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Delta Air Lines, Inc. (DAL)

Investor Day

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MANAGEMENT DISCUSSION SECTION

Jill Sullivan Greer

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

Good morning, I'm Jill Greer, Vice President of Investor Relations and it's my pleasure to welcome you to Delta's 2015 Investor Day. I think this is our eighth year of hosting this event in New York and each year the room gets a little bit more full, as we see a lot of familiar faces and welcome a lot of new names to our story. We have a busy day, so I'm going to move quickly through some housekeeping items to keep us on-time, because Gil stresses the importance of getting the first flight out at D Zero and I am not going to mess that one up.

Our presentation was filed on an 8-K this morning. It's available on the main Investor Relations page at ir.delta.com. For everyone here in the room, there is a copy of the presentation at your seat. If you didn't get a copy, raise your hand and we'll have someone from the IR team bring one to you. We'll follow the format that we've used for the past several years.

Our CEO, Richard Anderson will kick-off in just a few minutes. He'll be followed by our President, Ed Bastian and then we'll do a lengthy Q&A with Richard and Ed. After a short break, we'll have presentations by our COO, Gil West; our Chief Human Resources Officer, Joanne Smith; and our Chief Revenue Officer, Glen Hauenstein. We'll then do a Q&A with Joanne and Glen. And then we'll wrap up with the presentation by our CFO, Paul Jacobson. After Paul's Q&A, we'll head downstairs for an informal lunch with our executives.

I'll remind everybody that today's presentation contains forward-looking statements that represent our beliefs or expectations about future events. All forward-looking statements involve risks and uncertainties that could cause the actual risks or sorry, cause the actual results to differ materially from the forward-looking statements. Some of the factors that may cause such differences are described in Delta's SEC filings. We'll also discuss non-GAAP financial measures. All results exclude special items unless otherwise noted. And you can find the reconciliation of our non-GAAP measures on the Investor Relations page at delta.com.

Before I hand it over to Richard, I do want to take a minute to thank my IR team, Winnie, Jason, Farah and Stacey, who've done just an incredible job in putting today together. It's an honor to work with you guys every day and you have done an amazing job and you've done just – I appreciate all the work you've done.

And so with that, it is an honor to introduce our Chief Executive Officer, Richard Anderson.

Richard H. Anderson

Chief Executive Officer & Director

Thanks Jill. Thank you. Let's push next, it worked. So hey, thanks. Thanks everyone for being here. It is a privilege to have your confidence and to be able to serve our owners because you do entrust us with over $50 billion of capital and we don't take that lightly, we appreciate your confidence. And much of what we want to do today is, really grow that confidence level in the marketplace, grow that confidence level in our investment base, and continue to drive higher margins in the business, improve cash flow, higher returns to our owners.

And most importantly, we hope through that that we earn the kinds of – the PE that you see from industrials that produce this kind of high-quality financial performance. I think without a doubt, we are the best run airline in the world, pick your measure, whether it's operational, the number of spare engines we have, the engagement scores of our employees, winning the Business Travel News, Best Corporate Airline in America five years in a row.

Whatever the measure is, we are consistently at the top of the global industry and we aim to stay at the top of the global industry.

If anything, it's even more intense working at Delta now because we have all the opportunity ahead of us. And the opportunity we have ahead of us is huge. So, our commitment to you is to continue, no matter what the cycle to consistently produce high quality returns and cash flows and continue to sustainably grow the business. And I would say that our business planning processes have gotten more and more rigorous over time. And any of the executives that are here that sat through a month and a half of detailed micro to macro business planning at Delta will tell you that the intensity level and the commitment of the management team to continue to drive results is stronger than ever.

So, in a way, you're going to get to see all these slides and number slides, and you've all read all these. I think we should go to this question, because answering these three questions to the satisfaction of the marketplace, the investor marketplace is what will drive a higher multiple. And we drive a higher multiple by performing for our owners, by performing for all of you. And so, I'd really like to go through the investment thesis and the long-term investment thesis of Delta.

So first, if we think about it, consolidation has been a very important part of what we've done at Delta and that consolidation wasn't just the merger back in 2008. We have continued to consolidate the industry. We've consolidated the industry by doing joint ventures and equity investments internationally. We've continued to participate in slot transactions, that's how we got the number one position in LaGuardia and in JFK.

So, we have had a regular strategy of continuing investments in both organic and inorganic growth. And the most important thing about consolidation is – is, in a big industrial business like our business, and let's not think about ourselves as airlines, let's think ourselves as a transport industrial. Think of ourselves like a railroad or Federal Express or UPS. Consolidation in this industry has produced economies of scope and scale that the industry really needs. So if you think about the network indivisibilities that we've created and look at where Delta was positioned in 2007, with a hub in Atlanta, a hub that was way too big in Cincinnati, and a small to medium-sized nice hub in Salt Lake, essentially three assets to where we are today.

We have one in New York. We have a very big and profitable franchise in New York. We have the most profitable hub in the world in Atlanta with a huge scale. Our joint venture with Virgin Atlantic, and I give Glen and Ed an enormous amount of credit, single – that $385 million investment in Virgin Atlantic is probably the single best investment we've made with the money you entrust us with in terms of our returns. This year, those returns will be cash returns, will be well over a $150 million. And that consolidation play has now taken those three assets we had in 2007 and now our assets are a hub in London Heathrow, that's highly profitable.

Joint venture with hubs in Amsterdam and Paris that together create the largest franchise between the U.S. and Europe by far with a very significant contribution margins. So, the hub structure in the U.S., Atlanta, New York, Minneapolis, Detroit, Salt Lake City, Cincinnati, Los Angeles, Seattle. We move to Asia, Narita, a growing position in Shanghai. We move to Latin America, investment with GOL and São Paulo, and I think one of the most exciting that Ed's going to talk about is the 49% tender for Aeromexico, the only real flag carrier with a number one slot position much like British Airways and London Heathrow in Mexico City.

And without going into the details of those things, what that's done is it's given us a global network that really de-risks the business. I can remember seven years ago, six years ago when the yen was at 85 and our best profitability was in Japan. Now, the U.S. economy is doing very well. Mexico is doing very well. Caribbean and Latin America is doing very well. So, this big network has given us economies of scale and scope. It gives us coverage around the world and the ability to de-risk the business because much like you may do in your portfolios where you invest by regions to be able to have exposures to different currencies and to be able to level your risk across the portfolio, we've done the same thing with this network.

The second thing that's just as important is we've shift the balance of power from the suppliers to the – to Delta Air Lines to Delta Air Lines. So a decade ago, the regional carriers had higher margins than we did. Boeing had higher margins than we did. The GDS has had higher margins than we did and we have with this scale and scope shifted the power in the supplier relationships in a very significant way. You think about 10 years ago you had to place a huge order five years to seven years in advance or you wouldn't be able to get in line with an OEM. Today, we call the OEMs and tell them to come down to Atlanta, we might want to buy a few airplanes if the price is right. Same with lessors that are – have airplanes coming off lease. So we really control these supplier relationships in a much more fundamental way.

I would say the most important thing in terms of the industry overcoming its history is, at Delta, we don't think this is a club. We think this is a business. And a business that has to focus on its employees and focus on its products and have sustainable returns for its shareholders and we're very serious about that. And I think if you sat through enough of these presentations by this management team, you should have a deep belief in our view that this is a business, it's not a club, it's not a Boeing fishing trip. It's a serious investment by many of you and by many of our share owners. So we have an incredible focus on returns. But that focus also includes real investment back into the business. And that investment back into the business is what will sustain the earnings and cash flows through the cycle. Everybody has to win, the customer has to win, we do not provide a commodity service, and you're going to see that in the presentation today. If you provide a commodity and view your business as a commodity, you're going to get commodity price and we do not view it that way.

Now, we will not over invest in the business, but the core investment of about $2.8 billion to $3 billion is a good number over the long-term. But this is an enterprise next year, that can push $8 billion of operating cash flow. And when you're talking about those kinds of numbers, there aren't very many companies in the world that can produce that kind of operating cash flow, but also have the discipline to keep free cash flow very high and we will continue to keep the free cash flow number high. You saw what we did this year, we told you a year ago, we were going to spend about $1.5 billion in 2015 on shareholder returns.

Our free cash flow ended up being much better, our operating cash flow was strong, we made that number $2.6 billion – $2.5 billion, $2.6 billion. And the point of it is, is that we're going to invest wisely in the business, so we are going to spend next year $800 million to take our stake in Aeromexico up to 49%. But that's a – that is an earnings platform for a decade from now. Because we can double the margins at Aeromexico domestically and transborder over the time horizon of that investment and it will give us a really sustainable strong long-term position, and basically make Aeromexico and Delta the number one airline between Mexico, the number one airline system between Mexico and the U.S. That's a wise investment of your capital, because it's going to have real returns.

We will actually sit in the conference room at our office and debate a $3 million investment. And we'll debate it for a pretty long time about whether it's going to have a higher IRR and whether it's going to pay back quickly. So we take it very seriously in terms of how we make the investments, but we are going to make the investments for the long-term. But given the cash flow generation of this enterprise, we have the ability to de-risk the balance sheet, make the right investments to sustain long-term growth, but at the same time have high capital returns for our owners.

So the diversified – if we get to the second question, I think it's the most important question for you, which is our sustainability throughout the business cycle. One, as I said, everybody participates in the success, our employee engagement scores are off the chart, it drives a huge revenue premium for the enterprise, more diverse revenue base, we are not a commodity, you see that in the Morgan Stanley survey of Best Airline for Corporate Travelers, you see it in the Business Travel News surveys.

The other key piece in if you think about an industrial moving through a cycle is the cost base at the airline. So the cost base at the airline is much more variable over the last decade. So we've really transitioned completely from defined benefit to defined contribution. We've done that in healthcare. We've done that in retiree health. We've done it with 401(k)s.

The second thing is, our employment base – our ground employment base has a large part time component. 25 years ago in this business, we didn't use professional cleaning companies on our airplanes. Today we use professional cleaning companies and professional fueling companies. So we have a lot more contracted services that are much more variable.

And I think most importantly has been the fleet strategy at the company. It's a very different fleet strategy than the rest of the industry, and we're happy that it's a very different fleet strategy than the rest of the industry. Because we have the best product, the highest reliability and the lowest capital cost. So when you have a large fleet of airplanes that don't carry a monthly payment, when you hit the cycle, you don't have a big fixed commitment. And it's very easy to put MD-88s on the ground at the right point in time. It's also very easy if it's a good cycle to fly them an extra year.

So we have variable capacity and variable capital base. And, look, our philosophy is that we're going to keep an airplane 30 years. Because we have to capture the residual – we have to capture the residual over the long-term. But that fleet strategy also enables us to keep our maintenance materials and repair line one of the very best in the global industry with the best reliability in the industry.

This year we should have 200 days in the domestic system with no mainline cancellation. American, United and Southwest together might have 15 or 20 on a combined basis. So what we've proven is you can have low capital cost, ever decreasing levels of capital investment in spares, but at the same time, the best product and the highest reliability in the industry with the lowest capital cost per seat and have variability so that when you do hit cash flow or business cycle the next downturn, the airline is incredibly well positioned. And that's really the de-risking of the balance sheet both through the investment strategy and airplanes, but also is the debt pay down.

We don't want to get too far down on that curve. We're pretty close to investment grade. This 2016 we will – I told Paul the other day, he needs to speed it up. But we will get – we're running it on an investment grade, but we will get to an investment grade level. And candidly, the debt levels we have right now around this year 2016 will get down to about $6 billion, that's a pretty comfortable number, $4 billion by 2020. But the idea is, is that we don't have all those fixed obligations. If you look at the really high quality transport industrials, or really the high quality industrials, they have de-risked balance sheets. We have a very de-risked balance sheet, and we're going to maintain a very de-risked balance sheet.

And fuel, everyone always asked about fuel. So our budget for 2016, we assume a fuel price for all the purposes of planning for Gil and Glen and everyone. It's about 25% higher than the forward curve. The reason is we want to build business plans that work well and we've proven our business works well at a $100 fuel. Now, are we happy that fuel is going to – I think going to cross $30. At least, I have a $100 bet with Paul Jacobson that it will before the July 1, yes. Should we rely on that? No. We have to build an enterprise that has sustainable cash flows and good profitability at $100.

Now, in the meantime, we are going to take the windfall. So, this past year, we kept about 75%. Our top line in 2015 up slightly, but we were able to keep about 75% of the fuel goodness and we plan on doing that again. I mean, the current forward curve takes fuel down about $3 billion year-on-year for Delta and our plan is to keep the majority of that.

So we build the airline to run at a – if fuel goes back to $100, we have a business that's durable, we've proven it. You're seeing it in the last five years, and we're not going to stop that focus. So, when we run our business for the long-term and you look at how our three-year and five-year plans are set up, we assume high fuel prices, because we do not want anyone at Delta to think that either one, they get the benefit of the fuel, you get the benefit of the fuel, not – Gil don't get to spend more money because fuel is down, right? Because you don't want to do what the oil companies have done, right?

10 years ago, the oil companies were making record profits at $40 a barrel, right. But they built a business assuming that that commodity was going to stay at $100. We have to do the opposite. We have to assume that fuel is going to be $100, build our business to be very profitable at $100, and then when we get that drop down like we have today take advantage of it. We are reinvesting some back in the business. You saw us yesterday, we did a very opportunistic purchase of some airplanes that we announced yesterday.

We're continuing to invest in the product, you don't get a sustained 115% revenue premium without running a really, really good airline. We're going to make a Virgin investment, but trust us we scrutinize every dollar of your money that we invest. We scrutinize every dollar of your money because we want to be absolutely certain that this enterprise has at $100 fuel, we hope to have more inorganic opportunities, let me put it that way.

In other words, we're building the business at $100 fuel, and that will give us the opportunity to expand our business at the right point in time, if there is ever an inflection in the marketplace. So we are confident that we built an ironclad enterprise that can sustain at high fuel prices, while these fuel prices are low, we're going to invest back in you. We're going to put investment in the business. I actually don't think the business at its core ought to invest more than about $3 billion, because I think we get sloppy when we get ov er that number.

And the goal being that we do get that excess from fuel. It goes to de-risk the balance sheet, but look at what we did in 2015. We told you a year ago right here in this room that we're going to have $1.5 billion in dividends and buybacks. We ended up making that $2.6 billion, because we got the windfall. Now we also made some investments, okay. We put a $0.5 billion in China Eastern. We bought a $0.25 billion London Heathrow slots and we put an extra of $250 million in our pension plan. All those are good investments for you.

Now the China Eastern investment, obviously that's a decade long – that's a long process, but we need to be in China, Mexico, Brazil and London Heathrow. And we need to have JVs antitrust immunity and minority investments, because that's where global growth is going to come from over the next decade. But that said, we also knew that with the fuel windfall we had that we wanted to make sure that our returns were among the best returns in the S&P Industrials, the S&P Transports.

So, bottom-line is, I hope that over time – and look, you all have been incredibly good to us, given us your confidence. We hope over time that we're able to continue to prove the thesis of this slide. I think we have an incredible track-record as an enterprise. I think, if you go back over the last decade, and look at what we promised you and what we delivered, we've always delivered on what we promised and we have big – one of the rules of the road at Delta is always keep your deals. We have a deal with our investors and we're very committed to always keeping our deals with the investors.

So we appreciate your confidence. We do think we deserve and we'll earn a higher multiple over time. We're about five turns behind where we sit at about 10 and really good high-quality S&P Industrials about 15 or 16.

Our cash flow metrics and financial metrics are better than most of them and we're sort of performing at the 3M, United Technologies level of financial performance and about five or six turns behind. We think that's what the opportunity is. We've come a very long way. Yesterday, we had $41 billion in market cap, and our enterprise value now is – if you look at our total enterprise value on a market basis, we're $41 billion in equity and on a net debt basis, we're about $7 billion. So we're continuing to run the business the right way. We just hope that we continue to earn the confidence in the marketplace by meeting our commitments to our owners.

So, thank you for your time today and let me welcome Ed up to the stage who'll go through the details like he always does. There's one thing I do have to say, I mean you probably heard me say this before but we hunt in a pack. We hunt in a pack, and Ed has been a phenomenal partner as Glenn and Paul and Gil. It's a strong team, a very strong team, and we look forward to taking your Q&A after Ed's conversation.

Edward H. Bastian
President & Director

Well, thanks, Richard. This is the first time I've ever seen him do a PowerPoint presentation.

Richard H. Anderson
Chief Executive Officer & Director

Ed told me I had...

Edward H. Bastian
President & Director

So when we talk about being an innovative company, Richard doing a PowerPoint presentation, that's innovation.

Richard H. Anderson
Chief Executive Officer & Director

If it's worth a couple of turns on the multiple, I'll do in every meeting.

Edward H. Bastian
President & Director

Welcome to the church of Delta. This is – we started doing this here, I guess, four years ago? And our stock is up 4X over that period. So you can imagine we've got a long-term contract in place to do this every year here. We'll keep this going. But it's great to see everybody, lot of familiar faces. You've been following this story. So, we'll try to move through the presentation slides. Today, my counsel to our team is not to fall in love with their slides. So, we'll keep them moving rapidly. I'm looking at a certain guilty party. We'll move them rapidly through the slides, because we know you really value the time in Q&A as a lot of substances comes out. So, we'll get through this quickly and spend – we're going to try to spend at least half the time if not maybe a little more in Q&A with all of you today.

So, when you look at the – so I'll try to set the pace in terms of moving through the slides myself quickly. When you look at our presentation today and you sit back and you think about the themes that we're presenting, there's three things that come to me that we're trying to make sure that you understand and in terms of how we think about this business: it's consistency, it's durability and it's being well-positioned for long-term growth. And I think that is the story of Delta. That's the story of 2015 and it is going to be the story of 2016, and, hopefully, many years out into the future.

