

Randy Babbitt

From: Paul Brandt [Paul.Brandt@wnco.com]
Sent: Wednesday, August 15, 2012 2:26 PM
To: Randy Babbitt; Paul Cullen; Russell Mccrady; 'scott_beasley@mckinsey.com'
Subject: CONFIDENTIAL

FYI only...

I went back through the material John Pepper reviewed with us at SWAPA HDQ one more time and there are several flaws:

- They kept changing methodologies throughout the deck to try and tell the story in the way that best suits them, for example:
 - Slides 1 & 2...Slide 1 shows operating profit per “branded” plane (which includes regional ops, international, etc.), whereas slide 2 depicts long-term revenue trend, but it’s based on mainline, domestic only
 - Some slides are adjusted to SWA Stage Length, where others are adjusted to Industry Stage Length
- Slide 5 - Their BFF analysis stating that if you exclude DEN & SFO then market share has actually decreased.
 - You can’t pick & choose markets to exclude. When challenged, their explanation was related to the timing of when these markets came on the network and the introduction of bag fees. Yet, this doesn’t work either as this is too simplistic of an approach. The routes, connections, etc. today are vastly different than they were then, so you’d have to adjust for all of these things...this would be VERY complex to do (and they didn’t go to that level).
- Slides 7 - 10 - They showed US Airways network from Dec ’07 and compared it to Dec ’12. Their statements were that USA has abandoned many unprofitable routes & moved to places where “they could win” while keeping their fleet flat. They then tried to contrast that with a 1-page snapshot (slide 11) from Dec ’11 of WN’s network saying we’ve “...left established markets to enter markets they (WN) *might* win.” There’s a lot to be gleamed from these slides:
 - When I challenged them on their definition of “winning” (and using USA as an example of winning) they said it was based on 2Q12 results...1 recent quarter does not constitute “winning”
 - They tried taking a 5 year view of USA (Dec ’07 - Dec ’12), however their comparisons to WN are invalid. When I asked John when we entered EWR (since it’s shown on their slide 10) he stated 2011. So, they were using a 5-year period of time for USA, but comparing them against markets that we’ve just recently entered. The valid comparison would’ve been to either show the USA markets at the same maturity of our markets, or wait another 3 – 4 years for the WN markets to be at the same maturity.
 - Finally, their own deck makes the biggest argument against USA “winning” ...their slide 1 shows profit per plane and USA is not only behind WN, but the worst of all carriers besides Virgin and AA

***** CONFIDENTIALITY NOTICE *****

This e-mail message and all attachments transmitted with it may contain legally privileged and confidential information intended solely for the use of the addressee. If the reader of this message is not the intended recipient, you are hereby notified that any reading, dissemination, distribution, copying, or other use of this message or its attachments is strictly prohibited. If you have received this message in error, please notify the sender immediately and delete this message from your system. Thank you.