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First-Half 2018 Review & Labor Day Period Air Travel Forecast

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Media Briefing
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YTD 2018 OPERATIONS AND FINANCIAL RESULTS



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The First Half of 2018 Was a Very Challenging Operating Environment for Airlines

Power Outages/Airport Equipment: Jan 1 CBP nationwide outage; Jan 7 (JFK T4 water main break)

Airport Construction: ATL/CHI/DCA/DFW/HNL/HOU/LAX/MIA/NYC/Orlando/PHL/PHX/San Diego/TPA

Major Weather

- Jan 3-5 (“bomb cyclone”)
- Jan 7-8, 12, 16-18, 21-22
- Feb 4-5, 7, 9, 11, 15, 20
- Mar 2 (Winter Storm Riley) 7 (Quinn) 13 (Skylar) 20-22 (Toby)
- Apr 4 – Mid-Atlantic/Northeast impacted by low ceilings and gusting 40+ mph winds
- Apr 14-16 – storms in MSP/ORD and CLT, then Mid-Atlantic/Northeast
- Apr 25 – rain/winds in Northeast
- May 3 – thunderstorms in Chicago and Dallas
- May 14-16 – thunderstorms in Chicago moved into the Mid-Atlantic and Northeast
- May 31 – thunderstorms in the Southeast and Mid-Atlantic
- June 18-20 – rainstorms and low visibility in Chicago which moved into the Mid-Atlantic
- June 26 – thunderstorms in Chicago

Air Traffic Control: Understaffing at many major facilities; critically low staffing at New York TRACON*

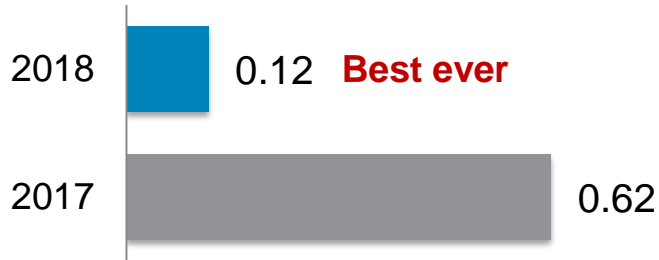
* Staffing is routinely cited as the basis for many traffic management initiatives (ground delay programs, ground stops, airspace flow programs, miles-in-trail) across the NAS
Source: A4A research, FAA Air Traffic Organization and masFlight (subsidiary of Global Eagle)



1Q 2018 Featured the Lowest-Ever Recorded Rate of Involuntary Denied Boardings

Flight Operations Solid Despite Multiple Named Storms, Air Traffic Controller Staffing, Etc.

1Q Involuntary Denied Boardings per 10K Psgrs.



Jan-May Flight Completion Factor (%)



Jan-May On-Time Arrival Rate (%)



1Q Properly Handled Bag Rate (%)

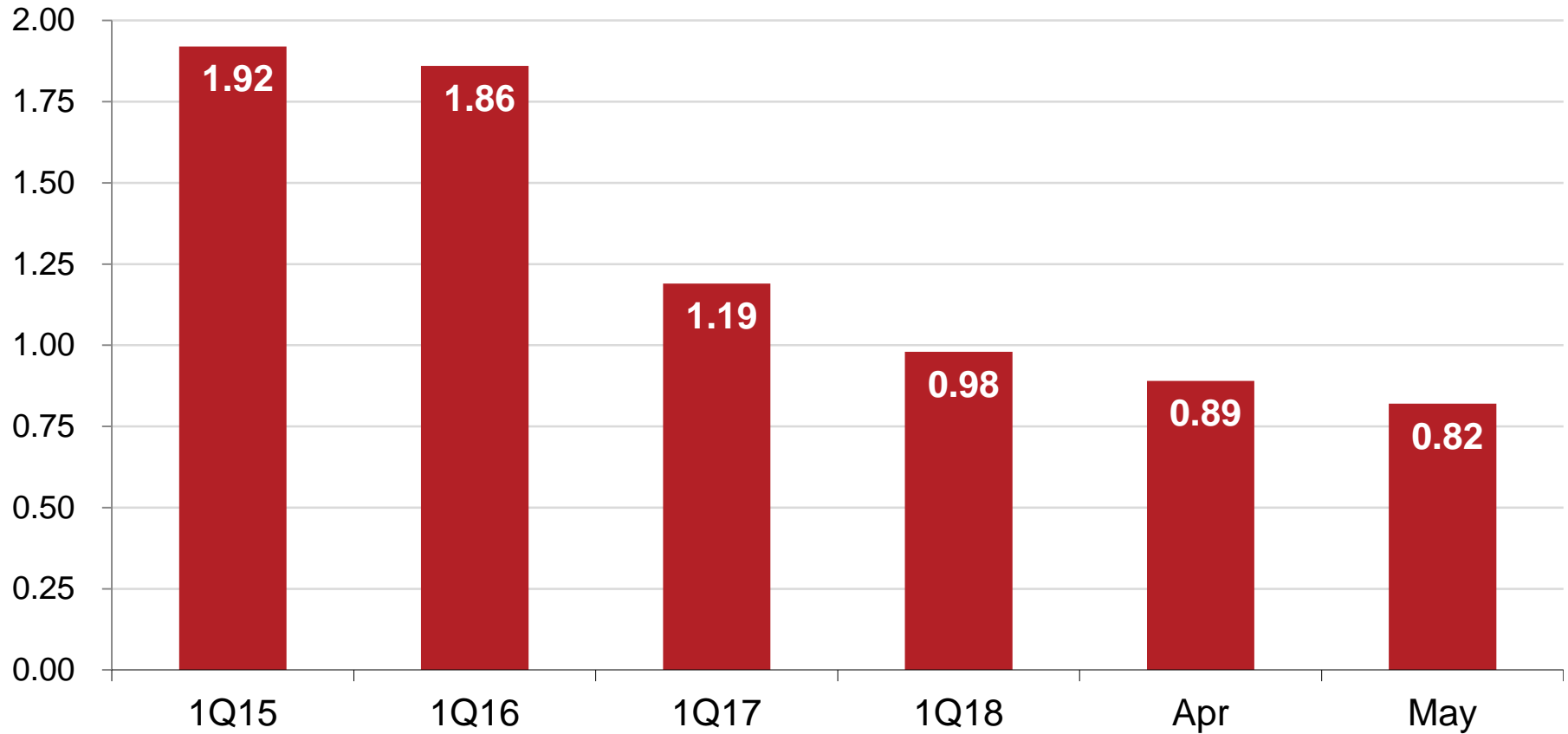


Sources: BTS and DOT *Air Travel Consumer Report* (<http://www.dot.gov/airconsumer/air-travel-consumer-reports>)



