

Roanoke Air Service



The New Airline Economics

August 2008

TheBoydGroup

Lore, Not Facts

“Hundreds of communities, including Roanoke may lose all air service”

That’s pure garbage, mostly spread by an irresponsible and questionable
“coalition” that couldn’t find Roanoke on a map

“Major airlines are abandoning domestic & going international”

College professor stuff. Not one major domestic market has been dropped
International traffic strengthens domestic.

Another reason for home schooling beyond the 12th grade

“Low cost carriers will fill in the gaps left by majors”

First, there are no real gaps. Second – all “low cost carriers” are cutting back,
not expanding. Including Southwest.

Fact: The air service cavalry is not coming. But neither are the Indians

What's Going On?

The Oil Chickens have come home to roost – the air transportation industry is in the midst of a major economic shift

- Current air service situation at Roanoke – bottom of the curve
- \$120 - \$140 oil has shrunk the air transportation system
- The Airport is aggressively looking at alternatives – but there are few
- It's oil. It's not Roanoke
- But Roanoke is still connected to the air transportation system, and that's the important point

What Airlines Are Facing

- Oil is up over 30%... From \$90 to as high as \$148 – not expected
- The air transportation system is now simply too expensive to serve the levels of consumers it does today
- Because of the meteoric increase in oil prices since March, airlines have not been able to keep pace with fares
- Result: virtually all airline seats sold in July, August and September were below cost
- Result: full airplanes, full of money-losing passengers
- Result: airlines are in a panic mode to cut back – fast – to save money and increase revenue this fall – cut capacity, not hundreds of cities

List of Airlines Designed To Operate With \$100 Oil

Zip

Where The Fare Goes

- Avg OW fare: \$191.00
- Taxes & Fees: - \$ 26.74
- Fuel Per Psgr: - \$138.80

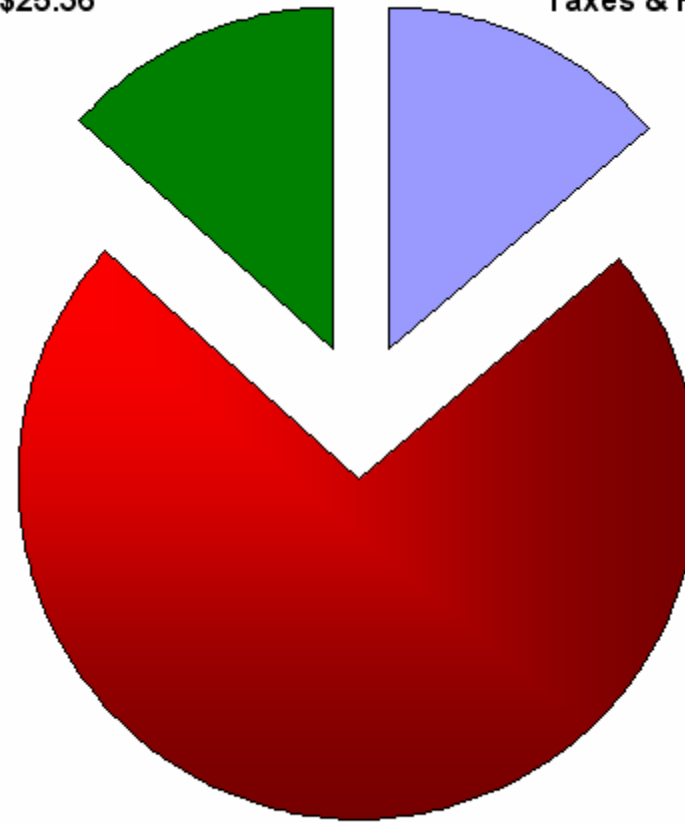
Left to pay for all other costs:

\$25.36

Does not cover crew costs, or
maintenance costs, or aircraft
lease costs...

Left To Pay Costs,
\$25.36

Taxes & Fees, \$26.74



Fuel, \$138.90

What's Coming Down



- Airlines are yanking capacity – figure @ 10% by December, another 5% - 8% in early 2009
- We no longer have airplanes that can economically serve certain markets – those “regional jets” have a much smaller operational footprint
- The airline industry as we knew it in year 2004 cannot operate that way any longer
- Markets/routes/aircraft applications that made money in 2004 now bleed cash today
- Airlines are reducing service as a result... and raising fares this fall. Big time

Snapshot of Roanoke Air Service Connectivity



Six connecting hubs, plus LaGuardia

Five airline systems, plus Allegiant to Sanford/Orlando

Strongest single market: Chicago

Strongest connecting hub: Charlotte

Weakest/Of Concern: Philadelphia & LaGuardia – low load factors – but high per-seat revenues

