A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

Cleared for Takeoff:
Delta Air Lines' Path to Success

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A Project carried out on the Master's in Finance Program, under the supervision of:

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Abstract

This thesis forms part of an extensive equity research project, analyzing Delta Air Lines' key characteristics and its positioning within the industry, while evaluating the competitive dynamics of the market in which it operates. A thorough examination was conducted on key industry players, to identify and understand the challenges and opportunities within the sector, to further evaluate Delta’s business segments and their value drivers. This is particularly crucial in an industry highly sensitive to external market influences, especially during a period of pronounced economic uncertainty. Additionally, a valuation model for Delta Air Lines was developed to estimate the company's share price, providing investors with a well-supported recommendation. The findings of this analysis highlight Delta's significant role and leadership in the industry, underscoring its competitive strength and influence.

Keywords:

Delta Air Lines Inc., Equity Research, Covid-19, Airlines

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This report is part of the *Overflying Uncharted Waters* (annexed), developed by Teresa Fernandes (39236) and Tiago Cardoso (43180) and should be read as an integral part of it.

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Introduction

This joint report provides a comprehensive analysis of Delta Air Lines, focusing on its performance and growth trajectory. It is structured into four main sections: i) company analysis, macroeconomic environment, and competitive landscape; ii) financial statement projections; iii) intrinsic and relative valuation, including a sensitivity and scenario analyses; and iv) a final recommendation on Delta's stock.

The following report constitutes my individual contribution to the broader equity research analysis. In the first section, my work focuses on a detailed company analysis, examining Delta Air Lines' structure, strategy, and primary risks. Additionally, I evaluated its position within the airline industry through a competitive analysis with its key rivals – American Airlines and United Airlines –, using specific performance metrics and financial statement comparisons. My findings highlight Delta's leadership position in the sector is supported by a strong performance and a robust strategy, as the company demonstrates resilience and the ability to recover from significant economic disruptions.

For the second section, my contribution centers on the Passenger Revenue segment, including forecasting revenue by region where Delta operates. I also developed the Invested Capital Forecast, which served as the basis for projecting the Free Cash Flow Map. Within the Valuation section, I conducted the WACC calculations, Terminal Value estimation, DCF model development, Enterprise Value and Equity Value computations and issued the final recommendation – to **BUY** Delta's stock.

My colleague's contributions cover the Industry Analysis, the forecasts for the other revenue segments – Cargo, Ancillary Business and Refinery, Loyalty Program – and the projections for the Cost Structure, NWC and Total Debt. Additionally, my pair performed Relative Valuation, Sensitivity Analysis, and Scenario Analysis.

We determined that this division of tasks was the most efficient way to achieve both clarity and depth in the consolidated report. Nonetheless, it is important to highlight that my involvement extended to the other sessions of the report, as I played a significant role in shaping and refining ideas, closely monitoring the overall process and actively participating in critical analyses, included both in the written report and supporting Excel document.

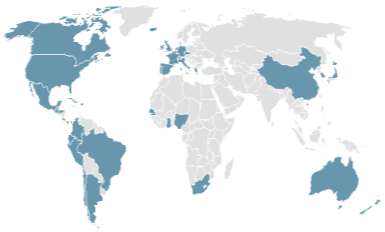
Company Overview

Company Description

Exhibit 1: Delta Air Lines' Logotype

Delta Air Lines, founded in 1925 as "Huff Daland Dusters", is the biggest and most profitable US-based airline company, controlling over 22.4% of the airline domestic market. Headquartered in Atlanta, Georgia, Delta and its network of subsidiaries and regional affiliates operated 1,273 aircraft by the end of 2023, delivering over 4,000 daily flights to 280 destinations worldwide.

Exhibit 2: Delta's Destinations

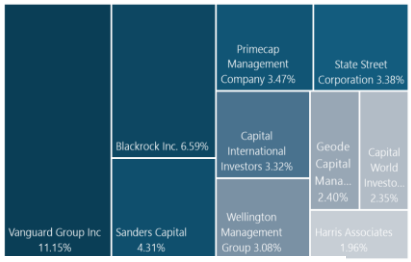


Source: Flight Connections

Delta offers a diverse range of services, including passenger and cargo transportation, aircraft operations, security services, training and consulting, aviation solutions, travel and vacation planning, and maintenance, repair, and overhaul (MRO). The company's major segments are air transportation and refinery. Delta's global route network includes 17 hubs, with Atlanta being its largest. Although 69.5% of its fleet operates domestically, Delta is focused on expanding its footprint throughout the world. Besides being a founding member of Sky Miles, it has service agreements with various domestic regional carriers, as well as bilateral and multilateral marketing alliances with international airlines, through several partnerships and Joint Ventures.

Corporate Governance

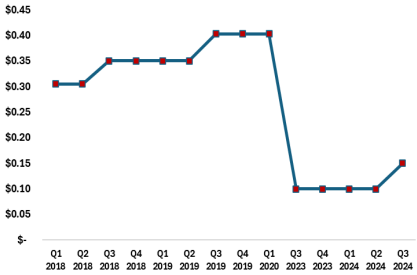
Exhibit 3: Main Shareholders



Source: Yahoo Finance

Delta Air Lines has a very fragmented shareholder structure. The Vanguard group is the only institution that holds more than 10%, with a 11.15% ownership. Together, the top 10 shareholders account for less than 50% of the total shares (40.46%), while no other individual shareholder holds more than a 7% stake (Exhibit 3). Similar to the rest of the U.S. airlines, Delta's shareholder panel is mainly composed by investment advisors and hedge funds. Given its dispersed distribution, we believe that it is unlikely that Delta's shareholders will exercise their influence over the airline's operations.

Exhibit 4: Delta's Dividend Payments (2018- Q3 2024)



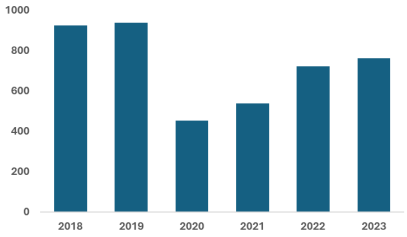
Source: Nasdaq

Regarding Delta's dividend policy, the airline has been consistently offering dividend payout since 2013, its IPO, in May 2007. Because of the pandemic, Delta was forced to suspend its dividend payments, between Q2 2020 to Q2 2023, which were resumed from there on.

Operating Strategy

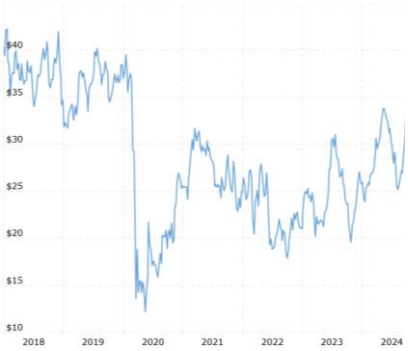
As a major player in one of the most competitive industries, with relatively low profit margins, Delta Air Lines must adopt strategic approaches to stand out from its competitors.

Exhibit 5: Market Size of the Airline Industry Worldwide (2018-2023)



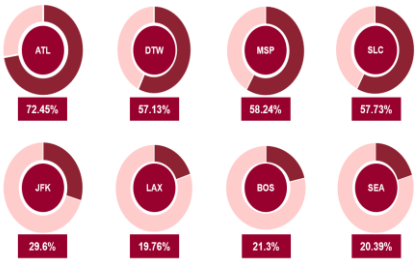
Source: Statista

Exhibit 6: Delta's Market Capitalization (2018-2024)



Source: MacroTrends

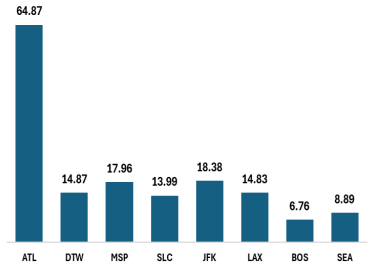
Exhibit 7: Delta's Market Share in Its Primary Hubs (2023)



Note: Hartsfield-Jackson Atlanta International Airport (ATL); Detroit Metro Wayne County Airport (DTW); Minneapolis-St Paul International Airport (MSP); Salt Lake City International Airport (SLC); John F. Kennedy International Airport (JFK); Los Angeles International Airport (LAX); Logan International Airport (BOS); Seattle/Tacoma International Airport (SEA).

Source: Simple Flying

Exhibit 8: Delta's Passenger Volume by Hub, in Millions (2023)



Source: Simple Flying

Delta has been developing personalized and high-quality services that meet the varying needs of its passengers, enhancing customer satisfaction by ensuring a seamless and distinctive journey at every stage of the flight, from booking to post-travel. By prioritizing employee satisfaction, the company focuses on delivering an exceptional and premium service that, consequently, will foster customer loyalty. By implementing customer segmentation into its strategy and introducing premium services, Delta has gradually reduced its dependence on the most price sensitive costumer segment, without excluding it. This approach has allowed the company to offer a broader price range to its passengers, while creating opportunities to capture high-value segments.

Over the years, there have been external conditions, such as 9/11, banking crisis, and, most recently, one of the most impactful events on the airline history – Covid-19 –, which forced Delta to innovate, adapt, and pivot its corporate strategies. When Covid-19 emerged, alongside the introduction of remote work, airlines companies were significantly constrained. This led to a noticeable shift in travel patterns, with increased demand for leisure destinations over business travel. However, Delta chose to keep its network almost intact and to continue serving these key business markets, using this as an opportunity to grow and strengthen its presence in these cities during the pandemic. The airline strategically took advantage of the industry slowdown to enhance its coastal presence in these business markets, investing in new facilities at major airports. As a result, it became the top-ranked airline company operating at critical hubs such as Los Angeles International Airport, LaGuardia and John F. Kennedy International Airport, both in New York, and Boston Logan International Airport. These investments positioned Delta for success as the air travel industry stabilizes and returns to normal. Therefore, there is a strong focus on corporate customers, and delivering value to them. This strategy has led to investments in private jet carriers, namely Wheels Up, as well as the launch of a new program that awards business travellers (Delta Business Traveler).

Alongside Delta's investments in key airports, it has established several major partnerships and joint ventures that have significantly transformed its operations, expanded its global footprint, and enhanced customer experience. Delta is continuously thriving to evolve, looking for and analysing new unexplored markets. Among its long list of investments, there is a significant one of 49% on Aeroméxico and Virgin Atlantic, which allowed Delta to expend its reach into the Mexican and London markets, in 2012 and 2013, respectively. A few years later, in 2016, Delta acquired 10% of Air France-KLM, further solidifying its presence in Europe. In 2019, the airline made a notable move by acquiring a 20% stake of LATAM Airlines, which has proven to be a transformative investment within the airline industry, as it has enabled Delta to achieve a 68% growth in flights and

launch six new routes. In June of the same year, a 10% equity stake in Hanjin KAL – the parent company of Korean Air – was acquired, in addition to the 2% equity stake in China Eastern acquired in 2015, expanding their joint operations in the trans-Pacific market. Furthermore, on the upcoming years, it is expected to be signed a strategic agreement between Delta Air Lines and Riyadh Air, to enhance connectivity between North America and Saudi Arabia. Delta's extensive network of partnerships and joint ventures plays a pivotal role in the company's strategy, as it allows the company to explore and reach new markets and provide enhanced services and connectivity to its customers.

Delta's vertically integrated business model is a core strategy designed to enhance control over its supply chain, reduce costs, and improve efficiency across its operations. The airline operates a total of 17 subsidiaries, with two of the most significant being TechOps – the largest airline provider of MRO services, supporting over 150 global airlines – and Monroe Energy, its refinery subsidiary. Monroe Energy plays a critical role in mitigating the impact of fluctuating fuel prices, reducing Delta's annual exposure and providing a 40-50% hedge across its network. Additionally, Delta TechOps has delivered total savings of $5.1 million in inspection and maintenance costs by 2023. Beyond supporting Delta's core airline operations, these units also contribute external revenue by offering their services to third-party customers.

Not only is Delta thriving to mitigate the cost of the refinery margin, but it is also committed to incorporate sustainable aviation fuel and design a roadmap for a more sustainable travel experience. Since 2019, Delta has been focused on fleet renewal, including on its airplane network new aircraft that are 28% more fuel efficient per seat mile than the retired ones, contributing to a 5.5% improvement in the overall fuel efficiency. As part of the strategy, Delta has fully retired less efficient aircraft (e.g. CRJ-200 in 2023), while incorporating advanced models that support the airline's goals of reducing carbon emissions and lowering operational costs. The airline is also leveraging revolutionary technologies, through partnerships with Boeing, NASA and Airbus. These collaborations enable fleet aerodynamic modifications, including split-scimitar winglets and radial tires, and are expected to save millions of gallons of fuel annually, positioning Delta as a leader in sustainable innovation within the industry.

Business Model: Geographic Breakdown

Delta operates across two primary business segments: Airline and refinery.

The Airline segment provides scheduled air transportation for passengers and cargo through a unified system along with ancillary services such as maintenance and repair solutions offered to third parties. It operates through three business

Exhibit 9: Delta's Partnerships across the world

Source: Statista

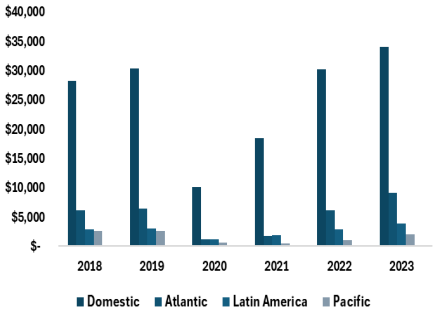
Exhibit 10: Delta's Most Relevant Subsidiaries

Source: Authors' Research

Exhibit 11: Comprehensive Benefits of the SkyMiles Program for Customers

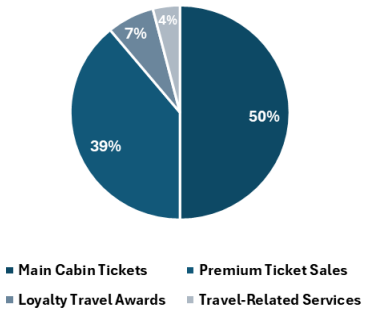
Source: Delta Investor Day 2024

Exhibit 12: Passenger Revenue by Region (2018-2023)



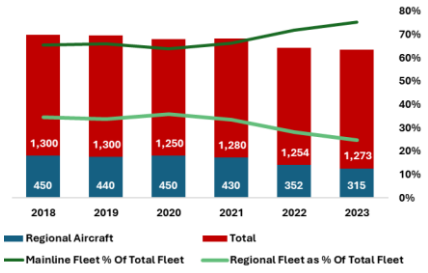
Source: Delta's Annual Report 2023

Exhibit 13: Delta's Ticket Revenue Segmentation (2023)



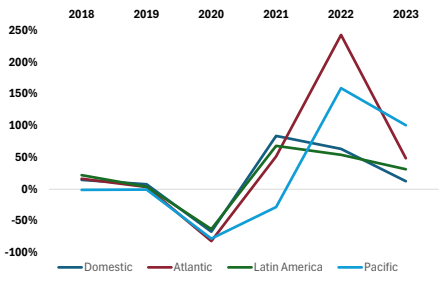
Source: Delta's Annual Report 2023

Exhibit 14: Delta's Fleet Decomposition (2018-2023)



Source: Delta's Annual Reports (2018-2023)

Exhibit 15: Revenue growth per geographic region (2018-2023)



Source: Authors' Computations

units: Passenger, Cargo and Other. The airline has a fleet totalling 1,273 aircraft, which includes 958 mainline aircraft and 315 regional planes. It serves over 280 destinations, in 17 different hubs distributed around domestic and international markets: 9 in North America, 3 in Europe and Latin America (which includes the rest of the Americas) and 2 in Pacific Asia. Atlanta has remained Delta's primary hub since 1930. Geographically, in 2023, 69% of Delta's destinations were domestic (US and Canada), 17% were in LatAm, 11% in the Atlantic region (EMEA) and 3% in the Pacific region. When it comes to passenger revenue, domestic flights accounted for 69.5% of the total revenue, followed by Atlantic region at 18.5%, LatAm at 7.8% and Pacific-Asia at 4.2%. When analysing ticket revenue by category, 50% of it comes from main cabin tickets, while 39% is generated from premium ticket sales. The remaining 11% is distributed between loyalty travel awards and travel related services, contributing to 7% and 4%, respectively.

Delta strengthens its network coverage, especially within the domestic market, through partnerships with regional carriers that operate flights on its behalf. Currently, Delta works primarily with three regional careers: Endeavor Air – a wholly owned subsidiary –, SkyWest Airlines and Republic Airways. However, over the years, Delta has been actively reducing its dependence on regional partners, as observable in Exhibit 14, by ending partnerships with two additional regional carriers, while strengthening its ties with international airlines. Consequently, Delta has reduced the number of regional aircraft in its fleet by 10% since 2018, while simultaneously increasing its mainline fleet by a similar margin. In fact, the geographic region with the smallest revenue growth from 2022 to 2023 was the Domestic market, which saw an increase of 12.5%. This was followed by Latin America (↑ 31.5%), Atlantic (↑ 48.6%), and finally, the Pacific (↑ 100.8%).

Delta's other revenue is divided into four key categories: Refinery, Ancillary Business, Loyalty Program and Miscellaneous. Refinery services are related to the production of diesel, gasoline and jet fuel, enabling Delta to trade non-jet fuel products with external parties for jet fuel needed in its operations. It is managed by Monroe Energy LLC, which supplies around 75% of Delta's jet fuel needs. Despite a $1.6 billion decrease in sales for this sector from 2022 to 2023, driven by lower global pricing and a refinery turnaround, Monroe Energy continues to serve as a hedge against volatile fuel prices, effectively mitigating Delta's exposure. Additionally, Delta's Ancillary Businesses, apart from offering vacation wholesale operations, also provide MRO services, through Delta's subsidiary TechOps. With the global aviation industry projected to grow at a CAGR$_{2024-2032}$ of 4.8% the MRO market presents a promising opportunity for expansion and revenue growth for Delta Air Lines. Finally, the Loyalty Program revenues stem

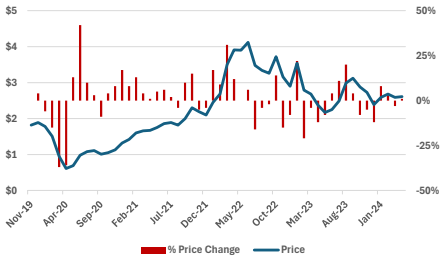
from third-party brand partnerships and obligations tied to the miles sold as part of the program, while Miscellaneous revenues come from lounge access.

Risks and Concerns

Despite being a leader in the sector, Delta Air Lines' operations carry various risks. Fuel cost volatility is the most significant among them. While the airline partially mitigates this risk through its ownership of Monroe Energy – by supplying approximately 75% of its fuel internally –, the remaining 25% is still subject to market-driven price fluctuations in crude oil and jet fuel. Although owning Monroe allows Delta to have some control over its fuel costs, the company still relies on additional purchases in the open market, where prices are dictated by industry-standard indices. Moreover, the ticket sales dynamic presents an additional challenge: passengers often secure tickets well before their travel dates, locking in prices that reflect current cost conditions. If fuel prices increase significantly during this lag, Delta's ability to adjust fares in response becomes limited. Even in future ticket pricing, the airline faces ongoing challenges in fully recovering fuel cost increases due to customer price sensitivity and competitive pressures. Operating in such an environment, Delta faces competition from international carriers, low-cost airlines, and other major carriers that may attract customers with lower fares and distinctive services.

Moreover, in 2023, around 89% of Delta's flights operated within the United States, highlighting its great dependence on the North American market, making it susceptible to regional economic fluctuations. Additionally, business travel contributed nearly 50% of Delta's total revenue. This heavy reliance on corporate clientele exposes the airline to economic fluctuations, as corporates often reduce travel budgets during downturns to conserve their cash flows. Delta, like other airlines, is highly vulnerable to market events, which are often unpredictable and can have a drastic impact on the industry. Nevertheless, while Delta is well-established and equipped to navigate downturns, there is a significant risk that some of its joint venture partners or investment counterparts could face financial distress. As Delta expands its footprint through global alliances and partnerships, its exposure to these risks continues to grow.

Exhibit 16: Jet Fuel Market - Prices Evolution (2019-2024)



Source: Airlines For America

Competitive Analysis

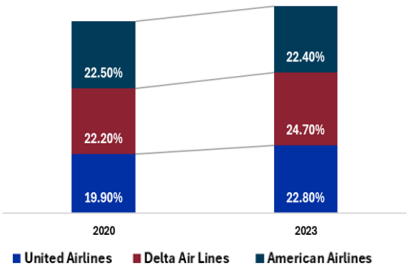
Cost and Revenue Analysis vs Competitors

Airlines in this sector can be classified, based on their operational and financial characteristics, into three groups: Legacy/Network Carriers (LC/NC), Low-Cost Carriers (LCC), and Ultra Low-Cost Carriers (ULCC). Operationally, LCs are often characterized by their strong international presence across key global

Exhibit 33: U.S. Airline Segmentation

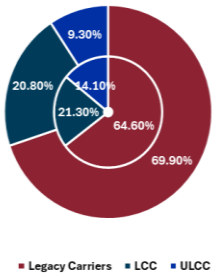
Source: Authors' Computations

Exhibit 34: Domestic Market Share (2020 vs 2023)



Source: Bureau of Transportation Statistics

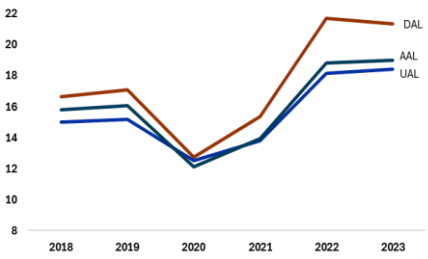
Exhibit 35: Market Share by Type of Carrier (2018 vs 2023)



Note: The inner circle refers to 2018 and the outer circle for 2023

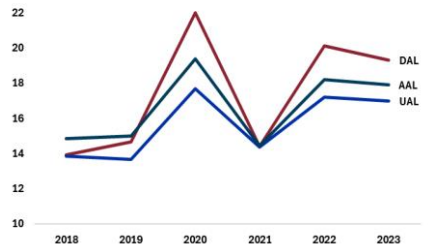
Source: Bureau of Transportation Statistics

Exhibit 36: Total Revenue per ASM (2018-2023)



Source: Companies' Annual Report

Exhibit 37: Operational Costs per ASM (2018-2023)



Source: Companies' Annual Report

regions. In contrast, LCC and ULCC operate domestically, prioritizing affordability and budget-friendly options. Normally, Legacy Carriers achieve higher revenues and have higher cost structures, reflecting their commitment to provide a high-value travel experience. That is, the Total Revenue per ASM (TRASM) and the Total Cost per ASM (CASM) are typically higher compared to the other career types. In North America, the three airlines classified as Legacy Carriers are Delta Air Lines (DAL), United Airlines (UAL), and American Airlines (AAL).

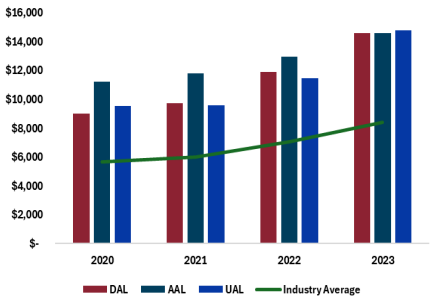
In 2023, LC held approximately 69.9% of the US airline industry's market share, while LCC and ULCC accounted for 20.8% and 9.3%, respectively (Exhibit 35). LCs also dominated total operating revenue worldwide, accounting for approximately 74%, while LCCs and ULCCs contributed 20% and 6%, respectively. In the U.S. domestic market in 2023, LCs generated approximately 68% of revenue, LCCs 25% and ULCCs 7%.

Delta Air Lines is the most profitable legacy carrier in the world, by managing a cost structure similar to its direct peers, while outperforming them in its revenues. As one can observe in Exhibit 36, Delta's TRASM experienced a significant decline from 2019 to 2020, dropping from $17.07 to $12.73. However, it quickly recovered from 2021 to 2022, increasing from $15.37 to $21.69. In 2023, Delta's TRASM saw a slight drop of 2%, falling to $21.34, mainly due to a decrease in the refinery sales to third parties, for the abovementioned reasons. Despite this decline, Delta's TRASM remains notably higher compared to American Airlines' one – its closest competitor –, which reported a TRASM of $19.01 in the same year. Additionally, Delta's CASM, in 2023, decreased at a faster rate of 4%, from $20.12 to $19.31. This reduction is attributed to a 17% increase in its fleet capacity, as well as lower fuel costs and reduced expenses regarding refinery sales. When comparing the CASM of Delta Air Lines and American Airlines, which stands at $17.92, the difference is smaller than the gap in TRASM. This highlights Delta's strong ability to remain competitive, by generating higher revenues, while aligning its cost structure closely with that of its peers.

A key factor in Delta's distinctive profitability is its ability to manage specific operational expenses. Over the past five years, Delta has maintained the highest cost structure per ASM, primarily due to its unique operating model, which includes not only the previously mentioned costs associated with refinery ownership and in-house MRO services, but also practices like profit-sharing[1]. Despite these additional expenses, which are not typically borne by other major airlines, Delta has successfully maintained an overall cost structure that remains competitive compared to its peers.

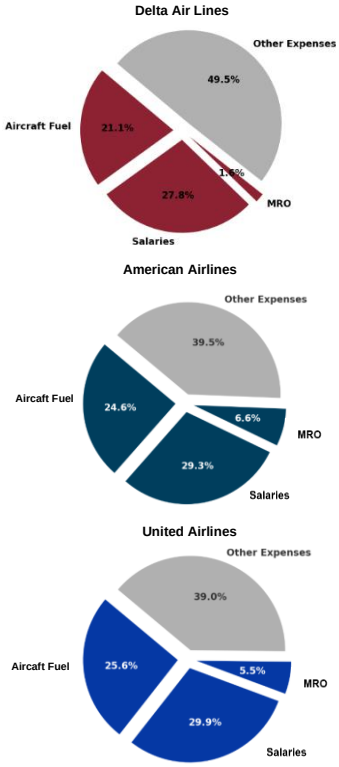
[1] A program that distributes, at the end of each fiscal year, a portion of the company's profits to its employees as a bonus.

Exhibit 38: Wages - Historical Progression (2020-2023)



Source: Companies' Annual Report

Exhibit 39: Major Costs Structure Distribution of Major Airlines (2023)



Source: Companies' Annual Report

Salaries are one of the main operational costs for US airlines, given the labor-intensive nature of the industry. Delta's salary expenses have been notably higher than the industry average, increasing at a CAGR of 4.64% over the past five years, compared to the industry's modest growth rate of 0.09%. Only United Airlines and American Airlines have the financial capacity to rival Delta's salary levels. However, Delta has established a new benchmark for pilot salaries, in 2023, with a union contract that promised to pay an immediate increase of 18%, followed by a raise of 5% in 2024, 4% in 2025 and an additional 4% in 2026, totalling a 34% increase. These competitive salaries enhancements boost employee attraction and retention, foster positive labor relations, and improve the overall quality of the customer experience.

Delta's strategy of vertical integration within its supply chains has enabled the airline to manage its fuel costs and MRO services more efficiently. Both fuel and MRO expenses account for less than 25% of Delta's total OpEx. In comparison, Delta's main competitors with the most similar structures, American and United Airlines, have higher fuel and MRO expenses accounting for 31.2% and 31.1% of their total OpEx, respectively. The airline has succeeded in keeping MRO costs lower than its direct competitors while delivering a high-quality, standardized service through in-house management and a skilled workforce. In 2023, Delta Air Lines also incurred significant costs related to contracted services of approximately $4.04 billion, marking a 20.1% increase compared to the previous year. This rise can be attributed not only to increased demand and the recovery of operations following the pandemic, but also to MRO contracts valued at $225 million, celebrated in the first quarter of 2023. These contracts, which cover maintenance for both Airbus and Boeing aircraft, prove that Delta's strong investment is being effectively capitalized and acknowledged by the market, further solidifying the airline position within the industry.

As one can observe in Exhibit 39, Delta Air Lines demonstrates a competitive cost structure that allows it to effectively manage operational expenses, despite having higher costs. While Delta's expenses exceed those of its direct competitors, the airline's strategic management results in a more substantial revenue generation, resulting in a revenue difference between Delta and its peers considerably greater than the difference in their respective expenses. This highlights Delta's ability to leverage its operational efficiencies and customer-focused strategies, maintaining the largest market share in the industry.

