

# SkyWest paints optimistic picture for regionals

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**Not only is there plenty of opportunity for regionals, said SkyWest CFO Brad Rich, but there are still opportunities for 50-seat lift; a good thing considering the high concentration of those aircraft in its 451-aircraft fleet. But the company is also looking at larger aircraft including Bombardier's C-Series. "We are actively involved in analyzing different aircraft types and how we could use them," he told analysts at the Raymond James Growth Airline conference this week in New York.**

Raymond James Analyst, Duane Pfenningworth, who declared himself a long-term fan of the company, indicated as pilots work to gain back everything they have lost with new contracts now being negotiated throughout the industry, legacies could gain the ability to have regionals operate 90- to 100-seat equipment.

Rich agreed that scope should be increased. "We've done a better job of controlling costs than the legacies have," he said. "So economically it makes more sense. In fact, I know there is sensitivity relative to pilots that feel strongly about more flying going to regionals but regional economics say very clearly that should be done."

A week out from announcing its 4Q2009 and year-end financial results, Rich referenced statistics for the first three quarter of 2009 in saying he believes SkyWest Inc has the strongest balance sheet in the industry. "Our net cash flow is better than any carrier in the country," he stated.

## Company fiscal performance provides opportunities

"In spite of difficulties and challenges of the past year, we are very optimistic and enthusiastic about the opportunities for regional carriers whether it is due to distress in our peer group or the needs of the major carriers," he said. "We are continually working on how we can combine our strengths – our people, our balance sheet, our cash and liquidity, and our long-term contracts to create opportunities for us.

"We have the best credit in the regional airline industry which gives us advantages," he continued. "We have good credibility as not only an operator, but as a good, disciplined company. The strength of our credit rating brings us economic advantages. Not only do we have access to capital but we have access to capital at very competitive prices. That gives us a competitive advantage on aircraft ownership costs and that has allowed us to win so many competitive bids."

In addition to the carrier's financial position giving the company advantages and opportunities, Rich also pointed its product quality as accomplishing the same thing.

## More synergies expected between SkyWest and ASA

However, he added there was more opportunity to create ongoing efficiencies between SkyWest Airlines and Atlantic Southeast Airlines, saying the company has made mistakes since its 2005 acquisition of ASA. "There are still opportunities for integration benefits that will give us more optimal efficiencies than we have today," he concluded.

A major goal is adding codesharing partners, he continued, noting that both ASA and SkyWest added new partners, with **AirTran** at Milwaukee and ASA with United, as part of a financing deal SkyWest did with United.

Taking a page from Republic Airways Holdings, which became a bank for Midwest and Frontier airlines, as well as **US Airways**, SkyWest did an USD80 million deal with United, taking advantage of United's need for liquidity in order to wrest more business from the legacy partner.

The 11% interest loan is secured by ground equipment and slot rights at Chicago. From that, the company reduced most of the "tail-risk" it had on 45 of its most exposed aircraft, which Rich described as a mismatch between the financial obligations on aircraft and the contracts under which they would operate for a partner.

"We obtained extensions in excess of 10 years," he explained. "That is equivalent to 4,800 aircraft months of extensions, which we feel is a very material deal. We understand that we aren't a bank and we wouldn't have done it if it were a stand-alone deal. But we needed to lower our tail risk and United needed liquidity. In addition, we were able to expand the United Express operation to ASA with 14 additional aircraft so now it has a second codesharing relationship which will start this month. That is a significant development for ASA".

ASA will connect flights over Chicago and Washington Dulles, where ASA is planning to open a new maintenance and crew base that will ultimately grow to 120 crew members.

The 14 aircraft included in the five-year deal had been cut from its **Delta** Connection operations, along with six others as part of Delta's move into larger jets. **Atlanta**-based ASA is currently working on destinations for the remaining six and President Brad Holt told the Atlanta Journal Constitution that included in his discussions with various airlines was a proposal to provide technical expertise Mekong Air in Viet Nam.

For ASA the United deal not only diversifies the ASA client portfolio – finally – it provides an opportunity to improve its performance now solely reliant on the weather vagaries of Atlanta. This, coupled with the major airline bias toward cancelling or delaying regional flights first, has often put it near the bottom of the DOT performance list.

## AirTran deal holds little risk

Similarly, Rich discussed the AirTran deal over Milwaukee in which SkyWest is flying five CRJ-200s in a pro-rate agreement. He sought to assuage worries about the volatility of pro-rate contracts, especially with 50-seat lift. "It is a unique opportunity," he said. "But the most important thing is it is being done with aircraft that do not have long-term obligations. This is a very short-term opportunity and if it doesn't work we have no long-term obligation with the fleet so it can be discontinued very quickly."

He noted the debate about whether SkyWest Inc should continue its stock repurchase programs but explained each repurchase is analyzed against the other opportunities for that money and only done when the repurchase would give it the best return on investment.

Having built itself through the acquisition of several companies, Rich said the company continues to look for additional acquisition opportunities. In addition, while it has been very conservative in getting into international joint ventures, it is pleased with the progress of its deal with Trip in Brazil, he said, adding it is performing "exactly the way we thought it would if not slightly better."

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