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A4A Spring 2016 Air Travel Forecast and Operational and Financial Review of 2015

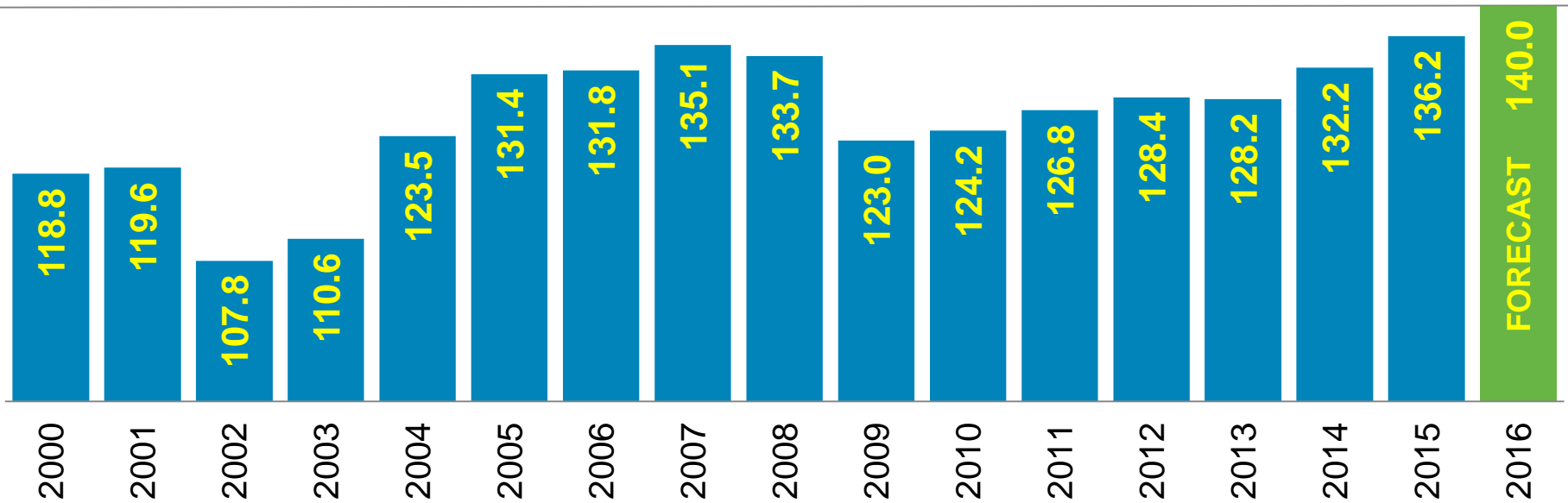
John P. Heimlich, Vice President & Chief Economist
A4A Media Briefing
March 9, 2016

A4A Projects Spring* 2016 Air Travel to Rise 3% to All-Time High of 140M Passengers

Airlines Adding Commensurate Number of Seats to Accommodate Record-High Demand

U.S. Airline Onboard Passengers (Millions) – All Services, March 1 through April 30

+ 3%



- ➔ 140 million passengers or about 2.3 million/day
 - Up ~63K/day from 2015; up ~81K/day from 2007
 - Includes 17M+ (285K/day) traveling internationally
 - Projected average load factor: 83%-85%

- ➔ Key drivers of growth include:
 - Rising employment, personal incomes
 - Air travel affordability
 - Improved airline operations

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

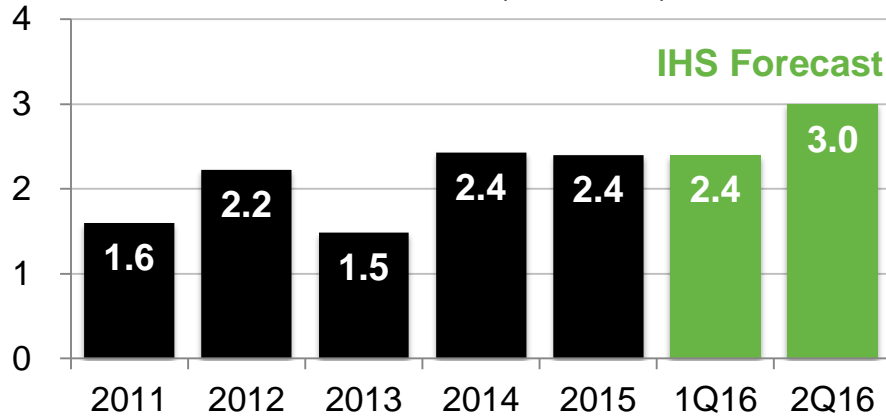
* For this purpose, defined as March 1 through April 30



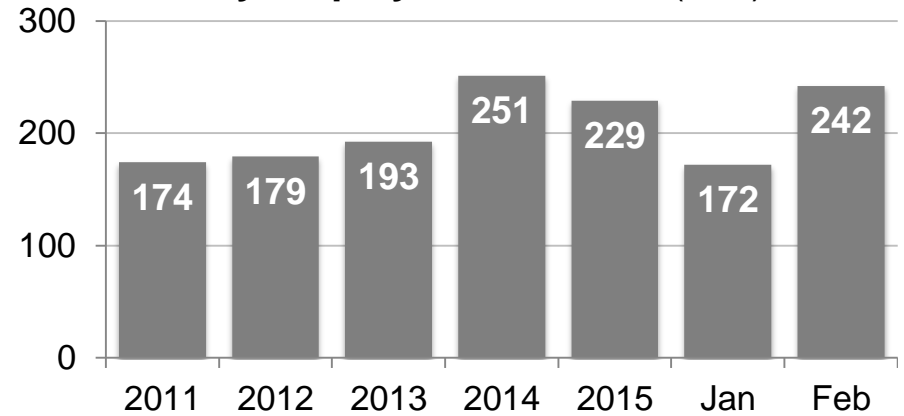
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Key U.S. Air-Travel Demand Drivers Still Showing Growth

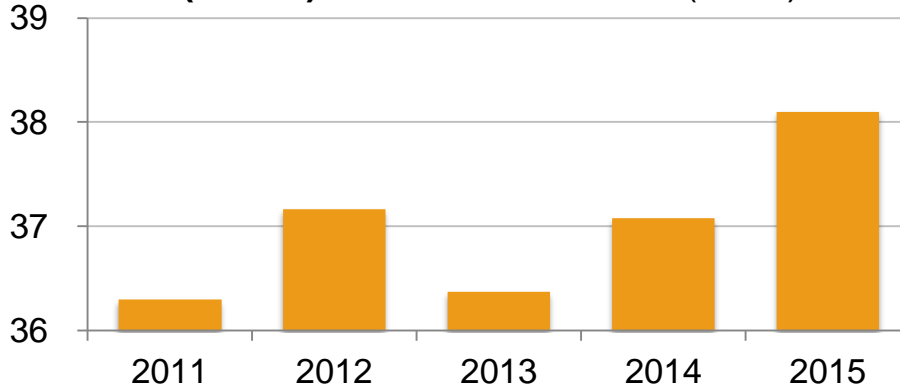
Real GDP Growth Rate (% CAGR)



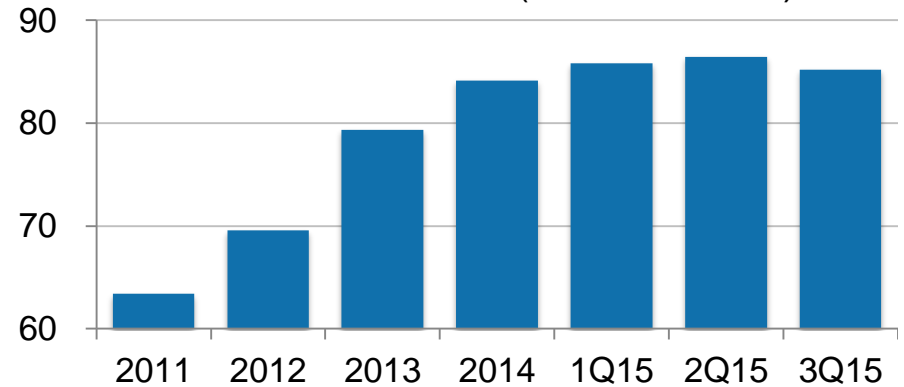
Monthly Employment Growth (000)



Real (\$2009) Personal Incomes (\$000)



Household Net Worth (\$ Trillion, NSA)

