



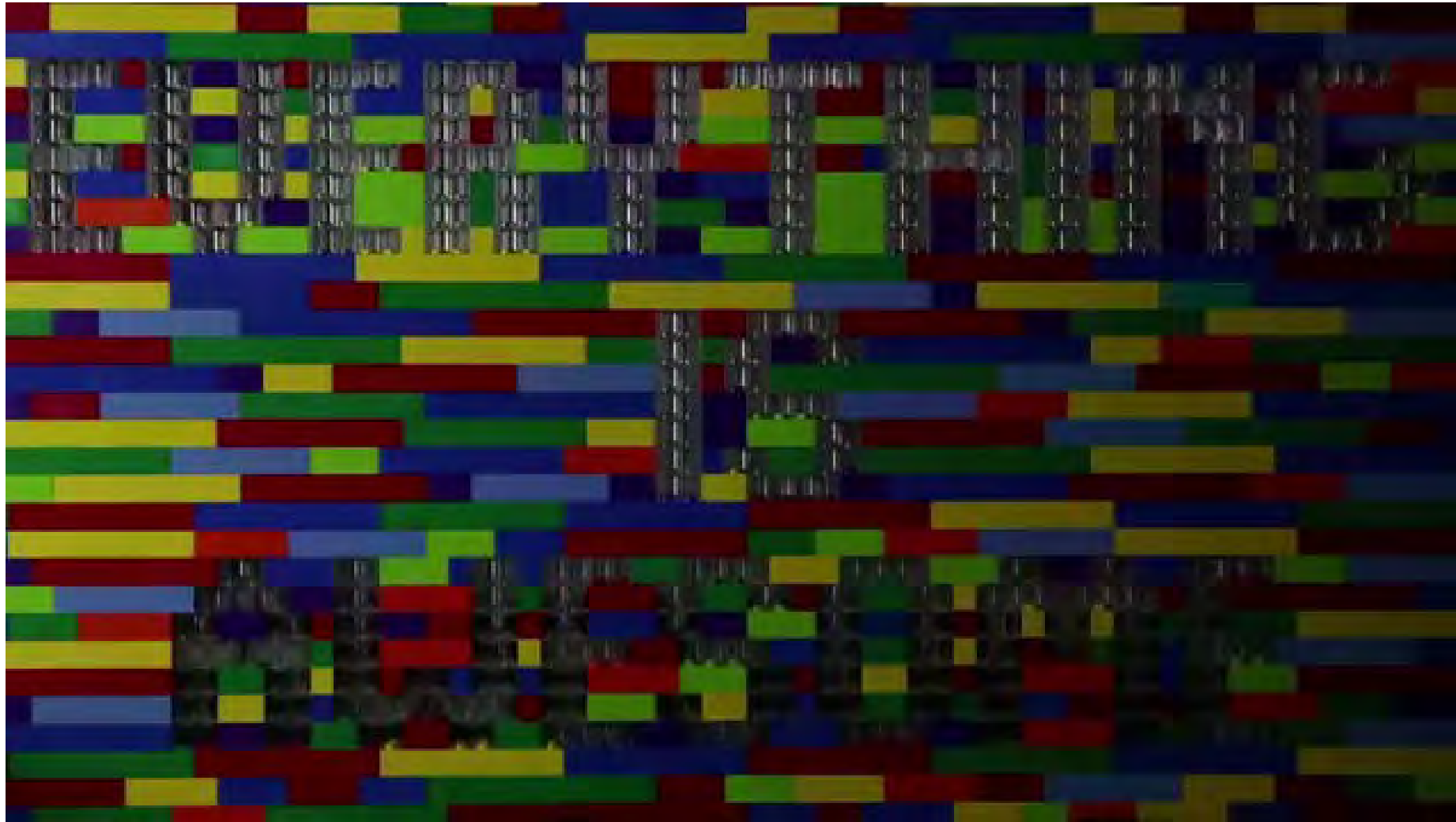
Industry Outlook

Presentation to ASA Conference

Adam Pilarski,
Senior Vice President, AVITAS, Inc.
June 25th, 2018
Scottsdale, AZ

