Siena Market Line
2nd Week of October 2016

Spirit Airlines, Inc.

NASDAQ:SAVE

Analyst: Kara Carman
Sector: Industrials

BUY

Price Target: $49.60

Key Statistics as of 10/13/2016

Market Price:	$43.58
Industry:	Airlines
Market Cap:	3.06B
52-Week Range:	32.73-53.53
Beta:	1.18

Catalysts:

- Initiatives to be more tactical on a seasonal basis and offering new routes
- Furthering un-bundled services with increased ancillary initiatives
- Investments in operational improvement

Company Description:

Spirit Airlines, Inc. (NASDAQ:SAVE) is an airline company headquartered in Miramar, Florida. Each day Spirit operates approximately 385 flights traveling to 56 destinations not only within the United States but also to locations in the Caribbean, Mexico, South America, and Latin America. As of December, 2015, Spirit had a fleet consisting of about 80 aircrafts. Spirit is known for its Ultra Low-Cost Carrier business model, which allows the organization to offer low, unbundled base fares in comparison to its competitors which include JetBlue Airways, Southwest Airlines, and American Airlines. The company's Bare Fare provides customers with a variety of options to customize their base ticket price to accommodate their needs.

Thesis

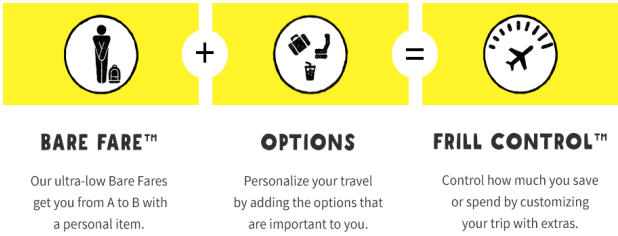
Spirit Airlines, Inc. is the best in class when it comes to ultra low-cost airlines. Not only does Spirit offer conscious travelers the lowest base fare possible, they have also managed to more than quadruple their earnings since they went public in 2011. Revenues from base fares alone have almost doubled over the past five years and non-ticket revenues have nearly tripled. Although the price of oil could potentially decrease, Spirit's operating expenses due to fuel was at its lowest since 2011 at the end of 2015, amounting to $461,447. Although operating costs have continuously increased since 2011, operating income was at an all-time high at the end of 2015. According to Mr. Botimer, at the end of Q2, Spirit is very positive about their operational performance and how over time it will yield cost benefit. Spirit has made recent investments in the company in order to produce better operational outcomes. Most recently, Spirit has begun initiatives to expand its market reach. Not only is Spirit scheduled to fly to Havana, Cuba starting December 1st, the company intends to take full advantage of seasonal travelers and the markets they create. Because Spirit tends to look for high demand markets, the company plans to launch initiatives to take advantage of seasonal valleys to maximize peak travel periods and base their services on where the highest demand markets are at any given point. On top of maximizing peak seasons, Spirit has also announced multiple new routes scheduled to begin throughout the rest of this current.

Industry Outlook

In the U.S. alone, airlines transport about 2 million passengers every day. In 2015 the airlines industry experienced a flourishing year, primarily due to the decrease of oil prices. Last year the airline industry experienced an all-time-high profit of $33 billion. However, in the event of an abrupt increase in oil prices airlines could face a major loss. Because Spirit is increasingly broadening their markets, they will be less susceptible to negative impacts such as the increase in oil prices. That being said, currently jet fuel price per barrel has been increasing gradually since January 2016. All airlines are affected by lag months, due in large part to seasonal travelers and school vacation times. Because of Spirit's new initiatives to maximize peak travel according to seasonal trends, they are in a great position to outperform their competitors. One recent issue that could potentially negatively affect the airline industry as a whole, is the increase of terrorism across the globe. If people aren't willing to travel, the demand for flying would decrease across the board, therefore affecting all airline companies.

Business Model

By unbundling services such as checked luggage, soft beverages, and advanced seat selection, Spirit is able to achieve an ultra low-cost carrier, or ULCC, business model. Spirit charges for traditional airline services separately, therefore they are able to offer an airline ticket with a cheaper base price than that of its competitors. Aside from the base price, everything is recorded as non-ticket revenue. Price-conscious customers or travelers paying for their ticket out of their own pocket are very attracted Spirit's "Bare Fares." Not only does this model offer customers a low base fare, they also have the flexibility to upgrade to optional services that they find more valuable. Spirit's ULCC business model is driven by their low cost structure that allows them to maintain high profit margins while offering travelers favorable base fares.



