



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

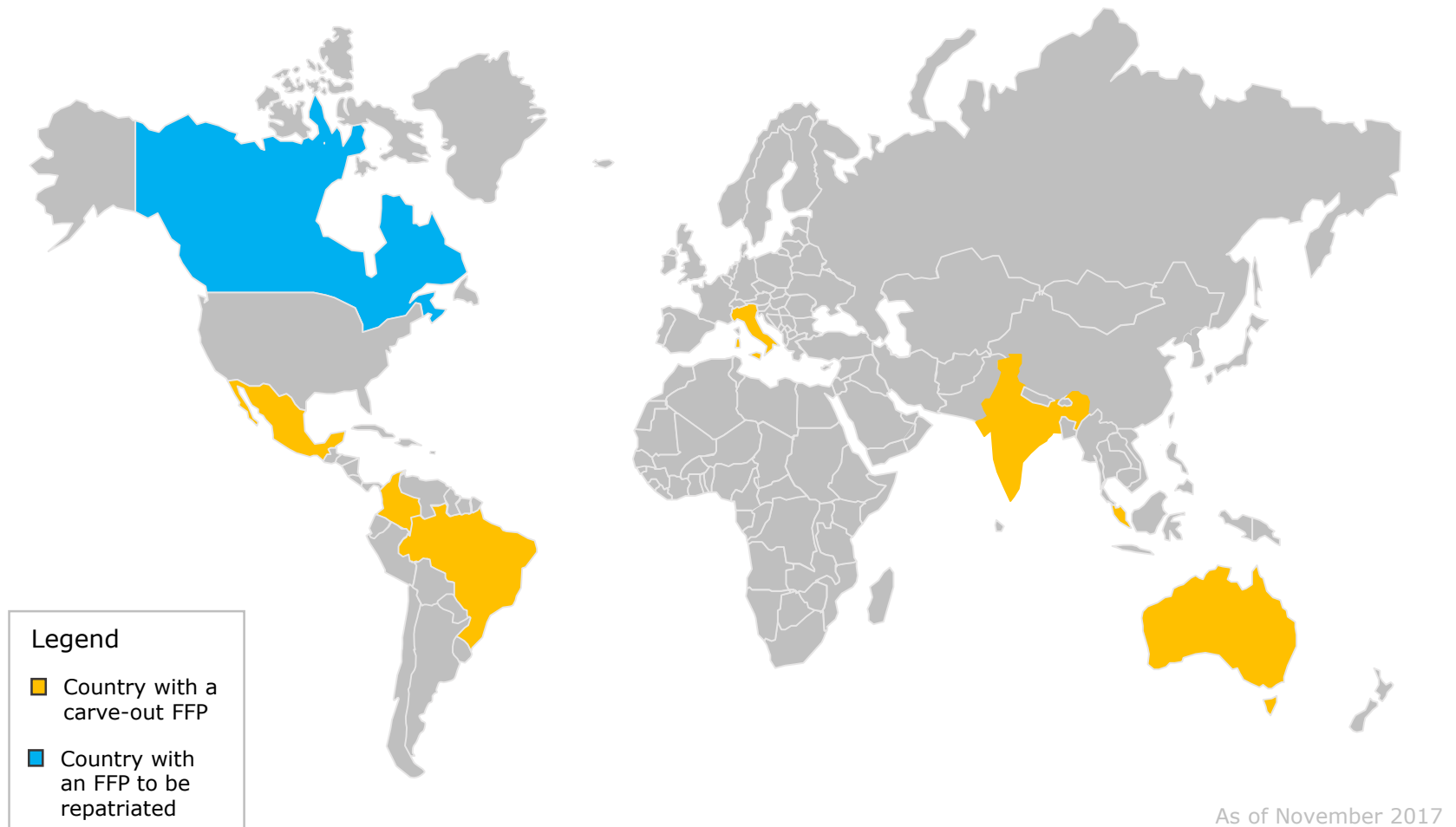
- A look at the FFP spin-off landscape today
- The future for the spin-off model
- Setting the FFP up for success





Overview FFP spin-off landscape

Has the FFP spin-off model come to an end?



source: FFP Investment & Advisory analysis

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?

