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US Airline Competition and Consolidation 2010

Peter P. Belobaba

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US Airline Industry Performance

- **Review: A roller-coaster decade 2000-09**
  - Rapid growth of LCCs and intense fare competition
  - Restructuring, cost cutting and productivity improvements
  - After $40 billion in losses a brief return to profits 2006-07
  - Fuel shock and financial meltdown in 2008
- **Return to profitability in 2010 and beyond**
  - How much room to cut cost or improve productivity?
  - Can capacity discipline be maintained?
  - Have LCCs reached their peak in US domestic markets?

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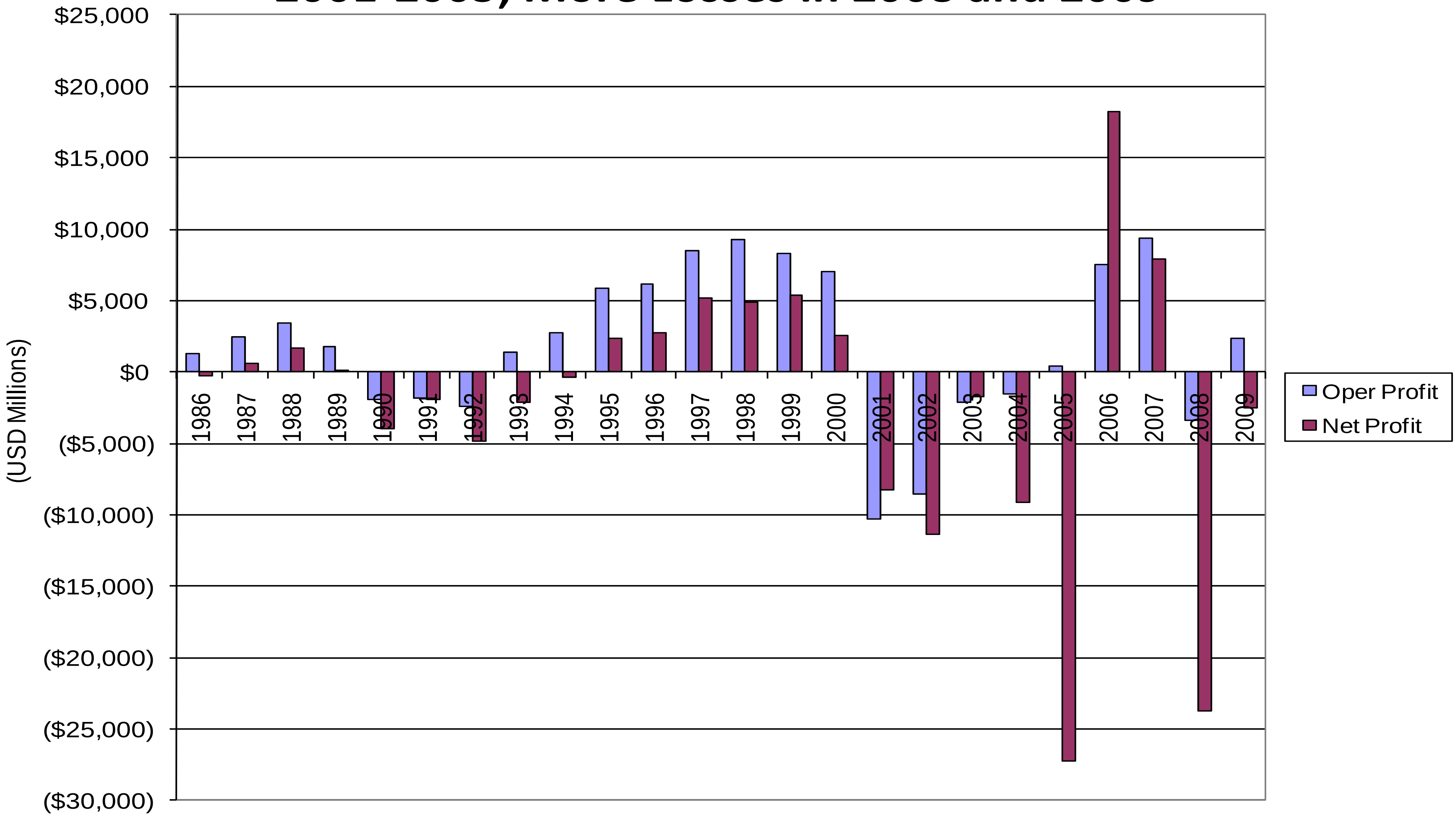
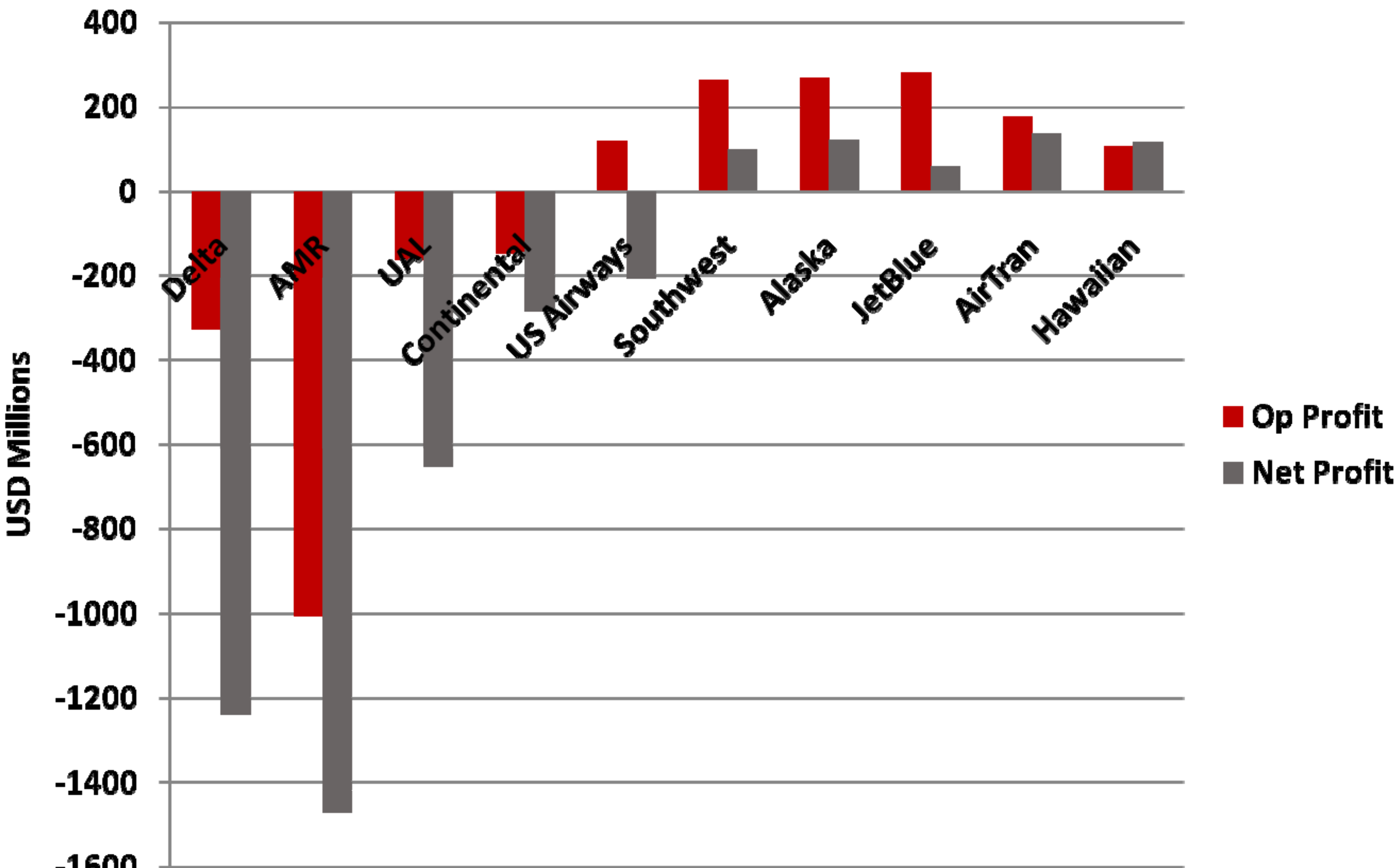
US Industry Profits in 2006-2007 after $40B of Losses 2001-2005; More Losses in 2008 and 2009



