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AIRBUS REVOLUTIONIZED THE COMMERCIAL AVIATION INDUSTRY

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Abstract

In 1970 three European companies formed Airbus Industrie, based in France (Letovsky, 2016). From the beginning Airbus remained determined to be a formidable competitor for the U.S. aircraft manufacturing industry. Initially, it benefitted from significant government subsidies and a lack of attention from its U.S. competitors. Fortunately, its first plane offered attractive features that made it a success. This gave Airbus momentum as consolidation occurred in U.S. commercial aviation until the global industry became a duopoly between Boeing and Airbus.

Airbus evolved through strategic partnerships, mergers, and acquisitions, strengthening its position as a global player in the aviation industry. Airbus boasted an extensive array of aircraft models catering to different market segments and customer requirements.

Boeing, since its founding in 1916, became a dominant player in the commercial aviation airframe manufacturing industry. However, the jet age significantly reduced the number of players and by the mid-1990s the industry became a duopoly with Boeing and Airbus.

Throughout the 1990s, Airbus continued its march toward leadership of the industry, ultimately taking over as market share leader in 2001. While the technological advantages of its products became critical elements in Airbus's rise, Boeing pointed to Airbus's substantial support from European governments as a key factor (Letovsky, 2016).

Airbus operated globally, with manufacturing facilities, assembly lines, and subsidiaries located across Europe, Asia, and the Americas. It managed an extensive supply chain network, collaborated with numerous suppliers and partners worldwide, and fostered economic growth and technological change. All of which generated positive financial results.

Arbus seized the moment. Given its financial position, innovation and technology capabilities, aircraft portfolio, and Boeing's missteps, timing was never better.

Introduction

Since the earliest days of commercial jet travel, U.S. manufacturers dominated the industry. However, in 1970 three European companies—France's Aerospatiale, Deutsche Airbus, and CASA of Spain— formed Airbus Industrie, a "Groupement d'Intérêt Économique" (Economic Interest Grouping—or GIE) based in France. Starting Airbus as a GIE effectively relieved the new venture of any responsibility for its debts or for filing public financial statements. This proved to be especially important given the substantial amounts of government funds that Airbus was to receive over the next thirty years (Letovsky, 2016).

From the beginning Airbus remained determined to be a formidable competitor for the U.S. aircraft manufacturing industry. Initially, it benefitted from significant government subsidies and a lack of attention from its U.S. competitors as it developed airplanes. Fortunately, its first plane offered attractive features that made it a success. This gave Airbus momentum as consolidation occurred in the U.S. commercial aviation sector until the global industry became a duopoly between Boeing and Airbus. Boeing enjoyed unprecedented success with the 707, 727, 737, 747, and 777 until it began to stumble.

Airbus's first product, which entered service in 1972, was the 226-seat twin-engine A300. Initially, Boeing and the other major U.S. airplane manufacturer of the time, McDonnell Douglas, did not take Airbus seriously, especially since it made its first sales to European state-owned airlines. Underestimating Airbus turned out to be a serious error. The A300, as the first-ever twin-engine, wide-body jet, offered significant fuel economies to airlines. The A300 operated with a two-man crew, an important advantage for developing country airlines that experienced trouble recruiting skilled flight personnel (Letovsky, 2016).

In 1984, Airbus introduced the short-range, 150-seat, single-aisle A320. The A320 continued the Airbus strategy of offering airlines significant cost savings through technological innovations. It became the first commercial jet with "fly by wire" controls, whereby pilots executed commands by computer signals as opposed to the traditional cable system. Eliminating cables lightened the plane and offered important fuel savings. Over the next fifteen years, Airbus introduced derivatives of the A320, expanding the capacity of the A320 family from just over one hundred seats to up to 185 seats (Letovsky, 2016).

Airbus completed its assault on Boeing in the mid-1990s with the introduction of the 330-seat, twin-engine A330 and the four-engine, 260-295 seat A340. The A330, with a range of up to 9,630 kilometers rivaled the Boeing 767 and enjoyed tremendous success. Airbus positioned the A340 as a plane for long-range routes that did not justify the use of a 747. Within a year, Airbus secured two hundred orders for the A330 and one hundred for the 340. Airbus featured the commonality of its cockpits, which allowed airlines to rapidly retrain pilots to shift between various sizes and models of airplanes. In contrast, Boeing customized its cockpits, requiring operators to invest in more training when airlines reassigned pilots (Letovsky, 2016).

Throughout the 1990s, Airbus continued its march toward leadership of the industry, ultimately taking over as market share leader in 2001. While the technological advantages of its products

became critical elements in Airbus's rise, Boeing pointed to Airbus's substantial support from European governments as a key factor. According to Boeing, this support allowed Airbus to consistently underprice its planes to airlines (Letovsky, 2016).

In 2001, the French, German, and Spanish partners of Airbus formed a new entity, the European Aeronautic Defense and Space Company (EADS), which acquired 80 percent of Airbus. BAE Systems (formerly British Aerospace) purchased the remaining 20 percent (Letovsky, 2016).

Commercial Aircraft Market

Commercial jetliner sales depended on several factors, such as overall global economic growth, the price of oil, the state of airline balance sheets, and airline strategies. Airline strategy and profitability represented critical drivers of the market for new commercial jets. The five years following the September 11, 2001, terrorist attacks in the United States proved to be disastrous for airlines around the world. However, by 2006, the industry turned a corner, thanks in part to major changes in the way airlines operated. Increasingly, airlines, particularly in the United States, reduced the number of planes they flew and the number of seats they made available. With a strong U.S. economy and reduced seats for sale, the major U.S. carriers filled almost 78 percent of their available seats in 2005, the highest level in sixty years, and regained much-needed pricing power (Letovsky, 2016).

Strategic airline decisions impacted the quantity and type of aircraft demanded. Since the 2001 recession, more airlines, especially in the United States, focused on international travel as the route to profitability. This strategy avoided the low-margin, short-haul trips increasingly dominated by low-cost carriers. Carriers looked for more nonstop service between cities that previously relied on major hubs. Many factors motivated this new strategic direction, such as increased congestion at major hubs. Security arrangements after the September 11 attacks heightened the inconvenience for passengers going through major hubs. Several airlines adopted point-to-point service as they recognized that delivering passengers to an international hub often meant dropping revenue in rivals' pockets (Letovsky, 2016).

Airbus A380

In 2000, Airbus announced its most ambitious project initiative ever—a $13 billion program to develop a 550-seat, four-engine, mega jumbo named the A380. The new plane featured two levels, with business class and first-class seats on the top deck and a bottom deck that could be configured to offer restaurants, lounges, first-class cabins, and economy seats. The A380 offered a range of up to 15,000 kilometers (8,100 nautical miles) that gave it an advantage over the Boeing 747-400. Airbus claimed that the A380, with a list price of U.S. $250 million per model, promised tremendous economies to airlines. During the first two years of the A380 program, they received almost 130 orders. However, between 2002 and 2006, airline interest in the A380 cooled considerably, with only thirty new orders (Letovsky, 2016).

The A380 became entangled in a series of major production delays. In late 2005, Airbus announced delays in the first deliveries of the A380 from July 2006 to late 2006 due to difficulties in installing wiring throughout the aircraft. Continued difficulties with wiring resulted

in further delays. In 2007, Airbus delivered nine planes instead of the twenty originally planned. Airbus informed buyers of continued delays into 2008 and 2009 (Letovsky, 2016).

Airlines reacted swiftly and harshly to the delays. They demanded either millions of dollars in cash compensation or heavily discounted prices on future deliveries. Other airlines reacted in much the same way as they sought millions of dollars in penalties. Some airlines looked to the Boeing 787-9 as an option (Letovsky, 2016).

On September 21, 2006, Airbus's parent company EADS announced a third round of A380 delays. It blamed difficulties on installing wiring. EADS announced that the new delays cut more than $3.6 billion off its operating profits (Letovsky, 2016).

Airbus's Response to the 787: The A350

In October 2004, Airbus unveiled the A350, a twin-engine, 245-285 seat upgrade to its already successful A330 model, with a range of 8,800 nautical miles, roughly like the 787. Unlike the 787, the A350 used a traditional aluminum fuselage with composite materials in the wings to lighten the plane. The A350 offered a slightly slower speed than the 787 and did not offer the option of nine-across seating featured in the 787. Airbus projected deliveries of the A350 by 2010, two years after the 787 entered service. The A350 offered several potential advantages, such as communality with existing Airbus planes. Airbus stressed the A350's heritage as a derivative of A330/340 models, compared to the revolutionary but unproven technologies embodied in the 787. By mid-2006, airlines voiced their dissatisfaction with the A350 as they focused on the A350s limited range, speed, and capacity (Letovsky, 2016).

On July 17, 2006, Airbus announced a new family of three planes under the umbrella name A350 XWB (for extra-wide body), intended to compete with the 787 and the 777. The A350 XWB boasted a slightly wider fuselage that permitted the same nine-across seating configuration as the 787. With a unique wing design, the A350 XWB matched the 787's speed and slightly exceeded that of the 777. Greater use of composite materials made the A350 XWB 14 percent lighter than the 777 and even slightly lighter than the revolutionary 787 (Letovsky, 2016).

Airbus expected the A350 XWB to enter service in 2012, four years later than the 787. The A350 XWB faced several challenges. The new redesign required an investment of $10 billion, double what it planned for the original A350 program. Several airlines that ordered the A350 opposed a 20 percent price increase for the A350 XWB given its superior performance (Letovsky. 2016).

The growing crisis at Airbus over the A380 program consumed almost all available engineering resources. Some industry observers suggested that Airbus faced pressure from A380 customers, who forced it to delay the A350 XWB program by at least one year. This extended Boeing's monopoly in the crucial mid-sized aircraft market to almost five years (Letovsky, 2016).

