Southwest Airlines is the largest domestic competitor, they cannot

Delta Airlines is the world's largest airl

world to build homes in Mexico and China.

Joint Ventures: Have partnered with its joint ventures around the

Hurricane Relief: Donated $3.7 million to hurricane and earthquake

our financial valuation.

initiatives to increase free cash flow into the for

management has positioned the company well and has announced

monopolies, innovative segmentation, and up gauging. The company's

stronger market positioning and better financial health, Delta is

which will allow them to outcompete their competitors. Even with

Investment Thesis

Our investment thesis is based on Delta’s key competitive advantages

Industry Trends

Delta operates in the airline industry. Global air traffic increased 8%

Investment Thesis

Our investment thesis is based on Delta’s key competitive advantages

Valuation Assumptions

WACC: 9.9%

Avg. 5 year Rev Growth Rate: 3.8%

2020 FCF Projection: 4.7B

Key Financials

ROA: 11.24%

ROE: 31.27%

ROIC: 17.39%

EBIT: $6.929 B

Corporate Social Responsibility

Donations: Delta donated 1% of net profits donated to nonprofits in

eduction, wellness, and military/veteran causes.

Hurricane Relief: Donated $3.7 million to hurricane and earthquake

relief efforts.

Joint Ventures: Have partnered with its joint ventures around the

t world to build homes in Mexico and China.

Competitive Analysis

Delta Airlines is the world's largest airline by passenger volume and

the industry leader for passenger air transportation. Although

Southwest Airlines is the largest domestic competitor, they cannot

compete with Delta on an international level. American Airlines and

United Continental both compete with Delta domestically and

internationally, however, they have a much smaller market

capitalization and smaller passenger volume per year. FedEx

UPS can also be classified under the Delta competitor list due to the

revenue stream produced from cargo air transportation. Due to the

fact that such an insignificant portion of Delta's revenue is generated

through cargo transportation, we do not see these competitors as a

major threat for the passenger air transportation industry.

Competitive Advantages

Delta’s competitive advantages lie in the ability to consistently

maintain higher margins than its competitors. Delta owns the Monro

Refinery, giving them a cost advantage of approximately 5 cents per

gallon on jet fuel. They also focus heavily on attracting the corporate

traveler segment, which again provides higher margins and is less

prone to price fluctuations. Delta’s industry leading customer service

helps to maintain and grow their customer base in the United States

and internationally while their partnership with American Express

helps to instill high value for corporate and retail clients. It is

important to note that Atlanta airport, the world’s largest hub, is

dominated by Delta Airlines. This hub is incredibly efficient and

within a 2 hour drive for 80% of the United States population.

Furthermore, Delta purchases many of its airplanes used, while its

main competitors purchase most new, giving Delta the flexibility to

convert fixed costs into variable costs due to the lower purchase price

of these aircrafts. Lower fixed costs and higher variable costs enable

Delta to quickly and efficiently scale up or down to meet demand; this

is a major advantage in times of low passenger volume.

Risks

Increasing fuel costs: A sharp increase in fuel prices would adversely

affect Delta’s business and stock price because the company does not

fully hedge its oil purchases. Airlines can’t not immediately offset

increasing oil prices with higher fares so this remains a concern in the

short term.

Excess Capacity: As airlines have bought more and more planes, they

have more seats available for sale. This has led to decreasing fare

prices as the airlines look to fill the extra planes they have available.

Delta is looking to offset this by increasing its share of business class

seats which have much higher margins than economy.

Geopolitical events: Events such as terrorist attacks have proven to hurt

the airline industry dramatically. Also, Delta operates joint ventures

around the world and has to worry about political events that could

hurt operations around the world.

Report Prepared By:

Shawn McAuley and Max Janik on 2/8/2018

Sources: Bloomberg, Delta 10-K, Delta 2017 Investor Presentation