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MANAGEMENT DISCUSSION SECTION

Jamie N. Baker
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Excellent. Not entirely sure how many of the Delta executives are going to be joining us on stage today. We've got an entourage, so we'll bring them up. Glen Hauenstein, Ed Bastian, not sure if the IR team is going to join, but please take the stage and take it away, it's your airplane. Thank you.

And Paul Jacobson coming up as well.

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

Do I control from here?

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

Do you want to control me? This would be Paul Jacobson's dream job to control my presentation as I'm trying to give it...

Well, good morning, everyone. Thanks, Jamie for the introduction; Mark, thanks for inviting us. It's been a couple of years since I've been here personally, so good to see you all. And I'm a little rusty at this. They don't let me do too many of this anymore, so it's good to be back at the podium. Paul and Glen and Jill do a fabulous job. Glen Hauenstein, our President; Paul Jacobson, our CFO; Jill Greer, who runs the Investor Relations; we got Elizabeth Lippitt, also in our Investor Relations Group; and we got Jenny Winter from ALPA here – who's always here at our conferences. We appreciate having you here, Jenny, as well. We'll have a quick Safe Harbor update. And as you can see, we are going to be giving our best forecast for the event, as the screen come up on this podium.

Don't worry about... What is that? [indiscernible] (01:51).

Okay, thank you. And we'll be making some forward-looking comments as we go through this. There it is. Great. Got it, Jamie. Magic of science.

Unverified Participant

[indiscernible] (02:03).

Edward H. Bastian

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

Exactly. Clearly, exactly. We'll be making some forward-looking remarks over the course of our discussion this morning and if you have any questions regarding our advance forecast, our GAAP reporting or any of the other matters in our SEC reporting, please feel free to reference our delta.com Investor Relations website.

Well, at Delta, we like to say we're built to last. And what that means is that we strive to deliver a highly reliable, durable and sustainable business model for our customers, our owners, our employees and our communities. And in 2018, we expect we'll deliver yet again another year on that promise and on that commitment to all of our key stakeholders and constituents. And we're off to a solid start in 2018.

I'll be giving a quick update on the guidance, but needless to say the March quarter is off and running. Yes, we have weather and we have the typical winter challenges that we face this time of year, but the March quarter is meeting our expectations in all material respects, driven largely by very solid revenue performance across all of our geographies and all of our constituencies as well. And that gives us continued confidence as we see 2018 and a good set up for the full year.

The return at Delta, which is incredibly important, of revenue-driven earnings growth, we did not have that over the last few years. And one of the things that we mentioned at our Investor Day in December that we needed to do is to start to drive top line revenue driven earnings growth, and our goal for 2018 is a top line growth of 4% to 6%. In first quarter, we're right in that actually at the top end of that range. We need to continue to move down our unit cost trajectory. That growth has been at an unsustainable rate and we need to get that back down to a zero to 2%, general inflationary type of trend, and we're making good progress on that. And then, importantly, the long-term competitive advantages that really set Delta of not just for the current year, but for the long term in terms of continuing to deliver the durability and sustainability of the business model.

And as I said, we are on track to deliver a solid March quarter, which gives us confidence, an increasing confidence that we're going to be able to achieve the full-year EPS target that we set out for ourselves last December of $6.35 to $6.70.

In the March quarter, we are narrowing the range to come in at $0.65 to $0.75 for the quarter. Our initial range for the quarter was $0.60 to $0.80, so we're tightening around the midpoint. However, that is in covering the cost of $0.05 EPS charge for the new revenue accounting – revenue recognition accounting standard that when we gave the guidance at the start of the year, we explicitly said was not included in the guide.

