

Instar Asset Management

Planes, change and automobiles

As the pandemic accelerates existing industry disruptors, what will the 'new normal' look like for transportation infrastructure?

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Over the past two years, the way we live our day-to-day lives has changed dramatically. From intermittent lockdowns to continued advancements in technology, we no longer have the same expectations for what connecting with people, engaging with businesses or traveling to new locations looks like. Alongside trends such as electrification and biofuels, our priorities have shifted to focus on safety, sustainability and streamlined service. To meet demand, the transportation sector has had to adapt quickly to a constantly evolving landscape.

For a better understanding of this once-in-a-lifetime experience, **Jack Bittan**, a partner with Instar Asset Management, spoke with **Steve Taylor**, CEO of AMPORTS, a Jacksonville, Fla.-based automotive services and port terminal operator, and **Benjamin Murray**, president and CEO of Skyservice Business Aviation, a full-service business aviation solutions provider with global headquarters in Toronto. The trio discussed the challenges, opportunities and path forward for smarter air and ground transportation.

The following is an excerpt of that conversation.

Jack Bittan: We've seen COVID-19 touch every corner of the world, disrupting and continuing to disrupt industries in unexpected ways. For the business-aviation industry, in particular, what trends are you seeing emerge?

Benjamin Murray: The pandemic has acted as an accelerator for the private aviation sector. From around 2009 until the pandemic, we didn't see a lot of growth in this market. Today, people are starting to think of private jets as a good investment, with the average sales price during the past months, at approximately \$8.3 million.

Adding to this trend, we are starting to see increased full aircraft ownership, with membership rates rising for fractional ownership. We forecast an estimated 10 percent compounded annual growth rate in the full-ownership sector, and this past quarter alone, we saw an increase of approximately 52 percent in pre-owned aircrafts sales over first-quarter numbers. Ultimately, we expect to see business aviation become a much bigger industry in the years following the pandemic.

Bittan: Very interesting. How much do you attribute that growth to individuals becoming active in the space versus existing smaller businesses pivoting in favor of private aviation?

Murray: It is a pretty even mix. People who were previously on the fence about using business aviation services to travel are now seeing the value and opting in, so we are seeing a massive demand dynamic right now in our charter services division. As a result, there is less inventory available than there ever has been before.

A number of entrepreneurs are also saying they be more productive and advance business with the use of a private airplane. And it's becoming a little more acceptable with shareholders for bigger corporations to use corporate jets as a transportation solution. On the cost front for us, the initial acquisition costs of the airplane and fuel were reasonably low, as were interest rates.

Bittan: Steve, between the effect the pandemic has had on customer behavior and the logistical issues around sourcing semiconductors, the automotive industry is facing a complex and changing environment. How are you seeing businesses in the automotive industry rise to face this type of compounded disruption?

Steve Taylor: It is, and it is very interesting to hear Ben talk about the aviation industry because we're experiencing a similar shift in the automotive world. Pre-pandemic, trends in technology and urbanization were leading people to buy fewer vehicles. But since the onset of COVID-19, ride-sharing and public transit options have gone down in popularity. We're seeing families buy first, second or even third vehicles. The main challenge is that the conditions that are creating this increased demand are, at the same time, decreasing available inventory and impacting shipping times.

Every business out there is doing more with less right now, particularly when it comes to the global shortage of semiconductor chips. Traditional dealer inventories, typically carrying around 60 to 70 days of inventory, are now only holding 20 to 30 days of stock, and they were unable to meet the sudden surge in demand as lockdown restrictions lifted. On the one hand, all the vehicles people want to buy are unavailable, causing the pricing to go up dramatically. On the other hand, every original equipment manufacturer, or OEM, is affected by this shortage, unable to manufacture the vehicles without the appropriate level of supply.

In response, OEMs are looking to other sectors to find new strategies and innovative solutions, including the direct-to-consumer model. Can we go from the manufacturing plant or from a port to a customer, bypassing the traditional dealer? That would be a significant shift, but as OEMs realize they need to get vehicles into the hands of consumers more quickly, standard processes are already changing.

For example, Hyundai-Kia is pursuing ecommerce via Amazon to sell their vehicles, bypassing the traditional dealer network. With some of these new approaches already under way, I don't see us going back to the level of labor we had in the past, and I really

can't see dealers finding value in storing 60 to 70 days of sales on the yards. Everyone is finding ways to do the same thing: streamline solutions for increased customer satisfaction.

