



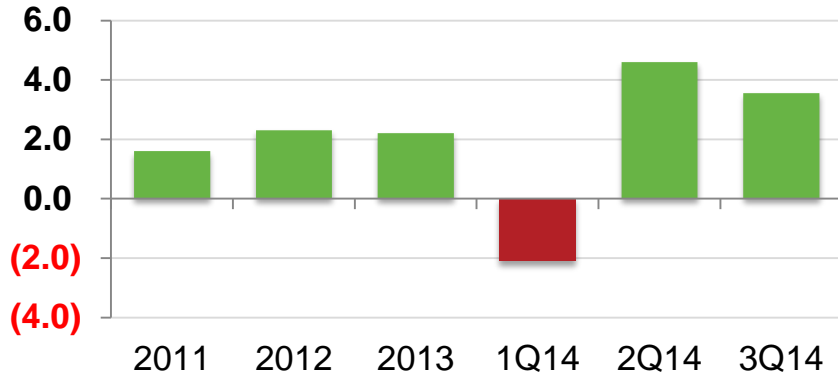
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**U.S. Airline Industry Year-to-Date 3Q 2014 Review**  
*Putting Improving Finances to Work*

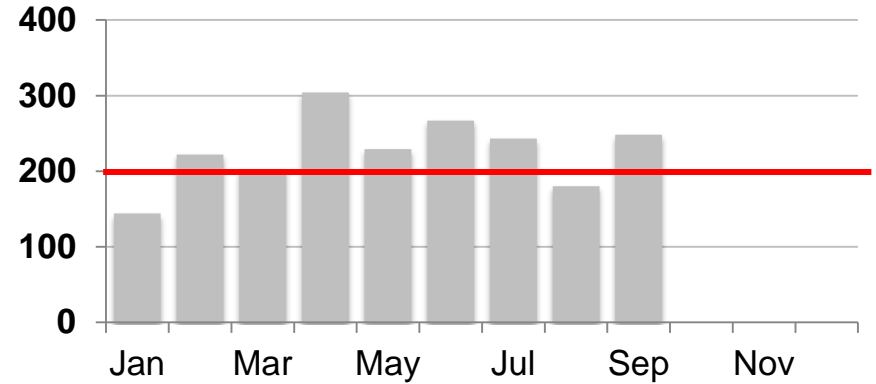
John P. Heimlich  
Vice President & Chief Economist  
A4A Media Briefing  
November 6, 2014

# Key Air-Travel Demand Drivers Trending Positively

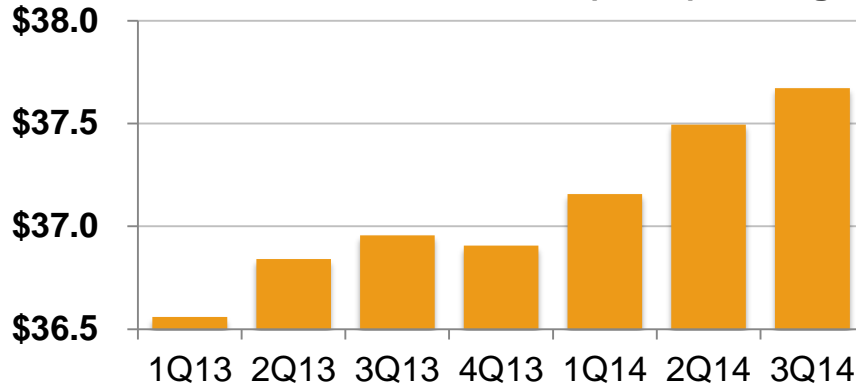
## U.S. Economy Growing > 3% CAGR



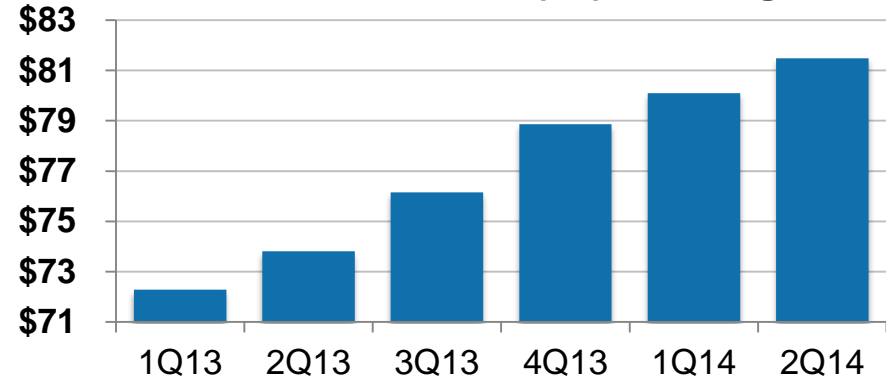
## U.S. Generating > 200K Jobs per Month



