13-Dec-2018

Delta Air Lines, Inc. (DAL)

Investor Day

CORPORATE PARTICIPANTS

Jill Sullivan Greer
Vice President, Investor Relations, Delta Air Lines, Inc.

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

Glen W. Hauenstein
President, Delta Air Lines, Inc.

Wayne Gilbert West
Chief Operating Officer & Senior Executive VP, Delta Air Lines, Inc.

Tim Mapes
Senior Vice President & Chief Marketing Officer, Delta Air Lines, Inc.

Eric Phillips
Senior Vice President, Pricing and Revenue Management, Delta Air Lines, Inc.

Rahul Samant
Chief Information Officer & Executive VP, Delta Air Lines, Inc.

Joanne D. Smith
Chief Human Resources Officer & Executive Vice President, Delta Air Lines, Inc.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

OTHER PARTICIPANTS

Helane Becker
Analyst, Cowen & Co. LLC

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

J. David Scott Vernon
Analyst, Sanford C. Bernstein & Co. LLC

Hunter Keay
Analyst, Wolfe Research LLC

Dan J. McKenzie
Analyst, The Buckingham Research Group, Inc.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Savanthi N. Syth
Analyst, Raymond James & Associates, Inc.

Jose Caiado
Analyst, Credit Suisse Securities (USA) LLC

Susan Donofrio
Analyst, Macquarie Capital (USA), Inc.

Duane Pfennigwerth
Analyst, Evercore ISI

Catherine O'Brien
Analyst, Goldman Sachs

Joseph William DeNardi
Analyst, Stifel, Nicolaus & Co., Inc.

Stephen Lawrence Farley
Managing Member, Farley Capital II LP

Jack Atkins
Analyst, Stephens, Inc.

Kevin Crissey
Analyst, Citigroup Global Markets, Inc.

Philip Baggaley
Managing Director, Standard & Poor's Ratings Services

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Welcome to the stage Delta's Vice President, Investor Relations, Jill Greer.

Jill Sullivan Greer

Vice President, Investor Relations, Delta Air Lines, Inc.

Good morning, everybody, and welcome to our 12th Annual Investor Day. We are excited to be back in New York, we took a break last year and hosted in Atlanta, but this great venue at 583 Park Avenue in a lot of ways has become a second home to us so we are really excited to be back.

We kicked off our event last night with our Finance Insights session that was hosted by Julie Stewart and I. The session provides a deeper look at modeling Delta and our financials and we're excited that it's become a regular part of our Investor Day event.

Today, we're going to start with our Chief Executive Officer, Ed Bastian, followed by our President Glen Hauenstein, we'll do questions with Ed and Glen then followed by a short break. Our second session will include our Chief Operating Officer, Gil West; our Chief Marketing Officer, Tim Mapes; our Senior VP of Revenue Management, Eric Philips; and our Chief Information Officer, Rahul Samant. We'll take another short break before hearing from Joanne Smith, our Chief Human Resources Officer; and our Chief Financial Officer, Paul Jacobson. We'll then bring the group back to the stage for a final Q&A and finish the day with a short presentation before we head downstairs for lunch.

For everybody in the room, you have a copy of the slides at your seats. We also have extra copies of the Finance Insights deck from last night for anybody that wants one, just ask a member of the IR team at the break. Both of those were filed on an 8-K this morning and are available on our IR page at ir.delta.com. Today's presentation contains non-GAAP financial measures, the reconciliation for those measures are also on that IR website. Also today all of our safe harbor provisions apply.

Before I move on I want to take a minute and recognize my amazing IR team over here. They are small in size, but mighty in what they produce. So, Elizabeth, Brett, Julie, Aaron wherever he is. Days like today don't happen by themselves, they happen because of you, so on behalf of Ed and Paul and the entire team, but most especially me, thank you, for what you've all done.

For the past decade I've had the honor of being Delta's voice to Wall Street, and in this job I get to tell the amazing stories of what 80,000 people at Delta produce every day including all that they've accomplished in 2018. So, here, take a look.

[Video Presentation] (00:02:34-00:05:05)

Unverified Participant

Ladies and gentlemen, please welcome Delta's Chief Executive Officer, Ed Bastian.

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

Well, good morning, everyone. It's good to be back in New York, and it's good to be back in the church, too, so for some of you who have not been in a church for a while welcome it's – we've teased that we're speaking from the church podium here in the pulpit and making our prognostication. But it's been a good year, it's been a really solid/strong year for Delta and look forward to not just taking you through what we've accomplished over the past year but much more importantly where we're going.

I think we have widely been seen as leading the industry in many categories and that's been acknowledged, so you're not going to see us up here beating our breasts too loud. It's really what are we going to do with the advantages we've built, the capital that we're continuing to reinvest in the business and the opportunity to continue to grow our lead going forward and keep you invested with us along that journey.

As I always like to do at these events is give you an annual recap of what we told you our targets were as we started the year a year ago what the goals for 2018 and what we've accomplished, how we've achieved that goal, and I think it's been a good year. First and always most foremost in our mind is we have to run an outstanding operation, safe, reliable, customer-focused airline and we did that in 2018. We yet again topped last year's reliability results. Importantly in 2018 was a year that the Delta Connection brand and airline ran on par or as close to par as you could imagine with Delta and it's really phenomenal what the team at Delta Connection has accomplished.

As an airline system, as a whole, we've had year-to-date 134 cancel-free days, full brand, all product, across all categories for almost a 50-day increase from where we were just a year ago. And if you look at Delta Connection if they were an airline, that portfolio of companies they would be the second best performing airline in the industry second only to Delta mainline. So, really a great job by the Delta Connection team as we continue to raise the bar across all of our product categories.

The other group I wanted to specially thank and point out is the work of our TechOps team, our maintenance team, it's just phenomenal. In 2010 which was the first full year after the merger and the integration of Delta-Northwest, at the mainline we had 5,600 maintenance cancellations for the full year in 2010. This year-to-date we have 75. It's a 99% reduction in maintenance cancels for the airline which is the foundation on which all of our service is built for the airline. So, very, very good job. Gil's going to get up and talk a lot about, again, the performance but also more importantly where we're going with that great performance.

Second thing we said is we needed to get the top line growing. Our top line had been stagnant for several years and we needed to get the top line moving and the good news is we did. We set a goal of 4% to 6% top line growth for the year and we're going to come in at an 8% growth rate. So the revenues, the demand is strong, pricing has been strong and solid. Glen will talk a lot about the pricing environment as we see it. But we also said that we needed to stabilize the margins that had been eroding over the last couple of years in the industry, brought on by the rapid acceleration in the cost of fuel. And we needed to use that revenue momentum to do just that in terms to stabilize.

We did not grow earnings as anticipated – we thought, but the good news for the year is we did not shrink our earnings pie either. This will be the fourth year in a row where Delta post profits of $5 billion or greater, only airline to have ever accomplished. I don't think any airlines done that more than twice. This will be our fourth year in a row of doing that.

And as importantly, if not more importantly, it was a real milestone that we were able to last offset 90% of a $2 billion fuel headwind as it came at us during the year. As you know, fuel prices have moved 25% year-on-year. And we'll talk about fuel going forward in terms of expectations. But it was another one of those markers that you look on the road in terms of how things are changed and how we're managing the business differently to take a $2 billion headwind on and be able to recover almost all of it is a great job by the team and it was great job also from the revenue side, great job in managing our non-fuel costs, as well as our overall balance sheet position.

Third, we need to change our trajectory on non-fuel costs, they have been growing at a rate of about 5% per year for the couple of years leading into 2018. A lot of it has been driven by the labor resets that we saw across the industry and we needed to change that trajectory and bring that back down below the rate of general inflation which we've pegged at 2% and the team did that.

I told you a year ago I was hoping that that number would be closer to a zero than a 2%, good news is it was below 2% but wasn't quite as good as we were hoping but a 1.5% non-fuel costs growth is a significant change in the trajectory. And importantly when you look at that and you'll look at the year we told you it would take us to the midpoint of the year before we are really going to be able to make a dent in that trajectory and we did just that. The second half of this year, our non-fuel costs will be flat to negative, so Paul and the finance team coupled with Gil and the operations team did a good job.

Every operation unit within Delta had a negative non-fuel CASM for the full year and our expectations in 2019 is they will have a negative – non-fuel CASM in 2019 as well, so really good work on the non-fuel side. The One Delta project that Gary Chase is leading is doing a nice job in driving efficiency and assisting that effort.

Fourth, we're going to continue to strengthen our brand. We think our brand has not just momentum in the marketplace, the opportunity to continue to accelerate that momentum and we did that. Our Net Promoter Scores continue to improve, every region of the world. In the U.S. for the last couple of months we've seen our Net Promoter Score top 50, which is the first time in our history, those numbers have tripled over the last six years and we're proud of what our teams doing and our employees doing driving great service and taking the good product that we're putting out and the good reliability that we're offering to delight customers.

And finally, we're going to continue to invest in the long-term franchise globally, and we've done that. We had progress in every region of the world. We launched our JV with Korean which has been fabulous. It's a gamechanger for us in the Asian region. We signed a definitive agreement with WestJet and we've applied for a JV arrangement that we'll be able to mirror what we have with many of our JVs around the world implementing that with WestJet and hopefully we'll be able to implement that soon in 2019.

We also made great progress in Europe in bringing the JVs that we had separately with Virgin as well as Air France-KLM and Alitalia into one combined JV, we did get that filed and we're awaiting regulatory approval which we hope to be getting in the first half of 2019 alone. So good work across the board internationally.

When you put that all together it's really a nice setup for 2019. One of the things that we've talked about as we enter into 2019, it is the need to expand margins and that has to be a business imperative and from an investor standpoint that's what you need to see in us, you need to see that not only Delta you should be expecting the industry to have that same level of focus.

The fourth quarter of this year, we are going to have that, we are going to have margin expansion on a pre-tax basis and I think that's a good marker as we look to 2019 and if you think about the fourth quarter of this year fuel prices year on year up 25% this fourth quarter. Yet, despite a 25% fuel increase we're still going to have pre-tax margin expansion. So it does show that we're – and while there's a lag in catching up with fuel that we still chase, we've done a very, very good job of managing the business well.

Looking to 2019 on a macro level, we read the same headlines that you do and the same concerns as to whether global growth rates are going to tick down in 2019. We don't have a better prognosis of that than any of you do, you have to put that into your own models. But despite the fact that we do see – it could be a year of 2% to 3% growth versus 3% to 4% growth that we've come out of the current year, we do see demand continuing to stay very, very strong for our product.

We just recently announced our fourth quarter revenue guide. And while we did come 50 basis points below the midpoint, we are in the range that we guided. We guided a 3% to 5% range and that 3% to 5% was predicated on oil prices being in the $80 a barrel level. Obviously, the fuel falling dramatically, down to $60, we did not see the improved – an additional and accelerated pricing you would need to cover $80 a barrel. So that accounts for the 50 basis points. But our revenues did not step back. Our customer momentum did not step back. Our pricing did not step back. There is no give back because fuel prices have come down in our business. We're still going to be at the top end of the industry with a 3.5% unit revenue improvement year-over-year and almost an 8% top line improvement in the fourth quarter. And that 8% top line improvement in the fourth quarter is on top of a 7% top line improvement in the fourth quarter a year ago.

So on a year-on-two basis, our top line is up 15%. So the demand picture really is very, very solid for us and we continue to watch what's happening with fuel. The recent rundown in fuel is too current for us to give a good forecast in terms of where fuel prices are going to go, but what I can tell you in terms of how we're managing expectations of our business is that we're not anticipating fuel to continue to fall. In fact, we're thinking fuel prices will likely rise from here a bit. We're building our business plan with fuel expectations in the $65 to $70 level. When we gave guidance on capacity, a couple of months ago, fuel at $80, we said that we're going to grow 3%, with fuel at $60 we're still going to grow 3%. We haven't changed any of our expectations. So we're still going to be cautious with our outlook on fuel. And hopefully if fuel prices moderate further, that would be goodness to the business, but you're not going to see us change our business patterns at all.

Next year, we're looking for a 5% top line growth, 4% to 6% on 3% capacity and maintaining the trajectory that we've seen on the non-fuel costs, and Paul will get into more details talking about our cost initiative. So, a 1% growth in non-fuel costs which will lead to an EPS guide of $6 to $7. The midpoint of that guide is a 15% EPS growth year-on-year and about 100 basis points of margin expansion. So, it would be a very good result and progress coming out of a challenging 2018 not just with all the fuel volatility that we experienced, but some of the weather and operational challenges we faced in the year too. So, 2019 for us, with the exit velocity we're leaving 2018, looks promising.

So, I mentioned earlier $5 billion of profit. This will be our fourth year in a row of generating $5 billion of profit. In order to do that – you ask how we're doing that, we're managing the macros better than ever before. The two big macros that we face in our business are through fuel volatility and the effects of the economy. And on both fronts, the team's done a really nice job. The most important thing that we can do in managing fuel volatility is to make sure that our brand enables us to price for the higher cost of fuel. Clearly, we're going to be disciplined in our cost structure. Clearly, we're going to be disciplined in the capacity that we put out into the marketplace, but it's the brand preference that really matters and that enables us to be able to price the higher input cost.

We do manage capacity flexibly, in the event fuel was to pick up from here. We have 85 planes that we're going to be retiring, the MD-80s over the next two years. So, we have optimal flexibility to manage fuel volatility in the next couple of years and we also have a nice order book of growth that we're taking as well. And we have to stay disciplined on the cost management side, maintaining that focus of non-fuel costs being below the rate of general inflation has to be our long-term goal. That's the expectation again in 2019 and that is what helped us to be able to recover 90% of the fuel run-up in 2018.

And on the economic side, the structural improvements that we've made, whether it be on the balance sheet, whether it be scale, whether it be efficiency, whether it be the international span of our business, all have gone to improve not just our ability to manage the economy and the impacts of economic changes but also the diversity of our revenue base. It was an interesting stat that we're going to increasingly be talking about is all the alternative sources of revenue, you'll hear a lot about that today, that we're driving.

At Delta, 30% of our total revenue stream is now coming from revenue – from premium products. That is up twice what it was just six years ago. And the total impact of revenue coming from the Main Cabin which is the most price-sensitive, the most elastic component of our revenue picture is now less than 50%. So less than 50% of our revenues are coming out of the Main Cabin. That number again six years ago was 65%, bring it down to 48%. And it's not just the improvements that we're having in terms of bringing greater value to customers through premium product and the expansion of that, those rates of improvement are also bringing better margin advantages. The margin that we get on all those products are substantially higher than the overall system average. The impact of Amex and the loyalty program that we're driving double digit margins growing at a double digit clip. The impact of our MRO business that TechOps is building, we've now had built and turned on the new engine facility in Atlanta to handle not just the Trent engines but also the GTF such that coming in the next five years we're going to be growing the top line of our MRO by $1 billion a year in the next five years and that's already been contracted. And those margins are all coming at double-digit clip.

Cargo business has had a really nice year with double-digit volume growth with double-digit margin improvement. So the diversity and the strength of the airline that's helping us manage the macros is like never before and you're going to continue to see that increase as we go forward.

And I thought this was a picture – actually, I have to be honest I stole this picture, I was looking at Paul's slides the other day and he's got a good taste. I needed to have that slide, so I took it out Paul's presentation. So thank you, Paul, for that.

But this is a great picture numerically of where we've come. We just celebrated a couple of months ago the 10-year anniversary of the merger with Delta Northwest. And 2009 was our first year of combined operations. And look at that compared to 2018, if there is a question as to if we changed – this picture should solve that for all of you. In 2009, we lost $1 billion. Interestingly though without the fuel hedge because you see there was a fuel hedge loss in 2009 of $1.3 billion, we would have been breakeven.

So even in the worst economic year of our lifetime this airline made money before all the improvements. It was breakeven basically. So the question of what's going to happen during the next potential downturn or the next spike in fuel, I think hopefully you'll get a good picture of that. We've got durability in our top line. This year in 2018, we're expecting a $5 billion profit, 2019 we're expecting that number to be meaningfully higher.

The brand strength that I talked about, our brand strength has tripled. Our Net Promoter Scores went from 15% back in 2019 (sic) [2009] which meant most of our customers were lukewarm on the brand, to 2018 where our customers are raving fans and continuing to grow relative to the brand. The resiliency of the revenue streams, well, I talked about, the Amex contribution in 2009 of $1.2 billion to our top line, this year will be $3.4 billion in 2018 and that number again is growing double digits with double-digit margin opportunity.

The balance sheet improvements that we made, we carried in 2009 $1.7 billion of interest cost and pension expense in our P&L. This year in 2018 that net number is $100 million. Look at the impact that the reduced leverage has on the company. So, when you think about the next decade looking forward, the starting line that we're moving from is substantially better. It's what's enabling us to look at a 15-or-more percent, hopefully, EPS growth into 2019 and continue to reinvest and take the capital, reinvest in the business, and the pipeline of opportunities only gets brighter.

So, that's what we call the Delta difference. A powerful brand, served by the absolute best people in the business, coupled with the unmatched competitive advantages. Last year at this presentation, I called these our economic moats and those moats continue to – they're strong, they're deep and they're very powerful. The culture of the business Joanne's going to talk about in terms of what – we put our people first and we put our customers first and the culture of service permeates everything we do, our customers care. This is a business that's not only about transporting people; this is a business of caring for people. And we have the most caring, best customer service agents in the world across the spectrum and that translates to a great revenue premium that's sustainable.

The operational reliability, second to none across the globe. Our global network, Glen will talk about that with the strength of our inter-hub structure in Atlanta, in Detroit, in Minneapolis, and Salt Lake, coupled by what we're growing on the coast in Boston, in New York, in LA, and Seattle. We got a great network and then further supported by our international field of partners.

The loyalty program. Our customer loyalty, we're taking that brand preference and the Net Promoter Score advantages we have to continue to drive greater loyalty and greater and new revenue streams, all of which are supported by our fortress balance sheet. And when you take the advantages you have with the culture and the people and the brand that we've created together, it is generating top line growth that's sustainable and we're looking at a 5% growth into 2019. It does afford us optimism with respect to margin expansions, and we feel very, very good about making that statement for 2019. And we continue to be very balanced in our allocation of capital.

We've used a broad principle, some years as higher, some years as lower but half of the operating cash that we generate we put right back into the business. And this year, we're putting $4.5 billion of capital in, and next year, we're probably going to be putting a similar amount of capital in. And the other half of that cash goes back to capital allocation. Relative to return to shareholders. We're looking at a $2.5 billion target again for 2019 of capital return, as well as any further paydown to make certain that our debt levels which are very manageable at the current level of $8 billion to $9 billion will continue to decline from here.

One of the things I tell employees all the time that I think is very impressive is with all the capital and all the expansion, all the investment we're doing in the business whether in the airports, whether it be the new fleet across the board, we are paying cash for this. We're not writing checks for this stuff. These are investments that our owners are making into the business, and it's going to give us the opportunity as we weather future economic volatility to be not only securing that, but also potentially opportunistic in that as well.

So my last slide if I was to say five things I hope you walk away from today. Here they are. So if you're looking for the cheat sheet, this is the cheat sheet. These are the answer key for the day. We have to continue to deliver on our commitment to you to deliver superior financial results. 2019, we expect once again to deliver a profit stream of $5 billion or greater, fifth year in a row. That's a marker for us. We are not letting the profits of this company fall below that mark and we're going to continue to look to grow to that, with a return to margin expansion. 100 basis points is our target on the pre-tax line, even a higher number on the operating margin line which should drive a double-digit EPS growth number in that $6 to $7 per share which at the midpoint as I mentioned is a 15% growth and a 15% return on invested capital.

Secondly, the brand that we have has a lot of momentum that we continue to accelerate into but it's rooted in unique culture of people and that's why it's sustainable. It's in the DNA of our people. This has been years in the making. This company is going to turn 100 years old in 2024. And so this is the heartbeat of the company that you're seeing. So this is not something that we have to manufacture.

This is something that the people of the airline love to deliver on that service level and it's generating and we'll retain the sustainable revenue premium. Tim Mapes is going to give a really good discussion of the brand today and how we've become a consumer brand. We're one of the most powerful consumer brands in the country and we rank up there in the top 10 consumer brands, not airline brands, consumer brands. And we really have transformed the image from a customer standpoint serving 200 million people this year alone.

Third, the revenue streams that I talked about are going to continue to be diverse. Less than half of the revenues which we're going to mention several times today are coming from the main cabin and being reduced with the most price sensitive travelers and the growth prospects from premium products. As we're transforming our fleet, we're going to be inducting 80 new airplanes into Delta in 2019, all of which have substantially higher premium content onboard. So it's not only ability to manage the revenue stream and the pricing of the premium product but it's also the volume that we're continuing to grow.

