The Ohio State University
Fisher College of Business

United Continental Holdings, Inc.

November 14, 2017

Summary

United Continental Holdings, Inc. is the holding company that owns and operates United Airlines. United belongs to the airlines sector of the S&P 500 and is the third largest airline in the world, resulting in classification as a “major” airline by the US Department of Transportation. United competes with other major airlines and some low-cost carriers as well. In FY2016 United generated over $35.5 billion in revenue.

Investment thesis

United Continental is an attractive investment based on the following key drivers and catalysts:

1. Network initiatives will drive incrementally more revenue than investors are currently pricing in
2. Strategies to compete with ultra-low-cost carriers will protect United from losing market share, a fear which is far overblown by bears on the stock
3. Industry pricing will go through a period of rationalization and excess supply within the industry will be reduced
4. United has a very attractive valuation both relative to peers and on an intrinsic basis

Risks

As with any investment there are risks. Risks include:

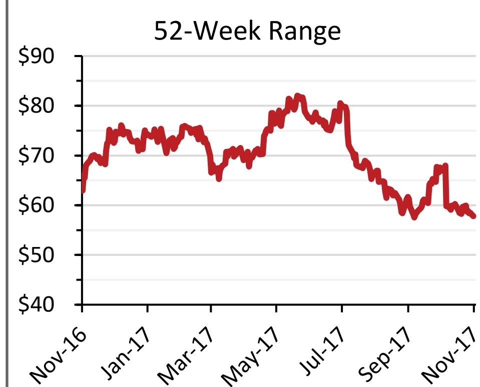
1. Geopolitical threats of conflict in the Pacific
2. Macroeconomic risk of entering an economic slowdown or recession
3. A price war for an extended period with ultra-low-cost carriers

Company Information	
Ticker	NYSE: UAL
Sector	Industrials
Industry	Airlines
Price as of 11/13/2017	$57.81
Market cap (mn)	$17,126
Shares – diluted (mn)	300.6

Recommendation	
Stock rating	BUY
Price target	$75.00
Implied upside	29.7%
Dividend yield	N/A
Total implied return	29.7%

Key Statistics	
Revenue (TTM - mn)	$37,350
EPS (TTM)	$7.24
EV/EBITDA	4.8x
P/E	8.1x
Beta	1.02

Performance History	
52-week high	$83.04
52-week low	$57.34
1-year return	-8.2%



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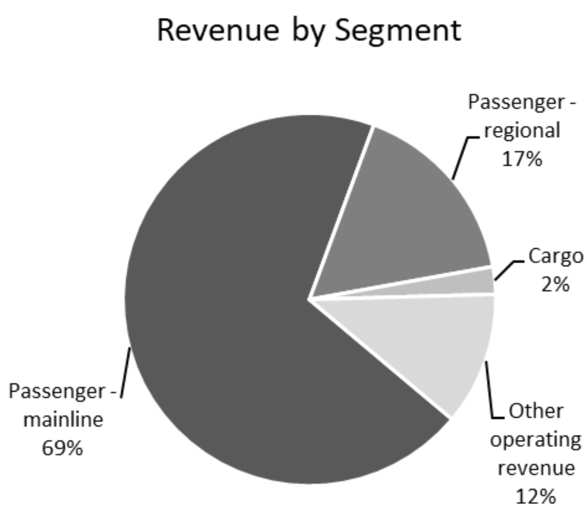
UNITED

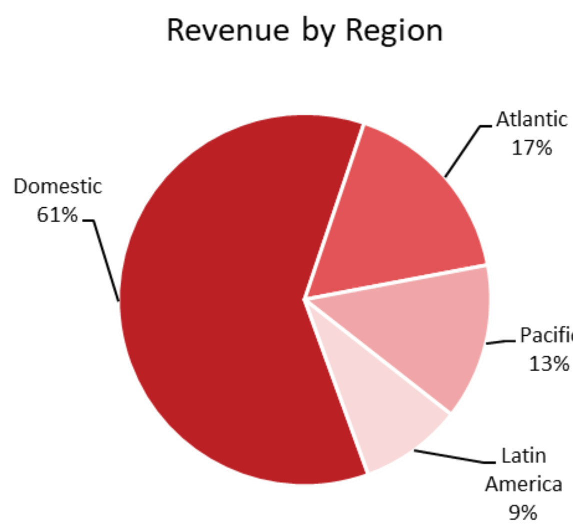
Company overview

United Continental is the product of numerous airline acquisitions and constant restructuring in the airline industry dating back to 2002. In late 2002 United Airlines filed for Chapter 11 bankruptcy after post-9/11 problems including high oil prices, decreased demand, and financing issues. The airline was able to emerge from bankruptcy in early 2006.[i] After years of merger talks, United and Continental agreed on an all-stock deal that valued Continental at $3.2 billion, and the deal closed in October 2010.[ii]

The company is headquartered in Chicago, IL but operates worldwide in over 190 countries. United has major hubs in Denver, CO; Houston, TX; Los Angeles, CA; Newark, NJ; Chicago, IL; San Francisco, CA; and Washington D.C. in the United States. Hubs in Tokyo, Japan and Guam serve the Asian markets. Through these hubs United utilizes a "hub and spoke" system by which travels can reach a vast number of destinations, many of which run through connections to smaller destinations as opposed to direct flights.

Business Segments





Segment	Revenue
Passenger - mainline	25,414
Passenger - regional	6,043
Cargo	876
Other operating revenue	4,223
Total revenue	**$36,556**

Region	Revenue
Domestic	22,202
Atlantic	6,157
Pacific	4,959
Latin America	3,238
Total revenue	**$36,556**

Figure 1: Breakdown of UAL revenues (FY 2016)[iii]

Passenger

United breaks its passenger revenue into two main categories – mainline and regional.

Mainline passengers are on longer flights that travel to large destination cities. United operates these flights with a fleet of 737 owned and leased planes (522 owned and 215 leased). Of these planes 579 are Boeing models while the remaining 158 are Airbus planes. Mainline flights include flights between United hubs and international flights. Mainline flights made up 69% of company revenue in FY2016 and 80.8% of total passenger revenue.[iii]

Regional flights are operated by third-party carriers under the brand name United Express to service smaller cities that have less demand than major hubs. Regional planes have smaller capacity, which allows United to reach areas that could not be economically served with the mainline fleet. Additionally, regional flights are used to make connections to mainline flights. Regional capacity accounts for approximately 11% of United's total capacity.[iii] Contracts with these third-party carriers specify that United pays all fuel costs, landing fees, facilities rent, as well as specific rates for various operating expenses such as crew expenses, maintenance, and aircraft ownership. Because of the short flight times, regional flights are more lucrative on a passenger revenue per available seat mile (PRASM) basis, but capacity and air time is much less.[iii]

