



Financial health achieved for some airlines but not all

Miami office presentation
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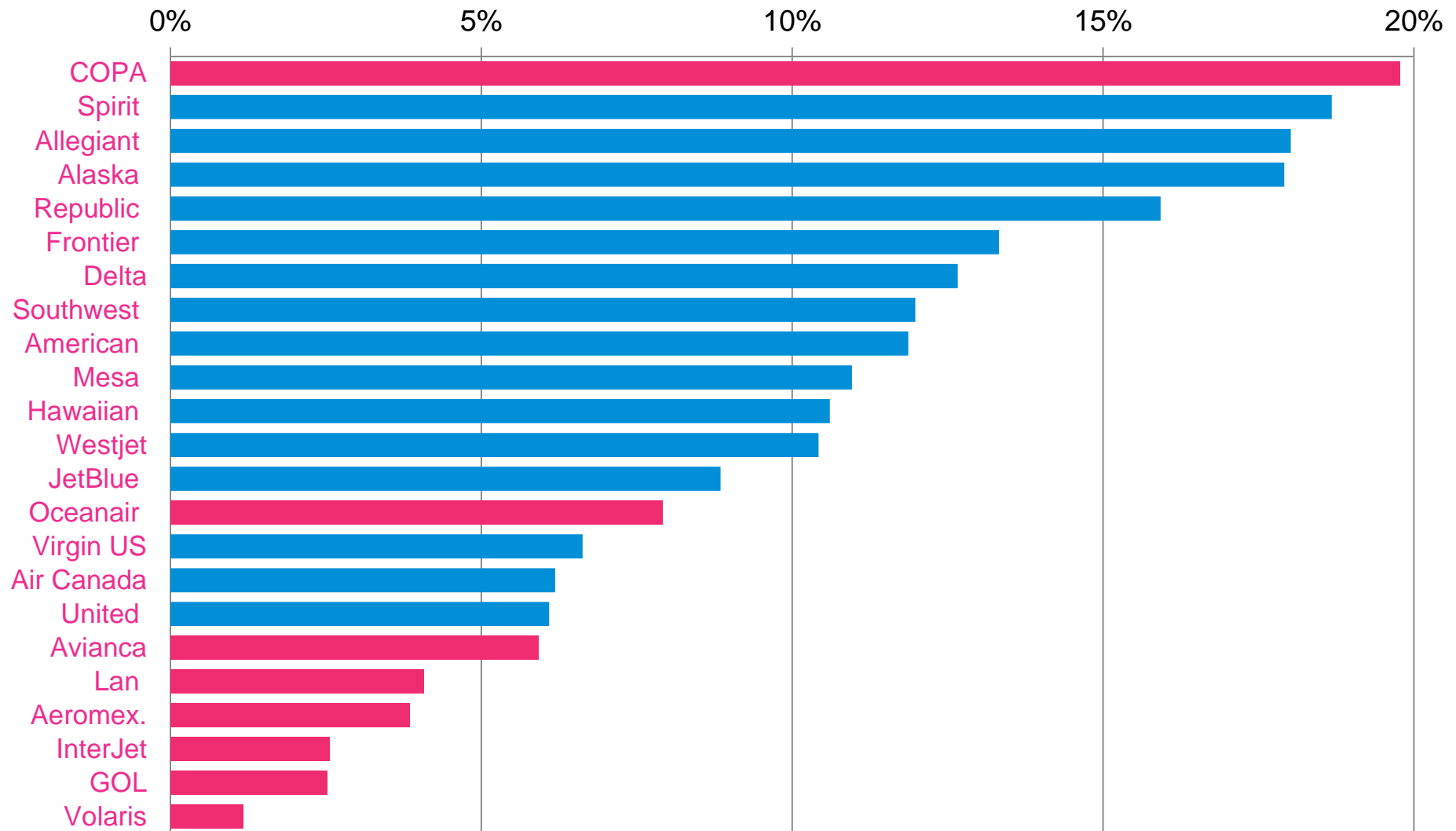
www.iata.org/economics

To represent, lead and serve the airline industry



North-South divide on airline profitability

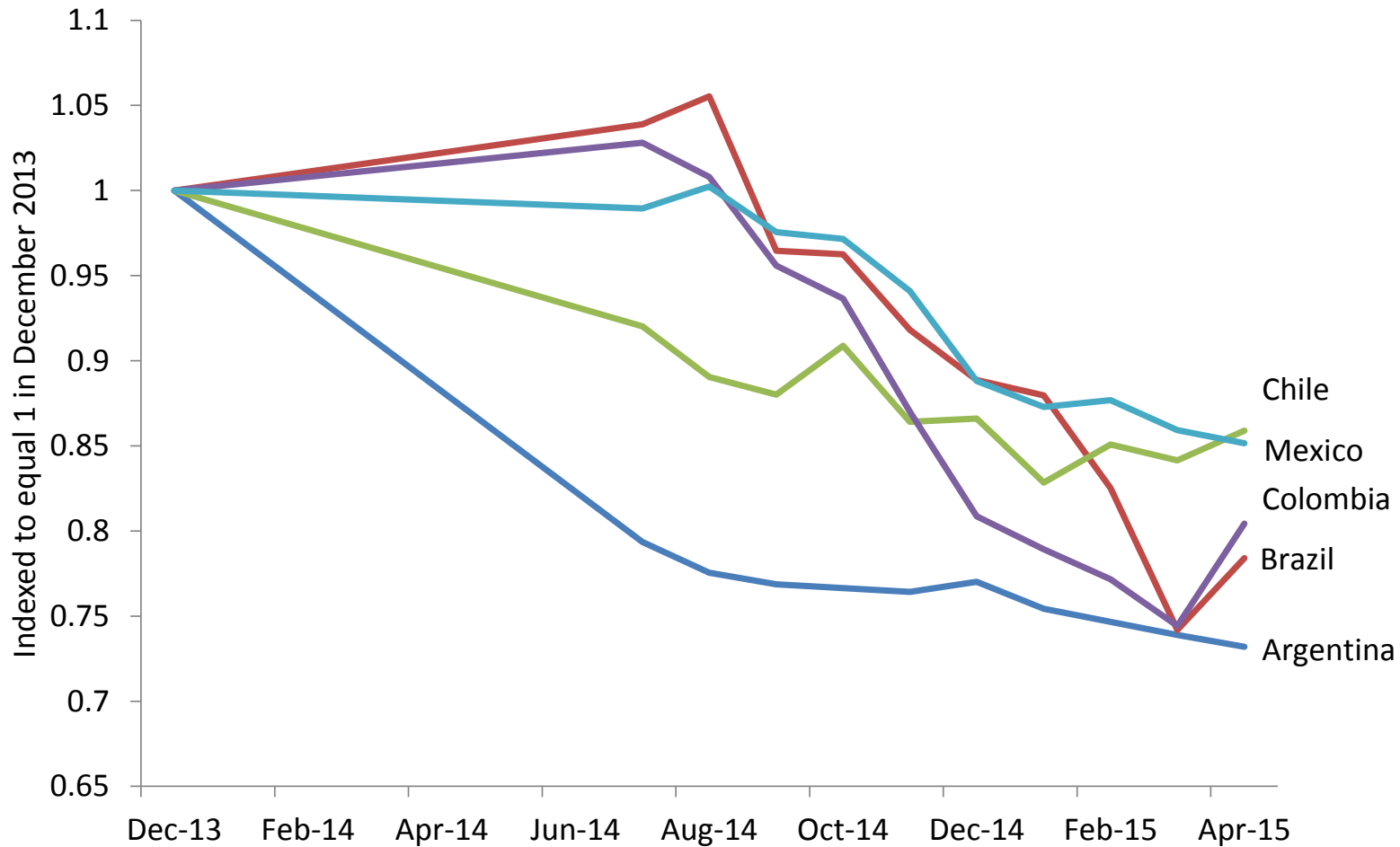
2014 EBIT margin (% of revenue)



