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Delta Air Lines, Inc. (DAL)

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MANAGEMENT DISCUSSION SECTION

Jamie N. Baker
JPMorgan Securities LLC

All right, folks. We'll do our best to remain on track. I'm pleased to turn the stage over to Delta Air Lines. I'm just double-checking that we didn't misspell the name of your company, as we have so many times in the past. We're delighted to be sharing the stage today with incoming CEO Ed Bastian; incoming President Glen Hauenstein will be joining us – this is the point at which you gentlemen can feel free to come up if you'd like – CFO Paul Jacobson.

Not much more that we can say about Delta at this point. Clearly, the U.S. airline that can simultaneously run the most sound operational ship while simultaneously eliminating billions, a Boeing market cap hanging on your every word. So no shortage of things that Delta can't accomplish. So please, take our stage. Look forward to hearing what you have to say.

Edward H. Bastian
President & Director

So thanks, Jamie. I don't know how to respond to that last observation. But we'll just let it sit for time being. Great to be back. It's always a interesting conference. And you didn't disappoint yet again this morning, given the greeting that we had outside and so – a little interesting getting in. But thank you all for being with us. We do have Paul and Gary and Jill and Glen. And, as always, we are very appreciative of the opportunity to speak to our investor base and update you on what we've got coming up here over the course of the next year.

As you know, this is a live call. And we will be talking about some of our forward-looking observations and assumptions. And if you have any questions regarding definitions, you should refer to our Safe Harbor and commentary on our Investor Relations site.

Delta had an outstanding [ph] 2015 (2:12), and we've built on several years of year-on-year improvements. But in 2015, the team at Delta, the employees at Delta, really knocked the ball out of the park with respect to performance, and it's across all dimensions, led by a superior operation running the most reliable, customer-focused airline in the business. It's the foundation of everything we do, the product and the service offering that we have.

In the domestic mainline last year, we had 214 days of perfect completion; it's over 2,500 flights that consist of a domestic day. Two-thirds of the year was perfect. And you can think about all the knock-on benefits of that, from better baggage scores, fewer customer complaints, better on-time arrival rates, it really is astounding. No airline has ever in history demonstrated with the scale what our team is producing.

In fact, if you were to take our three biggest competitors, Southwest, American, and United combined, they had 40. And so, as a result of that, if you think about what we're doing for our customers, it's no question that our net promoter scores are at an all-time high domestically in the 40 range, which is a substantial improvement from where it'd been over the last five years. Our revenue scores and our revenue stats with respect to the premium we've earned is at an all-time high. On the domestic system, we closed the fourth quarter of last year at an index of [ph] 119 (3:49). It's 19% premium that we earned every seat, every flight, every day in the domestic system. And there's also no question that when you get to looking at the employee engagement scores – and morale is very, very high at Delta – all of which is leading to the returns and the record profits, that's allowing for not only the reinvestment in the balance sheet and continued strength there but also the increased returns to our shareholders.

And that momentum is continuing in 2016. We have a significant amount of fuel in the tank, as Richard likes to continue to remind me. We have a sizable fuel tailwind, looking at upwards of a $3 billion at current market prices tailwind, coming into 2016 on fuel, coupled with modest capacity growth clearly in line with economic activity and success that we're having both on the commercial side as well as on the cost initiatives, including additional up-gauging opportunities that should provide solid earnings projected momentum into 2016 as well.

But all of that is a result of a 10-year effort that we've been on. This has been a 10-year journey for Delta to get to the position where we're at. This hasn't been easy. This has been something that we've created, we believe, that's going to have durability, sustainability out into the future, and we'll be talking a fair bit about that today because we do believe that we'll be able to continue to produce strong profits and cash flows through the cycle, which I think is the number one question on investors' minds these days.

