



Post September 11th

Outlook for the Regional Airline Industry

Presented by:

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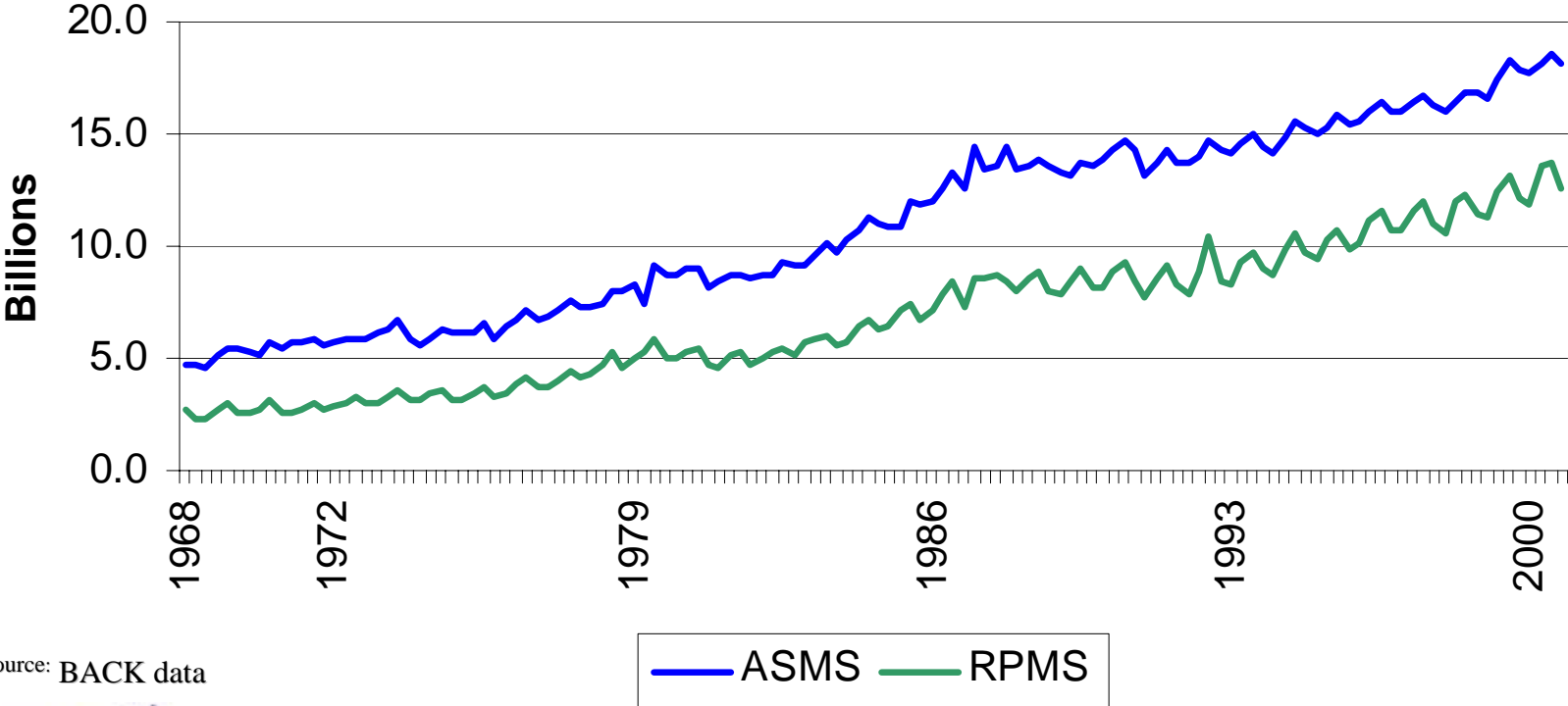
Solutions for the Aviation Industry

Overview ..

- **Business Cycle**
- **Capacity Changes**
- **Fleet Analysis**
- **Route Changes**
- **Outlook for the Rest of Today**

