



Massachusetts
Institute of
Technology

Talkin' Consolidation—Again Catalysts Similar to 2008; Impacts Minimal

2010 SEC-AAAE Annual Conference

April 20, 2010

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Economic Catalysts behind Reinvigorated Consolidation Talk

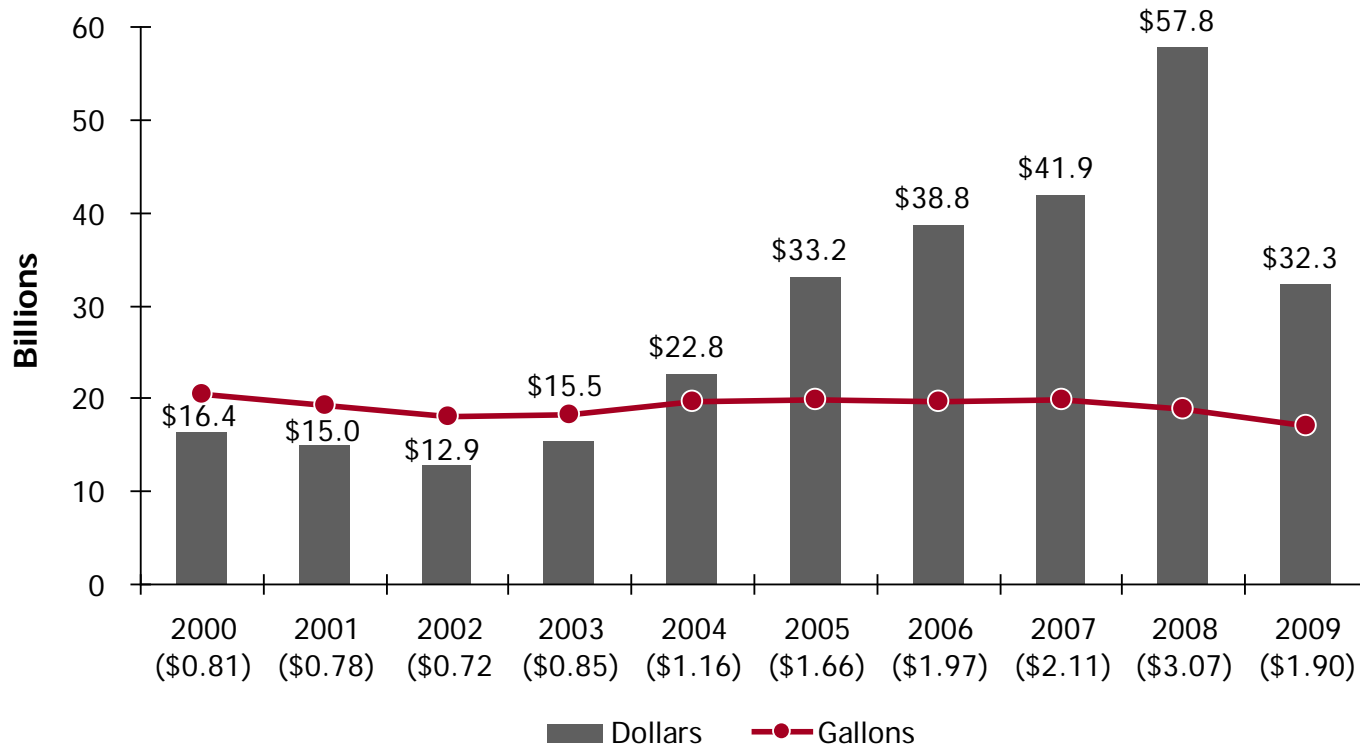


1

Oil & Related Market Volatility



In 2008, U.S. Passenger and All-Cargo Airlines Spent \$16B More on Fuel Than in 2007 and \$42B More Than in 2003

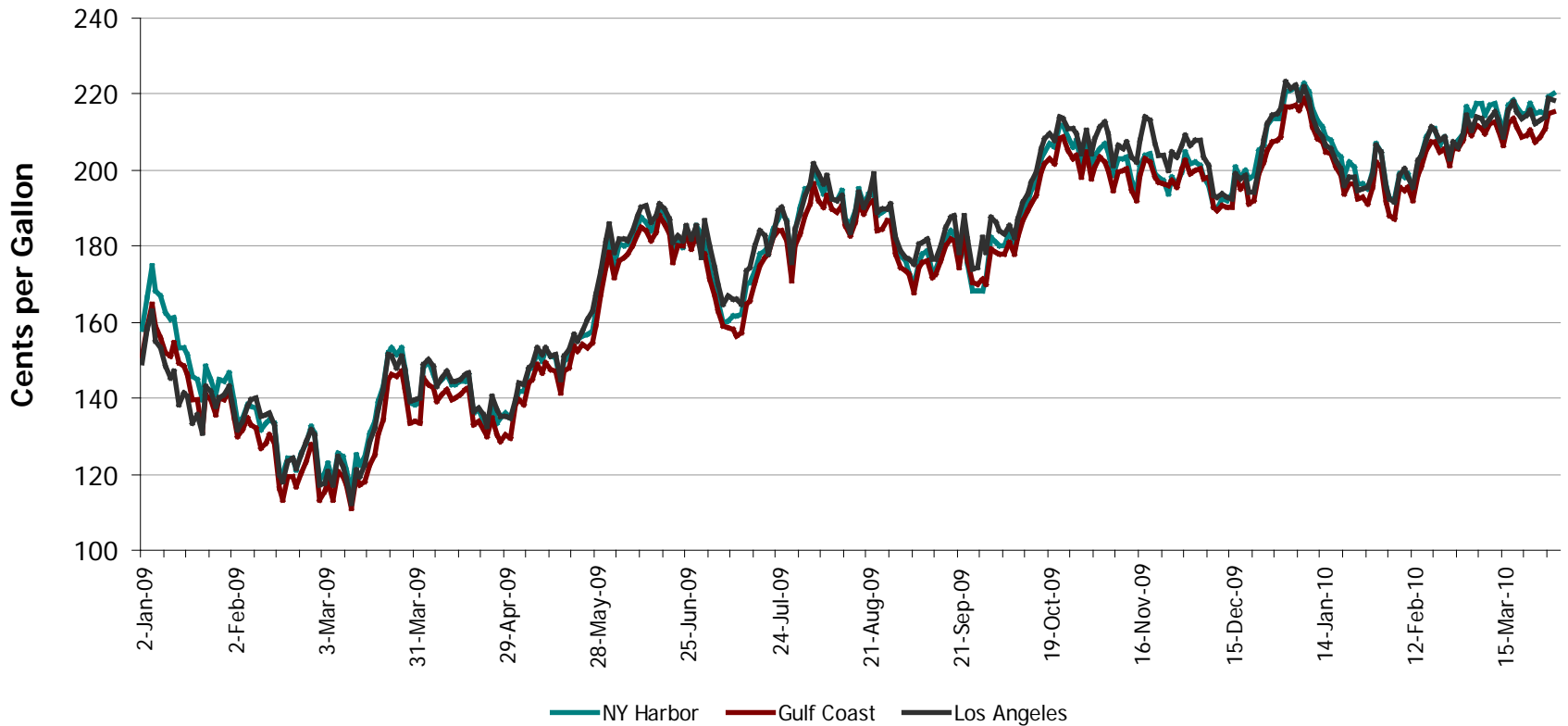


Note: Value in parentheses below year is average price paid per gallon excluding taxes, into-plane fees, pipeline tariffs and hedging costs.
Source: Air Transport Association



