03-Mar-2015

Delta Air Lines, Inc. (DAL)

J.P. Morgan Aviation, Transportation and Industrials Conference

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MANAGEMENT DISCUSSION SECTION

Mark S. Streeter
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Okay. Why don't we get rolling with presentation number two. Mark Streeter, for those of you I haven't met. Thank you, Jamie, for the last session. We put Jamie to work with the fireside chat. Ed's going to take it easy on us and do a more traditional presentation. But I think everyone knows Ed Bastian, the President of Delta Air Lines. Ed's on the board of directors, but more importantly I think, or more interestingly, he's also on the board of directors for Virgin Atlantic, Aeromexico, and GOL, which I think tells you a little bit about what Delta's been up to.

And I think one of the key parts of this conference is that it's not only an aviation conference, it's a transportation and industrials conference. And I think what you're going to hear from Delta increasingly is how they view themselves as an industrial transport, and I think this is a great format as the industry has evolved and so forth. And you have this great opportunity, over the next three days, really to compare the airlines to some of the other industrial transports that we have at the conference. It's a pretty compelling comparison, in terms of valuation and so forth.

And I know Ed is going to talk about that, so I'm going to turn it over to him.

Edward H. Bastian
President & Director

Well thanks Mark, it's great to be here. You guys always do a first-class job with your presentations, Jamie. Great to be here. I've got a few of my colleagues here. I guess they're standing waiting to be introduced to the stage. Is that what we're doing, the lineup? Why don't you guys come up? We've got four chairs. And we've got Glen

Hauenstein, who is our Chief Revenue Officer. We've got Paul Jacobson, who is our Chief Financial Officer. We've got Gary Chase, who is our – Gary is waiting to be introduced. It goes in rhythm.

Gary Chase

SVP, Financial Planning and Analysis, Investor Relations and Corporate Planning, Delta Air Lines, Inc.

[ph] You were not (1:38) waiting for me.

Edward H. Bastian

President & Director

I'd offered Gary today – I'd give him $5 if he sat up here wearing Mickey Mouse clothes. So he turned down my invitation. And we've got Ms. Jill Greer Sullivan (sic) [Jill Sullivan Greer] (1:48) who is Head of Investor Relations. Jill, come on up. I keep my eye on all you guys. So, that's great. But they're a fabulous team and all of the work that's going on at Delta, it's really remarkable, as Mark said. It's been quite a few years. This has been 10 years in the making, and we're thrilled to see so many familiar faces in the room this morning.

Oh! Another familiar face. I see [ph] Mike Hanson (2:13) back there. Mike is the member of our Air Line Pilots Association. We're always glad to have Mike with us at our various investor meetings and conferences. But it is great to see so many familiar faces as we've gone through the rebuilding of Delta over the last 10 years. Glad you stayed with us. And the next 10 years, I promise you, is going to be a fascinating ride.

So this is a public call. This is a webcast and as a result of that, we do have the Safe Harbor disclosure that we point your attention to at the start of each one of our presentations.

So 2014 was a great year for Delta. It was a great year across the full spectrum of the business. It was a great year operationally, a great year for customer service and satisfaction scores. It was a great year for our employees, topped off a few weeks ago by $1 billion profit sharing payment. Morale, as you can imagine, and spirit, is very, very high. And it was a great year for you, our investors as well, as well as our financial returns.

And while it was our best year in our history, and arguably probably the best year in the airline industry's history of any airline has ever produced in a single year, we do see room for a continued improvement, and the opportunity to continue to grow value. So our goal as we enter 2015 is to make certain that we keep the momentum we have and build upon it, to capitalize on a solid revenue environment coupled with a declining cost environment that will allow us to generate increased cash returns for you, our shareholders, as well as cash that we can use to strengthen our balance sheet.

As I mentioned, 2014 was just a stellar year. And we once again, for the third year in a row, led the industry in profitability. And it was led by the outstanding operational performance of our team. When you think about where we sit operationally, there's no airline that's been able to touch what the – Gil West, who's our Chief Operating Officer and his team, has been able to produce.

