U.S. Airline Industry First Half 2014 Review

*Putting Improving Finances to Work*

John P. Heimlich
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A4A Media Briefing
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With Personal Incomes Outpacing the Price of Air Travel, Americans Can Purchase ~2.5 Times the Amount of Air Travel They Could at the Outset of Deregulation Adjusted for Inflation, Domestic Air Travel Remains ~40 Percent Below 1980 Levels

**Domestic R/T Airfare as Share (%) of Per-Capita Disposable Personal Income**

**Domestic R/T Airfare Adjusted for Inflation (in CY2013 Dollars)**

Source: A4A analysis of data from BEA, BLS and BTS (Data Bank 1B)
This Decade, U.S. Airline Flights Need to Be ~80 Percent Full to Avoid Losing Money Over Multiple Decades, the Rising Costs of Running an Airline – Without a Commensurate Increase in Fares – Have Meant That Airlines Have *Had* to Fill More Seats to *Break Even*

Source: A4A Passenger Airline Cost Index
Key Air-Travel Demand Drivers Trending Positively

U.S. Economy (% CAGR) Expanding

U.S. Generating > 200K Jobs per Month

Real Personal Incomes ($000) Rising

Household Net Worth ($T) Growing

Sources: BEA, BLS, Federal Reserve and IHS Economics; U.S. GDP real annual average growth rate (%), U.S. nonfarm payroll employment growth (month-over-month, in 000s, seasonally adjusted), U.S. disposable personal income per capita (chained 2009 dollars, SAAR); U.S. household net worth in current dollars, not seasonally adjusted.
## Healthy Air-Travel Volumes and Fuel-Price Relief Drive Margin Gains* in 1H 2014

Lower Fuel Expense Largely Offsets Increases in Labor, Airport and Aircraft Costs

<table>
<thead>
<tr>
<th>% Change YOY</th>
<th>1H13</th>
<th>1H14</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues ($77.2B)</td>
<td>6.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses ($70.4B)</td>
<td>2.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel (33% of Operating Expenses)</td>
<td>(2.4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages &amp; Benefits (24%)</td>
<td>6.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance, Materials &amp; Repairs (5%)</td>
<td>(4.1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Landing Fees &amp; Terminal Rents (5%)</td>
<td>5.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aircraft Rent (2%)</td>
<td>(4.4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation &amp; Amortization (5%)</td>
<td>6.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other** (25%)</td>
<td>(5.4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest &amp; Other Non-Operating Expenses</td>
<td>6.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax &amp; Other Expense / (Benefit)</td>
<td>nmf</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit: $3.8B (5.0% of Op. Revenues)</td>
<td></td>
<td>+ 2.8 pts.</td>
<td></td>
</tr>
</tbody>
</table>

1. Average airfare paid per mile flown, excluding taxes
2. Revenue passenger miles (RPMs) flown
4. U.S. disposable personal income per capita

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

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

Change YOY

<table>
<thead>
<tr>
<th>1H13</th>
<th>1H14</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger Yield¹</td>
<td>16.00¢</td>
<td>16.46¢</td>
</tr>
<tr>
<td>Passenger Traffic²</td>
<td>399.3B</td>
<td>409.7B</td>
</tr>
<tr>
<td>Enplanements</td>
<td>353.7M</td>
<td>360.0M</td>
</tr>
<tr>
<td>U.S. Inflation³</td>
<td>232.366</td>
<td>236.384</td>
</tr>
<tr>
<td>Personal Income⁴</td>
<td>$39,273</td>
<td>$40,465</td>
</tr>
</tbody>
</table>

1. Average airfare paid per mile flown, excluding taxes
2. Revenue passenger miles (RPMs) flown
4. U.S. disposable personal income per capita
The Airline Industry Remains a Low-Margin Business, Lagging S&P 500 Average
For Every Dollar of Revenue Collected, U.S. Airlines Keep Just a Nickel as Profit

“Although it may seem like it’s becoming more popular to invest in airlines, data would show that it’s not... [T]here still isn’t a lot of long-term capital invested in the space...

“Who owns airline stocks? You might be surprised…,” Hunter Keay, CFA, Wolfe Research (March 17, 2014)

Net Profit Margin (%), 1H 2014

* A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United
Sources: Standard & Poor’s and company SEC filings; S&P is trailing twelve months
### Jan
Polar vortexes brought extremely cold temperatures to the Midwest and East plus a series of snow and ice storms caused extensive delays and operational challenges.

### Feb
The first three weeks of February saw a series of winter storms with multi-day impacts as they moved across the Midwest to the East Coast. The final week of the month was close to normal with only minor disruptions. February 13 was the single worst day for flight cancellations this winter with more than 7,500 as a massive winter storm affected operations at airports from Atlanta to Boston.