Fourth, our non-fuel unit cost trajectory will stay below inflationary levels with the efficiency gains that we talked about in fleet transformation. We've talked a lot over the years about where we are in the up-gauging cycle, and is Delta in the mid-innings, are we in the late-innings. I think we're in the early innings still, early to middle innings, third-fourth inning. You'll see some slides here that will talk about that, the improvements that we have. Many of our competitors, our large competitors have been ahead of us with their fleet renewals. We still have a lot of new planes coming.

We're going to be changing out and re-fleeting 35% of our mainline fleet over the next five years. Every one of those re-fleeting opportunities brings double-digit margin expansion along with that. And Glen will mention that. And finally, the pipeline of opportunity we've talked about, not only to drive top line growth and margin expansion but also to invest and bring some innovation to our technology. It will give the service that our people provide, the opportunity to shine even brighter. We talked high touch through high tech. And Rahul Samant, our CIO, is going to give you a peek into the technology umbrella.

The last couple of years for technology, that's been one of the things that's been a little bit of a vulnerability for the company, the resiliency, the durability. We've had a couple blackouts. We've had some spotty coverage on. We have invested $0.5 billion in our technology durability over these last three years, and we now stand on a platform that's as good as any airline or consumer brand in the country and will allow us then to start to bring innovation forward whether it's with our app, our mobile devices, single view of the customer, a lot of the innovation that Rahul will be talking about.

So hopefully, you'll enjoy the day. You'll see the story that we're pitching to you today, is the story of continued advancement. I get the question a lot of times from investors, where are we, has Delta started to tap out, and are we starting to hit a peak of the cycle. I can tell you that's certainly not the case here. The better we do, the more incented, the more passionate we are for running the best airline on the planet and serving as many customers as we can and continue to build brand preference and brand loyalty.

So thank you for being here today. Thank you for spending your time. Thank you for those on the phone or the webcast for joining us as well. And I'm pleased to welcome up to the stage my dear friend, Glen Hauenstein, he can take you through the revenue picture. Glen?

Unverified Participant

Ladies and gentlemen, Delta's President, Glen Hauenstein.

Glen W. Hauenstein

President, Delta Air Lines, Inc.

Well, good morning, everyone. I'd like to extend my best wishes for a happy holiday season and thank you all for coming today. I had the opportunity last night to talk to a lot of you, and I think a lot of people had asked about the current revenue environment, and so last year, we called it the elephant in the room but I think this is part of our regular show, now I get to talk about near-term revenue trends. And so with that, I'll hit off the slide.

Two things I want you to take away from mine; Ed had five, I only get two. And the two things are really that the close-in revenue momentum as we exit 2018 and we head into 2019 remains strong and that's really something that's very important that we think you take away from here. We have very good momentum in the revenue, I'm going to talk a little bit more about that.

But the second thing is that we have a long runway of opportunities, really long runway. And a lot of us when we come to these meetings every year and we talk about some of the same things, the implementation of these is a multiyear process and I want to get into that because we have this vision of where we want to take the company, but it takes years and years and years and it builds on itself and give a sense of where we are in that journey and let you know that we feel very, very confident that we have a long way to go in terms of continuing to improve our margins and continuing to improve more important than that is our customer experience and our brand.

So, in the near term, we have December coming in at about 3.5% that is, as Ed pointed out, 50 basis points below the midpoint that we gave back in the beginning of October. When you think back, fuel was $85, and embedded in our 4% midpoint was the fact that we thought with fuel at $85, we get a few additional fare increases. Those did not materialize as we move through the quarter as fuel began its precipitous slide. But we feel very, very confident that where we are, we have not seen any erosion in the pricing environment either. So as we exit we have fairly good visibility into January, February and March now and we feel very, very confident that we will achieve our near-term targets as we enter into 2019.

The bright spot here is corporate revenues, corporate revenues which we monitor on a weekly basis and we get those reports every week. And they've been trending between 7% and 9% pretty much all year long. At a macro level, the entity splits were a little bit different but they've been trending in that 7% to 9%, and they remain even as late as last week in that 7% to 9%, as well as all the corporate surveys. And we do a lot of corporate surveys with our travelers as to whether they expect to travel more or less. Morgan Stanley I know does one as well. We do several on our own. And those have remained consistently strong even through what I call the economic panic that's happen in the markets lately or the more volatility, I might say, maybe even better phrased. Yeah. So we have seen that remain very consistent and very, very strong as we exit 2019.

So our visibility from what we can see is the momentum will continue. We have a little bit of headwinds in the international arena, I'll talk a little bit about and some good news too, some bright spots to point out. If you recall, we had Latin America which as we came out of our multiyear unit revenue negative, Latin was the first one to turn positive. Two quarters ago, that turned negative and now – and we predicted I think as we said – we thought this would be the last negative quarter for Latin. We think this quarter will actually be flat to slightly positive for Latin and we see much forward momentum in Latin, and that's really driven by real strength occurring in Mexico.

I think most people wouldn't think that Mexico is a strengthening market, but there's been a lot of capacity rationalization and a little bit more certainty around the business markets. So, we've seen really good results in Mexico as well as the beaches turning around as the threat of terrorism down in the Mexican beaches that was highlighted last year seems to be waning and really strong results in the Caribbean. Brazil continues to be a laggard, but as you look forward, we believe that Brazil should turn in the April time period, but that still is a laggard and a drag on earnings.

The Pacific. Our Pacific has a much higher stage length. We will start to lap that stage length as we go through 2019. We had the cancellations of some short Pacific routes and we had very long Pacific routes like Atlanta to Shanghai. And so, that increased our stage length in the Pacific by 10 points year-over-year, and we're maintaining flat to slightly down in the fourth quarter. A lot of focus has been on China. We've seen a lot of the rhetoric coming from Washington and in the marketplace about China.

And interestingly enough, our China traffic on both sides, both U.S. point of origin and China point of origin, is up. So, we do know that American did a downsizing in the fall of their U.S. to China capacity. So, the industry numbers aren't out yet. The industry might be down slightly, but our traffic numbers in both directions are up to China, and hopefully, that issue gets resolved early in the year and we can go back to the robust growth that we've had in China over the last few years.

And then in Europe, we're facing a bit of headwinds on currency, but the core demand remains strong. This is, of course, the weakest season for Europe, and we would expect with the elevated capacity levels, it's also the lowest U.S. point of origin part of the year, so the impact of the currency is a little bit higher in this part of the year, but our advance bookings into the deep winter and into the spring are very strong, and we expect Europe will have another strong year as we go through 2019. So, solid revenue momentum coming through 2019 and we're very confident in our ability to achieve a 4% to 6% total revenue growth on a 3% capacity increase that we have planned for next year. So that's a little bit about where we sit today.

And as we think about the future, one of the – I think our great success has really been to focus on our customers and our customers and the experiences they want to buy from us, and if you take this quarter out or last quarter out, our fuel prices out, you'd see some really long-term trends that we want to talk about and that's really that customers are traveling in record numbers across the globe. And I had a fun factoid that in 1990, only 5% of Americans held a passport; last year, that number was 43% of Americans held a passport and, of course, on a growing base of customers of residence.

And so as you think about how we take those customers to the world which is what they want to see, our ability to really understand our customers is what drives our ability to then monetize it by supplying them with the goods and services that they want. And that's really at the core. What we've been doing over the past few years is really trying to figure out what customers want to buy from Delta. And when you think about it and this is just a little bit of our journey is five years ago, we had flat beds with direct aisle access on long haul international flights and we had coach, right? And that was really us not thinking about and not just Delta but the industry, not thinking about what customers really wanted to buy from us. And when we thought about what individual customers and when we talked to them and we said, well, what would you want to buy, we found out they wanted to buy a lot more than we were supplying and they were willing to pay us more for those.

And so many years ago, we stood up here and we told you we were going to bring five brands to life and those five brands started at basic economy for people who really only needed great transportation and we think Delta would be the best-in-class in terms of basic economy, all the way up to Delta One which is our flat beds and Premium Select in the middle and Comfort+ in the middle and Main Cabin in the middle. And what's interesting about that although we talked about it five years ago, our first plane that actually sells five cabins rolls into the open for sale next week. And that will be the reconfigured 777 shortly followed by the A350s.

And this is the journey we're on. And when we think about where we are on these earnings, so with the five cabins selling on a single airplane, we will have four of them, four airplanes selling next week. And between next week and 2021, we will have every widebody and every domestic flat bed flying with those five cabins.

And so those are the kinds of order of magnitude. While you may see it when you look at delta.com, you say, oh, look, they've got the five cabins, it's pieces of the equation and pieces of that giant equation that are all coming together over the next few years. Mileage is a form of payment and I know we're going to talk about that. But last year, I stood up here and I said, hey, one of the things we're going to let people do is use their mileage to change the seat that – if their company is buying them a seat and they want to use their miles to sit in the front or they want to sit there – use their miles to sit in the Delta One, that came live last Friday. And in the first three days without telling anybody about it, we sold 6,000 tickets.

So, listening to your customers and listening to what their needs are and how they want to buy products and services from you is really at the key of who we are and who we want to be and what we're becoming. And then, we leverage that with our core strengths, right, as – listening to our customers leverage with our domestic route network, with our fleet transformation which includes more premium products and services and better in-flight experiences, our global franchises and our partners and our best-in-class premium products. And I think you really see what we're trying to accomplish here.

It wouldn't be my presentation if I didn't talk about network, because that's where I started and that's probably where my original passions in the airline industry were. And I'm really proud of where we are, and I think what I want to share with you is how much more we can get out of our core strengths. And if you think about our core strengths and Ed talked about it a few minutes ago, geographically diverse but these are the economic engines that drive Delta. These are the places that we can continue to make our factories more efficient by – during our fleet up-gauges, which I'm going to get to in a minute.

But in Detroit and Atlanta and Minneapolis and Salt Lake City, if you think about the fleets that we inherited from the predecessor carriers and the ability with our brand and our brand preference to really grow the gauge, contain the costs, and provide better customer service, I think this is the core economic engine that will continue to fuel Delta's profitability over the next few years.

But on top of that, you would layer our coastal positions which are in different phases of development. And so, if you take New York as the example here, 10 years ago – we might have been in this church 10 years ago, I think actually we were. When we embarked on the New York strategy and we had a number four position or – it was originally number four, by that time it was number three. But over the last 10 years, we've taken that to a number one position in New York. And while we've done that, we've increased the margins in our New York City operation by almost 20 points. We still don't have the right products and services here in New York City. And how many of you in this room, how many have flown Delta to Dallas? Okay. How do you like that 76 seat RJ? It seems like a long way to go on a 76 seat RJ.

And so as we get – after we've developed these hubs in these positions, after we get the right equipment in the right airplanes in, so by February or March of next year, every flight we have between New York and Dallas will be on the brand new A220 aircraft. Not only does it have far superior economics but the customer experience is going to be amongst the best. Right? You're going to have the widest seats, you're going to have the biggest windows, you're going to have the quietest interiors, you're going to have the most overhead space, you're going to have the in-flight entertainment in the screens.

And the great part about that is our cost of production for the same flight is actually going to go down, and we're going to get all that to flow to the bottom line of the company as we continue to improve the product and hopefully improve our market position in there over time. And that's the power.

We're still just getting started in New York here but now we're bringing in the right fleet. Now that we have the right footprint, the right marketplace, now we're bringing the right products and services and the right fleet with the right cost structure. And we'll be doing that over time in Boston, in Seattle, and continue in Los Angeles. And we think we can have similar improvement. So if you take our cores becoming more efficient producing higher returns and then you layer in best products and services with the right equipment at the right time, in the right marketplace in the costal focus cities, I think you see where we think we can take it domestically.

Talking about a little bit more detail, the up-gauge strategy that we've been embarking on for many years. And if you look here, this is just a normal cost curve of the 50 seats and 76 seats. And if you don't buy a plane that's on the slide, you're not buying a good airplane. The general cost, the general wisdom is you trade trip cost for seat cost, and so the bigger the airplane you can fly, the lower the seat cost on the airplane. And that's the general rule for airplane manufacturers, don't build a plane that doesn't fit somewhere close on this line. And so what we've been doing is continuing to move the airline up in gauge, getting rid of the inferior products – I don't want to brag about this but I have to do a little bragging here is what's your probability of getting on a 50-seat RJ for more than 600 miles on Delta? Zero. And go check your competitors.

And so as we continue to move down this and putting the better services with a lower cost in place – and we can do this because our brand – people want to fly Delta, that's the brand strength, so we can achieve the larger gauge while growing revenues, and I think we've demonstrated that we can do that over the last couple of years. And then what's even more exciting about this is as we bring on the new generation airplanes, they've created a whole new line underneath that and we haven't even started on this line and that's what will be coming in the 2020, 2021 time period as we start to bring in the A321neos and replace older airplanes like the 757s where we can take that 200 seat down another 10% or 15% and drive those efficiencies right through with better customer service.

And what we haven't even started on yet is our widebody fleet transformation. We've been making a lot of progress over the last few years on narrowbody fleet transformation, but we have the whole widebody fleet ahead of us. And this is going to take a while, but it's the same playbook that we use domestically, using it internationally. We get lower cost of production, better products and services and higher margins. And when you think about the fleet that we have internationally with a large fleet 767s that are all at least 20 years old, we have that opportunity to continue to re-fleet using the higher technology airplanes as we get to the mid part of next decade.

So really across the spectrum, you can see that how this lays out. Our CRJ-900s or E175s becoming our A220s, our MD-88s are becoming the A321neos. The 763 is becoming the A330-900s. And in each case that we're able to do this, we're able to provide best-in-class product and services and best-in-class economics. And we – Ed said third or fourth innings, I think at most the third inning here because we haven't even started on the widebodies, we're kind of mid innings on the narrowbodies and then we have the entire regional fleet to find out what the ultimate disposition of the regional fleet is as we move towards the end of the decade.

International, solid upside here as – we've had the dollar rising for many years here and throughout that we've been able to maintain margins on our international fleet. But as we continue to drive better performance and better customer service and as good as we are internationally and as much progress as we have made internationally in terms of improving our Net Promoter Score, we are still not where we need to be internationally and we know that, and we're working very hard with our new products and services with service training with new enhancements to elevate that.

There is no reason that American carriers are perceived as having an inferior global brand for international travel. And while we've broken away from some of our U.S. brethren, we are still in that – if you're a European and you don't know a lot about airlines, you probably don't think a U.S. carrier would be amongst the top. Well, we are in terms of service now, we are in terms of on-time performance. And now, it's just a matter of getting even better at that and I think that resonates. So people know that the Delta brand globally is amongst the top in the world.

Our partnerships are great and they're growing. And we think it seems like forever since we've had the Korean agreement. The Korean agreement got launched in May, right? This is a brand new agreement. WestJet is at the process from the Department of Transportation, will be entering into an agreement probably sometime this year or announcing agreement sometime this year that we want to enter a joint venture for Brazil with GOL. And so we have so much more opportunities as we continue to get closer to our partnership. And the way the partnerships are working are closer than ever, and so that's another really exciting feature.

We hosted our first joint venture partner product planning meeting just this week in Atlanta, and it was amazing, the reception we got. Everybody wants to plan their products together now, so that we could have seamlessness, so that we can create what I'd consider the Holy Grail of global airline connectivity and that you are treated the same and the products are the same, no matter which one of our partners you're flying on. And we will get there, it's just a longer term journey.

And last but not least, our measured growth. We feel very confident that given the economics and the outlook of fuel that we know today that 3% is appropriate. As Ed said, we'll manage through the year. It's never exactly what we say it's going to be when we get up on the stage. But I do want – speaking of stage, I do want to talk about the first bar in that which is stage. As you know, we don't really sell ASMs, we sell seats. And last year, we generated about 2.8% more seats. We generated about 3.4% more capacity in terms of ASMs, but you really can't sell an ASM, you can sell a seat.

And so you have to take that stage out of it. So we will produce about 2% more seat capacity as we look to next year with additional one point of stage as we fill out some of the long haul East-West out of our interior hubs.

Thank you for your time today. I think, hopefully, you see how excited I am and I think all of us in this room are about where we are on our journey and how much opportunity we believe we have, not only to drive margin expansion, not only to drive profitability but to continue to focus on what customers want to buy from us. And I think really that if we can continue to do that and we continue to bring them new and innovative products and services, I think we have a great journey ahead of us. So thank you very much for your time today and have a great holiday season.

Unverified Participant

Ed and Glen will now take your questions. [Operator Instructions] Please welcome back Ed and Glen.

QUESTION AND ANSWER SECTION

Helane Becker
Analyst, Cowen & Co. LLC

Q

Good morning. It's me Helane Becker.

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Good morning Helane.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Thanks very much for your time this morning, I'm with Cowen. So I just have a couple of questions. The first question I have is as we think about your brands, and Glen, you just touched on that across all your joint ventures, you had your first planning meeting. How do you ensure that everybody not only delivers the same service in the same – similar product but on time, performance, completion factor, baggage handling, all the areas where you guys are number one, how do you ensure that your partners buy into that and deliver the same product?

And then my other question is as we think about your CapEx program over the next five years, it probably is something in the $20 billion to $25 billion range and I know, Ed you said you were spending cash for a lot of this. Is that how we should think about it as opposed to financing aircraft with EETCs or sale leasebacks or whatever? So, thanks very much.

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Well, I'll take the second question first and Glen can take the first question, because the second question is quick. When I talk about cash, it's effectively the net result in the fact that we're continuing to keep our leverage ratios at or below where we are today. So, yes, we'll certainly be opportunistic and take advantage of financing opportunities as they arise. We have re-financings that we'll be doing over that timeframe. But what you can expect from us is that there's not going to be any buildup of additional debt or incremental cash just sitting and burning on the balance sheet going forward. So, that capital is going to get returned to the shareholders.

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

And on our partnerships, our partners have to listen to their customers too. And what we're all finding out is customers have the same needs and wants, right? As somebody in France doesn't want to be late because they're French or somebody in Korea doesn't want to be late. Everybody wants to be on time. Everybody wants their flights to operate. Everybody wants their bags. And so, how do we measure that, how do we get together on that, and how do we help each other figure out what those inefficiencies are that are driving the discrepancies?

And on the product side, it's amazing is that we are converging quite rapidly on the product specs and coming at it from all different arenas but all thinking that the five cabin strategy has ultimate value. And I think that was one of the really great moments from last week to get everybody together, just hear them all say, yes, we want to create that seamless product that has the same level of consistency in it. And even down to the fact that, hey, if I have a WiFi pass on Delta, it should be usable on Air France or – so it's going to take years and it's a process just like all these journeys, but I think the first part of that is to get by and that this is where we want to go together and I think we're through that gauntlet now.

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

And one other quick one thing I'd add to that is that we have a differentiated strategy and that we have investments also in our partners. We're on the board of our partners whether it's Air France-KLM, George Mattson who is our – one of our Delta board members here today, he is our board member of Air France-KLM, and we're on the board at Aeroméxico, we're in the board of Virgin, we're on the board of GOL, and we're on the board of China Eastern. And so the reason we're doing that is not just financially but strategically making certain that we can continue to drive from a customer standpoint, from a technology standpoint, from an endpoint of seamlessness of experience over time. It's going to take time but we measure it and every year we're getting closer and closer in terms of aligning around the core principles of service and reliability and technology.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Hey. Good morning. Jamie Baker with JPMorgan. A question and a follow-up for Glen. Glen, could you help us understand – it's not clear to me when your revenue planning process went into the 4% to 6% guidance started. Could you help us understand that how that might have evolved in the last 8 to 12 weeks? If that's been the case, was it moved up in response to some of the ex fuel cost challenges that you know your competitors have? Was it massaged down because of what has happened with fuel? Could you just sort of help us...

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

Sure.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

...understand how it evolved to the point that you disclosed today?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

Sure. And it's quite simple, is the original forecast had fuel continuing to go up and so we had fuel recapture in there. And so, as we took the fuel recapture out and kept our initiatives in there, that created a new number. And so, on the flip side as fuel now – if you took the forward curves, it is down slightly. Although it's not a huge order of magnitude down, we retain that in the base because we feel like the core strength is still there. So that's kind of the base building blocks, the Delta initiatives, fuel retention, stage length and currencies are both negative as is gauge, and that produces the endpoint.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Is there a point at which the 2019 4% to 6% was meaningfully higher than...?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

When fuel was forecast to be significantly higher, it was higher.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Okay. And second question, Ed highlighted the increasing dependence on high yield corporate premium less than 50% of revenue coming in the one cabin now, that seems like very worthy highlights to make at the beginning of the economic cycle, but potentially reckless ones to be making what could very well be the peak. How do you think revenue trends in the next downturn given that there's never been a downturn with basic economy before? Is that intended to capture the trade-down that discounters might have otherwise seen? How does revenue devolve into the next recession giving the increased reliance on corporate? Thanks guys.

