



AirTrav Research Flash – Key WestJet Operating & Financial Ratios

Key revenue ratio trending and dividend hike fuels optimism

TORONTO (February 4, 2014) – AirTrav Inc. has examined certain Fourth Quarter 2013 financial and operating statistics released today by WestJet Airlines Ltd. (TSX: WJA) and aggregated key operating and financial ratios with results from the prior seven fiscal quarters starting 1Q-2012.

Pace of capacity expansion began to impact year over year profit growth

Table 1 and **Figure 1** below show how, after numerous quarters in which WestJet's revenue traffic (as measured by RPM demand) outstripped growth in seat capacity (as measured by ASM supply), the Second Quarter of 2013 saw that relationship change. Since then, capacity growth has continued to outpace traffic demand.

Higher ASM growth often negatively impacts profitability in the airline sector as capacity drives many key costs such as fuel, maintenance and operational staffing. WestJet was no stranger to this typical ASM impact on profitability. **Figure 1** illustrates for example how tremendous year over year gains in quarterly net income began to slow and become negative by 3Q-2013 due to the faster pace of ASM growth versus RPM demand. Of greatest impact, CASM began to outstrip RASM in 2Q-2013 and Yield fell into negative territory (see Definitions in Table 1).

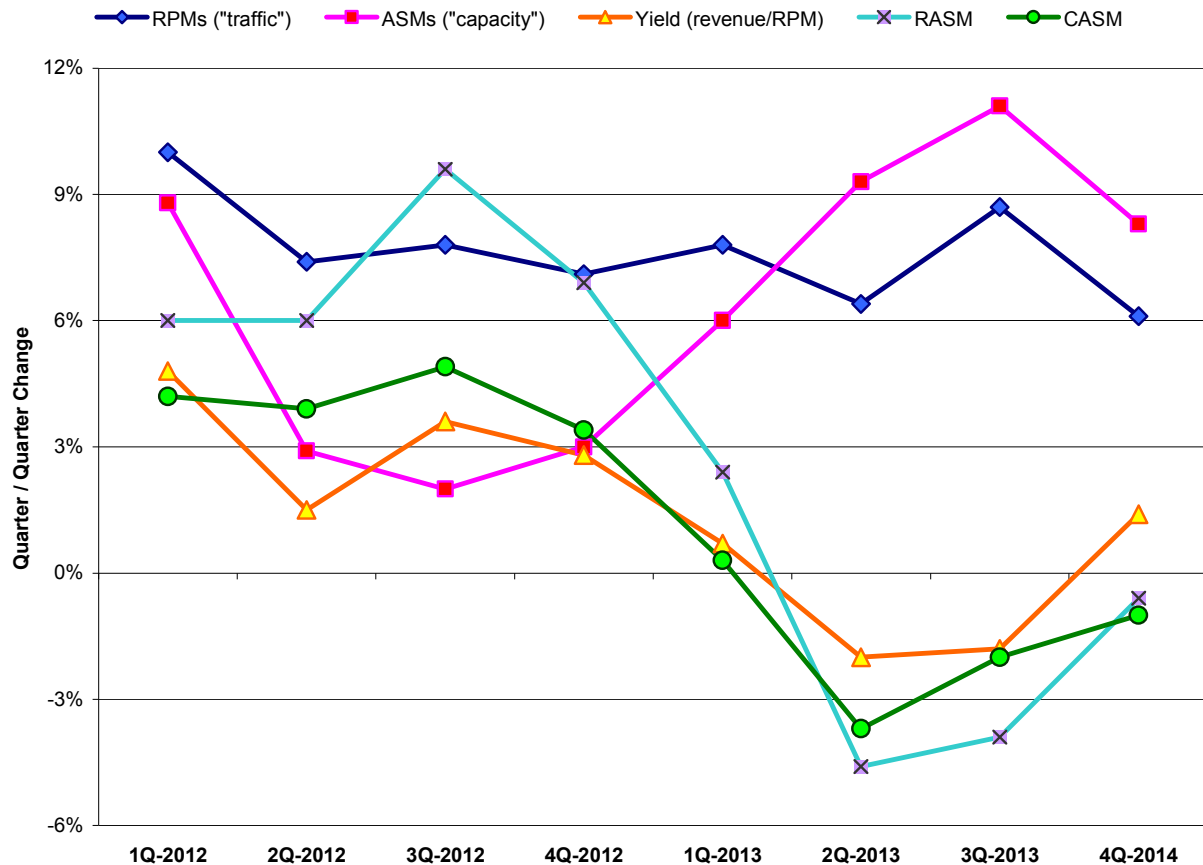
Table 1 – WJA key operating and financial ratios, year/year quarterly trending

