Emerging From the Pandemic

Updated August 20, 2022

“To suggest that the airlines should have better prepared for this environment seems akin to suggesting Pompeii should have invested more heavily in firefighting technology.” (JPMorgan, Mar. 22, 2020)
New ticket sales are rising but demand for corporate and long-haul international air travel continues to trail pre-pandemic levels.

Air cargo demand, which surged in 2020, reached an all-time high in 2021 and is poised to do so again in 2022.

As with numerous other industries, U.S. airlines are facing inflationary pressures across several cost categories (e.g., labor, fuel, maintenance, rents, landing fees).

U.S. airlines are expected to post modest profits in 2022, which would be put to work to retire the massive debt accumulated in the first two years of the pandemic.

Debt—and interest expense—will remain elevated through at least 2024.
A Multiyear, Multistage Recovery Is Underway

- 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
U.S. Passenger Airlines Incurred ~$3.5 Billion in Pre-Tax Losses in the First Half of 2022
Operating Revenues in Line With 1H 2019, But Operating Expenses 13% Higher

<table>
<thead>
<tr>
<th>Financial Results: Jan-Jun 2022</th>
<th>$ Billions</th>
<th>% vs. 2019</th>
<th>% of Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger (RPMs down 14%, yield up 10%)</td>
<td>79.0</td>
<td>(5)</td>
<td>86.6</td>
</tr>
<tr>
<td>Cargo</td>
<td>2.7</td>
<td>64</td>
<td>2.9</td>
</tr>
<tr>
<td>Other¹</td>
<td>9.6</td>
<td>60</td>
<td>10.5</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td><strong>91.3</strong></td>
<td>–</td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td>Salaries, wages and benefits*</td>
<td>26.7</td>
<td>2</td>
<td>29.1</td>
</tr>
<tr>
<td>Aircraft fuel and related taxes</td>
<td>25.4</td>
<td>38</td>
<td>27.7</td>
</tr>
<tr>
<td>Maintenance materials and repairs</td>
<td>4.5</td>
<td>4</td>
<td>4.9</td>
</tr>
<tr>
<td>Landing fees and airport rentals</td>
<td>5.6</td>
<td>18</td>
<td>6.1</td>
</tr>
<tr>
<td>Depreciation and amortization²</td>
<td>4.9</td>
<td>3</td>
<td>5.3</td>
</tr>
<tr>
<td>Other³</td>
<td>24.7</td>
<td>8</td>
<td>27.0</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>91.8</strong></td>
<td>13</td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td>Interest and other non-op expenses, net</td>
<td>3.0</td>
<td>181</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Pre-tax income/(loss)</strong></td>
<td><strong>(3.5)</strong></td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

1. Sale of frequent flyer award miles to airline business partners, transportation of pets, in-sourced aircraft and engine repair, flight simulator rentals, inflight sales, etc.
2. Related primarily to ownership of aircraft, ground support equipment, information technology, etc.
3. Aircraft rents, professional fees, food/beverage, insurance, commissions, GDS fees, communications, advertising, utilities, office supplies, crew hotels, payments to regional carriers, etc.

Source: Alaska, Allegiant, American, Delta, Frontier, Hawaiian, JetBlue, Southwest, Spirit and United
In 2022, Airlines’ Unit Operating Costs Are Expected to Average 25% More Than in 2019
Additionally, Interest Expense per Seat-Mile Is Projected to Rise 193%

### U.S. Passenger Airlines: Cost (in Cents) per Available Seat Mile

<table>
<thead>
<tr>
<th>Category</th>
<th>2019A</th>
<th>2022F</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>4.41</td>
<td>5.07</td>
<td>0.66</td>
</tr>
<tr>
<td>Fuel</td>
<td>3.05</td>
<td>4.72</td>
<td>1.67</td>
</tr>
<tr>
<td>Aircraft Ownership</td>
<td>1.02</td>
<td>1.12</td>
<td>0.10</td>
</tr>
<tr>
<td>Maintenance</td>
<td>0.72</td>
<td>0.80</td>
<td>0.08</td>
</tr>
<tr>
<td>Airport Rents &amp; Landing Fees</td>
<td>0.85</td>
<td>1.00</td>
<td>0.15</td>
</tr>
<tr>
<td>Other Operating</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>0.16</td>
<td>0.46</td>
<td>0.30</td>
</tr>
</tbody>
</table>