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

Well, I would like to tell you on the flip side, on the premium and a lot of questions last night at the reception, how that these products sort of behave in recession and as you say, I wouldn't say reckless, but I'd say isn't that a question mark is to how well these premium products do in recession. I think what gives me such excitement them even through a recession is the distribution of them and how awkwardly they're distributed and how every day that we move forward, we are seeing the demand for them grow substantially because we're able to bring them to a wider audience.

And I think one of the interesting factoids that we'll just throw out there is that the highest channel for premium products and services is not our corporate agencies sellers, because they can't see it, it's actually delta.com which has a 2x rate of our corporate sellers who you would think would be the people who are most – have the highest predispositions to buy those products because they're buying the highest fares.

And so, as we work with the GDSes, as we work with the agencies, as we work with the corporations to make these more visible, I think there is probably more upside than there is downside – I don't know if there is a recession, I don't know when it's – clearly, sometime there is a recession, I don't know what kind, is it a garden variety, is it small, is it large and we'll have to work through all those issues. But what I am really confident on is that as we continue to open the aperture of ways to buy these products and visibility for these products, the demand for these products throughout the cycle will continue to improve.

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

And I – we'll prove you wrong, Jamie, on your reckless comment. We've done that in the past, and so we enjoy that. But it's about value for money, it really is. The number one thing customers want is a more comfortable seat on an airplane. They want lots of things, they want low price, they want seamless boarding, they want the bags to arrive. One of the top things they want is value for money in terms better seat experience. And the thing that's very different about 10 years ago when the economy collapsed was that there was such a big price discrepancy between retail for first and what actually is that no one was buying it, right? So it was easy to kind of eliminate that entirely from the portfolio. Customers now are buying up on their own, whether it be through corporate or other opportunities. And Eric will talk a little bit more about that in terms of where the price points are, these are not outrageous price point distinctions like they were historically.

And I would take the complete opposite view of that is that what we've done is we've really minimized the amount of the highest price-sensitive travelers. Those are the travelers that really are not going to travel. They're going to bring the cabin down to historic lows, that have been a problem for us. So we segmented them in a different way. And the other thing that's also driving that number to 48% is the growth of the other businesses, not just premium products; the growth of the MRO; the growth of loyalty arrangement with Amex; the growth of other ways by which we generate revenue streams for the business. So it's not just the premium products that's driving it down, it's the full diversification of our portfolio.

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc. Q

Yeah. Good morning, Ed, Glen. Mike Linenberg, Deutsche Bank. Ed, you earlier throughout the $1 billion of revenue double-digit margin tied to the MRO as you – this is contracted revenue tied to I guess GTF and Trent, what year does that hit the P&L, is that like a 2020, 2021 type?

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc. A

It's going to start hitting in 2019. We're taking the first engines in the shop now. We've just completed by the way the largest test cell engine facility in the world, first one been built in North America in 25 years on our campus and it's a beautiful facility it's durable. I know when the next apocalypse comes that's where I'm going, I'm going in that building. But it's a beautiful facility designed from a customer standpoint for the MRO as well as just as an engine shop. By 2025, we'll be fully up.

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc. Q

Great.

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc. A

So it's a pretty good ramp.

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc. Q

And then just my second question, this is probably to both of you. Earlier in the year you announced that you are going to be initiating service to India in 2019. I don't believe you indicated the gateway as of yet. But as I recall that was predicated on the – it was right after the agreement that the U.S. had with the ME3.

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc. A

Right.

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc. Q

And more recently I think it looks like that at least one of them seems to be at least violating the spirit of that agreement. Is that the reason why maybe you have put off the announcement of an India service? Would it work or not?

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

No. We're anticipating the launch the latter part of 2019. So, it'd be premature to announce a year in advance of when we actually start physically flying it. So, it will be announced in the first part of 2019. So, it's coming soon. And you're right, one of the areas out of Qatar is cheating through Air Italy and we've drawn the full attention of our government officials as well as Alitalia which is one of our partners needing to look at it from a local level and then from the Italian regulatory's perspective too. So, more to come on that as well.

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

Hi, Ed. Hi, Glen. Rajeev Lalwani with Morgan Stanley. Ed, first question for you just on the unit cost side, obviously, you highlighted falling a little short in 2018. How do we get comfortable with you hitting those numbers into 2019 just given some of the commentary around just cost inflation that's pretty strong from some of your peers? And then Glen, a question for you. Can you just at a high level talk about the demand environment? I think over the last year or two, we've seen leisure in corporate really accelerate nicely. Is that something that you think can continue into next year?

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

On the cost front, Paul is going to give a lot more color as to what's driving our confidence of keeping our non-fuel costs below inflation. But what I would tell you is we are there now from a run rate perspective. So, as we're closing out the second half of this year, our non-fuel unit costs are actually flat-to-negative on a year-over-year basis. And that same momentum whether it is to the up-gauging that Glen highlighted, technology initiatives, the One Delta product through the efficiencies will help us keep that cost of level in check. And we have good optimism on that.

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

And on demand, we are taking about 150 basis points reduction in domestic capacity 2018 to 2019, seeing maybe a little bit of softness, but also the cumulative effect of multiple years of growing at a higher – at an elevated rate. So we'll be decelerating our growth rate, which we think will compensate for any weakness that we have that we know of today, more than compensate for that, and then starting to grow international a bit. And I think we've had – as the dollar has risen, we've shown incredible restraint. We haven't really grown our international capacity in the last three years, three to four years, and we now see some opportunities with all of these partnerships that we brought on board to begin to start growing in the international arena. So start to bring that up from kind of a zero rate into a 2% or 3% rate over the course of 2019.

So we feel really comfortable knowing what we know today in terms of the demand set and knowing what our capacity plan is and knowing what we see the forward fuels, we could – we think that this is a really good balance.

But that's what we get paid to do is every day, every week, every month monitor that and make the adjustments necessary as we pass those gate posts.

J. David Scott Vernon
Analyst, Sanford C. Bernstein & Co. LLC

Q

David Vernon with Bernstein. I was wondering if you could add any color on the 30% of revenue you're getting from the premium cabin. Who are the buyers of that? Is that a leisure traveler or is that just coming out of their own pocket paying up a little bit more, is it corporate traveler that's upgrading a corporate ticket? You guys obviously have a lot more data than we do. If you can add some color on that, that would be great.

And then, maybe just as a follow-up, how comfortable are you with Airbus' support of that A220 platform as you think about the importance of that in your coastal gateway strategy, is there any risk there could be some production delays or delivery delays on those? That will be great. Thanks.

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

Okay. So the – as I said earlier is the preponderance of customers who are buying the premium products are actually coming through delta.com. That's been one of our strategies is to have delta.com be the best places to buy Delta tickets because you'll see the best displays and you'll get the best service levels. That has caused some of the GDS who has – quite honestly haven't invested over the past decades into better ways to display a wider variety of products to make some big investments and I think even when you think about Sabre's announcement a couple weeks ago that they'll purchase Farelogix

That's about being able to get rid of the old green screens that have just two cabins and number three cabins in them and get to what are the real products that they're selling their customers. So as we continue to work with corporations, as we continue to work with agencies and what we hear from our agencies is they want to see what those products are, and they don't want customers to have to do multiple steps. So we're in that journey. Ultimately, I think that clearly the higher end customers will probably buy more of these than they have historically but they have not been easy to buy. And as we continue not only to bring it easy to buy and however – whatever paths you're going through but to bring you other options to buy including the mileage, we think that it's going to be an attractive for all segments, right? But I think the growth from here on now and in the short run will probably be even more in the high end, that's a [indiscernible] (01:06:35).

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

David, one last thing on what Glen's saying, I think, and again tying into Jamie's question about the price sensitivity in the event of an economic downturn, being able to use miles as a currency is another hedge also with respect to some of the economic risks in terms of economic volatility. We know a lot of our heavy travelers have huge banks of miles. We know they do and how much is out there in total, trillions out there, that's an opportunity to pay for and continue to get access to the premium products.

So I think it'll be another change in how we market this and actually we get real value out of it. The A220 is doing great. We have the first couple on the property already. The production schedule is firm. It was up in Mirabel a couple of months ago when we inducted the first A220. Bombardier has done a great job with that aircraft. We'll be launching it next month. Here in New York, you'll be able to see it. It's going to Dallas, as well as to Boston first flights, and we're going to take 25 of them next year and they're right on schedule.

The performance of that aircraft has been great. Airbus is – while they got a good deal given where Bombardier was sitting, Airbus is very excited about that platform, and so they have the full opportunity and value. In fact, one of the things the Airbus brings to the platform is scale with the supply chain to continue to help Bombardier not only keep the product flowing in terms of accelerating the order book, but also bring the price points down, the cost points down for the company.

Glen W. Hauenstein
President, Delta Air Lines, Inc.
A

Could I go back and just – I didn't give my answer enough excitement. I have to amp up the excitement level a little bit because it is – what we're doing is so exciting. And when you think about what customers...

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.
A

You want to redo?

Glen W. Hauenstein
President, Delta Air Lines, Inc.
A

Yeah, I want to redo, I want to go back, replay. But we are about merchandising these products now. I mean the last couple of years has been about getting them on the shelves, getting people to want to buy them, but we haven't even been able to push them out. So if you think about our ability over the next couple of years, as we know inventory and as these products mature to make special offers to you while you're on your way to the airport to say click here and for 3,000 miles you can sit in First Class. Right?

And those are the kinds of things that are coming in the next weeks, months and years, where we can really not only just be a receiver of the demand, but actually be a creator of value for customers and engage our customers with exciting offers throughout their travel ribbon and I think this is really about creating an ecosystem for the frequent flyer miles.

When you think about historically what were you able to do with your frequent flyer miles, you were only really able to buy a ticket with them and that was a big amount of money or miles and now with these smaller things that you can do, I can move to Comfort+, creating a really viable ecosystem where their currency becomes much more valuable. And we're really, really excited about all the possibilities.

Hunter Keay
Analyst, Wolfe Research LLC
Q

Hi, guys. It's Hunter Keay at Wolfe, over here. Thanks. I've got one for each of you actually. Glen, first, [ph] your first of the (01:09:45) Korean Air JV is a game changer, [ph] I think that was you or one of you guys (01:09:48) that was a game changer really this morning. I'm curious if you can give us some quantification around how much of a margin drag the Narita operation is right now for Delta and where margins can go for you broadly in Asia as you think about maybe a full exit from Narita at some point and the benefits of the JV that we can quantify from where we sit over here over time? Thanks.

Glen W. Hauenstein
President, Delta Air Lines, Inc.
A

Right. Well, we pointed out that the opportunity has been a drag or the Asia franchise has been a drag on the earnings on a relative basis. And we think there's 300 basis points to 400 basis points at a minimum in our Pacific operation over the next couple years and ultimately probably 600 basis points to 800 basis points of margin accretion as we get more mature and get the facilities and the planes in the right place with the new fleets.

The other piece that has to fall into play is the final resolution on Narita and Haneda and we are in discussions with the Japanese right now. I think, last month, they concluded on successfully another round of negotiations. I think the next round is scheduled for next month or January. And we're really hopeful that we can get a final resolution on Haneda access, which would be how you would really resize the remaining Narita operation.

Hunter Keay
Analyst, Wolfe Research LLC — Q

Great. Thanks. And then, Ed, can you talk – it's a follow-up to an earlier question on the 2019 CASM, but could you talk about that from a labor perspective? I know obviously the pilots aren't amenable next year. You can deal everybody else pretty much whenever you want. What's the prospects or the probabilities of an incremental new labor deal coming in 2019 and what are going to be some of the key issues by work group that are going to be on the table if you like discussing there and things as we think about that?

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc. — A

No. I'm not going to negotiate publicly what the next contract looks like. We haven't even begun discussions yet and I'd say the odds of a new deal coming in this year, ahead of the amenable date, is near zero. I mean I just don't know. That's not an indication of happiness or with the – we haven't started the process yet.

So, I think there is really – from an investor standpoint in 2019, you should not expect to see a new deal coming from Delta. And then, when we do a deal, obviously we'll see where the market is, we'll see what United, who is ahead of us, potentially American, who might be ahead of us where they come out and will take the full view, we'll be looking for opportunities not just to make certain that the contract is competitive, but also where there's opportunities to improve the overall efficiency of the airline too.

Dan J. McKenzie
Analyst, The Buckingham Research Group, Inc. — Q

Good morning, everybody. Dan McKenzie from Buckingham Research over here. The one step that jumped out me in the presentation this morning, Glen, is 60% of the international revenue under joint venture agreements. Well, it suggests that you've got some flexibility on the international side.

Just given market jitters over a global economic downturn, I'm wondering if you could just talk about the capacity flexibility on that international side both yourself and with your JV partners. It seems like you should have some flexibility to early retire 767s, but if you can just add some more context around the stress test of that international flying.

Glen W. Hauenstein
President, Delta Air Lines, Inc. — A

I think that what our investors should know about our capacity is that their constraint is really on the upside, not the downside, because we have a lot of older airplanes and we've proven that we can adjust downward to meet demand sets. And what you're really setting when you set these plans is what are your upper limits, because you don't – those plans are well-established, what are the maximum number of pilots you're going to fly? What are the maximum number of hours?

So, across the whole network, we have pretty much unlimited downward flexibility and really the constraint is more on the upside than ever is on the downside. So, what we see right now, we still see very good and we see Latin turning, so that we see some opportunities there. We see still strong seasonal demands to Europe as we get into the spring and the summer.

And we are resizing and re-gauging our Pacific and we've embarked on that journey many, many years ago. We had a very, very successful year. For many years, our unit revenues were down and we had to do that complete restructuring and we're in a really good place in the Pacific right now where we like our portfolio and we'll see what happens with Haneda, but we always maintain the ability to re-gauge and resize.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.
Q

Good morning. Brandon Oglenski from Barclays. So, thanks for hosting. As you know, last year, I think we walked away from some long-term margin targets for Delta. And then, 2018 fuel went up, even though a strong economy, your margins are down again. And I know that fuel outlook right now is a little bit lower into 2019, so that should help, but I guess from a long-term perspective, where are you managing this business from a financial perspective?

You did mention that if you hit your guidance for 2019, you'll be at a 15% or maybe higher return on invested capital. Is that what you're signaling to investors as a level that you view as very reinvestable in this business?

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.
A

It is. It is. We talked about that number in the past as well and we think 15% ROIC on an after-tax basis is what over time you should expect for us to generate. It's a question of long-term margin targets with fuel going everywhere from $100 a barrel to $30. So, it's really hard, because that has an implication on revenue and margin. But you know the things we've been emphasizing is that steady profitability of that $5 billion base profit level, which now four years in a row, next year will be the fifth year in a row and growth from there, ROIC has an opportunity as well as EPS growth, kind of 10% to 15% per year is what we target.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.
Q

Quick follow-up. Along those lines, should we be expecting, if you can maintain these levels, that the CapEx profile this business could actually increase going forward?

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.
A

Well, we've used that 50% of operating cash as a rule of thumb. And sometimes, it's a little more, sometimes it's a little less, but that's what you should continue for the foreseeable future. We're coming up on a significant amount of re-fleeting opportunity still. We're going to be replacing 35% of the mainline fleet in the next five years.

Beyond that, it's kind of hard to give you a great view of CapEx more than five years out, but I think you're looking at that and if the business improves and if operating cash flow improves, I think you'd see a CapEx follow that. Yeah.

Savanthi N. Syth
Analyst, Raymond James & Associates, Inc.
Q

Savi Syth, Raymond James. Just two questions. First, I think you've talked about wanting to get international revenues to about 50% and just how long do you think that would be? And are there elements today that are not in place to get you there?

And my second question is on the network side, given just the amount of changes that have happened in the network side and kind of the airport investments, kind of curious in your domestic itineraries, are you seeing less or more flow traffic?

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.
A

On your first question, Savi, that 50%, that's a long-term aspiration, right. We're going to mention there, six years from now, we're going to turn 100 years old as an airline. So, I'm thinking in increments of 20, 30, 50 years over time. The U.S. marketplace is largely a mature marketplace. There's not new places left to fly to. So, we're building bigger planes, building bigger airports, still have the same antiquated air traffic control systems, which causes congestion, and the real long-term growth of our industry has to be coming out of the international marketplace.

That's why we're building the investments and putting the boots on the ground around the world. This is for – we've got the ultimate long-term goal in place. So, it'll be a long time. There's not a line of sight to that, but it's the way we have to think in our business. We're a long-lived business, long-lived capital requirements and cycle and I think that's where the brand needs to aspire to in order to become the best airline in the globe.

Savanthi N. Syth
Analyst, Raymond James & Associates, Inc.
Q

On the network side, just domestic itineraries, are you seeing more flow or is it just, given that you're involved in that, you're doing all these different areas?

Glen W. Hauenstein
President, Delta Air Lines, Inc.
A

We have resized the airline to be a more local airline over the past 15 years intentionally and I think that's also the opportunity as we continue to grow the gauge and the throughput of our interior hubs is to now get – drive that efficiency and take up the flow traffic slightly as we continue to look at how do we get these things to be the most efficient factories on the face of the planet. And that's really our goal with the domestic interior hubs.

Jose Caiado
Analyst, Credit Suisse Securities (USA) LLC
Q

Hey. Good morning. Thanks, Ed and Glen. Joe Caiado, Credit Suisse. I had a first question about corporate travel demand. And I know you called out a solid outlook heading into 2019, supported by a couple of surveys, but I was hoping you could just elaborate a little bit on how the conversations with corporate travel managers have evolved in the last couple of months, if at all just in the context of a decelerating economic growth volatility and uncertainty in financial markets?

Glen W. Hauenstein
President, Delta Air Lines, Inc.
A

We've seen more uncertainty in financial markets than we've seen uncertainty in travel. That's for sure. And what is interesting is usually when companies cut back on travel or rein in the travel budgets, as you get to the end of the year, they run out of their travel spend. So, you see a real trail-off in the back few months of the year and that we are in the end of the year here and we've seen continued travel momentum, which doesn't indicate that they've taken anything out yet.

Now, does that mean that next year, they won't revisit that? But usually the first half of the year is the better half of the year anyway. So, my guess is if this does actually materialize into something as [ph] into some recession-like (01:19:58) environment, that that will probably impact the second and third and fourth quarters of next year.

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Well, to be very clear, we're seeing zero signs of cutbacks or any reductions and that's a comment that we're not hearing from our travel managers in the least.

Jose Caiado
Analyst, Credit Suisse Securities (USA) LLC

Q

That's helpful. Thanks. And then, just a separate question, the point about increasing revenue diversity and specifically your sizable MRO business, which has a nice runway of organic growth it had, but also your logistics business, part sourcing business, would you have any interest in further bolstering those inorganically maybe to just further increase the revenue diversity? Are you happy with the size of those ancillary businesses?

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Over time, those are possibilities. Gil is going to talk a little more about that. He is going to follow us. We have no plans at the present. I think we've got a full book of business with Delta at the moment, but as we build, in the next – the next layer of opportunity would sit with partners around the world, but over time, yeah, I think there's commercial opportunities in a number of innovations by the way, not just in the MRO and the parts space or flight products, but also on the technology side.

Susan Donofrio
Analyst, Macquarie Capital (USA), Inc.

Q

Susan Donofrio, Macquarie. Just wondering if you could further clarify – the international partnership across the Atlantic sounds exciting in terms of the product, et cetera. Are there any timelines in terms of a milestone going forward that you would share with us? And also just wondering about Brexit and just if you could comment on that as well.

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Sure. We're anticipating receiving regulatory approvals in the first half of 2019 for the combined JV that would have both Air France-KLM, Delta-Virgin in there and then Alitalia as an adjunct member of that as well.

When that comes together, I think there's going to be great value, because, as you say, not just push the financial interest together and Air France has coupled that with an ownership stake they're taking in Virgin Atlantic as well, but also then try to drive the product and the discussions with the marketplace and with corporates into a better more aligned view.

Transatlantic is a big part of our portfolio. 20% of our business is in the transatlantic. So, our opportunity to make it more efficient than with the hubs in London, Amsterdam, Paris, Rome, there's not a better set of assets in the transatlantic business and that's what we get excited by.

And Brexit, listen, I have no idea. I mean we are not – I mean tell me if you – if you know better, let me know somebody, what's going to happen, but I think the reality is that the U.S. and the UK have already reached agreement that there will be no lack of flying between the U.S. and the transatlantic.

Virgin operates 80% of their flights to the U.S. They don't fly to Europe. And so – and the rest of the world flying is to other parts of the world, not Europe. So, the odds of Virgin being impacted by a hard Brexit I think are really miniscule.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

Thanks for the question. Duane Pfennigwerth, Evercore. One for Glen, just in observing Delta and going to church with you for the last decade plus...

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.
A

It's good, Duane.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

...in December...

