



Ultra Low-Cost Carriers (ULCCs)

Innovation, Low Prices, and Sustainability



Summary

Ultra Low-Cost Carriers (ULCCs)
Innovation, Low Prices, and Sustainability

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ULCCs

- 70M pax & 460 aircraft in 2022
- 25% ULCC pax buy only airfare
- 325 new nonstop routes added in 2021
- In a market with a ULCC the fare for all airlines is 18% lower
- Lowest fuel consumption per ASM
- Flying only when people want to fly
- Flying point-to-point
- High seat density
- Fuel efficient aircraft

Slot Constraints

- ULCCs are shut out of the nation's slot constrained markets (LaGuardia, JFK and Reagan National) due to grandfathered assets. This means higher fares, fewer travel options, and less efficient use of these valuable resources
- Slots were awarded to those airlines in operation in 1969, ULCCs joined the skies in current form in the mid 2000's

Pilot Supply

- The airline industry is facing a pilot scarcity of ~30,000 pilots by 2030
- The scarcity is driven by a declining interest in the profession, regulatory impediments like the 1,500-hour rule, and an increase in retirements
- The ULCCs believe that the pilot scarcity can be resolved, and more importantly safer higher quality pilots produced, by adding a new type of airline pilot training program
- Airforce / VR training improvements (best of the best)

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Snapshot of the ULCCs - significant presence from coast to coast

- 70+ million projected passengers in 2022
- 235 unique airports
- 25,000+ employees
- ~1,800+ daily departures
- 460+ aircraft
- 13% market share of domestic passengers
- ...and growing. The ULCC segment is the fastest growing part of the airline industry

Timeline: Reauthorization starting Summer 2022 / Early 2023 is an opportunity to support ULCCs in enhancing customer choice

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Locked out of slot constrained, highly concentrated, destinations

DCA Slot Share & H98
Week of July 10th 2022

Only 3 in the USA – JFK, LGA, and DCA
Slot constraint airports tend to have higher fares

~1% ULCC share vs 13% nationally

LGA Slot Share & H98
Week of July 10th 2022

~3% share vs 13% nationally

DCA vs BWI Yield

~32% of AA passengers connecting through Washington National "DCA"

Following the DOT should and further slot usage increases. Policymakers should implement legislative and regulatory policies that result in greater ULCC access to congested airports

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The pilot scarcity will limit travel options over the next decade

Industry Pilot Outlook
With current industry environment

Understates magnitude of issue from increased training events resulting from early retirements, lower productivity, hoarding, and 2023 growth plans

Assumptions:

- Feathered back hour productivity back to 2019 levels
- Near term carrier stated and long term business model growth projections
- Current industry requirements (age 65 & FOG rule)
- 13% 5 year lagged Student to ATP ratio (historical avg.)
- Scarcity compounded by major domestic events (9/11, 2008 economic recession, recovery time & loss war)

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Thank You. Questions?
Innovation, Low Prices, and Sustainability

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ULCCs

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 - High seat density
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Slot Constraints

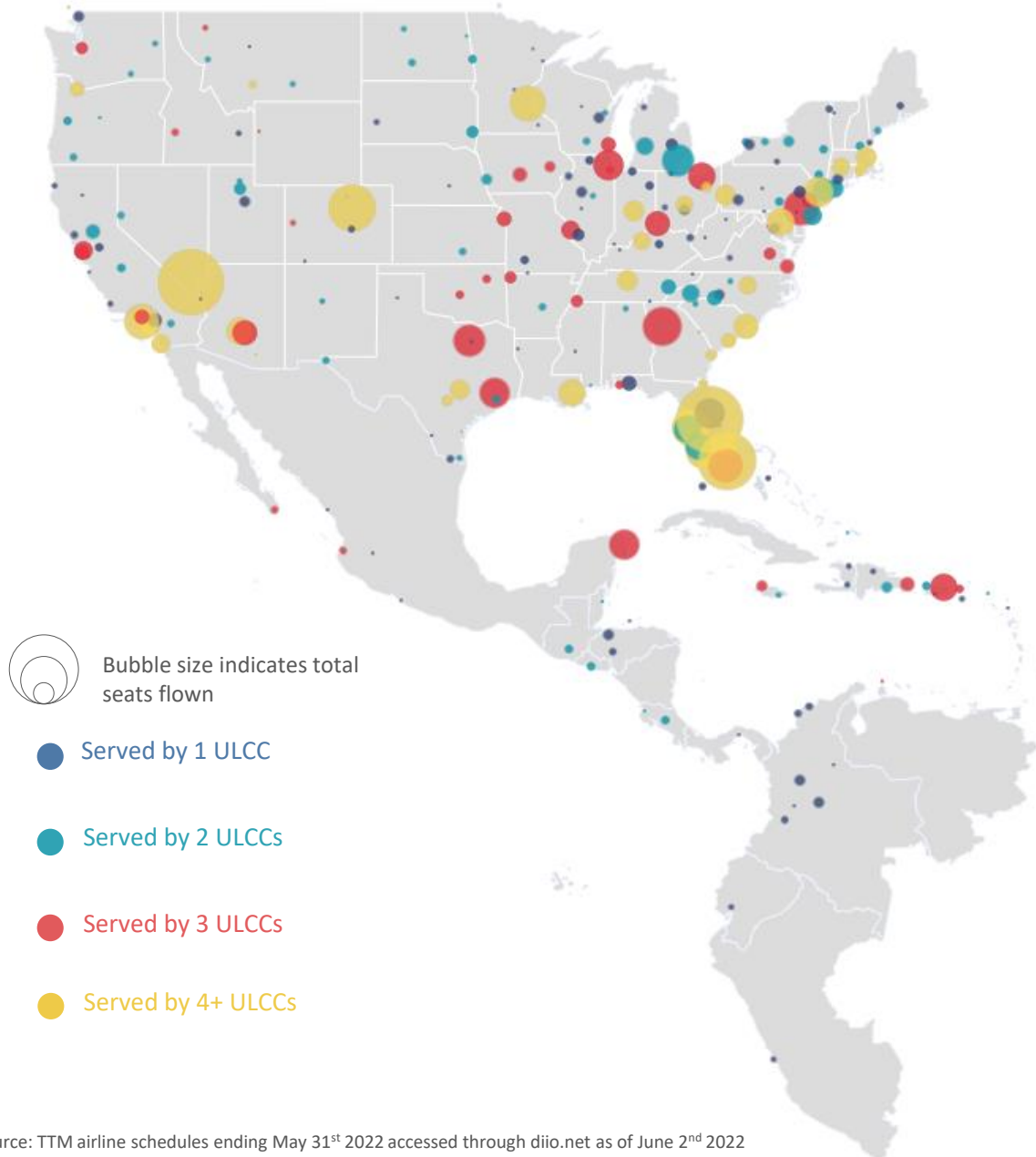
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Pilot Supply

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- The scarcity is driven by a declining interest in the profession, regulatory impediments like the 1,500-hour rule, and an increase in retirements
- The ULCCs believe that the pilot scarcity can be resolved, and more importantly safer higher quality pilots produced, by adding a new type of airline pilot training program
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Snapshot of the ULCCs - *significant presence from coast to coast*



- ✈️ **70+ million** projected passengers in 2022
- ✈️ **235** unique airports
- ✈️ **25,000+** employees
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- ✈️ **460+** aircraft
- ✈️ **13% market share** of domestic passengers
- ✈️ ...and growing. The ULCC segment is the fastest growing part of the airline industry

Takeaway: Reauthorization starting Summer 2022 / Early 2023 is an opportunity to support ULCCs in enhancing customer choice

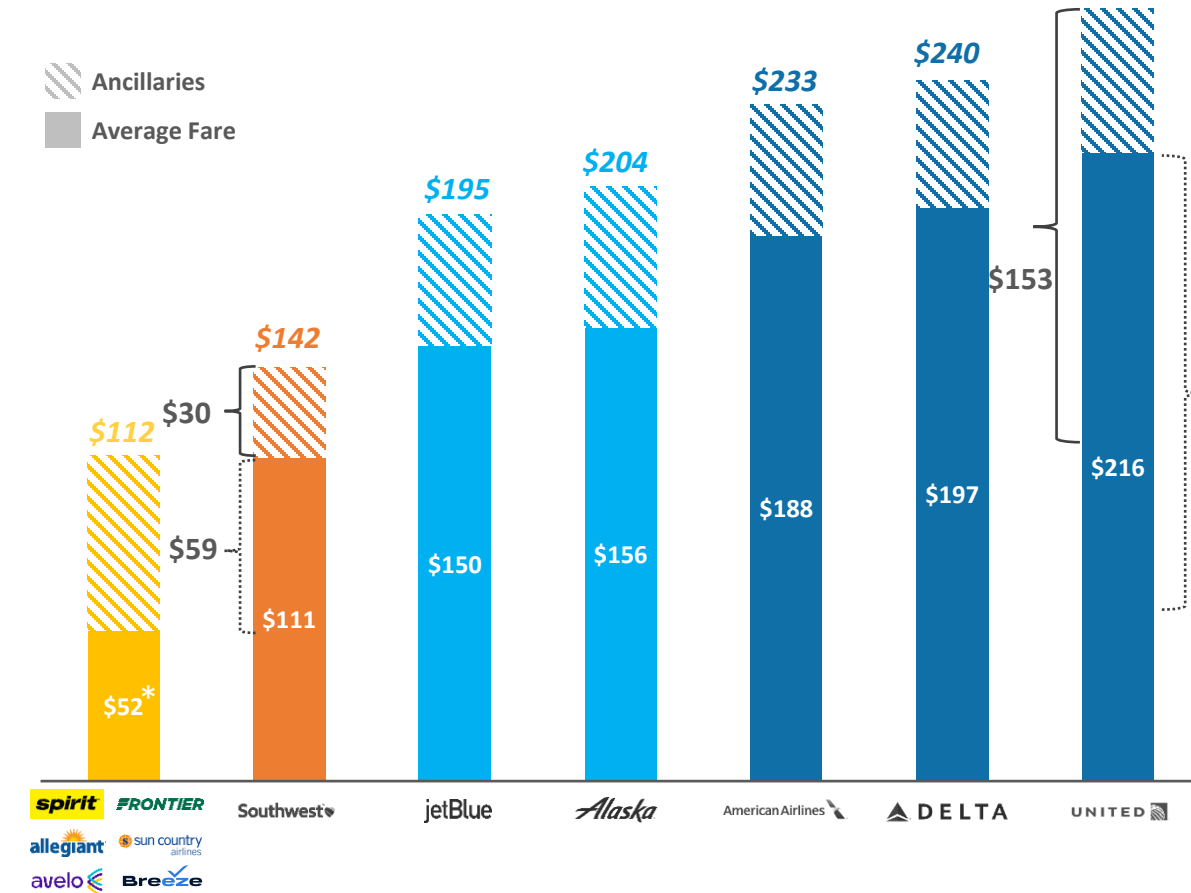
ULCCs offer the lowest fares and force discipline

