Airlines for America®
We Connect the World

2017 Review & Spring 2018 Air Travel Forecast

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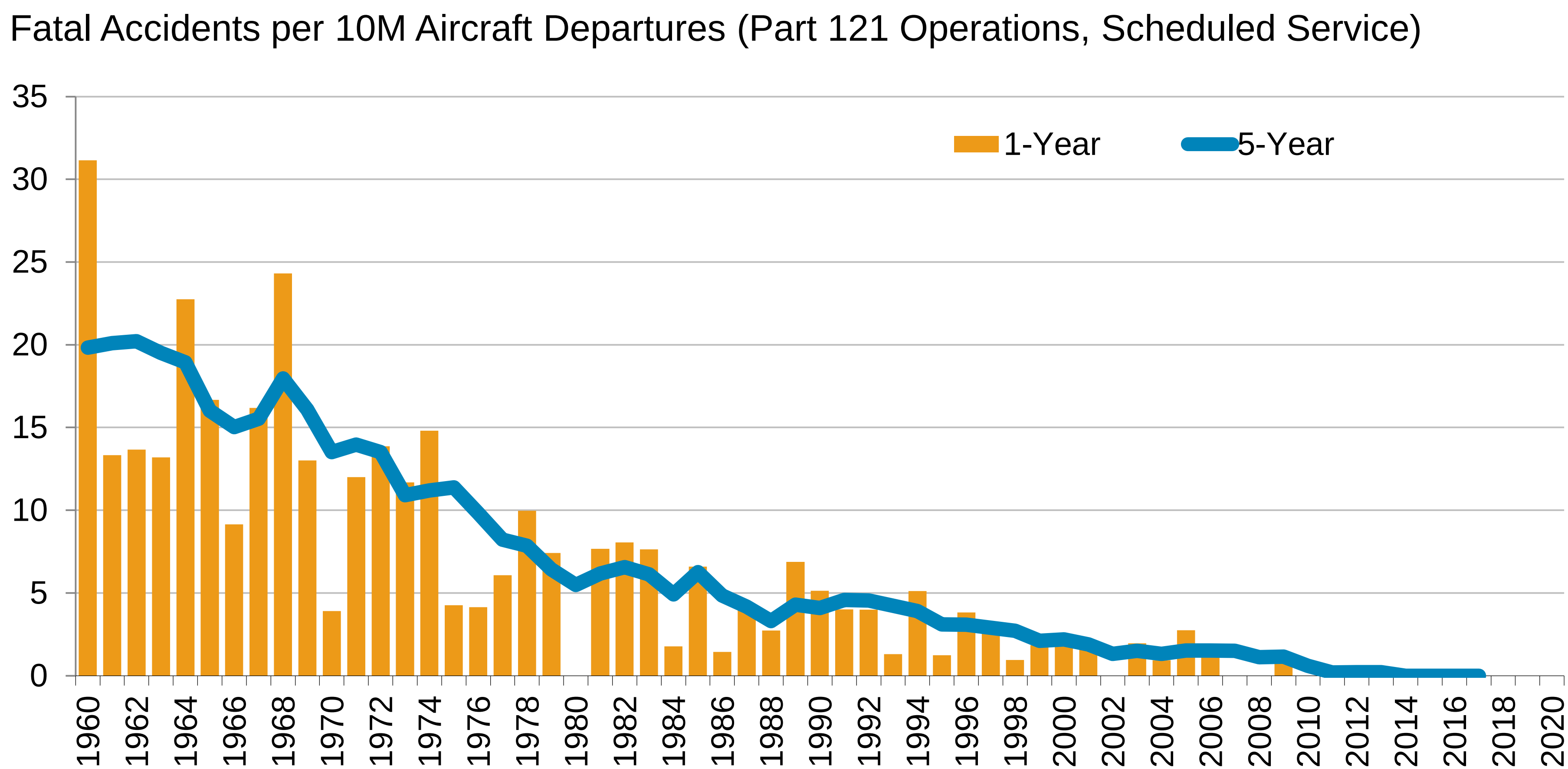
Media Briefing
March 14, 2018

2017 OPERATIONS AND FINANCIAL RESULTS

We're Experiencing the Safest Period in Aviation History



Source: A4A analysis of data from the National Transportation Safety Board (Tables 6 and 12) for U.S. air carriers operating under 14 CFR 121, scheduled service

2017 Was a Very Challenging Operating Environment for U.S. Airlines

Major Weather (Storms/Wind/Heat/Ice)
Jan 6-8, 10, 22-23
Feb 9, 12-13, 17
Mar 13-15
Apr 3, 5-8
May 1, 5, 22, 25
Jun 2, 14-15, 19-20
Jul 10, 12-17, 23-24
Aug 2-4, 15, 18, 26-31
Sep 1-5, 7-15
Oct 8 (wildfires/visibility)
Nov 3-5
Dec 8-9

Hurricanes (~33,000 cancellations)
Harvey (Texas, Aug 25)
Irma (Florida Keys, Sep 10)
Maria (Puerto Rico, Sep 20)

Construction
Boston (BOS)
Los Angeles (LAX)
New York (JFK & LGA)
Seattle (SEA)

Security
FLL shooting (Jan)
LAS shooting (Oct)
SJC breach (Aug)
DAL fire alarm/evacuation (Dec)

Air Traffic Control
Understaffing at many major facilities*
Critically low staffing at New York TRACON (N90)*
Construction-related fire at FAA Washington Center (Jul)

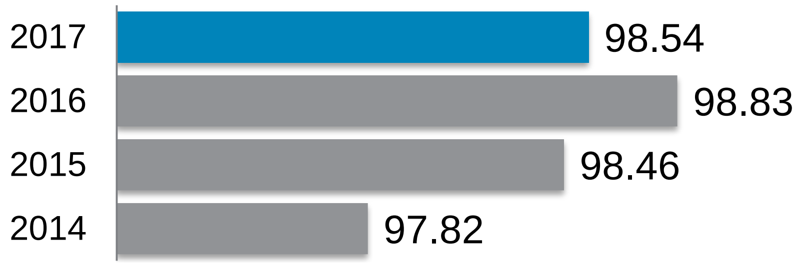
Power Outages
U.S. Customs & Border Protection nationwide outage (Jan)
San Jose airport ticket counters/baggage (Jan)
Sabre computer systems nationwide (Feb)
Sacramento airport (May)
Atlanta airport fire (Dec)

* Staffing is routinely cited as the basis for many traffic management initiatives (ground delay programs, ground stops, airspace flow programs, miles-in-trail) across the NAS
Source: A4A research and masFlight (subsidiary of Global Eagle)

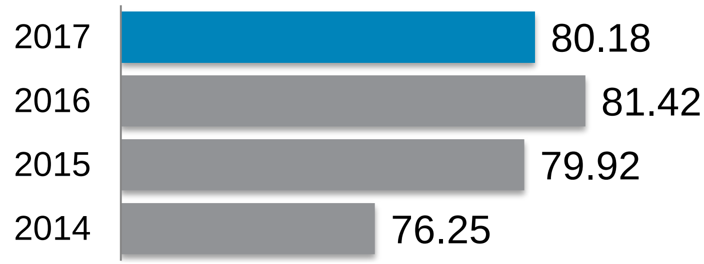
2017 U.S. Airline Flight Ops Impacted by Hurricanes, Airport and CBP Power Outages

Best Ever Recorded Performance for Baggage Handling and Involuntary Denied Boardings

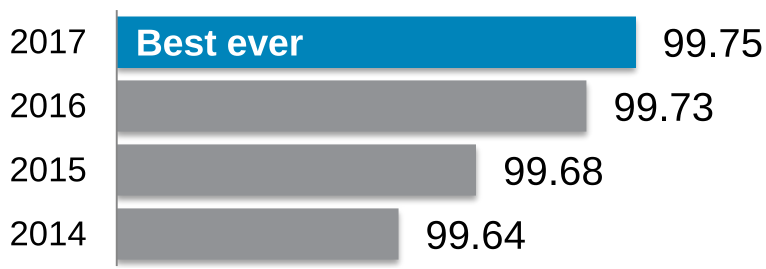
Flight Completion Factor (%)



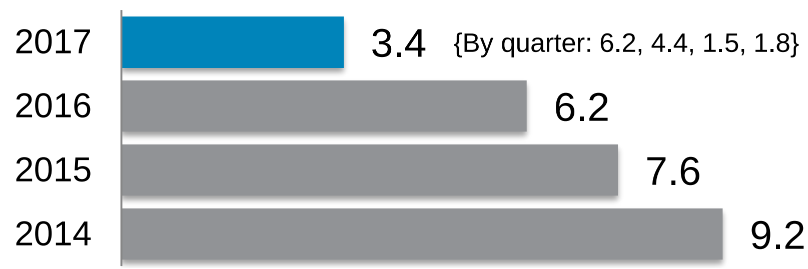
On-Time Arrival Rate (%)



Properly Handled Bag Rate (%)



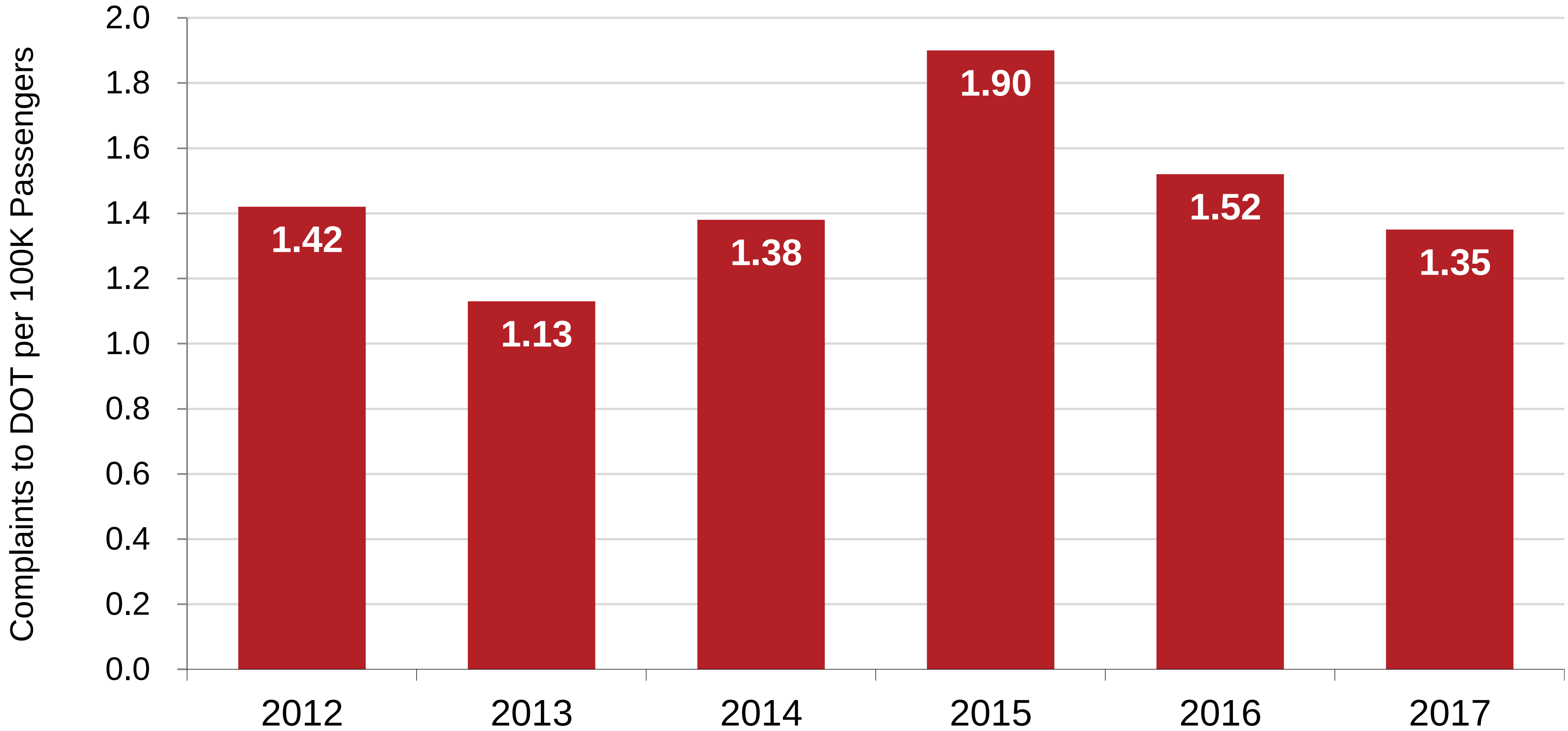
Involuntary Denied Boardings per 100K Psgrs.