You can see the results on some of the key metrics that we measure and the foundation that we've created to produce that high-quality sustainable return for shareholders. Our return on invested capital has doubled over the last three years, 28% in 2015. We've brought our adjusted net debt down to little as $6.7 billion at the end of the year, and we'll be reducing that further in 2016 with a goal to get that down to about $4 billion over the next several years. And the capital returns to shareholders were $2.6 billion in 2015. And all of these metrics, we see continued improvement in 2016 as well.

We are affirming the guidance we gave for the March quarter, from earlier in the quarter. We are still anticipating that our operating margin will be somewhere between 18% and 20% for the quarter. That's the first quarter. That's the weakest quarter of our year. We're going to be projecting a – we are projecting an op margin of between 18% and 20%. That's roughly a 10-point improvement from first quarter of a year ago.

On the revenue front, our guidance is to be down 2.5% to 4.5%. We are still affirming that range. January came in better than expectations. For the month of January, we were 3%, I believe, was our unit revenue comparison to the prior year in terms of reduction. February, I'll tell you, came in a bit disappointing. February was down 5%. We had some weather issues that we were lapping that cost us probably about a point in the February comps. But the thing we're seeing in the domestic business is there's still choppiness in the domestic marketplace, particularly in the domestic close-in yields. And some of our close-in yields in February did not perform the way we thought they were going to be, and we're seeing that continue into March as well. The team's all over it. We're not concerned about it. We're very focused, as we'll talk later in the presentation, on continuing the trajectory that we're on to get our unit revenues to a positive RASM later this year.

But from a domestic standpoint, there's still a fair bit of choppiness. And as a result, my expectation is on the passenger revenue change will probably come in the lower end, the lower half of the range for the quarter. Fuel prices are up, as you know, over the course of the last month from we gave guidance, probably up about $0.10 a gallon. And when you couple the fuel price rise with coming in on the lower end of the range for RASM, that means our op margin guidance of 18% to 20% will probably be in the lower end, closer to 18% than 20%. But candidly we're not going to apologize for posting an 18% op margin in the first quarter of the year.

So it's going to be an astounding quarter. We've got great momentum as we look into the rest of the year. Demand is solid. We don't see any demand issue. Our forward bookings look real good for the spring and the summer. And as I mentioned, the domestic choppiness that we're seeing is not different than what we have seen all along. We're just needing to continue to get through that. Our ex-fuel CASM is going to be up 5%. That number includes profit sharing, which is the main driver of the size of that number. If you were to bifurcate, our traditional ex-fuel CASM number would be down somewhere about 2% to 2.5% in the quarter with our profit-sharing contribution making up the rest of that increase. And we expect to return close to $900 million to shareholders in the quarter.

Now, speaking of 2016, I covered a fair bit of this already, but when you couple modest capacity growth, certainly capacity that's in line with the economic activity that we see happening across the year, a fuel tailwind of roughly $3 billion in the year, and the commercial initiatives from branded fares to our up-gauging opportunities that we still have, to the restructuring that we are in the midst of doing with our Pacific network, we think 2016's going to be another stellar year. You can see how we have capacity anticipated over the course of 2016. Overall capacity at flat to up 2% for the full year. Domestic up 1% to 3%, and international down up to 2%. And where we are growing in the domestic market, as well as in the international market, obviously are very targeted markets that we've had great success at with respect to demand, particularly in – not just in the U.S. but in London, Mexico, and the Caribbean, with offsetting reductions in the weaker markets such as Brazil, Japan, and the Middle East.

And fuel, the $3 billion tailwind that [ph] I speak to (10:33), we have been successful at retaining the majority of that fuel tailwind to date. In 2015, we estimate that we retained 75% of the net fuel savings to our bottom line. In the first quarter of this year, we expect to also retain roughly 75% of that tailwind to the bottom line, and that's our goal as we approach the balance of 2016 as well.