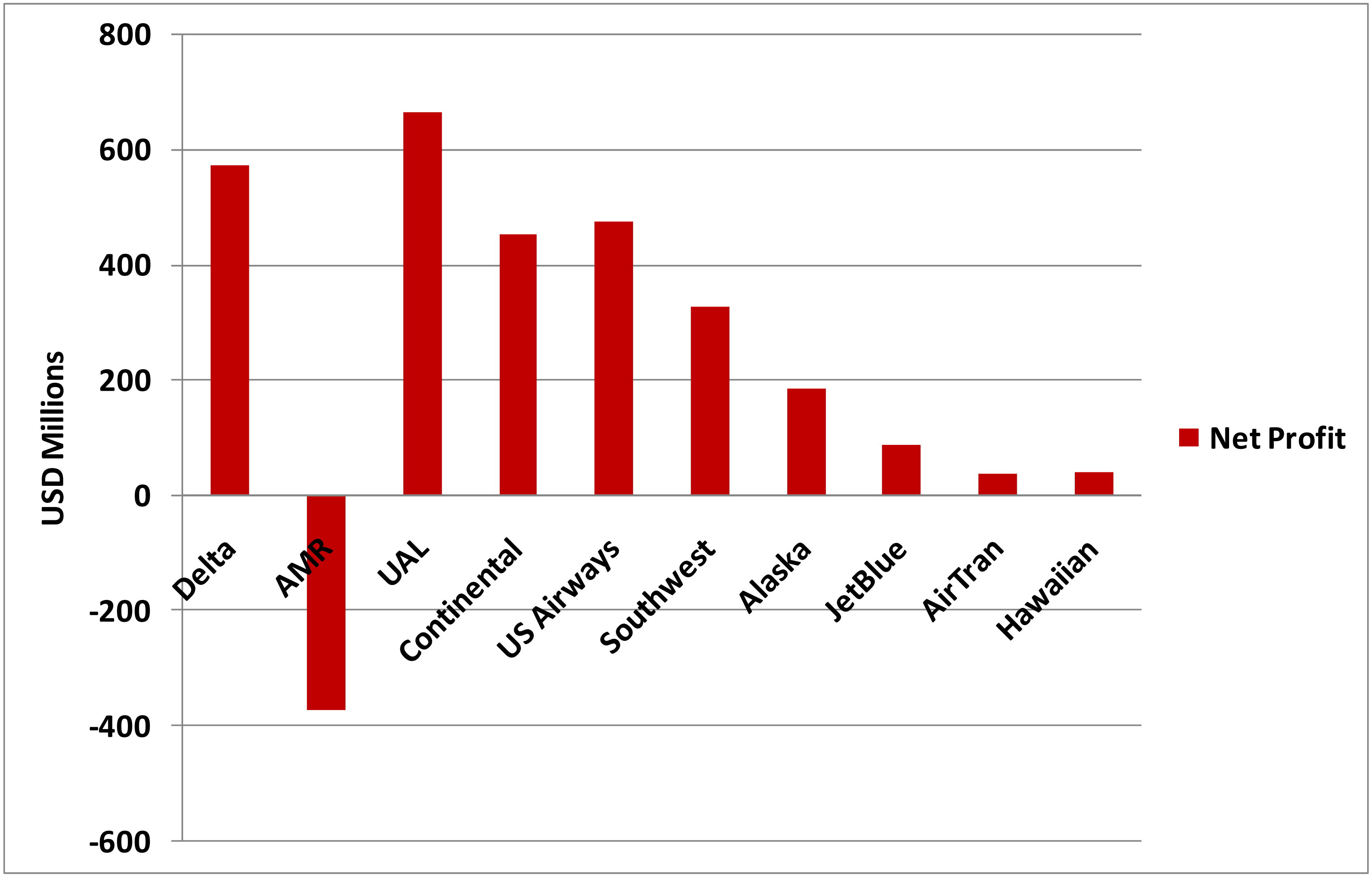
Source: ATA data

US Carrier Financial Results 2009



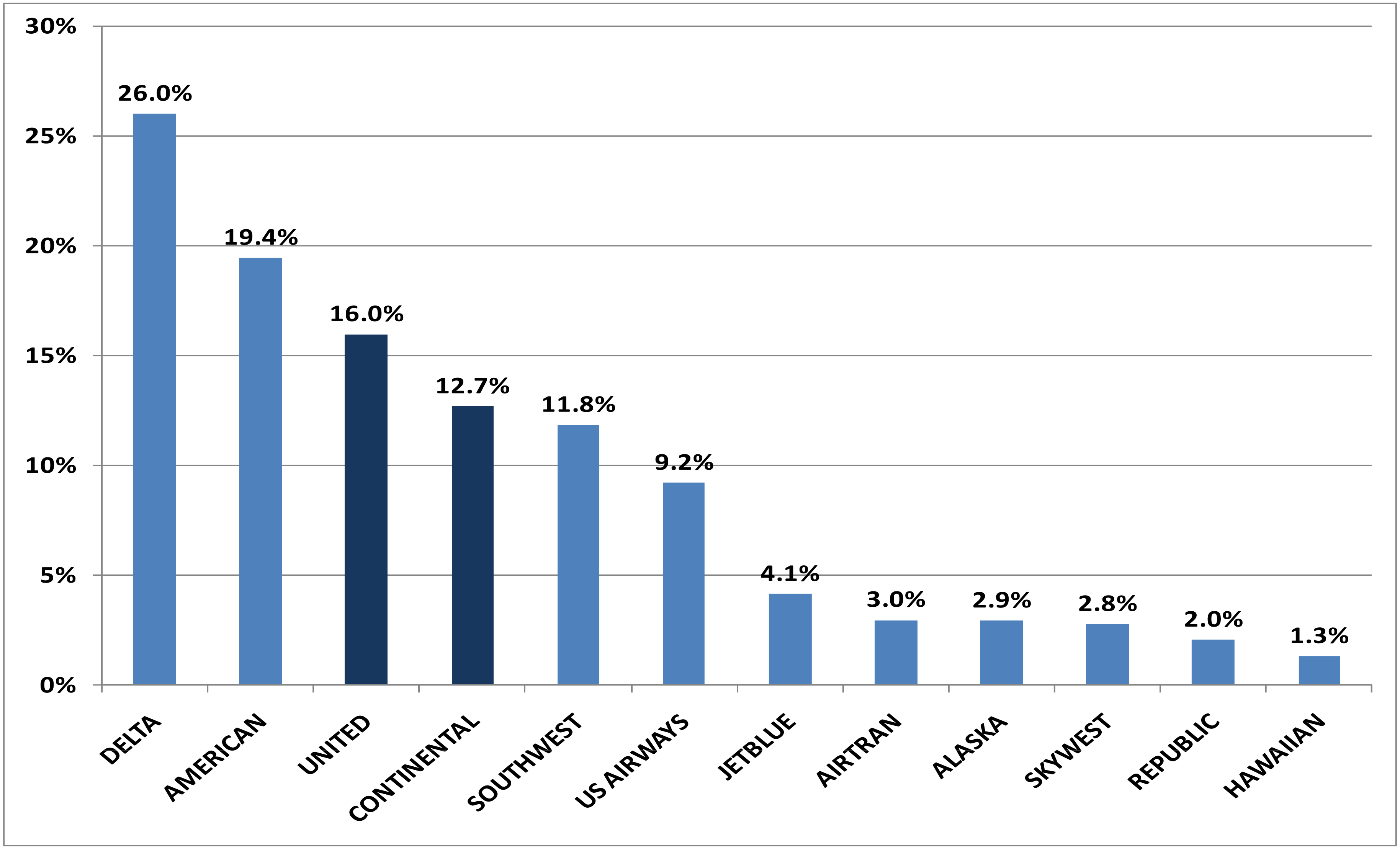
Source: Airline Business, March 2010

US Carriers Cumulative Net Income Q1-Q3 2010



Source: Airline Business

US Carrier RPM Traffic Share 2009



Source: Aviation Daily, 1/21/2010

US Legacy and Low Cost Airlines

Network Legacy Carriers

AA – American Airlines

UA – United Air Lines

DL – Delta Air Lines (incl. NW)

CO – Continental Airlines

US – US Airways (incl. HP)

