InterVISTAS
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Chico Municipal Airport

Industry Overview and Catchment Area Discussion

November 8, 2017

Agenda

- Regional industry discussion
- Chico performance review
- Chico catchment area study results
- Summary / conclusions / next steps

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Airline consolidation has transformed the U.S. industry …

The four largest U.S. airlines operate 81% of domestic seats

Combined Alaska + Virgin America operate another 6%

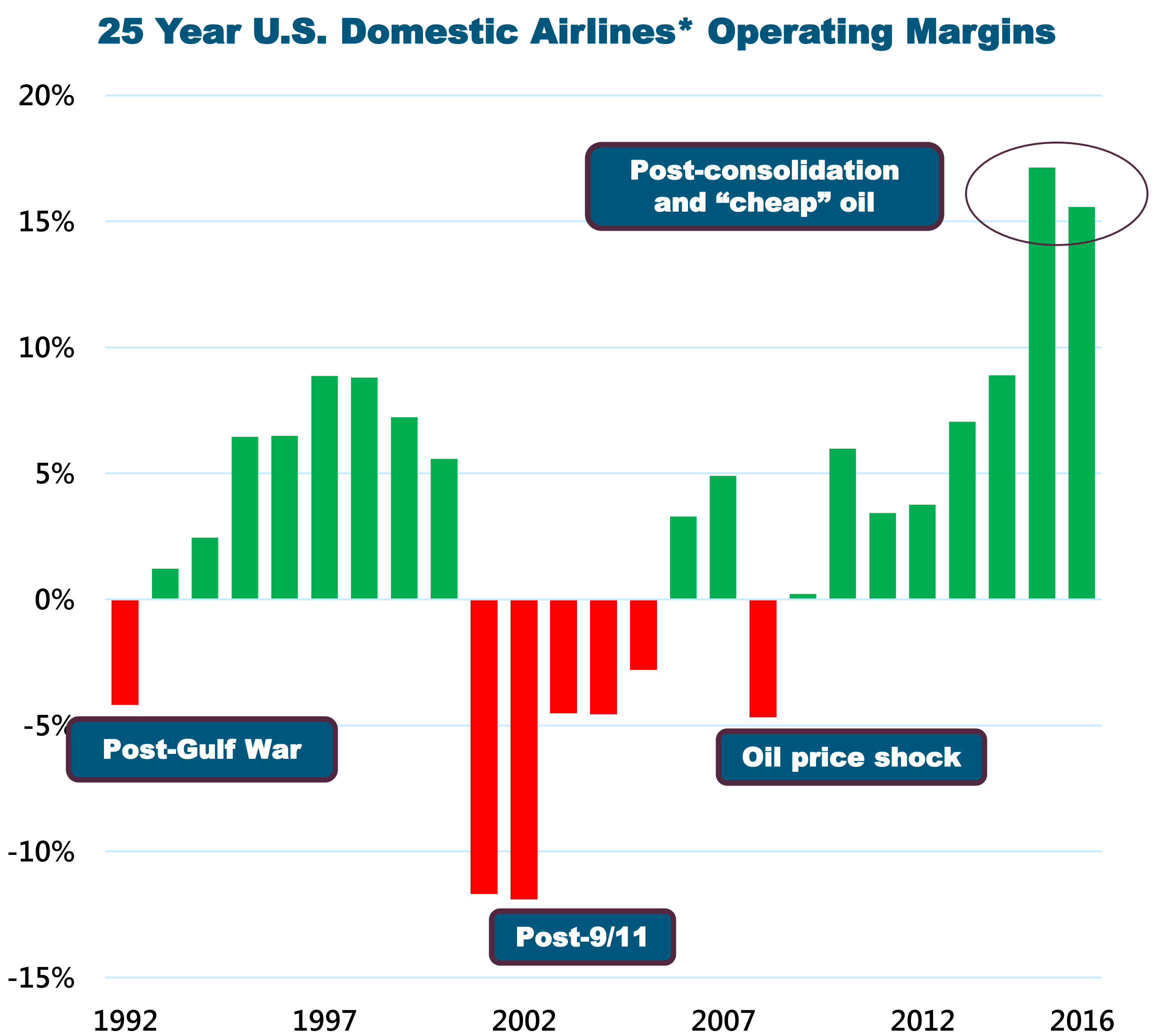
In 2000, the four largest U.S. airlines operated 51% of total domestic seats