Network LCC
Hybrid ULCC

Average Fare by Airline

FY 2021

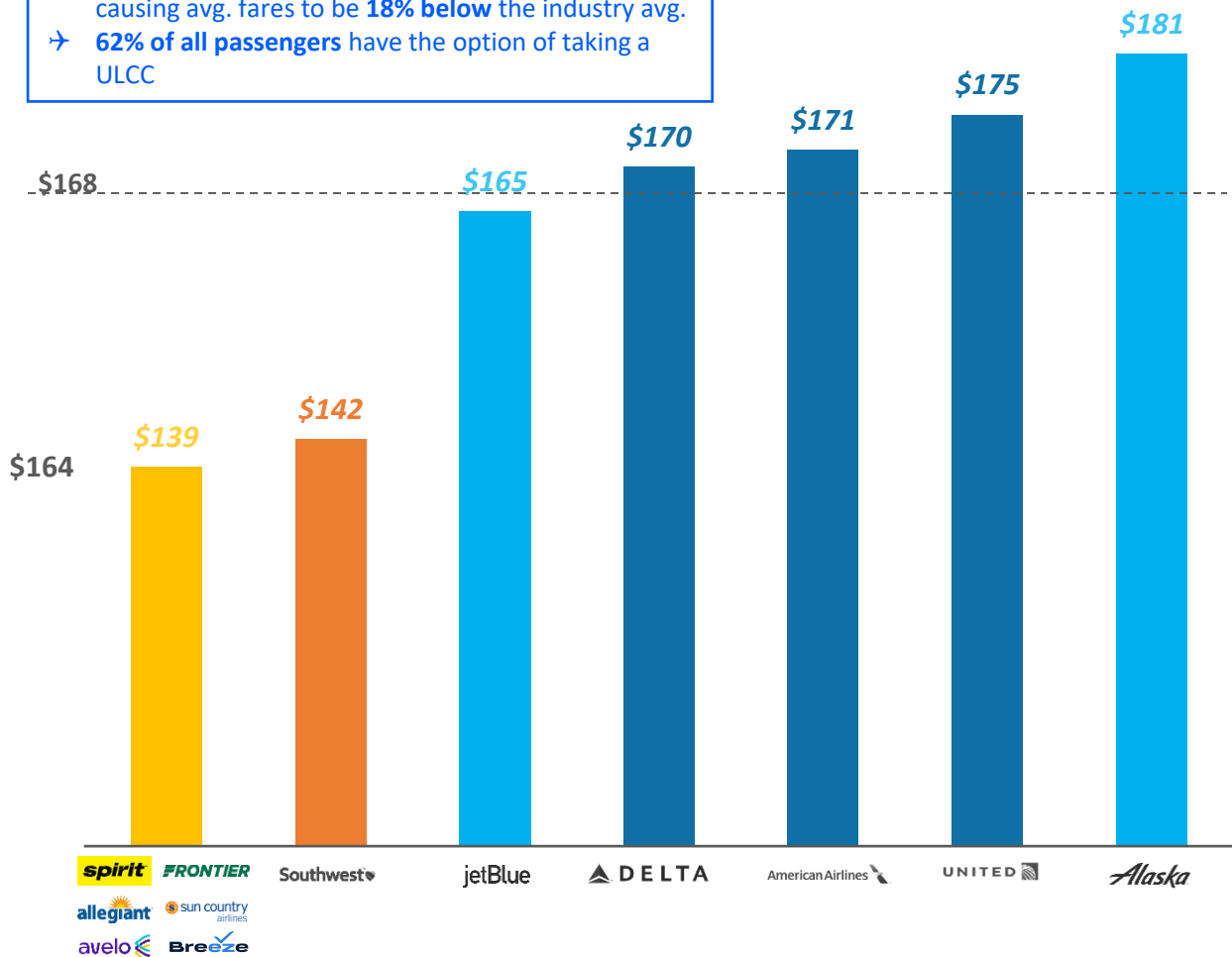
- ULCC passengers pay on average \$30 less each way than on Southwest – even including ancillaries
- ~25% of ULCC passengers buy only airfare



Average Fare Markets with Carrier X

FY 2021

- ULCCs provide discipline to any market they serve causing avg. fares to be 18% below the industry avg.
- 62% of all passengers have the option of taking a ULCC

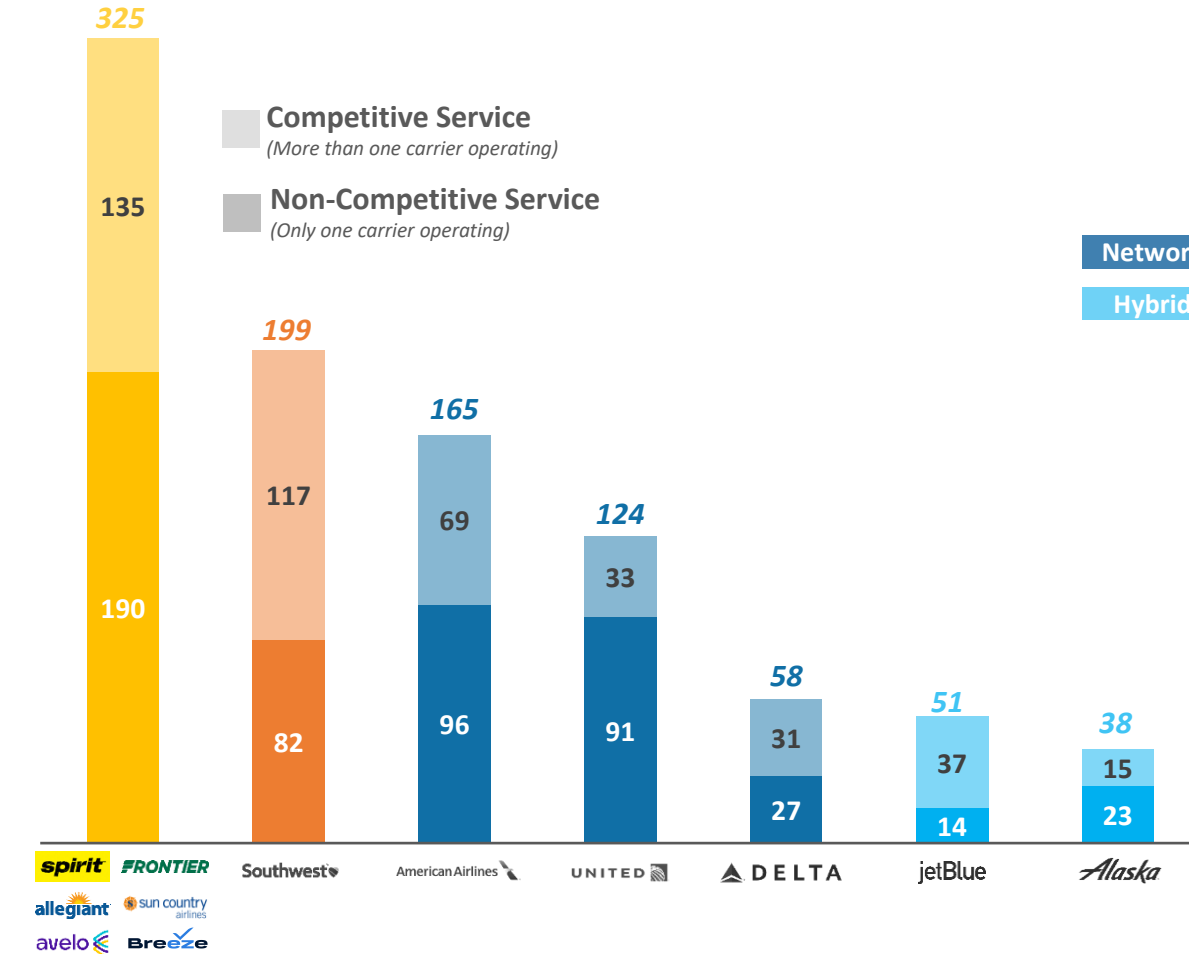


Takeaway: The ULCCs ensure all customers have access to lower fares

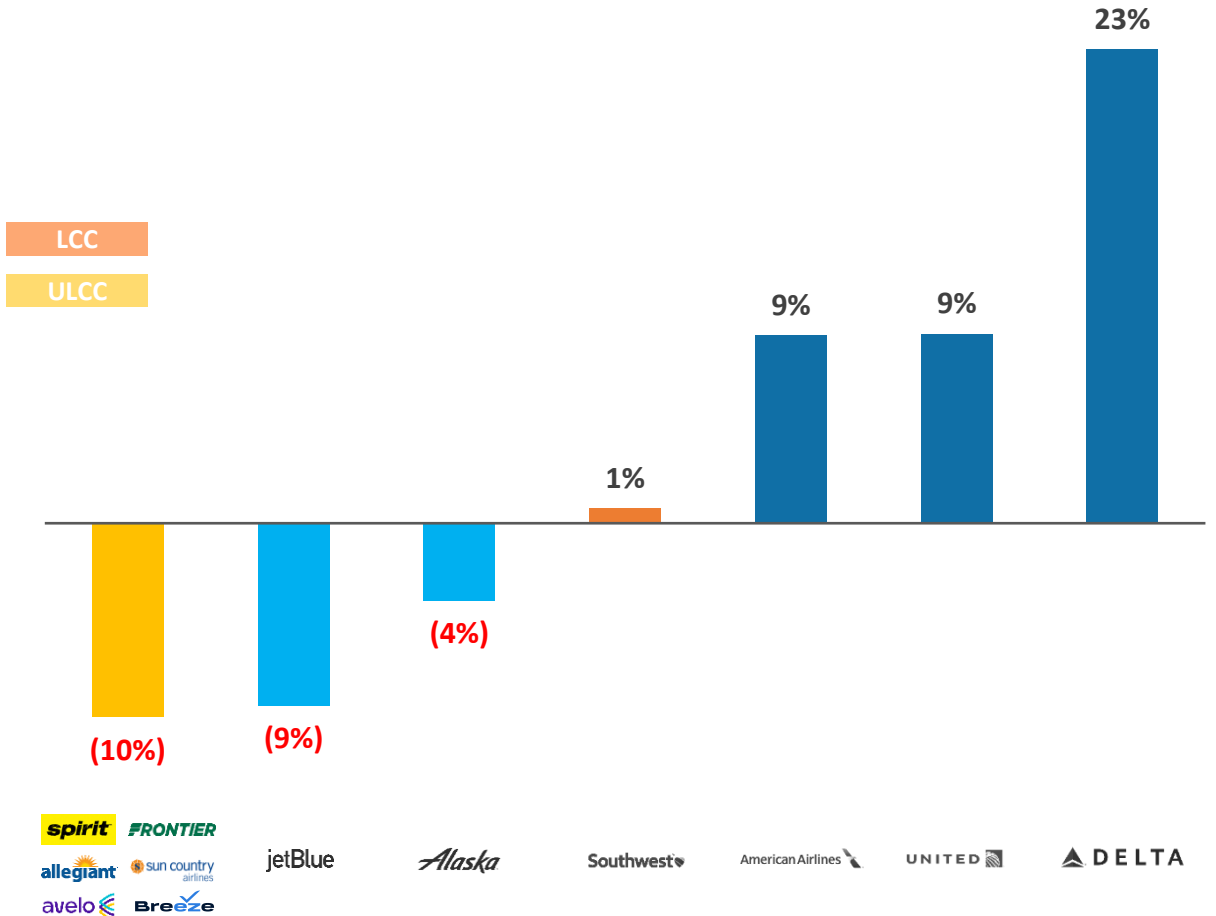
Source: US DOT O&D Survey ; * Excluding taxes

