

Lessors: Things Couldn't Be Better

THINGS could scarcely be better for the aircraft operating lease industry, with the major players reporting record profits, having navigated the threat of lessee bankruptcies and rental defaults caused by the pandemic, the seizure of 400 aircraft in Russia and a rapid escalation in interest rates.

Financial results for 2023 released by the major lessors show a remarkable average profit margin of 32%, compared to a net loss of -6% in 2022. However, 2022 was heavily distorted by the provisions included by the lessors to cover the costs of the aircraft seized in Russia.

Commenting on their 2023 performances, the lessors oozed optimism:

✈ AerCap, having completed the purchase and integration of GECAS by the fourth quarter, saw its 2023 revenues increase by 12% to \$7.8bn and it reported a record net profit of \$3.1bn in contrast to a net loss of (\$0.72bn) in the previous year. The profit figure for 2023 included a \$1.3bn recovery in insurance settlement. Following a major share buy-back, its stockmarket value has doubled since the low point in early 2022.

✈ Avolon increased its revenues by 6% to \$2.5bn 2023, and produced net profits of \$0.34bn compared to break-even in 2022. Operating cash flow was stated to be at a record level.

✈ Air Lease Corporation reported record revenues of \$2.7bn for 2023 up from \$2.3bn and a near record net income of \$0.75bn compared to a net loss for 2022 of (\$0.14bn). Its share price is up about 50% since 2022.

✈ BOC Aviation reported a 7% increase in revenue to \$2.5bn and net profit of \$0.76bn, another record. Reflecting uncertainty over the Chinese aviation market, the share price has not changed much over the past two years.

The Russian crisis that dominated 2022 seems to have been partly solved. The lessors have managed to negotiate settlements for over 100 aircraft with a subsidiary of the Russian state insurance company NSK,

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whereby the insurer has compensated the lessors for the loss of their assets and taken official possession of them for transfer them to Russian carriers.

Because this is an insurance settlement rather than a sales agreement, it appears that this arrangement does not fall under the sanctions imposed by Western countries following the invasion of Ukraine.

NSK is believed to have a budget of \$3.3bn to settle the lessors' claims.

LESSOR FINANCIAL RESULTS (US\$m)

	2023			2022		
	Revenue	Net Result	Margin	Revenue	Net Result	Margin
AerCap	7,850	3,147	40.1%	7,013	-721	-10.3%
Avolon	2,473	339	13.7%	2,337	9	0.4%
ALC	2,684	754	28.1%	2,317	-139	-6.0%
BOC	2,461	764	31.0%	2,307	20	0.9%
Total Above	15,468	5,004	32.4%	13,974	-831	-5.9%

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Publisher:

Keith McMullan
James Halstead

Editorial Team

Keith McMullan
kgm@aviationstrategy.aero

James Halstead
jch@aviationstrategy.aero

Subscriptions:

info@aviationstrategy.aero

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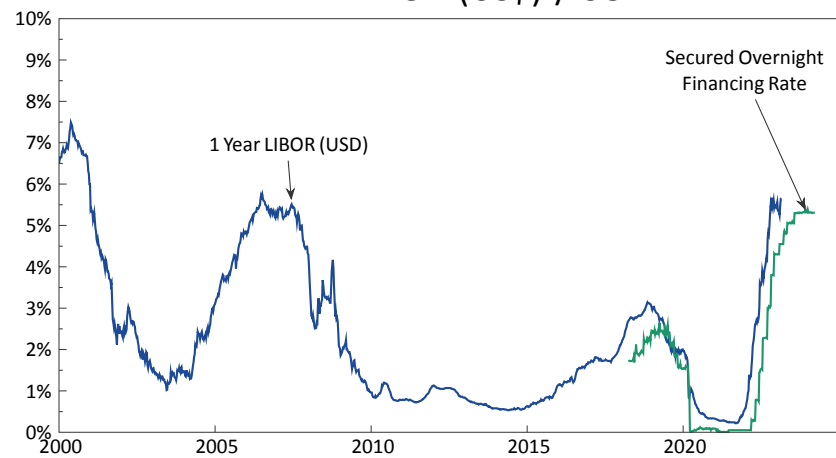
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Meanwhile, the lessors are continuing their lawsuits in the Irish and US courts mostly against Lloyd's of London insurers and re-insurers. The total amount of claims is estimated at \$8-10bn. It is still not legally clear-cut as to whether the insurance policies do fully cover all the lessors' costs as the leasing companies technically terminated the lease agreements, in line with the sanctions.

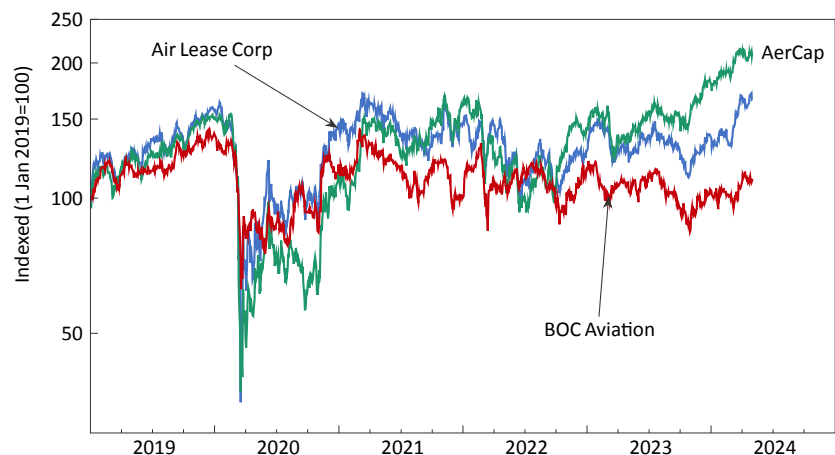
Interest rate impact

As the graph above shows, interest rates have risen sharply to levels not

seen since the just before the Global Financial Crisis. The benchmark one-year SOFR (Secured Overnight Financing Rate which has replaced LIBOR) stood at 5.24%pa in April in contrast to about 0.2%pa at the beginning of 2022.

For the lessors, their actual cost of capital depends on the proportion of floating or fixed rate debt, the maturity schedule of the debt and the lessor's credit rating. The major lessors have predominantly fixed into historic low rates; ALC, for example had 85% of its debt at fixed rates, 15%

LESSORS FIVE YEAR SHARE PRICE PERFORMANCE



on floating rates, at the end of 2023, giving it a composite cost of funding of 3.77%pa.

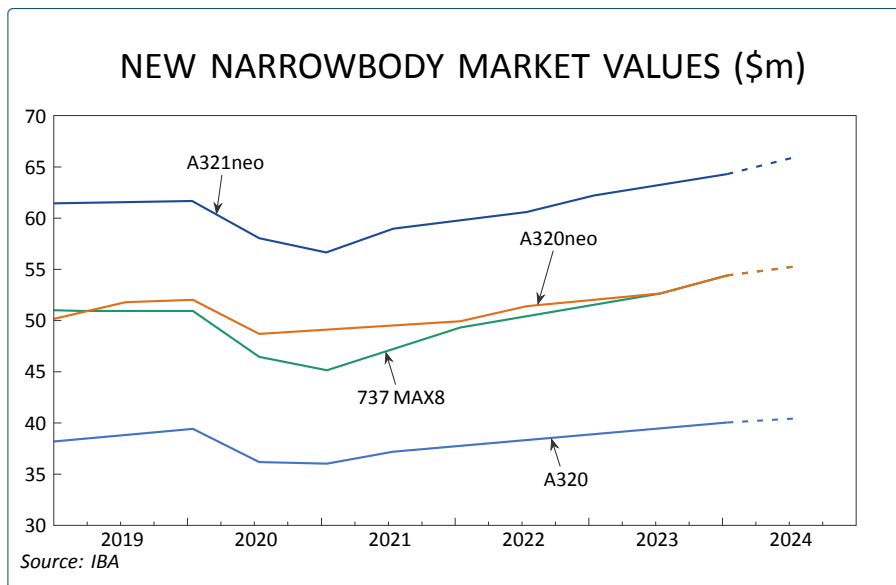
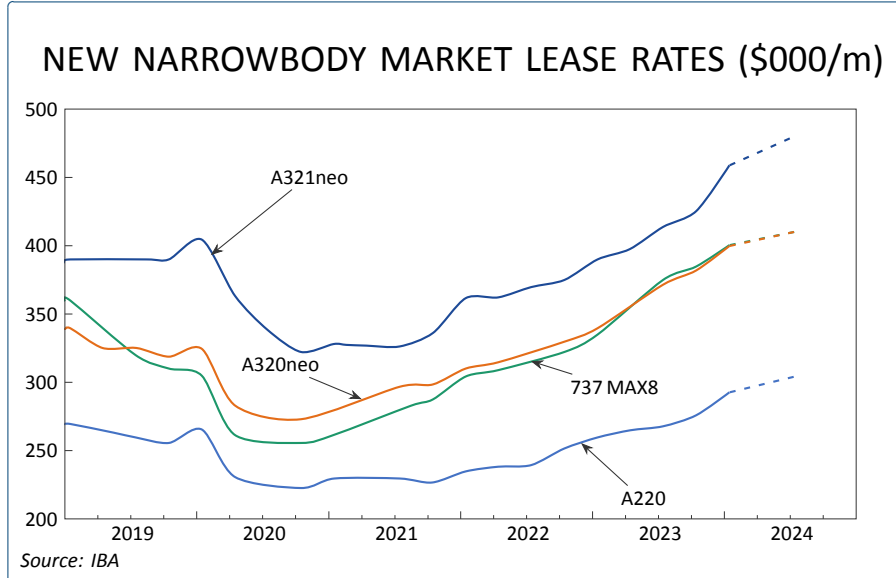
But raising new funds has become more expensive. SMBC Aviation Capital recently sold \$1.5bn of five and ten-year bonds at 5.30-5.55%, representing 1.08-1.35% above the US Treasuries price. ALC has also recently extended its revolving credit facility to \$7.8bn from \$7.4bn at SOFR plus a margin of 1.05%pa.