Sources: BTS and DOT *Air Travel Consumer Report* (http://www.dot.gov/airconsumer/air-travel-consumer-reports)

In 2017, Customer Complaints Fell Again, Reaching Lowest Rate Since 2013

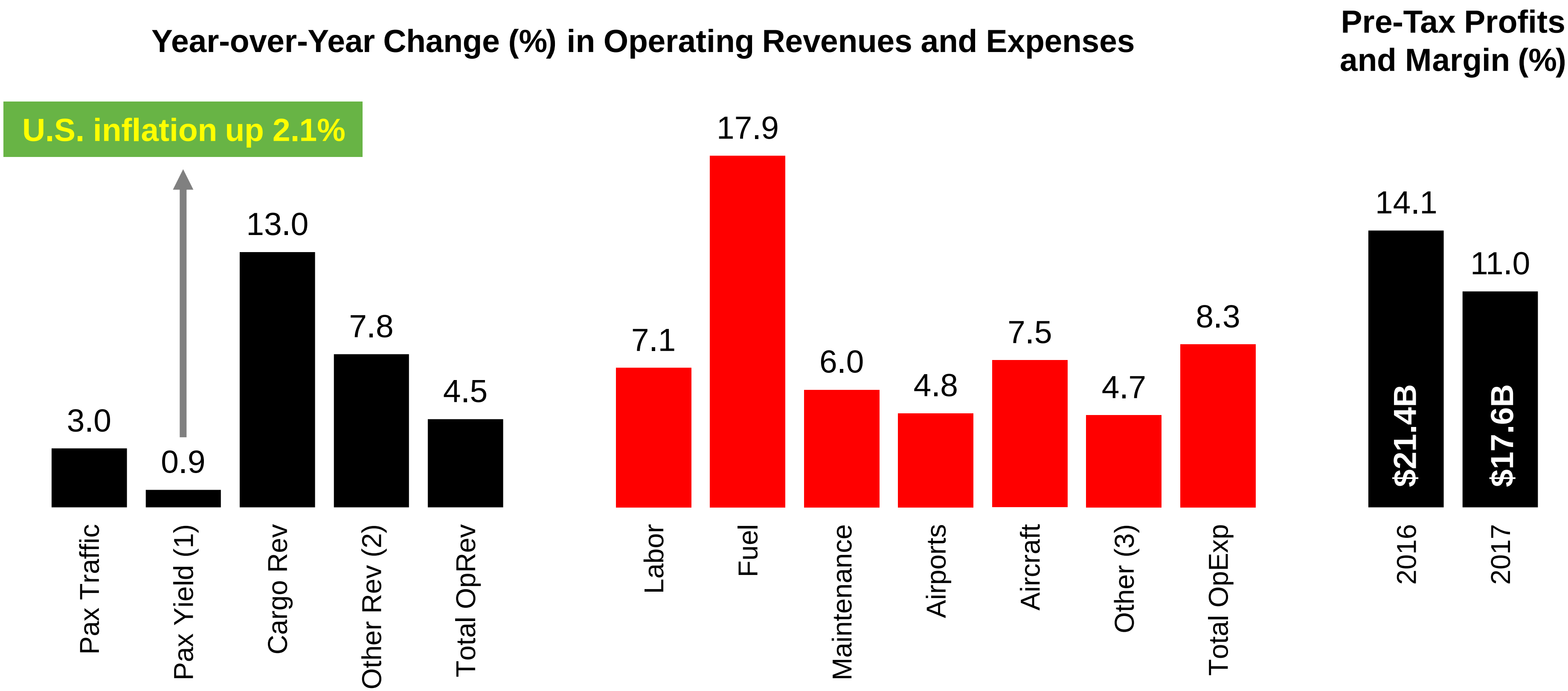
Improvement in Recent Years Consistent With Independent Surveys



Sources: DOT *Air Travel Consumer Report* (http://www.dot.gov/airconsumer/air-travel-consumer-reports)

2017 Revenues Rose 4.5%, But All Major Expenses Rose Faster – Up 8.3%

Yields Lagged U.S. Inflation; Profitability (Average Pre-Tax Profit Margin) Fell to 11%

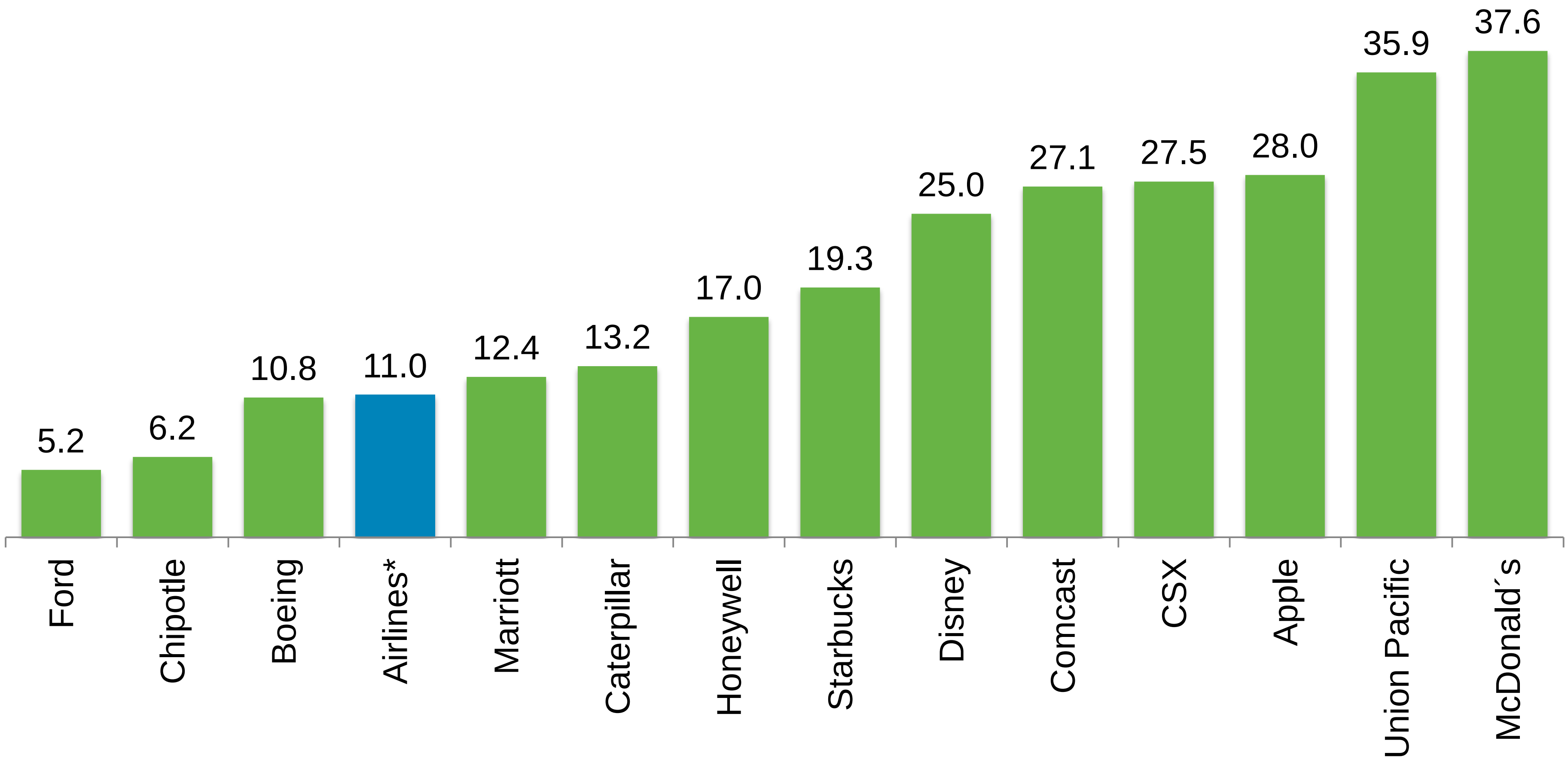


1. Yield = passenger revenue per passenger-mile flown (cents per RPM)
2. Sale of frequent flyer award miles to airline business partners, pet transportation, in-sourced aircraft and engine repair, flight simulator rentals, inflight sales, etc.
3. Professional fees, food/beverage, insurance, commissions, GDS fees, communications, advertising, utilities, office supplies, crew hotels, nonfuel payments to regionals

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

In 2017, U.S. Passenger Airline* Profitability Respectable But Below Average

Pre-Tax Profit Margin (% of Operating Revenues)

