Emerging From the Pandemic
Updated December 15, 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)
Ticket sales are strong but demand for corporate and long-haul international air travel continues to trail pre-pandemic levels.

Air cargo demand reached an all-time high in 2021; down slightly thus far 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. passenger airlines have the largest workforce in 20 years.

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 Recorded ~$303 Million in Pre-Tax Losses in YTD 3Q 2022
Operating Revenues Rose 5% From YTD 3Q 2019, But Operating Expenses Rose 15%

<table>
<thead>
<tr>
<th>Financial Results: Jan-Sep 2022</th>
<th>$ Billions</th>
<th>$ vs. 2019</th>
<th>% vs. 2019</th>
<th>% of Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger (RPMs down 15%, yield up 17%)</td>
<td>128.6</td>
<td>—</td>
<td>—</td>
<td>87.6</td>
</tr>
<tr>
<td>Cargo</td>
<td>3.8</td>
<td>1.4</td>
<td>60</td>
<td>2.6</td>
</tr>
<tr>
<td>Other¹</td>
<td>14.4</td>
<td>5.4</td>
<td>60</td>
<td>9.8</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td><strong>146.7</strong></td>
<td><strong>6.8</strong></td>
<td><strong>5</strong></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td>Salaries, wages and benefits</td>
<td>40.7</td>
<td>1.2</td>
<td>3</td>
<td>28.5</td>
</tr>
<tr>
<td>Aircraft fuel and taxes (consumption down 14%, price up 68%)</td>
<td>41.0</td>
<td>12.7</td>
<td>45</td>
<td>28.7</td>
</tr>
<tr>
<td>Maintenance materials and repairs</td>
<td>6.9</td>
<td>0.4</td>
<td>6</td>
<td>4.9</td>
</tr>
<tr>
<td>Landing fees and airport rentals</td>
<td>8.5</td>
<td>1.3</td>
<td>17</td>
<td>5.9</td>
</tr>
<tr>
<td>Depreciation and amortization²</td>
<td>5.9</td>
<td>(1.3)</td>
<td>(18)</td>
<td>4.1</td>
</tr>
<tr>
<td>Other³</td>
<td>39.8</td>
<td>4.5</td>
<td>13</td>
<td>27.8</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>142.8</strong></td>
<td><strong>18.7</strong></td>
<td><strong>15</strong></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td>Interest and other non-op expenses, net</td>
<td>4.2</td>
<td>2.6</td>
<td>163</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Pre-tax income/(loss)</strong></td>
<td><strong>(0.3)</strong></td>
<td><strong>(14.5)</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 regionals, etc.

Source: Alaska, Allegiant, American, Delta, Frontier, Hawaiian, JetBlue, Southwest, Spirit and United

Source: airlines.org
In 2022, Airlines’ Unit Costs Are Estimated to Average 28% More Than in 2019
Net Interest Expense per Seat-Mile Is Projected to Rise 170%

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

<table>
<thead>
<tr>
<th>Category</th>
<th>2019A</th>
<th>2022F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>4.41</td>
<td>4.93</td>
</tr>
<tr>
<td>Fuel</td>
<td>3.05</td>
<td>3.05</td>
</tr>
<tr>
<td>Aircraft Ownership &amp; Rents</td>
<td>1.02</td>
<td>1.13</td>
</tr>
<tr>
<td>Maintenance Materials &amp; Repairs</td>
<td>0.72</td>
<td>0.83</td>
</tr>
<tr>
<td>Airport Landing Fees &amp; Rents</td>
<td>0.85</td>
<td>0.99</td>
</tr>
<tr>
<td>Other Operating*</td>
<td>3.41</td>
<td>4.22</td>
</tr>
<tr>
<td>Interest (net)</td>
<td>0.16</td>
<td>0.43</td>
</tr>
</tbody>
</table>

Source: A4A

* Professional fees, food/beverage, insurance, commissions, GDS booking fees, communications, advertising, utilities, office supplies, crew hotels, payments to regional carriers, etc.
Per Wells Fargo, the Global Economy Will Grow Just 1.7% in 2023
U.S./Canada/Mexico/Brazil Projected to Grow Less Than 1%; Europe and the UK Expected to Contract

“[W]e anticipate that the elevated rate of inflation, which has eroded household real income, and the degree of monetary tightening, that which the FOMC has already undertaken with more to come, will cause the U.S. economy to slip into a modest recession beginning in mid-2023.” (Wells Fargo, Dec. 8, 2022)

Projected 2023 Real GDP Growth (%)

- World: 1.7
- USA: 0.2
- Eurozone: (0.7)
- UK: (1.5)
- Japan: 1.2
- Canada: 0.4
- Australia: 1.7
- China: 4.9
- India: 5.8
- Mexico: 0.7
- Brazil: 0.4