Interest rates have been sticky in following inflation down, and are not now expected to revert to pre-2022 levels. This does not appear to concern the credit rating agencies which maintained their investment grade ratings for the leading lessors — for example, Fitch rates AerCap and ALC at BBB, BBB- for Avolon, BBB+ for SMBC and A- for BOC.

Recent trends in lease rate and aircraft values have been remarkably strong. According to an analysis by IBA, operating lease rates for all new narrowbodies are now significantly above pre-pandemic levels — for example, over \$400,000/month in early 2024 for a 737MAX 8 compared to \$320,000/month in mid-2019; \$470,000/month for A321neo compared to \$380,000 in 2019.

Supply/demand

This is partly due to higher interest rates, but there is also a very tight supply/demand balance for new aircraft caused by the well-publicised production problems at the OEMs, affecting MAXes, 787s and the A320neo family, combined with a recovery in traffic to pre-pandemic levels. Because of the constraint on deliveries, airlines are tending to extend leases on older types rather than returning them to the lessors on lease expiry, which is pushing up rentals and values for these types as well. These



new disruptions come up top of the various supply constraints that during the period 2019-2022 meant that 1,800 fewer narrowbodies and 720 fewer widebodies (respectively 11% and 15% of the 2019 fleets) were delivered than was planned.

The lessors, in short, are in a very powerful position. Airlines seeking new equipment are facing long waits from the OEMs while the leading lessors, with their formidable orderbooks, are in a much better position to fulfil early delivery slots. Moreover, the balance sheets of many airlines have been weakened by the

debt taken on during the pandemic, which has a positive implication for the lessors, in that airlines will prioritise paying down debt from their improving cashflow rather than using it for capex, which means more demand for operating leases.

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LESSOR ORDER BACKLOG (March 2024)

Customer	Boeing				Airbus					Total Backlog
	737 MAX	787-10	787-9	Total	A220	A320	A330	A350	Total	
Avolon	111		2	113		264	23		287	400
Air Lease Corporation	75	16	6	97	59	145	7	10	221	318
SMBC Aviation Capital	81			81		170			170	251
AerCap	119		18	137		82			82	219
BOC Aviation	74			74		115			115	189
Aviation Capital Group	47			47	20	41			61	108
CALC						107			107	107
NAS Aviation Services						61	6		67	67
Macquarie AirFinance	20			20	26	20			46	66
DAE Aviation Group	62			62						62
CDB Leasing	19			19		42			42	61
Timaero Ireland	17			17		20			20	37
Azorra					22				22	22
Jackson Square Aviation	22			22						22
Accipiter						20			20	20
Nordic Aviation Capital					20				20	20
CIT Leasing							19		19	19
Ilyushin Finance					14				14	14
Minsheng Financial Leasing	13			13						13
CMB Financial Leasing						10			10	10
Boeing Capital Corporation			8	8						8
Griffin Global Asset Management					6				6	6
GTLK					1				1	1
Total	660	16	34	710	168	1,097	55	10	1,330	2,040
Pct of backlog	14%	10%	6%	11%	29%	15%	31%	1%	15%	14%

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For further information please contact:

James Halstead or Keith McMullan,

Aviation Strategy Ltd

e-mail: info@aviationstrategy.aero

US and European Mergers: The Long View

AIRLINE mergers and acquisitions are generally very profitable — for the investment banks, law companies and management consultants that work on and promote the transactions. The experience for airline employees, investors and passengers is frequently painful. M&A is an exciting alternative to the exacting business of running an airline, offering an attractive solution to complex problems, but the logic for mergers is not as compelling as it is presented.

The charts on pages 7–8 may give the impression that consolidation in the US and Europe through M&A is an inevitable process, airlines rationalising over time into fewer, larger entities. So it came as a bit of a shock when in January, a federal court upheld the Department of Justice's antitrust suit and refused the proposed merger of JetBlue and Spirit, the sixth and seventh largest US carriers. The two carriers subsequently had to abandon at very significant expense their merger programme, clearly shocked by the legal ruling which was the first time that that a US airline merger had been rejected on antitrust grounds.

The JetBlue/Spirit case

The complaint against the merger was brought by the antitrust division of the DoJ plus the antitrust authorities of several US States using the Clayton Act of 1914 (a law which has the overall aim of promoting fair competition and prohibiting predatory pricing and anti-competitive mergers). The main points of the

complaint were as follows:

- ➔ Competition between JetBlue and Spirit benefits all types of travellers, but is particularly important for cost-conscious travellers.
- ➔ This merger would combine two head-to-head competitors (JetBlue having recognised that competition from Spirit lowers its fares more than competition from other LCCs).
- ➔ JetBlue's acquisition of Spirit would also dampen competition with other airlines (Spirit having stated that it did not follow collective industry price increases while JetBlue had demonstrated its willingness to coordinate with other carriers, notably American through the proposed, and also rejected, Northeastern Alliance).
- ➔ The acquisition would stop the growth of Spirit which had doubled its network over the past 10 years and which had planned before the end of 2023, to expand at Fort Lauderdale, Orlando, and Los Angeles, which are JetBlue focus cities.
- ➔ JetBlue planned to reduce by 10–15% the number of seats on Spirit aircraft to match its own aircraft configuration, implying fewer passengers and higher prices.
- ➔ JetBlue's acquisition of Spirit should not be considered in a vacuum — it would be the latest step in a strong trend toward consolidation, with the three Legacies — Delta, United, and American — along with Southwest, controlling close to 80% of the domestic industry. (JetBlue used to warn against this increasing consolidation but it reversed its message with the Spirit proposal, while Spirit had previously criticised

the JetBlue/American alliance before accepting the JetBlue offer.)

- ➔ New entry or expansion by existing airlines into the relevant markets was unlikely to be timely or sufficient to fully offset the proposed acquisition's anticompetitive effects.
- ➔ JetBlue contended that its acquisition of Spirit would yield synergies that would enable the airline to better compete against the Legacies but many of these purported synergies reflected the fundamental harm of this acquisition. For example, JetBlue executives acknowledged that synergy would come from charging passengers higher prices for a smaller number of available seats. Similarly, JetBlue would benefit from increasing its share of all traffic at key airports and so being able to charge a "premium" for its fares.
- ➔ Moreover, JetBlue's acquisition of Spirit would not result in net cost efficiencies (JetBlue itself had estimated approximately \$400m of costs from reconfiguring the Spirit fleet).
- ➔ JetBlue hadn't provided evidence of pro-competitive efficiencies in the 500 relevant markets in which the two carriers competed.
- ➔ Remedies — including divestitures — must preserve *all* competition in *all* relevant markets threatened by JetBlue's acquisition of Spirit. JetBlue had only indicated plans to divest Spirit gates, slots and ground handling at Boston, Newark, LaGuardia, and Fort Lauderdale which would be inadequate to replace the significant lost competition in hundreds of markets in the US, the Caribbean, and Latin America where

they compete today.

So, a comprehensive list of objections which the judge — a William G. Young — remarkably totally agreed with.

Public opinion

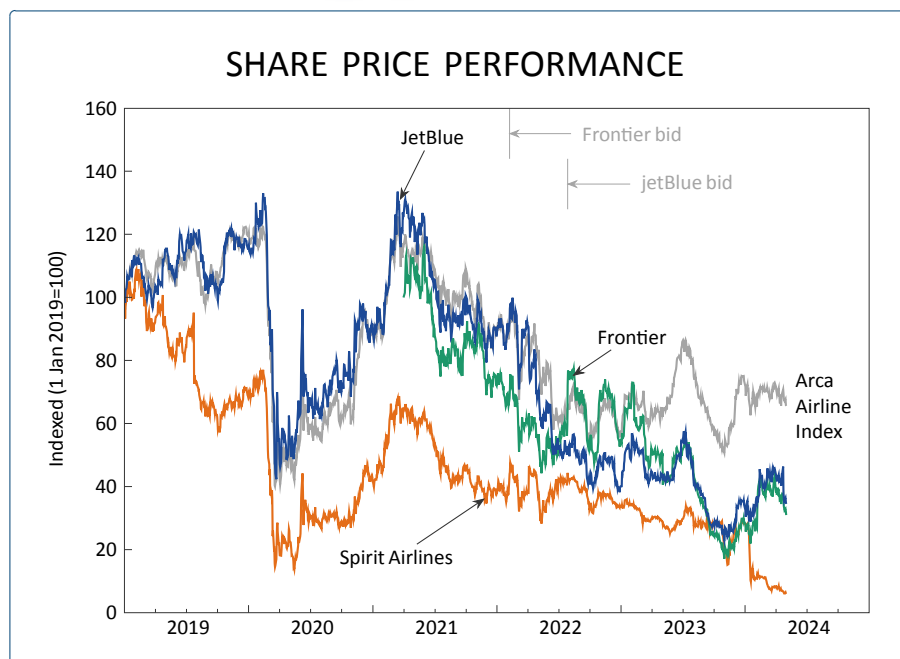
Antitrust legislation does not operate in a socio-economic vacuum. JetBlue and Spirit experienced a public backlash against the airline mergers which had, more or less, been taken for granted until recently. Consumer groups, including the very influential National Consumers League, and free market lobbyists, like the American Economic Liberties Project, had formed an alliance opposing both JetBlue/Spirit and Alaska/Hawaiian.

So the upcoming Alaska acquisition of Hawaiian may well suffer the same fate even though there would appear to be less of an anti-competitive element in the overlap between the two route networks and the plan is to keep the two airlines operating as distinct brands.

The popular national newspaper *USA Today*, which carries regular coverage of the airline sector aimed at passengers, has published a series of outraged editorials:

“Airline mergers have harmed American air travelers on a breathtaking scale. A series of airline consolidations in the last two decades have left them with just four dominant carriers, which over time have raised prices and, with one notable exception, offered shamefully bad customer service.