Boeing and Airbus Shrug Off Fears of Reliance on Gulf Orders

At the Dubai air show in 2013, Boeing launched the 777X, a revamped version of the popular 777 wide-body jet, with sales agreements involving Emirates Airline, Qatar Airways and Etihad Airways. The same day, Airbus secured a commitment from Emirates to buy an additional 50

A380 wide-body jets, in a deal that highlighted how the Dubai-based carrier could soon be responsible for about half of the outstanding orders for these aircraft (Parker and Kerr, 2013).

After Boeing and Airbus secured deals from Gulf airlines for passenger jets worth a combined $140.2bn, the two manufacturers placed more work with Mubadala, the Abu Dhabi government-controlled investment firm that produced aerospace components. Airbus increased its partnership with Mubadala, which supplied components and raw materials worth $2.5bn for aircraft including the A380. Boeing also expanded its collaboration with Mubadala, which supplied components worth $2.5bn for aircraft including the 777X (Parker and Kerr, 2013).

Boeing Battle with Airbus in Small Jet Market

The U.S. government moved to impose tariffs on Canadian jetliners when it ruled in favor of a complaint by Boeing that accused rival Bombardier of receiving unfair government subsidies. The Commerce Department suggested tariffs could be as high as 219%. Bombardier sold aircraft to U.S. carriers for decades. But Boeing's complaint followed a multibillion-dollar deal struck between Bombardier and Atlanta-based Delta Air Lines for 75 C-series CS-100's, a commercial airplane that carried about 100 people (Gregg, 2017).

After the deal, Boeing formally asked the U.S. Commerce Department to investigate illegal government subsidies and unfair pricing practices that allegedly gave the Canadian company an unfair advantage as it competed for business in the United States (Gregg, 2017).

Bombardier expected to begin delivering the planes in 2018, and any new duties significantly increased the cost to Bombardier. Canada formally pursued a case against the United States at the World Trade Organization (Gregg, 2017).

Airbus Moved to Small Jets in Dogfight with Boeing

Airbus agreed to take a majority stake in Bombardier Inc.'s C-Series jet project. This effectively pulled Bombardier into Airbus's corner. The first of its kind deal for Airbus, allowed Airbus to put no equity upfront for its 50.01% stake. Bombardier agreed to finance up to $700 million of any near-term funding needs. Airbus took operational control and put its enormous sales and marketing infrastructure to work selling the C-Series (Wall, 2017).

The single-aisle jet received positive reviews from passengers and airlines. Bombardier struggled to sell the plane, however, amid uncertainty over whether the Canadian firm possessed sufficient financial muscle to sustain the program. That worry now ended (Wall, 2017).

The CS-100 (renamed the A220) carried fewer passengers (100 to 150) than the industry's best selling work horses (Boeing 737 and Airbus 320). Boeing and Airbus avoided this market over concerns about demand from airlines, especially in the U.S. They preferred smaller regional planes seating up to 100 passengers or larger short-haul planes carrying over 150 people and even bigger intercontinental versions (Wall, 2017).

Airbus expected the C-Series, which carried between 100 and 150 passengers, to dominate a new market for some 6,000 planes over the next two decades, said Patrick de Castelbajac. The U.S. represented the largest market with about 30% of anticipated deliveries. “We saw a big growth reservoir in a largely untapped market untapped,” Airbus head of strategy said. Bombardier sold just 360 C-Series planes in almost a decade (Wall, 2017).

For decades, Boeing and Airbus engaged in trench warfare. The deal "significantly strengthened Airbus’ hand in that duopoly,” said Nick Cunningham, aerospace analyst at investment advisor Agency Partners (Wall, 2017). The fact that this move strengthened Airbus was supported by Boeing’s failed attempt to acquire Embraer to counter Airbus’s move into the small plane market (Cameron, 2016).

Russia and China each began flight-testing rival single-aisle planes, which analysts expected may not enter service for several more years. Airbus decided to make a bid for the C-Series to avoid the plane maker falling into the hands of Chinese rivals, according to a person close to the talks. (Wall, 2017).

The dispute led U.S. authorities to propose a 300% tariff for CSeries imports. The deal with Airbus envisioned CSeries planes assembled at Airbus’ existing aircraft production plant in Mobile, Alabama. It already made A320 jetliners for American carriers there. Airbus and Bombardier said the move would avoid the tariff (Wall, 2017).

The uncertainty over the U.S. deal helped spur talks between Airbus and Bombardier. The Airbus agreement with Bombardier “looked like a questionable deal between two heavily state-subsidized competitors to skirt the recent findings of the U.S. government," Boeing said in a statement (Wall, 2017).

Airbus secured a $5.5 billion order for its new A220 jetliner, with a U.S. startup carrier. This ramped up pressure in the small jetliner market that Boeing Co. hoped to enter. The deal covered 60 planes for the carrier founded by investors that included JetBlue. JetBlue also ordered 60 of the A220 planes (Wall and Tangel, 2018).

Airbus’s announcement included a $12.5 billion deal for 100 A320neo-family jets from an undisclosed buyer before industry-standard discounts and a $2.5 billion deal for eight A350 long-range jets, also from an unnamed customer (Wall and Tangel, 2018).

Government Subsidies and Aircraft Development

Various forms of subsidies for R&D represented the most widespread and controversial modes of government in the industry. This assistance took the form of grants, soft loans, tax reductions, and/or government loan guarantees. Various industry sources estimated the amount of launch aid given to Airbus by European governments at between $17 billion and $20 billion since Airbus's inception._ However, U.S. government studies revealed that Airbus repaid only $3.5 billion of the more than $13 billion in launch aid that it received since the early 1970s (Letovsky, 2016).

Meanwhile, the Europeans claimed that Boeing's dealings with the U.S. Department of Defense and the National Aeronautics and Space Administration (NASA) provided de facto subsidies worth as much as $23 billion to the U.S. firm (Letovsky, 2016).

On January 10, 2007, the United States made public its complaint against the European Union. The complaint alleged that Boeing lost almost 20 percent of the global market due to Airbus's unfair pricing, despite major cost-cutting and productivity gains at Boeing. The complaint stated that EasyJet paid $19.36 million at 2001 prices, a 56 percent discount on the list price of $44 million per plane. The U.S. alleged Airbus's government-supported low pricing forced Boeing to reduce its prices across its entire product line to remain competitive (Letovsky, 2016).

The World Trade Organization ruled that the European Union may impose tariffs on $3.99 billion on Boeing Co. jets and other U.S. goods annually as part of a long-running trade dispute (Zumbrun and Michaels, 2020). The ruling cleared the way for the EU to respond to tariffs that the trade body last October authorized the U.S. to impose on $7.5 billion in Airbus SE jets and other imported European products, the largest arbitration award in WTO history (Zumbrun and Michaels, 2020).

Aviation Battle with China

China planned to follow in Airbus' footsteps, with state-owned aerospace manufacturer COMAC taking center stage in the government's "Made in China 2025" strategy. COMAC developed a narrow-body jet called the C919, scheduled to enter service as a competitor to the powerhouse Boeing 737 and Airbus A320 families. China also partnered with Russia to build a wide-body aircraft, the C929, that could take on long-haul routes. An aerospace alliance between these two countries posed a real threat in the long run (Sindreu, 2021).

For now, China stayed behind its global competitors. The C919 remained inferior to the A320neo and 737 MAX in every respect: It offered less range, burned more fuel and, crucially, lacked an international support network that made it marketable abroad. Furthermore, China lacked self-sufficiency in the most complex parts of the aerospace supply chain. The C919 used General Electric and Safran engines. This created a geopolitical pressure point (Sindreu, 2021).

Investors voiced concern at the prospect of Boeing and Airbus losing market share in the huge and faster-growing domestic Chinese market A recent analysis by Barclays pointed out, that China's jet orders remained low compared with the projected need. Likewise, Beijing still refused to recertify the737 MAX following a 21-month grounding of its bestselling 737 Max in the wake of two fatal crashes. A320 sales remained abnormally low, which reflected hopes that the C919 can fill part of the gap (Sindreu, 2021).

GE Stung by Boeing Pullback

GE met with Airbus to design and sell an engine variant for Airbus' latest wide body, called the A330neo. The discussions occurred in the wake of Boeing's decision to cut back production of

that plane's rival 787 Dreamliner amid a generally weaker demand for big jets. At present, London-based Rolls-Royce remained the only engine option for the A330neo (Katz, 2020A).

GE's interest in providing engines for the A330neo suggested a level of confidence by the engine maker in the sustainability of that aircraft. The A330neo faced the same sluggish sales for bigger aircraft as Boeing's 787 as Airbus reined in production to 40 year, from 53 last. At the same time, GE increased production of engines for the Airbus A320neo, a rival to the 737 MAX which helped offset the MAX production halt (Katz, 2020A).

Airbus to Test Hydrogen-Powered Engine

Airbus teamed up with Safran and GE in a push to bring zero emissions aircraft into service by 2035 (Pfeifer, 2022).

Airbus worked with CFM International, a joint venture between France's Safran and General Electric of the US, to develop an engine powered by hydrogen. They expected a modified A380 with four conventional turbines along with a fifth engine, adapted for hydrogen, mounted on the rear fuselage. Executives expected the test aircraft to fly by the end of 2026 (Pfeifer, 2022).

The project faced an extensive number of technical challenges. The technology required hydrogen to be converted into a gas before it burned. Since gas burned at a much higher temperature than jet fuel, special cooling and coating materials must be developed (Pfeifer, 2022).

Airbus selected the A380 since it allowed more room for tanks and the testing equipment. The commercial aircraft expected to be much smaller. Airbus indicated it initially intended to produce a regional or shorter-range aircraft. Aviation industry remained divided over considerable investment and technical requirements (Pfeifer, 2022).

