OLIVER WYMAN

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Global Air Transportation Trends – How Will Airports Be Impacted?

AAAE Finance and Administration Conference

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Topics

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DIFFERENT MEASURES OF SUCCESS

Measures of Success

U.S. airports and airlines focus on different metrics

U.S. Airports*	Airlines
Primary measure – ▪ **Passengers**	**Primary measure –** ▪ **Profitability**
Secondary measures ▪ O&D passengers ▪ Breadth of nonstop service ▪ Availability of low fares ▪ International service ▪ Competitive revenue/ cost per enplanement ▪ Customer-friendly facilities ▪ Good neighbor, good employer ▪ Economic development	**Secondary measures** ▪ Revenue maximization ▪ Growth ▪ Market share ▪ Network strength

* Traditional non-privatized model

* Traditional non-privatized model

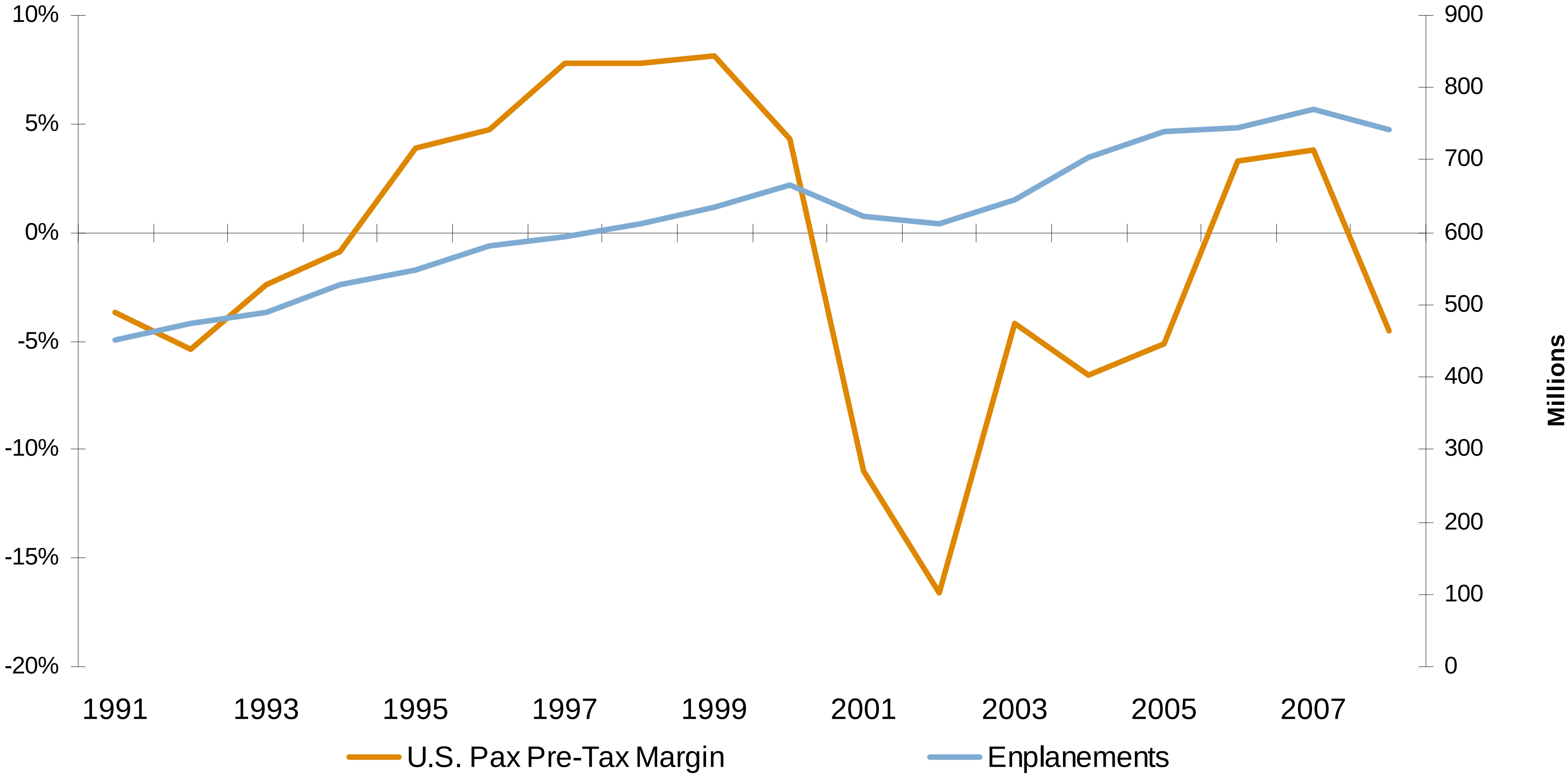
2

HISTORIC AIRPORT STABILITY VERSUS AIRLINE VOLATILITY

Enplanements versus Airline Profits

Relatively steady enplanement growth versus highly volatile airline profits