Source: Wells Fargo (Dec. 8, 2022) and U.S. Bureau of Economic Analysis

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

- 2018: $18.61
- 2019: $19.04
- 2020: $18.51
- 2021: $19.62
- 2022F: $20.00
- 2023F: $20.04
Relative to the Size of the U.S. Economy, Domestic Airline Capacity Remains Below Pre-Pandemic Levels Due Largely to a Combination of Resource Constraints and High Input Costs

Sources: Bureau of Economic Analysis, IHS Markit® and Diio by Cirium (Dec. 9, 2022)

Sources: Bureau of Economic Analysis, IHS Markit® and Diio by Cirium (Dec. 9, 2022)

* Chained 2012 dollars
Nov. 28-Dec. 4: A4A Airline Passenger Volumes 9% Below 2019, Departures 15% Lower

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

7-Day Change (%) vs. 2019 in Aircraft Departures

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

* Onboard ("segment") passengers
A4A Member Domestic U.S. Load Factor Trailed 2019 Levels in Week Ending Dec. 4

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 Load Factors Have Improved

7-Day Moving Average Load Factor*

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

8-Nov-2021: USG eases inbound international travel restrictions
12-Jun-2022: USG eliminates pre-departure COVID testing requirement
26-Sep-2022: Hong Kong eases COVID entry restrictions
1-Oct-2022: Canada eliminates all COVID border requirements
11-Oct-2022: Japan eases COVID border requirements
14-Dec-2022: Hong Kong further eases restrictions for arriving travelers

* Traffic (RPMs) divided by capacity (ASMs)
In the Week Ending December 14, TSA Volumes Fell 8% From 2019 Levels
January-November 2022: Throughput Down 10% From 2019

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

- July 4, 2019: Thursday
- July 4, 2022: Monday
- Labor Day 2019: Sept. 2
- Labor Day 2022: Sept. 5
- Thanksgiving 2019: Nov. 28
- Thanksgiving 2022: Nov. 24

Source: Transportation Security Administration

* U.S. and foreign carrier customers (excluding Known Crewmember® personnel) traversing TSA checkpoints
Change in Day-of-Week Travel Patterns Provides Evidence of Increased Leisure Mix for Airline Travelers Have Adapted Their Schedules to Reflect the Changing Mix of Travelers

Source: Transportation Security Administration (2017-2019 to 12ME 11/30/2022) and Cirium published schedules (2017-2019 to 2022) for all U.S. and non-U.S. airlines as of Dec. 2, 2022

<table>
<thead>
<tr>
<th>Day</th>
<th>Change (%) in TSA Checkpoint Passenger Volume vs. 2017-2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sun</td>
<td>(3.6)</td>
</tr>
<tr>
<td>Mon</td>
<td>(7.0)</td>
</tr>
<tr>
<td>Tue</td>
<td>(9.1)</td>
</tr>
<tr>
<td>Wed</td>
<td>(10.0)</td>
</tr>
<tr>
<td>Thu</td>
<td>(7.7)</td>
</tr>
<tr>
<td>Fri</td>
<td>(7.6)</td>
</tr>
<tr>
<td>Sat</td>
<td>(3.7)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Day</th>
<th>Change (%) in Scheduled Seats Departing U.S. Airports vs. 2017-2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sun</td>
<td>(2.1)</td>
</tr>
<tr>
<td>Mon</td>
<td>(4.6)</td>
</tr>
<tr>
<td>Tue</td>
<td>(7.1)</td>
</tr>
<tr>
<td>Wed</td>
<td>(6.8)</td>
</tr>
<tr>
<td>Thu</td>
<td>(3.9)</td>
</tr>
<tr>
<td>Fri</td>
<td>(3.9)</td>
</tr>
<tr>
<td>Sat</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Source: Transportation Security Administration (2017-2019 to 12ME 11/30/2022) and Cirium published schedules (2017-2019 to 2022) for all U.S. and non-U.S. airlines as of Dec. 2, 2022
Change (%) in TSA Traveler Throughput — Nov-2022 vs. Nov-2019

Source: Transportation Security Administration
In 1Q 2023, 15 Large/Medium U.S. Airports Are Seeing Double-Digit Seat Growth vs. 1Q 2019
Of the 65 Locations, 30 Are Showing Growth, While Eight Are Showing Double-Digit Reductions

Change (%) in Systemwide Scheduled Seats: 1Q23 vs. 1Q19

1. Austin, TX
2. Charleston, SC
3. Nashville, TN
4. Boise, ID
5. San Juan, PR

1. Milwaukee, WI
2. Oakland, CA
3. Los Angeles, CA
4. San Jose, CA
5. Fort Myers, FL

Source: Diio by Cirium published schedules (Dec. 9, 2022) for all U.S. and non-U.S. airlines providing scheduled service to all U.S. and non-U.S. destinations
Schedules for 1Q 2023 Show That Frontier/Spirit/Allegiant Continue to Lead Capacity Growth
Four Largest Carriers Are Slower to Restore Capacity

