



# The wide spread of financial performance

WFS Summit  
13<sup>th</sup> September 2015

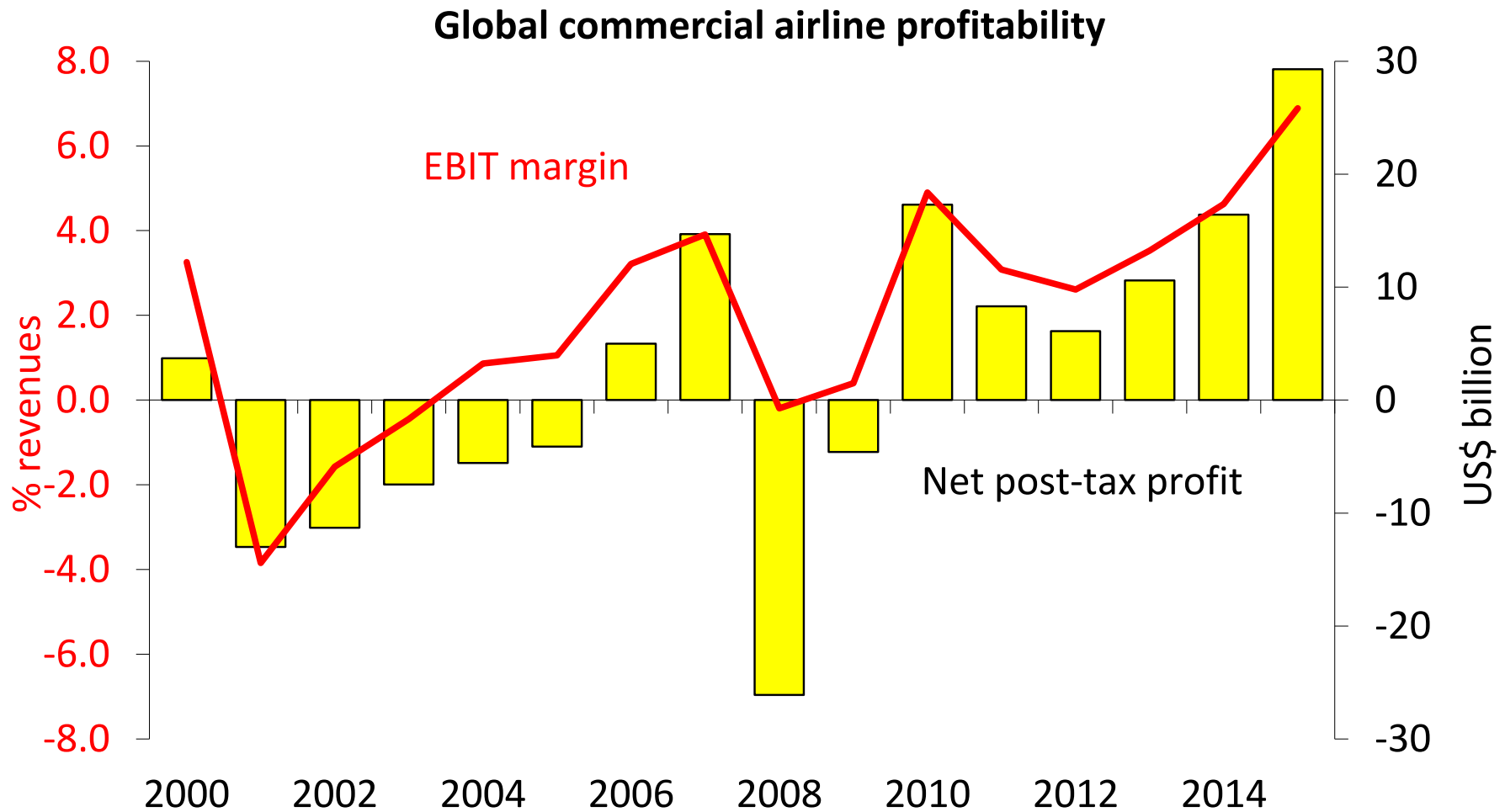
Brian Pearce, Chief Economist

[www.iata.org/economics](http://www.iata.org/economics)