The Rate of Customer Complaints to DOT Continues to Fall in 2018

Customer Complaints re: U.S. Airlines per 100,000 Passengers



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

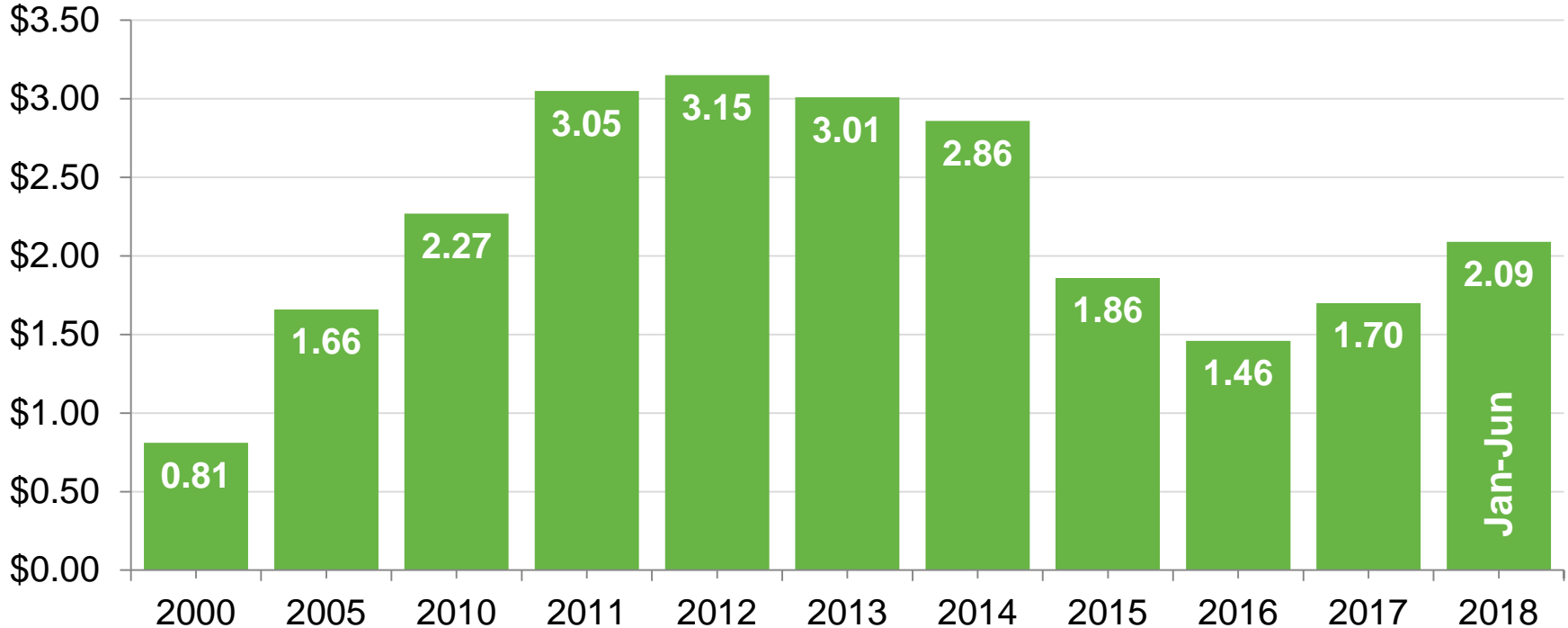


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Jet-Fuel Prices Creeping Up Again

A Penny per Gallon per Year Equates to ~\$200M in U.S. Airline Industry Fuel Expenses

Systemwide Average Paid Price of Jet Fuel per Gallon



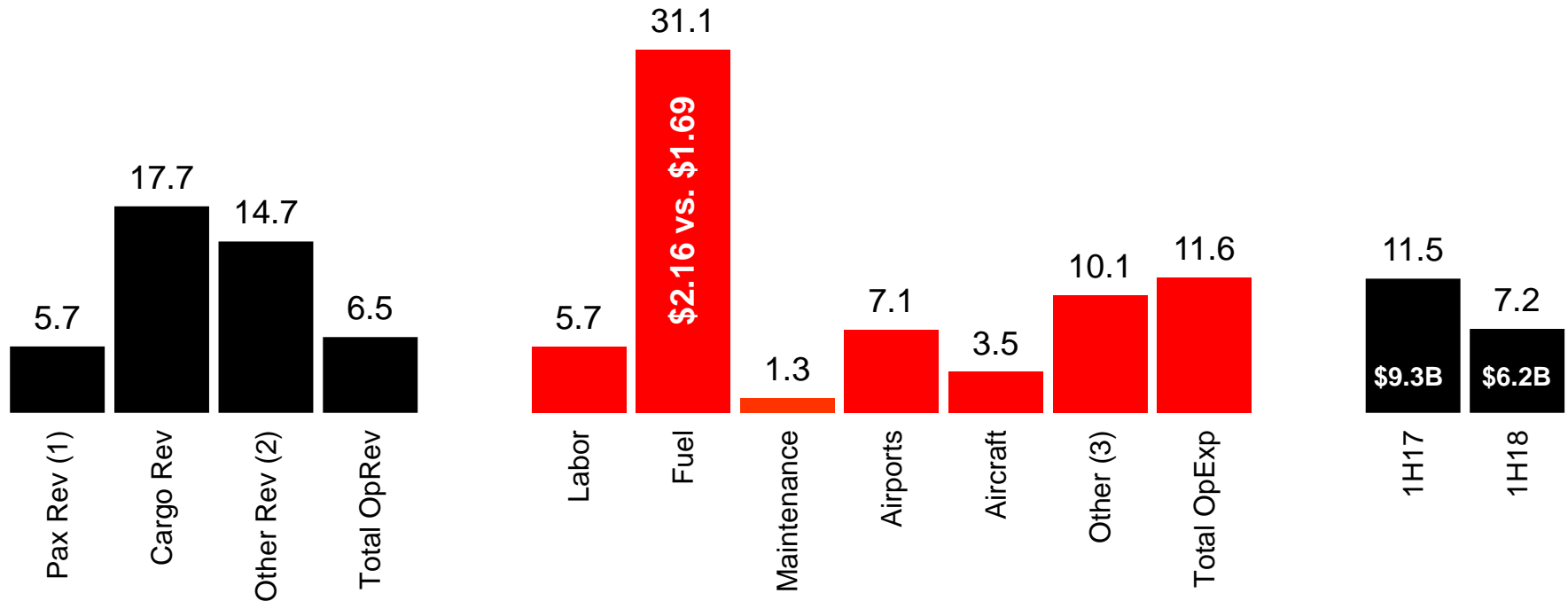
Source: A4A and Bureau of Transportation Statistics (all U.S. carriers, scheduled and nonscheduled services)

1H 2018 Expenses Rose Faster Than Revenues, Reducing Profitability Yet Again

Labor and Fuel Costs Continue to Surge, Pressuring Margins; Other Costs Rising, Too

Change (%) in Operating Revenues and Expenses, 1H18 vs. 1H17

Pre-Tax Profit Margin (%)



1. Traffic (revenue passenger miles) up 4.6 percent; yield (revenue per passenger-mile flown) up 1 percent; U.S. CPI up 2.4 percent

2. 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.

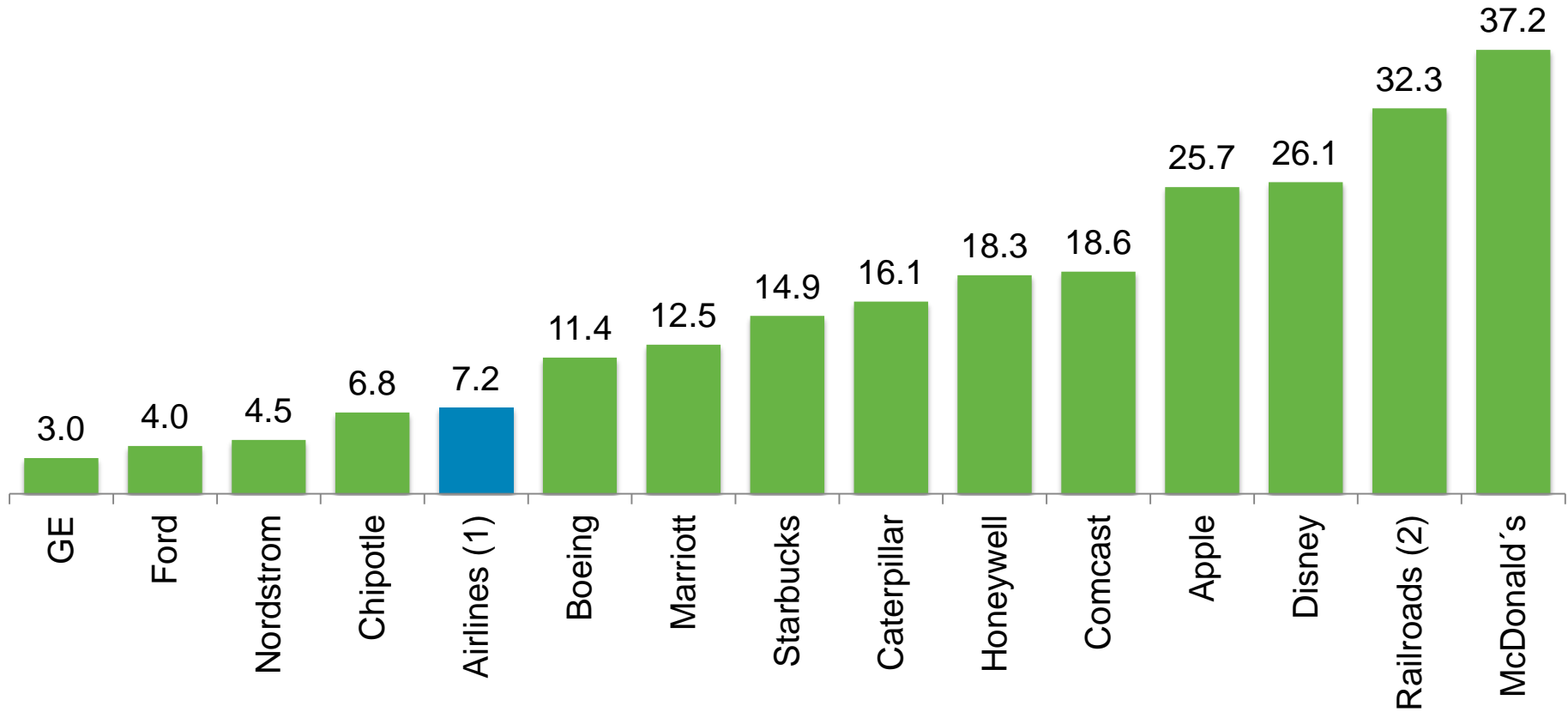
3. Professional fees, food/beverage, insurance, commissions, GDS fees, communications, advertising, utilities, office supplies, crew hotels, nonfuel payments to regionals

