



The Case for a jetBlue Acquisition

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Overview





The Cost Leader

- Focus on short haul routes
- Avoidance of major airports
- Hybrid point-to-point system
- Single design aircraft fleet
- No frills service



The Value Conscious

- Longer haul routes
- Focus on high activity airports
- Hybrid point-to-point system
- Multiple design aircraft fleet
- Free amenities

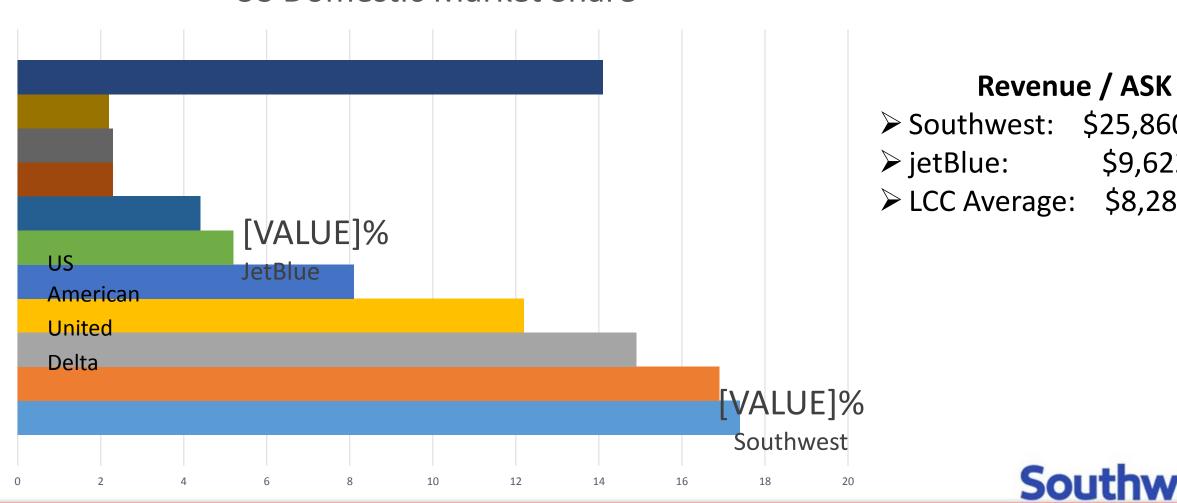






Overview

US Domestic Market Share



➤ Southwest: \$25,860 / ASK

➤ LCC Average: \$8,282 / ASK



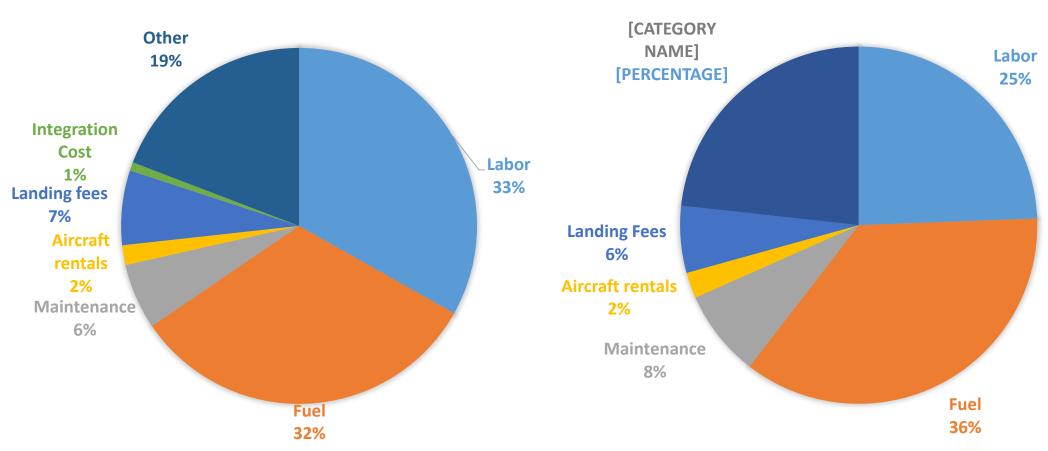




Overview

SOUTHWEST EXPENSES

JETBLUE EXPENSES

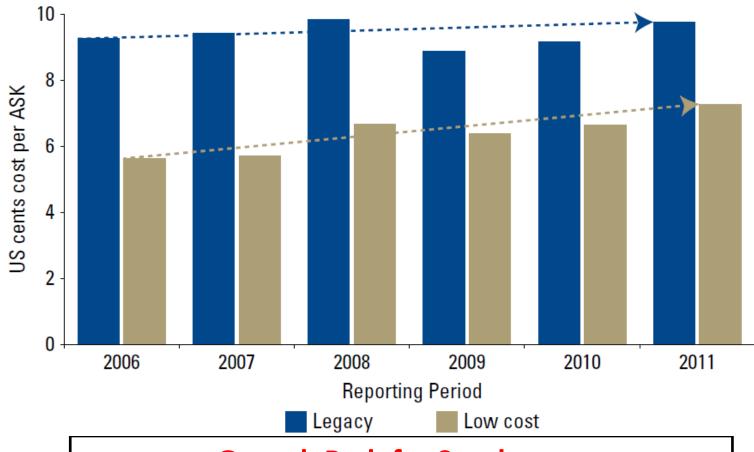








The Challenge for Southwest



Growth Path for Southwest:

Drive down cost further?