Source: Innovata schedule data via Diio online portal

… driving healthier airline economic performance

“The industry has finally gotten to a rational model”

Doug Parker
American Airlines CEO

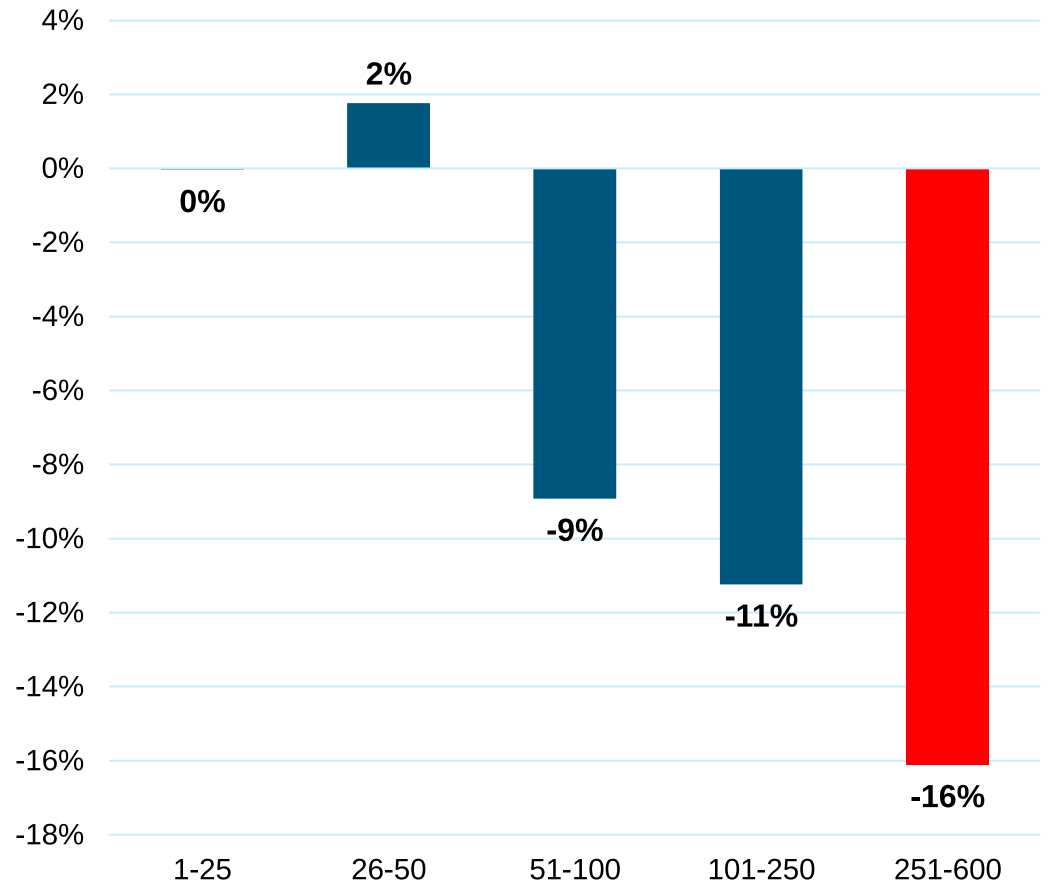


* Basket of largest carriers/predecessors and selected other previous carriers

Source: Bloomberg.com article from June 20, 2017; US DOT Form 41 data via Diio online portal

However, challenges remain for smaller airport communities …

2017 Five Year Domestic Departure Trends by Airport Rank/Size*



Seat declines across smaller airports have not been as severe

Trends had begun to moderate but have recently regained momentum

* Airport ranking based on domestic passenger totals for the year 2012
Source: Innovata schedule data via Diio online portal

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… driven by a range of industry factors

Reduction of turbo-prop aircraft marketed by major airlines

Fewer small regional jet aircraft marketed by major airlines

Shortage of regional airline pilots

Large carrier service consolidation around major markets

Why Small Airports Are in Big Trouble

Wall St. Journal, April 7, 2014

Pilot shortage a blow to regional airports

Travel Weekly, January 12, 2016

Source: Media reports as detailed

However, tools remain for small airport communities

- Small Community Air Service Development program (SCASD)
- Essential Air Service program (EAS)
- Non-traditional airlines / airline business models
- Revenue guarantees / community incentive programs

