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SEABURY

DELIVERING DIVERSIFIED & RESPONSIVE BUSINESS SOLUTIONS TO OUR CLIENTS WORLDWIDE

February 25, 2016



A Wall Street View: Is Profit Here to Stay?

Panel Participants

Moderator:

John Luth, CEO, Seabury

Panelists:

Jamie Baker, Managing Director, JP Morgan

Hunter Keay, Managing Director, Wolfe Research

Brian Pearce, Chief Economist, IATA

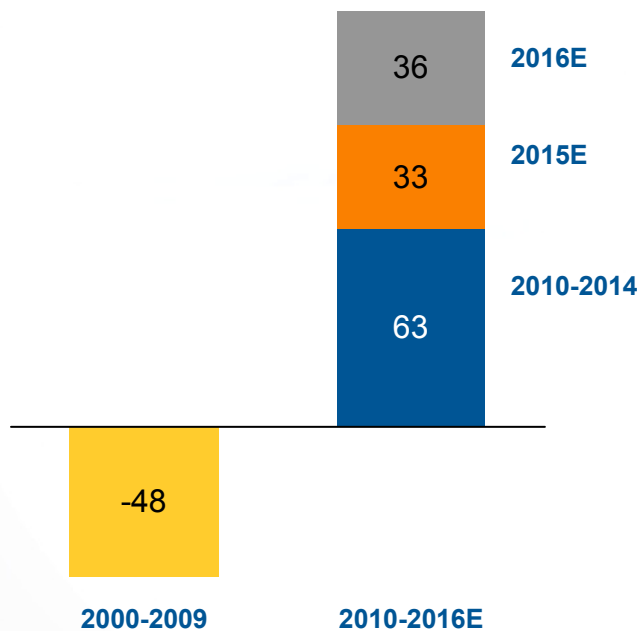
Howard Rubel, Managing Director, Jefferies

Over 75% Profits Earned by North American, APAC Carriers

Profit performance is subpar in Europe, Middle East and Latin America, but outlook for Asia/Pacific is troubling