Source: The Airlines Analyst

Partly driven by exchange rate divergence

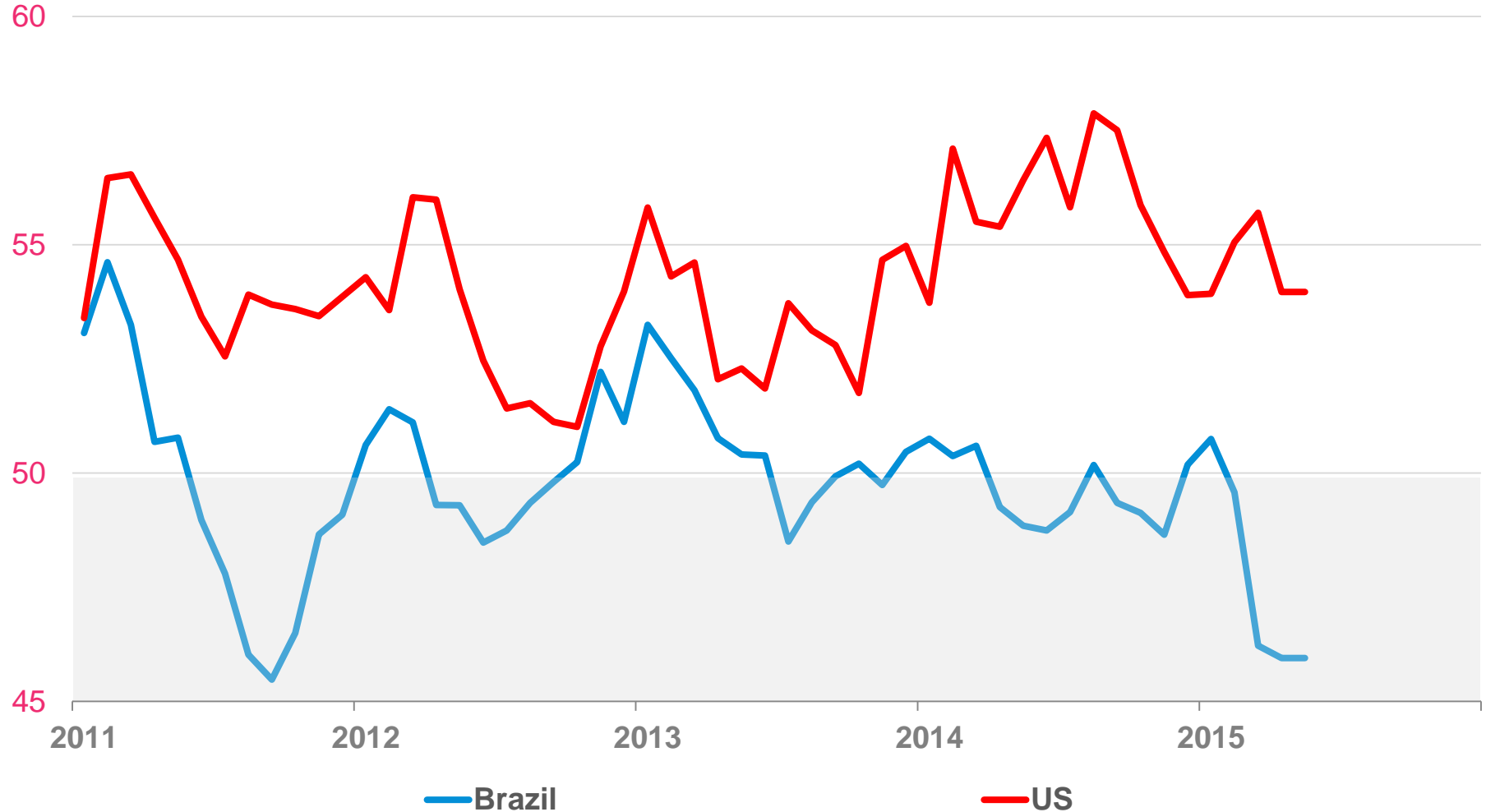
Latin American exchange rates against the US\$