The airline industry is cyclical and highly seasonal

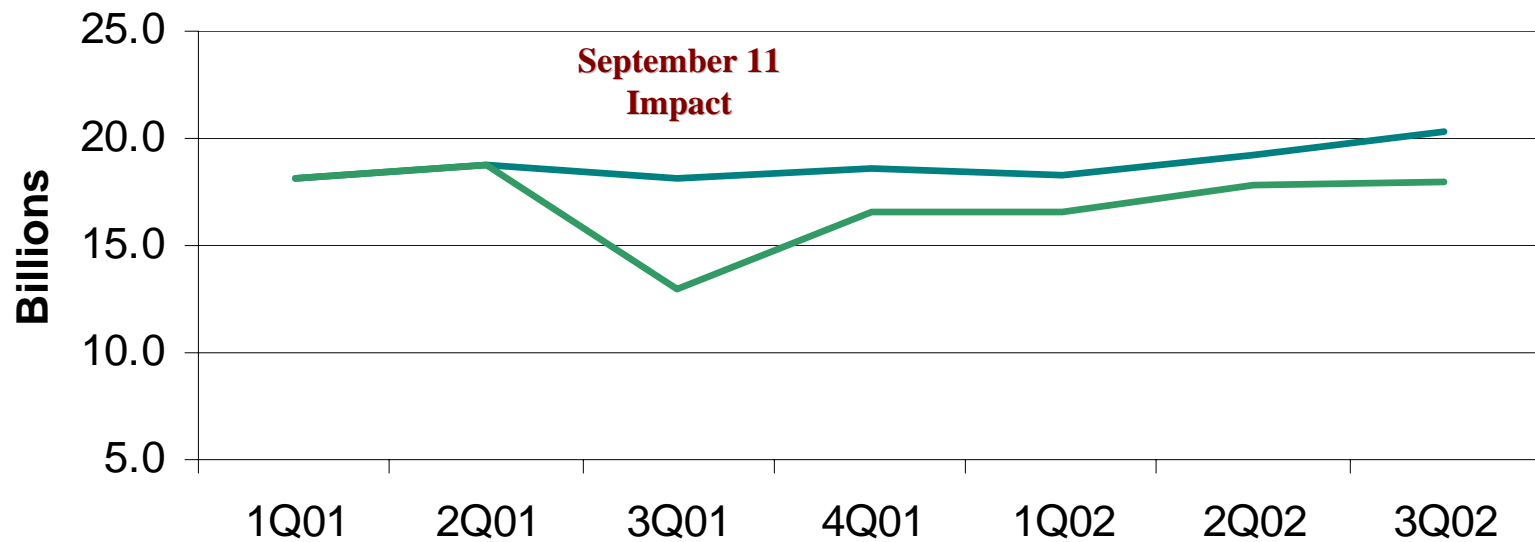
U.S. Domestic Airline Trends 1968-2000



Source: BACK data

The industry is beginning to return to “normal” capacity levels for a recession

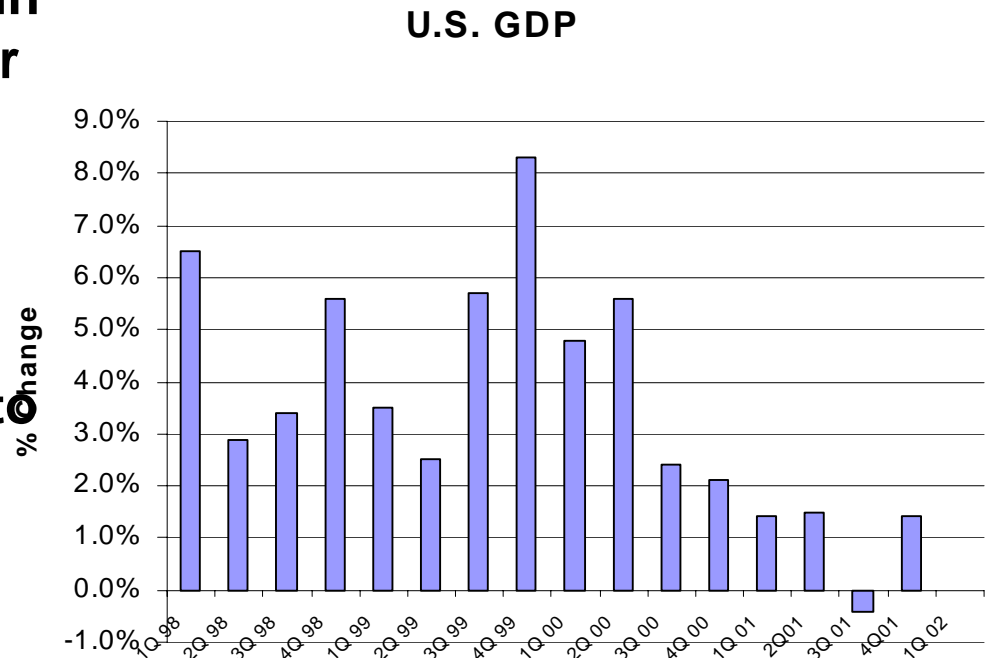
U.S. Domestic Airlines Actual Versus Projected ASMs



Source: BACK data

The US economy entered a recession in March 2001 – well before September 11

- U.S. GDP dropped $-.4\%$ in 3Q followed by a meager 1.4% growth in 4Q
- For 2001, the U.S. GDP growth was 1.2% , the worst since 1991
- Greenspan sees return to growth in mid-2002

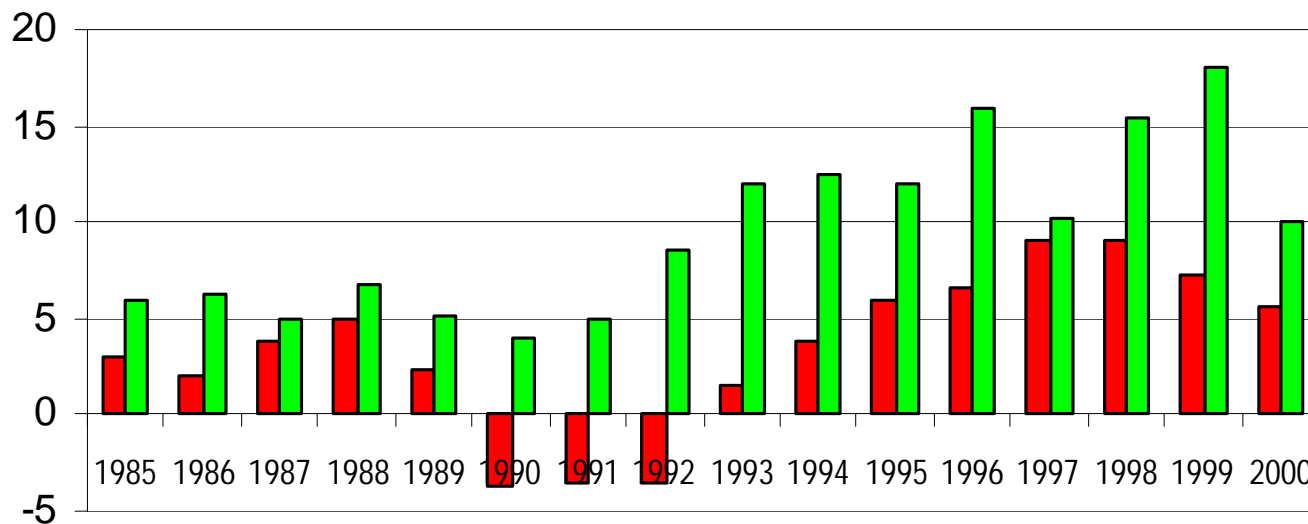


Source: BACK data

Regional airlines have historically performed well in recessions –

in the early 1990s regionals maintained profitability while the mainline carriers faced three years of losses

U.S. Airline Operating Profit Margins



Source: BACK data

■ Majors ■ Regionals

Regional airlines' profitability is attributable to ...

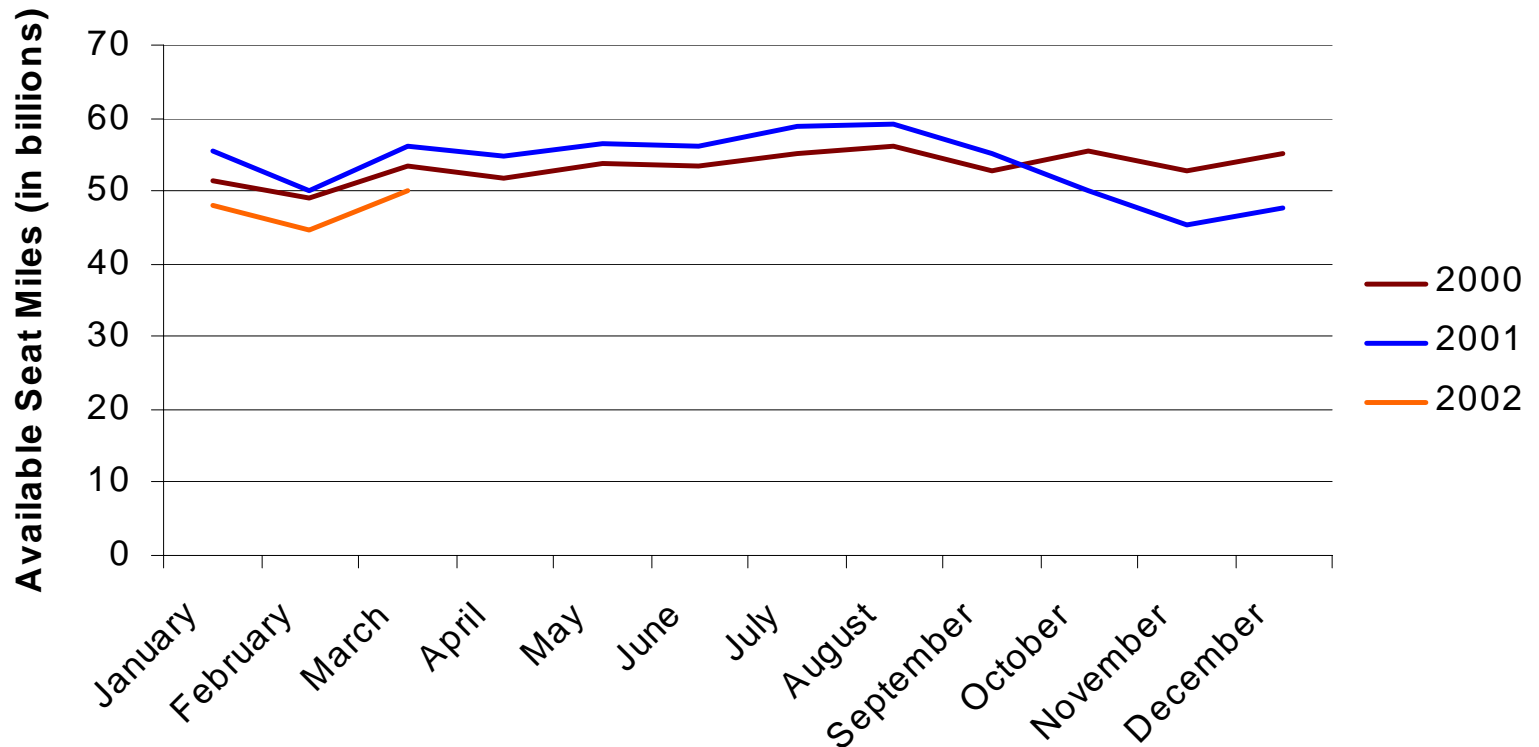
- **Route transfers from mainline carriers**
- **In this recession, fixed fee contracts**
 - **Under these agreements, mainline carriers buy all of a regional airlines' flights for a fixed price**
 - **Mainline carrier sets fares and routes**
 - **Essentially these are cost-plus agreements with additional incentives for performance**
 - **Neutralize the impact of fuel prices, fares, and passenger volumes**