When you're running an incredible operation, all of the financial returns and improvements are all embedded on the work that Gill and the frontline teams and the operating teams and the commercial teams that Glen leads that are driving. This is truly a well-oiled machine. And every year, when we wonder can we get better, we keep raising the bar and we're going to continue to keep raising that bar, which is what positions us to grow earnings in 2016.

If you think about where we sit, Richard touched on it well. We've got some real nice fuel tailwinds that we're going to hopefully retain as much as we can to the bottom line. We've got a very disciplined network plan and modest capacity growth in the year. Our guidance for 2016 on capacity is going to be flat to up 2%. So, when you consider that fuel prices are down about 35% on a year-over-year basis, yet our capacity growth is relatively flat. That tells you that we're very committed to managing this business right for the long term.

And that's providing us, not only the solid earnings momentum into 2016, but also providing the cash and the opportunities to invest in some unique partnerships that we've done on the international scene. We'll talk a little bit about Aeromexico. We'll talk a little bit about the Chinese investment and other things that we're thinking about for the future.

I thought it'd be good to have one slide to demonstrate the consistency of the messaging in terms of what we said to you literally this week a year ago in this same place on the same stage and what we did about it in 2015. We told you we're going to run a reliable customer-focused operation and Gil's team did that; best operational performance in the industry, including the 173 days to-date of 100% mainline completion factor. If you'll take the entire industry combined against that number, that's six times the entire industry posted this year. It's no wonder we're winning the awards from the sales organization that we are.

We said we're going to improve all aspects of our financial performance and indeed, this year, our pre-tax income will come close to $6 billion, which is a $1.3 billion increase over the prior year, 28% ROIC and EPS growth of over 35%. We said we're going to drive better revenues through customer segmentation. Glen will spend a fair bit of time talking about that today. But in our first year, our Branded Fares initiatives delivered over $250 million of incremental revenues, helping justify and support the 114% domestic premium that we have relative to our competition.

We announced a year ago the American Express deal. Today, we have a $2 billion revenue base deal with American Express that we said we're going to double over the next five years over the length of the new term that we entered into. Our first year into that, we're already generating over $400 million in benefits, so well on our way to meeting our commitment there.

We said we'd tried to do our best to drive the majority of the fuel savings to the bottom line and, indeed, we did successfully retain 75% of the realized fuel benefits in the 2015 P&L. Maintain non-fuel unit cost growth below 2%; we kept them flat on a year-over-year basis. Run the company on investment grade metrics; as Richard said, we're just one notch away from getting that and we're convinced that 2016 will be the year that we'll be able to attain that goal. And return the cash flow at least a 50% return rate to our owners, with a minimum of $1.5 billion is what we told you a year ago and what we delivered was $2.6 billion in capital return. So, I think the team has done a heck of a job in 2015, meeting its commitments, and then a year from now, I'm committed to standing up here and having the same slide in terms of what we tell you today and what we delivered in 2016.

The quarter is going to be a very strong end to the year, our fourth quarter. We – operating margin guide of 16.5% to 17.5% is essentially the same range we've given you, we've just tightened it up pretty close to that 17% operating margin that we expect to see in the fourth quarter report that we'll be delivering next month.

Our unit revenues are going to be down 2% in the fourth quarter. We've come in on the top-end of the range, in fact, a little bit above the top-end of the range, which we're pleased to see. And we wound up taking some of the returns on that just to early settle some additional fuel hedge positions earlier in the quarter to flatten the book out, and Paul will talk about the fuel hedge book. But we're sitting at about $500 million fuel hedge loss for 2016 as we are, but it's very flat, it's evenly distributed throughout the year. There's very little additional downside risk to the book and we feel like we're in a really good shape relative to benefiting from this low fuel environment.

When you look at the RASM, you saw our October and November monthly numbers. They came in relatively strong to the industry. We think December month will also come in relatively strong to the industry, but the month of December, everyone should be prepared for, it's a pretty choppy month. Notoriously, the first half of December is one of a lowest travel periods of the year, which is very susceptible to a low fare volatility, which is indeed what you have particularly in the domestic marketplace. And when you couple that with the two points of Thanksgiving shift plus the placement of Christmas on a Friday this year, it actually creates an incremental dead zone in the first – so, actually the first half of December is now all the way up to about December 21 in terms of a relatively seasonally weaker period of travel compared to the October and November months within the quarter.

But as we look out to 2016, I'll talk about that in a minute. Our unit revenue plan is to, first quarter, we'll again, I think, we're going to see some choppiness in unit revenues in the first quarter. But we expect to get back to a flat to positive unit revenue trajectory by the summer of 2016. And no, we've not been good at forecasting that. We've been doing our best to try to get to that. We're doing better than anybody else in getting there. But as fuel prices continue to tick down, it puts incremental pressure on us. But we think – we're pretty confident by the summer of 2016, we should be in pretty good shape there to get to that goal.

Fuel prices of $1.82 to $1.87. That includes that $60 million early hedge settlement and some incremental RINs expense. So that's why we came up a little bit higher than the initial guide. CASM-Ex fuel up 2%. Non-operating expenses of $200 million, that's higher than what we've guided in the past. A reason for that is we're going to be writing off, in the fourth quarter, the last of our Venezuelan currency. It's a $75 million write-off. We are taking that through our normal operating expenses.

I think all other airlines are taking that as a special item. We're not going to do that. We're going to – we've decided and we've been getting there over the last couple of years that these are cost of the business that we all need to manage. So, you're not going to see very special – many special items. What you're going to see in our P&L is all of our cost of the business, not just the cost that we want to tell you about. We're not like some airlines that are in the sixth year of their merger that still exclude merger-related integration costs.

We think it's something you – by the way, you guys should all be paying attention to and holding the industry accountable in terms of making sure that the costs of business are fully included. So the Venezuelan currency write-off, the $60 million early hedge settlements, we had a $40 million severance charge as we went through some merit reductions in the fourth quarter. All of that's in our operating cost and all of that's in our guidance and we're not excluding any of that. The only thing we're excluding as a special item these days and expect in the future is just the normal mark-to-market on fuel. But other than that, you're going to see all of our costs in the business.

By the way, I think that's about a $175 million that we're going to have in the fourth quarter expenses that most other carriers would exclude. But we include them as costs because we think they're appropriately reflected there. And finally, our system capacity in the fourth quarter is going to be flat.

These are all the financial numbers. You're all familiar with it. The stair step that we've had on the return on invested capital, coupled within a reduction in adjusted net debt and the returns to shareholders, we hope those bars continue to move in those trajectories in 2016 as well.

So what does 2016 hold? Across the industry, we're seeing continued stability in the domestic market. We're looking at domestic GDP – we're planning anyway in the 3% range. International is going to be choppy. The currency effects in 2015 were significant on Delta. We had about an $800 million hit on our international revenues due to currency. That will largely dissipate in 2016. I think our expectation today where the international currency sits, about a $200 million headwind. So the net year-over-year impact of that is fairly substantial in terms of lapping those costs. That's also adding to why we think somewhere is the decline where the unit revenue lines start to project a positive trend.

Corporate travel continues to increase. This year has been an interesting year for corporate travel. Our corporate travel demand has been strong throughout the year. I think our overall total corporate demand is up 4%. Fares have been weak, given what's going on in the fuel environment then other competitive actions that we've been facing. But overall corporate demand, I think, is going to continue to strengthen going forward.

We're looking at an all-in market jet fuel price today. So if you were to project the forwards of a $1.40 which is $0.35 lower than 2015. And the other thing that's different about the industry is you have carriers taking different approaches towards debt. We continue to drive our net debt down to that $4 billion to $5 billion level, which we'll get to over the next couple of years. Other carriers are taking other approaches. And I think it's going to be interesting over the next several years as opportunities come up to see how we're all positioned relative to that.

Now, taking the industry perspective and translating what does that mean to Delta in 2016. We do see some top line growth, but it's going to be modest. Honestly, in a flattish unit revenue environment with a flattish capacity picture, we think we're going to be able to grow our revenues a bit. But, importantly, when fuel for Delta is going to be down $3 billion in 2016, our goal is to retain a relatively flat top line with a $3 billion fuel tailwind savings would drive a very, very impressive margin expansion.

First quarter of 2016, we're looking at about a 16% to 17% operating margin guide. That's what we're forecasting, if we were to forecast it currently. I've got to be honest here, there's a lot of volatility there in fuel. Fuel is moving at up and down 2%, 3%, 4% a day. So it's always a little dangerous to make those types of projections. But we feel fairly confident. We're going to look at about an 800 basis point expansion in the first quarter relative our operating margin.

We're going to continue with the capacity guide that we gave you previously of zero to 2% in 2016, and that modest level of growth is going to be produced at fewer aircrafts on a system basis. We've talked about the $3 billion of fuel savings and our goal to continue to pushing as much of that to the bottom line as we can.

We expect on unit cost, our unit cost to be below 2%. And another change that we're making on a going forward basis is we're going to include profit sharing expense also in our cost guide. We've gotten into a pattern of excluding profit sharing expense which, as we all know, is a fairly significant cost item at Delta. We're going to be including that in all of our operating guidance going forward. So including the cost of profit sharing, which projects what we think the profitability of the company will be, we still believe we're going to be able to keep our unit cost below 2% in 2016; and we're going to continue to commit to you. We're going to have the highest free cash generation in the industry with a commitment to return at least 50% back to our shareholders.

Well, this is a picture of how that capacity projects in 2016. On a domestic level, we're looking at our capacity growing in the 1% to 3% range; fairly consistent with how we see the economic outlook in the U.S. economy. It's going to be very targeted in the areas of the strength markets that we've been investing in. It's going to be here in New York; it's going to be Seattle; it's going to be LA; it's going to be Atlanta. The places that we've been building strength over time, we're going to be leveraging scale. That's where we're growing. We're not growing on a system-wide basis; we're growing on a very targeted basis where the best revenue opportunities are.

However, international, we expect a down year in international capacity here. Flat to down 2% with reductions that we've already taken, that we're going to seasonalize into 2016 in markets likes Brazil, Japan, the Middle East.

Fuel, we expect it to produce, as we mentioned, a $3 billion tailwind. In 2015, we retained 75% of that net fuel benefit to the bottom line on a realized basis. Our goal is to do our best to protect as much of that as we can to the bottom line. Somewhere in that 50% to 75% range, I'd say, is the best that we can estimate at this point of time. But our goal will be to drive that number as high as possible.

And when you think about – you look at the realized jet fuel prices in terms of how they're falling for Delta from $2.87 in 2014 to $2.23 in 2015 and if you were to take our hedge book, take everything we know about the market, take the forward curve, it will project for 2016 of $1.45 per gallon of price for jet fuel is remarkable when you think about what that's doing to the profitability of the company.

We announced earlier this week, the corporate travel news. Once again, five years in a row named Delta, the highest – providing the highest quality of product and service and Airline of the Year. This is a really important survey. I'm sure competitors are tired of hearing us talk about it. But it measures from the people that are the most important corporate travel buyers of airline service 10 dimensions of service across the range. And for the second year in a row, Delta came in first place on all 10 metrics; and candidly, number two wasn't even close. We also shout out to our friends, I see Nelson back there, Morgan Stanley, winning again the Morgan Stanley travel award. But again across all five dimensions, Delta came in first.

So there is enormous momentum in the corporate marketplace and it's showing up in the performance like – or in cities like New York, in LA, in Seattle, in Minneapolis, high corporate travel regions with a lot of premium revenue that's left in Delta. And there you can see the industry verticals of financial services leading the way in 2015 with a 9% volume growth that we saw at financial services alone.

Now moving to the international side, you're all familiar with our international strategy. We have a twofold strategy. We were the original fathers of the JV and ATI going back to the early 1990s with KLM and Northwest with the very first Open Skies treaty and the very first JV that was ever implemented in this industry. It's incredibly successful, which we expanded to Air France and Alitalia, and now we have Virgin Atlantic in that same structure together with Virgin Australia.

But the thing that we've done differently over the last several years is we've taken the JV structure and then we've made targeted investments to make certain that we're even more focused and be able to provide even greater revenue growth in markets that we see are going to be important to us over the long-term.

And when you look at this slide here, this is a picture of the top 10 markets that U.S. travelers go to on an international scale. And when you look at the bars across the screen, you can see in seven of the top 10 markets, Delta is well represented by either having its own hub, as we do in Japan, or having a very specific investment or a very important JV partner like we have in France and Italy with Air France and Alitalia in those markets. And in the highest and the areas that U.S. travelers go to the most, the highest markets, the UK, China and Mexico, three of the four were situated there; and that's where we've been investing in with Aeromexico, with Virgin and with China Eastern.

So while you see us growing internationally, while you see us making the investments that we are internally for the long-term, I can assure you these are investments in places where that U.S. travelers are needing opportunities to grow to. We know the international marketplace has been difficult over the last couple of years, driven by currencies, driven by some excess capacity in certain markets, but we also believe international is going to come back and is going to come back strongly if you look beyond the next 24 months and you start thinking into the three-year to five-year outlook. And we're going to be very well-positioned for growth in those markets as domestic probably starts to dissipate a bit.

In the TransAtlantic, we have the longstanding Air France/KLM JV. Interestingly for Delta, in 2015, the margins that we had in the TransAtlantic rivaled what we saw in domestic. People think about domestic and the profit pool that we have there. But actually in Europe, our margins were just as strong in Europe as they were in the U.S.

And while we did see certainly the effect of the terrorist activities in France and we saw probably about a one point impact on our December month unit revenues from that impact, we do see other parts of Europe actually strengthening a bit as traffic is diverted from France to the UK and the Netherlands. And so, net-net, the geographic breadth of our TransAtlantic investments are paying off for us.

Richard already talked about the improvements that we've seen at Virgin Atlantic, and 2016 will be another year of improvement there. And we've also taken the steps to make certain we're putting our resources in place in market and getting them as close to market as we can. We've opened up an expanded office in Amsterdam in the Netherlands where we have our top commercial decision maker sitting right alongside our partners in the Netherlands and in France and in the UK as well. And you can expect to see that – us make those investments in other parts of the world as well.

Pacific has had a good year by all measures in terms of improving the margins; and we've undergone some pretty significant network restructuring there. You can see in 2016 there's more to come. We're looking at our Japanese capacity in 2016 being down roughly 10%, while we're growing China by 5%. So we're reallocating capacity to the growth markets. Down-gauging is allowing us to do that. We're going to be retiring the 747 from the fleet over the next 12 months to 18 months. And we're going to continue to leverage the strength that we're building out from U.S. That was particularly on the West Coast, particularly in Seattle, as we continue to provide direct focused feed to our Pacific network.

China is becoming a very, very important pillar of not just our Pacific strategy, but our overall strategy; and you can see why at the chart on the bottom. If you can look at where the U.S. – excuse me, the point of sale in China, how that's growing – grew from 2010 to 2015. It's more than doubled and you can see our market projections from now to 2025. We expect it's going to double again, yet obviously the U.S. is not going to be able to keep pace. So that just highlights the importance of China Eastern in our long-term strategy. And this will be the fastest growing international market in the world by a good measure, and we're well situated with the right partner in Shanghai.

And finally, in Latin America, we've made some important investments in Mexico and in Brazil. GOL has had a difficult year and I think everyone that's invested in Latin America is well familiar with that. We are confident though over the long-term that Brazil is going to continue to return; and we're working closely with our partners and friends at GOL to make certain that they have a successful restructuring as they're doing on a commercial basis.

Aeromexico is next up for us. We've announced the launch of the tender that we hope to attain a 49% stake in Mexico. Some point by the second quarter is when we expect to close that. If you look at the Mexican marketplace and you see the domestic seat capacity allocation, you can see Aeromexico stands as clearly the leading carrier, not just domestically, but internationally within Mexico.

Interestingly for me, and I do sit on the Aeromexico board, and if you look at the margins of the business, however, the margins of that business are about a 6% margin business to it. And we feel relatively confident just as we've done with Virgin that with our knowhow, and our investment, and our colocation of resources that we can double those margins over the next three years to five years; and that's going to provide a very nice return on that capital investment that we're looking to make.

We already have a 17% ownership stake in Aeromexico. However, some of those are through derivative transactions. So as we get close to when we do the launch for the tender and when we do closeout the derivatives transactions in total which we expect to do, we would anticipate the total capital investment in 2016 to be about $750 million.

And the other thing to note, since while we already have 17% in Aeromexico because it's treated on the cost basis, we don't get to report any of the earnings of Aeromexico in our results today. By going to the 49% level, which is an incremental 32% investment, we're going to pick up 49% of Aeromexico. So there is actually a pretty good financial equation along that investment as well.

So, in conclusion, 2015 has been a very, very strong year for this company. We feel very well-positioned for 2016. The operations are running at a stellar rate. We see some great financial opportunities, whether it be in fuel, whether it be improved unit revenue performance, continued corporate share growth. We're expecting next year one more time to win that corporate travel news survey and we're continuing to invest to make that happen.

The Delta people are the very, very best in the industry. There is no question that we have the best resources. Joanne is going to come up and talk a little bit about that. All airlines have many of the same tools, but the one thing they don't have is they don't have the magic of the Delta people. And I want to thank the Delta people for giving us the opportunity to post such a great progress report to you, our investor base.

So thank you everybody. And, Richard, I'll introduce you back. I'll help you if you want to do some more PowerPoints as I know you love doing PowerPoints.

Richard H. Anderson
Chief Executive Officer & Director

And how did I do on that PowerPoint?

Edward H. Bastian
President & Director

You didn't do that well. But you did move it, kind of.

Richard H. Anderson
Chief Executive Officer & Director

I did, I tried.

