Normalization of airline profitability not yet widespread or secure

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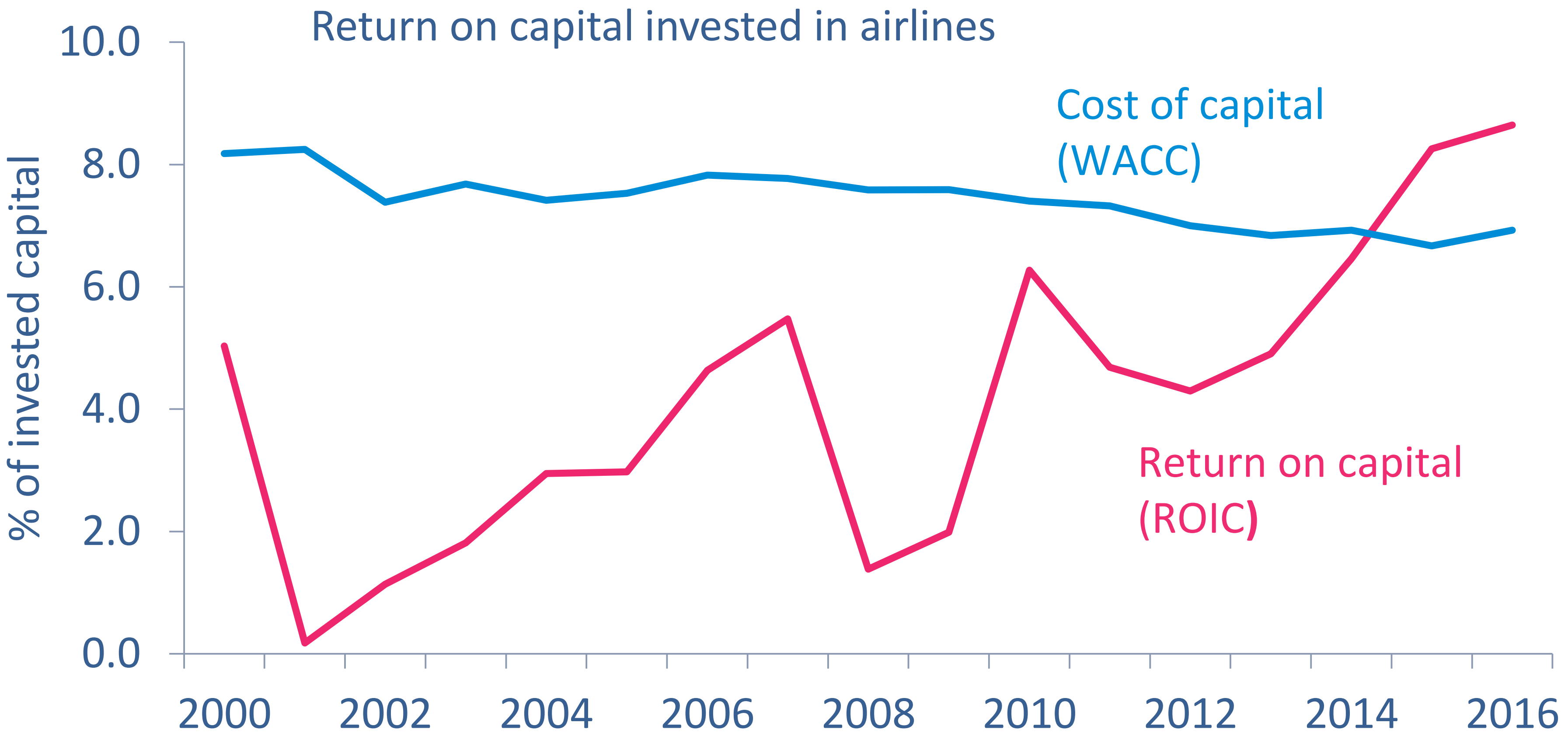
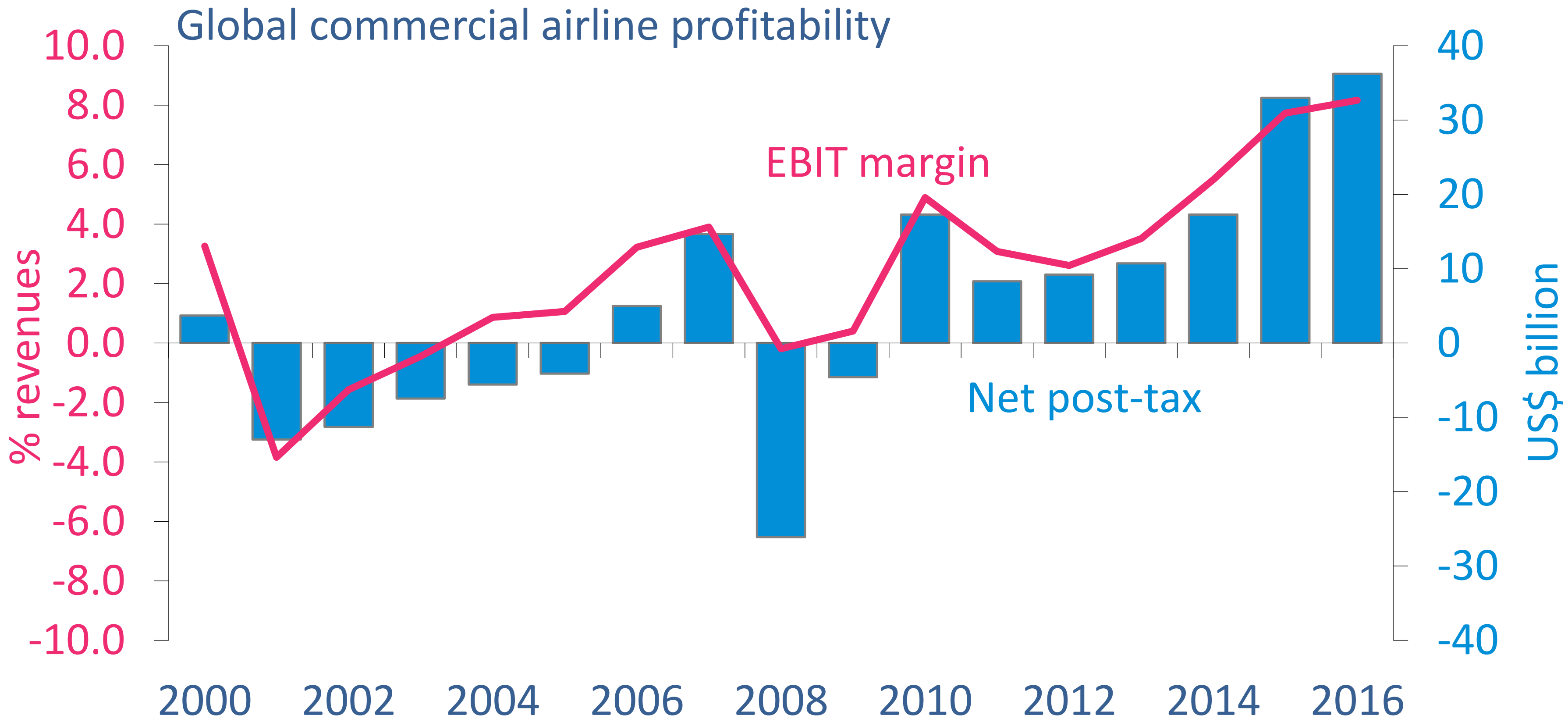
Airline investors paid a ‘normal’ return for 1st time



