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# Investment Thesis

## Key Drivers of Investment Thesis

### Increasing Consumer Confidence

Spirit Airlines has dramatically improved its brand via new management focus and improved efficiency

### Cost Structure Advantage

Spirit's increasingly low costs allow for attractive margins and competitive fare prices lower than industry peers

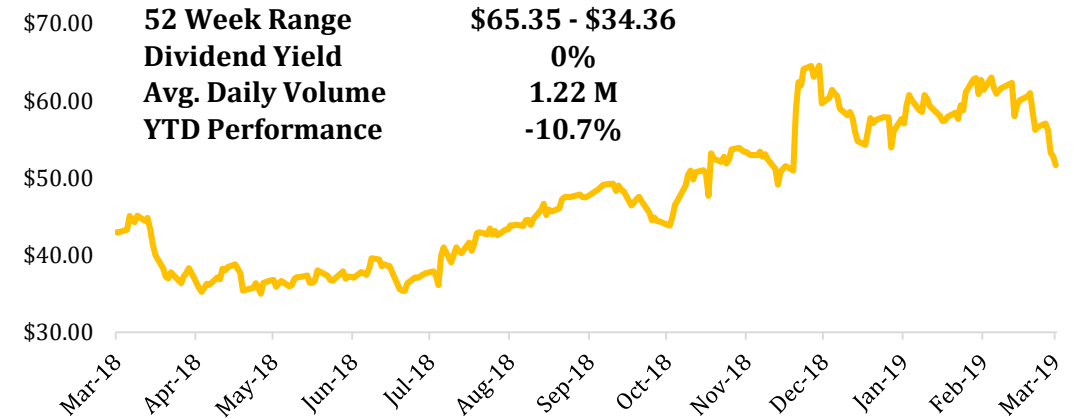
### Growth Opportunities

Spirit's rapid growth still has runway while company has shown to be entering routes where there is untapped demand

### Oil Prices

ULCC model allows for relatively higher margins vs. peers when oil prices rise

## 1-Year Stock Performance



## Current Capitalization

Closing Price	\$51.68
Shares Outstanding	68.43
<b>Market Capitalization (millions)</b>	<b>\$3,530</b>
Debt	\$2,188
Cash	\$1,108
<b>Enterprise Value (billions)</b>	<b>\$4,610</b>

*In millions of USD  
As of March 8 2019*

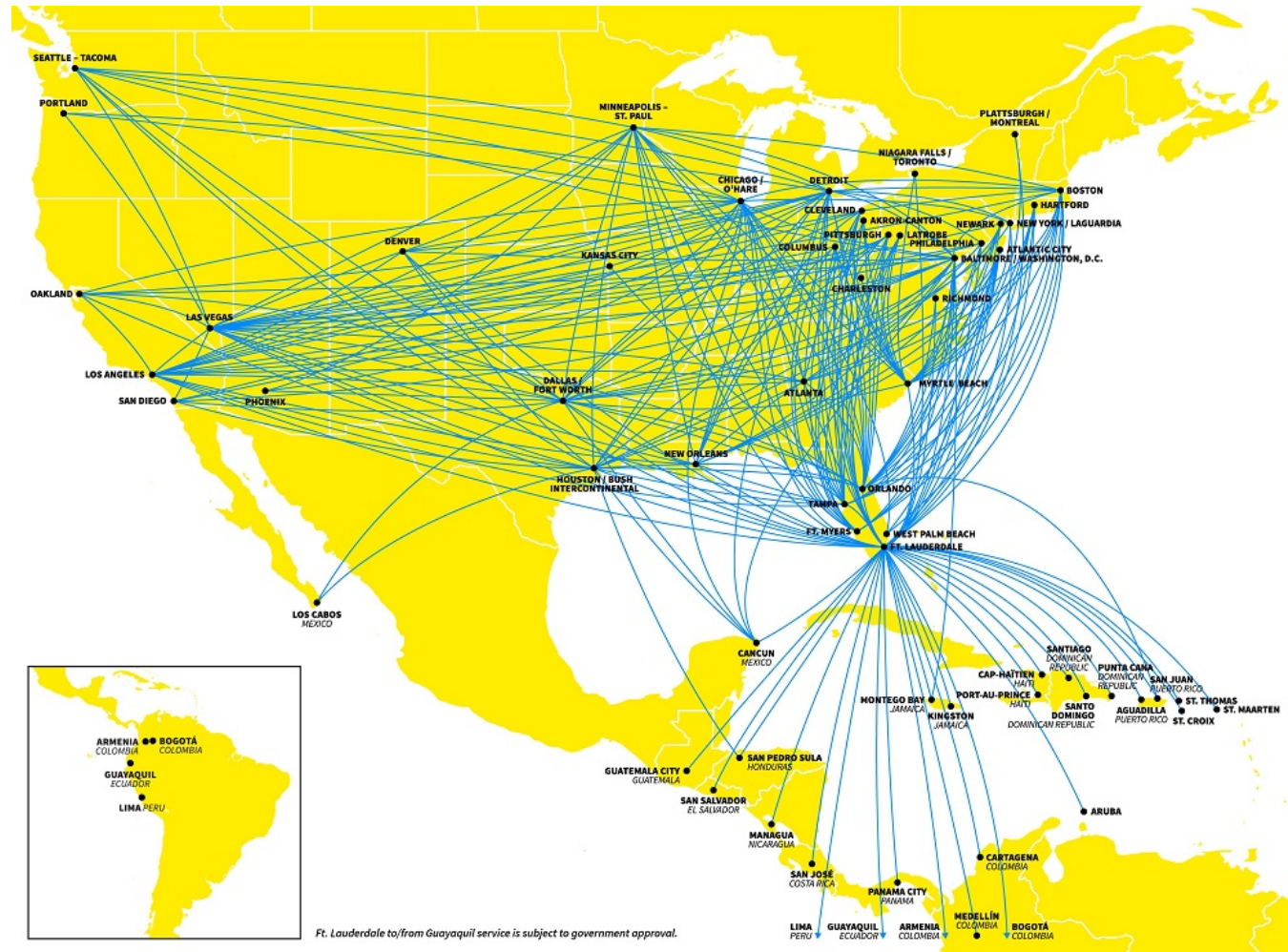
**Recommendation: Buy**

**Target Price: \$93.15**

**Upside: 80.2%**

## Route Map

- Pays for ticket out of pocket (not their employer)
- Price sensitive customers, appeals to customers who only want to pay for services they use
- Travel purpose is generally leisure and/or visiting friends & family

