



Airlines

30

2015

The annual report on the world's most valuable airlines brands
February 2015

Foreword.



David Haigh, CEO, Brand Finance

“The boardroom can sometimes feel like the tower of Babel, with CMOs and CFOs speaking mutually unintelligible languages, damaging the prospects for what should be their shared goals. Brand Finance bridges the gap between marketing and finance.”

What is the purpose of a strong brand; to attract customers, to build loyalty, to motivate staff? All true, but for a commercial brand at least, the first answer must always be ‘to make money’.

Huge investments are made in the design, launch and ongoing promotion of brands. Given their potential financial value, this makes sense. Unfortunately most organisations fail to go beyond that, missing huge opportunities to effectively make use of what are often their most important assets.

Monitoring of brand performance should be the next step, but is often sporadic. Where it does take place it frequently lacks financial rigour and is heavily reliant on qualitative measures poorly understood by non-marketers. As a result, marketing teams struggle to



communicate the value of their work and boards then underestimate the significance of their brands to the business.

Sceptical finance teams, unconvinced by what they perceive as marketing mumbo jumbo may fail to agree necessary investments. What marketing spend there is can end up poorly directed as marketers are left to operate with insufficient financial guidance or accountability. The end result can be a slow but steady downward spiral of poor communication, wasted resources and a negative impact on the bottom line.

Brand Finance bridges the gap between the marketing and financial worlds. Our teams have experience across a wide range of disciplines from market research and visual identity to tax



and accounting. We understand the importance of design, advertising and marketing, but we also believe that the ultimate and overriding purpose of brands is to make money.

That is why we connect brands to the bottom line. By valuing brands we provide a mutually intelligible language for marketers and finance teams. Marketers then have the ability to communicate the significance of what they do and boards can use the information to chart a course that maximizes profits.

Of course not all non-marketers need to be convinced that brands are valuable. Warren Buffet, renowned for his financial nous and stock picking ability, is famously keen on investing in some of the world's biggest and best-loved brands such as Heinz and Coca-Cola. The sage

of Omaha certainly does extremely well from most of his investments, but could he be doing better?

It is all well and good to want a strong brand that customers connect with, but as with any asset, without knowing the precise, financial value, how can you know if you are maximising your returns? If you are intending to license a brand, how can you know you are getting a fair price? If you are intending to sell, how do you know what the right time is?

Brand Finance has conducted hundreds of brand and branded-business valuations to help answer these questions. The following report is a first step to understanding more about brands, how to value them and how to use that information to benefit the business. The team and I look forward to continuing the conversation with you.

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About Brand Finance

Brand Finance is the world's leading independent brand valuation and strategy consultancy. Brand Finance was set up in 1996 with the aim of 'bridging the gap between marketing and finance'. For almost 20 years we have helped companies to connect their brands to the bottom line, building robust business cases for brand decisions, strategies and investments. In doing so, we have helped finance people to evaluate marketing programmes and marketing people to present their case in the Board Room.

Independence
Brand Finance is impartial and independent. We assess and help to manage brands, but we do not create or own them. We are therefore able to give objective, unbiased advice because we have no vested interest in particular outcomes of a project and our recommendations are entirely independent. We are agency agnostic and work collaboratively with many other agencies and consultancies.

Technical credibility
Brand Finance has high technical standards. Our work is frequently peer-reviewed by the big four audit practices and our work has been accepted by tax authorities and

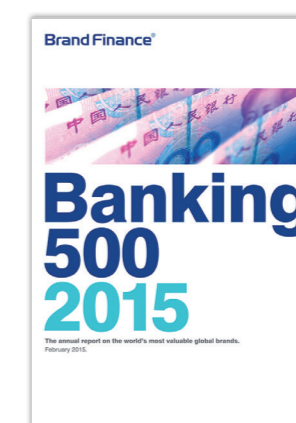
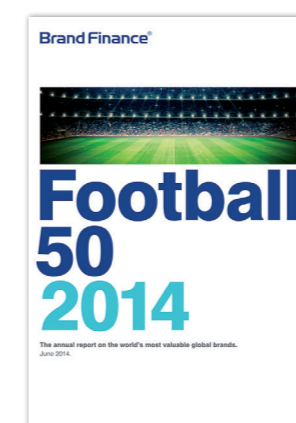
regulatory bodies around the world. We are one of the few companies certified to provide brand valuations that are fully compliant with ISO 10668, the global standard on monetary brand valuations.

Transparency
There are no black boxes. Our approach is to work openly, collaboratively and flexibly with clients and we will always reveal the details of our modelling and analysis. This means our clients always understand what lies behind 'the number'.

Expertise
We possess a unique combination of skills and experience. We employ functional experts with marketing, research and financial backgrounds, as well as ex-client-side senior management who are used to 'making things happen'. This gives us the mindset to think beyond the analysis and to consider the likely impact on day-to-day operations. We like to think this differentiates us because our team has real operational experience.

