

Desautels Capital Management

Honours in Investment Management

Southwest Airlines

NYSE: LUV

Industrials

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“The biggest thing that makes us ‘us’ is our People, and the unique and unrivaled Hospitality they deliver.”

Company Overview

- Southwest Airlines is one of the world’s most rewarded airlines, known for reliable low-cost air travel and an employee-first culture
- Carries more air travelers flying nonstop in the U.S. than any other airline
 - Flies to 121 airports across 11 countries
 - Headquartered in Dallas, TX
- One of few major airlines not part of any airline alliance
- Distinct business model using rolling hub and point-to-point network, and allows free checked baggage
- Employs ~60,000 people and operated ~4,000 departures/day during peak travel season

Public Markets Overview

<i>As of December 1, 2022</i>		<i>(in USD \$ million, except per share data)</i>	
Share Price			\$40.08
Shares Outstanding			638.3
Market Capitalization			\$25,583
Add: Total Debt			10,112.0
Add: Preferred Stock			-
Less: Cash & Equivalents			13,673.0
Enterprise Value			\$22,022

Trading Multiples

EV/EBITDA
EV/EBIT

6.4x
10.5x

Debt Metrics

Debt / EBITDA
Interest Coverage

1.40x
19.97x

Investment Theses

- 1 Expected Air Travel Market Currently Being Underestimated in Post-Covid Recessionary Environment
- 2 Southwest Airlines’ Operational Strategy is Optimal for Success Given Current Market Conditions

Valuation

\$40.08
Current Price

\$55.68
Target Price

39%
Implied Upside

Source: Bloomberg, Capital IQ, Company filings

I. Southwest Airlines Overview

- i. Company Overview
- ii. Key Metrics

II. Airline Industry Overview

- i. Competitive Landscape
- ii. Southwest Share Price Performance Relative to Industry
- iii. Cost and Revenue Structures

III. Investment Theses

- i. Expected Air Travel Market Currently Being Underestimated in Post-Covid Recessionary Environment
- ii. Southwest Airlines' Operational Strategy is Optimal for Success Given Current Market Conditions

IV. Valuation

- i. Discounted Cash Flow Analysis
- ii. Comparable Company Analysis

IV. Risks and Catalysts

Desautels Capital Management

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Southwest Overview

Section I



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Trading Multiples

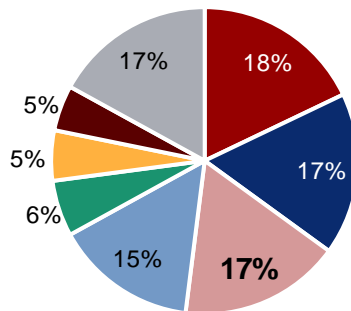
EV/EBITDA
EV/EBIT

6.4x
10.5x

Debt Metrics

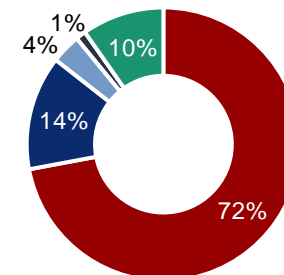
Debt/Equity 1.40x
Interest Coverage 19.97x

US Domestic Market Share and Revenue Composition



■ American ■ United ■ Southwest ■ United ■ Alaska ■ JetBlue ■ Spirit ■ Other

Source: Bloomberg, Capital IQ, Company filings, Bureau of Transportation Statistics



■ Passenger (non-loyalty) ■ Passenger (loyalty) ■ Passenger (ancillary)
■ Freight ■ Other

Some Key Metrics to keep track of

RPM and PRASM are the determinants of revenue



Available Seat Miles

A measure of airline capacity, ASM is calculated by taking the number of seats available and multiplying by the distance flown



Revenue Passenger Miles

A measure of volume. RPM is calculated by taking the number of passengers and multiplying by miles of flight



Passenger Yield
(revenue per RPM)

Measure of average fare paid per mile, per passenger, calculated by dividing passenger revenue by revenue passenger miles (RPMs)



Load Factor

A measure of utilization, passenger load factor is the number of Revenue Passenger Miles (RPMs) expressed as a percentage of ASMs



Passenger Revenue /
Available Seat Mile

PRASM is calculated by dividing passenger revenue by available seat miles. PRASM is also equivalent to the product of load factor and passenger yield.

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Airline Industry Overview

Section II



Types of airline business models

Airline Industry

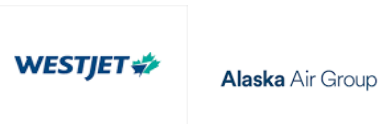
Passenger Airlines

Cargo Airlines

Full-service carriers

Low-cost carriers

Charter airlines



Source: Company Filings

Major airlines by region

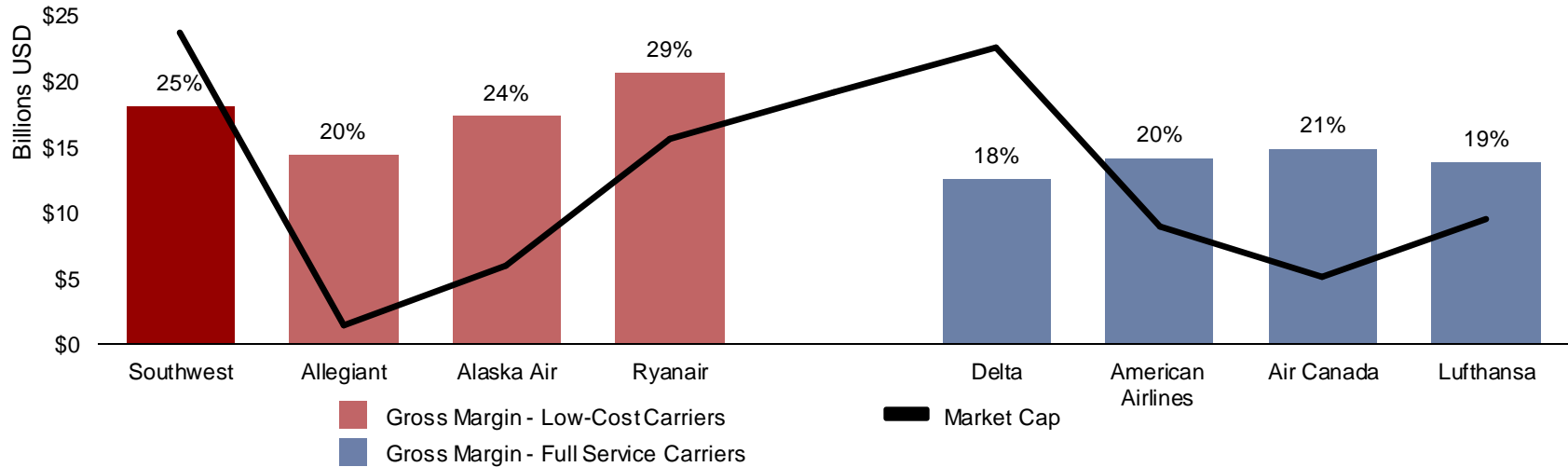


Stronger Economy Energy Independent Less War Exposure

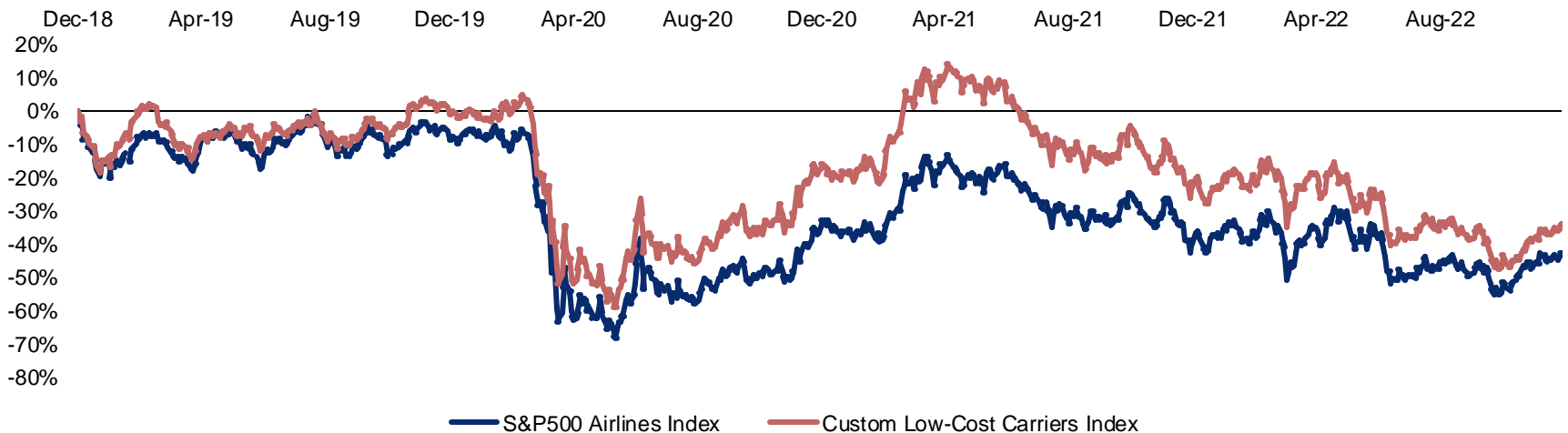
North America is currently the strongest market for airlines, with \$8.8 bn expected profit

Financial differences between low-cost and full-service carriers

Low-cost carriers tend to have higher profit margins, largely due to lower fleet operating costs, especially for higher market caps

