

Good afternoon dear Ladies and Gentlemen,

Thank you for your invitation to participate, and thanks to all the members of The International Aviation Club for being here. I would like to offer special thanks to our guests from Mexico and Central America, Claudia Canjura, Ambassador of El Salvador, Sergio García Gómez, Section of Economic Affairs, Mexican Embassy, Fernando Tonone, Section of Economic Affairs, Mexican Embassy, and José Lambour, Deputy Chief of Mission, Guatemalan Embassy for honoring me with their presence today.

I would like to start by celebrating the simple fact that we are here! Private companies, governmental authorities, airports, navigation suppliers, airlines, aircraft and component manufactures, pilots, administrators, specialized journalists, etc. Hello to everybody!

The multinational representation at our head table is quite appropriate as I am a citizen of three countries – Guatemala, where I was born, Costa Rica, and Mexico, which is my home, and the home of Volaris. I came to Mexico in 2004, to explore the Mexican market. I used to be the Chief Operating Officer at TACA, the Central American Carrier for which I had been working since 1989. TACA later consolidated with Avianca. We had developed an amazing carrier for a region like Central America, with good service to and-from the US, but we had a big country in the middle that we had never been able to understand and explore.

Before I came to Mexico I knew that Mexico had a large population of f 105 million, and that the country is very large -- playing with the map, I was able to fit in it 24 European countries. The distance between Tijuana, on the left corner of the map, to Cancun, is the same as from London to New York or from New York to San Francisco, with a very diverse topography. The air transport market was small, with about 24 million **travelers** in the **domestic market** and 22 million in the **international market**. Average GDP growth had ranged between 2.5% and 4.5% in the last 10 years.

I found though, some interesting numbers and issues that really called my attention:

- Mexicana and Aeromexico were **state owned carriers** in bankruptcy since the mid 80's, protected in a shell with the purpose of **subsidizing the carriers**.
- The Mexican market centered around a hub in Mexico City. There were 4 regional carriers that were beginning to serve the point to point market.
- The **fleet** was what we called an Olympic fleet. Yes, much of Mexico's aircraft fleet had been purchased in anticipation of the 1968 Olympic games.
- We developed a **fare and passenger volume index**. While in the US in the last decade the passenger volume had grown about 7 to 10% CAGR, in Mexico it had decreased 10% CAGR.
- Analyzing the **pricing levels**, I found that on the contrary to the **fare development**, prices had been growing 5 to 7% CAGR per year, which really suppressed passenger **volume growth**. **Of course, the US has seen the opposite trend.** ,
- When I broke down population **figures, I found some interesting things:**
 - 7% of the market was what we call "**A**" passenger target market... the entire model was developed for them. High purchasing capacity.

- 31% of the market was “**C**” and “**C+**”, which I would say it was the **emerging middle class**. The dynamics going forward for this segment showed that by year 2025, this group would become 50% of the population. Pay attention: 50% middle class by 2025.
- And the rest, more than 60% were “**D**”, “**D+**” and “**E**” ... poor people which were difficult to target, nevertheless with high mobility, especially within Mexico.
- Mexican **demographics by age**, showed me another lesson: more than 50% of the population was between 20 and 55 years, and despite I found that 72% of the travelers were men, women were entering the labor market in large numbers, leading to a large expansion of the middle class.
- By year 2032 the **population** will finally **stop growing**. This factor together with the fact that population will mature in terms of age, will push **income per capita** very high, and as a matter of fact, Mexico will need immigrant labor from the south in order to sustain our economy. Sound familiar?
- We estimated that 34 million Mexicans had **immigrated** to the **US** in the last three decades.
- **Air trips per capita** were shockingly low - . 0.25 in 2007, lower than Argentina, at the level of Colombia, Chile and Brazil. But when you compare this numbers vs. the US which is at 2.26 trips per capita and with a similar number in Europe; the run way was long enough to guarantee an operation that could grow vastly in the following years.
- **Remittances** were the economic force behind this fascinating moving middle class mass.

Bottom line and as a **conclusion**, Mexico’s growth was being suppressed by an air transport system t system served by legacy carriers with high fares, operating hub and spoke service that didn’t meet the needs of much of the population.. Minimal point to point carriers were designed to address the flying needs of a 7% of the population, which happened to be the male corporate travelers... and this was only 12 years ago.

The big question for me was still not solved. A population of 105 million inhabitants needs to move from place to place. But 93% of the population were not being by airline operators. Where were the rest?

