2nd Annual MIT Airline Industry Conference

"No Ordinary Time: The Airline Industry in 2003"

Growth of Low Fare Carriers

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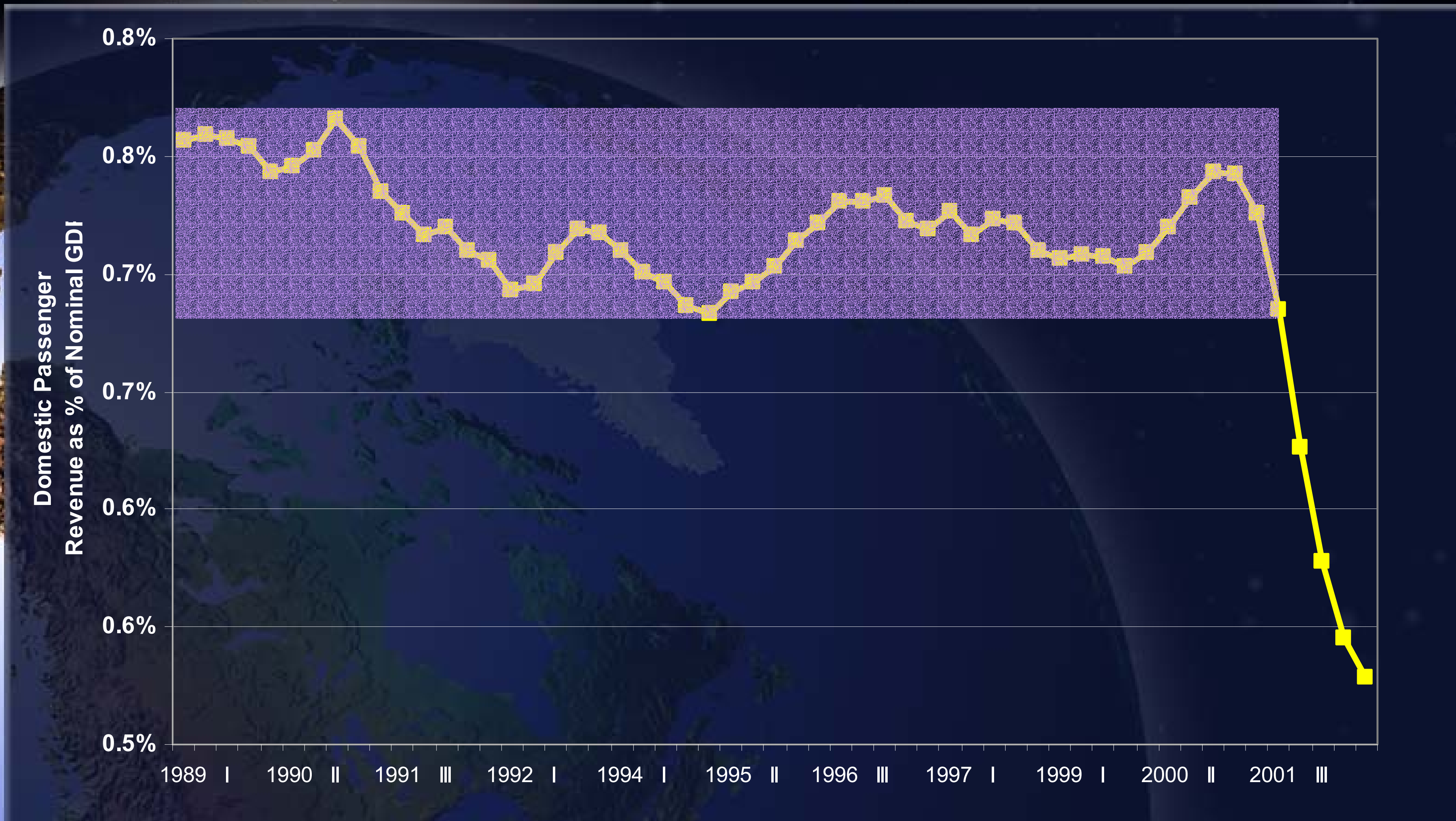
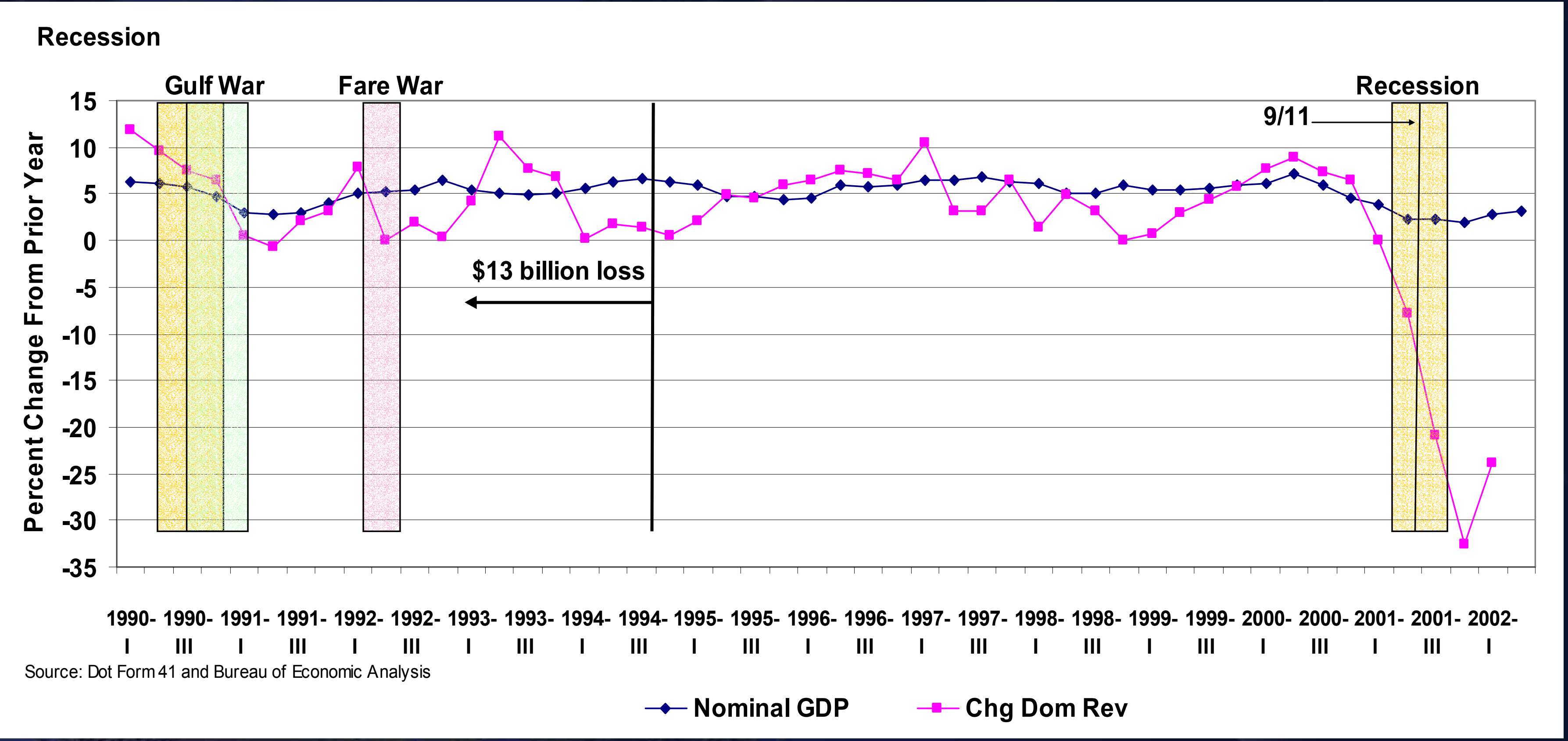
Low Cost Carriers