For more information, please visit our website: brandfinance.com

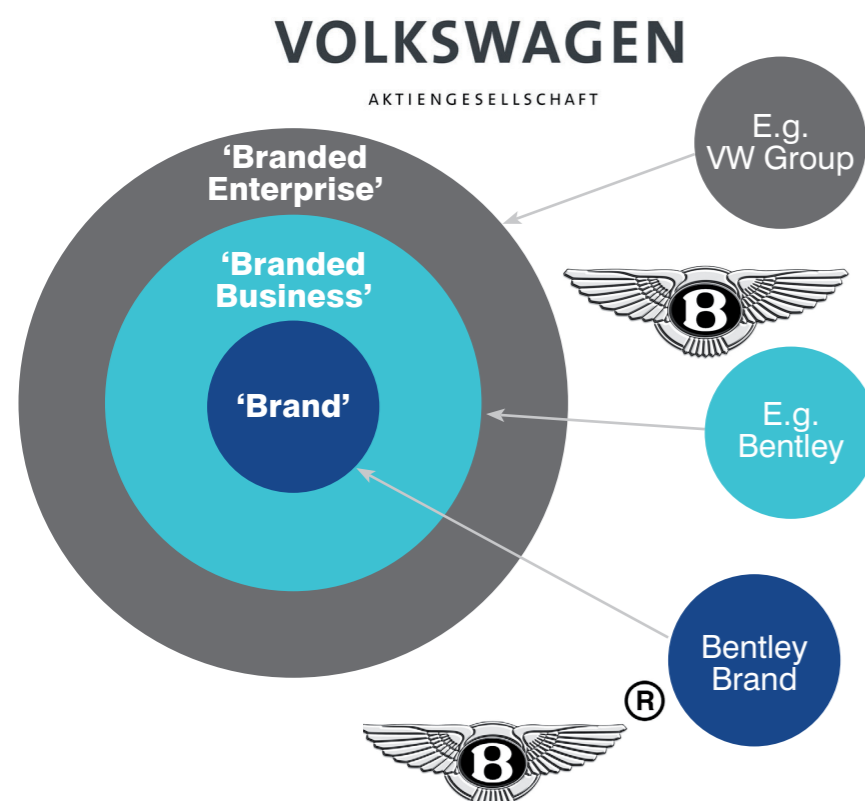
Brand Finance puts thousands of the world's biggest brands to the test every year, evaluating which are the most powerful and most valuable. The Global 500 covers the top 500 from all sectors and is just one of many annual reports produced by Brand Finance. Visit www.brandfinance.com to discover more.



Bridging the gap between marketing and finance

Methodology

What do we mean by 'brand'?



Definitions

+ Enterprise Value – the value of the entire enterprise, made up of multiple branded businesses

+ Branded Business Value – the value of a single branded business operating under the subject brand

