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Delta Air Lines, Inc. (DAL)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Delta Air Lines December quarter and full-year financial results conference. My name is Eboni, and I will be your coordinator today. At this time all participants are in a listen-only mode until we conduct a question-and-answer session following the presentation. As a reminder, today's call is being recorded.

I would now like to turn the conference over to Jill Greer, Vice-President of Investor Relations. Please go ahead, ma'am.

Jill Sullivan Greer

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

Thanks, Eboni. Good morning, everyone, and thanks for joining us for our December quarter and full-year earnings call. Joining us from Atlanta today are: CEO Ed Bastian; our President, Glen Hauenstein, and our CFO, Paul Jacobson. Our entire leadership team is here in the room for the Q&A session. Ed will open the call and give an overview of Delta's financial performance. Glen will then address the revenue environment and Paul will conclude with a review of our cost performance and cash flow. To get in as many questions as possible during the Q&A, please limit yourself to one question and a brief follow up.

Today's discussion contains forward-looking statements that represent our beliefs or expectations about future events. All forward-looking statements involve risks and uncertainties that could cause the actual results to differ materially from the forward-looking statements. Some of the factors that may cause such differences are described in Delta's SEC filings. We'll also discuss non-GAAP financial measures. All results exclude special items unless noted otherwise. We are also providing cost comparisons on a normalized basis as this better matches the retroactive expense we incurred in the fourth quarter 2016 from our pilot contract in the appropriate quarters of 2016. You can find a reconciliation of our non-GAAP measures on the IR page at ir.delta.com.

And with that, I'll turn the call over to Ed.

Edward H. Bastian

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

Thanks, Jill. Good morning, everyone. We appreciate you joining the call this morning.

Earlier today Delta reported December quarter and full-year results including a December quarter pre-tax profit of $1 billion and an EPS of $0.96, ahead of consensus which sat at $0.88. This rounds out the year with a $5.5 billion pre-tax profit and a 14.4% operating margin. Operationally, the month of December presented us with several unique challenges, a significant Southeastern snowstorm and the Atlanta airport power outage. Together, these events drove a $60 million impact and roughly 2,900 cancellations. And thus far in January, our teams have persevered through the storm that hit the East Coast earlier in the month and a water main break at JFK this past weekend.

I want to thank the Delta people for their incredible work in taking care of our customers while recovering from these difficult events. Once again they demonstrated that our people and our culture are Delta's strongest competitive advantage but it also reflects the importance of the significant airport infrastructure investments that we are making to enhance the tools available to our employees to improve our customers' experience. For their outstanding work, we're pleased to recognize the Delta team with over $1 billion in profit sharing this year, which will be the fourth consecutive year of paying $1 billion.

With our culture at the foundation, we are focused on the ways to improve our operational performance. We're running the best operation in the industry and ended 2017 with 242 days of no mainline cancellations, including a 50-day streak, 5-0, without a single mainline cancellation, while keeping domestic mainline on time arrivals at 85.4%. We also had 90 days in 2017 with no system cancellations on the entire Delta platform, or brand perfect days as we call them, over 10% more than last year. The extraordinary work by our entire operations team resulted in Delta being named 2017's most on-time global airline by FlightGlobal, the first time a U.S. airline has earned this distinction. And in today's paper, we're pleased to see Delta named as the top airline of 2017 as determined by a thorough analysis conducted by The Wall Street Journal.

Running a great operation not only drives customer satisfaction but also cost efficiency. Our operating performance combined with the investments we've made in our people, our fleet, products and facilities have driven a two point improvement in our net promoter score this year, including reaching an all-time high of 46.9% for the month of November.

So while 2017 certainly had its challenges, it was a very successful year. Customer and employee satisfaction remained strong, and we produced solid financial results, enabling significant investment in Delta's future. And as we laid out at Investor Day last month, we're entering 2018 with solid momentum. However, we are mindful of rising jet fuel prices. Our fuel expense rose by nearly $350 million in the December quarter, and current market jet fuel prices are 30% higher than last year.

While higher fuel prices help create greater stability for the industry over the long run, in the short term it does take time for our business to recalibrate and recover those costs through our revenues. But with a solid demand environment and economic backdrop, combined with the flexibility that we've built into our business, we feel well positioned to address this higher fuel environment. Glen and Paul will take you through the details, but I'd like to spend a couple minutes on our path to strengthen our company and grow earnings in 2018.

First, we have to keep our top line growing. We're targeting a 4% to 6% revenue increase while maintaining prudent 2% to 3% system capacity growth. We're currently seeing the best revenue momentum we've had in five years, and the December quarter was the first time all entities were positive since early 2013.

We're gaining ground with our commercial initiatives and demand remains very strong. In fact, we set a new number one system and new domestic revenue record on the Sunday after Thanksgiving.

Second, we'll leverage our international opportunities by our own growth as well as through our partner relationships. After several years of shrinking our international capacity in response to economic weakness and the strong dollar, we're in good position to benefit from the improved global outlook. Our portfolio of investments is essentially complete, and we have built a $2 billion asset that includes some of the leading airline brands around the globe. We'll drive enhanced value over the coming years through deeper integration of the Air France-KLM and Virgin Atlantic joint ventures and we'll be building out our JVs with Aeroméxico, Korean, and WestJet.

Third, we must change the trajectory on unit cost and deliver on our 0% to 2% non-fuel CASM growth guide for the year. It is the top priority for our finance team. Our decisions to invest in the business and restrain capacity in 2017 were the right ones but they also contributed to unit cost growing over 4% for the year. This is not sustainable. With 60 new aircraft to be delivered this year, our upgauging strategy is set to produce some of the greatest efficiency gains in Delta's history and will play a key role in returning our cost to a better level.

And finally, we are focused on making technology, an improving source of competitive advantage. We are in the midst of a significant digital transformation which will enhance our customer interactions and deliver more personalized service, further strengthening our brand and revenue premium. With a pipeline of initiatives that we laid out at Investor Day supporting these themes, we have a path to grow earnings this year and now expect to produce $6.35 to $6.70 per share in 2018, an improvement from our earlier guidance based on the additional benefits from tax reform.

And as we think about the business long term, we will continue to build upon and leverage our key economic moats, those competitive differentiators that will ensure our future success – our culture, our industry leading operational reliability, our unrivaled domestic network, our customer loyalty and brand, and our investment grade balance sheet. Put together, these are Delta's unique advantages that provide the foundation to not only sustain our performance but also improve upon our results. It's a powerful combination. It's why I have confidence and optimism for the year ahead.

