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Glen W. Hauenstein – President, Delta Air Lines, Inc.
Paul A. Jacobson – Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.
John Ned E. Walker – Chief Communications Officer & Senior VP, Delta Air Lines, Inc.

Other Participants

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Dan J. McKenzie – Analyst, The Buckingham Research Group, Inc.
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Delta Air Lines first quarter 2017 earnings call. Today's call is being recorded.

At this time, I am pleased to turn the conference over to Jill Greer. Please go ahead, ma'am.

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

Thanks, Jennifer. Good morning, everyone, and thanks for joining us on our March quarter call. Joining us from Atlanta today are our CEO, Ed Bastian; our President, Glen Hauenstein; and our CFO, Paul Jacobson. Our entire leadership team is here in the room for the Q&A session.

Ed will open the call and give an overview of Delta's financial performance; Glen will then address the revenue environment; and Paul will conclude with a review of our cost performance and cash flow. To get in as many questions as possible during the Q&A, please limit yourself to one question and a brief follow up.

Today's discussion contains forward-looking statements that represent our beliefs or expectations about future events. All forward-looking statements involve risks and uncertainties that could cause the actual results to differ materially from the forward-looking statements. Some of the factors that may cause such differences are described in Delta's SEC filings.

We will discuss non-GAAP financial measures. All results exclude special items unless otherwise noted. We are also providing cost comparisons on a normalized basis, as this better matches the retroactive expense we incurred in the fourth quarter 2016 from our pilot contract to the appropriate quarters of 2016. You can find a reconciliation of our non-GAAP measures on the Investor Relations page at ir.delta.com.

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

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

Thank you, Jill. Good morning. Appreciate you all joining us this morning. Earlier today, we reported a pre-tax profit of $847 million to the March quarter and earnings per share of $0.77, which compares to consensus of $0.75. We delivered an operating margin of 10.7%, a 23% return on invested capital and returned $350 million to our shareholders. While these results are lower than last year due largely to higher fuel prices, they still represent the second best quarter, March quarter, in Delta's history.

Operationally, we hold ourselves to a high standard. We had 64 perfect mainline completion factor days in the first quarter, ahead of last year's record of 58 days. And prior to April 5, we ran 18 consecutive days without a cancellation.

However, last Wednesday, we had a major spring storm in Atlanta, which brought the airport to a full ground stop for most of the day requiring significant diversions. The storm hit our largest hub during spring break, one of the busiest weeks of the season, and it took us several days to fully recover the operation. We canceled approximately 4,000 flights as a result, which we expect will reduce our June quarter pre-tax profit by $125 million. The good news is we're fully back up this week and indeed had another perfect completion factor day yesterday.

It is our reliability and great service that have allowed us to improve customer satisfaction levels. Our strong customer satisfaction is why we're able to sustain our 109% revenue premium to the industry, and we never take that customer satisfaction for granted.

To our customers, we apologize for the disruption to their schedules. These events always provide fertile ground for learnings on how to minimize these disruptions in the future, and we are actively engaged with our team on making significant improvements to our crew tracking and scheduling processes as well as our customer information systems.

I want to thank the Delta people for working through some incredibly tough conditions to take care of our customers and get the operation back on track. You are the very best in our business.

Now, as we look ahead to the remainder of the year, the durability we've built in our business is evident in our ability to withstand an event like this storm as well as rising fuel prices, and yet remain on track to produce 2017 forecasted pre-tax profit that is similar to the $6 billion range we made in 2016, which would be our third year in a row at the $6 billion level. And while it took longer to get here than anyone anticipated, we are back to positive unit revenues and expect the revenue recovery to gain momentum as we move forward.

This puts us back in the position of generating the top line growth necessary to offset the cost pressures we face and produce margin expansion in our business over the long term. Nevertheless, we remain committed to keeping our capacity capped at 1% for the year, as we believe this will help firm unit revenues and get us through this year on better footing and on the path to achieving our long-term financial goals.

Next month marks our 10-year anniversary of the completion of our restructuring and relisting on the New York Stock Exchange. And as we look back, there are four key pillars that have driven the value we have created and that we're now leveraging to take us into the next decade of success. First, running the best airline in the industry, a safe, reliable, customer-focused operation, which is made possible by the very best people in the industry. Next, enhancing our brand by investing in the products and services that customers value; that's what drives our revenue and brand premium, with strong customer loyalty, creating a more durable top line.

Third, becoming a truly global airline on which we made important strides this quarter, successfully completing our tender offer that will result in a 49% ownership stake in Aeroméxico, and we expect to formally launch our transborder Mexican JV later this month. And we also signed a memorandum of understanding for a trans-Pacific joint venture with Korean, which has been a great partner of ours in North Asia for more than 20 years. This step will significantly enhance our strategic position across Asia, and I believe is a real game changer.

And finally, the steps we've taken to create a durable franchise allows us to invest for the long-term in our employees, in our product, in our balance sheet, and in our owners, because all of our stakeholders have to share in Delta's success for this model to work. A fundamental change may be the fundamental change to our business model, as we now truly compete on quality and service, not just price. That's what successful consumer product and service companies do. Executing on these core pillars is what will position us to deliver consistent sustainable results through the business cycle.

We look forward to recognizing the 10-year anniversary of our relisting at the New York Stock Exchange on May 3, and we also look forward to sharing more details on our capital deployment plans for the next few years at our May Investor Day the following week.

And with that, I'll turn the call over to Glen and Paul to go through more details on the quarter. Glen?

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

Thanks, Ed, and good morning, everyone. I want to start by joining Ed and thanking the Delta people for their efforts over the past week as we recovered from the storm in Atlanta. Your best-in-class service makes the difference to our customers and sets Delta apart in the industry.

Turning to the current environment, while the pace of the revenue recovery was a bit slower than what we had originally anticipated, we are continuing to see improvement in revenue trends across our network.

