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Investment Opportunity

Delta Airlines will continue to benefit from post-COVID fueled travel demand

Thesis: Delta Airlines can outperform its competitors through the following:

Management desire to return to investment grade through deleveraging

Strong cash and fleet management keeps capital expenditures manageable

Stickiness in customer loyalty has expanded to credit cards and lounge memberships

Δ Improved travel demand, strong management track record, and positive outlooks from the ratings agency provide reason to believe spreads will tighten

DAL 7.375% Sr. Unsecured Notes 1/15/2026

Recommendation	Overweight
Current YTM	6.54%
Current YTW	6.37%
Current OAS	199.66
Target OAS	149.66
Upside	50bps

Company Overview

Delta is the premium U.S. airline

- Δ Founded in 1925
- Δ Headquartered in Atlanta, Georgia
- Δ Delta has the highest revenue and most valuable brand of any global carrier
- Δ Delta has made strong acquisitions of regional carrier Endeavor Air (100%), LATAM Airlines (20%), and Virgin Atlantic (49%)
 - Δ Has Joint Venture relations with Korean Airlines, West Jet, and Air France – KLM group
- Δ In 2020, Delta committed to becoming the first carbon neutral airline

Delta Airlines Fast Facts

750 Aircraft in Operation

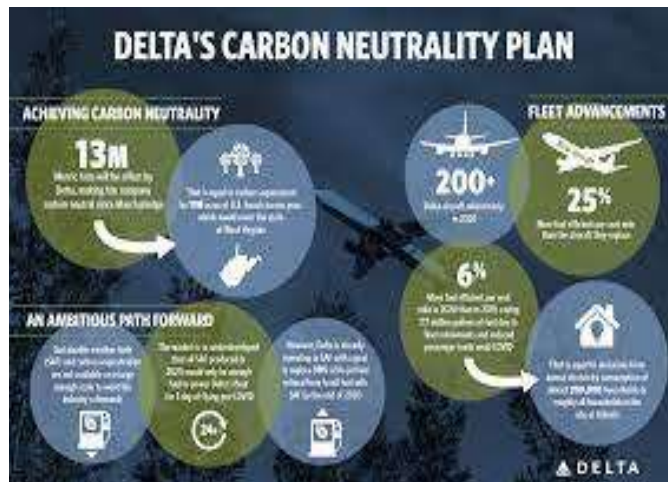
Founding member of SkyTeam Alliance

9 hub airports and over 50% market share of Hartsfield-Jackson International (ATL)

83,000 Global Employees

2nd amongst all global carriers in fleet size, passengers carried, and revenue passenger kilometers flown (RPK)

5,400 daily flights to 325 destinations in 52 countries and 6 continents



Strengths

Delta holds strong competitive advantages over their rival carriers

Debt Reduction Priority

- “Our sole priority at Delta is to make sure that any excess cash that we’re generating is used to pay down debt, and we acquired a meaningful amount of debt during the pandemic” – CEO Ed Bastian

Joint Venture Growth

- Delta has acquired stakes in Virgin Atlantic, LATAM Airlines, and Korean Air, allowing it to dominate the transatlantic market while picking up strong growth in Latin America and transpacific traffic

Customer Loyalty

- Delta finished 2nd in travel and hospitality in 2022 per Comparably
- Per Delta’s revenue team: “We find that once we convert a customer, they remain loyal, join SkyMiles, and eventually sign up for a Delta Credit Card.”

Fleet Management

- Delta is strongly positioned to survive production delays from Airbus or Boeing by maintaining current fuel-efficient aircraft and staggering orders for new aircraft

