

## Delta Air Lines, Inc.

NYSE: DAL, \$3.26  
United States

### SELL

2004 are projected to increase roughly 96%.

#### Delta has a High Risk Profile

Understanding Delta as an investment means developing a clear picture of its risk profile as well as its reward potential. A risk profile describes the influences on a stock, which explain its particular pattern and level of volatility. Our risk ranks range from low (10%) to high risk (100%), with 50% being the average. Delta has a risk rank of 90%. Unlike beta, a stock's response to the market's movement, our risk profile incorporates both business risk and investor driven stock variability. A firm's business risk varies with the stability of its revenues, the breadth of its operating divisions, the quality of its working capital and its financial leverage. A stock's variability reflects its weekly price movements over the last 7 years.

#### 6% L-T Growth; Low Quality

Delta's interim price direction and volatility is only partially the result of the company's fundamentals. The strongest external influence is its position in the transport sector and the airlines industry. This area is noted for its above average sensitivity to the business cycle and for the wide swings in its stocks. Company specific influences relate to the variability of Delta's earnings and the characteristic behavior of investors that own it. We project it will grow with below average persistence and at a long-term rate of 6%. Its overall financial quality is low versus other firms. The investor-related influences in our risk profile model include the stock's lack of dividend yield, its NYSE membership, its 95% institutional ownership, its market cap of \$409.48M and its above average sensitivity to market moves (2.04 beta).

### Callard Research's Investment Conclusion

The Callard research team currently projects that Delta will strongly underperform the market over the next 6 to 12 months. Our decision is based on the stock's relationship to its intrinsic value as well as an assessment of the momentum of the company's fundamentals. Each step of our analysis is discussed on page two.

### Callard Research Recommendation

Buy	Most Favorable
	Favorable
Hold	Neutral
	Unfavorable
Sell	Most Unfavorable

### Company Fundamentals

Sector	Transport
Industry	Airlines
Asset Class	Small-Cap
Style	Blended-Style
Fiscal Quarter Ended	6/2004
4-Quarter EPS	\$-22.96
1-Quarter EPS	\$-15.78
Sales 12-Month Change	3%
EPS 12-Month Change	-100%
Price 12-Month Change	-75%
52-Week Low-High	\$3.12 - \$15.28
Price/Earnings Ratio	NA
Price/Cash Flow Ratio	NA
Price/Sales Ratio	0.0x
Price/Book Ratio	NA
Dividend Yield	Nil
Net Profit Margin	NEG
Return on Equity	NA
Debt/Equity	NA
Beta	2.04

Delta Air Lines, Inc. is a major air carrier providing scheduled air transportation for passengers and cargo in the U.S. and worldwide. At 3/1/04, Delta and its subsidiaries Atlantic Southeast Airlines and Comair, served 206 domestic cities in 47 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands; as well as 48 cities in 32 countries. DAL also operates Delta Connection, a regional carrier service; Delta Shuttle, a high frequency service for Northeast business travelers; and Song, a new low-fare service to selected leisure destinations.

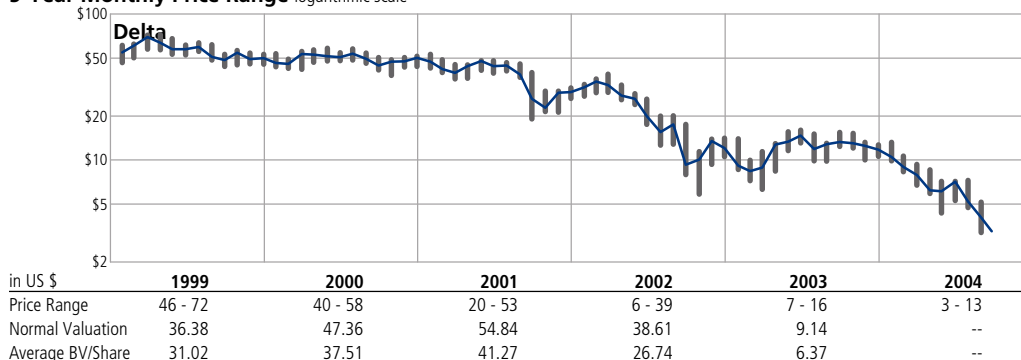
#### Weak Recent Relative Performance

Delta's performance reflects the fact that it is a small-cap blended-style stock in the transport sector. Over the past year the stock has disappointed investors by producing weak relative performance. Its 75% decline trailed 100% of stocks in the BIR small-cap index (similar to the Russell 2000) and 98% of the transport stocks in that index. Over the same period the company's losses per share increased 185% and its sales rose 3%. Establishing a normalized valuation based on book value here is impossible due to unusual shareholder equity data.

