Analyst: Hari Kusumakar | Analysis Date: Nov 22, 2017

Stock Pitch – Long Air Canada (AC.CN)

Multi-year compounder that can be held in the portfolio as a core position. Over 100% return in 3 years. The timing is favorable as AC will consistently beat consensus EPS estimates in the next few quarters

Key Stats

- Market Cap: $6b
- Avg Daily Trading Liquidity: $40mm
- Trades at 6.3x FY'18 consensus EPS. Consensus expects 14% EPS growth in 2018
- Trades at 5.7x my FY'18 EPS. My EPS is ~14% higher than consensus
- Peers trade at 9-11x

Table of Contents

- Executive Summary
- Business Description
- Investment Thesis Point 1
- Investment Thesis Point 2
- Investment Thesis Point 3
- Debunking the Bear Case
- Earnings Forecast Summary

Executive Summary: Long Air Canada (AC)

AC provides an opportunity to buy >15% EPS CAGR at just 6x 2018 consensus EPS. Combination of EPS growth and multiple expansion will help the stock yield ~100% return in ~3 years. The timing is favorable as AC will consistently beat consensus EPS estimates in the next few quarters

Investment Thesis

- Long AC is a multi-year compounder as it has multiple company specific levers that will lead to MSD topline CAGR for the next 4 years. High incremental margins, debt paydown and share buybacks will lead to >15% EPS CAGR. Additionally, AC trades at the cheapest multiple among peers (6x consensus '18 EPS vs peers at 9x-11x PE). Stock will rerate as capex has peaked, setting the stage for share buybacks and balance sheet deleveraging. Multiple expansion by itself could provide additional ~50% upside on top of the upside from >15% EPS CAGR

Key Supporting Points to the Thesis

1. Multiple initiatives that are within the company's control will drive MSD sales CAGR for the next three years:
   a) Improved pricing:
      - AC increased capacity by 36% in last 2 years on its international routes. These routes represent 77% of AC's system capacity
      - New routes came at low introductory prices. Going forward, AC will optimize pricing on these routes
      - Just a 5% price increase on these new routes will lead to 100bp EBIT margin increase, leading to 10% EBIT growth. Potential for pricing increases could be much higher than 5% given the backdrop of improving Canadian economy

   b) Growth from connecting US-international traffic through Canada
      - US - International traffic via connection in Canada is a $1.2b revenue opportunity if AC can take its market share from 0.9% to 2%
      - Assuming 25% incremental EBIT margin, this is a $300mm EBIT opportunity which would lead to 21% EBIT growth. This growth will be realized in the next few years
      - AC is uniquely positioned to capitalize on this opportunity because it decreases total travel time for the traveler
        - Almost all airplanes on the US- Asia and US- Europe routes fly over Canada, so a Canadian transfer requires less distance to be travelled
        - Gate transfers for connecting flights at AC's Canadian hubs are much quicker than US airport transfers. AC has worked with Canadian airport authorities to make the transfers seamless with minimal security checks and no terminal transfers

   c) Insourcing its loyalty program:
      - Will add 300bp EBIT margin expansion from 2020/2021 onwards, leading to 30% EBIT growth. All major airline peers have this program inhouse

   d) High margin ancillary revenue growth from new reservation system:
      - New enhancements to the reservation system will lead to more ancillary revenues from items such as seat upgrades and improved code sharing
      - At least $100mm revenue benefit every year from 2019 onwards. At 100% EBIT margin, this adds 7% EBIT growth
2. Margin expansion, interest cost reduction and share buyback will drive >15% EPS CAGR over the next three years
   - Growth initiatives imply an Incremental EBIT margin of ~25% vs the current margin of 9%. This will help drive an EBIT CAGR of low teens for the next few years. EBIT margin will go from 9% to 12% vs peers at 11-18%
   - Interest reduction from debt paydown will lead to EBT CAGR in the high teens. 3-4% annual reduction in share count will help EPS grow at >15% CAGR
3. Expansion of valuation multiple could provide additional upside of ~50%
   - AC trades at the cheapest multiple among peers (6x consensus '18 EPS vs peers at 9x-11x PE)
   - Capex has peaked. AC will generate ~$3B in FCF in the next 3 years (~44% of market cap). Share buybacks will help rerate the stock inline with peers
   - Balance sheet de-leveraging will provide an additional reason for rerating. (Net Debt + Pension & OPEB Deficit+ Capitalized Rent)/EBITDAR will go from ~3x to ~2x by 2018 end and close to 1x by 2020

Executive Summary Cont… : There are many ways to win going long AC. Plus risk-reward tradeoff is highly skewed to the upside as the key risk scenarios seem contained. I have a proprietary big data tool that tracks pricing, capacity, and utilization on a daily basis for all of AC's routes. So if the bear case starts playing out, I will be one of the first few investors to spot the trend and protect the downside

Quantified summary of upside drivers

Upside from Business Drivers	Revenue Impact	Incrmental EBIT Margin	EBIT Impact	EBIT upside	Timeline	Probability of being fully realized	Other Comments
Price Improvments on new routes	146	100%	146	10%	2018 onwards	Medium	
US-International traffic growth	1,200	25%	300	21%	2018 Onwards	High	
Insourcing Loyalty Program	NA	NA	262	18%	2020/2021 onwards	High	
New Reservation System	100	100%	100	7%	2019 onwards	Medium	
Jazz contract reduction	NA	NA	55	4%	2021 onwards	High	
Branded Fares	20	100%	20	1%	2018 onwards	Low	
Total upside from business drivers			**883**	**61%**			
Other Upside Drivers							
PE multiple goes from 7x to 10x					Over 2 years		43% Upside
Share Buybacks					Increases every year		3-5% EPS upside every year
Decrease in Interest Expense					Every year until 2020		5-7% EPS upside every year
Total upside from other drivers							**~70% upside over 3 years**

Key Risks

- Higher oil price and FX risk could derail the long thesis
  - Air Canada has a natural hedge to oil price as CAD strengthens will oil price strengthens.
- Competition could lead to lower pricing in domestic markets
  - It's a duopoly in the domestic market. So pricing will most likely be rational. ULCC's entering the market in 2018 would take many years to reach scale to have a negative impact on AC
- Competition could lead to lower pricing in international markets
  - Air Canada serves a large segment of its international passengers via connecting flights. So the magnitude of this risks seems contained
- Labor costs could go up
  - AC has the most favorable labor deal with its unions. So labor cost is locked in for 10 years vs peers at only 3-5 years

Valuation and Sensitivity

FY'18 Estimate and Target Price Summary				
	Bull	**Base**	**Bear**	**Consensus**
EPS	5.32	4.40	3.30	3.96
% yoy	27%	7%	-16%	-4%
% Diff with Consensus	34%	11%	-17%	
Target Multiple	8	7	6	
Target Price	43	31	20	
Expected Return	70%	23%	-21%	
Scenario Probability	25%	50%	25%	
Probability Weighted Return		24.1%		

Business Description

Air Canada (AC) is the dominant airline in Canada. It has duopoly with WestJet (WJA) within the domestic Canadian market but competes with other players on international routes

Description of Revenue Streams

	Passenger Revenue	Cargo Revenue	Other Revenue
Sales Contribution	• 90% of Sales (+4% yoy)	• 4% of Sales (+39% yoy)	• 6% of Sales (+17% yoy)
Description	• Generates revenue by selling airplane ticket to leisure and business travelers	• Generates revenue by selling Cargo capacity to logistics providers	• Generates revenue by charging fees for ancillary services such as cancellation fees, baggage fees, seat upgrades, etc. • Very high incremental margin
Cyclicality	• High	• High	• High
Cost Profile	• High fixed cost business with fuel cost dependent on commodity price. Labor (18% of opex), Fuel (20%), Regional capacity purchase (16%), D&A (6%). • 10 year labor deal in place; so not much union re-contracting risk. Pension is overfunded as well • Any incremental change in price or utilization flows to the bottom line • Any incremental revenue stream from ancillary services flows to the bottom line		
Investment Thesis	• Will benefit from price increase on new routes that are maturing • Will benefit from US-international traffic connecting through Canada	• Underutilized asset. Has upside as Cargo revenue grew 5% in the last 5 years even though capacity grew 22%	• Will grow revenues by insourcing loyalty program from 2020 onwards • Will grow ancillary revenues after upgrade of the reservation system in 2019 and from other initiatives

Description of Geographic segments

	Canada-Canada	Canada-US	Canada-Europe	Canada-Asia	Canada – Latam
Capacity, Passenger Sales Contribution and Trends	• 23% of ASM (+2% yoy) • 32% of Sales (+4% yoy) • +0.6% yoy yield • +1% yoy PRASM	• 17% of ASM (+11% yoy) • 22% of Sales (+16% yoy) • ~Flat yoy yield • +1% yoy PRASM	• 30% of ASM (+14% yoy) • 25% of Sales (+14% yoy) • +0.5%yoy yield • +1.5% yoy PRASM	• 22% of ASM (+17% yoy) • 15% of Sales (12% yoy) • -6% yoy yield • -9% yoy PRASM	• 8% of ASM (+19% yoy) • 6% of Sales (+34% yoy) • +6% yoy yield • +8% yoy PRASM
Market Share	• AC 56% • WJA 36%	• AC 45%, WJA 21%, UAL 12%, AAL 9%, DAL 7%	• AC 39%, TRZ 9%, WJA 5%, KLM 5%, CATH 4%, BA 3%, LH 3%		
Industry Growth	• LSD	• LSD-MSD	• MSD	• MSD	• MSD
Investment Thesis	• Demand recovering from oil-led downturn • Pricing will stay stable in spite of ULCC entering the market in 2018	• Will benefit from US-international connecting traffic through Canada	• Will benefit from US-international connecting traffic through Canada • Strong pricing will persist from macro strength	• Excess capacity lead to pricing decline. Will take 1-2 years for pricing to recover • Will benefit from US-international connecting traffic through Canada	• Demand is strong due to macro recovery in Canada • Strong pricing will persist

1a: Upside from Improved Pricing

A 5% price increase on new international routes launched in the last 2 years will add 10% EBIT growth

AC underwent a large expansion program

- AC increased capacity by 36% in last 2 years on its Transborder and international routes
- Routes on which new capacity was added represent 77% of AC's system capacity, so this was quite a large expansion program

New routes came at discount pricing

- New routes came at low introductory prices. Going forward, AC will optimize pricing on these routes.

Upside from price normalization

- Just a 5% price increase on these new routes will lead to a ~100bp EBIT margin increase, leading to ~10% EBIT growth.
- Potential for pricing increases could be much higher than 5% given the backdrop of the improving Canadian economy
- While no direct data points exist that tells us how long a new route takes for its yields to mature, there are clues available from comments made by Alaska Air:
  - "Of the 20 new markets launched in the last 9 months, 75% are already profitable" – ALK's Q2'17 call
  - The above statement suggests that it took ALK about 9 months to breakeven on its new routes. Plus, there is additional time to go from breakeven to normalized profitability. Additionally, international routes have more competition than domestic.
  - So the 1.5-2 years from the launch date seems reasonable timeframe for AC to start improving pricing on its new routes

Even if AC is able to raise prices by only 5%, that would imply EBIT growth of 10% (assuming a 100% incremental margin)

Sensitivity of EBIT impact to price increase on the new routes launched in last 2 years

Price Increase	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
EBIT Impact	29	58	88	117	146	175	204	234	263	292
EBIT Growth	2.0%	4.0%	6.0%	8.0%	10.0%	12.1%	14.1%	16.1%	18.1%	20.1%

In the last 2 years, AC increased its non-domestic capacity by 36% as a result of its widebody fleet renewal and expansion program

