

TOP 100

MOST VALUABLE AIRLINE LOYALTY PROGRAMS

January 2020 edition



AT A GLANCE

Airline loyalty programs have evolved into the financial powerhouses of the global airline industry for their scale, control and profitability

On Point Loyalty researched over 170 airlines globally- and collated an extensive set of publicly available data points

Using our proprietary algorithm, we developed pro forma valuations for each of the programs included in the study

This report ranks the top 100 most valuable airline loyalty programs in terms of their valuation

Partial equity carve-outs should not be discounted a priori in our view, as they can be a path to achieve accelerated growth – and value crystallization

BACKGROUND TO THE REPORT

From their humble beginnings as tactical marketing programs, airline loyalty programs have evolved into the powerhouses of the global airline industry. Offering a unique combination of profit, control and scalability, the programs in some cases account for the lion's share of the airline's profits. But despite their potentially large financial footprint, the loyalty programs continue to operate at the periphery of the industry.

As advisers to airlines, program partners and investors, we spend considerable time developing strategies to optimize and accelerate the value of these programs. Using these insights, we first set out to create more clarity and shed light on the tremendous value of the programs in 2017. Now, almost three years later, with a number of material changes happening on the inputs side, it is the right time to generate the updated report.

The intent of our report is to provide greater insight and awareness around loyalty programs to public investors, analysts and the airlines themselves. Unlike the core transportation element of the airline business, airline loyalty programs typically offer limited disclosure. Given that so much of an airline's value is driven by the loyalty program, we believe it is important to provide greater insight into the potential worth of these programs and highlight the value to a broader audience.

Airline loyalty programs have evolved into financial powerhouses – however their value and dynamics remain under the radar for most stakeholders

METHODOLOGY

Our research included the largest 170 commercial passenger airlines and over 50 primary variables for each airline loyalty program. The resulting dataset is split into three core categories: the airline profile, the profile of the loyalty program and the country profile.

For the airline profile, we collected detailed information on the airline's business including the number of passengers carried, the profile of the airline (full-service versus LCC), revenue passenger kilometers (RPK's), current and future fleet, and its relative dominance in the home market. We also analyzed the financial health of the airlines.

Secondly, we completed an assessment of the respective individual loyalty programs. Our assessment included the sources of accumulation across air, financial and other verticals. We considered the credit card dynamics that vary greatly across countries in terms of penetration, usage, interchange rates, etc. In addition, we described the redemption options offered by each program and developed scores for the attractiveness of those options as well as the program in general.

Thirdly, we compiled the individual home-country factors as they are an important consideration in deciding on the right valuation multiples that an investor would be likely to pay. We built country-specific estimates for valuation multiples considering GDP growth projections, political stability, GDP per capita and general investor friendliness amongst other factors.

In determining the pro forma EBITDA, we applied the appropriate parameters for key drivers such as the relative cost of rewards, long-term breakage estimates and overheads based on our insights and global best practices.

In the final step, we apply the appropriate multiple to the pro forma EBITDA. Our valuations are based on a pro forma multiple approach in which we apply differing multiples to our estimated pro forma EBITDA. For each airline, we adjust the multiple upward or downward based on a variety of factors. The valuation estimates derived are based on the assumption of a minority (10-49%) sale of equity to a private equity firm, strategic investor or through an IPO on a major stock exchange.

The modelling results were calibrated and refined using programs with public information as well as benchmarking leveraging our deep experience within the industry.

The valuation algorithm uses a combination of more than 50 primary variables (public information) and On Point Loyalty estimates around the program's financial performance for each airline

