



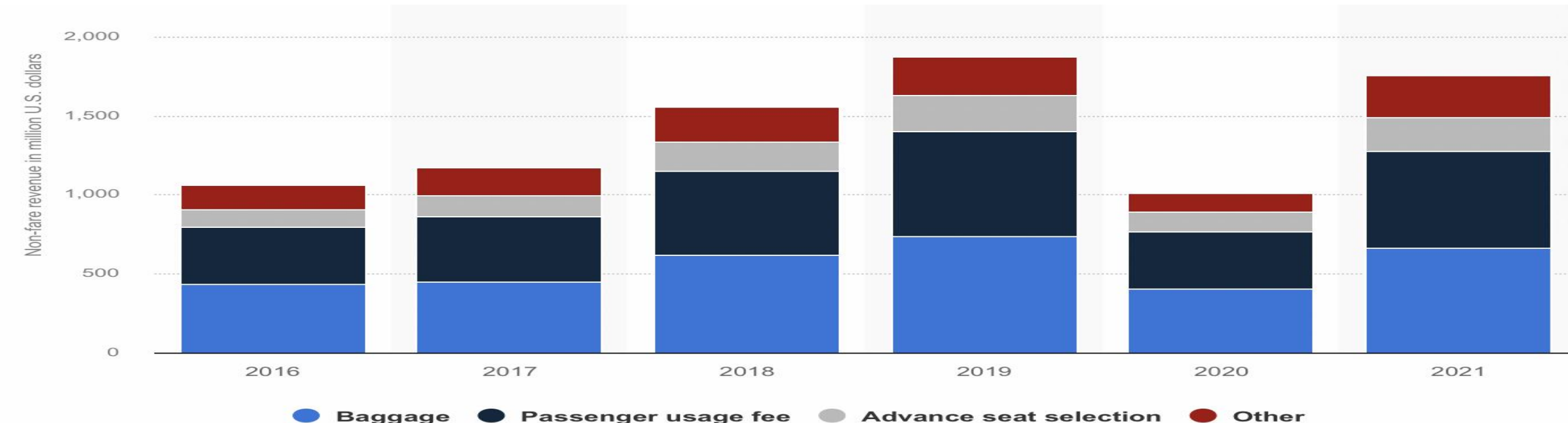
SPIRIT AIRLINES: ANALYSIS

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Introduction

Spirit Airlines (Spirit) is an Ultra Low Cost (ULCC) based in Miramar, Florida. Founded in 1983 with operations commencing in 1990, Spirit has grown to be the seventh largest U.S. air carrier by passenger volume as of early 2023 according to information from Statista.com (2023). Further, Spirit has become the largest ULCC within the U.S. based on the number of aircraft, passenger volume, and overall profit. Spirit experienced a period of tremendous profit as well as growth in the mid-2010s due to the airline's focus on achieving success by focusing on ancillary fees rather than traditional airline ticket pricing methods. Statista.com shows that since 2016 more than 50% of Spirit's revenue has been from the airline's ancillary fees, which are defined by the Department of Transportation (2023) as "any optional serviced related to air travel provided by a carrier, for a fee, beyond passenger air transportation." These fees include baggage, advance seat selection, and other services offered by Spirit. Many other domestic airlines within the U.S., including the three legacies (United, American, and Delta), have begun to implement similar pricing structures that have been practiced by Spirit.



This graphic provided by Statista (2023) shows Spirit's non-fare revenue from 2016-2021.

Research Methods

This project has utilized research from news articles in conjunction with information from the Air Lines Pilot Association (ALPA) and U.S. government publications provided by the Department of Transportation. In addition, analysis has been utilized from online sources such as Statista.com as well as Gale Business (2023) which both provide reports on relevant information from the airline industry as well as Spirit Airline's financial disclosures. In addition, this project includes Spirit's filings with the Securities and Exchange Commission filings on its website, which are posted on the airline's website.