Current Market Situation

Everything is awesome





- **Stock Market**

- All time high, great growth 2017

- **Profits**

- **Economy fine**

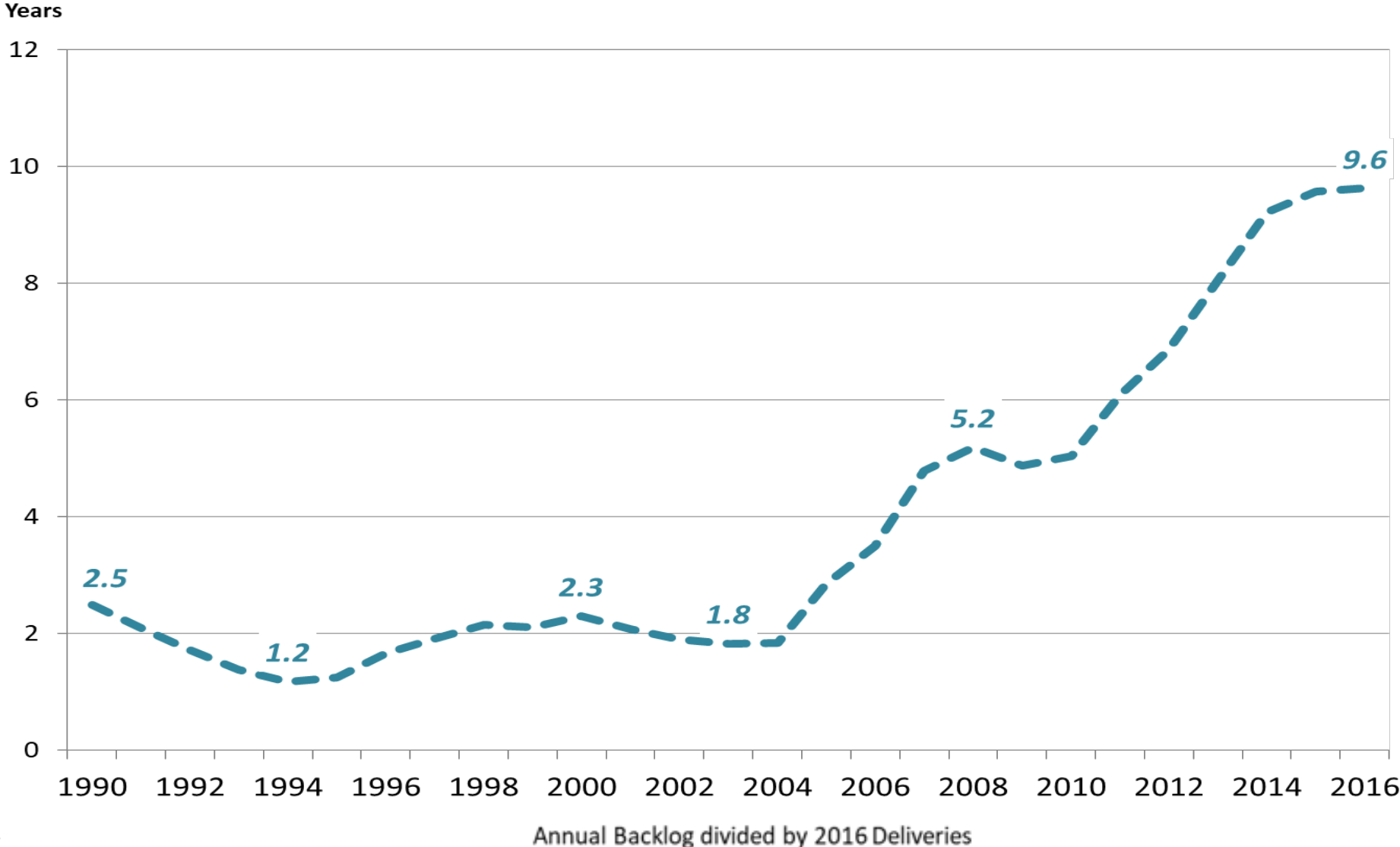
Longest economic expansions in US History (33 cycles since 1854)

Months	Time
120	3/1991 to 3/2001
107	6/2009 to ???
106	2/1961 to 12/1969
92	11/1982 to 7/1990

■ Aviation

- Record profits
- Record backlogs
- No more cycles

Backlog Years of Production for Narrowbody and Widebody Jets





Is Cyclicalality Over?

No more cycle

“I think we’re a little bit more sophisticated in orderbook management. This is no longer a cyclical industry, it really isn’t.”