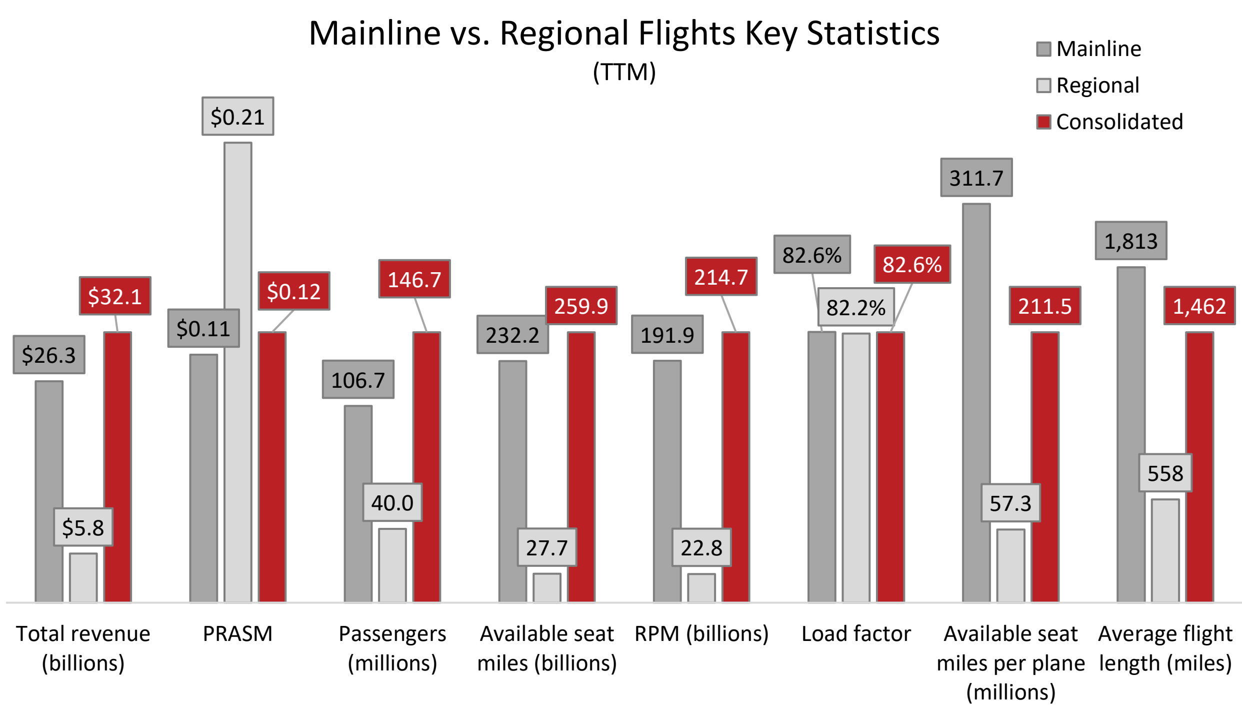


Figure 2: TTM mainline and regional statistics[iii]

Cargo

Companies can ship freight and mail through United's cargo service along both mainline and regional routes. Cargo transportation is a very small part of United's overall business, accounting for just 2% of overall operating profit. International shipments account for the largest portion of the cargo revenue.

Other operating revenue

United's other operating revenue comprises 12% of overall revenue. Major components of the other revenue include third-party revenues associated with frequent flyer programs, such as selling miles to third-party customers. Additionally, things like ticket change and booking fees are included in other operating revenue.[iii]

Market Landscape

Market share

United Airlines is the fourth largest airline in North America according to the number of annual passengers based on 2016 data. Though they are the fourth largest in terms of passengers, United has more destinations in North America than any other airline. The huge number of destinations ties back to the previously mentioned hub-and-spoke system that United utilizes.

Rank	Airline	Country	Passengers - 2016 (mn)	Fleet	Destinations
1	American Airlines	US	198.7	932	339
2	Delta Airlines	US	183.7	842	322
3	Southwest Airlines	US	151.7	723	101
4	United Airlines	US	143.2	729	342
5	Air Canada	Canada	44.8	168	182
6	Alaska Airlines	US	41.9	286	118
7	JetBlue Airways	US	38.3	227	97
8	WestJet	Canada	22.0	119	91
9	Spirit Airlines	US	21.6	95	57

Source: World Atlas

Figure 3: Largest airlines in North America[iv]

Pricing environment

Because air travel is essentially a commodity at its core, it is crucial to discuss pricing environment when evaluating investing in an airline. United competes with all of the major airlines including America, Delta, and Southwest. Though United has not historically competed in the low-cost and ultra-low-cost markets, the company has recently ramped up efforts to price competitively against these carriers.

These low-cost carriers have compressed industry margins resulting in a minor price war. Prior to the 3Q earnings call, United management pointed to an even more competitive pricing environment than they originally expected, guiding down for a 1% decline in revenue beyond original expectations as a result.[v]

Despite the blow to margins, United has been taking the low-cost carriers head on. On the 3Q earnings call, management told investors that they had "made the strategic decision to compete aggressively with ultra-low-cost carriers, which is essential to the long-term health of our business."[vi] Southwest's chief revenue officer, Andrew Watterson, told investors at a conference in August that, "if one or two airlines go off on a price-cutting binge, other airlines go along for the ride," showing the vast impact that even one airline can have on industry pricing.[vii] Some investors fear pricing concerns could turn to a full-blown price war, which would turn into a war of attrition that will squeeze margins and hurt earnings until the weakest carriers are forced into submission by exiting unprofitable markets.

Growth drivers

Passenger growth has been relatively stable in terms of demand since the industry recovered from the recession, though there has been an uptick in the number of passengers in the last 2-3 years. The number of domestic passengers grew at a CAGR of 2.2% from 2010-2016, and international passengers grew at a CAGR of 4.8% based on data provided by the US Department of Transportation.[viii]

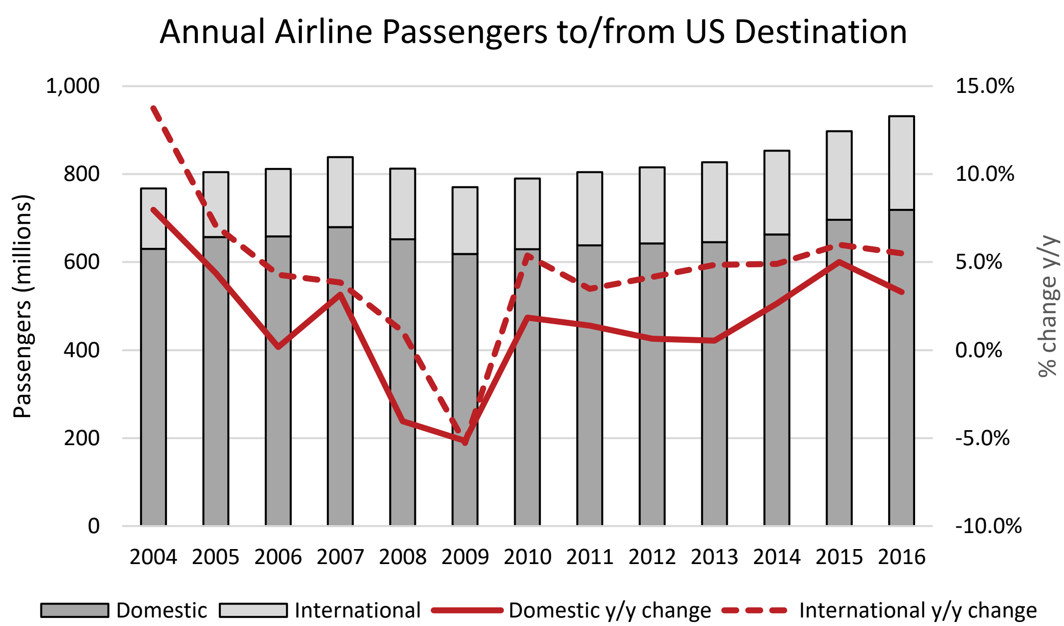
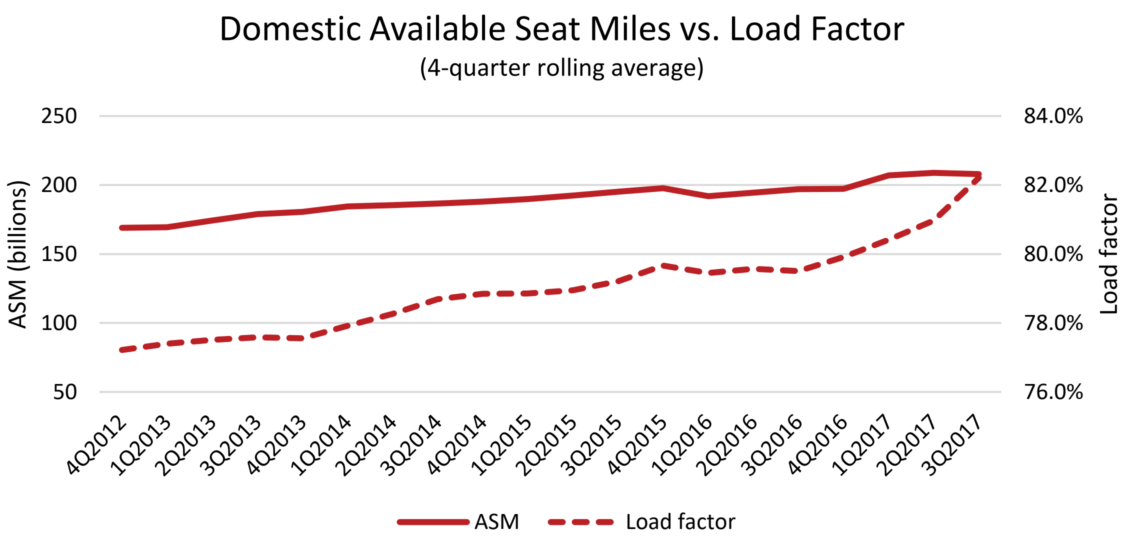