### Mar
The biggest impact was March 2-4 as Winter Storm Titan brought snow and ice to the Midwest and Mid-Atlantic regions. March 12-13 saw more limited cancellations due to Winter Storm Vulcan, which primarily affected airports on the Great Lakes including ORD, DTW, CLE and upstate NY.

### Apr
April was finally a reprieve from the challenging winter. The biggest impact was April 29-30 when nearly 1,900 flights were cancelled as severe thunderstorms moved through TX, the SE, and the DC-NY corridor. April 14-15 saw thunderstorms, snow/ice, and wind affect airports from TX to NY.

### May
May saw an increase in thunderstorm activity compared to the previous year, with twice as many days with 500 or more cancellations. The biggest impact was May 8-16 when nearly 8,300 flights were cancelled as severe thunderstorms moved through the Midwest and Northeast.

### Jun
Thunderstorm season was in full force. The biggest impact was June 9-13 with almost 5,000 flight cancellations as severe thunderstorms moved through the Midwest and Northeast. Runway construction also caused numerous delays, particularly at EWR and SFO.

Source: masFlight
Massive Winter Storms Pummeled 1Q Operations, Bringing Down 1H Performance
Notwithstanding Increase in May Thunderstorms, 2Q Operations Were Comparable to 2013

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>Chg.</th>
</tr>
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<tbody>
<tr>
<td>1Q</td>
<td>98.2</td>
<td>95.4</td>
<td>(2.8)</td>
</tr>
<tr>
<td>2Q</td>
<td>98.4</td>
<td>98.3</td>
<td>(0.1)</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>Chg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q</td>
<td>80.1</td>
<td>72.2</td>
<td>(8.0)</td>
</tr>
<tr>
<td>2Q</td>
<td>76.2</td>
<td>76.1</td>
<td>(0.1)</td>
</tr>
</tbody>
</table>

Source: BTS
After Years of Staggering Losses, U.S. Airlines* Are Tackling the Mountain of Debt

“…it would be unreasonable to assume that all airline risks have just disappeared… [T]he business model requires a large cushion of cash and significant reinvestment.”

Alexander MacLennan
The Motley Fool
Feb. 3, 2014

“The industry is still subject to U.S. and global economic cycles, oil price (the largest operating expense) fluctuations, and unforeseen events…”

Betsy Snyder
Standard & Poor’s
Mar. 25, 2014

Total Debt* ($ Billions)

<table>
<thead>
<tr>
<th></th>
<th>YE12</th>
<th>YE13</th>
<th>1H14</th>
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<tbody>
<tr>
<td>Total</td>
<td>$79.5</td>
<td>$71.9</td>
<td>$70.2</td>
</tr>
</tbody>
</table>

* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United; includes capitalized operating leases at 7x annual aircraft rents
Improving Finances Are Helping Airlines Hire/Train/Retail High-Quality Employees

- Job growth and security
- Attractive wages and benefits
- Tools and training to serve customers
- Profit sharing
- Accelerated contributions to employee retirement accounts
Earnings Momentum and Debt Reduction Are Attracting New Investors

- De-risking (e.g., paying down debt)
- Share buybacks
- Issuance of dividends
- Stock price appreciation
- Value creation (ROIC > WACC)
...and the Increasing Ability to Hire, Train and Retain High-Quality Talent and to Lure Long-Term Investors is Translating Directly to Palpable Benefits for Our Customers

- New or refurbished aircraft
- Expanded route networks (scope and frequency) and schedules (seat growth)
- Enhanced tools (computers, tablets, software) and training for customer-contact employees
- Improved airport check-in areas, lounges, gates
- Continued development and roll-out of mobile technology and website/kiosk functionality
- Increasing operational reliability (controlled for weather conditions)
- Larger overhead bins for luggage
- Availability of lie-flat seating with AC power and USB (incl. on select transcon flights)
- Proliferation of domestic and international WiFi and inflight entertainment options
After a Decade of Sharp Workforce Reductions, U.S. Airline Jobs on the Rise Again
May 2014 Was Sixth Consecutive Month of YOY Employment Gains at U.S. Airlines

Employment at U.S. Passenger Airlines
Thousand Full-Time Equivalents (FTEs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment (FTEs)</th>
</tr>
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<tbody>
<tr>
<td>2000</td>
<td>520.6</td>
</tr>
<tr>
<td>2010</td>
<td>378.1</td>
</tr>
<tr>
<td>2013</td>
<td>380.8</td>
</tr>
<tr>
<td>2014</td>
<td>383.5</td>
</tr>
</tbody>
</table>

