



# Volaris

## Mexico's Undercapacity Champion

By

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# Pushing Back: Inside the Issue

A man on the moon? The fall of the Soviet Union? The Chicago Cubs winning a World Series? Nobody thought these things would happen. Until they did. Now, Southwest is breaking with decades of tradition by switching from open to assigned seating. It's also adding extra-legroom seats for the first time, belatedly chasing the hot market for premium flying.

Too little too late? That's what Elliott Management seems to think. Or a shrewdly incremental move to go along with its network changes, its capacity cutting, its expanded distribution channels, etc. Southwest, to be clear, is still making decent money, just nothing like the money it was making pre-Covid, hence Elliott's call for the management guillotine.

Southwest knows what it feels like to suffer an epic operational meltdown. Remember the winter of 2022? Well, Delta is now in the crosshairs as it recovers from mass disruption caused by the Microsoft/CrowdStrike outage—an event that impacted other airlines too, but none nearly so badly.

Delta's partner Air France/KLM, meanwhile, is trying to mitigate the negative revenue impact from the Olympic events in Paris. In other earnings news, American will try to mitigate the impact of an ill-conceived distribution strategy. Ryanair will try to navigate an unexpected drop in airfares. IndiGo will try to instigate a widebody war with Gulf carriers. And Volaris will try to allocate more scarce capacity to U.S. markets.

At the Farnborough Airshow, Boeing bagged a much-coveted B777-9 order from Korean Air; Qatar Airways also ordered more B777-9s. Airbus came away with new business too, including more orders from Saudi Arabia. Elsewhere, Latam is headed back to the stock market. But IAG's Air Europa takeover might be headed for the dustbin.

## The Airline Weekly Lounge Podcast

### The Ben Smith Interview

As the 2024 Olympics get underway in Paris, we speak with the CEO of the Air

France-KLM Group, Ben Smith. He's in conversation with Skift's Editor-in-Chief Sarah Kopit and Head of Research Seth Borko, for a special edition of the Airline Weekly Lounge.

Listen to the [episode here](#), and find a full archive of the Lounge [here](#).

## Weekly Winners and Losers



Photo: easyJet

## Who's Flying High?

## Airbus *and* Boeing



It's been a tough few years for the world's two largest aircraft builders, not least dealing with supply chain headaches. But the orders keep coming, as they did last week at the Farnborough Airshow.

## Volaris



The Mexican low-cost carrier reported its best Q2 results since going public more than a decade ago. A capacity shortage is certainly helping.

## EasyJet



The orange LCC sounded more bullish than its rival Ryanair, in part because its packaged holidays division continues to perform exceptionally well.



Photo: Airline Weekly/Ned Russell

## Who's Feeling Low?

### Delta Air Lines



It prides itself on reliability and punctuality. But Delta's operation was ravaged by the Microsoft/CrowdStrike IT outage, more so than any other airline.

# American Airlines



It came within a whisker of earning a double-digit operating margin last quarter. But things could have been so much better had it not made a costly distribution blunder.

# IAG



The European Commission doesn't sound too impressed by its concession offer, reportedly leaving its Air Europa takeover plan in jeopardy of getting the JetBlue-Spirit treatment.

# The Stock Take

## Airline Performance

**July 22-26, 2024**

**What am I looking at?** The performance of airline sector stocks within the ST200. The index includes companies publicly traded across global markets including network carriers, low-cost carriers, and other related companies.

**The Skift Travel 200 (ST200)** combines the financial performance of nearly 200 travel companies worth more than a trillion dollars into a single number.

# Weekly Skies

## American Hit by Colossal Distribution Blunder

- Considering the difficulties of many U.S. airlines, especially low-cost carriers, **American's** nearly 10% operating margin for the second quarter seems pretty respectable. It looks less so, however, in light of how much better **United** and **Delta** are faring, and how much less their margins declined y/y. American's margin was down almost six points y/y, compared to a four-point degradation for United and just two points for Delta. In addition, American would have earned a substantially higher margin had it not undertaken the corporate equivalent of crashing its car into a telephone pole. That's a metaphor for its extremely costly distribution stumble, which erased an estimated \$750m from its first-half revenues. Ouch. For any baseball fans old enough to recall the 1986 World Series, that's the ball going under Bill Buckner's legs.
- At the same time, American suffered from the same shorthaul yield weakness reported by its rivals. It blamed "an imbalance in domestic supply and demand," which coupled with its distribution blunder, triggered a downward revision of its unit revenue forecast in May. "We know we can do better, and we will rise to meet this challenge... We anticipated obviously a stronger, more robust demand environment, plain and simple. There was tremendous growth in 2023. And as we entered into 2024, we simply anticipated that demand would perform—and allow pricing to perform—a lot better than it did."

"We know we can do better, and we will rise to meet this challenge... We anticipated obviously a stronger, more robust demand environment, plain and simple..."