RANKING: 1-50

Rank	Loyalty Program	Associated Airlines	2020 Valuation (USD million)		2017 Valuation (USD million)
1	SkyMiles	Delta Air Lines	25,931	↑	21,752
2	AAdvantage	American Airlines	23,440	↑	19,582
3	MileagePlus	United Airlines	20,172	↑	14,687
4	Rapid Rewards	Southwest Airlines	8,013	↑	6,353
5	Miles & More	Lufthansa Group	7,418	↑	5,760
6	Flying Blue	Air France-KLM, Kenya Airways, Tarom	6,675	↑	6,270
7	Aeroplan ¹	Air Canada	6,331	↑	-
8	Avios	International Airlines Group	5,138	↑	4,750
9	KrisFlyer ²	Singapore Airlines Group	5,032	↑	2,739
10	Asia Miles	Cathay Pacific	4,701	↑	3,531
11	LATAM Pass ³	LATAM	4,556	↓	4,914
12	SkyPass	Korean Air	4,375	↑	3,796
13	JAL Mileage Bank	Japan Airlines	4,228	↑	4,050
14	ANA Mileage Club	All Nippon Airways	4,197	↑	3,658
15	Qantas Frequent Flyer	Qantas, Jetstar	4,104	↑	3,295
16	TrueBlue	JetBlue Airways	4,029	↑	3,095
17	Eastern Miles	China Eastern Airlines	3,737	↑	2,966
18	Mileage Plan	Alaska Airlines	3,397	↑	2,487
19	PhoenixMiles	Air China, Shenzhen Airlines	3,179	↑	3,045
20	Sky Pearl Club	China Southern Airlines	2,971	↑	2,537
21	Smiles	GOL Linhas Aereas Inteligentes	2,805	↓	3,191
22	Skywards ⁴	Emirates, Flydubai	2,777	↓	2,876
23	Aeroflot Bonus ⁵	Aeroflot	2,372	↑	1,260
24	Fortune Wings Club ⁶	Hainan Airlines, Hong Kong Airlines	2,296	↑	1,104
25	Miles & Smiles	Turkish Airlines	2,131	↓	2,364
26	Alfursan	Saudi Arabian Airlines	2,000	↓	2,544
27	LifeMiles	Avianca	1,969	↑	1,751
28	Infinity MileageLands	EVA Air	1,862	↑	1,605
29	Privilege Club	Qatar Airways	1,703	↓	1,855
30	Asiana Club	Asiana Airlines	1,528	↓	1,625
31	Dynasty Flyer	China Airlines	1,369	↑	1,136
32	Velocity Frequent Flyer ⁷	Virgin Australia	1,238	↑	1,096
33	EuroBonus	SAS Group	1,037	↑	807
34	GarudaMiles	Garuda Indonesia	1,036	↑	1,029
35	Egret Club	Xiamen Airlines	923	↑	515
36	Club Premier	Aeromexico	883	↑	779
37	WestJet Rewards	WestJet Airlines	814	↑	724
38	Royal Orchid Plus	Thai Airways	807	↑	766
39	Airpoints	Air New Zealand	791	↑	454
40	HawaiianMiles	Hawaiian Airlines	718	↑	531
41	Free Spirit	Spirit Airlines	623	↑	350
42	AirAsia BIG	AirAsia Group	620	↑	523
43	TudoAzul	Azul Linhas Aereas	603	↑	519
44	myFrontier	Frontier Airlines	582	↑	346
45	Matmid Club	El Al Israel Airlines	566	↑	438
46	Etihad Guest	Etihad Airways, Air Serbia, Air Seychelles	555	↓	765
47	Finnair Plus	Finnair	466	↑	348
48	S7 Priority	S7	445	↑	387
49	Norwegian Reward	Norwegian	433	↑	392
50	Flying Club	Virgin Atlantic Airways	410	↓	432

¹ Air Canada's Aeroplan was not included in the 2017 edition. ² Now encompasses total Singapore Airlines group (Scoot and SilkAir). ³ Represents the combined programs of LATAM Pass and Multiplus. ⁴ Now also encompasses Flydubai. ⁵ Now encompasses total Aeroflot Group. ⁶ Now also encompasses total Group. ⁷ In 2019, Virgin Australia announced its intent to buy back Affinity Equity Partners' 34.82% interest in Velocity for AUD 700 million.

