14-Dec-2017

Delta Air Lines, Inc. (DAL)

Investor Day

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MANAGEMENT DISCUSSION SECTION

Chip Yeager

General Manager-Video Services, Delta Air Lines, Inc.

Ladies and gentlemen, please welcome to the stage Jill Greer, Vice President, Investor Relations.

Jill Sullivan Greer

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

Good morning. Welcome to Atlanta and welcome to 2017 Investor Day. We are proud to have you here in our house and to welcome you into this place that we call home. Nice to have our 11th Investor Day not in New York to be able to stay and welcome you into this fantastic museum that we have to show up all the facilities to give you that tour of TechOps yesterday, our operations and customer center to show you the amazing people and all the work that they're doing to take care of our customers every day and the pride that our employees have.

My name is Jill Greer, as they said, Vice President of Investor Relations. This is our 11th Investor Day, the best one ever, I think as we always say every year. A little bit about what we're going to have today. Oh, I already messed it up, I'm sorry. Here we go. We're going to kick-off in a minute with our Chief Executive Officer, Ed Bastian. After Ed's presentation, he'll do a quick Q&A. Then we'll move into Joanne Smith, our Chief Human Resources Officer; Tim Mapes, our Chief Marketing Officer; and Glen Hauenstein, our President, we'll do a Q&A with that group. We'll do a break then followed by Gil West, our Chief Operating Officer; and Paul Jacobson, our Chief Financial Officer; we'll do a final Q&A with Paul and Gil. And then after that, we'll have a small presentation to finish the day, and then move over to lunch over on the historic side of this great Delta Flight Museum.

For everybody here in the room, you have a copy of our slide presentation, everybody else on the web, the slides were filed on an 8-K this morning. In that, we also did file a full December quarter Investor Update. Both of those are available on our investor relations site at ir.delta.com. Our presentation this morning does include non-GAAP financial measures. Please do check the reconciliation of those measures on the IR site. Also all the Safe Harbor provisions do apply.

Before we move on, I do want to take a minute and thank my amazing IR team for putting on not just today's events, but yesterday's. They are small, but mighty in what they produce. Elizabeth, Jason, Winnie and the team that goes into it. You guys make charging mountains like this, incredibly fun to come to work every day and like this and Kirk too, sorry. It's so fun to come and do what we do every day and we couldn't get it done without all of you.

And also on that, I want to take a minute and thank the 80,000 people of Delta for putting together what has been an amazing 2017.

[Video Presentation] (03:04-07:44)

Edward H. Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

Whoops, sorry about that, too early in the morning. Well, good morning everyone. Thanks for being here. I appreciate you all coming down to Atlanta, this nice warm day in Georgia. And when you – New Yorkers go home please take the weather back with you. I would like to get back to our normal standards. But it's really good to see you and it's especially good to host you in what I consider to be our living room. This is the home of Delta Air Lines. This is where we started. This is where we – Hangar 1 where we founded the company essentially and built the airline that we have here. We're going to be doing this presentation under the wing of the spirit of Delta, the spirit of the people of Delta.

Most of you know this, but those of that you don't, this is the airline back in the 1980s that the people of Delta Air Lines paid for entirely and gave to the company to recognize the company and show their faith in the company and that tradition continues even to this day. So last night when we were at the 747 experience, the majority of that renovation was paid for by our employees through their own contribution. So that heartbeat that spirit of Delta continues through and you'll see it not only echoed in today's presentation but more importantly seen in the performance.

So, 2017 let me spend a few minutes reflecting on 2017. [ph] I – who (09:21) was presenting to you a year ago and I said 2017, I termed a transition year, suddenly everyone adopted that term as they looked at 2017 and it has been a transition year. But as the year went on, I've seen 2017 as much more of a foundational year. It's an opportunity with the investments and the achievements and the progress we've made to really set this company up for its next climb moving forward. It starts with our people. The strong culture is evident in the performance, it's evident in our revenue premiums, it's evident in the service that you get on board, but you can't deliver that type of quality unless you have employees that are motivated, that are inspired, that are confident and that are engaged.

And one of the things by which we measure the health of our company is what we call our positive engagement score with our employees that we survey every year. This past year, almost 90% of our employees, all the frontline employees said – had a positive engagement score, which meant they were proud to work for Delta, they're confident in the direction of the company and they're confident in the leadership in terms of where the company is headed. That – you can't buy that. That's probably the most important asset we have, a lot of you can't talk about it being on the balance sheet. That is what keeps this company fueled.

And as a result of that, you've seen the industry leading reliability, which Gil will talk about later today in his chart-a-palooza, as I jokingly refer to. But we set all-time highs again in our reliability, our on-time rates, our mishandled bag scores, our customer complaint data, arriving exactly on-time as compared to arriving 14 minutes late, which how the government counts it. And that's not only true for Delta that's true for our connection carriers at Delta Connection as well.

One of the stats I'm just astounded by that we delivered in 2017, we just last week broke a streak where we had 50 days, 5-0 days in a row without a cancellation on the mainline, almost two solid months. No airline can do that. No airline – we've never even done that before. It's just phenomenal. But included, embedded within that number are 18 days in a row where there was no cancellation on any Delta platform anywhere, including all the Delta Connection carriers, 6,000 flights a day; 18 days in a row without a cancellation, really phenomenal work.

And as a result, the brand is in great shape, our customer Net Promoter Scores are at all-time highs, once again proud to win the Best Airline of the Year by Business Travel News. We were named that last week, seventh time in a row – seventh year in a row. And when you look at that measure, I always encourage people to read it because that's what our customers are saying about us. There's 10 metrics, 10 scores by which the airlines are measured. And we came in first place on all 10. And the distance between us and anyone else wasn't even close. And so we're going to – we're already making plans to win number 8 in a row.

Rajeev, I see you back there. Thank you. We also won and swept all the first place categories in the Morgan Stanley survey and award as well. So it's really a proud day for us to reflect on the progress that our people have had. We had a lot of success, I'll talk about it, with our partners as we build out the Delta family. We made some investments this year, returned $40 million back to our community. It's our 1% pledge. 1% of the profits of Delta go back into the communities where we work and serve.

And for our owners, I think – I thought it was a real solid year. We're going to end up with a pre-tax income in the $5.5 billion range. Third straight year that we've been in that $5.5 billion to $6 billion category, so the continued demonstration of sustainability. We talked about when we said the year was going to be a transition year that our cost growth had to be matched and exceeded by our revenue performance. And it was a little slow to get going, but the revenue traction is there. And I'll talk about fourth quarter guidance and 2018 and of course Glen will talk about that as well.

But when you look at the year as a whole, I'm really proud of how we performed. We continue not only to maintain our relative performance against our peers, but we actually expanded it. This time last year, two of our larger peers were saying, how they were going to catch Delta on the margin race. Well, somehow we managed to expand that by another 200 basis points apiece over both our two big competitors in 2017 performance. So the gap just got a lot wider. So it's a – it was really a solid year for the company.

When I talk about foundational year though and the investment for the future, you look at all we accomplished in the year, the airport environment. We broke ground on three of our most important airport projects for the next decade this year. The new LaGuardia facility, we've broken ground and that will be a fabulous facility. It's going to – it's a work in process. But when we're done, five years from now or six or however long it takes, I think we're all going to look back with pride on it.

We broke ground on L.A. We're now in Terminals 2 and 3 and we're renovating that facility. It'll allow us to expand our footprint on the West Coast and a really important market for us and we'll have the opportunity to build the best connecting complex and the best airport in the L.A. Metropolitan Region.

Seattle, we also broke ground on the new international facility up there. We're building a new airport up in Salt Lake City and we've made significant renovations, hopefully as you come through the airport here in Atlanta to the domestic terminal and over the course of 2018, you're going to see a reshaping of Atlanta.

On the fleet side, you saw our announcement this morning. People were asking me last night, the CNN report of it and I was telling people, fake news, but it is true. And very proud to see the hard work of our people delivered by the type of product that we're going to be able to offer them, as well as our customers with the A321. It's an experience from a customer standpoint that stands apart. We think it's the best narrowbody product in the sky not only it [ph] makes sense (15:50) for our customers but also for our people to serve. It's incredibly fuel efficient. It will be 20% more fuel efficient than the aircraft it will be replacing. It will have 40 to 50 more seats on it than the aircraft that it is replacing. And it's a win in every respect and we also got an incredible, credibly good deal and from our partners at Airbus, as well as, Pratt-Whitney on the engine side.

One of the things that helped make this decision as powerful as it was, was the commitment by Pratt-Whitney to bring Delta in as its main engine shop for the Geared Turbofan over the next 25 years and more. We're going to – we have a guaranteed number of over 5,000 engines that are going to be repaired here in Atlanta over the life of that engine. And then when you couple that also with what we're going to do with Bombardier and the Geared Turbofan, which also Pratt has committed to us, it's going to create billions and billions of new revenue for the company and substantial margin growth for the company as well.

On the partner side, we finished off our investment year. I think we're largely where we need to be. We've got an investment at 10% in Air France-KLM, which I was pleased to participate in. We're now on the board of Air France-KLM and we have the opportunity to influence the company in that regard. We have finished off and completed our acquisition of the 49% stake in Aeroméxico. As well as the announcements that we made this year that we're going to create a joint venture with Korean and a joint venture with WestJet. So, we have our partners, we have our family of companies that we are going to be working hard with this year. For us going forward in 2018 is going to be much – very much about integrating those partnerships and continuing to deliver greater value for our customers.

And finally, in technology, 2017 was a year of a significant investment in reliability and the infrastructure of the enterprise. We've got a new data center up now, so we don't need to worry about the fragility of the old data center. And now, we're building architecture and building out the opportunities to create the digital future for our customers that we really need to be able to deliver, if we can take and give the Delta people the tools they need to do a better job for each of you.

So, looking at the guidance for the finish off to the year and the December fourth quarter, we're expecting our unit revenues to come in at the top end of the range at 4% for the quarter. Fuel price is up about $0.10 from where we originally guided that was where we had snapped it in early October and everyone knows that fuel has run pretty hot over the course of the fourth quarter.

Our CASM ex-fuel is up 5% to 5.5% that – we'll be talking a lot about that today. That's a disappointing number. That's about – that's at the high-end and even a little bit above the high-end of the range. And I'll be talking about that, Paul will be talking about that, Gil will be talking about it. You should hopefully walk away here with a conviction that Delta is very focused on getting its unit costs back in check.

And as a result of the math, our operating margin will be in the range, but on the low end of the range in the 11% range for the fourth quarter. Just a couple of things in terms of my thoughts as I look at our guidance, as we're finishing off the year. We're really glad to have the revenue traction that we have. It's broad-based. International once again is leading the revenue performance; domestic has got a very strong performance as well, but international is coming out ahead.

In the fourth quarter, our transatlantic unit revenues, we expect to be up about 7% to give you an indication of the strength in the business, [ph] talk (19:38) about surprises in the business that's one thing everyone walking into the year was worried about how the transatlantic business was going to fare, it's actually just the contrary, it's led the way through the back half of this year and we certainly see some nice growth going into 2018 as well.

Fuel, none of us, you'll never see an airline executive say he or she likes paying higher fuel prices, but at the same time fuel in the $60 to $65 a barrel range is fine for the medium to long-term. When fuel bounces around, as it has over the last several years, it creates a lot of dysfunctional activity and behaviors. We would much prefer to have a fuel price that is more reflective of where the market ought to be with respect to demand. And at that $60 to $65 fuel, it incents the right prop – right type of behaviors, the right type of investments. And I think over time, we'll see improvements in the margins of the company based on fuel prices actually being a bit higher as compared to bouncing back and forth between $40 and $50.

And then finally on our non-fuel unit cost, last year we guided, we told you this time a year ago that we expected our unit cost to be up 2% to 3%. We're going to come up about 4% for the full year. Some of those were investments that we consciously made; investments in our people, investments in our product, things that were the right decisions to do. Some of them were the fact that we weren't on top of some of the improvements and taking advantage of some of the process leadership that we have and the operations and letting that drive through to the business.

We've embarked on a significant cost project. To me, it's not just about cost, it's about organizational health as to how we think about our process and our enterprise across the top of it. We are very, very good in our business with our silos and our divisions and you've seen that over time. But now to take the company forward, we got to get much better at horizontal thinking and process minded. Gary Chase is leading a project for us that we think will have $1 billion of cost opportunity attached to it over time with the first installment about $200 million coming in 2018 as well.

So when we think about the guide for next year on non-fuel unit costs ex-profit sharing, because that's another change in the guide that we think we need to make to give more transparency to what's going on in our unit cost structure. We're going to guide to zero to 2% and my expectation is going to be a lot closer to zero than it will be to 2%.

So on balance, a solid year as we wrap up 2017. We outperformed every airline on a relative basis in 2017 and I think it sets us up well for 2018 and the year ahead. So as we plan 2018 and start to give thought to it, I spent some time with the team thinking about it. And one of the things that was really obvious is that we need to get our top-line revenues growing. And I know our investors – that's probably the last thing investors like to hear is top-line revenue growing and it brings back bad memories and that's not what I'm talking about. But what I am talking about is when you look at our trajectory from 2014 through 2017, our top-line is almost exactly flat over that four-year period. We couldn't be flatter if we tried.

And while that was good in the first half of that period because fuel prices were declining and costs were going down, leading to substantial margin improvements. In the back half of that period, 2016 and 2017, costs started to rise again. And as a result of that that's why you're seeing the margin contraction and some of the erosion in the Delta results. So we need to get our top-line grow and we're expecting in 2018 to have our top-line grow in the range of 4% to 6%. So not aggressive, I think it's quite reasonable what we're expecting to do. We're looking at capacity growing at 2% to 3%. We've previously guided on that in 2018 and we're still in that range but when you break down what that capacity, it's strategic and its smart growth.

In terms of departure growth, departure growth is less than 1% in 2018. So, it's almost entirely going to be in stage and in gauge as we upgauge the airline. It's not going to be in higher departure count. So we're – it's going to be cost effective and cost efficient growth.

In addition to that, we're also expecting to have better pricing in 2018 than 2017. It's modest, maybe it's in the 2% to 3% range but given the cost pressure that everyone has faced in the industry, we expect that should continue. We also see revenue growth coming from our ancillary businesses, from our loyalty program, from our MRO, from our cargo business, all of which will contribute to that top-line growth of 4% to 6%.

And when you put it together and you say well, what's the proof; can Delta actually deliver on this? We are delivering on this. In the fourth quarter of this year, our top-line is going to be up 7% year-on-year. So it's effectively the run rate we're at now and we'll continue to take that forward into 2018.

And when you couple that with our non-fuel cost improvements, getting our non-fuel cost down into the zero to 2% range, again closer to zero than 2%, that's going to allow for us to grow our EPS 10% to 15% and we expect our EPS in 2018, first time we've ever guided the EPS, but this is a practice we're going to start moving forward, of $5.35 to $5.70. And yes, buybacks help that number a bit, but it's a smaller number. We expect – when you do the math on all that, you see a pre-tax target for us of about $6 billion. So that's the number we're expecting on pre-tax earnings in 2018, in the $6 billion range.

It will be another good year for cash. We're expecting our operating cash flow to be up $8 billion to $9 billion and as a result for free cash flow in the $4 billion to $5 billion range. So these are the targets and I think, 2018 as it unfolds, it's going to be an inflection year, a year which we've kind of got the trajectory moving back in the right spot with respect to revenues, with respect to costs. Fuel, we're targeting fuel at the forward curve, which has some [ph] degradation (26:06) built into it. But it's – our expectation is it's going to be in the $60 range maybe a little bit higher in 2018.

So that is my final slide. This is going to be the setup slide for the course of today. And we get the question all the time and I'm sure we'll get the question today, you're delivering strong results, you're proving sustainability, why can't you get your margin or your multiple up? Why can't you get the valuation that you think you deserve into the market, which is an interesting question, and it's not just for Delta, it's for everyone in the industry.

And Paul and [ph] Gil (26:44), they have all the slides and they can show you yet again the global industrials, how we compare in the global industrials charts and why we deserve a better valuation treatment and they'll have a – maybe you'll have a side breakout with that, we're not going to take you through that over the course of the day, though we still think that that's a very credible and important argument.

What – maybe we can do like my friend in Dallas and track our trajectory relative to Sam Buttrick's age – Sam is going to be 60. November 25, Sam, is that it? So I had heard that separately from both Doug as well as Sam and at both times I told them I want in on that bet, so you're going to let me in on that bet. Oh, well, we're in, we're in, we're in. So – but that's really not – I don't think the right way to think about it though with all due respect, Sam, we're going to win that bet. But the real way we think about it is the way our leading shareholder thinks about it, Mr. Buffett, and he talks about economic moats and he talks about sources of sustainable competitive advantage.