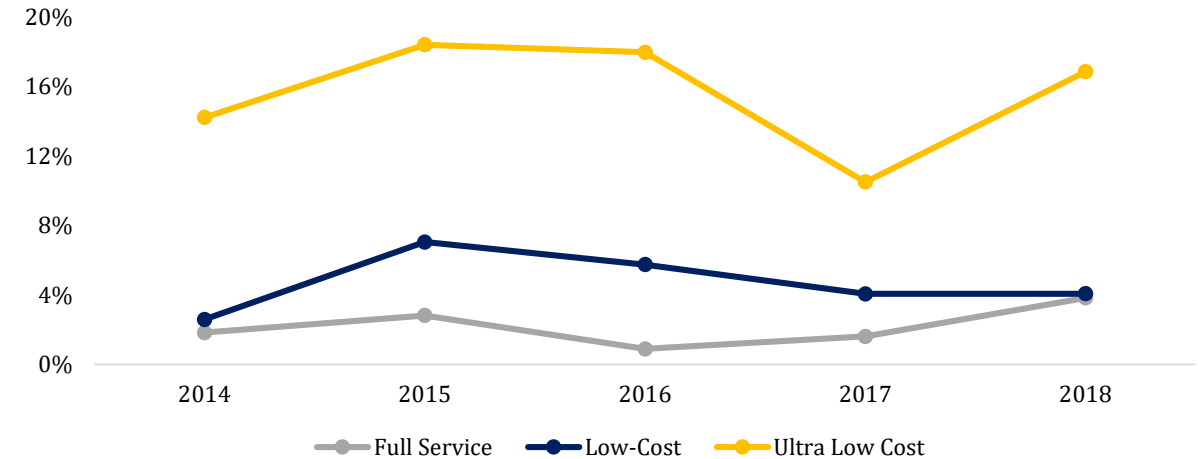


# Ultra-Low Cost Carriers

## Characteristics of Ultra-Low Cost Carriers (ULCCs)

- “Unbundled fares” – extremely low fares, but charging extra for bags, seat assignment, drinks and food, etc.
- Seeks to put maximum number of seats (~20% more) on planes by reducing legroom and no reclining seats
- All direct flights (no hub-and-spoke), many times out of regional/secondary airports
- Employees who do multiple jobs (flight attendants who also act as gate agents)
- Turning aircraft around quickly and flying at all daytime hours

## Passenger Annual Enplanement Growth 2014 - 2018



## Domestic Airlines

### Full Service



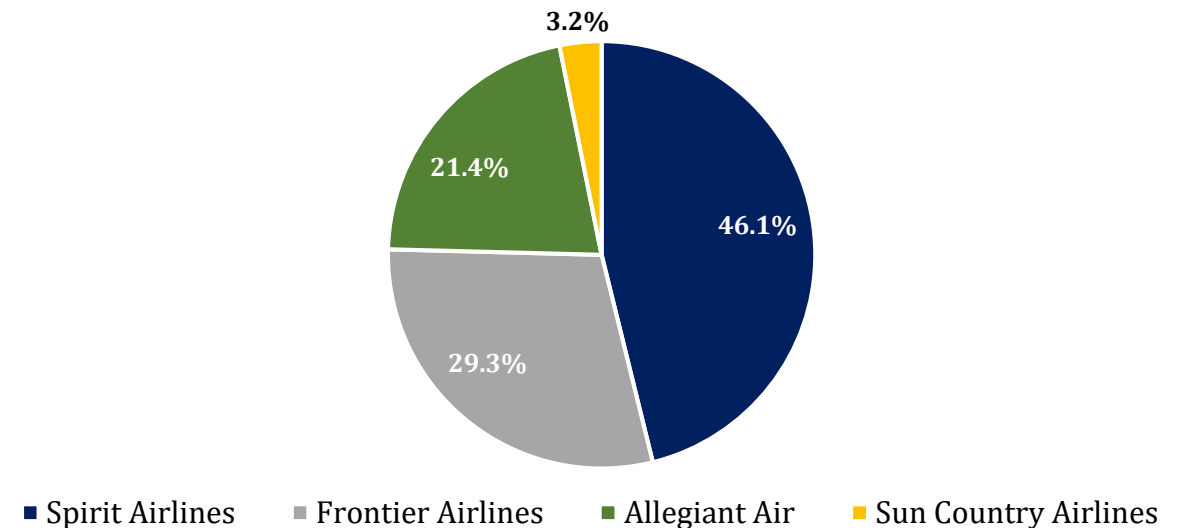
### Low-Cost



### Ultra-Low Cost



## 2018 ULCC Market Share (By Passengers Boarded)



# Increasing Consumer Confidence and Operational Metrics

## 2018 Customer Satisfaction and Operational Statistics



75% decrease from 2015 in customer complaints



12% increase from 2015 in on-time arrivals



#1 for December 2018 in on-time arrivals  
(ranked last every month May 2015 – May 2016)



Mishandled bagged **lowest of all carriers** in 2018

## Changes Made for Improved Performance

- New CEO in 2016 came in with mandate to improve customer satisfaction as former 10-year CEO called high complaint rate “irrelevant”
- Began tying executive bonuses more closely to on-time performance and reductions in customer complaints
- Adjusted aircraft and crew schedules, including building in more time for some flights and turnarounds as a buffer against the unexpected – “slowing down to go fast”

## Wall Street Journal Airline Scorecard

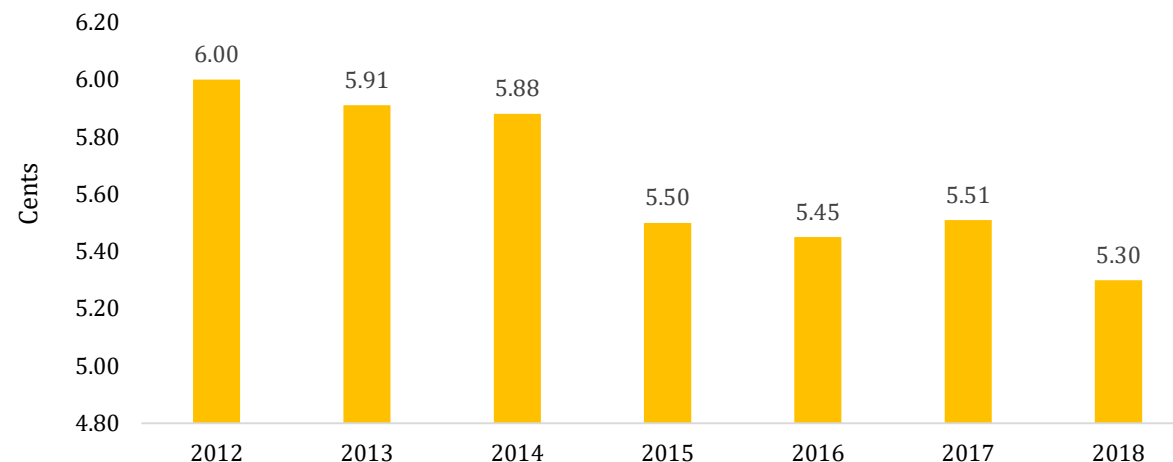
Category	2018 Rank	2015 Rank	Improvement
Overall	<b>#4</b>	#8	+4
Mishandled Baggage	<b>#1</b>	#4	+3
Canceled Flights	<b>#2</b>	#7	+5
On-Time Arrivals	<b>#3</b>	#9	+6