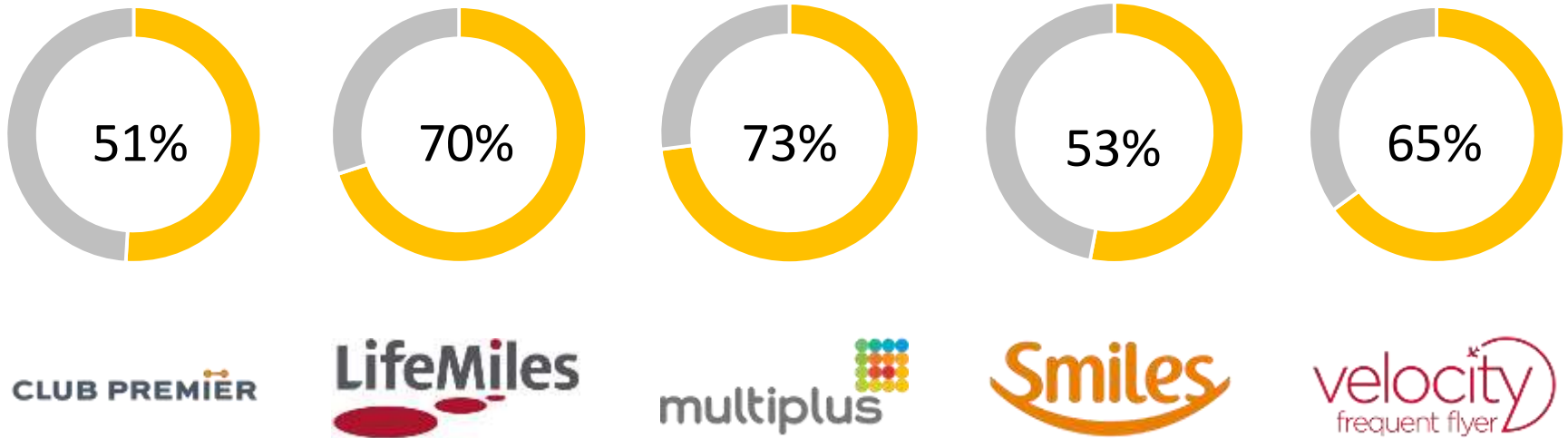
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How did the role and relevancy of the FFP change?