Edward H. Bastian
President & Director

Tried? You did your best.

Richard H. Anderson
Chief Executive Officer & Director

I'm not a PowerPoint person.

QUESTION AND ANSWER SECTION

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

We'll go to Q&A and we'll have mics going back and forth. So when we come to you with that, please give us your name and your firm.

Michael Linenberg
Deutsche Bank Securities, Inc.
Q

Richard, Mike Linenberg with Deutsche Bank. [indiscernible] (54:04) question as it relates to your fleet procurement. Yesterday, you did put out a press release that you're going to buy some 737-900ERs and some 190s, a mirror deal to what was announced some time ago. Previously, I think there was a contingency tied to a pilot agreement. It seems like that contingency is now not a part of this transaction. So what's changed or what's the shift there?

And then just my second question, following on our announcement – and I want to say maybe it was about a half a year ago with the order for A330neos and the A350s – I mean that's an airplane where I believe where Rolls provides the exclusive power plant. More recently, I think we saw a news that Delta has or I guess received the rights to be an independent provider of maintenance for Rolls Royce. I think that that may be unique in North America, maybe it's even unique globally. How do you pull that off? Can you talk about the strategy related to that as well? Thanks.

Richard H. Anderson
Chief Executive Officer & Director
A

Which one do you want?

Edward H. Bastian
President & Director
A

Well, I'll take the aircraft and you can talk about the Rolls deal. Mike, there is no contingencies on the aircraft. It was part of the negotiated pilot TA that did not get ratified. We thought it was a good opportunity for our pilots to continue to expand a new fleet category, bring the 190s, a 100-seat type product back to the mainline. But we're not going to limit our growth opportunities based on whether we can get a ratification of a TA or not. We think it's the right move for Delta. It was the right move for our employees. And we decided to move forward. The economics of the deal actually improved over six months with the manufacturers from where they had been. So we looked at it and we said we needed to move forward.

Richard H. Anderson
Chief Executive Officer & Director
A

We did take a fewer airplanes.

Edward H. Bastian
President & Director

A

And we did reduce some of the airplanes.

Richard H. Anderson
Chief Executive Officer & Director

A

So 30 airplanes for now. So it's 20 and 20. The Rolls strategy. So if you think about what we've been able to do on the technical side of the business, that's where we have unique firm-specific knowledge and capabilities at Delta that others cannot get close to replicating, which is the knowhow on how to run airplanes and how to manage reliability and cost. And we have a good engine shop in Atlanta. It turns about 500 to 600 large fan engines, about half of those for Delta, half of those for the MRO business. MRO business is a very profitable, high cash flow, high margin business for us.

We have a new generation of engines coming into the marketplace – 100,000 pound thrust engines – and we don't have a test cell that can run that engine. Maybe we can run one, but that would be the end of the test cell, right. So we've got to have 110,000 pound thrust test cell and the tooling and capability, because the most important thing is to continue the development of knowledge and capability in technical operations, because that's the sweet spot of how our operation runs.

I always tell the tech ops people marketing might think they run product, but it's the technicians that run product at an airline. And so, we wanted to be sure that we have generations of that capability at the company, because we can buy used airplanes and part them out and we can own half the number of spare engines than the rest of our competitors. So our typical spare ratio for spare engines is about 6% across the airline. The OEM recommendation is 13% to 14%. That is a ton of working capital tied up in engines.

So we need to build and continue that capability. As part of this deal, we were able to leverage our purchase of the A330s and A350s to get a commitment from Rolls to turn us into their overhaul provider. Most importantly, what it's going to give us is repair capabilities. And we hope that those repair capabilities can extend across other engine types, because one of the biggest, most persistent costs in our business is the cost of spare parts doubles every seven years to eight years.

So the pricing from OEMs on spare parts is 7% to 8% a year, inflation's 2%. So we have to be able to break that cycle; and we do that a couple of ways. One, we buy a lot of used airplanes and part them out. We buy used engines and part them out. We run our own engine shops. We do our own repairs. And we do our own engineering. And that's what gives us the lowest capital costs, the highest reliability and the knowhow to operate a complex fleet, so that we put the airplane – we give Glen the right airplanes for every market.

Julie A. Yates-Stewart
Credit Suisse Securities (USA) LLC (Broker)

Q

Richard, Ed, good morning. Julie Yates from Credit Suisse. Richard, you mentioned $8 billion in operating free cash flow...

Richard H. Anderson
Chief Executive Officer & Director

A

Operating cash flow.

Julie A. Yates-Stewart
Credit Suisse Securities (USA) LLC (Broker) Q

Right.

Richard H. Anderson
Chief Executive Officer & Director A

I wish it was free cash flow. Give us a few years.

Julie A. Yates-Stewart
Credit Suisse Securities (USA) LLC (Broker) Q

So assuming $3 billion in CapEx and assuming the percentage that was returned to shareholders in 2015, which was 70%, that would still suggest that shareholder returns can approach $3.5 billion, next year nearly $1 billion more than 2015. Is that the right way to be thinking about the pace of return?

Richard H. Anderson
Chief Executive Officer & Director A

I think that if I answered that question, the board just might fire me.

Edward H. Bastian
President & Director A

I can answer it and help you keep your job.

Richard H. Anderson
Chief Executive Officer & Director A

Okay.

Edward H. Bastian
President & Director A

In the $3 billion that we talked about, that did not include the Aeromexico capital because obviously that's a unique one-time thing. So there is a $750 million CapEx investment to do the Aeromexico transaction. So Richard's right that's not going to see necessarily a massive improvement. Hopefully, we will. But that's going to have to come from operating performance, not CapEx changes.

Julie A. Yates-Stewart
Credit Suisse Securities (USA) LLC (Broker) Q

Okay. And on the subject of international investments, you guys have made a lot of progress this year with China Eastern and Aeromexico and deployed a lot of capital. What's next? Are there other things on the horizon in the near-term?

Richard H. Anderson
Chief Executive Officer & Director A

Yes, but we can't tell you.

Julie A. Yates-Stewart
Credit Suisse Securities (USA) LLC (Broker) Q

Fair enough.

Jamie N. Baker
JPMorgan Securities LLC

Q

Hi, good morning, gentlemen. Jamie Baker with JPMorgan. I apologize that my first question is a bit of a modeling question, but Ed spoke to a 2% ex-fuel profit share inclusive guide for the full year. You're currently running two separate profit sharing schemes and you have an expired or it was technically an amendable pilot contract. Does your base case guide assume any changes in those two dynamics or labor cost accruals that sort of thing, or are you simply assuming the status quo?

Edward H. Bastian
President & Director

A

Assuming the status quo until we know something different.

Jamie N. Baker
JPMorgan Securities LLC

Q

Okay. And second, could you help us understand a little bit better the parameters that you're going to be looking at to ensure that you and therefore the people in this room are generating an adequate return on the GOL, Aeromexico and China Eastern investments? Is it simple as seeing improvement in operating margin? Is there some assumptions, some measure of PDEW flow back and forth between the two networks? I mean, if you spend as much time in Richard's office for a $3 million capital decision, I've got to imagine the analysis and the measures that stand behind these international commitments is fairly rigorous, some additional color?

Edward H. Bastian
President & Director

A

Sure. Let me talk about Aeromexico and GOL, and Richard you might want to talk about China, since we've just finished two days with China Eastern actually here in New York and the Chairman with us. The Aeromexico investment, Jamie, is modeled very similarly to what we've done with Virgin. And if you're a shareholder, you have enjoyed substantial returns. And I can remember three years ago, people looking at Virgin. Virgin was losing $150 million a year at that time.

The concern everyone was, well, how deep is the hole you're getting into. And the structure not just in terms of the ability to improve the profitability of the core business, but then the JV that we had layered on top of that and the returns from that have been substantial. So that's earning us probably a minimum 50% return on investment. I think by 2016, we've already paid back the full level of that investment in cash.

And Aeromexico is going to be more of the same, where you've got a neighbor country that has a marketplace that is still relatively undeveloped, is underperforming candidly with respect to the performance. That's a 6% operating margin business. So when you've got the leading flag carrier with fuel prices where they're at, there's just no reason why it shouldn't be a double-digit margin performer, all of which will inure to Delta in terms of those improvements, at least 49% of those benefits will inure to Delta.

And alongside that, the opportunity to put a transborder JV in place that will allow us to sit on top of the existing 49% arrangement. We don't have Open Skies with Mexico yet. We will have. We believe in 2016 mid-part of the year, Open Skies ratified and approved and being able to implement. There is a big technology opportunity once we get through the investment stake at Virgin.

We're actually bringing Virgin this year onto the Delta technology platform. We're going to be operating Delta – excuse me, Virgin's reservation system and point-of-sale customer system; and it's going to be operated in one place. So the seams will be, there will be no seams from a customer service standpoint or an employee standpoint. We have that same opportunity with Aeromexico, where you can see us going to continue to follow that play. But the one thing that's going to be potentially even a greater opportunity at Aeromexico versus Virgin is that Aeromexico has a substantial domestic marketplace that we'll also be able to get into it and help them improve; Virgin doesn't have that. So that's going to be an added opportunity.

We're going to be putting people on the ground there, in Mexico. We're going to be hiring some Mexican nationals to work in Atlanta to make certain that we're building what's needed for the long-term. So it's going to be the continued expansion on an M&A-related perspective, albeit it's going to respect the ownership restrictions we have down there.

Brazil; when we made our initial investment in Brazil, people forget that GOL's operating margins were higher than Delta's actually by a fair bit. And it is a notoriously volatile economy. It's an incredible economy. The next two years are going to be tough in Brazil. And this is the time, if you are an investor, you want to be in Brazil and building for the long-term. We're working hard with Kakinoff and Constantino in building a durable model so that 24 months to 36 months from now you're going to see some significant returns from that investment. And while we did make an additional investment of relatively modest number of $60 million, that got us another 8% or 9% in the company. We did backstop some financing. We're on the ground helping as their financial restructuring advisor, for lack of better term. They don't need to go out and hire one. We've got the world's best inside our company. And I'm confident it's going to have good return.

Richard H. Anderson
Chief Executive Officer & Director

A

So let me talk about China, and China is a bit like Brazil. If you think about where the growing economies are in the world, the real growing economies in the world are going to be China and Brazil and Mexico in our realm. And to be able to participate in those economies, given the restrictions on foreign ownership and all the issues that you have, I mean, some folks have a hard time merging two airlines in the United States. So you've got to have a mechanism for inorganic growth and inorganic opportunity. And Virgin, Air France/KLM, while that used to involve equity a long time ago, we have a very proven model that produces superior returns across the industry that has allowed us to take a lot of market share and do quite well as we mature these relationships.

Clearly, the China investment is a longer term investment. But if you think about what the real business in industrial capital of Asia is going to be in a decade, it's going to be Shanghai. And we have to participate in the growth in the China marketplace. The fastest growing aviation market, I think in my lifetime, it would be a larger economy than the U.S. It has a burgeoning middle-class. We have long-term visas now, and the growth potential there is significant.

The way I describe it to our employees is much the way I recall, doing the first JV agreement with KLM in 1991. And we started with three flights a week, Minneapolis to Amsterdam. Today in the peak, it's three flights a day. And the JV itself, we probably have 25 airplanes devoted to it and it has high – double-digit margins. Now, it took us a while to get that developed, but that same proven track record will work in Brazil, and it will work in China.

And in order to really facilitate the equity becomes really important, because when you have a minority equity investment, we are in the boardroom, and instead of them hiring consultants, that candidly are not going to be able to help them fix their businesses, they get our executive team. And we're able to go into a Virgin or an Aeromexico or a GOL and really run that business the way we run Delta. And ultimately, you migrate these airlines on to the Deltamatic platform. Our MRO business, we take over – in the case of GOL, we'll end up doing –

our MRO will handle all of their MRO opportunities, and what you also don't see in these investments is how our P&L on Delta metal improves.

So, if you just looked at Mexico and where our premium share has gone, our premium share – we're like 10 points above our fair share and premium share. And so, we have a lot of metrics that track it, but the most important thing is to understand the investment thesis and that the investment thesis on these equity minority positions is a proven, proven strategy.

Helane Becker
Cowen & Co. LLC
Q

Hi, it's Helane Becker, with Cowen & Company. Thank you for your time. So, just with respect to all the investments that you're making in Delta to excel in the United States, what has to be done – well first of all, how do you keep the government from getting meddlesome and adjusting the business to fit whatever plan they might have? And two, what kind of investments have to be made from an infrastructure perspective to enable you to grow the business the way you want to grow from a profitable – profitability?

Richard H. Anderson
Chief Executive Officer & Director
A

You mean in the U.S.?

Helane Becker
Cowen & Co. LLC
Q

Yeah. Specifically in the United States, like with air traffic control, that's a big issue coming up and so on.

Richard H. Anderson
Chief Executive Officer & Director
A

Well, on the air traffic control front, the industry has actually never operated better than it's operated this year. And if you look at Delta's operation, Delta's setting all sorts of records in terms of reliability, completion, baggage, just look at the DOT, BTS statistic base. So, that piece of its working well. Delta specific, we are engaged with airports in significant infrastructure investments today. So, the port authority of Seattle is going to rebuild Concourse A and Concourse B, and a new international arrival hall, and Delta will basically get the South side of the field.

Los Angeles, we have big infrastructure investments underway in L.A. Salt Lake City, the City of Salt Lake is building a new terminal in Salt Lake. Atlanta always needs a $100 million a year to just sustain that infrastructure, and ultimately in Atlanta, the Mayor has agreed that we're going to build another runway and we have a plan for continuing to expand concourse's as demand requires. JFK, we've made significant investments, LaGuardia we've made significant investments, so that piece of the infrastructure in the U.S. is actually quite good. And a couple of things are going on in the U.S. One, the number of regional jets taking up airspace is going down, because of pilot shortage, and Delta's up-gauging has led this up-gauging effort and I think a number of carriers are engaged in up-gauging now. So, when you actually think about the number of total operations that these systems got a lot more efficient.

The government – it's a little frustrating. I don't think that the government not just for our business, but for all businesses really appreciates that you can't love jobs and dislike the people that create them. And so we're – we invest a lot and we work very hard to protect our interests in Washington. It's always interesting to contrast a call to our Secretary of Transportation and speaking to the Secretary of Transportation in Mexico. It's a night and day conversation. Secretary of Transportation in Mexico is elated with our investment in Aeromexico and the partnership that we're going to build to have the number one position between the two largest trading partners in North America is just remarkable. So I hope, if we as a country are going to really have true strong middle-class job growth, we're going to have to have just an overall philosophy in Washington that people that create jobs need to be supported.

Rajeev Lalwani
Morgan Stanley & Co. LLC

Q

Hi, thanks. Here we go, sorry. Thanks for the question. Two for you. One as it relate – it's Rajeev Lalwani with Morgan Stanley. Two questions. One, as it relates to just future international investments, can you talk about how you weigh doing that versus buying back additional stock or paying down debt further, that's one? And then the second, as it relates to your capacity guide for next year with PRASM strength that you're seeing in the fourth quarter and fuel coming down, should we start to assume maybe that it'll be at the higher end of that 0% to 2%?

Richard H. Anderson
Chief Executive Officer & Director

A

I'll take the one and you take the two.

Edward H. Bastian
President & Director

A

Okay.

Richard H. Anderson
Chief Executive Officer & Director

A

It's really about long-term returns when we think about deployment of capital. And if you look at what we were able to do in 2015, I think that's pretty indicative. So we were able to make the – the China Eastern investment, which is going to be an investment you're very happy we make a decade from now, because it's another growth platform for the enterprise and a really, really important marketplace. But at the same time, we took our shareholder returns from $1.4 billion to $2.6 billion.

So you want to make sure that free cash flow yield is superior in the S&P industrials, but at the same time, you want us to have sustainability over decades. In an order to have sustainability over decades, we always have to strike that right balance of investment back in the business, so that we have growth platforms and margin expansion platforms. And so, I think that's what you entrust us to do to make those kinds of trade-offs. And I think our track record in those trade-offs is incredibly strong.

Edward H. Bastian
President & Director

A

I think to close off on Richard's point, the capital efficiency of our – Aeromexico is a $4 billion revenue stream, right? So for a $750 million capital investment, we basically have a $4 billion and growing revenue stream. How much – how many airplanes that people are going to have to buy to be able to invest in a $4 billion and growing revenue stream with margin potential that can double? There is not many in this industry and that's why we made the investment.

Richard H. Anderson
Chief Executive Officer & Director

A

With an incredible market position, I mean Mexico City is slot constrained, and they are the only flag carrier.

Edward H. Bastian
President & Director

A

And a very strong team on the ground there, and strong ownership stake and good partner relations that we have. Your other question is on the capacity guidance, you're saying on the zero to two, what are the variabilities there? That's our best guess right now. Our plan right now is about a 1%. So, it's in that 0% to 2% range. If fuel prices materially drop from here, yes, you'll probably gravitate, closer to 2%. If fuel prices start to pick up a little bit, if the international marketplace gets a little bit weaker due to some volatility or geopolitical risks, we'll go lower. I mean we're in a good stead there, and certainly in every market we fly, we're well within the GDP growth rate – that we expect in 2016 in that market.

Richard H. Anderson
Chief Executive Officer & Director

A

Let me use 2015 as another example and that's really kind of the beauty. I should have touched on this in terms of the three questions, I was talking about. If you own – if you have the capital tied up in real estate, you can't move the real estate. If São Paulo go south, Marriott can't move its hotel out of São Paulo, right. We can move our airplanes out of São Paulo, and that's the great thing about how these assets were particularly coupled with the fact that we have. It is very easy for us to take capacity. We actually get a non-fuel CASM pick up when we park, a paid for airplane, because we can part it out and reduce our MMR on the remaining fleet.

