SH&E International Air Transport Consultancy

Rationale and Likelihood of Consolidation: How might Airport Operators behave?

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Handling the Business

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Today's Presentation

- The Rationale for Consolidation
- The Likelihood of Consolidation
- Airport Operator Behaviour and Ground Handling Economics
- Conclusions

The Global Ground Handling Industry

- Three years ago, SH&E conducted a survey of ground handlers
- Our sample of household names, represented only about 9% of the global ground handling business
- While this situation has changed with acquisition activities of the major independents, we believe that the industry is still very fragmented:
  - global third party handlers
  - airlines self-handling and undertaking reciprocal handling
  - smaller (local) ground handling companies, often in Joint Venture with a major player
  - airport operators

The industry is ripe for consolidation

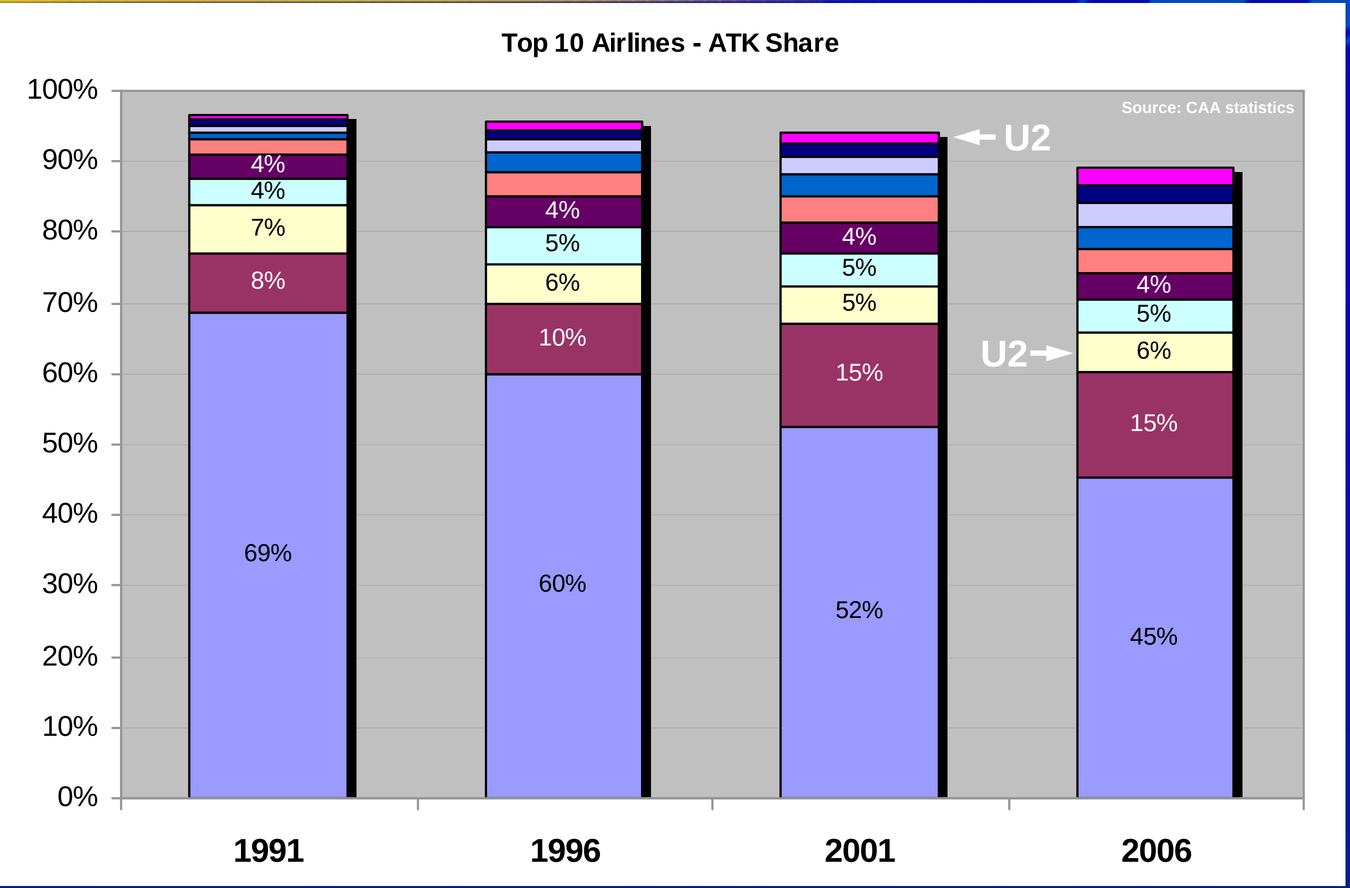
Why should the Industry consolidate?