People

Robert L. Fornaro was appointed to CEO of Spirit Airlines on January 5, 2016, replacing Ben B. Baldanza. Prior to being elected to the Board of Directors of Spirit Airlines in May, 2014, Fornaro was the chairman, president, and CEO of AirTran Holdings, Inc. and its subsidiary, AirTran Airways. In May, 2011 AirTran merged with Southwest Airlines and Fornaro sat on the integration board. Prior to joining AirTran in 1999 as president and CFO, Fornaro had decades of experience with marketing planning, international alliances, airline partner relationships, route planning, pricing and revenue management, and overall corporate strategy during his years as Trans World Airlines, Braniff, Inc.,

Northwest Airlines, and US Airways. Top management at Spirit commented about the continuous approach to meet mutually beneficial contracts with pilots and flight attendants. In doing so, Spirit not only keeps their employees happy, but they also can ensure efficient productivity.

Porters Five Forces

Bargaining Power of Suppliers: **Medium/High** (63)
Spirit is eminently dependent on suppliers. Its primary supplier is Airbus. If manufacturing costs or raw material costs increase for Airbus, the costs of the airplanes are essentially going to rise. Other suppliers include oil and maintenance companies.

Bargaining Power of Customers: **Medium** (57)
Customers have a fairly large bargaining power when it comes to the airline industry. Price conscious customers seek an airline offering the lowest ticket price. Because of their ULCC business model, Spirit can offer customers a very low ticket price which creates a competitive advantage.

Threat of Substitutes: **Medium** (58)
In the airline industry, there are a lot of substitutes because there are so many different airlines offering different services, destinations and prices. Spirit's increase in destinations and its Bare Fare offer customers with a variety of services.

Intensity of Existing Rivalry: **Medium** (42)
Currently, Spirit's existing rivalry is medium. There are not many airlines with a similar ultra low-cost business model and the ones that do exist do not match Spirit's fares as aggressively as they probably could.

Threat of New Competition: **Medium** (58)
Entering the airline industry would be rather difficult starting from scratch, therefore Spirit doesn't face any immediate threat. However, an existing airline could modify their cost structure and business model in order to match that of Spirit's which would create a reasonable threat.

Product Differentiation

Other airlines, such as Southwest, advertise "free bags" but have already included the cost of checked luggage in the total ticket price. However, Spirit offers a low, favorable base fare that is attractive to price sensitive customers. Customers have the ability to pay for additional ancillary services as they deem necessary. Spirit's low base fares help increase passenger volume and other factors such as non-ticket revenue on each flight they operate. Not only is the ULCC model different relative to competitors, Spirit operates aircrafts with high density. As a part of their "Plane Simple" strategy, the high-density seating configuration paired with a simplified onboard product, helps achieve lowers costs. On top of this, Spirit operates a "Fit Fleet," the youngest fleet of any major U.S. airline, made up of all Airbus aircrafts.

Corporate Responsibility

Robert Fornaro has been addressing Spirit's corporate responsibility since he first became CEO in January of this year. Fornaro's immediate focus was and has continued to be transparency. As an ultra low-cost carrier, Fornaro and other top management, find it crucial that each customer is fully aware of what they are paying for and the services that come along with it. Spirit is planning on launching a website redesign in Q4 of this year. In hopes of improving merchandising and non-ticket revenue, Fornaro also plans to maintain transparency, ensuring customers know what each ancillary service costs.

Financials

For Q2 2016 Spirit's total operating revenue increased 5.5% compared to Q2 2015, and was $584.1. This is primarily attributed to the increase in flight volume and a decrease in operating yields. The adjusted operating margin for Q2 was 22.3%. Compared to Q2 2015, airline fuel expense decreased by $14.7 million. However, Spirit offset the decrease in fuel expenses with an increase in fuel gallons consumed. Operating expenses increased by 4.5% on a capacity increase of 23.1% year over year. Spirit is expanding their capacity by entering new markets and broadening their array of services and at the same time, they are managing operating costs. Due to the increased mix of leased and purchased aircraft, Spirit has been able to decrease cost per available seat mile (ASM). CFO, Ted Christie, believes that investments in new aircrafts, whether they're purchased or leased, and drives operational improvement allowing Spirit to maintain its ultra-low

unit costs. For Q2 Spirit's return on invested capital was 27.6% and its WACC was 5.79%. Spirit's ROIC/WACC is greater than 1 which suggests the value is being created. Value creation is a sign that a company has a promising future and can continue to grow while generating profit.

