Evolution of the U.S. Airline Industry

January 21, 2019

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EVP and Chief Financial Officer – United Airlines

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Key factors contributing to evolution of industry

Financial stability

- Industry structure
- Stronger financial position
- Excess cash returned to shareholders on consistent basis

Product

- Segmentation
- Increased focus on driving non-ticket revenue

Technology

- Customer experience and personalization
- Improved operational efficiencies

Industry

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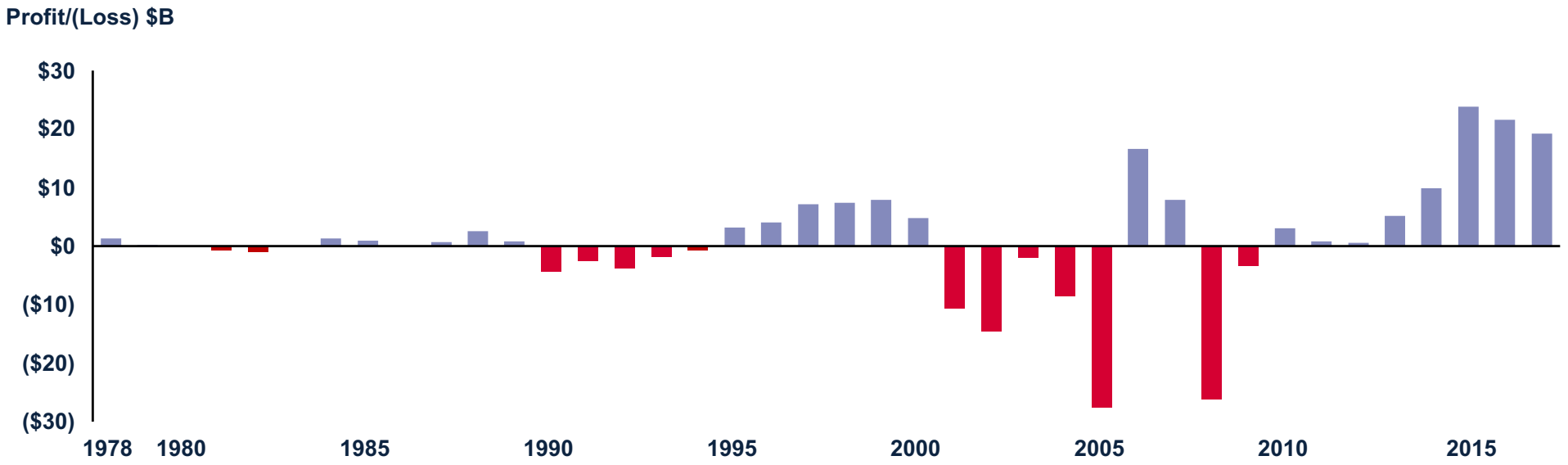
U.S. airline industry profitability since deregulation in 1978

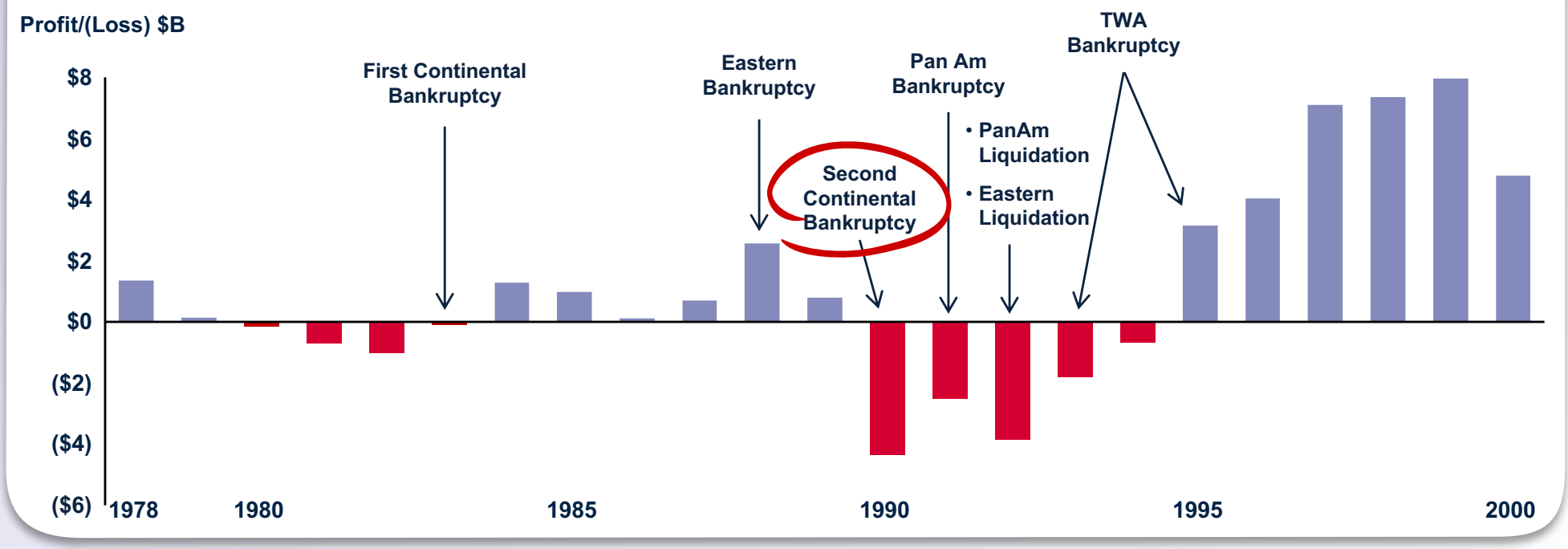
U.S. passenger airlines' pre-tax earnings



