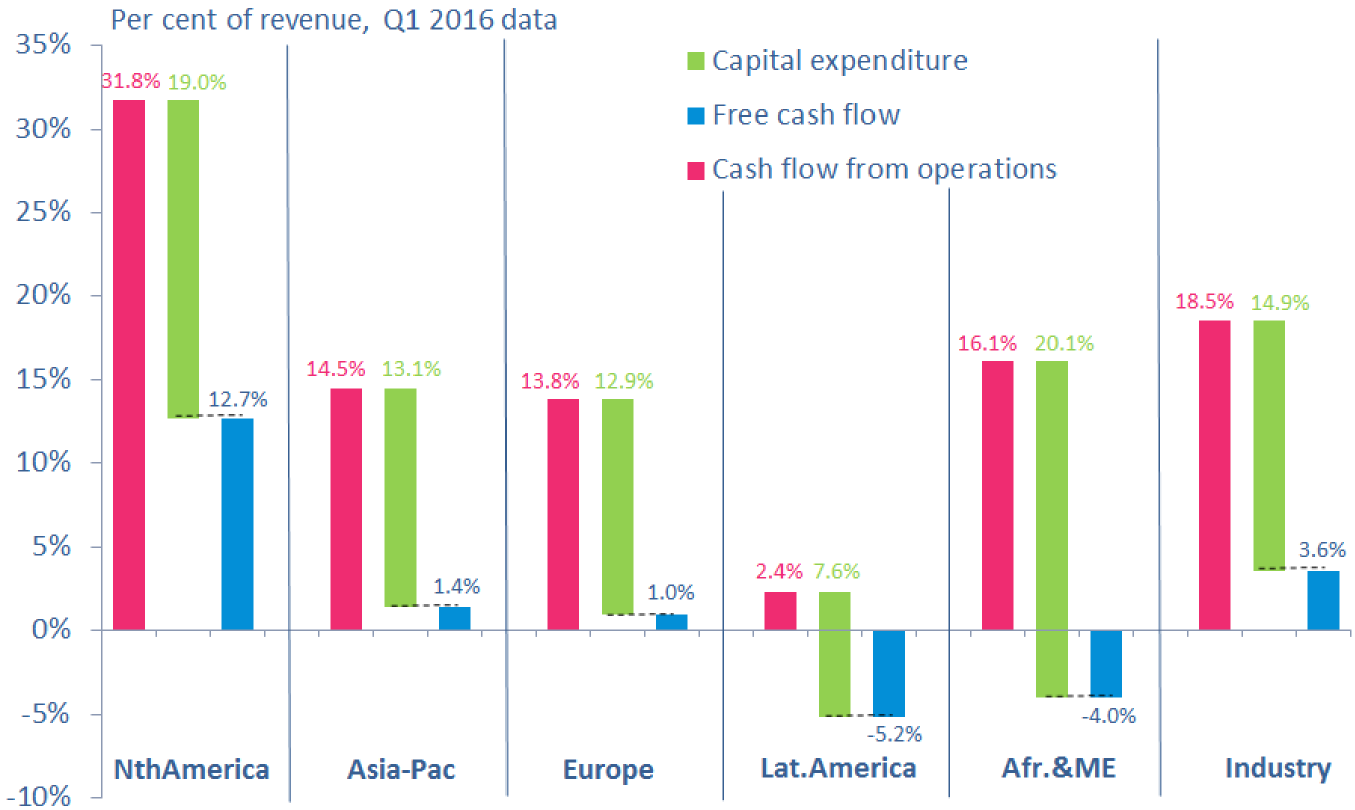
IATA ECONOMICS' CHART OF THE WEEK

8 JULY 2016

GENERATING FREE CASH FLOW



Source: IATA estimates using data from the Airline Analyst, Note that for some regions the sample size is small

- 'Cash is King' is an often-heard saying from investors because cash flow does not suffer from the accounting adjustments that sometime distort profit measures. Today's chart shows the cash generated from airline operations and the free cash flow left over after capital expenditure. This is a critical metric indicating whether airlines can pay down debt or pay dividends. These data will now appear regularly in our *Airlines Financial Monitor* publication.
- The good news is that, as a share of revenue, the global airline industry generated higher cash flows from operations (CFO) and free cash flows (FCF) in 1Q16 than was the case a year ago. Net CFO rose to 18.5% of revenues in Q1, from 16.8% a year ago. While airlines have also increased capex (as a % of revenue) over the same period, it has not been to the same extent. As a result, FCF also increased, from 3.0% of revenues to 3.6%. This has given airlines more flexibility to repair balance sheets by paying down net debt, as well as to pay dividends to their investors.
- However, the news is more mixed at the regional level, with CFO declining in Latin America, to just 2.4% of revenue against a difficult operating backdrop. FCF is negative for Latin America and Africa & Middle East airlines, once capital spending is taken into account.

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