

# Volaris: the leading ultra-low-cost airline serving Mexico, USA and Central America

ALTA Airline Leaders Forum  
Mexico City



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# Investor Q&A: Executive summary

## Questions:

Growth potential in core and new markets, Mexico, USA and Central America

Ancillary revenue upside

Young and fuel efficient fleet

P&L and balance sheet sensitivity to FX

Airline comp set analysis

## Answers:

Important demand stimulation, bus switching and international growth opportunities

Increase non-ticket revenues from current 24% of total operating revenues

Cost dilution and efficiency coming from aircraft and engine new technology and up-gauging

Construction of a natural hedge by way of network diversification, USD revenues and robust balance sheet

ULCC strong financial performance and growth potential



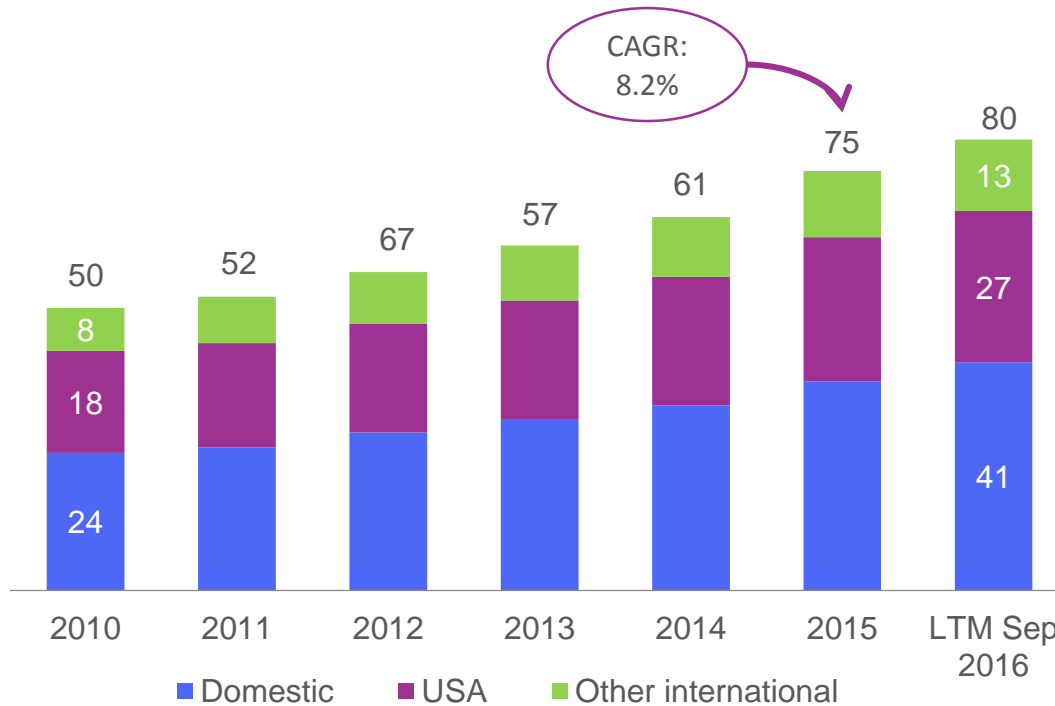
# Growth potential in core and new markets, Mexico, USA and Central America



# In recent years, Mexico's volume growth has been robust despite challenging economic environment

Mexico passenger market volume has increased since 2010

Passenger volume (millions)



## Main industry growth drivers

- Strong demand and increasing middle class
- LCC gaining market through low fares  
- 48% LCC share<sup>(3)</sup>
- High improvement potential:  
- Domestic air trips per capita in Mexico 0.25 vs. Brazil 0.45



Yoy growth	3.3%	4.0%	8.3%	8.3%	8.3%	12.3%	11.0% <sup>(1)</sup>
GDP growth	5.1%	4.0%	3.8%	1.7%	2.1%	2.5%	2.1% <sup>(2)</sup>
GDP multiplier	0.6	1.0	2.2	5.0	3.9	4.9	5.2

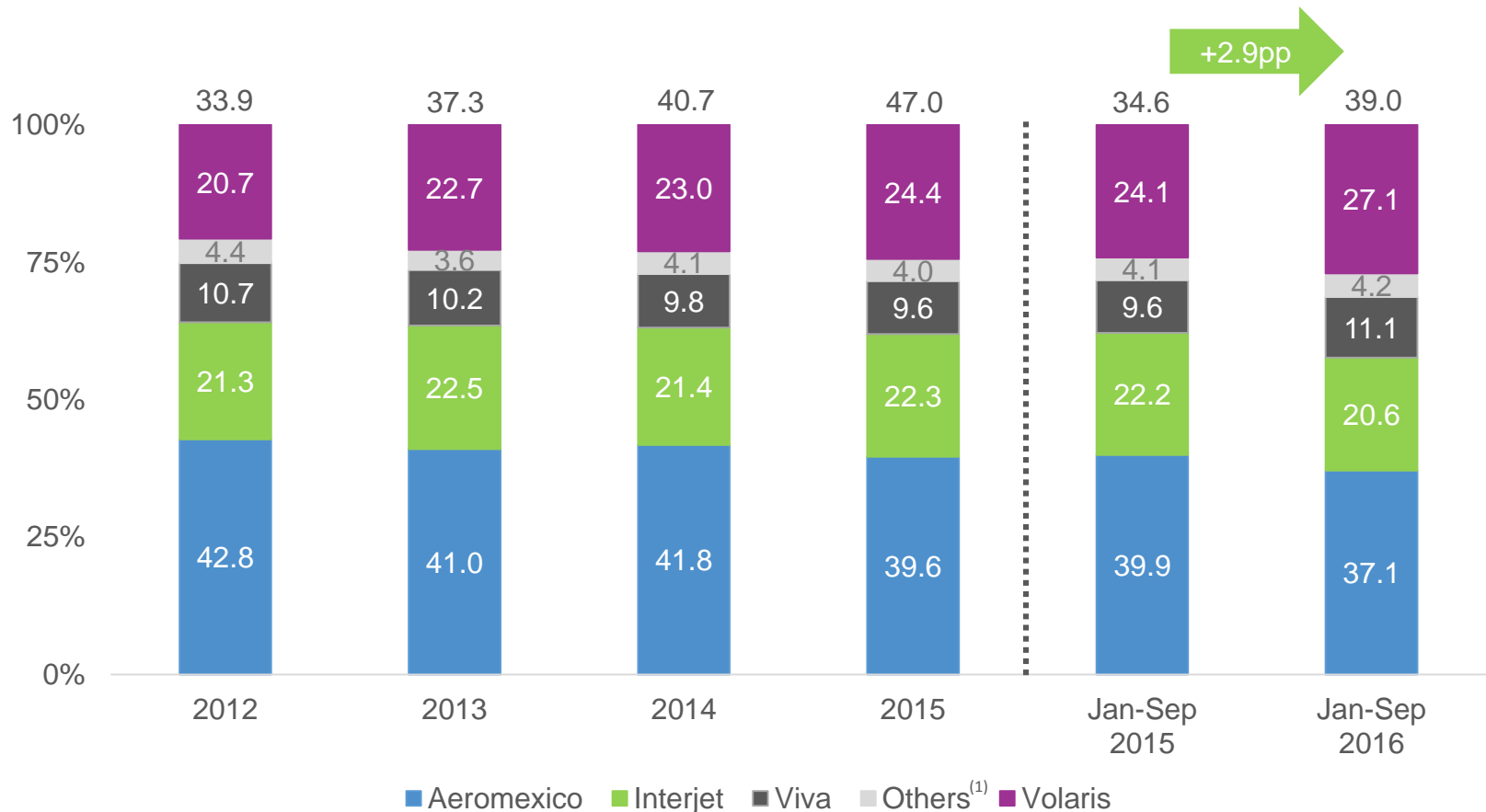
**3-5x GDP multiplier in recent years**

(1) LTM September 2015 vs. LTM September 2016 growth  
 (2) GDP growth expectations from Banxico October's survey  
 (3) Considers Volaris and VivaAerobus Jan-Sep 2016  
 Source: DGAC-SCT; INEGI; Banco de México