RANKING: 51-100

Rank	Loyalty Program	Associated Airlines	2020 Valuation (USD million)		2017 Valuation (USD million)
51	Flying Returns	Air India	402	↑	392
52	LotusMiles	Vietnam Airlines	365	↑	297
53	Golden Panda	Sichuan Airlines	335	↑	271
54	Enrich	Malaysia Airlines	325	↓	344
55	Juneyao Air Club	Juneyao	304	↑	-
56	Victoria	TAP Portugal	277	↑	94
57	ConnectMiles	Copa Airlines	250	↑	235
58	myAllegiant Rewards	Allegiant Air	242	↑	162
59	MilleMiglia	Alitalia	201	↑	194
60	Suma	Air Europa	193	=	193
61	BolBol	Pegasus	189	↑	30
62	Saga Club	Icelandair	174	↑	69
63	Mabuhay	Philippine Airlines	173	↑	147
64	Lion Air Passport Club	Lion Air	159	↑	148
65	Panorama Club	Ukraine International Airlines	138	↑	93
66	Refresh Point	Jeju Air	130	↑	38
67	GetGo	Cebu Pacific	130	↑	128
68	Falconflyer	Gulf Air	122	↓	129
69	Miles+Bonus	Aegean Airlines	117	↑	94
70	V.club	Volaris	114	↑	97
71	Nomad Club	Air Astana	113	↑	110
72	Wings	Ural Airlines	112	↑	71
73	Aerolineas Plus	Aerolineas Argentinas	109	↓	127
74	Royal Plus	Royal Jordanian Airlines	91	=	91
75	Club Interjet	Interjet	88	↑	68
76	Sindbad Frequent Flyer	Oman Air	83	↑	32
77	FlySmiles	SriLankan Airlines	74	↑	50
78	EgyptAir Plus	Egyptair	63	↓	69
79	Club Vistara	Vistara	61	↑	13
80	Voyager	South African Airways	51	↓	139
81	AirRewards	Air Arabia	47	↑	41
82	Safar Flyer	Royal Air Maroc	47	↓	48
83	Travel Bank	Comair	44	↑	-
84	Ufly Rewards	Sun Country	36	↓	37
85	OK Plus	Czech Airlines	33	↑	24
86	SpiceClub	SpiceJet	30	↑	23
87	PIA Award Plus+	Pakistan International Airlines	27	↑	-
88	UZairPLus	Uzbekistan Airways	23	↑	17
89	PINS	airBaltic	22	↑	13
90	Umbi Umbi	TAAG Angola Airlines	18	↑	13
91	Fidelys	TunisAir	16	↑	14
92	Solaseed Smile Club	Solaseed Air	15	↑	8
93	Mahan & Miles	Mahan Airlines	15	↓	25
94	Royal Skies	Royal Brunei Airlines	11	↓	15
95	Loyalty Club	Biman Bangladesh Airlines	11	↑	-
96	Onur Extra	Onur Air	9	=	9
97	Fly More	Bulgaria Air	7	↓	10
98	Altasmiles	AtlasGlobal	7	↓	9
99	Préférence	Air Caraïbes	6	↑	-
100	FlyerBonus	Bangkok Airways	6	↑	-

CHANGES VERSUS 2017

As the analysis shows, 77 programs have increased in value whereas 20 received a lower valuation. Three programs received an identical valuation from 3 years ago. A number of reasons help to explain the movements in valuations.

Firstly, our model relies significantly on the overall size of the airline. Stronger growth (in passenger numbers) and RPKs will result in a higher valuation. Similarly, growth in GDP per capita will drive stronger valuations. In a number of cases, the airline's footprint actually was reduced, which resulted in a lower valuation. A number of programs benefited from the launch or re-launch of the associated co-branded credit card, which results in a material uplift in the valuation. Other programs have received different classifications in terms of overall attractiveness, e.g. after improving an elite structure, adopting a spend-based accrual structure, resulting in a greater valuation.

The report includes a number of new entrants as a result of changes in the rankings. New in the report also is Aeroplan, the loyalty program of Air Canada (not included in the previous edition as it was part of Aimia).

A number of airlines have left the top 100 including Avianca Brasil, and Jet Airways. Although the Jet Airways program was transformed following the demise of the associated airline, our model is not fit to generate a valuation for that type of program given the absence of the airline. Others have joined other programs in the group, like Flydubai.

For a number of airlines, we have reclassified the group totals resulting in higher valuations. In these cases, we believe that the group is, or shall be, using an integrated loyalty program across its subsidiaries. Examples include Aeroflot and Singapore Airlines.

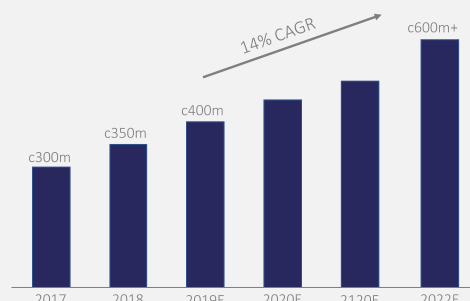
We believe that our base multiples are generally consistent with historical market multiples. In the case of recent asset sale transactions (e.g. Aeroplan and Velocity) other factors such as the remaining time for the core agreement (governing the access to, and price of, reward seats), and alternative options to individual shareholders, will have impacted the final transacted valuation.

