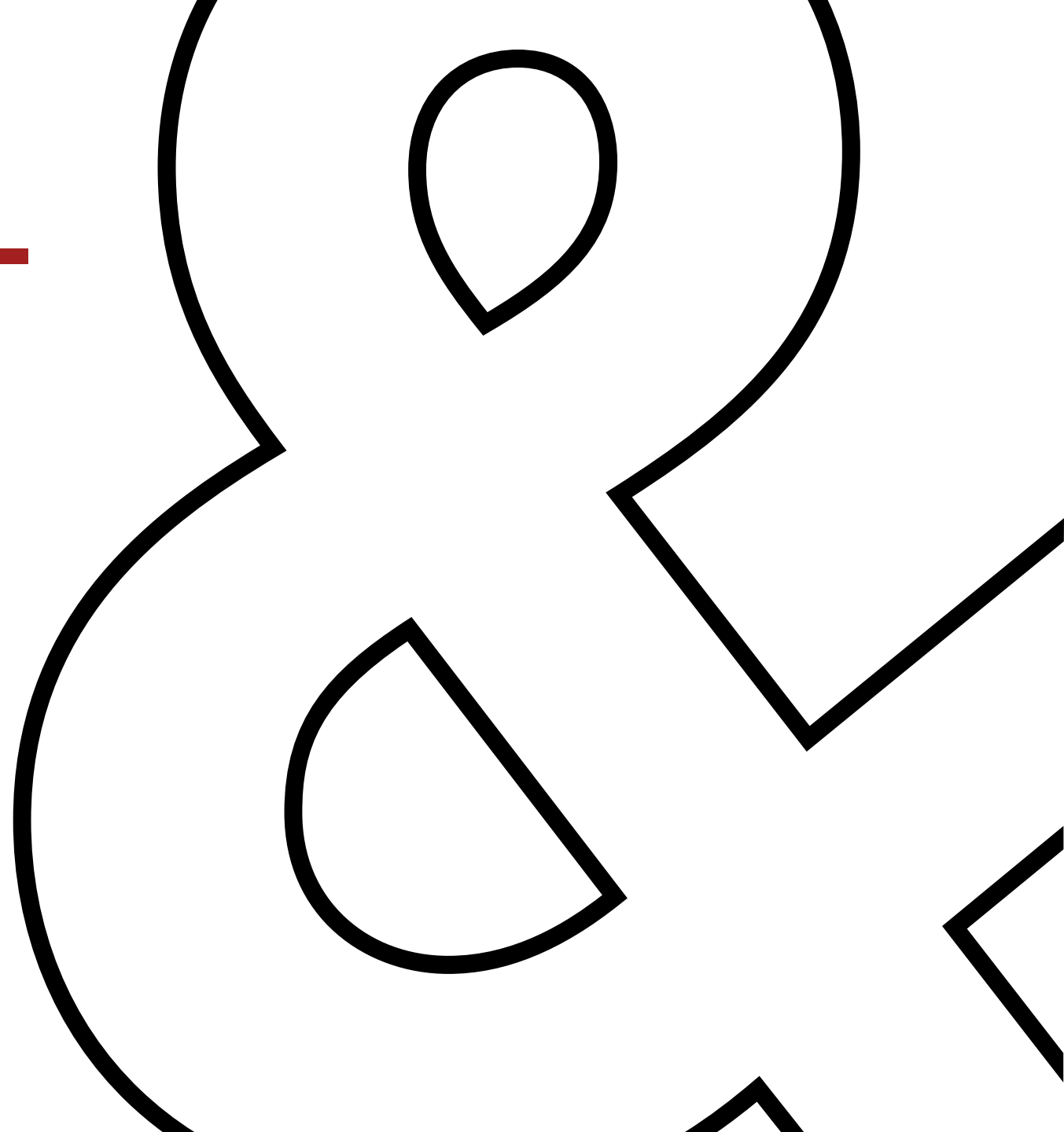


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# Project Titan – Phase A

## Political-societal analysis

October 14<sup>th</sup> 2020





# Scope and process: quality, depth and available information

## Scope and Process

### Depth of analysis



## Explanation

The analysis for phase A was conducted in a relatively short timeframe (1,5 weeks of field work, completed October 14<sup>th</sup> 2020) and covers a broad range of topics, multiple islands and segments and relies on public information. Therefore, the depth of our analysis is considered to be limited. Additional research on how absence of air connection impacts traveler behavior required to build more extensive view on political-societal impact.

### Access to Management



We did not have access to the management of Titan and employees have also not been involved in the development of Phase A of this report.

### Access to Information



Titan provided limited, mainly publicly available information, this report is mainly based on publicly available data.

### Clarity of Information



The information used was clear but often applied to the whole market/sector and did not contain insights that are specific to Titan. The detailed characteristics of the underlying relations between Titan and its peers and clients is unknown to us and our analysis was conducted based on general observations from the industry. Current impact of COVID-19 may impact availability of flight routes, which would render analysis indicative as historic information on flight connections was either dated or not readily available

### Important scope comments and guidelines for use of this report

We do not express an opinion on the political and/or social desirability of considering support for Titan. It is up to the client to come to a decision independently. The analyses as included have not been validated by Titan and are based on the framework as set out in the “concretisering afwegingskader steunaanvragen individuele bedrijven”. Further coordination with Titan management on the analyses may be relevant to avoid misunderstandings. Readers should make their own judgements about the reliability and validity of the data.

# This report contains the political-societal analysis on Titan

## Our understanding of the situation

### Background

---

- COVID-19 has severely affected the airline industry globally as unprecedented restrictions have resulted in significant financial damage as a result of cancellation and decreasing demand for business and leisure travel
- Titan is a regional airline founded in 1961 and owned by the state of St. Maarten (92,05%) and the state of Netherlands (7,95%)
- From St. Maarten, Titan operates flights to various Windward Islands, such as Saba, St. Eustatius, St. Barts, Nevis, Dominica, Tortola
- Titan has received support from the state of St. Maarten in the form of payroll support (60%, May 27) – the government has indicated to be unable to provide additional support
- Titan has formally requested support from the Dutch government on June 15<sup>th</sup>, specifically \$10 million in the form of increasing of a capital injection, a subordinated convertible loan or firm guarantee
- An additional, short-term request came on July 11<sup>th</sup>, when Titan indicated it sought \$ 2 million to alleviate pressure from creditors and prevent bankruptcy
- This project is conducted as part of project Calypso for the Dutch Ministry (strategic advice in state support requests of individual companies)

### Objective

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- The Ministry of Infrastructure and Water Management, the Ministry of Interior and Kingdom relations and the Ministry of Economic Affairs & Climate Policy ('Ministry') are looking to gain insight into the political-societal value of Titan to support ministerial decision making on Titans support request
- The political-societal analysis is carried out as Phase A of the 'afwegingskader steun individuele bedrijven' and with a focus on the impact on on St. Maarten, Saba and Eustatius<sup>1</sup>
- This document contains the outcomes of Phase A

# The report covers the analysis according to the political-societal analysis of ‘afwegingskader steun indiv. bedrijven’

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# Titan is a regional airline based in St. Maarten, providing safe, viable and reliable connectivity within the region

## Introduction to Titan

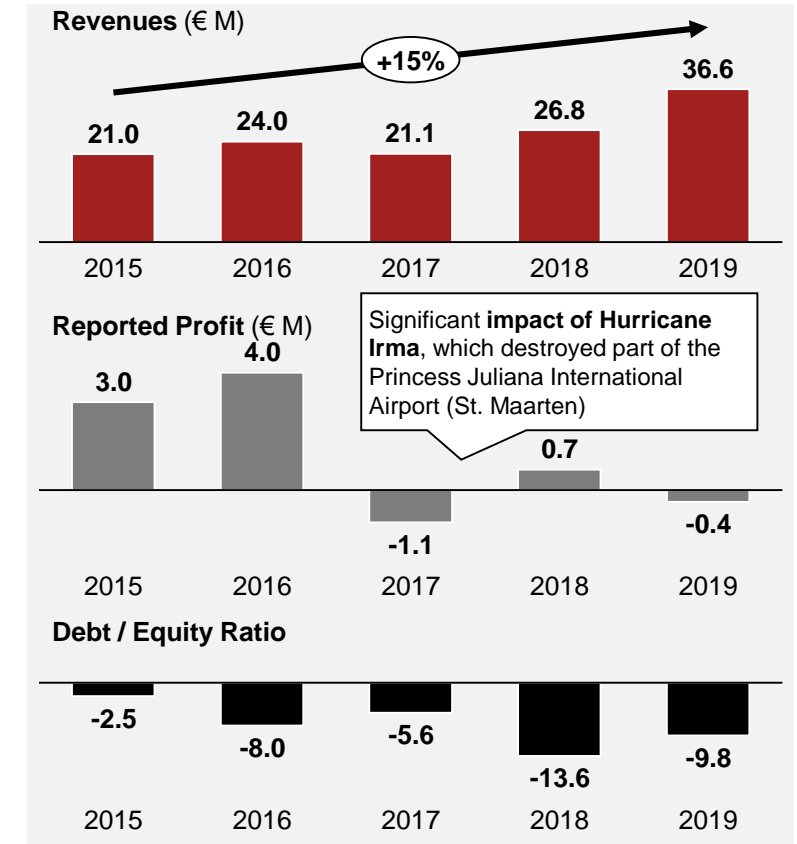
### Company Information

<b>Headquarter:</b>	Princess Juliana International Airport, St. Maarten
<b>Employees (2019):</b>	142 FTE
<b>Sector:</b>	Airline
<b>Main Activities:</b>	Regional passenger air travel, cargo flights, private charter
<b>Passengers:</b>	294 488 (2019)
<b>Region:</b>	15 destinations, including St. Maarten, Aruba, Curacao, Bonaire, St. Eustatius, Saba
<b>Management:</b>	- Michael Cleaver (CEO) - Roberto Gibbs (CFO)
<b>Competitors:</b>	(depending on routes – non-exhaustive) Air Antilles, Air Sunshine, Air Caraïbes
<b>Founding year:</b>	1961
<b>Ownership structure:</b>	- St. Maarten (92.05%) - The Netherlands (7.95%)