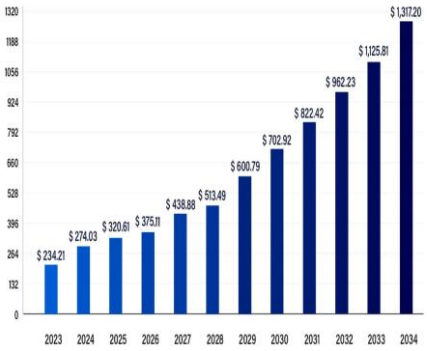
Delta's Global Network: The Key to Its Success

The US airline industry is still undergoing significant evolution to return to the pre-pandemic levels and recover from the most determinant event in this industry's history. Low-cost carriers are increasing their market presence and major airlines

Exhibit 40: Airlines Valuation (2023)

Source: Brand Directory

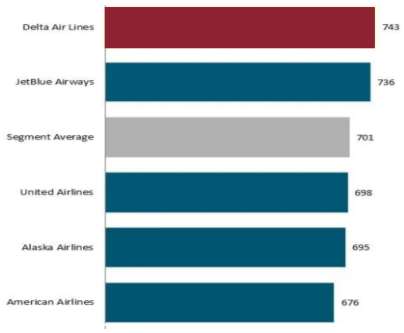
Exhibit 41: LCC Market Size, in USD Billion (2023-2034)



Source: Precedence Research

Exhibit 42: 2023 North America Airline Customer Satisfaction Study in First/Business Class

(Based on a 1000 – point scale)



Source: J.D. Power

Exhibit 43: 2023 North America Airline Customer Satisfaction Study in Premium Economy Class

(Based on a 1000 – point scale)

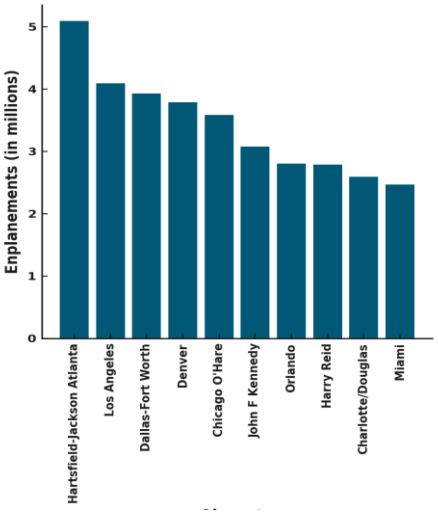
Source: J.D. Power

are adapting to meet post-pandemic demand. According to the 2023 Brand Finance Airlines 50 report, Delta Air Lines has emerged as the most valuable airline, on a global scale, with a brand valuation of $8.9 billion, representing an increase of 22% from the previous year. Remarkably, four of the five top airline brands are primarily based in the US, with Emirates being the exception. In 2023, the four largest airlines in the US, ranked in Exhibit 40, commanded almost 82% of the market share. While LCC are expected to capture a higher global market share over the upcoming years, with a $CAGR_{2024\text{-}2034}$ of 17%, due to the increase in the leisure travel segment, it is expected that these four airlines will continue to dominate U.S. air traffic collectively. Despite their similar market shares and shared goal of attracting higher-paying customers, Delta has distinguished itself from its three largest competitors through a more focused, aggressive strategy and superior management practices, as previously described.

Delta's strong brand comes from, among other things, its value proposition, which gives the passengers a variety of travel classes besides the main cabin, such as Delta Premium Select, Delta On, Delta Comfort+, and First Class, as well as a range of premium products and services. While other airlines, such as American and United Airlines have openly recognized the challenges posed by low-cost carriers, Delta has remained dedicated to serve a high-paying business traveller. However, to efficiently compete with these LCC and avoid losing customers to its competitors, Delta has launched the industry's first Basic Economy fare, providing passengers with a more affordable travel option, while still maintaining its premium service features. Additionally, Delta's SkyMiles® loyalty program is a key alliance that enhances the airline's visibility and presence in the market. Its partnership with American Express provides valuable incentives for members to select Delta and its regional partners, allowing them to earn travel awards and accumulate miles that can be used in other type of services and companies, such as hotels and car rental agencies.

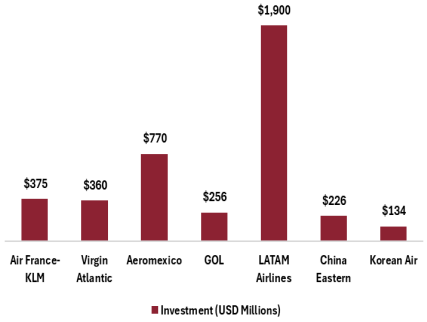
Atlanta's airport – Delta's primary hub – is not only the largest airline hub in the world, but also the most-travelled airport overall. As Delta's primary hub, it serves as the main airline option for locals, thanks to its extensive service offerings. This is particularly appealing to business travellers, who prioritize access to a high range of destinations, with high flight frequency, and reliable services. Delta Air Lines is strategically positioned across multiple key locations, including Georgia, New York, California and Massachusetts, which are among the wealthiest states in the US, enabling the airline to dominate the business travel market. In contrast, American Airlines maintains a strong presence primarily in Dallas and Charlotte, while United Airlines faces challenges in significant markets like Chicago and Newark, where it competes with both American and Southwest Airlines.

Exhibit 44: Top 10 Ranked US Hubs by Enplanements (2023)



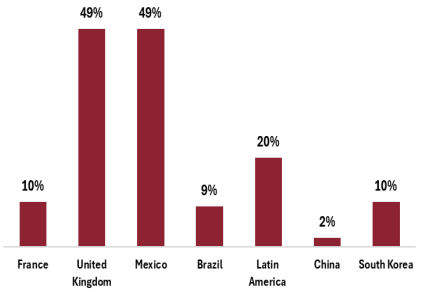
Source: Federal Aviation Administration' Annual Report 2023

Exhibit 45: Delta's Investments Across Airlines



Source: Delta's Annual Report

Exhibit 46: Delta's Stakes Across Airlines



Source: Delta's Annual Report

Another reason why Delta Air Lines has become one of the world's most profitable airlines is because of its smarter fleet strategy compared to its competitors. The airline operates in older fleet, with an average age of 15 years, making older than American Airlines (12.6 years) and Southwest Airlines (12 years). Delta's strategy of maintaining an older aircraft is economically advantageous, as it allows the airline to avoid high costs of purchasing/leasing new aircraft while focusing on operational efficiency. By investing in cabin upgrades and modern amenities through its MRO internal services, Delta ensures a high-quality passenger experience that rivals airlines with newer fleets, establishing a balance between cost management and customer satisfaction.

Finally, while major competitors only focus on alliances and partnerships with different airlines around the world, Delta has opted for multiple Joint Ventures (JV) and Equity Investments. By the end of 2023, Delta has invested approximately $3.5 billion in other airlines' equity across the globe. In reach Europe, Delta has made significant investments in Air France-KLM (JV of around $375 million for a 10% equity stake) and Virgin Atlantic (JV of around $360 million for a 49% equity stake). In Latin America, Delta has invested in Aeromexico through a JV of approximately $770 million for a 49% non-controlling equity stake, in Brazilian LCC GOL, where it holds a 9% equity stake for $256 million, and LATAM Airlines, in which it acquired a 20% equity stake for $1.9 billion. Lastly, in Asia-Pacific, Delta's investments include China Eastern (2% equity stake for $226 million) and Korean Air (valued at around $134 million, with a 10% equity interest). By holding equity in these foreign airlines, Delta can access potential financial returns from those markets, diversifying its revenue streams and enhancing its global presence.

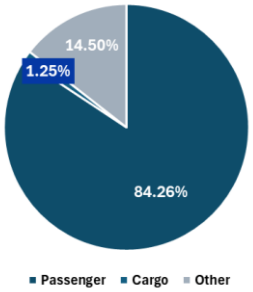
Forecasts & Model Assumptions

Delta's revenues were individually projected for each segment, based on distinct market growth analysis, throughout the explicit horizon defined as the period from 2024 to 2029. From that point onwards, growth was projected to gradually decrease, using a linear interpolation, ultimately stabilizing by 2034, reflecting how Delta is anticipated to operate in the future. Given that 2022 and 2023 were recovery years, marked by a boost in demand because of a global lockdown, our projections were not grounded on historical performance. Instead, we based our forecasts on our analysis of each segment and our assessment of how their products are likely to evolve, considering their market acceptance and competitive dynamics.

Delta's total revenue can be classified into three main categories: Passenger, Cargo, and Other, which includes the Loyalty Program, Ancillary Businesses and

Refinery, and Miscellaneous. In Exhibit 47, one can observe Delta's revenue breakdown.

Exhibit 47: Delta's Revenue Breakdown (2023)



Source: Delta's Annual Report

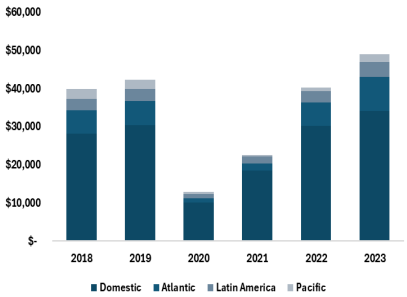
Passenger Revenue

Delta Air Lines' primary revenue segment is Passenger Revenue. This segment is responsible for the ticket sales of both domestic and international flights, and accounted, in 2023, for approximately 84.3% of Delta's total revenue. Domestic flights contributed 69.45% to the total segment's revenue, followed by Europe at 18.52%, Latin America at 7.77%, and the Pacific at 4.27%. It can be broken down into three key metrics: i) Available Seat Miles (ASM), ii) Passenger Mile Yield and iii) Load Factor.

Passenger Revenue = ASM x Passenger Mile Yield x Load Factor

In our forecasts, we provide a geographical breakdown of total passenger revenues, applying the formula above to each region where Delta operates: North America, Latin America, Atlantic and Pacific. This in-dept approach – which looks into each region separately – offers insights into how Delta's global network is expected to grow, keeping in mind its strategic focus on expanding its footprint.

Exhibit 48: Delta's Passenger Revenue by Region (2024-2029)



Source: Delta's Annual Report

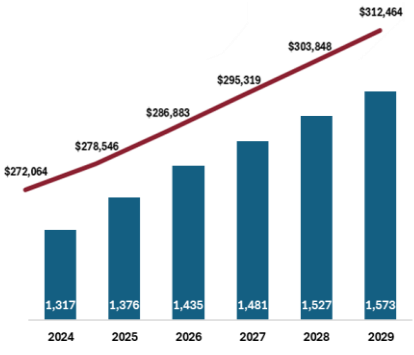
- Available Seat Miles

ASM measures the airplane's carrying capacity to generate revenues. It depends on the following three factors: i) number of airplanes on Delta's fleet, ii) number of seats per plane and iii) number of miles flown by all the airplanes. Similar to Passenger Revenue, ASM can be calculated as the product of these 3 variables:

ASM = Average Total Miles Flown x Nº of Airplanes x Nº of Seats

Unlike the total number of airplanes and seats, Delta's yearly total miles travelled is not available. To estimate them, we divide the total operating income by the total Revenue per ASM generated for the total number of seats, both sourced from Delta's annual reports, yielding a 1.8% CAGR. Given that Delta's key partnerships and JVs are already well-established, with only plans for gradual expansion into the Middle East in the coming years, it is reasonable to anticipate modest growth in total miles flown.

Exhibit 49: Delta's Planes and ASM (2024-2019)



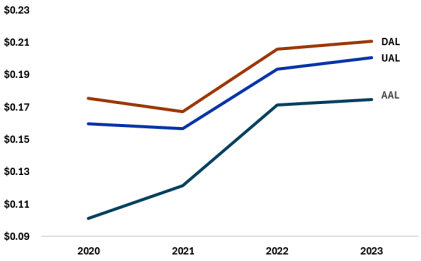
Blue bars refer to the number of aircrafts and the red line to ASM in USD millions

Source: Authors' Computations

Since it is impossible to precisely predict which planes serve each region, or the miles flown per region, we took a different approach to forecast total ASM by region. We assumed it would align with the estimated average annual growth in passenger traffic to and from the U.S. between 2023 and 2043 (Statista Research Department). According to this study, Pacific is expected to see the highest growth at 5.5%, followed by Latin America at 3.6%, North America at 3.2% and, finally, the Atlantic at 3%. These projections are well aligned with Delta's strategy, as the airline is already well-established in North America and is

focusing on expanding its fleet to Pacific and LatAm regions, through its joint ventures with Korean Air and LATAM Airlines.

Exhibit 50: Legacy Carriers Passenger Mile Yield (2020-2023)



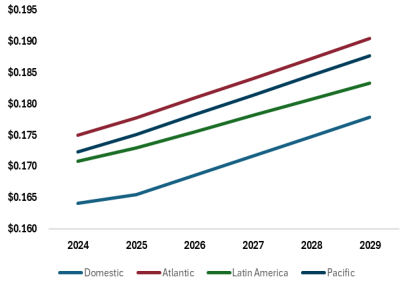
Source: Companies' Annual Reports

- Passenger Mile Yield

The Passenger Mile Yield measures the revenue generated per passenger per mile flown, normally expressed as the number of cents earned per mile flown by a paying passenger.

Historically, Delta has outperformed its peers' performance in generating higher yields per passenger mile, reaching $0.2106 in 2023. We anticipate an upward trend through our forecasted period, with Delta maintaining a competitive advantage. Our projections for this metric rely on the projections outlined on the annual report of the Federal Aviation Administration (FAA). By 2030, passenger yields are expected to reach $0.1809 in North America, $0.1859 in Latin America, $0.1650 in the Atlantic, and $0.1628 in the Pacific. Therefore, a linear interpolation was applied. As a result, the Pacific region is projected to have the highest CAGR at 0.78%, followed by the Atlantic at 0.77%, North America at 0.73%, and Latin America at 0.64%. Overall, Delta's total Passenger Mile Yield is expected to grow steadily from 2024 to 2029, at a CAGR of 1.75%.

Exhibit 51: Delta's Passenger Mile Yield by Region (2024-2029)



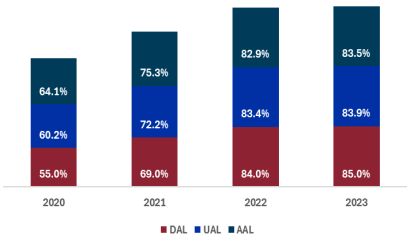
Source: Federal Aviation Administration Report

- Load Factor

The Load Factor is an important metric to measure the percentage of available seating capacity that has been filled with passengers.

Historically, Delta Air Lines was the most affected airline during Covid-19, showing the lowest capacity percentage among its direct competitors, as one can observe in Exhibit 52, We attribute this decline to the safety measures Delta implemented, such as blocking middle seats and its greater reliance on business travel, which saw a significant drop during the pandemic. Nevertheless, over the past two years, the airline has staged a strong comeback, recovered its competitive edge and achieved the highest seat fulfilment capacity, effectively returning to its pre-pandemic levels. We believe that this success is primarily attributed to Delta's strategic use of hub-and-spoke system[2], individualized route management for optimized seat location and its overbooking strategy to maximize the airplane's occupancy.

Exhibit 52: Legacy Carriers Load Factor (2020-2023)

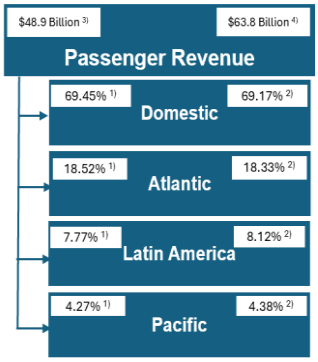


Source: Companies' Annual Reports

Similar to the Passenger Mile Yield, Load Factor is also derived from the FAA annual report and assumed to vary with the industry's projections. Domestic load factor is projected at 85% in 2024, increasing to 85.8% by 2030. In the Atlantic and Latin America regions, load factors are expected to remain steady at 82.6% and 85.8%, respectively, from 2024 to 2035. Finally, in the Pacific region, the load factor is forecasted to start at 80.9% in 2024 and gradually rise to 82.2% by

[2] Transportation model that optimizes efficiency and passenger connections by routing flights through central hub airports, which link to various smaller destinations.

Exhibit 53: Delta's Historical and Forecasted Passenger Revenue



1) % of 2023 Passenger Revenue
2) % of 2029 Passenger Revenue
3) 2023 Passenger Revenue
4) 2029 Passenger Revenue

Source: Delta's Annual Report; Authors' Computations

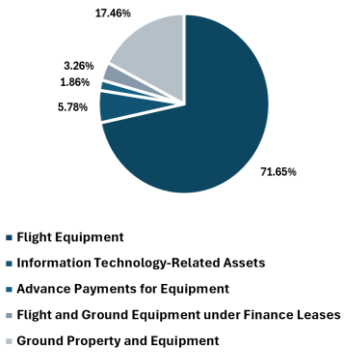
2030. To ensure a smooth transition, a linear interpolation was applied from 2024 to 2029 to align proportionally with the 2030 projections. The overall passenger revenue for Delta was then calculated by weighting each region's load factor according to its contribution to the passenger segment.

Following the aforementioned assumptions, we project that, from 2024 to 2029, domestic passenger revenue is expected to grow at a 3.82% CAGR, Atlantic at 3.73%, Latin America at 4.55%, and the Pacific at 4.27% CAGR, resulting in an overall 3.88% CAGR for the segment. While Delta's passenger revenue region distribution is expected to remain stable, a slight shift is projected, with domestic revenue decreasing by 0.28 bp and Atlantic by 0.19 bp, offset by increases in Latin America and Pacific shares by 0.36 bp and 0.11 bp, respectively. Considering Delta's investments in international expansion, these projections align with the company's strategic goals and validate our assumptions.

CAPEX

Delta places significant value on its Property, Plant and Equipment (PPE), particularly on its flight equipment, which is a major driver of its business performance and competitive position in the airline industry. The airline's approach to aircraft acquisition has evolved significantly over the years. Historically, Delta opted to purchase used aircraft from other airlines rather than investing in new models. Initially, this strategy allowed for a lower capital expenditure per plane, further resulting in increased maintenance costs and shorter operational lifespan of the planes, since they were much older. Even though this approach is more cost-effective for the airline, it presented some challenges. Firstly, it is not aligned with the premium experience that Delta promises to offer to its passengers. Moreover, apart from being less fuel-efficient, these airplanes do not comply with the environmental requirements imposed to the airlines, impacting both profitability and environmental sustainability. Since 2020, Delta has been through a comprehensive fleet renewable and simplification procedure. The airline is, since the pandemic, focused on acquiring new, more fuel-efficient aircraft. Moreover, it has been reducing the variety of aircraft models, which saves on pilots' training costs and on maintenance costs.

Exhibit 67: Delta's PPE Composition (2023)



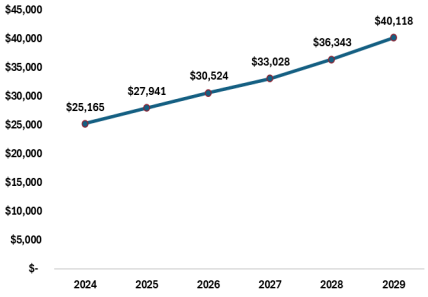
Source: Delta's Annual Report 2023

Delta's PPE can be divided into 5 segments: flight equipment, ground property and equipment, information technology-related assets, flight and ground equipment under finance leases and advance payments for equipment. In 2023, each category accounted for, respectively, 71.65%, 17.46%, 5.78%, 3.26% and 1.86% of the total gross property and equipment.

Given Delta's capital-intensive business model, it is important to accurately forecast its evolution. Given the dynamic nature of fleet management, aircraft

lifecycles are subject to fluctuations due to high turnover. Each year, Delta acquires new planes while fully depreciating older ones. As a result, the fleet undergoes constant renewal. To simplify, we assume that the acquisition cost of new planes remains roughly the same and Delta fully depreciates each aircraft until the end of its useful life and sells it at the residual value. The price per airplane is calculated by dividing the total flight equipment value by the number of planes in Delta's 2023 fleet. To project the number of acquired airplanes, we multiply this price by the expected number of acquired airplanes annually, outlined in Delta's annual report, which remains constant after 2026. For the retired airplanes, we assumed a fixed number based on historical retirement, estimating that two aircraft will be fully depreciated and retired each year, and multiplied it by the average cost per plane.

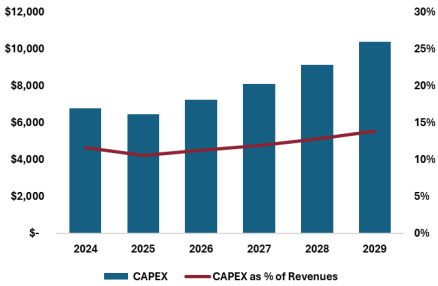
Exhibit 68: Delta's PPE Depreciation & Amortization (2024-2029)



Source: Authors' Computations

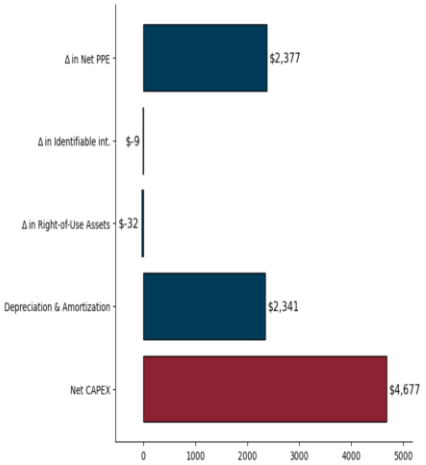
To effectively predict each PPE's category individually, we started by forecasting its depreciation value and making specific assumptions regarding residual values and useful life. Delta's flight equipment consists of its operating aircraft fleet, with expected lifespans for different airplane types ranging from 1 to 28 years. After averaging these values, we conclude that Delta's fleet has a 15-year lifespan. We set the residual value at 5%, assuming that Delta solely chooses to maximize asset utility, falling into the industry range of 5% to 20%. From these assumptions, we estimated a depreciation rate of 6.4% for flight equipment asset class. The other types of equipment, which still represent a big pie of the total invested capital of Delta, since they have lower values, we assumed a shorter depreciation period of 4 to 7 years and, similar to flight equipment, a residual value of 5%. The gross PPE for each year is then estimated based on the historical ratio of accumulated depreciation to gross PPE (37.27%). For these values to remain accurate, the costs associated with newly acquired aircraft must be included, and fully depreciated planes must be removed from the calculations. PPE is expected to grow at a CAGR of 8.7% through our explicit horizon. Moreover, right-of-use assets account for the value of the total airplanes acquired under operating lease agreements. Therefore, their projected growth rate over the forecasted period will vary according to our estimation of the increase in the number of aircraft leased under these agreements. To predict the yearly amount of operating leased airplanes, we used the average historical share of the operating leases in its fleet, which stands at 8.64%. Considering Delta's heavy-asset strategy, we expect a further increase in the number of owned and leased airplanes in the future. Delta's Intangible assets include Indefinite-lived assets, (International routes and slots), Delta's trade name and Airline Alliances, as well as Definite-lived assets, like market agreements, contracts, and others. Historically, these assets have remained stable, a pattern that we assumed to continue over the forecasted period.

Exhibit 69: Delta's CAPEX and % of Revenues (2024-2029)



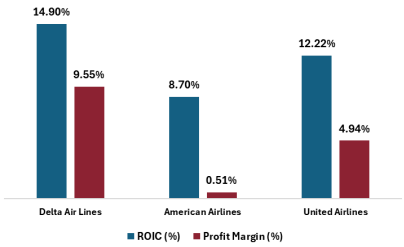
Source: Authors' Computations

Exhibit 70: Delta's Net CAPEX Breakdown (2023)



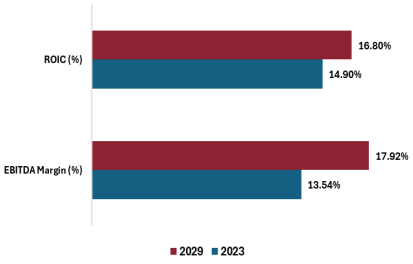
Source: Delta's Annual Report 2023; Authors' Computations

Exhibit 77: U.S. Legacy Carriers ROIC & Profit Margin (2023)



Source: Refinitiv; Authors' Computations

Exhibit 78: Delta's ROIC and EBITDA Margin (2023 vs 2029)



Source: Delta's Annual Report; Authors' Computations

Delta's CAPEX, which is composed by these 3 components, is expected to increase, from 2024 to 2029, at a CAGR of 6.9%, mainly driven by the increase on the overall PP&E. However, while a substantial growth is projected on the upcoming years, we expect that its annual growth will slow down, as Delta's investment in next-generation aircraft is expected to give longer lifespans compared to the older models, as well as more durable materials.

Consolidated Perspective

To provide a comparative view of Delta's performance against its competitors, we examine the company's metrics for 2023, which include revenues of $58,048 millions, an EBITDA margin of 13.54%, and a ROIC of 14.9%. We have selected American Airlines and United Airlines as Delta's main competitors, as they, along with Delta, are the primary US Legacy Carriers. In 2023, the total revenues of both peers were $52,788 millions for American Airlines and $53,717 millions for United Airlines. The EBITDA margin and ROIC were, respectively, 10.02% and 8.7% for American Airlines and 13.07% and 12.22% for United Airlines. In the same year, Delta outperformed its peers with a profit margin of 9.55%, while American Airlines and United Airlines recorded a margin of 0.51% and 4.94%. Important insights were derived from Delta's historical performance, including its leadership position in the sector and its competitive advantages, and were incorporated into Delta's operating model. By the end of our explicit horizon, we anticipate Delta to achieve a total revenue of $76,527 million, an EBITDA margin of 17.92%, and a ROIC of 16.8%. These projections take into account key factors such as the airline's continued expansion into new international markets, its additional revenue streams generated through its subsidiaries, as well as it plans to build a more efficient fleet. We are confident that Delta will continue to leverage its subsidiaries to excel its performance, explore international alliances, and drive both operational and environmental efficiency, positioning the company for a successful transition to the final stage of our analysis: Delta's Valuation.

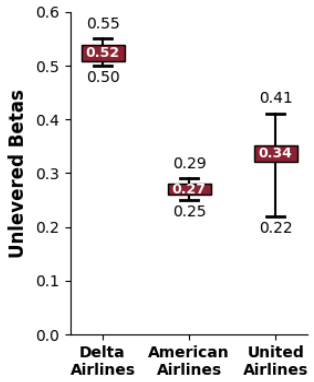
Valuation

Discounted Free-Cash-Flow Model

For the company's valuation, we chose the DCF model, using a forecast period of 11 years, from 2024 to 2034, assuming a convergence to a steady state by the end. This timeline was carefully selected to capture the company's post-pandemic recovery phase and the gradual slowdown until the steady state.

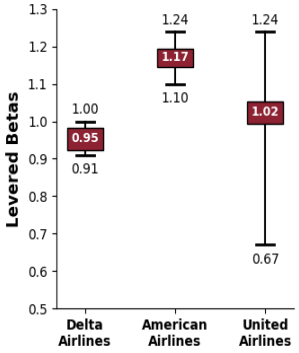
To estimate Delta's cost of debt, we assumed its current credit rating of BBB (S&P) will remain unchanged in the future. According to the Federal Reserve, the long-term yield for this rating is 5.79%. The probability of default and loss given

Exhibit 79: Legacy Carriers Unlevered Beta



Source: Authors' Computations

Exhibit 80: Legacy Carriers Levered Beta



Source: Authors' Computations

Exhibit 81: Delta's Valuation Breakdown FY 2025

Enterprise Value	**$ 81,908.82**
Net Debt & Other Claims	($ 32,800.98)
Equity Value	**$ 49,107.84**
Number of Outstanding shares	**645,281,221**
Share price (as of 07-Nov-24)	**$ 65.77**
Price Target FY 2025	**$ 76.10**
Capital Gains	**15.71%**
Dividend Yield	**0.80%**
Expected Total Return	**16.50%**

Source: Authors' Computations

Exhibit 89: Final Recommendation

	Price	Advice
Share price (as of 05 Dec 2024)	$ 65.77	
DCF Model	$ 76.10	**BUY**
DCF Model - Different Scenarios	$ 76.26	**BUY**
Multiples Valuation	$ 67.58	**HOLD**
Final Recommendation		**BUY**

Source: Authors' Computations

default for companies with this rating – both retrieved from Elton et al. – are 1.26% and 86.94%, respectively, resulting in a cost of debt of 4.55%. For Delta's cost of equity, we used the Capital Asset Pricing Model (CAPM). Firstly, we calculated the levered beta, by regressing the airline's excess weekly returns against the Arca Airline Index (XAL), from 2018 to 2024, yielding a slope of 0.95. Moreover, we used the 10-year US treasury yield of 3.89% as a proxy to the risk-free rate, along with A. Damodaran's Market Risk Premium estimate of 5.94%. As a result, the cost of equity required by Delta's investors is estimated at 9.56%. Using the XAL index as the benchmark, we calculated the leveraged beta for Delta's peers, derived the leverage ratios for each company, and determined the tax rate. This data was then used to compute the unlevered beta, as shown in Exhibit 80. These beta values provide valuable insights into DAL's risk profile. As shown in Exhibit 81, Delta has a lower βL compared to its main peers, reflecting its more conservative capital structure and reduced reliance on debt to support daily operations. However, its higher βu underscores that Delta's core operations carry greater inherent risk, which we believe is likely due to its substantial international operations and premium service offerings, which are more susceptible to global economic fluctuations.

Using the company's current D/E ratio of 38%, we calculated a WACC of 7.26%. We then discounted the free cash flows and applied a long-term growth rate of 1.06%, as observable in Exhibit 82. Consequently, the projected fair value of the company's share for 2025 is estimated at $76.10, with an Enterprise Value of approximately $81,908 million.