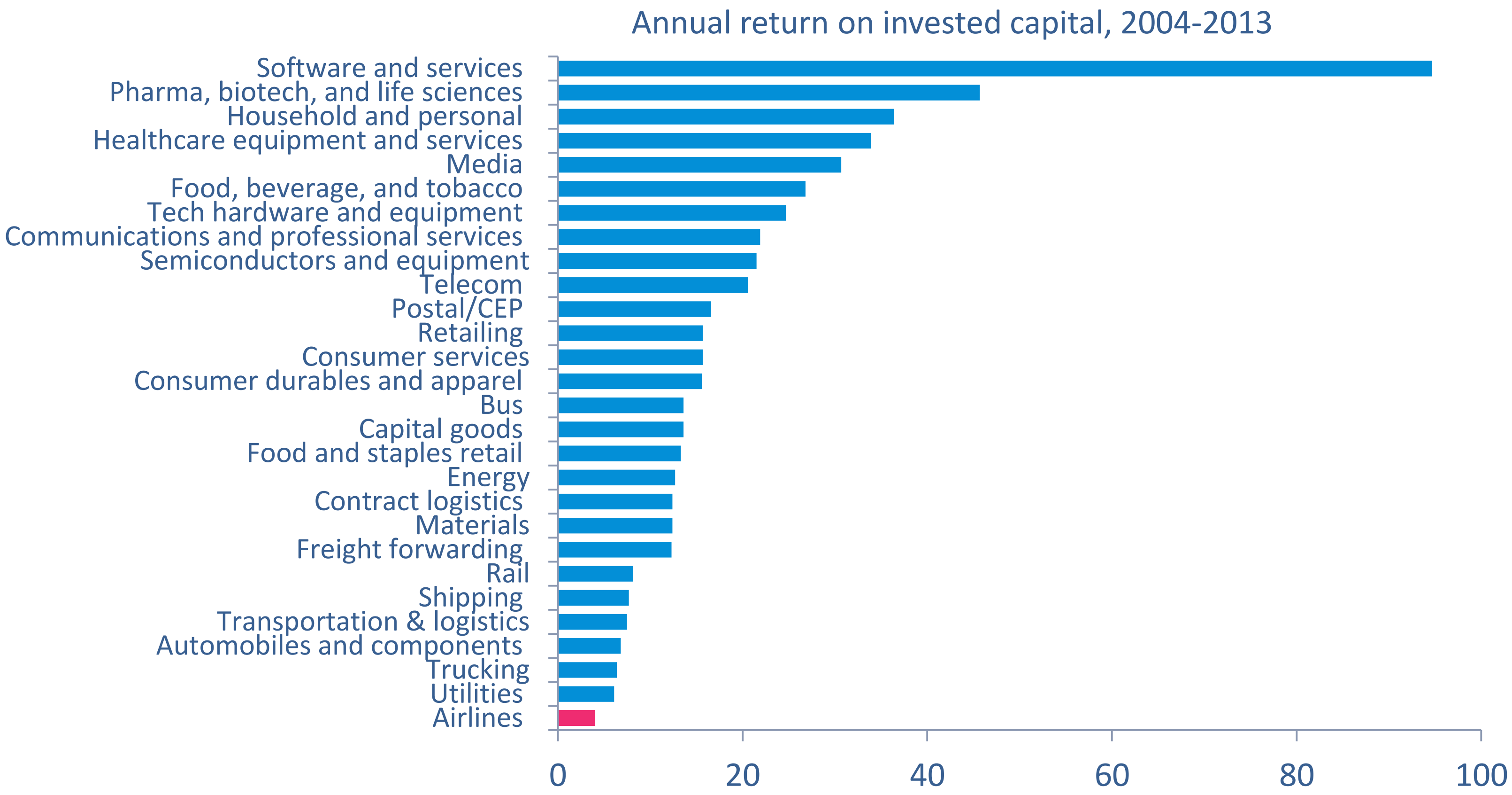
Source: McKinsey, IATA

Yes, these are record profits for the industry



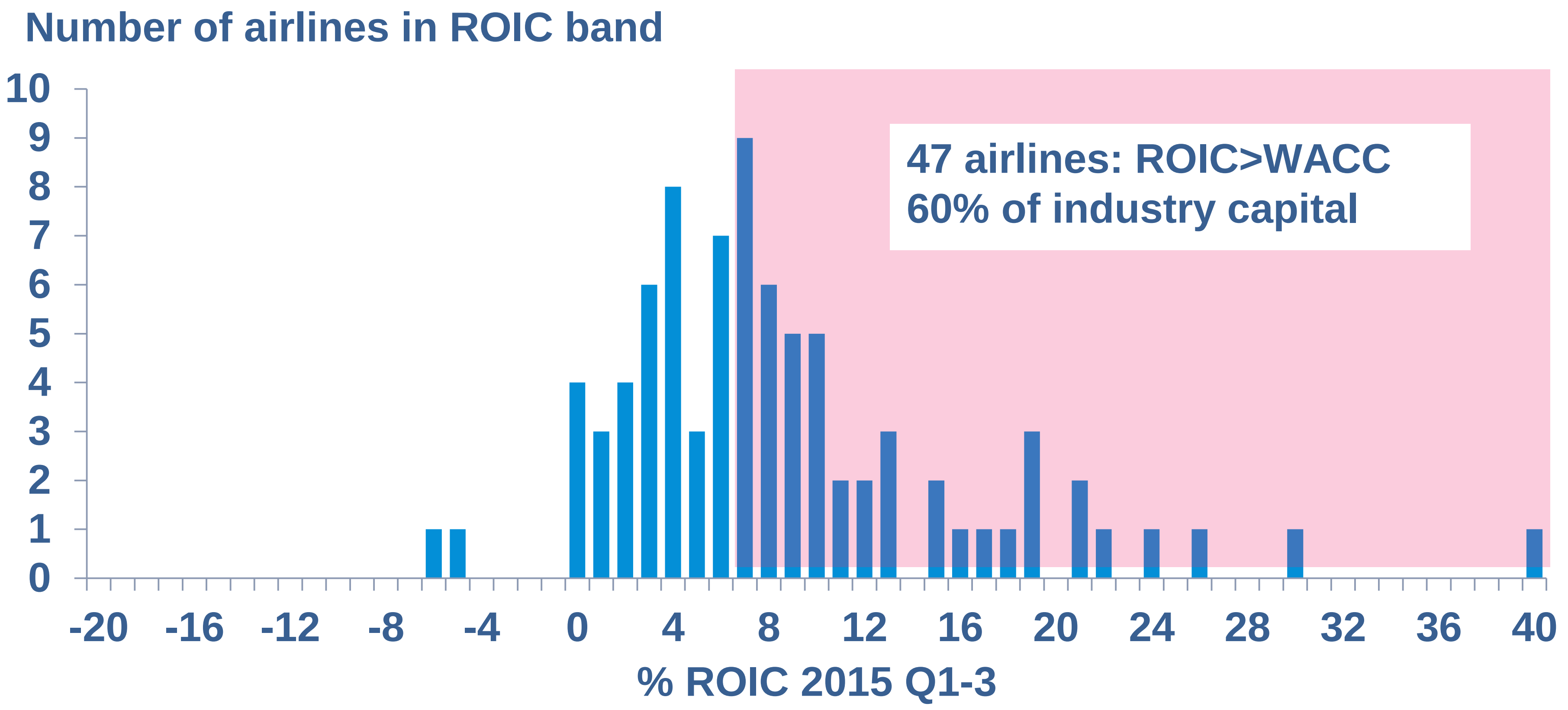
Source: ICAO, IATA

But the starting point is extremely low



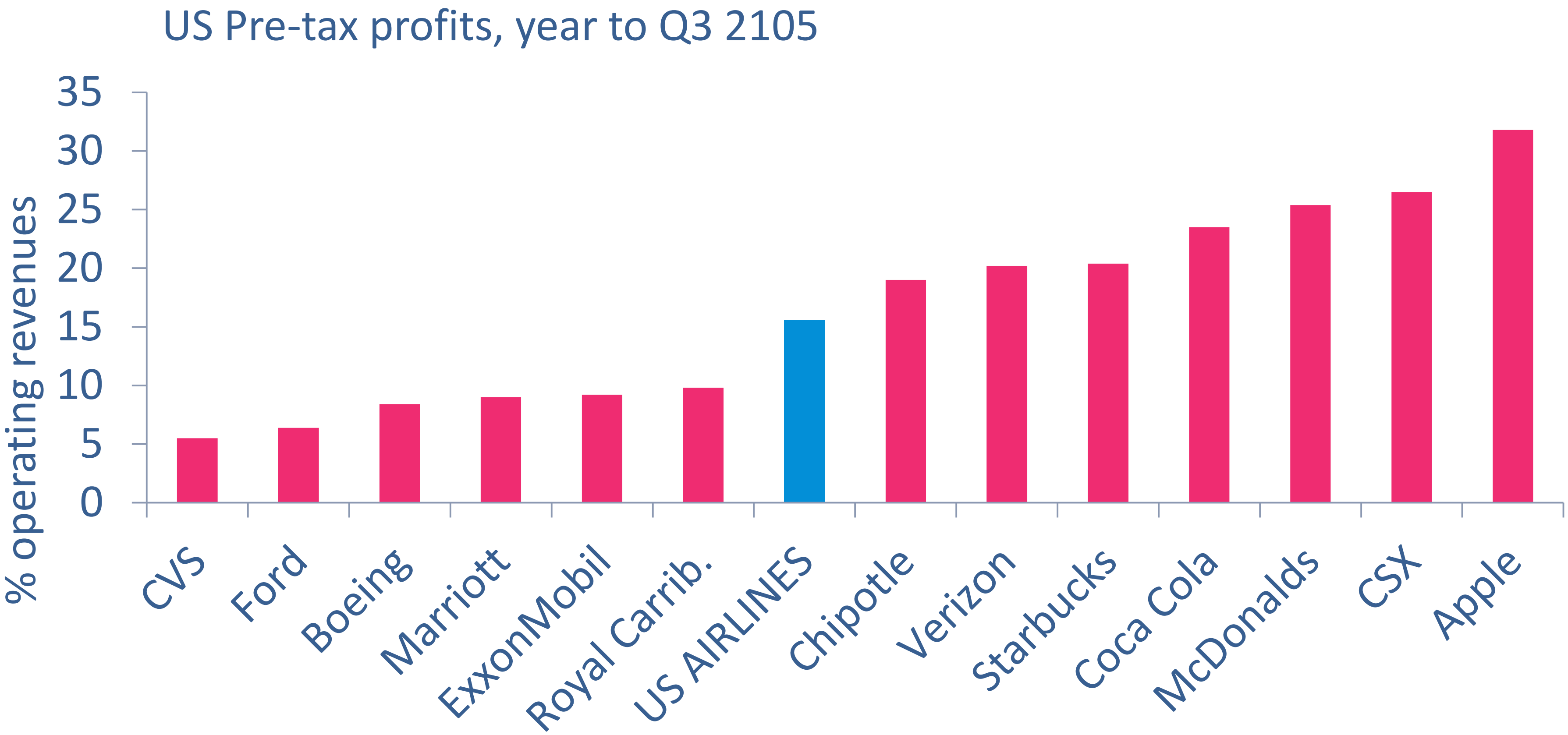
