

Check 6 with Accenture - Will Aerospace Make Money in 2023

AUDIO TRANSCRIPT

00:07 - 01:47

Michael Bruno

Hello and welcome to Aviation Week's Check six with Accenture. I'm Michael Bruno, executive editor for business at Aviation Week. When will the supply chain recover? Is it ever going to recover? Is the commercial aerospace market recovery on track? Ahead of the game, behind schedule? Does anybody know? How about the airlines? How are they doing and the aftermarket? Will the aftermarket business maintain its elevated level?

Rising interest rates, inflation, ongoing war in Ukraine. There's so many questions, so many questions hitting this industry. And if all of that wasn't enough, what really keeps executives up at night? So many questions today, bouncing around the aerospace and defense sector from quarterly earnings reports to industry conferences. Stakeholders are trying to figure it all out and trying to figure out where the marketplace is going.

On the heels of the COVID 19 pandemic, which, if you didn't know, caused the worst downturn in commercial aviation history, industry faces a whole new set of headwinds and questions. Accenture's latest Commercial Aerospace Insight report. First released to Aviation Week and now to you too, provides one of the industry's most comprehensive surveys on all of these issues and more.

Today, I'm delighted to get a chance to discuss the fresh findings with two longtime friends of Adweek, John Schmitt, Accenture's Global A&D Lead, and Jeffrey Wheless, Global A&D Research Leader. John, Jeff... As always, thanks for coming again and providing new data about the topic that's on everybody's minds. Welcome.

01:48 - 01:50

John Schmidt

Thank you, Michael. It's great to be here with you again.

01:51 - 01:53

Jeffrey Wheless

Thanks, Michael. Great to be here.

01:54 - 02:20

Michael Bruno

So, gentlemen, I want to start with Accenture's Commercial Aerospace Insight Report's latest findings. This was a surprisingly meaty set of results, in my opinion. The last time we talked in the fall, the summer edition of the survey illustrated cautious optimism for the market going into this year. Okay, well, here we are, a third of the way through 2023.

So, John, how do executives feel about the recovery at this point?

02:21 - 02:57

John Schmidt

Well, thanks, Michael. Let's start with the data. The OEMs recorded significantly improved results in 2022 with the commercial aircraft business year on year revenue growth of 15% for Airbus and 33% for Boeing. You know, I've heard it said that the trend is your friend and that is indeed what we have now in aerospace. For instance, three quarters of the executives are anticipating higher deliveries of their commercial aerospace products in 2023 over last year.

We see similar responses for the aftermarket with the majority of executives anticipating more growth in 2023 and continuing on into the future.

02:58 - 03:04

Michael Bruno

All right, Jeff, what is Accenture seeing when it comes to commercial aerospace revenue growth in 2023?

03:05 - 03:54

Jeffrey Wheless

Well, Michael, our team predicts that revenues are going to grow 14% this year, which is great news. It means we're finally starting to get really close to reaching 2019 levels and we expect to hit those levels in 2024, which lines up with what we predicted in our last Insight report from six months ago. And we're feeling really optimistic about the future of the industry.

And as John mentioned, our positive outlook is backed by healthy OEM commercial revenues and the MRO market is healthy. Everyone's scrambling for parts to meet maintenance demand. And in addition, executives we surveyed are expecting increases on both narrow and wide body deliveries. Two thirds of executives we surveyed anticipate those deliveries to be higher than last year. So things are looking up for the industry and we're excited to see what the future holds.

03:55 - 04:19

Michael Bruno

That's amazing, gentlemen. So trend is your friend. Absolutely. 14% growth. That's a that's that's very eye catching to me. So, John, that's the manufacturing side. What about the airlines? There's always this question of profitability, which for everybody who follows this industry knows historically that is not the case. So what do you think is happening there with the airlines this year?

04:20 - 05:00

John Schmidt

Well, based on our survey results, most of the executives are optimistic about the industry's coverage. Half the executives expect airline revenues to take between 12 and 24 months to recover to 2019, but over a third expect to reach 2019 levels within the next 12. So that's a good sign that there's more optimism coming through. And if we look at RPK is meaning revenue passenger kilometres, we're expecting them to increase by 21% year on year in this calendar year.

And with airline industry profitability forecasted to be around 5 billion in 2023, we've seen a 7 billion loss in 2022. Things are definitely looking better. So despite the risks, the industry is cautiously optimistic about the airline's future.

05:01 - 05:30

Michael Bruno

It's amazing. RPK is 21% increase. I mean, I know we're coming off of the pandemic, but that's a pretty proud number. I think industry is chasing there. Jeff, we hear that, you know, commercial air travel still isn't quite synchronised around the world, though, especially coming out of the pandemic. Does the Accenture Commercial Aerospace insight report provide any, you know, insight into how air traffic looks regionally or even nationally?