Quickly recapping our top line performance, we reported total revenues down 1% on slight declines in passenger and cargo revenues. Our passenger revenue declined $74 million, including $20 million of lower hedge gains. Passenger unit revenues for the quarter came in essentially flat, and we were better sequentially each month.

In March, system PRASM turned positive, marking the first year-over-year improvement since November of 2015. The March quarter is the third consecutive quarter we have seen sequential improvement. PRASM was two points better than the December quarter and six points ahead of the September quarter, with better results across all regions. We continued to drive value through our loyalty program in the quarter. Flight redemptions were up 10% year over year, and we realized a $40 million increase in other revenue or 0.5 point not recognized as PRASM.

Cargo sales of $160 million were down roughly 1% during the period, which was all currency related. This is the best cargo result in eight quarters, and we saw sequential improvement through the quarter with cargo revenues up 12% year over year for the month of March. Looking ahead, we have a good line of sight on positive RASM momentum.

For Delta, domestic accounts were roughly two-thirds of our revenue base, so it is critical to get the entity deposit of RASM. Over half of our domestic network was positive in the quarter, and in the second quarter we are on track for two-thirds of the entity to reach this milestone.

Leisure yields and demand remain very strong as we head into peak summer. Peak business demand also continues to be solid, and the outlook remains strong. 84% of our corporate travel partners are projecting their spend will be maintained or increased for the rest of 2017, up one point year over year. Business fares are moving in the right direction, and further improvement in domestic business yields remains our top priority and opportunity.

To give some perspective, we saw double-digit declines in average domestic business fares from early 2015 through last fall. Since then, fares have recovered roughly half of that lost ground, and getting business fares back to the levels achieved in early 2015 would provide significant additional revenue momentum. Our Branded Fare initiatives performed well, with revenues up 10% for the quarter. We expect this growth to accelerate, as we add the ability for our customers to buy up to Comfort+ and our First Class post-purchase in this quarter. We also completed the expansion of Basic Economy to 100% of the U.S. and Canada and have started rolling out the product in our international entities. Basic Economy is now available in more than 25,000 markets. Overall, our Branded Fare initiatives are on track to produce over $300 million of incremental revenue this year.

Turning to our international performance, Latin unit revenues improved approximately 4.5% year-over-year on 2% capacity growth, marking the third consecutive positive quarter for the region. Brazil momentum continued with RASM up nearly 45%, driven by the country's improving economy, strengthening currency, and our partnership with GOL. Monday, we received DOT approval to implement our JV with Aeroméxico. We are looking forward to even deeper cooperation and driving incremental value for customers and shareholders through this innovative partnership.

Looking to 2Q, advance RASM for the Latin entity shows accelerating momentum as we approach the one-year anniversary of the entity's inflection. Between domestic and Latin, we now have 70% of our global system delivering positive RASM, a very different place than we were at this time last year.

In the Pacific, our unit revenues declined 3.9%. Trends are moving in the right direction as well, as this region was 5 points better than the December quarter. Alliances are crucial to Delta's success in the Pacific, and we were pleased to announce our plan to implement a joint venture with our long-standing partner, Korean Air Lines. This arrangement with Korean complements our existing alliance in China with the China Eastern. Both alliances will play a greater role in our Pacific network by providing premier gateways to key markets in Southeast Asia and China, as we would continue to reduce our reliance on our Narita hub.

As we move through the year, we should see continued improvement as we downgauge our fleet and retire the remaining 747s we have in service. These older, less-efficient aircraft will be replaced by the A350, providing a best-in-class product along with a lower cost of production. Last week, we won a Crystal Cabin Award for the highly competitive Cabin Concepts category for the Delta One suite that will be introduced on the A350 later this year, recognizing this product for innovation. Kudos to the marketing and fleet teams for this great recognition. Our Pacific restructuring has been a multiyear undertaking. We now have the right foundation in place to enhance our profit performance in the region moving forward.

Finally, turning to the transatlantic, RASM fell a 0.5 point with roughly 1.5 points of currency impact on a 4-point decline in capacity. We are offsetting some of the pressure from industry capacity and currency with the strategy of leveraging our strong joint venture positions in Europe and growing

U.S. point-of-sale volumes. While we expect that it will take slightly longer to achieve positive RASM in the transatlantic, this entity continues to drive strong margins and cash flows for our owners. Long term, our plan to drive improved performance in the transatlantic starts with more seasonal flying that better aligns our capacity with demand.

Next, we'll build on an improved cost structure by upgauging our fleet, as we retire our older 767 aircraft, which starts this summer and replace them with more efficient A330s. We'll also continue to innovate with new products and services like Delta One suites, Comfort+, Premium Select and Basic Economy. And we'll take delivery of new aircraft using new seating configurations to ensure we have the right mix of premium and economy seats in these markets. This platform, we believe, will allow us to compete effectively with the growth of the low-cost carriers across the Atlantic.

Thinking about the network as a whole, we feel confident that we have turned the corner on positive RASM, and we will continue to stay conservative with our capacity levels to help firm the unit revenue trends. For the June quarter, our capacity will be flat to up 1%, with approximately 2 points of domestic growth and roughly a 1.5-point decline in international. Our unit revenues will be up in the 1% to 3% range for the June quarter, which is 0.5 point lower than our expectations were last week before the storms in Atlanta. This will be driven primarily by continued momentum in our domestic unit, which we are expecting to be up between 3% and 4%.

We are seeing a good start to the quarter, and the month of April may potentially still be positive, including a 2 to 3 point negative system RASM hit related to the storm impact. And given what we are seeing in this quarter and further out, we feel that we are well-positioned to deliver top-line growth through positive RASM going forward. We are there in domestic and LatAm entities, and we have solid plans in place for the Pacific and transatlantic.

And with that, I'd 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, and good morning, everybody. Thank you for joining us today.

I'd like to start by echoing Ed and Glen in expressing my sincere thanks to the Delta family for all they do for our customers, and importantly, for each other every day. This culture is the foundation that really makes our business more durable and sustainable into the future.