Only ULCC in Top 7



## Not Sacrificing Low-Costs for Better Operations

2012 - 2018 CASM (ex-fuel)



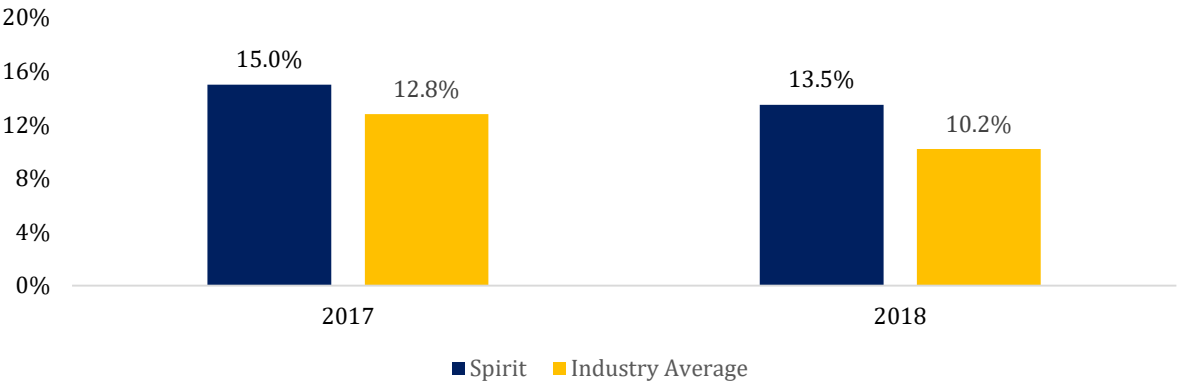
# Attractive and Improving Cost Structure

## Highlights of Spirit Airlines Cost Structure

- Rapid growth of Spirit Airlines has the potential to continue decreasing CASM as scale increases
- Achieves low costs through simplicity – no premium class of service, no specialty clubs, and no special services/amenities that drives costs without a associated revenue benefit
- The average fleet age of Spirit’s aircraft (5.4 yrs) is over half as low as Southwest, JetBlue, and Allegiant, which lowers maintenance costs

## Low CASM Leads to Attractive Margins

### Operating Margin



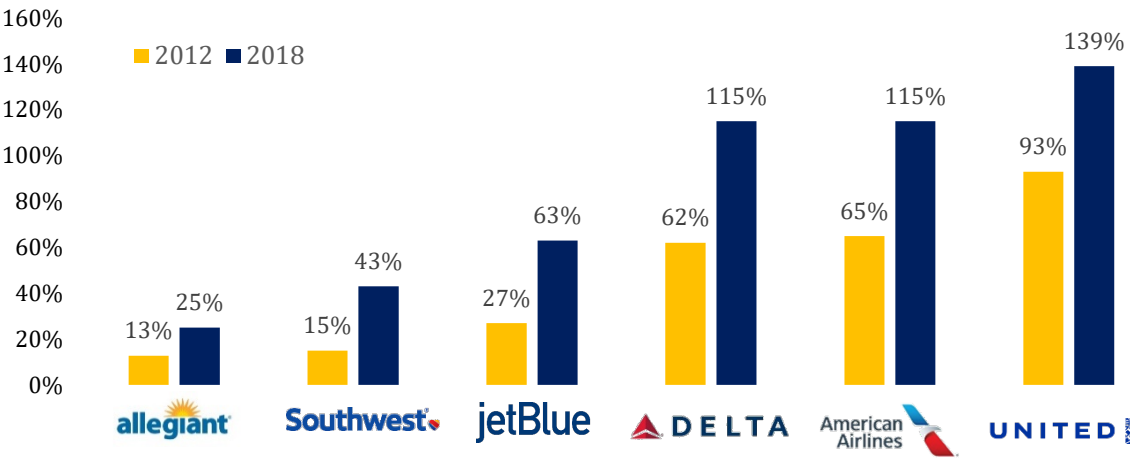
## Cost Structure Allows for Much Lower Fares vs. Competition

### 2018 Average Round Trip Domestic Fare



## Spirit’s Relative Cost Advantage Has Grown

### CASM (ex-fuel) % Higher than Spirit (2018 vs. 2012)





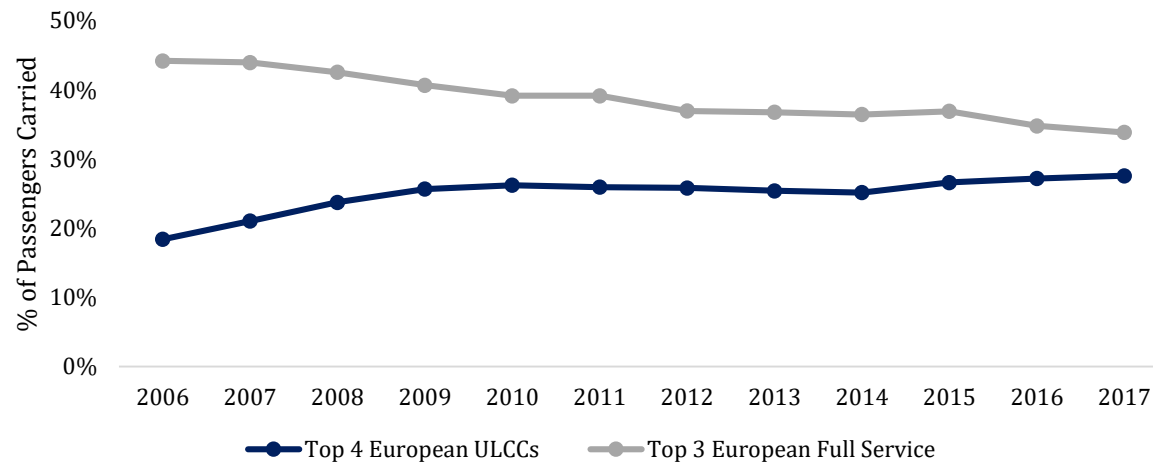
# Targeted Growth with Runway

## Highlights of Spirit Airlines Growth

- While European market share by ULCC has grown 10% in the past decade (18% to 28%), Domestic ULCC market share has yet to reach 15% despite growing rapidly
- Growth strategy of not just competing with legacy carriers, but rather expanding overall market where there is untapped demand (avoiding price wars)
- Spirit targets opportunities where mid-teens or higher operating margin is achievable
- "...there's still well in excess of 400 or 500 market opportunities we don't serve today, that we believe we could serve with our cost structure and fare structure and do so at our margins..." – Ted Christie, CEO*