Passenger Airline Operating Margin and Airport Enplanements



2008 figures are estimates

Source: Airline reports, ATA, U.S. Commerce Dept., Bureau of Economic Analysis

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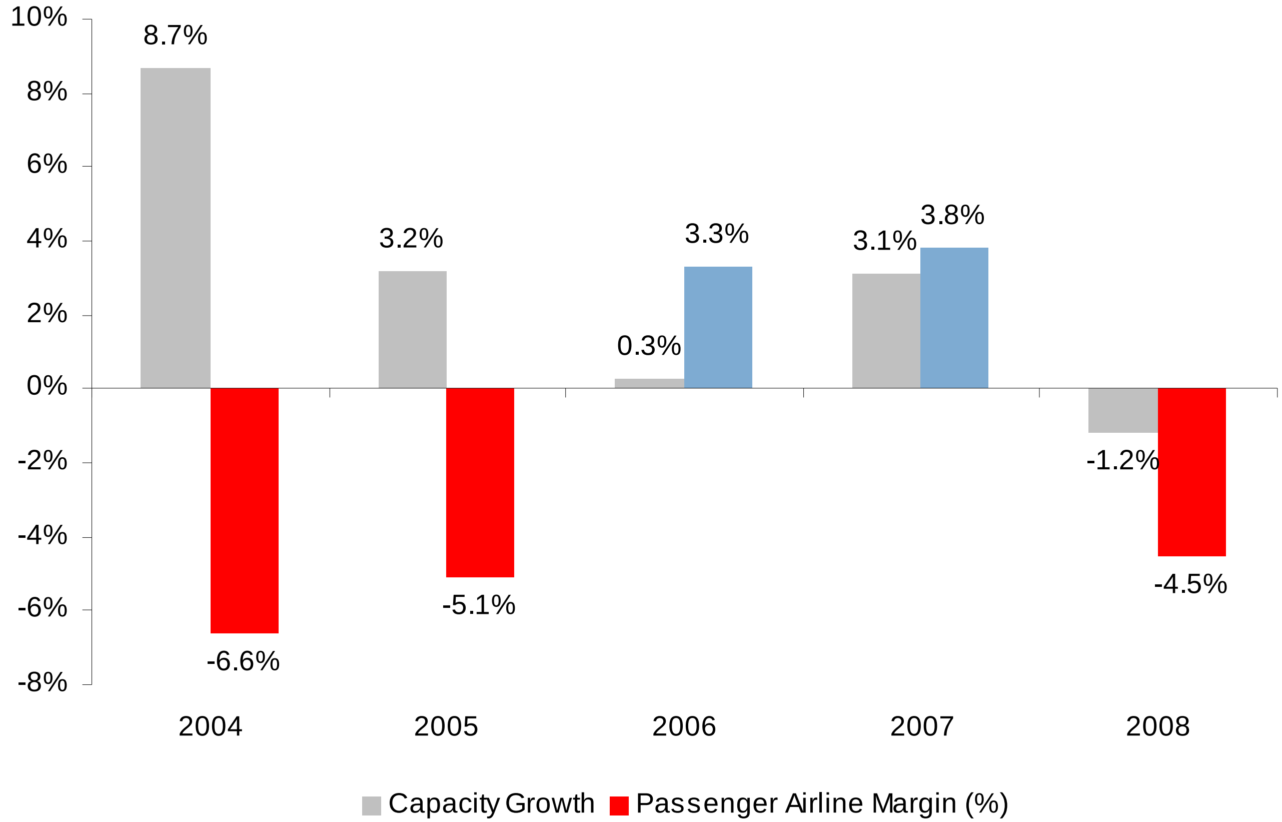
Timing of airline and airport successes may not coincide

Good Years for Airlines Are Not Necessarily Good Years for Airports, and Vice Versa

Capacity Growth and Passenger Airline Operating Margin



Enplanement Growth	**8.7%**	**5.0%**	**0.8%**	**3.3%**	**(3.5%)**

2008 figures are estimates
Sources: ATA and BTS, Capacity Growth in ASMs

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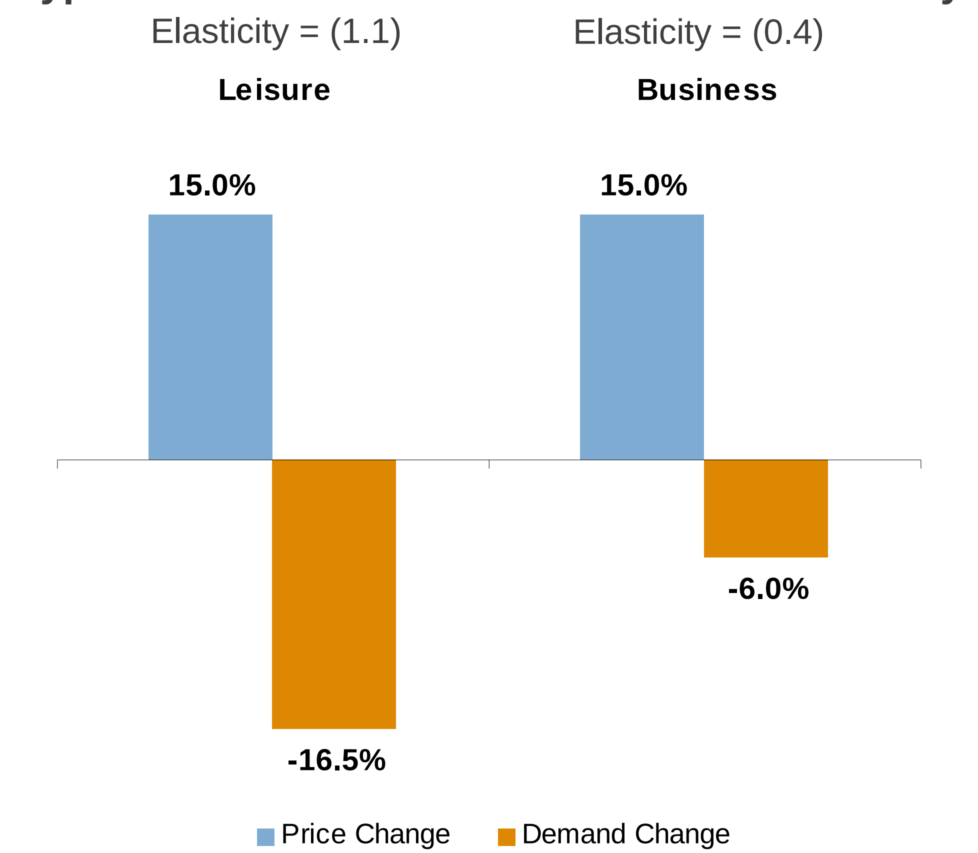
FUEL SPIKE – THE IMPACT ON AIRPORTS

Fuel Spike Impacts
Airlines cut unprofitable flying to focus on higher fare passengers

Hardest hit

- Markets served with (high cost) small aircraft – Bakersfield, San Luis Obispo, Monterey
- Leisure markets – Oakland, Sarasota
- Secondary hubs – Cincinnati, St. Louis, Cleveland
- Point-to-point markets – Raleigh to Austin, Jacksonville, Ft. Lauderdale, Kansas City

