IATA ANNUAL GENERAL MEETING

Outlook for Air Transport and the Airline Industry

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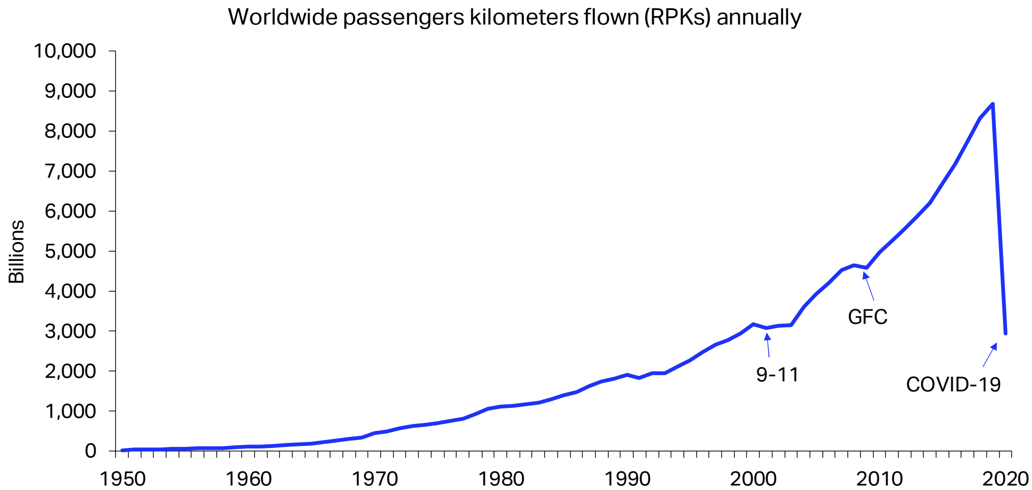
#IATAAGM

24 November 2020

COVID-19 is the biggest shock to hit aviation since WW2

Global RPKs estimated to have shrunk an average of 66% in 2020



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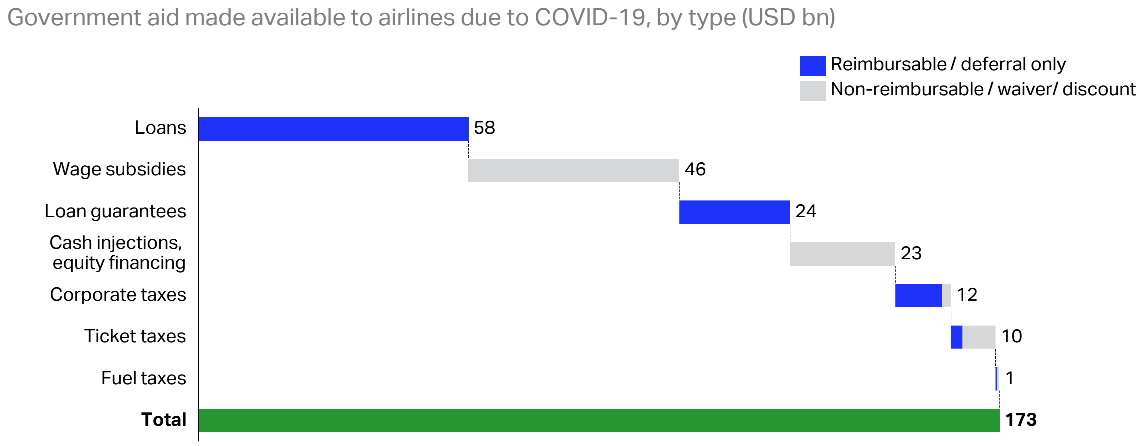
Government aid has kept airlines on life support

USD173 Bn of aid from governments worldwide so far



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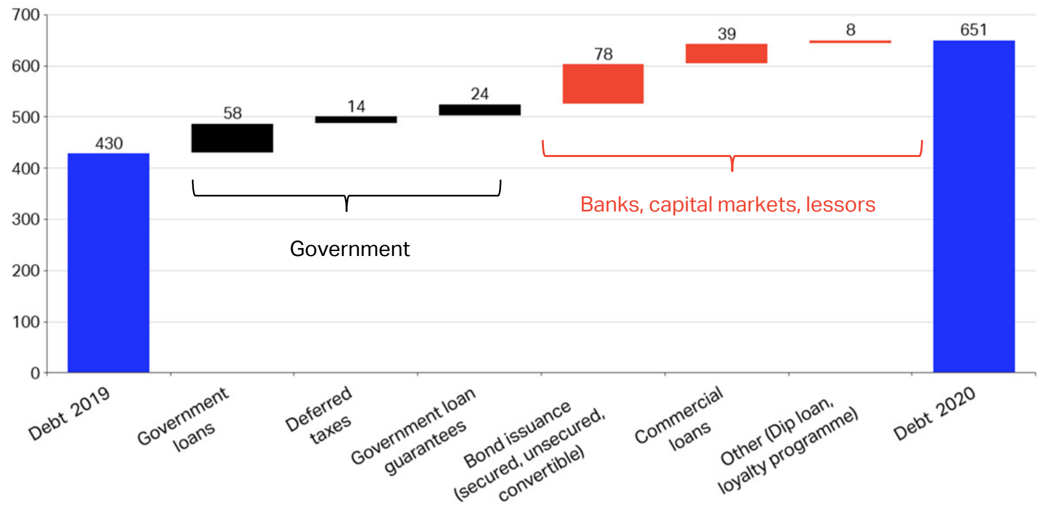
Airlines have also raised cash from capital markets