## European Market Trends

European Full Service Carriers<sup>(1)</sup> vs. ULCC<sup>(2)</sup> Market Share



—●— Top 4 European ULCCs

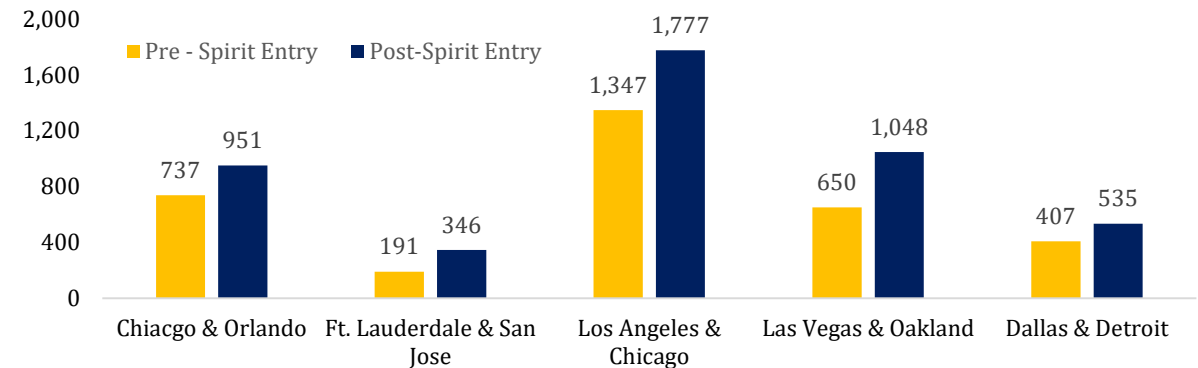
—●— Top 3 European Full Service

<sup>(1)</sup>Includes Lufthansa Group, International Airlines Group, Air France

<sup>(2)</sup>Includes EasyJet, Ryan Air, Norwegian Air Shuttle, Wizz Air

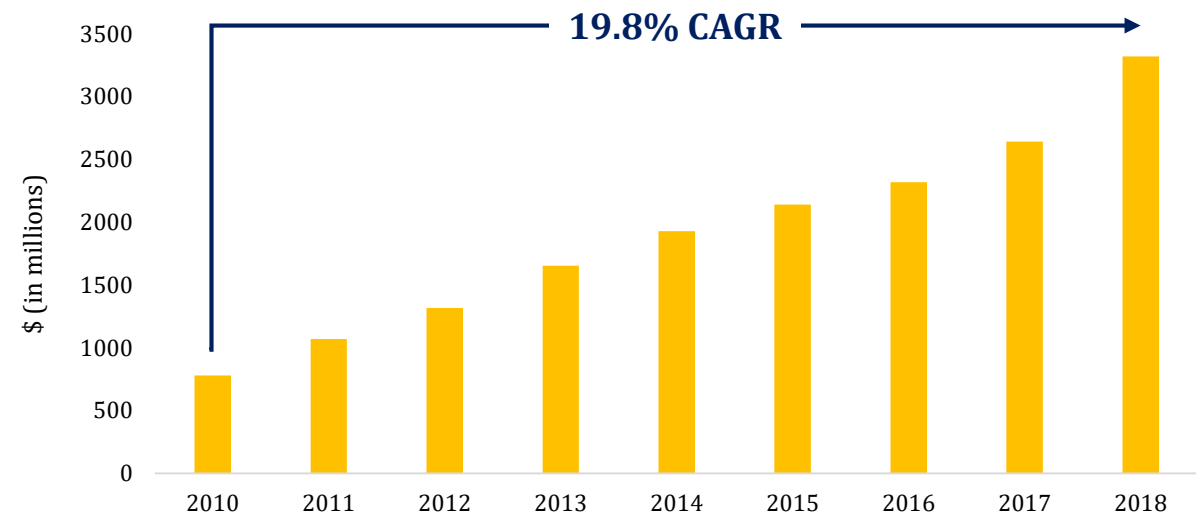
Source: Bloomberg, Company Filings, Hopper.com, AirFleet.net, Wikipedia