“These too-big-to-fail airlines deliver astonishing returns to their shareholders, but they come at a high price. Passengers end up paying more and getting less because competition is all but eliminated. Research suggests that fares rise between 5% and 6% on overlapping



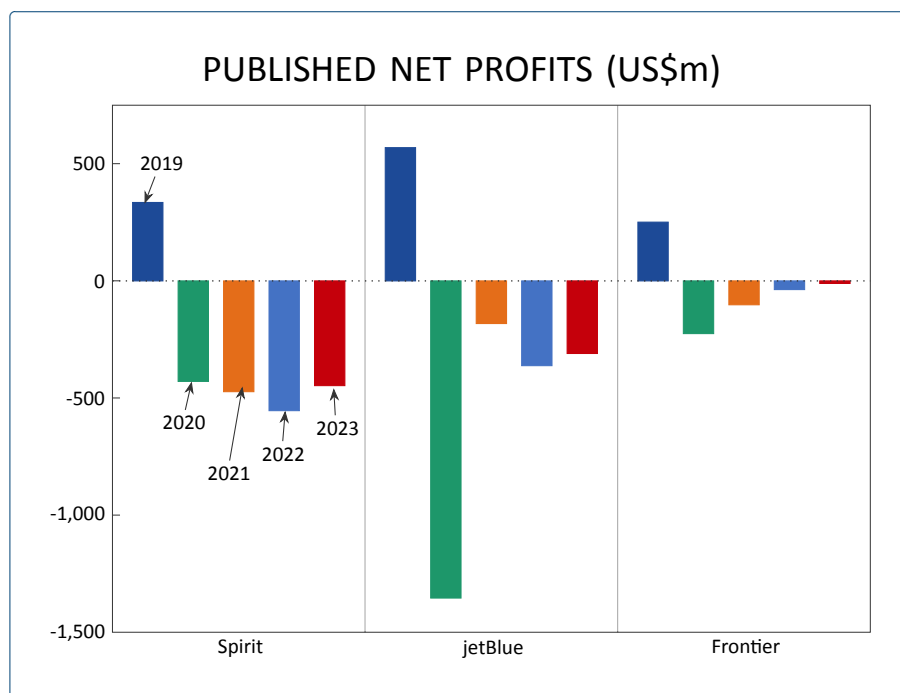
or potentially overlapping routes, although the price increase has reportedly been higher after some of the latest mergers”.

Shareholders of the five airlines depicted in the graphs above and on page 9 would dispute the astonishing returns statement but the too-big-to-fail accusation seems to reflect a genuine discontent with the industry.

Just the wrong partners?

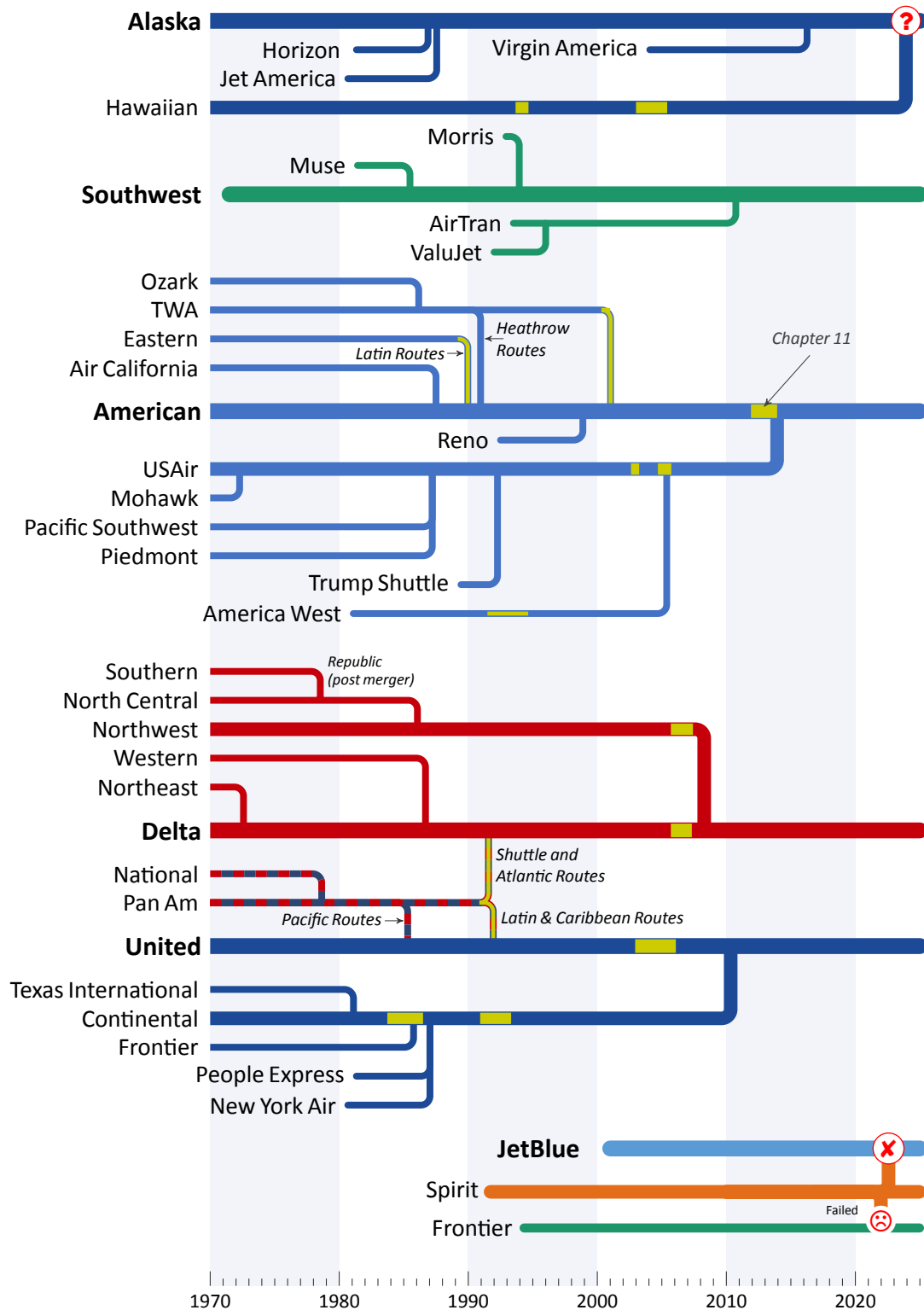
JetBlue of course was not the original partner for Spirit. In early 2022 Frontier and Spirit announced a merger plan, one that might have had a better chance of passing antitrust investigation because the claimed synergies looked more realistic.

Frontier/Spirit would have cre-



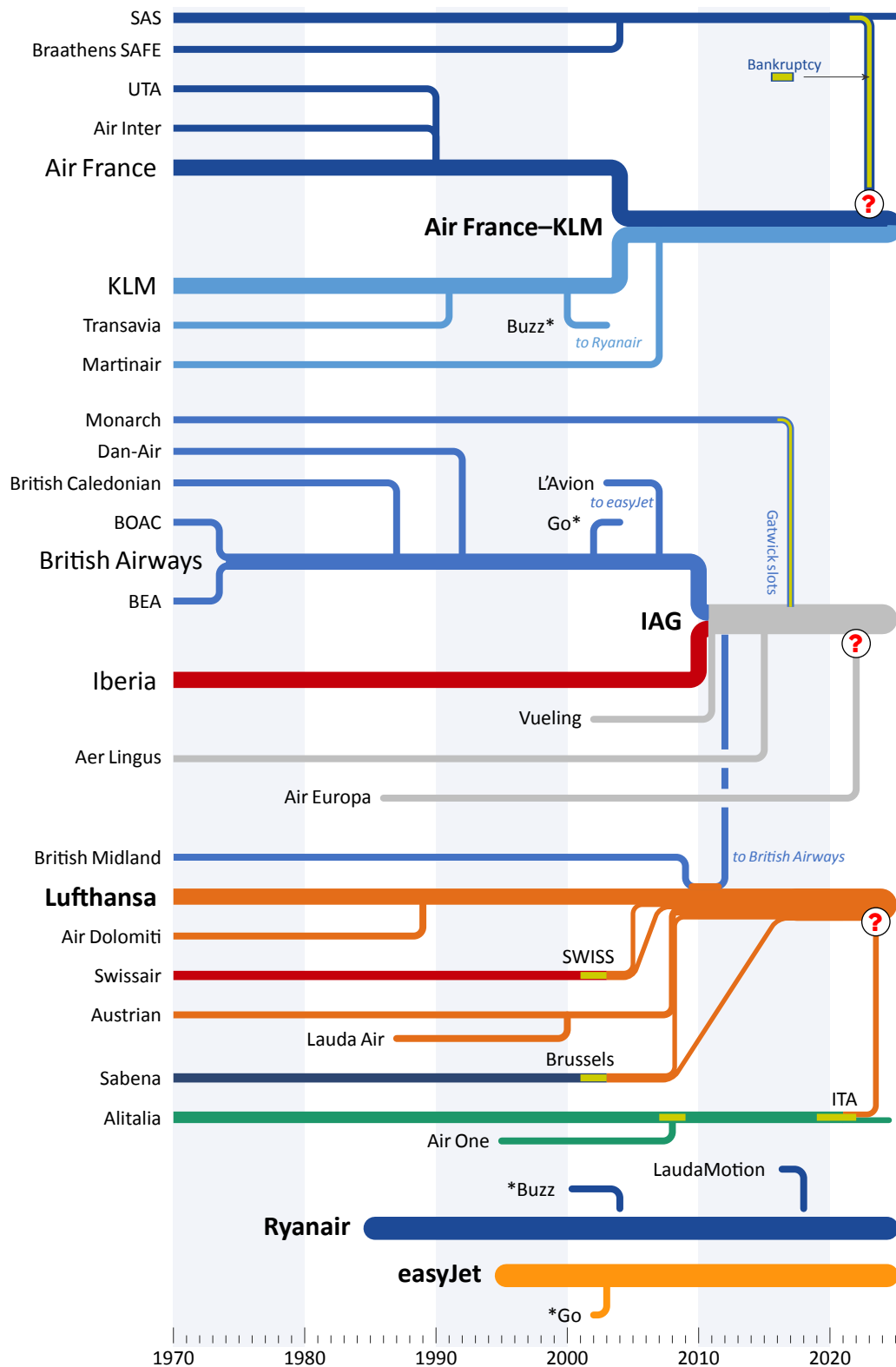
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US AIRLINE MERGER TIMELINE