#### Loss Levels To Rise 96%

The company reported June 30 interim earnings of \$-15.78 versus \$1.46 the previous year. The company's latest interim earnings were in line with analysts' expectations. The September interim losses are expected to increase significantly year-on-year when they are reported around October 13. Delta's losses for the year

### 5-Year Monthly Price Range logarithmic scale



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### Investment Philosophy

Callard's valuation framework begins with the principles developed by Merton Miller, Franco Modigliani and others at the University of Chicago. Callard's contribution is the empirical validation and practical application that make these principals useful in making investment decisions. Stated briefly, stock prices are primarily determined by future cash flows and discount rates, each of which is influenced by distinct and separate factors.

### Research Process

Fundamental data on all companies is run through a series of algorithms that adjust for the effects of inflation and remove other accounting distortions. This correctly measures the assets employed and the net cash receipts generated by companies. The resulting cash flow return on investment (CFROI) reflects economic reality. We also estimate each firm's discount rate and asset growth, or cost of capital (COC), to show how the market values the firms' cash flows. This valuation framework is then combined with momentum measures of sales, profits and prices to determine three- to five- year price targets for the stock.

### DISCLOSURES

Callard Research  
Callard Research (and its affiliated companies) prohibits its employees from trading rated equity securities for seven days after a ratings change. Employees are prohibited from being officers or directors of listed companies. The investment advisory accounts they advise own less than 1% of this company.

### STOCK RATINGS

The firm uses the terms below to rate a stock's relative 39-52 week performance:

BUY: Expected to outperform the S&P 500 by over 10%.

HOLD: Expected to perform in line with the S&P 500.

SELL: Expected to underperform the S&P 500 by over 10%.

## Analyst Discussion

Our review of Delta is based on the methodology pioneered and developed by Chuck Callard since 1970, which calculates fundamental economic performance by systematically adjusting reported financial statements to correct for differences in accounting policies, inflation, leverage, and industry characteristics, thereby comparing all companies on a consistent basis. The resulting discounted cash-flow valuation, which incorporates industry and company growth prospects, is compared with the current price to determine relative attractiveness. This preliminary assessment is then tested against a series of short-term performance measures to determine the final recommendation. By removing all economic and accounting distortions and viewing the stock on a relative basis, we have gained a clear picture of how the stock will perform against market averages.

### Overall Recommendation: Sell

We decided on Delta's Sell rating by incorporating several factors, which our experience has shown to be powerful indicators of future price performance. Our decision was based on (1) valuation, which compares the firm's intrinsic value against the price of its stock, (2) intermediate and long-term price momentum, (3) other measures of fundamental trend and (4) qualitative analysis.

### Expected Shareholder Return: Most Unfavorable

Measures the return shareholders can expect to earn based on the current stock price and the firm's projected cash flows. It is a measure of potential price appreciation over the following 26 to 104 weeks. For this firm, the potential price appreciation is 0.1% below the market's, which is Most Unfavorable.

### P/E to Growth Ratio (PEG):

Measures the ratio between the firm's P/E and its

forecasted asset growth rate. Ideally a firm has a low P/E and a high growth rate resulting in a low PEG ratio. Delta has a non-meaningful P/E and a forecasted real asset growth rate of 4.0% resulting in a non-meaningful PEG ratio.

### Price Momentum: Most Unfavorable

Measures the trend in relative shareholder wealth, over the last 200 days, including an adjustment for past volatility (at rare key reversal moments the favored firms are those that have been losing to the S&P). Delta has a momentum score that puts it in the bottom 99% of all firms (Most Unfavorable).

### Qualitative Analysis: Average

The attractiveness of a stock depends on certain non-numerical factors, such as quality of management, intensity of competition and brand strength. Our analysts take into account these and other factors in order to produce a comprehensive picture of the quality of each company.

### Sales Growth: Average

Measures the growth in real four-quarter total sales per share over the last few quarters. Delta's sales have grown at a rate of 5% which is Average.

### Earnings Surprise: N/A

The EPS Surprise is computed by comparing recently reported earnings with the prior forecasts. Because of insufficient quarterly data, this calculation cannot be performed for this firm.

### ROI Trend: Most Favorable

This score compares the long term ROI forecast with the average of the last 4 years. The ROIs for DAL are expected to increase by 6.8%, putting it in the top 95% of all firms (Most Favorable).

### Return Since Last Turning Point: Most Unfavorable

We measure how the stock has performed since the last Market Turning Point, defined as either a peak, trough or change in the general character of the market. Since the Last Turning Point, this stock has lost 0.4%, which is considered Most Unfavorable.

### Performance History: 52-wk Percentile Rank DAL (Small-Cap, Blended-Style)