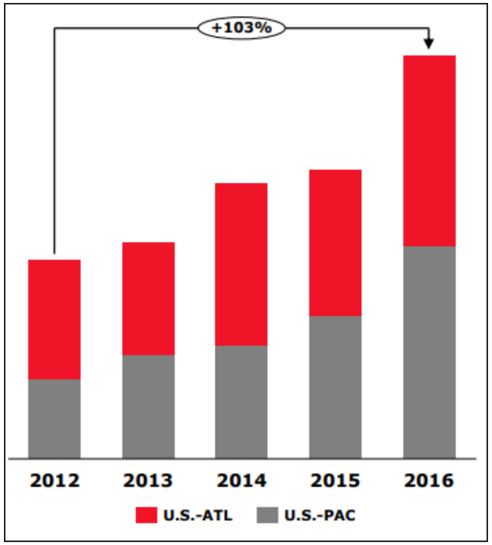
Capacity Growth as measured by Avilalbe Seat Miles (ASM)	FY'13	FY'14	FY'15	FY'16	FY'17 E
Domestic ASM (Canada-Canada)	20,260	21,224	21,960	23,206	23,647
% yoy	2%	5%	3%	6%	2%
% of total Capacity	30%	29%	27%	25%	23%
% yoy - Yield	-0.8%	-1.8%	-3.1%	-4.4%	0.5%
US Transborder ASM (Canada-US)	11,399	12,516	14,300	16,285	18,085
% yoy	-1%	10%	14%	14%	11%
% of total Capacity	17%	17%	18%	18%	17%
% yoy - Yield	-0.9%	-3.3%	-1.5%	-5.1%	-1.6%
Atlantic ASM (Canada - Europe)	17,186	19,639	22,092	26,751	30,553
% yoy	3%	14%	12%	21%	14%
% of total Capacity	25%	27%	27%	29%	30%
% yoy - Yield	5.7%	-0.6%	-4.0%	-7.1%	3.7%
Pacific ASM (Canada - Asia)	13,810	14,397	15,714	19,026	22,400
% yoy	7%	4%	9%	21%	18%
% of total Capacity	20%	19%	19%	21%	22%
% yoy - Yield	-1.0%	1.0%	-5.8%	-5.2%	-7.4%
Latam ASM (Canada - Latin America)	5,920	6,113	6,807	7,458	8,861
% yoy	-5%	3%	11%	10%	19%
% of total Capacity	9%	8%	8%	8%	9%
% yoy - Yield	0.5%	1.5%	-5.5%	-8.4%	1.5%
Consolidated ASM (Total)	**68,574**	**73,889**	**80,873**	**92,726**	**103,545**
% yoy	2%	8%	9%	15%	12%
% yoy - Yield	0.6%	-1.3%	-4.0%	-6.5%	-1.5%
Consolidated ASM (non Domestic Only)	**48,314**	**52,665**	**58,913**	**69,520**	**79,898**
% yoy		9%	12%	18%	15%
% of total Capacity	70%	71%	73%	75%	77%
% yoy - Yield	1.4%	-0.4%	-3.5%	-6.5%	-1.1%

1b: Growth from US-International traffic connecting through Canada

US-International traffic connecting through AC's four hubs in Canada is a $1.2b revenue opportunity if AC can take its market share from 0.9% to AC's target of 2%. Assuming 25% incremental EBIT margin, this is a $300mm EBIT opportunity, which would lead to 21% EBIT growth. In most cases, AC's hubs have better streamlined US customs and security checks for transfers than American hubs of large US carriers

Currently, AC has only 0.9% share of the US-International traffic in spite of Canada's strategic location on the Great Circle

AC has been addressing its market share gap for US-International routes and has already doubled its traffic over the last 4 years. AC could double this again in the next 4 years



For US-International travelers, taking a connecting flight through a Canadian hub is a better experience than a connection through a major hub of US carriers

- US to International Traffic
  - Air Canada Connecting Experience
    - When traveling from the U.S to Europe and Asia through AC's hubs in Canada, the seamless connection process means you don't need to go through customs, pick up your bags or transfer terminals. Simply walk to your next departure gate.
  - US carrier Connecting experience
    - US hubs of DAL, UAL, AAL, etc. are crowded, require going through security again, require checking out and checking bags again, and require changing terminals
- International to US Traffic
  - Air Canada Connecting Experience
    - US customs and immigration check is done in Canada. Customers are not required to pick up baggage or security again. So when you land in the US, you just walk out of the airport or take a connecting flight with a code share partner similar to a domestic transfer
  - US carrier Connecting experience
    - On the contrary, US hubs of DAL, UAL, and AAL are crowded, require taking out bags before customs, require changing terminals from international to domestic, require checking in bags again, and require going through security again

1b Contd… : In most cases Canadian transfers are faster and less cumbersome than transferring through a hub in United States

AC's four Canadian hubs have a unique geographic advantage in capturing a larger share of US-International connecting traffic because of their location on the great circle that connects most US cities to cities in Europe and Asia via the shortest possible distance.

International traffic at the 4 hubs of AC grew 14% YTD

Passenger Traffic (Enplaned+Deplaned) at Toronto Airport	2013	2014	2015	2016	2016 YTD	2017 YTD
Domestic	14.4	15.2	15.9	16.9	11.3	11.7
% yoy		6%	4%	7%		4%
Transborder	9.8	10.5	11.2	12.1	8.1	8.7
% yoy		7%	6%	8%		7%
International	11.9	12.9	14.0	15.4	10.5	11.6
% yoy		8%	9%	10%		10%
Total	**36.1**	**38.6**	**41.0**	**44.3**	**30.0**	**31.9**
% yoy		7%	6%	8%		7%

Passenger Traffic (Enplaned+Deplaned) at Vancouver Airport	2013	2014	2015	2016	2016 YTD	2017 YTD
Domestic	9.4	10.1	10.3	11.1	7.5	7.9
% yoy		7%	3%	8%		6%
Transborder	4.3	4.7	5.1	5.5	3.8	4.1
% yoy		10%	8%	7%		10%
International	4.2	4.6	4.9	5.7	3.9	4.9
% yoy		8%	7%	17%		28%
Total	**18.0**	**19.4**	**20.3**	**22.3**	**15.1**	**16.9**
% yoy		8%	5%	10%		12%

Passenger Traffic (Enplaned+Deplaned) at Montreal Airport	2014	2015	2016	2016 YTD	2017 YTD
Domestic	5.7	5.9	6.4	4.3	4.6
% yoy		3%	9%		8%
Transborder	3.6	3.7	3.9	2.6	2.8
% yoy		4%	4%		5%
International	5.6	5.9	6.3	4.4	5.1
% yoy		7%	6%		14%
Total	**14.8**	**15.5**	**16.6**	**11.3**	**12.4**
% yoy		5%	7%		10%

Passenger Traffic (Enplaned+Deplaned) at Calagary Airport	2014	2015	2016	2016 YTD	2017 YTD
Domestic		11.0	11.2	7.5	7.7
% yoy			2%		2%
Transborder		3.0	2.9	2.0	2.1
% yoy			-3%		6%
International		1.5	1.6	1.1	1.2
% yoy			9%		7%
Total		**15.5**	**15.7**	**10.6**	**10.9**
% yoy			1%		3%

Top 4 Airports Consolidated	2014	2015	2016	2016 YTD	2017 YTD
Domestic		43.0	45.6	30.6	31.9
% yoy			6%		4%
Transborder		23.0	24.3	16.5	17.7
% yoy			6%		7%
International		26.3	28.9	19.9	22.7
% yoy			10%		14%
Total		**92.3**	**98.9**	**67.0**	**72.3**
% yoy			7%		8%

Salt Lake City(SLC) and Barcelona(BCN) are almost on the same latitude. Yet the shortest air path between the two locations passes close to AC's Toronto(YYZ) and Montreal(YUL) hubs in Canada

Austin(AUS) and Shanghai(PVG) are almost on the same latitude, yet the shortest air path between the two locations passes close to AC's Vancouver(YVR) and Calgary(YYG) hubs in Canada

1c: Upside from insourcing its loyalty program:

All major North American carriers have a loyalty program that is managed inhouse. However, because of legacy issues, AC had this activity outsourced to a 3rd party provider. Bringing this program inhouse will add $250-485mm in EBIT (17%-33% upside). Plus, this earnings stream has a better pricing power and lower cyclicality than that of the core business

How to triangulate the EBIT impact from insourcing the loyalty program

- Data point 1 implies $250mm EBIT impact (17% EBIT upside)
  - Aimia, the 3rd party provider who had the outsourced contract to run AC's loyalty program made ~$250mm in EBIT from the contract. Given that Aimia had a very favorable deal, was able to buy 8% of AC's seats at a discount price, and didn't have the many other monetization opportunities in ancillary revenue that AC has, $250mm in EBIT forms a strong floor for the benefit of insourcing

- Data point 2 implies $262-$325mm in EBIT impact (18%-22% EBIT upside)
  - During Sept 2017, Investor Day AC's mgmt guided to an NPV of $2-2.5B in NPV over 15 years from insourcing its loyalty program. This guide included an $85mm upfront investment and used a 7.6% discount rate. By reverse engineering the numbers, these assumptions imply $262-$325mm in EBIT benefit per year

Reverse engineering the EBIT impact from mgmt NPV guidance																	
Year	**Jan-18**	**Jan-19**	**Jan-20**	**Dec-20**	**Dec-21**	**Dec-22**	**Dec-23**	**Dec-24**	**Dec-25**	**Dec-26**	**Dec-27**	**Dec-28**	**Dec-29**	**Dec-30**	**Dec-31**	**Dec-32**	**Dec-33**
Implied Low Limit																	
Cashflow ($mm)	(85)	-	-	131	262	270	278	286	295	304	313	322	332	342	352	362	373
% yoy					100%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Wacc	7.60%																
Exchange Rate in Guide	1.32																
Current Exchange Rate	1.26																
NPV	2,000																
NPV Guided (High)	2,000																
Error	0%																
Implied High Limit																	
Cashflow ($mm)	(85)	-	-	162	325	334	344	355	365	376	388	399	411	424	436	449	463
% yoy					100%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Wacc	7.60%																
Exchange Rate in Guide	1.32																
Current Exchange Rate	1.26																
NPV	2,500																
NPV Guided (High)	2,500																
Error	0%																

  - Given that AC currently has a RFP for a co-brand credit card partner, AC has an incentive to lowball the ancillary revenue benefit in order to maximize its negotiating leverage. There is a high probability that the potential EBIT contribution is materially higher than the implied range using the NPV guidance

- Data point 3 implies $485mm in EBIT impact (33% EBIT upside)
  - During past conference calls, AC's mgmt has mentioned they have 300bp discount to US peers from the outsourcing of its loyalty program. On a revenue base of 16.1b this implies $485mm EBIT upside. This seems more like the real opportunity AC has from its loyalty program

1d: Upside from new reservation system

New enhancements to the reservation system will lead to more ancillary revenues. For example, at least $100mm recurring revenue benefit from 2019 onwards. At a 100% EBIT margin, this adds 7% EBIT growth. There could be much more upside as guidance seems ~75% lower when compared to LUV's guidance from a similar initiative

High margin ancillary revenue growth from new reservation system:

- The current reservation system is 25 years old and has several limitations. The new reservation system from Amadeus will significantly enhance the capabilities to extract more ancillary revenues
- New enhancements to the reservation system will lead to more ancillary revenues from items, such as improved seats upgrades and improved integration with code sharing and alliance partners

AC may have grossly sandbagged the upside potential from its new reservation system

- Mgmt has guided to $100mm in recurring revenue benefit from 2019 onwards. This is 0.65% of its current revenue. At 100% EBIT margin, this adds 7% EBIT growth
- Southwest has guided an upside from its reservation system upgrade of $500mm in EBIT. Even if we assume this income stream comes at 100% incremental margin, it would imply a benefit of 2.62% of passenger revenue as upside from this upgrade
- AC's upside guidance is just ~25% of Southwest's guidance, thus there is a high probability that AC's upside from its new reservation system could be much higher

Several other miscellaneous initiatives could add upside as well

- $20mm revenue benefit from Branded Fares. At 100% EBIT margin, this adds 1% EBIT growth
- Jazz contract, AC's regional partner, will step down by $55mm per year from 2021 onwards (4% EBIT upside)

2. Even though EBIT will grow at mid teens CAGR, interest cost reduction and share buyback will help EPS grow at >15% CAGR

Interest cost reduction increases EPS by HSD and share buyback increases EPS by MSD

	FY'17 E	FY'18 E	FY'19 E	FY'20 E
Upside from Reduction in Interest Expense				
Int Expense	303	277	252	221
% yoy		9%	9%	12%
yoy Change in Int Expense		(27)	(25)	(30)
Fully Loaded Tax Rate	27%	27%	27%	27%
yoy Change in Int Expense after tax		(20)	(18)	(22)
EPS Impact from reduction in Int Expense		-7%	-7%	-9%
Upside from Share Buyback				
Share Count	277	267	253	239
% yoy		-4%	-5%	-6%

3. Expansion of valuation multiple could provide additional upside of 42%

AC has historically traded at a discount to peers because of high leverage, underinvestment in its fleet, negative FCF, and lack of shareholder returns via buybacks or dividends. These reasons will fade away in the next few quarters