***John Leahy
ISTAT Meeting, March 2016***

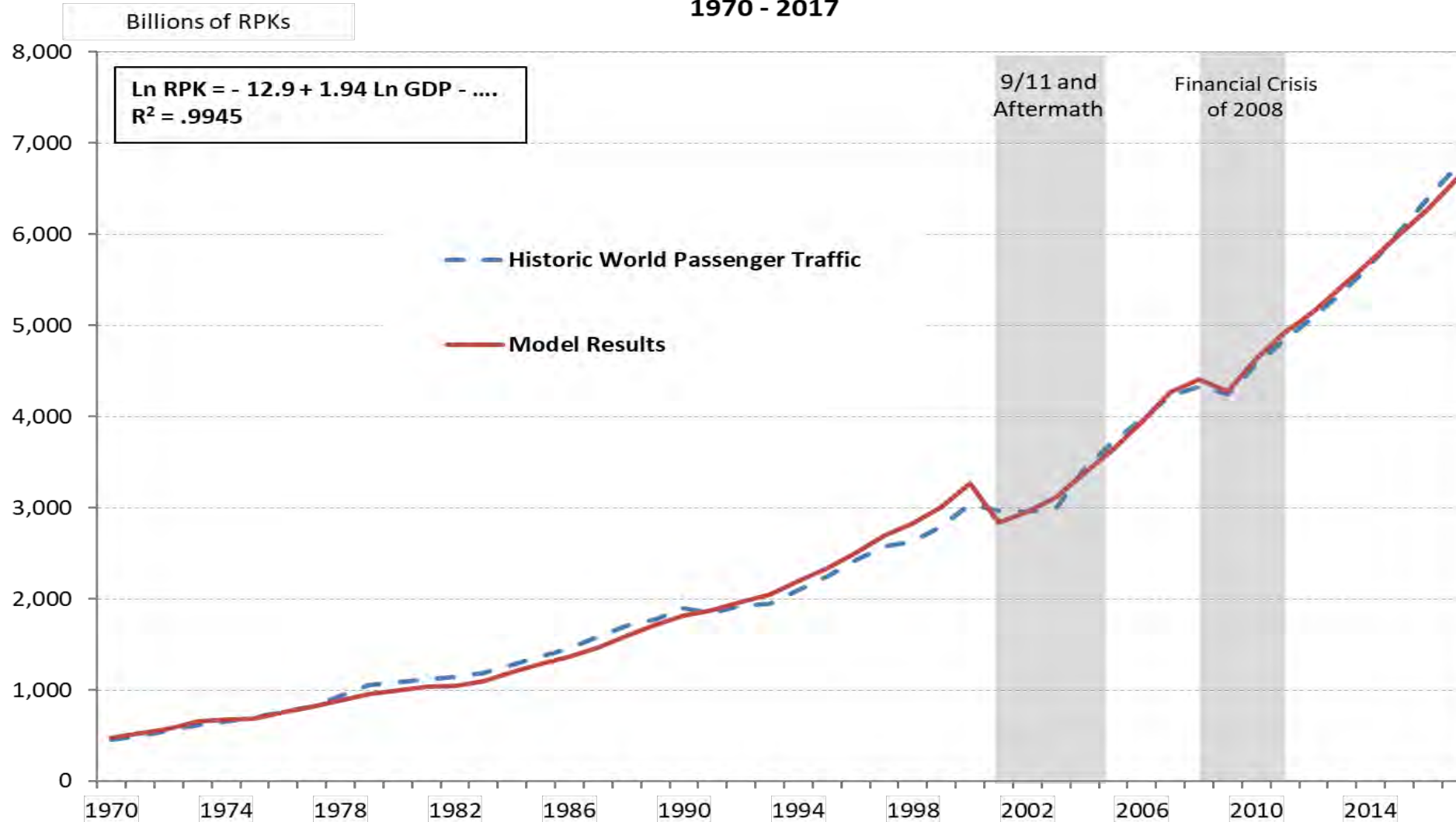
“ I think it’s highly unlikely you’ll ever see losses in this industry again. We are in a whole new world.”