Low Cost Carriers

WN – Southwest Airlines

B6 – JetBlue Airways

FL – AirTran Airways

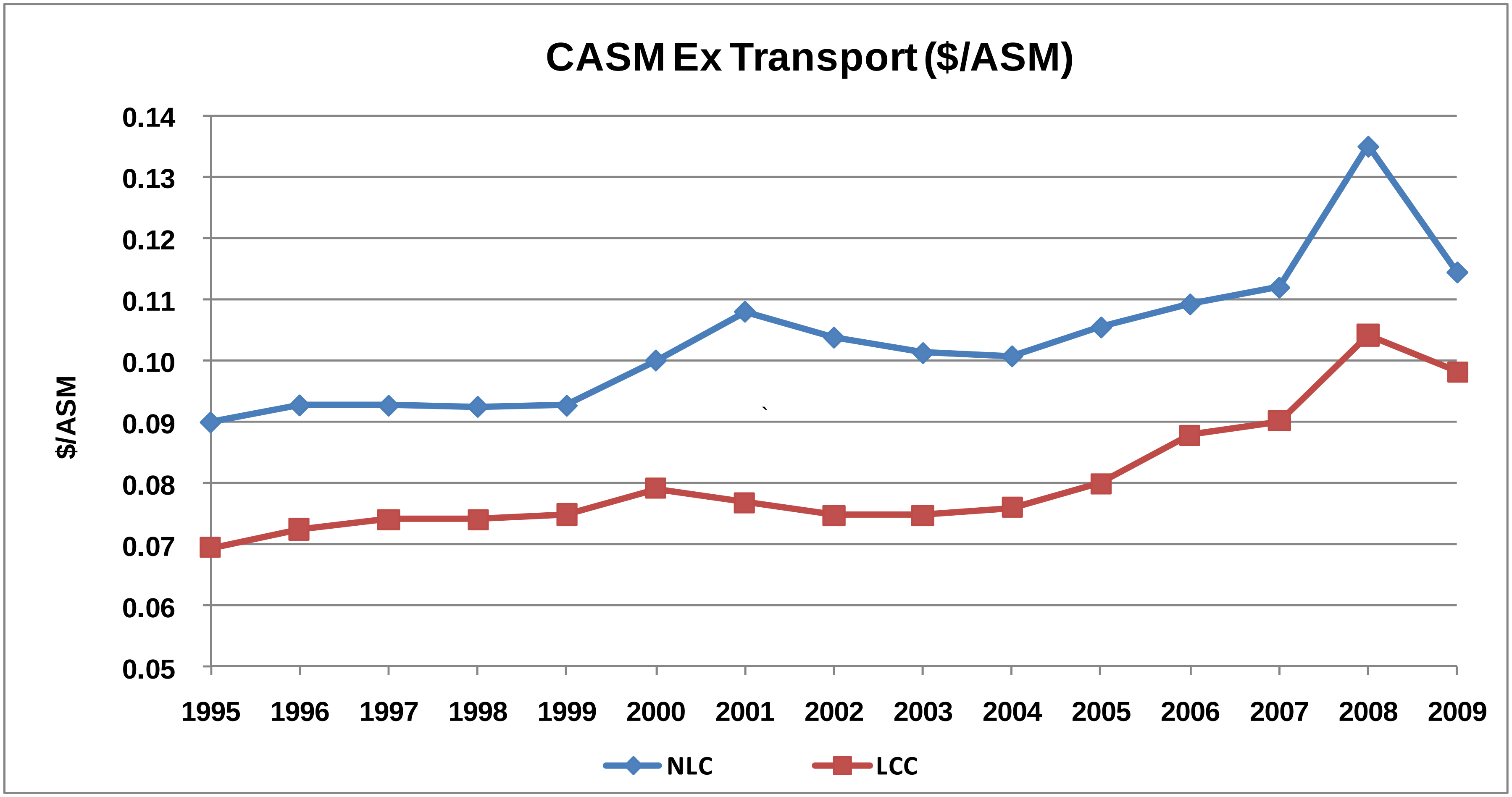
F9 – Frontier Airlines

VX – Virgin America

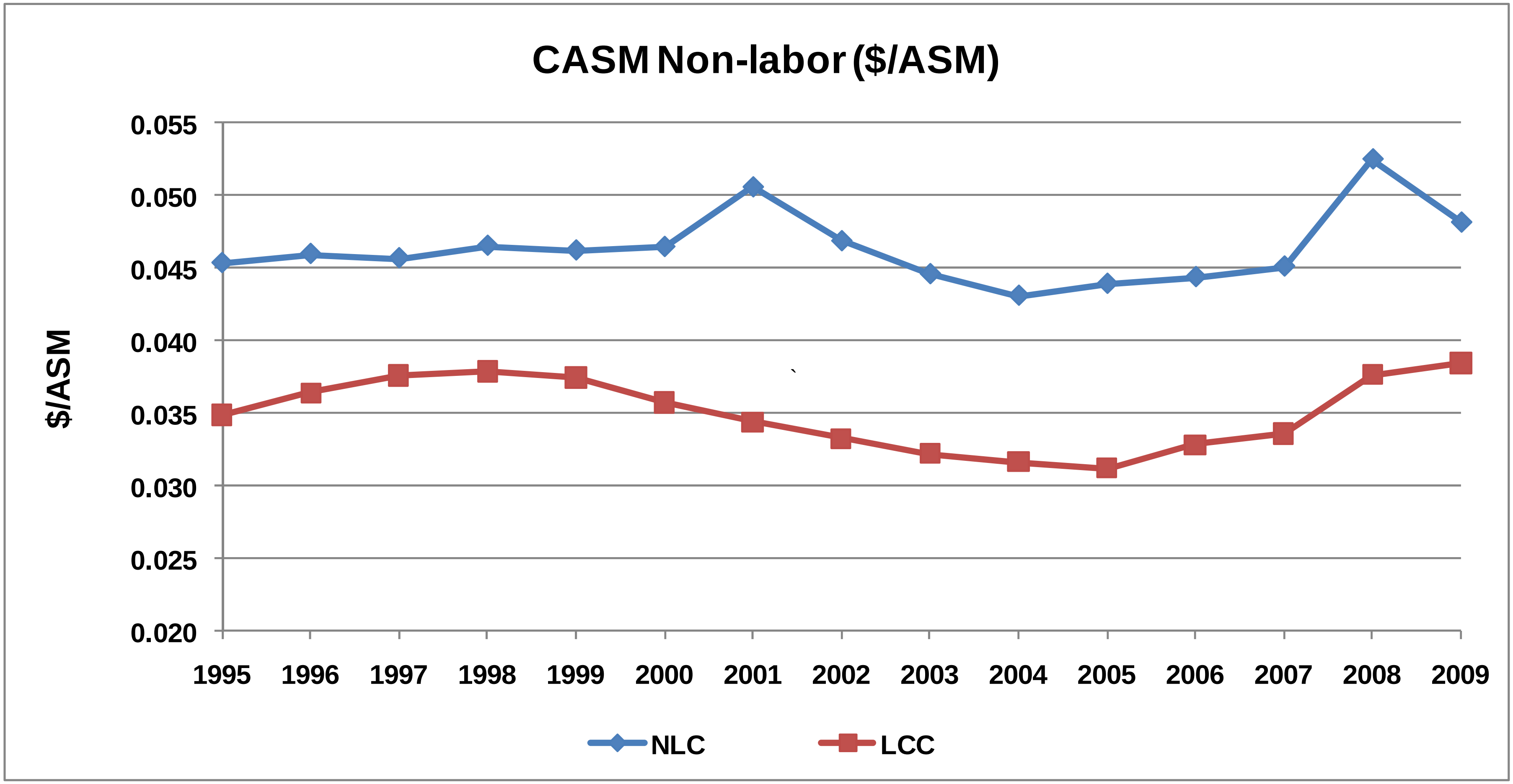
- **Legacy group carried 67% of total US airline traffic in 2009.**

- **These airlines carried another 17% of total US traffic (RPMs).**

Unit Costs (excl. “Transport Related”) Spiked in 2008



Non-Labor Unit Cost Difference Still About 1 Cent
The "Structural Gap"



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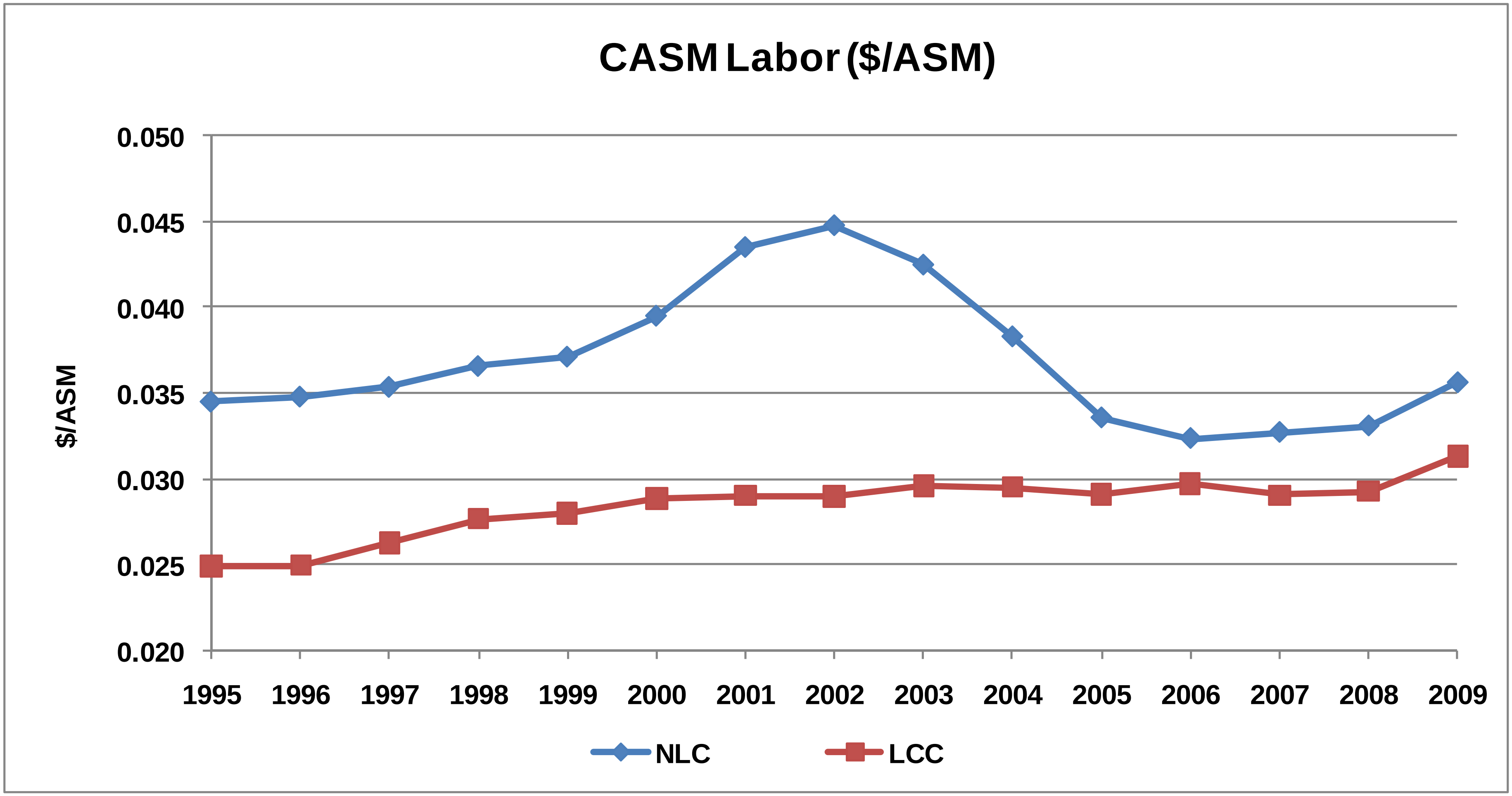
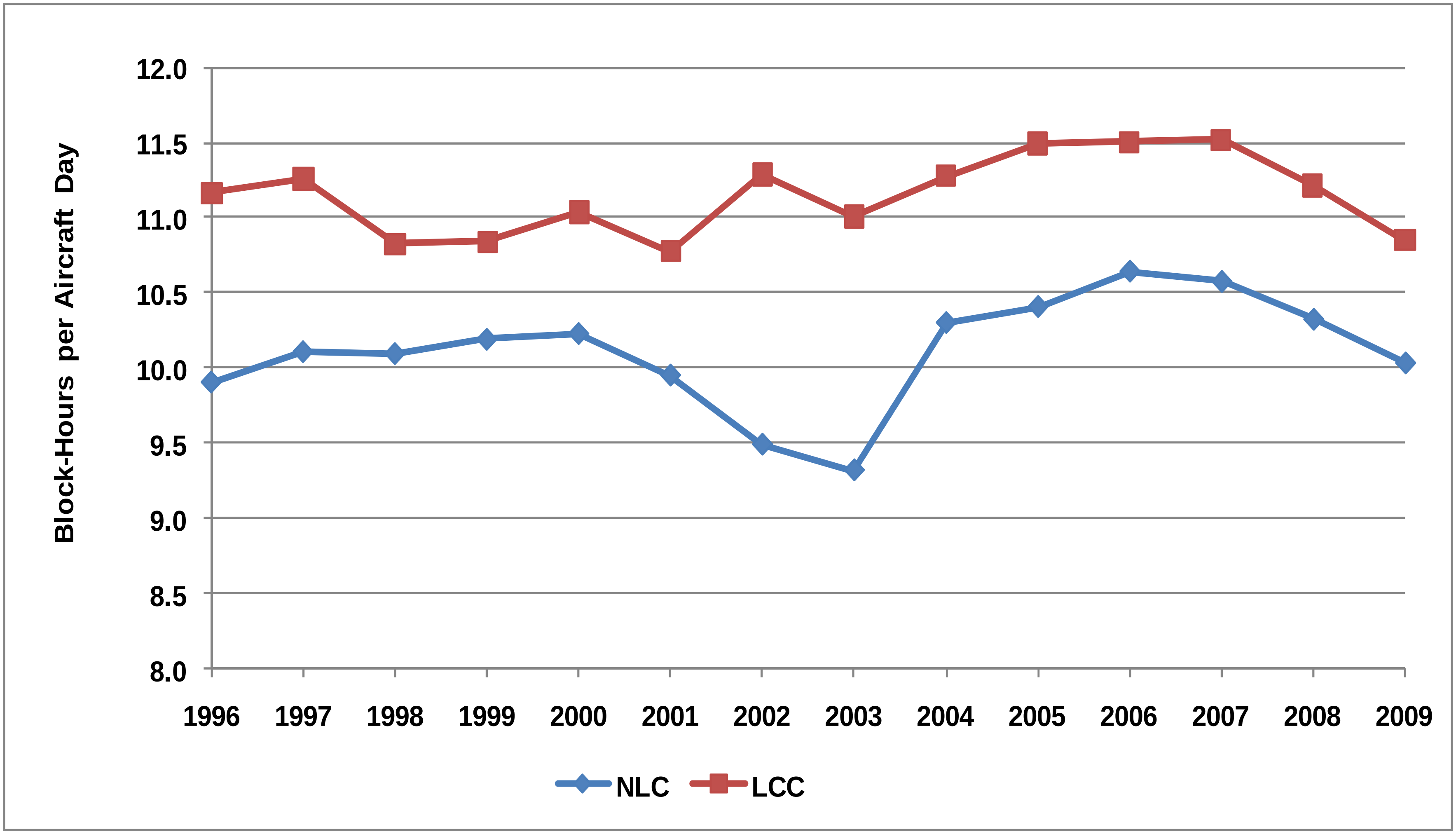
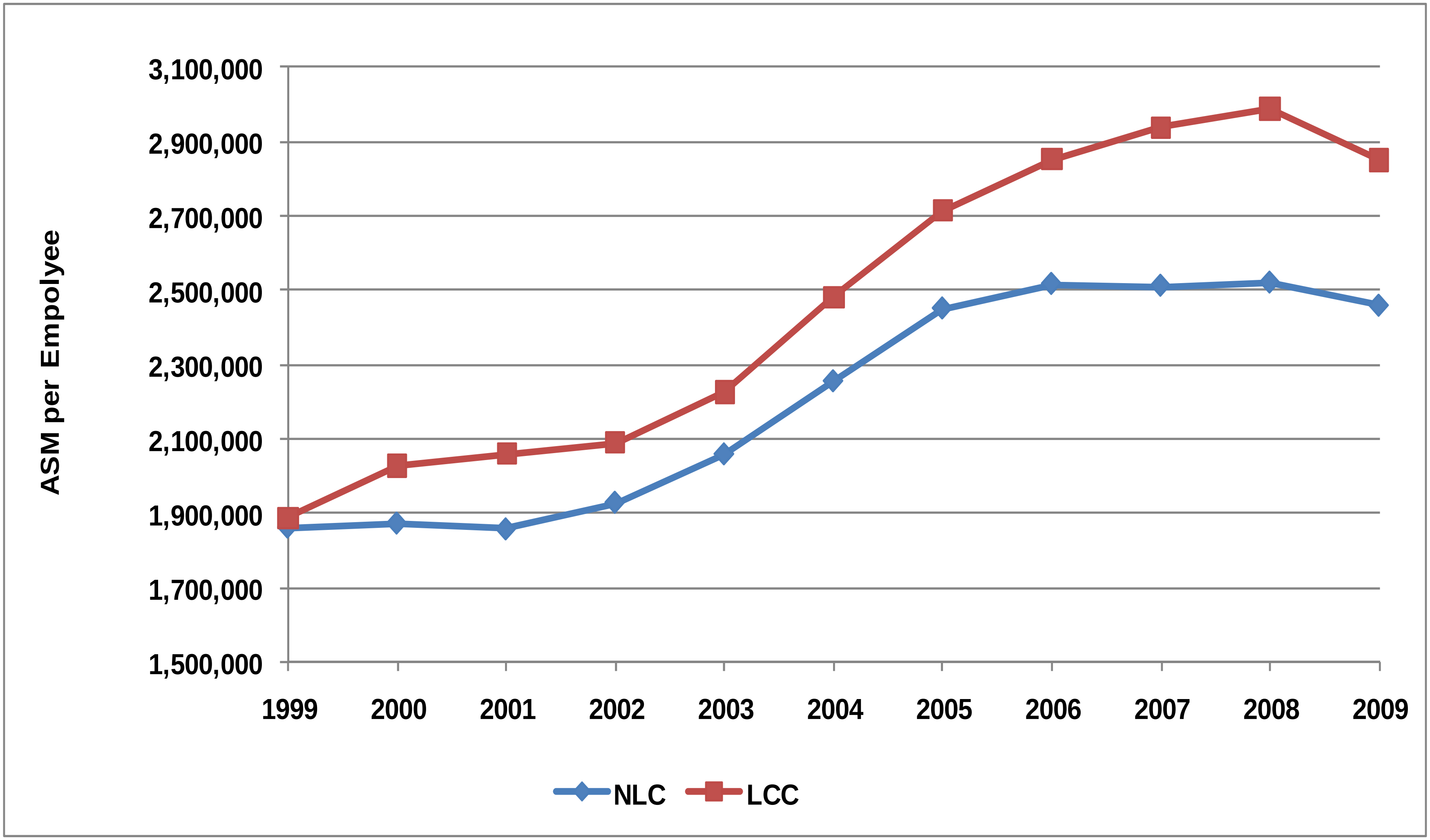
Labor Unit Costs Increasing Again for Both Sectors



