

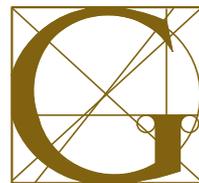


***34th Annual FAA Aviation Forecast Conference***



# ***Looking into the Crystal Ball and Managing in the Fog***

***April 1, 2009***



**GRA, Incorporated**

**Chris Frankel, Partner**

115 West Avenue • Jenkintown, PA 19046 • USA

✉ [chris\\_frankel@gra-inc.com](mailto:chris_frankel@gra-inc.com)

# Current U.S. Passenger Airline Industry Structure: Too Few or Too Many?

## Legacy

American Airlines  
Continental Airlines  
Delta/Northwest  
United Airlines  
US Airways

Broad Domestic,  
International, pre-1978  
deregulation

## National/Regional

AirTran Airways  
Alaska Airlines  
Allegiant Air  
Frontier Airlines  
Hawaiian Airlines  
jetBlue Airways  
Midwest Airlines  
Southwest Airlines  
Spirit Airlines  
Virgin America

Select Domestic,  
Little/no international,  
Post deregulation

## Commuters

Air Wisconsin  
American Eagle  
Comair  
Compass  
ExpressJet  
Horizon  
Mesa  
Mesaba  
Pinnacle  
PSA  
Republic  
SkyWest  
Trans States

Depend on “big  
brother” for revenue



# Regional Relationships: Due for Pruning?

## Regional-Mainline Partnership Summary

Mainline Carriers	PNCL	RJET	MESA	SKYW	XJT	Horizon Air	Comair	Air Wisconsin	Trans States	American Eagle	Atlantic Southeast	Mesaba	PSA Airlines
US Airways	■	■	■					■	■				■
American		■							■	■			
Continental	■	■			■								
Delta	■	■	■	■			■				■		
Northwest	■											■	
United	■	■	■	■					■				
Midwest		■		■									
Alaska							■						