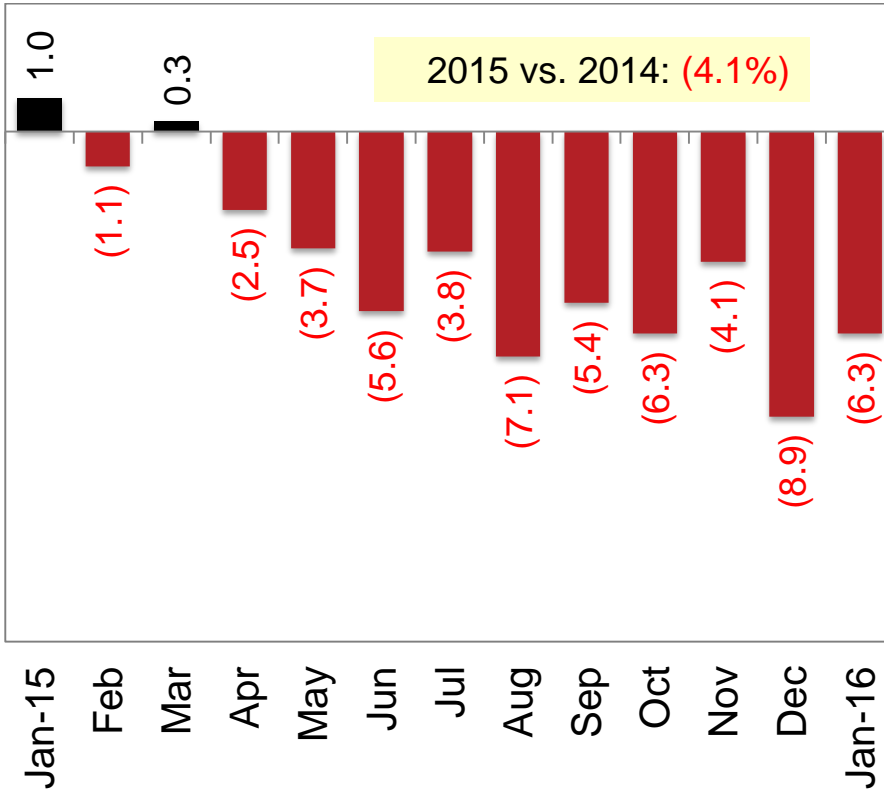


Sources: BEA, BLS, Federal Reserve and IHS Economics; U.S. GDP real annual average growth rate (%), U.S. nonfarm payroll employment growth (month-over-month, in 000s, seasonally adjusted), U.S. disposable personal income per capita (chained 2009 dollars, SAAR); U.S. household net worth in current dollars, not seasonally adjusted

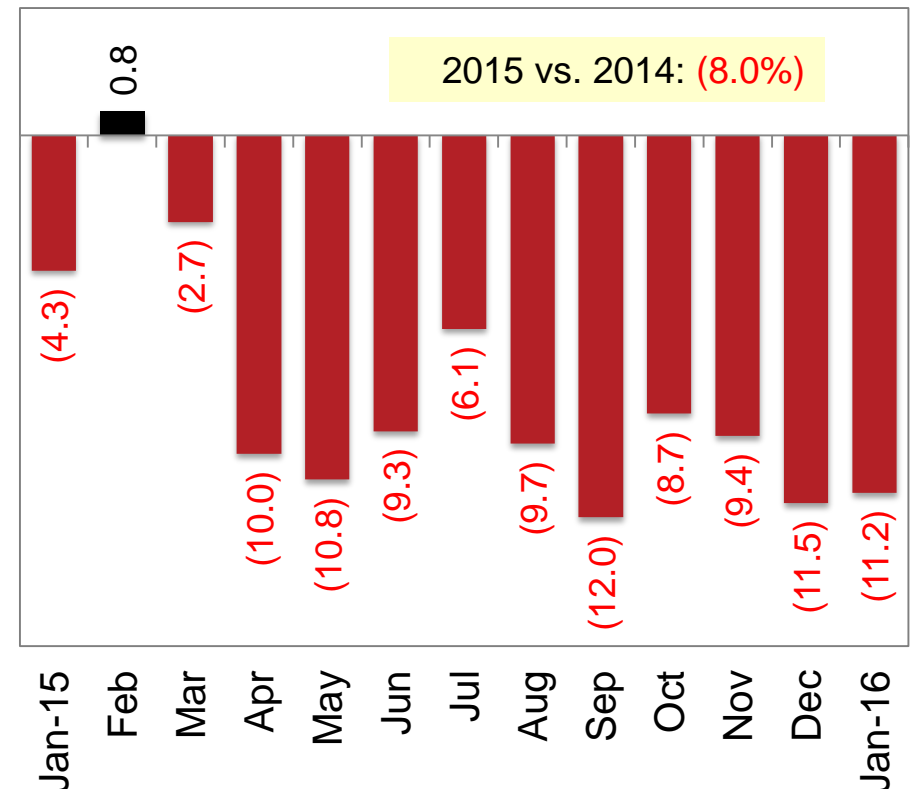


In 2015, Amid Competitive Pressures, U.S. Carrier Air Fares Fell Almost Every Month Down 5.1% Systemwide on 4.1% Lower Domestic Yield* and 8% Lower International Yield*

% Change YOY in Domestic Yield*



% Change YOY in International Yield*

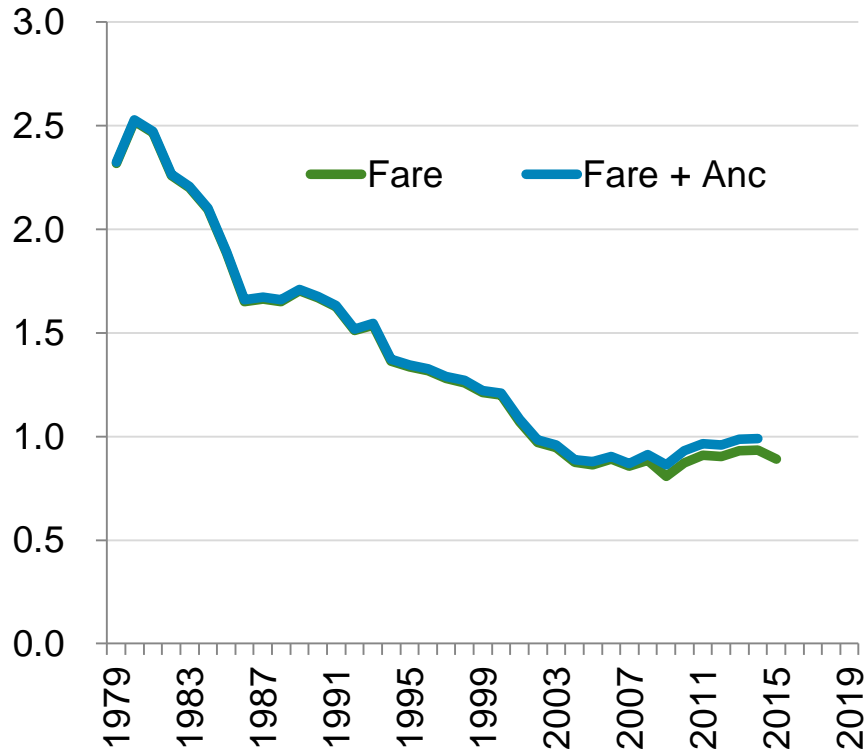


Source: A4A analysis of data from Alaska, American, Hawaiian, JetBlue, Southwest, United, Virgin America and regional affiliates

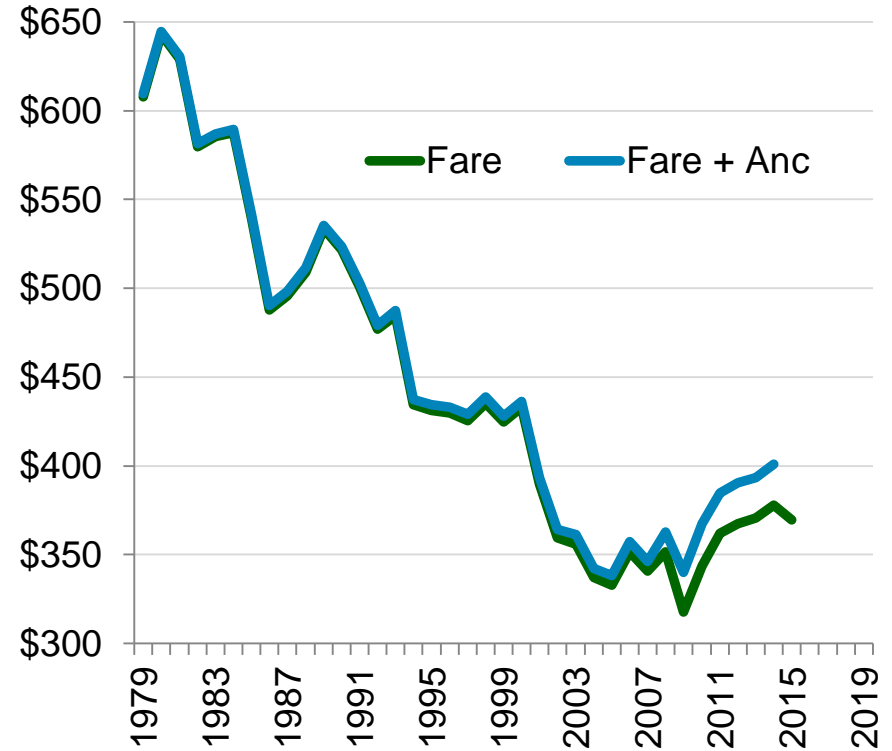
* Fare per mile (cents per RPM)

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 CY2015 Dollars)

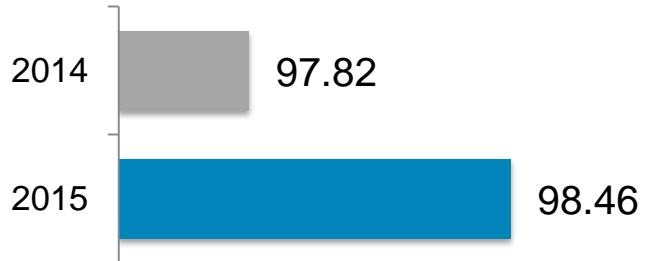


Source: A4A analysis of data from BEA, BLS and BTS Data Bank 1B (10% sample of tickets for all cabins and fare basis codes); 2015 based on first three quarters

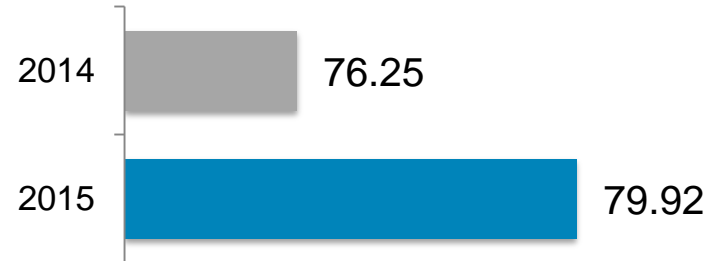
U.S. Airlines Saw Improvements in DOT Core-Four Operational Metrics in 2015