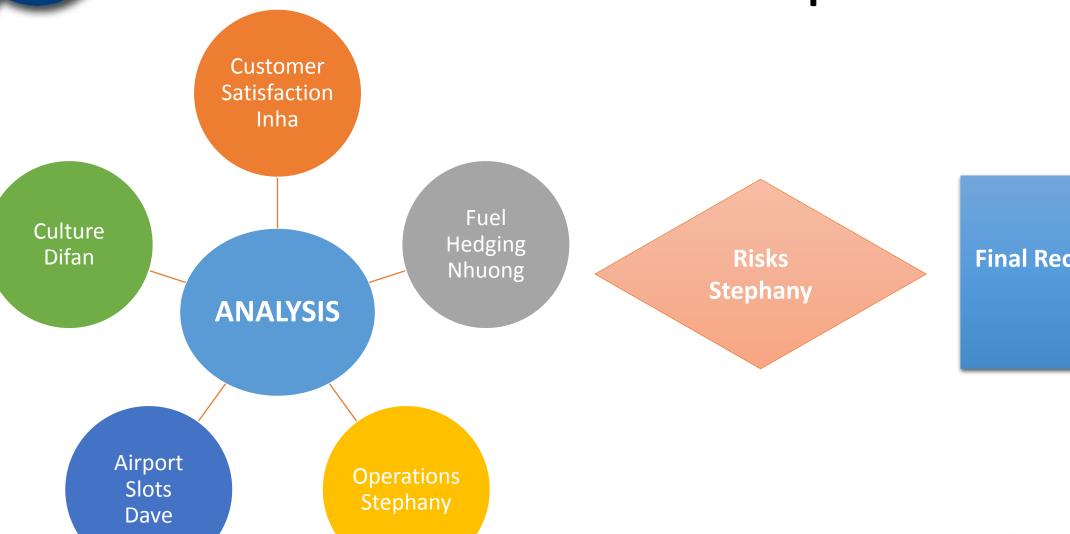
Pursue traditional legacy airline customer base? Southwest's



jetBlue jetBlue







Final Recommendation Joe

Southwest'

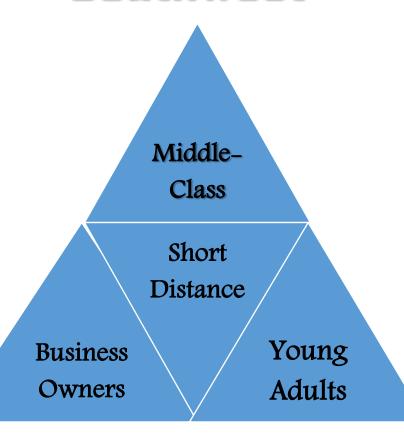


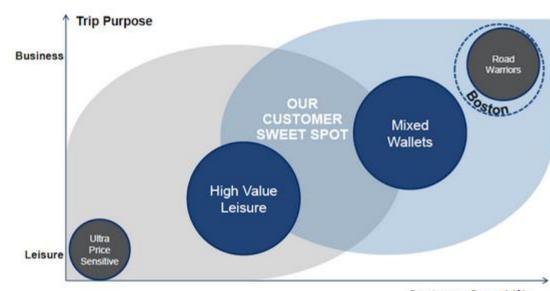


Southwest



JetBlue





Customer Spend (\$)







Customer Satisfaction

JetBlue Airways
delivered the best
customer service among
major airlines last year
and the last decade,
narrowly edging out
rival Southwest Airlines.

JetBlue Airlines'
mission reads,
"JetBlue Airways
exists to provide
superior service
in every aspect
of our
customer's air
travel
experience."

JetBlue believes that high levels of customer satisfaction will result in better financial performance for the company. JetBlue has lived up to its mission of "bringing humanity back to air travel" as reflected in its campaign slogans and it's customer satisfaction scores.









J.D. Power Survey and Customer Satisfaction

- □ The study measures overall customer satisfaction based on performance in **seven categories** (in order of importance): cost and fees, in-flight services, boarding/deplaning/baggage, flight crew, aircraft, check-in, and reservations.
- □**JetBlue** and **Southwest**, both low-cost, ranked and performed the **highest** in many categories that had nothing to do with price and fees.
- □JetBlue scored well for in-flight services and it's aircrafts and Southwest for boarding/deplaning/baggage, check-in, and reservations.
- □JetBlue and Southwest scored the highest overall, ranking 1 and 2 respectively.