Capacity Purchase ■      Pro Rata ■      Subsidiary ■

Source: Imperial Capital, LLC and Capital IQ

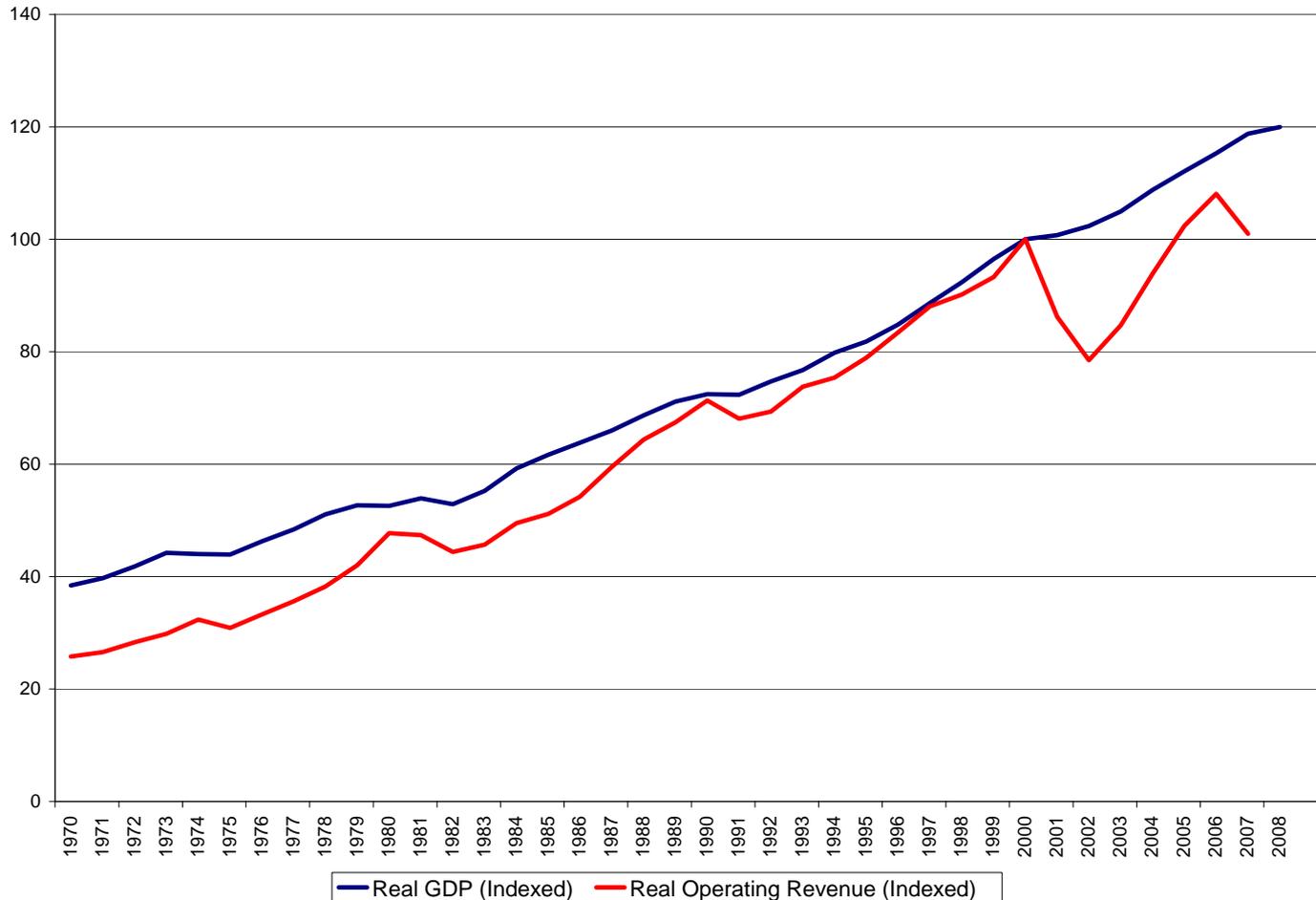


# Two Key Drivers for the Airline Industry: Where to?

- Passenger/Shipper demand
- Input costs (affecting supply decisions)
  - Labor
  - **Fuel**
  - Infrastructure Fees and Costs
  - Maintenance
  - Ownership costs and access to capital and financing
- Operating environment
  - Competitive environments
    - Network level
    - Market level
  - Infrastructure capacity and reliability
    - En route
    - Airports
    - Landside
- External factors
  - Environmental responsibilities
  - Safety
  - Security



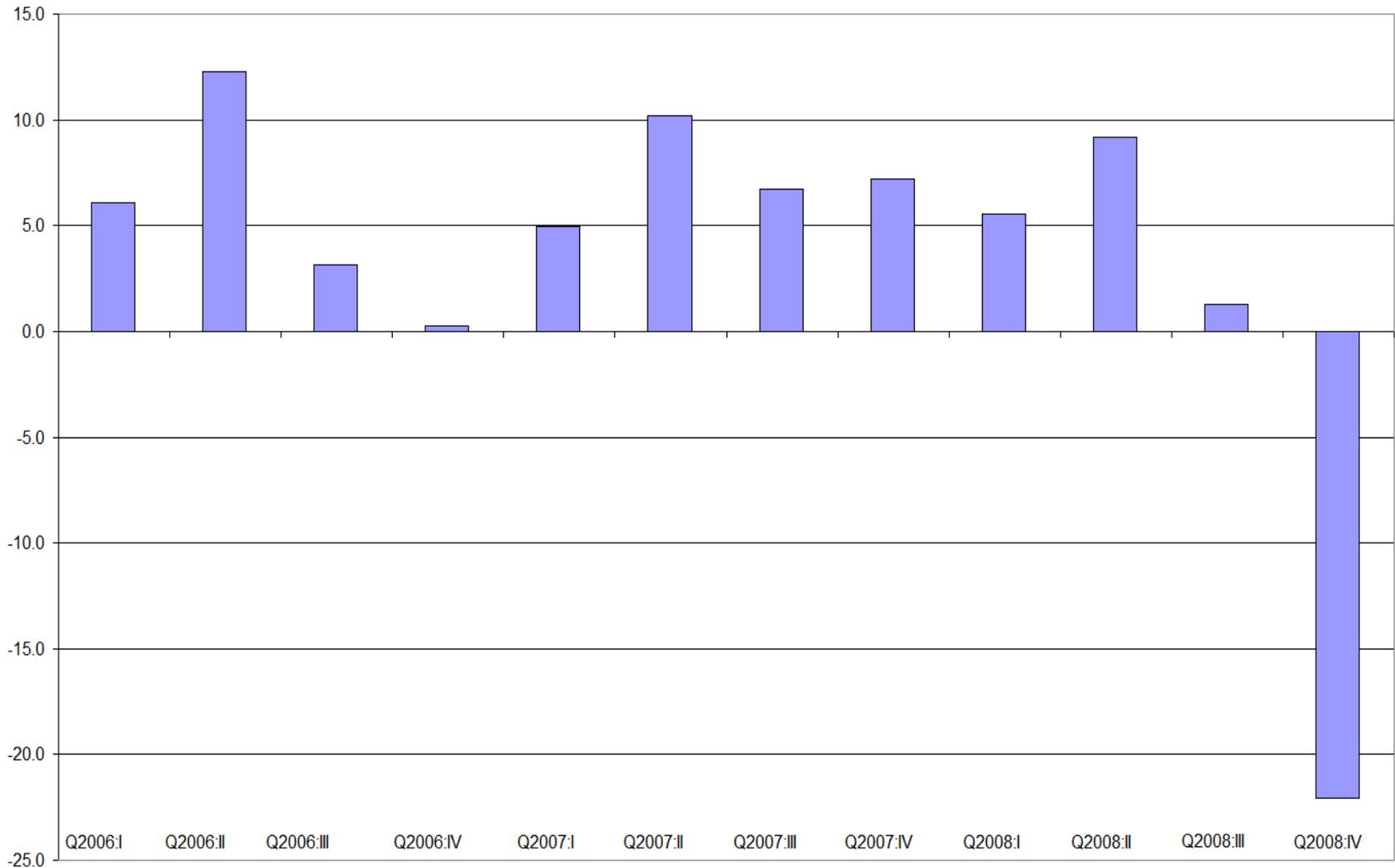
# Traditional Correlation between GDP and U.S. Airline Operating Revenue