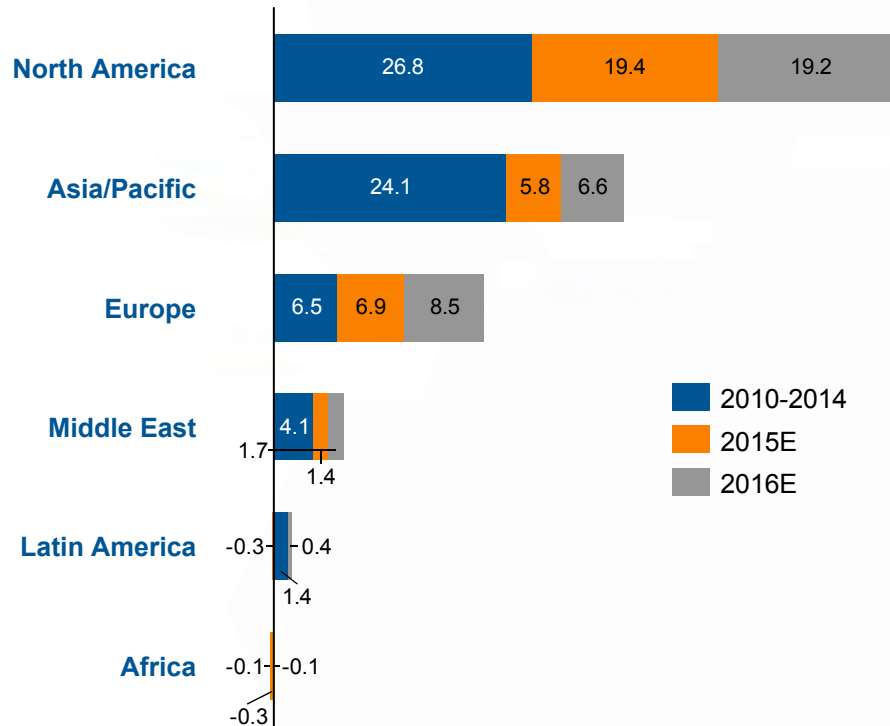
Global Industry Profitability

Aggregate net income, US\$ Billions



2010-2016E Aggregate Net Income

US\$ Billions

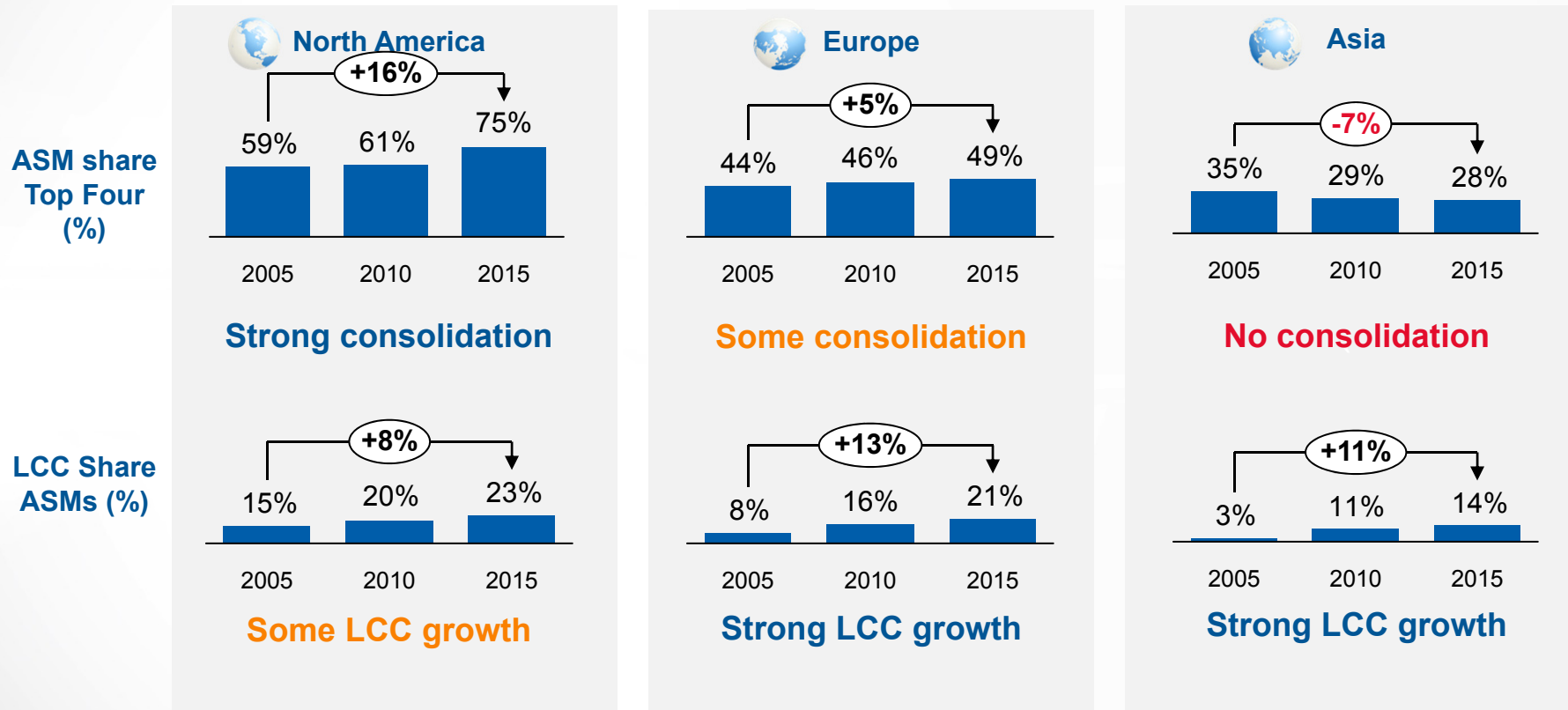


Source: IATA

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Consolidation, Post-Restructuring Boosted North American Carriers

75% controlled by Top Four, with LCC penetration less robust compared to LCC's in the European market; Asia/ Pacific also has troubling signs



Source: Seabury Analysis

Lower Oil / Low Interest Rates Benefited the Industry

Sheltering our industry from what could have been a more difficult period – but for how long will these dual trends continue?