J.D. Power Survey

J.D. Power 2015 North America Airline Satisfaction StudySM



J.D. Power 2015 Airline Loyalty/Rewards Program Satisfaction ReportSM

Overall Customer Satisfaction Index Ranking

(Based on a 1,000-point scale)



Source: J.D. Power 2015 Airline Loyalty/Rewards Program Satisfaction Report¹⁹⁸







Baggage Fees

- □JetBlue recently announced adding fees for both first and additional checked baggage, along with some changes to seating by 2016.
- □"Long-term plan to drive shareholder returns through new and existing initiatives."
- □JetBlue 'll be "refreshing" their cabins on their older A320s with these new thinner seats, which will allow them to add more seats to existing aircrafts.

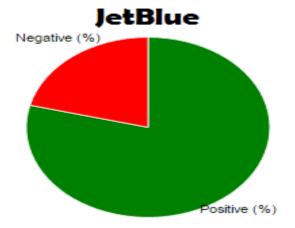






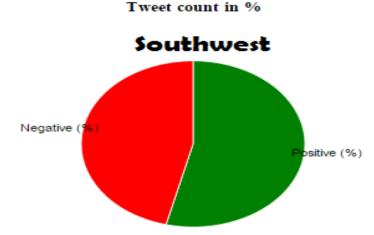


Polarity Trend Analysis of Public Sentiment JetBlue & Southwest



Polarity trend over time





Polarity trend over time







Culture

Mature and successful one Vs.

Young and developing one







Southwest- mature and successful

Southwest*



- "the development, improvement, and refinement of the original, individuality, identity, and personality of a given people."
 - Southwest Airline







Something special about Southwest

- Build an environment with:
 - Shared Goals
 - Shared knowledge
 - Mutual respect
- Efficient and problem-solving Communication







Jet Blue – Young and developing









Something special about Jet Blue

- "Culture is Service"
- Jet Blue University
 - In Orlando
 - For new hire orientation or recurrent training
 - 196-room hotel









Southwest'





Which one is better?

• Jet Blue!



JetBlue learned the Southwest culture at first ten years

Airlines

| | Base- line | 95 | 96 | 97 | 98 | 99 | 00 | 01 | 02 | 03 | 04 | 05 | 06 | 07 | 08 | 09 | 10 | 11 | 12 | 13 | 14 | 15 | Previous Year % Change | First Year % Change |
|------------|---------------|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|---------------------------------|------------------------------|
| JetBlue | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | 81 | 83 | 79 | 81 | 2.5 | 0.0 |
| Southwest | 78 | 76 | 76 | 76 | 74 | 72 | 70 | 70 | 74 | 75 | 73 | 74 | 74 | 76 | 79 | 81 | 79 | 81 | 77 | 81 | 78 | 78 | 0.0 | 0.0 |
| Alaska | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | 75 | N/A | N/A |
| All Others | NM | 70 | 74 | 70 | 62 | 67 | 63 | 64 | 72 | 74 | 73 | 74 | 74 | 75 | 75 | 77 | 75 | 76 | 74 | 72 | 70 | 73 | 4.3 | 4.3 |
| Airlines | 72 | 69 | 69 | 67 | 65 | 63 | 63 | 61 | 66 | 67 | 66 | 66 | 65 | 63 | 62 | 64 | 66 | 65 | 67 | 69 | 69 | 71 | 2.9 | -1.4 |
| Delta | 77 | 72 | 67 | 69 | 65 | 68 | 66 | 61 | 66 | 67 | 67 | 65 | 64 | 59 | 60 | 64 | 62 | 56 | 65 | 68 | 71 | 71 | 0.0 | -7.8 |
| American | 70 | 71 | 71 | 62 | 67 | 64 | 63 | 62 | 63 | 67 | 66 | 64 | 62 | 60 | 62 | 60 | 63 | 63 | 64 | 65 | 66 | 66 | 0.0 | -5.7 |
| Allegiant | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | 65 | N/A | N/A |
| | | _ | _ | | | | | | | | | | | _ | | | | | | | | | | |







Conclusion

- JetBlue More focus on Culture
 - More investment on building culture
 - For example: Jet Blue University
- JetBlue exceeds customer expectation
 - Personalized Services
 - Such as: extra legroom, good snacks and TV entertainment
- Integrating two company cultures can be a tricky thing, but because Southwest and JetBlue's values are well aligned, there shouldn't be any major problems.







Fuel Hedging









% of Fuel Cost to Total Operating Cost

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|-----------|------|------|------|------|------|------|------|
| JetBlue | 36% | 38% | 39% | 40% | 48% | 31% | 41% |
| Southwest | 32% | 35% | 37% | 38% | 33% | 30% | 35% |





