



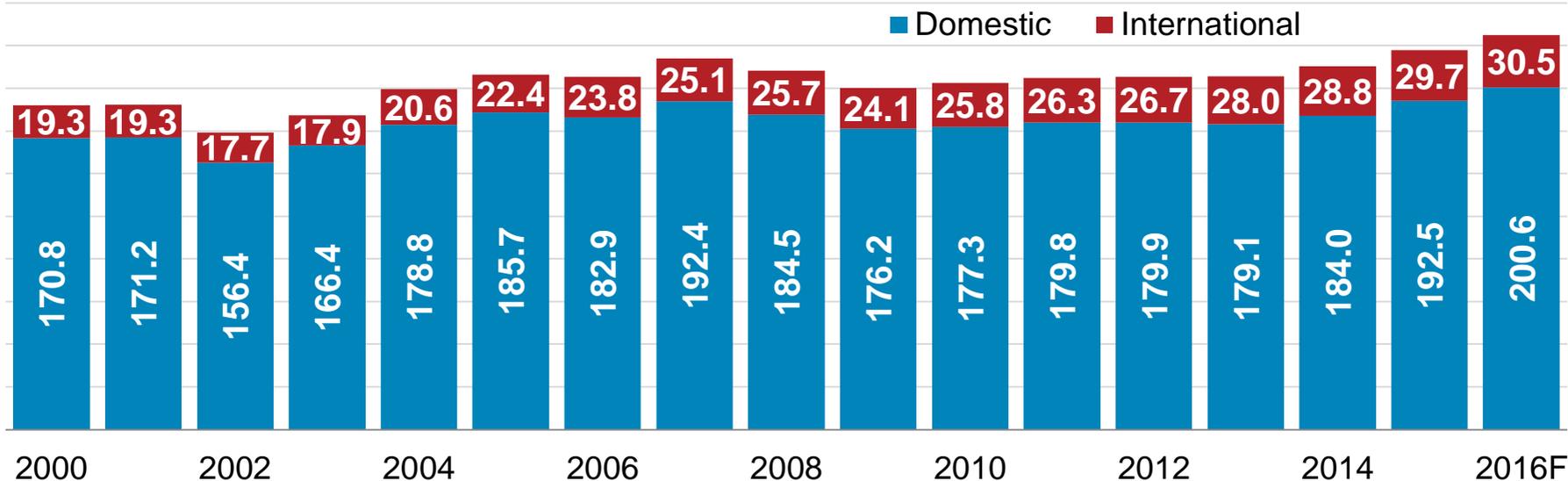
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A4A Summer 2016 Air Travel Forecast and Operational and Financial Review of 1Q16

John P. Heimlich, Vice President & Chief Economist
A4A Media Briefing
May 18, 2016

A4A Projects U.S. Airlines to Carry Record 231M Passengers in Summer* 2016: +4% Growth in Available Seats Will Exceed Growth in Passenger Volume

U.S. Airline Onboard Summer* Passengers (Millions)



- Average of 2.51M passengers/day (up 95.5K or 4%)
 - 2.18M/day traveling domestically (up 87.4K or 4.2%)
 - 331K/day traveling internationally (up 8.2K or 2.5%)
- Airlines offering 2.78M seats/day (up 109.4K or 4%)

- In 2015, summer* contained 19 of 25 busiest travel days for U.S. airports
 - Top 5 were July 31 (Fri), July 2 (Thurs), June 26 (Fri), May 22 (Fri) and July 24 (Fri)

Source: A4A, Innovata (via Diio Mi) and BTS T100 segment data, scheduled service on U.S. carriers only

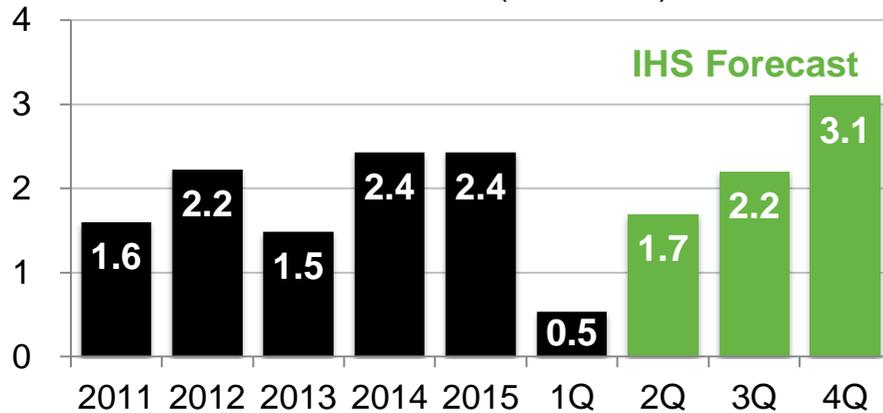
* For this purpose, defined as June 1 through August 31



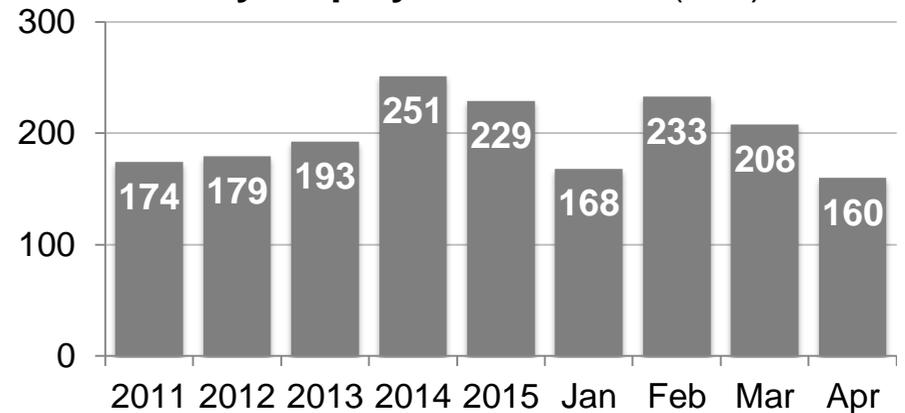
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Key U.S. Air-Travel Demand Drivers Still Showing Overall Growth

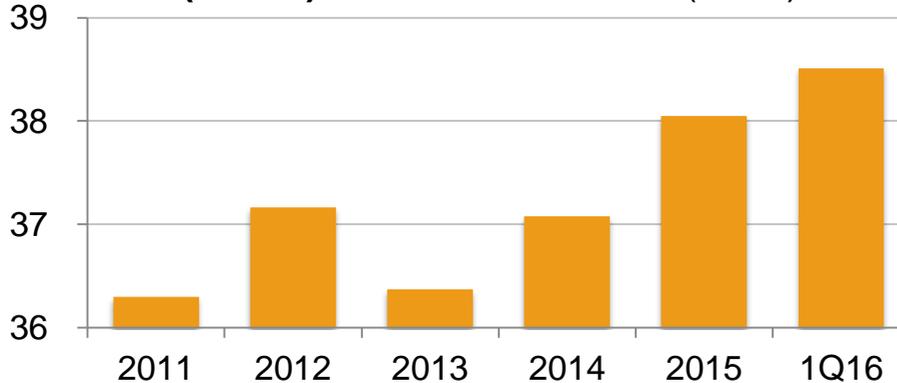
Real GDP Growth Rate (% CAGR)



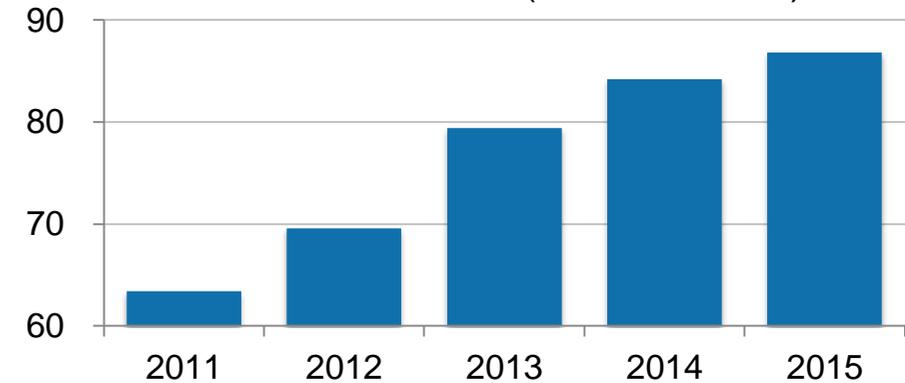
Monthly Employment Growth (000)



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



Household Net Worth (\$ Trillion, NSA)



