



International Airline CEO Conference

# Low Cost Carriers *From Niche to Normal*

Hollywood, Florida  
May 04, 2004

# Pick Your Title

- Niche to Normal
- Evolution in Air Travel
- The New Business Model for Airlines
- Airline Reality in the 21st Century



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# This Morning's Panel

Tim Claydon                      SVP Sales & Marketing



Don Garvet                      VP Planning



David Bently                      President

**DJB Associates**

John Selvaggio                      President



Wilson Ramos                      VP Admin & IT



Marc Cavaliere                      Moderator  
VP Sales & Dist



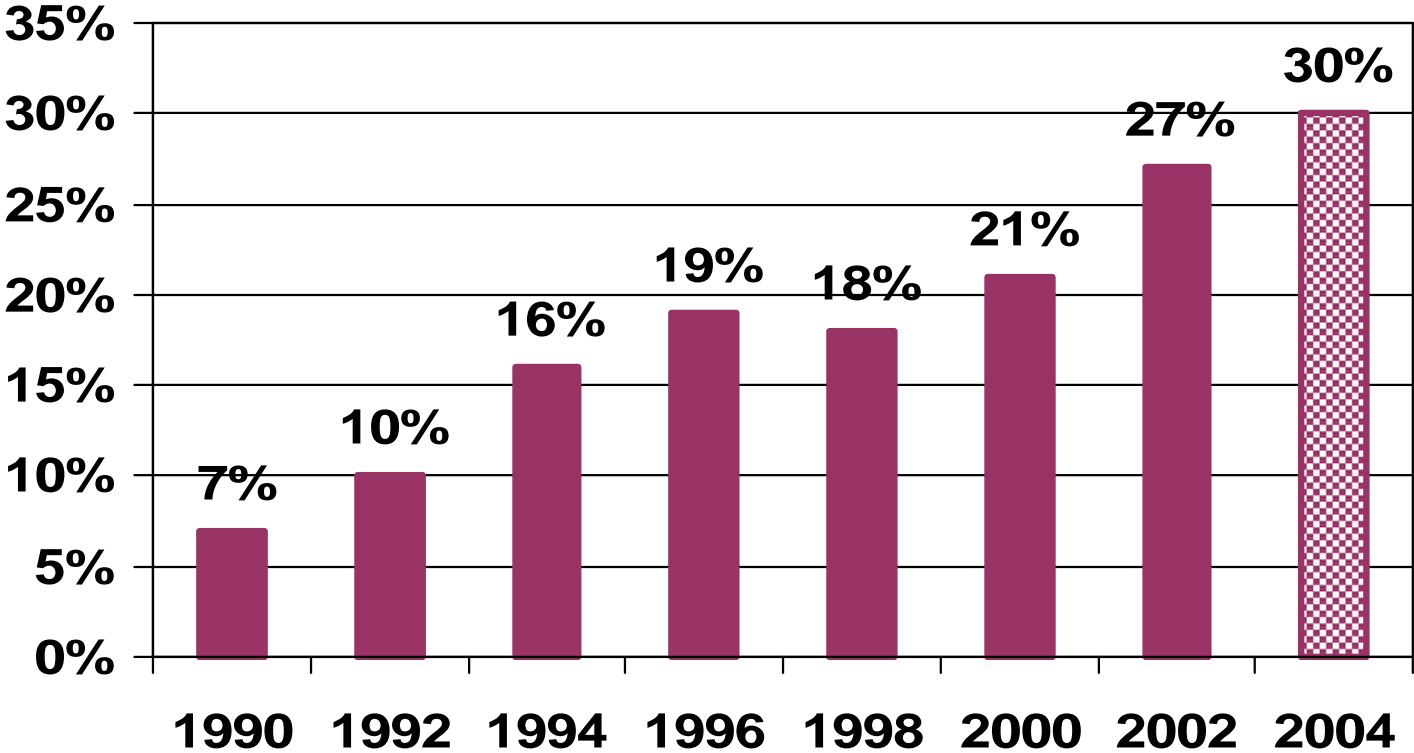
# Consider:

- What is happening to our definition of “Low Cost Carrier” ?
- What does it mean?
- Distinction is getting a bit blurry
- Who doesn't want to be a low cost anything?



