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Bernstein University US 2025

Industry Primer: North American Transportation; U.S. Airlines; Transportation Technology

16 October 2025

David Vernon • Senior Analyst • +1 917 344 8333 • david.vernon@bernsteinsg.com
Justine Weiss • Senior Research Associate • +1 917 344 8433 • justine.weiss@bernsteinsg.com
Steve Song • Specialist Sales • +1 917 344 8401 • steve.song@bernsteinsg.com

See Disclosure Appendix of this report for important Disclosures and Analyst Certifications

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Agenda

1. CROSS SECTOR THOUGHTS

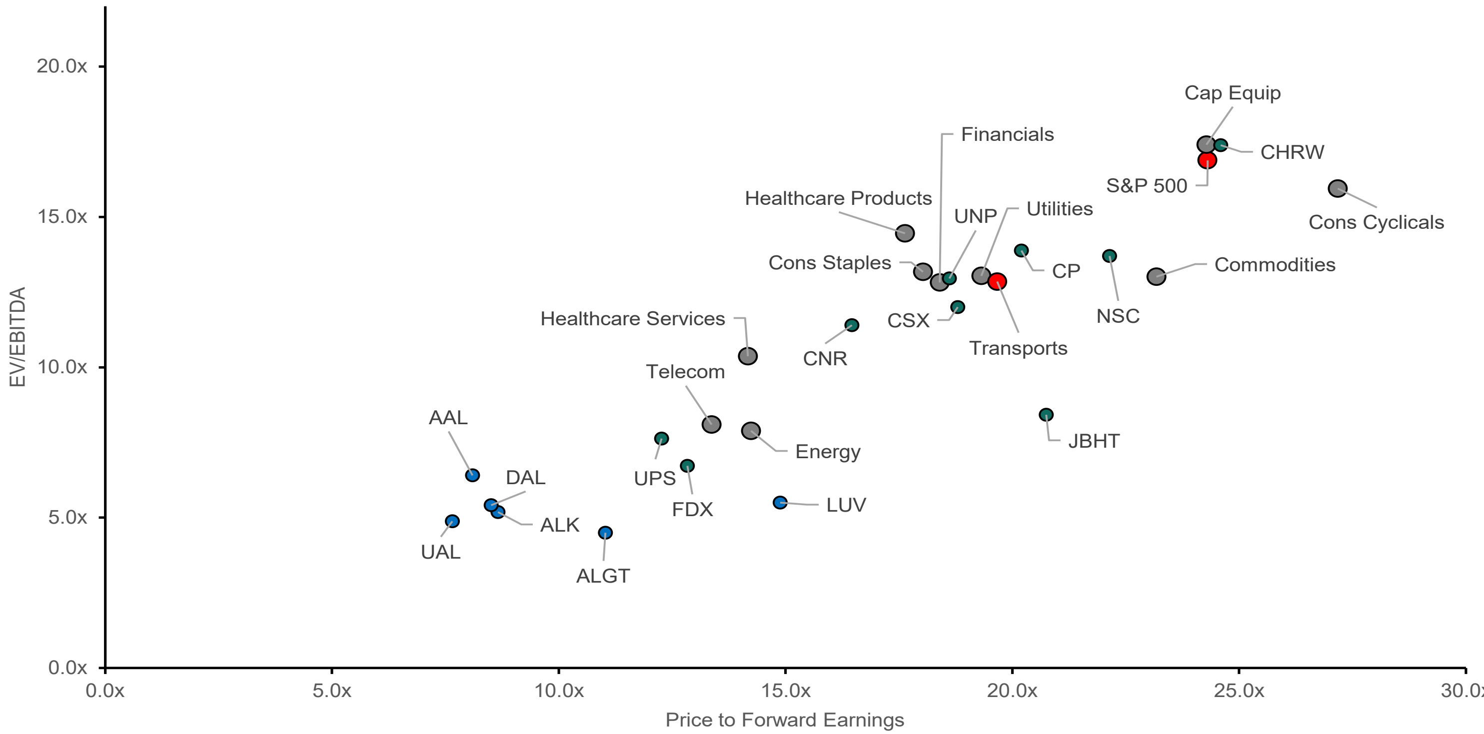
2. RAILROADS

3. PARCEL

4. AIRLINES

A little something for everyone

- Structurally sound stories with M&A upside (rails)
- Disruption stories (parcel vs. Amazon)
- Value stories (airlines)
- Niche stories (logistics)



Source: Bernstein Quant Team, Bloomberg, Bernstein Analysis

Landscape: where to spend your time

North America Freight

Rail
- **CNI, CP, CSX, NSC, UNP**

Parcel
- **FDX, UPS**,DHL, maybe Royal Mail

Truck / Logistics
- **CHRW, JBHT**, EXPD, LSTR, XPO, KNX, ODFL, WERN, HUBG, etc.

U.S. Passenger Airline

Network
- **AAL, DAL, UAL**

Discount
- **LUV**, SAVE, Frontier

Premium Value
- JetBlue, ALK

Trans Tech

Autonomous Trucking
- **AUR**

Investor Sentiment

Rail
- **Loved stocks that ran into stiff headwinds (weak volumes on tough modal competition due to slow-to-tighten truck market, macro concerns, energy complex)**
- **M&A has renewed excitement**

Parcel
- **Consumer recessionary fears beating down valuations**
- **FDX has turnaround potential, Freight spin**
- **Parcel price discipline**
- **De minimis impact**

Truck / Logistics
- **Waiting for a turn in truck market – seeing some signs, but very slow to turn**
- **Structural concerns abound on asset light companies**

U.S. Passenger Airline
- **Cyclical concerns raised risk that post-COVID earnings recovery will be de-railed, but legacy network players have shown signs of earnings durability even through macro derailments (re: early/mid-2025 trade policy, inflation fears, consumer sentiment headwinds)**
- **Segmentation and affinity marketing re-writing the industry dynamic – discounters and ULCC challenged**
- **Domestic capacity oversupply is correcting (and further benefit from Spirit network downsizing during bankruptcy / potential full market exit)**

Trans Tech
- **Concern over cash runway vs. pace of technological development / regulatory approval**

Source: Bernstein Analysis

Transport Axioms: Foundational Concepts

Freight

- Derived demand industry (industrial, resource, consumer)
- Modal competition exists, especially b/w rails and trucks for shorter hauls
- Rail not competitive in the traditional sense
- For competitive markets, pricing cost driven – look to labor, oil, equipment, tech
- Intermodal rates follow truck rates
- Heavily regulated, data rich

Passenger

- Consumer industry (business, leisure)
- No real substitute over longer distances
- Competitive industry, but not all capacity is created equally
- Networks are a source of differentiated value
- Labor will participate
- Segmentation & affinity changing the industry dynamic
- Heavily regulated, data rich

Source: Bernstein Analysis

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North American Railroads

BERNSTEIN UNIVERSITY
Primer Series

David Vernon • Senior Analyst • +1 917 344 8333 • david.vernon@bernsteinsg.com

Justine Weiss • Senior Research Associate • +1 917 344 8433 • justine.weiss@bernsteinsg.com

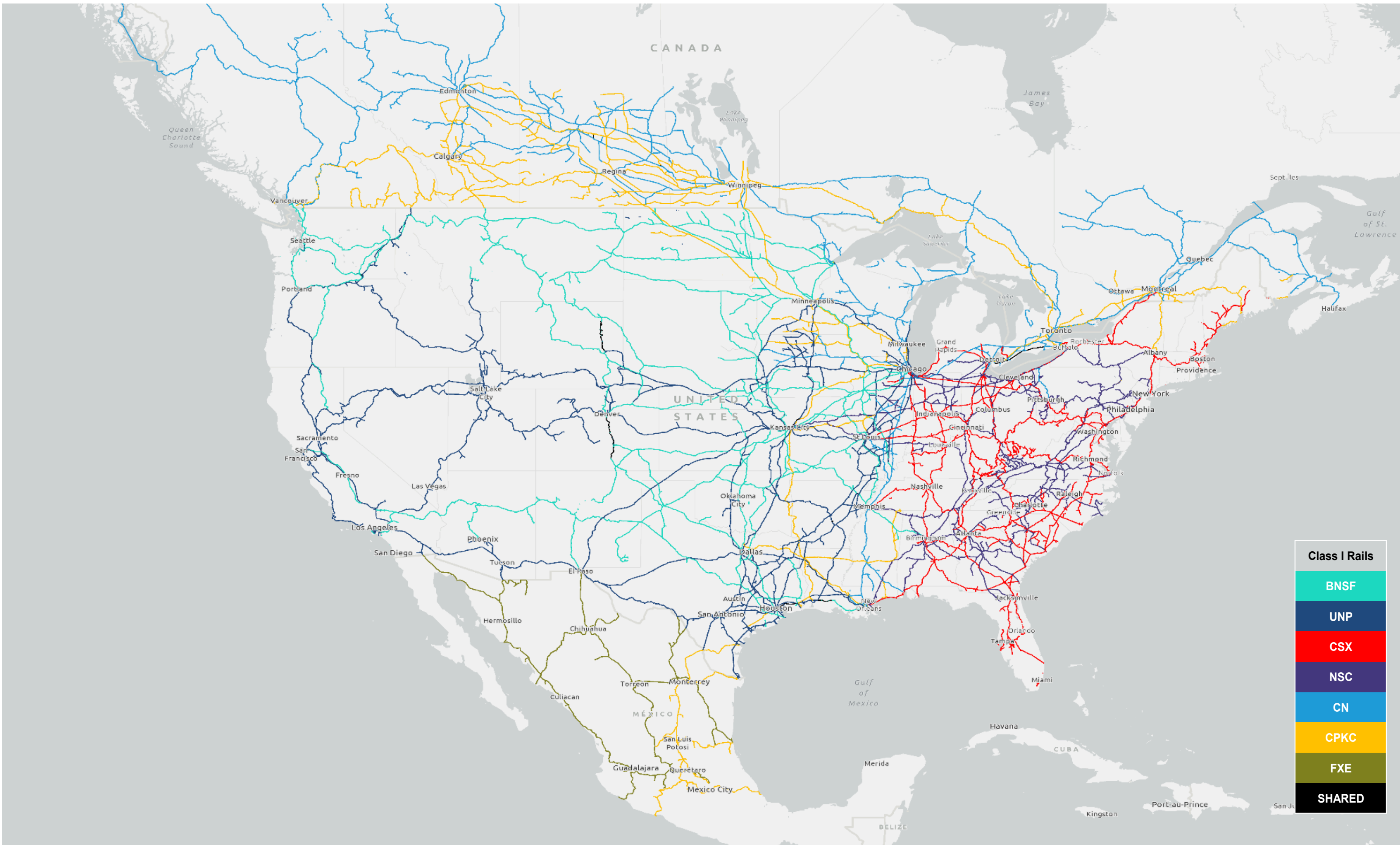
Steve Song • Specialist Sales • +1 917 344 8401 • steve.song@bernsteinsg.com