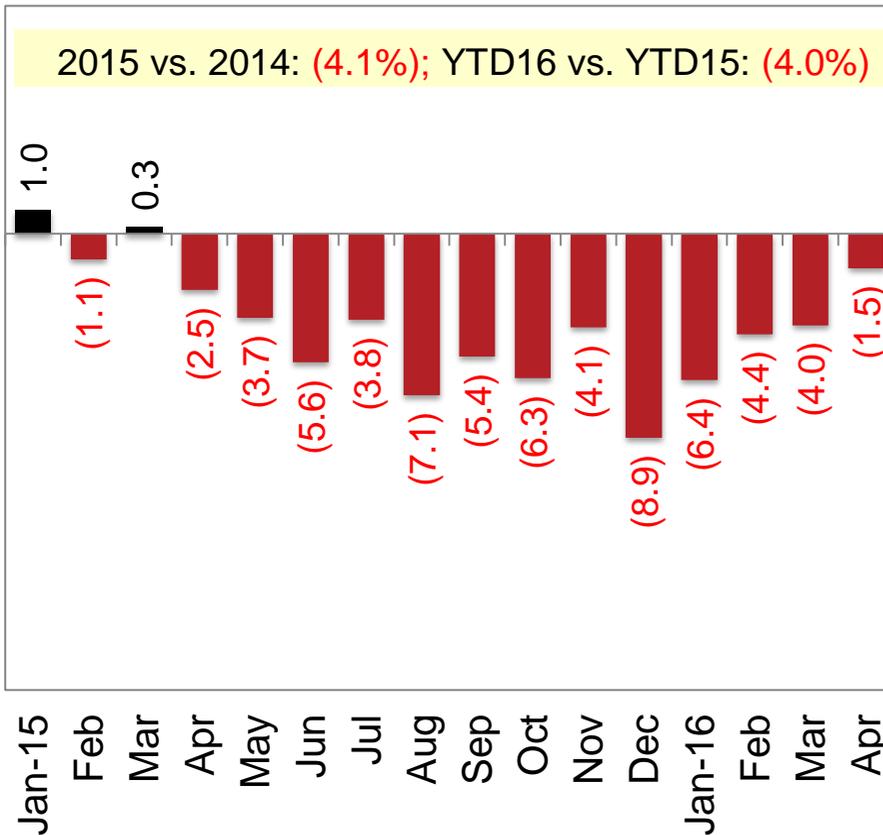
Sources: BEA, BLS, Federal Reserve and IHS Economics; U.S. GDP real annual average growth rate (%), U.S. nonfarm payroll employment growth (month-over-month, in 000s, seasonally adjusted), U.S. disposable personal income per capita (chained 2009 dollars, SAAR); U.S. household net worth in current dollars,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



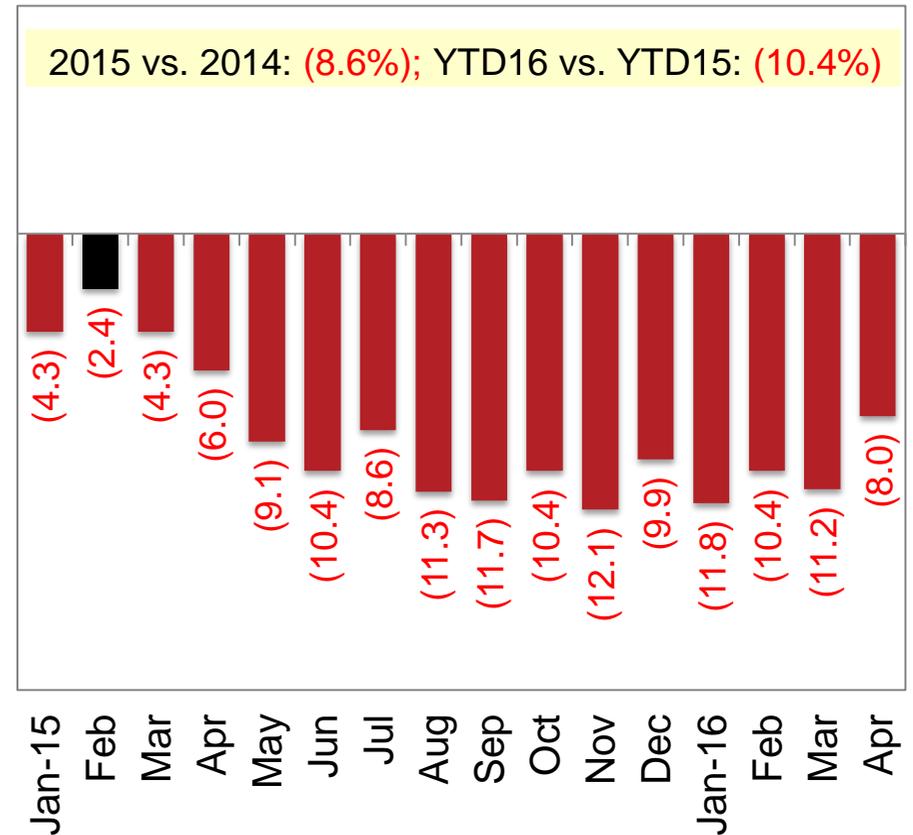
Amid Competitive Pressures, U.S. Carrier Air Fares* Continue to Fall in 2016

Systemwide, Fares* Down 5.2% in 2015 and 5.4% Thus Far in 2016

% 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

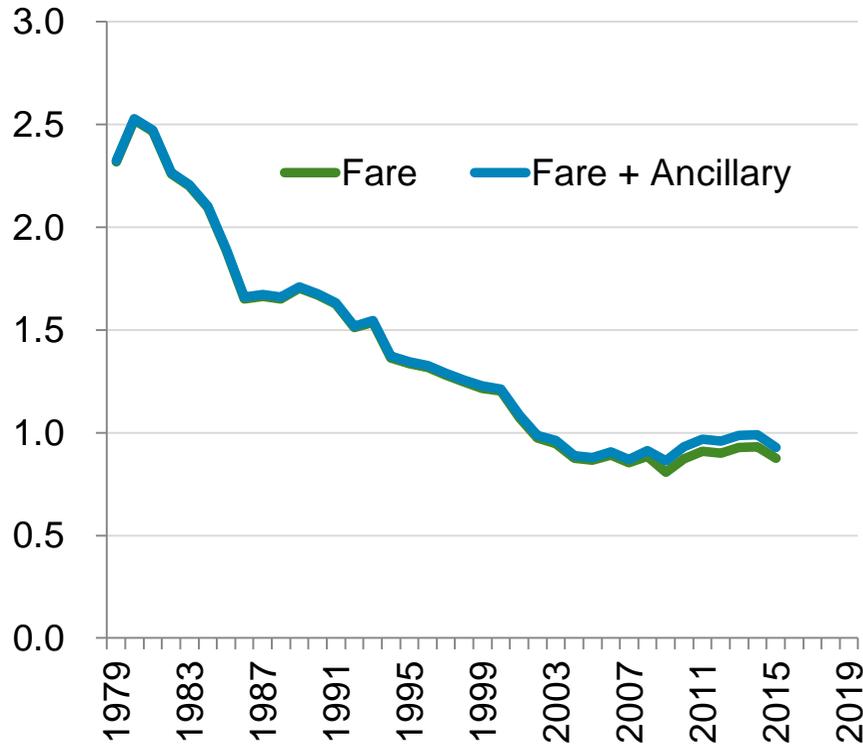
* Fare per mile (cents per RPM)



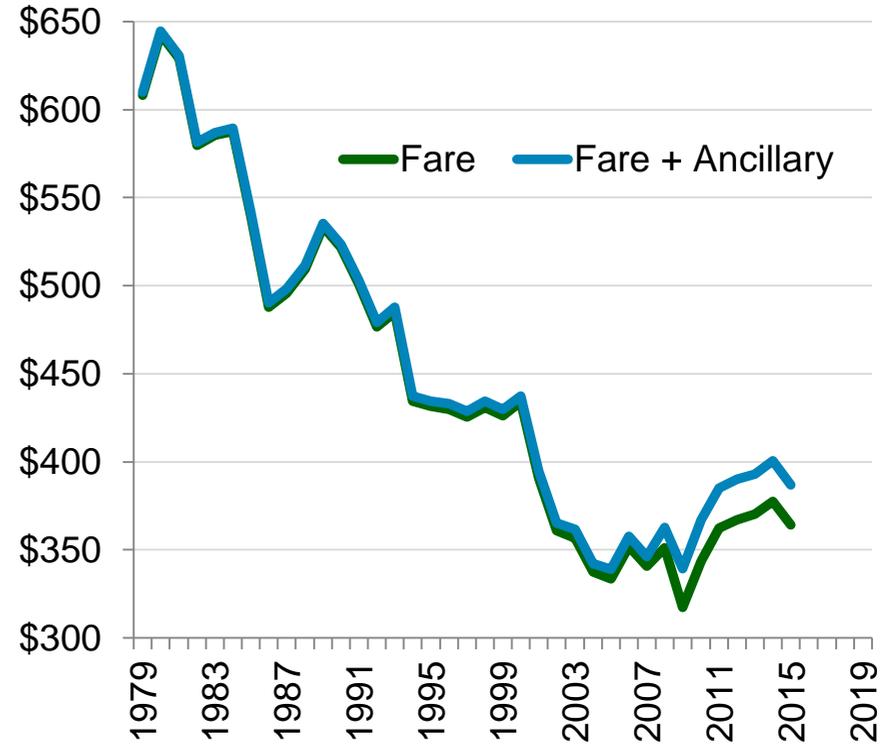
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With Personal Incomes Outpacing the Price of Air Travel, Americans Can Purchase ~2.5 Times the Amount of Air Travel They Could at the Outset of Deregulation
 Adjusted for Inflation, Domestic Air Travel Remains 40+ Percent Below 1980 Levels

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



Domestic R/T Airfare Adjusted for Inflation (in CY2015 Dollars)

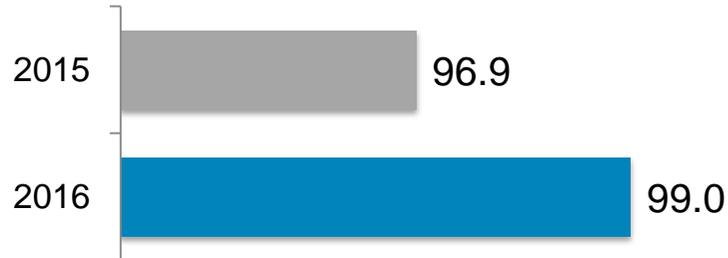


Source: A4A analysis of data from BEA, BLS and BTS Data Bank 1B (10% sample of tickets for all cabins and fare basis codes); 2015 awaiting final ancillary fee data

