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Delta Air Lines, Inc. (DAL)

Analyst Meeting

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MANAGEMENT DISCUSSION SECTION

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

Well, good morning, everybody. Thank you for joining us. We are webcasting this call, this meeting rather, and first time we have webcast our Spring Analyst Meeting. We thought it's good that we have clear transparency to our investor base at large.

So with that, we've got our typical Safe Harbors. Here we're, okay. So, we'll move right ahead with our presentation. We're going go through this slide deck pretty quickly. We want to spend most of our time on questions and the Q&A part of the presentation.

Well, as you can see, it's been an interesting and it's been a very good 10 years for Delta. And it's a good point for reflection as to where we are because as most of you know, last week, we celebrated our 10th anniversary since we came back out into the public markets and with the relisting ceremony at the New York Stock Exchange. And it's been an incredibly eventful 10 years, if you think about all we've done from just the restructuring itself back in the 2006/2007 timeframe, how quickly and effectively and efficiently we moved through that process to first to lead the big industry consolidations with merger with Northwest to investments that we're making on the West Coast with Seattle and Los Angeles, which are today turning into some incredible growth opportunities for us, built the – from a profit and a financial perspective, a solid base with earnings in the $3 billion range that we created just a few years ago that we've been able to build from that. We've been making investments internationally.

We've become the number one carrier up here in New York City and a lot of that was topped off this past year with not only investment-grade rating but also Berkshire's decision to invest earlier this year in Delta becoming our largest shareholder.

Down at the bottom, you can see the results of that operating margin improvement of 10 full basis points since 2007. Number one network carrier by a good measure on all operational performance, which does drive a significant revenue premium that we see as sustainable and continuing to grow. And all stakeholders have shared in the results and the rewards of the process with our employees.

Most importantly, having total 80% growth in total compensations over the last 10 years, including profit sharing. We've invested $18 billion in the business since 2010 for our customers. And we've also had a significant improvement in our capital returns base with an $8 billion reduction in debt and $7.5 billion return to our owners over the last six years. So, it's been an eventful timeframe for us.

And the next challenge that we have is to prove the resiliency of what we're building here in terms of the model. And while we'll continue to seek to innovate and transform our business, no one should think that we're done. I know that's the question right out there is to what else is Delta going to do next. First off, you just need to look at this slide in terms of the steady trajectory that we've had of interesting, whether it be initiatives or investments that we made as well as the opportunity to continue to mature these investments and these relationships over time.

And when you speak about consistency and resiliency, we think the results are demonstrating that. This year, in 2017, we're targeting, once again, $6 billion in pre-tax profits. That would be our third year in a row of a $6 billion profit target with free cash flow, over the last three years, averaging close to $4 billion a year demonstrating the discipline that we have in our investment strategy. And then ramping capital return structure to our shareholders with 70% free cash flow to our owners with 2016 total, meaning $3.1 billion. And Paul is going to give you the latest update during his presentation as to what it means for 2017 going forward.

So, last week, we concluded a two-day meeting with our Board of Directors and it's our annual discussion of the strategy of the business. And we do our long-term outlook, which we define as a three to five-year look on this business as to what our framework is, what we're going to be investing and where do we see the outlook going.

And the good news is that we validated, largely validated, the financial framework that we've been operating while giving recognition to the fact 2017 is a transition year, as costs have grown over the past year and the revenue recovery of those costs have taken a bit longer. Then, certainly, we thought a year ago or any of us would have liked to have seen.

This year, we're expecting an operating margin in the 15% range, which is about a point lower than we've had in the last couple of years both in 2015 and 2016, our operating margin was in the 16% range. And as a result of that, lower baseline we've decided to reduce slightly our margin target for the next three years, targeting a 16% to 18% margin range. Again, 16% is the range that we've been in the last two years and we have a fair bit of optimism, we'll be able to get back into that 16-plus-percent range here starting in 2018.

The good news is that the cost and the challenges of the reset year and the transition year are behind us. Labor costs have been reset. It's not just reset for Delta, it's been reset across the industry. And we should now be expecting largely just inflationary generalized pressures there. We don't see a significant change in our labor picture for the next several years.

Fuel costs have been stable over the last 12 months while we ticked up significantly in the first half of 2016. Since that point in time, fuel costs have been hanging in the $50 a barrel range and we're quite comfortable with that range.

And finally and maybe most importantly, the revenue recovery is here. It's taken a couple of years to get there. We're looking at a solid print on revenue for the second quarter. The guidance that we had was 1% to 3%, and we're – right now as we look at it, we think we're going to be in the upper end of that range of 1% to 3% for the second quarter, and it is setting up nicely for margins to start to grow in the second half of the year. Paul and Glen will get into more details and more specifics around all that.

If you look at our other core framework items, we're going to continue to target EPS growth over time of 15% per year. Our after-tax ROIC, which we've changed the definition and we've gone to an after-tax ROIC now that we expect to become a tax payer here in the next two years, and we're targeting a 15% after-tax ROIC measure. Cash flow in the $8 billion to $9 billion operating cash flow range with close to $5 billion free cash flow in the out-years. And a balance sheet net debt target of $4 billion that we still expect to get to by 2020 with the pension at least 80% funded by that date.

So, key to delivering on the framework, you'll hear a lot more about this. And after the slide, I'm going to turn it over to Glen to start going through a little bit more specifics.

But, first, to start delivering top line growth once more. Over the last two years, our top line has been flat to down, and over time that's obviously not a sustainable model. We see, over this timeframe, our revenues starting to grow, leveraging the strength of the brand, the strengths and the quality of the operations that we're building, the strength of our network investments and our partnerships that we've been making over time as well as what we've been doing in our network.

Secondly, we have to be smart about how we grow. We're going to cap our capacity growth this year still at the 1% mark, and we think that's important to make sure that we have a firm foundation on the revenue plan as we look forward. And beyond that, we're going to certainly maintain our capacity at or below GDP growth rates by region.