Note: Series indexed with value in 2000 set to 100.



# Travel Spending Overall Has Collapsed



Spending on travel and tourism, annualized change from previous quarter.

Source: U.S. Bureau of Economic Analysis



# Historical Changes in Passenger Traffic During Periods of Recession, 1970-2009

Recession <sup>(1)</sup>	Passengers <sup>(2)</sup>	Production <sup>(3)</sup>	Incomes <sup>(4)</sup>	Spending <sup>(5)</sup>	S&P Airlines Index	S&P 500 Index
1970	-1%	-0.6%	-0.4%	0.6%	N/A	-37%
1975	-6%	-3.1%	-2.8%	-1.8%	N/A	-50%
1980	-10%	-2.2%	-1.8%	-2.2%	N/A	-28%
1982	-3%	-2.9%	0.0%	-0.8%	N/A	-28%
1991	-12%	-1.3%	-0.7%	-1.1%	-40%	-20%
2001	-19%	-0.2%	-1.4%	0.3%	-54%	-39%
Current <sup>(6)</sup>	-6% <sup>(7)</sup>	0.0%	-2.2%	-0.8%	-53%	-53%
Average	-8%	-1.7%	-1.2%	-0.8%	-47%	-34%
Max decline	-19%	-3.1%	-2.8%	-2.2%	-54%	-53%
Min decline	-1%	-0.2%	0.0%	0.6%	-36%	-20%

Sources: Bureau of Transportation Statistics, APG Global Associates, National Bureau of Economic Research, Bureau of Economic Analysis, and Capital IQ

<sup>1</sup> Ending in the year indicated, changes measured from pre-recession peaks to recession period lows

