



Duluth International Airport (DLH)

Airport Board Retreat | December 2021

Presentation Overview

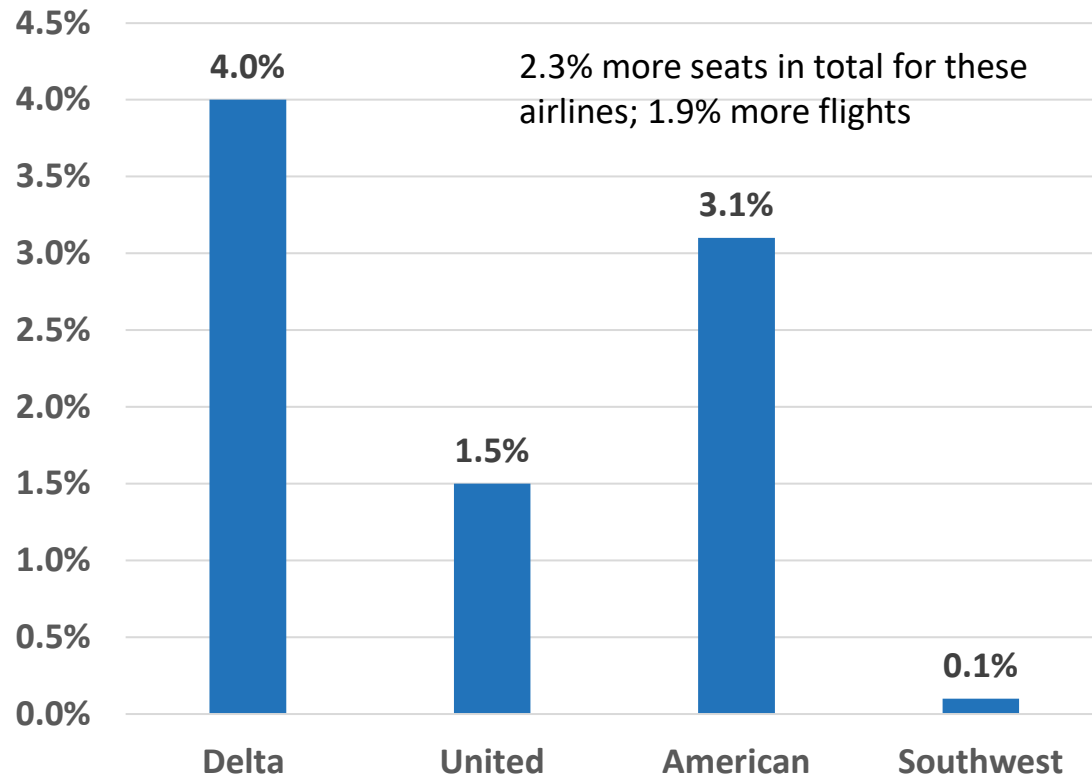
- **Where we were in late 2019 (last Board Retreat)**
 - Master Plan Forecast
- **Where we're at now: Key Industry Trends**
 - Near-term
 - Longer-term
- **DLH Air Service**
 - Impact from COVID
 - What 2023 & beyond looks like
 - Review of recent carrier meetings & planned activity for 2022-23



Where airline industry
was in late 2019

After shorter-term issues (below), network carriers were planning on about 3%-4% annual capacity growth

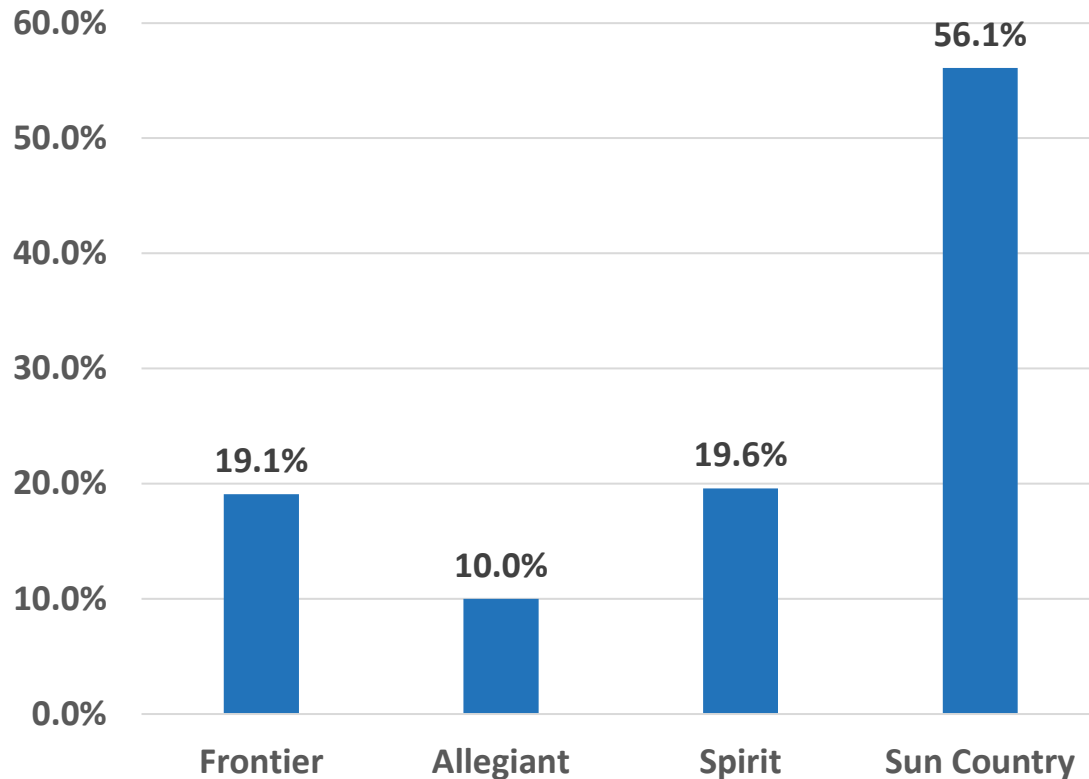
**Scheduled Seat Capacity Growth
3Q19 vs 3Q18**



- **United: After growing about 6% annually over past 2 years, slowing this summer**
 - Pilot shortages for 50-seat RJ flying (about 5,000 hours per month)
 - 737 Max issues
- **737 Max has had the biggest impact upon Southwest & American**
- **For the first time in recent memory, DL was the fastest growing network carrier**
- **These 4 airlines: Almost 80% of industry capacity**

Most of industry growth was on ULCCs and this was expected to continue in the future

Scheduled Seat Capacity Growth
3Q19 vs 3Q18



- **ULCC: Ultra-low cost carrier**
- **Sun Country: Much smaller than other 3 ULCCs**
- **Allegiant: Growing again after slowing in late 2018 (MD-80 retirements)**
- **Frontier and Spirit continue rapid growth**

Where were ULCCs growing? Mostly to destination markets or to larger cities (flying to destination markets)