Bernstein's Rules of the Railroad

- Franchises have unique value
- The industry is not competitive in the traditional sense, but is competitive with other modes of transport
- Value of each rail network to the US economy increasingly determined by the cost of shipping by truck
  - Truck cycle correcting creates near-term risk to rail demand
  - Oil is part of the cost equation – higher oil means the railroad is worth more
- Mix shifts support lower capex, and sustain higher returns
- Canadian railroads have a relative advantage that could dissipate with U.S. transcontinental mergers

Want to pitch a railroad?
Know where you are in truck / energy markets, M&A potential

Network Map Overview



Sources: Esri, HERE, Garmin, FAO, NOAA, USGS, EPA, DOT, USCB, Bernstein Analysis

Key Operating Metrics for Class I Rails

2024 Key Statistics ($ amounts in USD except CN and CPKC in C$)	Burlington Northern Santa Fe LLC	Union Pacific Corp	CSX Corp	Norfolk Southern Corp	Canadian National Railway Co	Canadian Pacific Kansas City Ltd
Volume / Pricing / Operating Statistics						
Freight Revenue, $ Million	$22,833	$22,811	$13,197	$12,123	$16,395	$14,223
Total Carloads ('000s)	9,589	8,334	6,277	7,057	5,390	4,370
Average Freight Revenue per Carload, $	$2,381	$2,737	$2,102	$1,718	$3,042	$3,255
Avg. Length of Haul (miles)*	1,187	908	559	559	737	771
Revenue Ton-Miles (Billion)	578	410	194	178	236	211
Gross Ton-Miles (Billion)	1,131	847	384	347	458	389
Average Employees	36,500	30,336	23,369	20,127	25,304	20,144
Total Locomotives	6,800	7,026	3,514	3,245	2,363	2,242
Route Miles	32,897	32,880	19,701	19,154	18,800	20,341

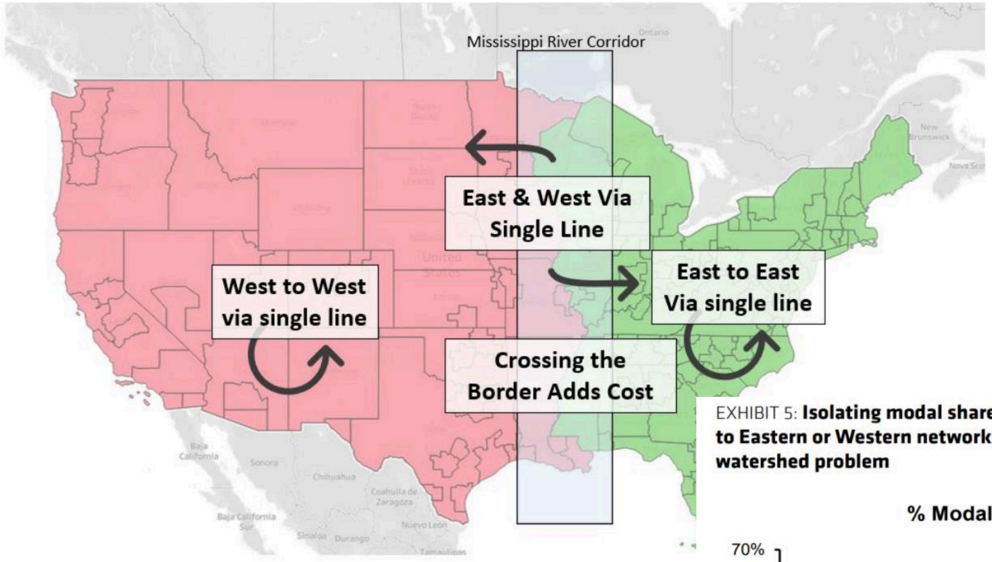
2024 Key Statistics ($ amounts in USD except CN and CPKC in C$)	Burlington Northern Santa Fe LLC	Union Pacific Corp	CSX Corp	Norfolk Southern Corp	Canadian National Railway Co	Canadian Pacific Kansas City Ltd
Productivity / Profitability / Cost Structure						
Freight Revenues / '000 RTM (cents)	3.95	5.57	6.79	6.81	6.96	6.73
Average Freight Revenue per Carload, $	$2,381	$2,737	$2,102	$1,718	$3,042	$3,255
RTM/Employee (Millions)	15.8	13.5	8.3	8.8	9.3	10.5
GTM/Route Mile (Millions)	34.4	25.8	19.5	18.1	24.3	19.1
RTM/GTM (Efficiency)	0.5106	0.4835	0.5055	0.5136	0.5146	0.5437
Adjusted Operating Ratio (company non-gaap)	**66.9**	**60.0**	**63.2**	**65.8**	**62.9**	**61.3**
Compensation / Freight Revenue	25.7%	21.5%	24.0%	23.3%	20.9%	18.0%
Fuel / Freight Revenue	14.3%	10.8%	8.9%	8.1%	12.6%	12.7%

**LOH is calculated, not provided by company filings. Calculations for CN and CPKC involve assumptions for estimating tons per car.*

Source: Company Reports, STB, Bernstein Estimates and Analysis

Transcontinental Rail Mergers

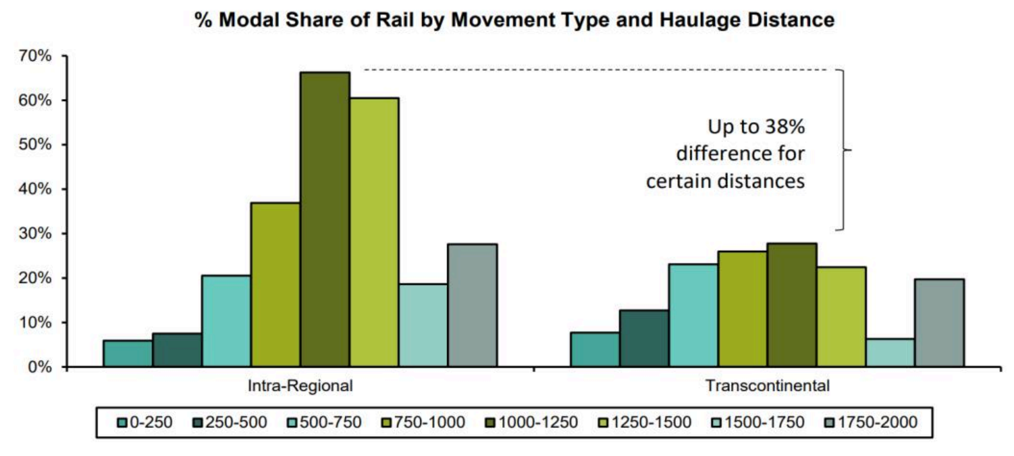
EXHIBIT 2: **The U.S. Census divides the country into 132 "Freight Analysis Framework" areas, and in theory if you are shipping from regions where railroads meet you can have single-line service to the full U.S. market**



Source: U.S. Census, Bernstein Analysis

- Watershed opportunity
- Port diversion
- Truck diversion
- Rail diversion

EXHIBIT 5: **Isolating modal share of freight flows for traffic that cross the Mississippi River vs. traffic that is local to Eastern or Western networks shows vast differences in rail share and illustrates the magnitude of the so-called watershed problem**



Source: US Freight Analysis Framework, Bernstein estimates and analysis

Railroads move over 40% of freight in the US, yet they earn only about 10% of total transportation revenue

