JetBlue Airways IPO Valuation

ADM 4350A: Case 2

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For:
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Date:
October 11 2019

Agenda

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EXECUTIVE SUMMARY

IPO SUMMARY

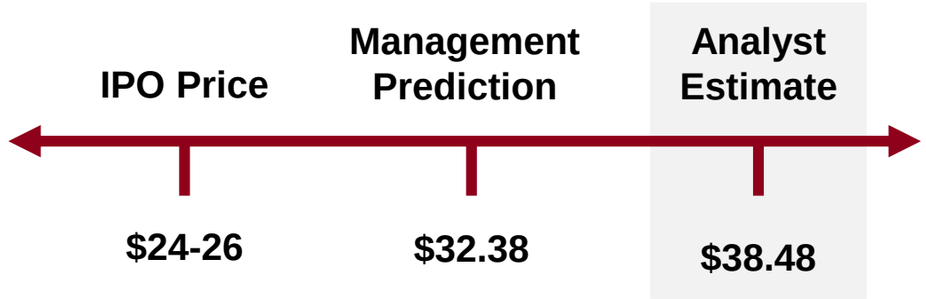
Pre-money Share :	35.1M Share
IPO Range:	$24 ~ $26
Pre-IPO Funding:	$130M
Proposed Ticker	JBLU (NASDAQ)
Headquarter:	New York City
Founder:	David Neeleman
Founded:	July 1999

JetBlue is raising capital with the intention to further expands its business as it had great success with its low-fare airline business model.

Valuation

Key Assumptions:

WACC	7.56%
Terminal Growth Value	2%
Corporate Tax Rate	38.5%



Based on our projections of the companies growth, strong industry metrics and capable management team, we believe the value of the stock to be $38.48. While the airline industry is highly competitive, we believe JetBlue has a strong business model that will appeal to consumer and allow them to gain market share.

Source: Ivey Case Study: JetBlue Airways IPO Valuation, Bloomberg Database

IPO ANALYSIS – AIRLINE INDUSTRY

IPO TIMELINE

Initial public offerings have increased throughout the 1990's for airline companies indicating industry growth and room to further meet customer expectations

Source: Ivey Case Study: JetBlue Airways IPO Valuation, Bloomberg Database

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COMPANY OVERVIEW

DESCRIPTION

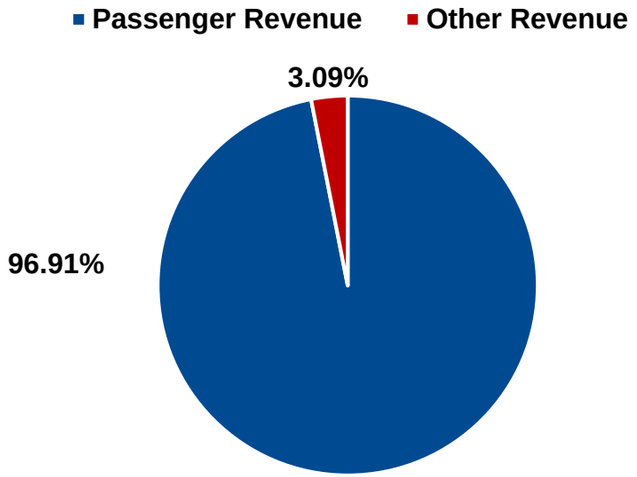
JetBlue Airways Corporation(JetBlue) is a low-fare and low-cost passenger airline that provides differentiated customer experience on domestic point-to-point routes. JetBlue's primary base of operations is New York's John F. Kennedy International Airport. JetBlue operates 24 aircraft and flies 108 flights per day to 17 different destinations.

Sector:	Industrials
Industry:	Airlines
Country of Domicile	U.S.

Business Model

JetBlue focuses on providing low cost flights to underserved / overpriced metropolitan areas in order to optimize the utilization of their standardized fleet of Airbus 320's. JetBlue focuses on providing a frictionless flight experience, with on-flight perks that help differentiate their service from competitors', all while keeping operating costs low.

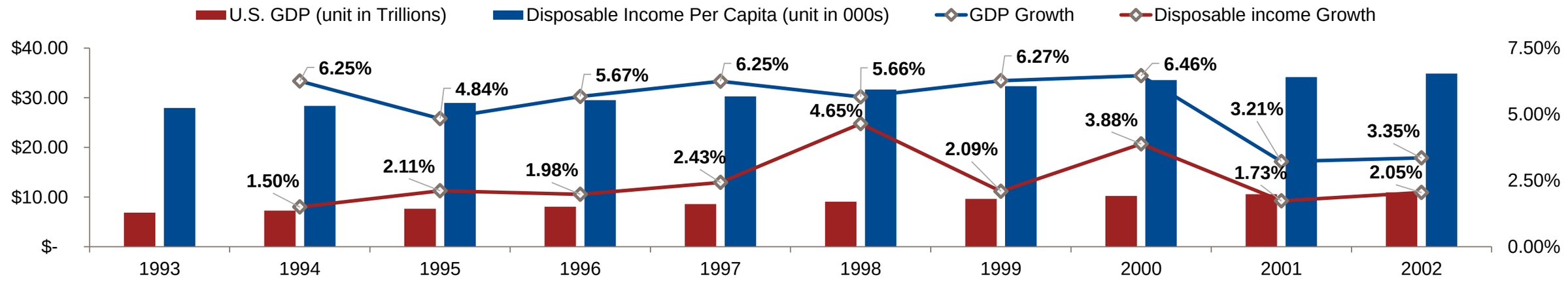
REVENUE BY SEGMENT (FY 2001)



Source: Ivey Case Study: JetBlue Airways IPO Valuation, Bloomberg Database

MACROECONOMIC ANALYSIS – GDP

U.S. GDP PER CAPITA AND DISPOSABLE PERSONAL INCOME



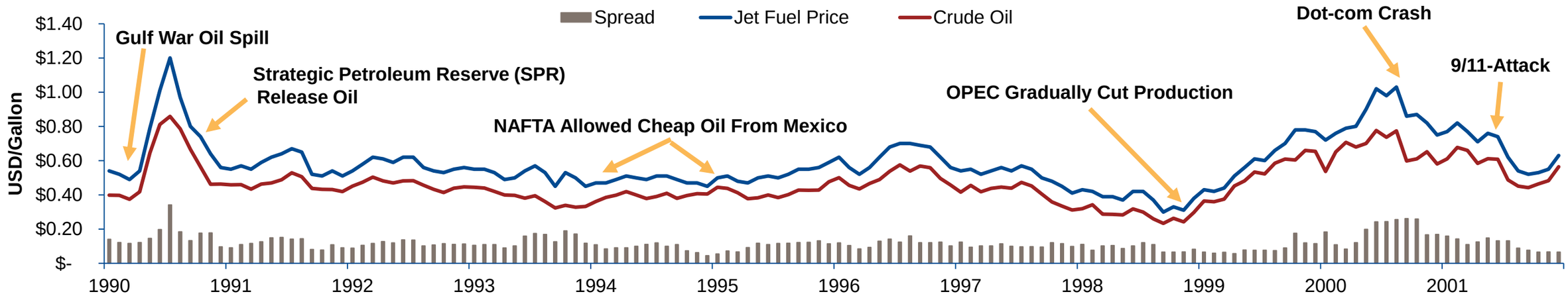
DISCUSSION & ANALYSIS

- GDP growth over the 1990's averaged a very strong 4%. This growth is driven by the technological revolution that is lifting labour productivity by 2.5% per year. The progression of technology creates a strong investment environment and supports adaptable tech-focused business models.
- The US disposable personal income per-capita has risen year over year with the economy. As of 2001, disposable income growth is 3.88% which indicates stronger consumer spending on leisure purchases like travel.
- Over the 1990's growth in personal consumption expenditures related to air transportation grew by 8.8%. This indicates consumers are dedicating more disposable income to air transportation.
- **Forward Looking:** The metrics for GDP and disposable income create a strong economic environment for the airline industry thrive. The projected future GDP growth is 4% per year.

Source: Ivey Case Study: JetBlue Airways IPO Valuation, FRED, IBISWorld, Explaining the 1990s Economic Boom, FactSet Research Systems Inc.

MACROECONOMIC ANALYSIS – JET FUEL

U.S. GULF COAST KEROSENE - TYPE JET FUEL PRICE & BRENT CRUDE OIL PRICE



DISCUSSION & ANALYSIS

- Jet fuel price is strongly correlated to the crude oil price as it is derived from crude. One of JetBlue's main costs is jet fuel (roughly 13% in 2001).
- Oil prices were highly volatile from 1999 until 2001 as OPEC gradually cut its production, U.S. economy faced the Dot-com crash and 9/11 attack. These events caused oil prices to rise from $0.3/Gallon to $1.02/Gallon and then stabilized around $0.55/Gallon.
- **Forward-Looking:** Crude oil and jet fuel prices are largely dependent on OPEC production policies. Additionally, U.S. military operation 'Enduring Freedom' carried out in Afghanistan on October 7 2001, represents a major risk. As the tension in the middle east continue to worsen, this could send the oil price back to its historical highs. The expected growth for crude is 5%.

