Brand Finance®

Airlines 50 2017

The annual report on the world's most valuable airline brands

February 2017

Foreword

David Haigh, CEO, Brand Finance

What is the purpose of a strong brand; to attract customers, to build loyalty, to motivate staff? All true, but for a commercial brand at least, the first answer must always be ‘to make money’.

Huge investments are made in the design, launch and ongoing promotion of brands. Given their potential financial value, this makes sense. Unfortunately, most organisations fail to go beyond that, missing huge opportunities to effectively make use of what are often their most important assets. Monitoring of brand performance should be the next step, but is often sporadic. Where it does take place it frequently lacks financial rigour and is heavily reliant on qualitative measures poorly understood by non-marketers.

As a result, marketing teams struggle to communicate the value of their work and boards then underestimate the significance of their brands to the business. Skeptical finance teams, unconvinced by what they perceive as marketing mumbo jumbo may fail to agree necessary investments. What marketing spend there is can end up poorly directed as marketers are left to operate with insufficient financial guidance or accountability. The end result can be a slow but steady downward spiral of poor communication, wasted resources and a negative impact on the bottom line.

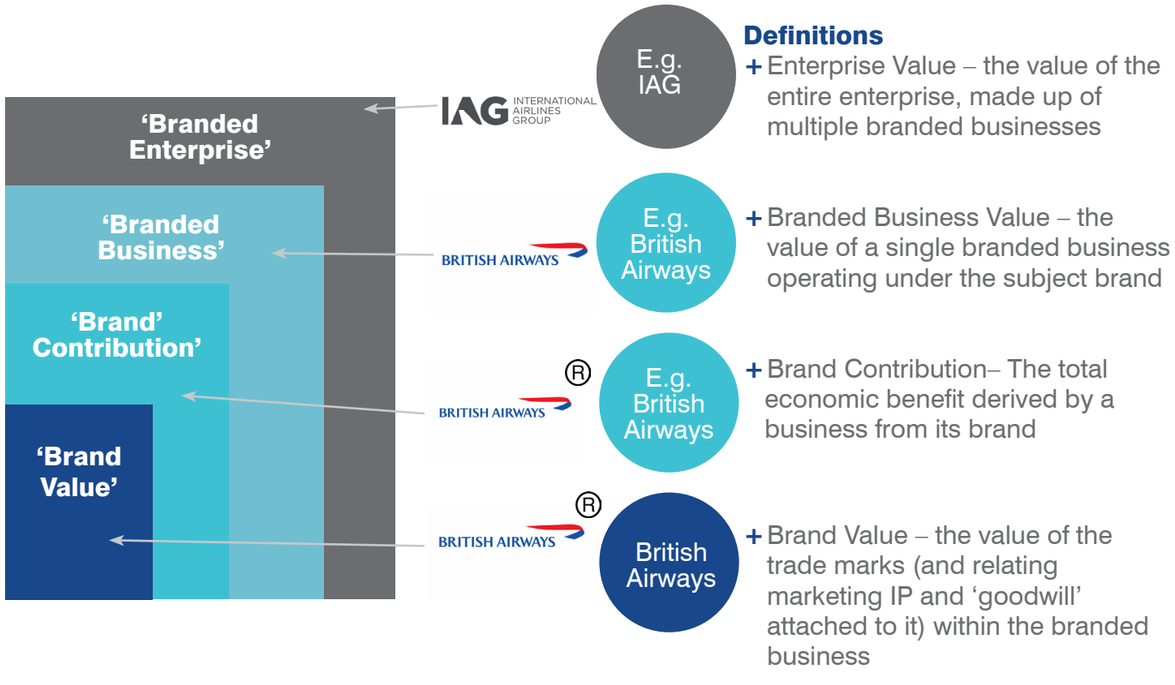
Brand Finance bridges the gap between the marketing and financial worlds. Our teams have experience across a wide range of disciplines from market research and visual identity to tax and accounting. We understand the importance of design, advertising and marketing, but we also believe that the ultimate and overriding purpose of brands is to make money. That is why we connect brands to the bottom line.

By valuing brands, we provide a mutually intelligible language for marketers and finance teams. Marketers then have the ability to communicate the significance of what they do and boards can use the information to chart a course that maximises profits.
Without knowing the precise, financial value of an asset, how can you know if you are maximising your returns? If you are intending to license a brand, how can you know you are getting a fair price? If you are intending to sell, how do you know what the right time is? How do you decide which brands to discontinue, whether to rebrand and how to arrange your brand architecture? Brand Finance has conducted thousands of brand and branded business valuations to help answer these questions.