And it's also – we got to be efficient about how we grow, both the cost scale and the margin growth that we're going to be anticipating over this plan is predicated on cost productivity, getting those cost targets below 2%, which we have delivered over the last several years. Did not hit this year, obviously, because of the labor reset, but we expect to get back into that range. As we do anticipate, yields will stay under pressure over time. We see the yield environment improving but we know, over time, yields in this industry are under a constant pressure, and it's the only way to sustain margins at the level we're at. We're looking to grow our margins if you've got a good cost structure to manage that.

And finally being disciplined about our capital allocation. We use a 50% rule here at Delta. 50% of our operating cash flow goes back into the business in terms of CapEx and fleet and improvements to the quality of the service that we deliver as well as technology. And the other 50% goes back to pay down our capital structure, whether it's the improvements that we've made to our shareholders and capital returns or payments in debt and continue to get closer to that $4 billion net debt target over the next several years as well.

So, just to sum up my opening comments, I think we're at a very important inflection point for us in our cycle, 10 years we've made a lot of progress. I want to reiterate, hopefully, you'll walk away from this morning's presentation. We still have a lot of opportunity ahead of us. And I'm even more excited about the next 10 years to come than I've been through the journey of getting here over the last 10 years.

So, Glen, I'll turn it to you to give you a quick update on how we see the revenue environment unfolding in the next several years.

Glen W. Hauenstein

President, Delta Air Lines, Inc.

Sure. Thank you so much, Ed. And speaking of the happiest man in the room at this meeting, it's probably me, because if you look at the slide here you can see that our lives in the revenue production side have not been a super fun journey over the last couple of years here. We've faced some very big headwinds.

And the questions that I think we keep getting from investors center around why is this happening and when is it going to stop. And really the issue is not, in my view, a demand issue, because demand through this whole period has been very strong. What we faced through this period, of course, was fuel going from $120 a barrel down to $29. And really if you're in airline, what you saw was month over month over month your fuel costs were going down, and that stopped in November of last year.

And not coincidentally, as you see these numbers playing out here, you see that right around November, we started to get more into a flattish environment. And moving forward, now we're through that flattish environment and we believe on much more solid footing as we get to the spring and summer of this year.

So, what happened to drive that, I guess, everybody in the industry saw labor resets and that had a lot pressure on everybody's cost structure. And the second piece is, of course, that fuel started going from a tailwind to a headwind. And quite honestly, the fact that we were able to recover it so quickly would be closer in and you might have expected had you taken historical norms where it usually took up to two quarters to start to recover those fuel costs in the pricing environment.

The question really if we go to the next slide is, what is the opportunity that sits ahead of us. And I think this is where we get pretty excited because when we look at where the demand was or where the pricing environment had led to, it was not the last customer who was getting the big discounts. So, as we all know, demand shift down and to the right, but in this last two-year period we were discounting the first customers on the airplane, not the last customers on the airplane.

So, the biggest discounts we're going to close in generally business travel where historical fares took a 20% to 30% decline versus where they had been historically. And that really was a little bit of a disappointment over the last couple years as you would see the months running ahead, running ahead and seeing how strong leisure demand was and then you'd get up very close to a month and you'd see that the yields for the business customer were coming in significantly below where they had come in historically. And business travel has been robust through this whole period.

So, just an interesting note, not a comment but instead of discounting the last customer on the airplane, this last go around with lower fuel, we discounted the first customer. That also we knew could – if the industry started getting traction on those fares starting to improve, which we've had over the last few weeks and months that could sustain very rapid changes in the trajectory of the unit revenues and that's indeed what I think we've been seeing where we've been flipping around relatively quickly. And the industry continues to pass on higher and higher cost in the business travel sector every week as we move forward. So that's very exciting.

And the underperformance, if you take a longer look at how the industry performs, usually in periods of growth for GDP, industry produces a higher than GDP revenue base. This last couple of years, the GDP has been growing and we've been growing well below that line item. So, again, you don't – I think if you extrapolated that out, that's billions of dollars to Delta to just get back on to that trajectory. And what we're excited about and what we're working for to get for our shareholders every day as we move forward from here.

Okay. I guess, it's telling me to move on. He's moving my slides to the next one. One of the things that's really been consistent with Delta over the last 5 or 10 years has been our consistent drive to innovate and to get closer to our customers and provide them the services and goods they want to buy from us. That starts with having the best operational metrics, but really goes all the way down into the actual products and services you have on the airplane.

And years ago, we established the correlation between our Net Promoter Scores, long-term profitability and our ability to generate revenues. And I think if you look at our scores on the left here, you see that we have amongst our peers set of global carriers, the highest domestic NPS. And we also have, and we think this is very associated, the highest unit revenues. This shows the total aggregate of 109%, domestically we run about 117%, 118% revenue base against our peer set. And that accounts for a significant amount of our profitability.

We know we have work to do in the other entities. We're positive in terms of Latin and Atlantic. And we do lead the U.S. carriers, but we're not industry leading here. And clearly in the Pacific, where we're also beating our U.S. competition, we are far behind the Asian carriers in the Pacific and we are working very hard. I'd like to just make a note that 17.8% is the number for last year, but in the last quarter, which we just received a few weeks ago.

And Ed has told the team to work very, very hard on this. So, we've made significant progress. And our Pacific NPS, while still negative, has improved by over 11 points and is now minus 6 points. So, huge improvements in the domestic, I mean, in the Pacific NPS, which we think ultimately will translate to higher profits in each one of those regions.

We're working on the sustainability of the model and really providing customers the products and services they want to buy from us. We have four major pillars here. Better customer segmentation, I think you're all familiar with the branded products initiatives, where we stand on that is we've announced all of our branded products including our new Premium Select services, but they are not necessarily easy to buy. The technology didn't exist within the space to be able to sell those products and services across the spectrum and across the purchase path.

So, for example, if you want to buy a Comfort+ seat and you work for a company that doesn't allow you to buy that at time of purchase, you cannot go back today and buy that seat post purchase. You cannot buy that seat with miles if you have miles and you want to move yourself up into cabins.