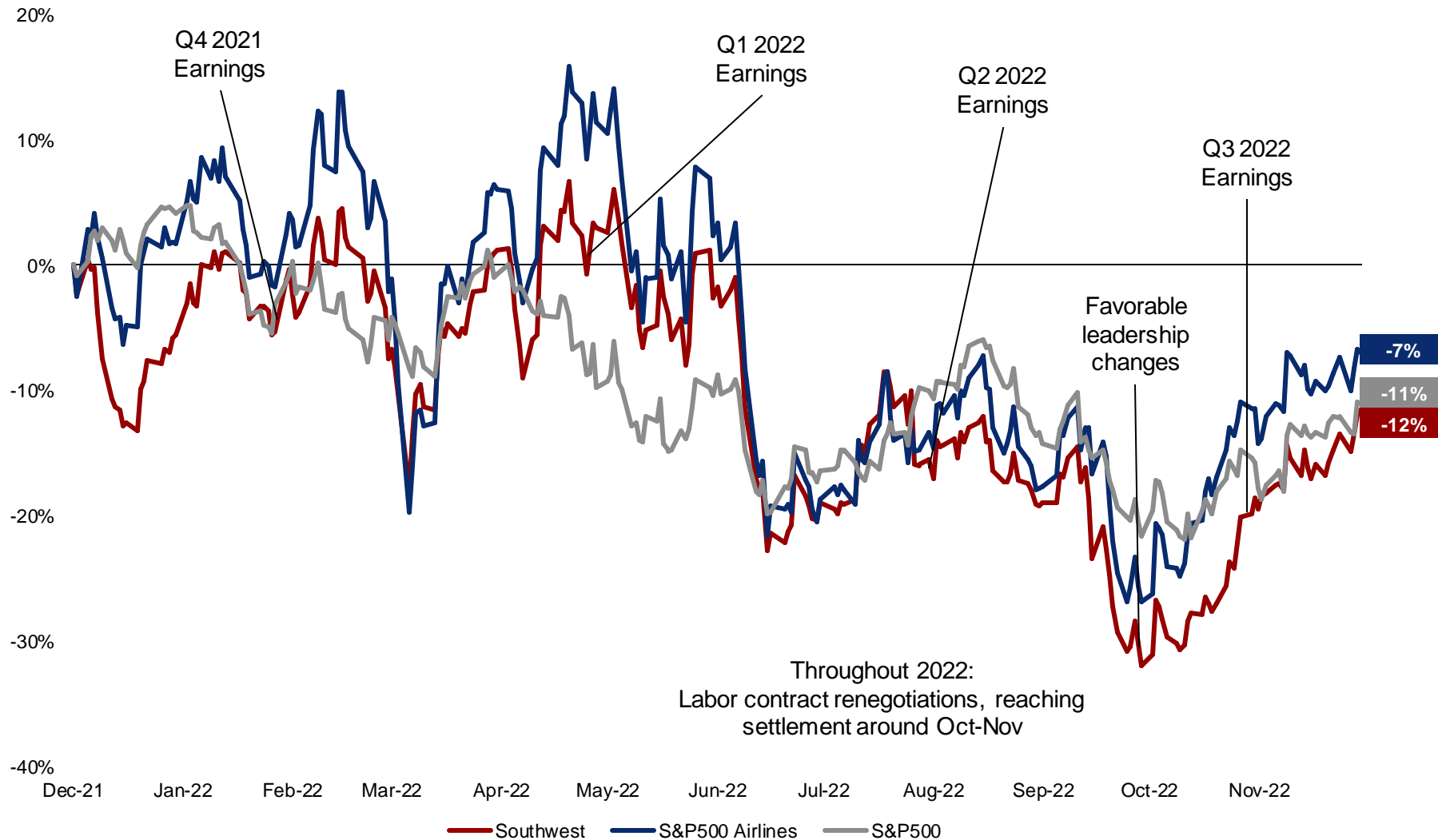


Low-cost carriers trading better than full-service peers since the pandemic



Source: Capital IQ

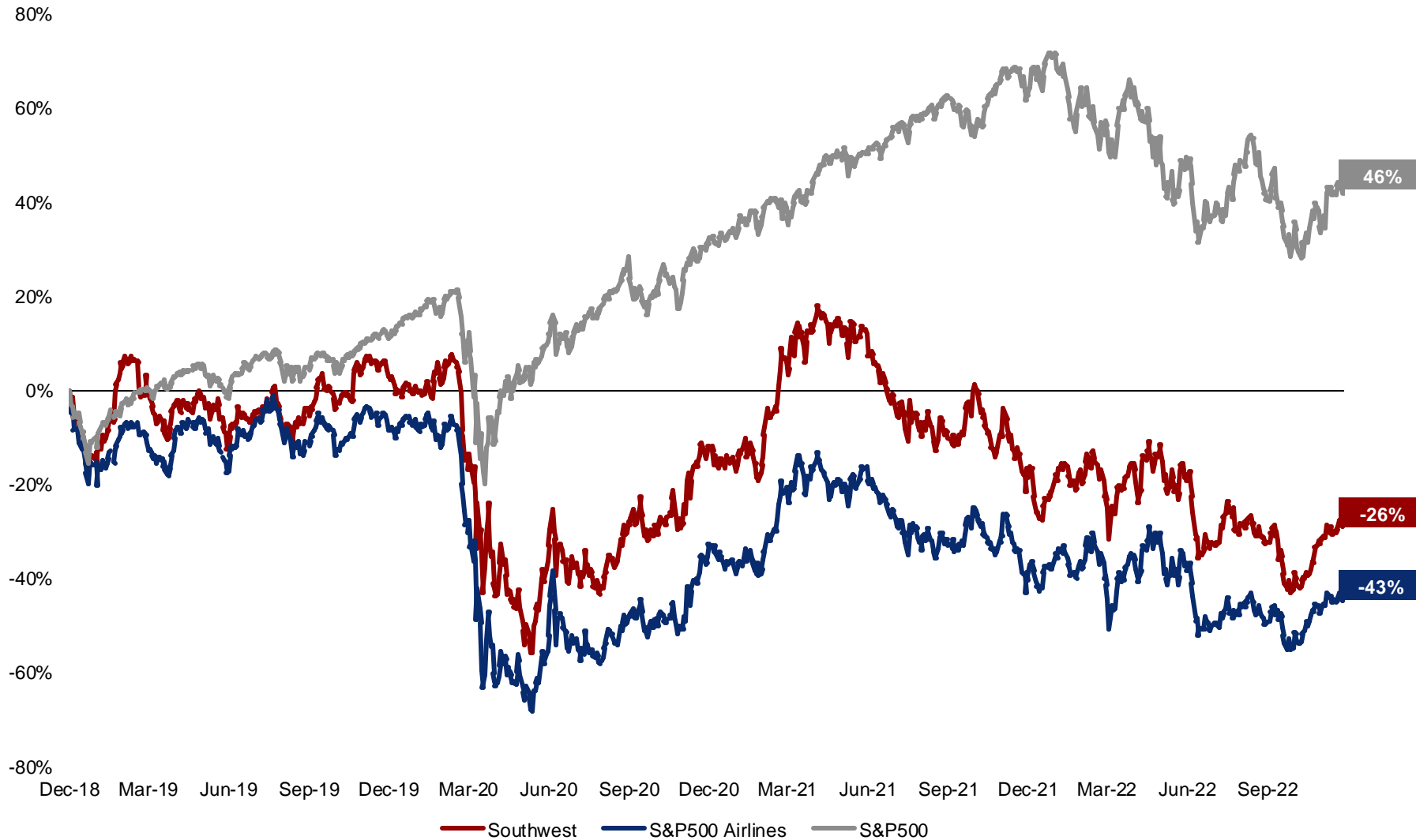
LUV, Airlines Index, and S&P500 trade roughly in-line throughout the year



Southwest's slight underperformance explained by unfortunate labor contract expiry time; otherwise in-line

Source: Capital IQ

Big picture



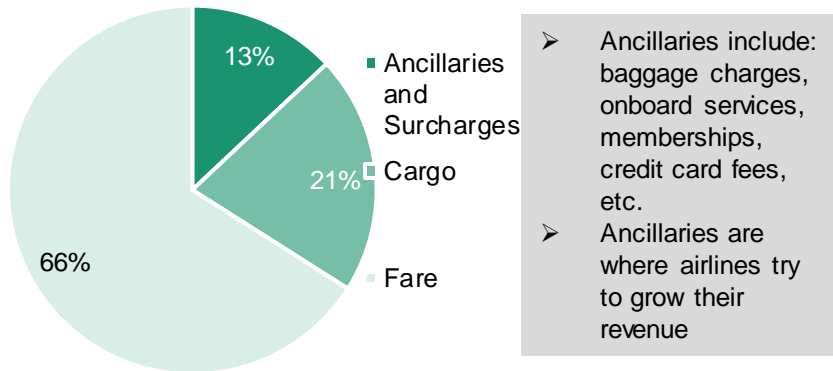
Southwest is a superior pick in an undervalued industry

Source: Capital IQ

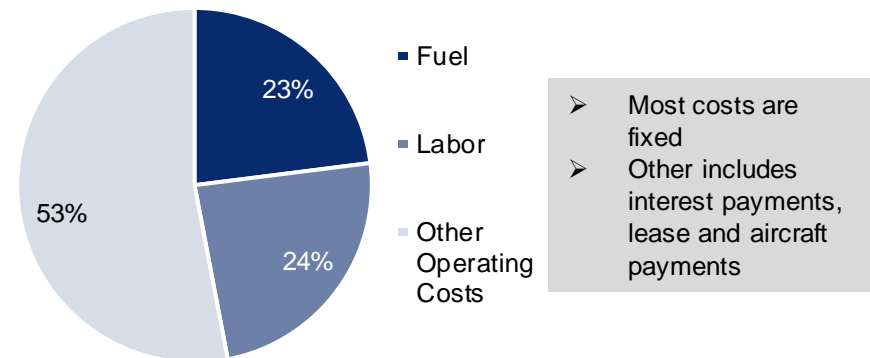
Positive outlook

Airlines mitigate cost increases with surcharges

Revenue Breakdown

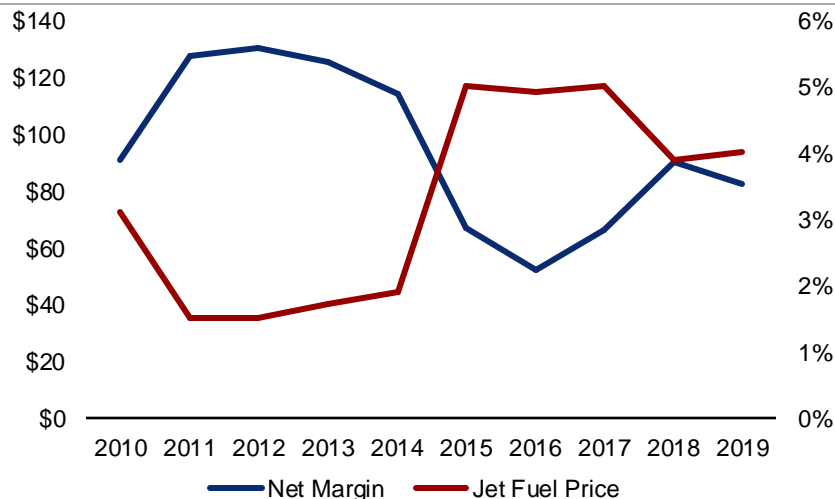


Cost Breakdown

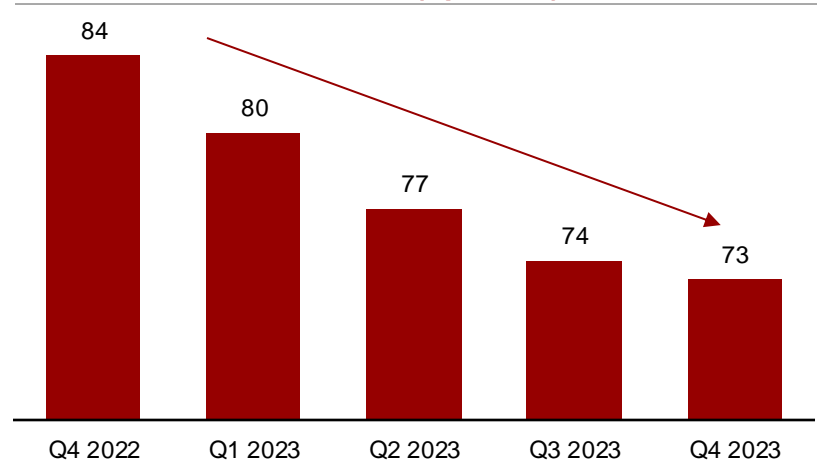


Airline industry will profit from decreasing oil prices in the short-term future

Inverse Correlation: Jet Fuel Price vs Net Margin



Lower Oil Prices Short-Term (Spot WTI)



Source: Company filings, Statista

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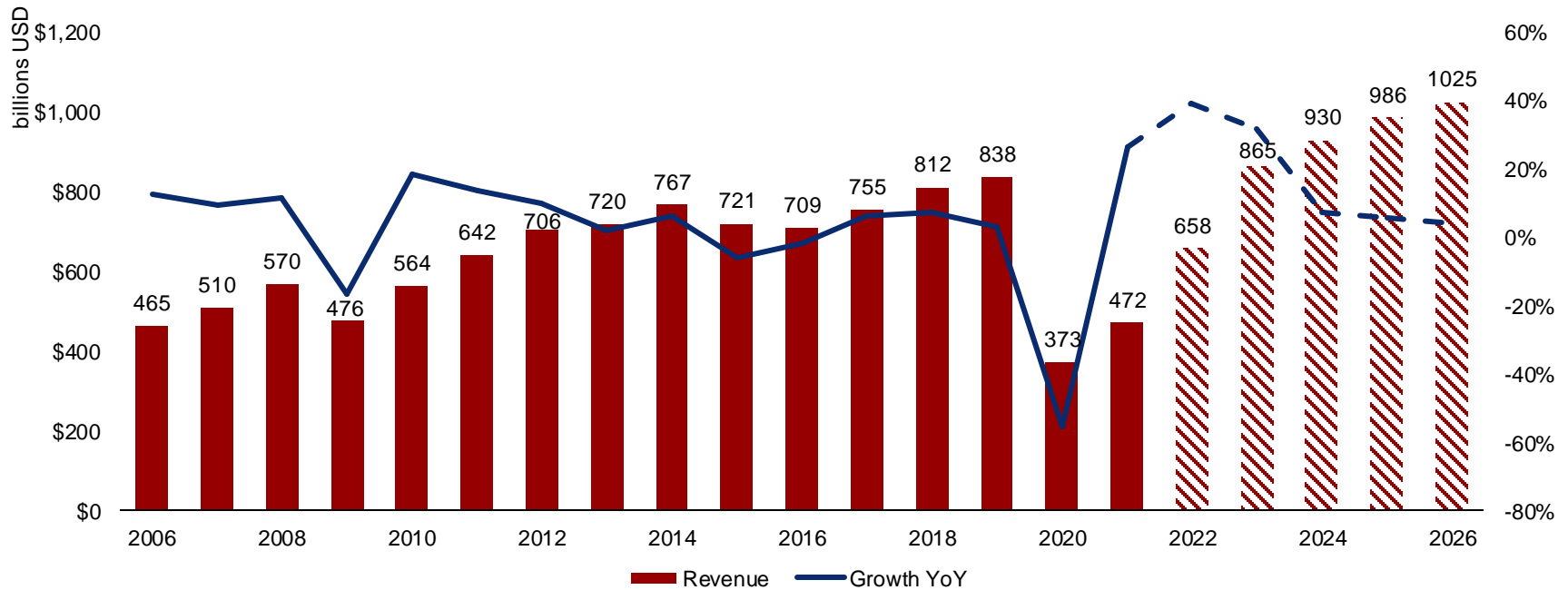
Thesis 1 – Expected Air Travel Market Currently Being Underestimated in Post-Covid
Recessionary Environment