Brand Finance’s recently conducted share price study revealed the compelling link between strong brands and stock market performance. It was found that investing in the most highly branded companies would lead to a return almost double that of the average for the S&P 500 as a whole.
Acknowledging and managing a company’s intangible assets taps into the hidden value that lies within it. The following report is a first step to understanding more about brands, how to value them and how to use that information to benefit the business. The team and I look forward to continuing the conversation with you.

Contents

Definitions



Definitions

+ Enterprise Value – the value of the entire enterprise, made up of multiple branded businesses

+ Branded Business Value – the value of a single branded business operating under the subject brand

+ Brand Contribution– The total economic benefit derived by a business from its brand

+ Brand Value – the value of the trade marks (and relating marketing IP and 'goodwill' attached to it) within the branded business

Branded Business Value

A brand should be viewed in the context of the business in which it operates. For this reason Brand Finance always conducts a Branded Business Valuation as part of any brand valuation. Where a company has a purely mono-branded architecture, the business value is the same as the overall company value or 'enterprise value'.

In the more usual situation where a company owns multiple brands, business value refers to the value of the assets and revenue stream of the business line attached to that brand specifically. We evaluate the full brand value chain in order to understand the links between marketing investment, brand tracking data, stakeholder behaviour and business value to maximise the returns business owners can obtain from their brands.

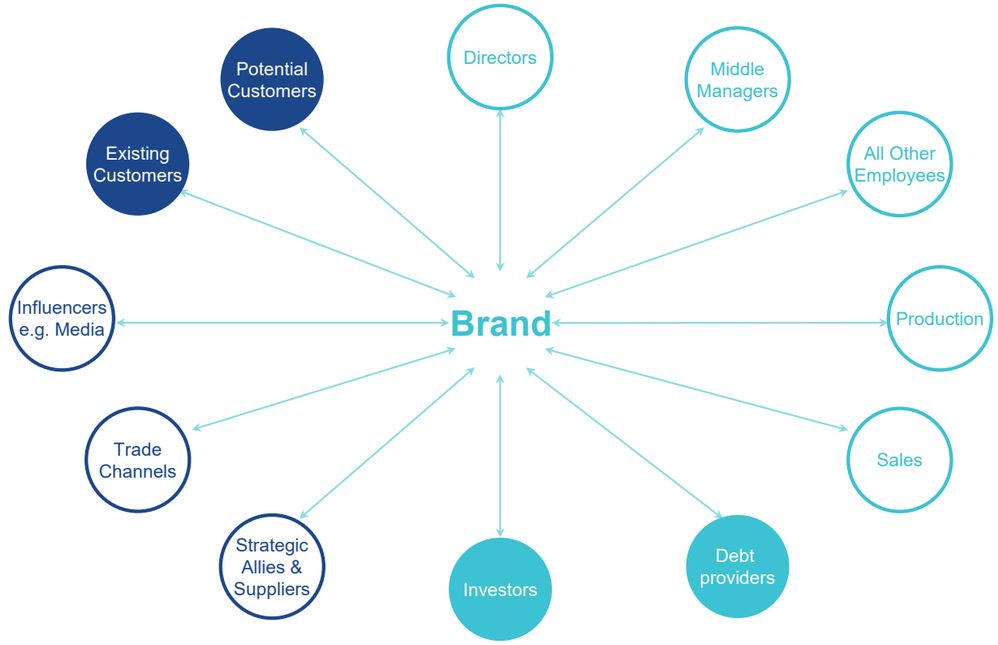
Brand Contribution

The brand values contained in our league tables are those of the potentially transferable brand asset only, but for marketers and managers alike. An assessment of overall brand contribution to a business provides powerful insights to help optimise performance.

Brand Contribution represents the overall uplift in shareholder value that the business derives from owning the brand rather than operating a generic brand.

Brands affect a variety of stakeholders, not just customers but also staff, strategic partners, regulators, investors and more, having a significant impact on financial value beyond what can be bought or sold in a transaction.

Effect of a Brand on Stakeholders



Brand Value

In the very broadest sense, a brand is the focus for all the expectations and opinions held by customers, staff and other stakeholders about an organisation and its products and services. However, when looking at brands as business assets that can be bought, sold and licensed, a more technical definition is required.

Brand Finance helped to craft the internationally recognised standard on Brand Valuation, ISO 10668. That defines a brand as "a marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos and designs, or a combination of these, intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/value".

Brand Strength

Brand Strength is the part of our analysis most directly and easily influenced by those responsible for marketing and brand management. In order to determine the strength of a brand we have developed the Brand Strength Index (BSI). We analyse marketing investment, brand equity (the goodwill accumulated with customers, staff and other stakeholders) and finally the impact of those on business performance.