# Volaris has been consistently increasing market penetration, becoming the largest domestic LCC

Domestic carriers total market penetration (domestic and international)

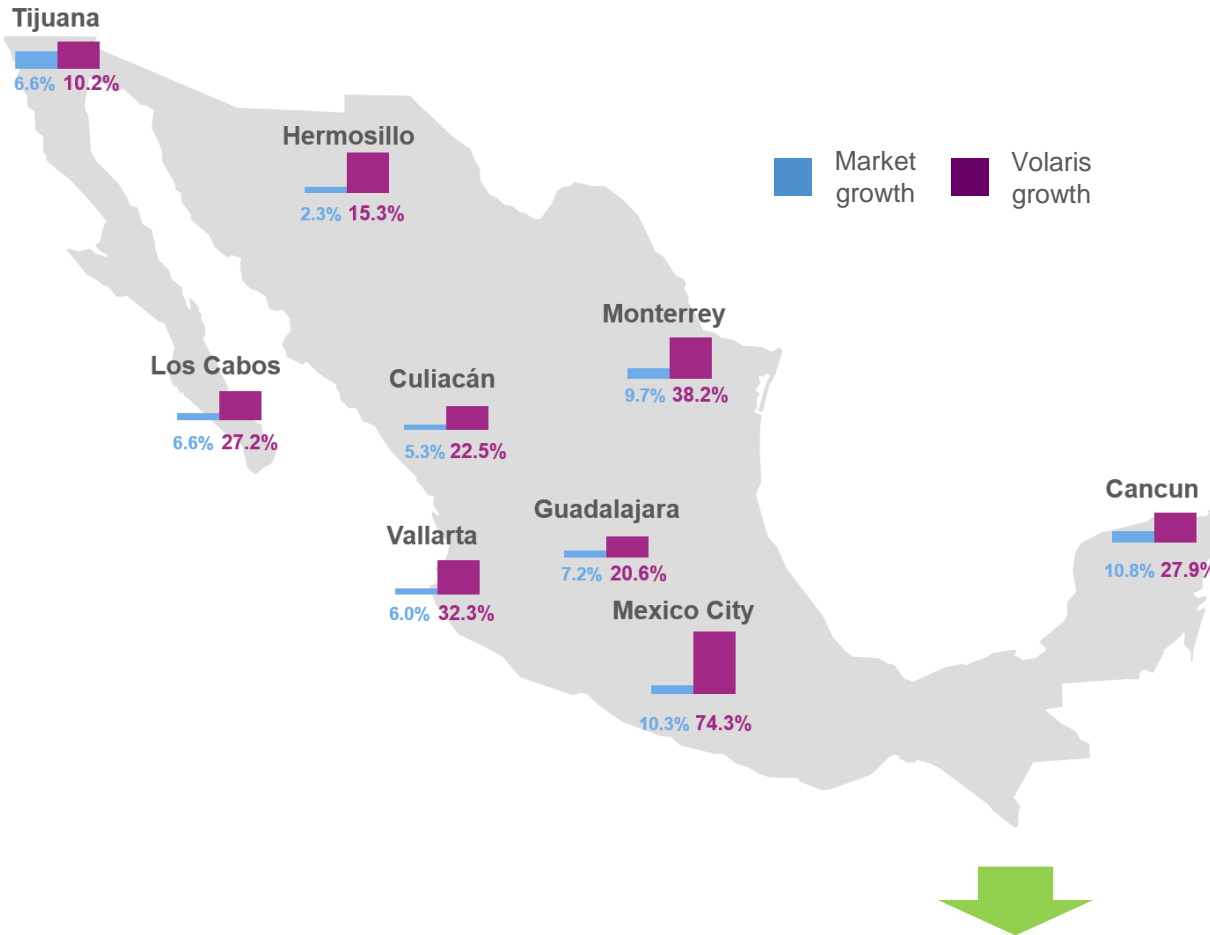
On board passengers (million)



(1) Aeromar, Magnicharters, TAR and AereoCalafia  
Source: DGAC-SCT

# Volaris has been the leading engine of growth for VFR and leisure markets in Mexico

## Segment passenger CAGR Volaris vs. market (2010-2015)



## Volaris' main growth drivers

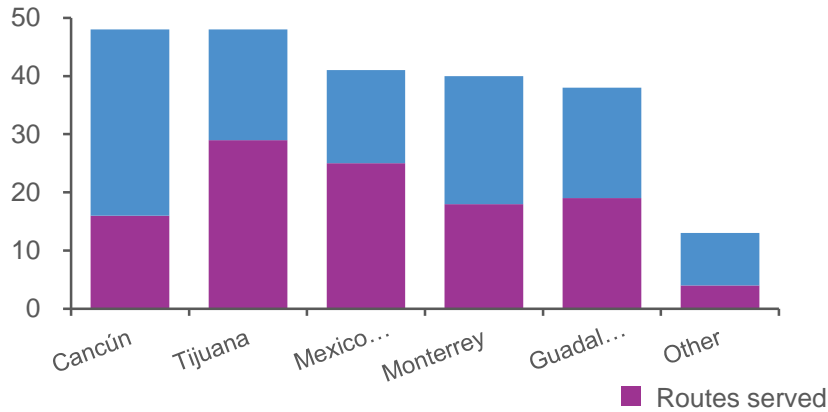
- Low costs allow Volaris to offer lower fares and make flying possible
- Fleet
  - Up-gauging: A320neo with 186 seats and A321 with 230 seats
  - Young and fuel efficient: average of 4.5 years; new generation aircraft
- Productive network with high utilization
  - Around 20 new routes per year
  - Avg. 12.9 block hours/day in Sep 2016 YTD
- High and healthy load factors
  - 86.4% in Sep 2016 YTD

Sep YTD 2016, Volaris was the source of 50% of the growth among Mexican carriers

# Significant untapped growth opportunities

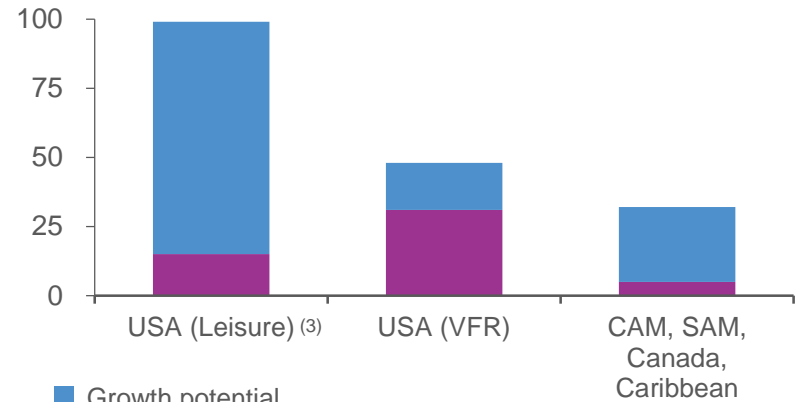
Domestic – growth potential of approx. 120 routes <sup>(4)</sup>