So that if you factor that in, that $0.05 in, we're actually coming in on the top end of the guide with respect to the EPS, again driven largely by strong demand across all business sectors and leisure as well. Our most recent corporate sales trends are up 10% year-on-year, both with respect to fares as well as to volume, seeing strength across both leisure and business, and strength across all geographies. For the first time in a number of years, our international geographies are outpacing our domestic geographies in strength. Each one of our three international sectors, trans-Atlantic, the Pacific and Latin, will all have stronger unit revenue performance than Domestic, but Domestic is good as well. Domestic should be up probably in the 2% to 3% unit revenue range for the first quarter. Fuel price is slightly better from the initial guide that we provided. Market prices have come down a touch over the course of the quarter, at Delta uniquely with our Monroe refinery, we have the benefit of RINs coming down. That's the renewable fuel standard as we follow that in – there's a lot of discussions going on as we speak in the White House about implementing some new caps and new standards around the RFS and should drive in the quarter, Monroe to be profitable in the $25 million to $50 million range for the first quarter. So, it's a nice added good guy that we should be seeing in the first quarter.

Unit costs are expected to be up 3% to 4%. This is also coming in the high end of that range. The initial range was 2% to 4%. It's coming in at the high end, largely driven by weather-related events as well as the revenue recognition accounting change because there's geography changes on the P&L as well. So, we've got new costs coming in with respect to how we treat some prior offsets to revenue that are driving, actually grossing up the cost line a touch. So, 3% to 4%. It's still not where we need to be, but sequentially it's a significant improvement from the trend rates that we had in 2017. And we're still committed to getting to our unit cost non-fuel unit cost goal of 0% to 2% for the year. And I've said very clearly to everybody and my hope and expectation is going to be closer to 0% than 2%, and I still believe that. And so that's the outlook on the quarter. Capacity is coming in around 3%. And all in all, I think it's a great start to the year.

And so when we talk about the year, these are the four core building blocks that we think about as we run, what we like to consider to be America's best-run airline. First of all, it's built foundationally on our product, in our service offerings. 2017, once again, we set records not just for Delta, but within the industry. And our operational performance, we had 242 days of the year without a cancellation on the mainline. That's despite 2017 being a very difficult year on the weather front with the April storms hitting Atlanta in the spring. We had the terrible hurricane season last summer, if you recall, as well as the earthquake down in Mexico City. We also had some difficult December weather in Atlanta and, of course, the blackout in Atlanta in the month of December. Despite all that, we still outperformed the prior year's records on the operational front.

With respect to mainline cancels coming in at the highest level, it was 242 days or more than twice as many of zero cancel-free days than all of our main competitors combined. We had our best on time arrival rates not just A14, but also A0, which we're increasingly looking at as a key measure of operational efficiency and customer satisfaction. We had our best performance on bags in our history and we had the lowest complaint rate in our history, so everything continues to set up well on the operational front looking into 2018.

All of that supported by our Net Promoter Scores across all regions of the globe, increasing year-on-year and setting all-time highs year-on-year, and our Domestic Net Promoter Score continues to grow into the mid-40s, and we're very pleased with the performance there. When you deliver America's best-run airline that enables solid top-line revenue growth and as I have mentioned earlier, we're looking at 4% to 6% as our full-year top-line growth. And in the first quarter, we're anticipating our top-line revenues being up approximately 8%. So, we're on track for a good year with respect to revenue growth and it's not revenue for revenue sake, it's revenue for earnings sake as we continue to drive earnings performance over the course of the year. We lead the industry with revenue premiums. And domestically, we're at 117% revenue premium to our competitors and we've seen nice positive RASM pick ups in all geographies and revenue premium improvements in all geographies across our system.

We're also a leader in the industry with respect to customer segmentation. We've now rolled out branded fares across our entire global system. We've implemented the technologies to make the purchase of the various fare bundles and fare products much easier for our customers, so the rate in the purchase path and we've continued to roll those out across our international partners as well. We now have them in Mexico, I see Ricardo in the room. Good morning, Ricardo. We have him at Aeroméxico. We've also now are rolling them out at Virgin Atlantic as well.