In 2014, for the mainline, we operated about 3,000 mainline flights a day. 95 days of the year, we did not have a single cancellation. 95 out of 360. I don't think any of our competitors had more than one or two of those days the entire year.

It goes to show the strength and the resiliency of the operations that we're producing. And when you produce that type of quality and that type of reliability, obviously your on-time rates lead the industry, as ours have. Our customer complaints are at the bottom of the industry in terms of the lowest, which is where they need to be. And our customer satisfaction scores amongst our peers are far above everyone else's. And that's what, in turn, produces these levels of profits and these levels of returns.

In 2014, our top line grew 7%. We improved our pre-tax profitability by almost $2 billion over 2013. We generated $3.7 billion in free cash flow, and we ended the year with an adjusted net debt level just over $7 billion, and that includes having paid and returned cash to shareholders of $1.3 billion in the year. Great year.

But while we all enjoyed 2014, it's important that we look forward to 2015 and what's to come. And I can give you the short sound bite at a macro level what our financial strategy in 2015 is. It's to make sure that the lower fuel environment reduces our costs in 2015, but not our revenues. And that is what our goal in 2015 is. I'd characterize the demand environment as stable. We're going to see again in the first quarter a 6% top line growth, so strong growth, led by strengthening U.S. economy. Our domestic unit revenues in the first quarter of this year are expected to be up 1% on 5% growth. Now keep in mind two points of that 5% growth is the lapping of last year's winter storms and the unusual weather activity we had in the first quarter a year ago where Atlanta was shut down for the better part of the week and other storms that hit both in January as well as February last first quarter. So that 2% growth, you really need to think on a schedule-to-schedule basis, about 3% growth. But we still produce 1% overall unit revenue improvement on a 5% domestic growth base.

And as a result of that, we see no evidence in our U.S. business that lower fuel prices are translating into lower revenues. In fact, they're helping offset the area where we are seeing some revenue weakness, which is in our international revenues, international business, which are primarily currency related.

60% of our business is domestic, and 80% of our point-of-sale revenues are generated in the U.S. So we're still heavily weighted towards the U.S. dollar and the U.S. economy, which will be a good thing as we look forward to in 2015. But it does fit you on the currency front.

Our international unit revenues in the first quarter, we expect to be down about 5%. And four of those five points are FX-related, which results in our overall FX on our overall unit revenues in the quarter to be about a 1.5-point headwind on total unit revenues. A number to put in context is about $120 million for just the first quarter, that FX headwind on our international revenues, and it's about a $500 million headwind for the full year as we face the year.

So you put all that math together, and what it leads you to is an overall unit revenue reduction, actually of one point in the first quarter relative to the prior year on a 5% capacity growth. So growing capacity 5%, one point of overall unit revenue reduction. It is slightly below expectations that we had at the start of the quarter. FX has been a key contributor to that in terms of driving down the miss from expectations. And coupled with that is also not just FX, but also fuel surcharge declines in a number of our international markets.

Now let me talk about FX for a couple of minutes. And as I say, it's clear that the strong dollar hurts our revenue through the translation of the international revenues. But we do get benefits from the strong dollar. About 50% of our non-fuel costs are also – that's related to that international weakness on the revenue line, is going to benefit in terms of lower cost for the same reason. So it offsets about 50% of that revenue decline.

And then in addition to that, the strong dollar is clearly having an impact on fuel prices. So net-net, we haven't done the math, but net-net, we believe we're a beneficiary to a strong dollar. But the math, when you look at RASM as compared to CASM, is certainly a skew. But second, we realized though because of FX, it's the cost we need to manage, and we need to do a better job on our international capacity to offset that FX weakness, and we're now actively looking at our international capacity post the summer season to look at our flying levels and make certain that that cost of FX is factored into our returns on our international business. So you could expect to see some further reductions in our international capacity post the summer schedule. Summer is looking strong and should do quite well. But post summer in the September-October period, you could expect to see some incremental reductions on the international front.

Fuel cost. Fuel costs everybody knows are going to be an enormous tailwind to not just us but to the industry at large. At current market prices, it's about a $0.90 savings over 2014 in fuel cost, and that on a run rate basis for Delta is about a $3.5 billion improvement on the bottom line in terms of fuel savings. As you know and I'll talk about it, we do have hedges that are out of the money given that we typically tend to hedge a portion of our fuel cost 6 months to 12 months in advance of the current year.