## Real Personal Incomes (\$000) Rising



## Household Net Worth (\$T) Growing



Sources: BEA, BLS, Federal Reserve and IHS Economics; U.S. GDP real annual average growth rate (%), U.S. nonfarm payroll employment growth (month-over-month, in 000s, seasonally adjusted), U.S. disposable personal income per capita (chained 2009 dollars, SAAR); U.S. household net worth in current dollars, not seasonally adjusted

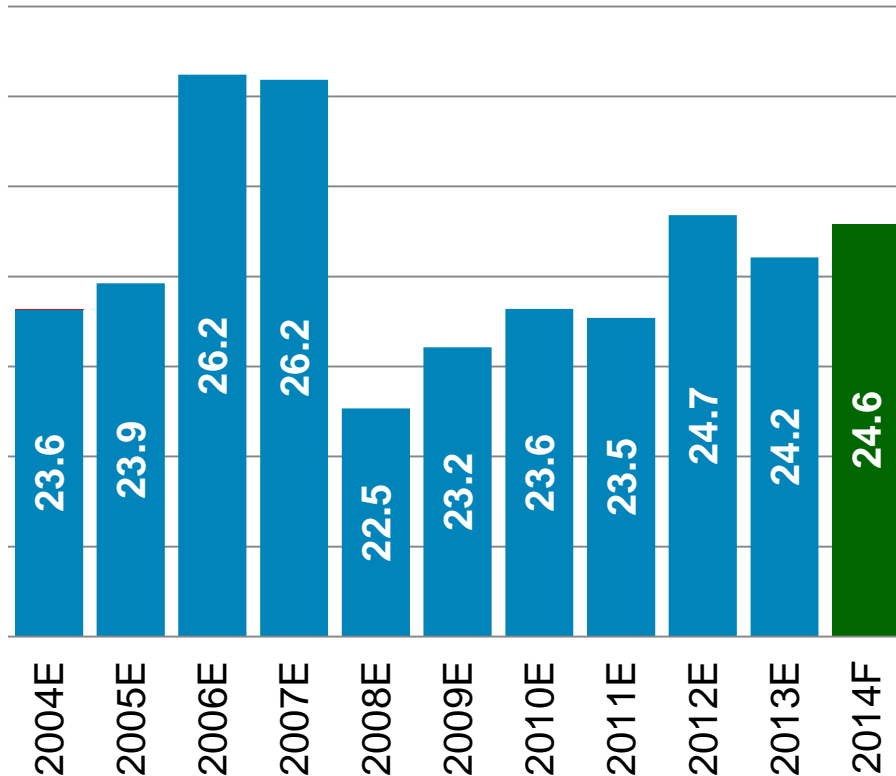


# A4A Projects U.S. Airlines to Carry 24.6M Thanksgiving-Period Passengers in 2014

Up ~31,000 Passengers per Day, or 1.5 Percent, from *Estimated* 2013 Volumes

## U.S. Airline Onboard Passengers (Millions)

Scheduled Service, 12-Day Thanksgiving Period



## Forecast Highlights

- 12-Day Period = Fri., 11/21 through Tues., 12/2
- 24.6M passengers (2.05M per day)
  - Up 1.5% (~31K per day) from 2013
  - Remains ~6% below 2006-2007 estimated peak
  - Typically 10% of passengers fly internationally
- Daily volumes to range from 1.36M to 2.61M
  - Sunday return was busiest day of all of 2013
  - Thanksgiving Day was lightest day of all of 2013
- Busiest U.S. airports: ATL, LAX, ORD, DFW, JFK, DEN, SFO, PHX, CLT, IAH, MIA, LAS, EWR, SEA, MCO, MSP, BOS, DTW, LGA, PHL
- Schedules show that airlines have added seats commensurate with expected demand growth

