

# Fight or flight

A guide to the post-pandemic future of the aviation industry



In partnership with:



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## A guide to the future of aviation

As the COVID-19 pandemic took hold, governments moved to contain the spread of the virus by imposing draconian restrictions on international travel, bringing the global airline and aviation sector to a near standstill.

Eighteen months on, the rollout of vaccination programmes around the world is helping to revive passenger demand for air travel, but the playing field remains far from level, with new COVID variants and disparate infection rates hampering the establishment of global travel protocols.

The recovery of the sector will depend not only on these external factors, but also on its own ability to successfully adapt to the emerging post-COVID business environment.

Working in partnership with Robert Boyle, a senior executive with 26 years' experience in the aviation sector and Managing Director of GridPoint Consulting and the Airline Management Group, we have created this guide to identify the key issues facing the sector and how businesses can address them.

## Our experts



**Robert Boyle**

Managing Director  
GridPoint Consulting



**Peter Davies**

CEO  
Airline Management Group



**Ben Leon**

Chief Commercial Officer  
Airline Management Group



**Paul Zalkin**

Managing Director  
Restructuring and Insolvency and Head of Aviation

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## The journey to recovery will be a long haul

While travel restrictions have kept planes on the tarmac and passengers away from holiday hotspots and business destinations, recent data from Eurocontrol shows a gradual recovery in the number of flights within Europe – albeit from a very low base.

At the start of May 2020, European flights were running at around 65% lower than at the same point in 2019, with that figure steadily improving to around 40% by the start of July this year.

Despite this encouraging pick-up in flight numbers, Europe is still lagging behind other regions: US domestic flights, for example, have already returned to – and even, in some cases, surpassed – pre-pandemic levels.

Numbers are recovering from a very low base



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## Recruitment issues could weaken an otherwise robust supply chain

As vaccination programmes help to restore passengers' confidence in flying for work and leisure, airlines are starting to ramp up their operations to prepare for the eventual return of demand. But with many key suppliers to the sector having experienced financial difficulties of their own, will the recovery be stalled by bottlenecks in the supply chain?

This is not the case, according to Peter Davies: "Based on my conversations with supply chain OEMs and other related companies, the aviation industry's supply chain is actually in pretty robust shape. After all, even aircraft that haven't flown for some time still need to be maintained, which has helped to bolster companies that supply the sector during this challenging period." But while Peter is confident in the strength of the physical supply chain, the human side of the equation gives him more cause for concern: a sudden upswing in passenger demand can only be met if the industry has ready access to a suitably qualified pool of pilots and engineers – but many have already lost their jobs as a direct result of the crisis.

“ I'm confident about the robustness of the physical supply chain, but the human part of the equation worries me more: a sudden upswing in the passenger demand can only be met if the industry has ready access to a suitably qualified pool of pilots and engineers - but many have already lost their jobs as a direct result of the crisis. ”



**Peter Davies**

## Recruitment is the number one challenge for the sector

Ben Leon flags up another people-related challenge facing the sector: "Recruitment is the biggest challenge for hotels and the wider hospitality industry right now. With so many staff having been furloughed or made redundant, there's now a serious shortage of frontline employees in the UK.

Brexit has exacerbated this situation: around 1.5 million European workers who were previously employed in the UK hospitality industry have now returned to their home countries. However, notes Leon, the challenges currently posed by recruitment are only likely to have a short-term impact on the recovery of the sector.

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**Ben Leon**



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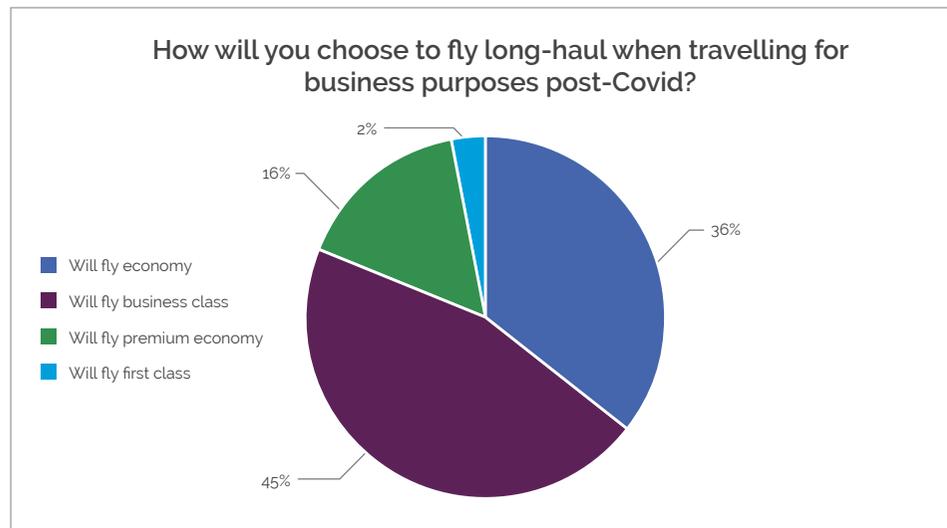
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## The rise of repurposing