Number of routes <sup>(1)</sup>



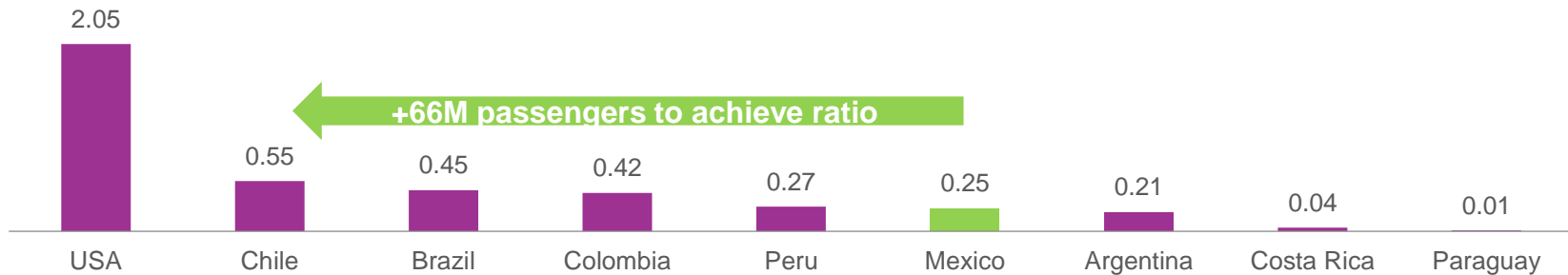
International – growth potential of approx. 130 routes <sup>(4)</sup>

Number of routes <sup>(2)</sup>



In terms of air trips per capita Mexico has plenty potential to grow

2014 domestic air trips per capita <sup>(5)</sup>



(1) Minimum stage length of 170 miles

(2) Minimum stage length of 200 miles; CAM stands for Central America; SAM stands for South America

(3) South and northbound leisure routes

(4) Figures calculated as of September 2016

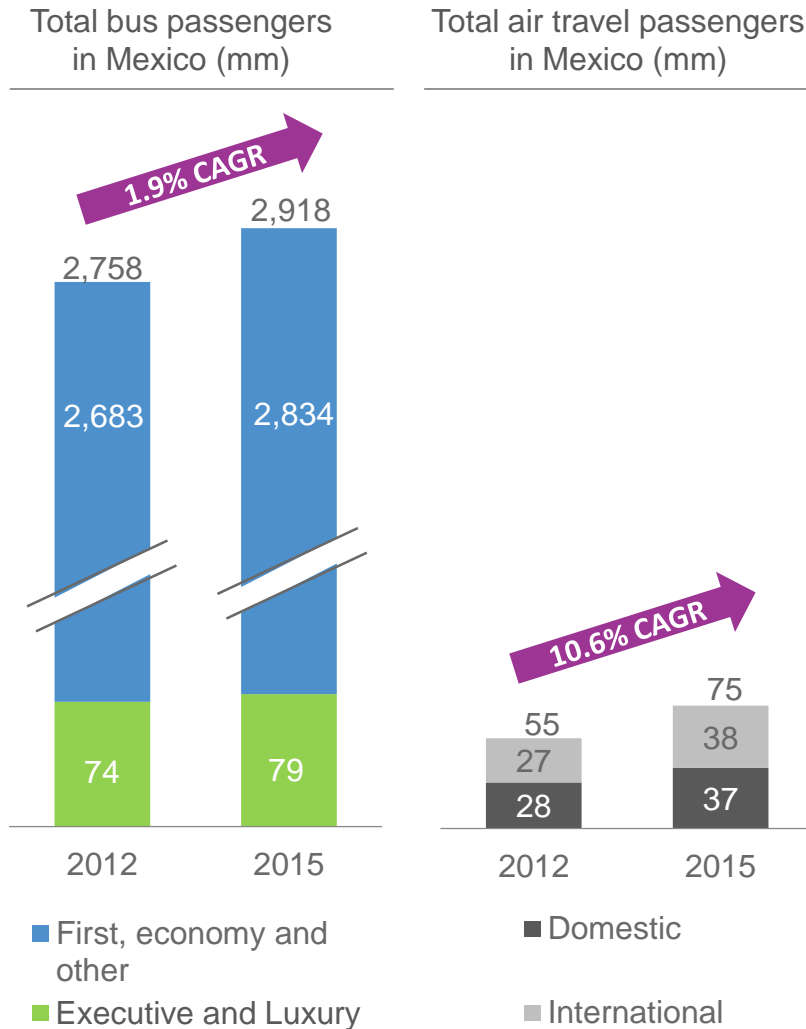
(5) Data from ALTA Yearbook 2014

Source: Company data, SCT-DGAC and DIIO MI Market Intelligence for the Aviation Industry; ALTA