To represent, lead and serve the airline industry



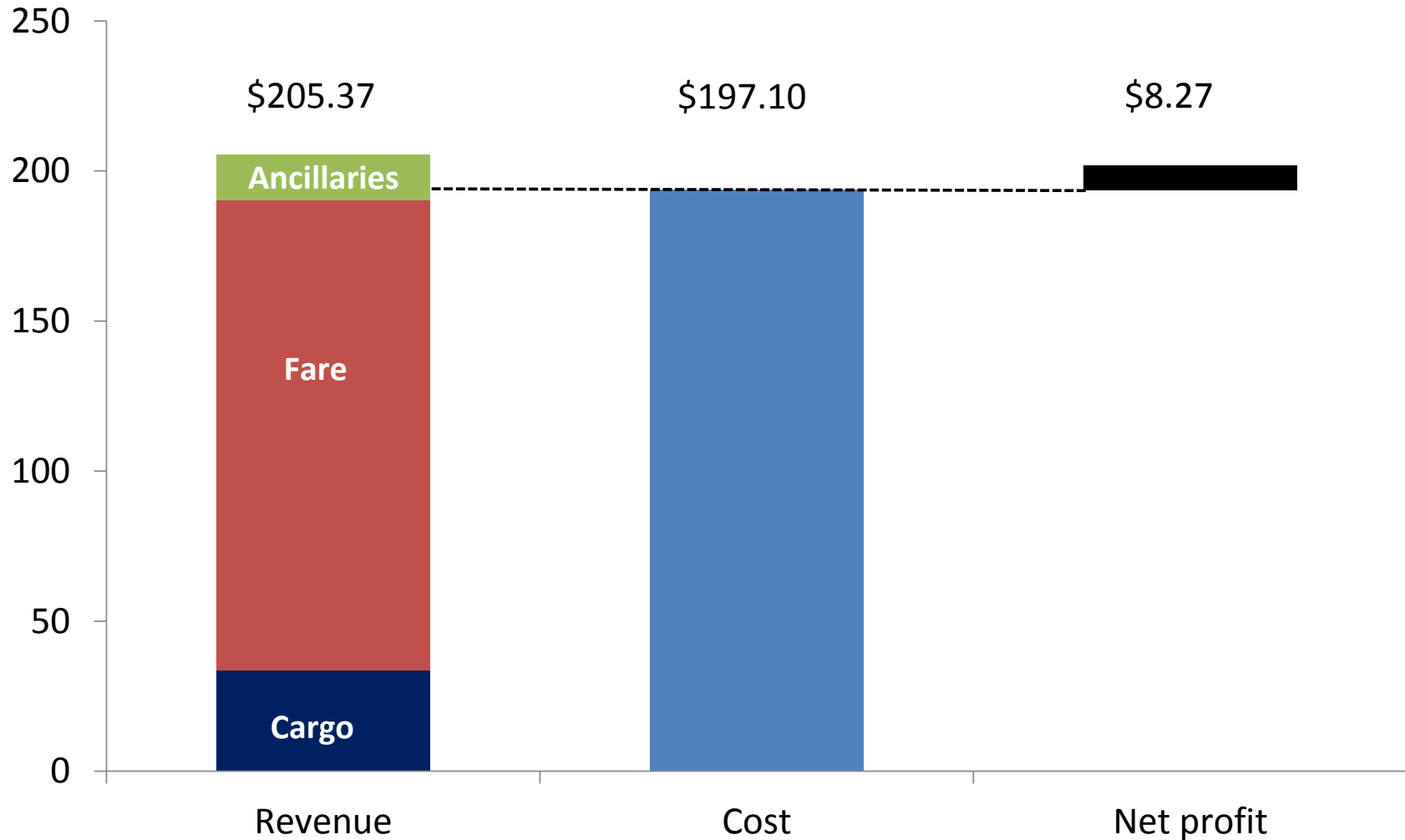
# 2015 should see record profits for the industry



Source: ICAO, IATA

# Though that's still only \$8.27 per passenger

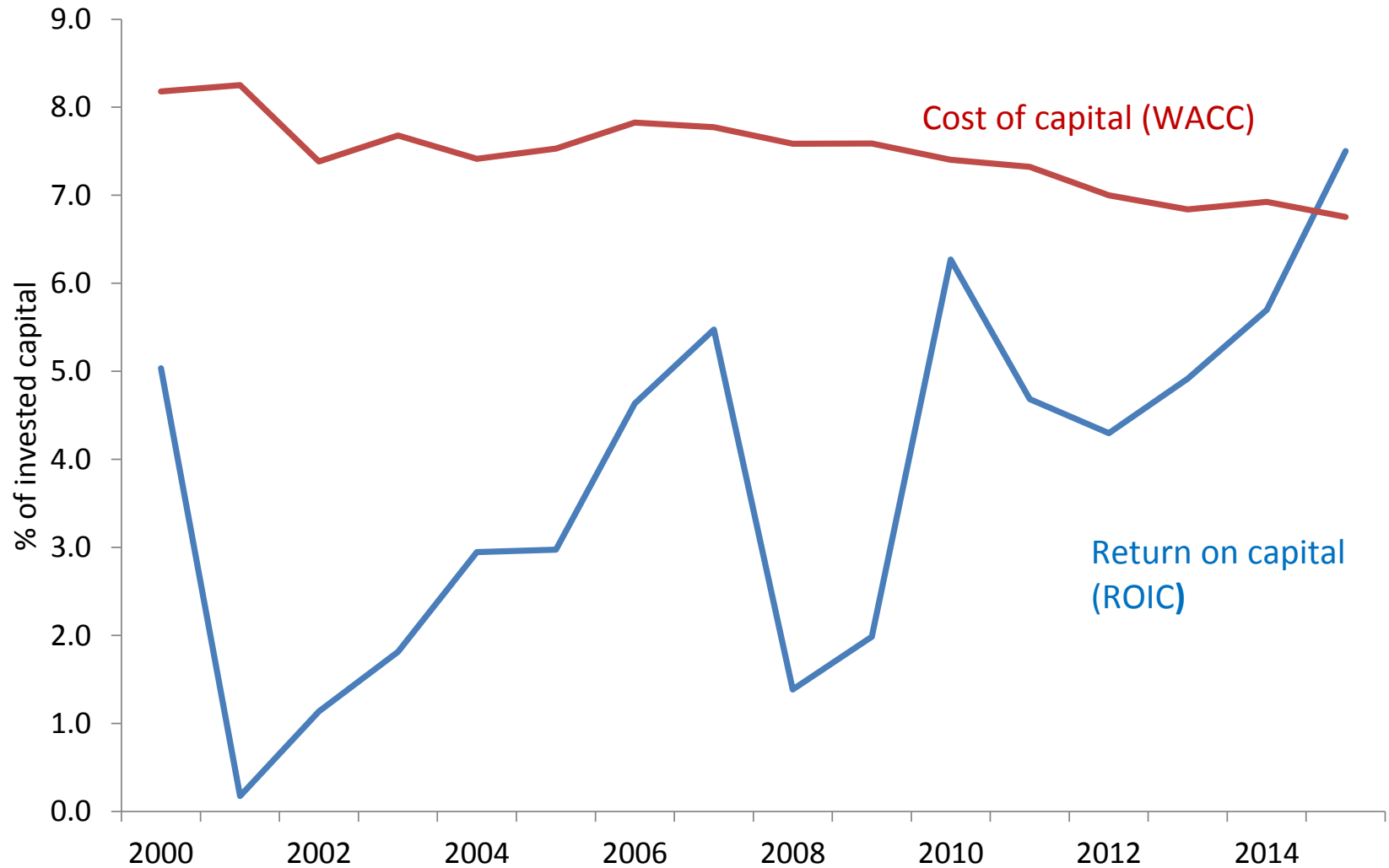
Worldwide airline net post-tax profit per departing passenger, 2015



