

Lessons from North American Airline Restructuring

Stephen E. Still
Managing Director

Aircraft Commerce Conference
Dublin Ireland
November 7, 2006

SEABURY GROUP
INVESTMENT BANKING & ADVISORY SERVICES

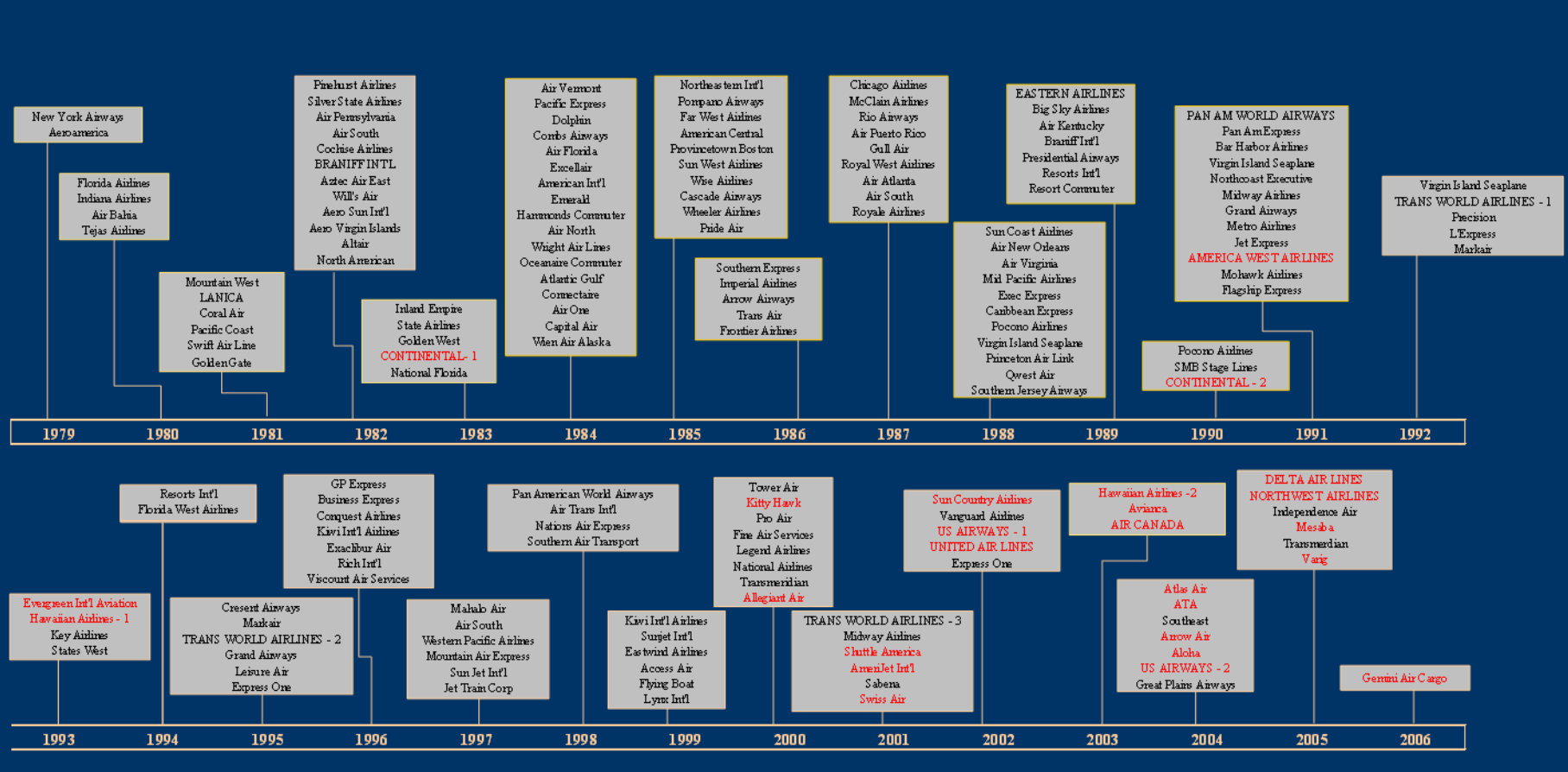
Table Of Contents

- **What Key Lessons Have We Learned?**
- **Have Recent Restructurings Been Successful?**
- **Is Consolidation an Answer?**
- **The Skies Ahead: Rain or Shine?**

