

Virgin America, Inc.

NASDAQ:VA

Analyst: Thomas Marano

Sector: Industrials

BUY

Price Target: \$59.35

Key Statistics as of 10/27/2016

Market Price:	\$54.45
Industry:	Airlines
Market Cap:	\$2,432.66M
52-Week Range:	\$26.30-56.54
Beta:	1.0

Catalysts:

- Alaska Air Merge
- Soles4Souls
- Seasonal Flight deals

Company Description:

Founded January 1st 2004 Virgin America is a California-based airline that began operation on August 8th 2007. With an overall mission of making the flying experience for their customers enjoyable again. With brand new planes, low competitive fares, new and interesting technology, and a plethora of new fun innovative services they are reinventing the customer travel experience. Virgin America flies throughout various area within the United States, Hawaii, and Mexico. The airline provides a new and exciting travel experience that will differentiate themselves from the traditional airline experience.



Thesis

Ranked as the number 1 performing U.S. airline from 2013-2016 according to an airline quality rating report, Virgin America has provided their customers with an innovative and unusual travel experience. Welcomed with mood-lit cabins, custom-designed seats, and the most advanced entertainment systems in the skies, VA is staying up to date with their client needs. From providing the ability to charge electronic devices, to the possibility of ordering food/drink via touch screen, VA is keeping up to date with the latest trends and technological advances. In the future, Virgin America plans to expand their travel destinations which can aid in outperforming their competitors in the upcoming years. They're financially stable and their margins continue to grow. I assume this will continue into the 2017 year.

Industry Outlook

In the United States alone roughly 2 million people travel each day by airplane. Therefore, the competition within the United States airline industry is extremely competitive. The customer's differentiate airlines due to various personal criteria. Perhaps some customers search for the lowest prices, the most comfortable seats, best deals, or the quickest flight. Leading to increased rivalry among the industry.

The industry as a whole must also consider economic variables. Such as but not limited to, disastrous weather, terminal disease, terrorism, or any other variables that could impact the decision to travel.

With the fuel source for airplanes low, the airline profitability and demand within the industry is estimated to continue to improve. However the presidential election, along with "Eco friendly" alternatives may pose as a threat. The election of our next presidential candidate could potentially grow stronger or weaker ties with our business partners that provide the United States with the oil to fuel our aircrafts. Which could in turn lead to a shortage in oil. Which could lead to increase in ticket prices.

From an environmental point of view, many individuals believe that planes emit too much carbon dioxide into the atmosphere when they fly, contributing to the "global carbon footprint". Potentially shifting their

decision to fly or find an alternative form of transportation.

Business Model

Virgin American airline is the only airline based out of Silicon Valley, and therefore does not compete in the same discount space as competitors such as, Southwest and Spirit Airlines, INC. They offer three classes onboard, First class, Main Cabin Select, and Main Cabin. All come with a unique set of inclusions. With an overall emphasis on customer treatment and experience. Virgin American airlines overall mission is to make flying good again. VA wants their customers to feel relaxed and enjoy the experience of being on their brand new planes.

Porters Five Forces

Bargaining Power of Suppliers: Medium-50

Virgin America scored a neutral 50 in this category. Although the airline industry is so diverse and the thought is that there are other options, VA constructs their planes with specific parts from a specific supplier. Therefore VA will have to pay what their suppliers request in order to maintain that their planes run and keep up with safety regulations.

Threat of New Competition: High-71

Entering the airline industry is extremely competitive. Although there are many airline companies, the barriers to enter the airline industry are extremely high. VA competitors have stayed the same each year. However, there is no other airline currently offering all the amenities that Virgin America does. That is why they are not face a huge threat of new competition.

Threat of Substitutes: Medium-58

Virgin America scored a neutral 58 in this category. The airline industry is extremely diverse. With each airline offering different services, destinations, prices, and travel experiences. Virgin Americas unique travel experience along with their low prices appeal to many consumers looking to travel. They hit a possible downside due to their limited travel destinations.

Intensity of Existing Rivalry: Medium-67

Currently Virgin Americas existing rivalry is medium. They compete against many airlines in general but their niche is being a low-cost provider of premium services. There is not much rivalry for Virgin America because there are not many competitors that can provide a low cost product while also providing high quality services with high quality amenities.