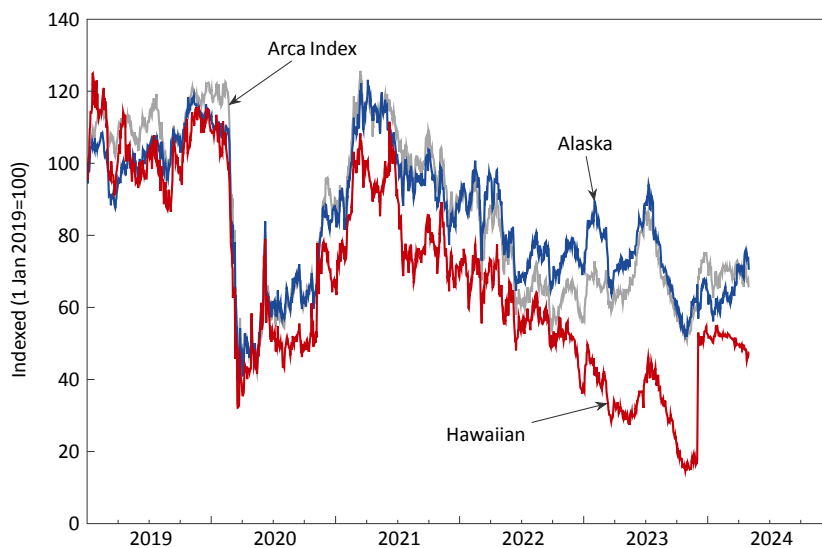


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EUROPEAN AIRLINE MERGER TIMELINE



SHARE PRICE PERFORMANCE



ated a genuine new ULCC force in the US market. Spirit and Frontier had an intertwined history linked to the ULCC specialist investment fund, Indigo Partners, and the two airlines' top management has worked at both carriers. The combined carrier would have had by some margin the lowest costs in the industry. Whereas the Frontier/Spirit message was positive — "Creating America's most competitive ultra-low fare airline" — the JetBlue rationale always seemed defensive: "What we want to do is create a bigger JetBlue", according to the then CEO.

In claiming \$500m of "run rate operating synergies" from the proposed Frontier/Spirit merger, management were able, for once, to give some concrete examples of improved efficiencies.

Amalgamating the schedules would free up spare aircraft, ie aircraft needed to assure the schedule but which are not fully utilised. With improving aircraft utilisation, further aircraft would be freed up, saving an estimated at \$145m (or \$12m per aircraft which seemed reasonable).

Another \$35m was expected to come from additional traffic through new connecting possibilities.

There was also the opportunity afforded by the merger to match capacity more closely to demand. The two airlines underperformed on load factor compared to global ULCC benchmarks. Pre-pandemic Frontier's load factor was 86% and Spirit's 84%, significantly below Ryanair's 96% (though calculated on seats sold rather than actual passengers). Pushing up the joint load factor of around 85% by 2-4 points would generate \$220m of revenue synergies. The remaining \$100m comes from procurement savings and overhead efficiencies.

Spirit's board accurately anticipated the threat to a JetBlue/Spirit merger from an antitrust judgement and initially rejected JetBlue, pointing out that there would appear to be nowhere like the same degree of compatibility between operating models and that JetBlue's CASM (adjusted) would be 50% higher than Frontier/Spirit.

But JetBlue pushed up its offer to

\$3.8bn, representing a 50% premium over the then share price, which persuaded Spirit's board to change its mind. Otherwise, it would probably have faced shareholder lawsuits.

The financial community was enamoured of the JetBlue offer. JetBlue's message in presentations to Wall Street was quite clear: the airline would restore its profitability through reducing competition and enhancing yields as a result of the Spirit take-over and its Northeast Alliance with American. Anticompetitive risks didn't seem to concern Wall Street too much, which was understandable given the regulatory history of allowing larger scale mergers, but JetBlue's message rebounded on it this time, with some of its presentational statements being used as evidence by the antitrust authorities.

The direct cost to JetBlue was \$470m, representing the break-up payment it guaranteed Spirit shareholders if the deal failed on antitrust grounds. JetBlue's net loss for 2023 was \$310m. Spirit too has produced a substantial loss for 2023 — \$163m — in contrast to years of strong profitability pre-pandemic.

Although JetBlue has accepted the federal court's decision, having little choice, there appears to have been coordinated campaigning on the part of the US industry to attack the decision. *Aviation Week* editorialised: "Those celebrating district judge William G. Young's decision — siding with the DoJ's view that the combination would violate antitrust law — as a big win for the little guy, ignore or significantly downplay the consequences of Spirit limping along as a weak airline, or worse, collapsing altogether." Similarly, the *Wall Street Journal* argued "[The DoJ] has essentially set up Spirit for failure".

Yet Spirit did not make any “failing company” arguments to justify the proposed merger. Indeed, Spirit Airlines ended the first quarter 2024 with unrestricted liquidity of \$1.2bn. Veteran airline equity analyst Mike Derchin takes a contrarian view, noting that the airline has one of the best management teams in the industry, which will no longer be distracted by trying to manage an unsuitable merger, and a proven operating model that requires tweaking, not a major overhaul.

Is this really a precedent?

Antitrust decisions are made in a political and economic context. How the Clayton Act or the anti-competitive clauses, notably Articles 85 and 86 which deal with collusion and monopoly power, of the Treaty of Rome are applied depends on how airline mergers are viewed and justified. Historically, the antitrust authorities took a generally permissive view of airline mergers, but times change.

Looking at the US chart on page 7, the first period of intense merger activity took place in the 1980s in response to The Airline Deregulation Act of 1978.

Under the regulated regime the various airlines had geographical route franchises, transcontinental for the Majors, regional for the smaller carriers.

To resolve this regulatory legacy, the industry was allowed, perhaps encouraged, to re-structure into larger units — for example, Atlanta-based Delta buying Salt Lake City-based Western Airlines — in the process frustrating the intentions of Alfred Kahn, the father of deregulation, who had hoped for some form of perfect competition among multiple airlines.

International operations were mainly provided by the two quasi-flag-carriers, Pan Am and TWA — both of which struggled badly in the deregulated world. Pan Am was forced to sell off its Atlantic operation to Delta and its Pacific and Latin American services to United. TWA was more resilient but eventually had to dispose of its Atlantic routes to American, which also absorbed Latin American services from Eastern.

The next big wave of mergers took place in the 2000s as a response to the regular financial crises of the US industry that followed September 11.

Despite some \$15bn of government grants and loans, the Majors remained very fragile, and again the solution was mergers. But this time each merger was preceded by deep cost-cutting and restructuring under Chapter 11 bankruptcy protection.

Three major groupings of network carriers emerged — Delta / Northwest, United / Continental and American / USAirways — and in each case the larger airline completely subsumed the brand of the other carrier. Proponents of this merger wave pointed to a stabilisation of the US industry and generally improved profitability, while opponents observed that in all three cases the acquiring airline was higher cost than the one acquired.

These mergers were approved by the regulatory authorities under the Bush Administration with only minor remedies usually in terms of slot or gate disposals, but they still had to be justified using the official guidelines mandated by the DoJ.

There are usually two main categories of efficiencies or synergies that can be claimed by merging airlines:

➔ Cost efficiencies projected from, for example, better utilisation of joint airport or maintenance facilities, a

reduction in overhead or integrating reservations systems

➔ Network benefits resulting from, for example, more convenient connections, improved offer of destinations, scheduling improvements that accrue to passengers (consumer surplus).

In the major mergers, cost benefits typically accounted for 20-30% of the billions of dollars of total synergies claimed, network benefits for 70-80%. The former may have sounded plausible before the merger but were very difficult to quantify afterwards, largely because it is difficult to determine what would have happened absent the merger. The latter tended to be even more nebulous.

In a willing suspension of disbelief, the real reason for merging — reducing competitive pressures — was avoided (at least until JetBlue tried to sell its takeover of Spirit to Wall Street).

Integration costs were invariably underestimated. For instance, Delta-Northwest originally estimated the costs of merging at \$0.5-1.0bn; the outcome it reported added up to \$1.5bn. United-Continental predicted \$1.2bn and ended up with an estimated \$1.6bn. In 2017 Alaska put the projected synergies of taking over Virgin America at \$300m annually, but the pandemic ended all the revenue benefits while the added costs of a dual fleet turned out to be about \$75m annually over a period of five years.

There have been various studies by academics and consultants attempting to find the pro-competitive benefits of mergers. The most telling argument has been the continuing decline in real yields in the US industry.

It was also asserted that mergers had given the industry much-needed

stability and financial robustness. Southwest and the other LCCs were, according to one theory, guaranteed to enhance competition as they would move into any markets exited by the merging Legacies. (Ironically, one of the key arguments for Southwest taking over AirTran back in 2011 was that the merged carrier would provide much more potent competition for Delta at Atlanta, which was AirTran's main base, but Southwest over the following 13 years consistently downsized its operation at this hub.)

The resilience failure

Above all, it is clear that the merger process failed to provide the merged carriers with the resilience to cope with the shock of the pandemic. The federal government provided about \$55bn in the form of direct aid, loans, and grants to the airline industry during the pandemic, \$45bn of which went to the four airlines — Delta, American United and Southwest — that had been allowed to grow through mergers in the previous decade to a combined domestic market share of 80%.

Euro-consolidation

The first wave of M&A in Europe took place in the 2000s and was tied into the deregulatory/liberalisation policy that had been officially enacted in 1987, the repercussions of September 11, the privatisation processes, and the incipient threat from new entrants like easyJet and Ryanair.

For the Eurocrats in DG4 and DG7 (now DGMOVE and DGCOMP) the key to success of liberalisation was Air France. If the French flag-carrier could be seen to have accepted and adapted to the free market model à la BA, Lufthansa and the other flag-carriers would follow (with the man-

ageable exceptions of recalcitrants like Alitalia and Olympic).

Air France was permitted to take over UTA and Air Inter in 1990 (following on from BA/BCal) in an attempt to eliminate “franco-français” competition, but to secure its global position Air France needed a merger partner from another European country. Air France/Lufthansa was contemplated but quickly abandoned in favour of KLM.

