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We Connect the World

Tracking the Impacts of COVID-19

Updated September 15, 2020

COVID-19 Has Forced Several Airlines Across the Globe to Restructure or Cease Operations

Selected Airline Bankruptcies and/or Shutdowns From March 1 to Present

United States

Compass Airlines
ExpressJet (pending 9/30)
Miami Air International
RavnAir Group
Trans States Airlines

Outside the USA*

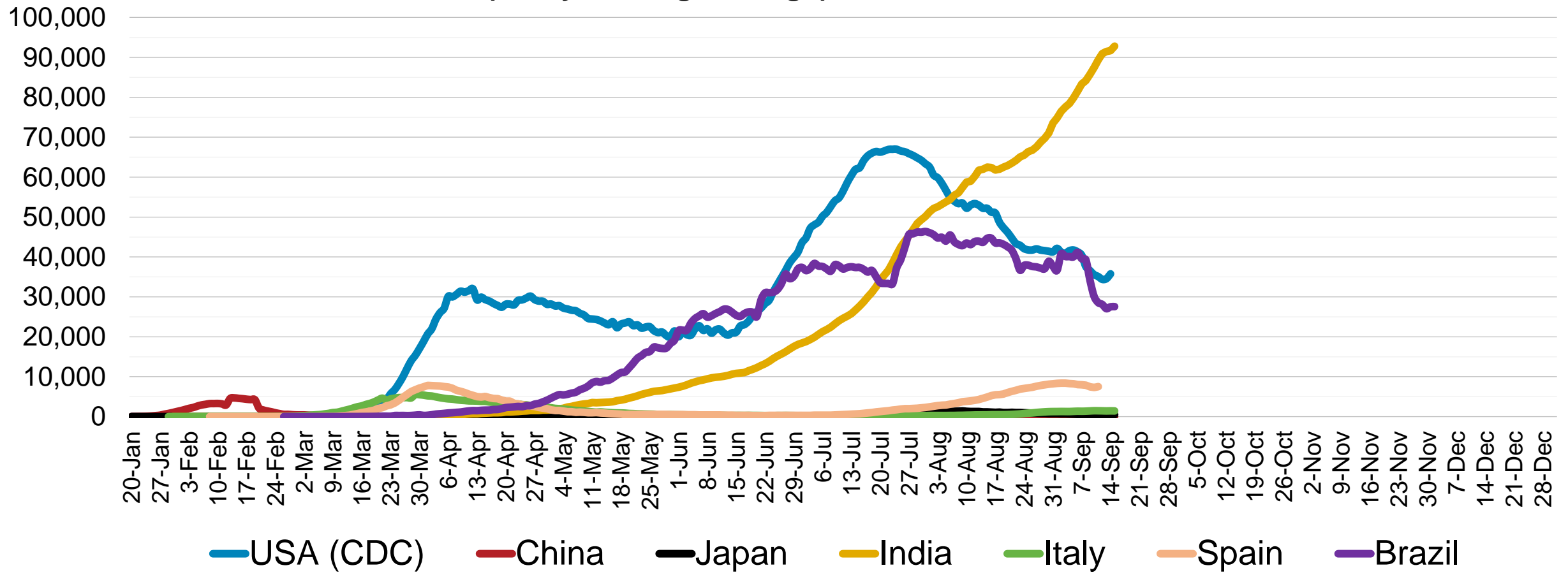
Aeromexico (Mexico)
Air Mauritius (Mauritius)
Alitalia (Italy)
Avianca (Colombia)
Comair (South Africa)
Flybe (UK)
German Airways (Germany)
Germanwings (Germany)
LATAM (Chile)
South African (S. Africa)
Thai Airways (Thailand)
TAME (Ecuador)
Virgin Australia (Australia)

Source: A4A research

* UK-based Virgin Atlantic filed Chapter 15 in the United States – “a solvent restructuring of an English company”

New U.S. Cases of COVID Surged in Mid-June, Peaked on July 24

New Cases of COVID-19 (7-Day Moving Average)



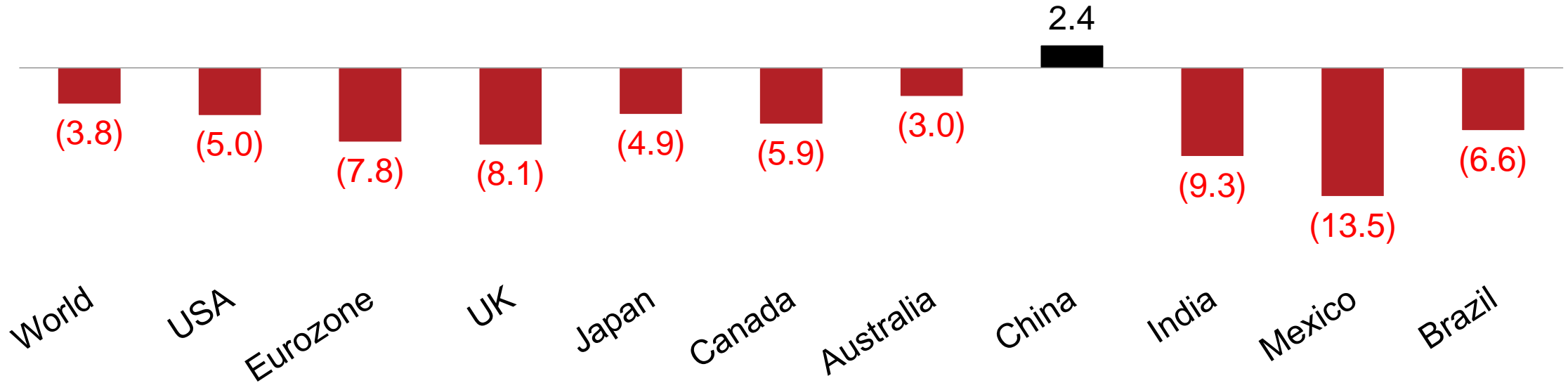
Source: World Health Organization and U.S. Centers for Disease Control and Prevention

The World Economy Is Projected to Shrink Nearly 4% in 2020

But a Global Recovery Is Underway

“After a severe economic downturn in most countries during the first half of the year, the global economic recovery appears to be underway... We look for a strong rebound in global GDP over the second half of this year, with the recovery persisting through 2022... Still, for most countries, it could take as long as the end of 2021 or even to the end of 2022 for the level of real GDP to return to its pre-virus levels.”

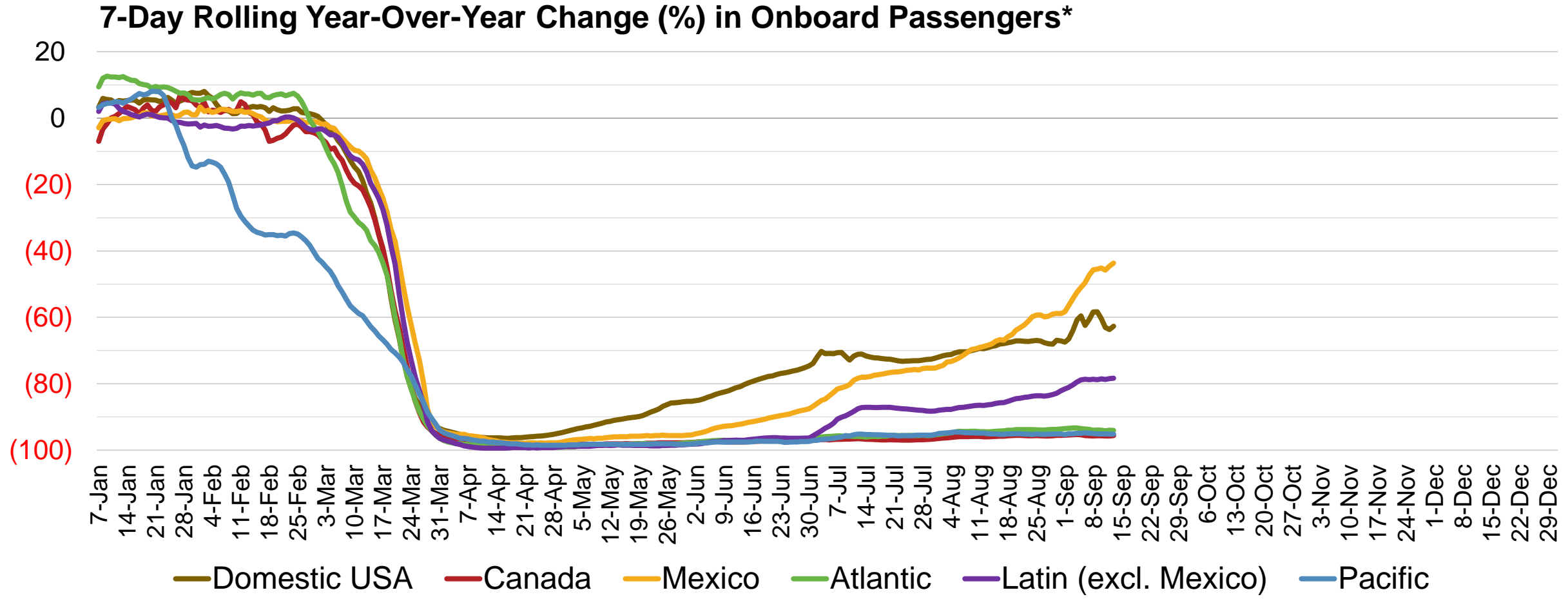
Wells Fargo Forecasts for 2020 Real GDP Growth (%)



Source: Wells Fargo Securities (Sept. 10, 2020)

For U.S. Airlines, Passenger Volumes* Remain 65% Below Year-Ago Levels

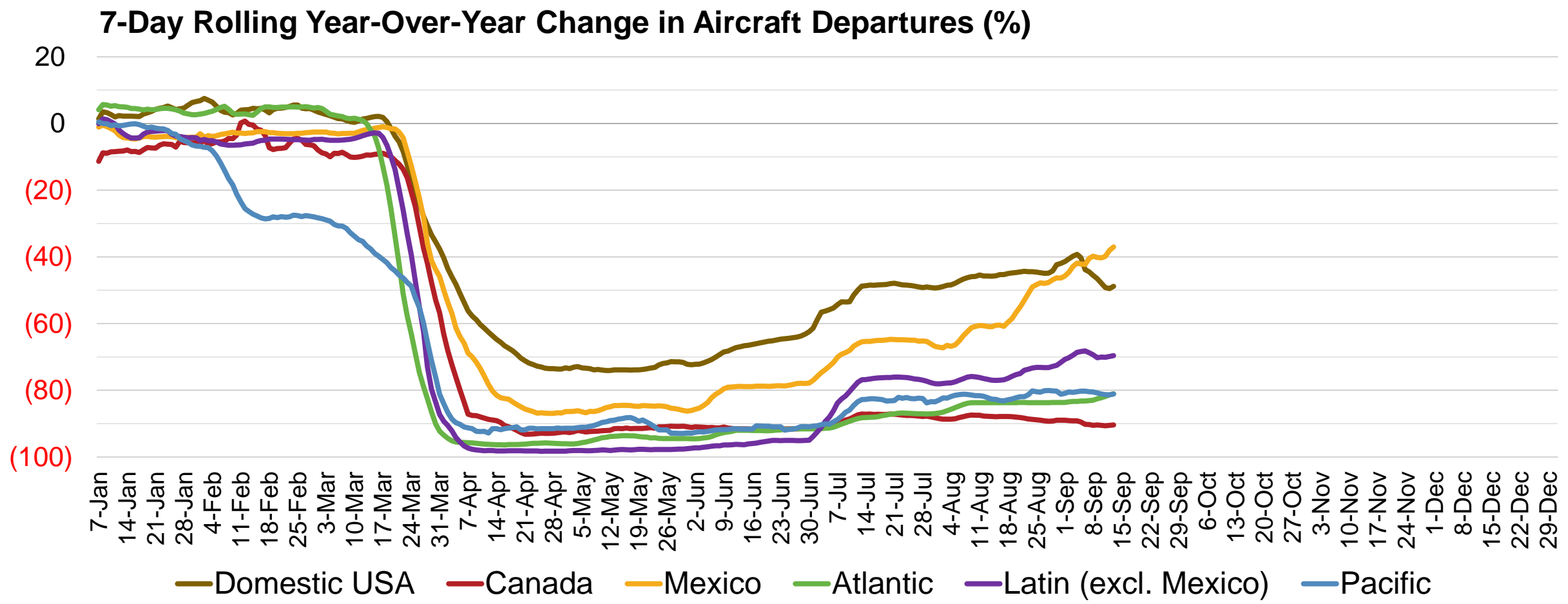
In Week Ending Sept. 13 – Domestic Air Travel Down 63%, International Down 84%



Source: A4A member passenger airlines as reported to A4A on a consolidated company basis (including branded code share partners)