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# LCC Share of Domestic Market



Source: US DOT DB1A Data

# European Penetration of LCCs

- France 20%
- Italy 30%
- Germany 18%
- UK 38%



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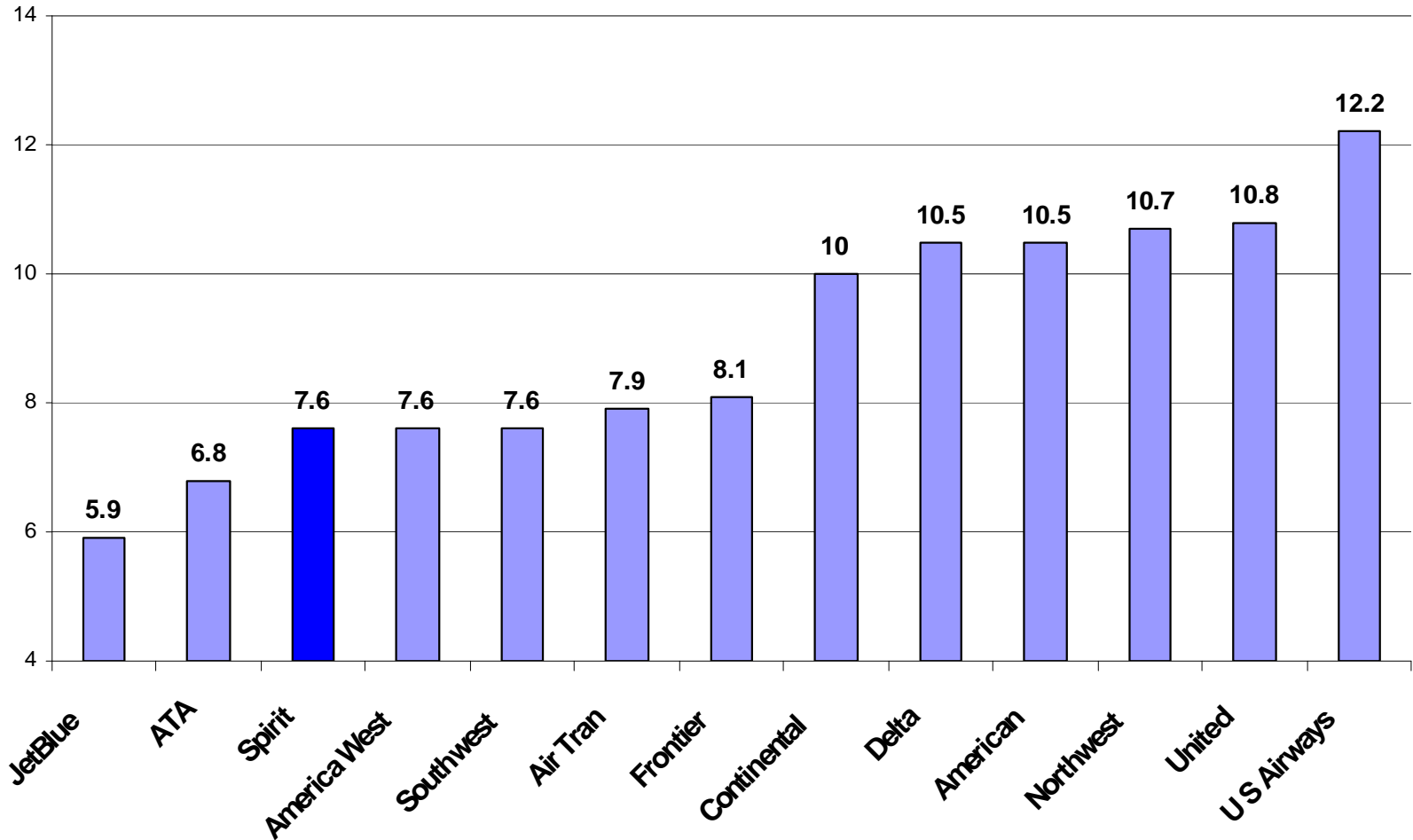
# Latin American Success

