US Airline Fleet Renewal Strategies

Implications for MRO Planning in North America

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Donald P. Schenk
ACA Associates
Office: +1 212-808-4420
Mobile: +1 646-248-3461
dpschenk@airlinecapital.com
www.airlinecapital.com

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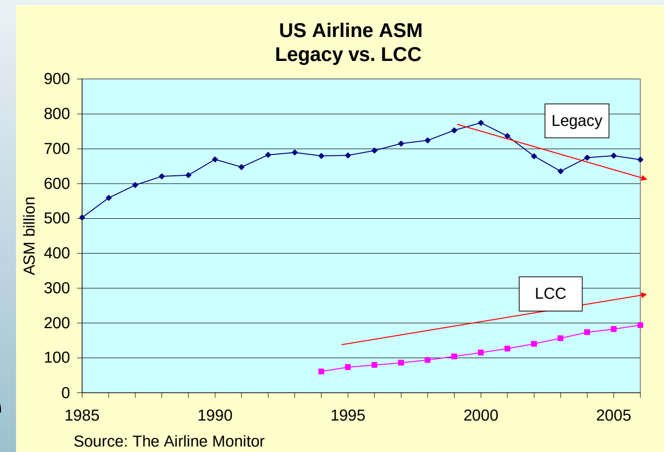
A Tale of Two Industries

- Legacy Carriers - An industry in decline
  - Inadequate profits
  - Minimal investments
  - Limited time left in the recovery side of this cycle

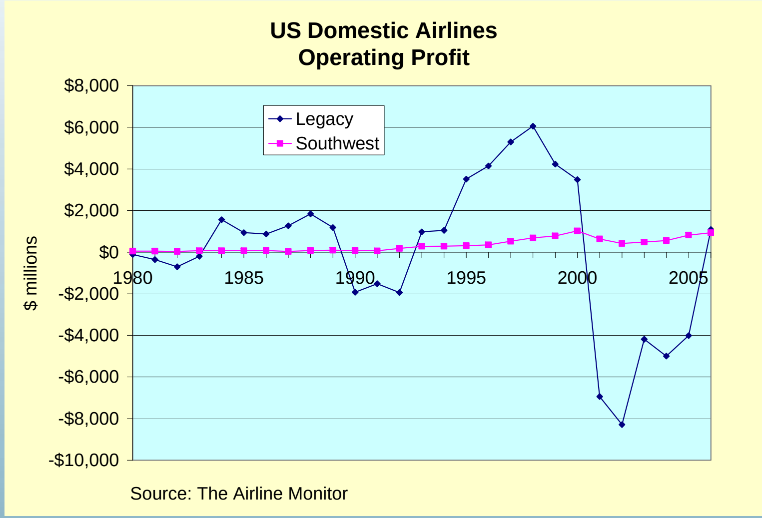


- Low Cost Carriers - An ascendant industry
  - Reaching maturity
  - Modest Profits
  - High but slowing investment

The Challenge

US Domestic Situation ….

- Businesses must make money in their home markets
- 1Q 2007 provides some hope..
- Southwest proxy for LCC
- If this earnings cycle mirrors the last, only 2 years until earnings peak

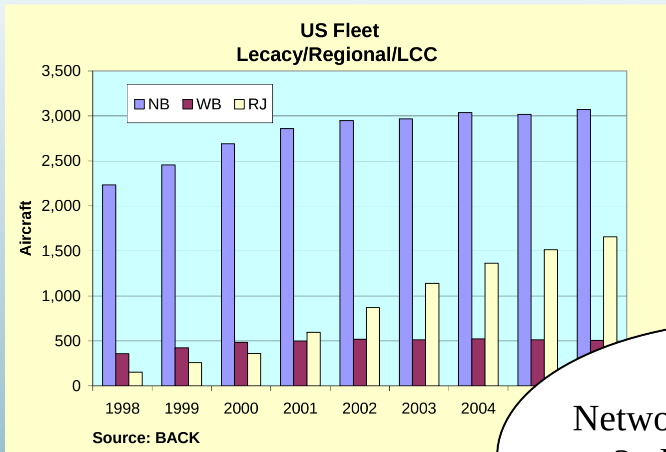


Fleet Renewal Drivers

- LCC's define domestic competitive environment
- Legacies retreating to international markets
- Fleet renewal strategies reflect perceived strengths