Figure 4: Annual US passengers[viii]

One large factor playing into the number of flights taken per years is the state of the economy. As the economy grows and consumers have more discretionary income, they are more likely to travel for purposes like vacations. Additionally, businesses will likely be experiencing growth, meaning employees will be flying to engage in various business activities. Stable economic growth in recent years has benefitted airlines especially as consumer discretionary income and spending has increased.

The US is seeing an influx in the total number of available seat miles (ASM). Available seat miles represent total capacity for airlines as it is calculated as the number of seats on an aircraft multiplied by the number of miles that plane flies. Load factor is the percentage of ASM that are filled by revenue-generating passengers, a measure of utilization. The graphs below show both domestic and international ASM and load factors for major airlines since late 2012.



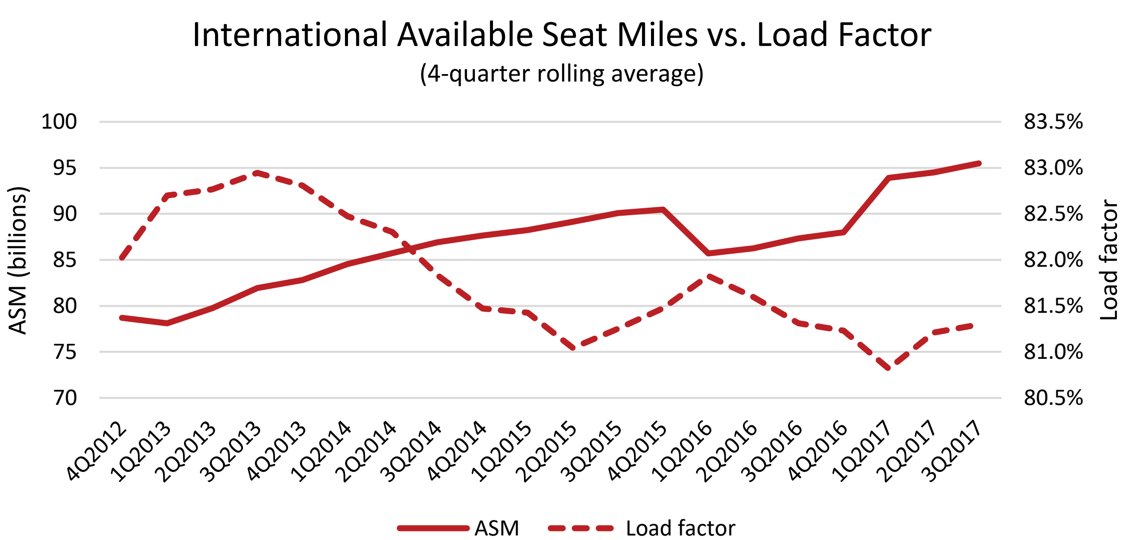


Figure 5: ASM vs. load factor[ix]

A major point to note from the graphs is the steady increase in ASM. An increase in ASM indicates that either more airlines are entering the market, current airlines are increasing capacity by adding planes to their fleets, or airlines are optimizing plane usage and efficiency to keep planes in the air as much as possible. As shown by the load factor, demand had kept up with the increased supply in domestic market, but increased supply has outpaced demand in international markets. As ASM has increased without an equivalent increase in demand in international markets, a smaller percentage of seats on each flight are filled, thereby decreasing the efficiency of each plane and failing to generate the maximum amount of revenue possible per flight.

The increased competition and decreased load factors for international travel has created issues for United because they have historically had higher margins compared to peer when it comes to international travel but have lagged other airlines in domestic margins. As a result, United began an initiative to improve the yield and profitability of its fleet in the domestic market as laid out at the investor day in November 2016, which will be discussed later.

As United built its vast network of hubs and tailored its operations to maximize profitability in past decades, domestic markets were very saturated while international markets were not, giving the company an operating advantage in those areas. However, after much consolidation in the US airline industry in the mid-2000s, the domestic markets became a much more important piece for margins, while international markets began to see margins fall as more competition entered the market. As a result, United was on the wrong side of the new industry dynamics. United, thus, has been focusing on a plan to turn around its domestic business to more closely mirror the profitability of airlines like American and Delta.[x]

One of United's current growth plan for domestic profitability focuses on expanding its influence by adding more connections from small- to mid-sized cities to the crucial major hubs. For example, United is considering adding expanding routes to Medford, OR from Las Angeles's LAX airport. These short flights strategically offer United a chance to connect more customers to other destinations vast United network. Also, routes are strategically being picked to limiting the influence of competitors in the region, as American Airlines and Allegiant Air already have routes from places like Medford, OR to LAX.[xi]

Also, United has focused on growing through their Basic Economy offering, which is a new service the company began offering in mid-2017. Basic Economy was created as an option for very price-sensitive consumers to compete directly with ultra-low-cost carriers.[x] The Basic Economy offering strips away all non-essential offerings of the flight such as in-flight beverages and overhead carry-ons. Additionally, Basic Economy seats are more narrow and closer together, limiting leg room. Though there were initial implementation issues with the service, the problems are being as United adapts to optimize the market potential for the new service.

Recent stock news

United's stock has underperformed the S&P 500 and airline peers in the past year, down approximately 8% compared to the S&P's returns of over 20% (see appendix for a chart of peer performance). In the past month United had a large sell-off after reporting 3Q17 earnings on October 18, resulting in a pullback of around 12%.

United actually beat on both top and bottom line earnings compared to consensus forecasts, but management did not convince the investor community to buy into management's long-term growth plans for the company. There were few updates on the progress of the company's initiatives that it laid out at the investor day in November 2016. Though there were not substantial updates, management did not hint at abandoning any of the plans nor did they revise guidance for the long-term prospects of the growth plans. Accordingly, the sell-off was too drastic and gives investors a good point to enter.

The company faced a number of headwinds in 3Q17 as they outlined at the Cowen Global Transportation Conference in September. The company forecasted 1.5% decline in revenue from the impact of Hurricane Harvey, which shut down operations in Houston, one of United's largest hubs. Also, pricing pressures from ultra-low-cost carriers shed another 2% from revenue. Ultra-low-cost carriers not only grabbed more market share than United originally expected, but the rollout of Basic Economy experienced trouble as the company struggled to accurately price against the ultra-low-cost competitors initially. Management cited weakness in the Pacific region due to oversupply in the market, macro trends, and geopolitical issues in Guam and China for a decline of an additional 0.5% in revenue.[v] Though the headwinds had a severely adverse effect on 3Q earnings, management has already addressed the issues and is working to fix issues. Investors need to be reminded to focus on the long-term prospects of the company as opposed to short-sighted mishaps.

