

Printer Friendly http://business.timesonline.co.uk/tol/business/industry_sectors/transport/

...

From The London Times

April 15, 2007

Delta rises again on new wings

It was the world's biggest airline before seeking bankruptcy protection. Now it is slimmed down and ready to bounce back, says Dominic O'Connell

IN the early 1980s, employees of Delta Air Lines came up with a novel way of helping their company through a sticky patch -they bought the airline a plane.

The Boeing 767, Delta's first, was purchased with \$30m (£15m) in donations from serving and retired staff.

Christened the Spirit of Delta, it now has pride of place at the airline's museum at its base in Atlanta.

The gesture epitomised Delta's standing among its employees, and its stature in the international aviation industry. For much of the 1980s and 1990s it vied with American Airlines for the title of the world's biggest carrier, and its hub at Atlanta was the world's busiest airport. Having started life before the second world war as a humble crop-dusting operation, it was a financial powerhouse run by southern gentlemen.

But Delta's heritage could not save it from the crisis that gripped the American airline industry after September 11, 2001. The impact of the terror attacks, added to the steady inroads made by low-cost airlines and high fuel prices, crippled all of America's so-called "legacy" carriers -US Airways, Continental, American, Northwest, United and Delta. Delta finally bowed to the inevitable in September 2005. Gerald Grinstein, chief executive, asked the courts for protection from the company's creditors under Chapter 11 of the US bankruptcy code.

Tomorrow, Delta should take a big step towards rehabilitation and a long-awaited exit from Chapter 11. Grinstein will learn the result of a vote by the airline's creditors on his proposed restructuring plan. Creditors -who were owed \$17 billion when the company went into Chapter 11 -will be asked to swap part of their remaining loans for equity in a new company, while existing Delta shareholders will be wiped out.

Grinstein is optimistic. "I am confident we've got the vote," he told The Sunday Times last week. If he is right, the court handling the case is likely to approve the plan on April 25, with shares in the new company likely to start trading on the New York Stock Exchange on May 3. The refinanced and restructured group is expected to have a stock-market value of about \$10 billion.

Grinstein has overseen a radical shake-up over the past 15 months. He has taken roughly \$2 billion a year out of overheads — \$1 billion in staff costs and \$1 billion in payments to aircraft lessors and other

suppliers -and squeezed out an extra \$1 billion in sales by redeploying planes and flying them for extra hours every day.

Employees have had to bear the brunt. Staff numbers have fallen from 70,000 before September 11 to 46,000, and pay has been cut twice. They have also been forced to work longer hours for no additional money. To add insult to injury, those who own Delta shares have seen their investments become worthless.

Grinstein said Chapter 11 had helped the revamp along. "In some ways Delta was a perfect fit for Chapter 11. You can do things much more quickly than you would in the normal course of business, and of course it gave us the ability to convert debt to equity."

The result is a cost structure that is nearly the best (according to Delta) of all the legacy carriers. It costs Delta 6.7 cents to fly one passenger one mile, a figure bettered only (and then marginally) by US Airways, which itself recently emerged from Chapter 11.

But Grinstein admits it is still about 30% behind low-cost airlines such as Southwest, Jet Blue and Air Tran. "They still have that advantage over us in terms of cost, but we have other advantages — our position at key airports like Atlanta, [New York's] JFK and La Guardia, and our first-class cabins and lounges," he said.

Delta's resurgence -and that of its fellow legacy carriers -has been seen by some as a sign that the low-cost revolution may have run out of steam. Jet Blue and Air Tran, two of the most successful budget carriers, have said

1 of 2 4/14/2007 7:42 PM

Printer Friendly http://business.timesonline.co.uk/tol/business/industry_sectors/transport/... they may defer aircraft deliveries as they reassess their plans for rapid growth.

Grinstein is cautious in his outlook. "This industry has a way of looking strong and secure when things are going well, and things are going well at the moment. But there is no way you can beat the volatility that affects this industry, and you can bet that in, say, five years from now there will be a downturn. Our job is to make sure that Delta is in shape to withstand that downturn."

That downturn may bring another wave of consolidation. Grinstein recently fought off a takeover attempt from US Airways, convincing creditors and the court that his restructuring plan offered more value. "We also have to make sure that when the next downturn comes Delta is in the right shape to be a con-solidator and not a consolidatee," he said.

European airline bosses have been fierce critics of Chapter 11, with Willie Walsh, chief executive of British Airways, leading the charge. They say bankruptcy protection destabilises the market by allowing companies to continue to trade at a loss rather than go out of business.

Grinstein said he understood the criticism, but said the process was now an established part of the American airline scene. "US Airways went into Chapter 11 before us, and if that hadn't happened [if it

had gone out of business] then we probably wouldn't have needed to go in at all, because they are our biggest competitor. And there is a myth that every airline that goes in comes out — before we filed, 162 US airlines had gone into Chapter 11 and only two had come out.”

The restructured Delta is likely to make life more difficult for Walsh from April next year. Delta has for years been barred from Heathrow, British Airways' main base, because of a restrictive agreement between the US and the UK — an agreement that was swept away by the recent open-skies deal between Europe and America. Grinstein said Delta would be ready to start services from Heathrow next April (when open skies comes into effect) having come to an arrangement to secure runway slots at the airport from its two European partner airlines, Air France and KLM. It is expected that Delta will fly not only to Atlanta, but to JFK. “London to New York is probably the busiest business route in the world, and you have to have it in your portfolio if you want to be able to get the big corporate-travel deals,” he said.

The continuation of the open-skies regime depends on a further liberalisation of American laws that govern airline ownership and allow only American citizens and companies to have control. Grinstein said he was not optimistic about the prospects for reform. “If you look at the reaction from Democratic leaders last year to a new rule that would have allowed some relaxation, you can see this is a high-risk area. If the industry feels that this [relaxation of ownership laws] is what it wants, it will have to work very hard to make it happen.”

Contact our advertising team for advertising and sponsorship in Times Online, The Times and The Sunday Times. This service is provided on Times Newspapers' standard Terms and Conditions. Please read our Privacy Policy. To inquire about a licence to reproduce material from The Times visit the Syndication website. © Copyright Times Newspapers Ltd