### Business Model

- Titan is a state owned **airline in the Caribbean region**, founded over 55 years ago with the purpose to accelerate air travel within the region
- The vast majority of Titan’s revenues flows from **commercial passenger transport**, facilitating flights for tourism, medical reasons, and local-to local (incl. business) transport
- Titan flies to **15 different locations** including:
  - Countries within the Kingdom of the Netherlands (Aruba, Curacao, St. Maarten)
  - Special municipalities in the Netherlands (Bonaire, Saba, St. Eustatius)
  - Various surrounding islands and countries (e.g. Haïti, St. Barts, Puerto Rico, British Virgin Islands)

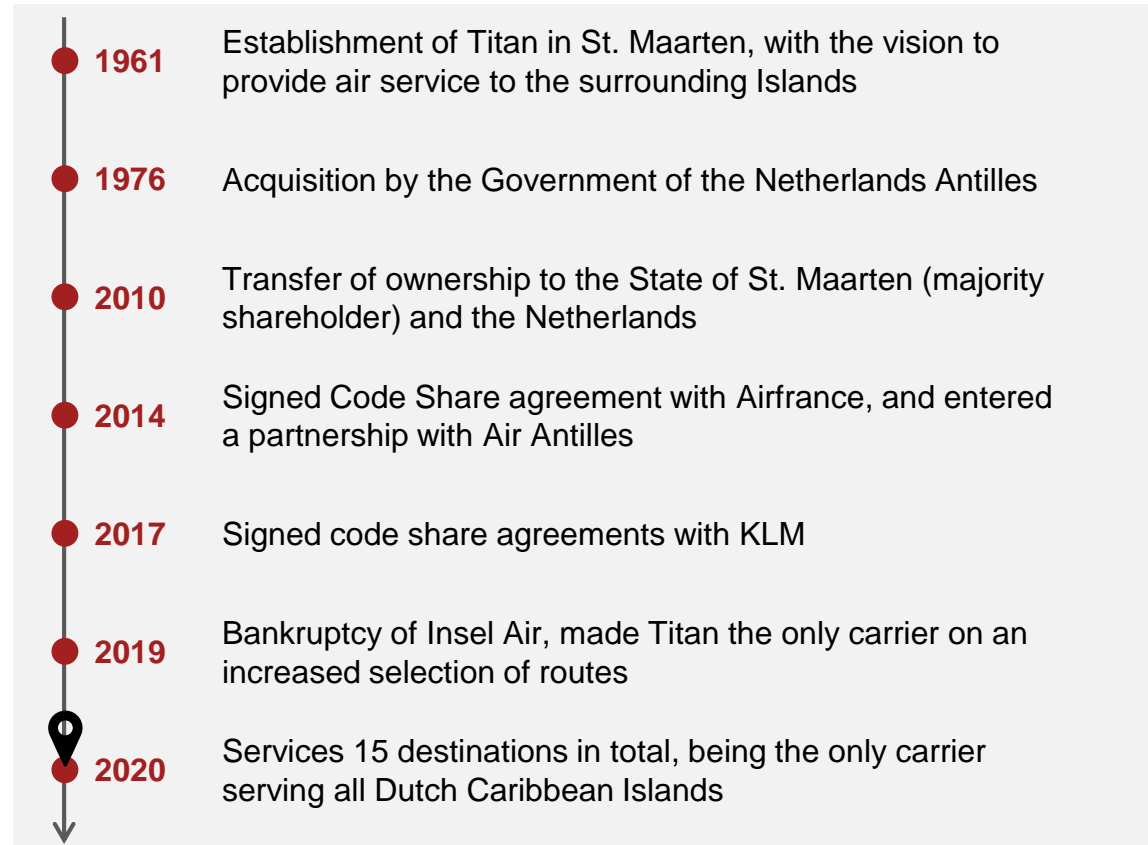
### Financials



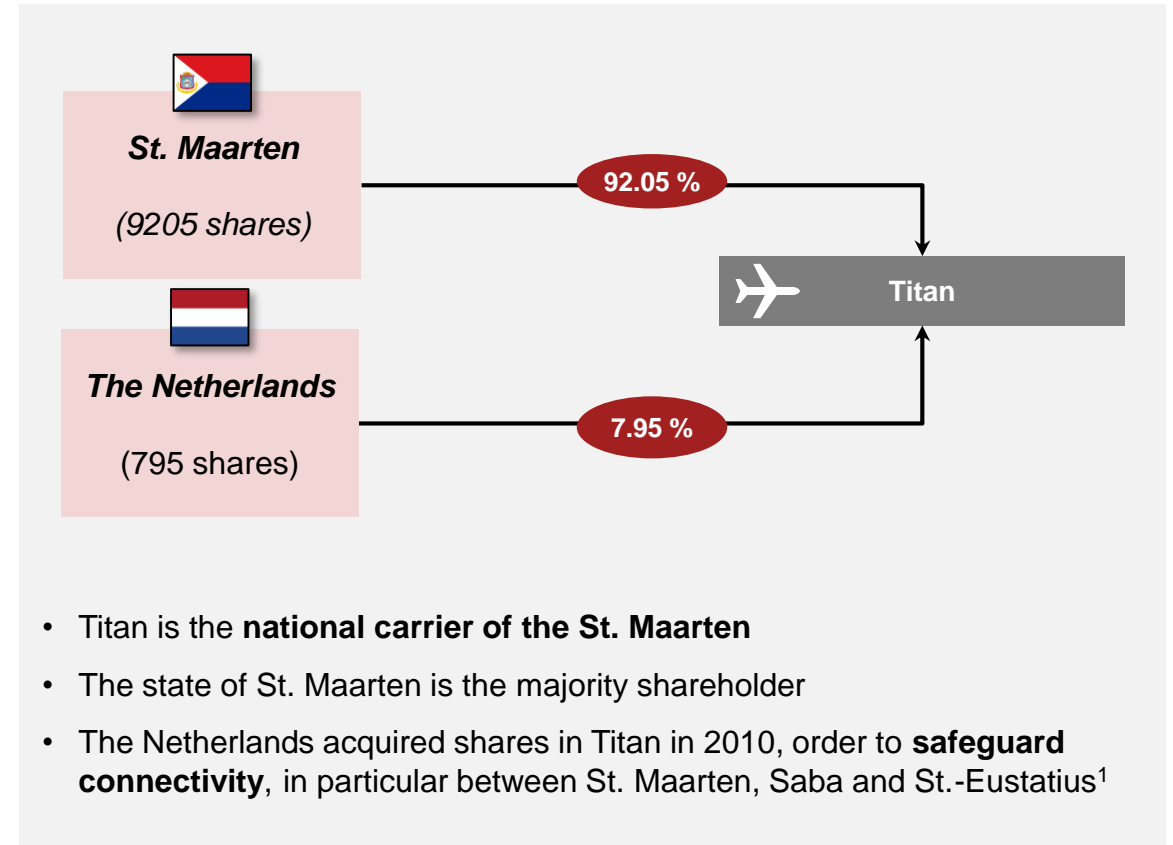
# As a fully state-owned airline, Titan grew into being the only carrier serving all Dutch Caribbean Islands

## History and Ownership Structure

### History



### Ownership Structure



# Titan mainly facilitates commercial passenger flights on 19 routes within the Caribbean region

## Overview of services



### Type of Flights

- The vast majority of Titan's revenues is driven by **passenger travel** (91%, 2019)
- Other revenue streams are third party (6%), cargo (2%) and other (1%)
- Titan mainly operates commercial, complemented with **special-purpose flights**:
  - Medical flights initiated by ZVK<sup>1</sup> for St. Eustatius – St. Maarten
  - Special aid flights, in particular after Hurricane Irma
- Titan is part of **Carib Sky Alliance** in order to link flights of mutual customers



### Flight Characteristics

- Titan's current fleet consists of **two types of planes**:
  - De Havilland Canada 6-300 TWIN Otter – **4 aircrafts** (16p capacity)
  - ATR42 – 500/600 – **2 aircrafts, operated by Air Antilles** (48p capacity)
- All planes in the fleet are **leased** to Titan by Unity (aircraft leasing and maintenance organization, smaller aircrafts) and Air Antilles (flight operator, larger aircrafts)

