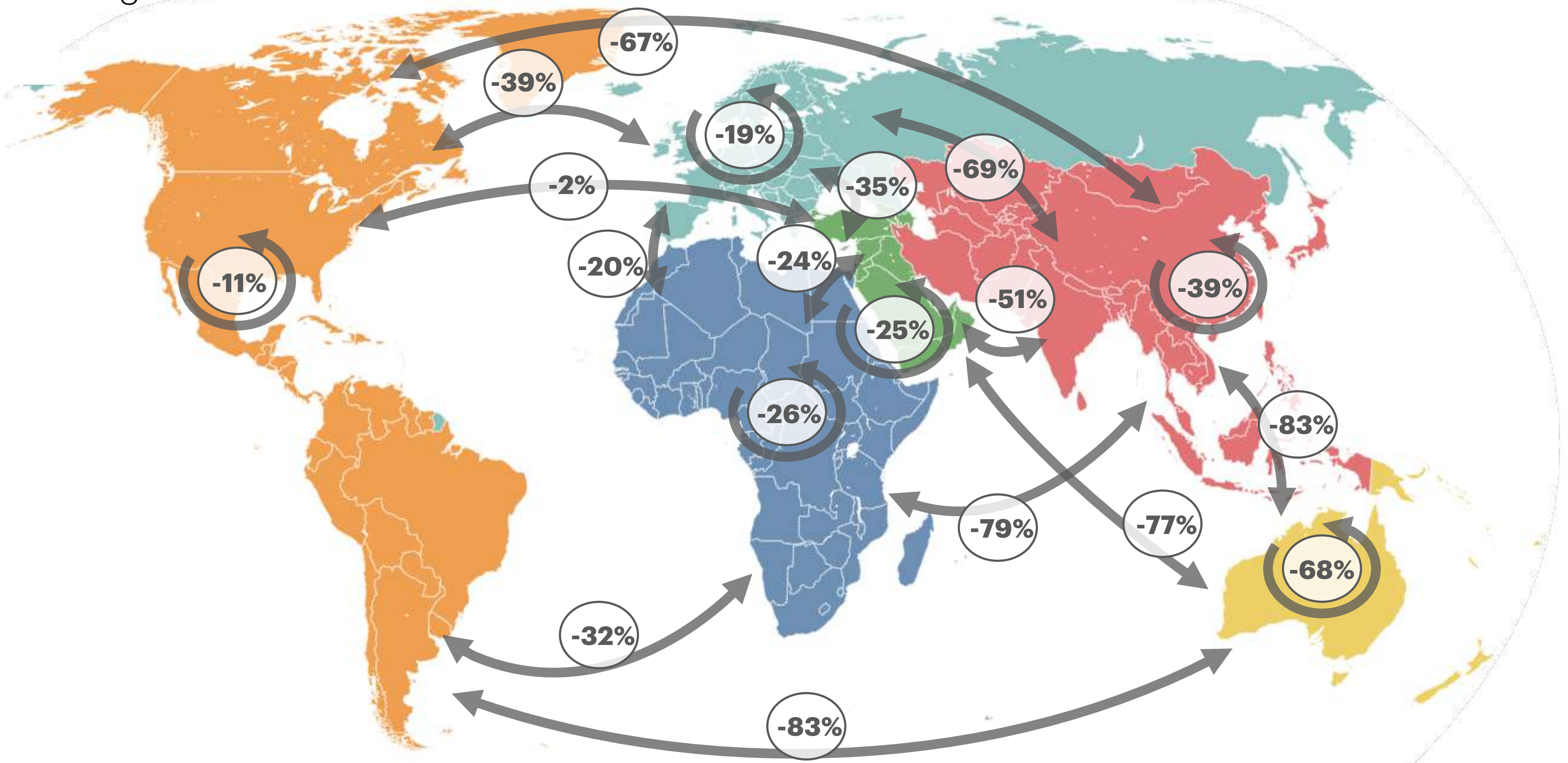
Were we learning to live with COVID…



Source: ECDC, Accenture Analysis

World-wide scheduled capacity was 65% of pre-COVID levels

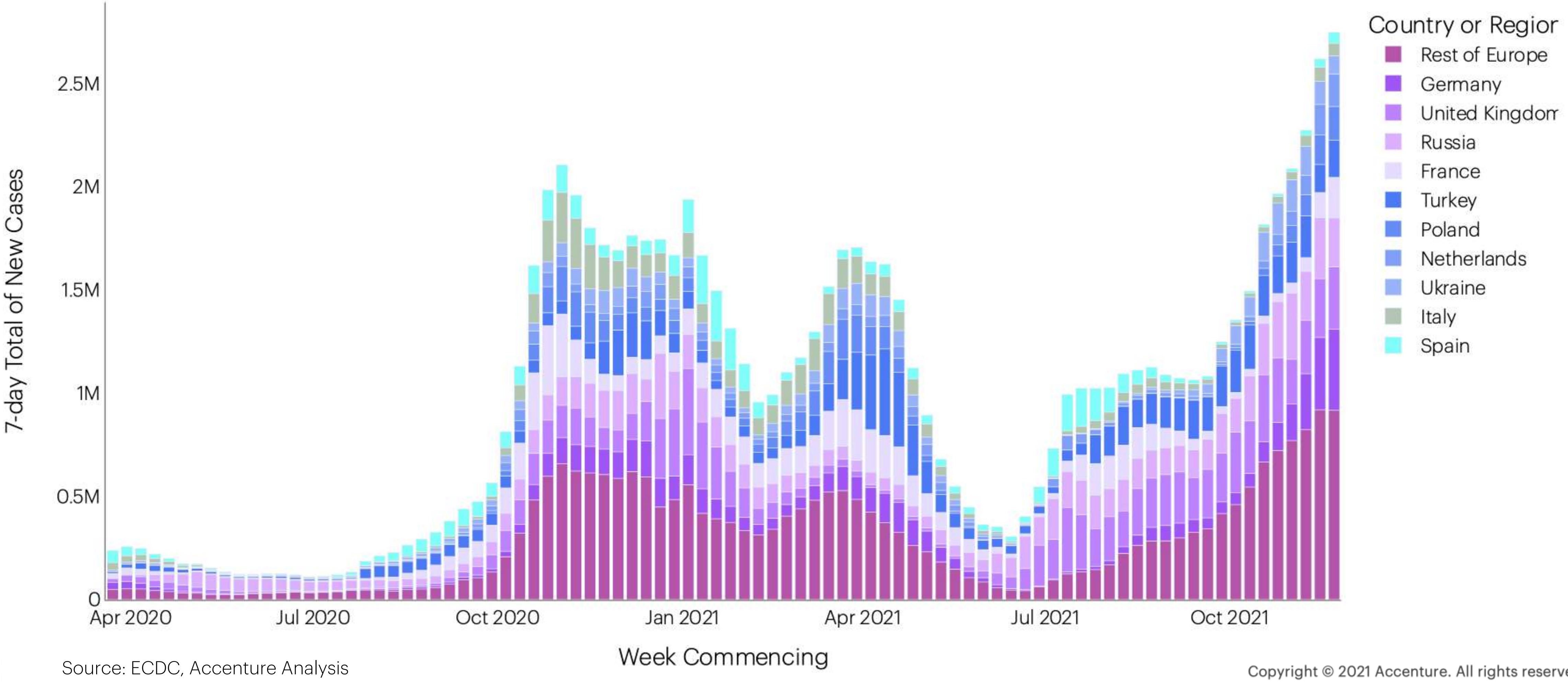
Scheduled capacity change for week of 15 November
% change in ASKs