Starting on May 15, which is I believe next week, you'll be able to do that post purchase with dollars. Starting this summer, you'll be able to do that post purchase with miles. So, really being letting customers select what products and services they want to buy from Delta, when they want to buy it and how they want to buy it is really the central theme of making these products more available to the travelling public and one we think has hundreds of millions of dollars of upside over the next quarters and years.

International partnerships, I think Ed talked about this. We're very excited to get ATI approval to start our joint venture with Aeroméxico this last week. And we think that has tremendous upside for our shareholders moving forward. We started pricing together and scheduling together right after the ATI, and we'll be making further announcements about changes in how we fly to Mexico and how we plan to drive additional revenues in subsequent meetings. I think that's just indicative of the kind of creativity that is in Delta's international arena.

Product investments, continue to invest in products and services including the hard products, introducing Premium Select later this year. And then corporate traveler, of course, we know that this is our bread and butter, and we strive to be the nation's preferred business carrier. And we're making great strides with that every week and month.

So, with that, just a general overview, I'm sure we'll get to a lot of great questions, and I like to turn it over to my good friend Paul.

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

Thanks, Glen. Thanks, Ed. And I'll take the slide clicker from you.

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

Here you go, you got 15 minutes.

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

I want to save you the work. Obviously, the story here is one of continued improvement coming out of the cycle as we've seen, but also the continued trajectory of product improvements. None of that alone will drive the margin expansion that we need. So, we've got to continue to focus on cost discipline.

This has been a great story for Delta over the last several years. You can see, we've averaged about 2.8% since 2013 with the overage of 2% driven solely by profit sharing on expanding margins and better profitability. A lot of that core has been sustained while we've been in a very heavy product investment cycle, whether it's investing in the reliability, the onboard product and investing in our employees, we've managed to keep that cost discipline going forward as Ed mentioned.

The stabilization of the labor environment overall should make for a continued smooth transition over the next several years to keep that cost discipline where we need it. And that allows all of that incremental revenue to flow to the bottom line in terms of additional margin. As we've called out before, the maintenance team deserves a ton of credit despite the challenges of the diverse fleet mix that we have. They deliver a maintenance unit costs, that's about 15% below the rest of the industry and we expect that to continue to be sustained.

Upgauging has been a clear part of the story for us for the last several years and will continue to be. I think our network positions us with the strength of our hubs especially domestically, but all throughout the world gives us that platform to be able to increase gauge and throughput through our hubs driving those efficiency gains that we need every year. And that's what's going to serve as our confident foundation going forward for a continued cost efficiency which ultimately drives that margin expansion.

On the fleet side, we do have a little bit of a tweak to our forward CapEx. Today we're announcing that we have deferred 10 Airbus A350s from the 2019-2020 delivery years out approximately two to three years. What we're doing is repositioning our CapEx here and we will order 30 new A321s. This will help to facilitate the retirement of the MD-88s. This is a little bit faster than we'd originally anticipated, but as we see the opportunity in cash flow going forward as well as the gauge benefits and the maintenance benefits of the airplane, this is a good time to do this and to complete that.

So, we'll actually, as we continue to move forward on our fleet plan, we've talked about before, replace about 25% of our mainline fleet before 2020 dealing with those things that we need to deal with over long-term while still maintaining that discipline of investing approximately 50% of our operating cash flow back into the business.

The international focus is actually on the downgauging side of that. As you know, with the A350s delivering later this summer and into the year facilitates the retirement of the 747s will be immediately accretive into the Pacific operations with much, much better efficiency and much better revenue performance than what we've seen on the 747s.

So, with these fleet moves, we feel like we're very, very well positioned both in terms of the CapEx balance, but also in terms of the cost and revenue trade-offs that we need to make in order to drive these margin improvements going forward.

On the fuel side, as we talked about at Investor Day, fuel is not just a throwaway item, an item that we believe can't be managed through the investment in trainer and the investments that we've made in our commercial organization on the fuel side. We've consistently built a $0.05 per gallon advantage to the rest of the industry on an unhedged basis. That's important because ultimately, it leads to efficiency gains that can be ultimately redeployed back into the product, back into reliability without increasing our cost base.

So, fuel has been area that we've continued to attack both in terms of costs, but also in terms of efficiency. We've driven about 1.5% consumption improvements with the fleet changes that we have coming up, especially with the A350 versus the 747. We expect to continue to reduce that consumption going forward and meeting that commitment, which is overall helping our cost base considerably as well.

The one thing you've heard me talk about before and all of us on the team that I think fundamentally demonstrates the difference between the way it was before and the way it is today is depicted here on slide 14, which shows how we think about cash and how historically the business has thought about cash. And good earnings, solid earnings, albeit not at this level have always been a hallmark of the industry in peak cycles. We think that's more consistent today, but most import is the discipline at which we're approaching the management of free cash flow into the business.

As you can see, since really consolidation, we've focused on driving the business for free cash flow not just for operating cash flow, which ultimately historically led to a lot of leverage. By doing that, we've been able to position the airline to not only de-lever significantly with over $9 billion of debt paid down since 2009, but also in terms of allocating cash back to shareholders while still investing in the business going forward it's become the hallmark of what we began in this journey back in 2009 and what we continue to demonstrate today.

We can't do that though at the expense of investing in the business. And we feel, as I mentioned in my earlier comments, that 50% of our operating cash flow being reinvested in the business is sufficient for us to address all the needs of the company, not only in terms of the infrastructure, whether it be technology or aircraft, but also in terms of innovation, product attributes, reliability and those things that we need to do to continue to increase the value proposition for our customers going forward.

We've got a good solid track record of doing this. And even with the needs that we have around the fleet believe that we'll be able to sustain that going forward through 2020. That can also be the investment of more than $1.5

billion in technology. As we've seen over the last year, technology is a key component both in terms of reliability of our infrastructure. We'll complete the build of a brand new data center, state-of-the-art, by the end of this year, which will continue to increase the durability of the Delta platform as well as increasing the resiliency of our technology.