With that, I'll turn the call over to Glen.

Glen W. Hauenstein

President, Delta Air Lines, Inc.

Thank you, Ed, and good morning, everyone. With the momentum we've built throughout 2017, we are starting 2018 with a better revenue backdrop than we've seen in many years. Revenues in the quarter increased 8% driven by modest capacity growth, broad-based revenue improvement and strong ancillary contribution. These results included a $45 million impact from Winter Storm Benji and the Atlanta power outage. My thanks go out to the entire team for everything they have done this year to take incredible care of our customers, especially during the operational challenges, it's truly our people who make the difference.

For the quarter, passenger revenues increased $527 million or 7%, driven by strong demand and improving business yields. Our investments aimed at corporate travelers continued to gain traction as Delta was named best airline in the Business Travel News survey for an unprecedented seventh consecutive year. Our fourth quarter corporate revenue growth was our highest since 2014 with both passenger volume and average fare improvements. Going forward, we expect corporate momentum to continue. Our last survey of corporate travel managers showed more than 88% project their spend will be maintained or increased in 2018. This is a 3 point improvement from last year's numbers and is the most positive outlook we've seen in three years.

We also have continued strength in cargo and other revenues with cargo contributing a third consecutive quarter of double-digit improvement, up 14% in the December quarter. This caps off our first year of increase in the cargo revenue in six years. Our partnership with American Express produced an incremental $90 million of value in the quarter. In 2017 we enrolled over 1 million new SkyMiles Credit Card accounts, a record for annual enrollment. Co-brand spend was up 12% versus the prior year, outpacing the industry growth as reported through the third quarter. We expect another solid year of growth with an incremental $300 million from our American Express agreement in 2018.

Turning to unit revenues, 4Q system PRASM was up 4.2% with all entities closing the year in positive territory as we saw underlying improvements throughout the quarter. These results include about 0.5 point from a one-time revenue adjustment. The domestic entity delivered its third consecutive quarter of positive year-over-year PRASM with solid demand for both business and leisure. And for the quarter all hubs produced positive unit revenue results. We continue to see improvements in business markets with now 81 of the top 100 business markets in positive yield territory, up from 50% at the end of 3Q. Our domestic revenue premium stands at 117% of industry average and we expect to maintain this performance while absorbing the industry's highest increase in stage length and gauge.

Internationally we saw improving trends with unit revenues, again, outperforming the domestic entity for the quarter. Foreign exchange was a 0.2-point tailwind to the system PRASM after three years of currency weighing on our international revenue performance, we are positioned to benefit from a tailwind from foreign exchange in 2018.

In the transatlantic, unit revenues increased 7.4% on strong business class booking and foreign exchange tailwind. Our branded fare products led the industry providing customers a tailored travel experience with Basic Economy now selling in over 50% of European routes. We look forward to introducing our Premium Select product in the transatlantic market in March.

Our Latin entity unit revenues grew 4%, the sixth consecutive quarter of positive unit revenue. In spite of lingering impact from a particularly disruptive hurricane season, we saw strong demand trends across the portfolio. And we are already making progress on our alliance integration with Aeroméxico as we enter the first full year of the joint venture and we are excited about the upside opportunities.

The Pacific entity returned to positive PRASM for the first time in 4.5 years. This is especially encouraging as these results included a 7% year-over-year increase in our transpacific stage length. We achieved several important milestones in the multiyear transformation of the region, including approval by the U.S. DOT for a joint venture with the Korean airlines and the final retirement of the 747s with deliveries of six A350s within the quarter. The launch of the A350 has been very successful with strong demand and yields for both the award winning Delta One suite and Delta Premium Select products. In the first quarter of 2018 the A350 will also be introduced on additional routes including Detroit-Beijing and Atlanta-Seoul. Our four core hubs have the best connecting structure to drive volume.

Looking forward, the global economic remains encouraging. Demand remains strong and we expect all four geographic entities to continue momentum in the first quarter. With market fuel prices up 30% year-over-year, we must ensure that we recapture fuel through higher revenues. Based on the industry's historical recapture trends, we are confident that we will be able to cover this increase in the medium- to long-term and our focus is to accelerate this process.

March quarter TRASM is expected to increase 2.5% to 4.5% on a 3% capacity growth which includes 1 point increase in stage length and 2 point increase in gauge. We expect the solid demand environment combined with benefits from our initiatives will produce quarterly TRASM at roughly this level through the year despite increasingly tougher comps.

As we shared at Investor Day, the outlook for 2018 is really exciting as we think about three platforms that will drive Delta's revenue and earnings growth. The first one is continuing to build more efficient and global airline. Our four domestic core hubs have the best connecting structure to drive volume, lower cost per enplanement, and enable continued up-gauging. This is the foundation of our domestic margin expansion for the future.

The pipeline of opportunity continues into the next decade as the A321neos that begin delivery in 2020 are 40% more fuel efficient than the current MD88s. We will have over 45% of our domestic seat departures in the most efficient large-gauge narrow-body aircraft type by 2023.

The globalization efforts that we've been working on are coming into focus and fruition. In 2018, we are positioned to further leverage the partnerships we have in place, driving an expected $100 million in value with even greater upside to come.

Second, we will strengthen our brand and improve the customer experience. Over the next decade, we have more than $12 billion in airport facility projects planned in Atlanta, LaGuardia, Los Angeles, Salt Lake City, and Seattle. We are anticipating future travel trends and technology to build the airport of the future as we strive to continue improving the Delta experience.

And finally, we will continue to enable customer choice as our fleet evolution continues to support our segmentation initiatives. Branded fares generated an incremental $200 million in the quarter. First Class upsell and Comfort+ revenues grew 25% to 30% for the quarter, and post-purchase capability drove $80 million of revenue in 2017 following its midyear launch.

In 2018, we expect $350 million in incremental branded fare contribution, up to $2.2 billion annually, driven by a 5% growth in premium seats from new aircraft deliveries and expanding Basic Economy. With a favorable macroeconomic environment, international tailwinds, and benefits from our commercial initiatives combined with the great service of the Delta people, we have laid a path for solid top line growth in 2018 and beyond.

And with that, I would like to turn the call over to my good friend, Paul Jacobson.

Paul A. Jacobson

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

Thanks, Glen. Good morning, everyone, and thank you for joining us.