* Onboard ("segment") passengers

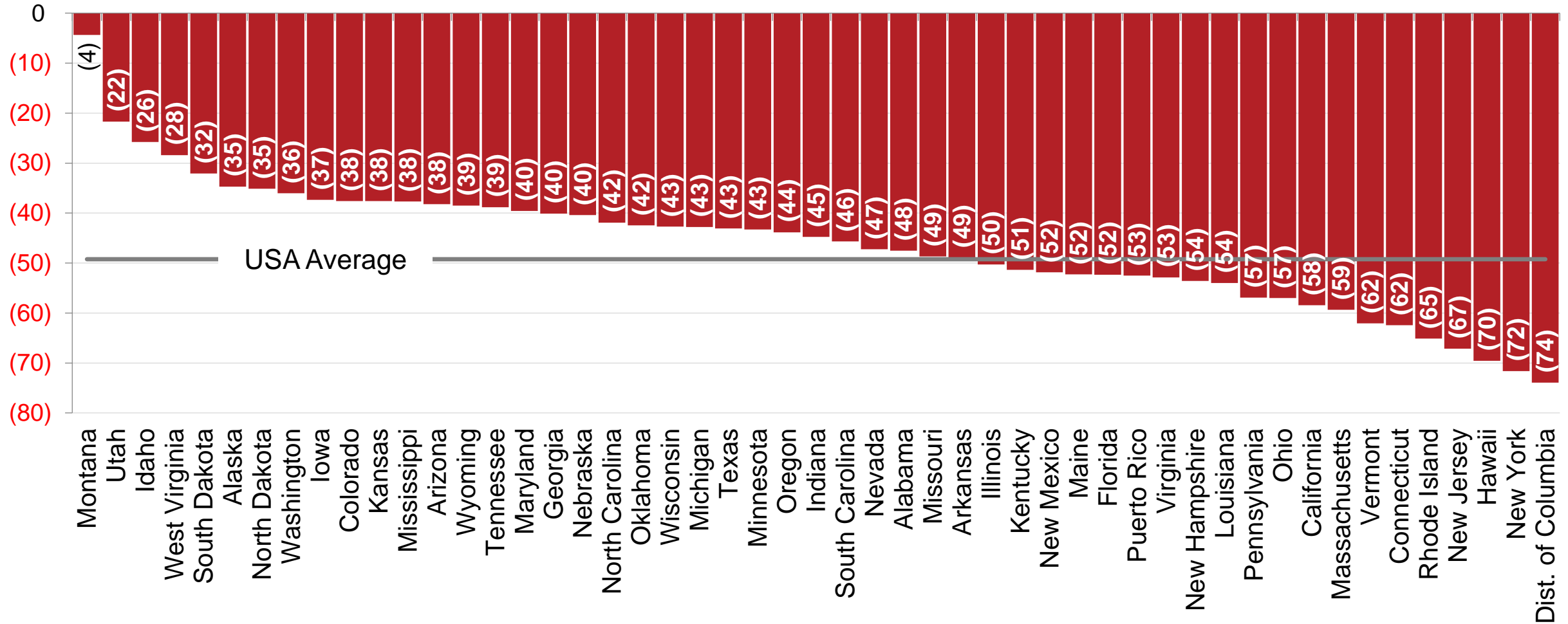
For U.S. Passenger Airlines, Worldwide Departures Remain 51% Below 2019 Levels In Week Ending Sept. 13 – Domestic Flights Down 49%, International Flights Down 72%



Source: A4A member passenger airlines as reported to A4A on a consolidated company basis (including branded code share partners)

Nationwide: Washington, DC / New York / Hawaii Are Seeing the Largest Air Service Reductions

% Change in Scheduled Passenger Flights: September 2020 vs. 2019 – All Airlines and Destinations

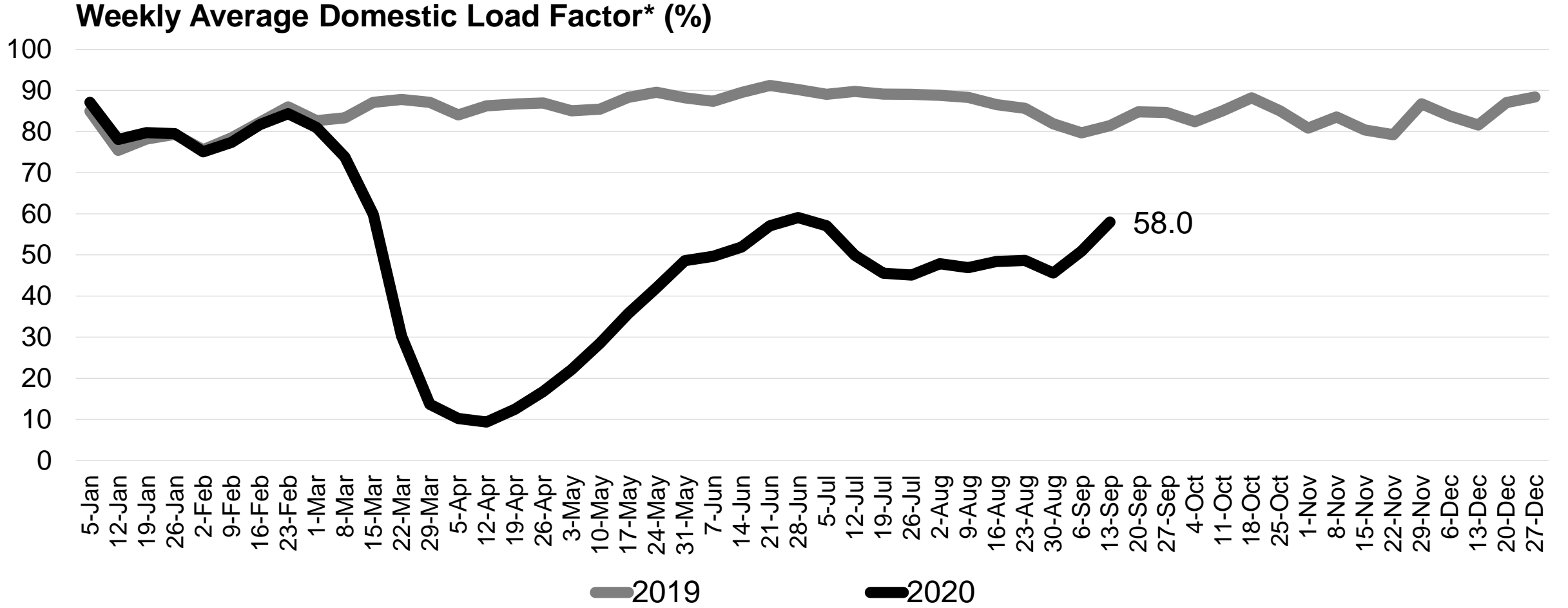


Source: Diio by Cirium published schedules (Aug. 28, 2020) for all airlines providing scheduled service to all destinations

Note: DC consists of Washington Reagan (DCA) and Washington Dulles (IAD)

Domestic U.S. Load Factor* Averaged 58% in Most Recent Week, Versus 81% a Year Earlier

Shift in Timing of Labor Day a Factor

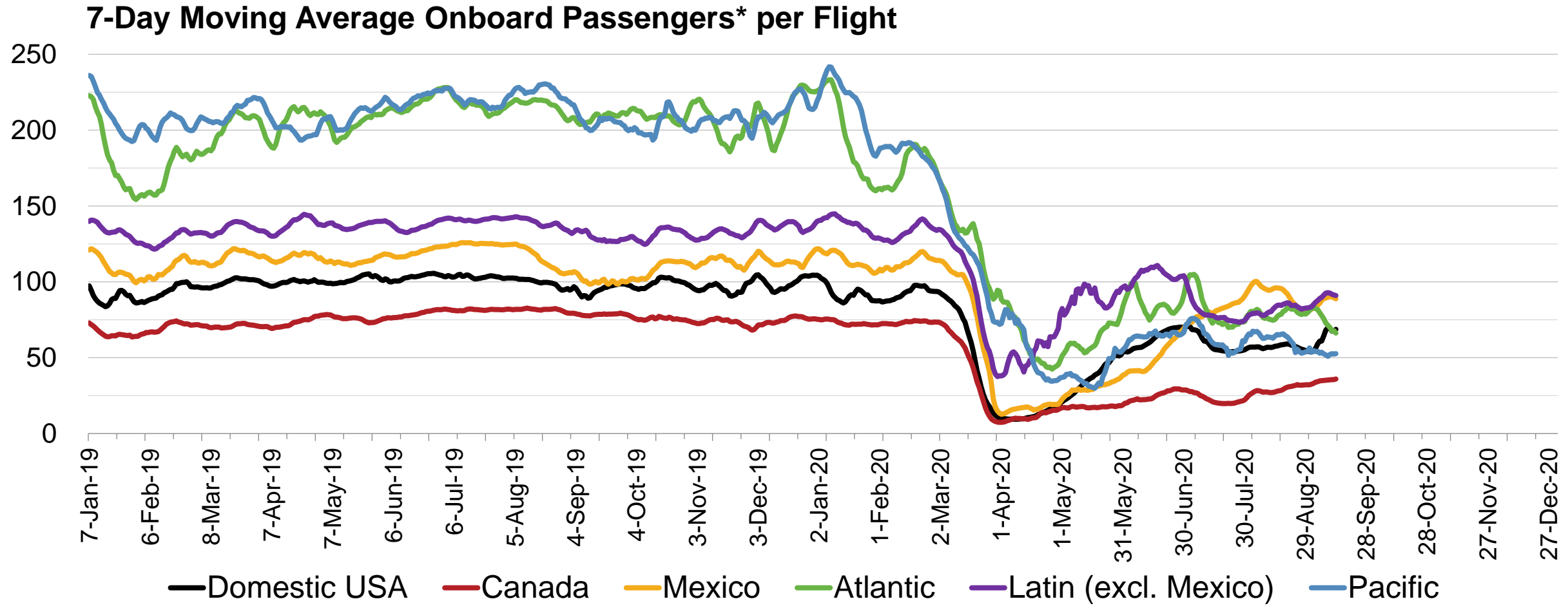


Source: A4A member passenger airlines as reported to A4A on a consolidated company basis (including branded code share partners)

* Revenue passenger miles divided by available seat miles

In the Week Ending Sept. 13, Domestic U.S. Flights Averaged 69 Passengers*

Domestic Flights Averaged ~99 Passengers per Departure Over the Course of 2019

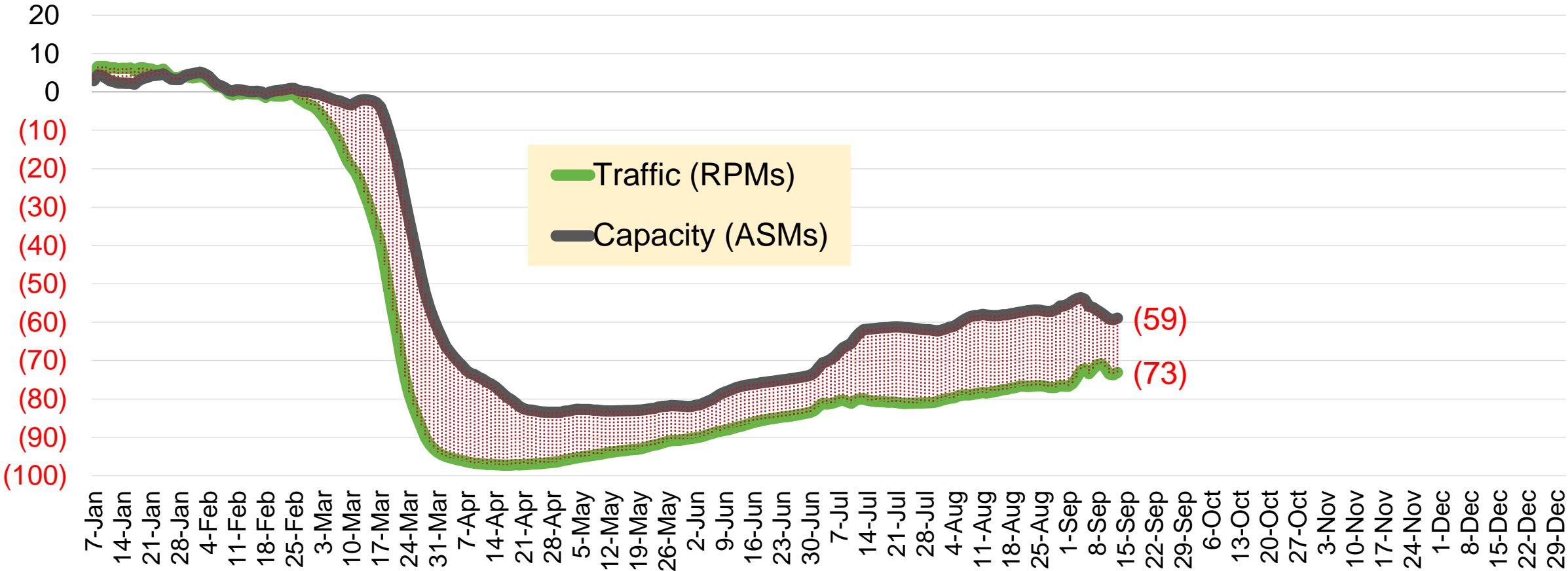


Source: A4A member passenger airlines as reported to A4A on a consolidated company basis (including branded code share partners)