Source: Ivey Case Study: JetBlue Airways IPO Valuation, US Energy Information Administration

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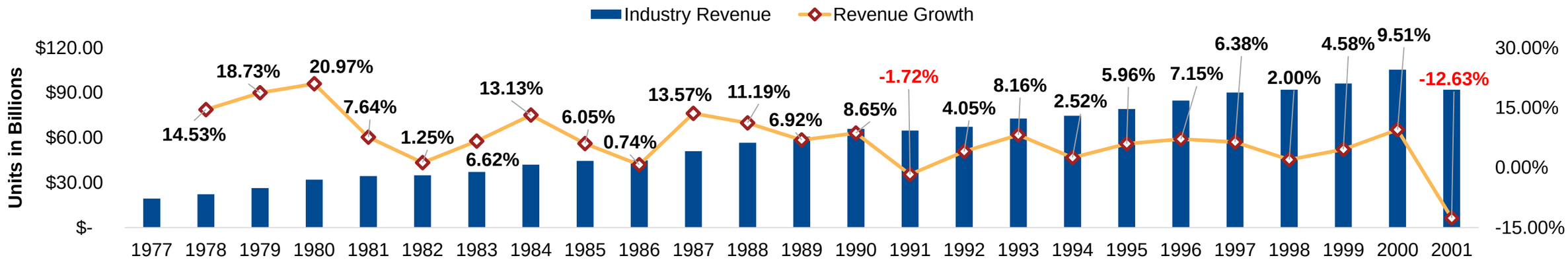
INDUSTRY ANALYSIS

U.S. AIRLINE INDUSTRY SINCE 1977



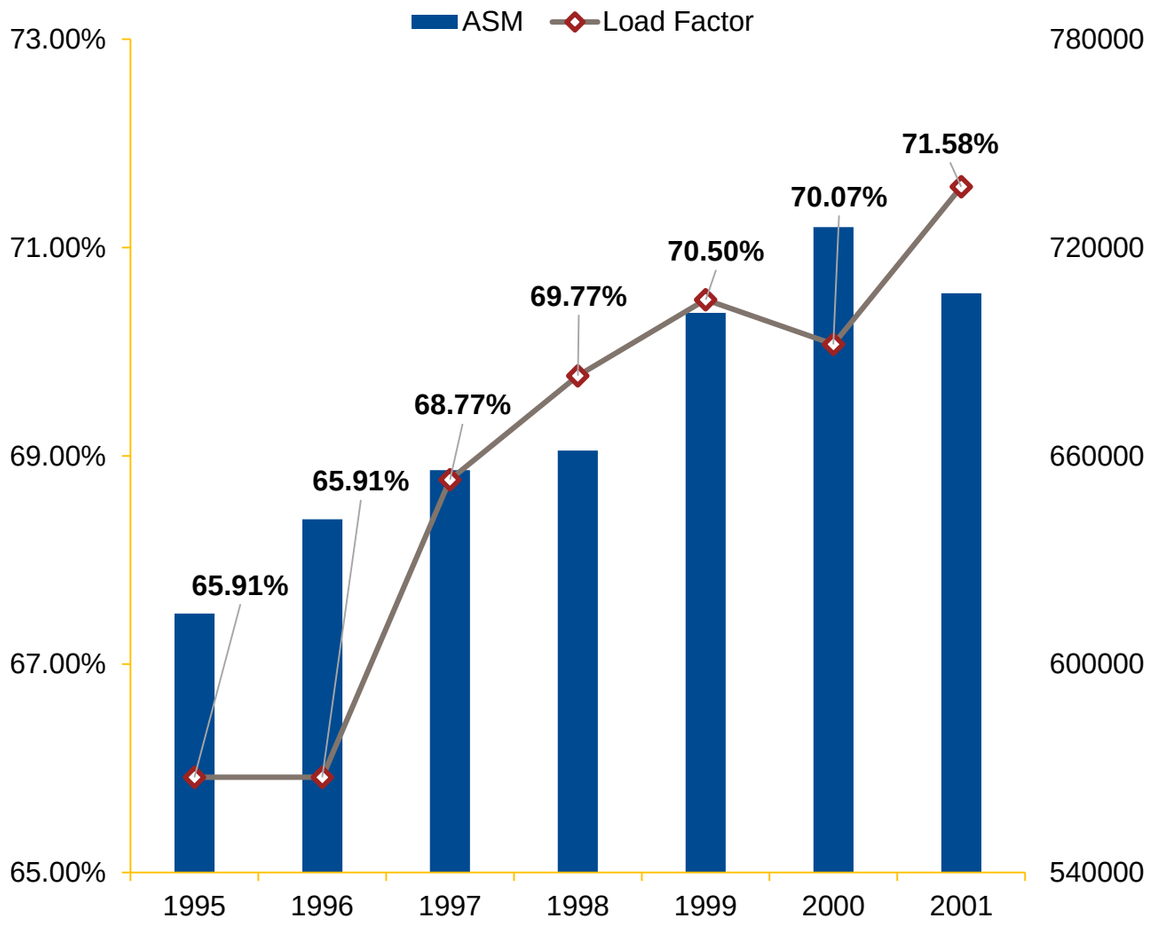
DISCUSSION & ANALYSIS

- Over the last three decades the U.S. airline industry has grown rapidly due to an influx in consumer demand and reduction in cost base.
- The low-cost airline industry showed very strong growth in the 1990's, averaging 53% YoY revenue growth.
- The dramatic increase in revenue led to increased investment - gross equipment growth averaged 30% for low cost airlines as they grew their fleets and expanded flight coverage.
- The industry saw two periods of revenue decline: 1991 due to the duel impact of the Gulf War which spiked fuel prices and decreased consumer spending on air travel for the first time in a decade, and in 2001 due to the infamous 9/11 terrorist attack.
- **Forward Looking:** While unexpected macro shocks have a significant impact on air travel revenues, the U.S. airline industry has shown strong revenue growth over the last two decades. Revenue growth will remain strong averaging 5%.

Source: Ivey Case Study: JetBlue Airways IPO Valuation, FactSet Research Systems Inc.

INDUSTRY ANALYSIS

AVAILABLE SEAT MILES AND LOAD FACTOR



DISCUSSION & ANALYSIS

- With growing consumer demand we have seen the industry gradually expand ASM to meet customer needs
- We have also seen a gradual increase in fleet efficiency as airlines target more consistent high traffic routs (e.g. Southwest introduction of Orlando in 1995). Load factor over the last six years has improved by ~5%
- As forecasting methods improve over time we can expect planes to be utilized more efficiently and the load factor to improve
- **Forward Looking**: Over the last 5 years, the industry load factor grew at CAGR of 1.38% and ASM grew at 1.74%. While fluctuations are expected, continued demand growth and operational improvements will push ASM and load factor up by 1.5% and 1.0% respectively.

Source: Ivey Case Study: JetBlue Airways IPO Valuation, MIT Global Airline Industry Program

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INDUSTRY ANALYSIS – COMPETITIVE ANALYSIS

COMPETITORS POSITIONING

		Southwest Airlines	jetBlue	Delta
Operational	Revenue per ASM	7.54 cents	7.38 cents	9.39 cents
	Load Factor	68.1%	76.7%	68.8%
	Revenue Growth	12.2%	306%	(16.5%)
Cost Control	Cost per Gallon of Fuel	$0.7086	$0.6094	$0.686
	Cost per ASM	7.54 cents	6.98 cents	10.14 cents
	Employee Number	31580	2116	31580

High operational efficiency & good cost control

Source: Ivey Case Study: JetBlue Airways IPO Valuation, Southwest, JetBlue and Delta annual report 2001

INDUSTRY ANALYSIS – PORTER FIVE FORCES

THREAT OF SUBSTITUTION: MODERATE AND DECREASING

- The switching costs to use trains, boats or cars is time and convenience which is moderate.
- After the 911 crisis, most passages have limited air travel causing a 13% decline in industry revenue (App.2).
- **Forward-Looking:** Although passenger fears have limited air travel in the past year, this sentiment should return to normal within the year and the industry would be back to its growth stage.

THREAT OF NEW ENTRY: LOW AND DECREASING

- Initial starting capital is high in the airline industry and additional regulation due to 911 will cause it to increase.
- Brand image and loyalty is also important in this sector creating a barrier to entry.
- **Forward-Looking:** New airlines must be seen as safe & reliable while also differentiating from competitors creating high barriers too entry

BUYER POWER: MODERATE AND INCREASING

- During the dot-com bubble, even though many technology companies fail to survive, the introduction of internet changed the marketing landscape for airlines from agency to online pricing. This has greatly increased consumer's bargaining power.
- Branding as a safe airline is crucial and customer loyalty is still important for this industry.
- **Forward-Looking:** The advance in technology has benefit consumer greatly and their power is increasing.

Source: Ivey Case Study: JetBlue Airways IPO Valuation, Bureau of Transportation Statistics

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INDUSTRY ANALYSIS – PORTER FIVE FORCES (CONT.)

COMPETITIVE RIVALRY: HIGH AND INCREASING

- The U.S. airline industry is highly competitive. Companies compete on price, frequency, capacity, route offerings and service quality. This resulted in 87 new-airline failures over the past 20 years. Furthermore, regulation is increasing dramatically after the September 11 hijackings, which intensify the cost structure for airlines.
- Airline industry revenues shrank 13% in 2001, this decline in market size increased competition for remaining customers (App.2).
- **Forward-Looking:** As Southwest successfully implemented the low-fair airlines structure, many other airlines had also adopted this low-cost model. JetBlue is expected to face increasing competition.