And partly divergence in major economies

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



— Brazil

— US

Source: Markit

But there are strong economies in L America

GDP growth – ave. of last 3yrs vs next 3yrs

Per cent

9

8

7

6

5

4

3

2

1

0

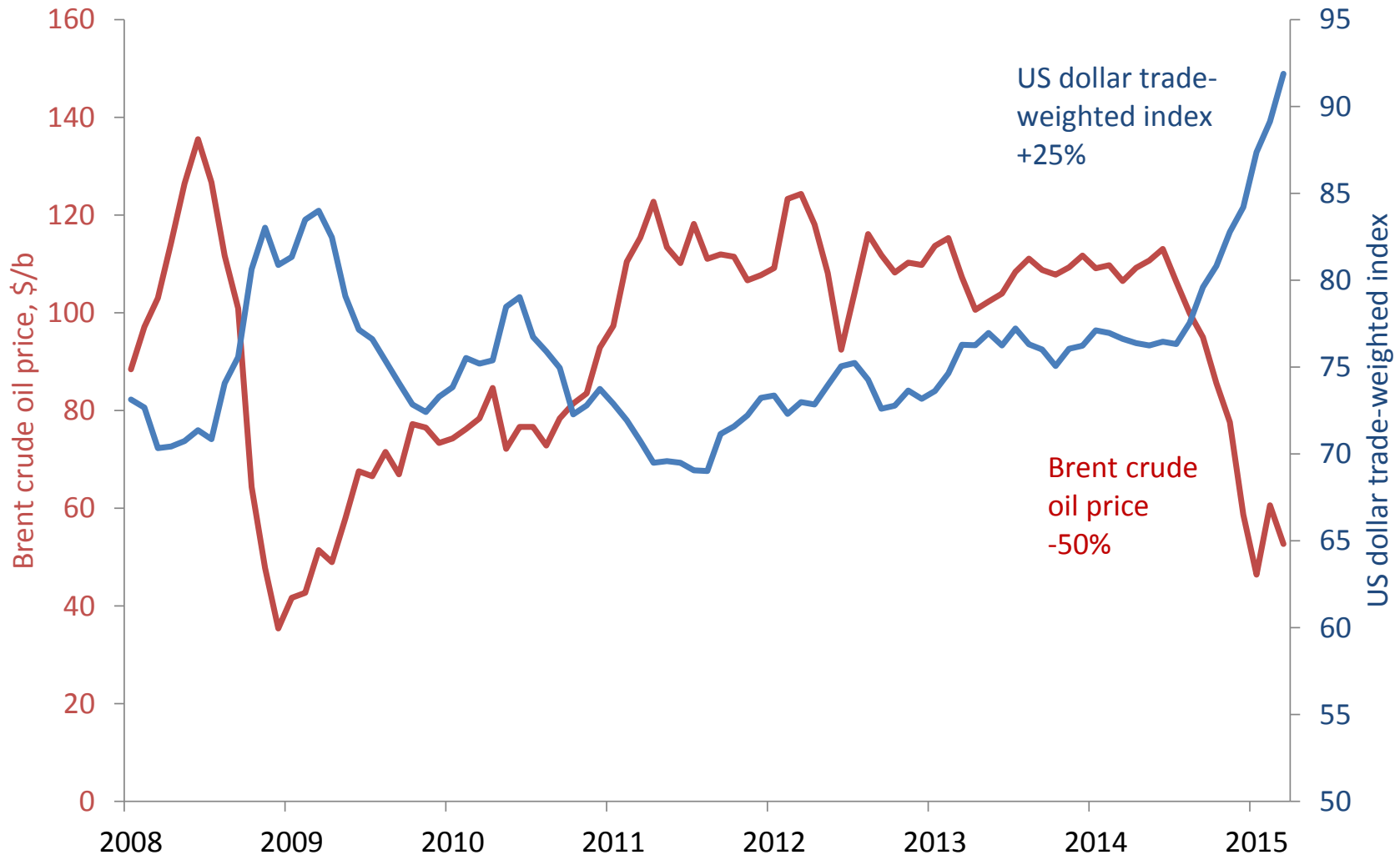


■ Last 3yrs ■ Next 3yrs

Source: IMF

Two big changes in the business environment

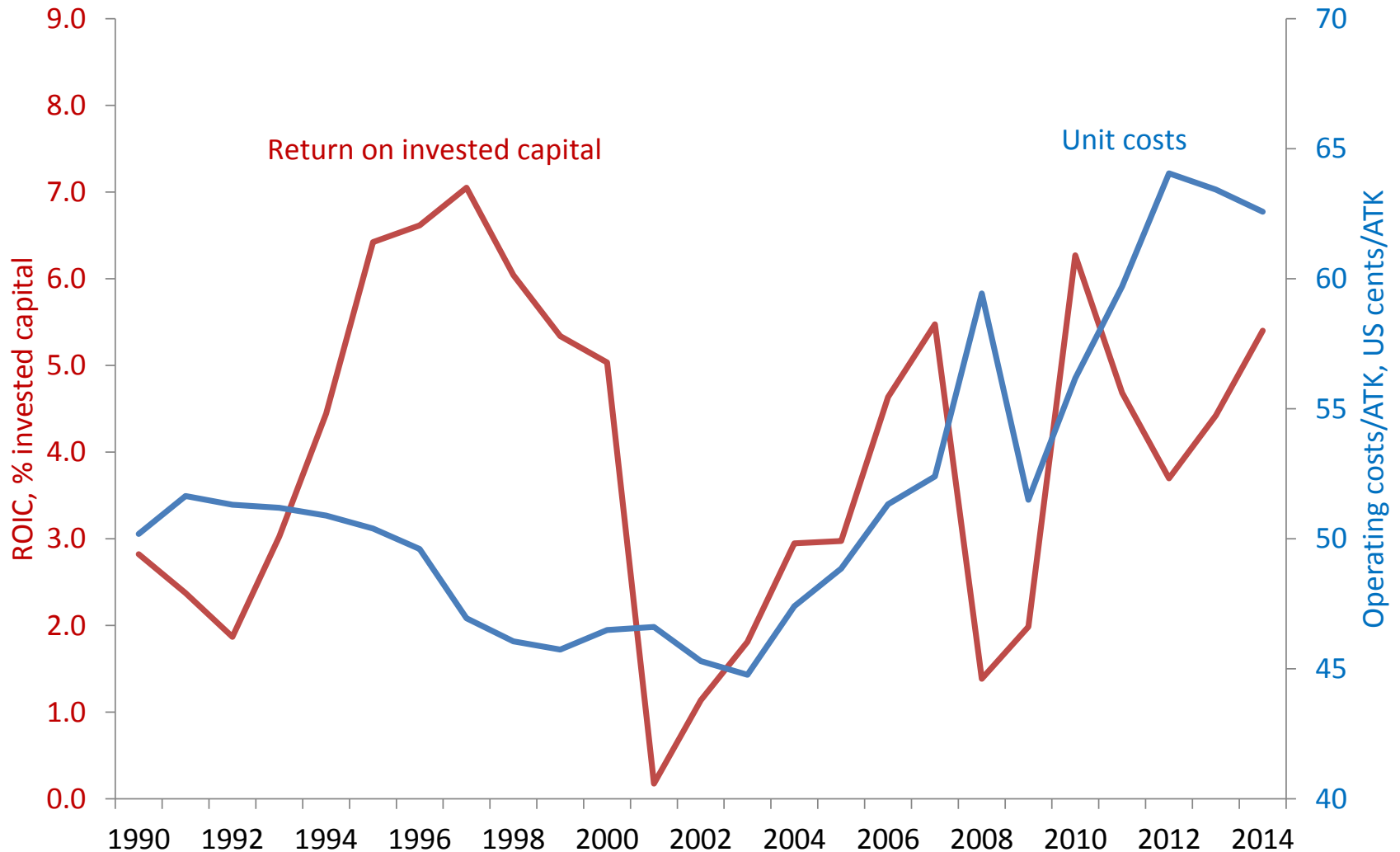
US dollar trade-weighted index and the price of oil



Source: Datastream

Impact of lower fuel prices not clear

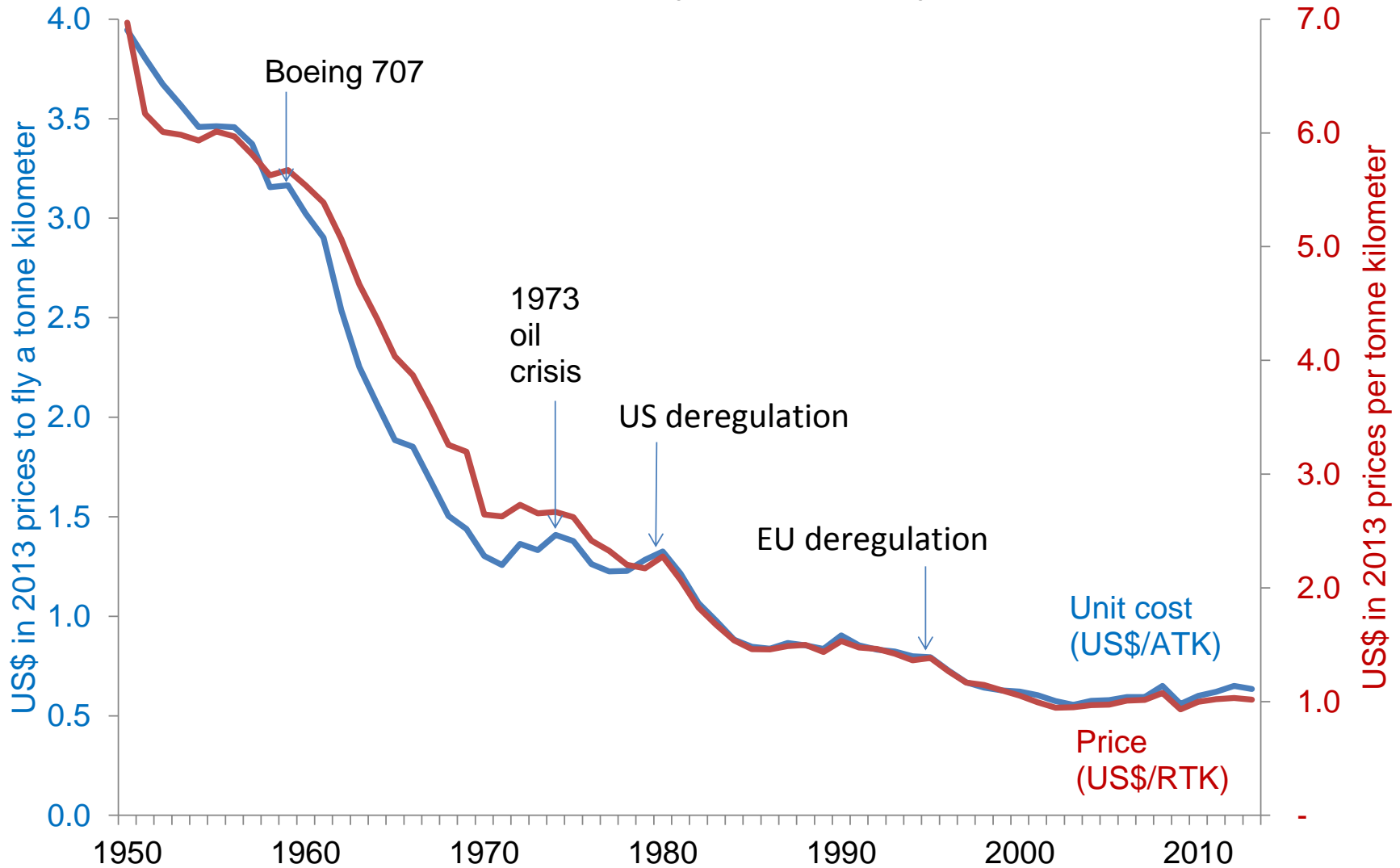
Return on invested capital and unit costs