And what peeling – taking the results and peeling underneath them and seeing what's underneath these results that's not only going to allow us to maintain these results, but it's also going to allow us to continue to improve the results. And these competitive advantages that are unique to Delta, I call are economic moats and there are five of them and I want to spend just a couple of minutes talking about each of the five and that's what you're going to hear from today, you're going to hear Joanne talk about culture and you're going to hear Gil talk about the operational reliability mode and Glen's going to talk on our network and Tim Mapes will cover loyalty, and Paul will wrap up on our balance sheet. When you put together the significance of each of these advantages that's what makes Delta who we are, that's why we have the margin superiority in the business and that's why I think we're going to not only sustain it, I think we can – we have the opportunity to continue to grow it over time.

So first one on people; all of you know how important our people are to us. We talk about it all the time. Our culture is our strategy. Our people are our strategy and they are the very, very, best. When you think about our business, our business, one of the knocks historically on our business is that we are a commodity that we were just going after market share that pricing was the – to the least common denominator. And if it wasn't pricing, it was frequency. No one ever really focused on how do you distinguish and differentiate yourself the way we are in the market over the last five years.

And when you say what really differentiates an airline, it is its people, it is the service and it's not just the service, quality of the people, the service consistency of the people. And that's one thing I hear over and over and over again from customers is the quality of the experience is consistently better and continuing to improve and that's because we have a highly motivated, highly engaged workforce. And if we are going to continue to sustain our revenue premium, which we will, it's going to be because of that differentiated service and the quality of our culture and the quality of our people. People love to think about people as the soft stuff as the easy stuff, aah it's the hard stuff and it's the most important stuff that we do.

And it's not just the quality of the service that you may receive as a customer on the cabin or in the airports, it's what goes on over at TechOps and what's goes on in our reservation centers or at technology and it's a cross the board. The quality of the Delta people allows us to compete in a differentiated manner and that's a huge moat and Joanne's going to be talking about that as we move forward.

Secondly, operational reliability, I already touched on it. 2017 was another powerful year and 2018 is going to be that much better and Gil will talk to you about some of the improvements that we're scheduled to make. But, again, if you are going to compete and change the model and compete on quality rather than compete solely on price, you need to continue to deliver the reliability and the quality of the product that we're doing and we're continuing to do that. And when you see our Net Promoter Scores at their all-time highs, one of the main reasons for that is that they see the consistency, the reliability, they know Delta is there for them. Delta has their back and that's immeasurable.

It's also something that we think is we've protected. We built a – again I call it a moat because anyone can replicate what we've done, the process engineering and the technical prowess. But, you need people that are engaged and excited to deliver the experience to make that happen. And that's why that 90% positive engagement score allows us to take the tools and deliver on that performance. It's powerful that combination and that's our second moat, which Gil will talk about.

Third on the network, you're here in Atlanta. Atlanta is the number one asset in the airline industry globally; [ph] full stop (31:43). It's a great operation. It's the most profitable, most efficient connecting complex in the system, it's also the largest. Do you realize that [ph] Atlanta (31:55) for us is 40% larger than the second largest hub, which is Dallas for American. We have a 40% large. And so the scale and the efficiency that we continue to grow, by the way and we're not growing Atlanta through more departures, though we could, we're growing it through more seats and more throughput. Over the last three years, while our departure count in Atlanta has been relatively flat, 1,000 departures a day, it's pretty healthy, we have increased our passenger throughput by 12% in the last three years.

You talk about margin efficiency and margin that's pretty powerful margin machine. And with the new aircraft we're going to be buying, the A321s we're taking now, the A321neos we're going to be getting, the C-Series, we're going to continue to bring more and more product through our domestic hub and whether it's Atlanta, whether it's the 900 departures a day that we have combined in Minneapolis and Detroit, whether it's harvesting the investments we've now made in New York, where you have 500 departures a day, the largest airline in New York, larger than Newark for United or L.A. or Seattle, taking those investments and bringing them to scale is something that people will not be able to replicate and certainly deliver the way Delta has.

Fourth, on the loyalty side, you need to be able to translate that brand health and continue to drive and find new revenue streams and new ways to thinking about it. And our partnership with American Express, which I know you heard from Sandeep about yesterday is another one of those sources of true competitive advantage. We are growing, I just wrote down a couple of numbers with Amex. We are, as you know, the number one co-brand for Amex. Since 2013, we have grown our new card acquisitions at an 11% CAGR. And this year we are at 1 million card members – new card holders a year, 11% CAGR on that.

The co-brand portfolio that our customers are putting on the Delta card has grown at a 12% CAGR over that same four-year period and [ph] and it's at an (33:52) $80 billion overall portfolio. And leading to total Amex revenue contribution to Delta growing from $1.8 billion in 2013 to $3 billion in 2017 on the way to $4 billion in 2021 that's a 14% CAGR. Those are all revenues coming from sources outside of the vagaries of the air traffic and passenger demand curve. It's coming and it continues to grow in popularity and that's why we're being able to post the type of results in strong partnership with Amex. And Joe DeNardi, before you ask, I'm going to tell you, no, I cannot tell you what the margins are on that business.

And the fifth thing is – though the margins are quite good, the fifth thing is the quality of the balance sheet. We have an investment grade balance sheet. We received our third investment grade rating this year and that's one of the other things has fundamentally changed in the business. We now have the flexibility and the agility and the security to manage through the ups and downs of the economic cycle. One of the other things that hasn't received as much attention, but we are going to end up this year with our pensions funded at pretty close to a 70% level, which is the highest level it's been since the merger, the Northwest-Delta merger.

And over the next several years, we hope to take the pension overhang that backdrop, the last vestige I think of the old off the table as a list of concerns that that liability and we're making really good progress on that. And what that means is that allows us to continue to invest in product. We have a simple strategy of 50% of what we invest or what we generate in operating cash goes back into the product every single year and 50% goes to our capital structure.

This past year, we returned $2.5 billion to our shareholders. Based on what we expect in 2018 that number is going to be somewhere probably between $2.5 billion and $3 billion, the steady drumbeat of continued investment in the capital structure. No one is investing on a consistent level the way we are in that model.

So, when you put those five moats together and you say this is who Delta is, it's a powerful combination, it's what has transformed the [ph] face and (36:03) the company and it's why I have confidence that we are going to win that bet for Sam Buttrick and we are going to continue to grow there. In fact, we're talking about Sam's retirement date. We're going to – he's told me what his retirement date is and his numbers, so we're going to try to help you early retire Sam, we'd all be happy, we'd all be happy.

So, with that, thank you for the attention. I'm going to stop and take a Q&A here for a bit of time, but this is going to be the theme as we look across our day. Excuse me. Okay. Winnie, the number, okay. Winnie, it's two.

QUESTION AND ANSWER SECTION

Darryl Genovesi
Analyst, UBS Securities LLC

Q

Good morning. Darryl Genovesi from UBS.

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

A

Hey, Darryl.

Darryl Genovesi
Analyst, UBS Securities LLC

Q

Hey. Thanks for the detailed guidance. I appreciate you guys doing that. You had alluded to a $6 billion earnings before tax number. Would you expect that still to be a reasonable target in an environment where your tax rate is down say 14%, 15% [indiscernible] (37:08) or do you think that there is some propensity for the pre-tax income to be diluted away much like we might see when – see on the top-line when fuel comes [indiscernible] (37:17)...

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

A

So is your question, are we going to compete away the tax savings from tax reform, was that what you're asking me?

Darryl Genovesi
Analyst, UBS Securities LLC

Q

That's exactly, right.

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

A

Okay. No, we're not. I'd see no – I've heard a lot of that talk and to me it's – I never had thought about it that way, to be honest with you because we – first of all, we don't pay taxes today. So there's no – there's nothing to compete [ph] away (37:41). There's no cash. This is about cash in our business. We, at Delta, if the tax reform goes through at the 21% rate or whatever is the current thought on, that's going to be a meaningful savings for us or for Delta that will be somewhere in the $800 million range. It will allow us to extend for another year or two when we'd become an eventual tax payer. So today we're thinking under current legislation to be 2019, but that would push out to 2020 coupled with obviously the accelerated depreciation we would have, it would add $1 to our EPS, may be a little bit more. So that $5.35 would go up to $6.35 to $6.70 in terms of our guidance range.

But no, I don't see it that way and it's not just Delta, most of the industry isn't paying taxes. So there's no cash inflow by which you can then take it – take and compete. What I see the use, the primary use of the savings from the tax when it does come into fruition; it will be to allow us to further complete the funding of the pension plan to get that pension plan fully funded and we've always talked about that. We want to get our pension plan funded such as when we are a cash tax payer, we can supplement anything we've been putting into the pension fund for any cash taxes that would be due. So I think that be the first quality at least Delta would have with any of the cash savings, but again, it's a couple of years out.

Elizabeth? [indiscernible] (39:13)

Q

Hey. Thanks. Good morning. I wonder if you could expand a little bit on the Pratt engine relationship. Can you talk about when that revenue stream might start to hit, what the competitive landscape looks like that and the nature of the exclusivity that you have?

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

A

Yeah, it's a – we don't have explicit exclusivity in the Americas, but based on the volumes of engines that are out there and the commitments that we have, in terms of over 5,000 engines, both on the A321 as well as on the C-Series for the Geared Turbofan, we will essentially be the main engine supplier across the Americas for that product.

We estimate, as I said that number is going to be 5,000 engines. You can do the math, call it an engine removal, call it $3 million, I mean it's probably an order of magnitude type number, that's $15 billion. And obviously, it starts as engines – as we ramp up, taking delivery of the planes and the engines are out in the marketplace. So it won't come into our numbers in the first couple of years, but it will certainly start to ramp into the 2020s and then every year, it continues to get higher and grow larger.

The other thing that was really important for us to obtain from Pratt was the ability to actually execute on that plan with the repair capabilities and having the tools and the technology transfer that we're going to work together on to position Delta as the premier provider – an engine repair shop for the Geared Turbofan across the board. So it's a very big number. It's got a little bit of a long tail on it, but we're excited about it. And it was one of the big differentiators in making the aircraft decision.

Hunter K. Keay, CFA
Analyst, Wolfe Research LLC

Q

Hey Ed.

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

A

Hey, Hunter.

Hunter K. Keay, CFA
Analyst, Wolfe Research LLC

Q

I'll also echo Darryl [indiscernible] (41:08). Just to follow-up a little bit to what you were just talking about Pratt too. As you're thinking about uses of cash over the next like five years, is there a thought to maybe bolstering up some of the ancillary streams of revenue you have through targeted M&A? We're seeing some consolidation in the aerospace sector right now. Is there a thought to using some of this cash to actually acquiring businesses to bulk up the MRO operation and then [ph] it creates (41:36) some more diversified revenue streams? You guys already are still the biggest MRO in North America...

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

A

Right.

Hunter K. Keay, CFA
Analyst, Wolfe Research LLC

Q

...but are there other creative uses in the M&A realm that maybe you're thinking about outside of just buying another airline?

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

A

Yeah. Well, it's an opportunity and I'd note there's nothing on the plate at the present time that we're thinking about, but as we develop the technology and the tools and the capability to be the preeminent engine supplier on the geared turbofan, it will create ideas and opportunities as you try to extend and expand your product line, because we'll have the capabilities to do that, we'll have the infrastructure to do that with.

We're doing that already today, a little bit in flight products world. We've started a flight products company. So one of the most expensive and most frustrating elements of an aircraft manufacturer is not the engines or the aircraft itself but the seats and the cabin interiors and they need to continue to stay on top and renovate. It's a business that is not well managed across the industry. And we're in there doing it ourselves and actually starting to implement some of the changes you'll see as when the C-Series eventually starts to fly, you'll see Delta Flight Products having supplied a fair bit of the gear and some of the componentry for the cabin [ph] experience (42:55). So we're thinking the way you are, though I would tell you it's a longer term and it's nothing that we've got a specific capital placeholder for.

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

A

Hey Dan.

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

Q

Yeah. I'm wondering if I can get you to opine more in the cycle. And the reason why I asked this is because we've got a lot of longer term shareholders now in the airline space. So how should we think about the guardrails in terms of pre-tax earnings in a downturn/upturn? Things are great right now, but if you look ahead one to five years, how do you feel like you need to manage the business as you kind of think about the stresses of the business as you look ahead? It's a key source of investor resistance that I get when I'm on the road. I'm just wondering if you can talk about your...

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

A

Sure. Well that's why we're – we set out the presentation today. Those moats – those economic moats we talked about are resilient through good times and bad, that's [ph] part of (43:50) the definition of a moat. And it's the people, the investment in the people and the quality of the service, the operation, but the fact that we're competing on service and quality and not on price alone is a huge distinguishing factor.

We've got loads of flexibility to manage a downturn. In fact, we – people say that we won't get rerated until we live through another downturn which I'd find incredulous and honestly somewhat lazy to be thinking like that because we've lived through the 2009 downturn and if you exclude the fuel hedging, we were profitable through the worst recession of our time, back in 2009, before we've done and made all the improvements and the quality of the service and the offerings.

The American Express commitment on the loyalty program is another revenue stream that continues whether you have a downturn. We've got – we still have a lot of fleet that we could put down quickly. We have an enormous amount of unencumbered assets that we could – you know that our pension plan will be fully funded here relatively soon.

Certainly, we have no more contributions that we have to make for the next five years on the pension plan. This past year we put $3.5 billion in the plan. We don't have to make any more contributions until 2024, if we didn't want to. So we've got all the levers and we've got the sustainability. And while you're right that's always a question as to how you're going to manage the cycle, I feel good that we've got all the tools in place and we've proven ourselves. I can't say that for all the airlines, but I can say that for Delta.

Yes, Winnie?

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC Q

And it's Rajeev...

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

Hi, Rajeev.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC Q

...from Morgan Stanley. Two related questions for you. First, in terms of revenue traction, what gives you the confidence that you can hit some of those numbers in light of fuel still being low, your capacity going up, industry capacity being high and just the competitive environment overall. That's one. And then relating to that, you didn't talk too much about hitting your margin targets. Just some perspective there as to when you think you'll get there, [ph] or for (45:56) numbers next year imply that you do.

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

Well, if your first question is the confidence we have in getting to the revenue that 4% to 6% revenue growth, that's where we are today. In fact, we're at 7% in the fourth quarter and when we peel it back and look at where the revenue is coming from, it's coming from [ph] proactive (46:16) pockets of strength that we've invested in and built over time. It's going to be coming through upgauging and it's going to be coming through stage, not necessarily through having to go into new markets or generate new sources of revenue. The revenue's already here on the plane.

We're going to end this year with the highest traffic in our history and the demand profile looking into the next year is very good. And the only thing that kept our revenues flat this past year is because we consciously did that. We needed to get the pricing back in place and so we told you a year ago, we are going to keep our capacity 1% and we did that.

So I think we have a pretty good sense of where this thing is going. We've got all of the assets to fly and we had the assets to fly a much larger airline this year. We're going to unleash a little bit of that, not a lot, a little bit of that to generate the growth. The pricing power that we have in the business is the best we've seen in four or five years. And I think we're going to keep it and the reason we're going to keep it is because everyone is facing cost pressures at an even higher level. Everyone's facing the question of when are you going to get your margins moving positively and our margins have already exceeded theirs again this year. So their incentives to grow even faster is in place. So I think, the industry is largely has a common set of objectives in terms of what it takes for the economic model to work and we're aligned with that and I think it's going to be a healthy revenue year as we look into 2018.

Your question on margins, I'd tell you that because the question is the elephant in the room is 16% to 18%, are you walking away from it? Yes, we are going to walk away from 16% to 18% in a fuel environment that's $65 to $70, right, that math does not work. Okay. We've been in the 16% to 18% environment for several years when fuel was in the $40s, but if you change the math and you almost double the fuel price to $65 to $70, that's going to be pretty hard to do. And that's why we've designed – we're looking – trying to look forward in terms of EPS and bottom-line growth and pre-tax margin growth.

We are going to improve our pre-tax margins next year, probably somewhere between 50 basis points to 100 basis points to get to the $6 billion number. So we are expanding margins. But I don't think you can isolate on one input and then keep everything else constant, I mean – it's because the assumptions change as the environment evolves. Elizabeth?

Brandon Oglenski
Analyst, Barclays Capital, Inc.
Q

Hi. Brandon Oglenski from [Technical Difficulty] (48:44). So we focus a lot on the [Technical Difficulty] (48:49) but when you talk about top-line opportunity [Technical Difficulty] (00:48:53) does Delta becomes – are there opportunities unique in your network and in your company where we can grow the revenue not just with capacity but we have a lot of confidence in some of these other modes that you've been talking about, revenue initiatives. Is this become a longer-term target and hey, we want to draw top line faster than GDP and not necessarily just through?

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

Yeah. Glen is going to talk about that, and you'll have a chance to hear from him. Branded Fare's is another big step forward our ability to merchandise, our ability through our technology strengths to build a more personal connection to our customers and driving greater preference. The international contribution that we've been investing in over the last several years, that we've been building the relationship is really starting to payoff. You'll see that in, again, in Glen's presentation some of those numbers. So, we have a diverse stream, American Express is going to grow again next year. So, we do have a diverse stream of revenues that come into that 4% to 6%, it's not just purely passenger traffic or passenger pricing that's going to be driving that. But that said, the passenger outlook is healthy. The pricing and the unit revenue assumption we're using as we think about 2018 for our plan is essentially what it was in 2013, is what passengers were paying five years ago, okay. So, it's achievable. I mean, there's no reason to think we can't deliver on that. Yes.

