PARTICIPANTS

Corporate Participants

J. David Scott Vernon – Analyst, Sanford C. Bernstein & Co. LLC
Edward H. Bastian – Chief Executive Officer & Director, Delta Air Lines, Inc.

MANAGEMENT DISCUSSION SECTION

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

All right. Good morning, everyone. My name is David Vernon. I cover transports and U.S. airlines for Bernstein. As we're kicking off today, I wanted to welcome you first of all for coming out for our 34th Annual Strategic Decisions Conference. We are delighted here to be kicking off the day with Ed Bastian, CEO of Delta Airlines, 20-year industry veteran, who has worked his way up through various organizational positions including CFO and President, named CEO in 2016. He has been guiding Delta through some of the best and frankly most amazing years of airline industry profitability for the last couple of years.

We're going to go right into Q&A.

QUESTION AND ANSWER SECTION

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: So Ed, maybe we can kick us off with a view of how sort of business conditions are, how the economy is performing from the C-Suite at Delta.

<A – Ed Bastian – Delta Air Lines, Inc.>: Well, first of all David thanks for having us. We're delighted to be here, and hopefully, we will track some additional interest in the name. The revenue environment, which is our proxy for the economy is very, very strong at Delta. And it's strong not just in the U.S., which it has been strong for the last number of years, but increasingly we're seeing a lot of strength internationally. In fact, all of our international regions are positive and moving actually at an even faster growth rate than the U.S. is.

Our first quarter top-line revenue growth was 8%, that's the fastest growth, the highest level of growth we've seen in some number of years, and that's continuing through the second quarter as well. So, we feel confident in the strength of the economy, the strength of the demand outlook, the strength of the corporate travel environment, which is an increasingly important part of our mix. It's staying healthy and it needs to stay healthy because we've seen a pretty significant uptick in fuel prices, which is – which we need to push through and pass along in ticket pricing.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: So, as you think about the health of the demand environment, whether on the corporate or the leisure side, how would you sort of rank it relative to your experience in the industry over the last sort of two decades, we had of the best revenue environments you've seen, is it like consistent with maybe last cycles or how would you characterize?

<A – Ed Bastian – Delta Air Lines, Inc.>: I'm not sure I'd say it's the best, but it's certainly as strong as we've seen in at least five years maybe more. And the good news about the revenue environment is that it's not coming through the traditional sources of pricing. We have a ticket base of our traditional pricing sources, but increasingly through merchandising, through giving customers paying for what they value through ancillary businesses only about 75% of our revenue base now is in tickets. The other 25% is whether it's incremental merchandising or cargo or MRO and our American Express business which is quite profitable for us. So it's healthy.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay. And maybe as you think about one of the primary issues that we talk about investors which is where we are in the cycle, how would you characterize kind of the outlook from here for Delta? Is this continuing to execute within the later cycle environment? Do you see continued upside from some of the initiatives the company is doing? Like how would you characterize the – or frame the opportunity for an investor looking at stocks where we are now?

<A – Ed Bastian – Delta Air Lines, Inc.>: Yeah. I see strong upside potential from here. I'm not quite sure where we are in the cycle. I'll let others determine where we are, but I see significant improvement. One of the things that's changed dramatically for us over the years and I don't think that the general investor has picked up on it as much is that we compete increasingly on product quality and on service as compared to solely pricing. And that's always been the challenge in this industry historically, because you had too many carriers chasing too little market share, and it became a commodity business back over time.

And we are out of the commodity world. I mean, there will always be a commodity component to our world. But we're significantly different than ever before, because we focus on quality. You see it in our Net Promoter Scores. You see it in our brand health. Our brand is substantially higher than any point in our history. And that's what's driving the revenue. That's what's driving the top-line improvements. We generate a significant revenue premium versus the competition. And it's not only been sustainable. It continues to grow.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: And I guess as you think about when the industry started to competing a little bit less on capacity, and a little bit more on things like service quality and connectivity. Where in the last several years did that inflection point happen? And how much more room do you think there is to actually improve the product and extract more revenue for the service...

<A – Ed Bastian – Delta Air Lines, Inc.>: I certainly believe we led that charge with the improvements that we've made over the years. We have the best reliability in the industry by a good measure. We have from the employee morale standpoint, our employees are happy. They're serving customers. Our Net Promoter Scores are highest. It's been several years in the making and it is going to continue to grow. It's generating profits that we have. This will be the fifth year in a row that our pre-tax profits will be in excess of $5 billion with $8 billion of operating cash flow attached to that each year for the last five years. And that's been in different revenue climates, weaker revenue climates, healthier revenue climates, different fuel environments.

So there's a sustainability and durability in what we're building and we're using the cash to continue to reinvest in the business to keep whether it's at the airports, whether it's new planes, whether it's technology. So I really do believe that the value of the investments that we're making today, we're going to invest $4 billion this year alone. It's got a significant long tail in terms of the benefits it's going to continue to yield for the company.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: And maybe just on that kind of point around investments, when you think about the $4 billion you're putting in, how is the composition of that investment portfolio changed, maybe today versus five, 10, 15 years ago in the industry? What are you putting money against and what is the intent of that? Is it share? Is it again value, like how do you think about?

<A – Ed Bastian – Delta Air Lines, Inc.>: The investments, first of all, go into product quality and reliability. So for us that's fleet. It is the core. That's always for an airline the biggest cost. This year, we're going to be bringing in 65 new mainline aircraft, which bring greater efficiency...

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay.