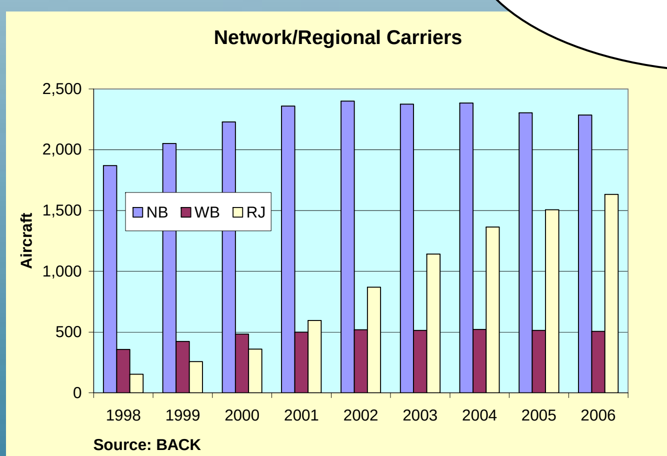
Fleet Trends

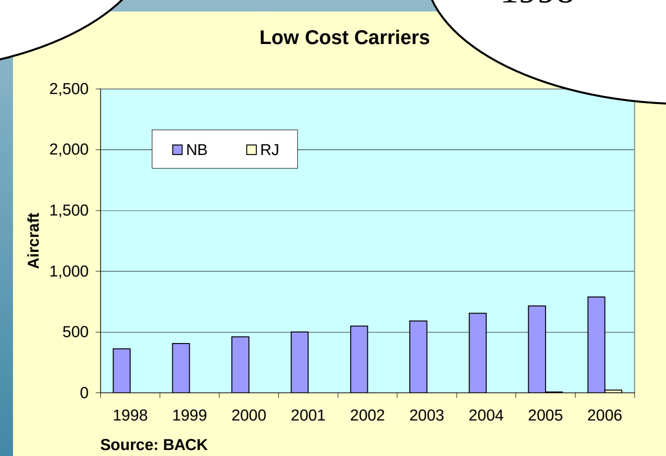
- At end 2006, > 5,200 commercial jets in US fleet
- Post 1998, fleet doubles while RPMs grow < 20%
- RJs source of growth
- Narrow bodies, 60% of fleet, stagnant since 2001