Source: A4A and BTS T100 segment data

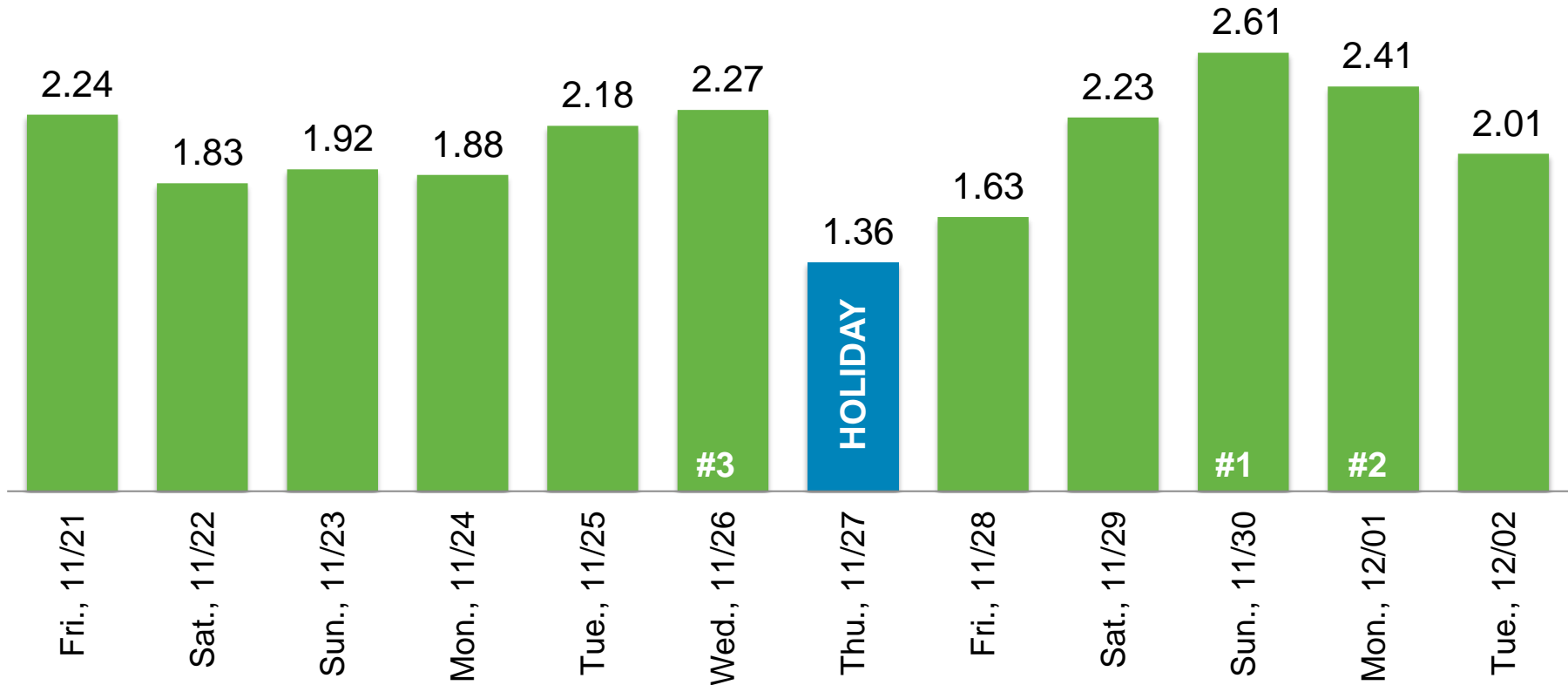


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# A4A Projects Daily Thanksgiving Passenger Volumes to Range from 1.36M to 2.61M