Change (%) in Systemwide Scheduled Available Seat Miles: 1Q23 vs. 1Q19

- Frontier: 44.8%
- Spirit: 36.1%
- Allegiant: 23.1%
- JetBlue: 7.6%
- Hawaiian: 3.6%
- Alaska: 1.9%
- United: 0.6%
- Delta: -1.0%
- Southwest: -2.0%
- American: -2.2%

Source: Diio by Cirium published schedules (Dec. 9, 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

Source: Hawaii Department of Business, Economic Development & Tourism

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

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.
In the First 11 Months of 2022, U.S.-International Air Passengers Fell 24% Below 2019 Levels

U.S. Citizen Departures Continue to Outperform Foreign Arrivals by a Large Margin

U.S.-International Air Pax (Millions): Jan-Nov

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.-International Air Pax (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>233.7</td>
</tr>
<tr>
<td>2022</td>
<td>177.9</td>
</tr>
</tbody>
</table>

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
U.S.-Dominican Republic/Colombia/Mexico Lead the U.S.-International Recovery
Transpacific Air-Travel Demand Continues to Lag

Sorted left to right by highest volume in Calendar Year 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” Sales Has Plateaued Over the Past Few Months
Down More Than 30% From 2019 Levels

Change (%) vs. 2019 in Corporate-Segment Weekly Tickets Sold* by U.S. Travel Agencies

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 Is Averaging $3.53 — Up 83% From 2019 and 120% From 2015

Sources: Argus Media as noted at https://www.airlines.org/dataset/argus-us-jet-fuel-index/
* Argus daily simple-average jet-fuel price for Chicago, Houston, Los Angeles and New York

Argus US Jet Fuel Index™ (USD per Gallon)*
January-November 2022: Adjusted for Inflation, Airline Fares Fell 6.7% From 2019

Overall U.S. Inflation of 14.4% From 2019 Outpaced the 6.7% Nominal Uptick in Airline Fares

Change (%) in U.S. Consumer Price Index (CPI) — 2022 vs. 2019

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

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Thus Far in 2022, the Overall Increase in Consumer Prices = 2.15x the Increase in Airline Fares

Change in U.S. Consumer Price Index (CPI) — Jan-Nov 2022 vs. Jan-Nov 2019

Source: Bureau of Labor Statistics
Fare Growth Peaked in Late May, But Return of Corporate Travel Could Extend Comps to 2019

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) for travel to/from U.S. airports
Airlines Have Coped in Part by Taking on Enormous Debt, With Heavy Cash Outlays for Interest

Net Interest Expense Tripled From 2019 to 2021 and Is Expected to Approach $15B in 2022-2024

“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)

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

Pre-Pandemic (3/15/2020) | Heart of Pandemic (8/24/2020) | As of 4/7/2022
---|---|---
Alaska | BBB+ | A-  
Allegiant | BBB | BBB+
American | BBB- | BBB+
Delta | AA- | INVESTMENT GRADE
Hawaiian | BB+ | BB+)
JetBlue | BB | BB+
Southwest | BB- | BB+
Spirit | B+ | BB+
United | B | BB+
Air Canada | B- | BB+

Source: Standard & Poor’s issuer ratings for publicly traded U.S. and Canadian carriers in its coverage universe
For U.S. Airlines, Growth in Air Cargo Continues to Outpace Air Travel by a Large Margin
Jan-Sep 2022 vs. Jan-Sep 2019: Cargo Traffic Rose 19%, Passenger Traffic Down 12%

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
In October, U.S. Passenger Airlines Employed the Most FTEs in 20 Years
From Nov-2020 to Oct-2022, the Industry’s Workforce Grew by 106K FTEs, or ~4,600 FTEs per Month

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

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

Note: U.S. payroll support program (PSP) in effect 4/1/2020-10/1/2020 and 12/1/2020-9/30/2021.
U.S. Passenger Airlines’ Active Fleet Is Just 4% Smaller Than at End of 2019
But They Are Operating 48% Fewer Small Regional Aircraft

Number of Active Aircraft*

<table>
<thead>
<tr>
<th></th>
<th>12/31/2019</th>
<th>11/30/2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Regional</td>
<td>1,150</td>
<td>343</td>
</tr>
<tr>
<td>Large Regional</td>
<td>3,475</td>
<td>3,668</td>
</tr>
<tr>
<td>Single-Aisle</td>
<td>660</td>
<td>460</td>
</tr>
<tr>
<td>Twin-Aisle</td>
<td>495</td>
<td>1,074</td>
</tr>
<tr>
<td>Total</td>
<td>5,780</td>
<td>5,545</td>
</tr>
</tbody>
</table>

* 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

Source: Anuvu (formerly Global Eagle masFlight)
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)

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

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

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

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

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