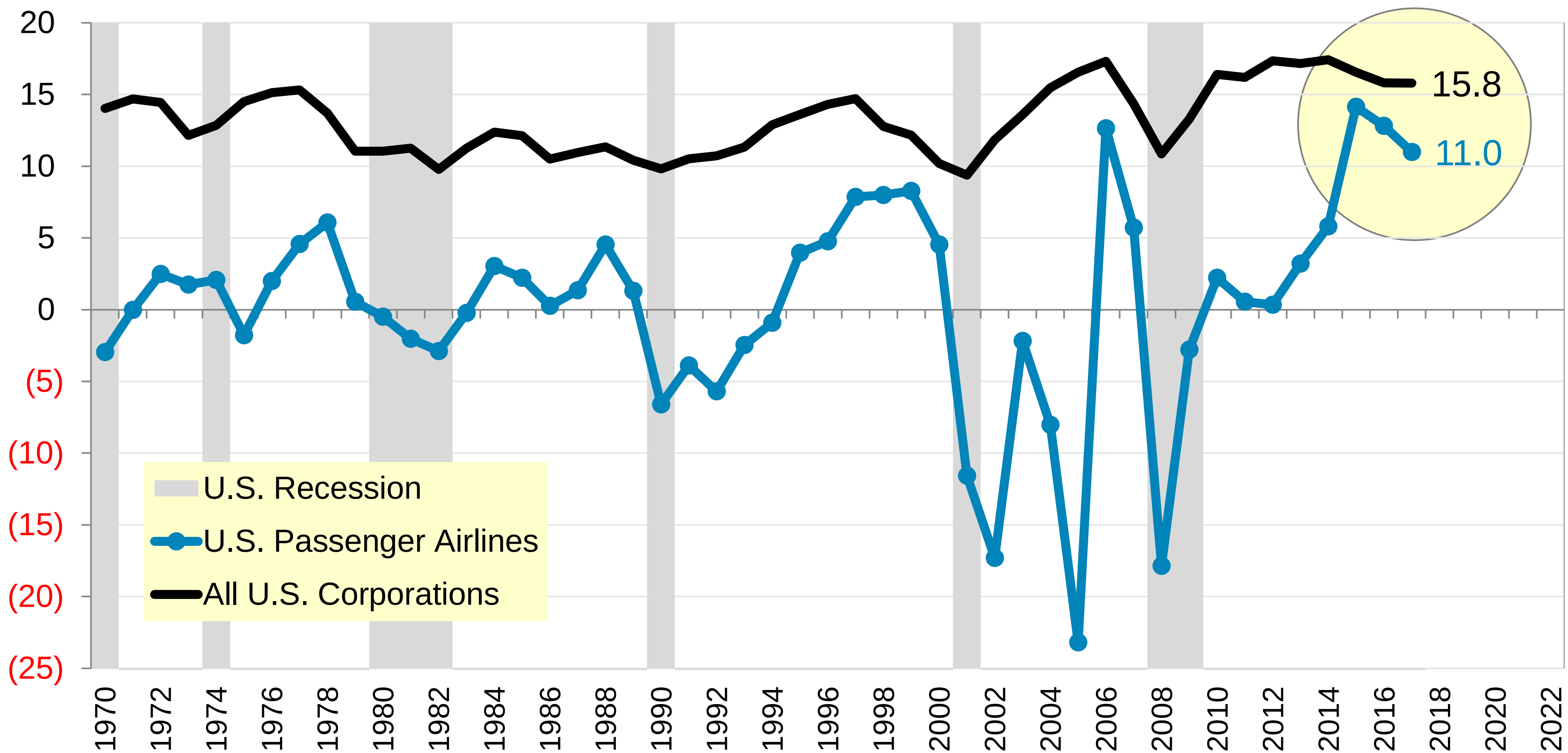


* A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

Source: Company SEC filings

Even in Best Years, Profitability of U.S. Airlines Lags U.S. Corporate Average

Pre-Tax Profit Margin (%) Gap Widened in 2016 and 2017

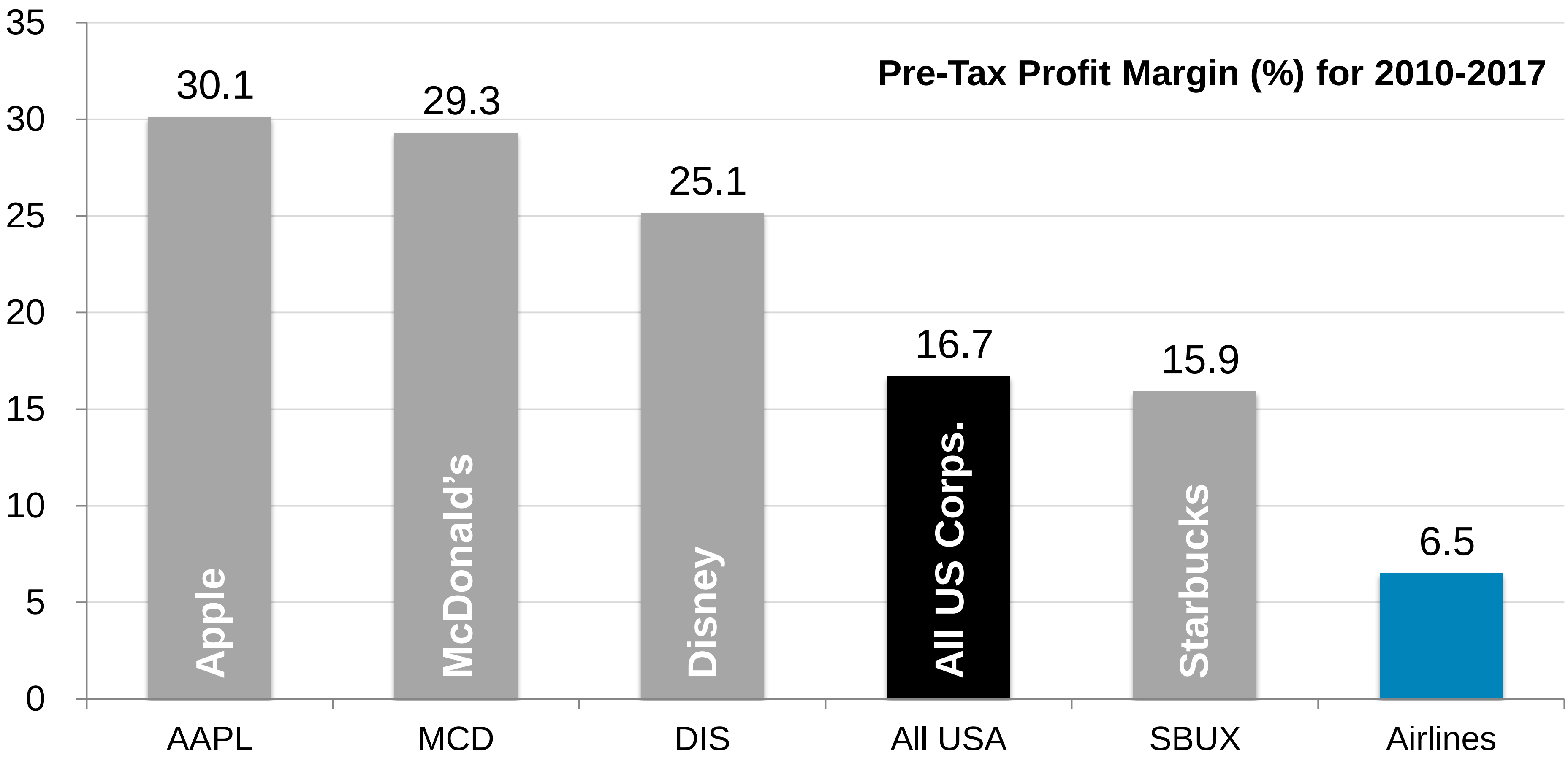


Source: ATA Annual Reports (1970-1976), A4A Passenger Airline Cost Index (1977-present); Bureau of Economic Analysis

Note: Recessions highlighted in gray

Airlines Continue to Strive for Solid Profitability *Across* the Business Cycle

In Current U.S. Business Cycle, Airline Margins Are About One-Third the U.S. Average

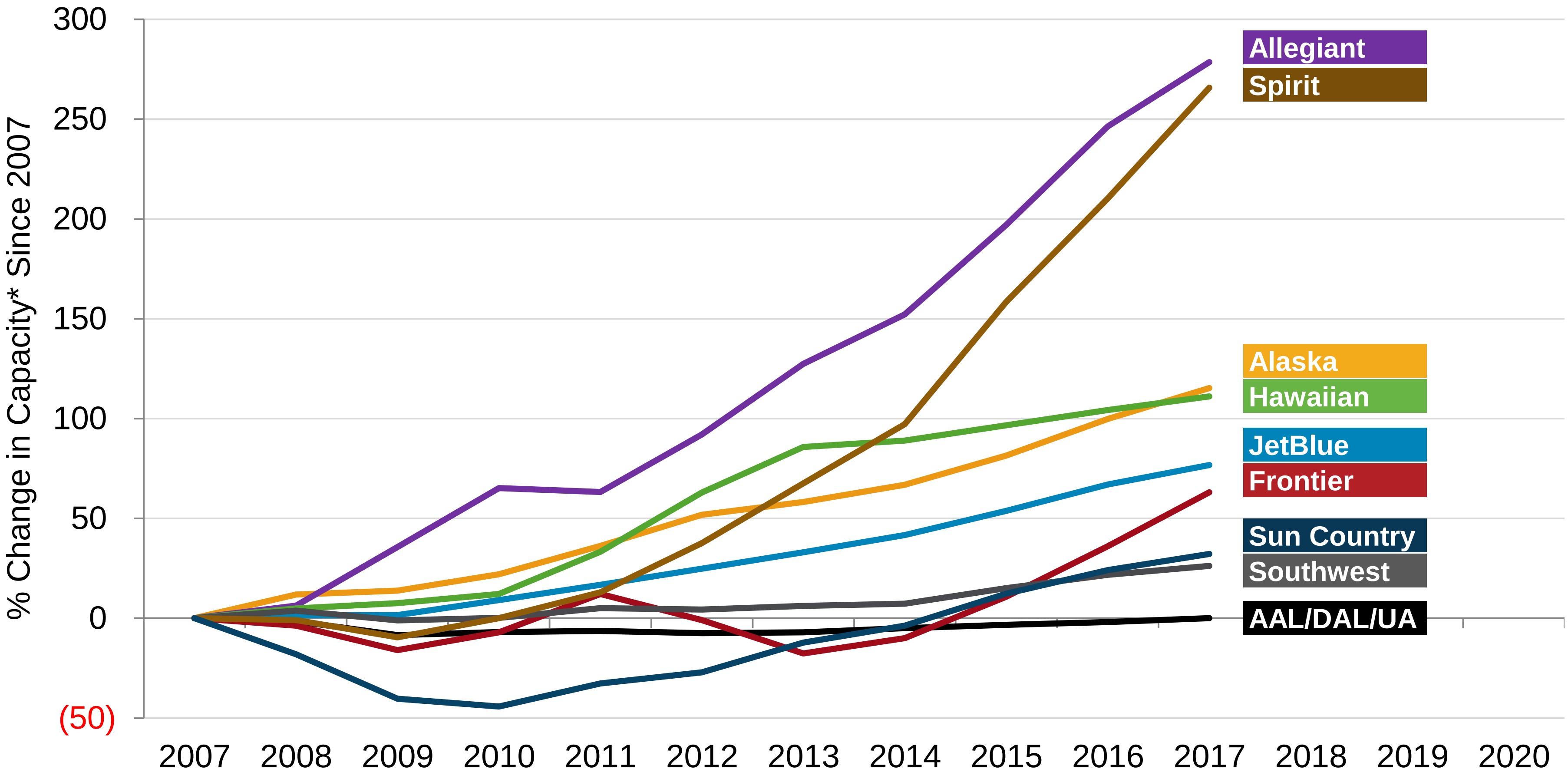


Sources: U.S. Bureau of Economic Analysis, A4A Passenger Airline Cost Index and company SEC filings

COMPETITION AND ACCESS TO AIR TRAVEL

Among 11 U.S. Airline Brands, Smaller Carriers Have Been Growing the Fastest

Different Types of Carriers Market Their Prices and Services Differently



Source: Innovata (via Diio Mi) schedules as of Feb. 9, 2018, for selected marketing airlines including predecessors

* Systemwide scheduled available seat miles

Competitive Choices for Domestic Flyers Have Continued to *Increase*

Contrary to Some Assertions, Traffic Analysis Shows *More* Competitors on U.S. City Pairs

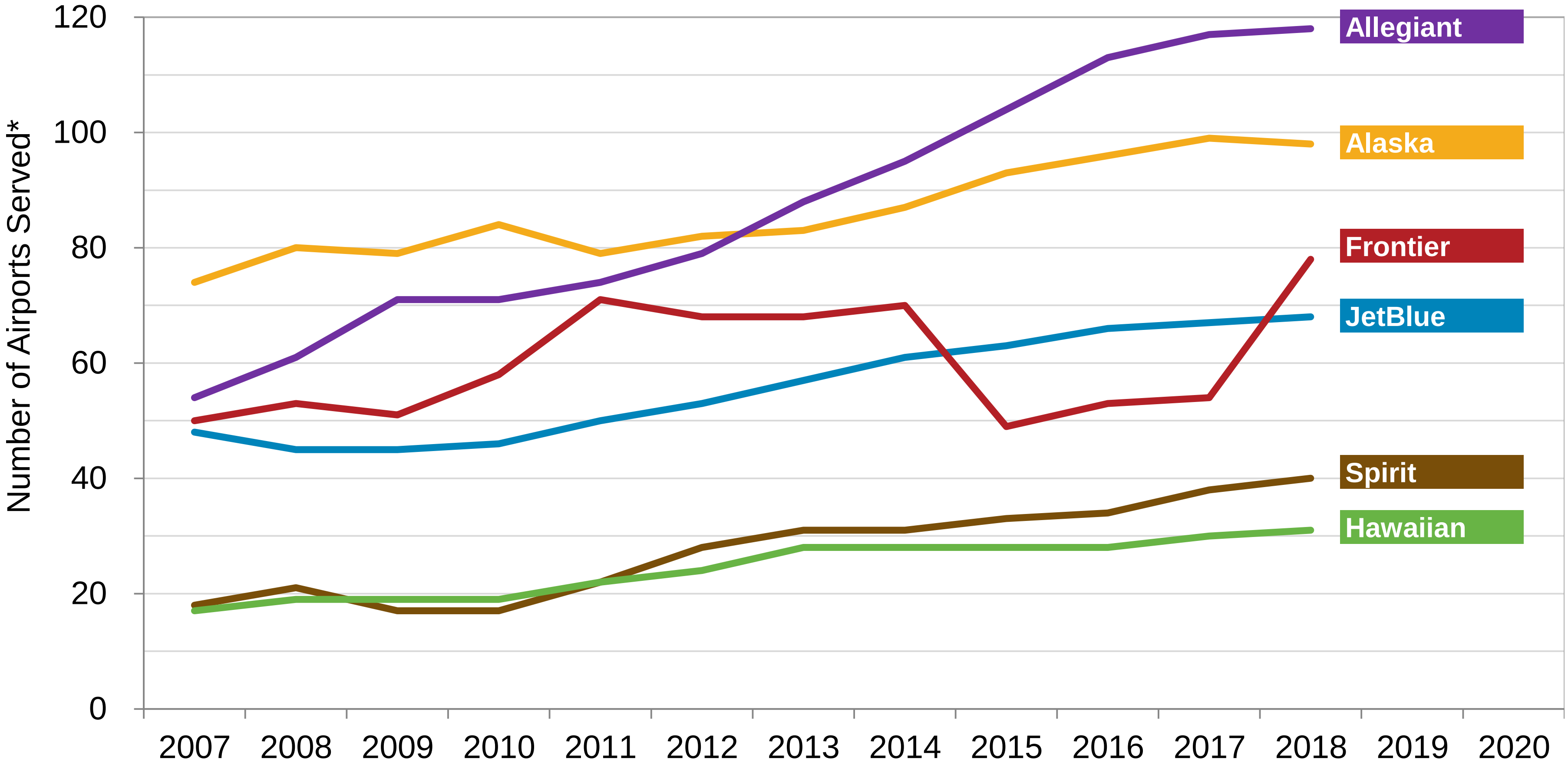
Average Number of Competitors* on All Reported Domestic U.S. Itineraries

* Carrying at least 5 percent of O&D passengers in the city pair; average number of competitors is passenger-weighted across city pairs

Source: Compass Lexecon analysis of DOT Origin-Destination Survey (Data Bank 1B)