And then the ground and facility investments. We have, I think, over $12 billion of investments going forward in facilities across the country over the next several years as we continue to improve not only the core infrastructure but also designing the airport of the future. A lot of these investments are generational in nature, whether it's LaGuardia or new terminals at LA, Seattle, et cetera. We need to continue to innovate in the airport space as well, and believe that we'll be leading the charge for the industry in that space on behalf of our customers throughout the world.

The balance sheet, as I mentioned, a testament and a hallmark of what we think is different about the industry. We know this is the key to sustainability and durability of the cash flows of the enterprise. We're not declaring victory on the airline cycle. While it's certainly better and while we're starting from a higher point than we ever have, we know things happen in this business. And that's why a solid foundation in the balance sheet is critical to what we're doing. I'm proud of the team for achieving investment-grade ratings from Moody's and Fitch, and continue to work towards that $4 billion net adjusted debt goal as we mentioned.

A key differentiator this year, you saw, with our pension transaction. This was a play that we believe was enabled by our investment-grade credit ratings. We were able to go out and borrow $2 billion at 3.25% on an all-in basis, and put that money into the pension plan.

By putting it into the plan, we can have it work for an additional three years going forward and position us very, very well for 2020, whether or not interest rates increase. If they don't increase, we feel very good about hitting our 80% goal. If they do increase by as little as 200 basis points over the next three to four years, our pension plan is very close to fully funded at that point in time against our assumptions today, continuing to de-risk the enterprise both in terms of debt as well as the pension.

And on all of this we're not sacrificing, in fact, we're enhancing our commitment to consistent and durable shareholder returns. We're announcing today our intention to increase our dividend by 50%. This is the fourth consecutive year that we've done that since initiating the dividend in 2013. And with this change, we will be at a run rate of approximately $1.22 per share, which at today's stock price would translate to about a 2.5% dividend yield.

This is an important step because we continue to talk to our shareholders and continue to talk internally. This represents a deep commitment and conviction about the future cash flow generation of the company. And our commitment is continue to work this number up and try to target a higher percentage of our overall free cash flow into dividends as a sign of that confidence.

But there is still significant amounts of free cash flow and we are reloading our share repurchase authorization with another $5 billion authorization, which is new to be completed within three years or by the middle of 2020. This follows on with the $5 billion authorization that we're wrapping up. We expect to be complete with that in the third quarter. And once we do that, we'll begin repurchasing under this new authorization.

It's important to note how we think about the repurchase. As we've said before, we're in a market everyday very consistently. We believe that this is a form of consistent return of cash to shareholders. We won't get into valuation, obviously we all think and believe wholeheartedly that the stock is significantly undervalued. But at the end of the day, this is a tool for us to just continue to return free cash flow to our shareholders on a regular day. And since 2013, we repurchased about 18% of our total shares outstanding and look forward to continuing that over the next few years as we see.

So, in closing, we're making the investments that we need to in the product, in our people and in the operation to create and maintain America's best run airline. We're doing that with partnerships throughout the world in order to diversify revenue base and grow our network going forward, which ultimately we think is the key to sustainable and durable margins and cash flow, which we're pleased to share with our owners today.

So, with that, close it and open up the floor to any questions.

QUESTION AND ANSWER SECTION

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

Okay. Mike Linenberg, Deutsche Bank. Good morning, gentlemen. I guess two questions. One, Paul, on the dividend yield, 2.5%. I think it's the first time since you initiated the dividend that you're now above the S&P yield, I think it's about 2%, I think initially when you came in it was somewhere around 1.3%, 1.4%. Is the objective going forward in sort of in sync with being better than, or it is good better than high quality industrials or industrial transports? Is the objective going forward to be maybe maintain a dividend yield that exceeds the market? So, maybe I would expect that in fact you are a very pro-shareholder and generating levels of free cash that on average exceed your peer group. I mean, is that you're thinking with respect to that?

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

Well, I think as we've always said, we wanted to get on a trajectory that would put us closer to the S&P 500. Keep in mind that we only control half of the equation of dividend yield, the other half is up to you and the people that you represent. But 2.5%, I think, is a very, very strong statement. Ideally, I think we would hope and be optimistic that that's going to move lower as the stock appreciates. But really, we think about it in terms of percentage of cash flow. How do we think about it and what are we committing as part of that disciplined cash flow year-in and year-out to be able to return to shareholders through the dividend.

And I think our commitment to that is demonstrated by what we've done with that since 2013. As we said, when we initiated that dividend, it was a good starting point, but we expected a significant commitment to it over the next few years, which we've done. It's become an ever-increasing component of our free cash flow, not only as our free cash flow has grown, but as a percentage of free cash flow. And we look to continue to maintain that, yield will ultimately take care of itself and be set by the market.

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

Okay. Great. Just quick second question. The swap of the 10 A350s with the 30 A321s. How should we think about that from the magnitude of CapEx? Is that close on a dollar-per-dollar basis? Is that...?

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

Yeah, it's very similar.

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

Yeah. It's pretty much neutral.

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

Great. Thank you.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC Q

Good morning, gentlemen. Rajeev Lalwani with Morgan Stanley. Two questions. Ed, you mentioned getting to an operating margin target of 16% plus next year. What are the things you need to see on the revenue and cost side, [ph] macro side to get rid upon (33:15)? And, Paul, a question for you in terms of the updated operating cash flow and free cash flow figures. How is tax and pension impacting that given some of the changes out there?

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

Well, thanks, Rajeev. Our target, first of all, is to get back in the range. So, as I said, 2018 we're targeting to get back to that 16% op margin where we've been in the last couple of years and the math is pretty straightforward. We obviously need our RASM to improve. We're going to continue to stay very disciplined around capacity. We're not giving you a 2018 capacity guide at this point, but other than, we're going to be disciplined and stay with certainly below GDP.

Fuel prices, we expect fuel prices – we took the forward curve as to where the market was when we did the long range plan and provided a little bit of upward conservatism in the numbers. And our cost structure is below 2% on the non-fuel side. So, you can run the math there and you back into our expectations on unit revenues, but certainly they need to continue to recover. And we think they will from the levels they've been at over the last two years.