<A – Ed Bastian – Delta Air Lines, Inc.>: ...better productivity, better customer satisfaction, higher revenue potential along the way, every new plane that we bring in, investing heavily in technology. This year, we'll invest probably again at the highest level that we've had in our history. And what we're doing in technology is not just the reliability and the durability of the technology, but the personalization, the digital transformation of our business is coming. So we carry 200 million customers a year, and the only way we can build a personal connection to those customers, that's outside of the commodity space into a personal – we look ourselves increasingly as a brand that's part of the lifestyle of our customers and they want to have the digital opportunity to interact with us.

So our app wins awards left and right. But we've got now the infrastructure behind it to be able to advance personal lives at an even greater extent, so that our customers know that Delta is aware of where they are and anticipating their needs at every step of the journey. And these things take time, because the size and scale that we have, also investing heavily in the airport experience.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Yeah.

<A – Ed Bastian – Delta Air Lines, Inc.>: Here in New York, you all know what's going on at LaGuardia, the rebuild of LaGuardia which we're leading. We own half and we have half of LaGuardia as Delta and we're working and we're developing that ourselves in concert with the Port

Authority. But we've got a new airport that we're developing at L.A. We got a new international terminal in Salt Lake City or excuse me Seattle that we're building. We've got a new airport in Salt Lake City. We got a big renovation in Atlanta.

These things will all continue to grow on building the investments and the opportunities of the future. And I think that's the biggest thing our investors, I encourage them to look at is the future not the past in terms of what the past for this industry was. I appreciate the challenges attached to that, but we're building a very different airline and demonstrating through the profits and through the operating cash flow. And the other thing that's important David to that is all the investment we're making we're essentially paying cash for it, because our leverage is at a point we're not going to – we can't take it down much lower from where we sit today. We're down to about $8 billion of adjusted net debt and arguably that's – you can't go too much lower than that for a company of our scale and size. So the cash that we're throwing off, we're putting back into the business roughly 50% and the other 50% is going back to our owners.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: And just kind of a – as you think about again the nature of that investment, the new aircrafts that you're bringing on and service quality aspects of it, is it to make the network bigger or is it to make the network better?

<A – Ed Bastian – Delta Air Lines, Inc.>: Both.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay.

<A – Ed Bastian – Delta Air Lines, Inc.>: I mean we're investing globally through partnerships. We're investing in our key markets, we're not growing for growth sake, we're growing to make certain in our focused markets that we're continuing to improve for places like New York, L.A., Atlanta, and then also to improve the quality.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay. And then I guess as you think about the revenue management side of the puzzle right, obviously, Delta has been a leader in a lot of things that now your competitors are taking on and implementing. How much more room is there on the revenue management side, like, how much more creativity is there around segmenting the product, how much more room is there to make it experience of one to the total extreme, obviously we're not quite there yet. But, what are the big initiatives that you are looking on around those areas to kind of to capture that additional revenue management upside?

<A – Ed Bastian – Delta Air Lines, Inc.>: We still have a lot of opportunity there. We have led the industry in the personalization and merchandising of the product, the seat and I still think we have considerable room to grow. It's going to improve as again the better the technology that we can be able to deploy towards our customers, we already have close to 50% of our revenues come in or tickets come in direct to us, which is another huge improvement over the years.

In the past, I think the industry was rightfully criticized as having lost control of its distribution. 50% of our tickets now come through delta.com and our reservation channel's direct, which allows us then to further improve the personalization and the marketing of the product. Customers are coming directly to us, because they know they're going to get the best value from Delta as well as be able to tap into the various offerings – the service offerings that we provide, whether they'd be bundled fares, whether it'd be confirmed First Class. We're in an industry that historically used to give all our First Class product away, it used to all be through upgrades.

And any business model that when you're giving your product away, it's going to have some – your best product away, it's going to have some challenges to it. We're now to a point that 50% of our First Class seats are paid for. And that alone is a huge shift from where we've been. And you're going to see more and more of that as we go forward.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: And what about the channel partners that you have out there, whether they're the online travel agencies or the more corporate marketing – corporate travel agencies type of firms? What type of changes need to take place in the marketplace to really accelerate better. Are there any barriers around NDC or any of the distribution challenges that you have technologically that would see a major shift in the rate at which you're going to be able to upsell product or create new?

<A – Ed Bastian – Delta Air Lines, Inc.>: Well, we are working with our distribution partners, the GDSs to be able to have the same level of merchandising capability on their portals as we have on delta.com, so that when customers shop in those channels they can get access to the various product offerings that we have. That's taking some time to develop. They're still pretty far behind us in that way another source of upside for us as we go.

But on the corporate space, yeah, we're in a great shape with the corp., I believe. We've won the Business Travel News award in the last seven years in a row as the top business airline in the U.S. and again number two isn't even close. And that channel continues to grow and our most recent reports on Business Travel is we're up 10% in volume. So it's a healthy channel and what you see is the resiliency and the durability of the travel experience over time in difficult climates as well as the strong economic outlook.

Travel has become part of the lifestyle of this nation and this economy, and Delta sits at I think a very important point juncture in that in terms of bringing quality along with the demand elements that our customers are expecting to be able to provide the revenue benefits that we've shown.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay. And then maybe just kind of you all do have question cards on the tables. So if you do have questions as we're coming through, maybe in another 10 minutes or so we'll ask somebody to come around and work the room to pick up question cards, because we obviously want to make this as interactive as we can.

I guess as you think about the one aspect that's very different today would be the credit card programs and the credit card deals that have been brokered out there. How does that revenue stream change the business from a CEO's perspective? Like how does that – how does the cash flow from those programs change the way you think about capacity, change the way you think about planning the business, change the way you think about directing your operational people even to the extent of signing up new credit card programs that kind of stuff, how does that...?