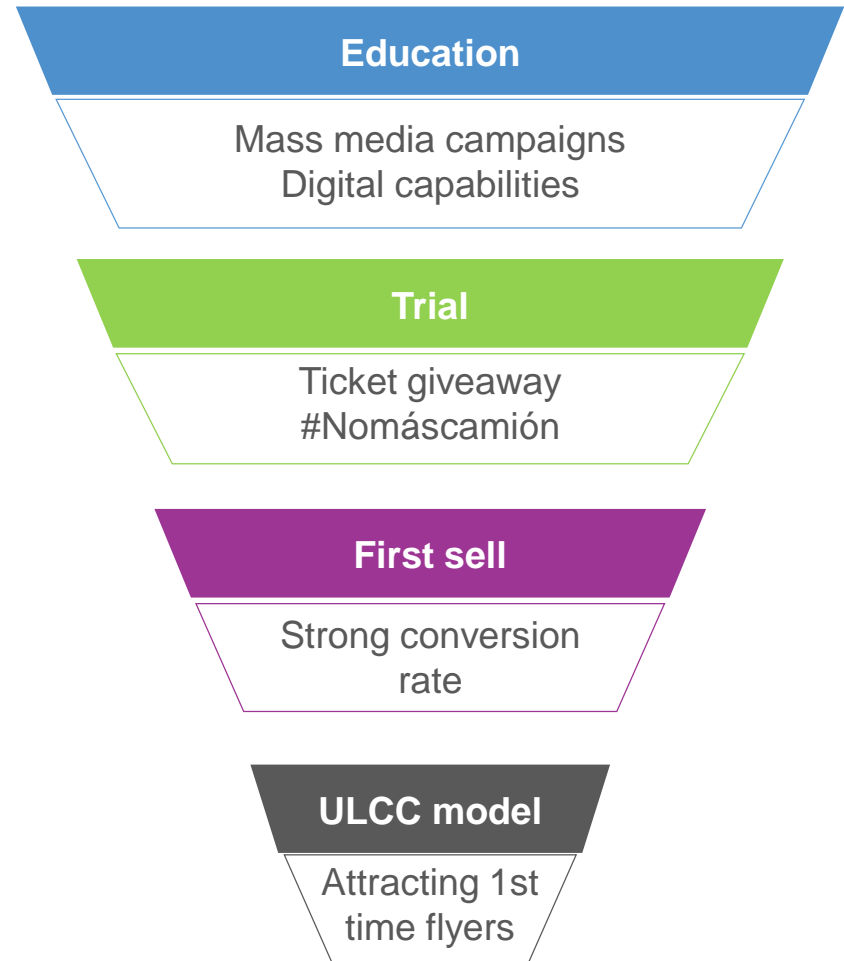


# Volaris contributed by stimulating demand from bus to air substitution

## Significant upside for air travel



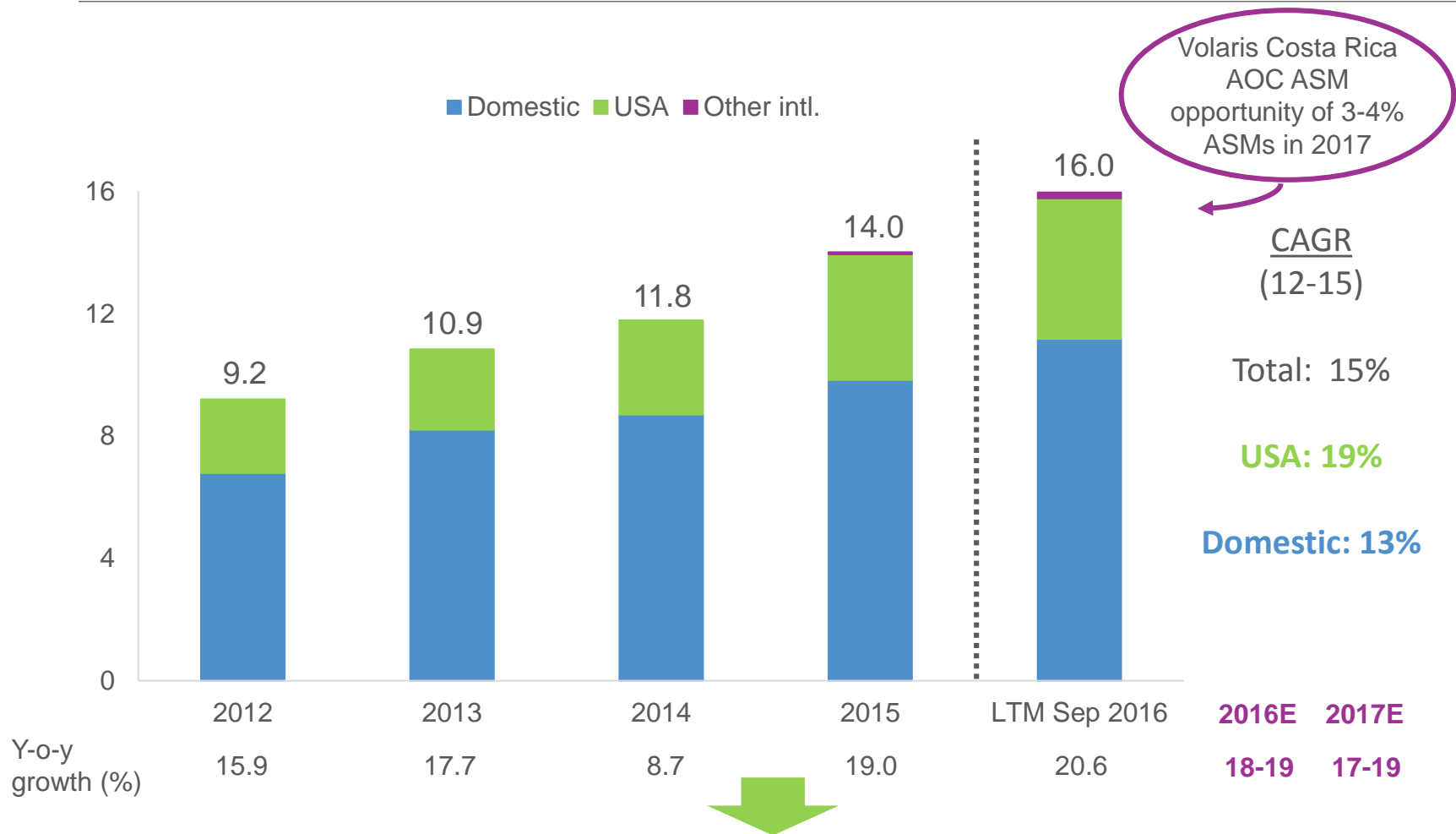
## Bus switching program



# Volaris' ULCC has potential to grow capacity in Mexican and international markets

Volaris continues diversifying its network

Volaris' ASMs (billion)



Medium-term Volaris Group ASM growth potential "in the teens"

# Volaris' Costa Rican AOC provides growth potential in Central America

## Central America key insights

- The right market
  - Costa Rica is top three middle class growth of LATAM
  - Costa Rica GDP growth of 4.2% accumulated in 2016
  - Population of ~45M in Central America
  - VFR potential in the region and to the USA, Costa Rica is the country with the most immigrants as a % of its population
  - Bus switching potential
- The right moment
  - No ULCC presence in the region
  - Local competitors have 38% of capacity share while US carriers 46%
  - High average fare and yield environment
- The right ULCC model
  - Growth sustainable and proved model, easily translatable to Central America
  - Ancillary revenue potential
  - USD denominated revenue contributing to FX natural hedge

## Potential markets



**Volaris' Central American operation full potential of 18-22 aircraft**

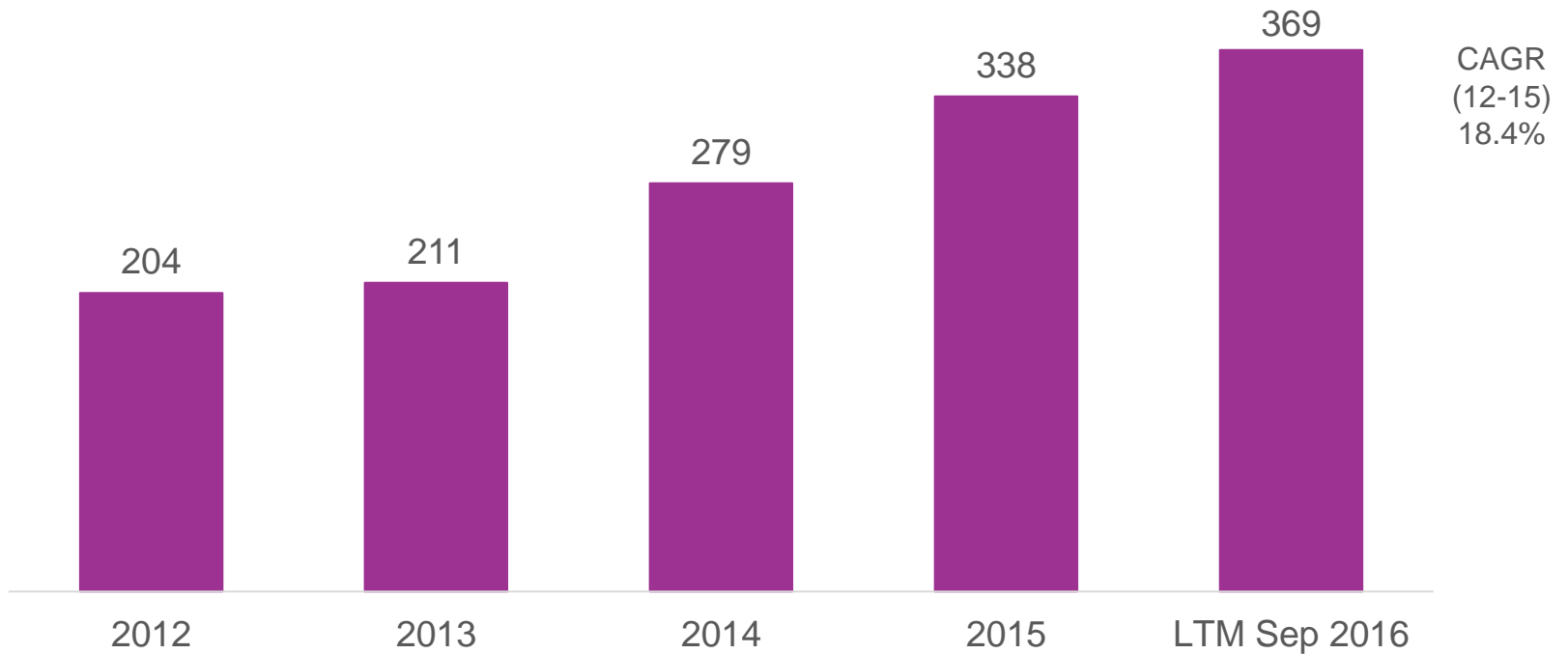


## Ancillary revenue upside



# Ancillary product focus has accelerated non-ticket revenues

Non-ticket revenue per passenger (MXN)