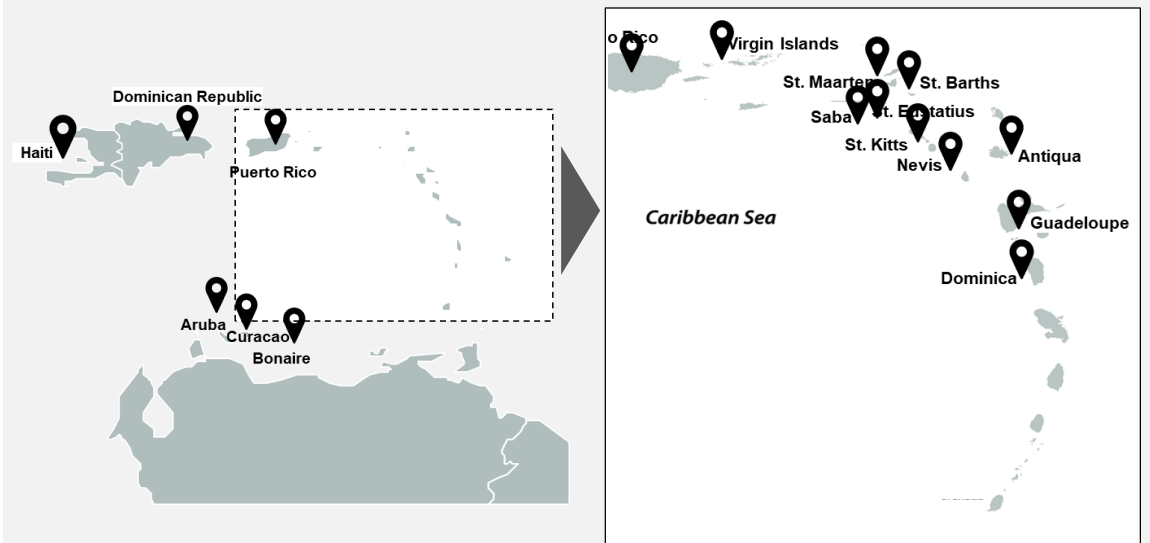


### Type of travelers

- **Titan** services three types of travelers
  - Tourists (roughly one-third): non-local population travelling for leisure
  - Medical (roughly one-third): local population travelling from locations with limited offering of health services to larger hospitals / specialists<sup>3</sup>
  - Local & business (roughly one-third): local travelling between islands/ countries for various reasons incl. visiting friends / family, education, or business purposes
- Split between types of travelers based on last available public figures (2010)



### Destinations



- In total, Titan operates on **19 different routes** between **15 locations** (December, 2019), with a variety of routes added to the portfolio over the last couple of years
- Prior to the Covid-19 crisis, Titan expressed to focus on **strengthening its position on existing routes** (e.g.: increasing utilization of existing flights) instead of adding new routes<sup>4</sup>



















1) Zorgverzekeringskantoor BES, which is part of the Dutch Ministry of Health, Welfare and Sport  
 2) Titan, Air Antilles and LIAT - LIAT recently acquired by the states of Antigua & Barbuda and Dominica  
 3) High level estimation based on Titan's internal information from 2012  
 4) Internal documentation Titan



# The report covers the analysis according to the political-societal analysis of ‘afwegingskader steun indiv. bedrijven’

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# A loss of air services provided by Titan is expected to impact economies & societies of St. Maarten, Saba and St. Eustatius

## Summary of Societal impact

### Importance of air connectivity for accessibility of the islands

#### Alternatives

- The overall connectivity of St. Maarten, Saba and St. Eustatius depends on the **combined effectiveness of modes of transport** to and from the islands
- Air transport between the islands in-scope of this report relies on Titan, which is the **sole carrier on routes** between St. Maarten-Saba, and St. Maarten-St. Eustatius
- It is **possible to travel these routes via ferry transport**, which is **less costly** but also **infrequent** (twice a day on selected days) and **more time-consuming**
- SEO (2018) concluded that travel **by ferry is not a viable alternative to travel by plane** and estimated substantial welfare loss to passengers as a result of (temporary) air connection outages
- In collaboration with the Dutch Ministries, a **pilot was planned in 2020 to improve ferry connectivity between the islands** (higher frequency at lower prices for a period of 2 years), which is **currently on hold** due to COVID-19<sup>1)</sup>

### Societal Impact of reduced accessibility of the islands

#### Economy

- **Tourism is a key economic driver** in the regions in scope, indirectly contributing to ~61% of GDP;
  - Tourists **strongly rely on air transport** to arrive to Saba and St. Eustatius
  - Within St. Maarten, tourists arriving by air contribute to a **large share of total expenditures of tourists**
- Titan also **directly impacts employment** in the region, employing approximately ~1% of the total labor force
- High-level analysis indicates a sizeable portion (over one-third) of the **workforce is employed in sectors dependent on accessibility** of islands in scope

#### Welfare

- Saba and St. Eustatius **require reliable transport connections** to St. Maarten in order to access **vital healthcare**; this is primarily provided via scheduled Titan flights
- With Titan currently grounded, **alternative means of transport have been organized** via utilization of
  - more costly - private charters
- Air transport used to provide **access to education**, both to locals studying outside of Saba and St. Eustatius, and students entering the islands (mainly Saba – where incoming students play an important economic role)

#### Autonomy

- Absence of accessibility **negatively impacts the wellbeing of inhabitants** of otherwise almost isolated islands, as it limits their freedom to move
- From a **regulatory perspective**, air connection is in general deemed vital - as indicated by both BES aviation law and European PSO rules
- Titan currently plays a **role in postal services** on St. Maarten, Saba and St. Eustatius – viability of **mail via sea** could be considered – main precondition implementation of necessary security guidelines

# Titan is active on several routes with currently no or limited alternative carriers present

Analysis based on currently available flight information  
 – schedules may be impacted by COVID-19  
 (extracted on 13-10-2020)

## Overview of alternatives on Titan routes

**INDICATIVE**

Alternative air connections <sup>1</sup>	Route <sup>2</sup>		Connects			Type of traveler			Ferry alternative	Possible impact Exit Titan
			Municipality	Kingdom NL	Other	Tourist	NL Health <sup>4</sup>	Local		
0 alternative carriers <sup>3</sup>		St. Maarten - Saba							No air connection Reliance on alternative mode of travel via ferry (see page 13)	
		St. Maarten - St. Eustatius								
		St. Maarten - St. Kitts								
1 alternative carrier <sup>3</sup>	airantilles	St. Maarten - Antigua							One carrier remaining; lower competition and impact price/ quality level likely	
	InterCaribbean	St. Maarten - Dominican Republic								
	FlyDamas	St. Maarten - Curacao								
	AIR SUNSHINE	St. Maarten - British Virgin Islands								
	AIRCENTURY	Curacao - Haiti								
airantilles	Guadeloupe - Dominica									
≥ 2 alternative carriers	Surinam Airways	Curacao - Aruba							More than one carrier remaining; limited impact on competition and stable price/ quality level expected	
	Aruba Airlines	Curacao - Bonaire								
	TUI fly	Curacao - Dominican Republic								
	AIR SUNSHINE	St. Maarten - Puerto Rico								
	AIRCARAIBES	St. Maarten - St. Barts								
	airantilles	St. Maarten - Haiti								
	AIR SUNSHINE	Dominica - St. Maarten								




Titan mainly sole carrier for Dutch municipalities & countries within Kingdom NL

Titan sole carrier on routes which support health travel Dutch municipalities

1) Alternative air connections involve all direct flights and indirect flights with reasonable connection (<2 hours travel time deviation in comparison to direct flights); 2) Routes based on Titan's operational schedule on December 2019, excluding non-active routes (SXM-NEV, SXM-DCF, ANU-DCF, SBH-SAB, CUR-SXM, SXM-PAP); 3) Excluded infrequent carriers which conduct flights during peak season, included flights from Saint Martin in overview of alternative carriers 4) Focuses on necessary health travel to nearest hospital (more details in Welfare section); Source: Titan internal documentation, Strategy& Analyses on flight and ferry data via skyscanner, flightconnections, flightradar24, openflights.org, rome2rio extracted on 13 October 2020

# Alternative to air travel is by sea (which is slower but less costly); planned investments may strengthen potential of ferry transport

## Comparison of regular ferry services as alternatives to air travel

Company	Service Focus	Routes	Frequency	Duration	Price	Key insights
	High-end tourism, connecting St. Barts & St. Maarten	St. Maarten – Saba	Multiple daily roundtrips St. Maarten - St. Barts 7:30am and 18:30pm <sup>2</sup> M T F S S	~90 minutes	\$100 roundtrip \$75 one way <sup>1</sup>	<ul style="list-style-type: none"> <li>• Titan currently offers the most frequent and fastest travel options, at the highest price point</li> <li>• Ferry services show several direct challenges in comparison to air transport:                             <ul style="list-style-type: none"> <li>– Available timeslots for travel are limited; also impacting required connections in St. Maarten to surrounding regions</li> <li>– Travel time is longer in comparison to air transport</li> </ul> </li> <li>• Moreover, the SEO report on connectivity within the Caribbean region (2018) highlights potential challenges in having customs service at local ports in Saba and St. Eustatius</li> <li>• Currently, investments are being made (in close collaboration with Dutch Ministries) to improve viability of ferry services in the form of a pilot</li> <li>• The objective is to increase frequency of ferry services and reduce ticket prices in order to foster tourism and local travel</li> <li>• These investments may strengthen the viability of ferry transport as an alternative to air transport</li> </ul>
	Basic ferry and cargo services	St. Maarten – Saba	3 roundtrips per week leaving from Saba at 7:00 am, return 4:30 am T T S	~90 minutes	\$110 roundtrip \$55 one way <sup>1</sup>	
	Tourist day trips	St. Maarten – Saba	3 roundtrips per week leaving from St. Maarten 9:00 am, return 3:30 am W F S	~90 minutes	\$130 roundtrip \$65 one way	
<b>Titan</b>	Tourist, medical and local travelers	St. Maarten – Saba St. Maarten – St. Eustatius	3 roundtrips daily between St. Maarten, Saba & St. Eustatius M T W T F S S	~15-20 minutes	+/- \$200 roundtrip	

1) Reduced prices for residents; Great Bay Ferry offers discounts of 35 – 40% of the non-resident fare; Saba C Transport also announces resident discounts

2) Shown charter services are the only regular ferry services and can be booked on request at all providers

Sources: Company websites, stmartinbookings.com, queensaba.com, Voortgangsrapportage ijkpunt bestaanszekerheid Caribisch Nederland 2020, Economische steunmaatregelen Caraïbisch Nederland, 2020