So as a result of that, in 2015, we'll expect to see about a $1.8 billion net benefit to Delta from lower fuel prices. But as you go into 2016, in 2016 we only have minimal hedges in effect. We hope to receive the full value assuming fuel stays where it's at in this trading range of over $3 billion of savings out into the future.

And as a result of that, the amount of cash flow we're generating in the business is substantial. We expect in 2015 to generate somewhere between $7 billion and $8 billion of operating cash flow in our business, and our free cash flow to be north of $4 billion. So a healthy year, a stable year, a lot of moving pieces that's why I took my time walking through some of the piece parts here, but it's a year that's setting up for us in 2015 that we really like.

So let's talk about fuel. I mentioned that we did have a fairly large hedge position that – a base position that we had built in the spring to summer of a year ago prior to the decline in fuel prices. And as a result of that, we've been sitting on a fairly large hedge loss for the current year.

We have taken a considerable number of steps in the first quarter to restructure the book in order to rebalance our exposure but still retain some level of longer term upside protection. And so, as you know, when we gave guidance on fuel price last, it was in the early-to-mid January period. That was actually the low – or the current low anyway for the market as to where fuel prices were for Brent which is what we quote and what we utilize in our forecast.

Since then, Brent has actually rebounded about 30% from where we were in mid-January and price points for Brent were in the mid-to-upper $80s and today they've been – it's been in the low $60s. And we took advantage of the rebound, the recent rebound, that 25% to 30% rebound to restructure the second half of our 2015 book and we early settled about a $300 million loss component in that book. So we took $300 million of losses that were sitting in the second half of the year. Early settle them taking advantage of the market contango that was in the market.

We sold them at prices in the mid-to-upper $60 a barrel range, brought that cash in, and as a consequence we're writing off that $300 million in the first quarter that's going to influence our first quarter guidance that I'm going to point to you, but it is an out-of-quarter item, and it is something that we think we are good to have behind us.

The other thing we did in the book is that we lengthened the book a little bit. We took another $300 million of the loss position that was sitting in the second half of the year, and we extended it out through 2016 through some offsetting trades. And as a consequence, give us a little more time to allow the markets to stabilize because our expectations are, the fuel market is going to stay pretty choppy here, for at least the next 6 months to 12 months. And as a result of that, we needed a little more time to find a stable floor for fuel, and we were back-end loaded to the back half of the year with a long hedge position.

So the result of all of those moves means that, in the second half of 2015, our overall loss from our fuel book should not be more than $200 million to $300 million in aggregate, meaning that starting July 1, we'll be paying pretty close to what the industry average is paying in fuel. The premium we'll pay for all those hedges and [ph] combined (14:57) nets out to about a $0.10 per gallon to $0.15 per gallon premium, which is substantially cheaper. It's substantially better than where we were sitting prior to the restructuring.

You can see the chart on the other side of the slide, and that walks you up so you can see the different piece parts to what we – how we decompose our first quarter estimated fuel price for Delta. The market today is in the $1.90 range. The hedge loss that we had for the first quarter positions is about $0.81 a gallon.

We are doing well at the refinery. We're generating an $0.08 a gallon benefit from the refinery. The refinery in the first quarter should make somewhere between $75 million to $80 million of net profit for us. And that's that $0.08 gallon benefit, meaning that our apples-to-apples fuel costs for the first quarter should be seen as – or our core fuel costs – should be seen as somewhere in the $2.60 to $2.65 range per gallon.

We are going to report an out-of-quarter item of $0.33, which was the early settlement of hedges that relate to the back half of 2015, pull that forward into the first quarter. So our overall reported fuel price in our reporting will be about $2.95 a gallon, but the actual number that you should think about for the core business in the first quarter is somewhere in the $2.60 to $2.65 range. A lot of numbers. I apologize if it's a little confusing. We have time at the end for questions if this isn't clear.