Bingo! Mexico has a **fabulous road network** with one of the most developed **bus transportation systems** in the world. By then 2.7 billion, yes 2.7 billion passengers were transported on buses with trips that were between half an hour and more than **40 hours** per segment. ¡Oh-my-God! Think about it! It was like finding a gold mine.

Then my challenge became to understand the networks, the uses, the patterns, the schedules, the type of segmentation they had, distribution, etc. Later in the analysis we found that the phenomena did not only cover the Mexican territory. I found out most of them residing in the US, were using the buses to move back and forth from their home cities in Mexico to-from the US, through the border line.

One night I was struggling to figure out Mexico’s transportation patterns. I gave up and then I went back to pay my monthly expenses. I moved money to pay my basic bills, electricity,

gas, water and suddenly, I saw my telephone bill. My mom and dad lived in Guatemala and, I found out that the telephone bills broke down the international calls by zip code. ¡Another Bingo! I developed a platform to track phone calls from Mexico to the US and vice-versa by zip code. This is how we tracked the populations and their travel patterns. Our network is based real communications between real people and continues to evolve along with changes in immigration and market demographics.

We decided then to go behind this market and change the way they fly. Flying different means offering what customers really value and need. Obviously changing patterns of use, in such a huge market, was not an easy thing and I figured out that it was not going to be an easy job or a fast one. This people had been moving themselves in buses, instead of flying in this modern time. How do you change their patterns?

Obviously, we started breaking down the numbers of the bus users. Think about it! An aviation market of 24 million passengers vs. a bus market of 2.7 billion passengers. I thought about it like a big globe full of passengers. I had to pinch it and trap 1% of those passengers and by doing that, I could duplicate the aviation domestic market of the second largest economy in Latin America.

The first thing I clearly defined: The aviation system in place was, by no means, my competition. I needed a very simple system to break it and compete vs the buses. So, what is **Volaris**?

Volaris is a derivation of the Polaris star. Polaris has been since Mesopotamia, the northern star that has guided navigators in the human history. But Volaris had to be an airline different to what we all knew in Mexico. We designed the star of our logo with pixels, thinking on the modern transportation system it must provide and the guidance it must give to the new air travelers. All carriers had blue in their colors and we decided to paint the pixels with the modern Mexican architecture colors, giving the airline a Mexican modern identity and paint the tails in black, to remember us that we can never go back to the dark side: providing aviation to the wrong targets and with the wrong purposes. We wanted to leave those times behind and let our people know we always need to change, adapting ourselves to the new trends.

Volaris was founded in 2005-2006 in Mexico. I oversaw the foundation of the company and raised the capital to start it.

Finally, in March of 2006 we were awarded with an AOC and started flying with 2 Airbus A319s to 4 main routes. We have been through a lot! In

In 2010 some of our initial investors sold their shares at a large gain, and we gained some new shareholders including the Indigo group, the former owners of Spirit, actual owners of Frontier, Wizz in Central Europe and JetSmart in Chile. Our ties to Indigo have brought us both operational synergies and the global perspective they bring to the table. In 2013 we took the company public at NYSE and the Mexican Bolsa; today more than 65% of the company is publicly traded.

Volaris needed a modern fleet. We competed the fleet purchase order between Airbus and Boeing and finished with an **Airbus A320 family** fleet, which today is the **youngest fleet in Mexico** and probably one of the youngest in the continent: 4.3 years old.

We designed on top of the **bus network** an **aviation network** to compete in distances above 5 hours to the extent that today, still 27% of our routes do not have direct air competition. **Direct flights in a point to point** operation. **Only one class**; this was very important. These new passengers had to feel comfortable and welcomed using a mode of transportation that might be unfamiliar to them. We speak Spanish, and respect their diverse origins and economic situations. We developed a system to purchase tickets which emulates the way they buy the **bus ticket**. **¡Low fares!** Aviation was designed in Mexico by that time for the elite and we wanted **all Mexicans to fly**. The solution was to design fares that were so low that would mobilize them and **get them out of town...** in a plane of course.

We were observing the way distribution was moving forward. **Internet** was clearly the path, but our web page had to be as easy as purchasing bus tickets in a terminal. They wanted a seat and nothing else. Today 70% of our passengers do not carry bags in the domestic market, despite of it, congress forces us by law to allow a first bag within the price of their tickets, making this tickets by design, more expensive. They fly with back-packs within Mexico.