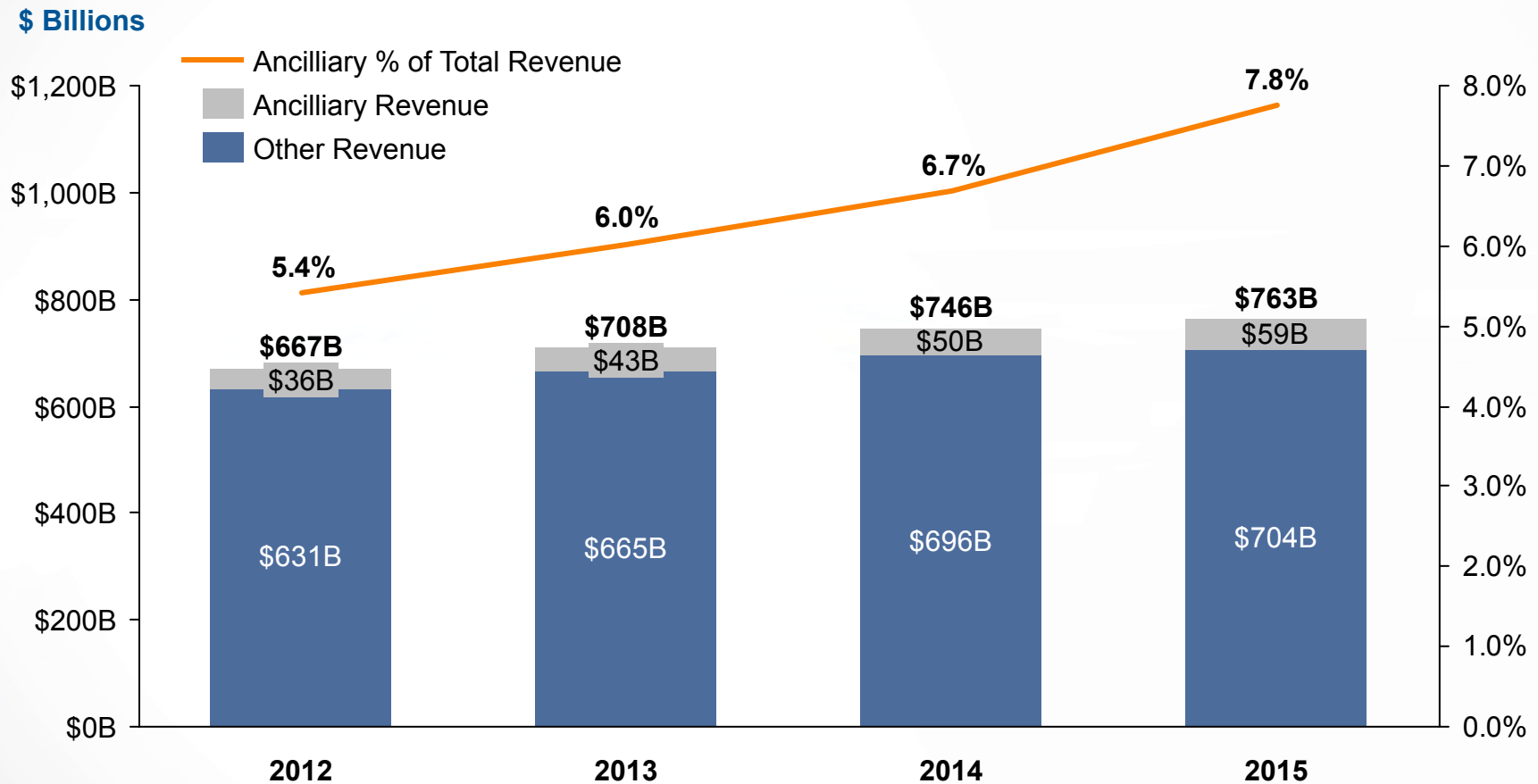
WTI – Historical Prices & Futures



Source: S&P Capital IQ

Growth in Share of Ancillary Revenue

Ancillary revenue has grown to represent a greater share of total revenue mix, contributing to airline bottom line

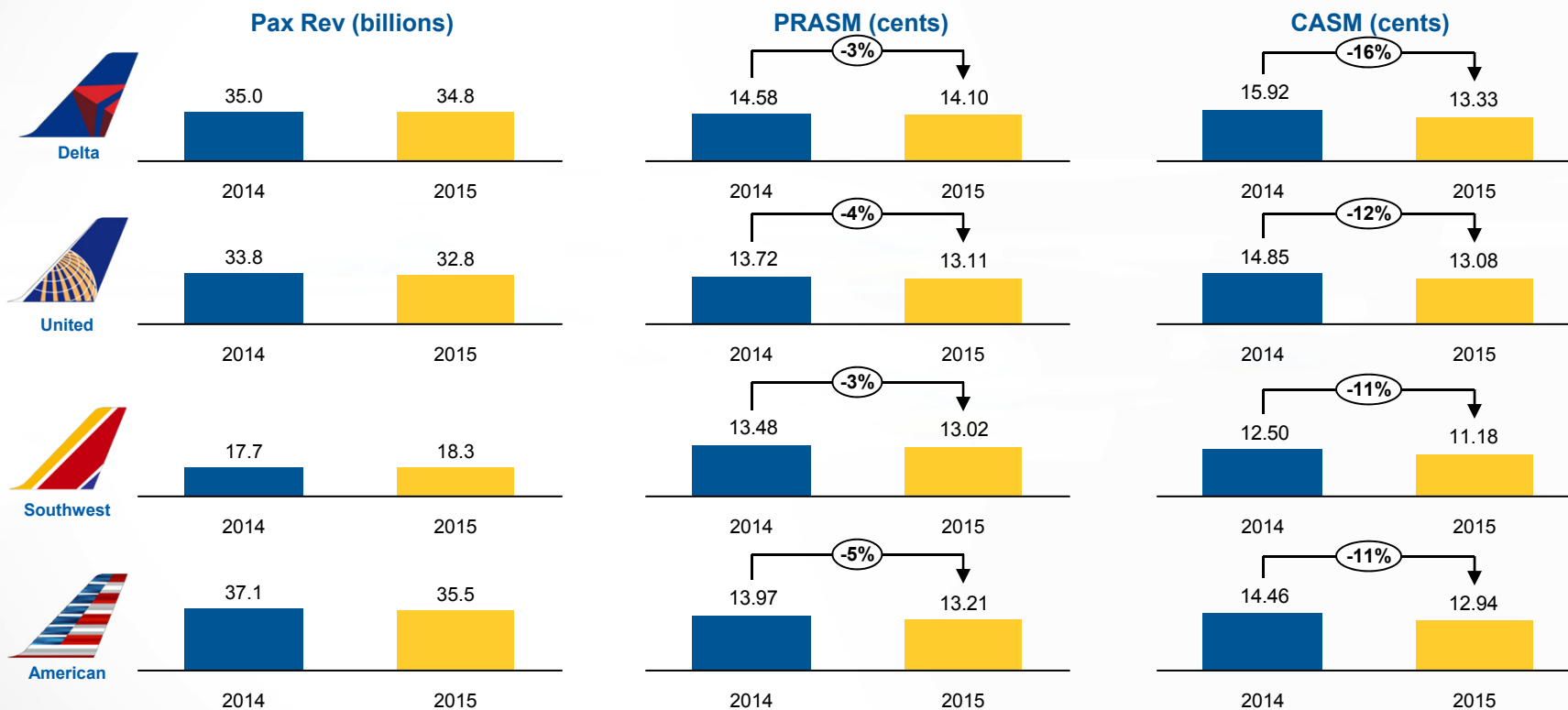


Source: Cartrawler/IdeaWorks

Profitability in 2015 Was Driven by Lower Costs

Profit levels improved as PRASM declines were more than offset by lower costs

Domestic Capacity (Average Seats per Day, Thousands)