Source: A4A, Wolfe Research and filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United
All Else Equal, Higher Fuel Prices Will Boost U.S. Airlines’ 2022 Fuel Expense by $19-29B
Average Price per Gallon Likely to Exceed 2019 by $1.00-1.50


<table>
<thead>
<tr>
<th>Year</th>
<th>Price 2019</th>
<th>Forecast @</th>
<th>Change</th>
<th>Price 2022 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$2.01</td>
<td>$2.01</td>
<td>@ 2019</td>
<td>$39</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$38</td>
<td>@ 2019 + $1.00</td>
<td>$57</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$57</td>
<td>@ 2019 + $1.25</td>
<td>$62</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$62</td>
<td>@ 2019 + $1.50</td>
<td>$67</td>
</tr>
</tbody>
</table>

Source: A4A and Bureau of Transportation Statistics (all U.S. carriers, systemwide scheduled and nonscheduled services)
Per Wells Fargo, the *Global* Economy Will Grow 2.3% in 2022
The U.S. Economy Is Projected to Grow Just 1.7%

“While the biggest debate is whether the economy is already in recession, we do not believe broad economic activity is consistent with a downturn yet.” (Wells Fargo, August 11, 2022)

**Projected 2022 Real GDP Growth (%)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>2.3</td>
</tr>
<tr>
<td>USA</td>
<td>1.7</td>
</tr>
<tr>
<td>Eurozone</td>
<td>3.1</td>
</tr>
<tr>
<td>UK</td>
<td>3.5</td>
</tr>
<tr>
<td>Japan</td>
<td>1.4</td>
</tr>
<tr>
<td>Canada</td>
<td>3.6</td>
</tr>
<tr>
<td>Australia</td>
<td>4.1</td>
</tr>
<tr>
<td>China</td>
<td>3.3</td>
</tr>
<tr>
<td>India</td>
<td>7.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.9</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.5</td>
</tr>
</tbody>
</table>

**U.S. Real GDP (Trillions, $2012)**

- **2018**: $18.6
- **2019**: $19.0
- **2020**: $18.4
- **2021**: $19.4
- **2022F**: $19.8
- **2023F**: $19.7

Source: Wells Fargo Securities (August 11, 2022) and U.S. Bureau of Economic Analysis
August 8-14: A4A Member Airline Passenger Volumes Were 8% Below 2019 Levels
Domestic Air Travel Down 8%, International Air Travel Down 9%

7-Day Change (% vs. 2019) in Onboard Passengers*

- 8-Nov-2021: USG eases inbound international travel restrictions
- 12-Jun-2022: USG eliminates pre-departure COVID testing requirement

Source: A4A member passenger airlines (Alaska/American/Delta/Hawaiian/JetBlue/Southwest/United) and branded code share partners

* Onboard (“segment”) passengers
August 8-14: A4A Member Airline Departures Were 17% Below 2019 Levels
Domestic Flights Operated Down 17%, International Flights Operated Down 14%

Source: A4A member passenger airlines (Alaska/American/Delta/Hawaiian/JetBlue/Southwest/United) and branded code share partners
A4A Member Domestic U.S. Load Factor Is in Line With Pre-Pandemic Levels

Weekly Average *Domestic* U.S. Load Factor* (%)

Source: A4A member passenger airlines (Alaska/American/Delta/Hawaiian/JetBlue/Southwest/United) and branded code share partners

* Revenue passenger miles divided by available seat miles
Transpacific Flights Continue to See Sharp Uptick in Load Factors

