## Stifel Transportation & Logistics Conference

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## **Andrew Levy**

Executive Vice President and Chief Financial Officer



### **Safe Harbor Statement**

Certain statements included in this presentation are forward-looking and thus reflect our current expectations and beliefs with respect to certain current and future events and anticipated financial and operating performance. Such forward-looking statements are and will be subject to many risks and uncertainties relating to our operations and business environment that may cause actual results to differ materially from any future results expressed or implied in such forward-looking statements. Words such as "expects," "will," "plans," "anticipates," "indicates," "believes," "forecast," "guidance," "outlook" and similar expressions are intended to identify forward-looking statements. Additionally, forward-looking statements include statements that do not relate solely to historical facts, such as statements which identify uncertainties or trends, discuss the possible future effects of current known trends or uncertainties or which indicate that the future effects of known trends or uncertainties cannot be predicted, guaranteed or assured. All forward-looking statements in this presentation are based upon information available to us on the date of this presentation. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise, except as required by applicable law. Our actual results could differ materially from these forward-looking statements due to numerous factors including, without limitation, the following: our ability to comply with the terms of our various financing arrangements; the costs and availability of financing; our ability to maintain adequate liquidity; our ability to execute our operational plans and revenue-generating initiatives, including optimizing our revenue; our ability to control our costs, including realizing benefits from our resource optimization efforts, cost reduction initiatives and fleet replacement programs; costs associated with any modification or termination of our aircraft orders; our ability to utilize our net operating losses; our ability to attract and retain customers; demand for transportation in the markets in which we operate; an outbreak of a disease that affects travel demand or travel behavior; demand for travel and the impact that global economic and political conditions have on customer travel patterns; excessive taxation and the inability to offset future taxable income; general economic conditions (including interest rates, foreign currency exchange rates, investment or credit market conditions, crude oil prices, costs of aircraft fuel and energy refining capacity in relevant markets); economic and political instability and other risks of doing business globally; the effects of any hostilities, act of war or terrorist attack; the ability of other air carriers with whom we have alliances or partnerships to provide the services contemplated by the respective arrangements with such carriers; the effects of any technology failures or cybersecurity breaches; disruptions to our regional network; the costs and availability of aviation and other insurance; industry consolidation or changes in airline alliances; the success of our investments in airlines in other parts of the world; competitive pressures on pricing and on demand; our capacity decisions and the capacity decisions of our competitors; U.S. or foreign governmental legislation, regulation and other actions (including Open Skies agreements and environmental regulations); the impact of regulatory, investigative and legal proceedings and legal compliance risks; the impact of any management changes; labor costs; our ability to maintain satisfactory labor relations and the results of any collective bargaining agreement process with our union groups; any disruptions to operations due to any potential actions by our labor groups; weather conditions; and other risks and uncertainties set forth under Part I, Item 1A., "Risk Factors," of UAL's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as well as other risks and uncertainties set forth from time to time in the reports we file with the U.S. Securities and Exchange Commission.

## Key investment highlights

Managing business to maximize operating margin and ROIC

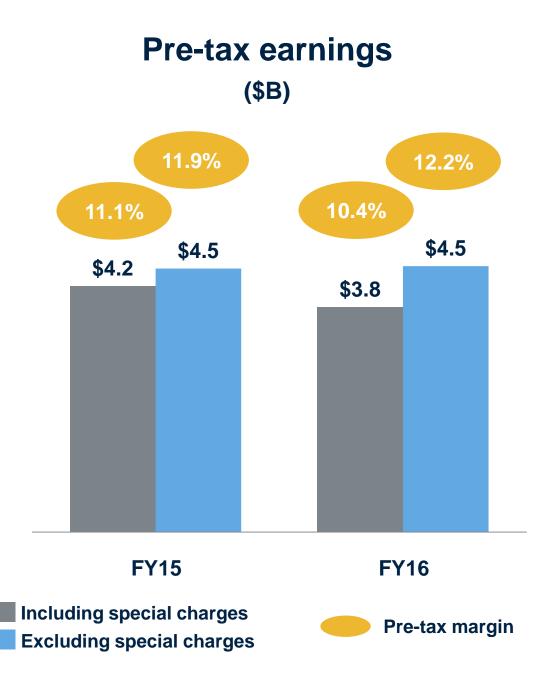
Defined strategy to close margin gap to peers by 2020

