



**The
Airline Monitor**

Will this Cycle be Different? and Opportunities to Profit From the Current Environment

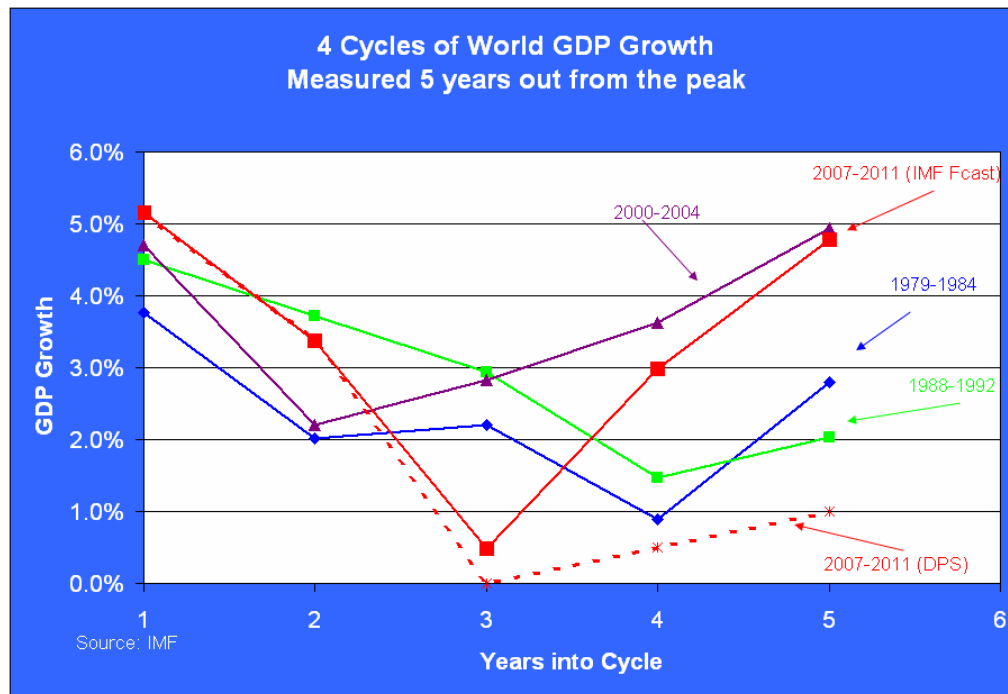
Donald P. Schenk

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ACA Associates, Inc.
545 Fifth Ave
New York, NY 10017
+1 212-808-4420
dpschenk@aca-assoc.com
www.aca-assoc.com

The Airline Monitor
PO Box 1781
Ponte Vedra Beach, FL 32004
+1 904-249-4215
theairlinemonitor@mac.com
www.airlinemonitor.com

The Good Times



World Economy Since 1950's

- Past cycles very similar
- “**Bad**” years have solid growth and the “**Peak**” years have great growth.
- Current IMF forecast anticipates worst economy in memory, with rapid recovery
- Roubini forecasts -0.5% global shrinkage in 2009