Capital Structure

The September 2020 bonds were issued in tandem with the mortgage of SkyMiles

Description	Current Amt Out (\$MM)	Coupon Rate	Coupon Type	Issue Date	Maturity	Seniority	Price	YTW	OAS	Ratings
Revolving Credit	0.0	0.0								
Senior Sec. RCF	0.0	-	Variable	06/20	04/23	SNR Sec	-	-	-	-
Senior Sec. RCF	0.0	-	Variable	06/20	06/24	SNR Sec	-	-	-	-
Term Loans	3,802.0									
Senior Sec. Term Loan	2,820.0	6.460%	Variable	09/20	10/27	SNR Sec	101.38	-	-	Baa2
Secured Loans - Aircraft Financing	982.0	Range	Variable	-	Range	Other	-	-	-	-
Notes/Bonds	17,823.6									
Delta Air Lines Inc	2,401.4	7.000%	Fixed	04/20	05/25	SNR Sec	101.29	6.42	184.61	Baa2
Delta Airlines Inc Retirement Plan	2,500.0	4.500%	Fixed	09/20	10/25	SNR Sec	97.03	6.61	187.99	Baa2
Delta Airlines Inc Retirement Plan	3,500.0	4.750%	Fixed	09/20	10/28	SNR Sec	94.42	6.22	215.26	Baa2
Delta Air Lines Inc	356.0	3.800%	Fixed	04/18	04/23	SNR Unsec	98.96	6.31	140.21	Baa3
Delta Air Lines Inc	900.0	2.900%	Fixed	10/19	10/24	SNR Unsec	94.07	6.18	138.75	Baa3
Delta Air Lines Inc	940.6	7.375%	Fixed	06/20	01/26	SNR Unsec	102.75	6.37	199.66	Baa3
Delta Air Lines Inc	410.3	4.375%	Fixed	04/18	04/28	SNR Unsec	89.68	6.67	269.40	Baa3
Delta Air Lines Inc	474.0	3.750%	Fixed	10/19	10/29	SNR Unsec	83.21	6.82	297.31	Baa3
Special Facility Revenue Bonds	2,838.3	4.00-5.00%	Fixed		1/23-10/45	SNR Unsec.	-	-	-	Baa3
Delta Air Lines Inc	1,855.0	Range	-	-	12/28	Coll	-	-	-	-
Promissory Notes	1,648.0	1.000%	-	-	12/31	Other	-	-	-	-
Total Debt	21,625.6									
Equity Market Cap (as of 11/18/22)	22,240.0									
Enterprise Value (as of 11/18/2022)	37,240.0									

Catalysts

Rating Agencies recognize Delta's strengthening credit metrics and continued recovery of demand

Rating Agency	Moody's	S&P	Fitch
IDR	Baa3 / Stable	BB / Stable	BB / Negative
Last Rating Action	Affirmation; Stable Outlook	IDR Affirmation; Sr. Unsecured Ratings Upgrade from B- to BB	Ratings Review; No Action
RAC Commentary Date	10/19/2021	9/27/2022	9/8/2022
Key Metrics	<ul style="list-style-type: none"> • 13.2Bn of cash in Q3 2021 • Retired \$1.5 billion of debt in Q3 21 • \$830 million of capex Q3 21 	<ul style="list-style-type: none"> • Net Leverage: 2-3x 	<ul style="list-style-type: none"> • Negative FCF due to heavy capital spending • Pensions funded at 92%
Upgrade Factors	<ul style="list-style-type: none"> • Debt to-EBITDA is sustained near 2.5x • Funds from operations plus interest-to-interest exceeds 8x and EBITDA margin remains near 20% 	<ul style="list-style-type: none"> • FFO to debt to move consistently above 20% • Continued earnings recovery and debt reductions 	<ul style="list-style-type: none"> • FCF moving back into low single digits • EBITDAR margins in high teens or better • Adjusted EBITDAR at/below 2.5x
Other Key Factors	<ul style="list-style-type: none"> • Affirmation and stable outlook signal Moody's increasing conviction of Delta's ability to substantially strengthen its credit metrics through 2023 • Expectation that Delta will deploy its excess cash increasingly towards debt repayment as its confidence in a durable recovery grows • Expectation for a continuing recovery of demand of all types - domestic, international, and corporate - through 2022 and 2023 • Unencumbered assets -- mostly aircraft, engines, and spare parts -- have estimated market value in excess of \$10 billion • Estimated debt capacity on slots, gates and routes and the loyalty program exceeds \$9 billion • Pent-up demand and the easing of COVID restrictions, combined with staff shortages and new aircraft delivery delays that have limited the U.S. airline industry's capacity, have allowed big fare increases, partially offsetting jet fuel price increases • Delta continues to publicly target restoring investment grade credit metrics 		