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

Thanks, Rajeev. On the pension side, we talked about when we issued that debt that ultimately our [ph] carry forward (34:34) contributions would go from $1.2 billion a year, which we had previewed actually at this point last year down to $500 million per year with the difference being used to make up that debt that we issued. So, we're in the same place. So, from a pure free cash flow basis, it's about $700 million a year for the pension side. But we've kind of hallmark to that for continued debt reduction as of this point in time.

On the tax side, we expect to be a full tax payer in 2019. Nothing has changed there. And any of our forward projections we haven't modeled any type of corporate tax reform, although I expect any reform that is enacted will ultimately benefit us as a preeminent U.S. tax payer. Almost 100% of our operations are taxed in the U.S., so we'd expect reform would actually boost these cash flow numbers, but we've been positioning the airline to ultimately prepare for this. So, as we thought about our pension goals, as we've thought about our balance sheet and debt goals, that has been with the mind to ease the transition from being a non-cash taxpayer into a cash taxpayer, and allow us to continue to invest in the business and return cash to shareholders at the same rate as we move through that transition.

Nishant Mani
Analyst, JPMorgan Securities LLC

Q

Hey, Nish Mani here with JPMorgan. I'm just going to ask about the A321 order. And if you're kind of [ph] mission (36:02) order had any impact from what you're seeing with regards to [indiscernible] (36:07) and whether or not that includes [indiscernible] (36:10).

And then secondly, on the 15% 2017 margin, just want to get a sense kind of a ballpark how you're thinking about the revenue environment in the back half of the year directionally moving in a kind of positively sloping territory from each of comparisons or is the environment going to [indiscernible] (36:26). Thanks.

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

A

The decision to go with the A321s was not about – it is CEOs and it's less about making a decision for the future as compared to needing to get the MD-80s retired. So, our goal is to have those and we will have the MD-80s retired by 2020. We have about 110 MD-80s still flying. So, there's a significant amount of domestic capacity that we continue to need to take out when you look at the maintenance cost, the added fuel burn, the reduced customer satisfaction as well as the upgauge benefit of going to the A321 or the 739s, which we continue to take versus the MD-88s. The business case is quite powerful. The international environment is a bit volatile at the moment as we all know, and we are going to be taking 15 A350s over the next couple of years, but the decision is slide the last 10 to a future delivery decision is what drove that.

We do know that out in the 2021 and beyond period, we still have opportunities and decisions to make on the domestic fleet, and we'll probably be issuing an RFP at some point over the next year or two to address that.

Your second question was on the 15%. Yeah, we're assuming that we're going to continue to see the unit revenue improvement that we have already seen here in the second quarter. Remember that by the third quarter, our unit revenue numbers where that was at the trough. So, the math on the improvements is significantly easier. Easier than I think some really tough or easy depending on your perspective, results in particularly in July and August. And the back end of the year continues that steady. So, I don't see the slope continuing to rise once you get into the second half of the year, but it's going to be maintaining the trajectory in terms of the pace of recovery, and we feel pretty good about that. And I think particularly with fuel prices being lower than many of us thought they'd be as we started the year.

Duane?

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Just on revenue, Glen. Looking backwards, and I think you tried to quantify this before, but how much of the step-down in revenue was really suboptimal or sloppy pricing? As we look at kind of this 2Q, it feels like the revenue environment has taken a step up. How much of that you attribute to the economy, it doesn't really seem to be capacity related, so perhaps, it's just kind of better industry pricing. And if it is that, if you agree with that thesis, what inning are we in that pricing recovery? How much that we gave away are we starting to get back?

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

A

The revenue decline was primarily centered or exclusively centered. And I've tried to describe it probably not as well as I could. So, let me take a different stab at it is. Throughout the last couple of years, the problem has not been leisure fares or leisure demand. The problem has been business and that has not been business demand, it's been business pricing. And so, there's kind of a willingness to pay versus what is the industry asking you to pay. And I think some of you in this room who travel a lot for business saw that your travel bill for airline spend was significantly less last year even though you probably took a similar number of trips.

And so that fuel decline was passed on through to our most inelastic customer base whether you characterize that as sloppy or how it got there, now that's starting to wind itself down and business fares are in a very positive trajectory. And that's been the key driver in unit revenues turning around and their totality has been an increasing fare as opposed to a decreasing fare for business travelers. If we went back to business fare levels of two years ago, that would be worth multiple billions of dollars to the industry and $1 billion plus to Delta. So, we're hopeful that as business demand stays robust and that the industry continues to pass on these fare increases for time-sensitive travelers that will continue through the rest of the year. We don't have that baked into our forward forecast, but we're optimistic we could achieve that. That's probably sub-optimal pricing. I wouldn't necessarily call it sloppy, but sub-optimal in terms of revenue generation.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Thank you.

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

Q

Glen, that is exactly my question as well. I think you come at it from a little bit different angle. There is inelasticity in business travels. And if can you just help us understand some of the key drivers because airline revenues have trended above GDP, is it corporate profits and as corporate profit goes that's what gives you the more confidence. Obviously, it's the unbundled pricing that allows you to put fences around the fares, but...

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

A

I think your hypothesis is really the question about the elasticity of business travel. And what we see is, when fares return to more normal levels, travel does not decrease significantly. So, in places where there have been robust fare increases for the business travel, we see and these have been in some very large plane sectors inside the U.S. We see unit revenues in particular markets up 25%, 30% even as high as 50% or 60% year-over-year with no decline on demand or very little, imperceptible decline on demand.

So, again, it's that, was the customer willing to pay and did we ask them to pay it. If we didn't ask them to pay it, you're not going to see customer saying, hey, I want to pay you more than you're asking. So, as we get to asking for higher fares again, we're not seeing a trail off in the map.

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

Q

Thanks for the map. As we look at the margin expansion for next year and think about the margin expansion for next year, as we think about the drivers equal benefit from the international side, the domestic side, I know they're not going to give us the revenue forecast, but obviously, you're thinking positively about where the strength could come from.