Sample November 2017 Week: Small California Airport* Schedule Profile

City	Weekly trips	Airline	Comments
Merced/MCE	31	Boutique	9 seat aircraft (**EAS grant**)
Eureka/Arcata/ACV	28	United**	4x daily to SFO
El Centro/Imperial/IPL	24	Mokulele	8 seat aircraft (**EAS grant**)
Redding/RDD	20	United**	3x daily to SFO
Santa Maria/SMX	17	Allegiant / Mokulele	ULCC and regional operations
Crescent City/CEC	14	Penair	30 seat aircraft (**EAS grant**)
Stockton/SCK	14	Allegiant	All ULCC leisure
Inyokern/IYK	12	Boutique	ENDING SOON
Mammoth Lakes/MMH	7	Alaska**	1x daily to LAX

* California airports with <5 schedule daily departures
** Operated by regional partner carrier
Source: Innovata schedule data via Diio online portal

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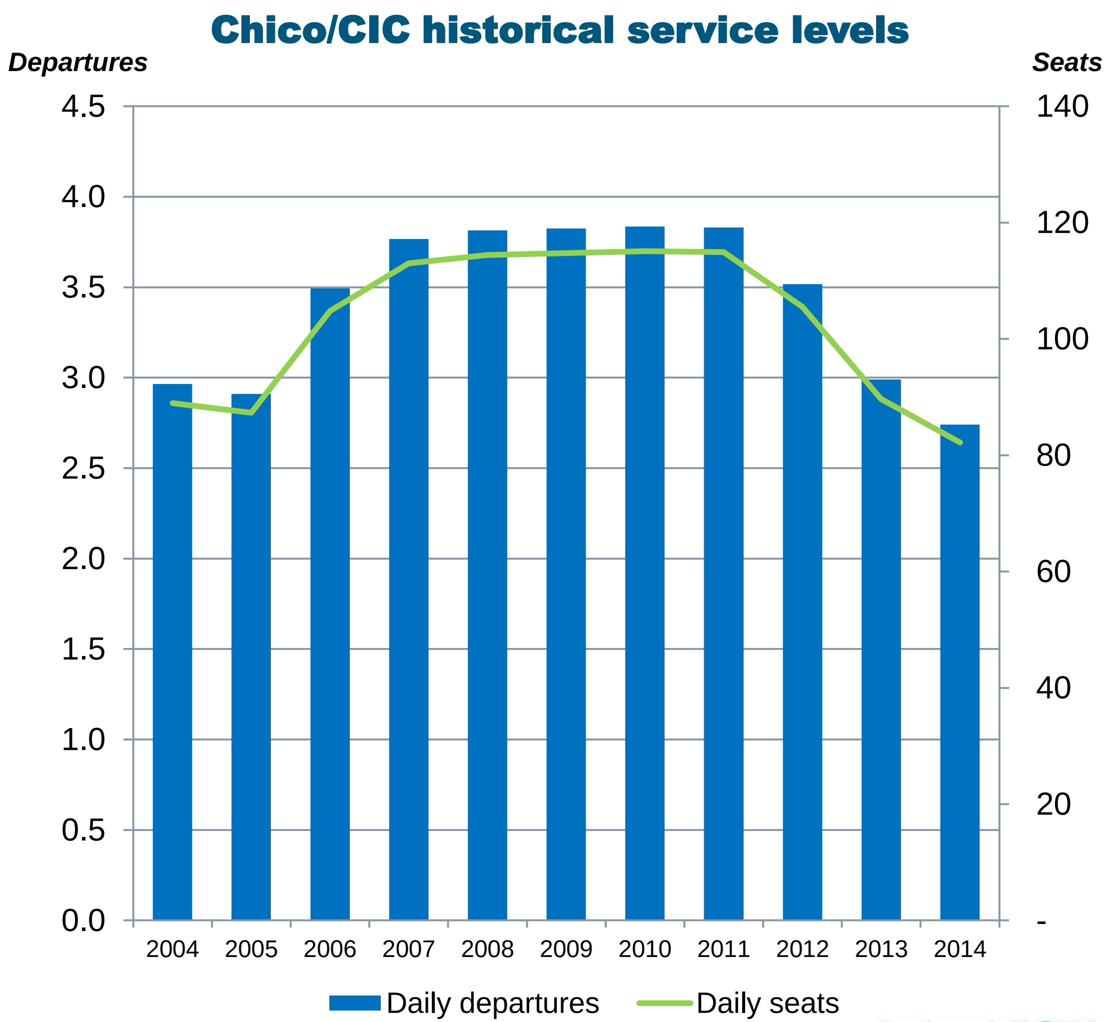
Scheduled service from Chico ceased in 2014