Turning to our performance, fuel presented us with our greatest challenge in the March quarter as our fuel expense increased by 26% or $325 million from the prior year.

Our all-in fuel price of $1.71 per gallon was up almost 30% as crude prices climbed roughly $20 per barrel from first quarter 2016's low levels. Our fuel price also includes $0.09 per gallon of losses from our legacy hedge book during the quarter.

While increased crack spreads are also contributing to jet fuel prices, at the same time, they improved our refinery's profitability, naturally hedging jet cracks, improving one benefit of this investment.

The refinery posted a $44 million profit in the quarter as evidence of this, lowering our all-in jet fuel price by $0.05 in the March quarter alone. And we continue to expect that the refinery will contribute $100 million for the year and lower fuel prices.

Looking to the second quarter, we are forecasting an all-in fuel price in the range of $1.68 to $1.73 per gallon, which is down roughly 13%, mainly due to last year's hedging activity. While we expect fuel prices will begin rising again in the second half as we've seen in the last week or so, the year-on-year increases are expected to be below what we witnessed this quarter.

While fuel was the biggest headwind in the first quarter, we also faced some pressures in non-fuel costs, which drove our CASM-Ex fuel up 3.6% higher year-on-year. This was driven by the timing of our maintenance spend, various product investments, employee pay increases, as well as pressure from lower capacity during the quarter.

We were able to successfully offset some of the pressure as we continue to drive productivity through initiatives like our Delta Material Services organization or our surplus part-out strategy, pension savings driven by our excess funding strategy, and upgauging.

For example, we produced 1.6% higher domestic ASMs in the March quarter on 0.8% fewer departures, and expect to see similar benefits from upgauging going forward for succeeding years.

Our maintenance cost pressures are expected to continue into the June quarter, and we will see additional costs as our ground and flight attendant employees will receive a well-deserved 6% increase on April 1. These factors are expected to result in non-fuel unit cost up 4% to 6% for the quarter.

This includes about one point of pressure from last week's storm-related cancellations. But as we move into the second half of the year, we expect to deliver approximately 2% non-fuel unit cost growth. As maintenance spending tails off, we annualize product investments and lap the August technology outage.

As a result, we remain on track to keep our full year CASM-Ex growth in the 2% to 3% range, consistent with our long-term cost target given this year's lower capacity levels.

These cost expectations, when combined with our unit revenue outlook, are expected to result in a June quarter operating margin in the range of 17% to 19%, an increase over 2016's normalized 16.3% performance.

For the back half of the year, while fuel prices are climbing, our CASM increases are moderating and our RASM trajectory is improving. So we continue to expect our margins to expand compared to the prior year on a normalized basis.

While we expect that this will result in margins for the full year that are roughly 150 basis points below 2016 levels, all of that contraction will have already taken place in the first quarter.

And we feel that we have good momentum building to continue to drive value for our owners through top-line growth, margin expansion and prudent deployment of capital.

Turning to the balance sheet, we took advantage of favorable market conditions and our investment grade rating to proactively address our pension obligation this quarter. In a sign of our financial strength and durability, for the first time in nearly 20 years, Delta issued unsecured investment-grade debt.

In the transaction, we issued $2 billion of three- and five-year notes at a blended rate of just under 3.3%. My congratulations to the entire finance and legal teams for a job well done on this transaction. All of these proceeds have been put into the pension plan already. This contribution lowers our pension expense significantly in 2017, and is one of the initiatives we are using to achieve our CASM target this year.

While the additional debt drives $70 million in higher annual interest expense in the near-term, the overall transaction will improve our free cash flow as we lower our pension funding from $1.2 billion to $500 million in voluntary contributions for each of the next three years.

Additionally, this contribution completes all of our required minimum funding through 2024, creating additional cash flow flexibility for the future should we ever need it, although we will continue to focus on voluntary contributions to proactively address the obligation.

Our adjusted net debt increased to $8.8 billion this quarter driven by that debt issuance, as well as seasonal liquidity. However, we remain committed to achieving our $4 billion debt target, which the additional free cash flow will help us achieve.

Excluding the accelerated pension funding, we generated $675 million of operating cash flow this quarter. We continue to focus on investing in the business for the future. In the first quarter, CapEx spending was $1.4 billion, which included $620 million for our strategic investment in Aeroméxico as we successfully completed our cash tender offer.

Core CapEx spending was approximately $800 million, primarily driven by investments in aircraft, facility upgrades, and technology improvements as we continue to drive towards our new data center. For the June quarter, we currently expect CapEx of approximately $1.2 billion, which includes about $175 million to exercise the derivatives necessary to complete our purchase for a 49% stake in Grupo Aeroméxico.

In the March quarter, we also returned $350 million to shareholders, paying $149 million in dividends and $200 million in share repurchases. We remain committed to consistently returning capital to our owners, and look forward to sharing more details on our capital allocation plan for the next several years next month at our May investor meeting, which will mark our fifth consecutive spring Investor Day.

In closing, the solid result we achieved this quarter has us on track to deliver on our commitments with a performance that is consistent with what we outlined in our December Investor Day. Producing a result similar to last year will be another testament to the durability of our business model, and we remain focused on driving sustainable performance regardless of the challenges we face.

Jill?

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

Thanks, Paul, Ed, and Glen. Jennifer, if we could, move to the analyst portion of the call, if you could give the instructions for the Q&A.

QUESTION AND ANSWER SECTION

Operator: Yes, absolutely. Thank you. [Operator Instructions] And we'll hear first from Duane Pfennigwerth with Evercore ISI.

<Q – Duane Pfennigwerth – Evercore ISI>: Hey, thanks. Good morning.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Hi, Duane.

<Q – Duane Pfennigwerth – Evercore ISI>: Paul, on the second half non-fuel cost cadence of 2%, can you help us think through maybe third quarter, fourth quarter? Because it feels like you'll have a sizable decline in the fourth quarter.