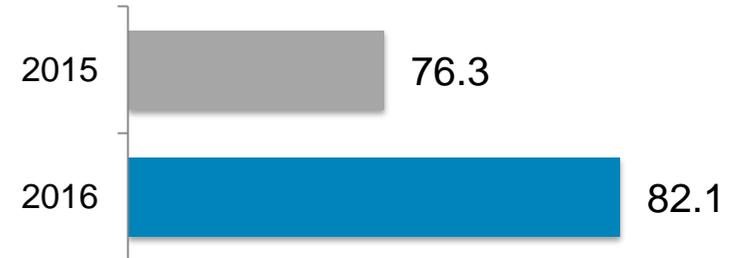
U.S. Airlines Saw Improvements in DOT Core-Four Operational Metrics in 1Q 2016

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

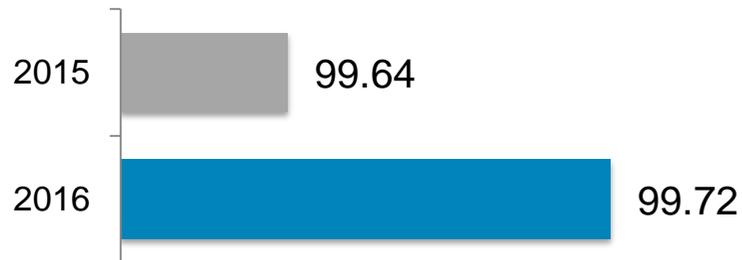
Flight Completion Factor (%)



On-Time Arrival Rate (%)



Properly Handled Bag Rate (%)



Oversales per 10,000 Customers



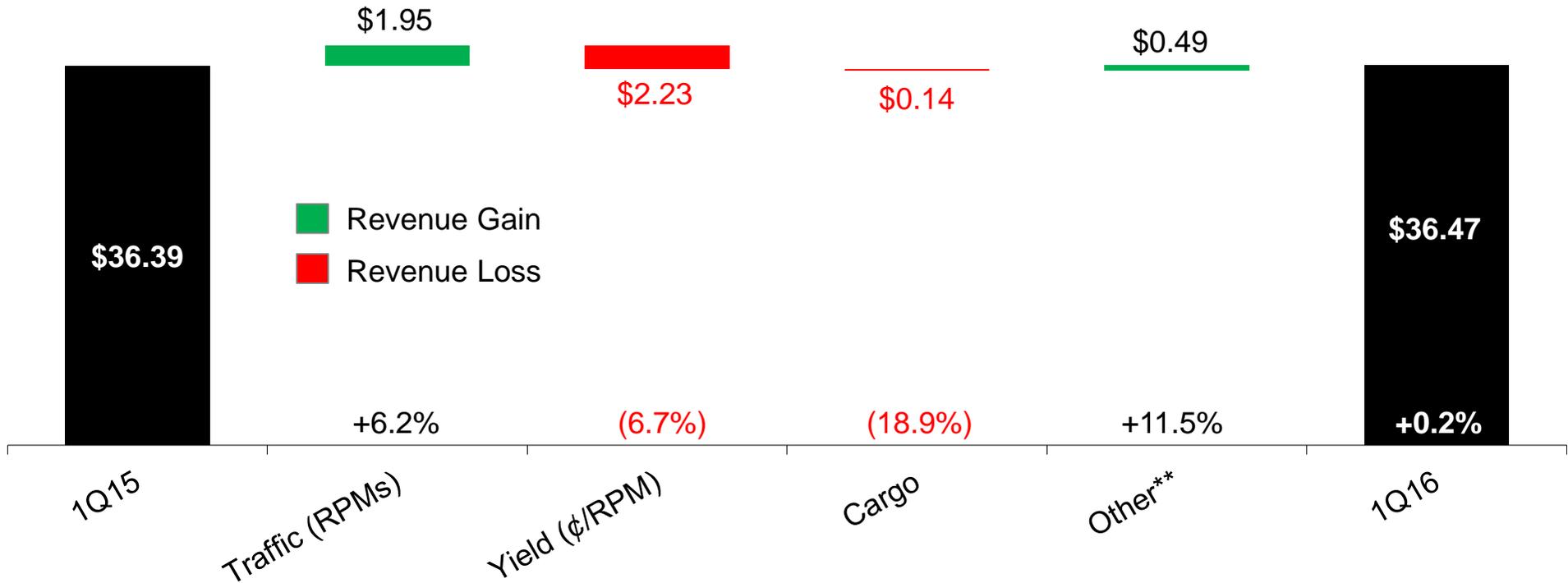
Sources: BTS and DOT *Air Travel Consumer Report* (<http://www.dot.gov/airconsumer/air-travel-consumer-reports>)



1Q16 Airline Operating Revenues* Were Flat As Lower Fares Offset Traffic Gains

Passenger Revenue Fell 0.9% on 6.2% Higher Traffic and 6.7% Lower Fares (Yield)

Operating Revenues* (\$ Billions)



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

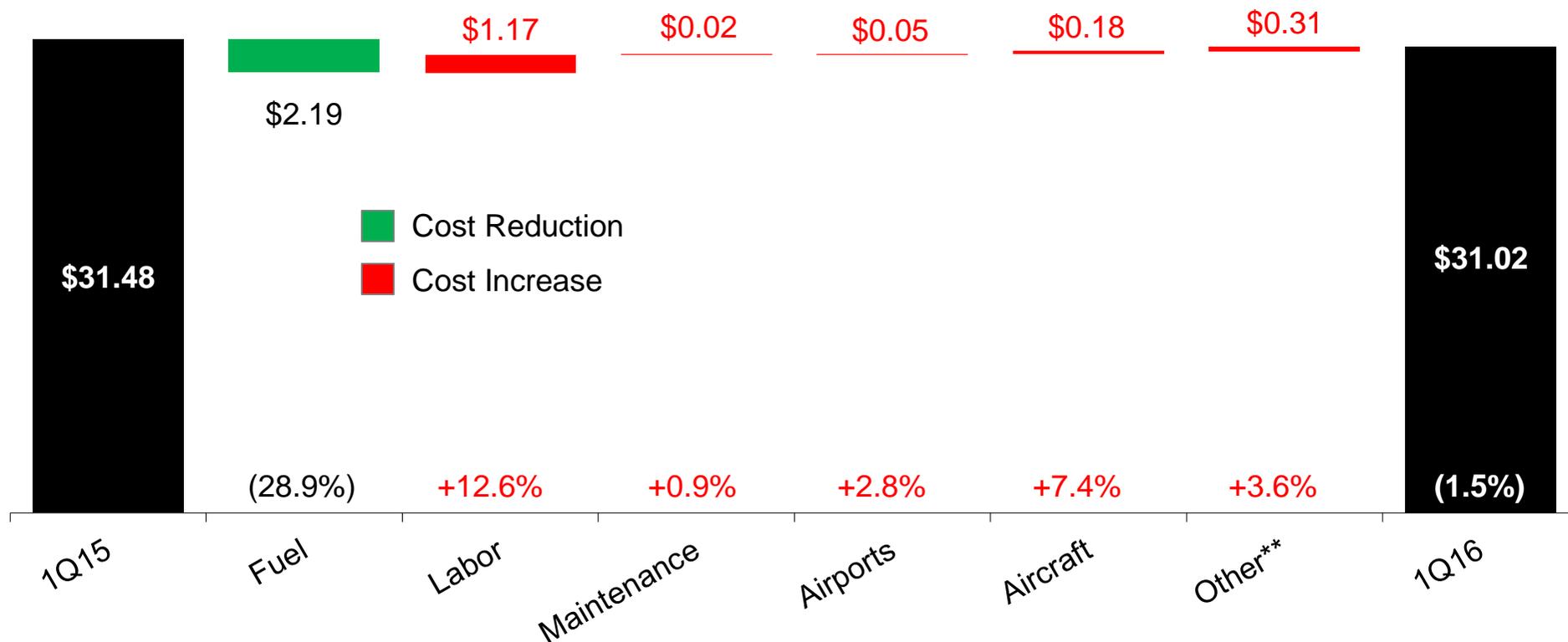
** Sale of frequent flyer award miles to airline business partners, pet transportation, in-sourced aircraft and engine repair, flight simulator rentals, inflight sales, etc.



1Q16 Airline Operating Expenses* Fell 1.5% As Lower Fuel Offset Higher Labor

Airlines Also Saw Increases in All Other Cost Categories (Maintenance/Airport/Aircraft)

Operating Expenses* (\$ Billions)