Following this analysis, each brand is assigned a BSI score out of 100, which is fed into the brand value calculation. Based on the score, each brand in the league table is assigned a rating between AAA+ and D in a format similar to a credit rating. AAA+ brands are exceptionally strong and well managed while a failing brand would be assigned a D grade.

Methodology

League Table Valuation Methodology

Brand Finance calculates the values of the brands in its league tables using the 'Royalty Relief approach'. This approach involves estimating the likely future sales that are attributable to a brand and calculating a royalty rate that would be charged for the use of the brand, i.e. what the owner would have to pay for the use of the brand—assuming it were not already owned.

The steps in this process are as follows:

1 Calculate brand strength on a scale of 0 to 100 based on a number of attributes such as emotional connection, financial performance and sustainability, among others. This score is known as the Brand Strength Index, and is calculated using brand data from the BrandAsset® Valuator database, the world's largest database of brands, which measures brand equity, consideration and emotional imagery attributes to assess brand personality in a category agnostic manner.

2 Determine the royalty rate range for the respective brand sectors. This is done by reviewing comparable licensing agreements sourced from Brand Finance's extensive database of license agreements and other online databases.

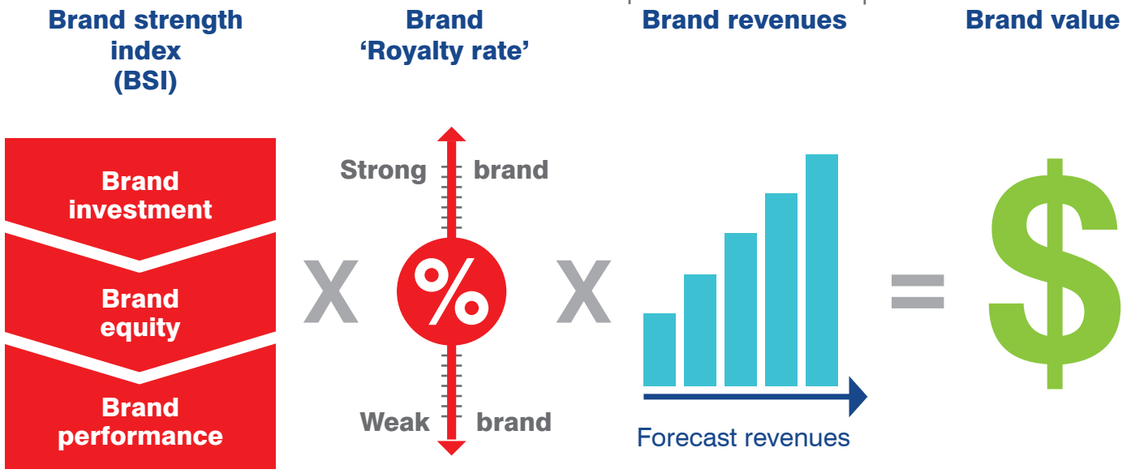
3 Calculate royalty rate. The brand strength score is applied to the royalty rate range to arrive at a royalty rate. For example, if the royalty rate range in a brand's sector is 0-5% and a brand has a brand strength score of 80 out of 100, then an appropriate royalty rate for the use of this brand in the given sector will be 4%.

4 Determine brand specific revenues estimating a proportion of parent company revenues attributable to a specific brand.

5 Determine forecast brand specific revenues using a function of historic revenues, equity analyst forecasts and economic growth rates.