Government aid + capital markets added more than USD220bn to debt



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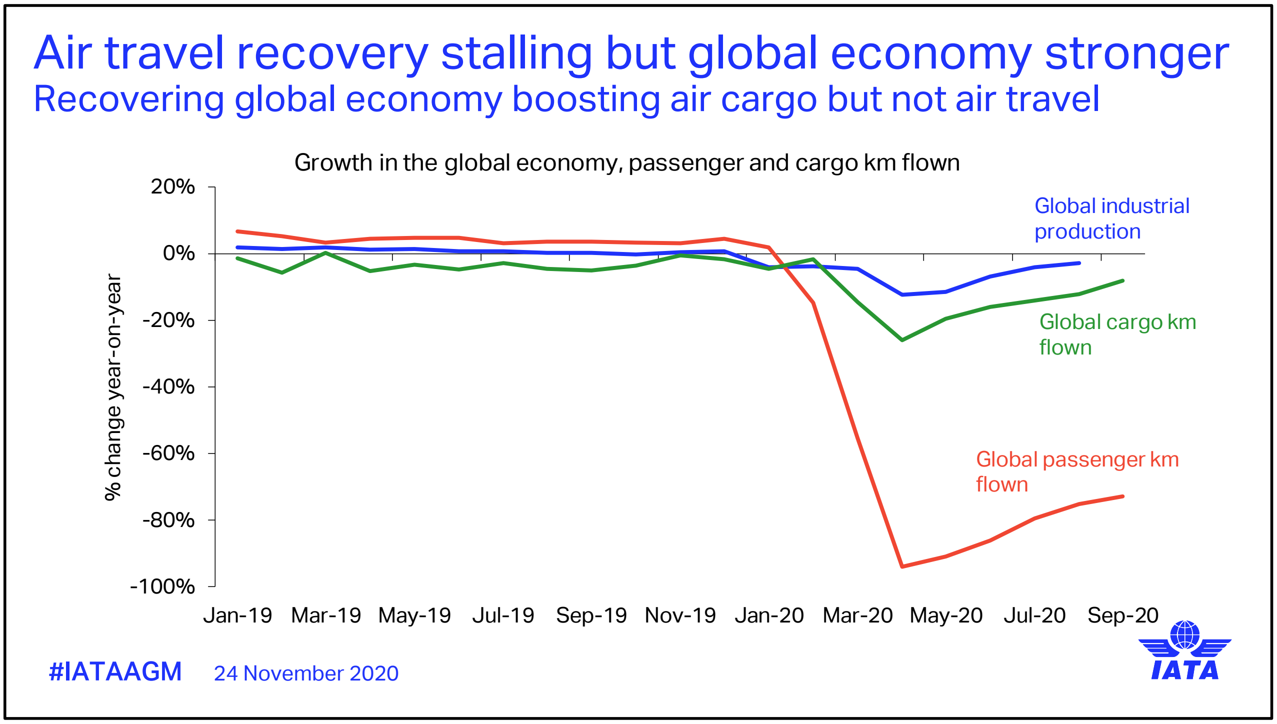


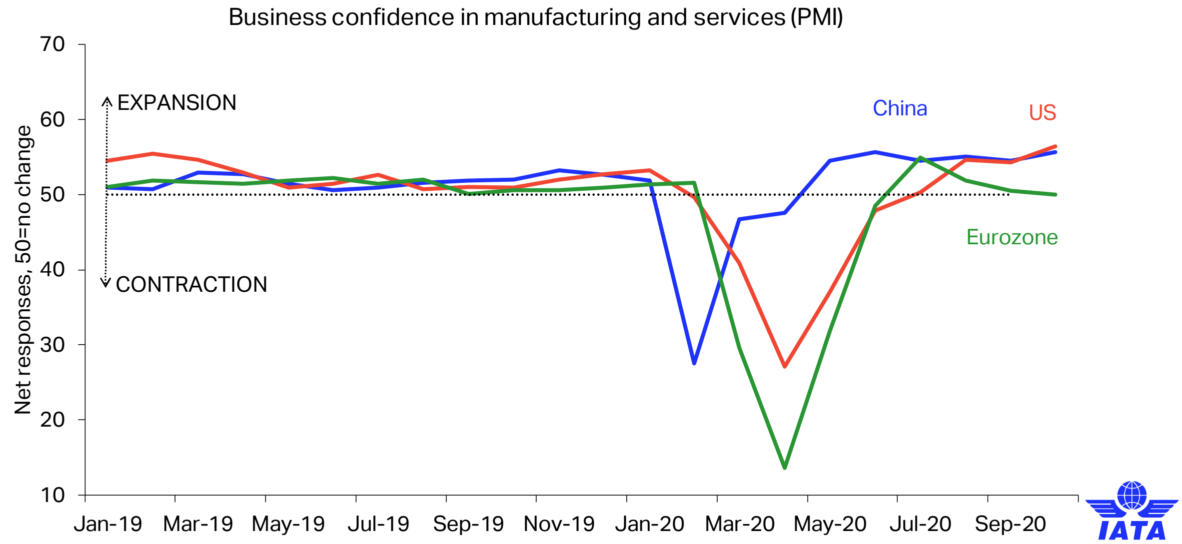
In fact the weak recovery of air travel has stalled at the start of Q4.