AC trades at a big discount to peers

- AC trades at the cheapest multiple among peers (7x fully taxed consensus '18 EPS vs peers at 10x-12x)

Discount comes from high leverage and absence of FCF

- Historically, AC has traded at a discount because it had high leverage (inc pensions, OPEB, and operating leases) and high reinvestment needs
- Sustainable positive FCF was always missing. AC generated FCF during 2010-12 but at the expense of fleet reinvestments

Why the valuation discount will go away

- AC underwent a massive reinvestment and expansion program of its widebody fleet over the last 5 years, during which AC spent ~3x in Capex vs D&A. Capex peaked in FY'16. Now the focus is on the renewal of narrow body fleet, which is less capex intensive.
- Based on the current fleet order contracts and delivery schedule, future capex has high visibility. Mgmt has already guided to a capex schedule up till 2020
- The fleet quality has dramatically improved and will further improve in the future. Avg mainline fleet age is now 15.5 years vs DAL at 17, UAL 14, LUV 12, and AAL 10
- 2017 is going to be the first time when leverage will be below 3x an FCF>0.
- Over the next 3 years AC will generate over $3B in FCF (>42% of market cap). Since pension plan is adequately overfunded and no cash taxes are due until 2021, the only major uses of cash are debt paydowns and share buybacks. I believe half of the FCF will go towards share buybacks

Key Metrics	FY'05	FY'06	FY'07	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16	FY'17 E	FY'18 E	FY'19 E	FY'20 E
Leverage																
Net Debt / EBITDA	3.1	1.7	3.1	6.6	8.8	2.5	1.8	1.3	1.8	2.1	1.7	1.5	1.1	0.8	0.6	0.2
(Net Debt + C'Rent) / EBITDAR	4.5	3.3	4.0	6.7	7.9	3.7	2.9	2.5	3.0	3.0	2.4	2.5	2.2	1.8	1.4	1.0
(Net Debt+ Pension+OPEB+C'Rent) /EBITDAR	6.8	5.1	5.4	8.2	9.6	6.3	6.5	5.3	4.8	4.4	3.0	3.0	2.7	2.2	1.8	1.3
Reinvestment																
Capex/D&A	215%	180%	496%	127%	35%	16%	30%	69%	183%	285%	283%	358%	245%	216%	181%	123%
Capacity																
ASM (Billion Miles)	59	61	63	62	59	63	66	67	69	74	81	93	103	110	114	117
% yoy		4%	3%	-1%	-4%	7%	5%	1%	2%	8%	9%	15%	11%	6%	4%	3%
Pricing																
Yield (cents/mile)	17.5	18.1	18.4	19.2	17.7	18.1	18.8	19.3	19.4	19.2	18.4	17.2	17.0	17.3	17.5	17.7
% yoy		3%	2%	4%	-8%	2%	4%	2%	1%	-1%	-4%	-7%	-1%	2%	1%	1%
FCF	(475)	(500)	(2,177)	(985)	(399)	746	356	181	(231)	(560)	197	(500)	227	606	986	1,889
% yoy		5%	335%	-55%	-59%	-287%	-52%	-49%	-228%	142%	-135%	-354%	-145%	167%	63%	92%
Liquidity																
(Cash + ST Inv) / Revenues		22%	12%	9%	14%	20%	18%	16%	18%	17%	19%	20%	24%	19%	18%	18%
Shareholder Returns																
Equity Buyback		-	-	-	-	-	-	-	-	-	(63)	(94)	(236)	(400)	(500)	(700)
% of Market Cap														6%	7%	10%

3 Cont… : AC trades cheaper to its North America peers in spite of having superior growth profile

AC trades at 6.3x 2018 consensus EPS vs DAL at 9x, AAL at 9.6x, UAL at 9.1x, CPA at 13.8x

Comparison to peers suggests that AC trades cheaper on PE in spite of providing similar or better growth profile. Additionally, US peers operate in a more competitive environment, have higher labor inflation, and have material pension deficit while AC operates in a duopoly, has lower labor inflation, and has an overfunded pension plan. Both DAL and UAL will be cash tax payers in 2018 while AC won't be paying cash taxes until 2021

Comps based on consensus estimates

																				Growth						Margin		Leverage			
Ticker	BB Ticker	Name	Avg Vol ($mm)	Short /Float	Mcap ($mm)	Fwd EV / Sales		Fwd EV/EBITDA		(EV + C'Rent)/EBITDAR		Fwd P/E		Fwd P/FCF		Div Yield		Sales Growth		Ebitda Growth		Earnings Growth		EBITDA Margin	EBIT Margin	Net Debt /EBITDA		Net Debt / LTM EBITDA	Adj. Net Debt/ LTM EBITDAR
			1M	Today	Today	'18	'19	'18	'19	'18	'19	'18	'19	'18	'19	'18	'19	'18	'19	'18	'19	'18	'19	'18	'18	'18	'19	Latest	Latest
Network Airlines																													
UAL	UAL US Equity	UNITED CONTINENT	290	4%	17,876	0.7	0.7	4.8	4.4	5.1	4.7	9.1	8.4	13.1	10.8	-	-	5%	3%	0%	6%	1%	7%	14%	9%	1.6	1.4	1.6	2.3
DAL	DAL US Equity	DELTA AIR LI	285	2%	35,499	1.0	0.9	4.6	4.2	4.7	4.3	9.0	8.2	9.2	10.4	2.5	2.9	4%	4%	4%	4%	9%	9%	20%	15%	0.5	0.2	0.8	1.0
AAL	AAL US Equity	AMERICAN AIRLINE	203	6%	22,820	1.0	0.9	6.5	6.0	6.6	6.2	9.6	8.2	13.3	18.5	1.3	1.6	5%	4%	3%	7%	6%	17%	15%	11%	2.9	2.7	3.1	3.7
LHA	LHA GR Equity	DEUTSCHE LUFT-RG	153		15,998	0.4	0.4	3.4	3.0	4.0	3.5	6.9	6.5	13.7	9.3	2.6	2.9	4%	3%	-1%	3%	-5%	7%	13%	7%	0.6	0.2	0.1	0.2
IAG	IAG LN Equity	INTL CONS AIRLIN	113		16,426	0.6	0.6	3.5	3.1	4.5	4.1	6.4	6.0	8.0	7.4	4.1	4.4	3%	4%	4%	6%	6%	8%	18%	13%	0.2	(0.1)	#VALUE!	#VALUE!
AC	AC CN Equity	AIR CANADA	70	3%	5,339	0.5	0.5	4.3	3.5	4.2	3.6	6.3	5.7	11.7	10.2	###		6%	4%	15%	4%	-5%	11%	16%	10%	1.8	1.1	1.0	2.1
AF	AF FP Equity	AIR FRANCE-KLM	69		5,789	0.3	0.3	2.1	1.8	3.5	3.2	5.2	4.4	8.2	7.4	0.3	0.5	2%	3%	6%	5%	-5%	17%	13%	6%	0.6	0.4	1.1	2.7
CPA	CPA US Equity	COPA HOLDIN-CL A	35	1%	5,665	2.2	2.0	9.7	8.9	9.3	8.6	13.8	12.5	30.8	47.4	2.4	2.8	10%	8%	10%	9%	15%	10%	24%	18%	1.1	0.9	0.6	1.8
Avg			152	3%	15,676	0.8	0.8	4.9	4.4	5.2	4.8	8.3	7.5	13.5	15.2	4.2	2.2	5%	4%	5%	6%	3%	11%	17%	11%	1.2	0.9		
Low Cost Carriers																													
LUV	LUV US Equity	SOUTHWEST AIR	265	1%	32,429	1.4	1.4	5.8	5.3	5.5	5.2	12.3	11.4	14.4	13.2	0.9	1.0	6%	4%	16%	6%	25%	7%	25%	19%	(0.1)	(0.3)	0.0	0.0
JBLU	JBLU US Equity	JETBLUE AIRWAYS	118	6%	6,342	0.9	0.8	4.8	4.3	3.6	3.4	10.6	10.3	91.4	34.6	-	-	9%	6%	6%	6%	4%	3%	20%	14%	0.6	0.4	0.3	0.7
ALK	ALK US Equity	ALASKA AIR GROUP	166	6%	8,133	1.1	1.0	5.7	5.0	4.4	4.0	10.2	9.5	32.2	28.7	1.9	2.1	9%	6%	-2%	9%	-5%	7%	20%	15%	1.0	0.7	0.6	1.4
RYA	RYA LN Equity	RYANAIR HLDGS	60		25,289	3.0	2.8	9.4	8.6	10.3	9.7	14.2	13.3	23.2	20.1	0.5	0.5	7%	8%	10%	7%	7%	7%	31%	23%	0.0	(0.2)	0.3	0.5
SAVE	SAVE US Equity	SPIRIT AIRLINES	67	13%	2,522	0.9	0.8	8.7	8.1	4.3	3.9	11.4	10.2	(7.6)	(12.6)	-	-	21%	12%	10%	14%	2%	12%	18%	12%	4.2	4.1	0.7	2.5
EZJ	EZJ LN Equity	EASYJET PLC	36		7,055	0.9	0.8	7.9	7.5	8.3	7.7	13.4	13.6	(17.7)	(58.4)	3.7	4.2	9%	6%	12%	11%	22%	-1%	13%	8%	0.5	0.8	#VALUE!	#VALUE!
NAS	NAS NO Equity	NORWEGIAN AIR SH	13		822	0.5	0.5	16.5	11.0	1.5	0.9		14.3	(0.5)	(0.5)	-	-	30%	20%	596%	87%	-86%	-382%	6%	2%	13.7	9.5	10.8	8.1
WJA	WJA CN Equity	WESTJET AIRLINES	15	1%	2,382	0.7	0.7	5.2	4.7	2.5	2.2	9.3	8.6	(22.6)	(6.7)	2.3	2.4	9%	8%	12%	9%	15%	8%	19%	10%	2.0	1.8	0.7	1.8
Avg			93	5%	10,622	1.2	1.1	8.0	6.8	5.0	4.6	11.6	11.4	14.1	2.3	1.2	1.3	12%	9%	82%	19%	-2%	-42%	19%	13%	2.8	2.1		
Leisure Focus																													
HA	HA US Equity	HAWAIIAN HOLDING	54	8%	1,991	0.7	0.7	4.8	4.6	3.8	3.7	8.7	9.4	(19.8)	(21.5)	1.0	1.0	3%	4%	-16%	2%	-21%	-8%	19%	15%	1.0	0.8	(0.2)	1.3
ALGT	ALGT US Equity	ALLEGIANT TRAVEL	18	10%	2,212	1.7	1.5	7.6	6.6	4.2	3.6	13.5	11.5	(26.1)	(26.5)	2.2	2.3	11%	9%	15%	15%	20%	18%	26%	18%	2.5	2.2	1.5	1.5
Avg			36	9%	2,101	1.2	1.1	6.2	5.6	4.0	3.6	11.1	10.5	(23.0)	(24.0)	1.6	1.7	7%	6%	0%	8%	0%	5%	22%	17%	1.7	1.5		

Financial leverage when factoring in off balance sheet liabilities is comparable to US peers as well

Leverage profile vs peers factoring in off balance sheet liabilities												
Ticker	**LUV**	**JBLU**	**HA**	**ALGT**	**ALK**	**CPA**	**WJA.CN**	**SAVE**	**DAL**	**UAL**	**AC.CN**	**AAL**
Name	Southwest	Jet Blue	Hawaiian	Allegiant	Alaska Air	Copa America	Westjet	Spirit	Delta	United	Air Canada	American
Net Debt / EBITDA	(0.0)	0.2	(0.4)	1.3	0.4	0.5	0.8	0.4	0.8	1.3	1.2	2.5
(Net Debt + C'Rent) / EBITDAR	0.3	0.6	0.9	1.4	1.3	1.8	1.9	2.2	1.1	1.9	2.3	3.3
(Net Debt + Pension + OPEB+ C'Rent) /EBITDAR	0.4	0.6	1.4	1.4	1.5	1.8	1.9	2.2	2.2	2.3	2.9	4.3

3 Contd… : AC trades at just 5.3x my fully taxed '18 EPS, even though it will provide >15% CAGR over the next 3 years. At the current stock price, a long position provides attractive asymmetric returns to the upside. Downside on valuation multiple is limited from hereon as it already trades at the lowest multiple among its peers

