

ON POINT LOYALTY INSIGHTS



November 2017

Top 100 Most Valuable Airline Loyalty Programs 1ST Annual Report

About On Point Loyalty

On Point Loyalty is a global management consulting and capital firm fully focused on airline loyalty/frequent flyer programs. As a cutting-edge, boutique company, On Point Loyalty has the flexibility and nimbleness to deliver on a wide variety of engagements within the airline loyalty industry.

The On Point Loyalty team is made up of experienced operators, consultants and bankers to ensure leading edge ideas and execution in both functional and vertical areas. Each project is specially staffed to deliver on the client's objectives and draws upon professionals around the world to offer local market knowledge and global sharing of best practices.

On Point Loyalty serves airlines, credit card issuers and investors to maximize the potential of their airline loyalty strategies. By utilizing an innovative approach to client service that seeks deep partnerships and creation of value over the long-term, On Point Loyalty is growing rapidly and open to inquiries from press, candidates and other interested parties.

For inquiries, please contact info@onpointloyalty.com.



Preface

Over the past 10 years there has been an increasing focus on the airline loyalty industry. When airline loyalty programs were first launched, they were designed solely as marketing tools to reward the loyalty of frequent travelers. Given the focus on providing benefits to the most frequent flyers, they were aptly named frequent flyer programs. These programs quickly enrolled millions of passengers around the globe and worked so well that they have become almost ubiquitous among airlines. Airlines without a loyalty offering have suffered a competitive disadvantage, especially among high-frequency business travelers.

As the frequent flyer programs grew, several of them formed partnerships with credit card issuers to develop cobranded credit cards that award airline loyalty points or miles for purchases with the card. These cobranded credit cards also became tremendously successful as customers sought after affordable ways to acquire their highly-desired flight rewards. The success of the cobranded credit card portfolios changed the way that many airline executives viewed their frequent flyer programs. In addition to being an important marketing tool, the programs now generated significant cash flows from the sales of airline loyalty points to credit card issuers and became a valuable source of profit.

Capitalizing on the success of selling airline loyalty points to credit card issuers, program managers also sought other ways to commercialize this new currency, and formed partnerships with a wide variety of businesses including hotels, car rentals, gas stations, grocers, insurance providers, etc. Awarding airline loyalty points is now an established marketing method for acquiring and retaining, not only frequent flyers for an airline, but also customers for a diverse set of businesses around the world. In fact, for many airline loyalty programs the points earned from flying on airlines represents a small proportion of all points being earned.

Given the evolution in these programs, we feel that the designation ‘frequent flyer program’ is outdated and will default to the use of ‘airline loyalty program’ as our generic term of reference. While the earn side of the equation is substantially diversified, the burn or use of points is still largely concentrated on airline flights and airline brands are generally closely attached to the loyalty programs. Therefore, the programs essentially are coalition loyalty (i.e. variety of businesses and services using a single rewards currency) offerings for earning points anchored by an airline which provides the base for member acquisition, brand recognition and the rewards value proposition.

Some airline loyalty programs have evolved to the point where they are managed as business units within the broader aviation holding company and a few have even been formed as new ‘loyalty marketing companies’ with outside investors. These businesses tend to be highly profitable and significant generators of free cash flow. They also tend to be less susceptible to many of the risks associated with the traditional airline business such as labor disputes, fuel price spikes, overcapacity and natural disasters. Due to these factors and others, the airline loyalty programs which have a portion of their equity trading on the public markets tend to be valued at earnings multiples much higher than those of their airline parent

companies. In some cases, the airline loyalty programs are worth more than the airlines themselves.

Despite the success of airline loyalty programs, their inherent value is generally still not well understood by public investors, analysts and even the airlines themselves. This is partly due to the lack of disclosure around airline loyalty programs and the wide dispersion in the degree to which the programs have evolved into business units with clear profit metrics. Airlines sometimes duly cite competitive reasons for some of the discretion around the level of disclosure, however the opacity is also partially driven by a more fundamental struggle to accurately portray the airline loyalty program's economics. Public equity investors have also been slow to recognize the value and pay premiums for airlines with well-thought out airline loyalty strategies. Given that so much of an airline's value is driven by the loyalty program, we believe that it is important to provide greater insight into the potential worth of these programs and highlight the value to a broader audience.