### *American Airlines*

- American parted ways with the mastermind of its distribution strategy and proceeded to do a '180. It's now adding back sales support staff and reengaging with travel agencies and their corporate clients, hoping they'll return as customers. That said, executives noted the fallout will linger throughout the remainder of 2024.
- Reacting to the domestic overcapacity situation, meanwhile, American is

reducing its own capacity in some areas. It will now increase ASMs by just 3.5% y/y in the second half of 2024. Keep in mind that American has a far smaller intercontinental network than either Delta or United, and as such suffered disproportionately from the shorthaul malaise. Some of that malaise was concentrated in markets where American has an outsized presence, like the Caribbean and shorthaul Latin America. Also remember that American's northeastern joint venture with **JetBlue** was deemed illegal on antitrust grounds. It still cooperates with **Alaska** on west coast itineraries, but more loosely.

- Separately, American experienced some rough springtime weather, though it avoided any major Delta-like meltdowns from the CrowdStrike outage. A top priority—one with the potential magnitude to significantly affect earnings—is renegotiating its co-branded credit card contracts linked to its AAdvantage loyalty plan. Consistent with other airlines, it's expanding and investing in premium services. It's making progress in bringing down its heavy debt load, aided by the positive cash flows it's generating, partly thanks to limited capital investment obligations—its fleet needs are currently pretty modest. It does continue to take Dreamliners, Maxs, and Neos, including some upcoming deliveries of XLR Neos useful for transatlantic, transcon, and Latin markets. On the labor front, American finally came to terms on a new flight attendant contract (subject to ratification) last week.

### **Big Changes Coming to Southwest. But Big Enough to Please Restless Investors?**

- Under attack by an activist investor, **Southwest** is pressed to make changes. Will it charge for bags? No. Will it have a distinct curtained-off first-class cabin? No. But for the first time ever, some of its seats will have more legroom than others, part of what it calls a "cabin monetization" drive. It's simultaneously ending its age-old practice of open seating, while redesigning its boarding process and creating a new executive VP role to oversee "commercial transformation"—the position goes to current chief commercial officer Ryan Green (see *Departures & Arrivals*).
- It's part of a broader management reorganization that mostly involves existing executives moving to new roles. Southwest did however recruit an outsider to run its digital and customer technology teams, a modest nod to critics who say its management culture is too insular. The airline is still working out the specific layouts of its new seating, which will require FAA approval. Expect more detail at its upcoming investor day event in September. It said last week however that premium seats with extra legroom will ultimately represent roughly a third of its total seats. Bookings for the first premium seats will likely start next year.

- Management is calling it “a complex and transformational change.” But will it satisfy Elliott Management, the activist investment fund that’s clamoring for the ouster of CEO Bob Jordan? Elliott isn’t impressed. In a statement published shortly after the changes were announced, the firm said, “Southwest's announcement of revenue-enhancement initiatives, purporting to offer assigned seating, premium-seating options and redeye flights, comes more than a decade late, and after a 50% decline in its share price over the past three years. This new plan is being proposed by the same leadership team that has presided over a series of failed measures to improve performance, repeated operational missteps. and poor financial results.” Jordan, for his part, said Elliott has “not shown any willingness to engage in any meaningful conversations with us.” He said much of the commentary has been “public personal attacks on leadership and the Board.”

Southwest's operating margin was just 5.5% in Q2, down from 11.5% a year ago...

*Source: Southwest Airlines*

- Southwest coupled its new seating announcement with releases of its second quarter earnings, which—sadly—weren’t good. The second quarter is normally Southwest’s strongest of the year. But this year, its operating margin was just 5.5%, down from 11.5% a year ago. As it disclosed several weeks ago, Southwest like American kicked a ball into its own net, failing to maximize revenue by selling too many lower-yielding tickets too early in the booking curve—this meant not enough tickets were available for late-booking, higher-yield customers. It tied this to teething problems related to new revenue management software, noting also that Boeing delivery delays added to the complexity. “Our overall results,” Jordan said, “they are not where we need them to be, and they are not reflective of what we are capable of delivering.” Added CFO Tammy Romo: “As shareholders, you expect us to lead the industry in financial performance, and we will be satisfied with nothing less.”
- Overall unit revenues dipped 4% y/y, in part because of its revenue management stumbles and in part due to “domestic capacity outpacing demand.” However, business demand has been growing faster than capacity. “It’s just, I think there’s some choppiness with regards to off-peak times and how much leisure spending is going on there,” said chief operating officer Andrew Watterson. “That was a

characteristic of Covid where people would more frequently take off-trips for leisure reasons, and there's less of that now, and so that does create this kind of period of the year, where then there's more capacity than demand."

- Executives separately went out of their way to stress the distinctions between Southwest and its ultra-LCC rivals like Spirit and Frontier. A large portion of Southwest's customer base is affluent Americans flying for business. "When you look at our customer base demographically and how that compares to our peers in the industry, it looks a lot more like... our legacy peers than it does LCCs or ULCCs."

"I think there's some choppiness with regards to off-peak times and how much leisure spending is going on there..."