<A – Ed Bastian – Delta Air Lines, Inc.>: Well American Express is our exclusive partner, and we've more than doubled the revenue base of that in the last five years. And today our revenues from American Express are in excess of $3 billion a year and growing as we look forward to, and we look at American Express brand coupled with the Delta brand as being one of our commercial most exclusive and most important partnerships that we have, we market together. We go to market together and we continue to grow. Our portfolio this year would be close to $100 billion in terms of size of the portfolio we are, Amex is fastest growing co-brand by a good measure, and we're outgrowing all of their distribution channels, credit channels that they have.

So, I think that partnership is strong for both of our brands, we gain a lot from each other in that regard, and it's going to be an important source of cash for us.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: So, as you think about the cash flow coming off of that program, will that be a more or less cyclical than your traditional airline sales?

<A – Ed Bastian – Delta Air Lines, Inc.>: I think it's far less cyclical. Again, it's coming through credit card purchases and consumer behaviors, which is very different than the buying activity for an airline ticket.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Yeah.

<A – Ed Bastian – Delta Air Lines, Inc.>: So, I think it is a very distinct source of revenue, yes.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: And as you think about the value that that program provides to the enterprise. Obviously, there are other companies in the industry Air Canada, some of the Latin American airlines that have actually sold off their frequent flyer programs. How do you think about that as an – either an opportunity or how should it be incorporated into the valuation of Delta from an investment point of view looking at it?

<A – Ed Bastian – Delta Air Lines, Inc.>: Well, I don't think any airline has spun-off, that's what you're asking me or monetize their frequent flyer program as anything other than just a financing transaction is a way to raise the capital. We have the ability to raise capital without having to do that, our credit card partnerships are generally based with our most important customers. We prefer not to sell our most important – the access to our most important customers off to the financial markets and we prefer to keep them close and avoid having a middleman come between us and our customers.

That said, if the – the valuation as a company over time, we're not able to generate the type of valuation and transparency and flow through in terms of the stock price, we'll consider different options. But at this point in time, we're still very focused on continuing to try to provide better transparency and better visibility into that source of revenue, and the strength and the durability of that revenue stream separate and apart from the passenger business.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay. And then I guess maybe turning back again just a second about just this notion of sort of competition, and how the industry might behave in the next downturn, it sounds like it's different. We've clearly kind of pushing towards more personal marketing for more diversified revenue streams. How do you get comfortable that in the event there was a downturn that the knives wouldn't come out, and we wouldn't be right back to fighting tooth and nail for every passenger and every – lowering the price until the seats are filled?

<A – Ed Bastian – Delta Air Lines, Inc.>: Well, the reality is we do fight tooth and nail for every passenger today, that's never changed. I mean any consumer business you are, we are incredibly competitive, and we're very proud of our competition and the service level. We're as you say look – when you look at the airline Delta, and you look at the profit mix, one thing I would say over $5 billion of profits every year for the last five years, strong double-digit margins each of those years for the last five years, 15% or more return on invested capital each year for the last five years.

And that I see no reason why that's going to do anything other than continuing to accelerate with all the investments and improvements that we're putting back into the product and reliability in the system. When you think about our leverage situation, our leverage is as we're always just going to get, so the cash we're generating, we're putting way back either into our product, putting into the capital back to our owners close to between $3 billion and $4 billion of capital return every single year.

So, on any metric that you would want to look at, we're very, very different than anything that we've seen in the past. And we've built these moats that we talk about whether it's American Express, whether it's the hub structure, the network that we have, whether it's the international partnerships, whether it's the low debt level. I think there is again not just the durability and sustainability, actually growth from here.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: And I guess, if you were to think about, let's say there was an economic dislocation of some sort, a little bit lower demand, I would imagine that the fact that you have a more own fleet will give you better flexibility to reduce capacity as opposed to...?

[indiscernible] (18:29)

<A – Ed Bastian – Delta Air Lines, Inc.>: Yeah, we have ultimate flexibility around the supply that we put into the market. If there was to be an economic downturn, there's no question that the airline would reduce its capacity. We've done in the past. We'll do it again. One of the things that I'd point out to investors is, in 2009, the worst year of all of our lives here in terms of the economy and the recession that we all lived with. If you exclude the fact that Delta was hedging fuel and lost money on those fuel hedges. We've put fuel hedge loss out, which we don't do anymore. We actually made money in that year in 2009, the worst year and that was before the merger was integrated. That was before all the improvements that we've made over the last 10 years. So we don't want to have to test the model and put the economy through another great recession too.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Yeah.

<A – Ed Bastian – Delta Air Lines, Inc.>: But that said, I'm confident that we would succeed because, the other thing about it is, we're the healthiest carrier of any of the global airlines. And I'm not just talking about the U.S. I'm talking about the world. And those are opportunities as well when something happens.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: So let's talk a little bit about the issue of moats for a second. Obviously, one of the big traditional knocks on the airline business has always been, any time you start to make money, you attract new entrants. You're earning such a good return. Capital is free. Like how do you think about the barriers to entry today versus how they might have existed five, 10, 15 years ago?

<A – Ed Bastian – Delta Air Lines, Inc.>: Well, when you look in the U.S. marketplace, people think about the airlines as being about airplanes, and it's true, they are, but it's also about real estate. It's about the markets that you're in. So you look at LaGuardia Airport. They're not building anymore LaGuardia Airports. It's there. It's going to stay there. While we're rebuilding the airport, we're not building runways. We're not building slots. And Delta has 50% of LaGuardia Airport. Delta has 80% of the Atlanta Airport. Delta has a significant portion on the West Coast whether it's L.A. and Seattle or Minneapolis or Detroit. We talk about fortress hubs – those are the strong places that we've invested, that we've built over time, and that those are tough for others to come in and start to take meaningful market share. This is just not real estate to grab it.