Source: U.S DOT Form 41 Data

The U.S. airline industry experienced a **turbulent period post-deregulation**

U.S. passenger airlines' pre-tax earnings

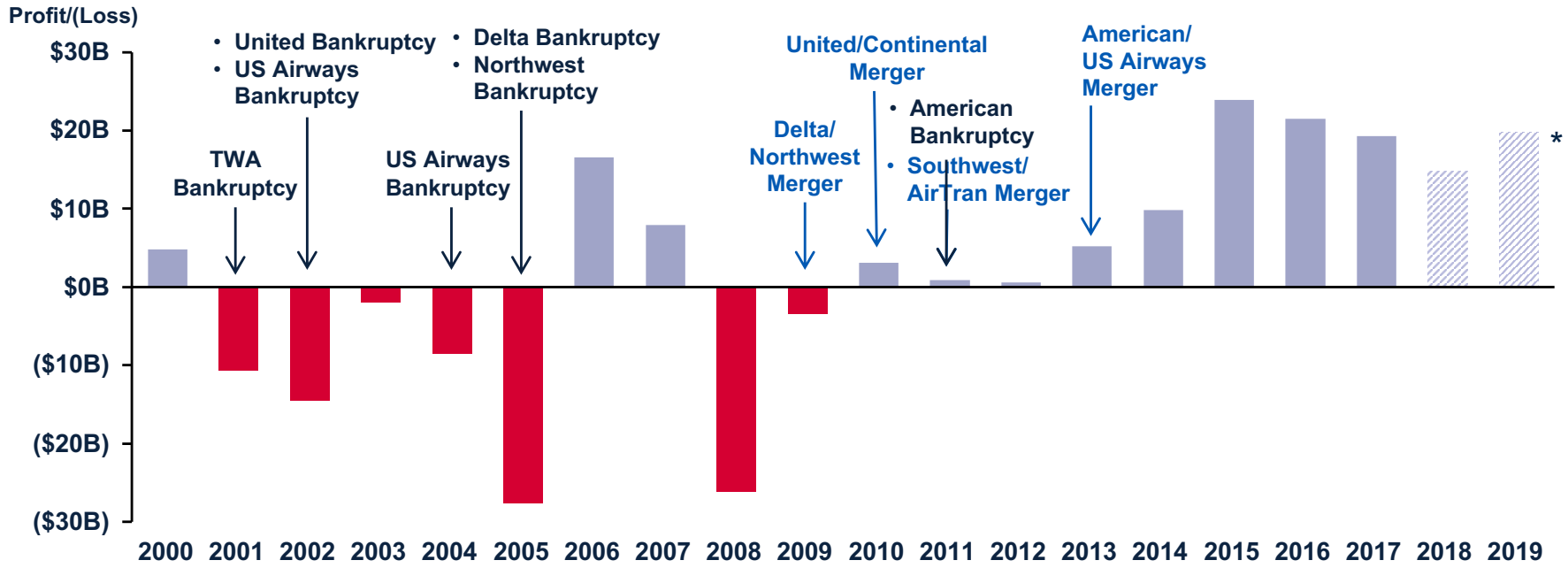


Source: U.S DOT Form 41 Data

Over 100 US airline bankruptcies between 1980 and 2000

September 11th triggered a new **era of restructuring**

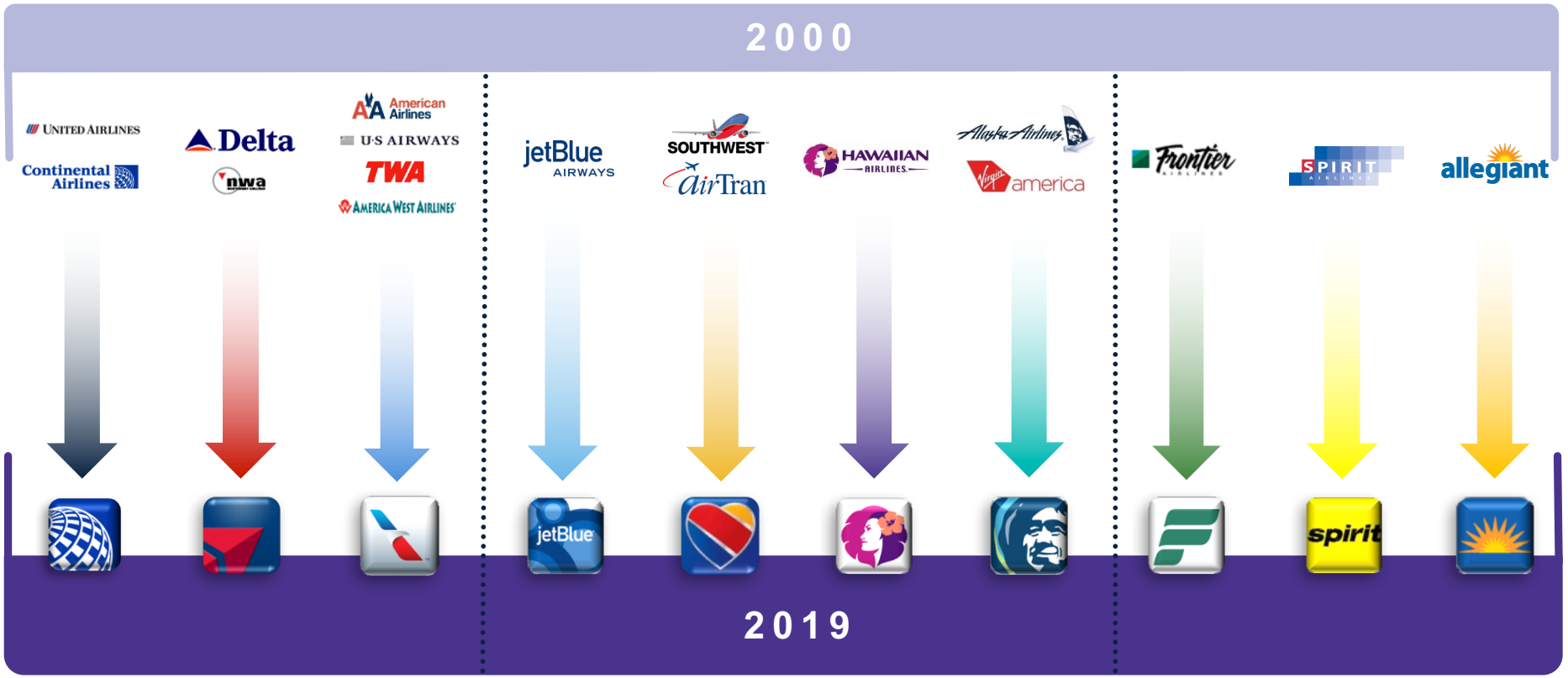
U.S. passenger airlines' pre-tax earnings