Expected Busiest Days: Sunday Return, Monday Return and Wednesday Before

## Projected Onboard Passengers (Millions)



Source: A4A, selected sample carriers and DOT T100 segment data

\* Friday, Nov. 21 through Tuesday, Dec. 2

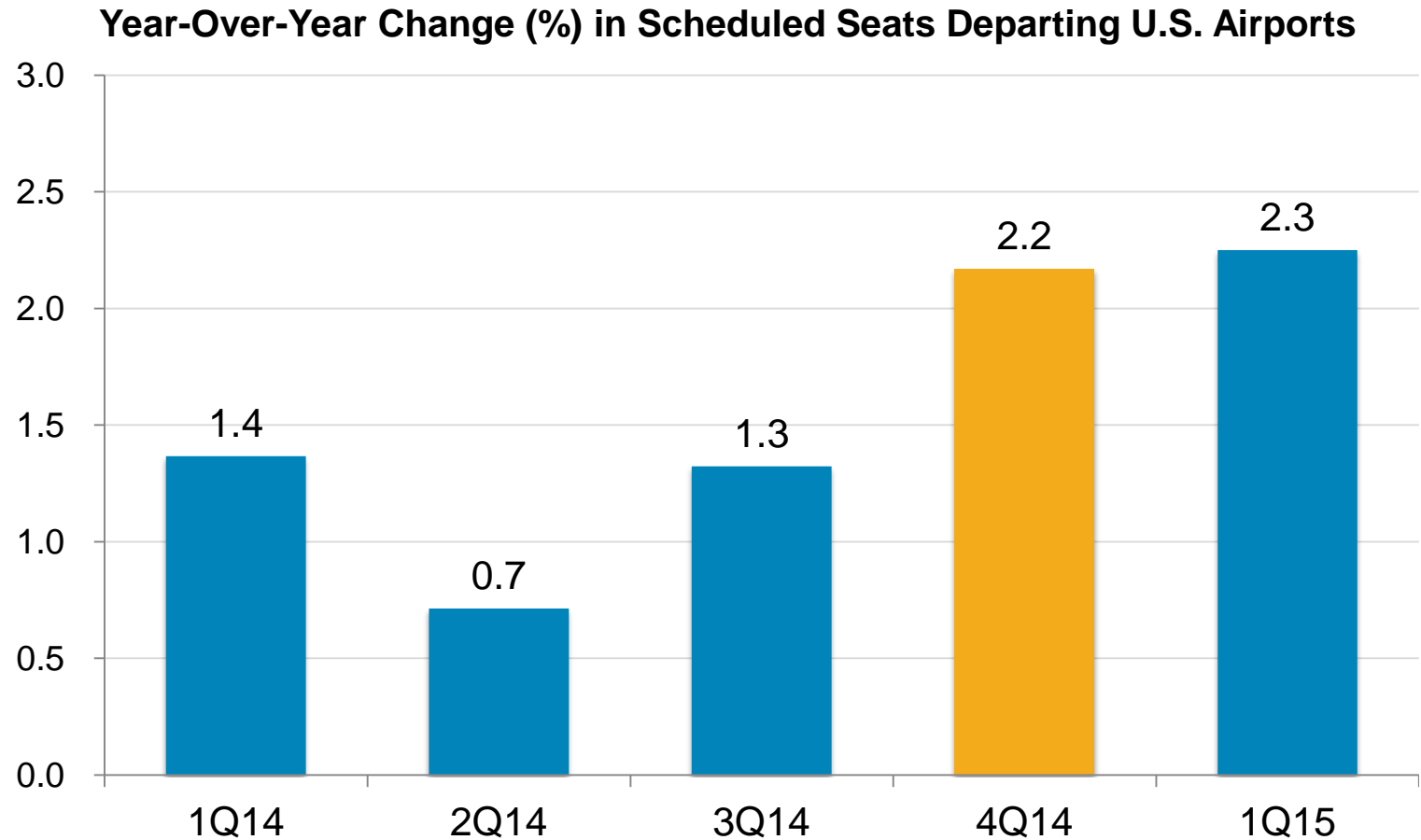


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# As Airlines Generate Modest Returns on Capital, Customers Are Seeing More Seats

Seat Growth Has Accelerated This Fall and is Scheduled to Continue in Early 2015

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Source: Innovata (via Diio Mi) published schedules as of Oct. 31, 2014 for all airlines providing scheduled passenger service from U.S. airports to all destinations

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# Sample Comparison of Thanksgiving Period Traveler Value and Taxation

Example: WAS-BOS Round Trip on Nov. 21-30, 2014 (priced on Oct. 30, 2014)



U.S. AIRWAYS

Vehicle/Flight No.	190/1135 NE Regional	US 2102/2101
No. of Stops (R/T)	70	None
Travel Time (R/T)	15h 45m	2h 51m
Base Fare (R/T)	\$314*	\$369.30
Govt. Taxes/Fees	(~\$45 Subsidy)*	\$55.90 Tax
Net Ticket Price	\$314	\$425.20
Travel Time per \$ Spent	~3 minutes	~33 seconds
Federal Fuel Tax	0.1 ¢/gallon	4.4 ¢/gallon

\* Combined FY2014 capital and operating subsidies per Amtrak rider

Sources: Amtrak, Federal Budget Appendices, Federal Railroad Administration, US Airways



# Healthy Air-Travel Volumes and Fuel-Price Relief Drive Margin Gains\* in YTD 3Q14

## Lower Fuel Expense Largely Offsets Increases in Labor, Airport and Aircraft Costs

	% Change YOY
Operating Revenues (\$119.3B)	5.5
Operating Expenses (\$107.8B)	3.1
Fuel (34% of Operating Expenses)	(0.3)
Wages & Benefits (25%)	7.9
Maintenance, Materials & Repairs (5%)	(3.1)
Landing Fees & Terminal Rents (5%)	4.5
Aircraft Rent (2%)	(4.7)
Depreciation & Amortization (4%)	6.8
Other** (24%)	(4.4)
Interest & Other Non-Operating Expenses	(21.2)
Income Tax & Other Expense / (Benefit)	nmf
Net Profit: \$6.8B (5.7% of Op. Revenues)	+ 1.7 pts.

YTD 3Q	2013	2014	Change
Passenger Yield <sup>1</sup>	15.99¢	16.41¢	+2.6%
Passenger Traffic <sup>2</sup>	620.4B	636.6B	+2.6%

1. Average airfare paid per mile flown, excluding taxes
2. Revenue passenger miles (RPMs) flown

YTD 3Q	2013	2014	Change
Enplanements	542.0M	555.2M	+2.4%
U.S. Inflation <sup>3</sup>	232.869	236.938	+1.7%
Personal Income <sup>4</sup>	\$39,427	\$40,692	+3.2%

3. U.S. Consumer Price Index (1982-84 = 100)
4. U.S. disposable personal income per capita

\* A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

\*\* Professional fees, food/beverage, insurance, commissions, GDS fees, communications, advertising, utilities, office supplies, crew hotels, nonfuel payments to regionals