Source: IATA, McKinsey

Costs typically passed through to prices

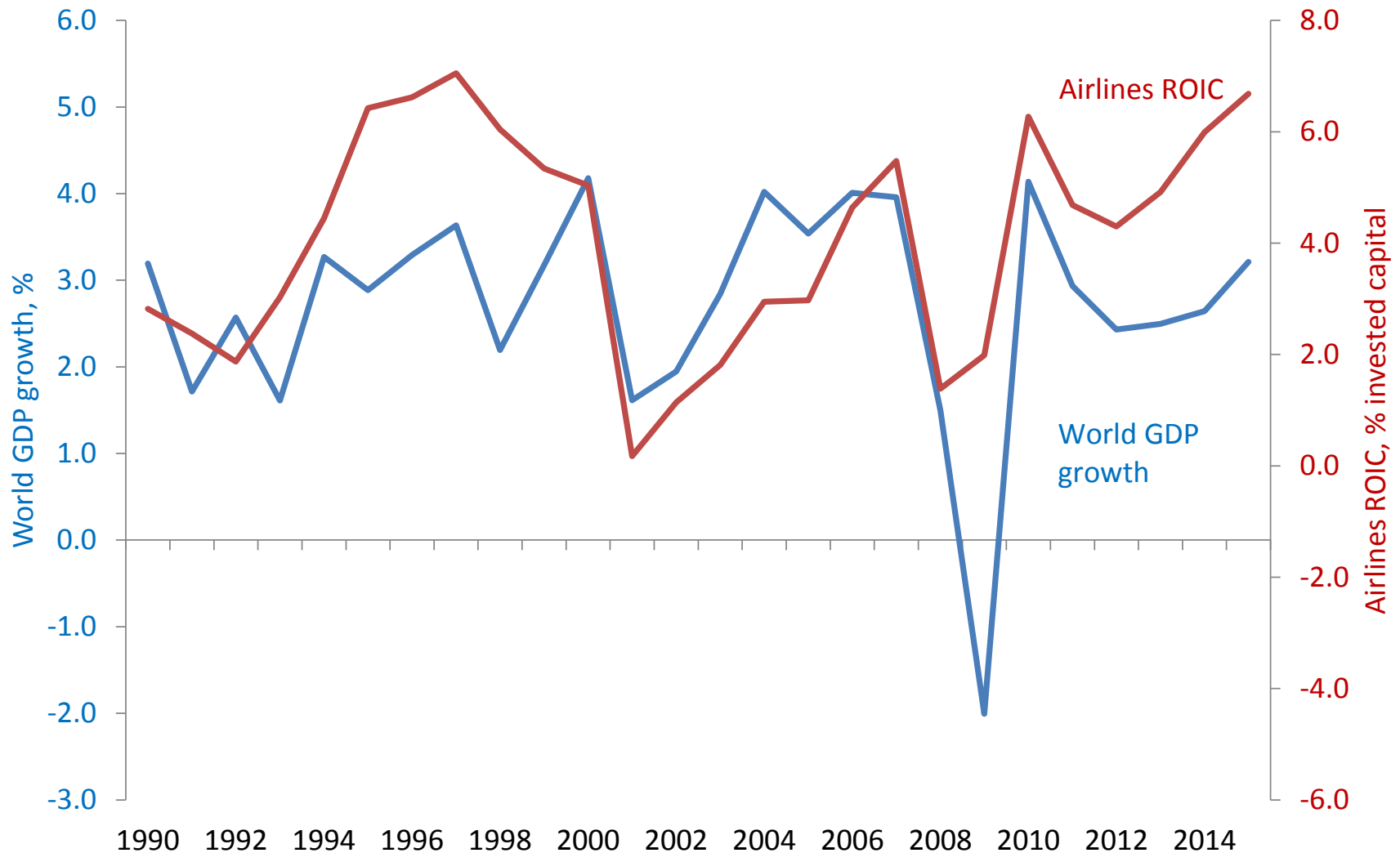
Unit cost and the price of air transport



Source: IATA/Tourism Economics 'Air Passenger Forecasts'

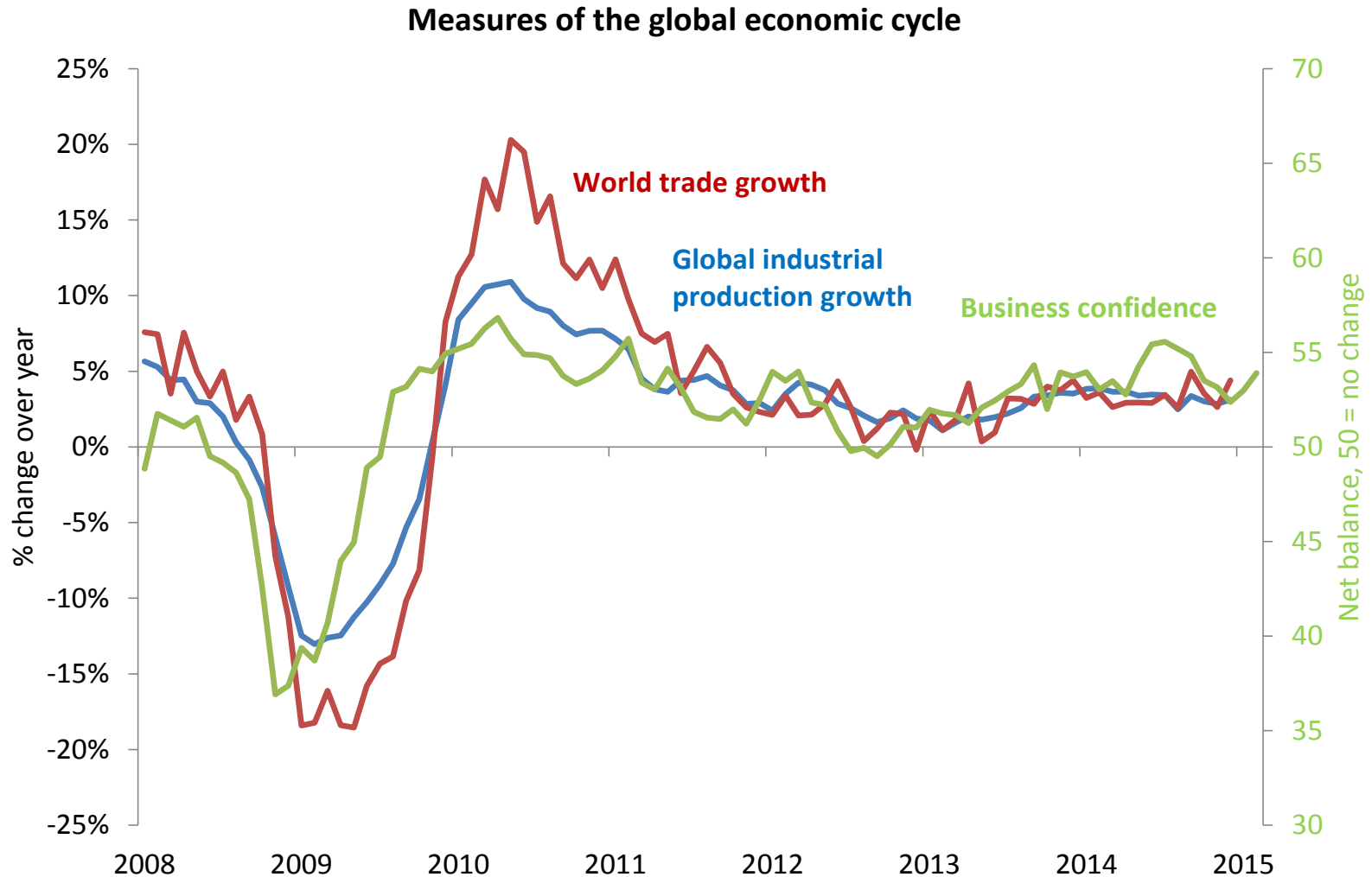
A strong economic cycle would help airline returns