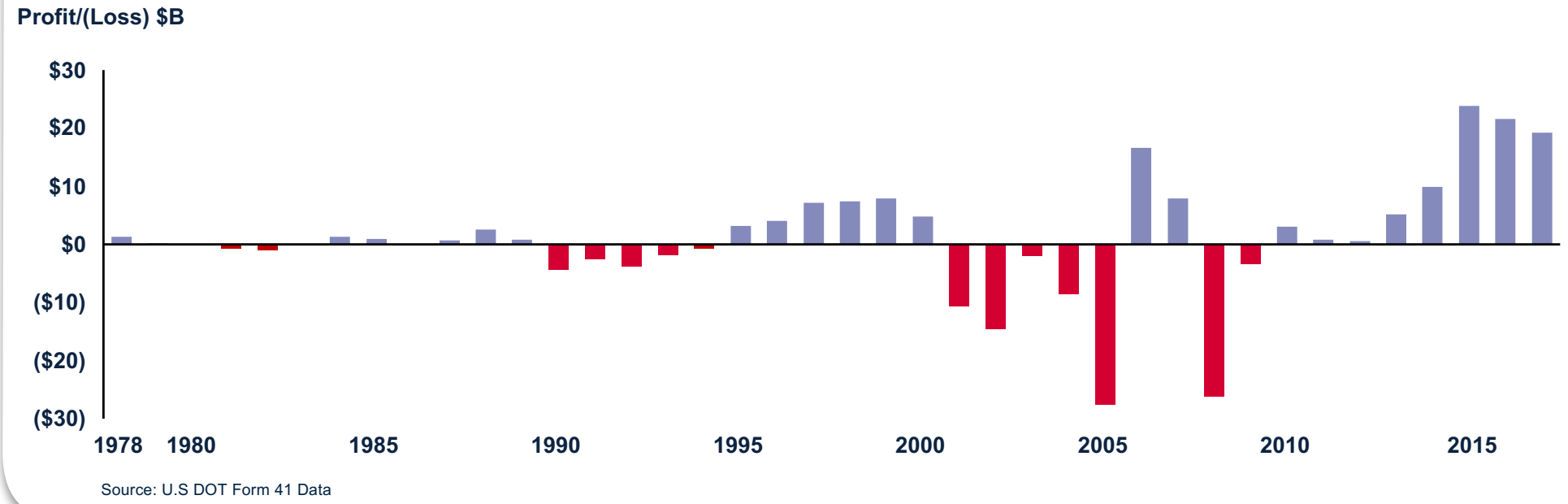
Source: U.S DOT Form 41 Data; *2018 and 2019 figures based on Wall Street consensus as of 1/16/2019 from S&P Capital IQ