Source: IATA

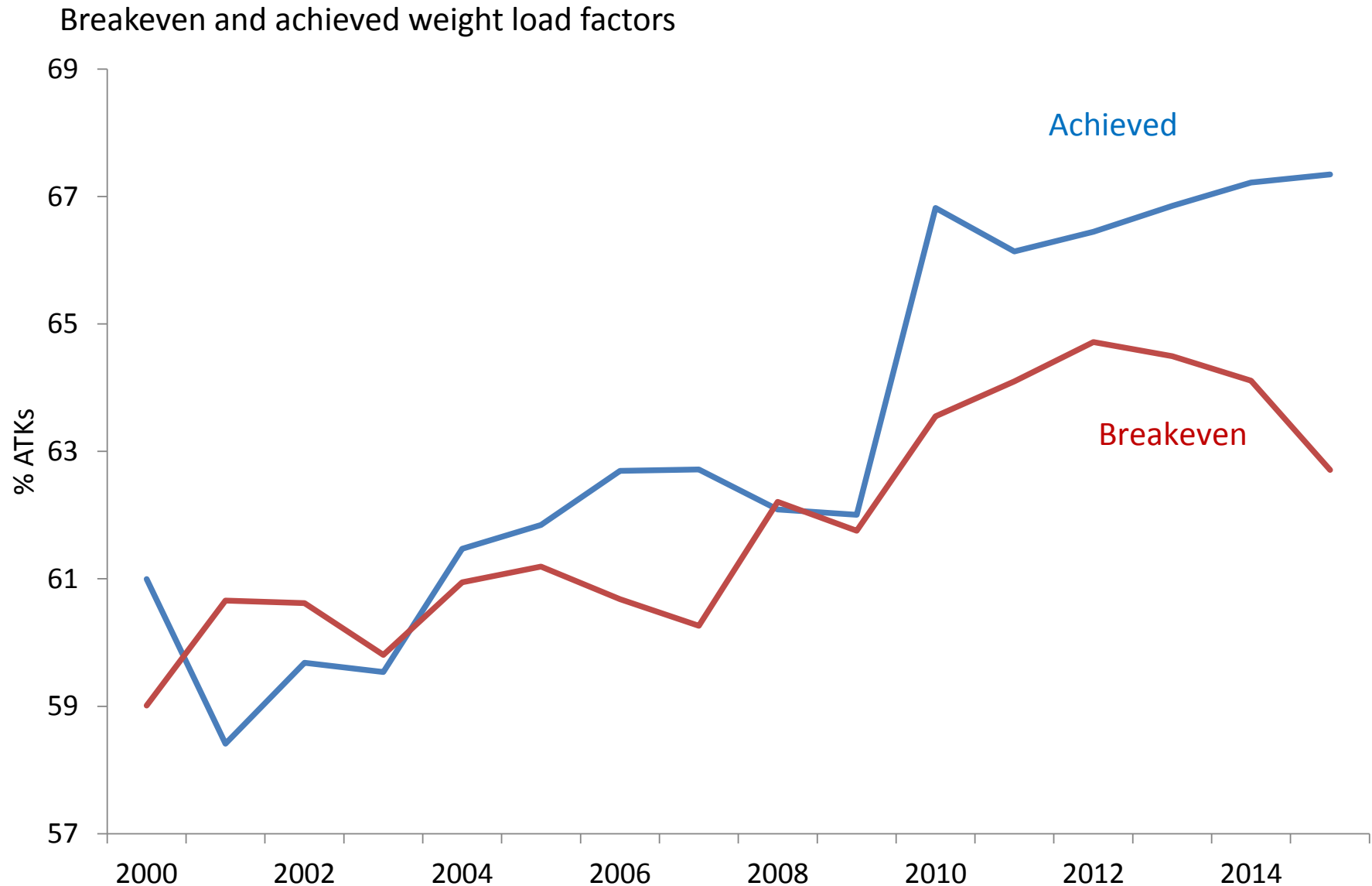
# But paying investors 'normal' return for 1<sup>st</sup> time