Gains Driven by More Benign Weather and Investments in Systems, Procedures, Staffing

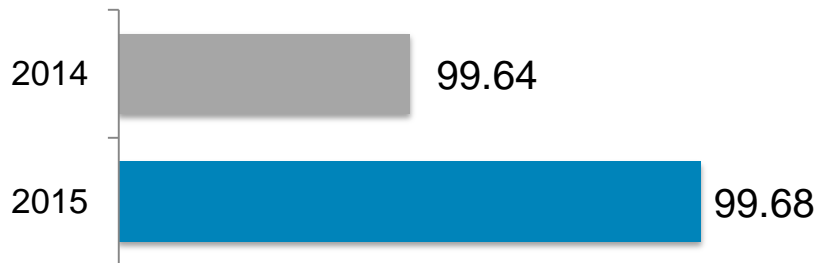
Flight Completion Factor (%)



On-Time Arrival Rate (%)



Properly Handled Bag Rate (%)



Oversales per 10,000 Customers



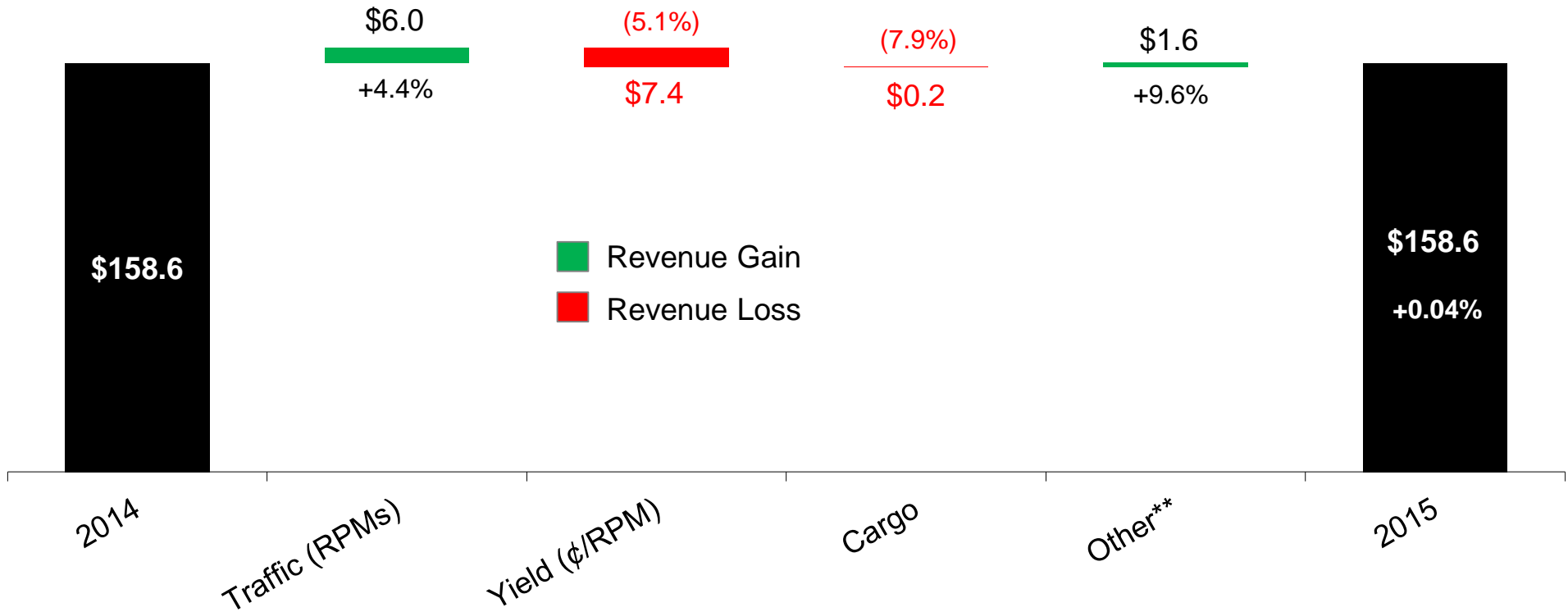
Sources: BTS and DOT *Air Travel Consumer Report* (<http://www.dot.gov/airconsumer/air-travel-consumer-reports>)



2015 Airline Operating Revenues* Were Flat As Lower Fares Offset Traffic Gains

Passenger Revenue Fell \$1.3B (1.0%) on 4.4% Higher Traffic and 5.1% Lower Yield

Operating Revenues* (\$ Billions)



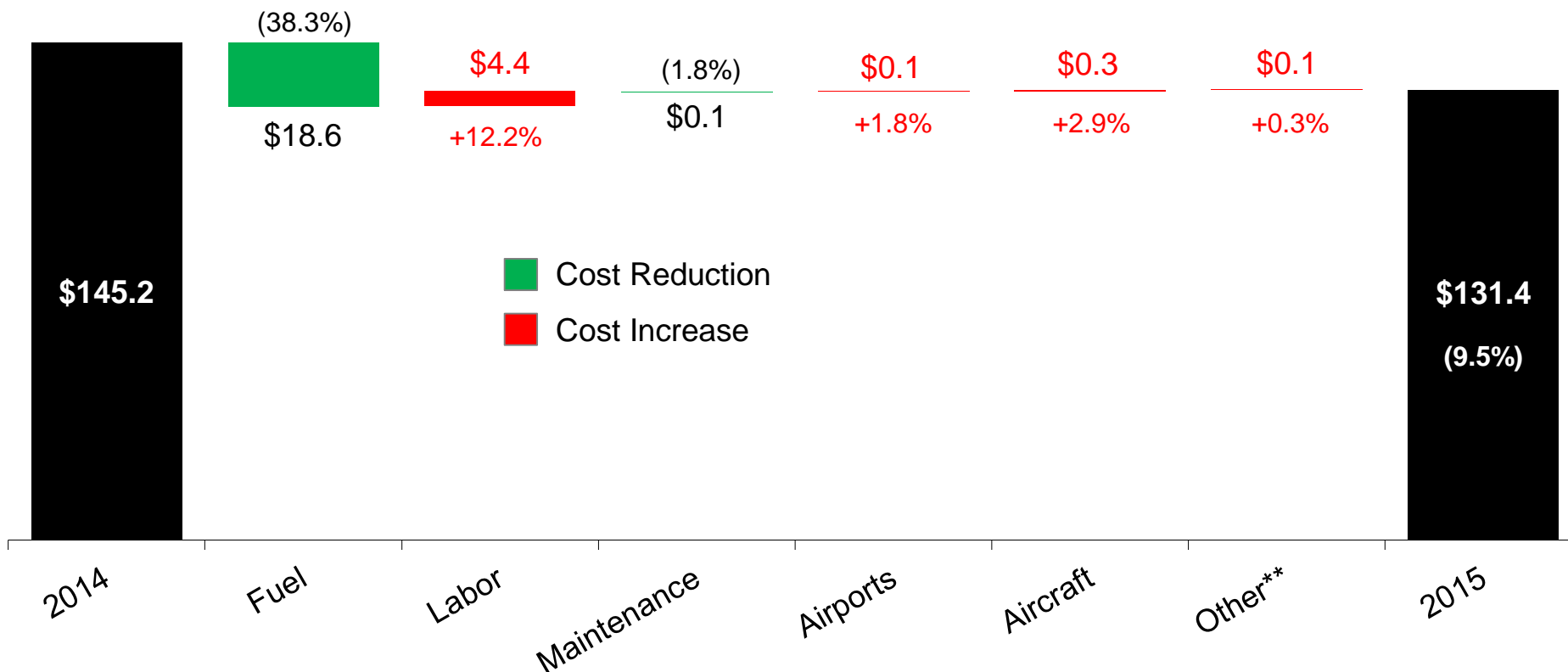
* A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America

** Sale of frequent flyer award miles to airline business partners, pet transportation, in-sourced aircraft and engine repair, flight simulator rentals, inflight sales, etc.