All recent service was branded as United with 30 seat EMB120 aircraft

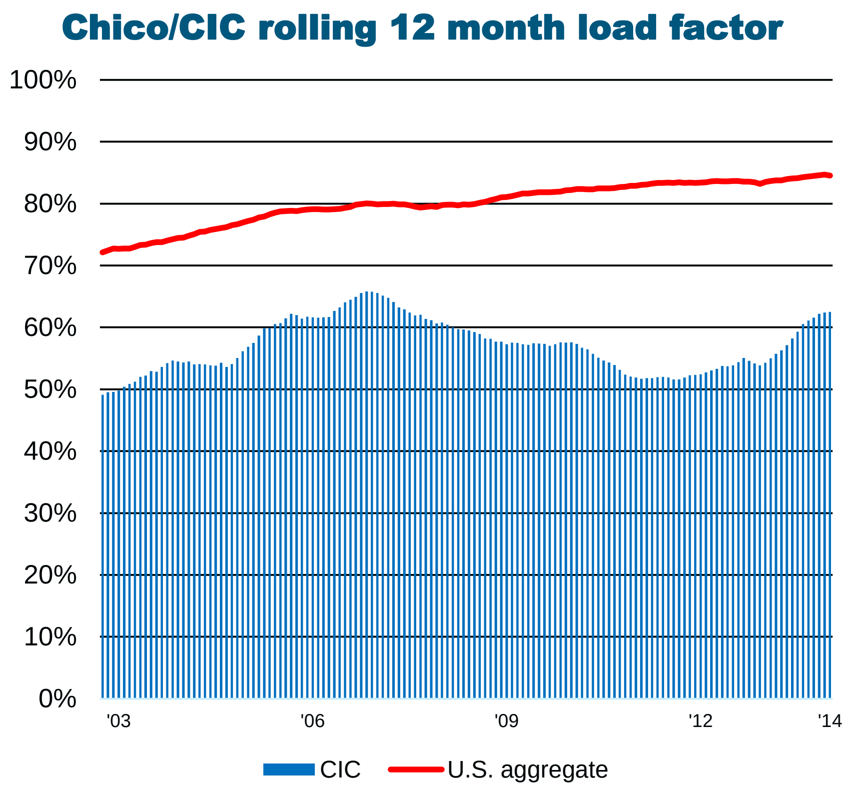
Service levels had been reduced prior to the 4Q14 cessation of service

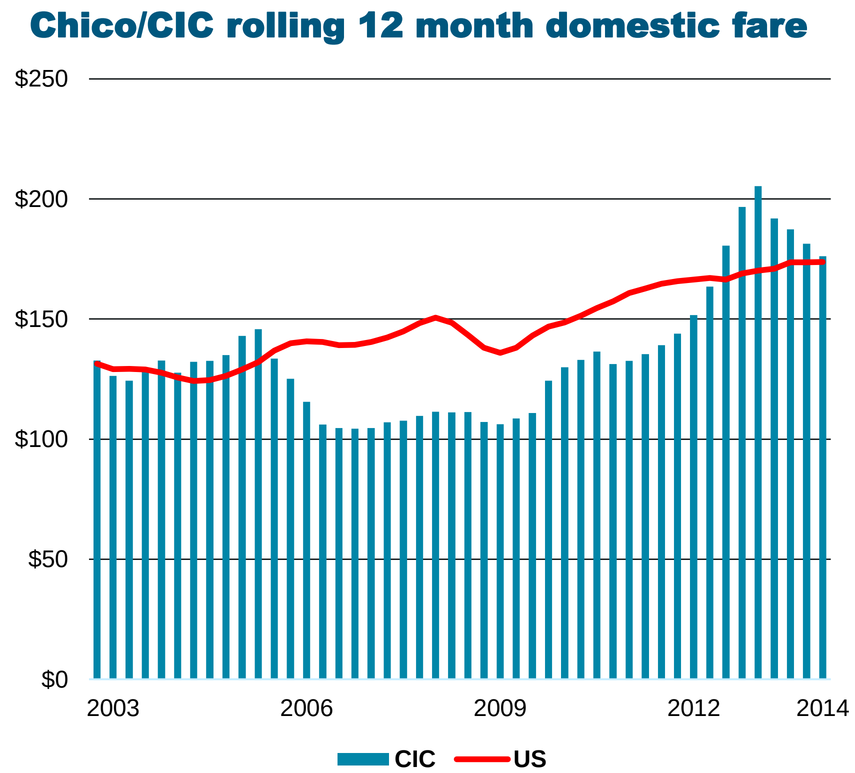


Source: Innovata schedule data via Diio online portal

Recent Chico service trailed typical domestic revenue performance

- Revenue performance trailed domestic averages through the final years of service
- Performance did improve slightly following the decline in capacity