Committed to managing costs and disciplined capital investment

Strong liquidity levels and healthy balance sheet

Will continue to return excess cash to shareholders

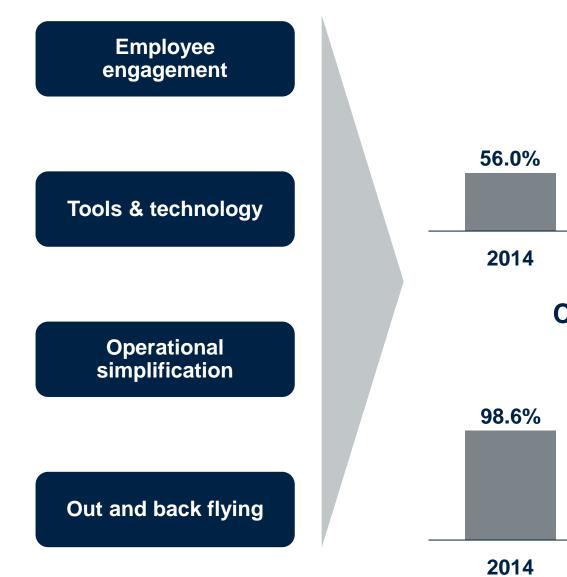
## Solid earnings underpinned a year of transformation at United in 2016

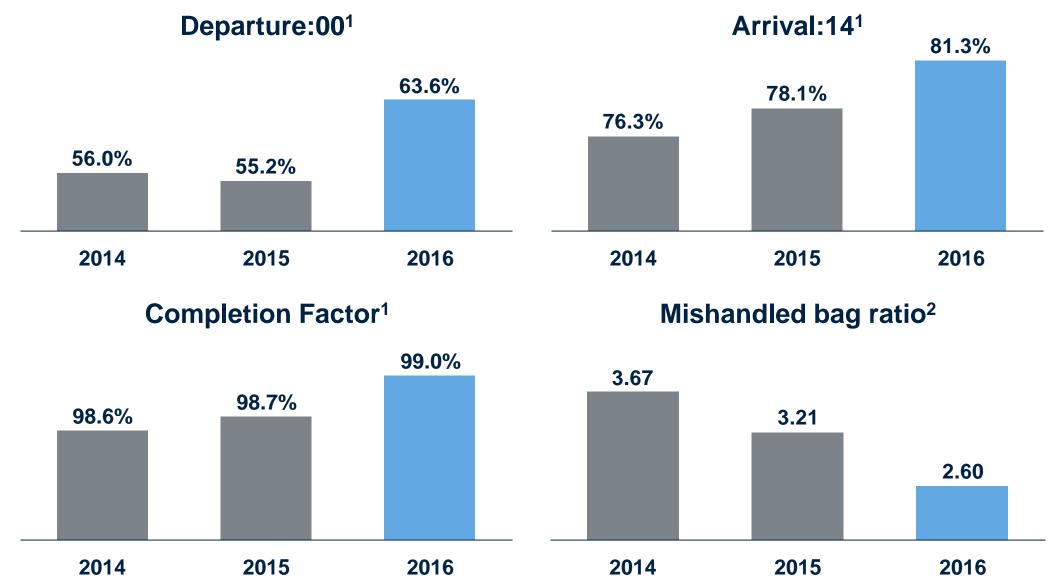


- New labor agreements with all workgroups
- Strengthened executive leadership team
- Record operational improvement
- Rolled out United Polaris service