***Doug Parker
April 2016***

“Reality has changed from being a high cycle business in the past to a long-term sustained growth business”

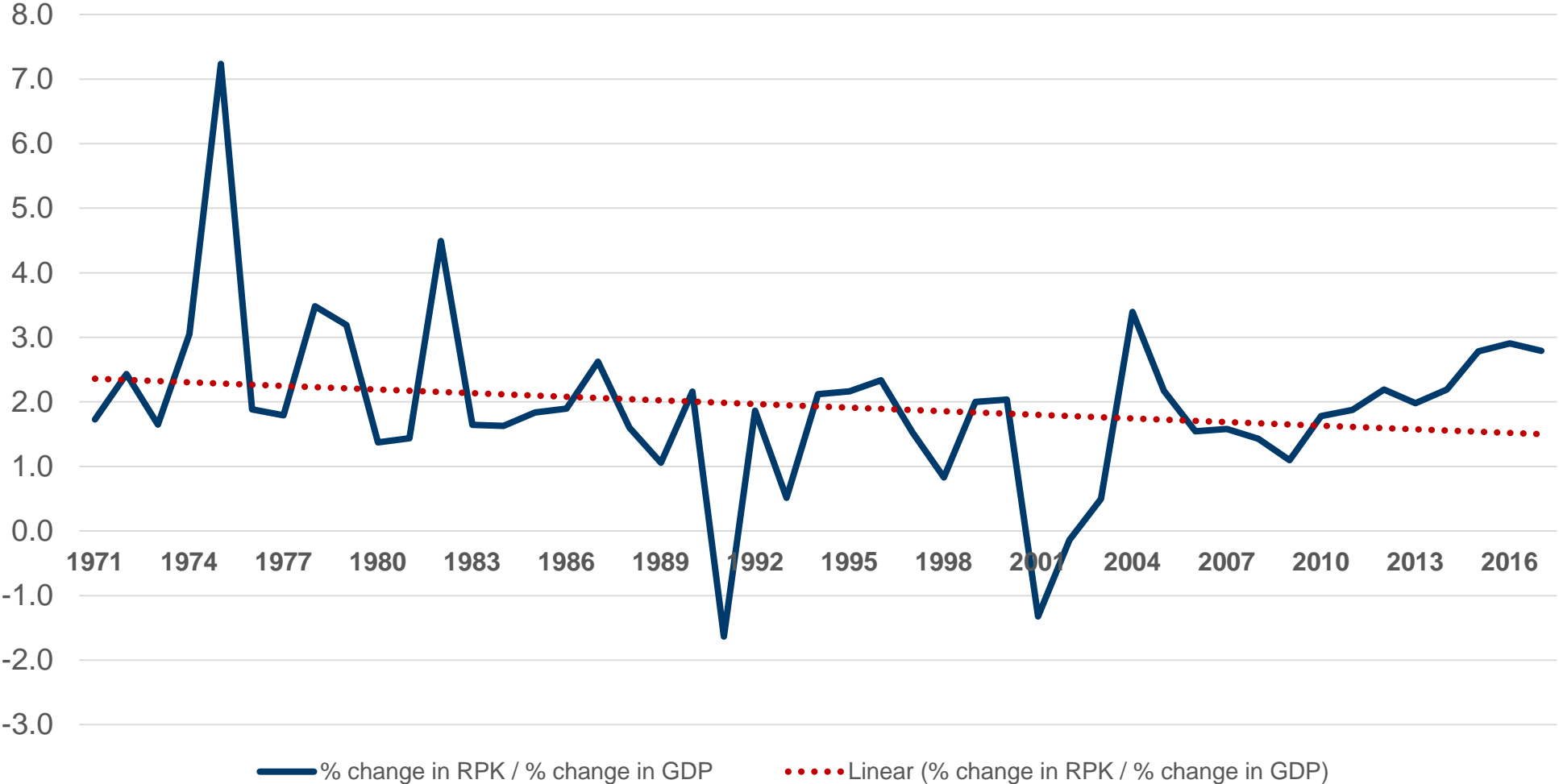
***Dennis Muilenburg
CNBC interview, February 2018***