We decided to give the passengers what they needed and nothing else. All additional services had to be sold separately, because fares had to compete with buses and some services were not valuable for them. In general, we fly segments of above 5 hours of equivalent bus trips and we beat the bus fares most of the time. We created a very skinny loyalty system which ended up being a discount club with more than 800 thousand customers. Plain vanilla!

If I would tell where we are today, Volaris has 187 **routes** to 69 **destinations** plus the 50 Frontier **code share destinations**. We have transported more than 100 million **passengers** in 12 years. Last year we transported 18 million **passengers**, the **largest Ultra low cost carrier** in Latin America, the **largest domestic passenger** operator in the Mexican market. We have now almost 77 **aircraft**, with an average of 185 seats, 1.4 billion US Dollar **revenues**, and we got into the 3 lowest unit cost operators ranking in the world at 4.3 US dollar cents per ASM-ex fuel. **ASMs** grew 2.3 times from 2012 to 2018 at a 15% CAGR, **passengers** grew up 2.5 times in the same period, at a 16% CAGR per year and **revenues** at 1.5 times or 16% CAGR.

Let me give you an amazing figure. Last year we grew up 12% in passengers but 10% of our customers claim they are **first time travelers**. Which means most of our growth is coming from new passengers that convert from the bus market. Between 22% and 34% of our customers first quote the buses, before purchasing Volaris. Buses remain being our **most important competition**, and 11 carriers disappeared in the last 10 years because of lack of reinvention.

More than 86% of our sales are performed through our **web page** and a substantial number of customers are using the mobile platforms, with over 1.7 million downloads in 2018.

I continue struggling with financial analysts, because they think Volaris must grow at the pace of GDP and because of the proximity to the US, they forget we are **an emerging market airline** with different set of indexes in terms of growth. They even compare us vs our legacy

carriers' growth path. Even worse, these carriers expect Volaris to grow the same way they grow and, in most of the cases they forget the abysmal difference in **unit cost**.

When in 2009 we decided to **unbundle the prices** and start **selling ancillaries**, we created a revolution, not because the passengers opposed it, but because the way we launched it. We called it **"You decide"** and emphasized the fact that we were more transparent to our passengers than the traditional carriers, because we allowed the customers to decide where to spend their money. Today 30% of our revenues are driven by ancillaries. They grow at a pace of 36% CAGR and we are now charging almost US\$30.00 per passenger. **User experience** and **dynamic pricing** improvements are two main forces for growth. We continue having in the development of ancillaries a customer-centric approach which has clearly paid off.

Air trips per capita went up from 0.25 in 2007 to 0.36 in 2018, growing the domestic market from 24 million passengers per year to 44 million passengers per year. The international market duplicated itself also in the same period to 42 million passengers. 48% of the market growth in Mexico is attributed to Volaris. Traffic volume in the domestic market continues to rise, in line with an emerging market economy, in which the middle class evolves and requires more seats and air travel options, which is not the case of the business market in Mexico. This trend explains part of Volaris' traffic behavior, where it is our belief that domestic demand of Visiting Friends and Families traffic is growing at a higher pace. An ideal fit for the Ultra-low-cost model in this economy and population.

Costs continue being challenging. Last year we had **fuel costs** go up dramatically. Our all in all costs are so low that the fuel line represents 36% of our revenues. The new aircraft and engine technology is key to managing fuel costs. We were the first NEO operator in North America and by now we have substituted 21% of our actual fleet to NEO's. By 2022, 56% of the fleet will be substituted with engines that burn less fuel, plus the technology on the wings, the sharklets that also helps reduce fuel burn. All in all, an 18% lower fuel burn in favor of our low cost strategy.

Yields of base fares, on the other side continue intentionally going down, being offset by more than the equivalent in ancillaries. As a result, we are a company where the index to track in terms of revenue, is **Total Revenues per Available Seat Mile** or TRASM which is back improving. Load factor is at the level of 85%.

Our **on-time performance** has been awarded several times. We operate at 82% on time performance: arrival +15 minutes. OAG recognized Volaris as one of the top 5 most punctual ULCC airline worldwide. **Schedule completion** is at 99.3% and we operate on average 13.4 hours a day giving the fleet one of the highest **utilization** in the market. We strongly think that our ratios just mentioned must be better than world class, since one passenger gained from the buses cannot be lost because of operational lack of performance; plus this drives cost down. **Density on the fleet** drives lower cost and as a result we have the highest possible density in the market.