Source: McKinsey

Relatively few airlines driving industry profitability



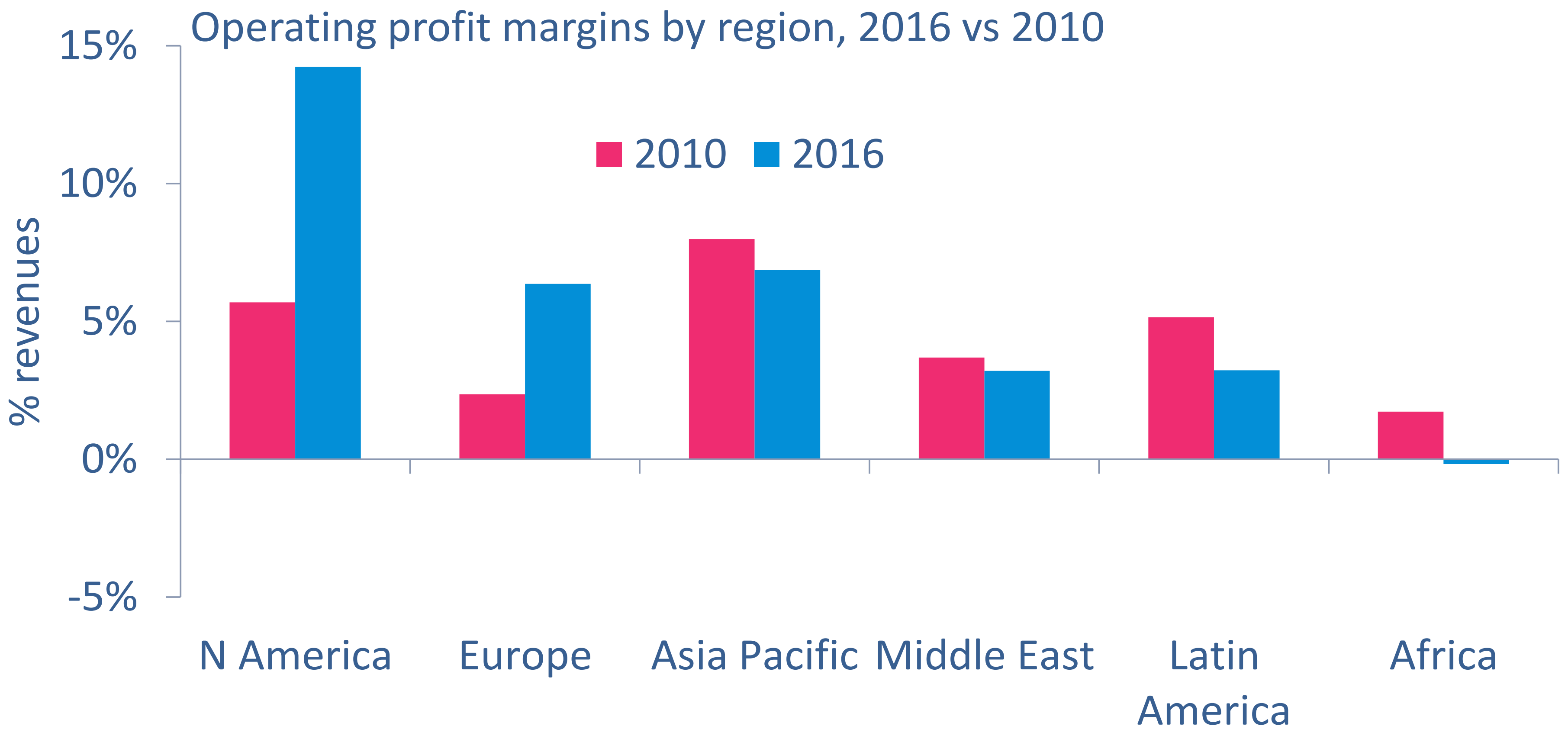
Source: The Airline Analyst, IATA

Level of profits is clearly not ‘excessive’ even in US



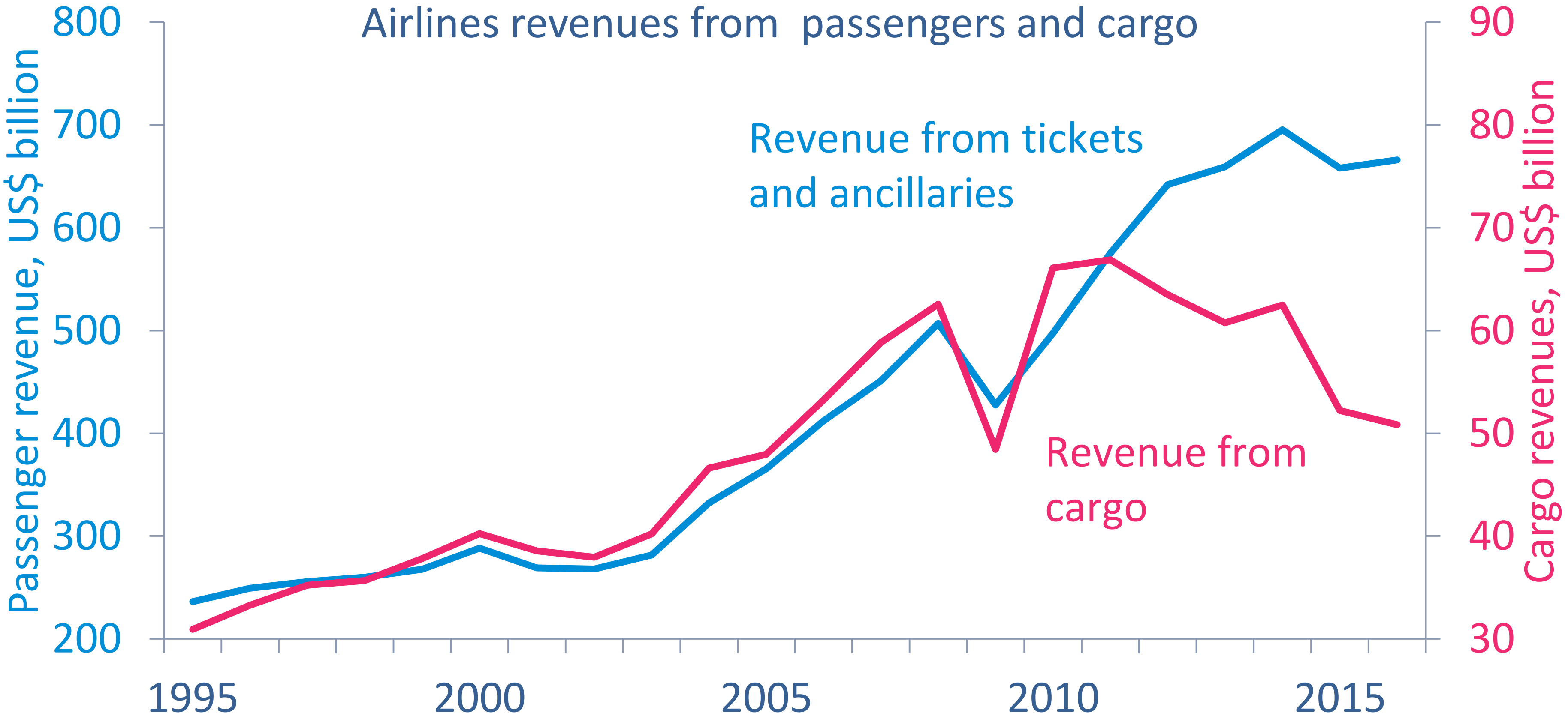
Source: A4A