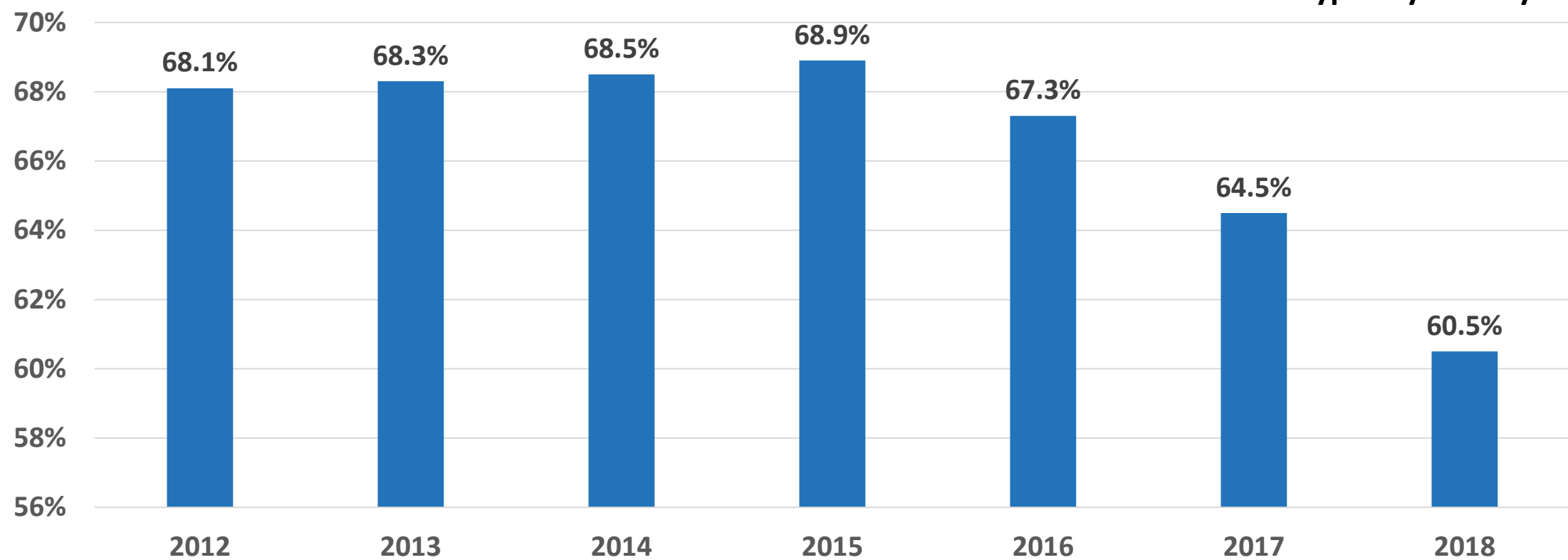
Top Growing Markets by ULCC: 3Q19 vs 3Q18 Scheduled Seats

Top Growing Allegiant Markets			Top Growing Spirit Markets			Top Growing Frontier Markets			Top Growing Sun Country Markets		
Market	Seat Change		Market	Seat Change		Market	Seat Change		Market	Seat Change	
	Absolute	%		Absolute	%		Absolute	%		Absolute	%
Ashville, NC	50,132	75.2%	Orlando, FL	246,395	37.8%	Denver, CO	279,916	23.8%	Minneapolis, MN	113,532	37.4%
Orlando-Sanford, FL	48,001	13.3%	Las Vegas, NV	214,354	30.5%	Orlando, FL	190,446	39.2%	Las Vegas, NV	48,459	127.3%
Sarasota, FL	45,219	406.8%	Austin, TX	156,004	New	Las Vegas, NV	147,944	43.5%	Nashville, TN	34,404	New
Destin, FL	39,333	35.4%	Atlanta, GA	109,704	29.3%	Philadelphia, PA	91,096	35.0%	Portland, OR	33,951	150.3%
Knoxville, TN	26,262	44.2%	Fort Lauderdale, FL	106,601	9.6%	Cleveland, OH	53,300	35.5%	Providence, RI	24,705	New
Grand Rapids, MI	25,479	69.8%	Raleigh-Durham, NC	102,369	New	Tampa, FL	53,212	57.6%	San Francisco, CA	22,833	80.9%
Nashville, FL	24,060	74.7%	Baltimore, MD	90,508	21.4%	San Francisco, CA	45,880	103.8%	Los Angeles, CA	18,453	40.3%
Albany, NY	23,817	New	Charlotte, NC	66,976	New	Raleigh-Durham, NC	44,854	28.2%	Newark, NJ	16,104	New
Fort Lauderdale, FL	22,935	19.3%	New Orleans, LA	65,883	28.6%	Boston, MA	43,812	New	Chicago, IL	16,104	New
Savannah, GA	20,468	37.3%	Philadelphia, PA	61,332	47.8%	Fort Lauderdale, FL	39,392	New	San Antonio, TX	16,002	New
Phoenix-Mesa, AZ	15,429	7.9%	Denver, CO	58,257	29.5%	Houston, TX	37,386	144.4%	Philadelphia, PA	15,555	New

Key Industry Trend: Declining connecting traffic

DL's % Connecting Traffic: **MSP**
2012 - 2018

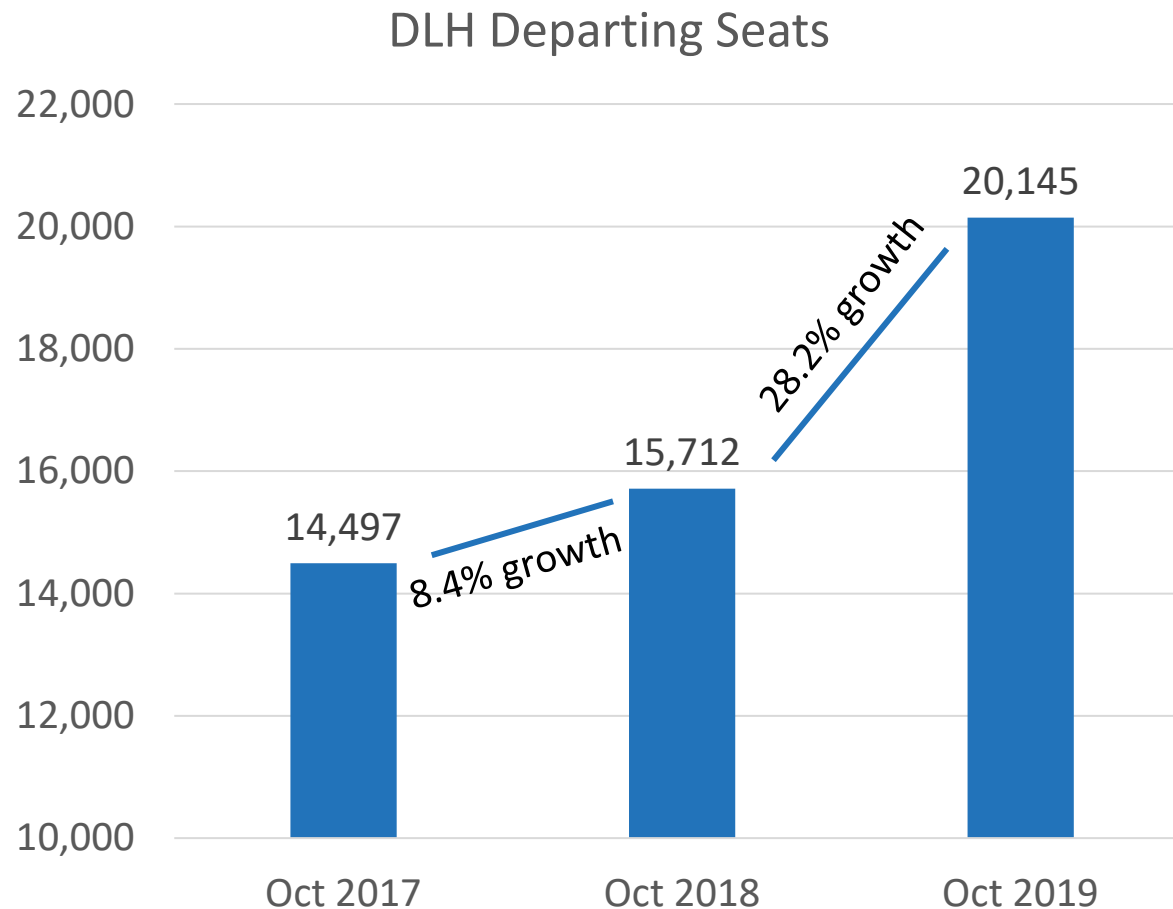
Connecting traffic is typically lower yielding