* Onboard ("segment") passengers

U.S. Airline Capacity Cuts Have Not Caught Up With the Severe Drop in Demand

7-Day Rolling Year-Over-Year Change (%) in Systemwide Traffic and Capacity*



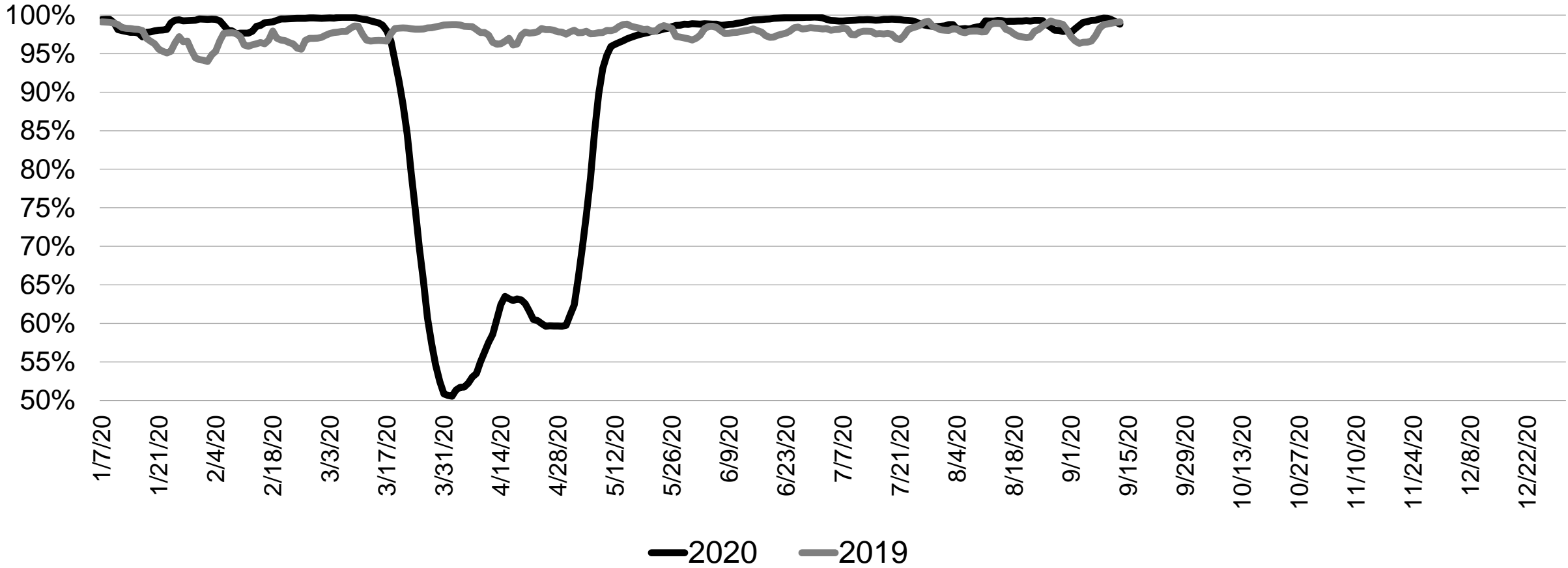
Source: A4A member passenger airlines as reported to A4A on a consolidated company basis (including branded code share partners)

* RPM = revenue passenger mile; ASM = available seat mile

Since May, Flight Completion Factor Has Consistently Outperformed 2019

In June-August 2020, Completion Factor Averaged One Point Higher Than a Year Earlier

U.S. Passenger Airline Flight Completion Factor* (7-Day Moving Average)



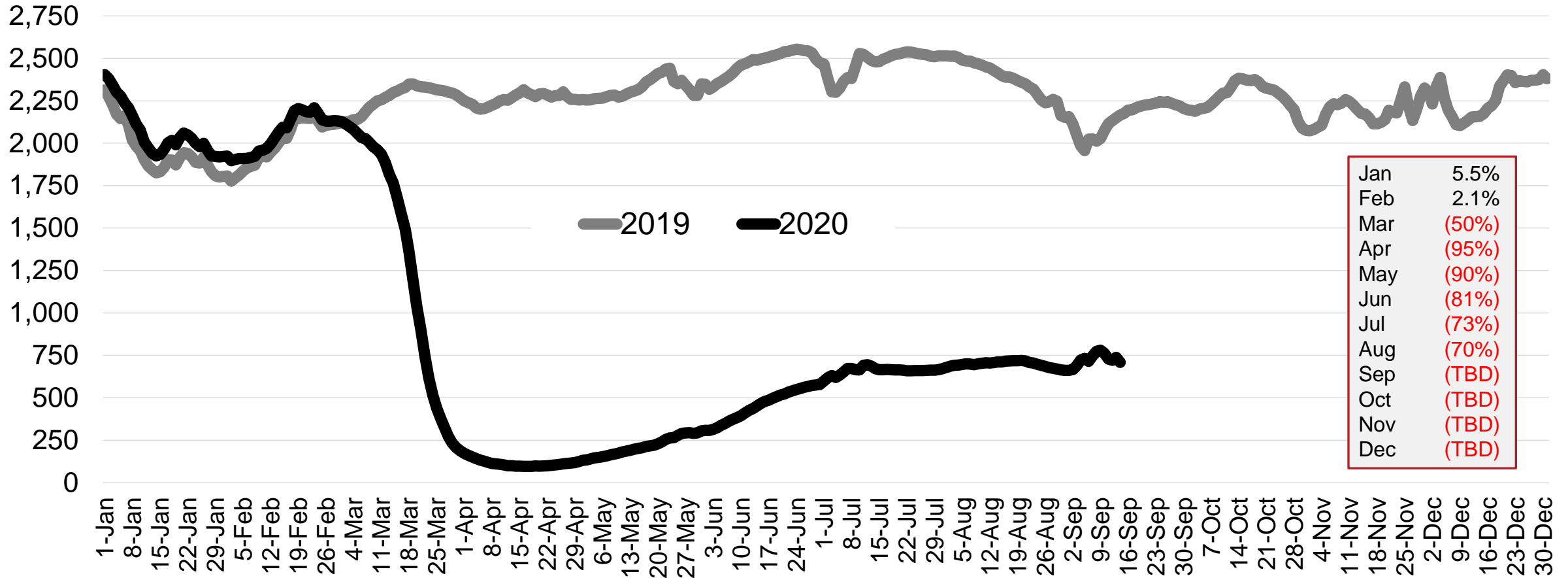
Source: masFlight

* Departures performed as a percent of those scheduled

TSA Checkpoint Traveler Throughput* Down 67% Year Over Year

Daily Average Bottomed Out at 95K in April 11-17

TSA Traveler Throughput: 7-Day Moving Average (in Thousands)

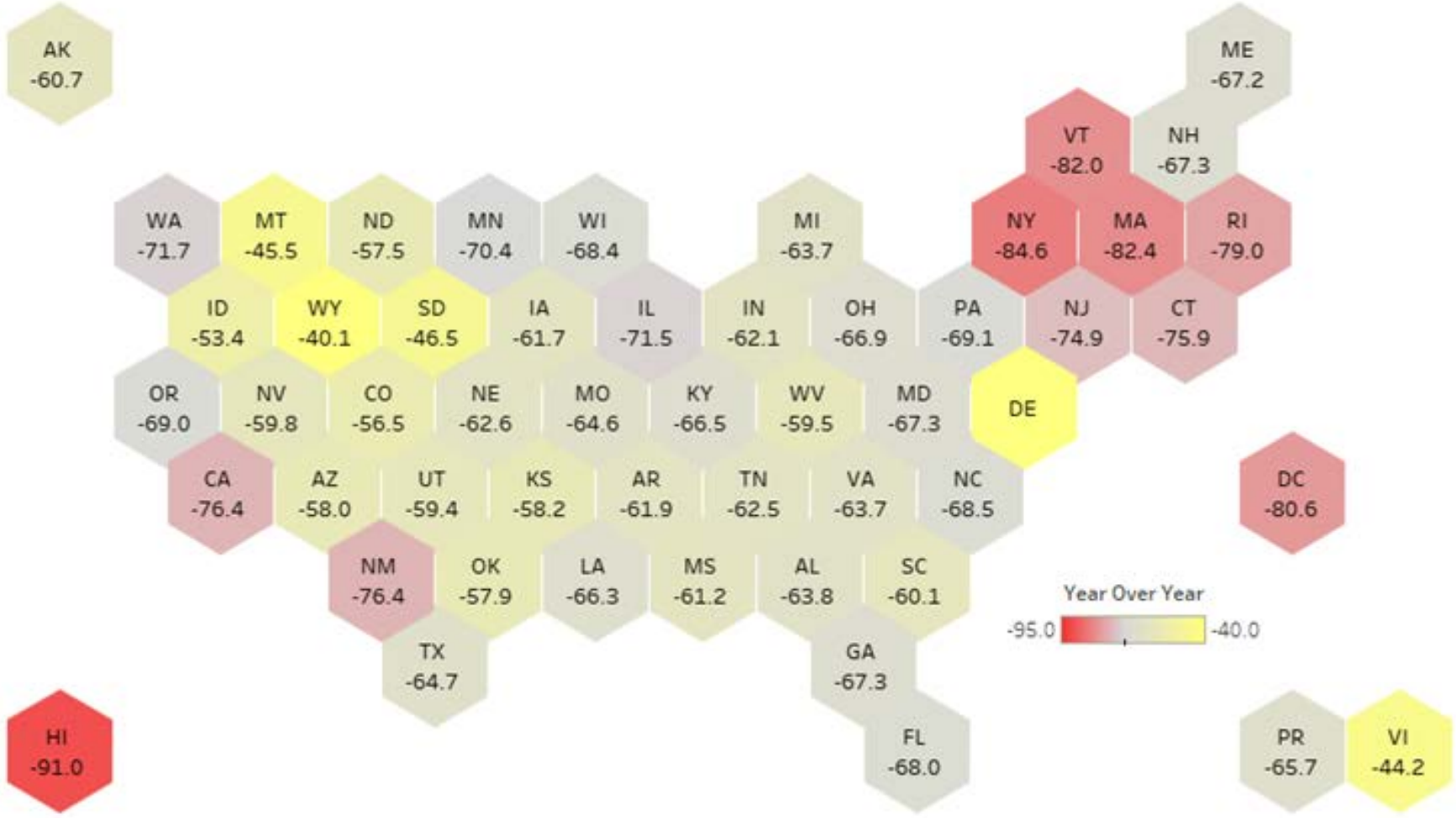


Source: Transportation Security Administration

* U.S. and foreign carrier customers traversing TSA checkpoints; 2019 is year-ago same weekday

August TSA Checkpoint Volumes Declined Most in HA/NY/MA/VT/DC; Least in WY/VI/MT/SD/ID

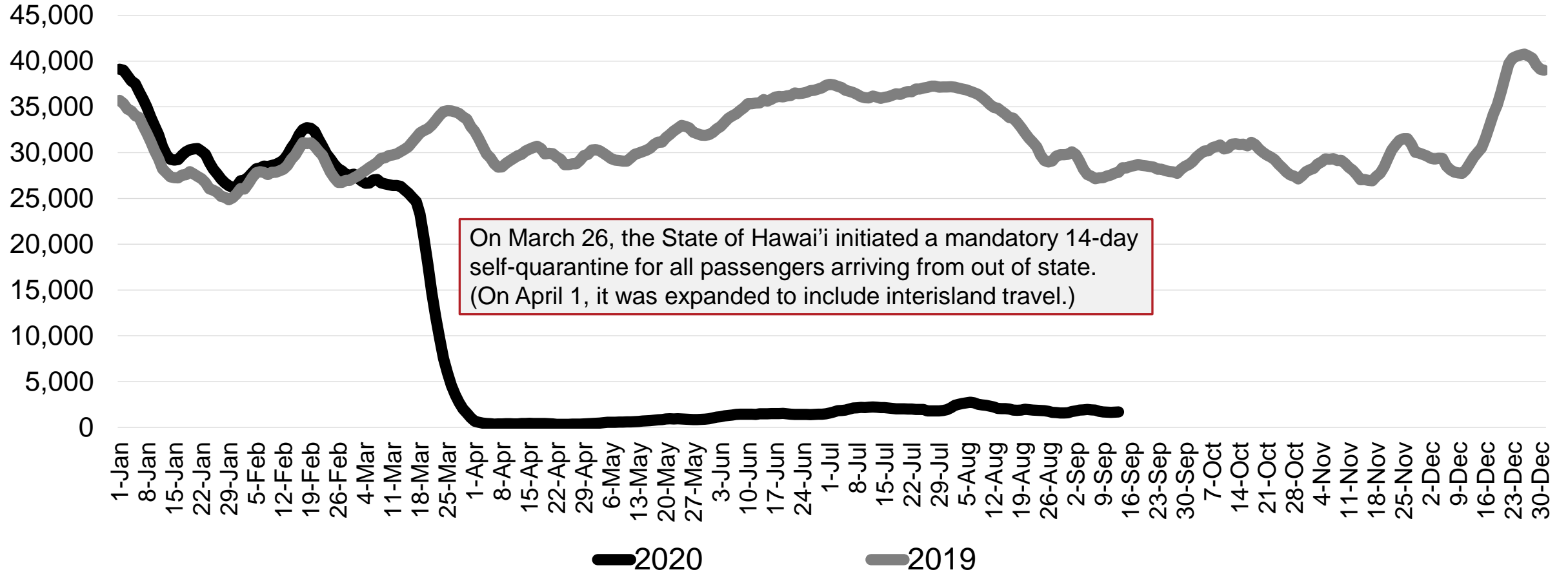
% Change YOY in Traveler Throughput by U.S. State – August 2020