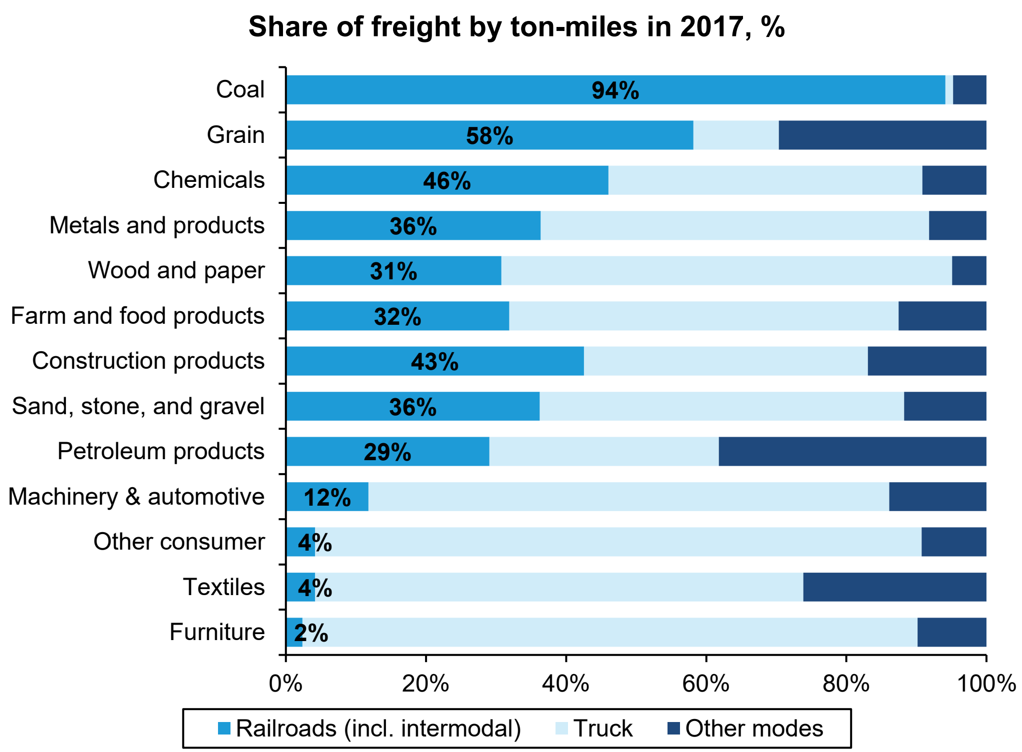
The size of the prize

	Total freight moved per year in the US **3 trillion ton-miles** (think ~50 million fully-loaded truck trips from NYC to LA)	Total annual transportation revenue **$1 trillion**
 **Truck**	44%	81%
 **Rail**	43%	9%
 **Water**	10%	2%
 **Other**	3%	8%

+ Rails and trucks dominate the transportation industry and **the competition / cooperation between the two modes is one of the key elements of the industry dynamics**
+ Since 2002, rails share in freight moved decreased from 44% to 43%, while their share in revenue went up from 6% to 9%

Notes:
(1) Total freight moved data is based on 2017 Commodity flow survey. “Other” includes pipelines, air, parcel, and other modes.
(2) Total transportation revenue is based on 2021 ATA trucking data, AAR, and BTS
Sources: DOT, ATA, Wikimedia Commons, Bernstein Analysis

Railroads are dominant in heavier bulk freight, but their growth is concentrated in lighter consumer goods



- Because railroads are less flexible than trucks but able to carry heavy loads with low costs, their volume mix naturally gravitates towards heavier, lower value-added products
- Railroads dominate in shipments of coal, grain, and, to less extent, chemicals and metals.
- However, as railroads improve service, the growth is more concentrated in volumes related to consumer goods.

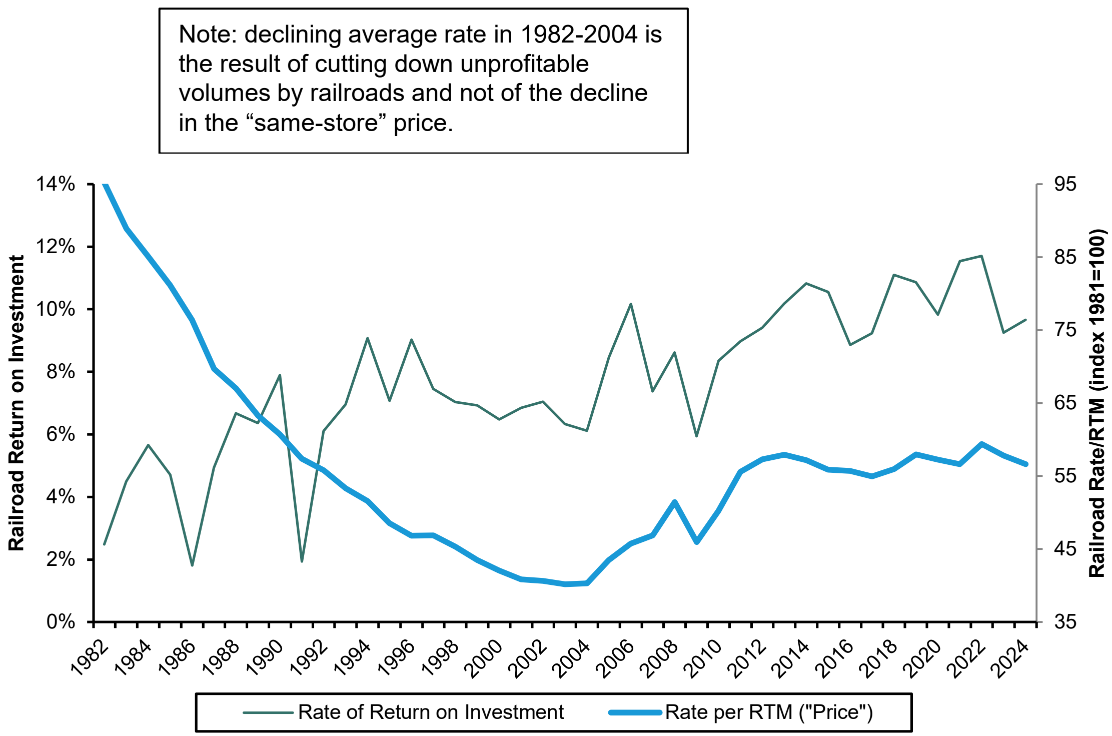
Source: Commodity Flow Survey 2017, Bernstein Estimates and Analysis

Rail volumes have many product-specific drivers, but should average at or slightly above GDP growth level

Rail Volume (2025 YTD, as of Week 39)	UNP	CSX	NSC	CNI	CP	Growth Drivers	Long-Term Growth Rate
Coal and Coke	**10%**	**11%**	**10%**	**9%**	**11%**	**Utility coal:** power demand, coal vs gas competition **Met coal:** steel production	Negative, but decline rate is debated
Intermodal	**40%**	**47%**	**57%**	**42%**	**40%**	Global trade, retail sales, rail vs truck competition	Structural grower; GDP++
Merchandise:	**50%**	**42%**	**33%**	**50%**	**50%**		GDP+
Agricultural Products	15%	10%	8%	13%	14%	Population growth + relative increase in meat consumption	GDP+
Chemicals and petroleum products	15%	11%	8%	12%	13%	Industrial production, pipeline / truck competition	Crude near-dead; rest GDP
Forest Products	2%	5%	2%	5%	3%	Construction (lumber), consumer demand (paper)	GDP +/-
Minerals and Ores	9%	10%	9%	16%	15%	Construction (steel), grain (fertilizers), industrial prod.	GDP +/-
Motor Vehicles	9%	6%	6%	4%	5%	Auto sales, rail vs truck competition	GDP+