Structural changes in the business have led to financial stability

Improved industry structure

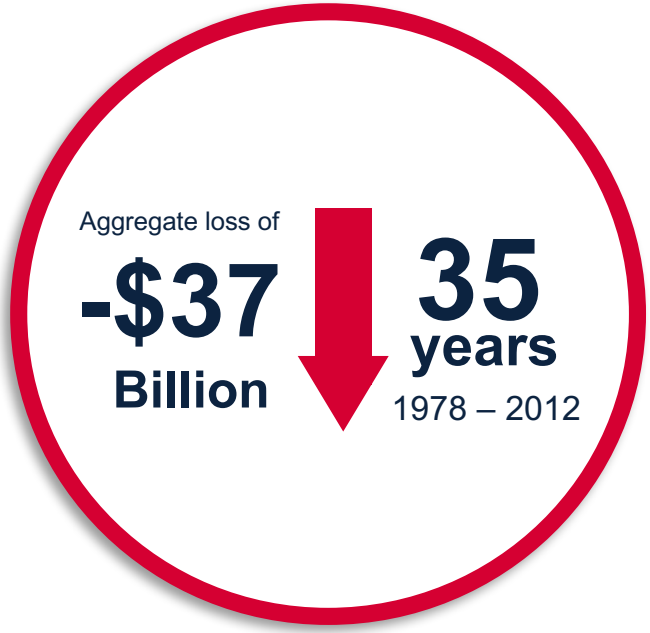


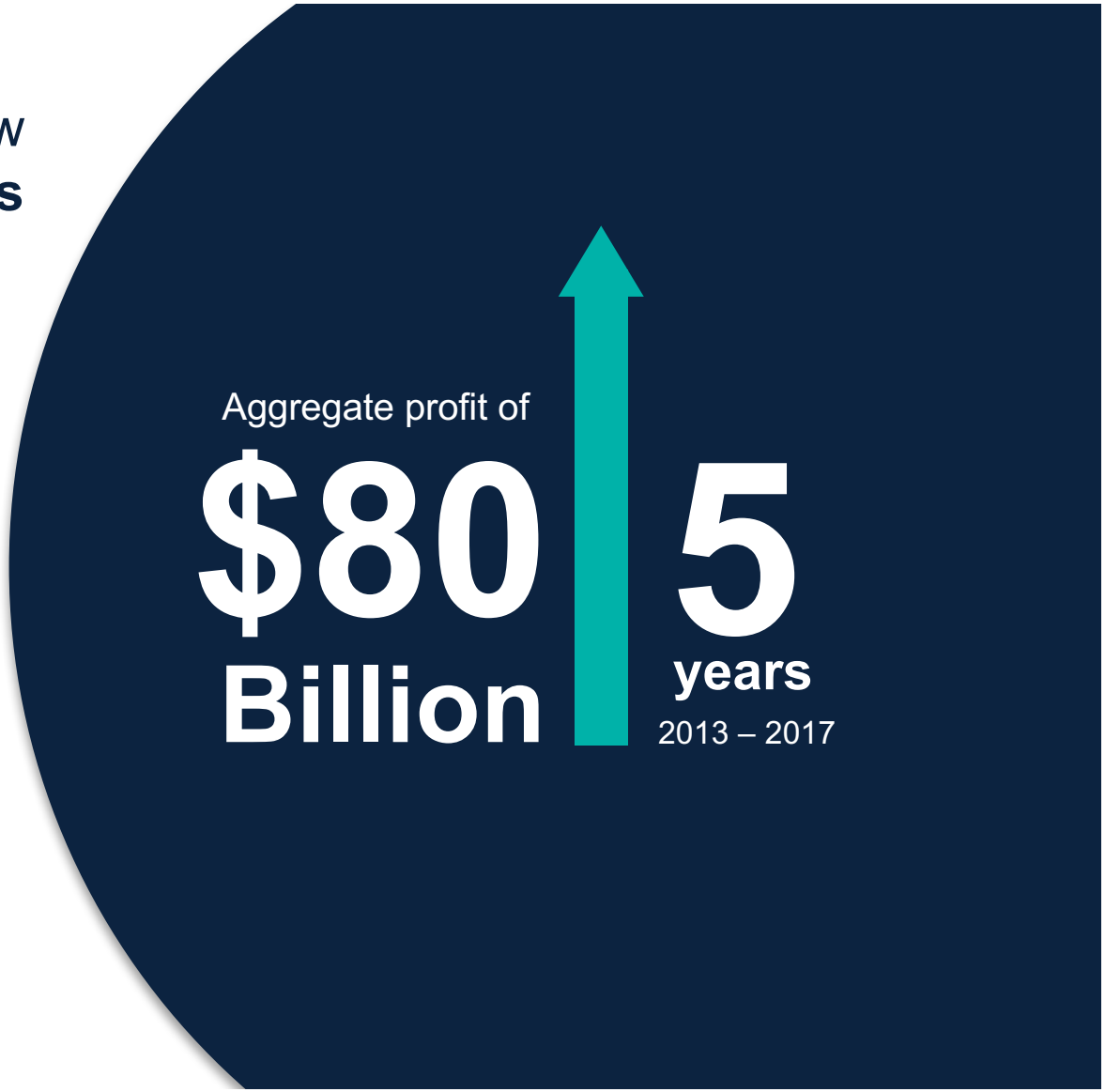
U.S. passenger airlines' pre-tax earnings



Source: U.S DOT Form 41 Data

The U.S. airline industry is now
generating consistent profits





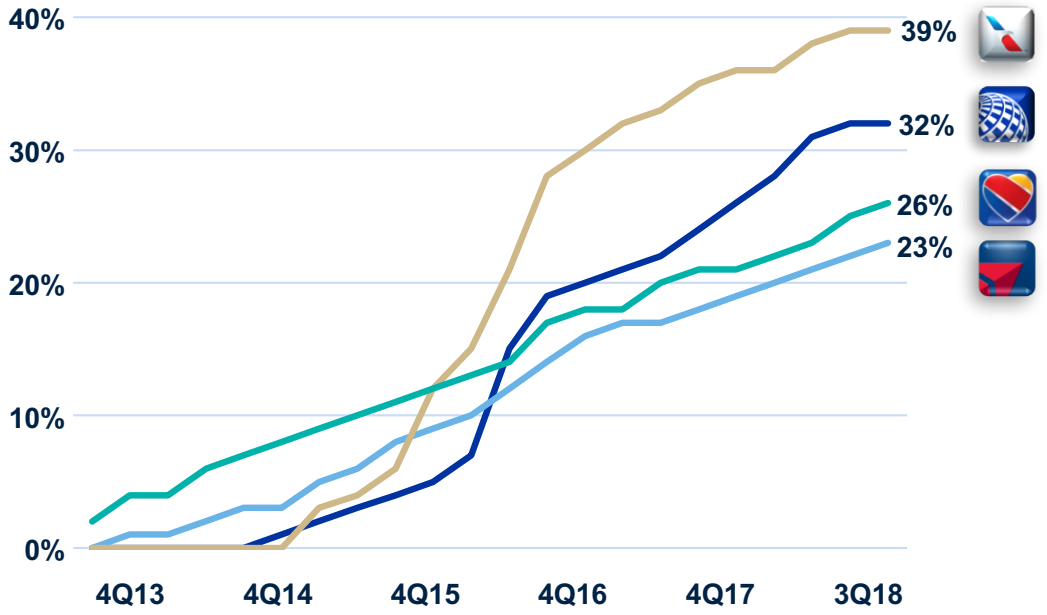
Source: U.S DOT Form 41 Data

Industry Market Capitalization[1]

[1] Industry includes: UAL, AAL, DAL, LUV, ALK, JBLU, SAVE, HA, ALGT
Source: S&P Capital IQ

Major U.S. peers have now consistently returned excess cash to shareholders

Shares repurchased as % of outstanding[1]



[1] Share repurchase and dividend activity since 2Q 2013 through 3Q 2018; Delta figures exclude $700M used to offset amounts contributed to pension plan (1Q16 and 2Q17)
Source: SEC filings