ULCCs significantly enhance consumer choice

Number of New Nonstop Routes Offered
FY 2021 vs FY 2020



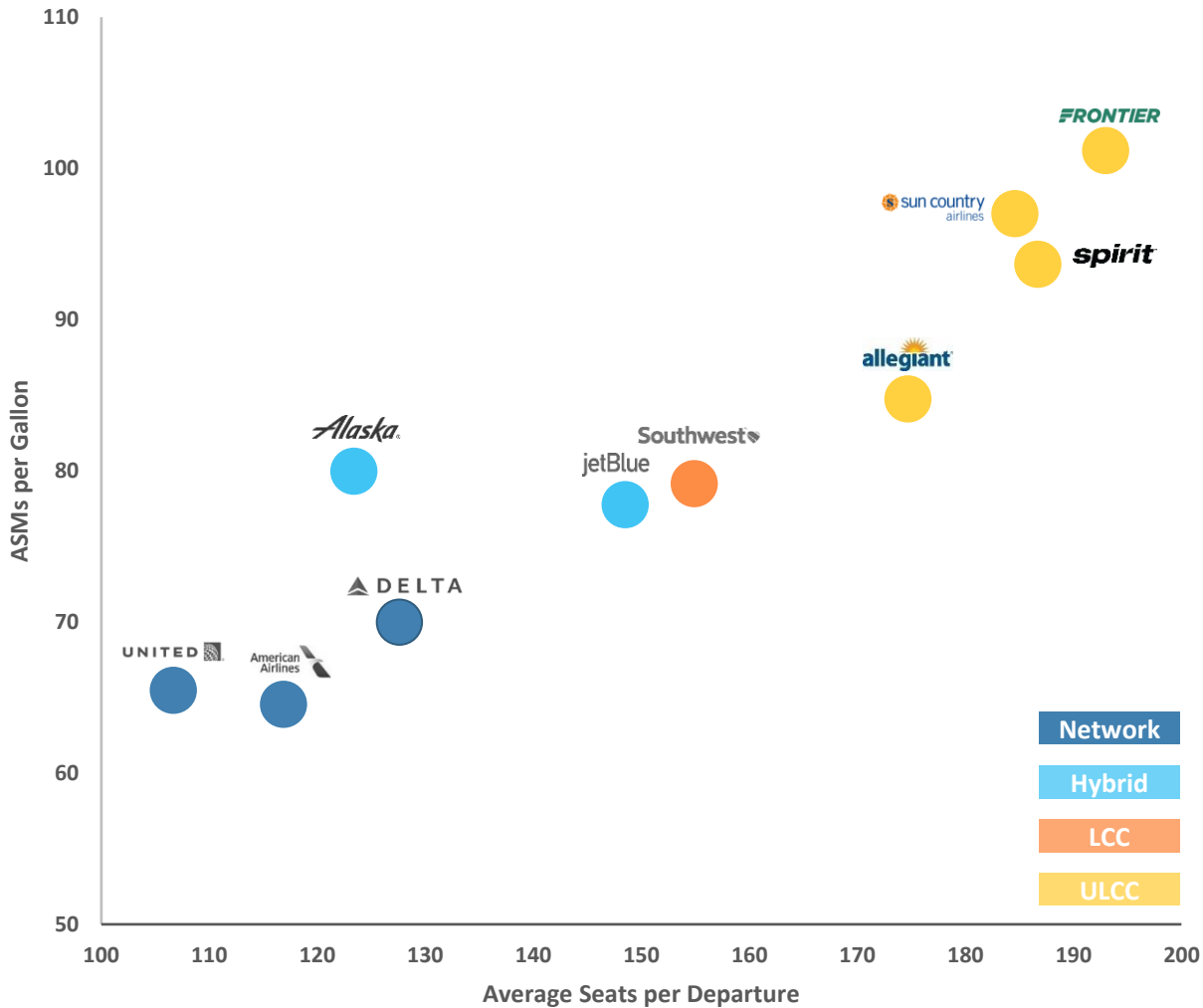
Average Change in Market Fare in the New Nonstop Markets
FY 2021 vs FY 2020



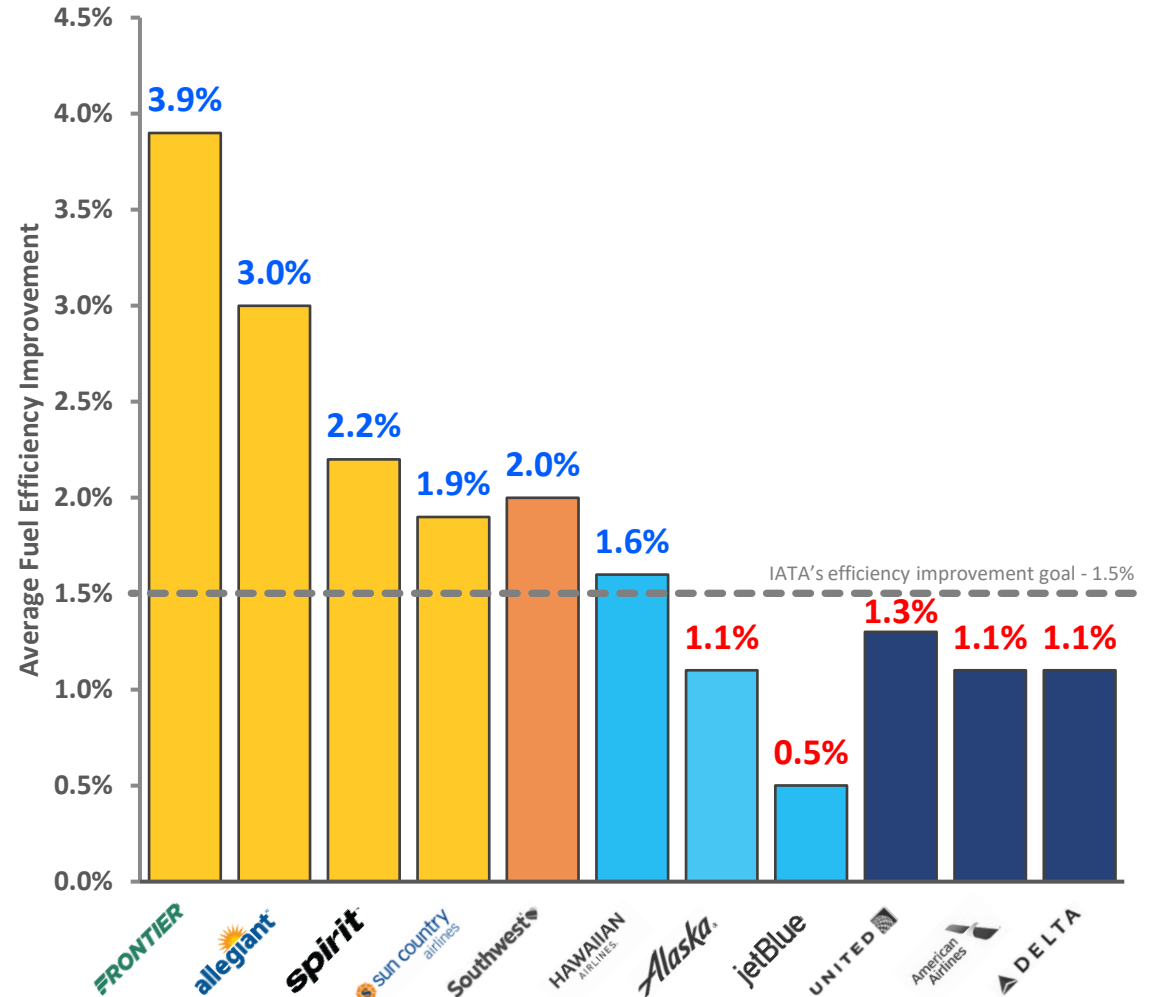
Takeaway: When ULCCs enter new markets fares drop

Ultra low-cost carriers are the most environmentally friendly

ASMs per Gallon vs. Average Seats per Departure
FY2021



Average Fuel Efficiency (RTM/Gal) Improvement per Year
2009 to 2019



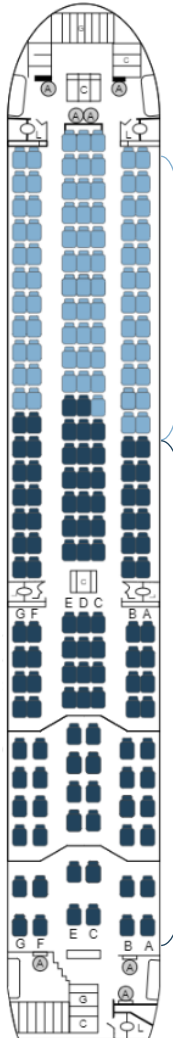
Takeaway: ULCCs are the Greenest Segment of the U.S. Passenger Airline Industry

Source: The International Council on Clean Transportation (ICCT), SEC 10-K Filings (2009 & 2019 & 2021), Form 41

Nonstop – the most efficient way to fly

Network Carriers Pax Distribution

Includes:   

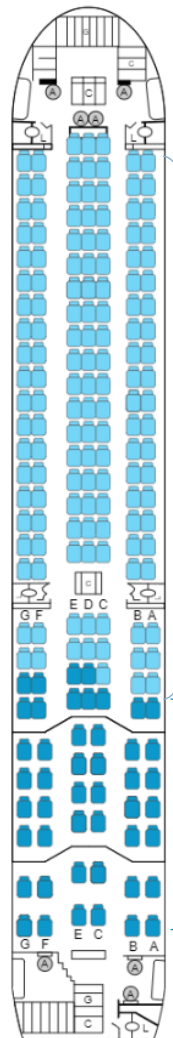


43%
nonstop 416lbs per Pax

57%
connecting 617lbs per Pax

Hybrid Carriers Pax Distribution

Includes:   

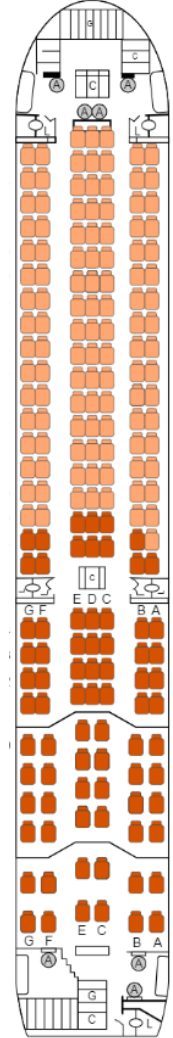


77%
nonstop 331lbs per Pax

23%
connecting 541lbs per Pax

LCC Carrier Pax Distribution

Includes: 

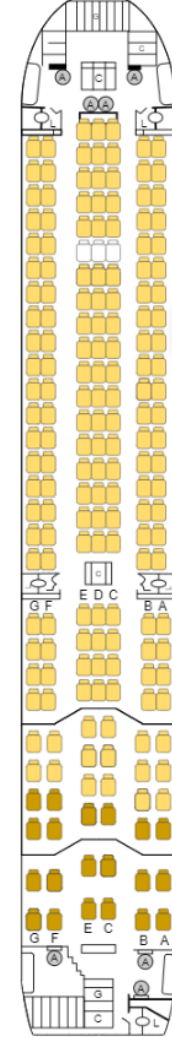


61%
nonstop 343lbs per Pax

39%
connecting 385lbs per Pax

ULCC Carriers Pax Distribution

Includes:    