<A – Paul Jacobson – Delta Air Lines, Inc.>: No. Good morning, Duane. Thanks for joining us. Thanks for your question. Obviously, on a non-normalized basis, there's a significant lump in the reported earnings for 4Q because of that retroactive component last year. But as you look at the normalized results in the second half due to both a little bit higher capacity utilization in the peak summer periods and the second half of the year as well as lapping various product investments that we made beginning last year with meal service, enhanced snacks, et cetera, we start to see some of that CASM pressure wane, and that's what's driving a higher pressure in the first half than the second half.

<Q – Duane Pfennigwerth – Evercore ISI>: Okay. And then on the advanced funding on the pension, can you quantify the magnitude of that cost savings and when that kicks in? Does that kick in now, or does that kick in on a 2018 basis?

<A – Paul Jacobson – Delta Air Lines, Inc.>: No, the savings of the pension were all predetermined as amortized over all of 2017. So that run rate, which is in excess of $100 million of net savings to the company, is already baked into 1Q results and will continue through the rest of the year.

<Q – Duane Pfennigwerth – Evercore ISI>: Thank you very much.

<A – Paul Jacobson – Delta Air Lines, Inc.>: Thank you.

Operator: And next, we'll hear from Dan McKenzie with Buckingham Research. Mr. McKenzie, your line is open.

<Q – Dan McKenzie – The Buckingham Research Group, Inc.>: Yes, hi. Thanks. Good morning, everybody. Glen, there have been a number of media articles highlighting the move of U.S. banks away from London to other European capitals. Virgin Atlantic is now predicting a loss this year, and you've talked about the fleet changes you plan to make to help get back to positive unit revenue in the Atlantic. But I'm wondering how you're thinking about solving for London specifically. How much revenue could be at risk? What steps are you contemplating here, if any?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: The declines and – the reason for the decline in the forecasted profitability of Virgin Atlantic are more related to currency. And as you know, the British economy so far has held up better than anticipated post-Brexit.

While we've heard a lot of noise about people moving, we respond to the demand, and I think we have a lot of levers should we actually see that materialize. But given that we haven't really seen demand declines yet, I think it would be premature for us to announce what we might do if demand declined. And I think what we've seen is it's never been a better time to go to the UK or it's never been a better time to go to Europe for U.S. travelers. And we have seen an offset of UK point of origin. The U.S. point of origin has more than offset the decline and the existing UK weakness.

<A – Ed Bastian – Delta Air Lines, Inc.>: Dan, I want to add also that our transatlantic business to London with Virgin Atlantic is solidly profitable. And you need to remember, in the Virgin Atlantic result, there's also other parts of the world they fly to out of London outside of the transatlantic, and that's probably one of the areas of core weakness that they're experiencing. So we feel very good about our transatlantic position at London.

<Q – Dan McKenzie – The Buckingham Research Group, Inc.>: That's perfect, and I do see bookings to London actually are up quite strongly here for the second quarter and to the UK just in general. And then I guess if I could just follow up with a second question, I guess again for you, Glen. The network investments over the past five years actually have been pretty impressive just given the JV arrangements that you guys have been able to ink out here. From where you sit today, are there other investments out there that you believe could be accretive?

<A – Ed Bastian – Delta Air Lines, Inc.>: Dan, we're not going to speculate on future relationships. The two big ones that we're looking at obviously is the Aeroméxico JV that's going to be launching this quarter. We're very excited about that. And as I mentioned in my prepared remarks, the Korean JV, which will, in my opinion, be a real game-changer across North Asia, and we're excited about both.

<Q – Dan McKenzie – The Buckingham Research Group, Inc.>: Understood, okay. Thanks for the time, guys.

Operator: And we will now hear from Jamie Baker with JPMorgan.

<Q – Jamie Baker – JPMorgan Securities LLC>: Hey, good morning, everybody. Can you hear me?

<A – Ed Bastian – Delta Air Lines, Inc.>: We can, Jamie. How are you?

<Q – Jamie Baker – JPMorgan Securities LLC>: I'm well, thank you. The first question for Paul. I'm sorry to start with a modeling question, but it's an important one and I'm getting pinged by some clients looking for some clarification. When you talk about margin expansion, how exactly are you defining the baseline? Is it simply reported margins from last year, in which case, The Street doesn't seem to embrace your third quarter guide or implications, but it does on the fourth quarter? Or is your baseline adjusted for the pilots that were out of period or captured entirely in last year's fourth quarter? I guess, the easier way of asking is what do you consider your second half 2016 operating margin to have been?

<A – Paul Jacobson – Delta Air Lines, Inc.>: So, the – we'll get back to the specific normalized – I don't have the margin calculation right in front of me, but we're looking at it on a normalized basis going forward. But for the second half of the year, and certainly, the full year results factor all of that out because it's just a matter of timing. But consistent with what we've said, going back to the fourth quarter results as well, the normalization is taking out, I think it's $390 million.

<A – Jill Greer – Delta Air Lines, Inc.>: Yes, $380 million.

<A – Paul Jacobson – Delta Air Lines, Inc.>: $380 million out of the fourth quarter and just allocating it evenly across the first three. And that spreads it evenly across the full year.

<Q – Jamie Baker – JPMorgan Securities LLC>: So your second half adjusted is probably something in the low 16 range then? Correct?

<A – Paul Jacobson – Delta Air Lines, Inc.>: I think that's about right. Yeah. We'll get back to you on the specifics.

<Q – Jamie Baker – JPMorgan Securities LLC>: Okay.

<A – Paul Jacobson – Delta Air Lines, Inc.>: It is the normalized result that we're looking to expand margins on.