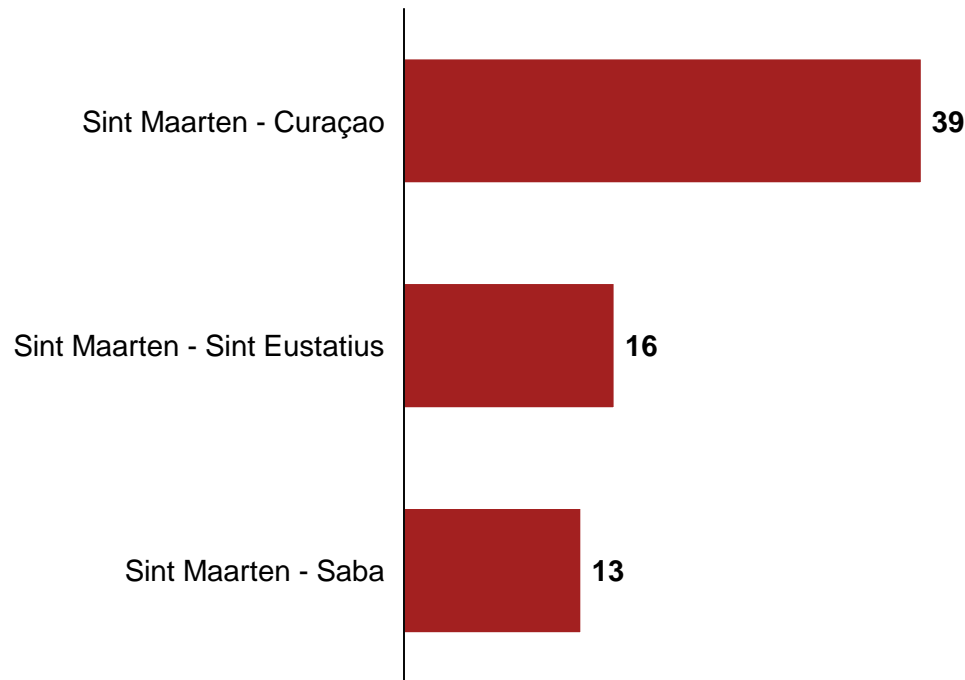
# Welfare loss incurred by passengers as a result of (temporary) flight connection outages is estimated to be substantial

Welfare loss incurred by passengers due to decreased connectivity

INDICATIVE, SEO 2018

## Welfare loss for passengers in several scenarios

Total annual Welfare loss per route caused by a loss of air connection (in \$M)



### Insights based on SEO Report

- SEO Research (2018) estimates loss of welfare for passengers by **comparing generalized costs for passengers** and their **willingness to pay for a flight**
- Main driver of welfare loss is deemed a lack of **realistic transport alternatives**
- Conclusions highlight importance **safeguarding connectivity** within the Caribbean Netherlands, both in case of temporarily loss of connection and following permanent exit of large airlines
- PSOs are brought forward as an **option to safeguard reliability of air transport** and therefore minimize risk on projected welfare loss
- Following this report, initiatives have been taken to create **alternatives for air transport** in the form of a stronger ferry transport network (pilot to be started in 2020, delayed due to Covid-19)

### Applicability of results

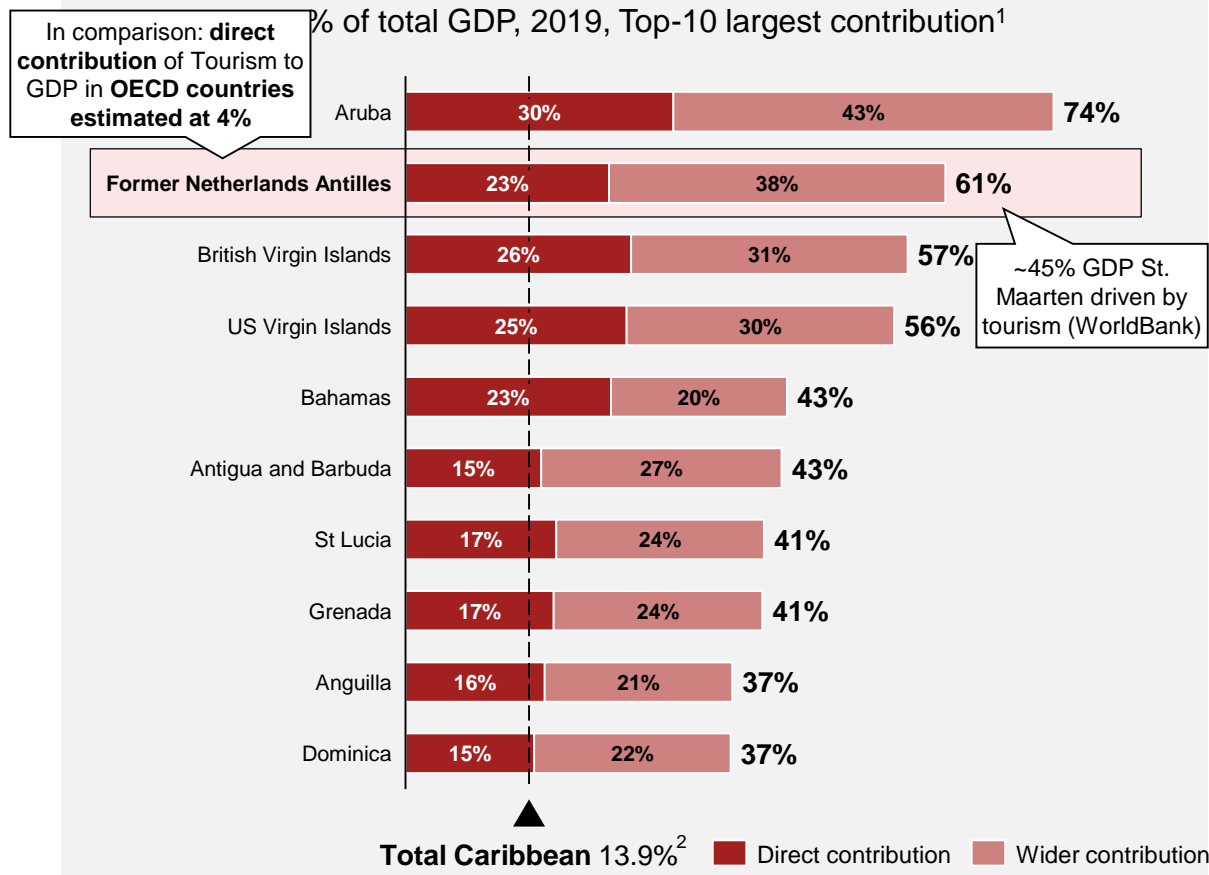
The analysis considers consumer welfare loss for all passengers:

- Broader set of travelers than only inhabitants of the islands included
- Economic impact on all sectors present on the islands not included

# Caribbean islands are generally dependent on tourism to drive the economy, former NL Antilles in top-3 largest contribution

## Tourism sector in the Caribbean

### Tourism drives Caribbean GDP



### Tourism is an important driver of economy of former NL Antilles

The World Travel & Tourism Council (WTTC) estimates the travel and tourism sector contributes to the Former Netherlands Antilles in a variety of ways (2019):

- 23% of direct and 38% wider GDP contribution (see definition below)
- 41% of total employment
- 20% of total capital investments directly to travel and tourism

In addition, tourism is important for balance of payments of St. Maarten, as access to US Dollars limits exchange rate risk for import of fuel and other commodities (Currency of Saba and St. Eustatius is the US Dollar)

### Impact of tourism on GDP is direct, indirect and induced<sup>1</sup>

**Direct contribution** includes internal spending on Travel & Tourism:

- **Tourists consuming commodities** including accommodation, transportation, entertainment, attractions, etc.
- **Government individual spending** on industries directly linked to visitors including cultural or recreational purposes

**Wider contribution of tourism** includes the effect of:

- **Indirect contribution** of investment spending (e.g. hotel construction), government collective spending (e.g. tourism promotion, aviation industry), and purchases of tourist sectors (e.g. hotel supplies, plane fuel)
- **Induced contribution** measuring spending of those who are directly or indirectly employed by the Travel & Tourism industry

1) WTTC (2019)

2) Lower overall contribution driven by limited dependency on tourism of several larger countries (Puerto Rico, Haiti)



# St. Maarten derives most value from tourists arriving via air – majority of tourists arrive in Saba & St. Eustatius via air

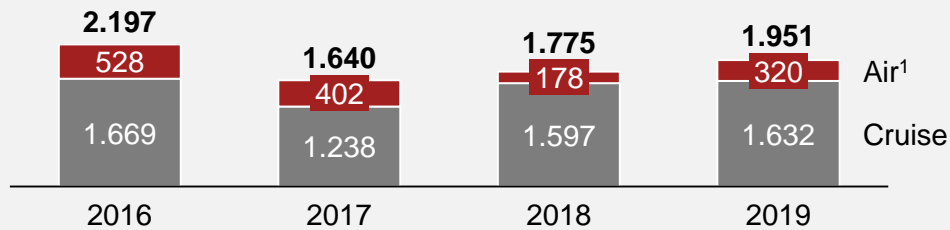
## Tourism Profiles & Expenditures

### St. Maarten tourist arrivals & value

The majority (84%, 2019) of tourists reach St. Maarten via cruises – in particular after Hurricane Irma (Sept 2017), arrivals via air reduced significantly

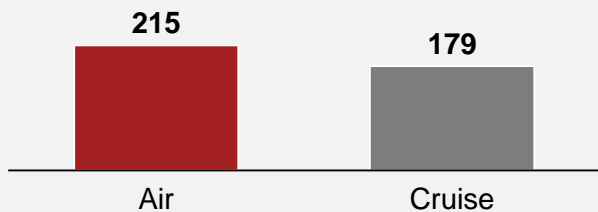


Tourist Types (by arrival mode, in thousands)