Some have expressed concern that mainline carriers will want to renegotiate fixed fees

- **Unlikely, because the mainline carrier demand for regional jets exceeds the supply**
- **Reducing the profit margin of the regional partners will increase the lease costs for regional jets**
 - **Thus increasing the cost to the mainline carriers**

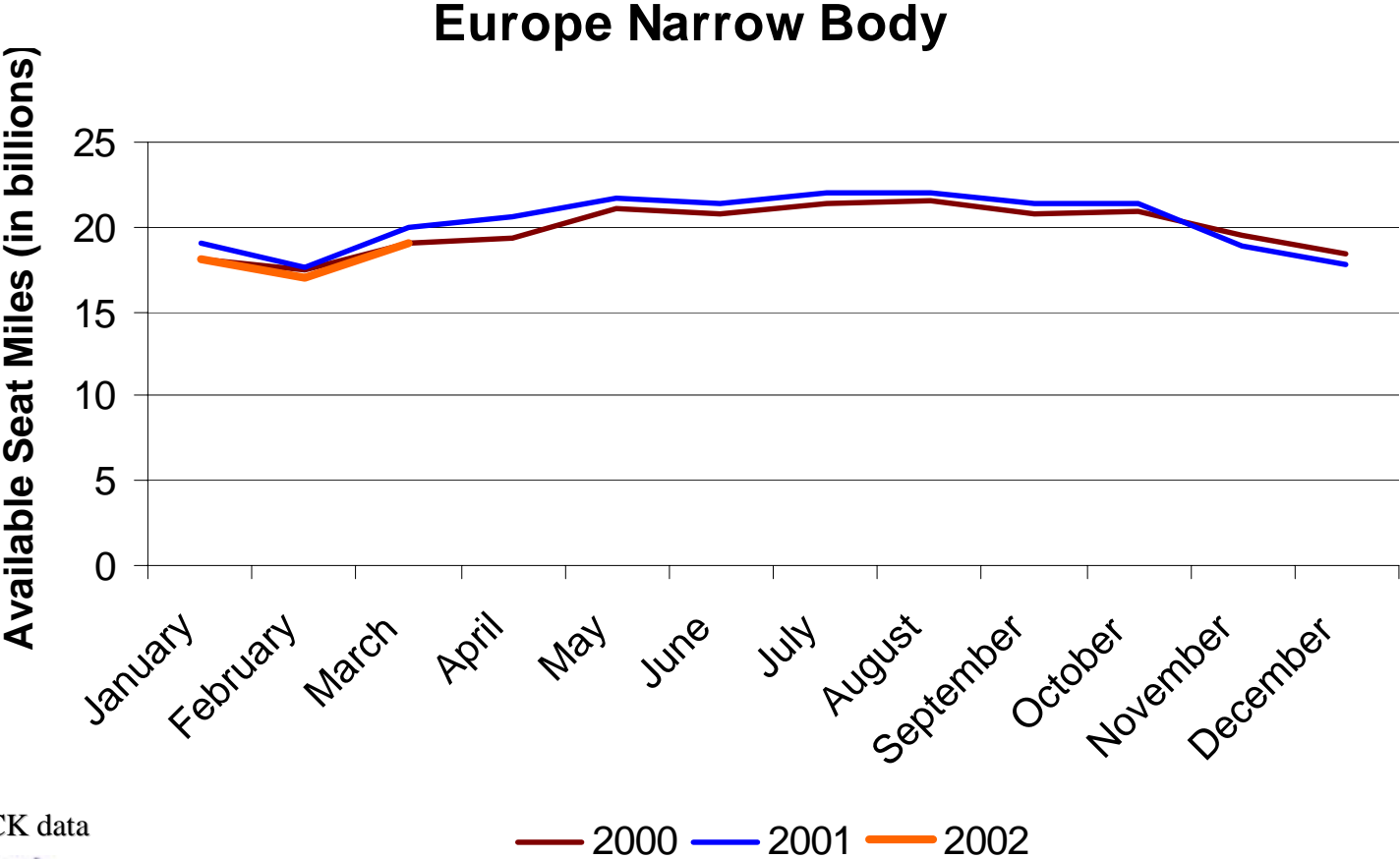
The U.S. airline have continued to reduce capacity in 2002