Current Top Destinations - Roanoke

Rank	Market	Psgr	% Originating	Gross OW Fare	% of Pax	Fare Per Mile	Efficiency
1	Chicago	32,773	54.4%	\$239.81	5.4%	\$0.354	89.1%
2	Atlanta	28,291	46.7%	\$264.20	4.7%	\$0.615	93.8%
3	Dallas/Ft. Worth	15,462	57.0%	\$280.67	2.5%	\$0.205	85.8%
4	NY/LaGuardia	15,440	57.0%	\$180.96	2.5%	\$0.217	58.8%
5	Detroit	15,285	39.1%	\$202.79	2.5%	\$0.370	80.4%
6	Orlando	14,656	73.3%	\$231.55	2.4%	\$0.272	85.9%
7	Boston	13,246	63.0%	\$274.66	2.2%	\$0.315	78.6%
8	Minn/St. Paul	12,762	44.3%	\$270.31	2.1%	\$0.232	86.3%
9	Phoenix	12,687	63.9%	\$255.20	2.1%	\$0.110	91.4%
10	Tampa	12,242	53.1%	\$196.58	2.0%	\$0.220	89.1%
11	Denver	12,126	63.4%	\$297.70	2.0%	\$0.171	89.3%
12	Los Angeles	11,878	56.8%	\$338.32	2.0%	\$0.126	91.7%
13	Las Vegas	10,723	89.7%	\$288.98	1.8%	\$0.118	91.5%
14	San Francisco	10,710	67.8%	\$360.59	1.8%	\$0.127	92.4%
15	Kansas City	10,710	50.5%	\$186.20	1.8%	\$0.157	82.4%

- **No single market could support nonstop service by itself**
- **Remainder need to be connected through a hub**
- **No market is more than 6% of the total**
- **Strongest connecting hub – Charlotte – has very low local traffic**
- **Detroit has potential for Northwest upgrade**

Comparable Air Fares

Actual fares paid – including taxes & fees

	Roanoke	Raleigh	Lynchburg	Asheville
PHL	\$213.16	\$99.87	\$319.76	\$319.76
ATL	\$264.20	\$152.89	\$229.81	\$229.81
LGA	\$180.96	\$135.78	\$218.43	\$218.43
BOS	\$274.66	\$162.91	\$318.39	\$318.39
ORD	\$239.81	\$145.32	\$292.46	\$292.46
MCO	\$231.55	\$123.30	\$227.92	\$227.92
EWR	\$302.14	\$145.32	\$370.69	\$370.69
DFW	\$280.67	\$215.46	\$318.54	\$318.54
LAS	\$288.98	\$171.51	\$270.82	\$270.82
JFK	\$152.91	\$128.22	\$252.99	\$252.99

November – Year Over Year Air Service

Year over year changes in departures and in capacity

- The capacity cuts and departure reductions are affected by many factors
- Delta is adding Atlanta flights in most markets where Cincinnati/No. Kentucky service is ending
- Roanoke experience is right along with that of the nation as a whole

	Departures	Seats
Asheville	3.1%	8.3%
Lynchburg	-5.0%	-9.5%
Roanoke	-8.4%	-9.5%
Charleston, SC	-10.3%	-9.0%
Charleston, WV	-10.8%	-0.8%
Savannah	-14.8%	-13.1%
Nation	-10.1%	-9.3%

Source: Airports:USA DataMiner Analyses of Airline Schedule Filings as of 8/5/08 From Innovata, LLC.

The Future Isn't Doom

Estimated 2009 Traffic					
In & Outbound					
Carrier	Psgr	% Psgr			
Delta	145,637	26.0%		163,600	-11.0%
Allegiant	27,451	4.9%		58,102	-52.8%
Northwest	56,930	10.2%		58,390	-2.5%
United	127,169	22.7%		119,971	6.0%
US Airways	203,056	36.2%		207,200	-2.0%
Total	560,243	100.0%		607,262	-7.7%

- **Allegiant appears to be pulling most of its operations at St.Petersburg**
- **Northwest is keeping Roanoke service steady – but there may be some reductions at Detroit – but market may be increased**
- **United appears to be adding some capacity to its Chicago/O'Hare hub**

Source: Airports:USA DataMiner Analyses of Airline Schedule Filings as of 8/5/08 From Innovata, LLC.

The Allegiant Effect...

- Not really an airline, as much as a vacation company that uses airplanes
- High value, low cost access to key leisure destinations
- High reliability
- No connectivity to the rest of the world
- Main competitors - Home Depot & home appliance stores, etc. – they're all going after discretionary dollars
- Majority of Allegiant Roanoke passengers were impulse & price driven. ROA true Florida traffic generation has been stable for past 20 years. Allegiant's additional traffic was over and above core traffic generation

What About Low-Fare Airlines?



- They're all losing money, too. Even Southwest would be without their fuel hedges
- None are planning any expansion – almost all are cutting back
- None are interested in taking a chance on entering mid-size markets such as Roanoke
- Conclusion: jetBlue and Southwest are not coming to the rescue
- Allegiant: great operator – but basically a vacation operator, not access to the nation

What Roanoke Can Expect In The Future

- **Delta service to its Atlanta hub will remain**
- **Northwest will possibly upgrade all service to small jets**
- **US Airways is expected not to reduce the size of its hub at Charlotte**
- **Allegiant service to Orlando is relatively secure**
- **Other new entrants: there aren't any**
- **This is batten-down-the-hatches time**

Facing Realities

- The airline industry is NOT entering a cycle. It is entering new economics
- Smaller airliners, due to fuel costs, have much reduced mission-capabilities
- The distance to a connecting hub is the determinant – the shorter the better
- There are virtually no routes that can support nonstop service from Roanoke on their own... the hub and spoke system is here to stay

Roanoke Realities

At \$120 - \$140 Oil, It Is What It Is

- Service levels have reached bottom – probably
- The potential for recruiting additional airlines is very low – there aren't any interested in additional risk
- Fares – there is no way they won't go up
- Current Roanoke access is sound
- Support it – and it will stay

Roanoke Regional Airport

Thank You!

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