Section III



Strong revenue growth for airlines

Revenue & YoY Revenue Growth for Airline Industry



Airline Industry Timeline



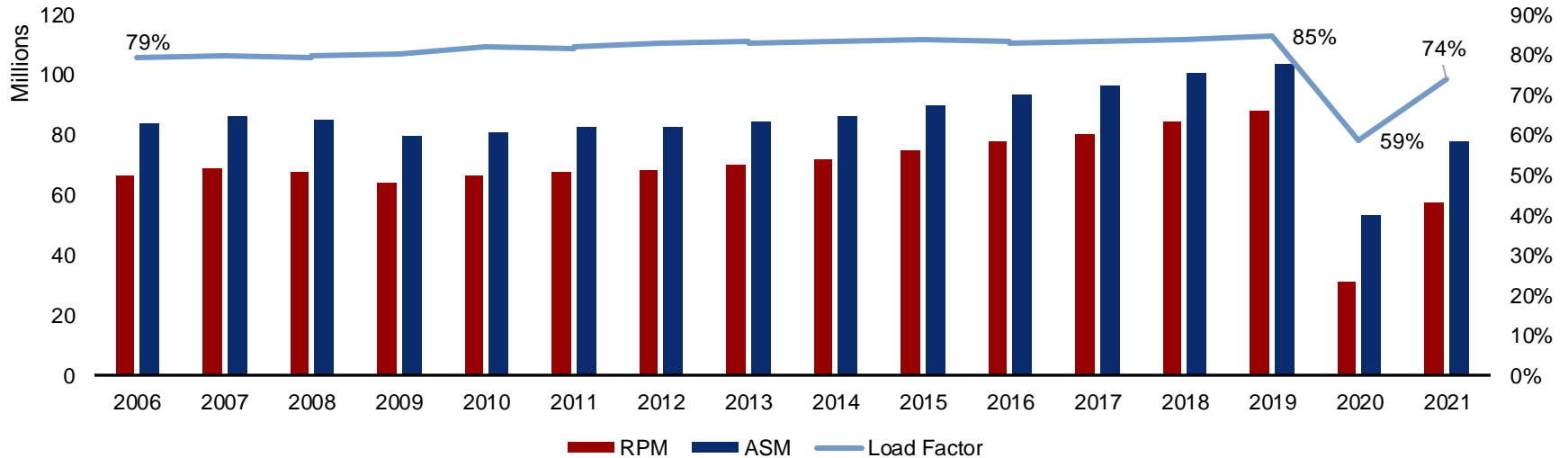
Airline revenues are still more than 25% lower than pre-pandemic levels

Source: CSI Market

Expected Growth in Key Industry Metrics

Forecast of RPM, ASM and Load Factor

Historical RPM, ASM, and Load Factor



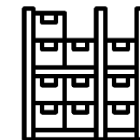
Revenue Passenger Mile (RPM)

- Airline Traffic Measure
- Calculated by multiplying passenger by distance traveled
- Increases with higher demand



Available Seat Miles (ASM)

- Airline Capacity Measure
- Calculated by multiplying available seats by distance traveled
- Increases with more airplanes



Load Factor

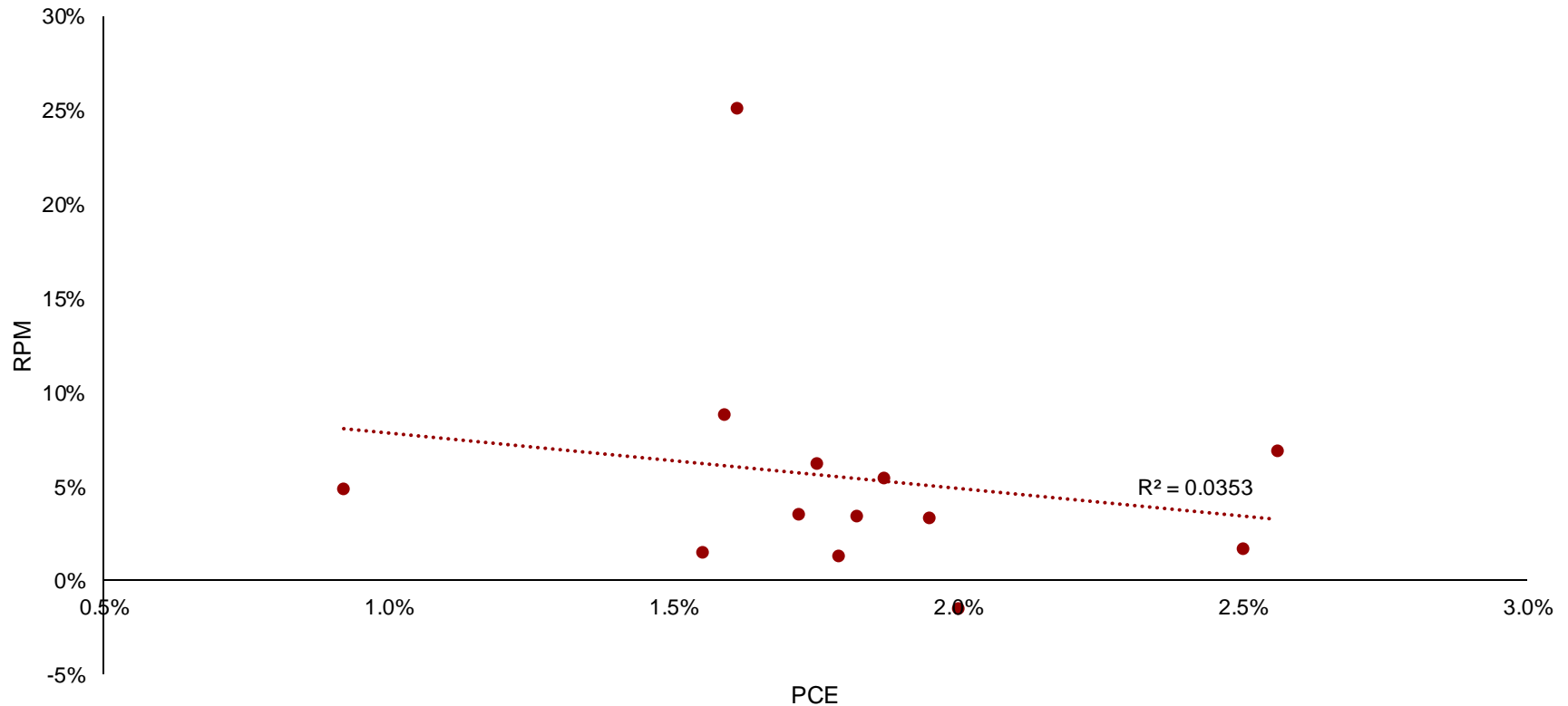
- Airline used capacity measure
- Calculated by dividing RPM by ASM
- The higher the better

Historically load factor tends to increase as RPM and ASM increase

Source: IATA

Statistically insignificant relationship between PCE and RPM

PCE Effect on RPM



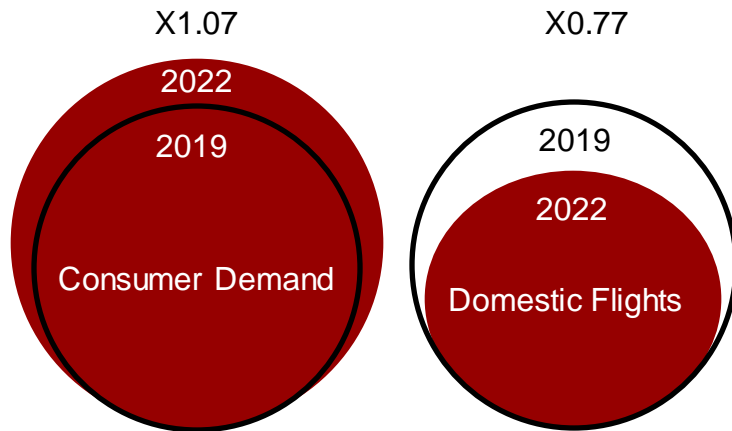
The regression shows a statistically insignificant relationship between RPMs and PCE such that it doesn't drive / inhibit air travel demand (P Value=0.27)

Airlines can pass the cost to customers

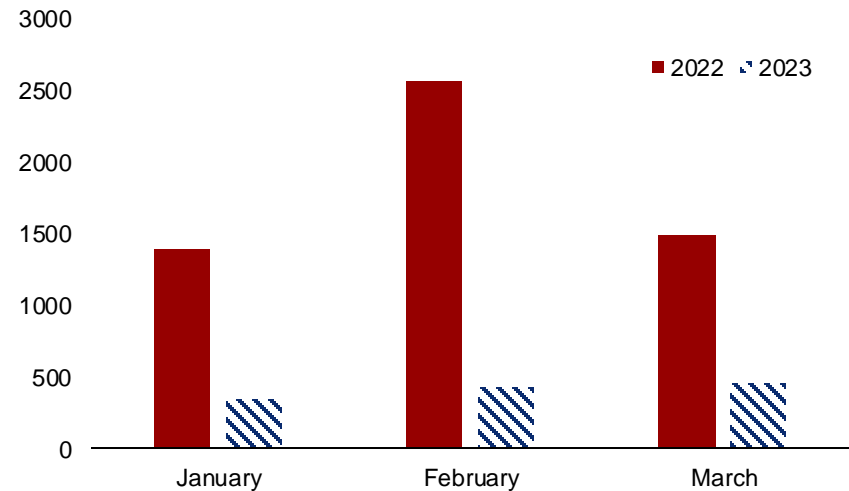
Source: IATA

Consumer demand for flights will catch up

Domestic Flights Demand



Expected Covid Death Rates U.S.



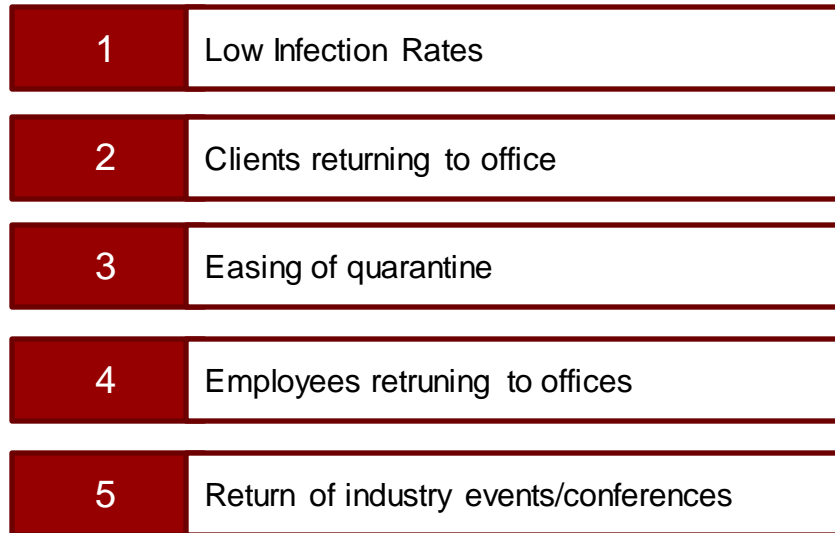
- Americans still have 75% of the excess savings accumulated during the pandemic era and 54% of them are looking forward to “make up” trips after 2 years not being able to travel
- Family gatherings will push air travel demand during the holidays as 6 out of 10 Americans are expected to travel to see their family and for 49% of them it will be by plane
- With low unemployment and rising wage people are still expected to have the means to travel and demand probably will not exceed the limited supply by airlines

Domestic flights should eventually follow consumer demand because of easing restrictions