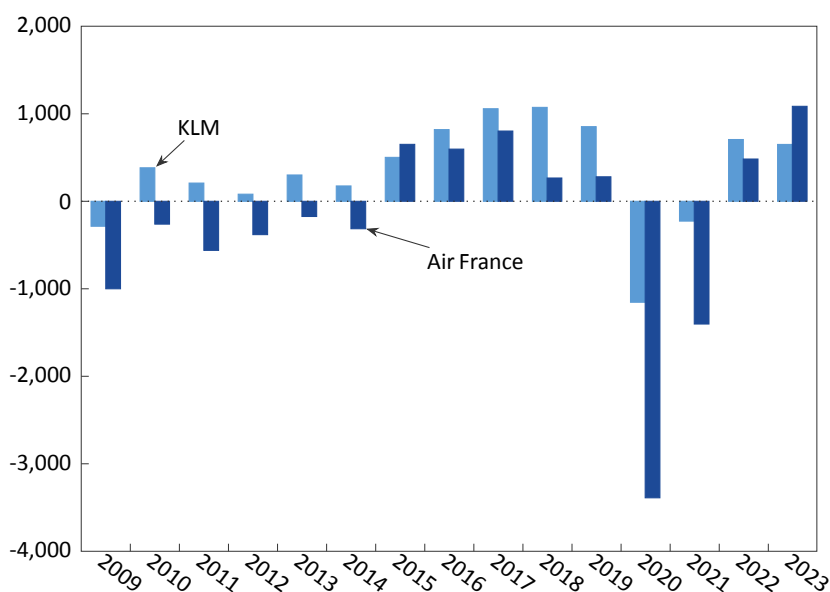
KLM, with its sixth freedom hub at Amsterdam was a true innovator, having signed a ground-breaking code-share alliance with Northwest in 1993. Its search for a European partner included Alitalia (hopeless cultural incompatibility) and Alcazar (a proposed merger of KLM, Austrian, SAS and Swissair which fortunately never got off the ground but provided the model for the multi-airline grouping SAir that ended with the bankruptcies of Swissair and Sabena). KLM's perceived problem was that it was running out of growth opportunities at Amsterdam, it was

limited in the new waves it could add to its hub system.

The Air France/KLM transaction, completed in 2004, was in some ways a political merger with the two carriers retaining their national brand identities and capacity growth at the two main hubs being determined by contract. One result has been ongoing friction and faction between the French and Dutch managements. As the graph below shows, KLM has produced better operating results in all but two of the past 14 years, contributing more than 100% of the accumulated profit, despite its smaller size.

The subsequent history of European M&A has revolved around the building of the three groups. Lufthansa bought out the significant airlines in its sphere of influence — Austrian, Swiss and SN Brussels — but could not make British Midland work. Under the IAG holding company, BA linked up with Iberia, Vueling and Aer Lingus. (The IAG set-up, whereby each airline is obliged to

AIR FRANCE-KLM: OPERATING PROFITS BY COMPANY (€m)



compete for capital, may be the most efficient structure for a multi-airline grouping.)

In processing the proposed mergers the national competition authorities and the EC tended to focus on direct route competition between the merging carriers rather than examining hub competition, which facilitated the approval of these combinations.

There is still some intra-Europe consolidation to come from the residual independent European flag-carriers: SAS will probably be bought by Air France-KLM while TAP Air Portugal may become part of the Lufthansa Group. However, as in the US, the regulatory authorities' attitude towards M&A seem to have been negatively influenced by the scale of state aid demanded by the Legacies to survive the pandemic — Air France-KLM and the Lufthansa Group together applied for about €16bn of various forms of state aid (some of which was later annulled).

The EC is currently taking a harder line with IAG and its proposed purchase of Air Europa, focusing on anti-competitive repercussions on Spanish domestic routes and Atlantic services where Iberia, Vueling or BA compete directly with Air Europa.

The EC is also holding up Lufthansa's takeover of ITA, Alitalia's successor airline, because of particular concerns about anti-competitive features in both the Italy-Germany and inter-continental markets. A substantial divestment of slots at Milan Linate, by far ITA's most profitable airport, will be needed to finalise the transaction.

Virtual anti-competitiveness

There are also questions over competition on the North Atlantic.

A regular complaint from net-

work airlines is that the industry is artificially constrained from building multinational corporations like other industries.

In fact, since 2009, the North Atlantic market has become increasingly consolidated and divided up among three multinational groups: the antitrust immunised joint ventures of Air-France-KLM with Delta (having taken over Northwest); the Lufthansa Group with United (having taken over Continental) plus Air Canada; British Airways, Iberia and Aer Lingus with American (having taken over USAirways).

These groups, under the alliance brands of SkyTeam, Star and oneworld, are virtually merged entities, with the US and European partners making joint decisions on fares, schedules and capacity, sharing revenues and costs on a "metal-neutral" basis.

They produce their own consolidated but confidential accounts. There is no financial visibility for the anti-trust regulators in this sector. What once might have been seen as illegal collusion is protected through the anti-trust immunity provisions of the joint ventures.

European LCCs merger experiences

European LCCs have not had large-scale involvement with takeovers since the early 2000s when easyJet and Ryanair were beginning to emerge as major players in the industry. What happened then might still have some cautionary lessons for the LCC sector.

In 2002 the former BA lower-cost subsidiary Go was being offered for sale by its new owner, the investment fund 3i, and easyJet was the clear favourite to buy it.

But within easyJet there were two

schools of thought: the sceptics who, having conducted financial due diligence on Go, reckoned that the airline would run out of cash within 12 months and this competitor would simply disappear, and the strategists who reckoned that easyJet should seize this growth opportunity as a step-change into new markets.

Management were persuaded that they should buy Go for £374m, partly because they believed that Ryanair would make a move for the airline in order to gain access to higher-yielding markets. In the event, integrating Go proved to be very problematic, and easyJet was obliged to issue a profit warning the following year.

The airline would have exposed itself to an intense competitive threat from Ryanair had Ryanair itself not made a mistake by buying Buzz (the KLM subsidiary, not the current Polish Ryanair operation of the same name). The price was only about €20m but integrating the BAe146 operation and KLM management was very time-consuming and expensive; in the end Ryanair simply shut Buzz down.

Ryanair experimented again in 2017 with a minority purchase of LaudaMotion based at Vienna, increasing its ownership to 100% by 2017, with the aim of gaining experience operating A320s in addition to its standard 737 fleet, so enhancing its negotiating power with the two OEMs.

But intense competition at Vienna and then the pandemic put paid to that plan, and it is unclear whether Michael O'Leary will persist with the Lauda operation or return the A320s to the lessors in four years' time, reverting to an all 737 fleet.

O'Leary has stated many times that consolidation in the LCC sector

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is inevitable but this consolidation inevitably involves just easyJet/Wizz (though easyJet rebuffed an offer from Wizzair in 2021) or some combination of these two LCCs and a Legacy. Having achieved such success through organic growth, having had unprofitable experiences with airline purchases, and having had its attempt to buy newly privatised Aer Lingus in 2015 blocked by the EC because of the anti-competitive effect on Dublin-London services, Ryanair is expected to avoid any M&A.

Yet there is the faint possibility of a bid for Wizzair. The speculative reasoning is as follows:

➔ The purchase price might be right. Wizzair's stock market capitalisation is about €2.2bn whereas Ryanair's is €23.4bn. Expressed in terms of valuation per passenger

(which are similar in terms of unit revenue) Wizz is €44 or a third of Ryanair's €129. Overall unit operating costs for the two carriers are similar and their operating models are compatible.

➔ This would give Ryanair a dual Boeing/Airbus fleet, something that it has been seeking for some time in order to maximise competition between the two manufacturers. Access to Wizzair's order backlog of 350 Neos would solve most of the MAX supply problems impacting Ryanair.

➔ Anti-competitive objections could be countered by the fact that there is limited network overlap on city-pair markets.

The future

From this long view of airline rationalisation, which is often irrational, a few observations:

➔ The antitrust authorities are becoming more sceptical, asking more difficult questions and potentially frustrating takeovers. But this will change when the airline industry hits its next crisis or recession, and M&A is again promoted as an airline saviour.

➔ Airline managers who pursue mergers and takeovers should promise their shareholders a *post hoc* cost/benefit analysis of the transaction. But they probably won't.

➔ There may be some good reasons for mergers among LCCs or ULCCs. But there are also compelling arguments against: a hypothetical example, the impact of a take-over announcement on Ryanair's share price and MOL's €100m bonus agreement.

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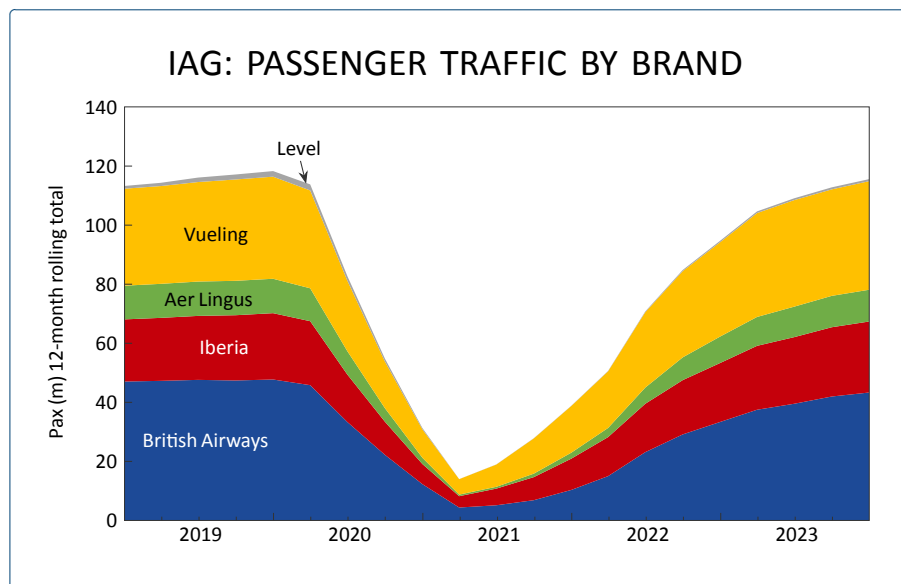
IAG: Spanish, British, Irish and Qatari

THE TRAUMA of the past three years had been heavy for IAG: between 2020 and 2022 demand evaporated and it generated total net losses of €7bn. But the Group ended 2023 only slightly short of the levels of activity it had seen in 2019, the last “normal” year pre-pandemic, while it was able to produce the strongest set of financial results in its history.