Network NB fleet
- 3x larger than LCC
- 4x larger than WB

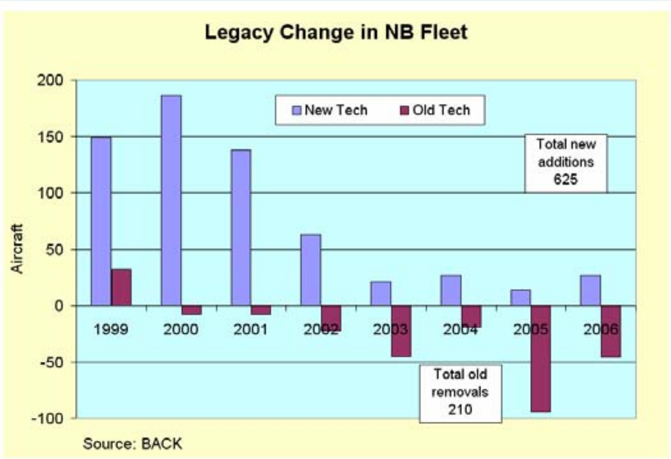
LCC NBs doubled since 1998



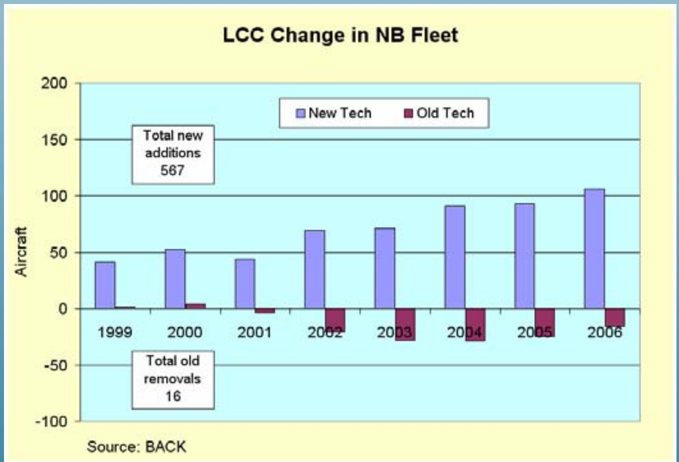


Narrow Body Fleet Changes

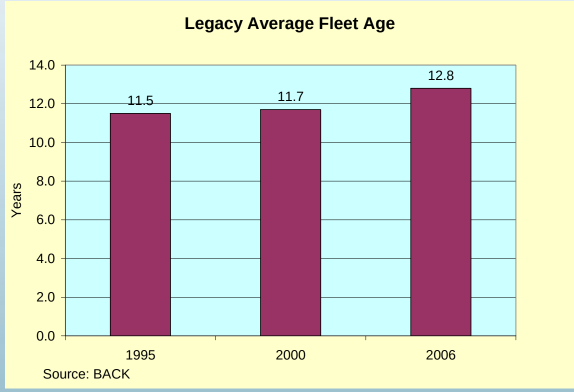
- Legacy NB fleet reflect their changing fortunes in domestic market

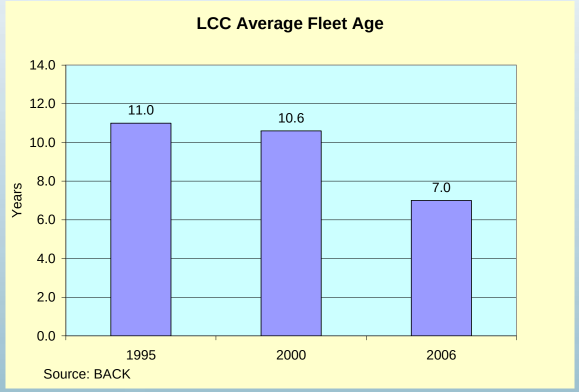


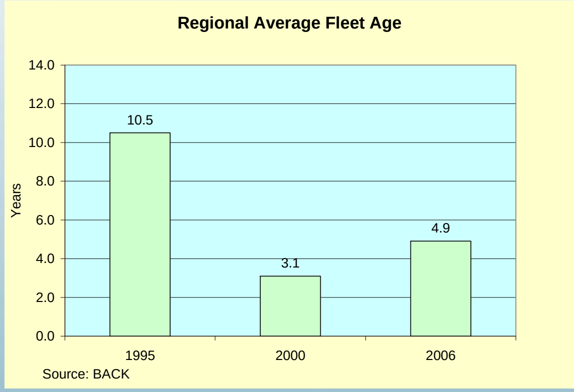
- LCC fleets reflect ascendancy of business model



Fleet Age Trends







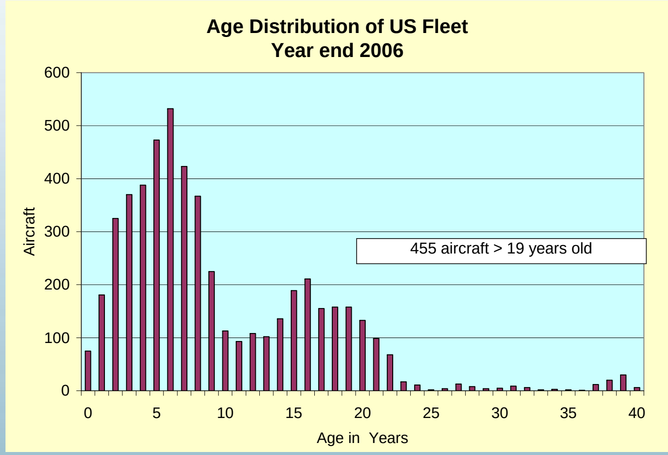
- Northwest still using DC9s - almost 40 years old
- Southwest's oldest 737 > 22 years
- Comair's CRJs now 14 years