We'll always have sources of competition from the low cost guys or the different alternative models that are out there, but the bread and butter of what we have here, we are continuing to invest and continuing to make better. So, I think that's a very important moat, if you want to call it is that in the markets that we're big in, we do go big and we do – we're strong, and we've built them over time, and I think we're going to stay strong.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: And I guess that concept of the fortress hub, obviously, the fortress hub of five or 10 or 15 years ago was a lot less profitable than the one today.

<A – Ed Bastian – Delta Air Lines, Inc.>: Yeah.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Is that higher level of profitability may get harder for new entrants to kind of come in and carve off a piece of...?

<A – Ed Bastian – Delta Air Lines, Inc.>: Well, there'll always be access for new entrants, but it's very, very difficult for a new entrant to come in and start to have a meaningful impact in the big markets for that reason.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay. And maybe just to kind of talk a little bit more about the low-cost competition on some of the longer haul business on, for example, trans-Atlantic. How does that business model – how do you think that business model fits in the market? How do you think of it as a risk or a threat or is it actually more of an opportunity as you think about their ability to kind of...

[indiscernible] (21:54)

<A – Ed Bastian – Delta Air Lines, Inc.>: I don't think it's a meaningful risk. Across the trans-Atlantic, we have our partnerships with Air France and KLM and Virgin Atlantic and Alitalia. Strong partners that we have been – and Delta on the other side of that, you'll always have sources of people trying to come into that market in terms of the ultra-low-cost guys. But again that's – we're not looking for those customers. Customers that travel on those ultra-low-cost carriers are people that otherwise would not be flying. They take their traffic from the couch into the airplane or whatnot.

I don't think that fuel prices, for example, are sustainable over time in the ultra-low-cost markets. As you see fuel prices have jumped 50% here in the last year. It's causing a big impact on their business model. It's something that the bigger carriers, the more premium carriers can actually afford and can invest against to be able to get the pricing where it needs to be.

I think fuel has been a big driver of some of the unsettledness in the last few years. When fuel prices fell to $30 a barrel, it created a lot of dysfunctional behavior within the industry. We all made a lot of money, but it also created a lot of dysfunctional behavior. Fuel prices at $70, $80, even $90 I think is much more of a sweet spot for the industry, because it causes people to think before they put capacity out into the market in terms of how they're going to be able to afford the price for it. And for us, I think that's a good thing, and it's particularly true on the trans-Atlantic route. Our trans-Atlantic business is up – for the first quarter was up 15% revenues on a year-over-year basis, so obviously it's not been hit too hard by the Norwegians and some of the ultra-low-cost guys that you talk about.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: So, let's think about that issue of oil prices going lower, creating a little bit of irrational incentives or irrational behavior by the industry. One of the things and one of the discussion points that we have amongst investors is, this theme of capacity discipline. The industry is consolidated and now the industry is a little bit more capacity disciplined. How do you think about that as an airline CEO? Like, is this an industry where we should be expecting that sort of capacity discipline to be market-driven, behavior-driven from a competition standpoint? Like, is this a real investable theme or should we be expecting that this is something that is actually still a very competitive business where each carrier is going to be fighting tooth and nail at the edges of their network trying to create a better product?

<A – Ed Bastian – Delta Air Lines, Inc.>: I think, as I said, we are very competitive and we'll always try to make certain that our product is in the best channel, in the best place. But we're not competing for market share. We are competing for revenue share in terms of be able to grow and invest in the business going forward.

At Delta, we're growing our top line 8%. Half of that's through capacity, half of that is through pricing. And I think that's a wonderful mix that you can actually do both. Again, it speaks to the quality of the product and the reliability that we're generating.

And if you focus, I keep calling, if you focus on service, you focus on competing for customer and brand preferences is what we are and we have and we continue to show, you don't have to discount your product.

You gain share because customers are choosing you, not because you're putting the capacity, and trying to discount the price to grab as much share as possible. So we haven't been in that mode at Delta for many years in terms of competing for market share. We're big enough, we're strong enough, we don't need to try to get that last nickel. What we'd rather be doing is investing in product quality and service and reliability and corporate share, and those types of things, and the revenue growth will come from that.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: And would it be fair to say that that big enough concept is the same as saying that there just isn't that much more out of scale or you're going to get more out of the service quality than you get out of scale. Is that kind of the right way to think about it or?

<A – Ed Bastian – Delta Air Lines, Inc.>: I think we get both. I think we get scale, I think we also get in terms of quality.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: But if you get bigger does it actually do much for your cost structure or is it more profitable...?

<A – Ed Bastian – Delta Air Lines, Inc.>: Oh, it's tremendous for our cost structure, because the – one of the things that we've been investing and we call it up-gauging within the industry as we bring bigger planes in. I'll give you a typical example like, every MD-88 that we retire, we still have close to 100 to retire over the next two years to three years. We will bring in an Airbus A321 or a Boeing 737. That plane, the new plane will have up to 50 more seats on it, so tremendous more revenue potential, tremendous more cost efficiency, 25% more fuel efficiency and better customer experience at the same time.

So the return on every one of those planes that were taken out versus in we've got great pricing on the new planes coming in too, and every plane we're putting in and we're doing that play over and over and over again. So, yes, you're getting great efficiency from the up-gauge in the bigger planes and you're doing that without having to create new departures, because you're creating more market capacity and share of market from your existing base.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay.