Smaller U.S. Carriers Are Serving More and More Markets

Competitive Presence of Low-Cost and Ultra Low-Cost Carriers Continues to Expand

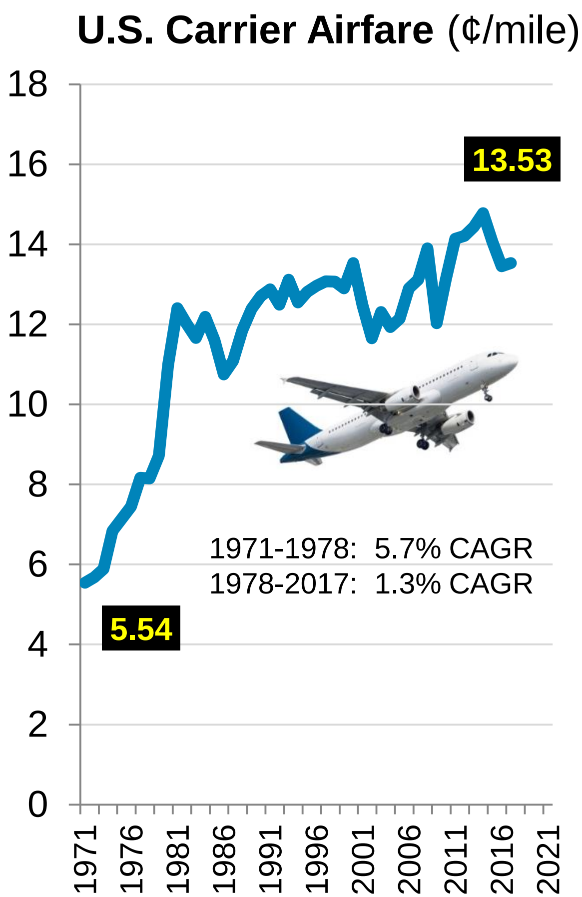


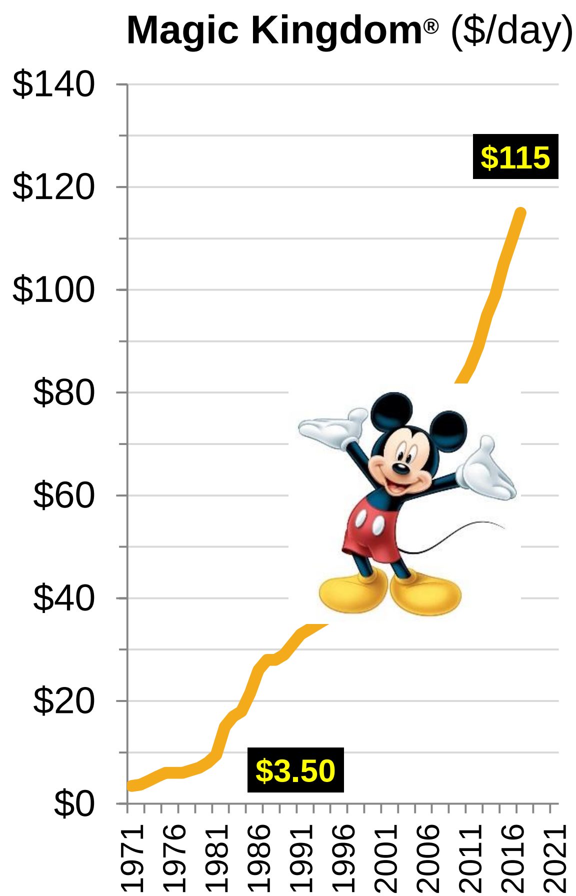
Source: Innovata (via Diio Mi) schedules as of Feb. 16, 2018, for selected marketing airlines including predecessors

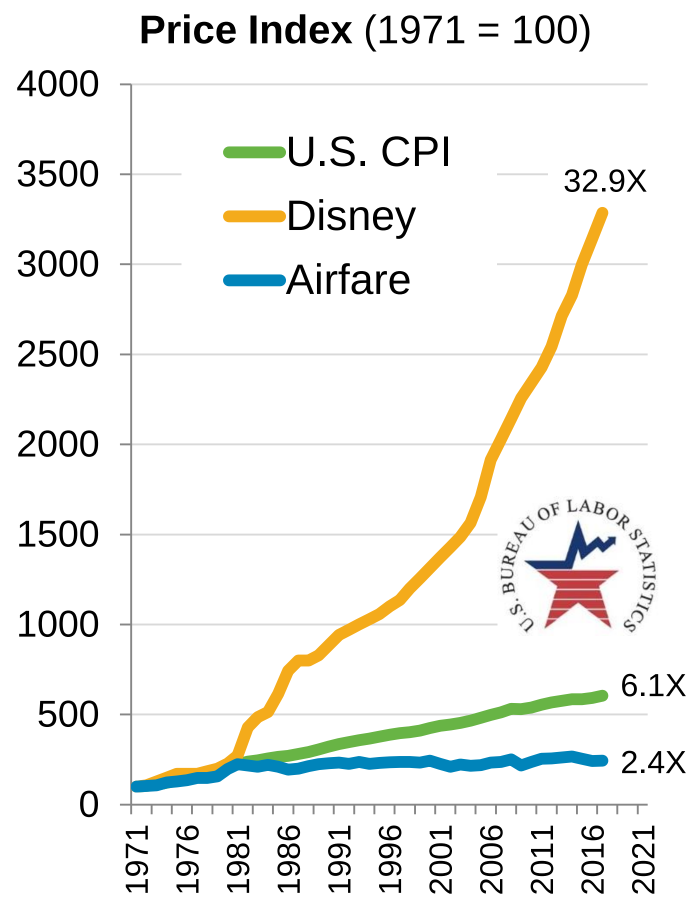
* Systemwide in July of each year

Within the Travel & Tourism Sector, Airfare Remains One of the Better Bargains

In Contrast to Air Travel, the Price of a Day at Disney Rose 33-Fold From 1971 to 2017





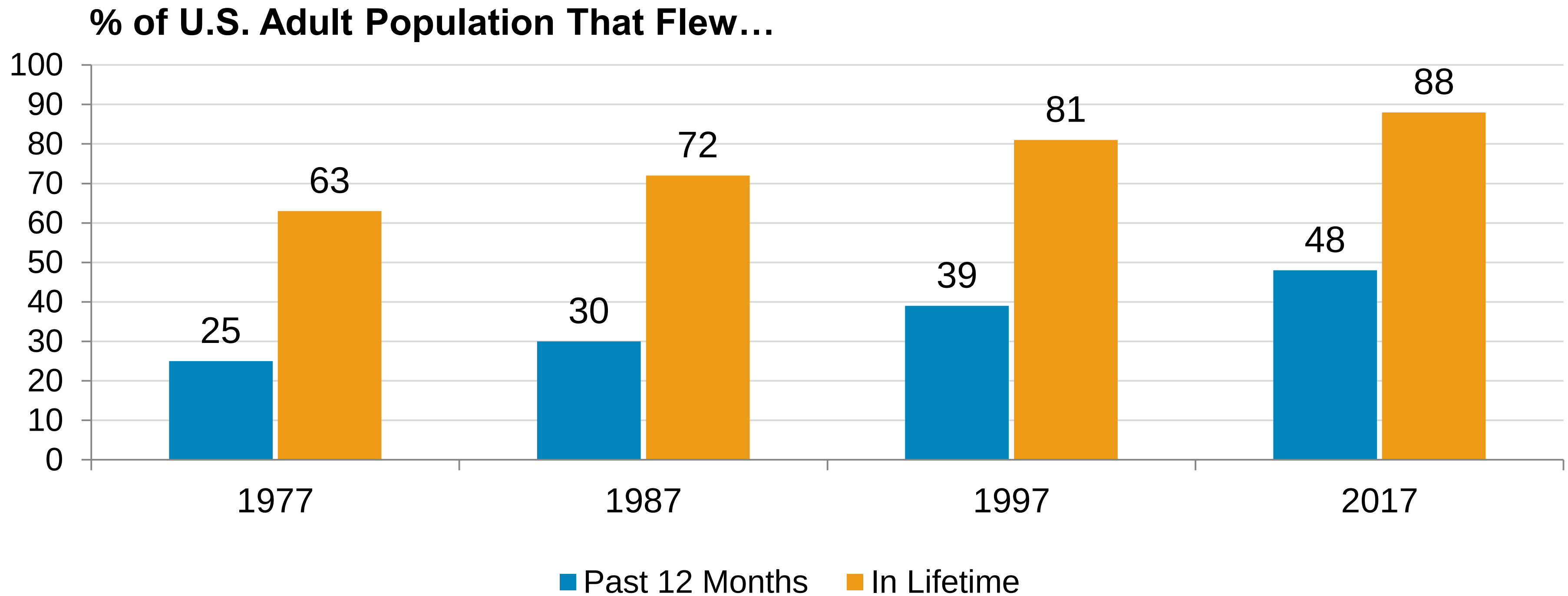


Sources: A4A Passenger Airline Cost Index (using DOT Form 41 passenger yield), allears.net, "How theme parks like Disney World left the middle class behind" (Drew Harwell, *The Washington Post*, June 12, 2015) and "Disney Introduces Demand-Based Pricing at Theme Parks" (Brooks Barnes, *The New York Times*, Feb. 27, 2016)

As Commercial Air Travel Has Become Safer and More Accessible, More Americans Are Taking to the Skies: Almost 90% in Their Lifetimes, Almost 50% in Past Year

"The hub-and-spoke network has really been a wonderful thing for mobility of Americans."

Rick Geddes, Director of the Cornell Program in Infrastructure Policy (Dec. 20, 2017)

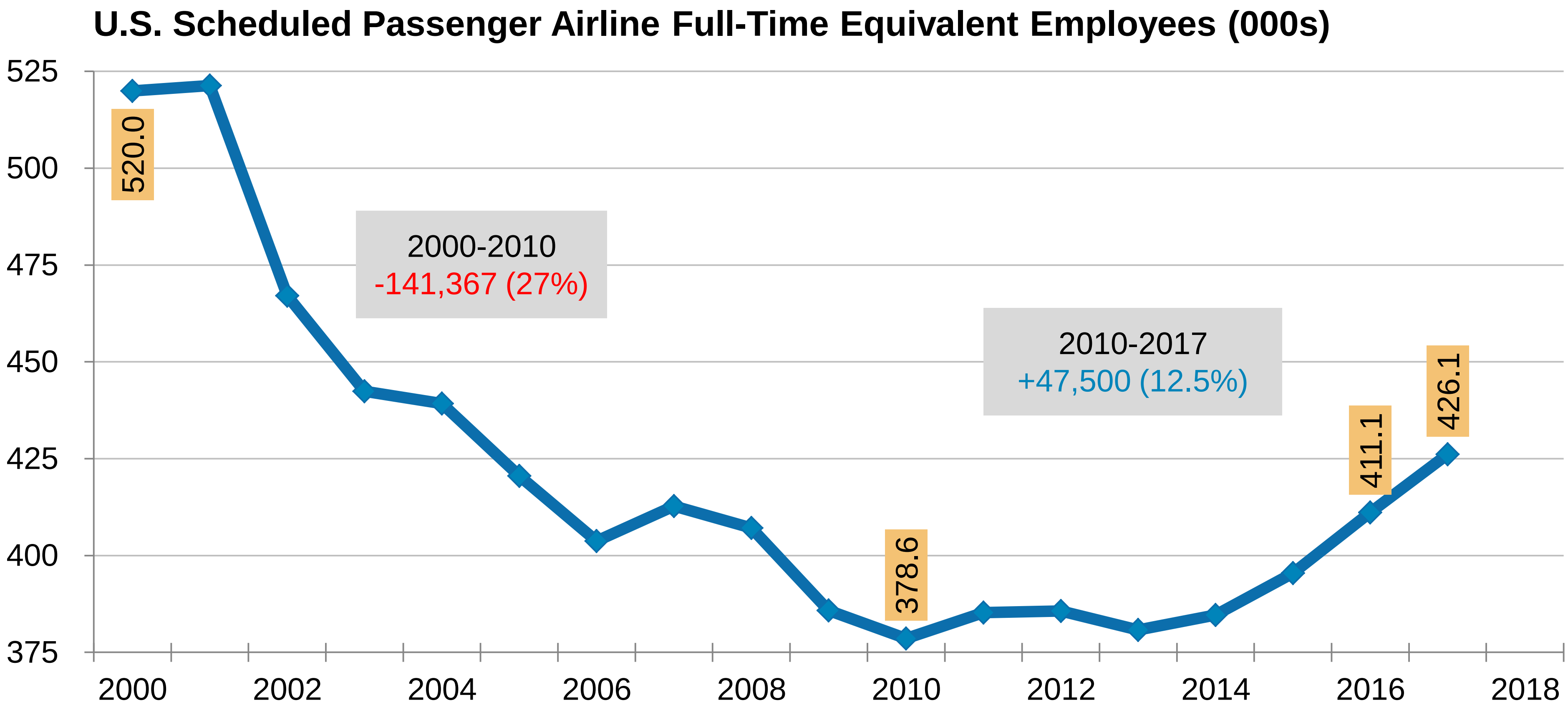


Sources: Gallup and Ipsos Public Affairs; NBC News (Dec. 20, 2017)