This contrasts with what has been a strong rebound in the global economy and business confidence. Global industrial production was only 3% down on the year by late summer.

This more 'V-shaped' economic recovery has driven a much better performance in the air cargo sector, where volumes were down just 8% in September.

When lock-downs end business confidence rebounds

Wider economy revival encouraging for air cargo but not helping travel



That Restart, at least on international markets, has been prevented by the very large 2nd wave of COVID-19 in Europe and what is a 3rd wave in the US.

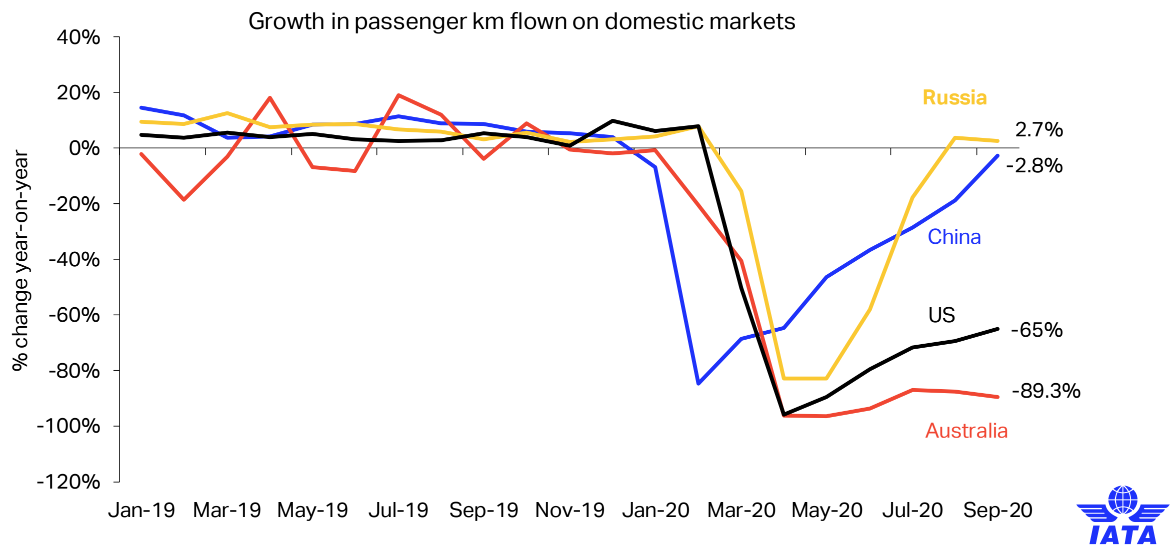
Europe is in renewed economic lock down as a result.