Changes in the FFP spin-off model

Change 1: Majority ownership for the airline



Legend: Shareholding composition Pure FFP carve-outs

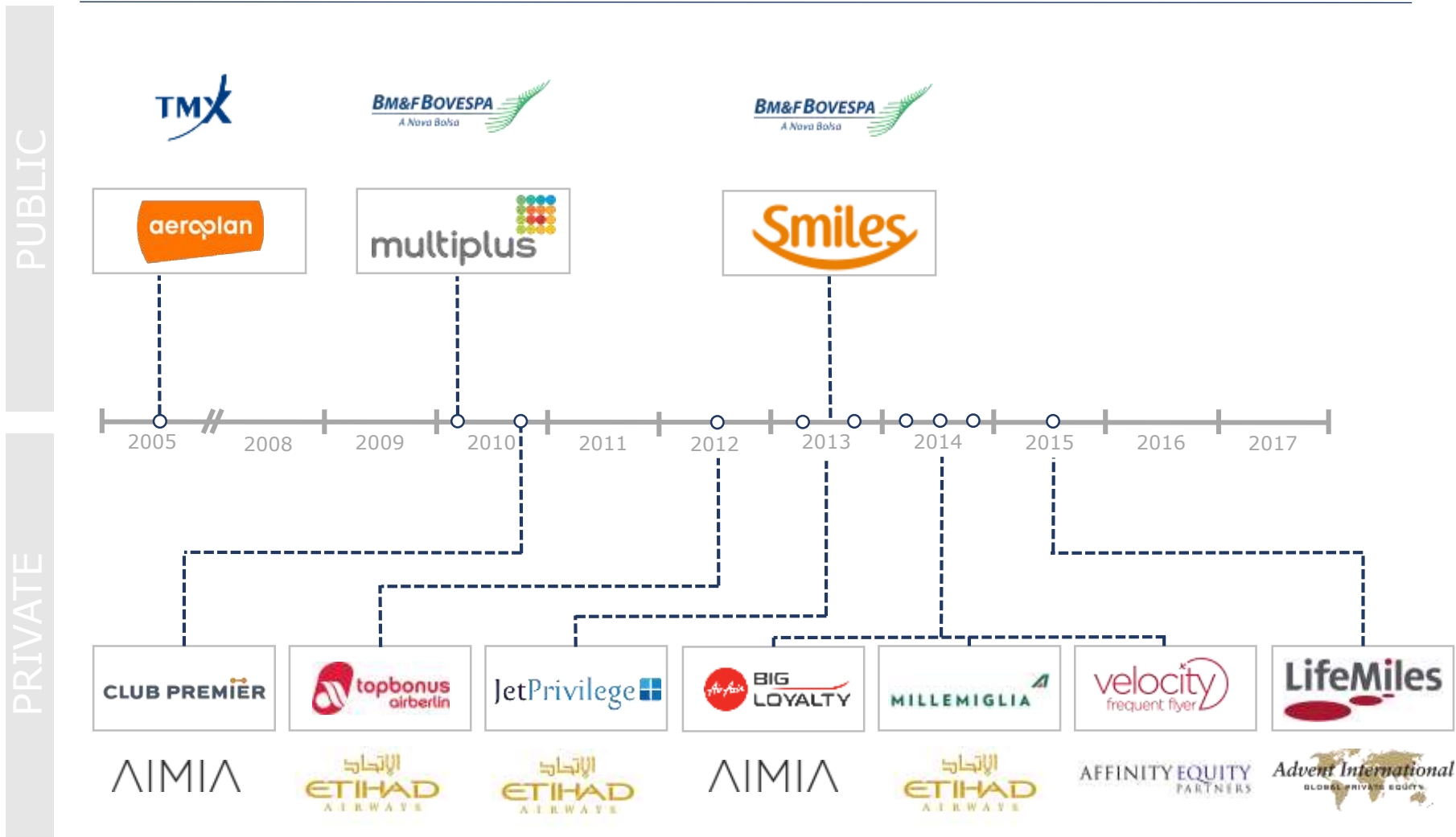
■ Airline shareholding ■ Investor / public shareholding

MILLEMIGLIA

JetPrivilege

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

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.”



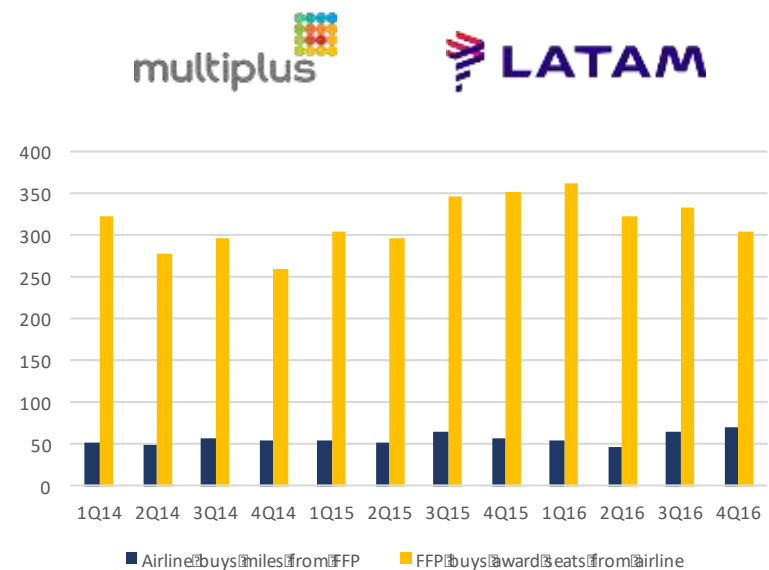
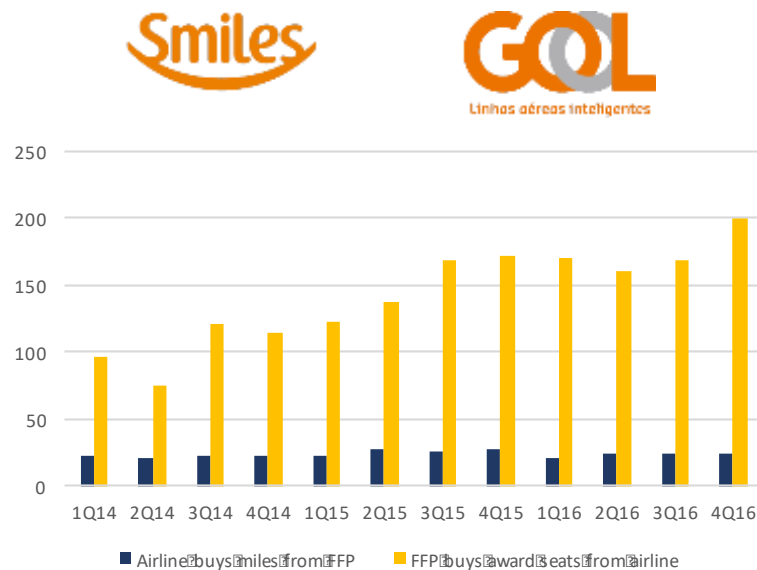
Fabio Villegas, CEO Avianca Holdings S.A