Q

[indiscernible] (50:25) You mentioned how the Atlanta hub is the jewel of your global airline industry. Tell us how that competitive advantage helps you earn an acceptable return on capital as you expand in places like Seattle, LA. And related question, if you can get a good return expanding in Seattle and LA and other people – the markets where other people has been strong, what prevents them from being able to expand in places in – near Atlanta where you've been strong?

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

A

Well, I'll let Glen, during his presentation, answer some of that. I don't want to take all his thunder. But Atlanta is by far our most profitable operation and hub that we operate in, and it always has been. And when you think about adding the scale and the upgauging on the existing infrastructure without adding cost to it, but adding greater volume throughput to it, that's all margin accretive. So the A321neo that we announced today, that's going to increase our revenues, it's going to decrease our cost, and the capital pricing on it was very attractive, all right.

And so that's margin accretive. And we've got – we don't have to wait to 2021, we have those happening today. We're going to take 75 new aircraft in 2018 and retire a bunch of MD-88s and we're going to start eventually retiring the MD90s and we'll continue to upgauge and bring more infrastructure, so this is a play that we continue on. We started on upgauging five years or six years ago. I think we're still in the early mid innings in terms of upgauging, and that's driving the margin accretion into profit.

A question, can people replicate it, can people grow in LA or Seattle? Sure, they can grow. But the real estate is largely taken, and the investments we're making in LA is to enable growth because where we've got a larger footprint now, but the airports are not growing. They're not growing new gates there, they're not growing new opportunities there. So our business is as much about real estate as it is about airplanes. And you got to look at the combination of the two to say it's a strong competitive edge. We've been in there for the last 10 years, making those investments in New York and Seattle and LA. We're now in harvest time as we're building it out. And I think it's going to be a good setup here for the next decade.

I've got to keep going on questions, sorry. Yes.

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

Q

Savi Syth from Raymond James. You mentioned that international is doing well, I think it's now a couple of quarters maybe where international is outperforming domestic. And just wondering, one, what's driving that. And two, if you think about it, investors seems to want to give less of a multiple on the international than domestic with the thinking that domestic is disciplined somewhat whereas international, there's still a lot of new entrants and a lot of competition? Just kind of your thought on [Technical Difficulty] (53:25) opportunity in the international market and how you position yourself within that?

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

A

Well, the domestic market in our domestic network is our economic engine. There's no question about that. And as much as I am proud of the network that we've built internationally, it still comes back to the U.S. is where we make the majority of our profits, and that's the engine that's driving Delta forward and will be for many years to come. The global expansion is about providing new feeds, a lot of which goes into domestic as they come here and opportunities to expand more broadly. So a lot of the International, while we're getting benefits now, that to me is in the 5-year to 20-year outlook, because we are a mature business in the U.S. There's not new airports really being built, there's not new markets to be explored. We are largely saturated. Our air traffic control is congested. So if you're going to continue to grow over time, you have to look for international opportunities and partners to do that with and that's why we're making those investments. So we're getting some benefit now. I don't know how investors model international revenues versus domestic revenues. I would tell you domestic revenues is in domestic – domestic profits are higher and will always be probably in Delta than our international profits over time. So maybe they're thinking about it properly. But these are investments for the long-term, not just the short-term.

Yes.

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

Q

Joe DeNardi from Stifel.

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

A

Hey, Joe. Already took your question, so you can't ask it.

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

Q

Okay. It's going, just on the Amex agreement and the loyalty program, you clearly identified it as a pretty important asset within the organization. The market is telling you at least in my view that it's worth nothing, you're putting no multiple on that business. So, what's the company's strategy longer-term to ensure that your shareholders get paid for the value in that business?

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

A

Well, again, I don't know, how – I'm not sure I would agree with your comment that the market has no value on Amex. I think there is an implied value somewhere. But if your question is a way of asking, are you thinking of spinning it out or creating a separate loyalty scheme? No, the answer, we're not now, because – and the reason for that is it's integral to what we do. It represents a strong source of revenue, it is our most important customers in our loyalty program not just Amex, I mean that the loyalty arrangements as a whole. And we don't want a middleman between us and our best customers. That said, over time, if there are opportunities you never say never. And you look to what you can do is going to be shareholder accretive, what the optimal structure is. The only time that I've ever seen frequent flyer plans spun out of airlines has been in time of distress. It's been used as a financing gimmick or tool, when they ran out of any other features. We're not in that position now. So, I'd like to continue to work and build up that loyalty arrangement. And at some point in time, if what you're saying, we come to that same conclusion, we'll have to ask ourselves that question. Yes

---

Q

[indiscernible] (56:55-57:07) Is there a way you believe that you can get to profitability in Mexico City up significantly over the next couple of years, maybe to – I mean...

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

A

Well.

Q

[indiscernible] (57:17)

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

A

Yeah. I mean Mexico is a – we saw there has been a tremendous explosion of growth in Mexico largely driven by open skies and the growth of the ultra-low cost carriers, Volaris and Viva into that market. Over time we saw that Mexico has many of the same characteristics as the U.S. market, it will eventually be facility constrained. It is already slight constrained in Mexico City, we will grow. We look at the Aeroméxico margins today. They're in the 5%, 6%, 7% range. When I look at that business, I see no reason over the next five years why that those margins don't double. And by the way, the Aeroméxico team agrees with me. So that's one of the things that we'll be bringing as we work with them and improving the quality of the operational experience down there. We have a fellow Mike Medeiros, who is now the Chief Operating Officer of Aeroméxico in Mexico City and he is working with them and we have a lot of exchange [indiscernible] (58:18). We talk about Delta, one of the things that we don't have at Delta is we don't have a Texas presence, right, in a meaningful way, but we've got Mexico, right. So that's – Mexico is our Texas in a certain sort of way and we're going to look to optimize it.

Hi, Jamie.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Jamie Baker, JPMorgan. So when I think about the broader aviation pie, not the airline pie, but the aviation pie, and when I think about what Delta has accomplished over the last 10 years, the way that I see it is that you've succeeded and others have as well, but Delta has certainly succeeded in shifting some of the value out of other pieces of pie and managed to cut yourself a more formidable piece rather than expecting your shareholders to live off the scraps that or pull off the table.

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

A

That's fair.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

[indiscernible] (59:17) regional partner, GDSs. I would argue this morning's announcement we're seeing some value shift from crack on to Delta. So, first, do you agree with this characterization? And if you do, can you identify other pockets of aviation pie where Delta still has incremental opportunity to carve a bigger piece for itself?

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

A

First of all, I agree with your premise. It was always been historical, one of the historical challenges in the model, none of us were strong enough to be able to command our share of the aviation, the aviation profits. And whether it's through consolidation, whether through investing in a higher quality experience for customers, whether it's the however culture, we've been able to maneuver and generate that. And you're right, today's announcement is another step forward in that direction.

I will not go into – obviously give you a specific area that we're thinking about, but, yes, there are many areas that we can continue to get better at. I refer to during my remarks, the-billion-dollar opportunity that we see in process and enterprise wide, getting much smarter, much better at that and finding ways that we can then take those savings, those energies, those benefits and start to continue to cut into a couple of other because we still pay a lot of money to a lot of people that have monopolies on us. And you can guess which ones I'm thinking about.

We have technology, our digital experience is going to be one of the things as we really get a world class digital technology that can then go after additional sources of revenue and we can kind of bring more people direct to Delta versus paying other people to distribute our products. There's many, we're not – I'd say we've done a nice job, but I think there's – and we're not done that all. And that's the-billion-dollars that I'm talking about over the next several years, that I think we can go get. We've got a list.

Yes. Hi, Susan. Good, I can hear you.

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

Good. Just shifting to congestion. Just wondering what your current views are [indiscernible] (01:01:45) something that going to happen as we head into next year. I mean there continues to be a lot of debate on it and also what about privatization? [indiscernible] (01:01:55-01:02:00) right now?

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

Well, we're in favor of the modernization of our air traffic control systems. Clearly, how could you be opposed to that. And whether it takes the form of privatization through a not for profit that the government manages or some other mechanism. We're open to better thinking. But what we can have is the political powers that limit our ability to provide better service to our customers as well as to our people.

And we've supportive of Chairman Schuster's initiatives in that regard. We've got an FAA reauthorization bill coming up here in the next handful of months. Hopefully, some progress will be made and we're supporters of that initiative. I can't ballpark the odds of that happening, it's at the same time if you would have asked me few months ago, if we're going to get tax reform done by Christmas, I would have said, I don't think so either, right. So who knows, but I'm hopeful.

That's an important part of our legislative agenda in Washington. A more important thing for us is the Open Skies, and we're making really good progress on the Open Skies discussion through Washington.

We've had over 300 members of Congress that have weighed in and said we want these subsidies to be investigated, to be negotiated and to be provide transparency around and an eventual resolution towards. We got further confirmation from the State Department this week that that's indeed what the State Department is going to do, which I was very pleased to hear that we're making progress. So I think Open Skies is moving at a good place. ATC I'm not so sure. I hope it continues to move but I think there's challenges yet ahead particularly in the Senate on ATC.

Well, I'm going to close here by thanking everyone for coming. Thank you for being with us as part of this journey. Many of us have been on this road over many years. And the nature of the questions now turn to how high is high. And I love that because at Delta you keep climbing is our model and we're going to continue to climb for our customers, for employees, and also for our owners. So thank you all.

Unverified Participant

We're going to take a quick 15-minute break. And please check out our brand and product showcased in the back with all the great things we're working on at Delta.

[Break] (01:04:39-01:21:25)

Chip Yeager

General Manager-Video Services, Delta Air Lines, Inc.

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

Joanne D. Smith

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

Thank you in the back. Well, good morning. It is a real pleasure to have you here at our home and as Delta – as Ed said in our living room. It is also a pleasure to talk to you a little bit more about the Delta culture. I think Ed talked about people and it will be woven through every single leader presentation about the importance of our people to the great success we've achieved, but importantly, it's our culture. And we view culture as truly our greatest strategic competitive advantage, because if you think about culture, it really is the only thing that cannot be replicated.

And Ed said you know you can steal away products, you can hire away people, but you cannot steal away the culture, because that is something very unique to us. And we recognize at Delta that we have a very special culture indeed. And it's a buzzword today, a lot of companies are talking about the importance of culture, but we value it here. I feel blessed every day to work with a leadership team that we have, a collegial collaborative leadership team, 80,000 employees that are working hard every day to not just serve our customers with that innate sense of caring, but also ready for always the next hill to climb, and it keeps getting higher and higher. So, we feel fortunate, but we're also very, very intentional about protecting and perpetuating the culture of Delta.

So, we talked about it for a long time, but it is particularly gratifying to know when others are talking about it as well. Couple of weeks ago, Forbes came out with an article named Delta among the 15 most relevant brands in America. And the sub-line, the byline was number 11 will surprise you. We were number 11. And if you think about the list of companies that are on that list of relevant brands, relevant to today's generation, you know, technology companies, digital native companies, magical companies like Disney, I mean it was pretty extraordinary to have an airline, a 90 year old airline on this list of relevant brands.

And what was even more gratifying or huge to us is to why we made that list. It was the palpable culture and commitment to our employees and the airline that makes the cut in large part to the incredibly strong showing from employees as they discuss life at Delta. And that is what we strive for. It is what we feel every day, and so, grateful. I mean Ed talked about you see signs of our culture in big and small ways. A big culture sign is this big airplane that's sitting in the hangar and Ed talked about how employees wanted to raise money for this airplane and bought it. That was in 1982 and he talked about the 747, he didn't talk about really how those purchases came to be.

So, the three flight attendants in 1982 approached our CEO at the time and said we really would like to purchase and give back to Delta, wanted to purchase their airplane, so payroll deduct. A couple of years ago, a group of same – not the same three flight attendants, but different flight attendants went to Ed and said, you have this shining example of the spirit of Delta employees here in the museum, we'd like to also purchase an airplane for Delta. And Ed said, well, we actually can't afford our own right now, in fact I can afford 100 of them. Why don't you raise money for the Delta Care Fund, because we have a great Delta Care Fund, we've raised about $2.5 million every year to the care and scholarship funds. And they went away and they kind of came back, no, no, no, we really wanted to buy an airplane. They got another couple of dozen employees with them kind of soliciting and to really buy an airplane. But we landed on then the 747 exhibit, which was really I think a great example again, a big example of how employees just want to give and to serve.

That airplane, that 747 is the original one, the very last flying 747 for Delta is next week. We are flying it around our system. We are throwing parties for thousands of employees at each of the stops. We'll have some customers aboard that barnstorming tour as well. And on those flights we will raise money for the money for the air – excuse me, for the Airloom Project, which is the exhibit the 747. But it manifests – culture manifests itself in – but one more big example. I mean, the Keep Delta, My Delta campaign is probably maybe my proudest moment in my career at Delta in 2006, when the employees came together and said, we're going to keep this company Delta. We want to preserve this culture and preserve this airline the way we and the creditors had faith in the employees of Delta, because of that, that grassroots campaign and more.

But the culture manifests itself in small ways every day. It's the way our pilots come out of the cockpit to greet our customers to push wheelchairs. It's the way our flight attendants recognize you by name with a smile on their face. It's the way our baggage handlers kind of are continuously improving and beating and wanting to beat the goal that they just set or the record they just set in the month before. And so, it manifests itself in great customer service.

And it should come to no surprise to you that engagement and building a great place to work is part of our core strategy. And Ed mentioned in it was in the video that we won again Glassdoor best places to work, an 88% positive engagement score. We were the only in list of – on Fortune's 100 best places to work this year. We learned a couple of months ago that we again earned the great places to work certification, which allows us and puts us into next year's 100 great places to work. So, we hope to get that award once again. But that's also engaged happy employees kind of results in higher levels of customer service, and also into the awards that we win and there are numerous won, I just highlight a few on this.

As the quote – there's a quote from Ed on this page, but in the first couple of months from when he was the new CEO, we were awestruck by an interview that he had in and it was on marketplace and the interviewer said in five words or less what is your job? And Ed very quickly said words or less, what is your job, and Ed very quickly said to care for our employees. And it was just so quick, it was so eloquent, but that is the type of culture that has starts from the top and permeates this organization because when we care for our employees, our employees will deliver great customer service. And when our customers are happy, we know the results and sustainable and superior results for you. So, rather than me talk about our customers, and what they say about our employees, I'd like to just show a short video.

[Video Presentation] (01:29:01-01:32:50)

We have customers all the time that want to be a part of telling their story, I mean it's quite remarkable. We had an IROP earlier this year, we had customers diamond medallions one team to volunteer and they did come to the airport to work alongside our employees. And it's just said that kind of that family spirit that that we see every day. And I started talking about we're lucky to have it, we know we're lucky to have it, but we're very intentional about perpetuating our culture.

And so, I want to walk you through a little – few things, we've about 5,000 employees a year that we will be hiring as employees retire. And if you think about our journey, back in 2002 to about 2012, we were not growing, we were not hiring anybody new. And we frankly let some of our hiring and recruitment practices atrophy. We weren't doing much of it. We started hiring a few years ago and it really does need to now be a core competency as ours as we look at about perpetuating our culture over the next 10 years to 20 years, we have to start with hiring the right people. And having a strong employment brand, all of the things that we mentioned before on Glassdoor and Fortune really has opened our doors to really the best and the brightest from not just folks that want to work for an airline, but want to work for a technology company or want to work in a finance organization. And so, we are seeing really high quality candidates come through the door, but we are going to use new strategies, AI, machine learning to really get the best for our culture, and for what we have ahead of us.

So a robust recruiting. And this is our infinity image that robust, and recruiting, and experiential on-boarding to make sure that culture starts on day one. And it is infused in our new employees and then there is a continuous development both in leadership development and talent planning, but also frontline development. Gill is going to talk a little bit later about again very unique to Delta bringing in all of our frontline customer facing employees starting next year to talk about how we can elevate the customer service even higher. So – and that's just you won't see that at other airlines or other companies and all from our agents to our flight attendants, to our pilots, to our reservations in customer care, and all in the same room talking together about elevating the customer experience.

And then total rewards. And we are proud of the fact that we pay the highest profit sharing in the industry, perhaps highest profit sharing in the world, and we want to continue to do that. That is part of our total rewards package for our employees. And it's a proud day on February 14 when we will again next year look at a profit sharing check for our employees for several years in a row that we were in the $1 billion or $1 billion range more than that. And we think it works for you too. So, the more we make profits, the happier our investors are, the happy our employees are. It's a model that works very well.

So with that I want to thank you very much. Before I leave, one final thing on The Rules of the Road. If you don't know what The Rules of the Road are it's probably the best business book you'll read. It's a series of foundational value this company for 90 years founded on respect and treating others as you would want to be treated. As our founder C.E. Woolman said, it's putting ourselves as employees on the other side of the counter and serving our customers.