2015 Airline Operating Expenses* Fell \$14B (9.5%) As Lower Fuel Offset Higher Labor Airlines Also Saw Increases in Landing Fees, Terminal Rents and Aircraft Costs

Operating Expenses* (\$ Billions)



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

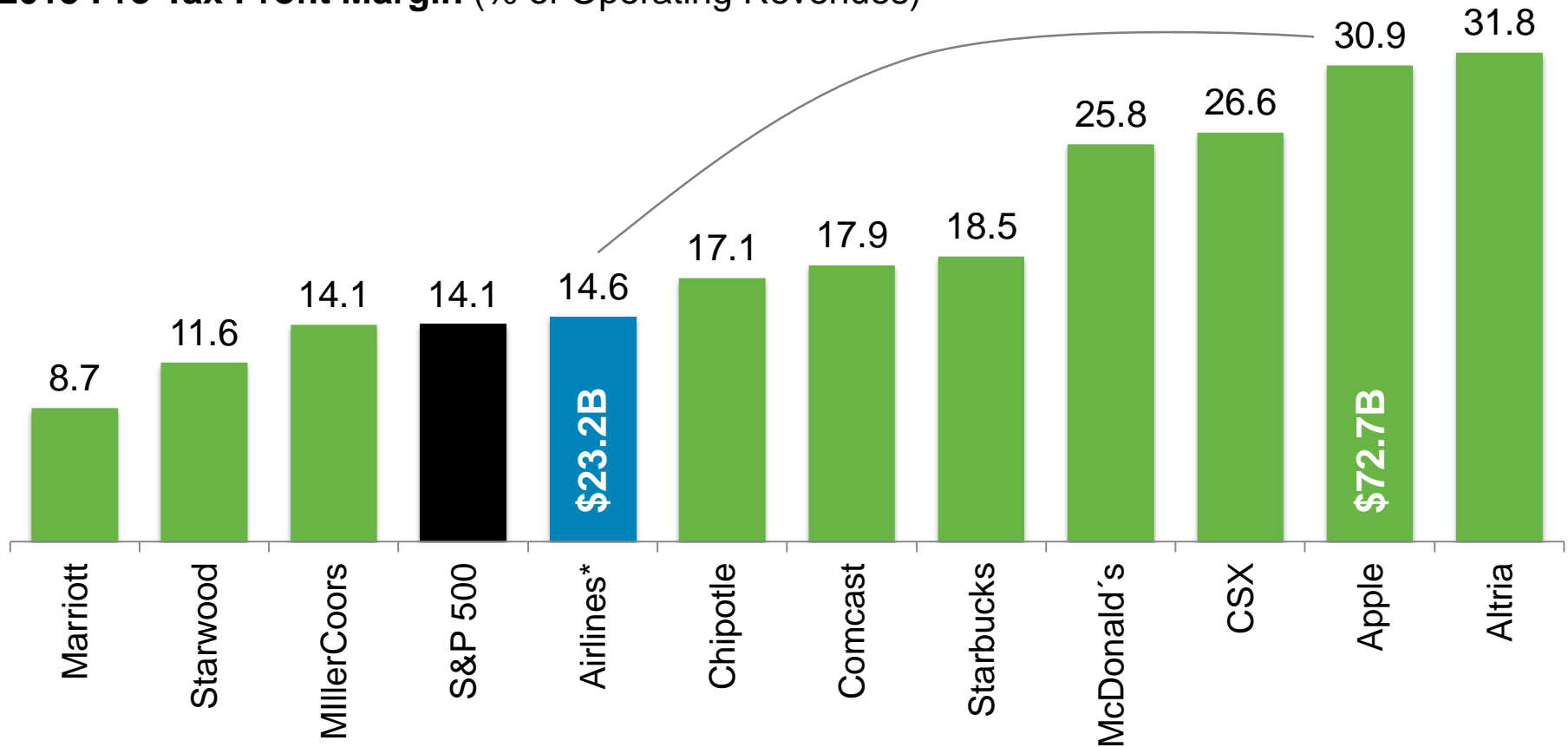
** Professional fees, food/beverage, insurance, commissions, GDS fees, communications, advertising, utilities, office supplies, crew hotels, nonfuel payments to regionals



In 2015, U.S. Airlines* Posted Respectable Margins, Approaching 15% Before Taxes

U.S. Passenger Airline* Profitability Was Just Under Half That of Apple and Altria

2015 Pre-Tax Profit Margin (% of Operating Revenues)



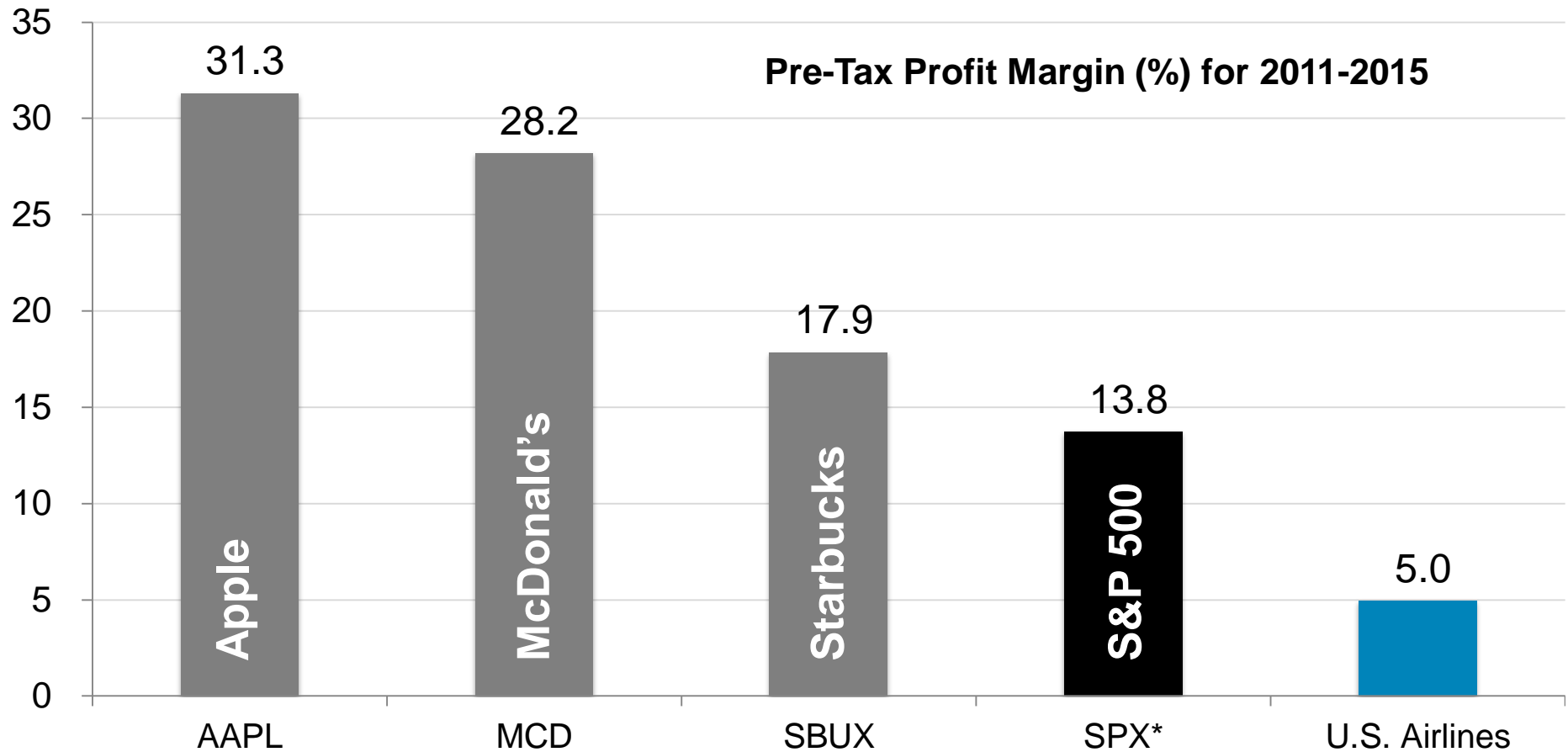
* A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America

Note: S&P 500 excludes unusual items



Airlines Continue to Strive for Solid Profitability Across the Business Cycle

In Current U.S. Business Cycle, Airline Margins Are Less Than Half the S&P 500 Average



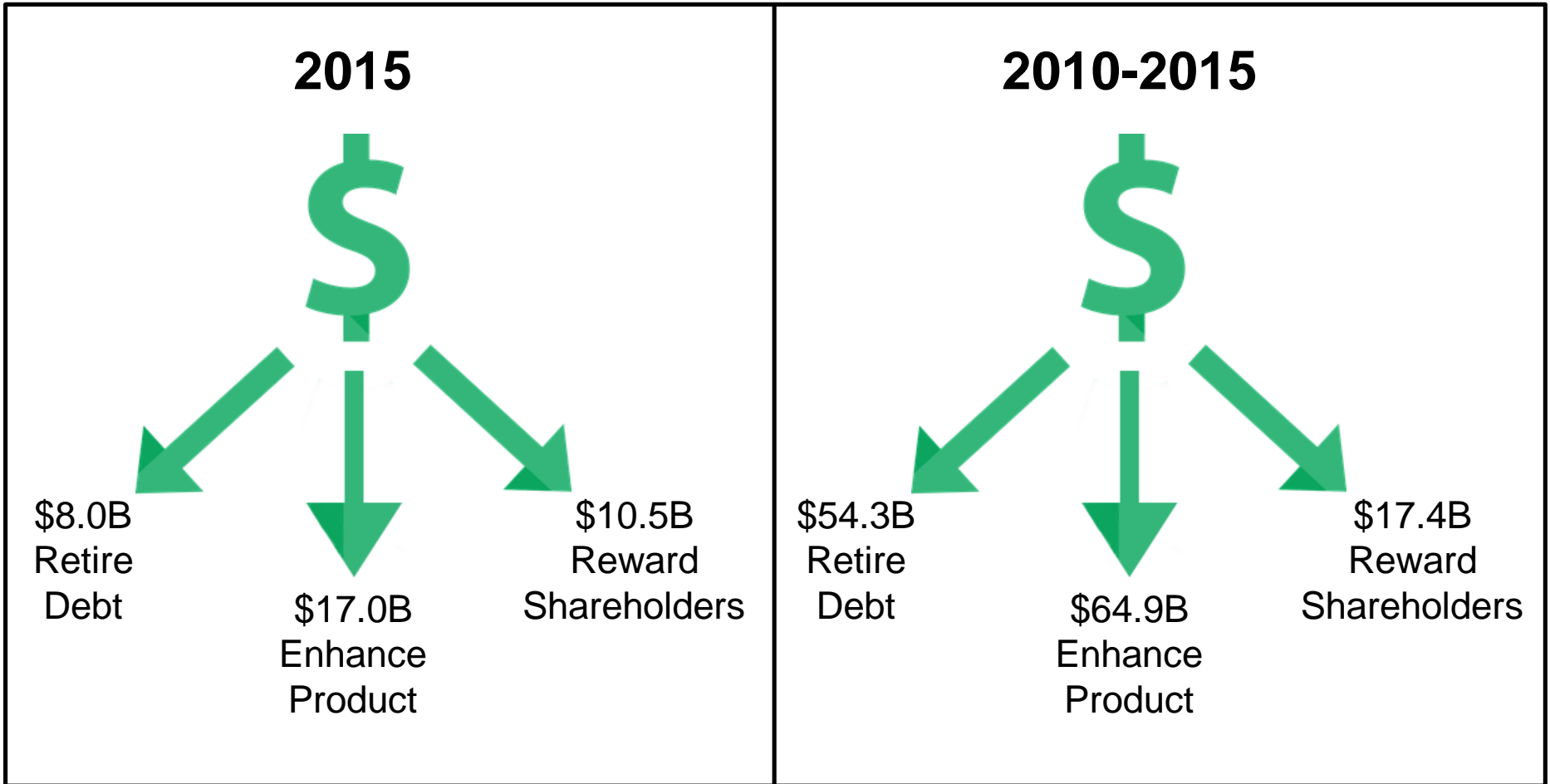
Sources: Standard & Poor's (S&P) and A4A Passenger Airline Cost Index plus company SEC filings