Source: AAR, Bernstein Analysis

Rail pricing: not a typical supply/demand story

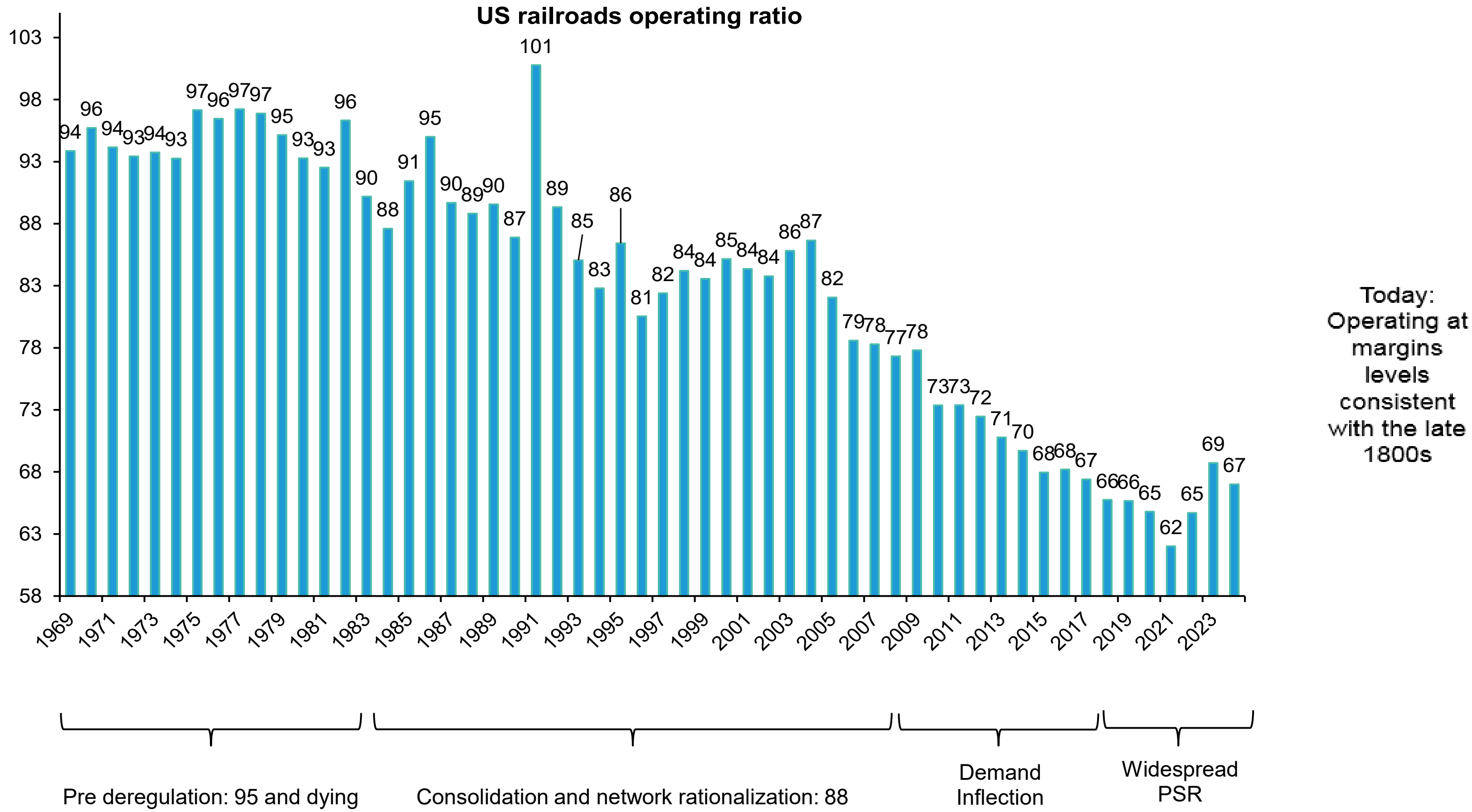


- Railroads are generally free to set any price for their services, and the limits to their price are determined by a combination of a few factors:
  - Modal competition, primarily with truck
  - Competition between railroads (not as frequent, but happens on certain routes)
  - Source competition (e.g., Canadian potash vs imported potash)
  - Product competition (e.g., gas utilities vs coal utilities).
- Specific factors are more or less relevant for each product. For example, intermodal and auto pricing is determined by truck competition, while coal pricing is determined by either source or price competition.

Source: AAR, Company Filings, Bernstein Estimates and Analysis

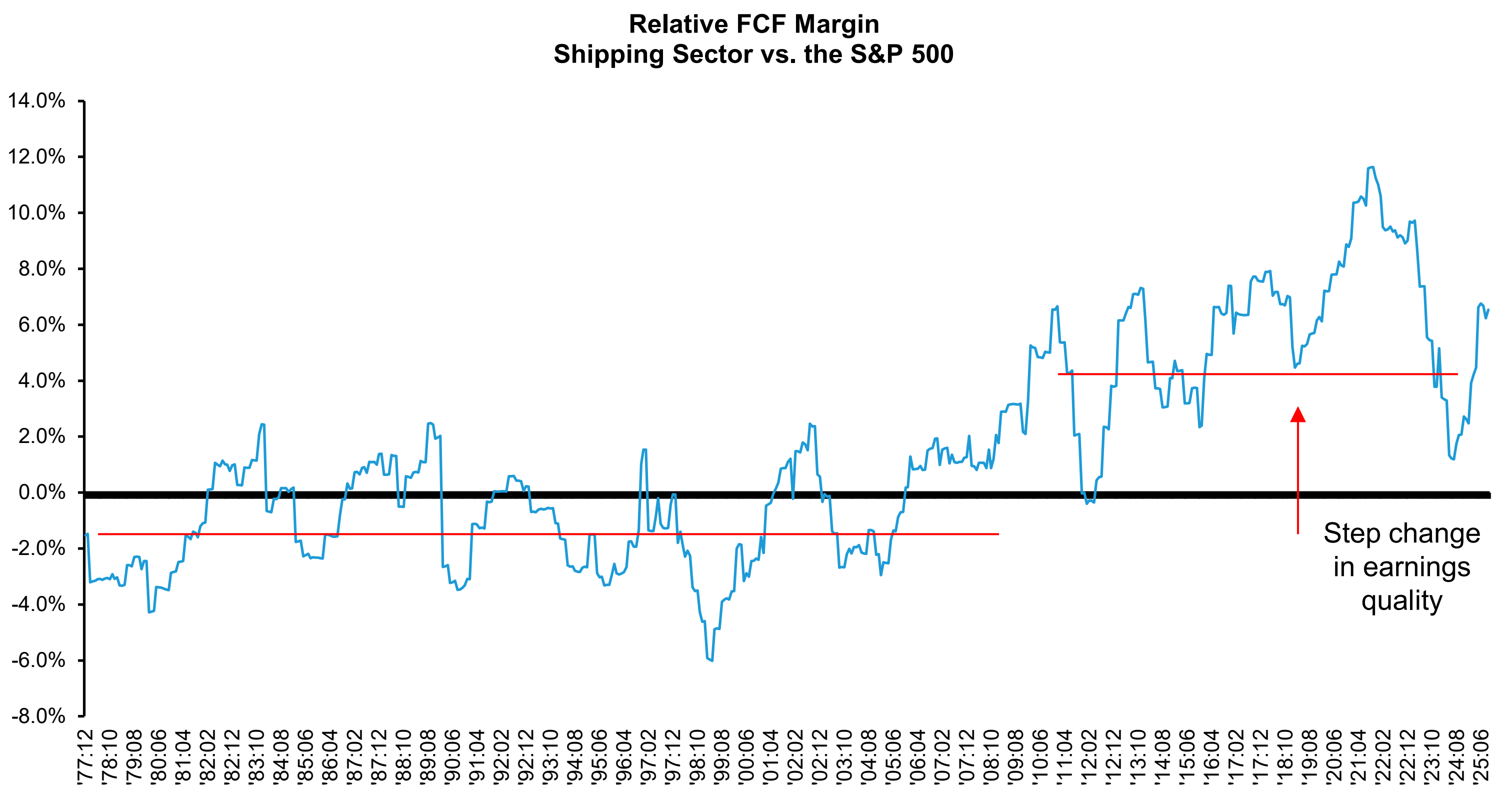
Railroad margins are fantastic

+ Improvement in railroad operating ratios (margins) has accelerated over the last decade, and today the industry is operating at margin levels consistent with the late 1800s



Source: AAR, US Census, Bernstein Analysis

Better cash margins support re-rating, provided we are in a cyclical trough



Note: Chart is based on EBITDA margins – Capex / Sales of the Shipping sector, less the same metrics for the S&P500. Our Quant Team includes railroads and some smaller trucking and barge operators in the Shipping sector, but Class I Rails comprise over 80% of Shipping sector market cap.

Source: Bernstein Quant Team, Bernstein Analysis

Canada vs. US: Better to be a railroad in Canada

What's the difference?

1. Canada is a resource producing economy, the US is more about information and health care
    1. GDP driven by freight, not facebook
    2. Means more support for resource extraction
2. Rail has advantages in terms of modal competition in Canada that don't exist in US
    1. Fewer highway miles than rail miles in Canada, opposite in US
    2. Diesel is taxed at a higher rate
    3. Ports are subsidized by Canadian govt (root cause of share gain is one part subsidy and one part geometry as rupert is closer to asia)
    4. More distributed population (longer lengths of haul)
    5. The Mississippi River runs north south – no equivalent east west barge option for grains in Canada
3. Canadian power markets never relied on thermal coal the way the US did – most coal is exported and Canada a lower cost producer (see 1b above)
4. Rail network is more efficient in Canada – two coast to coast systems with more local traffic and less interchange (interchange = cost = less goods moved than would otherwise be the case)

- Two different investment themes:
    - US – can they grow?
    - Canada – more likely to get back to growth and easier to look through

Source: Bernstein Research

Valuation: P/E multiples are a good proxy, and the market starts to price in a freight recession

As of: 10/06/25

Deciles relative to prior ten year average

CNI

Decile	Min	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	Max	Current
P/E NTM	15.0x	17.1x	18.0x	18.6x	19.0x	19.4x	19.9x	20.4x	21.3x	22.7x	25.5x	16.9x
Rel P/E NTM	0.62x	0.79x	0.86x	0.97x	1.01x	1.03x	1.06x	1.09x	1.12x	1.17x	1.28x	0.7x
EV/EBITDA NTM	9.8x	11.3x	11.9x	12.2x	12.6x	13.0x	13.3x	13.6x	14.1x	14.7x	16.3x	11.6x
P/B	3.7x	4.2x	4.4x	4.6x	4.7x	4.8x	4.9x	5.0x	5.1x	5.3x	5.7x	3.9x