Typical leisure versus business market elasticity



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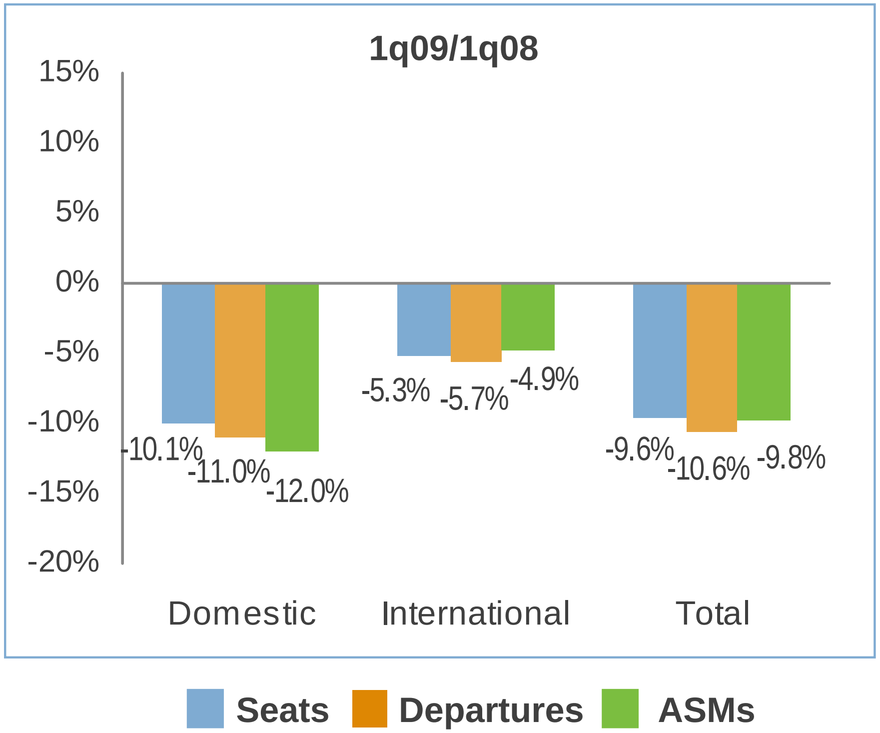
CONTINUING CAPACITY CUTS . . NOW DRIVEN BY WEAK ECONOMIC DEMAND

Deep Capacity Cuts Continue and Increase Slightly in First Quarter 09

U.S. Airports (All Carriers) Domestic and International



1q08 – 1q09

Seats (Airports) – down 10%

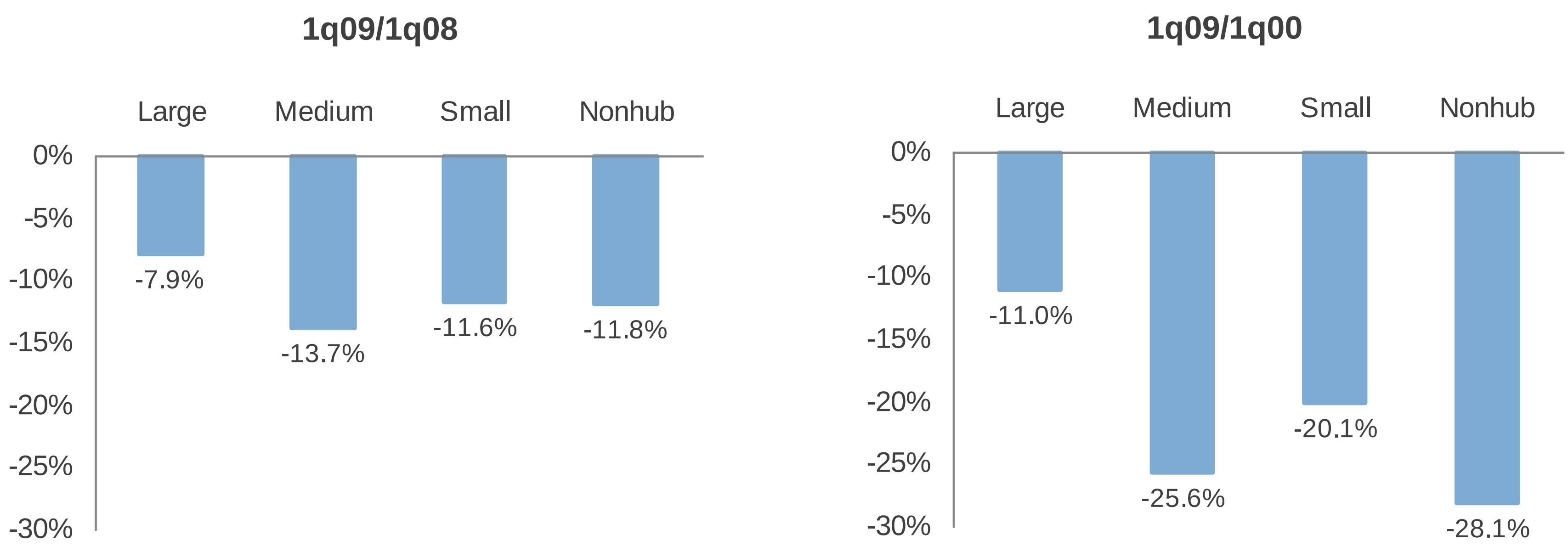
ASMs (Airlines) – down 12%

International has been cut less and so continues to gain share

Source: OAG 1st qtr, 2000, 2008, 2009

Different Impacts on Different Airport Categories – Small Airports Not Hurt Disproportionately in the Short Term, But Long Term Story Is Different

Change in Seats By Airport Size



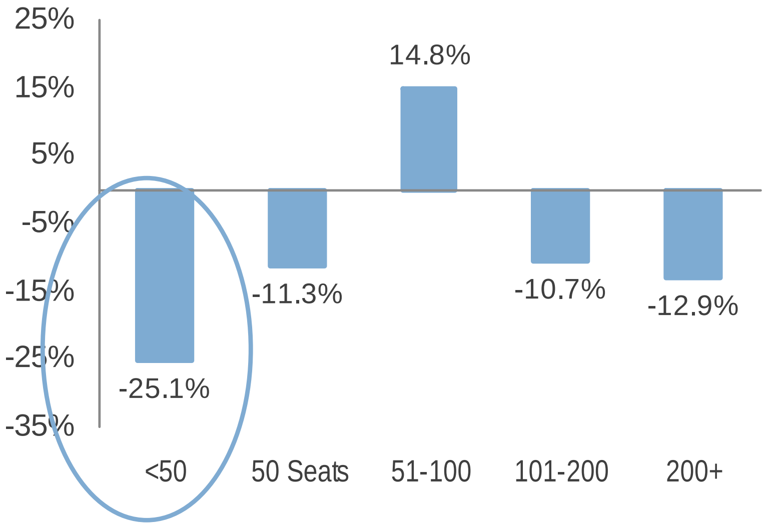
Possible reason for relatively equal cuts is that small and nonhub airports suffered large cuts in the past.