Source: TSA

Travel to the State of Hawaii* Is Almost Nonexistent – Down 94% Year Over Year

Air Travel to Hawaii: 7-Day Moving Average*

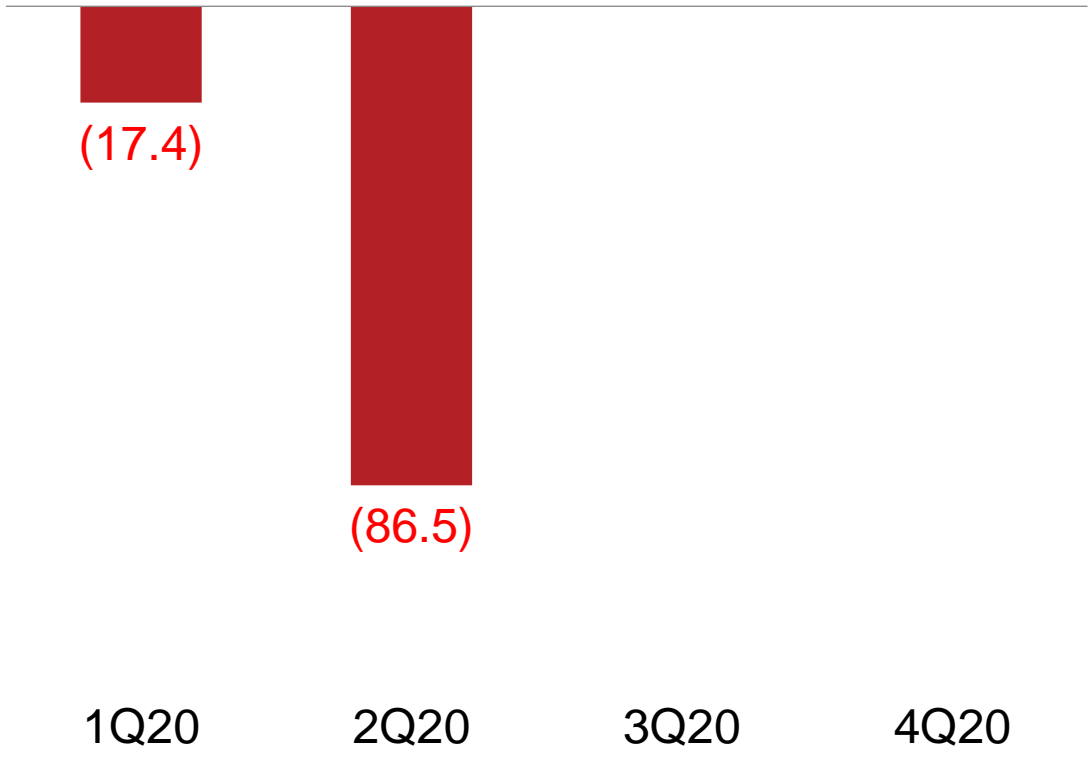


Source: Hawaii Department of Business, Economic Development & Tourism

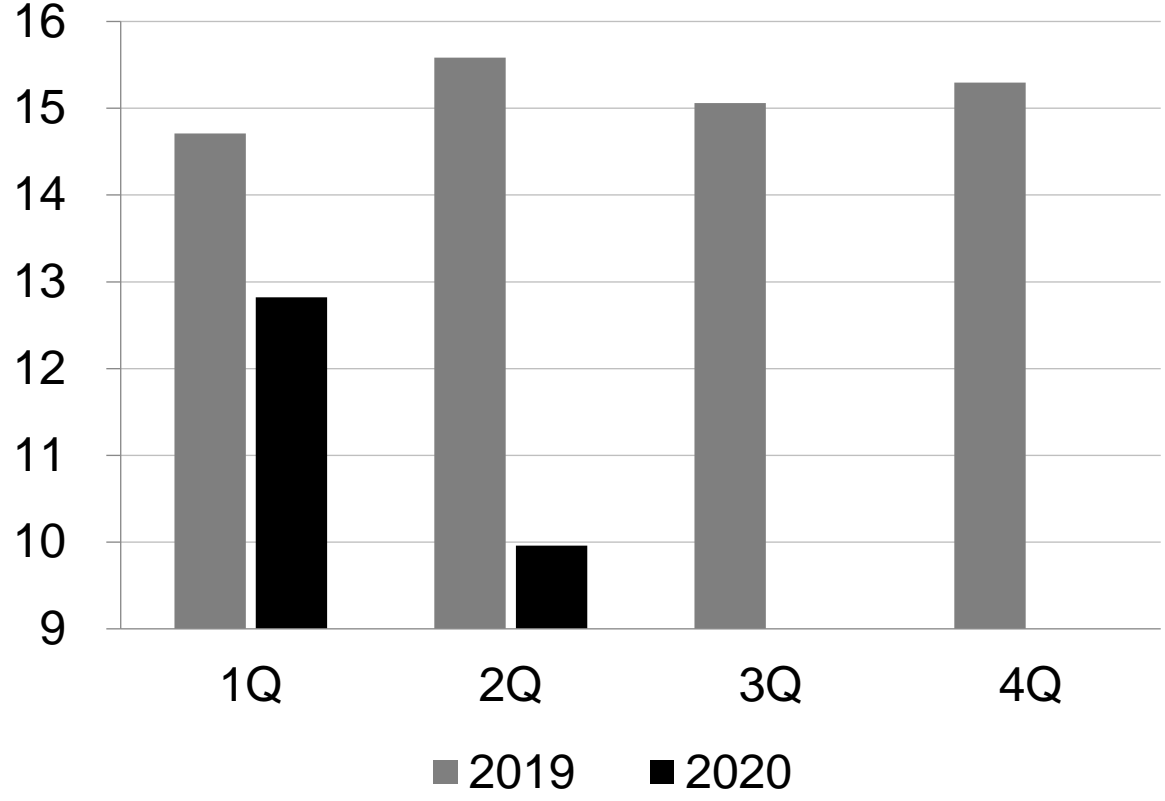
* Daily passenger counts include returning residents, intended residents and visitors but exclude interisland and Canada passengers

The Rapid Decline of Demand – Especially Business Travel – Has Pummeled Airline Revenues

YOY Change (%) in Operating Revenues*



Total Operating Revenues* (Cents) per ASM



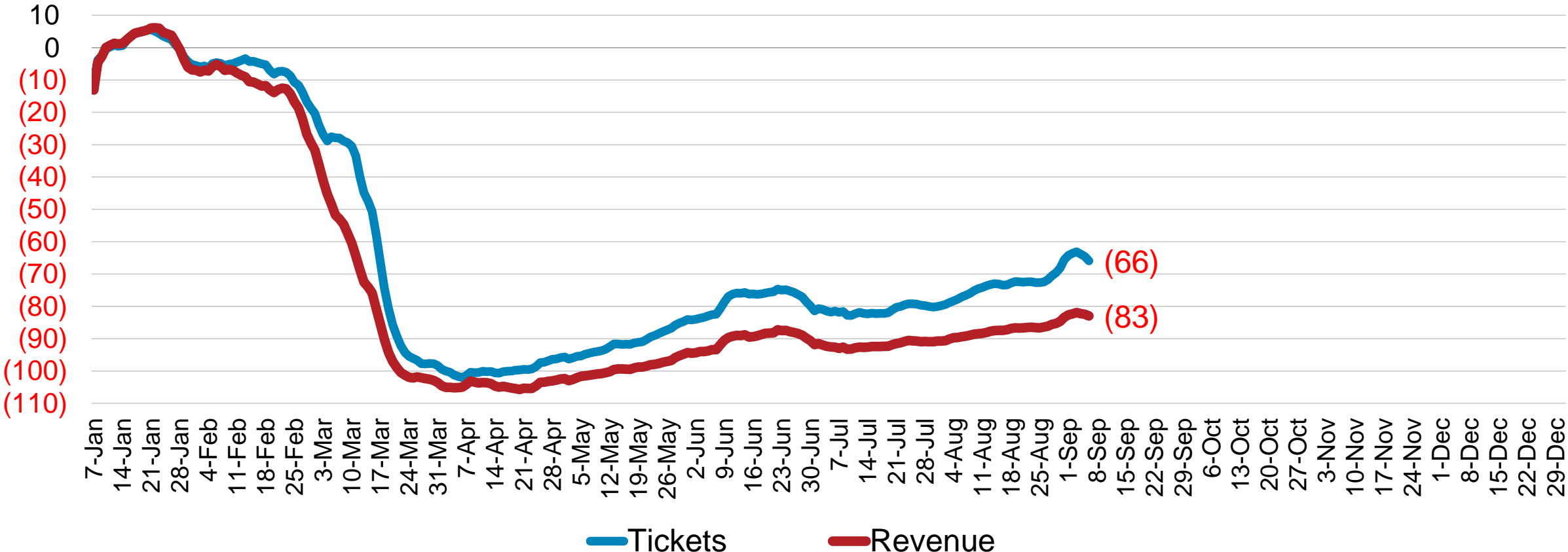
Source: A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

* As reported on a consolidated company basis for systemwide operations

Sales* for Future Air Travel From U.S. Airports Remain Highly Depressed

Net Booked* Revenue Down 83% From 2019 Driven Largely by Evaporation of Business Travel

Year-Over-Year Change (%) in 7-Day Rolling Net Bookings*

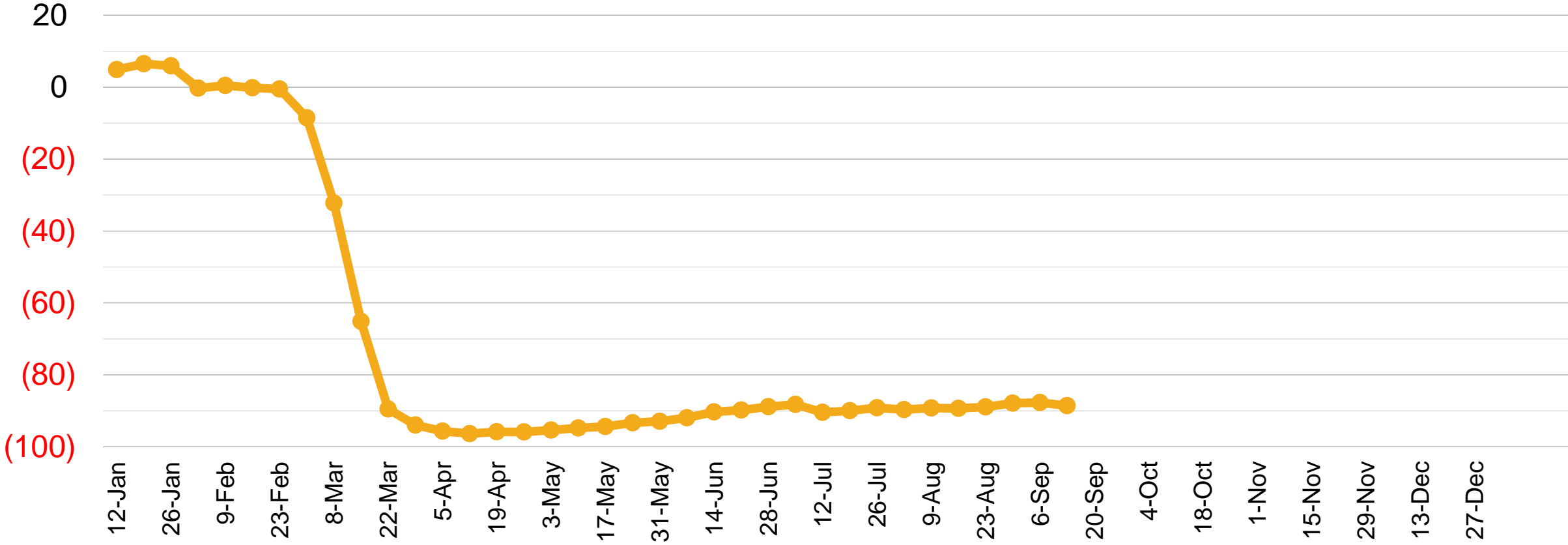


Source: Airlines Reporting Corporation (ARC) for most U.S. and foreign carriers for any flight to/from/within the United States