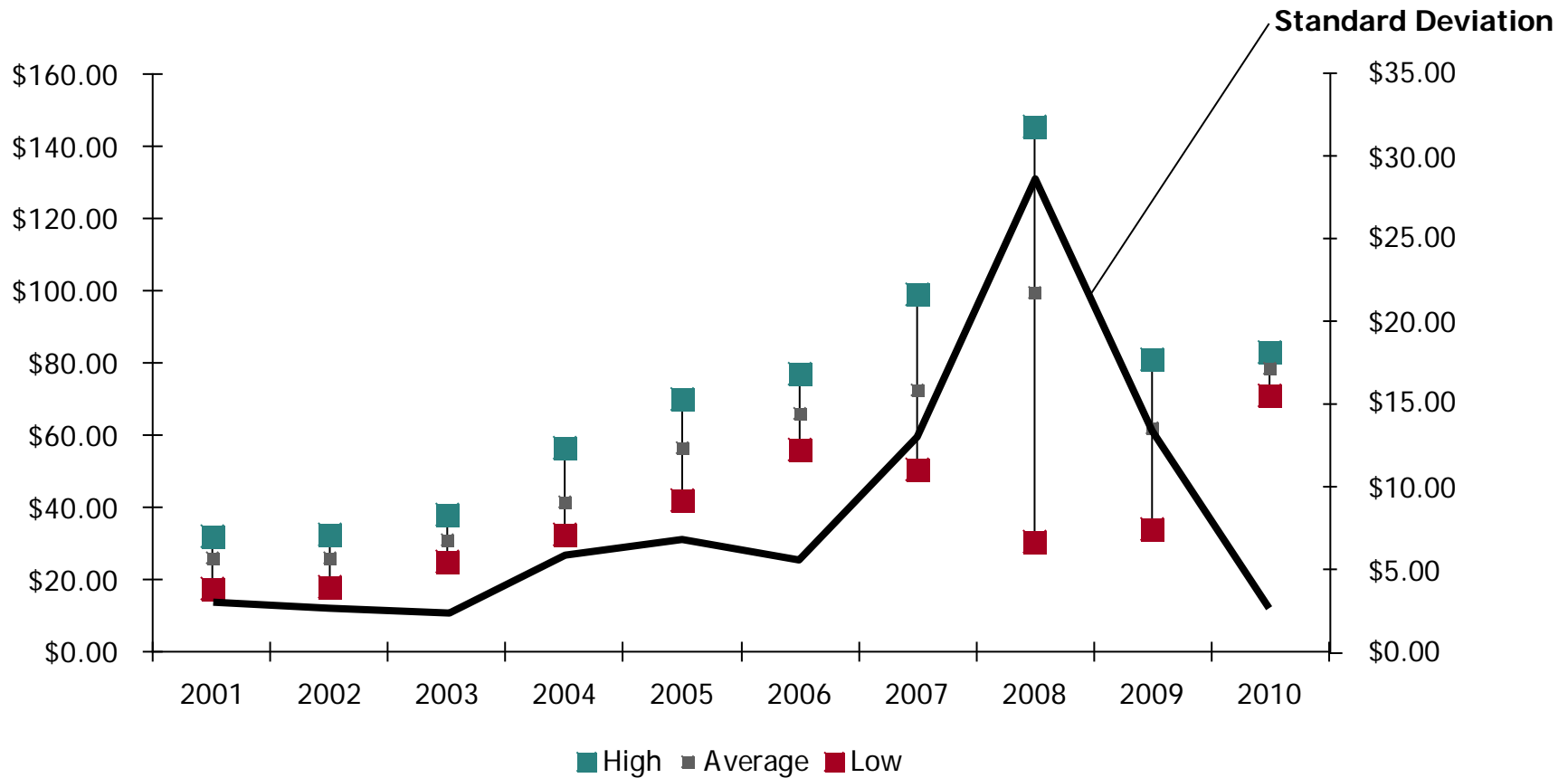
Jet Fuel Prices on the Rise Again

Volatile Nature of Industry's Largest Cost Wreaks Havoc on Business Planning



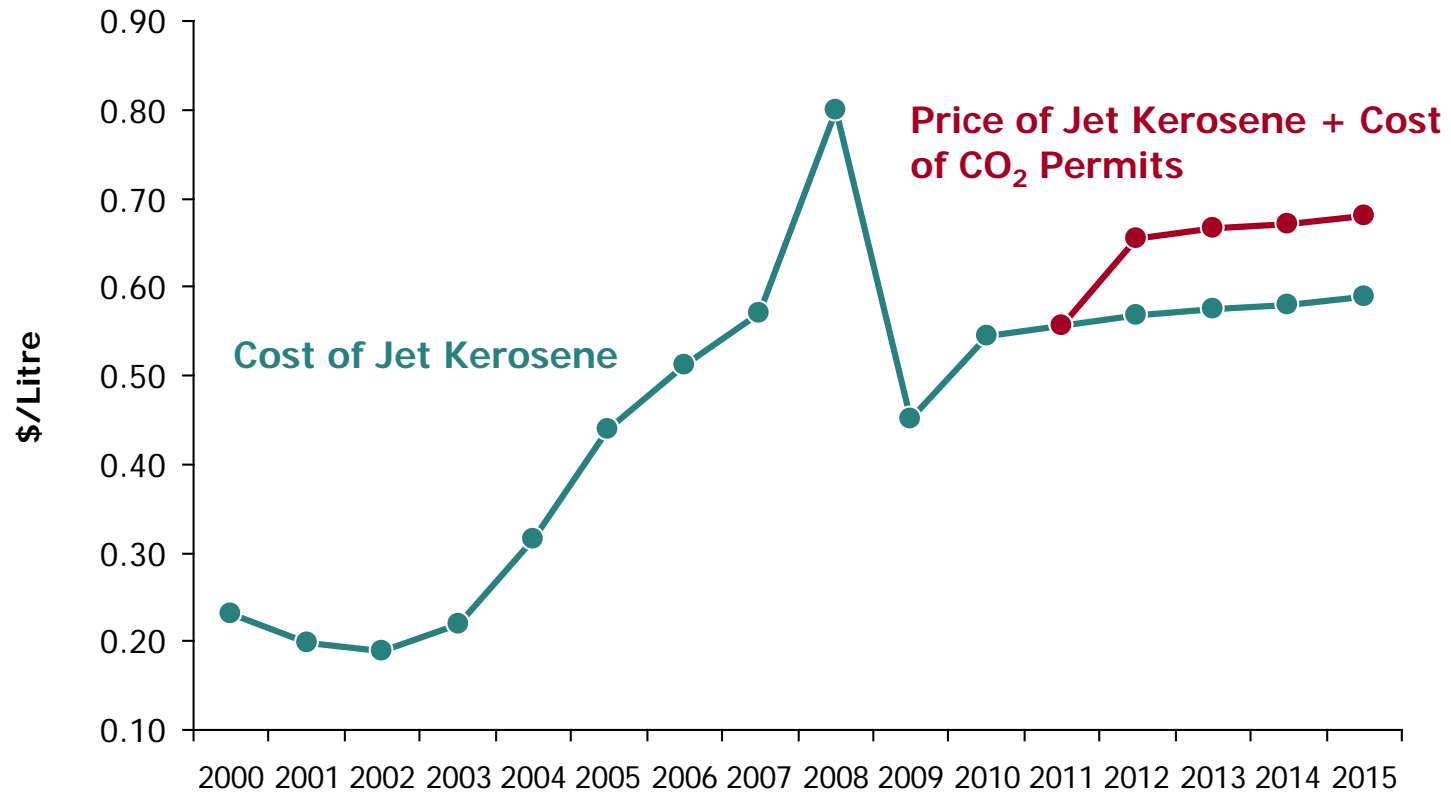


Another Look at the Volatility of a Barrel of Oil





Environment Policies Will Add to Costs Too





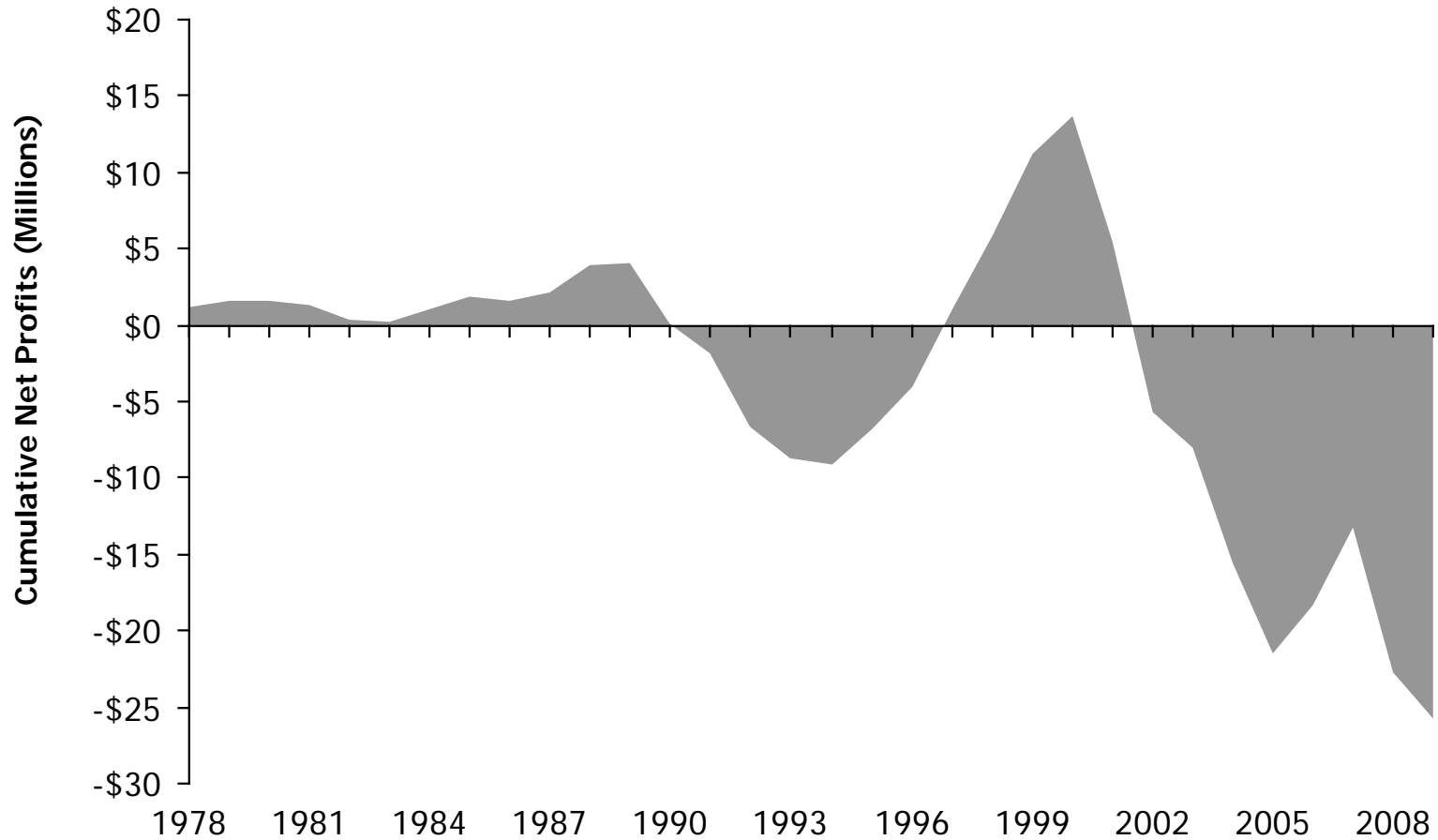
2