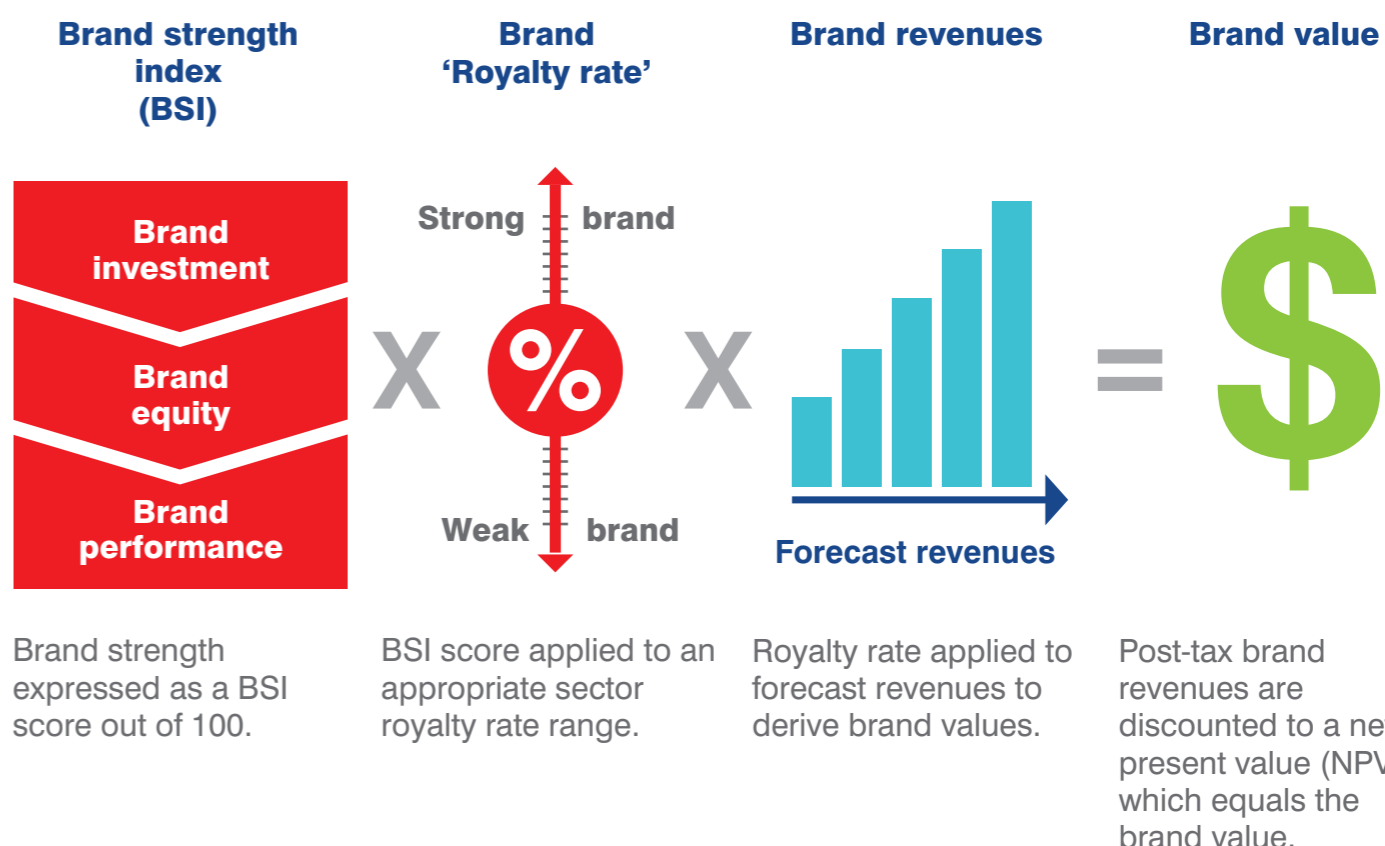
+ Brand Value – the value of the trade marks (and relating marketing IP and 'goodwill' attached to it) within the branded business

Definition of 'Brand'

In the very broadest sense, a brand is the focus for all the expectations and opinions held by customers, staff and other stakeholders about an organisation and its products and services. However when looking at brands as business assets that can be bought, sold and licensed, a more technical definition is required. Brand Finance helped to craft the internationally recognised standard on Brand Valuation, ISO 10668. That defines a brand as “a marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos and designs, or a combination of these, intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/value”

Brand Strength

Brand Strength is the part of our analysis most directly and easily influenced by those responsible for marketing and brand management. In order to determine the strength of a brand we have developed the Brand Strength Index (BSI). We analyse marketing investment, brand equity (the goodwill accumulated with customers, staff and other stakeholders) and finally the impact of those on business performance. Following this analysis, each brand is assigned a BSI score out of 100, which is fed into the brand value calculation. Based on the score, each brand in the league table is assigned a rating between AAA+ and D in a format similar to a credit rating. AAA+ brands are exceptionally strong and well managed while a failing brand would be assigned a D grade.



Brand strength expressed as a BSI score out of 100.

BSI score applied to an appropriate sector royalty rate range.

Royalty rate applied to forecast revenues to derive brand values.

Post-tax brand revenues are discounted to a net present value (NPV) which equals the brand value.

Brand Finance calculates the values of the brands in its league tables using the 'Royalty Relief approach'. This approach involves estimating the likely future sales that are attributable to a brand and calculating a royalty rate that would be charged for the use of the brand, i.e. what the owner would have to pay for the use of the brand—assuming it were not already owned.

The steps in this process are as follows:

- 1 Calculate brand strength on a scale of 0 to 100 based on a number of attributes such as emotional connection, financial performance and sustainability, among others. This score is known as the Brand Strength Index.
- 2 Determine the royalty rate range for the respective brand sectors. This is done by reviewing comparable licensing agreements

sourced from Brand Finance's extensive database of license agreements and other online databases.

- 3 Calculate royalty rate. The brand strength score is applied to the royalty rate range to arrive at a royalty rate. For example, if the royalty rate range in a brand's sector is 1-5% and a brand has a brand strength score of 80 out of 100, then an appropriate royalty rate for the use of this brand in the given sector will be 4.2%.
- 4 Determine brand specific revenues estimating a proportion of parent company revenues attributable to a specific brand.
- 5 Determine forecast brand specific revenues using a function of historic revenues, equity analyst forecasts and economic growth rates.
- 6 Apply the royalty rate to the forecast revenues to derive brand revenues.
- 7 Brand revenues are discounted post tax to a net present value which equals the brand value.

Sector Analysis – Airlines

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The airlines sector saw a varied range of results in 2014, with Western and Middle Eastern airline brands performing well, whilst Asian brands suffered in a saturated market riddled with high profile aviation disasters.