- 3 years old - January 2001
- Fleet of 22 Next Generation B737s
- Average daily utilization 13 hours
- 60% tickets sold on web site
- 2500 Employees
- 72% LF and 22.5% Market Share in 1Q04
- \$17 million profit in 1Q04



# 2003 CASM

## Cost Per Available Seat Mile



# 3Q03 CASM

	<u>Network</u>	<u>LCC</u>
• Labor	3.47	2.34
• Fuel / Oil	1.47	1.32
• Aircraft	0.92	0.94
• Maintenance	1.09	0.86
• Prop & Facil	0.65	0.37
• Landing Fees	0.24	0.21
• Interest	0.39	0.16
• Advertising	0.09	0.16
• Commissions	0.24	0.07
• Food	<u>0.28</u>	<u>0.05</u>
Total	10.88	7.35

# 3Q03 Financials

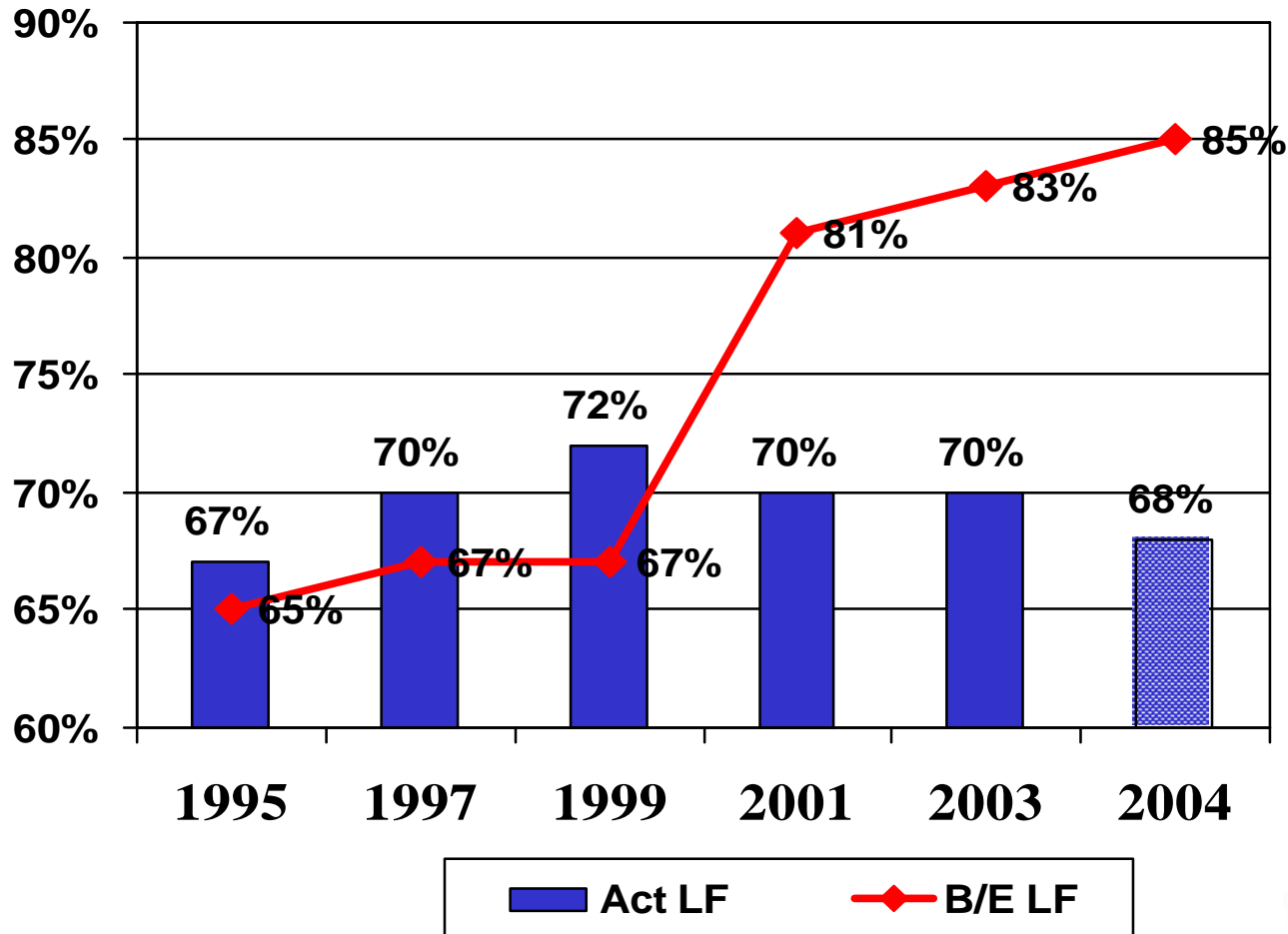
(in millions)