Projections

Base Case – Delta is able to retire senior debt by 2024 to regain IG status

\$m	FY19			Base Case			Downside Case			Upside Case		
	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	\$47,007	\$17,095	\$29,900	\$50,573	\$58,840	\$61,886	\$48,044	\$36,033	\$32,430	\$53,101	\$58,411	\$64,252
EBITDAR	\$9,641	(\$5,478)	(\$52)	\$6,574	\$8,826	\$11,139	\$6,246	\$1,802	\$811	\$6,903	\$10,514	\$12,850
EBITDA	\$9,217	(\$5,877)	(\$483)	\$6,069	\$8,238	\$9,283	\$5,765	\$1,081	\$486	\$6,372	\$9,346	\$11,565
EBIT	\$6,636	(\$8,190)	(\$2,481)	\$3,793	\$6,767	\$7,426	\$3,603	\$540	\$162	\$3,983	\$7,009	\$8,995
EBT	\$6,193	(\$9,001)	(\$3,368)	\$2,781	\$5,884	\$6,807	\$2,642	\$360	\$81	\$2,921	\$6,425	\$8,353
Net Income	\$4,770	(\$12,410)	(\$142)	\$1,808	\$3,825	\$4,425	\$1,718	\$234	\$53	\$1,898	\$4,176	\$5,429
EBITDA Margin	19.6%	(34.4%)	(1.6%)	12.0%	14.0%	15.0%	12.0%	3.0%	1.5%	12.0%	16.0%	18.0%
EBITDAR Margin	20.5%	(32.0%)	(0.2%)	13.0%	15.0%	18.0%	13.0%	5.0%	2.5%	13.0%	18.0%	20.0%
Cash flow from operations	\$8,425	(\$3,793)	\$3,310	\$11,700	\$6,900	\$8,757	\$11,500	\$4,500	\$4,824	\$11,700	\$8,100	\$10,670
<u>Balance Sheet</u>												
Cash	\$2,881	\$8,307	\$7,979	\$13,400	\$10,500	\$9,700	\$13,000	\$11,500	\$9,000	\$13,400	\$14,000	\$12,000
Debt	\$11,347	\$17,954	\$18,718	\$15,718	\$11,718	\$7,718	\$15,718	\$15,718	\$15,718	\$15,718	\$10,718	\$7,718
<u>Credit Metrics</u>												
Debt/EBITDA	1.2	(3.1)	(38.8)	2.6	1.4	0.8	2.7	14.5	32.3	2.5	1.1	0.7
CFO-CAPEX/Debt	34.2%	(31.7%)	0.3%	38.2%	11.9%	48.7%	36.9%	(9.5%)	(10.7%)	38.2%	28.9%	73.5%
Interest Coverage Ratio	15.0	(10.1)	(2.8)	3.8	7.7	12.0	3.8	3.0	2.0	3.8	12.0	14.0

△ Revenues

- △ Demand remains high from COVID travel delays and ASM reaches 2019 levels in early 2023

△ EBITDAR Margin

- △ Oil prices slightly decline, and new contracts are ratified with FA and Pilot groups

△ EBT

- △ Increase in cash and accurate LAX/NYC remodel pricing estimates allow for debt to be retired