## Increase in Passengers Per Day (Each Way)



**35% average increase in passenger traffic on average upon entering airport**

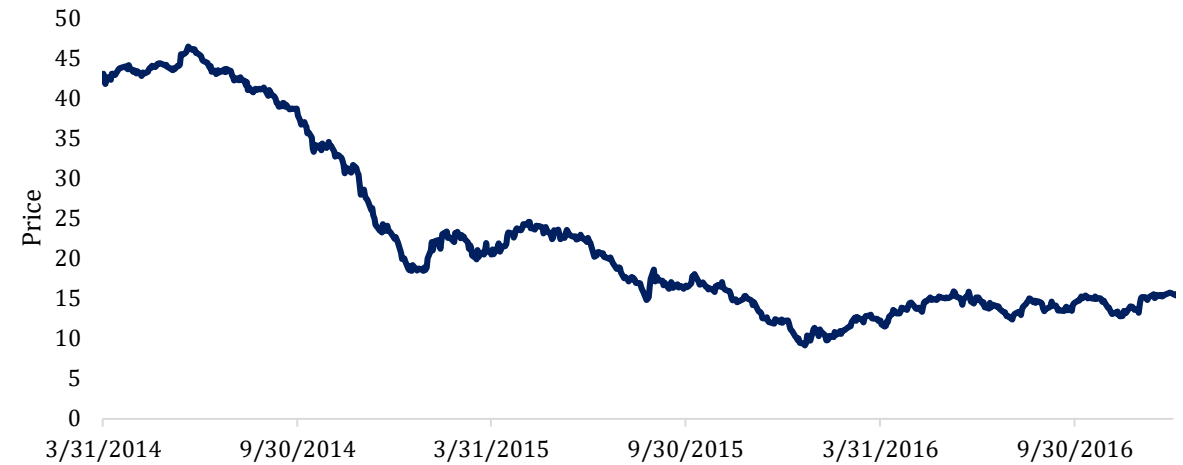
## Spirit Airlines Revenue 2010-2018



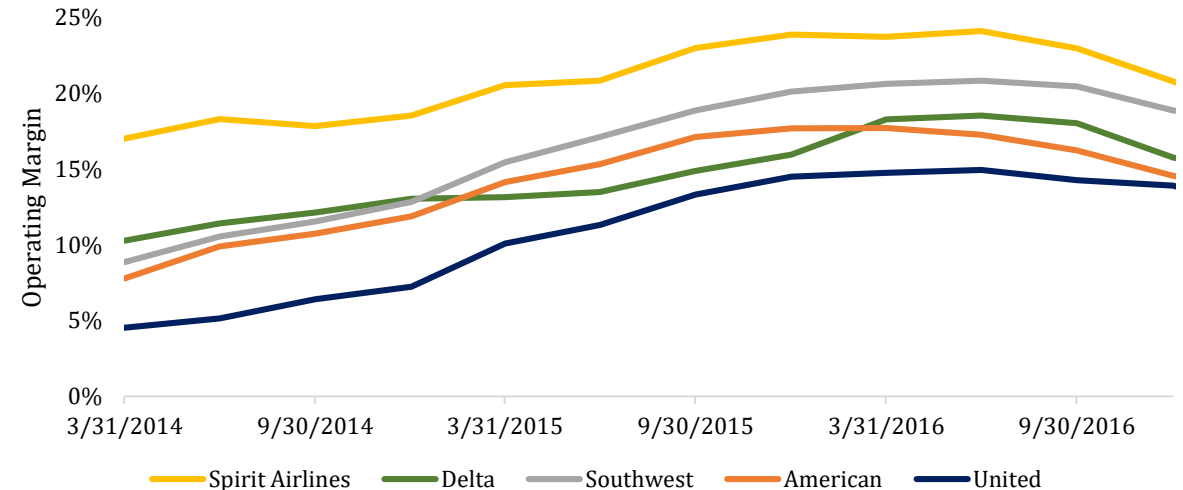
## Rising Oil Prices Improves Margin Lead vs. Peers

- While higher oil prices impose a headwind to the airline industry as a whole, it is a source of competitive advantage for Spirit Airlines because of the ULCC business model
- When oil prices increase, the margins of legacy carriers contract and they do not have the capacity to price match discount carriers
- This compressing of margins allows Spirit to charge higher fares while still pricing below their legacy carrier peers, therefore increasing revenue

## Brent Oil Price



## Spirit vs. Peer LTM Operating Margin





## Labor Agreements

- Airlines are heavily unionized, including Spirit airline pilots, making strikes and wage increases a risk
- Spirit Airlines sealed labor contracts this summer, deferring risk until 2023, while competitors will negotiate with unions in the near future
- Labor union negotiations are due within the next year for 5 airlines

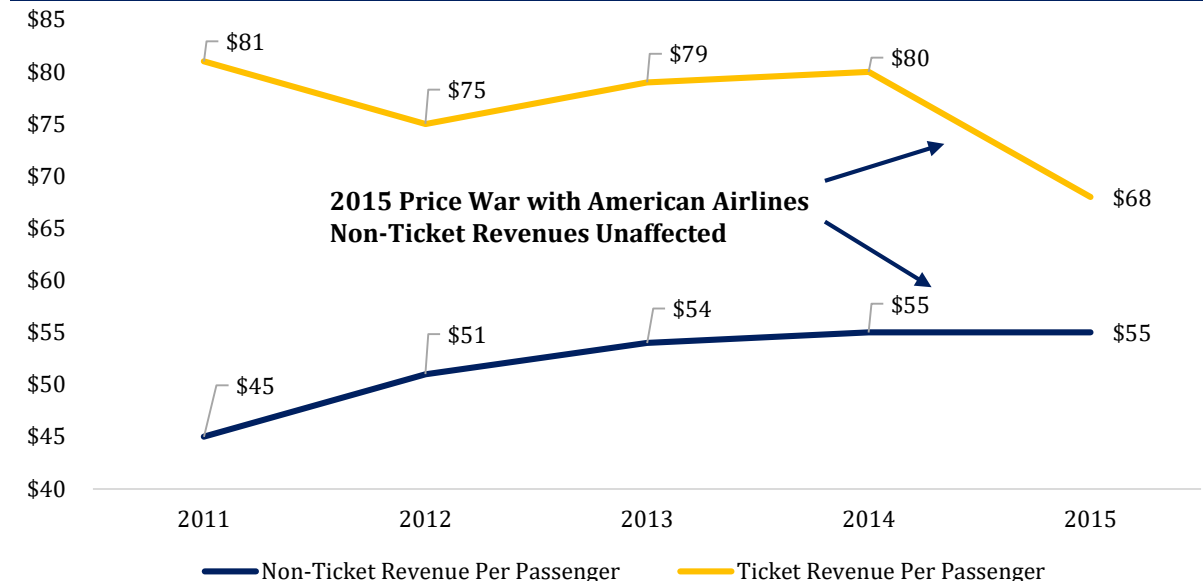
## Price Wars / Price Matching

- In the event oil prices are low, legacy carriers now have the capacity to engage in price wars / matching
- While price wars negatively affect Spirit's revenue, it is more damaging for a legacy carrier than a ULCC like Spirit because of its already low costs and high margins
- Price wars are less likely for Spirit as it focuses on diversifying routes away from overlapping competitors (meeting un-tapped demand)
- Since Spirit "unbundles" tickets, it allows to only reduce base fares in price wars, while keeping non-ticket revenues unchanged

## Next Labor Agreement Negotiation








<b>spirit</b> LESS MONEY. MORE GO.	2023
<b>FRONTIER</b> AIRLINES	2023
<b>jetBlue</b>	2022
American Airlines	2020
<b>Southwest</b>	2020
<b>DELTA</b>	2020
<b>UNITED</b>	2019
<b>allegiant</b>	2018 (In Negotiations)