Another area that looks set to be affected in the short term is hotel infrastructure - the essential equipment used to keep the buildings operating. Over the past 18 months, people have become used to working from home and replacing face-to-face meetings with virtual calls, drastically reducing demand for business travel. But the changing nature of travel is fueling the rising popularity of "repurposing": as more of us consider options such as combining a personal holiday with a business trip, hotels - and the rest of the travel chain - will need to adapt to meet the changing nature of demand.

During our recent webinar on the future of the aviation sector, we surveyed more than 80 professionals and asked them 'how will you choose to fly long-haul when travelling for business purposes post-Covid?' This indicates a potential drop in the number looking to choose first or even premium class.



## Taking the opportunity to invest in technology

2020 saw a significant shakeout of the travel agency landscape. While leisure-focused agents have benefited from the surge in demand created each time a holiday destination reopens its borders, agents that specialise in business travel have seen a drop-off in revenues, with some already in administration.

Conversely, online travel agents have proven better placed to weather challenging trading conditions, with some using the crisis as an opportunity to stay close to their customers by investing in their technology platforms.

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## Repairing battered balance sheets as debt levels continue to rise

For many aviation sector players – and airlines in particular – taking on debt may have helped them ride out the worst of the COVID storm, but it has also left them with significant damage to their balance sheets. In a “normal” environment, these companies would be exploring options to increase margins, boost revenues and cut costs; but in the current environment, repairing a damaged balance sheet may prove a tough task.

Paul Zalkin believes the real focus for the sector should be on making air travel as easy as possible for customers by allowing them the flexibility to rebook flights without incurring a financial penalty. However, offering total booking flexibility is expensive, making it feel like a very counterintuitive solution for companies that are desperately trying to repair their balance sheets.

What’s more, with recent announcements on the relaxation of travel restrictions failing to encourage investors into airline stocks, companies in financial distress may find the idea of going back to their shareholders in a bid to raise further equity or debt financing an unattractive one.

“Recent announcements on the relaxation of travel restrictions by some governments have not translated into investors piling into airline stocks. For companies in financial distress, going back to shareholders in a bid to raise further equity funding may prove a challenge.”



Paul Zalkin

## Restructuring can represent an intuitive way forward

This is where restructuring comes in. Virgin Atlantic was the first high profile UK business to use a “restructuring plan” – a new restructuring tool introduced into Part 26A of the Companies Act 2006 by the Corporate Insolvency and Governance Act 2020 – as an “arrangement” or “compromise” between a company and its stakeholders, the tool is designed to reduce or reshape the liabilities owed to those stakeholders. This approach can make sense for both sides, says Zalkin: “Companies are effectively saying to their creditors: ‘If we work together, at least you still have a customer – and we still have a business.’”

Whilst the insolvency tools available to assist in restructuring an aviation business are common to all sectors, the need to plan and develop a forensic understanding of the regulatory environment is key to success. Everything in the aviation section – aircraft and parts design and manufacture, carrying passengers, operating airports, employing staff, training, the supply of consumables, maintenance, and the movement of freight – is strictly controlled by national and international regulators.

Without their authority, continuation of operations is simply not possible. The decision to place an aviation company into administration is not one to be taken lightly and it is essential to ensure the right team of experts is in place.

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## Innovation takes off in times of crisis

Times of crisis tend to provide fertile ground for innovation, says Ben Leon, and COVID-19 has proven no exception. "Since the start of the pandemic, we've seen some significant innovations in the travel tech space, such as travel apps designed to help both hotels and passengers to stay COVID-safe by keeping them up to speed with regulations and vaccination and testing requirements for different countries."

Newly developed apps also allow customers to quickly carry out time-consuming tasks like checking in and out on their phones, generating time and cost efficiencies as well as freeing up front desk staff to focus on delivering enhanced service levels instead.

And in the parametric insurance space, customers now have the flexibility to rebook their flight in the event of travel disruption or missed connections, as well as access to faster claims handling - because their flights are already being tracked by the insurance company.

## Beyond COVID: building back better

As the airline and aviation sector begins its journey towards recovery, Peter Davies highlights sustainability as a critical area of focus. "A huge amount of investment and scientific knowledge is being directed into making the sector more sustainable for the long term.

