GROUND SUPPORT EQUIPMENT

CURRENT TRENDS

- U.S. passenger counts have decreased more than 96 percent since March 1, 2020 as nationwide stay-at-home orders went into place.
- The global airline industry has been decimated by COVID-19 with all airlines losing revenue as global stay-at-home orders have forced carriers to cut flight volumes. The current crisis could continue to push airlines, especially smaller lines, into bankruptcy
- As of May 2020, the overall U.S. market for new and used ground support equipment is extremely weak with little to no activity as a result of airline shutdowns.

PROJECTED VALUES
(12-MONTH OUTLOOK)

DECREASING STABLE INCREASING

GORDON BROTHERS BY THE NUMBERS

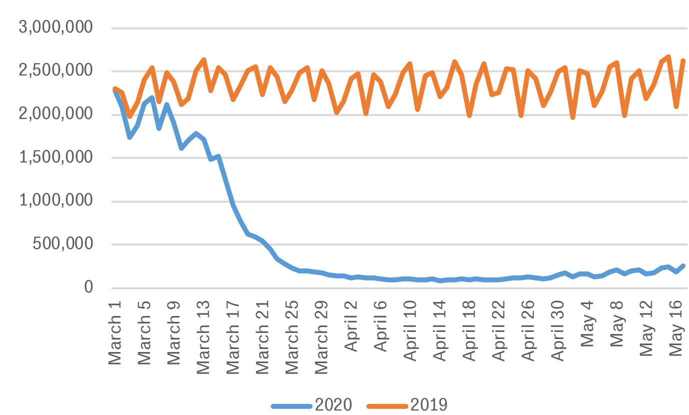
$9B

aerospace and related assets appraised & disposed

300+

aerospace and related industry appraisals completed

TRANSPORTATION SECURITY ADMINISTRATION CHECKPOINT TRAVELER COUNTS (2019-2020)



REFERENCE SOURCES: INTERNATIONAL AIR TRANSPORT ASSOCIATION, BUSINESS INSIDER, TRANSPORTATION SECURITY ADMINISTRATION

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AIR PASSENGER NUMBERS DECREASING SIGNIFICANTLY: Based on IATA data, demand and capacity plummeted amid the onset of COVID-19. Industry-wide revenue passenger kilometers (RPK) decreased by 52.9 percent year-over-year in March, the largest decline in recent history. In seasonally-adjusted terms, global passenger volumes returned to levels last seen in 2006. March 2020 saw the rapid spread of coronavirus around the world, with subsequent global lockdowns and travel restrictions. No market was untouched, although a tentative re-start emerged in the domestic Chinese market in May. Available seat kilometers contracted by 36.2 percent in March 2020 over 2019, resulting in a global load factor decrease of 21.4 points to 60.6 percent.

For North America and Europe, in annual terms, international RPKs were down significantly in March 2020, down 53.7 and 54.3 percent, respectively. For North America, the decline was approximately 20 points lower than the 34-percent decline recorded in October 2001. Similarly, South American RPKs returned to levels last seen in mid-2003. The Asia-North America market was among the most heavily impacted in March, with passenger volumes falling by 71.5 percent year-over-year. European traffic was down approximately 55 percent in year-over-year terms for March, with some countries, notably Italy, in lockdown from the start of March, and others following throughout the month. The Europe-U.S. travel ban that began in mid-March led to a 57.3 percent decline in this key market.

GLOBAL AIRLINE INDUSTRY OUTLOOK REMAINS BLEAK: In mid-April 2020, the IATA surveyed airline CFOs and heads of cargo regarding the airline business and outlook as part of its Airline Business Confidence Index. The survey confirmed the significant weakening of the business environment for the first quarter of 2020 amid the spread of COVID-19. The challenging business backdrop, including weakness in profitability, is expected to continue over the next 12 months. According to the survey, 83 percent of respondents saw their profits decline in the first quarter of 2020, representing the largest share since the October 2009 survey.

Eighty-four percent of those surveyed experienced a deterioration in passenger volumes, by far the largest share in the history of the survey, as the previous maximum was 68 percent in July 2009. Asked about predictions for the balance of 2020, 83 percent of survey respondents indicated that they expect passenger demand to diminish further going forward. This is in contrast to the trend of the past few years, when respondents had typically been upbeat about the future.