Airline industry ROIC and world GDP growth



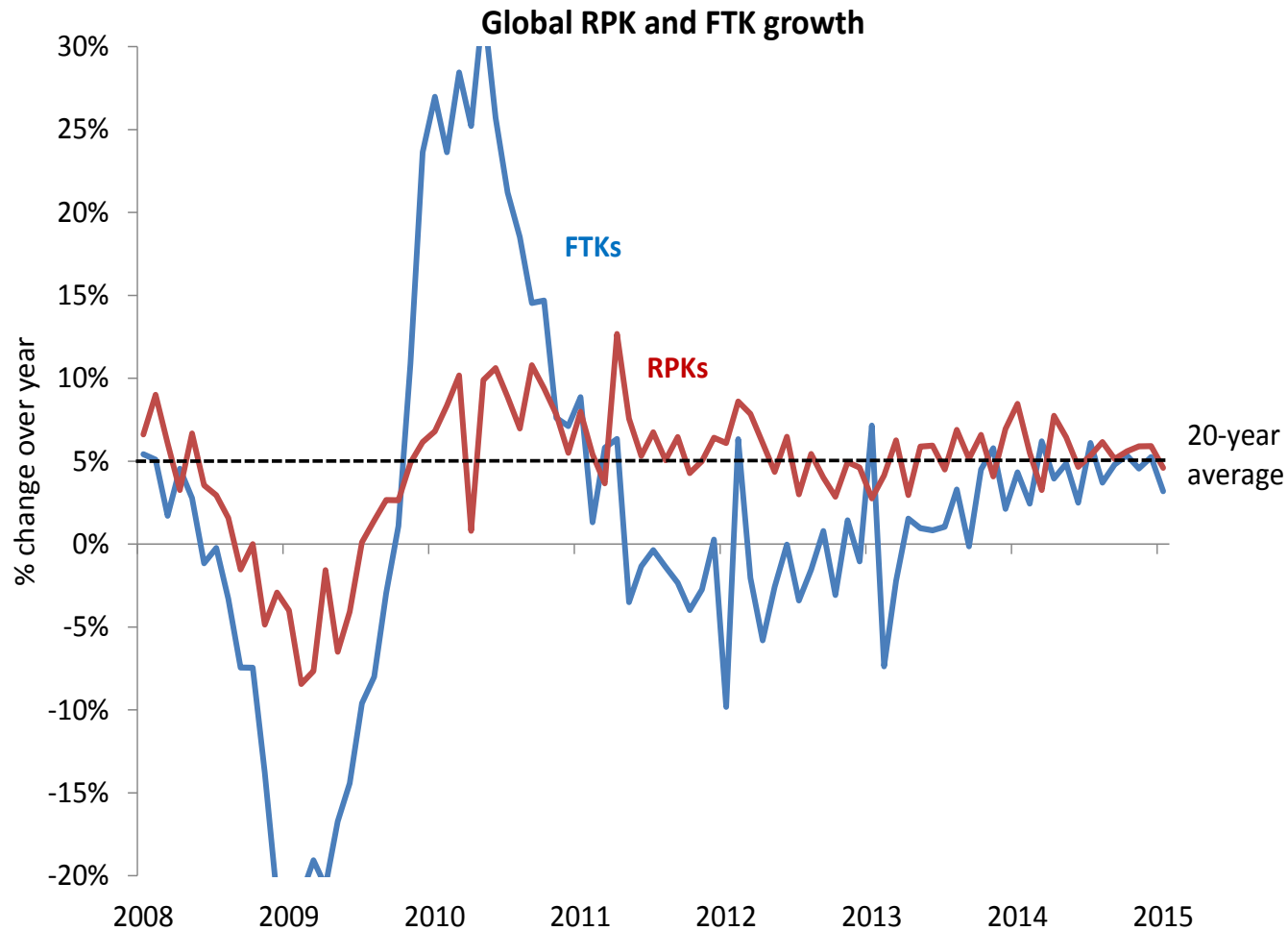
Source: IATA, McKinsey, IHS Global Insight

Economic cycle positive but not very strong



Source: Datastream

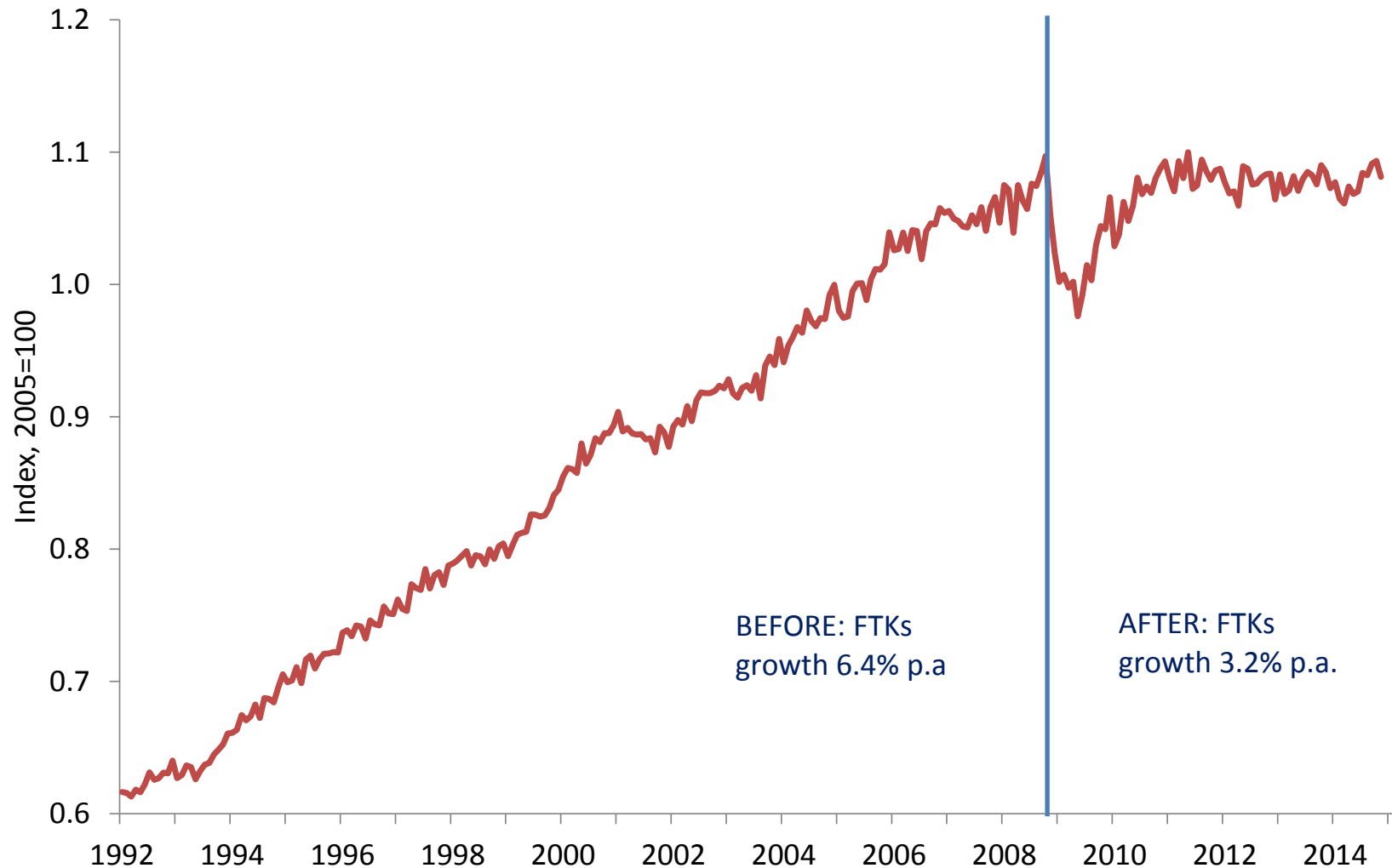
But growth in demand for travel and cargo is solid