Carrier Financial Positions



The US Airline Industry Has Lost \$22 Billion Since 1978

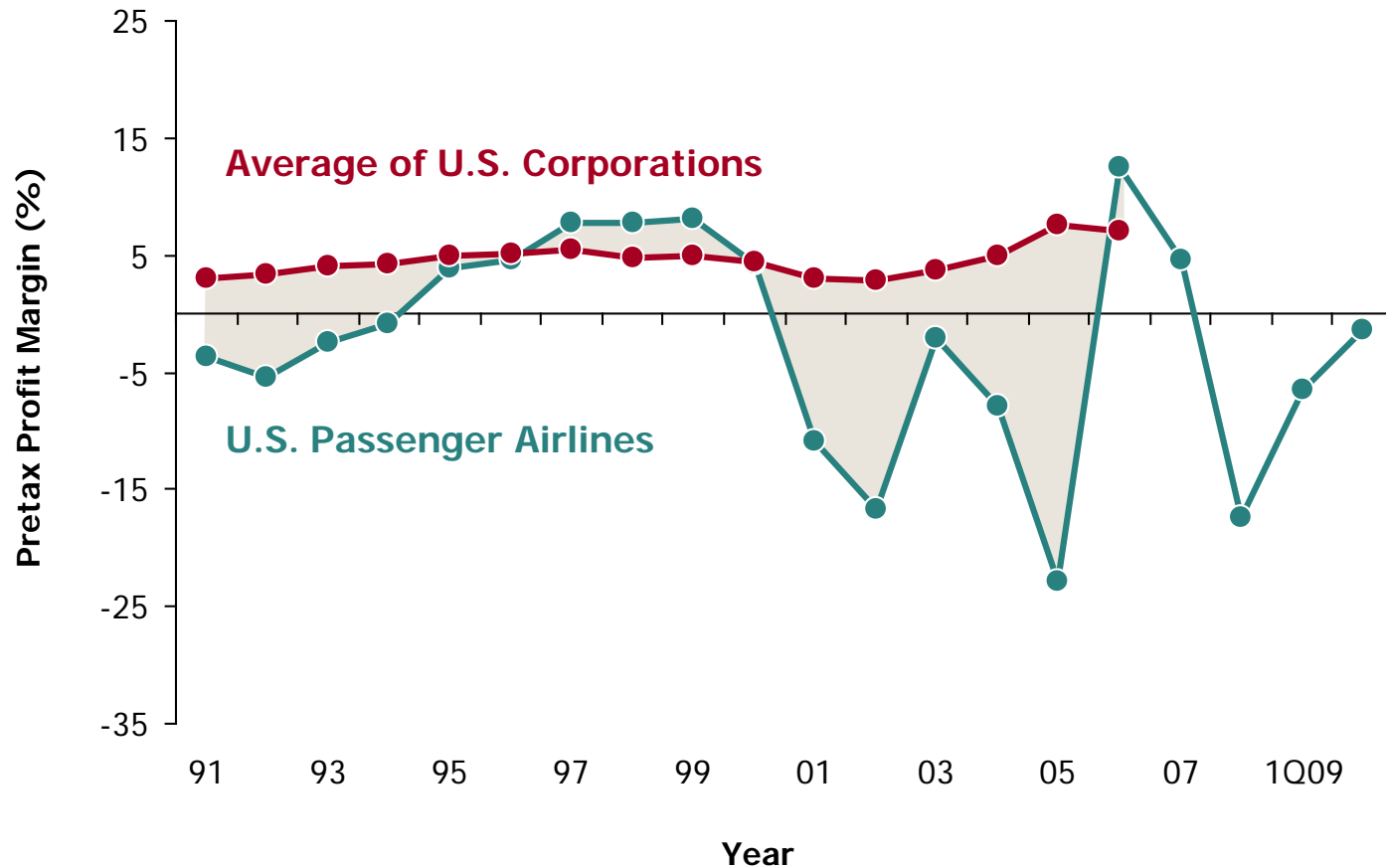
1978 – 2009E





Airline Industry Profitability Elusive

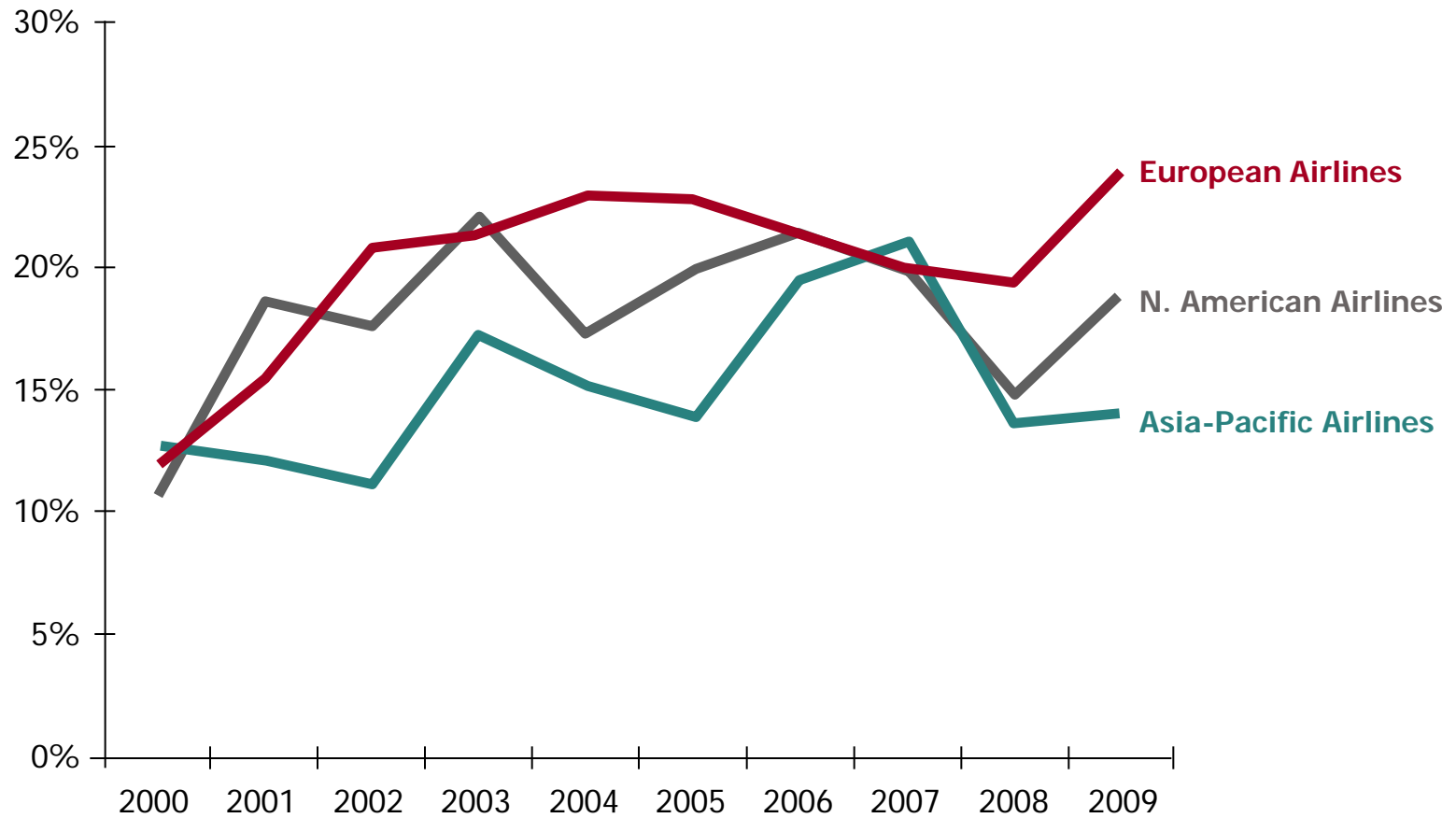
Pretax Profit Margin Highly Cyclical and Well Below U.S. Corporate Average





Cash Balances Are In a Safer Range Than In 2008.....