Non-ticket revenues (MXN)

\$1.5bn

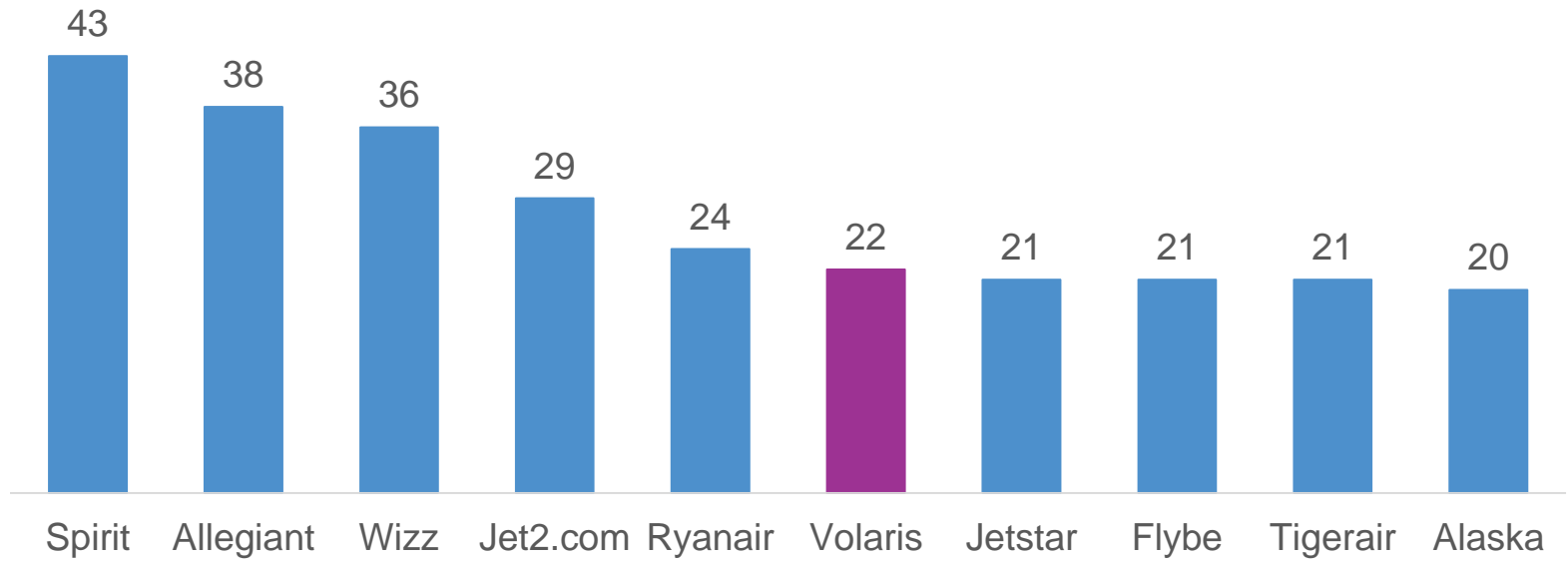
Revenue growth: 3.5x

\$5.3bn

# Already among industry leaders, our ancillary revenue still with upside potential

Non ticket revenue as a % of total revenue

2015



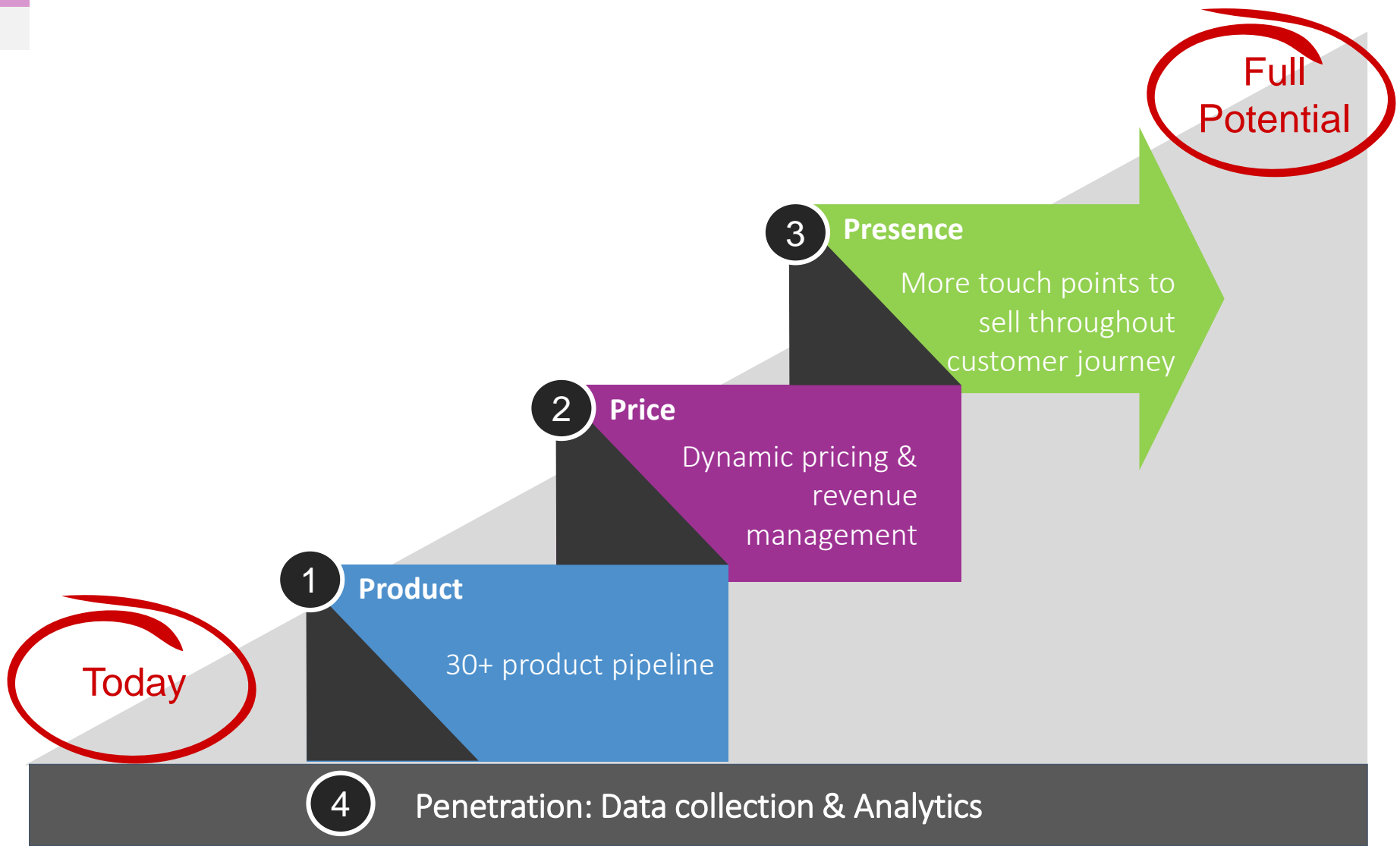
Ancillary per pax (USD)

52	50	33	51	16	<b>21</b>	26	25	21	34
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Y-o-y Var per pax. (%)