INVESTMENT IN PEOPLE AND PRODUCT

U.S. Passenger Airline Jobs Averaging Highest Level Since 2004

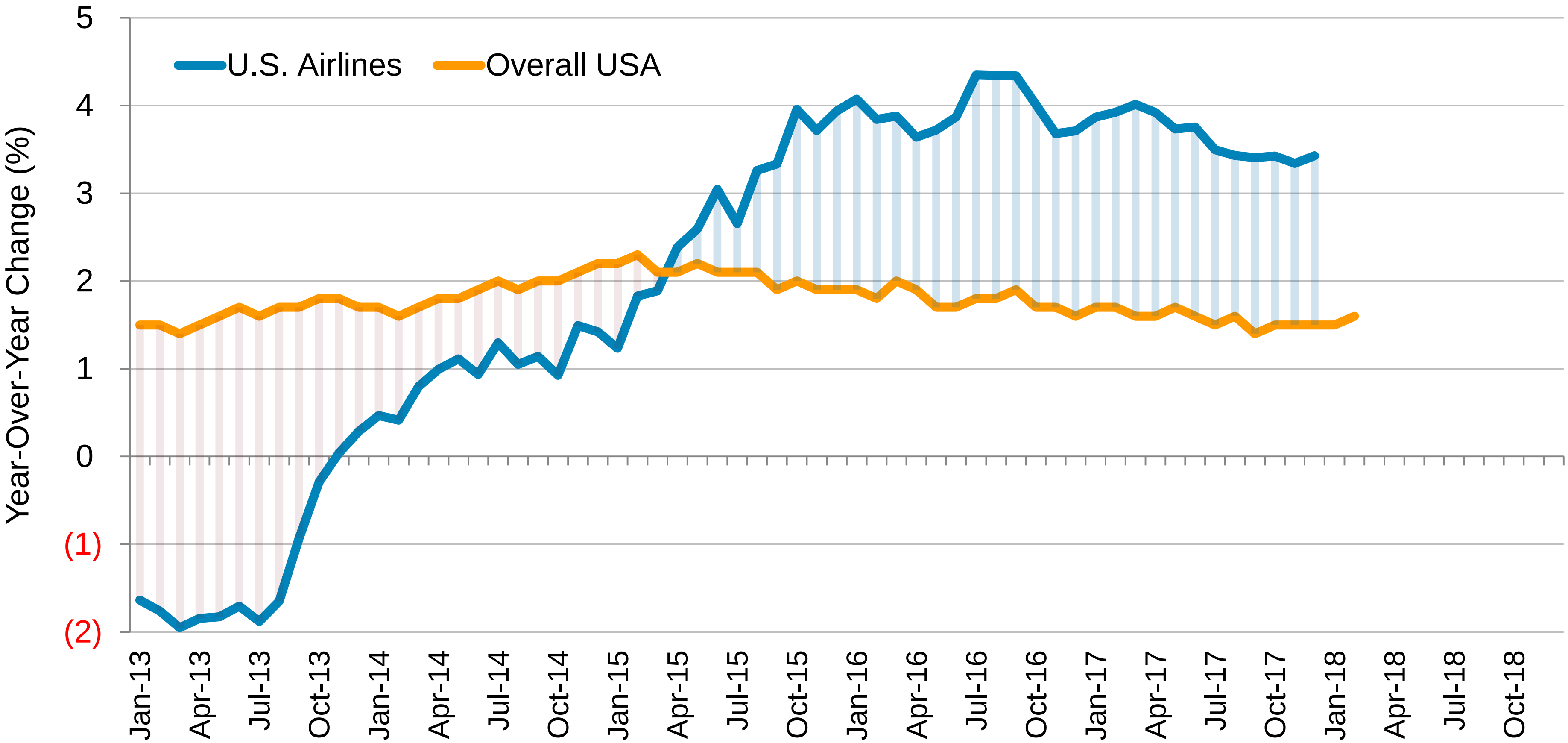
December 2017 Represented the **50th Consecutive Month** of YOY **Gains**



Source: Bureau of Transportation Statistics for scheduled U.S. passenger airlines

Since April 2015, U.S. Airline Job Growth Has Exceeded Overall U.S. Job Growth

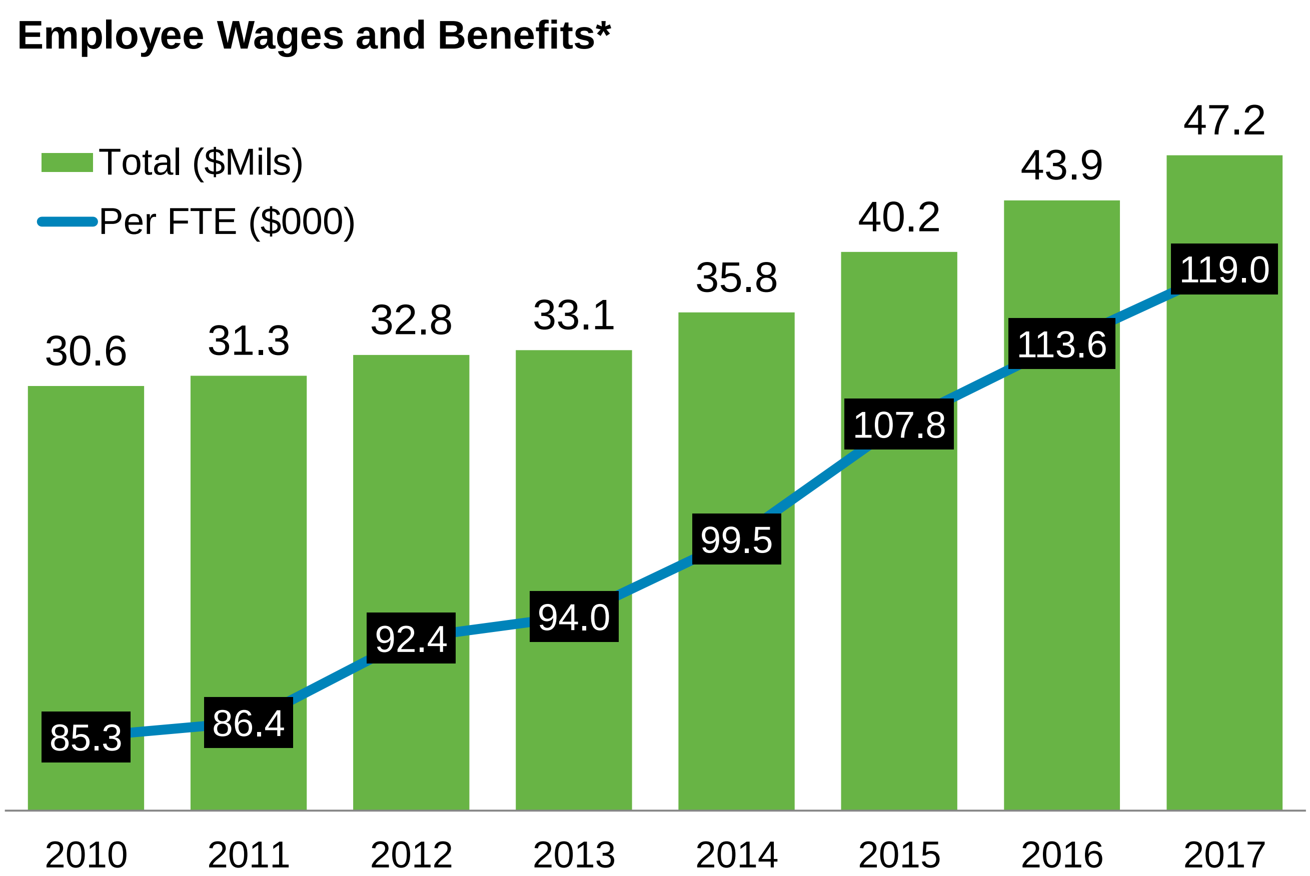
Airline Employment Growing at More Than Double the Rate of Overall U.S. Jobs

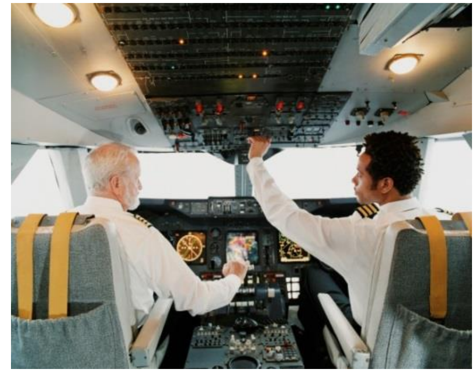


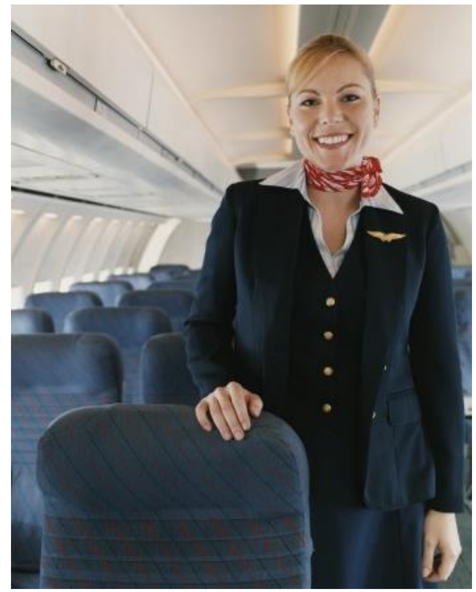
Source: Bureau of Labor Statistics (U.S. nonfarm employment, CES0000000001) and Bureau of Transportation Statistics (U.S. scheduled passenger airline FTEs)

U.S. Airlines* Spent $47B on Wages & Benefits in 2017 ($295B in 2010-2017)

Average Compensation per Employee Rose Approximately $34,000 – Up 39% From 2010







* SEC filings of Alaska/Allegiant/American/Delta/Hawaiian/JetBlue/Southwest/Spirit/United and A4A Cost Index

From 2010-2017, Capital Expenditures ($102B) Equaled 75% of Operating Cash Flow

U.S. Airlines Also Retired Expensive Tranches of Debt and Returned Cash to Shareholders

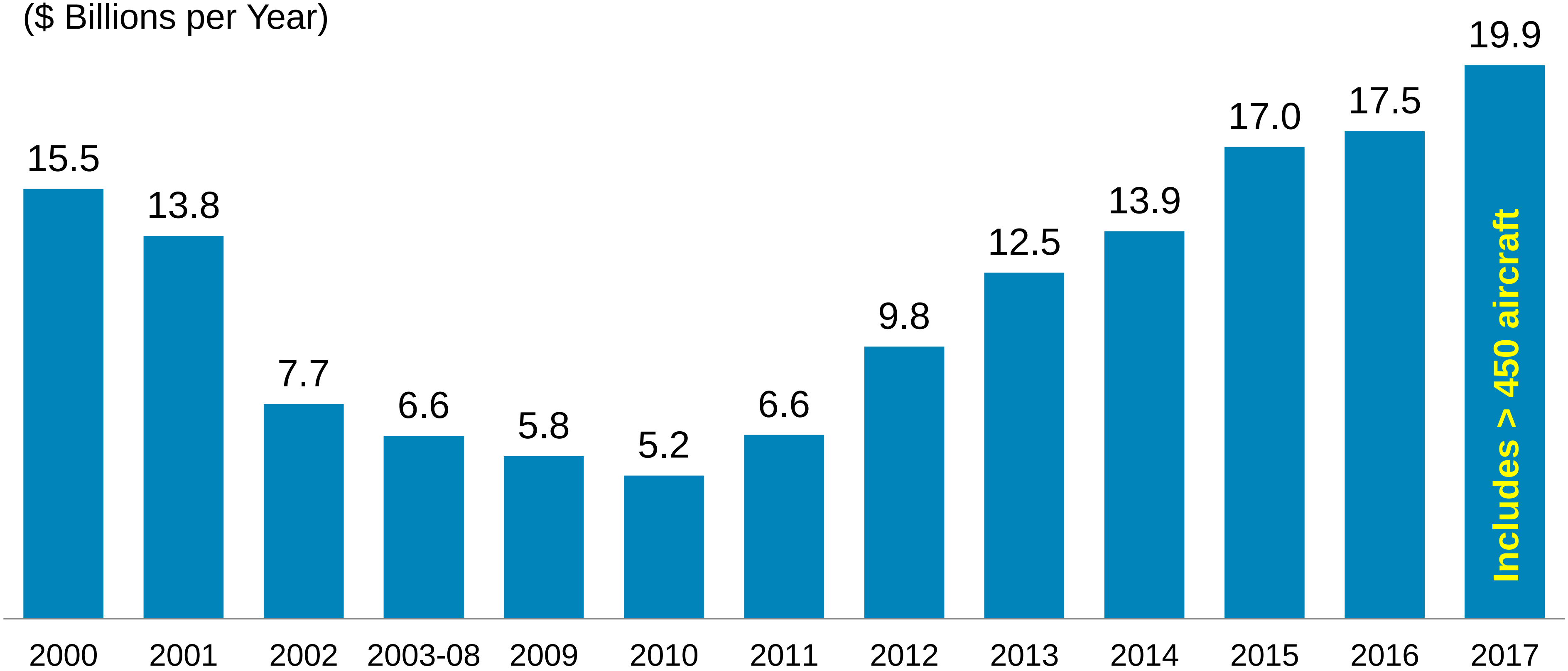
$ Billions	2010-15	2016		2017	Total
Net Cash from Operations	86.7	27.7		21.4	135.7
Pay Down Debt	54.3	8.5	-	6.1	68.9
Enhance the Product	64.9	17.5	+	19.9	102.4
Reward Shareholders	17.4	13.1	-	8.8	39.4

* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and merged/acquired predecessors

Improving Finances Enabling Significant Reinvestment in Customer Experience

In 2017 Alone, Airlines Directly Invested ~$20B in Flight/Ground Equipment, Facilities, IT

U.S. Passenger Airline Capital Expenditures
($ Billions per Year)



* Includes payments made for aircraft and other flight equipment, ground and other property and equipment, airport and other facility construction and information technology
Source: SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and merged/acquired predecessors

Airline-Airport Collaboration Has Paved Way for Widespread Infrastructure Investment

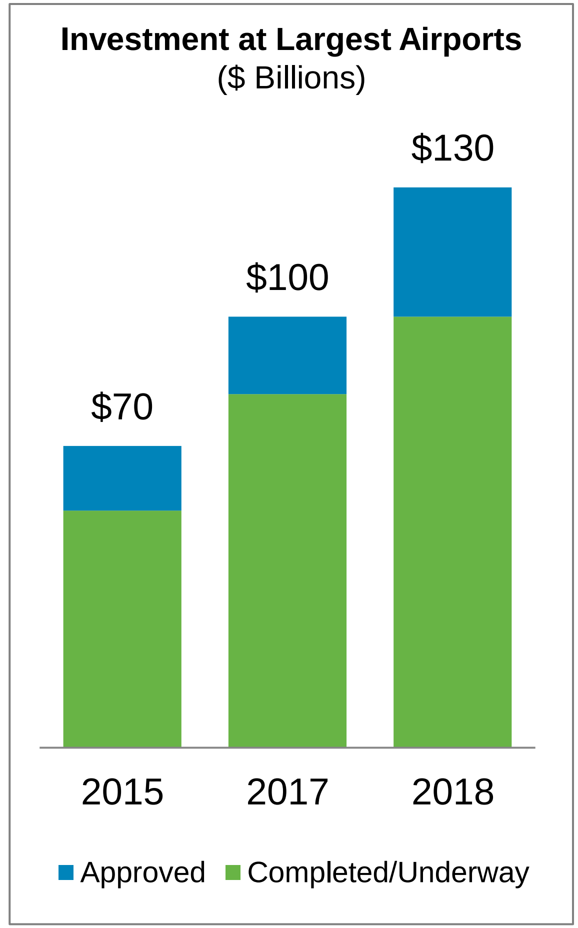
Capital Projects Have Grown 86% Since 2015 at the 30 Largest U.S. Airports

» **$130B** of capital projects have been **completed**, are **underway** or **approved** at the nation's **30 largest airports alone** since 2008, including, for example:

- New runways at Fort Lauderdale, Wash. Dulles, Seattle, Charlotte
- Multiple new runways at Chicago O'Hare
- New international facilities at Atlanta and Los Angeles
- New/expanded/modernized terminals at Miami, Las Vegas, Orlando, Honolulu, Houston, Denver, Seattle, Salt Lake City, San Francisco

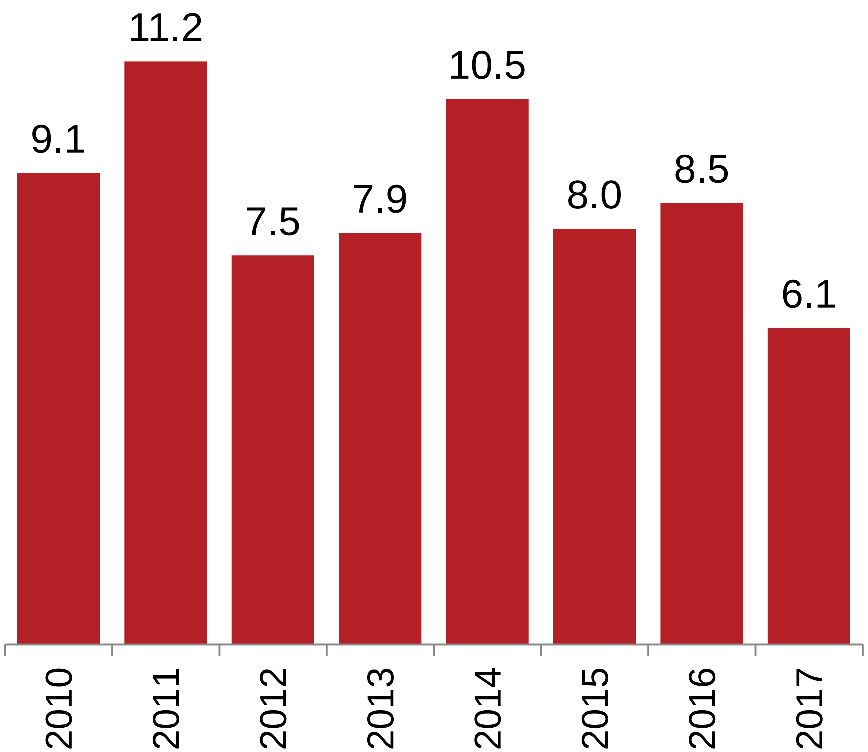
» Development is also robust at **smaller airports**, including:

- Runway projects at Erie, Columbus, Dayton, Des Moines, Nashville, Sioux Falls
- Terminal projects at New Orleans, Eugene, Grand Rapids, Greenville-Spartanburg, Norfolk, Portland (Maine), Reno-Tahoe, Wichita

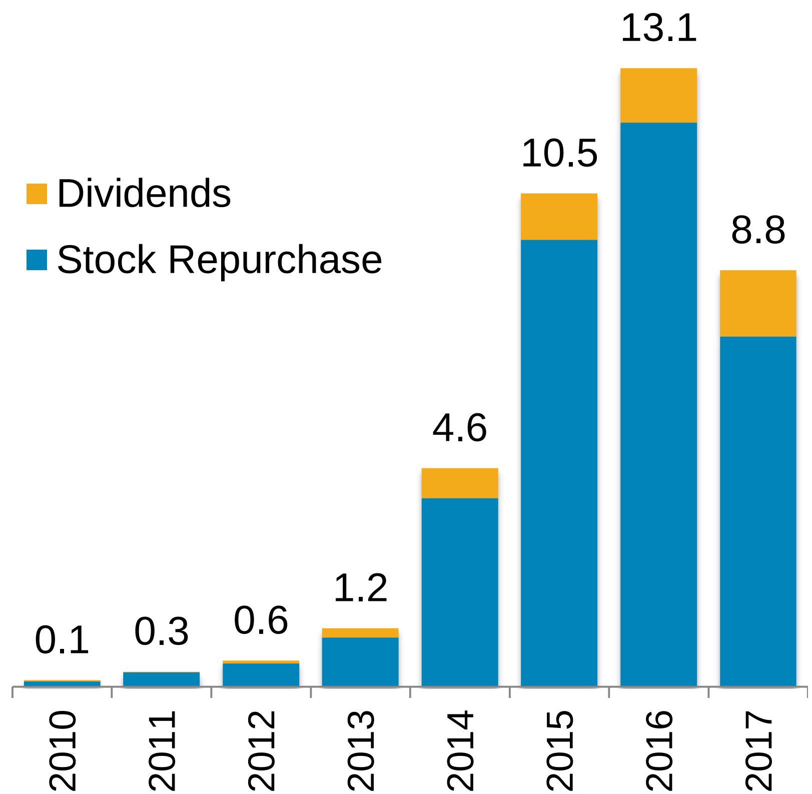


Following 2001-2009 Financial Crisis, U.S. Airlines Have Retired ~$69B in Debt and Returned ~$39B to Shareholders to Lure and Retain New Equity Investors

Retirement of Debt ($ Billions)



Returns to Shareholders ($ Billions)



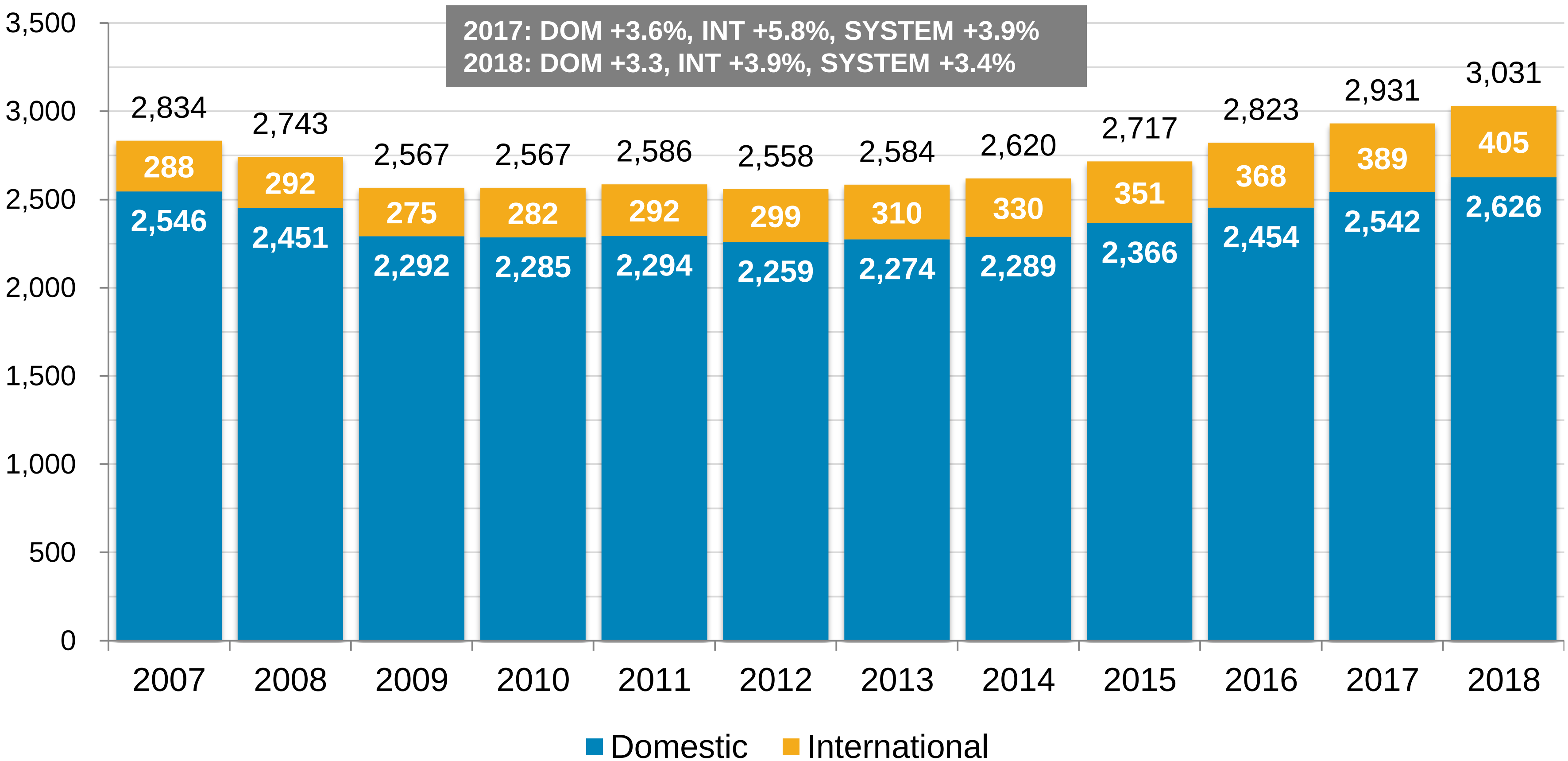
Source: SEC filings of AAL/ALGT/ALK/DAL/HA/JBLU/LUV/SAVE/UAL and merged predecessors

* Payments on long-term debt and capital lease obligations

2018 SCHEDULE

Customers Are Seeing All-Time High of 3M+ Daily Seats Departing U.S. Airports

Daily Seats (000) Departing U.S. Airports in Scheduled Service: Up 18% Since 2010