For a GAAP to Non-GAAP reconciliation, see Appendix A

## Record operational performance in 2016

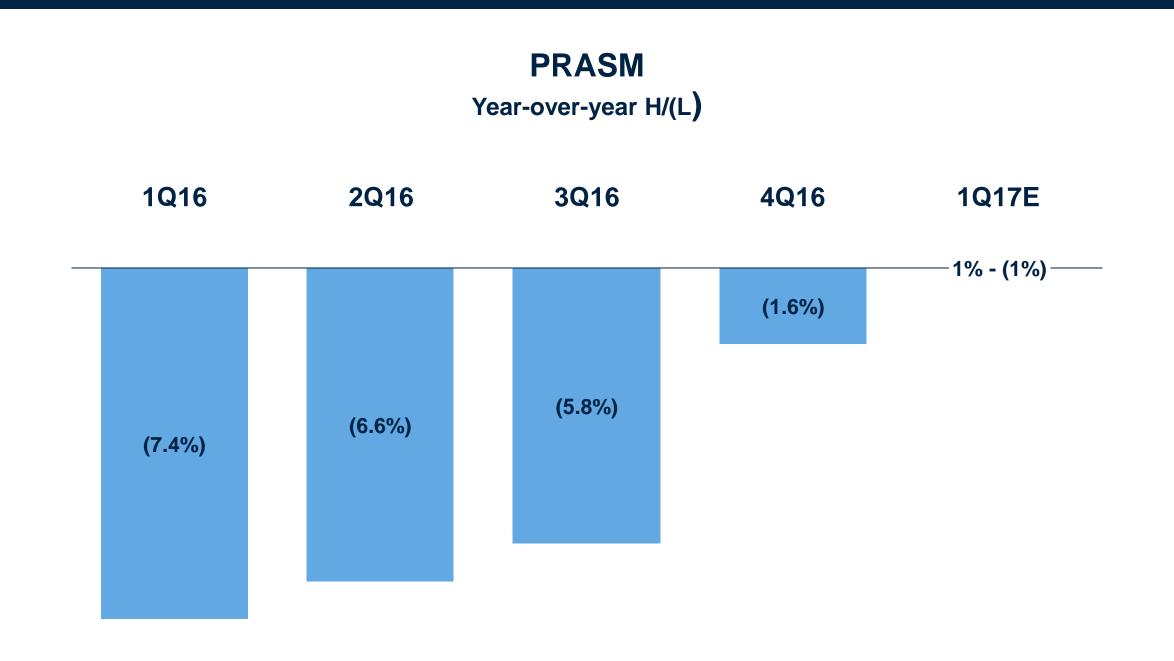




<sup>&</sup>lt;sup>1</sup> Mainline flights only

<sup>&</sup>lt;sup>2</sup> As reported to the Department of Transportation

## **Expect sequential PRASM improvement to continue in 2017**



## Geographic region overview

#### **Domestic**

Demand continues to be strong

Positive close-in corporate travel trend continuing

January capacity growth elevated given absence of winter weather disruptions and strong ops performance

Flat to up

#### **Atlantic**

**Industry capacity growth** beginning to moderate, but still outpacing GDP growth

**Monitoring impact of travel** ban but no material impact to date

Strong US point of sale demand helping offset international point of sale declines

#### **Pacific**

**Continued industry capacity** growth in excess of demand growth

**US** carriers close to reaching limit of bilateral frequencies to China

Fuel surcharges starting to return in certain markets

#### Latin

Supply/demand trends still good

More pronounced impact from Easter shift in first quarter

Comps harder in first quarter than in fourth quarter

**1Q17 Outlook** 

Similar to 4Q16

Similar to 4Q16

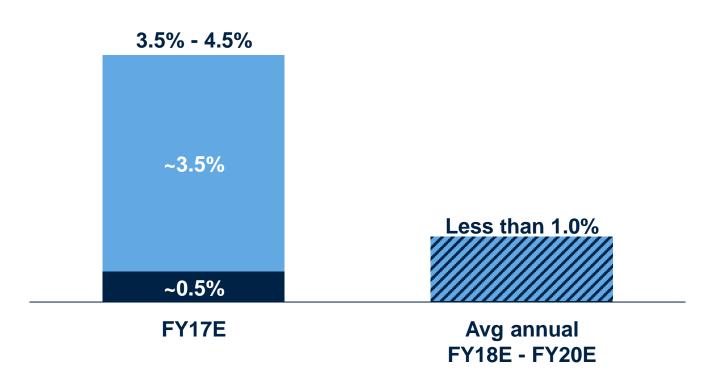
Positive, but less than 4Q16

## Basic Economy offers customers greater choice

- Providing customers the option to purchase the core product at the lowest price
- Ability to pay for access to only the features and benefits they value
- On track to roll out Basic Economy later this quarter for travel beginning in the second quarter
  - Minneapolis (MSP) is our first Basic Economy market
  - Full domestic and short-haul international rollout to follow
- Expect Basic Economy to contribute \$200M in incremental revenue in 2017