And finally, the American Express relationship that continues to deliver outstanding performance. Last year in 2017 we had $3 billion of revenue contribution from the Amex partnership. We have seen from 2013 to 2018, over the last five years, our CAGR with respect to revenue contribution from the Amex partnership has grown at a 14% rate on average per year over the last five years, and we expect that double-digit rate of improvement to continue to grow. It's a fabulous partnership and we're very pleased with our friends at Amex in terms of how they're helping us deliver the brand.

Looking at our global partners, I already commented on Aeroméxico, and we're glad that we now have our JV fully in place. This would be the first full year of the JV up and running in 2018 and making great strides as we continue to bring our two companies closer together. And we're also working closely in Latin America with GOL, our Brazilian partner, where we have a 10% stake. And as many of you know, the Brazilian economy has started to stabilize and show some good signs of improvement and we're pleased with what we see in Brazil. We see open skies looking like it's probably going to be granted, which should give us the opportunity to create another JV in Brazil as well with GOL looking forward.

We, in 2017, announced our JV with Korean Air. It's going to be a game changer in my opinion across the Pacific as we look to move and shift some of our hub flying in Asia from Narita over to Incheon and to Seoul with a leading carrier across the Pacific at Korean. And, of course, we've got a good partnership and opportunities in Shanghai and Beijing with China Eastern as well and across the trans-Atlantic, another big shift for us as we look to integrate our European partners.

We're working with Virgin Atlantic, Air France-KLM to create a single trans-Atlantic JV. Today, we have two JVs that compete with each other across the trans-Atlantic. Our expectation is by the end of the year we'll have a single JV. The trans-Atlantic at Delta is very important. It's about 20% of our revenue base.

So keeping that in mind, it's our ability to drive closer integration amongst our three partners there: KLM, Air France and Virgin Atlantic, but also bringing Alitalia and potential Aeroméxico win at later dates, creates great opportunities. And then even in North America with WestJet, we announced in 2017 plans to create a JV and those plans are underway and we expect to be able to announce something some time in 2018 as well.

The reason we're spending as much time and we're unique in that on the international JV front is that we realize our marketplace is the globe. On the U.S. market, while that is the core of our strength today as our economic engine is the Domestic business, we have no further geographies or new markets to explore and to fly. We are building bigger airports and bigger aircraft, but they're all going through the same constrained air traffic control systems. And if you think over the next 10, 20, 30 years where the growth is going to come, it has to come from internationally developed partnerships and we're pleased with the partners that we have on the globe as we build out this franchise for many, many years to come, again staying on that sustainability thing.

And then finally, the cost trajectory, I already commented on this. Our goal is to bring our non-fuel cost down to 0% to 2% rate for the year. We've been running significantly above that over the last several years as we've had resets for labor. We've had resets on maintenance as we've increased the quality of the product. We've had resets on our lease and aircraft cost across the business. And Paul and his team I think are doing a nice job of getting the cost line back in focus. We're going to be taking over 60 new aircraft deliveries at the mainline in 2018. That's our largest new aircraft delivery in our history. It's going to deliver also some of the greatest efficiency gains in our history, and we're looking forward to be able to drive that as we up-gauge the airline.

And we've kicked off a project that we talked about at Investor Day. We talked about it in efficiency terms. This is an efficiency project, but it's – we've now termed it One Delta, where we take our enterprise and we started thinking about the future for Delta. And today at Delta, we're very operationally driven, as I think many of you know, and we have deep silos and deep divisions with deep technical depth in them, and that's how the company historically has been run. We need to come over the top and provide much more of a horizontal view, so that we're looking at decisions we're taking across the enterprise and the efficiency that can be obtained by the divisions working closer and in a more seamless way with each other is going to allow for us I think to generate substantial savings over time. While there will be costs and benefits, as well as revenue benefits from doing that and we target that at about $1 billion a year on the cost front, this is not a cost-cutting exercise. This is very much about running a healthier business, having a stronger enterprise for the future and taking the walls down between each of our deep technical depth, deep silos and being able to run for the long term a more seamless enterprise.