Bittan: *What role do you think a business like AMPORTS plays in this post-pandemic world, where expectations for the automotive industry are upended?*

Taylor: At AMPORTS, success starts with our people. We have built a dynamic workforce that is growing and changing to meet the evolving needs of our customers, particularly around increasing expectations for technological integration. Where employees may have traditionally only installed things like a backup sensor or some floor mats, today's systems are much more complicated and require much more training, often including smart technology with functions such as lane-departure warnings or parking sensors.

As OEMs look to enhance automotive customizations, and feel pressure to streamline manufacturing and delivery for their customers, the AMPORTS team is positioned to support them and fill that role. Once the vehicle has gone from the plant to the port, we can do the rest of the work and deliver the product directly to the customer.

Bittan: *Ben, in this new normal, how are businesses in the aviation sector helping customers to adapt and thrive?*

Murray: Business aviation, at its core, fundamentally comes down to service. We aren't manufacturing anything; we are there to provide solutions. For Skyservice, we are primarily focused on how we can help reduce the cost of aircraft ownership for our customers, leveraging our own systems and networks to consolidate services that would normally require multiple contracts with various companies down to one sole provider. It improves the overall customer experience, streamlining their time, as we help them travel to more than 51 countries, as our fleet has done in the last quarter. Teams like ours can take on the complexity, managing real-time availability and dispatch, aligning our maintenance solutions, leveraging our crew and service schedules, and keeping up to date with the latest digital platforms to provide an even more seamless service.

On top of unparalleled customer service, protecting the environment and reducing our carbon footprint are also ways Skyservice looks to contribute value. We are proud to say we are the first company in all of Canada to offer our customers a sustainable aviation fuel (SAF) solution, which will reduce the life-cycle emissions by 20 percent compared with traditional jet fuel, based on a life-cycle assessment of 70 percent reduction in carbon dioxide for "Neat SAF" in a 30 percent Neat SAF/70 percent JET A-1 fuel blend.

While there is limited geographic distribution of sustainable aviation fuel right now — with the bulk of the supply being produced in California — we have also partnered with some of our fuel providers to create a "Book and Claim" program to help meet demand.

Bittan: *Very exciting and innovative developments that put the customer experience first. With that in mind, Ben, how do you predict the industry will evolve in the years to come, both coming out of the pandemic and beyond?*

Murray: With all the buzz surrounding electric vehicles, you can rest assured that electric airplanes are on the horizon. We also believe in the eVTOL, the electric vertical-lift solutions, which will essentially function as a drone in the air. There will be opportunities

for companies to own, operate and provide after-market support to help maintain the airworthiness of the electric-lift aircrafts.

In terms of our existing aircrafts, we are seeing a lot of improvement around satellite-based in-flight technology, ranging from enhanced wi-fi and satellite access during commercial travel to sharing vital information about the aircraft's health to our maintenance professionals before the end of the flight. Leveraging new technologies, we can improve efficiency and customer experience, streamlining repairs by having the necessary parts onsite and ready to go.

Biofuels are another great area of opportunity for the sector, making sustainable travel more accessible for our customers. While the biofuel technology itself is ready, we're likely to see a push around developing the best production, storage and distribution practices.

From the passenger perspective, biometric scanning is likely to change the full travel experience, from booking to landing. Facial recognition provides new opportunities to make journeys hassle- and worry-free.

Bittan: *That's wonderful to hear, considering how excited we all are to get back out there. Steve, how are things looking for automotive?*

Taylor: For us, electrification is less likely to be a factor because we are not directly involved with what goes on inside the engine. Instead, our team will continue to install the add-ons and smart safety features to the vehicle.

That being said, when the industry makes the shift to autonomous vehicles, there could be a very significant change in the way our business operates. As things work today, we need labor on site to physically move the vehicles from place to place. Autonomous vehicles would eliminate that step, allowing us to call the vehicle into the shop remotely. Our technicians stay in one place, do the work required, and could then instruct the vehicle to drive itself back home.

Overall, the pandemic shook things up and forced us to reflect on our organizations and how we operate. With technological advancements emerging at an extraordinary pace, training a skilled workforce that can keep up with customer demand, as well as the new, complex technology, will be key for success as the transportation sector looks to the future.

ABOUT INSTAR ASSET MANAGEMENT

Instar Asset Management is an independent alternative-asset management firm focused on North American middle-market opportunities in the infrastructure sector and other alternative real asset categories. Instar's growing footprint spans North America with a diversified portfolio of companies that deliver essential infrastructure services and value to communities, partners and investors, helping us to fulfill our purpose of enriching people's lives.

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