Contribution of tourist expenditure is higher for tourists arriving via air, due to longer length of stay (~6.5 days air tourism, <24 hours cruise tourism)

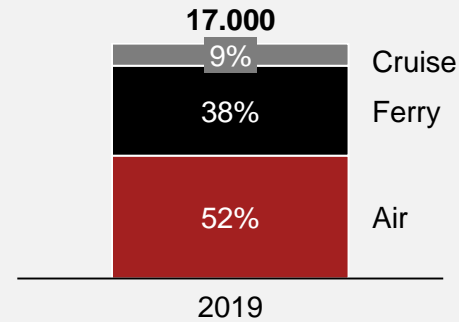
Indicative total annual expenditure tourists (\$M, by arrival mode)<sup>2</sup>



Tourists can also arrive by small boats – latest available CBS figures indicate ~800 small boats in 2016 (~3300 tourists)

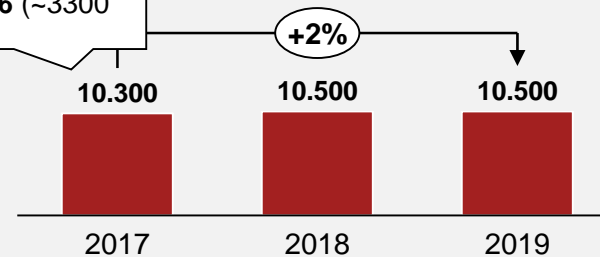
### Saba & St. Eustatius tourist arrivals

#### Tourist arrival by mode



- Stay-over tourists can arrive in Saba via air or by ferry – majority of tourists arrive via air
- Cruise ship tourism is a small share of total tourism – with two smaller cruise ships arriving in Saba in 2019

#### Tourist arrival by air



- St. Eustatius mainly relies on tourist arrival by air, which remained stable over the last three years
- Cruise tourism is not common in St. Eustatius, caused by the set-up of the harbor

# High level sector analysis of employment figures indicates sizeable part of employment requires islands to be accessible

## Air Connectivity Dependency

### Relation between labor and island accessibility

#### Connection between industry and island accessibility **INDICATIVE**

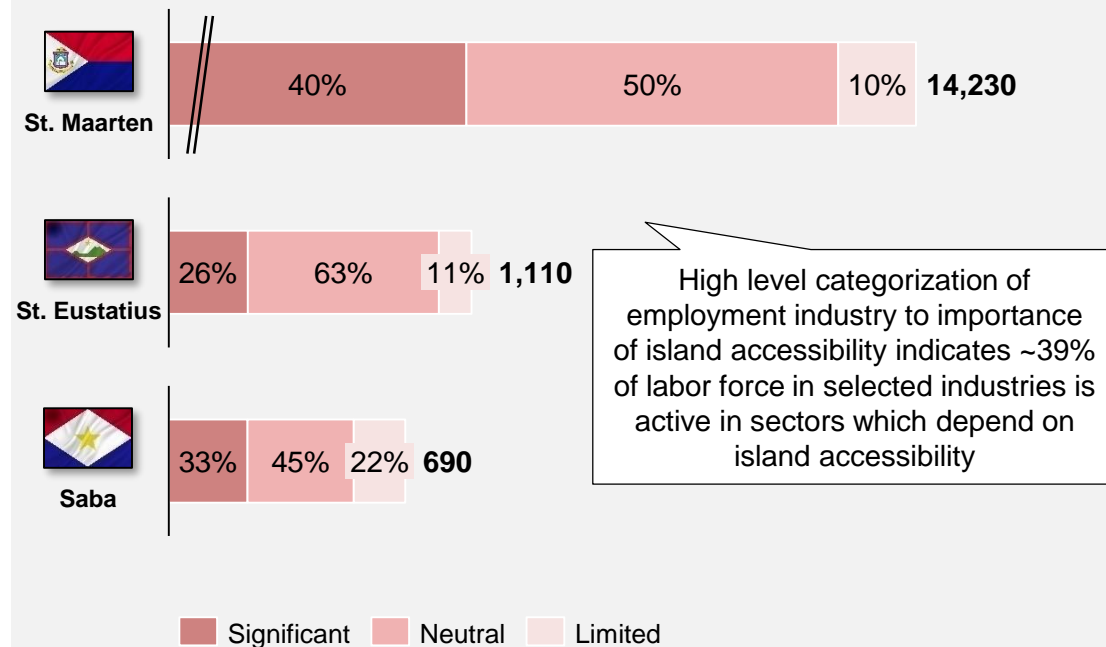
Largest industries St. Maarten, Saba and St. Eustatius<sup>1</sup>

Largest industries <sup>1</sup>	Strength of Connection	Rationale
Accommodation and food services	Significant	Mainly driven by hotel and restaurant bookings from incoming tourists
Culture, recreation & other services	Significant	Mainly driven by tourist visits (museum, theatre, parks, etc.)
Health & Social work	Significant	Access to specialized care dependent on air connection between islands, see also p. 20
Construction	Neutral	Property demand driven by attractiveness of region (both for business, tourism, population)
Transport & ICT	Neutral	Partially made up of air travel and tourists utilize taxi/bus for on-island transport (next to foot, bike)
Public administration	Neutral	Requires stable connection to travel across broader region to maintain administrative relations
Business Services	Neutral	May require stable connection to travel across broader region to develop and maintain business
Education	Limited	Relatively domestic – air connection may drive quantity students quality institutions, see also p. 22

### High level indication of connection labor and accessibility

#### Distribution of workforce, by strength of connection **INDICATIVE**

Based on categorization of table on the left, 2017<sup>2</sup>



High level categorization of employment industry to importance of island accessibility indicates ~39% of labor force in selected industries is active in sectors which depend on island accessibility

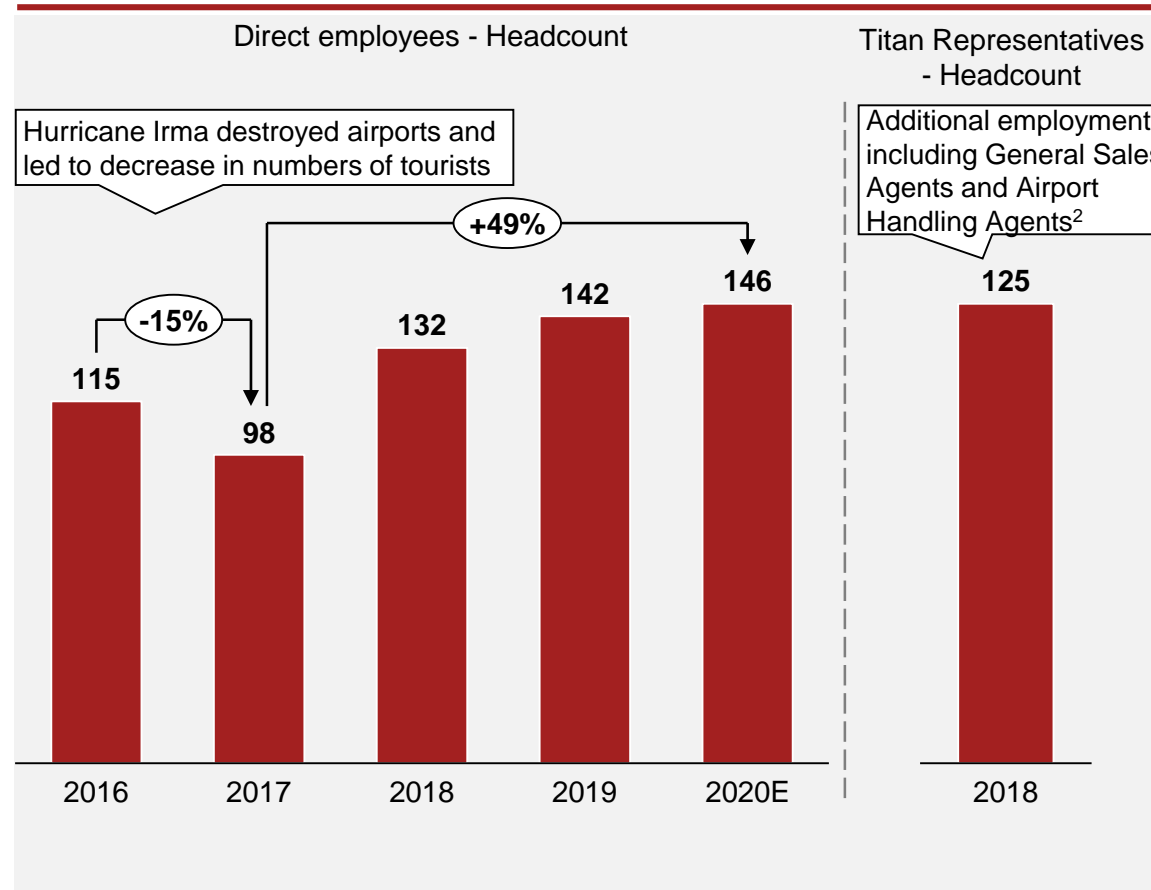
1) Only labor force of largest industries have been included, in total accounting for ~70% of workforce in combined region of Saba, St. Eustatius and St. Maarten  
 2) Source: CBS, 2020  
 3) Source: SEO Kerncijfers Caribisch deel Koninkrijk (2019)