Where DLH was in late 2019

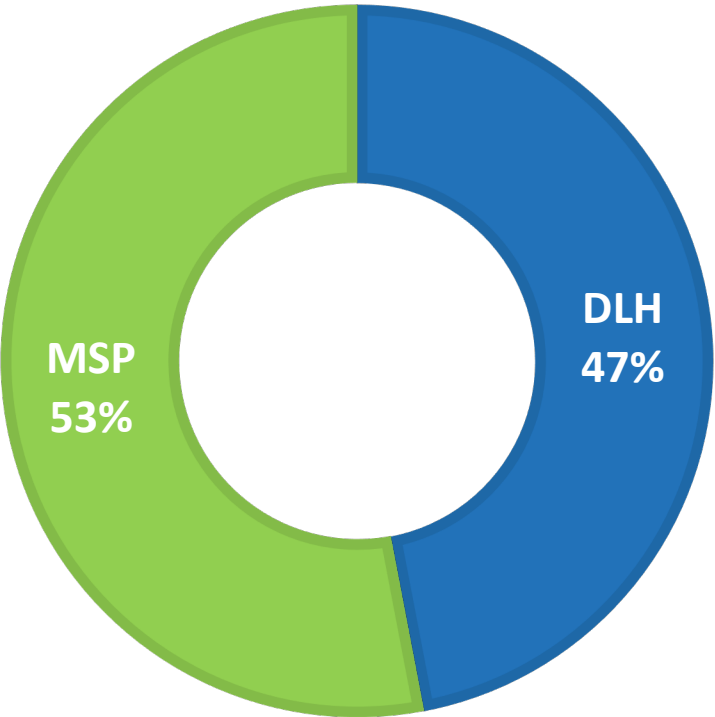
DLH seat capacity was up almost 37% in 2 years



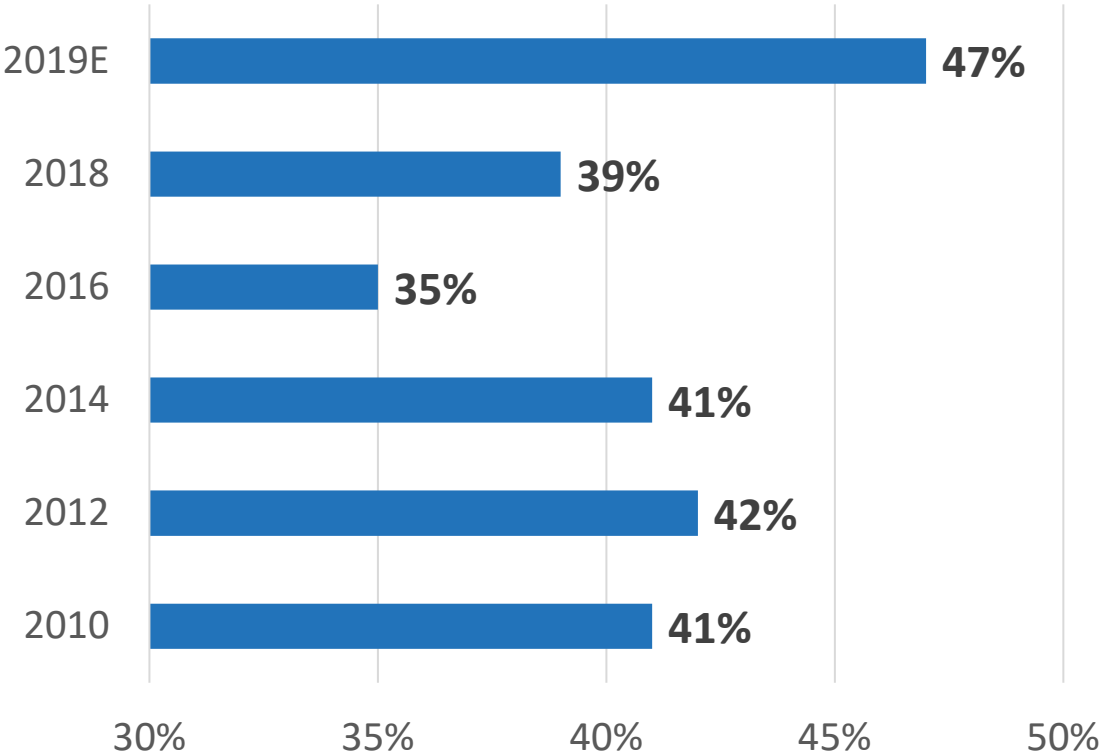
- **UA Airbus on overnight trip generated most of growth in 2018**
- **New AA service generates majority of growth in 2019**
- **Although Delta aircraft upgrades in fall of 2019 were also contributing to growth**

DLH “leakage” had been improving dramatically and was generating the majority of DLH traffic growth at the time