While not all airlines disclose detailed information regarding their loyalty programs, we can still develop reasonable valuation estimates using public information. We leverage On Point Loyalty's deep sector expertise to develop sophisticated algorithms built on assumptions and estimates based on public information to generate detailed evaluations of the top airline loyalty programs in the world.

Jeremy Rabe led the development of the study. Evert de Boer and Adrian Wylenzek also contributed to the research and analysis. We are grateful to the broader On Point Loyalty team for their helpful insights and direction in the study's development.

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**\$160B+ USD IN
GLOBAL AIRLINE
LOYALTY VALUE**

**288M ACTIVE
AIRLINE LOYALTY
MEMBERS**

**3.5T AIRLINE
LOYALTY POINTS
EARNED ANNUALLY**

Methodology

The most common method of monetization, and hence valuation through an arm's length transaction, for airline loyalty programs has been the sale of a minority stake in the company to investors or through an initial public offering. Hence the valuation estimates derived are based on the assumption of a minority (10-49%) sale of equity to a private equity firm, strategic investor or through an IPO on a major stock exchange. This structure, with the airline maintaining a majority share, is representative of most airline loyalty transactions that haven't taken place over the past few years.

We looked at the largest 170 commercial passenger airlines in the world (i.e. all airlines with around 1M or more passengers per year). For each airline we collected detailed information on the airline's business in terms of passengers, revenue passenger kilometers (RPK's), traffic flows, etc. We also analyzed the financial health of the airlines, as investors would presumably be willing to pay higher multiples for airlines with stronger balance sheets. Information on current and future fleet composition was also compiled. Finally, we took into account the earn:burn structure for the loyalty programs.

For each loyalty program, we assessed the sources of accumulation across air, financial and other verticals. Air accumulation is driven by many factors for both parent airlines as well as bilateral alliances through which airline loyalty program members can earn or redeem their points on partner airlines. Financial sector point accumulation comes mostly from credit cards, either through cobranded credit cards allowing cardholders to accrue airline loyalty points for acquiring and spending with the card or conversion relationships where cardholders can convert their bank loyalty points into airline loyalty currency. We considered the credit card dynamics that vary greatly across countries in terms of penetration, usage, interchange rates, etc. Other sources of earning airline points can also contribute to gross billings (the proceeds from the sale of points) such as travel partnerships, retail partnerships and member direct sales and these sources were also measured. In addition, we described the redemption options offered by each program and developed scores for the attractiveness of those options as well as the program in general.

Country factors are also important when considering the valuation multiples that an investor is likely to pay for an airline loyalty program. We built country-specific estimates for valuation multiples considering GDP growth projections, political stability, GDP per capita and general investor friendliness amongst other factors.

In total we used over 50 primary variables for each airline loyalty program to develop our valuation algorithms. These modelling results were calibrated and refined using programs with public information as well as benchmarking leveraging our deep experience within the industry. While more precise estimates could most certainly be developed with additional information regarding the specific economics and contractual terms of each airline loyalty program, we believe that these estimates provide good 'ballpark' figures for the value of the leading airline loyalty programs globally.