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



In 1H 2018, U.S. Passenger Airline* Profitability Less Than Half That of Starbucks

Pre-Tax Profit Margin (% of Operating Revenues)



¹ Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

² CSX, Norfolk Southern and Union Pacific

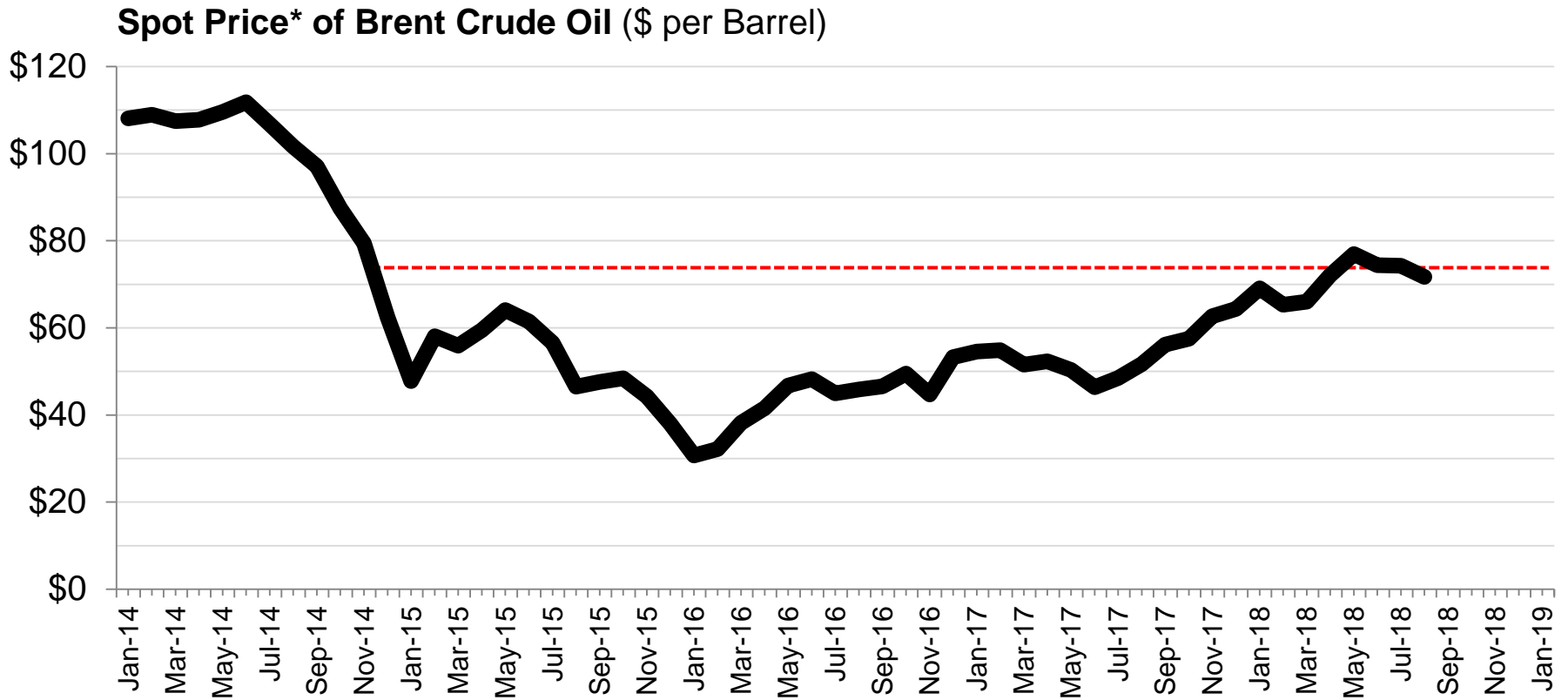
Source: Company SEC filings



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Crude-Oil Prices Rising Swiftly, to Highest Level Since Late 2014

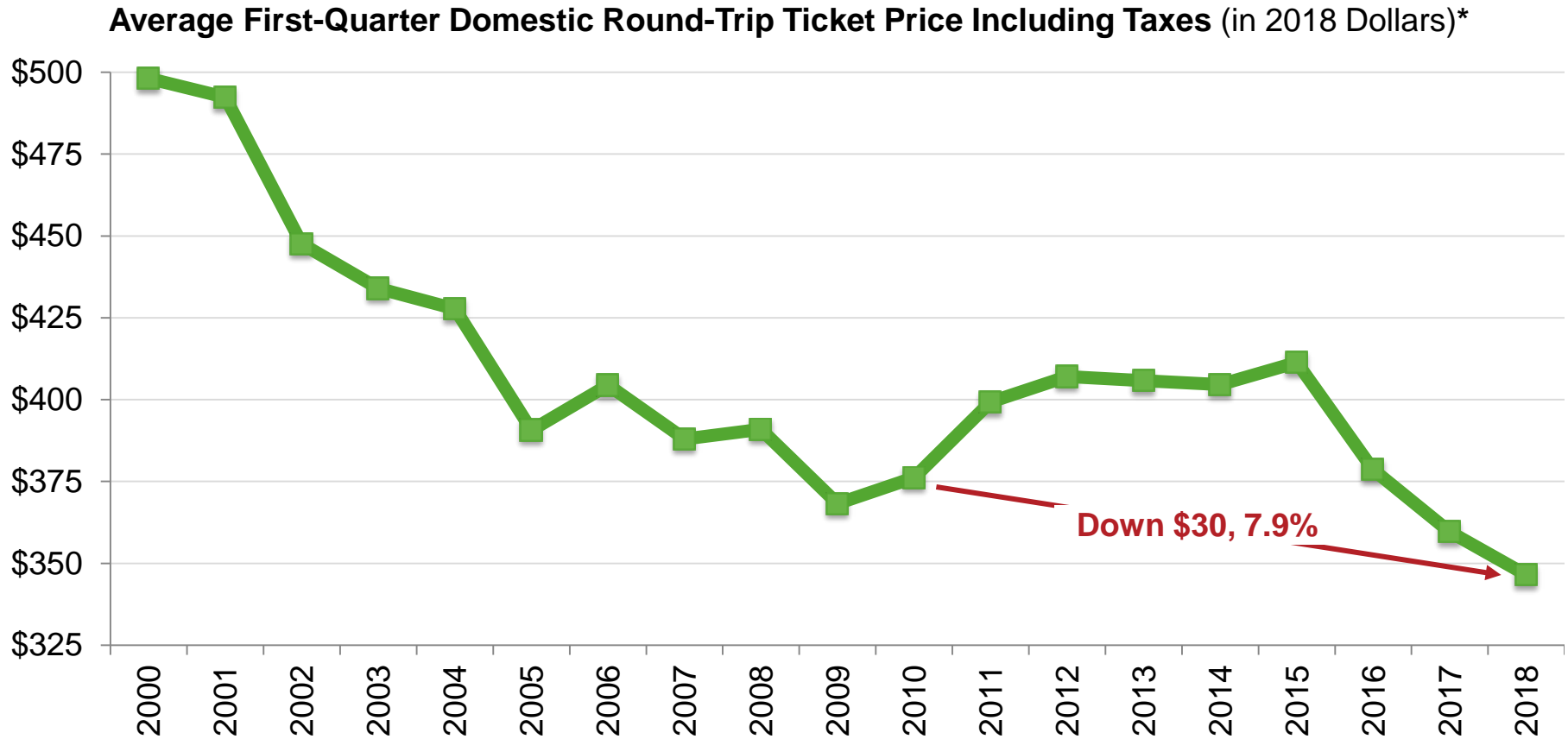
July 2018 Averaged 53 Percent More Than July 2017



Source: A4A and Energy Information Administration (http://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm)

Inflation-Adjusted Fares Continued to Fall in 1Q 2018, Averaging Less Than in 2010