U.S. Narrow Body Aircraft



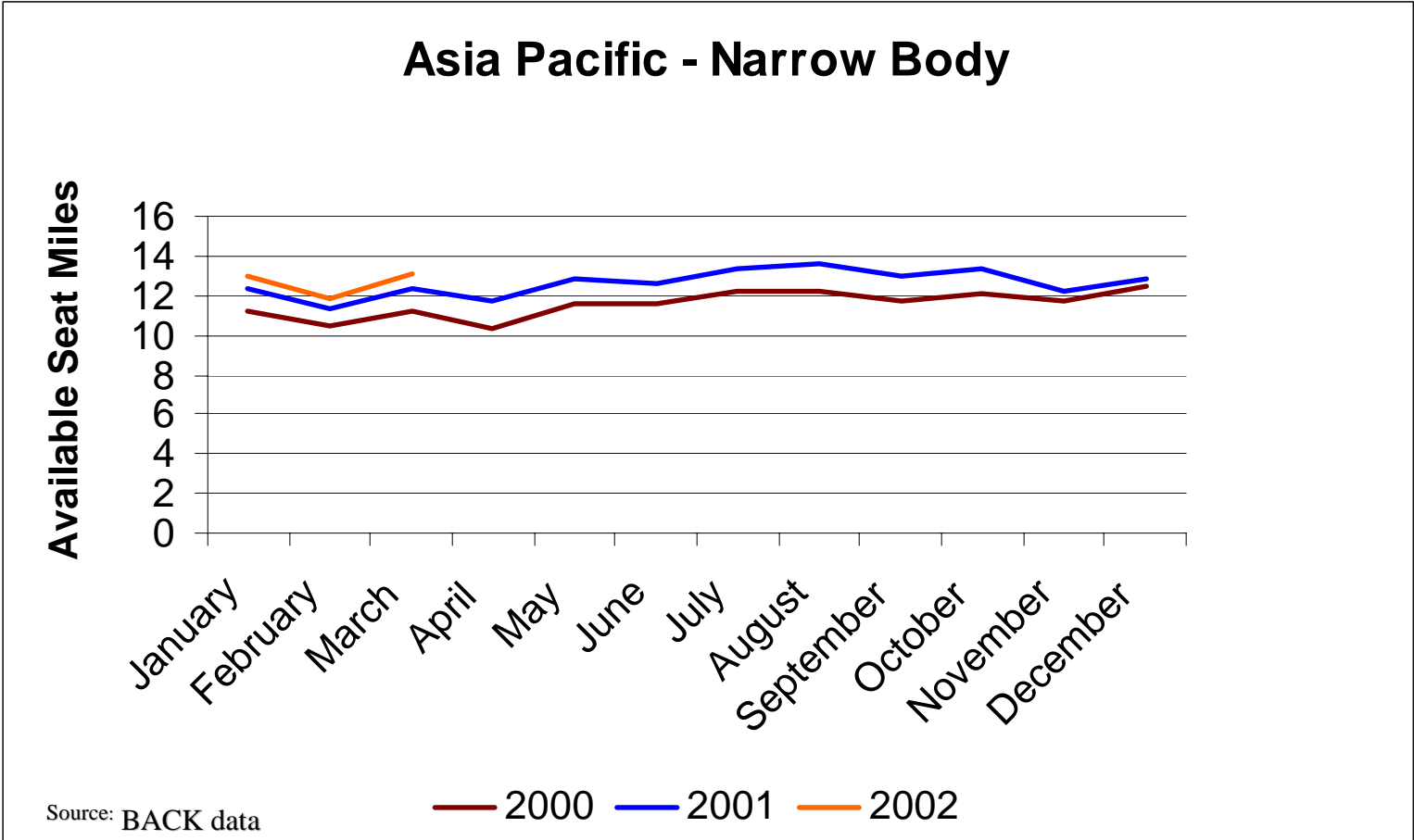
Source: BACK data

European mainline carriers have had very little change in capacity

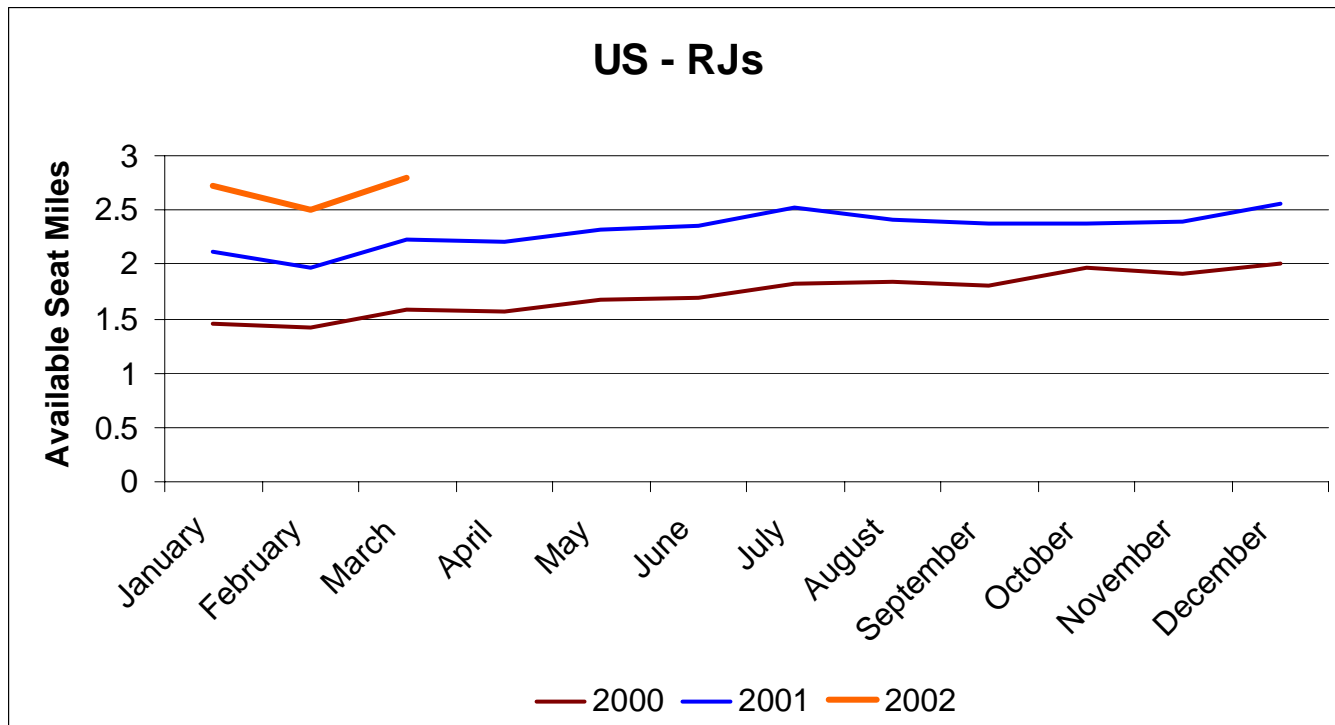


Source: BACK data

Asia Pacific mainline carriers have continued to grow

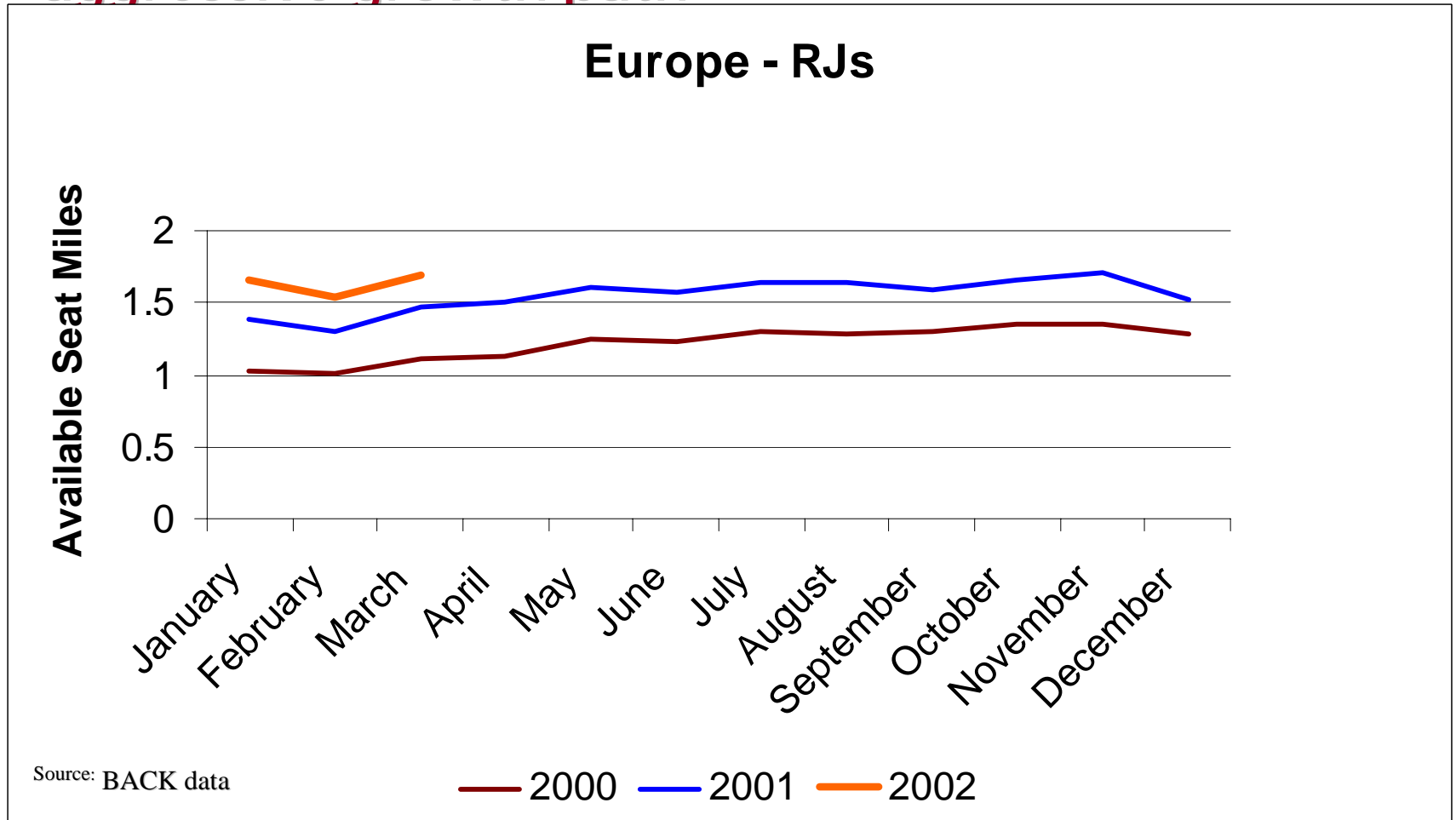


U.S. regional jets have picked up the capacity from the narrow-body aircraft and have continued on an aggressive growth path