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.
A

You need to come back more, I guess.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

A good time. Can you talk a little bit about your capabilities around tactical flexibility? So, when I think about network changes, swapping RJs for mainline, less than 60 days, Delta seems to have a capability that competitors don't have or maybe a better way to say it is don't have yet. So can you talk about why Delta is so good at that? Is it flexibility that you have that other airlines do not? Is it demand forecasting systems that let you to make those calls close in? Could you expand on that?

Glen W. Hauenstein
President, Delta Air Lines, Inc.
A

Yeah. I just think that we respond to the market faster. We spend all our time looking at the minutia and looking at the data and coming up with conclusions and then we act on it and we don't just – Ed used to tell us, hope is not a strategy, right. So, we have to adapt to whatever the market conditions are and sometimes there are unpleasant things that we have to do. But if you look at how we weathered the Brazil crisis, nobody has restructured more in Brazil than we have.

You look at what happens in hurricanes and devastation, we tend to do it a lot faster than other carriers. And we just – we watch very carefully what's going on and we make those adjustments as needed.

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

You know it's the spirit of the people, Duane. I mean obviously the technical prowess and the data insights in the technology are critical as well as the experience they bring. But it's also the product. It's the people on the ground. It's our services. It's the can do spirit of our culture that really gets underestimated. And it's hard to put a price tag on it for an investor base and how do you – if you quantify that for a balance sheet, it's immeasurable in terms of value that they bring and that's also part of it.

So, when Glen wants to do something, our people make it happen. There's no discussion as to whether we can do it, we just – we go figure it out.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Just a follow-up. And I know this was the introductory portion of what you're going to present today, but it seems like JVs are maybe a little less prominently highlighted. What's the implication? What should we take away from that? Is that, that you have everything you need for the foreseeable future? Is it may be a question about global growth uncertainty? Why isn't it as prominently highlighted?

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Oh, JVs are just as important as one of the top priorities. We spent a lot of time a year ago talking about JVs and every year, we're going to talk about – have some different themes and flavor and this one is more on the brand and some of the opportunities other parts of the business. But no, there's no pullback as I mentioned to Savi, I mean, long term, global growth is going to outstrip U.S. growth over time and the opportunities to get build closer, more integrated partnerships with our JV partners is as important if not more important than anything.

Clearly, there's volatility around the world. Latin America has had a lot of volatility this year in Brazil and Mexico. They're showing signs of coming out of that both markets and I think there's going to be – there already is, as you're aware, some kind of on-the-ground restructuring going on in Brazil with Avianca Brazil currently in terms of the flux. And I think you're going to probably see some restructuring in the Mexican market broadly. They're responding to some of the economic challenges you've seen. But, no, long term, international is where the long-term growth prospects of our company are.

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

And we are laser-focused on our joint ventures and really extracting value for our customers and value for the company from them. And Steve Sear is here today and his team is doing a phenomenal job. And we have not at all taken the focus off. We've just de-emphasized in the presentation.

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Yeah. And if anything, you think about where our margin improvement opportunities lie, it was more internationally than domestically. Domestically, it's the beats the stack. So, by definition, whether it's specific, whether it's Latin America, that's where the bigger opportunities really just sit.

Catherine O'Brien
Analyst, Goldman Sachs

Q

Catie O'Brien from Goldman Sachs. So, a little bit of a follow-up to Duane's question on JVs, quick two-part one. So, first, when we look at the globe, you've got a lot of it covered. Do you think the next step-up is really optimizing these partnerships? Are you're seeing more room to run? And then maybe a broad stroke, where you think that margin improvement lies? And then second, just in terms of the capacity growth and CapEx tied to your international franchise, you talk about any – how the JVs play into that?

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Well, the JVs is a very efficient use of capital. And while we've deployed capital to make strategic investments in a number of our partners, it certainly provide us access to marketplace that we believe is capital-friendly at the same time. The integration of the JVs is important, primarily from a customer standpoint. What is going to take to improve the margins of that business is more customers have to have more preference for Delta in those marketplaces than ever before. And while our Net Promoter Scores domestically are at all-time highs and growing higher, we have – there is a big step change difference internationally that are in the single digits compared to a 50 Net Promoter Score for Delta. And we've seen a high correlation between revenue premiums, which is what you want to sustain and Net Promoter Score, meaning customer, part of it is fleet and we have to decide long-term on our fleet strategy and it will be coming in the next decade.

We have 767s all of which we'll retire in the next decade, 757s will be retiring that's 200 aircraft alone and so we're in discussions with the OEMs about that. This product we're putting, the new Delta international product across the entire international fleet, which we launch with the A350 is now in the 777s and it's growing.

The service and the technology themes that exist today between the partners, we've got an officer – Senior Officer of the company whose full-time job – Perry Cantarutti – is to continue to manage down those themes to make it more accessible. And it's bringing more and more insight on the ground. We've got Delta people in every country of the world as we have our partners in Atlanta as well working as a combined team and with a shared set of goals. So, you've got to win on all those fronts and obviously we need our government's continued backing that – to make sure there is a level-playing field for which we compete from as well.

Joseph William DeNardi
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks. Joe DeNardi with Stifel, over here. Ed, you mentioned that brand is an important theme for you this year and you provided a little bit more detail around the relationship with Amex. Your company certainly isn't valued like a brand company, it's valued like an auto manufacturer. So I'm wondering if you and the board have thought of ways that you could force the market to more appropriately value the assets that you have here. I'm not talking about monetization, you guys have led the industry in a number of different ways, I'm wondering if you guys have brainstormed in terms of actions that you could take to force the market to view the business for what it is. Thank you.

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

A

We have not discussed any structural changes to the business model, if that's what your question is implying, Joe, to force the market to value us differently. We think the next step needs the continued visibility into the diversification of our revenue base, better insight in terms of where the margin improvements are going to come from and the durability. And brand and loyalty, when you serve 200 million people a year – we are a consumer brand, we are a lifestyle brand. People use us to conduct business, life, adventure, you name it, that's who we are.

And I think over time that brand, that loyalty will drive a premium valuation over today that is more akin to with a consumer brand we're driving and that's our focus. But we've got to continue to execute. We're 10 years from the merger, we're 10 years from a painful restructuring, we're 10 years from when people lost a lot of capital on the business, and we're continuing to walk our way forward. But for us, hopefully one of the key takeaways for the day is that you see that there is really a huge amount of opportunity still in this brand, in the structure, in this company, that is, to get investor interest going.

Jill Sullivan Greer
Vice President, Investor Relations, Delta Air Lines, Inc.
A

One last question.

Stephen Lawrence Farley
Managing Member, Farley Capital II LP
Q

Hi. Steve Farley, Farley Capital; a shareholder. Appreciate the opportunity to ask a question. In the past, you've talked about the revenue premium which really quantifies your customers' willingness to pay a premium to fly Delta because of the superior service. Can you tell us precisely how do you calculate the revenue premium, how do you adjust for difference in route lengths, and is there a way we as shareholders can calculate it ourselves?

Glen W. Hauenstein
President, Delta Air Lines, Inc.
A

We do it at a macro level. But you can do it an individual flight level and what you see when you look at back at the government data it is, we always have a premium in terms of the revenue per ticket by O&D. And so, however, you aggregate it out, you get to about the same number, but you could do it at a route level detail, you could do it at Atlanta to LaGuardia, you could do it at – on a macro level. We just take the ASMs and divide by the customers and come up with what our average ticket value was versus what their ticket value was.

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.
A

Steve, why don't we take that offline? I'm sure Jill and the team will be happy to give you the kind of insight in terms of how to make that map work.

Well, anyway thank you for this morning. We've got more to come on the – looking more at the brand and the technology and the operational improvements. I think we're going to take a short break here for 10 minutes and we'll come right back up. Thank you, all.

Glen W. Hauenstein
President, Delta Air Lines, Inc.
A

Thank you.

Unverified Participant

Ladies and gentlemen, it's time for a short break. Delta's 2018 Investor Day will continue at 10:15.

[Break] (01:33:46-01:48:55)

Unverified Participant

Next on stage is Delta's Chief Operating Officer, Gil West.

Wayne Gilbert West

Chief Operating Officer & Senior Executive VP, Delta Air Lines, Inc.

All right. Well, welcome back. Historically, I kind of use this slot, as most of you know if you've been here before to grind you to sleep with a bunch of charts and graphs about operational performance. So with strong encouragement from Jill and Ed, I'm going to limit that only to one slide, believe it or not, and there's not a chart or graph on this slide. But I think Ed covered it well. We are still number one in the industry. And if I did have all those charts and graphs, you would see that in almost every metric, the DOT reports on that we've led the industry but not only lead the industry, our lead relative with our competitors have grown in 2018. And we've faced some pretty adverse weather certainly on a year-over-year basis we have but the team has really shined when the weather is bad because we outperformed our competitors even more there. So I won't bore you with the numbers this go around, maybe next.

I want to shift gears though and talk about a couple of new topics at least in the ops slide. First, our airports, we have a lot going on with airports if you haven't noticed. A colleague of mine, Henry Kuykendall, reminded me last night – Henry, by the way you should all know because he leads the airports at JFK, LaGuardia, Boston, but he reminded me last night that we haven't built a new terminal in 25 years in the U.S., the last ones were Denver and Detroit. When you think about that that is pretty, pretty staggering. So we're in the process of making history right now.

You see it every time you fly out of LaGuardia course, by Salt Lake City course, we're investing to the tune of $12 billion of infrastructure investments at our airport. So we have a first-mover advantage. This is a strategic advantage for us on the airport side. The corporate real estate team within Delta has done a great job managing all of this, but managing is the key because they are controlling the projects so they are driving on-time delivery, on-cost delivery, on-budget delivery, and have done a great job factoring everything into the equation.

The last thing I'll mention on the airport side is that we're also driving the Airport of the Future as we're constructing, so we understand that our customers want a frictionless experience. We're investing in that. We're driving the infrastructure to do that. And that'll be the segue to the next chart for me because technology is a big part of that equation as well. So, Rahul will come up in a bit, I think, our CIO, and talk about what we're doing with technology. There is a couple of points I would like to make though operationally just to highlight some of what's going on.

And the first one does relate back to the airports and biometrics. We've got a great partnership with CLEAR, as you know hopefully you've gotten to see some of that here last night or today, but that investment has really helped us work to transform the TSA experience. But in December 1st, we launched the very first facial biometric terminal in the country, in Atlanta, in our international Concourse F. And it effectively eliminates having to show identification for our customer.

So typically, when you check in, you've got to show your passport; check-a-bag, show your passport; TSA, show your passport; board, show your passport. So, it eliminates all of that, it's optional, but we tap into the CBP database, they have your passport photos if you didn't realize that and we're able to verify who you are with a snapshot overlaying with that database. And it's transformational. It saves our customers' time. It saves boarding time, as you probably read as we release that seven minutes average on a turn for a widebody aircraft. So, it's a great use of technology for us on a number of fronts. Improves the customer experience but operationally it's got benefits as well.

Second point on technology I would make is predictive maintenance, and just so you know – you read a lot of headlines about machine learning, artificial intelligence. We've been at scale with predictive maintenance for at least three years. And this is taking all the data that streams off the aircraft and we get just millions of data points per flight. We take that data, we're able to overlay machine learning on it, look for patterns, identify shifts in those patterns and we're able to proactively go in and identify trends that would eventually lead to a mechanical issue that we would have to take the aircraft out of service, cancel a flight, or repair. Now, we troubleshoot those, behind the scenes basically. We're able to fix things before they break. And the benefit, of course, is the operational reliability that Ed touched on along with a big cost impact so that we don't wait for things to fail before they're repaired. It's much more expensive model. But then the customer experience is much better as well.

So predictive maintenance, we continue to refine that, look for other applications but we've got some great experience. And that's really helped us move our TechOps performance where we, of course, got industry-leading reliability in large part because of the technical ops base that we built but it's also the lowest maintenance unit cost in the industry as well. So this is a big part of that equation.

Final piece on technology I'll touch on is data science and our IT team's done a great job setting up data lake. So we've got these data lakes full of operational data that we've never had before that we're able to go in and learn from, overlay a real data science to that and then be able to leverage that back into the operation.

So, I would say, probably three years we've worked hard to try to get at least a philosophical direction on an optimizer that we could use during irregular operations. Irregular operations are our biggest challenge, snowstorms, thunderstorms, air traffic control delays. The decisions we make in terms of what flights we cancel and the ripple effect of that that can go on for days is really key. And we've got great experience. The team does a wonderful job making those calls and driving it. But the complexity is beyond human capability. So it's important to leverage technology to make those decisions.

We've invested, we've worked with some of the best universities literally in the world around getting our heads around algorithms and approaches to those, and now we're operationalizing those with a couple of partners that we've been working with, so we've been running a pilot program on our MD-80s to understand cause and effects so we can make the decisions what flights do we cancel, what's the effect on the customer, the crew, the aircraft location to optimize that over periods of time, and we'll work to scale that this coming year in 2019.

So, there's been some discussion about the ancillary revenue streams in some of our wholly owned subsidiary. So I just wanted to touch on a couple of those that are in the ops portfolio. First, the cargo business has had a great year. It's a business for us that's – this year it's roughly $900 million, very strong margins. It's grown a little over $100 million year-over-year, over the last two years it's grown over $200 million for us.

And I would say philosophically with this business we've elevated the leadership team along with the systems that we use, but more importantly, we have shifted from just driving top line growth to looking at yield performance. So, we've really segmented this business for us on a number of fronts, similar to what we've done over the years with the airline is operational excellence, created a strong foundation there and we've worked to leverage into the cargo business, then in terms of product mix, so we're looking at what are the most valuable products, also customer mix, where do we get the highest yield at a customer level. And we've added new products like Pharma as an example, that business has grown over 35% just year-over-year. And the key message here is goods that need to move same day and our cargo business does a great job doing that.

So we've also set up a logistics center and this logistics center – just to put in perspective, we've used this to move Delta material first. This we moved – we spent over $200 million a year moving our own material around this system, in particular in our technical operations moving components all over the system but in really in all aspects of our business, so it's certainly a vertical integration opportunity for us. So we stood up a logistic center to manage all of that and it's not just the air side it's also the ground side and the team has pooled tens of millions of dollars of cost out of the business for ourselves and we've also pieced together first and last mile through partnerships with Penske as an example on the trucking side along with Roadie, if you're familiar on the delivery side – pickup and delivery side. So we pieced together really a complete network that we're able to move materials through. So as we learn and grow with that internally at some point we'll pivot externally with that as well.

Second subsidiary I'd like to touch on is our maintenance, repair and overhaul business in TechOps, Ed touched on that and there were several questions about it. But this is a business today, this year we'll do about $700 million business, it's great business for us, and that business has grown over $100 million year-over-year as well this year. But we've invested in this and we took the opportunity when we renewed the fleets with aircraft orders, in particular the widebody orders and the and the last Airbus narrowbody order that we did to partner with OEMs, in particular we partnered with the engine manufacturers relating back to the MRO business to set up long-term partnerships around the Rolls-Royce Trent engine that powers Airbus widebodies and also powers the 787 Boeing widebody, as well as the Pratt & Whitney's Geared Turbofan that powers, of course, our A220 series, the A220 series, but also A321neos as well. So it's a platform that continues to grow exponentially.

So with a capacity to add those two engines, as Ed mentioned, we've invested, and created a new engine shop that's operational now, we've inducted our first Rolls-Royce engine into. We will complete the world's largest test cell by the end of the year. That's a first test cell built in the Americas in 20 years by the way. And that gives us the infrastructure to repair and overhaul these engines. As that volume ramps up and matures over the next five years, it does add an incremental $1.25 billion to the MRO business for us. So we see continued growth in that segment.

Two other subs I would touch on, first is Delta Material Services and you wouldn't have normally a lot of visibility of this business because it's mainly been internally focused as a vertical to save costs for us. But it's an interesting business in that – gosh, 2014, we started buying used aircraft for parts, mainly their engines. And it's been a nice expense play for us. In 2015, we formally stood up this subsidiary to really operationalize this and scale it.

So we save between $250 million, $300 million a year expense through this business. Since we started this, we saved almost $1 billion of cash flow in this business. And again the concept is, buy a used aircraft, use the engines, use the components, take the ones that we would have spent money to overhaul, break them into parts and start using the parts. So this past year, next year we take those parts into the next level where we're selling those parts into our MRO business which drives margin up in the MRO business, but we also pivot back into the marketplace and sell surplus material into the market as well. Now keep in mind that surplus market is roughly a $5 billion market as well, so we are a positioned well to play in that market.

The last sub I would mention is probably one personally I'm the most excited about, but it's small and but it will grow and this is what we call Delta Flight Products, it's engineering and manufacturing business. And as you know we do interior modifications to our aircraft as they age, roughly about every 10 years we'll go in and refresh the interiors. So, we've hired a company, and we spend billions of dollars over the years to do that. So historically, we've hired companies to do this for us, and we vertically integrated this, started in 2017 to start the interior modifications that we had been planning on the 777s as well as 767 fleet renewals as well.

So they've managed all that, done a great job and continue to work well with that, but they'd added the engineering capability, the certification capability and manufacturing capability in the space. As part of that we also developed a wireless in-flight entertainment system that has been delivered now and certified on the A220 aircrafts that are coming, these are the seatback monitors et cetera.

So historically these have been wired systems from a server and we've created a wireless monitor that basically takes a tablet, we still have that, it's not quite a tablet because there is certification involved, but it saves the weight of the wiring, it also adds a whole another dimension of functionality as we build this system out and it's a fraction of the cost point that we pay today.

So we've done that internally, it will come on our A330neos this year, it will come on our A321neos in the next few years, and it'll be on our 767-400 fleet, the interior refreshment. So this is a business then that we've actually become a manufacturer, we sell and offer this product back to the OEMs, Airbus is an example, so we'll sell this to other airlines system and ultimately we've become an OEM in the market mix.

Now keep in mind, the interior market itself – the product market is about an $18 billion a year market, we have product now on about half of that market. So we're optimistic about this, we will continue to scale and grow that business.

And just to close then – I'm going to close really and just say thanks to the 80,000 people at Delta. The team members here who really with our culture do an incredible job that is our competitive advantage, they run the best airline in the business, period, but they're not satisfied with the performance. This year is a record performance, number one in the industry but I can tell you nobody is satisfied with that. We're always looking for ways to improve and the team's wired to do that, so you'll see continuous improvement in 2019, it will only get better. And ultimately with that competitive advantage we've been able to capitalize on that, create alternate streams of revenue for us that will also continue to grow. So, thank you.

[Video Presentation] (02:06:01-02:08:30)

Unverified Participant

Please welcome Delta Chief Marketing Officer, Tim Mapes.

Tim Mapes

Senior Vice President & Chief Marketing Officer, Delta Air Lines, Inc.

Good morning, everybody. Thank you for your time and attention here this morning. It's been quite interesting to me to observe this morning's session, and particularly the degree of optimism that you see in here from Ed and from Glen and from Gil, juxtaposed and against the backdrop of so many of the questions that have come from the group assembled today and questions, if not, perhaps almost outright skepticism with regard to the degree of optimism perhaps that you feel from several of the members of the Delta team.

I'm struck as I watched the dynamics in the room today that there are three particular things that give us the confidence that you are seeing from the members and you will continue to hear from the other members of the team that are sustainable and that do drive the growth that we project into 2019 and well past that. And the first point to really kind of summarize these is that Delta has the best understanding of the customers. We have a philosophy of listen, respond, listen. And increasingly we're able to take data on the 180 million to 200 million people that we carry each year and gather that information. So we're well aware of, if not expert in our customers' preferences, their behaviors, their likes, their dislikes and other aspects of the customer experiences as they see it. That's point one.

The second point is that this company as you've seen over the years that you've been coming to these sessions has a bias toward action. It's one thing to gather information, it's another to act on it. And Delta has demonstrated over the number of years that hopefully you have come to these sessions, the ability to not only execute, but execute better than our competitors. With this whole idea of listen, respond, listen. So we know what customers tell us they want, we go out and we act on that with a bias toward action. I was struck with the question about how it is Delta is able to move quicker than our competitors and it is organizational alignment. It is that the fact that although leaders you're hearing from like each other and have been in place since the merger and the integration for the most part. It's a trained and battle tested team. And then the third aspect of that is the ability to execute and rally around all of that with a culture that you will hear from Joanne Smith about that is deeply engaged and always focused on the absolute needs of our customer.

So as we jump in, as Ed kind of kicked off the day and per some of your questions, this is increasingly not an industrial transport brand. It is one that we ourselves view as increasingly a consumer brand and a trusted consumer brand. Brands are only as good and as strong as they are consistent. And the word trust is deliberately used here because trust is only developed between consistency in words and in action. So if customers trust us to respond to the outbound e-mail that we send after they fly with us and their survey results or if they participate in market research with us, they expect to see us do something with that. And I hope you would agree that over time, Delta does a better job than others at executing and bringing that information and those insights to life.