Source: IATA

Adverse structural change in air cargo

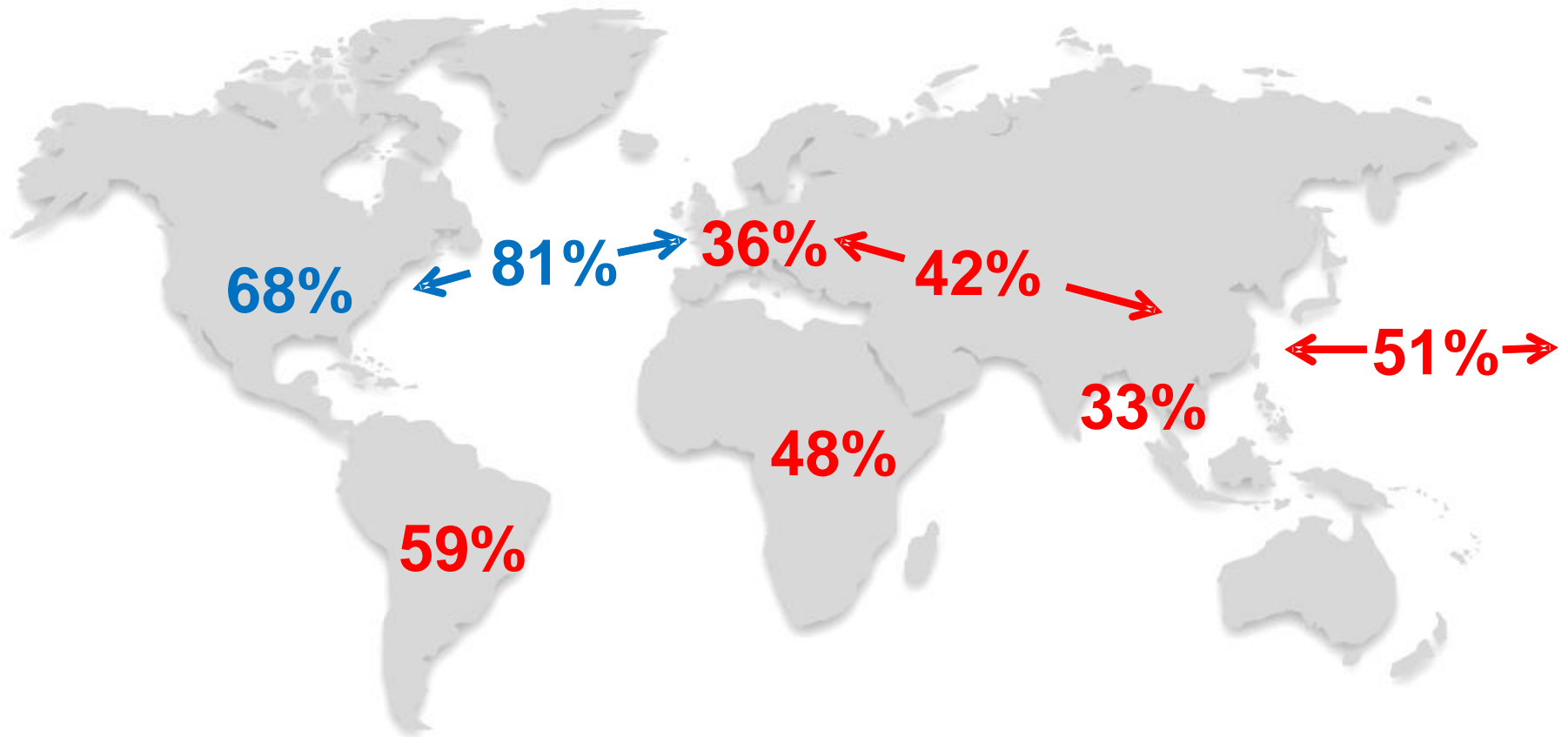
International trade compared to global industrial production