SUPPLIER POWER: HIGH AND MAINTAINING

- AirBus and Boeing dominate the airplane manufacturing, owning 13% and 63% of the market share respectively(App.1). Although JetBlue's core strategy is to keep its airplane variety low to achieve a higher efficiency, there is no ability to bargain with their suppliers.
- Jet Fuel cost are mostly driven by crude price. JetBlue might be able to reach a better economies of scale by increasing miles per flight, but the savings are marginal compared to the fundamental cost of jet fuel.
- **Forward-Looking:** JetBlue has very little bargaining power with their supplier and this landscape is expected to continue.

In conclusion, while threat of new entrants & substitution are relatively low, other forces like competitor rivalry & supplier power create a highly competitive environment where smaller competitors like JetBlue will need to be innovative in order to differentiate their product an gain consumer trust.

Source: Ivey Case Study: JetBlue Airways IPO Valuation, IBISWorld, Bureau of Transportation Statistics, ACAS

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COMPANY ANALYSIS – SWOT ANALYSIS

STRENGTHS (+++)

- JetBlue has the lowest cost per available-seat-mile which is 6.98 cents compared to industry average of 10.08 cents. This comes from its operational efficiency which gives JetBlue a competitive advantages among other low-cost airlines.
- JetBlue is focused on building a strong brand based on safety, reliability, low-fares and good customer experience which should resonate in the market.
- JetBlue has a visionary CEO, Neeleman, who has more than 20 years of experience in the low-fare flight industry.

WEAKNESSES (--)

- JetBlue is still a relatively new company, and their CEO never has no management experience in a large company.
- JetBlue achieve low-fares through its focus on a single fleet type, all 21 of their airplanes are single-class Airbus A320s This can be risky and creates a barrier to entry into other additional route that are not suitable for A320.

OPPORTUNITY (+++)

- Customers are looking for airlines that has the safest brand image. JetBlue was the first U.S. airline to equip cockpits with bulletproof Kevlar doors and security cameras which will help them to capture this opportunity.
- The industry will undergo a growth stage again as it recovery from 911.
- JetBlue has a huge growth upside through route & fleet expansion.

Threat (--)

- The biggest unpredictable threats are further terrorist attacks and the price of crude oil, which would greatly impact the company's costs.
- New regulations will also put a burden on airline companies financials.

JetBlue has a strong business model and visionary management team that can capture that potential growth opportunity when the airline industry turns around

Source: Ivey Case Study: JetBlue Airways IPO Valuation, JetBlue's S1 IPO registration paper

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WACC – COST OF DEBT

CURRENT DEBT STRUCTURE:

	Moody's Rating	Amount Outstanding	Maturity Date	Yield to Maturity	(year) Time remaining
8.75 note	Baa1	$100,000,000.00	Oct. 2003	5.65%	1.83
8.00 note	Baa1	$100,000,000.00	Feb. 2005	5.91%	3.17
7.875 debenture	Baa1	$100,000,000.00	Sep. 2007	7.41%	5.75
7.375 debenture	Baa1	$100,000,000.00	Feb. 2027	8.68%	25.17
	Baa1	$400,000,000.00		6.91%	8.98

EBIT (a)	41915
Interest Expense (b)	14132
Interest Coverage Ratio (a)/(b)	2.97x

Estimated Effective Corporate Tax Rate	38.50%
Risk Free Rate (a)	5.00%
Theoretical (Credit Rating Agency)	Baa1
Actual (Calculation)	B1
Default Spread (b)	4.50%
Estimated Cost of Debt (a) + (b)	9.50%
Estimated After Tax Cost of Debt	5.84%

Interest Coverage Ratio & Default Spread Conversion Chart (Company Less than $5B)

>	≤ to	Rating	Default Spread
7.5	9.499999	A1/A+	1.25%
6	7.499999	A2/A	1.38%
4.5	5.999999	A3/A-	1.56%
9.5	12.499999	Aa2/AA	1.00%
12.5	100000	Aaa/AAA	0.75%
2.5	**2.999999**	**B1/B+**	**4.50%**
2	2.499999	B2/B	5.40%
1.5	1.999999	B3/B-	6.60%
3.5	3.9999999	Ba1/BB+	3.00%
3	3.499999	Ba2/BB	3.60%
4	4.499999	Baa2/BBB	2.00%
0.5	0.799999	C2/C	14.54%
0.8	1.249999	Ca2/CC	11.08%
1.25	1.499999	Caa/CCC	9.00%
-100000	0.499999	D2/D	19.38%

RATIONALE

- JetBlue has a interest coverage ratio of 2.97x. This would lead to a rating of B1 which is similar to Moody's rating of Baa1.
- With the rating, JetBlue would return a default spread of 4.5%. The current risk free rate is estimated to be 5% , similar to the risk free rate in 2001, 5.05% (App.3).
- This gives an estimate cost of debt of 9.5%. The after tax cost of debt is 5.84%.
- This number is also consistent with the current debt's yield to maturity.

Source: Ivey Case Study: JetBlue Airways IPO Valuation, Damodaran

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WACC – BETA + COST OF EQUITY

Comparable Company	2 Year Daily Levered Beta	R^2	D/E (FY 2001)	Tax Rate	Unlevered Beta
AirTran	1.016	0.109	8.03x	38.50%	0.171
Alaska Air	0.977	0.176	1.05x	38.50%	0.593
Frontier	0.996	0.106	0.00x	38.50%	0.995
Midwest	0.887	0.107	0.65x	38.50%	0.632
Ryanair	0.752	0.102	0.61x	38.50%	0.547
Southwest	0.811	0.14	0.46x	38.50%	0.633
WestJet	0.408	0.003	0.30x	38.50%	0.344
Average	0.835		1.59x		0.559
Minimum	0.408		0.00x		0.171
25th percentile	0.752		0.30x		0.344
Medium	**0.887**		**0.61x**		**0.593**
75th percentile	0.988		0.89x		0.632
Maximum	1.016		8.03x		0.995

Optimal D/E (a)	0.61x
JetBlue Corporate Tax Rate (b)	38.50%
JetBlue's Proxy Unlevered Beta (c)	0.593
JetBlue's Proxy Beta (c) * (1 + (1 - (b)) * (a))	**0.815**

Risk Free Rate (from previous slide)	5.00%
Market Risk Premium (Case)	5.00%
Market Risk Premium (Damodaran)	3.84%
Blended Market Risk Premium	4.42%

Estimated Cost of Equity (rf + Beta * market risk premium)	**8.60%**

RATIONALE

- JetBlue is not public yet so there is no history to calculate its beta. Therefore we proxy beta by looking at its peers.
- Its peers have a medium unlevered beta of 0.593 and Debt to Equity ratio of 0.61x. This becomes a proxy for JetBlue.
- With these assumption being made, JetBlue should have a beta of 0.815
- Some economists expects the market risk premium to be 5%. However, based on S&P 500's performance for the past 41 years, which captured many business cycles; the market risk premium should be 3.84%. Therefore, the blended market risk premium is 4.42%.
- Cost of Equity would be 8.6%

WACC = Cost of Equity * % of Equity + Cost of Debt * % of Debt

WACC = 8.6% * 1/(1+0.61) + 5.84% * 0.61/(1+0.61)

WACC = 7.56%

Source: Ivey Case Study: JetBlue Airways IPO Valuation, Bloomberg Database

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DCF – IPO MANAGEMENT PREDICTION

	2001	2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Number of aircraft	21	34	48	62	74	86	98	108	113	117
$ Revenue/plane	$ 15.30	$ 17.60	$ 18.40	$ 19.20	$ 20.10	$ 21.00	$ 21.90	$ 22.80	$ 23.80	$ 24.90
Expected inflation rate		16.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Operating margin	8.40%	13.30%	15.20%	15.20%	15.20%	15.20%	15.20%	15.20%	15.20%	15.20%
$ Depreciation per aircraft	$ 0.50	$ 0.50	$ 0.50	$ 0.60	$ 0.60	$ 0.60	$ 0.70	$ 0.70	$ 0.70	$ 0.80
$ Net capex per incremental aircraft	$ 21.30	$ 22.30	$ 23.50	$ 24.60	$ 25.90	$ 27.10	$ 28.50	$ 29.90	$ 31.40	$ 33.00
Expected inflation rate		*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
NWC turnover (revenue/NWC)	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4