The Top 100 Most Valuable Airline Loyalty Programs

Rank	Loyalty Program	Associated Airlines	Valuation (millions, USD)
1	SkyMiles	Delta Air Lines	21,752
2	AAdvantage	American Airlines	19,582
3	MileagePlus	United Airlines	14,687
4	Rapid Rewards	Southwest Airlines	6,353
5	Flying Blue	Air France-KLM Group, Kenya Airways, Tarom	6,270
6	Miles & More	Lufthansa Group, LOT Polish, Luxair, Adria Airways, Croatia Airlines	5,760
7	Avios	British Airways, Iberia, Aer Lingus, Flybe, Vueling, Meridiana, Comair	4,750
8	JAL Mileage Bank	Japan Airlines	4,050
9	SkyPass	Korean Air	3,796
10	ANA Mileage Club	ANA - All Nippon Airways	3,658
11	Asia Miles	Cathay Pacific	3,531
12	Qantas Frequent Flyer	Qantas	3,295
13	Smiles	GOL Linhas Aereas Inteligentes	3,191
14	LATAMPASS	LATAM Airlines	3,119
15	TrueBlue	JetBlue Airways	3,095
16	PhoenixMiles	Air China, Shenzhen Airlines, Shandong Airlines, Juneyao, Air Macau	3,045
17	Eastern Miles	China Eastern Airlines	2,966
18	Skywards	Emirates	2,876
19	KrisFlyer	Singapore Airlines	2,739
20	Alfursan	Saudi Arabian Airlines	2,544
21	Sky Pearl Club	China Southern Airlines	2,537
22	Mileage Plan	Alaska Airlines	2,487
23	Miles & Smiles	Turkish Airlines	2,364
24	Privilege Club	Qatar Airways	1,855
25	Multiplus	TAM Linhas Aereas (part of LATAM Airlines)	1,795
26	LifeMiles	Avianca	1,751
27	Asiana Club	Asiana Airlines	1,625
28	Infinity MileageLands	EVA Air	1,605
29	Aeroflot Bonus	Aeroflot	1,260
30	Dynasty Flyer	China Airlines	1,136
31	JetPrivilege	Jet Airways	1,131
32	Fortune Wings Club	Hainan Airlines, Hong Kong Airlines, Tianjin Airlines	1,104
33	Velocity Frequent Flyer	Virgin Australia	1,096
34	GarudaMiles	Garuda	1,029
35	EuroBonus	SAS Group	807
36	Club Premier	Aeromexico	779

37	Royal Orchid Plus	Thai Airways	766
38	Etihad Guest	Etihad Airways	765
39	WestJet Rewards	WestJet Airlines	724
40	TudoAzul	Azul Linhas Aereas	591
41	Hawaiian Miles	Hawaiian Airlines	531
42	AirAsia BIG	AirAsia	523
43	Egret Club	Xiamen Airlines	515
44	Airpoints	Air New Zealand	454
45	Matmid Club	El Al	438
46	Flying Club	Virgin Atlantic Airways	432
47	Norwegian Reward	Norwegian	392
48	Flying Returns	Air India	392
49	S7 Priority	S7	387
50	Free Spirit	Spirit Airlines	350
51	Finnair Plus	Finnair	348
52	EarlyReturns	Frontier Airlines	346
53	Enrich	Malaysia Airlines	344
54	LotusMiles	Vietnam Airlines	297
55	Golden Panda	Sichuan Airlines	271
56	ConnectMiles	Copa Airlines	235
57	MilleMiglia	Alitalia	194
58	myAllegiant Rewards	Allegiant Air	162
59	Lion Air Passport Club	Lion Air	148
60	Mabuhay	Philippine Airlines	147
61	Voyager	South African Airways	139
62	Falconflyer	Gulf Air	129
63	GetGo	Cebu Pacific	128
64	Aerolineas Plus	Aerolineas Argentinas	127
65	Nomad Club	Air Astana	110
66	Suma	Air Europa	100
67	V.club	Volaris	97
68	Miles+Bonus	Aegean Airlines	94
69	Victoria	TAP Portugal	94
70	Panorama Club	Ukraine International Airlines	93
71	Royal Plus	Royal Jordanian Airlines	91
72	Wings	Ural Airlines	71
73	EgyptAir Plus	Egyptair	69
74	Saga Club	Iceland Air	69
75	Club Interjet	Interjet	68
76	Amigo	Avianca Brazil	61
77	SpringPass	Spring Airlines	59
78	FlySmiles	SriLankan Airlines	50
79	Safar Flyer	Royal Air Maroc	48
80	Open	Flydubai	48