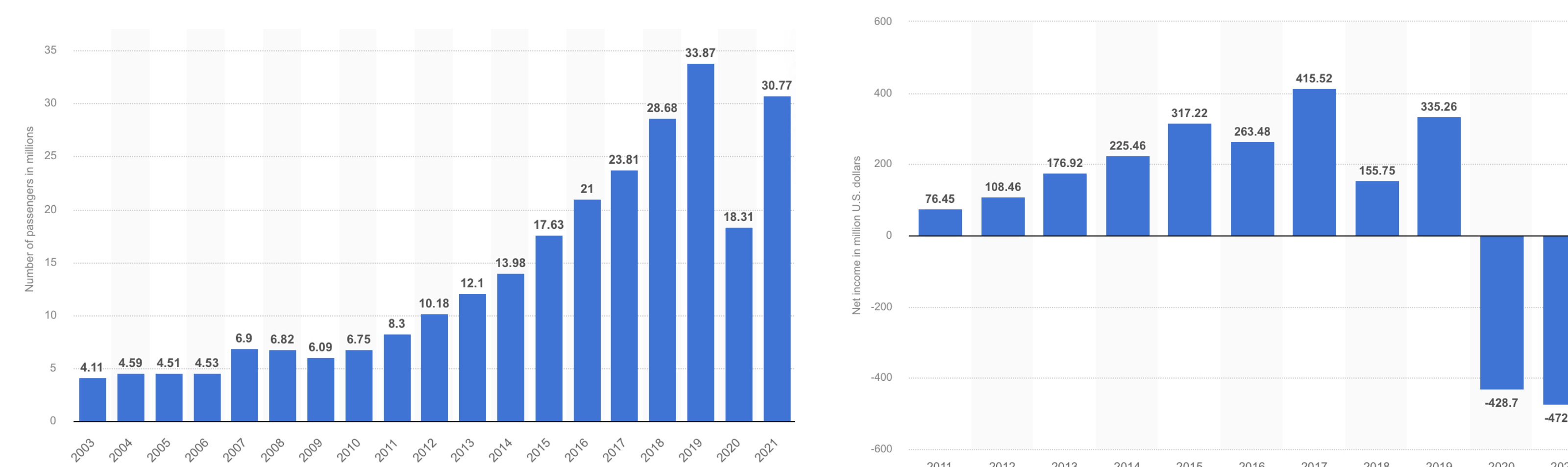
Spirit's Important Numbers

STAFF: According to Gale Business 2023, Spirit employs over **9,200 people** with over **3,000 pilots**. The Air Lines Pilot Association (ALPA) announced a new collective bargaining agreement in early 2023 between Spirit and its pilots. The new contract **increases pay for Spirit's pilots by a cumulative average of 34%**. The ALPA states that this contract will give Spirit's pilots an economic gain of over \$420 million.

FLEET: Spirit details its fleet in the airline's latest 10K report (2023), released on February 6, 2023. Spirit's fleet is entirely encompassed by Airbus 319, 320 and 321 aircraft which include both the ceo (current engine option) as well as the neo (new engine option) suffixes. At the end of 2022 Spirit had a total of **194 aircraft** with an average age of 7.0 years. Spirit **has purchased 33** of these aircraft off of lease and has financed an additional **73 aircraft** through **enhanced equipment trust certificates (EETCs) as well as fixed rate long term debt (7-18 year terms)**. In addition, Spirit finances **88 aircraft** through **operating leases (between 2024-2040)**.

FUEL: Spirit's fuel costs have varied from 19% of the airline's operating costs in 2020 to over **34% of its operating costs in 2022** due to the worldwide volatility of fuel prices (Spirit Airlines, 2023). Spirit has previously had fuel derivative contracts but **currently does not have any kind of "fuel hedge" to protect the airline against the volatility of fuel prices.**

Spirit's 10 Year Growth



As seen in this graphic provided by Statista (2023), Spirit grew over 300% in passenger volume between 2010-2020. The world-wide COVID-19 pandemic caused Spirit's passenger numbers to decline in 2020, but the airline has rebounded to near pre-pandemic numbers in 2021.

As seen in this graphic provided by Statista (2023), Spirit was continuously profitable prior to the COVID-19 pandemic, making over \$2 billion during this time period. However, since the pandemic, Spirit has lost over \$900 million.

Spirit's Current (2022) Financial Numbers

Spirit's most recent earnings release, published in February 2023, provides the following:

	Twelve Months Ended December 31,		
	2022	2021	2020
	(in thousands)		
Operating revenues:			
Fare	\$ 2,455,817	\$ 1,422,927	\$ 756,225
Non-fare	2,533,548	1,752,875	1,009,308
Total passenger revenues	4,989,365	3,175,802	1,765,533
Other	79,082	54,973	44,489
Total operating revenues	\$ 5,068,447	\$ 3,230,775	\$ 1,810,022

-According to this report, **over 50%** of Spirit's revenues in 2022 were from the **airline's ancillary fees.**

	Three Months Ended December 31,		Percent Change	Year Ended December 31,		Percent Change
	2022	2021		2022	2021	
Operating revenues:						
Passenger	\$ 1,369,671	\$ 971,728	41.0	\$ 4,989,365	\$ 3,175,802	57.1
Other	21,639	15,828	36.7	79,082	54,973	43.9
Total operating revenues	1,391,310	987,556	40.9	5,068,447	3,230,775	56.9
Operating expenses:						
Aircraft fuel	494,255	296,572	66.7	1,929,969	913,945	111.2
Salaries, wages and benefits	324,744	285,161	13.9	1,251,225	1,065,461	17.4
Landing fees and other rents	77,137	84,691	(8.9)	347,268	315,999	9.9
Depreciation and amortization ⁽¹⁾	82,246	74,936	9.8	313,090	297,211	5.3
Aircraft rent	72,420	61,305	18.1	282,428	246,601	14.5
Maintenance, materials and repairs	51,772	48,777	6.1	187,820	159,502	17.8
Distribution	46,097	37,509	22.9	177,557	132,499	34.0
Special charges (credits)	348,246	—	NM	420,172	(377,715)	NM
Loss on disposal of assets	15,062	1,482	NM	46,624	3,320	NM
Other operating ⁽²⁾	185,060	158,673	16.6	711,211	530,826	34.0
Total operating expenses	1,697,039	1,049,106	61.8	5,667,364	3,287,649	72.4
Operating income (loss)	(305.729)	(61.550)	396.7	(598.917)	(56.874)	953.1