And everyone is excited about that. We have Gary Chase. In fact, we kept him back in Atlanta today. He's working on that project to show and we'll bring more to the table as we get more specifics behind how we're going to drive the $200 million in 2018, as well as the $1 billion as we proceed over the course of the project, but it's gotten off to a very good start and there's lot of enthusiasm at the company for running a better airline, running the best airline even better.

And finally, have been talking very much about 2018 and the things that have us excited about 2018, but I want to close with this chart that I used at the Investor Day presentation in December. This is what I call our competitive advantages or our economic moats. These are the things that set Delta apart in terms of why we think we do have the opportunity to build on the franchise that we have and make it durable, sustainable, not subject to the volatility of the past. Five core areas of strength that set us apart in this industry.

First of all, it's our people. The culture of our enterprise is very important to us. Our people are our greatest asset and it's their ability to not only bring a motivated workforce forward, but also to be able to differentiate our service in the eyes of our customers. The historic knock on the industry, one of the reasons why we've – I think had suffered with the valuation and the multiples in the past is people think that we're a commodity at certain levels, that we'll go back to our old bad habits and compete solely on price.

Well, we don't – we've been working hard over the last number of years to disprove that and I think our revenue premium and our earnings premium to the industry continues to show that we are not a commodity, that we are – we have a sustainable advantage. But it's the people that create that sustainable advantage. And if you don't have your people delivering on the commitment to customers and differentiating the product and the service in the eyes of the customers, that's what you need to have in terms of be able to avoid a commodity pricing mindset.

Secondly, operationally. We run the best airline in the industry, and we're going to continue to improve on it where there was no end of list of things that we can do to continue to get better. And again, in an industry that has been tied with the issue of commodity and market share skirmishes based solely on price, the thing that I see that's very different over the last 10 years in terms of how we're running our business at Delta is that we compete increasingly on quality and service not solely on price. Price will always be a determinant to the equation, but increasingly customers are choosing Delta because of the service history that we have with them and the reliability of product that we deliver. And we see that in our Net Promoter Scores and we see that in our operational revenue performance.

Third, our Domestic network. We are structurally in a strong spot in the U.S. economy. While we're very proud of our international partners and we expect, over time, the international partnerships will continue to provide great sources of growth and earnings potential, the domestic market is the engine of our profit machine. And that structure that we have in Atlanta, which is the crown jewel in the industry, Atlanta, just to remind you, is 40% larger than the second largest hub in the country, which is Dallas's – American's hub in Dallas, Atlanta is 40% bigger. And when you think about the scale and the efficiency that provides, it's remarkable. Couple that with our two hubs up in Minneapolis and Detroit where we have 900 departures a day combined from those two locations that cover the North Central part of the country.

And then, we've added to that with investment here in New York. We're now New York's largest airline with 500 departures a day out of JFK, Kennedy and New York combined, and couple that also on the West Coast where we've invested both in Seattle as well as Los Angeles. So, we're well-structured with efficient hub systems. And when you think about the up-gauging potential that we have in the business as we continue to grow the 321 fleet, the 737-900s, the C Series, which we expect to be taking by the end of the year and continue to downsize the regionals and up-gauge, we still believe we're in the early to mid-innings of the up-gauge opportunities and the efficiency and scale which that provides.

Customer loyalty, the brand improvement has been remarkable over the last 10 years and has been a source of sustainable strength for us, but also that partnership that we have with American Express that I commented on earlier. At American Express, we are, first of all – we waited to American Express, American Express back to Delta. We are the most important commercial partners to each of us, each organization that we have and we continue to invest deeper and deeper in building the ties and relationships between our two organizations. Amex had their Investor Day last week and they commented that the Delta co-brand is the strongest growing co-brand, strongest growing credit card across their entire consumer network. The Delta co-brand product at American Express grew 12% in 2017. That compares to their overall consumer portfolio growth of 6%. So, we grew together at double the rate that American Express's overall portfolio, consumer products grew at and again shows you the strength of our brand and the power when we combine it with the strength of their brand.