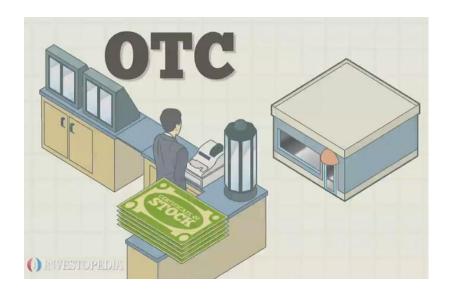


Instruments

- Over-the-Counter (OTC)
 - Counterparty risk



- No jet fuel futures contracts
- Uses crude or heating oil



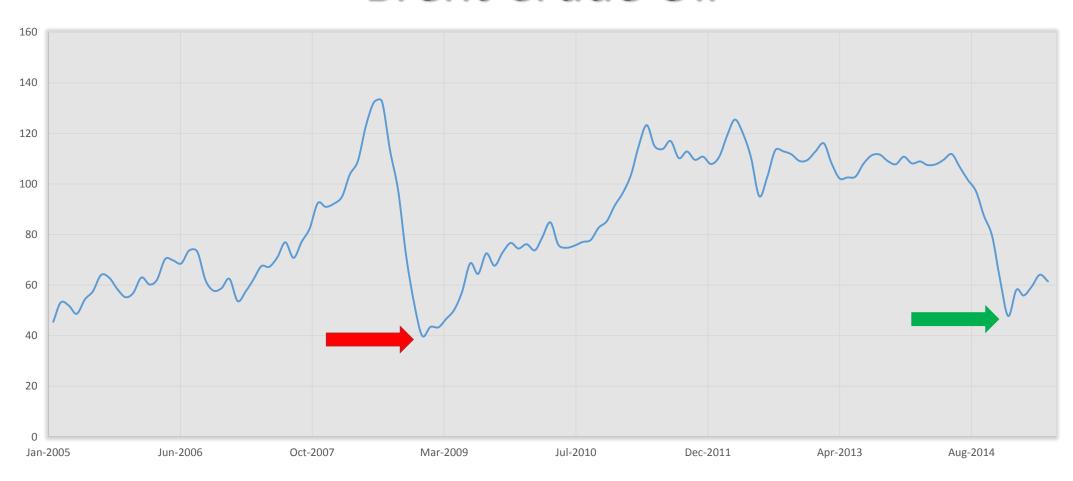








Brent Crude Oil



Source: http://www.eia.gov







Strategies

- Aggressive hedging
 - Southwest
 - At one point hedge over 70%
- Minimal hedging
 - JetBlue
 - Hedge around 20 %to 30%
- Zero hedging
 - U.S Airways

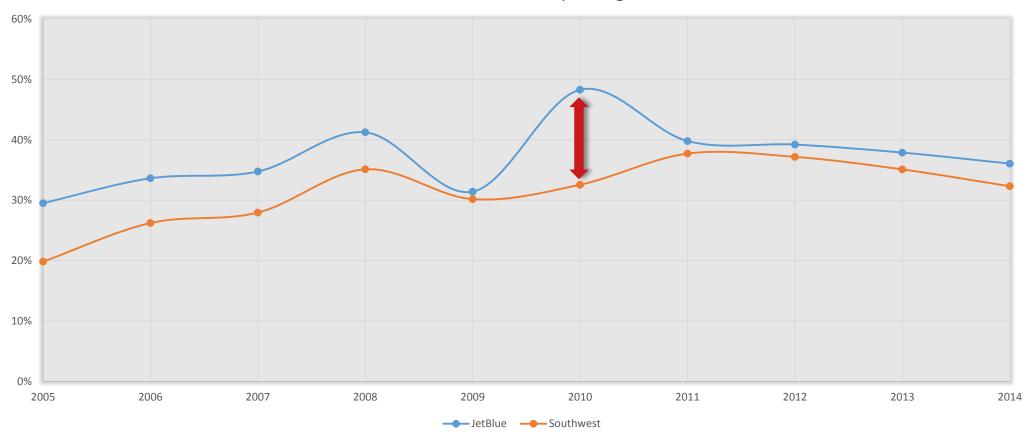






Fuel Cost Comparison

% of Fuel Cost to Total Operating Cost



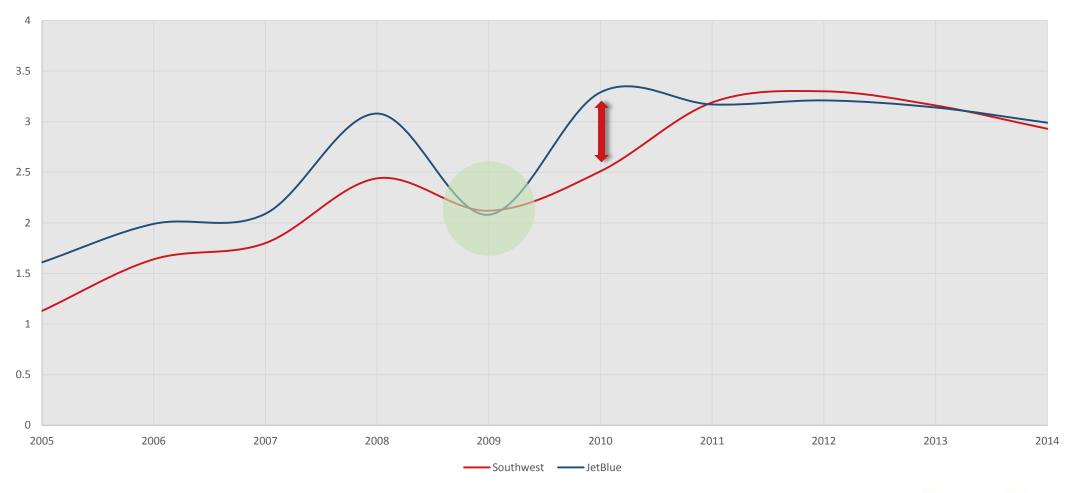
Source: Southwest Financial Statements 2005 to 2014 JetBlue Financial Statements 2005 to 2014