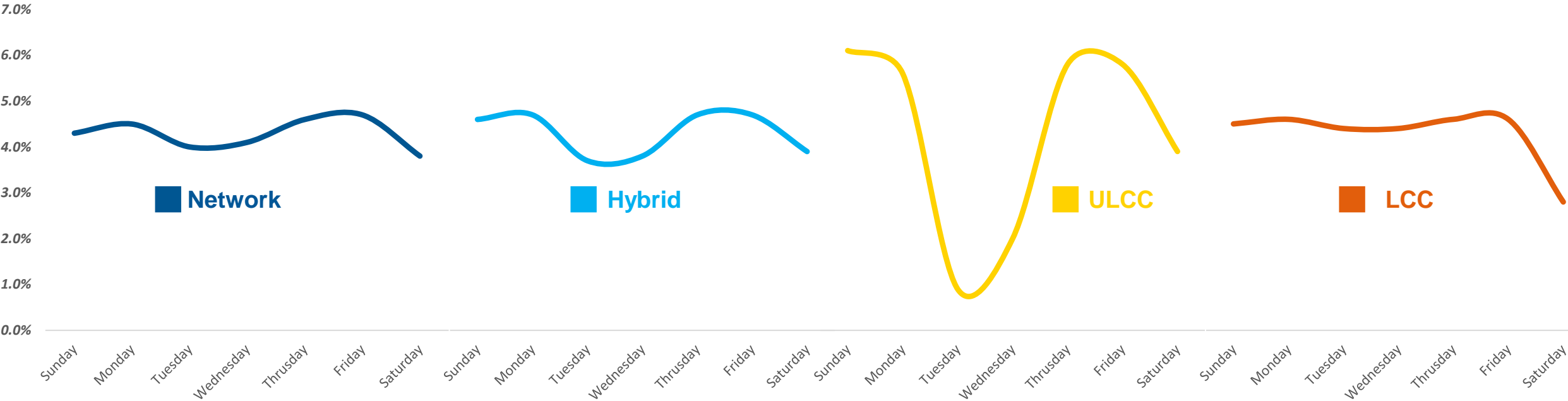
92%
nonstop 299lbs per Pax

8%
connecting 364lbs per Pax

Source: Diio airline performance TTM 1Q2022. Adjusted to ULCC average load factor, stage, length of haul, and other airline routing efficiency. 21.5 lbs of CO2 per gallon of jet fuel consumed

Flying when people want to fly avoids inefficient use of resources

% of Seats Flown Each Day of the Week
FY2022

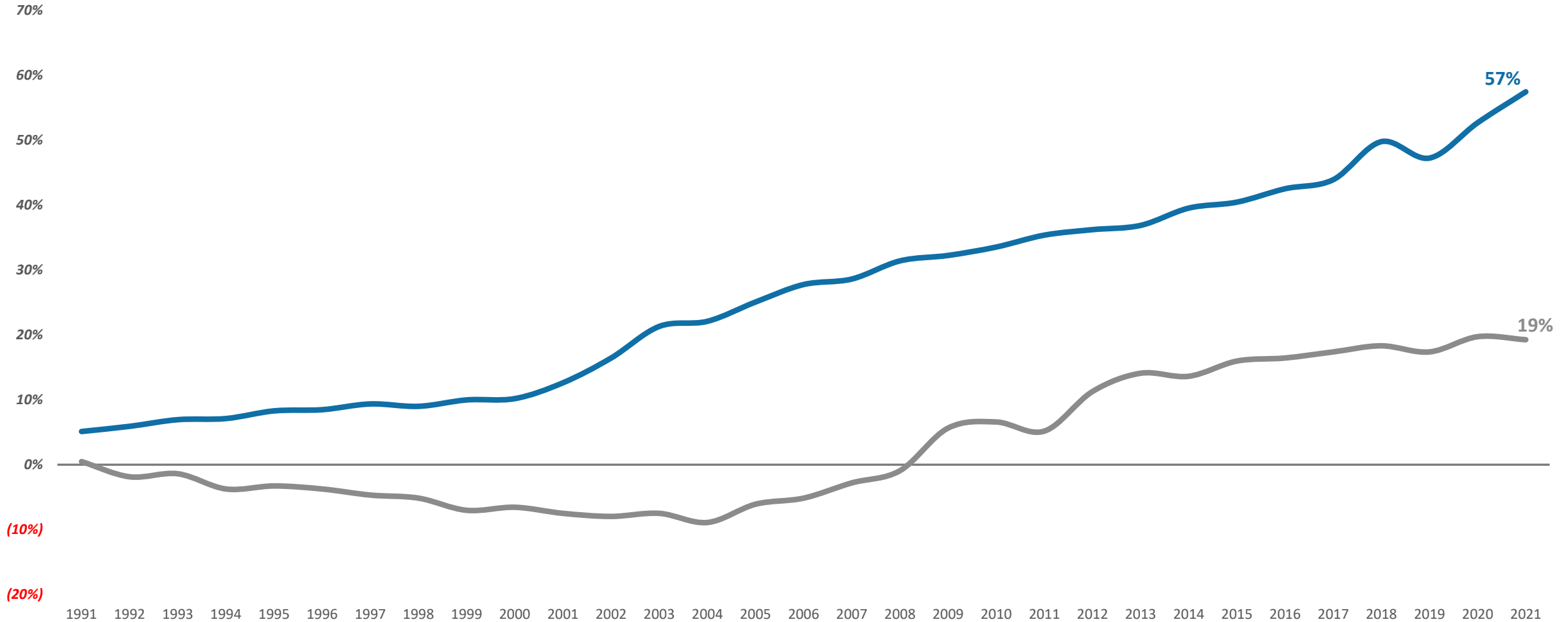


Takeaway: ULCCs avoid flying flights on off-peak days when excess seats would go to waste and lead to more CO2 emissions

Source: FY2022 Airline Schedules as of July 23rd

Long history of fuel efficiency improvement

Cumulative Fuel Efficiency Improvement (ASM per Gallon / Miles per Gallon) vs. 1990
1991-2021



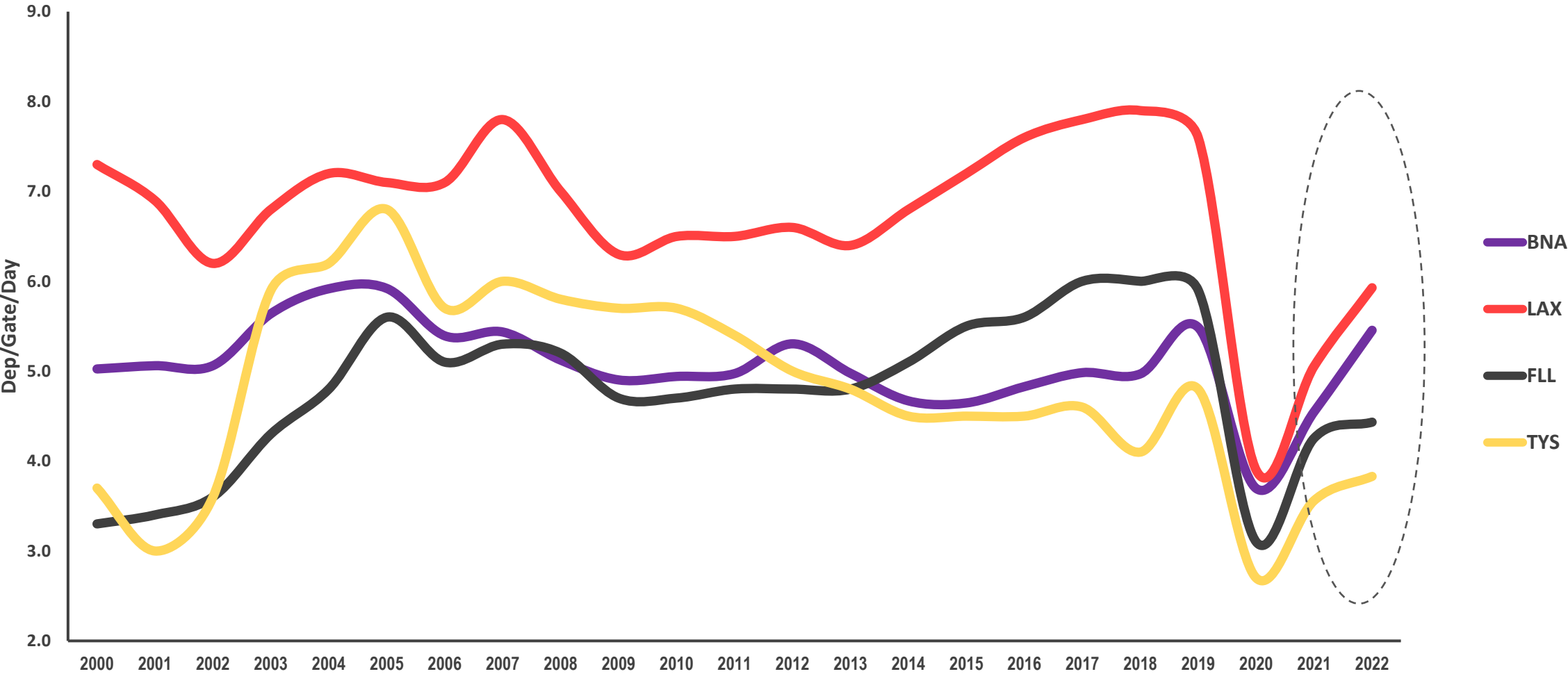
Takeaway: Airline fuel efficiency has outpaced automotive over the last 30 years

— Mainline Airline — Auto

Despite less turns per gate, gate accessibility remains an issue

Departures per Gate per Day

2000 - 2022

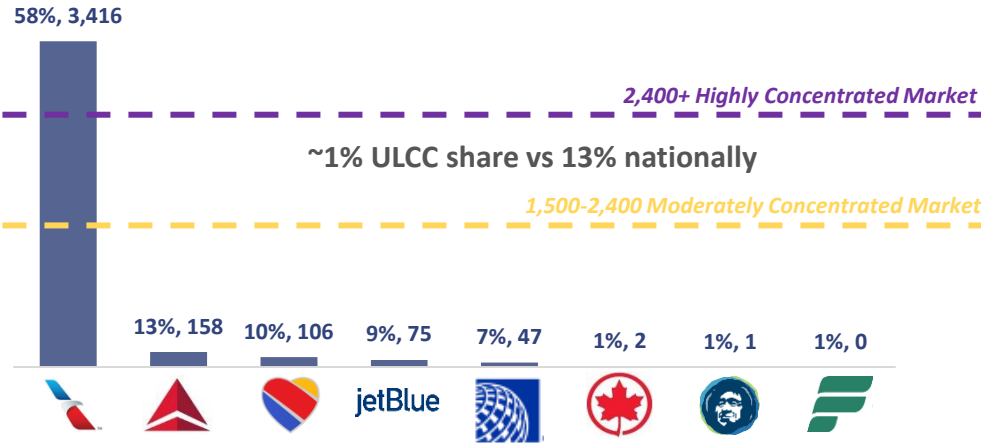


Takeaway: Despite many of the most difficult airports still being below 2019 levels, gates have become increasingly unavailable