WestJet Airlines Ltd.	1Q-2012	2Q-2012	3Q-2012	4Q-2012	1Q-2013	2Q-2013	3Q-2013	4Q-2014
RPMs ("traffic")	10.0%	7.4%	7.8%	7.1%	7.8%	6.4%	8.7%	6.1%
ASMs ("capacity")	8.8%	2.9%	2.0%	3.0%	6.0%	9.3%	11.1%	8.3%
Yield (revenue/RPM)	4.8%	1.5%	3.6%	2.8%	0.7%	-2.0%	-1.8%	1.4%
RASM	6.0%	6.0%	9.6%	6.9%	2.4%	-4.6%	-3.9%	-0.6%
CASM	4.2%	3.9%	4.9%	3.4%	0.3%	-3.7%	-2.0%	-1.0%
CASM-adj*	0.4%	4.8%	3.9%	3.2%	0.0%	-0.7%	-1.5%	-0.3%
Fuel price per litre (CAD)	11.6%	1.8%	1.6%	-1.6%	-1.7%	-6.4%	1.7%	1.1%
RPM vs. ASM	1.2%	4.5%	5.8%	4.1%	1.8%	-2.9%	-2.4%	-2.2%
RASM vs. CASM	1.8%	2.1%	4.7%	3.5%	2.1%	-0.9%	-1.9%	0.4%

Definitions
RPM - revenue passenger miles ("traffic", or "demand")
ASM - available seat miles ("capacity", or "supply")
Yield - revenue per RPM ("quality of revenue")
RASM - revenue per ASM (capacity interplay with revenues)
CASM - cost per ASM (capacity interplay with costs)
CASM-adj - CASM excluding fuel expense and employee profit share

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Figure 1 – Illustration of WJA key operating and financial ratios, year/year quarterly trending



Unit yield and revenue beginning to trend in right direction again

As shown in Table 2 and Figure 2 the unit revenues of WestJet re-commenced positive growth in the Third Quarter of 2013 and in this Fourth Quarter 2013, and with unit revenue growth now outpacing growth in unit costs.

Continued robustness in the Canadian economy, as demonstrated by WestJet's ability last week to levy a two percent base fare increase that was matched by competitors (though the longer term effect on advance bookings is still not completely certain) along with a strengthening American economy, are working together with strong WestJet revenue fundamentals to get yields growing again and RASM nearly out of negative territory.

WestJet has seen strong yield contribution from its regional Encore division since most traffic is point-to-point (versus network traffic on mainline which dilutes yields), ancillary revenues continue to post strong returns, and the airline is seeing positive results from both its *Plus* cabin (initial teething problems associated with this new product appear to be diminishing quickly) and its relatively new value-based fare bundles are delivering good yield returns. Regarding Encore, WestJet will see this division grow from a fleet of 8 Bombardier Q400 aircraft today to 16 by year end.

Improving revenue fundamentals have mingled well with operating cost profiles. Notwithstanding the Canadian dollar's retreat in 2013 that nearly offset the full impact of WestJet's lower jet fuel costs, quarterly fuel expense has been relatively stable on a year-over-year basis since 2Q-2012. It is also critical to understand an airline's non-fuel unit costs and in this regard, after three quarters of year-over-year increases in 2012, WestJet's CASM-ex fuel and employee profit share retreated in the last three quarters of 2013. Impressively, the \$100 million annual cost reduction goal targeted by WJA in 2013 will be fully achieved in 2014, a full year ahead of schedule. This razor sharp commitment to reigning in controllable costs has been another driver behind the market's response today and in recent months.

The bottom line driver behind today's stock price increase, despite ASM capacity continuing to outstrip RPM demand, in that in this Fourth Quarter WestJet turned the corner on its unit revenues, posted a continued drop in non-fuel costs, and earned a double-digit gain to net income. Moreover, while Fourth Quarter diluted earnings of 52 cents were