Final Recommendations

After a careful and detailed analysis of the company's business segments and its market position, as well as its drivers, we expect, for December 31, 2025, a target price of $76.1 per share. This price translates into a total return of 16.5% for Delta's investors.

Our final recommendation relies solely upon the DCF model, with relative valuation used only as a supportive method to benchmark Delta against its competitors. Given that our forecasted return exceeds the 10% threshold, we advise investors to BUY Delta's stock. For further reference, HSBC shares the same view, recommending a **BUY** position, with a target price of $72.80 per share. While HSBC also recommends buying stocks from other airlines, Delta is their "preferred stock" due to its strongest competitive positioning in the industry.

Despite being a very challenging competitive landscape, we believe that Delta will remain its competitive edge over its peers, due to its ability to deliver a high-quality airline experience for every passenger and capitalize on it effectively.

DELTA AIR LINES, INC.

COMPANY REPORT

AIRLINES SECTOR

17 DECEMBER 2024

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Overflying Uncharted Waters

Leading the airline industry through strategic growth

- Delta Air Lines, the **largest U.S.-based airline**, relies heavily on the North American market. However, its **joint ventures** and **partnerships** have driven **successful international expansion**. Another key competitive advantage is **Delta's vertically integrated supply chain**, which has enabled the airline to **hedge 40-50% of fuel costs** and save approximately **$5.1 million in MRO services**.

- The airline industry, while fiercely competitive and highly sensitive to external factors, offers **promising growth prospects**, with **global air traffic projected to double** from 3.9 billion in 2019 to 7.8 billion by 2040. As the industry leader, we believe **Delta is well-positioned to meet this rising demand**.

- In our baseline scenario, we anticipate **total revenues to grow at a CAGR2024-2029 of 4.29%.** Domestic flights are expected to maintain their dominant position, while Latin America and the Pacific regions are forecasted to achieve the **highest growth rates of 5.33% and 5%**, respectively. This outlook is supported by Delta's **strategic investments in LATAM Airlines, Korean Air, and China Eastern**, along with the projected **expansion of the Asian market**.

- Our **BUY** recommendation is based on a **DCF valuation**, in which we applied a **WACC of 7.26%** and a **terminal growth rate of 1.06%**. The forecast period extends until 2034, after which we assume the company's cash flows will stabilize. Notably, 2024 has been a standout year for Delta, **with its share price rising 54.25%, significantly outpacing the S&P 500's 31% growth over the same period.**

Company description

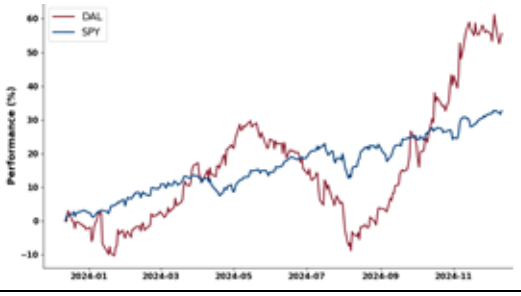
Delta Air Lines was founded in 1925 and is the biggest and most profitable US-based airline company. Headquartered in Atlanta, Georgia, Delta operates a fleet of 1,273 aircraft, offering over 4,000 flights daily to 280 different destinations worldwide. Delta has made significant investments in several international carriers through joint ventures and partnerships and runs independent business unions in the MRO and oil refinery markets.

Recommendation:	**BUY**
Price Target FY25:	**$ 76.10**
Upside Potential	*16.50 %*
Price (as of 22-Feb-25)	**$ 65.77**

Reuters: DAL.N, Bloomberg: DAL:US

52-week range ($)	36.34 - 67.50
Market Cap ($ in millions)	40.879
Outstanding Shares (in millions)	645.28

Source: Yahoo Finance



Source: Refinitiv

(Values in € millions)	2023	2024E	2025E
Revenues ($ in millions)	58,048	59,394	62,208
Passenger Revenue	48,909	49,807	52,048
Cargo	723	744	766
Other	8,416	8,842	9,394
EBITDA ($ in millions)	8,783	6,098	6,801
Net Profit	4,609	2,517	2,986
EPS ($)	7.21	3.9	4.63
Dividend per Share ($)	0.2	0.5	0.6
Return on Assets	6.32	5.4	5.2
Return on Invested Capital	14.9%	18.8	19.6
Return on Equity	41.8	51.8	50
D/E ratio	2.41	1.95	1.72

Source: Equity Research

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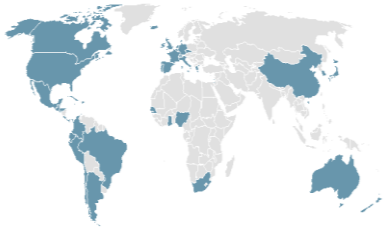
Company Overview

Company Description

Exhibit 1: Delta Air Lines' Logotype

Delta Air Lines, founded in 1925 as "Huff Daland Dusters", is the biggest and most profitable US-based airline company, controlling over 22.4% of the airline domestic market. Headquartered in Atlanta, Georgia, Delta and its network of subsidiaries and regional affiliates operated 1,273 aircraft by the end of 2023, delivering over 4,000 daily flights to 280 destinations worldwide.

Exhibit 2: Delta's Destinations

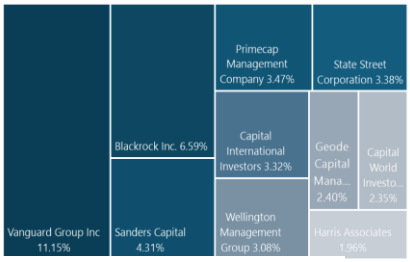


Source: Flight Connections

Delta offers a diverse range of services, including passenger and cargo transportation, aircraft operations, security services, training and consulting, aviation solutions, travel and vacation planning, and maintenance, repair, and overhaul (MRO). The company's major segments are air transportation and refinery. Delta's global route network includes 17 hubs, with Atlanta being its largest. Although 69.5% of its fleet operates domestically, Delta is focused on expanding its footprint throughout the world. Besides being a founding member of Sky Miles, it has service agreements with various domestic regional carriers, as well as bilateral and multilateral marketing alliances with international airlines, through several partnerships and Joint Ventures.

Corporate Governance

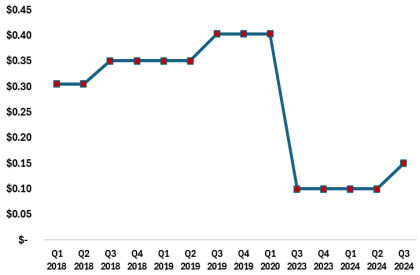
Exhibit 3: Main Shareholders



Source: Yahoo Finance

Delta Air Lines has a very fragmented shareholder structure. The Vanguard group is the only institution that holds more than 10%, with a 11.15% ownership. Together, the top 10 shareholders account for less than 50% of the total shares (40.46%), while no other individual shareholder holds more than a 7% stake (Exhibit 3). Similar to the rest of the U.S. airlines, Delta's shareholder panel is mainly composed by investment advisors and hedge funds. Given its dispersed distribution, we believe that it is unlikely that Delta's shareholders will exercise their influence over the airline's operations.

Exhibit 4: Delta's Dividend Payments (2018- Q3 2024)



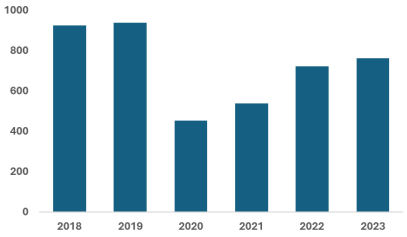
Source: Nasdaq

Regarding Delta's dividend policy, the airline has been consistently offering dividend payout since 2013, its IPO, in May 2007. Because of the pandemic, Delta was forced to suspend its dividend payments, between Q2 2020 to Q2 2023, which were resumed from there on.

Operating Strategy

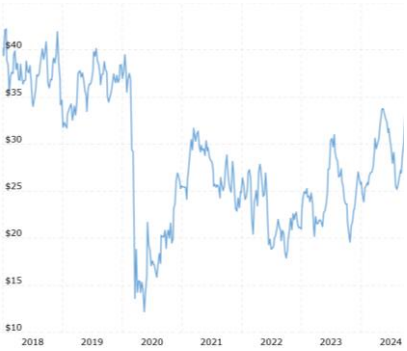
As a major player in one of the most competitive industries, with relatively low profit margins, Delta Air Lines must adopt strategic approaches to stand out from its competitors.

Exhibit 5: Market Size of the Airline Industry Worldwide (2018-2023)



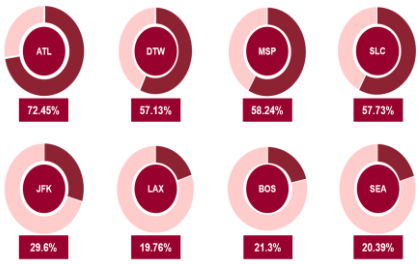
Source: Statista

Exhibit 6: Delta's Market Capitalization (2018-2024)



Source: MacroTrends

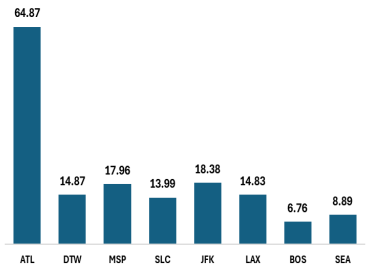
Exhibit 7: Delta's Market Share in Its Primary Hubs (2023)



Note: Hartsfield-Jackson Atlanta International Airport (ATL); Detroit Metro Wayne County Airport (DTW); Minneapolis-St Paul International Airport (MSP); Salt Lake City International Airport (SLC); John F. Kennedy International Airport (JFK); Los Angeles International Airport (LAX); Logan International Airport (BOS); Seattle/Tacoma International Airport (SEA).

Source: Simple Flying

Exhibit 8: Delta's Passenger Volume by Hub, in Millions (2023)



Source: Simple Flying

Delta has been developing personalized and high-quality services that meet the varying needs of its passengers, enhancing customer satisfaction by ensuring a seamless and distinctive journey at every stage of the flight, from booking to post-travel. By prioritizing employee satisfaction, the company focuses on delivering an exceptional and premium service that, consequently, will foster customer loyalty. By implementing customer segmentation into its strategy and introducing premium services, Delta has gradually reduced its dependence on the most price sensitive costumer segment, without excluding it. This approach has allowed the company to offer a broader price range to its passengers, while creating opportunities to capture high-value segments.

Over the years, there have been external conditions, such as 9/11, banking crisis, and, most recently, one of the most impactful events on the airline history – Covid-19 –, which forced Delta to innovate, adapt, and pivot its corporate strategies. When Covid-19 emerged, alongside the introduction of remote work, airlines companies were significantly constrained. This led to a noticeable shift in travel patterns, with increased demand for leisure destinations over business travel. However, Delta chose to keep its network almost intact and to continue serving these key business markets, using this as an opportunity to grow and strengthen its presence in these cities during the pandemic. The airline strategically took advantage of the industry slowdown to enhance its coastal presence in these business markets, investing in new facilities at major airports. As a result, it became the top-ranked airline company operating at critical hubs such as Los Angeles International Airport, LaGuardia and John F. Kennedy International Airport, both in New York, and Boston Logan International Airport. These investments positioned Delta for success as the air travel industry stabilizes and returns to normal. Therefore, there is a strong focus on corporate customers, and delivering value to them. This strategy has led to investments in private jet carriers, namely Wheels Up, as well as the launch of a new program that awards business travellers (Delta Business Traveler).

Alongside Delta's investments in key airports, it has established several major partnerships and joint ventures that have significantly transformed its operations, expanded its global footprint, and enhanced customer experience. Delta is continuously thriving to evolve, looking for and analysing new unexplored markets. Among its long list of investments, there is a significant one of 49% on Aeroméxico and Virgin Atlantic, which allowed Delta to expend its reach into the Mexican and London markets, in 2012 and 2013, respectively. A few years later, in 2016, Delta acquired 10% of Air France-KLM, further solidifying its presence in Europe. In 2019, the airline made a notable move by acquiring a 20% stake of LATAM Airlines, which has proven to be a transformative investment within the

airline industry, as it has enabled Delta to achieve a 68% growth in flights and launch six new routes. In June of the same year, a 10% equity stake in Hanjin KAL – the parent company of Korean Air – was acquired, in addition to the 2% equity stake in China Eastern acquired in 2015, expanding their joint operations in the trans-Pacific market. Furthermore, on the upcoming years, it is expected to be signed a strategic agreement between Delta Air Lines and Riyadh Air, to enhance connectivity between North America and Saudi Arabia. Delta's extensive network of partnerships and joint ventures plays a pivotal role in the company's strategy, as it allows the company to explore and reach new markets and provide enhanced services and connectivity to its customers.

Exhibit 9: Delta's Partnerships across the world

Source: Statista

Delta's vertically integrated business model is a core strategy designed to enhance control over its supply chain, reduce costs, and improve efficiency across its operations. The airline operates a total of 17 subsidiaries, with two of the most significant being TechOps – the largest airline provider of MRO services, supporting over 150 global airlines – and Monroe Energy, its refinery subsidiary. Monroe Energy plays a critical role in mitigating the impact of fluctuating fuel prices, reducing Delta's annual exposure and providing a 40-50% hedge across its network. Additionally, Delta TechOps has delivered total savings of $5.1 million in inspection and maintenance costs by 2023. Beyond supporting Delta's core airline operations, these units also contribute external revenue by offering their services to third-party customers.

Exhibit 10: Delta's Most Relevant Subsidiaries

DELTA TechOps	The airline's MRO division, offering maintenance services to Delta and other airlines globally.
Monroe Energy	Wholly-owned refinery subsidiary that supports Delta by providing jet fuel.
WHEELS UP	Wholly-owned subsidiary that offers private aviation services.
DELTA VACATIONS	Provides vacation packages, including flights, hotels, and rental cars, for leisure travellers.
DELTA CARGO	Freight and cargo services.

Source: Authors' Research

Not only is Delta thriving to mitigate the cost of the refinery margin, but it is also committed to incorporate sustainable aviation fuel and design a roadmap for a more sustainable travel experience. Since 2019, Delta has been focused on fleet renewal, including on its airplane network new aircraft that are 28% more fuel efficient per seat mile than the retired ones, contributing to a 5.5% improvement in the overall fuel efficiency. As part of the strategy, Delta has fully retired less efficient aircraft (e.g. CRJ-200 in 2023), while incorporating advanced models that support the airline's goals of reducing carbon emissions and lowering operational costs. The airline is also leveraging revolutionary technologies, through partnerships with Boeing, NASA and Airbus. These collaborations enable fleet aerodynamic modifications, including split-scimitar winglets and radial tires, and are expected to save millions of gallons of fuel annually, positioning Delta as a leader in sustainable innovation within the industry.

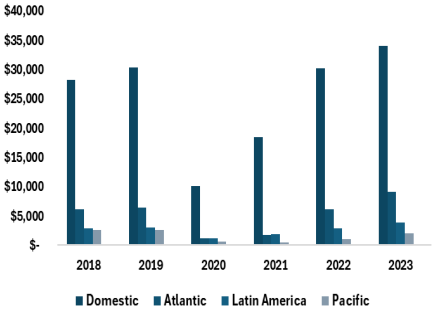
Exhibit 11: Comprehensive Benefits of the SkyMiles Program for Customers

Source: Delta Investor Day 2024

Business Model: Geographic Breakdown

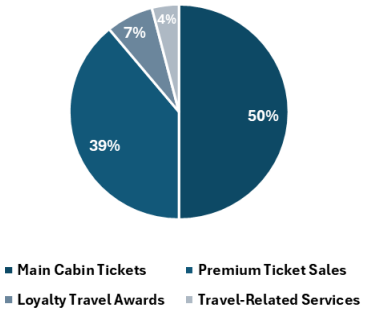
Delta operates across two primary business segments: Airline and refinery.

Exhibit 12: Passenger Revenue by Region (2018-2023)



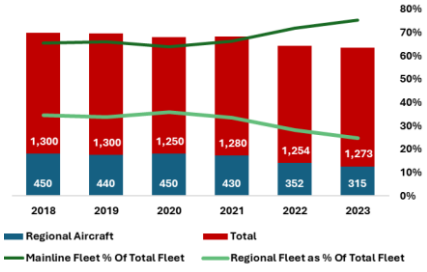
Source: Delta's Annual Report 2023

Exhibit 13: Delta's Ticket Revenue Segmentation (2023)



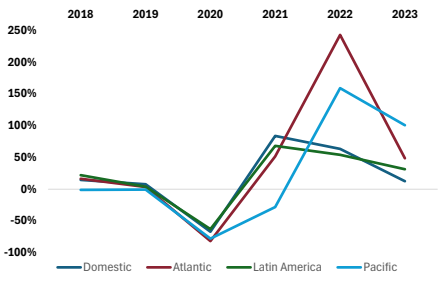
Source: Delta's Annual Report 2023

Exhibit 14: Delta's Fleet Decomposition (2018-2023)



Source: Delta's Annual Reports (2018-2023)

Exhibit 15: Revenue growth per geographic region (2018-2023)



Source: Authors' Computations

The Airline segment provides scheduled air transportation for passengers and cargo through a unified system along with ancillary services such as maintenance and repair solutions offered to third parties. It operates through three business units: Passenger, Cargo and Other. The airline has a fleet totalling 1,273 aircraft, which includes 958 mainline aircraft and 315 regional planes. It serves over 280 destinations, in 17 different hubs distributed around domestic and international markets: 9 in North America, 3 in Europe and Latin America (which includes the rest of the Americas) and 2 in Pacific Asia. Atlanta has remained Delta's primary hub since 1930. Geographically, in 2023, 69% of Delta's destinations were domestic (US and Canada), 17% were in LatAm, 11% in the Atlantic region (EMEA) and 3% in the Pacific region. When it comes to passenger revenue, domestic flights accounted for 69.5% of the total revenue, followed by Atlantic region at 18.5%, LatAm at 7.8% and Pacific-Asia at 4.2%. When analysing ticket revenue by category, 50% of it comes from main cabin tickets, while 39% is generated from premium ticket sales. The remaining 11% is distributed between loyalty travel awards and travel related services, contributing to 7% and 4%, respectively.

Delta strengthens its network coverage, especially within the domestic market, through partnerships with regional carriers that operate flights on its behalf. Currently, Delta works primarily with three regional careers: Endeavor Air – a wholly owned subsidiary –, SkyWest Airlines and Republic Airways. However, over the years, Delta has been actively reducing its dependence on regional partners, as observable in Exhibit 14, by ending partnerships with two additional regional carriers, while strengthening its ties with international airlines. Consequently, Delta has reduced the number of regional aircraft in its fleet by 10% since 2018, while simultaneously increasing its mainline fleet by a similar margin. In fact, the geographic region with the smallest revenue growth from 2022 to 2023 was the Domestic market, which saw an increase of 12.5%. This was followed by Latin America (↑ 31.5%), Atlantic (↑ 48.6%), and finally, the Pacific (↑ 100.8%).

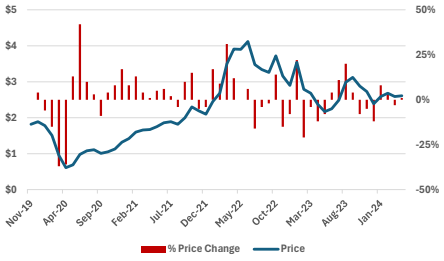
Delta's other revenue is divided into four key categories: Refinery, Ancillary Business, Loyalty Program and Miscellaneous. Refinery services are related to the production of diesel, gasoline and jet fuel, enabling Delta to trade non-jet fuel products with external parties for jet fuel needed in its operations. It is managed by Monroe Energy LLC, which supplies around 75% of Delta's jet fuel needs. Despite a $1.6 billion decrease in sales for this sector from 2022 to 2023, driven by lower global pricing and a refinery turnaround, Monroe Energy continues to serve as a hedge against volatile fuel prices, effectively mitigating Delta's exposure. Additionally, Delta's Ancillary Businesses, apart from offering vacation

wholesale operations, also provide MRO services, through Delta's subsidiary TechOps. With the global aviation industry projected to grow at a CAGR2024-2032 of 4.8% the MRO market presents a promising opportunity for expansion and revenue growth for Delta Air Lines. Finally, the Loyalty Program revenues stem from third-party brand partnerships and obligations tied to the miles sold as part of the program, while Miscellaneous revenues come from lounge access.

Risks and Concerns

Despite being a leader in the sector, Delta Air Lines' operations carry various risks. Fuel cost volatility is the most significant among them. While the airline partially mitigates this risk through its ownership of Monroe Energy – by supplying approximately 75% of its fuel internally –, the remaining 25% is still subject to market-driven price fluctuations in crude oil and jet fuel. Although owning Monroe allows Delta to have some control over its fuel costs, the company still relies on additional purchases in the open market, where prices are dictated by industry-standard indices. Moreover, the ticket sales dynamic presents an additional challenge: passengers often secure tickets well before their travel dates, locking in prices that reflect current cost conditions. If fuel prices increase significantly during this lag, Delta's ability to adjust fares in response becomes limited. Even in future ticket pricing, the airline faces ongoing challenges in fully recovering fuel cost increases due to customer price sensitivity and competitive pressures. Operating in such an environment, Delta faces competition from international carriers, low-cost airlines, and other major carriers that may attract customers with lower fares and distinctive services.

Exhibit 16: Jet Fuel Market - Prices Evolution (2019-2024)

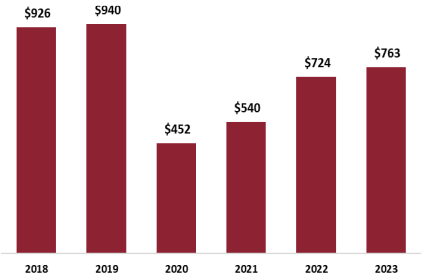


Source: Airlines For America

Moreover, in 2023, around 89% of Delta's flights operated within the United States, highlighting its great dependence on the North American market, making it susceptible to regional economic fluctuations. Additionally, business travel contributed nearly 50% of Delta's total revenue. This heavy reliance on corporate clientele exposes the airline to economic fluctuations, as corporates often reduce travel budgets during downturns to conserve their cash flows. Delta, like other airlines, is highly vulnerable to market events, which are often unpredictable and can have a drastic impact on the industry. Nevertheless, while Delta is well-established and equipped to navigate downturns, there is a significant risk that some of its joint venture partners or investment counterparts could face financial distress. As Delta expands its footprint through global alliances and partnerships, its exposure to these risks continues to grow.

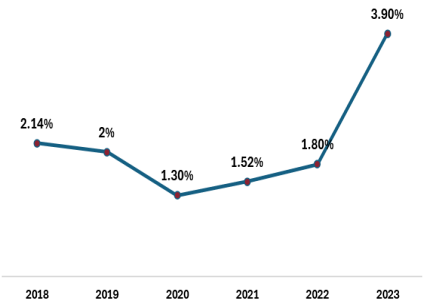
Airline Industry Overview

Exhibit 17: Market Size of the Industry Worldwide, in USD Billions (2018-2023)



Source: Statista

Exhibit 18: Aviation-Related Activity as a Percentage of GDP (2018-2023)



Source: Federal Aviation Administration - Aviation Economic Impact Report

Exhibit 19: Key Concepts

RPM/RPK: Revenue Passenger Mile/Kilometres, a metric of to traffic; calculated as the number of revenue passengers during a period multiplied by the number of miles/Kilometres flown by those passengers; **ASM/ASK**: Available Seat Mile/Kilometre, a metric of capacity calculated as the total number of seats available for transporting passengers during a period multiplied by the total of miles/Kilometre flown; **PRASM**: Passenger Revenue per ASM, passenger revenue per ASM; **RASM**: Airline's total revenue per ASM: **Passenger Mile Yield**: Passenger revenue earned by RPM; **Load Factor**: calculated by dividing RPM's by ASM; **FTK**: Freight Tonne Kilometres, a measure of the volume of cargo carried by an airline. **CTK**: Cargo Tonne Kilometres, tonnage of freight carried by the distance flown.

Source: Delta's Annual Report

In 2023, the global market size of the airline industry was valued at approximately $762.8 billion, reflecting a 5% increase from the previous year. Currently, the industry contribution to the global GDP is approximately $3.5 trillion (3.9%), ranking as the 17th largest economy in the world. Despite its scale, the sector faces significant competitive pressures and risks that can significantly affect the performance of its companies. The airline industry is capital-intensive, requiring significant long-term commitments and substantial investments. These factors create high barriers to entry and exit, resulting in a well-structured but restricted market. Moreover, the sector's reliance on three key suppliers – fuel, aircraft, and labor – adds additional layers of complexity. Fuel prices are heavily influenced by global market fluctuations, while aircraft supply is controlled by two dominant manufacturers, Airbus and Boeing. Labor is another critical component, with unions often challenging companies with political demands.

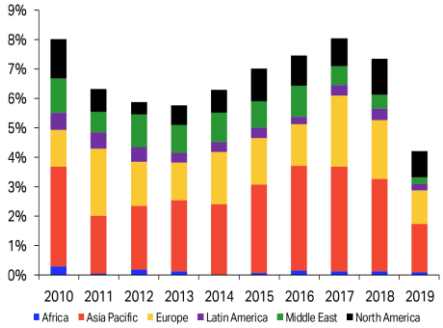
Advancements in distribution systems and online ticketing have made it easier for customers to compare schedules and fares, fostering more diversified and cost-conscious decisions while intensifying competition among airlines. Although different airlines may offer distinct services, passengers are increasingly guided by price rather than loyalty, as shared platforms facilitate easy price comparisons. Moreover, within the transportation industry, alternatives to air travel, such as cars, trains, and water transport, are always available. This dynamic has a stronger impact on regional travel, where alternatives are more competitive, but less so in international travel, where air travel is generally irreplaceable.

Crucially, airlines are highly susceptible to external factors and global disruptions, which can significantly impact their stability. Therefore, to gain a comprehensive understanding of the industry's performance, it is essential to analyse pre-pandemic years, to derive valuable insights and establish a benchmark for understanding the industry's financial stability.

Before Crisis: Pre-Pandemic Strong Performance

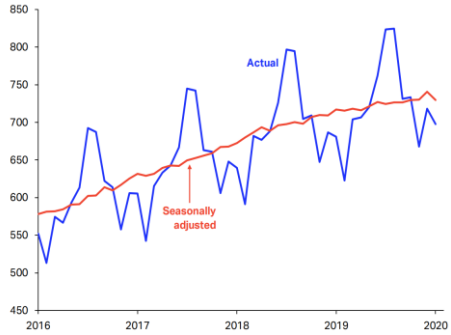
Between 2017 and 2019, the aviation industry experienced continuous growth, benefiting from global GDP expansion, an increasing middle class, the rise of e-commerce, and the expansion of low-cost carriers. Passenger demand, measured by Revenue Passenger Kilometres (RPK), grew at an average annual rate of 6.4%, while Available Seat Kilometres (ASK) increased by 5.3%, reflecting the industry's strategic capacity growth. Passenger load factors (PLF) reached an all-time high of 82.6% in 2019, as a result of airlines effectively managing their

Exhibit 20: Contribution to annual RPK growth (2010-2019)



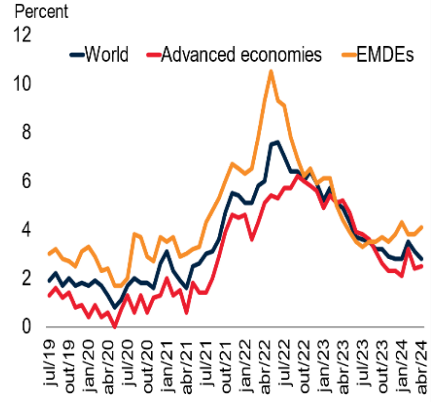
Source: IATA Economics

Exhibit 21: Air Passenger Volumes and Latest Trend (2016-2020)



Source: IATA Economics

Exhibit 21: Core inflation, three-month annualized



Source: World Bank Group

Exhibit 22: Airline industry net profits and EBIT margin (2000-2024)

Source: IATA Economics

fleet, planning routes strategically, and optimizing ticket pricing to align with demand. However, 2019 marked the first year since the global financial crisis in which passenger demand growth slowed to 4.2% (Exhibit 20), below the historical long-term growth rate of 5.5%. This deceleration was driven by weaker global economic conditions, a stabilization of demand following years of rapid expansion, and geopolitical tensions such as the U.S.-China trade war and Brexit uncertainty. Airlines felt the repercussions of the decrease in demand, rising fuel prices, and increasing operating costs on their financial performance, with global net profits declining from $38 billion in 2017 to $25.9 billion in 2019. As the industry entered 2020, there was cautious optimism despite the challenges faced in 2019. Passenger numbers were expected to grow by 4%, with total revenues projected to reach $908 billion. Airlines anticipated continued growth in RPKs, by 4.8%, supported by a growing middle class in emerging markets, particularly in Asia-Pacific. The industry planned for a 4.7% rise in ASKs to sustain capacity expansion while maintaining a global load factor of 82%. Airlines extend their operations beyond passenger transportation, utilizing the spare capacity of their aircraft for an additional revenue stream: air cargo. In 2019, this sector faced a 3.5% decline in Freight Tonne Kilometres (FTKs), as a consequence of the challenges in the global trade environment. However, air cargo industry forecasts for 2020 projected a modest recovery, with a 2% growth expected to reverse the downturn from the previous year.