<A – Ed Bastian – Delta Air Lines, Inc.>: And another great example is, as you look at Atlanta, the largest airport in the world we have over a 1,000 departures a day. Every departure we put into Atlanta you think about extrapolating the multiple connect opportunities that you have, and it just grows – it grows not just on the cost efficiency, but on the revenue capacity as well.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay. Maybe talk a little bit about the fleet strategy, because I think Delta has gone down a slightly different path than the rest of the industry in terms of the focus and the emphasis maybe going a little bit older with a little bit different aircraft types. How is that going to affect the capital requirements of the business over the next 10 years or 15 years? Is this a situation where because the fleets are a little bit older, there is a bigger sort of bubble of capital down the road or is this a situation where the way you manage the assets, the way you're running the assets, you feel like you're at a sustainable sort of?

<A – Ed Bastian – Delta Air Lines, Inc.>: We feel that we're very sustainable in terms of how we're thinking. As I mentioned earlier, we've got a fairly simplistic view that we try to take 50% of our operating cash and put it back into the product and service and the other 50% was either to bring that down which is already at a low level, and then gets returned to our share owners.

The 50% of cash that we're putting into the businesses is about $4 billion, has been our run rate for the last couple of years. I expect it will be our run rate going forward over the next several years. And that's a very durable rate. Like, I wouldn't want to swing the tide too aggressively in terms of investing ahead of ourselves. We're bringing in 60, 70, 80 new airplanes a year, and we'll be doing that each year for the next several years, while we're also investing in technology, investing in the airport experience.

I think that's quite sustainable. We also have the world's best maintenance organization at Delta, the quality of the people, and the quality of the product that we deliver is because of the strength of the workforce there. We can thrive a bit of an older fleet and deliver the best reliability in the industry at the same time, it's not one or the other, we do both. And so as we're bringing the new planes and they're bringing for efficiency and bring it for better capital return opportunity. But we also are not shy about finding alternative sources for lift when we need to when we can access it.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Let's talk about that MRO business a little bit, because it is a very differentiated part of Delta relative to other airline investments. How does that – what kind of benefit does that give you as a business not only from a reliability standpoint, but also from – from a commercial standpoint, from a utilization of resource and labor standpoint?

<A – Ed Bastian – Delta Air Lines, Inc.>: Well, our MRO is – it is about a $750 million top-line business, strong double-digit returns, the largest MRO in North America and inside of Delta and that's what all third-party we're talking about...

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Yeah.

<A – Ed Bastian – Delta Air Lines, Inc.>: ...on top of the work that we do for, right. So, out of every – every three engines that we build in Atlanta up to two of them are for somebody else and – and the returns on those are significant. And they've expanded as engine technologies did move forward and we just made a decision in the last year to – to purchase the Airbus A321, which has the Geared Turbofan on it. Pratt & Whitney has – has committed to us to be the exclusive Geared Turbofan provider of that engine in the Americas. So, as we look at it that's over 5,000 engines that we acquired as part of the aircraft decision to buy the Airbus A321, which we would not have had if we didn't have the MRO and the capability of the team now there. So, it's – it's penetrating aircraft decisions not just engine maintenance and it's I think you're going to see you know clearly that – that MRO is going to – going to hit the $1 billion top-line mark very quickly and the continued growth from there.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay. And then maybe kind of switching gears second also on the investment side, Delta has not only led kind of in revenue management, but also in some of the international airline partnerships and formation of some of these immunized joint ventures as well as equity stakes and equity ownerships. Can you talk about the sort of strategic rationale for doing that, the economic rationale for our shareholder? And where maybe in a long run this type of cross holding is going to lead the airline industry, say 3, 5, 10 years from now?

<A – Ed Bastian – Delta Air Lines, Inc.>: Sure. Well long-term the airline industry in the U.S. is fairly mature. There is not new markets that fly, we may be flying bigger planes. We might be building bigger airports, but not new airports and new markets to grow. So, over time the growth of this industry has to come from global sources, and we are again unique and that we've been not just working with international partners, but investing in international partners, so that we have the ability to influence their decision making and their growth patterns, and also for us to learn about the international markets that are very different than what the U.S. consumer is.

So, we have a 49% ownership stake in Virgin Atlantic for example, which we purchased five years ago. At the time we made the investment in Virgin Atlantic, Delta had very limited access to Heathrow, most important international airport in the world certainly from a business traveler perspective. This summer, we're going to have over 40 flights a day from North America into

Heathrow between Delta and Virgin Atlantic, which we believe I think we had about three at the time that we made the investment. You go down to Aeroméxico we own 49% of Aeroméxico. The trans-border market between the U.S. and Mexico is one of the largest in terms of demand and volume that, that exists in the international marketplace.

Delta five years ago was fifth in a four horse race today with Aeroméxico we're number one in that market. And so the growth opportunities internationally and whether it's Korean in Asia, whether it's GOL in Brazil, whether it's Air France-KLM in Europe, are going to be centered around how to bring more technology, more innovation, more market savvy to Delta through those partnerships and thus be able to influence their decision making as well so that we start to think more as in global airline rather just as U.S. airline.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Does it also help you monetize some of the things you've done in the U.S., because I noticed when I – like the Fly Virgin that the app looks remarkably similar...

<A – Ed Bastian – Delta Air Lines, Inc.>: Because, it is Delta.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Yeah.

<A – Ed Bastian – Delta Air Lines, Inc.>: We've taken and we operate the Virgin Atlantic website as well as all the core operating systems at Delta...