Source: Innovata, Accenture Analysis

Even in Europe, with all time highs of cases, capacity was only off 20%

Europe: Total New COVID Cases per Week



Source: ECDC, Accenture Analysis

European and US carriers were ramping up December capacity

Published change in capacity

2021 vs 2019 change by month, in seats as of 15 Nov

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
American Airlines	-41%	-42%	-31%	-24%	-20%	-11%	-10%	-12%	-13%	-9%	-4%	-6%
United Airlines	-48%	-47%	-45%	-45%	-41%	-33%	-23%	-20%	-17%	-17%	-14%	-13%
Delta Air Lines	-32%	-32%	-32%	-29%	-26%	-24%	-22%	-23%	-18%	-19%	-13%	-16%
Emirates	-67%	-68%	-67%	-62%	-61%	-68%	-61%	-59%	-54%	-51%	-42%	-38%
Southwest Airlines	-44%	-46%	-32%	-28%	-23%	-12%	-10%	-7%	-8%	-9%	-9%	-13%
China Southern Airlines	-22%	-38%	2%	6%	8%	-14%	-4%	-27%	-4%	-5%	-15%	5%
Qatar Airways	-48%	-45%	-44%	-44%	-42%	-45%	-38%	-34%	-33%	-32%	-32%	-29%
China Eastern Airlines	-16%	-34%	-5%	-1%	-2%	-6%	-5%	-35%	-15%	-7%	-16%	-7%
Lufthansa	-81%	-86%	-83%	-78%	-76%	-68%	-53%	-49%	-50%	-43%	-38%	-31%
Air China LTD	-20%	-34%	-8%	1%	1%	-7%	1%	-27%	-11%	-7%	-21%	2%
Ryanair	-80%	-94%	-94%	-88%	-84%	-47%	-19%	-7%	-6%	-2%	8%	8%
British Airways	-81%	-89%	-87%	-86%	-84%	-79%	-72%	-68%	-56%	-49%	-45%	-38%
Turkish Airlines	-56%	-57%	-51%	-44%	-53%	-37%	-16%	-13%	-17%	-15%	-20%	-9%
Air Canada	-78%	-85%	-88%	-86%	-85%	-80%	-71%	-57%	-52%	-50%	-46%	-37%
Air France	-55%	-60%	-64%	-63%	-60%	-49%	-31%	-27%	-42%	-39%	-28%	-23%
Aeroflot	-59%	-59%	-54%	-44%	-36%	-23%	-19%	-17%	-18%	-24%	-28%	-23%
Cathay Pacific Airways	-91%	-93%	-96%	-95%	-95%	-92%	-92%	-88%	-87%	-87%	-88%	-84%
LATAM Airlines Group SA	-45%	-49%	-51%	-59%	-54%	-46%	-39%	-36%	-30%	-28%	-22%	-16%
Singapore Airlines	-79%	-77%	-76%	-74%	-72%	-69%	-66%	-66%	-65%	-65%	-60%	-55%
All Nippon Airways Co. Ltd.	-22%	-27%	-57%	-49%	-55%	-57%	-54%	-44%	-47%	-48%	-39%	-31%
KLM Royal Dutch Airlines	-51%	-60%	-63%	-60%	-57%	-49%	-29%	-25%	-29%	-27%	-25%	-20%
EASYJET UK LIMITED	-87%	-91%	-92%	-89%	-87%	-77%	-52%	-38%	-43%	-40%	-41%	-31%
Alaska Airlines	-36%	-29%	-25%	-20%	-19%	-18%	-19%	-19%	-14%	-17%	-17%	-20%
Etihad Airways	-65%	-61%	-62%	-61%	-60%	-61%	-63%	-62%	-59%	-56%	-54%	-52%
Qantas Airways Ltd.	-61%	-58%	-45%	-35%	-29%	-29%	-52%	-75%	-75%	-75%	-64%	-40%
JetBlue Airways	-53%	-46%	-38%	-34%	-21%	-14%	-13%	-12%	-13%	-14%	-14%	-8%
Korean Air Lines	-77%	-75%	-75%	-73%	-72%	-70%	-68%	-69%	-69%	-67%	-67%	-66%
Hainan Airlines	-19%	-49%	-24%	-15%	-16%	-30%	-15%	-42%	-28%	-31%	-44%	-24%
Saudi Arabian Airlines Cor..	-46%	-49%	-51%	-47%	-44%	-39%	-30%	-34%	-31%	-29%	-28%	-25%
IndiGo	-9%	-6%	-5%	-12%	-49%	-60%	-34%	-22%	-15%	-10%	0%	1%
Japan Airlines Co., Ltd.	-50%	-68%	-60%	-48%	-51%	-51%	-44%	-45%	-48%	-41%	-30%	-20%
Thai Airways Internationa..	-96%	-94%	-93%	-93%	-94%	-94%	-91%	-92%	-91%	-95%	-90%	-88%
Iberia	-54%	-61%	-62%	-56%	-53%	-42%	-30%	-22%	-28%	-32%	-22%	-19%
Spirit Airlines	-21%	-24%	-14%	-11%	-4%	-5%	4%	5%	5%	6%	6%	11%
Air India Limited	-45%	-40%	-37%	-33%	-45%	-58%	-54%	-43%	-42%	-38%	-36%	-32%
EVA Air	-87%	-92%	-91%	-87%	-87%	-89%	-86%	-88%	-90%	-91%	-91%	-90%
Sichuan Airlines	-1%	-28%	14%	9%	16%	9%	8%	-8%	4%	6%	-4%	16%
Ethiopian Airlines Group	-32%	-33%	-34%	-34%	-31%	-29%	-31%	-31%	-31%	-29%	-32%	-26%
Xiamen Airlines	-5%	-20%	9%	7%	5%	4%	3%	-16%	-8%	-12%	-12%	8%
Asiana Airlines	-74%	-71%	-65%	-61%	-61%	-64%	-61%	-67%	-68%	-65%	-64%	-62%
Wizz Air	22%	-79%	-74%	-73%	-65%	-30%	6%	7%	-2%	-3%	-7%	7%