Volaris **market share** is now 29% in the domestic market. We use market share to measure market penetration of the new model, since we drive primary our decision model based on costs and profitability. Volaris **stimulation** in the markets is typically between 2-3 times better than the market growth, resulting from a model that continuously measures **elasticity** of demand.

Lately in 2017 we started another **certificate of operation in Costa Rica**. Central America is again an overpriced market that, as 12 years ago in Mexico, is strangulating volume growth. Today a very small portion of our ASMs are operated in that area. At the end of this coming year, about 3.5% of our capacity is flying within Central America and from there to three destinations in the US. We plan to open an additional Certificate, this year in El Salvador.

[**Labor** wise Volaris, cannot achieve this great target without the people, our Ambassadors. Volaris generates more than 5 thousand direct **employees** with an industry labor union, 53 full time equivalents per aircraft. These direct employees generate 4 times more indirect employment. So, in a nutshell Volaris generates more than 25 thousand employees in our territories.

We do have great opportunities going forward. We were strong supporters of the new US-Mexico open skies agreement, and we know that, despite the ups and downs of the air service market between the US and Mexico, the agreement provides a strong foundation for growth and the expansion of the relationship between our 2 countries.

We also can continue growing in an attractive emerging air travel market in Mexico and Central America, we can continue our geographic diversification through international growth and codeshares. Our new codeshare arrangement with Frontier, an ultra-low-cost carrier controlled by the Indigo Group, shows great promise. We are continuing to expand our frequency in very elastic markets, we do have a great upside in ancillary revenues, we have a flexible fleet plan and high utilization; we manage ourselves in a very rational capacity deployment and we still think we can improve Volaris to a lower cost operator in the world. Volaris has built a strong and diverse network with minimal concentration and overlap with other carriers. Our diversified network allows us to work around the infrastructural gaps to grow consistently in significant untapped opportunities throughout the Americas.

We in Volaris think that our countries need to keep on working together developing the industry.

- 39 million people visited Mexico in 2017 making Mexico the 6th most visited country in the world.
- In 2017, Tourism in Mexico represented 8.7 percent of our GDP and supported 10 million jobs.
- Thanks to competitive oriented policies between Mexico and the US, fifteen airlines operate between our countries every day... and 87 new routes have been authorized last year.
- In the most recent available figures, almost 19 million Mexicans visited the US in 2016 and spent over \$20 billion dollars contributing to a stronger US economy (Dep of Commerce).

We also think that the recent commercial agreement among our countries (TMEC) needs to be supported.

- The Mexican government has expressed commitment to the USMCA as a strategic component for economic growth in North America and the creation of opportunities in our region.
- USMCA ratification in the legislative branches is one of the highest priorities for our region. We need to remember that trade between Mexico and the US recorded \$557 billion in 2017 and will exceed \$600 billion in 2018.
- Today Mexico is #1 export market for the US Southern Border States and #2 export market for 23 States.
- We need everyone that benefits from the bilateral trade and investment relation, and this is an estimated 5 million jobs in the US, to support and embrace USMCA ratification soon.

Now let me finish with a tribute.

In my many years of experience in the low-cost aviation sector, I have followed many companies and have benchmarked Volaris against many other airlines. But there is one person in the United States who exemplifies the values of a low-cost carrier. The first time I used the term “democratization of travel” was because of him. Aside from the concepts he taught us, he was an amazing airline person, a giant among men in North Texas – and even more than that for the airline industry. I met Herb Kelleher several years ago and he is perhaps best known for his “flying should be affordable” philosophy. Herb, sadly passed away some days ago. Those who knew him and worked for him, remember him, as a man with a keen sense of humor, who knew to have fun, and who cared for his employees. “He was wickedly witty. He was spontaneous. He was irreverent. He was unpredictable” - says Gary Kelly. I think that we should end today by giving Herb a standing ovation and celebrating his life and the inspiration he gave to all of us in the aviation industry. .

Thank you very much.

Enrique J. Beltranena

Volaris

President & CEO

Q&A

MIGRATION ANSWER.

- Although Mexico is not the cause of the late migratory phenomenon and caravans, we are willing and determined to be part of the solution.
- The Mexican government is open and willing to engage in a serious, respectful and constructive dialogue with the United States, to jointly assist migrants, and Volaris has manifested we need to be part of the solution.

- The migration policy in Mexico will be based on a humanitarian vision, and the entry of migrants will be legal and orderly.