Source: OAG 1st qtr, 2000, 2008, 2009

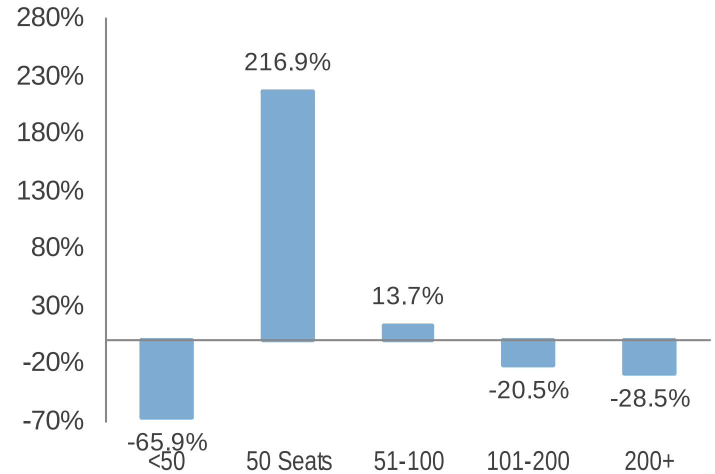
Small Aircraft – Less than 50 Seats – Are Leaving U.S. Commercial Markets

Change in Seats By Aircraft Size

1q09/1q08

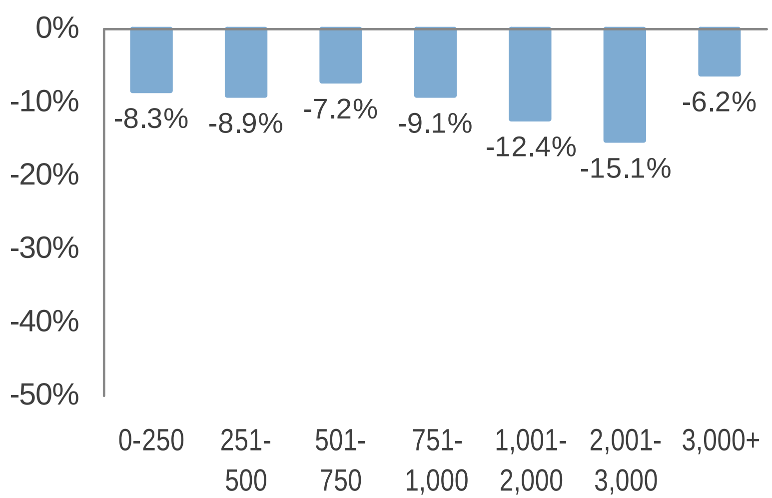


1q09/1q00



By Stage Length

1q09/1q08



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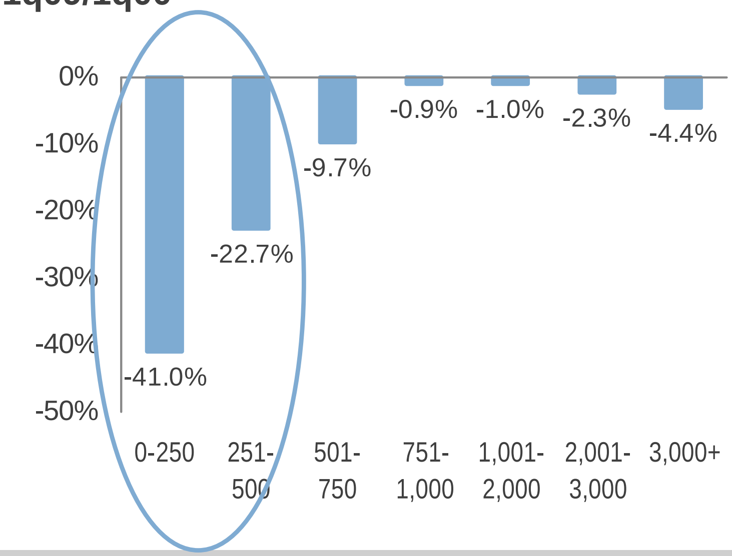