Comparison – Fuel Cost per Gallon



Source: Southwest Financial Statements 2005 to 2014 JetBlue Financial Statements 2005 to 2014





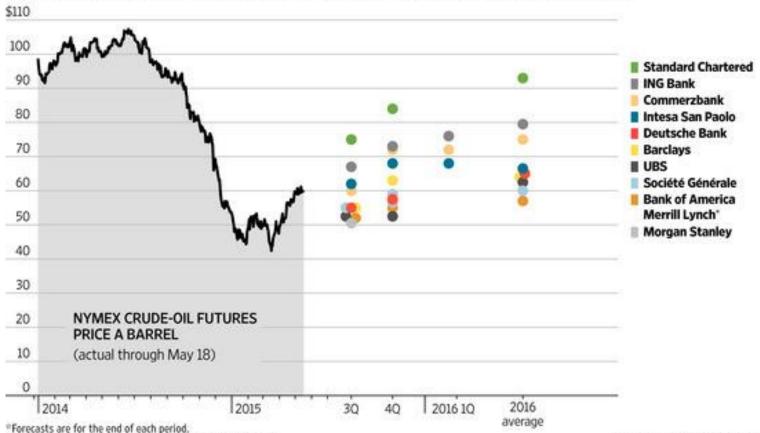


Oil Price Prediction

Looking Ahead at Oil Prices

Source: WSJ Market Data Group (crude prices); the companies

Where investment banks currently (May 2015) see the price per barrel on Nymex-traded crude-oil futures



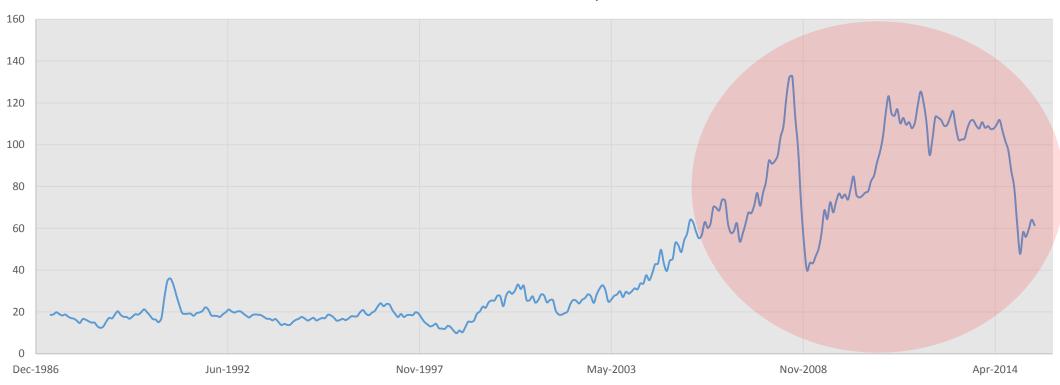






28 Years Crude Oil Price Trend

28 Years Crude oil price















Important Data to Obtains

- Real time newsfeed
 - Twitter, Facebook, RSS
- Oil production data
 - Continuous monitoring of wells
- Oil storage information
 - Continuous monitoring of storage facility









Key Points

Fuel cost

Hedging

Southwest vs JetBlue

Investment in data analytic







Airports

- Landing Slot: Right given by airports which allow airlines to use
- Slot Pair: Pairing of departure slot with landing slot; route or leg

 Data used includes origin and destination locations from Southwest's "Where We Fly" route map and JetBlue's "Where We Jet" route map