<Q – Jamie Baker – JPMorgan Securities LLC>: Sure. Yeah. And again, I apologize for tying up the call with modeling questions like this. Second one for Glen. You mentioned 84% of your corporate accounts expect to spend more on air travel. I'm assuming that's a volume figure as opposed to being corporations that account for 84% of corporate revenue. First, am I correct? And second, for the 16% that presumably expects to spend less, any color as to what lines of business they fall into?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: The 84% is a survey of our corporate clients, and it's the percent that are expecting to spend more. That is a first – is one point higher than it was last year, and it is a first quarter record high.

<Q – Jamie Baker – JPMorgan Securities LLC>: Right.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: So really, not a lot of color around the 16% that do not, but they're scattered around various industries.

I think the couple of standouts that are very positive this year would be energy and banking and finance. So I think there are probably good reasons for both of those to be optimistic about travel for the rest of the year.

<Q – Jamie Baker – JPMorgan Securities LLC>: Okay, that's helpful for the color. Thank you, gentlemen. I appreciate it.

<A – Ed Bastian – Delta Air Lines, Inc.>: Thank you, Jamie.

Operator: And we will move on to a question from Michael Linenberg with Deutsche Bank.

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Yeah, hey, two questions here. I guess first one for Paul. In the March quarter in the non-op area, that $44 million miscellaneous loss. So, presumably, the 49% of Virgin is run through their March quarter. What percent of Aeroméxico is actually being run through the March quarter?

<A – Paul Jacobson – Delta Air Lines, Inc.>: There's actually none of it going through there at that point because...

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Okay.

<A – Paul Jacobson – Delta Air Lines, Inc.>: ...the tender offer wasn't completed until the end of the quarter.

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Okay. Okay. So then, it's just the Virgin piece and the next quarter will have 49% of both Virgin and Aeroméxico in the June quarter, is that the way to...

<A – Paul Jacobson – Delta Air Lines, Inc.>: That's right, Mike. That's what we'll expect.

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Perfect. And then just my second question to Glen. You're guiding to system passenger unit revenue up 1% to 3%, Glen, and I think you indicated that you anticipate that two-thirds of your domestic markets will be positive PRASM in the June quarter. So when we think about domestic PRASM, is that going to be – is the year-over-year gain going to be running better than system average or is it going to actually be below system average? How should we think of it?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: I think actually in the text, we gave a figure of we thought that the unit revenues domestically would be higher than that.

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Okay. Okay. Very good.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: 3% to 4%.

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Okay, great.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: It's the – expect unit revenues to be up approximately 3% to 4% domestically.

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Great. Thank you.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: You're welcome.

Operator: And we will now hear from Rajeev Lalwani with Morgan Stanley.

<Q – Rajeev Lalwani – Morgan Stanley & Co. LLC>: Hi, thanks for the time. Just a question on the 2Q PRASM guide. What are you assuming on the close-in side as we go through the quarter? Are you looking for earlier acceleration from 1Q, and then maybe what you're seeing today and in April excluding all the noise from the storm, obviously?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Rajeev, we have very positive RASM for the rest of the quarter on the books for domestic in particular. And what we've seen in the past is as we move into the months, because the business fares were lower, those yields declined as you got to the day of flight.

We're seeing that taper off substantially from where we were just a few months ago, and we're really just anticipating that the existing trends continue with just slight improvements over the quarter.

<Q – Rajeev Lalwani – Morgan Stanley & Co. LLC>: Okay. And another kind of related question. You touched on this a bit on your prepared remarks. But Basic Economy from yourself is starting to get rolled out through the system and you're seeing others do it. How is that coming into the market? How was it impacting some of the numbers? Is it helping, is it not?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: The big advantage we have I think with Basic Economy is the fact that when people are presented with the option of buying Basic Economy, and these are people who are buying the lowest available fare, when they're actually presented with what's the content of this product, they're selecting something else. And that's the real value, is to be able to define a product and then be able to match that product to what customers want.

And that's really how we've tried to de-commoditized the industry, is to demonstrate to people what the products and services are, and separate them out. Because if we're not able to do that and we're only playing to the lowest common denominator, then you wind up being commoditized. And I think when you think back to the frequent flyer program and how we used to give mileage based just on how long you flew, not how much you paid or what products you bought, we've really tried to reinvent the entire airline experience to be based not just on a seat and a fare, but a line of products.

<Q – Rajeev Lalwani – Morgan Stanley & Co. LLC>: And a quick follow-up there. So you're seeing that for yourself, Glen. Is it showing up throughout this system as well in terms of just less fare dilution in terms of not putting it as a commodity as you noted?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: As you know, we were the first major carrier to introduce Basic Economy. And other carriers have announced it and now have begun implementation of it, but they haven't really put it out broadly in application. So I think it's early for us to be able to communicate what their implementation is going to do to us.

<Q – Rajeev Lalwani – Morgan Stanley & Co. LLC>: Very helpful, thanks so much.

Operator: And we'll take a question from Savi Syth with Raymond James.

<Q – Savi Syth – Raymond James & Associates, Inc.>: Hey, good morning. Just on the capacity growth. I know you reiterated overall capacity, and I'm just wondering if the plan still is similar to what you laid out at Investor Day, which is, I think, up roughly 2% for domestic, flat for Atlantic, down 6% for Pacific, and up 1% for LatAm? Is that still the thinking on a regional basis?

<A – Ed Bastian – Delta Air Lines, Inc.>: Broadly, yes, those are the numbers in total.

<Q – Savi Syth – Raymond James & Associates, Inc.>: That's helpful. And then, Glen, if I – can I just ask on your comment – it was a comment that kind of the trends in the international segment should continue to improve modestly as you go through the year. And I particularly am curious about the transatlantic because it seems like over the kind of the off-peak period, there was a lot of good capacity discipline, but with the peak summer coming on, we're going to see high single digit type growth in the industry. I'm just wondering why that wouldn't maybe make things a little bit worse in – over the summer period.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: I think in the prepared remarks, we said that we thought it would take longer to get to positive RASM in the transatlantic than it would the other entities

But we are seeing very robust U.S. point-of-sale demand to Europe for the peak summer, and we're believing that for, at least from our perspective, that most of that will be absorbed by that higher demand. I can't speak for other carriers.