## Non-Ticket Revenue vs. Ticket Revenue



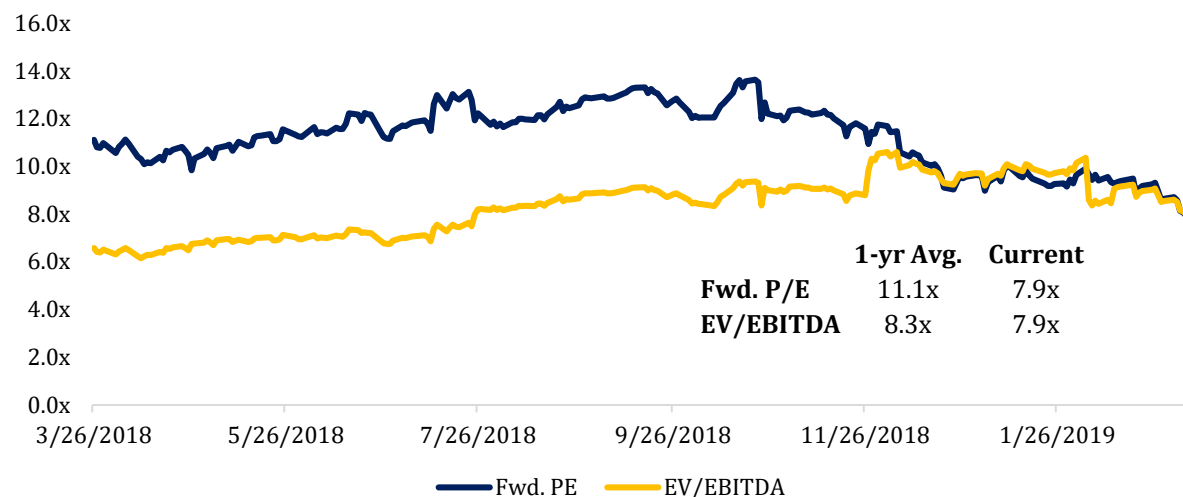
# An Attractive Buying Opportunity

## Spirit is Trading Near Peers...

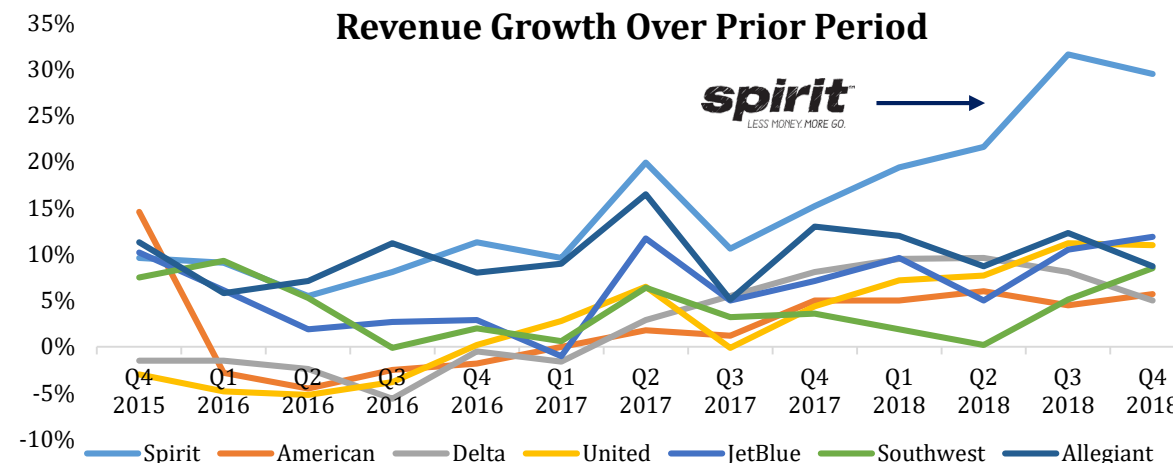
	P/E <sup>(1)</sup>	Forward P/E
 American Airlines	7.8x	5.3x
 DELTA	8.8x	7.6x
 UNITED	9.0x	7.3x
 jetBlue	10.0x	8.2x
 Southwest	12.0x	10.1x
 allegiant	12.7x	9.4x
 <b>spirit</b> LESS MONEY. MORE GO.	<b>11.9x</b>	<b>7.9x</b>
<b>Avg. of LCC / ULCC</b>	<b>11.6x</b>	<b>9.2x</b>
<b>Avg. of All Peers</b>	<b>10.0x</b>	<b>8.0x</b>

## Spirit is Trading Below its 1-Year Average Multiple

Forward PE & EV/EBITDA



## ...But Peers Are Not Growing Like Spirit



## Forward P/E Model

		P/E				
		7.1x	10.1x	13.1x	16.1x	19.1x
Projected EPS	6.10	43.31	61.61	79.91	98.21	116.51
	6.35	45.09	64.14	<b>83.19</b>	102.24	121.29
	6.60	46.86	66.66	86.46	106.26	126.06

**Average 5 year Forward PE: 13.1x**

**2019E EPS: \$6.51**

**Current Price: \$51.68**

# Intrinsic Valuation & Target Price

## Financial Projections

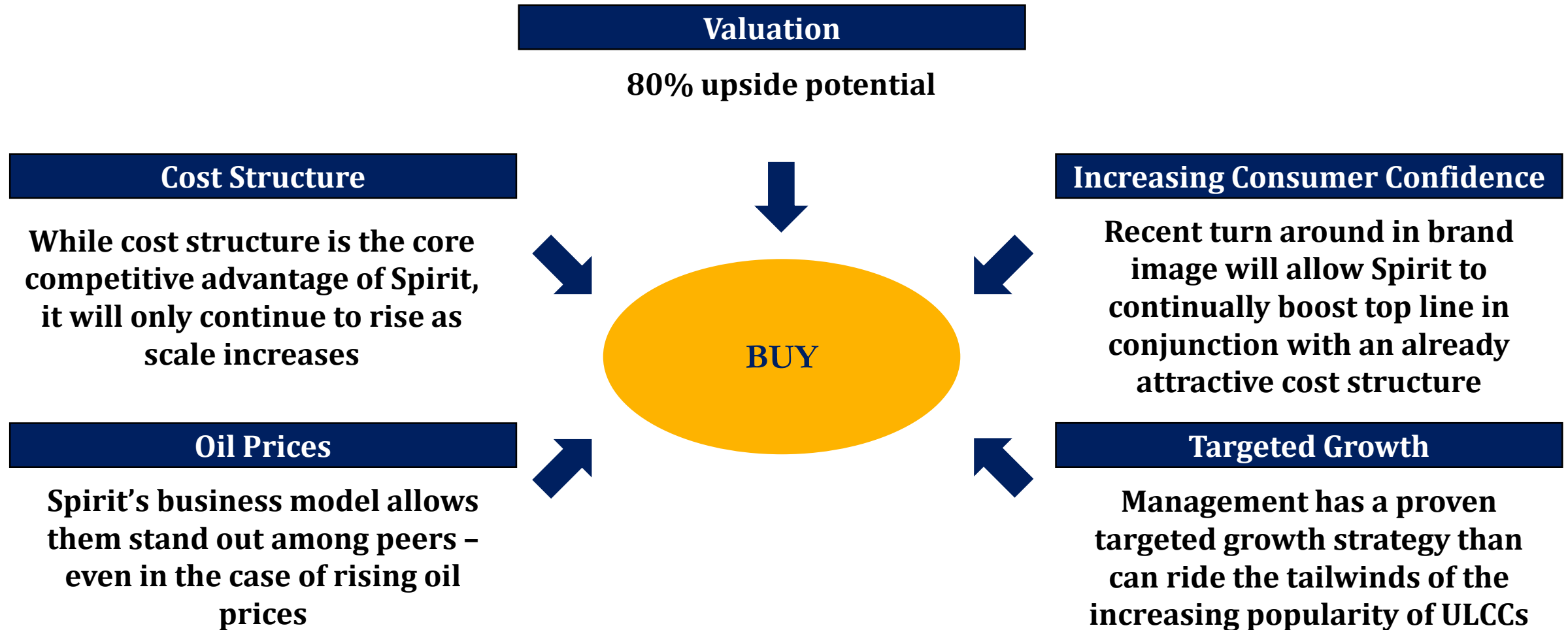
Fiscal year	2016A	2017A	2018A	2019P	2020P	2021P	2022P	2023P
Revenue	2,258	2,573	3,260	3,922	4,496	5,061	5,719	6,462
EBIT	483	402	449	530	562	577	595	613
Tax Rate	36.9%	36.9%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
<b>EBIAT (NOPAT)</b>	<b>305</b>	<b>253</b>	<b>342</b>	<b>403</b>	<b>427</b>	<b>439</b>	<b>452</b>	<b>466</b>
Depreciation and amortization	101	140	177	256	278	343	357	364
Stock Based Compensation	7	9	11	13	14	14	15	15
Change in Net Working Capital	100	(139)	163	139	152	183	198	213
Capital expenditures	(724)	(791)	(794)	(852)	(927)	(1,144)	(1,190)	(1,213)
<b>Unlevered FCF</b>	<b>(211)</b>	<b>(527)</b>	<b>(101)</b>	<b>(42)</b>	<b>(56)</b>	<b>(164)</b>	<b>(168)</b>	<b>(156)</b>

