Divergent performance in the Americas

March 2016

Brian Pearce
Chief Economist
International Air Transport Association
Global travel still very strong, unlike cargo

Source: ICAO, IATA
The airline industry is performing well, on average.
Ending decades of under-paying investors

Difference between investing in airlines and investing in similar assets elsewhere

Source: McKinsey, IATA

www.iata.org/economics
Step improvement in airlines’ asset use

Breakeven and achieved load factor (LF)

Achieved LF

Breakeven LF

Source: ICAO, IATA
And the productivity of airline capital is rising

Source: ICAO, McKinsey, IATA

www.iata.org/economics
Some have consistently generated economic profits

Economic profit, cumulated 2005-2014

<table>
<thead>
<tr>
<th>Company</th>
<th>Economic Profit (US$ million)</th>
<th>Average ROIC (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ryanair</td>
<td>2500</td>
<td>12.5</td>
</tr>
<tr>
<td>Easyjet</td>
<td>2200</td>
<td>11.8</td>
</tr>
<tr>
<td>Emirates</td>
<td>1500</td>
<td>10.0</td>
</tr>
<tr>
<td>COPA</td>
<td>1200</td>
<td>12.5</td>
</tr>
<tr>
<td>Aeroflot</td>
<td>1000</td>
<td>10.5</td>
</tr>
<tr>
<td>Westjet</td>
<td>900</td>
<td>9.6</td>
</tr>
<tr>
<td>Spirit</td>
<td>800</td>
<td>12.1</td>
</tr>
<tr>
<td>Allegiant</td>
<td>700</td>
<td>24.1</td>
</tr>
<tr>
<td>Wizz</td>
<td>500</td>
<td>12.4</td>
</tr>
<tr>
<td>Alaska</td>
<td>400</td>
<td>7.6</td>
</tr>
<tr>
<td>Vuelling</td>
<td>300</td>
<td>7.3</td>
</tr>
<tr>
<td>Aegean</td>
<td>100</td>
<td>8.7</td>
</tr>
</tbody>
</table>

Average ROIC:
- Ryanair: 12.5%
- Easyjet: 11.8%
- Emirates: 10.0%
- COPA: 12.5%
- Aeroflot: 10.5%
- Westjet: 9.6%
- Spirit: 12.1%
- Allegiant: 24.1%
- Wizz: 12.4%
- Alaska: 7.6%
- Vuelling: 7.3%
- Aegean: 8.7%

Source: McKinsey for IATA
But since 2010 N and Latin America have diverged.

Operating profit margins by region, 2016 vs 2010

<table>
<thead>
<tr>
<th>Region</th>
<th>2010</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>N America</td>
<td>-5%</td>
<td>0%</td>
</tr>
<tr>
<td>Europe</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Middle East</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Latin America</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Africa</td>
<td>0%</td>
<td>-5%</td>
</tr>
</tbody>
</table>

Source: ICAO, IATA

www.iata.org/economics
Latin American trade growth relatively strong

Source: Netherlands CPB
But commodities ‘super-cycle’ disappeared

Commodity prices

US$ prices, indexed to 2004=1

Iron Ore
Copper
Oil

Source: Oxford Economics
Major exchange rate shifts

Exchange rates against the US dollar, indexed to 2010

US$ against basket of currencies
Panama
Chile
Mexico
Brazil
Argentina

Source: Oxford Economics
Causing inflation problems for some

Inflation

Change over previous year

Argentina
Brazil
Mexico, Chile
Panama, US

Source: Datastream
Higher interest rates adding to growth challenge

Central bank interest rates

Argentina
Brazil
Mexico
Chile
US, Panama

Source: Datastream
Air travel tax policy damaging competitiveness

Taxes and charges as a share of ticket prices

- Tax as % of one-way fare
- Charge as % of one way fare

Source: IATA
Economies still diverging

GDP growth

% change over year

Panama

Mexico, Chile

US, Argentina

Brazil

Source: Oxford Economics

www.iata.org/economics
Airlines now better sizing capacity to demand

Source: IATA Statistics

www.iata.org/economics
Profit margins still showing major divergence

Operating margin, latest quarter 2015

Source: IATA, The Airline Analyst
But free cash flows now trending in right direction

Free cash flow

Source: The Airline Analyst