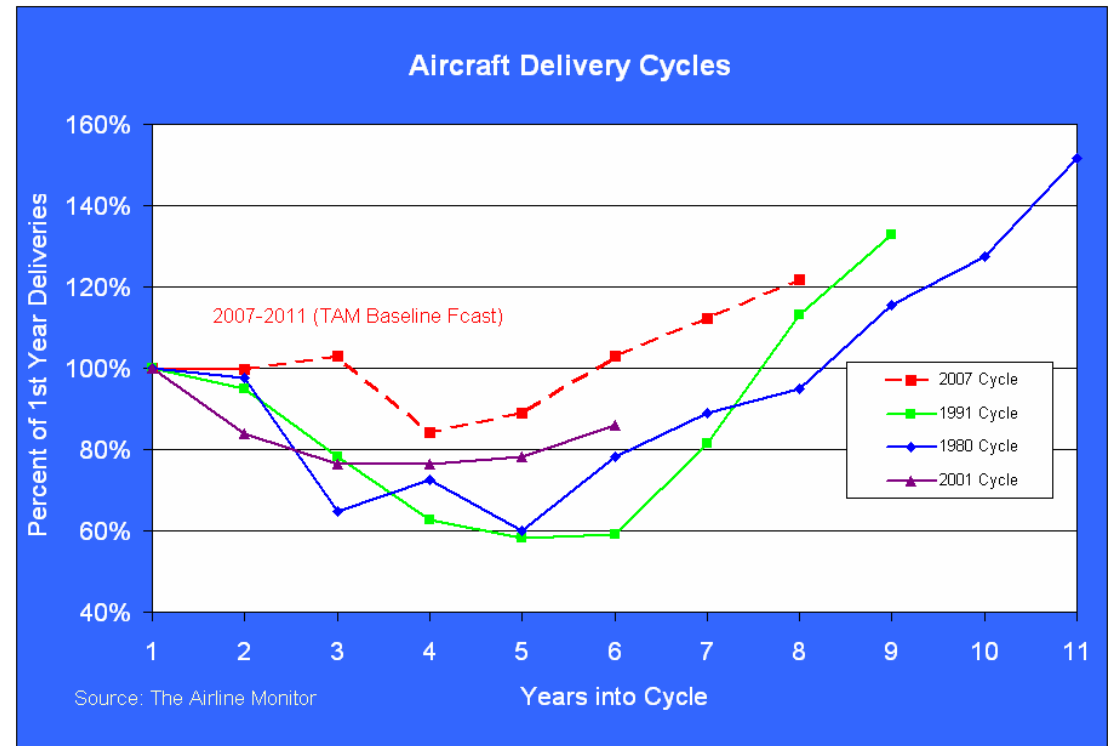
The Fly in the Ointment

- Western consumers go cold turkey
- Global economy must adjust to new reality
- Adjustment takes 3 to 5 years
- Protectionism prolongs down turn

Baseline Aircraft Market Forecast

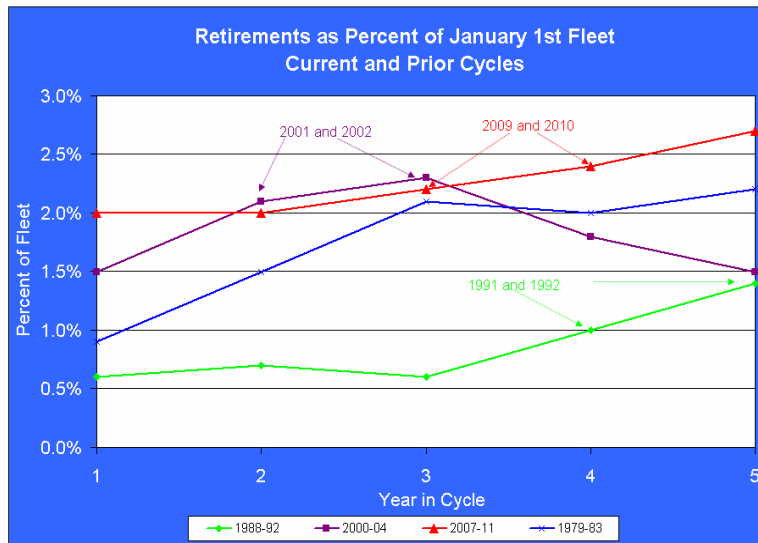
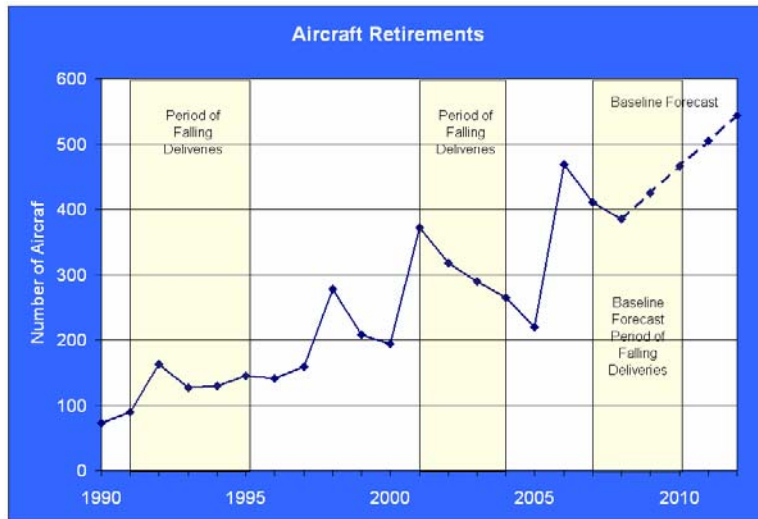
New Aircraft Deliveries over Past Cycles

- **TAM Baseline Forecast** in line with past trends and IMF forecast
- Negative risks to TAM Baseline
 - Prolonged economic downturn
 - Weak economy keep fuel prices low, improving economics of ageing fleet
 - Demand discontinuity - consumers have no money to spend
 - Airlines conserve cash deferring deliveries
 - Airlines wait for Pratt engine in 2016
 - Aircraft retirements remain low as airlines make do with existing fleet