*Andrew Watterson, Southwest COO*

- It will take time before any monetization from premium seating has a material impact on earnings. Southwest, after all, has a fleet of some 800 planes it will need to reconfigure. In the meantime, it aims to boost margins by adding new overnight redeye flying, which will result in additional ASM capacity using existing crews and planes. On the other hand, Southwest is scaling back its overall ASM growth, such that they'll be down 4% y/y by Q4. Seat counts and trip departures will actually be down more like 8%. The hope is that this will reverse the unit revenue declines it's been suffering. Getting its revenue management back on track should help too. "By the fourth quarter, we expect less capacity oversupply as well as improvements in our revenue management."
- Note that American and Southwest are both dialing back capacity, contributing to what **United** flagged as a big capacity correction looming on the horizon. Cirium Diio schedules show total industry-wide domestic U.S. seat capacity up 6% y/y in July but only 3% in August and September.
- Aside from cutting capacity, Southwest hopes margins will improve with network changes, including some sharp Q3 cutbacks in markets like Atlanta, Los Angeles, San Jose, Fort Lauderdale, Chicago, and Oakland. The carrier is also broadening its distribution reach by making its schedules searchable in Google Flights. It continues all the while its campaign to win more managed business travelers. Of course, its plan to shrink capacity will have negative unit cost repercussions. But the arrival of more efficient Boeing 737 Max planes, however belatedly (it's still waiting for Max 7 certification) will help.

## Air France/KLM Sees Earnings Drop

- Last year at this time, Europe's longhaul airlines were enjoying unusually favorable conditions, with demand super-strong and fuel prices down. Things were not quite so favorable this spring, as **Air France/KLM** made clear with its Q2 earnings. The airline managed a 6.5% operating margin, down from nearly 10% a year earlier but a bit up from where it was in Q2 of 2019. This spring's result would have been slightly better were it not for about \$43m in lost revenues tied to the Paris Olympics. The Games are expected to have another negative \$172m impact in the current July-to-September quarter. While the Olympics will elevate Air France's brand visibility and leave Paris with improved aviation infrastructure, the near-term impact is lost revenue from business travelers and tourists avoiding the city during the festivities.
- Air France itself earned just a 4% operating margin in Q2, down from 10% last year. KLM however held steady y/y at 8%. **Transavia** improved from break even to positive 3%. The group's maintenance division also contributed a 3% operating margin. Its Flying Blue loyalty plan, now with 12m active members, delivered a plump 26% margin, accounting for 3% of groupwide revenues. On the cost side, labor and fuel outlays each increased by 9%.

KLM's Q2 operating margin was 8%, while Air France's dipped to just 4%...

*Source: Air France-KLM Group*

- The discouraging results at Air France, which until recently was showing impressive financial improvement, is also linked to geopolitical disruptions in some key markets in Africa and the Middle East. Across both Air France and KLM load factors across the North Atlantic—and yields across the South Atlantic—are coming down some from elevated levels. Asia yields are falling as the two airline brands add back capacity. Overall, however, the group sees longhaul demand still holding strong, and shorthaul demand showing just “minimal” softening. Premium revenues grew a healthy 7% y/y last quarter, “and its share of total revenue continues to rise.” Premium leisure, specifically, is way up from 2019. Corporate revenue was up 5% y/y and now stands at about 85% of 2019 levels. The group is also selling more tickets directly and growing ancillary revenues.
- Air France/KLM remains strategically very active, buying a 20% stake in SAS, forming a joint A350 component maintenance business with Airbus, restructuring

its Paris Orly operations, adding next-generation planes, etc. It readily admits that it's watching to see if **TAP Air Portugal** might be a good takeover target. It surely has its eyes on **Air Europa** too, with **IAG's** planned takeover meeting ominous regulatory resistance. In the meantime, Air France/KLM is implementing a hiring freeze for non-operational staff and cutting "discretionary" spending by a fifth in the second half of 2024.

### For Ryanair, Summertime Pricing Power Weakens

- No thunderstorms yet. But the clouds over Europe's shorthaul markets are clearly darkening. **Ryanair** last week said its close-in bookings have been "disappointing and materially weaker than we've expected... we are repeatedly seeing price resistance as we try to close off cheaper seats." That's a change from the previous two summers, in which strong demand enabled Ryanair to charge significantly higher fares for late-booking travelers. "It is not pricing up the way it has for the last number of summers... and we expect this trend will continue."
- Ryanair's comments follow similarly bearish statements by **Lufthansa**, **Norwegian**, and **Finnair**, not to mention **Air France** and its commentary about anemic Paris bookings during the Olympics. Ryanair clarified that "the demand is there, but the consumer is reacting to pricing." This trend, it added, was evident in markets throughout Europe.

"It is not pricing up the way it has for the last number of summers... and we expect this trend will continue..."