Fare data adjusted to stage length of 1,000 miles
Source: US DOT data via Diio online portal

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What is a “catchment area analysis”?

For airports with existing service

- Process begins with DOT-reported data measuring airport-specific traffic
- Data is then sourced sampling airline ticket data from local region
- Adjustments are made to account for data irregularities / sync with airport data
- “Leakage” and “true demand” are then calculated across multiple levels

For airports without existing service (Chico)

- No “actual” airport performance data exists
- Analytical benchmarking exercise projects macro-level traffic data
- Passenger ticket data is sourced to identify specific airport and airline usage
- Primary objective is to quantify market-specific traffic potential and airport usage

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Why commission a catchment area analysis?

Airport marketing and strategic efforts

- Understanding of true market demand for facilities and planning purposes
- Understanding of airport usage patterns provides competitive/marketing intelligence
- Full portfolio of data can guide airline / air service development efforts

Airline business cases

- Provides airline planning groups with more accurate market profile than available through traditional data sources
- Allows airports to more interactively participate in airline planning process
- Allows airlines to proactively manage conversations and analysis regarding their future service patterns

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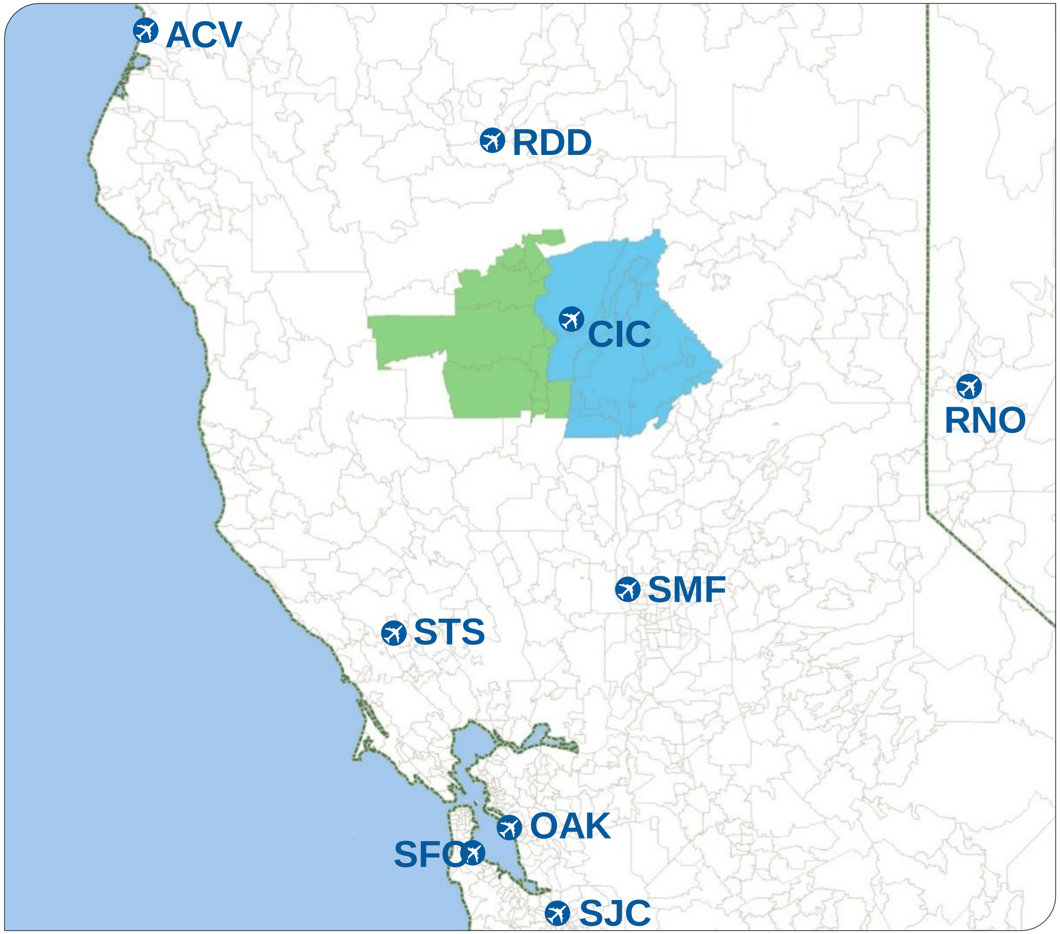
The Chico/CIC catchment area