Base Case Multiple

- PE multiple will gradually expand from 6x to 9x by 2020, inline with US peers

Bear Case Multiple

- PE multiple will stay at 7x, ~25% below US peers

Bull Case Multiple

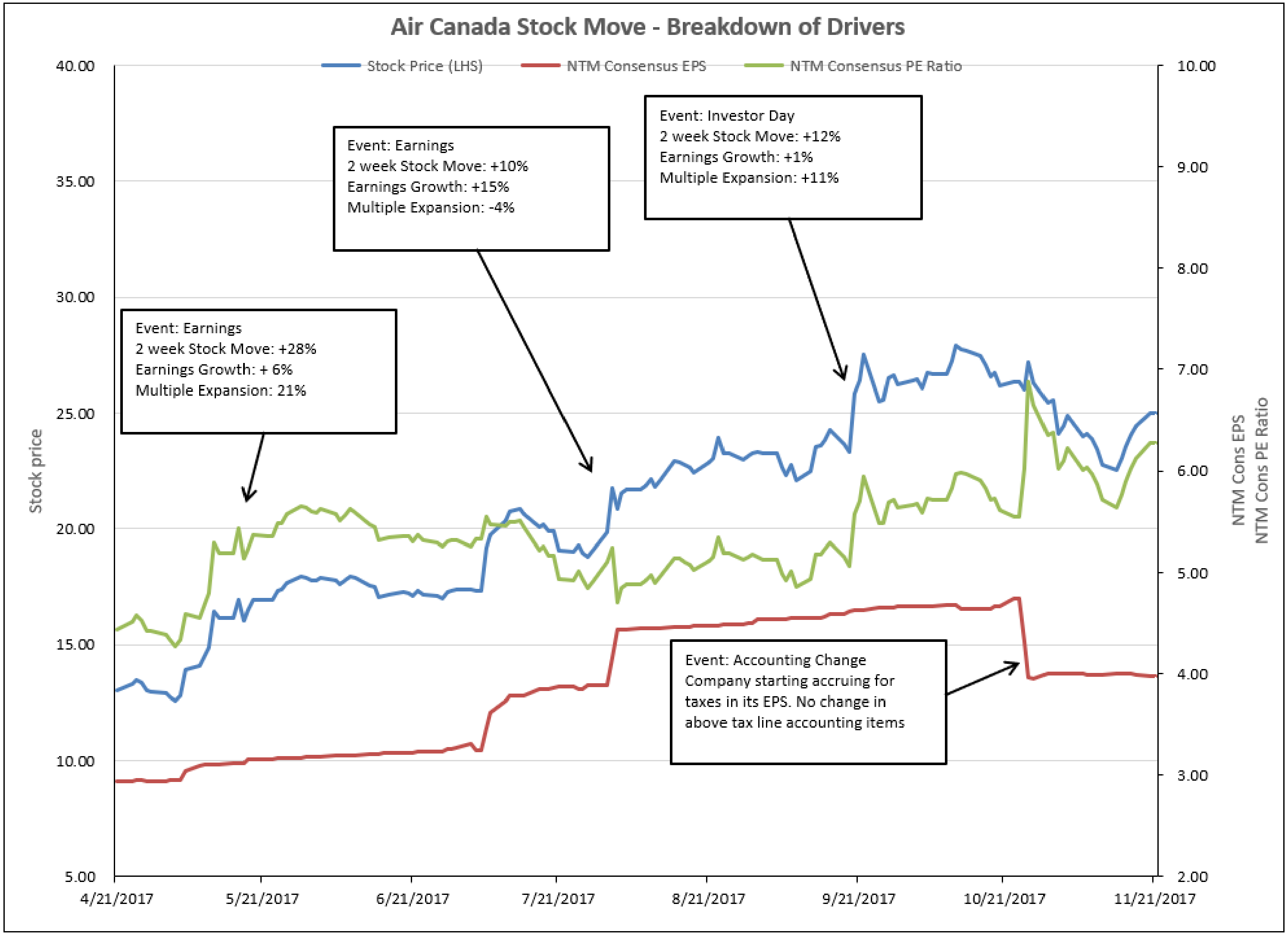
- I expect fully taxed PE multiple will gradually expand from 6x to 10x by 2020, slightly above its US peers given its superior growth profile

FY'18 Estimate and Target Price Summary	Bull	Base	Bear	Consensus
EPS	5.32	4.40	3.30	3.96
% yoy	27%	7%	-16%	-4%
% Diff with Consensus	34%	11%	-17%	
Target Multiple	8	7	6	
Target Price	43	31	20	
Expected Return	70%	23%	-21%	
Scenario Probability	25%	50%	25%	
Probability Weighted Return		24.1%		

			Base									Bull				Bear			
in millions	FY'15 12/31/2015	FY'16 12/31/2016	Q4'17 E 12/31/2017	FY'17 E 12/31/2017	Q1'18 E 3/31/2018	Q2'18 E 6/30/2018	Q3'18 E 9/30/2018	Q4'18 E 12/31/2018	FY'18 E 12/31/2018	FY'19 E 12/31/2019	FY'20 E 12/30/2020	FY'17 E 12/31/2017	FY'18 E 12/31/2018	FY'19 E 12/31/2019	FY'20 E 12/30/2020	FY'17 E 12/31/2017	FY'18 E 12/31/2018	FY'19 E 12/31/2019	FY'20 E 12/30/2020
Valuation																			
Equity Multiples																			
P/E				6.1					5.7	4.8	3.9	6.0	4.7	3.6	2.7	6.3	7.6	9.5	10.9
P/E (fully taxed)				8.2					5.7	4.8	3.9	7.9	4.7	3.6	2.7	8.6	7.6	9.5	10.9
P/E (fully taxed and pension adj)				8.9					6.0	5.1	4.1	8.6	4.9	3.7	2.8	9.4	8.2	10.6	12.6
P/FCF				30.7					11.3	6.5	3.2	26.6	6.9	3.8	2.1	46.0	58.1	1,620.5	13.1
P/B				2.4					1.8	1.4	1.1	2.4	1.6	1.2	0.9	2.5	1.8	1.6	1.5
P/TB				3.1					2.2	1.6	1.3	3.1	1.9	1.3	0.9	3.2	2.2	1.9	1.8
Enterprise Multiples																			
EV / EBITDA				4.0					3.1	2.5	1.8	3.9	2.6	1.8	1.0	4.1	3.7	3.9	4.0
(EV + C'Rent) / EBITDAR				4.5					3.7	3.1	2.4	4.5	3.2	2.3	1.5	4.7	4.2	4.4	4.4
EV/ IC				0.7					0.7	0.6	0.5	0.7	0.6	0.5	0.3	0.7	0.7	0.7	0.7
Multiples on Consensus Estimates																			
P/E				6.0					6.3	5.7		6.0	6.3	5.7		6.0	6.3	5.7	
P/B				2.2					1.7	1.4		2.2	1.7	1.4		2.2	1.7	1.4	
(EV+C'Rent)/EBITDAR				4.6					3.9	3.4		4.6	3.7	3.1		4.6	3.9	3.7	
P/FCF				9.5					9.0	6.0		9.5	9.0	6.0		9.5	9.0	6.0	
Expectations vs Consensus																			
Adj Diluted EPS			0.21	4.11	0.15	0.90	2.93	0.42	4.40	5.21	6.35	4.19	5.32	7.04	9.20	3.93	3.30	2.64	2.29
% yoy			56%	1%	-149%	15%	-14%	98%	7%	18%	22%	3%	27%	32%	31%	-4%	-16%	-20%	-13%
Consensus EPS			0.21	4.14	(0.06)	0.82	2.83	0.42	3.96	4.40	4.87	4.14	3.96	4.40	4.87	4.14	3.96	4.40	4.87
% yoy			54%	1%	-82%	5%	-18%	97%	-4%	11%	11%	1%	-6%	11%	11%	1%	1%	11%	11%
% Diff with Consensus			1%	-1%	-368%	10%	4%	0%	11%	18%	30%	1%	34%	60%	89%	-5%	-17%	-40%	-53%
Target Price Calculation																			
EPS									4.40	5.21	6.35		5.32	7.04	9.20		3.30	2.64	2.29
Target Multiple									7.0	8.0	9.0		8.0	9.0	10.0		6.0	7.0	7.0
Target Price									31	42	57		43	63	92		20	18	16
Upside/Downside (incl Dividends)									23%	67%	129%		70%	153%	268%		-21%	-26%	-36%
Scenario Probability									50%	50%	50%		25%	25%	25%		25%	25%	25%
Implied Target Multiples																			
EV/ EBITDA									3.6	3.8	4.0		4.0	4.3	4.6		3.1	3.3	3.1
(EV + C'Rent) / EBITDAR									4.1	4.2	4.3		4.4	4.6	4.8		3.7	3.8	3.7
P/B									2.25	2.34	2.53		2.76	2.97	3.18		1.44	1.18	0.95
P/FCF									14.0	10.9	7.3		11.7	9.7	7.7		46.0	1,199.1	8.4

Debunking the Bear Case: Stock has gone up too high in the last 6 months and is therefore un-investable

Even though stock has been up 88% in the last 7 months, the risk reward is still skewed attractively to the upside. Of this 88% move, 91% came from earnings growth and 27% from multiple expansion. AC still trades at 6x 2018 consensus EPS vs peers at 9-10x, so there is still ~50% more upside just from additional multiple expansion. Additionally, EPS will grow >15% CAGR over the next few years vs HSD-LDD for peers



Debunking the Bear Case Contd… : Stock has gone up too high in the last 6 months and is, therefore, un-investable

AC's ownership comparison to top 20 Canadian investors in large local transportation companies suggests that AC is significantly under-owned by the top asset managers in Canada. As AC shows EPS growth, produces FCF, deleverages, and buys back shares, there will be substantial new investor demand for the stock, helping multiples expand to inline with peers

Top 20 local investors in Air Canada

Fund Name	% of AC Owned
Letko, Brosseau & Associates Inc.	13.96%
CI Investments Inc.	2.63%
BMO Asset Management Inc.	2.03%
Tetrem Capital Management Ltd.	1.67%
I.G. Investment Management, Ltd.	1.00%
British Columbia Investment Managem	0.76%
RBC Global Asset Management Inc.	0.74%
Picton Mahoney Asset Management	0.57%
Desjardins Global Asset Management	0.56%
Mackenzie Financial Corporation	0.54%
CIBC Asset Management Inc.	0.43%
Morgan Meighen & Associates Ltd.	0.42%
TD Asset Management Inc.	0.38%
Connor, Clark & Lunn Investment Man	0.34%
1832 Asset Management L.P.	0.31%
Norrep Capital Management Ltd.	0.30%
Barometer Capital Management Inc.	0.28%
Greystone Managed Investments Inc.	0.25%
Kingwest & Company	0.24%
First Asset Investment Management, I	0.22%

Comparison Relative to Westjet Investors

Fund Name	% of WJA Owned	% of AC Owned	Is AC Underowned?
Letko, Brosseau & Associates Inc.	10.17%	13.96%	
Mackenzie Financial Corporation	3.65%	0.54%	Yes
Beutel, Goodman & Company Ltd.	1.68%	0.00%	Yes
Manulife Asset Management Limited	1.33%	0.13%	Yes
BMO Asset Management Inc.	0.90%	2.03%	
Beddoe (Clive J)	0.68%	0.00%	Yes
British Columbia Investment Managem	0.63%	0.76%	
TD Asset Management Inc.	0.62%	0.38%	Yes
I.G. Investment Management, Ltd.	0.50%	1.00%	
Desjardins Global Asset Management	0.39%	0.56%	
BlackRock Asset Management Canad	0.36%	0.00%	Yes
First Asset Investment Management, I	0.33%	0.22%	Yes
Scheer, Rowlett & Associates Investm	0.19%	0.00%	Yes
SEI Investments Canada	0.11%	0.00%	Yes
Connor, Clark & Lunn Investment Man	0.10%	0.34%	
Galileo Global Equity Advisors Inc.	0.06%	0.00%	Yes
Brenneman (Ronald Alvin)	0.06%	0.00%	Yes
State Street Global Advisors Ltd. (Can	0.05%	0.05%	
Sun Life Global Investments (Canada)	0.05%	0.04%	Yes
North Growth Management Ltd.	0.04%	0.00%	Yes