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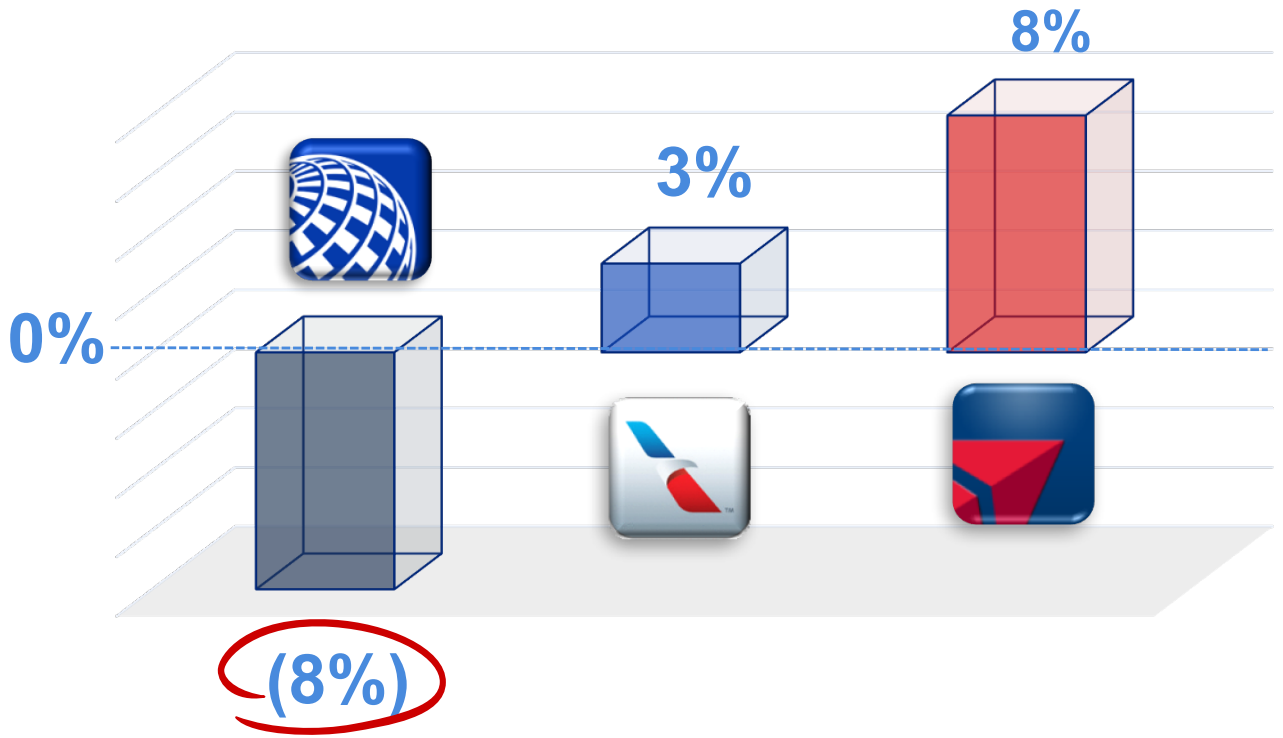
Shrank while others grew

2011 – 2016 seat growth
(Legacy carriers)

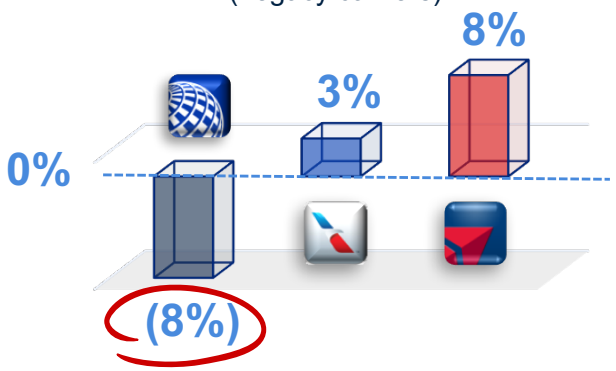


Commercial strategy

- ✓ Hub scale
- ✓ Connectivity
- ✓ Revenue quality
- ✓ Asset efficiency
- ✓ Technology

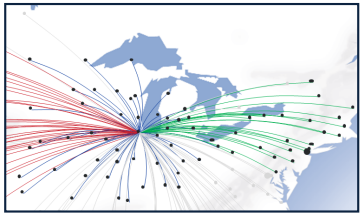
Shrank while others grew

2011 – 2016 seat growth
(Legacy carriers)



Now growing our domestic network to strengthen our mid-continent hubs

ORD



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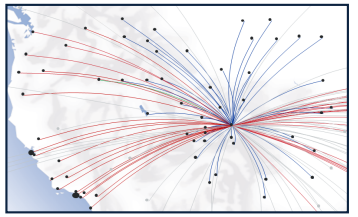