Investment thesis

Catalysts

There are 3 main drivers that investors should focus on moving forward that will improve margins and increase United's valuation – **1) network initiatives** that will drive operating efficiencies, **2)** new **strategies to compete with ultra-low-cost competitors**, and **3) pricing and supply rationalization** in the airline industry. United's long-term potential is underappreciated, and all three of these growth drivers will benefit United's performance by more than the market is giving the company credit for.

Network initiatives

In 2015-2016 United's management and board room were shaken up and went through a series of new changes as activist investors Par Capital and Altimeter Capital took stakes in the airline.[xii] Scott Kirby, an industry veteran with a proven track record of success, was then hired from American Airlines as president to provide a fresh perspective for the company.

In November 2016 Kirby introduced a number of initiatives the company would undertake to increase efficiency of the company's assets including improving upon the hub-and-spoke system that United utilizes.

The hub-and-spoke system means that many customers fly from small cities to large hubs and then on to the rest of the world. These connecting flights are critical for United to service customers to their final destination, which are often times high margin trips. Though connections are vital, the company had very few initiatives in place to maximize the number of possible connections.

Kirby introduced a new system called "banking" flights, which means arrivals and departures will be staggered to allow more passengers to connect between destinations. The image below compares American Airlines' schedule in Philadelphia, which uses the efficient banking strategy, to that of United, who previously did not.

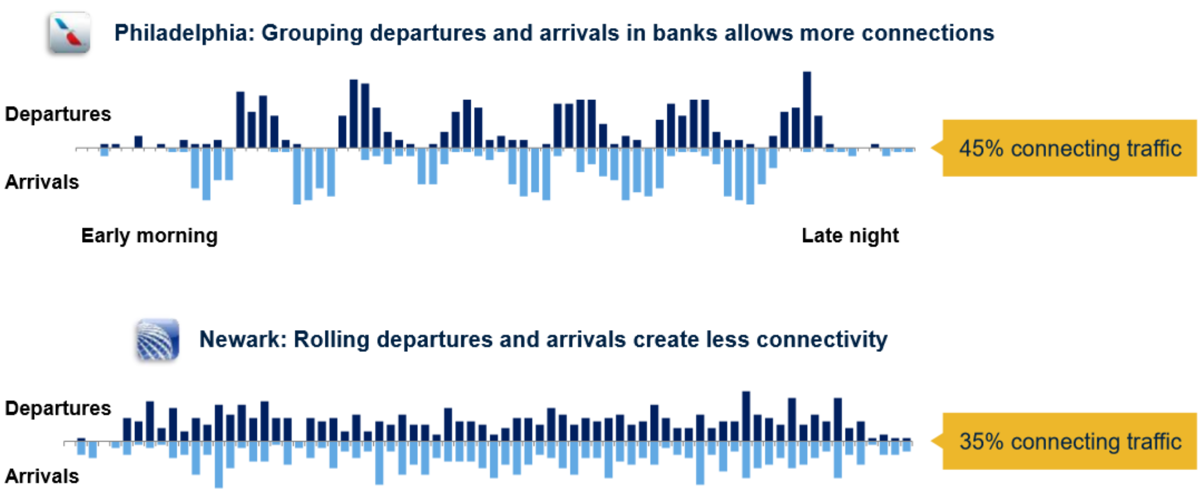


*Figure 6: Banking flights*Error! Bookmark not defined.

Not only will banking flights generate additional PRASM due to a higher percentage of passengers connecting between cities, but it will influence customers to choose to fly with United more often on high-margin, long-haul trips because of convenient connecting times. Management expects network initiatives and increased operational efficiencies like this to generate $600 million in incremental revenue by 2020. These factors will improve United's operating margins and help close the gap compared to peers, a long-standing goal of the company.

New strategies to compete with ultra-low-cost carriers

Investors are grossly over estimating the potential loss of market share the airline could lose to ultra-low-cost competitors. To begin with, ultra-low-cost competitors only compete directly with United at locations that account for 17% of the firm's revenue.[vi] Also, as United begins to ramp up implementation of the initiatives laid out during the investor day, the company will be able to improve its service offerings and retain and grow its traditional core customer base.

Though the argument could be made that low-cost competitors could expand their service offerings to other cities outside of the 17% that overlaps right now, United is well insulated from this threat because of their hub-and-spokes system. With connections from smaller spokes making up a significant portion of the traffic the company deals with in major hubs, it would be nearly impossible for ultra-low-cost competitors to enter the small markets that feed these connections. Low-cost-carriers require route density and high traffic to be profitable, so they would not be able to service the same clients that United does.

As mentioned before, United recently ramped up its head-to-head competition with ultra-low-cost carriers through increased flight segmentation, which is the strategy behind their new Basic Economy offering. When Basic Economy offerings began rolling out this year, the company had little experience forecasting pricing at these levels and initially struggled to gain customer traction. Though the initial implementation faced headwinds, that does not mean these headwinds will last forever, but investors are incorrectly pricing the stock as if it will continue to bleed market share to ultra-low-cost carriers.

In addition to segmentation with the Basic Economy offerings, United is competing through their efforts of upgauging and re-fleeting their airplanes. Upgauging is the process of adding more seat on each airplane, which thus reduces the cost per available seat mile, or CASM. These efforts go hand-in-hand with Basic Economy offerings, as the seats in the new class are smaller and closer together. PRASM is also slightly reduced as a result because of cheaper ticket prices, but the decrease in CASM far outweighs the reduction in fair, making it a profitable move.

Re-fleeting is the process of retiring older planes and upgrading to newer, more fuel-efficient planes. This will allow United to keep costs lower even in times of rising fuel prices, further increasing its competitive leverage against ultra-low-cost carriers.

Not only will these strategies help United avoid losing customers to low-cost competitors, it could become a source of taking additional market share. Management expects segmentation, re-fleeting, and upgauging to generate $2 billion in revenue by 2020, offering further upside for the case of United's improving margins. Though United is in a good long-term position to compete with ultra-low-cost carriers, many investors have overestimated the potential threat these competitors pose. The market is misevaluating and mispricing United's positioning as a result.

Below is a complete table of initiatives announced at the November 2016 investor day.

Earnings Initiatives from November 2016 Investor Day

Commercial enhancements	2017E	2018E	2019E	2020E
Network initiatives	100	300	450	600
Re-fleeting and upguage	700	800	900	1,000
Segmentation	200	550	700	1,000
MileagePlus enhancements	100	300	300	300
Revenue management improvements	100	400	700	900
Total	**1,200**	**2,350**	**3,050**	**3,800**

Millions of dollars

Figure 7: Company initiatives from November 2016 investor day[x]

Pricing and supply will rationalize

Pricing on both domestic and international flights has not been consistently rational among the major airlines as airlines have focuses on winning customers instead of maximizing profits. Firms like Frontier will eventually need to rationalize their pricing models to focus more on profitability.