Thank you very much for your attention, and I hope you enjoy the rest of your day.

Chip Yeager
General Manager-Video Services, Delta Air Lines, Inc.

Chief Marketing Officer, Tim Mapes.

Tim Mapes
Chief Marketing Officer & SVP-Marketing, Delta Air Lines, Inc.

Good morning, everybody. If you haven't already had the opportunity to see it right through this hallway and to the left here in the Delta Museum is a display and an exhibit honoring C.E. Woolman, Delta's founder, who was famous and quite frequently saying that quality begins with people. And both Ed and Joanne talked about the spirit of Delta today. It's interesting to me that we're sandwiched between that and the C.E. Woolman display, because it's entirely fitting that the brand discussion that we're going to have here for a few minutes follow the piece that Joanne just talked about, the people of Delta are Delta's brand and as Ed has shared earlier today, our culture is our strategy. That has been true, all the way back to the time of C.E. Woolman. You can actually hear C.E. Woolman's voice and hear his expressions of those things. But it's something that as Ed shared earlier today is still very much alive and well. So, it's a great privilege and a pleasure to get to spend some time to do, today talking about the power of a strong brand.

What's interesting to me in talking to a number of you yesterday during the breakout sessions and last night on the 747, as well as hearing your questions, many of your questions here this morning around durability and consistency and sustainability in terms of Delta's continued progression, is that is what ultimately brands are all about. Now, obviously, I think we all know that brands is the net impression left, not just after communications like we just saw, that celebrate Delta people and their commitment to business travelers and that go getter attitude that would lead you to get up at 4 am, but it is also all about trust and credibility and relationships and loyalty built over time. That only becomes a reality through consistency of words and actions.

And at Delta, as you'll hear throughout the course of this day, the foundation of Delta's brand is of course our people and our culture. What's starting to separate Delta from other brands and that gifts of the recognitions that Joanne just shared, is the level of operational reliability. But over and over in the conversations we've had over the last 24 or 36 hours, the words you've used to playback to me when I've been able to ask many of you, what it is you think that differentiates Delta, you've had a very consistent word and that word is consistency. Ed talked about the importance of consistency, and at the end of the day, brands are only as strong as they are consistent, right? A lot of people think brands were about cattle branding and animals and farm animals way back in the day and there's some truth to that, but actually through millennia, it's actually pottery that is where evidence exists of the first brands, because people had cheap pottery made with bad clay, yet quick, easy types of pots, and other people who made pots made quite good ones. They took much greater care, they took better care of the ingredients. And so, branding existed at that time to be able to separate a quality pot made with great ingredients and with care from cheap commodity types of pots.

So, I think when you think about the power of branding in the airline business, Ed used the word today about commodities, the power and the strength of brands, the trust that they represent and the loyalty that comes as a result of not just operational reliability or service and hospitality from the heart that we celebrate here in this museum, but it's so many other things. Its core is Delta's genuine interest in what we call listen respond listen, and I hope you see evidence of this both in the Investor Relations relationship, but certainly your experiences on Delta as a customer. We try deeply to listen to what it is customers are telling us and we do so with a genuine bias toward action. We don't listen in the sense that we just care about what people are saying. We listen with a bias toward saying we're going to need to listen more carefully than anybody else, because we have a more genuine intent to actually do something about what it is you or others like you tell us you want from Delta as our customers. That is at its forefront the ability to know that when you're going to be at a place, we're actually going to get you at the time the schedule says.

So operation reliability and other things that Jill is going to talk about today are core to that, because you can't be consistent if you can't be, at its core, reliable. But consistency takes a number of other forms and as does that brand relationship. So, whether it is loyalty that's built over time. When we listen to you, we don't try to listen to you as an airline. We try to listen to you as fellow travelers. We are at our core a travel retailer. We need to know what it is you as customers care and value.

So, that drives things like on the A350, which many of you were able to walk yesterday, when customers tell us they want a flat bed seat with direct dial access. Oh! and Oh!, by the way a privacy door that you can quickly and easily close, that drove that product innovation. When people say, I want more easy access to seating in Sky Clubs or our flight attendants and our frontline employee uniform to say, we've been wearing the same uniform for 10-years, can we have something new, or technology, or the fleet order that we announced today, any of those other things, we listen, we respond and then we listen again. Because just like any other service business, we're only as good as we are in terms of what customers are telling us.

So, that's the vital engine that we think is core to driving the top line revenue growth that Ed talked about today. A lot of your questions are about, can you deliver that? What leads you to believe you can actually take 4% to 6% growth? Well, if you're doing a better job of listening to what it is customers want, value, and are willing to pay for, and if you have a strong brand, I would submit that it stands to reason that those customers are going to be more likely if they like you, to want to fly you when they have an opportunity to choose you. When they fly you, they'd more than likely be more receptive to an upgrade offer to Premium Economy or Comfort+ or to the co-branded credit card from American Express or to any number of the other ancillary up-sell, cross-sell businesses that are driving the margin that we're starting to see, and that are deepening that customer relationship.

So brands do matter. Others in this industry have over time referred to this as commodity business. We reject that notion and I think we are a very much on a path that says a strong brand is one of the things, that as Ed talked about today, at the core of consumer loyalty does provide a mode, because if customers like you, if you are preferred, you're more likely to get a greater piece of their business; pretty common sense, right. So that's maybe the what.

Let's talk a second for about the who. For the last number of years, Delta has been really intently focused on a core group of customers who represent what will be 50% of the sales of business flights by 2020. You guys know them as millennials; we refer to them here at Delta is EHVCs, Emerging High Value Customers. It isn't just everybody who meets that demographic definition of a millennial, it's people who would meet that demographic, but are also working at PwC or Deloitte or McKinsey or BCG, high-yield frequent business travelers that we're catching upstream and trying to build relationships with them in some cases while they're still in college. When you saw the American Express Blue Card that Sandeep talked about yesterday, and we'll talk about more in a moment, that is a fee free card that brings new people into a system and ecosystem that allows us to deploy a marketing curriculum to deepen that relationship and to bring them along up through a series of upsells, cross-sells, new things that are designed to deepen that relationship.

But what's fascinating for us is we pay attention to those millennials, these EHVCs, is we have so much to learn, as maybe perhaps all of our businesses do about what it is they have as evolving expectations. And when you pay a lot of attention and you're genuinely listening to these people, what we have found is there's a great deal of things that we can learn from some of the other brands that were on the list that Joanne just shared on the Forbes list, so whether that that's Apple and their intuitive design and the simplicity of what they have, what are the applications with that in our own technology? Whether that's Starbucks; their personalization, their retailing, their use of rewards and their customer segmentation that they're brilliant at. Amazon, certainly the simplicity of one click check out, the ease and the speed of e-commerce, and our need as an increasing technology company, when we do the amount of business we do directly over Delta.com and on our mobile app, that same simplicity has got to be present. And even things like Facebook, whether that's their sense of community or whether that is the direct relationship that they are able to have with an ever-growing percentage of customers, that stuff matters.

So, we listen to what customers are telling us about Delta relationship, but we also listen intently to these EHVCs, these Emerging High Value Customers, who by the way are 60% more likely to buy up the non-millennial types of customers. They're more likely to pay for up sales into greater legroom or greater decline. They're more likely to do things and certainly place a greater value on Wi-Fi, which in some cases drives share shift from other airlines that don't have Wi-Fi. So, it's just a simple economic model of if we listen to what customers are telling us, we respond with the things that they value, and they are truly the things that these customers are not only value, but are willing to pay more for the power of the strong brand, the stickiness, the resiliency of that, regardless of up-cycles or down-cycles certainly helps.

The charts on the right give you a sense that this approach is working; by the way, it has nothing to do with just the airline business, it has to do with branding, customer relationship management and everything else. But if you look at the chart in the upper-right, our year-over-year preference scores among the EHVCs, these millennials in the United States is up 7 points, 17% year-over-year to nearly 50% preference for Delta among this unique customer segment, who by the way at 79 million people in the United States is the largest demographic, bigger than baby boomers. And again more prone to wanting value. The way many of us collected material objects in our time in life, these people collect experiences, travel is a huge part of that. In fact, 98% of these people carry a web-enabled phone, 97% of them will post something to social media immediately following their travel experience. So, how well we serve them, it gets more of people like them, so that preference matters.

Similarly SkyMiles enrollment. So, part of this model, this curriculum of taking the world and saying how do we get them into our franchise starts with certainly them becoming a member in the loyalty program; whether they fly or not, it starts getting us a data and the value of that data as they become a general member, as they perhaps fly their first flight, as they respond to up-sell offers, co-branded credit card offers. This Sky Club lounge and things like that allows us to start knowing more and more about them.

There was a question today about the true economic value or the margin associated with the American Express product. There's the economic value of that in the form of the compensation that the remuneration that Delta received from Amex, but there is also the value of the data in that franchise of not just records of charges on Delta, but records of charges across the totality of the Amex portfolio that we have proprietary access to as their preferred partner.

So SkyMiles enrollment is up 60% against a baseline of 2014, suggests that people like Delta, more people are liking Delta, and as those people come into the franchise, we're getting greater and greater levels of sophistication in our ability to take those volumes, segment them and find distinct personalized customized offers and product features that hopefully that they find valuable.

That does drive the confidence that you're seeing from this management team in terms of the growth prospects of Delta. It will not surprise anybody in this room that a big part of what's driving this EHVC preference for Delta, these millennials performing more and more of us [Technical Difficulty] (01:50:10) its way into these areas, right? It's digital, it's mobile, it's social. It is because of that, that you've seen the progression talking to many of you yesterday, those of you who have the Fly Delta mobile app and several of you still don't, others of you downloaded when you're going to take a flight and then delete it from your phone after you do that, that's not something we encourage, but whatever. But hopefully you'll find value in this, because it's a 4.8 star app on the Apple iPhone app store. It's been an award winning – we don't need to get into that. But to me, the thing that was one of the more interesting examples of this is on October 19, we looked at a lot a customer feedback and customers were telling us, I don't find any value in the check-in experience, right? Why would you, that is an experience that is largely a function of our need for you to check-in. So, if you have the Fly Delta mobile app and you're a frequent business traveler on us, you've seen that we now auto check you in. It is a very small number of people who don't check-in when we send out the e-mail 24 hours in advance saying it's time to check-in. This streamlines the process. It increases the level of peace of mind that these travelers have. And your auto checked in, that means your boarding pass is immediately accessible.

So it's just removing friction, it's removing difficulty, and it's just one example of listen, respond, listen. Customers don't find value in this. Why are we putting them through the need to check-in 24 hours in advance if we can auto check them in and essentially we just removed that process from those customers who download the mobile app.

There are things like that in terms of wayfinding on the mobile app, your ability to track your bags, the confidence that comes with that. And as we shared in the breakout session yesterday, whether it's bots, chat, AI, we're just beginning to scratch the surface of what some of these technologies enable when they're applied against the database that we've got with all of our high-value customers.

Ed talked about the importance of giving back part of what is attracting millennials EHVCs to Delta, and that excites our own employees, is the fact that giving back is in Delta's blood, quite literally. In fact, we're the second largest corporate blood donor in the United States; second I believe only to Walmart who has four or five times the number of employees that we have. We have given back 1% of profits as Ed already covered and over $40 million to charities that focused on wellness and education, and in particular, military and veterans causes, another significant portion of Delta's employee base are former military, so that is particularly resonant within Delta.

A lot of the questions yesterday and Sandeep covered a good amount of this around American Express. I've covered some of that already. Ed talked about the 11% CAGR in co-branded card acquisitions, the 12% CAGR with regard to the co-brand spend, as well as the economic contribution that that's enabling for Delta.

As the preferred partner, yes, we have a direct economic benefit and I think it goes well beyond that, that the data we're getting, the insights into customers, records of charges on airlines other than Delta, our ability to go after what we call splitters and identify new customer segments is behind the big part of that economic growth. And by the way it's durable, it's sustainable, as Ed said, this is happening regardless of the ups and downs, because so much of this has really little to do with airline purchases and has to do with how many cards do we have in force and what are the purchasing behaviors of these new segments, including this new blue card. This fee free card that really expands the number of people who then are brought into the delta and the American Express franchise.

So, at its core, ours is an approach that to this point and we believe strongly going forward is working. When customers like you, they are more willing to buy more from you. How do we measure liking us, its Net Promoter Scores. And what's fascinating to us is, if you look at the domestic revenue premium and we didn't put every year in here, but every single year tracked to the growth of the NPS. So, Net Promoter Scores year-to-date 41.5, that's a record for us. Seven record months over the course of 2017, and Gil will talk about a big part of that is obviously operational reliability, but it's also things like free in-flight entertainment or upgraded snacks or any number of other things.

What gets us so excited though is what's still in the queue, because we're by no means out of ideas, because customers are quite willing to tell us what else they want value and are willing to pay for, and the obligation for us is within the CASM guidelines and the, Ed's point around keeping that cost growth closer to zero than 2% is how do we use prudent investment to find these things that customers are willing to pay more for or embed in the experience at the expense of things they don't value, things like free texting that they clearly do, that are driving NPS further as we go out beyond next year.

I'll end kind of where Joanne began, this is a fascinating list to us. And if you look at that list, ours is a brand that you might not find typically belonging in that list. In fact at 93 years, other than Disney, we are the oldest company on this. So, what's fascinating to us is what earned us most relevant companies is culture, it's our commitment to people, it's our commitment to the customer, it's the applied use of technology, of customer loyalty, of things that build preference, that get us into this type of consideration set. Our approach isn't how do you get your brand into lists, our approach is how do you earn your way into the customers hearts and into their minds, brands exist both rationally as well as heartfelt, it's that emotion that when you feel that loyalty, you're more likely to part with money, you're more likely to deeply engage in the brand, and that for us enables the type of economic growth that we're so confident about.

So, to me the biggest exciting part about this list is there's 10 brands in front of us, there's 10 companies. And by the way, everyone on that list is a corporate account of Delta we serve every one of these companies, but there's 10 people in front of us on that list. So it may be a surprise that we're number 11, but there's 10 other people that we can learn a lot more from, as we continue this climb, as we keep climbing, which is our approach at this company.

So, thank you all very much for the opportunity to share a bit about that.

Operator: Ladies and gentlemen, please welcome Delta President, Glen Hauenstein.

Glen W. Hauenstein

President, Delta Air Lines, Inc.

Good morning, everybody and thanks again so much for coming. I hope you're enjoying the day so far. I have a great opportunity here, because I think when you think about where we were last year when we met in New York, As Ed said, it was a transition year and we were looking at revenues across the board that were still in negative territory and we knew that we were facing higher fuel prices and we knew that we are facing higher non-fuel costs, and we still saw a future where revenues were declining as we headed into the first quarter.

Our plan was to turn those revenues from negative into positive territory. We didn't accomplish it exactly when we said, but within a couple of months of when we thought we would be able to turn that corner, and as we went through the year, we continued to accelerate. And now we're sitting here one year later at the end of the quarter and we have some really good news to report to you and a really, I think a very good outlook for the revenue equation.

We have one slide here, the elephant in the room, and you know since our quest is to get to 60 before Sam does, we're going to call this Project Sam or Elephant Slide, but we're exiting the year for the first time in five years with all of our major entities treading in positive territory. I just say that again because I think it's really important, the first time in five years that every entity we fly to is exiting the year in positive territory. And as you set up for 2018 and as you look at the macroeconomics across the board, this could set out to be a very, very robust year in terms of the revenue equation, a better backdrop than we've seen over the past few years as we exit the year. Of course, we know the last few years have been driven by lower fuel prices, those turning around last year and now the industry looking to recoup those higher fuel prices as we move forward.

Revenue guidance, 4% for the quarter, and the forward-looking bookings are very robust. We have very strong yields looking into the first quarter in every entity and we're continuing to see momentum build in those entities. As we think about what are some of the key drivers to that, and as Ed said, the moats that we have, we really believe we have an unrivaled network really domestically anchored by Atlanta, but I don't want to oversize Atlanta because all of our domestic hubs are profitable, and they are all very profitable. And we have great interior hubs in Detroit. We have a great interior hub in Minneapolis, great interior positions in Salt Lake City.

We've established over the last 10 years the leading position in profitability domestically in New York and our newest hubs in Los Angeles and Seattle on the West Coast, both profitable and both growing very nicely and ahead of where we thought we'd be in this stage of our development.

Our revenue premiums as we saw in the previous slide that Tim presented at all-time highs domestically and above 100% in each one of the international entities we serve. So, again, pointing to the strength not only of the revenue base, but of the Delta brand within that base.

And then the globalization efforts that we've been working on really for the past 5 or 10 years, really coming into focus and coming into fruition. And I have some slides on this later, but I think this is something really, really exciting for Delta and very unique for Delta and something that will serve us not only next year or the year after, the quarter after. But for those people who are interested in the longer-term strategy of Delta, this is a team that's been together for years and who really works not only on the next quarter, which is always so important to us, but where will we be in five years and where will we be in 10 years and how do we make sure we're laying the right foundation for being at the top of the industry, not just today, but in five years or in 10 years down the road.