Source: OAG 1st qtr, 2000, 2008, 2009

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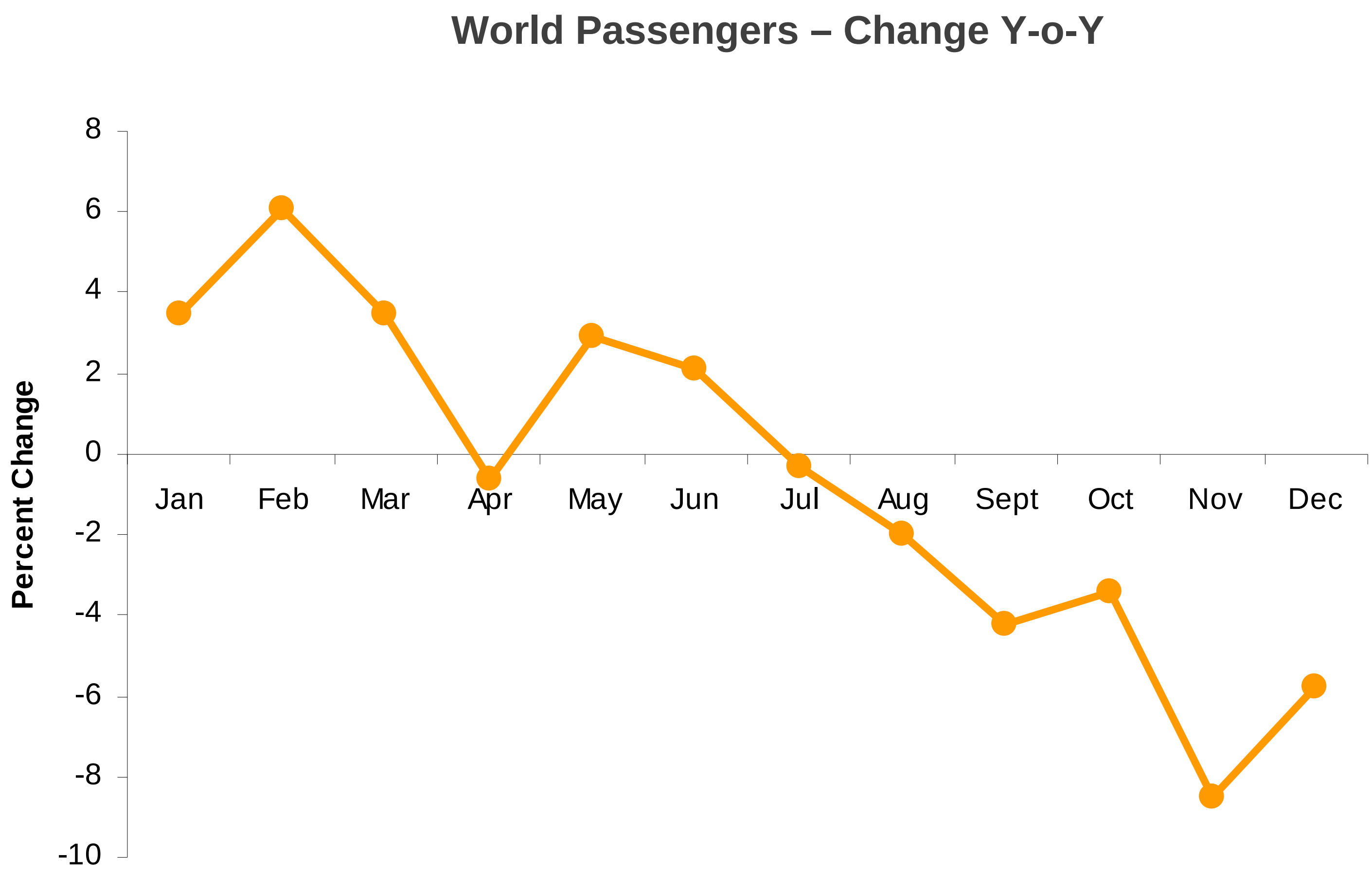
GLOBAL IMPACTS

Deep Drop in Demand on a Worldwide Basis

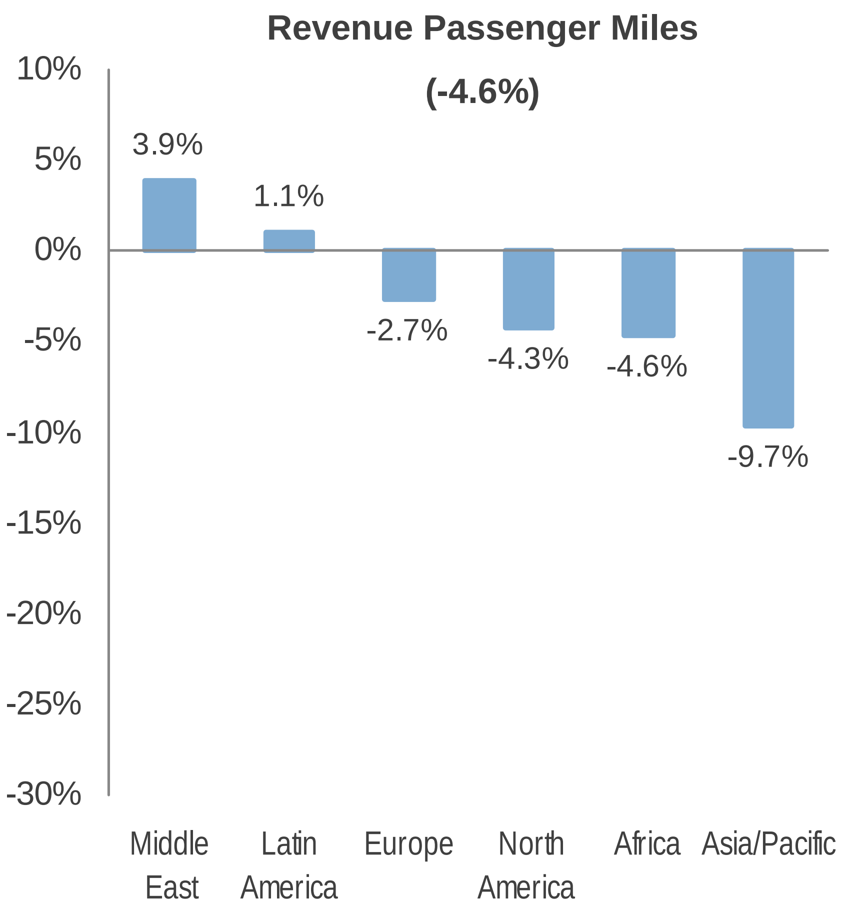


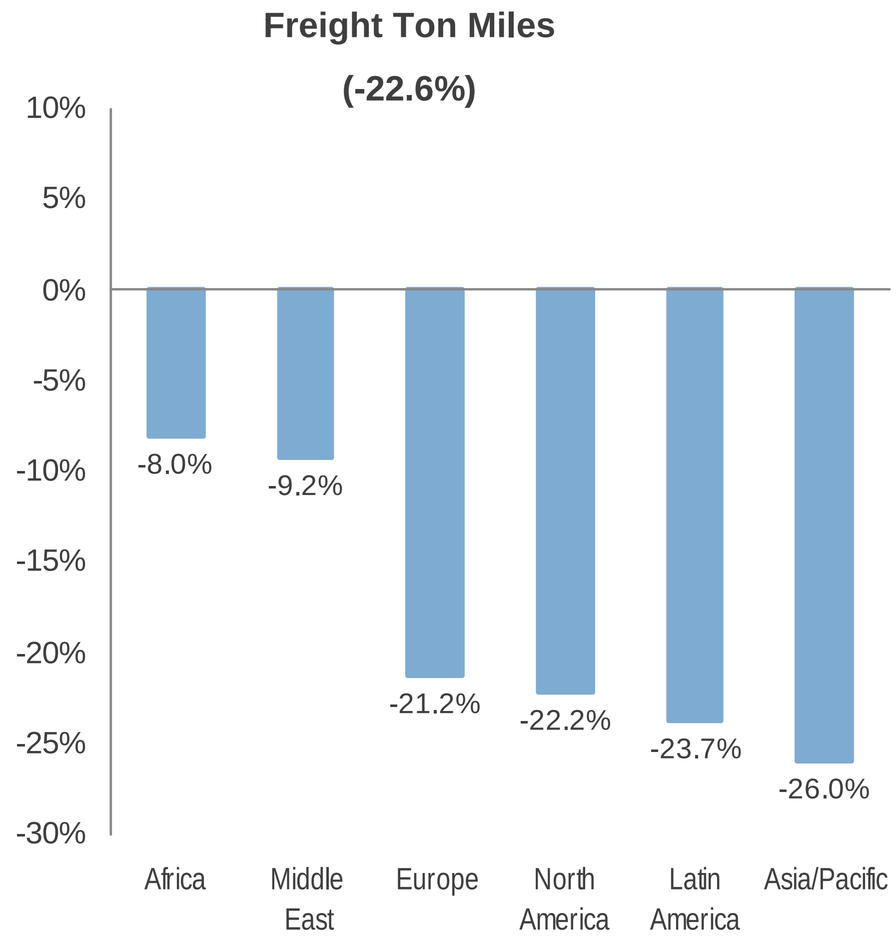
Expected drop in revenue for 2009 will be greater than any year since deregulation, except post-9/11 years of 2001/2

