Success Despite Headwinds
Navigating Air Service Development in 2016
AGENDA

Consolidation and Profitability

• Mergers and Failures
• Factors Influencing Profitability
Consolidation and Profitability
Since 1978, 51 US LCCs Have Become Eight

Source: Sixel Consulting Group Research
Industry at a Point of Financial Stability

- Airlines Have Become Financially More Rational – They are Now Less Driven by Market Share
- Most Airlines Have been Profitable for Several Years in a Row
- Fuel Prices Have Stabilized (Stability More Important than Price to Airlines)
- Money Losing Hubs Have Been Eliminated
## 2015 Airline Profitability

### Reported Net Income by Carrier (in Millions)

**Calendar Year 2015**

<table>
<thead>
<tr>
<th>Carrier</th>
<th>Net Income (in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Airlines</td>
<td>$6,300</td>
</tr>
<tr>
<td><strong>Delta</strong></td>
<td>$4,500</td>
</tr>
<tr>
<td><strong>United</strong></td>
<td>$4,500</td>
</tr>
<tr>
<td><strong>Southwest</strong></td>
<td>$2,400</td>
</tr>
<tr>
<td><strong>Alaska</strong></td>
<td>$848</td>
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<tr>
<td><strong>JetBlue</strong></td>
<td>$677</td>
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<tr>
<td><strong>Spirit</strong></td>
<td>$315</td>
</tr>
<tr>
<td><strong>Allegiant</strong></td>
<td>$220</td>
</tr>
<tr>
<td><strong>Frontier</strong></td>
<td>$141</td>
</tr>
</tbody>
</table>

**Total Reported Profit: $19.9 Billion**

*Source: Sixel Consulting Group Analysis of Airline Financial Reports*
Fuel Still Has Larger Impact Than in ‘90s

Fuel as a Percentage of Airline Cost
Calendar Year 1995 – Calendar Year 2015

- 1995: 10.8%
- Peak: 35.9%
- Today: 18.9%
Airline Industry Consolidation:
Six Hub Closures since 2000 (Closed Hubs in Red)

Hub closures concentrated in the Ohio Valley and Midwest.
New Airline Industry Landscape Emerging

- Four Viable Business Models Emerging
  - Large Global Network Carriers (AA, DL, UA)
  - ULCC (Allegiant, Spirit, Frontier)
  - Traditional LCC (Southwest, jetBlue)
  - Regional/Niche (SkyWest, Republic)

- All Business Models Viable but ULCC and Large Global Network Carriers are the Most Profitable

- Domestically the ULCC Segment will Grow the Most
Airport Fees Are 7% of Airline Cost

Airport Fees Are 7% of Airline Cost
Calendar Year 2015

- Fuel: 18.9%
- Employees: 39.0%
- Other: 25.5%
- Aircraft Ownership: 6.8%
- Airport Costs: 7.0%
- Maintenance: 2.1%
- Marketing: 0.7%
Margins Are Tight Even With Low Fuel Prices

Average Seats Filled on an 88-Seat Regional Jet in the US
Calendar Year 2015

With Fuel Below $2 a Gallon, Airlines Still Needed:

- 72% of Seats Filled to Break Even, or 63 Seats on a 88 Seat RJ
- 13% of Seats Represented Profit, or 11 Seats on a 88 Seat RJ
- 84% Average Load Factor for a 13% Overall Margin

Source: Sixel Consulting Group Analysis of Airline Financial Reports, CY15
Airlines Are Cutting Costs by Upgauging

Average Domestic US Aircraft Size
2010 - 2015

- 95
- 97
- 98
- 99
- 102
- 107

Change in Scheduled Departures
2010 - 2015

- 33.90%
- 26.90%
- 5.50%
- 10.00%
- 20.00%
- 30.00%

Source: Boeing Company
US Fleet Size is Down 11% Since 2000

US Airline Total Fleet Size
Calendar Year 2000 – Calendar Year 2015

Source: Airlines 4 America
Medium Hub and Non-Hubs Are Down Most

Change in Scheduled Departing Airline Seats
Calendar Year 2005 – Calendar Year 2015

- Large Hub: -2.30%
- Medium Hub: -24.70%
- Small Hub: -14.30%
- Non-Hub: -6.90%
- EAS: -30.00%
- Total: -25.00%
Current Minnesota Scheduled Air Service
Commercial / Scheduled Service
State of Minnesota
June 2016 (By Day)

<table>
<thead>
<tr>
<th>RANK</th>
<th>ATO</th>
<th>FLIGHTS</th>
<th>%</th>
<th>SEATS</th>
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<tr>
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<td>STC</td>
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<td></td>
<td>579.7</td>
<td>100.0</td>
<td>115.2</td>
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</table>
Thank You

Contact Us

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