"Thou Shalt Not Inherit the Earth"

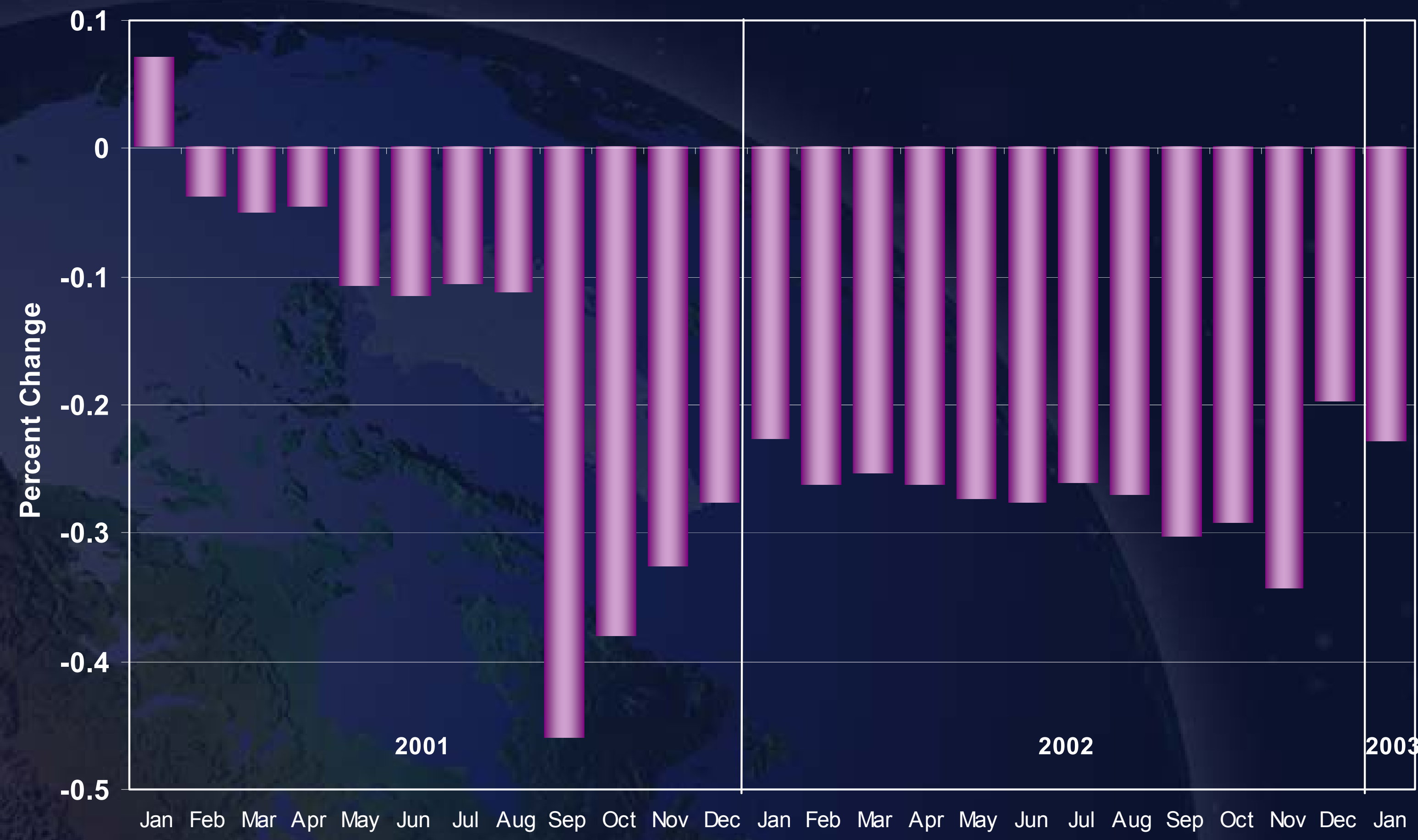
Airline Industry Prosperity Has Always Been Closely Linked to the Health of the U.S. Economy -- A Relationship That Began to Break Down Over 30 Months Ago



What We Thought Was A Watershed Period in the Early 1990s Pales in Comparison to What We Are Currently Experiencing



Domestic Market Revenue Deterioration Has Been Well Documented -- Yet is the Heart of the Catharsis



The Revenue Environment is Both Cyclic and Structural -- Adapt or Die

Item	Cyclic (Short Term)	Structural	Comment
Current Recession	X		Historically linked to GDP which is not down dramatically. Probably a small part of the current problem.
Post 9/11 Hassle Factor	X		Clearly a big factor below 500 mile trips -- low fare carrier traffic growth above 500 miles suggests may not be a big problem in the aggregate. (1)
Security Fees	X	X	A problem that impacts price of air travel -- depresses traffic for all carriers -- some relief may come from Congress but may be a lasting issue in the post-9/11 world.
Low Fare Carrier Penetration		X	Key structural change that will only get worse for the network carriers unless cost structures adjusted accordingly. Availability of low fares is shifting demand.
Disappearance of Bubble Economy		X	Likely to be permanent. May still be being rung out -- telecommunications infrastructure overbuilt.
Internet Marketing of Airline Seats		X	Has made fare offers transparent to business and leisure travelers. Genie may be out of the bottle for good.
Other Changes in Business Traveler Price Elasticity	X	X	Company policies have shifted to save money on travel budgets. Could be somewhat reversed in good times. First cut, last to increase. Teleconferencing may have come of age -- may not be reversible.

(1) In the first quarter of 2000, 28.5 percent of passenger trips and 18.9 percent of domestic revenue came from markets of less than 500 miles.

Two Distinct Groups Among the Network Carrier Segment Have Emerged -- Or is It Just Timing

Network Carriers' Hub Airports Domestic Nonstop Air Service Index Change Mar. 2003 vs. Sep. 01

-32% -26% -13% 0% +5% +7% +12%

US Airways
PIT -31%
CLT -24%
PHL -17%

American
STL -56%
ORD -15%
MIA -12%
DFW -9%

United
IAD -38%
LAX -31%
SFO -23%
DEN -13%
ORD -4%

Northwest
DTW +1%
MEM +2%
MSP +7%

Continental
CLE -8%
EWR +3%
IAH +9%

Delta
ATL +1%
SLC +3%
JFK +7%
CVG +22%
DFW +36%

Note: Changes in carrier service reflect total; changes in hub service reflect nonstop only.
Source: OAG Schedules; Eclat Air Service Model

Some Network Carriers Have Reduced Their Exposure to the LCCs -- Some Face More Competition