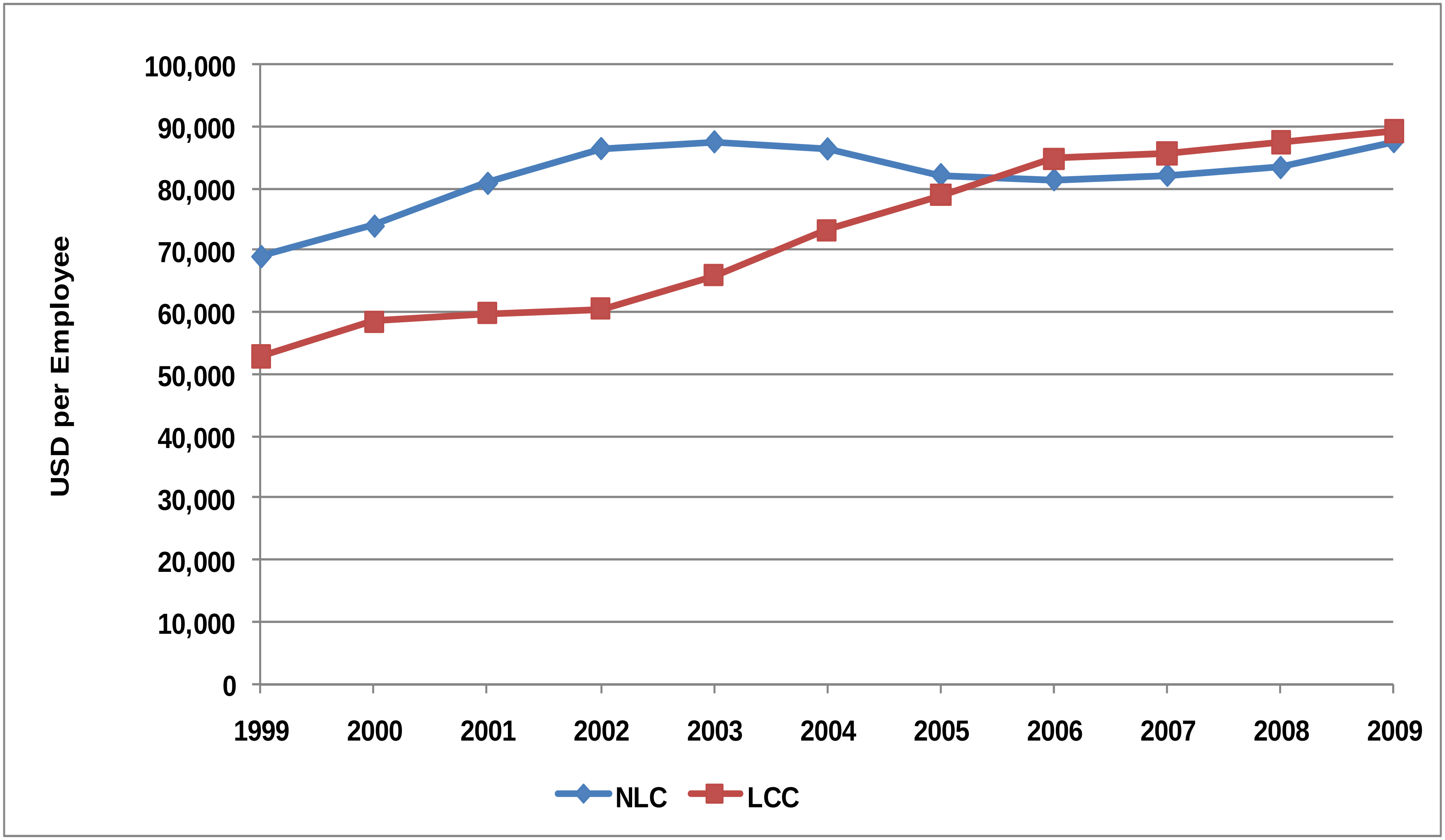
Aircraft Utilization Decreased in 2008 and 2009



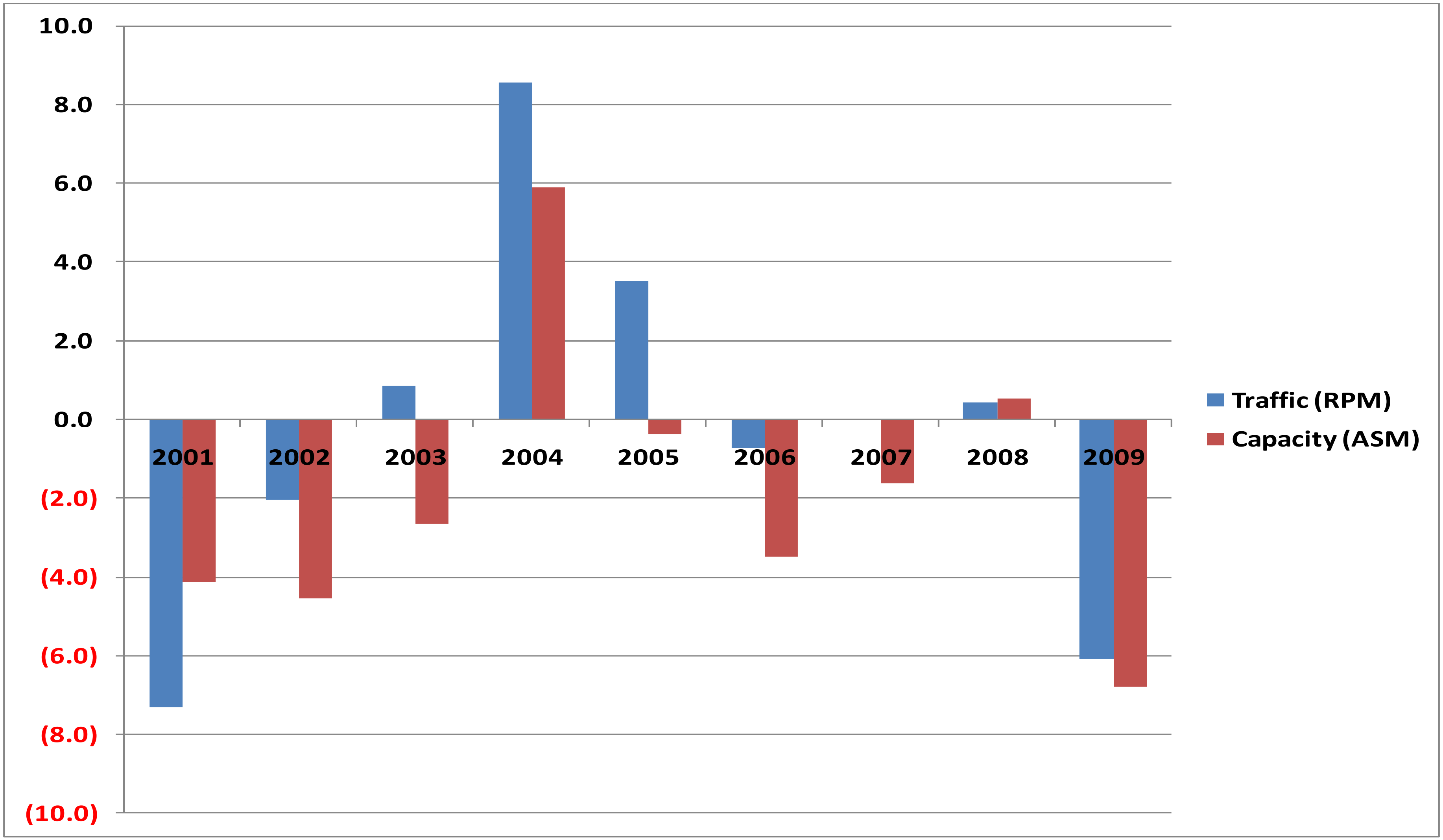
LCC Employee Productivity Still 15% Higher than NLCs