Source: ACI World Monthly Flash Reports

No Region Spared – Freight Drop Far Exceeds Previous Record Drop of 13.9% in September 2001

Change in Demand
December 2009/December 2008





Source: IATA Monthly Traffic Analysis, December 2008

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AIRLINES HOPE THE DROP IN COSTS EXCEEDS THE DROP IN DEMAND

Revenue would have to decline more than 20% to offset fuel cost savings*– according to analysts and airline executives

Analysts have been predicting a 6-12% drop in revenue in 2009 – several times greater than typical recession

Most recent data shows 11.7% drop in January revenue . . . .but second half of month was worse than beginning of month

Particular causes for concern – Premium passengers and international

Only 9/11 produced at least a 20% decline in airline revenue

* However, airlines were unprofitable when fuel costs were at peak

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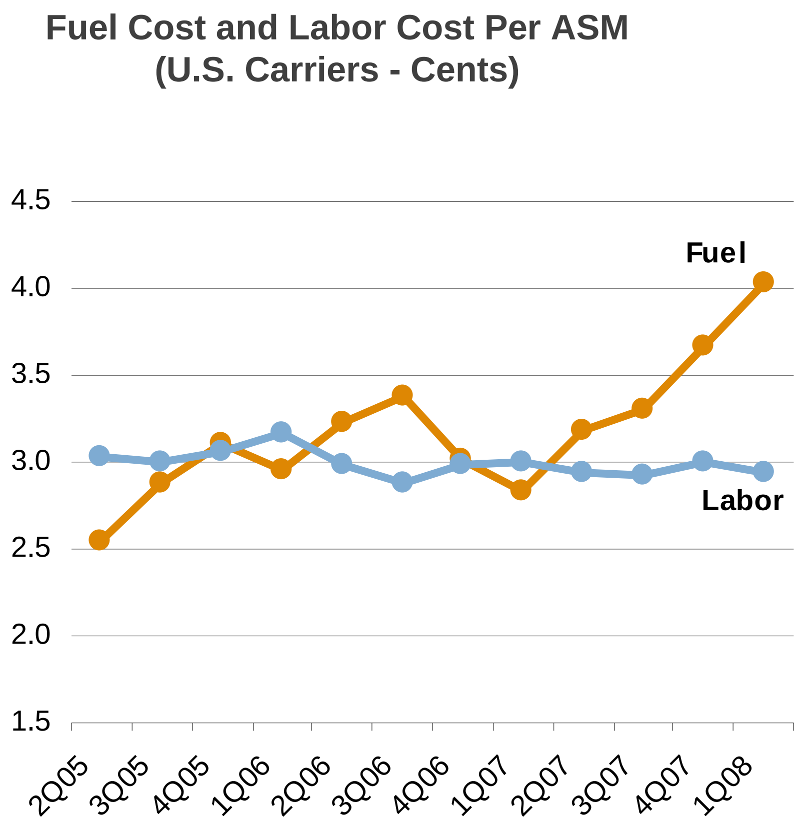
WHEN DEMAND STABILIZES, NEW VOLATILITY IN AIRLINE COST STRUCTURE MEANS AIRLINES WILL BE RELUCTANT TO ADD CAPACITY

Having Seen the Largest Spike Ever in the Airline Cost Structure, Airline Planners Are Reluctant to Assume that Lower Fuel Costs Are Here to Stay



Grounded aircraft are not returning;

New aircraft orders are sparse and primarily replacements

9 NEW WORLD OF HIGHER RISK

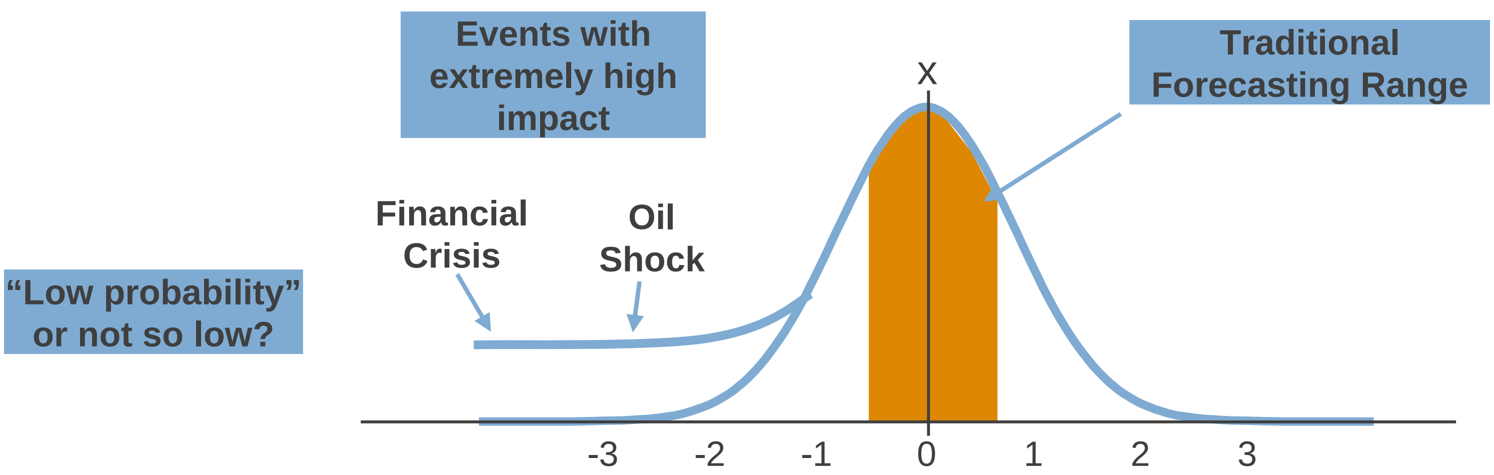
New World of Higher Risk

"Since 9/11, it's the most volatile market we've seen and the most difficult to predict"

"Economic environment has never been more uncertain, certainly in [our] history."