6 Apply the royalty rate to the forecast revenues to derive brand revenues.

7 Brand revenues are discounted post tax to a net present value which equals the brand value.



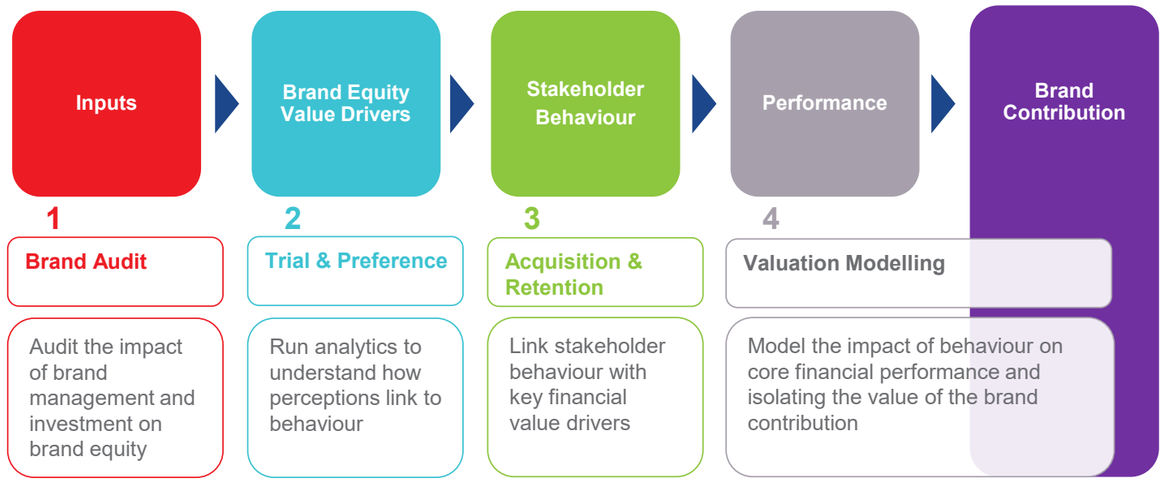
Brand strength expressed as a BSI score out of 100.

BSI score applied to an appropriate sector royalty rate range.

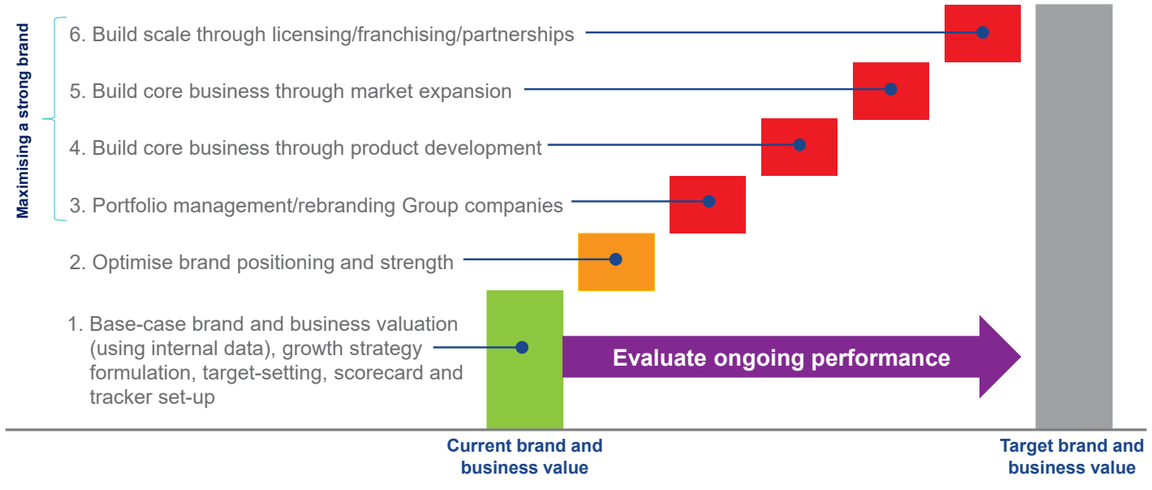
Royalty rate applied to forecast revenues to derive brand values.

Post-tax brand revenues are discounted to a net present value (NPV) which equals the brand value.

Brand Finance Typical Project Approach



How We Help to Maximise Value



Executive Summary

Airlines 50

Aeroflot is the world's most powerful airline brand, with an AAA brand rating. The news may come as a surprise to those in Europe and North America more familiar with Western or Gulf flag carriers. Aeroflot's brand strength stems in part from dominance of its domestic market.

Its brand equity scores for metrics such as familiarity, consideration, preference and loyalty are formidable, both when compared against other Russian airlines and against foreign ones within their home markets. This is all the more impressive given that there are no air routes for which Aeroflot has exclusive access, demonstrating that its strength is underpinned by competitive advantage rather than monopoly.

Investment in the brand, which lays the foundations for future resilience and growth, is another key component of brand strength in which Aeroflot excels. It has the youngest fleet of any major airline and is investing heavily in marketing promotion, particularly in Asia. This is reinforced by its sponsorship of Manchester United (the world's most valuable football brand), which helps Aeroflot reach a vast audience across East Asia in particular. The approach is clearly paying off; this year Moscow overtook Dubai as the top hub for travel between China and Europe.

For the last five years, Emirates had held the title of world's most valuable airline brand, but 2017 sees a dramatic shift. Last year, Emirates' half-year profits plunged 75%. The lower oil price might have been expected to help all airlines, however it has worked against the Gulf carriers, reducing demand from its home region. The lower oil price has also levelled the playing field for international rivals, leading to increased competition, driving down fares. The discount rate applied to all Gulf airlines has increased in tandem with this less favourable environment, reducing long term value.