Source: Cirium Diio, Seabury Consulting analysis.

2022 schedules signaled ambition to recover 2019 levels

Published change in capacity

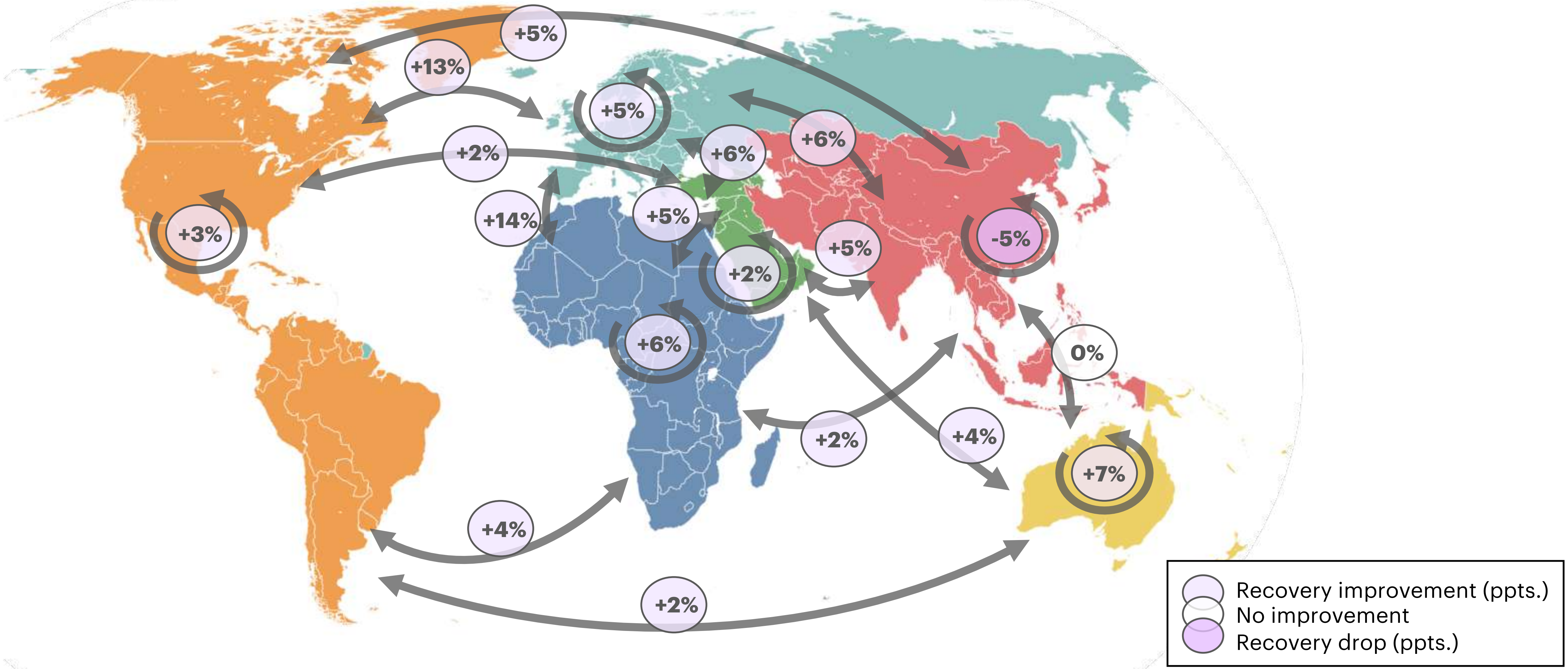
2022 vs 2019 change by month, in seats as of 15 Nov