Now, turning to guidance for the March quarter, excluding the impact – I'll give you with and without the impact of the restructuring. Our Q1 forecast is expected to come in with an operating margin somewhere around 11%. So it's at the low end of the original guidance that we provided. The guidance that we provided for the quarter at the beginning of the quarter was an op margin of about 11% to 13%. We're coming in at about 11%. That 11%, again, is excluding the hedge restructuring. It's using the fuel guidance of $2.60 to $2.65. If you factor in the cost of the restructuring into the first quarter, that means our all-in reported op margin is going to be somewhere in the 8% to 9% range. So 8% to 9% on a reported basis, including the effects of the out-of-quarter item. 11% if you want to go apples-to-apples to the guidance that we provided at the start of the quarter.

Two components [ph] for the (17:18) miss relative to guidance. First, as I mentioned, our revenues were coming in a touch lower than we thought. We're going to be – unit revenues for the quarter down about 1%. We were calling it flat, so that's a portion of the miss. But actually, the bigger miss was really the fact that fuel prices rose, and fuel prices are up $0.15 per a gallon from when we gave the guidance back in early January. So if you take those two factors combined, you'll see an 8% to 9% – or an 11%, depending on what numbers that you want to think of as our core business.

CASM is a good guy, not just on the fuel side but also on the ex-fuel side. We're looking at a flat non-fuel CASM for the quarter. Our original guidance was CASM – non-fuel CASM of flat to up 2%. We're coming in flat and doing everything we can to even push flat to start with a negative number. System capacity year-over-year is going to be up 5%. Two of those five points are growth, though are lapping the effects of the storm. Free cash flow in the quarter will be in the $800 million to $900 million range. And we expect to return $500 million of cash to shareholders in the first quarter, $425 million of that through stock repurchase activity and $75 million through dividends.

Now, while I laid out a lot of numbers, I'm going to take the risk of giving you one more number to think about on this page. And that's if you eliminate the fuel hedge loss position from our quarter, what would the business be, which is truly the core business that you want to think about for Delta. And it's a very impressive number, because we will be out, essentially, of the fuel hedges starting in July. So it gives you a good marker to think about in terms of our future growth.

So for the first quarter, our op margin would be 17% in the first quarter, just excluding the fuel hedges for the moment. And our pre-tax margin would be 15%, just unbelievable numbers for the first quarter of a business that, as I say, has never been seen before. I think our numbers are impressive even with the fuel hedge loss, but if you exclude the loss, it really gives you a sense for the opportunity that lies ahead of us.

This is a recast of the goals that we laid out back in May of last year as we talked about with you, our investors, our long-term operating performance. And as you can see as you go down the slide, we've either achieved or we've come close to achieving most all of these goals. We laid out a goal of an op margin in the 11% to 14% range. In 2014, our op margin was 13.1%. We laid out a goal to annually grow EPS at least 10% to 15%. In 2014, it was a 70% EPS growth rate. We expect over time our return on invested capital to be in the 15% to 18% range. 2014, we're just a tad under 21% return on capital.

We expect our operating cash flow to be $6 billion with free cash flow at $3 billion. We've already hit those numbers and in 2015, we'll be exceeding those. And on the balance sheet, we expect to get – we expected to get our adjusted net debt levels down to $5 billion by the end of 2016 and get our pension to an 80% funded status level by 2020, making great progress on both of those fronts. In 2014, we ended the year at $7.3 billion of adjusted net debt, and I would expect by the end of 2015 that number will probably start with $5 billion at the end of this year. So, may not be $5 billion even, but I do think it will start with $5 billion.

So as a result of that, it's incumbent upon us to make certain that these goals continue to improve and continue to get updated and we're going to be holding a similar meeting in May of this year and we're working on it right now in terms of giving you our best view into the future. While we call these long-term goals, they're generally probably best thought as goals over a two-year to three-year horizon given the length of time that we can adequately forecast this fast-moving business. But you can expect to see updated performance goals including our balance sheet strategy and our return strategy for investors.