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

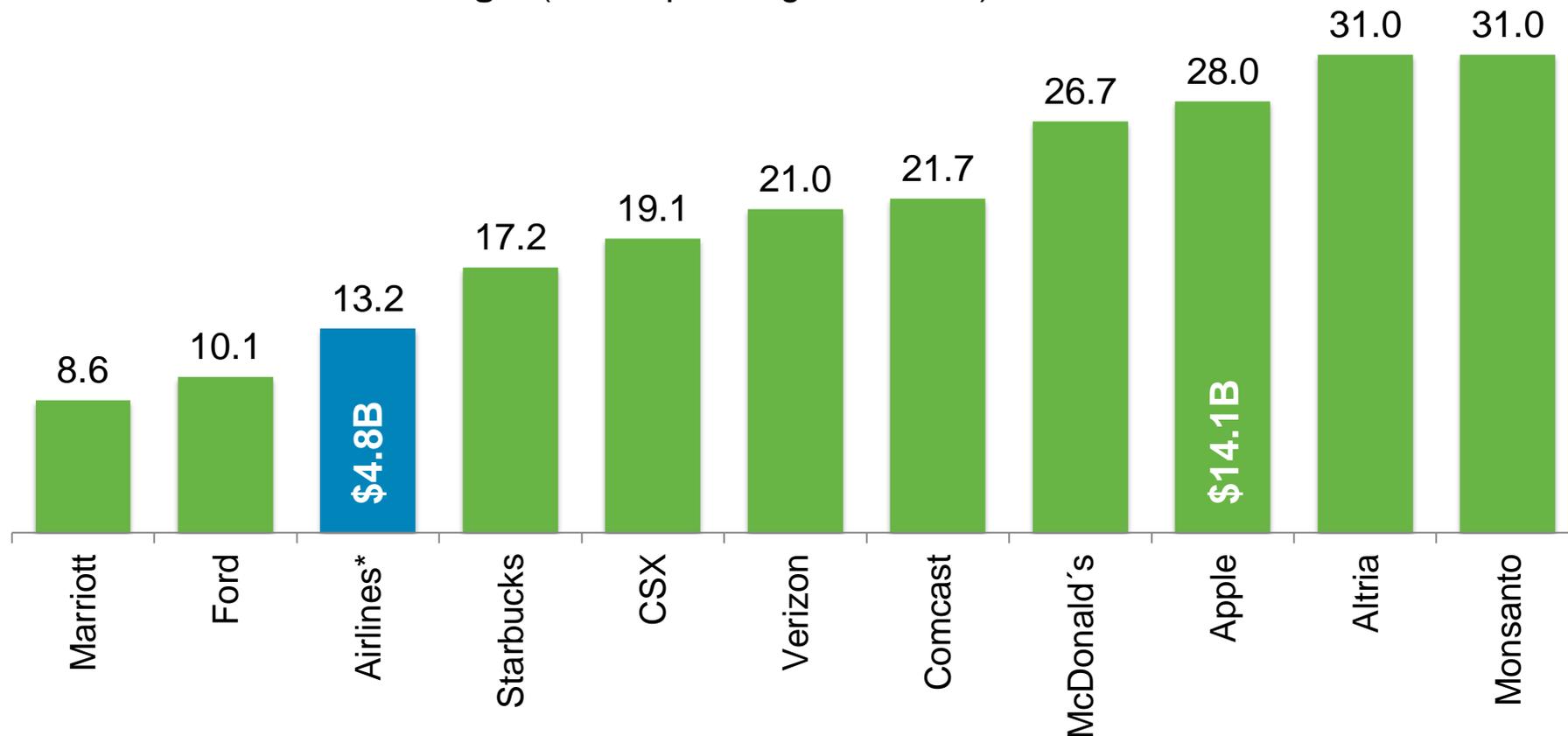
** Professional fees, food/beverage, insurance, commissions, GDS fees, communications, advertising, utilities, office supplies, crew hotels, nonfuel payments to regionals



In 1Q16, U.S. Airlines* Posted Respectable Margins, Averaging 13% Before Taxes

Airline* Profitability Was Just Under Half That of McDonald's, Apple, Altria and Monsanto

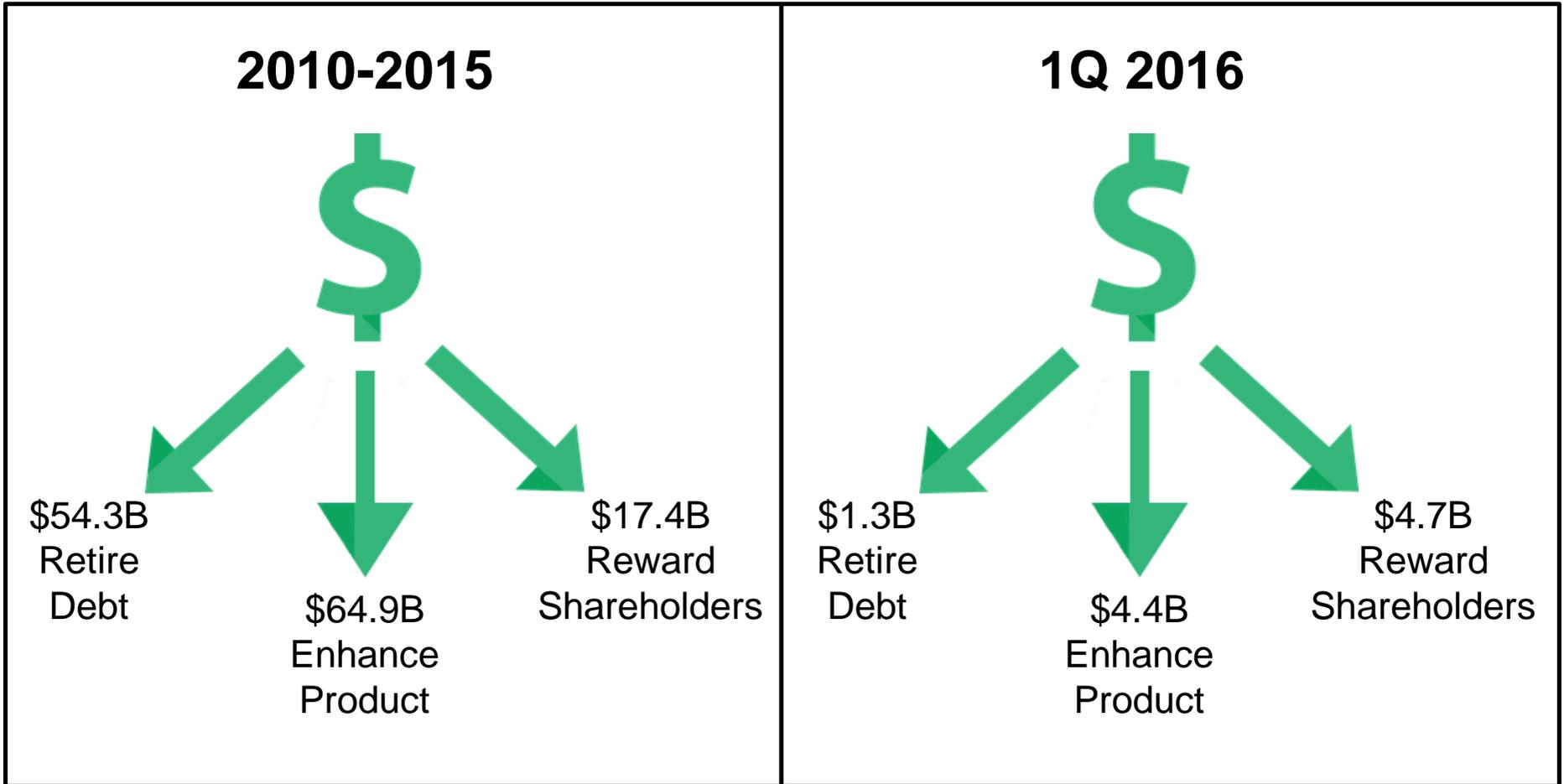
1Q 2016 Pre-Tax Profit Margin (% of Operating Revenues)



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



U.S. Airlines Are Putting More Than Half of Cash Flow* Right Back Into the Product
 Primary Uses of Operating Cash from 2010-1Q16 Included \$69B of Capital Reinvestment



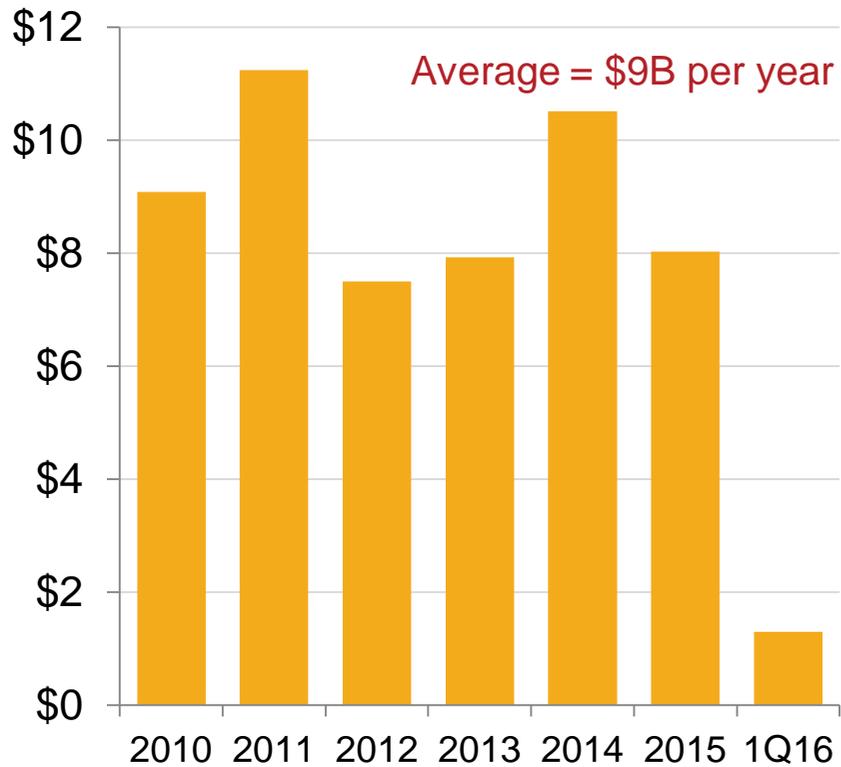
* SEC filings of Alaska/Allegiant/American/Delta/Hawaiian/JetBlue/Southwest/Spirit/United/Virgin America; denominator is net cash provided by operating activities