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
American Airlines	-5%	-3%	16%	19%	16%	15%	16%	14%	18%	17%
United Airlines	-7%	-3%	-3%	2%	2%	-2%	-1%	0%	3%	0%
Delta Air Lines	-9%	-9%	-5%	-1%	-1%	-4%	-4%	-4%	4%	2%
Emirates	-34%	-33%	-33%	-21%	-10%	-29%	-27%	-28%	-26%	-25%
Southwest Airlines	-10%	-4%	-4%	-21%						
China Southern Airlines	7%	5%	12%	15%	15%	14%	4%	2%	8%	8%
Qatar Airways	-23%	-21%	-20%	-15%	-11%	-13%	-13%	-15%	-14%	-14%
Lufthansa	-36%	-34%	-25%	2%	-1%	0%	-1%	1%	-3%	0%
China Eastern Airlines	-2%	-5%	-2%	-24%	-25%	-26%	-30%	-31%	-27%	-27%
Ryanair	19%	18%	22%	20%	19%	18%	19%	17%	19%	14%
British Airways	-28%	-17%	-15%	-11%	-12%	-11%	-12%	-11%	-11%	-12%
Air China LTD	5%	4%	6%	-6%	-7%	-7%	-11%	-11%	-9%	-8%
Air Canada	-16%	-8%	-7%	0%	2%	1%	-2%	-2%	0%	2%
Turkish Airlines	-11%	-14%	-9%	18%	11%	7%	9%	8%	7%	10%
Air France	-13%	-3%	-1%	7%	9%	5%	6%	11%	-3%	-9%
Aeroflot	-24%	-24%	-24%	-31%	-29%	-25%	-24%	-25%	-25%	-31%
Cathay Pacific Airways	-28%	20%	24%	20%	25%	21%	19%	17%	22%	23%
LATAM Airlines Group SA	-5%	-4%	-2%	-1%	-2%	-3%	-15%	-11%	-11%	-14%
Singapore Airlines	-52%	-53%	-41%	21%	17%	18%	18%	18%	17%	17%
All Nippon Airways Co. Ltd.	-18%	-15%	-13%	-5%	-5%	-5%	-8%	-10%	-8%	-6%
KLM Royal Dutch Airlines	-16%	-8%	-6%	2%	0%	0%	-1%	0%	0%	1%
EASYJET UK LIMITED	-34%	-26%	-17%	-6%	-8%	-10%	-10%	-9%	-9%	-6%
Alaska Airlines	-9%	-8%	-6%	-3%	7%	13%	13%	12%	20%	21%
Etihad Airways	-50%	-48%	-41%	-8%	-7%	-10%	-15%	-16%	-13%	-10%
Qantas Airways Ltd.	-14%	-12%	-7%	7%	2%	5%	0%	3%	3%	0%
JetBlue Airways	0%	4%	-2%	6%	5%	9%	12%	12%	15%	7%
Hainan Airlines	-25%	-32%	-22%	-23%	-24%	-26%	-28%	-29%	-27%	-26%
Korean Air Lines	-57%	-58%	-50%	-13%	-14%	-14%	-15%	-15%	-14%	-8%
Saudi Arabian Airlines Cor..	-16%	-15%	-13%	-5%	-8%	-8%	-3%	-6%	0%	2%
IndiGo	26%	26%	25%	21%	19%	20%	17%	18%	16%	5%
Japan Airlines Co., Ltd.	-10%	0%	1%	0%	1%	1%	0%	-1%	-1%	-1%
Thai Airways Internationa..	-82%	-82%	-77%	-51%	-50%	-50%	-51%	-51%	-51%	-51%
Iberia	-17%	-18%	-18%	-13%	-15%	-17%	-18%	-14%	-17%	-17%
Spirit Airlines	22%	25%	29%	28%	-6%					
Air India Limited	-28%	-28%	-28%	-35%	-36%	-37%	-34%	-36%	-37%	-41%
EVA Air	-52%	-52%	4%	2%	1%	-2%	12%	-6%	-5%	-6%
Sichuan Airlines	25%	17%	27%	16%	20%	15%	9%	9%	13%	13%
Ethiopian Airlines Group	-15%	-14%	-13%	-3%	-3%	-7%	-9%	-8%	-8%	-7%
Xiamen Airlines	22%	11%	2%	-99%	-99%	-99%	-100%	-100%	-100%	-100%
Asiana Airlines	-51%	-46%	-37%	-5%	-7%	-8%	-8%	-9%	-10%	-9%
Wizz Air	47%	48%	46%	16%	16%	9%	8%	4%	4%	11%

Source: Cirium Diio, Seabury Consulting analysis.

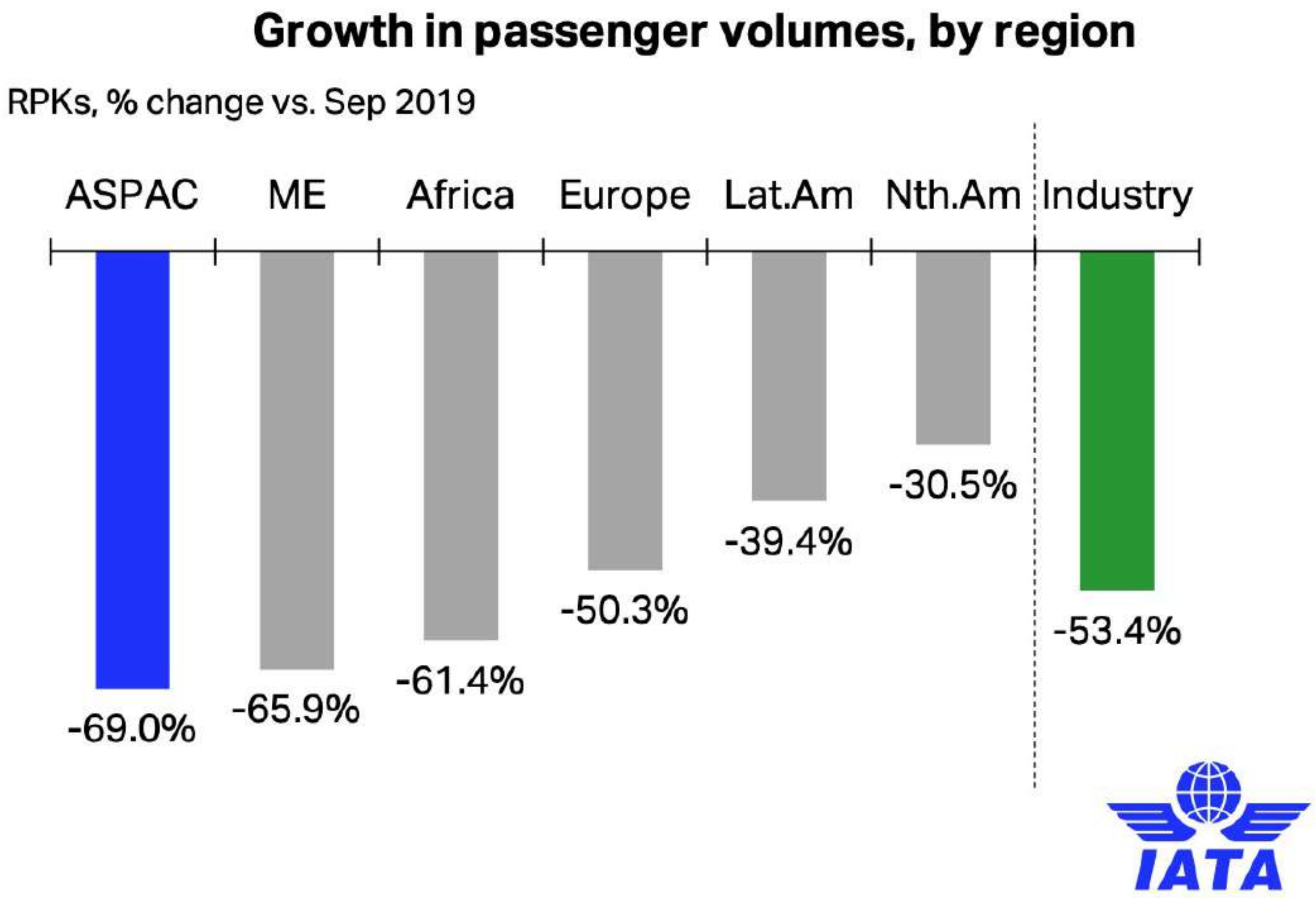
Intra-Asia was the only region without month on month recovery