Annual World Passenger Air Traffic 1970 - 2017

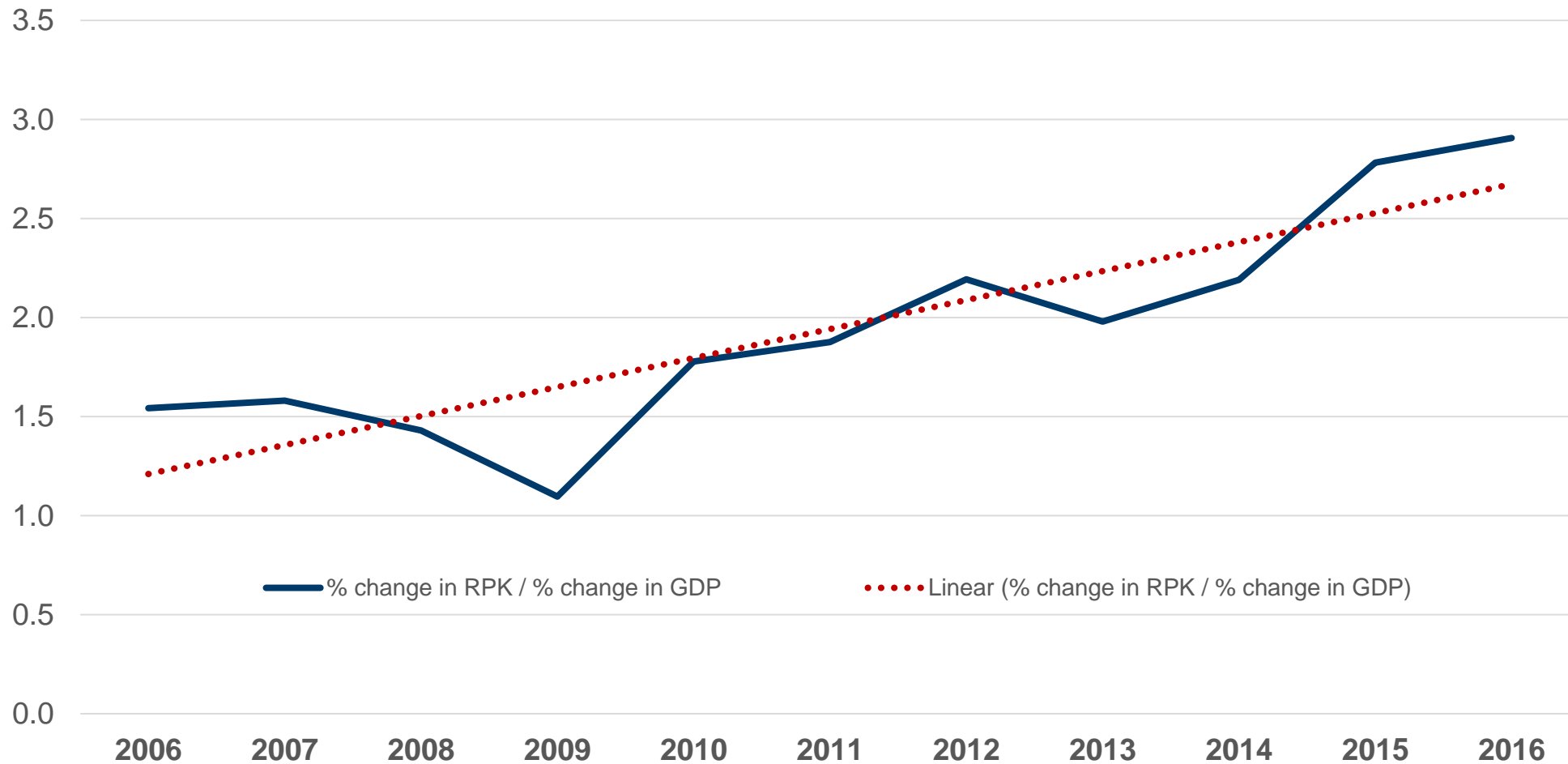


Source: ICAO historical data and AVITAS forecast.