- The small collective market share of the leading players
- Outsourcing/disposal of ground handling activities by airlines as they seek to reduce costs or simply to generate cash to survive
- Regulatory change to ensure the provision of cost effective and quality ground handling services in support of other liberalisation measures
- Airline alliances (to be followed any decade soon by cross-boarder mergers/acquisitions) changing buyer behaviour
- The exit of the industry of some investors, given the relatively poor profitability of the industry

But will the Industry consolidate?

- Most other industries do consolidate over time
  - e.g. automobile, pharmaceutical, banking
  - but there are exceptions such as the UK airline industry!

The ATK share of the top-ten UK airlines has fallen steadily over the last 15 years



- The Top 10 share has dropped from 97% to 89%
- The Top 5 share is down from 91% to 74%

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But will the Industry consolidate?

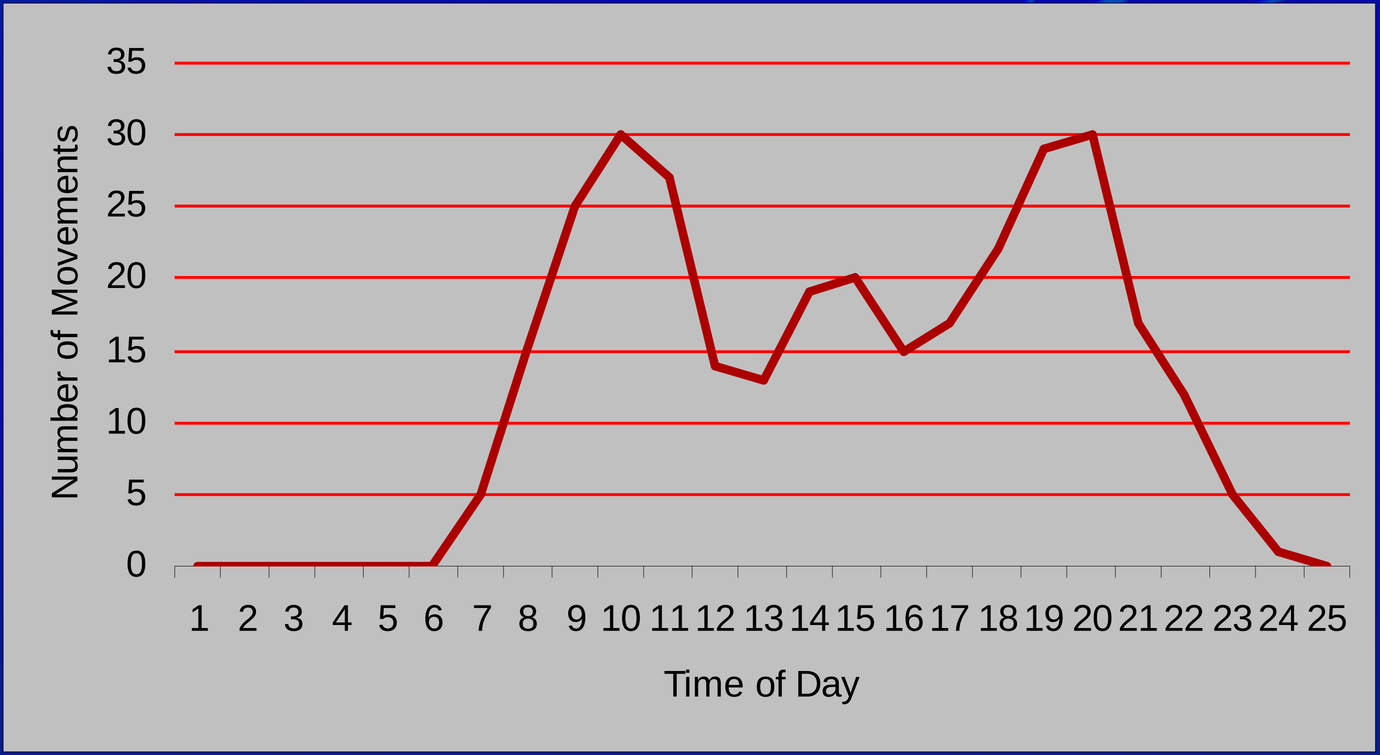
- Most other industries do consolidate over time
- The majority of airlines face financial challenges, so the disposal of remaining handling activities over time can be expected
- The lead by the European Commission to open up ground handling is being followed in other countries
  - this could though lead to some further fragmentation in the short term as monopoly positions are broken up
- Buyers of ground handling services (i.e. airlines) would probably encourage and welcome consolidation
- Private Equity investors may seek to exit the industry