Scheduled capacity recovery change
Week of 15 Nov vs week of 11 Oct



Source: Innovata, Accenture Analysis

Asia Pacific has been the slowest area to recover, while North and Latin America were stronger

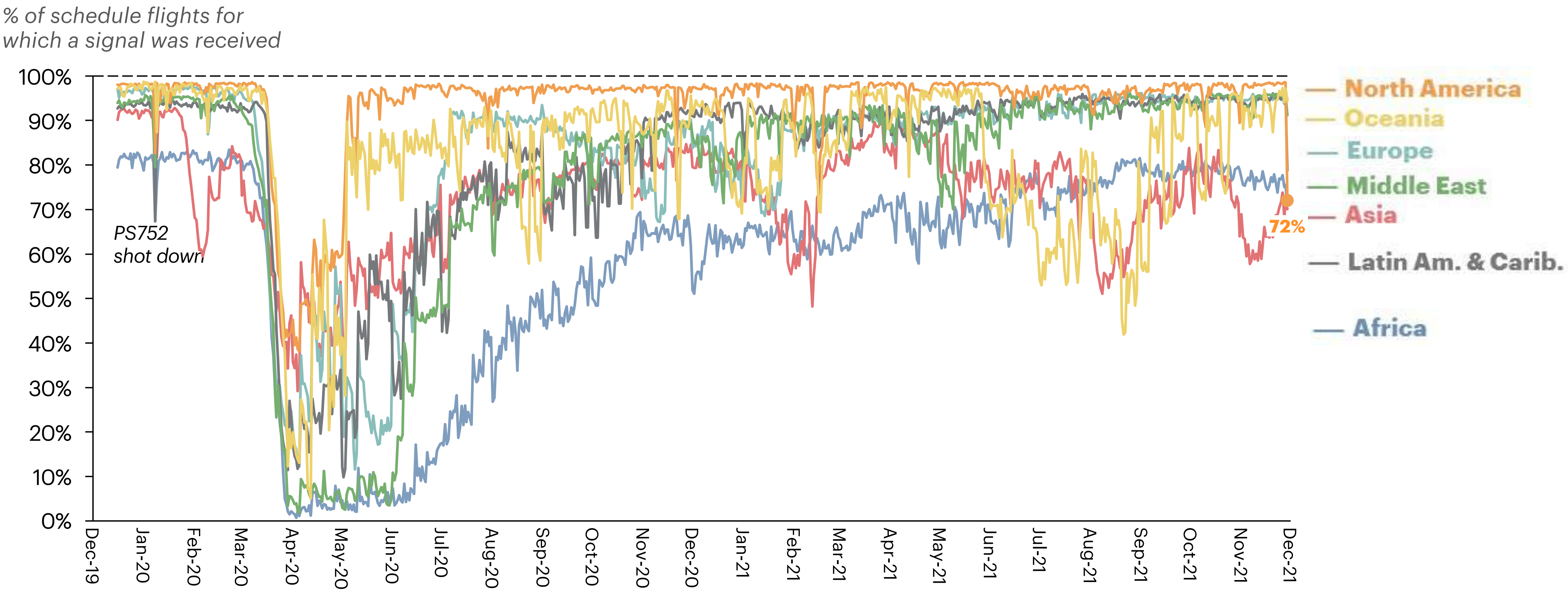


Source: IATA.org/economics

Omicron variant led to drop of c. 30 ppts in schedule reliability in North America

In-flight ADS-B signals received

Narrowbody and widebody fleets



Source: Innovata, FlightRadar24, Accenture Analysis

Adjusting the flight path

Repair balance sheets

Storms on flight path

‼ Border closures

‼ Lower demand with less business mix

‼ Increasing fuel prices and taxes

‼ Sustainable fuel availability

Course corrections

✓ Reduce flying & furlough

✓ Ask for help

✓ Grow Cargo LF and charge more

✓ Control capacity deployment

✓ Cut costs

- Cut more costs & raise prices
- Sell more services

After losing $137B in 2020 (after 80B+ of non-reimbursable support), **how are airlines performing in 2021?**

Q3 2021 Profits

Ryanair
Alaska

Nearing Profitability

Wizz Air
Southwest
jetBlue

Required a Reboot

Alitalia
Avianca
Aeromexico
Malaysian
LATAM
Norwegian
Philippines
South African Airways
Thai
Virgin Atlantic
Virgin Australia
..and others