CP

Decile	Min	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	Max	Current
P/E NTM	13.5x	16.1x	17.0x	17.5x	18.3x	20.6x	21.9x	22.6x	23.4x	24.2x	28.0x	20.9x
Rel P/E NTM	0.58x	0.83x	0.90x	0.93x	0.96x	1.00x	1.04x	1.09x	1.18x	1.28x	1.43x	0.8x
EV/EBITDA NTM	9.0x	10.7x	11.3x	12.1x	13.0x	14.3x	15.1x	15.8x	16.4x	21.8x	25.0x	14.3x
P/B	1.9x	2.3x	2.4x	2.6x	5.0x	5.4x	5.8x	6.1x	6.4x	7.0x	8.7x	2.2x

CSX

Decile	Min	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	Max	Current
P/E NTM	11.6x	15.2x	16.1x	16.6x	17.0x	17.7x	18.5x	19.2x	20.1x	21.5x	24.7x	19.6x
Rel P/E NTM	0.54x	0.73x	0.78x	0.83x	0.86x	0.89x	0.94x	0.98x	1.04x	1.12x	1.30x	0.8x
EV/EBITDA NTM	6.6x	8.3x	10.4x	10.8x	11.0x	11.2x	11.4x	11.7x	12.1x	12.8x	14.1x	12.4x
P/B	1.9x	2.5x	3.9x	4.3x	4.6x	4.8x	5.0x	5.2x	5.4x	5.7x	17.1x	5.5x

NSC

Decile	Min	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	Max	Current
P/E NTM	11.5x	15.4x	16.2x	16.9x	17.5x	18.1x	18.6x	19.3x	20.2x	21.4x	24.4x	22.4x
Rel P/E NTM	0.56x	0.79x	0.83x	0.87x	0.90x	0.92x	0.96x	0.98x	1.01x	1.05x	1.14x	0.9x
EV/EBITDA NTM	7.2x	8.9x	9.9x	10.4x	10.8x	11.3x	11.7x	12.1x	12.8x	13.5x	15.1x	13.8x
P/B	1.7x	2.2x	2.7x	2.9x	3.2x	3.5x	3.9x	4.1x	4.3x	4.6x	5.2x	4.6x

UNP

Decile	Min	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	Max	Current
P/E NTM	12.5x	16.5x	17.4x	17.9x	18.3x	18.8x	19.3x	20.2x	21.0x	22.2x	24.2x	18.9x
Rel P/E NTM	0.61x	0.80x	0.85x	0.90x	0.95x	0.98x	1.01x	1.03x	1.07x	1.10x	1.16x	0.7x
EV/EBITDA NTM	7.1x	9.5x	10.3x	11.6x	12.2x	12.6x	13.1x	13.6x	14.1x	14.7x	15.8x	13.1x
P/B	2.9x	3.9x	4.4x	5.4x	6.7x	7.9x	8.5x	9.1x	9.9x	10.7x	13.7x	8.7x

Source: Bloomberg, Bernstein Estimates and Analysis

- **Relatively cheap**
- **Slower revenue growth, turn in truck market taking much longer than expected**
- **Some investor hesitancy to get in if still too early… but we say it's a good time to get into the right names that are well-positioned to benefit from a turn**

Summary of rail sector

	Union Pacific (UNP)	CSX (CSX)	Norfolk Southern (NSC)	Canadian National (CNI)	Canadian Pacific (CP)

Industry wide considerations are unfavorable, margins not improving…

1. Macro. PMI in recession, strong dollar = low exports, high rate = low construction

2. Modal competition. Overcapacity in truck is driving lower surface rates, limiting rail share / price

3. Cost inflation. Expensive contract

…but longer term outlook is favorable

4. Truck market will tighten up. Market pay system broken – matter of time, boost from Truck intensity of economy which goes up with e-commerce and nearshoring

5. Transcon will unlock growth. Merger will lower cost and increase velocity, unlocking watershed opportunities, port diversion, and rail diversion

6. Margins will improve with market conditions. Once market turns – you get volume and price at same time, so operating leverage and higher rates should get you some margin expansion

7. Higher industry rates of return. Industry can afford to invest in growth in ways it has never been able to before

Source: Bernstein Estimates and Analysis

We rate NSC and UNP Outperform, remain on the sidelines for the others

Millions; USD with exception of CNR and CP ($CAD). Data from 10/10/25.	Rails				
	Canadian National Railway Co	Canadian Pacific Kansas City L	CSX Corp	Norfolk Southern Corp	Union Pacific Corp
	CNR CN	**CP CN**	**CSX**	**NSC**	**UNP**
Rating	M	M	M	O	O
Current Price	CAD 132	CAD 105	$35	$288	$225
Market Capitalization	$82,093	$95,098	$66,163	$64,772	$133,702
TTM Performance	-15%	-5%	4%	20%	-3%
TTM Rel Performance (SPX)	-32%	-21%	-12%	3%	-20%
Valuation					
EV / NTM Consensus EBITDA	11.7x	14.3x	12.4x	13.6x	12.8x
EV / NTM Consensus Sales	5.9x	7.5x	5.9x	6.5x	6.6x
P / NTM Consensus EPS	16.6x	20.2x	19.2x	21.6x	18.0x
Target Multiple (x NTM+1 EPS)	16.2x	20.9x	18.6x	22.1x	20.6x
One year price target	CAD 148	CAD 121	$37	$347	$294
Potential Upside / (Downside) - %	**12%**	**15%**	**4%**	**20%**	**30%**

Source: Bloomberg, Bernstein Estimates and Analysis

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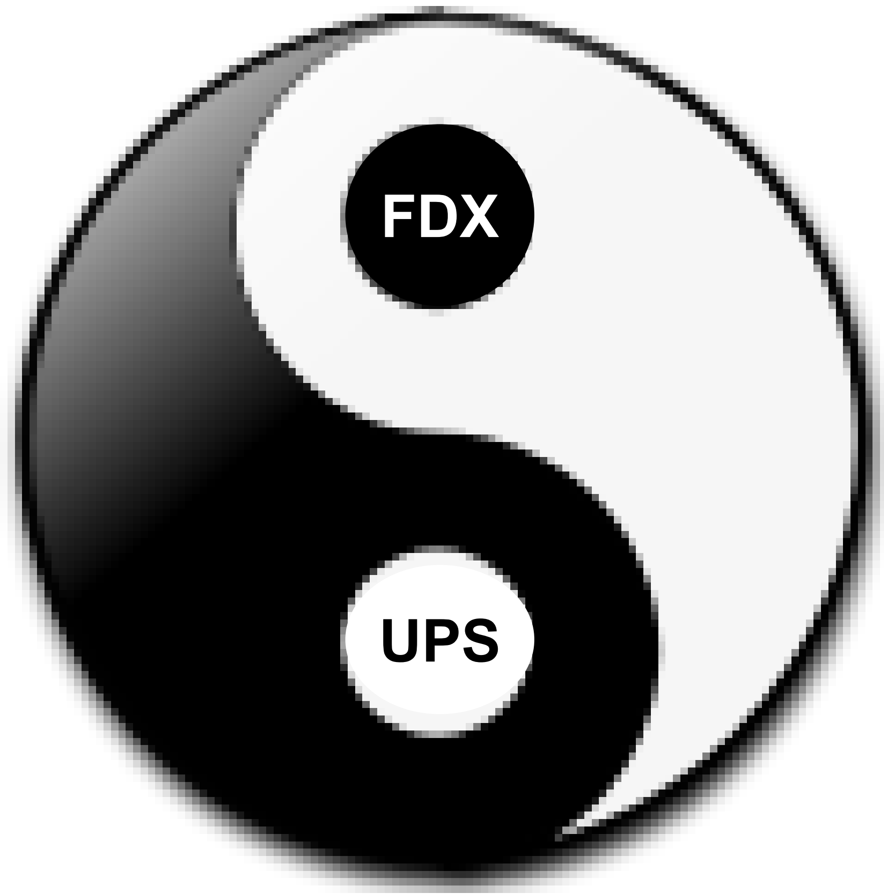
Bernstein's Tao of Parcel

+ Low return on capital
+ Can't stop spending on low return growth
+ Higher growth



+ High return on capital
+ Hasn't been spending enough to drive growth
+ Lower growth

Source: Bernstein Analysis

UPS and FDX: restructuring stories in challenged end markets

Both move packages, but different companies and challenges

- **UPS integrated systems has been congested with low rent e-commerce traffic**
- **FDX is integrating systems…and also dealing with high growth / low profit traffic and a spinout of the LTL freight business**

TTM Data: 1Q:26 for FDX, 2Q:25 for UPS $ millions	FDX Revenue	 % of Total	 *Adj. Margin*	UPS Revenue	 % of Total	 *Adj. Margin*
Packages & Air Cargo	$76,115	86%	*7.3%*	$81,644	87%	*9.6%*
Domestic US	51,580	58%		63,452	68%	
International	23,591	27%		18,192	19%	
LTL Trucking	8,820	10%	*16.1%*	*N/A*	*N/A*	
Forwarding / Logistics	*N/A*	*N/A*		9,988	11%	*7.4%*
Other & Eliminations(other customer solutions/services)	3,656	4%		1,681	2%	
Total	88,591	100%	*7%*	93,313	100%	*9%*

	FDX	UPS
Number of Jet Aircraft	**392**	**291**
Average age (years)	18.6 years	22.2 years
Courier Networks	**Several**	**One**
	- Express (employee, non-union) - Ground (Ground with Smartpost insourced)	- UPS (employee, union)
Annual Package Volume (Packages, Millions)	**4,353**	**5,549**
Annual Airfreight Volume (Pounds, Millions)	4,708	nmf
Annual LTL Freight Volume (Pounds, Millions)	22,573	0