7-Day Moving Average Load Factor*

Source: A4A member passenger airlines (Alaska/American/Delta/Hawaiian/JetBlue/Southwest/United) and branded code share partners

* Traffic (RPMs) divided by capacity (ASMs)
In the Week Ending August 18, TSA Checkpoint Volumes Fell 10% Below 2019 Levels
In the First Half of 2022, Throughput Was Down 13% From 2019

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

Source: Transportation Security Administration

* U.S. and foreign carrier customers (excluding Known Crewmember® personnel) traversing TSA checkpoints
In July, TSA Checkpoint Volumes Exceeded 2019 Levels in Five U.S. States and Territories

Change (%) in TSA Traveler Throughput — July 2022 vs. July 2019

Source: Transportation Security Administration
Eight Large/Medium U.S. Airports Are Seeing Double-Digit Seat Growth vs. 2019
Austin Leading the Pack in Growth; Portland (OR) Seeing the Largest Decline

Change (%) in Systemwide Scheduled Seats: 3Q 2022 vs. 3Q 2019

Source: Diio by Cirium published schedules (August 19, 2022) for all U.S. and non-U.S. airlines providing scheduled service to all U.S. and non-U.S. destinations
Allegiant, Spirit and Frontier Continue to Lead U.S. Airlines in Capacity Growth
Corporate Travel-Dependent Carriers Slower to Restore Pandemic-Induced Capacity Cuts

Change (%) in Systemwide Scheduled Available Seat Miles: 3Q 2022 vs. 3Q 2019

- Allegiant: 19.0%
- Spirit: 11.8%
- Frontier: 8.6%
- Southwest: 0.5%
- JetBlue: 0.3%
- Alaska: (6.3)
- Hawaiian: (6.7)
- American: (9.4)
- United: (9.8)
- Delta: (16.7)

Source: Diio by Cirium published schedules (August 19, 2022) for selected marketing airlines (i.e., on a consolidated basis)
In July 2021, Domestic Air Travel to Hawaii Reached an All-Time High
But International Air Arrivals (Especially From Japan) Remain Far Below Pre-Pandemic Levels

On 3/26/2020, Hawai‘i mandated a 14-day self-quarantine for out-of-state arrivals. Beginning 10/15/2020, passengers with negative test results for COVID-19 could avoid quarantining. Effective 7/8/2021, the State dropped testing and quarantine rules for fully vaccinated domestic travelers and all restrictions on inter-island travel.

Source: Hawaii Department of Business, Economic Development & Tourism

* Daily passenger counts include returning residents, intended residents and visitors but exclude interisland and Canada passengers.
In July 2022, U.S.-International Air Travel* Fell 16% Below 2019 Levels
Non-U.S. Citizen Arrivals Trailed U.S. Citizen Departures by ~26 Percentage Points

Change (%) vs. 2019 in Total* U.S.-International Air Passengers

Source: U.S. Department of Commerce National Travel and Tourism Office using DHS I-92 / APIS data
* Gateway-to-gateway passengers on U.S. and foreign scheduled and charter airlines and general aviation
In July, U.S.-Japan/China/Australia Air Travel Trailed Pre-Pandemic Levels by More Than 50%
U.S.-Mexico/Dominican Republic/Colombia/Costa Rica Saw Volumes Rise

Sorted left to right by highest volume in 2019

Source: DHS I-92 / APIS data compiled by U.S. Department of Commerce National Travel and Tourism Office

* Gateway-to-gateway passengers on U.S. and foreign scheduled and charter airlines and general aviation
Recovery of “Corporate” Ticket Sales Showing Promise
Levels Remain Approximately Materially Below 2019

Source: Airlines Reporting Corporation (ARC)

* Results reflect more than 10,000 agency sales outlets and do not include sales of tickets purchased directly from airlines and are not net of refunds or exchanges.
Jet Fuel Prices Have Proven a Fierce Cost Headwind in 2022
Nationwide Spot Price Averaged $3.51 in July 2022 — Up 82% From $1.93 in July 2019