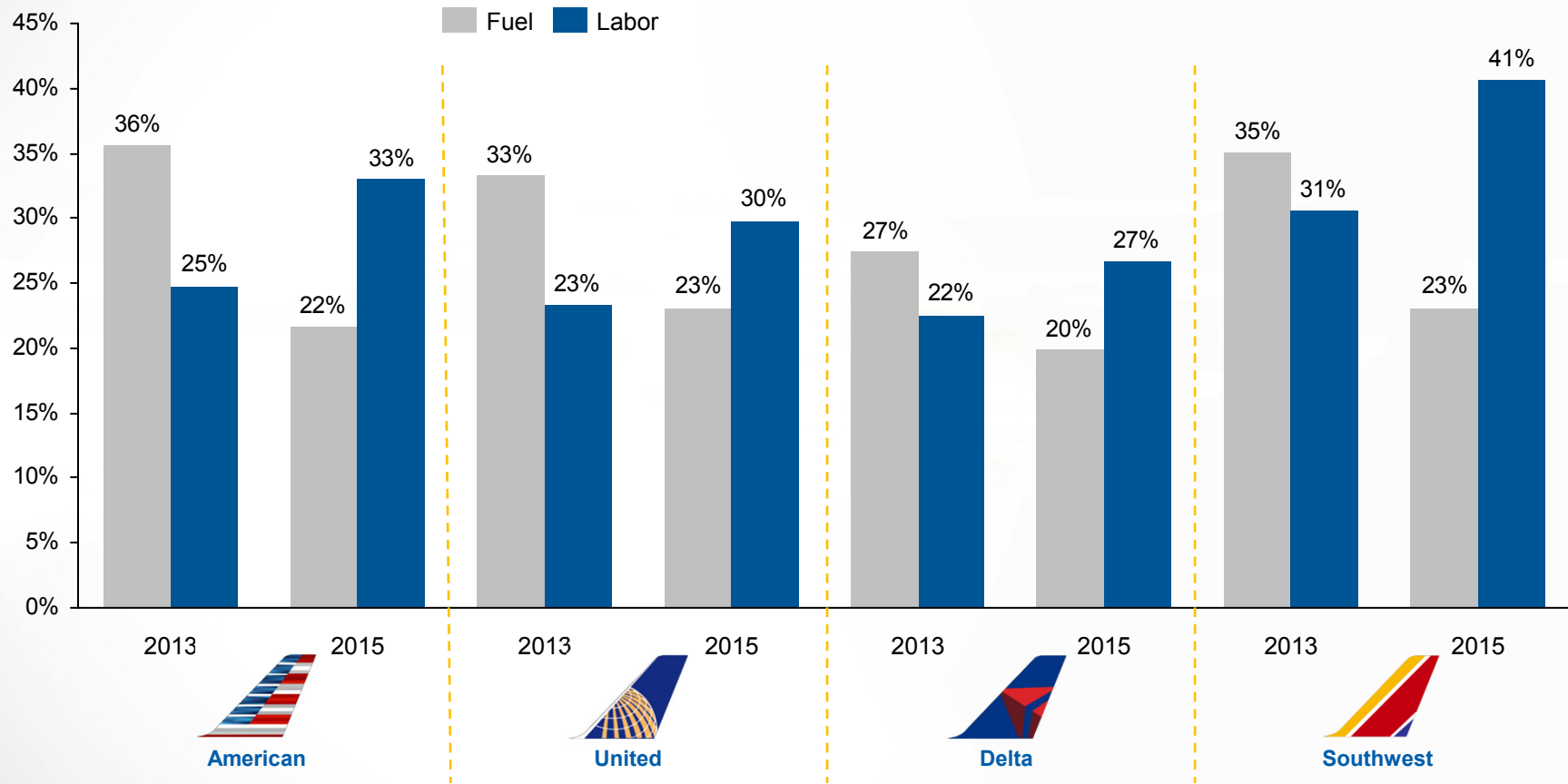


Source: Airlines' financial reports

Oil Price Declines Drove Cost Reductions in 2015

After the sharp drop in fuel prices, labor costs are now the largest expense for most airlines. Further, re-negotiation of labor agreements point to increasing labor costs in the coming years