Parts and Labor Shortages Disrupt Manufacturers

Airlines struggled to find engines and other spare parts to keep their planes flying without disrupting air travel. Passengers faced delays and cancellations because of labor shortages that left carriers with too few pilots, airports without enough ground and baggage handlers to meet demand, and insufficient numbers of controllers to manage air traffic (Tangel and Katz, 2022).

The resurgent air travel caught aircraft manufacturers and their supply chains off guard. This left parts makers unable to increase production quickly enough to provide components not only for new aircraft but for planes in service (Tangel and Katz, 2022).

Engines remained a big bottleneck. Engine makers CFM International, a joint venture between General Electric Co. and Safran SA, fell two months behind on deliveries of new engines, while Pratt & Whitney and Rolls-Royce Holdings PLC faced delays (Tangel and Katz, 2022).

Russia's invasion of Ukraine also contributed to the strain. Airlines in some cases extended the lives of the components through repairs rather than replacements (Tangel and Katz, 2022).

Airbus Scraped Qatar Airways Deal

Airbus scrapped a deal valued at billions of dollars to supply Qatar Airways with 19 large jets. The latest fallout in an escalating dispute between Airbus and one of its biggest customers (Katz, 2022B).

They canceled Qatar Airways' remaining orders for A350 wide-body jets. Airbus valued the 19 aircraft at roughly $7 billion based on the list price before the hefty discounts that plane makers typically give to customers. The two sides engaged in a legal dispute over whether degradation of paint on some jets represented a safety issue (Katz, 2022B).

Qatar Airways said that peeling and cracking paint on the wings of some of its A350s exposed copper mesh designed to protect against lightning strikes. The airline alleged in a London lawsuit that this posed a safety risk. Qatar which took delivery of 53 A350s grounded 20 of them, refused deliveries of more A350s, and sought financial compensation (Katz, 2022B).

Airbus acknowledged the problem, but insisted it posed only a cosmetic issue. The European Union Aviation Safety Agency, Europe's counterpart to the Federal Aviation Administration in the U.S., also rebutted Qatar's claims that this presented a safety concern (Katz, 2022B).

The A350 cancellation followed a move in January, when Airbus abandoned a separate deal with Qatar Airways for 50 of its smaller A321 aircraft, valued at $6.35 billion before discounts (Katz, 2022B).

This dispute with Qatar Airways has left Airbus seeking new buyers for the rejected jets. While noticed added interest for bigger aircraft models, the resurgence in air travel increased orders for smaller short-haul aircraft. The highly customized cabins for aircraft ordered by Qatar Airways exacerbated the sales challenge. Either a new buyer accepted the specially configured jets or Airbus absorbed the costs of retrofitting those planes (Katz, 2022B).

The Future

Airbus played a pivotal role in shaping the global aviation industry. Established in 1970, the company has consistently pushed the boundaries of technological innovation, manufacturing excellence, and environmental sustainability. With its diverse portfolio of commercial and military aircraft, Airbus established itself as one of the world's leading aircraft manufacturers, it revolutionized air travel and established new standards for safety, efficiency, and comfort.

Since its inception Airbus evolved through strategic partnerships, mergers, and acquisitions, strengthening its position as a global player in the aviation industry. Boeing, since its founding in 1916, became a dominant player in the commercial aviation airframe manufacturing industry.

However, the jet age significantly reduced the number of players and by the mid-1990s the industry became a duopoly with Boeing and Airbus.

Airbus boasted an extensive array of aircraft models catering to different market segments and customer requirements. Its product portfolio encompassed the A220, A319, A320, A330, A340, A350, and A380 families of commercial aircraft. The A320 family included the popular A320neo that become a staple in the short to medium-haul market, known for its fuel efficiency and passenger comfort. The A350 XWB, designed for long-haul flights, incorporated advanced aerodynamics and lightweight materials, reducing fuel consumption and emissions.

Aviation authorities grounded the Boeing 737 MAX worldwide between March 2019 and December 2020, even longer in many jurisdictions, after 346 people died in two similar crashes: Lion Air Flight 610 on October 29, 2018, and Ethiopian Airlines Flight 302 on March 10, 2019. On January 27, 2021, Boeing announced a fifth straight quarterly loss. A record $11.9bn net loss occurred in 2020. Boeing delivered 157 passenger and cargo aircraft in 2019, 80% less than in 2018 and a third as many as Airbus. Airbus bagged 1,200 more orders than Boeing in 2015-19. Boeing needed to regain the trust of customers (Economist, 2021).

Boeing's research-and-development spending fell almost a quarter lower in 2020 than the prior year. To conserve cash, it closed a Seattle research center where it discovered innovations, such as the 787's lightweight carbon-composite. Capital expenses slumped from $1.7bn in 2019 to $1.3bn in 2020 (Economist, 2021).

With debt at $45bn, versus Airbus' net cash flow, Boeing lacked the $10bn to develop a new jet. Some analysts estimated Boeing needed $20bn or more to manage its current challenges and take on Airbus with a new aircraft. If a much-promised improvement in execution did not materialize soon, Boeing risked becoming the ones to pay (Hollinger, 2022).

A comparison with Airbus highlights Boeing's slide. Boeing's 2017, market value stood at two and half times that of Airbus. Now, they are roughly the same. Since 2019, Boeing's combined annual net losses totaled $24.5bn. In that period Airbus profits reached nearly $10bn. Boeing's orders of 5,700 planes trailed the 7,700 on the Airbus books (CNN, 2024).

Aviation Strategy, a consultancy, summed up the roots of Boeing's many crises. An "obsession with quarterly results and share price momentum" resulted in too much cash returned to shareholders and too little put into developing new products or ensuring production quality. Between 2014 and 2020 Boeing handed out $61bn in dividends and share buy-backs. It was not just shareholders who benefited. So did managers, whose bonuses were tied to their employer's surging share price. The merger with McDonnell Douglas in 1997 foreshadowed a "cultural shift away from engineering excellence". Boeing began to favor short-term fiscal management in a long-term industry, while Airbus focused less on investors and more on its aircraft, which might have a life cycle measured in decades (CNN, 2024).

Regulators, awaiting Boeing's plan to improve quality control, capped production at 38 a month. Boeing's troubles mean that it is not expected to hit that rate until later in the year, by which time

Airbus is expected be producing 65 A320s a month (CNN, 2024). Switching to Airbus would be no easy matter for airlines, because Airbus has no free delivery slots for its short-haul jets until the end of the decade. Even with that obstacle carriers feel they can no longer depend on Boeing. United Airlines is rumored to be considering replacing an order for a larger version of the 737 max that is five years behind schedule and, with certification still pending, with no prospect of delivery (CNN, 2024).

Boeing's reputation as an American industrial behemoth passed. A struggling Boeing could open the door for challengers. COMAC, the Chinese firm, planned to break the duopoly, but it lacks a plane to compete with Boeing or Airbus. Embraer, the Brazilian maker of smaller regional jets, could move into bigger aircraft (CNN, 2024). Boeing has an under-resourced supply chain, and an equally under-resourced and badly alienated workforce. These resulted in missed production targets, serious program delays, failed safety audits and embarrassing instances of shoddy workmanship. Regulatory and political scrutiny is increasing and expected to worsen (Aboulafia, 2024).

Without a turnaround, the lead that Airbus established in the wake of Boeing's problems over the last five years could become permanent. Then, the advantages of a duopoly won't be enough to save Boeing from long-term decline (Isadore, 2024b). Even if all of Boeing's customers decide to shift from Boeing to Airbus, Airbus has a backlog of more than 8,000 commercial jet orders of its own and is projected to deliver only about 800 planes this year. Airlines face a years-long wait for plane orders placed today, perhaps as much as 10 years, this means that airlines that placed orders with Boeing aren't likely to cancel (Isadore, 2024b).

Airbus stood at the forefront of technological advancements in aviation. It pioneered fly-by-wire technology, which replaced traditional mechanical flight controls with electronic systems, enhanced flight safety and control. Furthermore, Airbus invested heavily in research and development that led to the incorporation of state-of-the-art materials like carbon fiber reinforced polymer in their aircraft structures, reduced weight and increased fuel efficiency. Airbus focused on enhancing cabin features, offering improved entertainment systems, spaciousness, and comfort for passengers.

Recognizing the environmental impact of aviation, Airbus made sustainability a top priority. The company consistently strived to reduce emissions, noise pollution, and fuel consumption. The A320neo, equipped with more fuel-efficient engines and aerodynamic enhancements, boasted a significant reduction in fuel burn and CO2 emissions. Airbus has also been actively involved in exploring alternative propulsion systems, including electric and hydrogen-based technologies that further reduced the carbon footprint of aviation.

Despite COVID, supply chain disruptions, and some missteps, Airbus has maintained a strong financial position as displayed in Table 1 (Airbus Company, 2022). This is especially true for its most recent reporting year with the resolution of the supply chain issues and the uptick in air travel.

Table 1: Airbus Financial results for Last Five Years

Source: Airbus Company, 2022, Airbus Company 2022, Annual Report, Airbus Company.

FINANCIAL RESULTS FOR THE LAST 5 YEARS

Values are quoted in the stock's local currency: Euro.