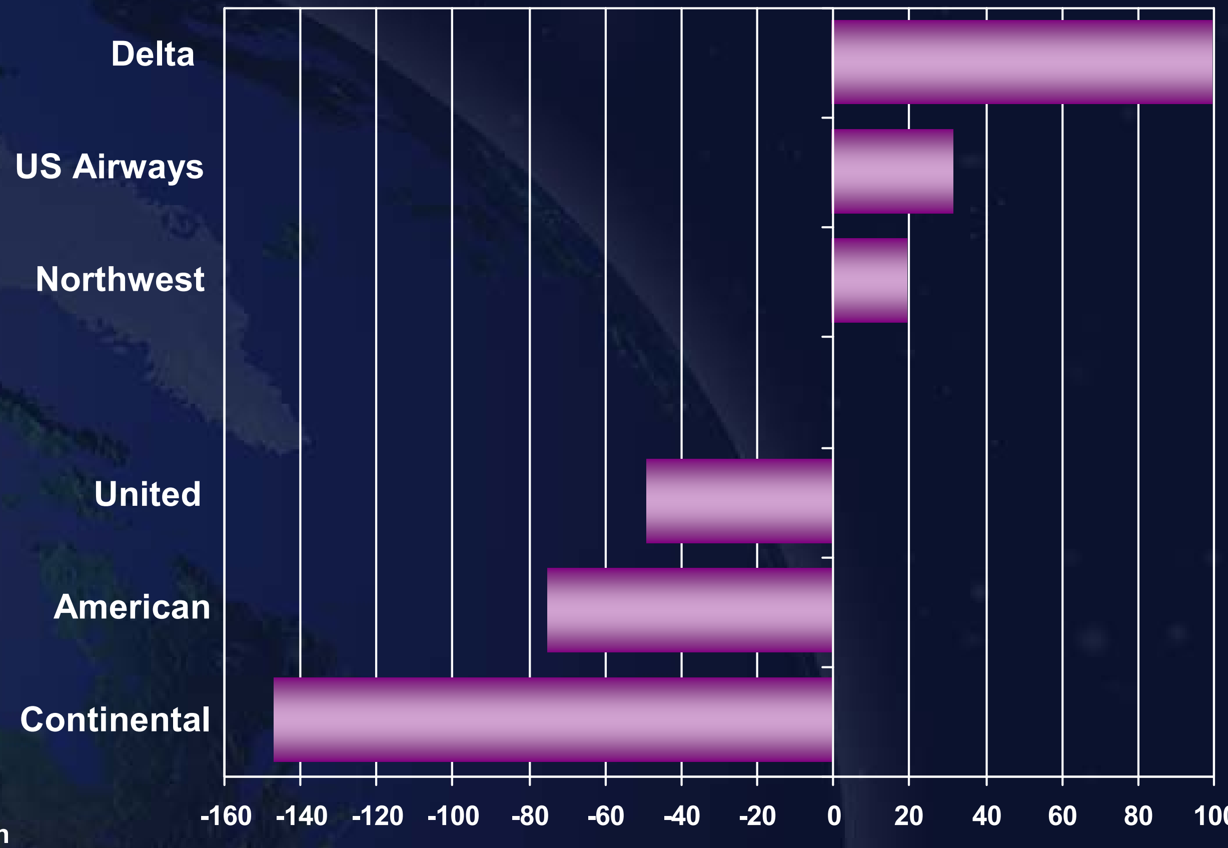
Increased Exposure Since 9/11 (Ranked By Exposure to All LCCs)

1. Delta (+20.2%)
2. US Airways (+11.7%)
3. Northwest (+9.1%)

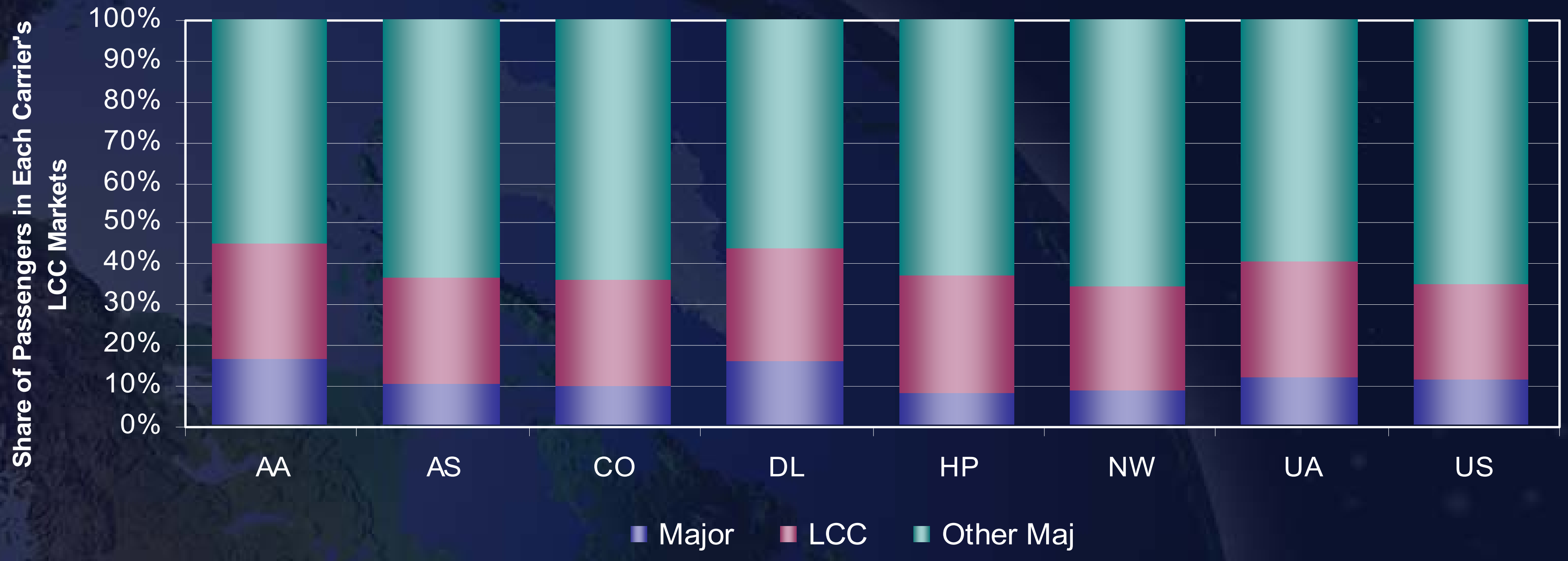
Decreased Exposure

4. United (- 9.0%)
5. American (-15.7)
6. Continental (-31.0)

LCC Competitive Intensity (Delta = 100)