% of Operating Costs



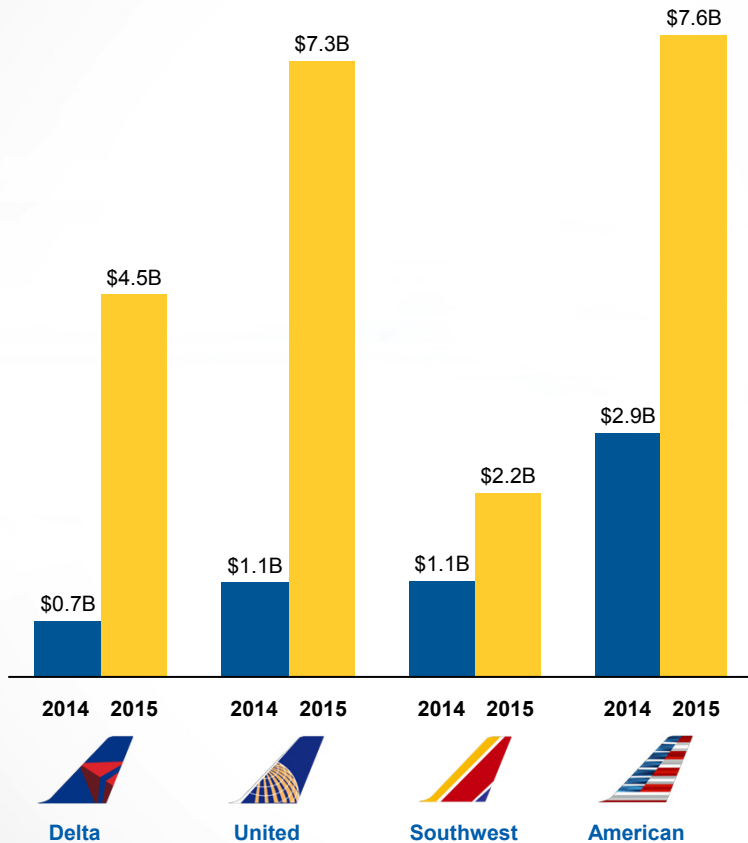
Source: Company Reports and Seabury Analysis

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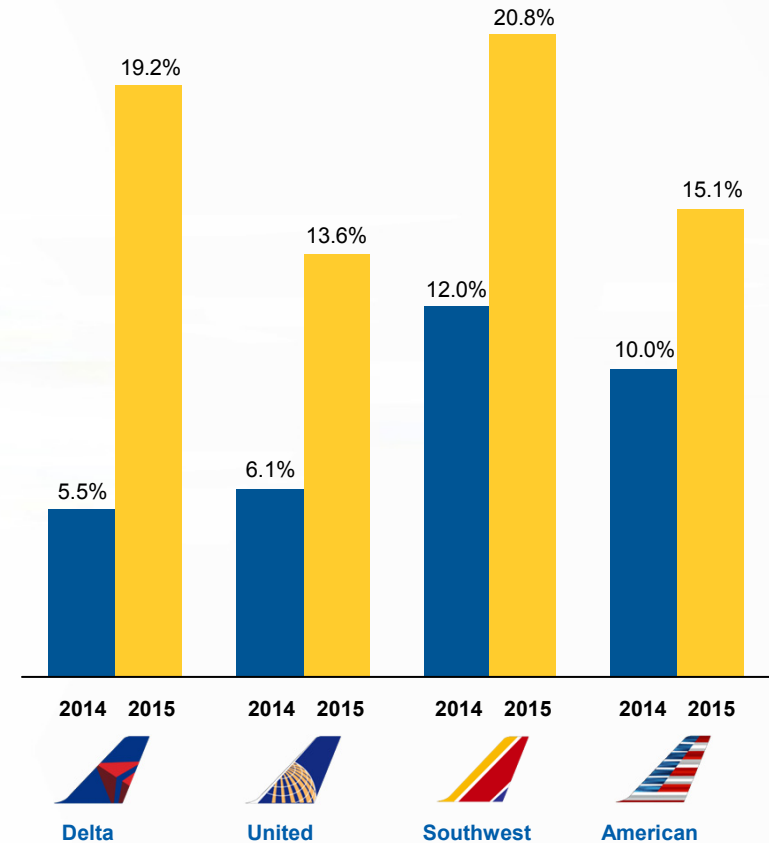
Lower Costs Led to Higher 2015 Profitability

Benefits stemming from consolidation and low fuel prices are driving profitability

Net Income (USD, Billions)



Operating Margin (%)