△ Debt/EBITDA returns to 2019 Levels

△ Interest Coverage approaches 2019 Levels

△ CFO – Capex / Debt Surpasses 2019 Levels

Delta is expected to have a one-time decrease in current liabilities in Q4 2022

Scenario Analysis

Delta has a high upside case with limited risk of spread widening

Downside

Base

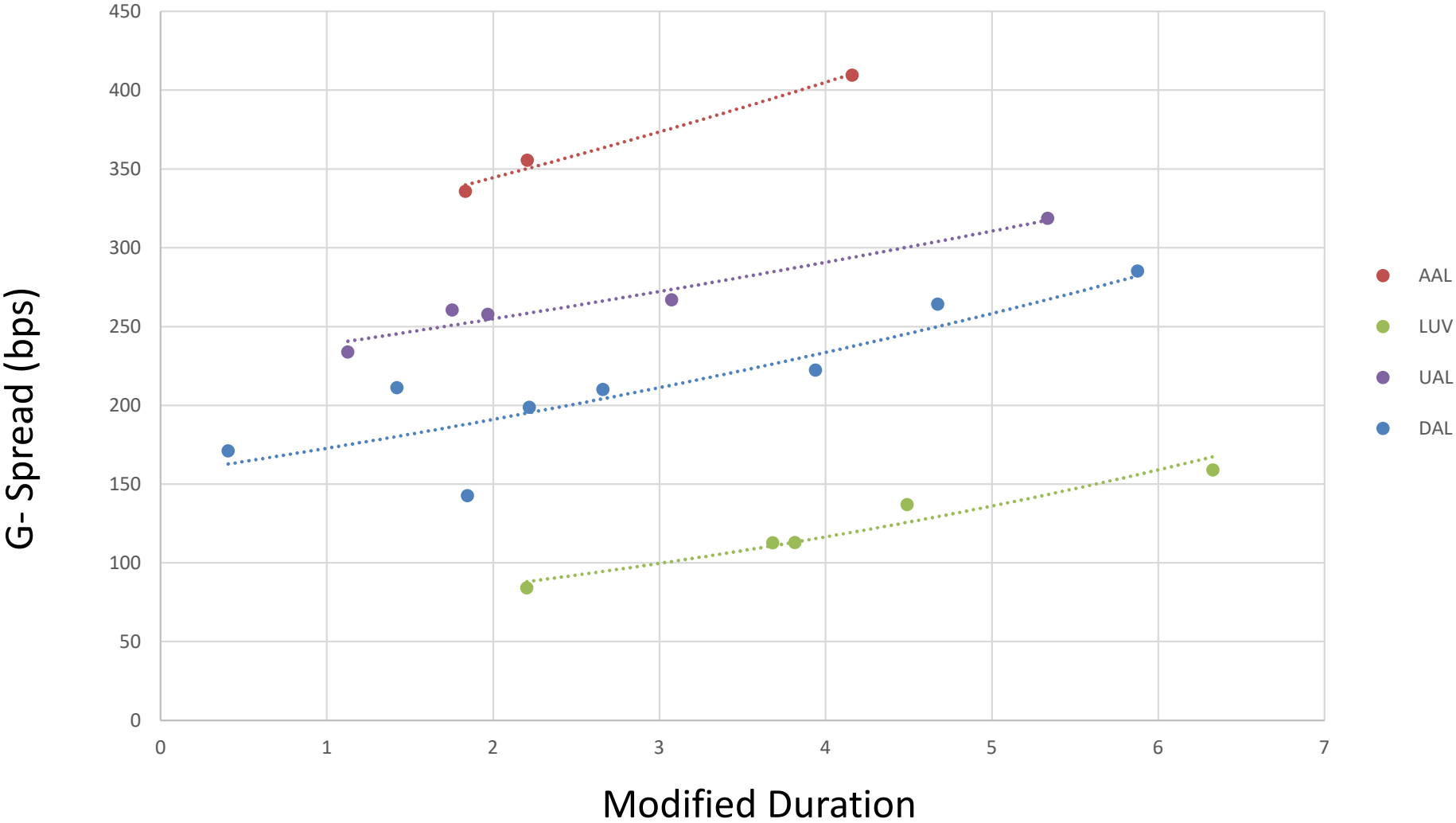
Upside

Spread Adjustment	+50 bps	-50 bps	- 100 bps
Price	\$101.74	\$105.26	\$106.16
Total 1-Yr Return	4.66%*	8.85%	9.72%
Assumptions	<p>Recession hinders travel recovery, new variant shunts Asia growth, Korean Airlines partnership weakens, oil prices increase, pilots strike for higher wages</p>	<p>Credit Card purchases stay strong, demand for travel remains unchanged, LAX and NYC remodels allow for greater market share, management continues to pay down debt, slight ratings boost from agencies</p>	<p>Oil prices decrease, Delta takes outside market share in LA and NYC, JV with Virgin leads to more dominance in European market, Airline able to repurchase SkyMiles program, bond returns to investment grade ahead of schedule</p>