#### *Ryanair*

- What's causing fares to decline across Europe this summer? Ryanair thinks it's related to pressure on household finances, with consumers facing higher interest rates and other forms of inflation. There's still some uncertainty about how late-booking fares come in for August and September. "But we think the trend is downwards not upward." As a result, the Irish LCC expects profits to be lower than expected this summer, and for its full fiscal year that ends next March.
- As for last quarter (April-to-June), the airline's operating margin dropped sharply y/y, from almost 20% to just 10%. Some of this relates to an earlier Easter this year, which shifted some demand into the prior quarter. That, however, wasn't the only reason why calendar Q2 fares dropped 15% y/y on average. Already in

the spring, Ryanair was forced to pursue “more price stimulation than we had previously expected.” At the same time, operating costs last quarter increased 11% y/y. Hedges helped restrain fuel inflation. But non-fuel costs jumped 15%, with labor costs alone up 25%. Costs were higher in part because of an 11% increase in scheduled ASK capacity, according to Cirium Diio. Labor costs rose because of pay increases as well. And thirdly, Ryanair was overstaffed relative to its needs because of Boeing’s aircraft delivery delays. The carrier ended June with 156 B737 Maxs, which is 20 fewer than planned. Separately, Ryanair’s revenues and costs are both impacted by Europe’s “horrendous” air traffic control delays.

- Even as shorthaul fares across Europe weaken this summer, Ryanair expects the longterm fare trend to be inflationary. That’s because of the worldwide aircraft shortage, the pressure on higher-cost airlines to counteract cost inflation, and the wave of consolidation exemplified by Lufthansa’s takeover of Italy’s ITA. Ryanair, in fact, supports IAG’s takeover of Air Europa.
- Ryanair’s profits might be down, and its pricing power weakening this summer. But its vast war chest of competitive advantages remains intact, including its pristine balance sheet, its industry-leading cost structure, its strong base of ancillary revenue, its privileged relationship with Boeing, its negotiating leverage with airports, its ample growth prospects, and so on. It currently has three-quarters of its annual fuel needs hedged at below current spot prices. And far from fearing a recession, it welcomes one, insisting that it benefits when consumers and businesses become more price-conscious.
- CEO Michael O’Leary spent a good part of last week’s earnings call discussing the airline’s legal battles with online travel “pirates” who he insists are re-selling its fares illegally. He delivered a specific tirade against Booking.com, with which Ryanair was locked in a legal battle. At the same time, Ryanair is partnering with online agencies that agree to its terms.

### EasyJet’s More Optimistic Take

- **EasyJet** gave a bullish trading update, one that seemed at odds with Ryanair’s bearishness. The British LCC’s 9% operating margin for the April-to-June quarter came within a point of matching its perennially more profitable rival. But while Ryanair’s results worsened significantly y/y, EasyJet’s modestly improved. And that’s even with Easter falling in March this year.
- The airline’s resoundingly successful easyJet Holidays division, which sells travel packages including hotel stays, continues to deliver strong returns. Fewer

operational disruptions and longer-stage lengths helped temper unit cost inflation. Ancillary revenue per seat increased. And ticket revenue per seat, excluding ancillaries, declined just 1% y/y. This was all on 7% more seats flown.

— Jay Shabat and Gordon Smith

## Fleet

*A round-up of the most notable aircraft orders and developments from the 2024 Farnborough International Airshow*

### Flynas Signs for 90 Airbus Jets

- One of the largest commercial aircraft deals by volume at Farnborough came from **flynas**. The Saudi low-cost carrier signed a Memorandum of Understanding (MoU) with Airbus for up to 90 new planes. The agreement covers 75 A320neo family jets, plus 15 A330-900s.



Paul Meijers, Airbus Executive Vice President - Commercial Transaction and Bander Al Mohanna, Flynas CEO seal the deal

Photo: Airbus

- Flynas is already an all-Airbus operator, with a fleet of narrowbody and widebody planes. Most of which are already new-generation examples. The MoU is therefore a 'more of the same' approach, which should enhance the LCC's ability to leverage economies of scale with a streamlined fleet.

- Flynas said the incoming A330neos will have a dense two-class configuration, with up to 400 passengers carried. Bander Almohanna, the airline's CEO said the new widebodies will enhance long-haul capabilities while "supporting our growth plans and Saudi Arabia's pilgrim program."

## X Marks the Spot for Qatar

- **Qatar Airways'** already significant order of Boeing 777Xs is getting bigger. The Doha-based operator has added an extra 20 777-9s to its Boeing backlog. This is in addition to existing commitments for 40 -9s. In total, Qatar Airways now has 94 777Xs pending, straddling both passenger and cargo variants.
- Making a rare public appearance at the show was Boeing Commercial Airplanes President and CEO, Stephanie Pope. Describing Qatar Airways as "a leader in our industry," she added that the OEM "appreciate their confidence" in Boeing's widebody products.



Image: Boeing

- In other Qatar developments at Farnborough, the airline unveiled its refreshed business class offering. Branded as the 'Qsuite Next Gen', it is evolution rather than revolutionary territory for what is already a hugely popular seat. Notable additions and improvements include movable IFE monitors, companion suites with window views, larger lie-flat and double beds, and lockable drawers. Don't forget, there are still swathes of the Qatar fleet that don't have the first-generation Qsuite, never mind its successor. The fuselage of the Boeing 787 for example, is too narrow to accommodate the product. Qatar confirmed that the Next Gen will feature as part of the 20 additional 777-9s, "among other aircraft,"

without going into specifics.