We shared this graphic with you last year some Forbes editorial and some research that listed Delta in some ways in the editorial surprisingly with other top consumer brands. That's because we benchmark Delta not against the airline industry. Yes, of course, we do aspects of that. But increasingly, we're focusing on payments and the ability to identify what it is that's got friction in the customer experience and how do we focus on that friction in such a way that we bring about a greater sense of fluidness to your experience on Delta. I hope, each of you, if we've had the privilege of serving you have been able to encounter that because it's simple, it's easy, it's designed to be faster, and with the benefit of the information we continue to gather and the data and the technology that Rahul will talk about its accelerating the rate at which this company is able to execute on behalf of customers. So, it's not just a better understanding, it's that bias toward quick action and the focus on taking that forward.

That has been recognized. Not just by us, so it's not just us saying this whether it is employees and Delta being identified as one of the Great Places to Work whether it's BTN, the Business Travel News Awards, as Ed indicated earlier for eight consecutive years corporate travel managers have identified Delta as the preferred carrier whether it's product recognition like some of the cabin awards that we've got around the Delta One suite on the A350 or any other host of things, the SkyMiles recognition for having the best loyalty program or operational reliability and all the things that Gil just covered. It's the total value proposition that we ultimately have.

David Ogilvy a fantastic ad man back in the day said, the brand is simply the net impression left in the intangibles of a product in the minds and in the hearts of a customer. And that is the way we focus on it. There's an emotional context to this brand that doesn't exist in the form of what you would typically determine is a high-grade industrial transport company. There is nothing emotional about that. But if you go out and you do research among business travelers in the United States and around the world, this is the only brand in the U.S. carrier set that gets defined in human terms caring, warm, human and that's a byproduct, not of what we say in our advertising and our communications, it's a byproduct that the definitive actions that this company undertakes to improve the quality of the customer experience not once, not one time, but on a sustained basis.

So the brand has got momentum. That consistency in terms of delivering superior customer experiences is building the momentum that you've seen from us. It's what's driving ultimately customer preference and it's what's inspiring the organization to do not less of it, but more of it, on a sustained and on an accelerated basis. So it's industry leading reliability that it's at the core because none of this matters if we don't get you where you're intending to go safely and on time in the way and which that you've been expressed and certainly that we've communicated. But it is cultural. It's so many of the different dimensions of customer-centric portfolios of products.

Glen was talking about this morning the five brands, and that what used to be first and coach now has distinct products that all reflect very distinct market segments that we developed through the research to know exist. It isn't just coach. It's not just main cabin. There are distinct qualities of people, who want greater recline, more leg room, faster Wi-Fi as an insight and things like that. So the segmentation that you're seeing is in its infancy, in the early innings as Glen and Ed talked about today. And Delta's ability to really address that not just with the products, but other elements of customer experience are only now really starting to roll out.

The SkyMiles program, the changes that we announced even late last week in the increased utility of miles as a currency, I don't think anybody here could overstate. If you fly for a corporation and that corporation has corporate travel practices like most corporate travel does, it allows you to comply with that corporate travel when you book the cabin of service that you have. But if you've got a stockpile of miles, and as Glen indicated today we know that exists, it's at your discretion, you can still fly with your corporately compliant travel on that ticket, but you can use your miles to upgrade. And Eric will talk more about the supportable premium and the way those fences are aligned such that it's not the huge gaps that it used to be 10 years ago. It's a supportable premium. It's things that customers will rightfully and actively choose to go forward.

I don't know how many of you have had a chance to interact with any of the uniformed employees that we have here. We have pilots, we have flight attendants, we have airport customer service agents. Ed used of an expression today high tech, high touch. For over 90 years what has separated this company and the employees of it has been that culture, it's been the intentional warmth, caring, some might even say southern hospitality that's present in the Delta people that is not only alive but well and thriving.

But the next generation of profitability and the growth and the sustained optimism you're hearing from us comes from that group of 80,000 employees dedicated in ideally around this notion of the nobility of service in-fueled and empowered with data, your data, the knowledge that we know you like a particular thing, so the ability to develop increasingly personalized services, the ability to develop proactive service recovery, the ability to take technology that is in your hands. By 2020 the expectation is biometrics are going to be a part of every smartphone that everybody is handling, the thumbprint exists today, but more and more of that will spin out. So you've seen perhaps a lot of the media attention that we got around Concourse F in Atlanta as the first biometrically driven terminal, imagine the power of that all in your hands in addition to the industry-leading mobile app that we've already got, in addition to the digital transformation that Rahul will walk us through today.

But the continued improvement in the onboard experience, in the relational benefits that are present and our ability to be interacting with each of you on a regular basis is what is the power of this high-tech high-touch because those 80,000 employees powered with the information that says these particular people like these particular things or by the way have had these particular actions or issues in their prior flights with us, allow us to deliver a level of experience that isn't just warm and caring, it's fueled by specific instances and concrete examples of the experiences they've had. So the acceleration of that, the improvement of that and the elevation of the quality of that customer experience will come oddly enough not from heartfelt service that is existed in Delta for nine years but the much more rational ability to apply data through the mechanism, called the 80,000 people of Delta who so brilliantly every single day serve the 200 million people we serve around the world.

Now what does that look like? I saw some of the questions this morning around the SkyMiles loyalty program. We are just now as an airline elevating and moving toward what retailers have done for decades and that is this concept of customer segmentation, product segmentation, merchandizing and retailing. We are literally in the early innings of that. I will give you an example. If 1% of the SkyMiles members who are using Delta's direct channels today buy one more upsell transaction that's $40 million of incremental revenue to Delta, just if 1%. Those are active SkyMiles members using direct channels today, one more upsell.

So if you think about the value equation and this is just a great example of us benchmarking other top brands. If Starbucks e-mails you or texts you and says, last week you bought three lattes, if you buy a fourth one this week you will get blank, right, the simplicity of that idea of pulling you through a curriculum. First, it's us gets you in the SkyMiles program, it allows us to market to you and to communicate with you on a free basis; move you into active SkyMiles membership, you're actually flying us, perhaps move you into elite status; do you have the co-branded credit card, are you a member of the Sky Club lounge, are you someone who values 50% more recline or a few inches of extra leg room, are you someone who travels internationally quite a bit. All of that data exists. We have it on all of the customers for whom we have the privilege of serving. It's how do we bring that to bear.

And so, when you think about the magnitude of the asset that you already know we have in the context of the SkyMiles program and the Amex corporate card or co-branded card that's come as a result of that, which I'll cover in the next slide, what is happening is the desirability of this thing called Delta. Not just to today's business travelers, but to importantly Ys and Zs and millennials is accelerating. If you look at the growth in this, 50% more folks are accelerating into the SkyMiles' program on a year-over-year basis. The CAGR on active SkyMiles members running at 30% over the six-year time period from 2012 to 2013 (sic) [2018] (02:20:19) and the margin premium that those people are generating in excess of 11%, so more people paying more as they are in our program.

Significantly as well the Amex co-branded portfolio, the Delta year-over-year growth in the Amex co-brand is running at twice what Amex's rate is year-over-year. So we're running around a 12% year-over-year growth from 2017 to 2008 (sic) [2018] (02:20:46). Amex's total U.S. consumer spend in the United States is around 6%.

So, there is something distinct and unique about the high value nature of corporate business travelers, those people who were using the co-branded credit card and it's just delivering disproportionate value to Delta in the growth that you have seen, not just sustained looking back, but the belief we have that as more people are attracted to Delta they join the SkyMiles program. And that then again allows us to use that data to accelerate the rate at which they may find value in the co-brand card or any of the other elements that are higher margin higher value economic transactions that are more accretive to Delta.

Increasingly as well, Delta is seen beyond the context of an airline brand as a values based leadership brand. And that again is not a byproduct of the communication, it's a byproduct of definitive actions that the leaders of this company have undertaken. You saw some of that after the Parkland shooting in February of 2018. But it goes into everything from Zac Posen and the new fashion orientation that Delta has come with as a result of the new uniforms that each of our employees are now wearing, the single use plastic reduction and the commitments to remove that type of issue from Delta and the focus and the dedication to environmental sustainability, increased diversity, increased inclusion. So Ys and Zs are increasingly seeing this brand differently than those who have come before it, finding it highly valuable and desirable as they look out and make their own purchase decisions with regard to the airlines that they want to fly.

So the opportunity as we see is to continue to use the data that we've got to better serve the customers who are on us today, but equally to pay attention to data that's driving the future purchase decisions of the high value frequent business travelers of tomorrow, those Ys, those Zs, those millennials. Millennials are about 61 million people, $44 billion in spend. And increasingly they are making decisions in ways that are very different than what an industrial transport company would focus on. They are making decisions that if the company mistreats its employees, they will actively switch from that brand. They will switch and buy more from someone they see as not only socially responsible, but outspoken and actively engaged in the causes that are important to them. And you can look at diversity and inclusion and environmental sustainability as chief examples of that.

Delta's actions in that space, not just communication, but actions in that space are driving specific behaviors that we see relative to the opportunity that exists among those segments. 11% increase year-over-year in consideration of Delta; 16% increased usage and 38% increase in intent to recommend from millennials relative to Delta. That is the next generation of travelers and that's the group that whether it's our social and mobile work that is drawing attention and attracting an increased group or some of the other more ethereal things like environmental sustainability this generation of travelers is increasingly finding Delta desirable.

So throughout this day we've talked about the power of the Delta brand, the net impression that isn't just rationale, can we get you where you want to go but emotionally driven that supports the price premium because as you think about your own purchase behavior, the brands you love are likely to be brands you are more willing to give greater information to, the brands you love are more likely to be those you are going to have a deep level of engagement. That engagement, that data allows us to extremely fuel the growth and the relevance of so much of what we are doing.

So when you look at the ability for the brand to accelerate the growth, to represent the optimism that we feel here on the stage and perhaps be factored into your decisions when you think about perhaps even with skepticism, so much of what you're hearing today there is a groundswell of consumer preference because of us doing a better job than others of listening to them, listening with an intent to act and then having an absolute relentless focus on continuous improvement. If you're familiar with Delta's tagline, Keep Climbing, the idea of that is the organizational focus and relentless level of commitment at every level of the organization to make travel better. Thank you very much.

Unverified Participant

Please welcome Eric Phillips, Delta's Senior Vice President, Pricing and Revenue Management.

Eric Phillips

Senior Vice President, Pricing and Revenue Management, Delta Air Lines, Inc.

Good morning. I don't have to tell you that the airline industry revenue story is fascinating. There is ups, there is downs, there is fare wars, there is fuel price recapture, there's demand forecasting, there's algorithms. Sometimes it feels like an amazing movie. But what I will tell you is that over time as all these things have come to fruition, and the airline industry has moved through to some extent we've moved more towards maximizing the value of singular transactions and we move slightly away. We kind of forgot about who the customer was and what they were looking for.

Over the last 10 years, Delta has moved closer to the customer. And when we connected with the customer, what they told us they wanted was choice. Customers have always had options when they travel. They can choose other airlines, they can choose different fare products, they can choose even not to fly at all. They can drive. We know that when customers have the choice a lot of times they pick Delta. And now we give customers on Delta the choice of the type of experience they want. Sometimes they'll pick Delta One, sometimes they'll pick coach. But what we've done has been able to show them over time that you have options on Delta.

Going back to 2011, we didn't have a whole lot of choices. Only 9% of our seats were in the premium category. And even what we did have we didn't sell very well. At that time looking back to 2011, our paid First Class load factor in the domestic system was about 13%. It was always full, but very few people were willing to pay for it. So here was our premium product in the domestic system and it was a loss leader. Fast forward to 2018 and now our paid load factor in the front cabin for the domestic system is above 60%.

Importantly, what we see with our premium product is that as we've grown them and now they sit just under 30%, our premium revenue growth has outpaced main cabin growth across these years. And importantly, the margins in our premium products are three times greater than they are in the main cabin.

So, we've invested in the premium products because customers told us they wanted them. They told us they were willing to pay for it, and it generates margin premiums. So, if customers tell you they want the product, you'd better be able to make it available to them and across the channels that they use and the way that they book their travel. And this is really where Delta and the industry is just scratching the surface.

We've done a great job over the years building functionality into our internal channels, delta.com, even on reservations of being able to show and explain what the differences are and the product attributes to a customer. But when you move to the external channels, the corporate and agency side and the external retail channels like the online travel agencies, it becomes more challenging. Glen alluded to that earlier.

We've made a lot of progress on the corporate and agency side over the past years and even just in this past year, over 100 corporate and business customers have added premium products to their travel policies. We know that product adoption in this channel is going to take some time. So for customers and companies that don't have premium policies built into their travel arrangements, we give them the ability to buy up to a premium product if they wanted with their own money or with miles. But this will take us some time, but we're – we're seeing great traction in this space.

In the online travel agencies, there has been a lot of progress that's been made by these channels of showing customers what the differences are between the attributes and giving customers the ability to do an apples-to-apples comparison across airlines for the different products that are available. Again, this is going to take time.

The important thing to know is that 20% of the customers who buy or who come to delta.com buy premium products. That number on corporate and agency channels is only 10% and it's 5% on OTAs. So for every point improvement that we see in the external channels our customers buying premium products, that will ultimately be worth $400 million to 500 million to us.

So if you've made the product available and customers can see it in the channels that they use, you need to make the products available to customers when they want to buy it. So right now you can go on delta.com and maybe you would choose to buy Main Cabin. So in the shopping pack you chose Main Cabin. We've built the ability for a customer to come back after the purchase, before the trip starts and maybe move up to Comfort+, move up to First Class. We've also built the capability that let's say you fly an outbound leg to Honolulu, you flew outbound in coach, last night of vacation, one or three too many Mai Tais before you head home and all of a sudden that long flight home in coach doesn't sound so great. So we can't help you with the hangover but we can help you have a better experience on the return trip. So even changing your experience mid-trip is a capability that we've built.

So if you give the ability for you, the customer, to buy the product when you want it, you also need to make it easy-to-buy with the currency that you value. And it's been spoken of a lot, but miles is a form of currency just launching this past week and already we see really encouraging numbers on that. We've averaged about a thousand passengers a day who are using miles to change their experience, about 55% of them are moving into Comfort+, 45% are moving into First Class, 20% are corporate, that's interesting. Also a lot of the people who are using their miles to change their experience are base members.

So, what this is telling us is that these are people who don't have a ton of miles and they want to use perhaps smaller amounts of miles to change their experience. Again, an encouraging sign in terms of the progress we're making to make miles a ubiquitous form of currency.

Over the next years, we'll continue to invest in improving all aspects at the customer experience on Delta. Delta's digital transformation is a key part of that. And it really comes in three main pieces, especially as it pertains to premium products. First, using miles as currency. Still launching as this week for seats, but ultimately enabling miles to be used to pay for services that we provide and fees that are in the marketplace, bags, change fees.

We're also investing in the shopping experience. Again, in all the channels that customers use making sure that our products are available easy to see, easy to purchase. This will take time because you are also working with partners outside of Delta, but we do see good progress here.

And last empowering Delta employees to be able to provide personalized service and personalized offers to the customers that they interact with. When you combine all of these things together it leads you to see that Delta will be then very unique in our ability to offer a premium experience to all customers like no one else can regardless of the product that they purchase. All of these things have come together to drive a diversified top line.

So looking back at 2011, nearly two-thirds of our revenue came from coach. Again we didn't have a whole lot of choices for customers to be able to choose from. Since then investments we've made in premium products, investments that we've made in ancillary lines of business, the continued strong partnership we have with American Express has driven a diversified top line revenue number. Importantly, two of these businesses have generated above average margins.

So now when you look at our top line for 2018, less than half of our revenue was going to come from the Main Cabin, and nearly a third of it from premium products. What's important to know about this differentiation also is two things. One, we've seen over the years that fares for premium products have moved in a different direction at a different magnitude than Main Cabin fares.

This points to the resilience question that came up, like are these products really resilient if the economy shifts? We think that they are. The other thing is that the amount of upsell that we're talking about between these products is not significant. If you look at what the average Comfort+ buy up from Main Cabin in the domestic system it averages between $35 and $40, for First Class it's about $110 to $120. So these aren't huge numbers that we're talking about especially when you think back to 2010, 2011 when the spread between a First Class fare in the domestic system and coach was about 5.5 times. No wonder our paid load factor was low, that difference was huge and very few people are willing to pay for it.

So importantly here then a diversified top line is a resilient top line. So, 2018 has been a great year for us. We've again led the industry in terms of revenue generation and we've done it the right way. We've done it with efficiency. We've done it with fewer aircraft and fewer employees than some of our larger competitors. We've done it with operational reliability and a culture of service. And that's evident in the Net Promoter Scores that we continue to generate. We've done it by improving our position in our coastal hubs and driving scale and efficiency in our core hubs and internationally. And we have realized value from our partnership with American Express and in the ancillary lines of business that have been built.

All of these themes will continue into 2019, and it's these things when they combine to give us confidence then around the top line revenue growth of 4% to 6% for the year. We're obviously mindful of the challenges that are out there, macroeconomic trends, currency headwinds. But Delta's revenue strategy that we've built is well positioned to do well in this type of environment. So the diversified strategy we've built along with the premium product strategy does three things for us. One, it is a resilient revenue base. Two, it drives premium margins. And third, it provides a platform for sustained growth.

Thank you for your time this morning, and thank you for being here with us today.

[Video Presentation] (02:37:13-02:39:58)

Unverified Participant

Next on stage, Delta Chief Information Officer, Rahul Samant.

Rahul Samant

Chief Information Officer & Executive VP, Delta Air Lines, Inc.

Thank you. Even for a technology lifer like me some of those innovations are just amazing and almost unbelievable because a mere five or six years ago, those would have been beyond the realm of reality. That would have been the stuff we saw in sci-fi movies. And I think the confluence of the mobile revolution, universal connectivity and high impact technologies that are becoming really easy to access. Be it artificial intelligence or facial recognition. All of that brought together has made that complete reality. And not just brought it to life but brought it to life in a place like Delta where we've got scale and everything we do is in primetime.

Now, hopefully all of you are fliers on Delta, and you notice the difference, the Delta Difference, which is our unique brand of culture and the warmth and the caring service that our people bring to every interaction that they're engaged in. Our job in technology as Ed said and Tim said is really to enable that high-touch with hi-tech. So, we're not about chasing shiny objects, it's all about practical applied innovation. And we do that with two purposes in mind.

First and foremost we want to delight the customer with personalized intelligent experiences, while at the same time we want to empower that high touch by giving our frontline teammates better tools, better insights so that they can take the level of service, which is already great up even to the next level.

The applied innovation is something that's a cradle for us. We work closely with our business partners, our business colleagues from across the company so that we stay grounded as technologists, and then we leverage the ecosystem that was talked about in the video, which is our hangar, which is our global innovation center where we bring a lot of people from start-ups, technology vendors, as well as academia to bear on real business problems. And in doing that we think big, got to do that, we're at Delta, but we start small and learned fast. And we keep repeating that in a pretty rapid cycle as we come up with various innovations.

Now, our enterprise-wide digital transformation gives us the perfect platform to channel those innovations, across what we call the travel ribbon. And again, two-pronged approach, we want to make sure that we deliver really intelligent, personalized information-driven customer experiences directly to all of you as you fly us, while at the same time empowering our employees with insights. Let me just walk across this travel ribbon because hopefully you've experienced a lot of these things for yourself, at least in the top part of ribbon. And if you haven't yet, you will soon.

Pre-departure, we just launched in over 200 markets now fully globally across Delta One customers the ability 72 hours before their flight, will get an email that gives them the menu options and they can select the exact entrée that they want. That's going to get expanded to all of domestic First Class by the end of first quarter. While we're doing that behind the scenes as we prepare our crew for those flights, there's a lot of machine learning at work. To optimize the heck out of the crew scheduling and make sure that, to Gil's point, we shave off another few points on our hugely successful reliability metrics.

The single click on our check-in process and getting a boarding pass easily on your mobile app is something that all our customers rave about. That is an absolute delighter. And if we could get rid of that single click, we would, right, we're required to keep it there. As you get to the airport, we've got Nomad which was on the video which allows our people to come out from behind their desk, behind the millwork and actually interact in the personable way that they want to interact with our customers.

At the time of departure and those that were at the reception yesterday hopefully had a chance to see the Flight Family Communicator. It's a brand new application that we just launched and we put in the hands of our front line teammates and imagine what it takes to push back a single flight on time. It's an act of harmony and choreography. It takes a dozen teams working in perfect unison to do that. And what the Flight Family Communicator is doing now is giving them complete situational awareness of what is going on with each other. And they are able to therefore identify and solve issues whether it's a small catering thing or in baggage handling or fuel or a flight attendant that's delayed coming from another flight, all of those things that information is now available at their fingertips and they can quickly resolve the issue before it creates a flight delay.