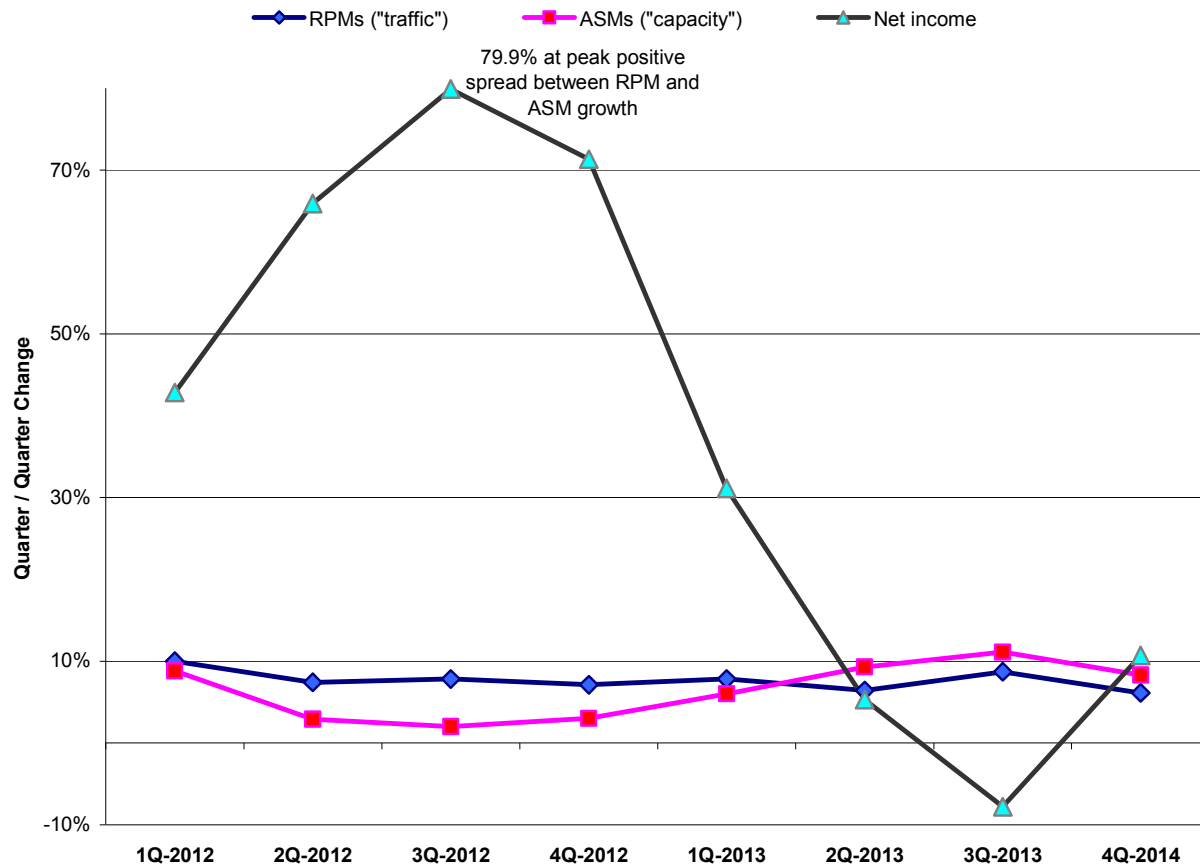
in line with the Bloomberg average consensus poll of 13 analysts, WestJet's decision to hike their dividend 25 percent from 10 to 12 cents certainly convinced many profit takers to get back onboard the WestJet money making machine.

Barring unexpected developments in the economy, much higher than expected fuel costs (notwithstanding a forecast drop in jet fuel prices, WestJet is forecasting a 2-4 percent increase in fuel prices based on a 90.09 cent Canadian dollar) or the CAD dollar falling below 85 cents (WestJet's sensitivity is \$13 million CAD per one cent CAD/USD change; though AirTrav believes WestJet would take some measures to offset a CAD of 85 cents or less), WestJet should post a strong year of profitability in 2014.

Table 2 – WJA capacity/profitability relationship, year/year quarterly trending

WestJet Airlines Ltd.	1Q-2012	2Q-2012	3Q-2012	4Q-2012	1Q-2013	2Q-2013	3Q-2013	4Q-2014
RPMs ("traffic")	10.0%	7.4%	7.8%	7.1%	7.8%	6.4%	8.7%	6.1%
ASMs ("capacity")	8.8%	2.9%	2.0%	3.0%	6.0%	9.3%	11.1%	8.3%
Net income	42.8%	65.9%	79.9%	71.3%	31.1%	5.3%	-7.8%	10.7%

Figure 2 – Illustrative of WJA capacity/profitability relationship, year/year quarterly trending



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Toronto based AirTrav Inc. is active in the aviation and transport sectors, providing consulting solutions to aerospace, airline, airport, energy, government, labour, maritime, regulatory agency, trade association, and travel technology clients. AirTrav also performs independent research and due diligence for banks and private equity clients in North America and in overseas markets regarding aviation investments.