* Excludes unusual items



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U.S. Airlines Are Putting More Than Half of Cash Flow* Right Back Into the Product
 Primary Uses of Operating Cash from 2010-2015 Included \$65B of Capital Reinvestment



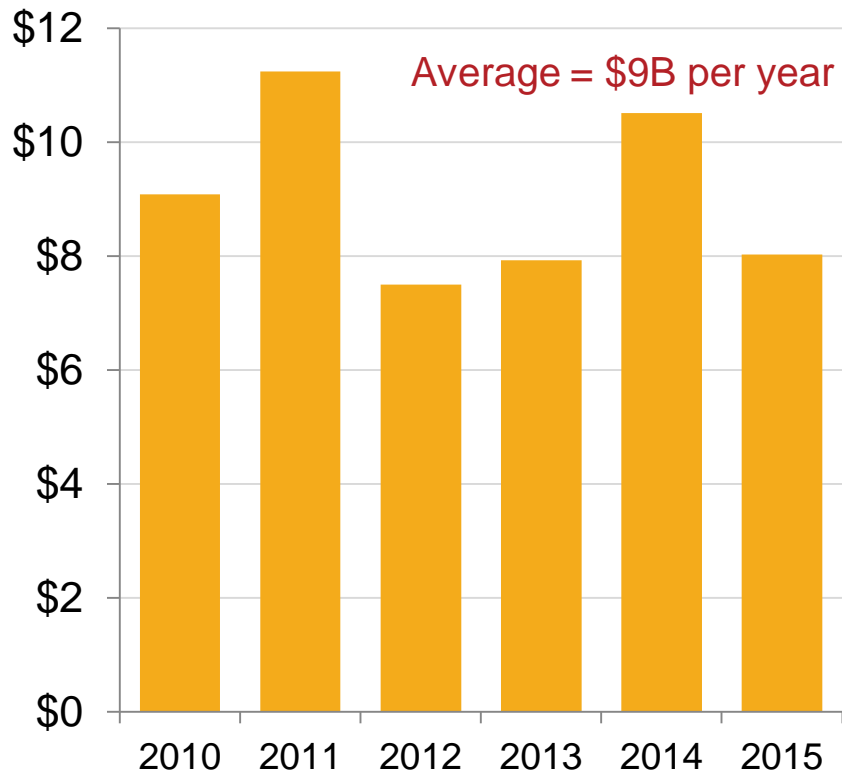
* SEC filings of Alaska/Allegiant/American/Delta/Hawaiian/JetBlue/Southwest/Spirit/United/Virgin America; denominator is net cash provided by operating activities



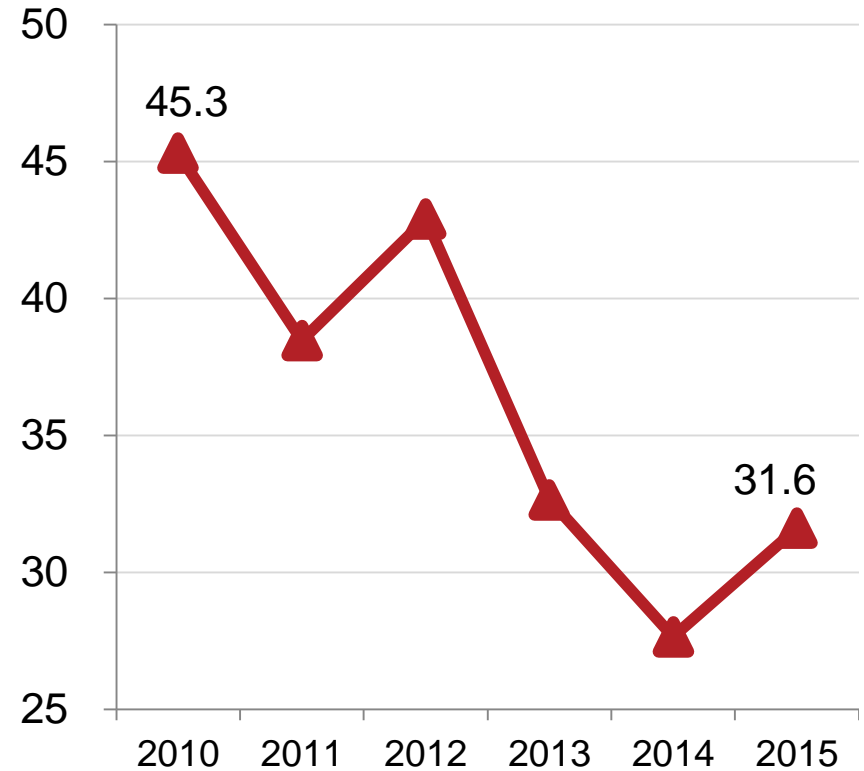
Following Enormous Losses of 2001-2009, U.S. Airlines Have Retired \$54.3B in Debt

Adjusted Net Debt Now Just 32% of Operating Revenues, Down from 45% in 2010

Payments on Debt* (Billions)



Debt as % of Operating Revenues**



Source: SEC filings of AAL/ALGT/AAL/DAL/HA/JBLU/LUV/SAVE/UAL/VA

* Payments on long-term debt and capital lease obligations

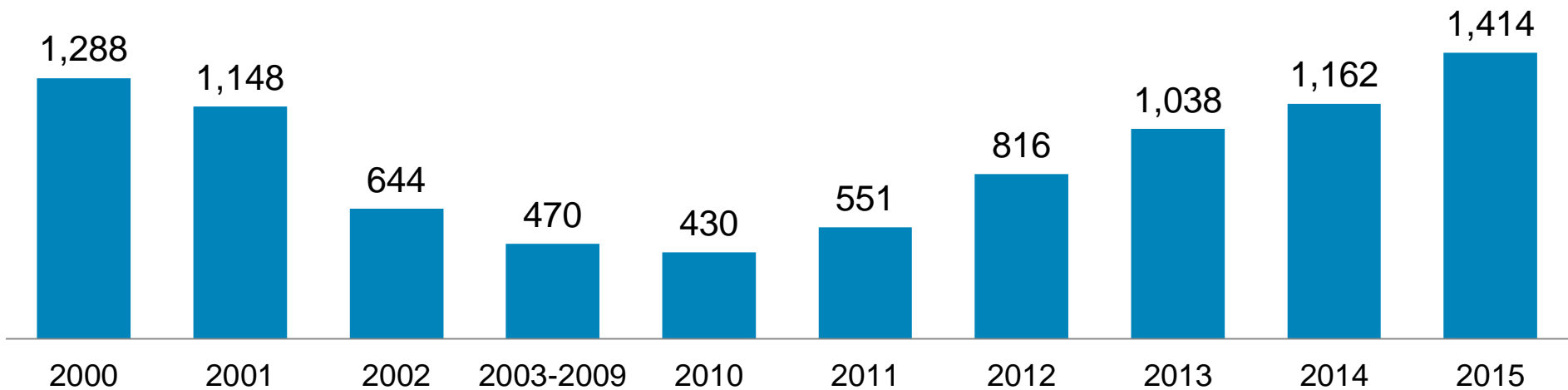
** Includes 7x annual aircraft rents (capitalized operating leases)



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Improving Finances Enabling Significant Reinvestment in Customer Experience

U.S. Airline* Capital Expenditures (\$ Millions per Month)



- » 2015 outlays of \$17B were highest in at least 16 years:
 - Averaged \$1.4B per month or ~\$22 per passenger
 - Constituted 60% of operating cash flow
 - Included receipt of 388 new aircraft
- » At YE15, \$86B in firm orders to be delivered in 2016 and beyond, including an average of a plane a day in 2016