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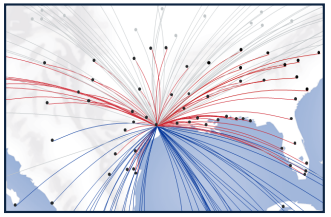
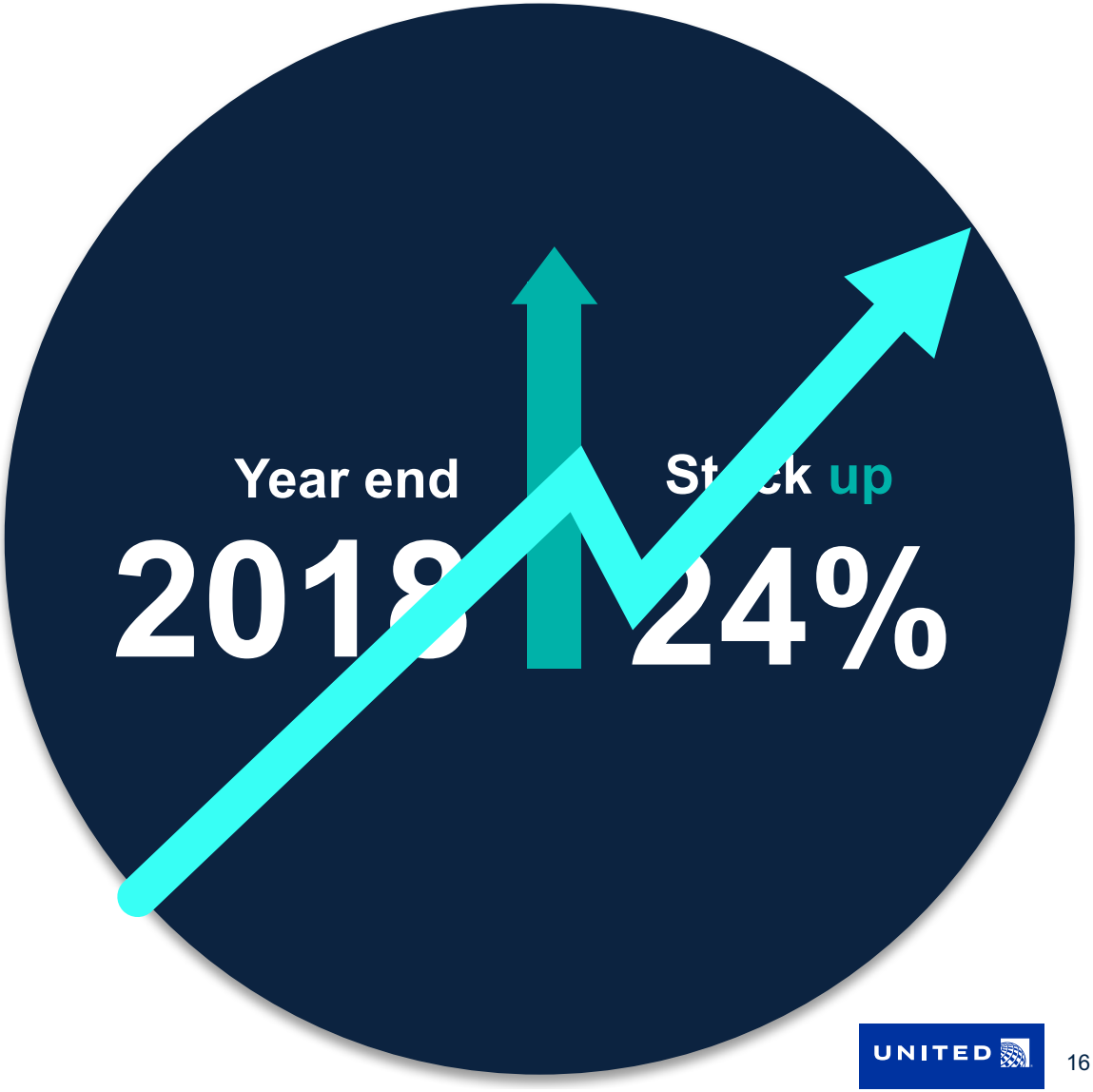
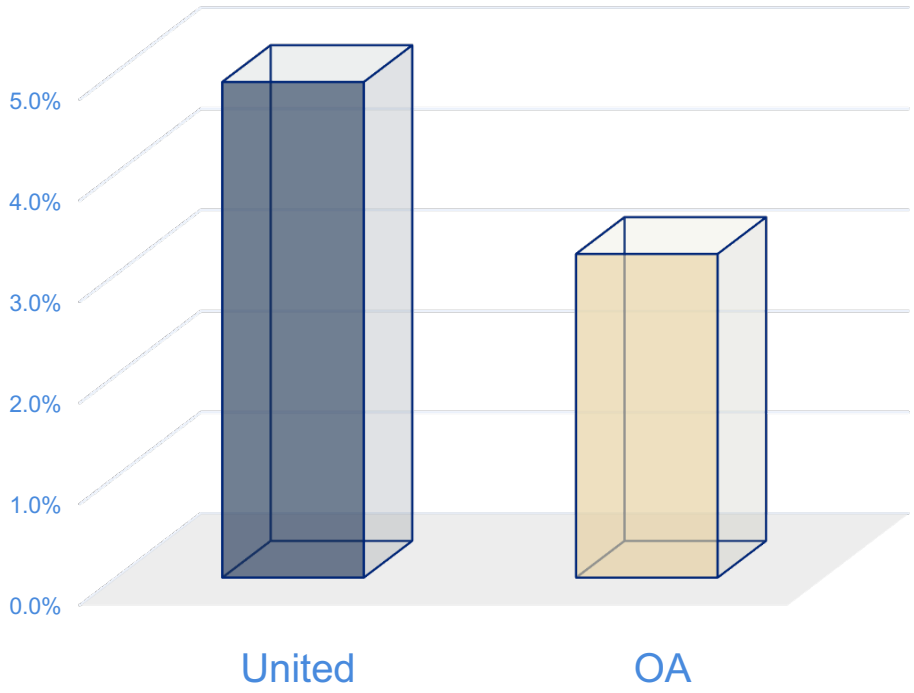


Note: Seat growth % rounded to nearest whole number; United hubs: SFO, LAX, DEN, IAH, ORD, CLE, IAD, EWR
AA hubs: LAX, PHX, DFW, ORD, CLT, MIA, DCA, PHL, JFK; DL hubs: SEA, LAX, SLC, MSP, CVG, DTW, ATL, JFK, LGA, BOS
Source: OAG 2011 - 2016 includes domestic 50 states

January
24th
2018
Stock down
11%


Year end
2018
Stock up
24%

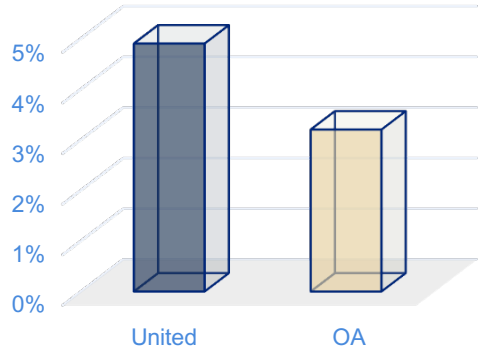
2018 Capacity YOY
(%)