The factors favour consolidation

How will Airport Operators behave?

- Some have legal obligations over the provision of ground handling services
- Some will wish to continue to provide ground handling services for strategic or tactical reasons
  - to ensure provision of services (important at small airports)
  - to ensure the provision of services during changes of other third party handlers
  - to ensure the provision of low-priced services
- Most airport companies will at some time review their involvement
  - ground handling generally performs poorly and may well dilute an airport's overall level of profitability

The economics of Ground Handling: a simple illustration



316 movements to be handled

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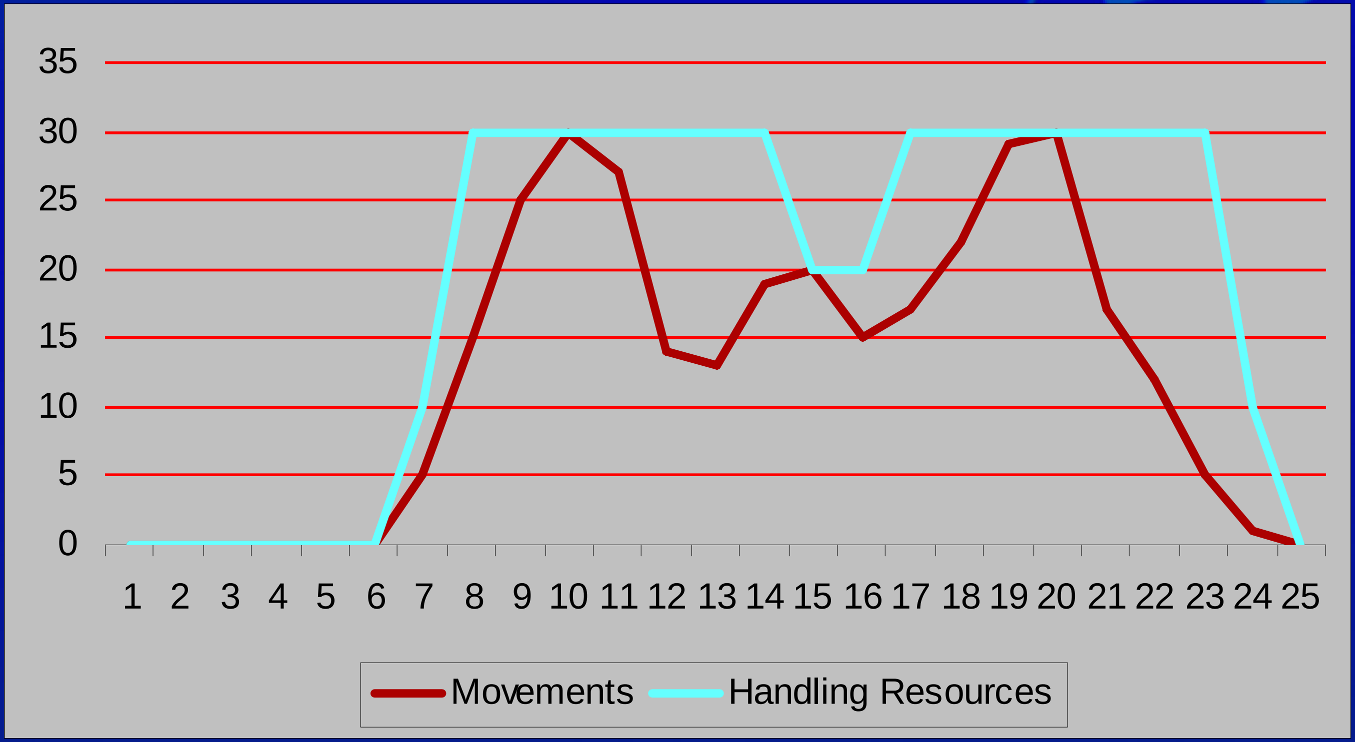
The economics of Ground Handling: a simple illustration