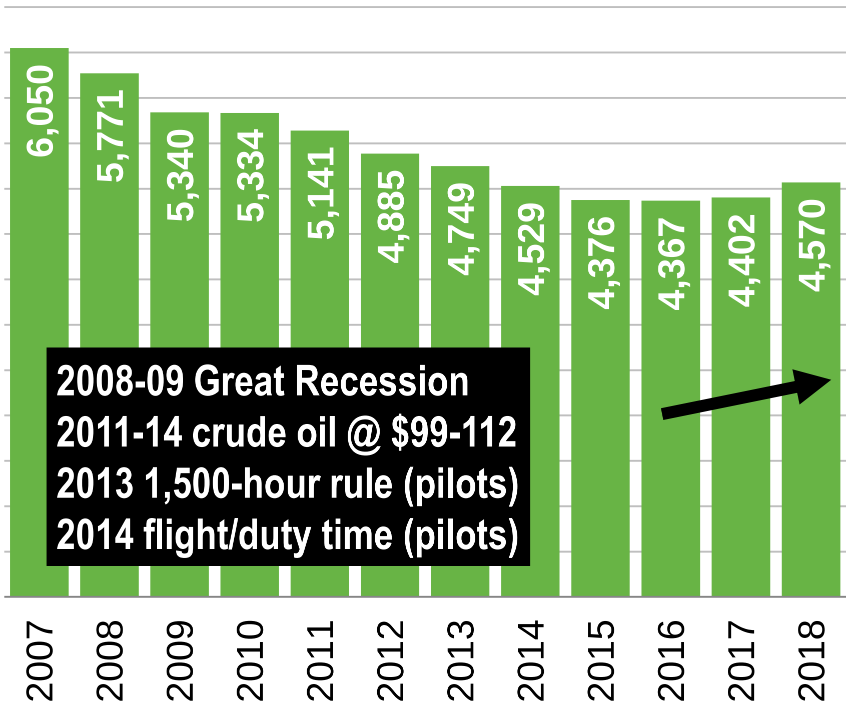


Source: Innovata (via Diio Mi) published schedules as of Mar. 9, 2018, for all airlines providing scheduled passenger service from U.S. airports to all destinations

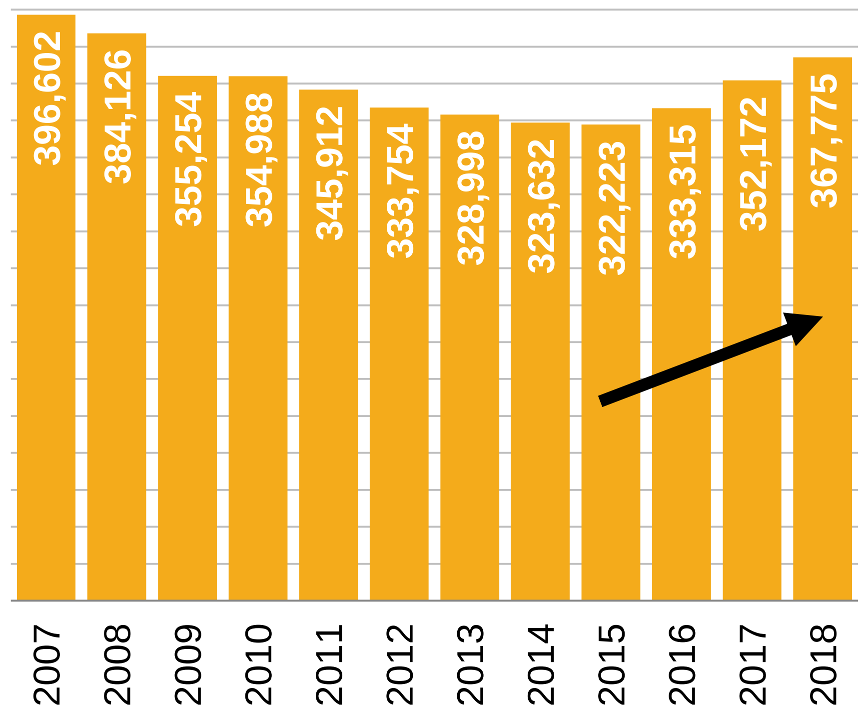
2018: Small U.S. Communities Seeing Most Flights in 5 Years, Most Seats in 10

Average Daily Flights and Seats Departing Small U.S. Commercial Airports*

Average Daily Flights



Average Daily Seats



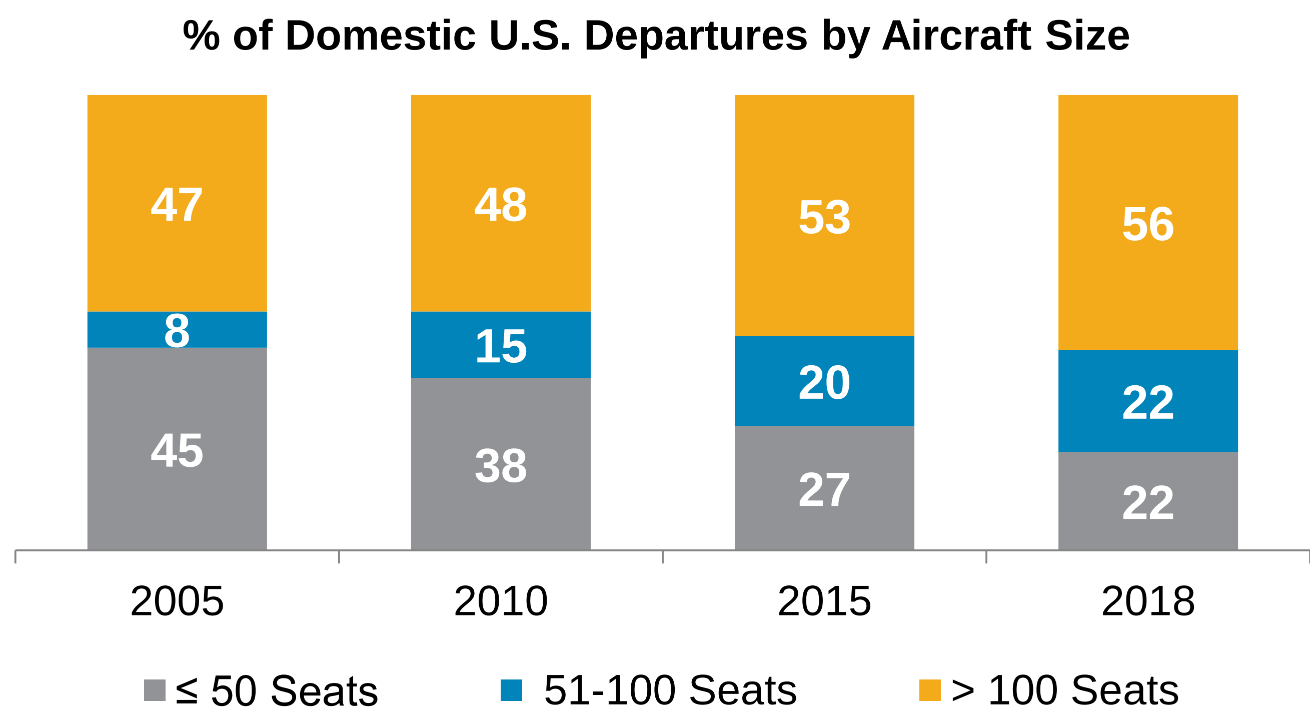
Notes: Great Recession (Dec-2007–Jun-2009); FAA pilot qualification (1,500-hour) rule effective Jul-2013; pilot flight/duty/rest rule effective Jan-2014

* Per https://www.faa.gov/airports/planning_capacity/passenger_allcargo_stats/categories/, U.S. airports with less than 0.25% of annual passenger boardings
Source: Innovata (via Diio Mi) published schedules as of Mar. 9, 2018, for all airlines providing scheduled passenger service from U.S. airports to all destinations

In Addition to Expanding Schedules, Airlines Are Deploying Larger Aircraft

Replacement of 50-Seaters With Larger Regional Jets Is Primary Driver

- Factors include availability of pilots, fuel efficiency, congested airspace/airfields, improving economics of large regional jets, lack of new-generation in-production small aircraft



Source: Innovata (via Diio Mi) published schedules as of Dec. 29, 2017

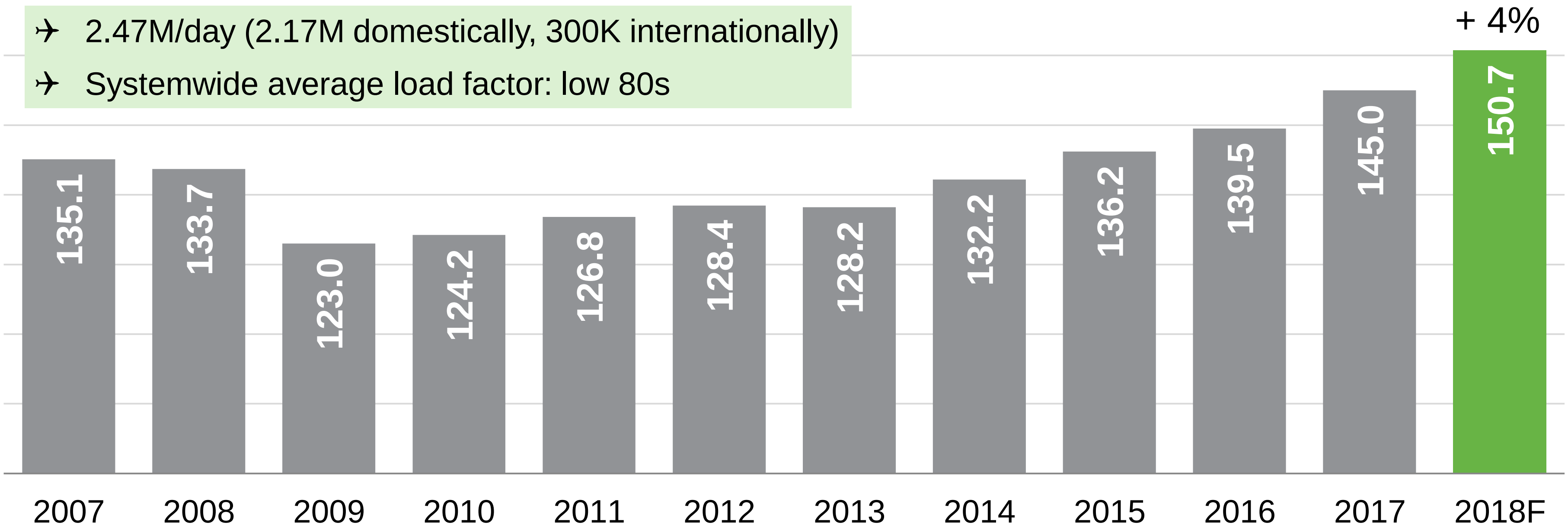
SPRING 2018 AIR TRAVEL: DEMAND FORECAST AND DRIVERS

A4A Projects Spring* 2018 Air Travel to Rise 4 Percent to All-Time High

Airlines Adding 114,000 Seats/Day to Accommodate 94,000 More Passengers/Day

U.S. Airline Onboard Passengers (Millions) – Spring* 2007-17 and 2018 Forecast

- 2.47M/day (2.17M domestically, 300K internationally)
- Systemwide average load factor: low 80s

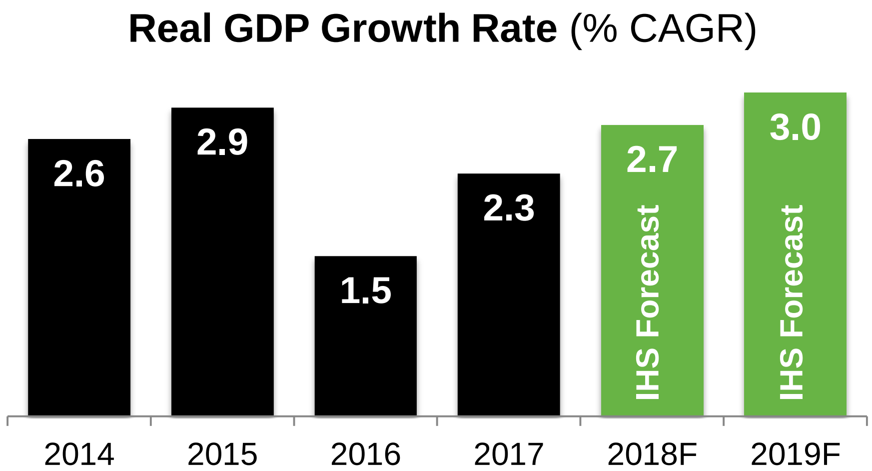


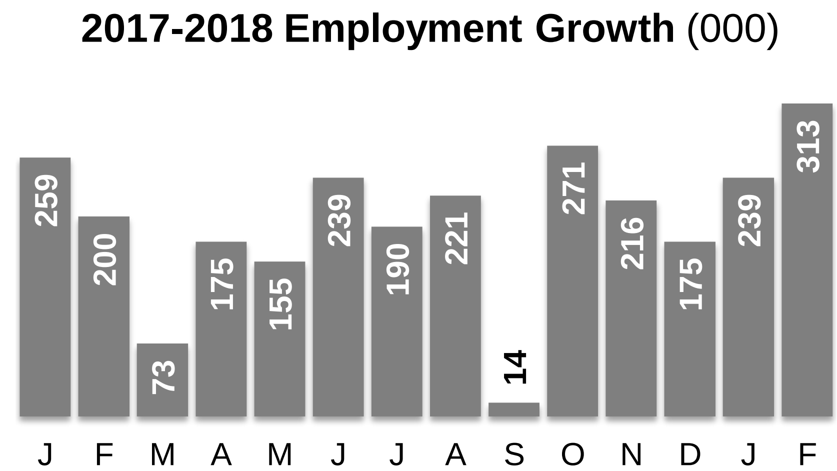
- Drivers of growth
  - Expanding presence of low-cost carriers, low-fare products and city-pair (O&D) competition
  - Rising GDP, employment, disposable income and household net worth (savings, stocks, value of homes)