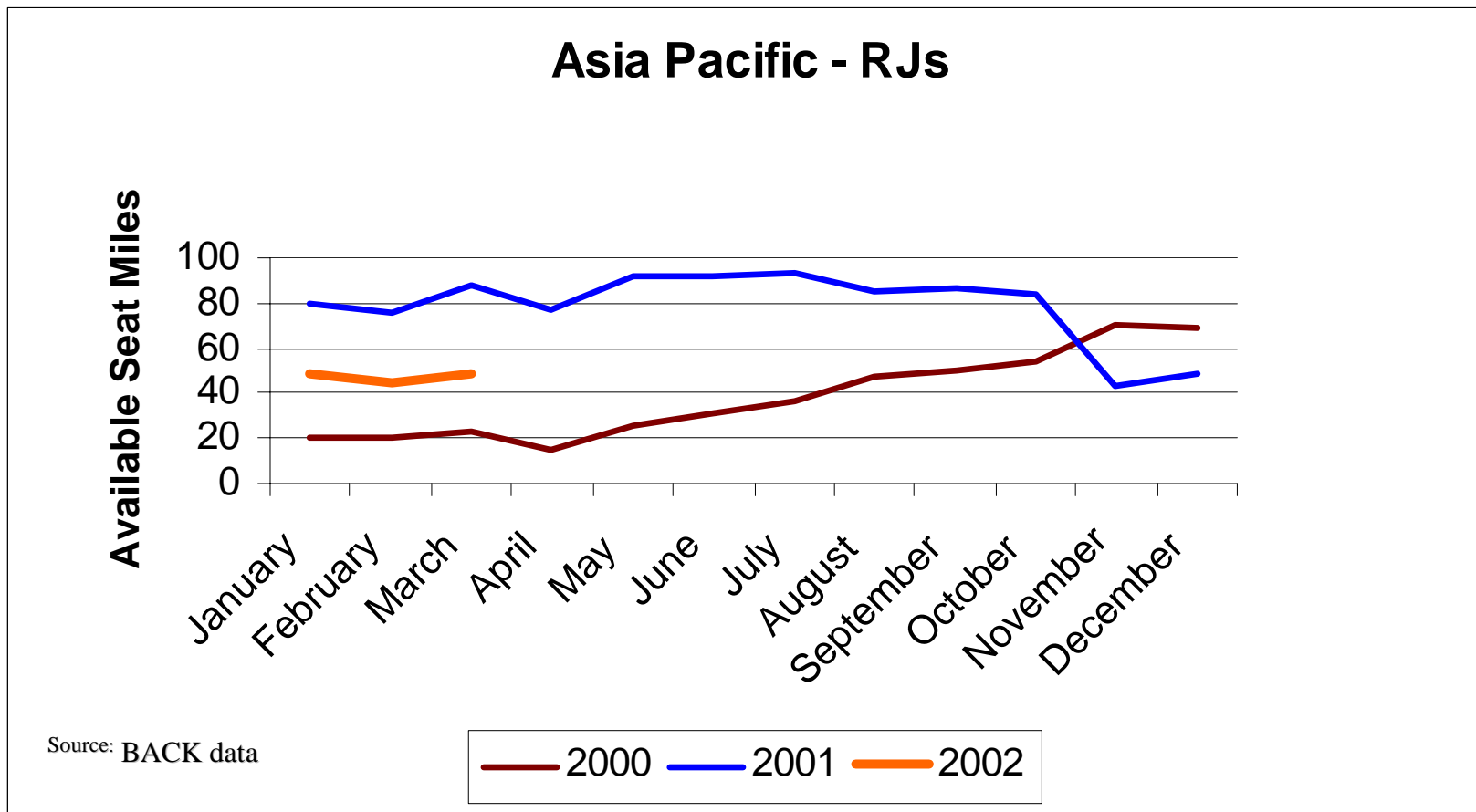


Source: BACK data

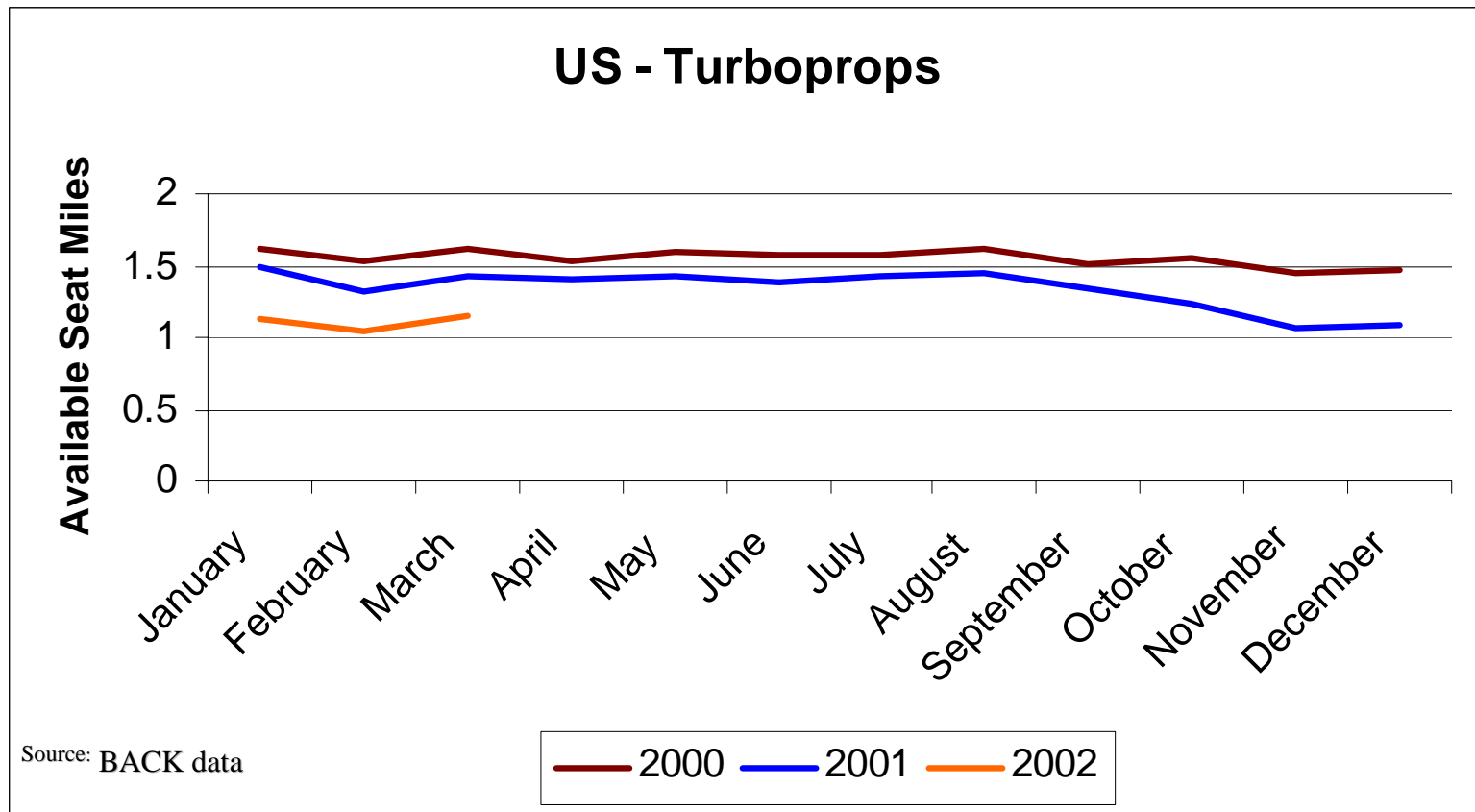
European regional jets have also continue on an aggressive growth path