# Titan expected to employ 146 people in 2020 and supports employment of an additional ~125 employees

## Direct employment Titan

Number of employees Titan, 2014-2020<sup>1</sup>



## Observations

- The labor force (those either currently employed or willing and able to work) of St. Maarten, Saba and St. Eustatius consists of 26 246 people, with the bulk living and in St. Maarten:
  - St. Maarten (2018): 23 146
  - St. Eustatius (2019): 1 900<sup>3</sup>
  - Saba (2019): 1 200<sup>3</sup>
- Titan expected to employ 146 people within its organization in 2020, driven by additional (pre-COVID-19) jobs for customer service agents, (un)licensed mechanics and dispatchers
- Next to this, Titan also supports the direct employment of an additional ~125 employees who provide on ground and sales services on airports
- Assuming all these employees are from either St. Maarten, St. Eustatius or Saba, Titan directly supports the employment of ~1% of the total labor force
- Titan indicates it facilitates (mandatory) training sessions for employees (P&L budget notes, 2020), mentioning upcoming training for Operations, Customer Service and Flight departments and the yearly recurring Flight Safety Training





1) Source: Jaarverslag beheer staatsdeelnemingen 2019; Brief Winair – Verzoek ondersteuning Winair N.V. (15 juni 2020)

2) Source: Caribsky overview 2018

3) Source: CBS - Caribbean Netherlands Workforce (2019)

# Saba and St. Eustatius require connectivity to St. Maarten in order for inhabitants to have access to specialized healthcare

## Overview of Healthcare per location

Illustrative health care services (non-exhaustive)	Basic Health Care				General Hospital Care				Specialist Care		
	General Practitioners	District nursing	Dentist	Mental Health care	Emergency Care Unit	In-patient care	Midwife	Dialyses	ICU	Pediatric care	Surgery
	 St. Maarten	Available	Available	Available	Available	Available	Available	Available	Available	Available	Available
 Saba	Available	Available	Available	Via MHC <sup>1</sup> , collaboration with different locations	Serious trauma transported by Helicopter to St. Maarten	Capacity of ~10 patients	Relies on 1 midwife	Patients fly to St. Maarten	Patients fly to St. Maarten		
 St. Eustatius	Available	Available	Available	Via MHC <sup>1</sup> , collaboration with different locations	Serious trauma transported by Helicopter to St. Maarten	Limited capacity		Patients fly to St. Maarten	Patients fly to St. Maarten		
 Bonaire	Available	Available	Available	Available	Available	Available	Available	Available	Available	Available	Available

High dependency on St. Maarten

Limited feasibility to treat patients from Saba and St. Eustatius due to longer and costly travel

Available
  Limitations apply
  Not available



# With Titan currently grounded, healthcare transport is arranged via – more costly – private charters

## Medical Transport from St. Eustatius and Saba

### Medical transport usually via air

- Transport of patients from Bonaire, Saba, and St. Eustatius for health related reasons is the **responsibility of** (Zorgverzekeringskantor BES, or ZVK), which is **part of the Ministry of Health, Welfare and Sport**
- Population of St. Eustatius and Saba is usually **transported to St. Maarten** via air to receive required health care (other options: Colombia, Dominican Republic, Bonaire):
  - **Regular flights:** book tickets for patients on scheduled flights
  - **Private charters:** rent plane required due to medical situation or if multiple patients fly the same route (in particular which would otherwise require multiple flights, e.g. St. Eustatius – Bonaire via St. Maarten)
- Next to this, ZVK arranges **transport of specialists to Saba and St. Eustatius** if required

### COVID-19 altered way of working, driving up transportation costs

**INDICATIVE**

- Flights often **cancelled or rescheduled**, making regular air transport unreliable for medical transport
- In order to support travel for medical purposes, ZVK currently **uses private charters**, often flying twice a week to from Bonaire to different islands and once a week from St. Maarten to Saba and St. Eustatius
- High level, indicative cost-impact analysis indicates transport costs have increased due to COVID-19<sup>1</sup>
  - Additional costs when private charter is utilized at half capacity: **+ 400-500%**
  - Additional costs when private charter is utilized at full capacity: **+ 150-175%**
- Cost implications strongly depend on ability to combine flights of individuals on private charters and number of flights executed per year

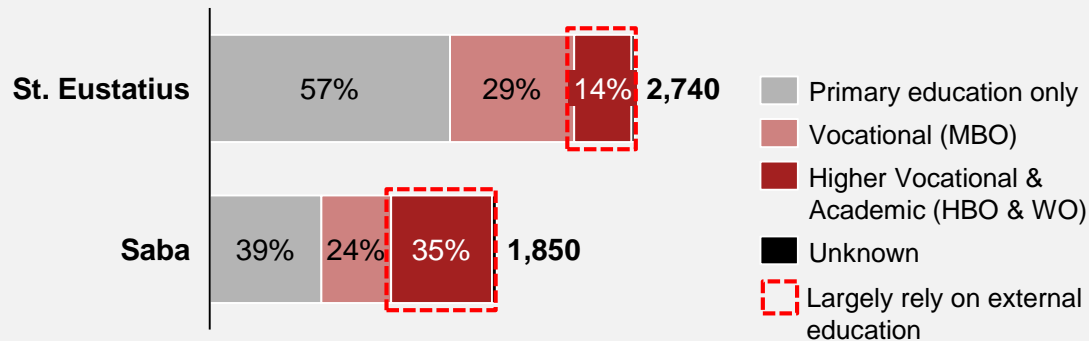
# Air transport is currently used to provide access to education, both for locals as well as incoming students

## Education on St. Eustatius and Saba

### HBO/ WO students mainly educated outside of home island

- Education facilities on Saba and St. Eustatius mainly involve **primary** and **secondary education**, both islands are home to one high-school
- Next to this, both St. Eustatius and Saba have **some opportunities for vocational education (MBO)**
- For higher vocational education (HBO) or academic studies (WO), students have to **travel to another island or country** (with the exception of Saba University School of Medicine) and are likely to use air travel

Highest Education Obtained (indicative for % of students)  
Based on total population (CBS, 2018)



### Exception: Saba Medicine, which draws international students

- The **Saba University School of Medicine** is an international alternative to US and Canadian medical schools
- About **~400 students are enrolled** in the program, having a large impact on the local economy (total population of 1 933 in 2020)
  - Local population receives significant share of income by **renting out homes** to the students of the Saba University School of Medicine
  - Students contribute to local economy, e.g. retail, restaurants
- The vast majority of students is from outside of Saba and is likely to use **air travel to access the university**

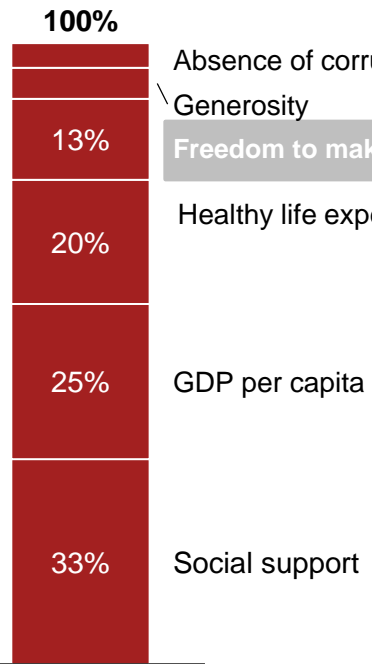


# Absence of accessibility negatively impacts wellbeing of inhabitants of otherwise almost isolated islands

## Impact of accessibility on wellbeing

### Freedom to move partly drives happiness

Average contribution of key happiness drivers<sup>1</sup>

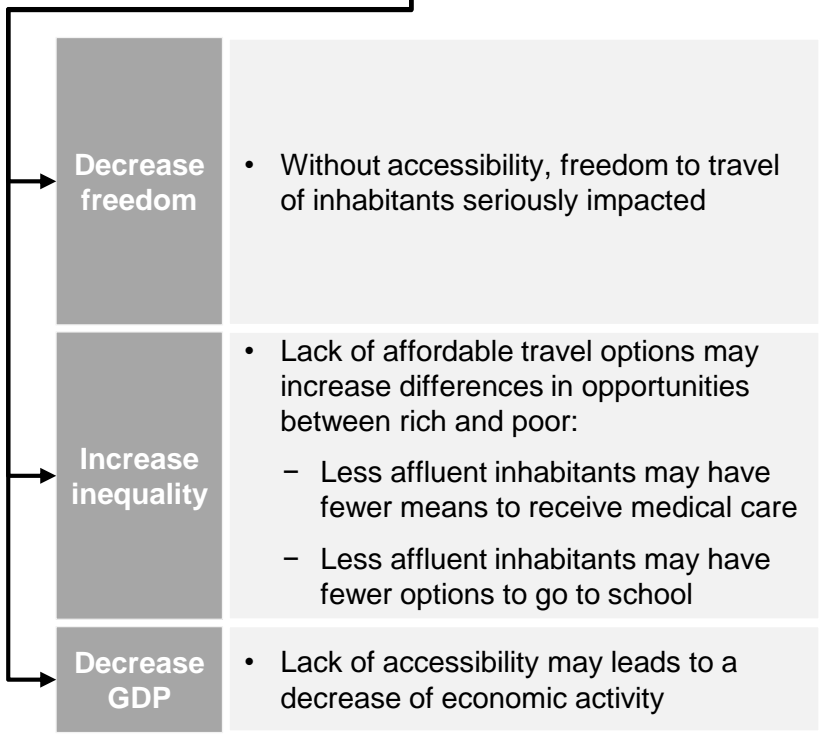


**Freedom to travel considered a basic human right**  
**Ease of travel may partly drive sense of freedom and wellbeing**

**Universal Declaration of Human Rights Article 13**  
*“(1) Everyone has the right to freedom of movement and residence within the borders of each state. (2) Everyone has the right to leave any country, including his own, and to return to his country.”*