‘Normalization’ is not widespread across regions



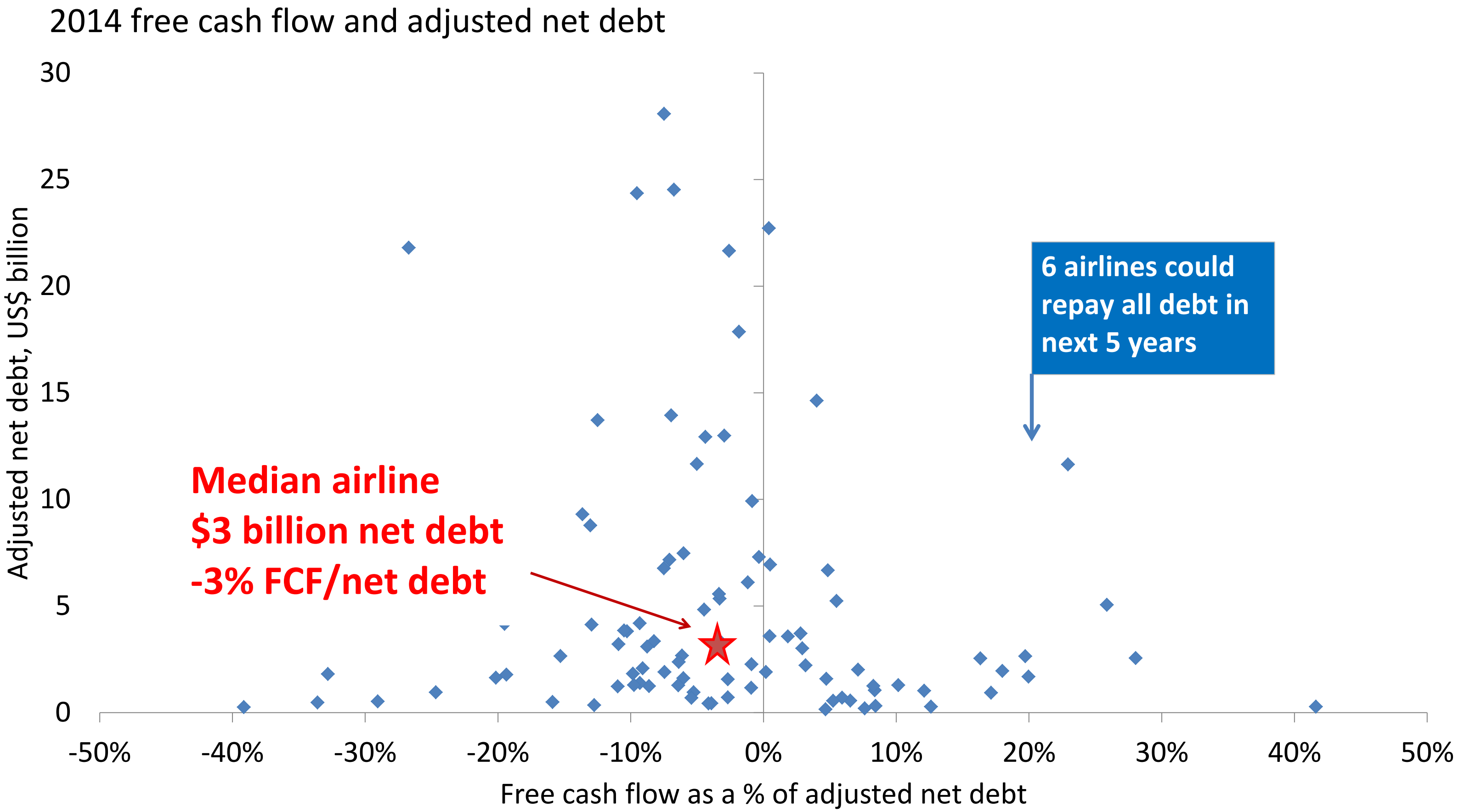
Source: ICAO, IATA

Or across business sectors



Source: ICAO, IATA

Moreover balance sheets take time to strengthen



Source: The Airline Analyst, IATA

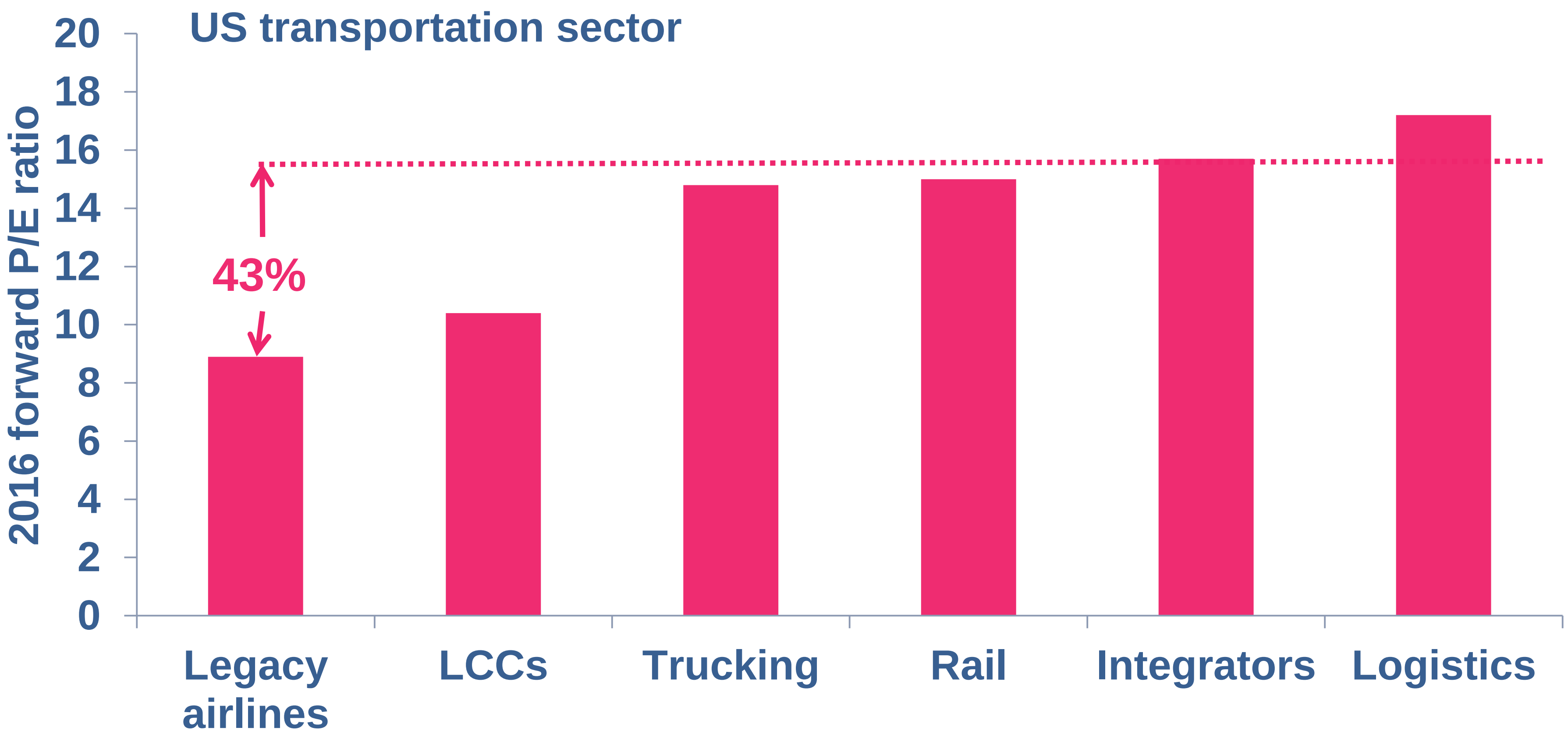
Debt finance markets sceptical

AA+/-	
A+/-	
BBB+/-	ANZ, Qantas, Lufthansa, Ryanair, Southwest, Alaska, Westjet
BB+/-	Delta, American, United, Allegiant, Spirit, BA, Turkish, LATAM
B+/-	Air Canada, Hawaiian, JetBlue, Avianca, GOL, SAS, Virgin Australia