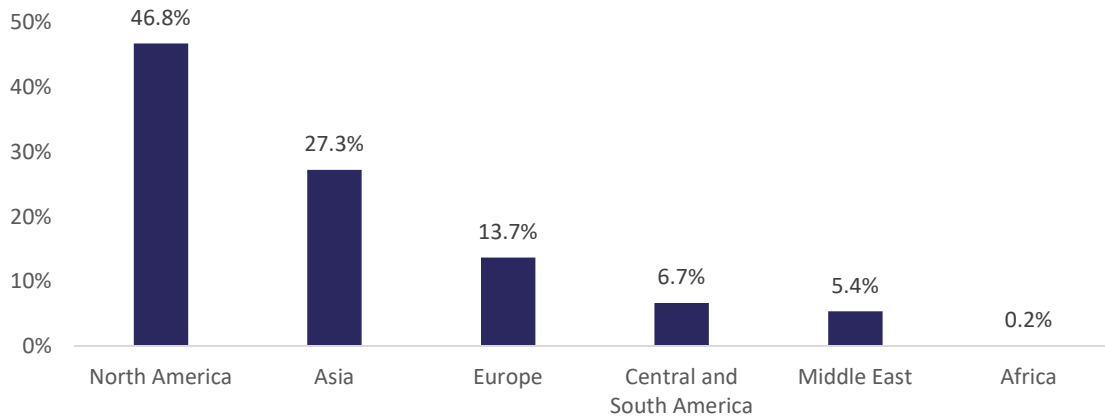
81	Airewards	Air Arabia	41
82	Refresh Point	Jeju Air	38
83	Ufly Rewards	Sun Country	37
84	Sindbad Frequent Flyer	Oman Air	32
85	Pegasus Plus	Pegasus	30
86	Fidelite	Corsair	26
87	Mahan & Miles	Mahan Air	25
88	OK Plus	Czech Airlines	24
89	SpiceClub	SpiceJet	23
90	UzAirPlus	Uzbekistan Airways	17
91	Royal Skies	Royal Brunei Airlines	15
92	Fidelys Space	TunisAir	14
93	Umbi Umbi	TAAG Angola Airlines	13
94	Pins	Air Baltic	13
95	Club Vistara	Vistara	13
96	Fly More	Bulgaria Air	10
97	Altasmiles	AtlasGlobal	9
98	Onurextra	Onur Air	9
99	Solaseed Smile Club	Solaseed Air	8
100	Arik Affinity Wings	Arik Air	7

Insights

Airline loyalty valuations are driven by multiple factors. First, programs with strong value propositions are generally able to enroll more members, incentivize those members to fly with their parent airlines and then sell a variety of other products and services to the member database. Also, the airline's market position and the strength of the credit card sector in the airline's home countries are major factors in propelling the

success of cobranded credit card placement and other financial partnerships. Furthermore, to achieve the highest valuations, airline loyalty programs must be situated in expanding, investor friendly markets, with steep growth trajectories also being shown by the airline parent company.

The global airline loyalty industry of approximately \$160B in value can be broken down by region as follows:

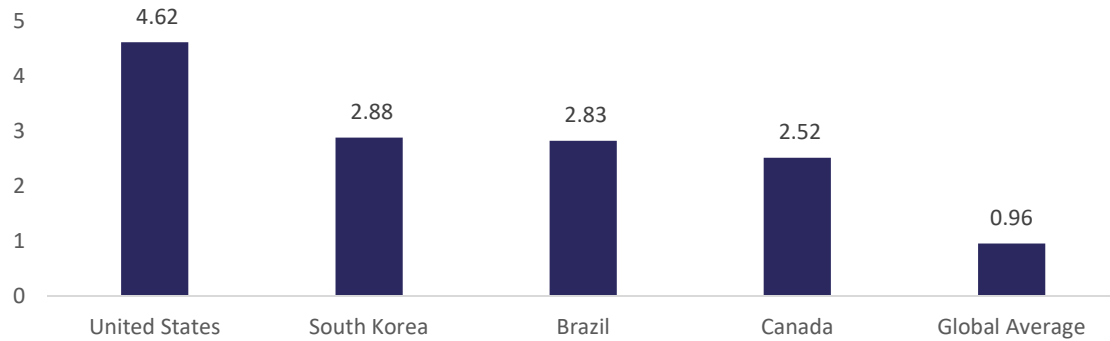


The most valuable airline loyalty programs in the world are weighted heavily towards airline loyalty programs in the United States. Perhaps this is not a surprise given the size of the US economy and the airlines serving this market, but these programs also benefit from operating in a country where credit card usage is high, interchange rates have not been heavily regulated and investors pay full valuations.

CREDIT CARD MARKET IMPACT

Clearly, the strength of US airline loyalty program valuations is greatly enhanced by operating in a robust credit card market. Airline loyalty programs based in other strong credit card markets such as Canada, Brazil and South Korea also tend to be more valuable.