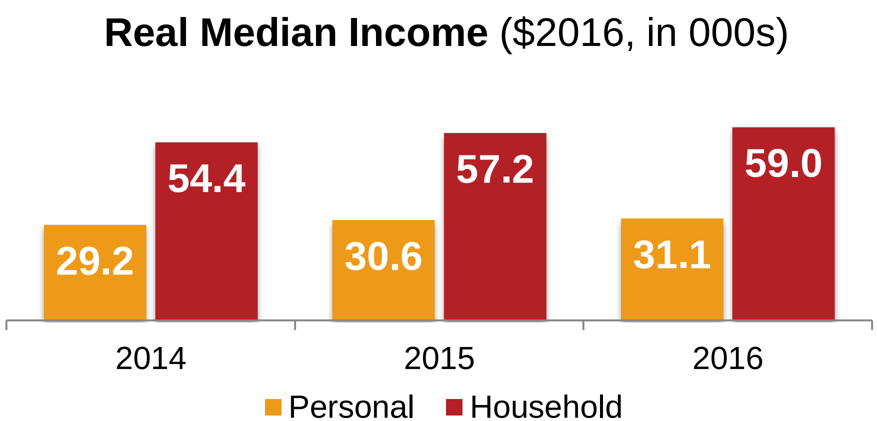
Source: A4A and BTS T100 segment data – U.S. carriers only; scheduled and nonscheduled services

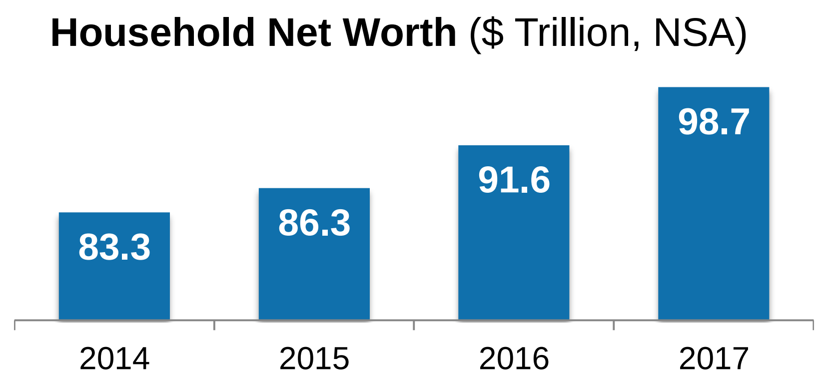
* For this purpose, defined as March 1 through April 30

U.S. Economy and Employment Growing; Household Net Worth at All-Time High





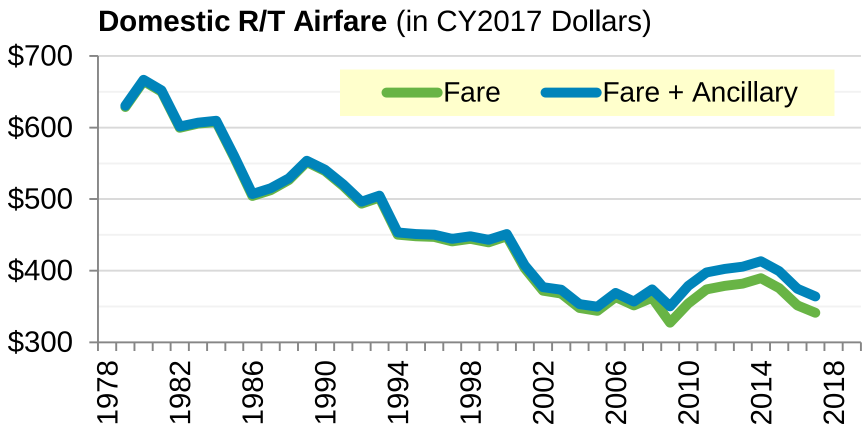


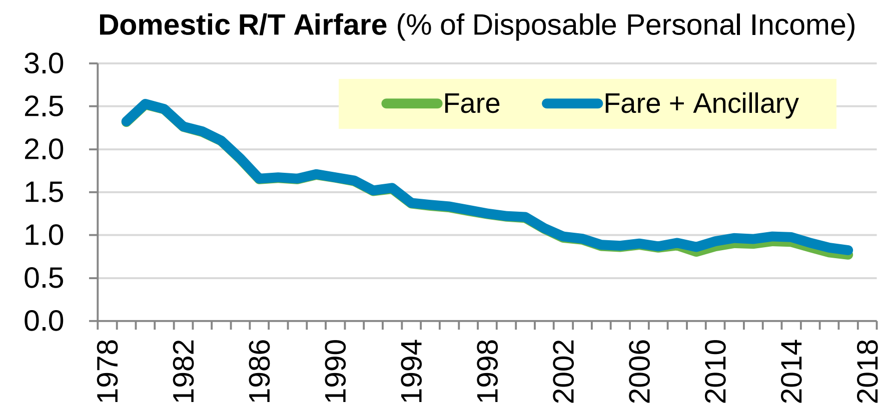


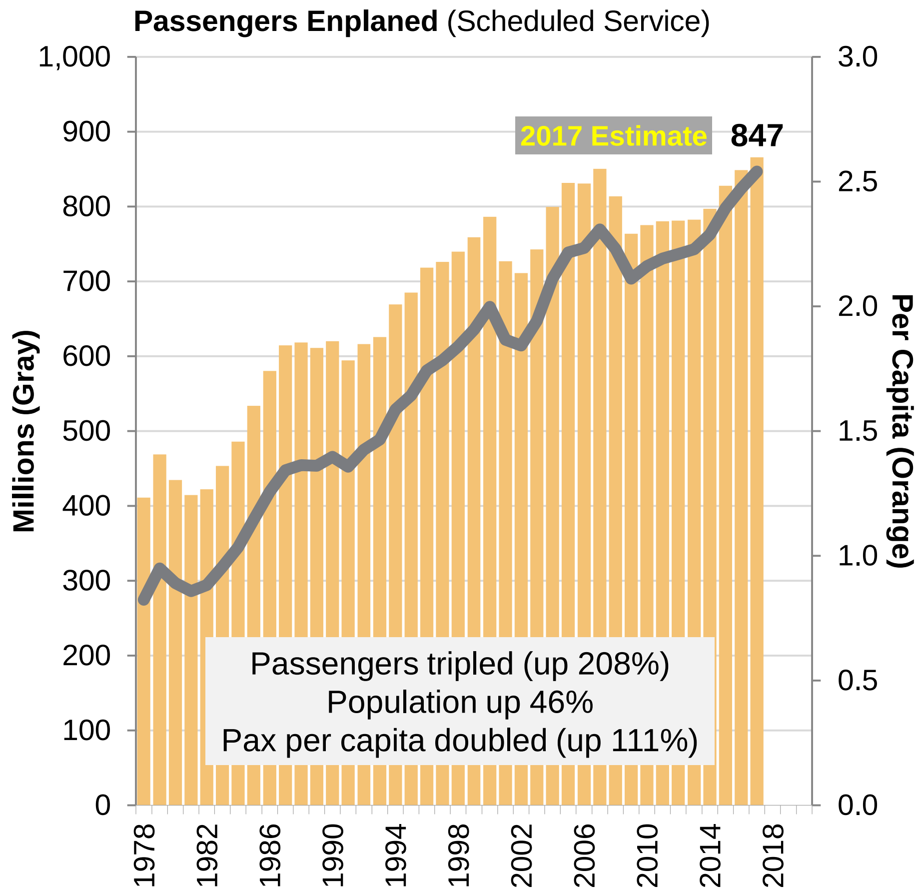
Sources: U.S. GDP real annual average growth rate (Bureau of Economic Analysis); U.S. nonfarm payroll employment growth (month-over-month, in 000s, seasonally adjusted) from BLS; median personal and household pre-tax income (Census); U.S. household net worth in current dollars, not seasonally adjusted (Federal Reserve)

As Real Airfares Have Plunged, Growth in Flyers = 4.5x Growth in U.S. Population

Ancillary Services Included, 2017 Domestic Air Travel Was ~42% Cheaper Than in 1980





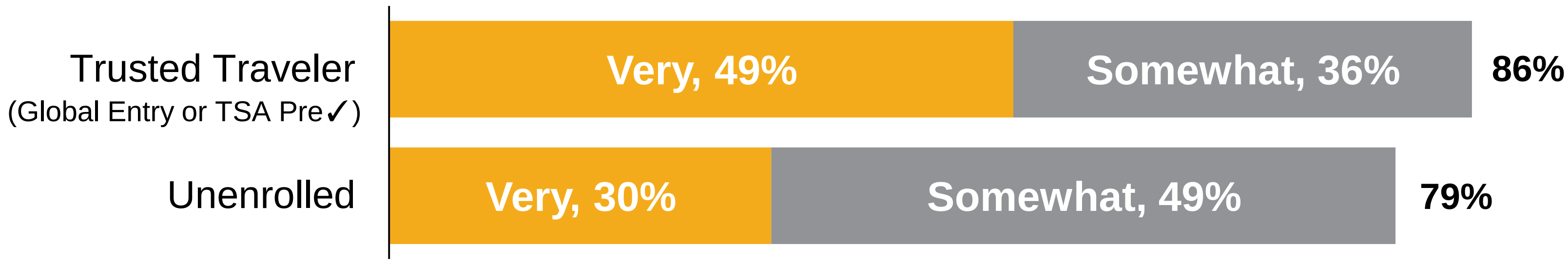


Source: Bureau of Economic Analysis, Bureau of Labor Statistics and Bureau of Transportation Statistics (Data Bank 1B via Airline Data Inc. and T1 for U.S. airlines)

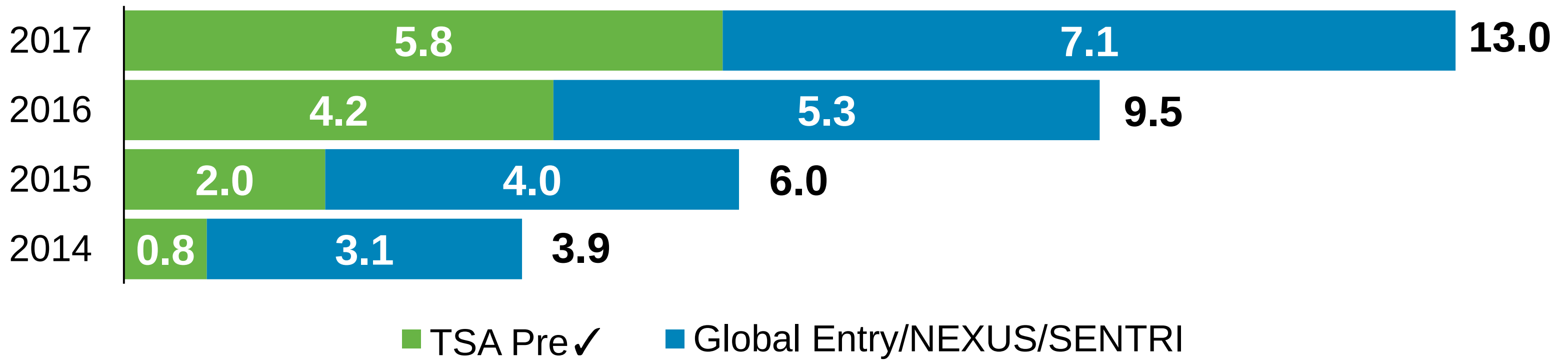
Flyer Satisfaction Rises Markedly With Enrollment in "Trusted Traveler" Programs

Airline/Government Collaboration Boosting Enrollment in Global Entry and TSA Pre✓

% of 2017 Flyers "Somewhat Satisfied" or "Very Satisfied" With Overall Air Travel Experience



Millions of Persons Enrolled in DHS Trusted Traveler Programs (Dec. 31)



Sources: Ipsos survey of American adults (January 2018), Transportation Security Administration, Customs and Border Protection

2017 Recap

- U.S. airlines carried a record number of passengers in 2017, amid continued excellence in safety and air-travel affordability
- Operational reliability was solid and customer service metrics improved despite an incredibly challenging operating environment
- Profitability fell for the second year in a row, as surging expenses outpaced modest growth in revenues, widening the gap between airlines and other U.S. industries
- Competition continues to intensify, with smaller carriers growing the fastest and entering more and more markets; the supply of seats at U.S. airports is at an all-time high
- Airlines spent a record amount on the workforce and on aircraft and other equipment in 2017 and capital projects at U.S. airports continue to flourish
- Airlines are responding to continued growth of air-travel demand in 2018 by boosting staffing and capacity and taking delivery of new aircraft at a rate of a plane per day

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