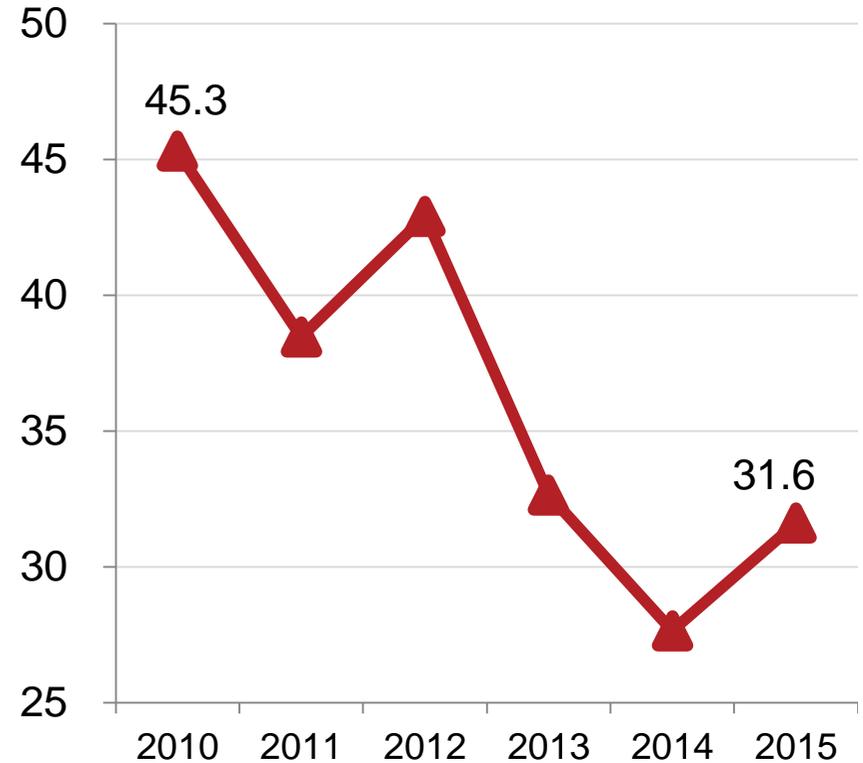
Following Enormous Losses of 2001-2009, U.S. Airlines Have Retired \$56B in Debt

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)

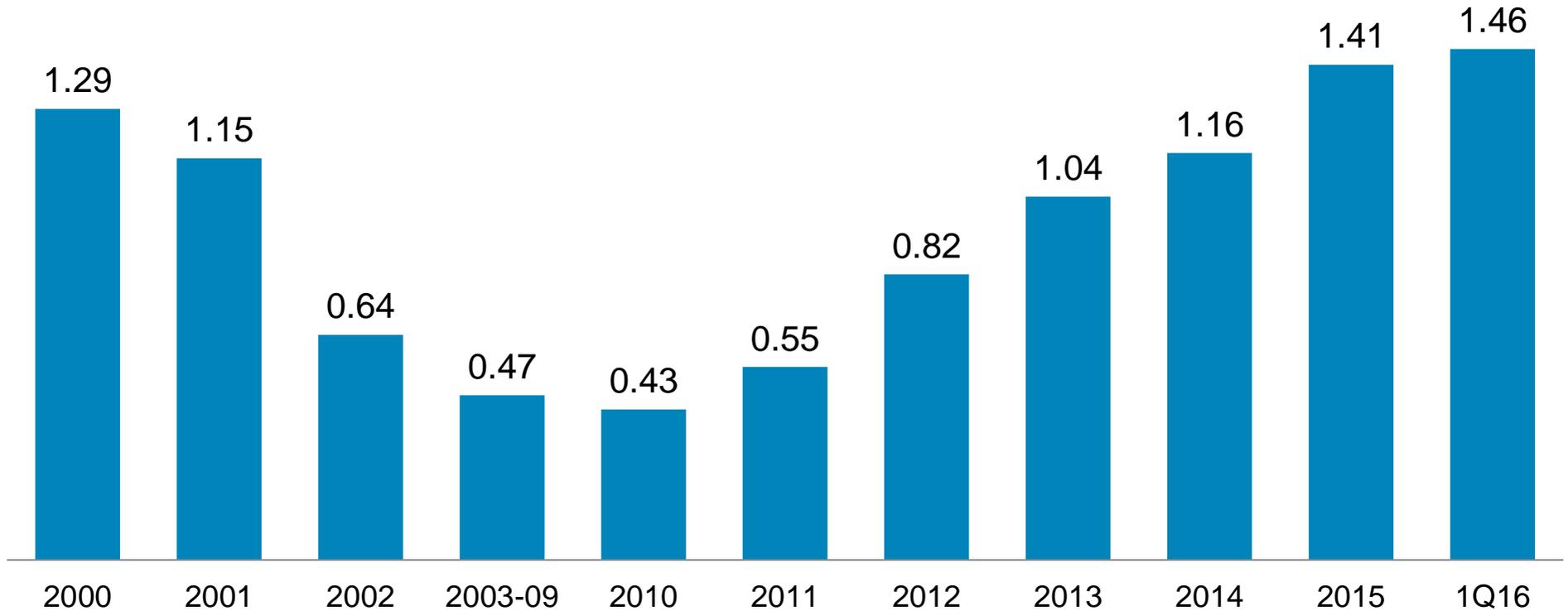


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Improving Finances Enabling Significant Reinvestment in Customer Experience

1Q 2016 Capital Outlays Approached \$1.5B per Month, Keeping Pace With 2015 Rate

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



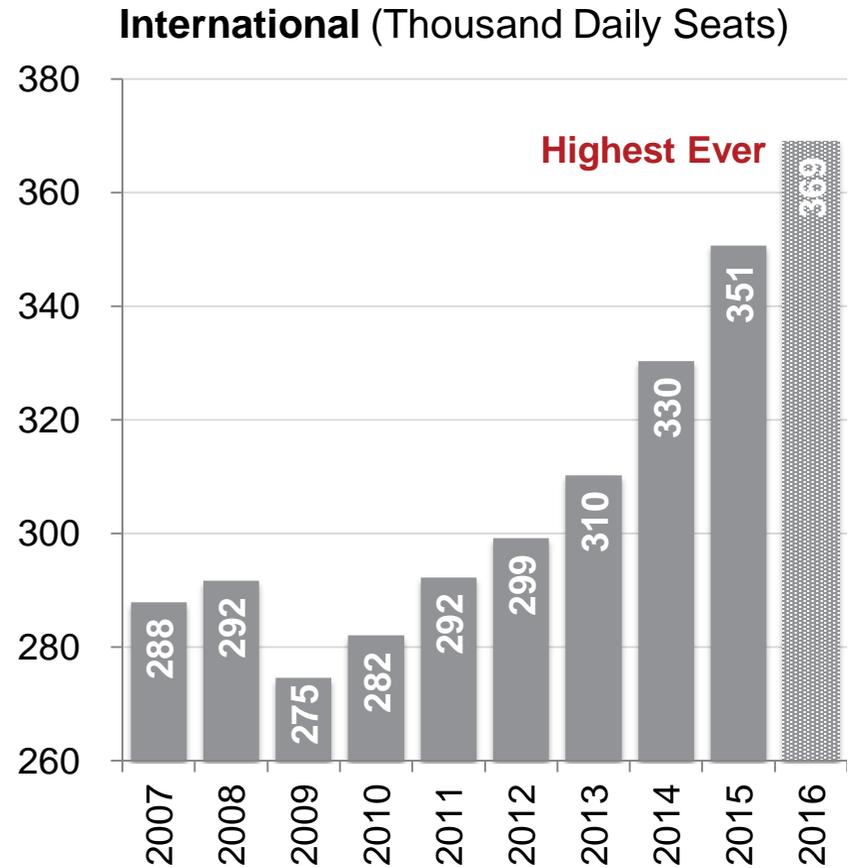
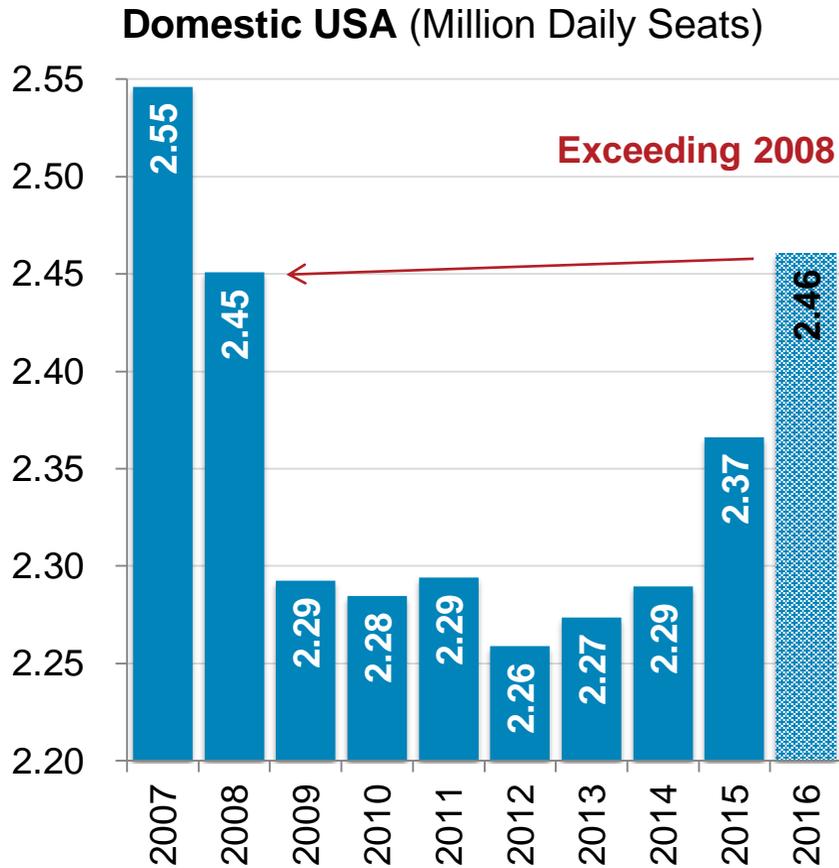
* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America