Now, as I said, we are very focused on getting this company back to a positive RASM. It's not the only metric we manage, but it is an important metric. One could say it is the most important individual metric that we have in our business. And we are focused on not just the demand picture, which I say is solid across the board, including corporate, but also making certain that our capacity picture for 2016 is aligned with getting back to a positive RASM trajectory. You can see how our capacity in 2016 lines up versus 2015. In 2015, we grew 4%. This year, the midpoint of our range is 2%. When you think about where fuel prices are, with only a 2% capacity growth, that's going to yield some real returns for our margin.

You can see the Pacific down 5%. A substantial reduction also in our Latin as well as transatlantic capacity plans for 2016. You couple that with currency headwinds that are starting to modulate over the course of the year – you can see what our projected currency headwind that we see over 2016 by quarter. We're still looking at roughly a 2 point currency headwind. But by the time we get to the summer, it should substantially reduce, coupled with again the big capacity reductions, where it's a 15% reduction we're taking in Brazil, as well as in Japan. The Middle East and Africa reduced 30%. And you put that together, we still anticipate some point by summer we'll get back to a positive RASM for the company. We think it's very, very important, and we think it's important not just for our investors; we think it's important for our employees and the confidence that we've got our hand on the dials that drive the revenue enterprise.

The fuel tailwind that we expect to continue in 2016 is leading to the 35% reduction in fuel prices. We've effectively closed out our hedge book, so we have no open exposure, plus or minus, to fuel at this point. And we anticipate we'll be looking at hedge losses somewhere in the $100 million to $200 million range per quarter over the course of 2016.

The refinery had a great year in 2015. We generated a $300 million profit at the refinery. As I remind everyone, our goal was never to make a lot of money at the refinery. Our goal was to keep supply high, and so keep pressure on prices, because we have much more leverage to lower jet fuel prices than we do to refinery profits. And as we see in 2016, that's indeed what is happening. The refinery is probably right now anticipated to be close to breakeven, but that's because jet fuel prices are at – and crack prices across the board - are at close to five-year lows in the marketplace, which will have a great effect for the business, for the airline, not so much for the refinery, but you can see why the hedge works effectively for us.

Now, I want to spend a few minutes talking about the future, because we do get the question from our investor base repeatedly that – great job in getting the business back on track, great job with current performance; what happens in the event of a downturn, and what's going to happen if some of the historical concerns come back to haunt the industry? How will you respond? And this is a picture for us of what's happened at Delta over the past decade and the key drivers of why we believe that we have a sustainable, durable model that will stand the test of time and can endure any potential downtick over an economic cycle.

First and foremost, consolidation has been a big driver of the improvement in the business model. And you think about a great productivity slide. We've increased our revenues 20% since the merger on 20% fewer departures with 6% fewer seats and 12% fewer aircraft. That's real productivity when you think about it, and that's the promise of the synergies that the merger had. We've been able to deliver them without question. And we believe that that revenue efficiency still has further legs to go as we continue to up-gauge the product offering over the next several years.

Secondly, we've been taking the earnings and the profits that we've generated, and we've reinvested them back into the product for the future, as well as paying down debt and derisking and deleveraging the enterprise as well. We've invested close to $15 billion in product and service and technology and tools that drives those outstanding reliability stats that I posted earlier in this presentation over the last five years, and you can see the results of that in terms of what it's doing. It's driving not just a significant improvement in customer service and customer reliability, but it's also certainly helping our employees give them the tools they need to keep them motivated and keep our industry premium at a level where it needs to be to be able to sustain itself.

Third, we've made significant up-gauging investments over time. That up-gauging is not just providing top-line growth, but it's also helping us drive non-fuel cost productivity. And the results of that have been we've been able to improve our top line while our costs have been held in check and the further cash savings on the deleveraging in terms of lower interest expense is producing both margin and earnings expansion. In 2009, I believe our interest expense was roughly $1.3 billion. Our target is to get that down to about $400 million over the next year. So almost $1 billion just in interest savings alone to the bottom line. And all of that coupled together is allowing us to have not just a highly capital-efficient model but significant improvements in return on investment, a 27 point improvement in ROIC since the merger.