Now, the key levers that we're going to drive operating margin improvement in 2015 are in three buckets. First of all, we got to stay disciplined as to how we deploy capacity. Secondly, we need to take advantage of the great product we're producing in investments. We've invested over $10 billion over the last five years in our product. We need to make sure we can price for those and realize the value from them on the top line. And third, we need to continue to stay also very focused on efficiencies and cost productivity making certain that we do our best to bring the fuel benefits that we are seeing [ph] weigh (22:10) down to the bottom line.

On capacity, I mentioned earlier international performance primarily driven by FX. It's causing us to rethink our capacity levels, but where we are growing capacity, not just domestically as well as internationally, are in some restricted markets where you've got a high degree of revenue capture as well as constrained markets that we need to make certain that we continue to take our first-mover advantage to our advantage.

So markets such as London, such as New York, such as LA, such as Seattle. When you think about growth, our growth is going to be primarily focused there. But it's also focused on a very efficient basis. We're growing our domestic seats this quarter – or excuse me – this year by 3%. Yet, our overall departure count is going to be flat. So a 3% increase in output on a flat base of departures with 10 to 20 fewer shelves in the system. So driving great efficiency through the system. And looking towards the backend of the year, as I mentioned earlier, reducing some of our international capacity.

On pricing, I'll talk on the next slide about customer segmentation and some work Glen and his team have been leading. And then finally, the cost productivity benefits. A lot of those are in the upgauging of the domestic fleet. While we've done an awful lot of upgauging in terms of getting cost efficiencies and productivity of our fleet, I still think we're only in the mid innings of our upgauging effort. And that will continue to drive over the next two years to three years improved cost productivity results for you.

Revenues. Going to corporate customers, we continue to see strength and improvements in our corporate customer gains. The first quarter of this year, we're looking at corporate revenues being up 6%. These are numbers that you are accustomed to seeing in the mid-to-high single digits. Our momentum is not slowing down. As I mentioned, when you produce the type of operations, the quality it is, we're giving our corporate customers what they need.

This past year, we won, for the fourth year in a row, the Business Travel News survey, which we consider to be the most important business survey amongst corporate travelers. And winning that four years in a row is a real treat for our employees to be able to get that recognition. And if you look on the other side of the slide, you can see that the sources of our corporate revenue growth in the first quarter led by financial services, transportation, and a rebound interestingly in the defense business.

We talked a fair bit about this at our Investor Day in December. And Glen, I thought, did a real nice job not just presenting this, but also leading this effort. If we are going to capture full value for the products that we offer, it requires that we'd be much more targeted in our segmentation and deliver high-quality branded offerings to our customers, so they can tailor their own travel experience.

And as a result of that, we've rebranded our first-class cabin internationally calling it Delta One, and domestically First Class. We've expanded our Comfort+ offerings with enhancements in both the product and the service delivery as well as the number of seats. And we're working on the distribution front to continue to try to provide greater distribution of that product. And then in the Main and Basic Economy cabins, we have offered some additional selection. While we're enhancing our Main Cabin product, we're also giving the marketplace opportunities at a basic economy level for customers who are indifferent to flexibility or seat selection or highly price sensitive. We've got a product for them as well.

The segmentation, I'll move quickly through this because in the interest of time, but you should know this is a big part of our revenue generation capture in terms of the next round of revenue improvements for the airline. We expect about a $1.5 billion annual revenue benefit from these [ph] runs (26:04). We've been testing this and piloting over the last couple of years. We now have the technology in place. We have the service delivery standards in place with our people. We launched it this week in the marketplace full on throughout our domestic system. And this year alone, we expect to generate a $250 million return on the revenue line from greater segmentation.

American Express, our partners have been in the news recently, unfortunately, with some accounts that they've lost. Really pleased to say that this is an account that they won, and we really value that partnership. Our American Express relationship is about a $2 billion revenue relationship in terms of what Delta generates from the American Express partnership. And last year, we early renewed our American Express partnership with some improved terms, and the full spectrum of that relationship over the next four years to five years should double the size of that relationship, taking it from a $2 billion revenue contribution to Delta to something close to $4 billion. And we expect to drive just in 2015 alone about $400 million of added value.

So, Amex, we think, is a great partner. It's a great brand. It's a brand that we're proud to put our product right alongside with, and I think we're going to have some very interesting opportunities now that we've got renewal behind us. We can go both unimpeded in the marketplace to try to capture as much of our premium spent together as we can.

