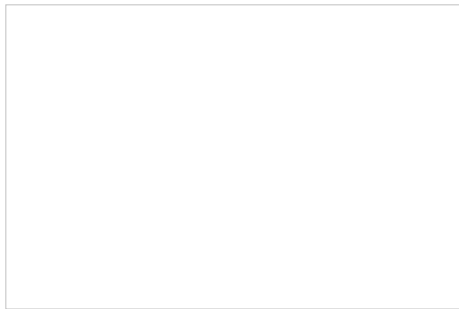


2008 Airline of the Year

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On October 29 2008 Delta Air Lines merged with Northwest Airlines creating the largest airline in the world. It only took six months from announcing their intention to merge in April 2008 to getting the necessary regulatory approval to complete the transaction.

"What's amazing about the overall deal is that it happened," says George Ackert, who was Delta's adviser when he was at Merrill Lynch. "This is the first time in the US that we've seen a merger of equals."

Historically, US majors tended to acquire smaller airlines. Ackert compares the transaction to the merger between Air France and KLM in 2004, in which two strong airlines came together with a vision for Europe.

Delta and Northwest came together so that they could be stronger. The merger was from a relative position of strength, and it could not have been better timed, according to Delta's chief financial officer Hank Halter. "When you see a recession coming – and we saw the signals of it – one of the things the merger does is that it helps to bring strength and mitigate the negative impact of the recession."

Northwest's coverage of Asia was among the primary motivations for selecting the airline as Delta's partner. Northwest operates a hub at Tokyo Narita International Airport. Halter says that from a regulatory review perspective not having that much overlap certainly helped the timeline and the process. Where Delta had a lot of frequency and a lot of network coverage, Northwest had an expansive network in Asia.

Ackert notes three points make the merger stand out: the fact that it happened; the removal of labour as an obstacle; and the timing.

Pre-nuptial agreement

Apart from the sheer size of the merger, the labour pre-nuptial agreement was impressive. Before the transaction started the workforce agreed to a 3.5% equity stake in the new company and the post-merger pay scale was agreed before the merging of the two companies.

Labour has stalled the full integration of US Airways and America West, which merged in 2005. Though the deals are three years apart, they are at the same stages in the integration process.

The credit crunch might have been the initial catalyst for the deal but Halter says it did not hinder its completion. "I'm confident the deal would close anytime," he says. "The merits of the merger are what gave it the momentum to close."



In fact the global economic conditions have given the deal energy. "We're using the recessionary times to our advantage to accelerate the merger and consummate it and realize the synergies faster," says Halter.

Synergies

The airline has realized a \$100 million benefit from synergies already in the first quarter of 2009. "From a finance perspective, when you're combining two companies of this size, often the operation can take a back seat. In fact, last February at Delta was one of the best on record, with a completion factor of 99.1%," says Halter.

Delta says there will be a \$2 billion annual run rate of synergies. The benefits are expected to be achieved by end of 2011 and will benefit the airline every year thereafter.

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Because Northwest is a Delta subsidiary, its pre-existing debt obligations will remain in place. The stock-for-stock change means that there is no increase in debt obligations. Delta is taking delivery of 20 aircraft this year and has all its financing in place.

When asked what it is like to manage the largest airline in the world, Halter says: "It presents many challenges, but those challenges turn into opportunities every day. It's a lot of fun."

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