So if you talk about has this model changed? Is this durable? Is it sustainable? We think the evidence is pretty clear on this chart. And then you compare us to other industrials, and Delta's return on invested capital, our free cash flow, and our EPS growth are all in the top 10% of S&P industrials, and we think in 2016, we're going to make further improvements from there yet again.

We also have a much more geographically diverse network, which reduces our economic risks and takes advantage of long-term opportunities on the international side of the business. Today, the international marketplaces are down. With currency impacts and some of the economic challenges in parts of the world, this is not the time to be growing internationally. But what we've done is we've built joint ventures, and we've got equity partnerships and building for the future. And this is opportunistically the best time to be building for the future, when the cost of entry is at a level that we think makes it quite economical.

You can look at – on the bottom of that chart, and you can see of the top 10 markets that U.S. customers fly around the world, Delta is well-positioned in seven of those 10 markets, with either a great joint venture partner or our own hub in Japan as well. And when you think about what that's doing, you can see that in 2005, 80% of our revenues were domestic. This year, it will be 68%. And over time, we still look to strive – get closer probably to a 40-60 balance on the balance. You can also see the size on this chart of some of – the scale of the JVs that we have. Our JVs with Air France, KLM, Alitalia, Virgin cover close to $15 billion in annual revenues. That's a fairly significant amount that we're managing together. And it gives is opportunity for growth long term in those markets.

Further, our top line today is far more than just ticketed revenues. In fact, only 80% of our top line is ticket revenues, which means 20% comes from other sources. And one of the biggest opportunities for us to continue to drive that higher is our merchandising services revenue per passenger, you can see. And these are merchandising services that customers want to buy rather than are forced to buy. And it's a significant element to the new strategy. We believe the fee-based services of the past are not something that are going to be sustained in terms of being able to continue to make progress on. We need to give customers what they want to buy in product and service offerings. And when we have the product and service Delta is posting, people are buying.

You can see a 30% growth just over the last two years in that when you consider the fact that we have 185 million passengers that we carried last year. You can see – you can do the math here and you can easily get to where our goal of getting up to $15 per passenger is well over an incremental $1 billion to the bottom line. These are services that do not carry a large cost burden. These are services that we believe will be more resilient through an economic cycle.

In addition to that, we've also made good progress with American Express. A year ago, we signed our new contract. That's going to take our American Express revenue stream and partnership to a double from where it's at currently. Last year, we had about a $2 billion relationship, revenue relationship, with American Express. We expect by the end of that contract, that contract's maybe worth over $4 billion of revenues to Delta Air Lines, and we got the first year $400 million realized, and we see that step growth continuing to improve.

MRO services, our ground-handling company, our private jet subsidiary are all posting double-digit improvements in revenues as well. So when you think about Delta 10 years ago to where it is today, it really is a very different business, all of which allows for us to have not just for Delta but for the industry the earnings and the cash flows that are at all-time highs. But it's a healthier industry because we've got a very different view on how we're managing capacity and deploying capital.

This is a picture for where we were the last time the industry was at its relatively peak or height, not to suggest we're at our peak, but certainly the height of the profitabilities. In 1999, you can see the industry made $5 billion.

This past year, we made close to $19 billion. But you can look at what industry cash flow was in 1999; it was still negative. Whereas today we posted collectively a $10 billion free cash flow. And then what did we do with that free cash flow? Well, back in 1999, the airlines decided to grow, added 1,000 deliveries just in a three-year cycle. You can see how the scheduled deliveries for the next three years coming off of this most recent high-water mark for earnings is going to save $20 billion of less capital versus the last time the industry was here, and you can see where that capital is going. The capital is going to – we're competing on shareholder capital returns as compared to market share battles in the marketplace.