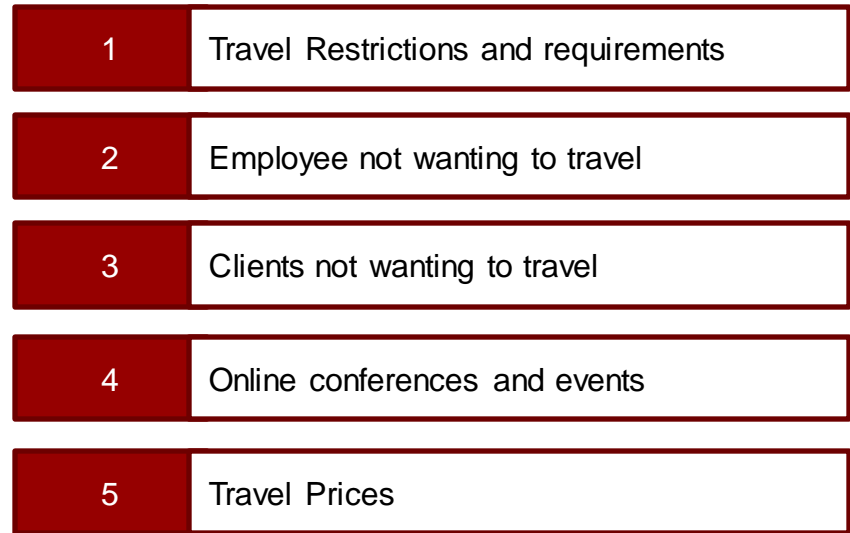
Source: IATA

Factors affecting business travel

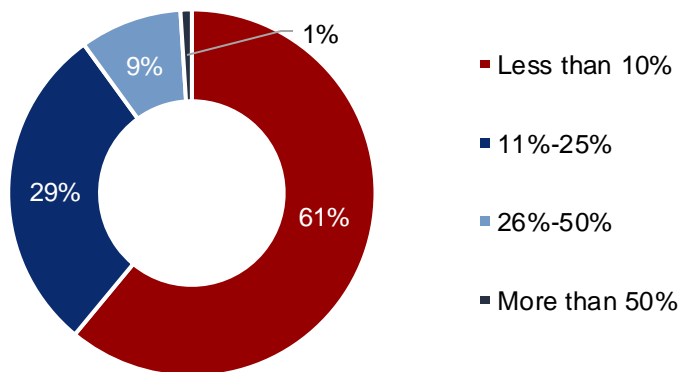
Factors FOR Business Travel Return



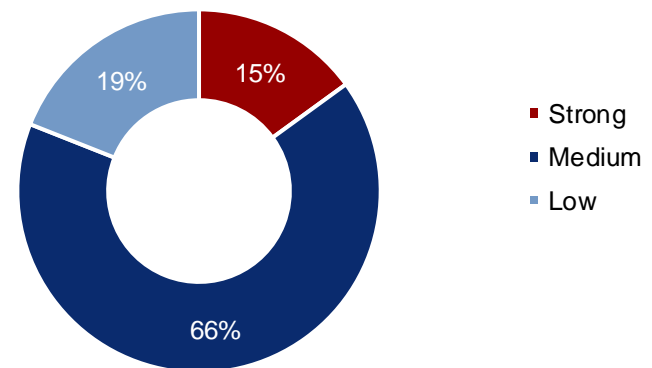
Factors AGAINST Business Travel Return



Companies Reducing Business Travel Due to ESG Concerns



Survey for Impact of Variant on Business Travel Decisions



Most Factors are Still Linked to Covid

Source: Deloitte

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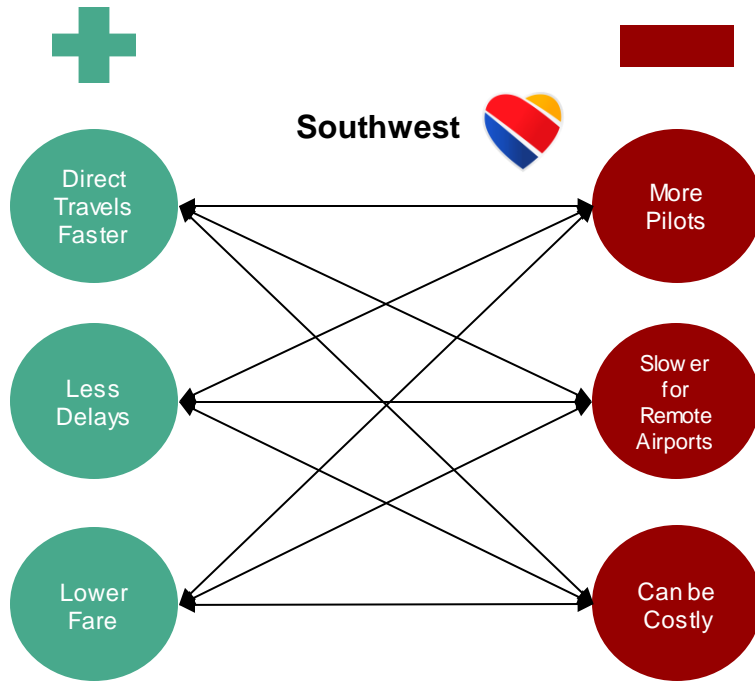
Thesis 2 – Southwest Airlines' Operational Strategy is Optimal for Success Given Current Market Conditions

Section IV

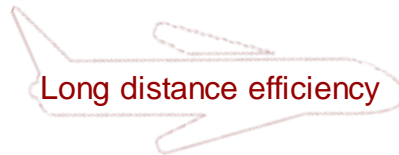
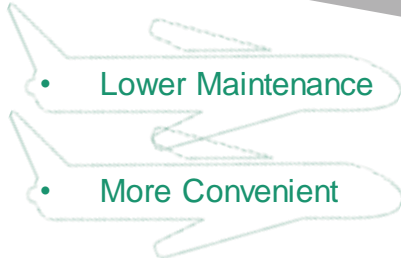


Boeing 737 & point-to-point = better efficiency

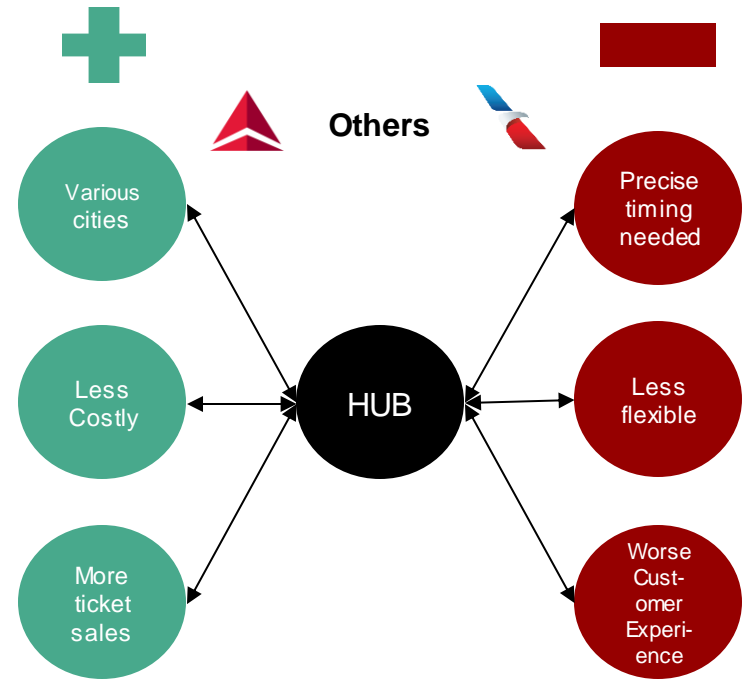
Point to Point



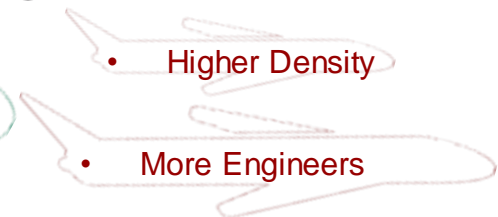
Boeing 737 only



Hub and Spoke



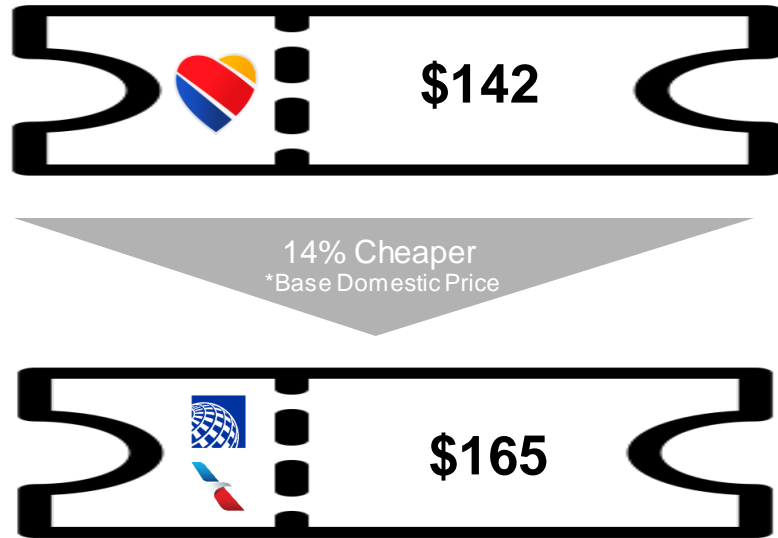
various airplanes



Less Impacted by Reduced Business Travel

High inflation increases southwest appeal

Lower Ticket Prices



Fewer Extra Costs

	Southwest	United
\$		
	~45	~60
	0	25+
	~20	15+

Better boarding process



As a result of their culture of hospitality driven by putting employees first, Southwest is ranked #2 in customer satisfaction

More room to growth



Leisure Flights

Capacity:

- +10% Expected Increase YoY Q1 23
- +14% Exected Increase YoY Q2 23

Overview:

- ATS-developed products & components (hardware / software)



“

If we had all the pilots we needed we could probably fly 5% to 8% more ASMs*

”

-Bob Jordan (CEO)

Business Travel

Higher Reliability:

- 18 New Airports
- Further Locations
- Less flight cancellations

Strategy:

- Maintain less profitable routes to be ready for the rebound

Outcome:

- 75% of 2019 Capacity in September
- Full capacity expected in Q4 2023



Others

Chase Partnership:

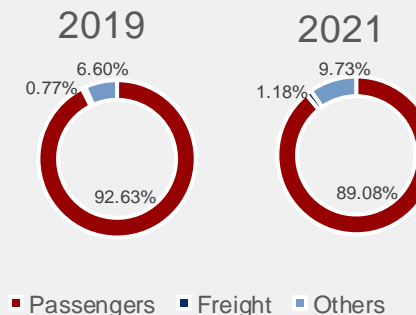
- New Credit Card
- Option For Customer to Accumulate Points

Contracts With Big Organizations:

- Doubled these contracts since 2018
- No extra fees for special equipment (Cameras, Instruments)

Miscellaneous:

- Higher freight also expected



*Available seat miles

Southwest already surpassed 2019 revenue without being at full capacity

Record Q2 and Q3 results



Labour

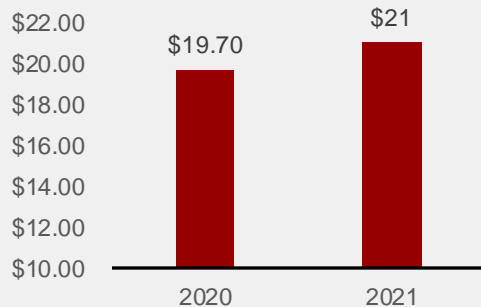
Pilots:

- Expect to Hire 2100 next Year
- Training Centers Full
- Target Pilot#: End of 2023

Overall:

- Plan to Hire 10,000 Workers in 2023
- Increased Productivity of 80 FTEs per aircraft
- Proposed many union agreements Wage Inflation Easing in 2023

Average Hourly Wage



New Equipment

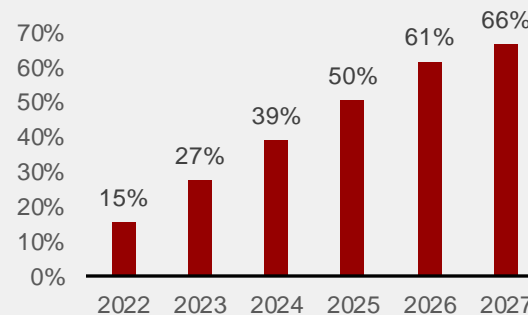
Boeing 737-Max:

- 14% More fuel Efficient
- Less CO2 Emissions
- Lower Maintenance Costs
- Extended Range
- Greater Capacity

Expectations:

- Replace most of fleet with 737-max
- Most delays in improvement of the 737-max have been fixed

737-Max Fleet Weight



Oil Hedges

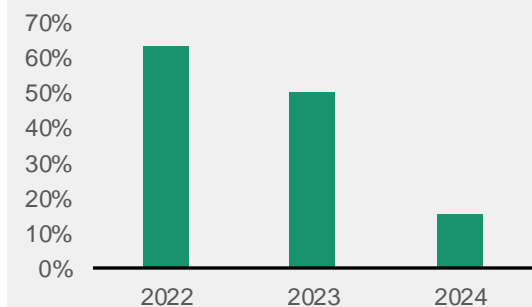
Strategy:

- Team of 4 traders
- Only call options and call spreads
- Aim to Hedge minimum 50% of fuel costs per Year

Results:

- Hedged at 60\$ per barrel of Brent
- Actual Brent Price:88\$
- Expected to save more than \$1Billion this year with this measure

Maximum Fuel Hedging per Year



Over the last year Southwest beat earnings estimates by 18% on average

Investment grade rating

Credit Rating

FitchRatings

BBB+



Fitch continues to view Southwest's credit profile as one of the strongest among global airline



S&P Global

BBB



S&P Global Ratings affirms Southwest Airlines at "BBB", the outlook is positive



MOODY'S

Baa1



Southwest Baa1 rating reflects its historically conservative capital structure, with very low debt-to-EBITDA



Effective Interest Rate



3.18%



4.23%



2.71%

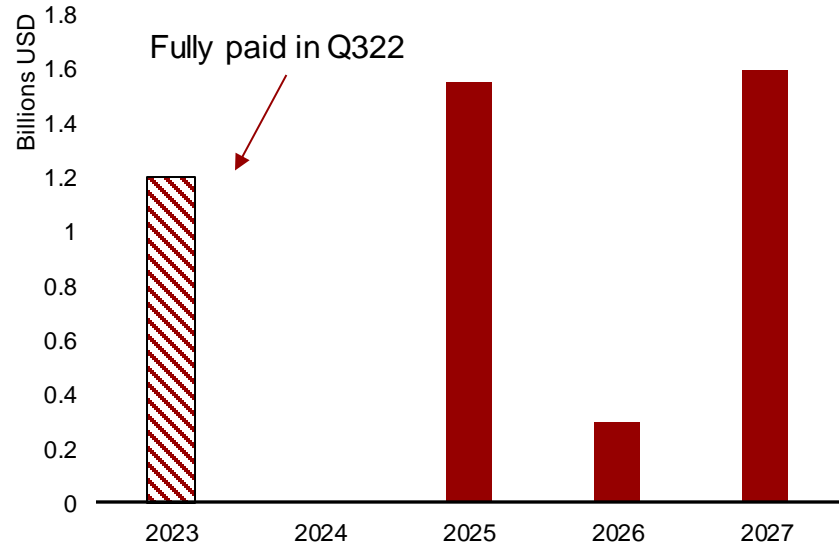


2.50%



4.16%

Low Risk in Short-Term: Maturing Debt



Cash = \$13.7 billion



Debt = \$8.7 billion



Net Cash = \$5 billion

Only big airline with investment grade rating across the board

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Valuation

Section V



RPMs	A revenue passenger mile is one paying passenger flown one mile. Also referred to as “traffic,” which is a measure of demand for a given period.
Yield	Also referred to as “nominal passenger revenue yield,” this is the average cost paid by a paying passenger to fly one mile, which is a measure of revenue production and fares.
ASMs	An available seat mile is one seat (empty or full) flown one mile. Also referred to as “capacity,” which is a measure of the space available to carry passengers in a given period.
Load	Revenue passenger miles divided by available seat miles, which is used as a metric for utilization.

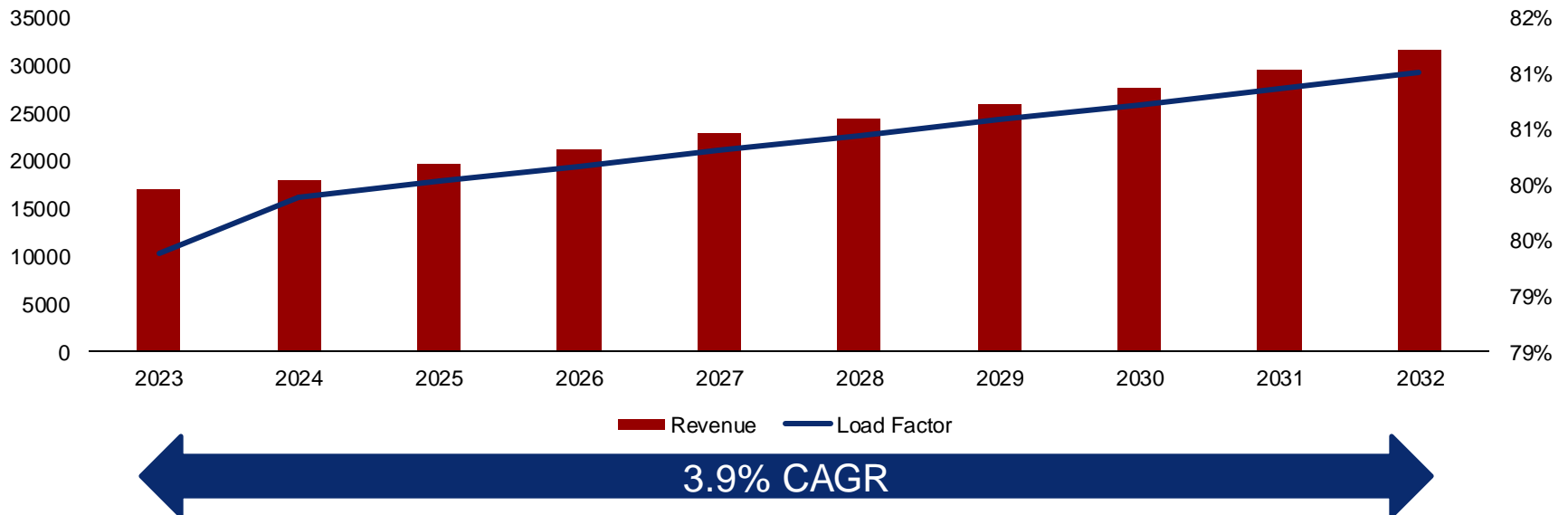
$$\text{RPMs} \times \text{Yield} = \text{Total Passenger Revenue}$$

$$\text{RPMs} \div \text{ASMs} = \text{Load Factor}$$

Model Drivers



- 1 4.8% RPM CAGR growth rate 2023-2032 per FAA vs. 5.4% historical
- 2 2.24% Nominal Yield Passenger Yield CAGR growth rate per FAA vs. 1.69% historical
- 3 81% Load Factor projection by end of explicit period vs. 80.1% historical
- 4 2.9% ASM CAGR projected based on RPM and Load Factor projections vs. 4.3% historical

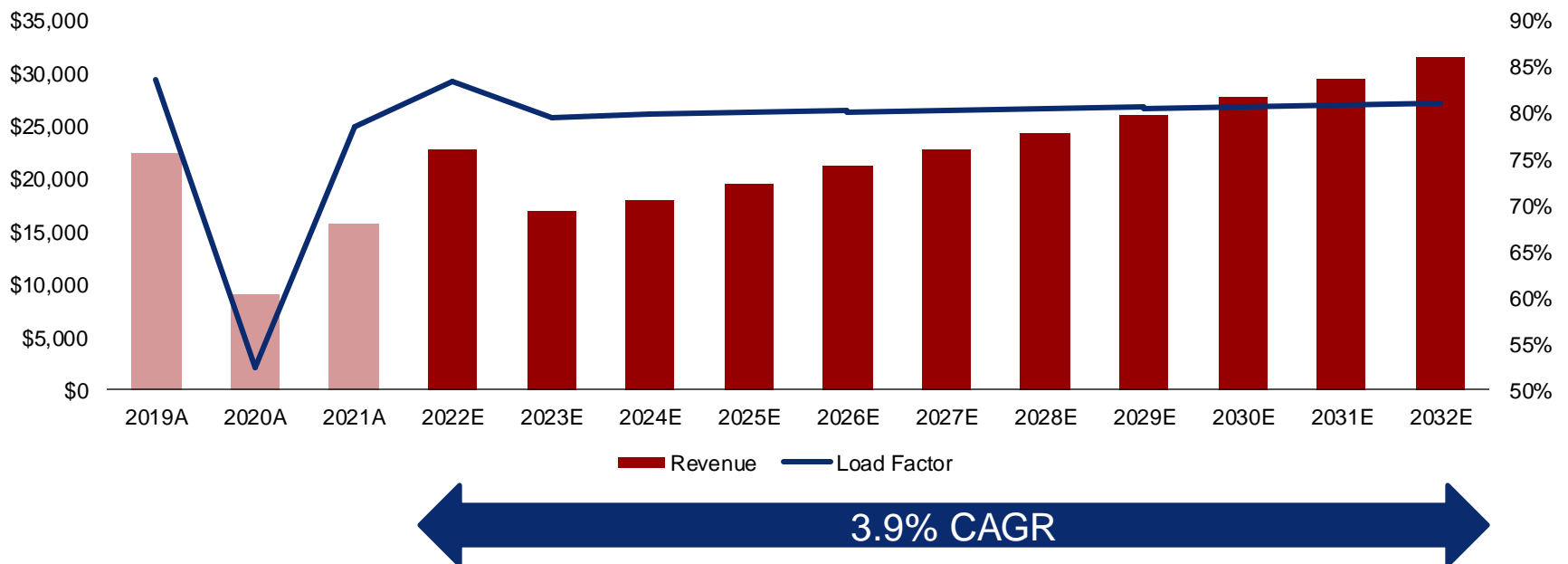


Source: FAA, IHS Markit

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Source: FAA, IHS Markit

Model Assumptions



- 1 Real Personal Consumption Exp. Per Capita (\$2012) of \$53,157 by 2032 with a 2.4% CAGR from 2023-2032
- 2 Refiners Acquisition Average (\$ per Barrel) of \$72.6 by 2032 with a -0.3% CAGR from 2023-2032
- 3 Consumer Price Index: 2.3% CAGR from 2023-2032
- 4 Unemployment Rate of 4.3% by the end of 2032 with a 70bps CAGR from 2023-2032
- 5 Made use of Fed data to forecast RPMs and Yields in 2023 and 2024.
- 6 Projected a 2023 recession and slight recovery in 2024 based on Fed data as well as our own view with regards to changing Load Factors.

Source: FAA, HIS Markit

Discounted Cash Flow Analysis

Unlevered Free Cash Flow Build										
<i>in millions of USD unless otherwise stated</i>										
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Period	1	2	3	4	5	6	7	8	9	10
EBIT	\$2,135	\$2,328	\$2,479	\$2,638	\$2,804	\$2,977	\$3,162	\$3,359	\$3,571	\$3,797
Less: Taxes	\$448	\$489	\$521	\$554	\$589	\$625	\$664	\$705	\$750	\$797
Tax Rate	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
NOPAT	\$1,686	\$1,839	\$1,958	\$2,084	\$2,215	\$2,352	\$2,498	\$2,654	\$2,821	\$2,999
Add: Depreciation & Amortization	1,187	1,213	1,303	1,388	1,465	1,532	1,603	1,677	1,755	1,836
Less: Capital Expenditures	(1,313)	(1,342)	(1,442)	(1,536)	(1,621)	(1,696)	(1,774)	(1,856)	(1,942)	(2,032)
Less: Change in Net Working Capital	(283)	185	413	396	381	358	382	407	435	464
Unlevered Free Cash Flow	\$1,277	\$1,895	\$2,232	\$2,332	\$2,440	\$2,546	\$2,709	\$2,882	\$3,068	\$3,267
Discount Factor	0.92	0.85	0.78	0.72	0.66	0.61	0.56	0.51	0.47	0.43
PV of Unlevered Free Cash Flows	\$1,174	\$1,603	\$1,737	\$1,668	\$1,606	\$1,541	\$1,508	\$1,476	\$1,445	\$1,415
UFCF Growth Rate		48.41%	17.81%	4.46%	4.65%	4.34%	6.38%	6.42%	6.45%	6.49%

Bridge to Equity (Perpetual)