<Q – Savi Syth – Raymond James & Associates, Inc.>: All right, thank you.

Operator: And we will now move on to a question from Hunter Keay with Wolfe Research.

<Q – Hunter Keay – Wolfe Research LLC>: Hi. Good morning. Thank you. Paul, does your 2Q margin guide factor in an adoption for the new FASB rule on pension accounting where you drop certain expenses below the line? And if not, when will you do that? And can you quantify the impact for us, please?

<A – Paul Jacobson – Delta Air Lines, Inc.>: Sure, Hunter. Good morning. The – it doesn't reflect any early adoption as we will implement that in first quarter of 2018 as required by the adoption. And we'll provide more details on that because there would be a lot of changes in 2018, obviously, with revenue recognition and et cetera. So we'll get into more detail on that later in the year.

<Q – Hunter Keay – Wolfe Research LLC>: Great. Thank you. And then, maybe another one for you or, well, anybody, I guess. But Richard made some comments in the past about some industry over-ordering in the wide-body side, I think you refer to as a bubble. I'm wondering if that's still the Delta view on that. And then if you want to turn that into a broader conversation around where you stand with the order book on the wide-body and replacement side, that'd be really helpful, too. Thank you.

<A – Ed Bastian – Delta Air Lines, Inc.>: Hunter, this is Ed. Yes, we continue to see excess capacity in wide bodies as we look to the future for the industry as a whole. We continue to look internally as to what that means for Delta, and we're discussing with our OEM partners on what that means. And you could anticipate some reductions, I think, broadly over the next several years.

<Q – Hunter Keay – Wolfe Research LLC>: Any potential comments on when you're thinking about maybe issuing some RFPs for your own replacement needs?

<A – Ed Bastian – Delta Air Lines, Inc.>: We will comment on that when we actually issue the RFPs.

<Q – Hunter Keay – Wolfe Research LLC>: All right. Thank you very much.

<A – Ed Bastian – Delta Air Lines, Inc.>: You're welcome.

Operator: And we'll now hear from Darryl Genovesi with UBS.

<Q – Darryl Genovesi – UBS Securities LLC>: Hi, guys. Thanks for the time. Glen, domestic industry capacity is growing about 4%, which is greater than not – not just greater than real GDP growth, but greater than nominal GDP growth. Yet your domestic unit revenue has seen up 3% to 4%. So, can you just comment on the extent to which you think the current strength in the pricing environment is driven by just clawing back gratuitous discounts from years past that will sort of eventually run its course versus an actual real improvement in the supply and demand balance? And, I guess, I would ask that you characterize that by saying whether or not you need to see a reduction in industry capacity growth over the next couple of quarters in order for the trends that you're seeing right now in domestic unit revenue to hold. Thank you.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: I'll answer the second part of your question first. I think that we are comfortable that with the capacity that's available in the industry today, that we can achieve significant positive revenue momentum through the foreseeable future here. And the foreseeable future for an airline is probably three to six months. The first question, I – could you go back on that because I wasn't quite understanding that part?

<Q – Darryl Genovesi – UBS Securities LLC>: Yeah, I guess I was just asking the same question in two different ways. So I guess you broadly answered it, but what I had said was we're being about 4% domestic industry capacity growth. Perhaps it's much more than that, which actually exceeds nominal U.S. GDP growth. And I was just wondering what you thought the formula was to get from – with domestic airline revenue, which historically has grown in line with the U.S. nominal GDP to something that's essentially twice that this quarter.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: I think that when you look at the macros, you could say it grows generally with GDP. This cycle we've seen really robust leisure demand. So I think what you'll see in the industry – this is just a forecast of when you get to third and fourth quarter, you'll see that it's actually probably growing a little bit faster than GDP because the customer base has grown, and the fares required to now translate that into RASM are very nominal.

<Q – Darryl Genovesi – UBS Securities LLC>: Okay, thanks for that, and then if I could just ask Ed. Ed, we've had this proposal from Governor Christie yesterday regarding overbooking. Do you have any early thoughts on either the states' or the Executive Branch of the federal government's ability to regulate your ability to overbook without a wholesale change of legislation in the U.S. Congress?

<A – Ed Bastian – Delta Air Lines, Inc.>: Sure, Darryl. Overbooking is a valid business process. There are operational considerations behind that. It's not a question, in my opinion, as to whether you overbook, it's how you manage an overbook situation. Delta, we've done I think a very, very good job of managing our overbookings. We lead the industry in that regard. And interestingly, when you compare to an airline – some airlines out there actually advertise they don't overbook, and our numbers are 10 times better in terms of involuntary denied bookings than some of the airlines who advertise that they don't overbook but clearly do in terms of having involuntary denials.

So it's not about whether there are overbookings. In our aggregate, if you think about the full year of 2016, we had in total 1,200 denied boardings for the entire year. That's one in 100,000 passengers. So I don't think it's a significant challenge for us. I think it's very much about giving our front line the tools and the flexibility to empower them at the first point of contact, and that's what we'll continue to do.

<Q – Darryl Genovesi – UBS Securities LLC>: Great, thanks very much.

Operator: We'll take a question from Joseph DeNardi with Stifel.

<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>: Yes, thank you. So, Ed, two questions on loyalty program. 10 years ago, the idea of airlines looking to monetize their loyalty programs was discussed pretty openly. You said when you were CFO that monetizing it could be an option. Glen made some similar comments. It seems pretty obvious that the market isn't valuing the programs now, so I'm wondering, Ed, if you agree with that assessment, and if so, what you guys can try and do to show the market what it's worth.

<A – Ed Bastian – Delta Air Lines, Inc.>: Joe, we have no intent to monetize or spin off the loyalty programs, if I'm understanding your question properly. And I'm not quite certain 10 years ago what was discussed back then, but we've never given serious consideration to actually spinning off the programs and monetizing them in that manner. I think the issues that have been discussed over the last year or two as to providing a bit better color and transparency about the margins and the loyalty arrangement makes some sense. And we're looking at that, but we have no intent to go down at a structural path.