Performance of spin-off FFPs

Performance: financial perspective



FFPs deliver consistent and growing cash-flows to the airline

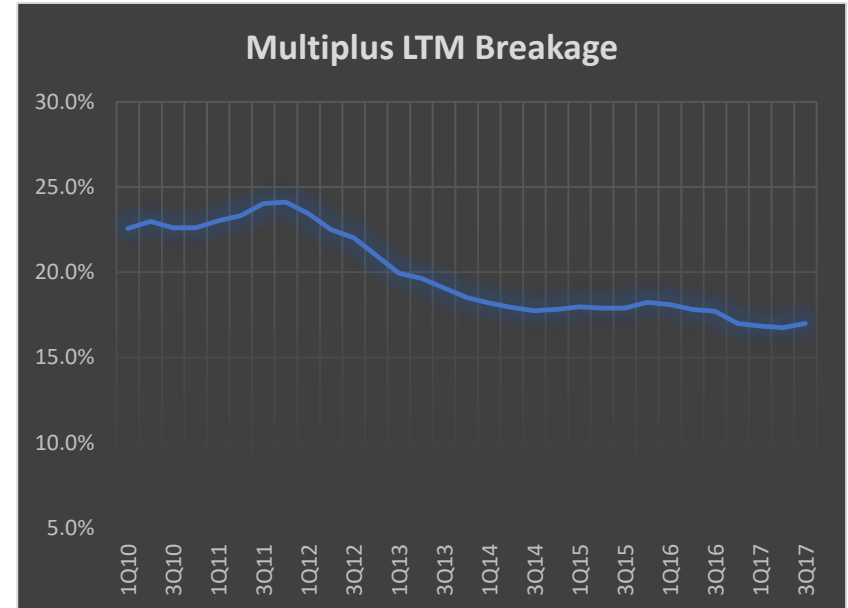
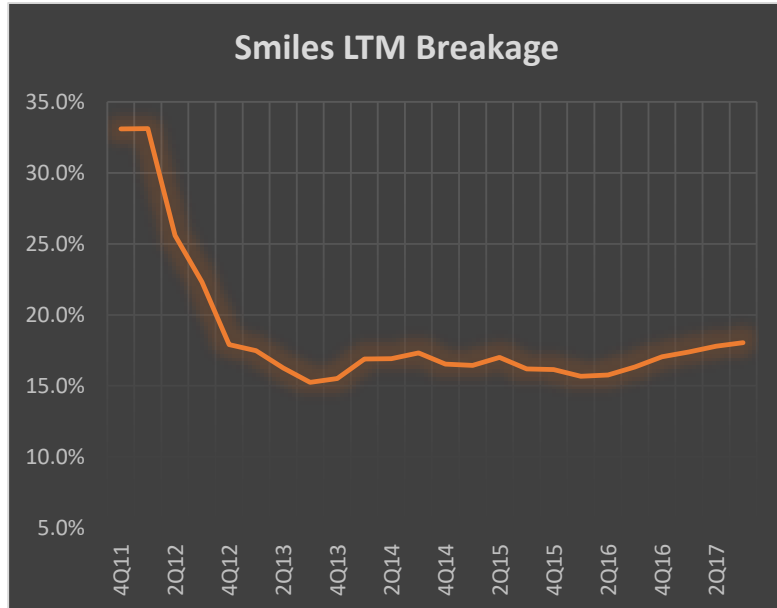
Performance: member perspective