We've talked enough about biometrics. So if anyone's been to the F Concourse that is truly a thing of beauty, the ability to go all the way from curb to your seat without once having to fetch any kind of identification, pretty powerful. Once you are onboard, I think Gil said it well, the in-flight entertainment system and the work that Delta Flight Products team is doing to in fact innovate that to the next level and go completely Wi-Fi, larger screens, more capability is tremendous. And that's happening at a time when some of our competition has taken a contrarian view of in-flight entertainment.

At the same time onboard, our flight attendants are walking up and down the aisle with their new iPhones in their hands, a lot of customer information readily available at their fingertips because we've now released the power of a Single View of the Customer to them. And so, they can walk up to a customer and either acknowledge maybe an unfortunate service interruption that happened on a prior trip or recognize them for a major milestone. And I'll tell you a little story. I was on a flight four weeks back from Atlanta to Detroit in Comfort+ and one of our friendly flight attendants walks down the aisle, stops right next to me, leans over to the gentleman sitting right next to me, congratulates him for just attaining million miler status. About a half-a-dozen people around heard it, congratulated him. That gentleman was beaming the entire rest of the trip. One little gesture made his day, and that's what again high touch enabled by hi-tech looks like for us.

And then, when you get off the plane on the other side, RFID bag tracking has taken some of the anxiety out of the – out of the travel process, because you know your bags arrived and you know exactly where to go and collect it. What's really exciting is the fact that these aren't flashes in the pan. These innovations are part of a very sustainable systematic pipeline that we have. And the reason I have confidence that we will continue to produce more and more of these is because we've got the ecosystem in place, we've got the partnerships as I said outside, as well as inside with our business colleagues. And there's a whole stream of these explorations that are going on. These aren't just buzzwords for us in technology.

So, we've got active work going on in blockchain. As Gil pointed out, we've got predictive maintenance, which is a great example of the Internet of Things and sensors and the power of harnessing all that data that comes out of the engines, and then last but not the least, just another example of natural language processing. We're putting our chatbots now in production that will be able to take some of the really low hanging queries and questions and interpret that in natural language and be able to respond to that in real-time, thus freeing up our customer service agents to focus on higher value-added, more meaningful conversations with our customers.

Not all of these explorations, and there's dozens more, I just gave you three quick examples, not all of them are actually going to make it to primetime. And that's okay. We'll learn from some, but some of them like predictive maintenance are going to be a major force to reckon with within our operation. The second thing that's really exciting up here is we've now collected and unified data from across the company, both on the customer side as well as on the operations side. So we've got a single view of customer and we've got a single view of operation and we've got both of those linked and now it's time to just unleash the power of that data with use cases. And we've already put some of these use cases to work. And those decision tools are in the hands of our ops people. And as I said before, in the iPhone, we've got the ability for our flight attendants to have that single view of the customer.

I'll leave you with one factoid, just in the 15 minutes that I've been up on stage, we've had over 600,000 customer interactions across our digital and our physical footprint. 600,000, that's the population of Washington D.C. in 15 minutes that we've interacted with. You take that for an average day, that's millions of opportunities for technology to make a real difference, either in personalizing that customer experience and creating a wild moment, absolutely delighting our customers and/or in empowering our employees to do more of the same. And therein lies the opportunity for technology as a sustainable, competitive advantage and that's how we're going to play a small but vital part in helping Delta lead the way.

So, thank you for being customers, thank you for being users of our technology.

Unverified Participant

It's time for another short break. Delta 2018 Investor Day will continue at 11:35.

[Break] (02:52:22-03:08:26)

Unverified Participant

Ladies and gentlemen, please welcome Delta's Chief Human Resources Officer, Joanne Smith.

Joanne D. Smith

Chief Human Resources Officer & Executive Vice President, Delta Air Lines, Inc.

Thank you and good morning. So, a lot of the last presenters often say that I'm the last thing between you and lunch or you and a cocktail, maybe there might be both, but I actually am the last thing between you and Paul Jacobson.

So, I will be brief, but I really want to talk more about our culture. Every leader that presented before me drove this message that our culture is what has driven our business. Our culture is a competitive strategic advantage. We've all talked about it. We all believe it with everything and every fiber of our soul, our people are the best and what gets us even more excited is this feeling we're only just beginning. And we have a culture of shared beliefs and shared values and the one I'd like to talk about most is servant leadership that innate sense of caring for one another, for caring for our customers, for caring for our communities, our company, our investors' servant leadership.

But the other thing that's so important about our culture is the things that every leader has also talked about the need to get better, this constant DNA of continuous improvement that we want to be better tomorrow than we are today. We want to be better next year than we are this year and every year, we raise the bar on ourselves and every year, we continue to meet our goals and objectives.

So, talking about culture, it is not something that has just been a fleeting or in vogue thing to say, a lot of businesses now are – culture is trending. Culture has been here for 94 years. It started with our Founder, C.E. Woolman and C.E. Woolman said "an employee's devotion to his or her company, dedication to the job and consideration for the customer determine a company's reputation."

Ed Bastian, "when you take care of your employees, they will take great care of your customers and then will reward you with their business and loyalty. Every major business decision we make at Delta is based on that philosophy and it has been very successful for us." The theme from our Founder to our CEO, Ed, is that this is a people-first business that people matter. And when we take care of our people, they take care of our customers. And that virtuous circle continues to work together.

And why I said we're so excited about our future and there's a lot of reason to be so optimism that we're just getting started is this next slide. We know we have the best people in the business and Rahul and Eric and all the other speakers talked about putting technology and tools in the hands of our employees is just going to continue to accelerate.

So, when you look about average customer satisfaction over the entire travel ribbon, when our employees interact with customers, it's two times higher, two times. That's our engagements with our flight attendants and our pilots and our gate agents and our reservation agents. Every time our employees are involved in the experience, it's two times higher.

And what our employees ask for in our annual survey, you know what the number one thing they ask for is get us better tools and technology and we have such a pipeline of that coming to enable our servant leaders, those that care deeply about their company and their customers to even do a better job with our employees – excuse me, with our customers. And so, we have this kind of organic culture that's been around for 94 years and we don't take it for granted.

We know it's our advantage, but we are intentional about how we perpetuate the culture. So, I'm going to talk about this in a few ways. We have a great employment brand. We've won a number of employer awards, Best Places to Work. We're really particularly proud of indeed.com's rating Delta in top places to work for millennials. 70% of the employees we hired this year were either millennials or Gen Zs.

So, to be a top-rated brand for millennials helps us to attract even greater levels of talent than we have in the past and we are leveraging these awards to more recruitment marketing to look for not just the employees that want to work for an airline, because for years, we believe that we – if you want to come work for an airline, you want to come work for Delta, but our talent net has to be cast much further.

I think about Rahul in technology, we are competing with technology brands for the best talent, talent that might not have considered airlines as a great place to work. So, being able to recruit IT professionals and he's done more than 560 contemporary skillsets over the last couple of years, that's a huge opportunity to leverage awards like this and to look and seek out those with those talents that we need.

And another way to attract our best talent is how we're leveraging AI and machine learning. And I think in the earlier slides that came up, we get over 1 million applications a year for the 5,000 jobs that we hire for, 1 million for 5,000. We can't possibly, with human eyes, sort through those million applications and be guaranteed we're finding the 5,000 best.

So, we are using and leveraging AI and machine learning to predict success of those we hire with the great attributes of the best employees that we have, married to the applications and how we use it allows us to better be better predictors of success and really starts with customer centricity and making sure that those that we hire possess the same values that we do.

The next way of perpetuating our culture is retaining valued employees and retention particularly today, a lot of companies are worried about retention. Millennials, they are the largest workforce entering in the marketplace. And we worry about retention, not something that we worry about at Delta. We have among the lowest attrition rates of any brand or business that we study, less than 2% of unwanted attrition.

But retention is not just keeping those employees. It is keeping engaged employees. Have you ever heard the term retired in place. We don't want any of that. So, kind of winning the hearts and minds of our employees and being very purposeful about retaining the hearts and minds by the values that we drive, by having not just the industry-leading profit sharing program and it is amazing that four consecutive years of $1 billion profit sharing, which we're proud of, but it's the other things that particularly this new workforce coming in the millennials are attracted to, which is shared values and a brand that stands for something more than just a great paycheck. We retain – a third way I want to talk about it is the tenure of our leadership team.

I am so fortunate to work with a group of professionals in a leadership team that has been together for a long time, because what comes with tenured leadership is speed of trust. There's such efficiency and trust. And then, we work with people that you have great trust in. You can move and make decisions even faster.

The third thing about pride in Delta, 90%, nearly 90% of our employees are proud in Delta, proud of a great place to work and we want to continue to earn that pride by not just the things that we do in our communities and how we work with each other and how we listen to each other, but how important pride is in the marketplace.

I kind of often tell my colleagues, I have been 16 years at Delta and I worked at other airlines for the other 40 years of my career and to where my airline T-shirt in public was not something I'd like to do. I'm proud to wear my Delta T-shirt when I go to the supermarket, because so many people, do you work for Delta? And we get that over and over again.

But our employees pride in Delta to go to Habitat or do these community service things and well wear their Delta T-shirts in public, but also talk to their friends and their neighbors and their family about what it's like to work for Delta. Those are brand evangelists that can only help drive the momentum that we've seen in our brand and then, how all of this relates to growing customer satisfaction.

I talked about when we work with our employees, the customers meet face-to-face, the satisfaction is twice as high, but we also link growing customer satisfaction to growing revenues. This bar, that's on the chart, represents the trajectory of our NPS and it gets better and better every year and we aren't seeing that slowing down. And we see that linkage to the revenue and the revenue performance. We get very excited about what's ahead.

So, kind of to wrap this up, this virtuous circle that we talk about that culture fuels our success and it's that flywheel is going faster and faster to the momentum and what's behind it. It starts with our people. This people centricity that they matter and that we listen, we take they're great ideas, they care for the company and when we have happy employees, they're delivering happy service to ensure our customers are happy. And superior travel experience and happy customers drives that revenue premium that Eric spoke about and that revenue premium drives better results that matter to you and it goes faster and faster.

Did anybody see the movie, Jerry Maguire? Hello? Really? Who saw it on the big screen? Who is old enough on the big screen? Okay. Thank you very much. I saw it on the big screen and I've seen it many times, because I love a lot of the quotes from Jerry Maguire. Remember when he said, we live in a cynical world, right. This is a tough business. And your jobs and it is like you live in a very cynical industry. But I'm going to quote Michelle, a flight attendant from Cincinnati, who said to me 10 years ago as we were facing this merger and it was like a deer in the headlights, we had to complete this merger and we had to get to the other side with happy employees. And Michelle said to me trust equals truth over time.

I wish I could take credit for it. I think that is a brilliant expression, trust equals truth over time. We have earned the trust of our employees by continuing to deliver on the commitments we make to them. We are earning the trust of our customers by continuing to deliver on our commitments that we make for them and exceeding their expectations. And we are earning the trust on investors when we continue to deliver superior results.

So, let's get rid of the cynicism in the world and get some more trust. Thank you.

[Video Presentation] (03:21:31-03:23:40)

Unverified Participant

Next on stage, Delta's Chief Financial Officer, Paul Jacobson.

Paul A. Jacobson

Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

Well, good morning, everybody. How are you doing today? You're hanging in there, right? Well, I am also a fan of Jerry Maguire, but it's been budget season and Investor Day kind of represents the culmination of months' long effort across all the divisions and all the division leaders that are sitting around the room know what I'm about to say, because my favorite line from Jerry Maguire of course during budget season is, show me the money, right.

So, this represents, like I said, the culmination of a lot of efforts today and we get to do a couple of things today. Number one, we get to celebrate the achievements of the Delta people and highlight exactly what they're doing to drive these results, because it is different. It's different here.

And when we talk about growing our lead, it's important that we define that, because it is really multi-dimensional, if not just the plain vanilla growing our lead against our competitors, that is a tried and true statement. Everybody talks about that. But what's unique at Delta is we also have to grow our lead against what we were, against what we were as an industry, against what we were as a company.

So, when you hear today about the efforts that we're doing in technology, about the way we've differentiated the way we sell our product with all of the commercial initiatives that Glen and Eric talked about, you hear about the brand, Delta talking about a brand and how we can harness that value going forward.

You learn that there is a long runway of opportunities and when you put that in the hand of the Delta culture, something unique and different happens and that's how we're going to continue to grow our lead and shape what's different about us, not just against our competitors, about also what we've done in the past.

So, what does that mean? It means sustainably and consistently delivering superior financial results. You've heard it several times today. This year is our fourth consecutive year of delivering $5 billion of profits and that's been in very different environments and very different circumstances. It's been in high-RASM low-fuel environments. It's been in low-fuel, low-RASM environments. It's been in increasing fuel environments.

What's different is the agility, the ability to adapt to whatever changing circumstances might come our way to deliver that consistency in results. And that's coming with a lot of opportunity in the future to continue to do the same through the efficiency gains and the transformation of our fleet that we're undertaking. 35% of our mainline fleet to be replaced over the next five years is a tremendous load of opportunity for us as we think about delivering a better product cheaper, delivering a better product cheaper. Because now what that does that provides the foundation for that margin growth and that horizon and that buffer if you will to be able to withstand those shocks that we might see to the economy. You hear it every day if you're watching the news, the recession is imminent. We don't know if it's imminent. We certainly don't see that in the data when we talk about corporate travel and when we're talking to our customers and what their expectations are.

But if you take one of the things away from this presentation and the slide that Ed so eloquently took from me, but that is a true statement about how different we are, because a lot of the work that we've been doing it's around resiliency, it's around driving innovation for the customer and for our shareholders. But it's also about building that foundation because when those headwinds come, we need to be ready for it if we're going to be consistent. And it's all about generating cash flow and delivering shareholder returns. That is not changed since we first embarked upon that in 2013 and all of those environments that we just spoke about. Because consistency means something in this business, especially against the backdrop of inconsistent results and amplified cycles over time and that's what we're going to continue to deliver.

So let's talk about 2019. 2019 is starting with a broad guidance of $6 to $7 per share. Let me be really honest with you guys because that's important that we're very candid with each other. Last year was our first shot out of the gate at doing full year EPS and we did a tight range. We did a tight range based on the history of tight pre-tax margin ranges et cetera and we indexed that performance. We were two weeks into the year before fuel started to spike a little bit and there started to be questions about that full year guide. This is meant to be a guidepost. We took the intentional action this year of widening that range. Widening that range because we were listening to you, we were listening to the market, we were listening to the analysts, we were listening to the buy side that ultimately said, you're putting these numbers out here you've got to hit them.

So, we understand with the lag effects of fuel, we understand with the economy and the gyrations that we see that we got to give ourselves some cushion. So, when you see the reaction today, I think part of the reaction is that we're widening a range intentionally to make sure that we're able to adapt to circumstances, but what does that mean? In the face of many companies that are going to be giving you 2019 guidance across the S&P, we're talking about 4% to 6% top line growth. We're talking about 100 basis points pre-tax margin expansion in the face of some non-op pressure which I'll get into a little bit later in the presentation, implies almost a 200 basis point increase in operating margin at the midpoint of that guidance.

Against the backdrop of what you see on TV every day, those are actually pretty stellar results. I think when we see 2019 comes through and start to build throughout the year, we're going to see a story that's incredibly resilient about Delta, not just because it's an airline, but because it's a high performing company in the face of the S&P.

We're going to do that on a solid cost foundation. 1% growth in unit cost this year. We've got a very, very clear path forward, and I have shared with many of you over the last several months, I feel very good about where we're sitting today, better than I felt in years about the ability to deliver that kind of results heading into the year with less unknowns and more in the hands of execution, which is where our team excels when it's time to execute.

I mentioned the non-op expense is going to be higher in 2019, primarily driven by higher year-over-year pension expense, and I'll explain that when we get to the pension slide. Strong free cash flow. We're expecting $3 billion to $4 billion of free cash flow, along that range of $6 to $7 per share. We're going to work to make sure that we try to come in at the top end of that $3 billion to $4 billion range. It allows us to make the capital expenditures that we need to, to really fund the efficiency, the re-fleeting, the transformational efforts to fund the work that Rahul is doing with his team on technology and to fund the product improvements that continue to drive that gap against our competition.

Because what we can't do is whipsaw the organization and you saw that this year with fuel prices up, cash flow down, we maintained our CapEx, not because of a lack of discipline, but because of the fact that we knew fundamentally the business wasn't different. There was just a lag effect to be able to get there. And as we saw the momentum in the top line building throughout the year that allowed us to get to 8%, we were increasingly confident of staying on that run rate. And as we look to 2019, $4.5 billion of CapEx is something that's going to help both drive long-term value while also preserving the free cash flow that we need to drive those consistent shareholder returns.

And when we think about shareholder returns, remember where we were just five short years ago. No airline offering a dividend of any meaningful consequence, limited share repurchases that throughout the history of the industry were event-driven. There was no appreciation for what shareholders brought to the table. There was no concept of tangible return of capital back to shareholders. And all we've done since that time is returned over $12 billion in the forms of buyback and dividends. A true statement of commitment about how important it is that we attribute tangible values of what we're doing and what we're creating here.

So let's talk about fuel prices. Fuel prices have been all over the map. And as we were with our Board of Directors this week talking about the plan, I had to confess that I said last year during the planning process that it was perhaps the most volatile year of planning for fuel prices in the midst of what we saw in the short months between September and December. I thought I lost a little bit of credibility when I said with this year's budget presentation that this is the most volatile year that we've seen in terms of trying to identify fuel prices and planning for that.

But a couple of principles remain consistent. No matter what fuel is doing, we have a consistent methodology of planning above the forward curve and this year is no different. That's important because it fundamentally really influences the way we think about the business. These businesses are really big. At the end of the day, we can't adjust on the fly if we're undershooting fuel. So when we sit here and plan at $65 a barrel to $70 a barrel, we're doing that in the face of knowing full well that half the market thinks that oil is going to $40 a barrel and half the market thinks that we're going to go back up to $70 a barrel, $80 a barrel.

So what we're thinking is $65 a barrel to $70 a barrel gives us a platform to be able to make sure that we inform how we need to think about the business in terms of growth, in terms of how we need to think about the business in terms of the environment around us and in terms of how we need to think about the business as we staff the airline for next summer as we build our CapEx plans and as we start to think about cash flow

One nuance about 2019 that's new to this year and certainly the subject of a lot of conversation we're hearing it across the board is IMO 2020. This is the International Maritime Organization's new low-sulfur bunker fuel standards that I'm sure many of you know about or have read about. What we've done is a lot of research. We've talked to a lot of folks on the economic side. Of course, we own the refinery and that helps us.

What we see as the biggest challenge out there is that we expect to see a widening of crack spreads, particularly in the distillate range as refiners have to blend more diesel fuel and distill it into bunker fuel. There's going to create a little bit of a supply/demand tension. So that's not great for airlines, but it's less not great for an airline that owns a refinery. Because if you think about Trainer, we've run about 200,000 barrels a day through our refinery and that produces about 100,000 barrels a day of distillates.

So as we think about IMO 2020, we have added a crack spread premium to the back half of 2019 in our own projections. But offset against that is about a 30% effective hedge that we have in the refinery because anything that affects distillate cracks and distillate prices is only going to affect us on the net barrels against what we consume versus what we produce at the refinery. So we've built all of that into our expectations and we see $65 a barrel to $70 a barrel as very manageable for us to be able to adapt and to be able to go through that, as well as to adjust, if we see volatility around that.

We really created that example this year where we were able to offset 90% of a $2 billion year-over-year fuel increase. We talk a lot about the lag effect of being able to adjust to the new equilibrium. 2018 was one of the fastest years on record that we were able to recover that. And hats off to the commercial team for being able to drive those efforts not just in pricing, but in differentiation in order to create that revenue momentum that's needed to be able to offset those higher fuel prices.

The other interesting thing about fuel in 2019 is that we expect to drive about 2% fuel efficiency, so as we retire the MD-88s, as we take on the new A321s, as we take on the A220s and continue that upgauging momentum with new technology, we expect to drive about 2% efficiency in fuel burn per ASM. So, when you think about 3% capacity, our consumption is going to be up slightly or essentially flat against the backdrop of that new found efficiency. So, when we think about what are we doing to help mitigate that, this is one of the biggest levers that we have going forward in terms of driving inherent efficiency into the operation.

Non-fuel cost. Two things about this that I want you to take away. Number one, we're committed to driving back to less than 2% unit cost performance, we did that this year. We stood here at Investor Day – well not here, but we stood at Investor Day last year, and we talked about how we were going to make it, but there was going to be a little bit of a leap of faith because we knew the first half was going to trend considerably higher than 2% and we were going to make that up in the back end. I appreciate your patience in all that, mission accomplished. Second half unit cost trajectory of flat to down really is evidence of two things.