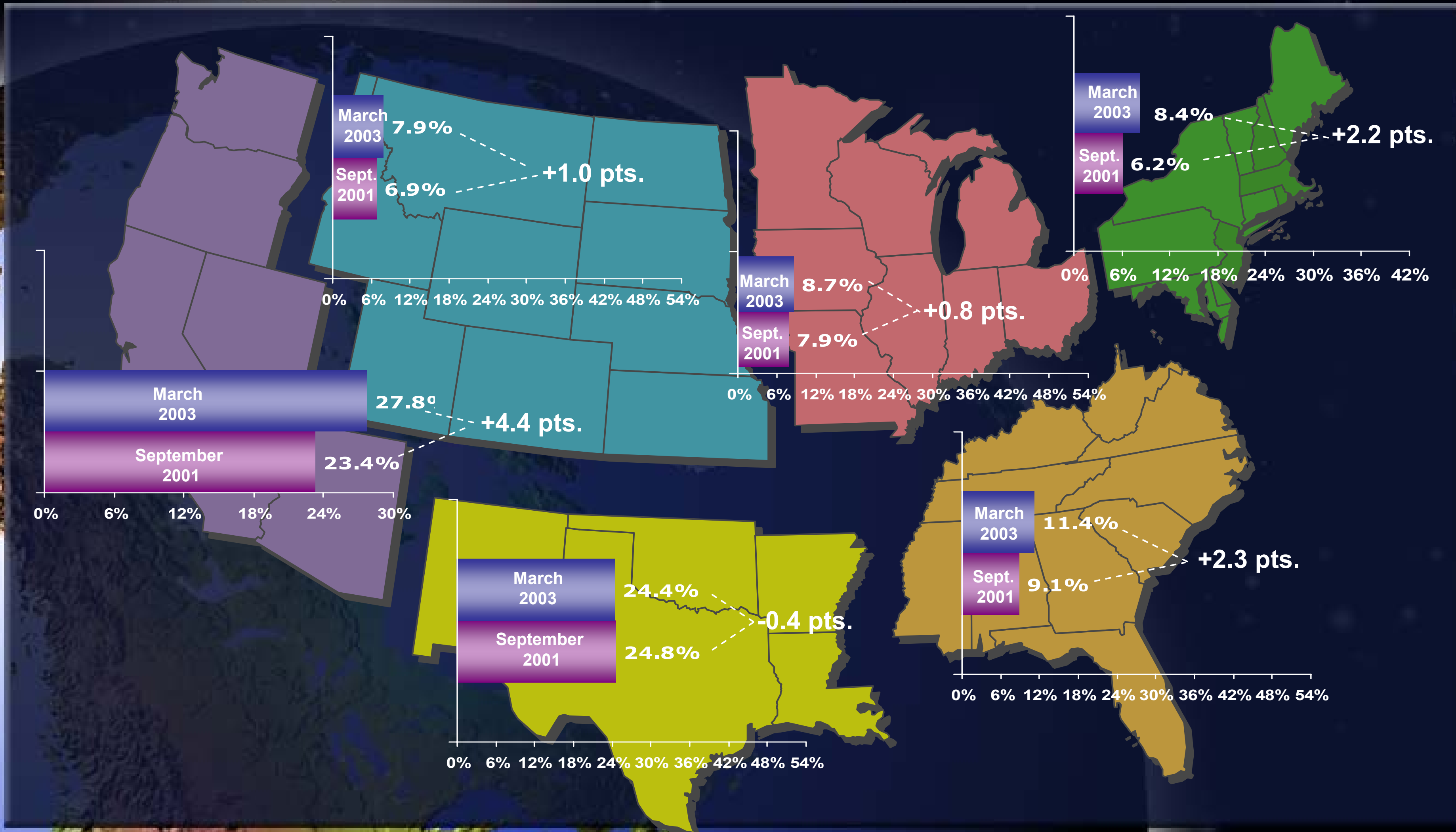


But the Fact Remains That the Network Carriers' Competitive Intensity Among Themselves Dwarfs Their Respective LCC Exposure – Still Too Much Capacity?



Regarding LCC Competition, A Pattern Emerges. When the Unit Cost Gap Widens, the LCC Segment Exploits the Opportunity

The Low Cost Carrier Segment of the Industry Has Increased Its Share of Service in Almost Every U.S. Region Since 9/11, and No Better Time Than the Past 30 Months

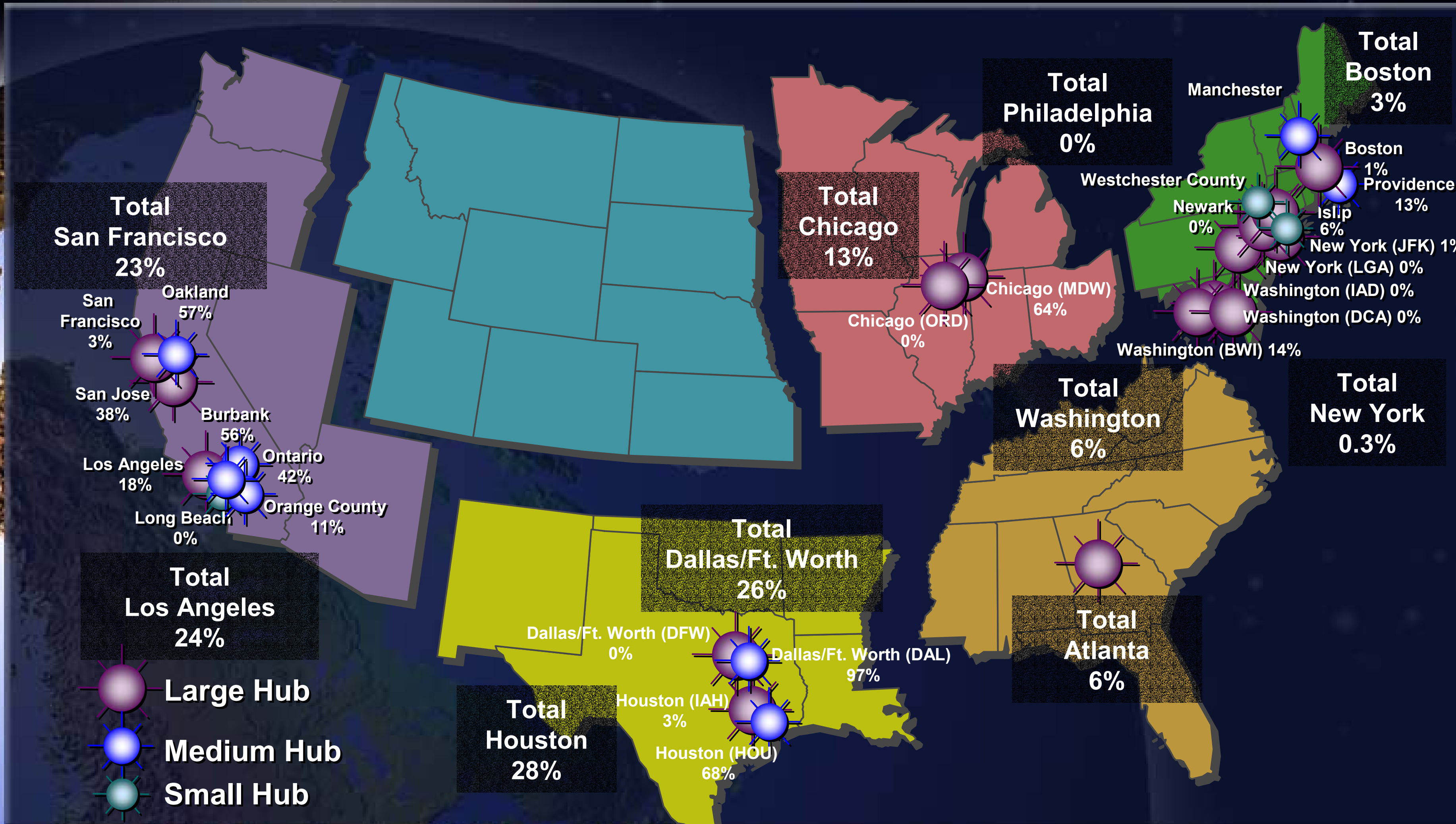


Low Cost Carrier Market Penetration Has Deepened Since 9/11, But the Markets Share is Concentrated in Large and Medium Hubs