Gap in Salaries/Benefits per Employee Disappeared in 2006

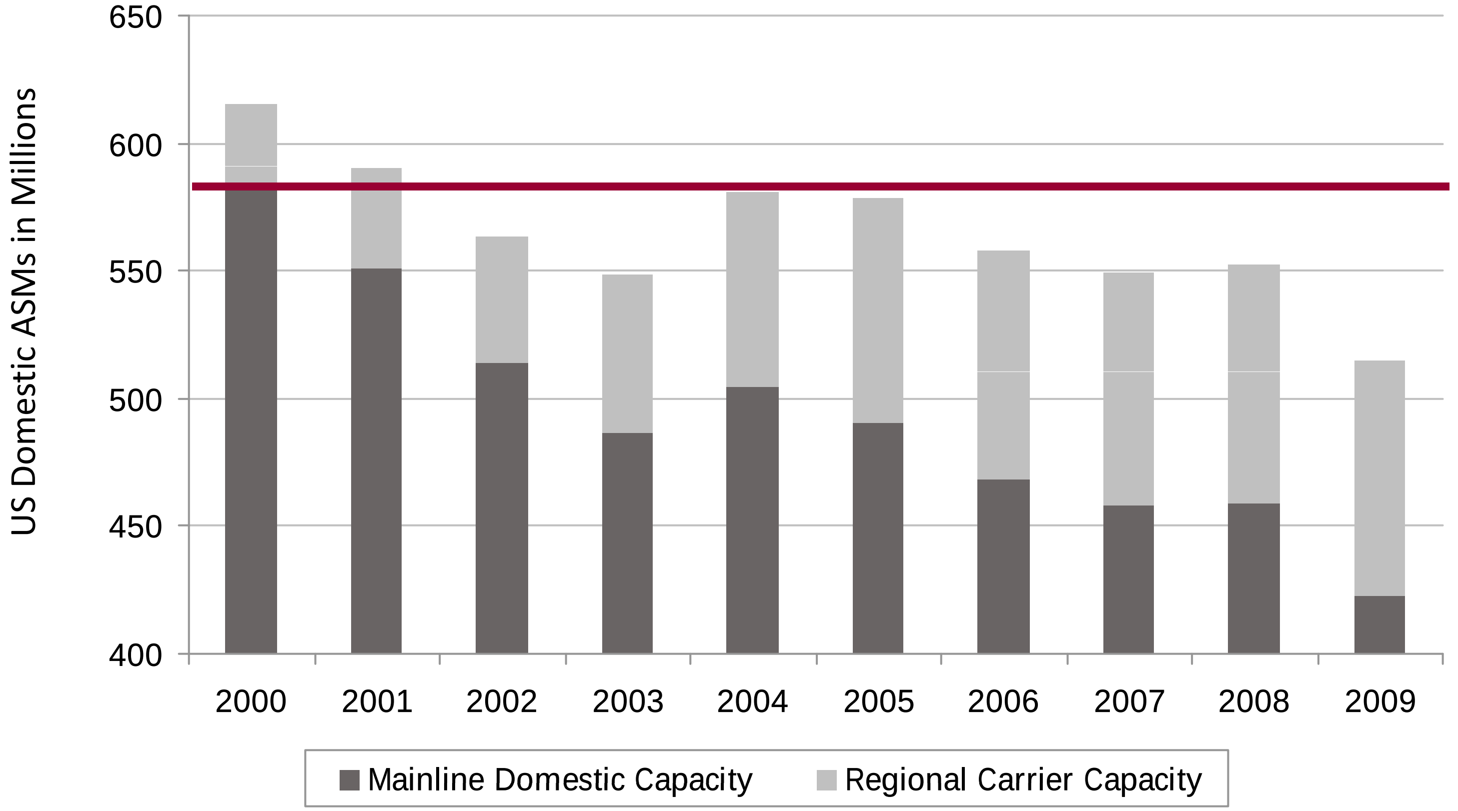


US Domestic Traffic and Capacity Growth by Year

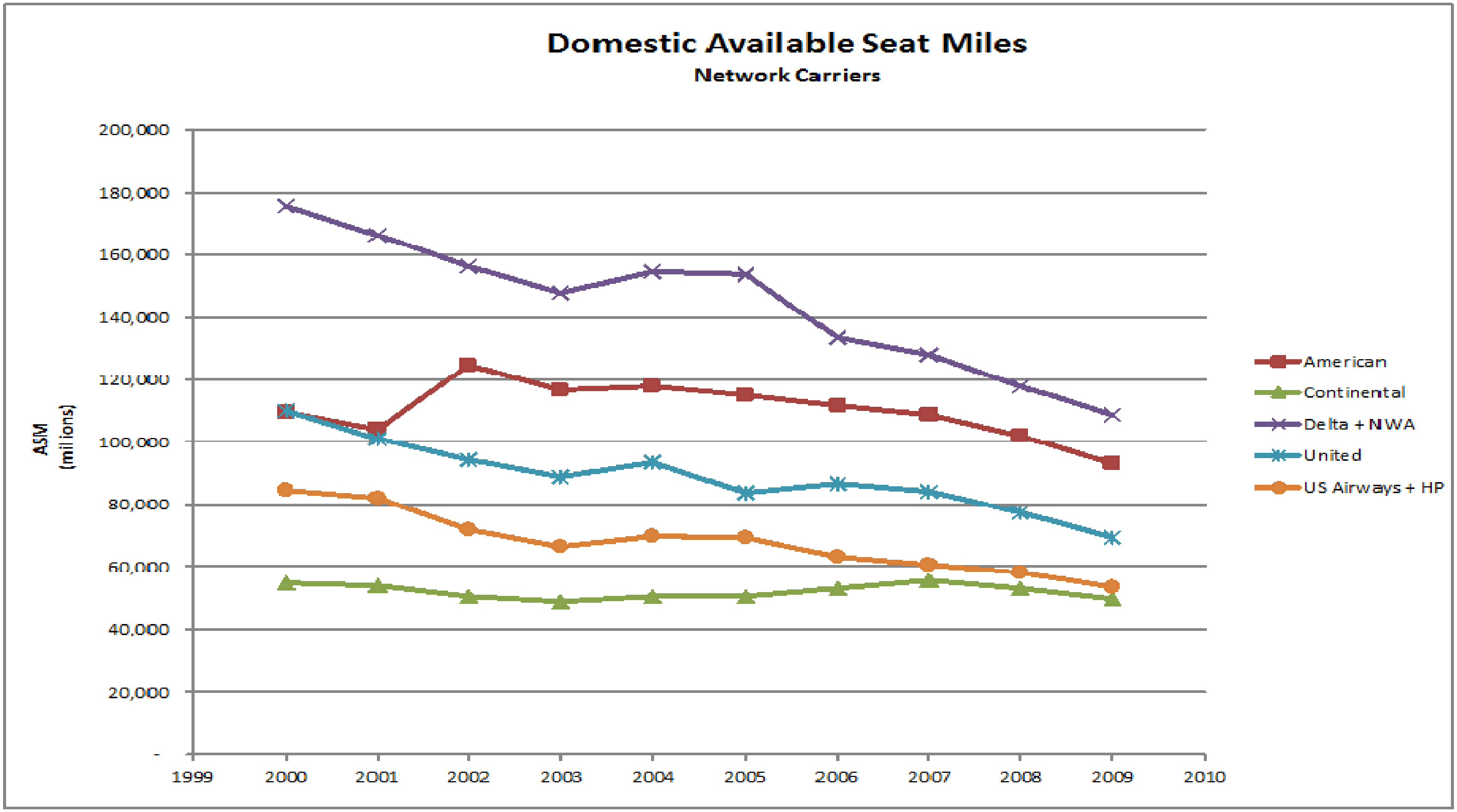


Source: Air Transport Association

Domestic Mainline Carrier Capacity Down 28% Since 2000; Total Domestic ASMs Still 16% Lower