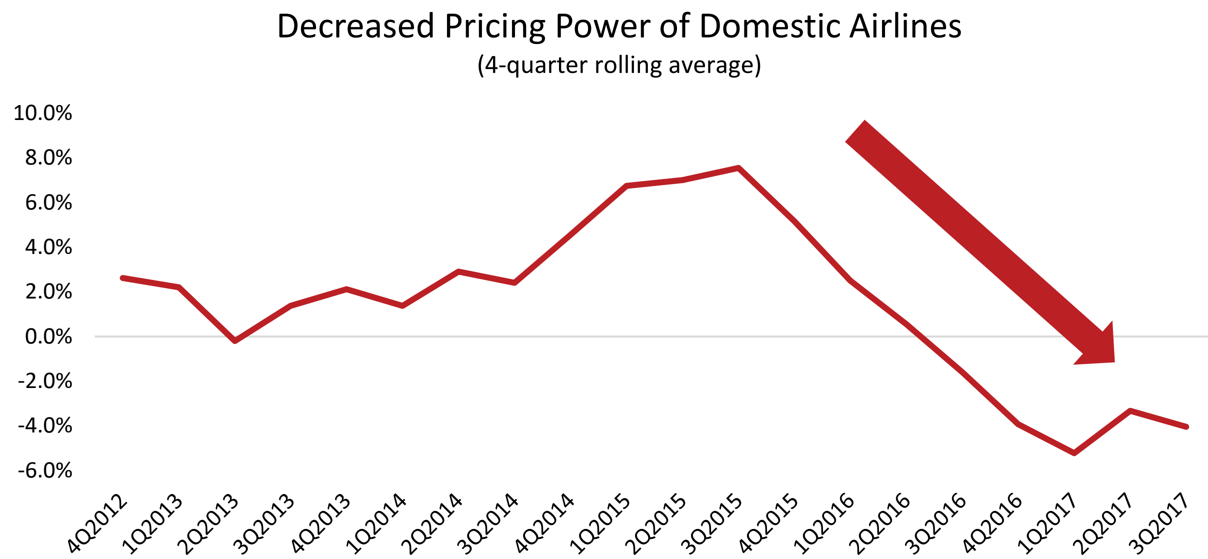


Figure 8: Pricing power of airlines[ix]

The graph above shows historic pricing power that airlines have had in recent years. Since 2016 pricing power has eroded greatly as a glut of supply has entered the market despite relatively small increases in consumer demand.

Notable supply has entered into the Pacific market as Asian airlines have begun to compete more heavily with domestic airlines. Recall the previous graph of rising ASM while average load factor was falling, which compresses margins. Already this year Island Air, a Hawaiian airline, filed for bankruptcy as the company was struggling to find enough demand to meet the financial requirements to maintain its fleet among other problems.

The industry should see a necessary wave of consolidation similar to that of the mid-2000s US consolidation. International carriers, mainly in the Pacific, will likely see an increase in M&A activity or forced mergers with failing airlines to bring supply back to an equilibrium. With industry consolidation, supply will be reduced, pricing power will increase, and margins will be bolstered. Though this will benefit all major airlines, United has particularly high exposure to international markets and specifically to the Pacific market, so they would benefit the most from Pacific consolidation.

Financial analysis & valuation

Economic analysis

Airline stocks are very cyclical and perform poorly during recessions. Since the Great Recession in 2008 the United States has had one of the longest periods of economic growth in history, and there are several promising signs that the growth may be able to continue.

Jerome Powell, who is nominated to serve as the next Chair of the Federal Reserve, is likely to continue the dovish policies that Janet Yellen had in place in recent years. The Fed's dovish outlook and pro-growth tone will hopefully extend the recovery period.

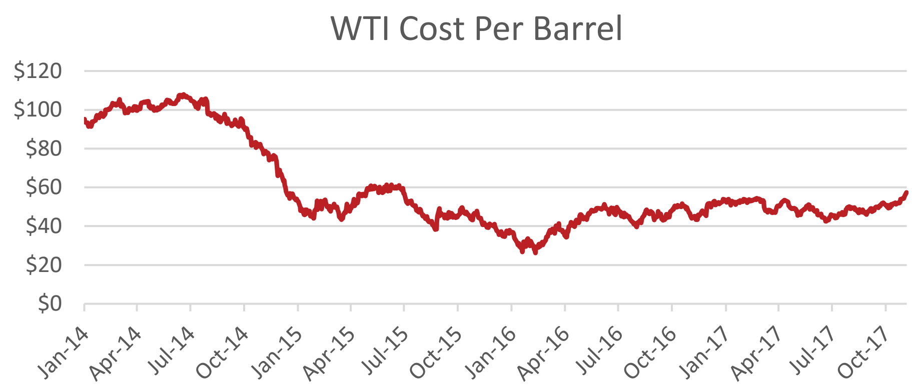


Figure 9: WTI spot prices Jan. 2014 - Nov. 2017

Profit margins in the airline industry are heavily dependent on fuel prices, which have been relatively stable in the past calendar year, as shown in the above graph. Oil has climbed slightly higher in recent weeks, but it has continued to trade in the mid-$50 range, which provides airlines with enough room for profit recognition. There are not currently expectations for oil prices to jump sharply soon. Airlines have been taking actions to combat sharp swings in earnings from volatile oil prices by hedging costs and re-fleeting with more fuel-efficient airplanes.

Financial forecasts

United's income statement projections center around revenue growth and margin improvements. Revenue will continue to grow and margins will improve as United improves its network's operational efficiencies, Basic Economy and upgauging improvements take root, and industry supply and pricing rationalize.

The model reflects management's stated goal of narrowing the margin gap between United and carriers like Delta, which is very possible with the new strategies they are implementing. A comparison of United's EBIT margins to other major airlines can be found in the appendix. The board has put in place management with a proven history of success within the airline industry, and they have the tools necessary to make United much more competitive with industry peers.

Valuation

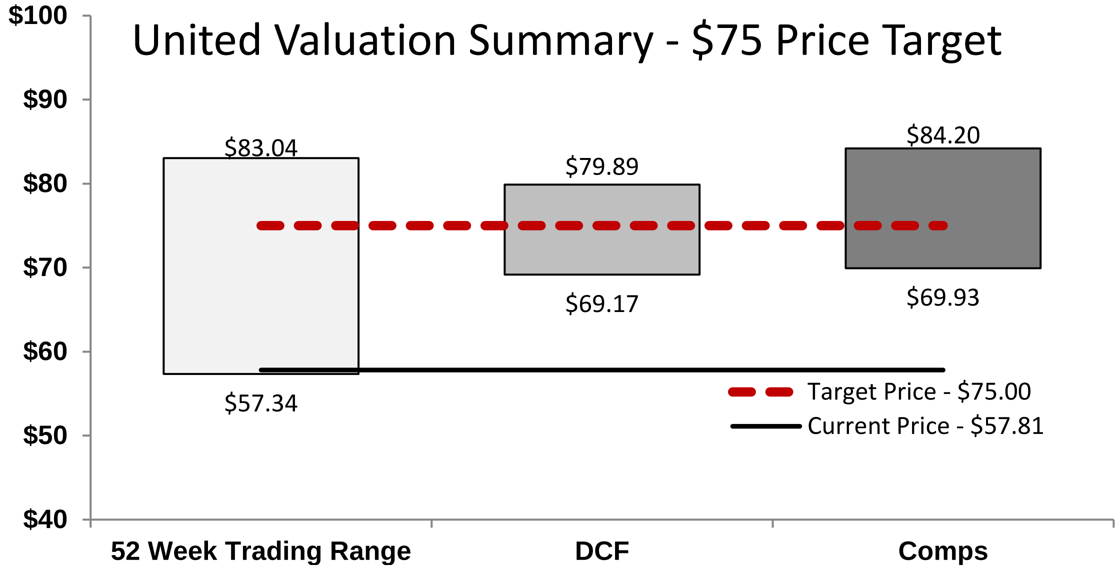


Figure 10: Target price ranges based on discounted cash flow analysis and comparable companies analysis

The most attractive part of United's story from an investment perspective is the company's current valuation. After falling sharply on 3Q17 earnings, investors should view the recent pullback in the stock as a great entry point.

United is mispriced intrinsically based on a discounted cash flow analysis. A long-term growth rate of 3% and a final-year exit multiple of 5.5x were both used in evaluating the company. The base-case DCF analysis resulted in an implied share price of $71.