Regional jets in Asia Pacific are still developing route systems and have had mixed results



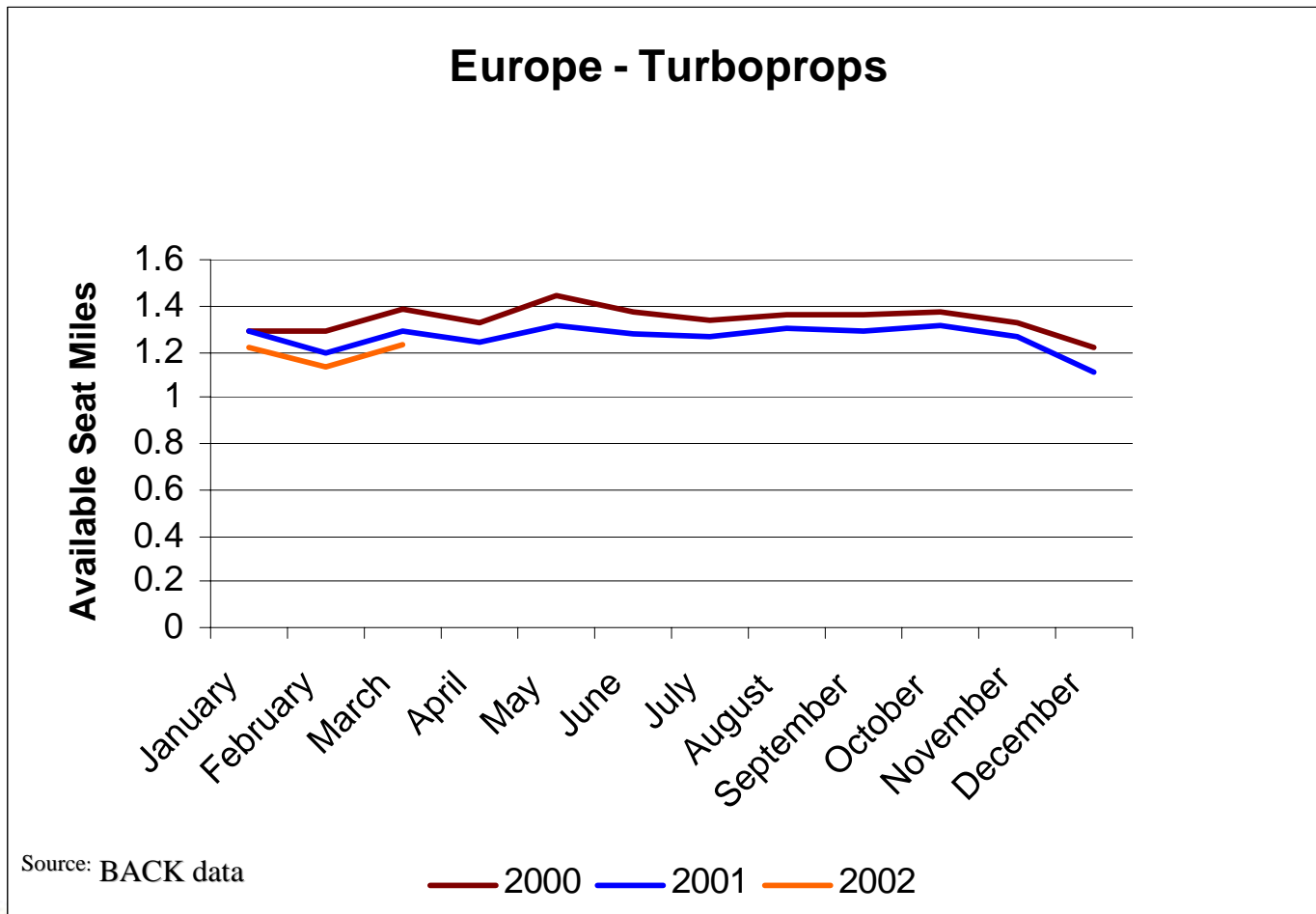
U.S. turboprops have not recovered capacity



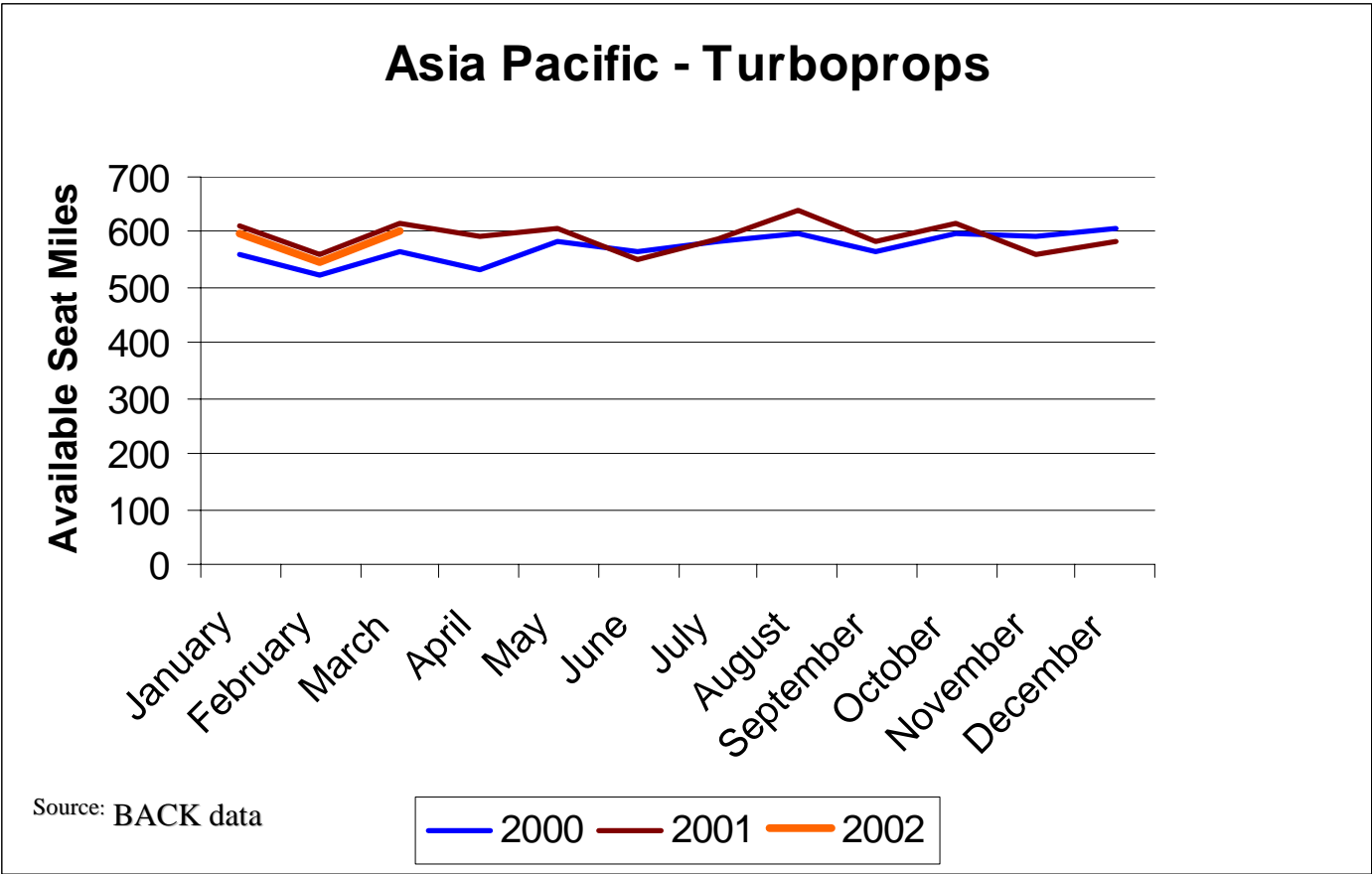
Turboprops are being impacted by scope clauses