## Nifty Fifty for Korean

- **Korean Air** gave Boeing a welcome boost with news that it is ordering up to 50 widebody planes from the OEM. An MoU between the companies covers 20 777-9s and another 20 787-10s. There are additional options for a further ten Dreamliners, bringing the total to 50. Boeing noted that the 777-9's range of more than 11,000nm will allow the plane to serve all U.S. destinations nonstop from Korean's Incheon hub. The -9 has the longest fuselage in the 777 series, with a typical seating capacity of 400 to 420 seats.
- In March, the flag carrier said it was adding a total of 33 Airbus A350s to its fleet. This comprised 27 of the largest A350-1000s and six of the -900 variant. While precise seating configurations are still to be confirmed, the -1000 has a capacity for between 350 and 410 in a regular three-class setup. The shorter -900 typically seats between 300 and 350 passengers, again in the three-cabin layout. While the addition of the A350 will be new for Korean Air, **Asiana Airlines** - with which it hopes to merge - already flies the jet.
- With the latest additions included, Korean Air says it will have more than 200 new-generation aircraft in its fleet by 2034. This includes 33 A350s, 50 A321neos and 20 Boeing 787-9s. It is still unclear what shape the overall fleet will take once the Asiana merger is approved. At the time of writing, only regulators in the U.S. are yet to give the deal the green light.

## Virgin Atlantic Completes the Set

- **Virgin Atlantic** used its local airshow to confirm the final piece of its airplane jigsaw. Described by the carrier as "completing its fleet transformation," the airline placed a firm order for seven Airbus A330neo. The deal builds on existing deliveries of the type and will ultimately see 19 examples in the Virgin roster.
- Doing things in a typically unorthodox style, the agreement was announced onboard one of the carrier's newest A330-900s. The jet is named Ruby Rebel and registered G-VSRB in honor of Virgin founder Sir Richard Branson. The incoming A330neos are ultimately expected to replace Virgin's Boeing 787 Dreamliner fleet. If realized, this would make the company an all-Airbus airline for the first time in its 40-year history.
- Speaking as the deal was made public, Shai Weiss, Virgin Atlantic CEO said: "Our special partnership with Airbus began with the arrival of 'Lady in Red' in 1993,

with our most recent arrival, 'Ruby Rebel', arriving to mark our 40th birthday this year. Virgin Atlantic has flown more than 60 Airbus tails in the last three decades. While not first to the party, they've been our main dance partner, making our customers smile ever since."

## Airbus Makes Magic with Abra Agreement

- The Abra Group - the majority investor behind two of Latin America's largest airlines - is in the market for more widebodies. The company signed a memorandum of understanding for up to eight Airbus A350-900s, comprising five firmer options, plus three additional planes. Abra's two biggest brands are Colombian flag carrier **Avianca**, and Brazilian LCC **Gol**. With the latter being an all-narrowbody Boeing 737 operator, it is likely, but not guaranteed that the A350s will be bound for Avianca. It remains to be seen if Gol could adopt an **Azul**-style model and spread its wings into long-haul widebody sectors. At present, Avianca's only twin-aisle jets are Boeing 787s.
- As well as increasing capacity, Abra says the new jets will "further expand its international long-haul operations, in line with the group's strategic plans to offer greater connectivity, further access and new destinations on long-range routes to millions more passengers." Adrian Neuhauser, the group's CEO said the agreement will "further consolidate Abra as one of the largest and most competitive air transportation groups in Latin America," adding that the selection was "consistent with the strategic announcements we have done this year and further executes on our long-term vision."
- The developments follow an interesting few weeks for the Abra. The UK-based group recently revealed a "strategic investment" in Spanish charter and wet-lease operator **Wamos Air**. The deal, which remains subject to regulatory approval, could see Abra become an increasingly relevant player in the European market. Abra already has a fleet of more than 250 aircraft, serving 150 destinations across 25 countries.

## Japan Airlines Inks Airbus Deal

- **Japan Airlines** (JAL) finalized terms for a major new order with Airbus. The national carrier is due to receive 20 A350-900s, plus 11 A321neos. The deal builds on a tentative commitment that was announced earlier in the year.



Image: Airbus

- Speaking during a formal signing ceremony at Farnborough, the airline confirmed that the A350s will be deployed on international routes. In keeping with other Japanese and regional operators, JAL often rosters twin-aisle planes on domestic services to keep up with demand. The new A321s will mostly operate within Japan.
- The deal brings the total number of A350s ordered by JAL to 52. At the time of writing, 18 of these were in service, with one destroyed during a runway collision at Tokyo Haneda in January. Significantly, the A321neo agreement is the airline's first order for an Airbus single-aisle jet. Christian Scherer, CEO of Airbus Commercial Aircraft, said the A321neo order represented a "new milestone in our partnership with the airline."