In 2023, the Group as a whole saw demand up by 22% year on year in passenger numbers and, with the full reopening of Atlantic routes, 28% in passenger kilometre terms, compared with capacity growth of 22%. Total revenues also grew by 28% (with passenger revenues jumping by a third) to €29.5bn, operating profits trebled to €3.5bn (reflecting a respectable 12% margin) and net profits came in at €2.7bn up from €0.4bn.

Comparisons with the prior year are flattering. Compared with prepandemic 2019, the group carried only 2.3% fewer passengers (3.5% less in RPK terms) on capacity 4.3% lower. It ended the year with a fleet of 582 aircraft, only 16 units lower (2.6%) than at the end of 2019. Total revenues however were 15% higher than those achieved in 2019; operating profits 7% and net profits 11%. The Group reported an ROIC of 14.8%, within its medium term range “ambition” of 13-16%, and 20 basis points higher than in 2019.

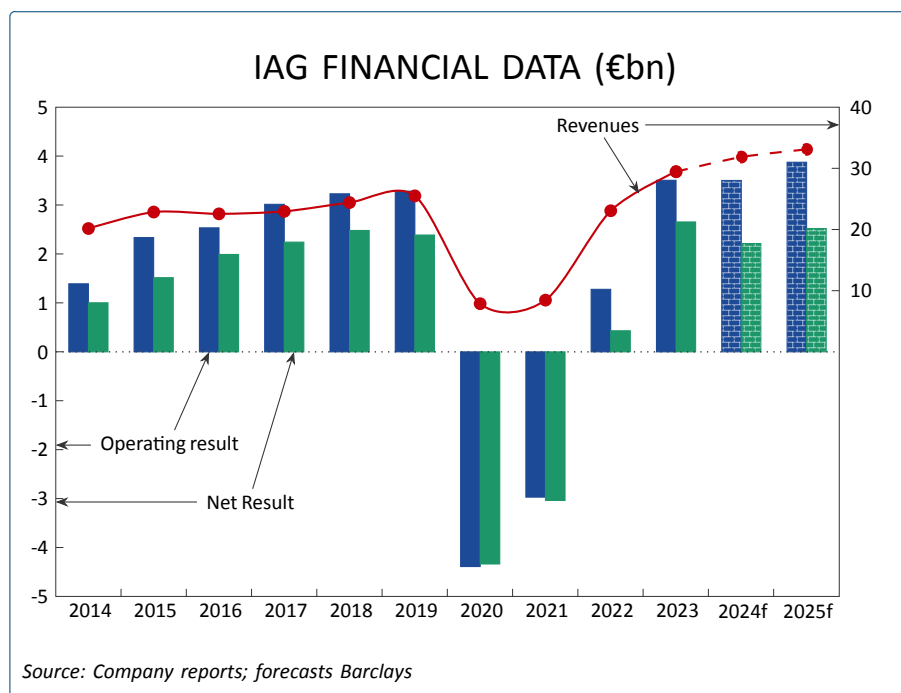
IAG had some major advantages during this stage of the recovery from the pandemic, in comparison with its arch-rival European peers, Air France-KLM and Lufthansa.



➔ Spain and UK Domestic

Iberia and Vueling are based in Spain which has the largest domestic market in Europe — as well as being the short haul holiday destination of choice for much of the continent.

There are suggestions that the local population was more eager to return to the workplace post working from home in lock-down than some other nationalities — Spain even introduced a Digital Nomad Visa at the



IAG GROUP AIRLINE BRAND PERFORMANCE

	British Airways (£m)		Iberia (€m)		Vueling (€m)		Aer Lingus (€m)		IAG Loyalty (£m)	
	2023	v 2019	2023	v 2019	2023	v 2019	2023	v 2019	2023	v 2019
Passenger Revenue	12,668	6%	5,262	30%	3,181	31%	2,209	7%	837	n/a
Cargo Revenue	757	6%	275	-5%			55	2%		
Other Revenue	898	32%	1,421	9%	17	-6%	10	-9%	455	n/a
Total Revenue	14,323	8%	6,958	23%	3,198	30%	2,274	7%	1,292	n/a
Costs	12,892	13%	6,018	17%	2,802	27%	2,049	11%	1,012	n/a
Operating result	1,431	-26%	940	89%	396	65%	225	-18%	280	+59%
Margin	10%	-6pts	14%	+1pt	12%	+3pts	10%	-4pts	22%	n/a
ASK(m)	167,694	-10%	75,726	3%	41,708	9%	31,572	4%		
RPK(m)	140,137	-10%	66,024	3%	38,125	14%	25,451	3%		
Load Factor	84%	0pts	87%	0pts	91%	5pts	81%	-1pts		

end of 2022 to take advantage of the WFH trend and attract high value talent to its shores (although, possibly because of tortuous Spanish bureaucracy, it only issued 300 such visas in 2023).

IAG's domestic passenger numbers (which include BA's operations in the small UK domestic market) were up by 14% year on year to 29.2m (representing 25% of the group's total passenger numbers), and 3% more than the number carried in 2019.

This echoes the figures from AENA, which operates Spain's airports. Total 2023 passenger numbers in its Spanish airports grew by 16.2% year on year ending up 3% higher than 2019 levels: domestic +12.6% (+7.25%); international +18.2% (roughly the same as in 2019).

✈️ Westward Facing

IAG's long haul traffic is strongly focused on the Atlantic. British Airways' base in London is the principal European gateway on the North At-

lantic; and Iberia's Madrid that for the South. Both, with strong linguistic and cultural links, have strong O&D traffic flows; and, being on the western edge of Europe, can offer some of the least circuitous connecting routes for passengers who have to transfer to or from other points in Europe. Aer Lingus also offers a niche position connecting the 36m North Americans of Irish descent to their ancestral home (population 5.3m) as well as the rest of Europe.

North Atlantic traffic was very strong for all the major participants in 2023. IAG saw passenger numbers up by 23% year on year to 12.8m (11% of the total) and 1% higher than the numbers carried in 2019. Pent-up demand (and the absence of LHLCC Norwegian) ensured that unit revenues were strong even though premium business traffic remained soft. Latin America and Caribbean routes — a smaller market for the group, representing 6% of total passenger numbers — was up by 19% year on year, and 2% higher than in 2019.

IAG prides itself on having the largest metal-neutral immunised joint venture on routes to North

IAG PASSENGER TRAFFIC (m)

		2023	vs 2022	vs 2019	% of total
by brand	British Airways	43.32	+30%	-9%	37%
	Iberia	24.04	+20%	+7%	21%
	Aer Lingus	10.74	+20%	-8%	9%
	Vueling	36.76	+15%	+6%	32%
	Level	0.70	+41%	-63%	1%
by region	Domestic (UK & Spain)	29.16	+14%	+3%	25%
	Europe	59.87	+23%	-4%	52%
	North America	12.81	+29%	+1%	11%
	Latin America/Caribbean	6.43	+19%	+2%	6%
	Africa/Middle East/S Asia	6.24	+34%	+1%	5%
	Asia Pacific	1.05	+259%	-58%	1%
Group		115.56	+22%	-2%	

IAG GROUP FLEET

	2023	Δ v 2019	Avg Age (years)	Orders	Options
A319	41	↓16	20.5		
A320	256	↑2	12.4	52	40
A321	80*	↑14	8.9	47†	14†
737-8200				25	100
737-10				25	
Narrowbodies	377		12.5	149	154
A330-200	19	↓5	9.4		
A330-300	20	↑4	10.8		
A340		↓15			
A350	38	↑29	2.9	3	51
A380	12		9.9		
747-400		↓32			
777-200	43	↓3	24.0		
777-300	16	↑4	9.5		
777-9				18	24
787-8	12		8.8		
787-9	18		7.8		
787-10	7	↑7	3.3	11	6
Widebodies	185	↓11	11.2	32	81
Embraer E190	20	↓4	12.4		
Group total	582	↓15	12.0	181	235

Notes: *includes 8 A321LR; † includes 14 A321XLR firm orders, 14 options.

America — what it calls its Atlantic Joint Business (AJB). Incorporating the IAG brands of BA, Iberia, Aer Lingus and Level, it includes the operations of fellow oneworld alliance members American and Finnair. In 2019 the AJB had a 34% share of the revenues on routes between Europe and the US (although since then much of the high yielding premium business traffic has disappeared) and 27% of total passengers (and in that year there was also meaningful competition from the now defunct Norwegian long haul operations out of the UK). It operates 29 non-stop routes to destinations in the US (and 60 when including connections), compared with 22 for the Lufthansa/United-led Star Alliance JV and 20 for that of SkyTeam's Delta and Air France-KLM.

It sees strong future opportuni-

ties arising from the geographical location of its hubs to the West of Europe from new generation aircraft. The group has 14 A321XLR aircraft on order for delivery 2024-26 (and 14 options) currently destined for Iberia and Aer Lingus (but see below).

Airbus claims that the A321XLR has a maximum range of 4,700nm (8,700km). IAG seems not to trust that figure as achievable, and in its own presentations shows a maximum operational range of 3,500nm (the range of the A321neo). On the route map on page 19 we have drawn contours showing the maximum range potential for using the XLR from Dublin and Madrid respectively (at a compromise 4,000nm — Airbus's stated maximum range of the A321LR). These highlight that the aircraft could open up significant opportunities for narrowbody point

to point services for much of the US landmass, as well (for Iberia from Madrid) to northern Brazil, which, under-represented in its current route network, it sees as a growth opportunity.

→ Limited exposure to Asia

Prepandemic the group's exposure to Asia/Pacific routes was relatively small, accounting for only 2% of total passenger numbers. The Far East has taken a lot longer to reopen borders, and the war in Ukraine with the concomitant closure of Russian airspace to European and US carriers, has resulted in a significant diversion from great circle routings and uncompetitive increase in flight times. For the group in 2023, passenger traffic to the region more than trebled to 1.0m pax, but was still 58% below what it had been in 2019.