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay.

<A – Ed Bastian – Delta Air Lines, Inc.>: ...and then we put the Virgin skin on it. And so that's – again so the efficiency and the ability of Virgin Atlantic, it's a relatively small airline. They don't have the capital to invest in the technology that Delta has. So, they get access to the capital and you'll see us do that with other partnerships as well.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay.

<A – Ed Bastian – Delta Air Lines, Inc.>: And that's – but that's – there we're thinking 10 years out in terms of where this thing is going. And I feel like that's probably the part of the business I'm most excited by in terms of where those that growth – the global growth and the global aspirations for Delta for us to move our top line revenues and then alongside them to help them to be better investees as well.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: So, do you see a market in say 10 years' time that is more dominated by global airline holding companies?

<A – Ed Bastian – Delta Air Lines, Inc.>: I do. I do.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: So that – that will be the sort of...

<A – Ed Bastian – Delta Air Lines, Inc.>: That's going to happen.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: The next level of...

<A – Ed Bastian – Delta Air Lines, Inc.>: No question about it.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: All right. We will take a couple questions here from the audience. So, first question around kind of the service experience, like how important is the in-flight sort of entertainment and connectivity to you as a business strategy from an investment standpoint?

<A – Ed Bastian – Delta Air Lines, Inc.>: It's important and our Wi-Fi system today is not – is not functioning at a level of quality. By the way I don't think anyone's is great in the sky today and I think that's an opportunity for improvement. We have Gogo, which is our, which is our provider, we've been, we've invested pretty heavily in the satellite technology. I think it will be a differentiator once we get the level of service reliability that we need out of them. And that's the focus that we're continuing to bring certainly for the business traveler, the business traveler wants to stay connected but it's not just the business traveler I think all other travelers do.

And right now we don't – we haven't had historically the bandwidth and the quality and the reliability for people to trust in that connection, but as we're building and improving and bringing satellite in, creating the same level – our goal is that the same level of bandwidth in the sky as you have on the ground and then eventually we're going to have to, we're going to have to do it at a price point that makes sense in the years.

I mean that's where else do you pay for Wi-Fi other than an airplane, right? And the airline that could figure out how to make that free and how to connect with the customers, I think it opened world of opportunities, it's a gateway for us and that's what we're very focused on, to try to create that connection. And again another thing is, we were the first adopter, we had Wi-Fi on our planes 10 years ago. We are the first airline to do that. We did that with Gogo. Service was okay, it wasn't that great, but it was – we saw a huge market shift occur particularly in the business markets because we were first with it. You still have airlines out there today without it. And we're going to continue to try to stay a generation ahead of the pack.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay. And then next question here around new distribution capabilities. Will the adoption of NDC change the industry structure in any meaningful way or will have any sort of impact on the competitive environment?

<A – Ed Bastian – Delta Air Lines, Inc.>: I think there is a lot of hype around that. I don't see a significant change in the industry now.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay. Turning now to the topic du jour, certainly occupied a lot of our conversations last couple weeks, the moving crude oil. How long is it going to take to recover this move in crude through pricing action or capacity moves would be the sort of first question on the theme here around crude?

<A – Ed Bastian – Delta Air Lines, Inc.>: Well, fuel has moved 50% over the last 12 months, if you look at where we are today and it does take some time to get into the pricing model. Our estimate is there's probably anywhere between a six to nine to 12 month lag in terms of where prices is in the market and you'd be able to price forward.

So, we're right at the start of the summer period. It's our heaviest demand period. This is not the time that airlines would be taking capacity out in the summer. But assuming fuel stays where it's at, it's undoubtedly going to have effect on the full business plans when the demand starts to soften just a bit, not a lot, just a bit. And people will be making supply decisions predicated towards how to get the right amount of demand coupled with the pricing that you need to be able to push that fuel increase through. So, we've made a lot of money with fuel a lot higher than it's at today. I think that five, six years ago, we made a couple billion dollars fuel north of $100 a barrel and we are a much stronger healthier industry as well as company than we were back then. So, I'm optimistic that we're not going to have a challenge in the long run around fuel. But in the short-term, it will create some pain.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay. And then, I guess this is also short run, long run. There is a lot of speculation around changes in some of the emission standards in the shipping industry impacting oil prices out to 2020 and 2021, especially elevating jet fuel spreads. Does the refinery help you kind of...

<A – Ed Bastian – Delta Air Lines, Inc.>: Yeah.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: ...manage through that situation for investors who maybe don't know Delta is unique among the airline industry is not only because they do a lot of maintenance work, they also own a refinery in Philadelphia?

<A – Ed Bastian – Delta Air Lines, Inc.>: Yeah. So, our refinery in Philadelphia effectively enables us to self-supply 80% of our domestic needs. So, we've cut out the middleman in the jet crack environment. So, we're not as vulnerable and not as exposed to the higher crack spreads because we own the cost of production through the refinery and we trade to – with other refineries for other products, whether it's gasoline or diesel or heating oil that we need for the jet fuel that they supply across the country. So, our refinery in the first quarter, I think we made $40 million or $50 million and we'd expect the second quarter probably to make that amount again, which is helping us tamp down the cost of oil. We're not in the refinery business to make money, but it is probably the most effective hedge you can have in the marketplace as compared to the financial hedges. This is a physical hedge and it served us well.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay. So, your general view right now is as you look out to the marine standards is that it's not going to be massive...

<A – Ed Bastian – Delta Air Lines, Inc.>: I don't see it.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: ...second act headwinds that...

