

COMPANY PROFILE

Delta Air Lines, Inc.

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COMPANY OVERVIEW

Delta Air Lines, Inc. (Delta Air Lines) is a global airline company, which provides scheduled air transportation for passengers and cargo. Its service portfolio includes passenger transport; cargo transport; aircraft management; professional security; training and consulting; staffing; aviation solutions; vacation packages; and maintenance, repair, overhaul (MRO). It also has bilateral and multilateral marketing alliances with foreign airlines; and service agreements with multiple domestic regional air carriers and serves passengers primarily in small and medium-sized cities. The company operates a fleet of Boeing, Airbus, McDonnell Douglas and Bombardier C Series. It also has joint venture agreements with Air France and KLM, Virgin Atlantic, Virgin Australia and Korean Air Lines. Delta Air Lines is headquartered in Atlanta, Georgia, the US.

The company reported revenues of (US Dollars) US\$41,244 million for the fiscal year ended December 2017 (FY2017), an increase of 4% over FY2016. In FY2017, the company's operating margin was 14.8%, compared to an operating margin of 17.5% in FY2016. In FY2017, the company recorded a net margin of 8.7%, compared to a net margin of 11% in FY2016.

The company reported revenues of US\$11,775.0 million for the second quarter ended June 2018, an increase of 18.1% over the previous quarter.

KEY FACTS

Head Office	Delta Air Lines, Inc. 1030 Delta Boulevard Atlanta Georgia Atlanta Georgia USA
Phone	1 404 7152600
Fax	1 302 6365454
Web Address	www.delta.com
Revenue / turnover (USD Mn)	41,244.0
Financial Year End	December
Employees	86,564
New York Stock Exchange Ticker	DAL

SWOT ANALYSIS

Delta Air Lines, Inc. (Delta Air Lines) is a global airline company, which provides scheduled air transportation for passengers and cargo. Strong market presence, international alliances, flyer program, and increasing business performance of Airline segment are the strengths of the company, even as litigations and limited solvency position remain areas of concern. Airline security measures, foreign currency fluctuations, fluctuations in fuel prices and stringent airline regulations may hamper the business operations in the future. However, growing global travel and tourism industry, global air transport industry outlook, growth initiatives and new destinations provide growth opportunities for the company.

Strength	Weakness
International Alliances Market Presence Flyer Program Business Performance - Airline Segment	Solvency Position Litigations
Opportunity	Threat
Growing Global Travel and Tourism Industry Global Air Transport Industry Outlook Growth Initiatives New Destinations	Foreign Currency Fluctuations Fluctuations in Fuel Prices Airline Security Measures Airline Regulations

Strength

International Alliances

International alliances help Delta Air Lines offer increased flight frequencies and better customer service, enhancing its competitive advantage. Delta has bilateral and multilateral marketing alliances with foreign airlines to improve its access to international markets. These arrangements include reciprocal codesharing and frequent flyer program participation, airport lounge access arrangements, joint sales and marketing coordination, co-location of airport facilities and other commercial cooperation arrangements. The company's international codesharing agreements enable it to market and sell seats to an expanded number of traditional European and Asian gateway cities. Under international codesharing arrangements, Delta and a foreign carrier each can publish their respective airline designator codes on a single flight operation. This allows the company and the foreign carrier to offer joint service with one aircraft, rather than operating separate services with two aircraft. These alliances also provide an opportunity in further areas such as aircraft maintenance insourcing, airport ground handling arrangements and joint procurement. In addition to its marketing alliance agreements with individual foreign airlines, Delta is a member of the SkyTeam global airline alliance, which includes members such as Aerolineas Argentinas, Aeroflot, Air Europa, Aeromexico, Alitalia, China Airlines, Kenya Airways, Air France, Middle East Airlines, China Southern, China Eastern, Garuda Indonesia, CSA Czech Airlines, KLM, Korean Air, Saudi Arabian

Airlines, Tarom, Vietnam Airlines, and Xiamen Airlines. Moreover, the company also has a joint venture agreement with Air France and KLM to share decision making, revenues and costs on transatlantic routes; Virgin Atlantic Airways; Aeromexico, Virgin Australia Airlines and Korean Air Lines.

Market Presence

Delta Air Lines strong market presence has built its brand equity and helped the company to establish itself as a leading airline company in the world. It carries more than 180 million customers each year with over 15,000 daily flights with key markets such as Atlanta, Boston, Los Angeles, Seattle, Detroit, New York-JFK, Minneapolis-St. Paul, New York-LaGuardia, Salt Lake City, London-Heathrow, Amsterdam, Paris-Charles de Gaulle, and Tokyo-Narita. The company serves 306 destinations in 52 countries span six continents. Delta Air Lines operates a total fleet of 856 aircraft, which include B717-200, B757-300, B767-400ER, A320-200, A330-300, B777-200LR, B777-200ER, MD-90 and MD-88 among others; and 460 aircraft through regional carriers, which include CRJ-200, CRJ-700, CRJ-900, Embraer 170 and Embraer 175. In addition, Delta Air Lines through its joint venture partners serves 661 destinations in 127 countries. In April 2018, Delta Air Lines was named as one of Fast Company's Most Innovative Companies Worldwide in 2018; and 100 Best Companies to Work For in Fortune list. In January 2018, the company was named as World's Most On-Time Airline among mainline carriers by FlightGlobal.