Bankruptcy History

Since 1978 there have been over 160 airline bankruptcies – with few successes

➤ Bankruptcy is not a free pass “out of jail”



ALL CAPS -- major airlines ██████████ -- still operating as of 9/2006

Source: 27th Annual Airport Conference by Sheri Ernico with John F. Brown Company

Restructuring

Clear lessons have emerged, both positive and negative

What NOT to do in Restructuring

- “Grow your way” out of trouble
- Deify the “sacred cows”
- Make up the process as you go along
- Looks for ways to receive more holiday cards
- Hire key advisors fresh out of business school

Restructuring

Clear lessons have emerged both positive and negative

What TO DO in Restructuring

- Rationalize unproductive routes and aircraft
- Make hamburger out of “sacred cows” *
- Devise a carefully planned process in advance
- Play fair but play hard
- Use experienced professionals when value added

* M. Cox, Seabury Group

Restructuring Trends and Evidence

Cost Restructuring

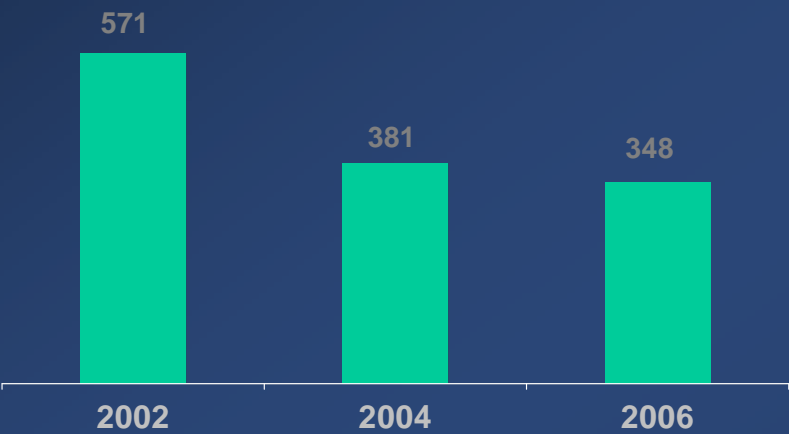
Elements of successful cost restructuring are across organisation

- **Labor savings are important but not only source**
- **Productivity and rules count, not just rates of pay**
- **Aircraft “marked to market”**
- **Contracts of all types: airports, IT, maintenance, ...**
- **Corporate processes and efficiency**