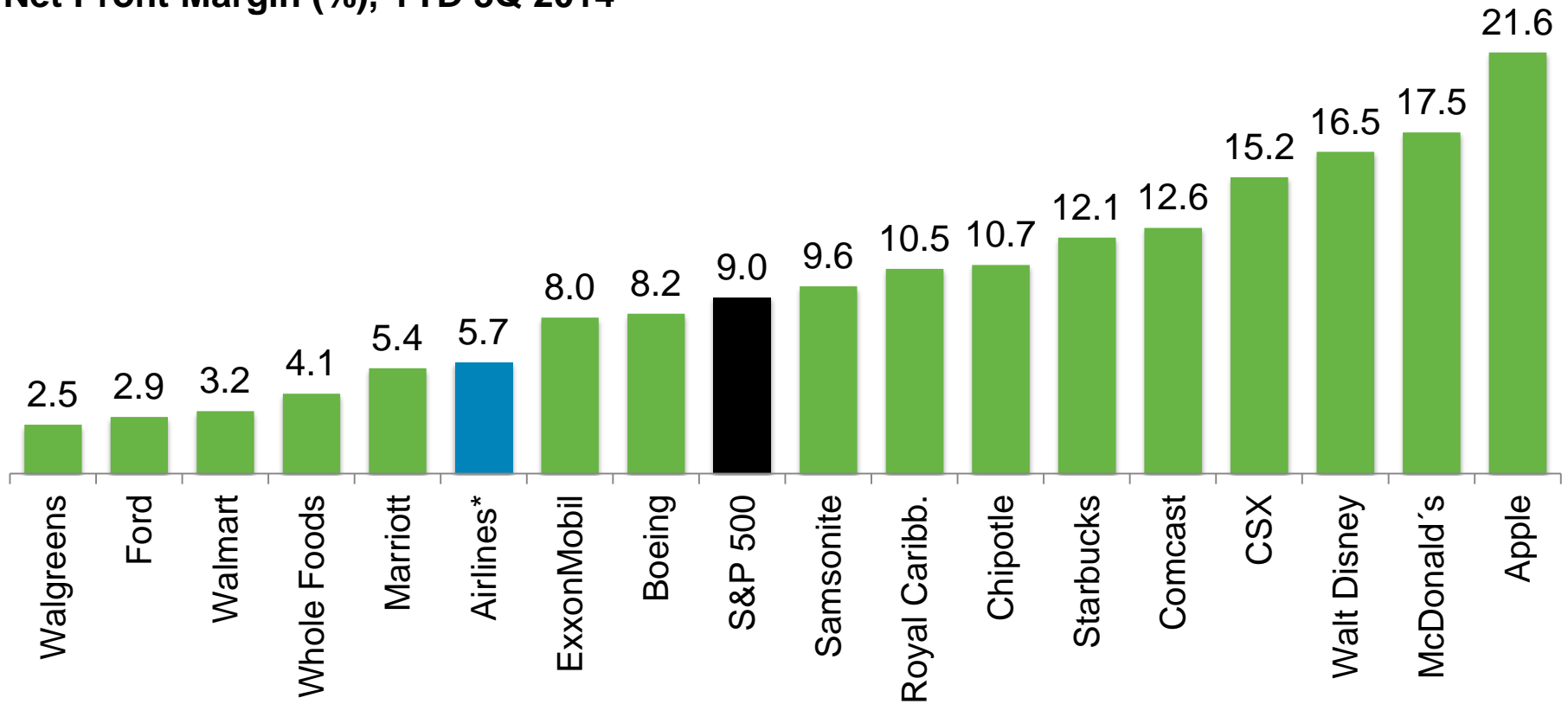


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# The Airline Industry Remains a Low-Margin Business, Lagging S&P 500 Average

For Every Dollar of Revenue Collected, U.S. Airlines Keeping ~6 Cents as Profit

Net Profit Margin (%), YTD 3Q 2014



\* A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United  
Sources: Standard & Poor's and company SEC filings; S&P is trailing twelve months