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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



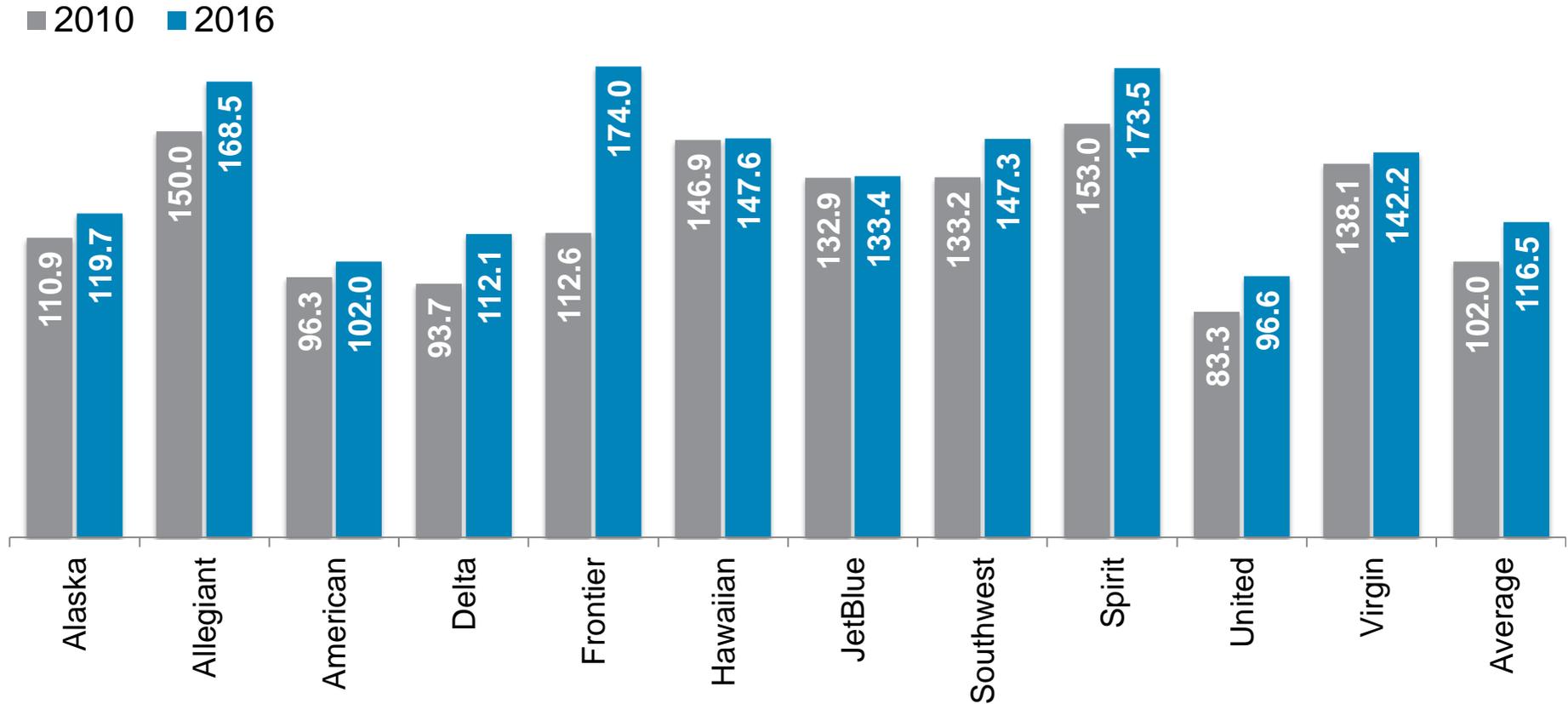
Source: Innovata (via Diio Mi) published schedules as of May 13, 2016, for all airlines providing scheduled passenger service from U.S. airports to all destinations



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 April 29, 2016



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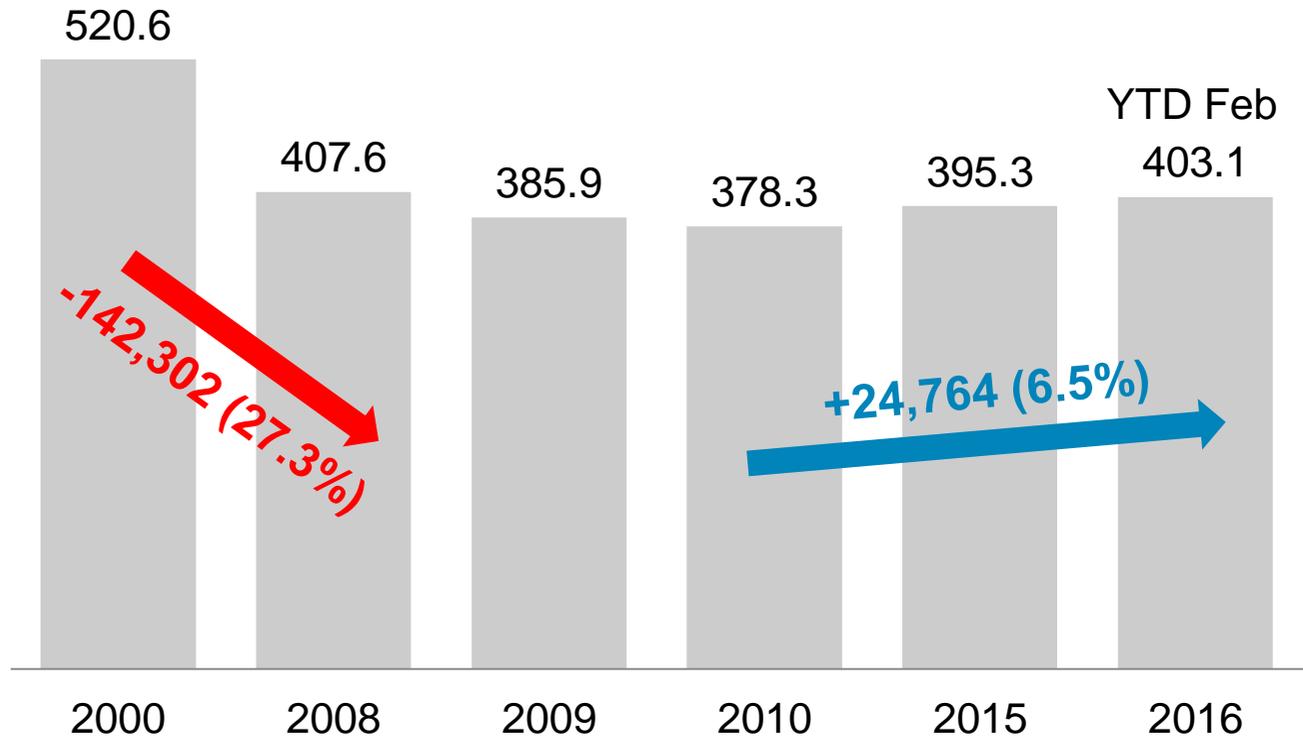
U.S. Airline Jobs on the Rise Again, Reaching Highest Level Since 2008

February 2016 Was **27th 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

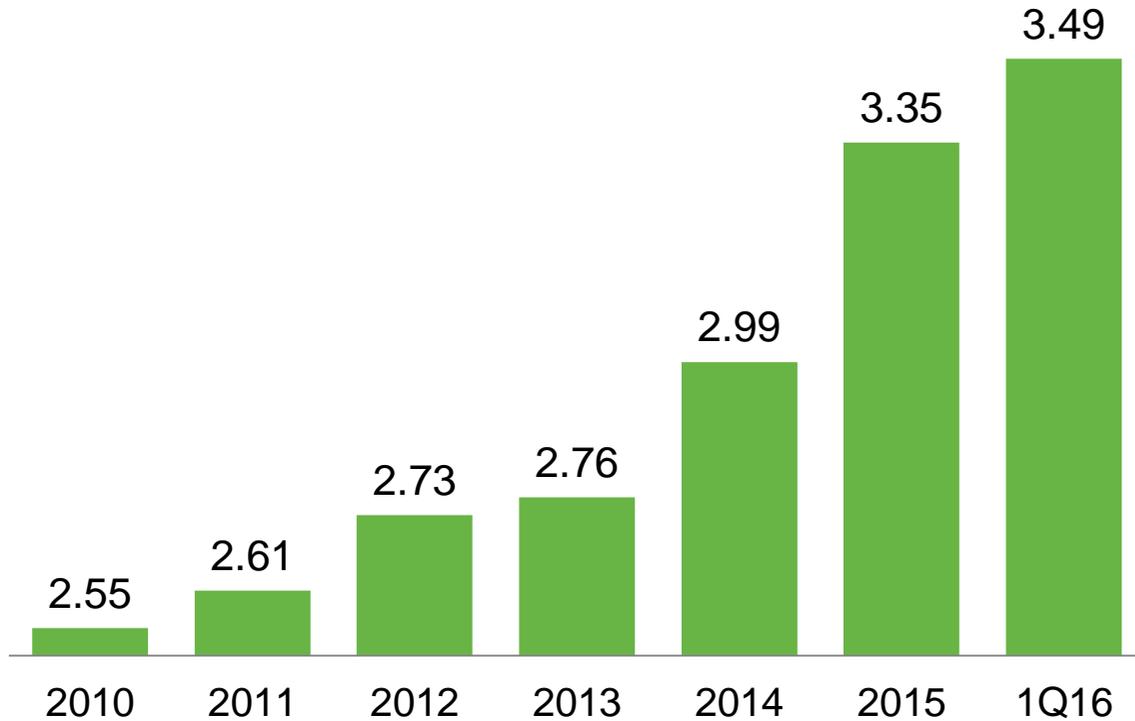


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U.S. Airlines* Continue to Pump More Wages and Benefits into the Economy

