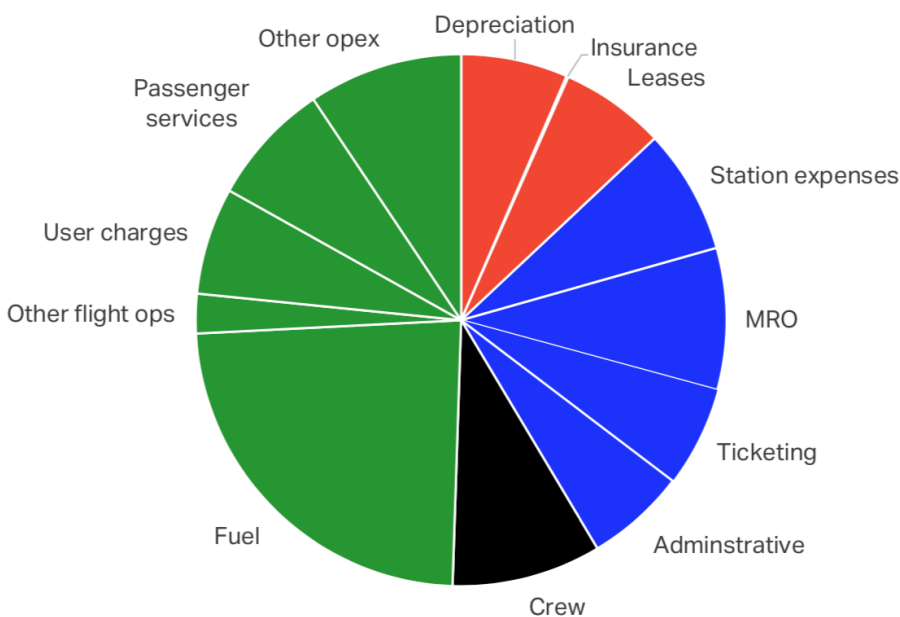


Cash burn of \$61 billion...in the next 3 months! \*1)

According to the International Air Transport Association, the airline industry will burn cash at an unprecedented rate of 20 billion dollars monthly in the current quarter. By end of Q2 2020, airlines would have lost about 61 billion dollars in cash. However, these figures require a closer look at the underlying contributors.

The cost structure of the airline business is unique, with a cost split of about half variable as well as fixed, semi-fixed and crew-related cost (during normal operations):



The outlook by IATA concerning revenue and cost for April – June 2020 includes the following assumptions:

1. Revenue Passenger Kilometers (RPK), Cargo & Ancillaries down by 68% (YoY: Q2 2019 → Q2 2020)
2. Variable Cost will follow lower RPK and reduced number of flights: minus 70% YoY
3. Crew Cost can be partially compensated (pay cuts & unpaid vacations/furloughs): minus 33% YoY
4. Semi-fixed Cost can be partially compensated by overhead cuts: minus 33% YoY
5. Fixed Cost remain on the same level YoY
6. The largest cash loss contributor in Q2 2020 will be a potential cash refund of tickets sold for flights April – June (prior to COVID-19), which are or will get cancelled throughout this period.

This cash position of prepaid tickets does not affect the profit statement of the airline, but the working capital in the balance sheet (liabilities). It is the main reason, why many airlines introduced flexible re-booking conditions, that allow passengers changing to later flights (in some cases until 2021) at no extra cost (even for non-flex ticket fares). This flexibility enables airlines to temporarily retain cash from pre-paid tickets and mitigating an uncontrolled outflow of liquidity. Like measures to contain the spread of the Corona virus, airlines are trying to flatten the curve over time (prolonging the cash losses). Hence, the total cash burn for Q2 2020 could be lower than estimated, depending on the effectiveness of managing ticket refunds.

The simplified analysis shows the disruptive magnitude of the COVID-19 crisis for a business model, which relies on large investments, high fixed costs and market volatilities (fuel prices, demand). From a P&L point of view, the airline industry is about to face a historic net loss of 39 billion dollars in Q2 2020. Back in Q2 2019, the industry recorded a net profit of 7 billion dollars.

In \$	Q2 2019	Q2 2020
Revenue	210'000'000'000	67'000'000'000
Variable Cost	(98'000'000'000)	(29'000'000'000)
Crew Cost	(18'000'000'000)	(12'000'000'000)
Semi-fixed Cost	(57'000'000'000)	(38'000'000'000)
Fixed Cost	(13'000'000'000)	(13'000'000'000)
<b>Operating Profit</b>	<b>24'000'000'000</b>	<b>(25'000'000'000)</b>
Depreciation	(13'000'000'000)	(13'000'000'000)
Tax & Interest	(4'000'000'000)	(1'000'000'000)
<b>Net Profit</b>	<b>7'000'000'000</b>	<b>(39'000'000'000)</b>

The Center for Aviation Competence will monitor this development in Q2 2020 and providing updates concerning the financial implications to the aviation industry.

Link: <https://www.iata.org/en/iata-repository/publications/economic-reports/covid-19-cash-burn-analysis/>

\*1) COVID-19: Cash burn analysis Q2 2020 by IATA, 31.03.2020