## Fair Value Per Share

	Perpetuity	EBITDA	Assumptions
Enterprise value	8,110	7,835	WACC 9.1%
Less: Net debt	(916)	(916)	Exit EV/EBITDA Multiple 6.94x
<b>Equity value</b>	<b>7,193</b>	<b>6,919</b>	Perpetuity Growth Rate 2.00%
Diluted shares	68.430	68.430	
<b>Equity value per share</b>	<b>\$105.12</b>	<b>\$101.11</b>	
<i>Market premium / (discount) to fair value</i>	(49.0%)	(47.0%)	

## Target Price

DCF (Average of Perpetuity and EBITDA)	\$103.12
Forward P/E Model	\$83.19
<b>Target Price (Average)</b>	<b>\$93.15</b>
<i>Market premium / (discount) to fair value</i>	(42.4%)



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# Question & Answer

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# Appendix

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## Overview

- Spirit only uses 3 aircraft fleet types, all made by Airbus
- Spirit airlines is exploring buying fleets from additional aircraft carriers for efficiency purposes, currently planning for mid-year order
- Spirit has lowest average age of fleet (5.5 years) as compared to peers (~11 years)
- Decision in 2018 to buy 14 previously leased A319
- Management estimates it can save \$1 million annually per aircraft by buying rather than leasing

## Current Fleet

Aircraft Type	Seats	Average Age (years)	Number of Aircraft	Number Owned	Number Leased
A319	145	11.9	31	22	9
A320ceo	182	4.2	60	30	30
A320neo	182	1.5	7	—	7
A321	228	2.0	30	30	—

## Management Comments

- *“While it would be natural from a historical perspective to think that a single aircraft fleet type is the most efficient use of aircraft, there are examples in our history where that’s not true,” - Ted Christie, CEO (Feb 2019)*
- *“What you really have to solve for is the mix between operating cost and the upfront cost of the airplane. So it is in our best interests to drive the best deal, so we want to make sure we’re ticking all the boxes. We’re a happy Airbus customer, but we’ve got to evaluate all the options open to us.” – Ted Christie, CEO (Feb 2019)*

## Fleet Statistics

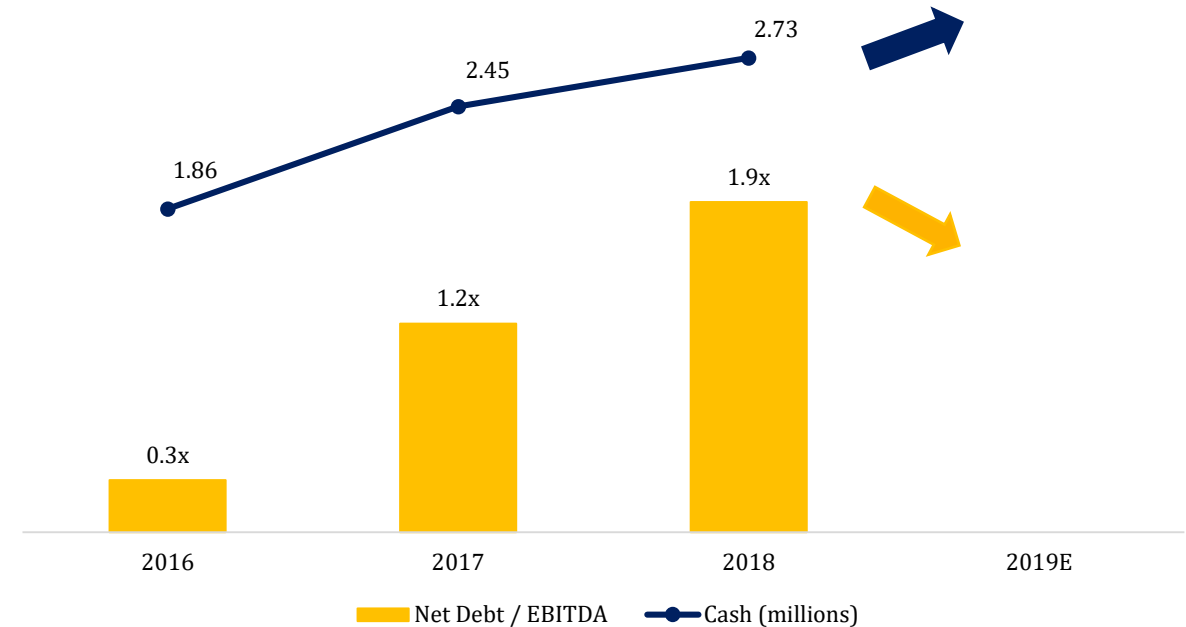
Avg. Aircraft Age		Utilization Per Day	
	5.4 yrs		12.1 hrs
	12.8 yrs		6.9 hrs
	9.8 yrs		11.8 hrs
	10.6 yrs		
	11.0 yrs		
	16.0 yrs		
	15.1 yrs		