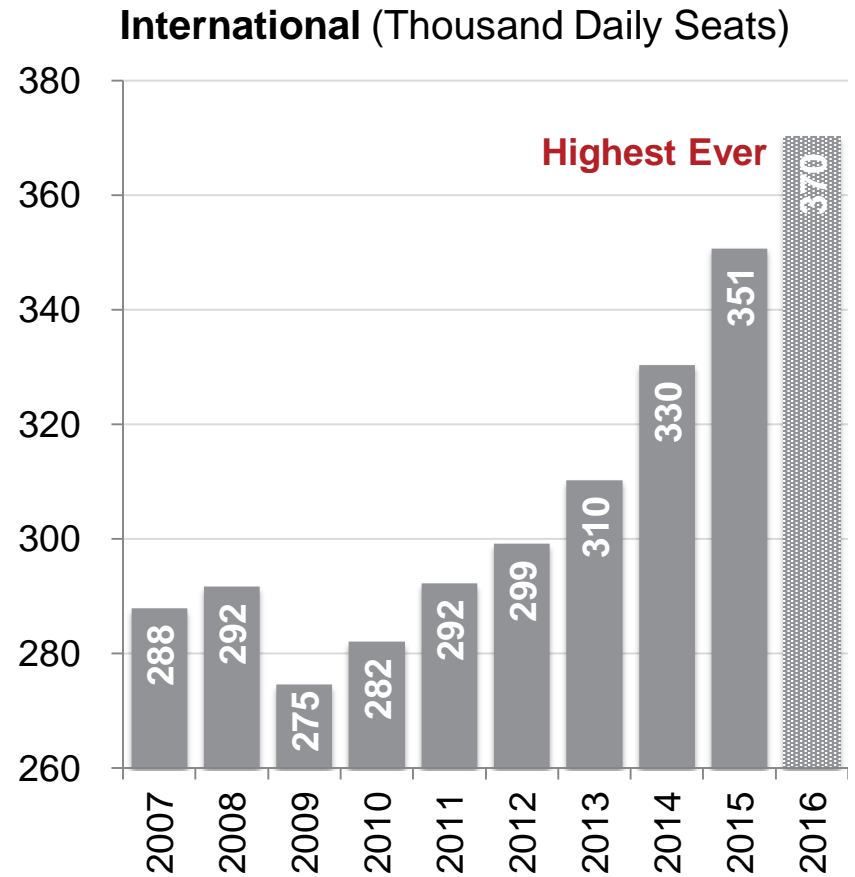
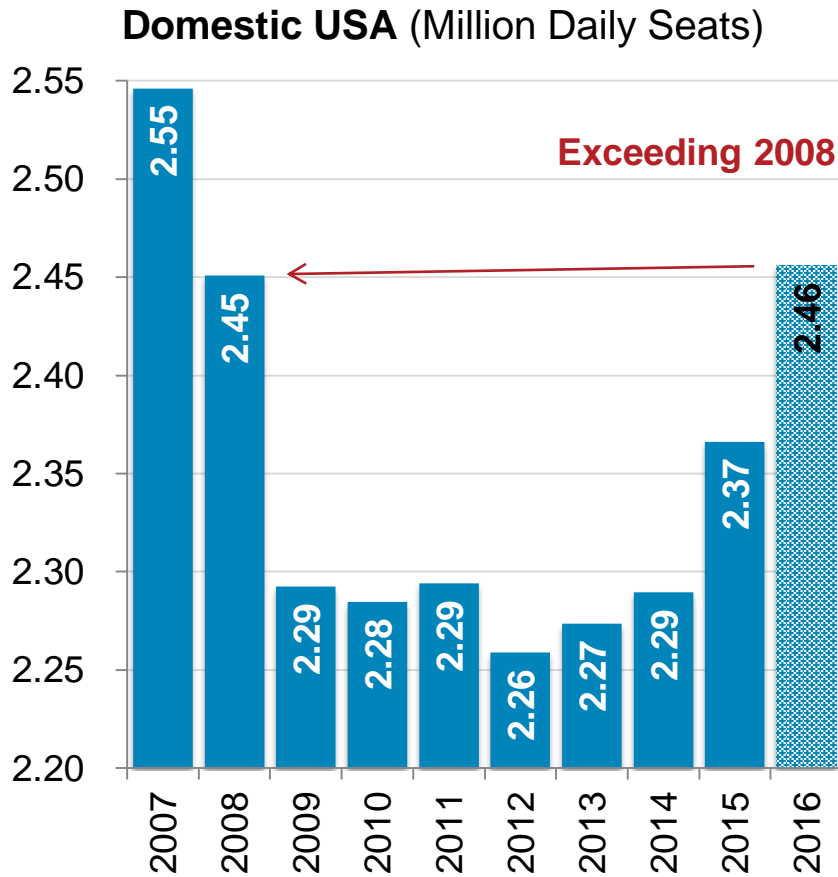
* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America



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As Airlines Generate Normal Returns on Capital, Customers Are Seeing More Seats

Domestic Supply at Highest Point in Eight Years; International Supply at All-Time High



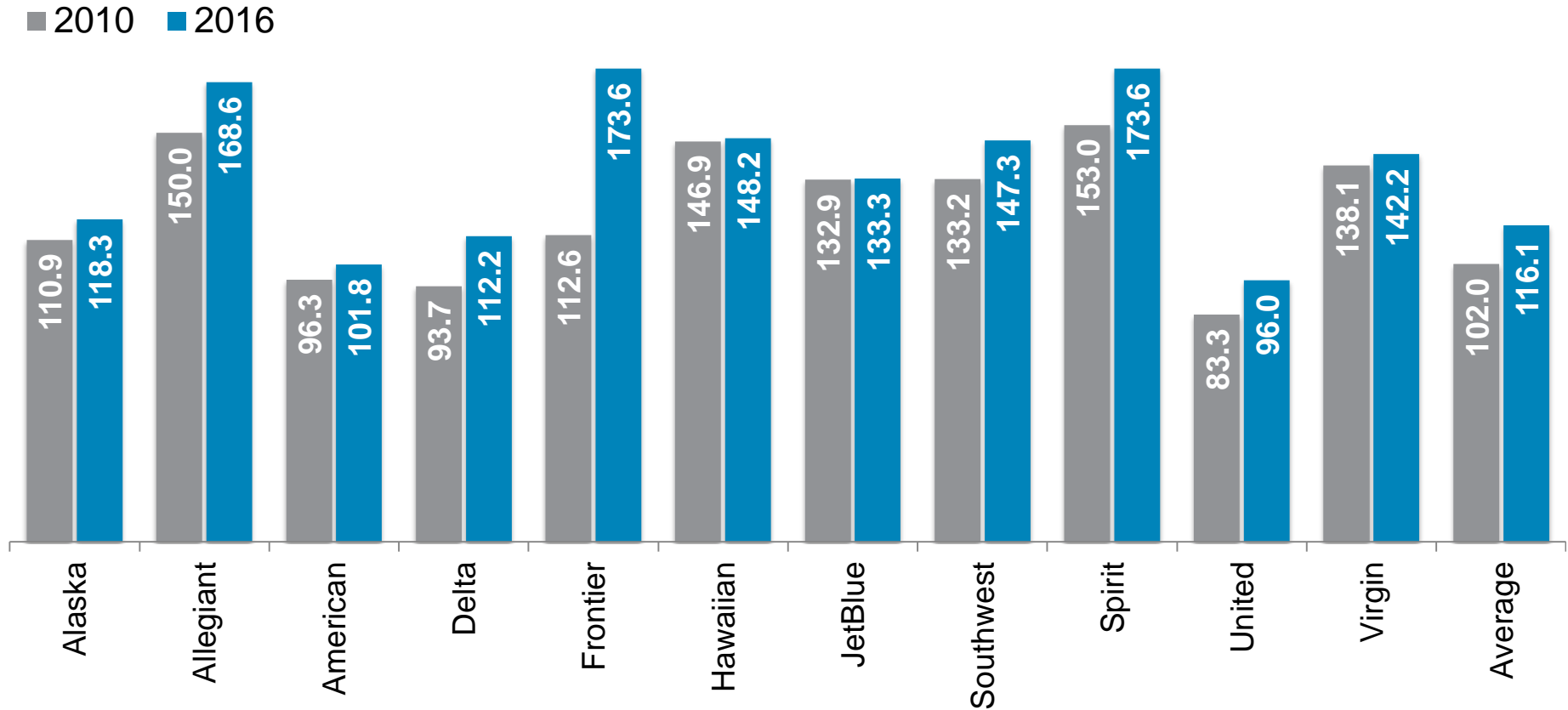
Source: Innovata (via Diio Mi) published schedules as of Mar. 4, 2016, for all airlines providing scheduled passenger service from U.S. airports to all destinations



In Addition to Expanding Schedules, Airlines Are Deploying Larger Aircraft

Replacement of 50-Seaters With Larger Regional Jets Is Biggest Driver of 14% Jump

Average Domestic Aircraft Size (Seats per Scheduled Departure)