In Real Terms, Price of Domestic Air Travel Fell ~8% From 1Q 2010 to 1Q 2018



Source: Bureau of Transportation Statistics

* Excluding taxes



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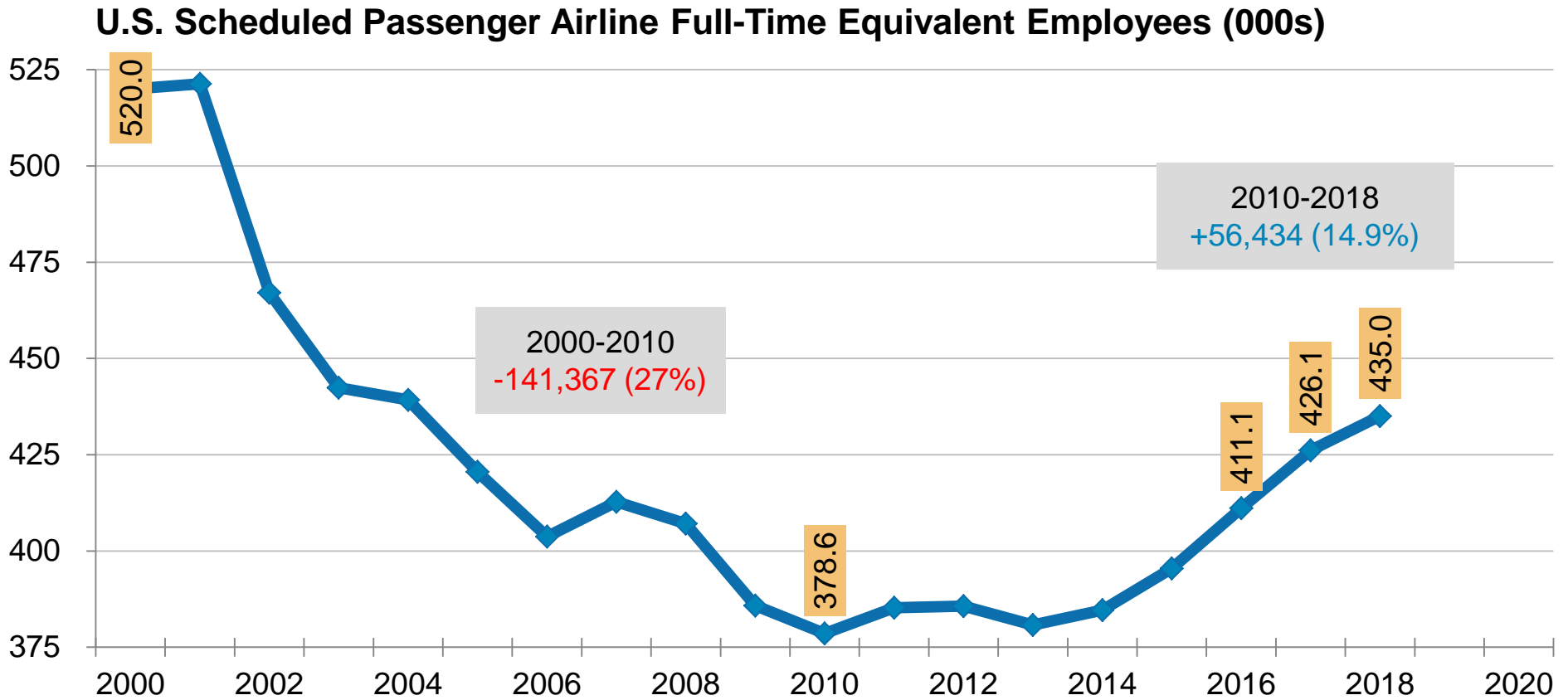
REINVESTMENT IN PEOPLE AND PRODUCT



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

June 2018 Represented the **56th Consecutive Month of YOY Gains**



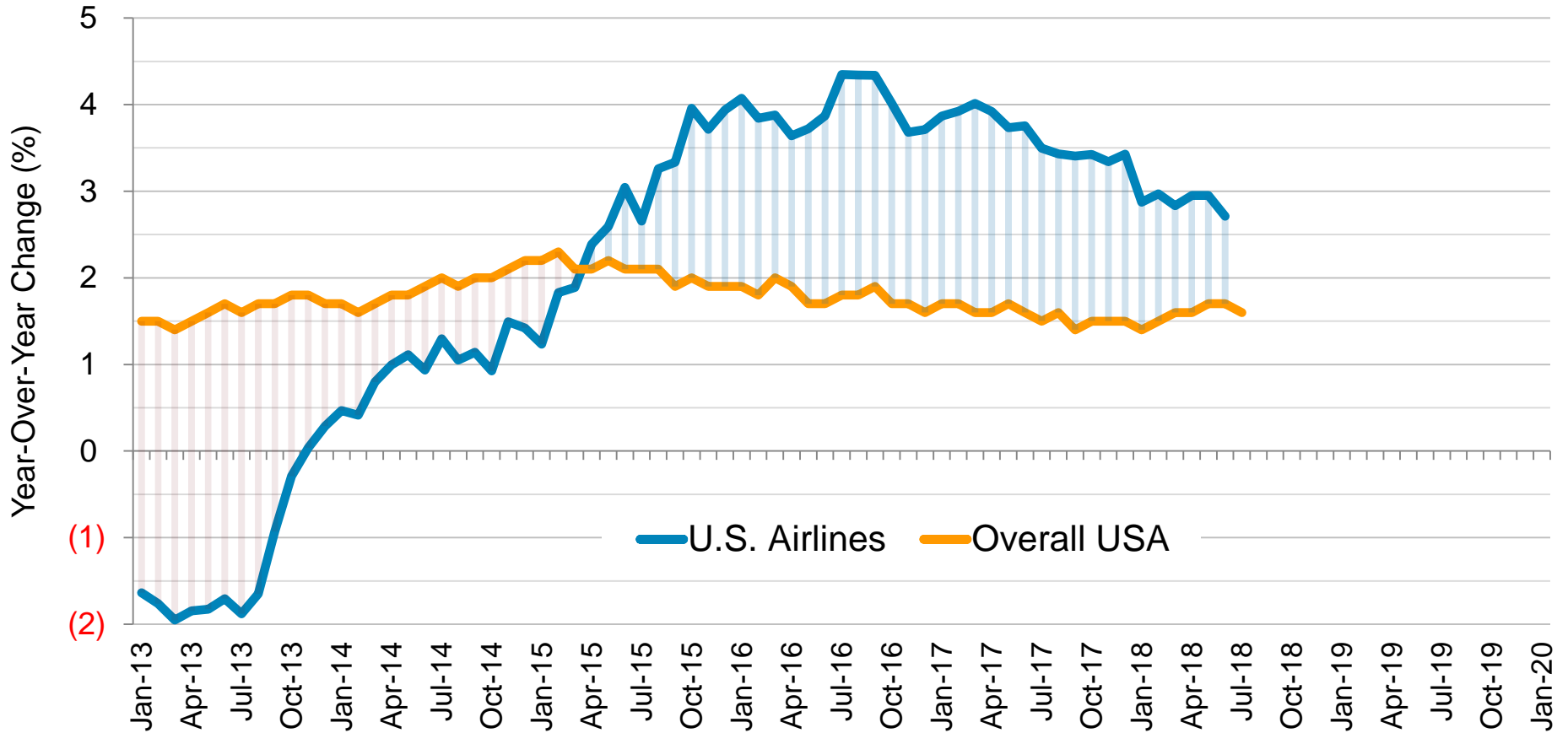
Source: Bureau of Transportation Statistics for scheduled U.S. passenger airlines



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U.S. Airline Job Growth Continues to Exceed Overall U.S. Job Growth