Middle Eastern airline brands are becoming increasingly competitive on the international stage, a trend which has been seen across many sectors in 2014. They are benefitting from relatively cheap fuel and labour costs as well as a rapidly developing and expanding economy. However extensive marketing campaigns, in particular sports sponsorships continue to be integral to their growth. Emirates it continues to lead the sector with a 21% rise in brand value to US\$6.6 billion. Formula 1, the French Open and most importantly football teams from PSG to Real Madrid and Arsenal to AC Milan all display the Emirates logo. Fellow Emirati brand Etihad is

now synonymous with Manchester City while Qatar Airways is following this approach, becoming Barcelona's first commercial sponsor. Qatar Airways is the best performer in the sector with a 54% increase in brand value.

The success of the Middle Eastern brands is having a knock on effect on European airlines, which are struggling to react to the increased competition. With the exception of British Airways, the European brands in the table have seen minimal growth or a decline in their brand values. Iberia has been the worst affected, its brand value has fallen 23% to \$951m.

North American airline brands have performed incredibly well in 2014. Delta, United, American Airlines and Southwest Airlines have all seen substantial brand value growth. Southwest Airlines achieved a 52% growth in brand value

	1 Rank 2015: 1 2014: 1 → BV 2015: \$6,640m +21% BV 2014: \$5,481m Brand Rating: AAA		6 Rank 2015: 6 2014: 10 ↑ BV 2015: \$3,645m +41% BV 2014: \$2,578m Brand Rating: AA+
	2 Rank 2015: 2 2014: 2 → BV 2015: \$6,336m +34% BV 2014: \$4,736m Brand Rating: AAA-		7 Rank 2015: 7 2014: 13 ↑ BV 2015: \$3,466m +52% BV 2014: \$2,282m Brand Rating: AAA-
	3 Rank 2015: 3 2014: 4 ↑ BV 2015: \$4,861m +27% BV 2014: \$3,831m Brand Rating: AA+		8 Rank 2015: 8 2014: 8 → BV 2015: \$2,953m +11% BV 2014: \$2,669m Brand Rating: AA
	4 Rank 2015: 4 2014: 3 ↓ BV 2015: \$4,099m -2% BV 2014: \$4,165m Brand Rating: AA+		9 Rank 2015: 9 2014: 5 ↓ BV 2015: \$2,936m -10% BV 2014: \$3,250m Brand Rating: AAA
	5 Rank 2015: 5 2014: 9 ↑ BV 2015: \$3,649m +39% BV 2014: \$2,617m Brand Rating: AA		10 Rank 2015: 10 2014: 6 ↑ BV 2015: \$2,914m +0% BV 2014: \$2,922m Brand Rating: AA

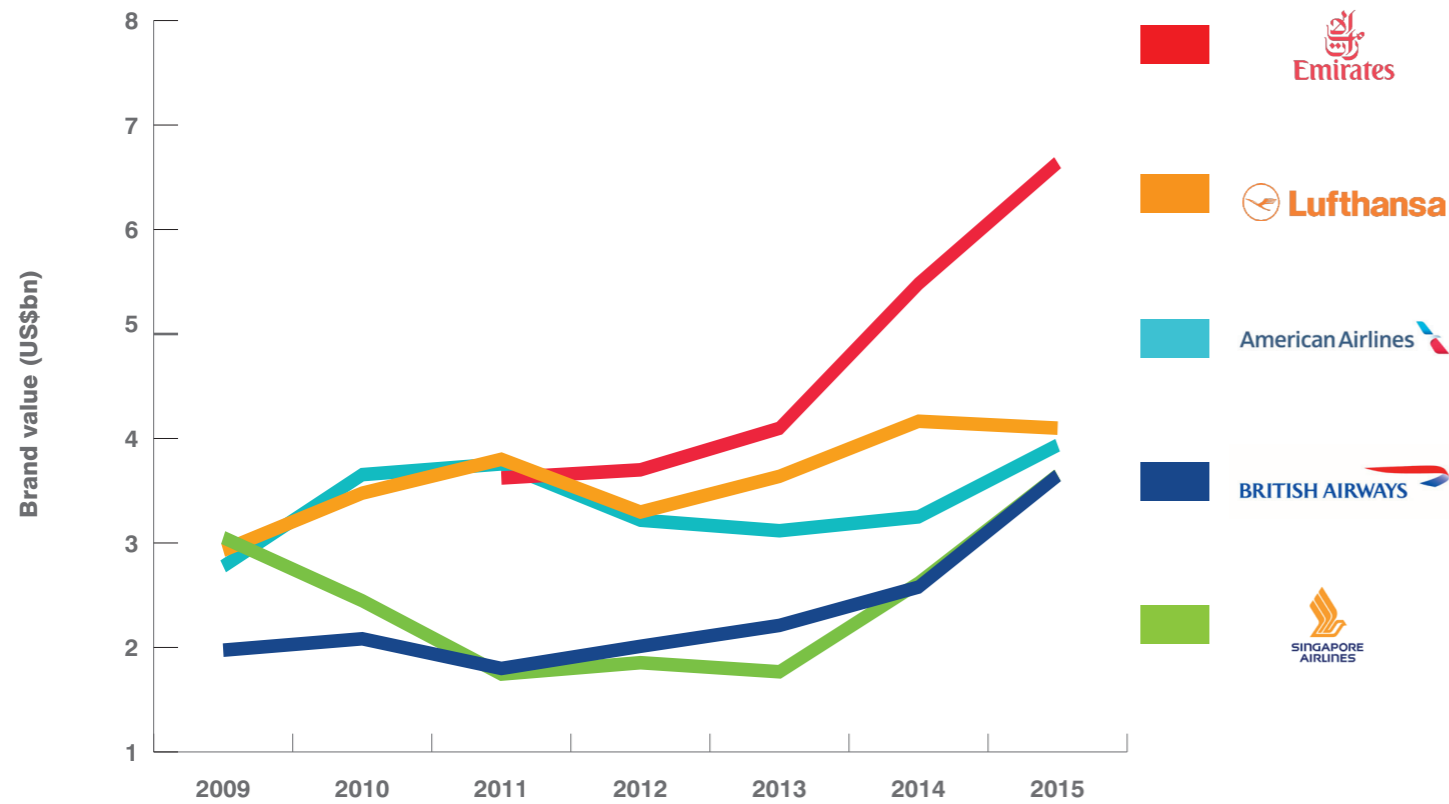
after a strong financial year and American Airlines' brand value soared 39% to \$3,649m, moving it up to 5th in the table.

