

# Delta Air Lines – Revenue Goes On (Crowd)Strike

NYSE: DAL



## Basic Info

Basic Info (\$mns)	Q1 2023	QoQ / Q4'23	YoY / Q1'23
Market Cap	\$ 32,260	6.68%	39.58%
Revenue	\$ 15,677	(5.89)%	1.22%
Gross Margin	78.4%	76%	65%
Operating Margin	8.90%	(34.56)%	(30.47)%
Net Income	\$ 1,272	(2.53)%	14.80%
Free Cash Flow	\$ 95	(92.54)%	N/A
GAAP EPS	\$ 1.97/sh	(1.99)%	14.53%
Unit Revenue	\$ 20.58	(7.75)%	(2.70)%
Avg. Fuel Cost / gal	\$ 2.51	(4.92)%	(9.06)%
Nonfuel Unit Cost	\$ 13.30	1.22%	5.64%

## Financials & The Market's View:

- Non-GAAP EPS of **\$1.50/sh** vs **\$1.56/sh** expected
- Revenue of **\$15.77bn** vs **\$15.37bn** expected
- Big focus on impact of July 19<sup>th</sup> CrowdStrike Outage
  - Delta says this cut revenue by **\$380mn**
  - Saved **\$50mn** on fuel costs
  - Incurred another **\$170mn** in nonfuel costs
  - Reduced operating margin by **2.3%**
  - Reduced EPS by **\$0.45/sh**

## Guidance

- Expect **2-4%** revenue growth in Q4
  - Implies strong growth of **12.43%** to **14.63%**
  - Implies midpoint of **\$16,147**
- Expect operating margin of **11-13%**
  - Implies strong growth of **23.6% - 46.06%**
- Expect Non-GAAP EPS of **\$1.60-\$1.85/sh**
  - Midpoint of **\$1.725/sh** below consensus estimates for **\$1.76/sh**



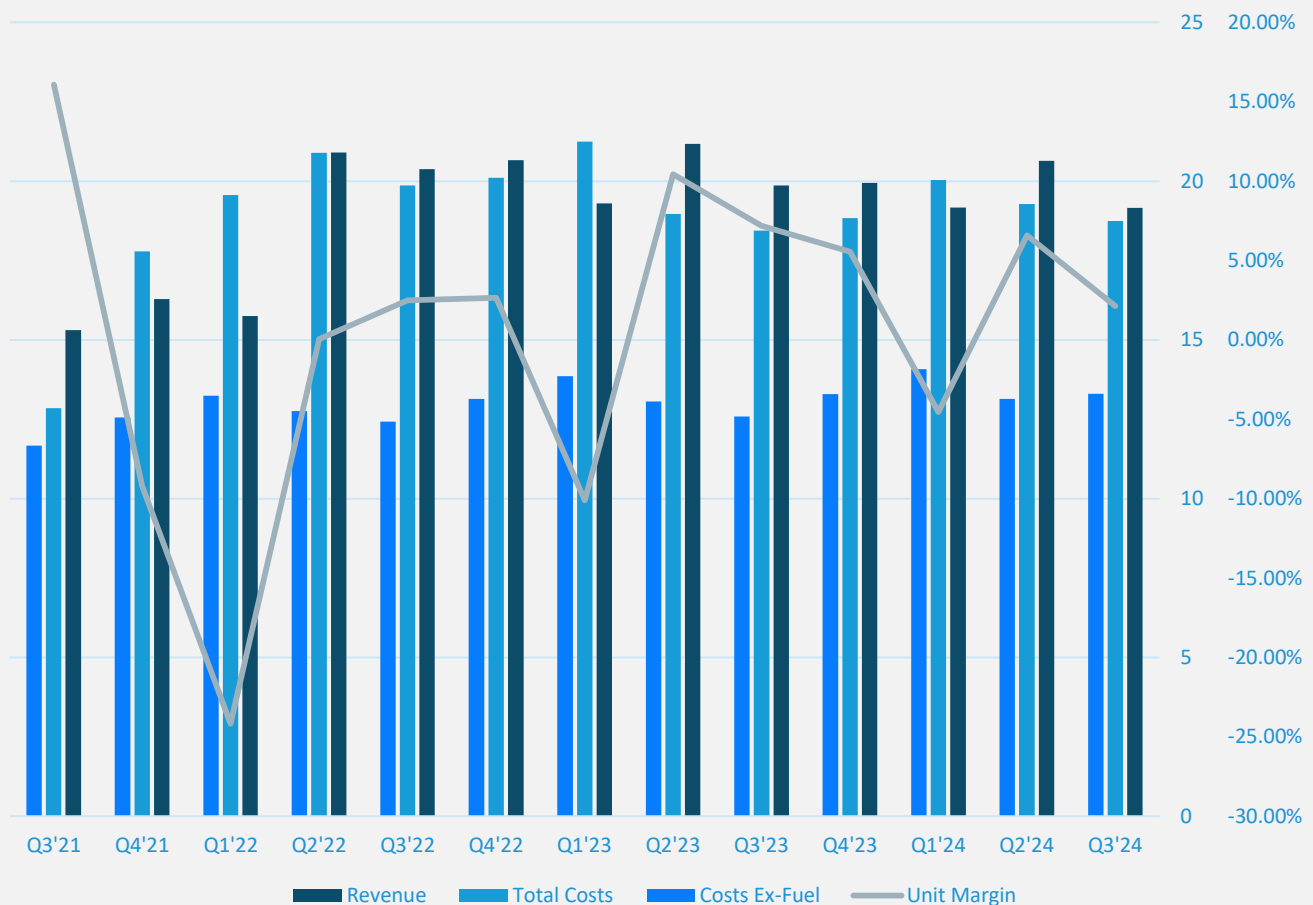
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### Thoughts so Far: Not Bad for a Bad Quarter