Airlines* Spending **\$3.5 Billion per Month** on the Workforce – Up \$942M from 2010

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

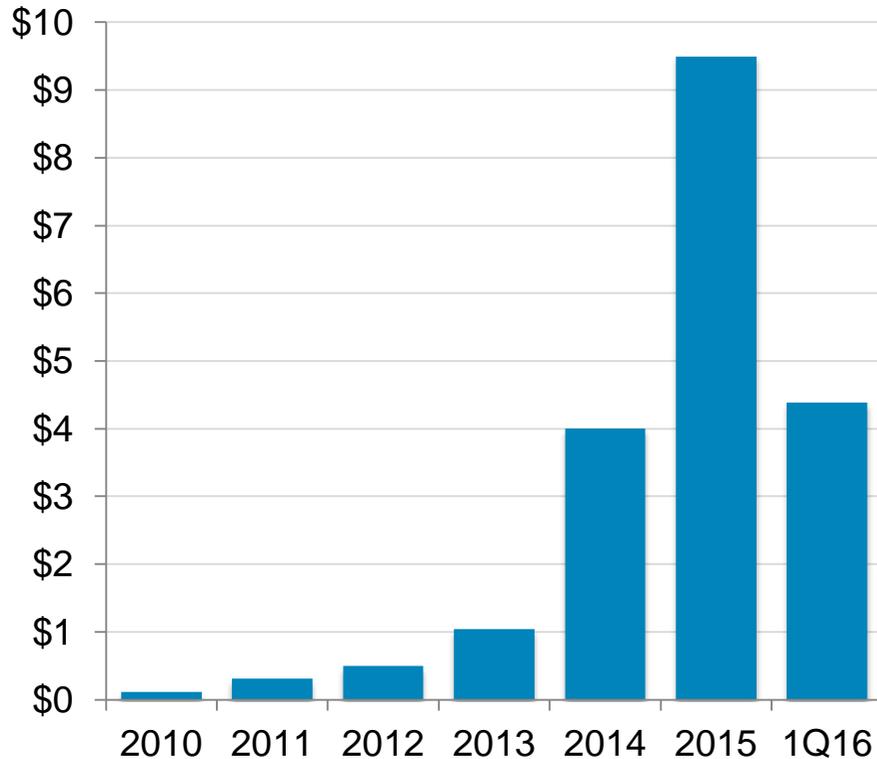


* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America

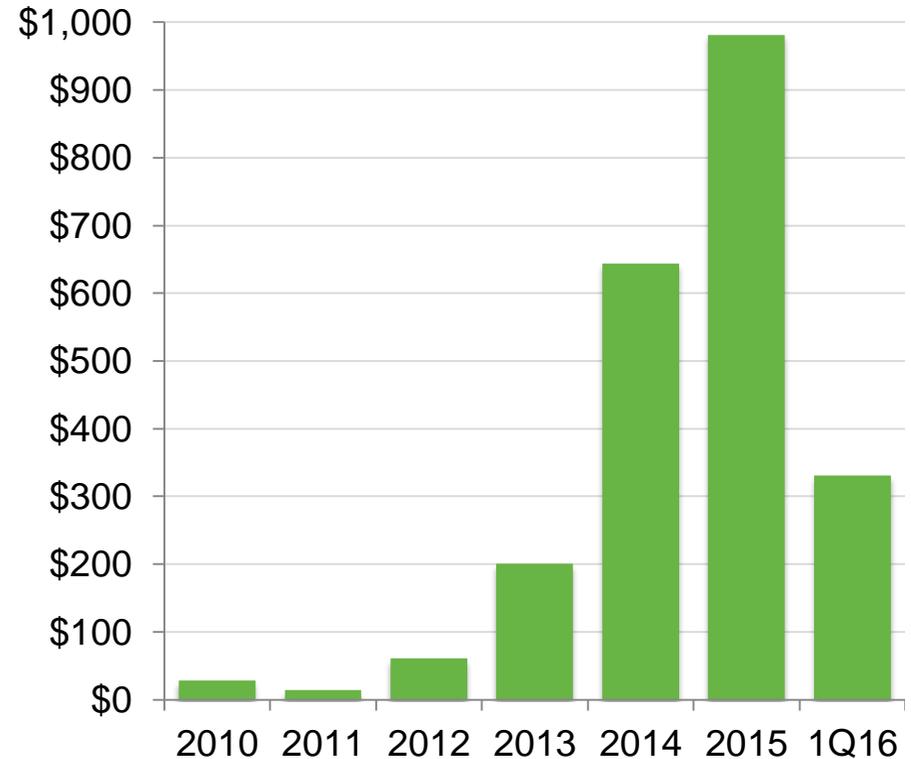


In 1Q 2016, U.S. Airlines Continued Efforts to Retain and Lure New Equity Investors, Returning \$4.7B to Shareholders Via Stock Buybacks (\$4.4B) and Dividends (\$331M)

Stock Repurchases (Billions)



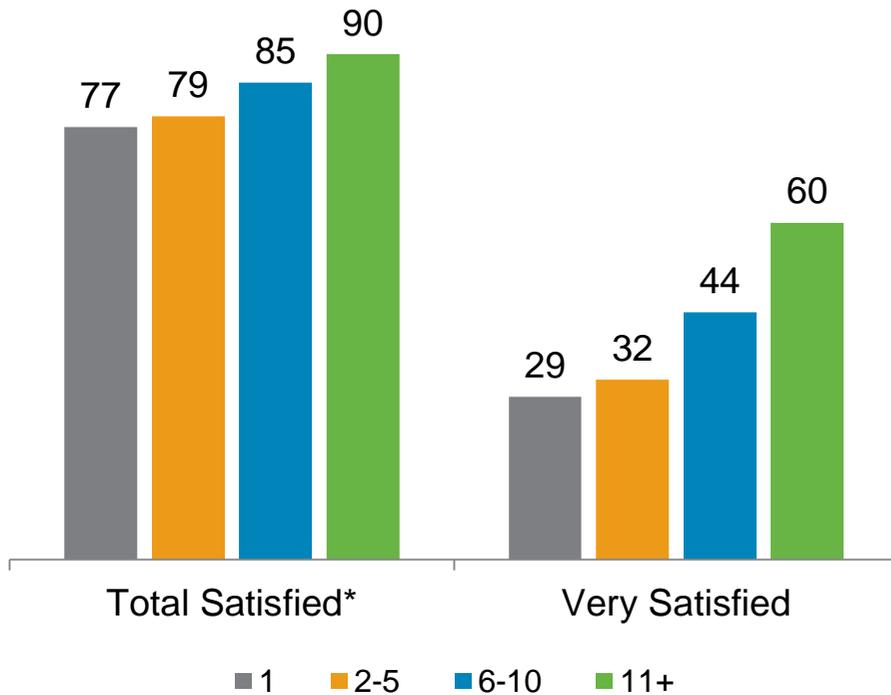
Dividends (Millions)



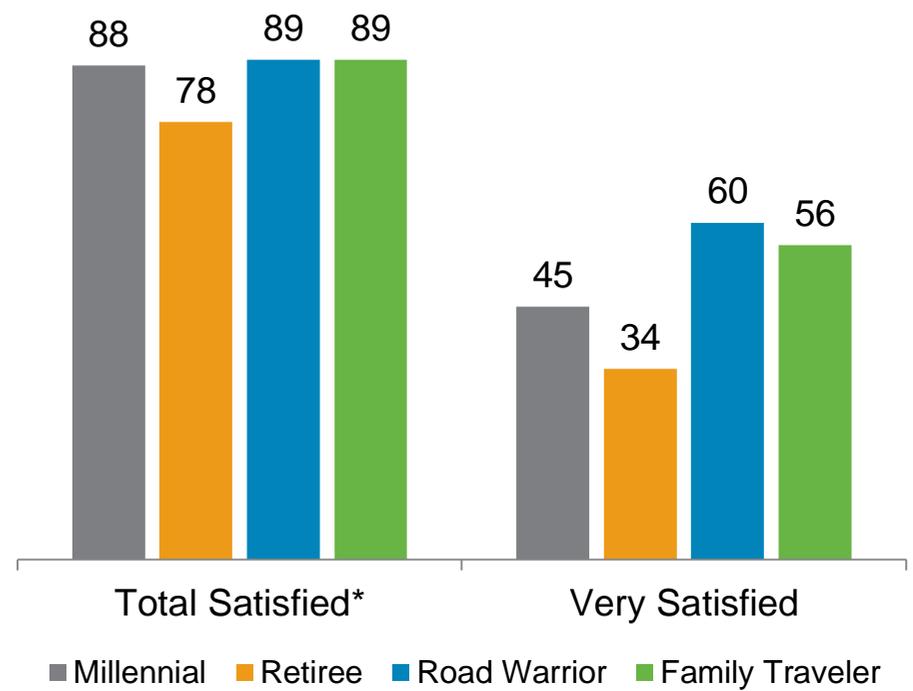
* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America

Survey Conducted by Ipsos Revealed That Flyer Satisfaction Rises With Travel Frequency/Experience; Road Warriors Most Satisfied, Followed by Family Travelers