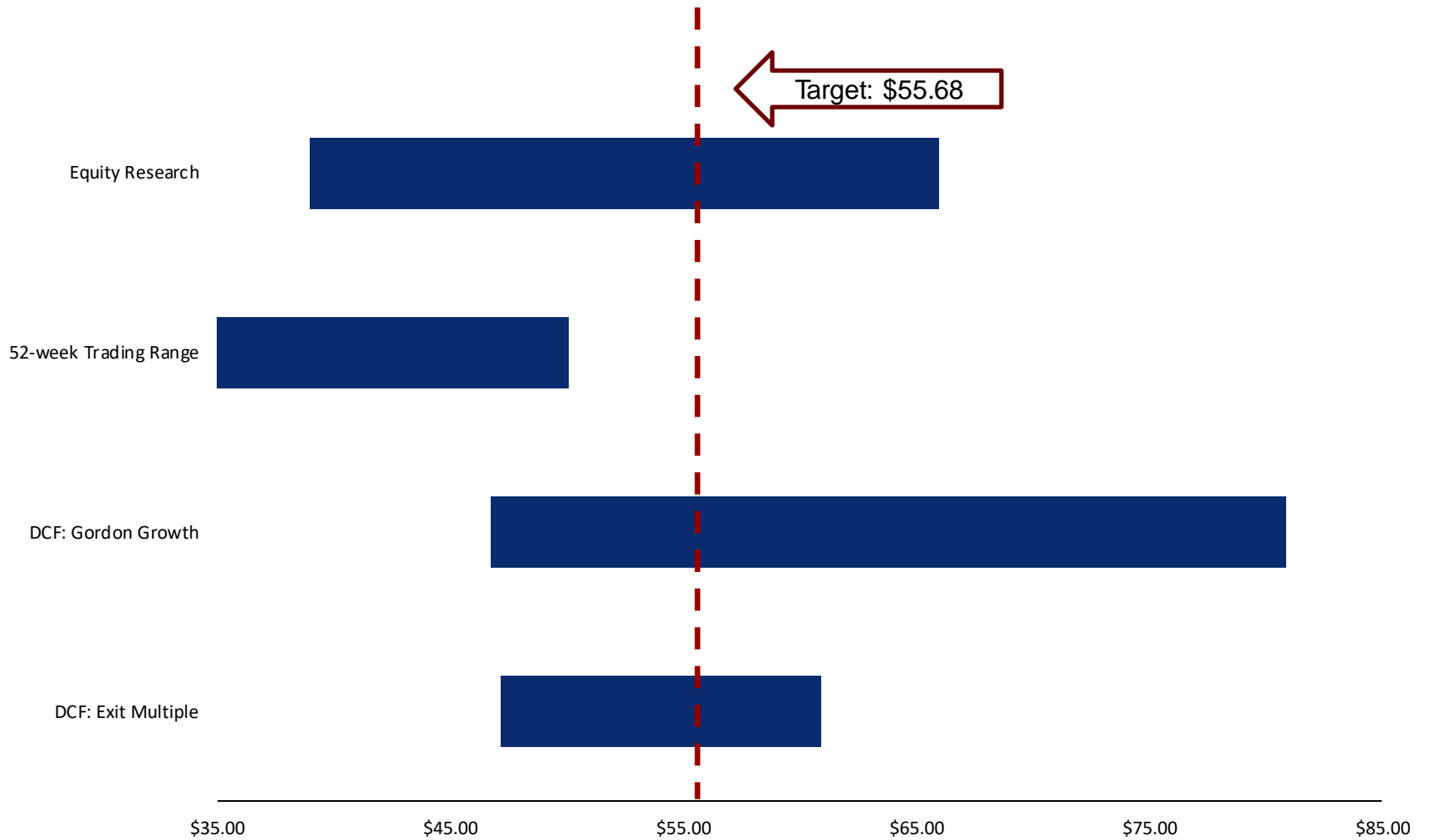
2032E Unlevered FCF	\$3,267
Perpetual Growth Rate	1.00%
2032E Terminal Value	\$42,700
Discount Factor	0.43
PV of Terminal Value	\$18,493
PV of Terminal Value	\$18,493
PV of Sum of Unlevered FCF	\$15,172
Enterprise Value	\$33,665
Less: Net Debt	3,561
Less: Capital Leases	
Add: Investments Unconsolidated S	
Less: Non-Controlling Interests	
Implied Equity Value	\$37,226
Shares Outstanding (Millions)	638.3
Implied Share Price	\$58.32
Upside/Downside	45.51%

Gordon Growth - Implied Share Price

	WACC				
	6.7%	7.7%	8.7%	9.7%	10.7%
0.50%	\$ 74.97	\$ 64.38	\$ 56.41	\$ 50.21	\$ 45.26
0.75%	\$ 76.89	\$ 65.68	\$ 57.33	\$ 50.88	\$ 45.76
1.00%	\$ 78.96	\$ 67.07	\$ 58.31	\$ 51.59	\$ 46.29
1.25%	\$ 81.23	\$ 68.57	\$ 59.35	\$ 52.34	\$ 46.85
1.50%	\$ 83.72	\$ 70.19	\$ 60.46	\$ 53.14	\$ 47.43

Exit Multiple - Implied Share Price

	WACC				
	6.7%	7.7%	8.7%	9.7%	10.7%
4.20x	\$ 51.25	\$ 48.19	\$ 45.39	\$ 42.84	\$ 40.49
5.20x	\$ 55.85	\$ 52.38	\$ 49.22	\$ 46.32	\$ 43.68
6.20x	\$ 60.45	\$ 56.57	\$ 53.04	\$ 49.81	\$ 46.86
7.20x	\$ 65.05	\$ 60.76	\$ 56.86	\$ 53.30	\$ 50.04
8.20x	\$ 69.65	\$ 64.95	\$ 60.68	\$ 56.78	\$ 53.23



Comparable Company Analysis

Peer Group (in US\$ M, except ratios)	Ticker	Market Cap.	Enterprise Value	NTM FWD P/E	EV / LTM EBIT	EV / EBIT FY+1	EV / EBIT FY+2	EV / LTM EBITDA	EV / EBITDA FY+1	EV / EBITDA FY+2
Airline Companies										
JetBlue Airways Corporation	JBLU	2,578	5,033	8.8x	NM	NM	12.6x	6.2x	9.5x	4.2x
American Airlines Group Inc.	AAL	9,086	42,536	8.8x	NM	34.1x	15.5x	6.3x	9.0x	7.0x
Alaska Air Group, Inc.	ALK	6,013	6,818	10.3x	10.0x	9.2x	7.8x	3.8x	4.7x	4.2x
Delta Air Lines, Inc.	DAL	22,644	46,212	7.6x	16.5x	13.7x	9.2x	6.2x	7.9x	6.3x
United Airlines Holdings, Inc.	UAL	14,349	34,030	6.7x	41.5x	14.8x	8.7x	5.2x	6.7x	5.0x
Spirit Airlines, Inc.	SAVE	2,333	6,565	41.4x	NM	NM	32.4x	14.2x	15.1x	7.3x
Median		7,550	20,424	8.8x	16.5x	14.2x	10.9x	6.2x	8.4x	5.6x
Mean		9,500	23,532	13.9x	22.7x	17.9x	14.4x	7.0x	8.8x	5.7x
Southwest	LUV	23,798	20,237	14.2x	13.6x	10.5x	8.0x	5.0x	6.4x	5.2x
Premium / (Discount)				61.9%	-17.6%	-26.4%	-26.5%	-19.3%	-24.7%	-6.7%

Peer Group (in US\$ M, except ratios)	Ticker	REV Growth FY+1	REV Growth FY+2	EBITDA Growth FY+1	EBITDA Growth FY+2
Airline Companies					
JetBlue Airways Corporation	JBLU	7.6%	7.1%	12.2%	14.5%
American Airlines Group Inc.	AAL	4.7%	4.3%	12.0%	13.3%
Alaska Air Group, Inc.	ALK	5.8%	5.1%	15.7%	17.6%
Delta Air Lines, Inc.	DAL	5.2%	3.8%	14.1%	16.4%
United Airlines Holdings, Inc.	UAL	12.7%	5.6%	13.5%	15.2%
Spirit Airlines, Inc.	SAVE	20.9%	12.4%	14.7%	16.5%
Median		6.7%	5.3%	13.8%	15.8%
Mean		9.5%	6.4%	13.7%	15.6%
Southwest	LUV	10.5%	6.2%	15.7%	17.5%
Premium / (Discount)		56.7%	17.3%	13.3%	10.9%

Sources: CapitalIQ, Bloomberg

Desautels Capital Management

Honours in Investment Management

Risks and Catalysts

Section IV



Risks and Catalysts

Risks



1 Global Recession slowing demand for travel

2 Pilot Shortage

3 New covid variant

Catalysts



1 Rebound in consumer and business travel

2 Recent bankruptcies during covid create less competitive market

3 Falling oil prices or a compression of the jet fuel premium

The future positive impacts of catalysts should outweigh the risks for airlines

Desautels Capital Management

Honours in Investment Management

Appendix

Section VI



Strong growth potential across scenarios

Bear 

Price Target: \$41.71
Implied Upside:
4.08%

Base 

Price Target: \$55.68
Implied Upside:
38.92%

Bull 

Price Target: \$63.78
Implied Upside:
59.13%

Exit Multiple - Implied Share Price					
WACC					
	6.7%	7.7%	8.7%	9.7%	10.7%
4.20x	\$ 39.05	\$ 36.76	\$ 34.67	\$ 32.75	\$ 31.00
5.20x	\$ 42.70	\$ 40.08	\$ 37.70	\$ 35.52	\$ 33.52
6.20x	\$ 46.35	\$ 43.41	\$ 40.73	\$ 38.28	\$ 36.05
7.20x	\$ 50.00	\$ 46.73	\$ 43.76	\$ 41.05	\$ 38.58
8.20x	\$ 53.65	\$ 50.06	\$ 46.79	\$ 43.81	\$ 41.10

Gordon Growth - Implied Share Price					
WACC					
	6.7%	7.7%	8.7%	9.7%	10.7%
0.50%	\$ 54.57	\$ 47.01	\$ 41.33	\$ 36.92	\$ 33.39
0.75%	\$ 55.94	\$ 47.94	\$ 41.99	\$ 37.39	\$ 33.75
1.00%	\$ 57.43	\$ 48.94	\$ 42.69	\$ 37.90	\$ 34.13
1.25%	\$ 59.05	\$ 50.01	\$ 43.43	\$ 38.44	\$ 34.53
1.50%	\$ 60.83	\$ 51.18	\$ 44.23	\$ 39.01	\$ 34.94

Exit Multiple - Implied Upside					
WACC					
	6.6%	7.6%	8.6%	9.6%	10.6%
4.20x	-2%	-8%	-13%	-18%	-22%
5.20x	7%	1%	-5%	-11%	-16%
6.20x	17%	9%	2%	-4%	-9%
7.20x	26%	18%	10%	3%	-3%
8.20x	35%	26%	18%	10%	3%

Gordon Growth - Implied Upside					
WACC					
	6.6%	7.6%	8.6%	9.6%	10.6%
0.50%	39%	19%	5%	-7%	-16%
0.75%	42%	22%	6%	-5%	-15%
1.00%	46%	24%	8%	-4%	-14%
1.25%	51%	27%	10%	-3%	-13%
1.50%	55%	30%	12%	-1%	-12%

Exit Multiple - Implied Share Price					
WACC					
	6.7%	7.7%	8.7%	9.7%	10.7%
4.20x	\$ 51.25	\$ 48.19	\$ 45.39	\$ 42.84	\$ 40.49
5.20x	\$ 55.85	\$ 52.38	\$ 49.22	\$ 46.32	\$ 43.68
6.20x	\$ 60.45	\$ 56.57	\$ 53.04	\$ 49.81	\$ 46.86
7.20x	\$ 65.05	\$ 60.76	\$ 56.86	\$ 53.30	\$ 50.04
8.20x	\$ 69.65	\$ 64.95	\$ 60.68	\$ 56.78	\$ 53.23

Gordon Growth - Implied Share Price					
WACC					
	6.7%	7.7%	8.7%	9.7%	10.7%
0.50%	\$ 74.97	\$ 64.38	\$ 56.41	\$ 50.21	\$ 45.26
0.75%	\$ 76.89	\$ 65.68	\$ 57.33	\$ 50.88	\$ 45.76
1.00%	\$ 78.96	\$ 67.07	\$ 58.31	\$ 51.59	\$ 46.29
1.25%	\$ 81.23	\$ 68.57	\$ 59.35	\$ 52.34	\$ 46.85
1.50%	\$ 83.72	\$ 70.19	\$ 60.46	\$ 53.14	\$ 47.43

Exit Multiple - Implied Upside					
WACC					
	6.6%	7.6%	8.6%	9.6%	10.6%
4.20x	29%	21%	14%	8%	2%
5.20x	40%	32%	24%	16%	10%
6.20x	52%	42%	33%	25%	18%
7.20x	64%	53%	43%	34%	26%
8.20x	75%	63%	53%	43%	34%

Gordon Growth - Implied Upside					
WACC					
	6.6%	7.6%	8.6%	9.6%	10.6%
0.50%	91%	63%	43%	27%	14%
0.75%	96%	67%	45%	29%	16%
1.00%	101%	70%	48%	31%	17%
1.25%	107%	74%	51%	32%	18%
1.50%	114%	79%	53%	35%	20%