## Expect to grow non-fuel unit costs less than 1% year-over-year after 2017

#### Non-fuel CASM outlook<sup>1</sup> Year-over-year H/(L)



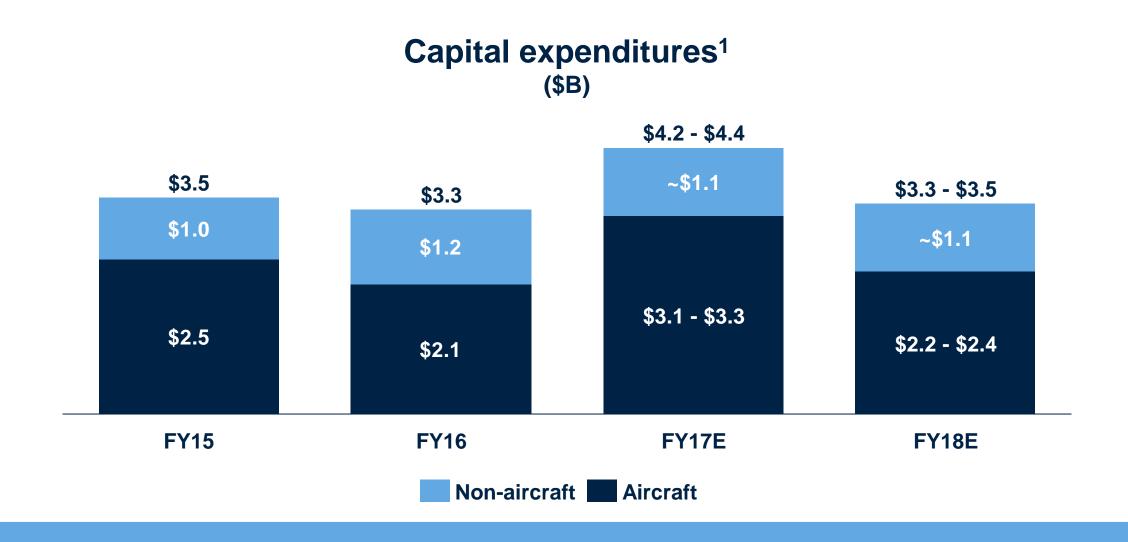
- 2016 ratified labor agreements
- Core unit cost growth
- Core unit cost growth including 2016 labor agreements

Work Group	Contract Amendable Date
Pilots	2019
Flight Attendants	2021
Dispatchers	2021
IAM-represented	2021
Technicians	2022

 Long-term unit cost projection based on assumption of 1.5% annual capacity growth

<sup>&</sup>lt;sup>1</sup>Non-fuel CASM (operating expense per available seat mile) excludes fuel, profit sharing, third-party expenses, special charges, the impact of certain primarily non-cash impairment, severance and other similar accounting charges. For additional information, see Appendix A

## Disciplined capital investment



2017 represents peak spending for capital expenditures due to widebody deliveries

## **Current fleet outlook**

#### 2017 Fleet Plan

Aircraft Type	YE 2016	YE 2017	FYΔ
B747-400	20	-	(20)
B777-200/300	76	88	12
B787-8/9	30	33	3
B767-300/400	51	51	-
B757-200/300	77	77	-
B737-700/800/900	325	329	4
A319/A320	158	164	6
70/76-seat aircraft <sup>1</sup>	235	254	19
50-seat or less aircraft	259	223	(36)
<b>Total Aircraft</b>	1,231	1,219	(12)

#### **Future Deliveries**

Aircraft Type	Firm Commitments <sup>2</sup>
A350-1000	35
B737MAX	161
B787-8/9/10	18

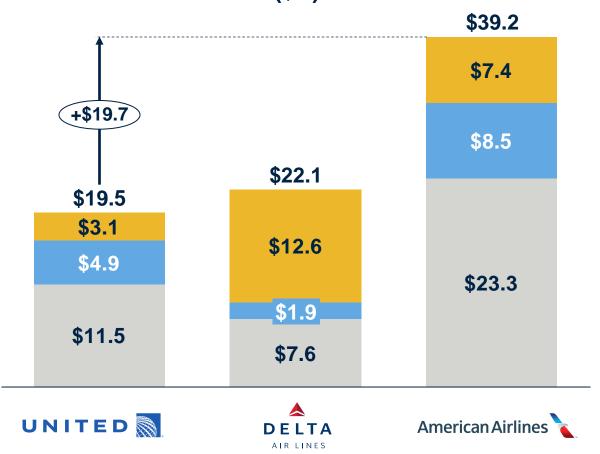
Actively seeking opportunities in the used aircraft market