<A – Ed Bastian – Delta Air Lines, Inc.>: Yeah. I don't see that at all.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: I guess this kind of touches on an issue with conversations we had a little bit before. But if you were to say, I think, your top three sort of competitive advantages compared to other airlines?

<A – Ed Bastian – Delta Air Lines, Inc.>: Well, I'd say the first is our hub structure. Atlanta, the largest airport in the world, Atlanta is 40% larger than the number two sites hub which is American's hub in Dallas. And so you're looking at an airport with 1,100 departures versus 700 departures which is number two. So, that's a massive gap that we have in that structure. But it's also not just Atlanta. It is Detroit where we have an 80% market share and 500 departures a day. It's Minneapolis where we have the 75% market share with 450 departures a day. It's LA what we're building. It's New York where we have 50% of LaGuardia.

So, that hub structure is, I think the most important because that's the real state that we control and that's where we continue to invest in share. The partnership strategy that we talk to, the international partnerships, the global trade, no airline is developing. No airline is not just building partnerships, but investing in partnerships. In all of our partnerships with our partners around the world, our P&L partnerships, they're not revenue shares. So, people aren't just trading revenue one to the next. We allocate cost to them, too, and we do it with their profit shares. So, we're as interested in improving the cost effectiveness efficiency of our partners and they of Delta as we are the revenue.

So, it's a holistic partnership and the investment that we're making in. We're in the boardroom of every one of these partners which helps a lot. I'd say one of the other big opportunities we have is our people. Our people are to nonunion workforce not that union versus nonunion matters, but it's a highly productive, highly efficient, highly motivated. The top employees in the industry work at

Delta. They truly really do. We share profits with them. Our profit sharing plan has been over $1 billion of payout for each of the last five years.

They're aligned with the success of the company. And so the efficiency and the productivity and the service levels, customers come up to me all the time and say, the reason I fly Delta is because your people and they're absolutely right. We're providing them the equipment. We're providing them the tools to do a great job and they're there to make it shine with respect to the penetration they have, and that's why our brand is at the highest level.

Our Net Promoter Score has never been higher across the world than it is today and continues to grow because of the quality of the people. That can't be replaced. You can replace a lot of things in an airline, you can replace the fleet, you can replace the technology, you can replace your maintenance providers but you can't replace the culture and the culture to me is the most important separation that we have that again drives towards the premium product and the premium revenue product, in the U.S. we get a 20% premium over the competition for pricing and it is sustainable, and then we haven't seen any signs of erosion, in fact, signs continue to improve because the quality of service and the people behind it.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: So, as you think about maybe that competing on product quality, competing on the customer experience, which airline is maybe your closest competitor on that?

<A – Ed Bastian – Delta Air Lines, Inc.>: Well, I'd say the top two are Delta and Southwest, different models, Southwest is a model with the U.S. it's kind of lower fare model and Delta is global. Our aspirations are to be the best global airline not just in the U.S. but in the world, and we're looking outside, we're looking internationally for sources of growth in international, as well as in the U.S. So, I'd say those would be the two – the two, I've tremendous respect for the Southwest team. We respect all our competitors. But when you say who in my eyes are the two best I'd say Southwest and Delta.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: And is there way that you can think about or talk a little bit about kind of where you might me most concerned about the potential for any sort of irrational capacity adds, whether domestic, international. I know it's sometimes tough to talk about capacity, but I'm just...

<A – Ed Bastian – Delta Air Lines, Inc.>: Well, I don't, I don't – I can't talk about other airlines' decision making but what I can tell you is that with fuel prices rising, with investors being as focused on the return improvements that are required within the industry, with Delta leading the industry and margins certainly over our biggest by a healthy amount, everyone's got the same level incentives. They need to figure out a way to pass along increases in fuel. They need to pass along increases in cost, not just in fuel the labor costs that increase over time as well.

And I don't see any airline that's got a differentiated advantage in that. No one is hedged, I mean Southwest has hedges, but they're not a meaningful. It is not like it used to be 15 years ago. Those hedges are large and close to market right now. So, I think that's going to be the focus in terms of how the industry is going to improve from here is by being able to price for the increased cost of fuel and I think it's also a barrier to entry for new – for a capacity that doesn't make sense and supply that doesn't make sense. Because somebody is going to have to figure out how to price for fuel that might go even higher from here and still deliver your return objective.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Okay. Let's change gears for a second and talk a little bit about the future of Delta. As a customer today or as a flyer today, what or maybe a flyer in the future, what's going to be different about flying Delta three, five or seven years from now? What do you – what should be the room that be as far as kind of how you...

<A – Ed Bastian – Delta Air Lines, Inc.>: Well the one thing we've already talked about is the international expansion, international opportunities with partners around the world. I'd see international as a significant top line opportunity for us to continue to grow. You're going to see it in aircraft technology. We're investing heavily not just in the quality of the fleet, the replacement aircraft that I talked about, putting Airbus A321s in 73s in and taking MD-80s out. But we're – we've got the newest fleet launched, the newest wide body in the country with the Airbus A350 product and that's a state-of-the-art international aircraft that you are going to see us continue to grow into.

Last week, we announced we are going back into India. India is a market that we got run out by the Middle Eastern carriers. We've gotten our government support on open skies to hold the Emirates and hold the Qataris and those guys that are heavily subsidized by their state governments at bay to allow the U.S. carriers to go back into markets where we've been run out of and continue to make the product investments and the growth for that.

You're going to see it in the smaller aircraft. We're going to be the launch customer of the C Series, the Bombardier product. It's going to be a wonderful product, a 110 seat product. You're going to be flying next year, you're going to see a lot fewer smaller regional jets. You're going to see a lot larger C Series planes coming through Delta again as a launch customer.