	Americas			Europe & Africa			Middle East & Asia/Oceania		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Program of the Year									
Best elite tier									
Best promotion									
Customer service									
Award availability									

Spun-off FFPs receive regular member recognition

source: Freddie Awards

Performance: member perspective



Higher customer engagement is reflected in lower breakage



Role and relevancy of the FFP

The FFP model has evolved drastically over time

Increasing importance
of non-air rewards

almost 1 out of
every 3 miles

Miles & More
 **Lufthansa**

Revenues earned for
non-air activity
dominate

> 90% revenues
non-air


multiplus

Alignment between
customer value and
rewards

spend SGD
50,000 minimum

SINGAPORE AIRLINES
KRISFLYER 




More precise rules for
accrual eligibility

earn 5 – 11 miles
per \$ spend

American Airlines
AAdvantage 

source: company reports

FFPs today are more relevant than ever

FFP is the largest consumer of seats	FFP represents the single largest customer set	FFP provides largest consistent cash flow
<ul style="list-style-type: none">▪ Share of RPMs for award travel▪ Maintains pricing integrity▪ No distribution fees for this channel▪ Significant monetization opportunities	<ul style="list-style-type: none">▪ Single largest repository of customers▪ Offering the highest level of data quality from multiple sources▪ Strong levels of engagement and multiple touch points	<ul style="list-style-type: none">▪ Long-term agreements with financial services providers▪ Provides steady cash flow into the airline which tends to be less cyclical
 12.7% share of award travel of 2016 RPM	 40% share of revenues generated by members	 USD 4 bn projected 2020 contribution

source: de Boer E.R. (2018) Introduction. In: Strategy in Airline Loyalty. Palgrave Macmillan, Cham

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

Increasing importance of non-air rewards	almost 1 out of every 3 miles	Miles & More Lufthansa
Revenues earned for non-air activity dominate	> 90% revenues non-air	multiplus
Alignment between customer value and rewards	spend SGD 50,000 minimum	KRISFLYER Singapore Airlines
More precise rules for accrual eligibility	earn 5 – 11 miles per \$ spend	AAAdvantage American Airlines

Changing FFP model

FFP is the largest consumer of seats <ul style="list-style-type: none"> Share of RPMs for award travel Maintains pricing integrity No distribution fees for this channel Significant monetization opportunities 	FFP represents the single largest customer set <ul style="list-style-type: none"> Single largest repository of customers Offering the highest level of data quality from multiple sources Strong levels of engagement and multiple touch points 	FFP provides largest consistent cash flow <ul style="list-style-type: none"> Long-term agreements with financial services providers Provides steady cash flow into the airline which tends to be less cyclical
 12.7% share of award travel of 2016 RPM	 40% share of revenues generated by members	 USD 4 bn projected 2020 contribution

- 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 stock ☒
- The business sells mainly through digital channels ☒
- The business makes extensive use of data analytics and predictive modeling ☒

Increased relevance of the FFP

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

EMBEDDED IN AIRLINE    	SEPARATE SEGMENT    	CARVE-OUT     
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New models of governance are emerging