### Farnborough Fleet News in Brief:

- **Drukair** is eyeing international expansion with new Airbus jets, including the A321XLR. The national carrier of Bhutan signed an MoU for three A320neos and a pair of XLRs at Farnborough. Deliveries are due to begin in 2030. The airline said the new planes will operate out of the existing Paro International Airport, but also a new air gateway at Gelephu Mindfulness City. This is a new settlement which Bhutan is positioning as a "futuristic economic hub." From there, Drukair will "expand connectivity to Europe, South East Asia and Australia." The carrier already operates four Airbus examples; three A319s and a single A320.
- **Macquarie AirFinance** placed its first direct order with Boeing. The lessor has agreed to purchase 20 737 Max 8 planes. This effectively doubles Macquarie's backlog with the OEM after the lessor acquired orders from ALAFCO Aviation

Lease and Finance in 2023. The Irish-registered firm already has a portfolio of more than 230 aircraft that are leased to 85 airlines in 49 countries.

- Libyan carrier **Berniq Airways** placed a firm order for six A320neo Family planes. The company already has six A320 classics in its fleet. It was not immediately clear how many of the new arrivals will be used as like-for-like replacements. Berniq's agreement with Airbus makes it the first carrier in the North African country to order the A320neo. The airline said the neo will "further develop its regional and international routes."

— Gordon Smith

## Talking Tech

*Our regular round-up of the latest airline technology news and trends*

### Crowd-who Now?

- Last week was arguably one of the most consequential for airline technology in recent memory. CrowdStrike's update wreaked havoc globally across multiple industries, but airlines and aviation more broadly was badly hit. Our colleagues at *Skift* have been [covering this story](#) in detail since July 19, with disruption at **Delta Air Lines** particularly acute. By July 24, the carrier axed 5,000 flights, with CEO Ed Bastian apologizing for the chaos and promising a speedy return to normal operations.
- Early on July 19, CrowdStrike updated its Falcon cyber-security systems globally, affecting 8.5 million Windows computers. A faulty line of code caused systems to enter a reboot loop and crash, resulting in the notorious 'blue screen of death'.
- Bastian pointed to Windows-hosted crew tracking systems, among many others, that saw the situation spiral from a day of headaches to a week of total misery. As cancellations mounted from system outages, the airline struggled to reassign crews, resulting in further delays across the board. As **Southwest** discovered during previous outages, crew tracking is critical in any disruption and a failure can be costly.
- The tech problems came on one of the busiest weekends of the summer, with

over load factors averaging at 90%. This impacted Delta's efforts to re-accommodate passengers. The Atlanta-based giant is now under investigation by the US Department of Transportation, with Secretary Pete Buttigieg making it clear that refunds, vouchers, and reimbursements must be provided to affected passengers swiftly.

- Delta's experience is in contrast to **American Airlines**. While the DFW-based firm axed 9% of flights on Friday, it was almost business as usual by Saturday and Sunday. As Delta debriefs and reviews its disaster management processes, there could yet be more pain. The company could face a fine of up to nine-figures from the DOT, echoing previous financial penalties issued to the likes of Southwest. For its part, Delta has promised affected passengers will receive SkyMiles as compensation for the chaos.

### Ryanair Boosts Flight Ops Tech

- Ryanair's sprawling fleet of Boeing 737s will be equipped with Jeppesen FliteDeck Pro. Known as the electronic flight bag (EFB), the software will be integrated into the ULCC's systems, providing new ways to unlock efficiency from the taxiway to air routes.
- The Irish carrier is famed for reducing costs across its business, and this can extend to flight operations. The new EFB will provide Smart Airport Maps for more efficient taxiways and to enhance ground safety. Other elements include tailored route maps with pilot briefings and traffic details to reduce fuel consumption, as well as real-time insights into flight data.
- While Ryanair remains a profit machine, its disappointing financials (see Weekly Skies) mean further improving efficiencies across the board is extra important. Technologies like the one from Jeppesen provide marginal gains that will be crucial to improving the bottom line in the coming quarters as pricing power moves toward consumers for the first time in the post-pandemic era.

### American Adds Automated Tags

- It's no secret that the U.S. airline sector has a fairly poor record when it comes to transporting mobility devices for travelers. CNN reports that last year alone, around 11,000 wheelchairs were lost or damaged during air travel. The figure triggered a DOT proposal in February to fine airlines up to \$124,000 for damage and require enhanced training for employees.
- **American** appears to be moving quickly to address gaps in its system. Last

week, it announced new automated tags for mobility devices. Replacing manual options, this allows frontline teams across the network to keep track of devices. Important data such as weight, battery types, and parts removed before a flight can be monitored, as well as its physical location. For passengers, it is hoped that the digital tags will offer better peace-of-mind that essential equipment is being cared for.

- Combined with improved staff training and airport infrastructure, American said it has reduced mishandling by 13% between H1 2023 and H1 2024. Expect the DOT to be watching for trends across all airlines.