Locked out of slot constrained, highly concentrated, destinations

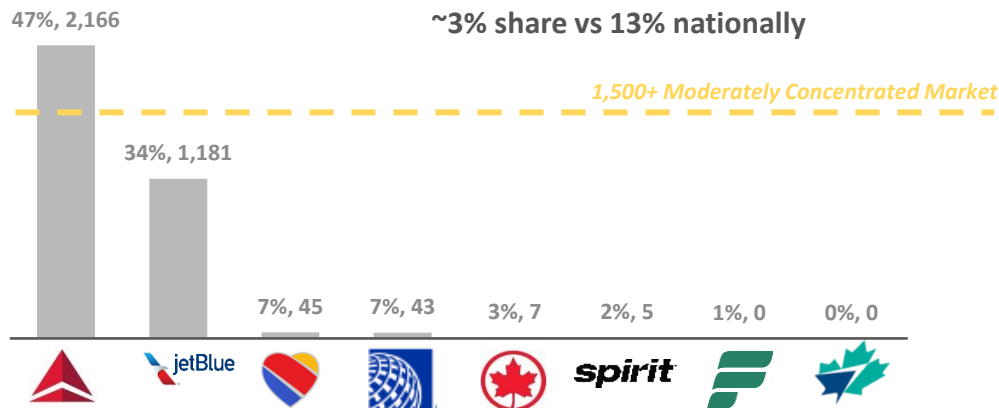
DCA Slot Share & HHI

Week of July 10th 2022



LGA Slot Share & HHI

Week of July 10th 2022



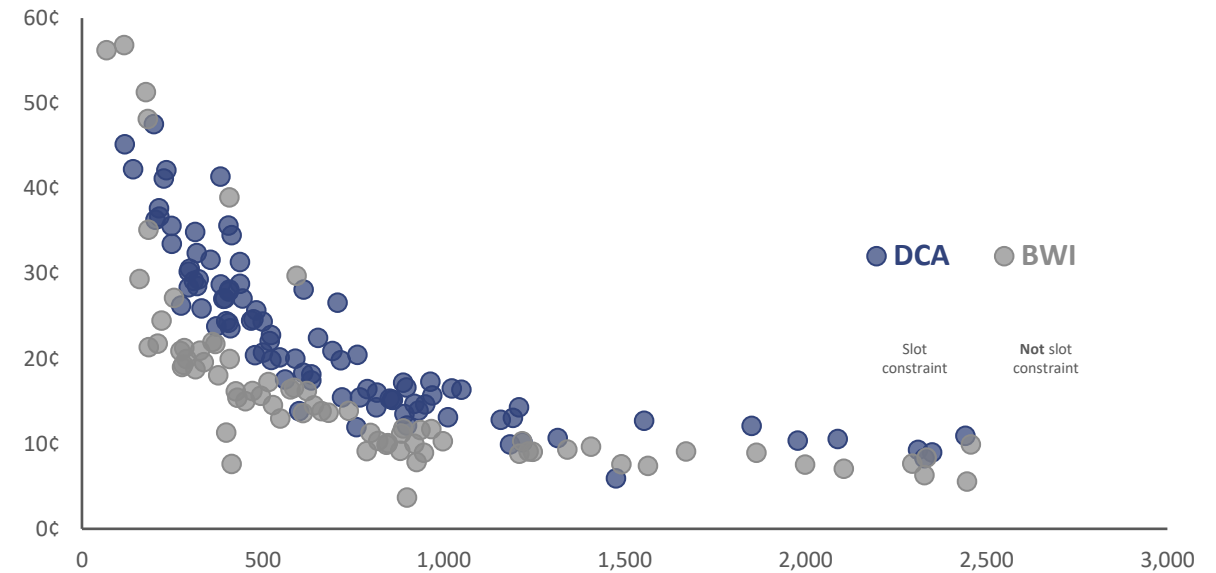
The U.S. Department of Justice considers a market with an HHI:
 Less than 1,500 = Competitive marketplace
 1,500 - 2,500 = Moderately Concentrated Marketplace
 2,500 or greater = Highly concentrated marketplace

Source: Airline Schedules, US O&D Survey

Only 3 in the USA – JFK, LGA, and DCA
 Slot constraint airports tend to have **higher fares**

DCA vs BWI Yield

FY2021



~32%

of AA passengers connecting through Washington National "DCA"

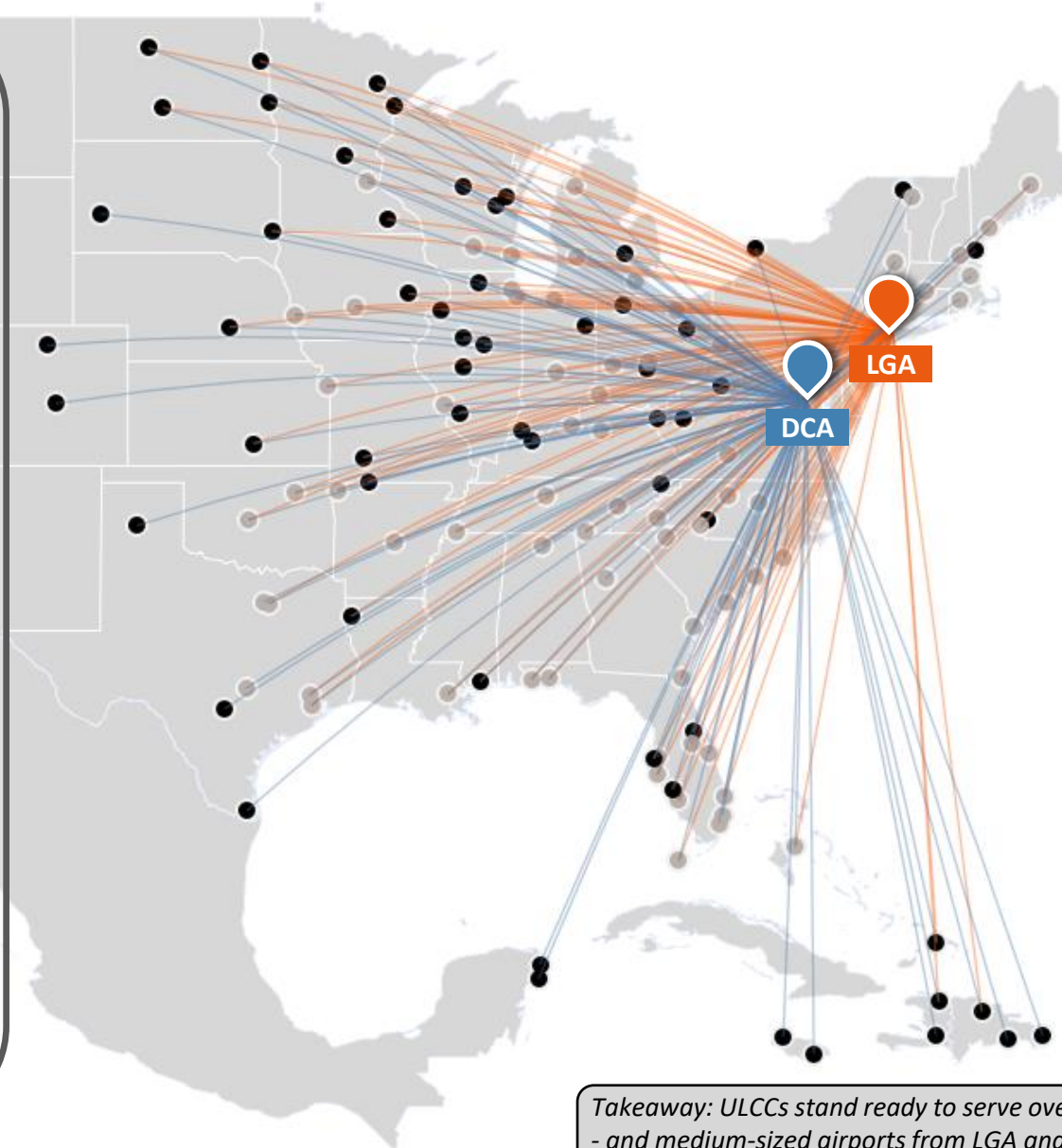
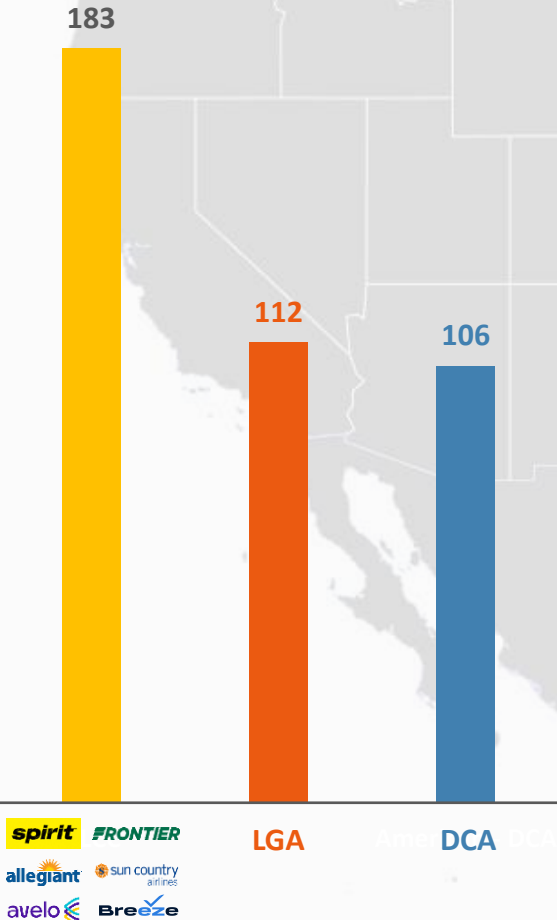
FY21 O&D Data

Takeaway: The DOT should end further slot usage waivers. Policymakers should implement legislative and regulatory policies that result in greater ULCC access to congested airports

ULCCs would make better use of scarce assets and offer new nonstop service

Average Seats per Departure

June 2022



ULCC included:



- No service from LGA or DCA
- Served by non-ULCC (High fares)