Finding the right structure will be key



source: FFP Investment & Advisory analysis



Food for thought



Panasonic
amADEUS



Sabre / *Airline Solutions*



swissport / 

Le **MERIDIEN**



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 right amount of control



Panasonic
aMADEUS



Sabre / Airline Solutions



swissport 

Le **MERIDIEN**



In fact, some of these companies originated as part of the airline



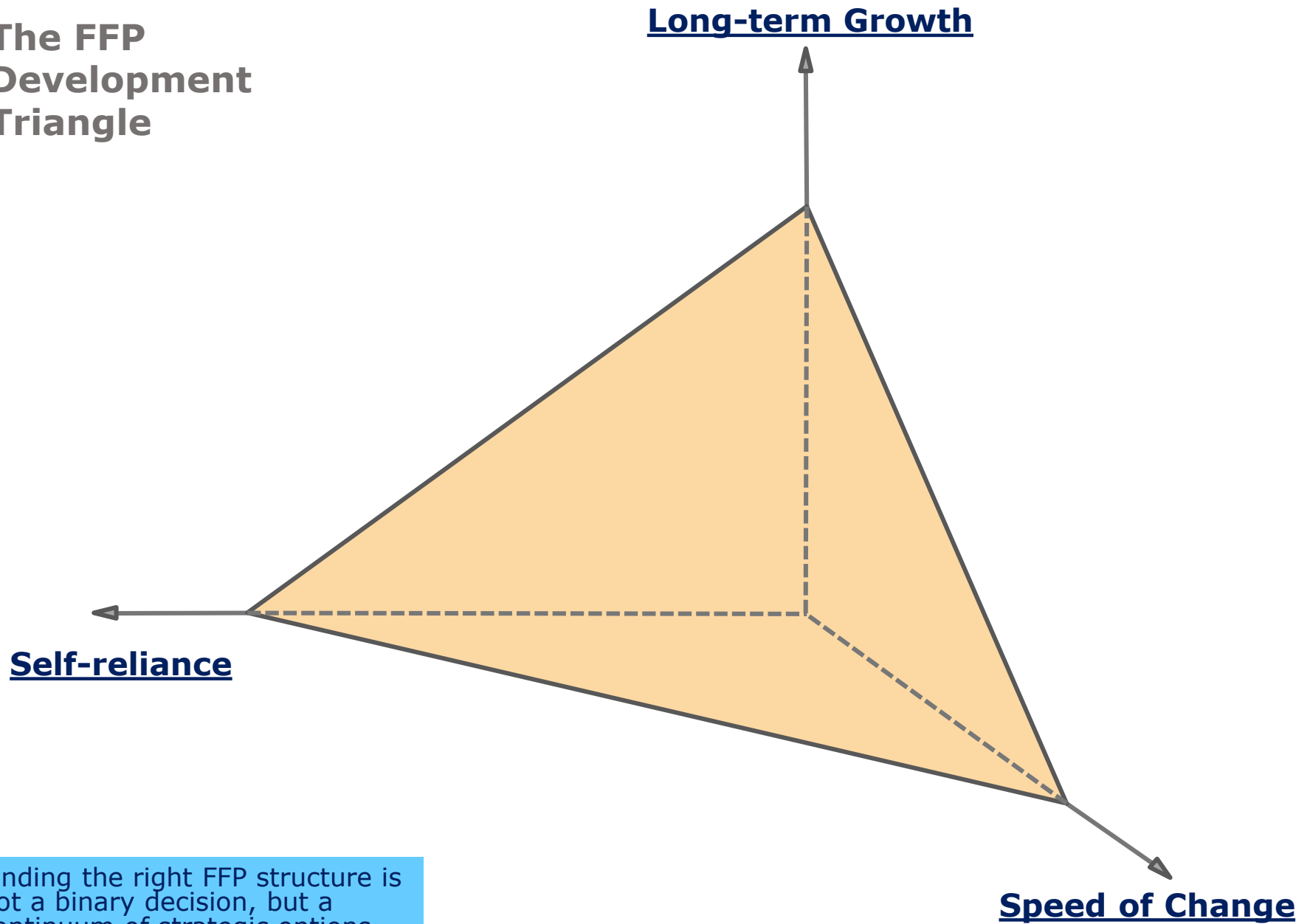
AIR FRANCE



Lufthansa



The FFP Development Triangle



Finding the right FFP structure is not a binary decision, but a continuum of strategic options.