- Delta faced and is facing 3 significant headwinds in Q2 and Q3: Paris Olympics, CrowdStrike outage, U.S. election
  - Olympics lowered volume in Q2, elections tend to do so as well, so expecting similar volume loss in Q3
  - CrowdStrike outage caused 7,000 delays/cancellations, resulting in \$380mn in revenue lost to reimbursements
- Despite this, Delta's GAAP EPS and sales beat estimates. Shares were mostly down on Q4 outlook
  - Lower ticket prices / increase discounts presents a risk
- Passengers are continuing to travel at record rates, but appear less willing to spend on luxuries

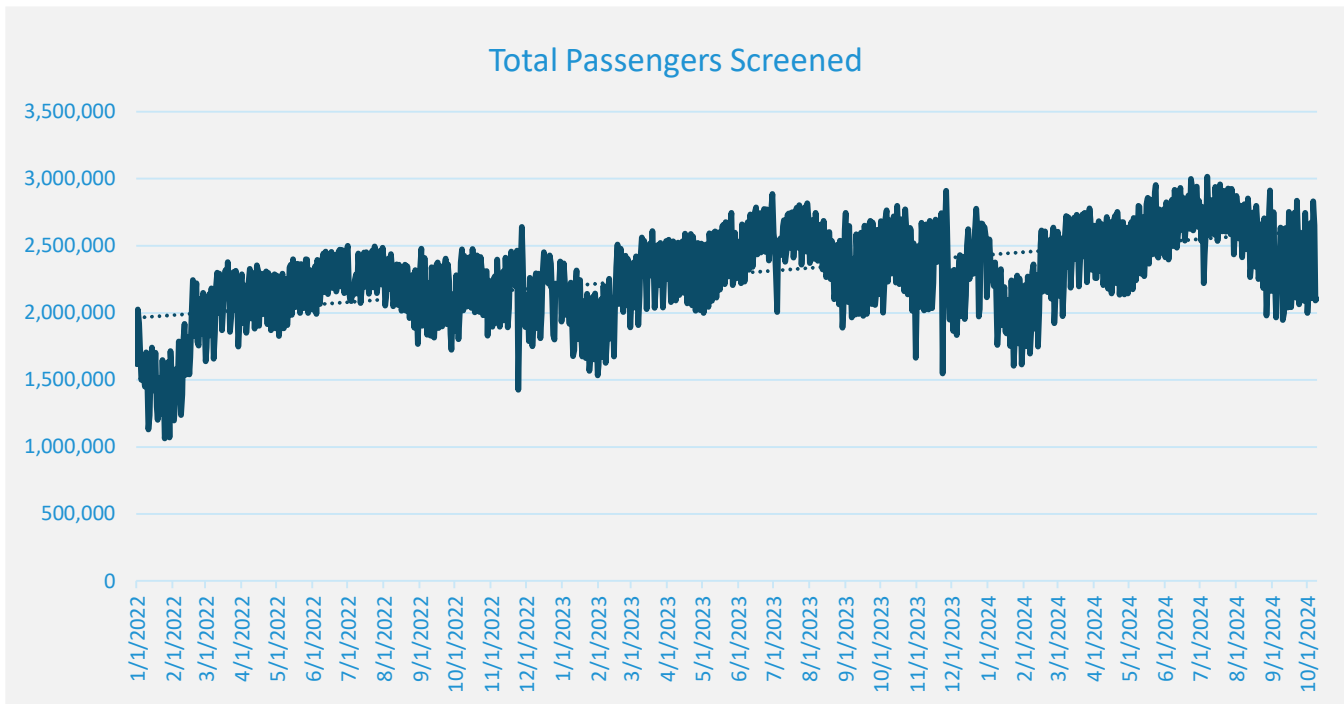
Adj. Revenue & Costs Per Available Seat Mile and Spread