And then finally, our investment grade balance sheet, and we've worked hard to get our investment grade credit rating back. We are pleased that we got the last of the ratings back in 2017. Gives us the flexibility in what it continues to be a volatile industry and it also gives us an advantage as we look to allocate capital. We continue with a fairly simple straightforward philosophy on capital allocation where we take 50% of our operating cash each year and invest it back into the product. For 2018, we're expecting our total operating cash flow to be in the $8 billion to $9 billion range, and half of that going back into the product with about a $4 billion CapEx reinvestment, and the other half is going back into our capital structure. We're going to pay down some more debt in 2018 and we expect to return to our shareholders close to $3 billion of cash in 2018 as well.

Again, numbers that we've never seen on a sustainable basis that we have been driving for the last several years and we expect to continue to drive as we look forward. So, when you think about the combination of our culture, our reliability, the network we bring, the loyalty that the brand has garnered alongside American Express, and the quality of our investment grade balance sheet, we believe this is the reason why not only are we going to see the growth and the improvements in 2018 performance, but we're going to see it over the long term as well.

So with that, Jamie, thank you for the opportunity to give the Delta story. I tried to do it as quickly as possible to save time for questions, and I appreciate everyone being here and your support of our investment thesis.

I'd be disappointed if you didn't.

QUESTION AND ANSWER SECTION

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

At your Investor Day, publicly, the fact that part of what makes Delta successful is that you've managed to carve back profitability from other areas of the aviation industry that used to, I wouldn't say take advantage of you, but earned disproportionate returns at your expense. So my question is, have you achieved equilibrium in that regard or is there still in your model and in your mind profits that are accruing elsewhere that can be brought in-house? The way that you've done with maintenance, third-party maintenance with regional partners or GDSs and so forth?

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

A

I agree. I think that has been a big part of the improvement that we've seen in the model. I do think there are some additional areas yet to go after. I won't call them out specifically, but we are...

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

[indiscernible] (24:44), we don't know.

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

A

...but we do have a few things that we're working on as a part also of this One Delta (sic) Delta One project, which Paul has got his eyes on as well. But I think we're at a point where with our large constituencies, we are at equilibrium. In fact, I'd argue with many of them our margins are larger than the margins of our key suppliers and certainly on the OEM side with respect to the Amex growth you see what we've been able to do and we're receiving outsized returns on that relationship. And many others, fuel, we tried to get in with the refinery disintermediate, the refinery stream of profits. So, I think we've made progress. But more to go, more to go as we build out our business, MRO is one of those things that we'll be looking to build out. Technology, I think, is something else that we have opportunities to continue to move forward on.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

And a couple of questions for Glen Hauenstein, if I may. Two questions. As we've also discussed publicly before as a JPMorgan employee, basic economy has walled off, that fare is dead to me. And in my mind, it's as efficient as the Saturday night stay once was in terms of walling off certain fares from consumption by corporate travelers. Has there been any change in the last six months in terms of the number of corporate contracts that similarly wall off that fare category from use by business travelers?

Hello?

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

A

Speak up.

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

[indiscernible] (26:34-26:44) and what we've really been focused on with our corporate clients aren't necessarily encouraging them to wall off because most of them have walled off the basic economy fares. But really encouraging them to look at the higher fare structures for nominal fee increases. So, the upsell from main cabin to Comfort+ on average is $30 to $40 more per segment. And we see a lot of value in the customer satisfaction there. And given where we are in the economic cycle, we see a lot of corporations now making those changes go in ahead and allow their customer base to book into Comfort+ or to book into domestic first on longer haul flights.