<sup>2</sup> Domestic, International and Express airline passenger count

<sup>3</sup> U.S. Gross Domestic Product

<sup>4</sup> U.S. Disposable Personal Income

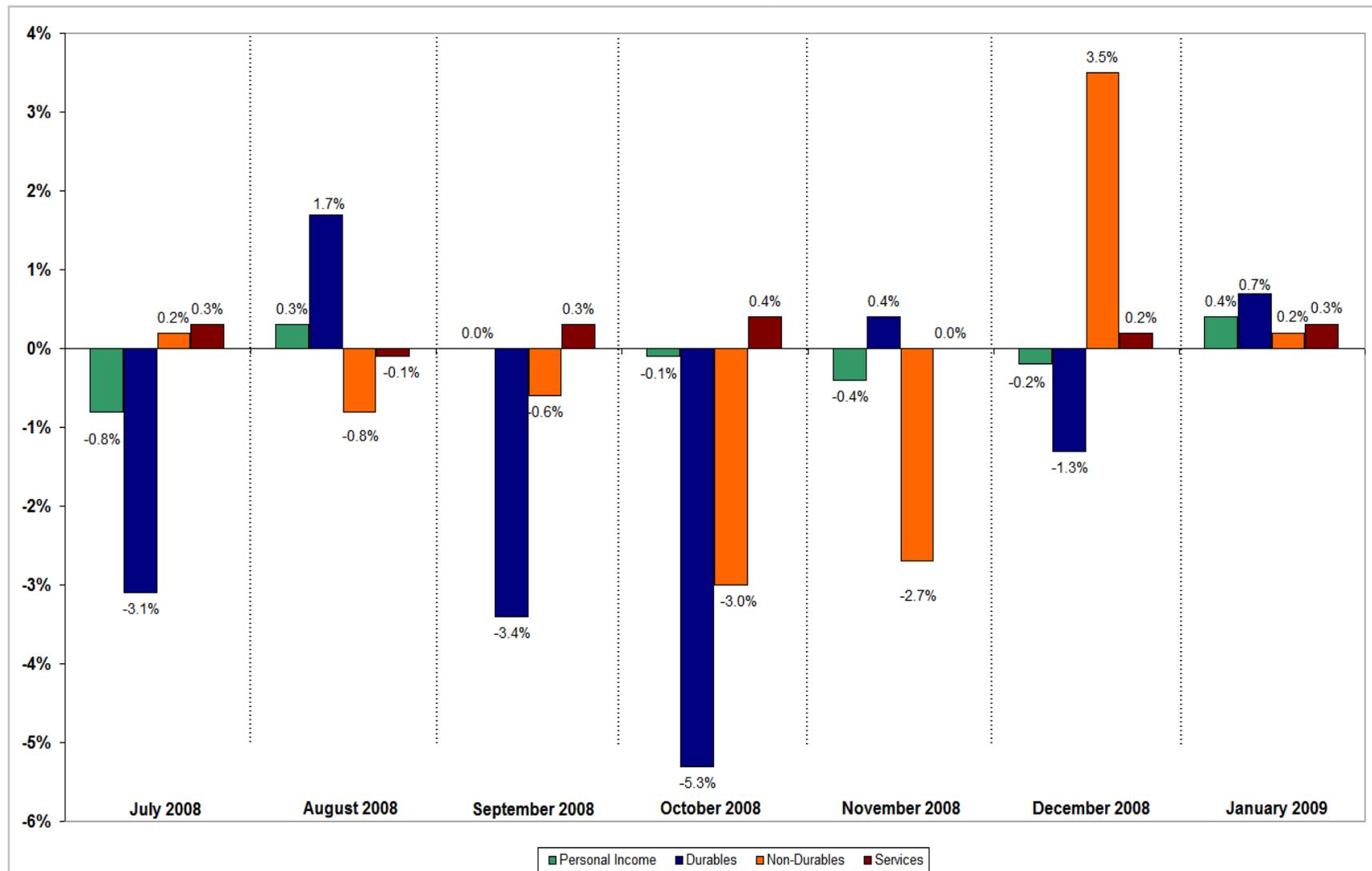
<sup>5</sup> U.S. Personal Consumption Expenditures

<sup>6</sup> Measured from the most recent peak to the lowest published recent measure as of 2/11/2009

<sup>7</sup> Based on Q4 2008 company reports for mainline system capacity.