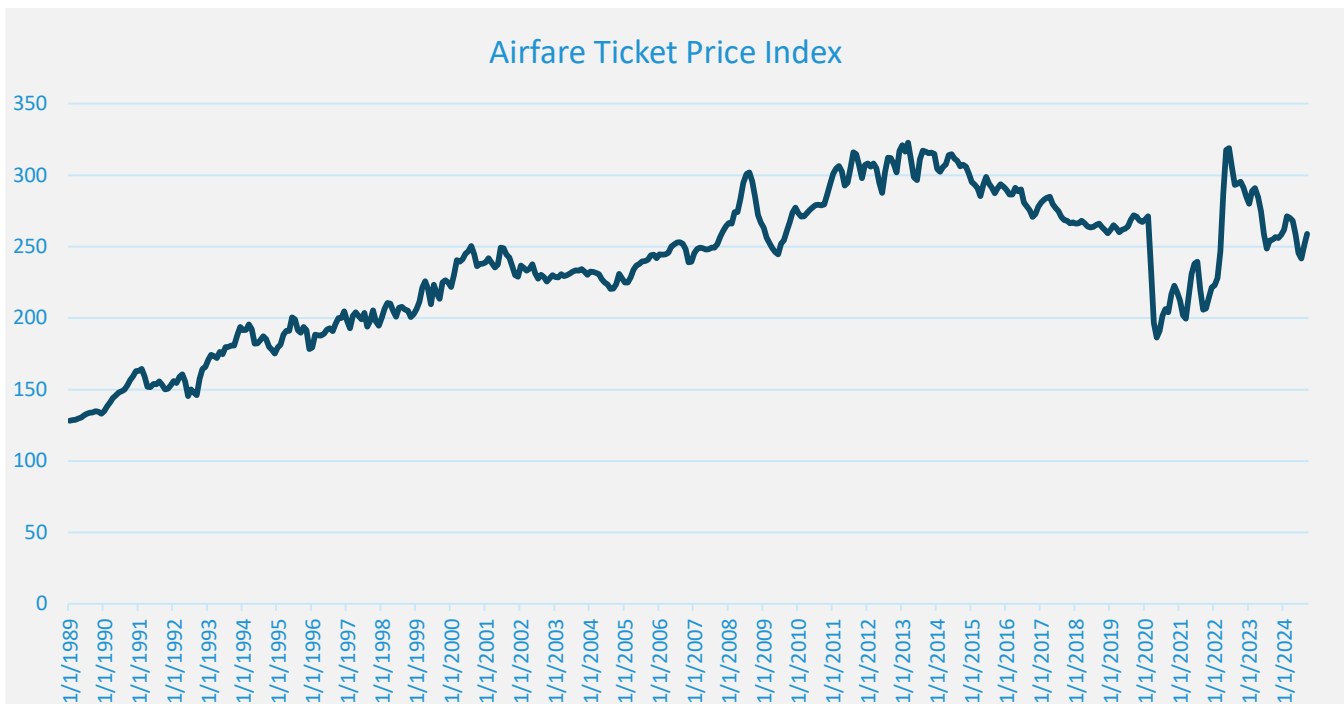
**Still growing faster than Jensen Huang's ego**, but even with our liberal assumptions above, is this growth enough to maintain its valuation? Valuation isn't even that ridiculous, but given growing competition in chip market, their moat is threatened while growth it set to slow secularly anyway. Rate cut potential helps, but looks increasingly less likely this will occur in 2025. Uncertainty around macro and competition makes a bear case non-compelling.

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**The travel boom is still on, but taking a new shape.** Consumers continue to travel at record rates more than 2yrs following what many expected to be the peak in summer '22, but are clearly more hesitant to spend on premium tickets and other luxuries. Delta reported that use of SkyMiles was on the rise in recent quarters as well, potentially squeezing margins.



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### Summary of Thoughts: *Travel Boom Still On, “Treat Myself” Boom is Over*

- The airfare industry is as oligopolistic as any. Little difference between Delta, American, and United
- Delta’s biggest advantage is leading market share in business class travel, helping margins
  - This could make Delta the top choice among the Big 3 American carriers
  - American and United haven’t reported yet, but are likely facing similar margin pressure
  - Fuel costs have been falling and still lead CPI lower, but may change with Iran/Israel conflict
- Delta is still increasing CapEx, ramping up by 5% YoY to \$1.329bn
- Delta was upgraded to “Investment Grade” by Fitch for continued debt reduction, top rated of Big 3
- The question investors should first answer before considering a bullish position in Delta is whether or not they want exposure to the airline industry via one of the Big 3 players. In our view, this is a sector that offers much more downside (regulatory, margin squeeze) than potential upside. But, at a <8x LTM P/E ratio, the company is appropriately valued and could offer stable returns if held long-term

### What to Watch For:

- United and American to report earnings on Tuesday and Thursday of next week, respectively
- Likely more upside – and volatility – in airlines from smaller players like Alaskan, JetBlue, or internationals
- Following CapEx guidance in next few Qs to see if Delta can get any small, 737-like models
- Downside risk to narrative amid prevailing travel boom and decline in energy commodity costs
- Won’t make you rich, won’t make you poor, but holding long-term will likely...

### WSO's Rating?

**3/5 Bananas – Get You From A to B**