So I think historically the purchase path has been in solely at the discretion of the purchasers, but the purchasing departments but not necessarily involving HR. And so as you look at trying to recruit the best people into these organizations and given the participation of labor force and the low unemployment rates, we've seen a lot of opportunities to encourage corporations to buy, allow their customers to buy into products they like better.

Later on this year, we'll also be introducing mileage as a form of payment, so even if your corporation doesn't allow you to do that you'll be able to use your miles to be able to sit yourself where you want to sit after your company pays the whatever fare you qualify for.

Jamie N. Baker
Analyst, JPMorgan Securities LLC
Q

And the second question, I've seen some others suggest that the resilience, the strength in trans-Atlantic RASM at the moment is really nothing more than a function of Air Berlin having stepped out of the market. And if that's accurate, then we need to be mindful of the anniversary of the finality of that business plan. Is that your view on the trans-Atlantic? Is that really all that explains the strength at the moment?

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

No, I think the trans-Atlantic is about half currency. Of course, we sell in euros and the depreciation of the dollar relative to the euros accounts for about half of the uptick in the unit revenue performance in the trans-Atlantic. The other half is a very, very strong business cabin, particularly to the UK, which is interesting as I think a lot of companies think about what does Brexit mean. They're having to fly there to help figure it out and so we've seen a lot of business travel to the UK, as well as France and The Netherlands. So, a lot of economic activity and then the last quarter is really our own bringing basic economy in continuing to elevate the products in coach. So, we have all three components running our way. I'd say that we're really not thinking for Air Berlin leaving. There's always more capacity coming in as you would know at the macro level. Air Berlin came out, other carriers are growing very rapidly, but we're not really seeing the impact of that in our core business.

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

Yeah, to that end, Jamie, we're looking in the first quarter at our trans-Atlantic unit revenues being up 10%, so it's a substantial improvement. So, Air Berlin is a piece of that, but it's a relatively a minor piece given the size of the strength we're seeing across the trans-Atlantic.

Mark S. Streeter
Analyst, JPMorgan Securities LLC
Q

I had a – it's Mark Streeter. A topic near and dear to your heart, the Middle East carriers. Where do we stand with your battle and Delta's battle with the Middle East carriers in terms of Washington and some of the responses that we've seen from them in terms of how they're reacting to the pressure that you've been putting on them?

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

A

Well, we've been pleased with the administration. The administration ran on a platform of protecting U.S. jobs and enforcing U.S. trade treaties, and we've long thought that the Middle Eastern Airlines and their subsidies that they used to dump product and services into our marketplace is prime for that type of approach. The Qatari deal that was announced at the end of January, we're very pleased with what the administration and what the President has led with respect to that regard. Our biggest concern on the Middle Eastern carriers is not their flying between their homes in Dubai and Doha and Abu Dhabi to the States. We don't ever intend to make that a big part of our business. Where we're concerned is their flagrant abuse of fifth freedom rights using subsidies to fund those. And that's our attention and that's our focus.

The Qataris have acknowledged that they have no plans to enter into fifth freedom flying and I do believe the administration has put them on notice if they ever do have plans into the future it will draw a lot of attention and additional scrutiny. And then, they all – Qatar has also agreed to provide full transparency to where their subsidies sit and start moving to more of a market-driven cost model with respect to how they fund their growth, particularly in their airports, where you see their airports are growing at massive volumes, which their governments are almost completely funding on their behalf. Tens of billions of dollars are being funneled through the airport system, so we're very pleased with where the Qatari deal sat. We're going to continue to watch it and monitor it and work with the administration to ensure that deal is enforced.

And then, the next one which arguably is going to be more difficult given it's larger is the UAE, and I know the State Department has already engaged in a series of meetings with the UAE. And I anticipate the Qatari framework should set the framework for the UAE discussions as well. So, I continue to be optimistic that we're going to have resolution because it's not only the fair thing to do, it's the legal thing to do.