Number one, the timing in there that we knew in the first half of the year where we were overly weighted to overhead pressure such as facility costs from the new agreements that were signed as part of the construction projects that we have, fleet depreciation and other overhead aspects that ultimately were frontloaded into 2018. We overcame that. Ed mentioned in his comments at the opening this morning, that Gil's team across the operations have been driving negative CASM for the entire year. And now that we've lacked some of that pressure of those overhead accounts, we actually are driving flat-to-down unit costs in the back half of the year. So that momentum is going to continue into next year. So, that's the first thing.

The second thing is we are determined not to ask you to take that same leap of faith in 2019 that we asked you to take in 2018. So, what we're expecting and how we're planning for per unit cost is much more stability throughout the year. So, we're trying to contain costs within a range of 1.5 to 0.5 point around that midpoint of 1%. And I did that intentionally; again, you go back to lessons learned, we're guiding to about 1% unit cost growth which sounds a lot like 0 to 2. But I didn't want to leave any opportunity for people to take the 0 out of that. So, we are about 1%. So, everybody's got that one this year. So that will help us all have much easier conversations throughout the year I think as we go through 2019.

But how are we're getting there? We've analyzed a lot of those ownership costs that we talked about – that I mentioned earlier. We're also doing a lot of things across the operations. So, we have pressures every year. One of those pressures that we're seeing I mentioned to some of the folks last night is we're seeing a lot of that in contracted service. You hear a lot across multiple industries about where is inflation, where is labor inflation, and we've seen some of that particularly among some of the staffing positions among our contracted services. So, the services that you see in the airport whether it's cleaning or concessions or wheelchair pushing, et cetera, we're seeing some signs of inflation in that sense.

So what we've done is we went out with Gareth Joyce, who runs airport customer service on Gil's team and we've actually consolidated suppliers. So, we went across all of our airports, particularly our largest hubs and where we had opportunities to consolidate across functions to realize synergies, we've done that, lowering the impact that we see on turnover in that demographic as well as the pressure that we've seen on hourly rates to be able to drive synergies in there to deploy those resources more efficiently.

So we're thinking at a deeper level across the organization. We recently hired a new Head of Supply Chain, who she has hit the ground running and is driving real value creation inside the supply chain. This isn't about going to our suppliers and beating them over the heads and saying I need to get another nickel, I need to get another nickel. This is about a fully integrated view that stems off the one Delta efforts as well of going in and saying how do we communicate better digitally, verbally, through our businesses, in order to drive the efficiencies that are going to benefit both of us. Because when we do that, we can drive better cost performance for the airline as a whole.

But we've also got the One Delta initiative. We got off to a little bit of a slow start. In 2018, we stood up here and talked about $200 million of benefit. We delivered $150 million of benefit here and we spent a good bit of the time setting up an infrastructure and setting up an organization to make sure that this is a permanent shift. We don't want this to be a project. We don't want this to be a one and done. We want this to be a permanent shift in how we think about the business and how we better align our silos in order to drive value horizontally across the organization. And Gary's team and the leadership that he's done uniting these divisions across the board to drive better outcomes is laying that foundation.

So while we had $150 million of benefit in 2018, we're expecting to get $500 million of benefit. A lot of that is being driven in just the way we fly, how we think about the business. We imposed a lot of variability on ourselves and the way we scheduled the fleet and way we scheduled staffing. That results in buffers being built across the system to be able to absorb those internally self-driven actions and variables. And when you do that, when you solve problems with those buffers, costs start to go up because you have more slack in the system. We've taken that head on and we're driving efficiencies throughout the organization to better align the way we've built the network, fly the airplanes, integrate with maintenance and integrate with the staffing decisions across the board, because when we do that we're going to get better long-term performance in the enterprise. And that's what's going to drive these results that are going to lead over time to over $1 billion of savings as we get to 2020 and beyond.

The balanced capital allocation strategy is all about consistency. And as I've said before, all of the stuff that I talked about before in terms of profitability, margin, performance, sustainability means nothing if we aren't good stewards of capital. And one of the key differences between then and now is the stewardship of capital and what you see at this enterprise. Reinvesting in the business, this serves as the foundation for everything that we have to do and is going to ensure that we get the return on invested capital next year and the year after and the year after, decades into the future.

That investment track record that we've got that's driven return on invested capital over 15% is ultimately the track record that we're basing that on when we're building in these investments year-after-year. This year we'll spend $3.5 billion on the fleet, huge incentives, huge opportunities for us to be able to drive not only efficiencies in the business, but a premium product. All those revenue categories that Eric talked about, all those initiatives that Glen talked about we're investing heavily into those premium cabins, driving more inventory, more opportunities for people to pay for what they value.

$450 million into technology. In years past, this has been heavily infrastructure-driven. We've built the new data center. We had to deal with some of the power issues. This year more than half of this is being driven solely into the digital experience and what we can do in terms of technology transformation for ourselves and for our customers and for the way they interact with us, driving huge results going forward and the ability for customers to continue to pay for what they value within us.

But it's also about driving flexibility. We've got to have flexibility for whatever those headwinds come. So, if you look at our forward book over the next three years, we have $2 billion of contractual deferral rights that should we start to see headwinds, should we start to see things on the horizon, we can go in and action those. That doesn't even count what you can do in a negotiated setting. That's just contractual deferral rights.

We also have flexibility built into the other half of all the discretionary capital that we put in. The ability to be resilient in the face of challenges is what sets us apart and what's going to drive us for continued value for the future. And a lot of that is built on that foundation of the investment grade balance sheet. This has been an absolute labor of love for the entire company for the last 10 years and represents what I think is one of the most clear fundamental differences between then and now and between us and others. Because this balance sheet is the foundation for what we're going to be able to do and what we're going to be able to do to weather the storms whenever they come.

So, there is a couple of changes here that I want to highlight on this slide really quickly. Number one, the legacy debt goal that we had out there which was $4 billion by the end of 2020 is just that. That was a goal that was set years and years ago, when we were a very different company. So, as we think about the fact that we've gotten bigger, we've gotten more profitable, we've driven more cash flow, we've gotten the pension to a much, much more reasonably funded status, we are actually changing that goal. Rather than saying $4 billion of net adjusted debt, we're saying 1.5 times to 2.5 times debt to EBITDAR. And when we look at adjusted debit to EBITDAR that's a range that we feel very comfortable operating in. If you look at 2018 we're showing 1.9 times, which tells you we're kind of right in that midpoint.

The other thing I want to highlight on this though in the Finance Insights presentation that we did yesterday that we filed on an 8-K last night as well, we did disclose that we are going to early adopt lease accounting. So this is the new lease accounting standard that takes effect 01/01/2019, allows for early adoption. It's going to put about $6 billion of operating leases on our balance sheet. Modest change to the P&L. But over time, it's going to add that leverage, most of which was already capitalized by everybody anyway through their own adjustments that they made, but there is more information available in the 8-K that we filed yesterday. And any questions that you might have, we can certainly answer for you, but I wanted to make sure we have that.

We're going to continue to de-risk the pension. As we've talked about before, we've allocated or earmarked $500 million a year in each of 2019 and 2020 to continue to fund that pension status. In the environment of higher interest rates, we continue to work this number down and we have a liability that now is about $5.5 billion. We're up to 72% funded on a GAAP status. This is 2,500 basis points better than where we were when we started this journey in 2010. Every 50 basis points of rate increase results in $1.2 billion coming off that liability. We are perfectly indexed to a higher interest rate environment with low debt and a high pension liability that ultimately is going to help to be mitigated. But we need to continue to de-risk this and continue to improve the funded status.

And one of the reasons why you see in the non-op disclosure here that we're expecting to be about $200 million and $250 million lower in pension expense in 2019 than we were in 2018. Now this is a non-cash expense, it doesn't actually draw cash, it doesn't affect the funded status of the plan. But this is the amortization of the difference between your actual return and your expected return. So in 2018, we rode the wave of asset returns inside the pension of being up 16.5% in 2017. In 2018, we're expecting that to be flat. So that's driving a little bit of pressure in the non-op across the board. But that volatility is one of the reasons why we need to continue working on this and de-risking that. So it doesn't create noise in the operation and what you see every single day. And we've got a good plan in place to be able to immunize that over time.

And lastly, committed to consistent shareholder returns. This again I think is probably the thing that sets us apart from our history of the most. We're no longer asking you to rely on intangible growth or valuation models as much as we're looking to say here's the cash flow we can generate and there's a consistent allocation going back to over time, never been true of the airlines throughout their history, but fundamentally different. This year is our second consecutive year really fourth over $2.5 billion of cash returned back to shareholders, an increasing amount through the dividend as well, which represents our permanent commitment of being able to return that cash to shareholders, which currently sits at about 25% of our free cash flow and is expected to continue at that range going forward. We're on track to complete our $5 billion share repurchase in 2020, which is exactly on track with what we said. This consistency is important to remember when you hear a lot of short-term volatility that we can be trusted to be able to deliver on these numbers as we have year-in and year-out.

So, as we think about the business through the cycle, we think of our pre-tax margin that's greater than where we sit today. We think about adjusted debt to EBITDAR in the 1.5 times to 2.5 times range, which is significantly below what you've seen in history and a return on invested capital which was previously unheard of in this business, consistently producing above 15% ROIC. So, this is the framework. This is the foundation about how we build and how we think about the future.

And as you look at how we've driven that through today, I want to take you back to the five things that Ed said we want you to take away today. Number one, we're delivering superior financial results and we're doing it in the face of changing economic environments and that's probably no more evident than what you see today. $2 billion of year-over-year fuel pressure and nearly flat pre-tax income, never been done before in terms of that level of volatility. So whether the headwinds are fuel related or they're economic related, we can deliver those superior results and we're focused on driving that through the cycle.

Think of us as a powerful consumer brand. Sometimes it's hard to buck the trend of, they're just an airline. But we have more brand equity, more brand value than really at any time we've ever had in our history. And it's that brand value that is allowing us to harness the premium revenue. It's allowing us to harness the innovation of being able to drive business models that yield big results like the MRO business that Gil has done, like inventing our new in-flight entertainment and our own in-flight entertainment systems, not trusting others to do that and letting them capture the margins of technology we're doing it differently. An increasingly diverse revenue stream, a revenue stream that's solely based on passenger revenue is subject to the ebbs and flows of passenger behavior and corporate spending, a diversified revenue stream that has a huge component that's tied to credit card spend in the U.S. is much more indexed to just GDP.

A diversified revenue model that looks at maintenance, that looks at engineering, that looks at parts procurement, gets us that stability that we need through a cycle to be able to lower maintenance costs, to be able to take advantage of opportunities in the market, to drive value for our shareholders. A non-fuel unit cost trajectory below inflation. We haven't always been good at this. We've always been committed to doing it. We've always had things come up. In 2018, we're going to deliver 1.5%, in 2019 we're going to deliver 1% unit cost growth and we're going to keep that number below that rate of inflation, which is going to help fund the margin performance that we see going forward.

And lastly, we hear this a lot from folks, you've been so successful, you've driven such a wide gap between your competitors, you must be done. Hopefully, today, you learn we are far from done. We're not even done looking yet we've got a huge runway of opportunities here, whether it'd be in technology or brands or culture or pricing or operations that is going to allow us to continue to grow our lead, grow our lead against our competitors and grow our lead against who we were.

Thank you for all your attention today. Thanks for your patience. We always appreciate you coming out for this day. Hope you enjoyed it. I hope you found it helpful. And we've got one more video and a Q&A session for you to close today. Thank you.

[Video Presentation] (03:54:58-03:55:59)

Unverified Participant

It's now time for our final question-and-answer session of the day. Delta's IR team is in the audience with microphones. Please welcome back Gil West, Tim Mapes, Eric Phillips, Rahul Samant, Joanne Smith, and Paul Jacobson.

Paul A. Jacobson

Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

Gil, we got to do something about the safety of these chairs.

Wayne Gilbert West

Chief Operating Officer & Senior Executive VP, Delta Air Lines, Inc.

Right. It's pretty wobbly.

QUESTION AND ANSWER SECTION

Joseph William DeNardi

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Joe DeNardi of Stifel. Paul, can you just talk a little bit about pension sensitivity. If you were to have your flat asset returns, you're down 5% or 10%. I mean is the relationship linear where that becomes a $200 million headwind, a $1 billion or $2 billion? Thank you.

Paul A. Jacobson

Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

A

It's certainly not that – sensitive as down 5% would be a $1 billion. So, it centers around the expected return which we have at about 8.92%. We take a little bit more of private equity risk et cetera in the plan given our funding opportunities and the option value that we have, because keep in mind we really have until 2025, before we have to make any contributions under airline relief.

So, given that unique status, we take a little bit more risk from that perspective and it all centers around 9% from that. So, it amortizes over, I think the number is about 22 years. It's over the average life of the pension plan and it centers around that. So, some years, you're going to have a little bit of goodness, some years you're going to have some badness. So, if you think about the two years where you are up 16.5% and you are flat, you're really kind of centered around that 9% within that ballpark. And that's where you see a little bit of good news in 2018, some of the bad news coming back in 2019 but overall keeping it relatively flat against where it was before that. That volatility is I think one of the things that we have to figure out how to manage, as we get the plan up to a better funded status and being able to completely de-risk that is – is on the long-term plans.

Joseph William DeNardi

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Just on the – on the CapEx profile over the next few years, the plan to re-fleet 35% of the mainline, can you just talk a little bit more about the flexibility you have to – to manage that if – if the you know demand environment changes? You talked a little bit about contractual deferral rights; maybe provide a little bit more detail there? Thank you.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

A

Sure. Well, it's a great question, Joe. And I think it's a center of a lot of anxiety that we – we hear out there, not just in airlines but in just the macro world. There is two aspects of flexibility. There is one in the spending that you're projecting, which I talked about a little bit in the presentation, which contractual deferral rights of $2 billion, negotiated deferral rights that could potentially be more than that based on the size of the relationship between the parties and the scale advantage.

But the other side of flexibility is what you can do with your existing fleet. And as we've talked about before, our existing fleet while a lot of the things get lost in averages and average fleet age, we have more of a barbell type fleet. We've got a huge cadre of new airplanes. We also have a large group of old airplanes that are fully depreciated, MD88s, et cetera. So the trade-off in the downturn about being able to sit capacity is not just deferring CapEx, it's also about what can I sit down at very, very low cost and work to get those fixed costs out of the system. So between that combination we feel very good about our ability to adjust, should we see those headwinds arise. And we'll make those adjustments as we need to.

Hunter Keay
Analyst, Wolfe Research LLC

Q

Hi. It's Hunter Keay at Wolfe Research. Two questions. Maybe one for Tim and one for Eric. Would you be willing to share how many outstanding SkyMiles your customers have right now that have been earned but not burned relative to 2008 when you went into the last down cycle?

Tim Mapes
Senior Vice President & Chief Marketing Officer, Delta Air Lines, Inc.

A

I don't think that's information that we typically share.

Hunter Keay
Analyst, Wolfe Research LLC

Q

I know.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

A

Thanks for asking.

Hunter Keay
Analyst, Wolfe Research LLC

Q

Okay. That's okay. And then dynamic pricing is something that gets a lot of hype, but I'm wondering how you guys have a little bit of a contrarian view on some things. I'm wondering if you have a contrarian view on that. I think it might be argued that part of the reason why there is a general mistrust of the airline industry is because there's such – no one knows what they're going to pay for anything at any given point in time, they're very surprised when they see certain fares or price points. Is there a value that you see in not adopting dynamic pricing of some of your premium upsell products and just keeping price points relatively consistent? I'm not talking about base fares or future pricing but just in terms of how you think about sort of the concept of trust around pricing of some of these upsell opportunities over the long term?

Eric Phillips
Senior Vice President, Pricing and Revenue Management, Delta Air Lines, Inc.

A

I think it's a great point. I think one of the most beneficial things we can do in the relationship that we have with the customer is make sure that they trust us, yeah. So your point is right. I don't think that as an industry we've done a good job of that. And you can see then where entry points are like the lower fares are at $79 in some cases and they ramp very quickly up to very high fares, that – that's not a great kind of relationship to have with a customer when they see that kind of movement.

I think as it pertains to branded fares, we actually have been fairly consistent with what those upsell amounts are. And it's kind of – it's again, it's just for a little bit more has been the mantra that we followed. When you're talking about moving from main cabin up to Comfort+ or main cabin into the front cabin.

So we want the customer to trust, but that's not going to move dramatically as you move through the booking curve. Now inventory as it goes down is going to affect us somewhat. But I think that part of getting people like incenting trial for the premium products has been keeping that price relationship fairly consistent and that's an important concept for us even as we move forward. It's not about dynamic pricing as it pertains to the way insurance companies do it. I think it's more about being really tailored with the offers that we can make to customers throughout the travel ribbon, increasing the availability through the channels that are out there for customers to see and purchase the product.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Jamie Baker with JPMorgan. Hello Paul.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

A

Hey Jamie

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

That was your opportunity to say stop. You had me at hello.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

A

You are the more sensitive side of Jerry Maguire I see.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

As long as I don't complete you. A few years ago, I asked Richard on this stage as to whether the international franchise and some of the work that you were doing with your partners whether there was any creativity on the cash tax side of the equation. And quite frankly, I hadn't really thought about that in recent years. We obviously had some tax reform here in the U.S. recently. The tax guidance that we got from the IR team last night, was any progress ever made on that? I mean Richard answered the question with some level of enthusiasm. Is there upside to that tax rate that you articulated last night, is something already baked in or did the exercise just not come to fruition? Thank you

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

A

Well. Thanks for the history lesson Jamie. Certainly that exercise did come to fruition. We set up a transatlantic entity that was driving a few points of tax advantage if you saw our tax rates I think when at the time down from about 36% down to about 32%, 33% pre-tax reform. Now what tax reform did is it traded off a lower overall U.S. tax rate against the backdrop of foreign earnings and you saw that with deemed repatriations et cetera, not to get technical

So what you look at today at a base tax rate, book tax rate of about 23% that is all encompassing with tax reform. So there is still some small benefits that we have with the international operations, they're not as pronounced as they were. But the big driver and what we've talked about in years past is when we do pay cash taxes, which we project in 2020, which will dovetail very nicely with the balance sheet and the pension work that we've been setting up for years, what you'll see is a cash tax rate that will probably be more in the low double digits around 10% to 12%, 13%.

And the primary difference between that is depreciation for book and depreciation for tax with incentives, immediate expensing, et cetera. So as you're investing you're lowering your overall cash effective tax rate. So that's where we see it taking shape. That will continue to evolve over time but it's not going to be meaningfully different than that.

Dan J. McKenzie
Analyst, The Buckingham Research Group, Inc.

Q

Hey, good morning Dan McKenzie here again from Buckingham Research. The first question is really just a clarification on the pre-tax margin guide to expand you know the margins a 100 bps. So Paul, I'm wondering if you could just help us understand what's embedded in the crack spread in the back half of the year? Are you thinking there's a revenue offset? And the reason I'm asking you to clarify this, I just want to make sure we – people don't conclude margin expansion in first half of the year, margin contraction in back half the year. So I'm just wondering if you can talk about the revenue assumptions around the IMO in the back half of the year. And then as a follow-up, Eric, I'm wondering if you can just talk a little bit about what's different today in terms of the pricing dynamic with ultra low-cost carriers or the low-cost carriers, how that's shaping and how you're thinking about the world as we head into 2019?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

A

Well, thanks for that, Dan. And I will not give a backdoor guide to third and fourth quarter RASM at this point considering we haven't done much in the way of that for 2019 yet. But what I'll just say is, as we think about how the year comes together and we think about the ability to offset and what the industry looks like and what we look like and what initiatives we blend all of that together into a world where we think consistent pre-tax margin is possible, and that momentum that we have. So while we've built some pressure into the back half, what I would say is it's not consequential to the full-year when you put $5 a barrel onto it. And it's not consequential to the full-year. It does provide some timing things, but overall we're building a plan that can have some consistent pre-tax margin expansion throughout the year.

Eric Phillips
Senior Vice President, Pricing and Revenue Management, Delta Air Lines, Inc.

A

As it pertains to ULCC pricing and I won't go into a lot of details about what the environment is. I think the important thing to know on that is, it's less and less about what the competitor does in the pricing realm and more about kind of what we see and what the demand trends look like for the customers that we serve. So because the profile of customers looks different between the two carriers, between us and them. So for a lot of the fares that they'll put in the marketplace, we're not matching those, we never have. We have – we approach it – we use the product segmentation that we have with basic economy to appeal to customers that are price-sensitive. So, we can see a little bit of shift perhaps in the way that they approach the market, but it hasn't driven like a dramatic change for us in how we price our product and put it into the marketplace.