Comparison Relative to Canadian National Railway Investors

Fund Name	% of CN Owned	% of AC Owned	Is AC Underowned?
RBC Global Asset Management Inc.	2.83%	0.74%	Yes
Caisse de Depot et Placement du Que	2.11%	0.00%	Yes
TD Asset Management Inc.	2.01%	0.38%	Yes
RBC Dominion Securities, Inc.	1.55%	0.00%	Yes
CIBC World Markets Inc.	1.41%	0.00%	Yes
BMO Nesbitt Burns Inc.	1.40%	0.00%	Yes
Jarislowsky Fraser, Ltd.	1.37%	0.00%	Yes
BMO Asset Management Inc.	1.00%	2.03%	
CIBC Asset Management Inc.	0.88%	0.43%	Yes
Franklin Templeton Investments Corpo	0.83%	0.00%	Yes
Beutel, Goodman & Company Ltd.	0.81%	0.00%	Yes
Connor, Clark & Lunn Investment Man	0.79%	0.34%	Yes
GWL Investment Management Ltd.	0.61%	0.00%	Yes
Manulife Asset Management Limited	0.61%	0.13%	Yes
Fidelity Investments Canada ULC	0.56%	0.00%	Yes
TD Waterhouse Private Investment Co	0.50%	0.00%	Yes
Fiera Capital Corporation	0.50%	0.05%	Yes
Mackenzie Financial Corporation	0.49%	0.54%	
CI Investments Inc.	0.49%	2.63%	
Alberta Investment Management Corpo	0.47%	0.00%	Yes

Comparison Relative to Canadian Pacific Railway Investors

Fund Name	% of CP Owned	% of AC Owned	Is AC Underowned?
RBC Global Asset Management Inc.	3.19%	0.74%	Yes
TD Asset Management Inc.	2.11%	0.38%	Yes
BMO Nesbitt Burns Inc.	1.56%	0.00%	Yes
CIBC Asset Management Inc.	1.50%	0.43%	Yes
CIBC World Markets Inc.	1.27%	0.00%	Yes
Franklin Templeton Investments Corpo	1.13%	0.00%	Yes
Beutel, Goodman & Company Ltd.	1.08%	0.00%	Yes
Manulife Asset Management Limited	1.05%	0.13%	Yes
RBC Dominion Securities, Inc.	0.94%	0.00%	Yes
Mackenzie Financial Corporation	0.86%	0.54%	Yes
Connor, Clark & Lunn Investment Man	0.86%	0.34%	Yes
Fiera Capital Corporation	0.84%	0.05%	Yes
Guardian Capital LP	0.80%	0.00%	Yes
British Columbia Investment Managem	0.78%	0.76%	Yes
GWL Investment Management Ltd.	0.73%	0.00%	Yes
I.G. Investment Management, Ltd.	0.70%	1.00%	
Mawer Investment Management Ltd.	0.67%	0.00%	Yes
CI Investments Inc.	0.56%	2.63%	
Morgan Stanley Canada Limited	0.50%	0.00%	Yes
Phillips, Hager & North Investment Ma	0.43%	0.08%	Yes

Debunking the Bear Case: Risk of crude price going up makes the stock un-investable

AC is somewhat naturally hedged to crude because CAD goes up vs. USD when crude goes up. Furthermore, when crude goes up, Canadian GDP goes up, providing both volume tailwind and price increases (This impact is not modeled in my sensitivity numbers below)

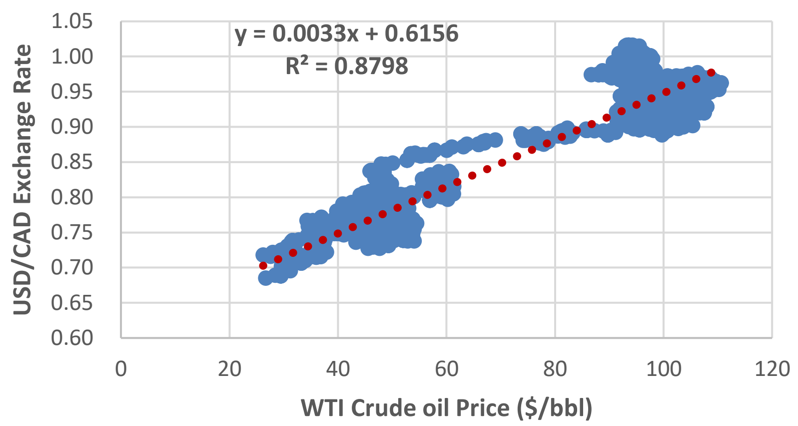
AC is naturally hedged to higher crude prices to a certain extent

- AC has >32% of its expenses denominated in USD, including fuel cost
- These items provide a natural hedge, to a certain extent, to higher crude oil prices because CAD strengthens vs. USD when crude prices trend up

Canadian GDP does better when crude prices are higher

- 34% of passenger revenue comes from Canada-Canada traffic. This traffic will benefit from volume and price tailwinds if oil prices are higher (This impact is not modeled in my sensitivity)
- 22% of passenger revenue comes from Canada-US traffic. A good proportion of this segment will benefit from volume and price tailwinds if oil prices are higher (This impact is not modeled in my sensitivity numbers below)

USD/CAD Regression Model to Crude oil prices using 2013-2017 data has a R^2 of 88%



Several of AC's cost are in USD. To a certain extent, AC is naturally hedged to Crude prices because CAD strengthens vs. USD when Crude price goes up

Cost items that are exposed to USD

Cost Items	% of Opex	EPS Impact if Crude goes up	Comments
Fuel Expense	20%	+ve	
Maint Expense	7%	+ve	Most maintenance contract in USD
Aircraft Rent	3%	+ve	Most leases are in USD
Interest Expense	2%	+ve	Most debt is in USD
Capex	NA	+ve	Aircraft contracts in USD

Debunking the Bear Case: Mgmt quality at AC has historically been poor. Bankruptcy in 2004, and a near bankruptcy in 2008

New CEO who came in 2009 has turned the ship. Plus the CEO is entrepreneurial, owns material amount of stock, has good labor relations, and has a deep operational and financial history with the company. Track record of capital allocation from the current management team has been good. Compensation philosophy is aligned with those of shareholders. CFO has sufficient power to influence financial discipline

Legacy issue are behind AC

- New CEO came in 2009 in a very difficult situation. AC had poor fleet quality, poor customer reputation, and very high financial leverage. But the team has turned things around over the last 7 years

Capital allocation track record has been good even when adjusting for macro tailwinds

- Since the CEO joined in 2009 stock has been up ~21x
- ROIC has increased from negative to low teens
- Invested capital has doubled in the last 5 years
- Leverage has gone down from over 9x to below 3x

Key metrics since CEO joined	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16	FY'17
Stock Returns		205%	-70%	64%	323%	58%	-14%	34%	93%
ROIC	-2%	2%	4%	6%	5%	7%	10%	13%	NA
Invested Capital ($B)	9.8	9.1	8.2	7.4	7.8	8.6	10.3	12.4	13.9
% yoy		-7%	-10%	-10%	4%	11%	20%	20%	13%
(Net Debt + Pension+OPEB + C'Rent)/EBITDAR	9.6	6.3	6.5	5.3	4.8	4.4	3.0	3.0	2.6
Capex/D&A	35%	16%	30%	69%	183%	285%	283%	358%	269%
ASM Capacity (billion miles)	59	63	66	67	69	74	81	93	104
% yoy		7%	5%	1%	2%	8%	9%	15%	12%

Compensation philosophy is fairly balanced between short term and long term incentives, and are based on financial metrics that align with shareholders' interests

- ~25% in Base Salary - paid in cash
- ~25% in Short Term Incentives - paid in cash based on Adjusted Net Income and EBITDAR targets
- ~50% in Long Term Incentives - paid in RSU, PSU Options that vests over 3-4 years; Bonus determined on targets for cumulative EBITDAR over 3 years

CEO has very deep experience within the company and has a good relationship with the labor group

- Experience
  - 2009- Present: Calin Rovinescu has been the CEO since 2009. He is 61 years old
  - 2003-2004 Chief Restructuring Officer during the bankruptcy of Air Canada
  - 2000-2004: EVP of Corp Dev at Air Canada
  - 2000 and before – Managing Partner at a law firm for 20 years
- Stock Ownership
  - Required to own at least 5x his base salary
  - Owns $11mm of stock plus $9mm worth of RSU, PSU and Options that will vest over the next 3-4 years
- Other
  - Also the co-founder of Cannnacord Genuity, an investment bank in Canada. Displays entrepreneurial spirit
  - CEO was able to negotiate a 10 year labor deal with its pilots and flight attendants. This is the best labor contract in the industry as peers have 3-5 year deals. Since labor rates usually step up at the time of renewal, this deal provides a labor cost advantage to AC vs peers

Other Info

- CEO pay is ~3x CFO pay. CFO has been around since 2007, so CFO has sufficient power within the management team to enforce financial discipline
- Board is engaged. Board members attended almost all of the meetings in 2016

Debunking the bear case: Financial leverage is too high vs. peers

AC's leverage may seem higher at first, but when including off balance sheet liabilities, AC's leverage gap with peers is much lower

- (Net Debt + C'Rent)/EBITDAR for AC at 2.3 seems on the higher end vs. peers (DAL 1.1, UAL 1.9). However, the gap is much narrower when including off balance sheet liabilities for pensions and OPEB (AC is at 2.9 vs DAL at 2.2 and UAL at 2.3)
- Additionally, AC's leverage will continue to go down dramatically over the next 1-2 years
- AAL has an even higher leverage profile, yet it gets a PE multiple of ~10x vs AC's fully taxed PE multiple of 7x on 2018 consensus EPS

Leverage profile vs peers												
Ticker	**LUV**	**JBLU**	**HA**	**ALGT**	**ALK**	**CPA**	**WJA.CN**	**SAVE**	**DAL**	**UAL**	**AC.CN**	**AAL**
Name	Southwest	Jet Blue	Hawaiian	Allegiant	Alaska Air	Copa America	Westjet	Spirit	Delta	United	Air Canada	American
Net Debt / EBITDA	(0.0)	0.2	(0.4)	1.3	0.4	0.5	0.8	0.4	0.8	1.3	1.2	2.5
(Net Debt + C'Rent) / EBITDAR	0.3	0.6	0.9	1.4	1.3	1.8	1.9	2.2	1.1	1.9	2.3	3.3
(Net Debt + Pension + OPEB+ C'Rent) /EBITDAR	0.4	0.6	1.4	1.4	1.5	1.8	1.9	2.2	2.2	2.3	2.9	4.3

Debunking the bear case: AC's fleet quality is inferior vs. peers

AC's fleet age is on the higher end of the industry. However its still inline with network peers UAL and DAL. Additionally, fleet age will trend down as AC is undergoing a large narrow body fleet renewal program for the next 3 years, where its removing very old Airbus aircrafts with brand new Boeing Max series

Fleet Age vs peers												
Ticker	**SAVE**	**CPA**	**WJA.CN**	**ALK**	**JBLU**	**AAL**	**HA**	**LUV**	**UAL**	**AC.CN**	**DAL**	**ALGT**
Average Fleet Age	5.2	7.2	7.3	8.2	8.9	10.3	11.0	12.0	13.9	15.5	17.0	21.7

Debunking the bear case: Launch of ULCC by WestJet and others next year will derail the long thesis on AC

ULCC model will have challenges in Canada due to the vastness of the country

- Its hard for ULCC's to be successful in Canada due to the vastness of the geography. Canada's population is comparable to the size of California but the area is 23 times bigger. Additionally, ~90% of the population lives within 100 miles of the US border. So populated areas stretch across a long line rather than a circle, making it hard for new airlines to gain network efficiency at small scale
- AC's average stage length is 1,700 miles vs. ULCCs at much lower levels (Spirit ~1,000, Ryanair ~800, EasyJet at ~700 miles). ULCC's seat pitch is much lower than mainline carriers. Therefore, the ULCC travel experience becomes much more inferior on geographies where average stage length is longer
- Even if ULCC model is successful in Canada, it will take many years for that model to mature before it becomes a threat to AC. Spirit has been running a ULCC model since 2007 but it only started to influence market pricing around 2015. Plus, ULCCs will threaten only the domestic and Transborder routes, which is ~50% of AC's passenger revenue. Over the next few years, AC will further reduce its % exposure to domestic business because of international expansion and connectivity
- ULCC launch by WestJet will be at a very small scale. WestJet has said they may use up to 10 narrowbody planes. This is a very small scale versus AC's current fleet of 393 planes including regionals