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

A

The power of positive RASM. We've been thinking a lot about that. We've continued to see very strong performance in Latin America primarily driven by the economic recovery in Brazil that's been a very sharp turnaround and very welcome.

The Pacific; we have been uniquely facing challenges in the Pacific. With the restructuring of Narita, we've talked about that. That is a multi-year restructuring. We believe next year will be the first year that we see significant forward momentum not only in unit revenues, but in profitability of our Pacific franchise.

And Europe remains under pressure. What I would say about Europe is, the business demand is staying very, very strong. And that's been offsetting largely the oversupply, if you will, with a lot of capacity coming from new business models in the transatlantic.

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

A

Could I add one thing to that too, Dan? The domestic business is our bread and butter. And that is healthy and we continue to think that's going to stay healthy and continue to move, and we see no reason to believe it's not going to stay where we need it to be. But one thing about the international space while it's incredibly volatile is, remember how many partnerships that we signed up in the last three to five years, and we're starting to continue to mature them, harvest them, develop them. We've got new ones coming in, in 2017 with the Aeroméxico JV that just went live Monday of this week.

We've got the Korean JV that we hope to finalize here in the next 30 days and get something announced 30 to 60 days announced into the market and start to build on that. You got the Virgin relationship. You got AF-KL and we're down in Brazil. We continue to get better and better and better at managing the international side with our partners and continue to bring more traffic to the U.S. as a result of that too.

George T. Ferguson
Senior Aerospace, Defense & Airline Analyst, Bloomberg LP

Q

George Ferguson with Bloomberg Intelligence. So, question on the Atlantic. I guess, we're starting to hear noises that there's going to be a laptop ban coming across the Atlantic from Europe now. And so, my sense is that there was probably some uptick in revenue across the Atlantic in Q1 because you might not have as many business travelers travelling through Dubai and such. Can you help us understand – and I guess, Easter is in there as well that probably have a bit of an uptick on Atlantic in Q1. Can you help us understand what laptop ban might mean to yields across the Atlantic going later this year?

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

A

We can't speculate, George, on what the Homeland Security Department may implement. Yes, we see the speculation out there. And we know it's a serious matter that – and safety is our number one priority as you need it to be, so we'll continue to support whatever decisions are taken there.

It's hard to dissect the amount of traffic that may have shifted. The laptop ban, even in the Middle East and the markets you're talking about, it's relatively recent. So, there's not a good real baseline to compare that against. We don't see any significant uptick in our revenues coming from that. And to the extent, if laptop ban is extended, we'll certainly do our very best to minimize the impact on our customers, but most importantly work closely with the Secretary Kelly and the Department of Homeland Security to implement.

George T. Ferguson
Senior Aerospace, Defense & Airline Analyst, Bloomberg LP

Q

Maybe one follow-up on the A350 decision. Could you speak to – does this downplay what you're doing in the Pacific, because it seems like these are airplanes that would be targeted towards Pacific routes. And so, are you downplaying sort of long-term what you're doing over there?

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

A

With the A350 deferral?

George T. Ferguson
Senior Aerospace, Defense & Airline Analyst, Bloomberg LP

Q

Deferrals.

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

A

No. Not necessarily. We're looking at the wide-body capacity that we have staying relatively constant over the next several years. The incremental 10 A350s we're talking about were going to be growth aircraft primarily and we've decided to defer that growth till we have a better feel for particularly the Asian market.

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

A

And if I can just – we have six operating 747s that have to exit the fleet before the end of the year, and that'll take us out of the 747 program. Those are being replaced by 15 A350s. So, we do have growth scheduled for the Pacific.

Kevin Crissey
Analyst, Citigroup Global Markets, Inc.

Q

Hey, guys. Kevin Crissey from Citi. Question, Glen, actually I found your answer to the reason why revenue fell off. Good explanation, but actually more troubling than had it been leisure demand. When I think about business travel, demand was strong, leisure was strong overall both pricing and demand, it puts a rate basically into the hands of a few carriers to have basically price. And if I were an investor, I'd be frustrated that there was demand there and the price didn't come about.

So, I guess my question is, what changes are being made whether it be inventory practices or pricing department changes they can reassure investors that the next time your input costs go down that it just doesn't get handed over? Or maybe even if the costs don't change and suddenly there is just weak pricing, because it seems like you had the demand and why didn't we get the earnings results?

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

A

We can't really comment on future pricing initiatives for us or for the industry. That's really kind of a space you have to stay away from. What we can say is, what did happen and what happened was that some of the ULCC fares that were not probably intended for business customers because they didn't have the time-sensitive schedules that would have provided time-sensitive business travelers with options bled into very dense markets.

It doesn't work their way out or in process of working their way out largely and a lot of room to go to get back to historic levels, but we're making progress and I think hopefully as industries consolidate and like the railroads, it takes time to figure out what works and what doesn't. And I think maybe we could chalk this up to something that was tried and probably didn't work very well.

Kevin Crissey
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thanks.

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

A

And, Kevin, I may add a little bit to Glen's comment. We are a fiercely competitive industry that no one think that that has changed. If anything it just continues to get even more competitive as time goes on here. But at the same time, everyone has seen their cost rise so everyone has the same need to continue to manage their own financial framework for us at Delta we have and you can see that going on across the industry.

And the other thing that's changed is the tools that carriers have are continuing to get better. And while we've been out there as the father of basic economy and segmentation, you're seeing that continue to expand throughout the industry. And I think that's going to help everyone manage their individual situations probably in a smarter way.

Kevin Crissey
Analyst, Citigroup Global Markets, Inc.

Q

Thanks. Maybe on a separate topic. Can you talk about the economics of Sky Club? I like to show up at the airport and just get on a plane, but can you talk about why an investment in Sky Club makes a lot of sense?