And so, let's take 2015, take your same question. In 2014, when we were sitting here at this meeting, we had contemplated international capacity in 4Q of 2015 to be up 3% to 4%, its down 2%. We react to markets and the beauty of what our business model is, it's actually a superior industrial business model. The railroads – if you're at Norfolk Southern in the eastern part of the United States dependent on coal and your track start in Chicago and end in Florid, we can move assets and we can put assets on the ground and get a non-fuel CASM pick-up and increase our ROIC. So just trust us that when we see economies change and markets change, we move assets quickly. And you see it in our core schedule.

Our core schedule now in the summer is 20% to 25% bigger than it is in January. And a lot of times we don't fly on Tuesday. So the point of it is to your question about where capacity is, zero to two is the way we budget the airline. But just as we did in 2015, we react quickly to keep our margins up and our returns high.

Duane Pfennigwerth
Evercore ISI

Q

It's Duane Pfennigwerth, Evercore ISI. I wanted to ask you about your fleet strategy and your industry-leading return on capital focus. How do you influence your JV partners? How do you get them to adopt a similar focus or do you even want to? Is this more about maximizing your own RASM or do you actually care about maximizing the value of these equities that you're taking – that you're paying a premium for not having control?

Richard H. Anderson
Chief Executive Officer & Director

A

Well, depends on the partner. I just don't think we're going to get the French to let us run their fleet. So with Air France, KLM and Alitalia, we're not going to be making those kinds of decisions. With Virgin, GOL and Aeromexico, they want us in the room helping them with these decisions, because we bring a lot of expertise and a lot of leverage to the table. So, over time, we'll have greater influence as these equity – our minority equity investments. We already have had a big influence at Virgin.

Edward H. Bastian
President & Director

A

Yeah. Virgin is actually reducing their capacity as a company going forward as they're downgauging, getting rid of 747s and buying 787s and the like. Now, in the U.S. marketplace, Virgin is growing, but they've grown through assets that we've redeployed out of India and out of South Africa and out of Japan into the U.S. marketplace. So if you're narrowly looking at the U.S. marketplace, it may look like it's growing. We look at it, on an entity basis, it actually shrunk. Aeromexico, that's a growth market. That's an emerging – we didn't buy Aeromexico to shrink it. We bought it to grow it.

Brazil – Brazil is shrinking right now. It's going to shrink some more, and it will eventually be in a position to grow, but the flexibility we have there that with the MRO capability and the talent that we do have on the ground that will increase on the ground, the capacity is going to be well balanced to the demand.

Duane Pfennigwerth
Evercore ISI

Q

Thanks. And then just a follow-up regarding one of your earlier comments. What percent of your own capacity would you consider completely variable fully depreciated?

Richard H. Anderson
Chief Executive Officer & Director

A

I would say we probably have – I would say about – internationally, we probably have 50 airplanes – 50 airplanes to 60 airplanes, which you put in that category that are pretty easy to take down, and domestically, probably 150 airplanes to 200 airplanes.

Edward H. Bastian
President & Director

A

At least, yes. At least...

Richard H. Anderson
Chief Executive Officer & Director

A

That are...

Edward H. Bastian
President & Director

A

Are paid for...

Richard H. Anderson
Chief Executive Officer & Director

A

Zero.

Edward H. Bastian
President & Director

A

They're paid for.

Richard H. Anderson
Chief Executive Officer & Director
A

And then there are others that don't have much. That's why we have fleets that have 300% returns on equity, which is one of my favorite number.

Duane Pfennigwerth
Evercore ISI
Q

Thanks.

Richard H. Anderson
Chief Executive Officer & Director
A

I always remind Glen of that.

Thomas S. Kim
Goldman Sachs & Co.
Q

Good morning. Tom Kim here from Goldman Sachs. Thanks for your time. I have a couple of questions. The first one is on the domestic capacity. So you've given a nice range of 1% to 3%. How are you thinking about that, just given the uncertainties in the economy? Can you talk about whether you're leaning more towards the 3% at this stage and then how much flex do you have should we end up hitting a softer patch in the economy that actually leads to a much weaker demand than anticipated, how quickly could you bring that down, if needed? Thank you.

Richard H. Anderson
Chief Executive Officer & Director
A

Domestic capacity, we could – just all of the last question, we could bring down immediately. When you have well over 200 planes, I'd say, probably closer to 400 planes, they have absolutely nothing invested in and – or minimal, just absolutely minimal levels of investment, you can ratchet down and by the way we've done it. We've done it many times. We know how to do that, all right. Actually that part of the marketplace, we're really good at. It's actually the – and living with prosperity parts, it's a little more challenging for us, but in those markets we know how to do that really easily.

So what's the range around the one that – just like I mentioned, it's based on the marketplace. Our capacity by quarter goes plus or minus within – it's a margin of error. So right now we're leaning towards that 1% to 2% on domestic. We're kind of trying to be a bit cautious. Remember, there is a leap day in 2016, so that add some additional margin points of capacity growth, that's included there, and that's not real. But we feel really good that – and more importantly, Tom, it's where that 1% to 3% sits. It sits here in New York, it sits in LA, it sits in the areas that we're earning outside returns and the premium traffic opportunities are greater to be able to price for it in Seattle. So it's not a domestic question. It's actually what are the individual markets and those markets are growing a little bit higher than 1% to 3%. And some markets were actually negative domestically.

Thomas S. Kim
Goldman Sachs & Co.
Q

That's great. Thank you very much for that. And can I ask a bigger picture question just with regard to overall reduction of the operating leverage. You've done an amazing job de-risking the business, de-leveraging the operation, and clearly you're in a much better position to handle any demand shocks or recessions that are to come at some point in a cycle. And I'm wondering, to what extent can you talk about how much more you can do to reduce the fixed cost structure in the business. You've done a lot on the capital cost side, is it more than you could do operationally whether it's from a productivity standpoint, head count, we'd love to hear some additional color with regard to that. Thank you.

Richard H. Anderson
Chief Executive Officer & Director

A

Well, if you think about how the cost structure has moved in the last 10 years, we have many, many more variable costs. So, with pilots, we happen to have over the next decade a huge bolus of retirements. So we're going to have easy ability to flex up and down on pilot hiring just simply because where we are in demographics.

With our flight attendants, we have the most productive flight attendants in the industry. And we have variable leave programs that allow us to vary flight attendant hours pretty rapidly. So, the way our leave programs work as we have short – one-month, three-month, six-month, Joanne will know this better than I, but we have the real ability to vary that. And also because of demographics, we have a pretty significant bolus of hiring with flight attendants, they can flex up and down.

In our airports 10 years ago, we were 100% full time. Now we're 60% full time. And we have a component called Ready Reserves, which is a part-time position, Gil can talk a little more about it. And then we used Delta Global Services, which is our third-party ground handling subsidiary. Delta Global Services handles all our Delta Connection stations, and it is very much a variable rate labor pool. Cleaning, fueling, all now are contracted and more and more, we just stick to the really core services that matter in the airline.

As I said earlier, all of our benefit plans have moved from defined benefit to defined contribution, same on our health plans, our retirement plans. And then in TechOps, I think the big opportunity is, we have started a company called Delta Material Services, and we're going into the parts business, the airplane parts business. And what that's going to give us is a continuing opportunity to tap into the used airplane market and the used parts market. And we're just scratching the surface on that.

That is going to be a big opportunity in MMR line for the company and we're going to continue to develop that capability across the enterprise because there's really no true agnostic sort of single part supplier. Most of the parts supplier in the business are either OEM controlled or a lessor controlled. And it's going to – we just started it this year and we think it's going to provide a huge opportunity for us going forward.

On the distribution side of the business, our call volumes continue to decline, and we now have our distribution costs compared to 10 years ago, we've probably taken $200 million out of distribution, traditional distribution costs, and we have a goal to get our direct distribution to 50%. And that number continues to climb with Internet, mobile, and of course our own res department, which has the highest yield distribution ticket number in our direct distribution scheme.

So if you look at – my point is, if you look at every segment across the business, we have initiatives underway to continue to take costs out and improve the quality of the operation.

Edward H. Bastian
President & Director

A

Two other elements to your question, Tom, in addition to what Richard mentioned in terms of variablizing your cost structure in a downturn, which I sense is kind of what's your bottom feeding, and how you risk profile. Obviously a profit-sharing plan is a big expense for the company. It's over $1 billion of cash out that in a downturn you would certainly -automatically recalibrates, and that's going to provide an instant savings. And we've also been overinvesting in our pension plan, so in the plan this year is another $1 billion of investment again, which is substantially higher than what we'd have to make in a year. So there is fairly rich profit cash pools as well sitting in those two buckets that supplement all the other things that Richard mentioned.

Savanthi N. Syth
Raymond James & Associates, Inc.

Q

Hey. It's Savi Syth from Raymond James. Big – as you pointed out, you've been a leader in the down – the upgauging trends, and it's been a big contributor to keeping your costs at a very manageable level and part of it – making this business sustainable over the long-term. You're probably close to about 170 50-seat RJs. I'm guessing that doesn't go to zero, and the 50-seat RJ opportunity has been kind of good to the cost sign and the revenue line. I'm just kind of wondering how much more of that is there, and then what's the next leg beyond that? And then just a secondary question on all the international discussion you've had. Right now you have about maybe a third of revenue coming from international, just how do you see that involving maybe in the next five years?

Richard H. Anderson
Chief Executive Officer & Director

A

I'll take one, you take two? We're in the early innings of upgauging. So, you look at where – actually, the deal we did yesterday, the deal we did yesterday with EMB 190s with incredible pricing and half time engines. That's a big upgauging strategy. I think the 50-seater has very little residual value. We're going to get down to a – right now, to a 125 under our scope clause. We think that number over time is going to go even further south. So, the opportunity, if you just look at our upgauging strategy, we're just about finished with the 717s, but we still between 737-900s and A321s, we still have a 130 airplanes to go over the next three to four years.

In addition, the 757-200s are going to a retrofit right now, and we're going from 182 seats to 199 seats on that airplane. And our customer preference scores have dramatically increased, because we put a lot of passenger amenities in the airplane. So that project is still not going to be completed until sometime after 2016 through the full number of 757s that are in the fleet. So, I would say that we're like in the bottom of the second inning in terms of upgauging. And the opportunity with the EMB 190 particularly, is going to be significant, because I think there is going to be a long-term shortage of pilots for 50-seaters in the industry. With the 1,500 hour rule and the demographic, it's actually a downward – pretty stiff downward pressure on domestic capacity in the U.S., I think, longer term. And so the residuals on the 50-seaters really are just about zero.

Edward H. Bastian
President & Director

A

And on the international mix, I'd say, the next couple of years, is not going to change a lot, given the currency challenges still internationally. Yes, we're going to grow Mexico, we're going to grow the UK, we're going to grow in China, but that's going to offset areas internationally where we're shrinking and pulling resources back. But two to three years from now, I think you're going to start to see the mix start to tick back up again.

Q

Thanks.

Q

Richard and Ed, thanks for the day today. Richard, in the past, you've talked about the importance of spending time in Washington, say, once a month or so. And your comment on your frustration with Washington is one of the points I picked up. Given the expansion into the international markets with increased numbers of JVs, Delta does, to some extent, increase its exposure to political risk. And I'm just curious, the international arena has been deregulated pretty dramatically over the past 10 years, but what are the points of friction in the international regulatory backdrop? And do you feel it's necessary to address any of those points of friction or basically just given your vested interest in the JVs?

Richard H. Anderson
Chief Executive Officer & Director

A

Well, I just think speed of getting these transactions done. And if we think back over the last five to seven years, the number of transactions that we've done, it just doesn't move quickly enough. It's a slow process and a lot about what you do in these deals is speed to market and that just tends to be a pretty slow cumbersome process to get these JV deals approved and get all the necessary regulatory approvals. We've actually been able to do them pretty effectively in the foreign capitals and got an incredibly positive reaction from the highest levels of the Mexican government. So, I just think the speed at which we move in getting these deals approved is important. We've had all of our JVs approved. We had one disapproved for a short time in Australia, which was half a dozen years ago, but we were able to get that fixed. I think that's important.

Second thing is, look, you know our views on the state-owned enterprises and the need of our government to enforce the face – the words on the face of the treaties. And from a regulatory perspective, actually, the FAA piece of the business works really well, I think, in the U.S. I think our regulatory regime from the Federal Aviation Administration, the oversight of safety and the air traffic control system, I actually think is quite good. I think the FAA does a very good job.

I think on the commercial side, I think sometimes the DOT doesn't see us as an ally, just generally. And in both consumer affairs – and we're incredibly focused at Delta at being the best airline for customers. But we don't always feel like that the government partners with us the way it ought to partner with us and have actually met with the secretary and asked them to take a different approach. So, I just hope, overall, that people really do understand in government that in order to create a lot of jobs, you have to like the people who make the decisions to create the jobs.

Justine B. Fisher
Goldman Sachs & Co.

Q

All right. Thanks for squeezing me in. I'm all the way over here. It's Justine Fisher from Goldman Sachs. If you asked an operating lessor – and I'm not saying they're always right, but if you asked the operating lessors about how airlines are reacting to new orders in the current fuel price environment, they say don't worry, airlines plan for $100 fuel, they still want to order new planes. And clearly, you guys are planning for $100 fuel. So, my question is how does the used aircrafts strategy work in the $100 fuel plan that you have? Is it that you've got these paid for aircraft that you could ground and maybe in a $100 fuel price environment demand goes down? Or is that maybe by the time fuel prices get back up to that level, you've cut enough cost in the rest of your business that the relative fuel in efficiency of those aircraft doesn't necessarily matter? I just wanted to understand how that fits in?

Richard H. Anderson
Chief Executive Officer & Director

A

Well, let me call Norman Liu. Do you know Norman?

Justine B. Fisher
Goldman Sachs & Co.
Q

Yeah.

Richard H. Anderson
Chief Executive Officer & Director
A

Did you see what he said?

Justine B. Fisher
Goldman Sachs & Co.
Q

When?

Richard H. Anderson
Chief Executive Officer & Director
A

About a month ago, he said if I were an aircraft lessor, I wouldn't talk to any OEMs. And the reason, why is a used airplane is just as efficient as a new airplane. You can buy an – the A321 that you buy today has the same engine on it as an MD-90. It's a V2500. It's operated by Pratt & Whitney. It's the same motor. In fact, you could part out an MD-90 and get core engine parts for a brand new A321 out of a 20-year old MD-90.

So, there is no fuel play between a 10-year old Airbus, 10-year-old 737-800 and a brand new one. They're just – they have equal efficiency. It's just – the 10-year-old used airplane cost about $25 million less and you get the same thing. Which one do you want to pay for, the one that's $40 million or the one that's $15 million? I'd rather do the $15 million. So, don't let the lessors convince you of that. And by the way, I was wrong on $10 million for a 777-200. It's actually $7.7 million. We just signed an LOI for one yesterday.

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

Do you want to keep going or…?

Richard H. Anderson
Chief Executive Officer & Director
A

We can do a couple of more if you need.

Edward H. Bastian
President & Director
A

I have to go to the restroom, so…

Richard H. Anderson
Chief Executive Officer & Director
A

You got to go. Okay, we'll do one. All right, we'll do one more.

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

One more.

Reno Bianchi
The Seaport Group

Q

Good morning. Reno Bianchi from Seaport Global. Two questions. The first one, if Delta is geared to be successful at $100 fuel price and today we are in the mid-$30s, why you're not hedging 100% of your fuel consumption? No matter how steep the forward curve is, you can lock a price well below $100, increase the predictability of your earnings and maybe get in higher multiple.

Second question relates to Venezuela. You're planning to do in the fourth quarter what United did in the third quarter, which is write-off basically to zero your cash balances there. My question is are you giving up any hope to get any money out of Venezuela or this is a little bit of an accountant treatment to put something aside for a rainy day down in the future?

Richard H. Anderson
Chief Executive Officer & Director

A

You get both of those.

Edward H. Bastian
President & Director

A

I get both of those? Thank you. Last one first, Venezuela, unfortunately, we have no hope. We're very frustrated. That's money we earned. But no this is – it was assessed by our accountants that there's no hope of receiving those funds and we spent a lot of time with the Venezuelan government and that's why we took the action we did. Your first question was more on why don't we hedge all of our fuel or a 100% of it, because we don't have conviction around where it is. You see what's going on in the marketplace and we got that question a fair bit over the last year. We haven't hedged really anything over the last year and it's continued to pay good dividends for us. Over time, when we start to see some path forward on fuel and have a sense for where it's going, then we'll start to make some hedge decisions. But in the interim, we don't see anything but downside trying to figure out where it's going to go. So we're taking a hands-off view on the hedge book and Paul will talk a little bit more about that, but right now we don't see value in it.

Richard H. Anderson
Chief Executive Officer & Director

A

Actually, that's a hedge – we are hedging right now. We are hedging right now. It's just we're not doing it with derivatives, because we're in a classic short supply/long demand business for a commodity. When you make a decision not to enter into derivatives, that's hedging, right? We've just decided that right now the market is such that the best hedge is to not enter into a derivative.

Edward H. Bastian
President & Director

A

It's not to hedge.

Richard H. Anderson
Chief Executive Officer & Director

A

It's not to enter into a derivative, but it is a hedge.

Edward H. Bastian
President & Director

A

Not to spend money on the market.

Richard H. Anderson
Chief Executive Officer & Director
A

We're not going to spend money buying forward right now. We're prepared to take spot until we're not prepared to take spot.

Edward H. Bastian
President & Director
A

And when we have a better view where the market is going, we'll have that opportunity, but for now, we're...

Richard H. Anderson
Chief Executive Officer & Director
A

Right.