So a very, very different industry construct, and we're pleased at Delta that we're leading the way with respect to these pictures. And as a result of all of that, we still think there's great opportunity ahead for investors because of the sustainability and the durability of the model that we've built. Our return on invested capital over the last three years of 21% compares quite favorably to other high-quality industrial transports, as well as the S&P industrials, and we look it where free cash flow is over the last three years of $3.2 billion that we see growing to a $5 billion mark over the course of the next year. Substantially outweighs what free cash flow is being generated by others, yet you then compare to where valuations sit, and we still trade – while the stock has moved considerably over the last three years, we still trade at a sizeable discount on forward earnings, as well as forward price to free cash flow.

So we are still big believers in the story. We still believe, as I said earlier, that we've got gas in the tank. We still have great opportunities ahead, and a lot of that confidence I have comes from the durability and the sustainability of building an enterprise that has been built and will be built to sustain itself over the cycle.

So with that, Jamie, I'm going to conclude my remarks and open it up to questions. Thank you.

QUESTION AND ANSWER SECTION

Jamie N. Baker
JPMorgan Securities LLC **Q**

Ed, one of the areas of investor concern that has been expressed to me lately is that you would potentially throw good money after bad as it relates to the GOL investment. What can you tell us to make your owners in the room a little bit more comfortable on that topic?

Edward H. Bastian
President & Director **A**

On GOL?

Jamie N. Baker
JPMorgan Securities LLC **Q**

Yes.

Edward H. Bastian
President & Director **A**

GOL is our investment in Brazil. Everyone's familiar with what's going on in the Brazil macros and the economic picture. We have no plans to invest capital or further capital of any sort into Brazil. We are working closely with our Brazilian partners on the restructuring, hopefully an out-of-court restructuring, which will give them the liquidity they need to get through this current downturn. But we are not the lender of last resort in that marketplace, and we have no plans to put more capital in.

Mark S. Streeter
JPMorgan Securities LLC

Q

Ed, Mark Streeter [JPMorgan] here. Your team has made comments that you are considering the C Series. So I'm just wondering, what are the different considerations that you're looking at with that aircraft? Obviously, price is one. The fit within your scope contracts and so forth. But what are the other considerations as you evaluate whether to place an order for that aircraft?

Edward H. Bastian
President & Director

A

Well, it's an aircraft that fits a need. We've been tackling the small narrow-body sector for the last several years; the 717 is our main entry there. You can tell from our most recent announcements, the acquisition of some used Embraer 190s, that we still have greater need in that space, particularly as we're starting to come up on the retirement cycle for the MD-80s. We have 120 MD-80s that need to be retired over the next five years or so. So that could be – there's still a considerable need there.

It's an aircraft that we like. It's an aircraft that we think from a technology standpoint is going to be innovative, but it's also going to be – and it's highly engineered, which I think has been some of the challenges they've faced in marketing it, getting to a price point to get paid for that engineering. But it's an aircraft that we think and we believe can make a big difference for the industry. Whether Delta buys the aircraft or not, I have no idea. Price is a consideration, it's an important consideration, but we're looking at it [audio gap] (26:36) then we'll keep you posted.

Mark S. Streeter
JPMorgan Securities LLC

Q

And I wanted to congratulate you and Paul and the team; you've got an investment-grade credit rating. You sort of – you've crossed over the threshold now. I think more are coming. What are you going to do with it, I mean, now that you have this investment grade?

Edward H. Bastian
President & Director

A

Hang it up in our office.

Mark S. Streeter
JPMorgan Securities LLC

Q

You're going to hang it up on the wall -

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

A

We're not going to take on more debt.

Mark S. Streeter
JPMorgan Securities LLC

Q

So that's really the question, right? You've made it to investment grade now. I mean, there's really not a need for you to issue debt outside of aircraft debt, right? So I would think that there's not really role for unsecured bonds in the capital structure going forward. I mean, when should we think about how you might be accessing the capital markets from a debt perspective?