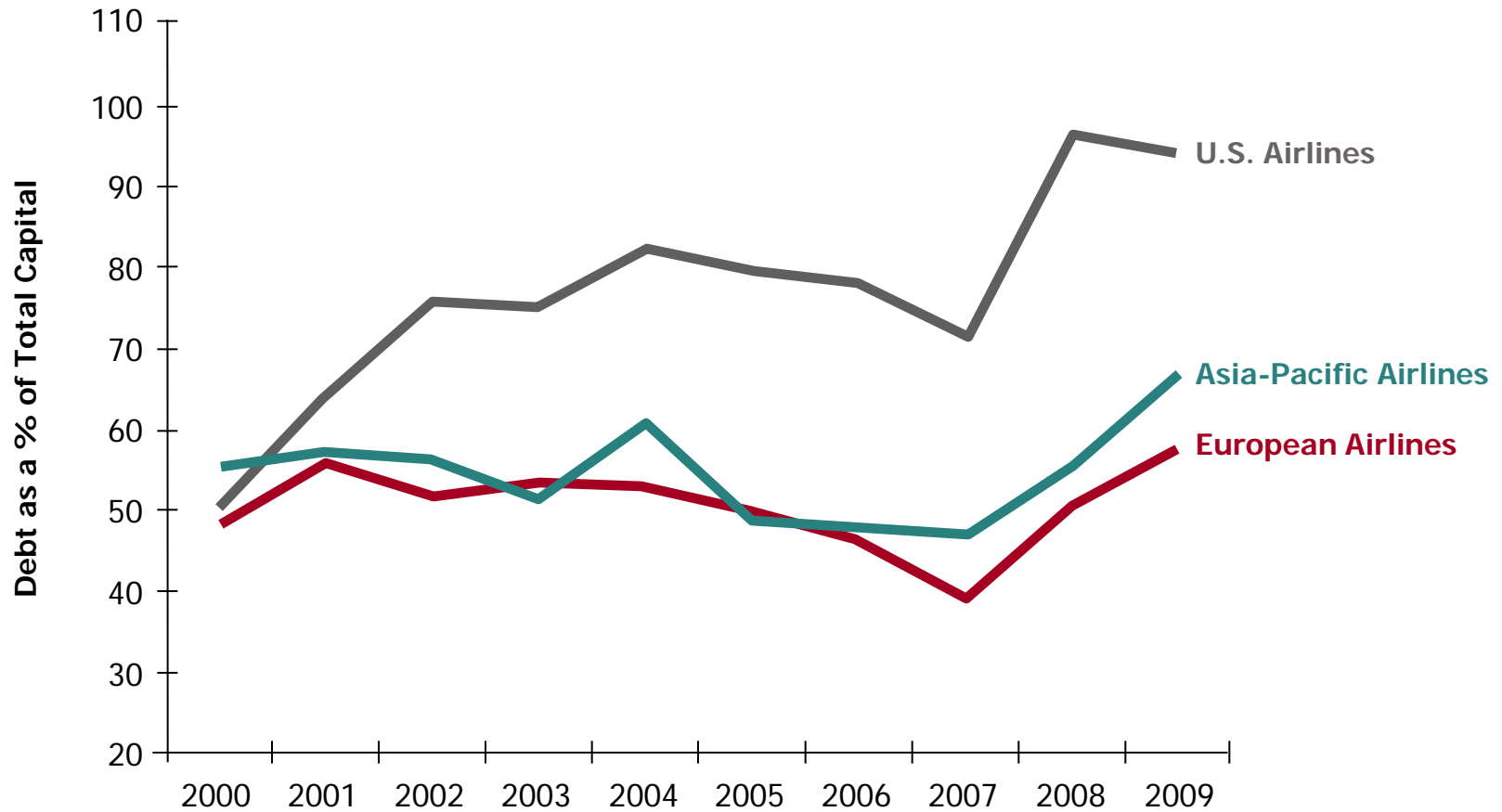
Cash and Equivalent as a % of Revenues – Major Airlines





....But At the Expense of Further Borrowing

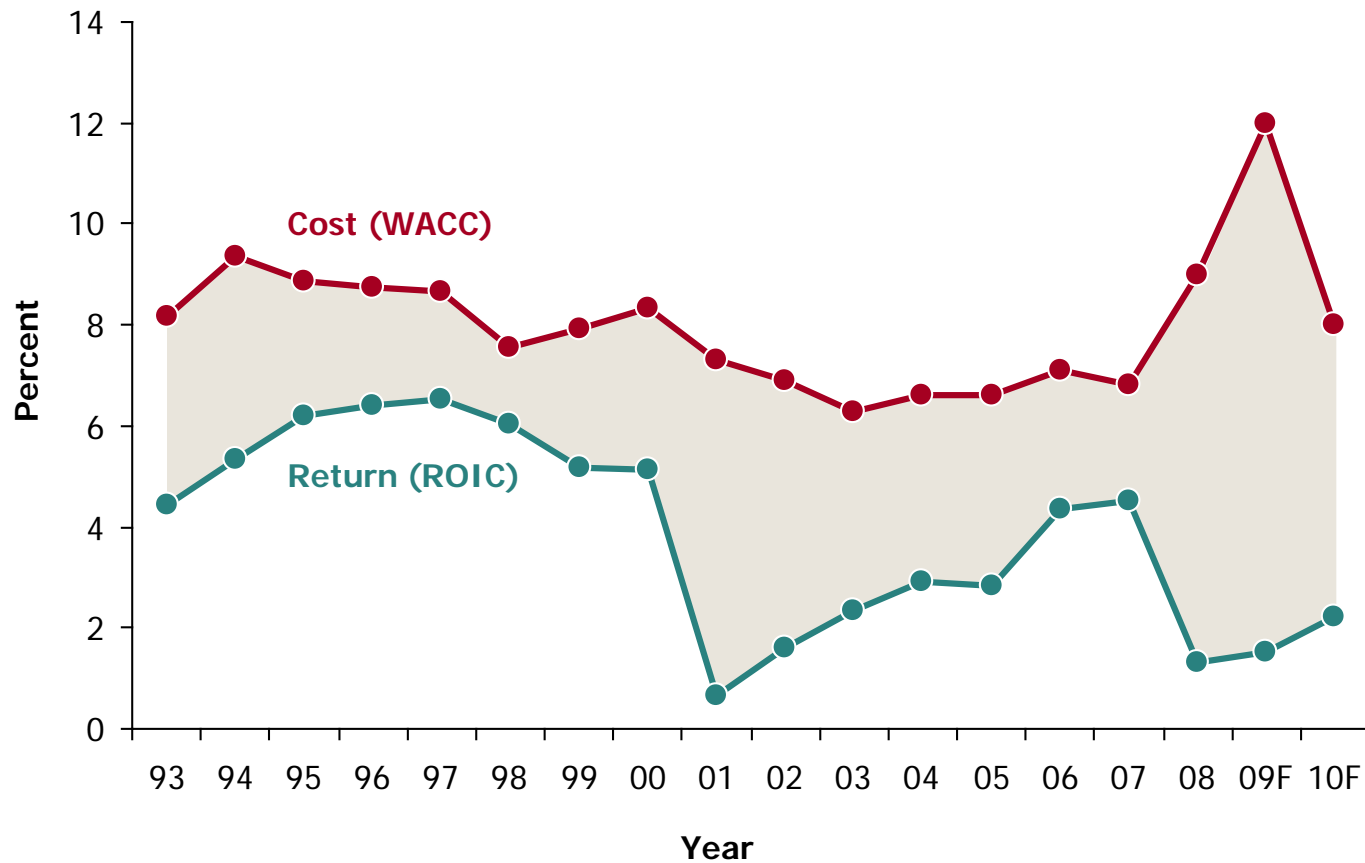
Balance Sheet Leveraging – Median Airlines