Financial forecast										
Revenue	$ 320.00	$600.00	$ 884.00	$1,192.00	$1,485.00	$1,802.00	$2,114.00	$2,466.00	$2,694.00	$2,912.00
Cash expenses	$ 283.00	$502.00	$ 723.00	$ 975.00	$1,215.00	$1,474.00	$1,753.00	$2,016.00	$2,202.00	$2,380.00
Depreciation (b)	$ 10.00	$ 18.00	$ 26.00	$ 36.00	$ 45.00	$ 54.00	$ 65.00	$ 75.00	$ 83.00	$ 90.00
EBIT	$ 27.00	$ 80.00	$ 134.00	$ 181.00	$ 226.00	$ 274.00	$ 326.00	$ 375.00	$ 410.00	$ 443.00
Taxes (Tax rate = 34%)	$ 9.00	$ 27.00	$ 46.00	$ 62.00	$ 77.00	$ 93.00	$ 111.00	$ 127.00	$ 139.00	$ 151.00
NOPAT (a)	$ 18.00	$ 53.00	$ 89.00	$ 120.00	$ 149.00	$ 181.00	$ 215.00	$ 247.00	$ 270.00	$ 292.00
Capital expenditure (c)	$ 234.00	$290.00	$ 328.00	$ 345.00	$ 310.00	$ 326.00	$ 342.00	$ 299.00	$ 157.00	$ 132.00
Net working capital	$ 34.00	$ 63.00	$ 94.00	$ 126.00	$ 157.00	$ 191.00	$ 227.00	$ 261.00	$ 285.00	$ 308.00
Fixed assets	$ 530.00	$802.00	$1,104.00	$1,413.00	$1,679.00	$1,950.00	$2,227.00	$2,451.00	$2,526.00	$2,568.00
Change in NWC (d)		$ 29.00	$ 31.00	$ 32.00	$ 31.00	$ 34.00	$ 36.00	$ 34.00	$ 24.00	$ 23.00
FCFF (a) + (b) - (c) - (d)		**-$248.00**	**-$ 244.00**	**-$ 221.00**	**-$ 147.00**	**-$ 125.00**	**-$ 98.00**	**-$ 11.00**	**$ 172.00**	**$ 227.00**
Discount		107.56%	115.69%	124.43%	133.84%	143.96%	154.84%	166.54%	179.13%	192.67%
Year		1	2	3	4	5	6	7	8	9
PV of FCFF		-$230.57	-$ 210.91	-$ 177.60	-$ 109.83	-$ 86.83	-$ 63.29	-$ 6.60	$ 96.02	$ 117.82

Source: Ivey Case Study: JetBlue Airways IPO Valuation

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DCF – IPO MANAGEMENT PREDICTION

Sum of Present Value (b)	-$ 671.81
WACC	7.56%
Terminal Growth Rate	2.00%
Terminal Value in 2010	$ 4,165.26
PV of terminal Value (a)	$ 2,161.86
Enterprise Value (c) = (a) + (b)	$ 1,490.05
Plus: Cash (d)	$ 142.06
Less: Debt (e)	$ 495.50
Equity Value (f) = (c) + (d) – (e)	$ 1,136.60
Share Outstanding (g)	35.1
Stock Price (h) = (f) / (g)	$ 32.38

SENSITIVITY ANALYSIS

		WACC				
		6.56%	7.06%	7.56%	8.06%	8.56%
Terminal Growth Rate	1.00%	$ 36.96	$ 29.06	$ 22.48	$ 16.94	$ 12.24
	1.50%	$ 43.88	$ 34.62	$ 27.02	$ 20.70	$ 15.38
	2.00%	$ 52.31	$ 41.28	$ 32.38	$ 25.08	$ 19.00
	2.50%	$ 62.83	$ 49.41	$ 38.80	$ 30.24	$ 23.22
	3.00%	$ 76.29	$ 59.53	$ 46.63	$ 36.43	$ 28.20

DISCUSSION & ANALYSIS

- The DCF valuation is based on the given predications from JetBlue IPO submission. By using the perpetual growth approach, terminal growth rate is assumed to be 2%. This assumption is based on the analyse of the macroeconomic environment (4% in the 90s) and airline industry (5% historically). It is assume growth and economy will slow down to 2% perpetually.
- A terminal growth rate of 2% and WACC of 7.56% will suggest an IPO price of $32.38 which has an implied an upside of 24.5%.
- A sensitivity analysis was conducted assuming a terminal growth rate and WACC in the range of 1% - 3% and 6.56% - 8.56% respectively. This will give a price range of $76.29 - $12.24.

Source: Ivey Case Study: JetBlue Airways IPO Valuation

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DCF – REVENUE PREDICITION

(Units in thousands $ in USD)

	Historical		Projected								
Revenue Model	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Operating Revenue:	**$101,665**	**$ 320,414**	**$ 831,578**	**$1,203,787**	**$1,596,379**	**$1,957,259**	**$2,295,795**	**$2,640,909**	**$2,938,510**	**$3,104,972**	**$3,246,833**
Passager Revenue (a) * (b) * (c)	**$101,665**	**$ 310,498**	**$ 821,365**	**$1,193,267**	**$1,585,544**	**$1,946,099**	**$2,284,299**	**$2,629,069**	**$2,926,315**	**$3,092,410**	**$3,233,895**
Load Factor (%) (a)		**78.00%**	**79.50%**	**81.00%**	**82.50%**	**84.00%**	**84.00%**	**84.00%**	**84.00%**	**84.00%**	**84.00%**
Available seat miles (in thousands) (b) = (g) * (f) * (e) / 1000		**4,208,267**	**10,826,537**	**15,284,523**	**19,742,509**	**23,563,639**	**27,384,770**	**31,205,901**	**34,390,177**	**35,982,314**	**37,256,025**
Number of aircraft		21	34	48	62	74	86	98	108	113	117
Average stage length (miles) (e)		993	1,087	1,087	1,087	1,087	1,087	1,087	1,087	1,087	1,087
Departures (f)		26,334	61,889	87,372	112,856	134,699	156,542	178,385	196,587	205,688	212,969
Departures per aircraft		1,820	1,820	1,820	1,820	1,820	1,820	1,820	1,820	1,820	1,820
Seat (g) = (b) * 1000 / (e) / (f)		161	161	161	161	161	161	161	161	161	161
Yield per passenger mile (in dollars) (c)		**$ 0.0945**	**$ 0.0954**	**$ 0.0964**	**$ 0.0973**	**$ 0.0983**	**$ 0.0993**	**$ 0.1003**	**$ 0.1013**	**$ 0.1023**	**$ 0.1033**
% Growth in Yield per passenger mile (in dollars)		n/a	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*
Other Revenue	$ 2,953	$ 9,916	$ 10,213	$ 10,520	$ 10,835	$ 11,161	$ 11,495	$ 11,840	$ 12,195	$ 12,561	$ 12,938
% YoY Growth - Operating Revenue		*215.17%*	*159.53%*	*44.76%*	*32.61%*	*22.61%*	*17.30%*	*15.03%*	*11.27%*	*5.66%*	*4.57%*
% YoY Growth - Passenger Revenue		*205.41%*	*164.53%*	*45.28%*	*32.87%*	*22.74%*	*17.38%*	*15.09%*	*11.31%*	*5.68%*	*4.58%*
% YoY Growth - Other Revenue		*235.79%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*

Revenue Assumptions

- ASM: Revenue projects are based on a bottom up approach that breakdown ASM into its components to improve accuracy
  - Average stage length is expected to maintain Q4 2001 figures as the fundamental business model focuses on short haul trips
  - Average departures per plane per year will remain constant as we believe current plans are being utilized near capacity
  - Number of aircraft is based on projections provided by JetBlue, we operate under the assumption that expansion will be inline with demand and will not negatively impact load factor
- Load Factor: We estimate load factor will improve over the first few years of operations as JetBlue acquires high traffic routes
- Yield per passenger mile: is expected to increase only marginally by 1% per year due to the low cost offer that JetBlue provides customers
- Other revenue is a negligible component in total revenue and has been projected at 3% per year to keep pace with inflation

Source: Ivey Case Study: JetBlue Airways IPO Valuation

jetBlue

DCF – EXPENSE PREDICITION

(Units in thousands $ in USD)