Trading at a forward EV/EBITDA of 4.8x, below comparable companies' median 5.5x, the stock is cheap on a relative basis as well. As margins improve, United's valuation multiples will expand to be closer in line with peers, which will be reflected by a higher share price. A comparable companies analysis produced a base-case valuation of $80.

The target price of $75 is based on a 60% weighting given to the DCF valuation and 40% weighting to a forward EV/EBITDA multiple of 5.5x.

Full intrinsic and relative valuation models are in the appendix on pages 16 and 17, respectively.

Risks

Industry risks

One risks to the investment thesis includes geopolitical risks. Should international tensions flare, consumers will be much less likely to travel internationally. Traffic to Guam and China have already seen an impactful decline in the past quarter due to threats from North Korea. Should these North Korean threats continue or should any type of conflict break out in the Pacific, it will negatively impact all carriers that operate in the Pacific.

Oil prices pose a risk to the airline industry as a whole, as well. If oil prices see a sharp rise, the entire industry's margins will suffer. Within the past decade oil prices peaked as high as the mid-$140s, which crushed airline margins. Many airlines came under financial distress due to high debt levels and unprofitable operations. Should oil increase to those levels again, margin expansion will become nearly impossible and the industry will be very adversely affected.

As the industry is very cyclical, a recession would hurt airlines more than it would hurt defensive stocks. With such a prolonged recovery and period of expansion since the 2008 recession, some argue that the business cycle is reaching its latest stages before another downtown. Consumer and business travel would decline as a result of decreased economic activity, and airlines would lose pricing pressure and load factors would fall as demand declined.

Company-specific risks

The company faces the risk of implementation failure from current initiatives. Should management fail to integrate initiatives such as flight banking into the operations, margins will not benefit as forecasted and United will likely continue to trade at a discount to peers.

Should a pricing war ensue for an extended period of time between United and ultra-low-cost carriers, margins and profitability will be hurt as fare prices erode. With the new Basic Economy segment designed to compete head-to-head with these carriers, a price war is possible.

Also, there is a threat that Basic Economy will not catch on with United's core customers. Upgauging a large selection of planes then being forced to revert the same planes back to traditional layouts with larger seats and more leg room would be very expensive because it would force planes to be out of operation for extended periods of time. Also, fewer passengers would fly on each flight if customers decide it is worth the incremental expense to avoid flying Basic Economy and choose to book with another airline, which would reduce load factors and PRASM.

Should more supply continue to enter the Pacific market, United would be hurt more than other airlines. United has more exposure to China than other domestic airlines, so rationalization of supply in the Pacific is important for their success in the region.

Conclusion

BUY United Continental Holdings, Inc. (NYSE: UAL) with a **target price of $75** and **implied upside of 29.7%**.

The bottom line of United's story is based on the idea of margin expansion and cheap valuation. Investors want to own the stock now before 1) United ramps the implementation of the new management team's initiatives in 4Q17 and 1H18, 2) investors realize fears of ULCC competition are overblown, and 3) industry pricing and demand rationalize. These growth drivers and the attractive valuation make United a strong BUY for investors.

Appendix

Intrinsic valuation

UAL Discounted Cash Flow Analysis

		2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Sales		$ 37,360	$ 38,407	$ 39,488	$ 40,594	$ 41,730	$ 42,899	$ 44,143	$ 45,423	$ 46,785	$ 48,189
% growth		2.2%	2.8%	2.8%	2.8%	2.8%	2.8%	2.9%	2.9%	3.0%	3.0%
EBITDA		**6,127**	**6,760**	**7,266**	**7,632**	**8,471**	**9,137**	**9,844**	**10,220**	**10,527**	**10,843**
% margin		16.4%	17.6%	18.4%	18.8%	20.3%	21.3%	22.3%	22.5%	22.5%	22.5%
D&A		1,943	2,074	2,290	2,436	3,130	3,646	4,194	4,315	4,445	4,578
% sales		5.2%	5.4%	5.8%	6.0%	7.5%	8.5%	9.5%	9.5%	9.5%	9.5%
EBIT		**4,184**	**4,686**	**4,975**	**5,196**	**5,341**	**5,491**	**5,650**	**5,905**	**6,082**	**6,265**
% margin		11.2%	12.2%	12.6%	12.8%	12.8%	12.8%	12.8%	13.0%	13.0%	13.0%
Taxes		1,465	1,640	1,741	1,819	1,870	1,922	1,978	2,067	2,129	2,193
After-Tax EBIT		**2,720**	**3,046**	**3,234**	**3,377**	**3,472**	**3,569**	**3,673**	**3,838**	**3,953**	**4,072**
Plus: D&A		1,943	2,074	2,290	2,436	3,130	3,646	4,194	4,315	4,445	4,578
Less: CapEx		4,707	3,533	3,593	3,856	3,964	4,075	4,194	4,315	4,445	4,578
Less: Inc./(Dec.) in NWC		22	42	83	86	88	90	93	96	99	102
Unlevered Free Cash Flow		(67)	1,545	1,848	1,871	2,549	3,050	3,580	3,742	3,855	3,970
WACC	11.0%										
Discount Period		1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
Present Value of Free Cash Flow		(60)	1,254	1,351	1,232	1,513	1,630	1,724	1,624	1,507	1,398
Projected Period Value	$11,775										

Terminal Value - Perpetual Growth	
Growth rate in perpetuity	3.0%
Terminal value	**$19,401**
Terminal value as % of EV	62.2%
Enterprise Value and Share Price	
Enterprise value	**$31,176**
Less: Net debt	$9,615
Equity value	**$21,561**
Shares outstanding	301
Implied share price	**$71.73**
Implied upside from current	**24.1%**

EV/EBITDA exit multiple	5.5x
Terminal value	**$21,002**
Terminal value as % of EV	64.1%
Enterprise Value and Share Price	
Enterprise value	**$32,777**
Less: Net debt	$9,615
Equity value	**$23,162**
Shares outstanding	301
Implied share price	**$77.05**
Implied upside from current	**33.3%**

Implied Share Price Sensitivity Analysis - Perpetual Growth

	WACC					
		10.0%	**10.5%**	**11.0%**	**11.5%**	**12.0%**
	2.0%	$78.62	$70.86	$64.00	$57.88	$52.40
Perpetual	**2.5%**	$83.60	$75.11	$67.64	$61.02	$55.13
growth	**3.0%**	$89.30	$79.91	$71.73	$64.53	$58.15
	3.5%	$95.87	$85.41	$76.36	$68.48	$61.54
	4.0%	$103.54	$91.75	$81.66	$72.95	$65.35

Implied Share Price Sensitivity Analysis - Exit Multiple

	WACC					
		10.0%	**10.5%**	**11.0%**	**11.5%**	**12.0%**
	4.5x	$71.86	$68.02	$64.35	$60.85	$57.49
EV/EBITDA	**5.0x**	$78.81	$74.66	$70.70	$66.92	$63.30
multiple	**5.5x**	$85.76	$81.31	$77.05	$72.99	$69.11
	6.0x	$92.72	$87.95	$83.41	$79.06	$74.91
	6.5x	$99.67	$94.60	$89.76	$85.14	$80.72

Implied Upside Sensitivity Analysis - Perpetual Growth

	WACC					
		10.0%	**10.5%**	**11.0%**	**11.5%**	**12.0%**
	2.0%	36.0%	22.6%	10.7%	0.1%	(9.4%)
Perpetual	**2.5%**	44.6%	29.9%	17.0%	5.6%	(4.6%)
growth	**3.0%**	54.5%	38.2%	24.1%	11.6%	0.6%
	3.5%	65.8%	47.7%	32.1%	18.5%	6.5%
	4.0%	79.1%	58.7%	41.3%	26.2%	13.0%