Forecasting can no longer be just about straight-line extrapolation

- Driver-based forecasting
- Scenario modeling
- Sensitivity analysis
- Contingency planning



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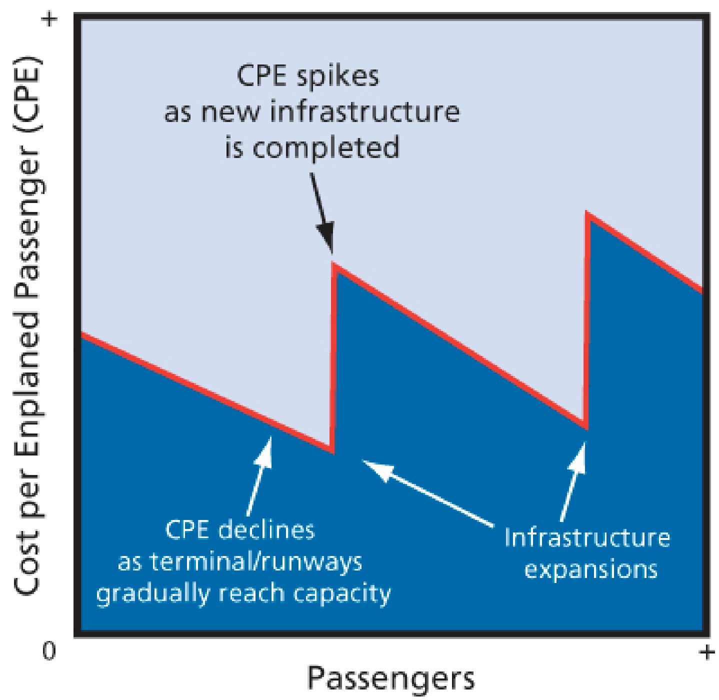
Airport responses

Airport Responses Have Focused on Finding New Revenue Sources and Controlling Spending

- Increased emphasis on non-airline revenue
  - But most non-airline revenue is driven by enplanements
- Operating cost reductions
- Capital program re-evaluations
  - But are lower demand and increased volatility a short-term or long term problem?



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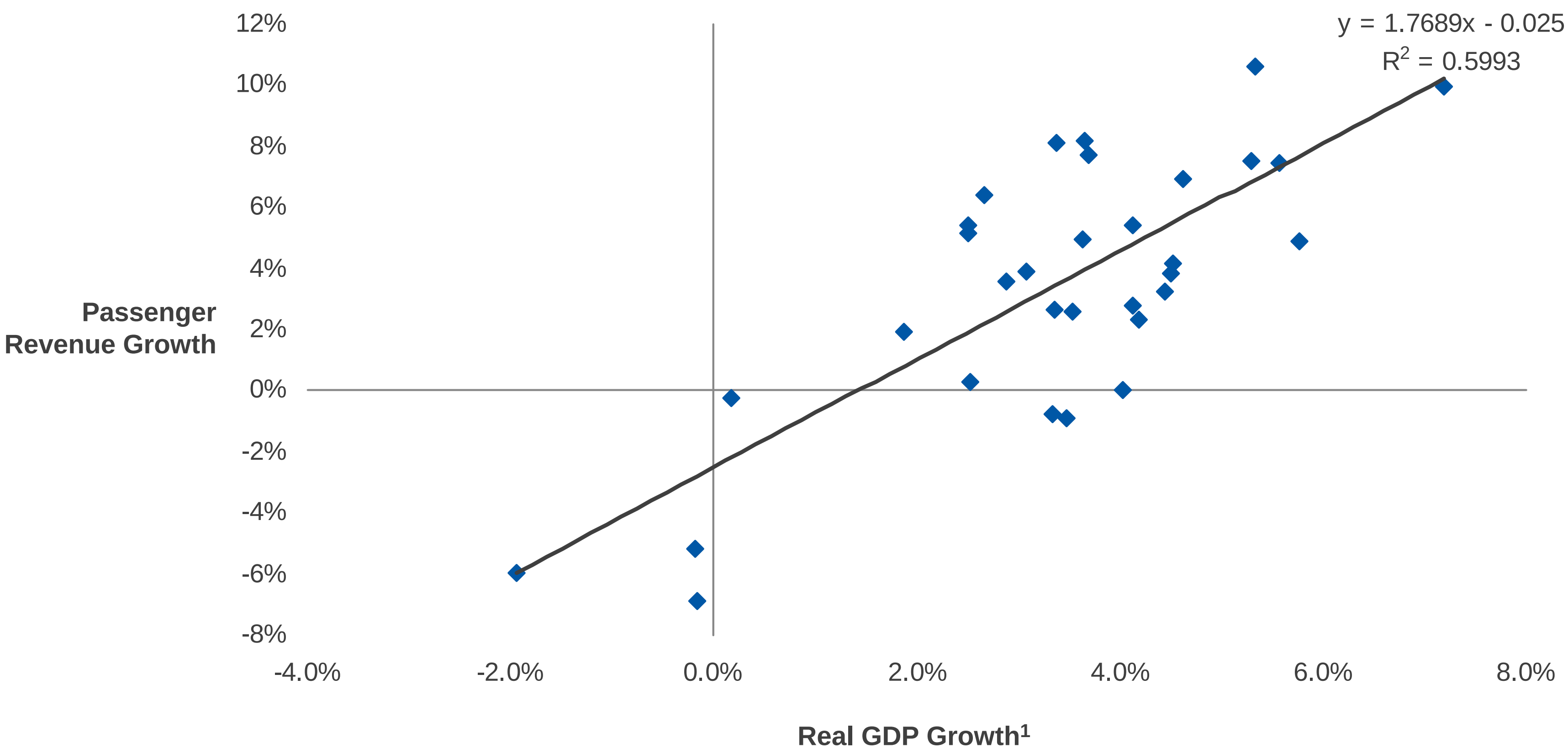
WHAT WILL THE RECOVERY LOOK LIKE?