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

A

The Sky Club's in and of themselves are a profit center. So, through the acquisitions, through our card memberships and our card affiliations and the memberships clubs themselves they generate revenues in excess of their cost structure and they provide a great level of service to our most valuable customers. So, we think of it as a win-win. And the more we invest, the more attractive they become and the more revenues they generate. I believe our club visits last year were up over 1 million visits versus the previous year. And to us that's a great accomplishment because the better we make the clubs, the more people want to visit them. And hopefully, the more they want to fly Delta. And we think it's a fantastic win for our shareholders and for our flyers.

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

A

One other thing I'd add. Obviously, we're not going to target you, Kevin, but, so, your complementary card we're going to give you is just canceled. So, we'll save on that. You can add that to your list. But we're principally a hub carrier, right. And so the clouds are really not designed for locals. We welcome local traffic to the extent local traffic is there, and needs to get early to avoid security timeframes, but we're a hub carrier so it's designed primarily for connecting passengers.

Kevin Crissey
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

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

Hey, Savi Syth with Raymond James. It seems like best offense is a good defense. And that sounds like what you're doing on the cost side and the upgauging is a big component of that strategy. And I think if you asked us or asked me, back in 2014, 2015, I would have thought the regional upgauging you were first at it, you were almost done, and then you clearly pointed out that you still have even more to go. Is there something unique about the way Delta's network is structured that you can kind of continue to do this upgauging to the level you're doing it where it might be harder for your competitors to replicate?

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

I don't want to compare to our competitors. I think upgauging is – it works for Delta. I'm not going to contrast us to the other guys. We do operate some of the largest hubs in the world. We operate some of the most profitable hubs in the world. And as you continue to add and invest scale into those operations, it gives us a lot of opportunity. There's no question we were there first in terms of – because if you go back to seven, eight years ago when we started early we were targeting 50-seaters and moving off of that, and I'd say, we're still in the early to mid-innings on the upgauge opportunities. It's taking out 110 MD-80s and replacing them with 40 more seats on a A321 or a 737-900. We're going to be taking the C Series this spring. And that's going to be another upgauge opportunity out of the regional space to come up to the 110-seat C Series product. So, I think the scale opportunities and the efficiency works well for us, and it's a function of the structure of our hubs.

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

So, just to add to that. As we've upgauged dramatically, but our seats per departure still sit at about 113. When you compare that that's significantly below carriers like Southwest. And so, it gives you the order of magnitude as you think of the wide-bodies which are included in that, if you think of, we still have a long way to go just to get to the 120s, 130s over the next several months and years.

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

And just a follow-up. It seems like something we've been trying to figure out is, why [ph] cannot Delta with the (53:58) performance that you had has a kind of the multiple is different than some of these leading industrial companies. And I think one of the things that we hear from investors is, at least a perception of earnings volatility.

And I'm just wondering as you kind of think of your margin guidance and be it fuel volatility, maybe if there's an impact that you missed from laptop ban. So, it seems like there's always something headline risk. Could you talk about like what you've actually seen from an earnings perspective, how your thoughts are as you kind of project things or what actual volatility is from all these kind of external events?

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

Well, it's interesting because you're right we hear that same question, but if you look back over last 10 years, our margins are up 1,000 points, right, 10 full basis points from where they were in 2007 despite going through the worst recession of our time, fuel price spikes, fuel price falls, revenue up, revenue down, security challenges around the globe. I think we're proving our resiliency and our durability. And when you look at three years in a row of generating $6 billion of solid mid to upper double-digit margins, $4 billion of free cash, I think we need to continue to prove the case. And time is on our side. I know all of us are a little frustrated. Those are that closest to it that we've arrived. But I think time will test that and support those models that really can sustain the volatility and thus far, I feel pretty good about where we're going.

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

Thank you.

Conor Cunningham
Analyst, Cowen and Company
Q

Hey, guys. It's Conor Cunningham from Cowen. I just had a couple of questions on the Pacific. So, I'm just still a little confused on the overall profitability in that market. Is it really just a function of taking different aircraft? And what are like your underlying assumptions in terms of the competitive environment and just capacity in that market overall longer term? Thanks.

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

When we say the Pacific, it's a lot of submarkets. It didn't lumped in together as one. We fly a very valuable and profitable franchise from Japan to the Beach markets in Guam and the islands out there as well as Hawaii. We fly to Japan, which is highly restricted. China is becoming more and more restrictive. And so, what we're really excited about is, partnering with our existing partners into a different level. So, we're working very hard and we've announced that we're going to enter a joint venture agreement with Korean for example which will give us the premier gateway to Asia.

If you've been to Incheon, even the existing airport is by far the best connecting experience, but the new airport that's going to open later this summer is going to really provide a step function improvement and by far the best gateway to all Asian cities. And so, we believe that our franchise has been in flux because we've had – and it's been profitable, but it's been in flux and it probably doesn't have the right level of profitability that we expect moving forward. Part of that's been because we've inherited a hub in Narita because we inherited a fleet that was primarily incredibly large gauge that quite honestly took relatively low yielding traffic to Asia, we've been changing that over the last few years. And we're very enthusiastic that with the right partners and with the right equipment that we can take a step function improvement in the Pacific profitability starting next year.

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

Great. One other thing just to put also in context. Asia is about 10% of our total revenue, so it's not an overwhelming amount of impact on the overall margins of the business while we see improvements is not going to have an outsized effect relative to the total size of the company.

Conor Cunningham
Analyst, Cowen and Company
Q

Okay. And then, just in terms of, so you've made a lot of investments in other airlines and I know you look at a lot of potential deals. Where do you think Delta is, where do you think Delta could potentially invest more in like what region do you see potential growth there in terms of investments? Thanks.

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

A

Well, we're not going to tell you that. Really thinking that I'm going to answer that, did you? Now, I think the big opportunities for us now are to harvest and mature those investments we've made over the last five years in China and coming up in Mexico, in Brazil, in London and not just equity investments, the commercial relationships we built with Korean and Air France, KLM. So, I think you're going to see continued strength of the existing relationships that we have and get smarter and better about managing it together. And will there be additional investments? I think it probably will be. I don't think it's going to be substantially different than the strategies that we've been working. And so, I think the big investments have been made largely.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Just staying on that theme of things you're unlikely to talk about. I wondered if you could talk about this whole Avianca situation. There's been some interesting court filings out there and Delta was named as a potential suitor there. Is there any veracity to those claims? Is that asset that, at one point, you found interesting? What would it do for you? And how do you see that kind of saga playing out?

