

FINANCIAL RESEARCH ASSOCIATES
3rd ANNUAL DISTRESSED DEBT SUMMIT
October 6, 2005

Examining the Airline Industry: Where Does the Opportunity Lie?

Presented by

Mo Garfinkle, President and CEO



Arlington • Beijing • London • Shanghai • Shenzhen

The Distressed Debt Summit 2005

- ▶ You are in the Right Place . . .
- ▶ You are at the Right Panel . . .

**The U.S. Airline Industry
Is the Mother of
All Distressed Industries**

Q. Why Is the Airline Industry the Distressed Industry?

A. Because the U.S. Airline Industry, as an industry, is incapable of producing profits on a regular (forget consistent) basis

U.S. Airlines \neq Investment

U.S. Airlines \cong Trading Opportunities

Q. Why Is the U.S. Airline Industry Incapable of Producing Profits on a Sustainable Basis?

Answer #1: Don't blame Katrina and Rita

While they were terrible storms, neither was the Perfect Storm

Answer #2: The Perfect Storm is the regulatory environment created and countenanced by the U.S. Government since 1978 – the Year of Deregulation (and, by the way, the Year of the Horse in China)

The Perfect Storm . . . Brought to You by the U.S. Government

The U.S. Government:

1. Deregulated Entry

But:

2. Did not do away with Legacy Infrastructure:

Legacy Laws (e.g., RLA)

Legacy Contracts (e.g., aero-featherbedding
and unproductive work rules)

Legacy Costs (e.g., Defined Benefit Plans,
retiree benefits)

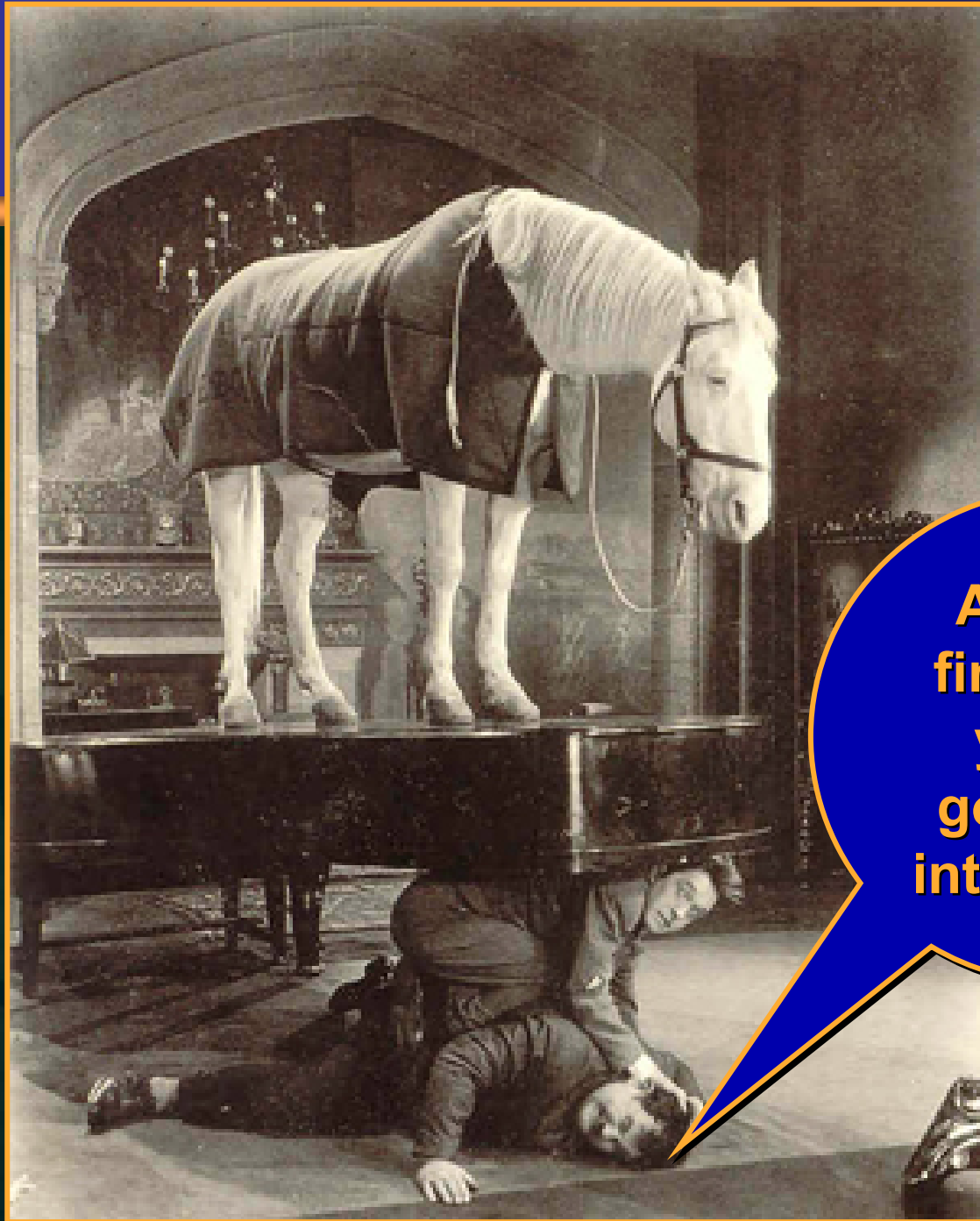
The Perfect Storm . . .