The drive towards sustainability will create exciting opportunities for innovation and for new business models that will attract investment going forward. Advances in aviation technology, such as more efficient aircraft, greener fuels and the electrification of different types of aircraft, will not only tick the boxes for investors on sustainability; they will also create genuine excitement for passengers."

“ *The drive towards sustainability will create exciting opportunities for innovation and for new business models that will attract investment going forwards.* ”



**Peter Davies**



“ Recent announcements on the relaxation of travel restrictions by some countries haven't seen investors piling into airline stocks. So for companies in financial distress, the idea of going back to their shareholders in a bid to raise further equity or debt financing may well be an unattractive one. ”



Paul Zalkin

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## Plotting a flight path for the airline and aviation sector

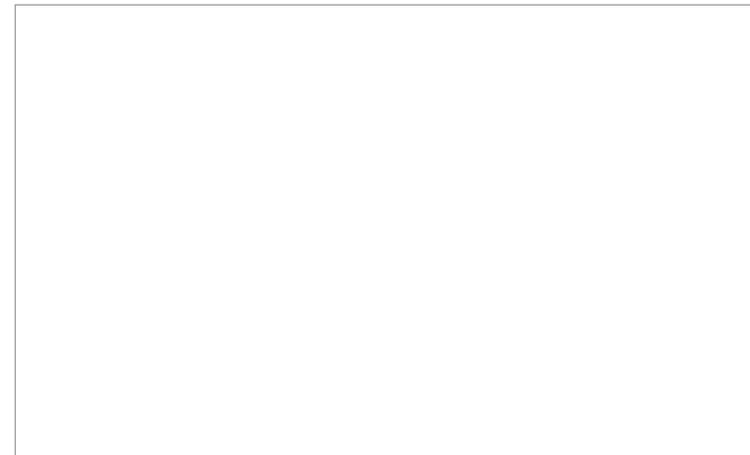
Despite the challenges that lie ahead, the pervading sentiment on the future of the airline and aviation sector is one of optimism, says Robert Boyle: "In Europe, we're now at the beginning of what should be a sustained recovery towards financial health. It will be a long road with some bumps along the way, whether it's an unexpected resurgence in COVID infections, inconsistencies in government policy or supply constraints".

In this kind of unpredictable environment, it's more critical than ever for sector companies to ensure they have the right kind of management with the right skills to steer them safely through the recovery period – and out the other side into a post-COVID business landscape that looks very different to the way it did before.

Zalkin adds: "The global aviation and aerospace sector will emerge from the coronavirus pandemic – as it did from the post-WWII period, the 1973 oil-price shock, the impact of 9/11 and from the Icelandic volcanic ash cloud in 2010. The industry will adapt its commercial and technological strategies to meet the requirements of regulators, customers, national governments, and the climate-change lobby, and it will thrive once again. And there is one reason for this: the unstoppable desire to move people and goods around the world quickly."

## Watch our on-demand webinar covering these key issues

On Friday 9th July, our expert panel considered the post-pandemic future of the sectors, focusing on how they should adapt and evolve given a fundamental shift in business dynamics. You can watch this webinar by clicking on the image below.



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## How we can help

Our team advise aviation and aviation-related businesses, helping companies achieve their goals and overcome the challenges they face along the way.

Our proactive approach to advising aviation and related businesses is designed to help them to achieve their objectives and overcome the challenges they may face along the way. Some of our previous clients have included European airlines, aerospace companies, aircraft lessors and travel companies. Our specialist team operates across borders and has deep experience in corporate finance, due diligence, financial advisory, forensic accounting, and investigations, and restructuring and insolvency.

**To find out more about how we can help get in touch with Paul Zalkin, head of aviation.**



### Paul Zalkin

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GridPoint Consulting Limited is a UK based consulting company founded in 2020 by Robert Boyle, strategy and transformation expert, focused on the aviation and travel industries. Robert held a series of senior executive positions at British Airways and International Airlines Group over a 26-year career in aviation, including Commercial Director at British Airways and Director of Strategy at International Airlines Group.

## Quantuma

Quantuma is an independent advisory firm serving the needs of mid-market and corporate companies, as well as their stakeholders. Their experts advise clients on business transactions, resolving business disputes, mitigating risk, and managing operational as well as financial challenges.



## AIRLINE MANAGEMENT GROUP LTD

Airline Management Group is a team of established professional practitioners that have held operational and financial accountable executive positions across all sectors of the aviation industry. They have worked together as a team for more than a decade, having developed and applied a consistent methodology, covering the breadth of requirements for any airline business to succeed.

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