Bargaining Power of Customers: Low-43

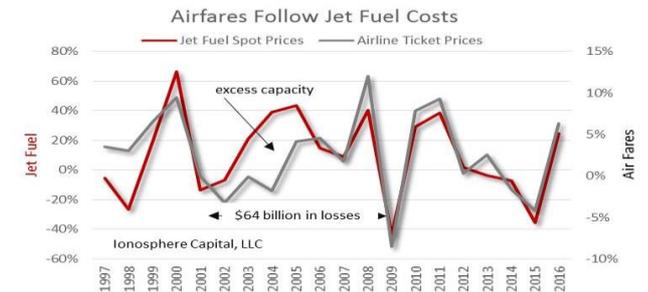
Bargaining powers over Virgin America is the lowest of porter’s five forces. Customers have very high power over airlines due to the ability to easily switch from one carrier to another. Although there may be a cancellation fee, customers can easily take their business elsewhere if they’re not satisfied.

Product Differentiation

With approximately 631,939,829 plus people traveling by plane each year the airline industry is extremely competitive. Each airline company must be unique in order to differentiate itself from the competition and Virgin American airlines does an outstanding job setting themselves apart. From the moment you enter a Virgin American plane to the moment you leave your experience will be like no other airline. Visually, the pane has a new abstract look complemented by mood-lit cabins and sleek leather seats. Once onboard, Virgin America offers a plethora of inflight amenities. Such as a Brand new in-flight entertainment system “Red”, a touch screen system that allows customers to browse through top movies, satellite television, music videos, video games, and even create their own music playlist. On top of that, not only does Virgin America offer their customers Wi-Fi, each seat also comes with a USB cord and power plug to ensure that the customer does not lose battery high in the sky. Which is useful for anyone flying who needs immediate use of their electronic devices once exited. But in my opinion the most innovate service they have is the “Seat-to-Seat delivery + Chat” system. This new systems allows users to communicate on the plane via chatroom or send a meal, drink, or snack to another seat. This is extremely useful for anyone who is flying with a business partner or potential business partner. This system can allow them to communicate via chat in preparation for any meeting they may have. I believe that Virgin Americas technology is way above any other airline currently

flying. Thus, keeping true to their overall goal of making flying enjoyable again.

Financials



As you can see from the above graph which represents the Airlines industry as a whole, fuel costs and air fare costs move together simultaneously. As the cost of jet fuel increase, the air fare increases, and vice versa. The price of fuel is **very** important to airlines. If fuel becomes too expensive, this could potentially cause a decrease in revenue due to high air fare costs. Which could potentially lead to a decrease in ticket purchases.

Virgin America is a financially health company. With revenue steadily increasing over the past years. I will speak of this later in the report, but the possibility of a \$2.6 billion merge with Alaska Airlines will combine them to become the 5th largest U.S. airline. Which will overall add to their value as a company.

	ROIC /WACC	
	<i>History</i>	<i>LFY</i>
VA	1.01	0.69
Competitors	0.60	1.35

Even though VA has historically outperformed their competition in this comparison, As shown above they’re currently underperforming in this ratio. This is due to an extremely low ROIC. Historically they have had an ROIC of 16.5% compared to the industry 8.8%. This year ROIC has dropped to 10.9% while the industry has rose to 20.8%.VA WACC is even with their competitors. I believe that perhaps they’ve not done as well this year due to the low amount of times they travel per day in comparison to their competitors. Due to the extensive technology of each plane, they have less amounts of planes flying daily. Therefore, they’re making less trips per day in comparison to their competition.

Since 2010, Virgin America has had a steady increase in both EBITA Margin and Operating Margin. The increase in EBITA Margin is showing that VA is slowly

lowering the operating expenses compared to revenue. This will lead to more profitability. The increase in operating margin shows sign of growth, meaning the company is earning more per dollar of sales. The growth of these two margins together shows strong signs for Virgin Americas future.

Virgin America met a number of set Bloomberg criteria. Outside of a comparison with their competition and according to Bloomberg, VA has an ROIC/WACC of 2.79, their price as of one day ago has been greater than 1, and their latest FY Net Debt is less than 0 million. I believe that due to the criteria and the Proforma, Virgin America is financially a solid company.

Ownership

54) Ownership Type	10/23/16	Curr	Change
41) Hedge Fund Manager	36.71	36.55	-0.16
42) Holding Company	28.96	28.83	-0.13
43) Investment Advisor	28.34	28.19	-0.15
44) Individual	2.48	2.47	-0.01
45) Pension Fund	1.39	1.86	+0.47
46) Bank	1.25	1.24	-0.01
47) Insurance Company	0.63	0.63	0.00
48) Brokerage	0.11	0.11	0.00
49) Corporation	0.05	0.05	0.00

Important dates and Catalysts

Important dates and catalyst's for Virgin America is the possible upcoming merge with Alaska Airlines, possible launch of a shoe, and the extended seasonal flight prices.