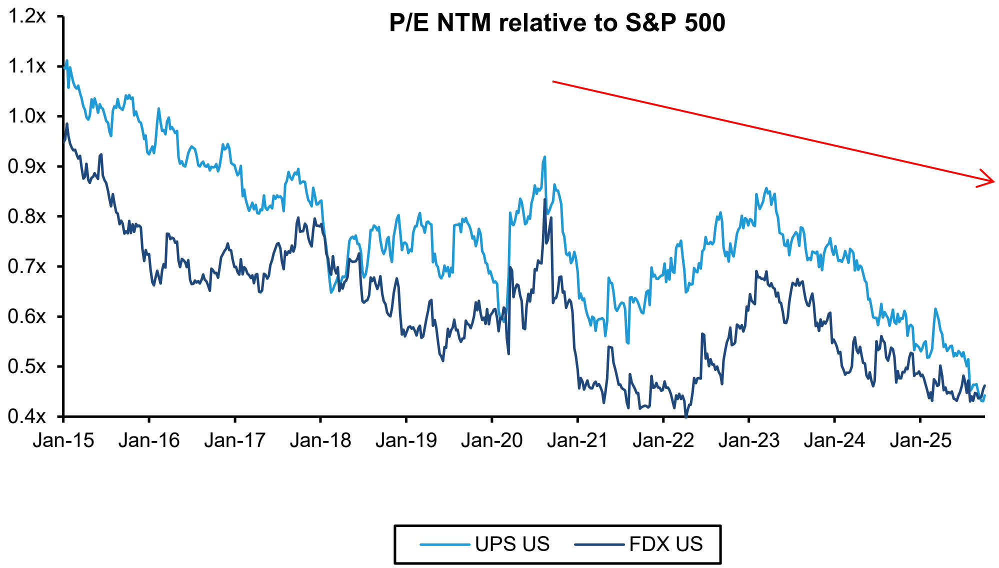
FDX data as of TTM ended:	1Q:26
UPS data as of TTM ended:	2Q:25

Source: Company Reports, IBA, Bernstein Estimates and Analysis

Sector Thesis

- Last of the large cap transport sectors to get lean and disciplined
  - Matching resource to available demand a better way to maintain margins through the cycle
    - Rail
    - LTL
  - Pricing to value
    - No longer pricing to marginal costs, moving towards averages
    - Culling capacity vs. chasing volume with rate
    - Value going up as lower cost options less available (USPS, consolidators)
- Demand durable long term
  - B2C - Consumers will pay for convenience, retailers need national networks
  - B2B – Nearshoring supports better volumes (smaller, more frequent shipments)
- Barriers to entry for a national network real – disruption risk overstated
- UPS: needs to exit low profit packages and cut domestic capacity
- FDX: needs to integrate networks (cut capacity) and spin off Freight

The risk of disruption and profitability of e-commerce packages are the key controversies for both UPS and FDX



Source: Company Reports, Bloomberg, Bernstein Analysis

- FDX and UPS have de-rated relative to the broader market over the last several years over concerns about earnings leverage to e-commerce growth
- B2B volumes stagnant
- Fears that we are entering an era of profitless parcel prosperity have been fueled by relatively uninspiring margin performance at the UPS Domestic segment and the FDX Ground segment
- E-commerce packages are low margin – need to let them go and price services to value of the network

Valuation: Trough on trough

As of: 10/06/25

Deciles relative to prior ten year average

UPS

Decile	Min	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	Max	Current
P/E NTM	11.4x	13.5x	14.5x	15.1x	15.6x	16.2x	17.1x	17.8x	18.3x	18.9x	22.8x	12.7x
Rel P/E NTM	0.48x	0.63x	0.72x	0.76x	0.80x	0.83x	0.87x	0.92x	0.96x	1.04x	1.19x	0.5x
EV/EBITDA NTM	7.7x	9.2x	9.6x	9.8x	10.0x	10.3x	10.5x	10.9x	11.5x	12.9x	15.4x	9.9x
P/B	4.5x	6.5x	7.4x	9.2x	15.3x	23.8x	27.8x	34.8x	45.0x	82.0x	253.1x	4.7x

FDX

Decile	Min	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	Max	Current
P/E NTM	8.9x	10.5x	11.4x	12.2x	12.8x	13.2x	13.8x	14.2x	14.8x	15.6x	20.8x	13.2x
Rel P/E NTM	0.44x	0.50x	0.54x	0.58x	0.63x	0.68x	0.72x	0.77x	0.81x	0.84x	0.90x	0.5x
EV/EBITDA NTM	4.9x	6.0x	6.4x	6.6x	6.8x	7.0x	7.2x	7.4x	7.8x	8.2x	10.0x	6.9x
P/B	1.5x	2.0x	2.2x	2.3x	2.4x	2.5x	2.8x	3.1x	3.4x	3.5x	4.3x	2.1x

Source: Bloomberg, Bernstein Estimates and Analysis

16 October 2025

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U.S. Airlines

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Primer Series

David Vernon • Senior Analyst • +1 917 344 8333 • david.vernon@bernsteinsg.com

Justine Weiss • Senior Research Associate • +1 917 344 8433 • justine.weiss@bernsteinsg.com

Steve Song • Specialist Sales • +1 917 344 8401 • steve.song@bernsteinsg.com

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Bernstein’s Freedoms of the Skies

- Industry remains competitive, but basis of competition is changing
- Networks are differentiated, driving differentiated returns
- As product is marketed more effectively, unit revenue will rise, and cost of competing will increase (bad for low-cost models)
  - Segmentation of cabin = defend low end
  - Premiumization of cabin = price high end
  - Clip credit card coupons
- Significant opportunities to deploy capital in ways that don’t destroy yields
- The market is much more disciplined than investors believe

Airlines are discounting end of cycle risk in a non-traditional cycle

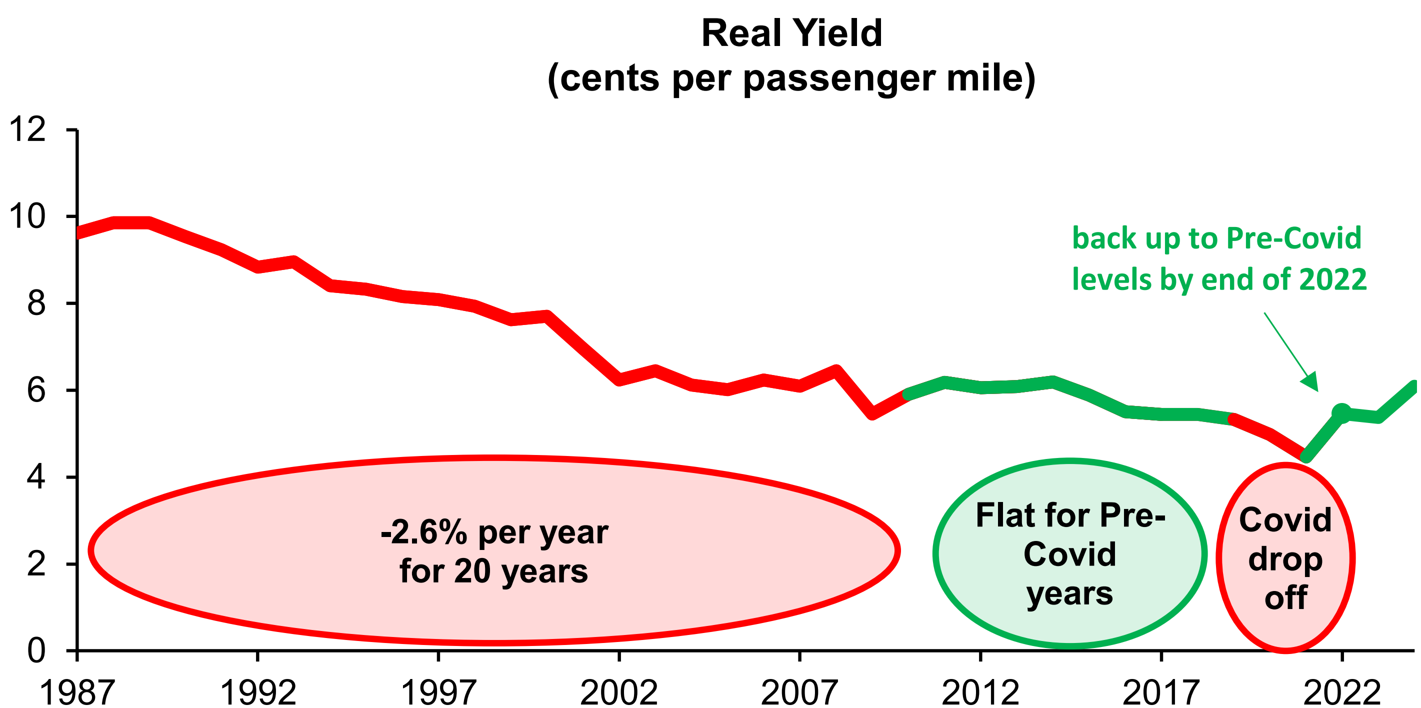
Why does it make sense to believe things are changing?