316 movements to be handled
480 Unit Handling Resources needed

Assumes a single handler, staff work 8 hour shifts

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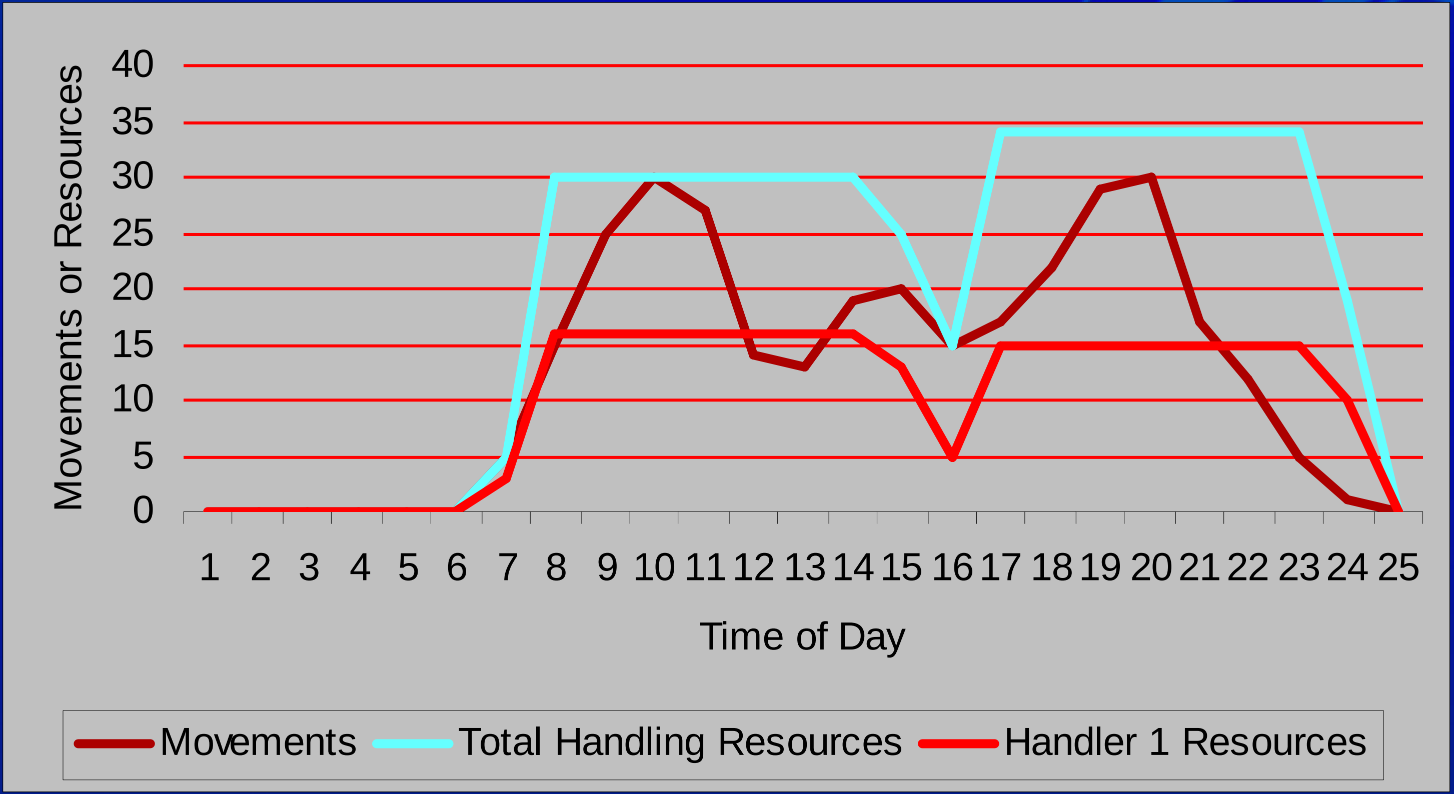
The picture changes with two handlers…



316 movements to be handled, but
512 Unit Handling Resources now needed – 6.6% more