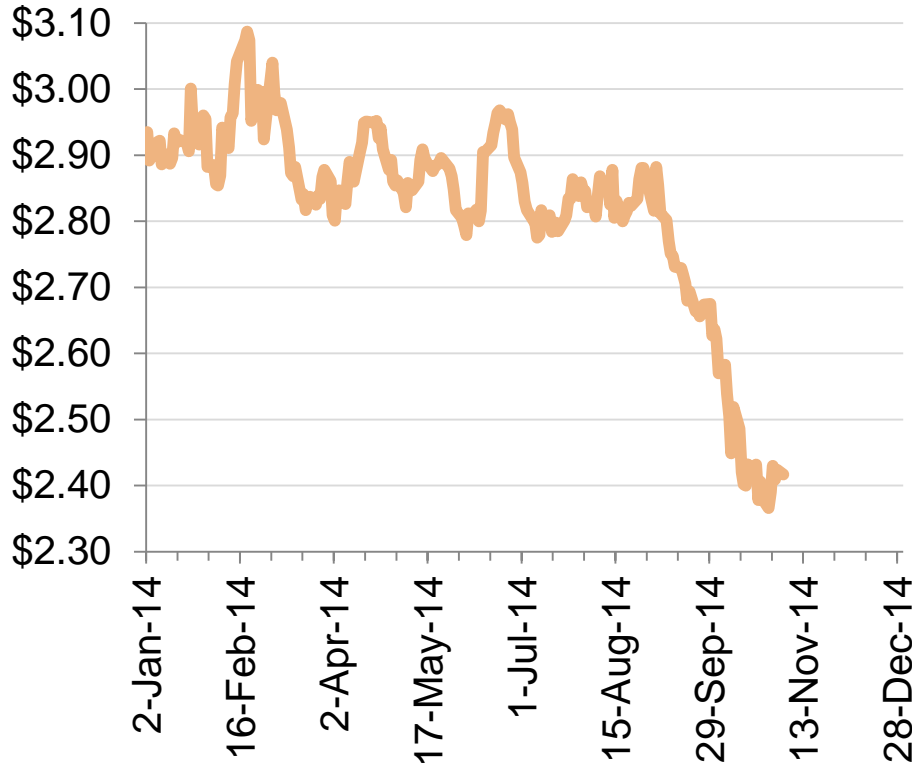




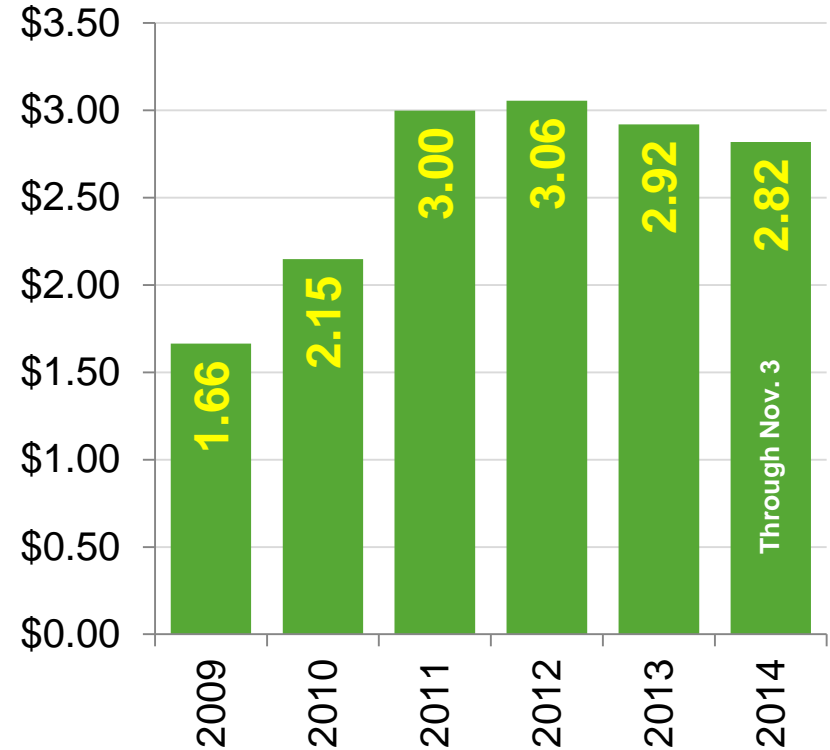
# Jet-Fuel Prices, Despite Recent Margin-Friendly Plunge, Remain Inflated

Every Penny per Gallon per Year Equates to \$190M in Annual Fuel Expenses

Daily Spot Price per Gallon (U.S. Gulf)



Annual Spot Price per Gallon (U.S. Gulf)



Source: A4A and Energy Information Administration (U.S. Gulf Coast)

