

M&D WATCH

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AEROSPACE INDUSTRY VALUE CREATION MARKETING CHANGES MUST STIMULATE OPPORTUNITIES FOR GROWTH

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Despite the last decade of economic uncertainty, it has become clear that commercial airlines and business jet manufacturers must continue to reinvest their accumulated earnings or risk being overtaken by both existing and new competitors. This increased investment will ultimately create value throughout the aerospace industry at all levels of the supply chain.

The decline in fuel prices combined with low interest rates and a forecasted increase in passenger demand have given aerospace transportation companies an opportunity to create tremendous value. The main question facing the executives of these companies is not whether to invest, but where to invest, putting suppliers throughout the supply chain on notice for increases in production. We see two investment options that can help the aerospace industry create the value the world needs - capital projects and experience enhancement.

Investing in Capital Projects

Investment in capital projects consists of improving the actual aircraft, enhancing size, speed and/or fuel efficiency.

Size

In October 2007, the Airbus A380 entered commercial service on a Singapore Airlines flight from Singapore to Sydney. The A380 is the world's largest passenger aircraft with seating for more than five hundred passengers in the traditional three-class cabin configuration on two full decks. Though its size is impressive, the returns on Airbus' income statement have not been – the project has still not broken even (it is expected to do so at some point in 2015). Airbus is working to create value by matching forecasted demand, which will create a need for larger aircraft and a big payoff for the company in the future.

Speed

Currently, the fastest non-military aircraft fly between 500mph and 700mph. The Aerion Corporation is looking to create a business jet, the AS2, which would make a flight across the Atlantic Ocean almost twice as fast. The AS2 would be a trijet with a maximum speed of Mach 1.5 (greater than 1,100mph). A majority of air travelers fly to reach a destination, so the speed with which companies can get a passenger from one place to another will always be a valuable asset.

Fuel Efficiency

Many aircraft OEM (original equipment manufacturers) are in the process of releasing new aircraft that are significantly more fuel efficient than their predecessors. Boeing has created the 787 Dreamliner, 737 MAX family and 777X family, and Airbus has created the A320neo and A330neo families. All of these aircraft were designed to significantly reduce fuel costs, which have consistently been the largest for commercial airlines. Private jet manufacturers, like Dassault with the Falcon 5X, have also joined the fuel efficiency party. The timing could not be better, as the United States Environmental Protection Agency (EPA) recently announced that it will implement environmental standards for aircraft emissions similar to those

that went into effect in Europe in 2012. Between the decline in fuel costs and these EPA changes, now seems like the perfect time to invest in fuel efficient aircraft to help combat potential future fuel cost increases.

Investing in Experience Enhancement

Investment in experience enhancements means improving ancillary offerings that help customers have a more enjoyable experience while traveling, including airport renovation and in-flight entertainment.

Airport Experience

Having a gourmet meal in an airport was unthinkable ten years ago. Not only has OTG Management and its competitors added unique dining experiences in airports throughout the United States and Canada, they have built up the technological infrastructure. Terminals at JFK, LGA, EWR and other airports are furnished with thousands of Apple iPads that can be used to check flight status, access the internet, purchase food and gifts from concessions, and play the lottery, among the many activities available.

In-Flight Experience

The days of broadcasting a single show or movie to the entire cabin on a centrally located television are over. Now, companies like LiveTV (a subsidiary of Thales Avionics) have created passenger entertainment options that range from satellite television to wireless internet. This type of in-flight entertainment is no longer a premium option, as even low cost carriers, like Southwest Airlines, have added these in-flight options.

Though gaining in importance, the airport and in-flight experiences may not be the first priorities for customers when they decide to fly. However, the subconscious benefit from the comfort that these experiences provide is significant.

Record profits for commercial airlines have provided a unique opportunity for the entire aerospace industry, one that its participants must not overlook due to increasing competition. In addition to historical competitors like rail, auto and marine transport, cutting edge technology promises to introduce other means of transportation which will compete directly with companies in the aerospace industry. As global competition increases throughout the transportation sector, it is imperative that companies continue to innovate to create as much value as possible.

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