# Monthly Change in Personal Income and Consumer Spending (Durables, Non Durables and Services)

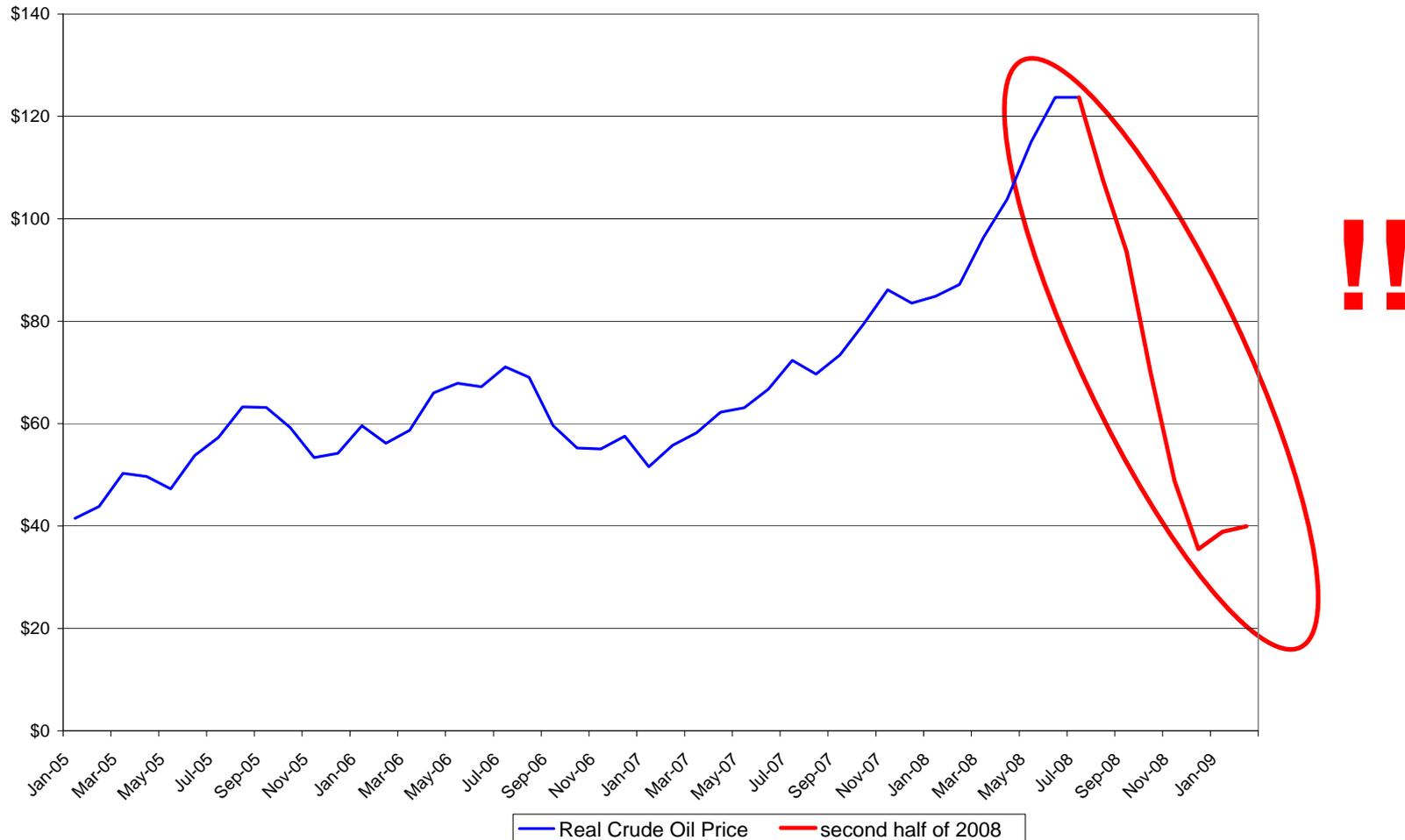


Source: Capital IQ and U.S. Bureau of Economic Analysis



# Another Facet of a Global Change in Aggregate Demand

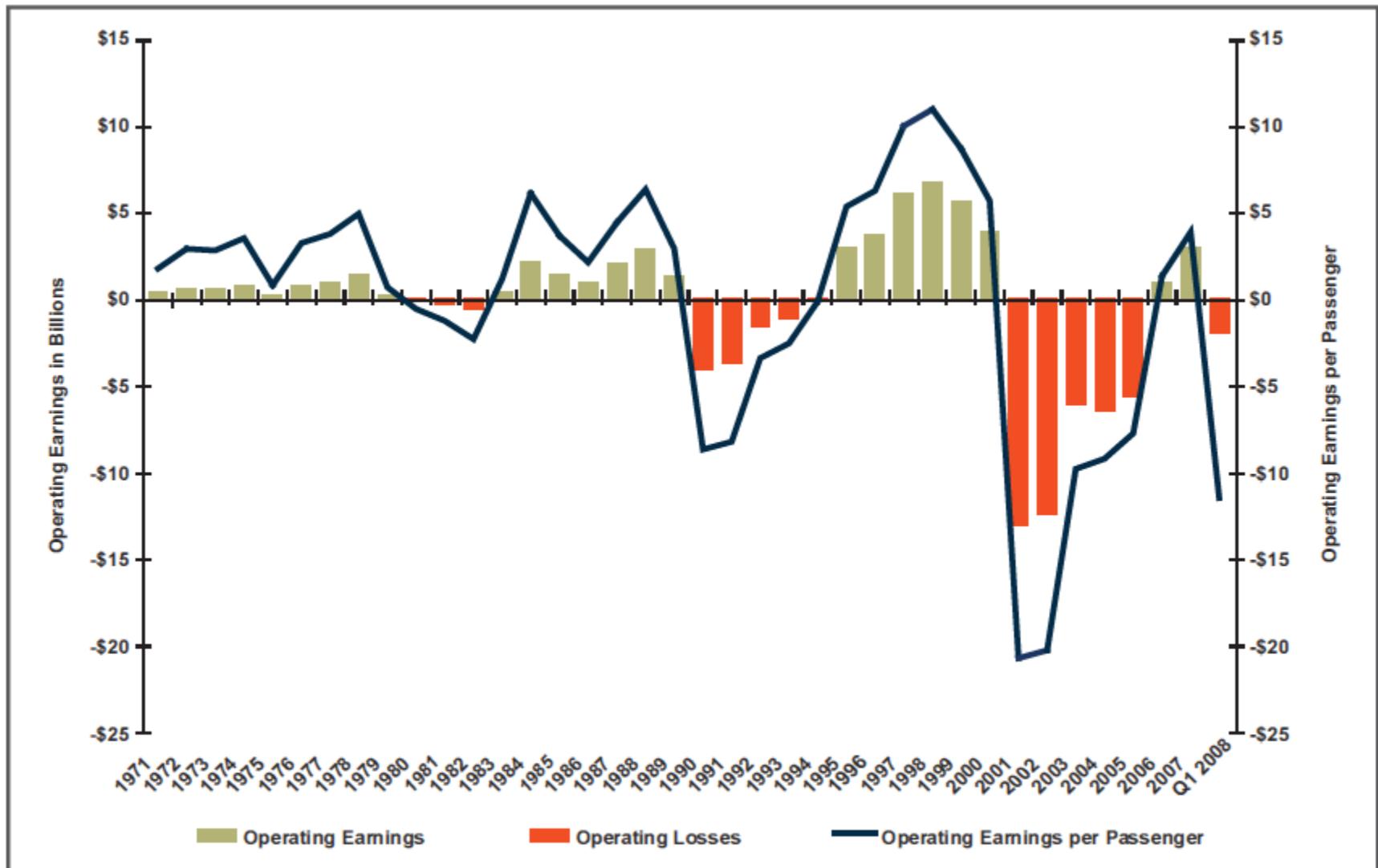
## Real Price per Barrel of Crude Oil, 2005 to Present



Source: Energy Information Administration



# Overall and Per Passenger Operating Earnings 1971-2008



Source: Air Transport Association



# Unrestricted Cash as a Percentage of Last Twelve Months Revenue

## LIQUIDITY AS OF 12/31/2008

	Unrestricted Cash <sup>(2)</sup>	Cash Reserves <sup>(3)</sup>	Cash as a % of LTM Revenue	QtQ ? Cash Reserves
Allegiant	\$175	5.9x	34.7%	1.9x
Alaska	1,077	3.6x	29.4%	0.8x
JetBlue	805	3.2x	23.8%	1.2x
Continental	2,640	2.3x	17.3%	0.2x
Hawaiian	206	2.4x	17.0%	0.2x
Southwest	1,803	2.1x	16.4%	(1.7x)
Delta <sup>(1)</sup>	4,467	1.8x	13.1%	(0.3x)
American	3,107	1.7x	13.1%	(0.4x)
Air Tran	335	1.9x	13.1%	0.6x
United	2,039	1.3x	10.1%	(0.3x)
US Airways	1,054	1.1x	8.7%	(0.0x)
Frontier	69	0.7x	5.0%	0.1x