JetBlue has made it into Brand Finance's rankings for the first time, its brand has been valued at \$886m and it gained an AAA- rating. JetBlue differentiated itself innovative approach to customer service, giving its travellers freebies and other perks, such as live TV at every seat. However, this may be all set to change as investors begin to demand more from the company, which while profitable, lags behind its competitors. 2015 will see the company bring in charges for checked luggage as well a reduction in leg room. The popular brand will have to work hard to protect its reputation as customers begin to question the motives for change and how it will affect their relationship with the brand.

Asian airline brands have struggled in 2014 despite the region's rapidly expanding aviation industry. A saturated market caused by a surge in players joining the already established brands flying in the Asia-Pacific area has started to create a supply in excess of demand. The Centre for Asia Pacific Aviation has announced that South-East Asia is the only region where the planes on order outnumber the ones in existing fleets. Furthermore, Asian airline brands have not been helped by the high profile disasters that have cast ripples of uncertainty over the safety regulations employed by the industry.

As a result of these conditions six of the nine Asian airlines in the table have lost brand value, whilst the other three have recorded relatively unremarkable growth. China Southern and Japan Airlines have been the worst affected as they both suffered a 29% fall in brand value pushing

Sector Analysis – Airlines



them back to 16th and 17th respectively in the table. Singapore Airlines (brand value down 10%) and Cathay Pacific (brand value up 12%) have said that competition from local budget airlines is starting to hurt profits from short-haul flights. Cathay Pacific's growth in brand value seems to be coming from its expansion in long-haul flight options as it has been increasing capacity and frequency of flights and extending its services to new locations.

