

JOHN F. BROWN COMPANY EMAIL NEWSLETTER

Consultants to the Airport Industry

15 April 2002

✈ FINANCIAL STATE OF THE AVIATION INDUSTRY

\$2.2 BILLION AIRLINE LOSS

Summarized from Dow Jones Business News, 4-8-02; Dow Jones Newswire, 4-15-02:

First quarter results for US airlines will be available shortly, and analysts are predicting a \$2.2 billion loss. Higher fuel, labor, and insurance costs have all pummeled an industry still reeling from decreased passenger traffic and revenue. Volatile oil prices in the coming year could also slow down an economic recovery.

MAJOR CARRIERS ENTRENCHING AT HUBS

Summarized from the Star-Ledger (Newark, N.J.), 4-12-02:

A Salomon Smith Barney study has found that major airlines are shifting more of their flights to their fortress hubs. In 2001, 88.7 percent of the eight largest airlines' domestic flights passed through a hub, which was up from the previous year. In 1991, those same airlines had only 78.1 percent of their domestic flights passing through a hub. Salomon Smith Barney analyst Brian Harris said this strategy reflects the carriers' ability to maximize their profits at hubs.

AIRLINES BOOST LEISURE FARES

Summarized from the Wall Street Journal, 4-12-02:

With Continental Airlines leading the way last week, most airlines over the weekend matched the \$20 fare increase for leisure and discounted business-travel fares. A notable exception was Northwest Airlines, which matched the higher fares in only a fraction of the markets, and could result in the other airlines rolling back some of their fare increases. In March, overall traffic was off by 8.8 percent, while capacity was 12 percent lower, according to Harrell Associates. The company also estimates that leisure fares in March are 17 percent lower than they were a year ago. "Raising fares is the easy part," said UBS Warburg analyst Samuel Buttrick. "Getting consumers and business to pay more is considerably more difficult."

JETBLUE IPO TAKES OFF

Summarized from the Wall Street Journal, 4-12-02:

JetBlue Airways Corp. stock rose \$18, almost 67 percent, in its initial public offering last week. The airline sold more than 5.8 million shares at an initial price of around \$27 per share and closed at \$45 per share. The carrier operates 24 Airbus A320 planes, and plans to add 59 more planes by the end of 2007. JetBlue was among the few carriers to post a profit in 2001, even without federal government bailout money.

CONCERNS OVER JET FUEL

Summarized from the Dow Jones newswire, 4-05-02:

Higher jet fuel prices may drag down airline earnings in 2002. Last year, fuel accounted for 14 percent of airlines' costs, ranking with labor as their biggest expense. "Higher fuel prices are a danger in the near-term," said airline analyst Raymond Neidl. "Because fuel prices have been low in the past year, most airlines haven't hedged very much." Merrill Lynch analyst Michael Linenberg estimated that for every dollar increase in the price of a barrel of oil, the airline industry takes a \$400 million hit. Glenn Engel, an analyst for Goldman Sachs, expects airline

stocks to rise this year with the anticipated improvement in their revenues. Since September, passenger revenue has increased on average at 4 percent to 5 percent per month. Engel estimated that it only takes a 1 percent rise in passenger revenue to offset a \$2 per barrel increase in crude oil prices.

TRAINS GIVE PLANES ARUN FOR THEIR MONEY ON THE COAST

Summarized from the New York Times, 4-12-02:

Shuttle flights in New York and New Jersey appear to be getting more competition from trains. In March, high-speed train service logged more than 219,000 passengers between Washington, D.C and Boston, as compared to under 216,000 passengers on the shuttles run by Delta Air Lines and US Airways. Train ridership has been growing since September 11, while air passengers have been declining in these markets.

DOT ENDS AA-BA BID

Summarized from the Chicago Tribune, 4-05-02:

The US Department of Transportation on April 5 formally rejected an application from American Airlines and British Airways seeking antitrust immunity. Earlier this year, the two carriers had rejected a proposed stipulation that would have forced the carriers to surrender slots at London's Heathrow Airport.

FITCH MAINTAINS AIRPORT DEBT FORECAST

Summarized from Press Release of Fitch Ratings, 4-10-02:

Fitch estimates the new airport bonds to be issued in the next five years at \$30 billion, an almost identical amount as the forecast prior to September 11. Fitch also forecasts airport capital needs to be \$85 billion, since most capacity projects were only deferred instead of being cancelled. The \$85 billion does not include the airports' share of spillover construction costs for the new security requirements; Fitch believes that the DOT's estimate of \$2.3 billion could be too low.

CONTROVERSY SURROUNDING ORBITZ

Summarized from the Los Angeles Times, 4-8-02:

While Orbitz continues to build a solid fan base, it has also drawn controversy, and two federal probes. Both the Transportation and Justice Departments are investigating Orbitz for possible antitrust violations. Competitors argue that airlines offer web-based fares on Orbitz that are not available to other Internet travel companies.