A little bit about our domestic network and some of the focuses we're shifting to. Of course, in Atlanta, where we do have a thousand departures a day and we've had about a thousand departures a day for many, many years now. But the thing about Atlanta and the economic engine that we've created here and the somebody asked, well, why can't somebody come to Atlanta and do that. How would you get to the size and scale and scope that we have here. It took us a hundred years to get here, right? We started in the Southeast. These things take time. They take energy. They take cultivation and there are people who come to Atlanta. People come and people go. If you look at who's been in Atlanta over the years, but way back to Eastern and AirTran and Southwest and we have JetBlue here. And we are not immune from competition, but what we have is very, very unique in the size and scale and scope. Think of any factory that you build, if you can get that size and that scale and that scope to be better than your competitors, that's really a mode. And that's what we see in our interior hubs in Detroit and Minneapolis and Atlanta and now in New York City, that we've created these moats where we can now work on the efficiency of the factory and drive the profitability through not huge increases in market share and not huge increases, but increases in how efficiently we're producing those seats. And that's really what our evolution is on our interior hubs over the next year is to make those factories more efficient.

On the coastal cities which we've been working on, on developing, we have to think inside the mind of our customers and why do our customers want to buy from us? And so, when you think of some of the cities that we shifted some of our assets to, let's call them more regional-focused cities, and I'll use Raleigh as an example, Raleigh is a fast-growing city, very economic, lots of high-tech, biotechnology, lots of growth in the North Carolina corridor, and lots of universities and very dynamic and growing economy, but it was a very fragmented market. There was no carrier that had more than a 15 share of Raleigh. And looking at that and seeing the opportunity to become the leading carrier in Raleigh and to serve the needs of the customer, and I think one of the things that sets Delta apart is continually, whether or not it's our people, whether or not it's – and we're not always perfect, but mostly we're trying is to think inside the minds of our customer and produce what our customers want to buy from us.

So, where we see opportunities domestically in a city like Raleigh where it didn't have a preferred carrier, yet it was growing and it was a very large city. So we've invested in Raleigh. We've invested in putting assets there. And as we were investing, the returns were going up, and I think Raleigh is a great success story. Now we're working on Boston. So you see the combination of these mega factories, if you will, that are producing these much more efficient and industry-leading cost structures, combined with leading positions in cities that we choose to be the leading carrier in.

We're working on Boston now. We had some efforts going on secondary cities in the West Coast, but linking those two together, so not only do we have the hub positions but we have point-of-sale strength in a lot of the outstations as well. And I think that's the Delta difference and that's what we're working on domestically over the next few years.

Upgauging, and when you say, well, how do you get your factory more efficient, well, we get our factory more efficient by getting more efficient airplanes. And here you look at the MD-88 and I'd like to just point this out, Ed said earlier, the new neos are going to be 20% more efficient than the MD-80s; so it's really 40% more fuel efficient than the MD-80s and 20% more efficient than the A321ceos. So, really a much more efficient fuel airplane. And when you think about how we're working to be better for the environment and how we're becoming more efficient, all of the growth and this 2% to 3% growth, we will actually burn less fuel three years from now than we burn today as we bring on these new airplanes. So, better for the environment, better for more efficient for us.

Net Promoter Score replacing a new airplane with high technology and all the bells and whistles and the higher components of premiums seats. Net Promoter Score up on average five points, and the margin up five to 10 points every time we take an MD-80 out and every time we put 321ceo. Now how would you make this even better? And as I say, if you look out for the future is, wow, now how much would you pay we used to say when I was a kid. But now this, the A321neo and the deal that we've got is going to take that even to a new level as we deliver those airplanes at the end of 2019-2020.

And I think when you think about moats and how our fleet structure is evolving, this is a really important key feature that says by 2023, we will have 45% of our fleet in the most efficient category. So, 45% of our seats will be created in the most efficient planes in the sky and these are the things that take not one year and not two years, but five years and 10 years, and go compare that to what our competitors would have. And I think you'd find that we will have the largest component of the most efficient airplanes in the sky right after 2020. So, really a competitive advantage I think for us moving forward.

Leading the industry in our tailored travel experiences, and we are just scratching the surface here. You know, we've had a couple of years where we had to put heavy investments into the technology infrastructure and this will be the first year that we can go back into a lot of the product developments and a lot of this because of the size and scale and scope and having 200 million customers a year, we have to be able to bring all of these products and services up to scale and that means a lot of enabling technology has got to be developed.

But we are on track. And the thing is that every time we think that these products will mature, we find new ways to drive more revenue out of them and we are in year five of first class up-sell, I don't know, I think we introduced this to our investors five years ago and our revenues in first class this November, last month, were up 23% year-over-year. So, these are still products that are growing at a much more rapid clip than – and the question is, well, how are you going to grow them from here on out and it goes back to those airplanes. Those airplanes that are delivering have a lot more first class seats, a lot more premium products, a lot more comfort plus, same month last year in November, Comfort+ as a product, revenue is up 30% year-over-year. So, you can see that as we continue to invest in these products and services, we're continuing to get adaption for that. And we really still haven't made them easy to buy yet and we haven't made them ubiquitous in the marketplace.

We introduced our Premium Select on the A350 last month or I think the first flight was November 1 in Detroit, Narita, as we continue to bring those airplanes on. Many of you were on them yesterday. Did you get the opportunity to see the A350 yesterday, and saw the premium select seats? We don't have them into any of our corporate deals yet. And in its first month of operation in its first market, it ran in 85% paid load factor at an average yield of 1.7 times coach, which was right where the business plan was, and it's not yet – and that was all retail, because it's not yet in our corporate contract.

So, again, as we continue to bring these products and services in play, I think the opportunity is great. And you think about where we were just two years ago, when we told you – or three years ago, this was our display on delta.com; JFK to Keflavik. We have Ned Walker here, and I remember Ned, Ned was going to Keflavik, can I tell a quick story, you're going to go with couple of minutes over, and Ned was calling me and he said, Oh!, I'm going to Keflavik. And I said, Oh! How is it going? He said, fine, I'm going to get to the airport. I'm going to take an Ambien and I'm going to wake up in Keflavik. Am I telling talking too much on this? So, I said, you realize that that's not a Delta 1 seat, it's not a flat bed, you'll be sitting in a domestic first-class seat. And he said, you've got to be kidding me. So, it's good thing I knew that before I took my Ambien.

But that was our ability to display. Our ability to tell customers what products and services we were – and had capital implications for it. So, now if you look at JFK- Keflavik, which is a domestic airplane, because it is only a four hour flight from Kennedy, we have everything from Basic Economy up to Premium Select, and we can display it the appropriate way with the appropriate icons to tell customers what they're buying from us.

So, not only do we make it a more informed sale, but we can also be more flexible in the planes we use. And I think, when you think about capital and capital allocations, that has big implications, that has big implications because now we can actually split markets domestically and internationally, and next year when we fly not only to Keflavik, but when we fly from JFK to Shannon, that will have to be a domestic airplane that we will sell as Premium Select, so we're able to get more out of the asset base, and we're able to display it. We wouldn't do that five years ago, because we couldn't have displayed it. We couldn't have told people what we were doing. We're similarly in Boston to Los Angeles, where we could have on the key business time channels and the overnight flights, flatbeds, and on the fill-in time channels we can use more efficient planes with just a domestic first-class and place them and display them differently. So, huge steps forwards, thanks to the technology group that's been working on this.

I think this is one of the most exciting things that is going on in Delta. And thanks to Ed's leadership and vision on this from years back, because we are so far ahead I think in terms of the way we think about international partnerships and the way we're going to drive value not only today but in the future. And these take a lot of work and you think about moats and think about things that are not only for this year but for next year and the years beyond as they take time, they take energy and they take a lot of resources, but we have invested the time with our partners, we've invested the resources and we're really starting to see the fruits of those pay-off in the P&Ls starting now and moving forward.

But do you have the right partners and are you taking people to the places that people want to go to? And I think the answer is, we've invested in the right places, UK and the U.S. being the largest and Virgin being our partner, China Eastern in China with Shanghai hub, Aeroméxico just coming online this year, Canada, just announcing our exclusive agreement with WestJet, and that's a very important one for us, because transborder U.S. to Canada is one of the largest international markets in the world. France, of course Air France. Jet in India, that's a new relationship, but really working well together and lots of opportunity moving forward, Alitalia and GOL in Brazil, we've got the right partners.

And again, about capital allocations and how you can improve shareholder returns, and I think we've talked to you over the years about having to restructure our network in Asia and be patient, and thank you for being patient on that. But as you know, when we purchased Northwest, we purchased the entirety of Northwest Asia Pacific operation, which was the second largest U.S. operation, was based on 747s, the one you were on last night was one of them. And it was based on stopping everybody in Tokyo Narita.

And we know when you listen to your customers that they wanted to go to more places nonstop, the big cities, the big five cities in Asia, which we now all serve nonstop, but they also wanted to go to all the secondary cities in Asia and it was impossible without a Japanese partner for us to get them there, and we've worked for many years on this, but we finally have had a breakthrough with Korean in this past year. And now when you think about the capital allocations and how we serve Asia, we serve Asia. In 2012, it took 36 Delta airplanes and we served 10 online cities; 36 airplanes, 10 online cities.

Now, 2018, starting this year, 32 airplanes, so we've shrunk as Delta and we've put less capital in there, but we're offering a much broader network in Asia, with the best connectivity. And I don't know how many of you have been through Incheon, and Incheon is already a great airport and really the best connecting experience in Asia, I believe. But now starting this fall, they're opening a new airport that's going to be really a premier step-forward gateway that is going to be bar none the best connecting experience in Asia. And we'll be able to serve all 80 major cities in Asia with less capital than we started with.

So really, we've worked for years on this turnaround plan. A few years ago, we kind of got through the 50% margin, but now we – and we are getting to the point where we see that turnaround happening and on layering on top of this is the joint venture we have with Koreans. So, just like we share with Air France and KLM, we share not only on the 32 airplanes that we have, but the 50 airplanes that Korean has flying to the U.S. every day. So, a giant joint venture, great opportunity for our customers and really bringing these carriers together to provide the best services with lower capital allocations.

We really haven't talked about this before, but the partnerships that we have are creating shareholder value today, and this is something we think is really going to accelerate as we move through the next years is, in 2017, $175 million to the bottom line, in 2018, we estimate that that number will grow to $275 million. And then, really over the next few years, as all of these joint ventures come online and we get them behind us, remember we have three that are less than a year old of our joint ventures, but as they come online and they mature more like our historical joint ventures, we believe that it's $500 million to $600 million a year by 2020. And really something, that we think is going to set us apart, because anybody can say they have a joint venture, but I would subscribe to you that we have the most mature joint ventures in the world that drive the most value, because our joint ventures are different. We invest in the infrastructures, for example in Europe, our market planning is in Europe, next to Air France, KLM. Our aircraft scheduling is in Europe, next to Air France and KLM. Our marketing and sales is co-located with them. Our pricing and revenue management, all in Europe and all co-located with our partners. Those are the kinds of deep partnerships that I think you'll find unique to Delta.

In the end, as Ed said, anybody can do this, right? Is that any individual thing is replicable. But when you put the totality of it together, the focus on the customer, the growing of the customer loyalty, continual investments in products and services, and we know we're not perfect, we know that we have lots of room for improvement, we know, and but we're working on it and we're listening to our customers to tell us where we can improve, because we know that having your loyalty and having your back and doing it even better and better as we go through every year is really important to our continued growth as a company and our growth as an organization.

Better customer segmentation, bundling your products with technology that enables that, really key to our future success. The pure your domestic network, the presence that we have, the positions that we have, even the geographic locations, and one of the great things about being the first in the merger process was we did – everybody said, well, they have a head start on everybody else and we used that head start to our advantage to choose where we wanted to compete and lay those markers down early. Now those are all coming into fruition and maturity.

And then the best leading global partners around the world not, only are they the best partners, but I think the arrangements that we have with them enable a level of unlocking value that is unparalleled in the industry and one that others could try, but to this date have not been able to replicate.

So with that, I think I would like to invite you Jill, well, they were supposed to bring the chairs up during the last slide, but they're here – now the chairs are here. So, I'd like to invite my good friends, Tim and Joanne up to join me in and field any questions you might have from the slides that we just went through.

Oh, this is Joanne. Good job, Joanne.

QUESTION AND ANSWER SECTION

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

Glen, from Mike Linenberg over here, to your right.

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

Hey.

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

Good morning, Glen. Yeah, Mike Linenberg with Deutsche Bank. I guess, just a two part question on the JVs. So the slide that you showed us where you have the Alliance benefits going very quickly from $175 million up to $550 million to $600 million, in that number, does that include any of the gains that you would take on a mark-to-market basis for your investments in Virgin and Pinnacle?

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

Yes.

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

...or I should say, the GOL, and any of the publicly traded company...

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

A

Oh! No.

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

Q

...is that in that number?

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

A

No. No.

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

Q

Okay.

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

A

Do you have those in your slides, the potential? No.

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

Q

Okay. So, no. Okay, so that's potential upside.

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

A

Yes.

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

Q

Yep. Okay. Number one – okay, cash. And then number two, when you look at how you've approached your partnerships with the various international carriers, some you take equity and some you don't, what are the considerations, like, what drives, like, in situations why do you feel maybe it's compelled or maybe it's opportunistic to invest in a company as opposed to not investing? Is it a stronger relationship as a result of that? Or, you know, what are the benefits, what are the considerations, if you could elaborate? Thanks.

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

A

You know, I think it's multiple considerations and I think is it the right time to do it is really the overriding and overarching. And if you think of our largest historical relationship has been with Air France and KLM. And until this year, and that goes back really historically, probably 20 years, and it was until the right time of all that – that, that became the next step in on the evolution. It wasn't the right time, right? And so, do we both feel that we should do it? Is there an opportunity that we both share moving forward? And can we both share an upside if we take that next step? And we have a lot of new relationships, we have a lot of old relationships, and as you point out different levels of the equity participation, no kind of magic formula there.

Oh, call the number 2, please.

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

A

Thank you.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

Hey, Glen, it's Rajeev with Morgan Stanley. Couple of questions for you. First, in terms of the close interaction, can you talk about what you're seeing there and whether or not trends between corporate and leisure are sort of moving in the right direction? That's one. And then two, as it relates to your comments around 1Q trends, does it seem like 1Q is accelerating versus 4Q? And if, so what's behind it?

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

A

What we have now on the books for 1Q – I'm going to start with your second question first. What we have on the books for 1Q is leisure, primarily leisure, the long AP, we see Europe accelerating through the quarter, which is surprising. And I think, if you think about the elevated levels of capacity that have been persisted in Europe for the last 18 to 24 months, what's different now than what occurred earlier and why is it manifesting itself? And what would historically be an off-peak season? I think you've got currency starting to work your way, you've got Europe starting to grow, you've got demand, so that seems to be more robust.

We didn't talk about it, but we just introduced Basic Economy to Europe, which will allow us further segmentation on the long-hauls that is available to fly starting in April. So we're looking for a really good summer in Europe on both the strength of leisure and of our business. Business has been very robust to Europe.

Domestic close-in trends, another question I think you had is, they've been stable. Stable demand set in yields, and the demand, the actual demands have been growing. And I think one other things that we would be excited about that's not built into our plan is, if this tax cut passes and that does create additional business investment, we could be a beneficiary for that, but it's not baked into the plan. So, hopefully, we'll see that come to fruition and we'll see people investing back into trying to drive top-line revenue, which usually involves travel.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Thanks, Glen. Just a follow-up to Mike's question. As you look over the next two to three years, which JV would you expect the largest mark-to-market gain from?

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

A

I'm going to defer that to Paul. Give you some time to think about that, Paul.

[Technical Difficulty] (2:22:21)

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

Follow-up, sorry, my follow-up is on the $1.8 billion in branded revenue, I wonder if you could talk a little bit about how much Basic is contributing to that? And then, within the competitive framework, the more aggressive rollouts by some of your competitors this year, you have a kinder or gentler version of Basic Economy. I think you're thinking about how to actually add to the assignments post-purchase to make it sort of less punitive to your customers, have you noticed any share shift relative to the more punitive implementations of Basic out there?

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

A

We have not. So, I think it's – our role at a Basic Economy was really to provide a product for people who are only interested in low fares, and to provide that with the high-quality services of Delta we thought was a winning combination for customers. And so we took some of the historical value drivers like seats out of the equation, because we wanted to have a product that competed with Spirit or Frontier. We also thought it was a good fence for business customers on low fares when they proliferated towards the top-end of the AP cycle and without the stay requirements.