Source: BTS
Improving Finances Enabling Significant Reinvestment in Customer Experience
Airline Capital Spending Continues at Robust Clip of More Than $1 Billion per Month

U.S. Airline* Capital Expenditures ($ Billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>5.2</td>
</tr>
<tr>
<td>2011</td>
<td>6.6</td>
</tr>
<tr>
<td>2012</td>
<td>9.8</td>
</tr>
<tr>
<td>2013</td>
<td>12.4</td>
</tr>
<tr>
<td>1H14</td>
<td>7.0</td>
</tr>
</tbody>
</table>

» Aircraft (317 deliveries in 2014), spare engines, winglets
» Premium seats, new aircraft interiors
» Ground equipment, loading bridges
» Airport (gates/lounges) and maintenance facilities
» Bag carousels, carts, scanners
» In-flight entertainment and Wi-Fi
» Computers, kiosks, mobile technology

* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United
U.S. Passenger Airlines* Taking Delivery of 317 Aircraft in 2014 – Almost 1 per Day
149 Units Received in First Six Months; 168 Units Slated for Delivery in Second Half

* Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United
As Airlines Generate Modest Returns on Capital, Customers Are Seeing More Seats Scheduled to Depart from U.S. Airports – Two Years’ of Growth

Year-Over-Year Change (%) in Scheduled Seats at U.S. Airports

Fuel Spike and Recession
Economic Recovery
Record-High Fuel Price
Economic Recovery and Modest Fuel-Price Relief

Source: Innovata (via Diio Mi) published schedules as of Aug. 15, 2014 for all airlines providing scheduled passenger service from U.S. airports to all destinations
Airline Creditworthiness Remains Far From Stellar
Per S&P, Only One U.S. Passenger Airline Has Investment-Grade Credit

<table>
<thead>
<tr>
<th>Investment Grade(^1) (&gt;= BBB-)</th>
<th>Speculative(^2) Grade (&lt; BBB-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ExxonMobil, Microsoft</td>
<td>AAA</td>
</tr>
<tr>
<td>GE, United States Government</td>
<td>AA+</td>
</tr>
<tr>
<td>Wal-Mart</td>
<td>AA</td>
</tr>
<tr>
<td>Toyota</td>
<td>AA-</td>
</tr>
<tr>
<td>UPS</td>
<td>A+</td>
</tr>
<tr>
<td>BP, eBay, Union Pacific</td>
<td>A</td>
</tr>
<tr>
<td>Amtrak, Starbucks</td>
<td>A-</td>
</tr>
<tr>
<td>FedEx, Marriott, Starwood</td>
<td>BBB</td>
</tr>
<tr>
<td>Ford, Lufthansa, Southwest, WestJet</td>
<td>BBB-</td>
</tr>
<tr>
<td><strong>Passenger Airline</strong></td>
<td></td>
</tr>
</tbody>
</table>

1 Describes issuers with relatively high levels of creditworthiness and credit quality
2 Describes issuers with ability to repay but facing significant uncertainties, such as adverse business or financial circumstances that could affect credit risk

Source: Standard and Poor’s; “Guide to Credit Rating Essentials: What are credit ratings and how do they work?”
“Industry remains very cyclical and highly competitive, vulnerable to exogenous shocks; carriers have high degree of leverage, low margins.”

-- Craig Fraser, Joe Rohlena and Ilya Ivashkov, Fitch Ratings, “Concerns Remain,” July 30, 2014

“Leverage progress slowed, big capital spending needs ahead; demand is still cyclical; rising labor costs…”

-- Philip Baggaley and Betsy Snyder, Standard & Poor’s, “Potential Risks,” July 30, 2014
U.S. Ticket Taxes on $300 One-Stop Domestic Round Trip* Just Went Up Again
Growing Governmental Take Leaves Less Revenue for Carriers to Reinvest

1971-1972
AATF Begins
7% ($22)*

1992-1993
PFC Begins
13% ($38)*

2002
9/11 Fee Begins
19% ($58)*

July 21, 2014
9/11 Fee Hike
21% ($63)*

POTUS-Proposed
FY15 Budget
26% ($77)*

AATF = Airport and Airway Trust Fund

* Sample itinerary is a domestic round trip with one stop each way and maximum passenger facility charge (PFC) per airport; total ticket price includes taxes
Don’t you want to know where your airfare taxes are going?

FROM 2000-2013, FARES DROPPED WHILE TAXES SOARED.

BASE FARES DOWN 8%

TAXES UP 49%

Source: A4A Analysis; Bureau of Labor Statistics; FAA

Learn more about the government’s new tax on passengers, and why it’s bad for consumers and the economy as a whole. Visit StopAirTaxNow.com