Return on capital invested in airlines



Source: IATA, McKinsey

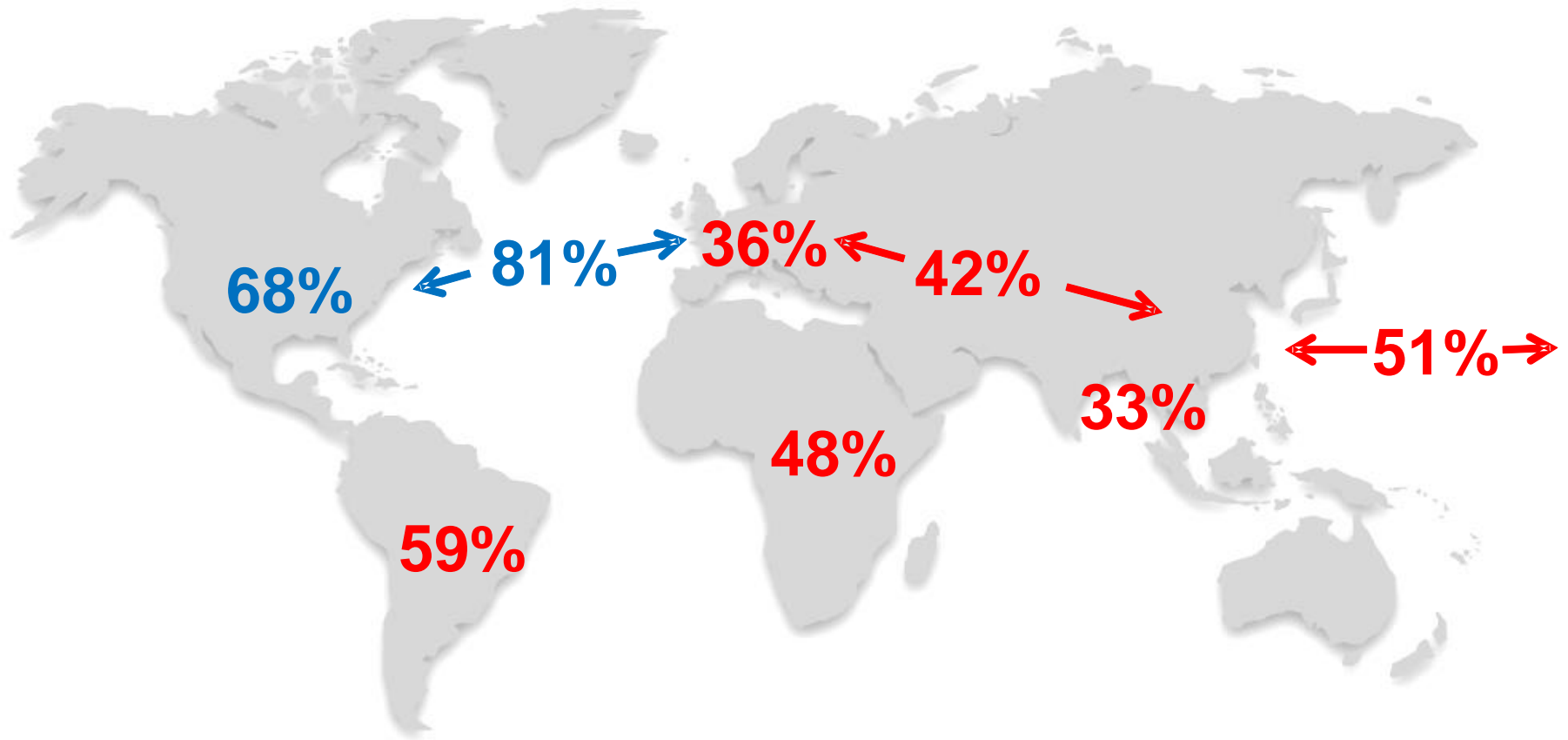
# Widening gap above breakeven driving returns