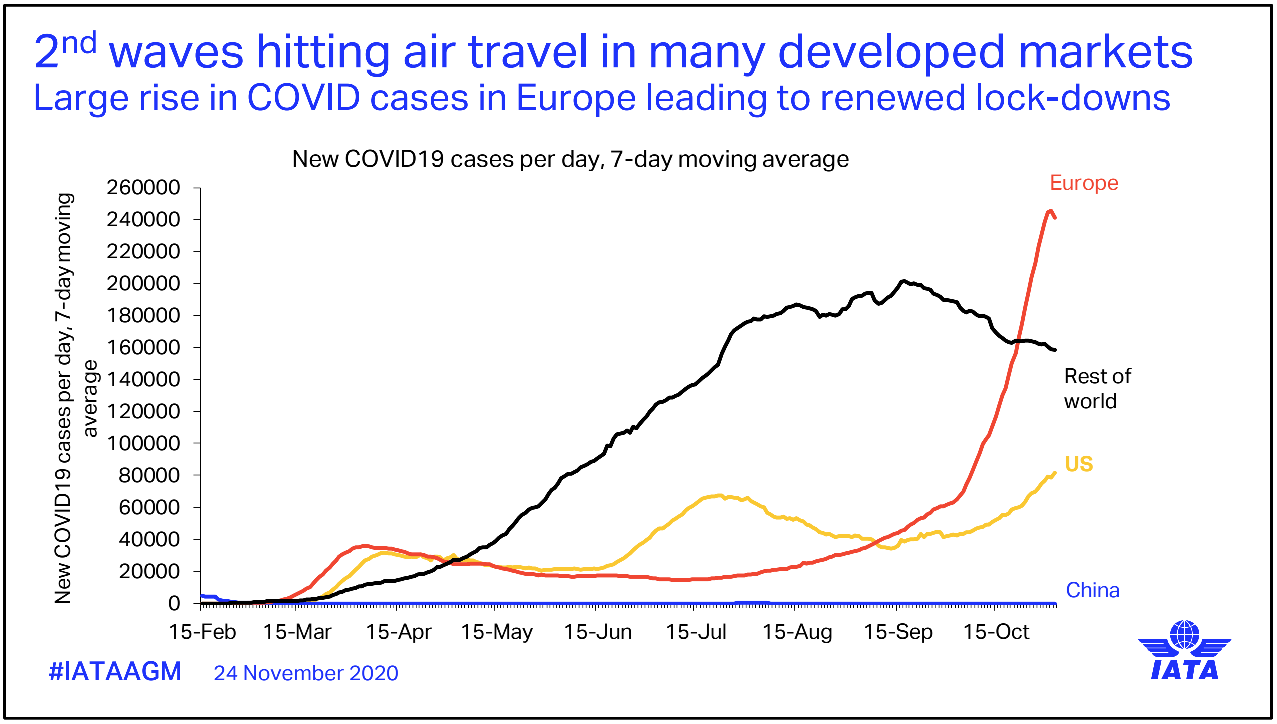
The hoped for control of the virus, ahead of a vaccine, has not happened outside China and a few other Asian countries.

The Restart in air travel has been disappointingly weak as a result.

Domestic air travel reviving but not in all markets

China and Russia fully recovered, but limited progress in US & Australia





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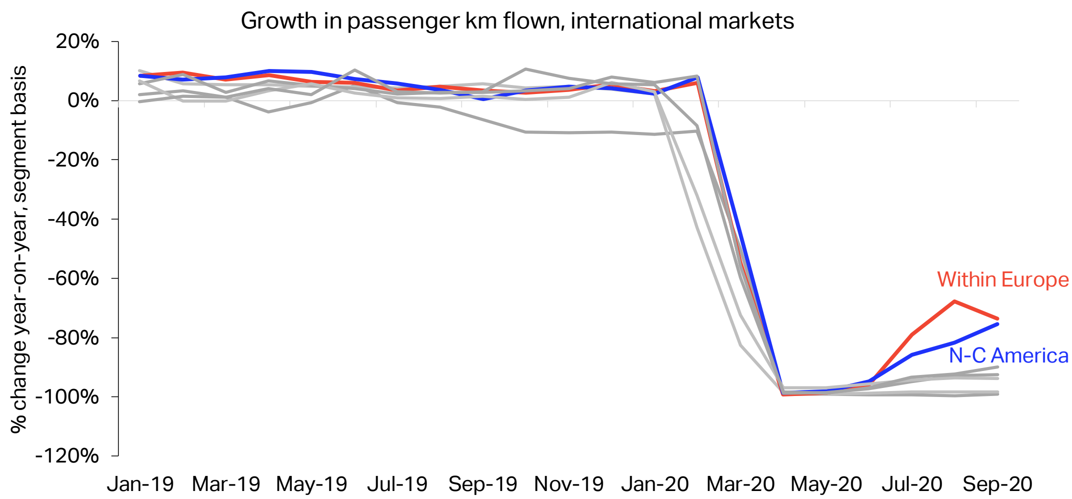
2nd wave caused reverse in Europe international revival