*Assumes sale after one-year holding period. YTM if held to maturity is 5.82%
Delta has the option to call the bond at 12/25 at par

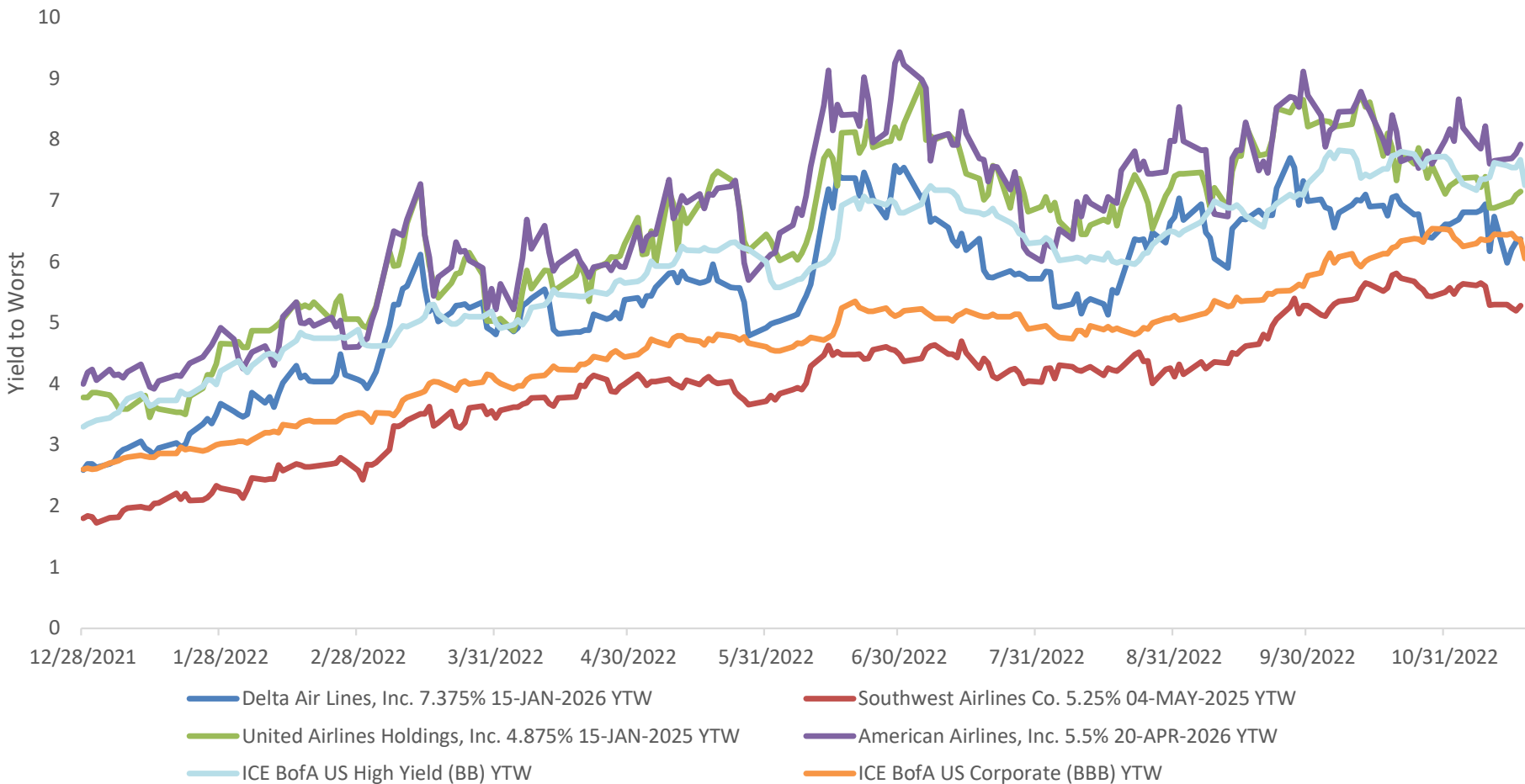
Valuation (1/2)