<sup>&</sup>lt;sup>1</sup> Pilot contract scope clause: up to 255 70/76-seat aircraft of which 153 can be 76-seat aircraft

<sup>&</sup>lt;sup>2</sup> For delivery beyond 2017; United also has options and purchase rights for additional aircraft

## United's balance sheet is well positioned among peers

Adjusted debt
3Q16 Debt, pension and post-retirement obligations
(\$B)



Pension and post-retirement liability Debt and capital lease obligations

Aircraft rent, capitalized<sup>1</sup>

#### **United Leverage**

	LTM 3Q16
Net Income (\$B)	\$2.7
EBITDA <sup>2</sup> (\$B)	\$7.0
Debt/EBITDA <sup>2</sup>	2.1x
Adj. Debt/EBITDA <sup>2</sup>	2.8x

#### **UAL** credit ratings

Moody's	Fitch	S&P
Ba2	BB	BB-

Ended 2016 with unrestricted liquidity balance of \$5.8B

<sup>&</sup>lt;sup>1</sup> Aircraft rent capitalized at 7x

<sup>&</sup>lt;sup>2</sup> For a GAAP to Non-GAAP reconciliation, see Appendix A Source: SEC filings

## **Top priorities for 2017**

#### Network

- Improving bank structures in key hubs to drive better connectivity
- Expect to start in IAH, ORD and EWR later this year

## Gemini (revenue management system)

Transitioning to conditional demand forecasting

## Continue Operational Improvement

- Standardize processes across the entire airline
- Focus on departure performance and completion factor

## Technical Operations

Improving processes and implementing JCBA

## Expect earnings<sup>1</sup> improvement to come from all areas of the business

<b>Earnings</b>	initiatives by	year	(vs. 2015)
_	(\$M)		

Commercial enhancements	<u>2016E</u>	<u>2017E</u>	<u>2018E</u>	<u>2019E</u>	<u>2020E</u>
Network initiatives	-	100	300	450	600
Re-fleeting and upgauge	400	700	800	900	1,000
Segmentation	-	200	550	700	1,000
MileagePlus enhancements	250	100	300	300	300
Revenue management improvements	-	100	400	700	900
Improved operations					
Operational integrity	50	200	300	300	300
Cost structure					
Cost efficiency program	200	400	500	600	700
Total	\$0.9B	\$1.8B	\$3.2B	\$4.0B	\$4.8B

Unique United levers compared to Delta
~100%
~50%
~25%
~100%
~75%
~100%



# UNITED



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## Appendix A: reconciliation of GAAP to Non-GAAP financial measures

UAL evaluates its financial performance utilizing various accounting principles generally accepted in the United States of America (GAAP) and Non-GAAP financial measures, including: income (loss) before taxes excluding special items, pre-tax margin excluding special items, net income (loss) excluding special items and CASM, as adjusted, among others. UAL believes that adjusting for special items is useful to investors because special items are non-recurring charges not indicative of UAL's ongoing performance. For additional information related to special items, see the press release issued by UAL dated January 17, 2017, filed on that date with the SEC as an exhibit to UAL's Form 8-K.

(in millions, except pre-tax margin)	Twelve Months Ended December 31,		
Income before income taxes excluding special items	2016	2015	
Income before income taxes (GAAP)	\$3,819	\$4,219	
Add: special items before income taxes (a)	643	279	
Income before income taxes excluding special items (Non-GAAP)	\$4,462	\$4,498	
Pre-tax margin excluding specials			
Total operating revenue	\$36,556	\$37,864	
Pre-tax margin (GAAP)	10.4%	11.1%	
Pre-tax margin excluding special items (Non-GAAP)	12.2%	11.9%	

<sup>(</sup>a) Includes impairment of intangible assets, labor agreement costs, Cleveland airport lease restructuring costs, severance and benefit costs, (gains) losses on sales of assets and other special items, losses on extinguishment of debt, and hedge program adjustments.