Source: IATA

# Consolidation has played an important role

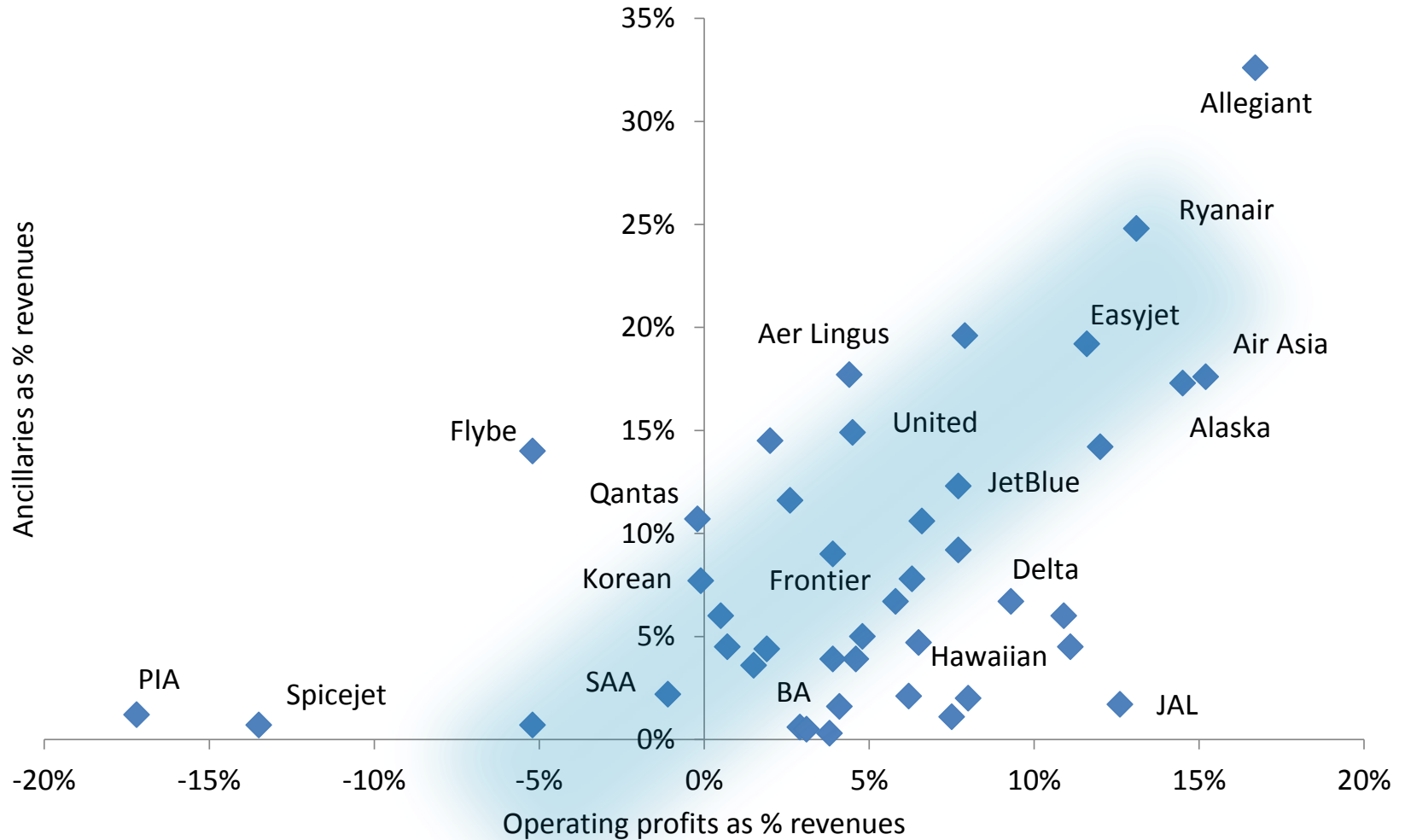
## Market share of top-4 airlines/JVs



Source: SRS Analyser

# The product structure is changing too

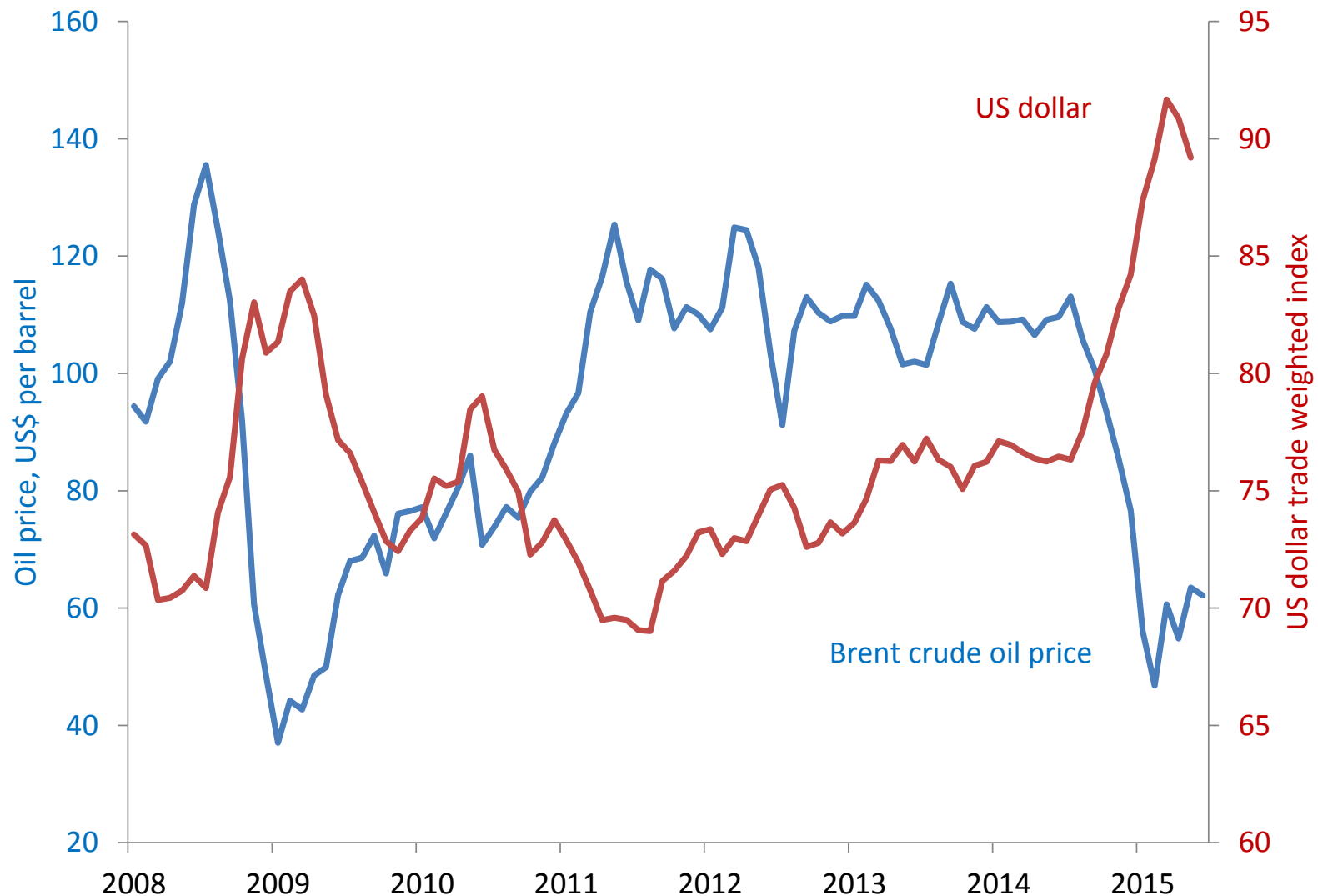
2013 ancillaries and operating profits, % revenues