Delta Air Lines has an attractive relative valuation



Valuation (2/2)

Delta's Relative Valuation is in line with the BBB Index as They Attempt to Regain Investment Grade Status



Risks and Mitigants

Delta is primed to handle challenges should they appear

RISK	MITIGANT
Oil prices rise as war in Ukraine drags on	Delta has strong pricing power to be able to pass costs on to consumers
A global recession stifles corporate travel	The primary buyers of First Class, Premium Select, and Delta One tickets have been retirees with savings who are less sensitive to income
Boeing and Airbus have production delays	Delta has strongly managed their fleet to perform well without new jet arrivals and will only retire jets once the replacements have been received
Joint Venture partners fail to provide connectivity in Latin America and Asia	Delta has a strong market share in their hubs and the ability to move customers booked on JV tickets to their own metal

Summary of Recommendation

Delta 7.375 Notes are a Clear Buy

OVERWEIGHT DAL 7.375% Sr. Unsecured Notes 1/15/2026

- Δ Strong travel demand will allow Delta to pass costs to consumers
- Δ Management is committed to returning to investment grade status
- Δ High customer loyalty has translated into increased spending on non-flight revenue items such as co-branded credit cards and lounge memberships

QUESTIONS?



Appendix



Airline Operation Metrics

	Dec '21	Mar '22	Jun '22	Sep '22	Dec '22E	FY '22E
Passenger Revenue per Revenue Passenger Kilometer	10.39	11.09	13.22	13.01	13.11	12.71
Passenger Revenue per Available Seat Kilometer	7.20	8.28	11.56	11.30	11.23	10.68
Available Seat Kilometers (millions)	312,976	83,380	94,795	101,400	95,407	375,022
Revenue Passenger Kilometers (millions)	216,766	62,282	82,912	88,170	82,403	315,766
Load Factor (%)	69.0	75.0	87.0	87.0	85.4	84.0
Total Revenue per Available Seat Kilometer	9.55	11.21	14.58	13.78	12.69	12.30

Primary Research

Spoke with members of Delta's Customer Service Data Team

- Δ Biggest part of expansion plan is targeted capital into JFK and LAX
 - Δ LAX is well ahead of schedule
- Δ Credit card revenue and SkyMiles are the biggest margin drivers; club access has significantly increased loyalty to the brand
- Δ Never will be an early adapter on the fleet strategy, but will continue to work with all carriers (more optimistic on Airbus being able to provide future aircraft)
- Δ Big focus on increasing JV partnerships with a possibility to get a new one in Southeast Asia
- Δ Business travelers have been replaced in premium cabins by older, wealthier travelers paying full price fares
- Δ No anticipation of any recessionary actions for 1H 2023 – Revenue locked in

Sell-Side Analyst Opinions

Delta has successfully navigated the pandemic and remains strong even with recessionary headwinds

- Δ Management is projecting strong 4Q 2022 performance due to high demand and cash bookings
- Δ Premium cabin revenues are growing as a percentage of total revenue and international consumer revenue is fully restored to 2019 levels
- Δ Costs of operation are decreasing even with inflation and salary uncertainty for mainline crew operations
- Δ Fuel pricing remains the biggest uncertainty going forward; this hold true for all airlines who do not hedge fuel prices



Short Term: The sky is the limit for Delta

Delta Airbus Mainline Fleet

Model	Quantity	Age	Seats
A220-100	45	2.6	109 (12 Domestic First)
A220-300	13 (49 additional orders pending)	2.9	130 (12 Domestic First)
A319-100	57	20.7	132 (12 Domestic First)
A320-200	61	27.1	157 (16 Domestic First)
A321-200	127	3.9	191 (20 Domestic First)
A321neo	13 (142 additional orders pending)	0.3	Intl: 148 (16 lie flat 12 premium economy) Dom: 194 (20 Domestic First)
A330-200	11	17.6	223 (34 lie flat 21 premium economy)
A330-300	31	13.9	282 (34 lie flat 21 premium economy)
A330-900	19 (19 additional orders pending)	1.7	281 (29 lie flat 28 premium economy)
A350-900	24 (20 additional orders pending)	3.9	306 (32 lie flat 48 premium economy)