Edward H. Bastian
President & Director
A

...we feel good with where we sit.

Richard H. Anderson
Chief Executive Officer & Director
A

But, remember, all airlines hedge all the time, because of the commodity position that you're naturally in, right? Your short supply/long demand permanently.

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

So, thanks everybody.

Edward H. Bastian
President & Director

Okay.

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

It's 10:10. We're going to take about a ten minute break. And we'll start again at 10:20.

[Break] (01:42:42-01:53:54)

MANAGEMENT DISCUSSION SECTION

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

Okay. If everybody could get back in their seats, we will get the on-time machine back going along and I will introduce to the stage, our Chief Operating Officer, Gil West.

Wayne Gilbert West
Chief Operating Officer & Executive Vice President

Thanks Jill. All right, can you hear me. So I'm going to start it off here and just looking around, I can tell that all of you here to pour over operational statistics and crank those into your financial models to up our multiple. So, thank you. Alternatively, it'd be a good time for an extended bio break, maybe as alternate.

But, I'll start by saying, we've got over 70,000 of our Delta family members in the ops team and their operational performance and customer service that they've delivered are at a level that's really unprecedented in the industry. So I'm going to talk to that in next few minutes. And I'm happy to say that, 2015 for us was the fifth consecutive record year of operational and customer service performance, but as you've probably got a sense for in Richard and Ed's comments, it just sets the bar for us for 2016 because we take stretch goals off of everything, every record we set and the expectation is to set new records in the next year. And we definitely plan to do that. So there it is, some operational stats.

In our industry – we live in a very transparent world, right. We report all our information to the DOT, all our operating statistics, they compile it, report it back publically. So the data that you see on this chart is really from the DOT through October, plus we layer in November month-to-date performance that we all exchange as operators, as we provide that to the DOT. So, this is DOT through November.

Transparency, right? So, a couple of things of note here. First of all, this is really our internal look at the data. So, if you look at these comparators, this is how we view our competitive set, what we're striving for.

And a couple of things of note on this, one is you'll see some competitors in here that on a relative basis are infinitesimal compared to our scheduled network. So there is a couple of carriers that are single fleet, generally point-to-point carriers, fairly simple networks, right? I mean we've got a dozen basic fleets twice that in sub-fleets, complex global networks, hub spoke type operations. But we include those competitive points for us internally, so that it raises competitive bar. So, it gives us performance to shoot and pass, and then ultimately, we compete against ourselves internally, as we lead the industry.

So, I'm going to talk first the completion factor. If you look at completion factor, what I'll say is, it will be a photo finish for the bragging rights, we're number one for the year. And if you recall, first quarter, and I'm sure many of you lived through it, if you're from the Northeast, we kind of started behind the curve here on the Delta side given the weather that we hit September, excuse me, first quarter, severe snowstorms, ice, Atlanta got hit fairly hard. So first quarter, we were behind the power curve a bit, we've been putting catch up since.

On a normal weather day, I mean, I'm happy to say, we're head shoulders above all the industry in our ops performance. So we've been driving hard to catch backup and we're essentially just the few one hundredths of a point off here. So I am probably the only one in the room that would like the year to run at about 30 more days right now, but nonetheless, it'll be a photo finish. I would say, last 12 months rolling, we finished nine of those months in first place, 9 out of 12 months first place in completion factor.

And I'd also add, every tenth of a point here is a really big deal if you're a customer, right, because if you look at – if you look at a carrier, compare Delta to a, with a carrier of our size and at the bottom of that chart for a completion factor and then look at it in terms of impacted customers, that carrier is going to have about two million customers that experience a cancellation that Delta wouldn't right? So that's a big deal.

Similar on the on-time performance, so you can see DOT on-time, A14 chart and we of course, will look at that, measure it, but the government defines on-time as 14 minutes late, right. We define it a little bit differently. At Delta we define it as A0, that is truly on-time, zero minutes late. We look at both, but we really drive on the A0 front. You can see we're a step function ahead of the industry on that chart. We're obsessed with data. We cut it, we dissect it, we analyze it. One thing we've found is, A0 for us is the highest factor that correlates to customer Net Promoter Score. So it's a big deal for us to keep driving A0 performance similar to completion factor.

If you look at that metric, every tenth of a point counts and again on a comparative basis, if you look at Delta performance and compare that to a carrier of our size at the bottom of that list. You'll see about 15 million more customers that have a late arrival than on Delta, right? It's a big deal for the brand. So these are really important metrics for us.

Baggage, another DOT metric that we're obsessed with and here over years we moved to the top tier of the industry. The challenge with baggage is connecting bags, right, in a hub environment just like as a passenger you connect – connecting those bags that's generally where mishandle bags come from. But we compete against point-to-point carriers in that metric internally. So we look at that, point-to-point carriers generally don't transfer bags, I'm not really sure how they misplace bags, but they don't transfer them. But we're driving to that level of performance and we're very competitive in that. We've actually finished first couple of times this year already and we've got plans to drive number one in this. But you look at the rest of the industry and we're 1.5 times or 2 times a factor – their rates are 1.5 times or 2 times worse than our rates. So this is an area that we'll continue to excel at, continue to drive forward in.

The other metrics that's all here that you may not see normally from a comparative standpoint. We include it because it's really important to our customers, it's involuntary denied boarding, this is probably the most painful customer experience you could ever had, right. You pay for your ticket, you show up at the gate and then airline tells you sorry, you can't fly, right, we've oversold the flight and can't get volunteers in, I'm sorry, you're not flying and it is really painful.

And there is always a balance with this, but it's is a metric that we look at and we look for volunteers and we're proactively driving volunteers and have a number of ways that we manage this metric. But we're second in the industry behind jetBlue, jetBlue doesn't oversell. So naturally, they wouldn't have a lot of invol denied boardings, we did beat them once this year. All the other carriers are behind us at least two times higher rates and one almost 10 times higher rate. So, this is a big customer metric here.

Richard touched on it, but I would categorize the ops performance really. I mean, it all starts with having a ready aircraft on the gate for every flight and our TechOps team, which is our maintenance and engineering department, is really a competitive advantage forces in airline. They've done a tremendous job here. And so if you look at the metrics, over the last five years, our maintenance cancellations have dropped 93%. Just this year alone, year-to-date, we're down 45% year-over-year and it was a record year last year, right. So we're obsessed with continuous improvement in all our metrics, but our TechOps team has done a great job here. And I'm not here to show our secret sauce or get too deep into how we make the sausage, but you should just know that it's generally a lot of good blocking and tackling coupled with a lot of science, right. Again, we're really into data, we've got good rich sources of data, we cut that, we look for the levers to pull and invest in and then we execute strong on the back side.

So we partner with Glen's team in Network so that we can give our hands on the aircraft, but with an eye towards we do not want to constraint the network, so we'll add targeted maintenance footprint at our own line stations, so we can get the touch time that we needed to drive the reliability that we expect. We've also continued to invest in our internal maintenance capabilities, Richard touched on some of those, but these are things that can continue to give us an advantage, both in operational performance as well as cost. And then serviceable levels, right. We talked about spare engines and things of that nature.

One of the biggest things we've done is improve our part serviceable level. You cannot drive high maintenance reliability without parts, right. When you need to replace part, you need it there, but there is obviously a balance of that with inventory. The team has done a tremendous job on the industrial process side in our shops that we have in Atlanta, in particular, where the inventory turns are very, very high. And our serviceable levels, which is the first e-mail I read every day are at record levels.

So, versus goals that we set and allocate across our whole network, we're in the mid-95% range of having serviceable parts where we need it. That's almost twice what it was five years ago. Okay, so that's a big – that's been a big driver to our success. At the same time, the TechOps teams bled out $400 million of active inventory, right. So, we've leveraged that as well. So, it's not just buying additional parts, it's having what we have more quicker and we are able to reduce inventory at the same time.

Reliability projects, which are very important for all fleets, certainly with our fleet strategy. Again, we've got a lot of data, we look at that data, we know exactly where the opportunities are. That's where we target our investments and then that in turns drives reliability improvements and then that all plays into the data. I've alluded to a lot about data, but we've also leveraged that of all the data coming off the aircrafts. So we're far more proactive managing our fleets, trouble-shooting our fleets before anybody ever sees that there is a mechanical issue with an aircraft. We can see it on the backside of that. So, we are out there proactive driving the reliability that we need.

These other charts on the bottom, especially on the bottom right side here and in the middle. Ed, mentioned it, but we've come to really – a few years ago we started measuring 100% of days, right? Completion factor is good but I mean perfection, we're driving to perfection. We know we're not perfect, but we're driving towards that and a 100% day is important because the middle chart here is for our – we call it system but it's domestic and international flights 100% days. And you can see the trend, and I probably should have put 2011 on here. But if you go back to 2011, it was almost unheard of to have a 100% day system wide for us or anybody and I think we had two days in 2011.

You can see the trend. This year now – and kind of date my slide, but this year we're up to 154 days now of 100% system completion factor, so we've logged in seven more days in a row since the slide was done. So the trend, the momentum is good. That gives us a sense of how we're performing so if we have a cancellation, believe me we do a lot of armchair quarterback and new lessons learned on what happened, why did it happen and what preventative action may make sense to take.

The other chart at the bottom really is from the domestic network because as I mentioned earlier, we report a lot of data to the DOTs. So we also have the ability to compare this metric so the last data we got was recently from October, knock on wood, we led the industry in October, got some good favorable headlines there. But this data, you won't see reported but we're able to mine it from the DOT report. And this is 100% domestic completion days and we're head and shoulders above everybody in the industry including the very small niche carriers. But one thing it's kind of fun to compare ourselves to then is the three big network carriers, right, American, United and Southwest and if you look at that through October, we're at 173 days of a 100% domestic completio n factor.

The other three carriers combined have logged in 31 days, right? So, we just continue to drive towards perfection in completion factor, and the TechOps team has just done an incredible job on that front to make it happen.

Ed alluded to it, but not only we're driving operational excellence, but we also use the same stretch goals and innovation to drive cost and unit cost to hold our cost in check. TechOps is a great example of that. You can see that they're able to drive the best reliability in the business with what is arguably the most complex fleet in the business, the oldest average age, the most complex global network drive the best reliability, but also at the same time be able to lever down on the cost side and drive top tier and unit maintenance cost as well, and that's – I think that's typical across all of our divisions.

Richard talked about some of the things we do in TechOps, on the material side, and effectively it's just trying to vertically integrate our spend in that area, and look for opportunities, not only to benefit ourselves, but then to commercialize that for other carriers as well and take that margin that we've been given to somebody else and have that rolled to our bottom line.

Finally, so talked about ops, that's really the foundation for customer service, as probably the most important thing we do for our customers is drive operational performance. But the other piece of that though and it really goes into the DNA at the Delta workforce is to drive strong customer service. Internally, we call it the Delta difference. Joanne will talk about it in a minute. But we do have the best employees in the world. They're competitive, they're engaged, they're incented to perform, and they do perform. So it's great to see the results.

The other piece of customer service has been, I guess seven years ago now, we started our customer surveys and if you fly us we bombard you, I'm sure with those surveys. You've probably seen some recent changes in that. But as we take those customer surveys and we continue to drive and develop that as a tool for us, it's pretty sophisticated data, it's rich data and continues to get more breadth and more depth in it where we can do a better job analyzing it, and then manage with it real time, not just look at it in the rearview mirror, and that's really been a big piece of our success with the culture that we have on the frontline because we know what flight you flew on, we know, God forbid, we cancelled your flight, misplaced your bag. We know that, we know who checked you in, if you didn't check-in on a mobile device, we know who your flight attendants were, pilots, gate agents, et cetera, right.

So we're able to cut that data in a lot of ways, share it, incent our frontline with that data and then just h old that up as a standard those records and then set the bar higher next year. And that just perpetuates continuous improvement that we talked about on the ops side on the customer service side. It also allows us to understand where that data best practice is and where the real opportunities are. So then we can target our investments around those weak links in the customers experience, so we're not just shot gunning, but it also gives us the ability to do some research and development where we can set-up a station or control group of gates, experiment, understand what the data tells us, did it really improve us statistically or not, and then we can scale that if it does or abandon if it doesn't or tweak it. So, it's an iterative process, but that's a tool th at gives us the ability to keep moving forward.

We continue to invest in product, it's an important investment for us, there was a lot of discussion about the aircraft mods, interiors or key. I think Richard put it well, we're able, not only to densify ou r cabins, but then with the product improvements, right, in-seat video, the pivot bands that allow bags to turn on their side with additional capacity, all new labs, galley seats. Our customer metrics improved at the same time. So it's really important part of us. We've worked our way through the wide bodies, right, we're into the narrow body production lines, 7 57s, the majority of those will be finished before next summer, a few stragglers towards the end of next year. A320s are also and A319s are in a production mode right now with the interior upgrades. Just started, those will run a couple of years, and we'll keep working.

The onboard entertainment is also an important piece, talked about some of the mods that we do with the seat-back video, but then every flight that we have even on the short stage length flights have streaming videos, where you can pull up on your mobile device movies, or TV shows as well, some paper content as well as free content in those, which is important. Finally, Wi-Fi, right, we're all connected, I'm sure all of you are connected right now. It's an important part of the customer experience.

We led the industry in deploying Wi-Fi on our fleets, first to have the domestic fleet completely modified. We're well into the wide body fleet. Early next year, we'll have all our wide bodies finished with international Wi-Fi hit satellites. Domestic hits ground. We continue to invest in those systems going forward on our domestic fleet. Some of those will be satellite base. Some will be additional improvements ground based. All with an eye towards improving our speeds, increasing our bandwidth to more users and that also continue to help us differentiate our experience.

Airport, same deal, we continue to invest in our airports, target investments. Hopefully you all fly, you'll see some of that, certainly, in New York. I think it's a good example of where those investments are flowing, but then also paying off from the customer experience. And happy to say, all our customer metrics, every metric we have all-time records this year, knock on wood, but again that will set the bar for next year or overlaid stretch goals for 2016. We've cascaded those through the organization now and you'll see more of the same.

So with that, I'll wrap on the ops and customer service side and just say thank you guys for being here today, but thank you also for flying Delta. Appreciate it.

Joanne D. Smith

Chief Human Resources Officer & Executive VP

Well good morning, I'm Joanne Smith, Head of our HR team and I'm really happy to be here to brag a little bit more about Delta employees and our Delta culture which we do feel is at our core reason for our success. So thank you and I will follow on with Richard and Gil and Ed who really talked about the great results that Delta employees drove last year and set a path for continued momentum in 2016.

The reason we are so confident in our plan despite all of the risks that we know are out there and geopolitical situations throughout the world and fuel, we think it's low, could go high, but we're so confident in our plan because Delta employees deliver results time and time again. And while we have a lot of great programs and a great plan and secrets of success, what cannot be replicated is Delta's culture because its unique to Delta and it is the – as Gil said the core DNA that drives our performance.

So foundationally, we are driven off Delta's values and the Delta's values are, I guess, I'm missing a little slide there, the rules of the road under foundation. But the rules of the road really truly kind of capture all of the key behaviors, the core values. The core values that have been part of Delta for 87 years, when our founder C.E. Woolman laid out kind of what's important at Delta simply said, you take care of our employees, our employees will take care of our customers and Richard and Ed say all of the time, when our employees are satisfied and our customers are happy, our shareholders are going to be happy.

And we really do view these three core stakeholders, employees, customers and investors and owners as truly what's important here and what kind of drives all of our 80,000 employees into success. The core values are respect and honesty, Richard talked about integrity, we always keep our deals per-severance. We try harder than our competitors and servant leadership. I think the servant leadership really captures it best. That's kind of the DNA of Delta. We care more, we care more about our employees. We care more about our customers. We care more about communities. We care about our investors and that's driving the results that Gil spoke about.

These key performance indicators that we track internally that are at all-time highs for us, that have been growing year-after-year and at all-time highs in Net Promoter Scores, and employing deeply engaged employees in operational excellence and all of this together driving financial results that are shattering records year-after-year.

And what we've also talked a lot about is that we continue to raise the bar because our employees want to win, they want to stay ahead, they like the Delta difference, they're rewarded for the Delta difference, but more importantly, it's core to their values of servant leadership. So, we keep raising the bar higher, we have a – we finally think about Richard and Ed and Gil and Paul and Glen, the leaders of this organization that when we sit and lay out a plan in our budget reviews and we've got a good idea, good innovative plan and so we're going to accomplish it in six months, and then Richard, Ed, we like that, let's just do it in three months. And you don't get up from the table and walk away right then, you will find you'll have to be doing it in two weeks because in the middle of the sentence, we've gone from six months to three months to maybe a month and so we've got to get up and leave right now. So, it's just this kind of this driven, this constant drive and the urgency to continue to improve.

And so we're proud of our key performance indicators here, we're proud of the internal measurements that we track, but we're certainly proud when externally, we're recognized and we have won dozens and dozens of awards over the last few years and our employees are proud of those awards.

I've highlighted three here, two that you've already heard about, but really three that kind of symbolize the awards from a business perspective, from a shareholder perspective, customer perspective and employees. So, we talked a little bit about Fortune's most admired airlines. We have been four in the last five years, most admired airlines and in the last two years, most admired companies in the world, among the 50 most admired companies in the world. We talked a lot about the Business Travel News five in a row, never been done, the fact that it was a clean sweep across all 10 categories, what we yet have mentioned though the category that we actually scored the absolute highest on is in customer service and that's something all of our employees can be very proud of.