* Sales transactions minus refunds, for all future travel up to 330 days out

Corporate Air Travel* Has Yet to Recover From the Steep Declines That Began in March

Year-Over-Year Change (%) in Weekly Tickets Sold* by U.S. Travel Agencies: Corporate Segment



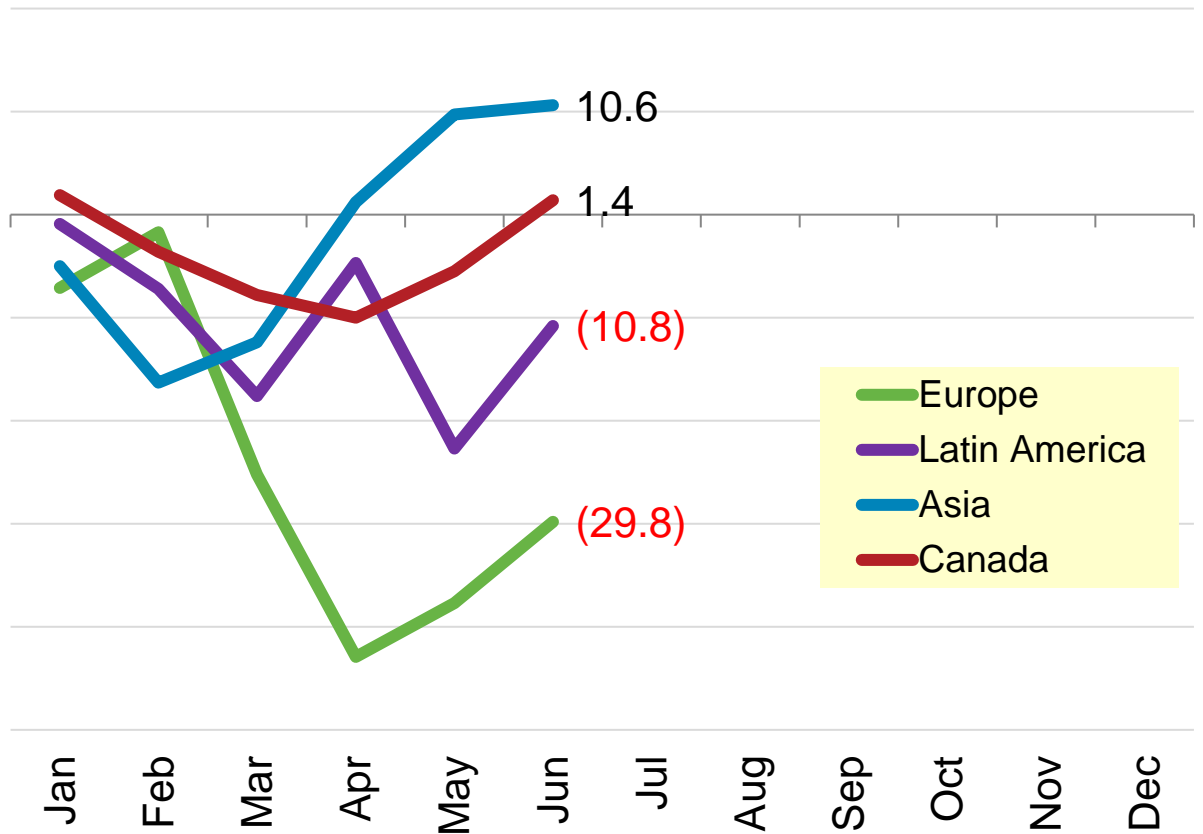
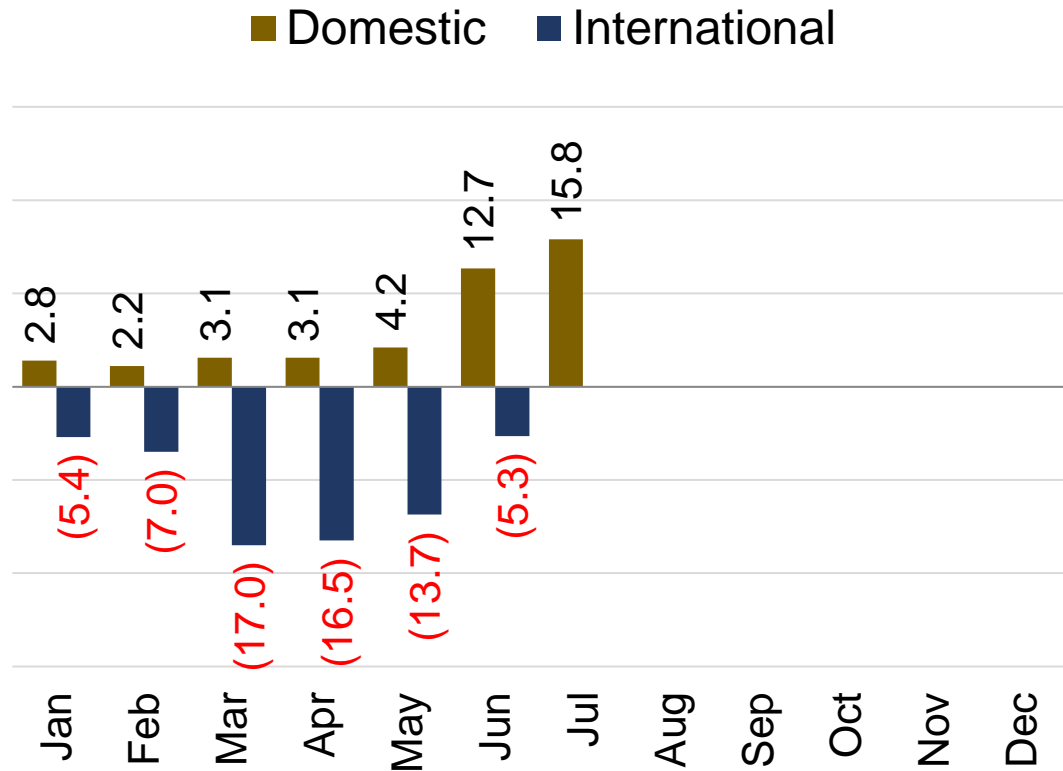
Source: Airlines Reporting Corporation (ARC)

* Results do not include sales of tickets purchased directly from airlines and are not net of refunds or exchanges.

Domestic U.S. Air Cargo Demand Continues to Outperform U.S.-International

Asia Up on Non-China Volumes

% Change YOY in Air Cargo* Between the United States and World Areas – U.S. and Foreign Airlines



Source: Bureau of Transportation Statistics, T1 (U.S. carriers) and T-100 International Market (U.S. and foreign flag carriers)

* Pounds of freight and mail enplaned in scheduled and nonscheduled services

Airlines Are Taking a Wide Variety of Self-Help Actions to Reduce Cash Burn

Selected Examples of Actions to Improve Cash Flow From Operations, Investing and Financing

- » Making historic capacity cuts, parking and/or retiring older aircraft (and, in some cases, entire fleet types)
- » Utilizing passenger planes on cargo-only missions, either belly-only or belly and main cabin
- » Cutting executive compensation and implementing voluntary leave and early retirement programs
- » Freezing hiring and non-essential spending (e.g., employee travel, consultants, events, marketing, training)
- » Consolidating footprint at airport facilities (e.g., concourses); shuttering lounges; halting real estate projects
- » Simplifying onboard product (e.g., food and beverage)
- » Negotiating with vendors: cobranded credit cards, airports (i.e., zero-interest rent deferrals), regional airline partners (i.e., reduced block hours), fuelers, caterers, etc. to achieve relief on payment terms/timing
- » Deferring aircraft deliveries and reducing non-aircraft (e.g., ground equipment, IT) capital expenditures
- » Raising funds via capital markets: borrowing funds via unsecured or secured loans and/or selling stock
- » Selling/mortgaging aircraft/engines/other assets
- » Suspending capital return programs, including share repurchases and the payment of future dividends

Source: A4A and member companies

The Pandemic Has Taken a Material Toll on U.S. Airline Employment

Voluntary Reductions, Retirements, Job Changes, Employer Shutdowns and Other Factors at Play

Carrier Universe	Scheduled U.S. Passenger Airlines	All U.S. Passenger and Cargo Airlines
Measure	FTEs* (000)	Headcount (000)
All-Time High	Jun-2001: 545.9	May-2001: 760.8
Post-2000 Low Point	Apr-2010: 376.7	Apr-2010: 562.3
Pre-COVID Peak	Mar-2020: 460.0	Feb-2020: 755.2
Latest Available Data Point	Jul-2020: 415.2	Jul-2020: 706.8
Change vs. Pre-COVID	(44.9)	(48.4)

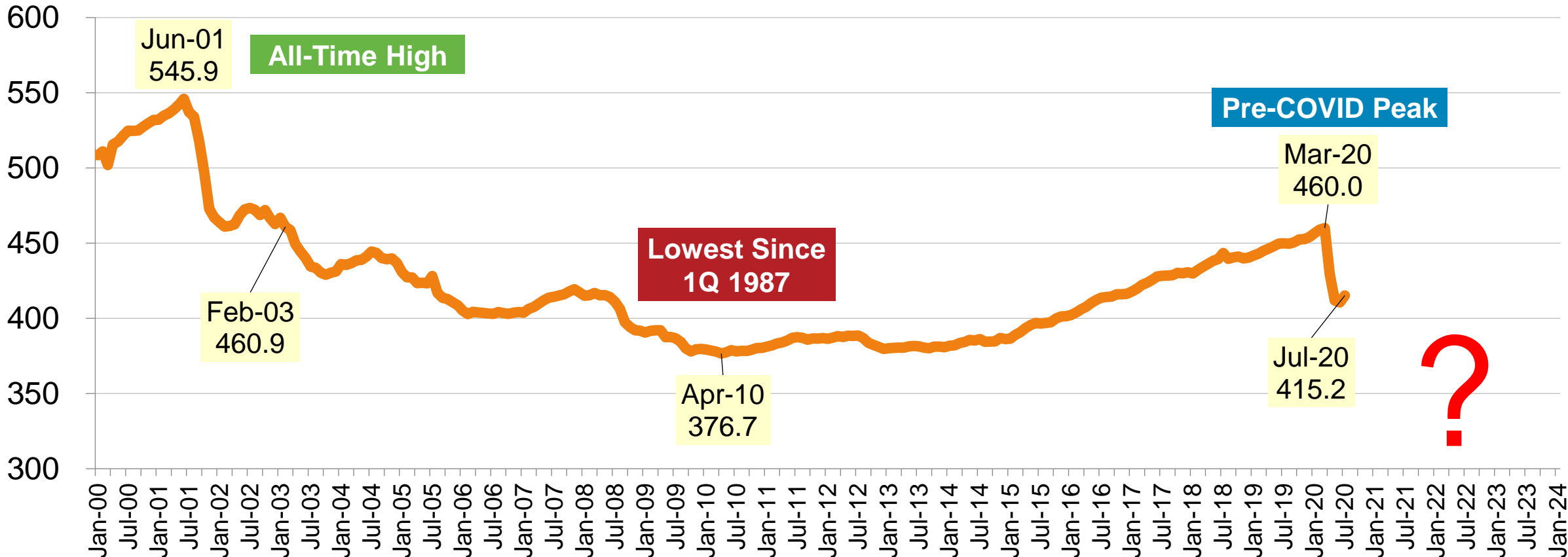
Source: Bureau of Transportation Statistics based on payroll near the 15th of the month

* Full-time equivalents (FTE) = full-time workers plus 0.5 * part-time workers

Over the Past Two Decades, Job Gains/Losses Have Mirrored the Industry's Financial Health