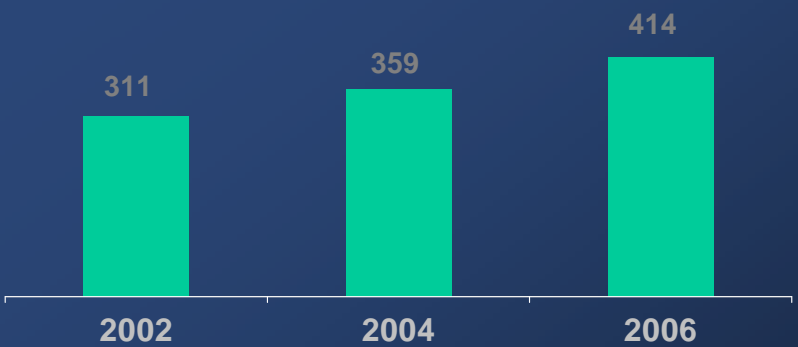
Cost Restructuring

Carriers and labor worked together to achieve common goals

US Airways Domestic B737-300
Pilot Salaries per Block Hour



Southwest Domestic B737-300
Pilot Salaries per Block Hour

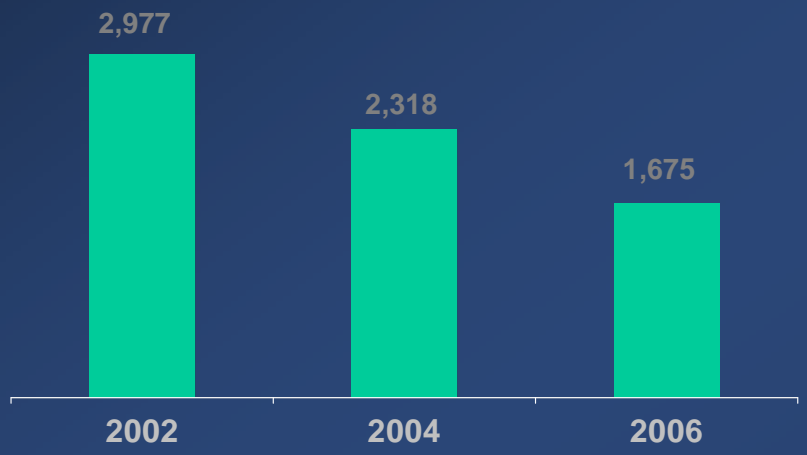


Source: USDOT Form41, 2nd Quarter (Apr-Jun) only

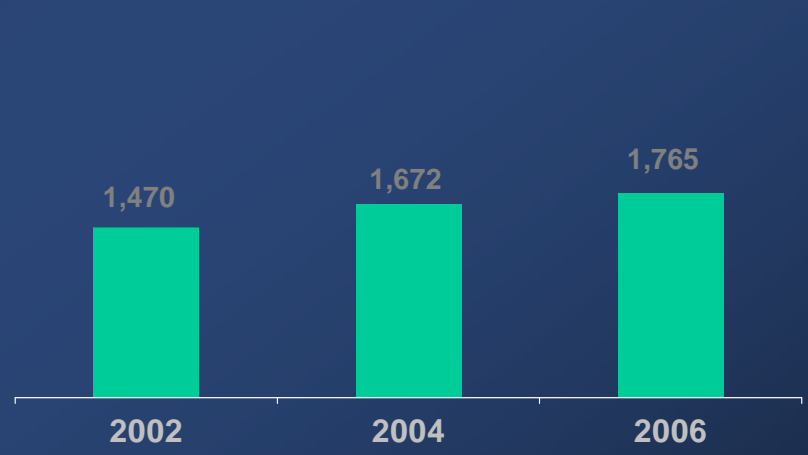
Cost Restructuring

Carriers and labor worked together to achieve common goals

US Airways Domestic Salaries and Fringe per Block Hour



Southwest Domestic Salaries and Fringe per Block Hour

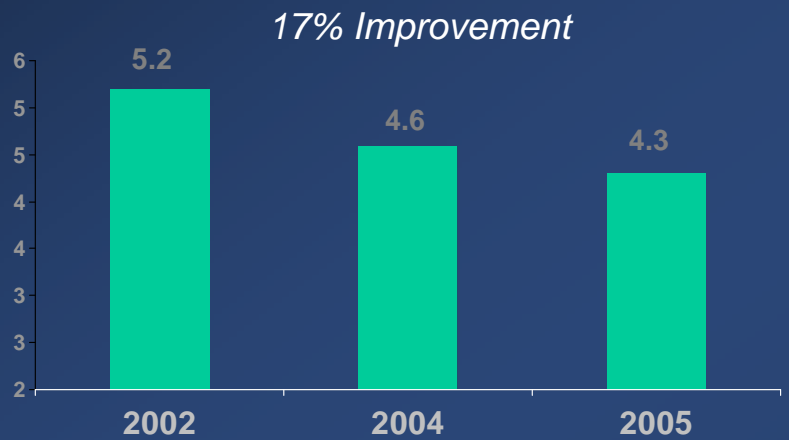


Source: USDOT Form41, 2nd Quarter (Apr-Jun) only

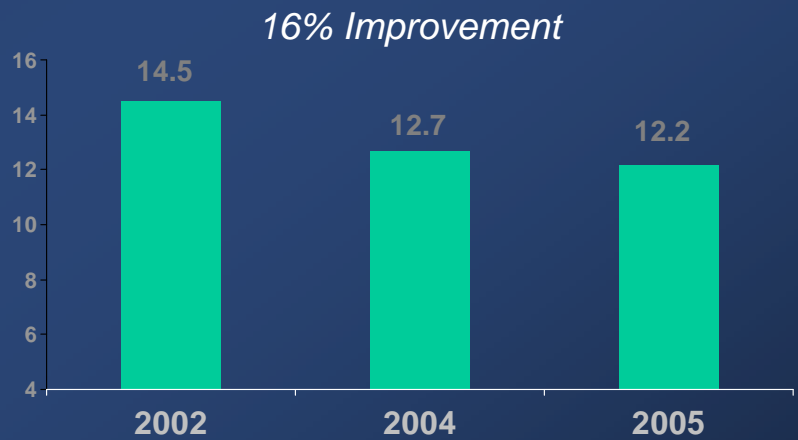
Cost Restructuring

Carriers and labor worked together with other costs improving in line

Air Canada
Labor Cost per ASM - cents



Air Canada
Total Cost per ASM - Except Fuel - cents

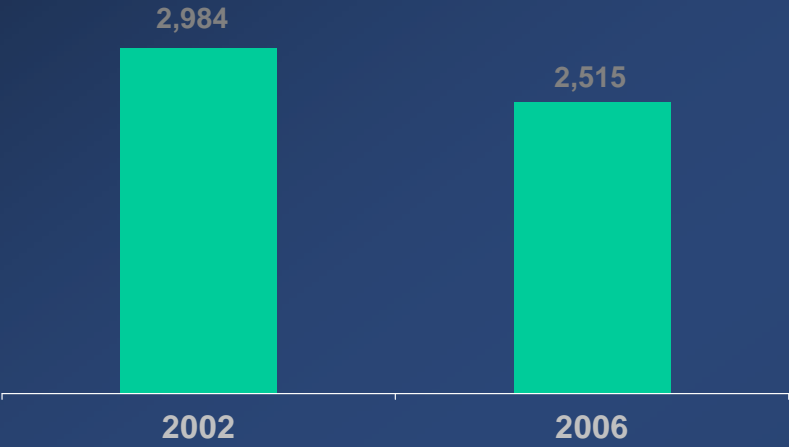


Source: Company annual reports – public information

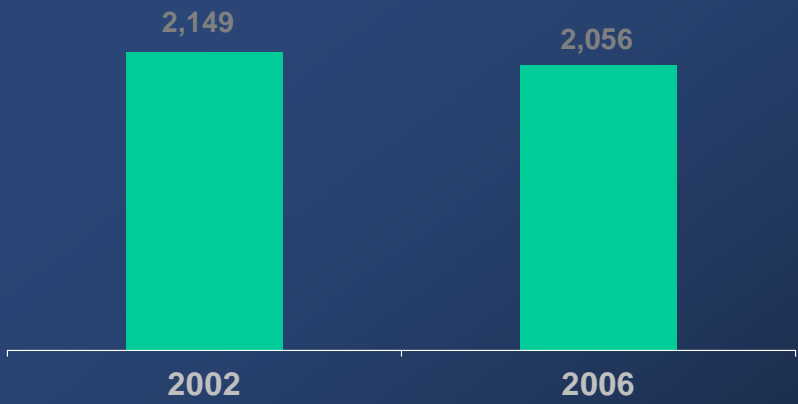
Cost Restructuring

Improved cost efficiency can be accomplished outside of bankruptcy

American Airlines
Salary and Fringe per Block-Hour



Continental
Salary and Fringe per Block-Hour



Source: USDOT Form41, 2nd Quarter (Apr-Jun) only

Network Restructuring

US Airways eliminated a major hub but still retained East Coast network presence

ASM % Change: 2004 vs 2006

Charlotte NC	(2)%
Philadelphia PA	(7)%
Pittsburgh PA	(67)%

US Airways - 2004



US Airways - 2006



Fleet Restructuring

Air Canada retired uncommon or inefficient fleet types and acquired new types

Retired

B747

B737-200

BAe-146

New Acquisitions

CRJ-700

Embraer 175 and 190

Retained

A319/320/321

A330/A340

CRJs

After successful restructuring, completed major wide body acquisitions: B777 and B787

Is Consolidation an Answer?

Consolidation

Recent mergers or strategic partnerships have been more successful than in past

Revenue Synergies

- Network Connectivity
- City Presence
- Brand Preference
- Network Rationalization