Brought to You by the U.S. Government

- 3. Creating an unlevel playing field**
and
- 4. Continued Barriers to Exit**
Bankruptcy Laws
Feline Factors
Golden Goose Factors
(restructuring money, equipment providers)
- 5. Continued laws and preventing cross-border mergers and ownership control by “them not-to-be-trusted foreigners”**



RESULT:



**Another
fine mess
you've
gotten us
into, Ollie!"**

Yet, There Is Hope Among the Ruined

Hope: Consolidation is (finally) just around the quarter

Legacy Consolidation Is a 2006 Event

Hunters	Prey in Play	Prey of Last Resort
AMR	Continental	US Airways
United	Northwest	
Delta		

► **Combinations are numerous, but results will be:**

- At least two major combinations announced in 2006
- *Adios* to some weaker hubs
- Less capacity irrationalization
- Boeing and Airbus will pay to play

Beyond Legacy Carrier Consolidation

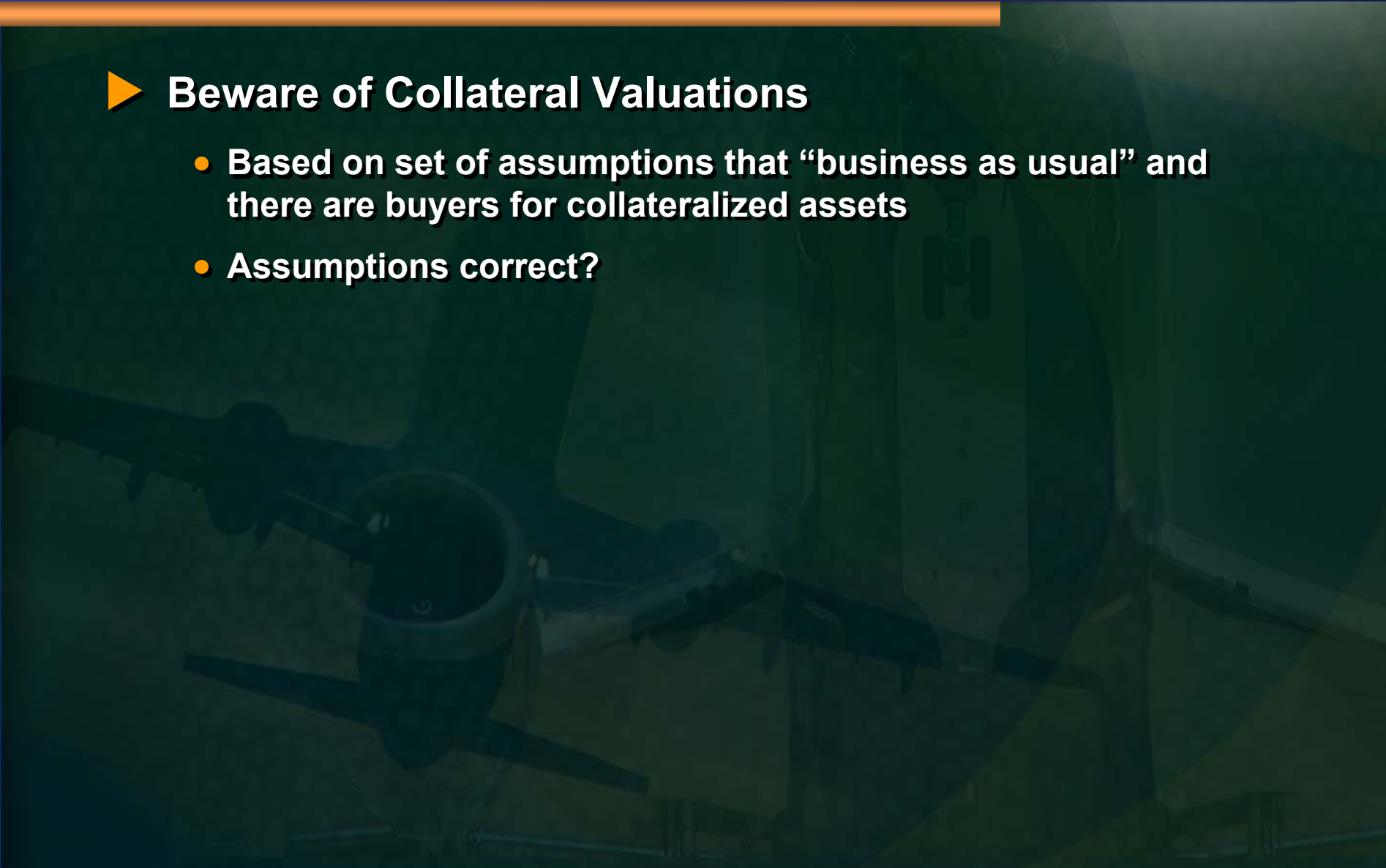
- ▶ **LCC Consolidation Highly Probable**
 - JetBlue + Frontier (+ Independence Air real estate)
 - AirTran ? ?

- ▶ **Global Consolidation (2007 and beyond)**
 - **Europe**
 - *Auf Wiedersehen* to Austrian and Swiss
 - *Tata* to bmi
 - And others
 - **Asia**
 - Qantas and Singapore Airlines
 - India – Quick Rupees, restructuring, shakeout

A Final Word

▶ Beware of Collateral Valuations

- Based on set of assumptions that “business as usual” and there are buyers for collateralized assets
- Assumptions correct?



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