Flyer Program

Focus on Flyer program enables the company to offer its customers incentives and expand traveler loyalty. The company through its SkyMiles frequent flyer program provides program members to receive mileage credit for travel awards who fly on its carriers and other participating airlines. It also gives an option to earn mileage credit by utilizing certain services which are offered by program participants such as credit card companies, car rental agencies, and hotels. Moreover, individuals can also purchase mileage credits. SkyMiles program mileage credits can also be exchanged for air travel on Delta and participating airlines, for membership in Delta Sky Clubs and for other program participant awards. In addition, the company offers last-seat availability for travel awards on its own flights. In FY2017, 14.9 million award redemptions were done by program members and redeemed over 345 billion miles in the SkyMiles program.

Business Performance - Airline Segment

Strong business performance of Airline segment helps the company expand its operational and financial performance. The segment offers scheduled air transportation for passengers and cargo throughout the world. It also provides other ancillary airline services, including maintenance and repair services for third parties. In FY2017, the segment accounted for 89% of the total revenue, and reported 3.4% increase in revenue to US\$40.7 billion and a CAGR of 1.9% during 2013-17. Increase in revenue was due to rise in passenger revenue by 3.1% supported by 2.1% growth in passenger revenue per available seat mile (PRASM) and 1% increase in passenger mile yield. It was also supported by 1.9% increase in cargo revenue driven by high volumes and yields; and 9.7% increase in other business revenue primarily driven by 25.9% growth in ancillary business sales and 9.7% rise in loyalty program operations.

Weakness

Solvency Position

The company's limited solvency position may impact its ability to borrow and repay money, and negatively affect its creditworthiness. The company recorded a debt-to-equity ratio of 0.6 in FY2017 against its competitors such as JetBlue Airways Corporation (JetBlue Airways) and Southwest Airlines Co (Southwest Airlines), which reported respective debt-to-equity ratios of 0.2 and 0.4. At the end of FY2017, the company recorded a 20.5% increase in debt to US\$8.8 billion, compared to US\$7.3 billion during the previous year.

Litigations

Various lawsuits filed against Delta Air Lines may result in penalties and fines, and impact its profitability and damage its reputation. In FY2009, various class action antitrust lawsuits were filed against the company and AirTran Airways (AirTran), arguing that Delta Air Lines and AirTran were involved in collusive behavior in violation of Section 1 of the Sherman Act. In October 2016, the US Court of Appeals for the Eleventh Circuit approved the defendants' petition for interlocutory review of these cases, which remains pending till date. In addition, in July 2015, various class action antitrust lawsuits were filed claiming that Delta Air Lines, American, United and Southwest had conspired to restrain capacity. These lawsuits have been consolidated into a single Multi-District Litigation proceeding in the U.S. District Court for the District of Columbia. In November 2016, the District Court denied the defendants' motion to dismiss the claims, and is still proceeding.

Opportunity

Growing Global Travel and Tourism Industry

The company is likely to benefit from the positive outlook for global T&T industry. According to the World Travel & Tourism Council (WT&TC), the direct contribution of T&T industry to the world's GDP, is expected to increase by 3.8% per annum during the forecast period (2018-2028), to reach US\$3,890 billion in 2028, in comparison with US\$2,570 billion in 2017. Moreover, the industry's total contribution to GDP may increase to US\$12,450.1 billion in 2028. Furthermore, rise in investments in T&T industry to US\$1,408.3 billion in 2028, is likely to boost activities within the T&T industry.

Global Air Transport Industry Outlook

Delta Air Lines is likely to benefit from growing global air transport industry. According to the International Air Transport Association (IATA), overall revenue of global air transport industry is expected to reach US\$824 billion in 2018 compared to US\$754 billion in 2017. Its net profit is expected to reach US\$38.4 billion in 2018 from US\$34.5 billion in 2017. The net profit of airlines in North America is expected to account for US\$16.4 billion in 2018; followed by Europe US\$11.5 billion; Asia-Pacific US\$9 billion; Latin America US\$900 million, and Middle East US\$600 million in 2018. Growth is expected to be driven by strong demand, reduced interest payments and efficiency. Also, passenger numbers are forecast to reach 4.3 billion and cargo carried to 62.5 million tons in 2018. Passenger business is expected to be supported by GDP growth of 3.1% in 2018 and cargo business by strong increase in cargo volumes along with

recovery in yields.