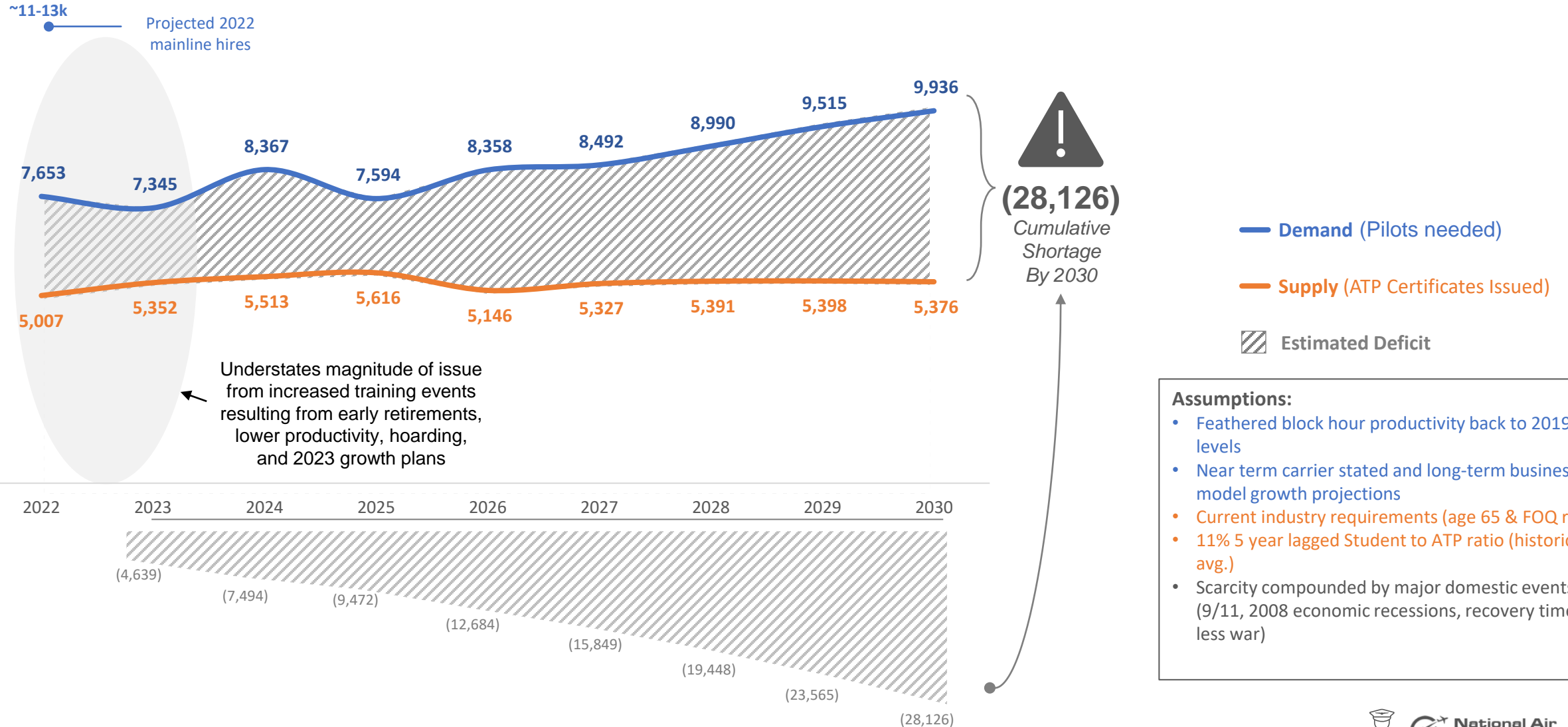
Includes all F9, G4, NK, SY, XP and MX destinations between 300mi and 1,500mi

Takeaway: ULCCs stand ready to serve over a 125 of small - and medium-sized airports from LGA and DCA

The pilot scarcity will limit travel options over the next decade

Industry Pilot Outlook

With current industry environment



Decades long decline in student starts

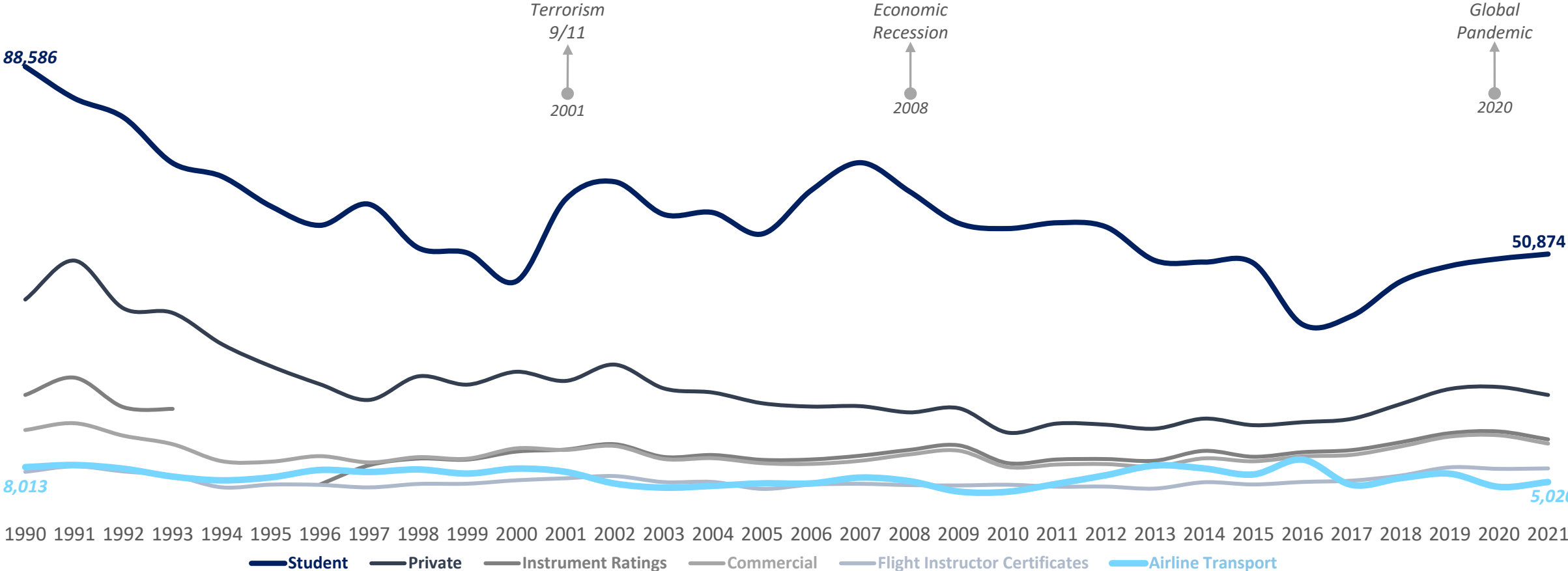
Student Pilots
 1990 – 88,586
 2021 – 50,874
43% reduction

Active Pilots
 1990 – 573,996
 2021 – 470,408
18% reduction

CFI
 2013 – 98,842
 2021 – 121,270
22% increase

Original Airmen Certificates Issued

1990 - 2021



Source: FAA Civil Airman Statistics

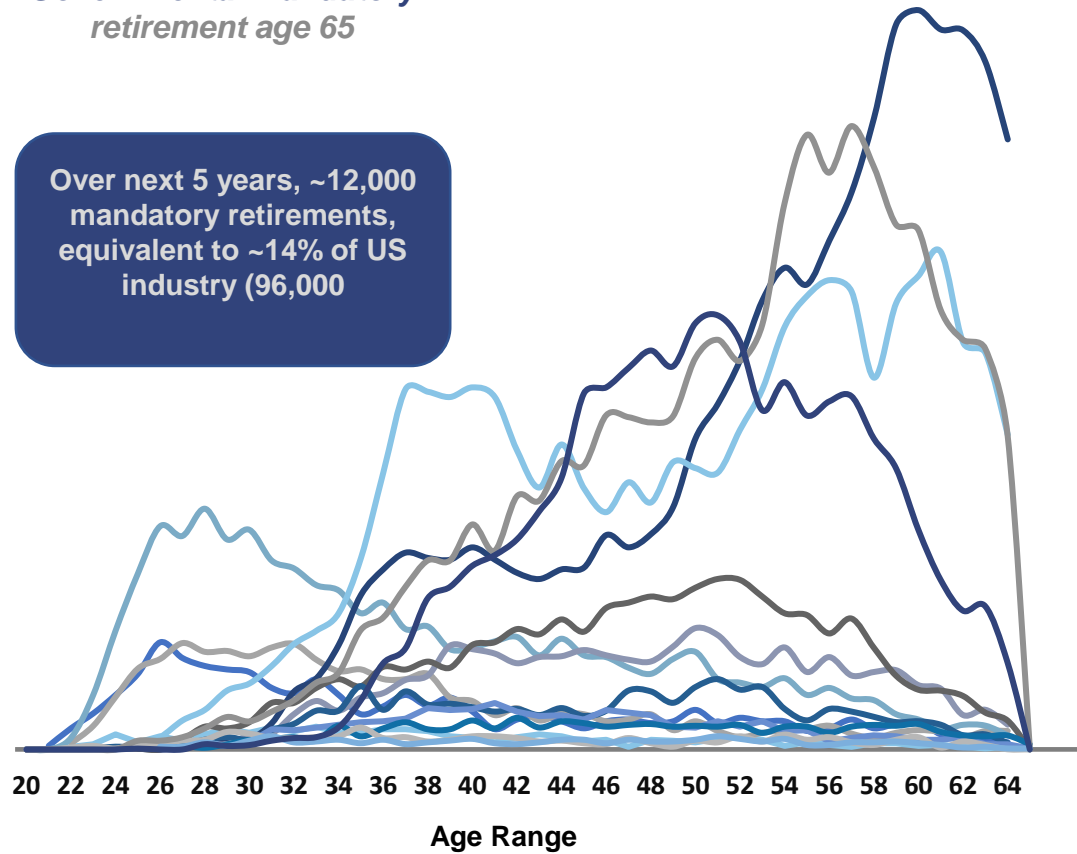
Carriers will see BIG retirements in the coming years

Age Range Distributions

Major & Regional airlines – American, Delta, United, Southwest, Alaska, jetBlue, Frontier, Allegiant, Hawaiian, Sun Country, Endeavor, Gojet, Envoy, SkyWest, Republic

Governmental mandatory retirement age 65

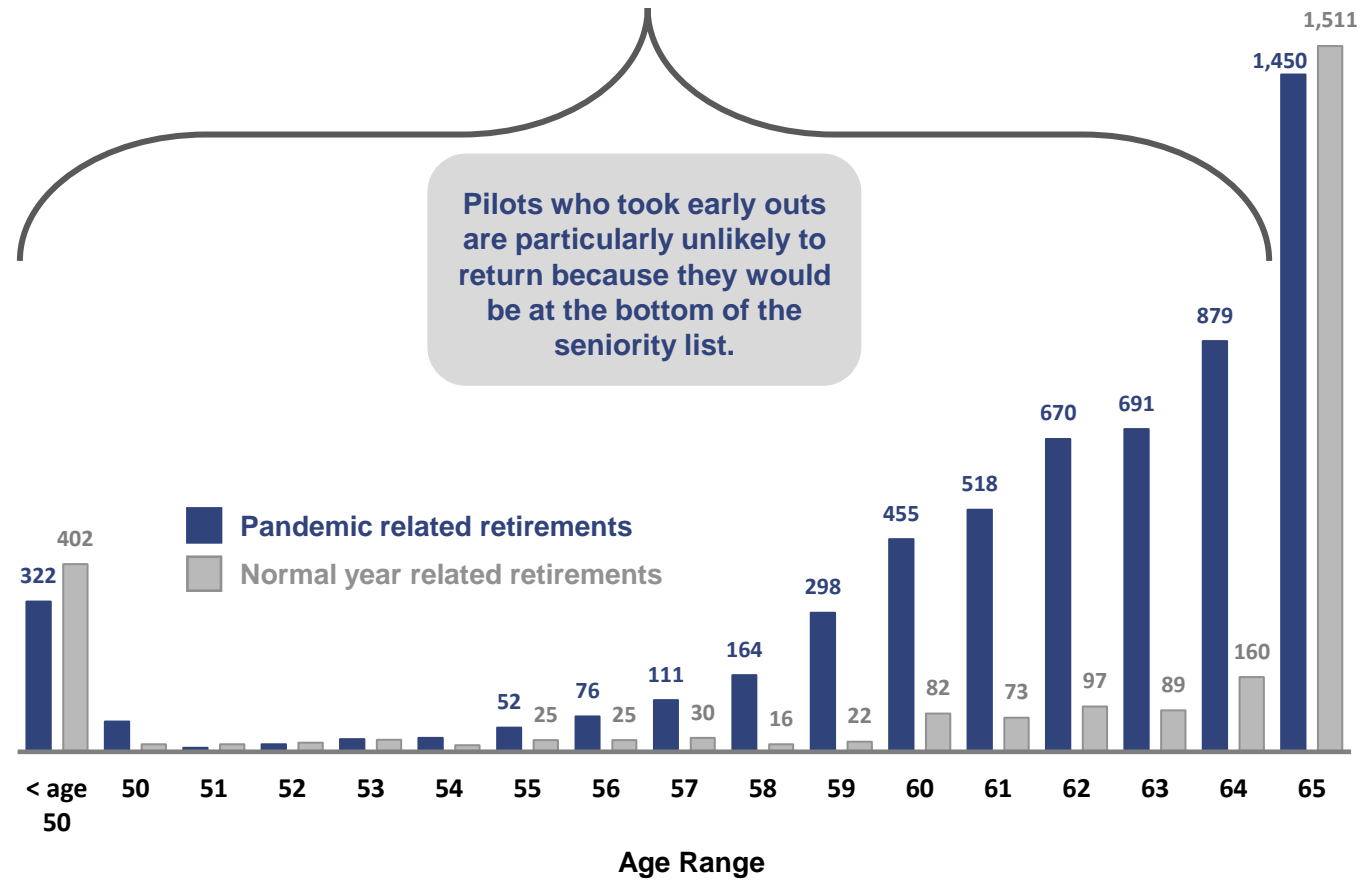
Over next 5 years, ~12,000 mandatory retirements, equivalent to ~14% of US industry (96,000)