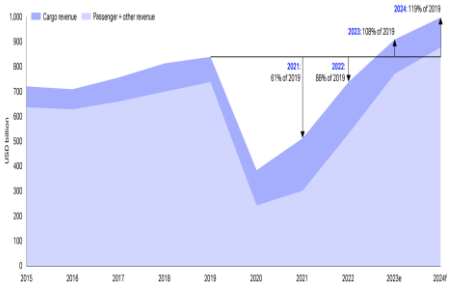
Crisis Recovery: Growth and Rising Challenges

These projections were completely overturned by the COVID-19 pandemic, which caused unprecedented disruptions in global air travel, with 2020 revenues plummeting by 60% and passenger numbers falling by 65.9%. Many airlines faced liquidity problems, forcing government interventions. While the industry is on its recovery path, significant economic changes remain. The industry has been steadily recovering and has finally made a strong comeback. Passenger numbers almost reached pre-pandemic levels, finishing 2023 just 3% below the 2019 peak. Even more notably, passenger revenues reached new highs for the first time in four years. Moreover, in 2024, advanced economies, including North America and Europe, are expected to grow at a modest rate of 1.5-2.0%, as inflationary pressures and tight monetary policies slow growth. Emerging markets, particularly China and India are expected to drive global economic expansion, with a 5% and 6.7% growth, respectively.

One of the biggest challenges facing the global economy continues to be the high inflation. Its surge, which began in 2021 (Exhibit 21) due to supply chain disruptions and energy price spikes, was further exacerbated by housing

shortages, government budget deficits, along with fiscal stimulus provided by governments to mitigate the economic impact of the COVID-19 pandemic. These combined factors have sustained elevated inflation levels beyond initial expectations. This phenomenon has had significant implications for the airline industry, as higher inflation has driven interest rates upward, increasing the burden on an industry that relies heavily on debt financing. For instance, in the first quarter of 2024, Air Lease Corporation (which leases aircraft to several airlines) reported a 19.8% rise in interest payments, reaching $181.6 million, as a direct result of the U.S. Federal Reserve's sustained high interest rates aimed at controlling inflation. In addition, commodities like titanium – essential for aircraft parts and widely used in maintenance – have experienced significant price escalation, with material costs rising by more than 5.5%. Furthermore, pilots, who hold significant power in a market already impacted by a shortage of aviators, have advocated for higher wages to keep up with inflation. Combined with rising fuel costs, which increased by 12.9% in Q1 2024 due to the previously mentioned factors, have placed airlines under considerable financial pressure, highlighting the challenging impact of high inflation on the industry.

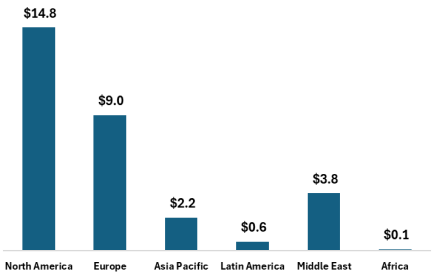
Exhibit 23: Passenger and cargo revenue, USD billion (2018-2024)



Source: IATA Economics

Despite challenges, at the end of 2024, revenues are expected to reach $996 billion (37% increase from 2023), surpassing pre-pandemic levels by 119% (Exhibit 23), while passenger demand is nearing 95-100% of pre-pandemic levels, driven by increases in leisure, international, and business travel, with load factors stabilizing at pre-pandemic levels (82-84%). Moreover, cargo revenues are expected to normalize to 13% of total industry revenue, slightly above the pre-pandemic peak, of 12%. Nevertheless, cost pressures, including rising fuel prices, are expected to constrain net profit margins to 3.1% in 2024.

Exhibit 24: Projected Net Profit in 2024 (USD Billion)



Source: IATA Economics

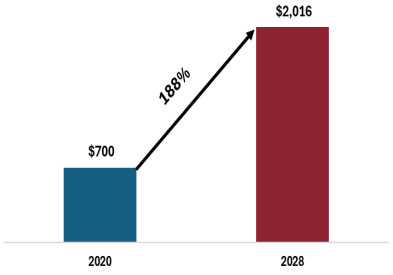
North America is expected to continue leading global profitability in 2024, with US airlines forecasted to generate approximately $15 billion in profits, contributing around 50% of total industry profits. European airlines are expected to experience slower growth, with projected net profits of around $9 billion, partly constrained by higher fuel taxes, competition, and the ongoing effects of geopolitical instability, particularly the Russia-Ukraine conflict. The Asia-Pacific and Middle East are projected to make a bigger comeback, with airlines in these regions expected to generate $6 billion in profits, supported by growing middle-class demand and the reopening of China to international flights in 2023.

Costumer Segmentation and Travel Trends

Passenger segmentation in the airline industry is a strategic approach used to tailor services to different types of travellers, ensuring that each segment's unique needs are met. Passengers are typically segmented into business and

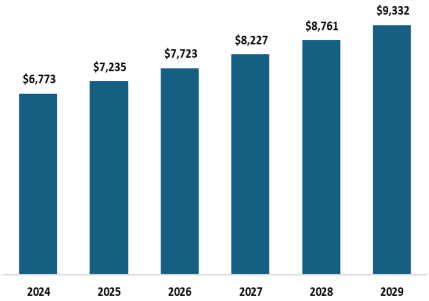
leisure travellers. Before the pandemic, business travellers accounted for 55% of airline revenues, with airlines offering flexible booking options, premium seating, loyalty programs, and access to airport lounges. Delta Air Lines and United Airlines, for instance, provide exclusive corporate travel packages designed to meet the high expectations of business travellers, who prioritize convenience, flexibility, and time efficiency. On the other hand, leisure travellers are more price-sensitive, prioritizing value and affordability. Airlines target this segment with budget-friendly fares and optional add-ons. Low-cost carriers like Ryanair and EasyJet excel in this space by providing low-cost flights and charging for extras like seat selection, baggage, and in-flight meals, allowing travellers to customize their experiences based on personal preferences.

Exhibit 25: Market value of the business travel industry Worldwide



Source: Statista

Exhibit 26: Leisure tourism spending outlook worldwide, in USD Billions (2024-2029)

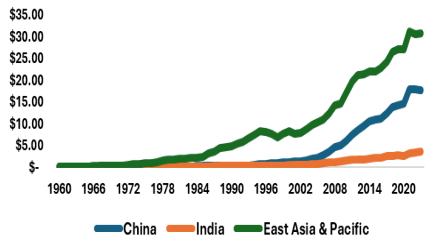


Source: Statista

In addition to customer segmentation, airlines must carefully analyse industry trends to identify those that are essential for maintaining and improving their market position. The pandemic and technological advancements have introduced new dynamics, creating both opportunities and challenges for the airline industry by altering customer preferences and travel behaviour. Among the various shifts, we anticipate the following to be the most significant:

Predictive Analytics in Maintenance. Maintenance is a critical component of the cost structure for airlines, and advancements in technologies like machine learning (ML) and the Internet of Things (IoT) have driven a growing reliance on predictive maintenance. These technologies can analyse data in real time and forecast repairs while scheduling maintenance based on projected data. represents a transformative tool for the industry, offering the potential to reduce avoidable costs and enhance operational efficiency.

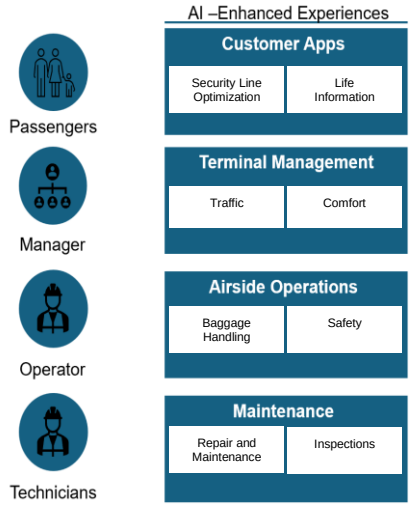
Exhibit 27: Asian Countries' GDP, in USD Trillion (1960-2023)



Source: World Bank

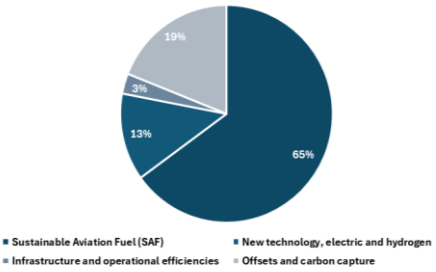
Rise of the Asian Market. The growth of the Asian market has been driven by the expanding middle class in Asia, particularly in countries like India, where the middle class has grown at a rate of 6.3% annually from 1995 to 2021. As disposable income rises, countries such as China and India are expected to play a pivotal role in shaping the future of this regional market. India is set to become the third-largest aviation market by 2030, with passenger numbers expected to exceed 1.3 billion annually by 2040. Meanwhile, China is projected to handle over 1.6 billion passengers annually by 2035, driven by robust domestic travel demand and ambitious infrastructure projects, such as the development of new airports across the country. This presents an opportunity for global airlines, as by expanding their footprint in the region, they can capture untapped profits. Establishing partnerships with local carriers will be key to accessing this growing market, and airlines must adapt and prioritize their services to meet the preferences of Asian travellers, enhancing their competitiveness on the market.

Exhibit 28: Airlines' Architecture with AI Integration



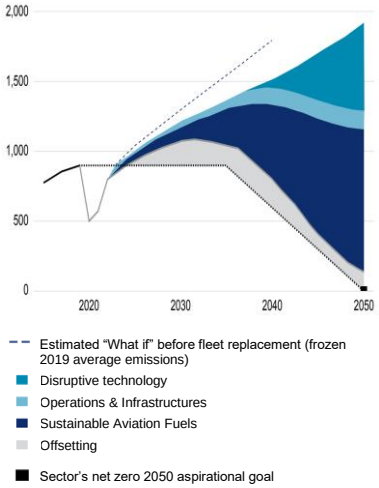
Source: Microsoft

Exhibit 29: IATA strategy towards net zero CO2 Emissions



Source: IATA Economics

Exhibit 30: Projected CO2 Emissions by 2050



Source: Airbus' Annual Report 2023

New Era of AI. The past two years have seen a tremendous surge in the use of Artificial Intelligence (AI) across industries, including aviation. It has introduced numerous opportunities for airlines, particularly in improving operational efficiency. For instance, Alaska Airlines has partnered with Airspace Intelligence's Flyways AI platform to optimize flight routes by analysing weather patterns and air traffic. This initiative led to the reduction of over 1.2 million gallons of jet fuel in 2023, equating to approximately 11,958 metric tons of CO2 emissions. The industry's focus on passenger satisfaction has also been transformed by AI, with airlines implementing AI-powered virtual assistants that are capable of handling up to 80% of routine customer inquiries, freeing up human agents to focus on complex tasks and reduce costs on labour tasks. Beyond automating processes, AI plays an active role in training, through AI simulators that prepare pilots and crew members for real-world challenges.

Digital Acceleration: The Pandemic's Catalyst. The global pandemic accelerated the adoption of transformative technologies aimed at creating a seamless and hygienic travel experience. Airlines integrated contactless solutions such as biometric boarding, self-service kiosks, and mobile check-ins. Additionally, there has been a notable increase in investments in Big Data, particularly for health screening applications like thermal imaging and digital health documentation verification at airports. These technologies also support the goal of personalizing the passenger experience by enabling customized travel packages and dynamic pricing based on passenger preferences and behaviours.

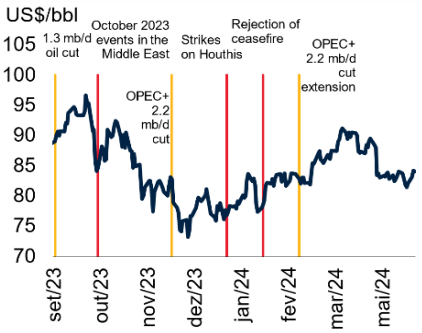
Sustainability as a Priority. Environmental awareness has increasingly influenced travel decisions in recent years, with 78% of travellers now expressing a willingness to pay extra for environmentally friendly travel options. To meet the rising demand for sustainable travel, airlines have adopted measures such as using Sustainable Aviation Fuel (SAF), offering carbon offset initiatives, and modernizing fleets by replacing older aircraft with more fuel-efficient models (Exhibit 29). These efforts, combined with government regulations, have also driven the development of green technologies, such as electric and hydrogen-powered aircraft, as long-term solutions for sustainable aviation.

Oil Price: Managing its Volatility and Fuel Transition

Volatile oil prices remain a critical player in the airline industry, with significant fluctuations heavily impact profitability. According to the World Bank, in 2025, oil prices are projected to average $75 per barrel, up from $65 in 2024. This increase is largely due to disruptions in the global oil supply chain caused by the Russia-Ukraine war and ongoing tensions in the Middle East (Saudi Arabia and Iran), who are major players in the oil production. In addition to ongoing

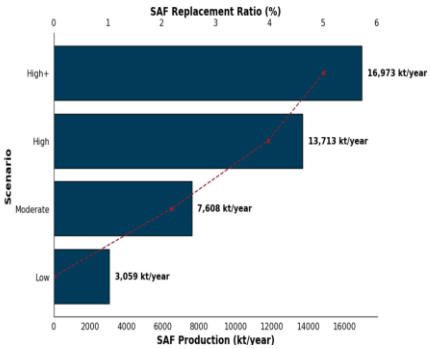
geopolitical tensions, the election of Donald Trump could introduce further volatility to oil prices. While U.S. oil producers anticipate reduced regulations under his administration, Trump has simultaneously vowed to impose stricter sanctions on Iranian and Venezuelan barrels. This uncertainty places the airline industry in an even more vulnerable position, as fuel costs constitute a large portion of the airlines' operating expenses, expected to represent 31% in 2024, up from 20-25% pre-pandemic. The rise in oil prices not only increases operating costs, but also reduces profit margins, especially for low-cost carriers that operate on lower margins. To mitigate these risks, airlines are increasingly investing in fuel-efficient aircraft and SAF, which is waste-derived, renewable, and meets sustainability criteria. However, the adoption of SAF remains constrained by limited supply, with Neste currently being its only large-scale supplier. This limitation makes a complete transition away from traditional jet fuel challenging, as SAF costs approximately three times more than conventional fuel (Exhibit 32). Nevertheless, airlines and aircraft manufacturers are pushing to scale up SAF production to enable mass adoption. The aim is for SAF to function as a direct replacement for traditional jet fuel, rather than just a supplementary option. In addition, to further manage volatility, many airlines employ fuel hedging strategies, through fuel derivatives, including futures contracts, options, and fuel swaps. Nevertheless, the overall exposure to rising fuel costs remains high. Cost pressures have not only intensified the industry's focus on environmental sustainability through traditional fuel alternatives but also driven advancements in fleet improvements, with major manufacturers Boeing and Airbus making significant efforts to address this challenge. For instance, Boeing's 787 and 777X are 20 to 25% more fuel-efficient than previous models. Alongside the development of new, more efficient aircraft, other measures have been implemented to tackle environmental concerns, such as CORSIA, which requires airlines to offset all CO2 emissions that exceed 2020 levels, starting in 2027.

Exhibit 31: Oil Prices and Key Events



Source: World Bank Group

Exhibit 32: SAF Production and Replacement by Scenario (2030)



Source: ICAO's Annual Report 2023

Competitive Analysis

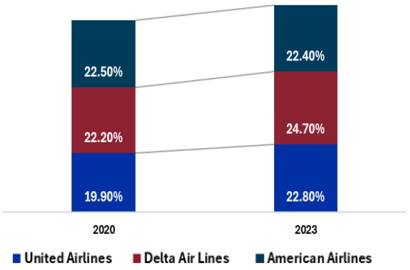
Cost and Revenue Analysis vs Competitors

Airlines in this sector can be classified, based on their operational and financial characteristics, into three groups: Legacy/Network Carriers (LC/NC), Low-Cost Carriers (LCC), and Ultra Low-Cost Carriers (ULCC). Operationally, LCs are often characterized by their strong international presence across key global regions. In contrast, LCC and ULCC operate domestically, prioritizing affordability and budget-friendly options. Normally, Legacy Carriers achieve higher revenues and have higher cost structures, reflecting their commitment to provide a high-

Exhibit 33: U.S. Airline Segmentation

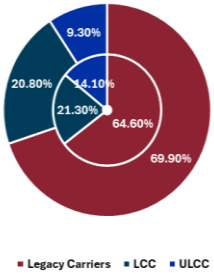
Source: Authors' Computations

Exhibit 34: Domestic Market Share (2020 vs 2023)



Source: Bureau of Transportation Statistics

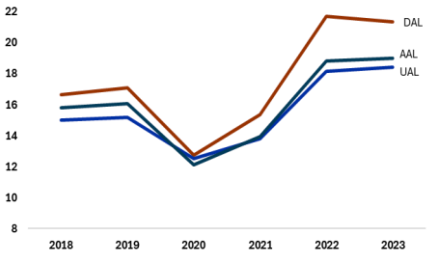
Exhibit 35: Market Share by Type of Carrier (2018 vs 2023)



Note: The inner circle refers to 2018 and the outer circle for 2023

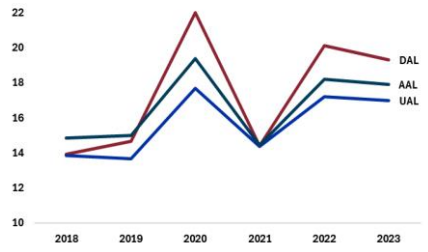
Source: Bureau of Transportation Statistics

Exhibit 36: Total Revenue per ASM (2018-2023)



Source: Companies' Annual Report

Exhibit 37: Operational Costs per ASM (2018-2023)



Source: Companies' Annual Report

value travel experience. That is, the Total Revenue per ASM (TRASM) and the Total Cost per ASM (CASM) are typically higher compared to the other career types. In North America, the three airlines classified as Legacy Carriers are Delta Air Lines (DAL), United Airlines (UAL), and American Airlines (AAL).

In 2023, LC held approximately 69.9% of the US airline industry's market share, while LCC and ULCC accounted for 20.8% and 9.3%, respectively (Exhibit 35). LCs also dominated total operating revenue worldwide, accounting for approximately 74%, while LCCs and ULCCs contributed 20% and 6%, respectively. In the U.S. domestic market in 2023, LCs generated approximately 68% of revenue, LCCs 25% and ULCCs 7%.

Delta Air Lines is the most profitable legacy carrier in the world, by managing a cost structure similar to its direct peers, while outperforming them in its revenues. As one can observe in Exhibit 36, Delta's TRASM experienced a significant decline from 2019 to 2020, dropping from $17.07 to $12.73. However, it quickly recovered from 2021 to 2022, increasing from $15.37 to $21.69. In 2023, Delta's TRASM saw a slight drop of 2%, falling to $21.34, mainly due to a decrease in the refinery sales to third parties, for the abovementioned reasons. Despite this decline, Delta's TRASM remains notably higher compared to American Airlines' one – its closest competitor –, which reported a TRASM of $19.01 in the same year. Additionally, Delta's CASM, in 2023, decreased at a faster rate of 4%, from $20.12 to $19.31. This reduction is attributed to a 17% increase in its fleet capacity, as well as lower fuel costs and reduced expenses regarding refinery sales. When comparing the CASM of Delta Air Lines and American Airlines, which stands at $17.92, the difference is smaller than the gap in TRASM. This highlights Delta's strong ability to remain competitive, by generating higher revenues, while aligning its cost structure closely with that of its peers.

A key factor in Delta's distinctive profitability is its ability to manage specific operational expenses. Over the past five years, Delta has maintained the highest cost structure per ASM, primarily due to its unique operating model, which includes not only the previously mentioned costs associated with refinery ownership and in-house MRO services, but also practices like profit-sharing[1]. Despite these additional expenses, which are not typically borne by other major airlines, Delta has successfully maintained an overall cost structure that remains competitive compared to its peers.

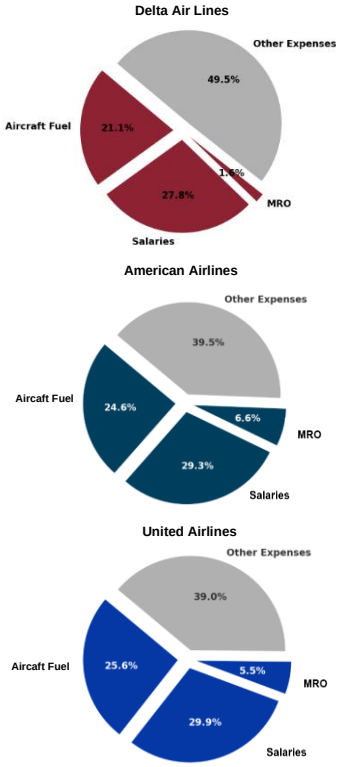
Salaries are one of the main operational costs for US airlines, given the labor-intensive nature of the industry. Delta's salary expenses have been notably higher than the industry average, increasing at a CAGR of 4.64% over the past

[1] A program that distributes, at the end of each fiscal year, a portion of the company's profits to its employees as a bonus.

Exhibit 38: Wages - Historical Progression (2020-2023)

Source: Companies' Annual Report

Exhibit 39: Major Costs Structure Distribution of Major Airlines (2023)



Source: Companies' Annual Report

five years, compared to the industry's modest growth rate of 0.09%. Only United Airlines and American Airlines have the financial capacity to rival Delta's salary levels. However, Delta has established a new benchmark for pilot salaries, in 2023, with a union contract that promised to pay an immediate increase of 18%, followed by a raise of 5% in 2024, 4% in 2025 and an additional 4% in 2026, totalling a 34% increase. These competitive salaries enhancements boost employee attraction and retention, foster positive labor relations, and improve the overall quality of the customer experience.

Delta's strategy of vertical integration within its supply chains has enabled the airline to manage its fuel costs and MRO services more efficiently. Both fuel and MRO expenses account for less than 25% of Delta's total OpEx. In comparison, Delta's main competitors with the most similar structures, American and United Airlines, have higher fuel and MRO expenses accounting for 31.2% and 31.1% of their total OpEx, respectively. The airline has succeeded in keeping MRO costs lower than its direct competitors while delivering a high-quality, standardized service through in-house management and a skilled workforce. In 2023, Delta Air Lines also incurred significant costs related to contracted services of approximately $4.04 billion, marking a 20.1% increase compared to the previous year. This rise can be attributed not only to increased demand and the recovery of operations following the pandemic, but also to MRO contracts valued at $225 million, celebrated in the first quarter of 2023. These contracts, which cover maintenance for both Airbus and Boeing aircraft, prove that Delta's strong investment is being effectively capitalized and acknowledged by the market, further solidifying the airline position within the industry.

As one can observe in Exhibit 39, Delta Air Lines demonstrates a competitive cost structure that allows it to effectively manage operational expenses, despite having higher costs. While Delta's expenses exceed those of its direct competitors, the airline's strategic management results in a more substantial revenue generation, resulting in a revenue difference between Delta and its peers considerably greater than the difference in their respective expenses. This highlights Delta's ability to leverage its operational efficiencies and customer-focused strategies, maintaining the largest market share in the industry.

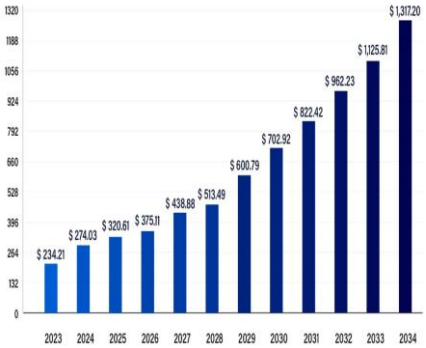
Delta's Global Network: The Key to Its Success

The US airline industry is still undergoing significant evolution to return to the pre-pandemic levels and recover from the most determinant event in this industry's history. Low-cost carriers are increasing their market presence and major airlines are adapting to meet post-pandemic demand. According to the 2023 Brand Finance Airlines 50 report, Delta Air Lines has emerged as the most valuable

Exhibit 40: Airlines Valuation (2023)

Source: Brand Directory

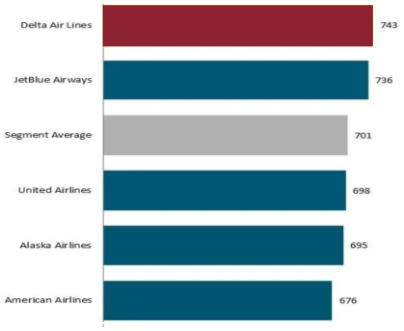
Exhibit 41: LCC Market Size, in USD Billion (2023-2034)



Source: Precedence Research

Exhibit 42: 2023 North America Airline Customer Satisfaction Study in First/Business Class

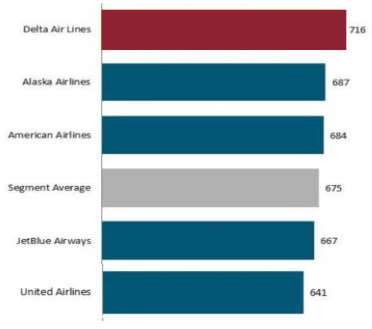
(Based on a 1000 – point scale)



Source: J.D. Power

Exhibit 43: 2023 North America Airline Customer Satisfaction Study in Premium Economy Class

(Based on a 1000 – point scale)



Source: J.D. Power

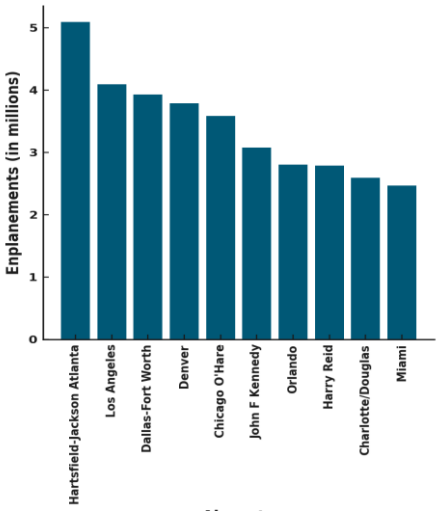
airline, on a global scale, with a brand valuation of $8.9 billion, representing an increase of 22% from the previous year. Remarkably, four of the five top airline brands are primarily based in the US, with Emirates being the exception. In 2023, the four largest airlines in the US, ranked in Exhibit 40, commanded almost 82% of the market share. While LCC are expected to capture a higher global market share over the upcoming years, with a $CAGR_{2024\text{-}2034}$ of 17%, due to the increase in the leisure travel segment, it is expected that these four airlines will continue to dominate U.S. air traffic collectively. Despite their similar market shares and shared goal of attracting higher-paying customers, Delta has distinguished itself from its three largest competitors through a more focused, aggressive strategy and superior management practices, as previously described.

Delta's strong brand comes from, among other things, its value proposition, which gives the passengers a variety of travel classes besides the main cabin, such as Delta Premium Select, Delta On, Delta Comfort+, and First Class, as well as a range of premium products and services. While other airlines, such as American and United Airlines have openly recognized the challenges posed by low-cost carriers, Delta has remained dedicated to serve a high-paying business traveller. However, to efficiently compete with these LCC and avoid losing customers to its competitors, Delta has launched the industry's first Basic Economy fare, providing passengers with a more affordable travel option, while still maintaining its premium service features. Additionally, Delta's SkyMiles® loyalty program is a key alliance that enhances the airline's visibility and presence in the market. Its partnership with American Express provides valuable incentives for members to select Delta and its regional partners, allowing them to earn travel awards and accumulate miles that can be used in other type of services and companies, such as hotels and car rental agencies.

Atlanta's airport – Delta's primary hub – is not only the largest airline hub in the world, but also the most-travelled airport overall. As Delta's primary hub, it serves as the main airline option for locals, thanks to its extensive service offerings. This is particularly appealing to business travellers, who prioritize access to a high range of destinations, with high flight frequency, and reliable services. Delta Air Lines is strategically positioned across multiple key locations, including Georgia, New York, California and Massachusetts, which are among the wealthiest states in the US, enabling the airline to dominate the business travel market. In contrast, American Airlines maintains a strong presence primarily in Dallas and Charlotte, while United Airlines faces challenges in significant markets like Chicago and Newark, where it competes with both American and Southwest Airlines.