From March to July, U.S. Passenger Airline Employment Fell by ~45,000 FTEs

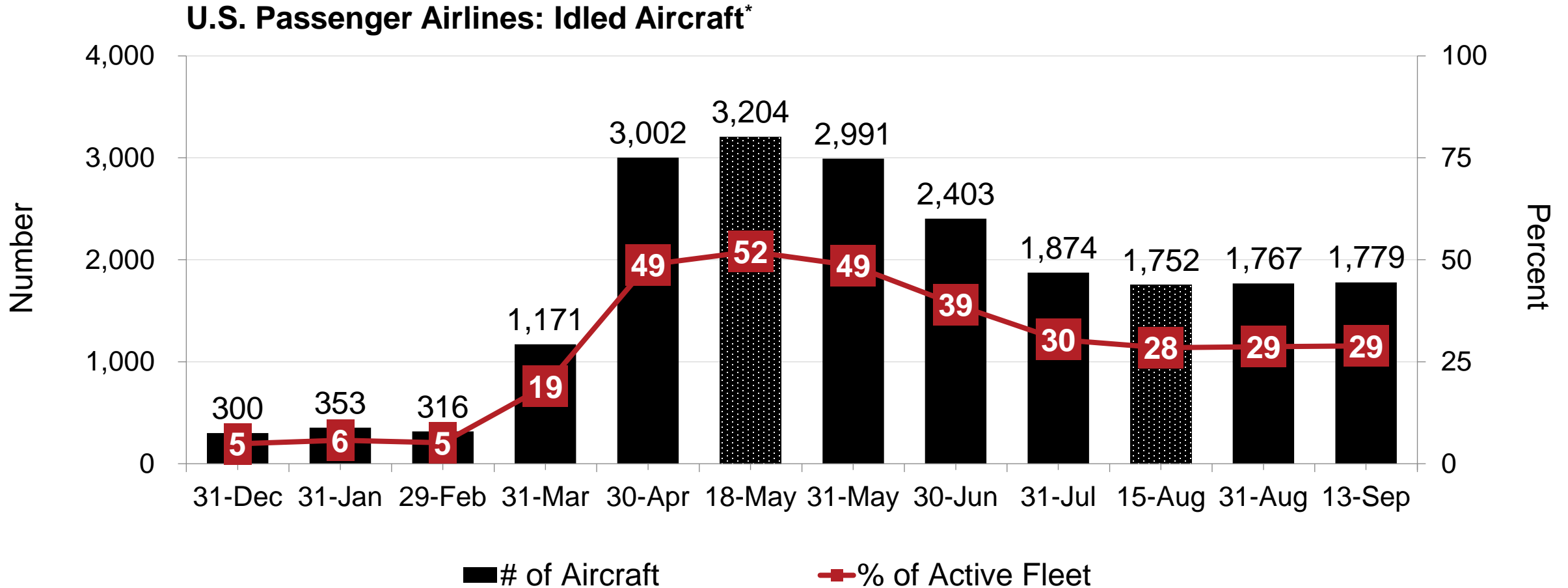
U.S. Scheduled Passenger Airline Full-Time Equivalent Employees (000s)



Source: Bureau of Transportation Statistics for scheduled U.S. passenger airlines (i.e., all that report scheduled passenger revenue)

Twenty-Nine Percent of the U.S. Passenger Airline Fleet Remains Idle

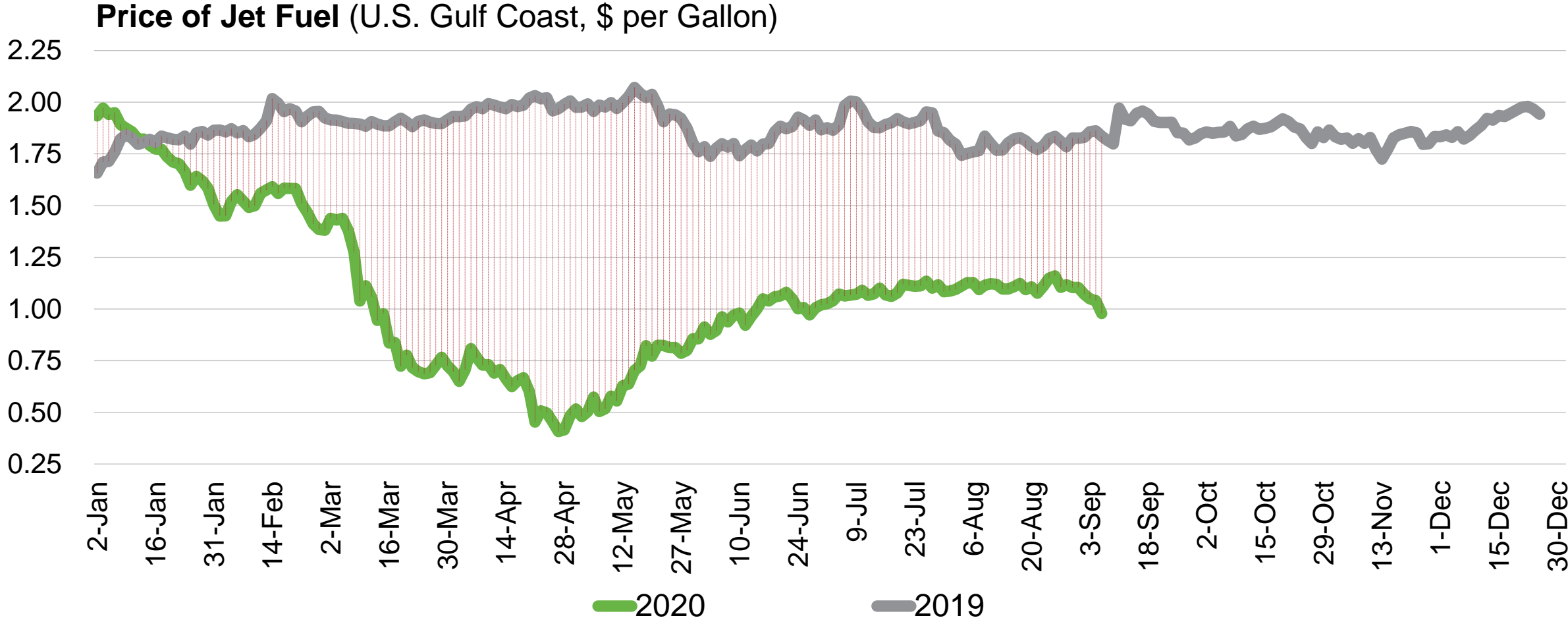
Peak Occurred in Mid-May; Trough Occurred in Mid-August



Source: masFlight

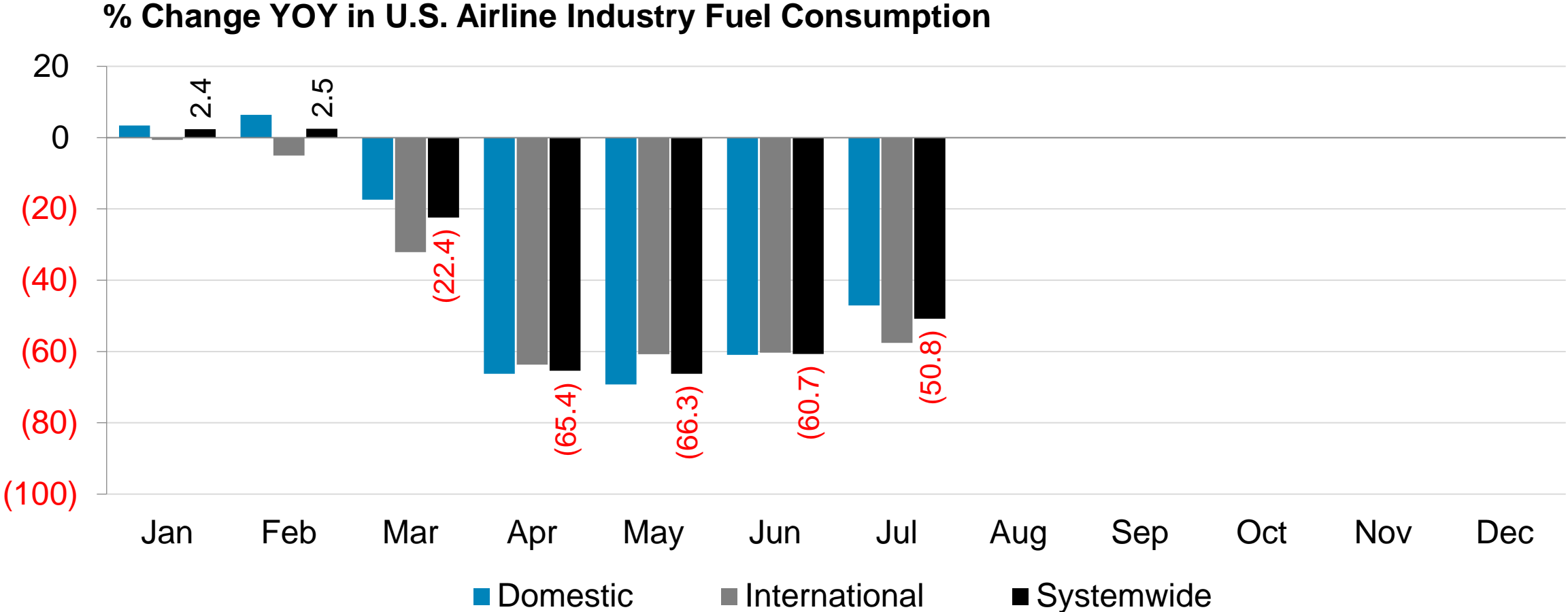
* Idle defined as inactive for the previous seven days

Lower Jet-Fuel Prices Have Provided Some Cost Relief, But Rising Again With More Flying



Sources: Energy Information Administration (EIA) Weekly Petroleum Status Report

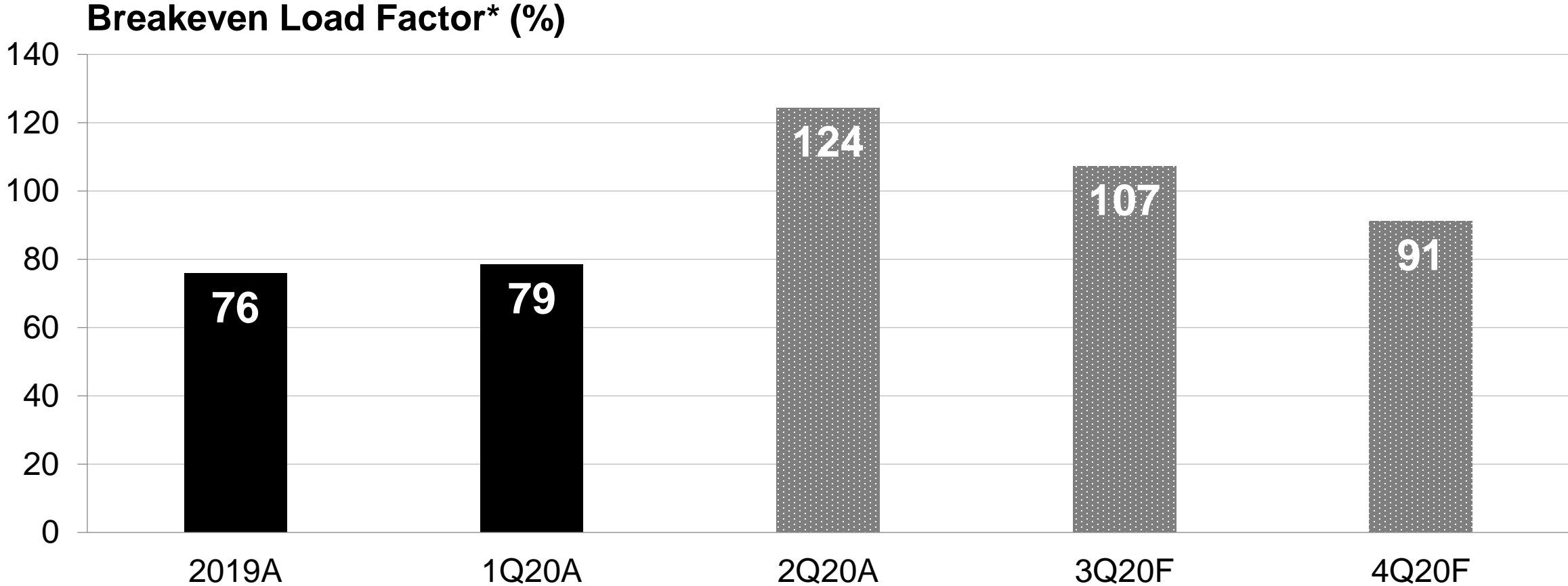
Decline in Demand for Air Transportation Has Meant Greatly Reduced Jet-Fuel Consumption



Source: Bureau of Transportation Statistics F41 Schedule P12A, all services

U.S. Airlines Are Facing an Elevated Breakeven Load Factor Throughout 2020

In April-September 2020, Even a Load Factor of 100% Would Not Suffice



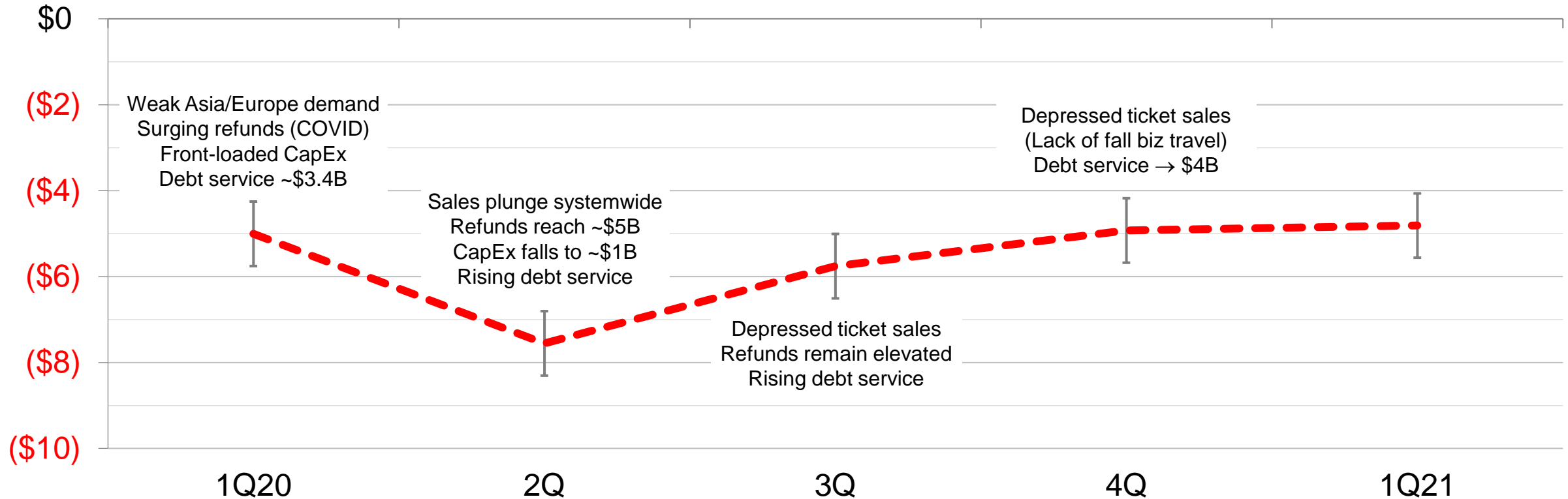
Source: Wolfe Research estimates and filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