Investment grade

Source: S&P, Airfinance Journal

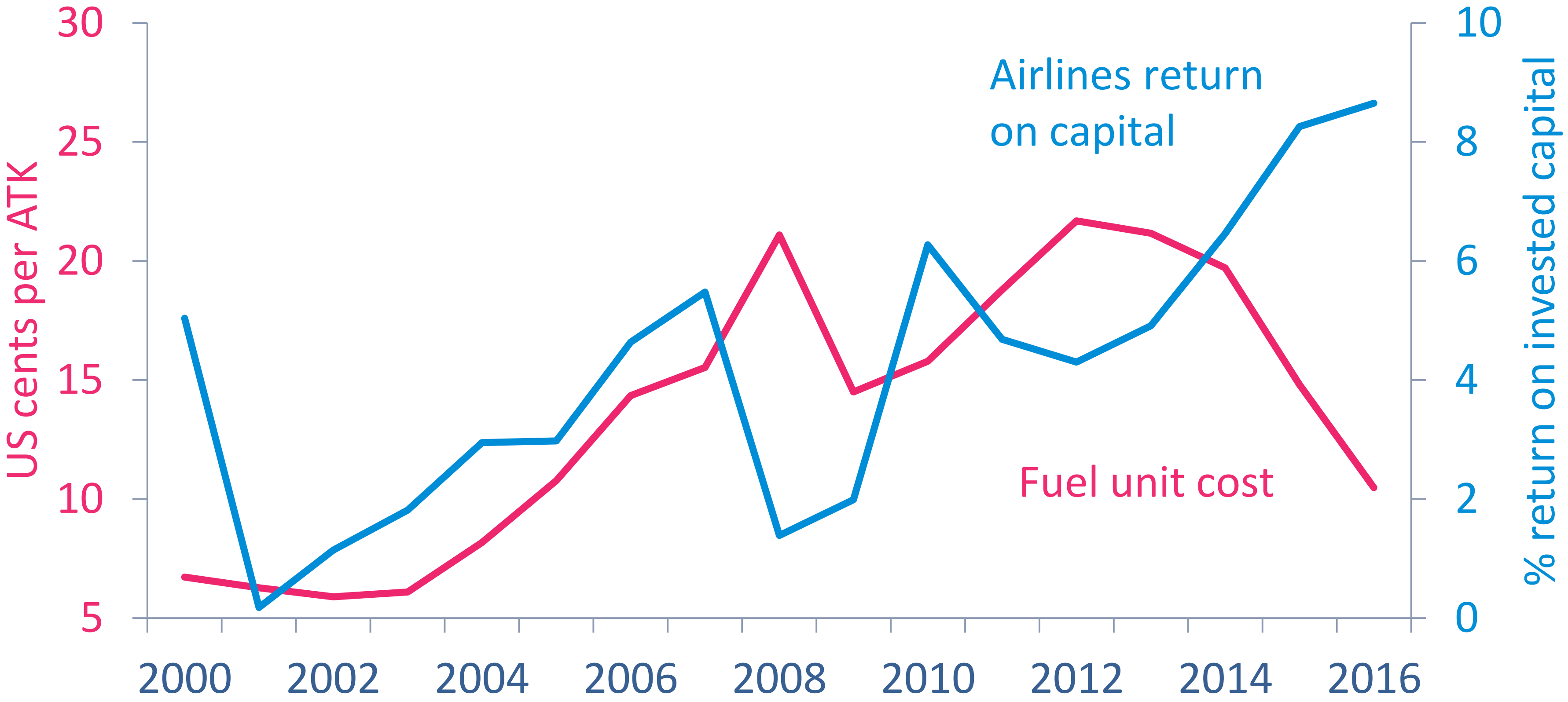
As are equity markets



Source: Datastream

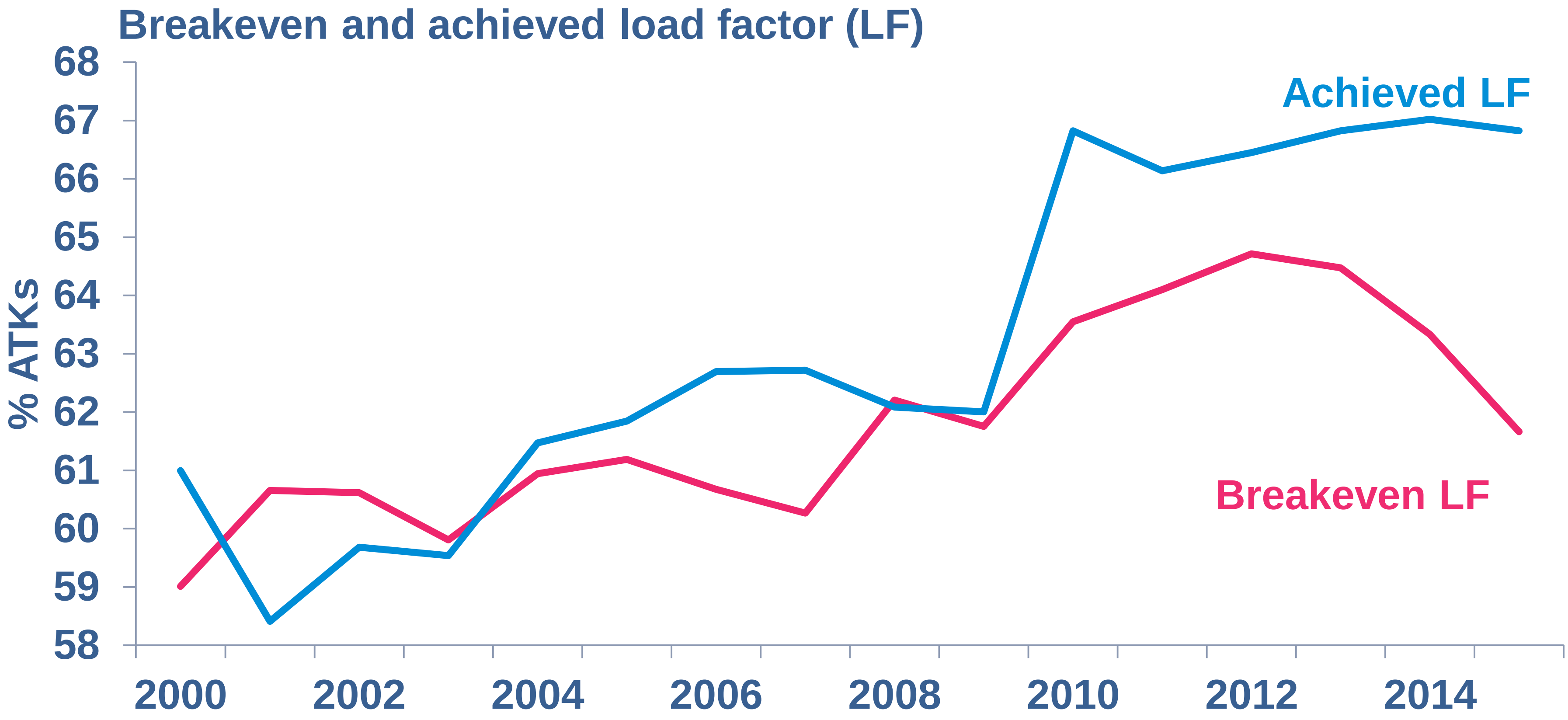
The role of low fuel prices is not clear-cut