Model Summary: Key Drivers

			Base									Bull				Bear			
in millions	**FY'15** 12/31/2015	**FY'16** 12/31/2016	**Q4'17 E** 12/31/2017	**FY'17 E** 12/31/2017	**Q1'18 E** 3/31/2018	**Q2'18 E** 6/30/2018	**Q3'18 E** 9/30/2018	**Q4'18 E** 12/31/2018	**FY'18 E** 12/31/2018	**FY'19 E** 12/31/2019	**FY'20 E** 12/30/2020	**FY'17 E** 12/31/2017	**FY'18 E** 12/31/2018	**FY'19 E** 12/31/2019	**FY'20 E** 12/30/2020	**FY'17 E** 12/31/2017	**FY'18 E** 12/31/2018	**FY'19 E** 12/31/2019	**FY'20 E** 12/30/2020
Key Metrics																			
Consolidated KPIs																			
ASM	80,873	92,726	23,899	103,200	24,404	27,100	33,017	25,067	109,589	113,715	117,307	103,200	110,621	115,892	120,711	103,200	108,557	111,560	113,968
% yoy	9.5%	14.7%	8.2%	11.3%	6.6%	6.9%	6.3%	4.9%	6.2%	3.8%	3.2%	11.3%	7.2%	4.8%	4.2%	11.3%	5.2%	2.8%	2.2%
Load Factor	83.5%	82.5%	79.3%	82.1%	80.0%	82.4%	85.3%	79.3%	82.0%	82.0%	82.0%	82.1%	82.0%	82.0%	82.0%	82.1%	82.0%	82.0%	82.0%
% yoy	0.2%	-1.2%	-0.7%	-0.5%	-0.2%	-0.2%	0.1%	0.0%	-0.1%	0.0%	0.0%	-0.5%	-0.1%	0.0%	0.0%	-0.5%	-0.1%	0.0%	0.0%
RPM	67,545	76,481	18,956	84,697	19,512	22,320	28,164	19,888	89,883	93,252	96,189	84,697	90,730	95,037	98,981	84,697	89,037	91,483	93,451
% yoy	9.6%	13.2%	7.4%	10.7%	6.4%	6.7%	6.4%	4.9%	6.1%	3.7%	3.2%	10.7%	7.1%	4.7%	4.1%	10.7%	5.1%	2.7%	2.2%
Yield (cents/mile)	18.4	17.2	17.6	17.0	17.4	17.1	17.1	17.7	17.3	17.5	17.7	17.1	17.4	17.7	18.0	17.0	17.1	17.2	17.3
% yoy	-4.0%	-6.5%	2.4%	-0.9%	3.2%	1.5%	1.3%	0.7%	1.6%	1.1%	1.0%	-0.8%	2.1%	1.6%	1.5%	-1.2%	0.6%	0.6%	0.5%
CAD per USD (Avg)	1.28	1.32	1.28	1.30	1.29	1.29	1.28	1.28	1.28	1.27	1.26	1.30	1.23	1.22	1.22	1.30	1.20	1.17	1.15
% yoy	15%	4%	-4%	-2%	-3%	-4%	3%	0%	-1%	-1%	-1%	-2%	-5%	0%	0%	-2%	-7%	-3%	-2%
Guidance	-	-	1.24	1.31	-	-	-	-	-	-	-	1.31	-	-	-	1.31	-	-	-
Revenue Breakdown																			
Passenger Revenue	12,420	13,148	3,340	14,430	3,399	3,808	4,828	3,528	15,563	16,330	17,007	14,446	15,805	16,826	17,781	14,379	15,205	15,722	16,134
% yoy	5.2%	5.9%	10.0%	9.8%	9.8%	8.3%	7.8%	5.6%	7.9%	4.9%	4.1%	9.9%	9.4%	6.5%	5.7%	9.4%	5.7%	3.4%	2.6%
PRASM (cents/mile)	15.4	14.2	14.0	14.0	13.9	14.1	14.6	14.1	14.2	14.4	14.5	14.0	14.3	14.5	14.7	13.9	14.0	14.1	14.2
% yoy	-3.9%	-7.7%	1.7%	-1.4%	3.0%	1.3%	1.4%	0.7%	1.6%	1.1%	1.0%	-1.3%	2.1%	1.6%	1.5%	-1.7%	0.5%	0.6%	0.5%
Cargo Revenue	506	512	197	664	169	198	230	233	830	954	1,032	664	830	954	1,032	664	830	954	1,032
% yoy	0.8%	1.2%	26.9%	29.6%	26.4%	28.4%	28.4%	18.5%	25.1%	14.9%	8.2%	29.6%	25.1%	14.9%	8.2%	29.6%	25.1%	14.9%	8.2%
Guidance			like H1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Revenue	942	1,017	240	1,115	422	237	237	254	1,150	1,188	1,213	1,115	1,161	1,210	1,248	1,115	1,139	1,165	1,178
% yoy	-2.5%	8.0%	2.1%	9.6%	2.1%	-0.8%	6.4%	6.0%	3.2%	3.3%	2.1%	9.6%	4.1%	4.3%	3.1%	9.6%	2.2%	2.3%	1.1%
Total Revenues	13,868	14,677	3,776	16,209	3,990	4,243	5,295	4,015	17,543	18,472	19,252	16,225	17,796	18,991	20,061	16,157	17,175	17,841	18,344
% yoy	4.5%	5.8%	10.3%	10.4%	9.6%	8.5%	8.5%	6.3%	8.2%	5.3%	4.2%	10.5%	9.7%	6.7%	5.6%	10.1%	6.3%	3.9%	2.8%
TRASM	17.15	15.83	15.80	15.71	16.35	15.66	16.04	16.02	16.01	16.24	16.41	15.72	16.09	16.39	16.62	15.66	15.82	15.99	16.10
% yoy	-4.5%	-7.7%	1.9%	-0.8%	2.8%	1.5%	2.0%	1.4%	1.9%	1.5%	1.0%	-0.7%	2.3%	1.9%	1.4%	-1.1%	1.1%	1.1%	0.6%
Cost Summary																			
Opex incl fuel	(12,327)	(13,241)	(3,644)	(14,815)	(3,881)	(3,863)	(4,183)	(3,818)	(15,745)	(16,498)	(17,050)	(14,799)	(15,670)	(16,389)	(16,913)	(14,828)	(15,786)	(16,772)	(17,480)
% yoy	-1%	7%	10%	12%	6%	6%	8%	5%	6%	5%	3%	12%	6%	5%	3%	12%	6%	6%	4%
CASM (cents)	15.24	14.28	15.25	14.36	15.90	14.25	12.67	15.23	14.37	14.51	14.53	14.34	14.17	14.14	14.01	14.37	14.54	15.03	15.34
% yoy	-9.4%	-6.3%	1.6%	0.5%	-0.7%	-0.4%	1.5%	-0.1%	0.1%	1.0%	0.2%	0.4%	-1.2%	-0.2%	-0.9%	0.6%	1.2%	3.4%	2.0%
Opex excl fuel, packages	(9,089)	(10,146)	(2,726)	(10,973)	(2,826)	(2,884)	(3,031)	(2,870)	(11,610)	(12,097)	(12,396)	(10,957)	(11,525)	(12,010)	(12,318)	(10,986)	(11,524)	(12,004)	(12,305)
% yoy	9.5%	11.6%	7.9%	8.1%	6.4%	5.7%	5.9%	5.3%	5.8%	4.2%	2.5%	8.0%	5.2%	4.2%	2.6%	8.3%	4.9%	4.2%	2.5%
CASM (cents)	11.24	10.94	11.41	10.63	11.58	10.64	9.18	11.45	10.59	10.64	10.57	10.62	10.42	10.36	10.20	10.65	10.62	10.76	10.80
% yoy	0.0%	-2.6%	-0.3%	-2.8%	-0.2%	-1.1%	-0.4%	0.4%	-0.4%	0.4%	-0.7%	-3.0%	-1.9%	-0.5%	-1.5%	-2.7%	-0.3%	1.4%	0.3%
Guidance			-15% to -0.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel Cost																			
Fuel Cost (Mainline+Regional) (incl hed	(2,823)	(2,606)	(816)	(3,308)	(797)	(879)	(1,076)	(841)	(3,592)	(3,841)	(4,082)	(3,308)	(3,599)	(3,808)	(4,006)	(3,308)	(3,725)	(4,218)	(4,618)
% yoy	-24.7%	-7.7%	18.6%	26.9%	5.7%	10.3%	14.3%	3.0%	8.6%	6.9%	6.3%	26.9%	8.8%	5.8%	5.2%	26.9%	12.6%	13.2%	9.5%
CASM	3.49	2.81	3.42	3.21	3.27	3.24	3.26	3.35	3.28	3.38	3.48	3.21	3.25	3.29	3.32	3.21	3.43	3.78	4.05
% yoy	-31.2%	-19.5%	9.7%	14.1%	-0.9%	3.2%	7.5%	-1.8%	2.3%	3.0%	3.0%	14.1%	1.5%	1.0%	1.0%	14.1%	7.0%	10.2%	7.2%
Fuel Litres Consumed	4,478	4,837	1,243	5,320	1,260	1,376	1,668	1,290	5,594	5,747	5,870	5,320	5,646	5,857	6,040	5,320	5,541	5,638	5,702
% yoy	6%	8%	7%	10%	6%	6%	5%	4%	5%	3%	2%	10%	6%	4%	3%	10%	4%	2%	1%
ASM/Gallon	18.05	19.14	19.23	19.38	19.37	19.70	19.80	19.43	19.57	19.77	19.97	19.38	19.57	19.77	19.97	19.38	19.57	19.77	19.97
% yoy	3.0%	6.0%	1.0%	1.3%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.3%	1.0%	1.0%	1.0%	1.3%	1.0%	1.0%	1.0%
Fuel Cost per litre (cents/litre) (incl hed	63	54	66	62	63	64	65	65	64	67	70	62	64	65	66	62	67	75	81
% yoy	-29%	-15%	9%	15%	-3%	1%	1%	1%	3%	4%	4%	15%	2%	2%	2%	15%	8%	11%	8%
Guidance	-	-	63	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jet Fuel cost/gallon (EIA) (in USD)	1.52	1.25	1.74	1.56	1.69	1.70	1.72	1.74	1.71	1.78	1.86	1.56	1.70	1.73	1.77	1.56	1.79	2.00	2.16
% yoy	-43%	-18%	21%	25%	13%	22%	8%	0%	10%	4%	4%	25%	9%	2%	2%	25%	15%	11%	8%
% qoq	0%	0%	9%	0%	-3%	1%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Model Summary: Key Segment Drivers