For quite some time Alaska Air Group has been attempting to merge under an agreement where Alaska Air Group will acquire Virgin America. The deal has not been made and is going through regulations within the United States. I believe the deal will get done early 2017. If the acquisition goes through, this will allow the combined airline to fly into more destinations, increasing revenue and competition, and the acquisition will lead the combined airline company to becoming the 5th largest U.S airline. The deal will combine the two airlines that are both known for their low prices and outstanding service.

Outside of their normal services, Virgin America recently released news that they may be revealing a new shoe. The shoe will be hand crafted in Milan with

Italian white leather and feature mood-lighting, video display, USB compatible charging station, rechargeable battery pack, and Wi-Fi enabled hotspot. The proceeds will be donated to Soles4souls, a nonprofit charity's whose mission is distributing clothing and shoes to people of poverty. They currently have one pair bidding on EBay with bids exceeding \$10,000. The possibility of Virgin America releasing the shoe publicly has the potentially to definitely set the stock price in an upward trend.

Finally, Virgin America recently announced that they will be extending their seasonal promotion deals on the east coast into the winter season. With flights to Fort Lauderdale and Palm Springs. Flights starting at \$99 one way. I believe that this deal can potentially increase their revenue which is overall good for their finances and Virgin America as a whole.

Summary

In conclusion, I believe that Virgin America is a buy. Due to upcoming catalysts in 2017 and how they differentiate themselves from their competition. I believe that as they increase their travel destinations they will attract more customers which will in turn increase revenue. They are constantly updating their technological features to please their customers. As they move into 2017 I believe they will continue to grow in revenue and size, which will increase the value of Virgin America, leading to an increase in stock price. Overall Virgin America has done an exceptional job keeping up with their mission statement of making the customer travel experience enjoyable again.

Virgin America Inc. (VA)

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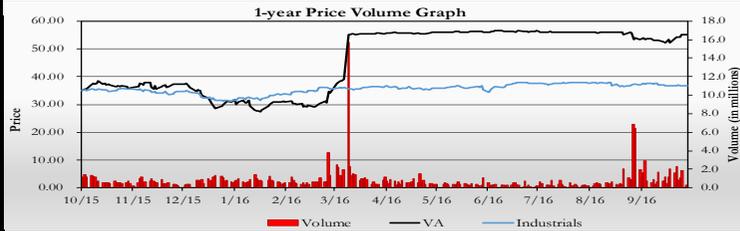
NEUTRAL

Analysis by Thomas Marano
10/27/2016

Current Price: \$54.45
Divident Yield: 0.0%

Intrinsic Value: \$14.63
Target Price: \$59.35

Target 1 year Return: 8.99%
Probability of Price Increase: 87.8%

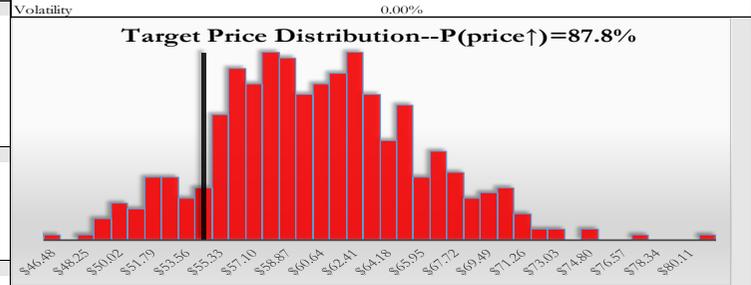


Description	
Virgin America Inc. provides scheduled air travel services.	
General Information	
Sector	Industrials
Industry	Airlines
Last Guidance	November 3, 2015
Next earnings date	November 5, 2016
Estimated Country Risk Premium	31.32%
Effective Tax rate	40%
Effective Operating Tax rate	19%

Market Data	
Market Capitalization	\$2,432.66
Daily volume (mil)	0.78
Shares outstanding (mil)	44.68
Diluted shares outstanding (mil)	44.58
% shares held by institutions	43%
% shares held by investments Managers	18%
% shares held by hedge funds	41%
% shares held by insiders	32.64%
Short interest	13.18%
Days to cover short interest	6.62
52 week high	\$56.54
52-week low	\$26.30
Levered Beta	1.00
Volatility	0.00%

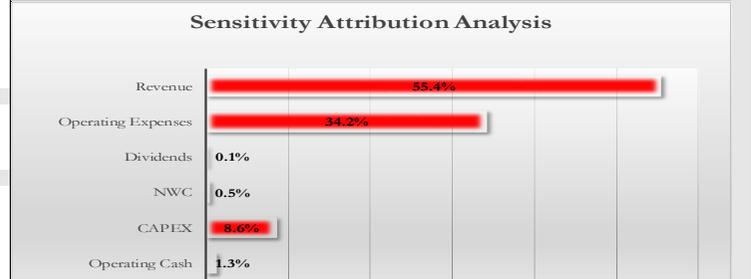
Past Earning Surprises	
Quarter ending	Revenue
6/30/2015	0.40%
9/30/2015	0.14%
12/31/2015	-0.89%
3/31/2016	0.06%
6/30/2016	-6.54%
Mean	-1.37%
Standard error	1.3%