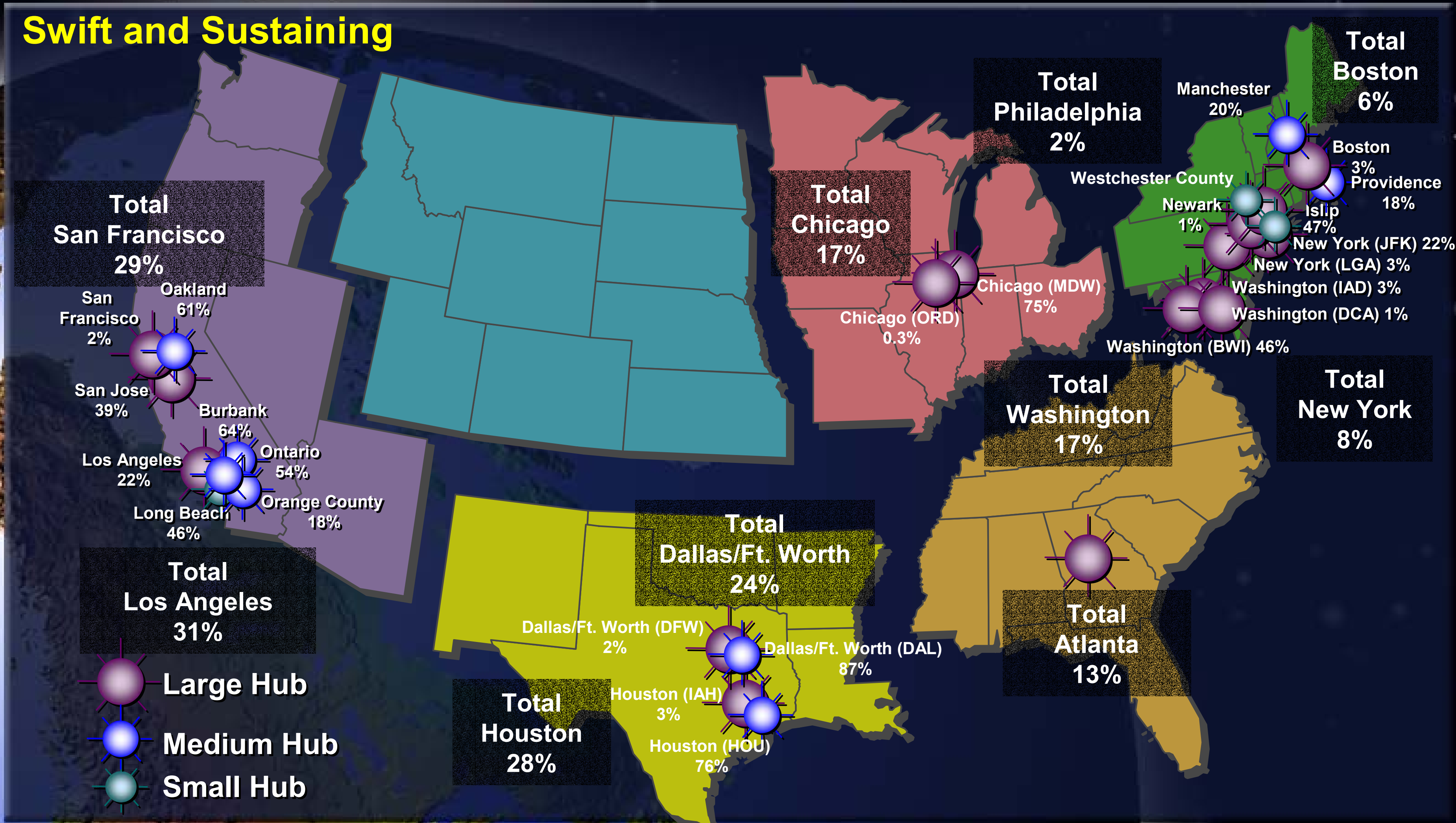
	Total Domestic Markets ASI Change	Total LCC ASI Change	LCC Current ASI Share
Large Hubs	-9.9%	+9.6%	11.8%
Medium Hubs	-6.5%	+1.5%	27.3%
Small Hubs	-3.5%	+23.3%	7.4%
Non Hubs	-1.8%	+28.0%	0.4%

We estimate that the low cost carrier segment of the industry has captured an incremental 4 percentage points of domestic market share since pre 9/11

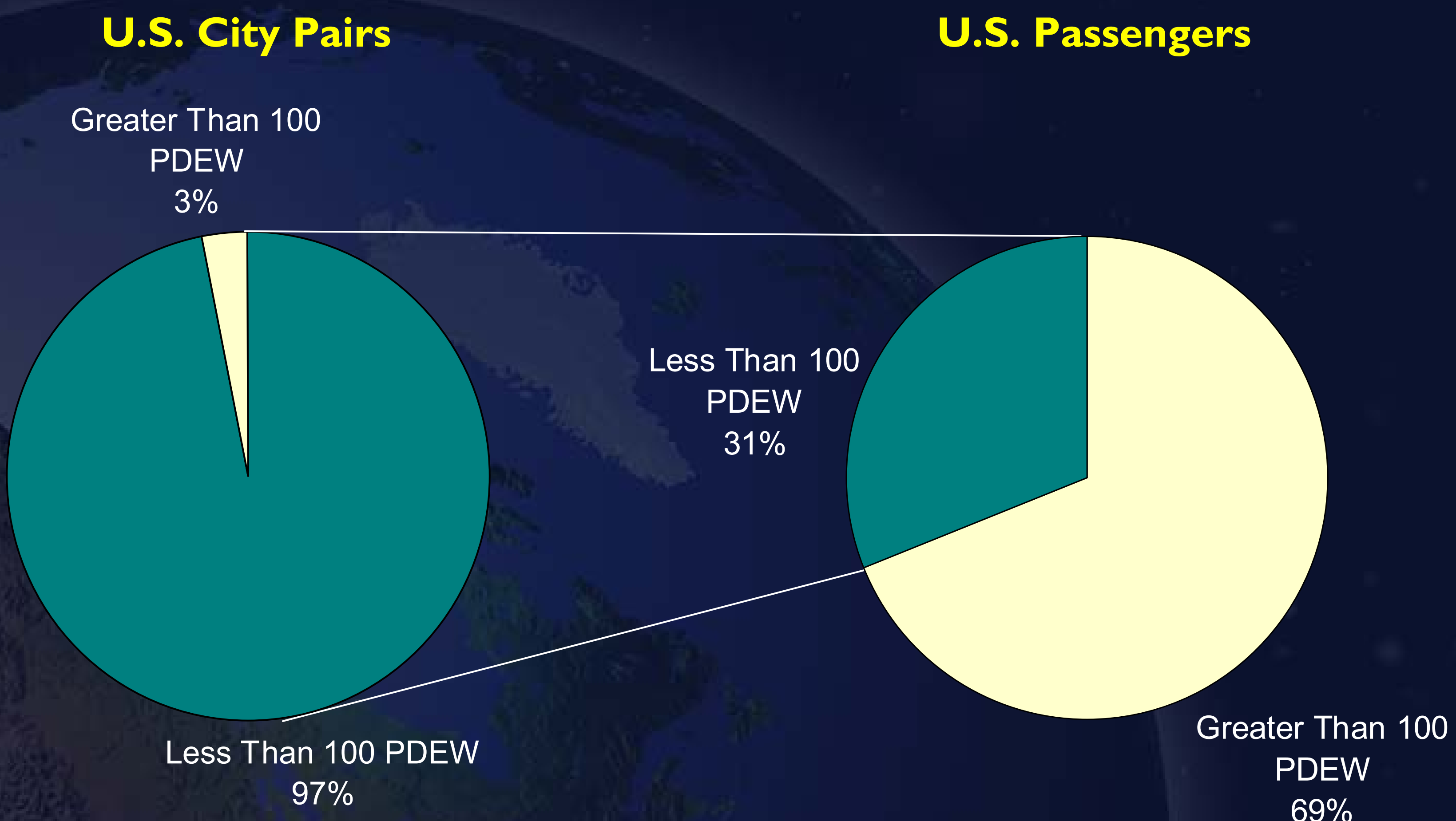
LCC Penetration into Top 10 CMSA Markets -- September 1997