I'd like to start by echoing Ed and Glen in thanking the Delta team for all they've done to take care of our customers and each other through some pretty unprecedented challenges in the last year.

For the December quarter, total operating expenses increased $1 billion, driven by higher fuel and continued investments in our business. Non-fuel unit costs were up 5.6% for the December quarter and up 4.3% for the full year. This includes $85 million of accelerated depreciation which hit in the back half of the year and pressured our full year CASM by about 0.3 point.

The investments we made in our product, operation, fleet, and our people were important and are already driving benefits. But as we mentioned before, we cannot sustain unit cost growth at this elevated level over time. We expect the March quarter to be our peak cost growth of the year, with unit costs up 2% to 4%. The majority of our non-fuel expense growth should happen in the front half of the year, and we are on a path to achieve zero to 2% non-fuel CASM growth for the full year.

In order to get there, first we will lap costs we began incurring last year with a 6% April employee pay increase. Second, depreciation expense will trail off markedly in the back half of the year as we annualize the accelerated depreciation on our fleet and facilities. To give some perspective on this, depreciation for 2018 is expected to be up $250 million, with $200 million of that increase in the first half of the year alone.

Finally, our maintenance expense has been weighted towards the front half of the year as we gear up for summer flying and some aircraft extensions that have been required as a result of the delays in deliveries of the C Series. To meet our remaining cost targets, we'll look primarily to our upgauging and efficiency initiatives. As Ed said, the delivery of 60 aircraft in 2018 will drive some of the greatest efficiency gains in Delta's history, with over $100 million in expected non-fuel savings this year alone.

Then, as I detailed at Investor Day, we have launched an enterprise-level project to drive efficiencies across the organization and leverage our scale. We'll be looking at things differently and changing the rules on how we manage the business. On a cost base of $27 billion, we believe $200 million of savings this year is definitely achievable.

For example, we're optimizing how we manage fleet complexity in our network. In January, markets with four or more equipment types have been reduced by 60% year over year. We will also have all MD88s based in Atlanta by this summer, driving approximately $25 million in staffing and maintenance efficiencies alone. Additionally, we've identified other opportunities in network scheduling, hotel spend, and transportation. These are just some examples of the opportunities we have ahead of us, and we feel good about where we are at this stage in the process.

Turning to fuel, our total fuel expense increased $349 million in the quarter, as market prices were 10% higher than the third quarter and 23% higher than prior year. Some of that pressure was offset by the refinery, which contributed $24 million in the quarter and $110 million for the full year.

Importantly, the fourth quarter marks the last quarter of the legacy hedge losses, so we are really going to be able to see the benefit that's being generated by our fuel team. Furthermore, our new aircraft deliveries will drive 2% in fuel efficiency gains in 2018. For the March quarter, we expect our all-in fuel price to be $2.05 to $2.10, which includes the recent run-up in fuel prices.

Now turning to EPS for 2018, our improved non-fuel cost trajectory along with the top line growth highlighted by Glen will allow us to deliver solid earnings growth this year, with further improvement from the benefits of a significantly lower corporate tax rate, as we discussed at Investor Day. This takes our full-year forecasted EPS to $6.35 to $6.70, up 20% to 30% versus 2017.

However, the March quarter will see both the peak of our non-fuel CASM growth and the recent run-up in fuel prices, which will impact our ability to grow earnings during the quarter. And we therefore expect EPS in the range of $0.60 to $0.80 per share. This equates to a pre-tax margin of 6% to 8%.

And finally, our strong cash generation and investment-grade balance sheet allow Delta to execute on our investment opportunities. We generated $1.7 billion of operating cash flow for the quarter, which allowed for reinvestment in the business through $1 billion in CapEx related to aircraft, technology, and ground. We also invested $450 million to purchase a 10% stake in Air France-KLM.

Looking at the full year, we expect capital spending in 2018 of roughly $4 billion and continue to target CapEx at 50% of our operating cash flow. During the quarter, we generated $435 million of free cash flow, used towards the repurchase of $325 million of our own shares and to pay $216 million in dividends. We remain strongly committed to shareholder capital returns and returned a total of $2.4 billion in 2017, the third consecutive year we returned at least 70% of our free cash flow to our owners, and we continue to target that level going forward.

We also ended the year with $8.8 billion in adjusted net debt, and our unfunded pension liability was $7 billion, down $3.6 billion year-over-year. With our pension funded status at 68%, that's our highest level since 2001. We are well on the path to achieving our pension funding target as we continue to strengthen our balance sheet and remain committed to maintaining our investment grade rating that we worked so hard to achieve.

Looking back on 2017, we had a tremendous year for our people, for our customers, for our shareholders, and the communities that we serve. We're poised to build on that success in 2018.

And with that, I'll turn the call back over to Jill so we can begin the Q&A.

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

Eboni, we're now ready for questions from the analysts if you could give them instructions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we'll take our first question from Andrew Didora with Bank of America. Please go ahead.

Andrew G. Didora
Analyst, Bank of America Merrill Lynch

Q

Hi. Good morning, everyone, and thank you for taking the questions. I guess first, Glen, you have previously talked about how your – I think it was your corporate contracted business had fares, I think roughly 20% below where they were in 2014. I guess can you give us an update on where they stand now? And how much of a benefit is in your 1Q PRASM guide for a return of business, really a return of business travel demand stemming from the tax cuts?

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

A

We're very excited about the potential for increased business demand with the tax cuts. We haven't seen that materialize yet, but we expect that to materialize in the first quarter. And our guide does not have that because we can't see it yet. So the fare levels have stabilized and started to improve, but the fare levels are only a few percentage points higher than they were in the trough, so I think there's a lot of opportunity moving forward as demand continues to improve.

Andrew G. Didora
Analyst, Bank of America Merrill Lynch

Q

Great. And then second question is just for Paul, two on the cost side. I guess one, what is your Brent assumption in your new EPS guidance and did that change from Investor Day? And then secondly, just the timing of maintenance costs, why is 1Q different from other first quarters in terms of maintenance spend ahead of a busy summer period? Are you just expecting to run the network harder, or is there something else I'm missing there? Thanks.

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

A

Sure. Good morning, Andrew. Thanks for those questions. On the maintenance question, I would say it's a little bit higher than traditional first quarters. As you know with the mitigation of the C Series delays that we've seen, we've got little bit more work to do on the existing fleet versus expecting that the new aircraft we're going to deliver for the summer schedule. So I would say it's a little bit disproportionately weighted from that perspective. And if you wouldn't mind, repeat your first question. Sorry.