### Relationship absence of accessibility and wellbeing

#### Absence of connectivity



1) Contribution calculated as relative impact on overall happiness score within a country  
 2) Response to question, “Are you satisfied or dissatisfied with your freedom to choose what you do with your life?”  
 Source: World Happiness Report (2020); Inter-American Development Bank (2020) - The inequality crisis

# Vital importance of air connection in general and for isolated islands is specifically indicated by BES & EU PSO regulation

## Overview of regulation

### Air connection deemed vital in general

#### BES aviation law

- BES aviation law restricts route permits in the Dutch Caribbean to airlines from Bonaire, St. Eustatius or Saba<sup>1</sup>
- BES stipulates operators of flight routes between the Dutch Caribbean to have the following located on/ belong to inhabitants of either Bonaire, St. Eustatius or Saba:
  - Location of headquarters
  - Execution of main operations
  - Majority of shares held
- It is allowed for these airlines in the Dutch Caribbean to make lease arrangements with airlines situated elsewhere

**Flight and aircraft handling is deemed vital infrastructure by the Dutch state<sup>2</sup> – which may explain BES stipulations**





### Air connection isolated islands specifically important due to development impact

#### European Commission (EC) PSO rules

- EC recognizes that connectivity is key for growth, jobs and social cohesion<sup>2</sup> as a 10% increase in connectivity stimulates:
  - GDP growth rate (+1%)
  - GDP per capita (additional +0,5%)
  - Labor productivity
- Therefore, EU regulations allow countries to impose a public service obligation (PSO) on certain air routes which would otherwise not be sufficiently served to drive development objectives of isolated or developing regions
- PSOs may only be imposed on routes which are considered vital for economic and social development of the region served by the airport

**SEO (2018) recommended imposing a PSO on routes between St. Maarten, Saba and St. Eustatius. Currently, investments are being made (in close collaboration with Dutch Ministries) to improve adequacy of alternative transport modes, e.g.: transportation via ferry – pilot is currently on-hold due to Covid-19**

#### Conditions to be met to prove vital character of a route

	Proportionality to the economic and social development needs
	Inadequacy of alternative transport modes
	Reasonable air fares and conditions ensured via PSO
	Insufficient existing air transport supply

1) Further legal research required, exceptions seem possible since Titan operates on these routes; 2) Failure or disruption leads to serious social disruption and/ or poses a threat to national security, see also <https://www.nctv.nl/onderwerpen/vitale-infrastructuur/overzicht-vitale-processen> 2) EC. Commission Notice — Interpretative guidelines on Regulation (EC) No 1008/2008 of the European Parliament and of the Council — Public Service Obligations (PSO) C/2017/3712

# Titan currently plays a role in the postal service within the Caribbean – further analyses on role and alternatives required

## Deep-dive on postal services

### Current set-up of postal services

- St. Maarten has a local postal service (PSS: Postal Services St. Maarten) while FXDC Post provides the postal services of Bonaire, St. Eustatius and Saba:
  - Mail from the European Netherlands (often government related) is first brought to Bonaire by KLM, transferred to FXDC, sent to St. Maarten and flown to St. Eustatius and Saba
  - Mail to the Netherlands is sent via Curacao or St. Maarten, facing strict customs control before being transported to the Netherlands by KLM
  - Interisland and international mail is transported by FXDC, details about this are not publicly available
- FXDC has used services of Insel air in the past to transport mail on their routes (Insel air filed bankruptcy in 2019), and is currently **transporting mail via Titan** – details on collaboration with Titan are not available
- Key concerns regarding postal services in St. Eustatius and Saba include:
  - Security regulations imposed on mail transport by air
  - Capacity on flights
  - Complexity of process, involving multiple carriers and postal services

### Role of Titan & Alternatives



















- Involvement of **Titan in providing transport services** is assumed since this is currently the only remaining mode of air transport to Saba and St. Eustatius – further analyses required
- Titan also offers its **own Cargo and Express Pack services** (via Inncargo) with guaranteed delivery to any of its destinations:
  - *Regular Air Cargo*: ship to and from Saba, St. Eustatius, St. Barts, St. Kitts, Nevis, Tortola, Dominica, Guadeloupe
  - *Express pack service*: delivers shipments to all destination airports of Titan
  - *Door to door pickup & delivery*: available on St. Maarten and St. Martin
- As alternatives, **transport by sea** could be considered – main precondition is the assurance that all necessary security guidelines can be implemented



# The report covers the analysis according to the political-societal analysis of ‘afwegingskader steun indiv. bedrijven’

## Structure of this document



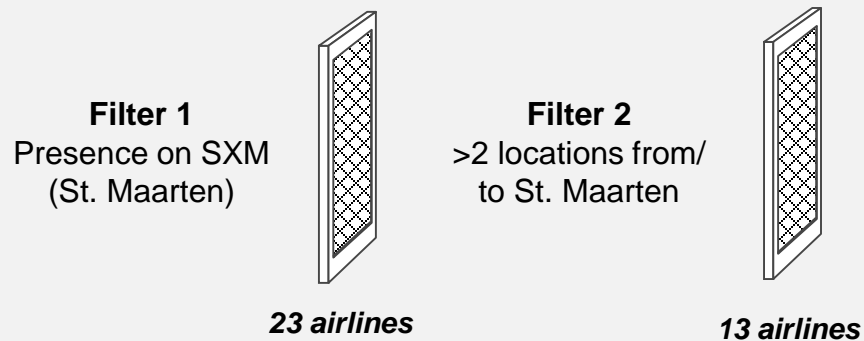
Chapter	Topics covered and key points addressed								
<p><b>1</b></p> <p><b>Introduction</b></p> <p><i>Who is Titan and which services does it provide?</i></p>	<p><b>Company profile</b></p> <ul style="list-style-type: none"> <li>Company information</li> <li>Business model</li> <li>Financial results</li> <li>History</li> <li>Ownership structure</li> <li>Products, markets and customers</li> </ul>								
<p><b>2</b></p> <p><b>Societal impact</b></p> <p><i>Are services provided by Titan important?</i></p>	<table border="1"> <thead> <tr> <th> Alternatives</th> <th> Economy</th> <th> Welfare</th> <th> Autonomy</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> <li>Air carriers</li> <li>Ferries</li> <li>Connection loss impact</li> </ul> </td> <td> <ul style="list-style-type: none"> <li>Tourism dependency</li> <li>Employment impact</li> </ul> </td> <td> <ul style="list-style-type: none"> <li>Hospital services</li> <li>Health travel alternatives</li> <li>Education dependency</li> </ul> </td> <td> <ul style="list-style-type: none"> <li>Declaration human rights</li> <li>Vital infrastructure (incl. post)</li> </ul> </td> </tr> </tbody> </table>	 Alternatives	 Economy	 Welfare	 Autonomy	<ul style="list-style-type: none"> <li>Air carriers</li> <li>Ferries</li> <li>Connection loss impact</li> </ul>	<ul style="list-style-type: none"> <li>Tourism dependency</li> <li>Employment impact</li> </ul>	<ul style="list-style-type: none"> <li>Hospital services</li> <li>Health travel alternatives</li> <li>Education dependency</li> </ul>	<ul style="list-style-type: none"> <li>Declaration human rights</li> <li>Vital infrastructure (incl. post)</li> </ul>
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<p><b>3</b></p> <p><b>Unicity</b></p> <p><i>Are other parties likely/ able to take over services provided by Titan?</i></p>	<table border="1"> <thead> <tr> <th> High level analysis M&amp;A candidates</th> <th> High level analysis route attractiveness</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> <li>Types of parties: airlines &amp; investment firms</li> <li>Drivers possible for take-over:                             <ul style="list-style-type: none"> <li>Synergy opportunities</li> <li>Risk &amp; cultural fit</li> <li>Deal readiness &amp; “willingness”</li> </ul> </li> </ul> </td> <td> <ul style="list-style-type: none"> <li>Expected route profitability:                             <ul style="list-style-type: none"> <li>St. Maarten – Saba</li> <li>St. Maarten – St. Eustatius</li> <li>St. Maarten – Curacao</li> </ul> </li> </ul> </td> </tr> </tbody> </table>	 High level analysis M&A candidates	 High level analysis route attractiveness	<ul style="list-style-type: none"> <li>Types of parties: airlines &amp; investment firms</li> <li>Drivers possible for take-over:                             <ul style="list-style-type: none"> <li>Synergy opportunities</li> <li>Risk &amp; cultural fit</li> <li>Deal readiness &amp; “willingness”</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Expected route profitability:                             <ul style="list-style-type: none"> <li>St. Maarten – Saba</li> <li>St. Maarten – St. Eustatius</li> <li>St. Maarten – Curacao</li> </ul> </li> </ul>				
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# An initial high-level analysis aims to determine likelihood of Titan being acquired by competing airlines present on SXM

## Airline selection & evaluation approach

### A Selection Approach for Airlines<sup>1</sup>



#### Classification of Players

- 1 Local Players (Caribbean only)
- 2 Regional Players
- 3 International Players



Selection presents a mix of players with relatively large presence on St. Maarten to provide high level indication of fit Titan – additional airlines with smaller presence could be subject of further analysis




























High-level assessment of fit with Titan operations

### B Assessment Approach

	Description of airline and summary			Qualitative scoring		
	Current business	Deal drivers	Deal inhibitors	Synergy Opportunities	Risk & cultural fit	Deal Readiness
<b>High-level assessment elements</b>	Size in €M Main Routes	Indication of main reasons why airline would consider purchasing Titan	Indication of main reasons why airline would not consider purchasing Titan	<b>High in case</b> <ul style="list-style-type: none"> <li>Route complementarity improves service level</li> <li>Scale cost base provides savings potential</li> <li>Cross-selling drives additional sales</li> </ul>	<b>High in case</b> <ul style="list-style-type: none"> <li>Deal beneficial for economy St. Maarten</li> <li>Deal complies with regulation (BES)<sup>1</sup></li> <li>Post integration cultural fit and fit with St. Maarten</li> </ul>	<b>High in case</b> <ul style="list-style-type: none"> <li>Limited COVID-19 impact / restructurings/ positive capital position</li> <li>No ongoing deals or other (large) swing factors ongoing</li> <li>Positive impact on share price/ valuation acquiror</li> </ul>