Airline Employment Growing at Nearly Double the Rate of Overall U.S. Employment



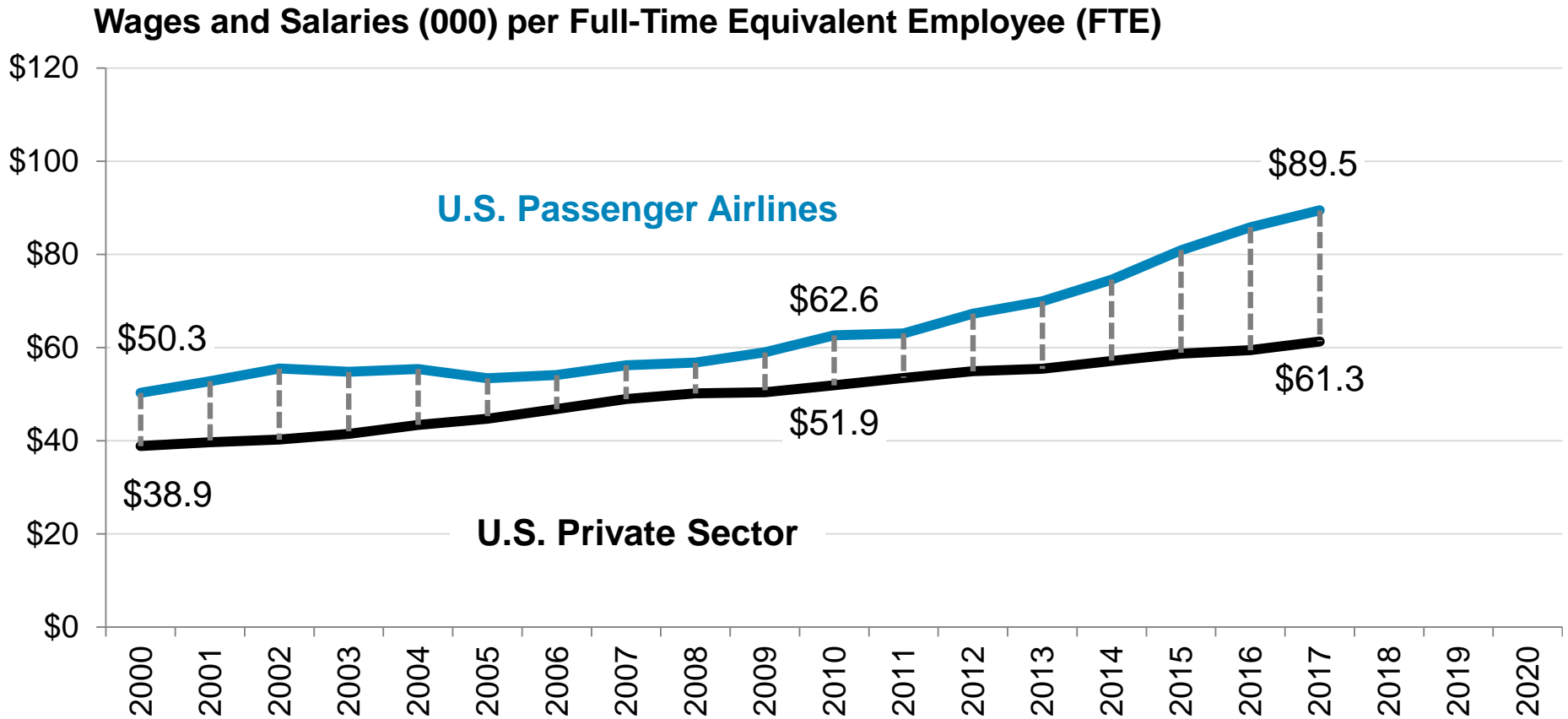
Source: Bureau of Labor Statistics (U.S. nonfarm employment, CES0000000001) and Bureau of Transportation Statistics (U.S. scheduled passenger airline FTEs)



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U.S. Airline Wages Averaged 46% More Than U.S. Private Sector in 2017

From 2010 to 2017, Airline Wages Rose 43% (More Than Double 18% for Overall USA*)



Sources: BEA NIPA Table 6.6D and A4A Passenger Airline Cost Index

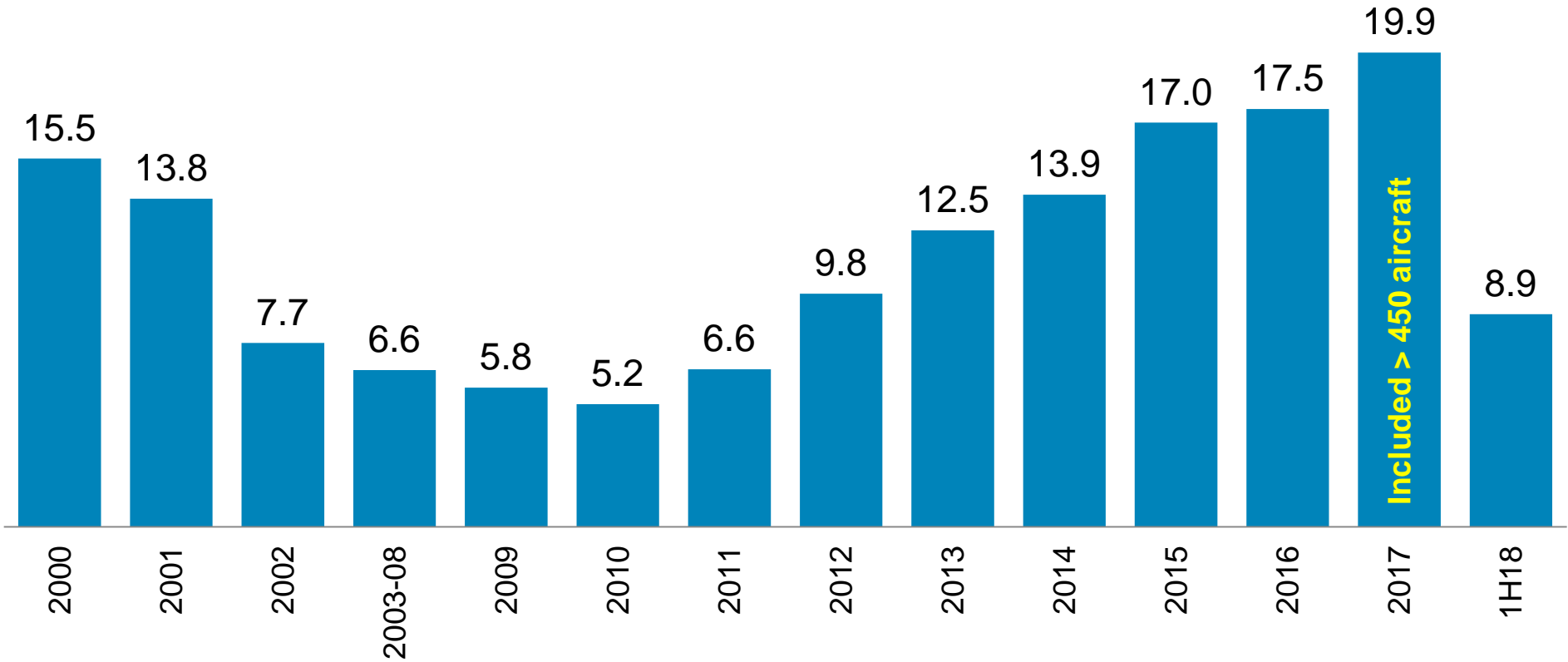


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Improving Finances Enabling Significant Reinvestment in Customer Experience

In 2010-1H18, Airlines Directly Invested ~\$111B in Flight/Ground Equipment, Facilities, IT