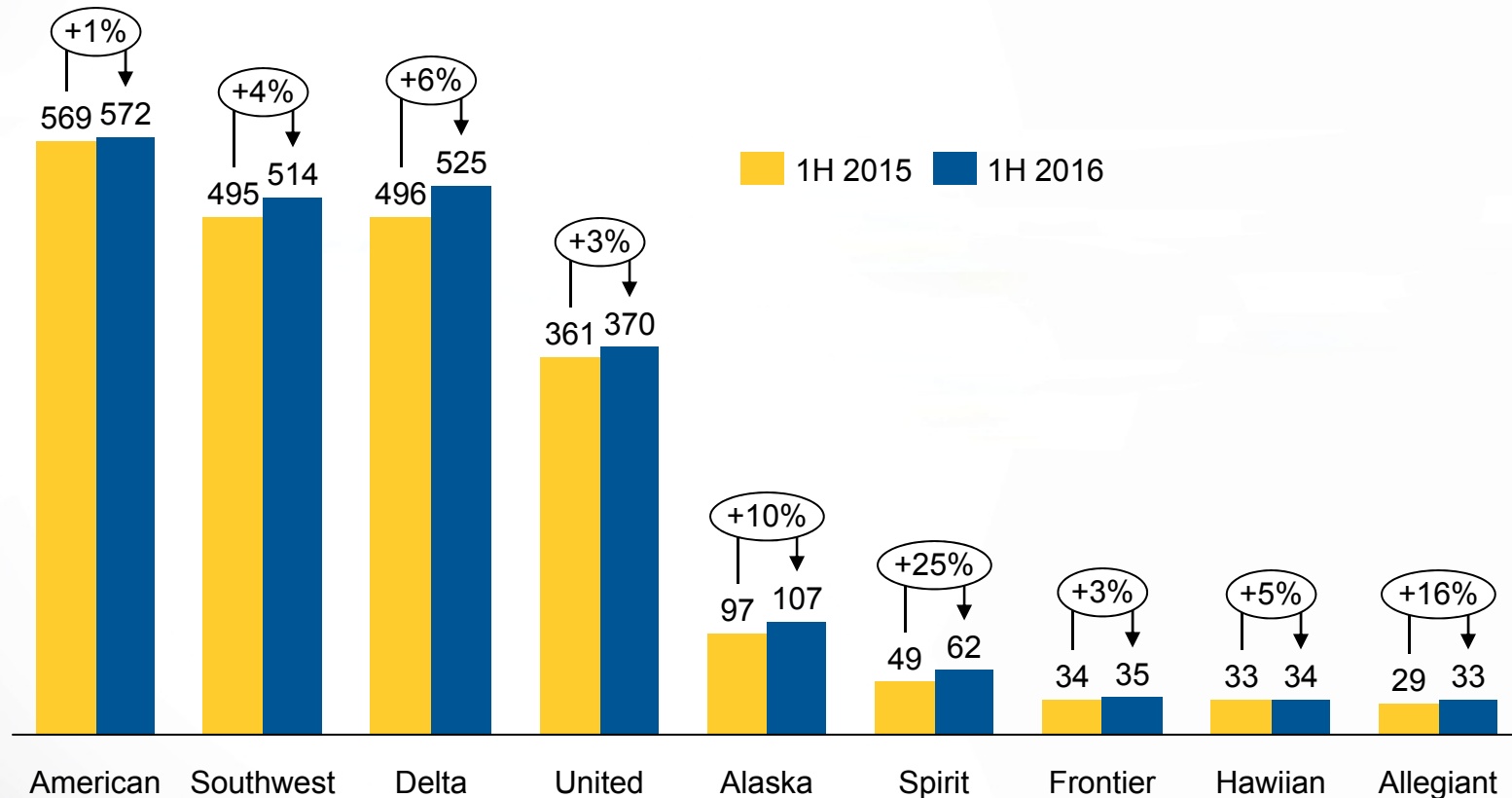
Source: Bloomberg and airlines' financial data

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Outlook for 2016 Shows Uneven Capacity Restraint

Domestic seat capacity for the first half of 2016 will be up modestly versus 2015 with Alaska, Allegiant and Spirit showing double digit percentage increases

Domestic Capacity (Average Seats per Day, Thousands)



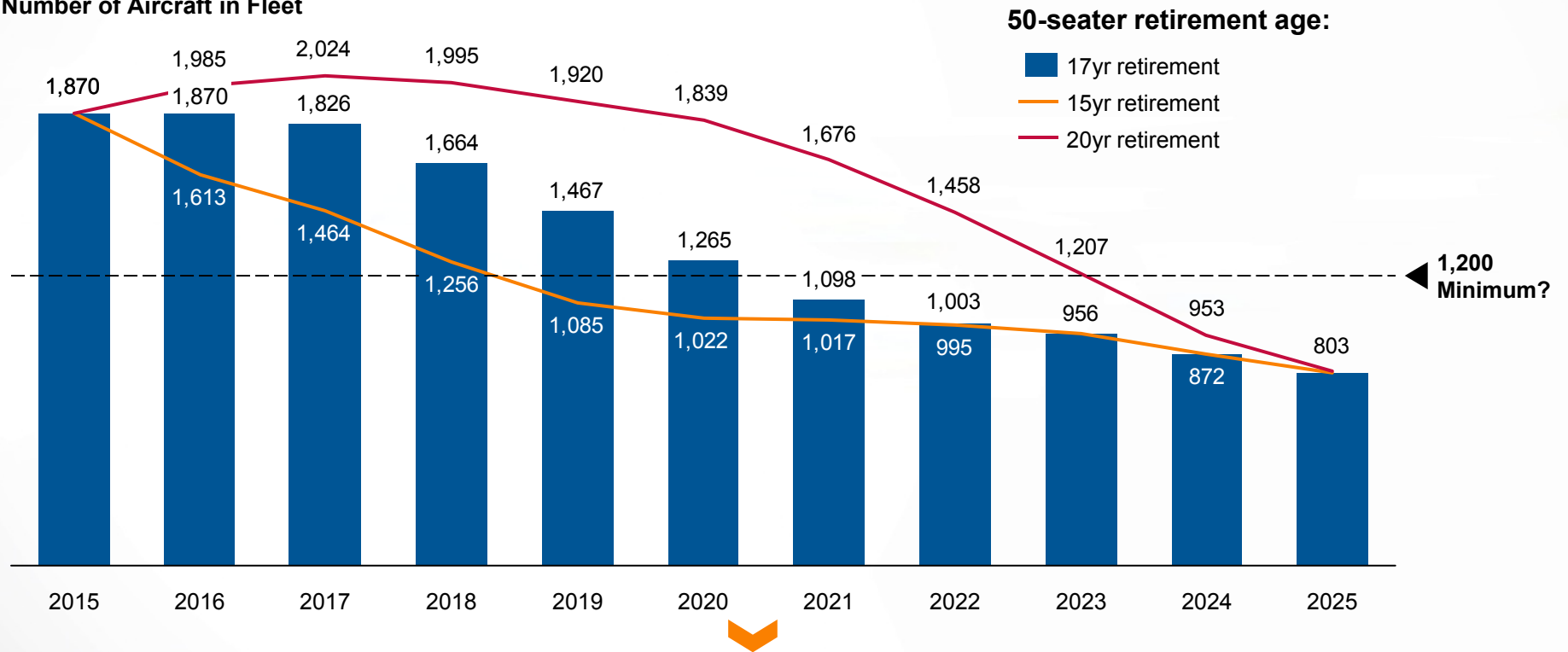
Source: Innovata

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US Regional Fleet Forecast

The biggest question underlying the demand forecast is the replacement, or not, of the 50-seater and therefore when and/or if there will be regional unit tightening