And then last week, we were honored with Glassdoor Best Places to Work in America, the 50 best places, large companies to work for in America by Glassdoor. And what's really significant about this award is it is an open source, right, it's non-solicited, it's employees going on to Glassdoor and saying Delta is a great place to work. And if you read the comments on there and there are hundreds, it's why Delta is a great place to work. It's about the fact that we feel valued as an employee group that it's a flexible job, they treat us with dignity and respect, so the values are deep. So, we're really very proud of external awards that we receive as well as the internal metrics.

At every opportunity we get in front of our employees and I think this has been really key to the success is that we share with employees this connectivity between happy employees, happy customers, happy shareholders. Every opportunity that Ed and Richard get and Gil and Glen and Paul, we speak to tens of thousands of employees about this and it's the linkage. When we make employee investments and happy employees, that will lead to happy customers. When our customers are happy, they pay us more and we get a revenue premium. When we get that revenue premium, we are exceeding your expectations and delivering great financial results. The happy our investors are, the more they will invest back into the business and this kind of virtual – virtuous circle that kind of continues to build on us and is well understood by our employees, will continue to be understood by employees. We feel confident and will continue to drive exceptional results.

And finally, this is the slide I am most proud to talk about, because it is about the DNA and the servant leadership at the caring, innate caring Delta employees. And this ability to empower and engage, we are very purposeful about maintaining our culture. And there are things that we are structured, to do to kind of engage our employees that things that happened organically as well. It's just because they care, employees care.

So, for example, we plan successful profit sharing events, right. So, we have a great profit sharing year. We really celebrated all over the world and employees really get to have behind it. It's a great day on the Valentine's Day, to come together and celebrate our success. We celebrate our Top 100 employees, The Chairman's Club. This year those Top 100 employees and every year, we – I mean it's a peer recognized award that every year, for the last several years, we've been taking them on an aircraft delivery. So, fly out to Seattle to take delivery of one of our 737s, this year, we flew them to Toulouse, to take delivery of an A330. The Airbus employees in Toulouse said, we've never seen an aircraft delivery ceremony like this. There were tears on the tarmac from those Airbus employees, because there were tears on the employees' eyes, who were so grateful to those employees at Airbus, who had built this beautiful airplane for Delta. So, it was just a real lovefest going on, and it's just until you actually see those events, you really can't appreciate the specialness and the bond that employees at Delta have.

And so, we walk the talk, and we build homes for Habitat all over the world. We actually invite our customers to build them with us. So, we've built over 200 homes. Since we started our relationship with Breast Cancer Research Foundation, we have raised $10 million for BCRF to wipe out breast cancer in our lifetime. And then every year, we take our employees – our employee breast cancer survivors on a chartered flight. This year we went on our first international flight to Mexico City to talk into our colleagues about Aeromexico and joint forces with them. It just so, if there's just evidence all over about really building the special place to work.

But the chart on the right is really what's important here too is, that our employees are deeply concerned. Companies of our size would be happy with engagement scores at 60%. If we've got to a 70% engagement score again for our sites, it'd be really good. But to get to 88% positive engagement scores on our survey this year is just outstanding, it's remarkable. Basically says that 88% of our employees strongly agree or agree with being feeling valued at Delta, Delta is a great place to work, I understand how I drive the company's success, I recommend Delta to my family and friends, I want my family and friends to work here. And if we can continue to drive these great engagement scores, they will – our employees will continue to be committed to the success of Delta, committed to raising the bar, exceeding our goals year-after-year, and great shareholder return because we know, when we win, you win. And I wanted to say, you can continue to bet on the employees of Delta.

Thanks for your time.

Glen W. Hauenstein

Executive Vice President and Chief Revenue Officer

Well, good morning, everyone. Thanks again for coming, thank you so much. My name is Glen Hauenstein; I'm the Chief Revenue Officer for Delta. And I had the opportunity to meet with a lot of you last night and listen to your concerns and your questions. And I think that the general resounding themes that I got were really in – well, you've done a great job for the last five years or the last 10 years. How do you think about where you can take this over the next five years to 10 years?

And what I'm here to tell you today is, how excited we are about those opportunities, because we are really just getting started. This is a company that has wonderful opportunities in terms of revenue generation sitting in its future, not in its past. And those really come down to several categories, here are a few of them right here, but making our targeted network investments.

And when you look and say, okay, Delta grew capacity or it's planning to grow capacity by 1%, but when you look at where we're actually flying, we are moving a lot of airplanes around. We're moving them around because the same group of assets – actually fewer assets, we believe we can generate more revenues with. And this becomes, of course, an iterative process year-after-year-after-year and follows the travel trends of America, really. And some of the themes that we've seen over the past 20 years are the smaller cities are getting smaller, and the bigger cities are getting bigger.

So if you look at how many seats we're serving at a city like Erie or Allentown 10 years, 15 years, 20 years ago, you seem to see a continual reduction in the seats to those cities while you see a continual increase in the bigger cities in the United States. So we need to follow those travel trends, we need to stay ahead of them. More and more business travel, we are both a leisure and a business airline, but we get paid for value more in our business tickets than we do on our leisure tickets. So we need to follow the trends and where business is being generated. And I think we've done a great job, both domestically and internationally in that arena. Ed and Richard talked about it earlier, but we are usually on the front-end, changing where we fly to maximize shareholder returns in the short and medium run.

Continue to upgauge the airline. This is another opportunity and another theme. I have a slide that details a few more of these options, as we move forward. But we are really still in the very, very early innings of this process. And if you think back to Delta's own history, you can think about flying widebodies domestically which we did until about 10 years ago. And the real issue and opportunity there was, we had the demand in our core networks because we do operate some of the world's largest aviation hubs, and the reason you operate hubs is to get that scale and size and scope and we do have, I think the boardwalk of hubs in Atlanta where gauge can continue to go up. And we are just starting. We are just starting with that. I'll show you some slides later about how that works moving forward.

And then lastly but not least, continuing to expand ancillary services. This has been a homerun and it's really changing the way people buy airline tickets, and we are very proud to have led us this phenomenon. And I'll show you some developments and where we think we can take it over the next several years as we move through the presentation.

First a little bit about where we sit today in terms of our unit revenue generation domestically, internationally. And these are the results through September 2015, the year-to-date average per domestic is 114.4%, I will say in the last few months that has been higher, it's been closer to 120% than 115%. So we've been operating a little bit higher than that 115%. And that's a, a very good place for us to be as we continue to upgauge the Airline and what you've seen is we've increased the average gauge by 6% year-over-year-over-year and we stay in that 114% range.

So we're very proud of the ability. This was the task Richard gave us many years ago to say, okay, while you're accomplishing the upgauge, you need to maintain the unit revenue premiums. And you should have seen my energy drain out of my face, when he told me that, but I'm super proud of our team, I believe that we've the best revenue generating team in the industry and they've been able to accomplish that goal of continuing to upgauge the airline without losing our relative revenue performance.

A little bit about the Atlantic. Atlantic has had what I consider a choppy and I'd also admit to a tiny bit of Delta underperformance there. Our target for the Atlantic is to be higher than 101.2%. Our target for all of our entities is to be over 100% for 2016. And we believe that we should be in the 104%, 105% range. We took a very yield biased approach to last spring and summer and we think we left a little money on the table. So, these have returned more to their normal, as we get to the fall at about 105%, which is really where we want to be in terms of target.

Latin is a – because of our gauge in Latin America, we don't fly really regional jets into the area. And Latin really has three distinct sub entities. One would be the Caribbean, and the Caribbean is having a phenomenal year. Unit revenue increases across the board. Mexico, and Mexico with our partnership in Aeromexico has also had a phenomenal year, and then deep South America, which is dominated by our presence in Brazil, which as all of you know has been a challenge, as we move through the year.

But this is a number that has increased dramatically year-over-year and we believe this year, we can finally break the 100% mark, despite having a gauge, it's about 15% to 20% bigger than our competitive set. And the Pacific, of course, our high reliance on Japan and the movement of our airplanes to de-emphasize Japan and to emphasize China. And we continue to move through that process in 2016 – 2015, I'm sorry. As we got to the end of the year, we've continued to downgauge and decrease our offering and we'll get to a slide here in a bit that's going to show the progress that we've made against that.

The right airplane in the right market at the right time, is really the theme of this slide and the flexibility and why you want to drive unit costs low. So, I mentioned a few moments ago, that Delta used to fly widebodies in the domestic system and the flawed analysis I think that happened and clearly this was many, many years ago, is that you could drive a lower unit cost with a widebody flying domestically than you could with a narrow body. And as you see from this chart, the real great part about flying bigger airplanes, if you can fill them at that revenue base that you have is that, you get these unit cost advantages as you move down into the right of the demand curve.

The issue with domestic widebodies is you're actually taking more trip risk and you took more higher seat costs. So, it was a flawed business theory, that you could have higher costs and more seats and drive higher revenues. And so – but when you look at this, you see there what we are doing is continuing to move down this gauge to get the unit costs of the airline down. And the reason you don't put widebodies back in the domestic system is you would go up from the large narrowbody though, the large narrowbody here on this line, has the lowest unit cost. And we believe that our new 757, the 757 high density is the most efficient airplane in the sky in our fleet on a per seat basis. Of course, you could put more seats in them, but the trick is to put more seats in them and to get customers to like them more. And that's a pretty tall order. That is a pretty tall order. But I want to share with you, we've talked a little bit about it. The survey score is pre and post mod from going through one 182 to 199. And on the left, you'll see we had a 4.1 on a scale of 5 in terms of aircraft comfort, and they're 4.3 post mod.

So, this was really going back inch by inch by inch, and Gil talks about statistics and data and all – and using all of that and we are doing that as well inch by inch by inch on each one of these airplanes to try and figure out the best configuration that will make customers appreciate and lower our unit costs. And as Gil mentioned, we have 300 airplanes over the next several years all of which will receive density mods in 757s. We talked a lot about the A319s, A320s. But then the A330-200s and then the 777s are also scheduled over the next three to four years to have density mods installed.

Driving a revenue premium is so exciting, because you think well we are 114%, that's a great number, but how do you get more? And the way we get more is to continue to sell better, to continue to sell better what customers want. I think if you think back again at the history of airlines, one of the issues was, we were selling seats and it sounds so simple when you say it. It's a – we were selling seats, we usually try to fence business customers from leisure customers, but we were rewarding people based on miles flown and not dollar spend, and we were allowing the people who booked earliest in the cycle, to get the best seats on the airplane regardless of what fare they had paid. And so we created this value proposition to business customers, which were you are getting exactly the same value proposition as the person, who sat next to you who booked 300 days in advance and paid one-tenth of your ticket fare.

And so what was the incentive for people to want to pay more, there was none. There was no incentive and I think when you think about the psychology of travel and the psychology, we should have always being been giving our best customers, the best seats on the airplane, their choice of cabins, their choice of seats on the airplane. So as we thought through this process and of course, it was a multi-year process to change the way we sold airline tickets and move that to a value proposition and we started with the frequent flyer plan, we started with the First Class Cabin.

But now, we've moved into creating new cabins. All right, we flew up yesterday on one of the MD-88s with the Comfort+ and the new divider – three cabin dividers in it and you can really tell a distinct product differentiation between First Class, Comfort+ and coach now. And where do we sit with that? We sit in 2015 and for many of you who we've been talking to for years about this, I think, if you recall, we started with the paid First Class load factor of 13%.

So 13% of the time, we sold and about half of that was the international itinerary for domestic flying. And we've now in 2015, put that to 57%, where the 2018 goal is 70%. I don't know, really what the right number is here, and I think we're just saying 70%. But what we know, when we started with 13%, we didn't know what people were willing to pay for. And now, that we're at 57% at a system level. You can imagine that there are certain lane sectors at certain times of the day, where that number is 80% or 90% paid. And now, it's our ability to go back and iterate off of that, and say, okay, now that we have all of this data, now that we have all of this customer demand, how do we get more value? And I think the issue for us is not – there clearly is the macro issue of how much capacity is in the marketplace, what's your competitive, set all of that. But at a much more granular level, we are playing with the demand on the airline to extract more from it. And that to me, I think is a bigger value driver than the macro in many cases, not that the macro, you can all say, the macro is big, right. But playing against yourself to drive better results and taking your customer base and understanding them better and getting them to pay for their services they value is really going to be the key to us being able to take this to the next level.

Delta Comfort+, the very successful – has anybody in this room bought Delta Comfort+? Thank you, thank you. It's not easy to buy. It's not easy to buy because it's a post-purchase transaction; it's not in the purchase stream. You cannot buy it, for most of you who live in New York, you're probably going non-stop, but you cannot buy an O&D. So, if you are living in Charleston, and you connecting Charleston, Atlanta; Atlanta, LA, or Grand Rapids to Minneapolis to Seattle, you have to go in and you actually have to buy those segments separately, because we have not priced it. We have priced it at a segment level, not in O&D level.

So we made all of the changes and the class developments and I'm going to show you another slide here how that will appear and it appears today for travel beyond May of next year. So starting May of 2016, we will actually be able to put that in the purchase path. It has its own class of service and you'll be able to buy it by O&D. And so this is a product that we think we had made it really, really difficult to buy and we've sold 36% of the seats in that product as we continue to make all of these products easier to buy with more channels whether or not it's through the GDSes, whether or not it's through the OTAs, whether or not it's online, but more conveniently we think that all of these have an incredible demand moving forward that we can monetize.

This is how it will appear, four distinct products, Basic Economy. I think it kind of worried me to Ben Baldanza gave us a thumbs up on that product. Main Cabin, Delta Comfort+ and First will be our four main cabins here. And I think you don't appreciate from looking at this here is the technology that sits behind this. Because before we had a hierarchy of fencing, which included stays, included advanced purchases, and now you've added what I call the third dimension in that pricing, which is well, what product do you want to buy within each fence. So it's gotten exponentially more difficult for the pricing team, because now they have to maintain not only the AP fencing, not only the stay fencing, not only the price points, but they have to do it for multiple cabins. And they have to ensure that they prevent inversions where you might have a Basic Economy fare that was higher than a Main Cabin fare because of inventory controls.

So, on its surface, it looks incredibly simple. But I would tell you, behind the scenes, it is incredibly complex, and that complexity is what's going to drive shareholder value. That complexity of being able to manage that individually and essentially a more custom experience is what we're going to be able to monetize over the next several years.

Of course, that doesn't go without marketing. Of course, if you have a product, you have to tell people about it. And we will continue to do that. We have a great plan for our marketing to support this in 2016, and you'll see a much bigger launch as we move through the year. And more of the booking window – right now, there is not a lot of booking for May, but as we get closer through the first and second quarter, you'll see us really step up our communications on this.

If you think about where we see the opportunity, and this is just a graphical representation with our goal. Our size and our scale and our scope has got to be used to our advantage. And the fact that we will handle almost 200 million people a year is really the great opportunity for us. The great opportunity is that, we are not talking about $100 more a ticket. We're talking about essentially taking an $8.30 revenue per customer and in three years, with all of these new products, with all of these new distribution networks, taking that just to $15. And I think that's where we get so excited, because we think beyond there, there is even more. There are so many ways to get there. There are so many – if we don't beat this $15 in three years, I will be very, very disappointed.

If you look at the travel spend of a business customer, here on the right, when you hear a lot of bellyaching, I watched Richard on CNBC this morning, how many people did that here? He did good job, didn't he? I think he did a nice job. But they're talking about how higher fares are and fuel cost being, well, why isn't that getting passed on here. If you look at this airfare, it's still one of the biggest bargains. And this is for business travel, this is not even for a leisure travel. For business travel, we represent only 18% of the travel spend, only 18%. What's interesting to me is the ground transportation, once we get to – get to and from the airport is 15%. And I think, we've all seen that, we think, oh, my gosh, it costs me $150 to get it to Chicago and back on the ground. And I was upset that you know I had to pay $600 for the airfare. And I think that's the opportunity that we at Delta to continue to see as that airfare is still such a great value for our customers. It is a wonderful value.

And our ability to sell customized experiences, not just tickets, will enable us to get a higher percentage of the spend across the travel ribbon.

So, with that I'd like to invite my great friend and colleague Joanne Smith back, and we can have a short Q&A here.

QUESTION AND ANSWER SECTION

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

A

We can have folks raise their hand and we will bring the mics around. I'm going to go for the – this is one with Savi because she's right here on the aisle.

Savanthi N. Syth
Raymond James & Associates, Inc.

Q

Hey, Savi Syth from Raymond James.

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer

A

Hey, Savi.

Savanthi N. Syth
Raymond James & Associates, Inc.

Q

Just on the revenue setting, we talked a little bit about this. As you try to get more of the revenue spend and move away from maybe the kind of the automatic upgrading, just how do you manage the customer loyalty side of things and then how do you promote that?

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer

A

Savi, that's a great question. And I think I would tell you that we do a Medallion Pulse survey, which means our most frequent flyers and how happy they are with Delta. And we just got our November results yesterday, and the Pulse was the highest it's been in over two and a half years. And that Pulse would indicate that despite the fact that we've taken the free upgrades from 13% to 54% that we have not disturbed the happiness of our most valuable, the most frequent flyers. Now, that's a trick – I mean a trick to do that because I think you have to really then understand who is buying the seats. And when we look and say who is buying the preferred seats, the vast majority is being purchased by the frequent flyer base, who in turn is being valued with more reward points. So, it's a changing dynamic that we have to monitor quickly, I mean, at right real time and make sure that we do not alienate that we actually create more loyalty and more product affinity because what we would like people to do in the next two years to three years is, a) pick the airline, I want to fly Delta; b) pick the product I like Comfort +, it works for me.

So, the more affinity we can get to not only the brand, but the category that they enjoy, I think the more we can satisfy their needs. And of course, it goes back to what Joanne and Gil said and you have to deliver it with happy people with great technology systems, which we invest hundreds of millions of dollars with every year to make sure that we're industry leading in terms of the technological interface with Delta and with the great operational metrics that we have in the market place for the last five years. And I think what we seen is that can be a winning combination for everybody.