5:31 - 06:23

Jeffrey Wheless

Well, maybe that's a complicated question. And overall, things are looking up. You know, in aviation, when it comes to passenger traffic and for example, if we look at 2022, as John mentioned earlier, we're looking at 2023 to be an increase. But last year globally rose 65% in terms of RPK. That's a pretty lofty number. And then if we look at the load factor that rose by almost 80% year over year.

And what's more impressive is that these results are achieved despite a lot of unfavorable economic conditions that that we're all familiar with. And you brought up at the beginning of today's podcast. And however, despite that progress, aviation is clearly still on a journey to full recovery and folks are eager to travel again. And the Asia-Pacific region in particular is starting to see really strong international travel growth.

06:25 - 07:02

Michael Bruno

Yeah, Asia Pacific, I think we've all been waiting on that region to come back because it was always going to be a major growth factor before the pandemic. And it's probably even more important now. So let's keep on that topic for a moment. John, since we mentioned Asia Pacific. I got to ask about the C-919 and COMAC formal entrance into the commercial aerospace marketplace.

Here we are after so many years of of waiting and expectations and it's it's finally here. So this is the first Accenture survey since COMAC delivered the first C-919. Did respondents say anything about that?

07:03 - 08:22

John Schmidt

But it's also the first time we specifically asked questions around COMAC in the survey and the answer to that question is

yes. In fact, across North America and Europe, I've had discussions about the potential of this aircraft outside of China, you know, many times and with many clients. And as of now, I think most of us expect to C-919 impact to be in the local Chinese market, at least in the near term.

Having said that, what I found interesting is the ecosystem that's starting to grow around the C-919 and more broadly in the region, I would say, of just China. We were actually surprised by what the executives told us because we expected a negative view of COMAC and its early stage growth. But instead what we got were executives who were overwhelmingly positive about the impact of COMAC growth in the Asia-Pacific aerospace ecosystem, from supply networks to new supplier development, aerospace talent, digital talent.

Most seemed think that this could be a catalyst that could transform Asia Pacific into a hub for talent and new capabilities for the industry. And that opens up opportunities to drive efficiency and sustainable growth for the global industry. So aerospace companies really need to keep and consider the shift and the potential impacts on strategies. And the executives we surveyed told us they're doing just that.

So sum it up. COMAC's Progress is definitely something to keep an eye on.

08:23 - 08:39

Michael Bruno

All right. So a lot of positive comments I'm hearing from you gentlemen so far, But we have not talked about the supply chain yet. So are rising interest rates and the many effects it's having on the financial system. We're going to dive into those subjects next. But first, let's hear a word from our sponsor.



08:40 - 08:58

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08:59 - 09:29

Michael Bruno

We're back with John Schmitt and Jeff Wheless of Accenture talking about the latest findings from the Accenture Commercial Aerospace Insight Report. John, as I tease before the break, we must talk about the supply chain. In late April, we started hearing first quarter financial reports from the large OEMs and defense brands. And supply chain was probably the single biggest issue discussed anywhere.

What is Accenture Survey of Aerospace and defense executives say when it comes to any supply chain recovery?

09:30 - 10:34

John Schmidt

In a word, and for the first time in a long time optimism, industry executives are optimistic that suppliers are going to be able to meet or exceed delivery expectations in the medium and long term. On the other hand, there was a dip in short term confidence with a third of executives expressing concerns about the timeliness and quality in the next six months.

Nonetheless, aircraft manufacturers and of commercial side have options to address supply chain challenges. There's vertical integration, closer collaboration with suppliers and then, of course, potential for mergers and acquisitions. Having said that, according to our survey, most executives do not anticipate major supplier consolidation events in the next 18 months, and nearly 80% predict little to no impact.

And only a fifth planned to take significant actions to consolidate their supply chains.

So as OEM expectations increase with rising demand, supply chains will eventually start to catch up. And we're counseling our clients to remain vigilant and to continue to take proactive steps to address disruptions as they occur.

10:35 - 11:09

Michael Bruno

All right. So that is kind of amazing optimism, as you said it definitely in a mid-term outlook. And I will say that matches our own reporting here at aviation Week, where we're hearing a lot about this is the year of recovery. And 2024 is really when OEMs and primes are really starting to see. But I want to come back and reiterate, as you said, John, there is some near-term disruption, challenge, increasing challenges and headwinds that that people are noticing and commenting on.

So, Jeff, is any of this dampening the revenue outlooks?