Andrew G. Didora
Analyst, Bank of America Merrill Lynch

Q

No, just curious what your assumption for Brent was in your full year guide, and did it change since your Investor Day? Thanks.

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

A

Yes. Sorry about that. We haven't changed the full-year guide. It's obviously very early in the year. I would say we're slightly ahead of what our expectations were for 2018 in terms of the rapid pace of the price appreciation. But we have a long way to go, and we know that, that is volatile. But we did assume the forward curve, as we always do, but we feel okay about where it is right now. But we're obviously watching it closely.

Andrew G. Didora
Analyst, Bank of America Merrill Lynch

Q

Great, thank you.

Operator: Our next question will come from Michael Linenberg with Deutsche Bank. Please go ahead.

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

Q

Yes. Hey, just a question to Glen. You talked about FX showing up in the international unit revenue having a positive impact. What about the return of fuel surcharges? It looks like that they're now coming back into the Pacific. Are you seeing that? Have they increased recently? Can you just give us some update on that?

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

A

Yes, clearly internationally, we've seen fuel surcharge increases due to the higher level of fuel. And we expect that to continue if fuel stabilizes at this or a higher level.

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

Q

Okay, just a question to Paul. Can you – as I recall from the Republic bankruptcy, I believe you own a piece of that. What is the percent, and is that being accounted for under the equity method?

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

A

No. That all the changes in value there flow through equity, so it doesn't – the ownership itself doesn't have an impact on the P&L.

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

Q

Okay. But you own – what is it – you own, what, 25% of that, I believe?

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

Yes. It's in the 20-ish percent range.

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

Okay. Okay. And that's just being run through the non-op. Okay. Great. Thanks, Paul.

Operator: And we will take our next...

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

No. Hey, Mike, just to clarify. Yes, I'm sorry, operator. Mike, just to clarify that, no, it runs through the balance sheet. It does not run through non-op because it's not publicly traded.

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

Okay. Okay. No, thanks. I appreciate that. That's helpful.

Operator: Our next question will come from Jamie Baker with JPMorgan. Please go ahead.

Jamie N. Baker
Analyst, JPMorgan Securities LLC
Q

Hey, good morning, everybody. First, Paul, I know your trailing view on hedging but as you're obviously aware, the market has returned to backwardation for the first time in, I don't know, 2.5 years, if memory serves. Just wondering if this might influence your thinking on this topic, the hedging topic?

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

No, Jamie, thanks for that question. There's no change. I think – as I've said, I'm relieved to be able to say the legacy losses are behind us, and we feel good about where we are competitively, especially the work that we've put into the supply side of it, both harvesting the benefits of the refinery but also looking across self-supply at multiple stations and feel good about where our position is. And I think the industry is at a parity level on fuel input cost that it hasn't seen in quite, quite some time.

Jamie N. Baker
Analyst, JPMorgan Securities LLC
Q

Okay. And second for Glen, I thought Mike's question on fuel surcharges was a good one. They're not permitted domestically. I think it was Allegiant that took a stab a couple of years back, unsuccessfully at that, to potentially revise that. It does make me wonder – and thanks, Mike, I only began to wonder this in the last 90 seconds, given the current political and regulatory climate, perhaps you would have a more receptive ear in Washington on the topic of domestic fuel surcharges. Is that anything we should be thinking about?

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

I think I'm going to toss that to Peter Carter, our General Counsel, because that's really...

Jamie N. Baker
Analyst, JPMorgan Securities LLC
Q

Okay. Yes, perfect.

Peter W. Carter
Chief Legal Officer, Executive Vice President, & Corporate Secretary, Delta Air Lines, Inc.
A

Jamie, hi. Good morning. I would say we haven't given that particular issue much thought, but there is no question that the Trump administration has been very open to the airline industry in general. And I think frankly business. So interesting question and I appreciate it.

Jamie N. Baker
Analyst, JPMorgan Securities LLC
Q

Okay. Fair enough. Thanks, gentlemen. Take care.

Operator: We will take our next question from Duane Phennigwerth with Evercore ISI. Please go ahead.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

Hey, thanks. Good morning. Glen, can you expand a little bit on your comment about keeping unit revenue growth rates at the level of your March guidance despite tougher comps? How do you see that playing out? And I wonder – and sorry if I missed it, would you be willing to rank the geographies in terms of unit revenue growth rates you expect in the March quarter?

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

Sure. Let me start with the second one first because I think it's the easiest. I think we would expect the transatlantic to be number one, Latin to be number two, domestic to be number three and Pacific to be number four. So that's a pretty easy question. And the second question was what again? I'm sorry.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

I think you made a comment in the prepared...

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

So our business plan is predicated on a 6.5%, 7% total revenue growth or passenger growth. And that equates to a 2% to 3% capacity increase and around a 3.8% – right around 4% unit revenue. So we're kind of treading at the rate that we need to get to generate that revenue throughout the year. And so we feel pretty good about where we sit today versus what we need to achieve to get to the business plan, which is very different than where we were last year when we started the plan because if you remember, we were in negative territory last year when we had the same call, the fourth quarter call and we had to move that to positive momentum.

But that was a much heavier lift than really just playing out what we had and as you go through the year, then just keeping that baseline moving. So I think we feel a little bit better. Not that it's not challenging, not that there won't be a lot of things we don't expect between now and December of next year and we know that, but we feel a little bit better about the line of sight to getting from where we are to where we need to be versus last year and turning from a negative unit revenue growth to positive.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Thanks, Glen. And if I could sneak one more in on Paul. Your operating cash flow was up materially year-over-year in the fourth quarter. It looks like you had about a $700 million working capital benefit. Can you talk about what drove that? Thanks for taking the questions.

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

A

It was a number of things, but I think it also bears mentioning that as a result of our investment grade balance sheet, we have done an initiative with the supply chain to go out and work proactively with our vendors to extend some of our payment terms and do other things to drive working capital in the business. So we're focusing on that very consciously.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Thank you.

Operator: Our next question will come from Hunter Keay with Wolfe Research. Please go ahead.

Hunter K. Keay, CFA
Analyst, Wolfe Research LLC

Q

Sorry. Can you guys hear me?

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

A

We can now.

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

A

We hear you, Hunter.