Delta Mainline Boeing Fleet

Model	Quantity	Age	Seats
717-200	64	21.4	110 (12 Domestic First)
737-800	77	21.2	160 (16 Domestic First)
737-900ER	159 (4 additional orders pending)	6.8	180 (12-20 Domestic First)
737 MAX10	0 (100 pending orders)	27.1	182 (20 Domestic First)
757-200	111	26.0	Intl: 168 (20 Lie Flat) Dom: 199 (20 Domestic First)
757-300	16	19.2	234 (24 Domestic First)
767-300ER	45	26.7	226 (26-36 Lie Flat 18 Premium Economy)
767-400ER	21	21.9	238 (34 Lie Flat 20 Premium Economy)



Hub Airports

Delta holds strategic dominance over the continental United States

Atlanta

- 58.3M passengers and 73% market share (1st)

Boston

- 4.9M passengers and 18.6% market share (3rd)

Detroit

- 11.8M passengers and 50.5% market share (1st)

Los Angeles

- 10.4M passengers and 21.6% market share (1st)

Minneapolis

- 15.1M passengers and 54.2% market share (1st)

New York (JFK)

- 14.2M passengers and 29.1% market share (2nd)

New York (LGA)

- 10.9M passengers and 39.8% market share (1st)

Salt Lake City

- 13.4M passengers and 56.2% market share (1st)

Seattle

- 7.3M passengers and 19.2% market share (2nd)



Delta shares a non-competitive duopoly with United in the NYC flight market

Stats are from July 2021 – June 2022; passenger count does NOT include regional flights; LAX data from Jan-Dec 2021

Porter's Five Forces

Threat of New Entrants	LOW	The capital requirements and space requirements needed to start and operate a full-service airline are prohibitive. New entrants have come in the low-cost space.
Threat of Substitutes	LOW	Cruising has been hit harder during the pandemic than has air travel, and high-speed rail is still not viable for longer distances. Given the increase in gas prices, driving is not a cost-effective replacement for short-haul travel.
Bargaining Power of Suppliers	MEDIUM	Boeing and Airbus operate a highly competitive duopoly while American Express, Visa, and Mastercard compete for credit card supremacy.
Bargaining Power of Buyers	MEDIUM	For consumers in a Delta hub outside of New York, Boston, or Los Angeles, bargaining power is very low. Delta has been able to charge a premium for superior service and hard product
Rivalry Among Competitors	HIGH	Delta competes with American and United on premium transcontinental, transatlantic, and transpacific route. Historically, the most profitable of the three carriers has been the one who dominated traffic between New York and San Francisco/Los Angeles

Indenture Key Provisions

TERM	BACKGROUND
Notes	7.375% Notes due January 15, 2026
Issuer	Delta Air Lines, Inc.
Principal Amount	\$1,250,000,000
Coupon Rate	7.375% Semi-Annual
Maturity Date	January 15, 2026
Call Option	At any time prior to December 15, 2025 (one month prior to the maturity date), the notes will be redeemable, in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed that would have been made if such notes matured on December 15, 2025 (exclusive of interest accrued to the redemption date) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable treasury rate plus 50 basis points, plus, in each case, accrued and unpaid interest on the principal amount of the notes to be redeemed to the date of redemption. At any time on or after December 15, 2025, the notes will be redeemable, in whole or in part, at a redemption price of 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest thereon to the date of redemption.
Covenants	<ol style="list-style-type: none"> 1) Fixed charge coverage ratio 2) Asset coverage ratio 3) Change of control
Events of Default	Default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness of Delta or a subsidiary (or the payment of which is guaranteed by Delta or a subsidiary), whether such Indebtedness or guarantee now exists, or is created after the issue date of the notes, if that default: (a) is caused by a failure to pay principal of such Indebtedness at its stated final maturity (a "Payment Default"); or (b) results in the acceleration of such Indebtedness prior to its express maturity, and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$200,000,000 or more.