Cost Synergies

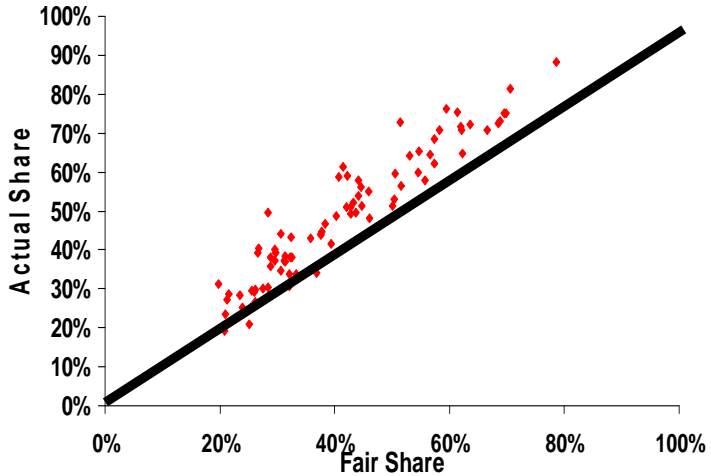
- Station/Gate Redundancies
- Duplicative Administration
- Combined Systems and Facilities
- Increased Purchasing Power

In North America, restructuring in bankruptcy has accelerated benefits

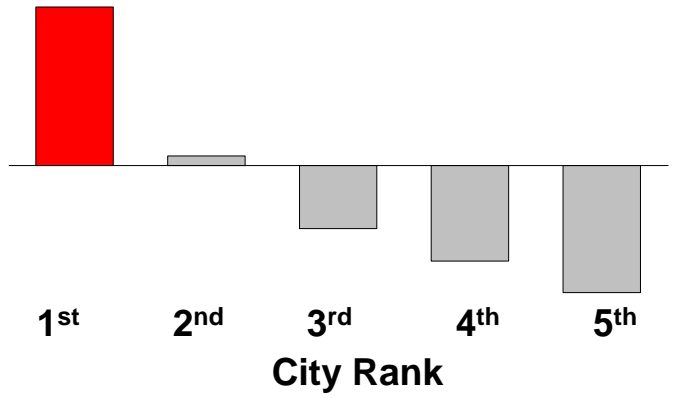
Consolidation

A city's largest carrier enjoys a disproportionate share of revenue

Actual Revenue Share versus Fair Share for 1st Place Carriers

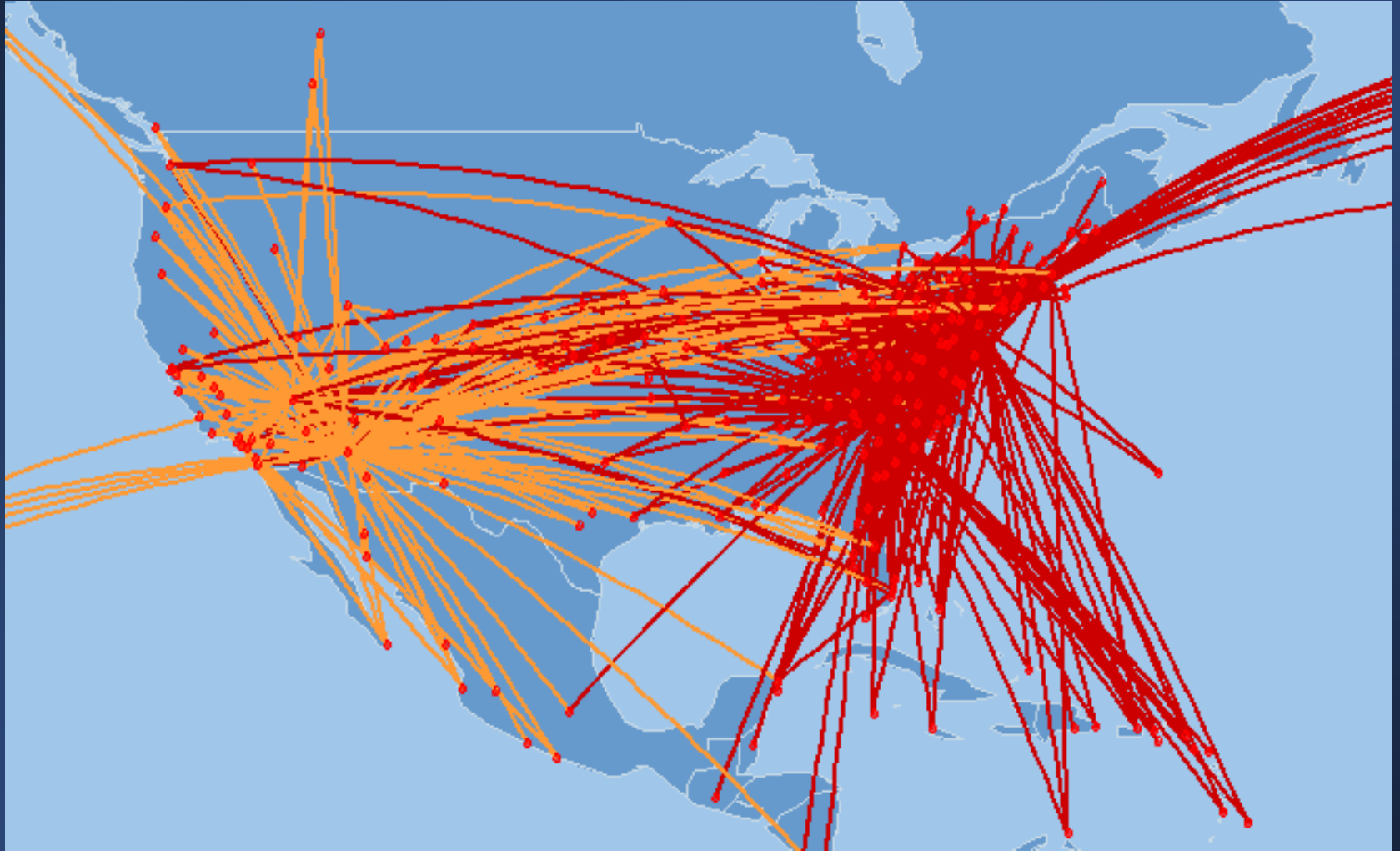


Actual Revenue Share versus Fair Share



Consolidation

In US-HP case, merger provides network access to new geography



Consolidation

Combined networks create enhanced global reach, KLM – Air France



Consolidation