Hunter K. Keay, CFA
Analyst, Wolfe Research LLC

Q

Sorry. I apologize for that. Are you expecting a headwind from the change in frequent flyer revenue recognition around the interlines of the prevailing market rate or whatever it's called? I think I had heard about $100 million? Is that factored in to the EPS guide or is that a static number? Can it change? How are you thinking about that?

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

Hey, Hunter. This is Paul. So as we talked about at Investor Day, we don't expect material year-over-year changes from revenue recognition on the full-year basis.

Hunter K. Keay, CFA
Analyst, Wolfe Research LLC
Q

Okay. Thank you. And then on the 2018 guide – pardon? Sorry, Paul. What?

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

No, I was just supplementing – go ahead, Hunter.

Hunter K. Keay, CFA
Analyst, Wolfe Research LLC
Q

All right. On the 2018 – I don't know if my phone is breaking up or – I can't hear you. So, on the 2018 earnings guide, if you find yourself drifting out of the low end of the range for whatever reason, where do you think you have the most incremental opportunity to get back in it? Is it non-fuel costs? Is it revenue? Or is it something else?

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

Hunter, this is Ed. I'll take that. I mean, it's really premature to be speculating how 2018 is going to be rolling out. We feel optimistic given the guide and our commitment to getting our non-fuel costs back to flat with 0% to 2%, but you've heard me say before my expectation is closer to 0% than 2%.

And the demand environment is the healthiest we've seen in years and so I think fuel is a little bit of a wild card there. We'll see how that plays out. It seems like the market has gotten overheated over the last few months. We'll see where that settles out. But we feel pretty confident that it's roughly a 20% to 30% bump year-over-year on EPS is our best look. And I wouldn't get into how do you manage some of the levers. It's way too early.

Hunter K. Keay, CFA
Analyst, Wolfe Research LLC
Q

Okay. Thanks.

Operator: Our next question will come from Darryl Genovesi with UBS. Please go ahead.

Darryl Genovesi
Analyst, UBS Securities LLC
Q

Hi, guys. Thanks for the time. At your Investor Day, you had suggested that perhaps if tax reform were to be passed that there would be some incremental pension contributions. Is that something that you're looking at for 2018, or would that basically be on hold until 2019 when the cash tax savings, kind of, starts to appear?

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

That's right, Darryl. We obviously are not going to see any cash savings in 2018 from tax reform since we weren't anticipating paying any taxes and we still don't anticipate paying taxes in 2018. But as we become a taxpayer between 2019 and 2020, the reduced level of taxes that we ordinarily would pay, one of the sources for those proceeds would be to continue to fund and hopefully get as close to a fully funded status in pension over the next several years as possible. So that to me would be high on the priority list.

Darryl Genovesi
Analyst, UBS Securities LLC

Q

Okay, thanks for that. And then I guess just on – I wanted to ask you a little bit about aerospace manufacturer and supplier consolidation. It would appear that the proposed Airbus deal with Bombardier would benefit you in some way, but now you've got media speculation that Boeing and Embraer are talking, and you've already seen some suppliers get consolidated away over the last couple of years like [indiscernible] (37:37) and B/E Aerospace and others. Would you anticipate this being a problem for you in terms of how you'll manage your fleet costs over the next few years?

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

A

We don't anticipate that being a significant issue. As you mentioned, the Airbus Bombardier deal we're supportive of, and we think that will enhance the ability for the C Series to come to market.

With respect to further supplier consolidation within the OEMs, we have conversations with all those OEMs, and we are certain that we set expectations around performance for them and ensure that Delta is not harmed from any of that. And we've received their commitments that this is actually only going to enhance their service levels to Delta, not put us in a competitive disadvantage.

Darryl Genovesi
Analyst, UBS Securities LLC

Q

Great, thanks very much.

Operator: Our next question will come from Brandon Oglenski with Barclays. Please go ahead.

Brandon Oglenski
Analyst, Barclays Capital, Inc.

Q

Good morning, everyone, and thanks for taking my question. So, Ed, I wanted to come back to one of your prepared remarks talking about how fuel can drive greater stability in the long run for the industry. I think you were saying higher fuel prices. But then Glen also talked about accelerating revenue recapture that the industry historically has done. So I guess it's not the same as Hunter's question, but we do know fuel costs are higher here. So what are some of the things that Delta can do specifically to help drive that revenue recapture and really push down fuel volatility for your investors?

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

A

Our ability to push down fuel volatility is, I think that's a little outside our control. We do our best to manage the fuel environment that's in front of us. I think the biggest thing we have going in our favor in 2018 is a strong economy with a lot of optimism. We've got a significant list of commercial initiatives that are coming to fruition. We have a strong international environment, which we haven't seen in a number of years. So that's the main focus in terms of being able to recover and recapture fuel.

Historically, the industry has always managed spikes in fuel by offsetting reductions in capacity. I think it's premature and early yet to start to adjust our 2018 capacity plans, but we will look as the next few months unfold, as fuel prices continue on this tear. It certainly will have an impact, and we'll be prepared to deal with that going forward. We know how to do that well. But I think the economy is the biggest benefit, and I think that's the lever we'll be using to manage the fuel environment.

Brandon Oglenski
Analyst, Barclays Capital, Inc.

Q

Okay, I appreciate that. And, Glen, it might just be my phone is not too good here either. But you were talking about three platforms for revenue expansion, and I think what I heard was upgauging and airport investments, but maybe I'm simplifying that. So can you come back to some of those longer-term revenue initiatives and really focus us in on what are the keys there?

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

A

Sure. I think the key for us domestically is the continued upgauge strategy. And one of the benefits that that provides is a higher level of the premium products and services that have been so successful in the marketplace. If you think about where we started many years ago with selling First Class and then introducing the enhanced economy products domestically, we've come a long way since then. And every year, we think those products – how do we continue to mature? In some ways they're very established now, they're still very young products. They're only in the marketplace three, four, five years.

And some of the things we have on the horizon which we think are really exciting are different ways to be able to buy those products and services. So, for example, if your company's travel plan doesn't allow you to sit in Premium Economy, or in First, this year we allowed you to buy that in a post-purchase. And we sold almost $100 million of that in the first six months of that being available to sale.

By this summer, we're anticipating being able to now also offer that post-purchase in miles. And if you think about how that opens the aperture to control your travel experience for people who want to buy those premium products and services, we think that's going to be key to our ability to drive revenues moving forward. And the fleet itself, just in 2018 alone, provides for 5% greater seat availability by the end of this year in those premium products and services. So not only do we have the base, but we now have the premium products and services and different ways to buy them at different points in the purchase path. And as we continue to work on our digital evolution, we could see expanding that so that we can actually market to you.