Q

And then just one more for me. You had mentioned, I believe, to employees that Delta was considering serving as a launch customer for a new middle market aircraft that Boeing might be bringing to the market, that 757, 767 replacement. You've got an awful lot of those shells right now in the fleet. Can you give us an update on where you stand with those discussions and your thoughts on that aircraft?

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

A

Sure. Well, we would be a prime launch candidate for the next aircraft of the 797 or whatever they decide to call it. We have 80 767s that will be coming up on retirement in the next decade, somewhere in the second half of the next decade, as well as another 100 757s that will need to be retired over that same timeframe. So, we are in discussions with Boeing. I was out in Seattle last week myself. Boeing has expressed an interest in potentially having us involved in the very early launch phase and the design development, which we would be excited to participate in. Boeing has not made a decision with respect to launching. They don't have a specific date or timeline, but I think they will look to several key partners that they will center their development plans around and we hope Delta will be one of those.

Q

Hi, Ed. Would you mind just addressing two issues of – excuse me, the customer experience at airports. The first relates to TSA and boarding. Is what we're experiencing now effectively what we're likely to continue to experience the next 5 to 10 years or are other changes in terms of procedural aspect to make that a more user friendly experience? And then, the second thing is, I can't understand who is paying for what as it relates to airport renovation and let's take JFK as an example for you. Is that solely funded by Delta or does the New York Metropolitan Area pay for part of it? And to the extent that you're paying for it, is it exclusively a cost matter or is there a revenue generation potential by – you're effectively turning the airport into a shopping mall where you get an override on revenues?

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

A

The airport space, I'll combine your two questions with the discussion of the airports. That's a – it's a big part of our investment strategy going forward. We have here in New York the new LaGuardia that we are leading and we got a $3.5 billion investment that Delta is making, while the port has provided a contribution along lines of, I think, $600 plus or minus million. Delta on its balance sheet is leading that development for our space. Delta in LaGuardia is half LaGuardia is Delta Air Lines, so you'll see over the course of the next number of years a very different experience start to arise from the ground and we're very excited about that.

We're going to be spending over the next five years probably about $12 billion on airports. We've got big investment going on in Atlanta as we're renovating all of the domestic concourses. We're going to eventually build hopefully another runway in Atlanta down the road. It's part of a $20 billion master plan for Hartsfield-Jackson. We've got a new airport that we're renovating. It's an old airport, Terminals 2 and 3 in LA that we're renovating and we're going to basically build new, over this course of the next five years new facilities in LA. We've got a new international concourse and arrival facility in Seattle we're building. We've got a brand new airport that we're putting up in Salt Lake City.

All of those airports, while they are sources of public-private partnerships, the ultimate source and the cost falls back on the airline. We pay the cost, there's no – and whether it's through fees that the airports charge that we need to pass along in terms of ticket prices or rents and landing fees that we pay, the airline is and it's the health of the airline that drives the airport investment strategy. One of the things I've been very clear with our team is that we need to make certain that we're building the airport for the future, not the airport that we know of today. And you use TSA and security as one of the bottlenecks and the pinch point, and I absolutely agree.

We're doing a lot of investment in research and biometrics. We think biometrics is the way that we're going to be able to not just more efficiently bust through the security queues and pinch points, but also more effectively identify customers as they go through it. We've got an investment in CLEAR. We're using at anyone that's not a member of CLEAR. I encourage you to get a CLEAR membership and if you're a loyal Delta traveler, you can get a discount through us as well. It has changed. I go through all the airports myself as a civilian and it takes you through the airport experience radically different than anything in the past. You've consistently through security in anywhere between 15 to 20 minutes tops and it's kind of changed that waiting queue.

The other area that we're working hard on is the gate and the boarding process, where you got that scrum where everybody is trying to get on. We're investing in all sorts of ways to improve that process for customers, but I think one of the keys to that as we're building the new airports is that you think about the airports of the past, we're very much with large front head facilities where you had your ticket counters and you had your statements that the airports like to make and fairly small boarding areas because there was never this huge issue around queuing to get on an airplane.