	Historical		Projected								
Expense Model	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Operating expenses											
Salaries, wages and benefits	$ 32,912	$ 84,762	$218,694	$ 304,543	$ 387,900	$ 456,017	$ 511,933	$ 562,480	$ 596,480	$ 599,220	$ 626,597
% of revenue	*32.37%*	*27.30%*	*26.30%*	*25.30%*	*24.30%*	*23.30%*	*22.30%*	*21.30%*	*20.30%*	*19.30%*	*19.30%*
Aircraft fuel	$ 17,634	$ 41,666	$111,428	$ 163,523	$ 219,561	$ 272,407	$ 329,087	$ 389,818	$ 446,565	$ 485,695	$ 522,752
Average Fuel Cost per Gallon (in dollars)		$ 0.7563	$ 0.7941	$ 0.8338	$ 0.8755	$ 0.9192	$ 0.9652	$ 1.0135	$ 1.0641	$ 1.1173	$ 1.1732
% Growth - Fuel Cost			*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*	*5.00%*
Fuel gallons consumed (in thousands)		$ 55,095	$140,325	$ 196,124	$ 250,794	$ 296,341	$ 340,953	$ 384,642	$ 419,652	$ 434,690	$ 445,576
Fuel Consumed per ASM		$ 0.0131	$ 0.0130	$ 0.0128	$ 0.0127	$ 0.0126	$ 0.0125	$ 0.0123	$ 0.0122	$ 0.0121	$ 0.0120
% Growth - Fuel Consumed per ASM			*-1.00%*	*-1.00%*	*-1.00%*	*-1.00%*	*-1.00%*	*-1.00%*	*-1.00%*	*-1.00%*	*-1.00%*
Aircraft rent	$ 13,027	$ 32,927	$ 73,107	$ 104,242	$ 135,993	$ 163,937	$ 192,427	$ 221,470	$ 246,509	$ 260,501	$ 272,420
Rent per Aircraft		$ 2,129	$ 2,150	$ 2,172	$ 2,193	$ 2,215	$ 2,238	$ 2,260	$ 2,282	$ 2,305	$ 2,328
% Growth - Rent per Aircraft			*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*
Sales and marketing	$ 16,978	$ 28,305	$ 73,461	$ 100,322	$ 125,058	$ 143,543	$ 156,892	$ 167,272	$ 171,429	$ 165,616	$ 156,948
% of revenue		8.83%	8.83%	8.33%	7.83%	7.33%	6.83%	6.33%	5.83%	5.33%	4.83%
Landing fees and other rents	$ 11,112	$ 27,342	$ 70,961	$ 102,723	$ 136,224	$ 167,020	$ 195,908	$ 225,358	$ 250,753	$ 264,958	$ 277,063
% of revenue		8.53%	8.53%	8.53%	8.53%	8.53%	8.53%	8.53%	8.53%	8.53%	8.53%
Depreciation and amortization	$ 3,995	$ 10,417	$ 18,000	$ 26,000	$ 36,000	$ 45,000	$ 54,000	$ 65,000	$ 75,000	$ 83,000	$ 90,000
Maintenance materials and repairs	$ 1,052	$ 4,705	$ 10,343	$ 14,602	$ 18,861	$ 22,511	$ 26,162	$ 29,812	$ 32,854	$ 34,375	$ 35,592
Maintenance per Aircraft		$ 304	$ 304	$ 304	$ 304	$ 304	$ 304	$ 304	$ 304	$ 304	$ 304
Other operating expenses	$ 29,096	$ 63,483	$164,759	$ 238,504	$ 316,287	$ 387,788	$ 454,861	$ 523,238	$ 582,201	$ 615,182	$ 643,289
% of revenue		19.81%	19.81%	19.81%	19.81%	19.81%	19.81%	19.81%	19.81%	19.81%	19.81%
Total operating expenses	**$125,806**	**$351,136**	**$740,753**	**$1,054,459**	**$1,375,884**	**$1,658,223**	**$1,921,269**	**$2,184,448**	**$2,401,792**	**$2,508,547**	**$2,624,661**

Source: Ivey Case Study: JetBlue Airways IPO Valuation

jetBlue

DCF – EXPENSE PREDICITION

DISCUSSION & ANALYSIS

- Fuel Gallons Consumed = Fuel Consumed per ASM * ASM
  - Fuel consumed per ASM is determined by 1) Size of the aircraft and 2) fuel burn efficiency of the aircraft. JetBlue focuses on a small variety of aircrafts as management looks to create operational efficiencies. Therefore, we believe that **Fuel Consumed per ASM** will decrease by 1% per year.
- As previously stated in our jet fuel analysis (slide 7), we expect the **cost of jet fuel** to increase by 5% YoY.
- **Aircraft rent expense** is calculated through using rent per aircraft, which we assume stays constant while costs increase along with aircraft purchases.
- **Salary**, **wages and benefits expenses** are expected to decrease at a rate of 1% as the business continuous to focus on reaching economies of scale per headcount. The maximum reduction in cost is ~20% based on industry averages on cost leaders such as WestJet, AirTran and Ryannair (App.4).
- **Sales and marketing** should decrease gradually as brand awareness is built and the business stabilizes, we project gradual decline of 0.5%
- **Landing fees and other rent** should remain constant as a percentage of revenue as JetBlue's negotiating power is very low.
- **Depreciation and amortization** is taken directly from management prediction as there are no other good proxy to calculate it.
- **Maintenance materials and repairs** are calculated through a similar concept as aircraft rent expense. It is based on a standard cost multiplied by the number of jets that JetBlue runs.
- **Other operating expense** should remain the same; however, there is potential for cost reduction through economies of scale.

Source: Ivey Case Study: JetBlue Airways IPO Valuation, Bloomberg Database

jetBlue

DCF – IPO INVESTMENT SUGGESTION

(Units in millions $ in USD)

	Historical				Projected					
DCF Model	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenue		$ 320.00	$ 831.58	$ 1,203.79	$ 1,596.38	$ 1,957.26	$ 2,295.79	$ 2,640.91	$ 2,938.51	$ 3,104.97	$ 3,246.83
Total Operating Expenses		$ 283.00	$ 740.75	$ 1,054.46	$ 1,375.88	$ 1,658.22	$ 1,921.27	$ 2,184.45	$ 2,401.79	$ 2,508.55	$ 2,624.66
Depreciation (b)		$ 10.00	$ 18.00	$ 26.00	$ 36.00	$ 45.00	$ 54.00	$ 65.00	$ 75.00	$ 83.00	$ 90.00
EBIT		$ 27.00	$ 72.82	$ 123.33	$ 184.49	$ 254.04	$ 320.53	$ 391.46	$ 461.72	$ 513.43	$ 532.17
Taxes (Tax rate = 38.5%)		$ 9.00	$ 28.04	$ 47.48	$ 71.03	$ 97.80	$ 123.40	$ 150.71	$ 177.76	$ 197.67	$ 204.89
NOPAT (a)		$ 18.00	$ 44.79	$ 75.85	$ 113.46	$ 156.23	$ 197.12	$ 240.75	$ 283.96	$ 315.76	$ 327.29
Capital expenditure (c)		$ 234.00	$ 290.00	$ 328.00	$ 345.00	$ 310.00	$ 326.00	$ 342.00	$ 299.00	$ 157.00	$ 132.00
Net working capital		$ 34.00	$ 63.00	$ 94.00	$ 126.00	$ 157.00	$ 191.00	$ 227.00	$ 261.00	$ 285.00	$ 308.00
Fixed assets		$ 530.00	$ 802.00	$ 1,104.00	$ 1,413.00	$ 1,679.00	$ 1,950.00	$ 2,227.00	$ 2,451.00	$ 2,526.00	$ 2,568.00
Change in NWC (d)			$ 29.00	$ 31.00	$ 32.00	$ 31.00	$ 34.00	$ 36.00	$ 34.00	$ 24.00	$ 23.00
FCFF (a) + (b) - (c) - (d)			**-$ 256.21**	**-$ 257.15**	**-$ 227.54**	**-$ 139.77**	**-$ 108.88**	**-$ 72.25**	**$ 25.96**	**$ 217.76**	**$ 262.29**
Discount			107.56%	115.69%	124.43%	133.84%	143.96%	154.84%	166.54%	179.13%	192.67%
Year			1	2	3	4	5	6	7	8	9
PV of FCFF			**-$ 238.21**	**-$ 222.28**	**-$ 182.86**	**-$ 104.43**	**-$ 75.63**	**-$ 46.66**	**$ 15.59**	**$ 121.56**	**$ 136.13**

Source: Ivey Case Study: JetBlue Airways IPO Valuation

jetBlue

DCF – IPO INVESTMENT SUGGESTION

Sum of Present Value (b)	-$ 698.78
WACC	7.56%
Terminal Growth Rate	2.00%
Terminal Value in 2010	$4,629.53
PV of terminal Value (a)	$2,402.82
Enterprise Value (c) = (a) + (b)	$1,704.04
Plus: Cash (d)	$ 142.06
Less: Debt (e)	$ 495.50
Equity Value (f) = (c) + (d) – (e)	$1,350.59
Share Outstanding (g)	$ 35.10
Stock Price (h) = (f) / (g)	$ 38.48

SENSITIVITY ANALYSIS

		WACC				
		6.56%	7.06%	7.56%	8.06%	8.56%
Terminal Growth Rate	1.00%	$ 43.61	$ 34.80	$ 27.47	$ 21.30	$ 16.05
	1.50%	$ 51.30	$ 40.99	$ 32.52	$ 25.47	$ 19.54
	2.00%	$ 60.68	$ 48.39	$ 38.48	$ 30.34	$ 23.56
	2.50%	$ 72.36	$ 57.42	$ 45.61	$ 36.08	$ 28.25
	3.00%	$ 87.33	$ 68.68	$ 54.31	$ 42.95	$ 33.78