Global Context: Airlines Challenged to Cover Cost of Capital

Airlines Not in a Position to Make Large Investments in New Markets or Equipment

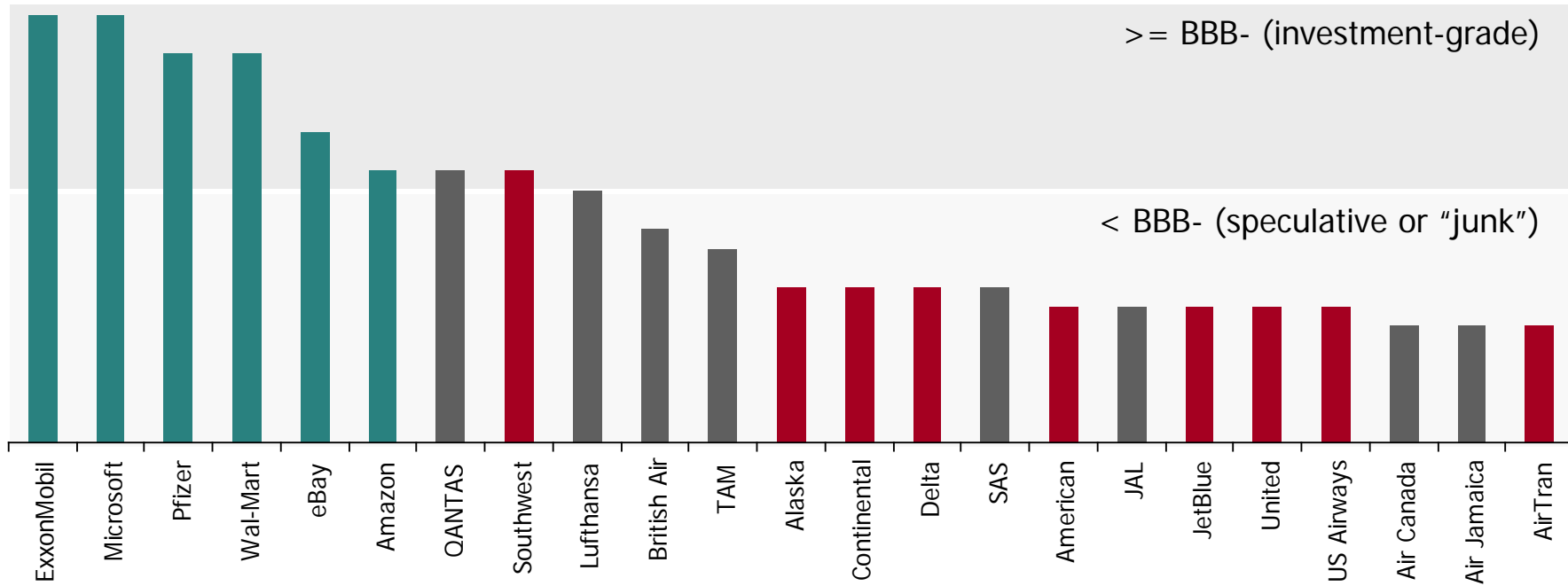




One U.S. Passenger Airline Has Investment-Grade Credit

No Passenger Airline in the World Enjoys an A-Minus or Better Rating

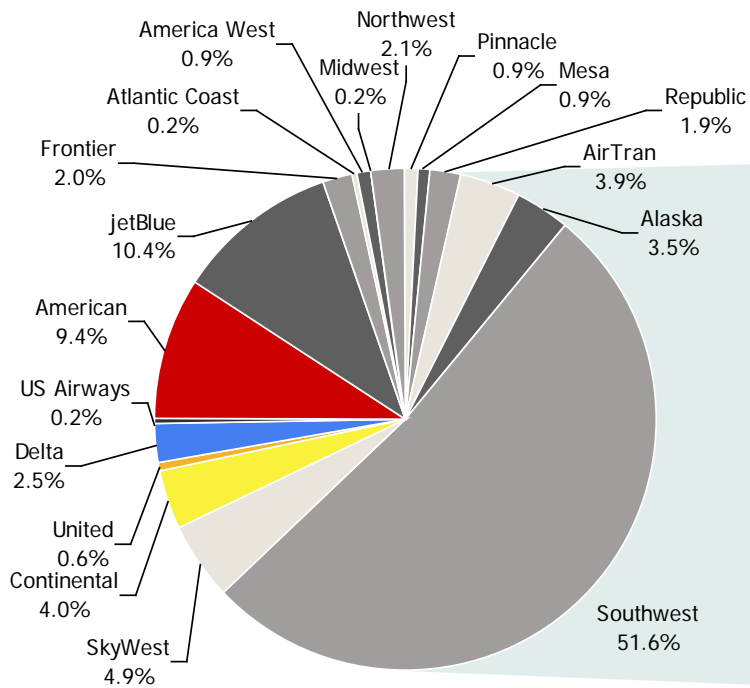
S&P Corporate Credit Ratings



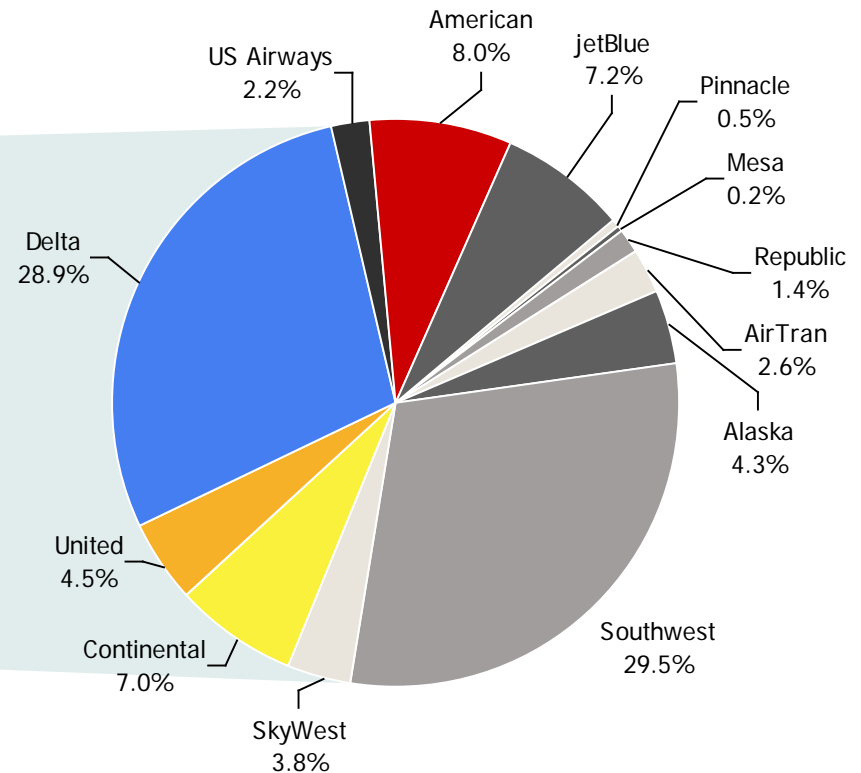


Between 2005 and 2008, the Market Capitalization of the US Airline Industry Showed Little Change

May 26, 2005
Market Cap = \$22.3B

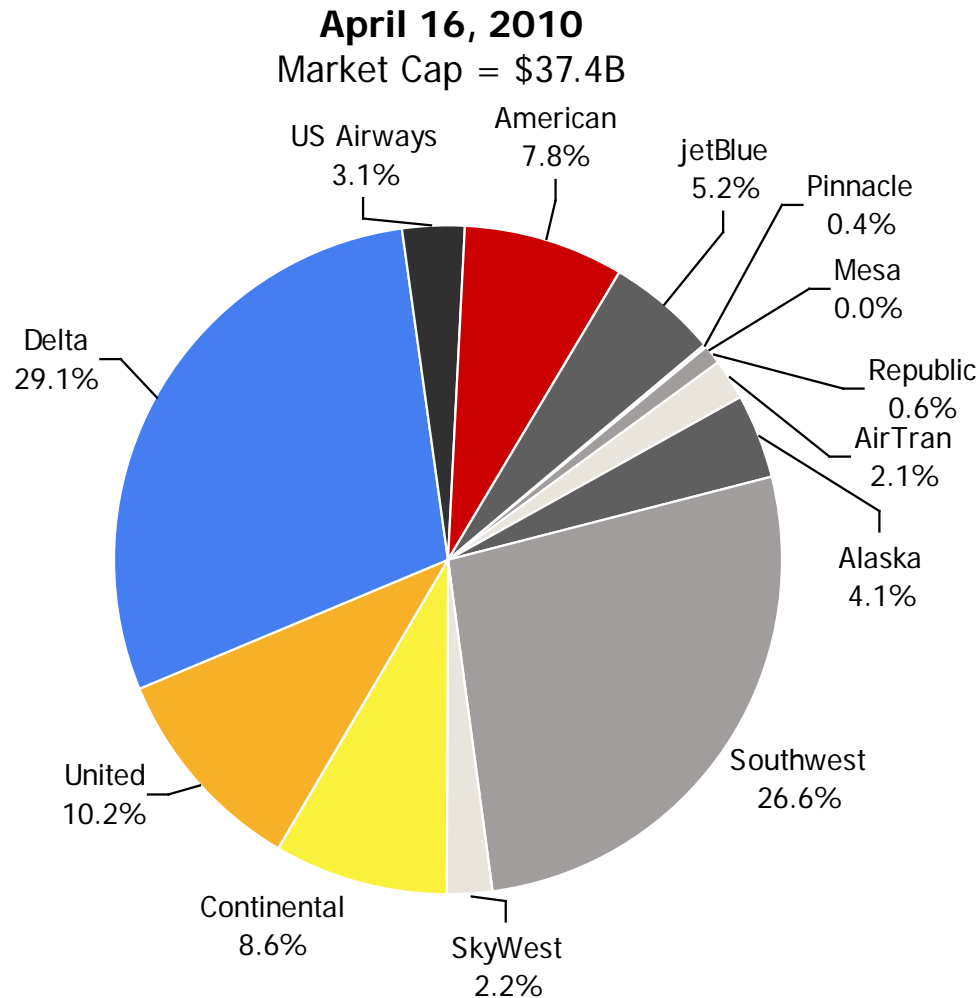


October 24, 2009
Market Cap = \$22.9B





Today, Southwest Is No Longer Accorded the Highest Market Capitalization Among US Airlines