AIRPORT OF ORIGIN: 2019E
BOOKINGS W/I 30 MILES

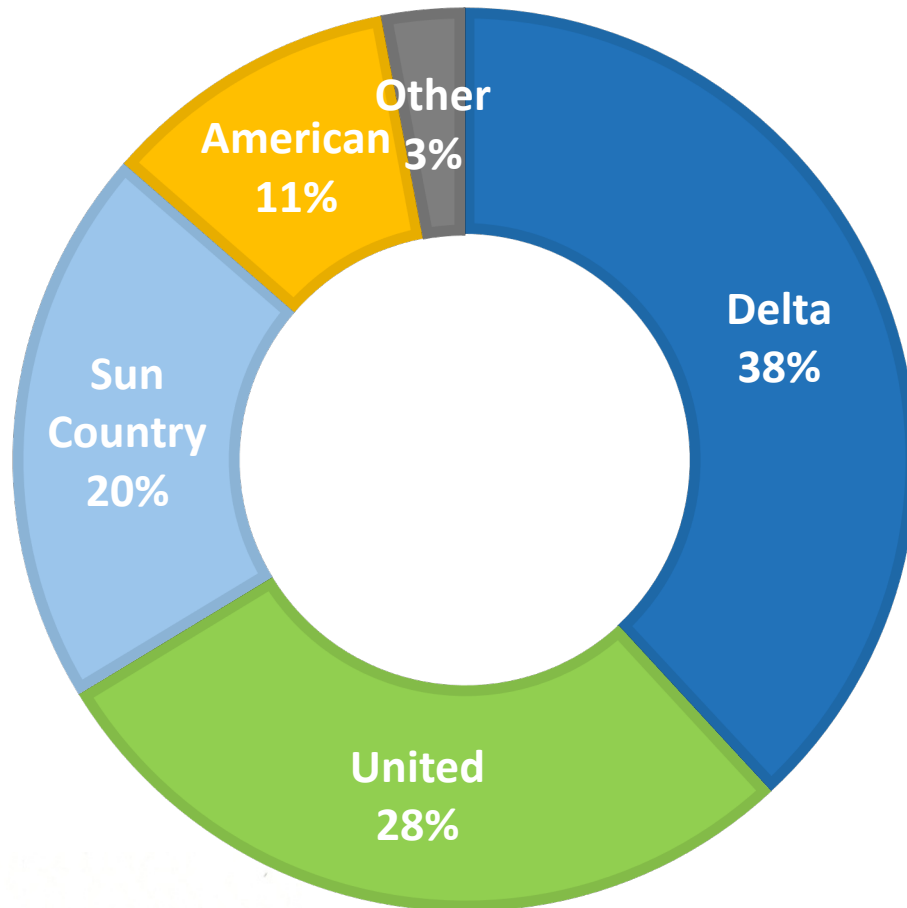


DLH Retention: 2010 – 2019E
Bookings w/i 30 miles



Airline Share of Bookings from Catchment Area: Mostly price sensitive traffic driving to MSP

AIRLINE SHARE OF DLH "LEAKAGE"
BOOKINGS W/I 30 MILES



- **DL's 38% share of DLH "leakage" is surprisingly low**
 - DL's O&D share at MSP has historically been in the 55%-60% range
 - More recently at 50%
- **UA's share is higher than expected**
 - May be due to some frequent flyer loyalty for passengers "leaking"
- **The real surprise was Sun Country; may indicate the potential for price-sensitive traffic, particularly to more leisure-oriented destinations**

Top Booked/"Leaked" O&D Markets: Potential new markets – DEN, Florida/Sun Destinations

Top 25 DLH O&D Markets: YE 1Q19

Rank	City Name	Airport Code	Reported PDEW	Leaked PDEW	TRUE PDEW	Fare
1	Chicago	ORD/MDW	41.6	7.0	48.7	\$144
2	New York/Newark	LGA/JFK/EWR	14.2	23.7	37.9	\$232
3	Washington/Baltimore	DCA/IAD/BWI	13.0	18.8	31.9	\$235
4	Denver	DEN	12.0	22.3	34.3	\$188
5	Orlando	MCO	11.8	27.0	38.8	\$189
6	LA Basin	LAX/ONT/SNA/BUR	9.9	35.3	45.2	\$263
7	Phoenix	PHX	8.6	63.1	71.7	\$250
8	Las Vegas	LAS	8.2	49.8	58.0	\$239
9	Atlanta	ATL	7.7	6.5	14.2	\$275
10	Houston	HOU/IAH	7.1	10.3	17.4	\$293
11	Detroit	DTW	6.8	2.6	9.4	\$233
12	Boston	BOS	6.8	23.5	30.3	\$214
13	Dallas	DFW/DAL	6.7	14.4	21.1	\$219
14	Fort Myers	RSW	6.4	13.9	20.3	\$204
15	Seattle	SEA	6.2	21.1	27.3	\$245
16	Tampa	TPA	6.0	12.2	18.2	\$193
17	Portland	PDX	5.3	18.5	23.8	\$233
18	San Diego	SAN	5.1	9.7	14.8	\$241
19	San Francisco	SFO	4.9	36.3	41.2	\$264
20	Minneapolis	MSP	4.8	0.0	4.8	\$126
21	Philadelphia	PHL	4.2	6.3	10.5	\$249
22	Salt Lake City	SLC	4.1	6.6	10.7	\$324
23	St. Louis	STL	3.9	12.9	16.8	\$237
24	Nashville	BNA	3.9	3.3	7.2	\$211
25	Cleveland	CLE	3.8	1.2	4.9	\$269

- **DEN: If DLH captured the majority of demand, would be similar to ORD**
- **Florida markets, LAS and PHX: Seasonally much stronger demand**



Master Plan Forecast Summary

Original Master Plan Passenger Service Forecast

Metric	2018	2023	2028	2033
<u>Enplanements</u>				
Regional (< 60 Seats)	69,609	76,873	59,056	-
Air Carrier (> 60 Seats)	70,876	88,844	116,325	196,411
Total Enplaned Passengers	140,485	165,717	175,381	196,411
Avg. Seats/Departure	60.3	67.7	68.2	86.1
Avg. Load Factor	77.7%	72.9%	75.9%	76.2%
<u>Operations</u>				
Regional (< 60 Seats)	4,242	3,967	3,865	-
Air Carrier (> 60 Seats)	1,354	2,749	3,608	5,986
Total Operations	5,596	6,716	7,473	5,986

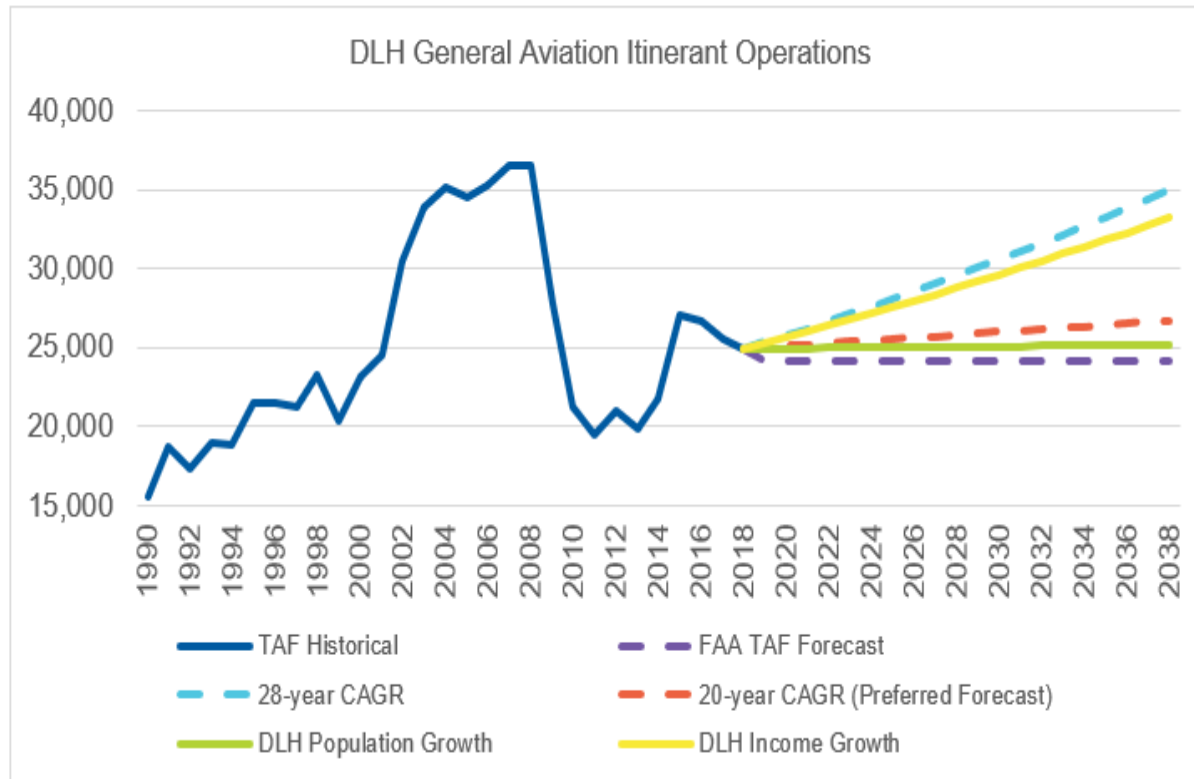
- Passenger CAGRs: 3.4% (2023), 2.2% (2028) & 1.7% (2033)
- Before any alternative growth (to right)