EBITDA	
6/30/2015	-37.56%
9/30/2015	-38.18%
12/31/2015	-82.41%
3/31/2016	-51.94%
6/30/2016	-47.00%
Mean	-51.42%
Standard error	8.2%



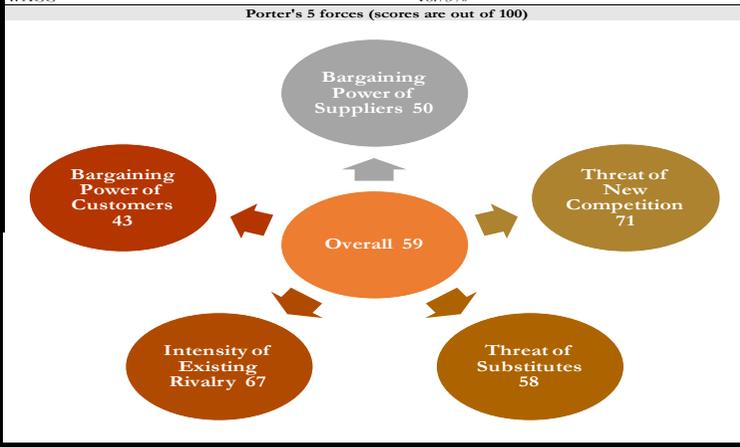
Management	
Cush, C.	Chief Executive Officer, Pre
Hunt, Peter	Chief Financial Officer and
Forte, Stephen	Chief Operating Officer and
Varley, John	Senior Vice President, Gener
Fiorillo, E.	Senior Vice President of Peo
Cookson, Dean	Chief Information Officer an

Total compensations growth	
71.33%	per annum over 2y
36.53%	per annum over 2y
29.48%	per annum over 1y
36.9%	per annum over 2y
34.06%	per annum over 2y
N/M	
N/M	



Profitability	
ROIC	10.1%
NOPAT Margin	14%
Revenue/Invested Capital	0.70
ROE	25.1%
Adjusted net margin	11%
Revenue/Adjusted Book Value	2.36
Invested Funds	
Total Cash/Total Capital	22.0%
Estimated Operating Cash/Total Capital	14.8%
Non-cash working Capital/Total Capital	-14.8%
Invested Capital/Total Capital	92.8%
Capital Structure	
Total Debt/Common Equity (LTM)	0.78
Cost of Existing Debt	5.99%
Estimated Cost of new Borrowing	6.08%
CGFS Risk Rating	D
Unlevered Beta (LTM)	0.60
WACC	18.73%

Total return to shareholders	
N/M	
N/M	
-16.74%	per annum over 1y
N/M	
N/M	
N/M	



Period	Revenue growth
Base Year	5.8%
6/30/2017	7.4%
6/30/2018	10.1%
6/30/2019	3.0%
6/30/2020	3.1%
6/30/2021	3.2%
6/30/2022	3.4%
6/30/2023	3.5%
6/30/2024	3.7%
6/30/2025	3.8%
6/30/2026	3.9%
Continuing Period	4.1%
Period	Invested Capital
Base Year	\$949.15
6/30/2017	\$1,247.82
6/30/2018	\$1,592.79
6/30/2019	\$2,069.04
6/30/2020	\$2,279.92
6/30/2021	\$2,535.19
6/30/2022	\$2,477.99
6/30/2023	\$2,819.43
6/30/2024	\$2,828.98
6/30/2025	\$2,774.48
6/30/2026	\$2,766.52
Continuing Period	

Valuation	
NOPAT margin	ROIC/WACC
5.8%	0.54
14.5%	0.62
17.8%	0.76
19.4%	0.62
17.6%	0.65
17.8%	0.70
18.2%	0.74
18.7%	0.79
19.2%	0.83
19.5%	0.88
19.9%	0.92
20.0%	0.87
20.4%	
20.8%	
Net Claims	Price per share
\$1,737.72	\$1.65
\$1,507.61	\$6.57
\$1,529.47	\$13.37
\$1,262.13	\$21.17
\$922.84	\$29.19
\$609.57	\$37.29
\$280.61	\$45.70
-\$66.24	\$54.45
-\$470.18	\$63.43
-\$851.25	\$72.56
-\$1,252.71	\$81.91