In Air France / KLM case, highly ranked cities increased dramatically

Carrier Rank in World Top Cities



Recent Trends Are Encouraging

Recent News

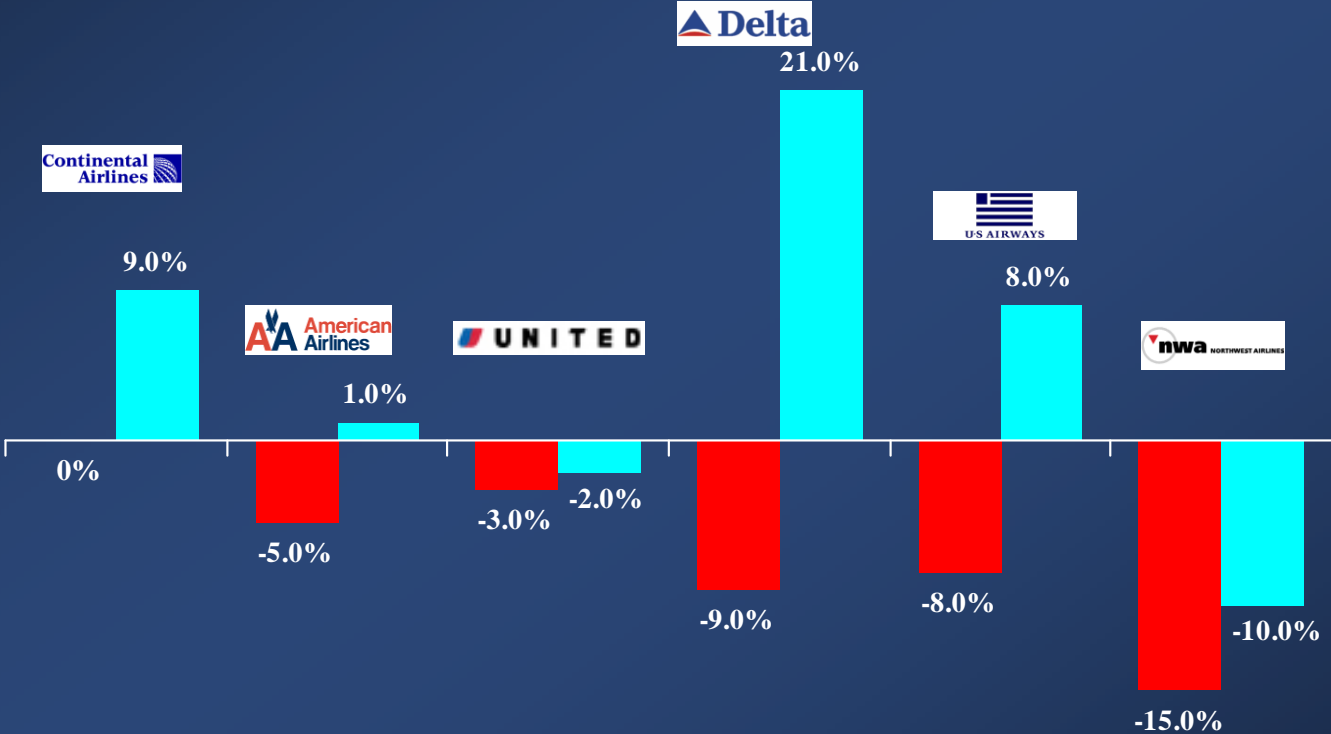
Recent announcements are encouraging

- **Revenue recovery is particularly strong**
- **Capacity growth is largely in check**
- **Despite high fuel, many earnings reports are positive**
 - **UAL reported 2nd consecutive quarter of profit for 1st time in 6 yrs**
 - **US Airways beat analysts expectations and reported \$101mil profit in 3rd quarter (excluding special items)**
 - **ACE Holdings (Air Canada parent) net earnings \$236mil 2nd qtr**
 - **Continental profit was \$237mil in 3rd quarter**
 - **Other major carriers generally above expectation**

Capacity