			Base									Bull				Bear			
in millions	FY'15	FY'16	Q4'17 E	FY'17 E	Q1'18 E	Q2'18 E	Q3'18 E	Q4'18 E	FY'18 E	FY'19 E	FY'20 E	FY'17 E	FY'18 E	FY'19 E	FY'20 E	FY'17 E	FY'18 E	FY'19 E	FY'20 E
	12/31/2015	12/31/2016	12/31/2017	12/31/2017	3/31/2018	6/30/2018	9/30/2018	12/31/2018	12/31/2018	12/31/2019	12/30/2020	12/31/2017	12/31/2018	12/31/2019	12/30/2020	12/31/2017	12/31/2018	12/31/2019	12/30/2020
Segment Drivers																			
Canada																			
ASM	21,960	23,206	5,565	23,683	5,159	5,954	7,316	5,621	24,050	24,531	25,022	23,683	24,287	25,015	25,766	23,683	23,813	24,051	24,292
% yoy	3%	6%	1%	2%	1%	2%	2%	1%	2%	2%	2%	2%	3%	3%	3%	2%	1%	1%	1%
Load Factor	83.0%	83.1%	82.9%	83.3%	80.3%	83.5%	85.5%	82.9%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%	83.3%
% yoy	-0.2%	0.1%	0.6%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.0%	0.0%	0.0%	0.2%	0.0%	0.0%	0.0%
Yield (cents/mile)	24.0	23.0	25.0	23.3	24.7	23.5	22.3	25.2	23.8	24.0	24.2	23.3	23.9	24.3	24.6	23.3	23.6	23.7	23.9
% yoy	-3.1%	-4.4%	4.9%	1.5%	4.5%	2.0%	1.0%	1.0%	2.0%	1.0%	1.0%	1.7%	2.5%	1.5%	1.5%	1.4%	1.5%	0.5%	0.5%
Revenue	4,379	4,426	1,151	4,597	1,024	1,167	1,394	1,174	4,760	4,904	5,052	4,602	4,836	5,056	5,286	4,591	4,684	4,755	4,826
% yoy	0%	1%	7%	4%	6%	4%	3%	2%	4%	3%	3%	4%	5%	5%	5%	4%	2%	2%	2%
PRASM (cents/mile)	19.9	19.1	20.7	19.4	19.9	19.6	19.1	20.9	19.8	20.0	20.2	19.4	19.9	20.2	20.5	19.4	19.7	19.8	19.9
% yoy	-3.4%	-4.4%	5.6%	1.8%	4.5%	2.0%	1.0%	1.0%	2.0%	1.0%	1.0%	1.9%	2.5%	1.5%	1.5%	1.6%	1.5%	0.5%	0.5%
US Transboarder																			
ASM	14,300	16,285	4,384	18,130	5,109	4,857	5,198	4,603	19,767	20,902	21,738	18,130	19,948	21,293	22,358	18,130	19,586	20,514	21,130
% yoy	14.3%	13.9%	10.0%	11.3%	9.0%	11.0%	11.0%	5.0%	9.0%	5.7%	4.0%	11.3%	10.0%	6.7%	5.0%	11.3%	8.0%	4.7%	3.0%
Load Factor	82.2%	81.5%	79.1%	81.7%	80.2%	82.0%	84.4%	79.1%	81.5%	81.5%	81.5%	81.7%	81.5%	81.5%	81.5%	81.7%	81.5%	81.5%	81.5%
% yoy	0.2%	-0.7%	-0.7%	0.2%	-0.5%	-0.5%	0.0%	0.0%	-0.2%	0.0%	0.0%	0.2%	-0.2%	0.0%	0.0%	0.2%	-0.2%	0.0%	0.0%
Yield (cents/mile)	22.8	21.7	21.9	21.5	21.0	22.0	21.8	22.1	21.7	21.9	22.2	21.5	21.8	22.2	22.5	21.5	21.6	21.7	21.8
% yoy	-1.5%	-5.1%	0.1%	-0.8%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	-0.7%	1.5%	1.5%	1.5%	-1.0%	0.5%	0.5%	0.5%
Revenue	2,685	2,879	760	3,184	859	875	957	806	3,497	3,735	3,923	3,188	3,551	3,847	4,100	3,180	3,444	3,625	3,753
% yoy	12.9%	7.2%	9.0%	10.6%	9.4%	11.4%	12.1%	6.1%	9.8%	6.8%	5.0%	10.7%	11.4%	8.4%	6.6%	10.5%	8.3%	5.3%	3.5%
PRASM (cents/mile)	18.8	17.7	17.3	17.6	16.8	18.0	18.4	17.5	17.7	17.9	18.0	17.6	17.8	18.1	18.3	17.5	17.6	17.7	17.8
% yoy	-1.2%	-5.9%	-0.9%	-0.7%	0.4%	0.4%	1.0%	1.0%	0.7%	1.0%	1.0%	-0.5%	1.2%	1.5%	1.5%	-0.8%	0.2%	0.5%	0.5%
Atlantic																			
ASM	22,092	26,751	6,587	30,583	5,930	8,504	12,085	7,180	33,699	35,383	36,799	30,583	34,004	36,045	37,847	30,583	33,393	34,728	35,770
% yoy	12.5%	21.1%	14.0%	14.3%	13.0%	11.0%	9.0%	9.0%	10.2%	5.0%	4.0%	14.3%	11.2%	6.0%	5.0%	14.3%	9.2%	4.0%	3.0%
Load Factor	82.9%	80.4%	75.4%	79.8%	74.1%	80.0%	84.8%	75.4%	79.7%	79.7%	79.7%	79.8%	79.7%	79.7%	79.7%	79.8%	79.7%	79.7%	79.7%
% yoy	0.5%	-2.5%	-1.4%	-0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.6%	0.0%	0.0%	0.0%	-0.6%	0.0%	0.0%	0.0%
Yield (cents/mile)	15.2	14.1	14.4	14.2	14.7	14.5	14.5	14.7	14.6	14.7	14.9	14.3	14.7	14.9	15.1	14.1	14.1	14.2	14.2
% yoy	-4.0%	-7.1%	3.3%	1.2%	4.0%	2.0%	2.0%	2.0%	2.3%	1.0%	1.0%	1.3%	2.8%	1.5%	1.5%	0.2%	0.0%	0.5%	0.5%
Revenue	2,775	3,026	716	3,476	647	987	1,488	796	3,917	4,154	4,364	3,480	3,976	4,278	4,559	3,440	3,754	3,924	4,062
% yoy	8.7%	9.1%	15.7%	14.9%	17.5%	13.2%	11.2%	11.2%	12.7%	6.1%	5.0%	15.0%	14.3%	7.6%	6.6%	13.7%	9.1%	4.5%	3.5%
PRASM (cents/mile)	12.6	11.3	10.9	11.4	10.9	11.6	12.3	11.1	11.6	11.7	11.9	11.4	11.7	11.9	12.0	11.2	11.2	11.3	11.4
% yoy	-3.4%	-9.9%	1.4%	0.5%	4.0%	2.0%	2.0%	2.0%	2.3%	1.0%	1.0%	0.6%	2.8%	1.5%	1.5%	-0.6%	0.0%	0.5%	0.5%
Pacific																			
ASM	15,714	19,026	5,375	22,189	5,008	5,706	6,604	5,536	22,855	23,312	23,778	22,189	23,077	23,769	24,482	22,189	22,633	22,859	23,088
% yoy	9.1%	21.1%	8.0%	16.6%	3.0%	3.0%	3.0%	3.0%	3.0%	2.0%	2.0%	16.6%	4.0%	3.0%	3.0%	16.6%	2.0%	1.0%	1.0%
Load Factor	86.1%	84.5%	78.8%	82.6%	80.6%	83.8%	85.3%	78.8%	82.3%	82.3%	82.3%	82.6%	82.3%	82.3%	82.3%	82.6%	82.3%	82.3%	82.3%
% yoy	0.2%	-1.6%	-0.7%	-2.0%	-0.5%	-0.5%	0.0%	0.0%	-0.2%	0.0%	0.0%	-2.0%	-0.2%	0.0%	0.0%	-2.0%	-0.2%	0.0%	0.0%
Yield (cents/mile)	13.0	12.3	11.1	11.8	11.5	11.4	13.2	11.2	11.9	12.1	12.3	11.8	12.0	12.3	12.5	11.8	11.8	11.9	12.0
% yoy	-5.8%	-5.2%	-0.9%	-4.6%	1.0%	1.0%	1.0%	1.0%	1.0%	2.0%	1.0%	-4.5%	1.5%	2.5%	1.5%	-4.8%	0.0%	1.5%	0.5%
Revenue	1,762	1,985	468	2,158	463	545	744	487	2,239	2,329	2,400	2,160	2,274	2,401	2,510	2,153	2,190	2,246	2,279
% yoy	3.0%	12.7%	6.0%	8.7%	3.4%	3.4%	4.0%	4.0%	3.7%	4.0%	3.0%	8.8%	5.3%	5.6%	4.5%	8.5%	1.7%	2.5%	1.5%
PRASM (cents/mile)	11.2	10.4	8.7	9.7	9.2	9.6	11.3	8.8	9.8	10.0	10.1	9.7	9.9	10.1	10.3	9.7	9.7	9.8	9.9
% yoy	-5.6%	-7.0%	-1.9%	-6.8%	0.4%	0.4%	1.0%	1.0%	0.7%	2.0%	1.0%	-6.7%	1.2%	2.5%	1.5%	-7.0%	-0.3%	1.5%	0.5%
Latam, Carribean and Other																			
ASM	6,807	7,458	1,988	8,615	3,198	2,079	1,814	2,127	9,218	9,587	9,971	8,615	9,305	9,770	10,258	8,615	9,132	9,406	9,688
% yoy	11.4%	9.6%	8.0%	15.5%	7.0%	7.0%	7.0%	7.0%	7.0%	4.0%	4.0%	15.5%	8.0%	5.0%	5.0%	15.5%	6.0%	3.0%	3.0%
Load Factor	84.0%	85.0%	84.2%	86.5%	88.8%	85.5%	90.3%	85.2%	87.5%	87.5%	87.5%	86.5%	87.5%	87.5%	87.5%	86.5%	87.5%	87.5%	87.5%
% yoy	-0.2%	1.1%	1.0%	1.5%	1.0%	1.0%	1.0%	1.0%	1.0%	0.0%	0.0%	1.5%	1.0%	0.0%	0.0%	1.5%	1.0%	0.0%	0.0%
Yield (cents/mile)	14.3	13.1	14.6	13.6	14.3	13.2	15.0	14.6	14.3	14.4	14.5	13.6	14.3	14.6	14.8	13.6	14.2	14.2	14.3
% yoy	-5.5%	-8.4%	12.7%	3.8%	10.0%	2.0%	4.0%	0.0%	4.6%	1.0%	1.0%	3.9%	5.1%	1.5%	1.5%	3.7%	4.1%	0.5%	0.5%
Revenues	819	832	244	1,015	406	234	245	264	1,150	1,208	1,269	1,016	1,167	1,244	1,326	1,014	1,133	1,172	1,214
% yoy	5.0%	1.6%	23.3%	22.1%	19.0%	10.4%	12.5%	8.3%	13.3%	5.0%	5.0%	22.2%	14.9%	6.6%	6.6%	21.9%	11.7%	3.5%	3.5%
PRASM (cents/mile)	12.0	11.2	12.3	11.8	12.7	11.3	13.5	12.4	12.5	12.6	12.7	11.8	12.5	12.7	12.9	11.8	12.4	12.5	12.5
% yoy	-5.7%	[illegible]	14.1%	5.7%	11.3%	3.2%	5.2%	1.2%	5.8%	1.0%	1.0%	5.8%	6.3%	1.5%	1.5%	5.5%	5.3%	0.5%	0.5%