And so, I think it's been effective in both of those. But – and we see still a 50-plus percent up-sell rate and that's how we determine the value of Basic Economy. We don't determine it as how much of that we sold, we really determine it by how much of it we didn't sell. And so, our 50% up-sell rate on an average fare differential of $20 to $30 is significant. It's still a pretty small – even though it's rolled out broadly, still it's not a broadly appeal – it doesn't have a lot of broad appeal to customers.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Good morning. Jamie Baker with JPMorgan. So, question for either Glen or Tim. To best of my knowledge, Delta has not yet manufactured a device that will sit on my desk and record everything that I say. So, I suggest rather assume that Amazon knows more about me than Delta knows. But Delta knows an awful lot about me and about all of your passengers. And it's not clear to me either as a passenger or as an analyst that you are mining that data in a profit maximizing manner, and maybe you are. So my first question is, are you scratching the surface? Are you deep into that? Can you give me some examples where you are monetizing that tremendous breath of individual buyer knowledge? That's my second question.

Tim Mapes
Chief Marketing Officer & SVP-Marketing, Delta Air Lines, Inc.

A

Thank you, Jamie. I would have to say, we're in the infancy – in the early stages of infancy with regard to that. Obviously, big data has been around, we track that, we've got the 90 million person SkyMiles' database that uses, and as I shared in my comments, on top of that of the Amex' insights and data, along with Starwood and many others including Porche, and a number of things that are partners within Delta's customer experience.

But I think Ed even in earlier this week was quoted as saying we're sitting on a treasure trove of information and candidly we're not tapping that fully. We certainly do relative to our ability to know how many times have we pitched you on a Comfort+ up-sell or an up-sell to first class, and how many times have you bought? How many times have we pitched you on Sky Club membership, how many times have we pitched you on the co-branded credit card, things that are relatively unique to us, because typically those are the things we can control the most in most instances, the most accretive to Delta. But there are things like car rental and hotel and many-many other things.

You're absolutely right in that Amazon is more advanced in that, people like Google and the computing power that they have. And I think that's one of the reasons that the 10 companies that exist in front of us on that Forbes list is, it is data and unique customer insights. I think Starbucks is so robust with what they do with 400 different types of segmented offers every day to their customer base around; hey, if you just do this, if you just do that. So these ideas are curriculum-based for every type of customer segment that we have, we are all on. It's one of the largest technological programs that we've got invested in the 2018 plan. And we can't get there fast enough. It is arguably, Ed says, historically we've been an airline, I think increasingly we're becoming a technology company. That's the area in which we see the greatest economic value, because when you carry 185 million to 200 million passengers around the world, that the spending power of that and our insights into that, I think Glen just said it a moment ago, a lot of these things aren't in our planning, but they are in, in terms of the economic benefits of it, but they're certainly in our planning with regard to the execution and the platform building.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

My second question, for Glen, British Airways has disclosed that their iteration, kind of premium kind of, it's the World Traveller Plus, represents the most profit, the most margin per square inch in each aircraft. In the slide that you showed yesterday, I think they were off a Basic Economy starting point, but premium economy was I think a 5 points of better margin domestic, first class of 8 points. Recognizing that Premium Economy is still in its infancy. Is there any reason that that – what structurally would prevent that from ultimately representing the most margin per square foot on your airplane or should I've I not even – should I not even be thinking about that...

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

A

I think that's exactly how we think about it is that, and why we're so excited about the products that we're bringing to market and accelerating them and then trying to get them in market faster. So, our first foray into that by next – by 2020, all of the flights to Asia will have that. I think the crossing point for Europe would be sometime around 2021 or 2022 or more than 50% of the flights would have it. And we think that those segmentations are going to be even more important.

And when you think about the product offering that we'll have from Basic Economy without a seat assignment to the traditional main cabin class sector, if you will, and then the Comfort+ and Premium Select and Delta One, and then getting those configurations right to maximize the total ship profitability, that's what the next five years is about, in terms of being able to segment that and then the offering to the customer, because we can combine everything from Wi-Fi to club access to each one of those and really come up with theoretically or pre-ordered meals in every seat. And what you want? Would you like to upgrade your meal? Would you like to upgrade – it's all a matter of just logistics from this point on. And I think that's what we're really, really excited about is being able to customize an offering to – to people who get the share of wallet of what they're willing to spend for the products that they want. That's the key.

Brandon Oglenski
Analyst, Barclays Capital, Inc.

Q

Good morning. Brandon Oglenski from Barclays. So, I'm going to ask you about the culture, because I think that's the unifying theme that I have seen throughout all these presentations, and obviously [indiscernible] (02:29:57) inflict into our models, but we see the differentiation at the end of the day with the margin. But can you talk about we see if there are any – I think you're industry leading, and I think that's your forward strategy, to be industry-leading [indiscernible] (02:30:09). So you guys do have a unique position with [indiscernible] (02:30:15) relationship with most of your employee groups. So, outside of profit sharing and pay, what are some of the other non-financial incentives that you're working with your employee groups? You guys talk a lot about NPS versus your customers, I mean, do you do something similar as well internally with the work force?

Joanne D. Smith
Chief Human Resources Officer & Executive VP, Delta Air Lines, Inc.
A

Yeah, it's a – thank you for the question, because I do think it's missed sometimes and the secret sauce of Delta. So, beyond pay and profit sharing, so we do want to lead the industry on profit sharing and also on shared rewards, is shared rewards are our way of shared success on operational metrics. And so it really aligns the performance of the company with pay for our employers.

Beyond that, you know, there is consistent recognition and engagement opportunities with our employees. I'll give you one example, and I don't know if anybody else is doing what we're doing in this. But every year, we host cross-divisional front line meetings, we do 12 a year, about 700 employees at each. Glen comes, Tim comes, Ed comes, Paul comes, and it really is developing business acumen among our employees, but also to understand where the business is going and build that, that great kind of stickiness on the culture with the employees. The feedback, I mean, we have a Delta Board Council for example, we have employees on the sitting in board meetings. We have 40%, 50% increase this year alone on our business resource group. And I think roughly 15,000 now employees who are working on business problems. And not just the networking group, but we'll go to our Latin group and ask to talk to us and help us select meal selections for our Latin America, we're lagging in food scores for example. And that's this project. And so we've seen a big growth in our employees' participation in that as we look at business problems to solve.

So, I mean, those are just kind of examples, but it is a plan every year that we engage on and then of course we have monster celebrations every time we have – profit sharing is always a big celebration throughout the company. And Tim talked about that a little bit, the Big Thank You, the 50 hours, 56 hours of [indiscernible] (02:32:35), thanking our employees by name during this Marathon Facebook live streaming and the comments that we get from employees in the shareable. We launched – I'm sorry, I'm going to stop, this is my last thing, we launched an internal workplace by Facebook and that's grown exponentially in this. And it's the number one group on that is Delta Proud, and these are employees sharing stories about great customer moments or great employee moments. So, it's a purposeful engagement strategy. Does that answer your question?

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

See, we have time for one more question.

Kevin Crissey
Analyst, Citigroup Global Markets, Inc.
Q

Yes. Hi. It's Kevin Crissey from Citi. Two quick ones for me. One, considering the frequent flyer accounting changes, are you going to make any change to the total revenue management group or may be to the cash management group? Will you make any changes the way you have inventory or pricing that relates to the frequent flyer accounting changes?

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

The frequent flyer accounting changes and probably a question for the detail of how that impacts us, better for Paul, but the answer is it doesn't change the cash in or out of that program. So, really we feel pretty comfortable with the direction we've been heading on frequent flyer redemptions and value of the program. I just want to point out that we are very proud to win the U.S. News and World report number one frequent flyer program, another great feather in our cap, if you will.

But as you may know, we took the award charts down many years ago, and we've been putting in much more variable pricing for consumers that are really focused on creating unique value opportunities for them. Another way to engage that I think when we have seats that are not going to be sold that we know to give our frequent flyers first shot at them and at really, really attractive rates. And being able to manage that process and being able to create more value for customers and more value for Delta we think has been a really win-win and I'd like to just think the whole SkyMiles team and the revenue management team working together, I think they've created something that's a really unique value proposition for us moving forward.

Joanne D. Smith
Chief Human Resources Officer & Executive VP, Delta Air Lines, Inc.
A

One more.

Kevin Crissey
Analyst, Citigroup Global Markets, Inc.
Q

Sorry. Yeah, the follow-up question. So, when I think about the change over time, bigger planes with bigger gauge [Technical Difficulty] (02:35:15) in bigger markets, and then simultaneously into the cabin you are up-selling more of the first classes being paid individually. You've invested in the clubs, the Delta One suite, on-board meals. I guess my question is, is Delta getting more cyclical by making those changes that to me, for instance, if there was a change in the economy, would you see as many people being willing to pay up 60% of buying up into the business class?

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

I think, quite the opposite with the bigger airplanes and the more efficient fleet is that, if you look at the history and unfortunately we had the Great Recession not too far in the rearview mirror for us. And if you look at what happened, the planes ran as full, the yields collapsed, and so the fact that we have been investing in more and more efficient CASM producing airplanes or will be over the next cycle, I think as well as having a large fleet of unencumbered assets, we should be really well positioned. The differentials in – we may – we haven't navigated yet through recession. We may have to change the differentials in pricing. But I think we're very confident that the demand will exist for the premium products and that we will be able to sell them. And if we're not, it's not a catastrophe to change the allocation. I think that's the – as long as you're investing in the right physical plans, whether or not you take a role off or put a role on, and I know it sounds easy. Gil looks to me like, yeah, well, a little larger than you might – not just a couple of key strokes, but you know, not the end of the world for us to make those adjustments in any part of the cycle if we need to.

Well, thank you all so very much. And I think we're turning back over to Gil?

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

We'll take a quick break. And thank you, Glen and Joanne, great job as always. We'll take a quick break and I'll be back in about 10 minutes, 15 minutes.

[Break] (02:37:13-02:50:00)

[Video Presentation] (02:50:56-02:53:07)

[Unverified Participant]

Please welcome to the stage Delta's Chief Operating Officer, Gil West.

Wayne Gilbert West

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

Okay. Thank you, guys for all being here today. Jill's assured me that the only reason you made the journey to Atlanta is hear this riveting ops update. So, come on and let's get to it and we will – if I can get the slides to work. Okay, great. We'll jump into chart of chart-a-palooza, I believe is what we'll call it today.

And I'll start by saying that running the best industries operational performance coupled with the customer experience that Delta was able to produce is really a key part of our differentiation as an airline and I think a critical part of the revenue premium that the team delivers. So, there are roughly 73,000 folks on the Delta ops team. And it's a team sport with the business that we're in and I can tell you everyone of those folks are obsessed with providing the best operations in the industry and the best customer experience. So, I'm going to talk about some of what they've been up to in this past year and some of what we've got ahead.

And first place to start I think is from a – whoops, so I got to go back to a slide actually, sorry. And this really shows that the team's led the industry again for 2017. And if you look at our metrics, and in particular, completion factor, baggage and on-time performance, those are the key metrics that we grade ourselves with as an airline. And again, we've led the industry. But if you look at each of these metrics, completion factor to start with, we are – every tenth of a point really count to. And I think if you can personalize that from a customer's perspective, it's helpful, because each tenth of a point, as I mentioned, if you look at it there's over a million-and-a-half customers that flew on Delta that didn't have their flights canceled that they would have if they flown one of the other carriers. And it's important because it really helps us differentiate.

On baggage, the investments that we've paid off in terms of technology, embedding RFID tags and the bag tags, along with some of the targeted infrastructure investments that we made over the last number of years, has really helped us cut our misplaced bag rates in half. So, the performance has been strong, on-time performance as well, and Ed said it well, we measure on-time performance as zero minutes late, that's A0. Our competitors, the government measures on-time performance A14, 14 minutes late. We've got a much higher bar. Regardless of which metric you measure, we lead the industry in on-time performance. And again, every point matters here, because if you look at there would be over 20 million of our customers arrived on time that they wouldn't have if they would have chosen a different carrier. So, those are important ways that we set ourselves apart in the business.

You think I would know how to work technology, but maybe not. Okay. Now, we also look at perfection as the best way to measure performance. And one thing that we started looking at several years ago is they started to occur were perfect completion factor days, Ed touched on that. You don't have to go that far in our history, you know, just five or six years to see that we would run a whole year and literally never have a 100% completion factor day, and much less string and streak of them together. So, we moved to the point where on a normal clear weather day, that's the expectation is to have a 100% perfect completion factor day. And it's become really only weather is the major driver of cancellations for us. So, you see that two out of every three days of the year are perfect for us.

And Ed mentioned, again, we ran a 50-day perfect streak together. That's over 150,000 consecutive flights without a cancellation. And that just sets the bar for the next record, because the team is obsessed with breaking those records. You can see really what the drivers are here at the charts, but before I get into maintenance, I would just say, the irregular operations and you saw some of that on the video, that's been a big focus for us. So, during adverse weather conditions and we've had a lot of weather headwinds this year we've had probably unprecedented thunderstorms, hurricanes, snowstorm, if you were here a week ago, you would have experienced. All seem to be centered right over to largest busiest operation in the world here in Atlanta, they are all very challenging for us. But it's how the team responds to those and what we learn from each of those events to make our performance better as we move forward that really sets us apart.

We leverage innovation to do that. We've got an innovation center set up by Georgia Tech, that helps us pilot and pioneer different things to drive innovation. Hopefully you've a chance to spend some time in the back, you'll see some of those tools that we develop that help us well.

We're very big on data. And there were some great questions earlier about data, and so we just called out a couple of folks. We've got our CIO here, Rahul Samant, as well as Erik Snell that runs our data analytics performance group and our OCC operations. They've been really key to help us take leverage technology, leverage data to run better operations. We've also, of course, leveraged that in our TechOps space, and you can see by the chart that we've literally reduced our maintenance cancellations 98% over roughly the last seven years.

And it's not – well, the team has done a great job. Hopefully some of you had a chance to visit our TechOps space yesterday. It's a use of data. We've got a lot of data coming off the aircraft. What we do with that, we call it internally preventative maintenance, predictive maintenance. But we use its machine learning in another vernacular, where we use the data to understand problems and troubleshoot aircraft before they ever have an actual system problem.

So, it works on reliability. It also works on the cost equation, and the team continues to really pioneer that for the whole industry. We've made a lot of infrastructure investments that are airline and TechOps. Again, if you were there, you've got to see some of it firsthand, part of the latest fleet announcement, of course, plays into that, with our engine shop, but the team there has really done an incredible job. It's a key strategic advantage for us that we have as an airline that our competitors don't have.

And it really helps enable our fleet strategy, right? If you look at the complexity that we manage, the average fleet age, we still drive the very best reliability in the industry at the lowest maintenance unit cost in the industry. So, it's a great tool combination and some incredible people that made that possible.

Delta Connection, our regional operations, they are part of Delta Air Lines, that's how we look at it. Four years ago, we set off on an initiative that we call Same-Except-Tube. And it's really closing all the gaps, whether they're operational or the customer experience, to align our regional performance with our mainline performance. And it's been a tremendous effort for us. We've created a lot of positive momentum, still a lot of work to do, but we've taken the best practices that we have at our mainline operation, along with our talent from our mainline operation and applied that into our regional portfolio, and you can see the very same trends that I talked about earlier in maintenance, we've seen in our regional performance, maintenance cancellations reduced 94% over the last four years, and it's all the same best practices. We've aggregated inventories processes, data to help improve the space. Same thing on the crew side, so that we have fewer crew cancellations, we perform better on time. Same thing in our customer experience. So the team's really focused in this area. 100% days, as Ed mentioned, they're becoming a norm now in the regional space. We're well over 100 days this year and our regional operation's a perfect completion factor and those trends continue to increase as we move forward.

Customer experience, all our folks have talked about that as they've been here on stage and I'll just echo a lot of the comments earlier. The operation is a foundation for us as an airline, but it really enables, what we call internally, the Delta difference, but that said, customer experience that differentiates Delta as an airline and literally every metric we have and I should say we are obsessed with data and metrics and surveys and cutting it every way imaginable. But every metric that we have and customer service is an all-time record this year. So we continue to move the needle. Tim talked about Net Promoter Scores and we've almost tripled our Net Promoter Score over the last seven years, you see the trends. And we're anything, but satisfied because we continue to look for opportunities here to drive the trends.

And I would say there's a couple of things in it. We have invested, as you know, in product. We've invested in fleet. We've invested in the airports, invested in technology, all those things have really helped us move the needle and enhance the customer experience, but Joanne, I think, really hit it well because it's the people. She said when we talk about it internally, our people are our secret sauce and that is the real thing that our competitors can't replicate in this space.

They can make the other investments that we've made but it's really our people that bring those things to life and we see it in the numbers. Joanne touched on some of the incentive programs that we have. We try to tie really not just the metrics but incent all the focus around the customer experience and operations so the shared [ph] awards (03:04:07) that Joanne talked about that are operational but also customer service. The feedback that we're able to give our team individually on that experience is also very important. And it just continues to help us raise the bar, but it also highlights where we need to invest for better tools for our team. And there is a lot of time spent the technology that's in work and again, you can see some of it in the back really bring those things to life.