Regional Fleet Unit Forecast– excluding MRJ
Number of Aircraft in Fleet



With increasing interest in a replacement for similar gauge aircraft, the future of small regional aircraft are key to determining ultimate pilot demand

Notes: Fleet count at the end of each year, MRJs excluded
Source: Ascend, Seabury analysis

Appendix

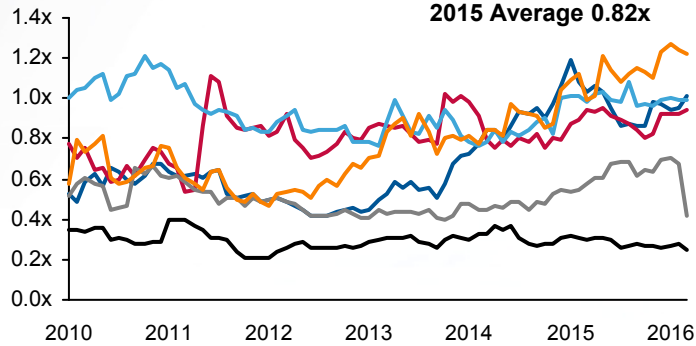
Slides for reference

Strong Airline Market Capitalization Rates

Equity markets are open for good performing airlines – unlike much of the past 25 years – but as a group, European carriers are significant laggards