Sources: Argus Media as noted at https://www.airlines.org/dataset/argus-us-jet-fuel-index/

Argus US Jet Fuel Index™ (USD per Gallon)*

* Argus daily simple-average jet-fuel price for Chicago, Houston, Los Angeles and New York

CY 2019 = $1.93
Recent Data Suggests That Fare Growth May Have Peaked in Late May

Change (%) vs. 2019 in U.S. Domestic and International Ticket Sales*

Source: A4A analysis of data from Airlines Reporting Corporation (ARC)

* Net tickets (gross sales minus refunds) sold in the United States for travel to/from U.S. airports.
In the Six Months Ending July 2022, CPI for Airline Fares Exceeded CY2019 by 10.7%
Whereas Overall U.S. Consumer Prices for That Period Exceeded CY2019 by 13.8%

Source: Bureau of Labor Statistics (CPI series CUSR0000SETG01 and CUUR0000SA0); for information on the BLS methodology for "airline fares," see https://www.bls.gov/cpi/factsheets/airline-fares.htm
Airline Industry Update, July 1, 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)

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022F</th>
<th>2023F</th>
<th>2024F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>108</td>
<td>105</td>
<td>163</td>
<td>164</td>
<td>162</td>
<td>161</td>
<td>160</td>
</tr>
</tbody>
</table>

Interest Expense, Net ($ Billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022F</th>
<th>2023F</th>
<th>2024F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense</td>
<td>2.0</td>
<td>1.9</td>
<td>3.8</td>
<td>5.6</td>
<td>5.1</td>
<td>5.1</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Source: A4A, equity analysts and filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United
Since the Recovery Began, S&P Has Raised Its Ratings on Alaska/Allegiant/Hawaiian
Ratings Actions Reflect Assessment of Financial Condition and Risk

<table>
<thead>
<tr>
<th>Source: Standard &amp; Poor's issuer ratings for publicly traded U.S. and Canadian carriers in its coverage universe</th>
</tr>
</thead>
</table>

### Pre-Pandemic (3/15/2020)
- Alaska
- Allegiant
- American
- Delta
- Hawaiian
- JetBlue
- Southwest
- Spirit
- United
- Air Canada

### Heart of Pandemic (8/24/2020)
- Alaska
- Allegiant
- American
- Delta
- Hawaiian
- JetBlue
- Southwest
- Spirit
- United
- Air Canada

### As of 4/7/2022
- Alaska
- Allegiant
- American
- Delta
- Hawaiian
- JetBlue
- Southwest
- Spirit
- United
- Air Canada
For U.S. Airlines, Growth in Air Cargo Continues to Outpace Air Travel by a Large Margin
Jan-May 2022 vs. Jan-May 2019: Cargo Traffic Rose 21%, Passenger Traffic Down 15%

Change (%) vs. 2019 in Traffic* – U.S. Passenger and Cargo Airlines

Sources: Bureau of Transportation Statistics T1 for all U.S. airlines providing scheduled and nonscheduled services

* RTMs = freight, mail and express revenue ton miles; RPMs = revenue passenger miles
After a Material Hit From the Pandemic, U.S. Airline Employment Is Bouncing Back
Voluntary Reductions, Retirements, Job Changes, Employer Shutdowns Had Taken a Toll

<table>
<thead>
<tr>
<th>Carrier Universe</th>
<th>Scheduled U.S. Passenger Airlines Only FTEs* (000)</th>
<th>All U.S. Passenger and Cargo Airlines Headcount (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All-Time High</td>
<td>Jun-2001: 545.9</td>
<td>Jun-2022: 767.3</td>
</tr>
<tr>
<td>Post-2000 Low Point</td>
<td>Apr-2010: 376.7</td>
<td>Apr-2010: 562.3</td>
</tr>
<tr>
<td>Pre-COVID Peak</td>
<td>Feb-2020: 458.2</td>
<td>Feb-2020: 753.4</td>
</tr>
<tr>
<td>Pandemic Low Point</td>
<td>Nov-2020: 363.4</td>
<td>Oct-2020: 669.2</td>
</tr>
</tbody>
</table>