American Airlines

1 Rank 2017: **1** 2016: **3** ↑
BV 2017: **$ 9,811m** +59%
BV 2016: **$ 6,156m**
Brand Rating: **AAA**

DELTA

2 Rank 2017: **2** 2016: **2** ←
BV 2017: **$ 9,232m** +47%
BV 2016: **$ 6,301m**
Brand Rating: **AAA**

UNITED

3 Rank 2017: **3** 2016: **5** ↑
BV 2017: **$ 7,161m** +60%
BV 2016: **$ 4,474m**
Brand Rating: **AAA-**

Emirates

4 Rank 2017: **4** 2016: **1** ↓
BV 2017: **$ 6,082m** -21%
BV 2016: **$ 7,743m**
Brand Rating: **AAA**

Southwest

5 Rank 2017: **5** 2016: **8** ↑
BV 2017: **$ 6,001m** +63%
BV 2016: **$ 3,679m**
Brand Rating: **AAA**

CHINA SOUTHERN AIRLINES

6 Rank 2017: **6** 2016: **6** ←
BV 2017: **$ 4,475m** +2%
BV 2016: **$ 4,388m**
Brand Rating: **AAA**

中國東方航空 CHINA EASTERN

7 Rank 2017: **7** 2016: **10** ↑
BV 2017: **$ 3,920m** +14%
BV 2016: **$ 3,436m**
Brand Rating: **AAA-**

AIR CHINA 中國國際航空公司

8 Rank 2017: **8** 2016: **7** ↓
BV 2017: **$ 3,865m** -7%
BV 2016: **$ 4,154m**
Brand Rating: **AAA-**

BRITISH AIRWAYS

9 Rank 2017: **9** 2016: **4** ↓
BV 2017: **$ 3,708m** -20%
BV 2016: **$ 4,621m**
Brand Rating: **AA+**

ANA

10 Rank 2017: **10** 2016:**15** ↑
BV 2017: **$ 2,586m** +43%
BV 2016: **$ 1,805m**
Brand Rating: **AAA-**

Finally, the strength of the dollar has increased operating costs and also had a negative FX impact on all non-US domiciled brands.

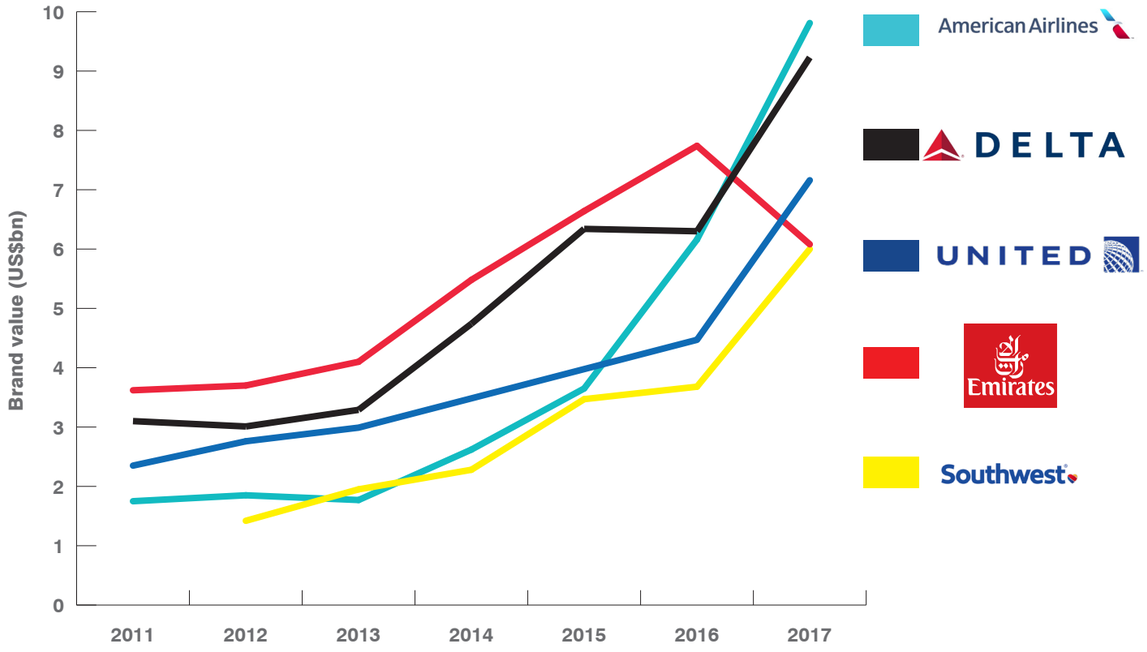
As a consequence, Emirates' brand value is down 21% to US$6.1 billion, Etihad's value is flat (staying at US$1.56bn) while Qatar Airways has been most strongly affected, with brand value falling 38% from 2016 to US$2.16bn. Despite these brand value falls, brand strength has not been affected. Etihad and Qatar Airways retain their AA and AA+ brand ratings while Emirates continues to challenge for the title of world's strongest airline brand, with a AAA rating underpinned by a score just below that of Aeroflot.