Income Statement:	31/12/2022 € (Millions)	31/12/2021 € (Millions)	31/12/2020 € (Millions)	31/12/2019 € (Millions)	31/12/2018 € (Millions)
Revenue:	58,763.00	52,149.00	49,912.00	70,478.00	63,707.00
Operating Profit / (Loss):	5,325.00	5,342.00	(510.00)	1,040.00	4,718.00
Net Interest:	n/a	n/a	n/a	n/a	n/a
Profit Before Tax:	1,075.00	5,027.00	(1,130.00)	1,064.00	4,285.00
Profit after tax from continuing operations:	136.00	4,174.00	(1,169.00)	(1,325.00)	3,011.00
Discontinued Operations:					
Profit after tax from discontinuing operations:	n/a	n/a	n/a	n/a	n/a
Profit for the period:	n/a	n/a	n/a	n/a	n/a
Attributable to:					
Equity holders of parent company:	n/a	n/a	n/a	n/a	n/a
Minority Interests / Other Equity:	n/a	n/a	n/a	n/a	n/a

Airbus operated globally, with manufacturing facilities, assembly lines, and subsidiaries located across Europe, Asia, and the Americas. Its operations created employment opportunities for thousands of highly skilled individuals, contributing to local and regional economies where its facilities resided Furthermore, it operated an extensive supply chain network, collaborated with numerous suppliers and partners worldwide, and fostered economic growth and technological exchange. All of these contributed to the positive financial results displayed in Exhibit A.

Airbus placed the utmost importance on safety as it adhered to stringent industry standards and regulations. It employed advanced safety features in its aircraft. The firm included enhanced systems for flight control, navigation, and collision avoidance. Airbus developed innovative training programs and simulators to ensure pilots were equipped with the necessary skills to operate its technologically advanced aircraft safely.

Now is the time for Arbus to seize the moment. Given its financial position, innovation and technology capabilities, aircraft portfolio, and Boeing's missteps, the timing may never be better. Granted, it still must tighten its supply chains, especially related to engines, and ramp up production to attract additional sales and shorten delivery timelines.

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HOKA ONE ONE: MARKETING AN UGLY SHOE

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Abstract

This case describes the explosive growth of Hoka One One athletic shoes. Hoka has grown from around $1 million dollars in sales in 2012 to $1.4 billion in 2022. The case explains the history of the shoe and how it has grown so rapidly. There are two marketing problems in the case. One is how to manage growth of a brand and still maintain the original brand quality and attraction. The other is to consider how Hoka can continue to grow.

The case is appropriate for an undergraduate principles of marketing class, a core MBA marketing management course and executive education. Learning objectives are:

- How to develop and maintain brand image.
- How to use a grassroots marketing strategy to attract an initial niche market.
- Channel strategy to maintain brand image.
- How to maintain brand image as product moves beyond a niche market.
- Develop growth strategies as a brand matures.

Introduction

Hoka One One (pronounced o-nay, o-nay which loosely translates to "fly over the earth in Māori, the language of New Zealand's Indigenous population) burst onto the running shoe scene in 2009 with a dramatically new thick-soled design. As opposed to most running shoes at the time, which were minimalist, Hokas were chunky, thick-soled, and ugly.

Like many successful products, Hoka started as a solution to a problem. Two French Mountain runners, Nicolas Mermoud and Jean-Luc Diard wanted to create a shoe cover that would aid them in running downhill faster. Originally, runners were expected to carry the covers on the uphill run, slip them over their shoes at the top of the hill, and then run down. However, once Mermoud and Diard developed the prototype, they realized they were actually making a new running shoe.

Until Hoka, professional and recreational runners alike preferred minimalist running shoes, which were designed to be lightweight with thin, flexible soles. The purpose of minimalist shoes is to allow the foot to move and function more naturally, as if barefoot, while still providing some protection from the elements. In contrast, the Hoka One One had a thick sole that was created using technology similar to that used in powder skis, mountain bike wheels, and tennis rackets. Diard, who was a former CEO of Salomon had developed parabolic skis at Salomon, which are more stable than straight skis and are easier to manage at high speeds.

As for the influence of mountain bike wheels, Diard was once asked, "Who are the fastest runners in the world?" Diard answered, "Is it the Kenyans? NO. Is it the Ethiopians? No. On a flat course, it will always be the wheelchair athletes. The wheel is the most efficient design, and Hoka attempts to best recreate that wheel-type efficiency." (p.20)

In December 2009, Mermoud brought a prototype of the Hoka One One to a tradeshow Mark Plaatjes and Johnny Halberstadt, the original owners of Boulder Running Company (BRC), were attending. Plaatjes, the 1993 world marathon champion and a physical therapist tried the Hoka prototype is a test run. He liked the shoe and ordered 770 pairs for his stores.

Soon, Hokas became the oversized, ugly shoes preferred by hardcore runners. Additionally, people who walked a lot – nurses, restaurant waitstaff, and postal workers began wearing them. In 2012, Hoka's sales were around $3 million. Mermoud and Diard sold the brand to Deckers for $1.1 million. In 2022, Hoka's sales were $1.4 billion.

The Athletic Footwear Market

The athletic shoe market can be divided into four segments. These are:

- Hiking/Trekking (5% of the market)
- Aerobic/Gym (10% of the market)
- Sports (30% of the market)
- Running/Walking (55% of the market)

While already 55% of the athletic shoe market, running shoes are predicted to have a compound annual growth rate (CAGR) of 4.9% between 2022 – 2030. Currently, Nike has the largest market share followed by Adidas and New Balance. Hoka One One is number six in market share.

One of the fastest growing sub-segments of the running shoe market is shoes for trail running. Trail running is a type of running that takes place on outdoor trails, often in mountainous terrain, and often includes significant ascents and descents. It is like both mountain and fell running. (Wikipedia). Many ultra-marathons take place over trails.

Another factor contributing to the growth in running shoes is the increased purchases by women. While global running shoe sales are expected to grow at a 4.9% CAGR from now to 2030, the market for women's running shoes is projected to have a 6.01% CAGR. This is largely due to an increased participation in sports and fitness by women worldwide. (Geographic Scope and Forecast: Global Women Sports Shoes Market Size by Type https://www.verifiedmarketresearch.com/product/women-sports-shoes-market/). Running shoes are also not a one-time purchase. Runners are recommended to replace shoes every 300 to 500 miles (Gough, 2017 https://www.statista.com/statistics/933796/average-miles-runners-worldwide/). In 2017, 43% of runners reported running 11-25 miles a week. This averages 18 miles a week. If the runner replaces the shoes at 500 miles, that requires a purchase of two pairs of shoes per year.

Early Brand Building

Hoka's differentiated thick-soled design served as a symbolic representation of the brand's commitment to maximum cushioning. By aligning the product design with the brand promise, Hoka attracted niche users like trail runners and marathoners who valued cushioning over other attributes like weight and flexibility. Hoka also built a strong reputation with ultra-marathon runners because the runners thought the cushioning would help prevent injuries.*[1]
As noted above, many ultra-marathons are run on trails.

To promote the benefits of the unique design, Hoka used proven athletes like Karl "Speedgoat" Meltzer as an influencer who provided credibility by wearing Hokas in his ultra-marathon races. Meltzer has won more 100-mile ultramarathons than anyone else. He has also set several 100-mile ultramarathon records.

From ultramarathoners, Hoka began to sponsor other elite athletes and races that were fewer miles than ultramarathons. This included the IMG Worldwide Escape from Alcatraz Triathlon.[2] Hoka also sponsored Olympic Silver Medalist Leo Manzano who was one of the top 1,500-meter

[1] A marathon is 26.2 miles or 41.2 kilometers. Anything longer than a marathon is known as a 'ultra-marathon.' Most ultra-marathons are 30 to 50 miles, although some may be as long as 100 miles.

[2] A triathlon is a race where the competitors swim, bike, and run. The best-known triathlon distance is the "ironman," which involves a 2.4-mile swim, a 112-mile bike ride, and a 26.2-mile run. There are also shorter distances for many local triathlons.

runners in the world. As Hoka's grew in popularity with elite performance and ultramarathon runners, it started to be adopted by more recreational runners. One approach to appeal more to this segment was to sponsor the Northern Arizona Elite (NAZ) running group. NAZ's goals are to "entertain, inspire, motivate, and bring joy to runners and non-runners alike." (nazelite.com) This wider appeal to different running groups lead to Hoka adding shoes for hiking, weightlifting, and walking.

Deckers Buys Hoka

In March 2013, Deckers Outdoors purchased Hoka. Diard stayed on in the role of product development. Deckers also owned the iconic shoe brand, Ugg. The CEO of Deckers was Angel Martinez, a former All-American cross-country runner and the brand manager was Jim Van Dine, a former college track star and a recreational runner. Van Dine had a 30-year history in the athletic shoe industry having managed the explosive growth of both Reebok and Keen. His excitement about Hoka was based on his experience. He noted that Hokas really were different and represented a technological breakthrough.

Hokas also had a distinctive aesthetic. In a 2014 interview he said, "The fact is brands that have experienced explosive growth have, almost without exception, had some type of visually arresting quality to them. Reebok's aerobic shoes didn't look like any other shoe. Teva, Keen, Ugg, Dr. Martens, Vibram FiveFingers – these were all shoes that when they hit the market, consumers said, 'Wow, that's different.'" (p. 23). Van Dine also noted that when Deckers purchased Hoka, their goal was long-term market share over short-term profits. Deckers was in the enviable position of owning the Ugg brand that contributed substantially to Deckers' bottom line. Despite that strategy, as noted in the introduction, Hoka's sales went from a little over $1 million in 2012 to $1.4 billion in 2022.

One contributing factor to Hoka's success, according to Van Dine, was an increase in the number of specialty running shoe stores due to increased interest in running. Also, the retailer Foot Locker converted from a shoe store into an athletic fashion retailer that catered more to the general public rather than athletes. The popularity of running changes over time with periodic running booms. The first of these was in the 1970s. At that time, recreational running was a male, white, middleclass sport (Washington Post). This running boom lasted until the early 2000s when members of the Millennial generation began to prefer group classes at the gym.