Fuel unit costs and airline return on capital



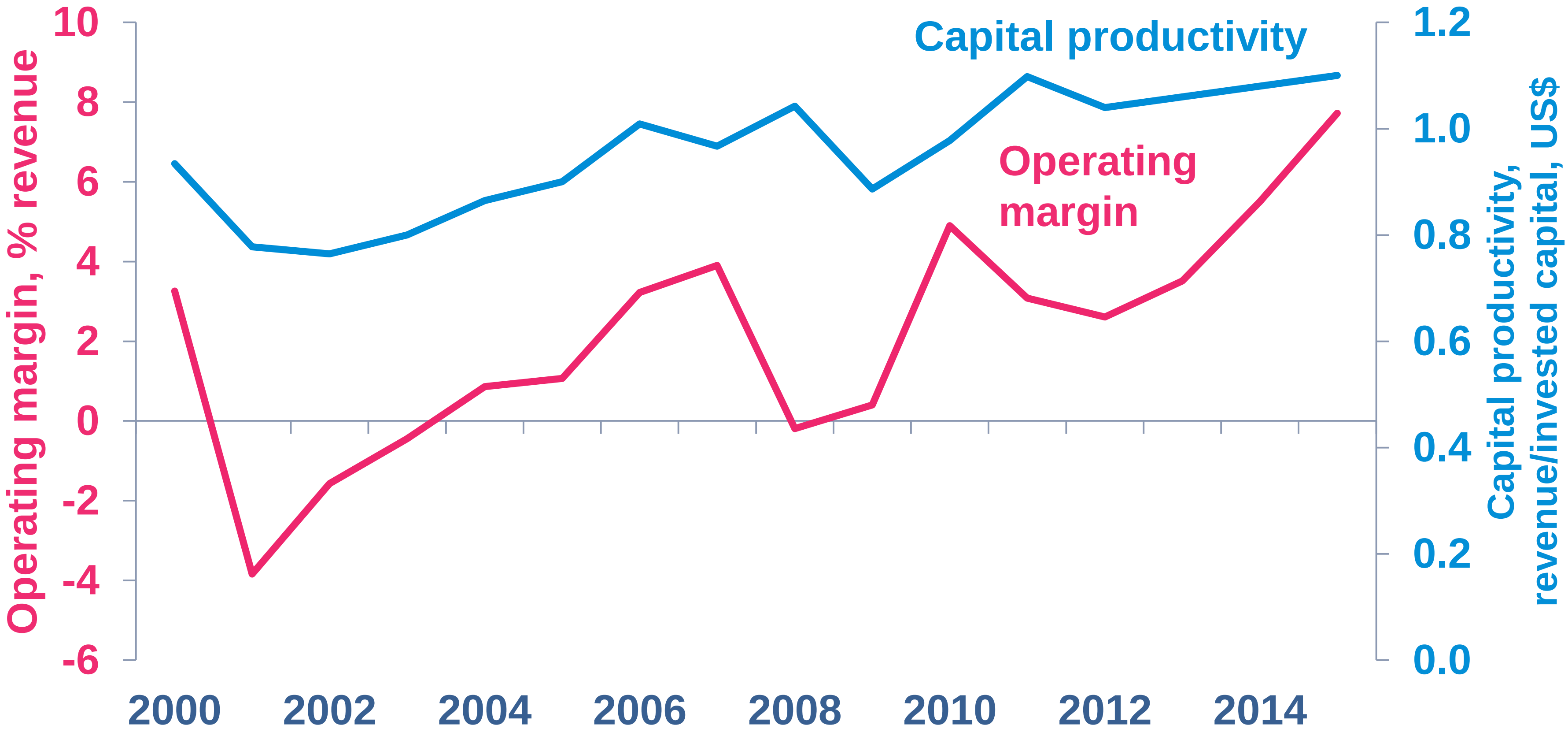
Source: ICAO, McKinsey, IATA

Airlines are now better utilizing their assets



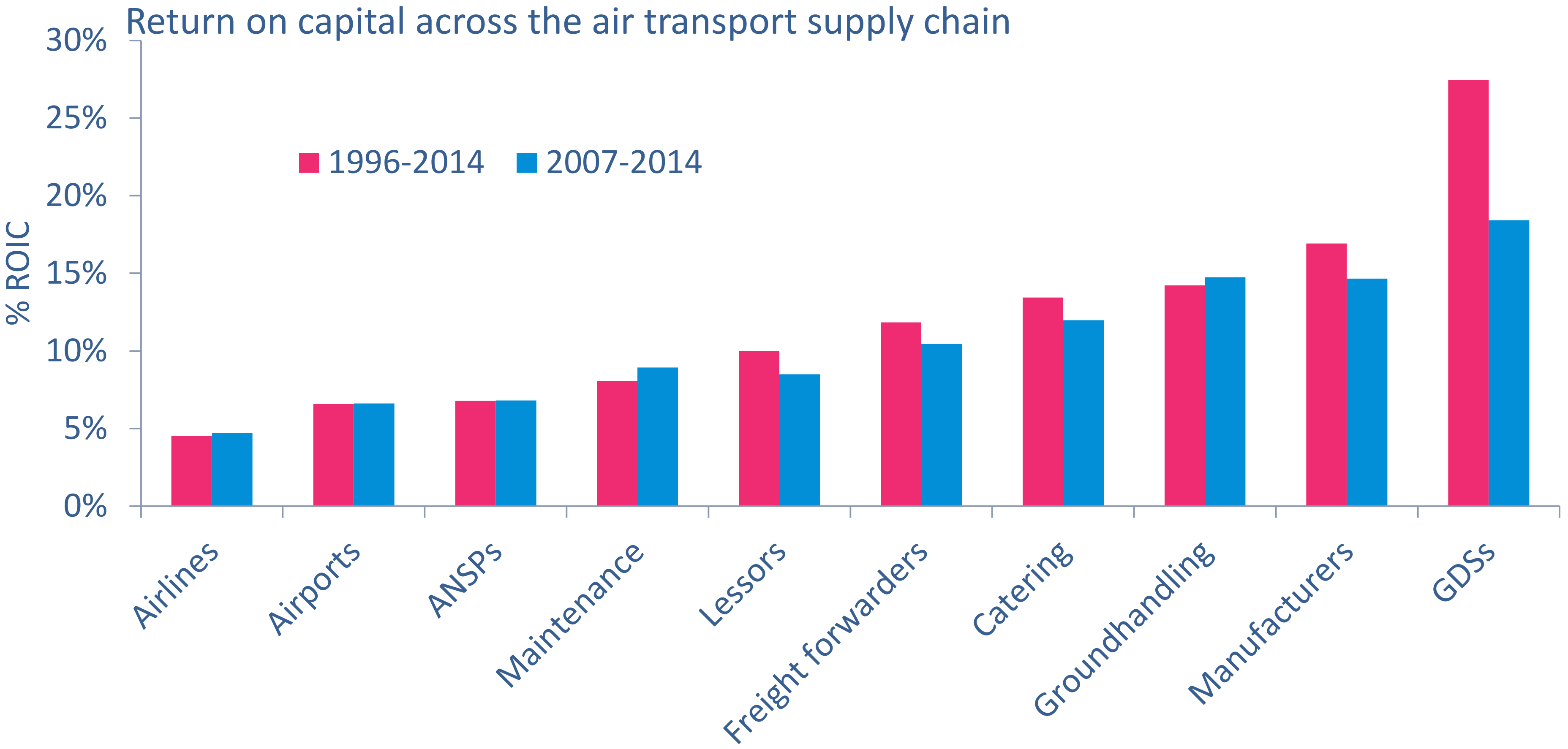
Source: ICAO, IATA

Airlines are improving the productivity of capital



Source: ICAO, McKinsey, IATA

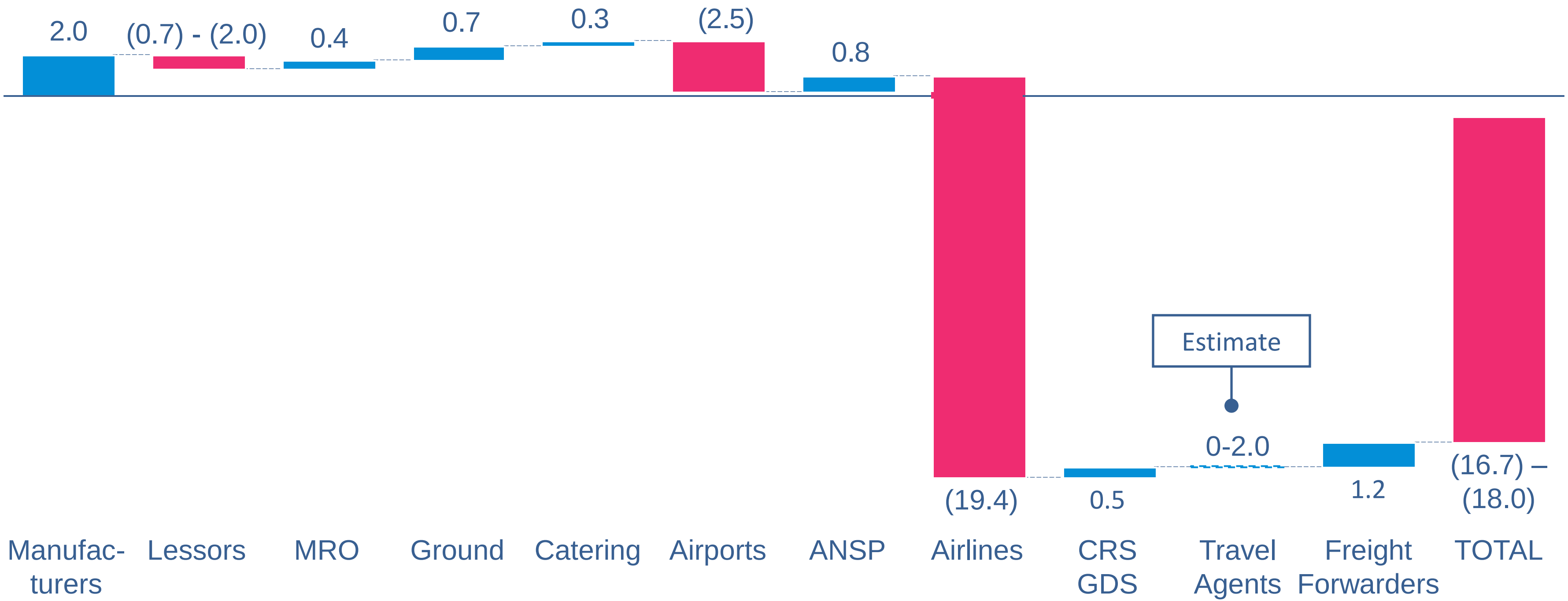
We still have issues in the supply chain



