The wide spread of financial performance

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Brian Pearce, Chief Economist
www.iata.org/economics

To represent, lead and serve the airline industry
2015 should see record profits for the industry

Global commercial airline profitability

Source: ICAO, IATA
Though that’s still only $8.27 per passenger

Worldwide airline net post-tax profit per departing passenger, 2015

Source: IATA
But paying investors ‘normal’ return for 1st time

Source: IATA, McKinsey
Widening gap above breakeven driving returns

Breakeven and achieved weight load factors

Source: IATA
Consolidation has played an important role

Market share of top-4 airlines/JVs

Source: SRS Analyser
The product structure is changing too

2013 ancillaries and operating profits, % revenues

Ancillaries as % revenues

Operating profits as % revenues

Source: IdeaWorks, Airline Analyst, IATA
Low fuel prices important but US$ major offset

The Brent crude oil price and the US dollar

Source: Datastream
Driving further divergence in performance this year

Airline net post-tax profit margins

Source: ICAO, IATA
ROIC gains driven by a subset of the industry

Distribution of 2014 airline ROIC

Most frequent ROIC = 0%
Median ROIC = 3.2%
34 airlines ROIC > WACC

Source: The Airline Analyst, IATA
FCF concentrated in the US

2014 Free Cash Flow by region

Source: The Airline Analyst, IATA
But good ROIC performance in Europe as well

2014 return on capital by region

Average cost of capital

Source: The Airline Analyst, IATA
Median airline balance sheet still deteriorating

Free cash flow and adjusted net debt

Median airline
$3 billion net debt
-3% FCF/net debt

6 airlines could repay all debt in next 5 years

Source: The Airline Analyst, IATA
Why the spread? 2 approaches

Michael Porter’s ‘5 forces’ – the external business environment

All typically **high** in most airline markets

1. Rivalry – US domestic mergers/N Atlantic JVs?
2. New entrant threat
3. Substitutes threat
4. Supplier bargaining power
5. Customer buying power

John Kay’s ‘Distinctive capabilities’ – what makes firms different

**Apart from 1 for some airlines, most capabilities are weak in most airlines**

1. Strategic assets (e.g. route/slot rights)
2. Strong key relationships with suppliers/staff/customers
3. Reputation
4. Innovation – economies of density from JVs/other collaboration forms?