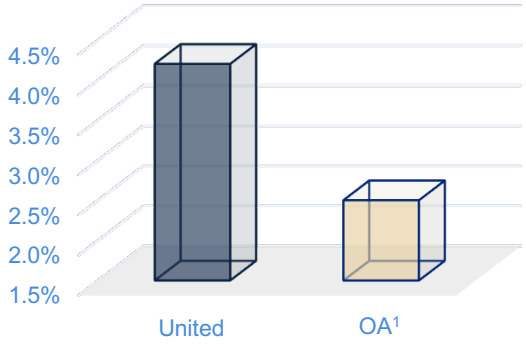
United's 2018 TRASM and CASMex performance is expected to outpace peers

%

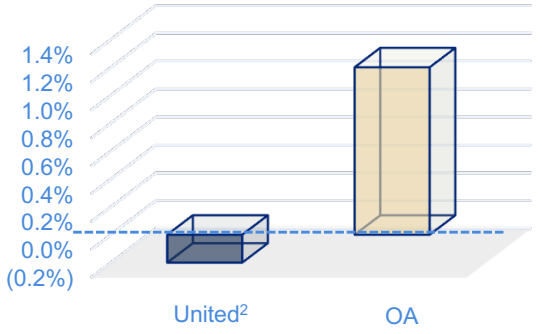
2018 Capacity YOY
(%)



2018 TRASM YOY
(%)



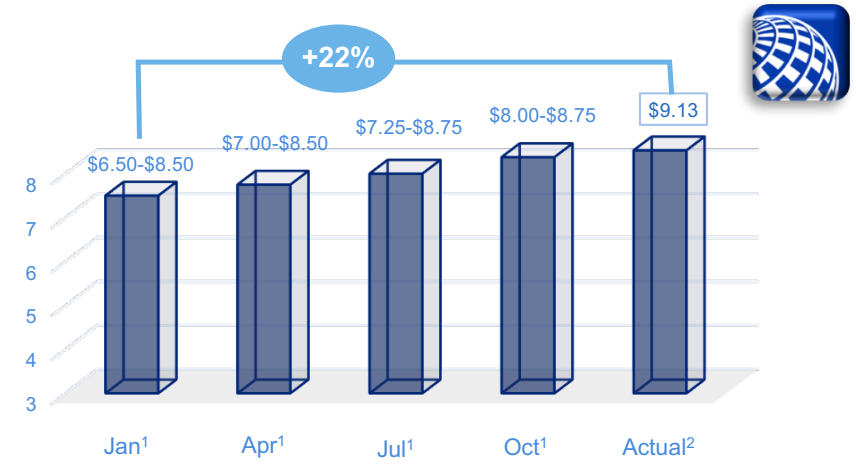
2018 CASMex YOY
(%)

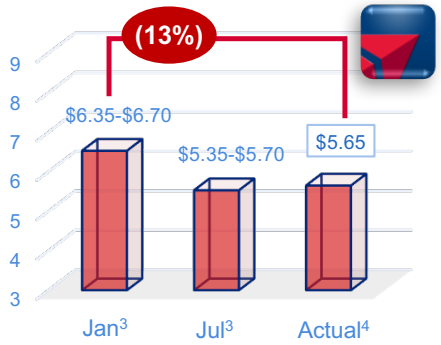


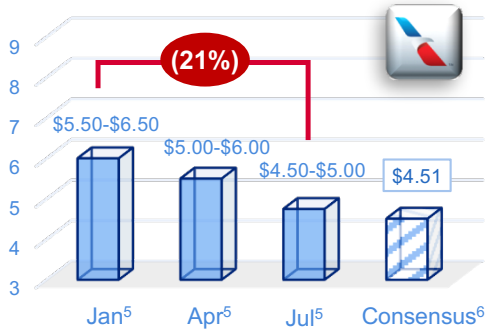
[1] Delta TRASM excludes refinery; Source: DL SEC Filing; [2] CASMex excludes fuel, profit sharing, third party expense and special charges. For a GAAP to non-GAAP reconciliation, see Appendix A
Note: OA consists of United's largest peers: Delta, American, and Southwest
Source: United and Delta SEC filings; American and Southwest based on SEC filings for 1Q18 – 3Q18, and mid-point of guidance issued on January 10, 2019 and December 12, 2018, respectively, for 4Q18

United raised full-year 2018 adjusted EPS guidance every quarter as peers lowered guidance

2018 adjusted earnings per share







[1] UA guidance issued on January 23, 2018, April 17, 2018, July 17, 2018 and October 16, 2018. The UA guidance excluded special charges and the mark-to-market impact of financial instruments

[2] Excludes special charges, the mark-to-market impact of financial instruments, imputed interest on certain capitalized leases, and adjustments to income taxes. For a GAAP to non-GAAP reconciliation, see Appendix A

[3] DL guidance issued on January 11, 2018 and July 12, 2018. Source: DL SEC filings