* Calculation excludes CARES Act payroll support program funds

Collectively, U.S. Airlines Expect Cash Burn to Persist Through Winter 2020/2021

Given Lack of Demand (Especially Business Travel), Survival Depends Primarily on Cost Reduction

Average Monthly Cash Burn* (in Billions), U.S. Passenger Airlines



Source: A4A and various airline equity analysts

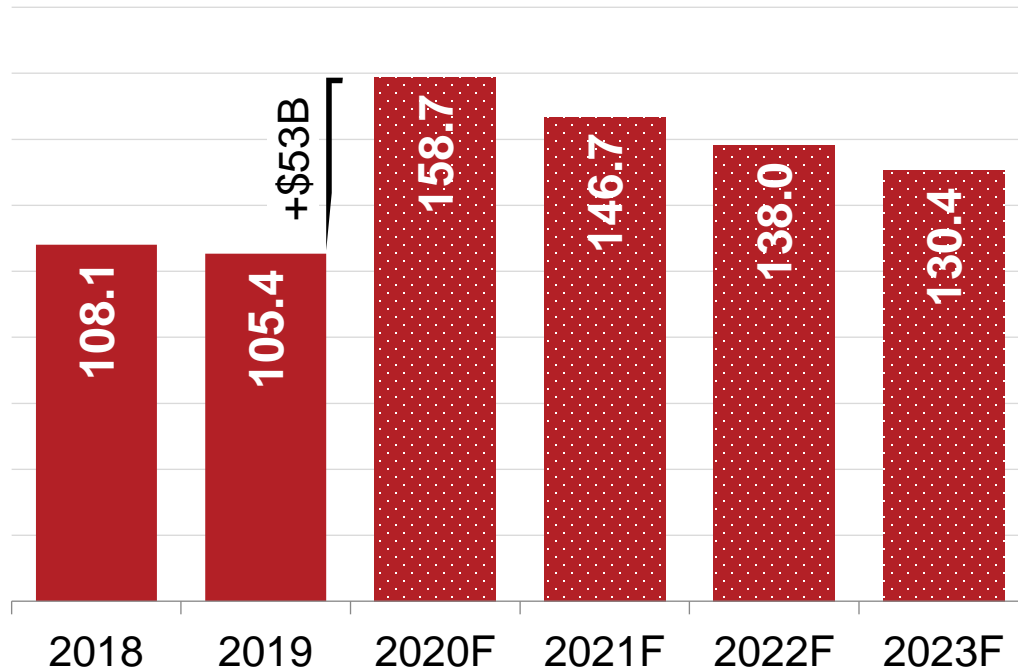
* Ticket and cargo sales - cash operating expenses - cash refunds - capital expenditures - interest expense - repayment of debt

Airlines Are Coping by Taking on Billions in Debt

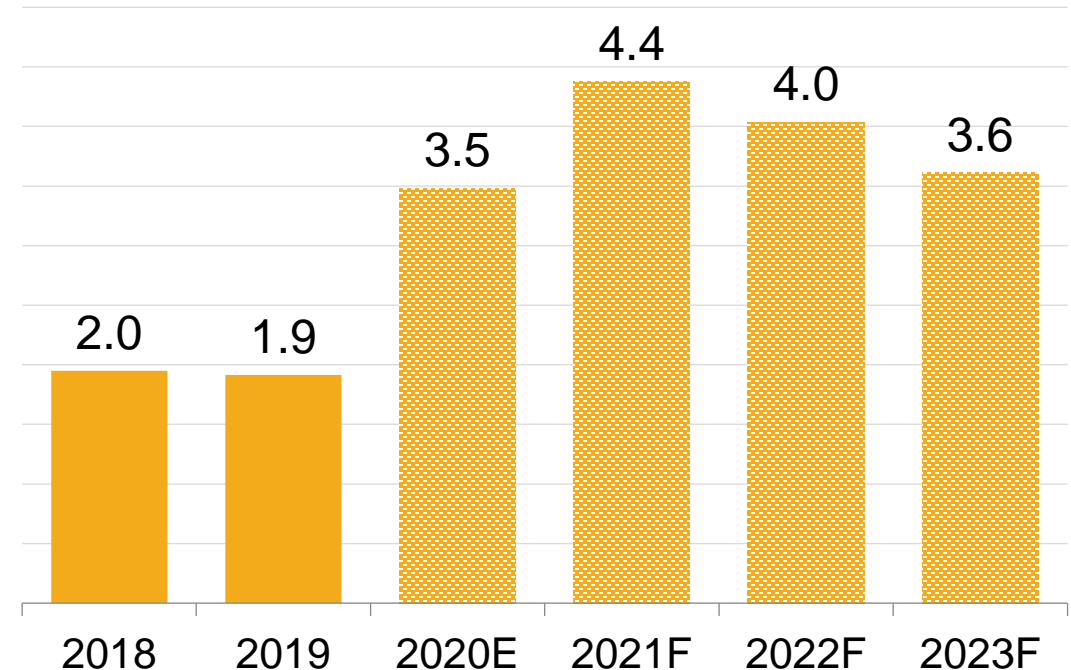
Total Debt Projected to Increase ~50% From End of 2019 to End of 2020

“For 2021 and beyond, we anticipate a major deleveraging cycle as **the industry will have no choice but to address its significant debt load.**” (Deutsche Bank, “Airline Industry Update,” July 1, 2020)

Year-End Total Debt (\$ Billions)



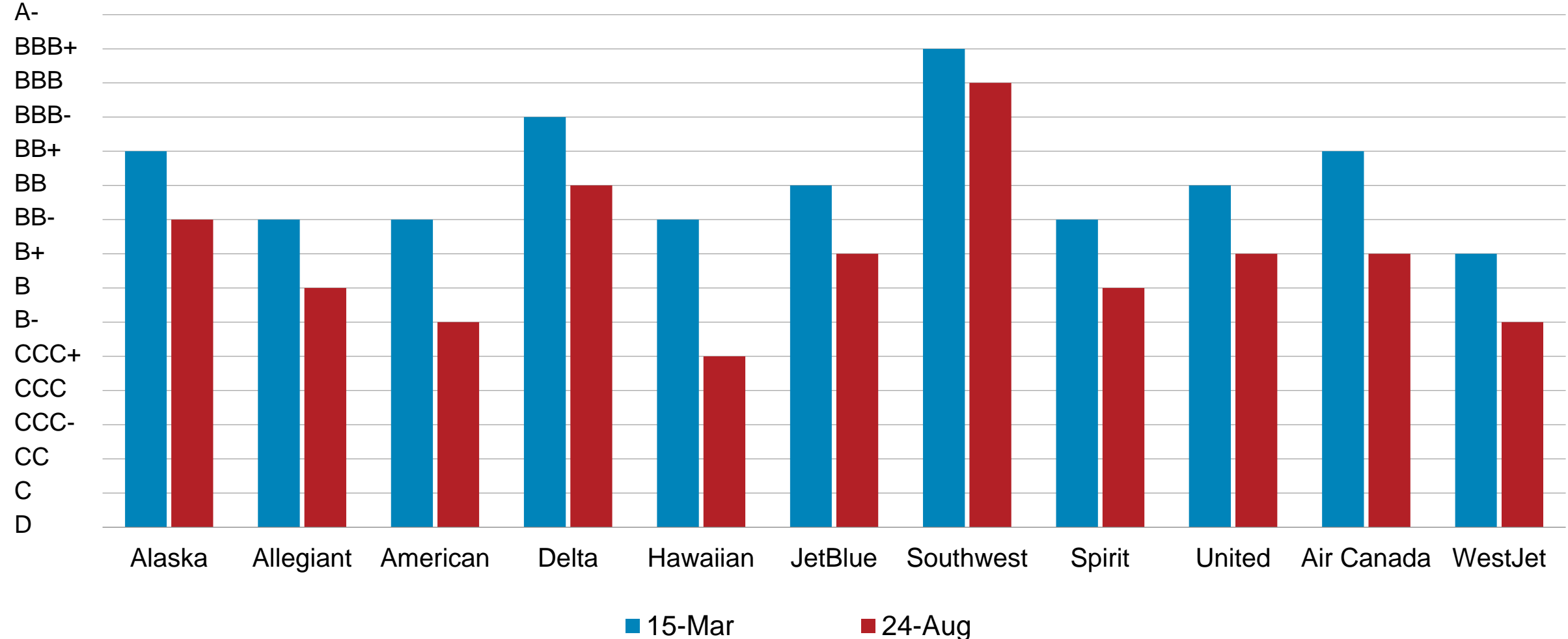
Net Interest Expense (\$ Billions)



Source: A4A, equity analysts and filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

In 2020, S&P Has Lowered Its Credit Ratings on Eleven U.S. and Canadian Airlines*

Ratings Actions Taken to Reflect Weakened Financial Condition and Heightened Risk



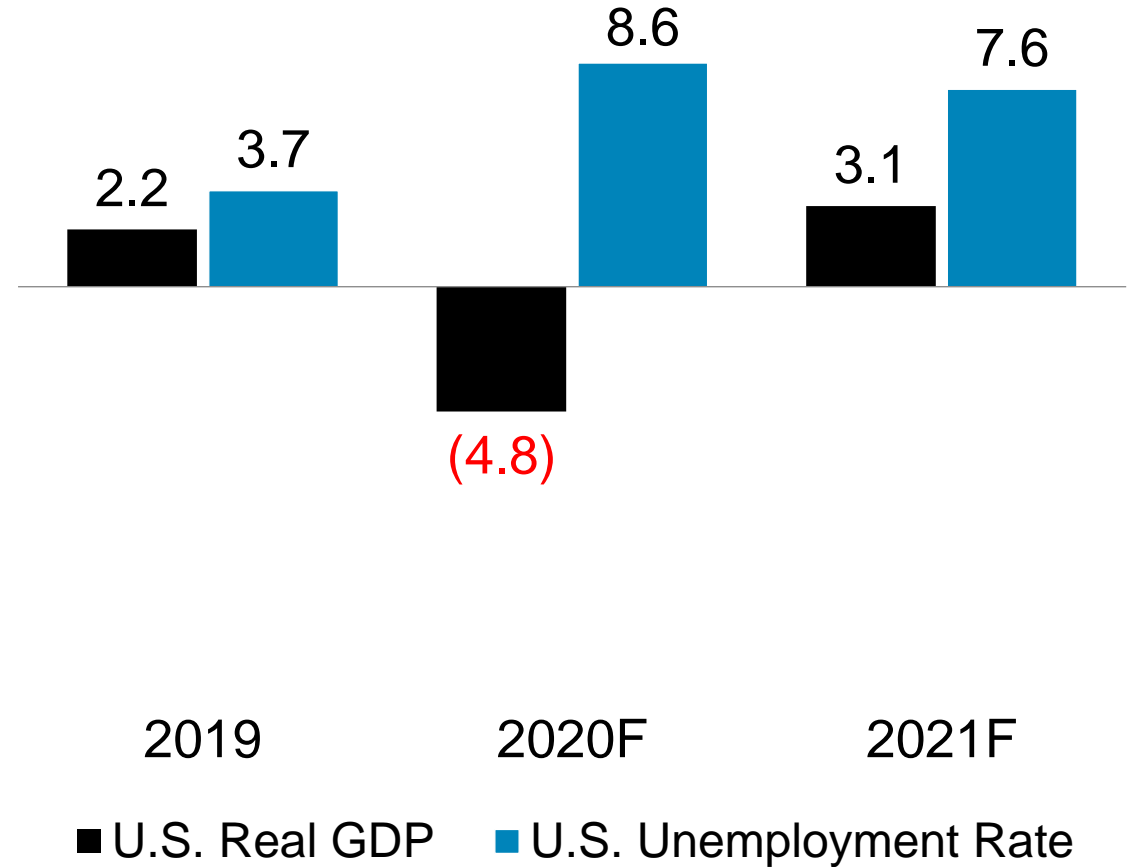
Source: Standard & Poor's

* Publicly traded U.S. carriers in S&P Global coverage universe

Economic Headwinds Abound

“On 8 June, the...National Bureau of Economic Research made official what we already knew: **February marked the end of the longest...US economic expansion on record...**” (June)

