Economic Performance of the Airline Industry

End year 2015 presentation

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Chief Economist
Outlook for 2016

- Favorable economic environment
- Travel business remains strong
- Cargo remains weak
- A second year of ‘normal’ profits
- ‘Normality’ not yet widespread or secure
Economic growth uneven but rising

IMF forecasts for economic growth

Emerging economies

Developed economies

Forecast

Source: IMF World Economic Outlook, October 2015
Oil price outlook uncertain but low

Source: Platts, IEA, Press reports
Exchange rate volatility behind us?

Exchange rates against the US dollar

Indexed to equal 100 in 2014

US dollar
Basket of currencies
Chinese Renminbi
Euro
Brazilian Real
Russian Rouble

Source: Datastream
Very different businesses

Airlines revenues from passengers and cargo

Revenue from tickets and ancillaries

Revenue from cargo

Source: ICAO, IATA Economics
Strong demand to travel helped by falling prices

Passenger departures and the real average return fare

Passenger departures

Average return fare compared to the CPI

Source: ICAO, PaxIS, IATA Statistics and Economics
Wide variation driven by economic environment

Economic and passenger growth in 2015 to date

% change over previous year

India: GDP 7%, Pax 22%
China: GDP 6%, Pax 10%
US: GDP -2%, Pax 3%
Eurozone: GDP 1%, Pax 5%
Brazil: GDP -4%, Pax 2%
Russia: GDP 2%, Pax 5%

Source: Datastream, IATA Statistics
Cargo hit by weak trade growth and weak yields

International trade growth and real freight rates

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<td>% change over previous year</td>
<td>-20</td>
<td>-15</td>
<td>-10</td>
<td>-5</td>
<td>0</td>
<td>5</td>
<td>10</td>
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<td>2000</td>
<td>1.50</td>
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<td>2015 US$ per kilo</td>
<td>3.00</td>
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Source: Netherlands CPB, EIU, CargoIS
Globalization has paused

International trade compared to global industrial production

Index ratio, 2005 equals 1

Source: Netherlands CPB
Finally airline profits become ‘normal’

US Pre-tax profits, year to Q3 2105

Source: A4A
Record for the airline industry

Global commercial airline profitability

Net post-tax EBIT margin

Source: ICAO, IATA Economics
Paying investors a ‘normal’ return for 1st time

Return on capital invested in airlines

Cost of capital (WACC)

Return on capital (ROIC)

Source: ICAO, IATA Economics
Not simply due to low oil prices

Fuel unit costs and airline return on capital

Source: ICAO, McKinsey, IATA Economics
Asset utilization raised and sustained

Breakeven and achieved weight load factor

% ATKs

Achieved LF

Breakeven LF

Source: ICAO, IATA Economics
Capital has also become more productive

Source: ICAO, IATA Economics
Improvement still not widespread

Net post-tax profit by region

Source: ICAO, The Airline Analyst, IATA Economics
Only two regions have seen significant gains

Operating profit margins by region, 2016 vs 2010

Source: ICAO, The Airline Analyst, IATA Economics
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