## Appendix A: reconciliation of GAAP to Non-GAAP financial measures (continued)

CASM is a common metric used in the airline industry to measure an airline's cost structure and efficiency. UAL reports CASM excluding profit sharing, third-party business expenses, fuel, and special charges and also presents a measure of CASM with the additional exclusion of the impact from the new labor agreements. UAL believes that adjusting for special charges is useful to investors because special charges are non-recurring charges not indicative of UAL's ongoing performance. UAL believes that excluding third-party business expenses, such as maintenance, ground handling and catering services for third parties, fuel sales and non-air mileage redemptions, provides more meaningful disclosure because these expenses are not directly related to UAL's core business. UAL also believes that excluding fuel costs from certain measures is useful to investors because it provides an additional measure of management's performance excluding the effects of a significant cost item over which management has limited influence. UAL excludes profit sharing and the impact from new labor agreements, as these exclusions allow investors to better understand and analyze our recurring cost performance and provide a more meaningful comparison of our core operating costs to the airline industry.

Year Ended

	Decem	ber 31,		
Non-Fuel CASM	Low		<u>High</u>	
CASM, excluding special charges and profit sharing (a) (Non-GAAP)	6.6	_	8.2	%
Less: Third-party business expenses and fuel (b)	3.1		3.7	_
CASM, excluding special charges, profit sharing, third-party business expenses and fuel (Non-GAAP)	3.5	_	4.5	
Less: Labor agreements ratified in 2016	3.5		3.5	_
CASM, excluding special charges, profit sharing, third-party business expenses, fuel and labor agreements ratified in 2016 (Non-GAAP)	0.0	_	1.0	%

<sup>(</sup>a) Excludes special charges, such as the impact of certain primarily non-cash impairment, severance and other similar accounting charges. While the Company anticipates that it will record such special charges throughout the year, at this time the Company is unable to provide an estimate of these charges, as well as an estimate of full-year profit sharing, with reasonable certainty. Accordingly, the Company is unable to provide guidance for CASM on a GAAP basis.

<sup>(</sup>b) Both the cost and availability of fuel are subject to many economic and political factors and are therefore beyond the Company's control.

While the Company anticipates that it will record third-party business expense and fuel expense in 2018-2020, at this time the Company is unable to provide an estimate of these charges with reasonable certainty. Accordingly, the Company is unable to provide guidance for CASM on a GAAP basis.

## Appendix A: reconciliation of GAAP to Non-GAAP financial measures (continued)

UAL believes that adjusting capital expenditures for assets acquired through the issuance of debt, airport construction financing and excluding fully reimbursable projects is useful to investors in order to appropriately reflect the non-reimbursable funds spent on capital expenditures.

	Year Ended	Year Ended
Capital Expenditures (in millions)	December 31, 2016	December 31, 2015
Capital Expenditures (GAAP)	\$3,223	\$2,747
Property and equipment acquired through the issuance of		
debt	386	866
Airport construction financing	91	17
Fully reimbursable projects	(353)	(124)
Adjusted capital expenditures (Non-GAAP)	\$3,347	\$3,506

## Appendix A: reconciliation of GAAP to Non-GAAP financial measures (continued)

UAL provides financial metrics, including earnings before interest, taxes and depreciation and amortization (EBITDA) that we believe provides useful supplemental information for management and investors by measuring profit and profit as a percentage of total operating revenues. These financial metrics are adjusted for special items that are non-recurring and that management believes are not indicative of UAL's ongoing performance. We believe adjusting debt to include: pension liabilities, post-retirement liabilities and aircraft rent times seven provides useful supplemental information by informing the investors of our total long-term financing obligations. Aircraft rent is multiplied by seven per industry standards.

(in millions) EBITDA	Twelve Months Ended September 30, 2016
Net income (loss) (GAAP)	\$2,689
Adjusted for:	
Depreciation and amortization	1,949
Interest expense	631
Interest capitalized	(59)
Interest income	(40)
Income tax expense (benefit)	1,151
Special items before income taxes	704
Adjusted EBITDA, excluding special items (Non-GAAP)	7,025

	Twelve Months Ended
Adjusted Debt	September 30, 2016
Current maturities of long-term debt	\$969
Current maturities of capital leases	124
Long-term debt	9,612
Long-term obligations under capital leases	752
Postretirement benefit liability	1,927
Pension liability	1,220
Balance sheet debt	14,604
Aircraft rent at 7x	4,865
Adjusted debt (Non-GAAP)	19,469