<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>: Does it make sense for you and the board to at least look into what the market may be willing to value the program at independently? Clearly, there would be ways for you to monetize the program without spinning it off. You could sell a small equity stake in it just to show the market what it's worth. Other airlines have done that. Does it make sense to at least explore what the value could be, so you can make a more informed decision?

<A – Ed Bastian – Delta Air Lines, Inc.>: The loyalty programs in our view are the relationships we have with our most important customers, and we have never seriously considered actually monetizing or outsourcing that relationship. So I think there is value to what you are suggesting in terms of providing some better transparency and value that's embedded within our loyalty arrangements, but I don't believe we're going to explore an external infusion of capital into them.

<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>: Thank you.

Operator: We will now hear from Helane Becker with Cowen and Company.

<Q – Conor Cunningham – Cowen and Company>: Hey, guys. It's actually Conor in for Helane. Just a little bit more on the Pacific, I know you've seen sequential improvement in your results there, and there's been a lot of shift in capacity around there, but maybe you can just give a more defined timeline on when you expect an inflection in that market, and maybe the mechanisms in which you expect will drive that improvement. Thanks.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Sure. I think the inflections are the downgauge of the airline from 747-400s to A350s, and that occurs late this year, early in 2018. And the bringing online of, and this can happen even before the JV. The JV with Korean probably will not occur until 2018, but there are steps that we will take that will bring us closer to Korean between now and then that should improve the connectivity of the Incheon hub. And Incheon is already the premier facility and operation in Asia, connecting Southeast Asia to the U.S. And we'll take another step forward late this summer when we bring on the new terminal in Incheon, which will really be state-of-the-art and probably the best terminal in the world, and something we think very exciting for our customers who use us to Asia to connect through.

<Q – Conor Cunningham – Cowen and Company>: Great, thanks. Actually, all my other questions were asked and answered. Thank you.

<A – Jill Greer – Delta Air Lines, Inc.>: Jennifer, we're going to take one more question from the analysts.

Operator: Okay, sounds great. We will hear from Kevin Crissey with Citi.

<Q – Kevin Crissey – Citigroup Global Markets, Inc. (Broker)>: Thank you, good morning. Can you hear me all right? It's the first day with the new headset.

<A – Ed Bastian – Delta Air Lines, Inc.>: Yes, we can, Kevin.

<Q – Kevin Crissey – Citigroup Global Markets, Inc. (Broker)>: All right, great. Thank you. Maybe, Glen, can you talk about the, I think, you said, 109% of industry RASM? I think there's a view in the marketplace that, that's a temporary phenomenon. At least that's what I believe your multiple would suggest. Can you talk about how you've taken it from, I believe it was in the 90-something percentile up to the 109%? What percentage of that is market share that might be subject to a natural reversal?

<A – Ed Bastian – Delta Air Lines, Inc.>: Kevin. Hi, this is Ed. We've been averaging in the 106% to 110% range of industry RASM for the last number of years. We continue to see it sustainable. I don't believe it's a temporary phenomenon, I believe it comes back to quality of service, and product, and delivery by the best people in the industry. It's not something that customers in the past have experienced as well in this industry that they're now starting to experience better. And I think it's durable, I think it's sticky. We're not seeing any erosion in terms of overall corporate demand, and our share continues to be very strong.

So, we've heard this probably for about eight or nine years that Delta's revenue premium was somewhat at risk. And every year, we continue to go to market and prove that the Delta people are the best in the business, and our customers value and pay us a premium for the services we provide.

<Q – Kevin Crissey – Citigroup Global Markets, Inc. (Broker)>: So, if I could have one quick follow-up. Is there any change in philosophy of used versus new aircraft? There's a view out there that Richard [Anderson] was kind of the proponent for used. I want to see if there's any change in philosophy there.

<A – Ed Bastian – Delta Air Lines, Inc.>: The used versus new aircraft are always at the table. They weren't driven by any one person. Richard was a proponent, as many of us were, and we continue to look at the best options for aircraft in the future. And listen, we bought a lot of new aircraft under Richard too.

<Q – Kevin Crissey – Citigroup Global Markets, Inc. (Broker)>: Thank you.

<A – Jill Greer – Delta Air Lines, Inc.>: That's going to wrap up the analyst portion of the call, and I'm happy to turn it over to our Chief Communications Officer, Ned Walker.

<A – John Ned Walker – Delta Air Lines, Inc.>: Hey. Thanks, Jill, appreciate it. Jennifer, we'll go ahead and begin the media Q&A at this point. I'd like to ask each of the participants if they could limit themselves to one question and a brief follow-up. We should be able to accommodate most questions during the period. And with that, Jennifer, would you please review the process for asking a question? We'll get going.

Operator: Yes, absolutely. [Operator Instructions] We'll take our first question from David Koenig with the Associated Press.

<Q – Dave Koenig – Associated Press>: Hi. This is for Ed, I guess. Wondered if you could address why a one-day storm became a five-day problem that cost you $125 million hit to your pre-tax income? Are you simply understaffed to deal with unusual conditions? And what are you going to do to avoid a repeat?

<A – Ed Bastian – Delta Air Lines, Inc.>: Thanks, David. No, we're not understaffed. The storm that hit us on Wednesday had the impact that, in my 20 years at the airline, we've never seen. It was not just the storm, there were seven different thunderstorm cells that happened over a rapid-fire basis, starting early in the morning till the evening. There were tornadoes in the region. We had a virtual shutdown of Atlanta for the better part of the entire day. And when you couple that with the very heavy period of travel, because we're right in the middle of the spring break travel period peak, so we had limited capacity and seats by which that we could reaccommodate those disrupted operations. It really created a significant delay in terms of the challenges that we faced.

