

European airlines in 2023:

Review and outlook

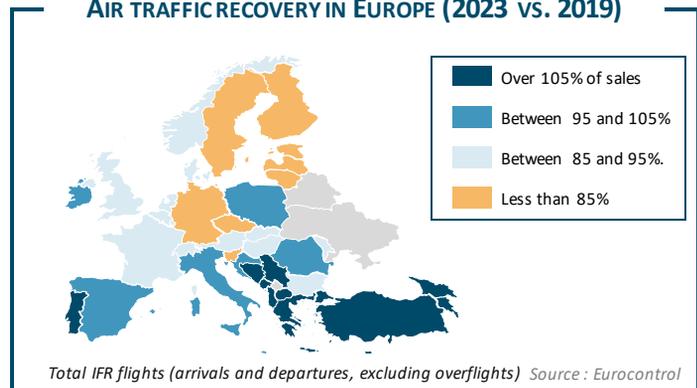
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A photograph showing the wing and engine of a commercial airplane in flight. The wing is white with a blue stripe along the leading edge. The engine is large and white. The sky is a mix of blue and orange, suggesting a sunset or sunrise. The clouds are thin and wispy.

BUSINESS REVIEW 2023

- 2023 will see **European air traffic return to near-normal levels**, with a marked difference between southern European countries, which have benefited from **strong tourist flows**, and northern European countries, which are **struggling to recover their traffic levels** (high modal shift, «flight shame», lower penetration of low-costs)

AIR TRAFFIC RECOVERY IN EUROPE (2023 vs. 2019)



- Throughout the year, European airlines continued to **increase their capacity**, adapting their schedules to unforeseen events (e.g. ATC capacity):
 - This **low-cost offering has been recovered and even surpassed by** operators such as Transavia, Ryanair and Wizz Air, who have resumed base openings and created new routes
 - **Legacy airlines' offer is still lagging behind**, but has nonetheless improved over the year, with **denser services to certain destinations** (e.g. North America) and the **reopening of routes to Asia, particularly China**
 - **High load factors**, close to those of 2019, averaging 88% in July/August
- **Passenger mix still lags behind pre-COVID levels, showing signs of a new travel trend:**
 - **Fewer business trips** (estimated at 80% of 2019 levels), increasingly in economy class or on low-cost carriers
 - The development of a new category of business class customers, particularly on long-haul flights, attracted by new product and fare offerings

2024 OUTLOOK

- The year 2024 should complete the return to normal for European airlines and offer a number of **opportunities to consolidate traffic:**
 - Development of **new offers or seasonal destinations in line with renewed customer expectations** (e.g. music tourism, destinations promoted by influencers)
 - **Adapting the business offer to new behaviors**, with innovative products and more attractive fares (business class generates nearly 75% of airline profits)
- In addition to the risks associated with the economic and geopolitical environment, which could have an impact on their business, the increase in capacity offered by airlines, stimulated by good load factors, could **increase competition between airlines and impact ticket prices**

BUSINESS REVIEW 2023



- In 2023, European airlines will have achieved a **record year in terms of profitability**, with an estimated overall net profit of **7 billion euros**, generated largely by :
 - Ticket prices continued to rise (+10% vs. 2022, +30% vs. 2019)
 - Kerosene costs well below 2022 levels in the first half of the year, but rising again in the second half (approx. 15% over the year)
 - Efforts to control costs in an uncertain, inflationary environment
- The profits achieved, combined with the capital-intensive operations carried out by certain players (sale of LSG Sky Chefs by Lufthansa, investment by the US fund Apollo in Air France - KLM's Flying Blue frequent flyer program), will have enabled us to return to a **healthier financial situation** overall, with a return to debt levels close to those of 2019, thanks to the repayment of government aid received during the COVID period
- However, this overall performance conceals major disparities between European airlines, **some of which continue to lose money** (e.g. SAS, ITA Airways), and **margins which remain low** (at an average of 3.5%), particularly compared with the better-performing American and Middle Eastern airlines (4.5% on average)
- Finally, it should be noted that the year was marked by a **decline in air freight revenues**, due to :
 - the **gradual return** of belly **cargo capacity**, leading to an increase in supply and lower prices
 - **Demand below 2022 levels** for the first 9 months of the year

2024 OUTLOOK

- The **strong economic performance** of European airlines should continue in 2024 thanks to **sustained demand**
- However, a number of **economic and geopolitical factors** could influence this trend either upwards or downwards:
 - Trends in inflation, interest rates and labor costs (impact of negotiated agreements)
 - Conflicts in Ukraine and the Middle East and their impact on consumption routes and kerosene prices

BUSINESS REVIEW 2023

- The year 2023 will have been marked by the **renewed dynamism of** European airlines in terms of **alliances and partnerships** aimed at consolidating their international networks, with, for example, Virgin Atlantic's entry into SkyTeam and the new strategic partnership between Air France - KLM and Etihad.
- The year also saw the resumption of **consolidation in the sector**, mainly around the three European majors, with several major deals in progress:
 - IAG's acquisition of Air Europa, to extend its network to Latin America
 - Lufthansa's takeover of 41% of ITA Airways, to expand in southern Europe from the Rome hub
 - Air France - KLM to acquire a 19.9% stake in SAS, to strengthen its position in Scandinavian markets
- Aircraft orders, meanwhile, will have **rebounded significantly** by 2023, reaching **historic levels for European airlines**:
 - 700 Airbus orders, compared with 180 in 2022 (including 234 from Turkish Airlines)
 - 370 Boeing orders, compared with 70 in 2022 (including 150 from Ryanair)
- Lastly, a number of transactions will have involved **strategic activities for the future of European airlines**, notably in the following areas:
 - **MRO**, with major development projects for Air France-KLM (planned cooperation with Airbus on A350 maintenance) and Lufthansa (major "Ambition 2030" development plan for its subsidiary Lufthansa Technik)
 - **Distribution**, with the gradual phasing out of GDSs and the replacement by the new NDC standard, enabling companies to better control sales and reduce costs

2024 OUTLOOK

After a particularly eventful 2023, the main challenges for 2024 will revolve around :

- The **ability of airlines to increase their product offering**, given possible resource constraints (delivery delays associated with the ramp-up of the aeronautical supply chain, maintenance work to be carried out on certain P&W engines, ongoing pilot training, etc.).
- The **European Commission is expected to rule on whether the above-mentioned proposed acquisitions** comply with the Merger Regulation, with the long-awaited case of TAP, recently put up for sale by the Portuguese government, in the background.
- The **growing importance of decarbonization, with the aim of achieving the first European mandates on SAF by 2025, at a level of 2%**.



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