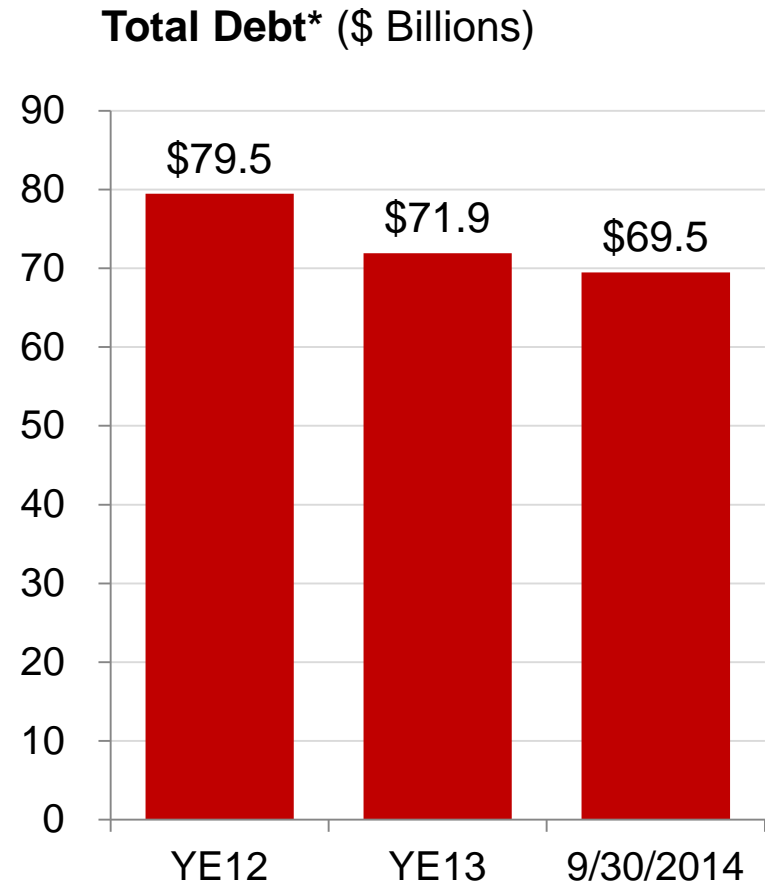


# After Years of Staggering Losses, U.S. Airlines\* Are Tackling the Mountain of Debt

## Airlines\* Have Reduced Debt by an Additional \$2.4 Billion Thus Far This Year

“...it would be unreasonable to assume that all airline risks have just disappeared... [T]he business model requires a large cushion of cash and significant reinvestment.”

Alexander MacLennan  
The Motley Fool  
Feb. 3, 2014

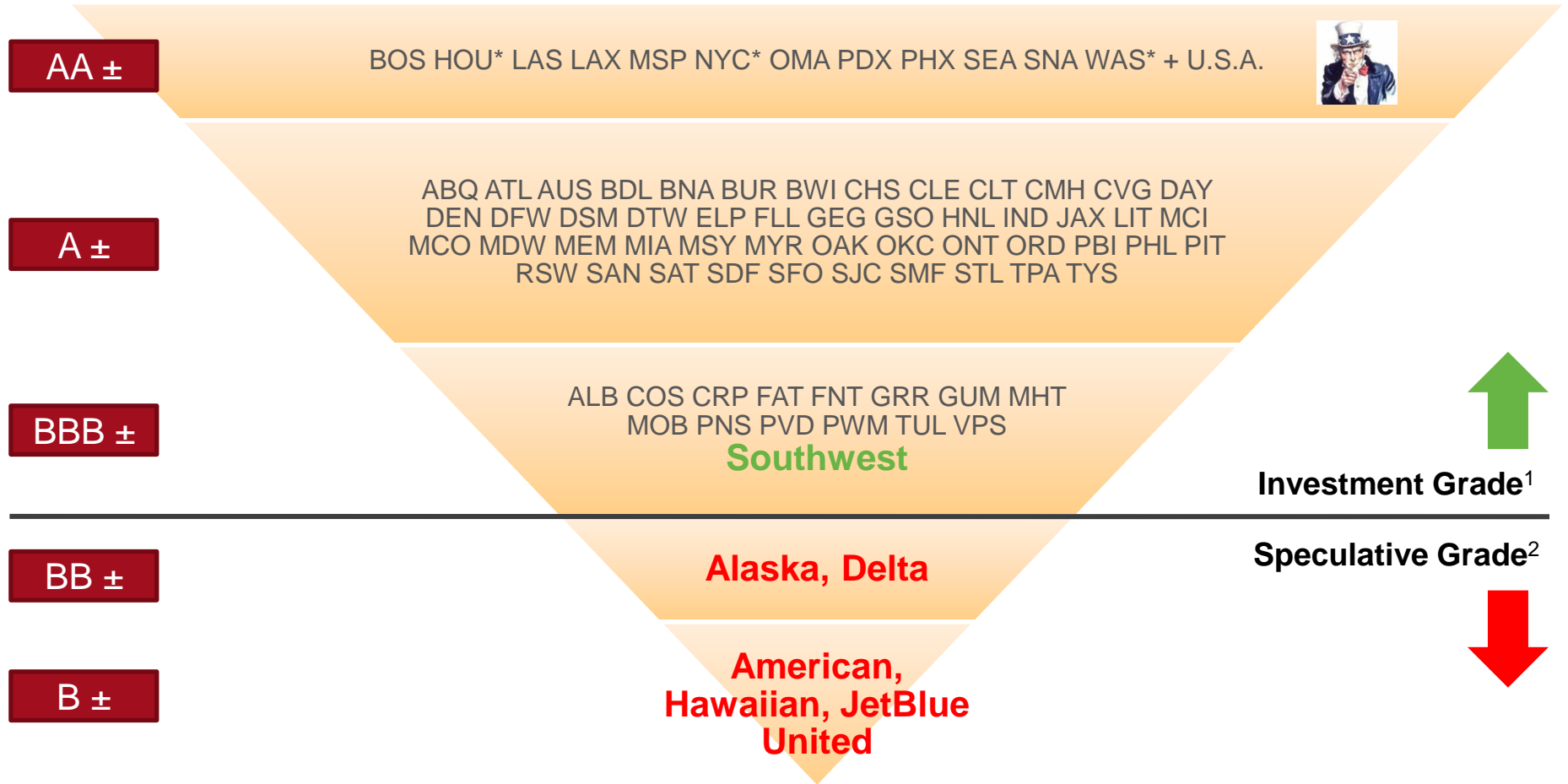


\* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United; includes capitalized operating leases at 7x annual aircraft rents