Retirements by Age

TTM Aug. 19 vs Jan 20 to May 21

Additional 3,200 Early Retirements



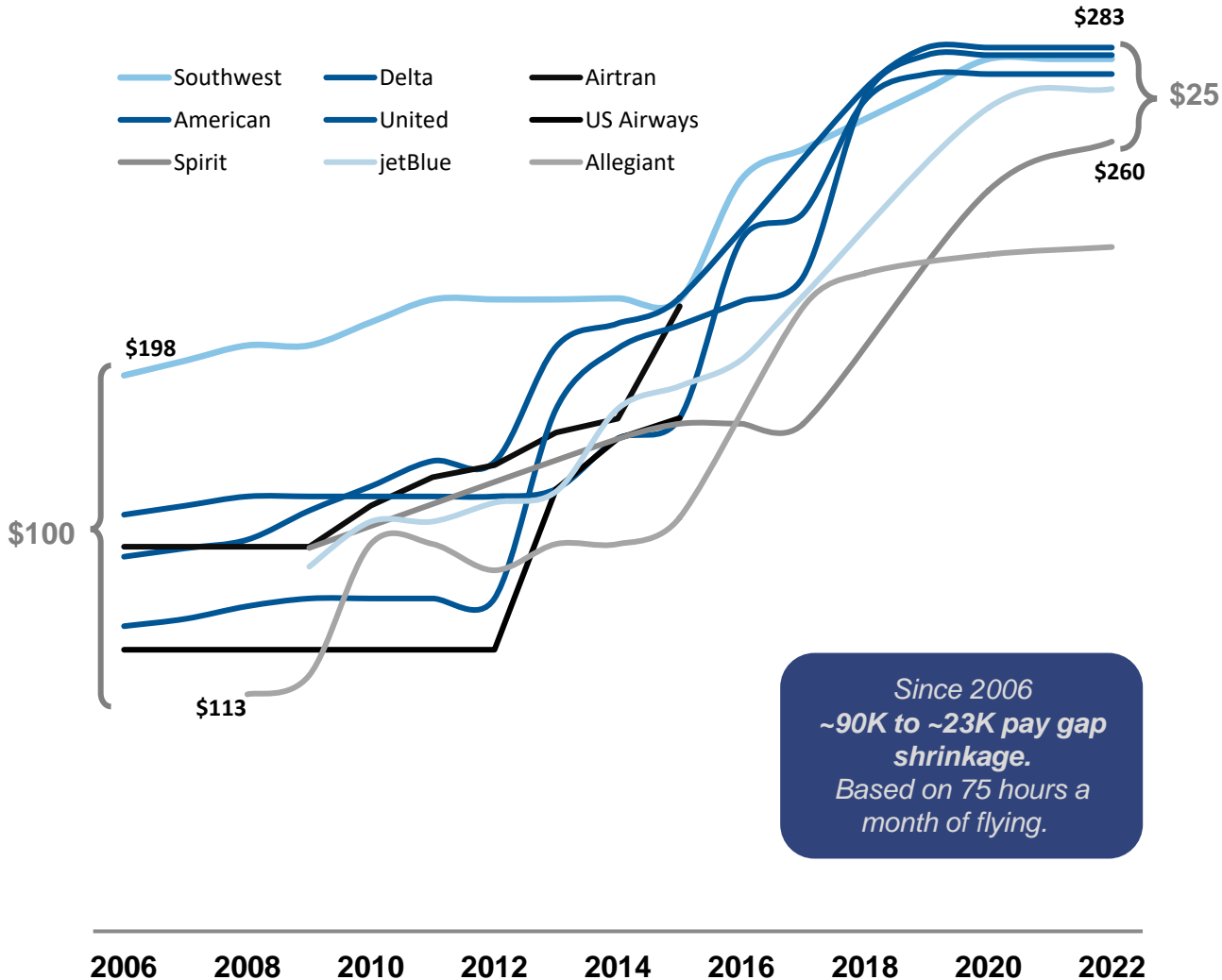
Source: NACU pilot age data. Carriers that provided data included.

Pay bumps not significant to stimulate/retain additional interest

Captain Hourly Pay Trend

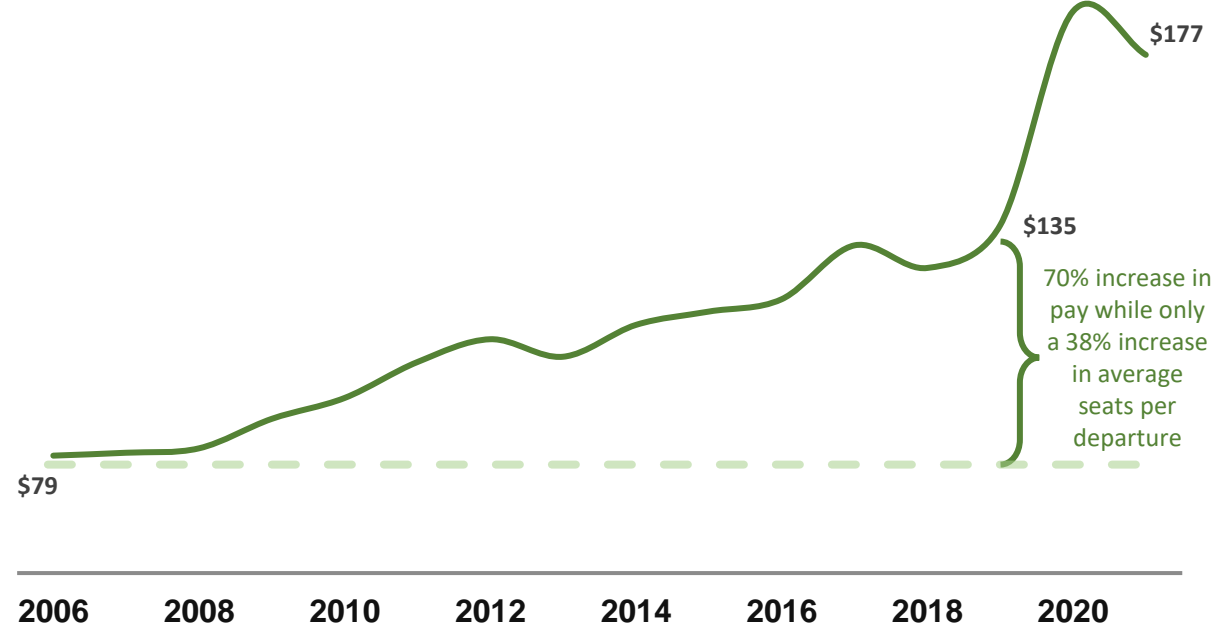
12 Year Rates
2006 - 2022

13 US Major Carriers
8 currently in contract negotiations
\$320 - \$340 ●

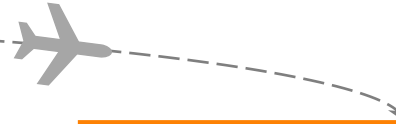


Regional Pay Trend

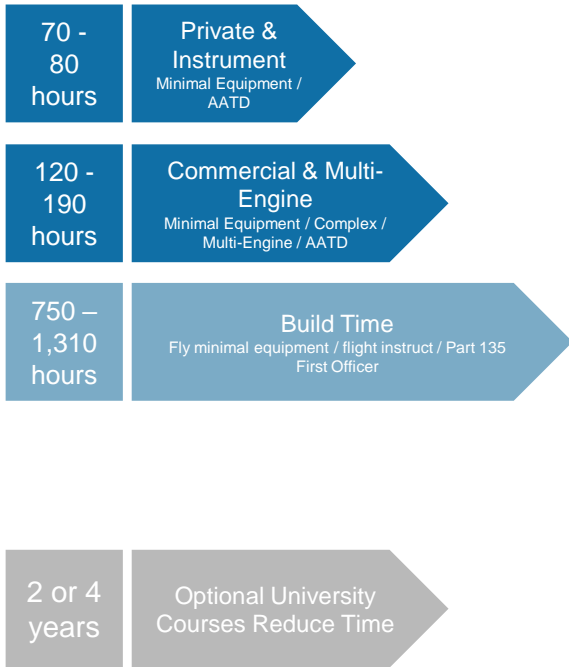
Form 41 Pilot & Co-pilot Salaries per Pilot Block Hour Flown
2006 - 2021



Pathways to pilot career



U.S.A Status Quo (61,141,142)

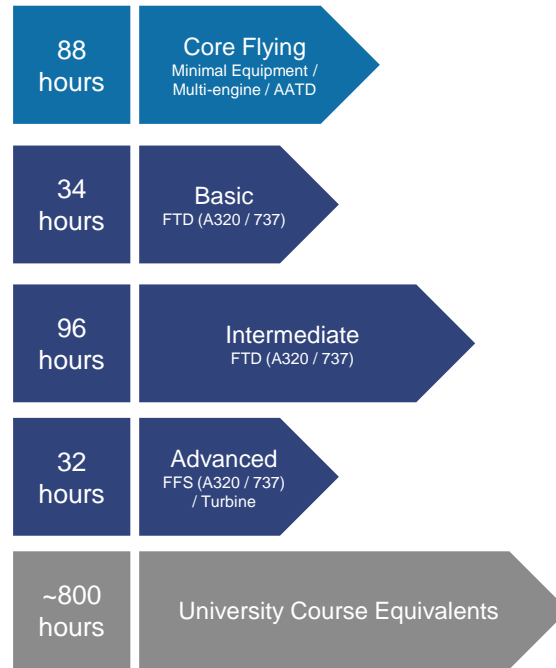


Time to student 1,000 – 1,500 hours / credits

Cost to student \$75k - \$420k

- Requires students to take on large sums of debt or be able to pay significant up-front costs
- Take second jobs while building time to 1,500 hours
- Risk – financial & time
- No straight pathways

MPL Program (Most others)