## Management Expects Leverage to Decrease in 2019

- Amortization of current debt balances and increase in cash
- Lease financing decisions for 9 A320neo aircraft through sale/leaseback transactions and 5 A320neo aircraft through direct leasing, resulting in a lower cash outlay
- Significant increase in EBITDA production, mostly driven by increased unit revenue
- *“Rather than debt financing the majority of deliveries, we now plan to use sale-leaseback transactions to finance the majority of which of course means higher aircraft rent. The higher aircraft rent will largely be offset by lower depreciation and lower interest expense, such that our pre-tax income is minimally affected by our financing decisions.” – Scott Haralson, CFO (Q4 Earnings Transcript)*

## Net Debt / EBITDA and Cash



WACC vs. Perpetuity Growth Rate						
		Perpetuity Growth Rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	11.1%	70.69	70.69	70.69	70.69	70.69
	10.1%	85.67	85.67	85.67	85.67	85.67
	9.1%	105.12	105.12	<b>105.12</b>	105.12	105.12
	8.1%	131.23	131.23	131.23	131.23	131.23
	7.1%	167.92	167.92	167.92	167.92	167.92

WACC vs. Exit EBITDA Multiple						
		Exit EBITDA Multiple				
		4.9x	5.9x	6.9x	7.9x	8.9x
WACC	11.1%	59.43	75.45	91.48	107.51	123.53
	10.1%	62.79	79.53	96.27	113.01	129.75
	9.1%	66.34	83.83	<b>101.32</b>	118.81	136.30
	8.1%	70.08	88.36	106.65	124.93	143.22
	7.1%	74.03	93.15	112.27	131.39	150.51

# Peer Financial Data



Company Name	Day Close Price	Shares Outstanding	Market Capitalization	LTM Net Debt	EV	LTM TBV / Share	LTM Total Revenue	LTM EBITDA	LTM EBIT	LTM Diluted EPS Excl. Extra Items	NTM Revenue	NTM EBITDA	NTM EPS
Southwest Airlines	51.77	553	28,613	(298)	28,315	15.35	21965	4213	3167	4.29	23592	5081	5.11
JetBlue	16.08	307	4,929	783	5,712	14.75	7658	1168	723	0.6	8235	1547	1.96
SkyWest	50.01	52	2,582	2,471	5,053	38.22	3222	809	474	5.3	2837	914	5.88
Allegiant	126.82	16	2,040	876	2,916	43.18	1667	349	246	10.0	1825	508	13.53
United Airlines	82.4	267	21,978	10,778	32,756	8.57	41303	5897	3779	7.7	43360	7389	11.34
American Airlines	31.91	449	14,329	29,269	43,598	( 13.89)	44541	5910	3751	3.03	46560	7630	6.04
Delta Air Lines	49.59	677	33,550	15,841	49,391	( 1.36)	44438	7530	5406	5.67	46169	9009	6.5
Spirit Airlines	51.68	68	3,530	1,109	4,610	28.25	3323	579	449	2.28	3926	1078	6.53
High	126.82	677	33,550	29,269	49,391	43.18	44541	7530	5406	10.0	46560	9009	13.53
Low	16.08	16	2,040	(298)	2,916	( 13.89)	1667	349	246	0.6	1825	508	1.96
Mean	58.37	331	15,432	8,531	23,963	14.98	23542	3697	2507	5.23	24654	4583	7.19
Median	50.01	307	14,329	2,471	28,315	14.75	21965	4213	3167	5.3	23592	5081	6.04

# Peer Multiples

Company Name	TEV/Total Revenues LTM	TEV/EBITDA LTM	TEV/EBIT LTM	P/Diluted EPS Before Extra LTM	P/TangBV LTM	NTM TEV/Forward Total Revenue	NTM TEV/Forward EBITDA	NTM Forward P/E
Southwest Airlines	1.3x	6.7x	8.9x	12.1x	3.4x	1.20x	5.57x	10.14x
JetBlue	0.7x	4.9x	7.9x	26.8x	1.1x	0.69x	3.69x	8.19x
SkyWest	1.6x	6.2x	10.7x	9.4x	1.3x	1.78x	5.53x	8.51x
Allegiant	1.7x	8.4x	11.9x	12.7x	2.9x	1.60x	5.74x	9.37x
United Airlines	0.8x	5.6x	8.7x	10.7x	9.6x	0.76x	4.43x	7.26x
American Airlines	1.0x	7.4x	11.6x	10.5x	NM	0.94x	5.71x	5.28x
Delta Air Lines	1.1x	6.6x	9.2x	8.7x	NM	1.07x	5.48x	7.63x
Spirit Airlines	1.4x	8.0x	10.3x	22.7x	1.8	1.17x	4.28x	7.92x
High	1.7x	8.4x	11.9x	26.8x	9.6x	1.78x	5.74x	10.14x
Low	0.7x	4.9x	7.9x	8.7x	1.1x	0.69x	3.69x	5.28x
Mean	1.2x	6.5x	9.8x	13.0x	3.7x	1.15x	5.17x	8.05x
Median	1.1x	6.6x	9.2x	10.7x	2.9x	1.07x	5.53x	8.19x

# Peer Operating Statistics



Company Name	LTM Gross Margin %	LTM EBITDA Margin %	LTM EBIT Margin %	LTM Total Revenues, 1 Yr Growth %	LTM EBITDA, 1 Yr Growth %	LTM EBIT, 1 Yr Growth %	LTM Total Debt/Capital %	LTM Total Debt/EBITDA	NTM LT EPS Growth Rate
Southwest Airlines	32.3%	19.2%	14.4%	3.87%	(3.88%)	(5.58%)	25.60%	0.8x	15.81%
JetBlue	33.5%	15.3%	9.4%	9.21%	(16.45%)	(27.19%)	26.59%	1.4x	16.25%
SkyWest	32.0%	20.9%	14.7%	10.34%	(7.20%)	(11.10%)	64.82%	3.6x	21.05%
Allegiant	32.4%	14.3%	9.1%	9.31%	0.31%	(1.77%)	59.57%	2.5x	16.00%
United Airlines	27.4%	13.3%	8.4%	4.50%	(16.74%)	(26.18%)	100.50%	5.8x	5.56%
American Airlines	25.2%	16.9%	12.2%	8.02%	(2.11%)	(4.44%)	56.27%	2.3x	15.23%
Delta Air Lines									
Spirit Airlines	33.1%	17.4%	13.5%	25.70%	19.40%	11.90%	53.16%	3.8x	20.21%
High	33.6%	25.1%	14.7%	10.34%	18.78%	22.17%	100.50%	5.8x	21.05%
Low	25.2%	13.3%	8.4%	3.17%	(16.74%)	(27.19%)	25.60%	0.8x	5.56%
Mean	30.9%	17.8%	11.9%	6.92%	(3.90%)	(7.72%)	56.43%	2.9x	14.22%
Median	32.3%	16.9%	12.2%	8.02%	(3.88%)	(5.58%)	59.57%	2.5x	15.81%