Network Carriers Have Cut Domestic Capacity



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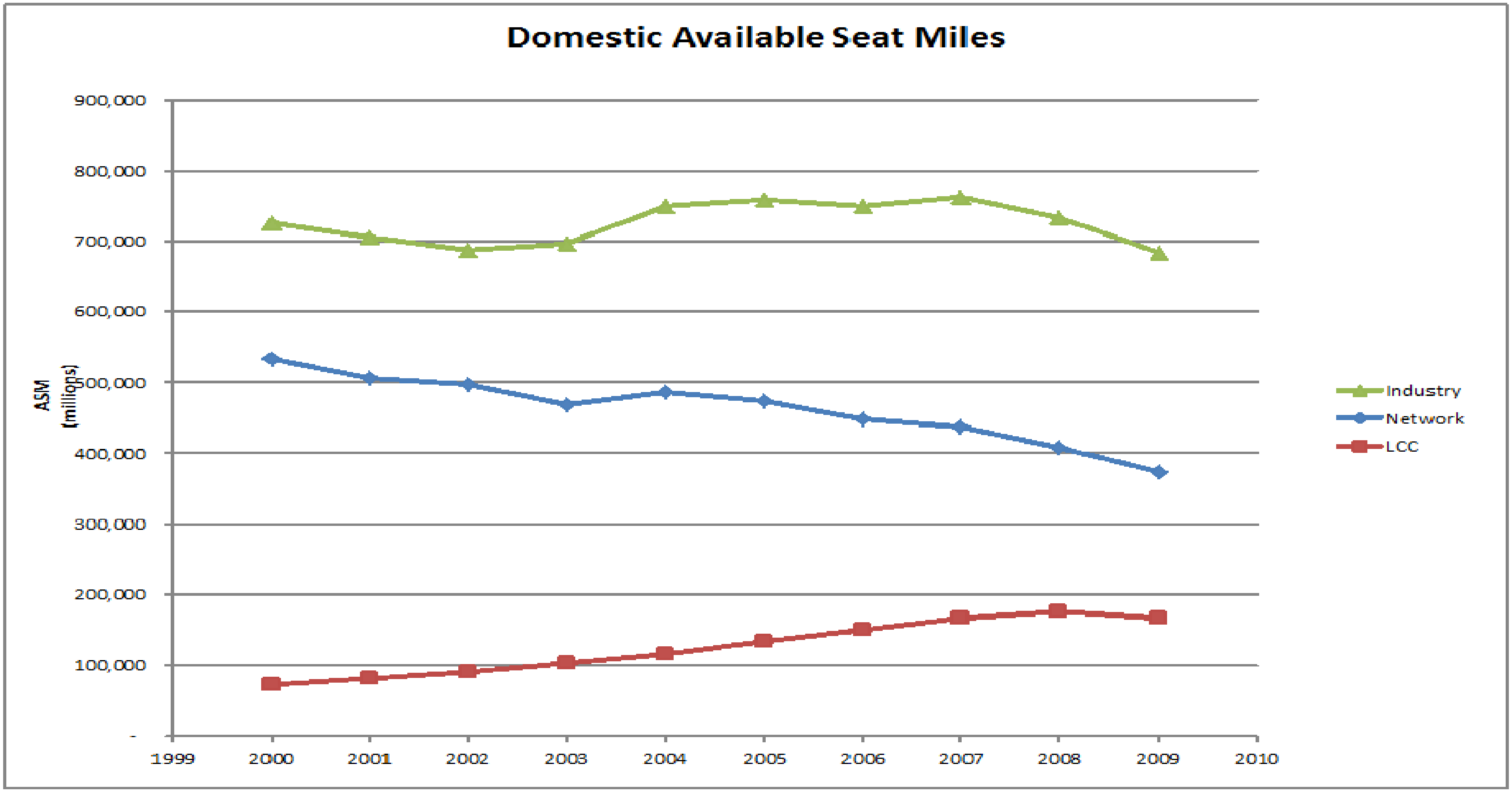
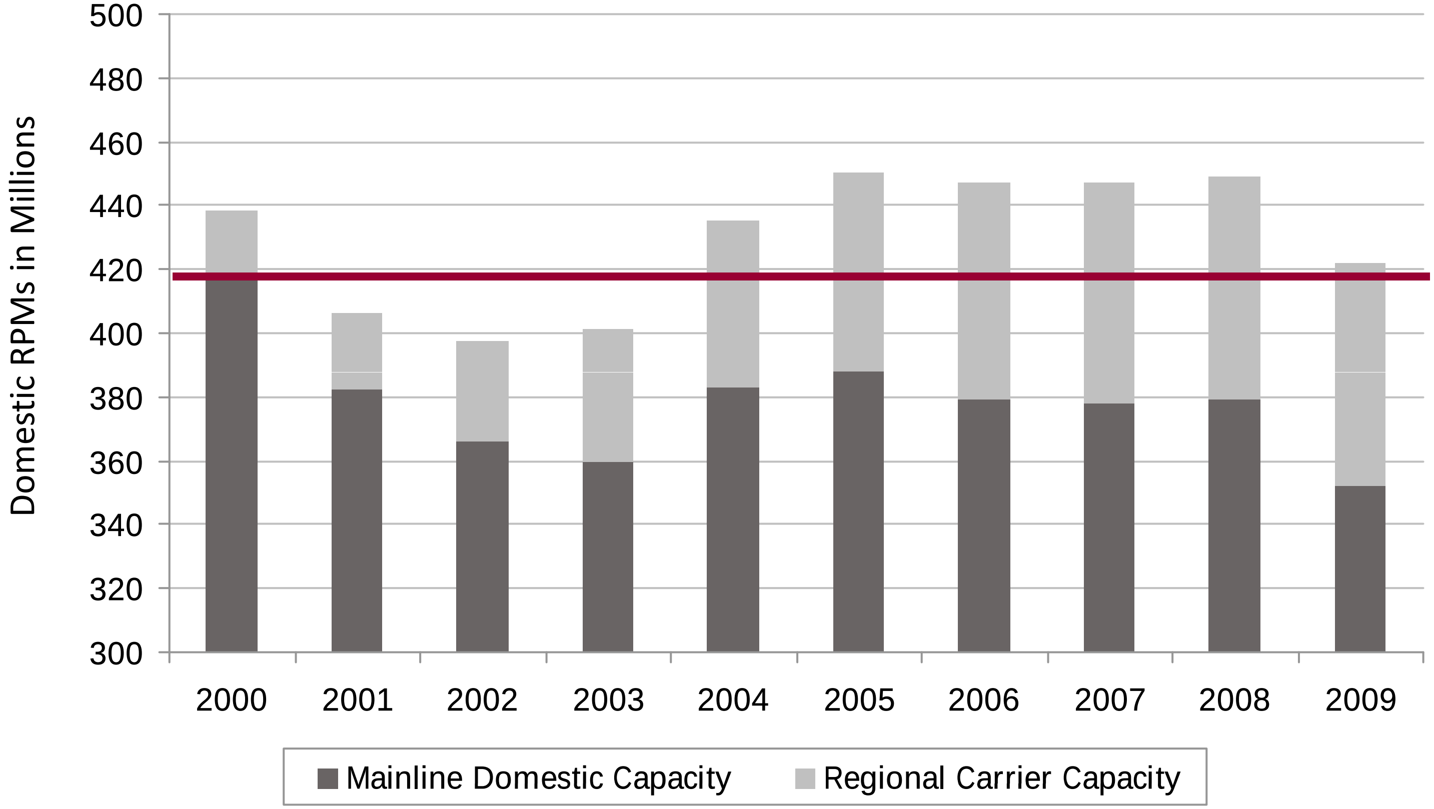
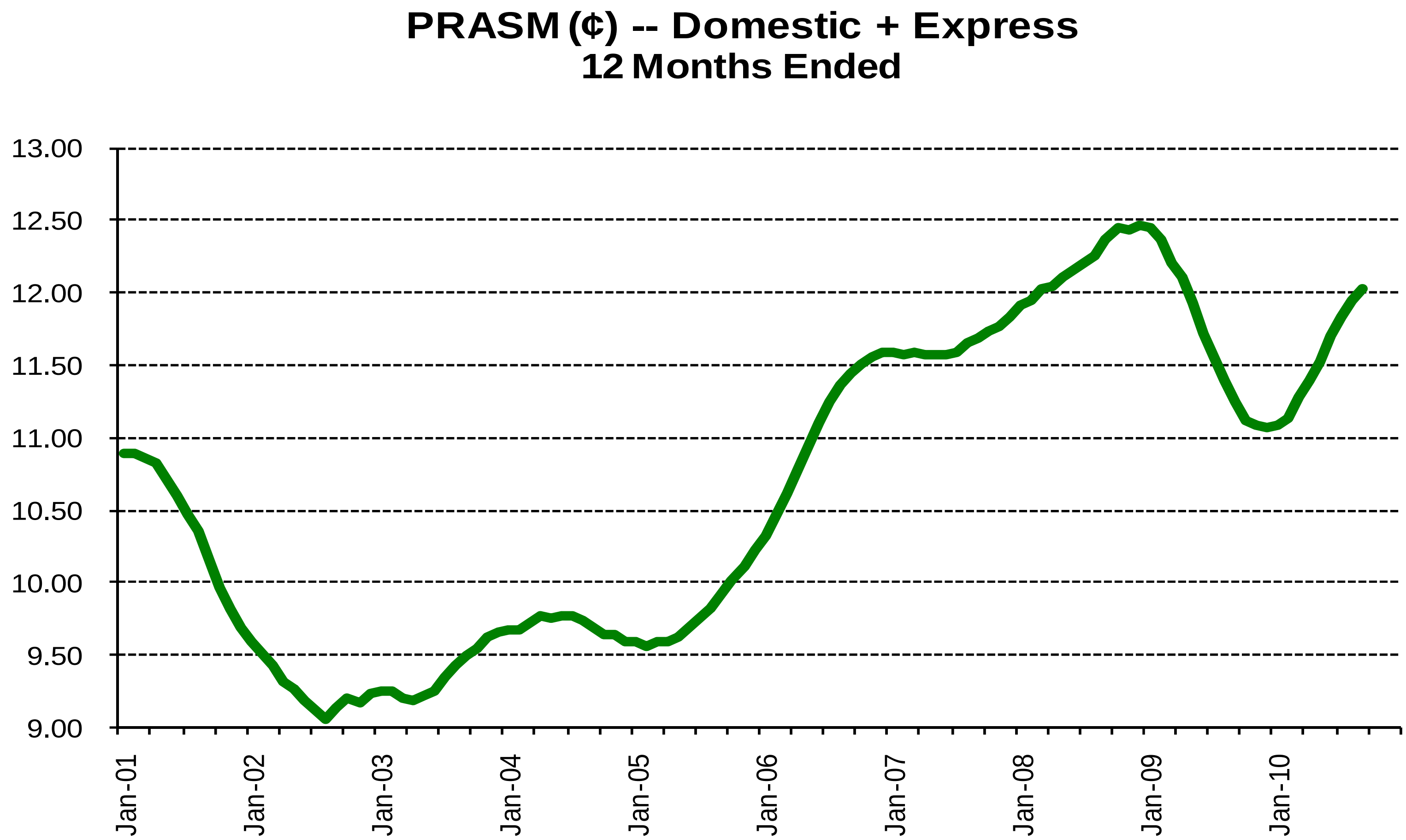
LCC Domestic Capacity Has Grown, But Leveling Off



Regional Partners Carry An Increasing Proportion of Decreased Domestic Passenger Traffic