Passenger Forecast Summary Realistic Alternatives at DLH			
	2023	2028	2038
Baseline Enplaned Passenger Forecast	165,717	175,381	196,411
<u>Alternative 1: DEN - DLH Service</u>			
Enplaned Passengers	14,906	17,428	17,428
Load Factor	75%	75%	75%
Annual Departing Seats	19,874	23,238	23,238
Annual Departures	306	306	306
<u>Alternative 2: Seasonal SY Service</u>			
Enplaned Passengers	10,150	15,226	15,226
Load Factor	80%	80%	80%
Annual Departing Seats	12,688	19,032	19,032
Annual Departures	69	104	104
Baseline Forecast + Alternative 1	180,623	192,809	213,839
Baseline Forecast + Alternative 2	175,867	190,607	211,637
Baseline Forecast + Both Alternatives	198,279	217,651	238,681

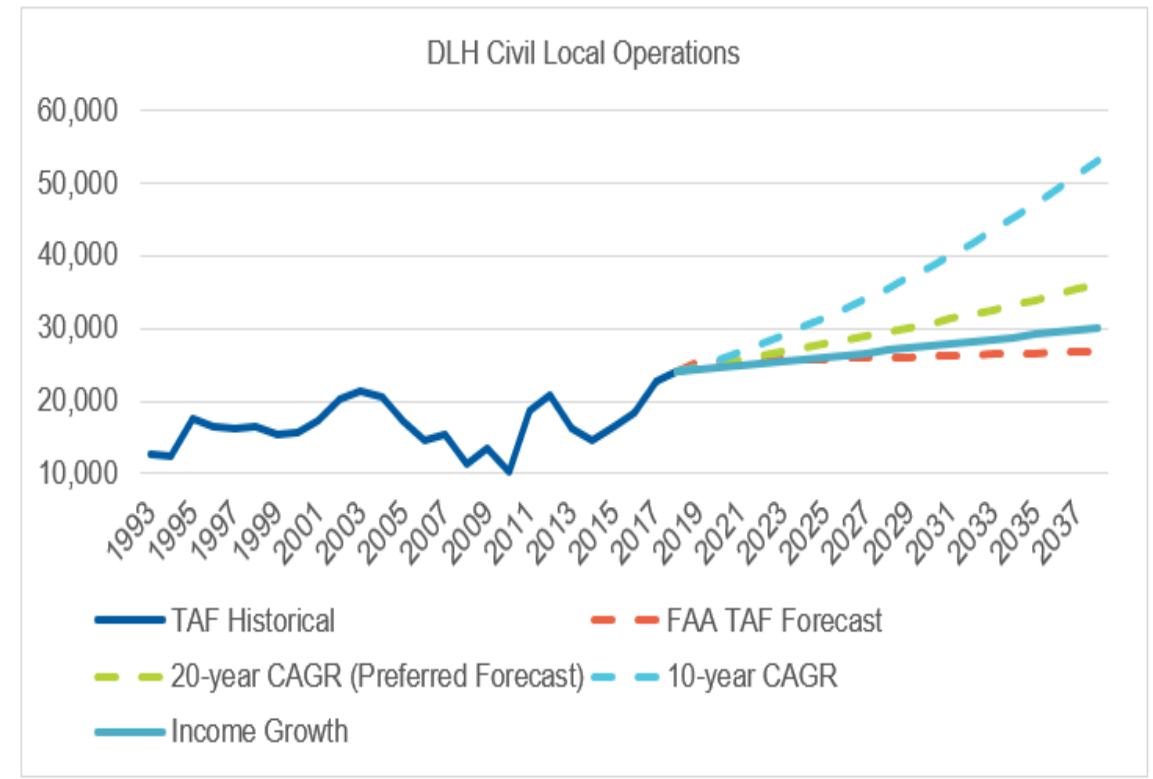
DLH-DEN Key Assumptions: CRJ-700 flown in 2023, upgraded to CRJ-900 in 2028; assumes service is flown 6x weekly with a 98% completion factor

DLH Seasonal Sun Country service Assumptions: Assumes 2x weekly service from mid-December through mid-April; service to RSW & MCO in 2023, with CUN added beginning in 2028

Compared to U.S. activity, DLH General Aviation trends were actually relatively strong



Source: FAA Terminal Area Forecast, Landrum & Brown Aviation Analysis



Source: FAA Terminal Area Forecast, Landrum and Brown Analysis

Resulting in moderate-to-stable growth forecasted going forward

Table 25 – General Aviation Forecast Summary

Metric	2018	2023	2028	2038	CAGR
Local Operations	24,122	26,141	29,491	36,055	2.03%
Itinerant Operations	24,917	25,336	25,803	26,720	0.04%
Total Operations	49,039	51,477	55,294	62,775	1.24%
Local Share	49%	51%	53%	57%	
Itinerant Share	51%	49%	47%	43%	
Table Notes:					

Source: Landrum and Brown Analysis

Finally, Based Aircraft forecast exhibits similar growth as compared to General Aviation operations

Table 23 – Based Aircraft Forecast at the Airport

Metric	2018	2023	2028	2038	CAGR
Total Based Aircraft	68	72	76	85	1.12%
Table Notes:					

Source: Landrum & Brown Analysis

Table 24 – Mix of Based Aircraft Forecast at the Airport

Year	Piston	Jet	Turboprop	Rotorcraft	Total
2018 (Existing baseline)	50	5	5	8	68
2023	53	5	5	9	72
2028	55	6	6	9	76
2038	63	6	6	10	85