So, I think those are some of the things and the other thing is the airport express. You know that the hassle of travel these days has moved from the skies into the airport itself. You're going to see biometrics being an increasingly important part of our security profile speeding people through the – through the check-in process and security process.

You're going to find, as we're building the airports of the future one of the big pinch points for travelers is the gating process and the boarding process and everyone is trying to – strong trying to get on with their bags all at the same time and having to – we are not huge on putting people in lines, we'll do it where we need to but what we need in the – our airports, which we're building are larger gate spaces and smaller head houses. You know with the head houses in the past had grand – no one spends any time at the front of an airport, they are all there at the gate and we're rebuilding our main airports to accommodate that and using technology along the way to facilitate that – that experience. So, I think the industry is at a great point – and we're investing heavily. I know other of our industry peers are investing heavily as well and I think – I think it's something that the traveling public is going to get a lot of benefit for a lot of years.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: So maybe if you think about the – one of the things that we've talked about sort of is and as also across different speakers at this event advent is disruption. What do you think is the most potentially disruptive thing that could happen to your industry over the course of the next five, 10 years? Is it...

<A – Ed Bastian – Delta Air Lines, Inc.>: Well, our industry has already been disrupted pretty significantly unfortunately with...

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Yeah.

<A – Ed Bastian – Delta Air Lines, Inc.>: ...the, it wasn't just the advent of technology and distribution and how the Internet changed – changed our model significantly, but you know the security profile, 9/11, we've been through a series of shocks in our – in our industry. We've – we've restructured our balance sheets, we've got – we've got a very different industry structure through consolidation that's allowed us to create the durability. I think the – the thing that I talked regularly about it is that, when you – when you focus your business on getting customers what they need rather than what the airlines historically have, which is trying to push product out at customers, but letting the customers pull and drive your merchandising, drive your service, drive your reliability, drive your net promoter score, that's where the real durability of the revenue base would come from. And I think that's a pretty disruptive influence that we see that we've never had before, getting out of the commoditization of this business and moving into a customer-driven focused operation. And that's what Delta is doing.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: So that drives an interesting parallel or contrast to a lot of industries where the threat is of commoditization with technology and the access of reach whether it's Amazon's Retail or Google and Search and things like that. How worried are you that that – that some emerging business model might come in and help push you further back away from the customer, whether it's some of the metasearch for opportunities, some of the transaction processing engines using blockchain and things like that?

<A – Ed Bastian – Delta Air Lines, Inc.>: We've been there – we've done that, we've actually successfully competed against them and taken our share back. When the online agencies 10 years ago had 35% of our distribution. Today at Delta, they're down to less than 15%. Yeah, we've pulled it back. We've protected our content. We've owned our content where delta.com is one of the top five e-commerce sites in the country because we've grown into that space and we used our product and the access to our product in our merchandising to control and make certain if people have to come through to us rather than us monetizing it and selling it for financial basis. We haven't done that, so I'm not concerned about that at all. Because we've already been there, we fought that war and we've gotten out the other side of that and we're – we're continuing to invest in that website investing in the merchandising capabilities and customers come to Delta because they want to buy something from Delta they can't get elsewhere, okay?

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: And what about technological disruption on the aircraft technology front, whether it's a Boeing NMA or like a next....

<A – Ed Bastian – Delta Air Lines, Inc.>: Well, we're working with Boeing on that. We hope to be a – one of their early launch customers on the NMA. And inside Boeing certainly very interested in Delta because if you think about Delta, it's not just Delta as the largest, one of the largest airlines in the world, but it's the family of companies that we have within Delta which clearly makes us the largest airline family in the world. And so whether it's Boeing, whether it's Airbus, whether it's GE, whether it's Pratt, Bombardier, 15 years ago, those guys all had higher margins than Delta. Today, we have higher margins than them. And the reason for that is, that we now have the strength and the concentration of purchasing power of leverage, and also of market demand for our product that forces them to come through us rather than us to have to go and seek them.

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: All right. And maybe just to kind of close it out here. Can you give us a sort of your views on the – views on, on, on the reason why an investor should want to put capital to work in Delta today?

<A – Ed Bastian – Delta Air Lines, Inc.>: Why they would?

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Yeah.

<A – Ed Bastian – Delta Air Lines, Inc.>: Well. I think that's what we've been talking over the last...

<Q – David Vernon – Sanford C. Bernstein & Co. LLC>: Your sales pitch opportunity.

<A – Ed Bastian – Delta Air Lines, Inc.>: My sales pitch as I have been given one more shot, right. Listen, we've got – we've got a great employee base, we've got a great customer opportunity, we've got – we've got revenue growth. We've got a market that's choosing Delta. Customers choose Delta, not airline network mavens that decide what market share, natural market share they want to put in, customers choose the product they want to go in. So, it's differentiated in that regard.

We're – we're less – we're less challenged by the financial leverage this industry historically has been, has been weakened by. We sit on a returning capital, at the same time we're investing at the highest level back in our business. I think it's not just a durable story that we've been showing, it's five years in a row, $5 billion in profit and double-digit margins, double-digit return on invested capital but I think now that we've got top line moving. Again, now that we've got fuel prices at a higher level, I think it advantages Delta because it keeps the competitive dysfunction at bay at times and it allows us to focus on what we're the very best at.

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

Excellent. Well, I want to thank you guys very much for coming out.

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

Thanks, David. Appreciate you having us.

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

Thank you all for joining us at this year's SDC and we look forward to seeing you at the next session or during one-on-ones.

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

Great. Thank you.