Central-N America market rising but <10% of within-Europe market



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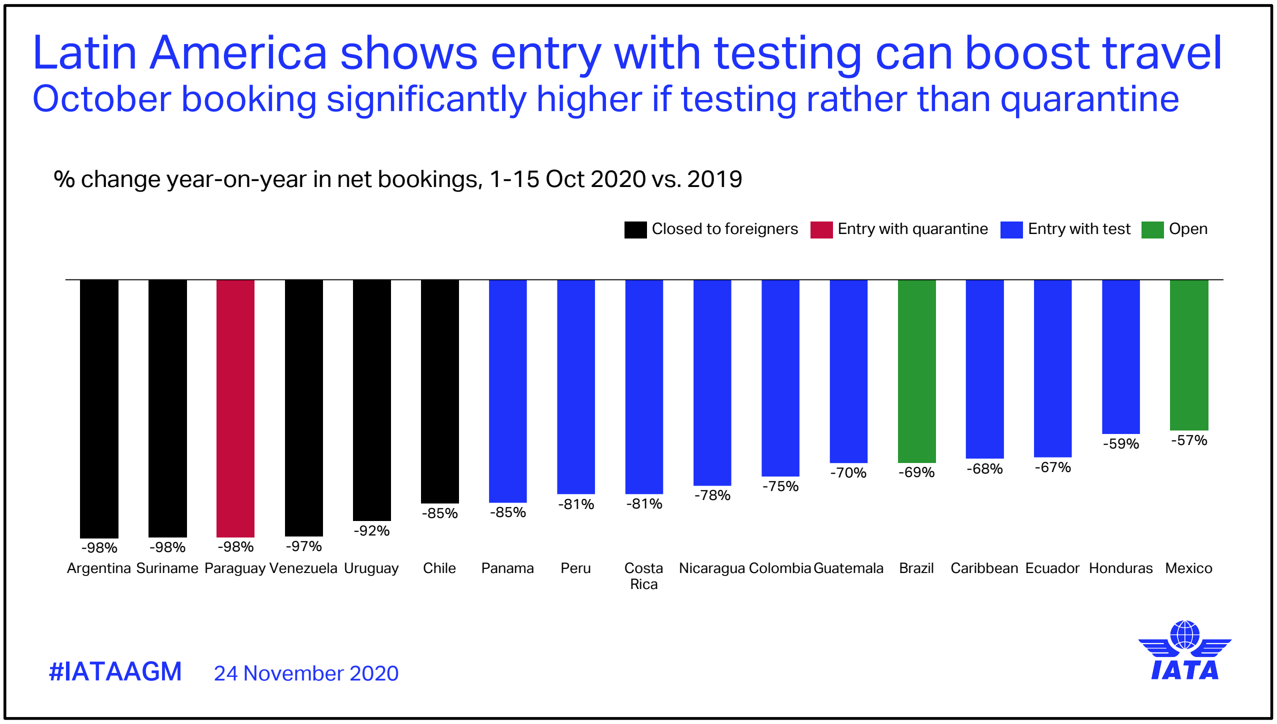
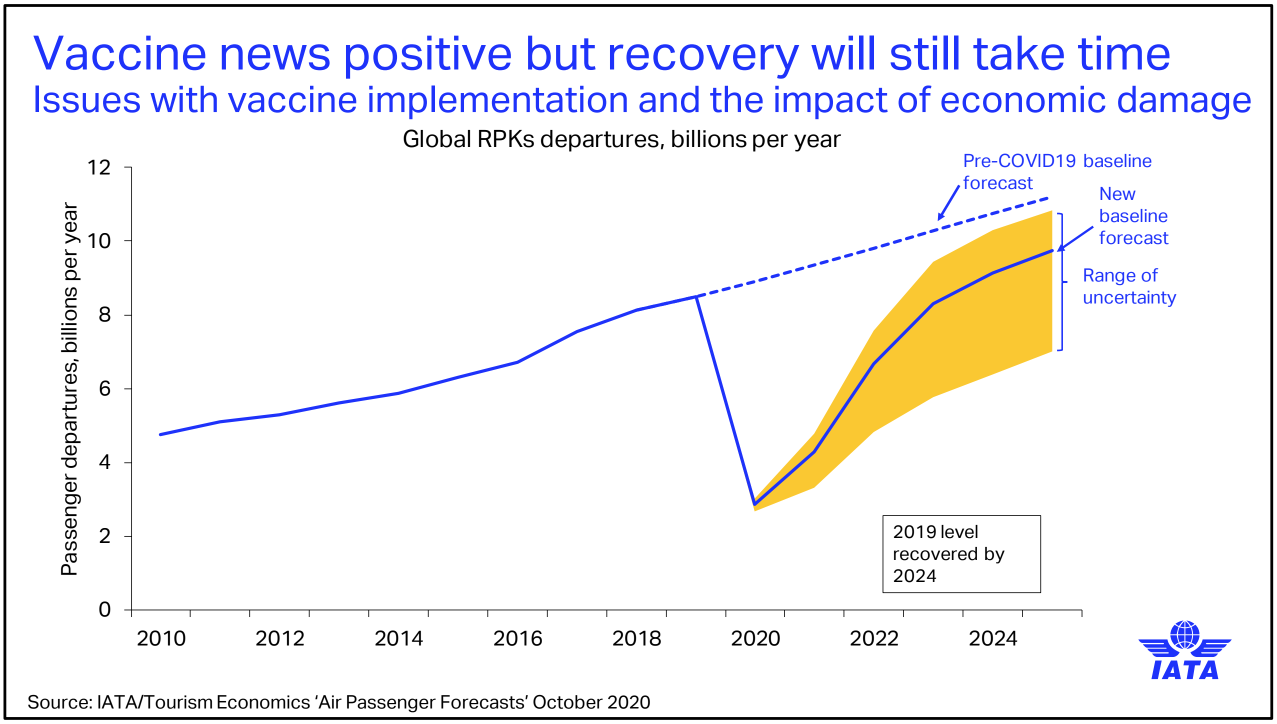


Testing offers a promising way forward to Restart air travel in the absence of a vaccine, if governments can be persuaded to use this to replace quarantine requirements.