Key Industry Trends: Near-Term

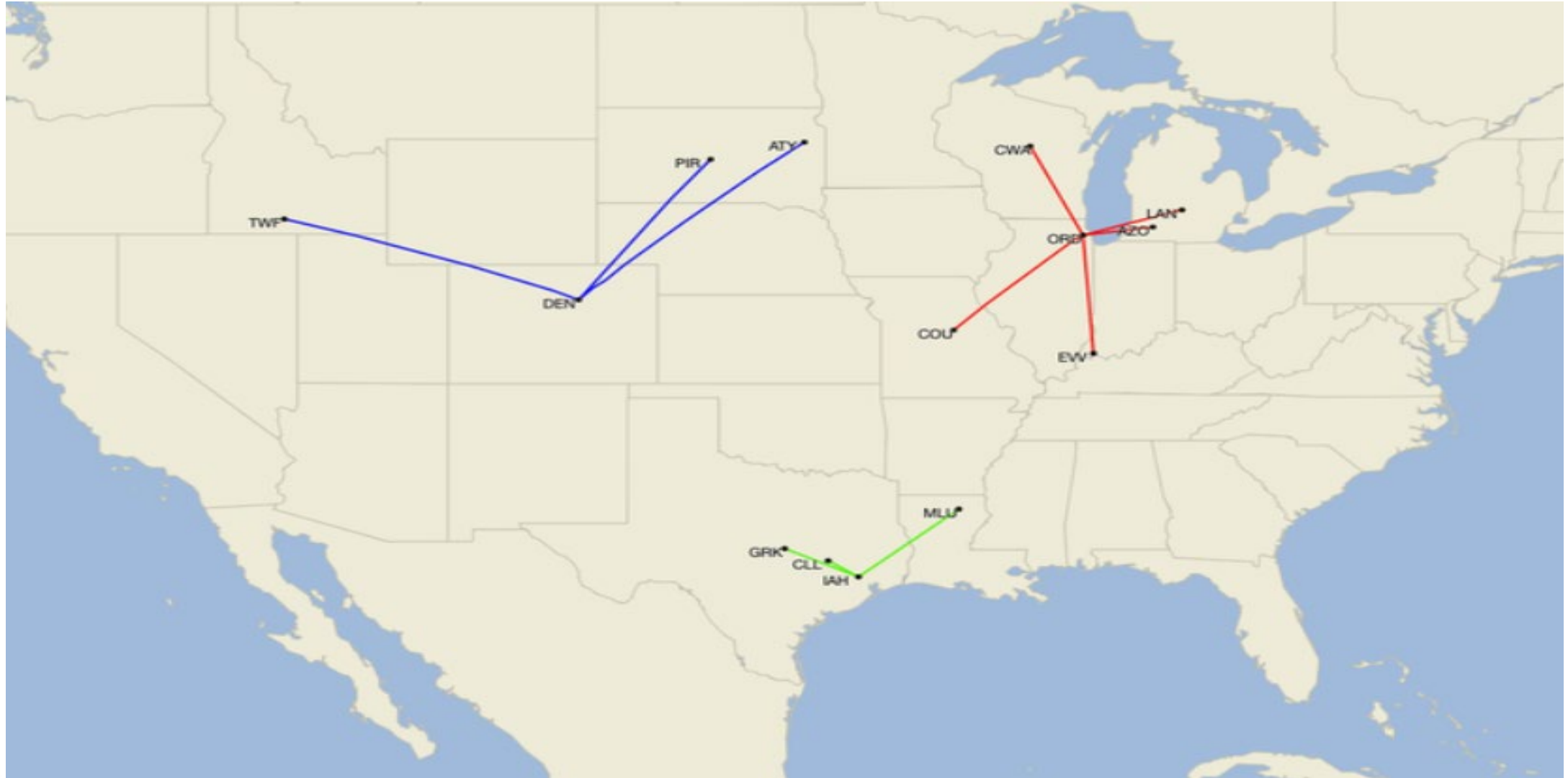
Key Travel Demand Trends: Recent & Near-term

- In general, travel demand followed/follows COVID and lockdowns
- Leisure travel bounced back much more quickly and has been relatively strong
- Business travel demand continues to be particularly weak, although some airlines expect this to be much stronger in 2022
- European bookings bounced back strongly once U.S. borders opened – were above 2019 levels
- Asia, following lockdowns, continues to be extremely weak

Fastest growing markets: Sun & Mountain markets



Markets heavily dependent upon business traffic have been really hurt: United cut 11 cities in November 2021...



... and AA cuts 27 routes (also in November)

The following 13 routes are set to be dropped from LaGuardia:

- Bangor, Maine, ending January 4
- Boston, ending January 4
- Charleston, South Carolina, ending January 4
- Orlando, Florida, ending January 4
- Philadelphia, ending January 4
- Portland, Maine, ending January 4
- Asheville, North Carolina, ending March 27
- Pensacola, Florida, ending May 5
- Myrtle Beach, South Carolina, ending June 2
- Traverse City, Michigan, ending June 2
- Savannah, Georgia, ending June 3
- Martha's Vineyard, Massachusetts, ending June 17
- Nantucket, Massachusetts, ending June 17

The following nine routes are also set to be dropped:

- Boston to Raleigh-Durham, North Carolina, ending January 4
- Charlotte, North Carolina, to Champaign-Urbana, Illinois, ending April 5
- Charlotte, North Carolina, to Toledo, Ohio, ending April 5
- Chicago to Charlottesville, Virginia, ending April 5
- Philadelphia to Baltimore, ending April 5
- Philadelphia to Charleston, West Virginia, ending April 5
- Philadelphia to Ottawa, Ontario, ending April 5
- Phoenix to Calgary, Alberta, ending April 5
- Phoenix to Vancouver, British Columbia, ending April 5

The following five routes are set to be dropped from JFK:

- San Antonio, ending January 4
- Montreal, ending January 4
- Toronto, ending January 4
- Liberia, Costa Rica, ending April 5
- San Jose, Costa Rica, ending April 5

A Major Issue: Pilot Shortage

- A recent issue exasperated by pilot furloughs/retirements during COVID
- The problem is at the regional airline level: Mainline/ULCCs are backfilling by hiring regional airline pilots (and they can't train fast enough)
- Only flying regional jets 6 hours/day (norm is 10-12 hours)
- Hope to be resolved in mid-to-late 2022

2022: What are expectations*

- By middle/2nd half of 2022, domestic traffic returns to pre-pandemic levels
- European travel will be particularly strong in 2022 and probably exceed 2019 levels (note: highly dependent upon COVID trends/potential lockdowns)
- Travel demand to Asia will remain weak through most/all of 2022
- Business traffic returns to 80%-100% of 2019 levels by year-end 2022
- Leisure travel demand continues to be particularly strong



Key Industry Trends: Longer-Term

ULCCs will be where the growth is

- ULCC growth: 15%+ CAGR over 5+ years
 - Spirit: “Double size of airline over next 5 years”
 - Frontier: 112 aircraft today, growing to a planned 271 in 2028
 - Sun Country & Allegiant: Also planning 15%+ annual growth
- Network airline capacity growth will be marginally above economic growth
 - GDP: 3% growth, capacity would grow about 4%
 - Pilot shortage could be a mitigating factor for smaller cities/regional airlines
 - While below ULCC growth, well above last decade
- Despite relative ULCC growth in the U.S. over past decade, ULCC share of U.S. traffic is well below other regions of the world

Tied to ULCC growth, leisure travel will be where much of growth is

- Millennials: Experiences > Material things
- Demographics: Baby boom generation is retiring with \$\$\$
- Within leisure travel segment, “new experiences” and new destinations have been particularly strong the past few years – likely to continue
- Business travel will likely be impacted to some degree by Zoom/Teams