In the following chart, we show the approximate number of credit cards per 'middle income and above' capita in high-penetration countries relative to the global average.



The rates of credit card ownership in these high-use markets are 2.6 to 4.8 times higher than the global average.

In contrast to the buoyant credit card industries described above, several countries have been negatively impacted in recent years due to significant interchange regulation restrictions. The European Union, United Kingdom, China, Ecuador, Australia and Malaysia are all markets where government intervention has capped the fees that financial institutions can charge for credit card acceptance. As interchange represents a key revenue component for credit card issuers, the banks (especially those operating on the Visa, Mastercard and UnionPay payment networks) have been forced to cut back or eliminate rewards programs provided to cardholders. Credit card use has been hit and the cut backs have in turn reduced sales of airline points to credit card issuers in these markets.

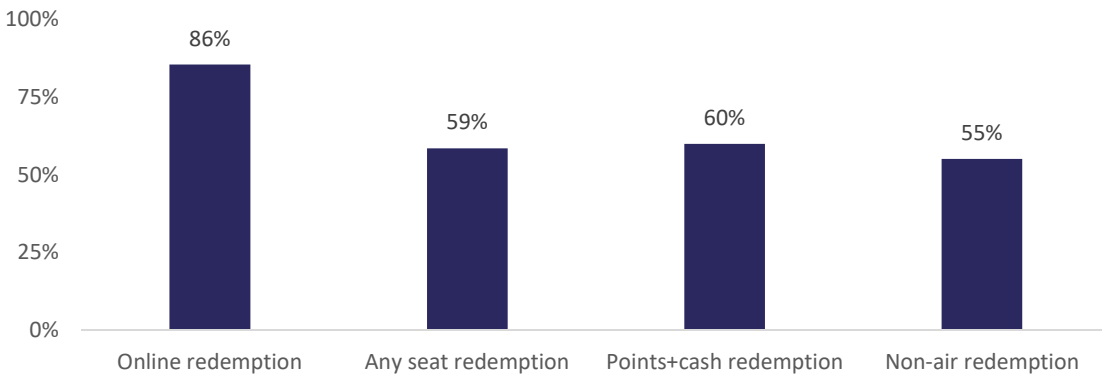
In addition to the impact of interchange regulation, the use of credit cards is also affected by the general cultural and historical context of each market. Whereas Germans are much less likely to pay for goods and services using credit cards due to concerns over privacy and control over personal finances, consumers in the United States will oftentimes attempt to put all their spending on credit cards because of the ease of use and ability to earn rewards for their choice of payment method.

THE POWER OF THE PROGRAM

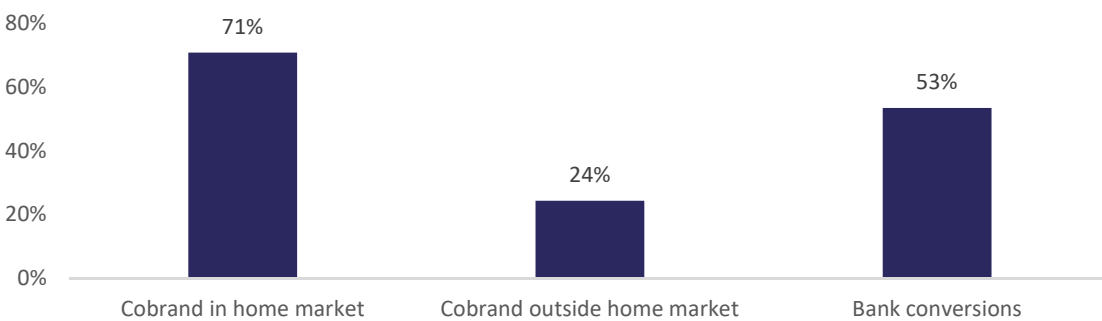
Airline loyalty programs vary greatly in terms of their attractiveness for partners and members. Some programs offer a wide variety of earn and burn partnerships, excellent rewards value, generous earning ability on flights and sophisticated elite tier levels. Other programs are very basic and do little to attract member engagement beyond giving passengers a few points for their purchases. In these weaker programs members are rewarded after years of earning points by having to go through a time-consuming redemption process and paying large fees and surcharges to acquire their 'free' ticket.