Source: Innovata (via Diio Mi) as of Mar. 4, 2016



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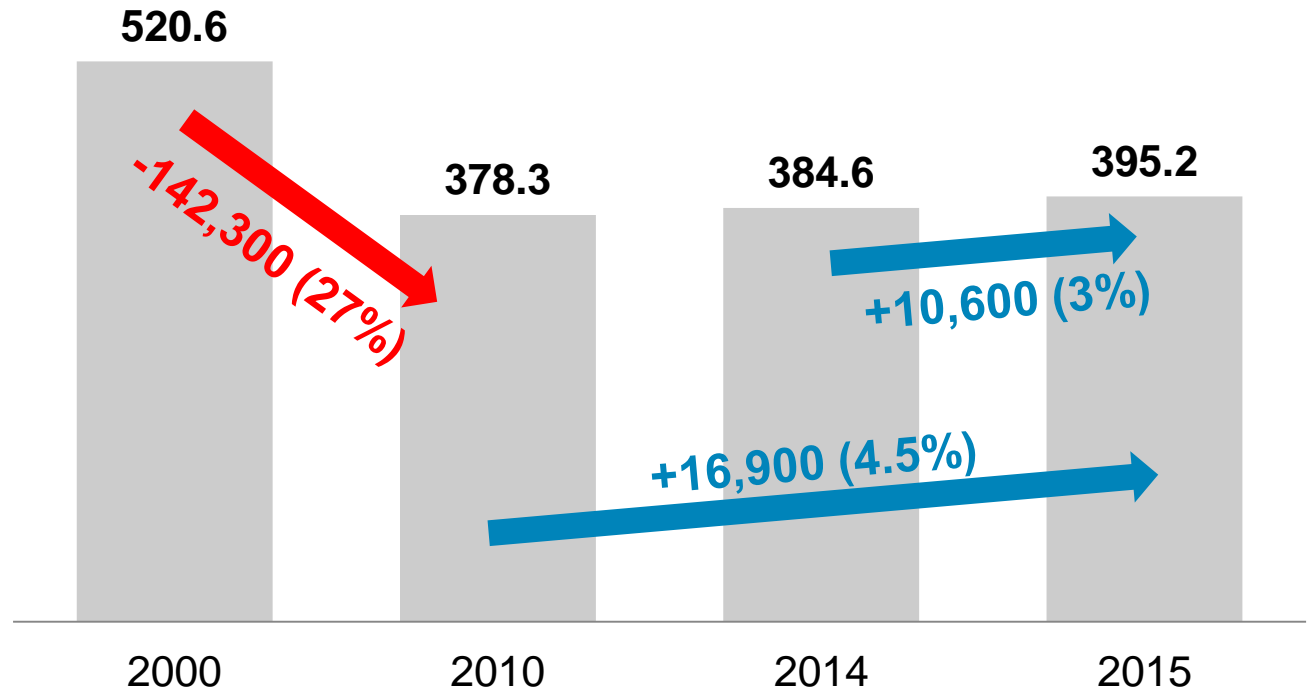
After a Decade of Sharp Workforce Reductions, U.S. Airline Jobs on the Rise Again

December 2015 Was **25th Consecutive Month** of YOY Employment **Gains** at U.S. Airlines



Employment at U.S. Passenger Airlines

Thousand Full-Time Equivalents



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

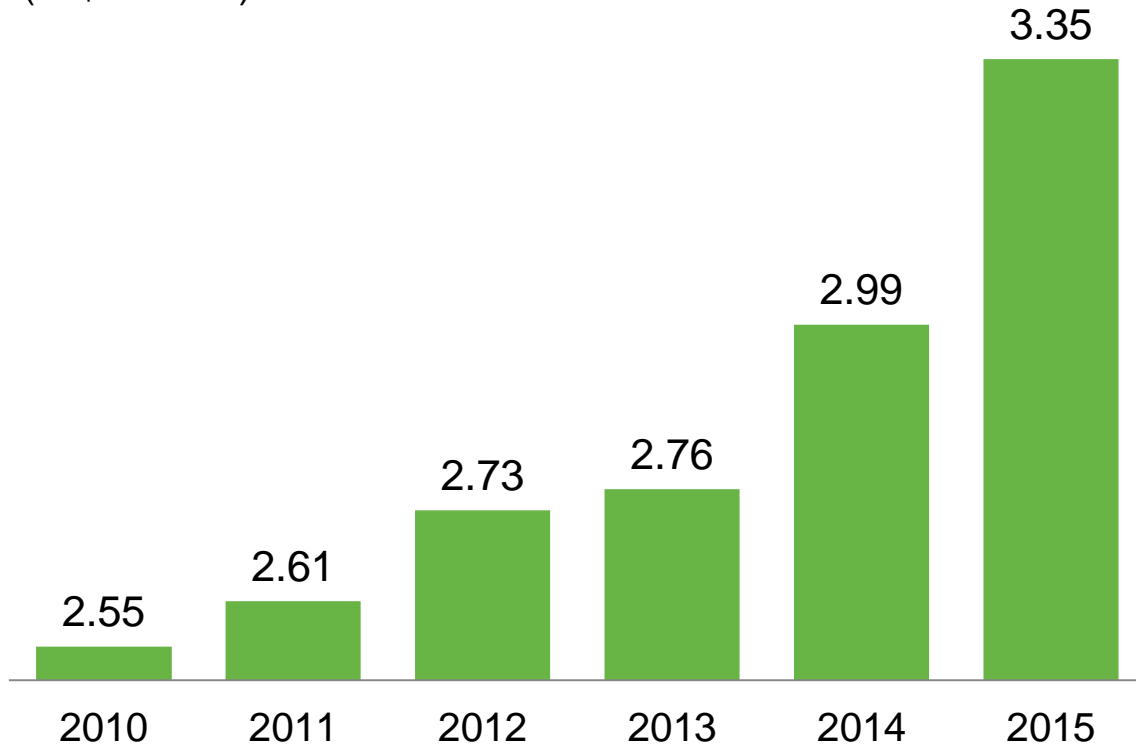


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U.S. Airlines* Are Pumping More Wages and Benefits into the Economy

Airlines* Spending **\$3.35 Billion per Month** on the Workforce – Up ~\$800M from 2010

Total Employee Wages and Benefits* per Month
(in \$ Billions)



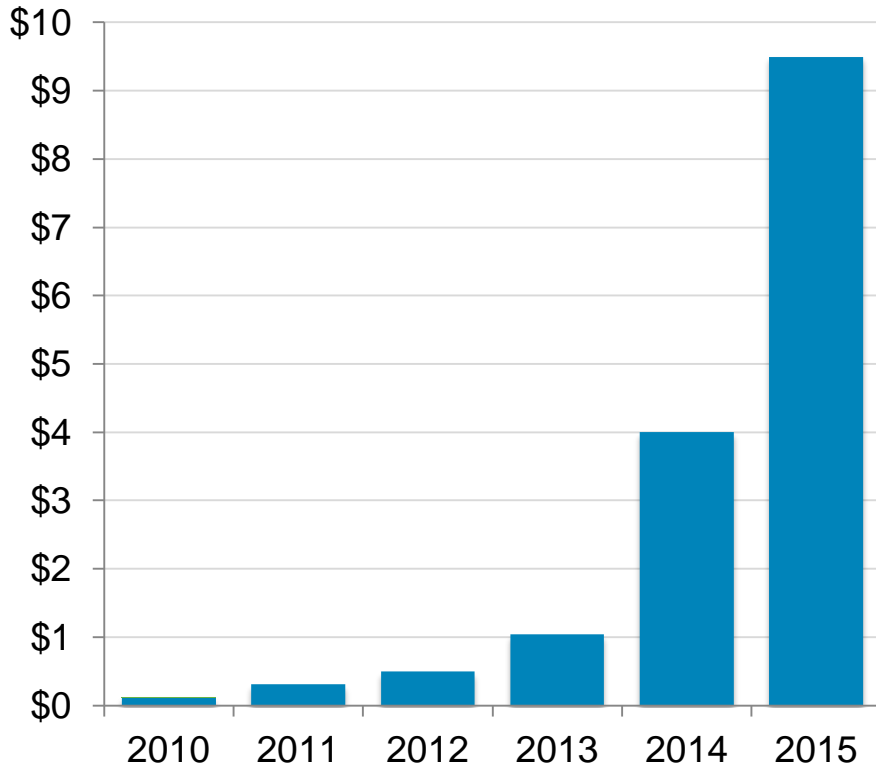
* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America



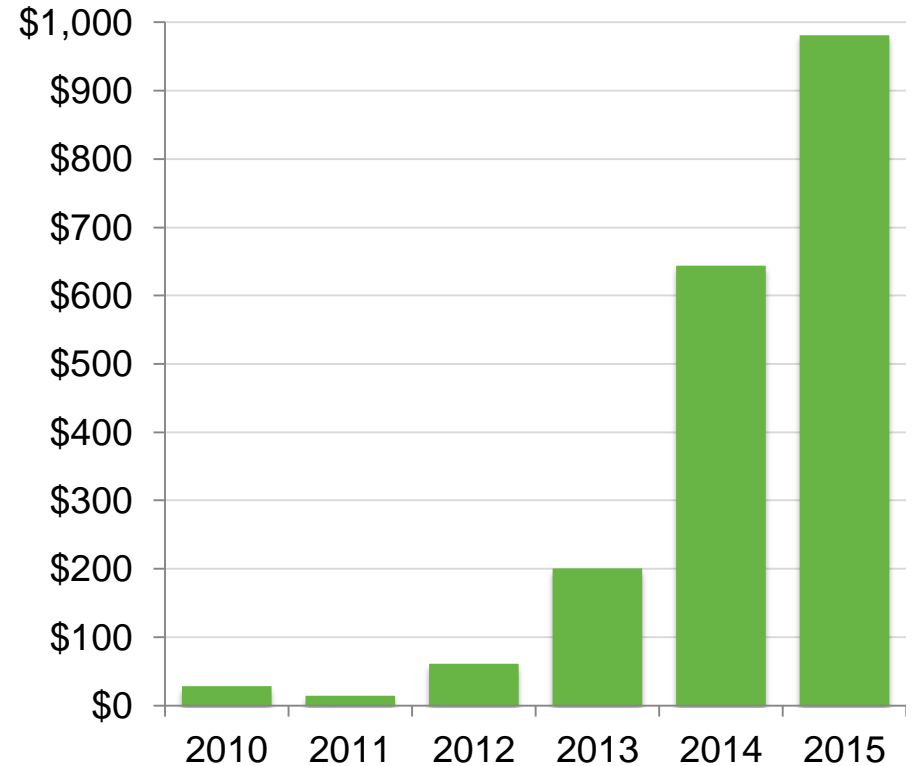
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In 2015 U.S. Airlines Redoubled Their Efforts to Retain and Lure New Equity Investors, Returning \$10.5B to Shareholders Via Stock Buybacks (\$9.5B) and Dividends (\$981M)