Exit Multiple - Implied Share Price					
WACC					
	6.7%	7.7%	8.7%	9.7%	10.7%
4.20x	\$ 58.08	\$ 54.55	\$ 51.33	\$ 48.38	\$ 45.68
5.20x	\$ 63.33	\$ 59.34	\$ 55.70	\$ 52.37	\$ 49.32
6.20x	\$ 68.59	\$ 64.13	\$ 60.06	\$ 56.35	\$ 52.96
7.20x	\$ 73.84	\$ 68.91	\$ 64.43	\$ 60.33	\$ 56.59
8.20x	\$ 79.10	\$ 73.70	\$ 68.79	\$ 64.31	\$ 60.23

Gordon Growth - Implied Share Price					
WACC					
	6.7%	7.7%	8.7%	9.7%	10.7%
0.50%	\$ 87.26	\$ 74.68	\$ 65.22	\$ 57.88	\$ 52.01
0.75%	\$ 89.53	\$ 76.22	\$ 66.32	\$ 58.67	\$ 52.61
1.00%	\$ 92.01	\$ 77.88	\$ 67.48	\$ 59.51	\$ 53.23
1.25%	\$ 94.71	\$ 79.67	\$ 68.72	\$ 60.41	\$ 53.89
1.50%	\$ 97.66	\$ 81.60	\$ 70.05	\$ 61.35	\$ 54.59

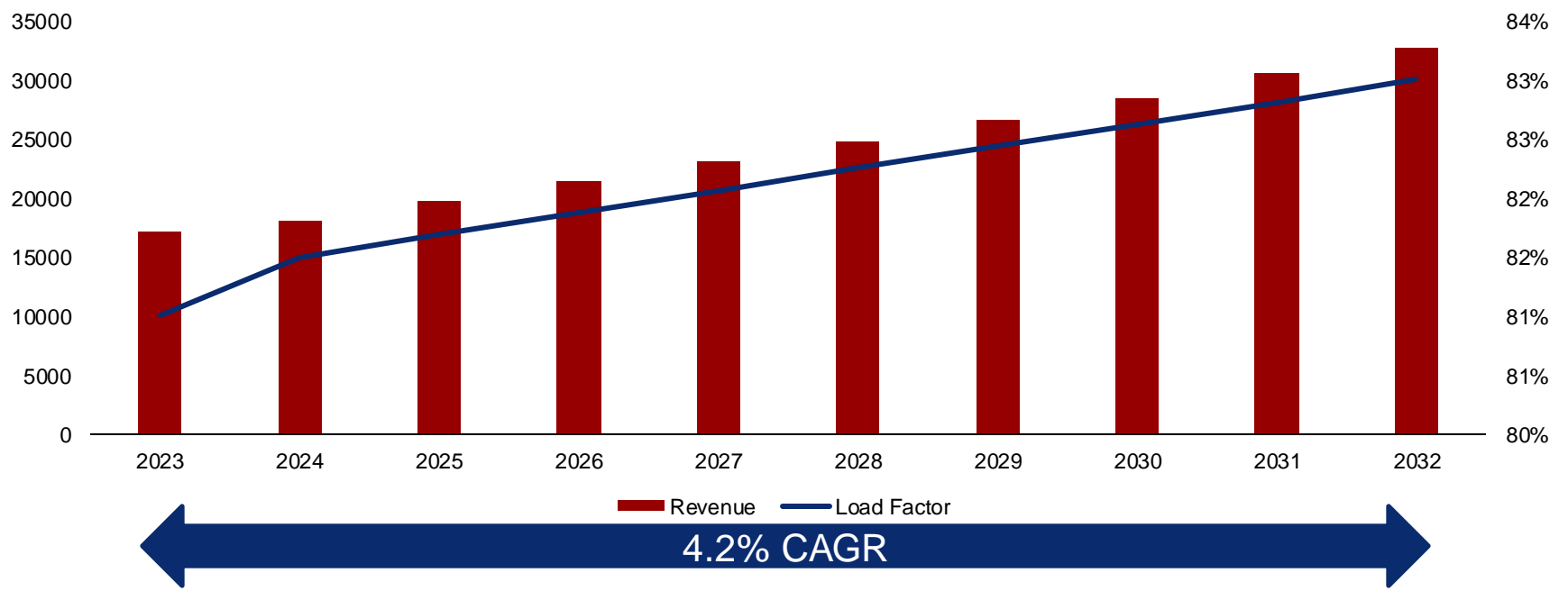
Exit Multiple - Implied Upside					
WACC					
	6.6%	7.6%	8.6%	9.6%	10.6%
4.20x	46%	37%	29%	22%	15%
5.20x	59%	49%	40%	32%	24%
6.20x	73%	61%	51%	42%	33%
7.20x	86%	73%	62%	52%	42%
8.20x	99%	85%	73%	62%	51%

Gordon Growth - Implied Upside					
WACC					
	6.6%	7.6%	8.6%	9.6%	10.6%
0.50%	122%	90%	65%	46%	31%
0.75%	128%	94%	68%	48%	33%
1.00%	135%	98%	71%	51%	35%
1.25%	142%	103%	74%	53%	36%
1.50%	150%	108%	78%	55%	38%

Model Drivers



- 1 5.4% RPM CAGR growth rate 2023-2032 per FAA vs. 5.4% historical
- 2 1.8% Nominal Yield Passenger Yield CAGR growth rate per FAA vs. 1.69% historical
- 3 83% Load Factor projection by end of explicit period vs. 80.1% historical
- 4 3.3% ASM CAGR projected based on RPM and Load Factor projections vs. 4.3% historical



Source: FAA, IHS Markit

Model Assumptions



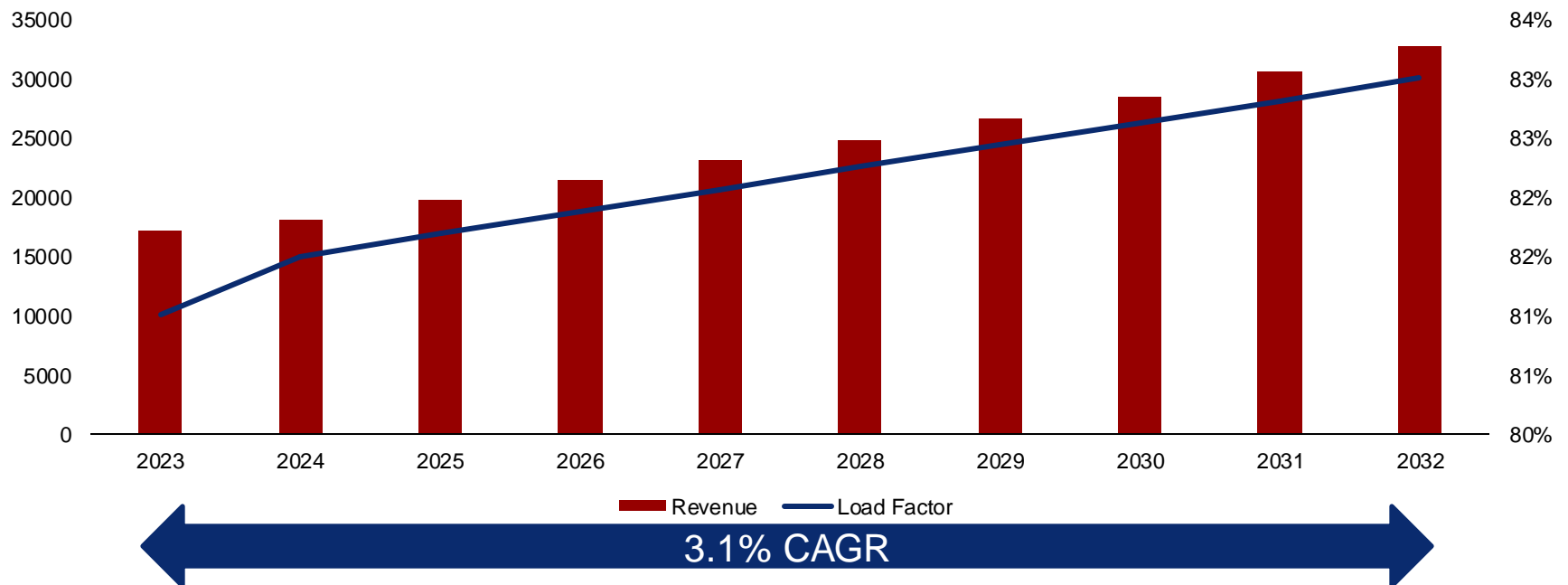
- 1 Real Personal Consumption Exp. Per Capita (\$2012) of \$56,626 by 2032 with a 2.8% CAGR from 2023-2032
- 2 Refiners Acquisition Average (\$ per Barrel) of \$59.9 by 2032 with a -1.3% CAGR from 2023-2032
- 3 Consumer Price Index: 1.9% CAGR from 2023-2032
- 4 Unemployment Rate of 4.1% by the end of 2032 with a 60bps CAGR from 2023-2032
- 5 Made use of Fed data to forecast RPMs and Yields in 2023 and 2024.
- 6 Projected a 2023 recession and slight recovery in 2024 based on Fed data as well as our own view with regards to changing Load Factors.

Source: FAA, IHS Markit

Model Drivers



- 1 3.8% RPM CAGR growth rate 2023-2032 per FAA vs. 5.4% historical
- 2 3.4% Nominal Yield Passenger Yield CAGR growth rate per FAA vs. 1.69% historical
- 3 78% Load Factor projection by end of explicit period vs. 80.1% historical
- 4 2.5% ASM CAGR projected based on RPM and Load Factor projections vs. 4.3% historical