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

A

Duane, you're right. We're not going to comment on it.

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

Q

Just want to quickly follow up on, Paul, a comment that you've made about the CapEx flexibility, could you talk a little bit about depending on the cash flow like what elements of that can be moved around?

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

A

Sure. First of all, thank you, Savi, for asking a question we can answer. So, if you break out CapEx into really fleet related and non-fleet related, we have certain flexibility rights in our contracts that allow for deferral or rather decisions as well. But the discretionary CapEx, there's a component of the ground and other that is just regular maintenance. So, you're always going to spend some money on parts. You're always going to spend some money on facilities and upkeep. But there are a lot of initiatives in there too that we could dial back, we can defer, we can accelerate and move things around. And flexibility is one of the key components.

So, we've said about half of our capital base has some flexibility built into it. And that's the way we have to manage the events that happen, the question earlier about margin volatility, it impacts cash flow as well. And part of the commitment here and what we keep preaching about is sustainability and durability. That's what's been lacking from the model. That's what we need to continue to do that and building in flexibility whether it's in capital spending, operating expenses, fleet related, et cetera, is the way we're going to manage through that ultimately with the balance sheet as a foundation.

Q

Just a follow-up question on that. Paul, can you just remind us what percent of the fleet this point is fully paid for in cash that gives you that flexibility? And then just secondly, is the acceleration in the narrow-body deliveries tied in any way to next-gen technology that the DOT had been working on in the past? I don't really know where that stands today.

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

A

I'm just trying to understand the second part of your question.

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

A

The second question, not really. I mean, obviously as you retire the MD-80s that helps, but there wasn't a main factor in it. No.

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

A

So, now I forgotten the first half of your question. Repeat the first half of your question.

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

A

How many airplane do you...

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

A

Oh, yeah. So, we still have the substantial majority of our fleet that's owned free and clear. We got an unencumbered asset balance over $6 billion today. We continue to pay cash for our fleet and that's the beauty of a model that's I'm going to reserve 50% of my cash flow. And that will allow us for that balance sheet integrity. So, when you think about our fleet on the chart, we had the projected fleet age going down below 15 years. We still have a lot of barbell orientation to our fleet. A lot of new deliveries, a lot of older fully depreciated airplanes. So, we have, what we believe, is a very strong foundation of flexibility. For what we need to do, should we run into any headwinds.

Nishant Mani
Analyst, JPMorgan Securities LLC

Q

Just a quick follow up on the transatlantic market. Thinking creatively, I mean, what kinds of tools do you have at your disposal to help stem the threat of continued ULCC capacity coming out from Europe. And from a pricing perspective and we saw what we did with basic economy domestically, I mean, what can we do to kind of replicate the success you've had in limiting the ULCC growth in the U.S. relative to what you're seeing in transatlantic. And then second to, Paul, I just had a quick update on taxes. Is 20% of the cash tax rate roughly how which we're thinking about things in 2019 once you guys start burning through the NOLs? Thanks.

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

A

Sure. Well, I think you answered your own question on that. You had all the right answers. Well, I think we're looking at a lot of different issues. Clearly, basically economy is one that we're looking at in the marketplace but really getting closer to what consumers want to buy from us. And if you think about historically, we've had, let's say, a one-size-fits-all approach to our European market. We know that's not going to work moving forward, because the market is actually being segmented into many different segments from basic economy to high-end leisure. And we don't necessarily have all of those products and services in place today.

You'll be seeing us introduce more and more of those. For example, the plane we fly to Rome has the same configuration as the plane we fly to London today. And as we look at how we might be able to offer more customized services that tail our capacity to demand and improve our ability to generate revenues and potentially bring our unit cost structures down, flying probably planes with fewer flatbed business seats and more high-end leisure seats to markets like Rome and some of the places in Spain, even doing more seasonal flying into Europe.

Once we have those configurations, those planes became a lot more flexible so they could fly, say, to Hawaii or to South America in the winter and they could fly to Europe in the summer, and really taking more advantage of the peak capacity demand U.S. point-of-sale in the summer to Europe and tailoring the capacity configurations in the airplanes more to what the demand said isn't what people want to buy from us.

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

Then on the tax side, Nish, the 20% range is still a good estimate. That's against a book tax rate of about 35%. So, we expect that whatever, if any, corporate tax reform is enacted that relationship would hold. So, to the extent that the book rate goes down, we would expect the cash rate to come down as well.

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

Mike?

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

Yeah. Just a question on the business fare. Glen, you talked about business fare is being up double-digit. Is that across the board or is there a distinction between what you have under corporate contract?

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

I don't think I said business fares were up double-digit. I didn't hear that.

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

No, from the business [indiscernible] (01:05:46) that improved double digits from 2016 lows.

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

That's total, that's not business fares. That include share, revenue, all. So, we're up and we're on our trajectory. Our average corporate contracted revenue was about $350 million to $375 million, it fell to a low of about $250 million, and it's been working its way up week after week, month after month. And we're just under $300 million now, and so that's a significant progressing getting back to where we historically have been.

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

Okay. Great. And then just second question. Paul, you talked about big data or data center that's being, I guess, coming online later this year. Is that tied to initiatives on the CRM front or is it tied to operations? What's this going to drive?

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

A

No. That's the infrastructure investment that we talked about after the August outage to build redundancies and durability into the system as well.

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

Great. Well, it seems like we did well answering all the questions. Got done early. And they're anxious to get back to their day job, but thanks for coming. We're excited about the progress that we see in the market, the improvements we're seeing in the revenue environment. The focus here at Delta is continuing to generate a great quality product and service for our customers. And from that perspective, I think the team is doing a nice job and we're going to keep working hard to earn your trust as investors as well.

Thank you.