Domestic refleeting, I talked about a little bit. This is – if you look into our history and you say where have the greatest growth in our profits been over the last five years, six years that drive the returns you see for the business? It's been on our domestic side. And if you track our domestic fleet to back to 2009 timeframe where we started post-merger, we've been able to keep our overall domestic capacity flat over that timeframe, yet reduce the amount of aircraft that we have dedicated to domestic flying by 15% and, as a consequence, grow our overall margins in our domestic business by 1,400 basis points.

When you talk about 60% of your business being on this slide, you can do the math quickly and see it's a substantial contributor to the performance of the company, yet I still think we're still in the mid innings. And I still think there's additional growth, whether it's additional deliveries of the 717, 737-900s which just started to take over the last couple of years.

Barry is going to start delivering 321s here soon to Delta, and we're going to be able to continue to retire smaller, less efficient gauge aircraft and bring, not just new aircraft to the market, but also working on modifications where we have over 110 aircraft in 2015 where we're going to be increasing about an average of nine seats per plane, the gauge on those aircraft as well.

Now this capacity that we're bringing in is not only more efficient in terms of its delivery, but it also yields a much greater return on capital, because much of the fleet that we've been modifying and upgauging is actually on a used aircraft strategy, which keeps our ownership cost low, gives us a lot of flexibility in the marketplace to respond quickly and efficiently to adjust capacity levels, but you need to do it with just an outstanding team of TechOps and mechanic professionals who can make this strategy work. So, not only do we have the lowest ownership cost in the industry, we also have the lowest maintenance unit cost and the best reliability. And so, I think that's the unspoken storyline. People are going to see the headline numbers, but when you look at the reliability in the performance, I've got a couple of other numbers I want to share with that.

And so, if you have any question about whether our used strategy works or if we have the best TechOps professionals in the industry. In 2014, we had 197 days in 2014 without one single domestic mainline cancellation, more than half of the year, and that's including weather. That's including – it's clearly – all-in. Almost 200 days of the year, we did not have a single domestic mainline cancellation.

I see [ph] Mr. Renee (30:21) in the back room. Not sure if he's still back there or not, so apologies for you. But if you took our three largest competitors combined, it was 13. So, when you think about that, in terms of that performance, giving customers what they want, and the goals for 2015 are even higher, it's really a great tribute to our people at TechOps.

Internationally, I talked about this a lot, the strong dollar puts pressure on our revenue and RASM, but we do believe, overall, it is margin accretive to us. But we are, notwithstanding that, going to be taking actions post-summer to look at our capacity plans in each of our three large theaters across the world.

The Atlantic, our Virgin Atlantic relationship, is going great. Our relationship with Air France-KLM has been going great, huge margin improvements year-on-year, and really great marketplace acceptance. However, we still continue to face challenges in Africa, in the Middle East, and Russia despite the 2014 capacity adjustments we took, and then you probably could expect to see some additional capacity adjustments coming later this year in those three regions of the Transatlantic.

Pacific, we have made a lot progress with Seattle and now in the intra-west. Over 95% of the intra-west connects over Seattle to destinations that U.S. customers particularly want to fly to in Asia on a non-stop basis. That restructuring in Narita continues. Again, a lot of it's being driven by FX, but a lot of it's also being driven by the significant declines that we've been seeing in the surcharge activity as fuel prices have come down in the Pacific theater. We are retiring the 747s, anxiously waiting for the Airbus 350s to deliver to us.

And in Latin, Latin's been a big investment period for us over the last several years. We're starting to mature that investment. So I think, by the time you get to the end of 2015, you'll see our growth in the Latin region be in the low single-digit level, Brazil particularly. Brazil has got a lot of capacity. It's got a lot of economic challenge in the marketplace. Probably got – need to take a little bit of a breath, and we're doing that with our business as well as with our partner, GOL, down in Brazil.