I also think I hope some of you had some time to spend with Allison from InFlight, Gareth from our Airport Customer Service team to talk about all the initiatives that we've got underway, everything from food and beverage, the onboard experience, mobile tools that we have really to give our people those tools and as we move forward that single view of the customer that really enable us to personalize that customer experience and is so important for us, whether it's on board or at the airports. And you'll see more and more and more on that as we move forward.

Okay. Here we go. All right. So you'll be happy to know this is my last slide, but I am going to close in a sense to underscore what hopefully you heard on the video is that, we truly have a culture of continuous improvement. This is something that again is very difficult to replicate, because you have to have, I think, not just the hard skills to drive continuous improvement. And believe me, we've got very robust operational management systems and goals and metrics and analytics that drive all of that and reward systems that emphasize it. That's one part of the equation. It's a very important part of the equation, but there has to be – the people, the culture has to really be receptive to continuous improvement or transparent about how we perform. We're always looking for opportunities to get better and the organization really excels at that.

So I think, it's a combination again of the systems we use, the people bring that to life, and then we focus on the hard skills. Process and – process isn't easy, but again you have to have a culture that you can implement it. We've got the skills, the technology to drive process. It's very powerful. And we continue to bring that forward up to not just operationally, but the cost piece of the equation. And Ed touched on that. I'm sure Paul will later. To look at things as a system, not just siloed. And it's really powerful, if you're able to enable that.

Technology; big part of the equation. The team's done a great job kind of making sure we've got the foundation in technology, but also the architecture of what we continue to develop bring things to life. The innovation piece, again through our innovation center at Georgia Tech, where we're able to try things, experiment and then ultimately scale those across the operation.

Targeted infrastructure investments are also key to our success. Every infrastructure investment that we make, we're looking for a return. Operational performance, customer experience, ultimately financial, we have to get paid for the investments that we make. And the team's really focused on that. There's a good closed loop process to look what was the investment, what was the effect, right in all of our metrics. Then we measure that and then so that we can learn from it and continue to make the right investments. It'll have a leverage on our business.

And then finally it all comes down to execution, right. I mean no matter what the plans are, how much you invest in process or technology or even infrastructure, if you can't execute it, it's hopeless. And again we've got the best people in the business that are bought into what we're trying to do. And we've got very good robust management systems that drive that focus, the accountability but also the reward systems that kind of tie it all together and then we do it all over again year-after-year-after-year and that drives the continuous improvement trends that we see.

So for 2018, I'm sure you will see all the metrics that we have continue on that march of improvement. We all keep our backpacks on, we all keep climbing and the way we operate will continue to drive that. So thank you again for being here and sitting through an ops update. So thank you.

Chip Yeager

General Manager-Video Services, Delta Air Lines, Inc.

Ladies and gentlemen, Delta's Chief Financial Officer, Paul Jacobson.

Paul A. Jacobson

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

How is everybody doing? You're hanging in there? Good. Well, really appreciate everybody coming down. What a fantastic turnout and series of presentations that we've had today. You know I think many of you in this room that I've talked to will join in the enthusiasm that exists around the Delta campus, when you talk about the right combination of advantages at a scale and a level that's never been put together quite in the way that it has at Delta now. We feel very, very good about the future today.

So I've got a few topics that I want to spend a good bit of time talking about, but really it's all centered around our consistent path to generating leading shareholder returns within the industry. And while we continuously improve the product, our reliability, our operation, we've got to do it in a way where we're funding it with productivity gains and other opportunities to leverage that scale, while investing within our means. And when I go around and talk to many of you in this room and others, we wrestle a lot with this thesis of this time is different. Why is it different? What are we doing differently?

And when I think about the combination of strengths, and I think about the discipline that we've had in terms of investing within our means and being very balanced in how we think about capital, that's where one of the most stark contrast to the past in this industry have been and where we are deriving a significant amount of value. That being said, we obviously need to spend a good bit of time of this presentation talking about costs. I apologize that I don't have an elephant named [ph] Sam (03:10:41) on my page, but there's an elephant that could be named any one of you in this room including Paul, from this standpoint that we need to spend a good bit of time talking about costs.

You know 2017, our unit cost growth was invested in all the right things. It was invested in the product. It was invested in the operation. It was invested in fleet initiatives, all that are going to continue to pay dividends down the road, but the challenge was probably a little bit bigger than even we discussed a year ago at Investor Day. You know an increasing piece of our cost inflation are in things like accelerated depreciation and other stickier expenses that honestly we've got to find ways to innovate and drive productivity if we're going to overcome that in ways that we haven't done before.

So we've got a path forward to get to the 0 to 2 and closer to zero. As we heard earlier this morning, but I am acutely aware of how similar this story sounds through what we said a year ago. Our cost going into 2018 are frontloaded, will be lapping the 6% general employee wage increase that occurred on April 1. So we have that to get through in the first quarter. But for the balance of the year, you'd expect a little bit more normalized growth rate in that expense. You've got maintenance timing, as we gear up for the summer schedule. We're going into a period of more growth higher utilization in 2018 than what we had in 2017. We need to get the fleet ready for that. So we're going to be investing heavily in getting those airplanes ready, getting them up to speed, so that we can satisfy the needs of the operation in the summer.

But what we will be doing over time as we get through the year is beginning to lap that accelerated depreciation. This results from the MD88 decision, which we took in the spring time. Once you make that decision to bring that fleet down over a future time period, you've got to take that amortization and recast it over a much shorter time period. So as we get into the second quarter, we start to lap that a little bit and we start to see some of the year-over-year pressure abate over time. So what we wanted to show is, how is it that we can have the confidence that we can go from a run rate in 2017 that was 4% to 5% and get that to flat. So what we wanted to show on, on page 48, is a little bit of a high level walkthrough.

Now of course there's an infinite amount of detail behind these pages and how we're thinking about the business and what we can do, but we wanted to demonstrate that it is not as big of a challenge as it would otherwise appear from that standpoint. And that's not to say that it's not going to be a lot of work, because it is going to be a lot of work, but as we look at 2018 and some of the unique challenges that we faced in 2017, it becomes a little bit clear.

First is the fleet initiatives. We've spent a lot of time over the years and in many presentations talking about the benefits of gauge and what it does and how you can get 7% operating efficiency moving from a medium size narrow body to a large narrow body. That evolution continues. As you saw in Glen's slide, going to 45% of our seat departures in the most cost effective narrow body aircraft that we can, is a scale benefit that others don't have. And it's a scale benefit that while we're still in the early to middle innings of our fleet transformation, we're still gathering steam, and picking that up and next year will be no different. With over $100 million in savings just from better CASM efficiency going forward, helping to overcome some of that depreciation that we've absorbed into the business in 2017.

There's the operating leverage in the business. We knew 2017 was going to be challenging, as we held capacity to 1% for the year. That was a little bit of challenging lower utilization. It includes and increases some frictional costs that you see in the business and doesn't allow you to continue to spread some of that inflation over a more normalized growth. So as we go into a 2% to 3% capacity growth plan for 2018, there's some operating leverage that gets unlocked inherently in the business that's going to help close that gap down to that 0 level to 2 level that we expect to hit in 2018.

And then I want to spend a good bit of time on this efficiency project. This is different than what you've heard in the past. And I'm no stranger to the history of this business. We talk about it a lot, especially with employees that we're labeling this an enterprise level efficiency project because cost projects, profit improvement initiatives, cost reduction initiatives, all have a really deep negative connotation associated with it. Because if you look at the business, what that's always translated to is all that investment we've made in reliability, all that investment we've made in our people and our product, we went too far and we got to start taking it away.

That's not consistent with the long-term value thesis that we're creating and what we've put together. The revenue premium, the culture, the customer service, the operational reliability are all driven in combination by those investments. The worst thing in the world that we can do is go take those away for a short-term CASM goal. So what we're talking about is something acutely different than what you've seen in the past. Many high performing companies across America are doing this both in short-term and long-term projects. And what we think it's no different. Ed introduced this a little bit in his earlier presentation and Gil referred to it as well. We've done really, really well within our silos. In fact, I think if you look at the power of the Delta culture, you point – I think Richard referred to it one time several years ago, we point the Delta culture to the forest and give them an axe and they just plow their way through it. And that's what happens within our silos. I'm absolutely convinced that when you look in any operational discipline, and you think about any function at Delta, our team has done a crack job of going out and driving efficiency in every way they can.

So the challenge for us is different. The challenge for us is to work between those silos, to go in and say what rules, what paradigm have we set up that while we've asked you to optimize within your silo is suboptimal when you look at an organization or an enterprise level. It's also an opportunity leverage scale. Jamie's question was absolutely spot on and we've done that in many aspects of the business, but there's still more to go. I refer to this internally as getting comfortable in our own skin, getting comfortable with the scale and the presence that we have whether it's related to our size, our volume or it's related to the power of our brand and the fact that doing business with Delta means something for people that it never meant in our history before given that size and scale.

So when we look at our non-fuel CASM base and we see a base of $26 billion of spend, getting $200 million of savings out of that in 2018 and $1 billion annually by 2020 seems actually quite achievable. It doesn't mean it's going to be easy. In fact we know it's going to be hard. We've got the right leadership in place. Gary is spearheading that effort, but it's across the company. This is not a one person effort. This is a team effort at the highest levels of the company that are going to drive that efficiency through the process. We've had some real time learnings in this in 2017. With the April IROP Gil and Glen, and a number of other leaders got together and said what is it that we can learn from this event. And not only did we learn how to handle irregular operations better, we also learned how to plan the operation better. How do we better coordinate airplanes, airports, crews, to both lower the risk of operational disruption, but also lower the cost of getting the right people in the right place at the right time.

We save transportation costs. We save employee costs. We make it more efficient. We make people more productive because they're not spending as much time getting to and from where they need to be as they are serving customers, which they all inherently love doing. There are additional opportunities including training. This is one of those areas where the silo that I talked about has been fantastic. Our team around training in every operational discipline has done incredible job of shortening the pipeline, driving as much efficiency as they can in a training program that was, in some cases, once three weeks is down to 10 days or it was once 10 days can be down to three. We've done a great job of shortening that pipe. But enterprise level efficiency looks at that pipe and says, how do we shrink the diameter? How do we change the rules so that we don't spend as much time and have as many people in training at one time? Because the more people that are in training, the fewer people who are out there serving our customers and doing what we do best, enterprise level thinking.

Hotel and transportation. We spend over $250 million a year in hotel expenses for our crews and in cases for our customers and transporting them back and forth, sometimes just a couple of miles. We can do better than that whether it's a form of vertical integration or better contracting or just better positioning within the airports to ensure that we've got much more accurate demand to be able to plan. There are savings in here in hotel margins, there are savings here in hotel taxes and local occupancy taxes that we pay where we know we can go grab a lot of that sum.

In logistics, how do we think about creating the right incentives within the company to ensure that we never pay anybody else a higher margin than the margin opportunities that we have in our own cargo operation. That's about providing the right incentives internally and encouraging the right behavior so that it doesn't become an afterthought of oh! I could have shipped that on Delta, but Delta is the first person I call. And when I call Delta I'm not worried about my cargo operation saying I'm worried about my budget, if I take that and don't take revenue, because intra-company movements is revenue to Delta. It's value creation. And by thinking about the enterprise differently, we can really go after that.

Merchant fees, this is a huge area. This is an area that the airline industry and Delta is not unique in this it has to collect. We've got to figure out how to crack this. We spend over almost $1 billion a year in merchant fees, quite a bit higher than other similar size merchants in different industries. How do we think about that differently while providing a better enhancement and a better service for our customers to make it easier for them to pay along the way. These are just a taste of some of the things that we're looking at and uncovering, but I'm very excited about our opportunity. We think this is worth a full point of CASM at least in 2018 and the teams have already started working on many of the initiatives that I've described here and I feel good that we're off to a very, very good start and have the confidence that we'll be able to hit that and bend this cost curve into 2018 and beyond.

Transitioning to fuel prices. Fuel prices are really, or fuel in general is a great story for Delta in 2018. First and foremost, we have lapped all of our legacy fuel hedges. I know there will be a smattering of applause in the front row, including my own, for having gone through that, but what 2018 is going to show without those hedge losses, is it's really going to unmask what the team has been able to do on the purchasing side because if you strip out those hedge losses and we've talked about this before and look at Delta's unhedged fuel cost, we've managed to kind of creep in and drive a $0.04 to $0.05 per gallon consistent advantage in how we buy fuel. It is worth $200 million or about a half a margin point to Delta as part of our integrated approach with our refinery and our supply chain and just thinking about it differently. That's been there. That was there in 2017 but it was masked a little bit by $300 million of hedge losses from that legacy portfolio.

It will become more evident in 2018, but what will also become more evident in 2018 as with the aircraft that are delivering in the fuel efficiencies that Glen mentioned into 2018, we're going to more than double our fuel efficiency in 2018 versus what we've seen over the past several years. 2% lower consumption on a per seat basis or on a unit basis is going to get us that level of efficiency and that's going to continue for time going forward. Burning less fuel is the ultimate hedge against higher fuel prices and we've got that coming in droves, and that's the best opportunity. So as was we sit here and we look at fuel prices in a higher end of a range that has been consistent for the last few years, we feel good about where we head into 2018 not only from a strategic perspective, but also from a relative value perspective.

But I think as we go down this path, of this time is different and the this time is different thesis hinges on those key things that we can control and how we think differently. Yes, we have scale. Yes, we have presence, yes we have a revenue premium that we've never had before, but ultimately what it all comes down to is what are you doing with the cash, how are you deploying it. Gone are the days when we're overspending at peak cash generation cycles and adding leverage to the balance sheet only to handcuff ourselves as we head into the next downturn whenever that might be. And this capital allocation I think is one of the key contrasts between then and now but it's also one of the key value drivers for how we're going to be able to keep the momentum in terms of getting full value for the shareholders for the cash that we're generating and the consistency in the results that we can provide.

It starts with reinvesting in the business. We still have work to do on the balance sheet to continue to strengthen that. And we have to be consistent about how we think about shareholders and value, and how each and every one of you in this room think about cash generation and our duty to provide returns on investment. And that consistency is at a level not only at Delta, but in the industry at a level that we really haven't ever seen before in this industry. Another proof point of the confidence that we have in the sustainability going forward.

Reinvestment in the business is at the central core of what we're doing. Past cyclical behavior usually led to how do we take a honeymoon? How do we skip a replacement cycle? How do we not invest in those things that we need to invest in to ensure that this can continue? Not sure who asked the question earlier, but that's the type of behavior that contributed to the cyclical nature. You couldn't last long [ph] enough (03:27:02) starving the business from capital, you had to go invest. And when you invested and turned that back on, it was almost inevitably the wrong time, leading to more leverage, leading to more cyclicality, repeat it again and again.

But what we are doing here is different. A 50% target of our operating cash flow is both enough and prudent to sustain this level of performance that we have going forward. Because what we're able to do is improve the product, invest in the reliability, change and transform the way the customer interacts with us whether it's in technology or in the product or in the airport, but we're doing it in a sustainable way that is actually fueling the machine. Joanne referred to it earlier; the flywheel. Keeping that momentum going because it can be done into perpetuity as we think about it in this context of 50% of cash flow. So we've got a lot of aircrafts comings in 2018. We've got a pipeline of bigger, more efficient, better customer airplanes going forward and we're going to continue to feed that as we go through that fleet renewal. I say it many times in employee meetings as well as much as many of you and many of our employees are excited about the MD-88s. It makes finance people sad, because fully depreciated airplanes are really, really profitable airplanes and they're good airplanes.

But as with most things in life, this too must come to an end. And what we can't do is stretch that and stretch that and stretch that, that it begins to jeopardize the business, it begins to jeopardize the culture, and it begins to jeopardize the product that we put before our customers. So now is the right time to replace that, but to do it prudently and to do it in a disciplined way, while we're simultaneously improving our balance sheet. We have a lot of investment going into airports. This is probably generational in nature in terms of the level of airport investment that we have going forward. But we have the budget, we have the ability, we have the scale to be able to do that, that makes it profitable while our customers are benefiting from that in the long-term and that's evident whether you look at LA or LaGuardia or Salt Lake City or Atlanta or Seattle, and we're going to keep that momentum up both in the airport as well as in the skies.

LaGuardia, as we've talked about, is going to be different. It's going to be financed on balance sheet, harnessing the value of our investment grade rating. It's different than what our competitors are doing. What our competitors are doing and what's going on at the central terminal building is a public private partnership. That's going to allow much of that to stay off balance sheet subject to lease accounting as we think about that into 2019. But what we are able to do is, we're able to maintain control because I know when we put control in Delta's people's hands over construction, development, design, amenities, and most importantly cost management and discipline, we'll deliver it on time, we'll deliver it on budget, and we'll deliver it with better customer satisfaction than if we [indiscernible] (03:30:19) control of that somebody else. But recognizing the large nature of that, we're going to separately report that. It'll appear in the cash flow statements, but you'll see a line separate because we are going to finance that long-term. The tax exempt markets are readily available for us and we expect that we'll be able to do that in a way that is more efficient on a cost per gate basis than our competitors in the same city.