Organic Growth

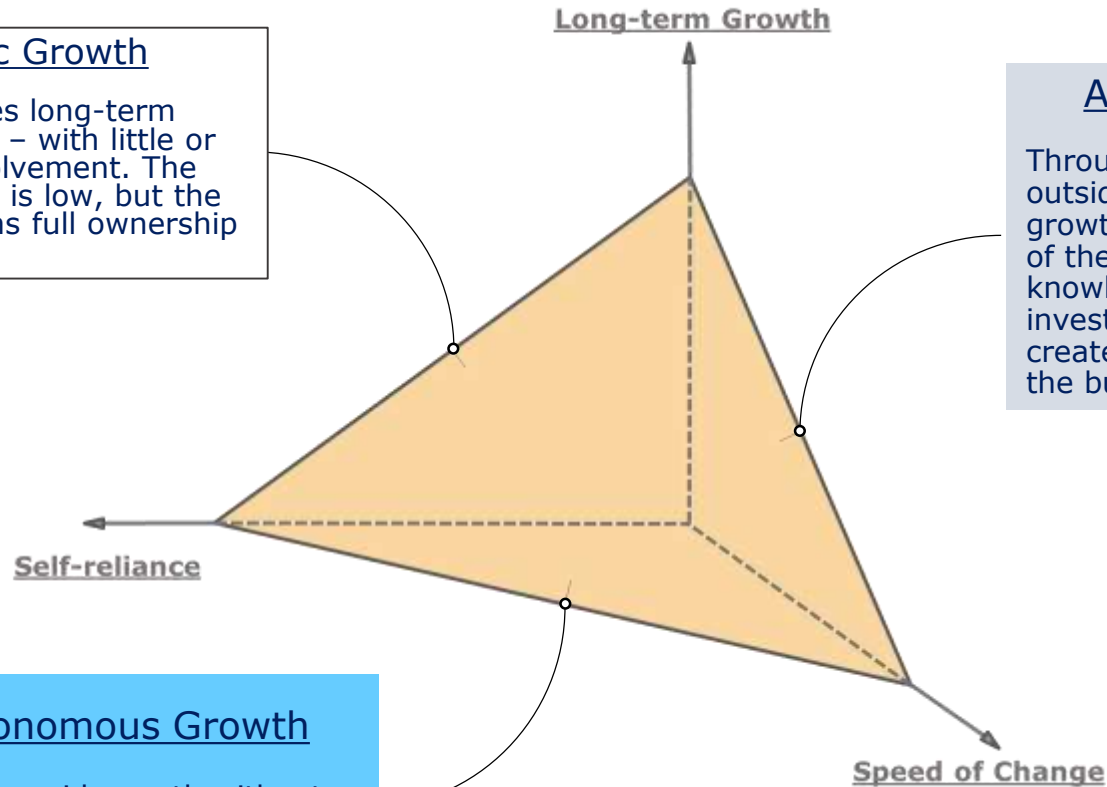
The FFP pursues long-term organic growth – with little or no outside involvement. The pace of change is low, but the airline maintains full ownership and control.

Accelerated Growth

Through collaboration with outside partners, the pace of growth is accelerated as a result of the investments and knowledge transfer. The outside investor shares in the upside created, through participation in the business.

Autonomous Growth

Pursuing rapid growth without outside support (knowledge or capital) may result in reduced long-term growth prospects.



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 the fit with the objectives of the airline

Partial FFP carve-out is a possible model

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

THANK YOU

About the presenter



Evert R. de Boer has researched and worked in airline loyalty strategy since 2000. He has collaborated with more than 15 airlines globally on frequent flyer programs in management and advisory roles, and has published numerous articles and white papers on the subject. His latest publication, *Strategy in Airline Loyalty*, offers a comprehensive overview of the airline loyalty landscape.

Following his Master of Science degree in Business Administration at the University of Maastricht, Evert de Boer has completed executive education programs at a number of institutions including the London Business School, the Walter A. Haas School of Business at University of California, Berkeley, and the Desautels Faculty of Management at McGill University.



For more information: ffpinvestmentandadvisory.com

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