And those are things that we have coming in the pipeline in the next months and years that we're really excited about, is not driving to the bottom end in the commodity once-a-year flyer, but to really the people who are discerning and who want to buy premiums in products and services. And I think we've been at the forefront of that for years. We have a very good view of how that's going to play out over the next couple years, and that's really the cornerstone of our ability to continue to drive premium revenues at Delta. Was that too long?

Brandon Oglenski
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: Our next question will come from Joseph DeNardi with Stifel. Please go ahead.

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

Yes, thank you very much. Glen, you talked about the strength of the AmEx partnership and record card acquisitions. I think you guys gave the $4 billion by 2021 target, I don't know, a couple years ago. Is there upside to that at this point just based on how strong the trends have been recently?

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

Joe, this is Ed. I'll take that. Yes, I think there's potential upside, too. I'd say again, we've got close to $1 billion to go to get there yet, and we're having good success and we've got a great partner at AmEx who's fully committed to that trajectory as well. So we'll see how the next several years. But it's safe to say from when we did the deal a couple of years ago, we're running ahead of expectations.

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

Got it, okay. And then, Paul, just on the guidance for the year, is there anything explicitly in the EPS guidance related to mark-to-market adjustments for your equity investments?

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

No, that's all timing and out-of-period, so we wouldn't be putting that in.

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

Okay, thank you.

Operator: Our next question will come from Jack Atkins with Stephens. Please go ahead.

Jack Atkins
Analyst, Stephens, Inc.
Q

Good morning, everyone. Thanks for taking my questions. Ed, if I could ask you a conceptual question about tax reform, I guess the question I've been getting a good bit from investors is around the potential for this to get competed away over time. And so when you think about the P&L savings from a lower book tax rate related to the corporate tax reform, how do you think about the airline industry potentially competing that away over the next several years? And I would have thought given that most U.S. airlines are not cash taxpayers that perhaps it would take some more time to do that, but we're already seeing some of the airlines – not Delta but others – who are not cash taxpayers giving cash bonuses. So I'm just curious to get your thoughts on the potential for this book tax savings getting competed away over the next couple of years.

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

Jack, we have no intent to compete away the tax savings. We will certainly use the tax savings to reinvest in the business to strengthen the balance sheet. I mentioned pension is one of the things that we're focused on. But the core of your question is right. There is very little cash tax being paid by the U.S. airline industry at this moment, so it's hard to compete away something you don't have. I won't comment on the other airlines giving away cash bonuses to their employees. That's great for the employees and I'm glad to see that. We have a sustainable profit sharing plan over the long term that has been far superior to any cash bonuses that any of the others have given out and that's how we pay our employees. So I understand the question. I understand the concern. But it's pretty hard to compete what you don't have.

Jack Atkins
Analyst, Stephens, Inc.
Q

Yes. No, that's definitely fair. One other high-level question. Would a U.S. withdrawal from NAFTA impact your partnerships with either WestJet or Aeroméxico?

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

You know, I'm not going to get into speculation. I don't know.

Jack Atkins
Analyst, Stephens, Inc.
Q

Okay. Okay. Thank you for the time.

Operator: We will take our next question from Savi Syth with Raymond James. Please go ahead.

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

Hey, good morning. Just on the entities, I was kind of curious if you could share, one, the capacity growth expectations by entity for the year. And then, two, with the JVs that have kind of recently been strengthened, when should we see that kind of start to flow through and drive more of the revenue upside?

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

So, Savi, good morning. We don't give into the capacity by region on that detailed level. But on the JV benefits, we're seeing some of that building in now. You see it coming through both on the revenue lines with the sharing but also inherent in the Delta P&L with the synergies that we get from the network. There's a ramp-up period, obviously, as we work through those issues. But I think the international team has done a terrific job, and we'll start seeing some of those benefits in 2018.

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

Got it. And, Paul, if I might, just a quick question on the refinery. What's your expectations there for 2018?

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

So, on the refinery, so 2018 is a turnaround year. We're currently expecting to have a similar year but obviously, it's still very early in the year. But we'll have some down period, especially towards the back end of 2018, but we expect a small contribution from it this quarter based on where cracks are and continue to provide that kind of $0.02 to $0.03 benefit quarter by quarter when it's running.

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

Q

Got it. All right. Thank you.

Operator: We will move next to Helane Becker with Cowen & Company. Please go ahead.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Thanks, operator. Hi, team. Thanks very much for taking the time. I have just two questions. One is when you talk about upgauging, are you talking – is that 100% mainline aircraft that you're talking about, or is there a percentage that's mainline and a percentage that's regional?

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

A

It's mostly mainline at this point, Helane.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Okay.

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

A

And I'd just add there, Helane, as you know, we've been shrinking the fleet at the regionals, which has also contributed to that. If you think about the mix of where our fleet evolution, we had I believe almost 800 regional jets at one point in time, and we're down less than half of that now. So it's not only growing the gauge at the mainline but reducing the reliance of the regional fleet.

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

A

Yes. The big upgauge that we've got here in the next couple years is the retirement of the MD80s. We still have over 100 of those that we're flying and we'll be retiring them over by 2020 and bringing those all up to the A321s and 739s as well as some MD90s as well. So that's where the bulk of the upgauge sits.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Okay. Perfect. Yes, I think at one point you guys were the largest operator of RJs in the world. And then my second question is with respect to air traffic control delays in the Northeast, and maybe, Ed, this is a question for you, as you plan for the summer months – because I feel like that was the biggest problem last year here in our New York markets. Are you thinking about adjusting capacity in these New York, maybe Boston corridor to allow for those delays that we get? What are they, ground stops on a daily basis?

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

We do, Helane. As you know, we take our operational integrity incredibly important. It's at the core of what we deliver to our customers as well as to our employees. And to the extent the Northeast corridor continues to be problematic with respect to delays, we take that into account. It's hard to predict at some level when the storms occur, but we work very closely with air traffic control and with all of our partners out there to ensure that we're getting the very best intel, transparency, and through-put as we can. But it's a challenging environment. It will stay challenging for everybody up there for a period of time.

Helane Becker
Analyst, Cowen & Co. LLC
Q

Okay, thank you very much for your help. I appreciate it.

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

Sorry I can't be more optimistic.