We're investing $450 million in technology, similar level to what we did in 2017, but very different in its composition. 2017 under the leadership of Rahul was about getting our infrastructure house in order. A lot of things that we needed to do after the outages and what we needed to do to keep the reliability up. 2018 is transitioning less from infrastructure and more into digital. And how do we get into software and tools and applications that are going to benefit our employees and our customers and allow us to serve those customers better, but through it all we've got to maintain flexibility. Flexibility in the model that if something happens, we have the ability to scale so that we keep that discipline going forward because, of critical importance to assess us is the investment grade balance sheet.

We worked hard to get where we are and to get back to where we need to be for the long-term. This is what real companies do. They have real balance sheets and we've got to maintain that health and discipline. But 2018 and we did this – some in 2017 is really about harnessing the benefits. If you're going to incur the cost to have an investment grade benefit or a balance sheet, how are you going to drive the value and having it too. We did some of that this year. The pension transaction that we did earlier has put us on a path where we feel very confident about our 80% funded status. As Ed mentioned in his opening remarks, we expect to end 2017 at about 70% funded status. That's up from 37% funded in 2012, despite the fact that interest rates are almost 300 basis points lower than where they were back then. This is our best funded status since 2008.

But it's a testament to what we're doing in terms of how we view the business over the long-term, because we've got to get that funded, we've got to get that addressed going forward. We've completed all of our minimum required funding through 2024. We're going to continue to focus on putting $500 million a year in, but should we find ourselves in a pinch or should economic winds turn, we've built that flexibility into our cash flow to make sure that we can preserve this model going forward. We've improved vendor terms. Investment grade companies get better terms from their vendors. This unlocked almost $300 million in working capital and we're still working at it. And we've built an unencumbered asset base that rivals anybody in the industry, Rainy Day Fund, Rainy Day Source of Capital, should we need it, so that we don't have to stave the business. We can go in and keep investing even through the cycle.

So as we focus on all those things, the capital allocation story is very consistent with what you've heard from us in the past. In addition to continuing to improve the balance sheet and fund the pension, we expect to return approximately $3 billion to our shareholders again in 2018, similar to what we did in 2017 and consistent with our view of returning 70% of our free cash flow back to shareholders. But there's some excitement on the horizon too. As our leaders debate about tax reform, thought we'd include a page here on what it means for Delta. We spent a lot of time talking about tax an increasing amount of time because we're getting closer and closer to that window where we can no longer rely on net operating losses to shield us and provide additional cash flow to help feed that model. So as we transition and complete our balance sheet repair and complete our pension funding, we've expected that that will help free up the cash and the capital needed to fund taxes. That was in the old environment and we felt good about that.

Under the new process, we feel even better about that because anything that can be done on tax reform is beneficial to Delta in terms of cash generation, which goes back into that model of reinvesting in the business, redeploying in the balance sheet and allocating capital in a balanced way. But if tax reform does pass next week, as many speculate, we would see a couple of things happen. Number one, our book tax rate would go from 35% to approximately 22% to 24% including state taxes. We would see EPS go up by $1 to a $1.25 per share. And while that's non-cash in the short-term, it certainly translates to cash over the longer-term.

But importantly, when you look at provisions like immediate expensing of capital, that has the potential to push yet again our cash tax payment date from 2019 into 2020, providing even more coverage for us to be able to continue the model. The cash tax rate as we've said at a 35% statutory goes down to about a 20% rate on cash basis. We see a similar level of improvement. So if our book tax rate goes to 22%, we expect our cash tax rate would be around the 12% level. And as with many companies, we would expect to see a one-time hit. This is going to be true of anybody that has a deferred tax balance either an asset or a liability that's got a P&L mark-to-market. We estimate that ours would be in $150 million to $175 million, $200 million range that we would see as a one-time P&L impact because we have to revalue our liabilities and that happens as soon as the bill becomes [ph] law (03:36:20). So I wanted to make sure we had a little bit of color on that but net-net, tax reform is a fantastic opportunity for Delta people and for our customers as we continue to invest in not only the future of capital, but also the future of the balance sheet and create that long-term sustainability.

So as I wrap-up here, we've got a combination that we've never had before. A combination that's unmatched not only in the industry, but unmatched in our history, whether it's our culture, reliability, the network, the scale, the loyalty program, the balance sheet, all comes together to give us renewed and heightened confidence in our ability to sustain this going forward. And with the power of the Delta people and with the cushions and with the flexibility that we've created, feel very confident in our ability to run that well into the future.

So with that, I'd like to invite Gil up and we've got a short period of Q&A between Gil and I. Not between us, but – although I'll ask him a lot of questions.

Wayne Gilbert West

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

We could. Yeah.

Paul A. Jacobson

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

While we're getting the chairs ready, I want to take poetic license to answer two questions. One, Kevin, I think you asked about frequent flyer and mileage and [indiscernible] (03:37:38) revenue recognition. Revenue recognition is going to put even more incentive to collect or to allow customers to utilize frequent flyer miles as it transitions to an equivalent ticket value. But consistent with that, on a commercial basis, the more value in terms of redemption options and the value that customers see, feeds back into the equation of a currency that has value that customers want, which provides that diversity and revenue stream from American Express, from our other miles programs and our partners as well. So that is only going to be enhanced as we think about business going forward. And as I sit down to Duane's question earlier, he asked what was going to be the highest mark-to-market equity investment that we have in 2018? My answer is simply do your own homework.

So with that, and I think we'll open it up to questions.

QUESTION AND ANSWER SECTION

Hunter K. Keay, CFA
Analyst, Wolfe Research LLC

Q

Hey, how are you? It's Hunter, at Wolfe. So just first a quick one for you Paul. Does that dollar, the potential increase in 2018 EPS by $1.00 to $1.25, does that include the one-time charge to tax expense, or would that be stripped out of that?

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

A

No, Hunter that would be the sort of ongoing run rate number. So we could actually see that charge hit in 2017. It really becomes effective whenever the law gets passed. So accounting requires that your balance sheet be in that category valued fairly, if at the end of the day, the rules change, which happens. So we could see that charge as early as next week.

Number one.

Kevin Crissey
Analyst, Citigroup Global Markets, Inc.

Q

Kevin Crissey. Gil, your operations are the best in the industry. You've talked about having the best employees and culture. We see it reflected in the change in your NPS, but your absolute NPS score is not really that close to the industry. Can you explain why that is?

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

A

Yeah. So I think if you look at our NPS scores, which are in the low 40s, mid 40s on the most recent trends, relative to our network competitors we've got a big advantage. I think relative to some of the LCCs or ULCCs, there's a shortfall. And I think there's a couple of pieces to that primarily expectation, candidly. We're a different model in the sense of connections. Most of those are point-to-point type carriers. And so if you segment within our population, especially our more frequent flyers, you would see our NPS scores on that type of level. So again, it depends on what market you're looking at internationally, domestically or point-to-point type service. And we look at all those metrics. But having said that, I think for us, in particular, it's the trajectory looking internal to our numbers and where are those going and what more do we need to do to elevate those scores, both operationally as part of the experience. And again, I think our people are a big differentiation for us, not just compared to the other network carriers, but also compared to the ULCCs.

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

A

Number two [indiscernible] (03:41:08).

Darryl Genovesi
Analyst, UBS Securities LLC

Q

Darryl Genovesi from UBS. I guess, maybe just a clarification on first of all this is a $4 billion CapEx guidance [Technical Difficulty] (03:41:17) LaGuardia expansion?

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

No, Darryl. So the $4 billion is what we would refer to is that core CapEx that's been relatively consistent with this year. So LaGuardia, we're going to report that on a separate line item and do that because it is ultimately going to be separately financed and very sort of match funded, as we think about that going forward with long-term tax exempt bonds.

Darryl Genovesi
Analyst, UBS Securities LLC
Q

Expenditure is in 2018, I'm sorry. [indiscernible] (03:41:50)

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

Could you...

Darryl Genovesi
Analyst, UBS Securities LLC
Q

Yeah. [indiscernible] (03:41:54) sorry about that. What do you think the approximate expenditure is on the LaGuardia in 2018?

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

In 2018, it'll be about $0.5 billion.

Darryl Genovesi
Analyst, UBS Securities LLC
Q

And then, I guess just on more of an ongoing basis you said putting – putting the LaGuardia investment on to the balance sheet gives you more control to process. You also gain control on more of an ongoing basis, meaning just normal day-to-day operations at LaGuardia, you have more control over I guess just the operations there in general as a result of essentially owning the terminal now, or part of it?

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

The answer is absolutely yes. So in the central terminal building model you've got LaGuardia Gateway Partners that is essentially the landlord of the facility that handles all the maintenance, all of the costs and the management of the facility. With our facility we do that and you've seen that in C & D you've seen it in other cities where we've done innovative things like leading the way partnering with OTG or partnering with Clear and being able to do those things because we know it's a central Delta facility and we're running for Delta customers and we know Delta customers very well rather than more of a kind of a cross blown, cross industry type mix. That doesn't mean that they can't run an airport well. I think it's just a different model and when you're more directly linked to the customers, you've got better efficiency and better opportunities and if you want to add anything to that, Gil?

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

No. I think that sums up well.

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

A

Number three.

Brandon Oglenski
Analyst, Barclays Capital, Inc.

Q

Hi. It's Brandon Oglenski from Barclays. So I wanted to ask about the enterprise level efficiency initiatives you guys have discussed today. I guess that makes Mr. Chase a $1 billion man in the future here at Delta, but...

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

A

New nick name for Gary now, yeah.

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

A

Be a $1 billion man or zero dollar man, one or the other.

Brandon Oglenski
Analyst, Barclays Capital, Inc.

Q

I didn't say it. Anyways, Paul and Gil, can you talk about – I think it was in Gil's presentation, maybe even Paul you referenced a page that Delta has been very siloed, you're doing very well internally and the verticals, but how integrated is finance and operations now, really translating little ideas from employees that could actually add up to a lot across the enterprise. Is that being captured there, is there something that is changing looking forward.

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

A

You can crack. Yeah.

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

A

You start off.

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

A

Well I'll start. Yeah. First, I would say there is already a strong integration with finance and ops. In fact, in each of our operating divisions, there's a finance team embedded with the ops leadership team, the goals, the – I mean, it's a one unit approach. So again within the "silos" or the divisions, there's tremendous teamwork and focus there. I think where the opportunity really plays out is really is pulling up that next level and looking, you can call it cross-silos, but I would rather describe it as a system approach. So we understand where the demand piece of the equation is coming from as well as how do we truly optimize across the system, and that includes each of the silos, because it's suboptimal when each silos trying to do their thing for cost control. But when you pull up a little bit, it also involves – there may be one area that should be suboptimal for the overall system approach.

So, the IROP is a good example of that. Paul touched on it during his presentation. When we look at this, crew scheduling is a part of that. And we tend to actually drive our crew schedules, very biased towards cost, ultimately trips construction. There's a lot of variables that come into that. As part of looking at the IROP and the effect that that an irregular operation has on costs, it's substantial. So we've tactically added some buffer times, you know at the end of the day, at the beginning of the day with the crews as well as keeping more crews with aircraft on through-flights, so that you might look at that on a clear day basis and go that's probably not cost optimizing. But if you look at it at a system level, especially during IROPs in the magnitude that that can create on a cost basis with premium time trying to recover the schedule, it's actually very much worth that in the equation.

That's an example, but then really it's network and it's partnering even deeper with Glen's team to understand schedules where we're putting aircraft, how we're routing aircraft, the variability, all those things to look and then to pull up and say how does that affect, where can we accomplish the same things on a the revenue basis, operational basis but mix the pieces of – around a little bit differently so that we can pull cost out of the business as well.

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

A

And I think Gil summed it up well but I'll add one other component to it which is not unlike many other companies, our ability to collect data has far outstripped our capacity to analyze it, right. So a lot of that analysis defaults into what you do every day and how you think about doing your job better every day. We've got to be able to take those resources that we have and through Erik's leadership of the analytics group and other departments within the organization is take that and extract it out to really understand the tradeoffs that are inherent in the business.

If I'm going to optimize this piece, what cost am I putting on another area of the business that even an embedded finance team and that line of business looks at it and says I have some inflation, I got to go and deal with it and I'm going to impose a cost on somebody else. So it's really taking that really horizontal, cross-sectional view of the business and thinking about it in a sort of different dimension of optimization than what we've seen before. I think we have time for one more question. Mark?

Mark S. Streeter
Analyst, JPMorgan Securities LLC

Q

Thanks, Paul. Mark Streeter from JPMorgan. And it's nice not to have to ask you about your credit rating, but I want to talk to you about CapEx in the aircraft because you really have three ways to pay for the aircraft. Unsecured bonds where the cost has come way down. Your debt like EETC, the cost has come way down. Sale leasebacks, if you want to go that route where the cost has come way down or cash, we have a high opportunity cost [ph] to use the (03:48:40) cash to fund aircraft unencumbered. How should we view the mix going forward? Because it has evolved over time, how should we think about that over the next couple of years?

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

A

Well, I think you've seen over the last few years, a portion of aircraft being leased. I think that's the core of what we need to do to make sure that we're building that flexibility going forward. So as we've talked about before, our leased portfolio went from 25% to 30%, all the way down to 6% to 8% in the peak of our de-levering back in 2009, 2010, 2011. We've slowly built that back up. We're sitting at under 20%. We'd like to probably get that into a 20% to 25% range, is the right mix. We've got to reassess all of that in the face of a very dramatic change in tax and how we think about that economically. But as to whether or not they're debt financed or cash, it's really a function of how are we managing the treasury in the aggregate. We always have that flexibility when CapEx is 50% of cash from operations to pay cash for things, that is obviously the most efficient thing to do from a P&L perspective et cetera. But we've got to work that into what is that targeted balance sheet, as we'll continue to discuss going forward over the years as the pension gets closer to fully funded. Lot of different ways to think about that. So it is the benefit that we have of the credit that we've built that we have a lot of optionality and flexibility and how we think about the business.

So, with that, I think Jill have got some closing remarks.

Jill Sullivan Greer

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

My closing remarks are simply to say thank you, [indiscernible] (03:50:20) job again guys. And to welcome at Ed Bastian back to the stage.

Edward H. Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

So, I want to thank everybody for the last day-and-a-half. It's a lot of your time that you've invested in us. Hopefully it was productive, it was useful. Next year we're going back to the Church. So we're going to do this on a rotating basis. Every other year, we're going to do Atlanta, we got to go to the Church next year, we can't be out of the Church for too long. But I thought it was a very, very good conference. So, I want to thank Jill and her team for all the work you did in putting it together. All of our employees that you had a chance to meet throughout the operations over at TechOps, getting on the aircraft. I think you had a very wholesome view of why we're excited about the future. It's a great company.

This is a company that does have a heartbeat and it has a pulse. And we think about all the tough questions around how to make the ROIC work better, but we also think even more importantly, in terms of how we're going to continue to perpetuate the culture, continue it best, because that is the distinguishing factor that does keep us on top. We had no advantage other than that fundamentally in this industry, and that's the thing we're investing an awful lot of our time. So I thank you all you've done in terms of [indiscernible] (03:51:46) continue to stay with us on the investment track and we'll keep you posted as the new year unfolds.

So that said, we talked a lot about people and this last week our employees over in TechOps, you got a chance to see, raise $60,000 of their own money and built over a 1,000 bikes and toys for kids in need right here in Atlanta and in lieu of giving you a nice parting gift, we're going to do something better than that. So on your behalf, we're going to donate another $25,000 to the Atlanta Marine Toys for Tots campaign. And at this point, I want to welcome up to the stage, Lieutenant Colonel [indiscernible] (03:52:32) and Staff Sergeant David Wright who are here from the Atlanta Toys for Tots. Gentlemen, please join me.

So on behalf of all of our attendees here to our conference, thank you for what you do, in serving the needy of our community. We're great partners of yours and we're going to continue to stay great partners, but it's this time of the year that especially makes a difference and thank you for taking this money and then multiplying it in the eyes of the deserving children in this community. Thank you.

Unidentified Participant

On behalf of General Osman, General McMillan, my boss. My boss who unfortunately couldn't be here, Colonel Oppenheim, and of course the entire Toys for Tots Foundation and the Atlanta team, thank you so much to all of you for making this contribution. It is our goal to ensure that every child that is identified is provided the opportunity to receive a toy and to make their Christmas a little bit better. And this donation along with TechOps' efforts and donations are definitely going to go a long way to make that happen, both here in Atlanta and across the country. So thank you so much for what you've done.

Unidentified Participant

Thank you. Appreciate that. Thank you.

Unidentified Participant

Thank you. Appreciate that.

Edward H. Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

So with that, you're all dismissed. We have lunch over here in the hanger and hopefully we'll get chance to continue the conversation over lunch and thanks again for making the trip down. Remember, bring the cold weather back up to New York as you're leaving. Thank you.