Still Face Significant Challenges

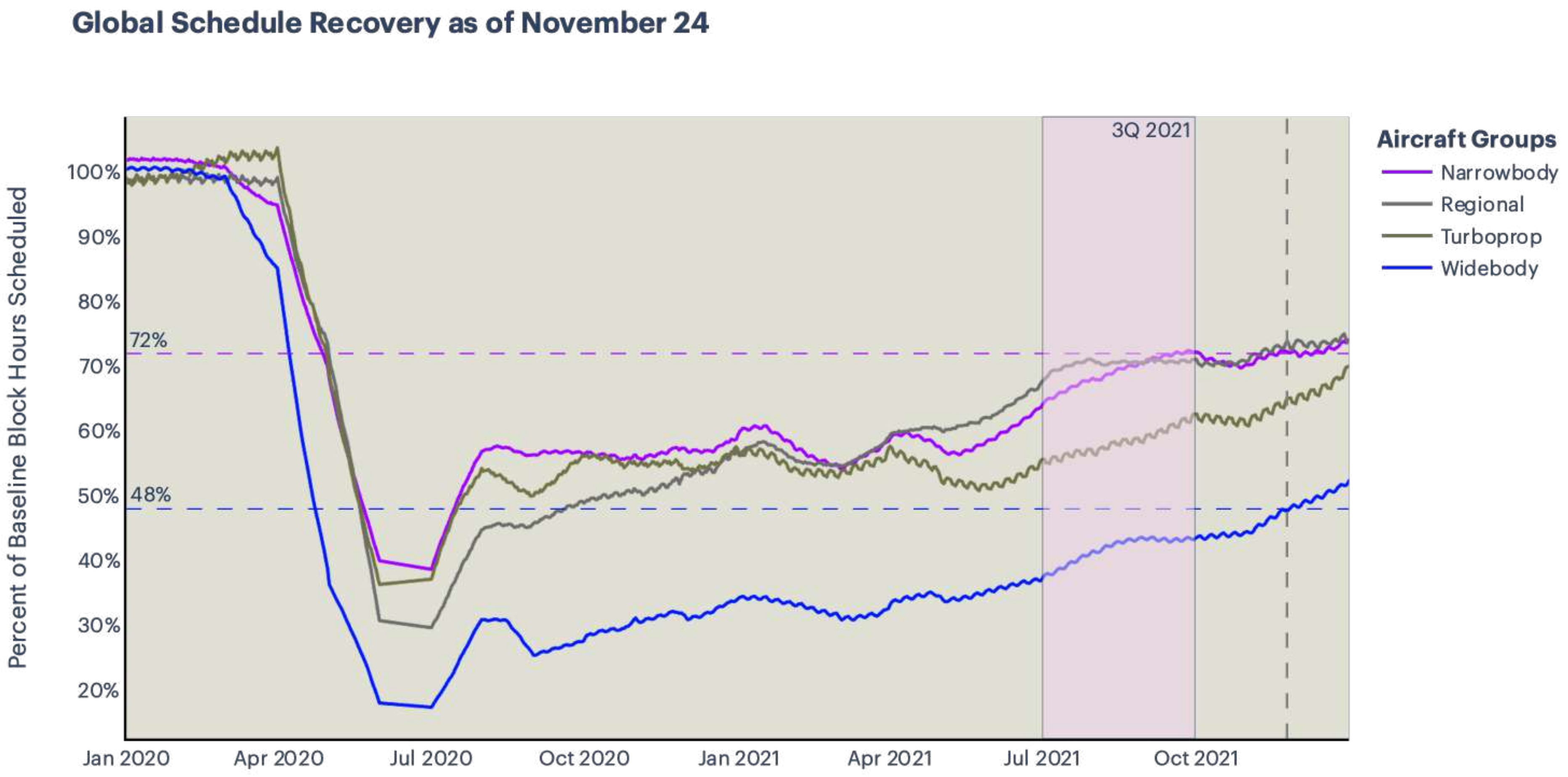
Every other carrier

How much further improvement is required to bring the airline industry to break even?

USD impact on profitability	Current Capacity (50% for 2021)	80% Capacity Recovery	100% Capacity Recovery
Overall demand drop, net of capacity reductions			
Revenue impact of new business travel mix			
Air Cargo tailwind	75B		
Impact of 1-time grants and government furlough support			
Sustainable cost reduction efforts			
Expected Industry Op. Profit	**-55B**		
Incremental COVID debt service			
Impact of carbon taxes			
Inflationary increases in airports, ATC, & OEM agreements			
Further improvement needed			
Target Industry Operating Profit to service debt	**$40B**		

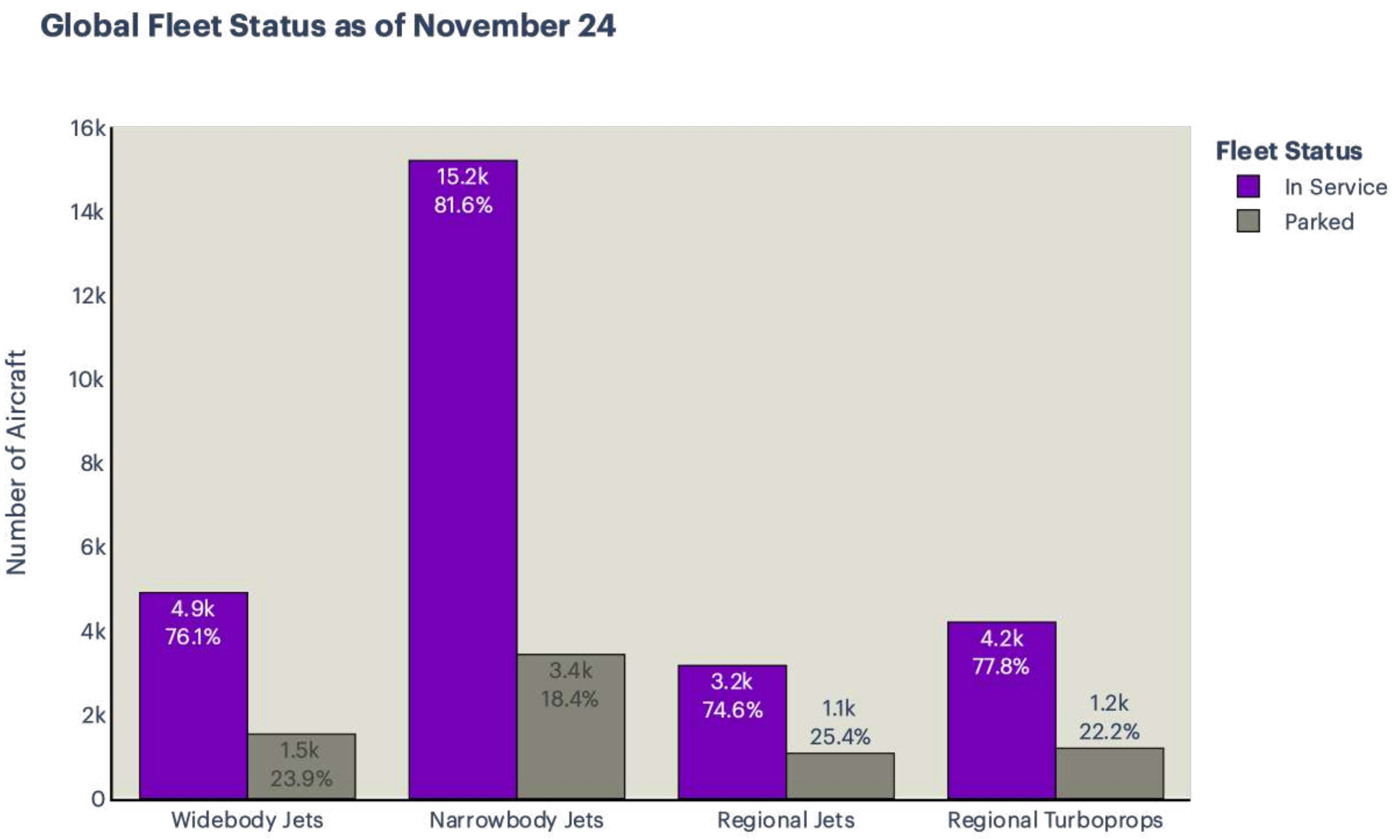
Source: IATA.org/economics; Accenture Analysis