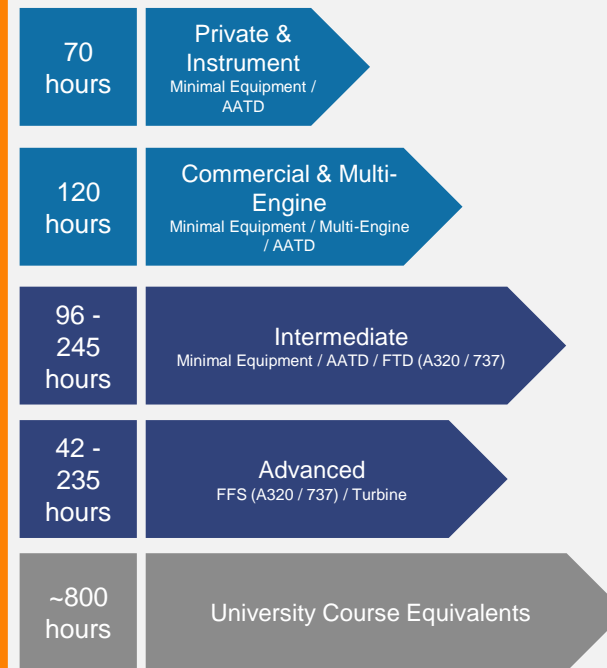


Time to student 252 hours / 476 credits

Cost to student \$0*

- \$75k - \$110k but guaranteed job with earnout
- Significant amount of flight instruction time
- Provides significant experience in actual airline operations beyond what you get in existing US programs

Carrier Extension Training Program New Proposed Pathway



Time to student 398-740 hours / 726-1498 credits

Cost to student \$0*

- Airline takes on the cost of training with employment opportunities afterwards to “repay the debt”
- Less focus on financials and more on high quality training & learning
- Helps de-risk career path
- Produces safer pilots

Learning Blocks

- ▶ Core Flying
 - ▶ Time Building
 - ▶ Specialized Jet Airline Training
 - ▶ Knowledge Building
- Not relative hours/sizes between programs*

Takeaway: We believe our approach will provide both safety and opportunity for Pilots and Airlines.

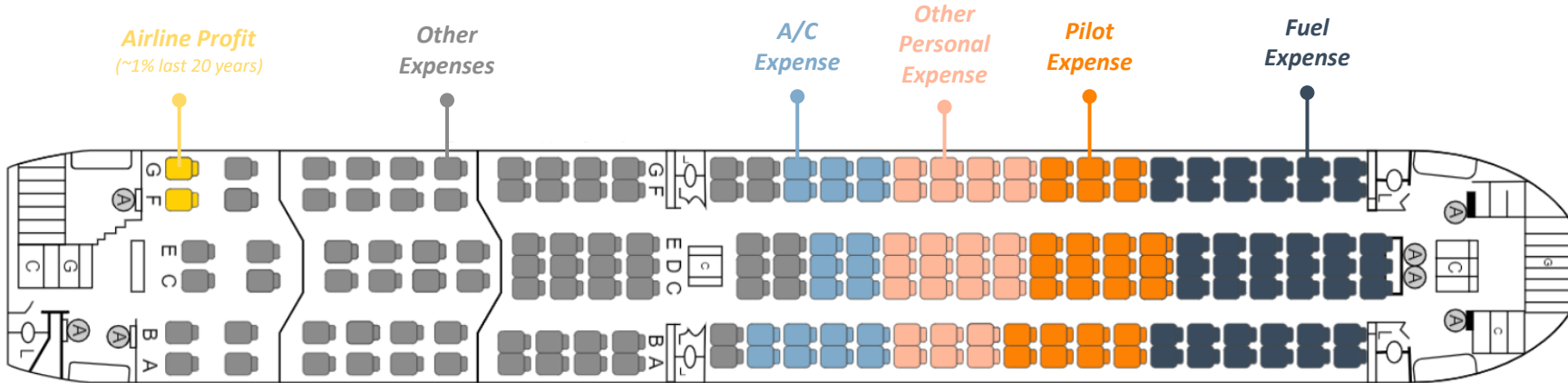
Even as evident in the Latest Top Gun movie VR is heavily used to train the best of the best.

Policymakers should also provide financial incentives to encourage more Americans to pursue careers as pilots

“Do no harm” – airlines barely profitable, highly taxed, and regulated

Airline Expense & Profits

2003 - 2022



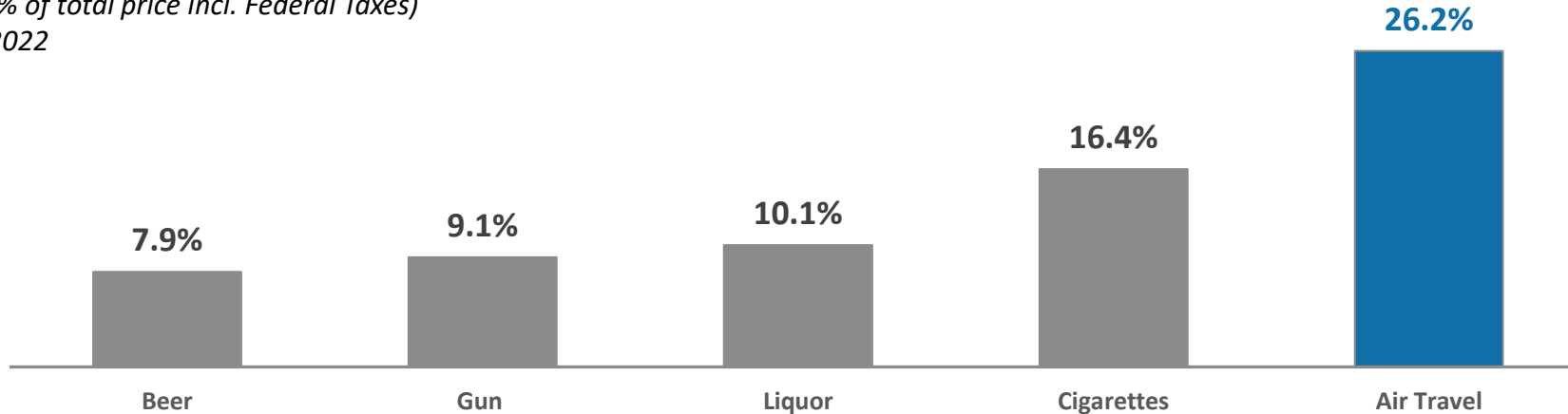
183 seat A/C equates to

- 67 seats of Other expenses
- 42 seats of Fuel Expense
- 26 seats of Pilot Expense
- 26 seats of Other Personal Expense
- 20 seats of A/C Expenses
- 2 seats of Profit
(~1% avg. profit margins over last 20 years)

Effective Federal Excise Tax Rate “sin tax”

(% of total price incl. Federal Taxes)

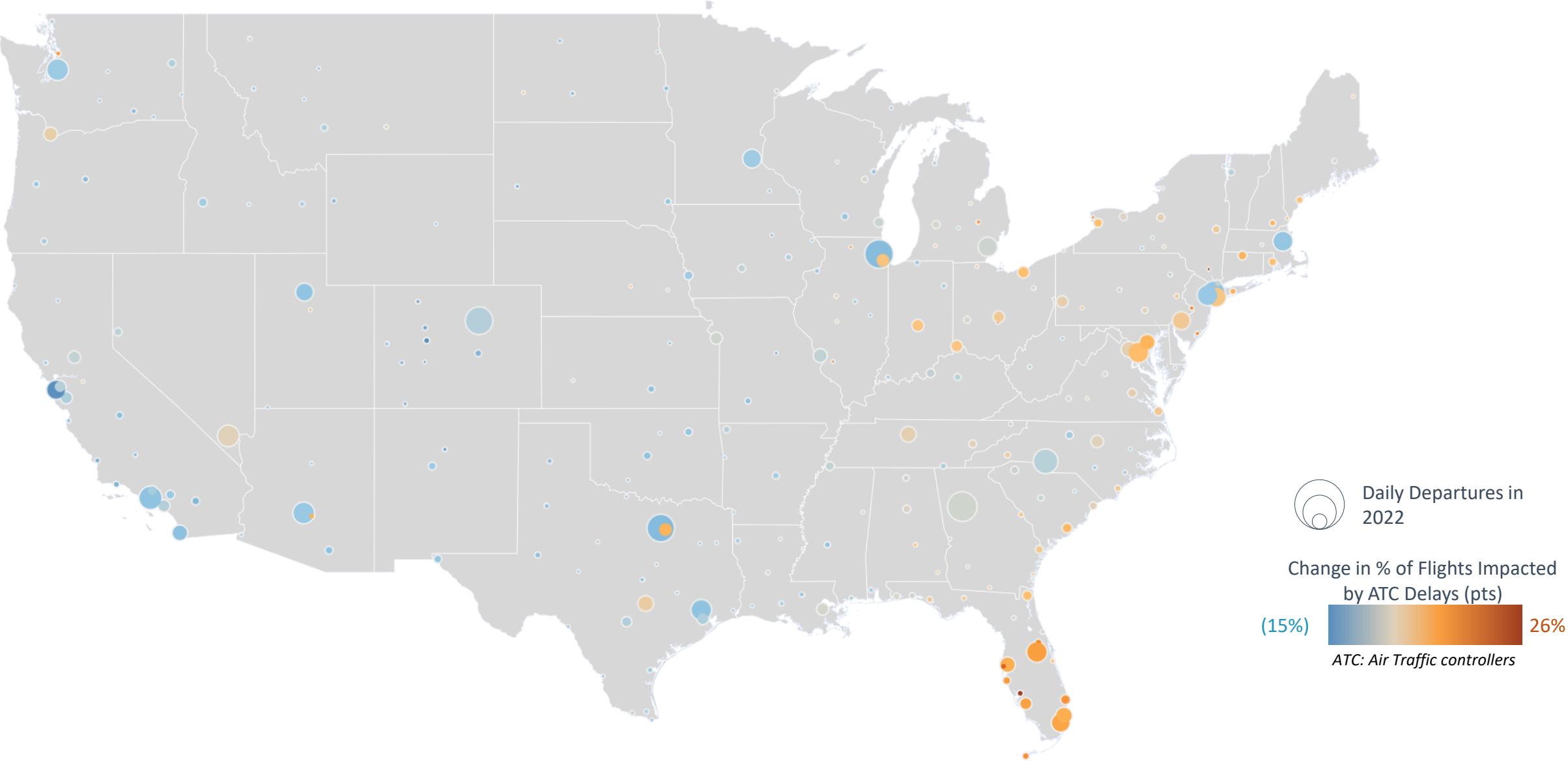
2022



Notes

- Beer: 12-pack of Bud Light costing \$10.49 taxed at \$0.05 per can
- Pistols and Revolvers: Federal rate is 10 percent of pre-tax sale price
- Distilled Spirits: 750ml 80 proof of Tito's Vodka costing \$18.99 taxed at \$2.14
- Cigarettes: Pack of 20 small cigarettes costing \$5.15 before federal excise taxes of \$1.01
- Air Travel: \$52 domestic round trip with one stop each way involving airports levying a passenger facility charge of \$4.50 per segment

Florida & the Midwest severely impacted by ATC staffing



Source: DOT On-Time Performance (Jan – May 2022 vs Jan – May 2019)

Takeaway: While ATC issues have improved on the West Coast, the Midwest, Northeast, and Florida have been severely impacted



Thank You. Questions?

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