Source: Netherlands CPB, IATA

Fragmentation remains a problem in many markets

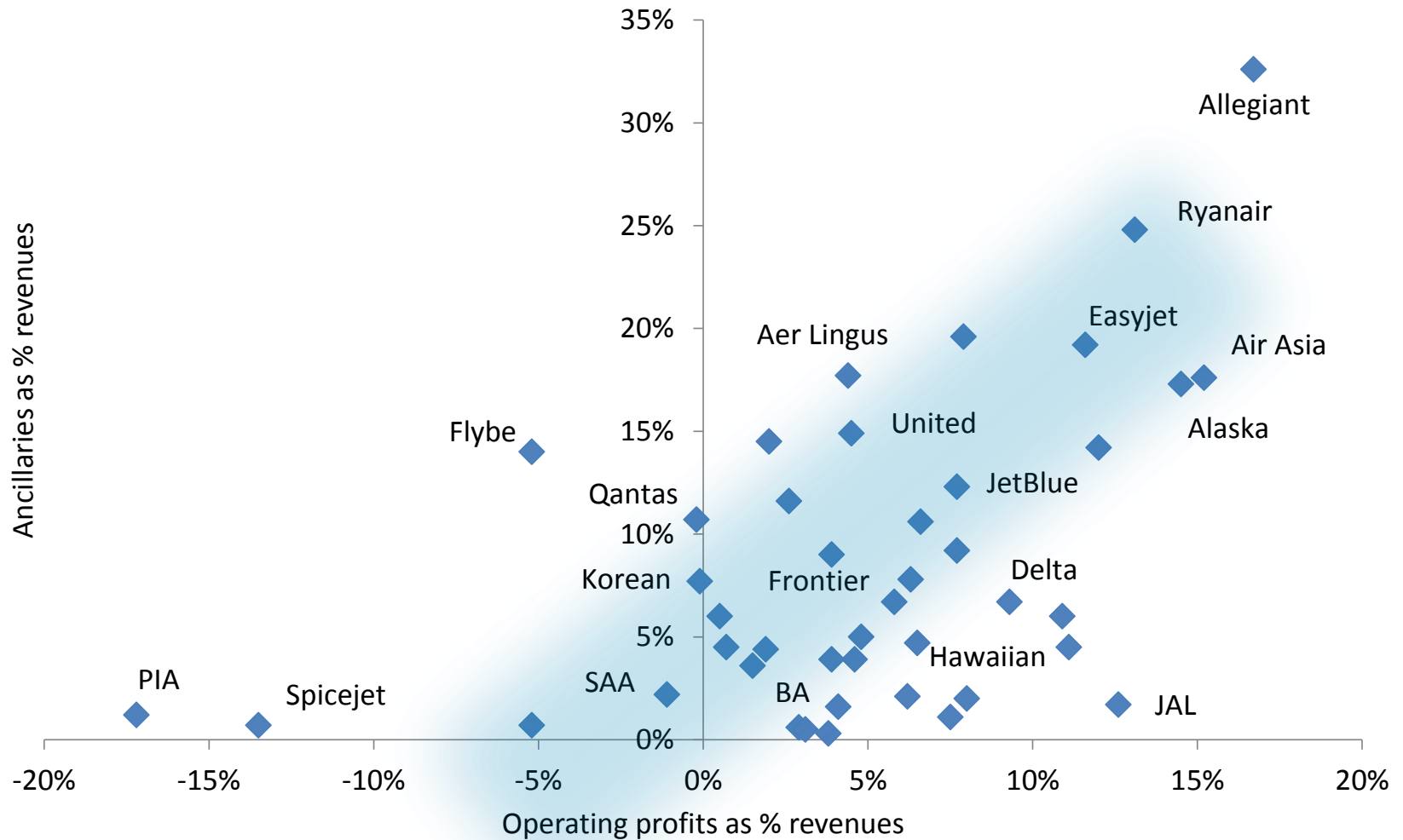
Market share of top-4 airlines/JVs



Source: SRS Analyser

Commoditization problem starting to be addressed

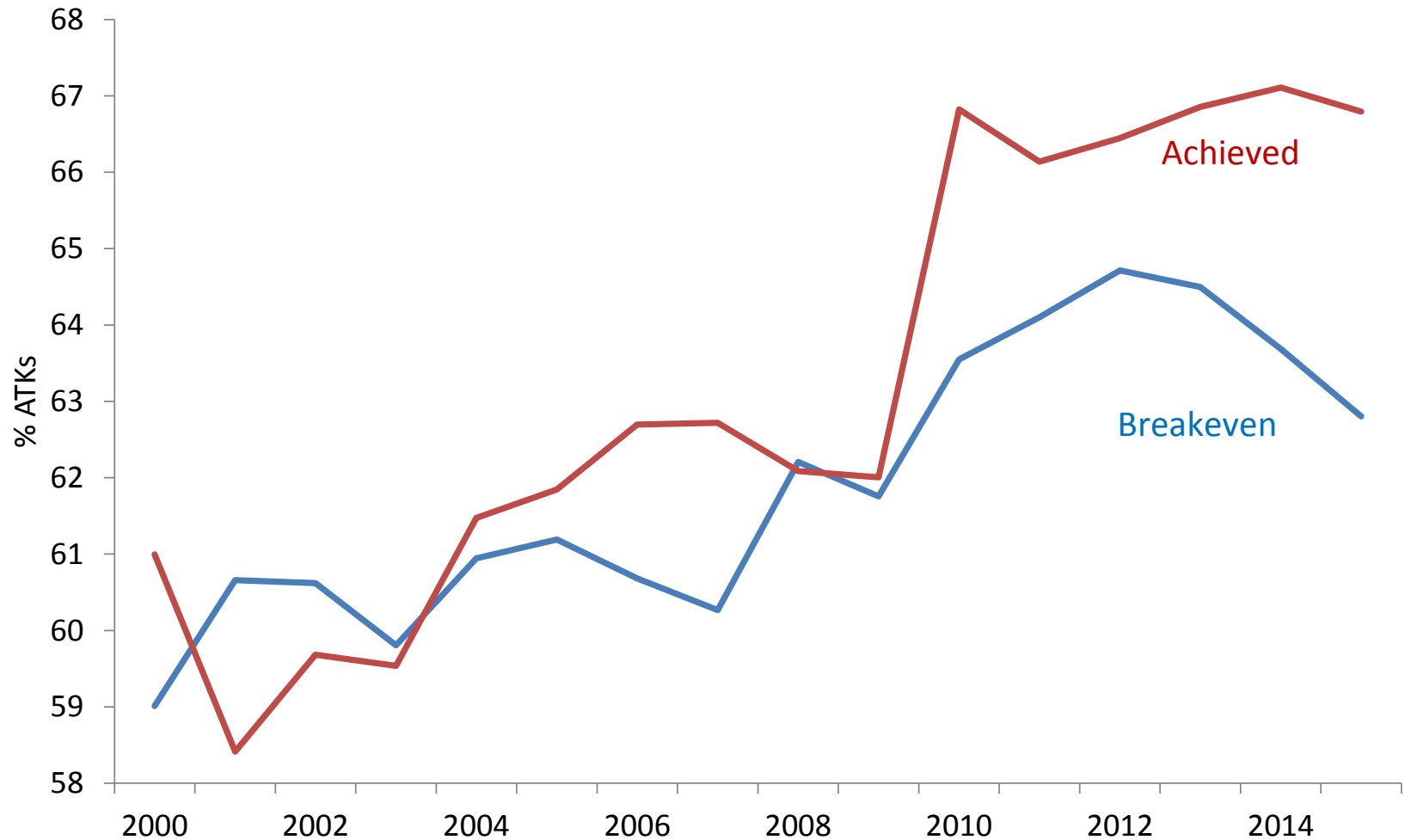
2013 ancillaries and operating profits, % revenues



Source: IdeaWorks, Airline Analyst, IATA

All of which is leading to this...