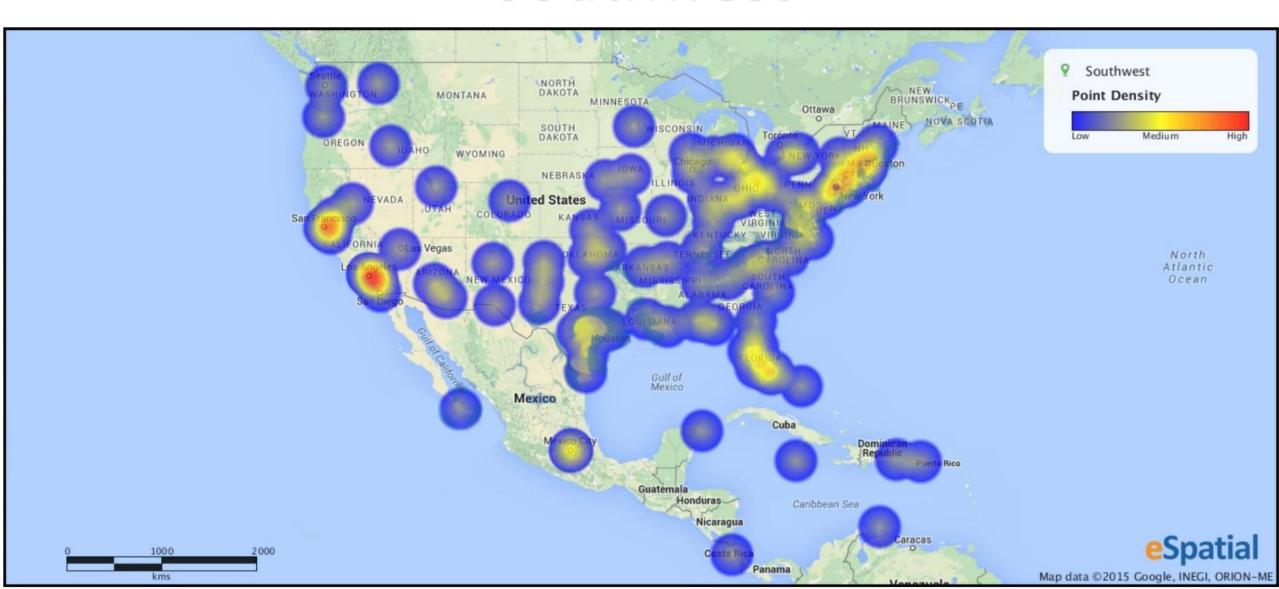








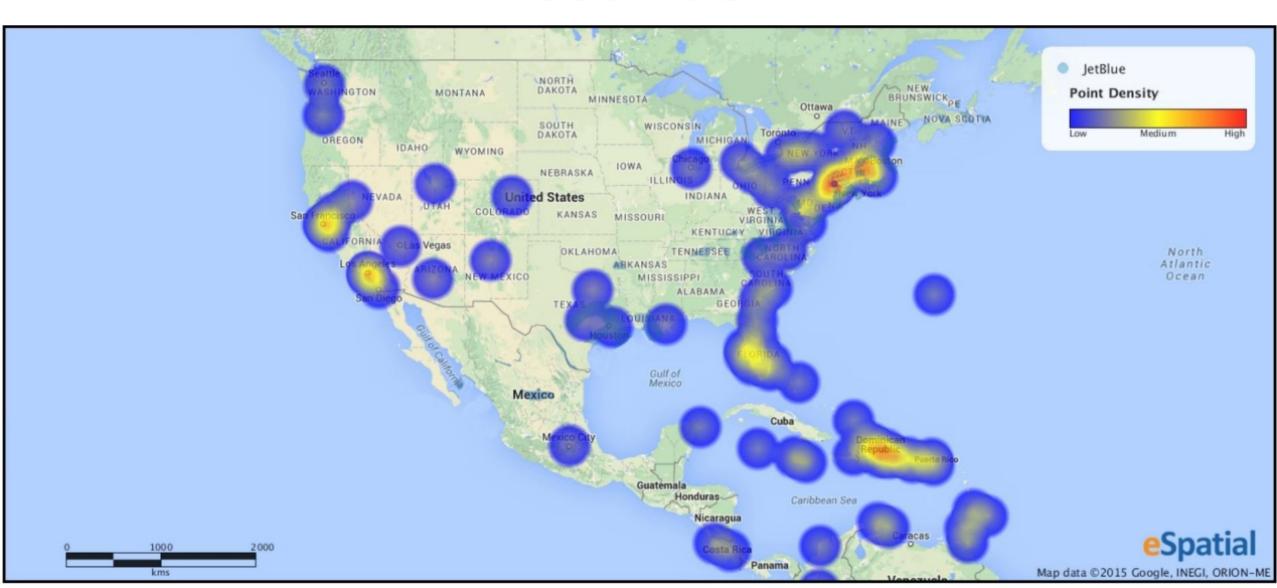
Southwest







JetBlue







Southwest's Top Ten Airports - Redundancy

| Southwest | Slot Pairs | JetBlue | Slot Pairs |
|----------------------|------------|---------------------|------------|
| Chicago, Illinois* | 70 | Chicago, Illinois | 2 |
| Baltimore, Maryland* | 61 | Baltimore, Maryland | 3 |
| Las Vegas, Nevada* | 61 | Las Vegas, Nevada | 5 |
| Denver, Colorado* | 59 | Denver, Colorado | 2 |
| Houston, Texas* | 54 | | 0 |
| Dallas, Texas* | 51 | Dallas, Texas | 1 |
| Phoenix, Arizona* | 48 | Phoenix, Arizona | 2 |
| Orlando, Florida* | 43 | Orlando, Florida* | 26 |
| Atlanta, Georgia* | 39 | | 0 |

