Presentation

The future of the FFP spin-off model

Mega Event 2017
Palm Springs, CA
30 November 2017
The end of the spin-off model?
Agenda

- A look at FFP spin-off landscape today
- The future for the spin-off model
- Setting the FFP up for success
Overview FFP spin-off landscape
Has the FFP spin-off model come to an end?

source: FFP Investment & Advisory analysis

Mega Event WorldWide
29th November – 1st December 2017
Future: will the spin-off model come to an end?

1. Spin-off model: what changes can be observed?
2. How do spun-off FFPs perform?
3. How did the role and relevancy of the FFP change?
Changes in the FFP spin-off model
Change 1: Majority ownership for the airline

Legend: Shareholding composition Pure FFP carve-outs

- Airline shareholding
- Investor / public shareholding

For airline – FFP investment combinations done by Etihad Airways, Etihad acquired a minority stake in the airline, and majority shareholding in the FFPs.

source: FFP Investment & Advisory analysis
Change 2: Shift to strategic investors

source: FFP Investment & Advisory analysis
Change 3: Strategic as well as financial rationales

“We are happy to welcome Advent as our new partner in LifeMiles B.V. This transaction concludes a thorough evaluation process which allowed us to choose Advent as our ideal partner. Their solid understanding of the loyalty industry and verticals in which LifeMiles operates makes them an excellent long-term partner for the Company. We believe Advent has the right team to help us ensure LifeMiles reaches its full potential, and we look forward to working with them to capture additional opportunities that will benefit customers, commercial partners, and our shareholders.”

source: Advent International press release
Performance of spin-off FFPs
Performance: financial perspective

FFPs deliver consistent and growing cash-flows to the airline

source: company reports
Performance: member perspective

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<thead>
<tr>
<th></th>
<th>Americas</th>
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<th>Europe &amp; Africa</th>
<th></th>
<th>Middle East &amp; Asia/Oceania</th>
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<tr>
<td>Program of the Year</td>
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<td>Southwest</td>
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<td>norwegian</td>
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<td>Avianca</td>
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<td>FLYINGBLUE</td>
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<td>Best elite tier</td>
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<td>FLYINGBLUE</td>
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<td>Best promotion</td>
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<td>LifeMiles</td>
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<td>Customer service</td>
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<td>LifeMiles</td>
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<td>Award availability</td>
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<td>LifeMiles</td>
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Spun-off FFPS receive regular member recognition

source: Freddie Awards
Performance: member perspective

Higher customer engagement is reflected in lower breakage

source: company reports
Role and relevancy of the FFP
The FFP model has evolved drastically over time

<table>
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<tr>
<th>Increasing importance of non-air rewards</th>
<th>almost 1 out of every 3 miles</th>
<th>Miles &amp; More Lufthansa</th>
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<tbody>
<tr>
<td>Revenues earned for non-air activity dominate</td>
<td>&gt; 90% revenues non-air</td>
<td>multiplus</td>
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<td>Alignment between customer value and rewards</td>
<td>spend SGD 50,000 minimum</td>
<td>SINGAPORE AIRLINES KRISFLYER</td>
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<tr>
<td>More precise rules for accrual eligibility</td>
<td>earn 5 – 11 miles per $ spend</td>
<td>American Airlines AAdvantage</td>
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source: company reports
FFPs today are more relevant than ever

<table>
<thead>
<tr>
<th>FFP is the largest consumer of seats</th>
<th>FFP represents the single largest customer set</th>
<th>FFP provides largest consistent cash flow</th>
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<tbody>
<tr>
<td>• Share of RPMs for award travel</td>
<td>• Single largest repository of customers</td>
<td>• Long-term agreements with financial services providers</td>
</tr>
<tr>
<td>• Maintains pricing integrity</td>
<td>• Offering the highest level of data quality from multiple sources</td>
<td>• Provides steady cash flow into the airline which tends to be less cyclical</td>
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<td>• No distribution fees for this channel</td>
<td>• Strong levels of engagement and multiple touch points</td>
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<td>• Significant monetization opportunities</td>
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<th>Southwest Rapid Rewards</th>
<th>IAG International Airlines Group</th>
<th>Delta SKYMILES</th>
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<tr>
<td>12.7% share of award travel of 2016 RPM</td>
<td>40% share of revenues generated by members</td>
<td>USD 4 bn projected 2021 contribution</td>
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The FFP as the ultimate digital platform

- The business does not own the physical assets
- The business is highly scalable – based in the cloud
- The business matches consumers and producers
- The business does not hold any actual stock
- The business sells mainly through digital channels
- The business makes extensive use of data analytics and predictive modeling
Maximizing the FFP’s potential

Changing FFP model

Increased relevance of the FFP

FFP’s ability to compete and win as a digital disruptor

New models of governance are emerging

Mega Event WorldWide
29th November – 1st December 2017
Finding the right structure will be key

source: FFP Investment & Advisory analysis

Mega Event WorldWide
29th November – 1st December 2017
Food for thought
Aviation thrives on partnerships

- The airline industry is built on the ability to forge successful partnerships

- Partnerships are driven for a variety of reasons, including:
  - Knowledge
  - Quality
  - Cost

- With the right agreements in place, the airline can exercise the appropriate amount of control
In fact, some of the partnerships originated as part of the airlines.
Three key dimensions to consider for the right structure:

- **Long-term Growth**
- **Self-reliance**
- **Speed of Change**
Conclusion

The FFP is more relevant than ever

The FFP is uniquely positioned to support the airline in realizing its commercial objectives.

Different structures are available for FFPs

A variety of structures can be evaluated against their fit with the objectives of the airline.

Partial FFP carve-out is a possible model

Partial carve-outs can be an attractive model for airline seeking a greater pace of change to realize sustainable long-term growth.
THANK YOU

For more information: ffpinvestmentandadvisory.com
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