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

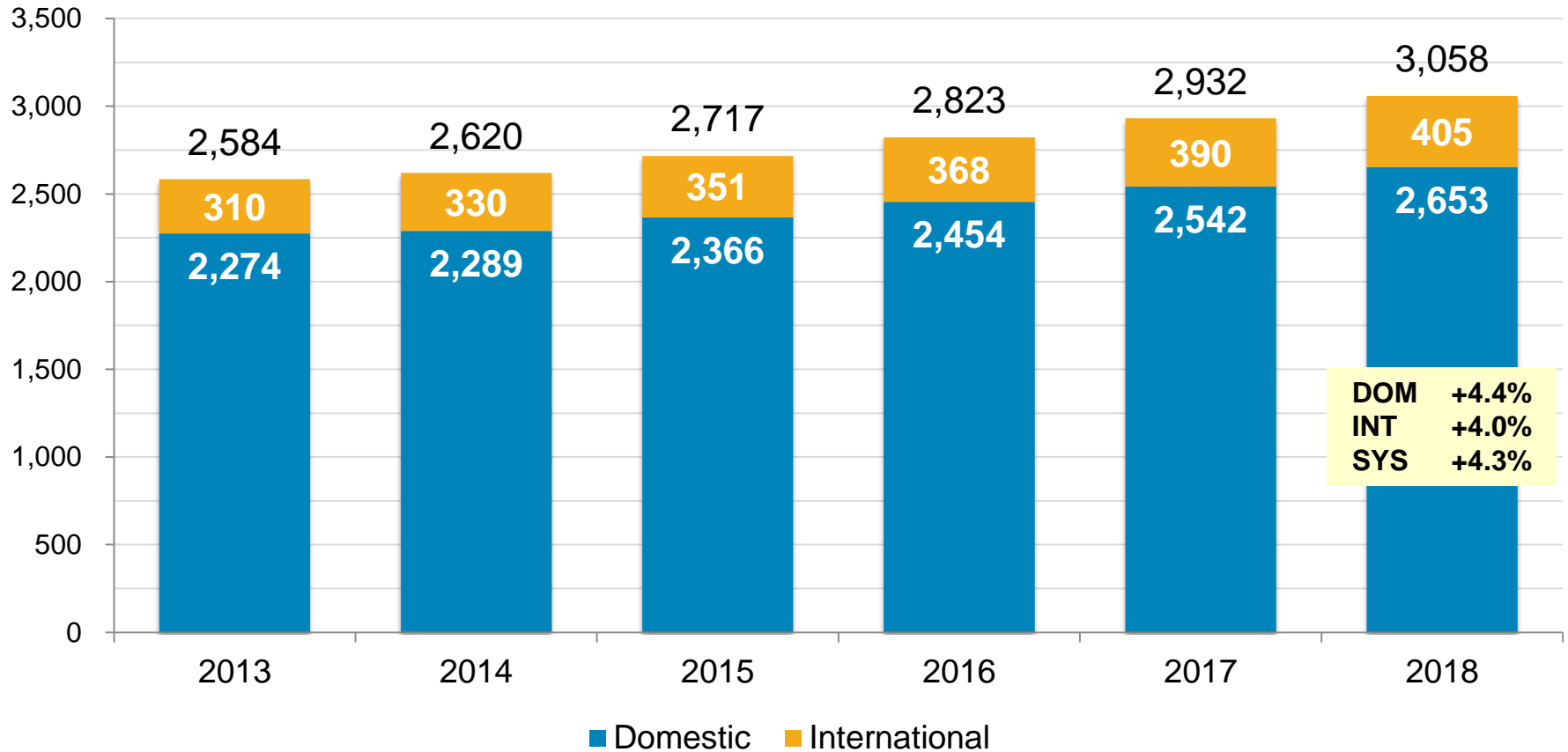


* Includes payments made for aircraft and other flight equipment, ground and other property and equipment, airport and other facility construction and information technology
Source: SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and merged/acquired predecessors



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 4.3% YOY



Source: Innovata (via Diio Mi) published schedules as of Aug. 24, 2018, for all airlines providing scheduled passenger service from U.S. airports to all destinations

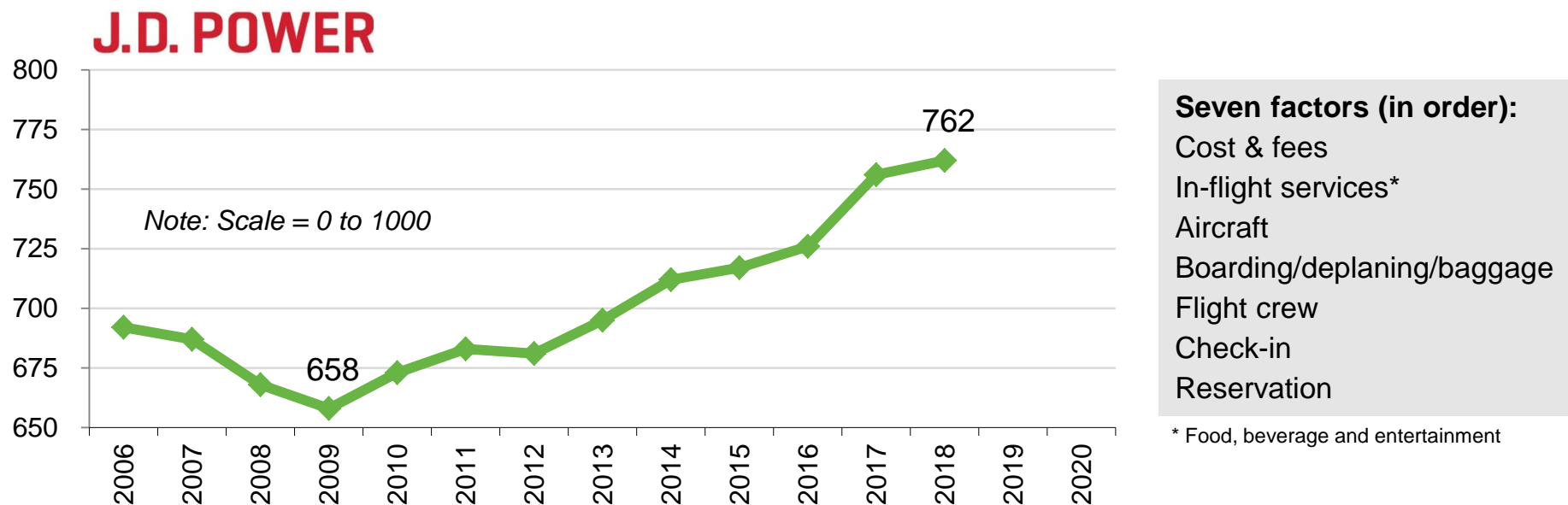


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J.D. Power: North America Airline Satisfaction Climbs to Record High

“**Airline investments** in newer planes, improved customer satisfaction with overhead storage compartments and **cheaper fares** have driven a **seventh straight year of improved customer satisfaction**. **Operationally, it’s never been a better time to fly**. **Passengers perceive greater value in ticket prices**, checking in has never been easier, **passengers are more satisfied with the actual aircraft** and airlines have improved their baggage-handling performance.”

— Michael Taylor, Travel Practice Lead at J.D. Power (May 30, 2018)



Notes: The study is based on responses from 11,508 passengers who flew on a major North American airline between March 2017 and March 2018.

Source: J.D. Power 2018 North America Airline Satisfaction StudySM



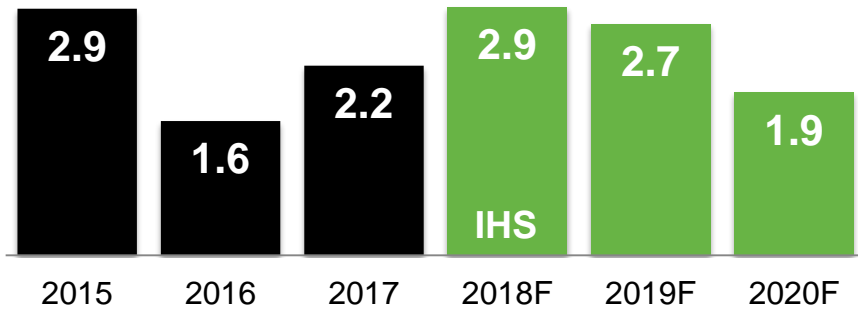
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LABOR DAY PERIOD AIR TRAVEL FORECAST

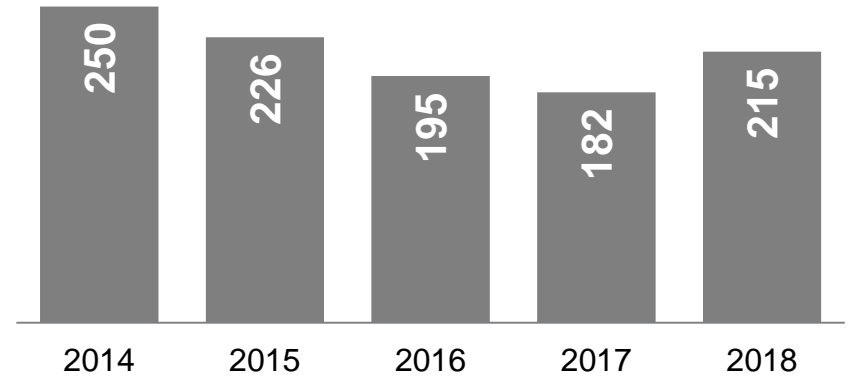


U.S. Economy and Employment Growing; Household Net Worth at All-Time High

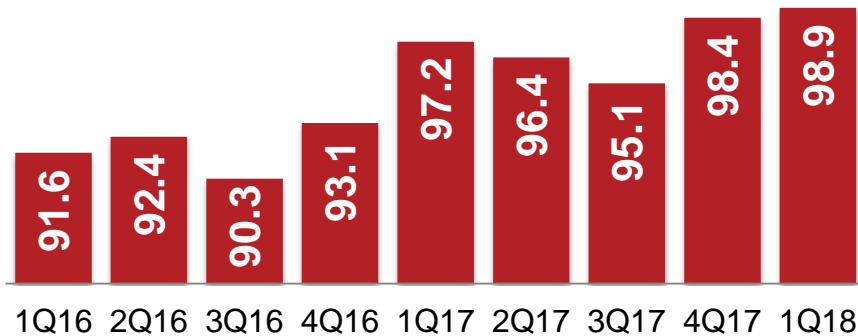
U.S. Real GDP Growth (% CAGR)