World Traffic versus Global Economic Growth 1971 - 2017



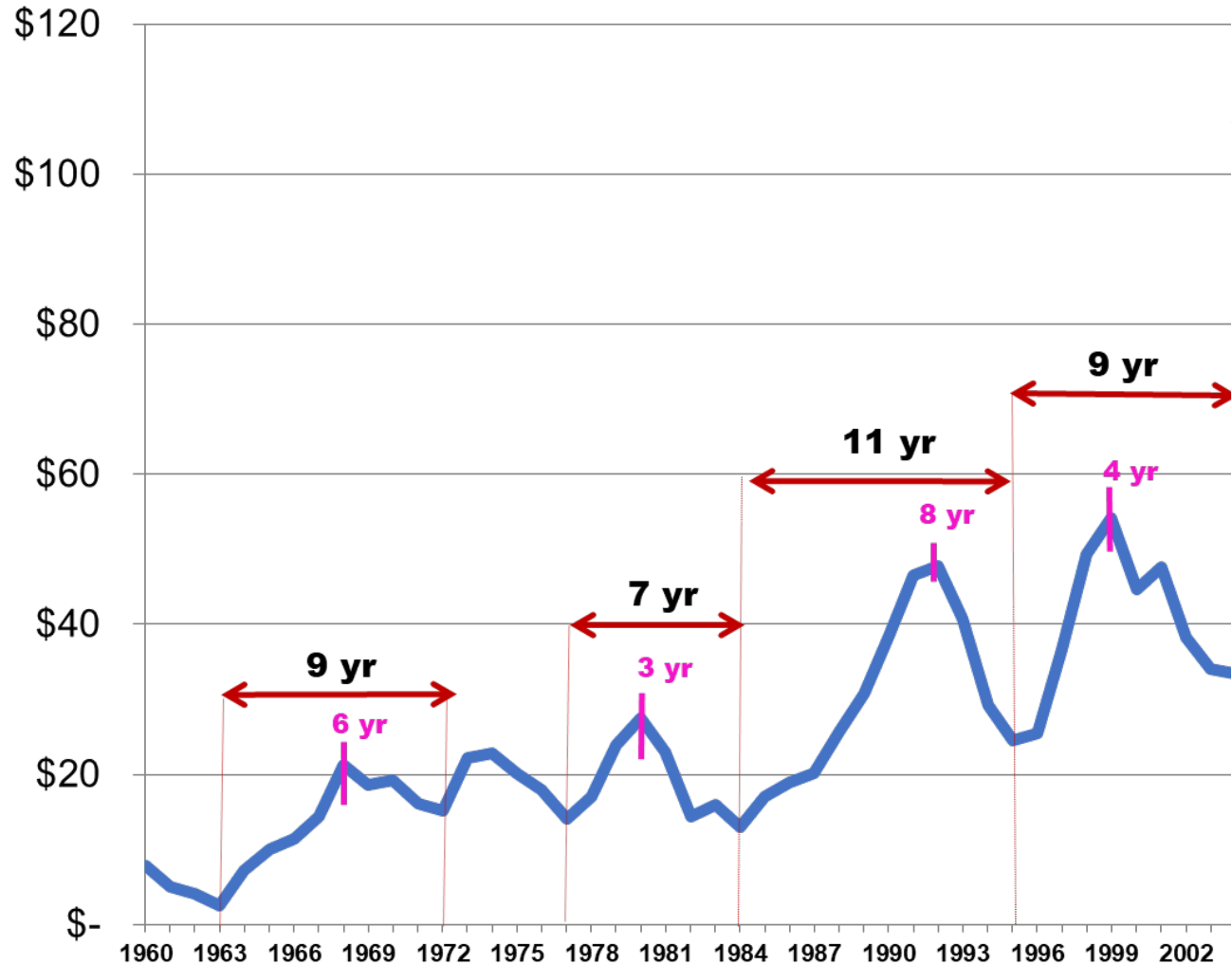
World Traffic versus Global Economic Growth 2006 - 2017



Possibilities of Downturn

Value of Deliveries - Narrowbody and Widebody Aircraft

2017\$ Billions



Possible explanations for mother of all cycles

- **Period of high oil prices**
- **Period of low interest rates**
- **New airplane type phenomenon**

- **New players in the market**
 - Airlines
 - Lessors
 - Manufacturers

If there is a bubble – how can it burst?