Global block hour recovery is heavily weighted towards narrowbody aircraft



Source: Cirium, Accenture Analysis, 31 day rolling average

3/4 of each category in the global fleet is in service



- The parked aircraft are on average 4 to 6 years older than in service aircraft
- Parked widebodies are approximately **15 years old**
- Parked narrowbodies are approximately **17 years old**
- Available supply and demand will remain out of balance for a long while as significant numbers of aircraft are "standing by"

Source: Ascend, Accenture Analysis

How much further improvement is required to bring the airline industry to break even?

USD impact on profitability	Current Capacity (50% for 2021)	80% Capacity Recovery	100% Capacity Recovery	
Overall demand drop, net of capacity reductions	**-$135B**	**-$30B**	**0B**	Limited ability to drive significant yield improvements until demand fully back
Revenue impact of new business travel mix	-55B	-65B	-85B	Business traffic mix is down *50% from pre-COVID levels*
Air Cargo tailwind	75B	65B	45B	More widebody capacity will bring supply and demand more in balance
Impact of 1-time grants and government furlough support	50B			
Sustainable cost reduction efforts	20B	30B	40B	Fuel efficient aircraft, impact of operational efficiency improvements, durable contract renegotiations
Expected Industry Op. Profit	**-55B**	**-20B**	**0B**	
Incremental COVID debt service	+10B	+10B	+10B	$200B incremental debt, 2% interest, 25 years
Impact of carbon taxes	TBD	TBD	TBD	
Inflationary increases in airports, ATC, & OEM agreements	TBD	TBD	TBD	
Further improvement needed	**85B+**	**70B+**	**50B+**	*~20-30% further efficiency improvements*
Target Industry Operating Profit to service debt	**$40B**	**$40B**	**$40B**	Similar to pre-COVID industry profits, limited ability to fund transition to net zero

Source: IATA.org/economics; Accenture Analysis

The addressable value chain does not have $50B - $70B in further efficiency improvements

Immediately obvious material efficiency opportunities

- **(<$15B)** Air space and navigation improvements
  - Has proven politically difficult
  - Long lead times
  - Significant capital investments
- **(<$5B)** Airline support services organisations
  - Significant scope for BPO opportunities
  - Full scale industry value

Longer term efficiency opportunities

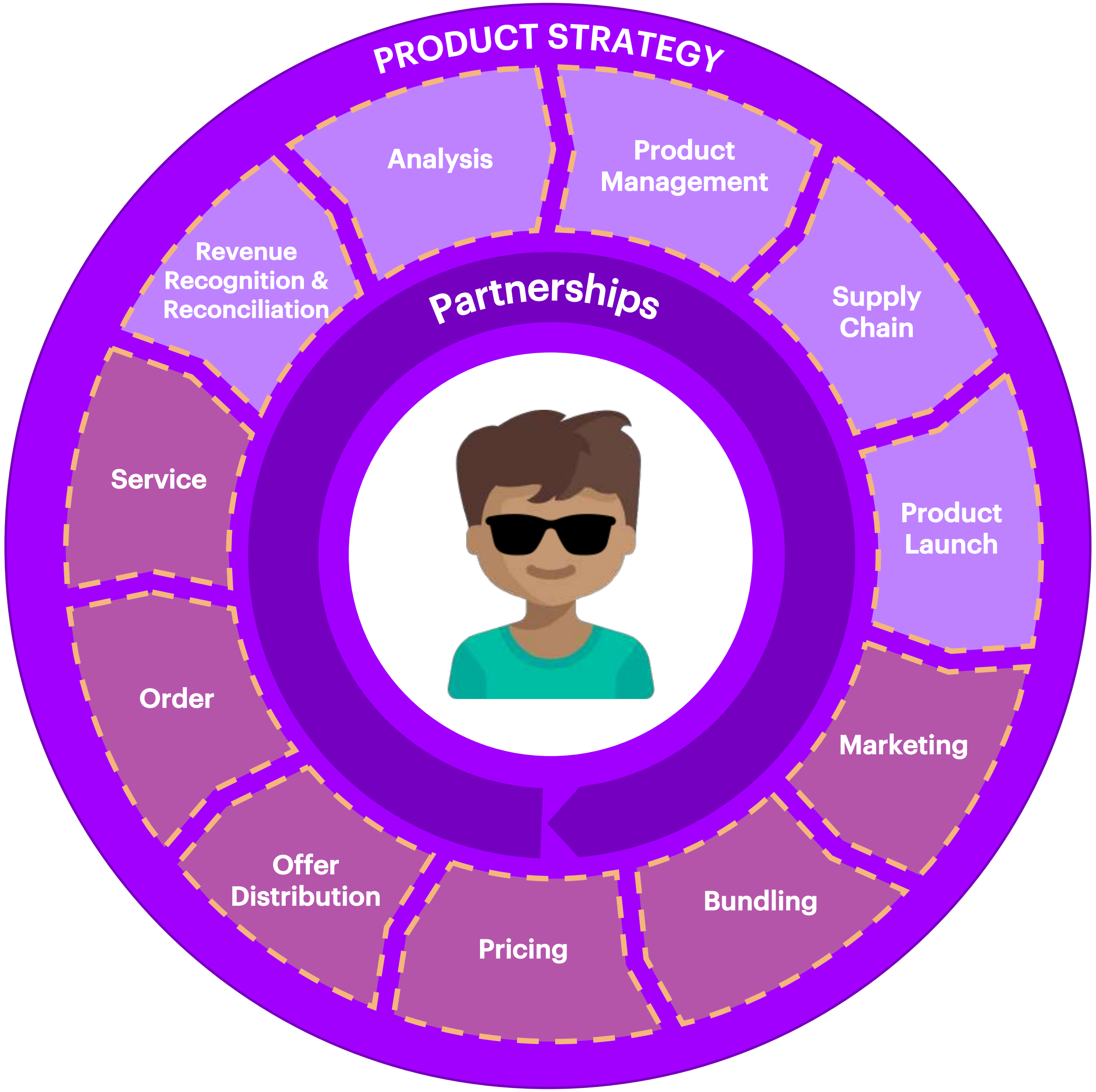
- **(<$15B)** Further digitization and automation of airport and customer service processes
  - Underway, hugely complicated involving multiple partners
  - Cloud dependent
  - Airport infrastructure dependent
- **(<$2B)** Electrification of airport and cargo ground equipment
  - Significant capital investment required from value chain
  - Long payback periods