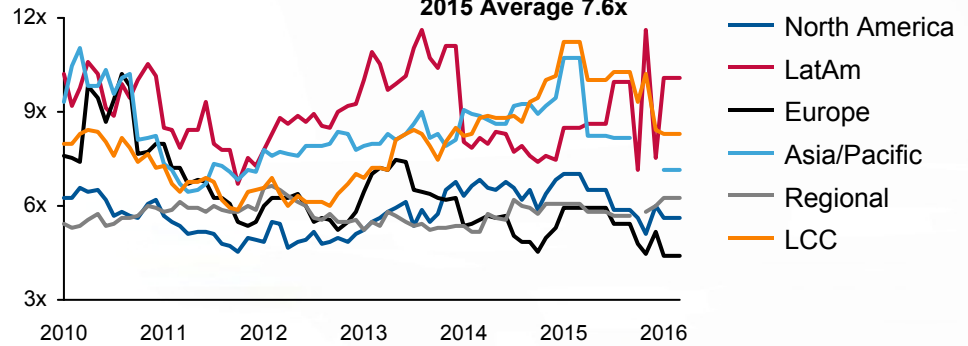
TEV / Total Revenue

2011 Average: 0.62x
2015 Average 0.82x



Adj. TEV / EBITDAR

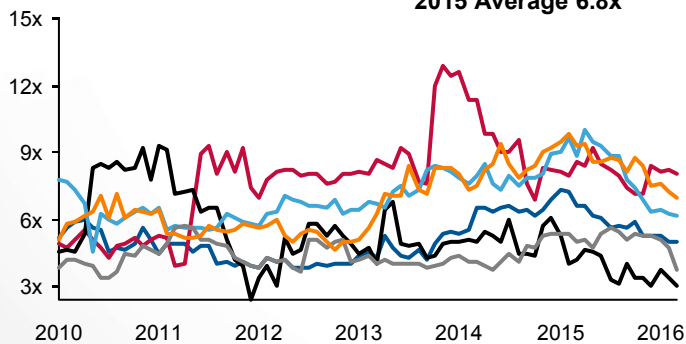
2011 Average: 6.5x
2015 Average 7.6x



- North America
- LatAm
- Europe
- Asia/Pacific
- Regional
- LCC

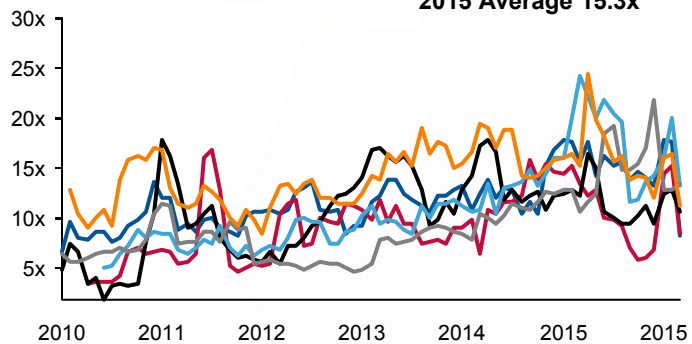
TEV / EBITDA

2011 Average: 5.7x
2015 Average 6.8x



P / E

2011 Average: 8.8x
2015 Average 15.3x



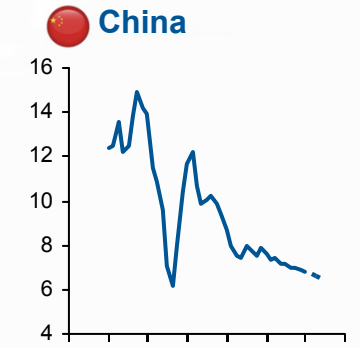
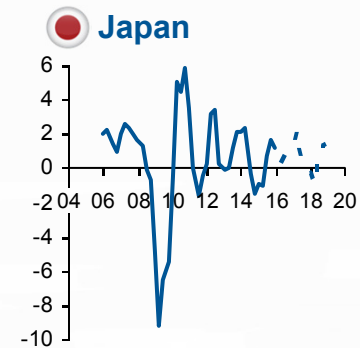
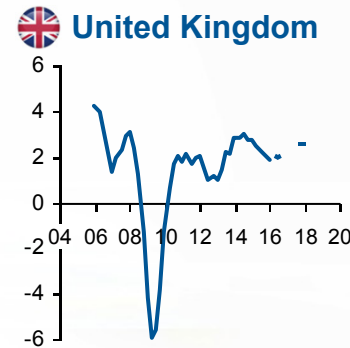
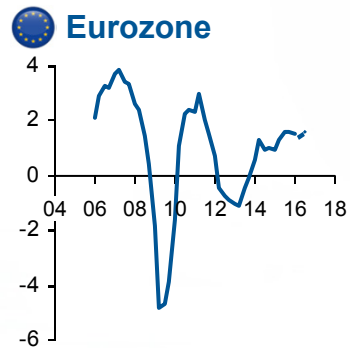
Source: S&P Capital IQ

Monthly median multiples, as of 22 February 2016

But Real Warning Signs Are Flashing

GDP recovery is faltering in many regions

Real GDP trend analysis – YoY growth (as of Feb 19th, 2016)



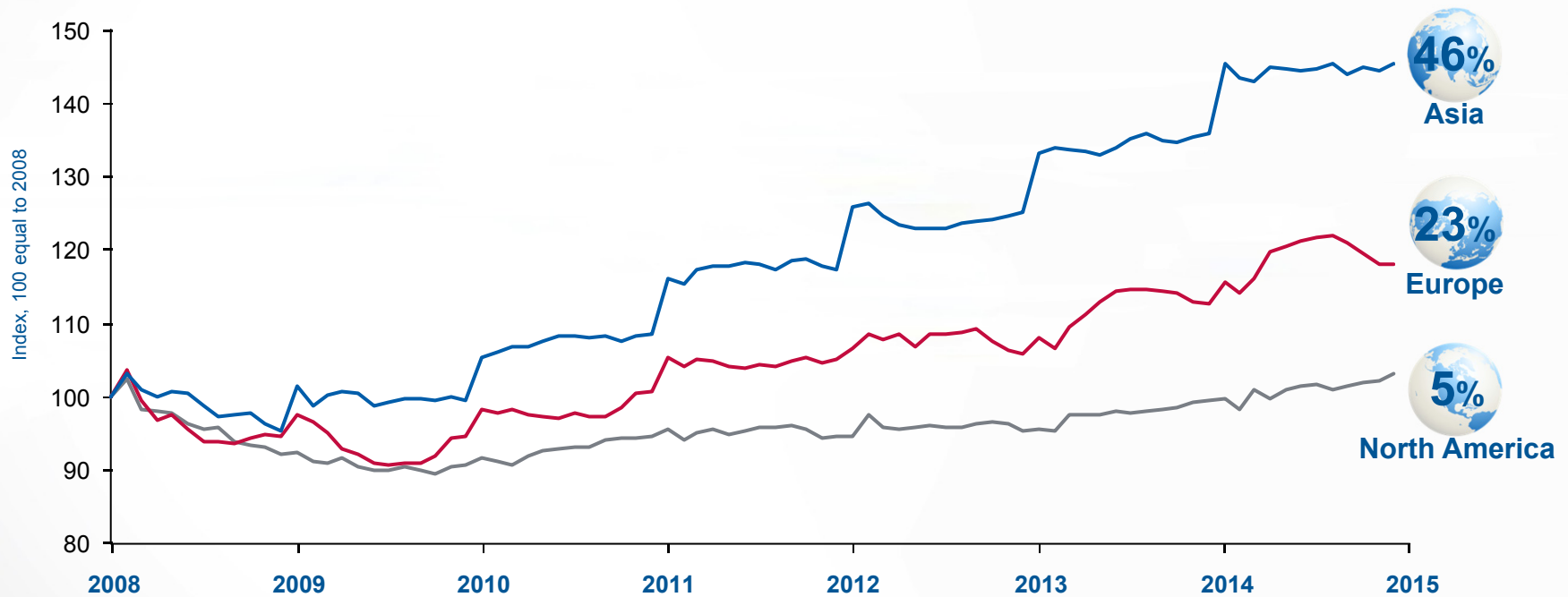
“Eurozone” – an economic and monetary union of 16 European Union member states which have adopted the Euro currency as their sole legal tender

Source: S&P Capital IQ & Bloomberg; % change YoY

Capacity Discipline: Driving North American Carriers' Profits

Asia's ASM growth is largely tied to GDP growth, which is not true for Europe

Seasonally Adjusted Index of Monthly ASMs by Airline Registration Region



Source: Diio Mi, Seabury analysis