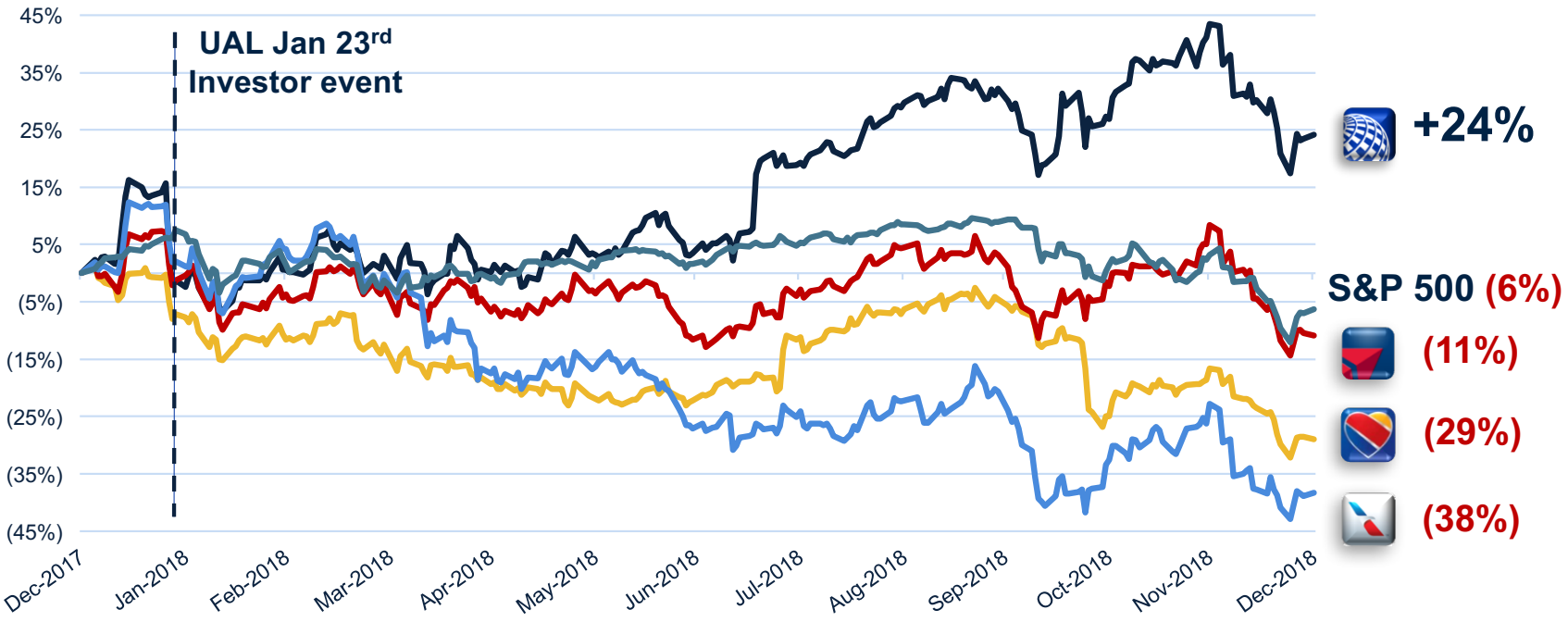
[4] Source: DL SEC filing

[5] AA guidance issued on January 25, 2018, April 26, 2018, July 26, 2018. Source: AA SEC filings

[6] AA consensus 2018 EPS based on Wall Street Consensus as of 1/16/2018 from S&P Capital IQ

Driving connectivity at mid-continent hubs is working

Stock performance



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Thank you
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Appendix A

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Appendix A: reconciliation of GAAP to Non-GAAP financial measures

UAL evaluates its financial performance utilizing various accounting principles generally accepted in the United States of America (GAAP) and Non-GAAP financial measures, including adjusted pre-tax income (loss), adjusted pre-tax margin, adjusted diluted earnings (loss) per share, adjusted non-fuel expense, adjusted net income (loss) and CASM, excluding special charges, third-party business expenses, fuel, and profit sharing, among others. UAL believes that adjusting for special charges is useful to investors because special charges are not indicative of UAL's ongoing performance. UAL believes that adjusting for MTM gains and losses on financial instruments is useful to investors because those unrealized gains or losses may not ultimately be realized on a cash basis. UAL believes that adjusting for interest expense related to capital leases of Embraer ERJ 145 aircraft is useful to investors because of the accelerated recognition of interest expense. For additional information related to special charges, see the press release issued by UAL, dated January 15, 2019, and filed on that date with the U.S. Securities and Exchange Commission as an exhibit to UAL's Form 8-K. Reconciliations of reported non-GAAP financial measures to the most directly comparable GAAP financial measures are included below.

(in millions, except pre-tax margin and diluted earnings per share)	**Full Year Ended December 31, 2018**
Adjusted Diluted Earnings Per Share	
Diluted earnings per share (GAAP)	$7.70
Adjusted to exclude:	
Special charges	1.76
MTM gains on financial instruments	0.02
Interest expense on ERJ 145 capital leases	0.09
Income tax benefit related to adjustments	(0.42)
Special income tax adjustments	(0.02)
Adjusted diluted earnings per share (Non-GAAP)	$9.13
Weighted average shares, diluted	276.7

Appendix A: reconciliation of GAAP to Non-GAAP financial measures continued

CASM is a common metric used in the airline industry to measure an airline's cost structure and efficiency. UAL reports CASM excluding special charges, third-party business expenses, fuel and profit sharing. UAL believes that adjusting for special charges is useful to investors because special charges are not indicative of UAL's ongoing performance. UAL also believes that excluding third-party business expenses, such as maintenance, ground handling and catering services for third parties and fuel sales, provides more meaningful disclosure because these expenses are not directly related to UAL's core business. UAL also believes that excluding fuel costs from certain measures is useful to investors because it provides an additional measure of management's performance excluding the effects of a significant cost item over which management has limited influence. UAL excludes profit sharing because this exclusion allows investors to better understand and analyze our recurring cost performance and provides a more meaningful comparison of our core operating costs to the airline industry.

(¢/ASM, except percentage change) **Consolidated CASM excluding special charges, third-party business expenses, fuel and profit sharing**	**Full Year Ended December 31,**		**%** **Increase/** **(Decrease)**
	2018	**2017**	
Cost per available seat mile (CASM) (GAAP)	13.81	13.00	6.2
Special charges (a)	0.18	0.07	NM
Third-party business expenses	0.04	0.05	(20.0)
Fuel expense	3.38	2.64	28.0
Profit sharing, including taxes	0.12	0.13	(7.7)
CASM, excluding special charges, third-party business expenses, fuel, and profit sharing (Non-GAAP)	10.09	10.11	(0.2)