Aircraft will continue to be larger

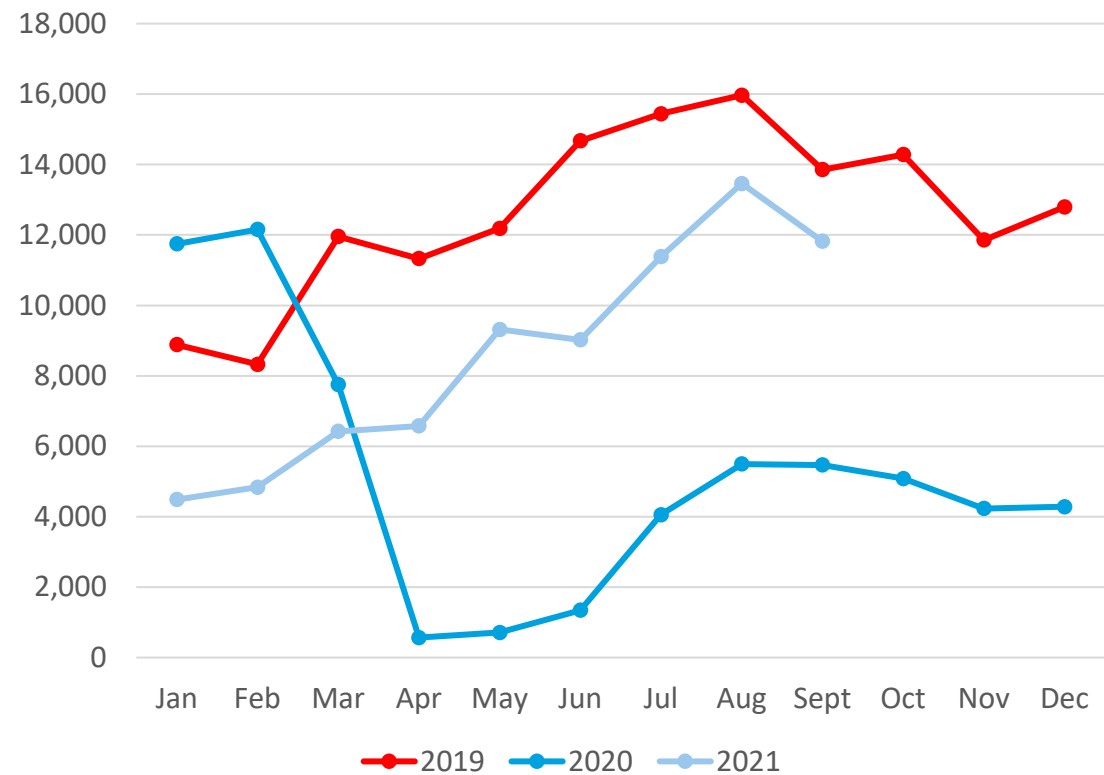
- Better economics (economies of scale)
- Addresses potential pilot shortages
- Allows more capacity in real estate constrained airports (in major cities)
- Generally larger aircraft are more customer friendly



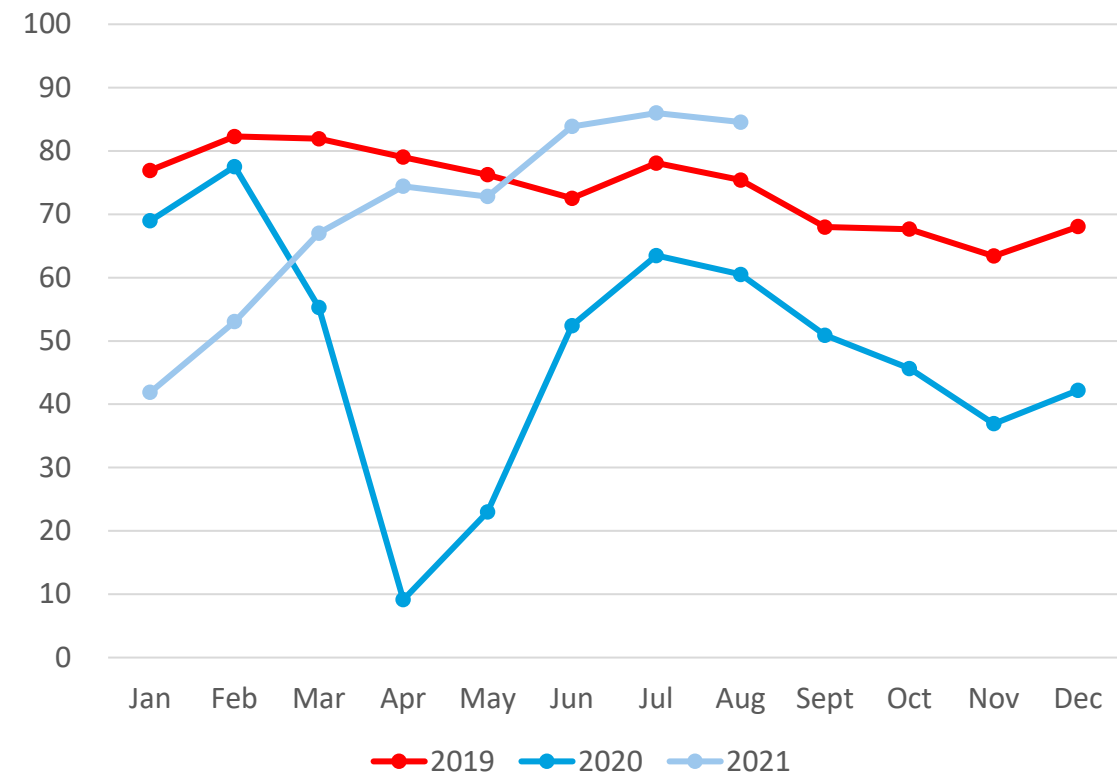
DLH Air Service: Review of Recent Trends & Going Forward

DLH traffic got within 15% of 2019 levels this summer, with LFs actually exceeding 2019 levels (impacted by pilot shortages)