SAMPLE PROGRAM FINANCIAL REPORTING



Avios Group Limited (AGL) manages the Avios rewards currency for the International Airlines Group. AGL reported a 20% operating profit margin for 2018, and predicts to grow the net cash generated to circa GBP 600 million by 2022. (Net cash generated is cash generated from the sale of Avios to 3rd party partners, net of cost of redemption to 3rd party partners and net of external AGL overhead costs.)

Net Cash Generated into IAG by Avios
GBP million

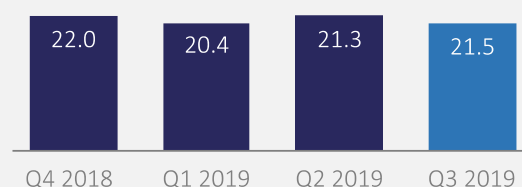


Source: IAG 2019 Capital Markets Day



PLM, which runs Club Premier, the loyalty program of Aeromexico, is a joint venture between Aimia and Aeromexico. Club Premier reported an Adjusted EBITDA of more than USD 80 million for a rolling twelve-month period ending in Q3 2019.

Adjusted EBITDA of Club Premier
USD million

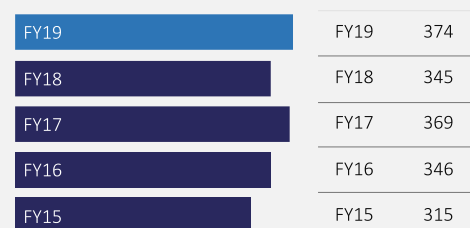


Source: Aimia Q3 2019 Highlights



Qantas Frequent Flyer has been a reporting segment for Qantas for more than ten years. In its 2019 Financial Year, Qantas Frequent Flyer reported an underlying EBIT of AUD 374 million.

Underlying EBIT of Qantas Frequent Flyer
AUD million

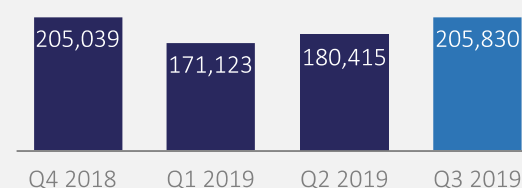


Source: Qantas 2019 Annual Report



Smiles is the loyalty program of Brazilian low-cost carrier GOL. Smiles reported an EBITDA of BRL 761 million over a rolling twelve-month period. This was before Smiles announced an increase in the price it paid for tickets purchased from GOL in January 2020.

EBITDA of Smiles
BRL thousand



Source: Smiles Datasheet 2019

CONCLUSION

First and foremost, airline loyalty programs are formidable marketing tools. Well-executed programs drive customer engagement, and act as a springboard for the ongoing transformation and digitalization of the business. The rich dataset offers an unparalleled foundation to build lasting customer relationships. And with ongoing enhancements, such as the move to value-based accrual and smarter elite qualification structures, program operators are delivering stronger program economics. The programs can be scalable, asset-light and data-driven businesses, placing them well to support the airline.

Those same characteristics also make them into potentially valuable assets – certainly in comparison with the typical returns (and valuations) of the core airline business. Unlocking their true potential will be in any airline’s best interest. Partial equity carve-outs should not be discounted a priori in our view, as they can be a path to achieve accelerated growth – and value crystallization. Working together with investors and stakeholders, new solutions can be structured to balance all stakeholders’ interests.

But fundamentally, the valuation question is only a secondary matter. We believe that the programs represent tremendous (potential) value across many different dimensions, including the financial angle. Airline boards and stakeholders should be mindful of the value of the upside of programs. Equally, they should become more conversant with the underlying value levers and the interdependency (and therefore potential tensions) between the loyalty program and airline in order to preserve and enhance that value. Today, airlines are used to partnering with specialized service providers (e.g. reservation systems, MRO service providers, catering and ground services) to exploit their deep levels of specialization - we believe loyalty programs could benefit similarly.

We hope that this report contributes to a better understanding and appreciation of airline loyalty programs.

Partial equity carve-outs should not be discounted a priori in our view, as they can be a path to achieve accelerated growth – and value crystallization

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