Source: IdeaWorks, Airline Analyst, IATA

# Low fuel prices important but US\$ major offset

The Brent crude oil price and the US dollar



Source: Datastream



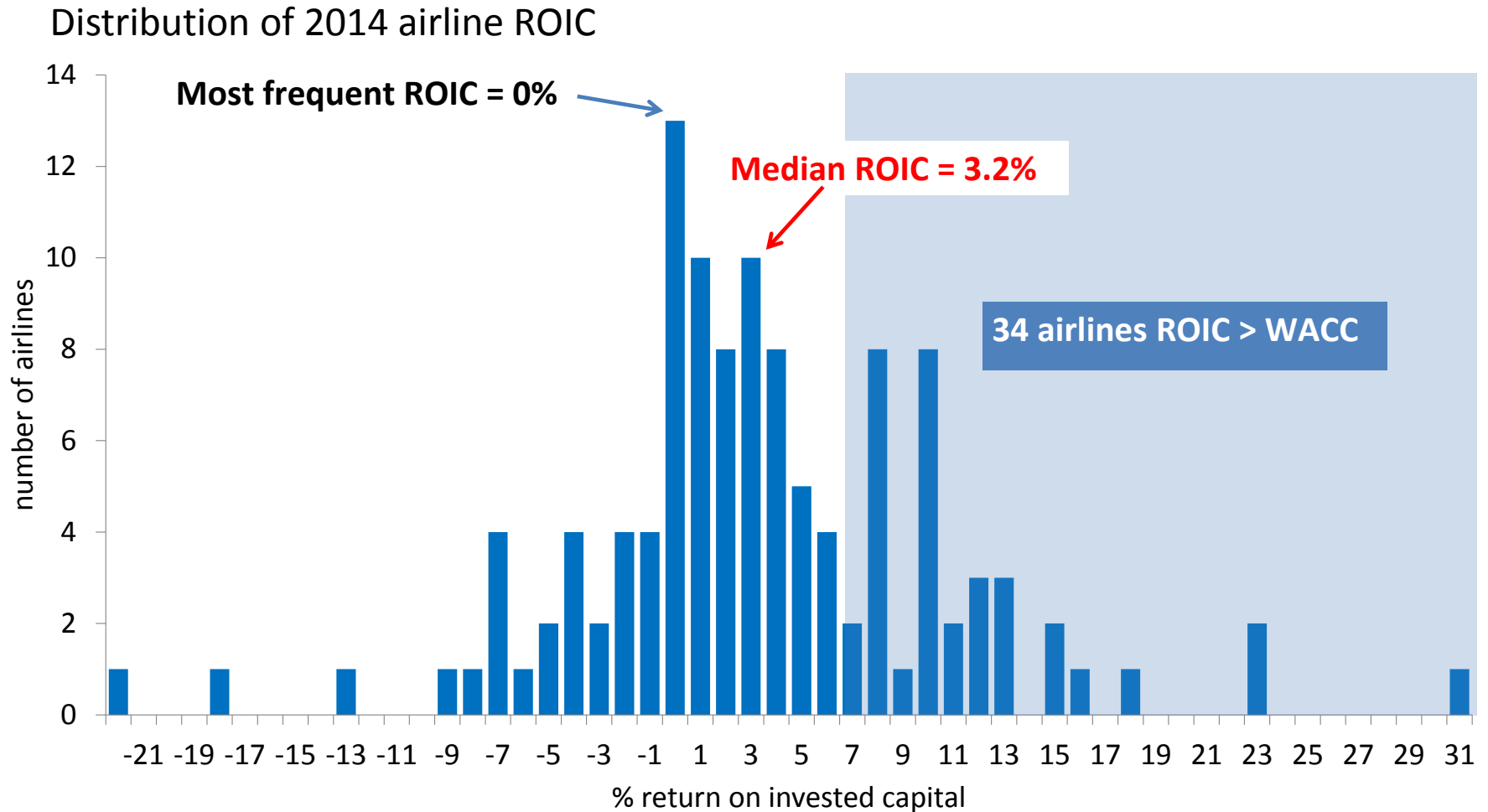
# Driving further divergence in performance this year

