LCC

Low Cost Carrier Market

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Future Market

Boeing
Commercial
Airplanes

April 2004
1. LCC Model Is Sustainable

2. LCC model driven by passenger needs for better service, lower costs

3. …enabled by an environment of free competition via open, liberalized markets
Low Cost Carriers: Thirty Years of Innovation

Low Cost Carriers In 2000
Flights Per Week: 28,640

N. America
Flights/week: 23,800
Miles/flight: 540

Europe
Flights/week: 4,150
Miles/flight: 490

Asia
Flights/week: 555
Miles/flight: 390

Oceania
Flights/week: 136
Miles/flight: 590
Low Cost Carriers In 2003

- **N. America**: Flights/week: 30,100 (+27%), Miles/flight: 643 (+18%)
- **Europe**: Flights/week: 10,060 (+140%), Miles/flight: 520 (+7%)
- **Asia**: Flights/week: 990 (+78%), Miles/flight: 470 (+20%)
- **Oceania**: Flights/week: 1,340 (+885%), Miles/flight: 700 (+20%)
Passengers Drive Airline Strategies

- Safe & Reliable Service
- Nonstop Service
- Lower Fares

Increased Liberalization

Increased Airplane Capabilities
Airlines Are Giving Passengers What They Want – More Frequencies And Nonstops

Passengers prefer more nonstops and more frequency choices
In real dollar terms the price of air travel decreases over time.
...Which Results In Fewer Complaints And Increasing Market Share

• Direct flights
• Fewer delays
• Multiple frequencies
• Lower and consistent pricing

• Note: US Market. Europe / Asia model evolving.

Air Travel Consumer Report, January – December, 2003
Low Cost Carrier Business Model

**Disciplined execution and focus**
- Stay with the plan
- Relentless pursuit to reduce cost/complexity
- Hands on management
- Instilled corporate culture

**Significant cost differential**

**Distribution**

**Product**

**Operational**
- Utilization
- Point to Point
- Secondary Airports
- Demand stimulation: Europe/Asia

**Brand awareness and presence**

**Low overhead**

- Simple value proposition
- Consistently setting and meeting expectations
Unit Cost Advantage Is Derived From Many Factors

High Labor Productivity
>>NOT “cheap” labor

High Airplane Utilization
>>NOT “cheap” airplanes

Unit costs ($ / ASK)

Network carriers
Direct sales
No CRS
No commission
No FFP

Distribution
No CRS
No commission
No FFP

Product design
Seat density
One class
No catering

Operational Overhead
Airport charges
Crew costs
Aircraft utilization
Single Fleet

Low Cost Carrier
35% to 50%
High Airplane Utilization And Crew Productivity Is Essential

More Flights
On-time, Reliable Service
Fewer Aircraft / Other Assets Needed
Internal Business Culture Drives High Productivity
Key Low Cost Market Characteristics

• Ability to compete: open liberalized/liberalizing markets

• 30% to 35% lower fares / lower cost opportunity

• Sizeable and balanced traffic flows

• Underserved markets
LCC are at different stages of maturity:

- **Australia**: Early deregulation, numerous opportunities.
- **Europe**: Liberalization continues.
- **SE Asia**: Head to head.
- **NE Asia**: Growth rate ('03).
- **N America**: Market penetration.

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Graph showing the relationship between market penetration and growth rate for different regions.
### Air Travel Markets Have Unique Characteristics

**North America**
- U.S. Deregulation 1978
- Canadian deregulation complete in 1988
- 1/6 population density of Europe
- U.S. & Canadian population centers are on opposite sides of the continent
- Majority of Canadian population lives within 100 miles of the U.S. border
- Airspace and airports relatively open
- Rail is a minor competitor; autos compete for short distances
- No loyalty to flag carriers (just $ and ff miles)
- Very little charter
- Price transparency

**Europe**
- Deregulation staged: 1997
- 20% population & 24% GDP in 7% of territory
- Congested airspace and airports
- High speed subsidized rail is a direct competitor
- Rail is a minor competitor; autos compete for short distances
- Lingering loyalty to national carriers: link to culture
- Vertically-integrated charter
- Prices becoming transparent
- Single currency adopted
- More leisure time

**Asia Pacific**
- Various stages of regulated markets and government ownership/influence.
- Large geographic dispersion of population centers
- Significant portion of travel requires flying
- Underutilized regional Airports
- Except for Japan, less competition from other transportation modes
- Mixed loyalty at most national carriers
- Very little charter
- Closely held pricing, generally
- Generally low but rising average income levels in many countries
Southwest supplies two-thirds of available seats in North America LCC market.

North America

- **Southwest**: Supplies two-thirds of available seats in North America LCC market.
- **AirTran**
- **ATA**
- **WestJet**
- **jetBlue**
- **Frontier**
- **Spirit**

Scheduled Available Seats per Week

Aug-03 OAG
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There Are Two Major Competitors In Europe

Ryanair and easyJet have accelerated growth using acquisitions and large numbers of airplanes.

Ryanair has the largest market presence with 20% more available seats.

- **Ryanair**: [Very large bar for Ryanair]
- **easyJet**: [Large bar for easyJet]
- **Air One**: [Bar for Air One]
- **DBA**: [Bar for DBA]
- **BMI Baby**: [Bar for BMI Baby]
- **Virgin Express**: [Smallest bar for Virgin Express]

**Scheduled Available Seats per Week**

*Aug-03 OAG*
The European Arena Is Crowded With Low Cost Entrants
Low Cost Carriers Have Differing Market Strategies

**Pure Low Cost Carriers**
- Year round traffic
- Independent travelers
- Balanced directional flows
- Grow the market
- Single airplane type

**Hybrid Models**
- Mix of business and leisure
- A la carte services
- Compete in some charter markets

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- Optional business: hot meals, lounges, papers
- Business Branding
- Branded meals
- Main Airports
- Low-Fares High-Frequency
- amenities
- easyJet

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- buzz
- go
- Virgin
- Ryanair
- Boeing
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In 2003, There Were Few Competitors

Virgin Blue and AirAsia have recently expanded to regional operations.

Scheduled Available Seats per Week

Virgin Blue
Cebu Pacific
AirAsia
Air Do
Skymark

Asia and Australia/NZ

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* Estimated
Many New LCCs Are Emerging In Asia

- Tiger Airways
- Thai AirAsia
- Air Deccan
- One Two Go
- AirAsia X
- Valuair
- Virgin Blue
- Jetstar
“Our aim is to fly to every airport in Malaysia that can handle a Boeing 737 aircraft.”
"And they’ve come because they’ve wanted to work in a company that’s a little bit different."
737 - Airplane Of Choice For LCC Market
Low Cost Carriers Will Account For A Significant Portion Of Delivery Demand

- Smaller regional jets
- Single-aisle
- Twin-aisle
- 747 and larger

$1.9T Dollars

24,300 Units
Low Cost Carriers Will Account For A Significant Portion Of Delivery Demand

- Smaller regional jets
- Single-aisle LCC
- Twin-aisle
- 747 and larger

- 10% of Addressable Units: 24,300 Units
- 7% of Addressable Delivery Dollars: $1.9T Dollars
Low Cost Carriers Are Here To Stay

LCC Model Is Sustainable

LCC growth driven by passenger preference for better service (more non stops, more freq) AND lower costs

LCC emergence is enabled by free competition in an open, liberalizing environment
A Winning Combination

Boeing and Low Cost Airlines