- **Mainline carriers are parking turboprops to be able to operate more regional jets**
 - **AA parks 3 turboprops for every new RJ**
 - **United parks 1 turboprop for every new RJ**

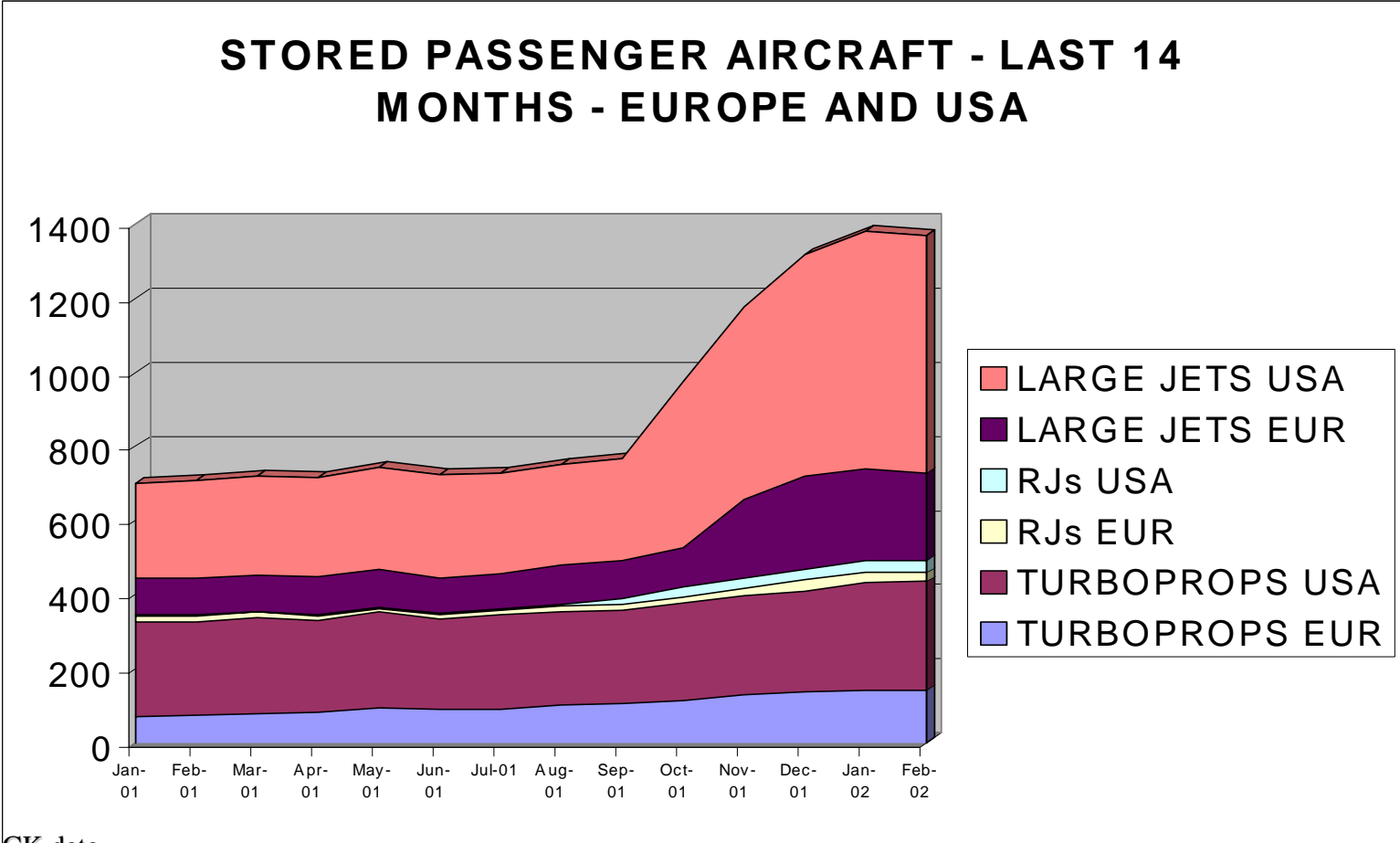
Turboprops have been less impacted in Europe, but are declining in capacity