Implied Upside Sensitivity Analysis - Exit Multiple

	WACC					
		10.0%	**10.5%**	**11.0%**	**11.5%**	**12.0%**
	4.5x	24.3%	17.7%	11.3%	5.3%	(0.5%)
EV/EBITDA	**5.0x**	36.3%	29.2%	22.3%	15.8%	9.5%
multiple	**5.5x**	48.4%	40.6%	33.3%	26.3%	19.5%
	6.0x	60.4%	52.1%	44.3%	36.8%	29.6%
	6.5x	72.4%	63.6%	55.3%	47.3%	39.6%

Relative valuation

Comparable companies analysis

Name	Ticker	Market Cap (bn)	Dividend Yield	Price/ Earnings	EV/ EBITDA	EV/ Revnue
Delta Airlines	DAL	$34.7	1.9%	10.1x	4.8x	1.0x
American Airlines	AAL	$21.7	0.9%	9.4x	6.2x	0.9x
Alaska Air Group	ALK	$7.6	1.9%	8.8x	4.9x	1.0x
Copa Holdings	CPA	$5.2	1.6%	15.6x	8.4x	2.0x
Average			1.6%	11.0x	6.0x	1.2x
Median			**1.8%**	**9.7x**	**5.5x**	**1.0x**
United Continental	UAL	$17.6	-	8.1x	4.8x	0.7x

Enterprise value and share price	
EV/EBTIDA multiple	**5.5x**
Enterprise value	$33,699
Less: Net debt	$9,615
Equity value	$24,084
Shares outstanding	301
Implied share price	**$80.12**
Implied upside from current	**38.6%**

Implied Share Price Sensitivity Analysis - Comparable Companies

		EBITDA				
		$5,514	**$5,821**	**$6,127**	**$6,433**	**$6,740**
EV/ EBITDA	**4.5x**	$50.56	$55.15	$59.74	$64.32	$68.91
	5.0x	$59.74	$64.83	$69.93	$75.02	$80.12
	5.5x	$68.91	$74.51	$80.12	$85.72	$91.33
	6.0x	$78.08	$84.20	$90.31	$96.42	$102.54
	6.5x	$87.25	$93.88	$100.50	$107.13	$113.75

Implied Upside Sensitivity Analysis - Comparable Companies

		EBITDA				
		$5,514	**$5,821**	**$6,127**	**$6,433**	**$6,740**
EV/ EBITDA	**4.5x**	(12.5%)	(4.6%)	3.3%	11.3%	19.2%
	5.0x	3.3%	12.1%	21.0%	29.8%	38.6%
	5.5x	19.2%	28.9%	38.6%	48.3%	58.0%
	6.0x	35.1%	45.6%	56.2%	66.8%	77.4%
	6.5x	50.9%	62.4%	73.8%	85.3%	96.8%

Figure 11: Relative valuation[ix]

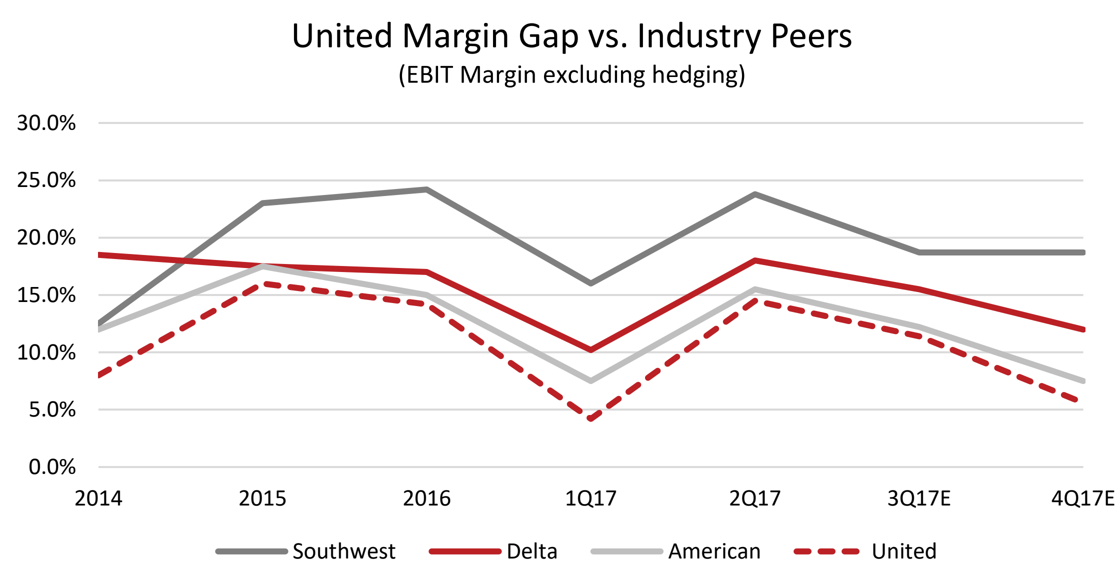


Figure 12: United's margin gap vs. peers[xiii]