- **Traditional way**
- **Interest rate rise**
- **China**
- **Middle East**



Old fashioned economic recession

**Old fashioned policy mistakes
(aka trade war)**

Interest rate rise

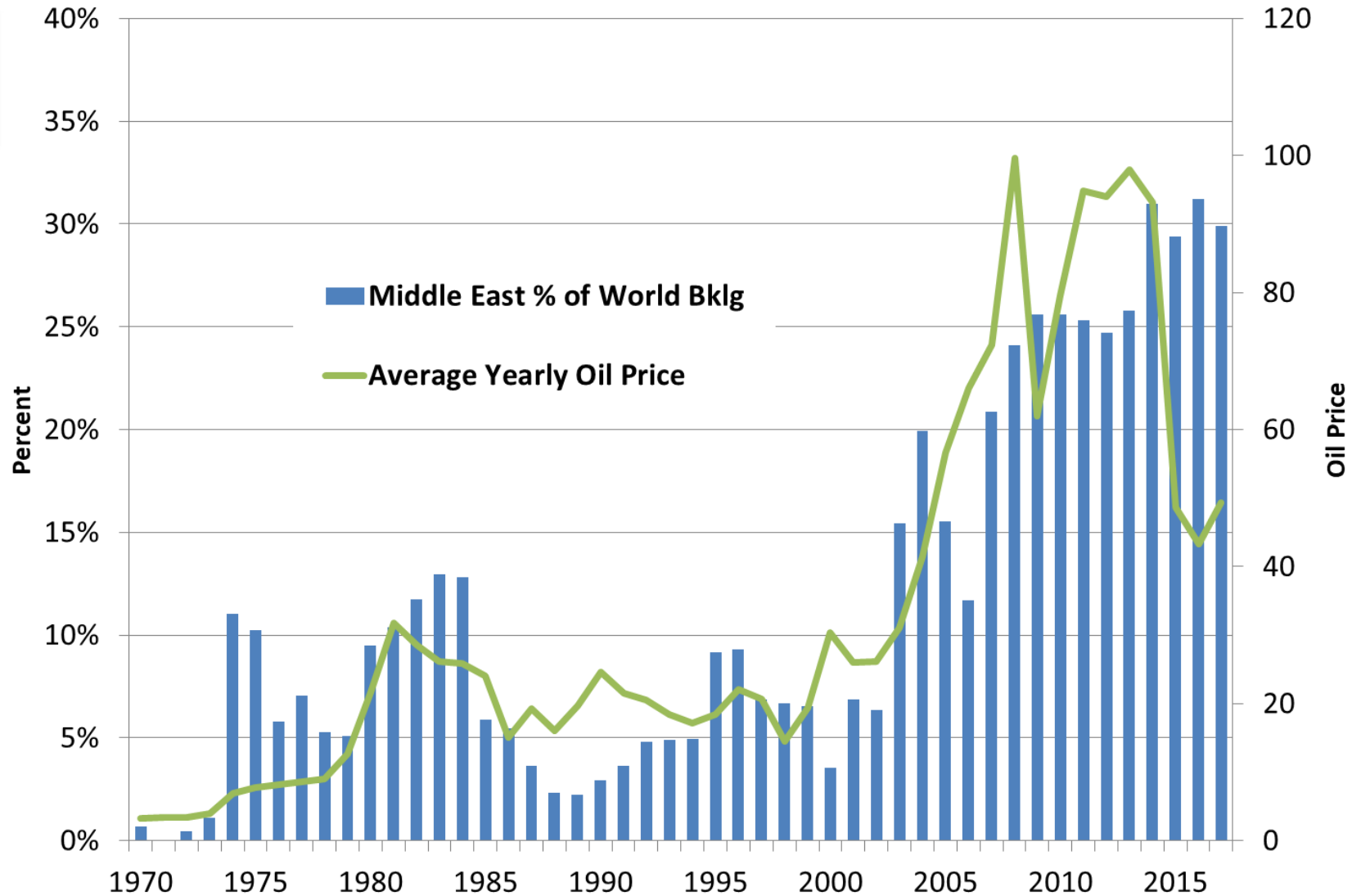
- Unknown timing
- Could affect lessors, LCCs, others who financed short term at low rates

- **Important elections happened in October**



Middle East Percent of World Backlog and Oil Prices

Correlation
Coefficient
83%



Globalization & Impact on Suppliers

Globalization

- **Under attack**
 - Essence
 - Move resources where their productivity highest
 - Nirvana for economists
- **Increases in competition, worldwide efficiency**

Opposed by losers of competition



**Unconstrained competition may lead to
too much market power**

■ Airlines

- How many new successful airlines were established in the US in recent times?

■ OEMs

- Vertical integration
- Boeing/UTC.....
- Potential for serious conflicts

OEMs – Supplier Relation

PARTNERING FOR SUCCESS

Lords and Vassals?

■ **Big Questions**

- How can you make big money in services?
- Buy suppliers or reduce costs?
- Replace suppliers/do work in-house
- Who owns data?
- How to create value?



Airline Situation

■ **Airline situation**

- Profits – dominance of North America
- Oil prices not a very big factor in future
- Labor costs will be going up
- Support for state owned airlines may diminish in future
- Political tensions/xenophobia not conducive to air travel

- **Situation great now but clouds are forming**
- **Cyclicalities is not over, possibility of downturn quite high**
- **More pressure on suppliers**
- **Increased uncertainties**
- **Aviation still wonderful in the long run**