Operator: Our next question will come from Rajeev Lalwani with Morgan Stanley. Please go ahead.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC
Q

Hi. Good morning. Thanks for the time. Glen, a couple of questions for you on the international side. What gives you confidence that we're not at some sort of peak? I mean, I think we're going to put in about plus 5% on PRASM. And then just relating to that, where do you have more confidence, is it more on the demand side or the supply side?

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

I think when you read all the headlines about the synchronized global economic expansion, that's kind of what we're seeing manifesting itself. So we've seen not only an uptick in the average realized fare of business travel in the international entities, but we've also seen an increase in core demand there as well. And so I think that when you think about how the U.S. is probably still growing and still accelerating growth and when you think about Europe, when you think about the economies in the Pacific, it gives you a lot of confidence that as we move through the year, this is going to continue to improve. And our advances would substantiate that. So we have a little bit more visibility on international because it books earlier than domestic generally. And so those two combinations give us a pretty good confidence level that it's accelerating rather than decelerating.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC
Q

And to the extent that tax reform benefits start to come through from a demand perspective, is it fair to say that the domestic side should do a bit better? Or do you think international would be able to keep up as well?

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

Well, I'm bullish about international for this year. Not the least of which, which I didn't mention in the earlier answer is that foreign exchange becomes a tailwind this year and we've been fighting two or three years of a rising dollar. And so now having that also running in our favor it's also another great tailwind for the international.

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

A

And I think it's also fair to say, Rajeev, that the domestic business should certainly receive a benefit as consumers start to see lower paycheck deductions in terms of lower tax rates as corporations start to invest further to take advantage of the benefits U.S. corporations that the tax reform facilitates. I think it's fair to say that domestic should receive at least as much a benefit as international.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

Very helpful. Thank you.

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

A

Eboni, we've got time for one more question from the analysts.

Operator: Thank you. Our next question will come from Dan McKenzie with Buckingham Research. Please go ahead.

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

Q

Hey. Good morning. Thanks, guys, for squeezing me in here. Glen, just a couple questions. And these kind of tie to some of the earlier questions, but I would have expected Delta to trim its full-year outlook and of course that wasn't the case. So if I can probe just a little bit more on what, if anything, has changed versus the Investor Day. And I guess I'm wondering is it fuel surcharges and that also going back to your observation about global synchronous growth driving international demand, has there been an improvement in the outlook of your JV partners since the Investor Day?

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

A

I'm going to turn that over to Paul because he's more in tune with the complete level of the guidance. So, Paul?

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

A

Yeah. Well, I think we expect some good year-over-year performance from our partners going forward, not just from the synergies but from their own appreciation. We've spoken a lot about the improvement in the economic environment in Latin America, in particular, as it relates to GOL and to Aeroméxico. So they're a contributing piece to it. But I think overall as we look at the year going forward, as Ed mentioned, it's too early to hit the panic button on fuel prices. The revenue environment has a lot of momentum headed in the right direction and we feel good about where we can hit from the cost side. So, it's a driver but I think at the end of the day it really comes down to our ability to execute on the plan and continue to watch those external variables.

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

A

Dan, this is Ed. If I could weigh in for a moment. We as an industry have demonstrated our ability to cover higher fuel prices. Don't forget we were profitable with fuel well over $100 a barrel and I think over the medium term, if the new level is at $70, the industry will adjust reasonably quickly to that level. I don't know if that's three months or six months or nine months, but over time we don't adjust our capacity or start making short-term decisions based on where the fuel numbers hit on a week-over-week basis. So, we're optimistic. We're confident. We've got all the levers within our control, the most important of which are the best employees and the best customer service in the business that's going to really cover fuel forever for us.

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

Q

That's great. Thanks for that, Ed. And then I guess just my second question here, just ties to the Basic Economy part of the business here. We seem to start the quarter out pretty clunky on this, and since November was pretty bad, of course that all changed pretty dramatically in December. And so as we look at the uptick in demand that occurred during the quarter, is it really as simple as increased consumer confidence around the tax cut, or did the industry perhaps get a little smarter about how to market Basic Economy throughout the quarter?

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

A

We don't think Basic Economy, as we've stated in the past, is a huge driver of the ancillary products. And as a matter of fact, of the three that we track, it is the smallest contributor to the incremental revenue base. But we do see, as we continue to roll it out internationally, that there are significant benefits. And as we move into selling and from selling into flying in the transatlantic, our lowest fares will now have baggage fees attached to them and that's really a first for U.S. carrier in the transatlantic market. And so we're looking for that to drive some incremental revenues and really to be very competitive similar to how we are competitive with the ULCCs domestically. A great tool for us to be more competitive in terms of the fare itself with the ULCCs in the transatlantic. And we're very optimistic about how that will play out in a consumer segment that we need to be in, although that's not where we're making our big investments.

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

Q

That's terrific. Thanks, guys.

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

A

That's going to wrap up the analyst portion of the call. I'm now going to turn it over to Ned Walker, our Chief Communications Officer.

Ned E. Walker
Senior Vice President & Chief Communications Officer, Delta Air Lines, Inc.

A

Hey. Thanks, Jill. Eboni, we're ready for the media Q&A. Would you please review the process for the media to go ahead and ask a question? Also for the media, we'd request that you limit yourself to one question and a quick follow-up. That way we should be able to accommodate most of your questions. Go ahead, Eboni, please.

Operator: Thank you, sir. [Operator Instructions] We will take our first question from David Koenig with AP. Please go ahead.

David Koenig
Reporter, The Associated Press

Q

Yes, hi. To clarify something that Glen said on the analyst portion about the tax law, so even though you think it's going to increase business travel, that is not in your revised full year EPS guide. And can you say anything more about how the law is going to help you since you don't pay cash taxes?

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

A

David, this is Ed. What Glen was talking about is that we haven't yet seen the evidence that there's going to be stimulated travel demand given that it's so early with the law just coming out over the last couple of weeks. But we at the same time are optimistic that the law will help us deliver on our revenue guide, and we do anticipate and we do have factored in our revenue expectations for the year seeing improvements from tax reform.

The second part of your question, that was around competing away the tax benefits, I believe, or not seeing the cash benefits?

David Koenig
Reporter, The Associated Press

Q

No, it was more just if there's anything else in the law that's going to help you. Are you talking about the faster expensing or maybe something else in other provisions in the law?