With contracts won, Handler 1 is more efficient

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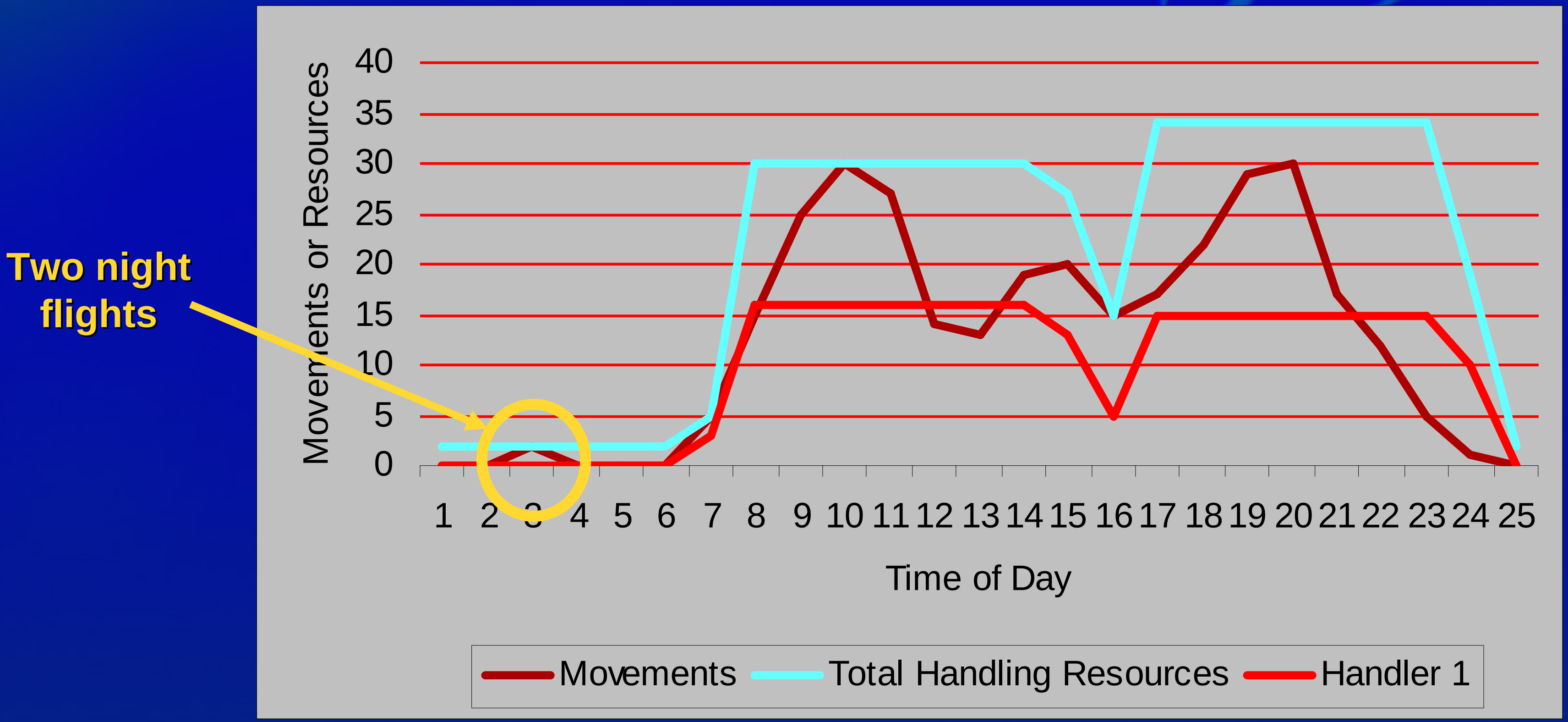
…while adding two night flights decreases efficiency further



Only 2 extra movements to be handled, but 528 Unit Handling Resources now needed – 10% more

Handler 1 is assumed to decline the night contract

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Who would be under more pressure to accept an inefficient contract?

- Independent Handler
  - Corporate pressure to handle global client
- How likely are global airlines to operate in the middle of the night in Europe?
- Airport Operator
  - "We cannot turn down traffic"

The night flight example may be extreme, but it does illustrate a dilemma which could face an airport operator providing ground handling services

Conclusions

- The ground handling industry continues to live in a Data Desert
- However, the current structure is highly fragmented
- Several factors point towards greater consolidation
- Some airport operators currently providing ground handling services will choose to dispose of these operations

although…

- There are several reasons why they may opt or be required to continue with this activity

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