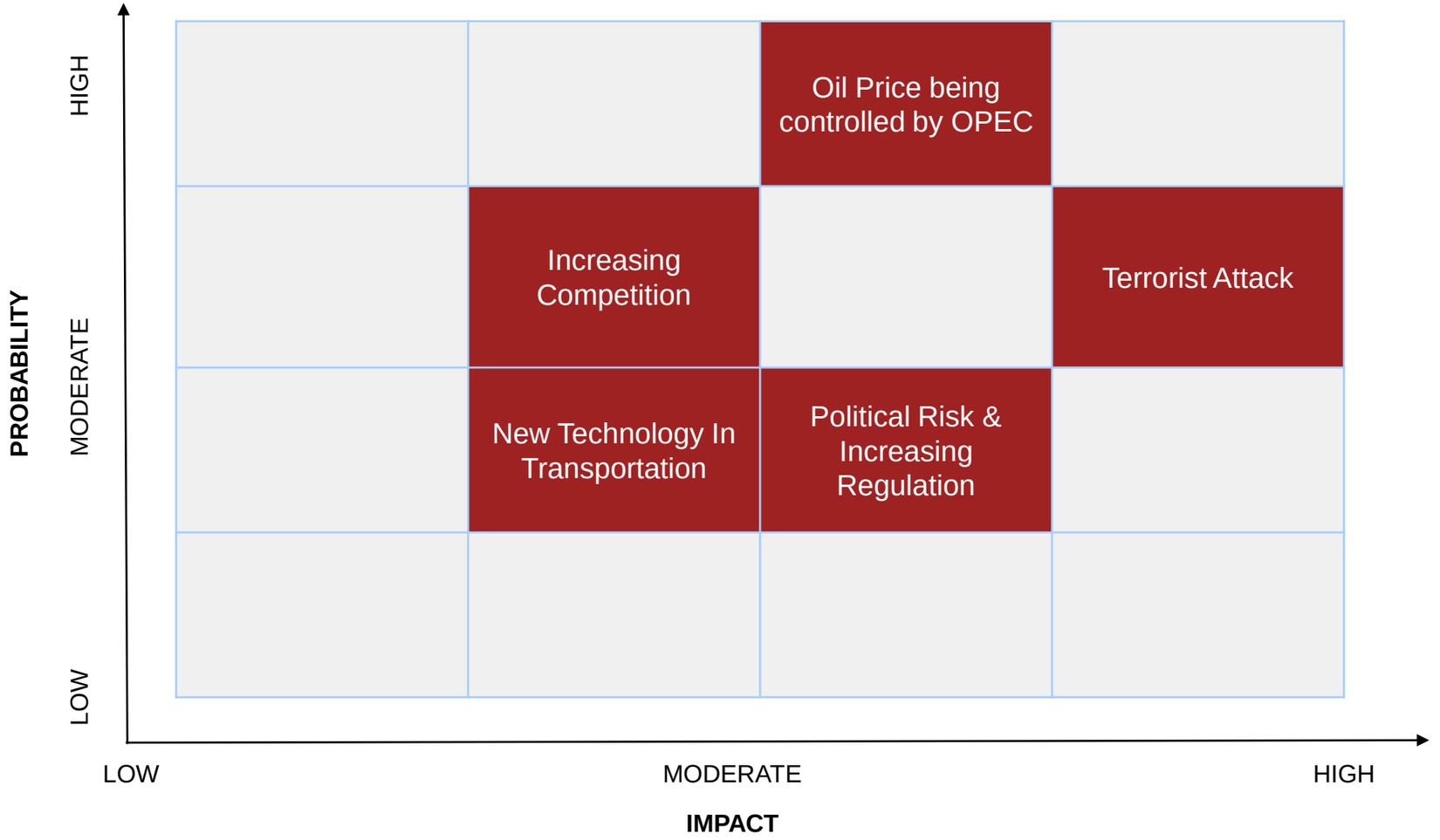
DISCUSSION & ANALYSIS

- The DCF valuation is based on the given new assumptions regarding its revenue and expenses. This will give JetBlue a new valuation of $38.48 which has an implied an upside of 48%.
- A sensitivity analysis was conducted assuming a terminal growth rate and WACC in the range of 1% - 3% and 6.56% - 8.56% respectively. This will give a price range of $87.33 - $16.05.

Source: Ivey Case Study: JetBlue Airways IPO Valuation

jetBlue

BUSINESS RISK



Majority of the risk can be mitigated by their strong bottom line operation

Source: Ivey Case Study: JetBlue Airways IPO Valuation

jetBlue

CONCLUSION

IPO SUMMARY

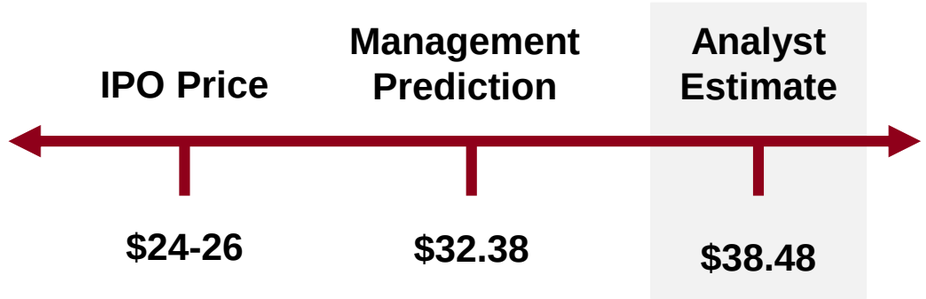
Pre-money Share :	35.1M Share
IPO Range:	$24 ~ $26
Pre-IPO Funding:	$130M
Proposed Ticker	JBLU (NASDAQ)
Headquarter:	New York City
Founder:	David Neeleman
Founded:	July 1999

JetBlue is raising capital with the intention to further expands its business as it had great success with its low-fare airline business model.

Valuation

Key Assumptions:

WACC	7.56%
Terminal Growth Value	2%
Corporate Tax Rate	38.5%



Based on our projections of the companies growth, strong industry metrics and capable management team, we believe the value of the stock to be $38.48. While the airline industry is highly competitive, we believe JetBlue has a strong business model that will appeal to consumer and allow them to gain market share.

Source: Ivey Case Study: JetBlue Airways IPO Valuation

APPENDIX 1 – AIRPLANE MANUFACTURE MARKET SHARE

AIRPLANE MANUFACTURE MARKET SHARE BY UNITS

	AirBus	Boeing	Other	Total US
Net Orders	605	2856	1080	4541
Deliveries	458	2655	1001	4114
Current Backlog	147	201	79	427

AIRPLANE MANUFACTURE MARKET SHARE BY PERCENTAGES

	AirBus	Boeing	Other	Total US
Net Orders	13.32%	62.89%	23.78%	100.00%
Deliveries	11.13%	64.54%	24.33%	100.00%
Current Backlog	34.43%	47.07%	18.50%	100.00%

Source: ACAS (Aviation Strategy. (2002, February 1).

APPENDIX 2 – U.S. PASSENGER AIRLINE FINANCIAL STATEMENT

U.S. PASSENGER AIRLINE TOTAL REVENUE (UNITS IN MILLIONS)

Years	Revenue	Fuel Expense	Labour Expense	Other Expense	Total Expense	Opearting Profit	Pre-Tax Profit	Net Profit	Growth
1977	$ 19,423.00	$ 3,618.00	$ 7,481.00	$ 4,603.00	$ 18,549.00	$ 874.00	$ 888.00	$ 669.00	
1978	$ 22,245.00	$ 4,040.00	$ 8,569.00	$ 5,283.00	$ 20,924.00	$ 1,320.00	$ 1,354.00	$1,176.00	14.53%
1979	$ 26,411.00	$ 6,267.00	$ 9,975.00	$ 6,686.00	$ 26,203.00	$ 209.00	$ 148.00	$ 325.00	18.73%
1980	$ 31,950.00	$ 9,443.00	$ 11,301.00	$ 7,690.00	$ 32,140.00	-$ 189.00	-$ 157.00	$ 51.00	20.97%
1981	$ 34,390.00	$ 10,180.00	$ 12,124.00	$ 8,537.00	$ 34,839.00	-$ 448.00	-$ 700.00	-$ 257.00	7.64%
1982	$ 34,820.00	$ 9,643.00	$ 12,348.00	$ 9,225.00	$ 35,566.00	-$ 747.00	-$ 1,005.00	-$ 906.00	1.25%
1983	$ 37,124.00	$ 8,959.00	$ 13,113.00	$ 9,990.00	$ 36,836.00	$ 289.00	-$ 83.00	-$ 152.00	6.62%
1984	$ 41,998.00	$ 9,322.00	$ 13,545.00	$ 11,781.00	$ 40,044.00	$ 1,954.00	$ 1,278.00	$ 645.00	13.13%
1985	$ 44,537.00	$ 9,283.00	$ 14,351.00	$ 13,683.00	$ 43,238.00	$ 1,299.00	$ 986.00	$ 846.00	6.05%
1986	$ 44,867.00	$ 6,951.00	$ 15,127.00	$ 15,206.00	$ 43,976.00	$ 891.00	$ 122.00	-$ 122.00	0.74%
1987	$ 50,957.00	$ 7,530.00	$ 16,398.00	$ 17,408.00	$ 49,115.00	$ 1,842.00	$ 692.00	$ 163.00	13.57%
1988	$ 56,657.00	$ 7,479.00	$ 17,845.00	$ 19,660.00	$ 53,857.00	$ 2,800.00	$ 2,568.00	$1,314.00	11.19%
1989	$ 60,577.00	$ 8,501.00	$ 19,437.00	$ 21,523.00	$ 59,338.00	$ 1,239.00	$ 793.00	-$ 85.00	6.92%
1990	$ 65,817.00	$ 11,639.00	$ 21,543.00	$ 23,961.00	$ 68,272.00	-$ 2,455.00	-$ 4,345.00	-$4,114.00	8.65%
1991	$ 64,688.00	$ 9,558.00	$ 21,751.00	$ 24,157.00	$ 66,981.00	-$ 2,293.00	-$ 2,509.00	-$2,056.00	-1.72%
1992	$ 67,308.00	$ 9,124.00	$ 23,086.00	$ 25,365.00	$ 70,105.00	-$ 2,797.00	-$ 3,836.00	-$4,681.00	4.05%
1993	$ 72,801.00	$ 8,781.00	$ 23,930.00	$ 25,805.00	$ 71,857.00	$ 944.00	-$ 1,789.00	$ 163.00	8.16%
1994	$ 74,632.00	$ 8,213.00	$ 24,744.00	$ 25,499.00	$ 72,671.00	$ 1,961.00	-$ 679.00	-$ 682.00	2.52%
1995	$ 79,081.00	$ 8,436.00	$ 25,457.00	$ 25,475.00	$ 73,936.00	$ 5,145.00	$ 3,144.00	$2,001.00	5.96%
1996	$ 84,733.00	$ 10,311.00	$ 26,477.00	$ 27,205.00	$ 79,366.00	$ 5,367.00	$ 4,048.00	$2,422.00	7.15%
1997	$ 90,143.00	$ 10,301.00	$ 27,931.00	$ 28,714.00	$ 82,693.00	$ 7,450.00	$ 7,095.00	$4,779.00	6.38%
1998	$ 91,949.00	$ 8,342.00	$ 29,425.00	$ 29,864.00	$ 83,908.00	$ 8,042.00	$ 7,360.00	$4,425.00	2.00%
1999	$ 96,163.00	$ 9,020.00	$ 31,394.00	$ 30,907.00	$ 89,216.00	$ 6,948.00	$ 7,954.00	$4,686.00	4.58%
2000	$105,311.00	$ 14,099.00	$ 34,490.00	$ 31,263.00	$ 99,609.00	$ 5,702.00	$ 4,776.00	$2,238.00	9.51%
2001	$ 92,012.00	$ 13,120.00	$ 36,261.00	$ 31,074.00	$ 102,377.00	-$ 10,365.00	-$ 10,656.00	-$8,008.00	-12.63%