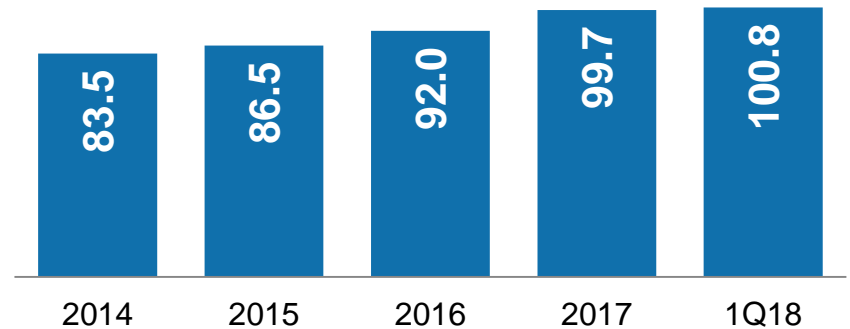
U.S. Employment Growth (000)



Consumer Sentiment (UMich, Index 1Q66=100)



U.S. Household Net Worth (\$ Trillion, NSA)



Sources: U.S. GDP (Bureau of Economic Analysis); U.S. nonfarm payroll employment growth (month-over-month, in 000s, seasonally adjusted) from BLS; consumer sentiment (University of Michigan, Index 1Q 1966=100); U.S. household net worth in current dollars, not seasonally adjusted (Federal Reserve)



A4A Projects U.S. Airlines to Carry 16.5M Labor Day-Period* Passengers in 2018

Daily Average of 2.36M Up 3.5 Percent From 2.28M Estimated to Have Flown in 2017

Projected Passenger Enplanements* (Millions) on U.S. Airlines



- U.S. airlines will **carry 2.36M passengers** per day, up ~79K from 2017 estimate
- U.S. airlines will **offer 2.76M seats** per day, up ~92K from 2017 schedule

Source: A4A and BTS T1 data – systemwide scheduled service

* For this purpose, defined as the Wednesday preceding Labor Day through the Tuesday after

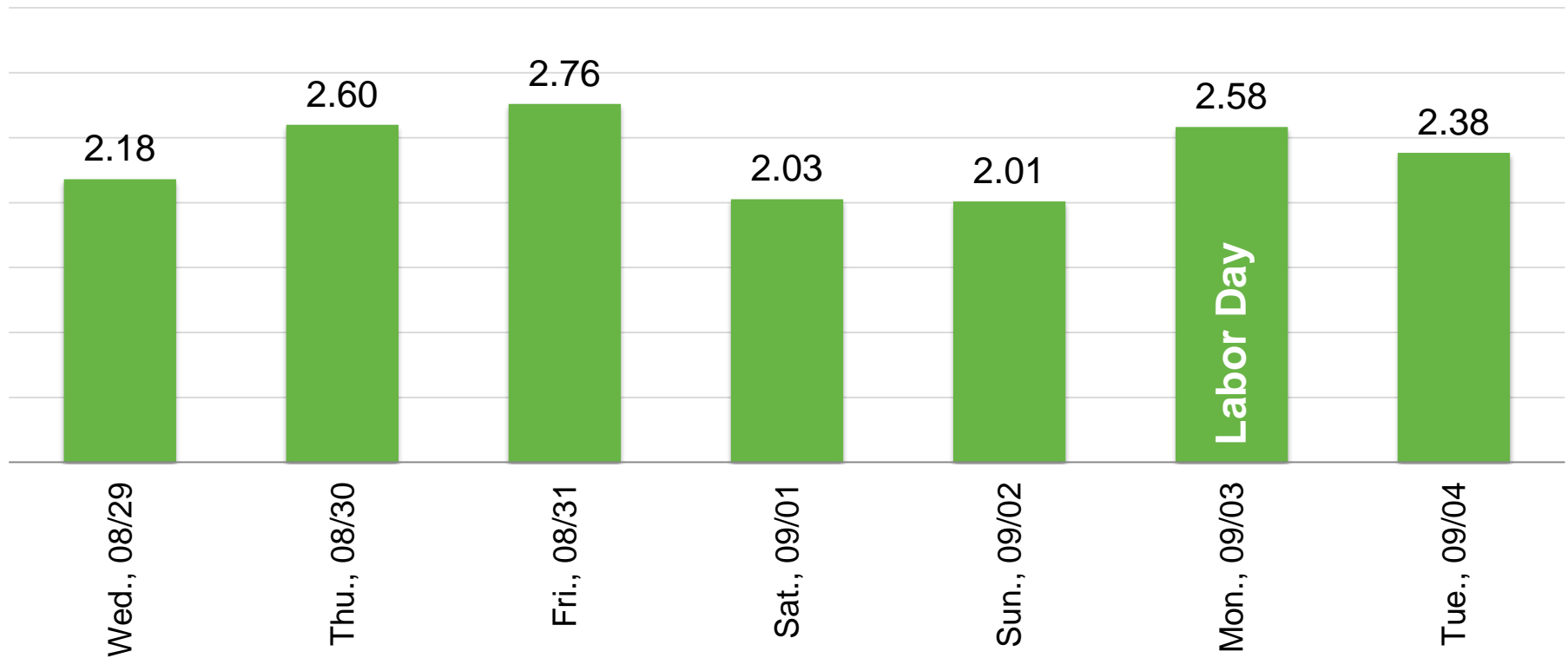


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A4A Projects 2018 Daily Labor Day Period Passenger Volumes to Peak on Aug. 31

Saturday and Sunday Preceding Labor Day Historically Among Lightest Days of the Year

Projected Passenger Enplanements (Millions) on U.S. Airlines



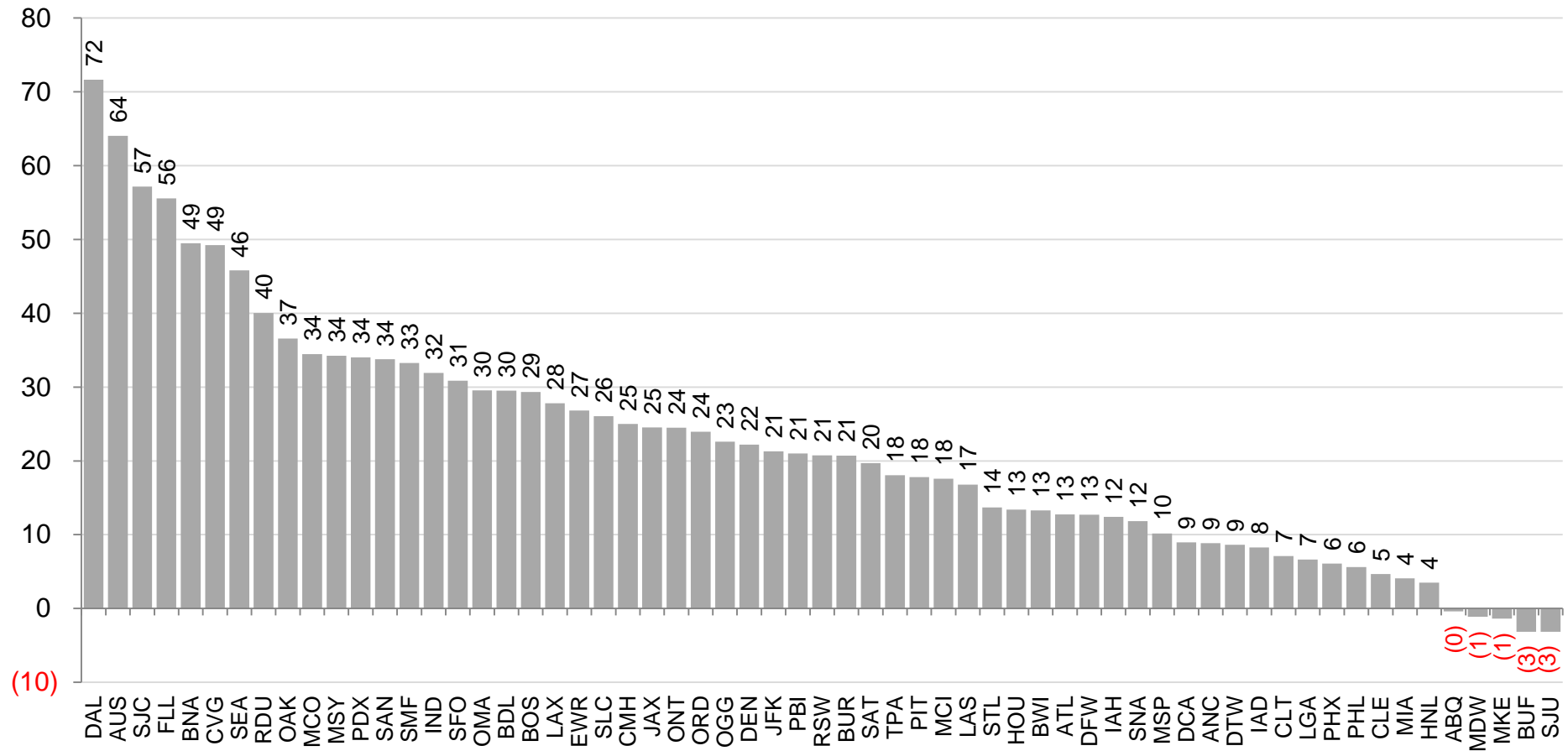
Source: A4A and BTS T1 data – systemwide scheduled service