* = Focus City
Southwest





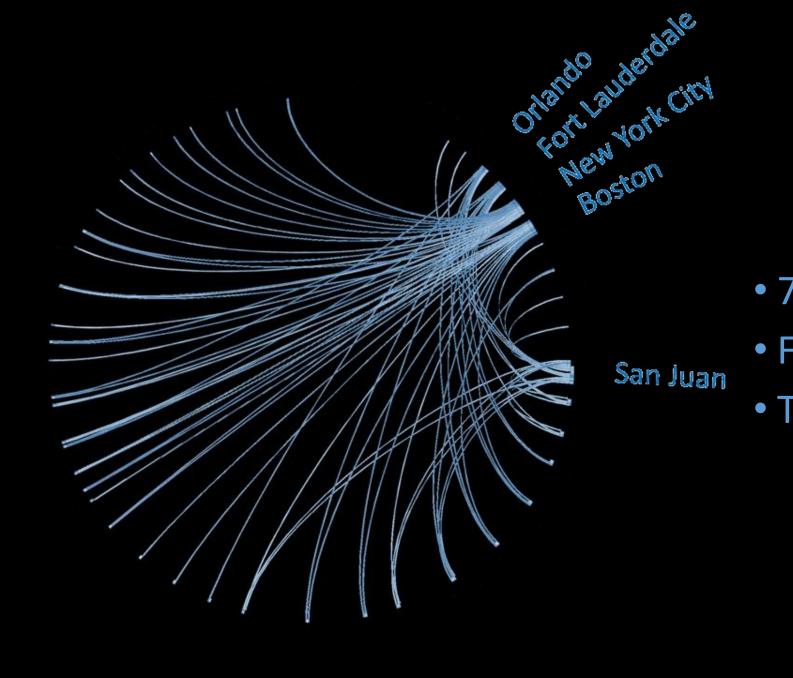
JetBlue's Top Ten Airports - Redundancy

| JetBlue | Slot Pairs | Southwest | Slot Pairs |
|---------------------------|------------|--------------------------|------------|
| JFK, New York* | 70 | La Guardia, New York | 11 |
| Boston, Massachusetts* | 59 | Boston, Massachusetts | 14 |
| Fort Lauderdale, Florida* | 39 | Fort Lauderdale, Florida | 26 |
| Orlando, Florida* | 26 | Orlando, Florida* | 43 |
| San Juan, Puerto Rico* | 9 | San Juan, Puerto Rico | 5 |
| Long Beach, California* | 9 | | 0 |
| Fort Myers, Florida | 7 | Fort Myers, Florida | 15 |
| Tampa, Florida | 7 | Tampa, Florida* | 38 |
| Newark, New Jersey | 7 | Newark, New Jersey | 8 |

* = Focus City
Southwest

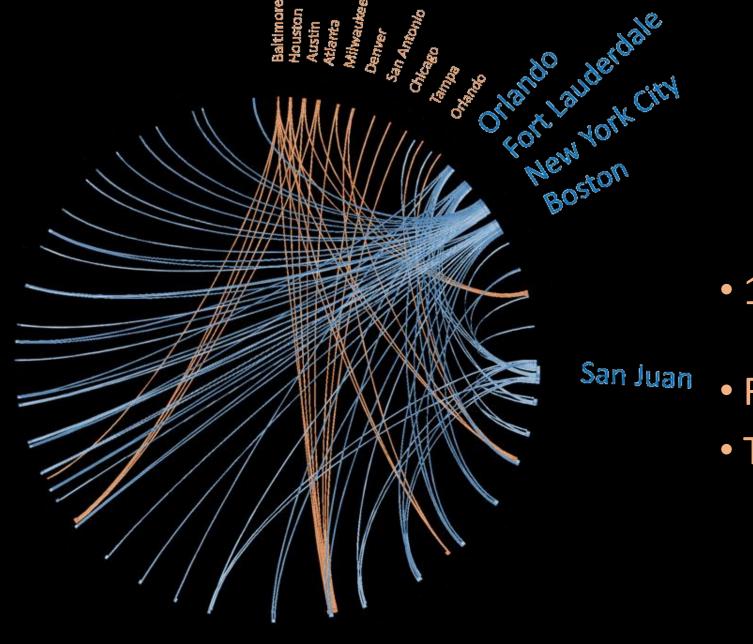
Southwest

- 25 Slot Pairs
- From 11 Origin Cities
- To 6 Destination Cities
 - Aruba, Cancun, Montego Bay, Nassau, Punta Cana, & San Juan



JetBlue

- 78 slot pairs
- From 11 Origin Cities
- To 27 Destination Cities



Southwest & JetBlue

- 103 Slot Pairs
 - 4 Redundant Slot Pairs
- From 19 Origin Cities
- To 27 Destination Cities





A closer look at the economics and logistics behind baggage fees and airplane fleets











Airline Industry Background

- In 2014, NPM for the airline industry was about 3.2%
- Capital intensive industry
- Cut expenses, raise revenues with efficiencies.