Source: McKinsey for IATA

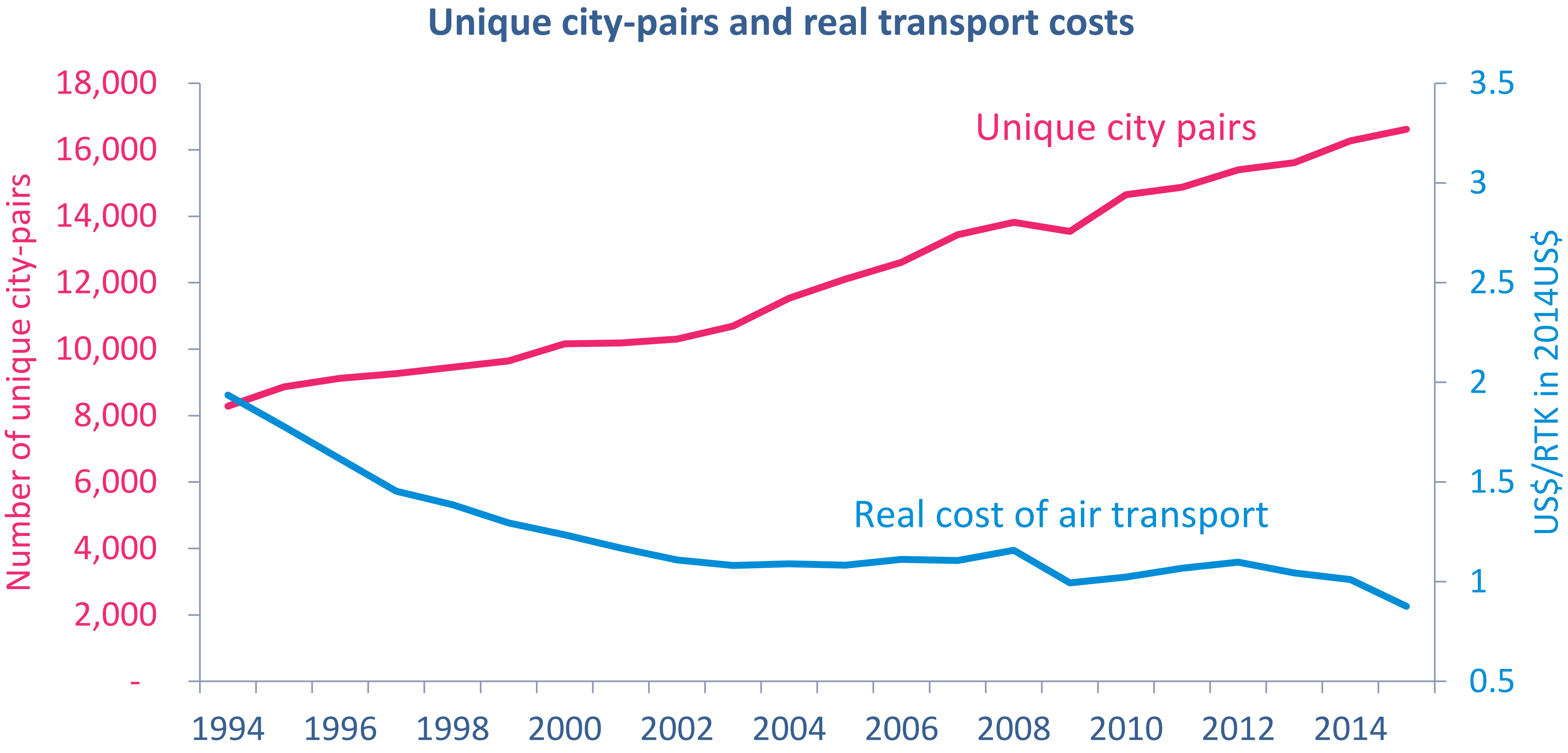
But this is not the main issue for airline earnings

Average yearly economic profit, USD billion, 2007-2014



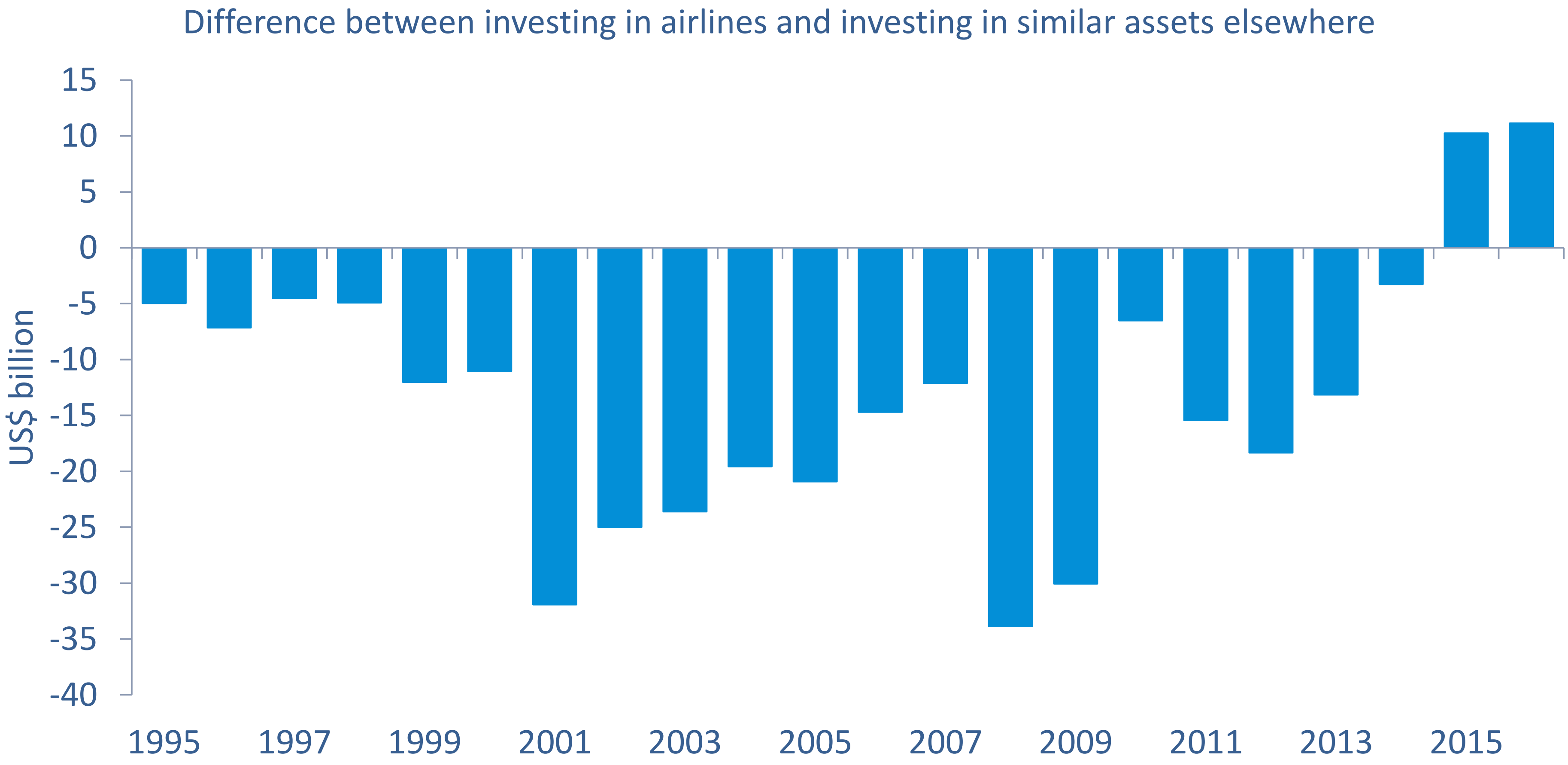
Source: McKinsey for IATA

Consumers have been the major beneficiaries



Source: ICAO, Boeing, OAG, IATA

But equity investors have lost their shirts!



Source: McKinsey, IATA

This is an opportunity to create resilience

- Progress so far needs to be defended strongly
- Normal not excessive airline profits
- Narrowly based improvement so far
- Investors need to be paid to risk their capital
- Balance sheets take longer to repair than P&L
- Improvement due to more than low fuel prices
- Structural gains in asset utilization and capital productivity
- Better asset utilization dependent on network cooperation
- Better capital productivity dependent on ancillaries development
- FCF opportunity to create more resilient business models and finances
- Regulatory environment also key to resilience