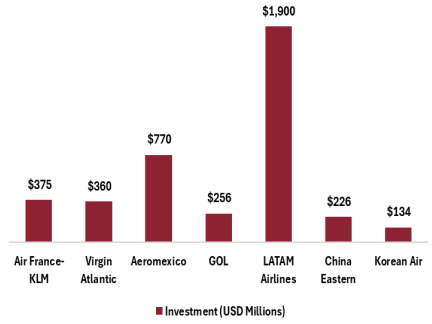
Another reason why Delta Air Lines has become one of the world's most profitable airlines is because of its smarter fleet strategy compared to its

Exhibit 44: Top 10 Ranked US Hubs by Enplanements (2023)



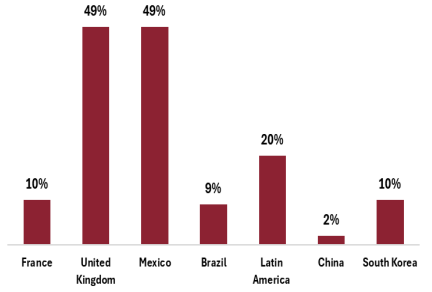
Source: Federal Aviation Administration' Annual Report 2023

Exhibit 45: Delta's Investments Across Airlines



Source: Delta's Annual Report

Exhibit 46: Delta's Stakes Across Airlines



Source: Delta's Annual Report

competitors. The airline operates in older fleet, with an average age of 15 years, making older than American Airlines (12.6 years) and Southwest Airlines (12 years). Delta's strategy of maintaining an older aircraft is economically advantageous, as it allows the airline to avoid high costs of purchasing/leasing new aircraft while focusing on operational efficiency. By investing in cabin upgrades and modern amenities through its MRO internal services, Delta ensures a high-quality passenger experience that rivals airlines with newer fleets, establishing a balance between cost management and customer satisfaction.

Finally, while major competitors only focus on alliances and partnerships with different airlines around the world, Delta has opted for multiple Joint Ventures (JV) and Equity Investments. By the end of 2023, Delta has invested approximately $3.5 billion in other airlines' equity across the globe. In reach Europe, Delta has made significant investments in Air France-KLM (JV of around $375 million for a 10% equity stake) and Virgin Atlantic (JV of around $360 million for a 49% equity stake). In Latin America, Delta has invested in Aeromexico through a JV of approximately $770 million for a 49% non-controlling equity stake, in Brazilian LCC GOL, where it holds a 9% equity stake for $256 million, and LATAM Airlines, in which it acquired a 20% equity stake for $1.9 billion. Lastly, in Asia-Pacific, Delta's investments include China Eastern (2% equity stake for $226 million) and Korean Air (valued at around $134 million, with a 10% equity interest). By holding equity in these foreign airlines, Delta can access potential financial returns from those markets, diversifying its revenue streams and enhancing its global presence.

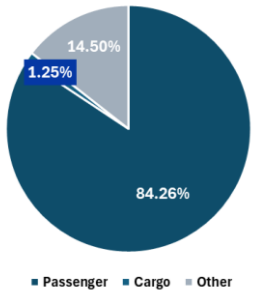
Forecasts & Model Assumptions

Delta's revenues were individually projected for each segment, based on distinct market growth analysis, throughout the explicit horizon defined as the period from 2024 to 2029. From that point onwards, growth was projected to gradually decrease, using a linear interpolation, ultimately stabilizing by 2034, reflecting how Delta is anticipated to operate in the future. Given that 2022 and 2023 were recovery years, marked by a boost in demand because of a global lockdown, our projections were not grounded on historical performance. Instead, we based our forecasts on our analysis of each segment and our assessment of how their products are likely to evolve, considering their market acceptance and competitive dynamics.

Delta's total revenue can be classified into three main categories: Passenger, Cargo, and Other, which includes the Loyalty Program, Ancillary Businesses and

Refinery, and Miscellaneous. In Exhibit 47, one can observe Delta's revenue breakdown.

Exhibit 47: Delta's Revenue Breakdown (2023)



Source: Delta's Annual Report

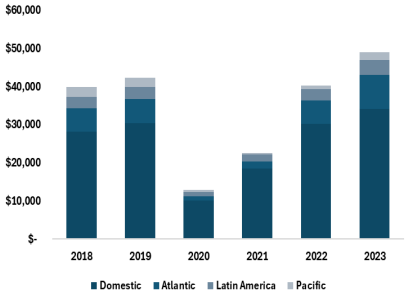
Passenger Revenue

Delta Air Lines' primary revenue segment is Passenger Revenue. This segment is responsible for the ticket sales of both domestic and international flights, and accounted, in 2023, for approximately 84.3% of Delta's total revenue. Domestic flights contributed 69.45% to the total segment's revenue, followed by Europe at 18.52%, Latin America at 7.77%, and the Pacific at 4.27%. It can be broken down into three key metrics: i) Available Seat Miles (ASM), ii) Passenger Mile Yield and iii) Load Factor.

Passenger Revenue = ASM x Passenger Mile Yield x Load Factor

In our forecasts, we provide a geographical breakdown of total passenger revenues, applying the formula above to each region where Delta operates: North America, Latin America, Atlantic and Pacific. This in-dept approach – which looks into each region separately – offers insights into how Delta's global network is expected to grow, keeping in mind its strategic focus on expanding its footprint.

Exhibit 48: Delta's Passenger Revenue by Region (2024-2029)



Source: Delta's Annual Report

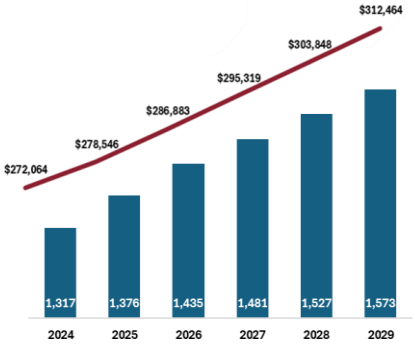
- Available Seat Miles

ASM measures the airplane's carrying capacity to generate revenues. It depends on the following three factors: i) number of airplanes on Delta's fleet, ii) number of seats per plane and iii) number of miles flown by all the airplanes. Similar to Passenger Revenue, ASM can be calculated as the product of these 3 variables:

ASM = Average Total Miles Flown x Nº of Airplanes x Nº of Seats

Unlike the total number of airplanes and seats, Delta's yearly total miles travelled is not available. To estimate them, we divide the total operating income by the total Revenue per ASM generated for the total number of seats, both sourced from Delta's annual reports, yielding a 1.8% CAGR. Given that Delta's key partnerships and JVs are already well-established, with only plans for gradual expansion into the Middle East in the coming years, it is reasonable to anticipate modest growth in total miles flown.

Exhibit 49: Delta's Planes and ASM (2024-2019)



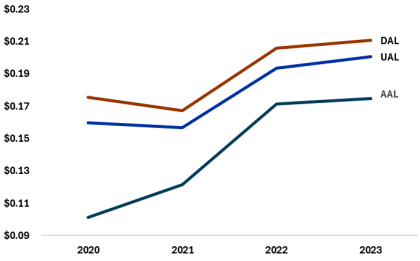
Blue bars refer to the number of aircrafts and the red line to ASM in USD millions

Source: Authors' Computations

Since it is impossible to precisely predict which planes serve each region, or the miles flown per region, we took a different approach to forecast total ASM by region. We assumed it would align with the estimated average annual growth in passenger traffic to and from the U.S. between 2023 and 2043 (Statista Research Department). According to this study, Pacific is expected to see the highest growth at 5.5%, followed by Latin America at 3.6%, North America at 3.2% and, finally, the Atlantic at 3%. These projections are well aligned with

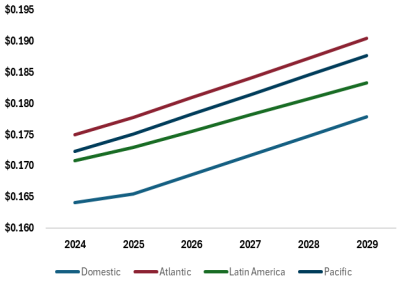
Delta's strategy, as the airline is already well-established in North America and is focusing on expanding its fleet to Pacific and LatAm regions, through its joint ventures with Korean Air and LATAM Airlines.

Exhibit 50: Legacy Carriers Passenger Mile Yield (2020-2023)



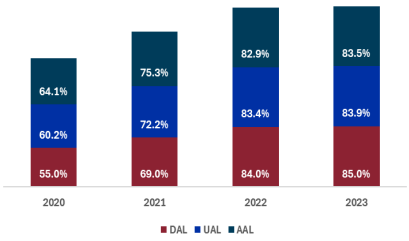
Source: Companies' Annual Reports

Exhibit 51: Delta's Passenger Mile Yield by Region (2024-2029)



Source: Federal Aviation Administration Report

Exhibit 52: Legacy Carriers Load Factor (2020-2023)



Source: Companies' Annual Reports

- Passenger Mile Yield

The Passenger Mile Yield measures the revenue generated per passenger per mile flown, normally expressed as the number of cents earned per mile flown by a paying passenger.

Historically, Delta has outperformed its peers' performance in generating higher yields per passenger mile, reaching $0.2106 in 2023. We anticipate an upward trend through our forecasted period, with Delta maintaining a competitive advantage. Our projections for this metric rely on the projections outlined on the annual report of the Federal Aviation Administration (FAA). By 2030, passenger yields are expected to reach $0.1809 in North America, $0.1859 in Latin America, $0.1650 in the Atlantic, and $0.1628 in the Pacific. Therefore, a linear interpolation was applied. As a result, the Pacific region is projected to have the highest CAGR at 0.78%, followed by the Atlantic at 0.77%, North America at 0.73%, and Latin America at 0.64%. Overall, Delta's total Passenger Mile Yield is expected to grow steadily from 2024 to 2029, at a CAGR of 1.75%.

- Load Factor

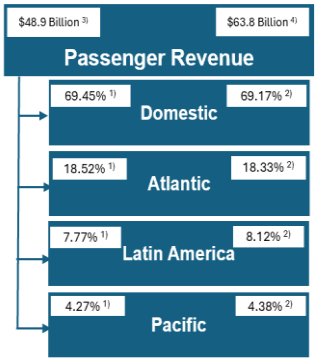
The Load Factor is an important metric to measure the percentage of available seating capacity that has been filled with passengers.

Historically, Delta Air Lines was the most affected airline during Covid-19, showing the lowest capacity percentage among its direct competitors, as one can observe in Exhibit 52, We attribute this decline to the safety measures Delta implemented, such as blocking middle seats and its greater reliance on business travel, which saw a significant drop during the pandemic. Nevertheless, over the past two years, the airline has staged a strong comeback, recovered its competitive edge and achieved the highest seat fulfilment capacity, effectively returning to its pre-pandemic levels. We believe that this success is primarily attributed to Delta's strategic use of hub-and-spoke system[2], individualized route management for optimized seat location and its overbooking strategy to maximize the airplane's occupancy.

Similar to the Passenger Mile Yield, Load Factor is also derived from the FAA annual report and assumed to vary with the industry's projections. Domestic load factor is projected at 85% in 2024, increasing to 85.8% by 2030. In the Atlantic and Latin America regions, load factors are expected to remain steady at 82.6%

[2] Transportation model that optimizes efficiency and passenger connections by routing flights through central hub airports, which link to various smaller destinations.

Exhibit 53: Delta's Historical and Forecasted Passenger Revenue



1) % of 2023 Passenger Revenue
2) % of 2029 Passenger Revenue
3) 2023 Passenger Revenue
4) 2029 Passenger Revenue

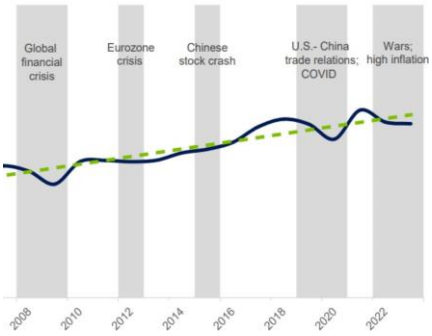
Source: Delta's Annual Report; Authors' Computations

and 85.8%, respectively, from 2024 to 2035. Finally, in the Pacific region, the load factor is forecasted to start at 80.9% in 2024 and gradually rise to 82.2% by 2030. To ensure a smooth transition, a linear interpolation was applied from 2024 to 2029 to align proportionally with the 2030 projections. The overall passenger revenue for Delta was then calculated by weighting each region's load factor according to its contribution to the passenger segment.

Following the aforementioned assumptions, we project that, from 2024 to 2029, domestic passenger revenue is expected to grow at a 3.82% CAGR, Atlantic at 3.73%, Latin America at 4.55%, and the Pacific at 4.27% CAGR, resulting in an overall 3.88% CAGR for the segment. While Delta's passenger revenue region distribution is expected to remain stable, a slight shift is projected, with domestic revenue decreasing by 0.28 bp and Atlantic by 0.19 bp, offset by increases in Latin America and Pacific shares by 0.36 bp and 0.11 bp, respectively. Considering Delta's investments in international expansion, these projections align with the company's strategic goals and validate our assumptions.

Cargo

Exhibit 54: Global Air Cargo Historical Resilience



Green Dotted Line: Historical CTK considering average growth; Blue Line: Actual Historical CTK.

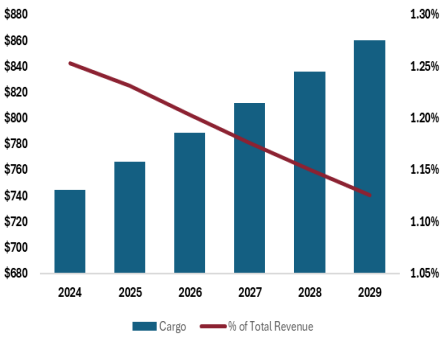
Note: Cargo Tonne Kilometres (CTK), calculated by multiplying the tonnage of freight carried by the distance flown.

Source: Boeing World Air Cargo Forecast

Cargo revenue is largely dependent on passenger operations, as a significant portion of cargo is carried in the unused capacity of passenger aircraft. To project the revenue for this segment, we followed the same geographic breakdown used in the Passenger Revenue segment, as cargo capacity is closely tied to the routes and frequencies of passenger flights.

In 2021, Legacy Carriers' cargo divisions experienced a remarkable growth, of 18.7%, reaching record breaking revenues. We conclude that this event is mainly due to the increase in demand for air freight, fuelled by recovery from pandemic-induced supply chain disruptions and the rapid growth of e-commerce. However, by late 2023, all the airlines saw a decrease in demand, by approximately 7%. We attribute this drop to the decline in the freight rates, the decreased belly-hold capacity[3] and the higher competition from maritime shipping (by 6.3%), all of which put pressure on yields and profits.

Exhibit 55: Cargo Revenue as % of Total Revenue (2024-2029)

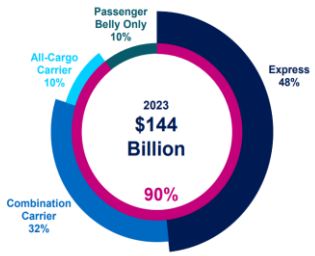


Source: Authors' Computations

From 2023 onward, each region's expected CAGR was derived from the Boeing World Air Cargo Forecast, which provides insights into growth trends across the global air cargo sector. The expected CAGR of Air Cargo, from 2022 to 2040, for the Domestic market is 3.1%, for the Atlantic 2.25%, for the Latin America 2.4% and for the Pacific 4.35%. By assigning each region a proportional weight to its contribution within the passenger segment, we ensure that our cargo projections reflect both the operational reality and geographic footprint of Delta's passenger

[3] Refers to the cargo space located in the lower deck, or "belly" of passenger aircraft.

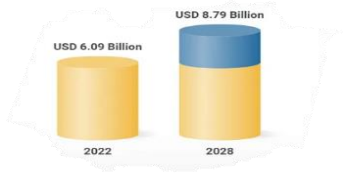
Exhibit 56: Air Cargo Industry Revenue by Business Model (2023)



Note: **Passenger Belly Only** carriers use the cargo space in the lower deck of passenger aircraft (e.g. Delta, American, United); **All-Cargo** carriers use dedicated freighter aircraft (e.g. Atlas Air, Cargolux); **Combination** carriers use both dedicated freighter and lower deck of passenger aircraft (e.g. Lufthansa Cargo); **Express** carriers focus on time delivery using dedicated freighters (e.g. FedEX, DHL Express).

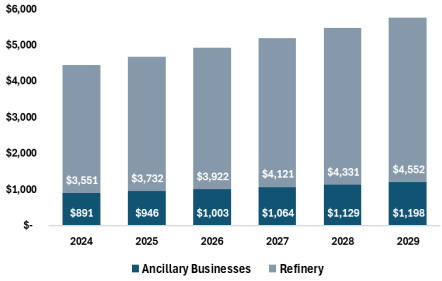
Source: Boeing World Air Cargo Forecast

Exhibit 57: U.S. Power Ancillary Service CAGR2022-2028



Source: Yahoo Finance

Exhibit 58: Projected Ancillary Businesses and Refinery Revenue (2024-2029)



Source: Authors' Computations

operations. As a result, Delta's Cargo revenue is projected to grow at a CAGR of 2.94%, between 2024 and 2029. However, we find it realistic that this growth will stabilize in the future, with cargo remaining a steady revenue stream. We anticipate that the market will continue to be dominated by airlines that operate exclusively as cargo carriers or use freighter-only aircraft without scheduled passenger services, as they currently control 90% of the market (Exhibit 57).

Other

- ### Ancillary Businesses and Refinery

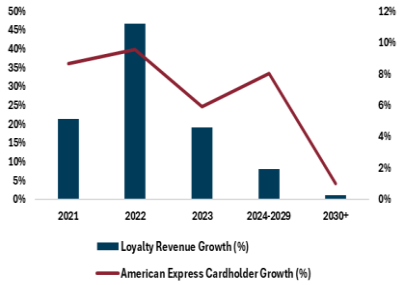
This category encompasses revenues from refinery sales to third parties, aircraft maintenance services offered to external clients, and Delta's vacation wholesale operations. Within this revenue stream, refinery is, historically, the dominant contributor, accounting for approximately 83% of its revenue.

According to Yahoo, the ancillary business market is expected to grow at a higher pace, compared to the refinery market. Its projections indicate that the U.S. ancillary market is expected to grow at a 6.1% CAGR over the next five years, while the refinery segment is projected to grow at a 5.09%, over the same period. We strongly believe that these projections can be applied to Delta's forecast, given the airline's strategic focus and internal vision for both MRO and refinery segments. As we analyse other airlines' structure, it becomes clear that many are heavily dependent on third-party MRO and refinery services. Delta, however, not only supports its own operations but also provides aircraft maintenance services to other airlines. Given that Delta TechOps is the largest MRO provider in the US and Monroe Energy ensures a stable and cost-effective fuel supply, we believe both subsidiaries have the potential to match the overall market's projected CAGR. After applying each expected market CAGR to its respective Delta's sub-segment stream, we expect an overall increase in this segment of approximately 5.30%, until 2029. However, going forward, we shall adopt a more conservative and realistic projection, given the maturity of these markets and respective industry's conditions. While MRO services are expected to grow due to higher outsourcing demand, the rate is moderated by market saturation, competition and capacity limits. Similarly, the refinery segment faces slower growth due to volatile fuel prices, regulatory challenges and, most important, to the shifting on energy consumption patterns, with the introduction of sustainable fuel.

- ### Loyalty Program

Delta's loyalty program runs through the SkyMiles loyalty program, providing value to both passengers and to third-party companies through strategic partnerships. For passengers, the program offers miles for flights, upgrades, and

Exhibit 59: Projected Growth in American Express Cardholders and Delta Loyalty Revenue (2021-2030+)



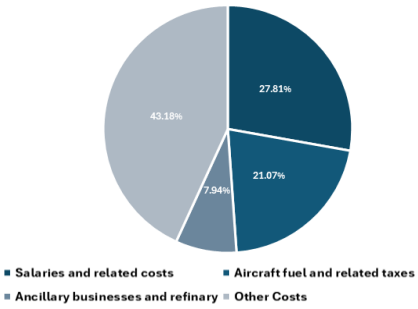
Source: Authors' Computations

services, incentivizing repeat travel and enhancing customer loyalty. Delta has established partnerships, such as American Express, which offers co-branded credit cards that allow members to earn miles on everyday purchases. These partnerships generate substantial revenue, as third-party companies purchase miles to offer their own customers.

As these revenues are primarily driven by the costumer spending on American Express cards (Amex Cards), we established as the main driver influencing the revenues in this stream the growth in the number of American Express cardholders. For that, we analysed the historical data from Statista, from 2013 to 2023 (Exhibit 60). Based on the pattern from the past three years (2021 to 2023), i.e. the growth average, we assumed that the number of cardholders will continue to grow at the same rate of 8% from 2024 to 2029.

Cost Structure

Exhibit 60: Delta's Cost Structure (2023)

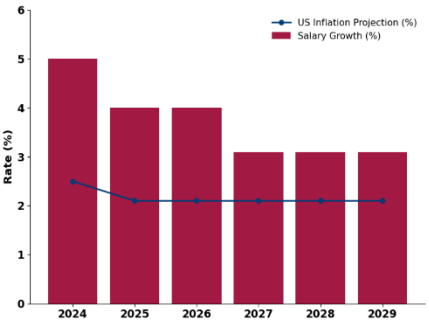


Source: Delta's Annual Report 2023

Delta's cost structure of 2023 is illustrated in Exhibit 61. As one can observe, most significant costs are salaries, aircraft fuel and ancillary businesses and refinery, accounting for more than half of Delta's total OPEX (58.13%). This distribution highlights the high concentration of Delta's cost structure in a few key areas. Following a similar approach as with the revenue projections, we forecasted each expense category individually, up to 2029. From that point onwards, we applied a linear interpolation until reaching a steady state in 2034, where we assume all cost elements will stabilize.

Salaries constitute a substantial portion of Delta's operating expenses, especially after recent agreements with labor unions. In 2023, they were the largest contributor to total operating expenses, accounting for 27.8% of the total. This dependence is expected to remain stable, as jobs such as pilots, flight attendants, ground crew and maintenance personnel cannot be easily dismissed or replaced. A key driver of salary increases in the airline industry is the looming pilot shortage, driven by three main factors: i) the high number of mandatory pilot retirements due to age, ii) the growing demand for pilots from regional airlines, and iii) the low number of qualified candidates applying for airline positions. This imbalance between pilots' supply and demand creates significant challenges for airlines in filling vacancies, driving upward pressure on salaries.

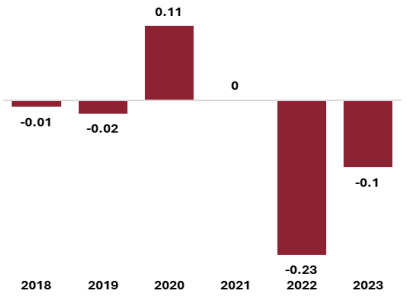
Exhibit 61: Delta's Projected Salary Growth vs U.S. Inflation (2024-2029)



Source: Authors' Computations; Statista

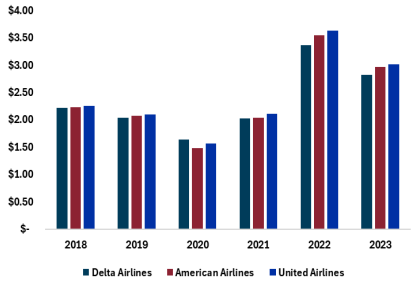
To project salary costs for the upcoming years, we have incorporated the terms of the recently negotiated labor agreement between Delta and the pilot's union: a salary increase of 5% in 2024, followed by a 4% increase in 2025 and 2026. Afterwards, until 2029, we have assumed salaries would grow 1% above

Exhibit 62: Monroe Energy Ownership Impact on Delta's Average Price per Fuel Gallon (2018-2023)



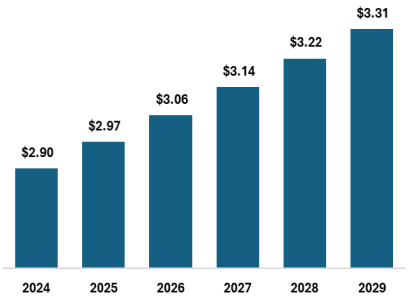
Source: Delta's Annual Reports

Exhibit 63: Average Fuel Price per Gallon (2018-2023)



Source: Companies' Annual Reports

Exhibit 64: Projected Cost per Gallon (2024-2029)



Source: Authors' Computations

inflation[4] (Exhibit 62), in line with the company's belief that this investment will drive better performance and reinforce its leadership position in the highly competitive and heavily unionized airline industry. Nevertheless, a slowdown in year-over-year salary growth is expected, as Delta has one of the lowest levels of unionized labor among US airlines, allowing it greater flexibility to manage salary increases as the industry continues to recover.

Aircraft fuel and related taxes, a close second, accounted for 21.07% of total operating expenses in 2023. These costs are closely tied to the airline's flight frequency and are driven by fuel prices volatility and inflationary pressures. They include Monroe's cost of supplying 75% of the company's fuel needs directly, with the remaining 25% sourced from the open market.

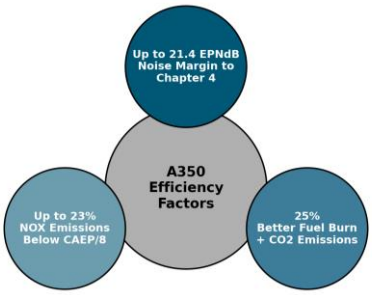
Fuel costs can be decomposed into two primary components: fuel gallons consumed and cost per gallon. Fuel costs are one of the largest and most variable components of Delta's total operating expenses, making accurate projections crucial but challenging. Over the past three years, Delta's average fuel cost per gallon has averaged $2.73 with a standard deviation of 67%. In comparison, American Airlines and United Airlines had higher averages of $2.85 and $2.92 per gallon, respectively, each with a standard deviation of 76% each. As shown in Exhibit 63, Monroe Energy has successfully achieved its goal by consistently maintaining fuel costs below those of the open market, except for the pandemic years. Notably, except for 2020, Delta has secured fuel at a lower cost than its peers, highlighting a significant competitive advantage (Exhibit 64). However, the evolution of Monroe Energy's gallon costs is not disclosed. Therefore, we applied the projected $CAGR_{2023–2032}$ of 2.71% for the US base oil market[5] to the average cost per gallon, assuming that Monroe's gallon cost and the open market cost will grow proportionally. By leveraging external market research, we are guaranteeing that anticipated changes in the oil market, as well as inflation growth, are accurately reflected in our projections.

As for the number of gallons consumed, we expect them to be in line with the historical consumption (excluding pandemic years). However, we expect Delta's future fuel consumption to shift in response to fleet modernization efforts. Delta has been investing heavily in newer, more fuel-efficient aircraft, a move that is anticipated to reduce fuel gallons consumed by 2030, up to 25%[6] compared to older models. To incorporate this shift into our forecasts, we project the expected growth rate of fuel gallon consumption will gradually decline by 1% annually. We conclude, therefore, that the overall expense will increase at a CAGR of 7.05%,

[4] Source: Statista Research Department (2023-2029 Inflation forecasts)
[5] Source: Statista Research Department (2023-2032 SCGR of base oil market forecasts)
[6] Source: Airbus (Global Market Forecasts 2024)

between 2024 to 2029. We believe that, in the long run, the cumulative impact of fuel efficiency improvements across the fleet and the gradual increase in the use of Sustainable Aviation Fuel will decrease this CAGR. Delta plans to gradually replace traditional fuel by SAF, targeting 10% of total fuel usage by 2030. Although we anticipate improvements in fuel consumption efficiency, one must consider that the process will be gradual, as the SAF price is currently around three times higher than traditional fuel. We are confident that this premium is unlikely to decrease significantly in the near future, as there is only one major supplier, Neste. Forecasting this category's trajectory is complex. Nevertheless, we remain optimistic about the potential positive impact on Delta's aircraft fuel expenses, reducing them gradually through reduced aircraft purchases, improved fuel efficiency, and SAF integration.

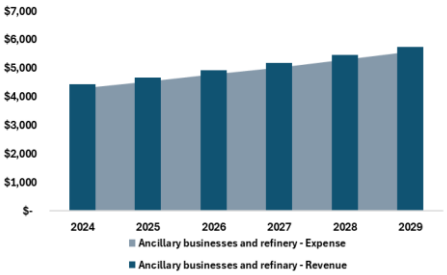
Exhibit 65: A350 New Efficiency Levels



Source: Airbus' Annual Report 2023

Lastly, Delta's third-largest expense, Ancillary Businesses and Refinery expenses, accounts for 7.94% of total operating expenses and is directly tied to the costs associated with each respective segment. Over the last five years, Delta's cost to revenue ratio for these segments has ranged between 94% and 99%. To project this category's expenses, we assumed that 97% (historical average) of ancillary and refinery revenue is consistently allocated to cover related expenses. As such, the growth rate for these expenses will match the growth rate of ancillary and refinery revenues, ensuring a direct correlation between the two. Therefore, we foresee an increase of 3.2% from 2023 to 2024, followed by a more significant annual rise of 5.3% from 2024 to 2029.