Legacy carriers have reduced domestic while expanding international flying

**ASM Capacity Change by Carrier
August 2006 vs. 2005 ^{1 2}**



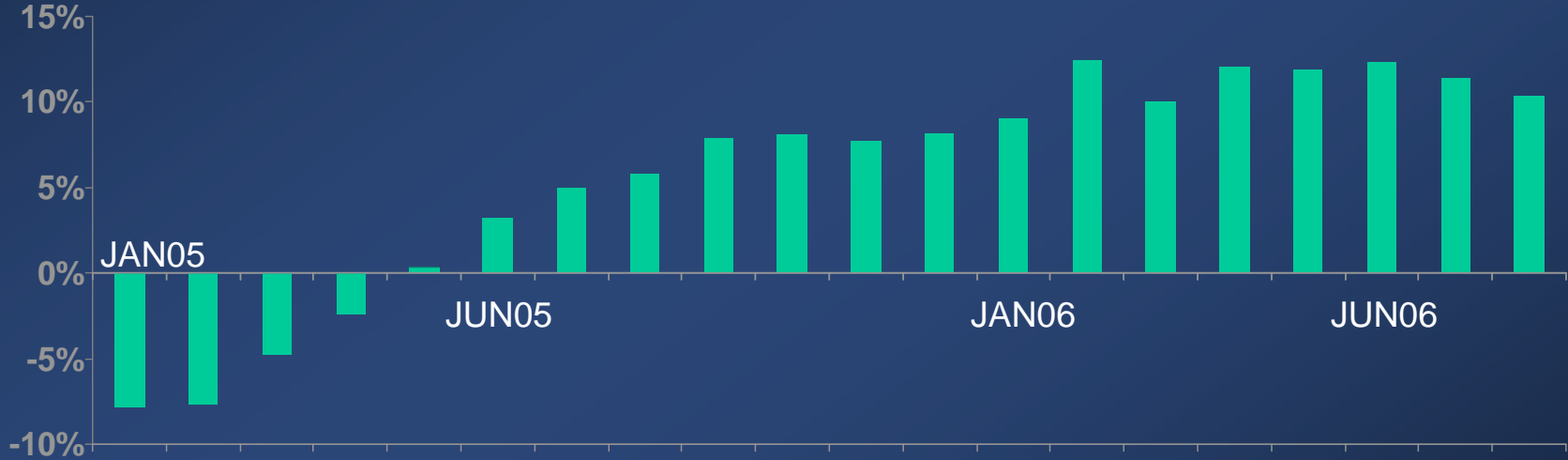
1 The "domestic" region definition includes flights between all US states, Canada, and US territories, including Puerto Rico, The Virgin Islands, and Pacific Territory

2 The "international" region includes scheduled flights between the US and the following regions: Pacific (Asia), Caribbean, Central America, Europe and South America

Yield Trends

Both domestic yields and load factors have been on the upswing

Domestic US Yields (\$/RPM) Y/Y Percent Change



* Includes AS, AA, CO, DL, NW, UA, US
Source: ATA Yields, Traffic Releases



www.seaburygroup.com