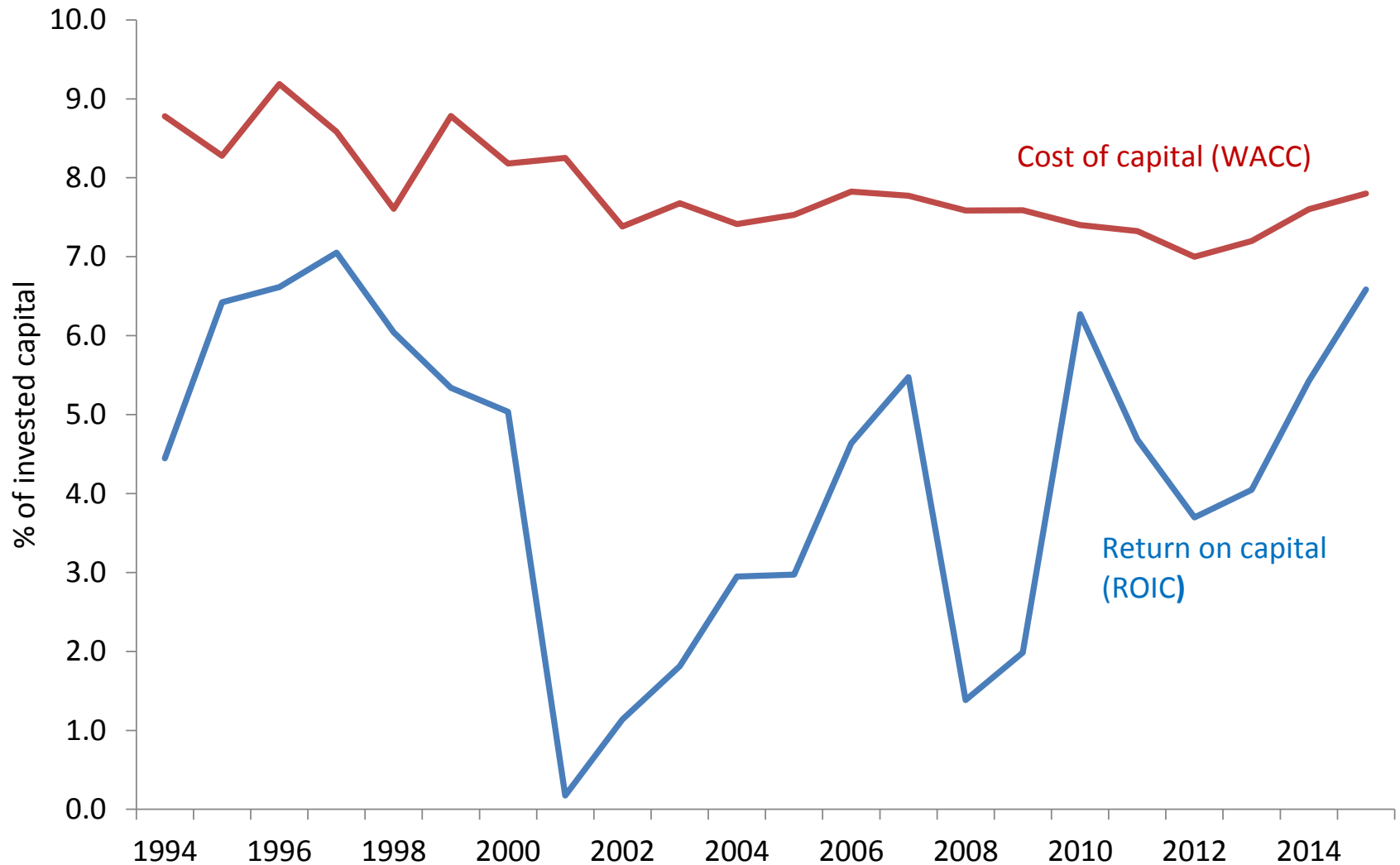
Breakeven and achieved load factor



Source: IATA

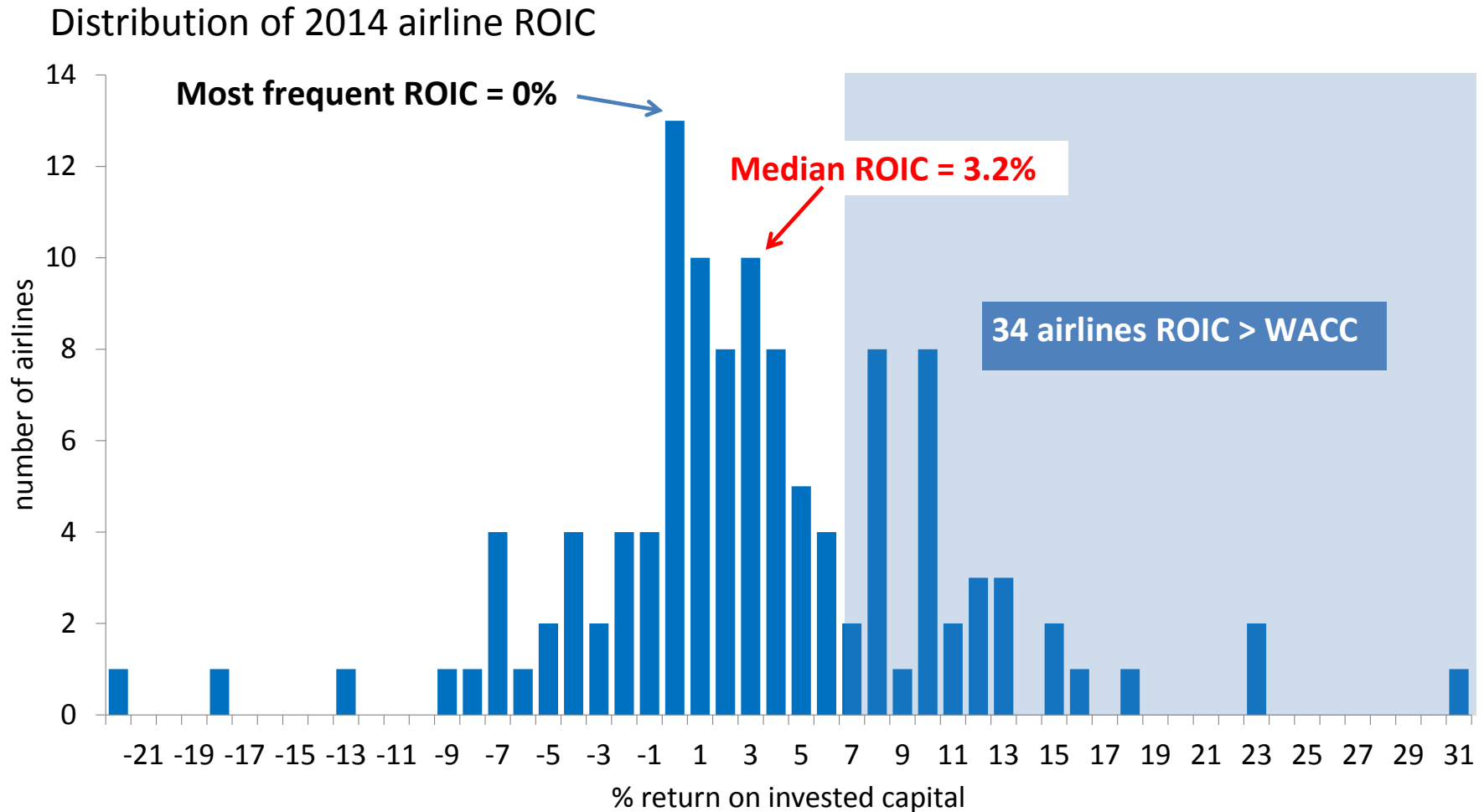
So airline industry ROIC is improving significantly

Return on capital invested in airlines



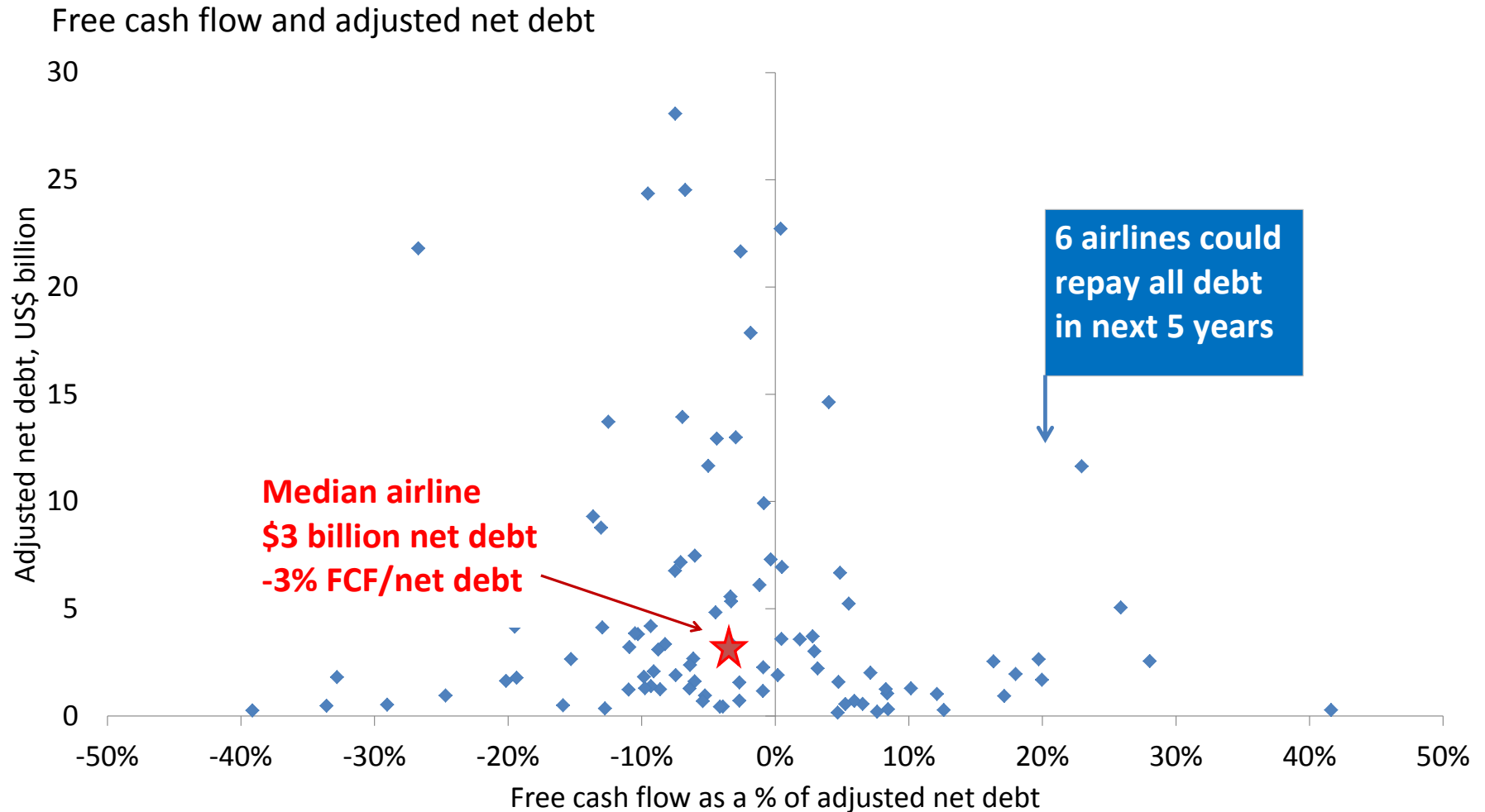
Source: IATA, McKinsey

Improvement driven by a subset of the industry



Source: The Airline Analyst, IATA

Median airline not as well placed as leaders



Source: The Airline Analyst, IATA

Takeaways

- North-South divide
- US consolidated, strong economy, strong \$, low fuel
- Returning cash to shareholders!
- Key Latin economies and currencies weak
- Some growth hotspots
- Capacity discipline strongest in the North
- COPA exception: management, geography
- Low fuel prices not always good
- Industry profitability narrowly based
- Fragmentation tackled by JVs/LATAM innovation
- Commoditization being addressed by NDC