FINANCE

DELTA AIR LINES & VIRGIN ATLANTIC

Delta Air Lines

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Ed Bastian
Chief executive, Delta Air Lines

Equity investments are the backbone of some of Delta Air Lines' strongest global partnerships, from Aeromexico in Mexico to Gol in Brazil.

Nowhere is the success of the equity partnership model more evident than in Delta's 49% stake in, and immunised joint venture with, Virgin Atlantic.

"Delta has got a return on its investment, not just through conciliating their share of Virgin's profit – it's what has also been done in terms of the network," a panel judge said.

Announced in 2012, Delta bought its stake for $350 million from Singapore Airlines in June 2013. The Atlanta-based carrier and Virgin Atlantic received the necessary regulatory approvals to begin their immunised partnership later that year and launched the joint venture in January 2014.

By all measures, the Delta-Virgin Atlantic partnership has been a resounding success.

"We paid $350 million for that investment in 2012 [and] we earned about 50% return on that investment last year alone," said Ed Bastian, chief executive of Delta, at a media event at the end of April.

Virgin Atlantic allowed Delta to close a major gap in its transatlantic network: London Heathrow. Barred from the preferred London airport until the US-EU open-skies agreement in 2007, it remained a tertiary player compared to competitors American Airlines and United Airlines, who had access to Heathrow for years even before the accord.

In one fell swoop, the Delta-Virgin Atlantic tie-up vaulted them past United to the become the second-largest joint venture after American-British Airways between the UK and the USA.

At the same time, the deal provided Virgin Atlantic with much needed feed for its transatlantic flights from Delta's vast network beyond its US gateways.

The Virgin Atlantic network was restructured to take advantage of the new connections. Flights to Cape Town, Mumbai, Tokyo and Vancouver ended in 2014 and 2015, while new service has been added to Delta's Atlanta, Detroit, Minneapolis/St Paul and Seattle Tacoma hubs.

The shift has helped Virgin Atlantic return to profitability. The airline reported a pre-tax profit excluding fuel hedge losses of £23 million ($32.4 million) in 2015, a £10 million improvement over 2014 and a reverse from its £51 million pre-tax loss in 2013.

"We've still got a long ways to go in terms of truly optimising that relationship," says Bastian on the future of the partnership.

Virgin Atlantic will shift to Delta's back-office systems this November, allowing for even closer integration between the two carriers across the Atlantic. All passengers, regardless of what carrier they booked on, will be treated the same in the computers of front-line personnel following the integration.

"It will be the first time in industry history where you have the international operations of two carriers operated using the same passenger service system and the same reservations platform and the same operations system," says Bastian. Virgin will be able to benefit from Delta's annual $350 million technology investment, seven times its own, with the shift, he adds.

Delta plans to take its success with Virgin Atlantic and apply it to its other equity partners. It is awaiting regulatory approval for a joint venture with Aeromexico and plans to seek an immunised partnership with Gol once Brazil ratifies the country's open-skies agreement with the USA.

Edward Russell

Delta Air Lines

Both sides have seen benefits

PAST WINNERS

2015 American Airlines | **2014** SAS Group | **2013** Ryanair | **2012** Etihad Airways | **2011** AviancaTaca | **2010** Continental Airlines | **2009** Southwest Airlines | **2008** AirAsia | **2007** Cathay Pacific Airways | **2006** ACE Aviation Holdings | **2005** Hawaiian Airlines | **2004** America West Airlines | **2003** US Airways | **2002** JetBlue Airways