Bookings during the first 2 weeks of October for a number of Latin American markets show how the opening of borders with a testing requirement, rather than quarantine, can significantly boost travel.



But even with an effective testing regime in place we are cautious about the extent to which this can quickly boost air travel.

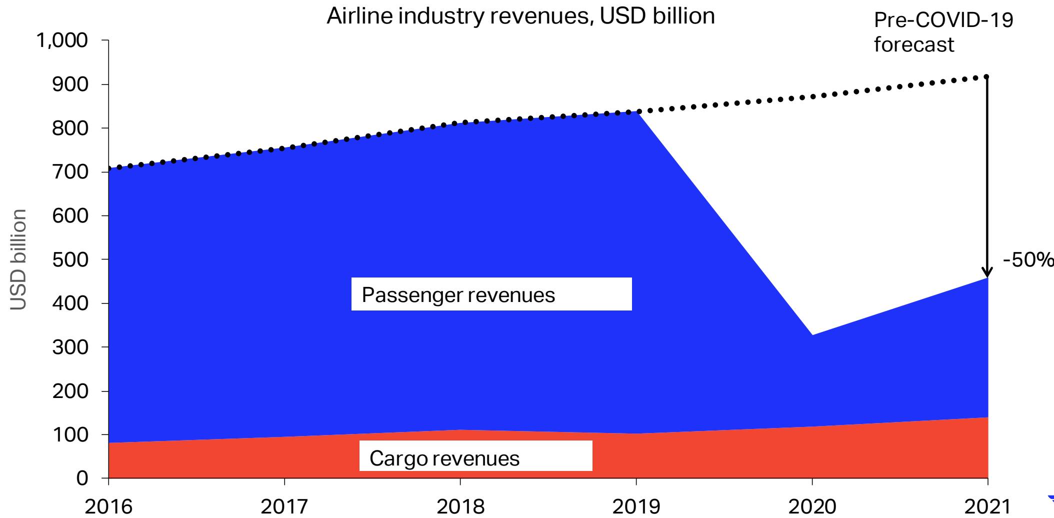
We assume a vaccine(s) is deployed in the second half of 2021, but it looks likely that there will be production and distribution challenges that mean it will only be in late 2021 and in 2022 when air travel rises back substantially.

On this basis we don't expect 2019 levels to be regained until around 2024.

We should also acknowledge the huge amount of uncertainty over virus behavior, vaccine effectiveness and government responses. The yellow area represents various scenarios and indicates that the risk to our baseline forecast remains on the downside.