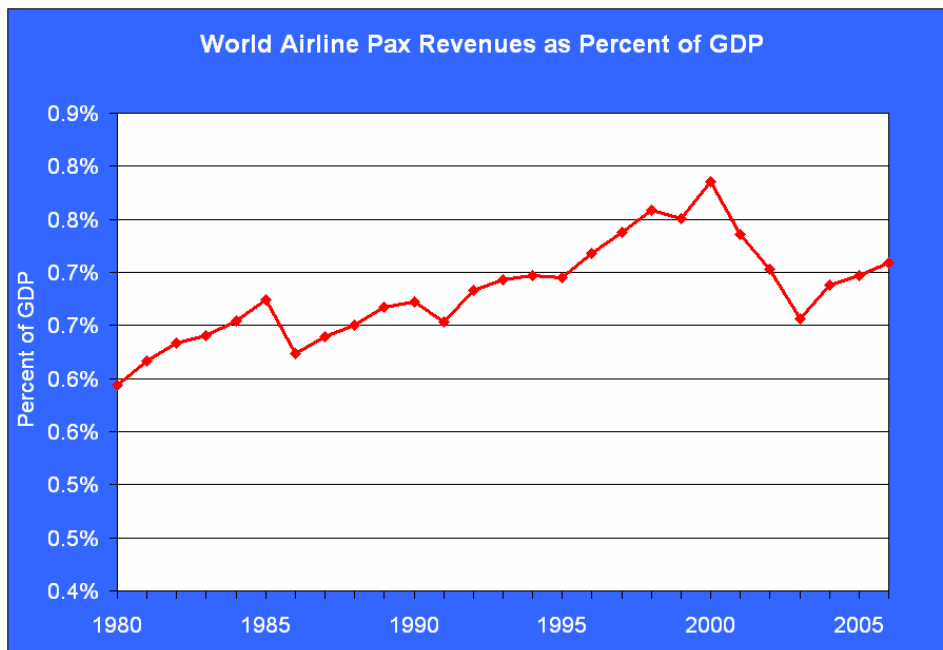
- Upside to TAM Baseline
 - Political disruption causes oil price to soar, increasing need for new aircraft and increasing retirements

Retirement Forecast Risks



- Retirements fell during 2007 and 2008 even though fuel prices rose
- If fuel prices remain low for 3 to 5 years as global economy remains weak; and
- Airlines conserve cash and avoid retirements, the
- Retirements could average only ~ 300 per year rather than ~ 450 per year

2001 Air Travel Discontinuity

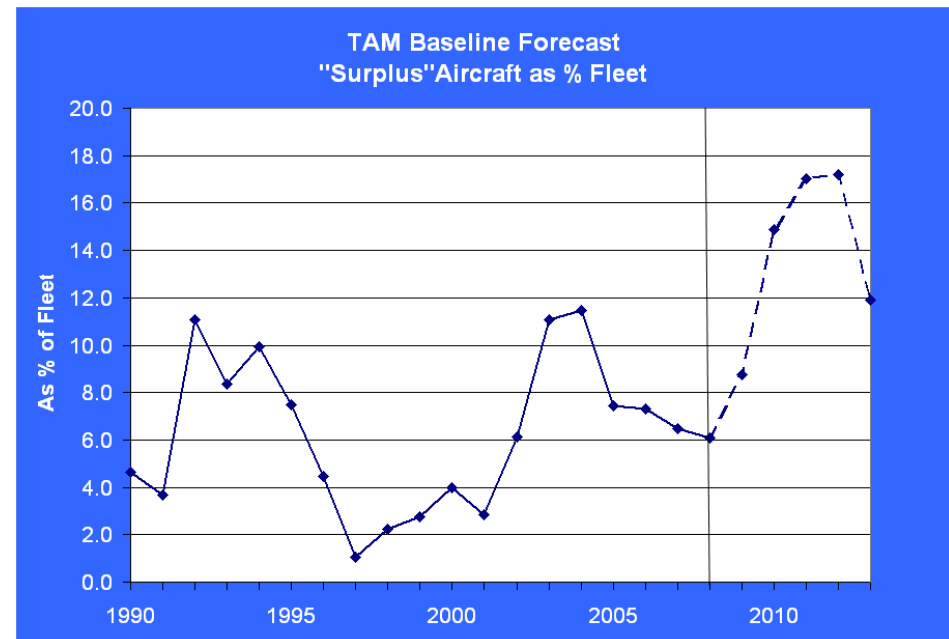


- 2001 Discontinuity
 - Modest economic down turn
 - Economic growth bottomed at ~2%
 - Wealth destruction nominal

- 2009 Discontinuity Potential
 - Growth is near ~0% and falling
 - Economic collapse near global
 - Wealth destruction in every asset category
 - Credit markets in disarray
 - Growing risk of sovereign defaults
 - Banking system only nominally functioning
 - Corporations and consumers in extreme distress

- TAM measure of market balance is “Surplus Aircraft”
 - “Balanced” market ~7%
 - Post 2001 peak was ~ 11.5%
- 2009 deliveries, ~ 1,100 aircraft, “set in stone”
- Forecast “Baseline Surplus” increases to 17% by 2011
 - Slower economic growth would add several % points
 - Discontinuity “risk” another several % points
 - Slower retirement “risk” another few % points

Markets Regain Balance With Time



Staying Long in a Falling Market Guarantees Losses

Market Characteristics	Profit Opportunity Examples
Risk premiums widen and fluctuate based on emotion	Credit default swaps
Market illiquidity results in price volatility and trading opportunities	Airport municipal bonds in Nov & Dec 2008
Falling asset values produce buying opportunities for long term investors	Senior secured debt in leveraged buyouts sell at 40-50 cents on dollar
Credit constraints and risk aversion exacerbate pricing volatility	Stock market volatility
Imperfect markets result in arbitrage opportunities	Arbitraging differential between AF and BA credit default swaps prior to Alitalia announcement

Bad Times
Produce Greater Profit Opportunities
Than Good Times
If
You Like Risk and Have Cash