Exhibit 66: Ancillary Businesses & Refinery Revenue and Costs (2024-2029)



Source: Authors' Computations

CAPEX

Delta places significant value on its Property, Plant and Equipment (PPE), particularly on its flight equipment, which is a major driver of its business performance and competitive position in the airline industry. The airline's approach to aircraft acquisition has evolved significantly over the years. Historically, Delta opted to purchase used aircraft from other airlines rather than investing in new models. Initially, this strategy allowed for a lower capital expenditure per plane, further resulting in increased maintenance costs and shorter operational lifespan of the planes, since they were much older. Even though this approach is more cost-effective for the airline, it presented some challenges. Firstly, it is not aligned with the premium experience that Delta promises to offer to its passengers. Moreover, apart from being less fuel-efficient, these airplanes do not comply with the environmental requirements imposed to the airlines, impacting both profitability and environmental sustainability. Since 2020, Delta has been through a comprehensive fleet renewable and simplification procedure. The airline is, since the pandemic, focused on acquiring

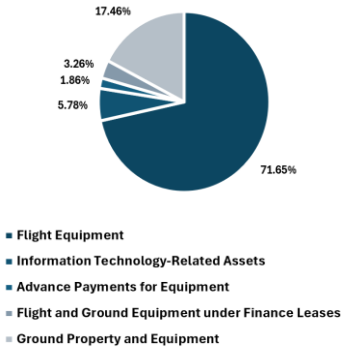
new, more fuel-efficient aircraft. Moreover, it has been reducing the variety of aircraft models, which saves on pilots' training costs and on maintenance costs.

Delta's PPE can be divided into 5 segments: flight equipment, ground property and equipment, information technology-related assets, flight and ground equipment under finance leases and advance payments for equipment. In 2023, each category accounted for, respectively, 71.65%, 17.46%, 5.78%, 3.26% and 1.86% of the total gross property and equipment.

Given Delta's capital-intensive business model, it is important to accurately forecast its evolution. Given the dynamic nature of fleet management, aircraft lifecycles are subject to fluctuations due to high turnover. Each year, Delta acquires new planes while fully depreciating older ones. As a result, the fleet undergoes constant renewal. To simplify, we assume that the acquisition cost of new planes remains roughly the same and Delta fully depreciates each aircraft until the end of its useful life and sells it at the residual value. The price per airplane is calculated by dividing the total flight equipment value by the number of planes in Delta's 2023 fleet. To project the number of acquired airplanes, we multiply this price by the expected number of acquired airplanes annually, outlined in Delta's annual report, which remains constant after 2026. For the retired airplanes, we assumed a fixed number based on historical retirement, estimating that two aircraft will be fully depreciated and retired each year, and multiplied it by the average cost per plane.

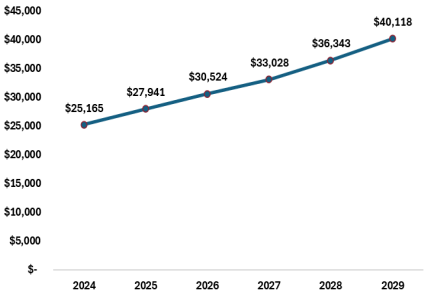
To effectively predict each PPE's category individually, we started by forecasting its depreciation value and making specific assumptions regarding residual values and useful life. Delta's flight equipment consists of its operating aircraft fleet, with expected lifespans for different airplane types ranging from 1 to 28 years. After averaging these values, we conclude that Delta's fleet has a 15-year lifespan. We set the residual value at 5%, assuming that Delta solely chooses to maximize asset utility, falling into the industry range of 5% to 20%. From these assumptions, we estimated a depreciation rate of 6.4% for flight equipment asset class. The other types of equipment, which still represent a big pie of the total invested capital of Delta, since they have lower values, we assumed a shorter depreciation period of 4 to 7 years and, similar to flight equipment, a residual value of 5%. The gross PPE for each year is then estimated based on the historical ratio of accumulated depreciation to gross PPE (37.27%). For these values to remain accurate, the costs associated with newly acquired aircraft must be included, and fully depreciated planes must be removed from the calculations. PPE is expected to grow at a CAGR of 8.7% through our explicit horizon. Moreover, right-of-use assets account for the value of the total airplanes acquired under operating lease agreements. Therefore, their projected growth rate over

Exhibit 67: Delta's PPE Composition (2023)



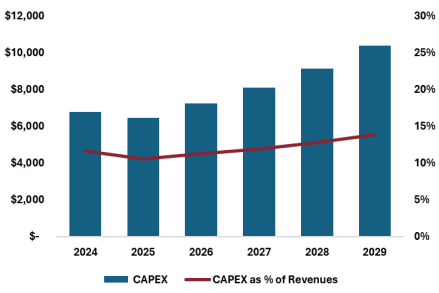
Source: Delta's Annual Report 2023

Exhibit 68: Delta's PPE Depreciation & Amortization (2024-2029)



Source: Authors' Computations

Exhibit 69: Delta's CAPEX and % of Revenues (2024-2029)

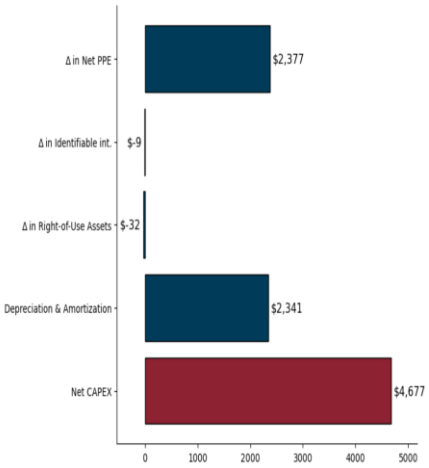


Source: Authors' Computations

the forecasted period will vary according to our estimation of the increase in the number of aircraft leased under these agreements. To predict the yearly amount of operating leased airplanes, we used the average historical share of the operating leases in its fleet, which stands at 8.64%. Considering Delta's heavy-asset strategy, we expect a further increase in the number of owned and leased airplanes in the future. Delta's Intangible assets include Indefinite-lived assets, (International routes and slots), Delta's trade name and Airline Alliances, as well as Definite-lived assets, like market agreements, contracts, and others. Historically, these assets have remained stable, a pattern that we assumed to continue over the forecasted period.

Delta's CAPEX, which is composed by these 3 components, is expected to increase, from 2024 to 2029, at a CAGR of 6.9%, mainly driven by the increase on the overall PP&E. However, while a substantial growth is projected on the upcoming years, we expect that its annual growth will slow down, as Delta's investment in next-generation aircraft is expected to give longer lifespans compared to the older models, as well as more durable materials.

Exhibit 70: Delta's Net CAPEX Breakdown (2023)

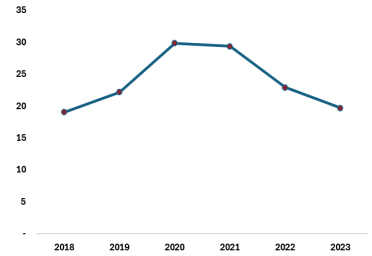


Source: Delta's Annual Report 2023; Authors' Computations

Net Working Capital

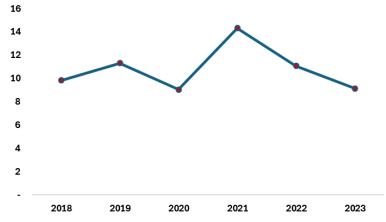
Working cash is assumed to be 3.8% of total revenues, as this follows the industry norm. Accounts receivable is driven by the historical average of the Average Collection Period from 2018 to 2023, excluding the pandemic years as outliers, of 20.94 days. Moreover, Delta's inventory is divided into 2 parts: i) Fuel Inventory and ii) Expendables Parts and Supplies Inventory. To forecast Fuel Inventory, we assumed it would vary in line with changes in fuel consumption, calculated as the product between total gallons consumed and the average price per gallon, both previously projected in the Aircraft Fuel Expense forecast. Fuel Inventory is, hence, projected to grow, from 2024 to 2029, 7%. Regarding Expendables Parts and Supplies Inventory, we expect to maintain, from 2024 onwards, the average of the Average Holding Period of 10.34, which is greatly below the industry's average, reflecting operational efficiency and optimized supply chain management. The average is based on data from 2018 to 2023, excluding the pandemic years as outliers. Prepaid expenses are assumed to be driven by total revenues. Since it is very uncertain the future evolution of Delta's equity investments, as it reflects the annual valuation of Delta's investments in other airlines, we assume it will vary according to its past performance, i.e. the average growth observed between 2021 and 2023, of 14%. Accounts payable are assumed to be driven by the historical average of the Average Payable Period from 2018 to 2023, excluding the pandemic years as outliers, of 27.73 days. Accrued salaries and related benefits' main driver is the number of

Exhibit 71: Delta's Average Collection Period (2018-2023)



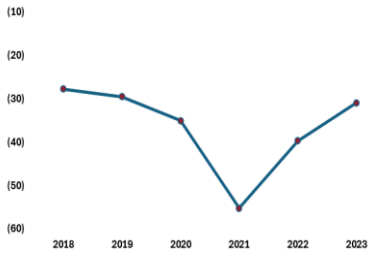
Source: Delta's Annual Reports

Exhibit 72: Delta's Average Holding Period (2018-2023)



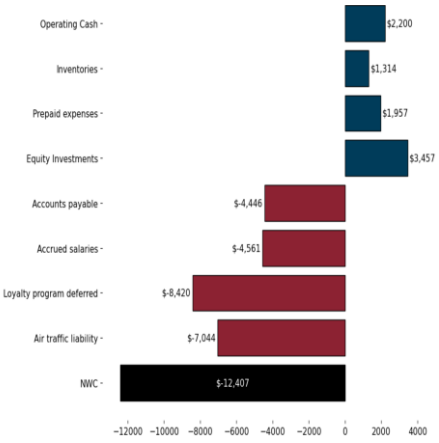
Source: Delta's Annual Reports

Exhibit 73: Delta's Average Payable Period (2018-2023)



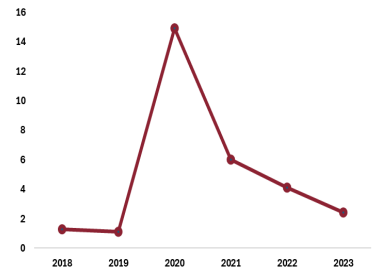
Source: Delta's Annual Reports

Exhibit 74: Delta's NWC Breakdown (2023)



Source: Delta's Annual Report 2023; Authors' Computations

Exhibit 75: Delta's D/E Ratio (2018-2023)



Source: Delta's Annual Reports

employees, outlined in the annual report and further predicted by the historical growth average. Finally, air traffic liability and loyalty program deferred revenue are projected to remain consistent as fixed percentages of Delta's total passenger revenue, approximately 12% and 15%, respectively, over the forecasted period.

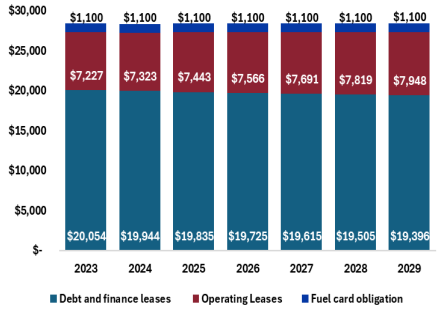
The airline industry operates as a negative working capital business, which is not a concern but rather a reflection of the industry's inherent dynamics. As illustrated in Exhibit 75, Delta carries significant liabilities, primarily tied to funds received in advance for tickets sold but not yet flown, recorded under deferred revenue. Airlines generally receive payments from customers faster than they are required to pay their suppliers. Consequently, Delta's Operating Capital has shown a negative and increasing trend in the historical years, a pattern expected to continue throughout the forecasted period, expected to rise at a CAGR of 11%.

Total Debt

In addition to "Debt and Finance Leases," we also classify "Operating Leases" and "Fuel Card Obligations" as debt.

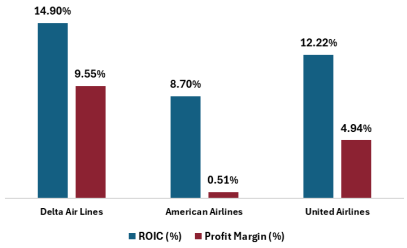
The airline industry is highly capital-intensive, requiring significant funding for aircraft acquisitions, often facilitated through leasing options and debt secured by aircraft as collateral. When Covid-19 hit, airlines were forced to fully shutdown their operational activity, forcing Delta to contract a huge amount of debt to sustain its operations, pay salaries and keep the company alive. This led to a significant increase of long-term debt from 2019 to 2020 of 161%, with D/E ratio rising from 1.1 to 14.92. Since then, Delta has balanced debt repayment – making more frequent payments whenever the opportunity arises – with the financing of new aircraft for fleet renewal and operational investments. Acknowledging this approach, we estimate the total long-term debt by targeting a ratio of 1.2x EBITDAR for 2034, which is 2019's target, applying a linear interpolation that reflects a negative CAGR of 1%. We believe that this pre-pandemic benchmark reflects a healthy D/E ratio, while acknowledging that restoring such an increase in debt takes time. Additionally, we project debt from operating leases to grow from 2024 to 2034 at the $CAGR_{2018-2023}$, of 1.83%. These types of leases are very convenient to the airline, as they require lower levels of capital investment. Hence, even though we forecast a reduction in the number of newly acquired aircraft going forward, we are confident that Delta will continue to favour acquiring new airplanes under these agreements, mainly to adjust its fleet size more easily according to fluctuations in demand. Finally, the fuel card obligation is tied to an Amex card, which provides a $1.1 billion credit limit, used to purchase jet fuel and crude oil, requiring monthly payment. Since

Exhibit 76: Delta's Debt Breakdown (2023-2029)



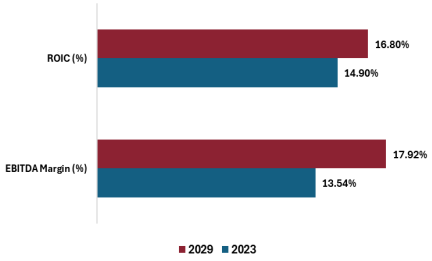
Source: Authors' Computations

Exhibit 77: U.S. Legacy Carriers ROIC & Profit Margin (2023)



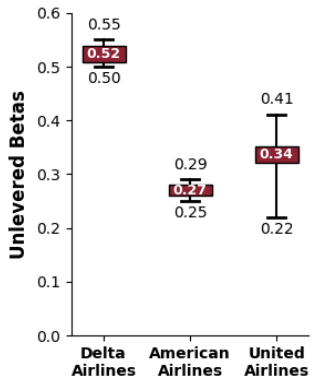
Source: Refinitiv; Authors' Computations

Exhibit 78: Delta's ROIC and EBITDA Margin (2023 vs 2029)



Source: Delta's Annual Report; Authors' Computations

Exhibit 79: Legacy Carriers Unlevered Beta



Source: Authors' Computations

this credit limit has remained constant since 2020, we assume it will continue to follow the same pattern throughout the forecast period.

As a result, we project total debt to grow at a CAGR of 0.07% over the forecast period. This modest growth reflects the offsetting effects of repaying the substantial debt incurred during the COVID-19 and incurring new debt required for fleet renewal, alongside a reduced overall need for financing due to the extended lifespan of the fleet.

Consolidated Perspective

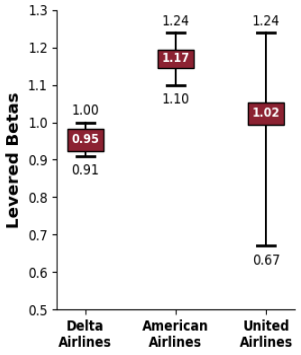
To provide a comparative view of Delta's performance against its competitors, we examine the company's metrics for 2023, which include revenues of $58,048 million, an EBITDA margin of 13.54%, and a ROIC of 14.9%. We have selected American Airlines and United Airlines as Delta's main competitors, as they, along with Delta, are the primary US Legacy Carriers. In 2023, the total revenues of both peers were $52,788 million for American Airlines and $53,717 million for United Airlines. The EBITDA margin and ROIC were, respectively, 10.02% and 8.7% for American Airlines and 13.07% and 12.22% for United Airlines. In the same year, Delta outperformed its peers with a profit margin of 9.55%, while American Airlines and United Airlines recorded a margin of 0.51% and 4.94%. Important insights were derived from Delta's historical performance, including its leadership position in the sector and its competitive advantages, and were incorporated into Delta's operating model. By the end of our explicit horizon, we anticipate Delta to achieve a total revenue of $76,527 million, an EBITDA margin of 17.92%, and a ROIC of 16.8%. These projections take into account key factors such as the airline's continued expansion into new international markets, its additional revenue streams generated through its subsidiaries, as well as it plans to build a more efficient fleet. We are confident that Delta will continue to leverage its subsidiaries to excel its performance, explore international alliances, and drive both operational and environmental efficiency, positioning the company for a successful transition to the final stage of our analysis: Delta's Valuation.

Valuation

Discounted Free-Cash-Flow Model

For the company's valuation, we chose the DCF model, using a forecast period of 11 years, from 2024 to 2034, assuming a convergence to a steady state by the end. This timeline was carefully selected to capture the company's post-pandemic recovery phase and the gradual slowdown until the steady state.

Exhibit 80: Legacy Carriers Levered Beta



Source: Authors' Computations

Exhibit 81: Delta's Valuation Breakdown FY 2025

Enterprise Value	**$ 81,908.82**
Net Debt & Other Claims	($ 32,800.98)
Equity Value	**$ 49,107.84**
Number of Outstanding shares	**645,281,221**
Share price (as of 07-Nov-24)	**$ 65.77**
Price Target FY 2025	**$ 76.10**
Capital Gains	**15.71%**
Dividend Yield	**0.80%**
Expected Total Return	**16.50%**

Source: Authors' Computations

To estimate Delta's cost of debt, we assumed its current credit rating of BBB (S&P) will remain unchanged in the future. According to the Federal Reserve, the long-term yield for this rating is 5.79%. The probability of default and loss given default for companies with this rating – both retrieved from Elton et al. – are 1.26% and 86.94%, respectively, resulting in a cost of debt of 4.55%. For Delta's cost of equity, we used the Capital Asset Pricing Model (CAPM). Firstly, we calculated the levered beta, by regressing the airline's excess weekly returns against the Arca Airline Index (XAL), from 2018 to 2024, yielding a slope of 0.95. Moreover, we used the 10-year US treasury yield of 3.89% as a proxy to the risk-free rate, along with A. Damodaran's Market Risk Premium estimate of 5.94%. As a result, the cost of equity required by Delta's investors is estimated at 9.56%. Using the XAL index as the benchmark, we calculated the leveraged beta for Delta's peers, derived the leverage ratios for each company, and determined the tax rate. This data was then used to compute the unlevered beta, as shown in Exhibit 80. These beta values provide valuable insights into DAL's risk profile. As shown in Exhibit 81, Delta has a lower βL compared to its main peers, reflecting its more conservative capital structure and reduced reliance on debt to support daily operations. However, its higher βu underscores that Delta's core operations carry greater inherent risk, which we believe is likely due to its substantial international operations and premium service offerings, which are more susceptible to global economic fluctuations.

Using the company's current D/E ratio of 38%, we calculated a WACC of 7.26%. We then discounted the free cash flows and applied a long-term growth rate of 1.06%, as observable in Exhibit 82. Consequently, the projected fair value of the company's share for 2025 is estimated at $76.10, with an Enterprise Value of approximately $81,908 million.

Multiples

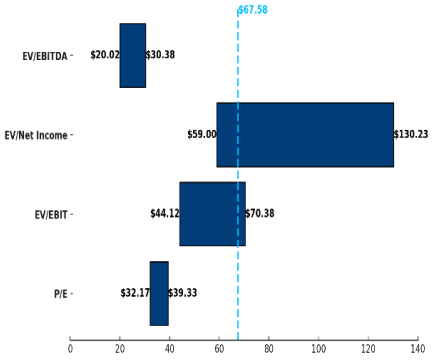
Exhibit 82: Closest Competitors Average Price FY 2025

Relative Valuation - Closest Competitors	
P/E	$ 35.75
EV/EBIT	$ 57.25
EV/Net Income	$ 94.52
EV/EBITDA	$ 25.20
Average Price Implied	**$ 53.18**
Upside (Downside) Potential	-19.14%

Source: Authors' Computations

Delta's closest peer group – American and United Airlines – was chosen primarily due to their comparable revenue scales and operational similarities. Together, these three companies represent the leading U.S. legacy carriers, with all of them covering similar geographic regions and operating under comparable market conditions. To triangulate our results, we leveraged the following multiples: P/E, EV/EBIT, EV/EBITDA, and EV/Net Income. The average of the selected multiples represents an implied share price of $53.18 (Exhibit 83), indicating a potential downside of 19.14% compared to the current listed price. However, it is important to recognize that no company is perfectly comparable to another. As highlighted in previous sections, Delta holds distinct competitive advantages over its peers, consistently being the top performer within the industry, making it more

Exhibit 83: Football Field Analysis (Third Quartile)



Source: Author's Calculations

challenging to accurately value the company using peer-based multiples alone. To address this, we calculated the third quartile for the same multiples and peer group, resulting in a share price of $67.58, as shown in Exhibit 84. Therefore, based on the relative valuation, we recommend a **HOLD** position, as the third quartile share price implies a potential upside of only 2.75%.

Sensitivity Analysis

Given that our model relies on various assumptions, we performed a sensitivity analysis to evaluate the impact of changes in key model inputs on the resulting output, in this case, Delta's share price and Enterprise Value. Specifically, we performed a sensitivity analysis on the WACC and Terminal Growth Rate (TGR).

Our base case assumptions for WACC and TGR were 7.26% and 1.06%, respectively, yielding a share price estimate of $76.10. As seen in Exhibit 85, the share price is notably more sensitive to changes in WACC than to changes in the TGR. Specifically, holding the TGR constant, a 0.25% increase in WACC reduces the EV to $78,384 and, consequently, the share price to $70.64. Conversely, a 0.25% decrease in the TGR, with the WACC held constant, would decrease the EV to $79,670 and the share price would drop to $72.63.

Exhibit 84. Impact on Delta's Stock Price and EV with Changes in the TGR and WACC (Sources: Authors' Computations)

Terminal Post-Tax WACC \ Terminal Growth Rate	0.06%	0.31%	0.56%	0.81%	1.06%	1.31%	1.56%	1.81%	2.06%
6.26%	$ 84.75	$ 88.81	$ 93.22	$ 98.03	$ 103.31	$ 109.12	$ 115.54	$ 122.69	$ 130.70
6.51%	$ 78.85	$ 82.52	$ 86.50	$ 90.83	$ 95.55	$ 100.73	$ 106.44	$ 112.74	$ 119.76
6.76%	$ 73.40	$ 76.74	$ 80.34	$ 84.25	$ 88.49	$ 93.13	$ 98.21	$ 103.81	$ 110.00
7.01%	$ 68.36	$ 71.39	$ 74.66	$ 78.20	$ 82.03	$ 86.20	$ 90.75	$ 95.74	$ 101.23
7.26%	$ 63.67	$ 66.44	$ 69.42	$ 72.63	**$ 76.10**	$ 79.86	$ 83.96	$ 88.42	$ 93.32
7.51%	$ 59.30	$ 61.84	$ 64.56	$ 67.49	$ 70.64	$ 74.05	$ 77.74	$ 81.76	$ 86.14
7.76%	$ 55.23	$ 57.56	$ 60.05	$ 62.72	$ 65.59	$ 68.69	$ 72.03	$ 75.66	$ 79.60
8.01%	$ 51.42	$ 53.56	$ 55.85	$ 58.29	$ 60.92	$ 63.74	$ 66.77	$ 70.06	$ 73.61
8.26%	$ 47.84	$ 49.82	$ 51.93	$ 54.17	$ 56.57	$ 59.15	$ 61.92	$ 64.90	$ 68.12

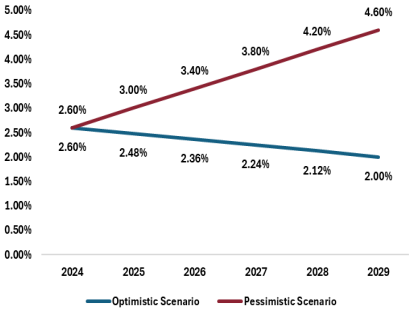
Terminal Post-Tax WACC \ Terminal Growth Rate	0.06%	0.31%	0.56%	0.81%	1.06%	1.31%	1.56%	1.81%	2.06%
6.64%	$ 87,489	$ 90,106	$ 92,951	$ 96,058	$ 99,463	$ 103,212	$ 107,360	$ 111,974	$ 117,136
6.89%	$ 83,683	$ 86,052	$ 88,619	$ 91,412	$ 94,461	$ 97,803	$ 101,482	$ 105,552	$ 110,080
7.14%	$ 80,167	$ 82,318	$ 84,643	$ 87,163	$ 89,904	$ 92,896	$ 96,175	$ 99,786	$ 103,781
7.39%	$ 76,910	$ 78,870	$ 80,981	$ 83,262	$ 85,735	$ 88,425	$ 91,362	$ 94,581	$ 98,125
7.64%	$ 73,885	$ 75,674	$ 77,597	$ 79,670	**$ 81,909**	$ 84,336	$ 86,976	$ 89,859	$ 93,018
7.89%	$ 71,067	$ 72,706	$ 74,463	$ 76,350	$ 78,384	$ 80,582	$ 82,965	$ 85,556	$ 88,385
8.14%	$ 68,438	$ 69,942	$ 71,551	$ 73,275	$ 75,128	$ 77,124	$ 79,282	$ 81,620	$ 84,164
8.39%	$ 65,978	$ 67,362	$ 68,839	$ 70,418	$ 72,110	$ 73,929	$ 75,889	$ 78,007	$ 80,303
8.64%	$ 63,673	$ 64,949	$ 66,307	$ 67,757	$ 69,307	$ 70,968	$ 72,754	$ 74,678	$ 76,757

Notably, the sensitivity is positively skewed, meaning that decreases in WACC and increases in the TGR have a more pronounced impact on the share price compared to equivalent movements in the opposite direction. Although this effect is more expressive with WACC fluctuations, the share price exhibits a similar asymmetrical sensitivity to changes in TGR, albeit to a lesser extent.

Scenario Analysis

In our projections, we carefully account for the impact of inflation, as Delta's profitability is closely tied to fluctuations in inflation levels. In light of the recent

Exhibit 85: Inflation Projection by Scenario (2024-2029)



Source: Authors' Computations

Exhibit 86: Pessimistic Scenario Target Price FY 2025

∑ Discounted FCF	$ 21,387.30
Terminal Value	$ 45,569.87
Enterprise Value	66,957.17
Net Debt	($ 32,800.98)
Equity Value	$ 31,156.19
Number of Outstanding share	645,281,221
Price Target FY 2025	$ 52.93
Upside (Downside)	-30.45%

Source: Authors' Computations

U.S. election results and the potential shifts in economic policy, we conducted an analysis to assess how changes in inflation rates could impact our current demand, through an Optimistic and a Pessimistic Scenario. These scenarios extend to 2029, as this analysis reflects the impact of the new election outcomes, with the presidential term ending that year. Afterward, we assume that, similar to our baseline scenario, growth will converge to our target terminal rate, regardless of the 2029 outcome. Assuming that prices will increase at the same rate as inflation, we evaluated the price elasticity of demand (PED). Elasticity estimates[7] differ from short-haul and long-haul flights, as well as between leisure and business flights. Specifically, a 1% increase in ticket prices is expected to reduce demand by -0.7 and -0.27 for short-haul and long-haul flights, respectively, and -1.52 and -1.04 for leisure and business flights, respectively. To fairly adjust these elasticities to Delta's operating model, we applied a weighted average, considering that in 2023, 87.9% of Delta's flights were short haul, while 12.1% were long-haul, with a 50/50 distribution between business and leisure travellers. As a result, Delta's PED is 1.06%.

- Pessimistic Scenario

For a negative outlook, we project an inflation rate 2% higher than the current U.S. inflation rate of 2.6% by the end of our explicit horizon, in 2029. Using linear interpolation, inflation is expected to rise by 0.4% annually, leading to a proportional 0.41% decrease in demand each year. Consequently, Delta's revenues will grow at a CAGR of 3.9%, reaching $74,906 million by 2029, compared to the CAGR of 4.29% and $76,427 million in revenues in the base scenario. Operating costs are assumed to represent the same percentage of total revenues as they do in the baseline scenario. As a result, they are expected to increase at a CAGR of 3.09%, slightly lower than the 3.43% increase in the baseline scenario. Similarly, D&A, CapEx, and NWC adjustments reflect this inflationary effect, resulting in a lower CAGR for FCF from 2025 to 2029, dropping from 3.31% to 1.56%. Moreover, Delta's cost of capital metrics are expected to worsen, leading to a higher post-tax WACC of 7.6% and a slightly lower terminal growth rate of 1.06%. Under this scenario, the EV drops to $65,174 million (vs baseline scenario EV of $81,909 million) and the target share price to $52.93 (Exhibit 87), a 30.45% decrease from the current share price.