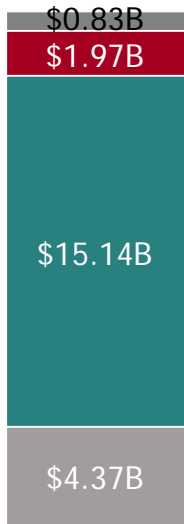




Legacy Carrier Market Capitalization Nearly \$18 Billion More than In 2005

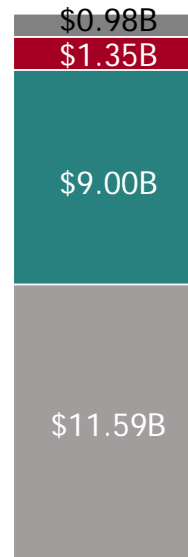
May 26, 2005

Market Cap = \$22.3B



October 24, 2009

Market Cap = \$22.9B



April 16, 2010

Market Cap = \$37.4B

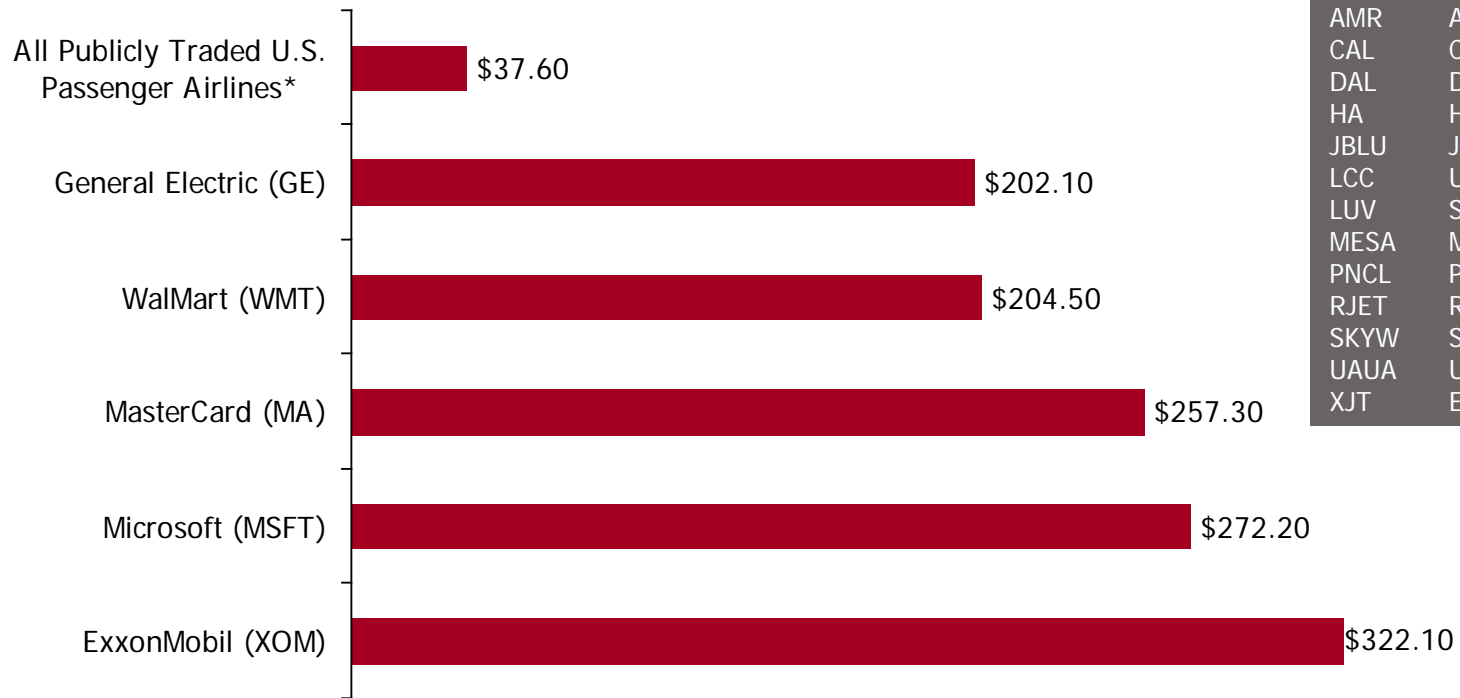


Legend: Legacy (Grey), LCC (Teal), Regional (Red), Other (Dark Grey)



U.S. Passenger Airlines* Market Value in Context

Market Capitalization (Billion USD) as of April 19, 2010 @ 4:00 PM EDT



* U.S. Passenger Airlines

AAI	AirTran
ALK	Alaska
AMR	American
CAL	Continental
DAL	Delta
HA	Hawaiian
JBLU	JetBlue
LCC	US Airways
LUV	Southwest
MESA	Mesa
PNCL	Pinnacle
RJET	Republic
SKYW	SkyWest
UAUA	United
XJT	ExpressJet

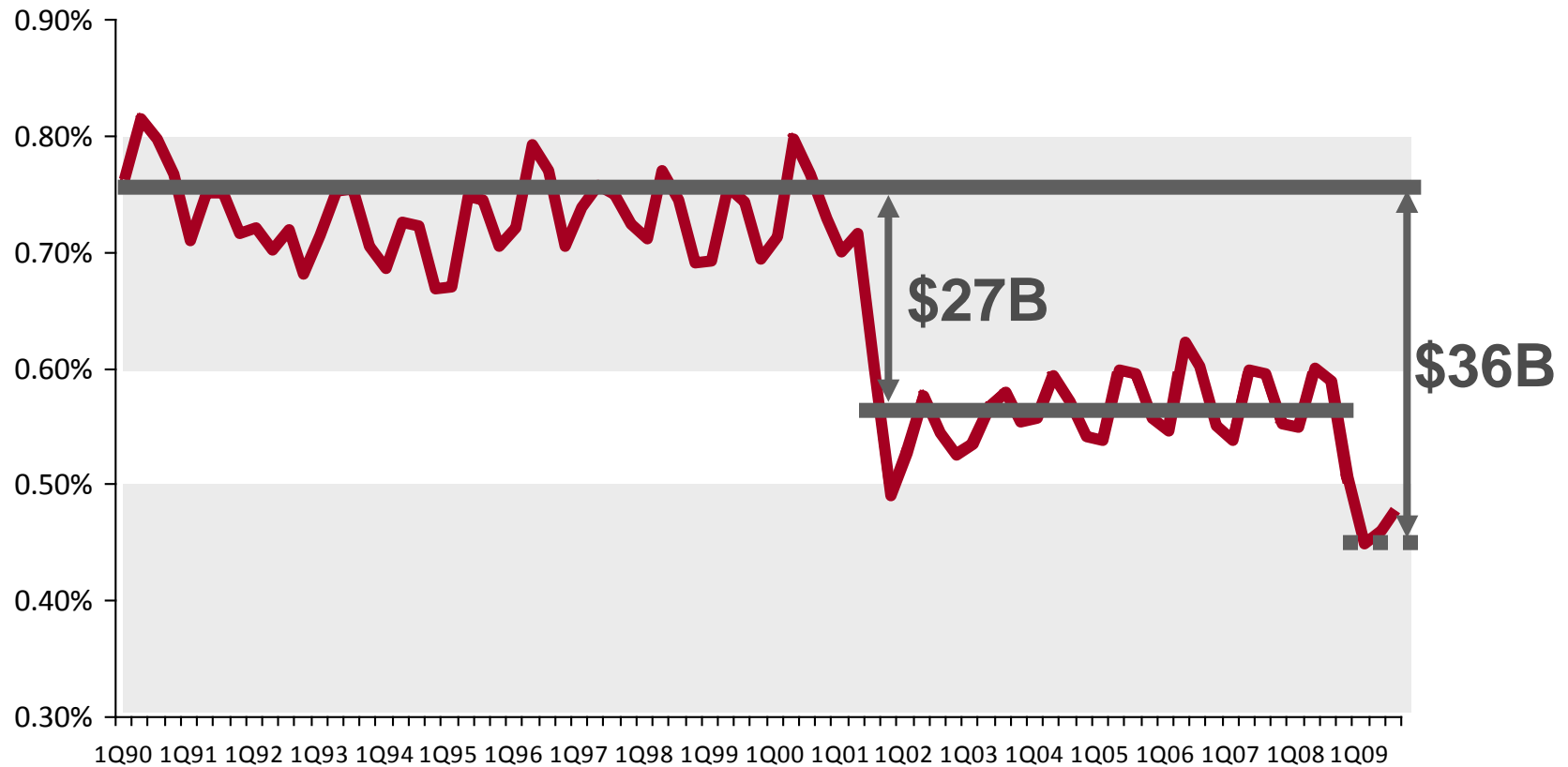


3

Domestic Market Economics



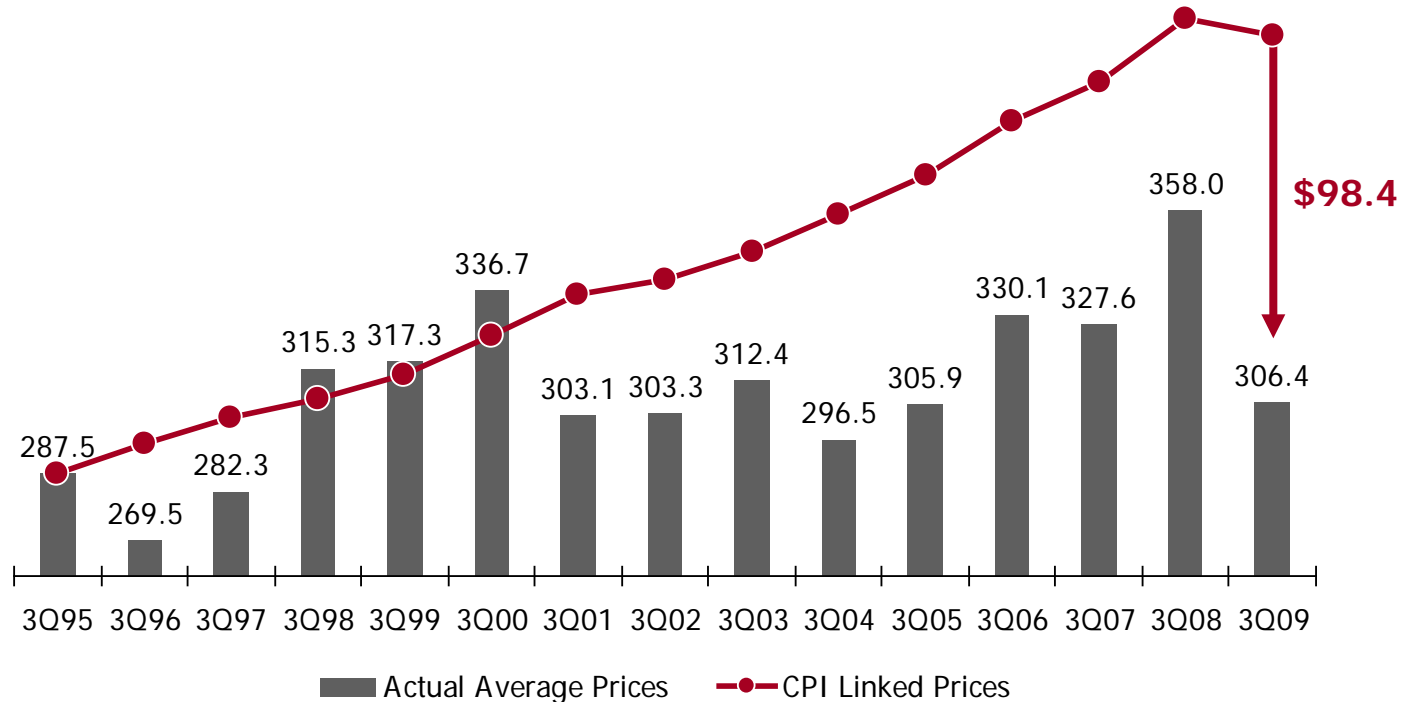
The Relationship in Revenue to GDP Another New Norm?