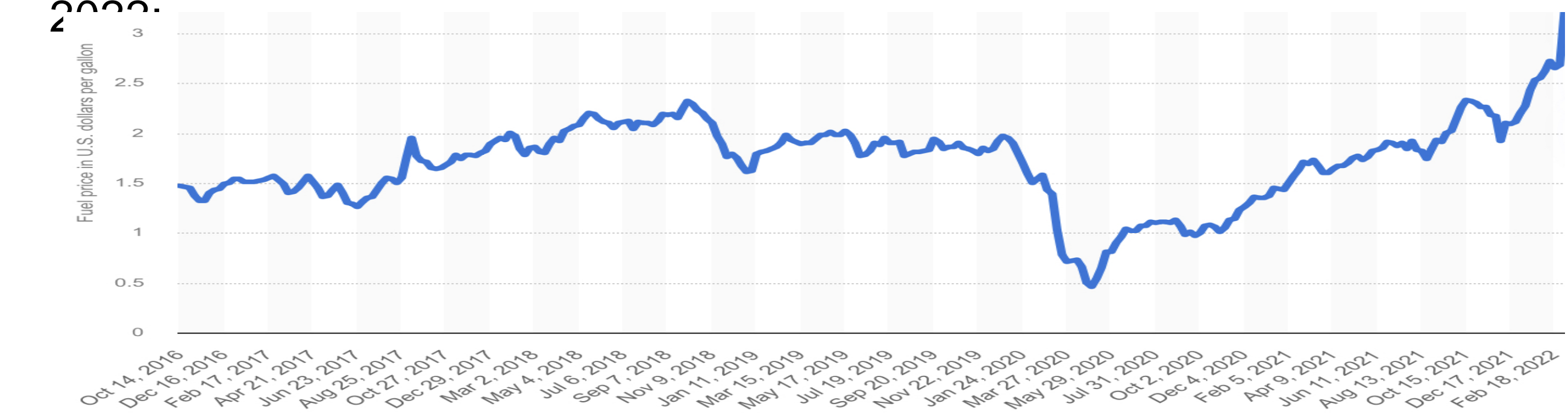
-According to this report, Spirit's **top expenses** in 2022 include **aircraft fuel as well as salaries, wages, and benefits.**

	As Reported	Adjusted ¹
Total operating revenues	\$1,391.3 million	\$1,391.3 million
Operating income (loss)	\$(305.7) Million	\$57.6 Million
Operating margin	(22.0)%	4.1%
Net income (loss)	\$(270.7) million	\$12.6 million
Diluted income (loss) per share	\$(2.49)	\$0.12

-According to this report, Spirit experienced **losses in both operating income (\$306 million) as well as net income (\$271 million)** in 2022.

Analysis/Discussion

Spirit consistently had a load factor around **85% prior to the COVID-19** pandemic (Statista, 2023). According to Spirit's latest 2022 earnings report, the airline's load factor was **78.8% in 2021 and 81.9% in 2022**. As seen in Spirit's 2022 financial numbers, the airline was not profitable in 2022. In addition, Spirit **has not been profitable since 2019**. Despite losing less net income in 2022 (\$272 million) than in 2020 and 2021 (over \$400 million in losses each of these years), Spirit is facing major increases in many of the airline's top expenses in 2023. Spirit's **new pilot contract will cost the airline over \$400 million** in the next two years. In addition, the below graphic provided by Statista (2023) shows aviation fuel prices from 2016-2022.



This information shows that aviation fuel prices were consistent from 2016-2020, a period in which Spirit was highly profitable. However, **fuel prices have consistently increased since early 2021**, and many industry experts agree that fuel prices will remain high for the foreseeable future.

Spirit Airlines is also scheduled to move into a new headquarters building in Dania, Florida sometime in 2023. Spirit's previous headquarters had the same "no frills" reputation as the airline's actual air service. According to Zachariou (n.d.), **Spirit has invested over \$250 million on the airline's new corporate headquarters complex.**



Spirit's current "no frills" HQ in Miramar, FL.



Spirit's new modern HQ in Dania, FL.

Conclusions/jetBlue Merger

Spirit's success has been based on the airline's recognition on the ability to profit off of ancillary fees. However, according to Time (2013) the U.S. government has consistently threatened to include the 7.5% transportation excise tax (currently only used on seat charges) on all fees that airlines impose on passengers. Arguably, this would be a huge threat to Spirit's profitability in the future. Spirit is faced with pressures to return to the airline's pre COVID-19 load factors in order to be profitable again. In addition to higher fuel prices, Spirit's new pilot contract and new corporate headquarters mean that the airline must have higher earnings than the airline has had in the past in order to maintain profitability. Ultimately, it could be argued that Spirit is willing to merge with Jet Blue because the airline has recognized these factors as overwhelming hindrances to its own future.

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