However, when the COVID-19 pandemic hit, gyms closed, and people had to find other ways to exercise. One form of exercise that was safe and could be done anywhere was running. While road race participation has not returned to its 2013 peak, it is on the increase. However, this emerging running boom has many more women participants than before and that has become a target for Hoka.

Deckers distribution model has contributed to its success. Hokas are sold in specialty running stores, department stores, and online. However, Deckers has stayed out of such mass retailers as Walmart, Target, and Foot Locker. At the same time, Hoka has partnered with Lifetime Fitness,

a Minnesota company that has over 160 locations across the United States and Canada. Hoka has become the "official shoe" of Lifetime Fitness.

Comparison of Hoka One One and Virbram Five Finger Minimalist Shoes

Questions for Discussion

1. How did Hoka's differentiated product design help establish its brand image? What are the risks and benefits of such a bold design?
2. Discuss Hoka's grassroots marketing strategy. How did it help build awareness and loyalty among niche running communities?
3. Why was it important for Hoka to maintain its focus on cushioning technology and the specialty retail channel as it expanded into mass retail? What could have happened if it hadn't?
4. How was Hoka able to disrupt an established product category like running shoes?
5. Do you think Hoka's rapid growth from a niche to mainstream brand could dilute its positioning over time?
6. Beyond product design, what other factors contribute to building brand loyalty in the athletic shoe industry?
7. In what ways can Hoka continue to grow? What strategy would you recommend and why? [Students will use Ansoff matrix]

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Supplemental Materials

Hoka One One Founders Brand Video
https://www.youtube.com/watch?v=KUGU18-akcI
Hoka Running Shoes: Brand Story & History
https://www.youtube.com/watch?v=69vV3YoG7BE

THE COLLAPSE OF SILICON VALLEY BANK IN 2023

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2024 Distinguished Paper
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Abstract

The sudden collapse of Silicon Valley Bank has caused chaos for depositors and venture capital firms, as the bank built a reputation for supporting early-stage, high-growth tech companies with venture capital backing. Due to its unique banking strategy and structure, the SVB case allows students to apply risk and balance sheet management through detailed financial statement analysis to identify the causes of the failure and how to prevent such fallout from occurring in the future.

Introduction

As a recently graduated security analyst at Gordon Investment, Jackson Smith, along with his colleagues, analyzed financial statements to identify investment opportunities and made investment recommendations. In March 2023, Silicon Valley Bank (SVB), the 16th largest bank in the U.S., collapsed. It was the second-largest bank failure in U.S. history, trailing only the failure of Washington Mutual in 2008. SVB investors suffered over $160 billion in market value losses.

The swift collapse of SVB surprised investors, clients, and many venture capitalists, heightening uncertainties about the economy. Since the event impacted the entire capital market, Jackson's manager, Joe Pather, tasked him with conducting a thorough analysis of SVB. This included the institution's business strategy, financial statements, risk analysis, and other potential issues that led to the collapse to enhance understanding of risk management in the banking industry for the future.

Company History and Background

Silicon Valley Bank (SVB), a California state-chartered bank and member of the Federal Reserve System, was established in 1983 by two former Wells Fargo bankers, Bill Biggerstaff and Roger Smith, along with Stanford University professor Robert Medearis. Roger Smith served as the founding CEO. Launched with 100 initial investors at a time when Silicon Valley was becoming the epicenter of technological innovation, they aimed to create a bank specifically tailored to the unique financial needs of the region's rapidly growing tech entrepreneurship sector. These startups faced challenges in securing funding from traditional banking sources, as today's well-established venture capital market was still in its infancy.

SVB opened its first office in San Jose, quickly followed by another in Palo Alto, California, focusing primarily on serving the local technology community in Silicon Valley. It provided essential financial services, including loans and banking solutions, to help startups and emerging tech companies secure funding and manage their finances. As the business grew rapidly, SVB sought additional capital. In 1986, it merged with the National InterCity Bank in Santa Clara. Roger Smith recalled in an interview, "They (National InterCity Bank) were about $50 million. We were about $100 million, and so they had excess capital. We merged with them for a capital infusion."

SVB was traded over the counter in 1984 and completed its IPO on Nasdaq in 1988, raising $6 million in equity with a market cap of around $12 to $15 million. As the technology industry expanded beyond Silicon Valley, SVB adapted and grew, establishing offices in tech-centric cities across the United States, such as Boston, Austin, and New York, and launching international services by forming the Pacific Rim and Trade Finance groups in the 1990s. In 1993, John Dean was named president and CEO of SVB, leading the company's expansion into niche markets, including premium wineries, religious institutions, and entertainment. He also initiated the company's venture into investment business with its first two venture capital funds. Under his

leadership, SVB's assets grew from $935 million to $5.5 billion, and its employee count increased from 235 to over 1,000, with the market capitalization soaring from $63 million to over $3 billion.

In 2000, Kenneth Wilcox was named as the new president and CEO. Instead of pursuing a broad commercial banking strategy, he shifted the focus towards providing diversified financial services specifically tailored for the technology, life sciences, and premium wine sectors. Under his direction, SVB's portfolio has moved from 1/3rd on technology and venture capital firms business to 99%. Through mergers and acquisitions, SVB launched its private services and reorganized its business from one segment into five lines of banking and financial services: commercial banking, merchant banking, private banking, mergers and acquisitions services, and other business services in 2002, while continuing to expand its services and global presence. This involved establishing relationships with Silicon Valley technology and venture capital clients worldwide by opening offices in key tech hubs, including China, India, Israel, and the United Kingdom, positioning SVB as a valuable resource for tech companies navigating international markets.

In 2011, Greg Becker succeeded Wilcox as the CEO of SVB. He co-founded SVB Capital and has served as President of SVB Financial Group since 2010. SVB continues to support clients in the technology, venture capital/private equity, life sciences, and cleantech industries, offering a wide range of financial solutions. These include lending, deposit products, cash management services, global banking, trade products and services, investment services, equity valuation, and equity management services to private companies and venture capital/private equity firms, catering to both domestic and international clients.

In 2012, Silicon Valley Bank partnered with Shanghai Pudong Development Bank to establish SPD Silicon Valley Bank, the first Sino-American joint venture lender in mainland China. This venture was created to offer banking services, such as lending, treasury, investment banking, and advisory services, primarily to innovation companies and their investors in China, leveraging SVB's expertise in innovation sector banking along with Shanghai Pudong Development Bank's extensive network and resources in Chinese markets.

By the end of 2021, SVB's market capitalization had reached $39.84 billion, with over 6,000 employees and total assets of $211.5 billion. The stock price has tripled since 2018, reaching $700 per share.

Business Strategy

SVB was founded with two main objectives: (1) to support the growth of technical entrepreneurship and (2) to provide "outside-the-box" commercial banking services to startups that were overlooked by the traditional banking system. Its specialization in tailored and flexible financial services for startups, technology companies, and venture capitalists sets SVB apart from other banks. This focus enables SVB to develop a deep understanding of these startups' business models and unique risks, recognizing that many did not generate revenues immediately. Instead of focusing solely on current financial conditions, SVB valued growth prospects and provided funding. Former CEO Roger Smith noted that SVB would offer startups a line of credit even without receivables, enabling them to secure supplies and foster future growth.

Additionally, SVB is a niche bank initially focused on the technology sector and later expanded into the premium wine industry, offering innovative banking services. Under the direction of former CEO Roger Smith, it eventually diversified into high-risk real estate lending, which constituted about 50% of its portfolio by the early 1990s. However, after a $2.2 million loss in 1992 due to a downturn in California's real estate market, SVB refocused on serving fast-growing but often unprofitable companies during the internet boom.

SVB strives to provide innovative banking solutions to its clients. It was the first to develop venture debt, a loan designed for fast-growing investor-backed startups with venture capital backing. Rather than focusing on historical cash flow or working capital assets, venture debt emphasizes the borrower's ability to raise additional equity to fund the company's growth and repay the debt. Venture debt reduces the average cost of capital to fund operations when a company is scaling quickly or burning cash. It also offers flexibility, serving as a cash cushion against operational hitches in fundraising and unforeseen capital needs. In addition to providing loans to finance expansion, SVB builds a global network of venture capitalists, investors, and former and current clients, benefiting those seeking funding. This well-connected network opens doors for upstart entrepreneurs to business opportunities and collaborations.

SVB emphasizes building long-term relationships with its clients, fostering a client-centric culture, prioritizing excellent customer service, and providing customized, innovative solutions to meet each client's needs. By often working with companies from their early stages and continuing to support them as they grow, SVB fosters trust and loyalty among clients. Many of SVB's clients, including tech giants like Cisco, Airbnb, Shopify, and Twitter, have grown significantly over time. This long-term relationship-building approach also attracts many startup founders to become SVB customers by depositing, investing, and borrowing. In 2021, about 50% of U.S. venture-backed technology and life science companies were SVB clients.

Crisis

Throughout its 40-year history, SVB has navigated several crises. In 1992, a $2.2 million loss in real estate lending prompted a strategic pivot away from real estate banking, focusing instead on niche markets and reducing its real estate development loans to less than 10% of its portfolio.

Although this shift helped SVB to avoid huge losses during the 2007 financial crisis, the bank's business was still affected by economic uncertainty. This period was marked by continued declines in venture capital and private equity activity, higher-than-normal credit losses, reduced loan demand, and decreased income from many fee-based products. To stabilize its operations and continue lending and supporting its current and prospective clients during this unstable economic environment, SVB reached an agreement with the U.S. Treasury in December 2008 to receive $235 million through the TARP Capital Purchase Program in exchange for the issuance of preferred stock and a warrant to purchase common stock. In December 2009, SVB announced that it had repaid its obligations under the TARP Capital Purchase Program.