LCC Penetration into Top 10 CMSA Markets -- March 2003

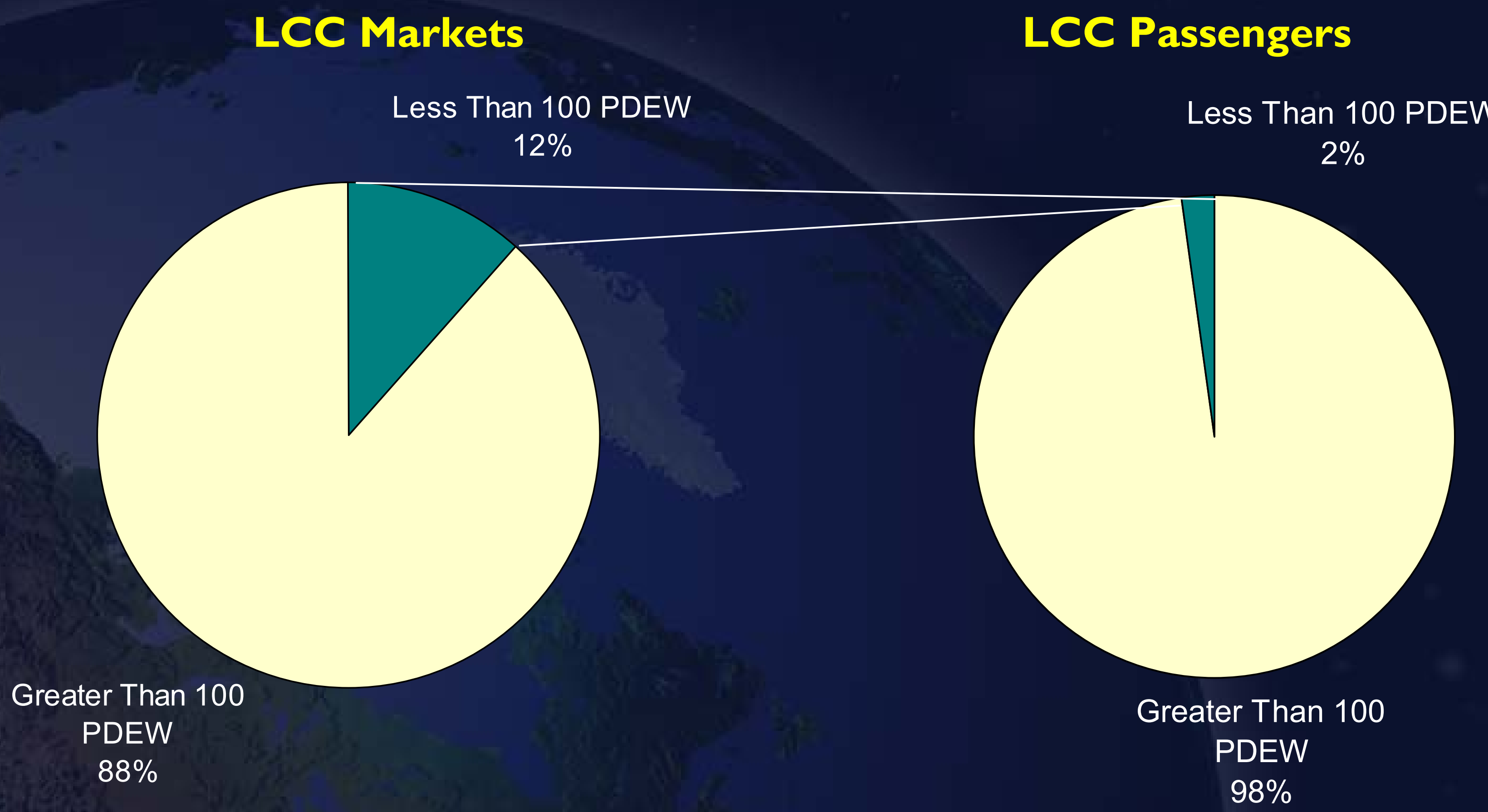


Has Low Hanging Fruit Been Picked? -- 97% of Domestic City Pairs Have Less Than 100 PDEWs, Accounting for Just 31% of Domestic Passenger Traffic