Some participants surveyed commented that the grounded belly capacity of airlines had placed downward pressure on volumes, even though demand was resilient (i.e. no-change or improvement), particularly for those that shipped medical equipment for which approximately 60 percent of respondents expect the demand to decrease in the coming year. Thirty-five percent of respondents expect cargo demand to increase, indicating that expectations are for cargo to recover faster than the passenger market.

Unsurprisingly, respondents have been significantly impacted by the pandemic and the disruption it has brought to the global air transport industry, albeit somewhat less so on the cargo (compared with passenger) side. More than one-third of respondents have seen a decline of 80 to 100 percent in bookings for May through July 2020, with a further 20 percent noting a decline of 40 to 80 percent. In response to the crisis, airlines have acted quickly to implement various cost-cutting and capacity-reduction programs. However, the proportion that have permanently reduced the size of their workforce as of April 2020 was just 10 percent as airlines first looked to temporary furloughs and government support to maintain employment levels. A majority of respondents (57 percent) currently expect to see a recovery within six to 12 months. However, a full 25 percent consider that it may take one to two years or longer for the industry to recover.

CARGO VOLUMES DECREASING: In March 2020, international air cargo demand declined by 15.8 percent compared to March 2019. Despite the significant downturn, the contraction in the air cargo market is less severe when compared to the passenger market, where volumes decreased by 52.9 percent year-over-year based on IATA data. One important differentiating factor for cargo has been the increase in transportation of high-demand products such as pharmaceuticals, e-commerce purchases, and medical equipment amid the ongoing pandemic. However, on the supply side, industry-wide international air cargo capacity declined more significantly at 24.6 percent annually. IATA also noted that, across all of the main trade lanes there has been a divergence between belly cargo and freighter capacity. Although a number of airlines have converted some of their passenger aircraft to cargo-only flights, because approximately 50 percent of cargo volumes are flown in the belly of passenger aircraft, the grounding of most of the world's passenger fleets drove a 43.7 percent decrease in belly capacity for March 2020 over March 2019.

While freighter capacity increased in all trade lanes, especially within Asia, the increases did not offset the loss in belly capacity, leading to the double-digit decline in total cargo capacity. In turn, this shortage of capacity has caused a spike in air cargo freight rates. Looking forward, the capacity shortage is likely to be temporary, as the belly capacity gradually returns to service and the impact of the global recession reduces demand. Overall, the World Trade Organization estimates that cargo volumes could decline by between 14 and 31 percent in 2020.

SECONDARY MARKET FOR GROUND SUPPORT EQUIPMENT IS EXTREMELY WEAK: Despite a stable market prior to the COVID-19 outbreak, the overall U.S. market for new and used ground support equipment (GSE) has been negatively impacted on a significant basis by the pandemic and resulting economic crisis. A large portion of the ground handling industry has already been negatively affected, as airline passenger traffic plummeted and demand for ground services declined. A good portion of the industry has essentially been put on hold as most commercial airlines have a majority of their equipment parked and idled due to the lack of air travel. Currently, commercial airline companies continue to cancel flight schedules, reducing their number of flights and the direct need for GSE and its services.

However, market research also indicates that other opportunities have arisen in the absence of passenger travel, such as the escalating importance of cargo used for consumer goods, pharmaceuticals, and medical supplies. Many airlines have begun using passenger aircraft to transport cargo, providing work to a portion of ground service providers. Private airline companies, which by comparison have been impacted less severely by air travel reductions, have also provided a source of ongoing work. Nevertheless, as a whole, current activity for the industry has decreased to levels that do not support stability within the GSE industry or the secondary markets for used equipment. Furthermore, the outlook is uncertain without the ability to predict how the continued shutdowns or future changes will affect the supply of used equipment or the demand for either used or new.

As of May 2020, many airline companies remain in a holding pattern on the stability of their company or disposition of their assets. The lack of demand for ground support equipment will likely continue for some time, while the secondary market may transition from stagnant to busy, but values will be at some of their lowest levels. Future liquidations are to be expected, and there will likely be many instances where equipment can no longer be sold due to the continued lack of demand.

The Expert: Kreg Guran

Kreg Guran is an expert in the field of machinery & equipment valuation. He has directed hundreds of commercial and industrial valuation projects across a wide range of industries during his 20+ year career. Prior to joining the firm, he was a senior manager at AccuVal-LiquiTec, which was acquired by Gordon Brothers in 2015. Read his full bio [here]