Very excited, though, in Latin America about Mexico. Mexico was a market that people may be surprised to know we do not have open skies with, the U.S. and Mexico. Open skies was finally approved a few months ago, ready to go effect in 2016. And we expect, together with Aeromexico, to create a joint venture. Trans-border JV between U.S., Mexico flying, I think, is going to be another real nice opportunity for us strategically as we look forward down the road.

So what are we doing with close to $8 billion of operating cash that we expect to generate this year? Well, our theme had been that we're going to reinvest 50% of that back in the business and the other 50% to improve the balance sheet and accelerate returns to shareholders. When the operating cash levels start to get to this level in the $7 billion to $8 billion range, obviously we're pretty much capped on CapEx. So that's going to drive even greater value for you, our investors, as well as on the balance sheet in terms of strengthening. So we still intend to invest somewhere between $2 billion to $3 billion in CapEx despite the improvement that we see in our operating cash flows to keep that level of investment going into the business.

We've strengthened the balance sheet. We've brought our net debt levels down by $10 billion over the last five years. And we're making good progress on investment grade metrics as we look out over the next couple of years. We think it's realistic that Delta could be upgraded to investment grade within the next 24 months.

But we've also started two years ago to return cash to shareholders. We've returned over $2 billion to shareholders since we announced, back in summer of 2013, the start of the program and we're on track to complete the most recent $2 billion repurchase authorization by the end of this year, one year ahead of expiration, and update all of you on this data in the spring.

As I mentioned, we have brought our net debt levels down by almost $10 billion back from 2009 of $17 billion to probably start with $5 billion at the end of this year. But, look, the number to me, that's really interesting, is likely what's done on our leverage and our interest expense. Our interest expense back in 2009 was $1.3 billion. It's a massive overhang on the business. This year, that number is going to be less than $500 million. So we'll see almost $200 million improvement just this year alone in reduced interest costs. That, in itself, is a 50 basis point pre-tax margin improvement.

And on shareholders, we expect to generate a minimum of $1.5 billion in returns this year. Interestingly, if you can look at our capital returns as a percentage of free cash flow, you can see in 2014, we're already up to 37% of our free cash flow and well, we're not authorized to give you the 2015 numbers since we're still doing the work. I think it's realistic to expect that number is going to continue to grow in 2015 as well.

So, that's our story. That's the – it's been a 10-year work-in-progress to get this business to this level of not just sustainability but health. As I mentioned earlier, if you can look at how we compare across the S&P Industrials on almost any metric, we feel like we've earned our seat at the table, but there's a couple of additional data points I want to leave with you. I've given you a lot of data today, but two that I really want you to think about. If you look at the forward price/earnings of the 67 companies in the S&P Industrials, Delta has the lowest P/E of the 67 companies. So while we've been the second best performer over the last two years in the S&P 500 Industrials, we also – in the S&P 500 period, we still have the lowest P/E of the 67 companies in the S&P Industrials and we also have the highest free cash flow yield in this group.

So we think it's still a compelling value for you as you look forward to the year. On an absolute basis, our free cash flow puts us in the top 5% of the S&P Industrials. And as we look at 2015, while we do have a lot of movement in our fieldwork and we do have our revenue environment, I think we've got a pretty good fix on, I think it's going to be a very, very strong 2015. And the best employees in the business are the ones that are driving this return, and I just thank them on your behalf for the great work we do. And I thank you all for investing in Delta and staying with us on this journey.

So Jamie, I'll turn it over to you and Mark. We've got a couple of minutes for questions.

QUESTION AND ANSWER SECTION

Jamie N. Baker
JPMorgan Securities LLC

Q

We kick it off. Thank you. The portion of the presentation that dealt with the fuel hedge restructuring was detailed. It was time-consuming. It's somewhat complicated. I understand all of that. What I'm curious about is whether this has sort of once and for all – well, does this represent sort of a seminal shift in how you view fuel hedging?

Edward H. Bastian
President & Director

A

Well, we constantly are looking at our fuel hedging strategy and tweaking it towards the environment. If your underlying question, does that mean we're going to stop hedging fuel? The answer is no. That's not what we're – that's not the answer we're coming to, but it does tailor our strategies. One of the important strategies we have is that since we're now in a much stronger balance sheet, much healthier cash position, obviously our ability to tolerate risk is a bit higher, but it's still a fairly substantial risk that if we went naked or unhedged on, we think that that is not necessarily the right balance either.