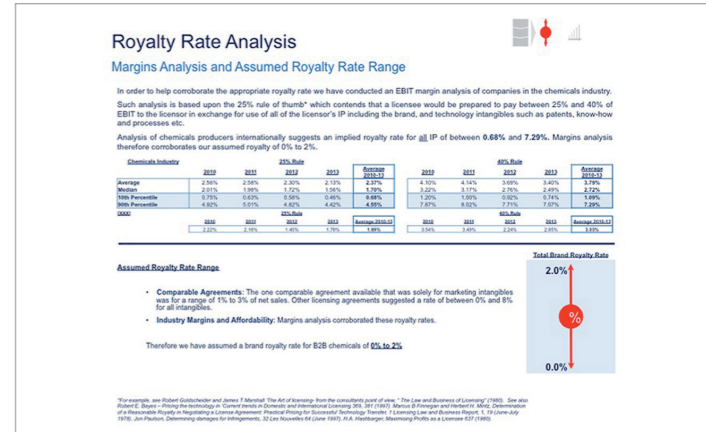
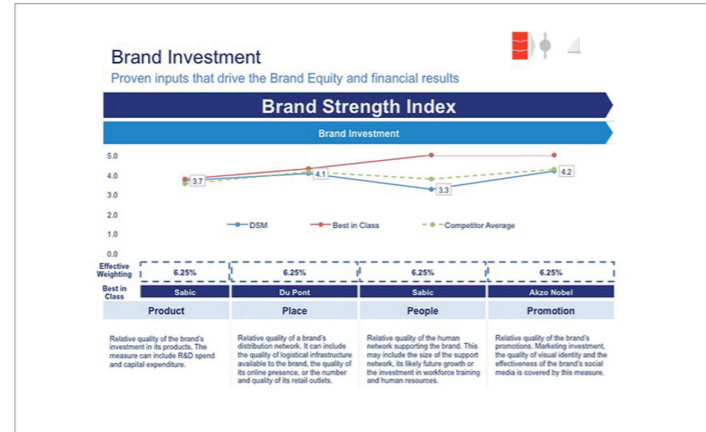
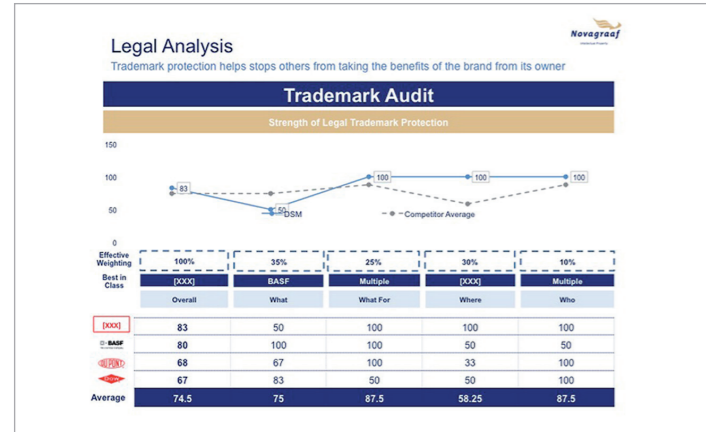
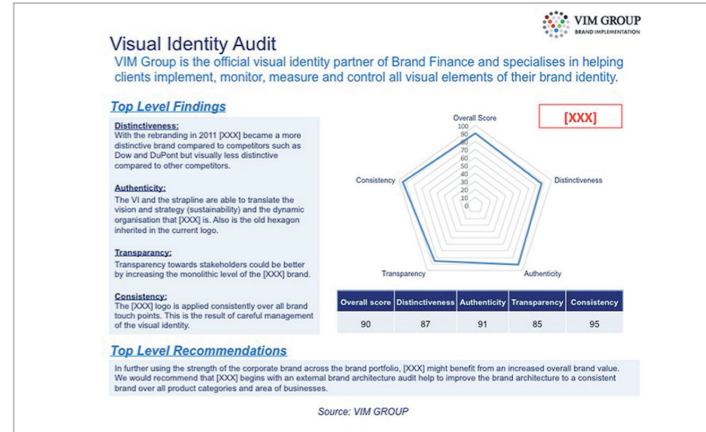
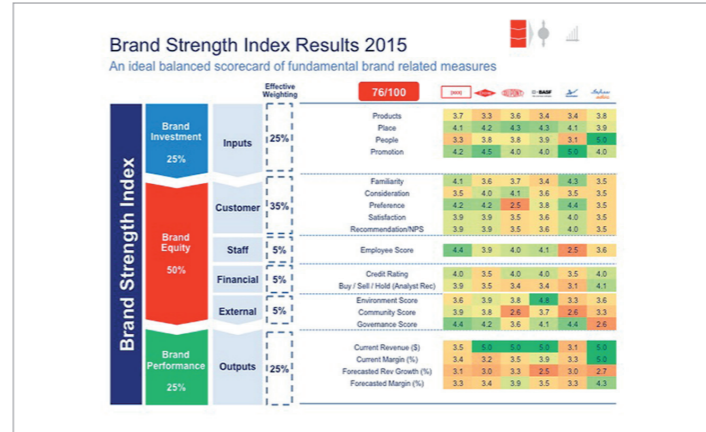
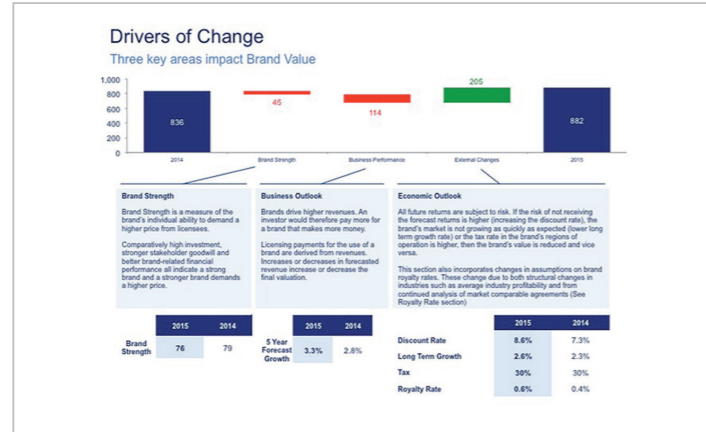
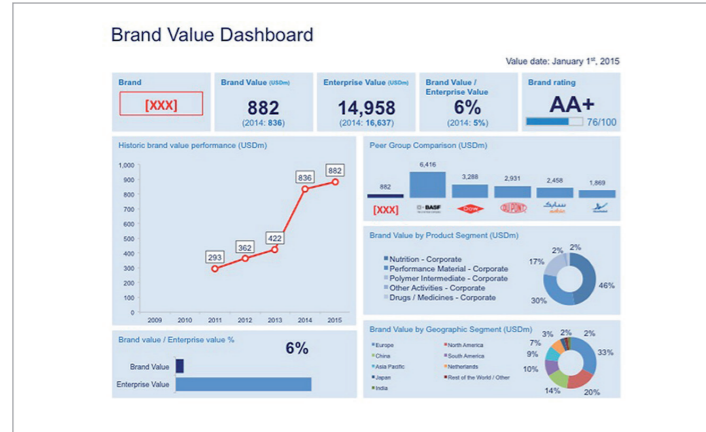
Russia's Aeroflot has had a difficult year as geo-political tensions between Russia and the EU impinge on its LCC Dobrolet, which was forced to cease operations in August 2014 due to EU sanctions. Aeroflot's brand value has declined 35% to \$1,005m and its brand rating has been downgraded to AA. Even before Dobrolet was suspended, Aeroflot had lost over 45% of its market cap since the beginning of 2014.