DLH: Monthly Enplaned Passengers
2019-2021

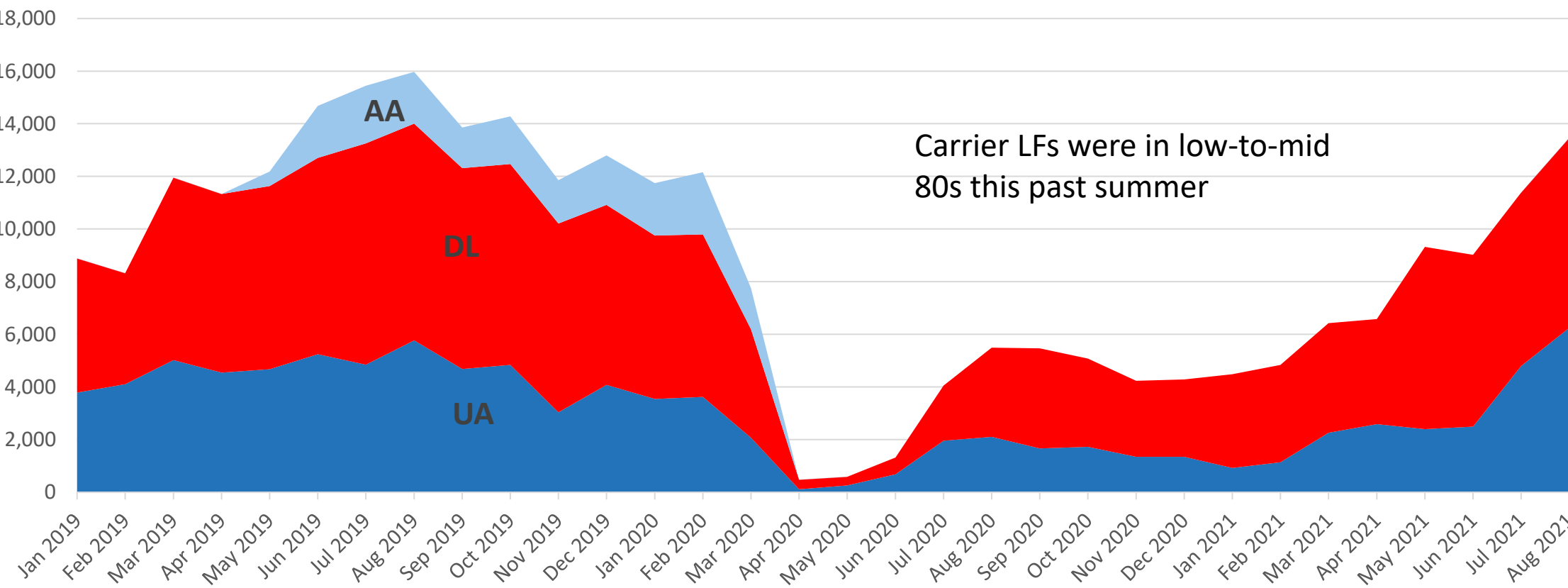


DLH: Monthly Load Factors
2019-2021



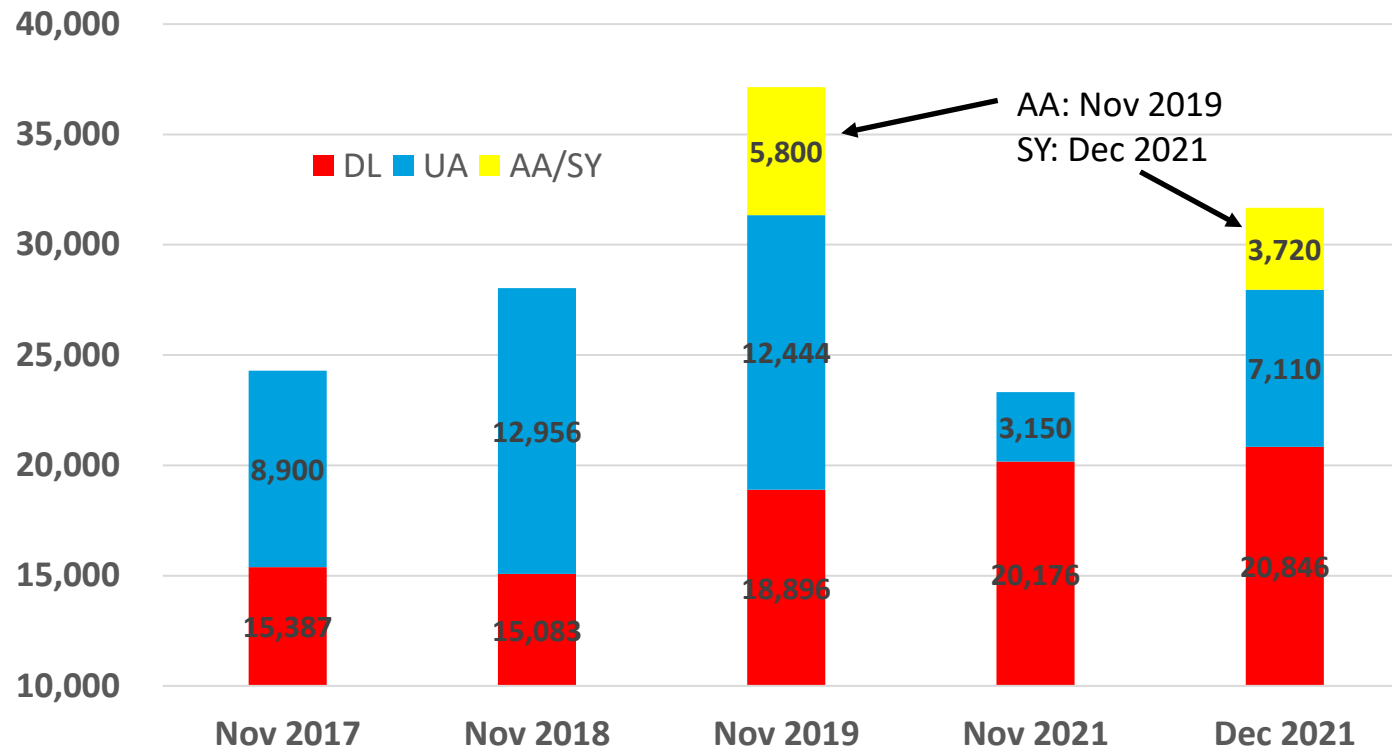
Throughout most of 2021, growing DLH traffic was equally split between DL & UA, although that has changed in November...

Enplaned Passengers by Airline
Jan 2019 – August 2021



...while November is down, with SY entering market in December, DLH seat capacity is within 15% of 2019 and well above 2018 levels

DLH Seats (in and out)



- DL: Capacity share of 54% in 2018, 86% in November 2021
- December, January and February look stronger, as UA adds back 1 frequency and SY starts service to RSW and PHX

- Good chance that DL gets DLH capacity back to 2019 levels in summer of 2022
- Good chance of larger RJs and possibly mainline aircraft sprinkled in
- Over next couple of years DL will likely grow seat capacity moderately, with larger aircraft driving most of increase
- Since late 2019, DL has been more committed to DLH and has generally backed that up with larger, multiple cabin aircraft – expect this to continue
- Likely that service is exclusively over MSP; DTW or ATL service is a long-shot

- In near-term, UA has been the most impacted by pilot shortages; this likely continues to be an issue through part of 2022
- By 2023, UA is likely in position to bring ORD capacity back to 2019 levels on a year-round basis, possibly with some upgraded aircraft
- DEN: With SCASD/MRG, DEN service becomes a possibility again in 2023
 - Somewhat dependent upon pilot shortage situation

Sun Country Airlines

- Starting PHX and RSW service in December 2021
- We will be targeting MCO service for winter 2022 season
- We will also be proposing CUN service for next winter/spring season
- With expected Sun Country growth, could eventually grow into additional markets during summer
- Sun Country is a key target given their expected growth in the coming years

Other Airlines

- Frontier Airlines: Given planned growth and their DEN hub, a secondary choice for DEN service (although a distant 2nd to what UA could provide)
- American Airlines: Back-up for ORD service
- Breeze Airways: Start-up airline who only recently begun flying; while they are targeting larger markets, relatively smaller A220 aircraft is a decent fit

Recent & Next Steps

- Delta Air Lines: Fall presentation & meeting
- United Airlines: November Zoom presentation & meeting
- SkyWest Airlines: November meeting at SkyWest HDQ in St. George, UT
- Planned:
 - Sun Country meeting at MSP HDQ in 1st Quarter of 2022
 - JumpStart Air Service Conference in June 2022 with multiple U.S. airlines
 - Delta Air Lines meeting in 3rd Quarter of 2022
 - United Airlines HDQ meeting in 4th Quarters of 2022
 - SkyWest HDQ meeting in 4th Quarter of 2022

THANK YOU!