DOT Data Shows Avg. Domestic Ticket Prices at 1998 Levels

U.S. CPI Rose 40.8 Percent from 3Q 1995 to 3Q 2009, Leaving Prices \$98.41 "Short"



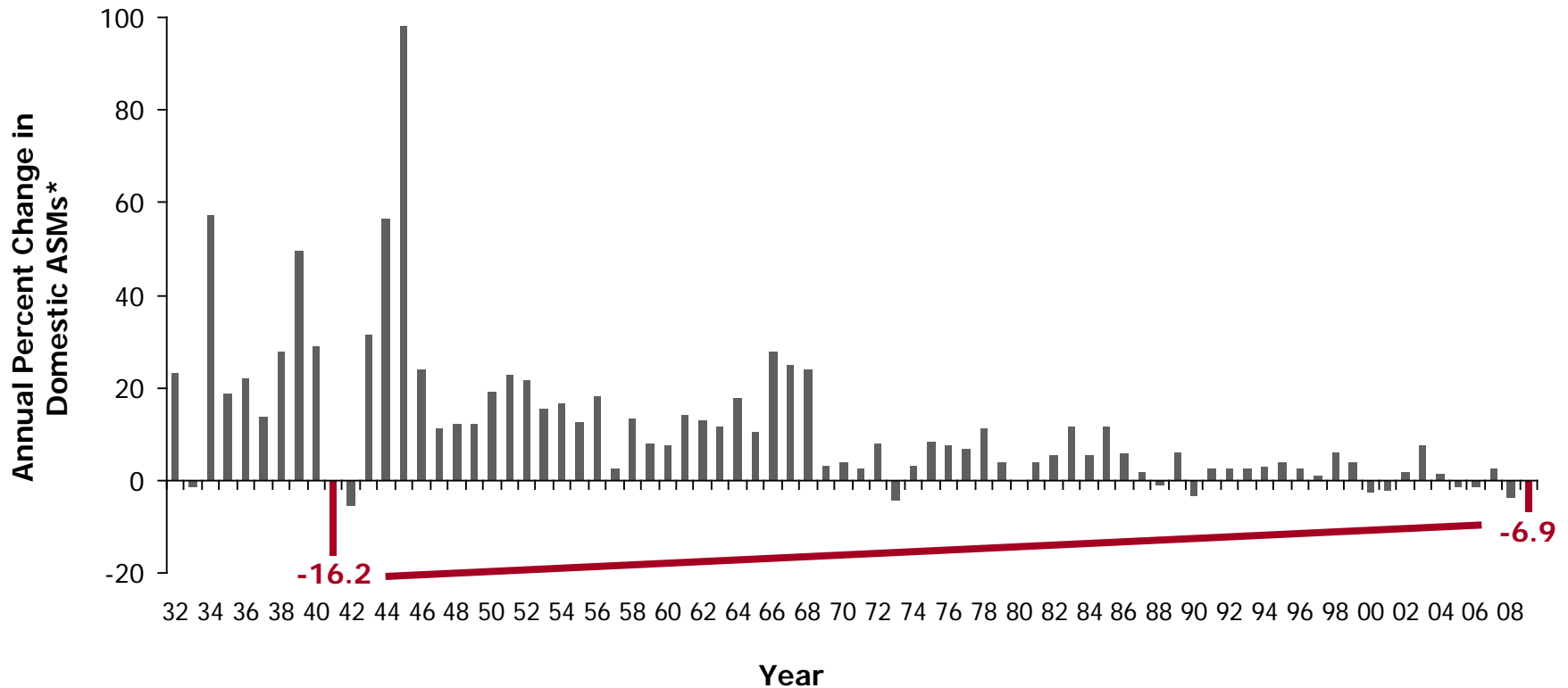
Note: BTS reports average fares based on domestic itinerary fares (round-trip or one-way for which no return is purchased). [Averages do not include frequent-flyer or "zero fares."] **Fares are based on the total ticket value, which consists of the price charged by the airlines plus any additional taxes and fees levied by an outside entity at the time of purchase.**

Source: Air Transport Association



2009 Domestic Seating Capacity Fell Most Since 1942

Market Forces, Policy Resulted in Largest Post-WWII Contraction in Aviation History

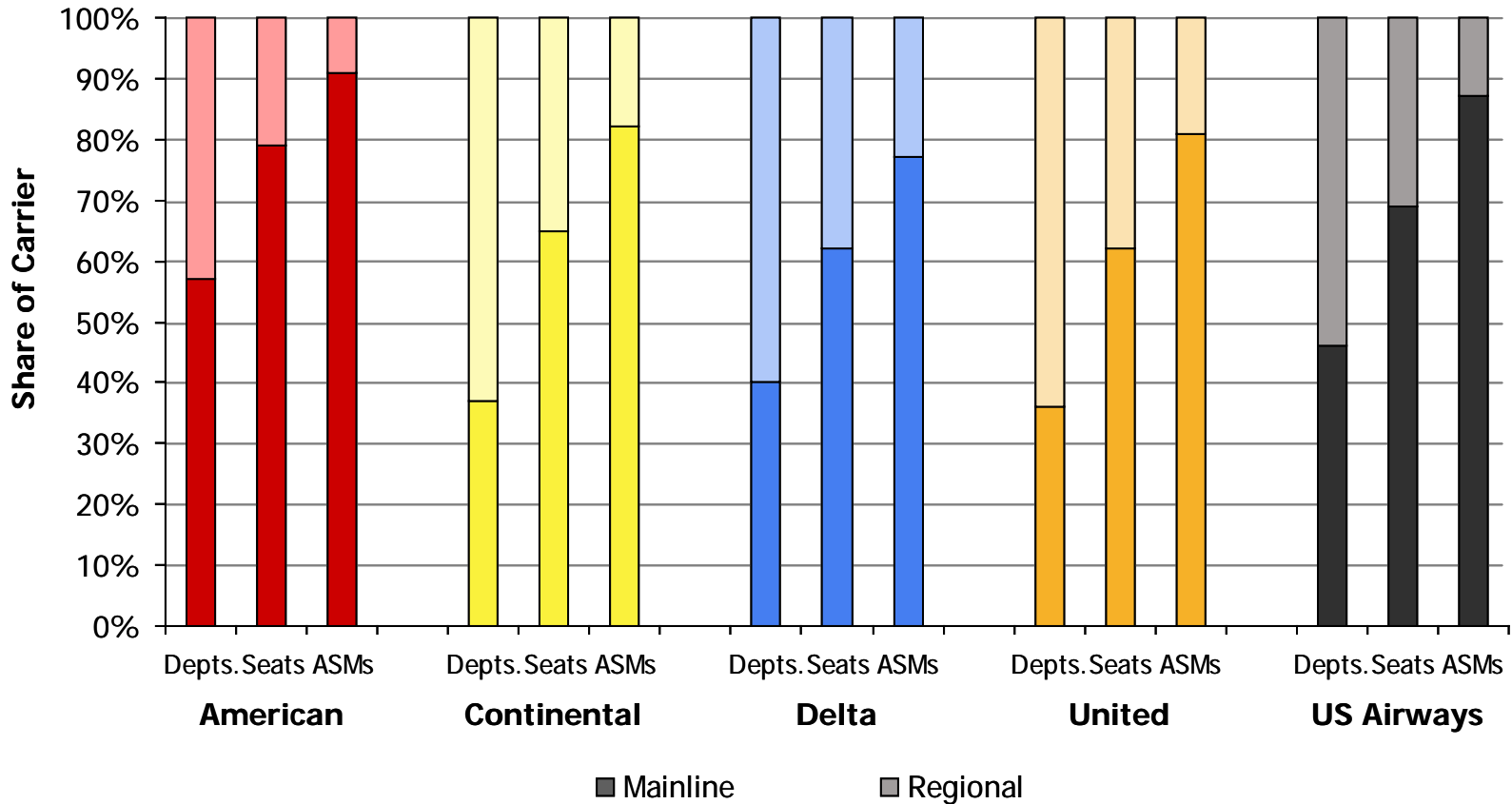


* An available seat mile (ASM) is one seat flown one mile.
Source: Air Transport Association



What Is Right Mix of Regional Service Inside A Network Carrier's Menu of Service Offerings?

U.S. Network Carrier Operations



Data Source: PlaneStats.com by Oliver Wyman, MIT analysis



Who Will Be Tomorrow's Providers?



