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# **CEO Dialogue**

## International CEO Conference

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May 1, 2006  
Miami, Florida

# CEO Dialogue: The Format

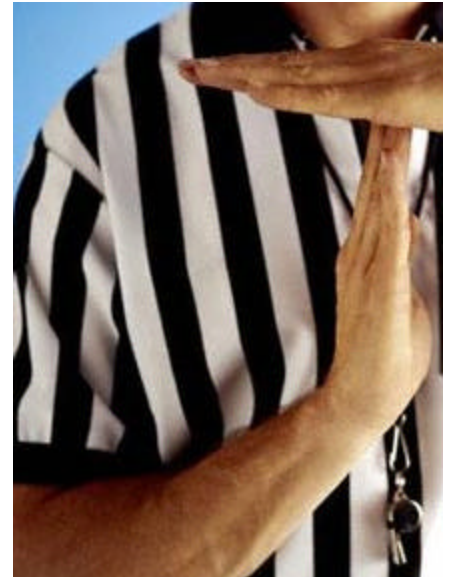
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- > Following on the new model introduced last year
- > Focus on a few major issues facing the carriers in the region
- > “Talk-show” with interactive group discussion among the CEOs
- > Q&A with the audience
- > Bobby walking the floor, bringing in other viewpoints



# CEO Dialogue: The Ground Rules - Panelists

- > No prepared remarks
- > No speeches
- > No PowerPoint slides allowed (except for me!)
- > No question is out of bounds (doesn't necessarily mean we'll get an answer to it)



# CEO Dialogue: A Distinguished Panel

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- > William “Skip” Barnette – Caribbean Sun/Caribbean Star
- > Mike Conway – Air Jamaica
- > Peter Davies – BWIA
- > Fred Jacobsen – Tampa Cargo
- > Pedro Heilbron – Copa Panama
- > Roberto Kriete – Grupo TACA
- > Emilio Romano – Mexicana

# What We're Going To Talk About...

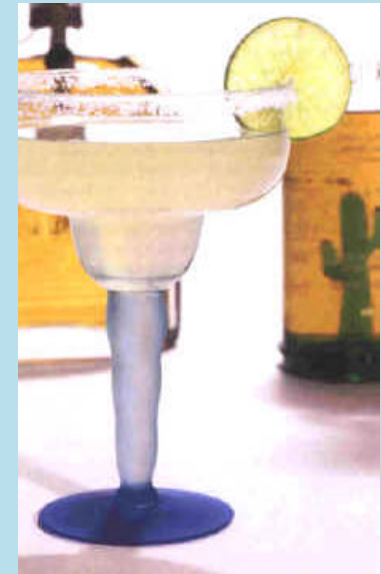
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1. The low-cost carrier phenomenon (revisited)
2. The U.S. carrier invasion
3. A Caribbean shake-up
4. Pan-Regional airline groupings (revisited)



# The Low-Cost Carrier Phenomenon

“The glass is filling with Tequila”



# LCCs Coming Alive in the Region

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- > Largest and least developed markets going first (Brazil, Mexico)
- > Which country is next?
- > Foreign LCC entry (e.g., Air Madrid, JetBlue, Spirit)
- > “This is one of the fastest, most intense launches of low-cost carriers in the history of aviation.” *Emilio Romano*, CEO - Mexicana
- > “People don’t just decide to fly with us because of the price, but also the experience, reliability and punctuality.” *Richard Lark*, CFO - gol



# The Beat Goes on in Brazil

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Linhas aéreas inteligentes

- > 14 million passengers
- > Second place in Brazil, surpassing VARIG
- > Expanding its cargo business – Gollog
- > Codesharing agreement with Copa
- > Targeting 30% expansion in 2006



- > 1.6 million passengers in 2005, up 80% on 2003
- > Seeking international expansion



# Mexico is Hot

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- > Aerolineas ABC
- > Avolar
- > Alma
- > Click Mexicana (profitable since inception; adding aircraft)
- > Gol joint venture with Inversiones y Tecnicas Aeroportuarias (ITA)
- > Interjet
- > Mexus Airlines (targeting US-Mexico market)
- > Volaris
- > Others previously established



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# **Low-Cost Carrier Phenomenon Discussion**

# U.S. Carrier Invasion

“Drinking from someone else’s glass”



# A Dramatic Ramp-Up

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- > U.S. carriers facing limited prospects for profitability at home
- > Turning their attention to international markets
- > See Latin America as a “Southwest-free zone” (?) with less competition and higher yields
- > Strong fundamentals in Latin America (growth of Hispanic markets in major U.S. markets; business investment in Latin America)

- > “We want to be the number two carrier into this market by the end of this year.” *James Sarvis*, Director, Latin America & Caribbean
- > “We want to be in every business district in Central and South America.” *James Sarvis*, Director, Latin America & Caribbean
- > Executed one of the largest one-month expansions in history, launching seven new routes to the region
- > Launching service to Sao Paulo and four Mexican cities
- > Doubling seat capacity from NYC to Mexico by end of year

# Continental Air Lines

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- > Had a successful Latinization program
- > “There is no question that we will grow more aggressive in this market.” *David Messing*, Managing Director
- > Since last fall, added flights to Aruba, Bonaire, Buenos Aires, Curacao, Liberia, Punta Cana from Newark/Houston
- > Q4 2005 LATAM revenues up 11% year-over-year
- > Serves a market-leading 33 LATAM destinations

# Spirit Airlines



- > Recently doubled the number of markets it serves from Fort Lauderdale to Latin America/Caribbean
- > Stated intention to be the leading low-cost carrier to the Caribbean using a South Florida hub
- > Half of its revenue to come from Latin America/Caribbean by 2007
- > “This is really a new structure for Spirit. We can add L.A.-to-Fort Lauderdale, and not just connect that market, but serve 11 destinations south”, *Ben Baldanza*, President
- > Aggressive market-entry pricing (\$49 one-way sale fares to Montego Bay & Kingston)

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# U.S. Invasion Discussion

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# **Pan-Regional Airline Groupings**

# Who's in the Game in Latin America & Caribbean?



# Some Common Denominators

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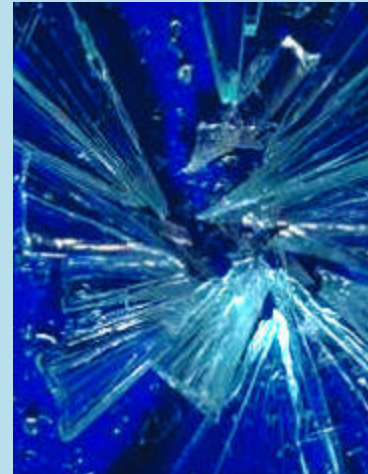
- > Public ownership
- > Financial transparency
- > Home market dominance
- > New fleets
- > Stable management

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# **Pan-Regional Groupings Discussion**

# Caribbean Shake-Up

“The sound of breaking glass”



# A Changing of the Guard

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- > Handed back to the government and under new management - Mike Conway



- > Under restructuring and new management - Peter Davies



- > Coming of age as a new player in the region - Skip Barnette

# Old Problems

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- > Undercapitalization
- > Sub-scale
- > Lack of meaningful cross-carrier cooperation (but possibly changing)
- > Government ownership/involvement but inability to properly support carriers
- > Leadership turnover
- > Ongoing discussions (but little action) around pan-regional airline groupings

# New Problems

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- > New market entrants



- > LCC phenomenon, driven by airlines domiciled outside the region

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# Caribbean Shake-Up Discussion