So you can see us probably shortening our tenor over time, possibly using some different instruments and thinking about the book differently the two times when the fuel hedges have not worked in periods of dramatic market decline both in the 2008 period as well as in the most recent timeframe. In all other periods, it actually generally worked and we got to think about those two extremes and how do we get protection around those, so we don't have as big an upside-down position when that market hits.

Jamie N. Baker
JPMorgan Securities LLC

Q

And a follow-up either for you or for Glen, if we set aside the international and some of the FX pressures there, when we think about an industry that has never been this consolidated in the past, this level of concentration and when you think about all the progress that the industry has made in terms of the ancillary revenue, overall revenue growth right now is still, by my measure, fairly uninspiring relative to some of the past years. Where is the pricing power? Because it's not readily evident and that's certainly true in regards to the guide today?

Edward H. Bastian
President & Director

A

Glen, why don't you take that? I'll give you all these if you want.

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer

A

I always like your questions because they are so leading. But I really feel like there's a lot of revenue strength in the domestic arena and it's at a market-by-market level like it's always been. And our ability to extract value where we see business customers or higher value customers willing to pay us more for their products. And I think we see a very robust environment continuing in domestic U.S. business. And so I wouldn't characterize revenue environment like you did. I would characterize it as pretty robust, as we continue to grow top-line revenues by 6% in the quarter.

Edward H. Bastian
President & Director

A

Yes.

Q

[indiscernible] (40:31) in Seattle and if you're seeing any pricing pressure from Alaska, which you guys have a major presence there?

Edward H. Bastian
President & Director

A

[ph] Let's take it (40:41)

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer

A

Our forward yields in Seattle are amongst the best and forward unit revenues are amongst the highest and best in the industry. So [ph] it included (40:51) in our domestic. As we look at March, [ph] we're lapsing (40:56) year-over-year unit revenues in the high-single digits in the domestic arena. So I think a very good demand environment in Seattle and the Seattle customer has responded very well to our demand set.

And I think two things about Seattle that are interesting is as we get more and more toward critical mass, more and more traffic flows over Seattle as opposed to origin and [ph] destination (41:18) in Seattle, and there's been a lot of rationalization with capacity in the Pacific Northwest as a whole. So we see a very good demand and supply balance shaping up for us in Seattle for the peak summer months.

Edward H. Bastian
President & Director

A

Yes, Mark.

Mark S. Streeter
JPMorgan Securities LLC

Q

Ed, it's Mark Streeter. We could spend a half hour talking about this topic, but I'm wondering if you can give us an update on what you and Richard in Delta hope you accomplish in Washington with the white paper regarding Middle Eastern open skies. Are we on track for some more public disclosure later this week and what are sort of the near-term and long-term sort of goals of the effort regarding those negotiations and discussions?

Edward H. Bastian
President & Director

A

Well, our goal is to make certain that our open skies treaties, which by the way we're massive proponents of open skies, we're not opposed to open skies, we're massive proponents of open skies, are adhered to. And our provisions within those treaties that require fair skies policies be implemented and the playing field not be titled in one direction.

And I think it's interesting when you get a chance and I'm not sure the current timeframe on the white paper, but we do expect, at some point, the white paper will be released publicly. It's interesting how many critics we face but people haven't even seen the evidence yet. And so we just ask that when the evidence is laid out and people get a chance to look at it, then we take a balanced view. And I think it's something that we needed to draw to the regulators' attention.

It's why – there's very few things that you can get American, Delta and United all agree on, but the one – because we're all competitive, but the one thing we all agree on is that we want a balanced playing field and we can compete with anybody on that basis as evidenced by the results we put today.

Jamie N. Baker
JPMorgan Securities LLC

I think we'll wrap there. Ed...

Edward H. Bastian
President & Director

Great.

Jamie N. Baker
JPMorgan Securities LLC

...Glen, Paul, Gary and Jill, thank you very much.

Edward H. Bastian
President & Director

Thank you all. I appreciate your investment in Delta.