Meanwhile, all US airlines have soared in value. The average year to year growth rate of the seven US brands in the table is 68%. The challenges that the Gulf carriers have faced have been to the advantage of America's major airlines. The lower oil price and a rebounding US economy see United, Delta and American all overtake Emirates with 60%, 47% and 59% growth respectively. With a brand value of US$9.8 billion, American is now the world's most valuable airline brand for the first time since 2007.

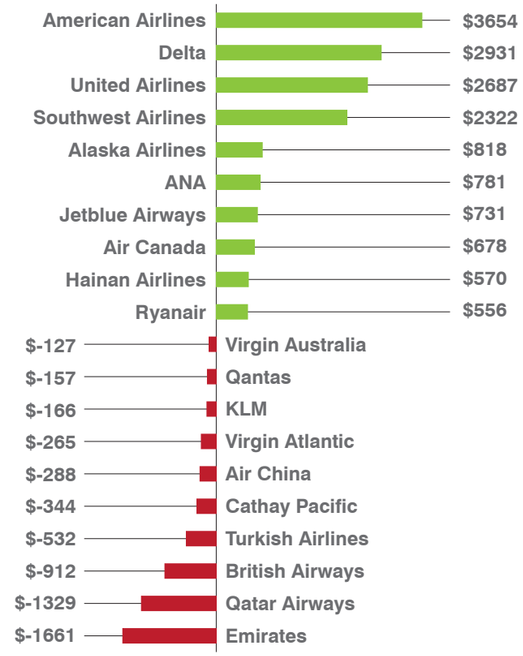
A broader trend observed amongst airlines brands is the convergence between low cost and full service carriers. For example, Ryanair has attempted to soften its reputation for indifference to customers while at the other end of the scale BA has decided to stop serving food on short haul flights. This suggests that a centrist brand positioning is starting to be have significant appeal for customers and may be replicated more broadly.

Executive Summary

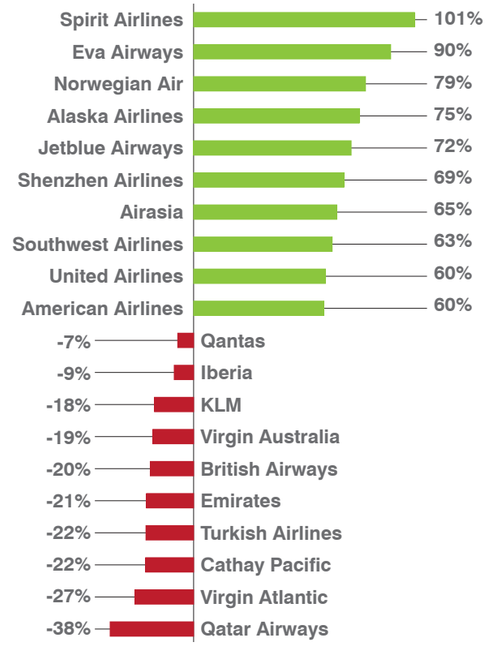
Brand Value Over Time



Brand Value Change 2016-2017 (USDm)



Brand Value Change 2016-2017 (%)

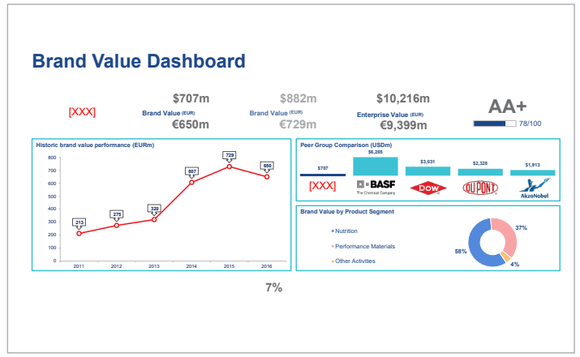


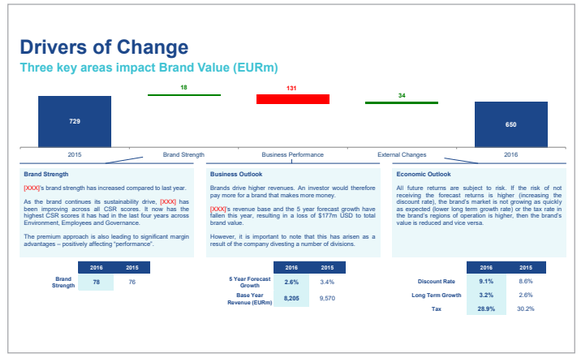
Brand Finance Airlines 50 (USDm)