Important Dates and Catalysts

Spirit announced more 14 new services that will be starting on October 30, 2016. A major one to look out for is Havana, Cuba which is intended to start on December 1st. Revenues will see an increase after the start of each new service between now and early 2017.

Initiatives regarding ancillary services, such as checked luggage and seat preference, are expected to be rolled out towards the end of Q4. Benefits from these initiatives are expected to be seen in 2017. The website redesign, intended to improve merchandising, is expected to launch during Q4.

Summary

Spirit is a company with competitive advantage over others in the industry. No other airline offers a Bare Fare, allowing passengers to have complete Frill Control. Other airlines generate revenue by baking services such as checked baggage, complimentary beverages, and seat assignments into their ticket prices.

On top of that, Spirit is broadening and expanding its array of services and destinations which creates even more opportunity for growth. With its seasonal initiative, Spirit will capitalize on seasonal valleys, generating the highest possible revenue. Spirit's operational improvements further strengthens its competitive advantage. With new initiatives, such as ancillary services, along with its competitive advantage, Spirit's revenues are destined to increase, driving the stock price upwards.

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2nd Week of October 2016

Spirit Airlines, Inc. (SAVE)

CENTER FOR GLOBAL FINANCIAL STUDIES

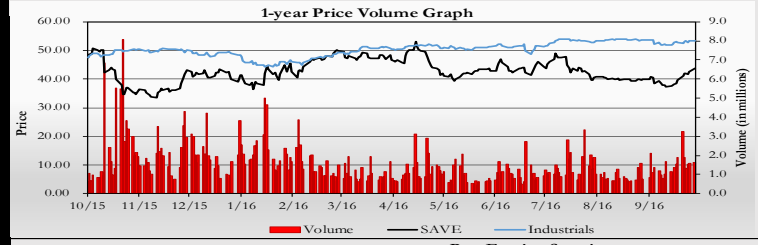
NEUTRAL

Analysis by Kara Carman
10/13/2016

Current Price:	$42.99	Intrinsic Value	$41.35
Divident Yield:	0.0%	Target Price	$49.60

Target 1 year Return: 15.38%
Probability of Price Increase: 87.6%

1-year Price Volume Graph



Description

Spirit Airlines, Inc. provides low-fare airline services.

General Information

Sector	Industrials
Industry	Airlines
Last Guidance	November 3, 2015
Next earnings date	October 27, 2016
Estimated Country Risk Premium	6.79%
Effective Tax rate	39%
Effective Operating Tax rate	34%

Market Data

Market Capitalization	$3,022.10
Daily volume (mil)	0.65
Shares outstanding (mil)	70.02
Diluted shares outstanding (mil)	71.56
% shares held by institutions	75%
% shares held by investments Managers	90%
% shares held by hedge funds	9%
% shares held by insiders	0.36%
Short interest	5.74%
Days to cover short interest	3.13
52 week high	$53.53
52-week low	$32.73
Levered Beta	0.90
Volatility	39.60%

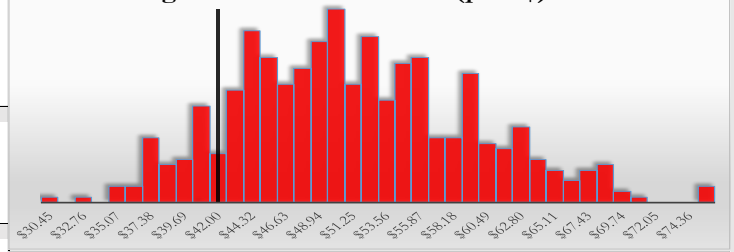
Past Earning Surprises

Quarter ending	Revenue	EBITDA
6/30/2015	-0.16%	-25.75%
9/30/2015	0.13%	-22.65%
12/31/2015	-0.30%	-25.56%
3/31/2016	0.01%	-22.16%
6/30/2016	-1.20%	-24.24%
Mean	-0.30%	-24.07%
Standard error	0.2%	0.7%

Peers

Virgin America Inc.
Hawaiian Holdings Inc.
JetBlue Airways Corporation
Allegiant Travel Company
Copa Holdings SA
Alaska Air Group, Inc.
Southwest Airlines Co.
SkyWest Inc.