-1.1	10.6	-6.1	-9.7	-22.3	<b>13.0</b>	-14.4	-9.0	-8.3	8.9
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# Four ancillary revenue growth avenues in the coming years



# Volaris' initiatives should drive towards further non-ticket revenues expansion

Innovative approaches towards growing ancillaries in both air and non-air services

Non-ticket revenue per passenger Sep YTD 16 (USD)



(1) Converted into USD at an average exchange rate for the period of \$18.26

(2) Breakdown between first bag and additional baggage estimated

Source: Airlines public data



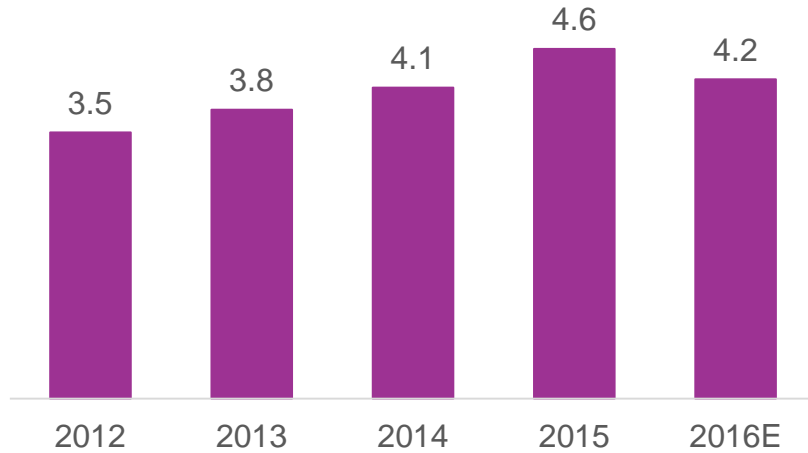


## Young and fuel efficient fleet

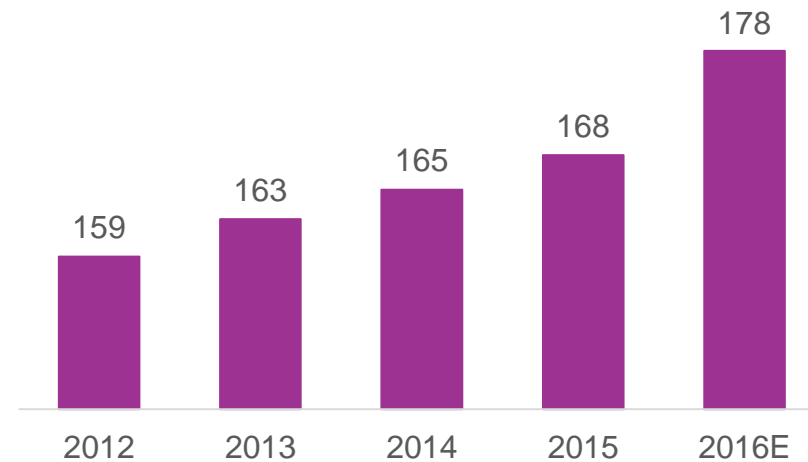
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# A young and efficient fleet with high seat density is the key to achieve lower fuel burn

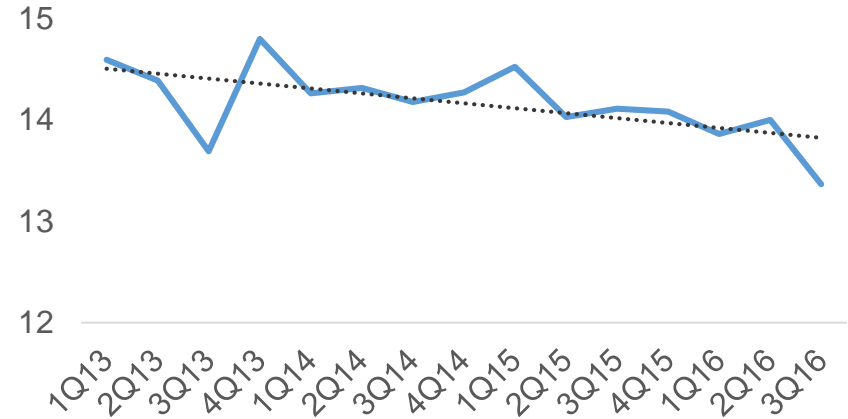
Fleet age (years)



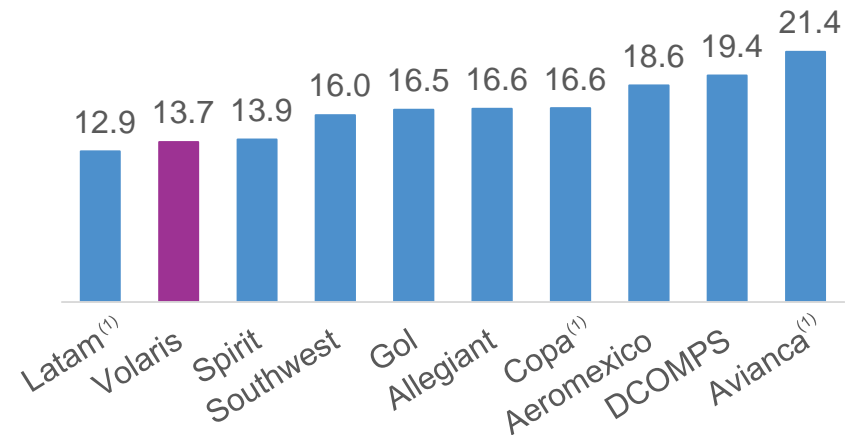
Average seats per aircraft



Fuel consumption (gal/RPM (000))



Sep YTD fuel gallons/ RPM (000)