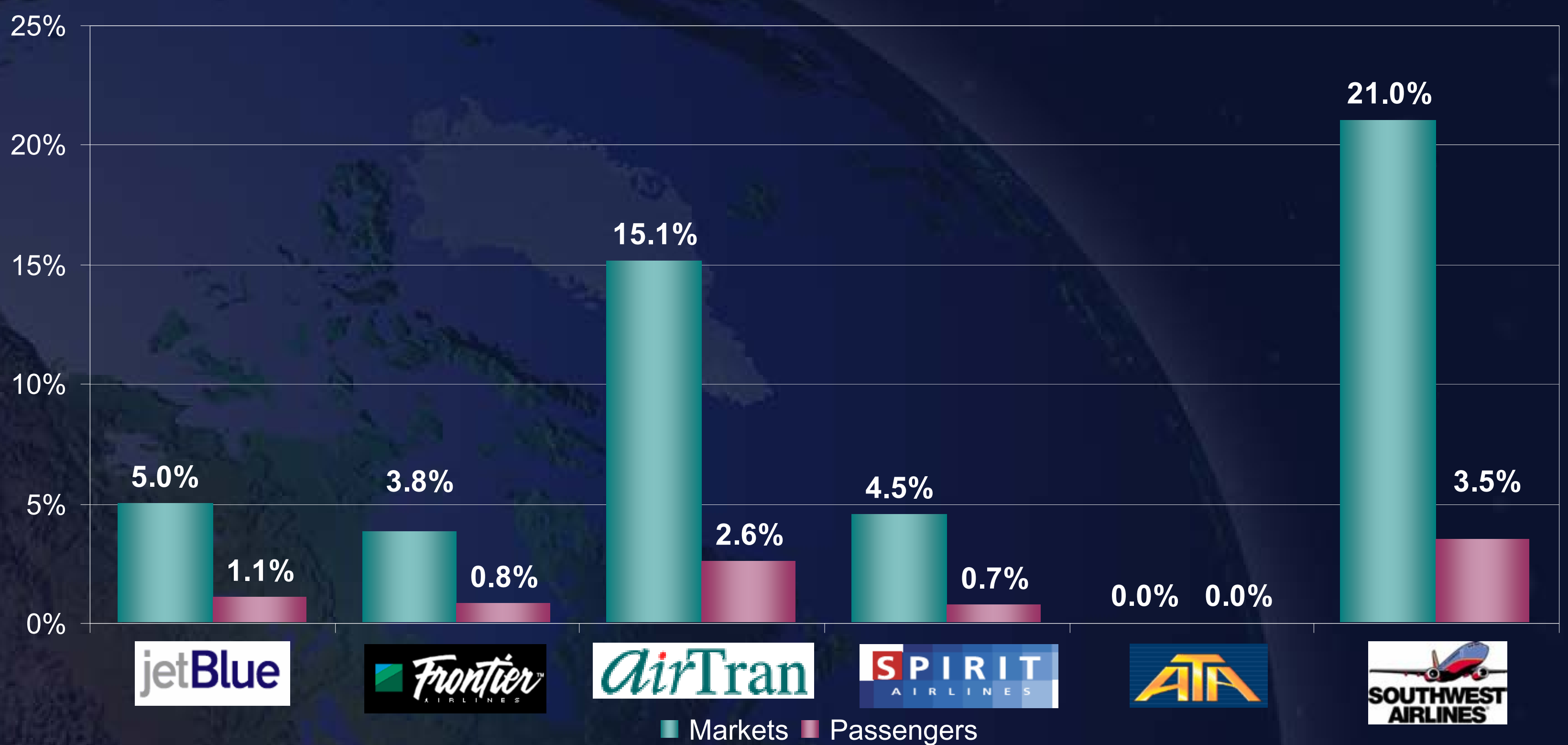
Note: PDEW = Passenger Per Day Each Way

Has Low Hanging Fruit Been Picked? -- 12% of LCC City Pairs Have Less Than 100 PDEWs, Accounting for Just 2% of Their Traffic



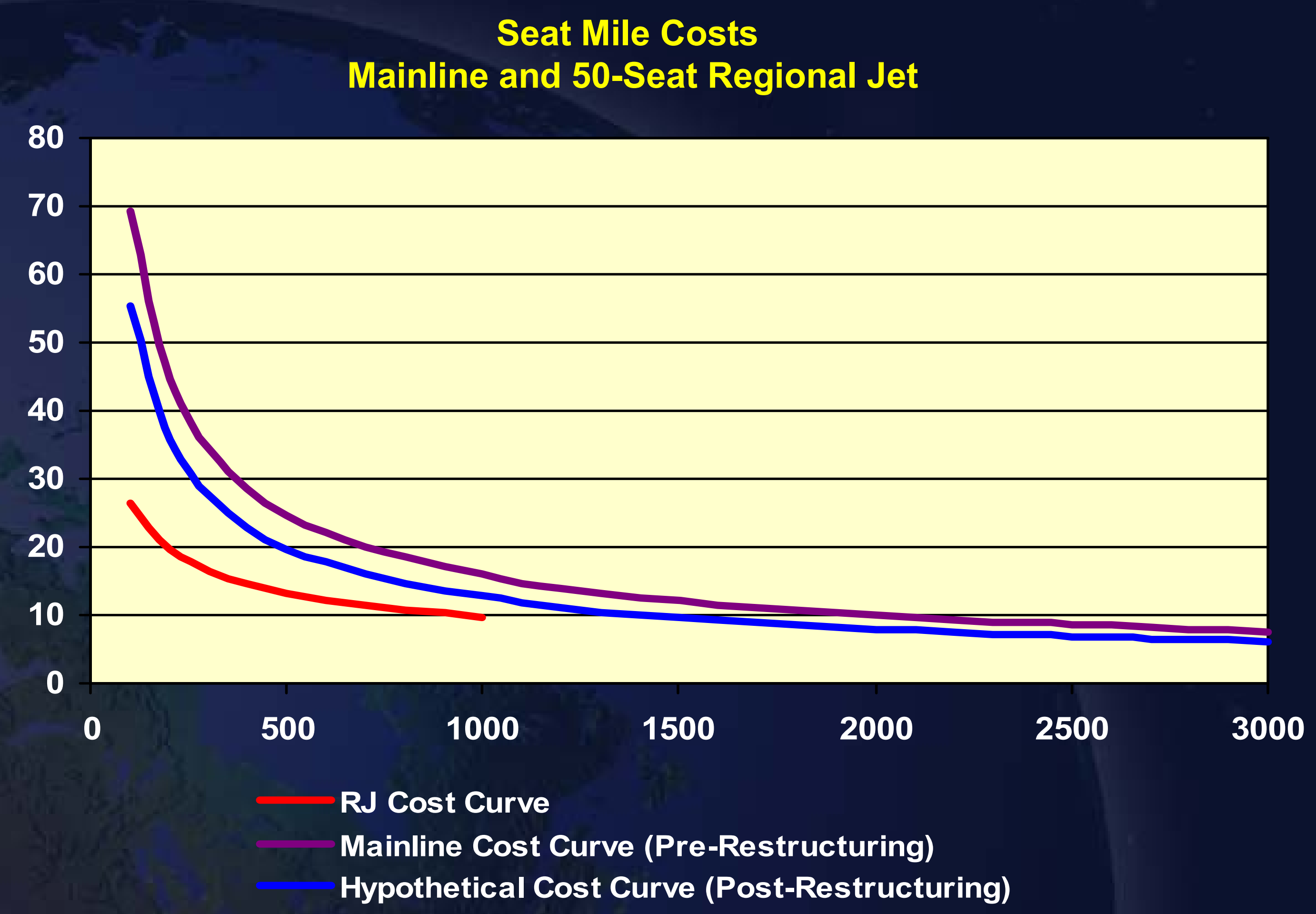
Note: PDEW = Passenger Per Day Each Way

Has Low Hanging Fruit Been Picked? -- In Fact, City Pairs With Less Than 100 PDEWs Make Up Less Than 3% of the LCC Traffic Today