- Optimistic Scenario

In a more successful scenario, we assume inflation will decrease to the FED's target rate by 2029, which will result in a 0.13% increase in demand compared to the base case. Consequently, Delta's revenue is projected to be 4.4%, with revenues expected to reach $76,888 million by 2029. Like the baseline scenario,

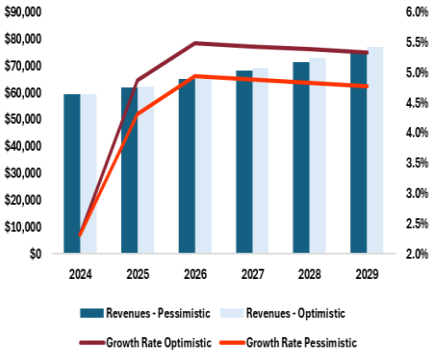
[7] Source: Gillen, Air travel demand elasticities: Concepts, issues and measurement, 2002

Exhibit 87: Optimistic Scenario Target Price FY 2025

∑ Discounted FCF	$ 24,675.81
Terminal Value	$ 65,692.14
Enterprise Value	$ 90,367.95
Net Debt	($ 32,800.98)
Equity Value	$ 57,566.97
Number of Outstanding share	645,281,221
Price Target FY 2025	$ 89.21
Upside (Downside)	17.23%

Source: Authors' Computations

Exhibit 88: Potential Revenue Scenarios, in USD Million (2023-2029)



Source: Author's Computations

Exhibit 89: Final Recommendation

	Price	Advice
Share price (as of 05 Dec 2024)	$ 65.77	
DCF Model	$ 76.10	BUY
DCF Model - Different Scenarios	$ 76.26	BUY
Multiples Valuation	$ 67.58	HOLD
Final Recommendation		BUY

Source: Authors' Computations

operating costs are assumed to represent the same percentage of total revenues. As a result, they are expected to increase at a higher a CAGR of 3.54%, throughout the same period. Once again, Delta's D&A, CapEx and NWC will be adjusted to the anticipated decrease in inflation, leading to an overall increase in Delta's FCF, which is projected to grow at a CAGR of 3.44% from 2025 to 2029. Under this scenario, with a lower WACC of 6.92%, the expected EV is $90,368 million (Exhibit 88), and the target share price is $89.21, reflecting a 17.23% increase from the current stock price.

From our understanding, predicting which scenario will prevail is challenging. While President Trump's pro-business policies, tax cuts, and focus on energy independence could drive growth and stabilize inflation, his protectionist stance may cause deregulation, trade disruptions, and rising debt, leading to instability and inflationary pressures. Based on our external market predictions, such as the aforementioned one from Statista, and historical US inflation, we believe it is more likely that inflation will decrease rather than increase. Therefore, we assign a 5% probability to the pessimistic scenario and a 10% probability to the optimistic scenario.

Final Recommendations

After a careful and detailed analysis of the company's business segments and its market position, as well as its drivers, we expect, for December 31, 2025, a target price of $76.1 per share. This price translates into a total return of 16.5% for Delta's investors.

Our final recommendation relies solely upon the DCF model, with relative valuation used only as a supportive method to benchmark Delta against its competitors. Given that our forecasted return exceeds the 10% threshold, we advise investors to BUY Delta's stock. For further reference, HSBC shares the same view, recommending a **BUY** position, with a target price of $72.80 per share. While HSBC also recommends buying stocks from other airlines, Delta is their "preferred stock" due to its strongest competitive positioning in the industry.

Despite being a very challenging competitive landscape, we believe that Delta will remain its competitive edge over its peers, due to its ability to deliver a high-quality airline experience for every passenger and capitalize on it effectively.

Appendix

Income Statement: 2018 – 2029 – Historical Data & Explicit Horizon

Reformulated Income Statement (in USDm)	2018	2019	2020	2021	2022	2023	2024F	2025F	2026F	2027F	2028F	2029F
Core Business												
Operating Revenues:												
Passenger	$ 39,755	$ 42,277	$ 12,883	$ 22,519	$ 40,218	$ 48,909	$ 49,807	$ 52,048	$ 54,800	$ 57,682	$ 60,697	$ 63,852
Cargo	$ 865	$ 753	$ 608	$ 1,032	$ 1,050	$ 723	$ 744	$ 766	$ 789	$ 812	$ 836	$ 860
Other (Ancillary Businesses, Refinery, and Loyalty programs)	$ 3,260	$ 3,259	$ 3,256	$ 5,792	$ 8,420	$ 7,312	$ 7,784	$ 8,288	$ 8,789	$ 9,303	$ 9,826	$ 10,358
Total Operating Revenue	**$ 43,880**	**$ 46,289**	**$ 16,747**	**$ 29,343**	**$ 49,688**	**$ 56,944**	**$ 58,335**	**$ 61,101**	**$ 64,378**	**$ 67,796**	**$ 71,359**	**$ 75,070**
Operating Expenses:												
Salaries and related costs	$ 10,608	$ 11,424	$ 8,818	$ 9,547	$ 11,692	$ 14,329	$ 15,046	$ 15,647	$ 16,273	$ 16,778	$ 17,298	$ 17,834
Aircraft fuel and related taxes	$ 9,020	$ 8,519	$ 3,176	$ 5,633	$ 11,482	$ 11,069	$ 11,777	$ 12,928	$ 14,056	$ 15,283	$ 16,458	$ 17,723
Ancillary businesses and refinery	$ 1,695	$ 1,245	$ 1,785	$ 3,957	$ 5,756	$ 4,172	$ 4,307	$ 4,535	$ 4,775	$ 5,028	$ 5,294	$ 5,575
Contracted services	$ 2,175	$ 2,942	$ 1,953	$ 2,420	$ 3,345	$ 4,041	$ 4,140	$ 4,336	$ 4,506	$ 4,746	$ 4,995	$ 4,504
Landing Fees and other rents	$ 1,662	$ 2,176	$ 1,833	$ 2,019	$ 2,181	$ 2,563	$ 2,652	$ 2,770	$ 2,889	$ 2,982	$ 3,074	$ 3,167
Depreciation and amortization	$ 2,329	$ 2,581	$ 2,312	$ 1,998	$ 2,107	$ 2,341	$ 3,587	$ 2,776	$ 2,584	$ 2,503	$ 3,315	$ 3,775
Regional carrier expense	$ 3,438	$ 2,158	$ 1,584	$ 1,736	$ 2,051	$ 2,200	$ 2,296	$ 2,396	$ 2,501	$ 2,611	$ 2,725	$ 2,844
Aircraft maintenance materials and outside repairs	$ 1,575	$ 1,751	$ 822	$ 1,401	$ 1,982	$ 2,432	$ 3,489	$ 3,673	$ 3,868	$ 4,073	$ 4,288	$ 4,516
Passenger commissions and other selling expenses	$ 1,941	$ 2,211	$ 643	$ 953	$ 1,891	$ 2,334	$ 2,392	$ 2,499	$ 2,083	$ 1,616	$ 1,093	$ 1,150
Passenger service	$ 1,178	$ 1,312	$ 551	$ 756	$ 1,453	$ 1,750	$ 1,743	$ 1,822	$ 1,918	$ 2,019	$ 2,124	$ 2,235
Aircraft rent	$ 394	$ 423	$ 399	$ 430	$ 508	$ 532	$ 539	$ 548	$ 557	$ 566	$ 576	$ 585
Restructuring charges	$ -	$ -	$ 8,219	$ -19	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Pilot agreement and related expenses	$ -	$ -	$ -	$ -	$ -	$ 864	$ -	$ -	$ -	$ -	$ -	$ -
Government grant recognition	$ -	$ -	$ -3,866	$ -4,428	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other	$ 1,723	$ 1,827	$ 1,232	$ 1,405	$ 1,700	$ 2,239	$ 2,316	$ 2,420	$ 2,524	$ 2,605	$ 2,686	$ 2,767
Total Operating Expenses	**$ 37,738**	**$ 38,569**	**$ 29,461**	**$ 27,808**	**$ 46,148**	**$ 50,866**	**$ 54,283**	**$ 56,351**	**$ 58,536**	**$ 60,809**	**$ 63,928**	**$ 66,675**
												17.92%
Core Result before Taxes, net of profit sharing	**$ 6,142**	**$ 7,720**	**$ -12,714**	**$ 1,535**	**$ 3,540**	**$ 6,078**	**$ 4,052**	**$ 4,750**	**$ 5,843**	**$ 6,987**	**$ 7,431**	**$ 8,395**
Profit Sharing	$ 1,285	$ 1,618	$ -	$ 106	$ 553	$ 1,357	$ 810	$ 950	$ 1,169	$ 1,397	$ 1,486	$ 1,679
Core Result before Taxes	**$ 4,857**	**$ 6,102**	**$ -12,714**	**$ 1,429**	**$ 2,987**	**$ 4,721**	**$ 3,242**	**$ 3,800**	**$ 4,674**	**$ 5,590**	**$ 5,945**	**$ 6,716**
Statutory Taxes	$ -1,020	$ -1,281	$ 2,670	$ -300	$ -627	$ -991	$ -681	$ -798	$ -982	$ -1,174	$ -1,248	$ -1,410
Tax Adjustments	$ -126	$ -128	$ -76	$ -1,288	$ -509	$ 151	$ -150.10	$ -175.94	$ -216.41	$ -258.81	$ -275.26	$ -310.96
Core Result	**$ 3,711**	**$ 4,693**	**$ -10,120**	**$ -159**	**$ 1,851**	**$ 3,881**	**$ 2,411**	**$ 2,826**	**$ 3,476**	**$ 4,157**	**$ 4,421**	**$ 4,995**
Non-Core Business												
Operating Revenues:												
Other (Miscellaneous)	$ 558	$ 718	$ 348	$ 556	$ 894	$ 1,104	$ 1,059	$ 1,106	$ 1,165	$ 1,226	$ 1,290	$ 1,357
Total Operating Revenue	$ 558	$ 718	$ 348	$ 556	$ 894	$ 1,104	$ 1,059	$ 1,106	$ 1,165	$ 1,226	$ 1,290	$ 1,357
Operating Expenses:												
Salaries and related costs	$ 135	$ 177	$ 183	$ 181	$ 210	$ 278	$ 291.70	$ 303.37	$ 315.50	$ 328.12	$ 341.24	$ 354.89
Government grant recognition	$ -	$ -	$ -80	$ -84	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	$ 135	$ 177	$ 103	$ 97	$ 210	$ 278	$ 291.70	$ 303.37	$ 315.50	$ 328.12	$ 341.24	$ 354.89
Gains (Losses) on Equity Investments:												
Impairments and equity method losses	$ -	$ -62	$ -2,432	$ -337	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Gain/(loss) on investments, net	$ 14	$ 119	$ -105	$ 56	$ -783	$ 1,263	$ 291	$ 340	$ 391	$ 448	$ 514	$ 589
Miscellaneous, net	$ 184	$ -111	$ 137	$ -60	$ -127	$ -35	$ -33	$ -39	$ -45	$ -51	$ -59	$ -68
Total Gains on Equity Investments	$ 198	$ -54	$ -2,400	$ -341	$ -910	$ 1,228	$ 257	$ 301	$ 346	$ 396	$ 455	$ 521
Non-Core Result before taxes, net of Profit Sharing	$ 621	$ 487	$ -2,155	$ 118	$ -226	$ 2,054	$ 1,024	$ 1,104	$ 1,195	$ 1,294	$ 1,404	$ 1,524
Profit sharing	$ 16.34	$ 25.10	$ -	$ 2.01	$ 9.95	$ 26.30	$ 205	$ 221	$ 239	$ 259	$ 281	$ 305
Non-Core Result before taxes	**$ 605**	**$ 462**	**$ -2,155**	**$ 116**	**$ -236**	**$ 2,028**	**$ 819**	**$ 883**	**$ 956**	**$ 1,035**	**$ 1,123**	**$ 1,219**
Statutory Taxes	$ -127	$ -97	$ 453	$ -24	$ 50	$ -426	$ -172	$ -186	$ -201	$ -217	$ -236	$ -256
Tax Adjustments	$ -17	$ -9	$ 4	$ -141	$ 69	$ 64	$ -63	$ -68	$ -74	$ -80	$ -87	$ -94
Non-Core Result	**$ 461**	**$ 356**	**$ -1,699**	**$ -49**	**$ -117**	**$ 1,666**	**$ 584**	**$ 630**	**$ 682**	**$ 738**	**$ 801**	**$ 869**
Financing												
Interest expense,net	$ -311	$ -301	$ -929	$ -1,279	$ -1,029	$ -834	$ -858	$ -853	$ -848	$ -843	$ -839	$ (834.02)
Loss on extinguishment of debt	$ -	$ -	$ -8	$ -319	$ -100	$ -63	$ -	$ -	$ -	$ -	$ -	$ -
Pension and related benefit/(expense)	$ -	$ -65	$ 219	$ 451	$ 292	$ -244	$ 186	$ 194	$ 202	$ 208	$ 214	$ 221
Financing Result before taxes	$ -311	$ -366	$ -718	$ -1,147	$ -837	$ -1,141	$ -671	$ -659	$ -647	$ -636	$ -624	$ -613
Statutory Taxes	$ 65	$ 77	$ 151	$ 241	$ 176	$ 240	$ 141	$ 138	$ 136	$ 133	$ 131	$ 129
Tax Adjustments	$ 9	$ 7	$ 1	$ 1,395	$ 245	$ -36	$ 52	$ 51	$ 50	$ 49	$ 48	$ 47
Other comprehensive Income (loss)	$ -98	$ -164	$ -1,049	$ -1,908	$ 1,329	$ -44	$ -44	$ -43.71	$ -43.56	$ -43.41	$ -43.27	$ -43.12
Financing Result	**$ -335**	**$ -446**	**$ -1,615**	**$ -1,419**	**$ 913**	**$ -981**	**$ -522**	**$ -514**	**$ -505**	**$ -497**	**$ -488**	**$ -480**
Comprehensive Income	**$ 3,837**	**$ 4,603**	**$ -13,434**	**$ -1,628**	**$ 2,647**	**$ 4,565**	**$ 2,473**	**$ 2,942**	**$ 3,653**	**$ 4,399**	**$ 4,734**	**$ 5,384**

Income Statement: 2030 – 2034 – Implicit Horizon

Reformulated Income Statement (in USDm)	2030F	2031F	2032F	2033F	2034F
Core Business					
Operating Revenues:					
Passenger	$ 66,763	$ 69,380	$ 71,655	$ 73,547	$ 75,018
Cargo	$ 882.98	$ 903.87	$ 922.64	$ 939.14	$ 953.23
Other (Ancillary Businesses, Refinery, and Loyalty programs)	$ 10,832	$ 11,254	$ 11,607	$ 11,884	$ 12,036
Total Operating Revenue	**$ 78,478**	**$ 81,538**	**$ 84,185**	**$ 86,370**	**$ 88,007**
Operating Expenses:					
Salaries and related costs	$ 18,366	$ 18,891	$ 19,409	$ 19,917	$ 20,415
Aircraft fuel and related taxes	$ 18,902	$ 19,962	$ 20,875	$ 21,614	$ 22,154
Ancillary businesses and refinery	$ 5,828	$ 6,048	$ 6,231	$ 6,372	$ 6,467
Contracted services	$ 4,168	$ 3,956	$ 3,848	$ 3,834	$ 3,910
Landing Fees and other rents	$ 3,256	$ 3,341	$ 3,421	$ 3,497	$ 3,567
Depreciation and amortization	$ 4,209	$ 4,593	$ 4,903	$ 5,118	$ 5,220
Regional carrier expense	$ 2,952	$ 3,047	$ 3,127	$ 3,192	$ 3,240
Aircraft maintenance materials and outside repairs	$ 4,692	$ 4,852	$ 4,995	$ 5,119	$ 5,221
Passenger commissions and other selling expenses	$ 1,203	$ 1,250	$ 1,291	$ 1,325	$ 1,351
Passenger service	$ 2,332	$ 2,414	$ 2,479	$ 2,525	$ 2,550
Aircraft rent	$ 595	$ 605	$ 615	$ 625	$ 635
Restructuring charges	$ -	$ -	$ -	$ -	$ -
Pilot agreement and related expenses	$ -	$ -	$ -	$ -	$ -
Government grant recognition	$ -	$ -	$ -	$ -	$ -
Other	$ 2,839	$ 2,902	$ 2,954	$ 2,995	$ 3,025
Total Operating Expenses	**$ 69,341**	**$ 71,861**	**$ 74,148**	**$ 76,132**	**$ 77,757**
Core Result before Taxes, net of profit sharing	**$ 9,138**	**$ 9,677**	**$ 10,037**	**$ 10,239**	**$ 10,250**
Profit Sharing	$ 1,828	$ 1,935	$ 2,007	$ 2,048	$ 2,050
Core Result before Taxes	**$ 7,310**	**$ 7,742**	**$ 8,030**	**$ 8,191**	**$ 8,200**
Statutory Taxes	$ -1,535	$ -1,626	$ -1,686	$ -1,720	$ -1,722
Tax Adjustments	$ -338	$ -358	$ -372	$ -379	$ -380
Core Result	**$ 5,437**	**$ 5,757**	**$ 5,972**	**$ 6,092**	**$ 6,099**
Non-Core Business					
Operating Revenues:					
Other (Miscellaneous)	$ 1,415	$ 1,462	$ 1,497	$ 1,518	$ 1,526
Total Operating Revenue	$ 1,415	$ 1,462	$ 1,497	$ 1,518	$ 1,526
Operating Expenses:					
Salaries and related costs	$ 365	$ 376	$ 386	$ 396	$ 406
Government grant recognition	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	$ 365	$ 376	$ 386	$ 396	$ 406
Gains (Losses) on Equity Investments:					
Impairments and equity method losses	$ -	$ -	$ -	$ -	$ -
Gain/(loss) on investments, net	$ 671	$ 759	$ 855	$ 957	$ 1,065
Miscellaneous, net	$ -77	$ -87	$ -98	$ -110	$ -122
Total Gains on Equity Investments	$ 594	$ 672	$ 757	$ 847	$ 943
Non-Core Result before taxes, net of Profit Sharing	$ 1,643	$ 1,758	$ 1,867	$ 1,969	$ 2,062
Profit sharing	$ 329	$ 352	$ 373	$ 394	$ 412
Non-Core Result before taxes	**$ 1,314**	**$ 1,406**	**$ 1,494**	**$ 1,575**	**$ 1,650**
Statutory Taxes	$ -276	$ -295	$ -314	$ -331	$ -346
Tax Adjustments	$ -101	$ -108	$ -115	$ -121	$ -127
Non-Core Result	**$ 937**	**$ 1,003**	**$ 1,065**	**$ 1,123**	**$ 1,176**
Financing					
Interest expense,net	$ -829	$ -825	$ -820	$ -810	$ -810
Loss on extinguishment of debt	$ -	$ -	$ -	$ -	$ -
Pension and related benefit/(expense)	$ 228	$ 234	$ 240	$ 247	$ 253
Financing Result before taxes	$ -602	$ -591	$ -579	$ -564	$ -558
Statutory Taxes	$ 126	$ 124	$ 122	$ 118	$ 117
Tax Adjustments	$ 46	$ 45	$ 45	$ 43	$ 43
Other comprehensive Income (loss)	$ -43	$ -43	$ -43	$ -43	$ -42
Financing Result	**$ -472**	**$ -464**	**$ -456**	**$ -444**	**$ -440**
Comprehensive Income	**$ 5,902**	**$ 6,296**	**$ 6,581**	**$ 6,770**	**$ 6,835**

Passenger Revenue Breakdown by Geographic Region 2018 – 2029

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
RPM	$ 214,267	$ 237,651	$ 73,859	$ 134,225	$ 195,892	$ 231,213	$ 229,783	$ 235,523	$ 242,866	$ 250,310	$ 257,852	$ 265,485
Passenger Load Factor	$ 0.86	$ 0.86	$ 0.55	$ 0.69	$ 0.84	$ 0.85	$ 0.84	$ 0.85	$ 0.85	$ 0.85	$ 0.85	$ 0.85
ASM (In Millions)	$ 250,605	$ 275,378	$ 134,289	$ 194,528	$ 233,204	$ 272,015	$ 272,064	$ 278,546	$ 286,883	$ 295,319	$ 303,848	$ 312,464
Passanger Mile Yield	$ 0.18	$ 0.18	$ 0.18	$ 0.17	$ 0.21	$ 0.21	$ 0.22	$ 0.22	$ 0.23	$ 0.23	$ 0.24	$ 0.24
Global	$ 39,755	$ 42,277	$ 12,883	$ 22,519	$ 40,218	$ 48,909	$ 49,807	$ 52,048	$ 54,800	$ 57,682	$ 60,697	$ 63,852
RPM	$ 159,541	$ 180,864	$ 63,955	$ 138,753	$ 184,465	$ 204,012	$ 210,540	$ 217,533	$ 224,864	$ 232,440	$ 240,272	$ 248,367
Passenger Load Factor	$ 0.86	$ 0.86	$ 0.55	$ 0.69	$ 0.84	$ 0.85	$ 0.85	$ 0.85	$ 0.85	$ 0.85	$ 0.86	$ 0.86
ASM (In Millions)	$ 186,598	$ 209,575	$ 116,283	$ 201,091	$ 219,602	$ 240,014	$ 247,695	$ 255,621	$ 263,801	$ 272,242	$ 280,954	$ 289,945
Passanger Mile Yield	$ 0.18	$ 0.17	$ 0.16	$ 0.13	$ 0.16	$ 0.17	$ 0.16	$ 0.17	$ 0.17	$ 0.17	$ 0.17	$ 0.18
Domestic	$ 28,159	$ 30,367	$ 10,041	$ 18,468	$ 30,197	$ 33,968	$ 34,550	$ 36,002	$ 37,908	$ 39,901	$ 41,985	$ 44,165
RPM	$ 43,263	$ 38,232	$ 7,411	$ 13,251	$ 36,972	$ 52,996	$ 53,045	$ 54,636	$ 56,275	$ 57,963	$ 59,702	$ 61,493
Passenger Load Factor	$ 0.86	$ 0.86	$ 0.55	$ 0.69	$ 0.84	$ 0.85	$ 0.83	$ 0.83	$ 0.83	$ 0.83	$ 0.83	$ 0.83
ASM (In Millions)	$ 50,600	$ 44,302	$ 13,475	$ 19,205	$ 44,014	$ 62,348	$ 64,219	$ 66,145	$ 68,129	$ 70,173	$ 72,279	$ 74,447
Passanger Mile Yield	$ 0.14	$ 0.17	$ 0.16	$ 0.13	$ 0.16	$ 0.17	$ 0.17	$ 0.18	$ 0.18	$ 0.18	$ 0.19	$ 0.19
Atlantic	$ 6,165	$ 6,381	$ 1,171	$ 1,777	$ 6,093	$ 9,057	$ 9,277	$ 9,709	$ 10,178	$ 10,666	$ 11,175	$ 11,705
RPM	$ 20,056	$ 17,784	$ 7,275	$ 13,116	$ 18,784	$ 22,675	$ 23,712	$ 24,566	$ 25,450	$ 26,366	$ 27,315	$ 28,299
Passenger Load Factor	$ 0.86	$ 0.86	$ 0.55	$ 0.69	$ 0.84	$ 0.85	$ 0.86	$ 0.86	$ 0.86	$ 0.86	$ 0.86	$ 0.86
ASM (In Millions)	$ 23,457	$ 20,608	$ 13,226	$ 19,009	$ 22,362	$ 26,676	$ 27,636	$ 28,631	$ 29,662	$ 30,730	$ 31,836	$ 32,982
Passanger Mile Yield	$ 0.14	$ 0.17	$ 0.15	$ 0.14	$ 0.15	$ 0.17	$ 0.17	$ 0.17	$ 0.18	$ 0.18	$ 0.18	$ 0.18
Latin America	$ 2,888	$ 3,002	$ 1,113	$ 1,873	$ 2,889	$ 3,798	$ 4,050	$ 4,247	$ 4,466	$ 4,696	$ 4,936	$ 5,187
RPM	$ 20,360	$ 14,540	$ 4,035	$ 2,912	$ 4,076	$ 11,155	$ 11,201	$ 11,934	$ 12,615	$ 13,335	$ 14,096	$ 14,900
Passenger Load Factor	$ 0.86	$ 0.86	$ 0.86	$ 0.86	$ 0.86	$ 0.85	$ 0.81	$ 0.82	$ 0.82	$ 0.82	$ 0.82	$ 0.82
ASM (In Millions)	$ 23,755	$ 16,964	$ 4,707	$ 3,398	$ 4,756	$ 13,124	$ 13,845	$ 14,607	$ 15,410	$ 16,258	$ 17,152	$ 18,095
Passanger Mile Yield	$ 0.12	$ 0.17	$ 0.14	$ 0.14	$ 0.25	$ 0.19	$ 0.17	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.19
Pacific	$ 2,543	$ 2,527	$ 558	$ 401	$ 1,039	$ 2,086	$ 1,930	$ 2,090	$ 2,248	$ 2,419	$ 2,601	$ 2,796

Balance Sheet: 2018 – 2029 – Historical Data & Explicit Horizon

Reformulated Balance Sheet (in USDm)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Core activities												
Assets												
Operating Cash	$ 1,689	$ 1,786	$ 650	$ 1,136	$ 1,922	$ 2,206	$ 2,217	$ 2,322	$ 2,446	$ 2,576	$ 2,712	$ 2,853
Accounts receivable net of an allowance for uncollectible accounts	$ 2,314	$ 2,854	$ 1,396	$ 2,404	$ 3,176	$ 3,130	$ 3,347	$ 3,506	$ 3,694	$ 3,890	$ 4,094	$ 4,307
Fuel, expendable parts and supplies inventories net of an allowance for obsolescence	$ 1,055	$ 1,251	$ 732	$ 1,098	$ 1,424	$ 1,314	$ 1,418	$ 1,518	$ 1,617	$ 1,724	$ 1,838	$ 1,953
Fuel Inventory	$ 592	$ 730	$ 377	$ 694	$ 815.87	$ 752.84	$ 762	$ 836	$ 909	$ 989	$ 1,064	$ 1,146
Expendable parts and supplies inventories net of an allowance for obsolescence	$ 463	$ 521	$ 355	$ 404	$ 608	$ 561	$ 656	$ 681	$ 708	$ 735	$ 773	$ 806
Property and equipment net of accumulated depreciation and amortization	$ 28,335	$ 31,310	$ 26,529	$ 28,749	$ 33,109	$ 35,486	$ 38,422	$ 41,798	$ 46,147	$ 51,482	$ 57,062	$ 63,415
Operating lease right-of-use assets	$ 5,994	$ 5,627	$ 5,733	$ 7,237	$ 7,036	$ 7,004	$ 7,246	$ 7,571	$ 7,895	$ 8,148	$ 8,401	$ 8,655
Goodwill	$ 9,781	$ 9,781	$ 9,753	$ 9,753	$ 9,753	$ 9,753	$ 9,753	$ 9,753	$ 9,753	$ 9,753	$ 9,753	$ 9,753
Identifiable intangibles net of accumulated amortization	$ 4,830	$ 5,163	$ 6,011	$ 6,001	$ 5,992	$ 5,983	$ 5,979	$ 5,975	$ 5,971	$ 5,967	$ 5,963	$ 5,959
Deferred income taxes	$ -	$ -	$ 1,988	$ 1,294	$ 325	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Prepaid expenses and other	$ 1,203	$ 1,262	$ 1,180	$ 1,119	$ 1,877	$ 1,957	$ 2,024	$ 2,094	$ 2,166	$ 2,240	$ 2,309	$ 2,373
Equity investments	$ -	$ -	$ 1,665	$ 1,712	$ 2,128	$ 3,457	$ 3,926	$ 4,458	$ 5,063	$ 5,749	$ 6,554	$ 7,472
Liabilities												
Air traffic liability	$ (4,661)	$ (5,116)	$ (4,044)	$ (6,228)	$ (8,160)	$ (7,044)	$ (7,915)	$ (8,894)	$ (9,995)	$ (11,231)	$ (12,620)	$ (14,182)
Accounts payable	$ (2,976)	$ (3,266)	$ (2,840)	$ (4,240)	$ (5,106)	$ (4,446)	$ (4,754)	$ (4,935)	$ (5,126)	$ (5,325)	$ (4,856)	$ (5,065)
Accrued salaries and related benefits	$ (3,287)	$ (3,701)	$ (2,086)	$ (2,457)	$ (3,288)	$ (4,561)	$ (4,897)	$ (5,258)	$ (5,645)	$ (6,061)	$ (6,507)	$ (6,987)
Loyalty program deferred revenue	$ (6,641)	$ (6,728)	$ (12,407)	$ (8,745)	$ (7,882)	$ (8,420)	$ (9,710)	$ (11,198)	$ (12,915)	$ (14,894)	$ (17,176)	$ (19,808)
Invested Capital in Core Operations	**$ 37,636**	**$ 40,223**	**$ 34,260**	**$ 38,833**	**$ 42,306**	**$ 45,819**	**$ 47,056**	**$ 48,709**	**$ 51,071**	**$ 54,019**	**$ 57,526**	**$ 60,697**
Non Core Activities												
Assets												
Other non current assets	$ 3,850	$ 3,766	$ 1,357	$ 1,300	$ 934	$ 1,692	$ 2,150	$ 2,150	$ 2,150	$ 2,150	$ 2,150	$ 2,150
Cash restricted for airport construction	$ 1,136	$ 636	$ 1,556	$ 473	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Liabilities												
Other accrued liabilities	$ (1,117)	$ (1,078)	$ (1,670)	$ (1,746)	$ (1,779)	$ (1,617)	$ (1,617)	$ (1,617)	$ (1,617)	$ (1,617)	$ (1,617)	$ (1,617)
Pension, postretirement and related benefits	$ (9,163)	$ (8,452)	$ (500)	$ (130)	$ (3,707)	$ (3,601)	$ (1,760)	$ (1,790)	$ (1,800)	$ (1,810)	$ (1,820)	$ (2,215)
Other noncurrent liabilities	$ (969)	$ (1,386)	$ (4,862)	$ (4,398)	$ (4,050)	$ (3,561)	$ (3,204)	$ (3,204)	$ (3,204)	$ (3,204)	$ (3,204)	$ (3,204)
Deferred income taxes net	$ (163)	$ (1,456)	$ (5,713)	$ (7,056)	$ (24)	$ (908)	$ (908)	$ (908)	$ (908)	$ (908)	$ (908)	$ (908)
Invested Capital in Non Core Operations	**$ -6,426**	**$ -7,970**	**$ -9,832**	**$ -11,557**	**$ -8,626**	**$ -7,995**	**$ (5,340)**	**$ (5,370)**	**$ (5,380)**	**$ (5,390)**	**$ (5,400)**	**$ (5,795)**
Excess Cash	$ 124	$ (1,096)	$ (7,657)	$ (6,797)	$ (1,344)	$ (535)	$ (793)	$ (982)	$ (1,181)	$ (1,406)	$ (1,661)	$ (1,948)
Short-term investments	$ (203)	$ -	$ (5,789)	$ (3,386)	$ (3,268)	$ (1,127)	$ (449)	$ (665)	$ (824)	$ (990)	$ (1,179)	$ (1,393)
Debt and finance leases (w/ current maturities)	$ 9,771	$ 11,160	$ 29,157	$ 26,920	$ 23,030	$ 20,054	$ 19,944	$ 19,835	$ 19,725	$ 19,615	$ 19,505	$ 19,396
Operating Leases	$ 6,756	$ 6,095	$ 6,083	$ 5,552	$ 7,580	$ 7,227	$ 7,323	$ 7,443	$ 7,566	$ 7,691	$ 7,819	$ 7,948
Current maturities of operating leases	$ 955	$ 801	$ 678	$ 703	$ 714	$ 759	$ 737	$ 737	$ 737	$ 737	$ 737	$ 737
Noncurrent operating leases	$ 5,801	$ 5,294	$ 5,405	$ 4,849	$ 6,866	$ 6,468	$ 6,586	$ 6,707	$ 6,830	$ 6,955	$ 7,082	$ 7,212
Fuel card obligation	$ 1,075	$ 736	$ 1,100	$ 1,100	$ 1,100	$ 1,100	$ 1,100	$ 1,100	$ 1,100	$ 1,100	$ 1,100	$ 1,100
Net Debt	**$ 17,523**	**$ 16,895**	**$ 22,894**	**$ 23,389**	**$ 27,098**	**$ 26,719**	**$ 27,575**	**$ 27,396**	**$ 27,210**	**$ 27,000**	**$ 26,763**	**$ 26,496**
Equity	**$ 13,687**	**$ 15,358**	**$ 1,534**	**$ 3,887**	**$ 6,582**	**$ 11,105**	**$ 14,142**	**$ 15,943**	**$ 18,482**	**$ 21,630**	**$ 25,363**	**$ 28,406**