— Pranjal Pande

## Airline Yearly



*To celebrate our 20th anniversary, we're highlighting what made the news this week in years past. We're featuring a historical nugget from the Airline Weekly archives over 20 issues until the end of 2024.*

**From our Issue published July 28, 2014, about Air France/KLM's Q2 earnings that year:**

*"The carrier's net profit ex items was \$196m, and although its 4% operating margin would make a U.S. carrier blush with shame, it marked a pride-worthy jump from just 1% in the same quarter a year ago. It was also welcome news given the pressures Air France/KLM faced: a self-described weak economic environment and a French economy growing at a snail's pace; relentless attacks by LCCs like easyJet and Gulf carriers like Emirates; and headaches in Venezuela, World Cup disruptions in Brazil and excess industry capacity in Asia and North America, most problematically Canada. In addition, Air France/KLM suffered a negative 7% operating margin at its*

*cargo division, a negative 2% operating margin at its LCC Transavia and a substantial hit to groupwide revenues from weak currencies like the yen.”*

*Airline Weekly: July 28, 2024*

## Departures & Arrivals

*Notable vacancies, appointments, and retirements from across the industry*

### Southwest Shake-Up

- The scale of the upcoming transformation at **Southwest** (see *Weekly Skies*) means the LCC is creating a new role. On July 25, the airline announced that Ryan Green, previously the carrier's EVP and chief commercial officer, will take on a new brief.



Ryan Green takes on a newly created role  
Photo: Southwest Airlines

- Green's new title as EVP of commercial transformation will see him spearhead the wide range of changes that are about to begin at the company. He'll report to company CEO and president Bob Jordan.
- In a market statement, Southwest highlighted Green's "deep knowledge of customer trends," adding that he is currently leading projects to overhaul the airline's cabins. Earlier remits included improvements to Southwest's Rapid Rewards loyalty program and digital customer experience initiatives.
- "In addition to meeting the evolving needs of customers and fostering more loyalty, these changes are expected to generate additional revenue as we capitalize on greater demand for Southwest Airlines and offer customers the ability to purchase premium seating options," Green said. "Together, these strategic initiatives play an integral role in the airline's comprehensive strategy to meet customer needs and enhance shareholder value, while maintaining the unique culture, hospitality, and flexibility that make Southwest – Southwest."

### **Boardroom Vacancy at Air New Zealand**

- **Air New Zealand** director Paul Goulter is leaving the company board after three years. He advised the chair last week that his departure is due to increased workload and commitments in his role as chief executive of the NZ Nurses Organisation. Goulter is due to retire from his ANZ role following the company's annual shareholder's meeting in late September.
- Therese Walsh, chair of the board, paid tribute to Goulter and his contribution to the Kiwi carrier: "His deep industrial relations experience and insights have been invaluable, particularly in the People, Remuneration and Diversity Committee as well as through the complexities of managing the airline's diverse workforce over the last few years."

— Gordon Smith

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## Picture Perfect

*Our favorite image from the week's global airline developments*



Photo: Farnborough International Airshow

The newly certified Airbus A321XLR was among the star attractions at the Farnborough International Airshow that took place in the U.K. last week. Just days before the industry gathering, Airbus confirmed that the A321XLR, powered by CFM LEAP-1A engines, received its type certification from the European Union Aviation Safety Agency. This paves the way for its entry-into-service at the end of the summer. Iberia is due to have the honor of flying the plane first.

# Feature Story

## Mexico's Volaris and the Benefits of Undercapacity

Europe's airlines say fares are dropping and demand is waning. America's airlines say there's too much domestic capacity. Is Volaris living on a different planet? In a sense, yes.

Mexico's largest low-cost carrier had a unique narrative to tell in its Q2 earnings call, one more consistent with the much-discussed aircraft shortage that's plaguing—or should we say benefitting—the global airline industry. Mexico, as it happens, is experiencing an extreme form of missing capacity, squeezing up fares and allowing the nation's airlines to prosper. Volaris reported a 9% Q2 operating margin, up from less than 7% in last year's second quarter, and 8% in 2019's second quarter. In fact, it was the airline's best Q2 performance since becoming a publicly-traded company in 2013. It would have been even better had Easter demand not partly occurred in the first quarter this year.

Remarkably, Volaris achieved this distinction during a quarter in which its ASM capacity contracted 17% y/y. Its domestic ASMs were down an eye-popping 26%. That's a strange thing to say about an ultra-low-cost carrier that prioritizes efficiencies and economies of scale through rapid expansion. Sure enough, its non-fuel unit costs suffered as it shrank, rising 11%. But total unit revenues, including ancillaries, increased 12%. Viewed another way, Volaris saw total operating costs decline 10% but total operating revenues decline just 7%.

"Mexico, make no mistake, is the opposite of a hyper-competitive market, at least domestically..."

It's not the preferred way to boost profits. But it's improving profits nonetheless, at a time when Volaris is unable to grow. Why can't it grow? Because so many of its Airbus narrowbodies are out of service as their Pratt & Whitney engines are inspected. How many are so many? Currently, roughly a quarter of its entire fleet is unavailable. On average during Q2, Volaris had 31 Airbus Neo planes out of service.