Darryl Genovesi
UBS Securities LLC

Q

Hi, Glen. Darryl Genovesi from UBS. I guess two questions in a – that are similar to one or another. First on your Branded Fares revenue, you showed it doubling from $1.2 billion to this year to $2.4 billion in 2018. Can you just help us understand what the cadence is over the next two years and how much of that you expect to come through in 2016? And then also, I guess, I would ask the same question on American Express, I think you had an incremental $400 million come through in 2015, do you have an estimate of what that number will be in 2016?

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer

A

Right. I think the run rate going into the year is about a 15% growth year-over-year, 15% to 20%. And then as we get to the May launch of the branded products and the purchase path, we believe that will be the next step up for us in terms of broader distribution. So, it's going to be a big year for ancillaries and we think that probably that would be in about the 30%, 35% range for next year.

On AMEX, I want to talk – while we don't talk about the details of our deal with AMEX, I think I want to talk a little bit about the brand strength of Delta and how it manifests itself in all of our programs including our co-branded credit card. And as we close out 2015, this is a very, very important number is that, we will acquire more co-brand credit card members than any other year in the history of Delta including the year that we merged with Northwest.

So, when you think about the value of the transaction between American Express and Delta, there are several constraints on it, what the rates are, how they reset, which of course, we can't disclose. But, really the issue is, how much, how big is that program getting, because as you know, they buy the miles from us, for every dollar spent. And I'd just like to – a small callout to our frequent flyer team for a record year of acquisitions, which I think is astounding, that you could actually acquire more than you could, when you merge two airlines.

With a goal to do that again, they don't know their goal, yet they're about to hear it, if they are listening on the simulcast, but their goal next year is going to be a very bold goal; it's going to be acquiring a million accounts. And so, when you think about people wanting to connect with the brand, we think that's a great indication of, listen, they're willing to and want to give us their credit card spend, because they see Delta as a valuable brand in their portfolio that they use every day. And to be able to acquire over three-quarters of a million this year with a goal of a million next year, is a great testament to the strength of the relationship between American Express and Delta. And we feel, very well supported by AMEX, and we think they're going to – It's going to be another great year with them.

Jamie N. Baker
JPMorgan Securities LLC

Q

Jamie Baker with JPMorgan. I actually have a question for Gil. I don't know if he is, still in the room or miked up, if he is not, I'll ask you the question.

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer

A

He is not.

Jamie N. Baker
JPMorgan Securities LLC

Q

Okay.

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer
A

So, Joanne and I will try and field it, okay.

Jamie N. Baker
JPMorgan Securities LLC
Q

Okay, fair enough. And then I will have a direct question for you, Glen, but the question I was going to ask Gil, I believe the operational metrics, which appear very impressive are largely mainline figures. And I'm curious how the absolute performance and more importantly how your relative performance might change, if you include your connection partners?

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer
A

I will speak for Gil. The connection carriers have a great relative performance relative to their peer set as connection carriers.

Jamie N. Baker
JPMorgan Securities LLC
Q

Okay.

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer
A

Richard has challenged us and something we will be working very, very hard out in 2016 is an initiative that's now in its second or third year, it's called [ph] Same Except Tube (2:51:45), which means that we want to provide the same services that we do in our regionals that we do at the mainline. And so, I know that's one of the Gil's primary focuses for 2016 is to get not only forward to be good relative to its peer set, but to be good relative to mainline.

Jamie N. Baker
JPMorgan Securities LLC
Q

And my second question, and I'll admit I ask this both as an analyst and a loyal Delta passenger. Do you envision a scenario, and is it a revenue opportunity where Medallion upgrades only allow one to move forward a single cabin, meaning that your upgrade would be into Delta Comfort off of an LT or a U fare? After all, some of your international competitors do require a premium Y in order to be able to upgrade in to the front cabin. Is that an opportunity? Is it a risk to one's loyalty?

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer
A

Well, I didn't want to get into the complexity of what we are thinking about in the future in terms of loyalty programs, but I think one of the tenants that we would hold out there is that we want our best customers to have a lot of miles and then we want them to use them to control their travel experience. Because we think what happens today is everybody stores them in an account and waits to retire. And what we need to do is, we need to breathe life into that, that it's an interactive process that you can control your own experience, whether or not it's I would like – I had a really rough week, I'm travelling with my business associates, and I want to cheer them up, so I want to buy them a Dom Pérignon, a bottle of Dom Pérignon in our clubs, whether or not I want to upgrade them all to First Class off of their tickets. That technology is going to be in place over the next couple of years, where we really want people to see that as more of a live currency, as opposed to something that gets stashed away and only used for seat redemptions at a time, my one vacation a year or when I retire. And I think we have a great opportunity there which we didn't talk about today, because it's a little further off in the future, but to breathe real life into using miles for more things. And the funny part about it is, is all those other things have a much higher margin than the seat redemptions.

Julie A. Yates-Stewart
Credit Suisse Securities (USA) LLC (Broker)

Q

Credit Suisse. Glen, can you talk about any surprises that you might have had, as you rapidly expanded to roll out of Basic Economy in 2015, and how you might apply lessons learned as you go into 2016?

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer

A

Basic Economy is in about 450 markets today, we are -experience about a 50% upsell – 50% to 60% upsell. So, as people move through the booking process, when they see what that product actually is 50% to 60% of the time, they deselect themselves out of that product line and they buy something else. And so, as we talk about things that are in their infancy, we only sell about 1.5% of our tickets in the Basic Economy category. So, it really does not have broad system applications. It's not driving huge volumes. It was put in – the other ones I think were more of the line of experiential. I think Basic Economy was more of a defense play, if you will, that we should have our product that has all of the content, but yet competes with the ULCCs.

But we're continuing as we actually adapted into it. We found that it could not – it could also be something that we brought to market. So, our goal would be to be able to offer these types of fares, not only domestically but internationally, and we've started rolling them out in international markets as well. And that by the end of next year, they'd be ubiquitous in all of our markets as opposed to some of them, and that we would be able to offer customers real choices in terms of what their travel experiences are. And so, I think the only thing that we've learned from this, we built it as a defense, but we see also now it has broader applications even where markets where it doesn't have an ultra-low cost competitor.

Julie A. Yates-Stewart
Credit Suisse Securities (USA) LLC (Broker)

Q

Has the lower fare environment skewed the results in any way or do you worry that you see an artificially high upsell rate because of the lower – it's a lower base fare?

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer

A

Well, I think the issue isn't the fare itself, because the fare itself is going to be competitive. The issues for us and the learning experiences and the great opportunities we have are the relationships between the fares. So, clearly, fuel at $35. We promised our investors years ago that we would be conscious of our cost to production as we introduce fares into the marketplace. And I think one of our great successes has been not to fully rely on revenue management to make the accept/reject decisions, but to use the technology of pricing and fare histories, and we've invested a lot of money, time, resources, intellectual brainpower into trying to get our pricing models to be more in line with our revenue management models. But now, as you – as I tried to explain, I probably didn't do a very good job of it, but the interrelation between those fares is as important as the fare structure itself. So, assuming that you're not selling well below your cost of production, how do you incentivize people and what would they pay to get those services back.

Dan J. McKenzie
The Buckingham Research Group, Inc.

Q

Hi. Good morning. Dan McKenzie with Buckingham Research. Thanks for the time this morning. Glen, I just wanted to follow up also from a stat from Gil's slide, the Net Promoter Score is 37.8%, as you talk about the power of your brand as measured by that metric, given the high correlation between that score and revenue, what is it worth to your revenue outlook as that score moves higher? So instead of being 37.8%, all else equal, if that were 38.8%, what is that multiple regression model tell you if it was 45%? Where is the revenue opportunity for improving the strength, the power of your brand? And I suspect it's not just on the passion of the revenue side, I also suspect that the strength of that brand would also trickle through to the credit card side as well.

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer

A

I think you've asked the $64 billion question. And I mean, if we had a – if that was an exact science, we would know – I would be able to spout off that answer. But it's not an exact science. What I can tell you is, what we want to manage is our relative position, because it's not just an absolute number, it's also what is your premium or deficit to best-in-class, right. So, it's not across industries, it's what is your competitive set.

All of our multiple regression analysis tells us that the optimal point for us to be is in the low 40%s, low to mid 40%s and so we're getting very close. But that – at that point, we have managed not to overspend for that, but we are getting most of the value of spending to that. So hope that helps, that's kind of where we're guiding, we think the optimal position is in. So we have some points to go. And I think for you – for those of you, who fly us all the time, thank you very much again. And I think as you fly us throughout the year, you're going to see a continued improvement in the service delivery and the quality of the core product as you move through 2016.

So with that I'd like you thank you all for your questions. Thank you. I told Joanne when she got up here, I said, I bet you most of the questions are going to be about revenue.

Joanne D. Smith
Chief Human Resources Officer & Executive VP

A

But I will say there is a correlation between customer satisfaction and employee satisfaction, the regression on – we do a lot of regression analysis and so to that point, lots of correlation between Net Promoter and employee satisfaction. I'll put that dig in. Thank you.

Glen W. Hauenstein
Executive Vice President and Chief Revenue Officer

A

And a very happy holiday. We'll see you next year.

MANAGEMENT DISCUSSION SECTION

Paul A. Jacobson

Chief Financial Officer & Executive Vice President

Well, thank you, Joanne and Glen and Glen as Gil. I appreciate that very well done. Is everybody hanging in here today? Yeah, we're almost done. So I appreciate everybody hanging in. I appreciate you guys being here. Before I begin, I just like to take a moment to thank Jill and her number one rated Institutional Investor IR team. They always do a tremendous job with this event. And they are scattered around, I love what they've done with the place today, especially the Plexiglas on the balcony and we'll leave it at that.

We've had a great day today. We hope that you've gained a deeper appreciation for the commitment and all our effort that we have on creating a sustainable business model and a durable business model for a changing environment. There is obviously a lot of uncertainty in the global environment, but we remain focused on driving the best cash performance in the industry and continuing to raise the bar on ourselves each and every year, because if we can't drive to sustainability, then nothing else is different. We've got to continue to drive to those results, to focus on shoring up where we can and to improve the durability of the overall business, to continue what we've built together.

The Delta family have nearly 80,000 people strong as you saw from Joanne's comments and really continue to differentiate this airline from the industry, but also from history. Through better customer service, record reliability that no airline of any size has seen let alone, an airline of the size of Delta, which ultimately does result in better revenue performance and importantly, for the finance team and for the overall margin model, much, much more efficient cost performance as well.

And we're going to spend some time talking about that. As I mentioned, we're focused on continuing to drive sustainability in the business model, by taking that revenue performance that Gil and his team do better than anybody else in the industry and driving strong cost execution through the efforts of Gil's team and other business leaders, who go rigorously through the budget each and every year. If you think, you picture us getting into a room to argue about $3 million of capital expenditures, you should be in the room to watch us go through operating expense lines on the budget. In fact, I think, if we were to sell tickets to that, Glen, I think, that'd be a great ancillary revenue opportunity. Because I'm sure many of you in this room would pay a hefty premium to sitting in on those meetings.

But, with that discipline and with that structure, we've really created a strong cash generating business. Airlines have always proven adept at raising money in good times and that's different – that's not different. But what is different is the level and the magnitude and the quality of the earnings as it relates to cash. Ed touched on that a little bit in his comments about how we're thinking about the business and the fact that there are no special items. There are only costs and expenses. And we need to own that and we need to be disciplined about that to improve the overall quality of our earnings.

But, that only goes so far. That only goes so far if you're not focused on ultimately being disciplined with the cash that's generated in the business. And I think that's where we break away from the history. That's where we break away from our own history and certainly, the challenged history of the industry. Because we've been focused on driving balance and capital allocation, by reinvesting in the business by focusing in on how we can improve the revenue potential, the global potential of the airline through the long-term creating that durability. But, doing it a way that remains discipline to the point that we ultimately know we have to be good stewards of that capital.

Focus on long-term value creation, but really focus also on assigning tangible value to the cash flows that we generate. Because, historically, when an airline generated cash and levered up during peak earnings times, cash was only a theoretical value to shareholders. It was there, it was reported, it was seen, but it was never touched. It was never felt, it was never tangible to those shareholders, and thus, we were never fully appreciated for the value that we can generate. If we're going to transform that and we're going to look to the S&P industrials, we need to focus on the tangibility of that cash flow. And by focusing on balanced capital deployment, we can do that. So, a capital strategy that continues to return at least 50% of our free cash flow back to shareholders is one, where we can create more durability in that model and get a higher valuation.

Richard already mentioned this next slide, here we go. But, it's important to show again because I think this slide really speaks to the foundation of how we think about the long-term planning of the airline. As you can see, we are consistently raising the bar on our own performance. It was just 2.5 short years ago that we embarked upon this long-term view and we began a transformation of our capital allocation strategy, and we launched a $500 million buyback over three years and the first real meaningful dividend in the industry.

My how far we've come in just a couple of short years, since that time, we thought a 10% operating margin was a success. We thought that $500 million buyback spread out over multiple years was really a feather in our cap. But, since then, all we've done is, increased our margin targets by 400 basis points, increased our return on invested capital by nearly a 1,000 basis points and doubled our free cash flow for the airline and we remember the exuberance that we all felt in that May of 2013 announcement, as we talked about entering that new phase and focusing on shareholder deployment.

Now, we're in a position where this performance that you see in 2015 puts us among the top of all of the S&P Industrials. And as we look forward, we should be in a strong relative position again next year. No longer are we thinking about overcoming our past, we're thinking about look at how we're performing against those names that have been sustainable and durable. And we know that's a long road and we're focused on it, because if we can't create that sustainability, then why is this time different?

As we head into 2016, we expect our non-fuel cost to increase less than 2% again, that has remarkably become one of the most repeated lines that you've seen in these Investor Days, and I'm proud to say that we don't get nearly as many questions as we did several years ago on the cost performance. And that's a testament not only to the business leaders across the enterprise, but really the culture that is established by Richard and Ed and the entire team that says, we're going to hit these numbers, we're going to be cost disciplined. We're not going to rely on changing capacity plans in an effort to say, while capacity is not up as much as we thought it was going to be. Therefore, it's okay if we have cost creep. No.

It's a thematic exercise each and every day to focus on this and we go through a lot of detail through our division controller organization led by Bill Carroll and with the assistance of Gary Chase and Shawn Cole, who is also here, focusing in on a weekly basis to understand the detailed nuances of what's coming into our costs each and every quarter. And because we're ahead of that, because we have that plan in place, we can be consistent in terms of how we apply that, respond to changing environmental situations that put us in a position, where maybe capacity isn't as high, as we thought it was, or maybe, fuel prices have rallied. Focusing in on that operational performance each and every day, is what's going to drive us to keep our focus on that.

Next year, we'll be a little bit different. As a result of the investments that we've made in our people with the 14.5% increase to our ground and flight attendants that we announced earlier this year, we've restructured the profit sharing program. We did that to move some of the profit sharing earnings into base compensation and base rates to provide more certainty of earnings for our employees. When you're looking at profit sharing payments that are approaching 20% of the W-2 salary, that's not something that our employees can build a standard of living around. We need to be able to build that into our base rates to reflect the confidence of what we've been able to produce, and give them the consistency of bringing home that earnings, and not putting so much of their earnings at risk.

Now, what that does is it creates an opportunity for us to continue to grow the enterprise in a balanced way, in a balanced fashion. So, when we think about 2%, we have to have a pipeline, we have to be out in front of it, and we have to be thinking not just what next week is going to look like or next quarter, we have to look at the next several years because, as we think about our capital investments, we've got to tailor some of those into productivity initiatives. They're going to help to drive that cost performance down the road, so as we come through the up-gauging cycle, we still have long ways to go on that. But as we come through the up-gauging cycle, we're able to continue to say you know what; we made these productivity investments three years, four years, five years ago and we're continuing to harness those benefits going forward.

So while we're focused on that multi-year 50 seat retirement plan, we still have a lot of momentum in the up-gauging. We have modifications on approximately 20% of our fleet. Glen talked about the benefits of being able to do that while still improving customer satisfaction. We're still re-fleeting. We're realizing the benefits of sitting down the 747s and replacing them with smaller gauge, more efficient air planes. And we expect that's going to continue to drive over $350 million of savings into 2016.

Maintenance is a challenging area in 2016, as it is in every single year. But 2016 has a little bit of volume pressure, and scope pressure. We see that from time to time in airlines based on the fleet patterns and the buying that occurred 10 years ago, 15 years ago. But we've got solutions through the productivity of Gil's team that they're able to drive, through innovative structures like the part out strategy and by enhancing that through Delta Material Services. We expect that our benefit total, we're going to see about $400 million of benefit from that exercise.

You can see the volumes that have gone out, 46 aircrafts or engines for green time were part out. And what we can do with that is harness the scale and harness the margin that previously had accrued to others because we weren't big enough. We were just another buyer in the market. Now, we're not. We have one of the largest fleets in the world. We have one of the most complex fleets in the world. But ultimately that results in benefits on parts, and maintenance services that allow us to go in and continue to drive benefits and do that consistently each and every year.

On the fuel side, you've already heard it said, we're going to see about $3 billion of year-over-year improvement in incremental fuel savings in 2016. We have approximately $500 million in hedge loses, as Ed mentioned, keeping in mind that about $300 million of that is due to the restructuring that we did in early 2015. So, if you think about a curve where prices are going to be about $0.35 a gallon lower based on the current forward curve in 2016 versus 2015. We've actually captured over 85% of that benefit heading into the year. And we still have flexibility going forward. So, we have about a 90% to 100% downside participation, varies a little by quarter down to $40 a barrel, especially on the backend of the curve where we still see prices north of $40.