11:10 - 12:00

Jeffrey Wheless

Well, Michael, indeed it is. And I think it's very much a story about could the growth be even stronger and the supply chain challenges hindering that. So industry leaders are continuing to express concerns about supply chain continuing until into 2024, engine shortages, raw material shortages, semiconductor shortages, even collar shortages are contributing to a broad supply chain challenge that that is effectively constraining the revenue growth.

We see that now. That said, when we asked folks about their growth, 85% said that they anticipated their revenue growth increasing in the next 24 month time horizon. So everybody's got this pent up demand that they're driving to and doing the part scramble in order to satisfy that demand.

12:01 - 12:14

Michael Bruno

All right. Well, John, I have to ask, because, you know, I'm a simple minded newsman. Is there a disconnect here between the ongoing supply chain angst and expectations of increased revenue? I mean, how do you square those two things?

12:15 - 13:00

John Schmidt

I wouldn't say it's exactly business as usual. I mean, we're actually at a turning point. You know, as a recent survey showed, two thirds of the executives believe that commercial aerospace product deliveries will stay the same in the first half of 2023 compared with last year. So the first half staying the same. It's really in the second half where three quarters of the executives are optimistic and expect deliveries to be higher at the end of the year compared to last year.

So of course we could have achieved even higher delivery rates that weren't for some of the ongoing challenges in the industry, as Jeff mentioned earlier, and which our executives indicate in the next six months, there are some concerns over quality and delivery. But we're making progress. And, you know, frankly, I remain optimistic that we can get back to 2019 levels by next year.

13:01 - 13:33

Jeffrey Wheless

Yeah, And expanding on John's point, it seems like the MRO sector is poised for a steady recovery throughout this year, thanks to increase in commercial traffic. And with the travel industry rebound and according to our survey, half of the executives were anticipating MRO spend to remain stable in the next six months, similar to the other production. But you know, we see it growing and folks are getting creative on sourcing parts to satisfy that rebuilding versus replacing.

Just looking at, you know, what can we do to get those planes through their maintenance cycles.

13:34 - 13:55

Michael Bruno

All right. Well, this brings me to one of my favorite parts about the Commercial Aerospace Insight report, because you all do this set of questions about what really keeps aerospace executives up at night and what can they do about it. So, John, with everything we've just talked about, what are executives losing sleep over?

13:55 - 14:56

John Schmidt

Well, Michael of the set of questions we ask around keeping them up at night, It's been a relatively kind of same same same situation over the last few issues of the survey. Having said that, this time, you know, it's been all those normal challenges. What we saw is kind of the expansion of concerns around exchange rates and that becoming a big factor right now.

So that's just added to those list of ongoing challenges that we identified in the previous surveys. You know, geopolitical tensions continue to be a concern, you know, and whether these headwinds and prepare for growth, I mean, to do both of those things, the OEMs are going to need to focus on meeting airline customer expectations and they're going to need to continue building collaborative ecosystems.

You know, it's important to invest in talent and continue focus on digital technologies. They're going to need to continue to create strong foundation for the long term success. You know, and despite all these challenges, we've seen a positive attitude among many in the industry. And I'm certainly seeing it in my day to day conversations with our clients across the industry.



14:57 - 15:12

Michael Bruno

Well, I guess I've got to say that's kind of interesting that everybody's losing the same amount of sleep as before. So it's not necessarily worse than before, but nobody's getting any more rest. Is that a good way of looking at the overall picture?

15:12 - 15:45

John Schmidt

If we if you look at the survey results and you get down into it, what you'll see is eighteen months from now, people are expecting some of this stuff to get better, that they're staying awake and all the same things that they were staying awake on six months ago. With the extension now interest rates being the biggest concern.

So yeah, there's there's still a lot to be looking at out there. We're not out of the woods yet. That's what I think we've been sharing with all the data we've put together today. It's consistent with what you said, your reporting in Aviation Week, but we do see ourselves on track to get back to those 2019 levels in the next 12 to 18 months.

15:46 - 15:57

Michael Bruno

So no rest for the weary, but some cautious optimism about the mid-term. That's a wrap for this edition of Check six with Accenture. John, Jeff... Thank you very much for joining me today.

15:57 - 15:58

John Schmidt

Thanks, Michael.

15:59 - 16:00

Jeffrey Wheless

As always. Thank you, Michael.

16:01 - 16:19

Michael Bruno

Be sure to check out the new Accenture Commercial Aerospace Insight report. And join us at Aviation Week again soon for another edition of Check six, which is available for download on iTunes, Google Play, Spotify and Stitcher. Thank you for listening and have a great rest of your day.

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