# Initial analysis indicates limited likelihood of Titan being acquired by other airlines or investment firms

## High-level assessment of likelihood of acquisition

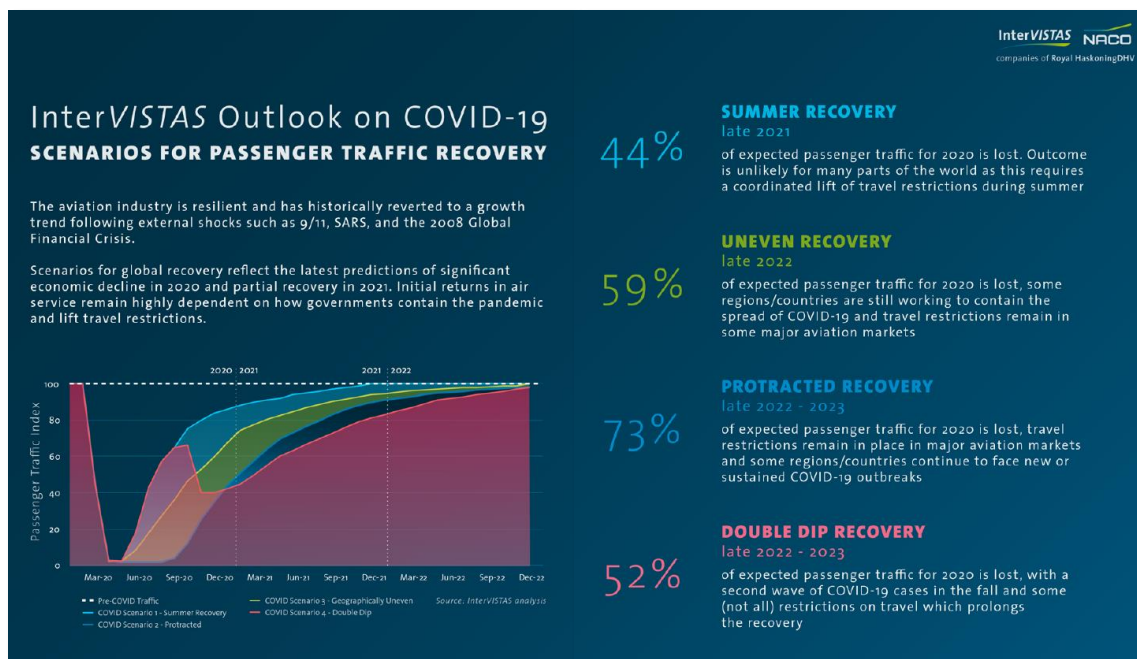
	Selected Players	Current business <sup>1</sup>	Potential deal drivers	Potential deal inhibitors	Synergy Opportunities	Risk & Cultural fit	Deal Readiness
1 Local		Services in the French Antilles, owned by Euronext listed CAIRE (owner French Air Guyane), € 70M revenues (2018), 230 employees (2018)	Strong route complementarity and similar size may drive cost; partner Titan in leasing planes and Caribsky Alliance may improve cultural fit	Mainly focused on French Antilles region; as part of a listed firm, likely to have strong focus on route profitability while routes connecting Saba & St. Eustatius are relatively thin			
		Services on selected routes within the Caribbean, with small planes (9-19 pax), both scheduled and on-demand	Strong route complementarity and track-record in offering access to isolated areas may drive cost and revenue synergies; on-demand opportunity	Small private company headquartered in Florida; likely to have low deal readiness due to heavy COVID-19 impact as the airline mainly connects touristic locations			
2 Regional		Services connection Paris to Caribbean (owner Groupe Dubreuil), €437M revenue (2017), 1186 employees (2018)	Potential synergy in providing more routes between Caribbean islands	Recent investors in Groupe Dubreuil focus on cargo freight, different strategic direction vs. extending passenger travel			
		Services selected islands in the Caribbean and surrounding countries (state-owned, Trinidad & Tobago and Jamaica), 1600 employees	Potential synergy in providing more routes between Caribbean islands	Low deal readiness with recent restructuring plan to preserve liquidity; limited cultural fit due to Trinidad & Tobago and Jamaica owned company			
3 International		Global route portfolio, incl. SXM, connecting SXM, Aruba & Bonaire; €11B revenues (2019), 33 026 employees (2019, KLM only)	Relatively large presence in Dutch Caribbean, position possibly strengthened by connecting tourists to final destination	Low deal readiness with recent state aid request and restructuring plan; moreover, deal size likely too small for KLM (<0.5% of revenues)			
		Global route portfolio, incl. routes between US and various Caribbean locations; \$10.1B revenues in 2019, 133 700 (2019, AA Group total)	Potential opportunity to connect American tourists to final destination in the region	American Airlines' (AA) main focus is domestic US and from/to the US; deal size too small to be relevant (<0.5% of rev.); receives federal aid package and evaluates cost measures			
	<b>Investment Firm</b> (e.g. PE or Holding)		Investment in Tourism & Travel in Caribbean; looking for airline to conduct turn-around	Highly volatile market, uncertain sector outlook, unsuccessful recent private investments in local airlines (Insel Air) and political sensitivity of routes & pricing likely detracts potential investors			

1) Employees and Revenues only listed if publicly available

# Impact COVID-19 on the airline industry suggests that airlines have limited appetite to invest in M&A

## COVID-19 severely impacts aviation industry

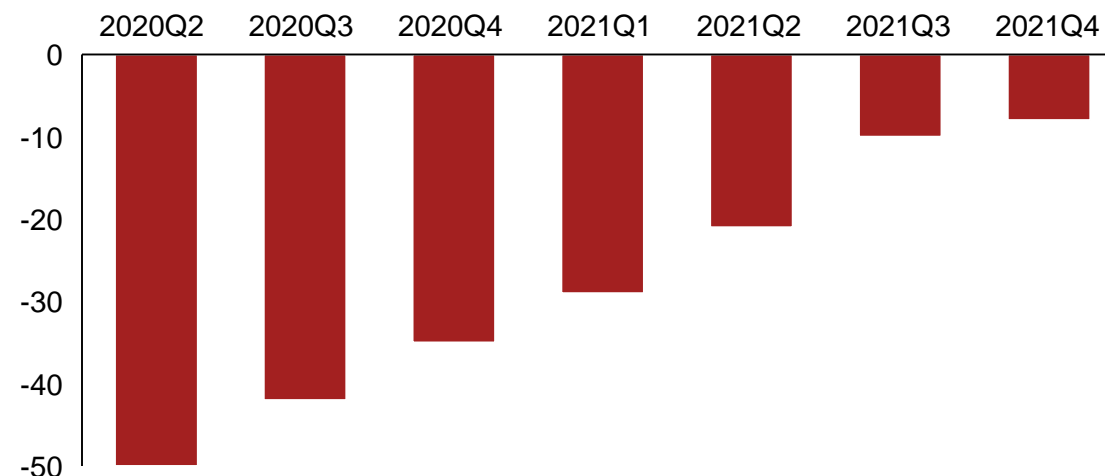
InterVISTAS scenario's on impact COVID-19 on aviation



- InterVISTAS estimates 44% - 73% passenger traffic demand loss in 2020
- Airline industry characterized by high (semi-) fixed costs, meaning demand loss will result in significant deterioration of profitability and capital position

## Airlines not expected to turn cash positive until 2022

Airline industry quarterly cash burn forecast (\$ bn during quarter)



- International Air Transport Association (IATA, representing ~290 airlines or 82% of air traffic) estimates 2020Q2 to be the worst quarter for airlines as industry faced severe revenue loss (~80% compared to same period previous years) while operating costs were brought down ~50% due to unavoidable semi-fixed costs (e.g.: labor and maintenance)
- 2021 is expected to remain challenging due to lower revenue per traveler (as airlines lower prices to foster demand during COVID-19), typically weak demand in winter and unavoidable fixed costs

# A selection of Titan routes seems at risk of not being filled by other airlines if Titan were to stop operating these routes

## Route Portfolio Risks

Analysis of thin routes to/ from St. Maarten, St. Eustatius and Saba as identified/ performed by SEO (2018)

Routes <sup>1</sup> Non-exhaustive	Other players <sup>2</sup>	Schedule Titan <sup>3</sup>	Passengers (2017, '000)	Daily flights (2008-2018)	Seat supply (%Δ 2012-2017)	Seat demand (%Δ 2012-2017)
St. Maarten Saba	None	3 daily	2017  31	2008  6 2018  4 ← (-2)	-14%	-14%
St. Maarten St. Eustatius	None	3 daily	2017  33	2008  5 2018  3 ← (-2)	-22%	-23%
St. Maarten Curacao	None structurally active <sup>2</sup>	1 daily	2017  45	2008  6 2018  4 ← (-2)	-44% <sup>2</sup>	-48% <sup>2</sup>

Commercial viability of routes (indicative, based on SEO findings)

**Limited**

Strong decrease in demand 2012-17  
No other player active in the last 10 years

**Limited**

Strong decrease in demand 2012-17  
Titan reported a loss on of €1.3M on this route in 2019  
Titan only frequent player after bankruptcy Insel air

SEO (2018) concludes there is market failure in supply of reliable and cost-effective air transport, making a PSO appropriate to achieve a minimum activity – findings indicate a structural commercial deficiency on thin routes

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