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# Unlike Airports and the U.S. Government, Airline Creditworthiness Remains Deficient



<sup>1</sup> Describes issuers with relatively high levels of creditworthiness and credit quality

<sup>2</sup> Describes issuers with ability to repay but facing significant uncertainties, such as adverse business or financial circumstances that could affect credit risk

Source: Standard and Poor's

\* HOU = HOU/IAH; NYC = EWR/JFK/LGA; WAS=DCA/IAD



# The Increasing Ability to Hire, Train and Retain High-Quality Talent and to Lure Long-Term Investors is Translating Directly to Palpable Benefits for Our Customers



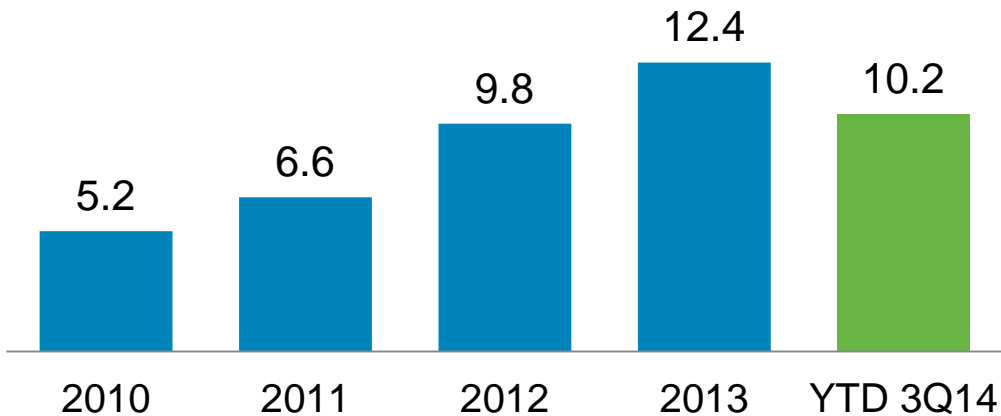
- » New or refurbished aircraft
- » Expanded route networks (scope and frequency) and schedules (seat growth)
- » Enhanced tools (computers, tablets, software) and training for customer-contact employees
- » Improved airport check-in areas, lounges, gates
- » Continued development and roll-out of mobile technology and website/kiosk functionality
- » Increasing operational reliability (controlled for weather conditions)
- » Larger overhead bins for luggage
- » Availability of lie-flat seating with AC power and USB (incl. on select transcon flights)
- » Proliferation of domestic and international WiFi and inflight entertainment options



# Improving Finances Enabling Significant Reinvestment in Customer Experience

## Airline Capital Spending Exceeding \$1 Billion per Month – Highest in 13 Years

### U.S. Airline\* Capital Expenditures (\$ Billions)



- » Aircraft (**317 deliveries in 2014**), spare engines, winglets
- » Premium seats, new aircraft interiors
- » Ground equipment, loading bridges
- » Airport (gates/lounges) and maintenance facilities
- » Bag carousels, carts, scanners
- » In-flight entertainment and Wi-Fi
- » Computers, kiosks, mobile technology



\* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United



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## Recap

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- » An expanding U.S. economy, employment growth, rising personal incomes and falling energy prices are driving increased demand for travel, including high-speed air travel
- » In the first three quarters, higher revenues outpaced higher expenses, contributing to modest profit margin growth of 1.7 points, to just under 6 percent of revenues
  - Operating revenues rose 5.5 percent, driven equally by price (yield) and volume (RPMs)
  - Notwithstanding relief on fuel prices, total operating expenses rose 3.1 percent, with increases in wages/benefits, aircraft ownership costs, and airport rents and landing fees
- » Airline margins at this point in the business cycle remain subpar, well below the S&P 500 average and such brand names as Apple, Chipotle, Comcast, Disney and McDonald's
- » While jet fuel prices remain historically high, recent declines are enabling airlines to:
  - Continue to pay down debt (accumulated from massive losses in the previous decade)
  - Enhance creditworthiness to minimize the service and job impact of future downturns
  - Acquire new fuel-efficient, range-enhanced, customer-friendly aircraft
  - Refurbish airport check-in areas, lounges, gates
  - Add seats to the schedule and initiate new routes
  - Reward employees (profit-sharing) and boost staffing levels



[www.airlines.org](http://www.airlines.org)



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