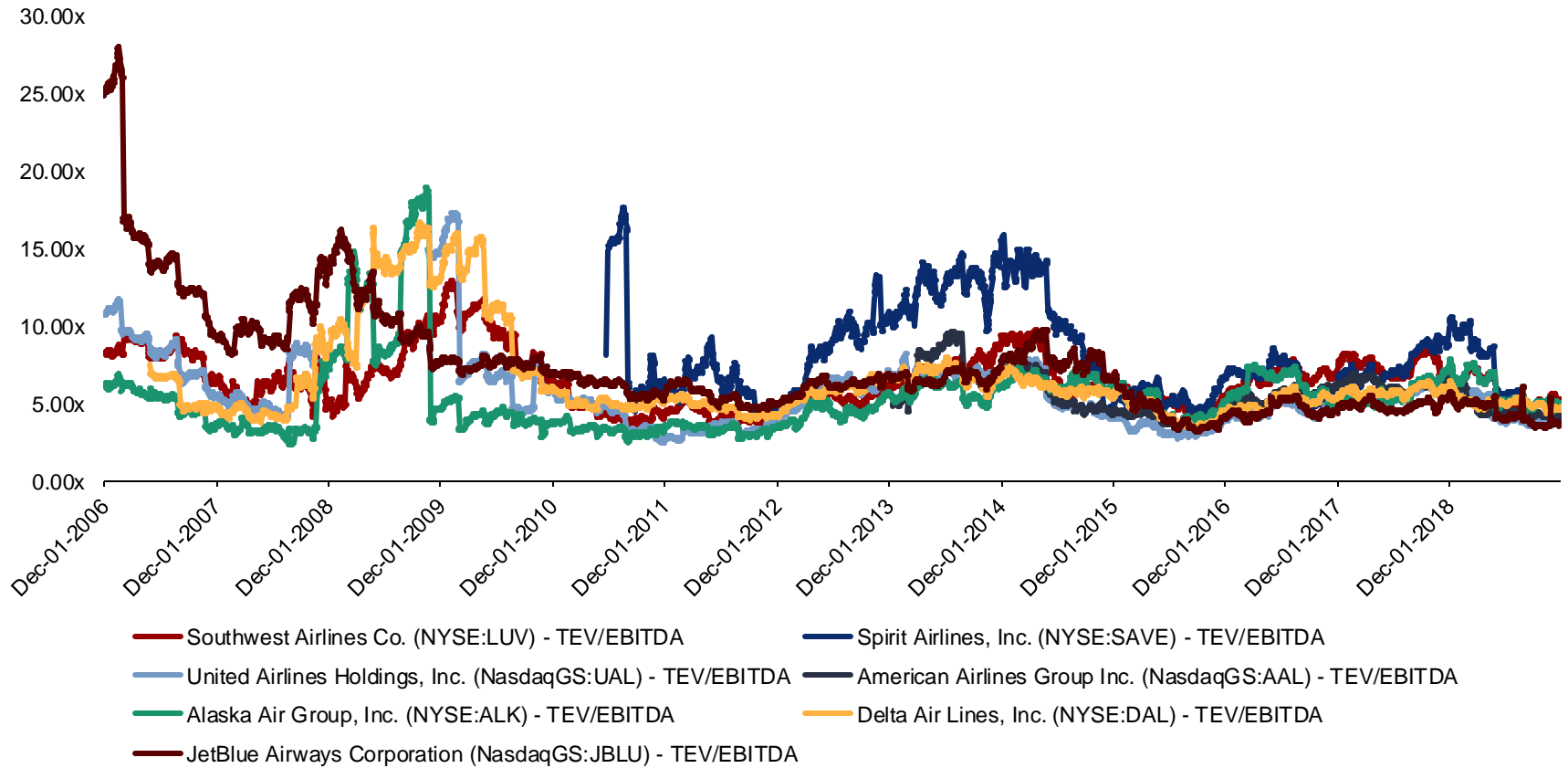
Source: FAA, IHS Markit

Model Assumptions

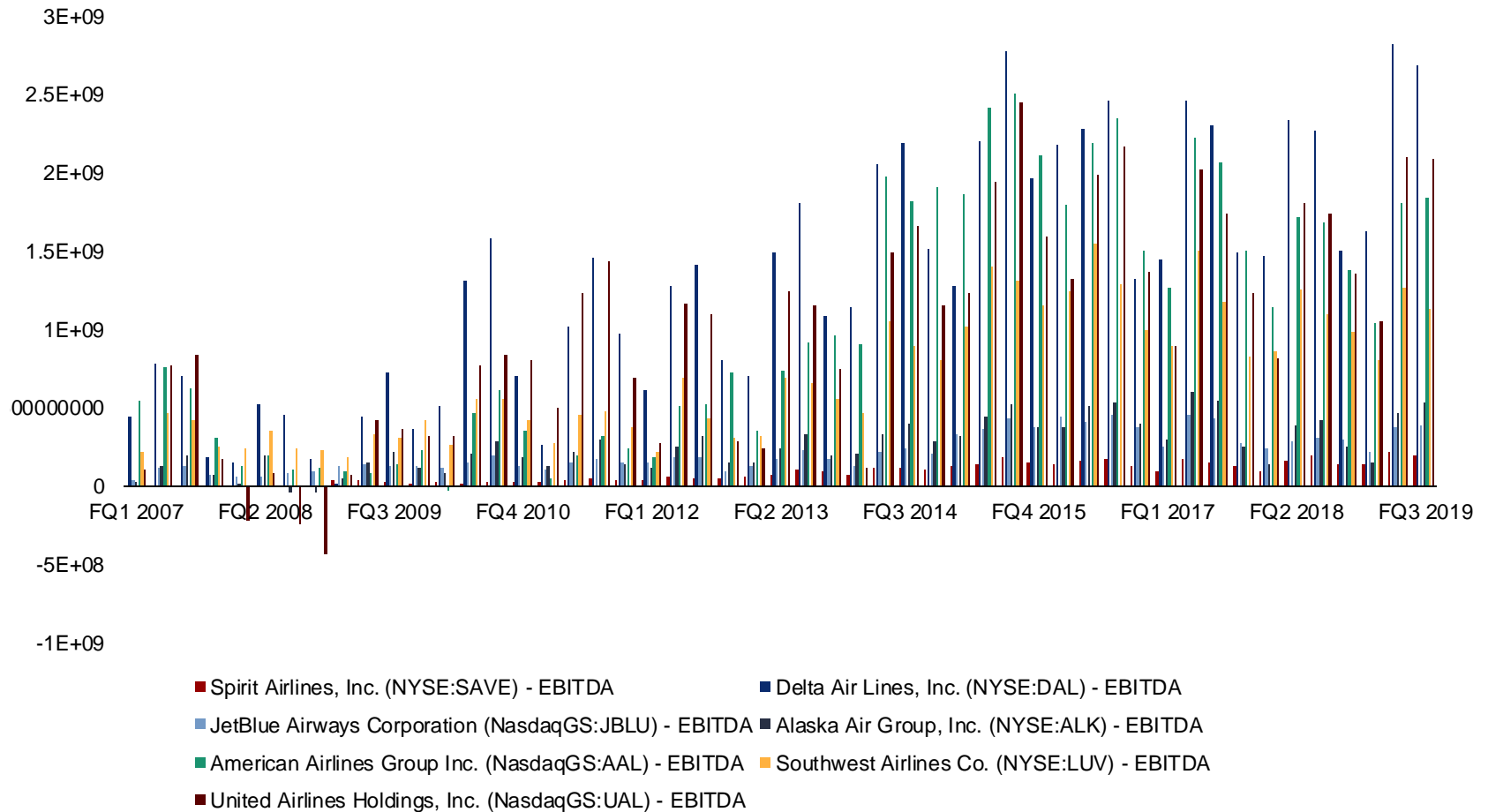


- 1 Real Personal Consumption Exp. Per Capita (\$2012) of \$48,484 by 2032 with a 1.6% CAGR from 2023-2032
- 2 Refiners Acquisition Average (\$ per Barrel) of \$93.7 by 2032 with a 1.9% CAGR from 2023-2032
- 3 Consumer Price Index: 3.4% CAGR from 2023-2032
- 4 Unemployment Rate of 4.8% by the end of 2032 with a -1.8% CAGR from 2023-2032
- 5 Made use of Fed data to forecast RPMs and Yields in 2023 and 2024.
- 6 Projected a 2023 recession and slight recovery in 2024 based on Fed data as well as our own view with regards to changing Load Factors.

Source: FAA, IHS Markit



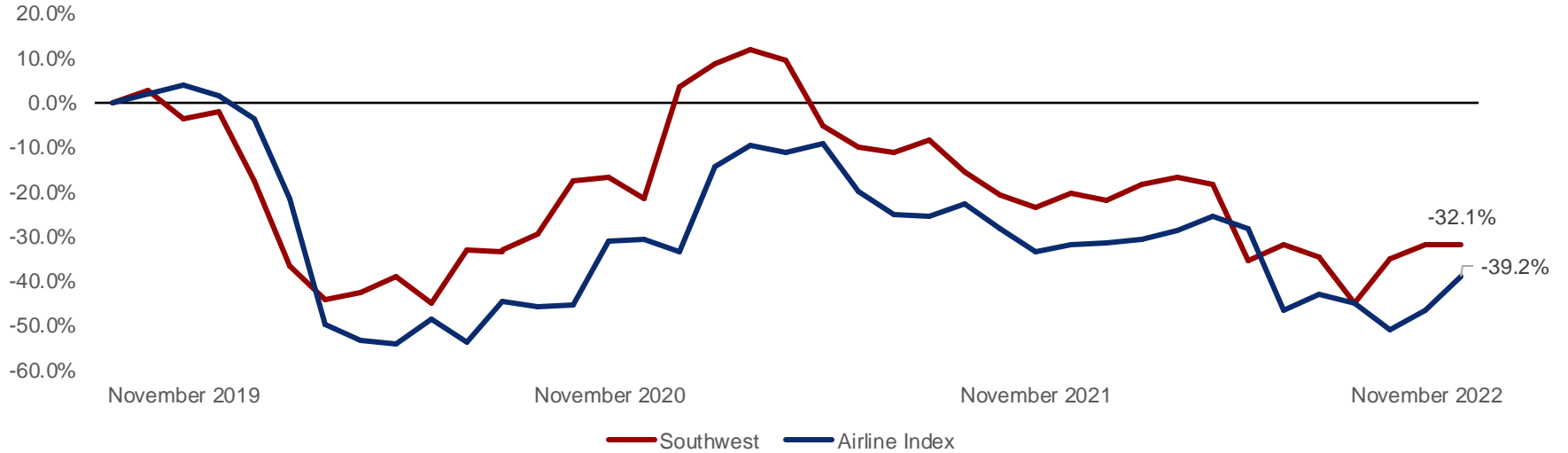
Source: CapIQ



Source: CapIQ

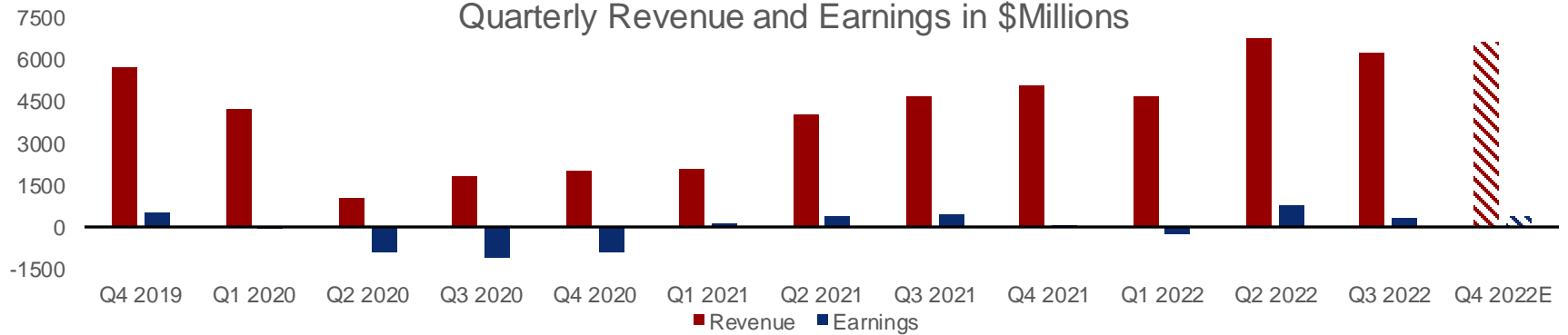
Superior Performance not Reflected in Share Price

3-Year Performance Comparison



Results During this 3-Year Period

Quarterly Revenue and Earnings in \$Millions

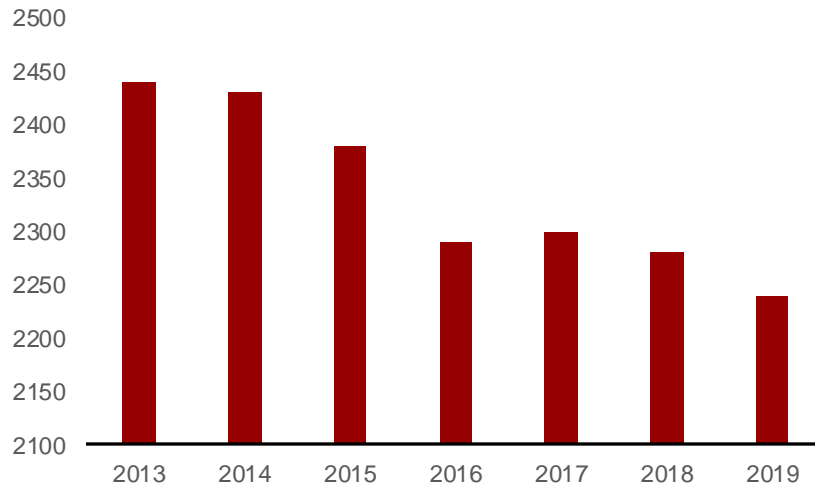


Results Have Grown Faster than Share Price

Stronger Impact Since 2010

More Efficient Fuel Consumption

Litre Fuel/ATK



1

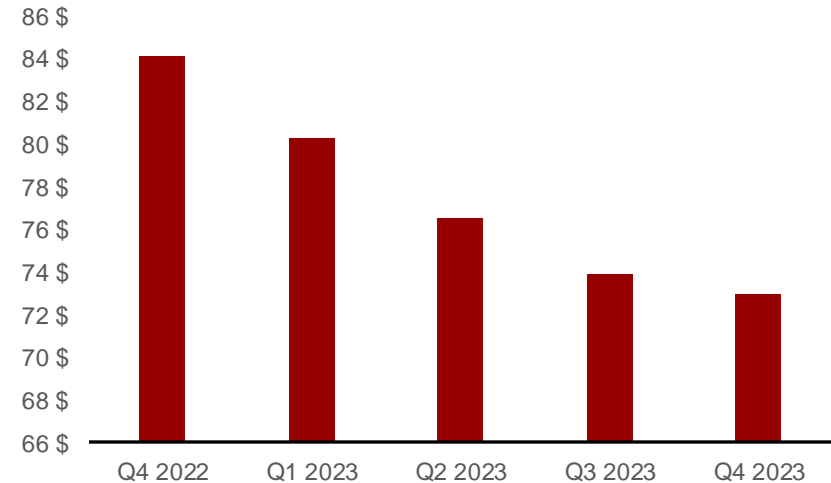
Higher load factor will lead economies of scale on the fuel cost side

2

Better airplanes and technology will reduce overall consumption overtime

Lower Oil Price in the Short-Term

Short-Term WTI Spot Oil Prices



1

The airline industry will profit from lower oil prices in the foreseeable future

2

Jet fuel price premium of around 50% will go back to the 17% average as more refinery ramp up their production

Airlines are in a good position on the cost side

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