Industry Aspect	Measure
+ Consolidation	+ 4 firm concentration: 82%
+ Yields	+ Stable for first time in 60 years
+ Segmentation	+ Capturing consumer surplus created by decades of wasteful marketing
+ Capital deployment	+ Investing in catering, systems, and renewal – not incremental capacity
+ Labor participation	+ Parity with profit sharing
+ Capacity discipline	+ Limited returns to scale for large incumbents
+ Barriers to entry	+ Industry has never been more profitable (or able to defend share)

Source: DOT, Company Reports, Bernstein Estimates and Analysis

Industry dynamics: Is it different this time?

- For the few years leading up to Covid: **Stable yields,** supply better matched with demand
- Covid-era: **Yields decline** on weaker consumer demand
- Post-Covid: **Yields rise back up to pre-Covid levels** as airlines continue to work to meet post-Covid demand surge with sufficient capacity, market still slightly undersupplied



Source: DOT, IATA, Airlines for America, MIT, Haver Analytics, and Bernstein Analysis

Industry dynamics: Is it different this time?

- For the few years leading up to Covid: Stable yields, **supply better matched with demand**
- Covid-era: Yields decline on **weaker consumer demand**
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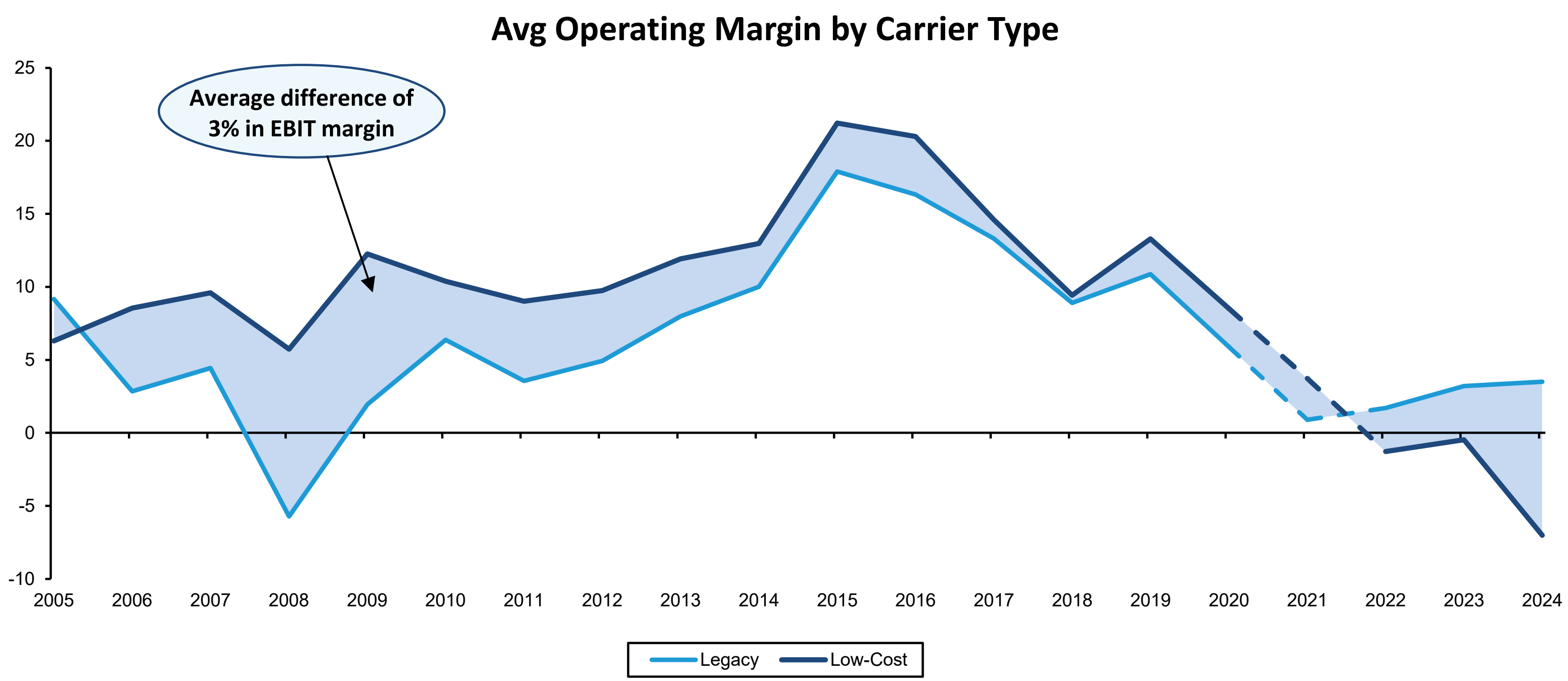
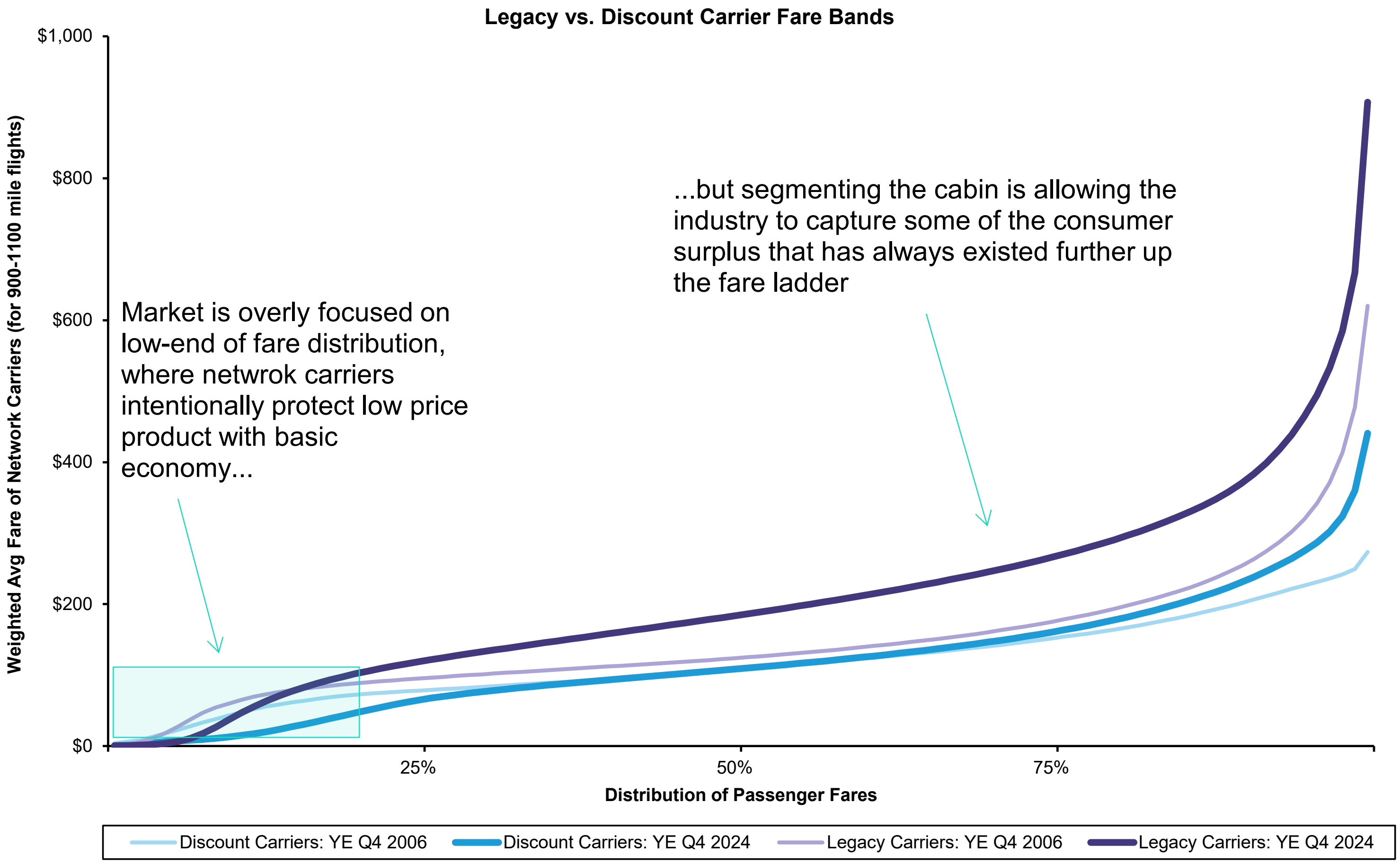


Source: DOT, IATA, Airlines for America, MIT, Haver Analytics, and Bernstein Analysis

Why can't they charge more?