(1) Adjusted for mid-quarter close of Delta-Northwest merger

(2) Includes short term investments as of December 31, 2008

(3) Reflects cash divided by monthly cash expense, defined as 1/3 of the most recent quarter's operating expenses, less D&A, plus interest expense

Source: Imperial Capital



# Airline Bankruptcies 2000-2008: Trend Towards Shutdowns?

	Date	Carrier
2008	10/15/2008	<b>Primaris Airlines</b>
	10/6/2008	Sun Country
	7/18/2008	<b>Vintage Props and Jets</b>
	6/18/2008	<b>Gemini Air Cargo</b>
	5/14/2008	<b>Air Midwest</b>
	4/26/2008	<b>Eos Airlines</b>
	4/11/2008	Frontier Airlines
	4/7/2008	<b>Skybus Airlines</b>
	4/2/2008	<b>ATA Airlines</b>
	3/31/2008	<b>Aloha Airlines</b>
	3/31/2008	<b>Champion Air</b>
1/7/2008	<b>Big Sky</b>	
2007	12/24/2007	<b>MAXjet Airways</b>
	10/15/2007	<b>Kitty Hawk Aircargo</b>
2006	2/21/2006	Florida Coastal Airlines
	1/6/2006	<b>Independence Air</b>
2005	12/28/2005	Era Aviation
	11/7/2005	Independence Air
	10/13/2005	Mesaba Airlines
	9/29/2005	<b>TransMeridian Airlines</b>
	9/14/2005	Delta Air Lines
	9/14/2005	Comair
	9/14/2005	Northwest Airlines

	Date	Carrier
2004	12/30/2004	Aloha Airlines
	12/1/2004	<b>Southeast Airlines</b>
	10/26/2004	ATA Airlines
	9/12/2004	US Airways
	1/30/2004	Atlas Air/Polar Air Cargo
	1/23/2004	<b>Great Plains Airlines</b>
	2003	10/30/2003
3/21/2003		Hawaiian Airlines
2002	12/9/2002	United Airlines
	8/11/2002	US Airways
	7/30/2002	<b>Vanguard Airlines</b>
2001	1/2/2002	Sun Country Airlines
	8/13/2001	Midway Airlines
	1/10/2001	Trans World Airlines
2000	12/13/2000	Allegiant Air
	12/6/2000	<b>National Airlines</b>
	12/3/2000	<b>Legend Airlines</b>
	9/27/2000	Fine Air
	9/19/2000	<b>Pro Air</b>
	5/1/2000	Kitty Hawk
2/29/2000	<b>Tower Air</b>	

**Shut Down**  
Chapter 11

Source: Air Transport Association



# Managing Below VFR Limits

- Current economic and financial meltdown different from post WWII cycles?
  - How long?
  - How deep?
  
- In current global economic crisis, traditional relationships no longer correlate?
  - GDP/Airline traffic: negative multiplier
  
- No place to hide: synchronized traffic declines in Asia, Europe, No. Am
  
- Cargo traffic harbinger of passenger trends?
  - Down 20% in Jan/Feb 2009/2008



# Managing Below VFR Limits

- ➔ Requires new thinking on the part of airline managements?
  - Tactical
    - Rolling 12 month plans vs. traditional annual plan?
    - Ditch earnings estimates?
  - Strategic
    - Cross-border mergers
    - Natural attrition different this time?
      - Traditional sources of capital closed/higher hurdle rates



# Landscape Post Recovery (ca. 2013?)

- Changed role for commercial aviation once economy is back on track?
  - Effects of restored global economic vitality on fuel costs and other input costs
  - Effects of stimulus related aviation infrastructure investments
  - Environmental constraints and requirements
  - Consumer confidence – may return more slowly than physical economy
  
- Structural changes for airframers?
  - Boeing/Airbus duopoly financially challenged?
  - Fragmented production
    - New players in under 150 seat gauge (Bombardier, Embraer)
    - New mainline jet competition (China)



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# Thank You



GRA, Incorporated

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April 1, 2009