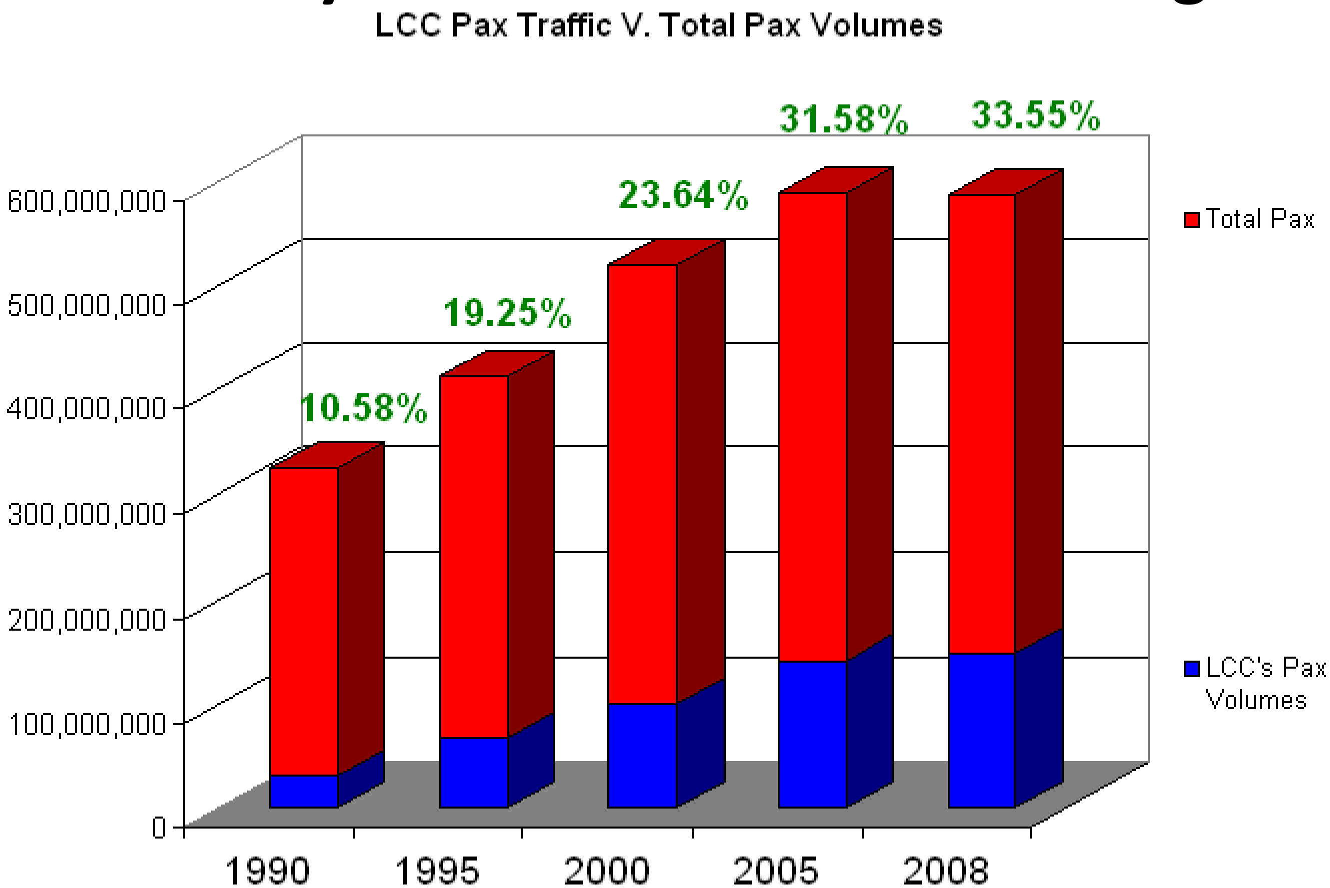


Pre-Downturn, Capacity Reduction Was Having a Positive Effect on Unit Revenue Measures



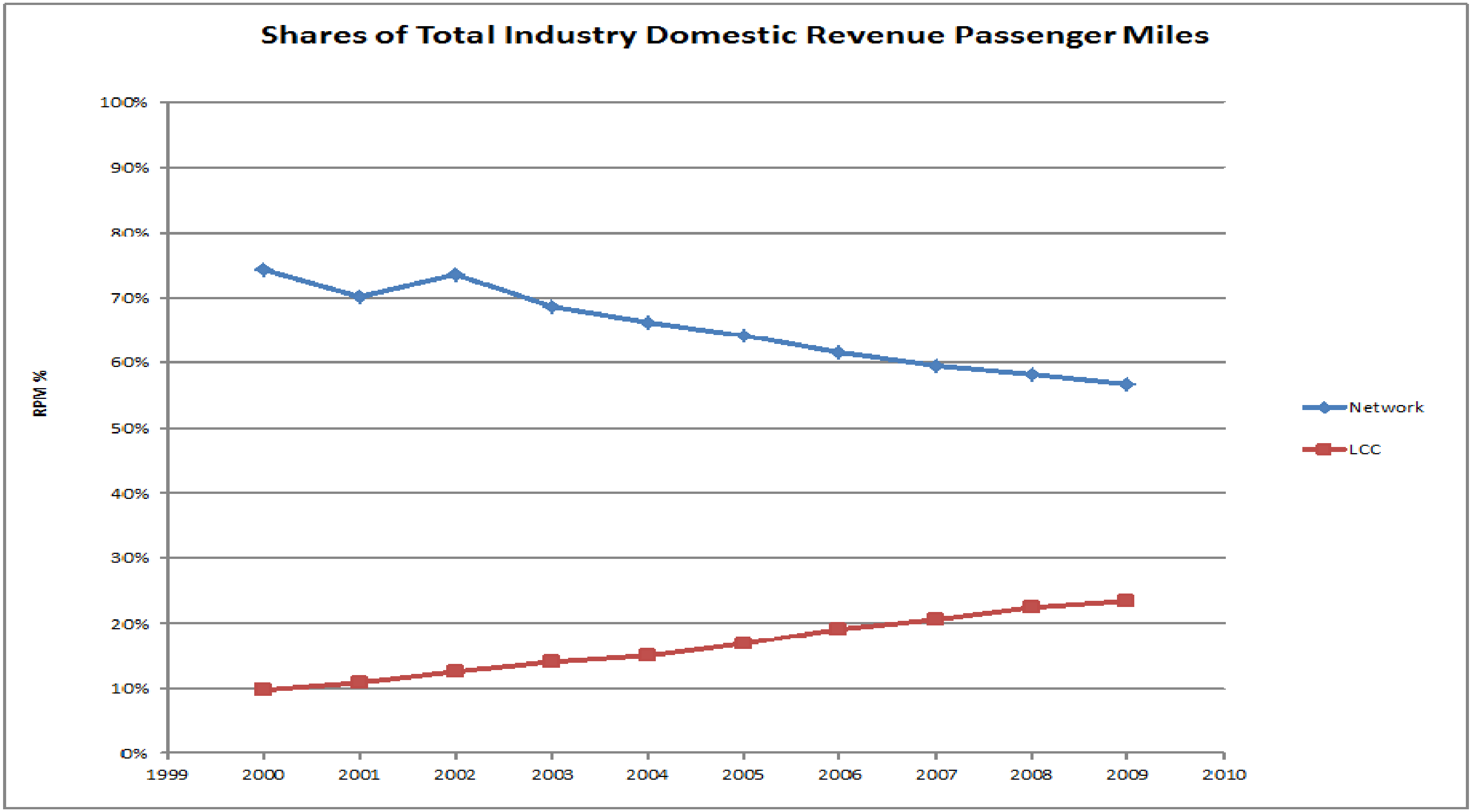
Source: Air Transport Association

LCCs Carry 1 in 3 US Domestic Passengers



LCC Market Share is still growing but leveling off, reaching 34% of total US domestic passengers in 2008

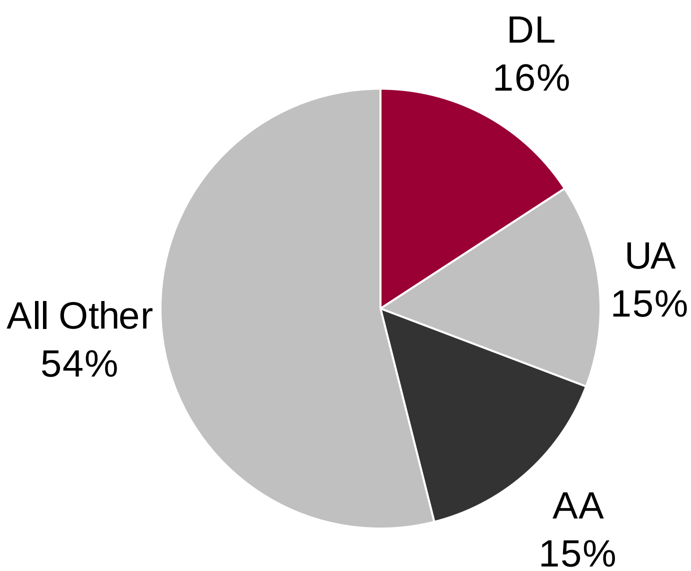
LCC Share of Domestic RPMs is Approaching 25%



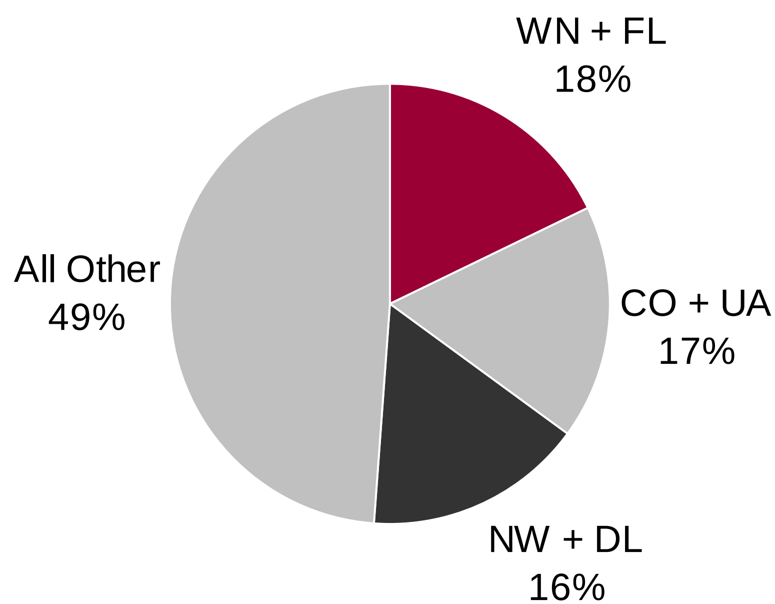
Domestic Market Concentration Virtually Unchanged

Merged Southwest Larger than Delta *and* United in Domestic Capacity

Domestic ASM Share
First Quarter 2000



Domestic ASM Share
Second Quarter 2009



Notes: Mainline only. Exludes Regional Operations.