Satisfaction % Among 2015 Flyers by Number of Airline Trips



Satisfaction % Among 2015 Flyers by Type of Flyer



Source: <http://ipsos-na.com/news-polls/pressrelease.aspx?id=7208>

* Somewhat or very satisfied



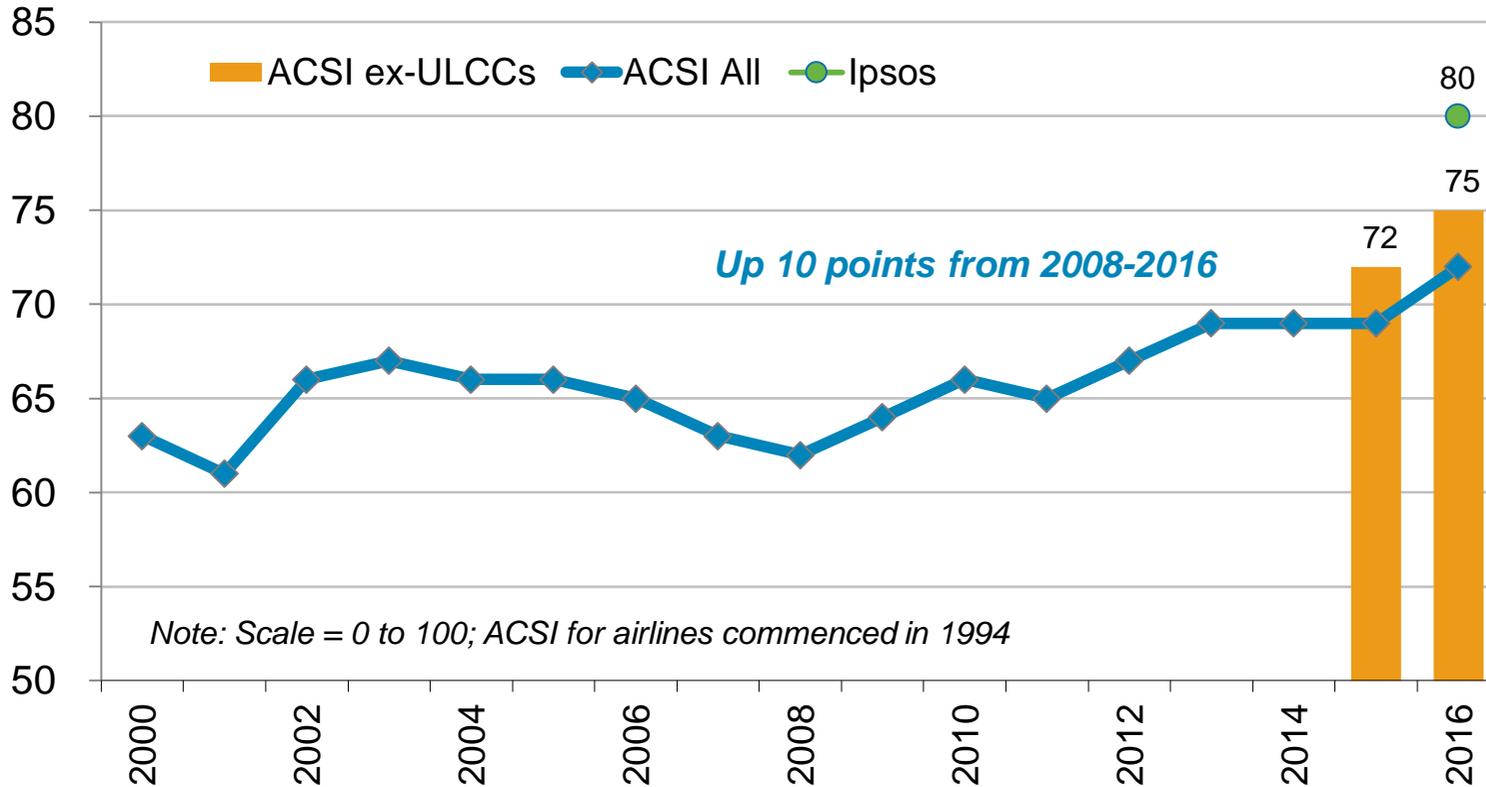
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2016 Airline Customer Satisfaction Tied All-Time High

“New planes, more options for in-flight entertainment, and the return of free snacks have resulted in higher passenger satisfaction.’ Ticket prices have fallen, and ACSI data show passengers are perceiving a better value for their money.”

-- “ACSI: Better In-Flight Experience Increases Passenger Satisfaction” (April 26, 2016)



Airline	2015	2016
JetBlue	81	80
Southwest	78	80
Alaska	75	77
American	66	72
Delta	71	71
United	60	68
Frontier	58	66
Allegiant	65	65
Spirit	54	62

Note: ACSI and its logo are Registered Marks of the University of Michigan; see <http://www.theacsi.org/the-american-customer-satisfaction-index>



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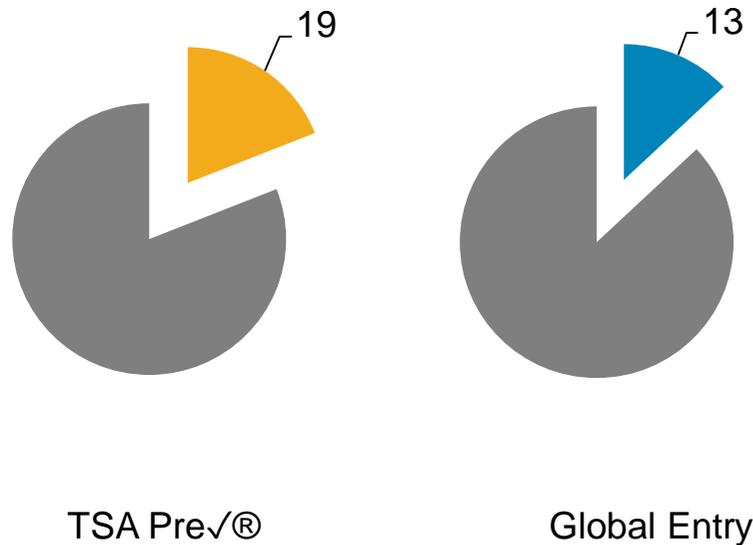
First Quarter 2016 Operational and Financial Recap: U.S. Passenger Airlines

- » 1Q 2016 saw continuation of consummate airline safety performance, as well as significant year-over-year improvements in operational reliability
 - » Declining fares offset traffic gains to keep operating revenues flat, but lower fuel costs more than offset increases in labor, airport, aircraft and other expenses to drive an improvement in profitability, with airlines realizing a pre-tax margin of 13.2 percent
 - The combined profitability of these 10 airlines exceeded that of Marriott and Ford, but trailed Starbucks, Verizon, McDonald's, Apple, Monsanto and other large U.S. brands
 - » Among other uses beneficial to stakeholders, cash flow generated during this period allowed U.S. airlines to retire expensive debt; acquire new, larger aircraft; deploy more seats in the marketplace; boost staffing and wages; and reward investors
 - » Rising air traveler satisfaction – combined with a still-growing economy, improving operations and the lowest fares in at least six years, are fueling record passenger volumes, including 4 percent projected growth for summer 2016
 - » Market research affirms that participation in expedited screening programs markedly improves the air travel experience, which will be critical as we enter the summer period
-

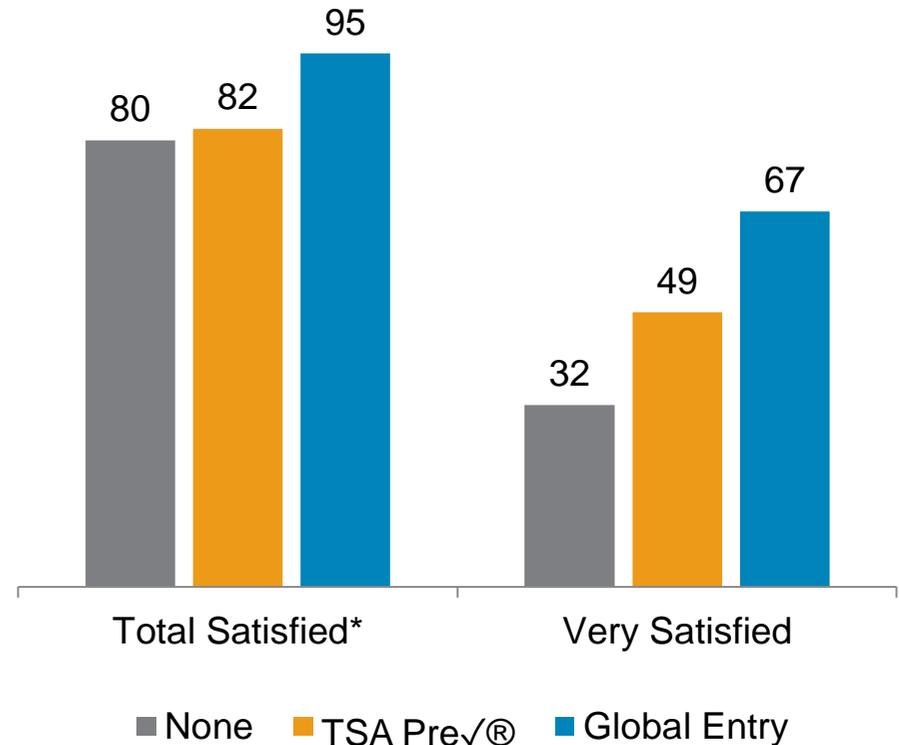


A Comprehensive Survey Conducted by Ipsos Affirms That Satisfaction Rises Markedly With Traveler Experience and With Enrollment in Expedited Screening

% of 2015 Flyers Enrolled in Expedited Screening Program(s)



Satisfaction % Among 2015 Flyers by Enrollment in Expedited Screening Program



Source: <http://ipsos-na.com/news-polls/pressrelease.aspx?id=7208>



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