Oldest In Service Aircraft			
	1995	2000	2006
Legacy	30.0	35.0	39.9
LCC	28.3	33.3	22.4
Regional	25.9	15.8	13.9

US Aircraft Fleet Requirements/Orders

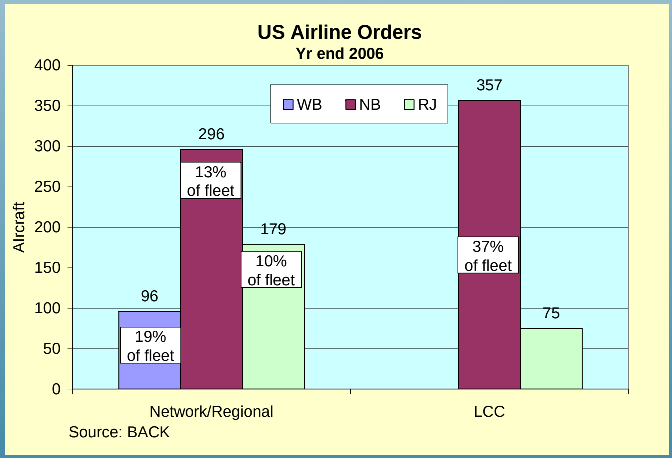
US Fleet at end 2006:

- More than 450 aircraft were 20+ years old
- 1,326 aircraft > 15 years old



End 2006, US airlines held orders for > 1,000 aircraft

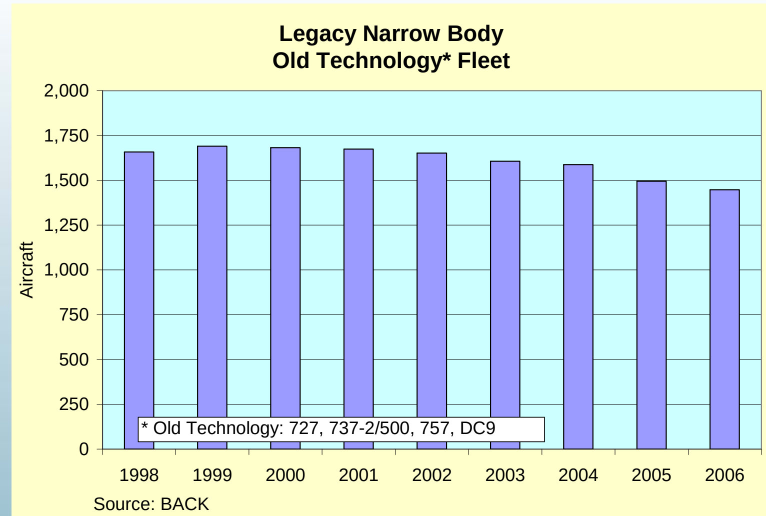
- Legacy – 390 orders - replacement
- Regional – 180 orders
- LCC – 430 orders - continued growth

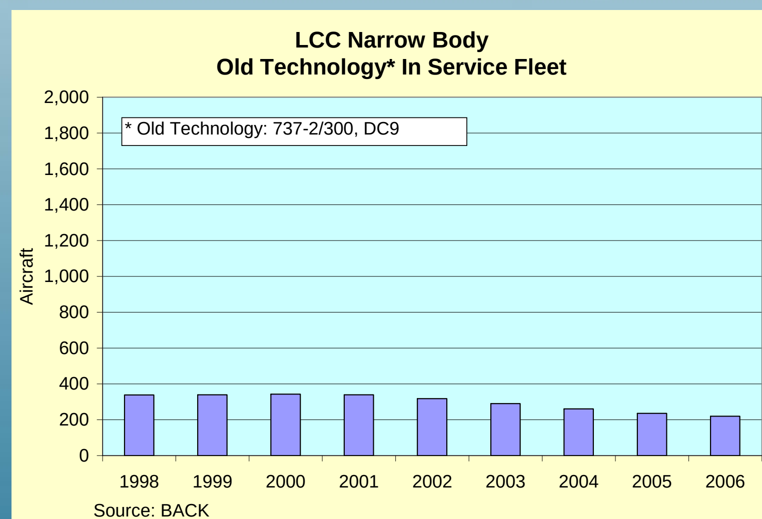


Old Tech Narrow Body Fleets

At end 2006:

- 63% of Legacy NB aircraft were old tech; 38% of LCC
- This is the source of maintenance company profits today
- Operating ~ 1,700 older aircraft when oil is $ (Insert today's value) a barrel
- Replacement cost ~ $70 billion – implies maintenance job security





Fleet Renewal Strategies

Legacy Carriers

- Defer today what can be put off until tomorrow

Low Cost Carriers

- Reduce growth in recognition of minimal profits

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The Wild Cards

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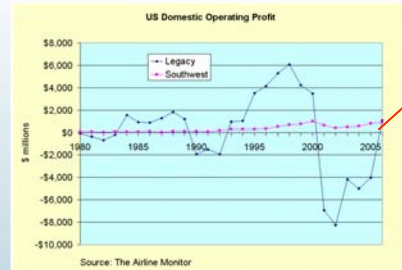
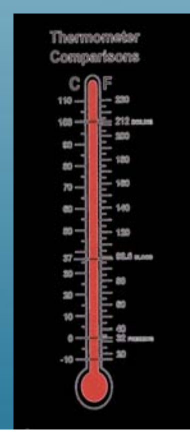


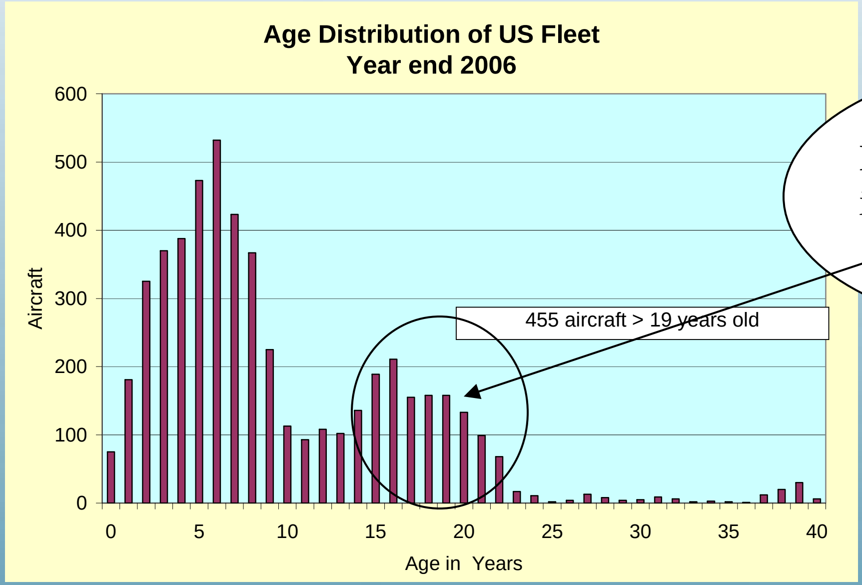


- U S domestic market
- US recession in 2008
- Will LCCs challenge Legacies in international markets?
- Fuel prices
- Timing of NB replacement
- Concerns about global warming

The Airline Monitor

Implications

Thesis: MRO Golden Years – 2007 to 2015??



How can we avoid this increasingly old fleet?

Risks to thesis:

- Global recession
- Fuel prices hitting $???
- Excess of new maintenance capacity

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Key Issues for MROs

- Reduce life cycle maintenance costs
- Adapt to fx volatility
- Plan for risk of next downturn
- Build in flexibility to handle “wild cards”

Thank You

Donald P. Schenk
ACA Associates
545 Fifth Avenue
New York, NY 10017
Office: +1 212-808-4420
Mobile: +1 646-248-3461
dpschenk@airlinecapital.com
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