We got to flip that around. We need to create larger gate spaces and hold spaces and lessen the front house because everybody now is going to – and certainly in the future it's all going to be through your handheld. You may not even need – you'll need ticket counters, but you won't need them in their traditional sense. And so we're kind of changing the footprint there. One thing we're exploring is taking the podiums away from the gates and because you have a podium and our people lined up turning into ticket takers and people queue up and giving them the electronics and the handheld technology in their hands so they can serve people and be hosts and hostesses rather than ticket takers for the experience.

Another thing we're doing because we know a lot of the issue around the queue is that everybody wants to get on with their bags. And if customers knew that their bags would be there waiting for them when they landed, I think we wouldn't have nearly the issues that we have today and that's why we invested in RFID technology. We've already made over $100 million investment in RFID technology.

So, customers can track and watch their bags on the Delta app. We have customers that on our website you'll see them looking at their bag, watching their bag as you're traveling because they want to know where it is, they want to know when it gets off or they want to see it in motion. We're going to have the ability to deliver that real time for our customers, again build back the confidence that they can travel hands free and not having to worry about cramming their luggage into the overhead. And so a lot we're doing on the investment front. But at the end of the day, it's all the strength and health of the airline that enables that, not the municipalities.

Q

Yeah. And then Glen, there have been press reports that you have teamed with Air France-KLM and [ph] Jetways (40:23) to look at a bid for Air India. This isn't the first time you've teamed with some of your SkyTeam partners to participate in a co-investment. Is this philosophy or is it a series of one-off opportunities that have arisen because you are, as far as I know, the only U.S. carrier that has teamed with its alliance partners to co-invest in significant investments in other airlines.

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

A

We traditionally don't comment upon M&A speculation, but I'll tell you we're not planning on investing in Air India.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

We have one more.

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

A

One more? Sure. [indiscernible] (41:09) down here. Do you have the microphone?

Q

All right, thanks for that, the comments and the time. When we look at just Delta financials this year, next year, et cetera, the cost profile is relatively more predictable than the revenue profile and we know what the cost profile that you assume for 2018 is. Revenue trajectory, obviously, off to a very nice start. I think that the guidance, the EPS guidance level that you've given assumes that we have revenue trajectory that doesn't meaningfully deviate from kind of the trajectory that we're on right now. Can you just maybe comment on what you see in the forward look? How you think things are shaping up as we move into the summer months? And there's been a lot of talk about the incremental capacity, particularly domestically, and I think that you guys have done a great job insulating yourselves and focusing on where you can really move the needle relative to your network in RASM. But I'm just curious as far as – and any comments on revenue trajectory into the sort of April-May timeframe as far as you have it?

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

A

Our revenue trajectory in the first quarter, which is what we know, has been solid. We're looking our unit revenues growing 4% to 5% in the first quarter led by the international regions. All the international regions are growing at a pace higher than the domestic region, though the domestic region, I think, I've mentioned in my earlier remarks is going to grow 2% to 3%, which we think is pretty solid given the status of the U.S. economy. And as we look into the second quarter, we see those rates continue. We see no slippage in the forward outlook on revenues. We're right now in the prime booking period for summer travel, particularly internationally, and it's come in very healthy. The other thing that's going to change in our model is our cost performance. You're going to see quarter after quarter continue to get better on the non-fuel side. We're still committed to 0% to 2%.

And so if you put a three plus percent in the first quarter, that means your backend of the year is going to be substantially better to get down to 0% to 2% and that's where we see the models continuing to push forward and we got very good line of sight, as you mentioned, on the cost front because it's much easier to identify where those sources of opportunity arise. But the revenue trajectory is sound and I'm very encouraged that it's been several years we've been able to see the international businesses deliver the kind of health that we had and coupled with the partnerships and the investments that we've made are going to return some good yields for us in 2018.

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

All right. Thank you all for your time and I hope you have a good day over the course of your conference. Thank you.