From 2020 to 2022, SVB's deposit rapidly increased from $102 billion in 2020 to $183 billion in 2022. However, its stock price has plummeted by more than 66% in 2022, from a high of $683.80 in January to $231.69 at year-end due to the deteriorating demand for private funding, IPOs, and M&As. Concurrently, SVB faced risks from rising interest rates as the Federal Reserve aimed to control inflation during the post-pandemic era.

On March 8, 2023, the SVB announced a $1.8 billion loss on selling securities, including Treasury and mortgage bonds. The next day shares of SVB fell by 60% or $9.4 billion in market value. As the news spread through texts and social media, many clients, including venture capital firms, began withdrawing their funds and deposits from the bank. This rapid outflow of funds put SVB on the verge of collapse, as the bank could not generate enough cash to meet depositor demands. On March 10, the Federal Deposit Insurance Corporation (FDIC) intervened, marking it as the second-largest bank failure in U.S. history. On March 18, SVB Financial Group, the parent company of SVB, filed for Chapter 11 bankruptcy protection. On March 27, First Citizens BancShares agreed to acquire SVB, assuming all customer deposits and mitigating share loss.

Two weeks before the collapse, CEO Greg Becker sold nearly 3.6 million shares at $287 per share, earning $3.5 million. Other SVB executives, including Chief Marketing Officer Michelle Draper, Chief Financial Officer Daniel Beck, and Chief Operating Officer Philip Cox, have also sold millions of shares since 2021.

EXHIBIT 1: SVB Financial Group and Subsidiaries Consolidated Balance Sheets 2021-2022

(Dollars in millions, except par value and share data)	December 31, 2022	December 31, 2021
Assets		
Cash and cash equivalents	$ 13,803	$ 14,586
Available-for-sale securities, at fair value (cost of $28,602 and $27,370, respectively, including $530 and $61 pledged as collateral, respectively)	26,069	27,221
Held-to-maturity securities, at amortized cost and net of allowance for credit losses of $6 and $7 (fair value of $76,169 and $97,227, respectively)	91,321	98,195
Non-marketable and other equity securities	2,664	2,543
Total investment securities	120,054	127,959
Loans, amortized cost	74,250	66,276
Allowance for credit losses: loans	(636)	(422)
Net loans	73,614	65,854
Premises and equipment, net of accumulated depreciation and amortization	394	270
Goodwill	375	375
Other intangible assets, net	136	160
Lease right-of-use assets	335	313
Accrued interest receivable and other assets	3,082	1,791
Total assets	$ 211,793	$ 211,308
Liabilities and total equity		
Liabilities:		
Noninterest-bearing demand deposits	$ 80,753	$ 125,851
Interest-bearing deposits	92,356	63,352
Total deposits	173,109	189,203
Short-term borrowings	13,565	71
Lease liabilities	413	388
Other liabilities	3,041	2,467
Long-term debt	5,370	2,570
Total liabilities	195,498	194,699
Commitments and contingencies (Note 21 and Note 26)		
SVBFG stockholders' equity:		
Preferred stock, $0.001 par value, 20,000,000 shares authorized; 383,500 and 383,500 shares issued and outstanding, respectively	3,646	3,646
Common stock, $0.001 par value, 150,000,000 shares authorized; 59,171,883 and 58,748,469 shares issued and outstanding, respectively	–	–
Additional paid-in capital	5,318	5,157
Retained earnings	8,951	7,442
Accumulated other comprehensive income (loss)	(1,911)	(9)
Total SVBFG stockholders' equity	16,004	16,236
Noncontrolling interests	291	373
Total equity	16,295	16,609
Total liabilities and total equity	$ 211,793	$ 211,308

EXHIBIT 2: SVB Financial Group and Subsidiaries Consolidated Statement of Income 2020-2022

	Year ended December 31,		
(Dollars in millions, except per share amounts)	2022	2021	2020
Interest income:			
Loans	$ 3,208	$ 1,966	$ 1,520
Investment securities:			
Taxable	2,113	1,199	635
Non-taxable	140	106	61
Federal funds sold, securities purchased under agreements to resell and other short-term investment securities	212	18	26
Total interest income	5,673	3,289	2,242
Interest expense:			
Deposits	862	62	60
Borrowings	326	48	25
Total interest expense	1,188	110	85
Net interest income	4,485	3,179	2,157
Provision for credit losses	420	123	220
Net interest income after provision for credit losses	4,065	3,056	1,937
Noninterest income:			
Gains (losses) on investment securities, net	(285)	761	421
Gains on equity warrant assets, net	148	560	237
Client investment fees	386	75	132
Wealth management and trust fees	83	44	–
Foreign exchange fees	285	262	179
Credit card fees	150	131	98
Deposit service charges	126	112	90
Lending related fees	94	76	57
Letters of credit and standby letters of credit fees	57	51	47
Investment banking revenue	420	459	414
Commissions	98	79	67
Other	166	128	98
Total noninterest income	1,728	2,738	1,840
Noninterest expense:			
Compensation and benefits	2,293	2,015	1,318
Professional services	480	392	247
Premises and equipment	269	178	127
Net occupancy	101	83	101
Business development and travel	85	24	24
FDIC and state assessments	75	48	28
Merger-related charges	50	129	–
Other	268	201	190
Total noninterest expense	3,621	3,070	2,035
Income before income tax expense	2,172	2,724	1,742
Income tax expense	563	651	448
Net income before noncontrolling interests and dividends	1,609	2,073	1,294
Net loss (income) attributable to noncontrolling interests	63	(240)	(86)
Preferred stock dividends	(163)	(63)	(17)
Net income available to common stockholders	$ 1,509	$ 1,770	$ 1,191
Earnings per common share—basic	$ 25.58	$ 31.74	$ 23.05
Earnings per common share—diluted	25.35	31.25	22.87

EXHIBIT 3: SVB Financial Group and Subsidiaries Consolidated Statement Cash Flows 2020-2022

	Year ended December 31,		
(Dollars in millions)	2022	2021	2020
Cash flows from operating activities:			
Net income before noncontrolling interests	$ 1,609	$ 2,073	$ 1,294
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	420	123	220
Changes in fair values of equity warrant assets, net of proceeds from exercises	(60)	(26)	(2)
Changes in fair values of derivatives, net	193	52	(82)
(Gains) losses on investment securities, net	285	(761)	(421)
Distributions of earnings from non-marketable and other equity securities	57	201	86
Depreciation and amortization	222	151	101
Amortization of premiums and discounts on investment securities, net	388	451	75
Amortization of share-based compensation	183	136	84
Amortization of deferred loan fees	(259)	(269)	(174)
Deferred income tax (benefit) expense	591	(8)	7
Excess tax benefit from exercise of stock options and vesting of restricted shares	(18)	(40)	(6)
Losses from the write-off of premises and equipment and right-of-use assets	2	39	30
Changes in other assets and liabilities:			
Accrued interest receivable and payable, net	(45)	(185)	(26)
Accounts receivable and payable, net	6	17	19
Income tax receivable and payable, net	(179)	(122)	98
Accrued compensation	(48)	332	191
Proceeds from termination of interest rate swaps	–	–	228
Other, net	(483)	(296)	(310)
Net cash provided by operating activities	2,864	1,868	1,412
Cash flows from investing activities:			
Purchases of AFS securities	(12,724)	(12,147)	(23,208)
Proceeds from sales of AFS securities	9,495	1,591	2,654
Proceeds from maturities and paydowns of AFS securities	1,452	4,768	4,184
Purchases of HTM securities	(4,961)	(85,519)	(6,778)
Proceeds from maturities and paydowns of HTM securities	11,469	13,428	4,036
Purchases of non-marketable and other equity securities	(381)	(365)	(201)
Proceeds from sales and distributions of capital of non-marketable and other equity securities	106	666	148
Net increase in loans	(7,879)	(13,726)	(11,927)
Purchases of premises and equipment	(215)	(113)	(87)
Business acquisitions, net	–	1,081	(27)
Net cash used for investing activities	(3,638)	(90,336)	(31,206)
Cash flows from financing activities:			
Net increase (decrease) in deposits	(16,094)	78,238	40,224
Net increase (decrease) in short-term borrowings	13,494	21	6
Proceeds from issuance of long-term debt	2,795	1,636	495
(Distributions to noncontrolling interests), net of contributions from noncontrolling interests	(19)	(80)	(23)
Net proceeds from the issuance of preferred stock	–	3,306	–
Payment of preferred stock dividend	(163)	(63)	(17)
Common stock repurchase	–	–	(60)
Proceeds from issuance of common stock, net	(22)	2,374	31
Net cash provided (used for) by financing activities	(9)	85,432	40,656
Net increase (decrease) in cash and cash equivalents	(783)	(3,036)	10,862
Cash and cash equivalents at beginning of period	14,586	17,622	6,760
Cash and cash equivalents at end of period	$ 13,803	$ 14,586	$ 17,622
Supplemental disclosures:			
Cash paid during the period for:			
Interest	$ 981	$ 93	$ 84
Income taxes, net of refunds	96	739	299
Noncash items during the period:			
Changes in unrealized gains and losses on AFS securities, net of tax	$ (1,832)	$ (488)	$ 394
Distributions of stock from investments	2	72	12
Transfers from AFS securities to HTM	–	8,953	–

EXHIBIT 4: Composition of SVB Deposits as of December 31, 2021-2022

(Dollars in millions)	December 31, 2022	2021
Noninterest-bearing demand	$ 80,753	$ 125,851
Interest-bearing checking and savings accounts	32,916	5,106
Money market	52,032	54,842
Money market deposits in foreign offices	51	696
Sweep deposits in foreign offices	664	969
Time	6,693	1,739
Total deposits	$ 173,109	$ 189,203