BONEYARD BUSINESS IS BOOMING

Summarized from Reuters, 4-05-02:

Airlines are increasing their use of Mojave Airport and other southwestern airports for mothballing unused aircraft. Prior to September 11, about 100 planes were stored at the Mojave Airport's "aircraft boneyard." By the end of the month, 30 airplanes had been added, according to Dan Sabovich, former general manager of Mojave Airport. Sabovich said another 70 aircraft were added in October. New arrivals continued through March, with the rate tapering off to about 15 per month. But the stream of planes returning to service has been painfully slow, Sabovich said. "This is the worst I've seen," he said. "A few of them have been going back into service. It seems like it's getting better, but it's slow." The airport charges between \$100 and \$200 for storage of each aircraft. There are about 300 planes parked at Mojave Airport, and another 260 at nearby Southern California Logistics Airport.

AMERICAN AIRLINES CARGO TO ADD FUEL SURCHARGE

Summarized from American Airlines press release, 4-3-02:

American Airlines Cargo has added a fuel surcharge effective April 17, to be applied at a rate of \$0.05 per kilogram for all air cargo shipments from the U.S. to international destinations and \$0.02 per pound for shipments within the United States. AA Cargo imposed a similar surcharge in February 2000, when world oil prices were similarly volatile.

✈ AVIATION SECURITY

PLANS FOR TIGHTER SECURITY AT NEW YORK AIRPORTS

Summarized from the New York Times, 4-12-02:

New York's Governor George Pataki wants to improve security at the three New York City-area airports – JFK, La Guardia, and Newark – above and beyond the federal requirements. He plans to install cameras, motion detectors, fingerprint scanners, and other devices around airport perimeters, and, subject to the approval of the state legislature, to conduct criminal background checks on all airport workers.

SECURITY COSTS CONTINUING TO BALLOON

Summarized from Los Angeles Times, 4-08-02:

Driven largely by the costs of manpower and explosive detection equipment, costs facing the new Transportation Security Administration continue to rise. This year alone they could top \$6 billion. Transportation Secretary Norman Mineta has said that the TSA may need to hire more than 50,000 employees. Some in the aviation community are now beginning to wonder if increased funding for the TSA might translate into less funding to alleviate runway congestion, as travelers return to the skies. The federal security fee on tickets of \$2.50 per flight segment, up to a maximum of \$10 per round trip, is expected to generate \$1 billion in revenue per year. As much as another \$1 billion could come from airlines under the same legislation, although the detailed rules are still being formulated. Charles Barclay, president of the American Association of Airport Executives, said, "If we take all that money away from runway and taxiway improvements, [passengers] will find that we have a security system, but we can't handle the traffic."

AIRLINES AND AIRPORTS STRUGGLE TO REDUCE SECURITY DELAYS

Summarized from the Dallas Morning News, 4-05-02:

Airlines and airports are attempting to alleviate security screening delays by adding more equipment. Southwest Airlines has added 37 screening lanes at the airports it serves since September 11. Marty Hires, spokesman for American Airlines, said that passenger inconvenience is a concern for the entire aviation industry. "We're trying to do things to address concerns," he said. "It's just going to take time."

CANADA IMPOSING SECURITY TAX, IATA OBJECTS

Summarized from Reuters Business, 4-10-02:

On April 1, Canada began collecting C\$12 (\$7.50) per flight to cover increased aviation security costs following the September 11 terrorist attacks. The International Air Transport Association promptly condemned the charge as excessive. The Canadian government plans to collect C\$2.2 billion over the next five years to fund aviation security measures.

✧ RENTAL CAR INDUSTRY

DOLLAR THRIFTY EXPECTS TO EXCEED ANALYSTS' FIRST QUARTER EARNINGS ESTIMATES

Summarized from Smartmoney.com, 4-09-02:

Dollar Thrifty Automotive Group, owners of Dollar Rent A Car Systems and Thrifty, said it expects to top the First Call consensus earnings estimates for the first quarter. Joseph E. Cappy, Dollar Thrifty's chairman and chief executive, said in a press release that an improvement in travel trends, higher rental car prices, and a significant reduction in capacity throughout the industry contributed to the company's first quarter success. "If you ratchet down costs and get high utilization rates, then you get price increases of this magnitude, 80 percent of this pricing will flow to the bottom line," Cappy said. Dollar reports a current utilization rate of 86 percent, among the industry's highest, and higher than last year's rate of 85.4 percent.

RENTAL CAR COMPANIES DROP COMMISSIONS

Summarized from BTNOnline, 4-04-02:

Hertz was the first to take action, abolishing travel agent base commissions earlier this month. The other major rental car companies followed suit, with Budget and ANC Rental Corp. saying they had to do so to remain competitive. Neil Abrams of the Abrams Consulting group said, "The industry had to do something. They've steadfastly stood by the travel agent community while airlines were chopping away at that industry, and the car rental industry has been under more profit pressure than its sister travel suppliers. The softening began more than a year ago." The Hertz commission cuts do not affect travel agency override, bonus commissions, leisure, nor non-negotiated business rentals.

✧ HOTEL INDUSTRY

HOTEL INDUSTRY CONTINUES TO SUFFER

Summarized from BTNOnline, 4-10-02:

Room revenues and occupancy rates for March continued a poor performance for the hotel industry, according to Smith Travel Research of Hendersonville, Tennessee. Room revenues for March 2002 were 8 percent to 10 percent lower as compared to the same month last year. Occupancy rates for March 2002 were down 3 percent to 5 percent from March 2001 figures.