Costs need to be downsized to match lower revenues

Revenues in 2021 are estimated to be ~50% of pre-crisis expectations

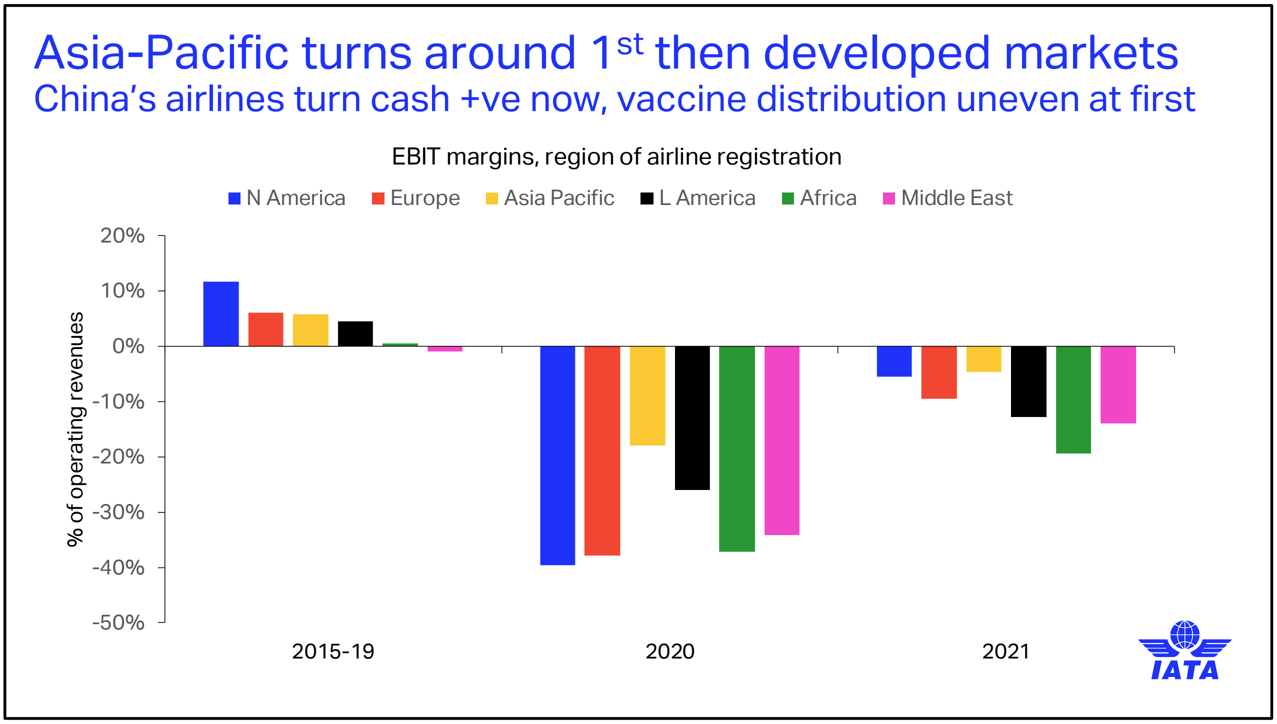


Given the scale of the passenger revenue collapse, the improvement in cargo does not change the situation in aggregate.

Revenues are expected to be 50% down on expectations in 2021.

With an urgent need to stop cash burn, costs will need to be downsized by a similar amount.

Given the semi-fixed nature of many airlines costs that will be a big challenge.



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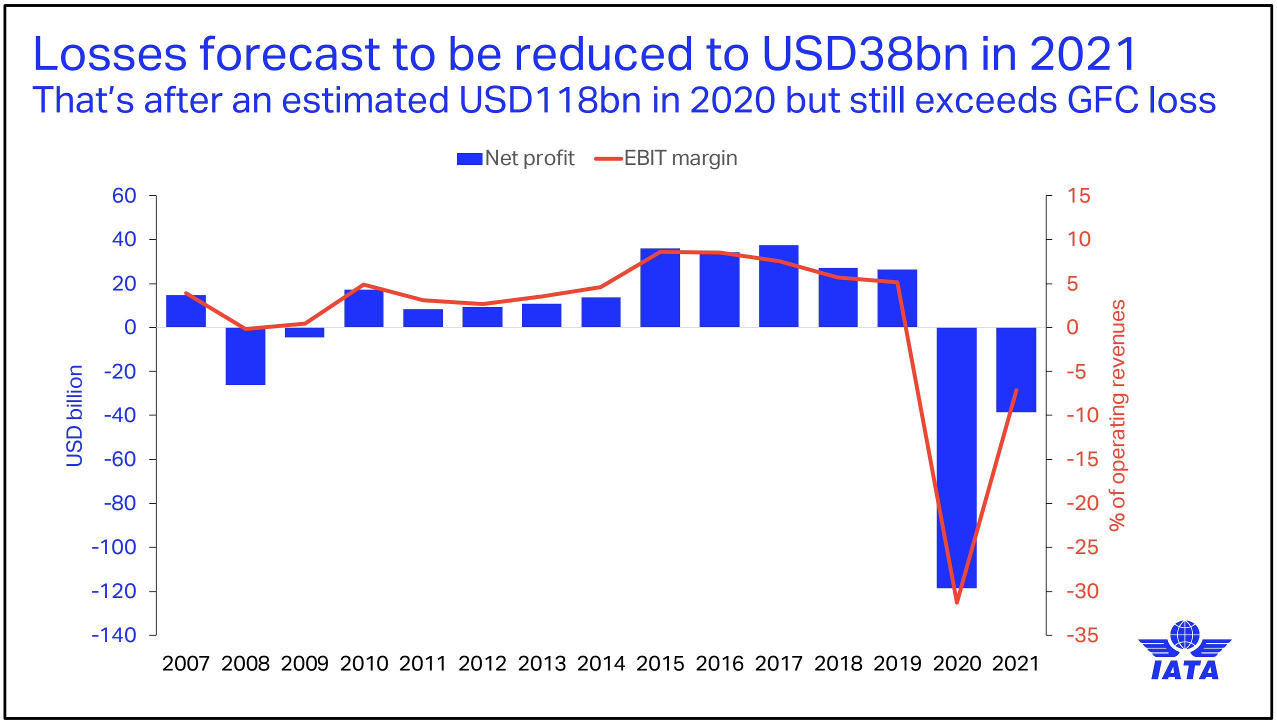