Source: Bureau of Transportation Statistics Airline Annual Financial Results: U.S. Passenger Airlines. (n.d.).

jetBlue

APPENDIX 3 – DAMODARAN RISK FREE RATE AND MARKET RISK PREMIUM

RISK FREE RATE AND MARKET RISK PREMIUM

	Risk Free Rate	Market Risk Premium
1960	2.76%	
1961	2.35%	2.92%
1962	3.85%	3.56%
1963	4.14%	3.38%
1964	4.21%	3.31%
1965	4.65%	3.32%
1966	4.64%	3.68%
1967	5.70%	3.20%
1968	6.16%	3.00%
1969	7.88%	3.74%
1970	6.50%	3.41%
1971	5.89%	3.09%
1972	6.41%	2.72%
1973	6.90%	4.30%
1974	7.40%	5.59%
1975	7.76%	4.13%
1976	6.81%	4.55%
1977	7.78%	5.92%
1978	9.15%	5.72%
1979	10.33%	6.45%

	Risk Free Rate	Market Risk Premium
1980	12.43%	5.03%
1981	13.98%	5.73%
1982	10.47%	4.90%
1983	11.80%	4.31%
1984	11.51%	5.11%
1985	8.99%	3.84%
1986	7.22%	3.58%
1987	8.86%	3.99%
1988	9.14%	3.77%
1989	7.93%	3.51%
1990	8.07%	3.89%
1991	6.70%	3.48%
1992	6.68%	3.55%
1993	5.79%	3.17%
1994	7.82%	3.55%
1995	5.57%	3.29%
1996	6.41%	3.20%
1997	5.74%	2.73%
1998	4.65%	2.26%
1999	6.44%	2.05%
2000	5.11%	2.87%
2001	5.05%	3.62%
Average	**8.02%**	**3.70%**

Source: Bureau of Transportation Statistics Airline- Annual Financial Results: U.S. Passenger Airlines. (n.d.).

APPENDIX 4 – COMPETITOR'S SALARY, WAGES AND EMPLOYEES

COMPETITOR'S SALARY, WAGES AND EMPLOYEES

	Revenue	Salary Wages and Employees	% of Revenue
AirTran	$ 665.20	$ 159.10	23.92%
Alaska Air	$2,152.80	$ 795.50	36.95%
Frontier	$ 472.90	$ 179.50	37.96%
Midwest	$ 457.40	$ 167.30	36.58%
Ryanair	$ 624.10	$ 78.20	12.53%
Southwest	$5,555.20	$ 1,856.30	33.42%
WestJet	$ 478.40	$ 79.80	16.68%

Source: ACAS (Aviation Strategy. (2002, February 1).

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Relative Valuation

RELATIVE VALUATION (COMPARISON)

			Opeartion		Profitability		Risk	Growth
Company	**Ticker**	**Revenue**	**Opearting Margin**	**Profit Margin**	**ROA**	**ROIC**	**Current Ratio**	**Revenue Growth**
JetBlue	-	$0.31B	8.30%	6.70%	4.34%	6.96%	0.86	205%
AirTran	AAI	$0.7B	1.33%	-7.03%	4.85%	21.28%	0.98	-6.68%
Alaska Air	ALK	$2.21B	2.25%	4.34%	-1.20%	-	1.34	-3.14%
America West	-	$2.24B	-20.13%	-6.45%	-7.77%	-	0.6	-16.80%
AMR	-	$20B	-15.26%	-8.60%	-3.18%	-	0.75	-8.37%
ATA	ATAHQ	$1.32B	-4.23%	0.12%	-1.82%	-	1.1	-7.44%
Continental	-	-	-	-	-	-	-	-
Delta	DALRQ	-	-10.42%	-7.62%	-	-	0.59	-21.80%
Frontier	FRNTQ	$0.47B	1.70%	6.27%	10.58%	13.36%	1.37	-11.50%
Midwest	MEH	$0.48B	-11.48%	-2.81%	-5.83%	-	0.59	-14.12%
Northwest	NWACQ	$10.6B	-5.98%	0.73%	-2.27%	-	0.95	-17.41%
Ryanair	RYA	$0.57B	37.36%	33.52%	11.12%	12.76%	3.13	28.17%
Southwest	LUV	$5.78B	6.96%	11.31%	8.34%	9.27%	0.91	-9.72%
United	-	$9.66B	-4.18%	0.13%	1.07%	2.38%	0.73	-15.22%
WestJet	WJA	$0.44B	15.41%	9.79%	11.26%	15.52%	0.89	41.40%

- By look at competitor performance, risk, and growth ratio, we can evaluate which competitor is closest to JetBlue and should be chosen for its relative valuation.

Source: Ivey Case Study: JetBlue Airways IPO Valuation, Bloomberg Database

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RELATIVE VALUATION (COMPARISON) CONT.

			Operation		Profitability		Risk	Growth	Average
Company	**Ticker**	**Revenue**	**Opearting Margin**	**Profit Margin**	**ROA**	**ROIC**	**Current Ratio**	**Revenue Growth**	**Difference**
JetBlue									
AirTran	AAI	$0.7B	0.84	2.05	0.12	2.06	0.14	1.03	1.04
Alaska Air	ALK	$2.21B	0.73	0.35	1.28	-	0.56	1.02	0.79
America West	-	$2.24B	3.43	1.96	2.79	-	0.30	1.08	1.91
AMR	-	$20B	2.84	2.28	1.73	-	0.13	1.04	1.60
ATA	ATAHQ	$1.32B	1.51	0.98	1.42	-	0.28	1.04	1.05
Continental	-	-	-	-	-	-	-	-	
Delta	DALRQ	-	2.26	2.14	-	-	0.31	1.11	1.45
Frontier	FRNTQ	$0.47B	0.80	0.06	1.44	0.92	0.59	1.06	0.81
Midwest	MEH	$0.48B	2.38	1.42	2.34	-	0.31	1.07	1.51
Northwest	NWACQ	$10.6B	1.72	0.89	1.52	-	0.10	1.08	1.06
Ryanair	RYA	$0.57B	3.50	4.00	1.56	0.83	2.64	0.86	2.23
Southwest	LUV	$5.78B	0.16	0.69	0.92	0.33	0.06	1.05	0.53
United	-	$9.66B	1.50	0.98	0.75	0.66	0.15	1.07	0.85
WestJet	WJA	$0.44B	0.86	0.46	1.59	1.23	0.03	0.80	0.83

Different	3.43
Somewhat Similar	1
Similar	0

- A good competitor should have similar operational ratio, balance sheet risk, relevant size, growth stage, and competitiveness (pricing model).
- The top five competitors have ratio similar to JetBlue are: 1) Alaska Air, 2) Frontier, 3) Southwest, 4) United, 5) WestJet

Source: Ivey Case Study: JetBlue Airways IPO Valuation, Bloomberg Database

RELATIVE VALUATION (COMPARISON) CONT.

- **Alaska Airlines** is a low-cost domestic airline that focus on the west-coast. They are 3x larger in revenue than JetBlue.
- **Frontier Airlines** operates as a low-cost airline and headquartered in Colorado. They are similar in size to JetBlue.
- **Southwest Airlines** follows the same low-cost airline strategies; however, they are the largest player in this space with 7x more revenue than JetBlue.
- **United Airlines** is also a low-cost airline and it is headquartered in Chicago; however, their revenue is almost 14x larger than JetBlue.
- **WestJet** is located in Canada and has a business model similar to JetBlue. Their revenue is almost the same size as JetBlue.