A noticeable absence from the list is Malaysia Airlines. Even before the tragedies of 2014 it was struggling financially, but the crashes of MH370 and MH17 have created an almost insurmountable reputational problem. The lack of total clarity around who is responsible for either event has compounded both Malaysia's reputational problem and the grief of those affected. Many analysts are sceptical that there is a future for the brand despite the Malaysian government taking it private and implementing a restructuring plan. It will be a long road to recovery for the brand and all those affected by the 2014 disasters, and one which will be difficult to predict in a rapidly evolving industry.

Rank 2015	Rank 2014	Brand name	Domicile	Brand value (\$m) 2015	% change	Brand value (\$m) 2014	Brand rating 2015	Brand rating 2014
1	1	Emirates	UAE	6,640	21%	5,481	AAA	AAA
2	2	Delta	USA	6,336	34%	4,736	AAA-	AAA-
3	4	United	USA	4,861	27%	3,831	AA+	AAA-
4	3	Lufthansa	Germany	4,099	-2%	4,165	AA+	AAA-
5	9	American Airlines	USA	3,649	39%	2,617	AA	AA+
6	10	British Airways	UK	3,645	41%	2,578	AA+	AAA-
7	13	Southwest Airline	USA	3,466	52%	2,282	AAA-	AA
8	8	Air China	China	2,953	11%	2,669	AA	AAA-
9	5	Singapore Airlines	Singapore	2,936	-10%	3,250	AAA	AAA-
10	6	China East	China	2,914	0%	2,922	AA	AA
11	17	Qatar Airways	Qatar	2,774	54%	1,806	AA+	AA+
12	11	Air France	France	2,597	2%	2,549	AA	AA+
13	15	Cathay Pacific	China	2,358	12%	2,108	AA+	AAA-
14	16	Turkish Airlines	Turkey	2,219	15%	1,922	AA	AA+
15	14	ANA	Japan	2,203	-3%	2,280	AA	AAA-
16	7	China Southern	China	1,993	-29%	2,799	AA+	AAA-
17	12	Japan Airlines	Japan	1,718	-29%	2,424	AA+	AA+
18	18	Korean Air Lines	South Korea	1,513	-11%	1,706	AA	AA+
19	26	Etihad Airways	UAE	1,439	41%	1,024	AA	AA
20	20	KLM	France	1,394	3%	1,353	AA	AA+
21	21	Qantas	Australia	1,331	2%	1,300	AA+	AA+
22	25	Easyjet	UK	1,281	8%	1,183	AA+	AA+
23		Alaska Airlines	USA	1,119			AA	
24		Ryanair	Ireland	1,083			AA+	
25	19	Aeroflot	Russia	1,003	-35%	1,550	AA	AA+
26	24	Thai Airways	Thailand	993	-19%	1,221	AA-	AA
27	23	Iberia	UK	951	-23%	1,229	AA	AA+
28		Virgin Atlantic	UK	951			AA+	
29		Jetblue Airways	USA	886			AAA-	
30	22	TAM	Brazil	814	-36%	1,277	AA+	AAA-



Understand Your Brand's Value



A League Table Report provides a complete breakdown of the assumptions, data sources and calculations used to arrive at your brand's value. Each report includes expert recommendations for growing brand value to drive business performance and offers a cost-effective way to gaining a better understanding of your position against competitors.

A full report includes the following sections which can also be purchased individually.