EXHIBIT 5: NII Sensitivity Exposure 2021-2022

Change in interest rates (bps)	Estimated Percent Increase / (Decrease) in NII
December 31, 2022:	
+200	3.5 %
+100	1.8
-100	(1.8)
-200	(5.8)
December 31, 2021:	
+200	22.9 %
+100	10.9
-100	(6.4)
-200	(8.6)

Source: Form10-k for SVB filed in 02/24/2023 (page 90)

EXHIBIT 6: The Components of SVB's HTM Investment Securities Portfolio in 2022

(Dollars in millions)	December 31, 2022 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	ACL (2)	Net Carry Value
HTM securities, at cost:						
U.S. agency debentures (1)	$ 486	$ —	$ (52)	$ 434	$ —	$ 486
Residential MBS:						
Agency-issued MBS	57,705	—	(9,349)	48,356	—	57,705
Agency-issued CMO—fixed rate	10,461	—	(1,885)	8,576	—	10,461
Agency-issued CMO—variable rate	79	—	(2)	77	—	79
Agency-issued CMBS	14,471	—	(2,494)	11,977	—	14,471
Municipal bonds and notes	7,417	2	(1,269)	6,150	1	7,416
Corporate bonds	708	—	(109)	599	5	703
Total HTM securities	$ 91,327	$ 2	$ (15,160)	$ 76,169	$ 6	$ 91,321

(1) Consists of pools of Small Business Investment Company debentures issued and guaranteed by the SBA, an independent agency of the United States.
(2) Refer to Note 2—"Summary of Significant Accounting Policies" for more information on our credit loss methodology.

EXHIBIT 7: SVB's Loan Concentration in 2022

(Dollars in millions)	2022 Amount	2022 Percentage
Global fund banking	$ 41,269	55.6 %
Investor dependent:		
Early stage	1,950	2.6
Growth stage	4,763	6.4
Total investor dependent	6,713	9.0
Cash flow dependent - SLBO	1,966	2.6
Innovation C&I	8,609	11.6
Private bank	10,477	14.1
CRE	2,583	3.5
Premium wine	1,158	1.6
Other C&I	1,019	1.4
Other	433	0.6
PPP	23	—
Total loans	$ 74,250	100.0 %

EXHIBIT 8: Selected U.S. Banking Industry's Data in 2022

Fourth Quarter 2022 (in $ Billions)	Commercial Banks
Total assets	22,319
Total loans	11,586
Total deposits	16,644
Total nonperforming loans	81.10
Allowance for loan losses	180.557
Net charge-offs	40.551

Fourth Quarter 2022 (in $ millions)	FDIC-Insured Commercial Banks and Savings Institutions
Cash due from depository institutions	2,578,233
Deposits	19,214,547
Estimated insured deposit	10,234,151
Estimated uninsured deposit	8,980,396
Number of institutions reporting	4,706

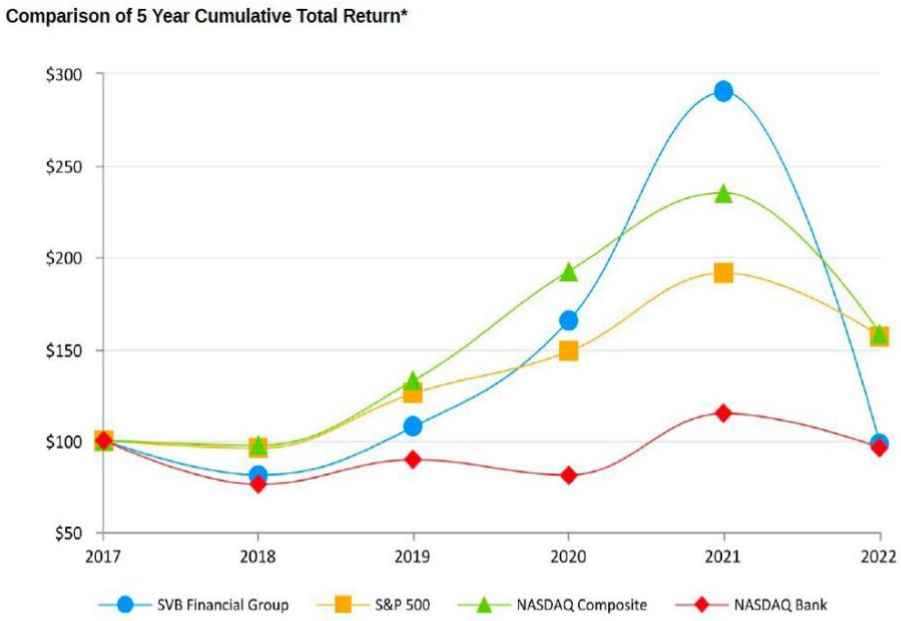
EXHIBIT 9: SVB's Nonperforming Assets in 2021-2022

(Dollars in millions)	December 31, 2022	2021
Nonperforming, past due and restructured loans:		
Nonaccrual loans	$ 132	$ 84
Loans past due 90 days or more still accruing interest	5	7
Total nonperforming loans	137	91
OREO and other foreclosed assets	—	1
Total nonperforming assets	$ 137	$ 92
Performing TDRs	$ 33	$ 40
Nonaccrual loans as a percentage of total loans	0.18 %	0.13 %
Nonperforming loans as a percentage of total loans	0.18	0.14
Nonperforming assets as a percentage of total assets	0.06	0.04
ACL for loans (1)	$ 636	$ 422
As a percentage of total loans	0.86 %	0.64 %
As a percentage of total nonperforming loans	464.23	463.74
ACL for nonaccrual loans (1)	$ 51	$ 35
As a percentage of total loans	0.07 %	0.05 %
As a percentage of total nonperforming loans	37.23	38.46
ACL for total performing loans (1)	$ 585	$ 387
As a percentage of total loans	0.79 %	0.58 %
As a percentage of total performing loans	0.79	0.58
Total loans	$ 74,250	$ 66,276
Total performing loans	74,113	66,185
ACL for unfunded credit commitments (2)	303	171
As a percentage of total unfunded credit commitments	0.48 %	0.39 %
Total unfunded credit commitments (3)	$ 62,541	$ 44,016

EXHIBIT 10: SVB's Net Charge-offs to Average Loans Outstanding 2021-2022

(Dollars in millions)	December 31, 2022 Net Charge-offs (Net Recoveries)	Average Loan Balance	Percentage	December 31, 2021 Net Charge-offs (Net Recoveries)	Average Loan Balance	Percentage
Global fund banking (1)	$ (7)	$ 39,417	(0.02)%	$ 80	$ 30,358	0.26 %
Investor dependent:						
Early stage	36	1,999	1.80	28	2,131	1.31
Growth stage	23	4,050	0.57	—	3,546	—
Total investor dependent	59	6,049	0.98	28	5,677	0.49
Cash flow dependent- SLBO	4	1,823	0.22	5	1,685	0.30
Innovation C&I	14	8,065	0.17	(3)	6,600	(0.05)
Private bank	(2)	9,665	(0.02)	3	6,704	0.04
CRE	—	2,626	—	—	1,366	—
Premium wine	(1)	1,056	(0.09)	—	1,047	—
Other C&I	3	1,157	0.26	—	628	—
Other	1	352	0.28	1	155	0.65
PPP	—	79	—	—	327	—
Total	$ 71	$ 70,289	0.10 %	$ 114	$ 54,547	0.21 %

FIGURE 1: SVB's Comparison of SVB's 5-Year Cumulative Total Return 2017-2022

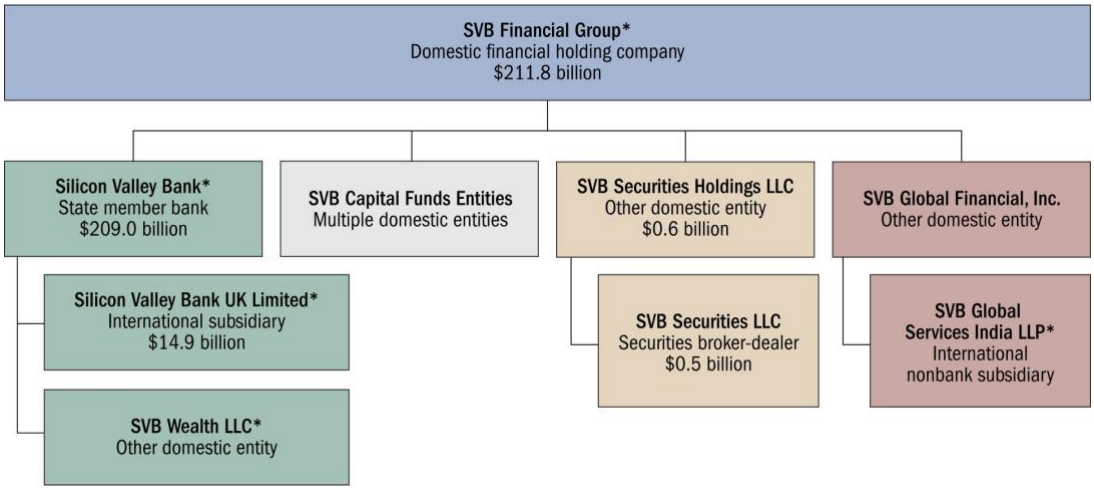


* $100 invested on 12/31/17

in stock or index, including reinvestment of dividends.
Fiscal year ended December 31st.