	<u>Network</u>	<u>LCC</u>
• Operating P & L	157,251	356,578
• Net P & L	(532,401)	190,051
• Operating Margin	0.9%	10.9%
• Y/O/Y Change	(13.8%)	1%



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# Legacy Carriers Widening Breakeven Gap



Source: Air Trans Assoc.

# Premise

1. LCC model of “normalcy” hastens simple reality that carriers must change or perish.



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# Immediate Catalyst to Change

- Fuel Prices
- Labor Costs
- Capacity
- Fare Wars
- Product Appeal
- Legacy Airlines Restructuring



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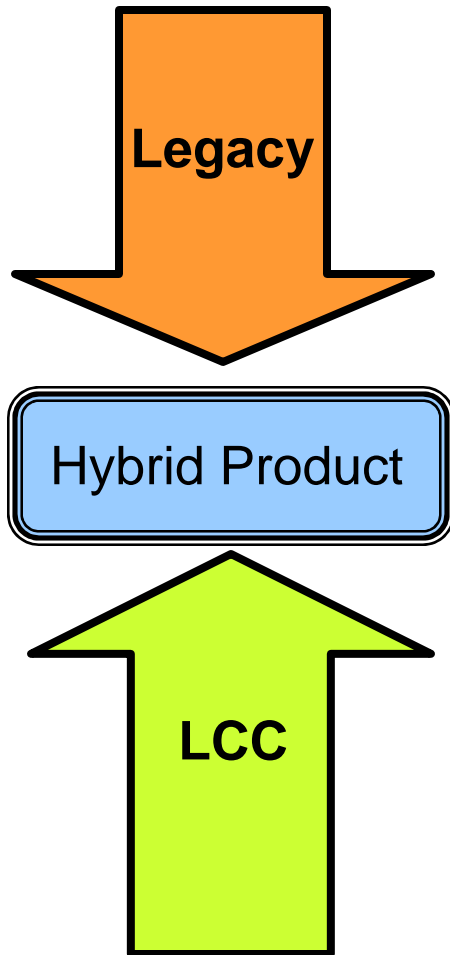
# Premise

1. LCC model of “normalcy” hastens simple reality that carriers must change or perish
2. The emergence of a “hybrid” airline product



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# Convergence to Hybrid ?



- Significantly reducing operating costs
- Aggressively matching lower air fares
- Contemporary distribution techniques
- Simplifying fare structures & rules
- Enhanced productivity

- Costs inching-up based on longevity
- Providing more amenities & services
- Increased market share of business travelers
- Tapping into conventional distribution channels
- Greater segmentation of target markets

**What does our panel of experts have to say ?**



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