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

A

Yes, the law, in addition to providing a stronger economic outlook for our consumers, it's going to provide a much stronger economic outlook for Delta. We expect the benefit will probably be about $800 million a year at our current earnings level. We are not a cash taxpayer today, but we will be a cash taxpayer in the next couple of years. And so you'll see that value ramp as we work off the last remaining NOLs that we have. So it will be a significant benefit for Delta and our owners.

David Koenig
Reporter, The Associated Press

Q

Okay, thanks.

Operator: Our next question will come from Michael Sasso with Bloomberg News. Please go ahead.

Michael Sasso
Reporter, Bloomberg L.P.

Q

Yes, good morning. Maybe this is for Ed. Can you tell me, I know there's some wiggle room in when you expect to take the C Series, but what are assumptions you're making for your own operations? Can you tell me what the latest thinking is when you'll actually take the C Series?

And the second part is what are all the impacts that you're doing, ways that you're trying to cope with not having that? Are you having to delay or roll back certain routes that you had anticipated? I think Paul mentioned that it's boosting maintenance costs. Just what are some of the impacts it's having by having this delay?

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

A

We're waiting to hear the results of the International Trade Council that is scheduled to rule before the end of January, so I'd say I can't really respond fully to your question, Michael, until we hear the results in which Boeing was expected to be able to prove harm. So I don't know what the actual tariff will be, if there is any at all. And once we know what that is, then we will set our plans accordingly.

With respect to incremental impacts that we're already experiencing, yes, we do know that we will not be taking the C Series according to the current schedule, which would have – we'd be taking delivery this spring. And to that end, we've had to invest in maintaining some aircraft, particularly MD88s, to keep them around a little bit longer than we were otherwise anticipating.

Michael Sasso
Reporter, Bloomberg L.P.

Q

And just to follow, have you had to delay certain routes? And is it just changing how you're flying that you had anticipated in the next year or two?

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

A

We will make those decisions once we know what the rules are.

Operator: Our next question will come from Susan Carey with Wall Street Journal. Please go ahead.

Susan Carey
Editor, The Wall Street Journal, Inc.

Q

Good morning, everybody, two little questions. Is it still true that your full-year 2018 EPS includes $1.00 for the tax cuts? And second question, there was some speculation that Delta was going to go after Georgia Power or the airport/City of Atlanta for the power outage. Is there any new thinking on that?

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

A

Your first question, Susan, yes, $1.00 is the current ballpark estimate on the benefit of the tax reform that we've rolled into the EPS.

With respect to your second question, we are having very productive conversations with Georgia Power as well as with the airport authority here in Atlanta and the City of Atlanta about, number one, making certain that we learn from the experience. We all persevered in December and ensure that never happens again and putting in the right design and structure, both in the short and long-term, to protect our power source. With respect to any compensation, it cost us around $40 million, and we'll have the conversations at the appropriate time with those parties.

Susan Carey
Editor, The Wall Street Journal, Inc.
Q

Thank you.

Ned E. Walker
Senior Vice President & Chief Communications Officer, Delta Air Lines, Inc.
A

Eboni, we'll have time for two more questions.

Operator: Thank you. Our next question will come from Alana Wise with Reuters. Please go ahead.

Alana Wise
Reporter, Reuters
Q

Hi. Good morning, everybody. Thanks so much for taking my question. So quickly I just wanted to revisit the question of the C Series. At this point, it doesn't seem unlikely that the ITC won't recommend duties of some sort. So I was wondering. Would Delta – I know you've said in the past that you're not willing to foot the bill, but with tax reform having passed, I'm curious. Would Delta be willing to use some of this tax savings to foot some or all of the bill?

And secondly, previously Delta has said that tax savings would not be used for share buybacks and I was just curious if that was still the case. Thanks so much.

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

The answer to your first question is no. We are not using tax reform to pay tariffs, subsidies. We have no intent to pay any tariffs on the C Series.

And the second question is, again, given that we are not seeing a cash benefit in the next couple of years from tax reform given that we have NOLs, there's no cash to go buy incremental shares with.

Alana Wise
Reporter, Reuters
Q

Thanks so much.

Ned E. Walker
Senior Vice President & Chief Communications Officer, Delta Air Lines, Inc.
A

Final question, please, Eboni.

Operator: Yes, sir. Our final question will come from Edward Russell with Flightglobal. Please go ahead.

Edward Russell
Reporter, Flightglobal
Q

Yes, I was wondering if you could update us on the status of the Korean Air joint venture. Have you sought regulatory approvals in Korea yet? And are you still on track for implementation this year perhaps?

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

A

Yes, we've received the approval from DOT to move forward, and we're currently working with the Korean authorities together with Korean Air. We anticipate receiving authority sometime, hopefully, in the first half of this year is what our Korean counsel tells us.

Edward Russell
Reporter, Flightglobal

Q

Okay. And then implementation before the end of the year or in 2019?

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

A

As soon as we get approval, we'll move to implementation rapidly.

Edward Russell
Reporter, Flightglobal

Q

Great, thank you.

Ned E. Walker
Senior Vice President & Chief Communications Officer, Delta Air Lines, Inc.

A

And actually, Eboni, we're going to take a question from one more, and that's from our local hometown newspaper, Kelly Yamanouchi.

Operator: Perfect. Kelly Yamanouchi with The Atlanta Journal-Constitution, please go ahead.

Kelly Yamanouchi
Business Writer, The Atlanta-Journal Constitution

Q

Thank you so much for squeezing me in. I just wanted to check, on the impact from the airport outage and Winter Storm Benji, of the $60 million, so $45 million of that was revenue impact and would it be $15 million in cost impact?

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

A

Kelly, this is Ed. $40 million was the rough impact of the outage, and $20 million was the rough impact from the winter storm.

Kelly Yamanouchi
Business Writer, The Atlanta-Journal Constitution

Q

Oh, I see. Okay. And was most of the winter storm impact on the Atlanta hub?

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

A

No, it was in the Southeast, as you recall. But the Atlanta hub obviously took the biggest impact. I think we had 1,200 cancellations, most of which were in Atlanta that day.

Kelly Yamanouchi
Business Writer, The Atlanta-Journal Constitution

Q

Okay. Great. Thank you so much.

Ned E. Walker
Senior Vice President & Chief Communications Officer, Delta Air Lines, Inc.

Hey. Thanks, Ed, Glen, Paul, and Peter. That concludes the December Quarter 2017 Earnings Call. We'll talk again in April. Thanks, everyone. We appreciate it.

Operator: This concludes today's conference. Thank you for your participation. You may now disconnect.