“[W]e assume a vaccine becomes available by mid-2021, allowing the economy to accelerate then. We project growth of 3.1% in 2021 and 4.1% in 2022. **GDP surpasses its previous peak in the spring of 2022**, and **the economy regains full employment late in 2023...**” (August)

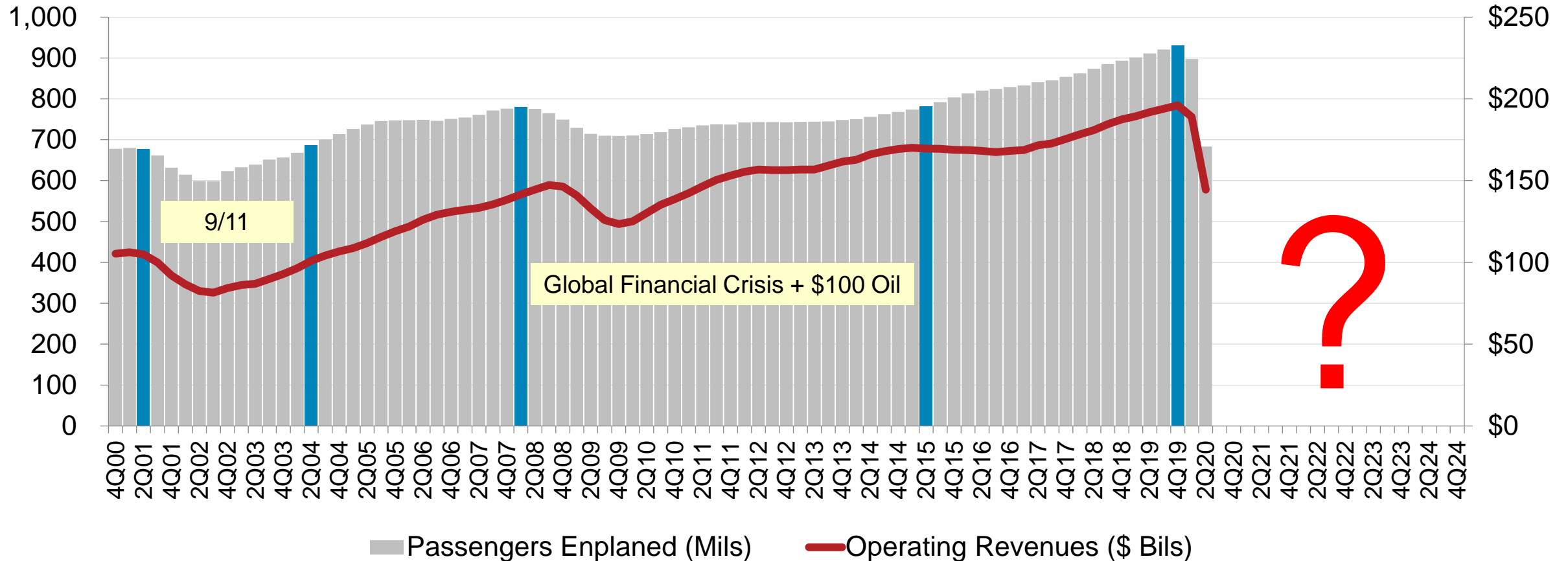


Source: IHS Markit, “Executive Summary: US Economic Outlook” (August 2020)

After 9/11 and the Global Financial Crisis, It Took Years for Air-Travel Demand to Recover

Passenger Volumes Took More Than Seven Years to Recover From the Financial Crisis/Oil Spike

Four-Quarter Rolling Passenger Volume (Millions) and Operating Revenues (Billions)



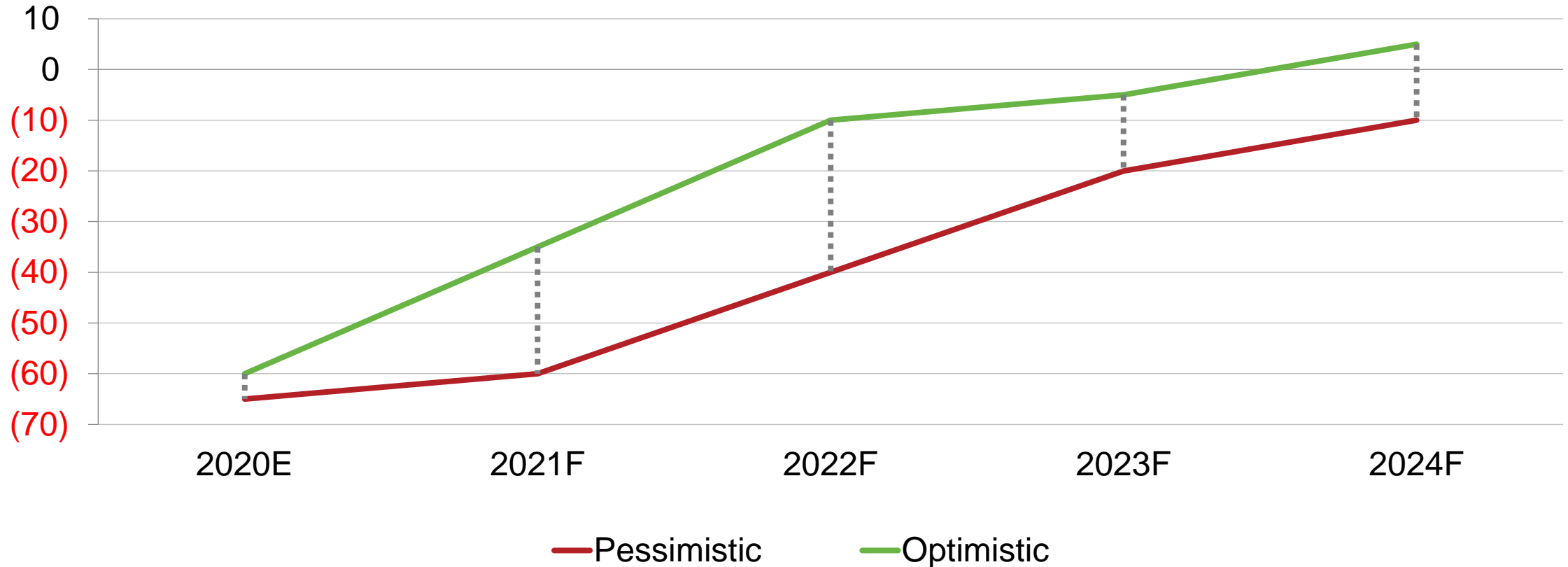
Source: A4A Passenger Airline Cost Index and Bureau of Transportation Statistics (Form 41 Schedule T1)

* Passengers enplaned systemwide on U.S. airlines in scheduled and nonscheduled services

We Are Unlikely to See a Return to 2019 Passenger Volumes Before 2023-2024

2021-2022 Clouded by Uncertainty re: State of Pandemic, Vaccination/Therapeutics, Economy

Estimated U.S. Airline Industry Passenger Traffic Change (%) vs. 2019 Levels

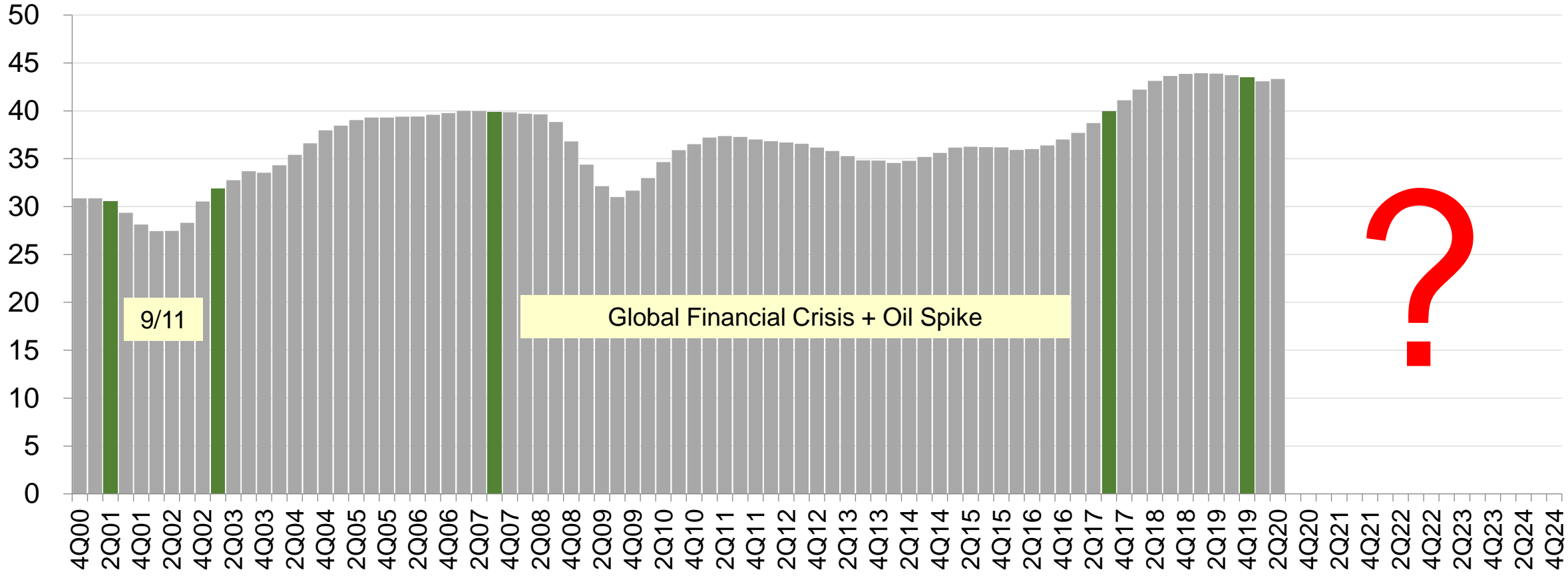


Source: A4A and various airline equity analysts

After 9/11 and the Global Financial Crisis, It Took Years for Air-Cargo Demand* to Recover

Cargo Volumes Took 10 Years to Recover From the Financial Crisis/Oil Spike

Four-Quarter Rolling Air Cargo Revenue Ton Miles (Billions)



Source: Bureau of Transportation Statistics (Form 41 Schedule T1)

* Cargo revenue ton miles (RTMs) flown on U.S. passenger and cargo-only airlines in scheduled and nonscheduled services

Key Points

- » In the first two months of 2020, operating revenues grew more than 5% – we were on our way to another record.
- » After burning ~\$10B per month of cash in late March, U.S. airlines are burning over \$5B per month in summer 2020.
- » Air travel took 3 years to recover from 9/11 and 7+ years from the global financial crisis. Air cargo took 10 years post-GFC.
- » When traffic returns, low-yield (VFR, then vacationers) is likely to return faster than high-yield (corporate) and international, with implications for the pace of revenue recovery, the need for cost reduction/containment, and the return to profitability.
 - Businesses first cut back hiring and travel and entertainment; in a recovery, those are the last things they restore. These travelers are essential due to how often they fly and the cabins/fares they purchase, among other reasons.
- » People will be reluctant to travel – or even to book travel – until there is a strong degree of confidence that the health crisis and associated risks are behind us. The COVID-19 global pandemic constitutes a black-swan public health crisis that will only be solved once an effective vaccine is developed, but vaccines usually take a year or longer to develop.
- » In addition to concerns about the spread of the virus and the associated restrictions on the movements of citizens, businesses and consumers are facing a sharp global economic downturn of unknown duration.
 - The economic and consumer psychology effects of COVID-19 are deep and global.
 - High unemployment and reduced HHNW worth + strained government coffers = curtailed travel budgets for households and organizations.
- » Once demand has recovered, it will take years for airlines to retire the newly accumulated billions of dollars of debt and to address the sizable associated interest expense, limiting their wherewithal to rehire and reinvest.

Aviation Is in the Early Innings of a Multiyear, Multistage Recovery

**Contain
the Virus**



**Stabilize the
Economy**



**Increase
Efficiency**

Aviation-Government Collaboration on Health/Facilitation/Safety/Technology

**Traffic
Recovery**



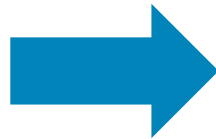
**Revenue
Recovery**



**Financial
Recovery**

Cost-Reduction Initiatives + Business Model Adaptation + Debt Reduction

**Reduce
Cash Burn**



**Restore Profitability
& Rebuild Margins**



**Repair Balance
Sheets**



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