We had crews that were diverted. We had crew rotations that were broken. We certainly understand and recognize the impact that's had, not just on our crews, but also on our customers, and we apologized as we did, and we certainly take full responsibility for making this better into the future. But it was a function of the environment. As I said in my prepared remarks, we have a team that's focused on changes that we need to continue to make in better crew tracking, better crew information, and contact. Availability, we had crews calling in from all across the system that we're literally running the airline hour by hour in terms of where crews were and getting them pieced back together. And it was a very difficult process for us.

<Q – Dave Koenig – Associated Press>: Okay. Anything else that you're looking at or that you're considering?

<A – Ed Bastian – Delta Air Lines, Inc.>: Well, as I said, the big changes we're making, it's around technology investment and getting better crew tracking. And though this is an issue, that's not just the Delta issue. This is an issue for the industry, as to how to minimize disruptions when they occur. Typically, we certainly have had storms in the past, never in the middle of summer with lack of warning that we saw. When we have snow storms or snow events, we typically get out of the way, and we let the weather pass. We were not able to get out of the way. It hit us, as we were right in the middle of one of the busiest travel periods of the year.

<A – John Ned Walker – Delta Air Lines, Inc.>: Dave, this is Ned. I think, also, what Ed has asked is that Gil West do a complete deep dive throughout the organization to find out lessons learned across all the different divisions, and that process is going on as well.

<Q – Dave Koenig – Associated Press>: All right, thank you.

Operator: And next we'll hear from Michael Sasso with Bloomberg News.

<Q – Mike Sasso – Bloomberg News>: Yeah, good morning. Can you just talk about your comments about widebodies? It was a little unclear whether you're talking about the industry itself might review orders? It did sound as if you're saying Delta is going to review its widebody orders. Can you just provide a little more clarity on that?

<A – Ed Bastian – Delta Air Lines, Inc.>: Both Michael. I think the industry, when you look at the overall demand environment, internationally, obviously, since you're talking widebodies with the level of capacity, there's pressure in the environment. Supply is growing in many international markets in excess of demand. And with the amount of new widebodies on order, a lot of them, by the way, being triggered from the Middle East, it is going to create some really significant pressures on pricing in the widebody market.

<Q – Mike Sasso – Bloomberg News>: And just one follow-up. Can you talk about what happened with regard to crew tracking during the storms? Was it an IT failure? I mean, was there a system that collapsed, or was it simply, it worked properly, it just kind of got overloaded or something? How did the crew tracking and kind of schedule kind of break down?

<A – Ed Bastian – Delta Air Lines, Inc.>: It wasn't a question that the IT didn't work. The IT worked, and it worked as designed. It got overwhelmed by the volume of broken rotations, and cancellations, and diversions, all of which needed to be put together on the fly at an unprecedented level of volume that overwhelmed the systems a bit. So, no, the systems are working throughout, it was the size, and the magnitude, and the volume that we were experiencing that caused the delay.

<A – John Ned Walker – Delta Air Lines, Inc.>: Thanks, Mike.

Operator: And we'll hear now from Chris Isidore with CNN.

<Q – Chris Isidore – CNNMoney>: Hi. Are you concerned about the publicity about the United case, and to some extent, the problems you had last week, prompting people in Congress to pass law that would outlaw or severely restrict overbooking? You had said earlier that overbooking was a useful tool if done properly, are you worried about this becoming a new regulation or legislation restriction on you?

<A – Ed Bastian – Delta Air Lines, Inc.>: I don't think we need to have additional legislation to try to control how the airlines run their business in this space. As I indicated, it's a relatively small impact at Delta. Every single involuntary denied boarding, we take seriously and do our very best to minimize it.

Our overall total number of involuntary denied boardings in the entire year of 2016 was 1,200 people, which was down 50% from what it had been in the prior year. It's five times better than our big major carriers and 10 times better than some carriers that actually advertise that they don't overbook. I think the key is managing it before you get to the boarding process, and that's what our team has done a very effective and efficient job over.

<Q – Chris Isidore – CNNMoney>: Right. Now...

<A – Ed Bastian – Delta Air Lines, Inc.>: There are operational considerations to weight and balancing, weather delay. I mean, there's things that happen that create overbooking situations beyond just pure oversales.

<Q – Chris Isidore – CNNMoney>: Right. I guess, what I'm saying is, are you concerned that there has been talk by some members of Congress already about this? And Governor Christie's remarks were referred to earlier. Are you worried that politicians will react to this story by placing more rules or regulations, or are you confident that they'll leave things legislatively the way they are?

<A – Ed Bastian – Delta Air Lines, Inc.>: All I can do is comment on how Delta handles it. And I'm confident when or if people had an opportunity to look at how Delta has managed it, they'd say, Delta's doing a pretty good job with it.

<A – John Ned Walker – Delta Air Lines, Inc.>: Okay. We have time for one more question. Jennifer?

Operator: Yes. We will take our final question from Edward Russell with FlightGlobal.

<Q – Ned Russell – FlightGlobal>: Hi, thank you for taking my question. I was wondering if you could elaborate on the 767 retirements that you said would begin this year. And how many aircraft will be leaving and which aircraft do you plan to pull out?

<A – Ed Bastian – Delta Air Lines, Inc.>: We were talking of the 747 retirement.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: And the 767. We're initiating our 767 retirements. Three will be retiring this year. I don't know the tail numbers, and I don't know that we...

<Q – Ned Russell – FlightGlobal>: Are these domestic or transatlantic aircraft?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: These are transatlantic airplanes. We have retired all of the domestic 767s already.

<Q – Ned Russell – FlightGlobal>: Got it. Thank you very much.

John Ned E. Walker, Chief Communications Officer & Senior VP, Delta Air Lines, Inc.

Okay, thank you all very much. That concludes the March quarter 2017 call. We'll be back in three months with the June 2017 call. Thanks everyone.

Operator: Thank you. That does conclude today's conference call. We do thank you all for your participation. You may now disconnect.