But, again, it sees a significant strength in the joint ventures it has in place to provide access to the region, all connected with members of the oneworld alliance.

With Finnair and JAL it operates the Siberian Joint Business on routes to Japan, even if at the moment they are unable to fly over Siberia — and Iberia recently restarted services to Tokyo. China Southern (in which American has a 5% stake) is its partner in the China Joint Business for services to the PRC.

But the most extensive JV results from the unique relationship with Qatar Airways — the Qatar Joint Business. This is an agreement that covers services involving destinations in 62 countries worldwide, heavily focused on routes transiting through or beyond Doha, from Hong Kong (Qatar Airways has a stake in Cathay) to Australia, New Zealand, South East Asia, the Middle East and Central Africa.

In December last year Iberia inaugurated daily flights to Doha,

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and BA recently increased services to thrice-daily from Heathrow (albeit a shadow of Qatar's eight daily services to Heathrow). They have a long record of coordinating cargo services.

But then, Qatar Airways holds 25% of the equity in IAG. And the State of Qatar, through its Sovereign Wealth Fund, the Qatar Investment Authority, owns Qatar Airways and holds 20% of the equity in Heathrow, the jewel in the crown of IAG's hubs, and could soon become the airport's largest shareholder (see figure below).

(At the end of last year Ferrovial announced that it had agreed to sell its remaining 25% stake in Heathrow to Saudi Arabia and private equity firm Ardian for £2.4bn (an EV/EBITDA valuation of 13.8x). Three other

shareholders — GIC, USS and CDPQ — have decided to exercise their “tag-along” rights. There are many state-owned major airports in the world, but the UK must be unique in allowing its principal gateway infrastructure to be majority-owned by other states — in this case, if the deal goes through, the Qataris, Saudis and Chinese.)

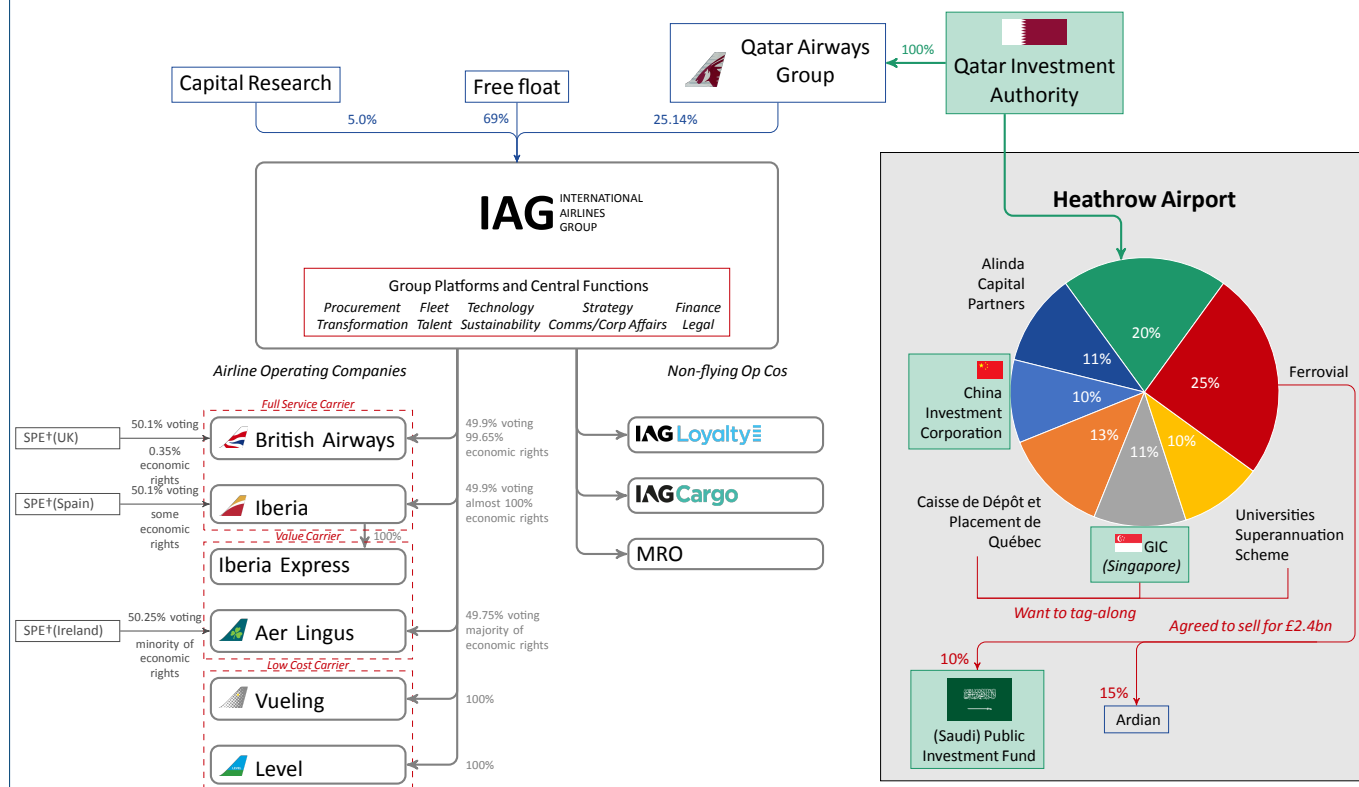
Brand Results: Spain takes the Crown

Market dynamics in the Iberian peninsula gave Iberia and Vueling a particularly strong boost to profitability in 2023.

Iberia generated a 26% increase in total revenues to a record €7.0bn (with passenger revenues 30% higher than in 2019) on the back of a 10%

increase in passenger unit revenues and an 18.5% growth in seat capacity (in ASKs). Unit costs appear to have fallen by 1%, producing operating profits of €940m — roughly equal to the sum of the operating losses in 2020 and 2021 combined — and nearly double the amount of operating profits reported in 2019. This represents a record operating profit margin for the airline of 13.5%.

Presenting at IAG's Capital Markets Day in November last year, Iberia's CEO, Fernando Candela, contrasted Iberia's current condition with what it had been in 2012, a year after the creation of IAG. Then it had poor operational performance with only 74% of flights on time; poor industrial relations, strikes and an outdated product, it was rated



Notes: †Special purpose entities designed to ensure compliance with national ownership and control requirements. The Irish and British entities are Trusts; the Spanish – because Spain does not recognise a Trust as a legal entity – an incorporated company.

IAG: FINANCIAL DATA

FY ended Dec (€m)	2019	2020	2021	2022	2023	At end Dec (€m)	2023
Revenues	25,506	7,868	8,450	23,066	29,453	Fleet, Property	19,776
Net Result	2,387	(4,337)	(3,038)	431	2,655	Other Fixed Assets	3,291
						Intangible Assets	3,909
Operating cash flow	4,002	(3,296)	(141)	4,854	4,864	Current Assets	10,704
Net capex	(2,658)	1,562	(181)	(3,463)	(3,423)	of which Cash	6,837
Free cash flow	1,344	(1,734)	(322)	1,391	1,441	Current liabilities	(16,979)
Increase in debt	49	1,053	2,259	(79)	(5,271)	Long term debt	(13,831)
Equity/(dividends)	(1,308)	2,621	(24)*	(23)	(77)	Other liabilities	(3,592)
Total cash flow	85	1,940	1,913	1,289	(3,907)	Equity	3,278

Notes: * Treasury shares

a three-star airline in the SkyTrax rankings and generated a negative -2pp net promoter score; with an old fleet, high staff costs an inefficient structure it lost €350m at the operating level — a negative 7.3% margin.

In 2023 Iberia claims it was among the top three European carriers with the best on-time performance (at 87%); it had a “product adapted to the target demand space”, was ranked with four stars by SkyTrax and achieved a positive +30pp NPS; it had a competitive cost base with non-fuel unit costs down by 30% over the intervening 11 years (an annual average decline of 3.3% in current terms and 5% in real terms); and in 2023 it achieved the highest operating margin of the airlines within the IAG portfolio.

Vueling, the group’s LCC operation, also saw very strong revenue and profit performance. A 16% year on year increase in capacity combined with a four point improvement in load factor (to 91.4%) and an 11.4% improvement in unit revenues created a 23% growth in revenues to €3.2bn, (30% higher than 2019). Operating profits more than doubled to €396m (a margin of 12%), and were 65% higher than in 2019. Of note, it

achieved ancillary revenues of €27 per pax, 95% higher than in 2019. This suggests that ancillaries account for 30% of turnover up from 20% five years ago.

The LCC has achieved this performance despite some disruption. Intermittent strikes from the cabin crew from the end of 2022 were finally resolved in September 2023 with a mutually acceptable collective agreement.

The pilot’s collective agreement, signed in 2019, comes up for renewal this year. And the pilots are grumbling (it recently suffered a series of industrial action from its French-based pilots). IAG has clearly stated that it will not allocate more aircraft to the airline unless it can negotiate a “sustainable” agreement with the pilots.

The Anglo-Saxon airlines in the Group fared less well. Both British Airways and Aer Lingus experienced very strong year on year growth in traffic, unit revenues operating and net profits. For each, turnover was higher than levels achieved in 2019 by around 7-8%; but operating profits remained substantially below 2019 levels (by 26% at BA and by 18% at Aer Lingus). Both showed operating margins of 10%, well down from historic levels.

British Airways however needs to restore its brand reputation. During 2023 according to OAG it achieved an on-time performance of only 60%, ranking bottom among the 20 largest airlines (behind easyJet at 65%). During the year its NPS, according to Comparably, hovered around zero — although it has recovered to a positive 5pp during 2024 showing 42% promoters to 37% detractors (and 21% passives).

The company had a particularly tough year at its home base in 2022 when Heathrow Airport, unprepared for the bounce-back in traffic imposed limits on operations.

External events weighed heavily too in 2023: under-staffed security, border-control, ground and baggage handling; continuing supply-chain issues, a series of severe weather events (not *that* unusual); a notorious meltdown of the UK’s Air Traffic Control systems; and an above average level of industrial action.

However, BA identifies that only 25-30% of the delays were caused by external events, the majority down to its own incompetence.