The redemption value proposition is one of the important elements in determining airline loyalty program attractiveness. In the chart below, we show how programs perform along some of the key program redemption features.

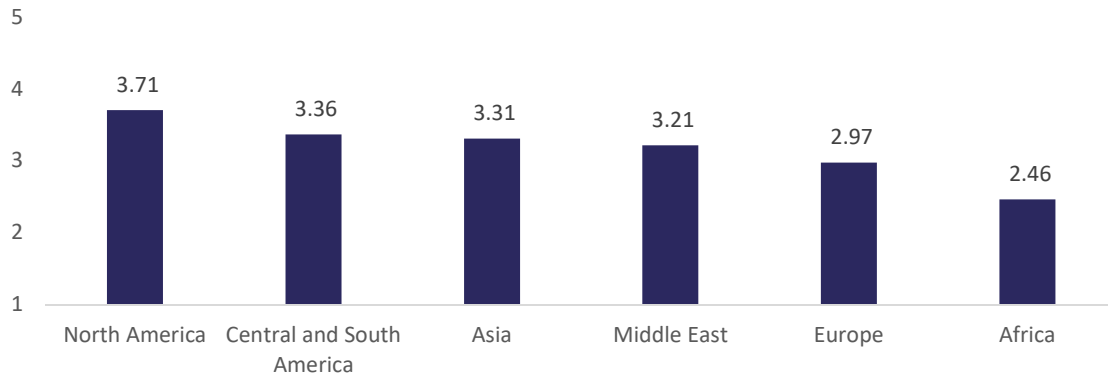


As mentioned previously, credit card partnerships are generally the most important type of alliance for airline loyalty programs. Cobranded credit cards are tremendously valuable from both a revenue generation and member engagement perspective. Strong airline loyalty programs can attract multiple high-quality credit card issuers both in and outside of their home markets. In the chart below, we show the percentage of airline loyalty programs with various types of financial partnerships.



Some programs that rise in the valuation rankings because of their well-developed loyalty strategies include LifeMiles, Club Premier, Airpoints and JetPrivilege. Not surprisingly, airline loyalty programs in North America tend to be the most well-developed in terms of features and benefits. Despite the generally weaker economies in Latin America, the airline loyalty programs in Central and South America also tend to be relatively well-developed compared to programs in other regions.

In the chart below, we show the overall airline loyalty program attractiveness by region (based on a 5-point scale).



LOYALTY CONSOLIDATION WITH LARGE AIRLINES

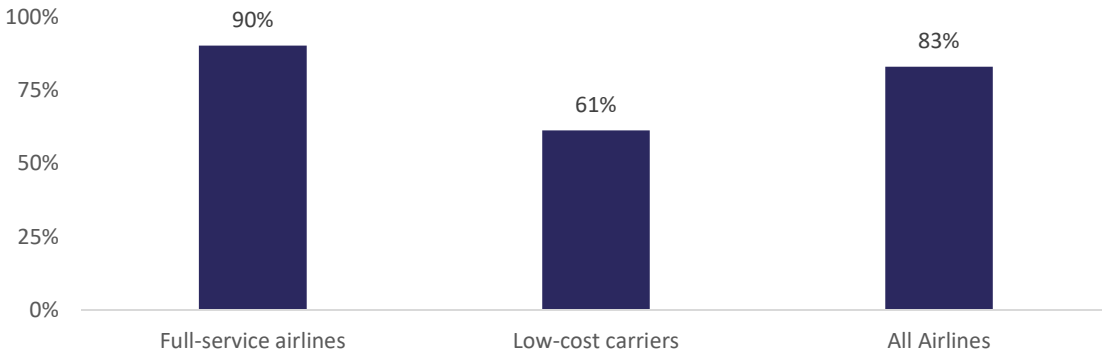
Some programs are highly valued because of the strength of their parent airline in their home market such as Saudi Arabian Airlines, Finnair and Royal Jordanian. With the limited attention span and share of mind that affluent customers can give to loyalty programs, members tend to disproportionately engage with the programs that can provide them with the highest utility for the time invested in managing their loyalty account. These are generally programs where they can use a single currency to consolidate all their earning activity on flights and credit card spending. The larger the airline and the associated network, the more likely that the affluent member will fully

engage and consolidate their earning with the airline loyalty program. Financial partnerships tend to be more successful and more profitable when the airline loyalty program has a high proportionate market share of the local loyalty market.