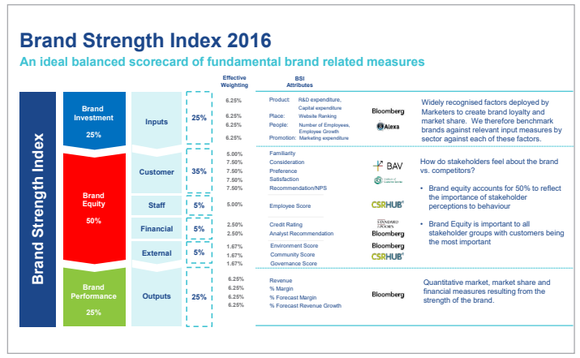
Top 50 most valuable airline brands 1 - 50.

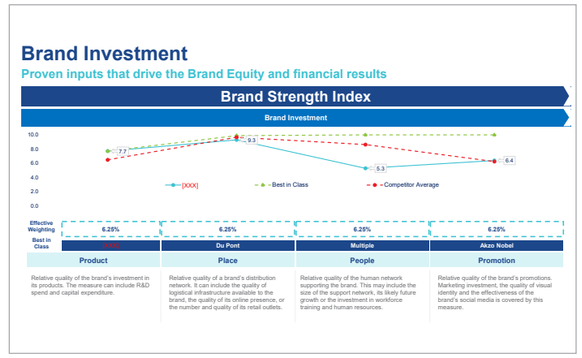
Rank 2017	Rank 2016	Brand name	Domicile	Brand value (USDm) 2017	% change	Brand value(USDm) 2016	Brand rating 2017	Brand rating 2016
1	3	American Airlines	United States	9,811	59%	6,156	AAA	AAA-
2	2	Delta	United States	9,232	47%	6,301	AAA	AAA-
3	5	United Airlines	United States	7,161	60%	4,474	AAA-	AA
4	1	Emirates	Uae	6,082	-21%	7,743	AAA	AAA
5	8	Southwest Airlines	United States	6,001	63%	3,679	AAA	AAA-
6	6	China Southern	China	4,475	2%	4,388	AAA	AAA-
7	10	China Eastern	China	3,920	14%	3,436	AAA-	AA
8	7	Air China	China	3,865	-7%	4,154	AAA-	AAA-
9	4	British Airways	United Kingdom	3,708	-20%	4,621	AA+	AAA-
10	15	ANA	Japan	2,586	43%	1,805	AAA-	AA-
11	14	Lufthansa						
12	9	Qatar Airways						
13	12	Qantas						
14	13	Japan Airlines						
15	20	Air Canada						
16	11	Turkish Airlines						
17	25	Alaska Airlines						
18	26	Jetblue Airways						
19	21	Easyjet						
20	23	Hainan Airlines						
21	22	Ryanair						
22	16	Singapore Airlines						
23	18	Etihad Airways						
24	19	Air France						
25	24	Korean Air Lines						
26	29	Aeroflot						
27	17	Cathay Pacific						
28	32	Thai Airways						
29	New	LATAM						
30	41	Shenzhen Airlines						
31	44	Norwegian Air						
32	48	Spirit Airlines						
33	39	Westjet Airlines						
34	36	Air New Zealand						
35	31	Iberia						
36	New	Eva Airways						
37	28	KLM						
38	27	Virgin Atlantic						
39	34	Saudia						
40	35	Asiana Airlines						
41	37	Garuda Indonesia						
42	New	Juneyao Airlines						
43	50	China Airlines						
44	33	Virgin Australia						
45	49	Aeromexico						
46	New	Airasia						
47	43	Swiss						
48	New	Jetstar						
49	47	Scandinavian Airlines						
50	45	Avianca						

Understand Your Brand's Value









A Brand Value Report provides a complete breakdown of the assumptions, data sources and calculations used to arrive at your brand's value. Each report includes expert recommendations for growing brand value to drive business performance and offers a cost-effective way to gaining a better understanding of your position against competitors. It includes:

Brand Valuation Summary

+ Internal understanding of brand
+ Brand value tracking
+ Competitor benchmarking
+ Historical brand value

Brand Strength Index

+ Brand strength tracking
+ Brand strength analysis
+ Management KPI's
+ Competitor benchmarking

Royalty Rates

+ Transfer pricing
+ Licensing/ franchising negotiation
+ International licensing
+ Competitor benchmarking

Cost of Capital

+ Independent view of cost of capital for internal valuations and project appraisal exercises

Trademark Audit

+ Highlight unprotected marks
+ Spot potential infringement
+ Trademark registration strategy

For more information regarding our League Table Reports, please contact:

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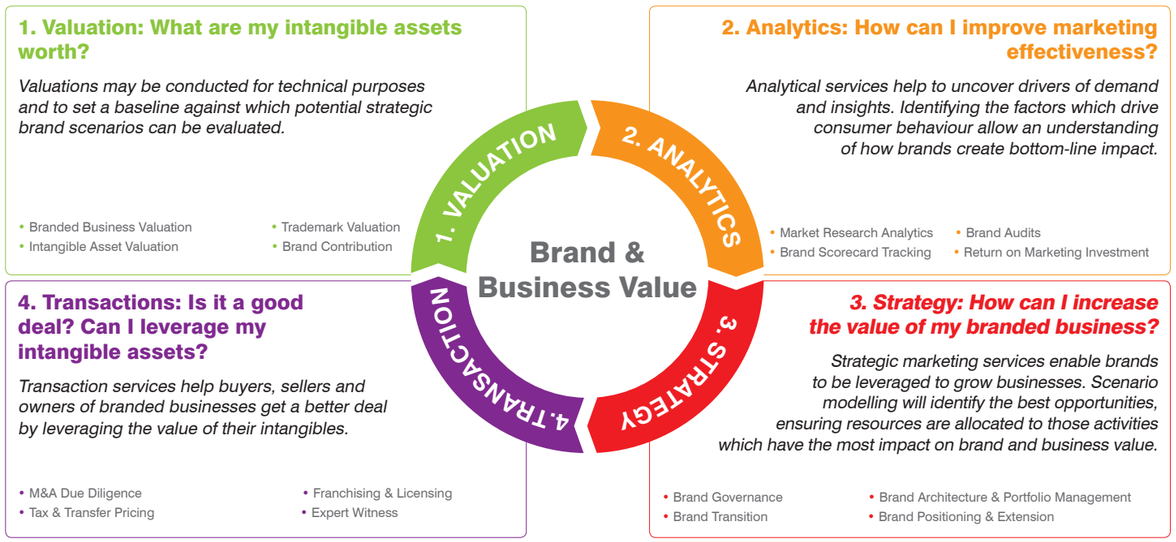
How we can help



MARKETING

We help marketers to connect their brands to business performance by evaluating the return on investment (ROI) of brand based decisions and strategies.

+ Branded Business Valuation
+ Brand Contribution
+ Trademark Valuation
+ Intangible Asset Valuation
+ Brand Audit
+ Market Research Analytics
+ Brand Scorecard Tracking
+ Return on Marketing Investment
+ Brand Transition
+ Brand Governance
+ Brand Architecture & Portfolio Management
+ Brand Positioning & Extension
+ Franchising & Licensing

FINANCE

We provide financiers and auditors with an independent assessment on all forms of brand and intangible asset valuations.

+ Branded Business Valuation
+ Brand Contribution
+ Trademark Valuation
+ Intangible Asset Valuation
+ Brand Audit
+ Market Research Analytics
+ Brand Scorecard Tracking
+ Return on Marketing Investment
+ Brand Transition
+ Brand Governance
+ Brand Architecture & Portfolio Management
+ Brand Positioning & Extension
+ Mergers, Acquisitions and Finance Raising Due Diligence
+ Franchising & Licensing
+ Tax & Transfer Pricing
+ Expert Witness

TAX

We help brand owners and fiscal authorities to understand the implications of different tax, transfer pricing and brand ownership arrangements.

+ Branded Business Valuation
+ Brand Contribution
+ Trademark Valuation
+ Intangible Asset Valuation
+ Brand Audit
+ Market Research Analytics
+ Franchising & Licensing
+ Tax & Transfer Pricing
+ Expert Witness

LEGAL

We help clients to enforce and exploit their intellectual property rights by providing independent expert advice in- and outside of the courtroom.

+ Branded Business Valuation
+ Brand Contribution
+ Trademark Valuation
+ Intangible Asset Valuation
+ Brand Audit
+ Tax & Transfer Pricing
+ Expert Witness

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