At the November CMD, BA emphasised the management imperative to generate a transformation, mentioning its plans to invest over

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IAG: LONG HAUL ROUTE NETWORK



£7bn over the next two years focusing on providing:

- ✈ world-class customer experience,
- ✈ leading edge commercial platform,
- ✈ modernisation of the IT estate,
- ✈ operational and technical excellence.

Much of that stated investment is fleet related; but it does include £750m on bringing its computer and IT systems into the third decade of the 21st century, relaunching its “app” and digital presence, introducing a new revenue management system with dynamic pricing capability, and

modernising its payment systems.

Aer Lingus is also under pressure. The carrier’s pilots had had their pay halved in 2020, but had been guaranteed there would be no redundancies. In January this year, its pilots rejected an 8.5% pay offer after the cabin crew had accepted a 12.5% pay increase. The pilot offer, through a tribunal award, had been reduced because in 2019 the union had accepted an “adjustment” in pay to provide more time off. They, like their counterparts at Vueling, are complaining. As with Vueling, IAG has stated that the company will not be allocated aircraft unless it can

negotiate a “sustainable” agreement with the pilots. Time is running out: a decision on what colours to paint IAG’s first A321LR had to be made by the end of April, green or red?

One of the operating brands that does not disclose results separately is that of **LEVEL**. This is the Group’s experiment at long haul (and questionably medium haul) low cost operations. Operating currently under the Iberia AOC with six A330s, it is flagged to be a long haul operator based in Barcelona chasing “frugal fun” traffic to North and South America, closely linked to operations at Vueling (for feed?). Level is in the process of ap-

plying for its own AOC, and received an additional A330 this year and has plans to grow the fleet to 8 A330s over the next two years. With fewer than 1m pax it is the “baby” in the portfolio: its revenues, profits (or losses) are deemed “not to exceed the quantitative thresholds to be reportable”.

IAG started reporting financial results of its frequent flier programme **IAG Loyalty** (which runs Avios, IAG’s loyalty “currency”) as a separately disclosable business unit in 2020 — when it managed to exceed those quantitative thresholds.

In 2023 IAG Loyalty had revenues of £1.3bn (over 80% of which is generated externally), up by 53% on the prior year period, and operating profits of £280m, 17% higher than in 2022 (and 59% higher than 2019 when its £176m operating profit was deemed too immaterial to disclose). IAG heralds the results of IAG Loyalty as a key part of its corporate strategy to develop “capital-light earnings growth”, but does not provide much consistent information on the performance.

In a presentation at the Group’s 2023 CMD we are told that there are 40m card-carrying members, that membership had grown by 2m during the year, and that co-branded UK card spend was equivalent to 1% of UK GDP. In a more informative presentation at the equivalent event in 2019, we learnt there were then 34m members (of which 9m were “active” — ie those who had collected or redeemed Avios in the previous year); 51% of Avios were earned through everyday spending, and not through flying; and that £40bn was spent on collecting Avios each year.

Perhaps IAG is grooming the capital markets to develop a hunger to invest in its FFP — as the Group’s trans-Atlantic counterparts have done in the past four years — under the illu-

sion that such a loyalty programme can be divorced from the aspirational goals it supplies its members, and the cash flow it generates can be separated from the airlines it serves. (For our views and analysis of the value of the FFP, see “Banking on the Frequent Flyer”, *Aviation Strategy*, Jul/Aug 2020).

Unique “Plug-and-Play” Business Model

IAG has a unique corporate model in the airline industry. When it was formed in 2011 it could learn from the mistakes that British Airways and Iberia identified in the structures created by the merger of Air France and KLM in 2004, and acquisitions by Lufthansa (of Swiss and Austrian) in subsequent years to form the Lufthansa Group.

It is based on an independent corporate parent company which owns a portfolio of branded airlines and a common integrated platform to service their respective operations. The parent company makes decision about capital allocations to its airlines based on strict return criteria and exerts influence across the group to maximise returns. (And it is currently using this structure as a stick-and-carrot approach to industrial relations at Aer Lingus and Vueling).

The parent company is also responsible for setting the long-term vision for the Group. Its independence from the operating companies it sees as allowing it “objective, flexible and rapid decision-making” and enabling it to “implement a cohesive long-term” strategy.

Each of the IAG airlines is a stand-alone profit centre, with an independent credit identity and its own management team and board of directors. As a result, each airline retains its own

brand and individual cultural identity, focusing on meeting the needs of its target customers and differentiating itself from its competitors.

Somewhat sneakily perhaps, the Group got around the problems of cross-border ownership and related ownership and control requirements for International flag-carrier airlines, by establishing Trusts (or in the case of Iberia — because Spanish law doesn’t have the concept of a Trust as a legal corporate body — a corporate entity) that retain a majority of the equity shares and voting rights but a minority of the economic interest in the operating airline.

New airline acquisitions have simply “dropped-in” to the structure, allowing for the elimination of back-office duplication, and almost immediate synergies.

The management team in their presentations have often stated that “IAG was created to be a vehicle for airline consolidation”. What’s next?

Air Europa

The next possible airline operating company to join the IAG portfolio, is that of Air Europa — Spain’s third largest airline — but it has been five years since the first approach.

IAG first announced an agreed bid in November 2019 to acquire Air Europa from Spanish tourism group Globalia Corporación for €1bn in cash. What timing! With no flights and no tourists, both companies were fighting for survival during 2020.

The purchase price was renegotiated down to €500m in 2021, but that renewed bid fell by the wayside. Early in 2022 IAG provided Air Europa with a €100m loan which was then converted into a 20% equity stake in October of that year. Then in February 2023 it was announced that they

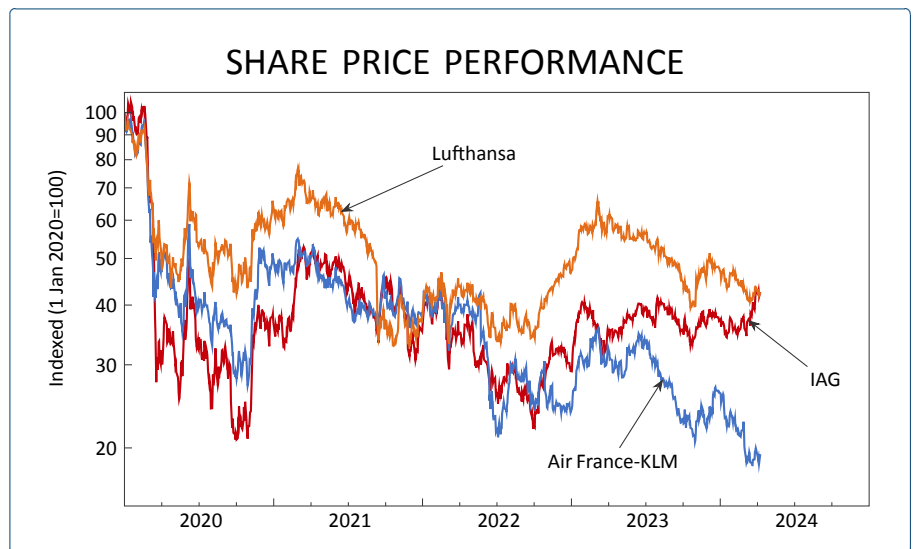
had once again come to agreement. IAG would buy the remaining 80% of Air Europa for €400m, 25% of which would be in IAG shares.

It is not a large acquisition per se: in 2019 Air Europa carried 12m passengers on a fleet of 66 aircraft (now, post-pandemic, reduced to 52 formed of 737s and 787s) and generated a 5% operating margin on €2.1m revenues. But it has a good presence in the South American markets (and on routes not operated by Iberia) which accounted for nearly 20% of its capacity, and 7% of the traffic between Europe and Latin America.

The acquisition makes strategic sense. It would give the Group stronger presence in Madrid — pushing its share of the slots there from 51% to over 65% — and allow it to transform the hub operations. It would boost the group's share on the South Atlantic to around 26% (from 19%).

However, it does raise competition concerns. Air Europa had only 2% of the international traffic to Spain, but 14% of the domestic market (Iberia and Vueling have c50%) and a 22% share of domestic routes into Madrid (although the high speed train account of over half of the total domestic passenger journeys to Madrid). And domestically there is significant overlap.

Since notifying the EU formally (again) at the end of 2023 of its intention to buy Air Europa, it has no doubt been doing some horse trading to find remedies that would be acceptable to the EU Commission — including the usual slot surrenders and, seemingly, paying other airlines to take over routes. It does not appear that the Commission is convinced; it has opened an “in-depth investigation” (in a rather bizarre stop-start fashion) and has formally sent IAG no-



tification of its objections.

The Commission is concerned that the proposed transaction “may reduce competition on a certain number of...”:

➔ “... Spanish domestic routes, notably on routes where high speed trains do not provide an alternative, and on routes between peninsular Spain and the Balearic and Canary Islands. On such routes, IAG and Air Europa compete head-to-head. For a few of these routes, there will be no direct competition after the transaction. For other routes, competition appears limited and comes primarily from regional Spanish airlines and low-cost airlines, such as Ryanair.

➔ “... short-haul routes connecting Spain with countries in Europe and in the Middle East. On such routes, IAG and Air Europa compete or will compete head-to-head in the foreseeable future. Competition on such routes appears limited and comes primarily from low-cost carriers, such as Ryanair, who in many cases operate from more remote airports, or from the incumbent carrier of the destination country.

➔ “... long-haul routes connecting in particular Spain with North and South America. On such routes, IAG

and its joint venture partners compete or will compete head-to-head with Air Europa. For some of these routes, there will be no direct competition after the transaction. For other routes, competition from other airlines appears limited and both parties have relatively high market shares.”

(For some reason, the Commission does not appear to consider that Ryanair, Europe's largest airline, is a valid competitor.)

The Group has until the 10th of June to respond and propose remedies. The Commission has until the 15th July to make a decision.

IAG, at its full year results, was still anticipating (perhaps optimistically) that the acquisition would close by the end of the year.

Whether or not it is successful with Air Europa, it could still join the fight for TAP Air Portugal, slated for privatisation (again) — see *Aviation Strategy*, May 2022. But, with a Competition Authority seemingly less in favour of airline consolidation than it has been in the past, that too may be an uphill struggle.

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