Blue = Chico metropolitan statistical area
Green = expanded catchment area region

Note that the entire shaded region is considered the CIC catchment area for the purpose of our analysis

Inter*VISTAS* developed a zip code level drive time analysis as the foundation for this catchment area definition

Source: Internal Inter*VISTAS* analysis

Summary of results

- We project a total of **682 passengers per day each way (PDEW)** on an annual basis
- **Note this does not represent our projection of CIC traffic** – this is the projection of total traffic from the catchment area
- Of these passengers, we project airport usage as follows:

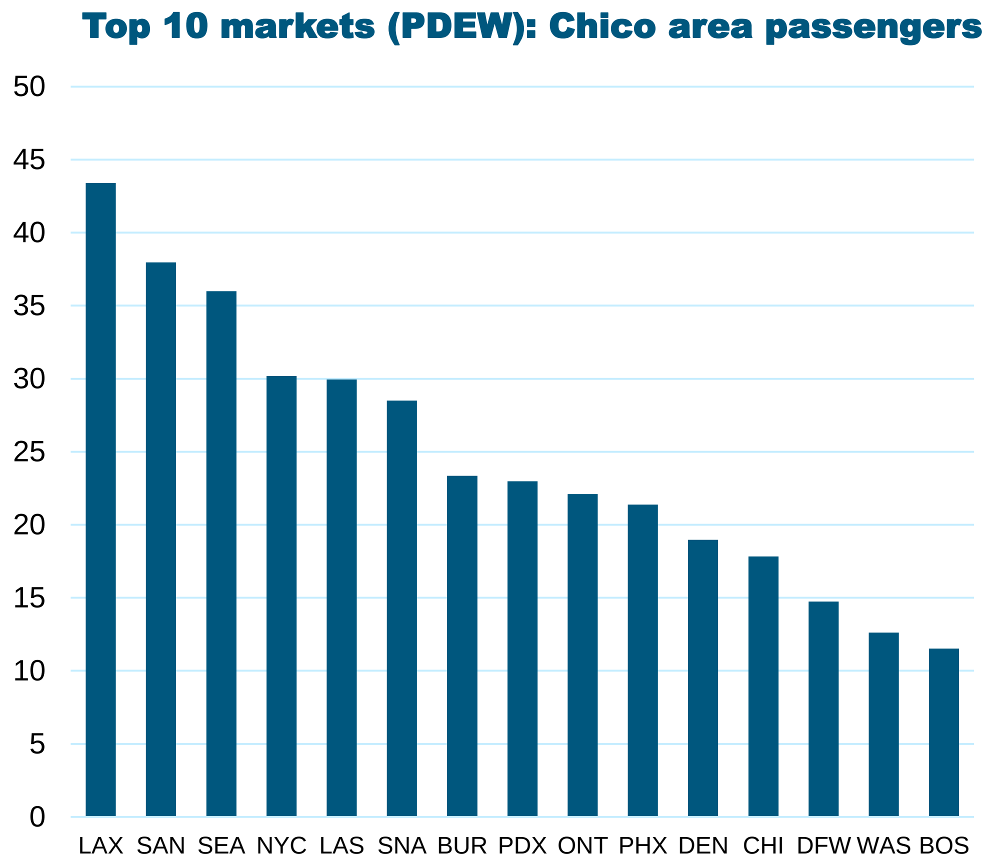
Airport	Domestic	International	Total
Sacramento/SMF	80%	38%	**75%**
San Francisco/SFO	13%	58%	**19%**
Reno/RNO	2%	n/a	**2%**
Oakland/OAK	1%	2%	**1%**
San Jose/SJC	1%	1%	**1%**
Other	3%	1%	**2%**

Source: Internal Inter*VISTAS* analysis

Summary of results

Top Chico markets by PDEW – and airport usage – are projected as follows:

Airport	Share
SMF	76%
SFO	16%
RNO	3%
OAK	1%
SJC	1%
Other	3%



Source: Internal Inter*VISTAS* analysis

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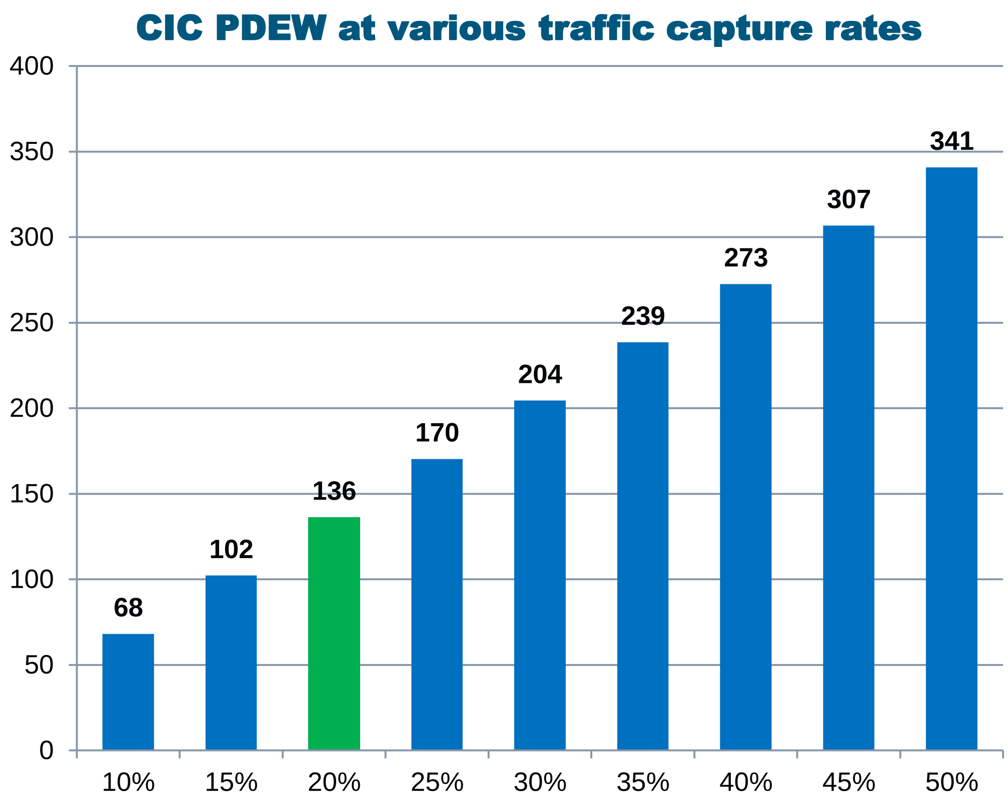
What does this mean for Chico?

What are implications of 682 PDEW?

How does this figure translate into a viable Chico airline business plan?

An 20% capture rate could support a twice daily 70-seat service pattern*

This assumes fares consistent with current regional airport levels



* Assumes 100% airline share capture
Source: Internal Inter*VISTAS* analysis

What does this mean for Chico?

What are the logical service options?

Los Angeles / LAX

American Airlines

- 176 daily departures to 66 non-stop destinations
- 10 destinations in CA/WA/OR
- 19 peak-day departures with regional equipment

UNITED

- 126 daily departures to 50 non-stop destinations
- 8 destinations in California
- 30 peak-day departures with regional equipment

San Francisco/SFO

UNITED

- 270 daily departures to 88 non-stop destinations
- 15 destinations in California; 8 more in OR/WA
- 53 peak-day departures with regional equipment

United plans more feeder flights at Los Angeles

04 OCTOBER, 2017 | SOURCE: FLIGHT DASHBOARD | BY: EDWARD RUSSELL | WASHINGTON DC

Flight Global. October 4, 2017

Source: Innovata schedule data via Diio online portal for November 2017

What does this mean for Chico?

Strengths

- Newly quantified market size
- Distance from alternate airports
- Coordinated community effort
- Growth/competitive environment at LAX

Weaknesses

- Substandard prior commercial performance
- Lack of recent service

Opportunities

- Revenue guarantee framework
- SCASD opportunity
- Alternative regional business models

Threats

- General regional industry trends
- Reduction of major carrier turbo-prop service
- Regional pilot shortage
- High hurdle rate for new service