Mexico, make no mistake, is the opposite of a hyper-competitive market, at least domestically. The country has just three airlines of national significance, all similarly

sized domestically, and all confronting aircraft shortages. VivaAerobus, also with Airbus Neos, still managed to grow domestic Q2 ASMs 13% y/y last quarter. But it would have grown much more—in Q1, Viva had 16 Neos grounded for engine inspections, out of a total fleet of just 83 planes (Volaris ended Q2 with 136 planes). Aeromexico, meanwhile, grew domestic ASMs just 2% last quarter, held back by delays receiving its B737 Maxs. Combined, Mexico's Big Three offered 7% fewer Q2 ASMs this year versus last.

There are other factors behind the domestic capacity contraction. Importantly, Mexico's airlines are now free to increase their flying to the U.S., following a long period in which Washington restricted expansion on safety grounds. Sure enough, Volaris and its peers have responded by shifting a lot of their domestic flying to cross-border markets. Even so, total Mexico-U.S. seat capacity was up a relatively modest 8% y/y last quarter, according to Cirium Diio schedule data. Between the U.S. and Cancun, a giant leisure market, seat capacity was down 4%.

"Mexico City's existing airport has since been forced to cut flight movements, in favor of surrounding-area airports that few travelers seem interested in using..."

At the same time, Mexico's airline market suffers from unhelpful government policies, especially in Mexico City where construction of a badly-needed new airport was abruptly halted in 2018. Mexico City's existing airport has since been forced to cut flight movements, in favor of surrounding-area airports that few travelers seem interested in using. The Mexican military, meanwhile, has launched a new airline (disbelieving head shake warranted) using the old Mexicana brand.

ASUR, the company that runs several Mexican airports including Cancun's, noted that in the past 18 years, the total fleet count of all Mexican airlines has grown by a mere 25%. Over those nearly two decades, the country's aviation cemetery filled up with dead Mexican airlines—Interjet, Aeromar, Aerocalifornia, Alma, Avolar, Aviacsa, Global Air, Nova Air, Aladia, and of course the old Mexicana.

Volaris, for its part, wants to disassociate itself from the investor gloom currently surrounding ultra-LCCs in the U.S. (specifically Spirit and Frontier). "Volaris differs in many ways from ultra-low-cost carriers in the U.S.," said CEO Enrique Beltranena last week. For one, it's the largest airline in Mexico measured by passenger volumes. "No U.S. operator has the level of market share equivalent to our penetration in the

Mexican domestic market.” In addition, it enjoys a growth opportunity unique to Mexico, specifically a large number of long-distance bus travelers who'd be better off flying. Critically, Volaris hasn't suffered nearly the same degree of cost inflation as its ULCC peers in the U.S., especially with respect to labor.

“No U.S. operator has the level of market share equivalent to our penetration in the Mexican domestic market...”

*Volaris CEO Enrique Beltranena*

Volaris continues to build its ancillary revenues while rolling out new self-service options for passengers. It says demand remains strong heading into the seasonally better second half of the year. “Our bookings indicate ongoing robust performance.” The summer peak season is trending “slightly above our already-strong expectations in all markets, and we anticipate close-in bookings will remain healthy.”

There's even some good news regarding its lost engine time. The number of grounded aircraft should peak this quarter, and Volaris now expects full-year ASM capacity will be down 14% from 2023; it previously told investors to expect a reduction of between 16% and 18%. Naturally, Volaris wants its planes back, notwithstanding the fact that their absence is leading to higher fares and in turn greater profits. Speaking more generally, executive Holger Blankenstein said simply, “We now have a stable, competitive domestic market with rational players.”

Nevertheless, challenges remain, including those surrounding the upcoming U.S. presidential election. The chief of the ASUR airport company, for one, said traffic from the U.S. might decline in the run-up to the election. “The candidates... they will be blaming all the problems we have here, and that may affect traffic during the fourth quarter.” Mexico held its own presidential election last month, won by a member of the same party as the outgoing president—the one that pursued many policies unfriendly to airlines.

Economic tailwinds like the ‘nearshoring’ phenomenon—U.S. companies moving factories from Asia to Mexico—is showing signs of driving more cross-border air traffic, especially in areas around Monterrey and Guadalajara. But all the while, Mexico's economic potential is obstructed by factors ranging from security concerns to regulatory red tape to water and electricity shortages. Oh, and did we mention... airline capacity shortages?

— Jay Shabat

## On Our Radar

### The Earnings Keep on Coming...

Welcome to the the latest installment of our new On Our Radar feature.

At the end of every issue of *Airline Weekly*, we'll be wrapping up the edition with the key dates that should be in your diary for the coming days.

Expect major financial updates as well as slightly more left-field events which have noteworthy potential.

Have an event that you think should be On Our Radar? Email [gs@skift.com](mailto:gs@skift.com)



#### Key events to watch this week:

Tue.  
July 30

##### JetBlue Earnings

After a slightly stormy set of Q2 figures from its peers, will JetBlue's new leadership team begin to see evidence that their strategy is paying off?

Wed.  
July 31

## Lufthansa Group Earnings

Having trimmed guidance earlier in the month, this will be an important chance to drill into the financials and discover how deep the challenges go.

Fri.  
Aug 2

## IAG Earnings

In recent quarters, IAG has been the poster child among Europe's big three aviation supergroups. Can this strong run continue, and will anything be said about Air Europa?