Baggage Fees

Southwest Airlines



Only airline to not charge baggage fees.
 WHY?

JetBlue Airlines



 Introduced tier pricing – with baggage fees.







Fleet of Airplanes



Boeing 737-300,737-500, 737-700



 Airbus A320, A321 & Embraer E-190







Potential Risks

- Operational
 - Customer satisfaction
 - Technology
 - Redundant flight patterns and airport slots









Potential Risks

- Financial
 - Dilution Risk
 - Large amount of debt









Potential Risks

- Legal
 - Antitrust violations
 - Losing airport slots
 - Not a monopoly
 - Won't affect prices for consumers









Final Recommendation

- Merge with JetBlue
- Single reporting entity
 - Keep separate books and consolidate for financial statements
 - Let JetBlue keep their identity
- Diverging business models
 - Southwest = low cost
 - JetBlue = changing to tiered seating
- Toyota vs. Lexus
 - JetBlue flies to more "high-profile" locations







Implementation Strategy



VS



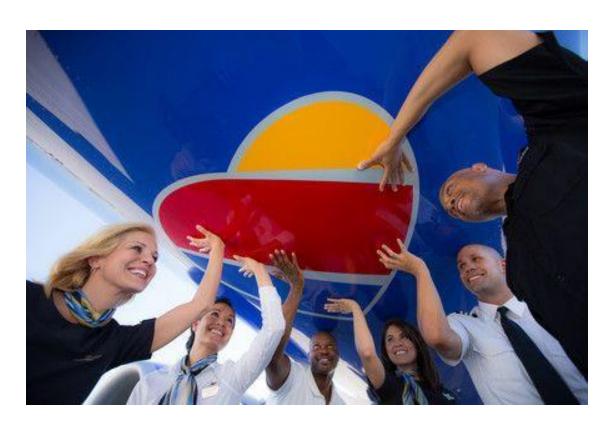






Autonomous

Flight Crew & Mechanics



Marketing & Branding







Combined

General Training

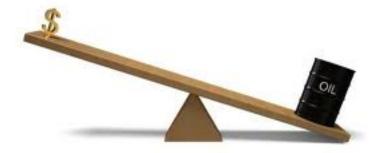


Accounting/Finance



Fuel Hedging









Frequent Flyer Programs

- A single program
- Points earned
 - Earn more flying JetBlue than flying Southwest
- Redeeming points
 - Southwest requires less points to get free flights
 - Southwest customers can experience JetBlue











Maintenance Tracking

• One maintenance IT system – dashboard

| Vehicle Maintenance Sched | uie | | | Filter by (| group: ALL VEHICLES | \$ |
|-------------------------------------|-------------------|--------------------|---------------------|--------------------------------|---------------------|---------------|
| Define service schedules for the ve | ehicles in your f | leet. Optionally d | efine scheduled rep | orts to remind you of upcoming | service. | |
| ▼ Vehicle | | Odometer | Run Time | Service | Interval | Next |
| DKLB64109 Cargo Van | + | 81,204 mi. | 1,460.5 hrs | Lube/oil Filter | 5,000.0 mi. | 58,704.0 mi. |
| DNVR17821-Chevy 4X4 | + | 201,634 mi. | 1,781.1 hrs | Tune Up | 3,000.0 mi. | 160,114.0 mi. |
| | | | | Oil Change | 3,000.0 mi. | 160,114.0 mi. |
| | | | | Tire Rotation | 2,000.0 mi. | 160,114.0 mi. |
| DNVR64283 | + | 12,694 mi. | 509.2 hrs | | N/A | not set |
| DNVR64284 | + | 65,544 mi. | 2,720.8 hrs | Tune Up | 2,000.0 mi. | 295,651.0 mi. |
| | | | | Tire Rotation | 2,000.0 mi. | 295,651.0 mi. |
| | | | | Oil Change | 2,000.0 mi. | 295,651.0 mi. |
| DNVR64289 | + | 200 mi. | 116.0 hrs | | N/A | not set |
| DUBQ17827-02 | + | 165,514 mi. | 685.1 hrs | REAR END SERVICE | 75,000.0 mi. | 225,000.0 mi. |
| DUBQ64040-06 | + | 250,276 mi. | 3,736.5 hrs | TRANNY SERVICE | 225,000.0 mi. | 225,000.0 mi. |
| | | | | REAR END SERVICE | 250,000.0 mi. | 250,000.0 mi. |
| DUBQ64079-07 | + | 243,009 mi. | 3,609.6 hrs | TRANNY SERVICE | 225,000.0 mi. | 225,000.0 mi. |
| DUBQ64228-11 | + | 84,019 mi. | 3,689.3 hrs | TRANNY SERVICE | 225,000.0 mi. | 200,000.0 mi. |
| | | | | TRANNY SERVICE | 50,000.0 mi. | 50,000.0 mi. |
| DVPT17976-PICK UP | + | 88,036 mi. | 534.8 hrs | Lube/oil Filter | 5,000.0 mi. | 85,348.0 mi. |







Conclusion







Questions?