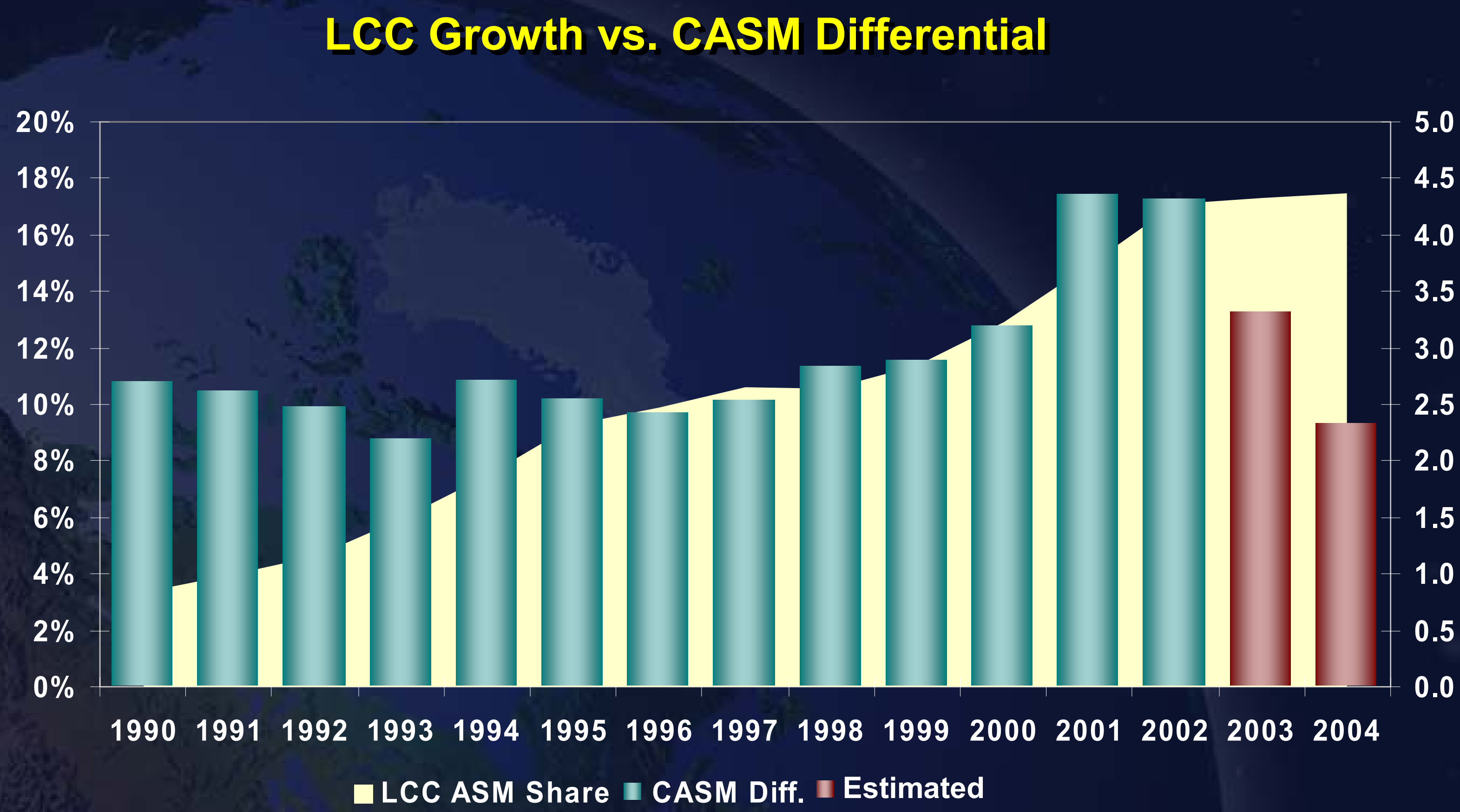


Note: PDEW = Passenger Per Day Each Way

As the Network Segment Addresses Their Respective Cost Issues, There Will Be Less Spread to Exploit

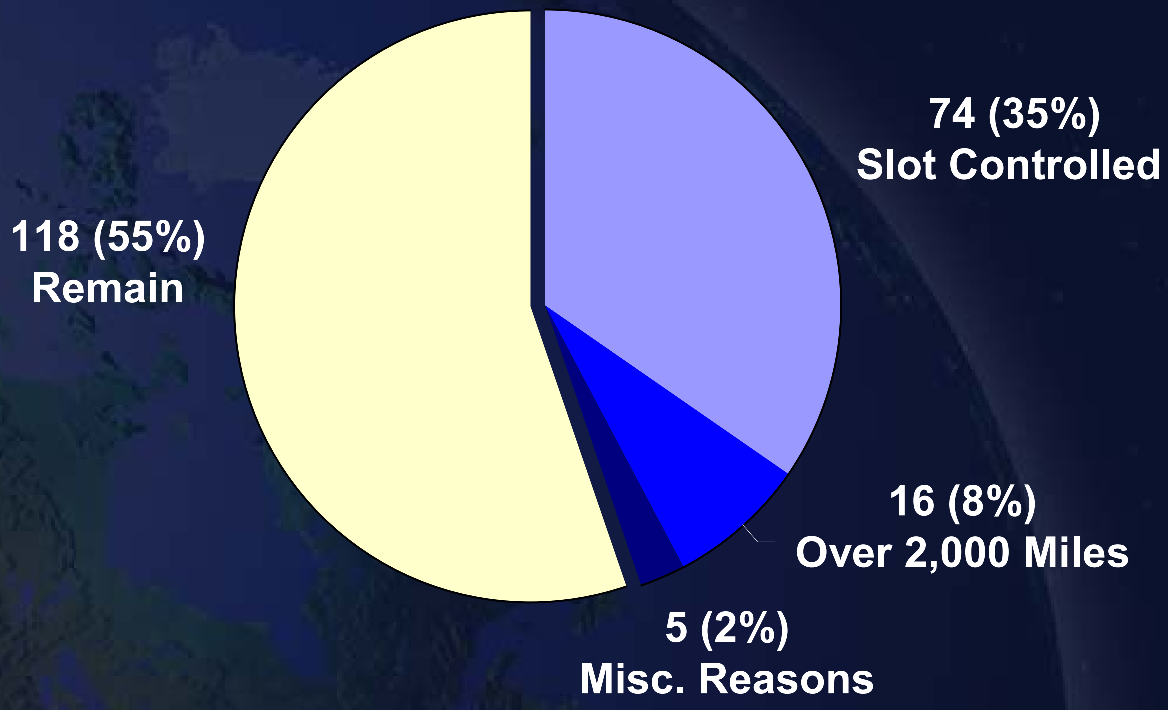


Making it Harder for the LCCs to Grow at Current Rates. In Fact, There Are Scenarios Where Some Low Cost Carriers Will Shrink



Low Cost Carriers Currently Serve 940 of the Largest City Pair Markets. If the 100 PDEW Level is the Ticket for Entry, Then Only 213 Remain

213 U.S. Markets With Over 100 PDEWs That Have No Low Cost Carrier Service



Only 118 Markets Are Immediate Candidates for New LCC Service, and Not Enough to Feed All of the Current Players

Those 118 Markets Would Produce An Additional 1.6% Market Share for LCC Carriers

	% of Current Total	New ASMs	% of Total U.S.
Total	**9.3%**	**10,533,680,270**	**1.6%**
jetBlue	2.1%	152,314,500	0.0%
Frontier	4.6%	237,209,850	0.0%
AirTran	16.7%	1,305,218,100	0.2%
Southwest	1.9%	1,305,530,540	0.2%
New/Speculative/Other	n. m.	7,533,407,280	1.1%

If the Analysis is Correct, 118 May Be Overstating the LCC Opportunities Going Forward -- Assuming No Major Carrier Liquidations, of Course

82 Markets Are New/Speculative/Other: Here is Why

Served By Secondary LCC Market	24
Hub Dominant	22
Hub To Hub	20
DFW To Wright Amendment "Blocked" Airports	9
Leisure Markets	6
Other	1
Total	**82**

Conclusions

- It’s the economy stupid! No it’s not.
  - Bubbles burst. Consumers revolt. Businesses stop spending. Too much transparency via the internet? Domestic revenue now at 1995 levels.
- It’s all the result of LCC growth! No it’s not.
  - During the 1997-2000 period, significant capacity growth by the network carriers resulted in multiple competitive options. Despite the cutbacks in capacity, the competitive intensity among the network carriers is significantly greater than competition from the LCC segment.
- Delta, Northwest and Continental are safe. No they’re not.
  - Balance sheet and cost issues have forced US Airways, United and American to go first. We have demonstrated the greatest opportunities for LCC expansion lie in Delta’s backyard. Northwest, finally, faces increasing LCC competition. And Continental’s balance sheet is not a picture of health. They too will have to restructure.

Conclusions (continued)

- The LCCs will grow at current rates into the foreseeable future.
  No they won't.
  - Recent and ongoing restructurings will push down the network carriers respective cost curves to levels not dreamed of 18 months ago. If the cash spread is one attribute of LCC market exploitation, then the window is closing.
- All of the current LCCs will be survivors. No they won't.
  - Only Southwest and jetBlue have real staying power.
  - AirTran is interesting. But is jetBlue smelling blood in the Georgia clay believed to be their's or Delta's.
  - Frontier, Spirit and ATA each have unique attributes but questionable staying power.
- There are still a myriad of market opportunities available and ready-made for the LCC segment. No there aren't.
  - Assuming no major liquidations, of course. And assuming that the appetite for small local markets doesn't change – or inflict the LCC version of self-diversion.

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