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Almost Every Major* U.S. Airport Has Seen Supply of Seats Rise Over Past 5 Years

% Change in Scheduled-Service Seats Available: August 2018 vs. August 2013



Source: Innovata (via Diio Mi) published schedules as of August 17, 2018, for all airlines providing scheduled service

* FAA large and medium hub airports



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DEREGULATION OF U.S. AIR SERVICE: 40 YEARS OF PROGRESS



By Almost Every Measure, the Golden Age of Air Travel Wasn't Then – It Is Now

| | Pre-Deregulation (Before 1979) | Today (2017-2018) |
|---------------------------------|---|---|
| Safety | Feared by many; fatality risk = 1 in 1M | Safest travel mode; fatality risk = 1 in 29M |
| Competition | CAB allowed just 1 or 2 airlines per route CAB set fares, disallowed price competition | No limit on number of carriers per route Vigorous price competition |
| Affordability | Avg. domestic R/T > \$600 incl. fees (\$2017) | Average domestic R/T ~ \$363 incl. fees |
| Accessibility | Accessible to affluent – 63% had flown Luxury good; predominantly high-income | Accessible to all – 88% have flown Common form of intercity transportation |
| Small-market service | Often propeller aircraft, suboptimal times | Widespread jets, market-driven flight times |
| International service | Flights, carriers, cities, sales limited by law | Plentiful, cheaper due to “Open Skies” |
| Routings & frequency | Often multiple stops, few flights/day/week | Plentiful nonstop/1-stop, multiple flights/day |
| Shopping | Phone calls, ticket offices, travel agents | A few clicks online |
| Ticket delivery | By mail only | Universally electronic, retrievable |
| Checking in | Lined up at the ticket counter | Online, kiosk, mobile |
| Inflight entertainment | Occasional movie, far-away shared screen | Unlimited options, streaming to PED |
| Bag tracking | No tools at customers' disposal | Mobile tools becoming universal |
| Environmental impact | Not very fuel efficient; more CO ₂ per flight | ~120% more efficient; avoidance of CO ₂ |

Source: A4A and Patrick Smith, “There Was No ‘Golden Age’ of Air Travel,” *New York Times* (May 27, 2017)

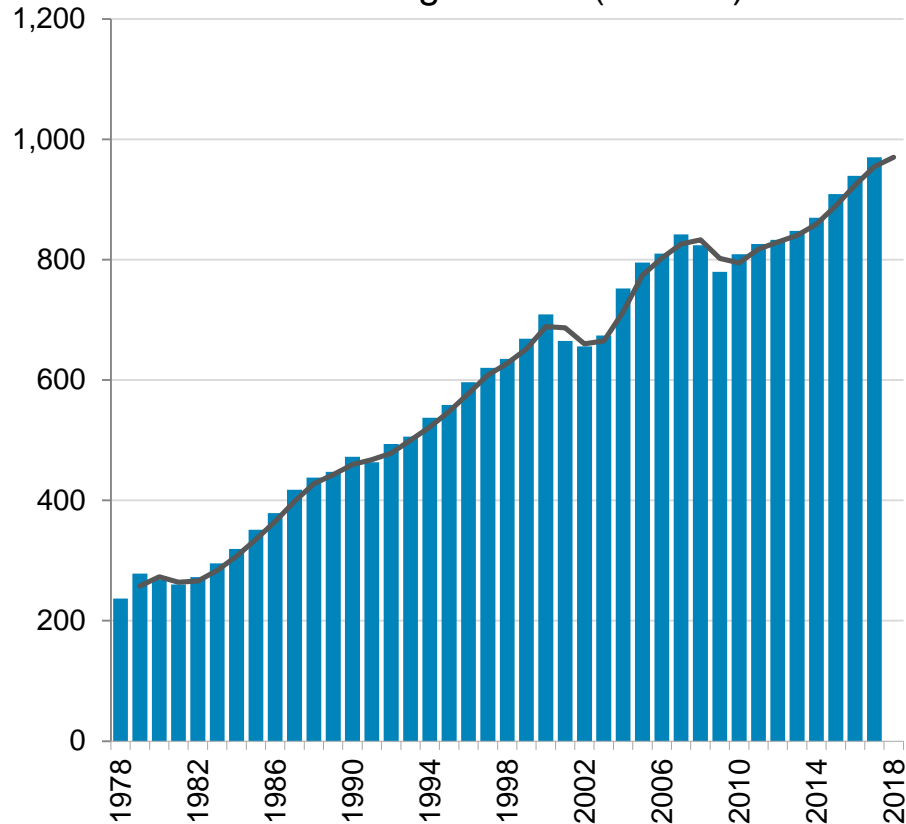


U.S. Airlines Are Moving More People and More Goods Over Longer Distances

Significant Growth of Demand for Air Transportation Services in the Deregulated Era

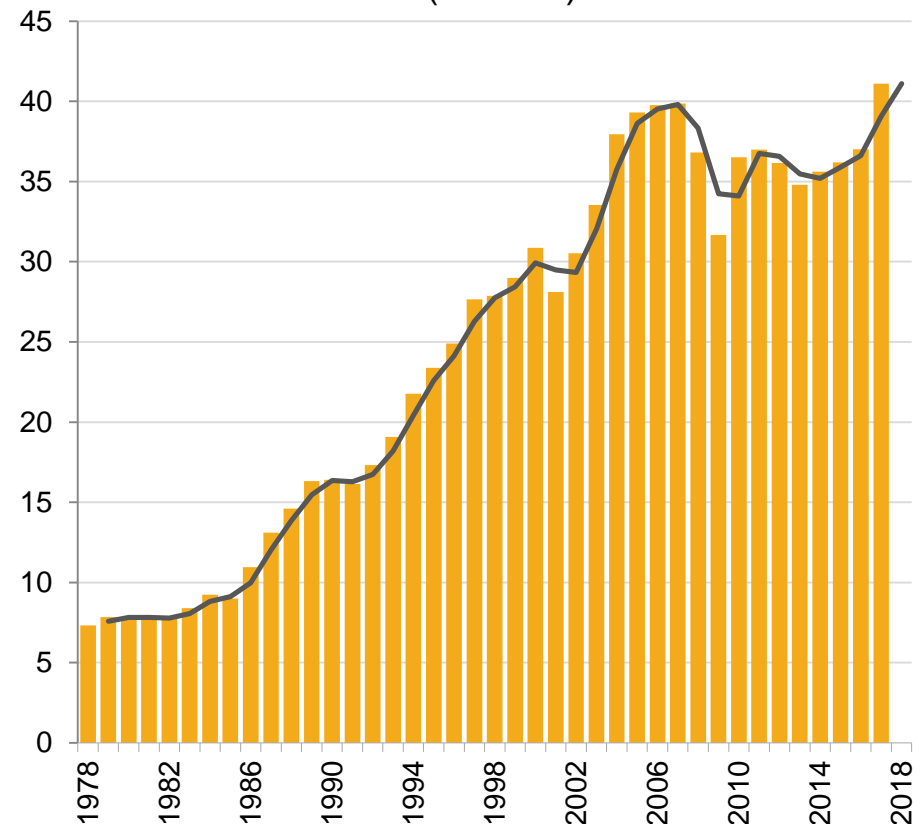
Passenger Traffic Up 4.1x

Revenue Passenger Miles (Billions)



Cargo Traffic Up 5.6x

Revenue Ton Miles (Billions)



Source: U.S. Bureau of Transportation Statistics (T1 systemwide for U.S. airlines)



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