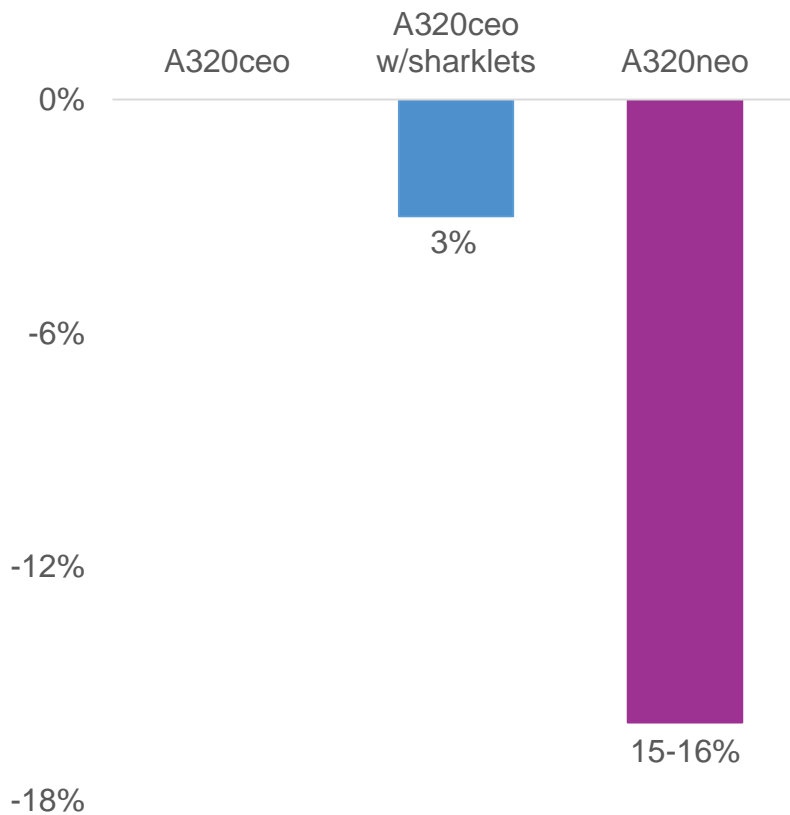
(1) Data for 1H 2016

(2) DCOMPS: direct competitors; include American, United, Alaska and Delta

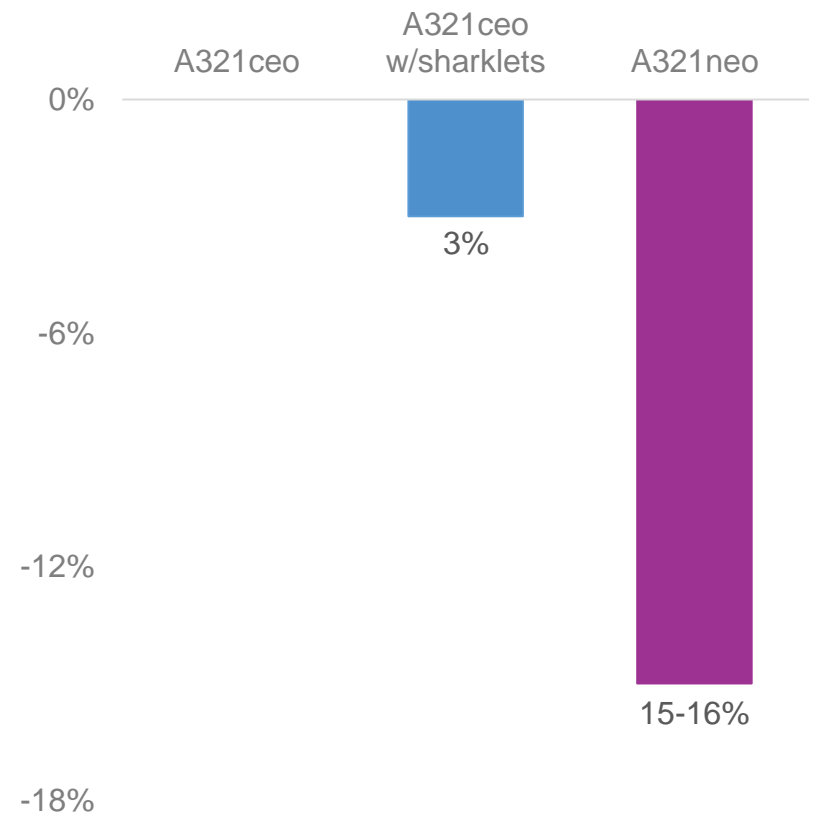
# Volaris expects to bring further cost dilution with new technology and fleet up-gauging

Airbus' New Engine Option (NEO) is expected to bring at least a 15% fuel burn efficiency per seat

A320neo fuel consumption efficiency per seat

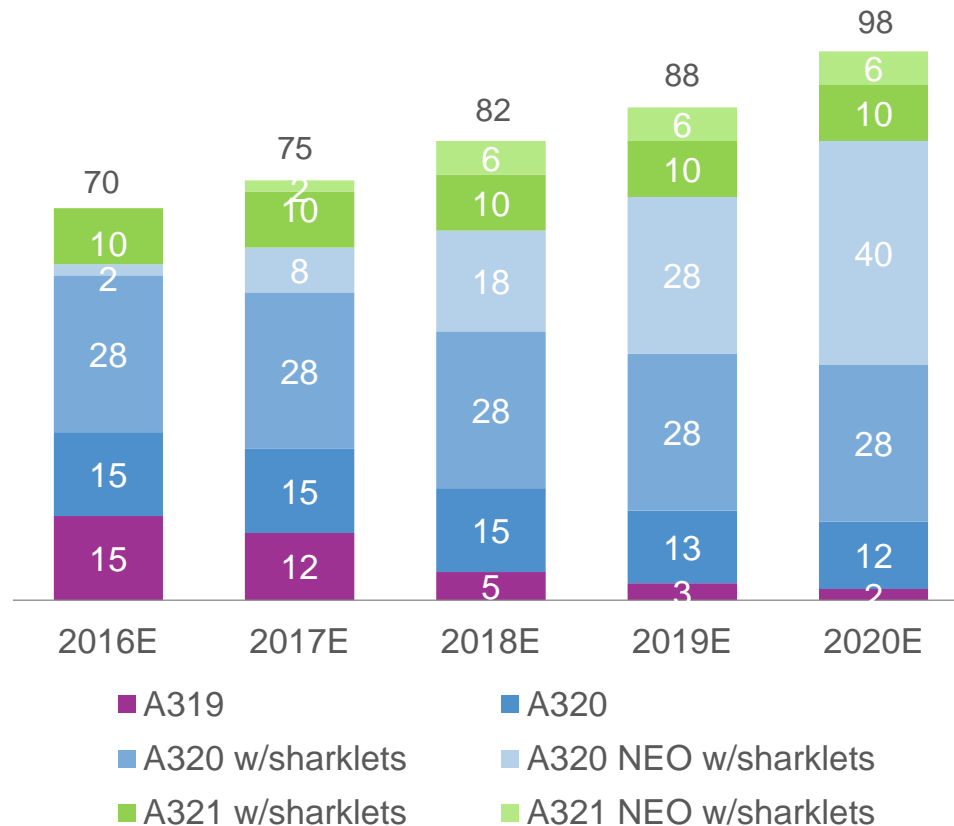


A321neo fuel consumption efficiency per seat



# Volaris' fleet plan supports its strategy to drive lower unit costs

Contractual fleet obligations (number of aircraft)<sup>(1)</sup>



- A321 (CEO and NEO)**
  - 230 seats (up-gauge)
  - ~10% CASM dilution<sup>(2)</sup>
- A320 NEO**
  - Combined fuel consumption reduction by approx. 15-16% per seat<sup>(2)</sup>
- A320 CEO with sharklets**
  - Fuel consumption reduction by approx. 3%<sup>(2)</sup>

Note: NEO stands for the Airbus new engine option; CEO stands for the Airbus current engine option

(1) Net fleet after additions and returns

(2) Source: Airbus



# P&L and balance sheet sensitivity to FX





# Volaris' diversified network and balance sheet contributes to a natural hedge for FX volatility above & below the operating line

Constructing a better FX hedge

~1/3 revenues from USD ops.

All international flights priced in USD, Sep YTD international passenger volume growth of 28%, further network diversification (USA, Central America)

~2/3 costs still FX linked

Fuel, rents, maintenance, international airports

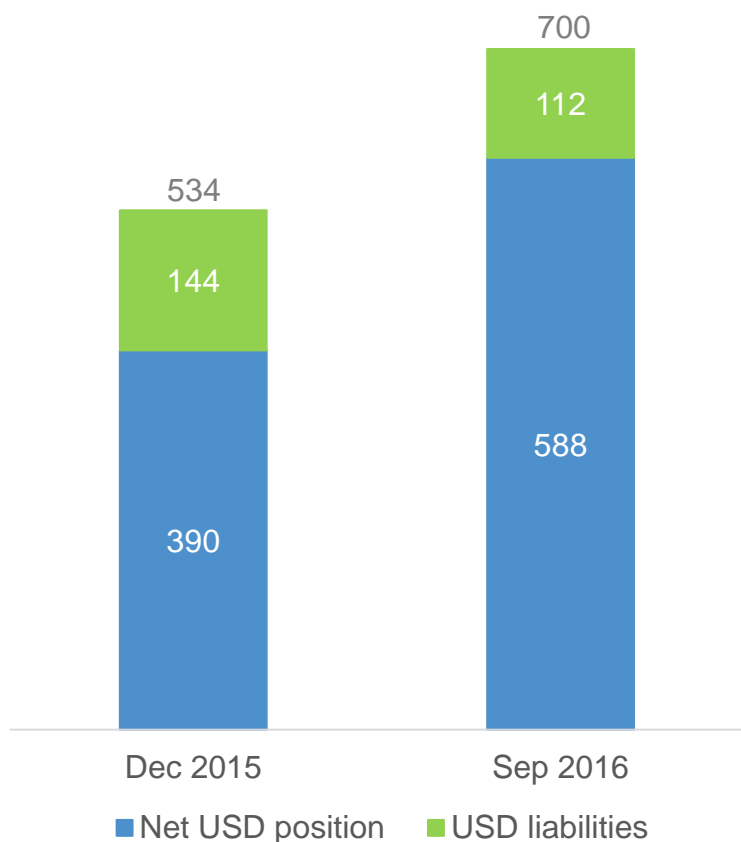
## Balance Sheet Strategy

Maintaining a high net USD monetary asset position generates an FX gain below the line