Balance Sheet: 2030 – 2034 – Implicit Horizon

Reformulated Balance Sheet (in USDm)	2030	2031	2032	2033	2034
Core activities					
Assets					
Operating Cash	$ 2,982	$ 3,098	$ 3,199	$ 3,282	$ 3,344
Accounts receivable net of an allowance for uncollectible accounts	$ 4,503	$ 4,678	$ 4,830	$ 4,955	$ 5,049
Fuel, expendable parts and supplies inventories net of an allowance for obsolescence	$ 2,021	$ 2,121	$ 2,211	$ 2,287	$ 2,348
Fuel Inventory	$ 1,224	$ 1,295	$ 1,358	$ 1,411	$ 1,454
Expendable parts and supplies inventories net of an allowance for obsolescence	$ 798	$ 826	$ 853	$ 876	$ 894
Property and equipment net of accumulated depreciation and amortization	$ 69,202	$ 75,495	$ 81,587	$ 87,318	$ 92,522
Operating lease right-of-use assets	$ 8,915	$ 9,183	$ 9,459	$ 9,743	$ 10,035
Goodwill	$ 9,753	$ 9,753	$ 9,753	$ 9,753	$ 9,753
Identifiable intangibles net of accumulated amortization	$ 5,956	$ 5,953	$ 5,951	$ 5,948	$ 5,946
Deferred income taxes	$ -	$ -	$ -	$ -	$ -
Prepaid expenses and other	$ 2,429	$ 2,479	$ 2,521	$ 2,555	$ 2,581
Equity investments	$ 8,458	$ 9,507	$ 10,610	$ 11,756	$ 12,931
Liabilities					
Air traffic liability	$ (15,840)	$ (17,586)	$ (19,406)	$ (21,283)	$ (23,199)
Accounts payable	$ (5,268)	$ (5,459)	$ (5,633)	$ (5,784)	$ (5,907)
Accrued salaries and related benefits	$ (7,454)	$ (7,903)	$ (8,325)	$ (8,714)	$ (9,063)
Loyalty program deferred revenue	$ (22,593)	$ (25,484)	$ (28,422)	$ (31,340)	$ (34,160)
Invested Capital in Core Operations	**$ 63,064**	**$ 65,837**	**$ 68,334**	**$ 70,476**	**$ 72,180**
Non Core Activities					
Assets					
Other non current assets	$ 2,150	$ 2,150	$ 2,150	$ 2,150	$ 2,150
Cash restricted for airport construction	$ -	$ -	$ -	$ -	$ -
Liabilities					
Other accrued liabilities	$ (1,617)	$ (1,617)	$ (1,617)	$ (1,617)	$ (1,617)
Pension, postretirement and related benefits	$ (2,215)	$ (2,215)	$ (2,215)	$ (2,215)	$ (2,215)
Other noncurrent liabilities	$ (3,204)	$ (3,204)	$ (3,204)	$ (3,204)	$ (3,204)
Deferred income taxes net	$ (908)	$ (908)	$ (908)	$ (908)	$ (908)
Invested Capital in Non Core Operations	**$ (5,795)**	**$ (5,795)**	**$ (5,795)**	**$ (5,795)**	**$ (5,795)**
Excess Cash	$ (2,289)	$ (2,688)	$ (3,154)	$ (3,693)	$ (4,314)
Short-term investments	$ (1,634)	$ (1,919)	$ (2,254)	$ (2,645)	$ (3,097)
Debt and finance leases (w/ current maturities)	$ 19,286	$ 19,176	$ 19,067	$ 18,847	$ 18,847
Operating Leases	$ 8,080	$ 8,215	$ 8,352	$ 8,491	$ 8,633
Current maturities of operating leases	$ 737	$ 737	$ 737	$ 737	$ 737
Noncurrent operating leases	$ 7,344	$ 7,478	$ 7,615	$ 7,754	$ 7,896
Fuel card obligation	$ 1,100	$ 1,100	$ 1,100	$ 1,100	$ 1,100
Net Debt	**$ 26,178**	**$ 25,803**	**$ 25,364**	**$ 24,745**	**$ 24,266**
Equity	**$ 31,092**	**$ 34,240**	**$ 37,175**	**$ 39,937**	**$ 42,119**

Free Cash Flow: 2018 – 2029 – Historical Data and Explicit Horizon

FREE CASH FLOW MAP (in USDm)	2018	2019	2020	2021	2022	2023	2024F	2025F	2026F	2027F	2028F	2029F
Core Business												
EBIT	$ 6,142	$ 7,720	$ -12,714	$ 1,535	$ 3,540	$ 6,078	$ 4,052	$ 4,750	$ 5,843	$ 6,987	$ 7,431	$ 8,395
Aircraft Rent Obligation							$ 1,021	$ 947	$ 822	$ 770	$ 646	$ 544
EBIT before Aircraft Rent	$ 6,142	$ 7,720	$ -12,714	$ 1,535	$ 3,540	$ 6,078	$ 5,073	$ 5,697	$ 6,665	$ 7,757	$ 8,077	$ 8,939
Statutory Taxes	$ -1,020	$ -1,281	$ 2,670	$ -300	$ -627	$ -991	$ -681	$ -798	$ -982	$ -1,174	$ -1,248	$ -1,410
Tax Adjustments	$ -126	$ -128	$ -76	$ -1,288	$ -509	$ 151	$ -150	$ -176	$ -216	$ -259	$ -275	$ -311
Profit Sharing	$ -1,285	$ -1,618	$ -	$ -106	$ -553	$ -1,357	$ -810	$ -950	$ -1,169	$ -1,397	$ -1,486	$ -1,679
NOPLAT	$ 4,996	$ 4,693	$ -10,120	$ -159	$ 1,851	$ 3,881	$ 4,076	$ 4,370	$ 4,817	$ 5,413	$ 5,475	$ 5,881
Depreciation & Amortization (w/ Intangibles)	$ 2,329	$ 2,581	$ 2,312	$ 1,998	$ 2,107	$ 2,341	$ 3,587	$ 2,776	$ 2,584	$ 2,503	$ 3,315	$ 3,775
Gross Cash Flow	$ 7,325	$ 7,274	$ -7,808	$ 1,839	$ 3,958	$ 6,222	$ 7,662	$ 7,146	$ 7,401	$ 7,916	$ 8,790	$ 9,656
Net PP&E	$ 28,335	$ 31,310	$ 26,529	$ 28,749	$ 33,109	$ 35,486	$ 38,422	$ 41,798	$ 46,147	$ 51,482	$ 57,062	$ 63,415
Δ in Net PPE	n.a.	$ 2,975	$ -4,781	$ 2,220	$ 4,360	$ 2,377	$ 2,936	$ 3,376	$ 4,348	$ 5,335	$ 5,579	$ 6,353
Net Identifiable intangibles	$ 4,830	$ 5,163	$ 6,011	$ 6,001	$ 5,992	$ 5,983	$ 5,979	$ 5,975	$ 5,971	$ 5,967	$ 5,963	$ 5,959
Δ in Identifiable intangibles	n.a.	$ 333	$ 848	$ -10	$ -9	$ -9	$ -4	$ -4	$ -4	$ -4	$ -4	$ -4
Right-of-Use Assets	$ 5,994	$ 5,627	$ 5,733	$ 7,237	$ 7,036	$ 7,004	$ 7,246	$ 7,571	$ 7,895	$ 8,148	$ 8,401	$ 8,655
Δ in Right-of-Use Assets	n.a.	$ -367	$ 106	$ 1,504	$ -201	$ -32	$ 242	$ 325	$ 325	$ 253	$ 253	$ 253
(-) Net CAPEX	n.a.	$ -5,522	$ 1,515	$ -5,712	$ -6,257	$ -4,677	$ -6,761	$ -6,472	$ -7,253	$ -8,088	$ -9,144	$ -10,378
Operating Cash	$ 1,689	$ 1,786	$ 650	$ 1,136	$ 1,922	$ 2,206	$ 2,217	$ 2,322	$ 2,446	$ 2,576	$ 2,712	$ 2,853
Accounts receivable	$ 2,314	$ 2,854	$ 1,396	$ 2,404	$ 3,176	$ 3,130	$ 3,347	$ 3,506	$ 3,694	$ 3,890	$ 4,094	$ 4,307
Inventories	$ 1,055	$ 1,251	$ 732	$ 1,098	$ 1,424	$ 1,314	$ 1,418	$ 1,518	$ 1,617	$ 1,724	$ 1,838	$ 1,953
Prepaid expenses and other	$ 1,203	$ 1,262	$ 1,180	$ 1,119	$ 1,877	$ 1,957	$ 2,024	$ 2,094	$ 2,166	$ 2,240	$ 2,309	$ 2,373
Equity Investments	$ -	$ -	$ 1,665	$ 1,712	$ 2,128	$ 3,457	$ 3,926	$ 4,458	$ 5,063	$ 5,749	$ 6,554	$ 7,472
Operating Current Assets	$ 6,261	$ 7,153	$ 5,623	$ 7,469	$ 10,527	$ 12,064	$ 12,932	$ 13,897	$ 14,986	$ 16,179	$ 17,507	$ 18,957
Air traffic liability	$ -4,661	$ -5,116	$ -4,044	$ -6,228	$ -8,160	$ -7,044	$ -7,915	$ -8,894	$ -9,995	$ -11,231	$ -12,620	$ -14,182
Accounts payable	$ -2,976	$ -3,266	$ -2,840	$ -4,240	$ -5,106	$ -4,446	$ -4,754	$ -4,935	$ -5,126	$ -5,325	$ -4,856	$ -5,065
Accrued salaries and related benefits	$ -3,287	$ -3,701	$ -2,086	$ -2,457	$ -3,288	$ -4,561	$ -4,897	$ -5,258	$ -5,645	$ -6,061	$ -6,507	$ -6,987
Loyalty program deferred revenue	$ -6,641	$ -6,728	$ -12,407	$ -8,745	$ -7,882	$ -8,420	$ -9,710	$ -11,198	$ -12,915	$ -14,894	$ -17,176	$ -19,808
Operating Current Liabilities	$ -17,565	$ -18,811	$ -21,377	$ -21,670	$ -24,436	$ -24,471	$ -27,276	$ -30,285	$ -33,680	$ -37,511	$ -41,160	$ -46,042
Operating Working Capital	$ -11,304	$ -11,658	$ -15,754	$ -14,201	$ -13,909	$ -12,407	$ -14,345	$ -16,388	$ -18,695	$ -21,331	$ -23,653	$ -27,085
(-) Δ in Operating Working Capital	n.a.	$ -353	$ -4,097	$ 1,554	$ 292	$ 1,502	$ 1,937	$ 2,044	$ 2,306	$ 2,637	$ 2,322	$ 3,432
Operating Deferred tax assets	$ -	$ -	$ 1,988	$ 1,294	$ 325	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Δ in Operating Deferred tax assets	n.a.	$ -	$ -1,988	$ 694	$ 969	$ 325	$ -	$ -	$ -	$ -	$ -	$ -
Operating FCF before Goodwill	n.a.	$ 1,399	$ -12,378	$ -1,626	$ -1,038	$ 3,371	$ 2,839	$ 2,717	$ 2,455	$ 2,465	$ 1,968	$ 2,710
Goodwill	$ 9,781	$ 9,781	$ 9,753	$ 9,753	$ 9,753	$ 9,753	$ 9,753	$ 9,753	$ 9,753	$ 9,753	$ 9,753	$ 9,753
(-) Δ in Goodwill	n.a.	$ -	$ 28	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Operating FCF after Goodwill	n.a.	$ 1,399	$ -12,350	$ -1,626	$ -1,038	$ 3,371	$ 2,839	$ 2,717	$ 2,455	$ 2,465	$ 1,968	$ 2,710
Non-Core Business							$ 0					
Operating Revenues:												
Other (Miscellaneous)	$ 558	$ 718	$ 348	$ 556	$ 894	$ 1,104	$ 1,059	$ 1,106	$ 1,165	$ 1,226	$ 1,290	$ 1,357
Total Operating Revenue	$ 558	$ 718	$ 348	$ 556	$ 894	$ 1,104	$ 1,059	$ 1,106	$ 1,165	$ 1,226	$ 1,290	$ 1,357
Operating Expenses:												
Salaries and related costs	$ 135	$ 177	$ 183	$ 181	$ 210	$ 278	$ 292	$ 303	$ 315	$ 328	$ 341	$ 355
Government grant recognition	$ -	$ -	$ -80	$ -84	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	$ 135	$ 177	$ 103	$ 97	$ 210	$ 278	$ 292	$ 303	$ 315	$ 328	$ 341	$ 355
Gains (Losses) on Equity Investments:												
Impairments and equity method losses	$ -	$ -62	$ -2,432	$ -337	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Gain/(loss) on investments, net	$ 14	$ 119	$ -105	$ 56	$ -783	$ 1,263	$ 291	$ 340	$ 391	$ 448	$ 514	$ 589
Miscellaneous, net	$ 184	$ -111	$ 137	$ -60	$ -127	$ -35	$ -33	$ -39	$ -45	$ -51	$ -59	$ -68
Non Operating Result before Taxes, net of profit sharing	$ 621	$ 487	$ -2,155	$ 118	$ -226	$ 2,054	$ 1,024	$ 1,104	$ 1,195	$ 1,294	$ 1,404	$ 1,524
Profit Sharing	$ 16	$ 25	$ -	$ 2	$ 10	$ 26	$ 205	$ 221	$ 239	$ 259	$ 281	$ 305
Non Operating Result before Taxes	$ 605	$ 462	$ -2,155	$ 116	$ -236	$ 2,028	$ 819	$ 883	$ 956	$ 1,035	$ 1,123	$ 1,219
Statutory Taxes	$ -127	$ -97	$ 453	$ -24	$ 50	$ -426	$ -172	$ -186	$ -201	$ -217	$ -236	$ -256
Tax Adjustments	$ -17	$ -9	$ 4	$ -141	$ 69	$ 64	$ -63	$ -68	$ -74	$ -80	$ -87	$ -94
Non Operating Result	$ 461	$ 356	$ -1,699	$ -49	$ -117	$ 1,666	$ 584	$ 630	$ 682	$ 738	$ 801	$ 869
Non-Core Invested Capital	$ -6,426	$ -7,970	$ -9,832	$ -11,557	$ -8,626	$ -7,995	$ -5,340	$ -5,370	$ -5,380	$ -5,390	$ -5,400	$ -5,795
(-) Δ in Non-Core Invested Capital	n.a.	$ -1,544	$ -1,862	$ -1,725	$ 2,931	$ 631	$ 2,656	$ -30	$ -10	$ -10	$ -10	$ -395
Non Operating FCF	n.a.	$ 1,900	$ 163	$ 1,676	$ -3,048	$ 1,035	$ -2,071	$ 660	$ 692	$ 748	$ 811	$ 1,264
Unlevered Firm FCF	n.a.	$ 3,299	$ (12,187)	$ 50	$ (4,086)	$ 4,406	$ 767	$ 3,377	$ 3,146	$ 3,213	$ 2,779	$ 3,974
dds A												
Interest expense,net	$ -311	$ -301	$ -929	$ -1,279	$ -1,029	$ -834	$ -1,501	$ -1,450	$ -1,367	$ -1,329	$ -1,246	$ -1,177
Loss on extinguishment of debt	$ -	$ -	$ -8	$ -319	$ -100	$ -63	$ -	$ -	$ -	$ -	$ -	$ -
Pension and related benefit/(expense)	$ -	$ -65	$ 219	$ 451	$ 292	$ -244	$ 186	$ 194	$ 202	$ 208	$ 214	$ 221
Net Financial Result before Taxes	$ -311	$ (366)	$ (718)	$ (1,147)	$ (837)	$ (1,141)	$ (1,315)	$ (1,256)	$ (1,165)	$ (1,121)	$ (1,032)	$ (956)
Statutory Taxes	$ 65	$ 77	$ 151	$ 241	$ 176	$ 240	$ 140.95	$ 138.40	$ 135.78	$ 133.48	$ 131.13	$ 128.75
Tax Adjustments	$ 9	$ 7	$ 1	$ 1,395	$ 245	$ -36	$ 52	$ 51	$ 50	$ 49	$ 48	$ 47
Other comprehensive Income (loss)	$ -98	$ -164	$ -1,049	$ -1,908	$ 1,329	$ -44	$ -43.85	$ -43.71	$ -43.56	$ -43.41	$ -43.27	$ -43.12
Net Financial Result	$ -335	$ (446)	$ (1,615)	$ (1,419)	$ 913	$ (981)	$ (1,166)	$ (1,111)	$ (1,023)	$ (982)	$ (896)	$ (823)
Net Debt	$ 17,523	$ 16,895	$ 22,894	$ 23,389	$ 27,098	$ 26,719	$ 27,575	$ 27,396	$ 27,210	$ 27,000	$ 26,763	$ 26,496
Aircraft Rent Obligation							$ 1,021	$ 947	$ 822	$ 770	$ 646	$ 544
Δ in Net Debt	n.a.	$ -627	$ 5,998	$ 496	$ 3,709	$ -379	$ 855.74	$ -178.67	$ -185.89	$ -209.96	$ -236.95	$ -267.15
Cash Flow Financing Debt	n.a.	$ (1,074)	$ 4,383	$ (924)	$ 4,622	$ (1,360)	$ (1,331)	$ (2,236)	$ (2,031)	$ (1,962)	$ (1,779)	$ (1,634)
Equity	$ 13,687	$ 15,358	$ 1,534	$ 3,887	$ 6,582	$ 11,105	$ 14,142	$ 15,943	$ 18,482	$ 21,630	$ 25,363	$ 28,406
Δ in Equity	n.a.	$ 1,671	$ -13,824	$ 2,353	$ 2,695	$ 4,523	$ 3,037	$ 1,801	$ 2,538	$ 3,148	$ 3,734	$ 3,043
(-) Total Comprehensive Income	$ -3,837	$ -4,603	$ 13,434	$ 1,628	$ -2,647	$ -4,565	$ -2,473	$ -2,942	$ -3,653	$ -4,399	$ -4,734	$ -5,384
Net Change in Equity (in Cash)	n.a.	$ (2,932)	$ (390)	$ 3,981	$ 48	$ (42)	$ 564	$ (1,141)	$ (1,115)	$ (1,251)	$ (1,000)	$ (2,341)
Financing Free Cash Flow	n.a.	$ (4,006)	$ 3,993	$ 3,057	$ 4,670	$ (1,402)	$ (767)	$ (3,377)	$ (3,146)	$ (3,213)	$ (2,779)	$ (3,974)

Free Cash Flow: 2030 – 2034 – Implicit Horizon

FREE CASH FLOW MAP (in USDm)	2030F	2031F	2032F	2033F	2034F
Core Business					
EBIT	$ 9,138	$ 9,677	$ 10,037	$ 10,239	$ 10,250
Aircraft Rent Obligation	$ 520	$ 497	$ 476	$ 455	$ 435
EBIT before Aircraft Rent	$ 9,658	$ 10,174	$ 10,513	$ 10,694	$ 10,686
Statutory Taxes	$ -1,535	$ -1,626	$ -1,686	$ -1,720	$ -1,722
Tax Adjustments	$ -338	$ -358	$ -372	$ -379	$ -380
Profit Sharing	$ -1,828	$ -1,935	$ -2,007	$ -2,048	$ -2,050
NOPLAT	$ 6,284	$ 6,568	$ 6,747	$ 6,833	$ 6,808
Depreciation & Amortization (w/ Intangibles)	$ 4,209	$ 4,593	$ 4,903	$ 5,118	$ 5,220
Gross Cash Flow	$ 10,494	$ 11,162	$ 11,651	$ 11,951	$ 12,028
Net PP&E	$ 69,202	$ 75,495	$ 81,587	$ 87,318	$ 92,522
Δ in Net PPE	$ 5,787	$ 6,294	$ 6,091	$ 5,731	$ 5,204
Net Identifiable intangibles	$ 5,956	$ 5,953	$ 5,951	$ 5,948	$ 5,946
Δ in Identifiable intangibles	$ -3	$ -3	$ -3	$ -3	$ -3
Right-of-Use Assets	$ 8,915	$ 9,183	$ 9,459	$ 9,743	$ 10,035
Δ in Right-of-Use Assets	$ 260	$ 268	$ 276	$ 284	$ 292
(-) Net CAPEX	$ -10,254	$ -11,152	$ -11,268	$ -11,130	$ -10,714
Operating Cash	$ 2,982	$ 3,098	$ 3,199	$ 3,282	$ 3,344
Accounts receivable	$ 4,503	$ 4,678	$ 4,830	$ 4,955	$ 5,049
Inventories	$ 2,021	$ 2,121	$ 2,211	$ 2,287	$ 2,348
Prepaid expenses and other	$ 2,429	$ 2,479	$ 2,521	$ 2,555	$ 2,581
Equity Investments	$ 8,458	$ 9,507	$ 10,610	$ 11,756	$ 12,931
Operating Current Assets	$ 20,394	$ 21,884	$ 23,371	$ 24,835	$ 26,253
Air traffic liability	$ -15,840	$ -17,586	$ -19,406	$ -21,283	$ -23,199
Accounts payable	$ -5,268	$ -5,459	$ -5,633	$ -5,784	$ -5,907
Accrued salaries and related benefits	$ -7,454	$ -7,903	$ -8,325	$ -8,714	$ -9,063
Loyalty program deferred revenue	$ -22,593	$ -25,484	$ -28,422	$ -31,340	$ -34,160
Operating Current Liabilities	$ -51,155	$ -56,432	$ -61,787	$ -67,121	$ -72,329
Operating Working Capital	$ -30,762	$ -34,548	$ -38,416	$ -42,286	$ -46,076
(-) Δ in Operating Working Capital	$ 3,677	$ 3,786	$ 3,868	$ 3,870	$ 3,790
Operating Deferred tax assets	$ -	$ -	$ -	$ -	$ -
Δ in Operating Deferred tax assets	$ -	$ -	$ -	$ -	$ -
Operating FCF before Goodwill	$ 3,917	$ 3,796	$ 4,250	$ 4,691	$ 5,104
Goodwill	$ 9,753	$ 9,753	$ 9,753	$ 9,753	$ 9,753
(-) Δ in Goodwill	$ -	$ -	$ -	$ -	$ -
Operating FCF after Goodwill	$ 3,917	$ 3,796	$ 4,250	$ 4,691	$ 5,104
Non-Core Business					
Operating Revenues:					
Other (Miscellaneous)	$ 1,415	$ 1,462	$ 1,497	$ 1,518	$ 1,526
Total Operating Revenue	$ 1,415	$ 1,462	$ 1,497	$ 1,518	$ 1,526
Operating Expenses:					
Salaries and related costs	$ 365	$ 376	$ 386	$ 396	$ 406
Government grant recognition	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	$ 365	$ 376	$ 386	$ 396	$ 406
Gains (Losses) on Equity Investments:					
Impairments and equity method losses	$ -	$ -	$ -	$ -	$ -
Gain/(loss) on investments, net	$ 671	$ 759	$ 855	$ 957	$ 1,065
Miscellaneous, net	$ -77	$ -87	$ -98	$ -110	$ -122
Non Operating Result before Taxes, net of profit sharing	$ 1,643	$ 1,758	$ 1,867	$ 1,969	$ 2,062
Profit Sharing	$ 329	$ 352	$ 373	$ 394	$ 412
Non Operating Result before Taxes	$ 1,314	$ 1,406	$ 1,494	$ 1,575	$ 1,650
Statutory Taxes	$ -276	$ -295	$ -314	$ -331	$ -346
Tax Adjustments	$ -101	$ -108	$ -115	$ -121	$ -127
Non Operating Result	$ 937	$ 1,003	$ 1,065	$ 1,123	$ 1,176
Non-Core Invested Capital	$ -5,795	$ -5,795	$ -5,795	$ -5,795	$ -5,795
(-) Δ in Non-Core Invested Capital	$ -	$ -	$ -	$ -	$ -
Non Operating FCF	$ 937	$ 1,003	$ 1,065	$ 1,123	$ 1,176
Unlevered Firm FCF	$ 4,854	$ 4,799	$ 5,315	$ 5,814	$ 6,281
dds A					
Interest expense,net	$ -1,157	$ -1,138	$ -1,120	$ -1,097	$ -1,085
Loss on extinguishment of debt	$ -	$ -	$ -	$ -	$ -
Pension and related benefit/(expense)	$ 228	$ 234	$ 240	$ 247	$ 253
Net Financial Result before Taxes	$ (930)	$ (904)	$ (879)	$ (851)	$ (832)
Statutory Taxes	$ 126.37	$ 124.02	$ 121.68	$ 118.37	$ 117.08
Tax Adjustments	$ 46	$ 45	$ 45	$ 43	$ 43
Other comprehensive Income (loss)	$ -42.98	$ -42.84	$ -42.69	$ -42.55	$ -42.41
Net Financial Result	$ (800)	$ (777)	$ (756)	$ (731)	$ (714)
Net Debt	$ 26,178	$ 25,803	$ 25,364	$ 24,745	$ 24,266
Aircraft Rent Obligation	$ 520	$ 497	$ 476	$ 455	$ 435
Δ in Net Debt	$ -318.20	$ -375.06	$ -438.78	$ -619.02	$ -478.79
Cash Flow Financing Debt	$ (1,638)	$ (1,650)	$ (1,670)	$ (1,805)	$ (1,628)
Equity	$ 31,092	$ 34,240	$ 37,175	$ 39,937	$ 42,119
Δ in Equity	$ 2,686	$ 3,148	$ 2,936	$ 2,761	$ 2,183
(-) Total Comprehensive Income	$ -5,902	$ -6,296	$ -6,581	$ -6,770	$ -6,835
Net Change in Equity (in Cash)	$ (3,216)	$ (3,149)	$ (3,645)	$ (4,009)	$ (4,652)
Financing Free Cash Flow	$ (4,854)	$ (4,799)	$ (5,315)	$ (5,814)	$ (6,281)

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