Brand Valuation Summary

Overview of the brand valuation including executive summary, explanation of changes in brand value and historic and peer group comparisons.

- + Internal understanding of brand
- + Brand value tracking
- + Competitor benchmarking
- + Historical brand value

Brand Strength Index

A breakdown of how the brand performed on various metrics of brand strength, benchmarked against competitor brands in a balanced scorecard framework.

- + Brand strength tracking
- + Brand strength analysis
- + Management KPI's
- + Competitor benchmarking

Royalty Rates

Analysis of competitor royalty rates, industry royalty rate ranges and margin analysis used to determine brand specific royalty rate.

- + Transfer pricing
- + Licensing/ franchising negotiation
- + International licensing
- + Competitor benchmarking

Cost of Capital

A breakdown of the cost of capital calculation, including risk free rates, brand debt risk premiums and the cost of equity through CAPM.

- + Independent view of cost of capital for internal valuations and project appraisal exercises

Trademark Audit

Analysis of the current level of protection for the brands word marks and trademark iconography highlighting areas where the marks are in need of protection.

- + Highlight unprotected marks
- + Spot potential infringement
- + Trademark registration strategy

For more information regarding our League Table Reports, please contact:

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How we can help.



MARKETING

We help marketers to connect their brands to business performance by evaluating the financial impact of brand based decisions and strategies.

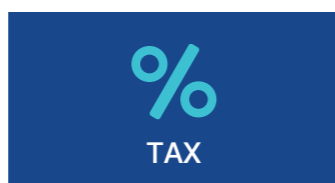
- + Brand Valuation
- + Brand Due Diligence
- + Profit Levers Analysis
- + Scenario Modelling
- + Market Research
- + Brand Identity & Customer Experience Audit
- + Brand Strength Analysis
- + Brand Equity Analysis
- + Perception Mapping
- + Conjoint & Brand/Price Trade-off Analysis
- + Return on Investment
- + Sponsorship Evaluation
- + Budget Setting
- + Brand Architecture & Portfolio Evaluation
- + Brand Positioning & Extension Evaluation
- + Brand Migration
- + Franchising & Licensing
- + BrandCo Strategy
- + Brand Governance Process
- + Brand Tracking
- + Management KPIs
- + Competitor Benchmarking



FINANCE

We provide financiers and auditors with an independent assessment on all forms of brand and intangible asset valuations.

- + Brand & Branded Business Valuation
- + Intangible Asset Valuation
- + Fair Value Exercise (IFRS 3 / FAS 141)
- + Intangible Asset Impairment Reviews (IAS 36 / FAS 142)
- + Brand Due Diligence
- + Information Memoranda
- + Finance Raising
- + Insolvency & Administration
- + Market Research Design and Management
- + Return on Investment
- + Franchising & Licensing
- + BrandCo & IPCo Strategy
- + Scenario Modelling & Planning
- + Transfer Pricing Analysis
- + Management KPIs and Target-setting
- + Competitor Benchmarking



TAX

We help brand owners and fiscal authorities to understand the implications of different tax, transfer pricing and brand ownership arrangements.

- + Brand & Branded Business Valuation
- + Intangible Asset Valuation
- + Patent Valuation
- + Asset Transfer Valuations
- + Business & Share Valuations
- + Transfer Pricing Analysis
- + Royalty Rate Setting
- + Brand Franchising & Licensing
- + BrandCo & IPCo Strategy
- + Market Research Design and Management
- + Brand Tracking
- + Expert Witness Opinion



LEGAL

We help clients to enforce and exploit their intellectual property rights by providing independent expert advice in- and outside of the courtroom.

- + Brand & Branded Business Valuation
- + Intangible Asset Valuation
- + Patent Valuation
- + Business & Share Valuations
- + Loss of Profits Calculations
- + Account of Profits Calculations
- + Damages Assessment
- + Forensic Accounting
- + Royalty Rate Setting
- + Brand Franchising & Licensing
- + BrandCo & IPCo Strategy
- + Market Research Design and Management
- + Trademark Registration
- + Trademark watching service

Brand Valuation

Valuations may be conducted for technical purposes and to set a baseline against which potential strategic brand scenarios can be evaluated.

Brand Monitoring

Improve reporting and brand performance management by integrating market research, investment, market and financial metrics into a single insightful scorecard model to track performance and inform strategic decisions.



Brand Analytics

Analytical services help to uncover drivers of demand and insights. Identifying the factors which drive consumer behaviour allow an understanding of how brands create bottom-line impact.

Brand Strategy

Strategic marketing services enable brands to be leveraged to grow businesses. Scenario modelling will identify the best opportunities, ensuring resources are allocated to those activities which have the most impact on brand and business value.

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The opinions and financial analysis expressed in the report are not to be construed as providing investment or business advice. Brand Finance does not intend the report to be relied upon for any reason and excludes all liability to any body, government or organisation.

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