J. David Scott Vernon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi. David Vernon with Bernstein. First question is for Tim. It looks like you've been getting about $300 million a year or so of contribution every year since about 2012 out of the AMEX partnership. What should we think about as an outlook for the contribution on the co-brand card kind of going forward? Is it going to be consistently at that sort of $250 million, $300 million run rate that we've seen over the last six years or is there a chance that could moderate?

The second question would be around non-aircraft CapEx. It looks like about 20% of the spend rate now Paul is on things without wings. Is that something we should kind of bake in as a recurring run rate as you're looking at executing on all these initiatives around technology and upsells and improving the experience? Is that the right number? Or it is that – is it getting to the other end of the runway and going to cost more in non-aircraft CapEx long-term? Thank you.

Tim Mapes
Senior Vice President & Chief Marketing Officer, Delta Air Lines, Inc.

A

I'll take the first part and I'll go back to Hunter's question too because I wasn't intentionally cagey in answering that. Just for the benefit of the room it's very much Delta's interest to have an invite redemption. So, relative to the question that redemption of SkyMiles and redemption for travel or the other things that you saw announced earlier in this week is a measure of engagement with customers. And I think to the question around trust, the extent to which those redemption opportunities are available and increasing and providing customers with greater value are critical to us because they demonstrate Delta listening to customers and doing the very things that we've talked about throughout the course of the day.

And specific to your question, we believe there's upside to the run rate and the upside exists across a number of areas that we won't get into today, but we're quite optimistic that we can sustain if not increase the contribution that we've seen from American Express. If you look at what is going on we're succeeding in appealing to a broader universe of customers as they become SkyMiles members we've got the tools that you've heard well from us throughout the course of the day to use that information and the interactions that we're having with those customers to present them with the opportunity to become a co-branded credit card holder.

The yield profile of SkyMiles members being 11% higher and the fact that the contribution from the AMEX co-brand as well as the charge rates that are running around the 12% CAGR that we talked about give us every reason to believe that that will continue. Obviously, it's subject to economic cycles but in direct answer to your question we anticipate that growing not shrinking and increasing over time.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

A

And, David, I applaud your question because we just usually refer to that as ground CapEx but things without wings is much more eloquent, so we may adapt that with your permission. But I think that ratio has actually been pretty consistent over time. So while we've got a little bit of a higher fleet CapEx over the last couple of years and as we go through this replacement phase over the next couple, I think it's a good ratio to keep in mind.

That being said, what I will say is that as the economic forces change and should we see headwinds, there is much more discretion in that in terms of our ability to stretch things or otherwise potentially put off if the cash flow isn't there in addition to the triggers that we could make on the fleet side as well. So there is inherently, as a ratio of the total spend, the higher amount of flexibility in that pool that we have the ability to adjust as we see. And as we look out over the horizon especially for 2019 all of the investments that we're funding and that we're thinking about whether it's in technology or it's in replacement equipment or it's in facilities is all being ultimately aimed at driving that 15% plus ROIC. So we feel very good about it. That being said, if we see headwinds, we have an ability to adjust.

Jack Atkins
Analyst, Stephens, Inc.

Q

Great. Good afternoon, guys. Jack Atkins with Stephens. Thanks for letting me to ask a question here. So, just a question for Gil and Eric on the revenue mix. Obviously, a lot of changes there over the last seven years. As you think about sort of the next five years going forward, first, Eric, I guess for you. What's the ceiling for your premium revenue as you sort of think about the share that that has within the total pie? And then Gil, within the sort of the maintenance MRO, cargo business, obviously that seems like the some of the faster growing components of the revenue stream. Could you sort of talk about the opportunities set there you see that over the next five years because it seems pretty exciting?

Eric Phillips
Senior Vice President, Pricing and Revenue Management, Delta Air Lines, Inc.

A

So, on the first question, I think that there's headroom for us on the Premium product side and the revenue that we generate there. One, as the channels improve and our ability to show the products, but the other thing too is that the paid load factors that we see. So we see domestic first running a strong paid load factor, so north of 60%. The international paid load factors in the Delta One product have always been strong. So there's never been a need for us to really push on those. There's always going to be opportunity on the margins.

I think where we've got a lot of opportunity then is on the Comfort+ product. And we run paid load factors for that product that are in about probably the mid-40s. So continuing to improve our ability to optimize the price, enhance the availability of that product to customers and put it into the channels that they use tells you that there's some upside there along with then the fleet transformation. So as we upgauge the fleet over these next years with narrowbodies, the regional products, there's going to be upside there as well. So I don't know ultimately what that number gets to. It's going to be bigger than I think what we see now just because capabilities are going to improve.

Wayne Gilbert West
Chief Operating Officer & Senior Executive VP, Delta Air Lines, Inc.

A

And on the second question, first, thanks, Joanne and I were getting lonely down here. But I would just – I would add where – as I at least alluded to during the presentation that I made like we've been internally focused with a number of these businesses to create excellence for our own sales, our own – the own airline and add cost savings, but it's a natural act and to pivot to the commercial side of it. We're – I think we're pretty disciplined about that and we've made the longer-term investments that I mentioned on the engine side with MRO. But we've also really tried to put talent from the other – outside even the airline industries into these businesses as well as the best talent we have, it's a great source of talent development internally because it is a chance to actual experience of standalone P&L in a big company, which is pretty rare. So as part of all of that, we are directionally, I think you'll see the trends continue that I mentioned year-over-year 2019 and beyond, some of those businesses are likely to grow faster than that, and the MRO as an example is those new engines mature over the next five years, that revenue picks up at a very fast pace.

The other pieces are some of those – some of the other businesses like Delta Flight Products I mentioned that is relatively small now, but in a big market and has product that we can grow. But all of these businesses the way I personally look at them is, I mean, Delta today domestically we've got about 25% of the airline market share internationally. And then if you piece together our equity partners, JV partners, other alliance partners it's probably 20% of the world's market. So, as we set aspirational goals these are big markets, we've got a big position and we've got the excellence to perform in those. So I think it's a long runway for us, but it's a disciplined runway. So we got to make sure we've got the skills, the talent, the systems, the infrastructure and we're able to manage growth not just for ourselves, but for our customers ultimately in those segments.

Kevin Crissey Q
Analyst, Citigroup Global Markets, Inc.

Hi. Kevin Crissey with Citi. I'm trying to think about the brand and I think airlines like to be marketing-centric when times are going well. Can you talk about what's changed in the industry and what's maybe changed with Delta as it relates to brand and NPS and why that will be such a big differentiator versus historically it hasn't been enough of a differentiator. We needed consolidation. I think Eos probably had a great NPS score when it went away. Like, how should we think about why brand and NPS will be the drivers? When I think back to where you were in 2010, you didn't have a very good NPS score, yet your results got a lot better. So why should we think that NPS and brand will be the differentiator as we move from here forward.

Tim Mapes A
Senior Vice President & Chief Marketing Officer, Delta Air Lines, Inc.

From a – and maybe Paul can speak to some of the more economics. I mean I think we locked in on NPS six, seven maybe eight years ago as the indicator it is as a precursor to financial performance. And the reality is you have to have customers who want the product that you're delivering to the extent that there's love for that brand or love for that product, there's clearly an emotional context that enables and supports premium pricing and has a level of engagement with customers where they are actually interested in hearing from us about the range of other products or other experiences that we make available whether that's a Sky Club membership the co-branded credit card or anything else. If the underlying brand is weak and non-performing there is clearly less demand there is less openness.

And candidly, as I shared in my presentation there is less of an interest on behalf of those customers to share with us the data and the insights that they are able to provide us that help us in turn develop the very things that we find they have greater interest in over time.

So, it's not an exact science in the sense that the input of one equates to the output of another. But all other things being equal, what we have seen is as we listen to customers and invest into the areas they tell us are the most of interest to them whether that's seating comfort or greater leg room or the ability to recline and get a good night sleep on a transoceanic flight, we've seen an economic return and a share gain in those very markets whether that's from the corporate business or individual fliers.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

A

And we track pretty closely the relationship between Net Promoter Score and the revenue premium. And, you are absolutely right, we didn't have those scores in 2010, but if you look at the correlation over time as we've built that revenue premium it's pretty heavily correlated to Net Promoter Score, a lot of other things going on at that time as well.

But I think with your Eos example I think there's two things that are different, but they're all centered around the same, which is it's not just brand it's the unprecedented level of brand value and scale that you see today that makes a meaningful difference, so all those customer amenities that Tim referred to all the pricing that Eric referred to, all the corporate sales that Steve Sear talks about there's a stickiness that comes with an advantaged Net Promoter Score and a brand that within the context of the scalable network means a lot more than it ever meant before because switching cost become much higher as the individual customer as they built up loyalty and they built up brand reference that didn't exist before without that global network because I could jump from carrier XYZ and often had to in order to get to different parts of the world.

The second piece where I think there is a lot of economic ramifications and I mentioned this before but I think we're still in the infancy is what does brand allow us to do with the ability to harness and capture data. Not just with our customers but with our vendors and with our partners. And as we've experimented with that relationship and the power of that brand one of those things that comes to mind is CLEAR, you'll see them downstairs, the relationship, the exclusivity that we're able to build with them.

We help to build a really valuable company together in parts of the work that they have done on the technology side but also in part harnessing that brand value of Delta and what it means to come together and we were compensated for that whether an ownership stake with preferred rates for members et cetera. There is a lot more that we can do around the supply chain one of the things that we've talked about is how do you provision the airplane and rather than going to Mondelēz or going to somebody and say give me your best price on the snack, how do you tie that into the promotional budgets and make them think about that more in a context of getting a spot on board the Delta airplane is tantamount to getting an NCAP at Walmart, right. And with that data, with that brand value and the consistency that we can deliver there is a lots of things across the spectrum that I think can drive value that we haven't had that ability before.

Tim Mapes
Senior Vice President & Chief Marketing Officer, Delta Air Lines, Inc.

A

I'd offer one other quick one that you may not think of top off mind, when you think about NPS. Glen mentioned earlier the two day product summit that we had with all of our international JV partners earlier this week, and I was in that with my counterparts for all of those two days. NPS is an immediate unifying way of identifying what each of us are hearing from our different customer bases. So while each airline brand has unique at language and culture and other things, the ability to unify around here is what customers value, here is what customers are telling us they want was a critical element, it's one of the first things we collectively discussed is really what's the common dataset, what are we hearing from customers, and the speed with which that group of people was able to align around the interests of customers and the commonalities of what we were hearing is another value of NPS that's different than the economic things necessarily that we're talking about.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

A

Did you want to add something, Eric?

Eric Phillips
Senior Vice President, Pricing and Revenue Management, Delta Air Lines, Inc.

A

No, it's okay. You guys covered. The easiest thing to say about the brand is the brand is saying to the customer, please come back to us. And when a customer comes back to Delta their willingness to pay – I mean, it's always about willingness to pay, willingness to pay moves. If you have a great experience on Delta, great experience onboard the aircraft, when you book a trip coming up in three weeks or whatever you don't know, and I mean we're all consumers, right, our willingness to pay something slightly different has moved. It's our job in pricing and revenue management to find where that is.

We're not in want to pay, we are always looking to find willing to pay and that's how brand like fits right into day-to-day decisions that we make, day-to-day actions that we take within pricing and revenue management of finding that point.

Philip Baggaley
Managing Director, Standard & Poor's Ratings Services

Q

A question for Paul. Phil Baggaley from S&P here.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

A

Hey, Phil.

Philip Baggaley
Managing Director, Standard & Poor's Ratings Services

Q

With the change in your leverage target and I see it changes in a number of ways, it's a different ratio, it's not net debt anymore and so forth, any change in your thinking about liquidity?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

A

Not really, Phil. I think, we've been in that kind of high $4 billion, $5 billion range. We've funded that a lot with revolver capacity which is making sure that it's always available as this industry sometimes needs it on emergency purposes. And we've always tried to drive efficiency in that.

One thing I didn't spend any time on, on the slide was that we're also building up a pretty sizable unencumbered asset base. So while it's not immediate same day liquidity one thing that's a secured markets in this business has proven is in an ability to issue and provide that capital in rainy days and sunny days and everything in between.

So, what we're trying to build is that balance sheet that gives us that strength to adapt, liquidity allows us to be a little bit more aggressive in how we manage it, given the fact that we know we've got certainty of capital on the backend.

Philip Baggaley
Managing Director, Standard & Poor's Ratings Services

Q

Thank you.

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Mike Linenberg, Deutsche Bank. Really two quick ones to Gil. In your presentation you identified the interiors market, I think you said it was $18 billion. Does that include seats?

Wayne Gilbert West
Chief Operating Officer & Senior Executive VP, Delta Air Lines, Inc. A

It does.

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc. Q

Okay.

Wayne Gilbert West
Chief Operating Officer & Senior Executive VP, Delta Air Lines, Inc. A

Now, we don't have a seat product, but we are – we've got products on 50% of that market though.

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc. Q

Right. And then my second question is with respect to both the Pratt GTF and the Rolls Trent. I know it's been reported that I believe you have North American exclusivity but I'm not sure. Is that accurate?

Wayne Gilbert West
Chief Operating Officer & Senior Executive VP, Delta Air Lines, Inc. A

Yeah. Yeah, I was supposed to hit the brake some about that, we've got confidentiality agreements in our contracts so it's hard to get into the details, but let me just say, we've got base load, we've got the ability to win additional volume beyond the base loads based on performance. I would argue, we've got the best engine shops of any engine shops in the world. I'm an old power plant engineer, so I appreciate those things. So I think we've got the ability to pick up far more volume even than our base load so, correct.

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc. Q

Great. Thank you.

Wayne Gilbert West
Chief Operating Officer & Senior Executive VP, Delta Air Lines, Inc. A

Thanks.

Duane Pfennigwerth
Analyst, Evercore ISI Q

It's Duane Pfennigwerth, Evercore. Paul, could you follow up on a comment you made about changes in the network, changes in how you're maybe scheduling the airlines to drive cost savings? Is that a function of a tighter block? Is that banking if you could just expand on that?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc. A

It's a little bit of all that, Duane, but it's really more about certainty and taking out some of that near-term volatility. So, the coordination between the scheduled team and the operations team is at a level where the planning is going to create more stability in that. So whether it's also related to block, it's about making sure that what – you say you're going to fly six months from now we're going to fly six months from now, that allows for more accurate staffing and modeling and less pressure that we see on the day-to-day gyrations in the business.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Thank you. And then with respect to tax reform, have there been any changes in the cash tax benefits from CapEx? In other words I know earlier in the year depending upon when an aircraft started to get manufactured? Can you talk about sort of pre and post-tax reform are the cash tax benefits from CapEx the same, better or worse?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

A

So, certainly the cash tax benefits are going to be better than what they were pre-tax reform from depreciation allowing for the acceleration of capital expenditures. So, aircrafts as we've talked before get depreciated for eight years for tax, real estate is much longer than that. But the incentive that exists to invest in new capital is there. And those rules haven't been fully written and there's opportunities for us to try to influence that a little bit more. The way the tax law was written, it had to do with contracts that were entered into after August of 2018. But given the lead time on these assets and multi-year contracts, we're working to see if we could take better advantage of that.

Of course, it hasn't affected us on a cash tax basis at this point, because we're not a cash tax payer. But in part that depreciation benefit if you recall is kind of what kicked us from an expectation of becoming a cash tax payer in 2019 out to 2020 and that's where we sit today.

Jill Sullivan Greer
Vice President, Investor Relations, Delta Air Lines, Inc.

A

We have time for one last question.

Catherine O'Brien
Analyst, Goldman Sachs

Q

Hi. Catie O'Brien from Goldman Sachs. A little question just on the loyalty ecosystem that you're speaking about building, up-sell of miles et cetera, I would imagine that would drive higher engagement. Do you foresee a time when you're incentivized by Amex in your next round of contracts to drive engagement higher or is there a way that you benefit in your current contract from higher engagements? And then if you could just talk a little bit about the margin differential if any between a redemption on miles versus buying the ticket or up-sell of miles versus up-sell with money?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.

A

Do you want to take a little bit of that on the up-sell piece and the redemption?

Eric Phillips
Senior Vice President, Pricing and Revenue Management, Delta Air Lines, Inc.

A

Yeah, the way we think about it is, there is no difference between them. We want to get to the point where we're just kind of indifferent whether a person uses miles or whether they pay cash, obviously from a cash perspective that's different. But from us, as we measure financial performance and kind of our goals for what we're seeing in the products in terms of performance we would think of them no differently. So I think the real upside here is again like giving the customer like this option about how to pay for it. We have then the opportunity to reward loyalty through the ability to use the miles for the redemption. So, from our perspective, we don't think of it any differently.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.
A

Well, I think, Catie, what I'll add to that is that a lot of the catalysts for this, there's two converging forces. One is the change in the credit card industry that is attracted to airlines and miles is a form of currency rebate to their cardholders. But also the conversion that we did years ago to our revenue base miles program what that allowed us to do is provide the certainty of the cost of the program and balancing that into where we're fundamentally indifferent whether a consumer transaction miles or a consumer transaction cash to an extreme because I know Phil is worried over there and that I said we're going to go to cashless.

But at the end of the day the engagement model is the same which is our incentive is to make that currency as valuable as we can in the eyes of the consumer, not necessarily in terms of saying let's change the ratio of what the dollars are worth, but increase the value in terms of options and usability. What can consumers do and with the advent and the technology that Rahul has put into place and the brand and the product innovation that gives customers more choice brings them more engagement and more attraction into that mile as a form of currency that they want which benefits both Amex and us, and that's the long-term model that we see.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.
A

Right. Well, thank you all for your time and attention. What? We said last question.

Jill Sullivan Greer
Vice President, Investor Relations, Delta Air Lines, Inc.
A

We're done, I know.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.
A

No, I know.

Jill Sullivan Greer
Vice President, Investor Relations, Delta Air Lines, Inc.
A

There is more to come.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.
A

I know. I was just about to say that.

Jill Sullivan Greer
Vice President, Investor Relations, Delta Air Lines, Inc.
A

You are the best boss ever, Paul.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.
A

I was just about to just say I see U.S. Marines in the corner and...

Jill Sullivan Greer
Vice President, Investor Relations, Delta Air Lines, Inc.
A

Yeah.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.
A

...if there is one thing I know is I should yield to when there are Marines in the room.

Jill Sullivan Greer
Vice President, Investor Relations, Delta Air Lines, Inc.
A

Good. So, thank you...

Paul A. Jacobson
Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.
A

So, thank you for the Q&A.

Jill Sullivan Greer
Vice President, Investor Relations, Delta Air Lines, Inc.

Thank you for the team for Q&A. That is going to conclude the formal portion of our program. If you all just stay for another minute we have one very tradition that we started a couple of years ago, and we think it's really the best part of this day. So, we've got a quick video to start and then you'll see what comes next.

[Video Presentation] (04:31:10)

Edward H. Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

So I want to thank everyone for hanging in there with us today. It's been a full day with hopefully a lot of good information and insight and perspective and be the base line off of which we start to enter 2019 with and as always we thank you – we appreciate your sponsorship, your investment, your support. But I also want to thank our IR team, Jill and your team, you guys did a fabulous job, Elizabeth and Julie and all for pulling this all together.

So as you also know at Delta we are a caring company, we're a caring organization and we not only take care of our people, we do a very, very good job of giving back and taking care of our community. And our partners and one of the organizations we have been a proud sponsor for many years is the Marine Toys for Tots, and this year system wide we have contributed $700,000 to the Marine Toys for Tots. And just last week our employees at TechOps personally raised $50,000 to fund and assemble over 1,000 bikes for kids in need in Atlanta and last week our TechOps employees presented the Marine Toys for Tots with those bikes.

And continuing on with that tradition we want to make certain that everyone here is represented in form of contribution as well, so in lieu of parting gifts we saved that money and we're taking it for $25,000 and we are giving it to the Marine Toys for Tots so that they can build and assemble bikes to pass out to needy kids in the New York area so you can feel good about your time with us and your contribution.

And in that vein I want to welcome to the stage the President and CEO of Marine Toys for Tots Retired Lieutenant General Pete Osman. General Osman has had very busy week this week, he was with the First Lady in Washington earlier and then I understand you're going to be with the Chief Justice of the Supreme Court tomorrow. And thank you for making the trip up here, we appreciate the partnership. And I am also honored to welcome to the stage, Gunnery Sergeant Henry Kelcinski and Gunnery Sergeant Francis Giannattasio from the New York Toys for Tots. So gentlemen, thank you, as well for all you do for helping serve the needy children of New York as well as around the country and of course thank you for the service that you present to our country as well.

So on behalf of Delta and on behalf of all assembled in this room, we're pleased to make that donation to go to a good cause for this holiday season. Thank you.