Edward H. Bastian
President & Director

A

Well, as you mentioned, we don't have a need to raise debt. Our free cash flow is healthy. Our CapEx in that $3 billion range, we think, is sustainable over the next several years. We will be doing some aircraft financing, but I don't see us using it with respect to raising debt in the current market.

Jamie N. Baker
JPMorgan Securities LLC

Q

I have a question for Glen. I have by my own personal standards what I consider to be a formidable SkyMiles balance. And I'm wondering over the next three years, or in three years' time, will I be spending that balance differently than I am today? And more importantly, how do shareholders benefit from some of the changes that you're making?

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer

A

Thank you, Jamie. It's a great question. We have a giant liability out there for SkyMiles, and it's real to Delta. Through the partnerships like American Express, we have to find new and creative ways for our customers to burn those miles. And really, when you think about how people traditionally have used miles, they've saved them up and sometimes they take their family on vacation. Sometimes they save them to retirement. And what we'd like to do is really bring those miles to life in normal use.

And when you think about the increments of what it costs to fly to Europe, you're talking in a business class or even in coach, you're talking about 60,000 to 250,000 miles generally. That's a pretty big increment to save for, and I think if you look at the models in Europe where some of the newer models for frequent flyer affinity, people are using them more to control their experience. And we think it's a blend of both, that you will certainly still use those miles for buying your tickets. But there are other uses in much smaller increments that you can control your experience with Delta. So whether or not it's you're in the Sky Club, it's your anniversary, and you want to buy a bottle of Dom Pérignon because you're going with your wife and you want to be a big spender, why not use your miles?

Jamie N. Baker
JPMorgan Securities LLC

Q

That would be Mark, not me.

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer

A

Okay. Okay. So here's a hint: Maybe you should try that.

But bringing that currency alive to really be able to control your experience will also allow us to offer more different types of experiences. So if you look at what some of the industry leaders have done in places like our partner Virgin, where the clubhouse has many different amenities available to them, to use your miles to access haircuts or massages in the future is not out of the question. I think that's kind of the vision of making this something that you can make your travel experience with Delta whatever you want it to be. And it doesn't have to be in these giant large chunks or just free travel.

Jamie N. Baker
JPMorgan Securities LLC

Q

And a follow-up to Paul. Our competitors at a conference – yesterday I believe – attendees there got warm weather; we got the Teamsters. But there was some confusion over comments I believe that you made in terms of the relative profit heft of international versus domestic, where opportunities lay there. Can you clear up just some of the confusion, since we weren't there to actually hear what you had to say?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

A

Well, I think what we talked about yesterday, and consistent with what Ed's talked about, Jamie, is that the long-term growth potential for the airline is clearly a lot international. I mean, we clearly have a lot of domestic momentum with branded fares and the things that we're doing, the commercial actions that Glen and his team are doing. But longer term, just as part of the sustainability argument, we've really got to figure out a way, and continue to focus on growing internationally. And it's going to be a great source of revenue growth for us in the long term.

Edward H. Bastian
President & Director

A

I think that's true, Jamie. That slide I had where 68% is domestic currently – [ph] 80% to 60% (31:21). If you take that another 10 years forward, hopefully that number will be even higher in terms of the mix of international. So that long term that's where we see the growth in the marketplace. But certainly from a profit contribution standpoint, the domestic marketplace is where we earn the lion's share of our profits. And it's a good thing, too.

Yes?

Q

Just talk a little more about the JV strategy and how that fits into your international expansion. And how can you highlight the value of some of these JVs to shareholders via consolidating them or somehow showing us the benefits of these relationships?

Edward H. Bastian
President & Director

A

Sure. The most recent example that I can offer you is Virgin Atlantic, where three years ago – four years ago, I guess, now – we purchased a 49% stake in Virgin Atlantic coupled it together with antitrust immunity to create a JV so that we can now fly to together in the Heathrow marketplace to the U.S., price together, schedule together, go to customers as one, and be able to balance to the strengths of each other – the strength of their fleet, the strength of their product and their brand – to what we bring from a U.S. standpoint.