And we remain flexible, we haven't materially added any positions, we've focused in on a narrower band of time and we've – we see no sense of urgency, similar to what we said last year about adding positions and earlier this year about – thinking about where we might add some positions and add some coverage. There is no urgency.

The lower for longer thesis seems to continue to be taking hold in the energy space and we believe that we're going to be in for lower prices for the foreseeable future. And that's still benefiting the refinery. The refinery this year is a tremendous success story with nearly $300 million in profits for the year. That reduces our all-in jet price by $0.05 to $0.10 a gallon, not even counting the opportunity that we have to lower crack spreads on the jet market.

We're in an environment right now where if you recall back to the time that we announced the purchase of that refinery, we're in an environment where we have high gasoline cracks and low jet fuel cracks. And I don't think there is any refinery in the world that would say that they're in as advantaged a position as an airline that owns a refinery in that type of environment.

But there are still challenges on the horizon. We look at our RINs organization – the RINs legislation, the new RFS standard that came out, we saw an increase in RINs prices. And a tighter WTI to Brent spread with increased views that crude oil exports will be approved by Congress. That's going to continue to put pressure on domestic. But the refinery in the Northeast is actually well positioned amongst its peers.

Graeme Burnett and Jeff Warmann do a fabulous job of running that refinery. And the operating cost structure of that plan is actually more consistent with a Gulf Coast refinery than it is with the Northeastern refinery. A testament to their leadership and what gives us comfort that even in a world where domestic to international spreads are down, we could still be in a position where we can drive incremental benefits for Delta through the refinery.

Much has been discussed about taxes. As we continue to utilize what I referred to is our really hard earned net operating losses. That is not an effort that you really want rewarded, but they certainly were hard earned. Our current expectation is consistent with last year that we expect to become a cash tax payer in 2018. And as we've previously mentioned, it's important to note that there is pretty significant differences between book income and taxable income, most notably in the areas of pension contributions and depreciation.

So, as we're in a phase where we're contributing extra funds into our pension plan, because of our funded status, those are fully deductible and helps to lower our tax income for the year. And depreciation is an area, where there are stark differences between the way we account for GAAP purposes and the way we account for tax. For example, an aircraft asset which will be depreciated over 25 years to 30 years for book purposes is actually depreciated over seven years for tax purpose. So that accelerated depreciation in a period where we're acquiring assets gives us an opportunity to continue to extend out that net operating loss through lower taxable income.

Additionally, Ed referred to our transatlantic business reorganization, that's going to realize a lot of synergies. We've put a lot of our commercial leaders over there with direct responsibility over the profitability of the transatlantic operations sitting side-by-side with our JV partners in Amsterdam, and that structure is going to allow us to make sure that that international component is international. As a result, we think that our 2016 book tax rate is going to be about 35% to 36%, that's down from 37% to 38% through 2015.

But as we think about taxes overall, we are running the business and we're running cash deployment on a sustainable rate that we can maintain even in a world where we become a cash tax payer because as you think about the timeline of how of these things overlap, we've got a funding strategy on the pension through 2020. We've got a debt target that, as we've articulated, we're going to continue to pay down a little bit of debt, but we're pretty close to where we're going to end up. As all of those things come together, you start to get to a time where we'll become a cash tax payer and still be able to sustain the type of free cash flow performance that you see today and what we're focused on doing for the long-term.

As I mentioned, I think balanced capital is probably the one thing that sets us apart more than anything from the history of the business. We've always had an opportunity to be innovative and certainly the ideas that we innovate with and the product changes and attributes that Glen and his team have created with this airline have never ever been done before and they're incredibly valuable. But what's never really happened before is the relentless focus on cash flow generation and cash flow deployment that you see at the airline.

Since we began this process really in 2009 with a very heavy focus on debt reduction, we paid down more than $10 billion of debt. We've also returned more than $4 billion to shareholders in the last two-and-a-half years and provided additional funds for funding our pension liability. We've got to continue to shore up that balance sheet because of that global uncertainty, but we can never stop investing in the business.

We have a strong pipeline of ideas and innovations that we need to continue to fund for the future, but do it in a balanced way that allows us to execute strongly in that arena, but also focus on long term preservation and improvement in that sustainability. When you look at that, it really starts with how do we think about reinvesting in the business. We will spend about $3 billion next year on core growth initiatives, I talked about the Delta Material Services strategy. We're not starving the fleet, but we're doing in it a very proactive systematic fashion. And the CapEx that we're on is going to allow for the replacement of about 20% of our mainline fleet between 2016 and 2018 even as we include the wide-body deliveries that we've begun.

We'll invest about $750 million to complete that tender offer in Grupo Aeromexico and increase our ownership stake up to 49%. Ed talked about the benefits of that and that's a clear strategic priority for us as you think about the international landscape. But by managing through that diversified fleet strategy, by focusing on opportunities like you saw us announced yesterday, to take both used and new airplanes. We're able to leverage not only the product scores and the customer service scores that Glen and Joanne are responsible for, but the operational efficiency and the maintenance efficiency that Gil and his team have. Without all of those together, we can't be in a position where we can run the capital base of the airline as efficiently. Then we're in a situation, where we need to realize maintenance honeymoons to keep up or we need to have new airplanes to keep up with the product and we can keep up with that state-of-the-art technology in a lower capital base.

We can use customer service as a tool with new interiors to really focus on improving those metrics. But when we do it in a capital efficient manner, that's where the real leverage comes in and where we're able to drive better performance historically. We talked about our pension obligation just as an update, we remain on track to get to our 80% funded status by 2020.

As the Fed raised rates, finally, after a long period of time, we've got a lot of sensitivity, a lot of positive gearing towards further rate increases. We've talked about before the sensitivity of that liability is about a $1.4 billion reduction in liability for every 50 basis point increase in rates. So, as you think about the funding strategy that gets us to an 80% funded status by 2020 and you combine that with a tightening cycle where we actually see long-term rate start to tick up a little bit.

You can see an area where we start to converge on being much closer to a fully funded status in our pension plan by 2020. Reminding everyone, that this is a hard frozen plan where nobody is accruing any benefits and we have the – we have the flexibility that's provided under the Airline Relief provision. This is building a lot of flexibility into our future cash flows and now our required minimum contribution has fallen all the way from over $700 million to less than $500 million a year. But as we continue down this strategy, we're both building flexibility, but also working towards getting that plan fully funded to where we can just service benefits out of it. And ultimately that results in a significant income savings or significant expense savings.

Our 2016 pension expense is expected to be about flat year-over-year at about $240 million a year. As you fund more and more money into that plan and you get more credit for the return on the assets that are in that fund that pension expense can actually decline and actually flip to contra expense piece. So, we've got real operating benefits from doing that as well.

I think one of the initiatives that we're most proud of we spend a lot of time talking about is the commitment to shareholder returns and I think what this industry has done, and the transformation that has occurred whether everybody is managing through return on invested capital or focused on free cash flow, or focused on cash flow deployment, it's really put us in a different category than the history of the business and what we've done. And as you can see, when you think about our capital returns as a percentage of market cap, we're up there with all the names that you know and love. And you're learning to love us too, and we appreciate that.

But certainly we're in that company and when you look at the commitment, you see that we've accelerated both our buyback authorizations and completed them early. The board has authorized two 50% increases to the dividend since embarking upon that in 2013. We've demonstrated a willingness to be flexible, but we've also demonstrated a discipline to be balanced in how we approach that.

We need to continue to pay down debt, we need to continue to shore up the a balance sheet, and we need to continue to focus on that long-term durability and sustainability. And I see some of the members of the rating agencies in here today, you've heard our goal, articulated multiple times, and we feel very good. We're thankful for the recognition in the increases that we've seen, we think that is a testament to new way of thinking about the airline industry and the durability in that business model as well. And we remain committed to being viewed as an investment grade company going forward.

But there is still a lot of opportunity ahead. Ultimately, we need to continue to stretch ourselves, we need to follow through on the plans that we articulate each year, and hold ourselves accountable to raising the bar. Our performance is remarkable, against any measure, whether you look at other airlines or our history or now the S&P. That being said, we realize it's a continued up-hill battle. We've made tremendous strides and we're not finished. And we look forward to continuing this path and this trajectory and continuing to transform the way that investors look at our airline.

With that, I think we've got a few minute for questions before heading downstairs to lunch. Jill?

QUESTION AND ANSWER SECTION

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

A

[Inaudible] (03:26:21)

Thomas S. Kim
Goldman Sachs & Co.

Q

Great. Thanks very much, Jill. I appreciate that. Paul, excellent presentation and once again kudos for doing a great job, deleveraging and de-risking the business. Obviously, these financial metrics are impressive. The one thing that I noticed is absent in some of the commentary around the capital allocation is the dividend. And we've talked about this before. You obviously have a lot of different initiatives that you're working on and it may still be a little bit early. I recognize that given where your stock is today and the intrinsic undervaluation, it certainly makes a lot of sense to continue buying back stock. But at what point would it make sense to actually start putting out a dividend payout ratio target or a dividend yield target or something along those lines? Thank you.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

A

Thanks, Tom. Honestly, I don't think we're there yet. And following the advice that my esteem leaders gave earlier about the share repurchase questions in 2016, I know, I will get fired, but not by the board, but by the leaders or worse yet endlessly mocked for going out and giving guidance around things like that. But ultimately what you've seen is a commitment to the importance of a meaningful dividend. And I think that's the most important takeaway from what you've seen.

Dividends historically in this business were, as we've referred to them before, check the box dividends to appease those funds that had to have a dividend in order to be able to hold that stock. That's why you see things like fractions of a penny and so on that were done historically. So, I think we are heading in the right direction.

I think, as you can see from the way we've looked at the dividend over the last several years, we're committed to that dividend and to remaining focused on it. But there is a lot of opportunity in the stock. There is a lot of cash flow to allocate to buybacks. And the buybacks also provide you with a lot more flexibility in terms of how you are going to allocate that and flex around the cash generation of the business. So, as you've seen the cash generation outpaced our projections each of the last couple of May performance or May updates that we've given, the buyback has been a very, very useful tool for that. So I think a nice healthy trajectory is what you can expect and what you've seen from us and we remain focused on it that way, but nothing out there in terms of what it must be and when we must get there to do it.

Rajeev Lalwani
Morgan Stanley & Co. LLC

Q

Hi. Thanks. Rajeev Lalwani with Morgan Stanley again. Two questions for you. One on the tax side, is that 35% to 36% rate good to use going forward? Or are there some additional opportunities and then maybe some color on sort of the longer run cash tax rate, once you burn through your NOLs? And then the second question was just on the pension side, if there's any opportunity to reduce the expense further, that's just in chatter, or I guess, some other industrial companies where they could change some of the accounting treatment and get a big benefit there?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

A

Sure. On the tax side, the guidance that we have of 35% to 36% for 2016, I think is a good placeholder to have from that perspective. Cash tax rate is actually, as you can tell, from the pace at which we've burned off the net operating losses, really GAAP income is not really a good approximation for how to think about cash taxes, because of the stark differences that we've seen in things like pension and depreciation. In fact, if you look at the bill that is being contemplated in Congress right now, they're just talking about an extension of bonus depreciation rules that if passed on our projections could even potentially push that cash tax rate out to 2019. That's how sensitive these calculations are to depreciation when you've got a sizeable CapEx company going forward.

On the pension side, I'm familiar with the expense piece that you're talking about. That is tied to a very specific way that companies, not all companies, use to determine the discount rate, and we along with several other companies that don't use that have actually had discussions with the SEC about the applicability for the way we do it as well. The SEC has said that, no, that remains applicable only for that other way of calculating the discount rate. But we're continuing to look at it. Ultimately, our focus is on the real cash liability of the pension and because it's a hard frozen plan as we begin to march towards being fully funded status, it becomes less and less of interesting in terms of how you calculate that book expense because ultimately it would be a bit of a benefit, if not, a zero expense for the future as you get closer to fully funded.

Jamie N. Baker
JPMorgan Securities LLC

Q

Paul, Jamie Baker with JPMorgan again.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

A

Hello, Jamie.

Jamie N. Baker
JPMorgan Securities LLC

Q

You earlier in the presentation today, you cited a 60% to 70% fuel savings retention – I won't call it a target, but guide for 2016, which is pretty consistent with what the industry retained in 2015. You also cite $3 billion of fuel savings and a $500 million hedge loss. So, is the 60% to 70% of $2.5 billion or $3 billion, because it does drive a reasonable difference? Then I have a follow up.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

A

Well, keep in mind a lot of that is driven by the revenue environment, which is a function of current market fuel prices and a sizeable piece of our $3 billion year-over-year savings is the sun setting of the 2015 hedge losses. So a little more than half of that $3 billion is just actually a change in year-over-year on the hedge with the rest of it being closer to market fuel prices.

So that's kind of the way to think about it and while we haven't given any real revenue guidance, for the year, I mean, when you look at that environment, you kind of see that today. So, we're focused on ultimately getting value and getting paid for the value that we provide and I think, our team has done a fantastic job with that, in the past and I expect nothing different in 2016.

Jamie N. Baker
JPMorgan Securities LLC Q

And second, you cited a commitment to an investment grade rating, but just kind of left at that, where does that reside on your priority list, is there a mandate? Can you give us a sense, what's sort of expected timing, is this similar to the campaign you ran for S&P inclusion? I realize it's apples-to-oranges, but how important is this to you?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President A

Well, I think, anybody would be offended by a campaign to get included in the S&P 500. We were hopeful about it and we got it without campaigning because of the integrity of the S&P 500. But, I think, the investment grade rating remains very similar to what we talked about in the past. I mean, the rating is important to us, but not for the point, as we we've said, historically, where we would have to significantly and materially overshoot industrial peers in order to get that because of the risk of the business. And I think, what you've seen through the upward momentum in our ratings over the last 18 months to 24 months is a shift in the overall risk basis of the airline industry as a whole and a reflection of what Delta has been able to do to differentiate ourselves from our peers with our focus on the balance sheet.

So, I don't think there is anything out there that says we're going to materially change or otherwise deviate from the balance capital approach that we've articulated, but we are optimistic that will happen. And I think I heard my mandate, but that doesn't necessarily mean the company mandate, so.

Julie A. Yates-Stewart
Credit Suisse Securities (USA) LLC (Broker) Q

[indiscernible] (03:35:06-03:35:10) about the $500 million in hedging losses and how those layer into 2016.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President A

I would say for modeling, they're pretty evenly spread throughout the year, probably a little bit more weighted along consumption where you'd see a little bit more in the summer, a little bit less in the off-peak times, but generally kind of pretty balanced throughout the year.

Now, we have taken the step very recently to actually just completely flatten the hedge book in the first quarter to make sure that if we see a scenario where fuel prices decline pretty precipitously off these levels, we've got 100% participation for the first quarter and then that varies throughout the year. So, we do have some exposure below $40, but ultimately we feel very, very good with how we're positioned heading into the year.

Jamie N. Baker
JPMorgan Securities LLC Q

Can you remind us the amount of the [indiscernible] (03:36:07) including the early settlements for Q4?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President A

The amount of what? I'm sorry.

Jamie N. Baker
JPMorgan Securities LLC Q

The hedge loss.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President A

The amount of the hedge loss including the early settlements, I think, was about $250 million to $300 million including the early settlement.

Darryl Genovesi
UBS Securities LLC Q

Hi Paul, Darryl Genovesi from UBS. I think a big part of the message today has been about sustainability of the earnings and free cash flow stream. And I'm just wondering, you've made some comments in the beginning of your part of the presentation about being able to limit your unit cost growth even if, capacity growth isn't what you had anticipated. And I guess I was just wondering, does that – I guess, can you help us just understand how that applies in a more extreme scenario where you have a 2008, 2009 kind of revenue environment, you have to take I don't know, 5%, 10% capacity out relative to your plan. Can you just give us a sense of how big of a unit cost impact that would be immediately and then after you've had a few quarters to adjust? Thank you.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President A

Yeah. Well, I think the comment about not relying on capacity is one that's really true around the margin, in any situation when you start talking about extreme cases like 2009, obviously you're going to see a lag effect. While we have a lot of flexibility that we've talked about with our fleet and with our contracted services and so on, with the reduction in capacity of that magnitude, those things take time to get the fixed cost out, but what you've seen is a historical focus on doing that and doing that as quickly as possible. But there certainly is going to be some type of lag effect probably in a – in that type of extreme 6 month to 12 month type lag, if you're pulling that down permanently. If you're flexing the network around the edges to try to manage that down then there is a lot more flexibility to be able to do that, but when you start talking about permanent reductions, it gets a lot more challenging as you might expect.

Q

Delta decided recently to left the A4A, American for airline association. So I was wondering, in the near term, which one is going to be the new yardstick to assess the degree of success of your revenue and cost strategies?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President A

I didn't – which is going to be the...

Q

The new yardsticks, the new benchmark, how are you going to assess month-by-month how successfully all your strategy is playing versus the rest of the industry?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

A

Well, I think you still see a lot of data out there and certainly as we look at our revenue performance on a quarterly basis, as we continue to see loads and other data through other sharing, other cooperative pieces, data exchanges. We've got enough visibility from that. So A4A was a decision that went much deeper and way beyond just kind of the comparability of data.

Q

So is it fair to say, if I hear correctly that from now on you're just going to use a quarterly data released by all the airlines and not any longer monthly data as it used to be?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

A

No. I mean, we have access to a lot of data out there. It's not just quarterly for us internally.

Q

Are you going to make those data to available to us as well?

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

A

No.

Paul A. Jacobson
Chief Financial Officer & Executive Vice President

With that, I think, we'll adjourn for lunch downstairs. Thank you everybody for coming and for your commitment to Delta. Thank you.