While a national aviation market may be somewhat fragmented, the loyalty consolidation tendency with the largest airline loyalty programs can also occur at the regional level where airlines like Delta Air Lines in Atlanta, American Airlines in Dallas or United Airlines in Houston have generated tremendous degrees of engagement with local travelers.

LEAVING MONEY ON THE TABLE

As we have discussed previously, the vast majority of airlines have a loyalty program. In the chart below, we show the percentage of airlines with a loyalty program categorized by airlines that are characterized as 'full-service airlines' versus 'low-cost carriers' based on passenger revenue yield.



Some airlines (especially low-cost carriers) have focused primarily on low prices to attract and retain customers, however even most low-cost carriers have developed loyalty programs to enhance their value proposition and capitalize on the loyalty business opportunity to increase ancillary revenue (i.e. non-ticket sales).

Given the significant cash flows of airline loyalty programs, airlines that do not have loyalty programs, could be leaving significant value on the table. In the table below, we present the potential value of some of the largest hypothetical loyalty programs should these airlines develop robust loyalty programs.

Airline	Estimated Potential Value (millions, USD)
RyanAir	\$1,577
EasyJet	\$514
IndiGo	\$236
UTair Aviation	\$94
SunExpress	\$73

In addition, several of the major European and Chinese airline loyalty programs (e.g. Avios, Miles & More, Flying Blue and PhoenixMiles) have been able to implant their loyalty programs with other airlines that are not part of the parent airline holding company. This has

helped these programs compensate somewhat for the restrictive interchange regulations implemented across the United Kingdom, European Union and China. We estimate the value of these businesses as follows:

Airline	Loyalty Program	Estimated Potential Value (millions, USD)
Shandong Airlines (22.8% owned by Air China)	PhoenixMiles	\$276
Juneyao	PhoenixMiles	\$196
Flybe	Avios	\$152
LOT Polish	Miles & More	\$68
Comair	Avios	\$55
Kenya Airways	Flying Blue	\$39
Luxair	Miles & More	\$27

Conclusions

With the increasing importance of the value in airline loyalty programs, there is growing consensus around the need for airline loyalty programs to be a critical part of the conversation in airline board rooms, investor analysis and credit card issuer strategies. Airlines should develop better tools for measuring the real economic value being created by their loyalty programs, invest in building their loyalty businesses and develop differentiated loyalty program strategies to enhance these businesses going forward. Airline loyalty programs can deliver significant, consistent growth for the airline holding and have the potential to be monetized at substantially higher multiples than traditional airline trading ranges. Airlines are increasingly discussing their loyalty initiatives with investors and highlighting the assets as important elements of the broader aviation holdings.

Investors should pay close attention to the value being generated from airline loyalty programs when valuing the overall airline. The programs are critical drivers of customer loyalty, growth, profitability and capital structuring. While airlines themselves have broadly benefited over the past several years benefitting from industry consolidation and a benign fuel environment, the airline loyalty programs add a significant additional layer of stability to earnings and their cash flows should be considered independently from the 'ticket sales' cash flows. In addition, investors that can take advantage of opportunities to put capital to work in airline loyalty businesses will be rewarded if they can properly value the assets by understanding the key value drivers. The sector promises to be an evolving space over the coming years as innovative partnership models and financing vehicles are developed.

Credit card issuers should better understand the airline loyalty program business model in order to position themselves as attractive partners for issuing cobranded credit cards. As airlines continue to invest in their loyalty programs, credit card issuers will be strategic partners in achieving those investment objectives. These deep partnerships will require a shared business understanding and vision on how to drive value for all key departments within the airline including finance, marketing, operations, revenue management and airline loyalty programs, as well as other key constituents such as the cardholders, payment networks and credit card issuers.

Through On Point Loyalty's annual reporting on the Top 100 Most Valuable Airline Loyalty Programs we hope to provide greater visibility into the value of the industry, generate rich discussions and advance innovation in the sector.

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