Model Summary: Income Statement

			Base									Bull				Bear			
in millions	FY'15	FY'16	Q4'17 E	FY'17 E	Q1'18 E	Q2'18 E	Q3'18 E	Q4'18 E	FY'18 E	FY'19 E	FY'20 E	FY'17 E	FY'18 E	FY'19 E	FY'20 E	FY'17 E	FY'18 E	FY'19 E	FY'20 E
	12/31/2015	12/31/2016	12/31/2017	12/31/2017	3/31/2018	6/30/2018	9/30/2018	12/31/2018	12/31/2018	12/31/2019	12/30/2020	12/31/2017	12/31/2018	12/31/2019	12/30/2020	12/31/2017	12/31/2018	12/31/2019	12/30/2020
Income Statement Summary																			
Revenues	13,868	14,677	3,776	16,209	3,990	4,243	5,295	4,015	17,543	18,472	19,252	16,225	17,796	18,991	20,061	16,157	17,175	17,841	18,344
% yoy	4%	6%	10%	10%	10%	8%	9%	6%	8%	5%	4%	11%	10%	7%	6%	10%	6%	4%	3%
Consensus Rev			3,730	16,173	3,875	4,143	5,157	3,926	17,166	17,900	18,395	16,173	17,166	17,900	18,395	16,173	17,166	17,900	18,395
% Diff with consensus			1%	0%	3%	2%	3%	2%	2%	3%	5%	0%	4%	6%	9%	0%	0%	0%	0%
EBITDAR	2,565	2,768	524	2,924	506	782	1,520	611	3,419	3,675	3,938	2,956	3,724	4,285	4,871	2,859	2,978	2,733	2,564
% yoy	51%	8%	15%	6%	48%	17%	10%	17%	17%	7%	7%	7%	26%	15%	14%	3%	4%	-8%	-6%
% of Revenue	18.5%	18.9%	13.9%	18.0%	12.7%	18.4%	28.7%	15.2%	19.5%	19.9%	20.5%	18.2%	20.9%	22.6%	24.3%	17.7%	17.3%	15.3%	14.0%
Consensus EBITDAR	-	-	521	2,874	386	637	1,387	521	3,227	3,300	3,445	2,874	3,206	3,282	3,431	2,874	3,196	3,263	3,408
% Diff with Consensus EBITDAR	0%	0%	1%	2%	31%	23%	10%	17%	6%	11%	14%	3%	16%	31%	42%	-1%	-7%	-16%	-25%
Consensus EBITDAR Margin	0.0%	0.0%	14.0%	17.8%	10.0%	15.4%	26.9%	13.3%	18.8%	18.4%	18.7%	17.8%	18.7%	18.3%	18.7%	17.8%	18.6%	18.2%	18.5%
% Diff with Consensus Margin	0.0%	0.0%	-0.1%	0.3%	2.7%	3.1%	1.8%	1.9%	0.7%	1.5%	1.7%	0.5%	2.3%	4.2%	5.6%	-0.1%	-1.3%	-2.9%	-4.5%
Guidance - Margin	-	-							17-20%	17-20%	17-20%		17-20%	17-20%	17-20%		17-20%	17-20%	17-20%
EBIT	1,541	1,436	133	1,394	110	380	1,112	197	1,799	1,974	2,202	1,426	2,125	2,601	3,148	1,329	1,389	1,069	864
% yoy	82%	-7%	22%	-3%	-558%	35%	11%	49%	29%	10%	12%	-1%	49%	22%	21%	-7%	4%	-23%	-19%
Margin	11.1%	9.8%	3.5%	8.6%	2.8%	8.9%	21.0%	4.9%	10.3%	10.7%	11.4%	8.8%	11.9%	13.7%	15.7%	8.2%	8.1%	6.0%	4.7%
Inc Margin	117%	-13%	7%	-3%	38%	30%	26%	27%	30%	19%	29%	-1%	44%	40%	51%	-7%	6%	-48%	-41%
Consensus EBIT			157	1,387	45	345	1,067	171	1,652	1,685	1,792	1,387	1,652	1,685	1,792	1,387	1,652	1,685	1,792
% Diff with consensus			-15%	1%	144%	10%	4%	15%	9%	17%	23%	3%	29%	54%	76%	-4%	-16%	-37%	-52%
Consensus EBIT Margin			4.2%	8.6%	1.2%	8.3%	20.7%	4.4%	9.6%	9.4%	9.7%	8.6%	9.6%	9.4%	9.7%	8.6%	9.6%	9.4%	9.7%
% Diff with consensus			-0.7%	0.0%	1.6%	0.6%	0.3%	0.6%	0.6%	1.3%	1.7%	0.2%	2.3%	4.3%	6.0%	-0.3%	-1.5%	-3.4%	-5.0%
EBT	1,237	1,148	80	1,161	57	330	1,064	150	1,601	1,799	2,063	1,193	1,937	2,446	3,046	1,096	1,197	891	695
% yoy	0.0%	-7.2%	104.7%	1.2%	-165.3%	50.8%	12.0%	88.2%	37.9%	12.4%	14.7%	4.0%	62.3%	26.3%	24.6%	-4.5%	9.2%	-25.6%	-22.0%
Margin	8.9%	7.8%	2.1%	7.2%	1.4%	7.8%	20.1%	3.7%	9.1%	9.7%	10.7%	7.4%	10.9%	12.9%	15.2%	6.8%	7.0%	5.0%	3.8%
Consensus EBT			96	1,251	(24)	256	954	132	1,423	1,491	1,630	1,251	1,423	1,491	1,630	1,251	1,423	1,491	1,630
% Diff with consensus			-17%	-7%	-337%	29%	12%	14%	13%	21%	27%	-5%	36%	64%	87%	-12%	-16%	-40%	-57%
Consensus EBT Margin			2.6%	7.7%	-0.6%	6.2%	18.5%	3.4%	8.3%	8.3%	8.9%	7.7%	8.3%	8.3%	8.9%	7.7%	8.3%	8.3%	8.9%
% Diff with consensus			-0.5%	-0.6%	2.0%	1.6%	1.6%	0.4%	0.8%	1.4%	1.9%	-0.4%	2.6%	4.5%	6.3%	-1.0%	-1.3%	-3.3%	-5.1%
NI from Cont Ops to common	1,235	1,147	58	1,137	41	241	777	110	1,169	1,313	1,506	1,160	1,414	1,785	2,224	1,089	874	651	507
% yoy	114.4%	-7.2%	53.4%	-0.8%	-147.7%	11.6%	-18.2%	88.2%	2.8%	12.4%	14.7%	1.2%	21.9%	26.3%	24.6%	-5.0%	-19.8%	-25.6%	-22.0%
Consensus NI			73	1,166	(1)	220	748	96	1,061	1,139	1,199	1,166	1,061	1,139	1,199	1,166	1,061	1,139	1,199
% Diff with consensus			-20%	-3%	0%	0%	0%	0%	10%	15%	26%	-1%	33%	57%	85%	-7%	-18%	-43%	-58%
Adj Diluted EPS	4.20	4.08	0.21	4.11	0.15	0.90	2.93	0.42	4.40	5.21	6.35	4.19	5.32	7.04	9.20	3.93	3.30	2.64	2.29
% yoy	116.0%	-2.8%	55.5%	0.7%	-149.0%	15.3%	-14.5%	97.8%	7.2%	18.4%	21.8%	2.8%	26.9%	32.3%	30.8%	-3.6%	-16.2%	-19.9%	-13.2%
Consensus EPS			0.21	4.14	(0.06)	0.82	2.83	0.42	3.96	4.40	4.87	4.14	3.96	4.40	4.87	4.14	3.96	4.40	4.87
% yoy			54%	1%	-82%	5%	-18%	97%	-4%	11%	11%	1%	-6%	11%	11%	1%	1%	11%	11%
% Diff with Consensus			1%	-1%	-368%	10%	4%	0%	11%	18%	30%	1%	34%	60%	89%	-5%	-17%	-40%	-53%
Diluted Shares Out	293.4	282.3	275.1	277.0	271.5	268.1	264.9	261.8	266.6	253.4	238.8	277.0	266.8	254.8	242.6	277.0	265.9	249.1	226.3
% yoy	1.2%	-3.8%	-1.4%	-1.8%	-2.7%	-3.2%	-4.4%	-4.9%	-3.8%	-5.0%	-5.7%	-1.8%	-3.7%	-4.5%	-4.8%	-1.8%	-4.0%	-6.3%	-9.2%
Consensus Diluted Shares				281.6					268.1	258.9	246.0	281.6	268.1	258.9	246.0	281.6	268.1	258.9	246.0
% Diff with consensus				-2%					-1%	-2%	-3%	-2%	0%	-2%	-1%	-2%	-1%	-4%	-8%

Model Summary: Cashflow and Balance Sheet

in millions	FY'15 12/31/2015	FY'16 12/31/2016	Base Q4'17 E 12/31/2017	Base FY'17 E 12/31/2017	Base Q1'18 E 3/31/2018	Base Q2'18 E 6/30/2018	Base Q3'18 E 9/30/2018	Base Q4'18 E 12/31/2018	Base FY'18 E 12/31/2018	Base FY'19 E 12/31/2019	Base FY'20 E 12/30/2020	Bull FY'17 E 12/31/2017	Bull FY'18 E 12/31/2018	Bull FY'19 E 12/31/2019	Bull FY'20 E 12/30/2020	Bear FY'17 E 12/31/2017	Bear FY'18 E 12/31/2018	Bear FY'19 E 12/31/2019	Bear FY'20 E 12/30/2020
Cashflow Summary																			
FCF Items																			
CFO (excl WC)	1,831	2,051	324	2,085	307	586	1,321	425	2,638	2,956	3,294	2,117	2,971	3,597	4,267	2,021	2,238	2,057	1,940
% yoy	143%	12%	-18%	2%	26%	24%	26%	31%	27%	12%	11%	3%	40%	21%	19%	-1%	11%	-8%	-6%
Total CFO	2,012	2,421	220	2,569	1,150	912	510	304	2,876	3,116	3,433	2,604	3,254	3,808	4,464	2,495	2,407	2,163	2,022
% yoy	114%	20%	-43%	6%	12%	10%	4%	38%	12%	8%	10%	8%	25%	17%	17%	3%	-3%	-10%	-7%
Capex (incl net PDPs)	(1,815)	(2,921)	(352)	(2,342)	(568)	(568)	(568)	(568)	(2,270)	(2,130)	(1,544)	(2,342)	(2,270)	(2,130)	(1,544)	(2,342)	(2,270)	(2,130)	(1,544)
Guidance	-	-	-	(2,505)	-	-	-	-	(2,270)	(2,130)	(1,544)	(2,505)	(2,270)	(2,130)	(1,544)	(2,505)	(2,270)	(2,130)	(1,544)
% PP&E	29%	39%	4%	27%	6%	6%	6%	6%	24%	20%	13%	27%	24%	20%	13%	27%	24%	20%	13%
% of D&A	283%	358%	146%	245%	232%	226%	219%	212%	216%	181%	123%	245%	216%	181%	123%	245%	216%	181%	123%
FCF	197	(500)	(132)	227	583	344	(57)	(264)	606	986	1,889	262	984	1,678	2,920	153	137	33	478
% yoy	-135%	-354%	-186%	-145%	477%	-622%	-118%	100%	167%	63%	92%	-152%	276%	71%	74%	-131%	-10%	-76%	1368%
% of Market Cap	7%	-13%	-2%	3%	9%	5%	-1%	-4%	9%	16%	32%	4%	15%	27%	49%	2%	2%	1%	9%
FCF/sh	0.67	(1.77)	(0.48)	0.82	2.15	1.28	(0.22)	(1.01)	2.27	3.89	7.91	0.94	3.69	6.59	12.04	0.55	0.52	0.13	2.11
% yoy	-134.8%	-363.9%	-186.9%	-146.3%	493.0%	-638.9%	-118.5%	110.0%	177.5%	71.1%	103.3%	-153.3%	290.3%	78.6%	82.7%	-131.1%	-6.2%	-74.7%	1515.8%
Consensus FCF/sh				2.62					2.78	4.13	5.84	2.62	2.78	4.13	5.84	2.62	2.78	4.13	5.84
FCF/EPS Conversion	16%	-43%	-227%	20%	1405%	143%	-7%	-240%	52%	75%	125%	23%	69%	94%	131%	14%	16%	5%	92%
Equity Buyback	(63)	(94)	(100)	(236)	(100)	(100)	(100)	(100)	(400)	(500)	(700)	(236)	(400)	(500)	(700)	(236)	(400)	(500)	(700)
% of Market Cap	2%	3%	1%	4%	1%	1%	2%	2%	6%	8%	12%	4%	6%	8%	12%	4%	6%	8%	12%
Balance Sheet Summary																			
Cash + ST Investments / Market Cap			57%	57%	62%	64%	59%	52%	52%	53%	60%	57%	58%	71%	95%	56%	44%	30%	22%
Long Term Debt	6,394	6,618	6,545	6,545	6,397	6,204	6,011	5,819	5,819	5,223	4,196	6,545	5,630	5,053	4,040	6,545	5,491	4,866	4,406
Cash	(2,763)	(3,105)	(4,012)	(4,012)	(4,313)	(4,376)	(4,038)	(3,493)	(3,493)	(3,423)	(3,617)	(4,047)	(3,906)	(4,528)	(5,753)	(3,937)	(2,950)	(1,927)	(1,297)
Net Debt	3,631	3,513	2,533	2,533	2,083	1,827	1,973	2,326	2,326	1,801	579	2,498	1,724	525	(1,713)	2,607	2,541	2,939	3,109
% yoy	27%	-3%	-28%	-28%	-32%	-31%	-5%	-8%	-8%	-23%	-68%	-29%	-31%	-70%	-426%	-26%	-3%	16%	6%
Net Debt / EBITDA	1.7	1.5	1.1	1.1	0.8	0.7	0.7	0.8	0.8	0.6	0.2	1.0	0.5	0.1	(0.4)	1.1	1.0	1.3	1.4
(Net Debt + C'Rent) / EBITDAR	2.4	2.5	2.2	2.2	1.9	1.8	1.7	1.8	1.8	1.4	1.0	2.1	1.4	0.9	0.3	2.2	2.0	2.2	2.3
Guidance			-	-	-	-	-	2.2	2.2	-	1.2	-	2.2	-	1.2	-	2.2	-	1.2
(Net Debt+ Pension+OPEB+C'Rent) /EBI	3.0	3.0	2.7	2.7	2.4	2.2	2.2	2.2	2.2	1.8	1.3	2.6	1.8	1.2	0.6	2.7	2.5	2.8	2.9
ROIC	24%	17%	14%	14%	15%	15%	16%	16%	16%	18%	20%	14%	19%	22%	25%	13%	14%	11%	10%
Guidance	-	-	-	-	13-16%	13-16%	13-16%	13-16%	13-16%	13-16%	13-16%	-	13-16%	13-16%	13-16%	-	13-16%	13-16%	13-16%

End of Presentation