Asia Pacific continues to maintain about the same level of turboprop capacity

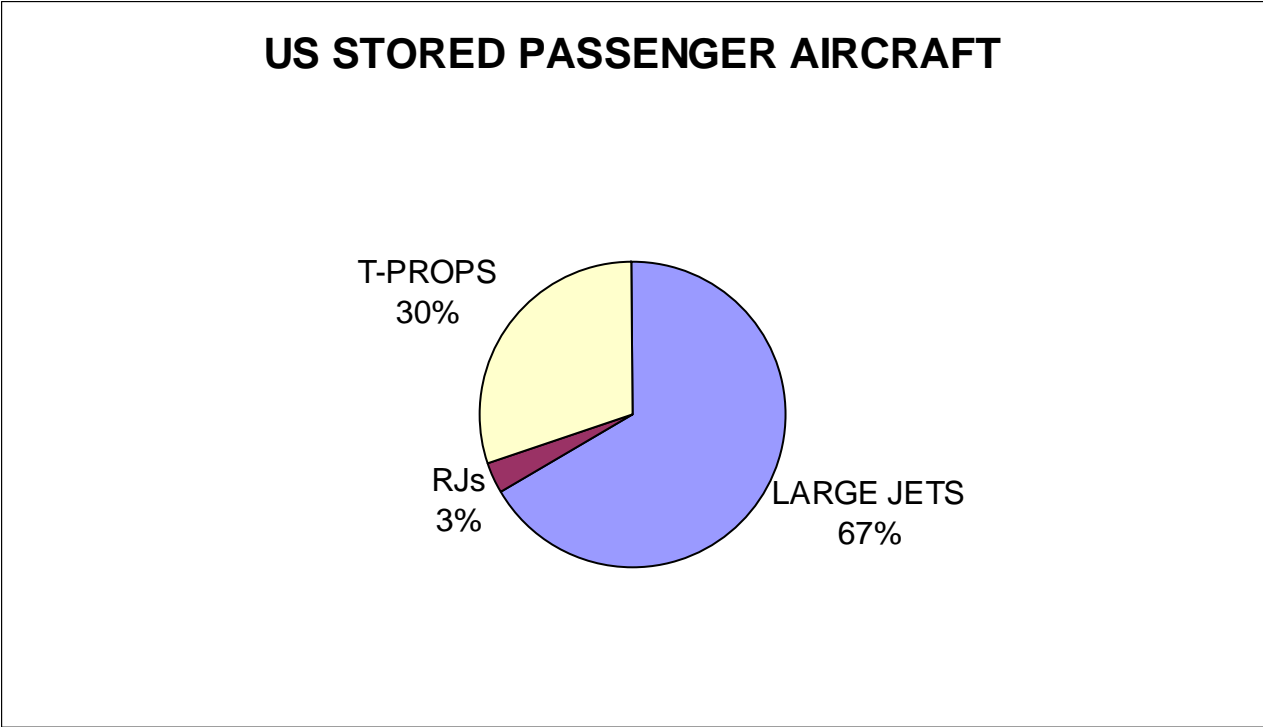


The narrow-body aircraft account for the spike in parked aircraft



Source: BACK data

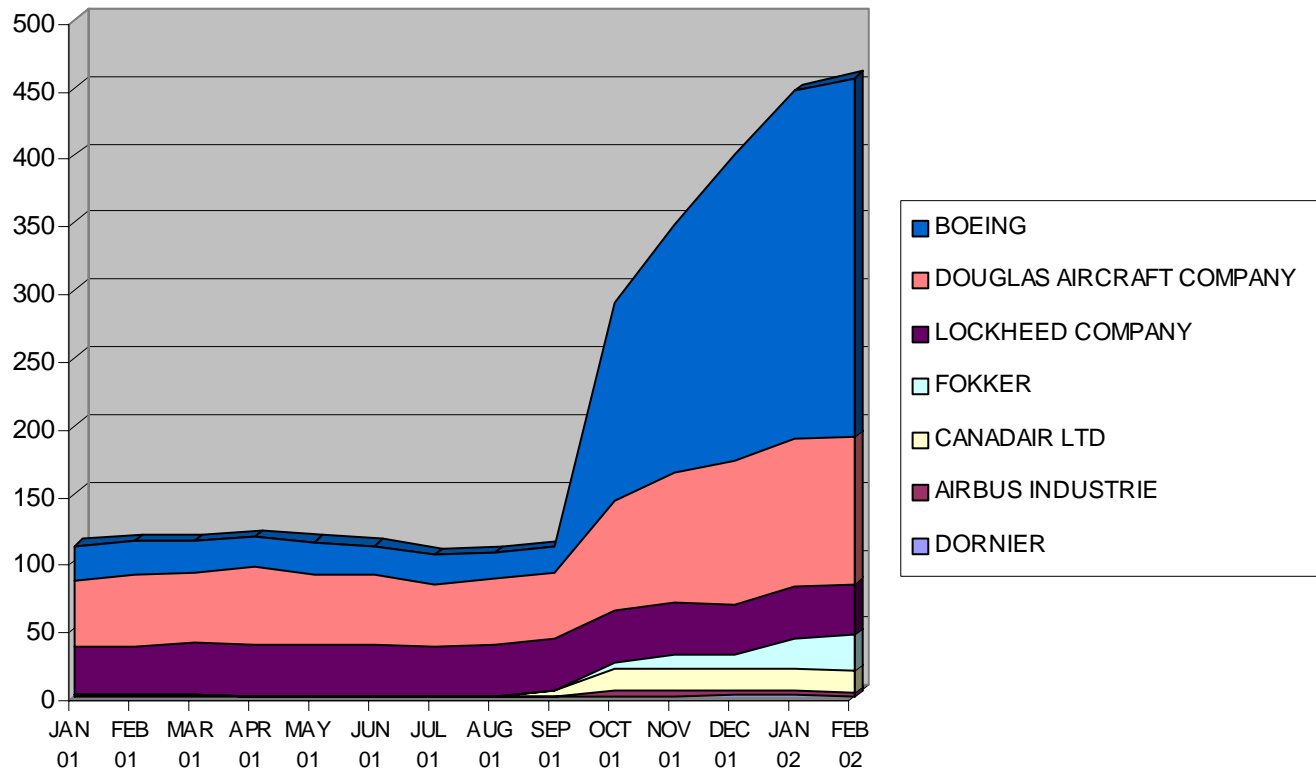
For the first time parked aircraft exceed 1000 in the U.S.



Source: BACK data

Boeing has the largest number of parked aircraft in the U.S.

USA Stored JETs by Manufacturer



Source: BACK data

All these parked aircraft have lead to major route restructuring by mainline carriers

Changes In U.S. Routes Served

	Added	Dropped	Transferred
American Airlines	28	78	3
Conitental Airlines	11	81	15
Delta Air Lines	26	62	22
Northwest Airlines	19	26	15
United Airlines	17	70	25
US Airways	24	100	37
Total	125	417	117

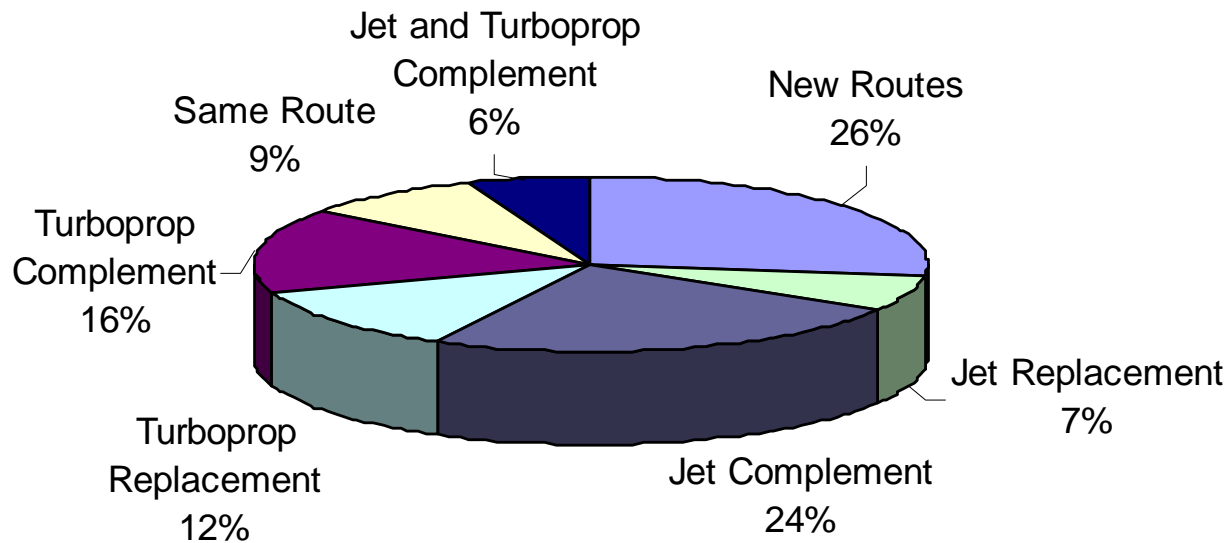
January 2001 versus January 2002

Note:TWA data was taken into account with American Airlines data

Source: BACK data

Regional jets are moving into mainline markets

Regional Jets Development Since April 1998



Source: BACK data

While turboprop markets are being dropped

Markets With Service in 1998, but Not in 2001

<u>Carrier</u>	<u>Big Jet</u>	<u>Turboprop</u>	<u>Total</u>
American	11	37	48
Continental	12	46	58
Delta	68	67	135
Northwest	22	72	94
United	21	150	171
<u>US Airways</u>	<u>16</u>	<u>205</u>	<u>221</u>
Total Discontinued Service	150	577	727

Source: BACK data

So it is against this background that today as your moderator today we will ...

- **Analyze residual values of the new 70 seat regional jets and view their market strengths**
- **Assess the market for turboprops under 29 seats**
- **Discuss remarketing turboprops**
- **Look at values for regional jets**
- **Discuss freighter conversions of older generation turboprops**
- **Debate the benefits of in-house versus outsourcing of regional aircraft maintenance**

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