Stock Repurchases (Billions)



Dividends (Millions)



Source: SEC filings of Alaska/Allegiant/American/Delta/Hawaiian/JetBlue/Southwest/Spirit/United/Virgin America



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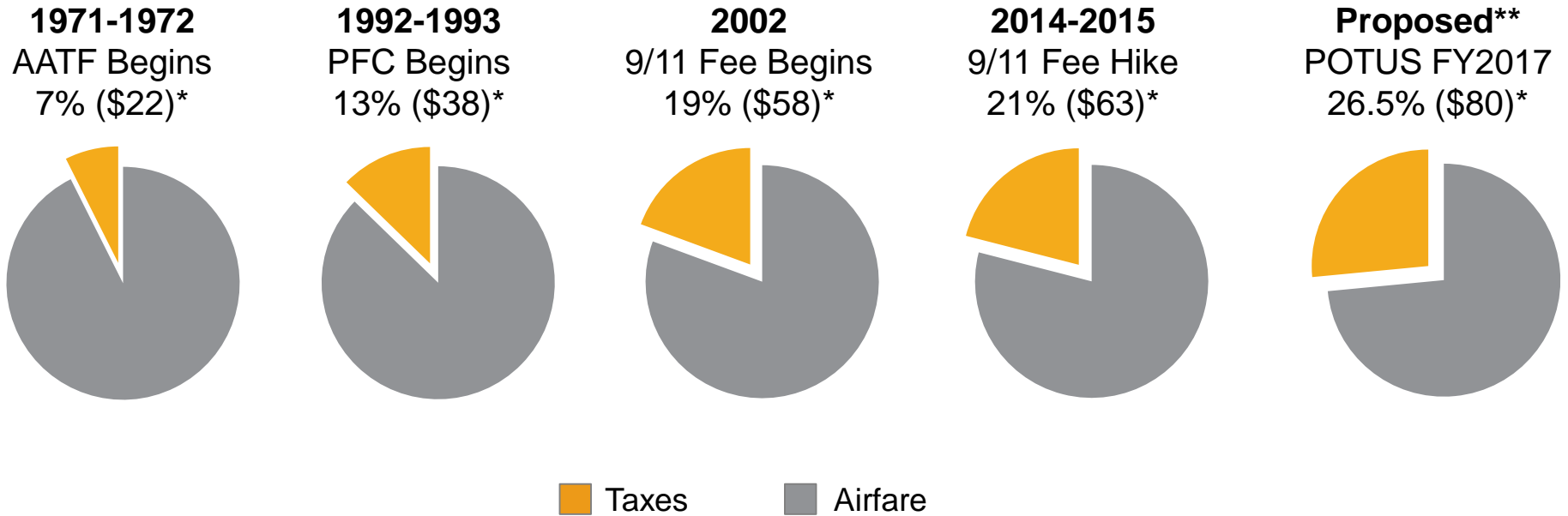
2015 Operational and Financial Recap: U.S. Passenger Airlines

- » 2015 constituted the 6th consecutive year of consummate airline safety performance
- » Like all responsible businesses, U.S. airlines serve multiple stakeholders; accordingly, they are reinvesting cash flows to benefit customers, employees and investors
 - More reliable operations, lower airfares, more seats in the marketplace, a steady stream of new and larger aircraft, expansion of inflight Wi-Fi and entertainment options – all translated in to an improving experience for airline customers, who traveled in record numbers (>790M)
 - Despite flattish operating revenues, employees and investors, too, are benefiting as falling operating expenses steadily improve the industry's financial wherewithal
- » Nearly seven years post-recession, U.S. airlines are finally achieving profitability in line with the overall U.S. corporate (i.e., S&P 500) average and, in turn:
 - retiring expensive debt, reducing leverage and increasing creditworthiness
 - acquiring new aircraft and ground equipment and enhancing IT systems
 - boosting employee staffing as well as wages and benefits
 - launching new routes and enhancing airport and inflight amenities
 - offering domestic flyers the highest number of seats since the Great Recession
 - returning cash to shareholders through stock buybacks and dividends



The Administration Is Pushing to Increase the Government's Share of Each Ticket

Growing Take of \$300* Itinerary Leaves Less Revenue for Carriers to Reinvest



AATF = Airport and Airway Trust Fund

* Sample itinerary is a \$300 domestic round trip with one stop each way and maximum passenger facility charge (PFC) per airport; total ticket price includes taxes

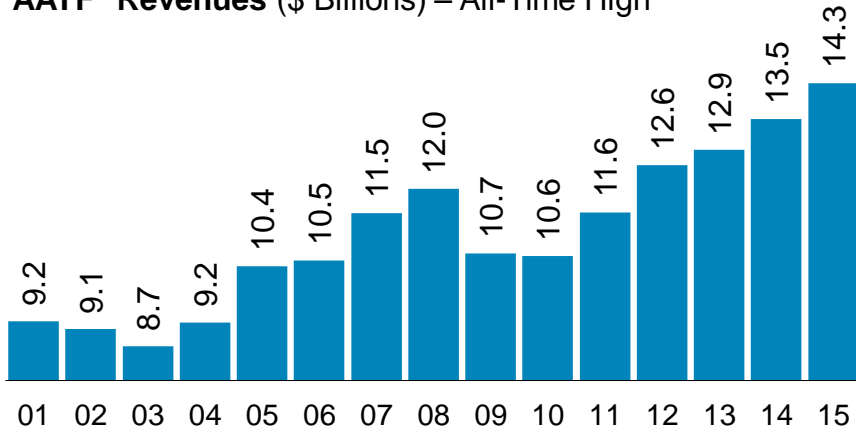
** Based on proposed increases in President's FY2017 budget



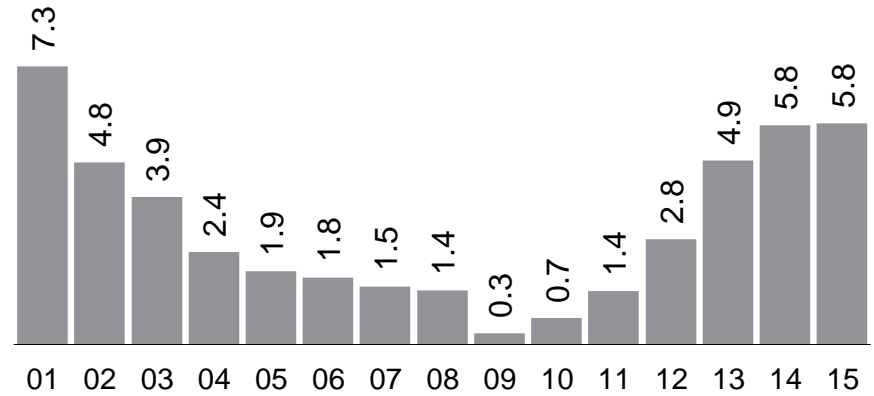
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U.S. Airports Have Ample/Multiple Resources from Which to Fund Improvements

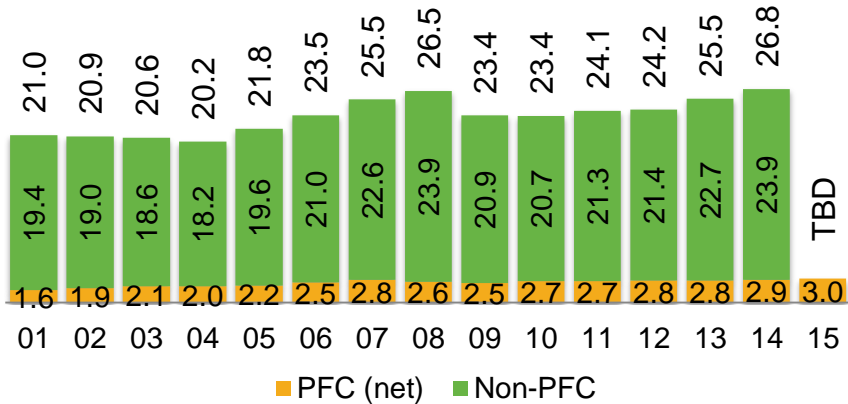
AATF* Revenues (\$ Billions) – All-Time High



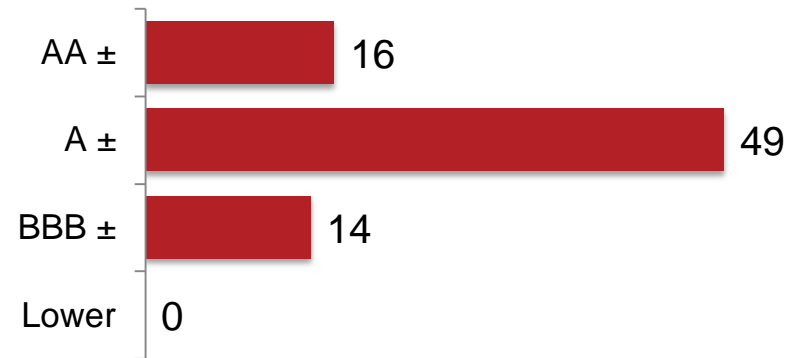
AATF* Unobligated Balance (\$ Billions) – Nearly \$6B



U.S. Airport Revenues (\$ Billions) – All-Time High



U.S. Airport Credit Ratings (per S&P) – Investment Grade



Source: A4A, FAA, Standard & Poor's; PFC collections exclude any compensation received for collecting/handling/remitting

* Airport and Airway Trust Fund



www.airlines.org



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