Consolidation Is Happening – And Is Going to Happen

- Delta - Northwest
 - “End to End” Merger (minimal overlap)
 - Service cutbacks primarily due to price of oil – not the merger
 - Visionary labor leader – Captain Lee Moak

- United – US Airways
 - Less “End to End” (more overlap and in a key city)
 - Service cutbacks would be inevitable (the regulators would be in the house)
 - Labor problems abound

- United – Continental
 - “End to End”
 - Few, if any, immediate cutbacks in service
 - Common pilot union

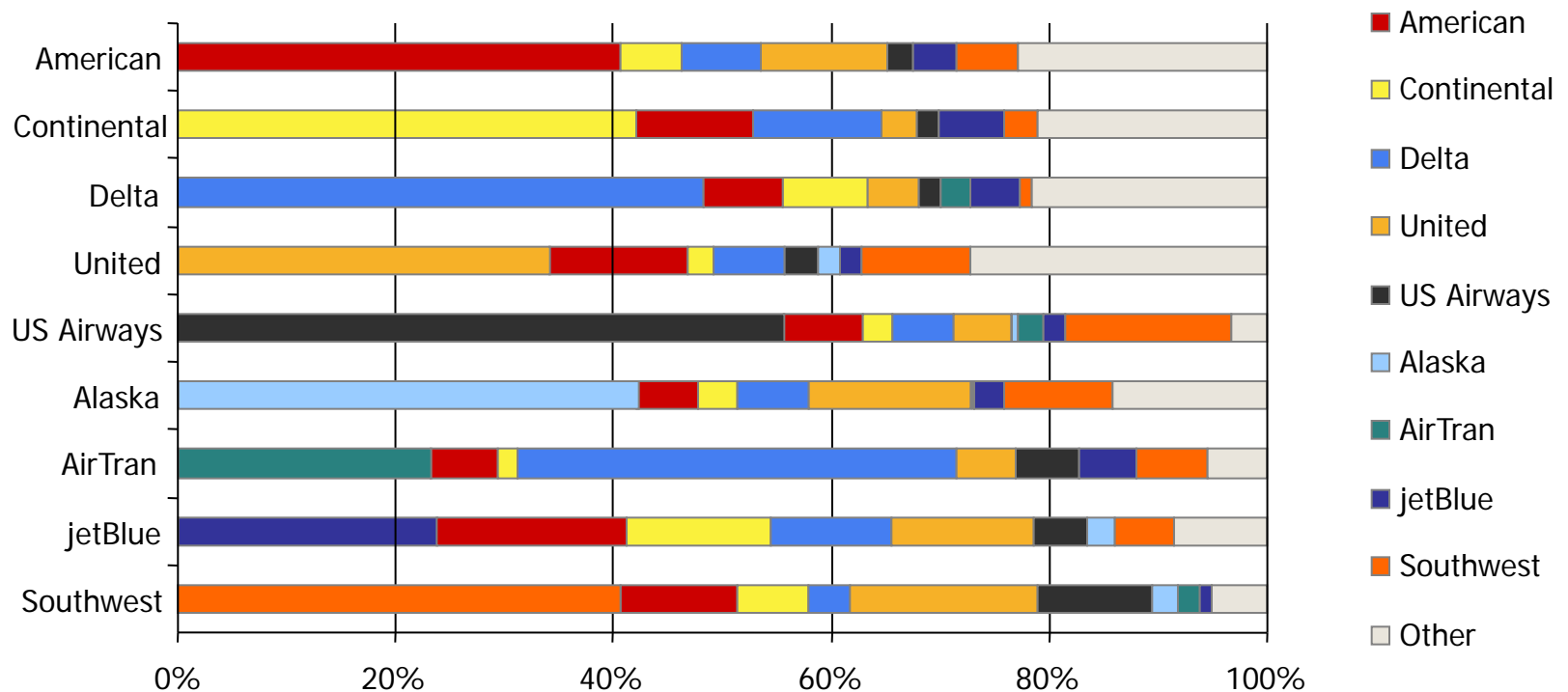


Today's Environment As Compared To 2008

- Oil Prices
 - Not as high but . . . Oil will cost more in 2010
- Economy Still Fragile
 - Recession not declared when merger activity occurred in 2008
 - Recession not declared as having ended by the National Bureau of Economic Research (NBER)
- International competition (both oceans) will intensify with oneworld ATI
- Significant capacity pulled out of system since the Summer of 2008
- Very different administration regarding anti-trust issues
- Labor issues more complicated

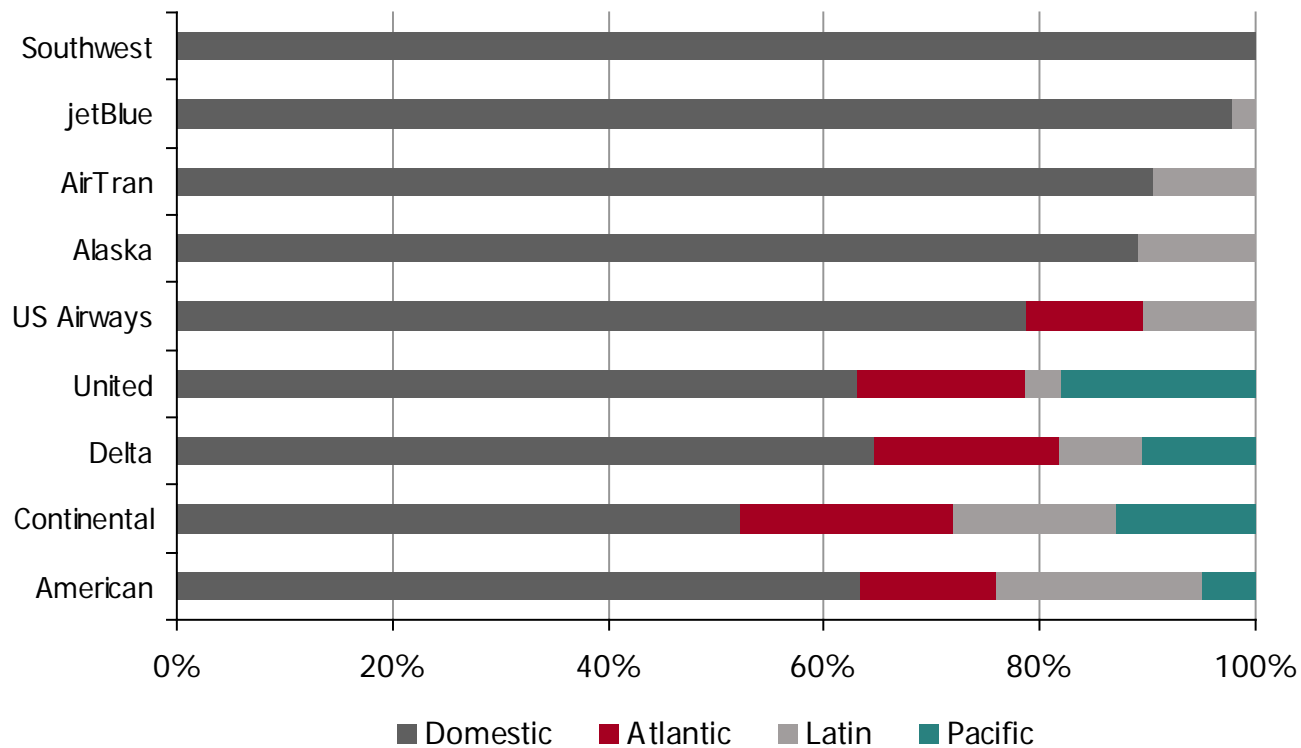


Competitive Segment Overlaps Are Not What They Were in 2001





Regional Exposure





Departures from U.S. Legacy Carrier Hubs/Gateways to Respective World Regions

	Africa	Asia	Canada	Caribbean	Central America	Europe	Middle East	Oceania	South America	USA	Total Wkly Departures	Pct US	Pct Int'l	
AA	Chicago	-	21	109	2	32	59	-	-	-	2,746	2,969	92%	8%
	Dallas/Ft Worth	-	14	55	9	235	36	-	-	22	4,831	5,202	93%	7%
	Miami	-	-	42	396	184	24	-	-	186	1,085	1,917	57%	43%
	New York - JFK	-	7	56	67	13	78	-	-	16	381	618	62%	38%
CO	Cleveland	-	-	43	3	5	-	-	-	-	883	934	95%	5%
	Houston	-	7	60	26	561	35	14	-	56	3,414	4,173	82%	18%
	Newark	-	40	183	87	84	235	-	-	21	2,139	2,789	77%	23%
DL	Atlanta	12	7	68	150	149	118	13	-	66	6,387	6,970	92%	8%
	Cincinnati	-	-	19	1	4	7	-	-	-	929	960	97%	3%
	Detroit	-	24	115	15	44	42	-	-	-	3,252	3,492	93%	7%
	Memphis	-	-	-	7	5	7	-	-	-	1,451	1,470	99%	1%
	Minneapolis	-	12	157	7	50	35	-	-	-	2,760	3,021	91%	9%
	New York - JFK	12	7	41	43	8	108	16	-	17	852	1,104	77%	23%
	Salt Lake City	-	-	25	-	21	5	-	-	-	1,929	1,980	97%	3%
UA	Chicago - ORD	-	28	236	5	22	63	-	-	7	3,695	4,056	91%	9%
	Denver	-	-	160	-	14	7	-	-	-	2,581	2,762	93%	7%
	Los Angeles	-	7	20	-	10	7	-	7	-	1,274	1,325	96%	4%
	San Francisco	-	47	84	-	16	28	-	7	-	1,540	1,722	89%	11%
	Washington - IAD	-	14	82	8	14	98	14	-	14	1,775	2,019	88%	12%
US	Charlotte	-	-	12	113	46	19	-	-	7	3,362	3,559	94%	6%
	Las Vegas	-	-	-	-	-	-	-	-	-	256	256	100%	0%
	Philadelphia	-	-	56	73	24	76	7	-	-	2,236	2,472	90%	10%
	Phoenix	-	-	37	4	116	-	-	-	-	1,678	1,835	91%	9%



**Looking Ahead:
It's Going to Be Different**



Looking Ahead

- There is nothing to fear in a merger combination exhibiting “end to end” networks
- Longer-term implications should be net positive for the industry
 - Stability is paramount
- Medium-term implications suggest continual tweaking of “just who” does US domestic flying
 - Mainline pilot scope clauses a big issue
 - 2015 marks period where significant numbers of RJ contracts expire
- Short-term implications suggest not just Legacy Carriers
 - Regional sector
 - Do not need 8-9 providers
 - LCC sector not immune



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