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
As of June, U.S. Passenger Airline Employment (FTEs) Fell Just 0.6% Below Pre-COVID Levels

Source: Bureau of Transportation Statistics for scheduled U.S. passenger airlines (i.e., all that report scheduled passenger revenue)
U.S. Passenger Airlines Grew Active Fleet by 924 Units From End of 2020 to End of July
Net Reduction of 1,109 (19%) From YE19 to YE20 and 185 (3%) From YE19 to End of July

Number of Active Aircraft*

<table>
<thead>
<tr>
<th>Year</th>
<th>Regional</th>
<th>Single-Aisle</th>
<th>Twin-Aisle</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/2019</td>
<td>1,810</td>
<td>3,475</td>
<td>495</td>
</tr>
<tr>
<td>12/31/2020</td>
<td>1,517</td>
<td>2,847</td>
<td>307</td>
</tr>
<tr>
<td>12/31/2021</td>
<td>1,605</td>
<td>3,428</td>
<td>394</td>
</tr>
<tr>
<td>7/31/2022</td>
<td>1,539</td>
<td>3,598</td>
<td>458</td>
</tr>
</tbody>
</table>

Source: Anuvu (formerly Global Eagle masFlight) * Operated by or on behalf of Alaska/Allegiant/American/Delta/Frontier/Hawaiian/JetBlue/Southwest/Spirit/Sun Country/United in any of the previous seven days
The Timing of a Return to 2019 Passenger Volumes Depends in Large Part on Business Travel

Another Open Question Is the Degree to Which Leisure and VFR Traffic Remain Robust in 2022-2023

Source: A4A and various airline equity analysts

Note: A = actual; F = forecast
The U.S. Travel Association Projects Domestic Air Trips to Recover by 2023
Recovery of International Arrivals Delayed Until 2025

Sources: Tourism Economics and U.S. Travel Association (June 16, 2022)

* Includes air and non-air travel
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.

Source: A4A Passenger Airline Cost Index, BTS (Form 41 Schedule T1)

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

Passengers Enplaned (Mils)  Operating Revenues ($ Bils)

- 9/11 Terrorist Attacks
- Global Financial Crisis + $100/bbl Crude Oil
- COVID-19

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

Source: A4A Passenger Airline Cost Index, BTS (Form 41 Schedule T1)
Air-Cargo Demand Reached an All-Time High in 2021
Air Cargo Had Taken 10 Years to Recover From the Global Financial Crisis and Subsequent Oil Spike

“A week ago, United Airlines carried 6 tons of black soap in the belly of a passenger plane, a product it has never seen before… Last summer, the carrier flew five dedicated cargo charters of dog food from Frankfurt…to Denver. United… said…that its passenger freighters also operated a charter flight full of mayonnaise and recently received a request to move 800 tons of Bacardi rum.” (FreightWaves, Jan. 19, 2022)

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

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

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“COVID-19 has brought about an acceleration of digital competency across demographic cohorts. We have a lot of different people who fly through the airport. We are constantly thinking about the experience we present to them. And if people have become more technology savvy, more digitally competent, that means we can accelerate and roll out the contactless passenger journey across many platforms—and there will be an acceptance of and a desire for them.”

“Airports and airplanes are cleaner than they’ve ever been and will continue to be that way because it’s important for restoring confidence in air travel. We expect the new hygiene and enhanced-cleaning protocols we’ve implemented to continue. Passengers can expect that from airports and airlines going forward.”

Source: McKinsey & Company interview with Massachusetts Port Authority CEO Lisa Wieland (Nov. 20, 2020)
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We Connect the World