Growth Initiatives

Delta Air Lines is taking various strategic initiatives to drive its growth. In March 2018, the company relaunched deltacargo.com with a 24/7 services, complete end-to-end digital booking, acceptance and tracking and easier shipment process. In the same month, the company introduced communications tools for its customers to check status of their flight on Fly Delta Mobile App; and announced plans to introduce new Bluetooth tracking technology offering real-time tracking for unit load devices. In March 2018, the company and Korean Air entered into a joint venture to offer travel benefits in the trans-Pacific market. In the same month, it started offering basic economy fare product on over 50% of its flights between the US and Mexico. In February 2018, Delta Air Lines, Airbus, OneWeb, Sprint, and Airtel signed an agreement to offer passengers seamless in-cabin connectivity experience through satellite technology. In the same month, Delta Vacations signed an agreement with Hilton Hotels & Resorts for a new global hotel distribution.

New Destinations

New service destinations help the company expand its geographic reach and support growth in its operational performance. In April 2018, the company launched nonstop flights between the US and Europe, including New York-JFK to Lisbon; Los Angeles to Paris and Amsterdam; Indianapolis to Paris; and Orlando to Amsterdam. In the same month, the company also started providing Cleveland Hopkins International Airport with a nonstop flight to its Salt Lake City hub; and announced plans to launch new nonstop Delta service between Chattanooga and New York-LaGuardia. In February 2018, the company and its partner Aeromexico announced plans to launch nonstop service between Detroit and Leon route, Mexico; and a new service to Austin and Phoenix, expanding travel options for Cincinnati and Northern Kentucky customers. In January 2018, the company started new nonstop service between Pittsburgh and Salt Lake City. In the same month, the company added 21 nonstop flights for Philadelphia Eagles and the New England customers.

Threat

Foreign Currency Fluctuations

Unfavorable changes in foreign currency exchange rates are likely to increase the company's expenses. Delta Air Lines has operations in 52 countries and recorded 28.3% of its total sales from international customers during FY2017. The non-reporting currencies such as Australian Dollar, Mexican Peso, Japanese Yen, British Pound, and Euro appreciation over US Dollar or vice versa could incur additional costs to the company, and increase capital expenditure in US Dollar terms. The company also reported a loss of US\$17 million on foreign currency exchange contracts.

Fluctuations in Fuel Prices

The aircraft fuel price is unpredictable and may be volatile. According to the International Air Transport Association, jet fuel price is forecast to reach US\$73.8 per barrel in FY2018 from US\$65.6 per barrel in

FY2017. Increase in fuel price may lead to higher operating expenses for the company. Such operational scenario could increase service tariff, which in turn could reduce the frequency and volume of travel by its customers, and they may opt for less expensive alternatives for travel.

Airline Security Measures

Airline security measures being announced from time-to-time can impact aviation industry. The US Homeland Security announced a slew of security measures in 2017, which may impact passenger traffic of US-bound airlines. In March 2017, the US banned personal electronic devices bigger than mobile phones in cabin baggage on airlines from 10 Middle East airports, including Abu Dhabi, Dubai, and Doha, flying into the US. During the same month, the UK too announced a ban on personal electronic devices bigger than 16.0cm x 9.3cm x 1.5cm in the cabin of flights originating from Lebanon, Egypt, Turkey, Jordan, Saudi Arabia, and Tunisia to the UK. The US rolled out a host of screening procedures for personal electronic devices at airports from where flights to US originate. This is leading to increased time at immigration for passengers. Although the US government has been revisiting ban from time-to-time, this has brought in a level of uncertainty among the travelers bound to US. Similar security measures may also be introduced by other countries.

Airline Regulations

Delta Air Lines is required to comply with the Federal Aviation Administration (FAA) and Department of Transportation (DOT) regulations under the provisions of the Federal Aviation Act of 1958. The FAA prescribes standards and licensing requirements for both aircraft and components. The DOT regulates economic issues that can affect air service, including competitive practices, consumer protection, insurance, certification, and fitness and citizenship. The company is also subject to regulations by foreign government agencies and aviation agreements signed between the US and the respective countries. In addition, the company is subject to the U.S. Transportation Security Administration (TSA) that regulates aviation security to ward off unauthorized access to freighter and passenger aircraft, and prohibits firearms and explosives on an aircraft and others. Furthermore, the company is subject to the U.S. Environmental Protection Agency (the EPA) regulating the air quality. Introduction or changes in the labor and employment regulations; and administrative regulations could erode the profitability of the company. The company is also subject to inspection by the FAA and other regulatory agencies, with non-compliance leading to possible fines and other penalties.

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