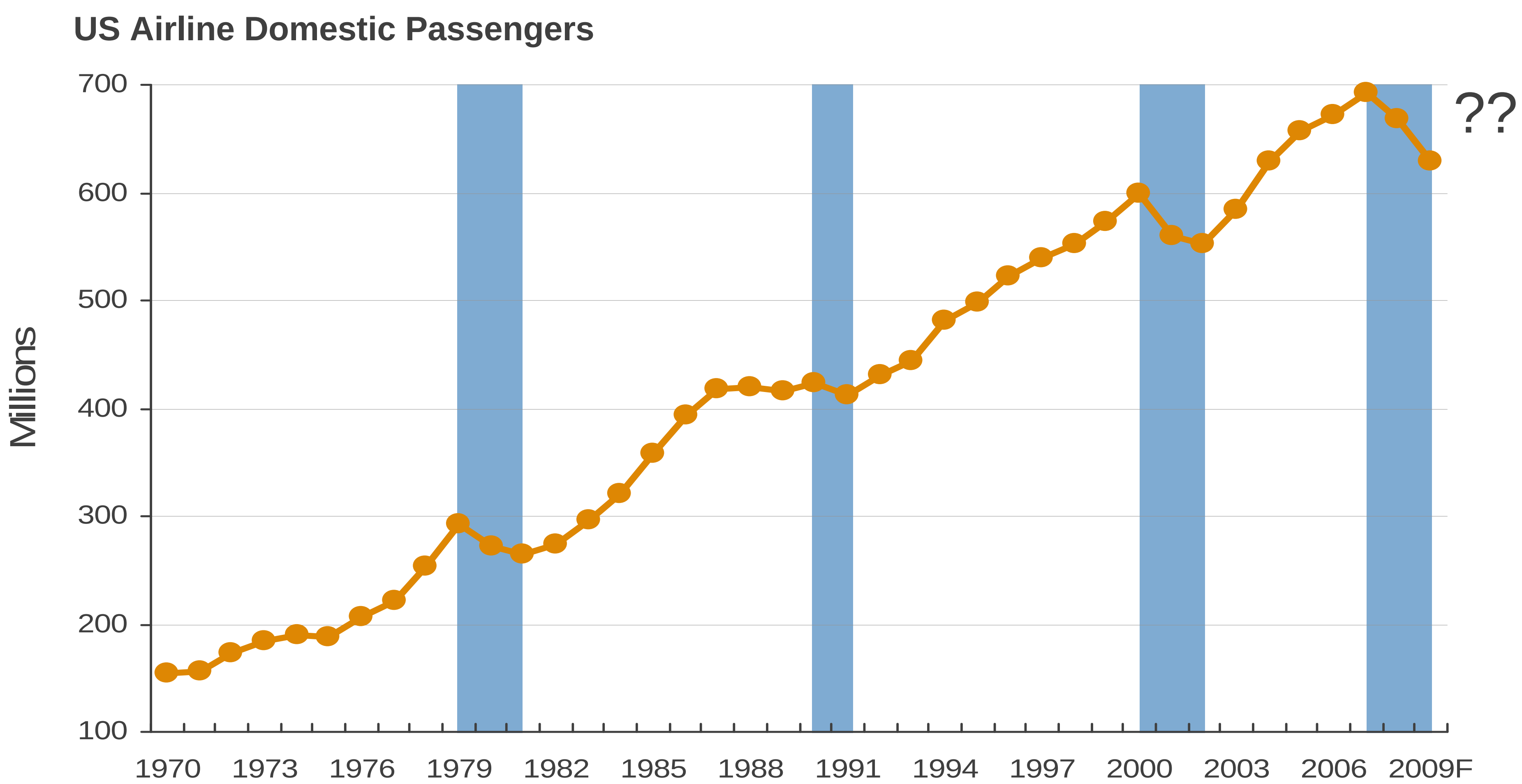
GDP growth has a strong historic correlation with passenger revenue. Will this continue – and how long before demand rebounds?

GDP Growth and Passenger Revenue Year-over-Year Growth
1969-2007 Annual Basis



1. Real annual rate, chained 2000 dollars; five outliers removed
Source: Bureau of Economic Analysis, Department of Transportation—Bureau of Transportation Statistics, Oliver Wyman analysis

Past Recoveries Have Been Strong



Source: Air Transport Association

How Strong Will the Recovery Be?

Past strong recoveries were driven by strong economic growth and declining airfares

	1980-81	1990-91	2001-02	2010+?
Backdrop				
Economic Recovery (GDP)	↑ +4.5%/7.2% in 1983/84	↑ +3.7% 1992-2000	↑ +2.9% 2002-07	?
Airfares	↓ -11.1% in 1982	↓ -5.8% in 1992	↓ -1.3% 2002-07 *Security shock diminishes	↑
Result				
Passenger Growth	↑ +9.5%/yr 1982-86	↑ +4.2%/yr 1992-2000	↑ 4.7%/yr 2002-07	weak

* Passengers returned as the security shock diminished

See excellent presentation by Roger Schaufele, FAA-APO, "US Airline Industry: Will traffic come back to historic trend?", Transportation Research Board, January 13, 2009

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Conclusions

Implications for Airports

Preparing for Lower Demand and Higher Risk

- Depth and duration of demand drop are unknown
  – So far, fuel cost drop exceeds demand drop, but . . .
- Fuel and demand volatility make airline planners more risk adverse
  – Grounded aircraft are not returning; new aircraft orders are sparse and primarily replacements
- Increased pressure to cut airport costs and search for non-airline revenue
  – But important non-airline revenue still tied to enplanements – parking, rental cars, concessions, so search for new airport revenue sources
- Strength of recovery and future demand are uncertain

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