



Understanding the sector impact of COVID-19

Aerospace & Defense

In commercial aviation, companies are experiencing disruption in production and slowing demand as workers go home, passengers stop traveling, and customers defer delivery of new aircraft. Demand for spare parts is also down since less maintenance is currently required. Aircraft manufacturers are capital intensive by nature, thus raising short-term concerns about cash flow and liquidity. On the defense side, contractors are better positioned, since they will not feel the impact of COVID-19 in the short- to mid-term. While production may slow for the same reasons as in aircraft manufacturing, demand over the next two years is unlikely to be affected since budgets for these projects had been allocated prior to the pandemic and the projects are critical to national defense.

Potential long-term impact on companies

Longer term, aircraft makers will continue to face cash-flow shortages, production challenges, and cascading effects throughout the supply chain that may weaken the industrial base that supports complex manufacturing. Defense contractors will likely experience slowing demand and a flattening of the growth curve over the long term as national governments seek to reduce deficits and control expenses. This suggests:

- Companies may lose market share if they fail to deliver or if they are unable to invest in new products during the downturn.
- The risk of critical program failure is likely to rise.
- Key suppliers and specialized providers may become financially stressed and require support.

Key questions executives and boards should be asking

- How do we guarantee the safety of own people first?
- How do we sustain production in a constrained environment that requires social distancing?
- How do we maintain design progress when we do not have the systems or security protocols to enable engineers to work remotely?
- How do we work with our customers to align their demand and our production capacity?
- Are we taking advantage of available government assistance to avert liquidity challenges and to buoy the small businesses in our supply chain?

Practical next steps

Aerospace & defense leaders will be defined by what they do along the three dimensions to managing a crisis: respond, recover, and thrive. Some key next steps include:

- Maintain and sustain your critical workforce of highly skilled people.
- Identify and support key suppliers that are vulnerable in the short- and mid-term.
- Ensure adequate liquidity for your company as well as its key suppliers.
- Consider alternative supply chain strategies, such as vertical integration (i.e., acquiring distressed suppliers) and investigating new sources of supply.



For additional steps that companies should consider taking, visit www.deloitte.com/covid19-resilient-leadership

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