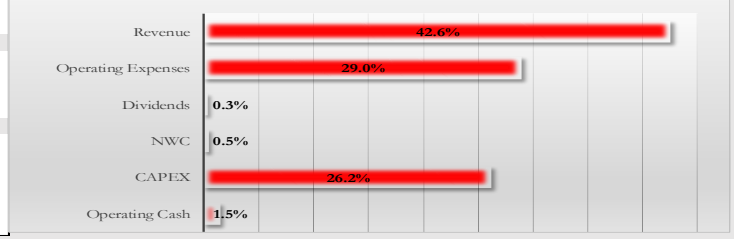
Target Price Distribution--P(price↑)=87.6%



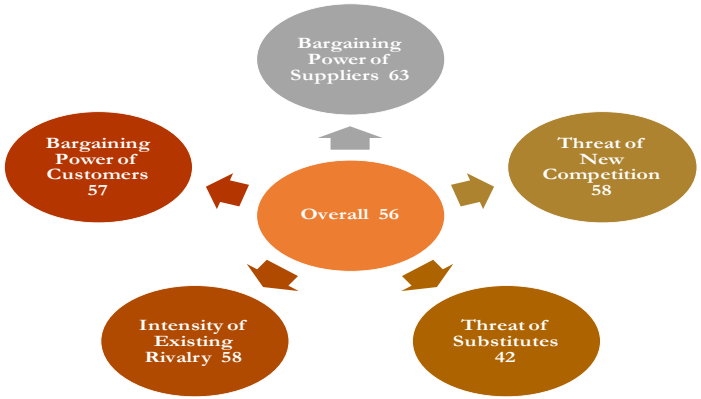
Management	Position	Total compensations growth	Total return to shareholders
Fornaro, Robert	Chief Executive Officer, Pre	56.43% per annum over 1y	-47.27% per annum over 1y
Christie, Edward	Chief Financial Officer and	-34.48% per annum over 3y	33.87% per annum over 3y
Bendoraitis, John	Chief Operating Officer and	-35.55% per annum over 2y	-6.32% per annum over 2y
Canfield, Thomas	Senior Vice President, Gener	15.22% per annum over 5y	N/M
Miranda, Edmundo	Principal Accounting Officer	N/M	N/M
Wiggins, Rocky	Chief Information Officer an	N/M	N/M

Profitability	SAVE (LTM)	SAVE (5 years historical average)	Industry (LTM)
ROIC	14.6%	22.75%	21.31%
NOPAT Margin	28%	25.59%	11.9%
Revenue/Invested Capital	0.51	0.89	1.80
ROE	29.3%	49.12%	29.88%
Adjusted net margin	26%	24.14%	11.3%
Revenue/Adjusted Book Value	1.13	2.03	2.64
Invested Funds	**SAVE (LTM)**	**SAVE (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	19.7%	19.9%	29%
Estimated Operating Cash/Total Capital	14.5%	12.1%	N/A
Non-cash working Capital/Total Capital	-7.0%	-6.8%	-46%
Invested Capital/Total Capital	94.9%	92.3%	100%
Capital Structure	**SAVE (LTM)**	**SAVE (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	0.91	0.63	0.46
Cost of Existing Debt	4.42%	3.28%	4.20%
Estimated Cost of new Borrowing	4.16%	3.33%	4.20%
CGFS Risk Rating	B	BBB	BB
Unlevered Beta (LTM)	0.59	1.01	0.67
WACC	6.74%	8.47%	7.66%

Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	8.6%	28.5%	2.17
6/30/2017	10.1%	26.0%	1.94
6/30/2018	15.6%	25.8%	2.01
6/30/2019	7.5%	24.7%	1.77
6/30/2020	7.1%	23.7%	1.57
6/30/2021	6.6%	22.9%	1.45
6/30/2022	6.2%	22.0%	1.34
6/30/2023	5.8%	21.2%	1.24
6/30/2024	5.3%	20.3%	1.14
6/30/2025	4.9%	19.5%	1.05
6/30/2026	4.5%	18.8%	0.98
Continuing Period	4.1%	17.9%	0.89

Period	Invested Capital	Net Claims	Price per share
Base Year	$1,479.66	$2,648.41	$40.09
6/30/2017	$1,634.85	$2,139.36	$48.12
6/30/2018	$2,128.69	$1,817.45	$56.67
6/30/2019	$2,826.95	$1,487.68	$65.75
6/30/2020	$4,319.56	$993.35	$75.34
6/30/2021	$4,878.73	$477.22	$85.37
6/30/2022	$5,209.01	-$57.44	$95.85
6/30/2023	$5,839.81	-$610.05	$106.80
6/30/2024	$6,483.23	-$1,179.06	$118.29
6/30/2025	$6,977.90	-$1,762.23	$130.35
6/30/2026	$7,472.66	-$2,292.43	$143.06
Continuing Period			