



## UAL taps IR steward for CFO seat

Times are tough for airlines, but industry's disarray offers Kathryn Mikells a chance to revamp United's strategy

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Just days after a formal call was made for its chief executive's resignation, UAL Corp. promoted a fresh face—yet one familiar to investors and analysts—to its top finance position.

The airline company said on Aug. 15 that Kathryn Mikells, 42, currently head of investor relations, will take over as UAL's chief financial officer in November. Jake Brace, the company's CFO for roughly eight years, who steered it through a \$23 billion bankruptcy restructuring, is said to be retiring in the fall.

The CFO change may only temporarily appease critics of UAL's management—most notably the 8,000 employees who are members of the Air Line Pilots Association. In a statement issued Aug. 11, the union, noting the airline's "steadily deteriorating" financial performance, demanded that CEO Glenn Tilton step down and stressed the need for new leadership at the top.

While a spokesman for ALPA -wouldn't comment on whether Mr. Brace's exit and Ms. Mikells' elevation would satisfy the union, which is revving up for contract negotiations, the soon-to-be-former CFO has drawn the ire of United workers in recent years.

His compensation—which hit \$10.4 million in 2006 and ranked Mr. Brace as *Financial Week's* 10th-highest-paid CFO—was a particular point of contention. The sweet pay package was particularly galling in the eyes of the union because many workers were hit by cutbacks and reduced benefits as UAL went through its three-year-long restructuring. (UAL has not yet determined the details of Ms. Mikells' new compensation package, according to a company regulatory filing.)

Ms. Mikells, however, will start with a clean slate—and a rapport with analysts and investors that observers note should buoy the country's second-largest airline company. "Aside from a solid financial background, this job requires someone who can communicate and establish credibility with the business and investor community," said George Godlin, an airline analyst at Moody's, noting that Ms. Mikells served as vice president of financial planning and analysis, as well as treasurer, at United before heading up investor relations. "So in many ways, she's ideally suited for this job."

Ms. Mikells was not available for an interview, but her promotion seemed to speak volumes to Wall Street: The day she was tapped to succeed Mr. Brace, UAL's stock soared, climbing about 11% to \$14.18 a share. Some of that

surge, of course, may have been triggered by declining oil prices.

It's a far cry from the levels UAL was trading at a month ago, when its stock hit a post-bankruptcy low of \$2.80 a share. Executives had revealed that UAL would be taking \$2.7 billion in non-cash charges for the second quarter, mostly to write off the "entire value of goodwill on its books," according to a regulatory filing. That charge aside, UAL ended up reporting a \$2.7 billion loss for the quarter, with record fuel prices obliterating its cost structure.

Ms. Mikells has been credited with playing a major behind-the-scenes role at that time to shore up the company's balance sheet by leading negotiations to land a \$1.2 billion cash injection from Chase Bank—UAL's credit card partner—at the end of July. The company estimates the move will improve its cash flow by about \$200 million over the next two years.

Matthew Jacob, an analyst at Majestic Research, said the agreement not only improved the company's liquidity position, it comforted investors worried about UAL's ability to endure massive fuel costs; its fuel expenses were \$773 million in the last quarter, up roughly 54% from a year ago.

Ms. Mikells undoubtedly is stepping into a difficult role, but at a time when she has the opportunity to make real changes, analysts say.

UAL and other carriers plan to cut flight capacity later this year in response to surging oil prices, which gives Ms. Mikells a chance to implement a "more disciplined growth strategy" for the company, Mr. Jacob said.

He explained that many airlines are cutting their least profitable routes at the same time, which will create less competition for UAL in many areas. "The demand is still there for these flights, but the supply will be down," Mr. Jacob said. "So they can strategically increase fares and revenues where it's appropriate, and grow by increasing their yield, rather than capacity."

At the same time, UAL is phasing out its oldest, least fuel-efficient planes, said Moody's Mr. Godlin. If oil prices continue to decline, he added, Ms. Mikells will have the ability to implement this new growth strategy alongside an improving cost structure. The cost of oil hit \$111 a barrel on Aug. 15, its lowest level in three months.

"She's walking in at a relatively good time," Mr. Godlin said. "Even though it would be tough to argue that these are good times for anyone in the airline industry."

Many of UAL's competitors have also changed their finance chief this year, including Continental, JetBlue and Frontier Airlines, and each of them tapped an insider to take over as CFO.

"By nature, turbulence is unsettling, and airlines are experiencing some harrowing market turbulence, with no end in sight," said Scott Simmons, vice president and founding partner of Crist Kolder Associates, a Chicago-based executive recruiting firm that specializes in CFO searches. "Couple the market environment in which airlines now exist with union pressure on executive compensation and plummeting stock prices, and you could surmise that airlines simply don't have the currency to attract outside talent."