	December 31,					
	2017	2018	2019	2020	2021	2022
SVB Financial Group	$ 100.00	$ 81.24	$ 107.39	$ 165.90	$ 290.13	$ 98.45
S&P 500	100.00	95.62	125.72	148.85	191.58	156.89
NASDAQ Composite	100.00	97.16	132.81	192.47	235.15	158.65
NASDAQ Bank	100.00	75.78	89.41	81.19	114.69	96.14

FIGURE 2: SVB Financial Group Selected Legal Entity Structure in 2022



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WREATHS ACROSS AMERICA, A NON-PROFIT 501(c)(3) ORGANIZATION HONORING VETERANS

Martin S. Bressler

Abstract

Morrill Worcester is always thinking of ways to recognize and honor our nation's veterans. You may already be familiar with Wreaths Across America, the organization that lays wreaths on the graves of veterans at cemeteries across the country. Millions of people provide support to the organization through donations, volunteering their time, and even greeting the caravans that travel across the country to place wreaths on the graves. This case looks at a non-profit 501(c)3 organization and how students might evaluate how the organization can improve its services.

Introduction

Wreaths Across America began when a 12-year-old paper boy from the small Maine town of Harrington, Morrill Worcester, won a trip to Washington, D.C. It was his first trip to our nation's capital and one that would change not only his life, but the lives of millions of Americans. His trip to Washington, D.C. included a visit to Arlington National Cemetery where he saw the graves of hundreds of thousands of soldiers and the tomb of the Unknown Soldier. This experience left an unforgettable impression on young Morrill Worcester, an experience that he kept throughout his life. Worcester recognized the values of our nation and the veterans who sacrificed for our country played an important part in his successful career and good fortune.

In 1992, shortly after the Gulf War, the Worcester Wreath Company was nearing the end of the selling season with a large surplus of wreaths. Worcester decided to use the surplus of wreaths to help honor veterans. With assistance from then U.S. Senator Olympia Snowe, the surplus wreaths would be placed in an older section of Arlington National Cemetery that received fewer visitors. As plans started to unfold, volunteers from organizations such as the American Legion and Veterans of Foreign Wars and individuals like James Prout, the owner of the Blue Bird Ranch Trucking Company stepped forward to help. Volunteers from the local VFW and Legion posts, along with members of the local community decorated each wreath with red bows, each one hand tied. The wreath-laying would also include a special ceremony at the Tomb of the Unknown Soldier, organized by Maine members of the Maine State Society of Washington, D.C.

The Mission

The idea that began in 1992 continued to grow with the support of veteran's organizations, individuals, other groups, and individuals who had assisted in the annual wreath-laying ceremony at Arlington National Cemetery, and fifteen years later, in 2007, formed Wreaths Across America as a non-profit 501(c)(3) organization, Wreaths Across America, to execute this effort. The mission of the organization is plain and simple: Remember. Honor. Teach.

In the following year, more than three hundred locations wreath-laying ceremonies were held in all fifty states and Puerto Rico, as well as overseas twenty-four cemeteries. That year, more than 100,000 wreaths were placed on veterans' graves and more than 60,000 volunteers participated in the program. Also in that year, the United States Congress unanimously approved and voted December 13, 2008, as "Wreaths Across America Day."

In 2014, Wreaths Across America achieved an important goal by placing a wreath on every veteran's grave marker. A total of 226,525 wreaths were achieved, including sponsorship, and laying. The American Battle Monuments Commission invited a delegation of volunteers and supporters in 2018 to hold a wreath ceremony to honor the almost 10,000 heroes laid to rest in France at the Normandy American Cemetery.

Figure 1

Our Mission

Remember the fallen. Honor those who serve. Teach the next generation the value of freedom. Our volunteers are the beating heart of the program and work year-round to share this important mission and inspire others to join.

Wreaths Across America and their nationwide network of volunteers rested more than 2.7 million sponsored wreaths on veterans' headstones at 3,702 locations. This incredible feat was achieved with assistance from more than 5,000 sponsors, corporate contributions, and in-kind donations from transportation providers around the country.
Today, for more than thirty years now, the wreath-laying ceremony continues to be held each year on the second or third Saturday in December. The Wreaths Across America (WAA) annual journey begins in Harrington, Maine and travels to Arlington National Cemetery and is considered “the world’s largest veterans’ parade." Each year the WAA procession of trucks, law enforcement and fire department vehicles, along with staff and supporters stop at schools, monuments, veterans’ homes, and towns along the way to talk about the WAA mission and to remind people how important it is to remember, honor and teach.

A central part of the WWA mission is Wreaths Across America commitment to teach Americans of all ages the significance of their freedoms, and the importance of honoring those who sacrificed so much to protect those freedoms. In 2022, the organization launched its expanded TEACH program and collaboration with like-minded organization focused on character development and service projects for young people of all ages, with lesson plans for all grade levels and learning abilities.

Wreaths Across America could not be successful in their mission without the help of thousands of volunteers, active volunteer organizations and the generosity of the trucking company partners, which provide valuable support to WAA's mission in remembering the service men and women who served our country, honor our military and their families, and teach our children about our freedom and those who protect it.

Remember

Although we remember our veterans on Memorial Day in May and on Veteran’s Day in November, most of us do not think about the sacrifices servicemembers make for all Americans. However, in some American homes, there is an empty place at the dinner table where a son,

daughter, mother, or father, made the ultimate sacrifice for our country. Cindy Tatum, a Gold Star mother and educator, assisted in developing the curriculum for teachers to help students in understanding the importance of sacrifice.

Many of the other programs developed by Wreaths Across America help Americans remember the sacrifices make every day of the year. The Remembrance Tree Program allows veteran families to select a tree that will become a living memorial to their veteran family members. Every three years the balsam tips are harvested and used to make the veteran's wreaths for placement at cemeteries across the country and around the world. A family member supplies information for WAA to create a personalized dog tag which is attached to the Remembrance Tree. This is all done for no charge, though donations are accepted.

Honor

Wreaths Across America believes in honoring our veterans every day. Memorial Day and Veteran's Day are important, but remembering, honoring, and teaching are important activities each day of the year.

Figure 2

Every balsam wreath comprises unique qualities. The hand-made wreaths for Wreaths Across America are specially made to honor our fallen service members. As such, each wreath is made from ten balsam bouquets and a red bow. Each of the ten balsam bouquets symbolizes the ten qualities each veteran embodies: faith, love, strength, honesty, humility. ambition, optimism, concern, pride, and hopes and dreams. Evergreen represents longevity and endurance; the red bow, great sacrifice; the forest scent purity and simplicity; and the circular shape of the wreath, eternity. The diagram below helps explain these qualities to better help both your and your child's understanding and personal connection with our core mission.

Teach

Wreaths Across America understands the importance of teaching future generations the vital role veterans play in maintaining our freedoms. The available curriculum is prepared to assist educators in teaching children from kindergarten age through high school. The

- BELIEF in a greater good
- LOVE for each other
- STRENGTH, work ethic, & character
- HONESTY & integrity
- HUMILITY
- AMBITIONS & aspirations
- OPTIMISM for America
- CONCERN for the future
- PRIDE in their duties
- HOPES & DREAMS that did not always come true, but left them with no regrets

Figure 3

2024 Theme: Live with Purpose

"Over the course of the last year, and then especially on the escort to Arlington last December, I listened to people who had gone through great adversity, and they'd taken that adversity and turned it around as a call to action to spend the rest of their lives making sure that every day was meaningful and that they lived with purpose."
- Karen Worcester, Executive Director

In for-profit corporations, it is almost "un-American" not to grow your business. Companies need to develop new products and services to replace products and services that become obsolete in the product life cycle. In addition, there is pressure from investors to increase revenues and profits by adding additional products to the corporate catalog. So, the question for Morrill Worcester remains, "what's next?"

Questions for Discussion

1. How does Wreaths Across America fulfill their three-part mission?
2. How well would you rate them in fulfilling each part of their mission?
3. In what ways has Wreaths Across America been able to leverage assistance in achieving their mission?
4. Wreaths Across America seems to be fulfilling their stated mission. Should they be doing something else?

Appendix

When a volunteer places a wreath on a veteran's grave on National Wreaths Across America Day, we encourage them to speak that veteran's name aloud, thank them for their service and sacrifice, and reflect on that person and their life. Along with our wreath-laying ceremonies at cemeteries throughout the country and at WAA-hosted statehouse ceremonies in nearly all fifty states, WAA also holds several special memorial ceremonies, including: special memorials held at Pearl Harbor, the Pentagon and Shanksville, Pennsylvania and the HART Ceremony (Honoring Allies and Remembering Together), conducted each year to honor veterans of our nation's allies in ceremonies on international border-crossing bridges between Calais, Maine, and St. Stephen, New Brunswick; Detroit, Michigan, and Windsor, Ontario; and Sweetwater, Montana, and the Alaskan/Canadian border. --- Wreaths Across America
https://www.wreathsacrossamerica.org/

Special Wreaths Across America Programs

Wreaths Across America Museum
Wreaths Across America Gold Star Family History & Hospitality House
Wreaths Across America mobile museum
Remembrance Tree Program
Wreaths Across America radio and eNewsletter
Remember Wall Photo website

WAA History

1992: The first wreaths (5,000) were donated, and a tradition started by Maine wreathmaker Morrill Worcester, owner of Worcester Wreath Co., as a gift of thanks.

2005: An iconic photo of wreaths in the snow became a viral sensation.

2007: Wreaths Across America formed as a 501(c)(3) nonprofit.

Since 2008: Congress annually proclaims a Saturday in December as National Wreaths Across America Day. It will be held this year on Saturday, December 16, 2023.

2012: Millionth wreath placed at Arlington National Cemetery.

2014: Every headstone at Arlington National Cemetery received a wreath for the first time.

2016: 25th year that veterans' wreaths are placed at Arlington National Cemetery.

2018: Mission advances overseas with the first placement of 9,387 veterans' wreaths at Normandy-American Cemetery in France.

2021: Marked the 30th year veterans' wreaths are placed at Arlington National Cemetery.
2022: 2.7 million wreaths are placed at over 3,700 locations nationwide and abroad.

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