Every Existing Airline Now Wishes They Were More in The Cloud

CEOs wish...

- ... they had the business capabilities to better **differentiate in a disrupted world**
- ... they were more **digital** and **data driven**
- ... they were better at **virtual collaborative working**
- ... they had a more **variable cost structure**
- ... they were more connected to **travelers** and **guests**
- ... they had stronger and more integrated **e-commerce** systems
- ... they had **modernized their IT**
- ... they had a more **agile operating model** enabling **cross functional / cross BU working**
- ... they used more **automation and AI**
- ... they had richer industry **ecosystem collaboration**

Airlines are reinventing around customers and orders

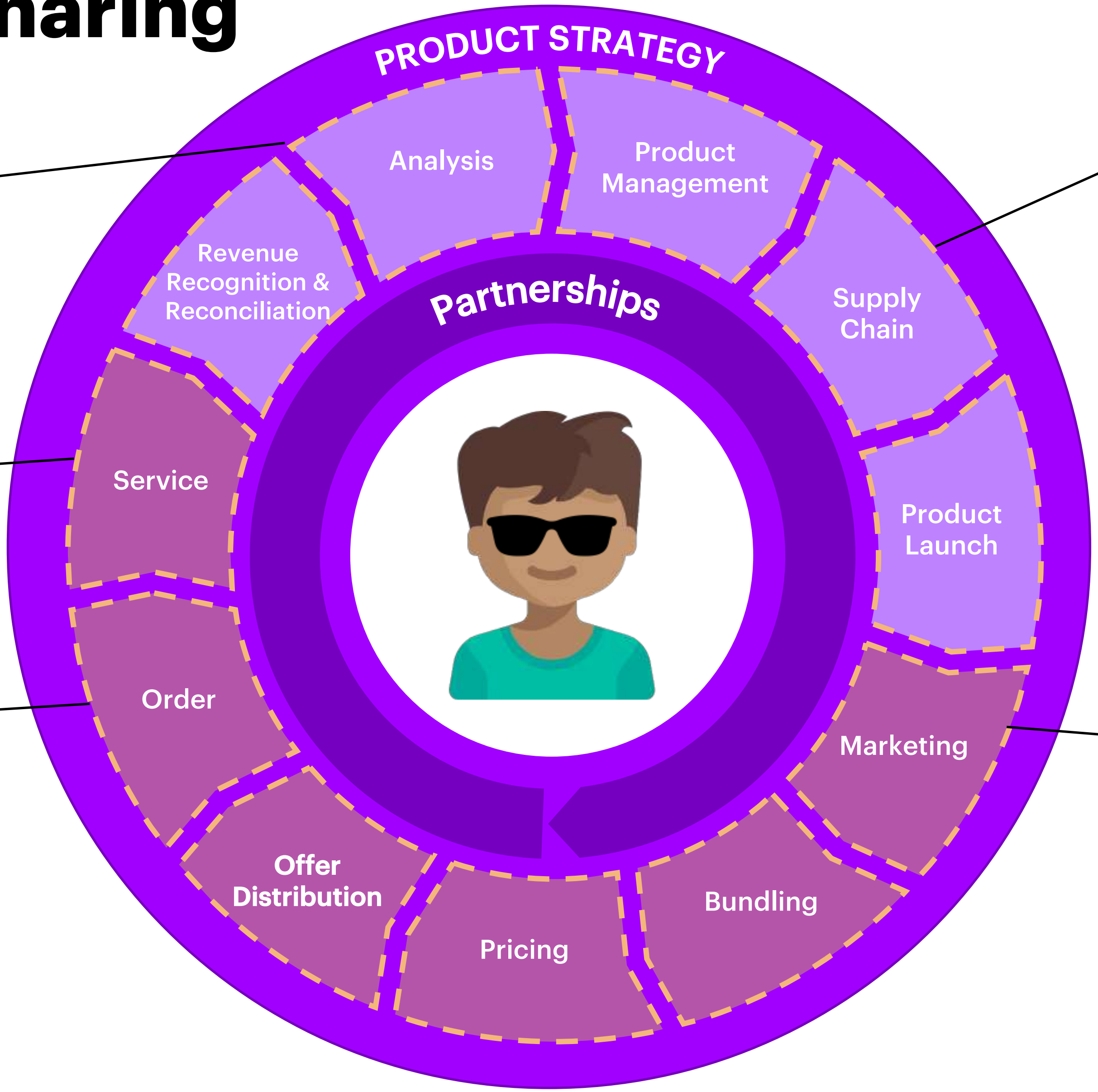


Value chain partners need to digitally re-invent with win/win risk sharing

Collaborate with data to improve services

Adopt aligned incentives, new procedures, and technology to commercially extend airline to gate & baggage management processes. Develop & deliver more "productized" services.

Integrate special handling touch & recognition services into airline order management process



Support extended "in-the-moment" retail extensions for airlines & airports

Link incremental services & touch points with airline marketing messaging & communication