Airline net post-tax profit margins



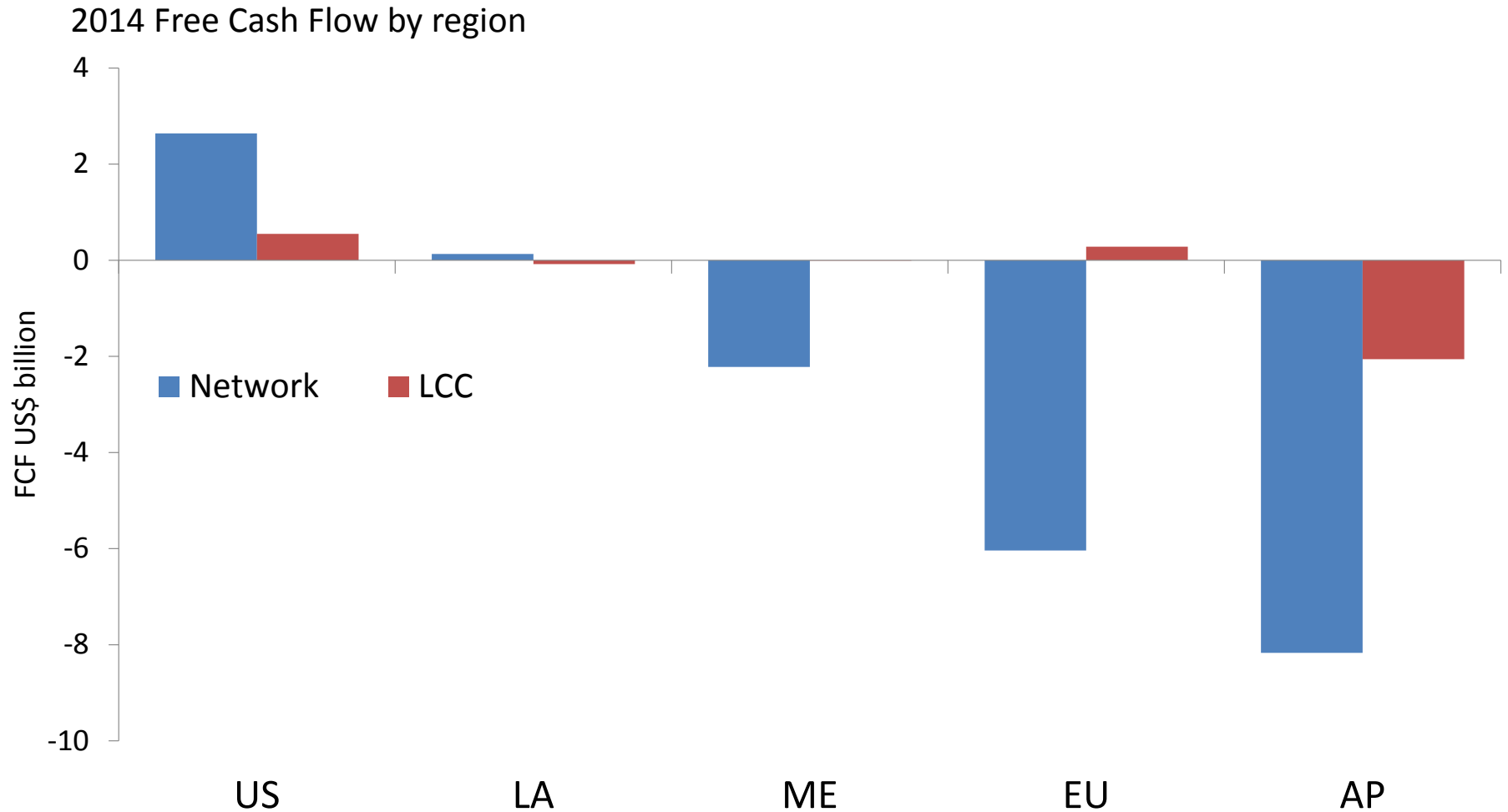
Source: ICAO, IATA

# ROIC gains driven by a subset of the industry



Source: The Airline Analyst, IATA

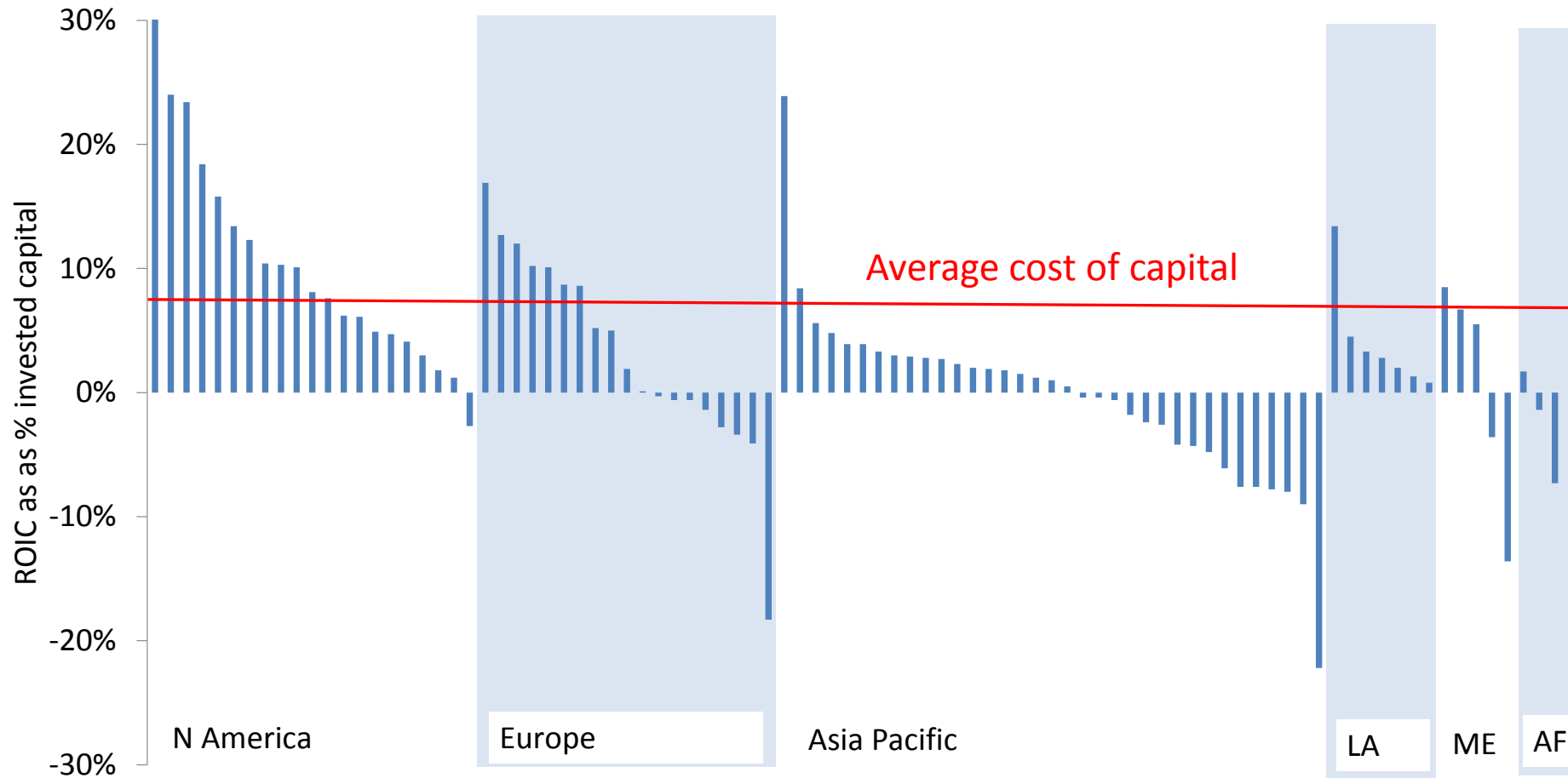
# FCF concentrated in the US



Source: The Airline Analyst, IATA

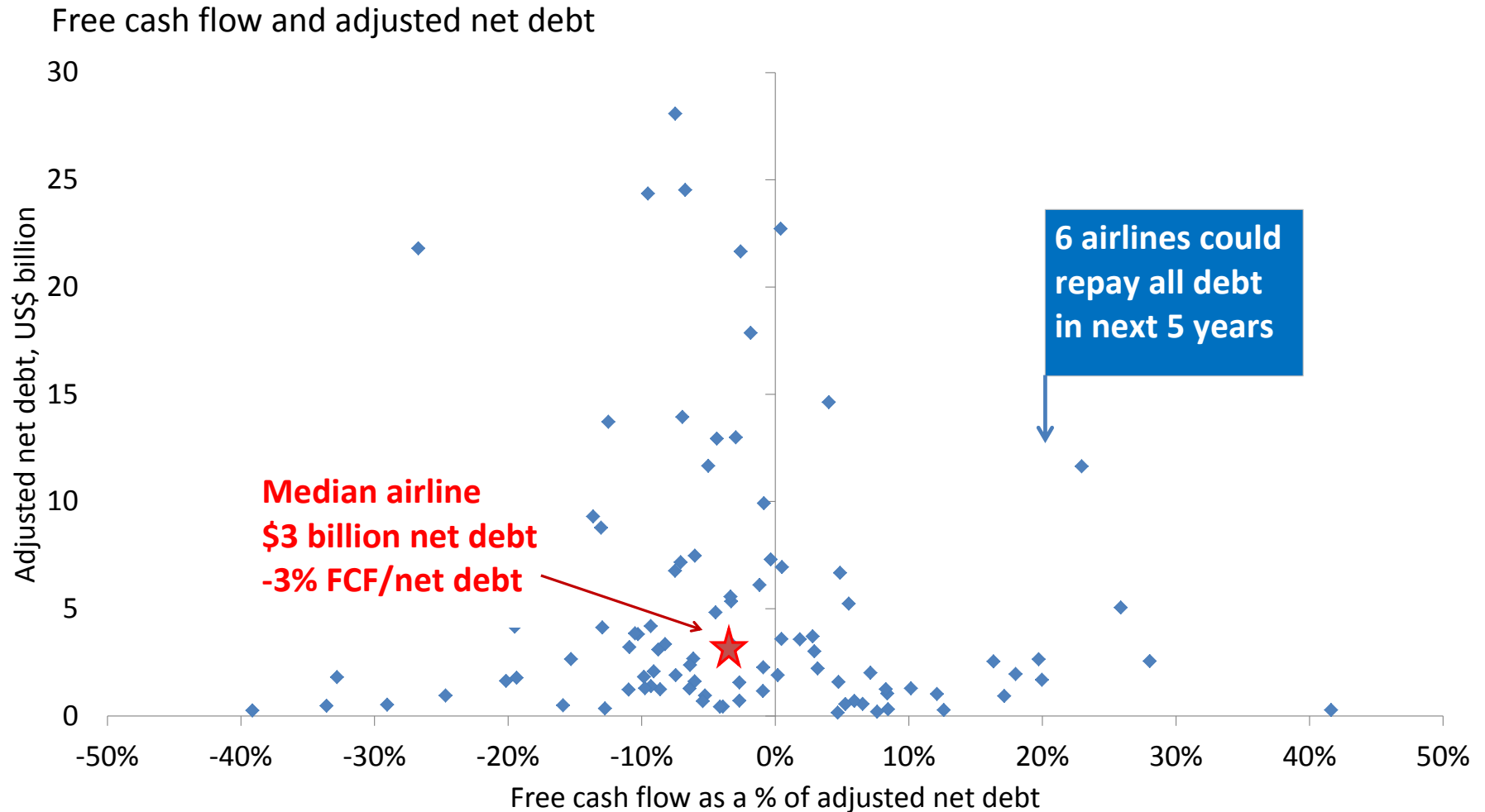
# But good ROIC performance in Europe as well

2014 return on capital by region



Source: The Airline Analyst, IATA

# Median airline balance sheet still deteriorating



Source: The Airline Analyst, IATA

# Why the spread? 2 approaches

Michael Porter's '5 forces' – the external business environment

*All typically **high** in most airline markets*

1. Rivalry – US domestic mergers/N Atlantic JVs?
2. New entrant threat
3. Substitutes threat
4. Supplier bargaining power
5. Customer buying power

John Kay's 'Distinctive capabilities' – what makes firms different

*Apart from 1 for some airlines, most capabilities are **weak** in most airlines*

1. Strategic assets (e.g. route/slot rights)
2. Strong key relationships with suppliers/staff/customers
3. Reputation
4. Innovation – economies of density from JVs/other collaboration forms?