# Volaris' net USD monetary asset position provides an earnings buffer versus FX volatility

Volaris net USD monetary asset position has increased

USD monetary position (USD, million)



## USD assets

Volaris' has dollarized monetary assets in the following main lines:

- Cash and cash equivalents
- Aircraft maintenance deposits
- Deposits for rental of flight equipment

Net USD monetary asset position **USD\$588 M**

FX rate variation<sup>(1)</sup> **MXN\$2.29**

Estimated YTD net FX gain<sup>(2)</sup> below EBIT line **MXN\$1,349 M**

(1) Exchange rate variation from September 2016 vs. December 2015  
 (2) Does not contemplate realized exchange rate effect during the period



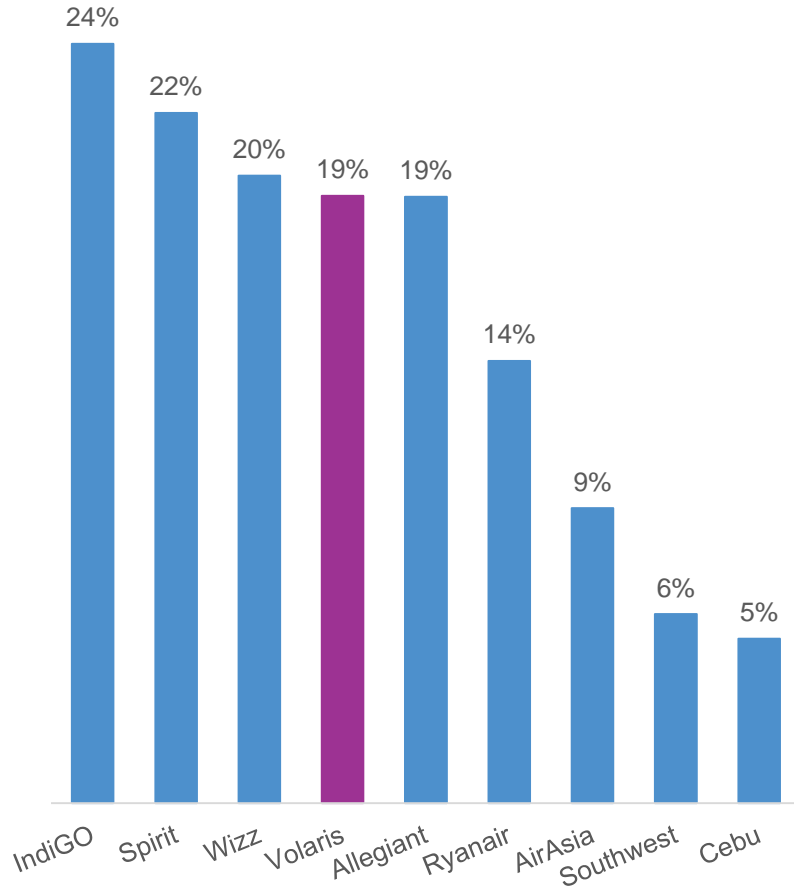
# Airline comp set analysis

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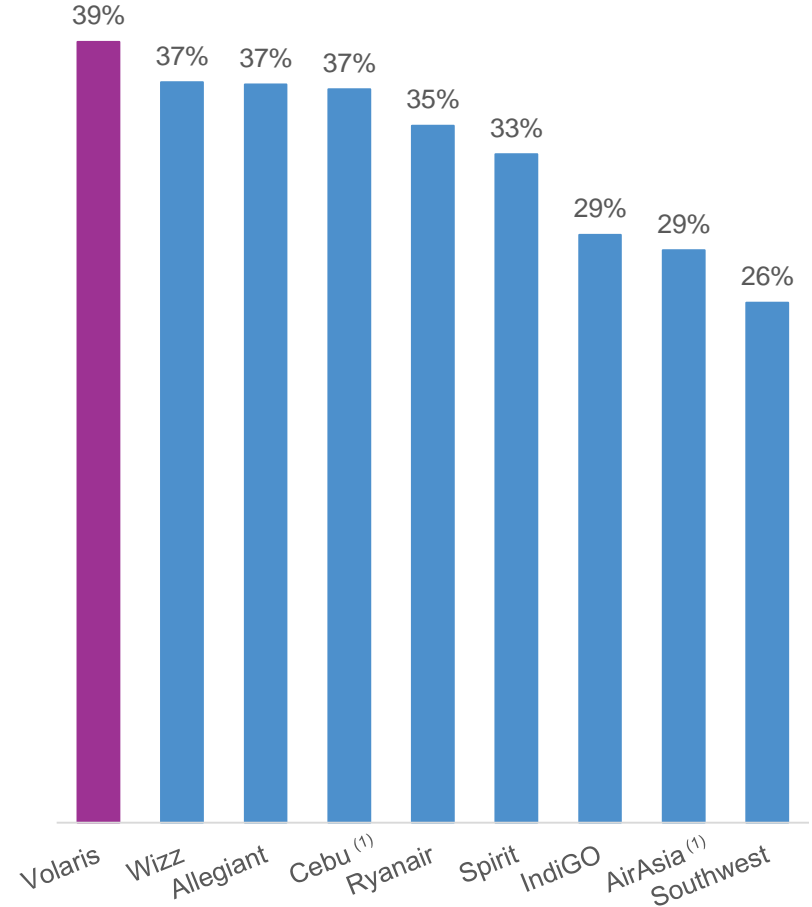


# Volaris' financial performance is comparable to best-in-class ULCCs around the world

Sep YTD 2016 ASM growth (y-o-y)



Sep YTD 2016 EBITDAR margin



(1) Data for 1H 2016  
Source: Company data, airlines public information, Bloomberg

# Volaris' peers should have the similar profitability and growth profile

## ✓ North American ULCCs & LCCs

- **Spirit Airlines**
  - **Allegiant Travel**
  - Southwest Airlines
  - JetBlue Airways
  - Virgin America
  - WestJet Airlines
- Low market share
  - Mature market
  - Similar model
  - Different growth potential

## ✓ International ULCCs & LCCs

- **Ryanair**
  - **Wizz**
  - **AirAsia**
  - Easyjet
  - IndiGO
  - Cebu
  - Tiger
- Underpenetrated air market
  - Gaining market share
  - Similar model
  - Similar growth potential
  - Emerging market economies

## ≈ LatAm carriers

- **Copa Holdings**
  - LATAM
  - Grupo Aeromexico
  - Avianca
  - Gol Linhas Aereas
- Different business model
  - Different growth potential

## ✗ US Legacy carriers

- Delta Air Lines
  - American Airlines
  - United Continental
  - Alaska Air Group
  - Hawaiian Holdings
- Different business model
  - Mature market
  - Different growth potential