Air travel is cheap and historically poorly marketed (slowly improving with new direct NDC product distribution), but it does not behave like a commodity

Source: Diio, Bernstein Analysis

Platforming of Basic product means low end of market oversupplied

Seats in Schedule	YE Dec 2015	YE Dec 2016	YE Dec 2017	YE Dec 2018	YE Dec 2019	YE Dec 2020	YE Dec 2021	YE Dec 2022	YE Dec 2023	YE Dec 2024	YE Dec 2025	CAGR
Seats	768,199,839	879,614,771	908,477,580	956,902,270	996,766,064	622,294,804	807,890,380	941,040,904	1,021,150,082	1,057,290,713	1,069,272,036	3%
First/Business	46,469,739	54,586,351	57,222,317	60,792,875	63,720,177	39,320,454	54,832,614	62,748,442	68,023,683	71,957,079	75,553,889	5%
Prem Econ	0	38	3,471	61,584	98,562	142,708	583,703	454,840	357,251	289,289	2,918,627	
Southwest	183,846,787	191,382,448	198,073,174	203,839,687	205,757,605	146,855,619	165,514,442	203,589,138	228,204,495	226,193,269	223,985,914	2%
Econ Legacy	410,148,943	491,623,847	498,571,766	518,031,374	537,743,262	316,315,876	421,567,595	478,190,531	511,107,973	537,250,816	554,386,308	3%
Econ Prem Value	81,123,702	86,306,291	90,838,501	100,837,746	104,032,222	57,661,105	78,537,726	95,561,757	98,262,548	95,088,312	96,496,640	2%
Econ Discounter / ULCC	35,625,171	42,609,680	49,071,831	57,162,858	78,870,402	61,999,042	86,616,107	100,476,307	115,179,129	126,474,967	117,458,520	13%
Percent of Econ Sold as Basic												
Legacy	1.2%	1.2%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%	8.5%	8.5%	
DAL (started 2012)	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%	8.5%	8.5%	
UAL (2017)	0.0%	0.0%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%	8.5%	8.5%	
AAL (2017)	0.0%	0.0%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%	8.5%	8.5%	
Prem Value	0.0%	0.0%	0.0%	0.9%	2.5%	3.6%	4.9%	5.9%	6.8%	8.5%	8.5%	
ALK (2018)				2.0%	4.0%	4.8%	5.5%	6.3%	7.0%	8.5%	8.5%	
JBLU (2019)					1.5%	3.0%	5.0%	6.0%	6.8%	8.5%	8.5%	
HA (2021)							2.0%	4.0%	6.0%	8.5%	8.5%	
Total	757,214,342	866,508,655	893,781,060	940,726,124	990,222,230	622,294,804	807,652,187	941,021,015	1,021,135,079	1,057,253,732	1,070,799,898	4%
First/Business	46,469,739	54,586,351	57,222,317	60,792,875	63,720,177	39,320,454	54,832,614	62,748,442	68,023,683	71,957,079	75,553,889	5%
Prem Econ	0	38	3,471	61,584	98,562	142,708	583,703	454,840	357,251	289,289	2,918,627	
Southwest	183,846,787	191,382,448	198,073,174	203,839,687	205,757,605	146,855,619	165,514,442	203,589,138	228,204,495	226,193,269	223,985,914	2%
Legacy Main Cabin	405,201,875	485,615,118	478,628,895	494,719,962	510,856,099	298,918,503	396,273,539	447,108,146	475,330,415	491,584,497	507,263,472	2%
Legacy Prem Value	81,123,702	86,306,291	90,838,501	99,893,719	101,382,590	55,576,810	74,685,616	89,942,033	91,602,605	87,005,805	88,294,426	1%
Econ Discounter / ULCC	35,625,171	42,609,680	49,071,831	57,162,858	78,870,402	61,999,042	86,616,107	100,476,307	115,179,129	126,474,967	117,458,520	13%
Basic (Legacy & Prem Value)	4,947,068	6,008,729	19,942,871	24,255,439	29,536,795	19,481,668	29,146,166	36,702,108	42,437,501	53,748,826	55,325,051	27%

Equivalent to adding an entire Spirit Airlines within the existing networks

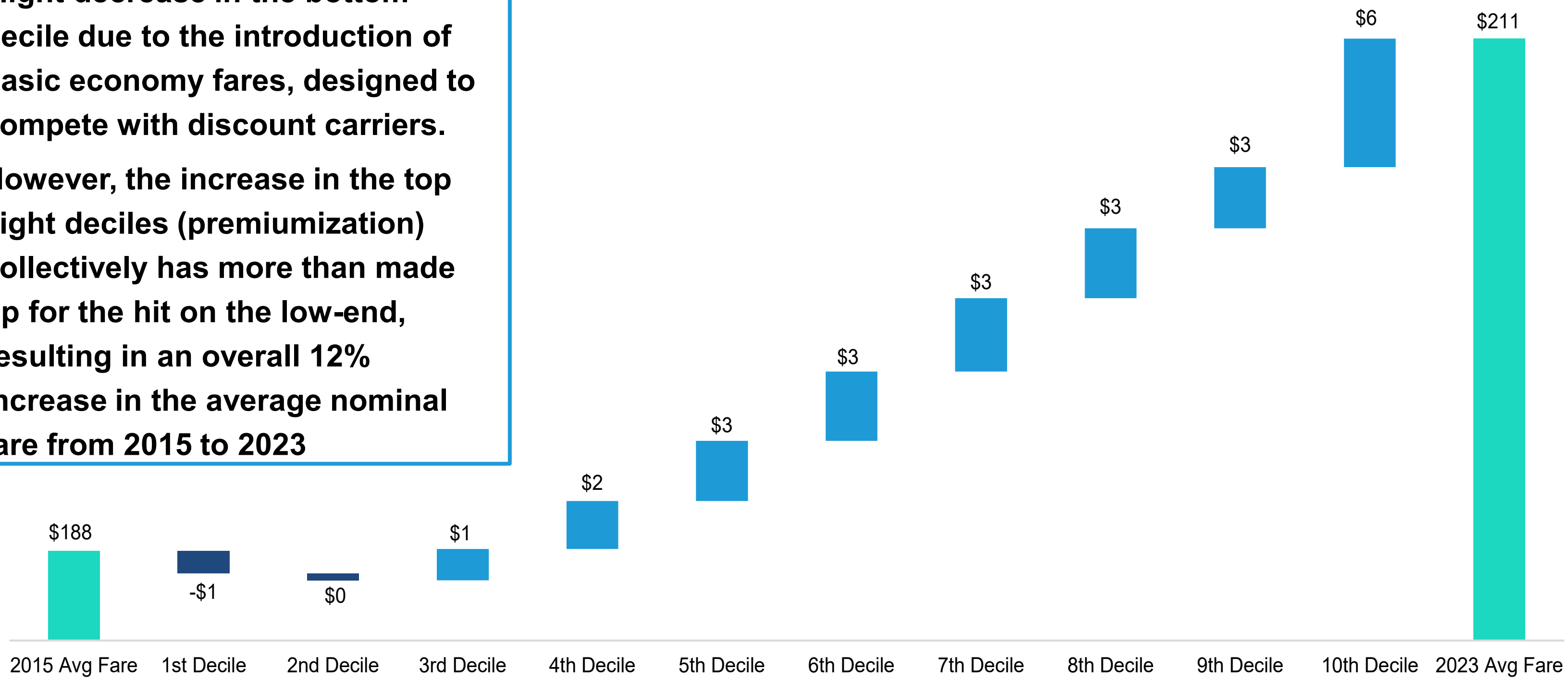
Flooding the market with low end capacity: the industry has added a Spirit sized airline with Basic fares

Source: Diio, Bernstein Analysis

Segmentation & Premiumization has been lucrative for the Big 3

- Looking at the change in fare amount by decile across the Big 3 since segmentation, we see a slight decrease in the bottom decile due to the introduction of basic economy fares, designed to compete with discount carriers.
- However, the increase in the top eight deciles (premiumization) collectively has more than made up for the hit on the low-end, resulting in an overall 12% increase in the average nominal fare from 2015 to 2023

Contribution to Nominal Avg. Fare Change by Decile of Customer Fare Rank



Keeping main cabin affordable, taking price from customers willing to pay for a better experience

Source: Company Reports, Bernstein Estimates and Analysis

Controversies & Conclusion

- Day to day
  - Unit revenue discipline
  - Capacity discipline
  - What current market conditions say about future earnings revisions

- Long term thematic issues that matter
  - Is this a commodity
  - Profitability challenged in half the market
  - Value of price discrimination through product segmentation
  - Impact of fleet and network changes on the cost of growth
  - Rise of global airline holding companies
  - Opportunities to deploy capital wisely (systems, airports, expansion, etc.)
  - Low-cost carrier competition (domestic and international)
  - Potential for through cycle capital return
  - Valuation – what is midcycle and what should you pay?

Low cost and discount airlines aren't making money and have to raise fares, which is good for UAL and DAL

We rate DAL, UAL, AAL Outperform, remain on the sidelines for LUV

Data from 10/10/2025.

	Network Airlines			LCCs
	Delta Air Lines Inc	United Airlines Holdings Inc	American Airlines Group Inc	Southwest Airlines Co
	DAL	**UAL**	**AAL**	**LUV**
Rating	O	O	O	M
Current Price	$57	$97	$12	$31
Market Capitalization	$37,532	$31,679	$7,601	$16,433
TTM Performance	12%	56%	-2%	2%
TTM Rel Performance (SPX)	-1%	44%	-15%	-10%
Valuation				
EV / NTM Consensus EBITDA	5.3x	5.2x	6.9x	6.1x
EV / NTM Consensus Sales	0.9x	0.8x	0.6x	0.6x
P / NTM Consensus EPS	8.6x	8.5x	11.5x	17.9x
Target Multiple (x NTM+1 EPS)	6.0x	5.3x	6.0x	5.0x
One year price target	$74	$121	$16	$31
Potential Upside / (Downside) - %	**29%**	**25%**	**39%**	**-1%**

Source: Bloomberg, Bernstein Estimates and Analysis

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