And if you think about the ultimate measure of success, your return on your investment, we paid $360 million for that stake. In 2015, we made, net, over $200 million from that $360 million investment. A sizeable, sizeable return on that. It allows us to expand our brand without having to put tremendous amount of additional capital at risk. Yes, there's a capital cost to the investment, but we don't have to go buy new equipment, a new fleet to fly. We can leverage someone else's capital and balance sheet from our partner standpoint and bring those benefits into Delta as well.

We are currently planning to close our proposed 49% stake in Aeromexico, which assuming we get all the regulatory approvals, sometime either in the late second quarter, early third quarter of this year. And right alongside that, we've also proposed that we're going to create that same JV structure with our Mexican partner, where today it doesn't exist in the marketplace because there's not open skies between the U.S. and Mexico. And you think about the size of that market and the opportunities for growth in that market, we'll have, I think, additional opportunities for value. We bring our skill sets to play in these JVs. So we'll bring the technology. We'll bring the know-how. They'll bring the local cultural opportunities to Delta so that we can make our product more fitting with the local needs.

Long term, we see an opportunity in China. We're not there yet. Open skies doesn't exist between the U.S. and China. But over time, we do see that opportunity. Next year, flows between the U.S. and China will be the number one in the world in terms of the most actively traveled marketplace. If we can couple together with the Chinese and go to market as one, leverage each other's technology, fleet, opportunities, it's effectively a quasi – it's not a merger, but it's getting the benefits of a merger without having all the complications of tying together companies cross-border, because you can't merge cross-border.

So those are some of the ideas. We have the most successful JV on the planet, which our Air France-KLM JV. It's been 25 years in the making. And while we do have the lion's share of our profits that we make in the domestic, the other major source of profitability for this company is that JV. And the margins in the transatlantic this past year rival what we did in the domestic franchise.

Yes?

Jamie N. Baker
JPMorgan Securities LLC **Q**

You spoke earlier about your record operational performance in 2015. Can you talk a little bit about domestic regional flying and any vulnerabilities you see there about the pilot issues, the financial issues that have cropped up with some of the regional partners? And do you see any shifts in that strategy?

Edward H. Bastian
President & Director **A**

We are shifting that strategy, and that is the next area of opportunity for us to bring that same know-how into the regional space. While we have the great stats on the mainline, we're also starting to replicate that at the regionals as well. We've got people inserted inside the operating control centers of the regionals and on the ground and maintenance and ground support to help them make certain that they're providing for our Delta customers, because it's the same Delta customer whether you're on a connection flight or a mainline flight. And we expect that same level of service excellence.

I don't know the number, but just yesterday I looked at the numbers. We had a perfect completion day on the connection carriers as well as on the mainline. And that's becoming more and more the norm. Obviously the connections here – because of weather they're much more vulnerable to cancellation around weather or interrupted operations because of the size of the gauge. But we're seeing a pretty significant improvement in the quality of what they're delivering for us.

We saw this coming five years ago. Five years ago, we had over 500 small-gauge 50 seats or lower aircraft. We'll end this year at somewhere around 125 to 150 of those. So we're already shifting away from a lot of the overall size of the lift, bringing greater two-class product in, but the overall scale and scope of the regional activity is going to be smaller than where we've been, and we're bringing more and more flying back to the mainline.

So I know the Republic bankruptcy is another open question mark. We are not the largest carrier at risk to that. We'll see what happens there. But – and the pilot shortage in terms of training, we now have pilot rates and hiring rates at a level where we are not seeing the retention challenges that we'd been seeing a couple years ago. The restructured contracts that we've made at least with our carriers have been attracting good talent there. And I think, so all in, the regional performance has been – is a bright spot, and I think that will be another tailwind for us into 2016.

Edward H. Bastian
President & Director

Other questions? Nope? Great. Jamie, thank you for having us. Appreciate all your support and your interest in Delta.