All the comparable companies have similar business models to JetBlue

Source: Ivey Case Study: JetBlue Airways IPO Valuation

CHOICE OF MULTIPLES

P/E

- Price to earning is one of the most commonly used multiplies across all industry. It indicates the dollar amount an investor can expect to invest in a company in order to receive one dollar of that company's earnings. The lower the multiples the cheaper the company. However, this multiples depends on the industry's business model and growth rate as cash cow business with high growth tend to be more attractive which earns a higher multiples.

EV/EBITDAR

- The most commonly used multiplies in airline industry is EV/EBITDAR (Earnings before interest, taxes, depreciation, amortization, and restructuring or rent costs) which include airplane rent. Airline companies in general incur high fixed cost from owning airplanes which result in high deprecation, amortization and rent expense; however, company can use different business models which higher/lower its rent expense, amortization and deprecation. Therefore, EBITDAR is the best way to shows each companies' actual earning.

EV/EBITDA

- This is the second best proxy after EBITDAR; however, some investor in value this more than EBITDAR as it is commonly used across different industry. Therefore, by including both EV/EBITDAR and EV/EBITDA, it will show a better picture for JetBlue's relative valuation.

EV/EBIT

- This is also a fair proxy as it does not include deprecation, amortization and rent expense which could have a major impact in its earning; however, since the only given forward multiples in the case is EV/EBIT. Therefore, this become the best proxy for JetBlue's forward multiplies.

Source: Ivey Case Study: JetBlue Airways IPO Valuation

RELATIVE VALUATION – VALUATION

	Trailing			Leading	
Company	**P/E**	**EV/EBITDA**	**EV/EBITDAR**	**P/E**	**EV/EBIT**
JetBlue	42.31x	34.01x	19.61x	17.22x	15.83x
Alaska Air	-	19.20x	8.80x	-	23.30x
Frontier	8.40x	5.30x	1.58x	45.90x	26.60x
Southwest	27.60x	13.40x	11.51x	28.40x	14.30x
United	-	-	3.03x	-	-
WestJet	19.60x	8.10x	-	26.90x	10.60x
Average	18.53x	11.50x	6.23x	33.73x	18.70x
Minimum	8.40x	5.30x	1.58x	26.90x	10.60x
25th percentile	8.40x	6.00x	1.94x	26.90x	11.53x
Medium	**19.60x**	**10.75x**	**5.92x**	**28.40x**	**18.80x**
75th percentile	26.00x	16.30x	10.16x	42.40x	24.95x
Maximum	27.60x	19.20x	11.51x	45.90x	26.60x

Supporting Calculation

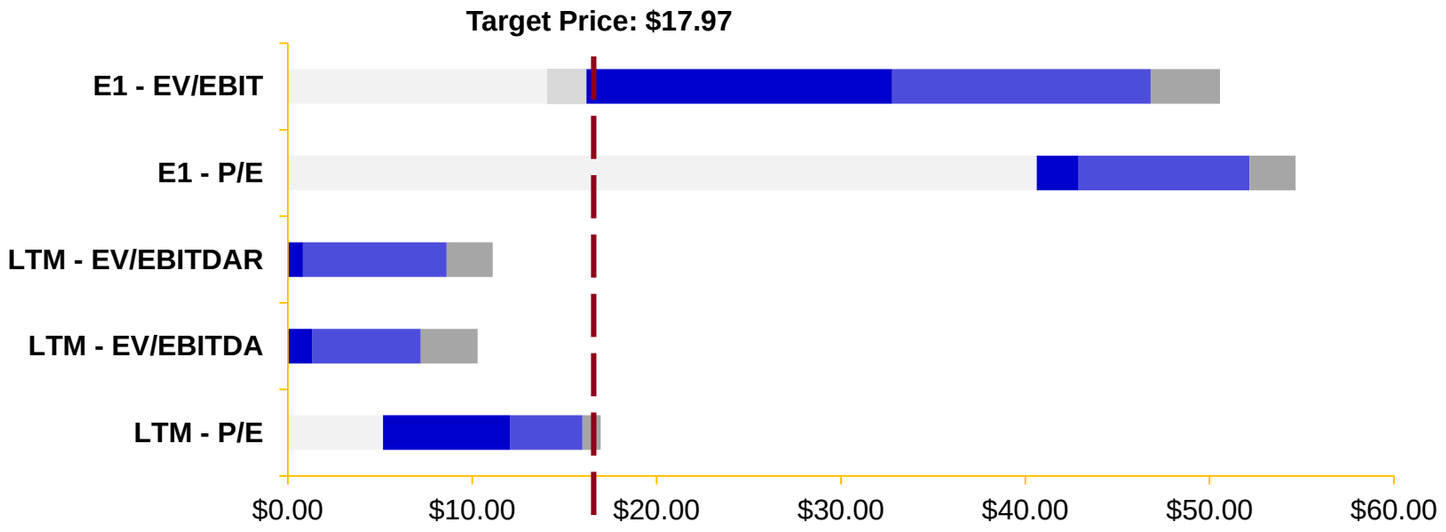
(units in millions)	
Share Price (a)	$ 26.00
Share Outstanding (b)	35.10
Net Income (c)	$ 21.57
EPS (d) = (c) / (b)	$ 0.61
Projected Net Income in 2020 (j)	$ 53.00
Leading EPS (k) = (j) / (b)	$ 1.51
Equity Value (f) = (a) * (b)	$ 912.60
Cash (g)	$ 142.06
Debt (h)	$ 495.50
EV (i) = (f) + (h) - (g)	$1,266.04
EBITDA	$ 37.22
EBITDAR	$ 64.57

- Alaska Air, United and WestJet has negative earnings which lead to negative multiples and is being removed as it is not useful in relative valuation.

- Furthermore, JetBlue has a higher P/E, EV/EBITDA, EV/EBITDAR multiples as the company is still growing in a rapid speed (305% YoY) where its competitors are much more stable. Therefore, it is important to include its forward(leading) multiples which give a much more realistic valuation.

Source: Ivey Case Study: JetBlue Airways IPO Valuation, Bloomberg Database

RELATIVE VALUATION – FOOTBALL FIELD CHART



Selected Multiples for Football Field Chart

Methodology Name	Minimum Point	25th Percentile Point	Median Point	75th Percentile Point	Maximum Point	Share Price
Top Comparables						
LTM - P/E	$5.16	$0.00	$6.88	$3.93	$0.98	$12.04
LTM - EV/EBITDA	$0.00	$0.00	$1.33	$5.89	$3.08	$1.33
LTM - EV/EBITDAR	$0.00	$0.00	$0.81	$7.80	$2.49	$0.81
E1 - P/E	$40.62	$0.00	$2.26	$9.29	$2.49	$42.88
E1 - EV/EBIT	$14.09	$2.11	$16.58	$14.02	$3.76	$32.78
					Implied shareprice	**$17.97**
					Upside/Downside	**-30.89%**

- The implied share price was calculated using the medium percentile point based on comparable multiples.
- From there we expect a target price of $17.97 which implied a downside of 30.89%.
- The forward multiples showed that JetBlue is cheaper than its peers where as the trailing multiples say otherwise.
- This variation can be explained by the 911 crisis that has created, what is expected to be, a short term but significant downturn in the industry. The crisis has reduced investment and slowed momentum. However, as JetBlue has a strong business model and the fastest revenue growth rate, this has indicate that JetBlue can survive during harsh environment which optimally gave JetBlue premium over its peers.

Source: Ivey Case Study: JetBlue Airways IPO Valuation

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RECONCILIATION

Reconciled Price

$31.09

Discounted Cash Flow - Management Prediction

$32.28

Weight: 20%

Relative Valuation - Analyst Estimate

$17.97

Weight: 30%

Discounted Cash Flow - Analyst Estimate

$38.48

Weight: 50%

- After using both DCF and RV valuation methodologies, we choose to weight the DCF – analyst estimate 50%, the DCF – management predication 20%, the RV – analyst estimate 30%, This give us a final reconciled price of $31.09.
- The decision to weight the DCF price more heavily comes from the fact that this industry is currently being misprice due to the black swan event – 911. Some of its peers have encounter a negative earning this year creating an artificially low relative valuation price.
- Fundamentally speaking, JetBlue has very competent management and strong predicted cash flow which makes its discounted cash flow which the DCF price reflects more accurately.
- As management mentioned, they knowingly underprice the IPO to increase long term momentum. In this case, we believe JetBlue should be valued at $31.09 which gives IPO investors a upside of 19.6%

Source: Ivey Case Study: JetBlue Airways IPO Valuation

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EXECUTIVE SUMMARY – Updated

IPO SUMMARY

Pre-money Share :	35.1M Share
IPO Range:	$24 ~ $26
Pre-IPO Funding:	$130M
Proposed Ticker	JBLU (NASDAQ)
Headquarter:	New York City
Founder:	David Neeleman
Founded:	July 1999

JetBlue is raising capital with the intention to further expands its business as it had great success with its low-fare airline business model.

Valuation

Key Assumptions:

WACC	7.56%
Terminal Growth Value	2%
Corporate Tax Rate	38.5%

Based on our projections of the companies growth, strong industry metrics and capable management team, we believe the value of the stock to be $31.09. While the airline industry is highly competitive, we believe JetBlue has a strong business model that will appeal to consumer and allow them to gain market share.

Source: Ivey Case Study: JetBlue Airways IPO Valuation, Bloomberg Database