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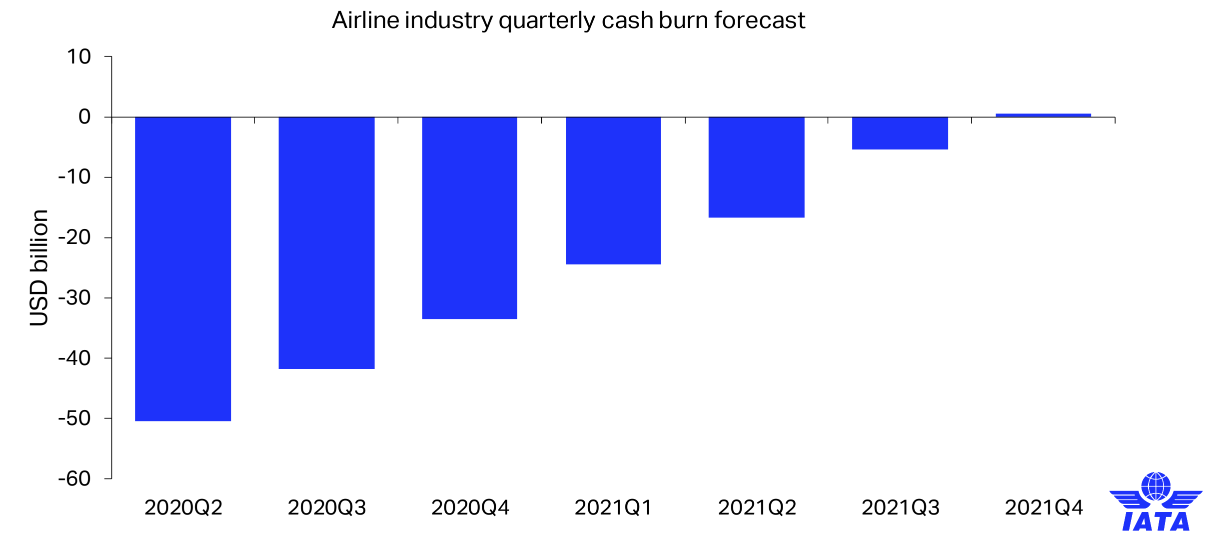
Airline industry may turn cash positive in late 2021

Vaccine boost to revenues likely in H2 2021 but challenging first half



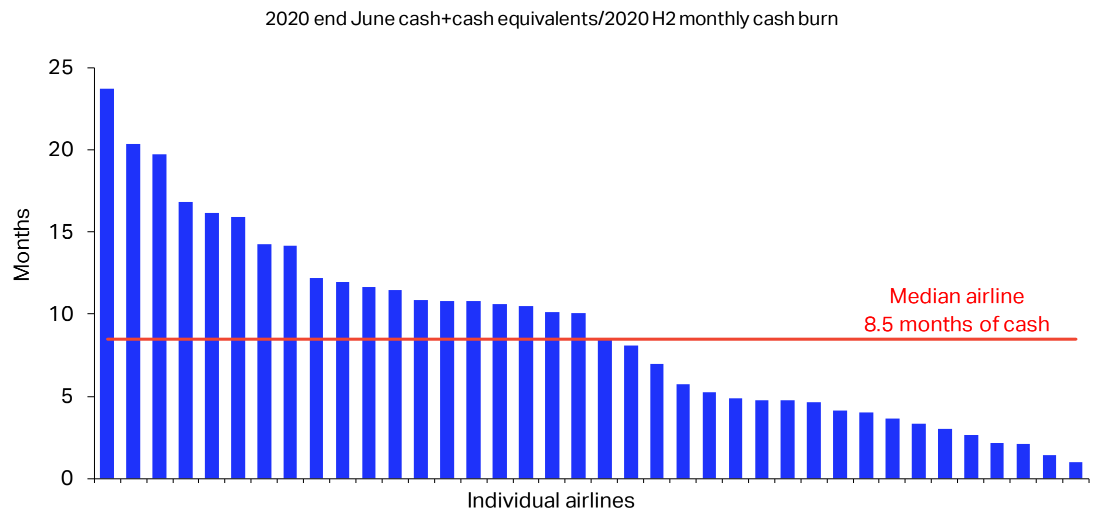
Source: IATA Economics

As a result we expect airlines in aggregate will still be burning through their cash balances during 2021, certainly the first half.

We know this industry had a cash burn of around $50 billion in 2020 Q2 and financial results suggest that was only reduced a little in Q3. Next year we are projecting a further $60-70 billion of cash burn, as airlines struggle to restructure costs to match the halved revenues the industry faces.

Some airlines may run out of cash before vaccine boost

Median airline’s cash lasts 8.5 months (end Q1) at 2020H2 cash burn



Source: IATA Economics using data from the Airline Analyst

That projection of continued, albeit reduced cash burn point to a challenging year ahead for the industry.

There are a number of airlines with very substantial cash ‘war chests’ and the ability to borrow more if necessary, but many if not the majority can’t.

We looked at the cash and near cash in airline balance sheets as of the end of June and compared that to the rate of cash burn we forecast for the second half of this year.

That analysis shows that the median (or average) airline would run out of cash after 8-9 months i.e. the end of Q1 2021.

The risk facing the industry is for a substantial number of failures of our medium and smaller airlines or a substantial increase of government ownership of airlines should they swap their debt for equity or nationalize.

Contacts

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