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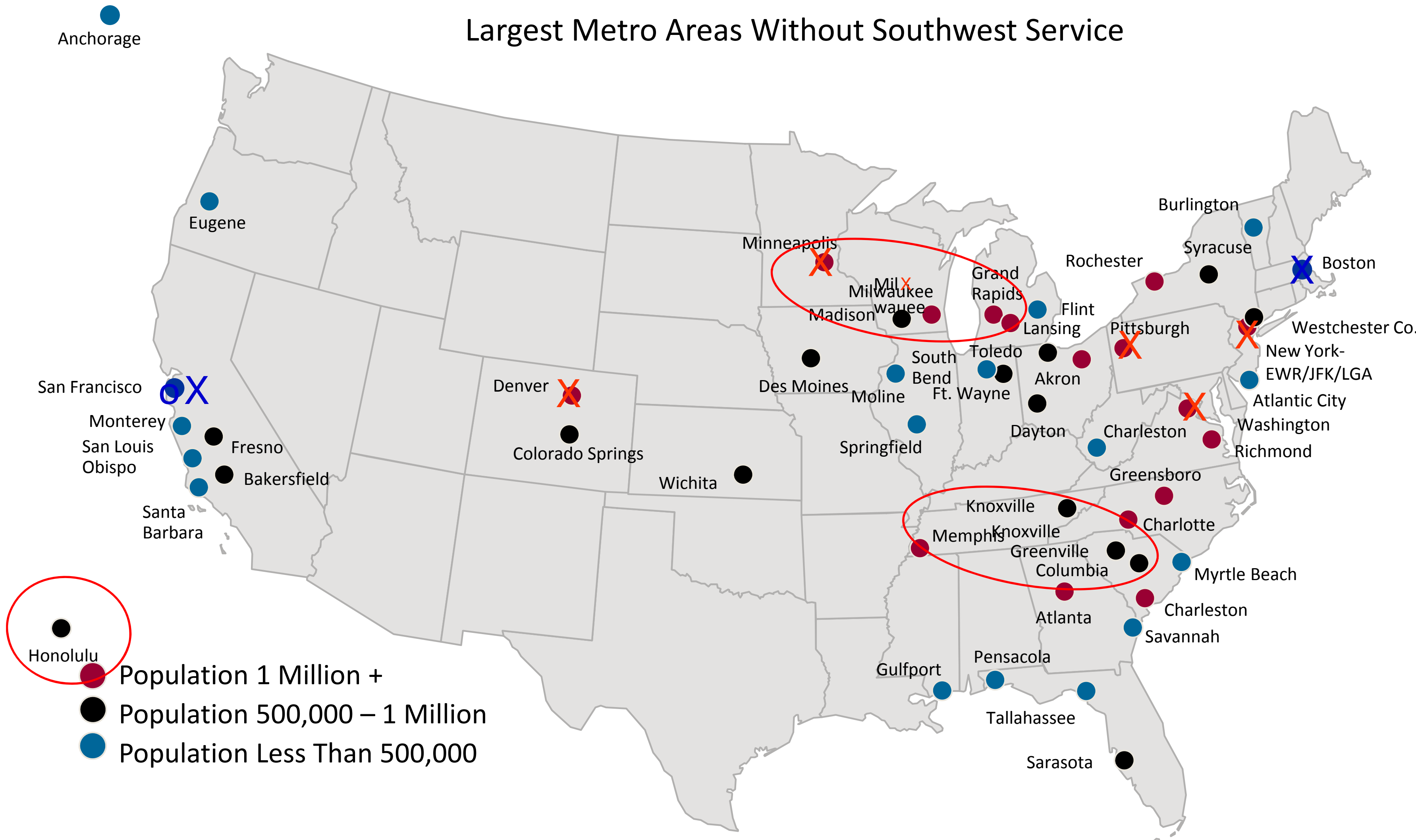
Southwest's Recent Growth Has Only Been Into the Largest Markets

Largest Metro Areas Without Southwest Service



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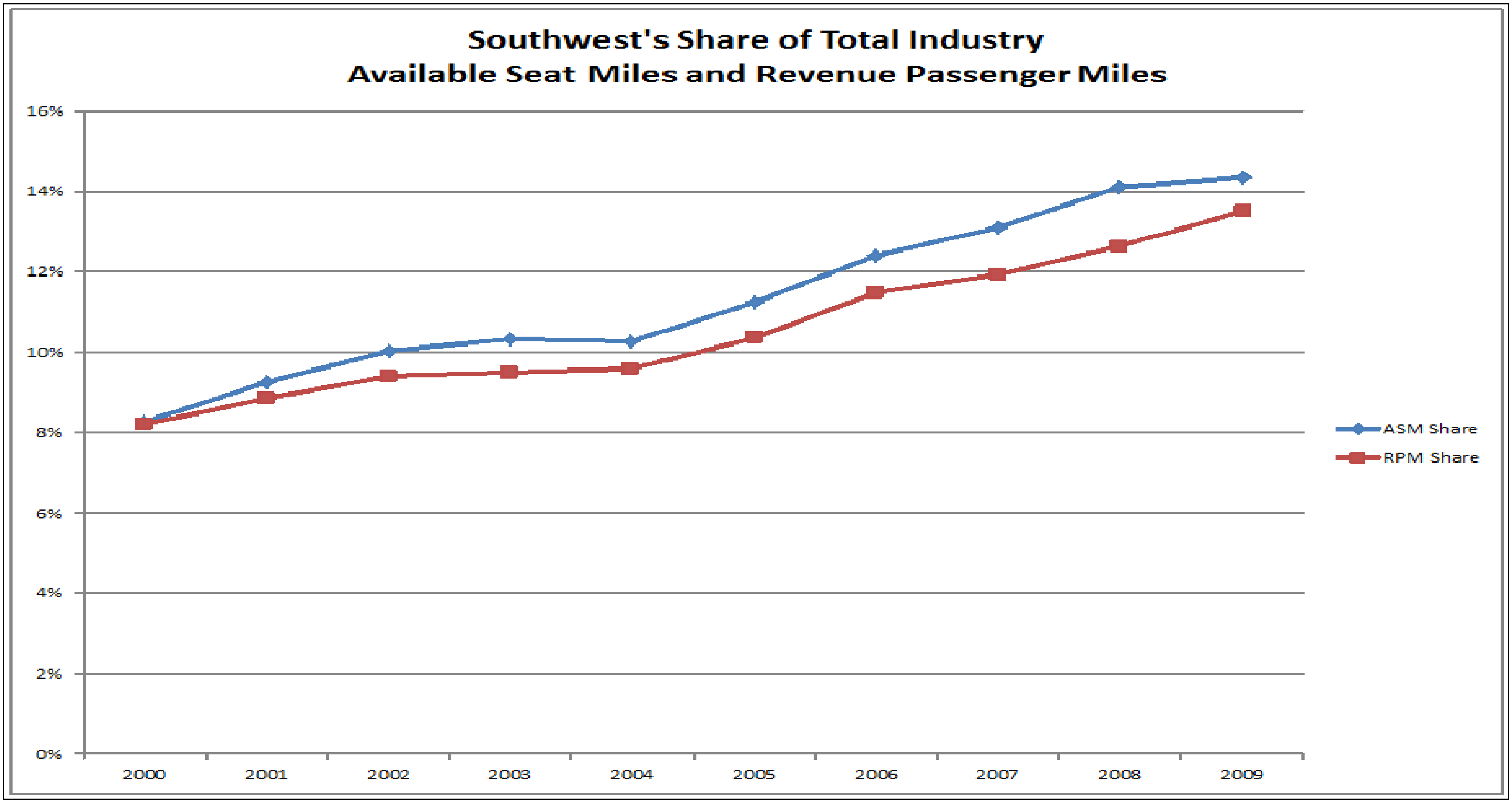
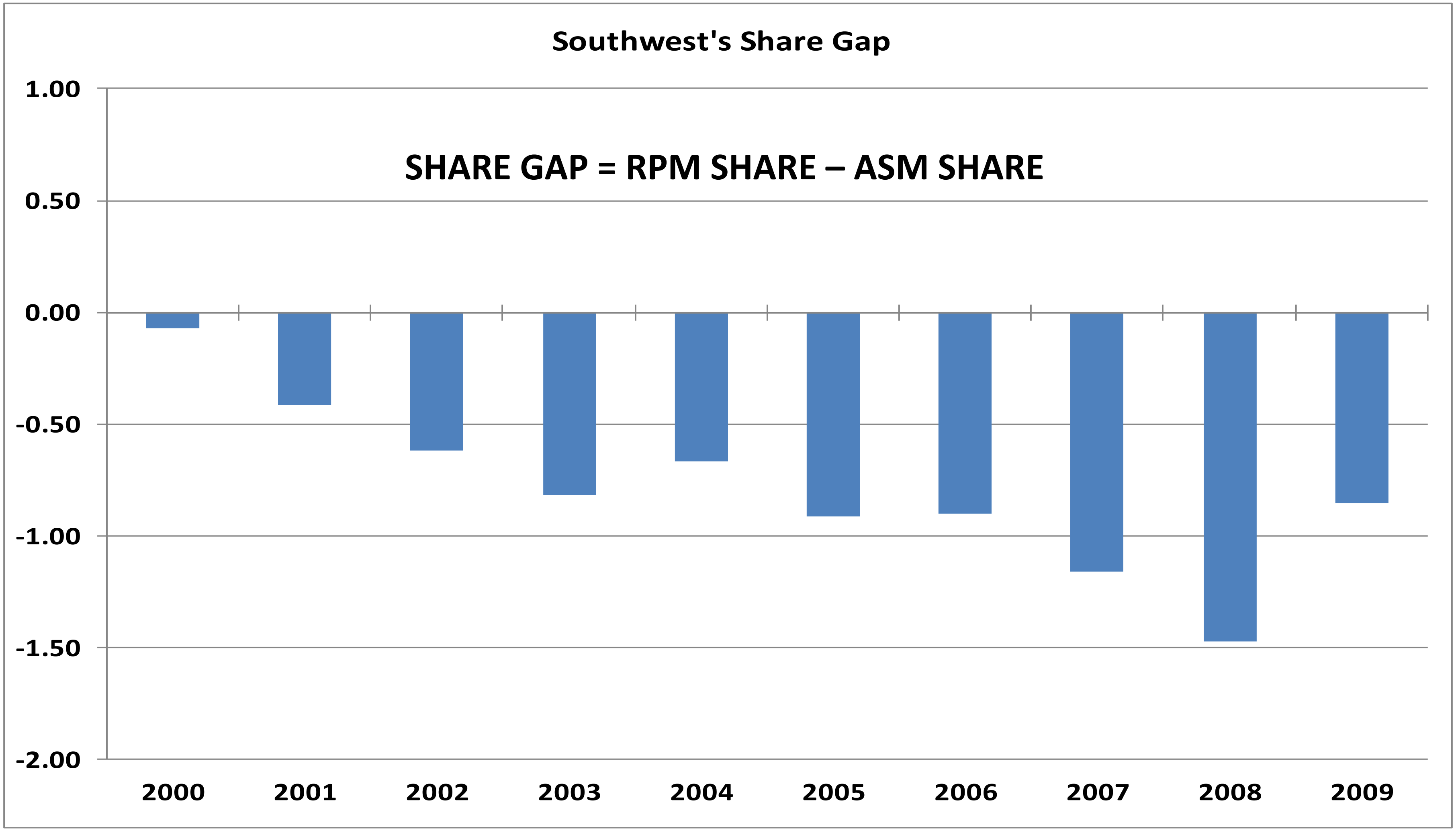
Southwest has Increased Domestic Share through Growth in Capacity (ASM) Share at Below Average Load Factors



Southwest "Share Gap" Narrowed in 2009 – Due to Extensive Marketing of No Ancillary Fees?



Prospects for Sustained US Airline Profitability

- **Exogenous forces remain the primary drivers of profit**
  - Strong economic recovery is critical to the demand/revenue side
  - Fuel prices are climbing, continue to be the greatest wild card
- **Cost and productivity gains have leveled off and/or reversed**
  - Non-fuel and especially labor unit costs increasing for NLCs and LCCs
  - Upcoming labor negotiations will be particularly difficult
- **Return to profitability largely due to capacity management**
  - Shifts by NLCs to international flying; lower domestic capacity overall
  - Consolidation through mergers in both sectors
- **LCCs continue to grow in largest markets, albeit more slowly**
  - Their 2011+ capacity decisions will greatly affect industry performance