UAL - Income Statement

(numbers in millions except per share data)	2019E	2018E	2017E	2016	2015	2014	2013	2012
Operating revenue:								
Passenger - mainline	27,636	26,831	26,049	25,414	26,333	26,785	25,997	25,804
Passenger - regional	6,700	6,442	6,194	6,043	6,452	6,977	7,125	6,779
Total passenger revenue	34,335	33,273	32,243	31,457	32,785	33,762	33,122	32,583
Cargo	930	911	894	876	937	938	882	1,018
Other operating revenue	4,223	4,223	4,223	4,223	4,142	4,201	4,275	3,551
Total operating revenue	**39,488**	**38,407**	**37,360**	**36,556**	**37,864**	**38,901**	**38,279**	**37,152**
Consensus	39,960	39,382	37,891					
Operating expense:								
Salaries and related costs	11,215	10,984	10,984	10,275	9,713	8,935	8,625	7,945
Aircraft fuel	7,147	6,952	6,725	5,813	7,522	11,675	12,345	13,138
Regional capacity purchase	2,369	2,304	2,242	2,197	2,290	2,344	2,419	2,470
Landing fees and other rent	2,172	2,112	2,055	2,165	2,203	2,274	2,090	1,929
Depreciation and amortization	1,777	1,728	1,681	1,977	1,819	1,679	1,689	1,522
Aircraft maintenance materials and outside repairs	1,895	1,844	1,793	1,749	1,651	1,779	1,821	1,760
Distribution expenses	1,422	1,383	1,345	1,303	1,342	1,373	1,390	1,352
Aircraft rent	711	691	672	680	754	883	936	993
Special charges	671	653	635	638	326	443	520	1,323
Other operating expenses	5,133	5,070	5,044	5,421	5,078	5,143	5,195	4,681
Total operating expenses	34,512	33,721	33,176	32,218	32,698	36,528	37,030	37,113
Operating income	**4,975**	**4,686**	**4,184**	**4,338**	**5,166**	**2,373**	**1,249**	**39**
Non-operating income (expense):								
Interest expense	(592)	(576)	(598)	(614)	(669)	(735)	(783)	(835)
Interest capitalized	79	77	75	72	49	52	49	37
Interest income	39	38	37	42	25	22	21	23
Miscellaneous, net	0	0	0	(19)	(352)	(584)	3	12
Total non-operating income (expense)	(474)	(461)	(486)	(519)	(947)	(1,245)	(710)	(763)
Income before income taxes	**4,502**	**4,225**	**3,699**	**3,819**	**4,219**	**1,128**	**539**	**(724)**
Income tax expense (benefit)	1,576	1,479	1,295	1,556	(3,121)	(4)	(32)	(1)
Net income	**2,926**	**2,746**	**2,404**	**2,263**	**7,340**	**1,132**	**571**	**(723)**
EPS	8.87	8.32	7.29	6.86	19.52	3.05	1.64	(2.18)
EPS, diluted	**8.86**	**8.31**	**7.28**	**6.85**	**19.47**	**2.93**	**1.53**	**(2.18)**
Shares outstanding								
Basic	329.9	329.9	329.9	329.9	376.1	371.1	348	331
Diluted	330.3	330.3	330.3	330.3	376.9	389.7	391	331
Cash, equivalents, and short-term investments	4,462	4,340	4,296	4,428	5,196	4,384	5,121	6,543
% of sales	11.3%	11.3%	11.5%	12.1%	13.7%	11.3%	13.4%	17.6%
Receivables	1,264	1,229	1,196	1,176	1,128	1,146	1,503	1,338
% of sales	3.2%	3.2%	3.2%	3.2%	3.0%	2.9%	3.9%	3.6%
Inventory	671	730	747	873	738	666	667	695
% of sales	1.7%	1.9%	2.0%	2.4%	1.9%	1.7%	1.7%	1.9%
Payables	2,172	2,112	2,055	2,139	1,869	1,882	2,087	2,312
% of sales	5.5%	5.5%	5.5%	5.9%	4.9%	4.8%	5.5%	6.2%
Change in WC	83	42	22	87	(67)	153	(362)	-
D&A	2,290	2,074	1,943	1,977	1,819	1,679	1,689	1,522
% of sales	5.8%	5.4%	5.2%	5.4%	4.8%	4.3%	4.4%	4.1%
CapEx	3,593	3,533	4,707	3,223	2,747	2,005	2,164	2,016
% of sales	9.1%	9.2%	12.6%	8.8%	7.3%	5.2%	5.7%	5.4%
Sales growth:								
Passenger - mainline	3.0%	3.0%	2.5%	(3.5%)	(1.7%)	3.0%	0.7%	-
Passenger - regional	4.0%	4.0%	2.5%	(6.3%)	(7.5%)	(2.1%)	5.1%	-
Total passenger revenue	3.2%	3.2%	2.5%	(4.1%)	(2.9%)	1.9%	1.7%	-
Cargo	2.0%	2.0%	2.0%	(6.5%)	(0.1%)	6.3%	(13.4%)	-
Other operating revenue	0.0%	0.0%	0.0%	2.0%	(1.4%)	(1.7%)	20.4%	-
Total operating revenue	**2.8%**	**2.8%**	**2.2%**	**(3.5%)**	**(2.7%)**	**1.6%**	**3.0%**	-
Operating expenses as % of sales:								
Salaries and related costs	28.4%	28.6%	29.4%	28.1%	25.7%	23.0%	22.5%	21.4%
Aircraft fuel	18.1%	18.1%	18.0%	15.9%	19.9%	30.0%	32.3%	35.4%
Regional capacity purchase	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.3%	6.6%
Landing fees and other rent	5.5%	5.5%	5.5%	5.9%	5.8%	5.8%	5.5%	5.2%
Depreciation and amortization	4.5%	4.5%	4.5%	5.4%	4.8%	4.3%	4.4%	4.1%
Aircraft maintenance materials and outside repairs	4.8%	4.8%	4.8%	4.8%	4.4%	4.6%	4.8%	4.7%
Distribution expenses	3.6%	3.6%	3.6%	3.6%	3.5%	3.5%	3.6%	3.6%
Aircraft rent	1.8%	1.8%	1.8%	1.9%	2.0%	2.3%	2.4%	2.7%
Special charges	1.7%	1.7%	1.7%	1.7%	0.9%	1.1%	1.4%	3.6%
Other operating expenses	13.0%	13.2%	13.5%	14.8%	13.4%	13.2%	13.6%	12.6%
Total operating expenses	**87.4%**	**87.8%**	**88.8%**	**88.1%**	**86.4%**	**93.9%**	**96.7%**	**99.9%**
Operating margin	**12.6%**	**12.2%**	**11.2%**	**11.9%**	**13.6%**	**6.1%**	**3.3%**	**0.1%**
Non-operating expenses as % of sales:								
Interest expense	(1.5%)	(1.5%)	(1.6%)	(1.7%)	(1.8%)	(1.9%)	(2.0%)	(2.2%)
Interest capitalized	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
Interest income	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Miscellaneous, net	0.0%	0.0%	0.0%	(0.1%)	(0.9%)	(1.5%)	0.0%	0.0%
Total non-operating income (expense)	**(1.2%)**	**(1.2%)**	**(1.3%)**	**(1.4%)**	**(2.5%)**	**(3.2%)**	**(1.9%)**	**(2.1%)**
Pretax Margin	**11.4%**	**11.0%**	**9.9%**	**10.4%**	**11.1%**	**2.9%**	**1.4%**	**(1.9%)**
Tax rate	35.0%	35.0%	35.0%	40.7%	(74.0%)	(0.4%)	(5.9%)	0.1%
Net income margin	**7.4%**	**7.2%**	**6.4%**	**6.2%**	**19.4%**	**2.9%**	**1.5%**	**(1.9%)**

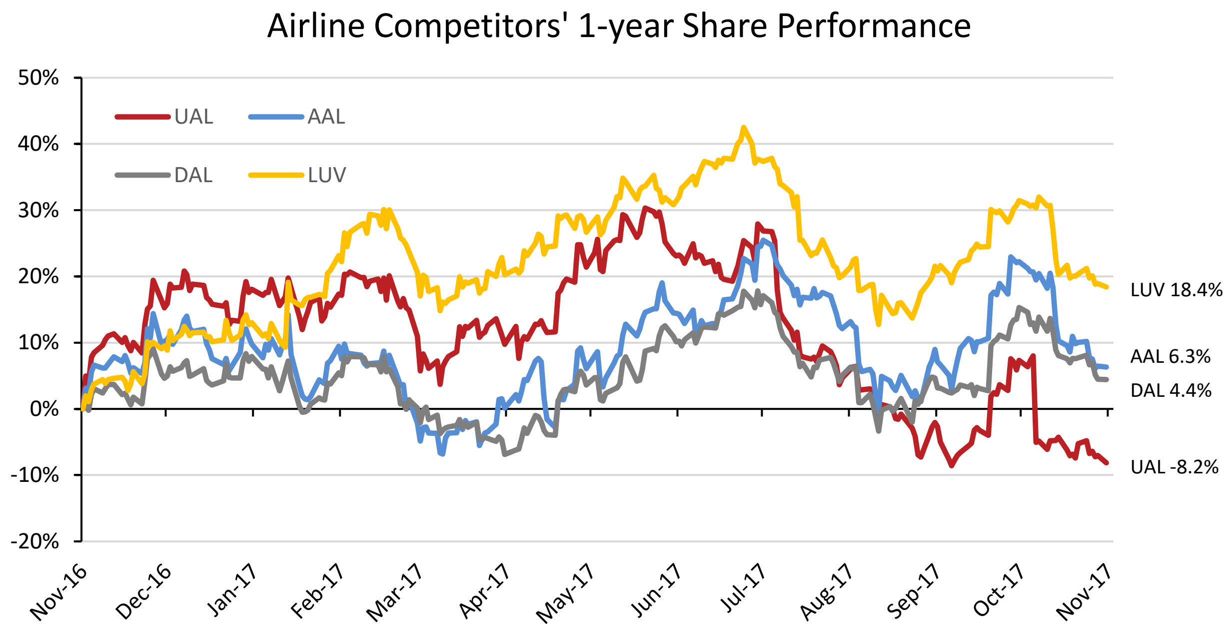


Figure 13: Airline stock performance[xiv]

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