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# Delta Air Lines, Inc. (DAL)

Business Update Call

## CORPORATE PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, everyone. Welcome to the Delta Air Lines Conference Call. My name is Chantal and I will be your coordinator. At this time, all participants are in a listen-only mode until we conduct a question-and-answer session following the presentation. As a reminder, today's call is being recorded.

I would now like to turn the conference over to Ms. Julie Stewart, Managing Director of Investor Relations. Please go ahead, ma'am.

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### Julie Stewart

*Managing Director-Investor Relations, Delta Air Lines, Inc.*

Thank you. Good morning and thanks to everyone for joining us on short notice. Yesterday, after the close, we announced a new strategic partnership with LATAM Airlines and we have our executive team here today to discuss the agreement. Our CEO, Ed Bastian, will have a few minutes of prepared remarks and then, for Q&A, we will have our President, Glen Hauenstein; our CFO, Paul Jacobson; and our Chief Legal Officer, Peter Carter; as well as other members of the management team.

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 statement. Some of the factors that may cause such differences are described in Delta's SEC filings. As a reminder, today's call is to discuss the LATAM transaction. We are scheduled to report September quarter earnings on October 10 and we ask you to hold any questions about our current performance until then.

Please limit yourself to one question and a brief follow up so we can get to as many analysts as possible. With that, let me turn the call over to Delta's CEO, Ed Bastian.

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### Edward H. Bastian

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

Thanks, Julie. Thank you all for joining us today on short notice. The announcement yesterday of our new strategic partnership with LATAM Airlines is an important and exciting development for Delta. With this partnership, we will have a portfolio of premier partners in every major region of the world. It's an agreement that, for the first time, combines the strengths of the leading airlines in North and South America, creating the leading airline partnership throughout the Americas.

LATAM's presence is strong brand access across the region's largest markets will allow Delta to better serve customers in both, South America and the US, and support improved profitability in this increasingly important region. Longer term, this agreement allows us to build on our existing Aeroméxico relationship further improving access to the Americas for customers.

South America is an attractive and fast-growing market. It generates roughly \$8 billion in annual revenues from the US, which represents approximately 10% of US international revenue and over half of all US to Latin and South American revenues. LATAM is the premier carrier in the region. It has an industry-leading global brand with excellent customer experience, a commitment to operational reliability and a passion for service.

LATAM's US to South America business is approximately \$1.6 billion a year, a revenue pool we've not had meaningful access to, historically, and is a big driver of the opportunity for Delta. This is a comprehensive agreement, so we'd like to take a few minutes to go through the details.

The first part is a commercial partnership which includes the proposed joint venture. The first step in this process is codesharing which could be implemented as soon as the end of this year. The full strategic partnership will require a longer approval process. As part of this, Delta will also invest \$350 million over the next several years to support the establishment of the strategic partnership.

Next, we plan to acquire 14 Airbus A350 aircraft from LATAM comprised of four operating aircraft and the assumption of 10 future order positions. Delta will receive two aircraft in late 2020 and the remaining 12 aircraft by 2025. These orders do not change our expectation that we will keep CapEx at roughly 50% of operating cash flow over the long term. Then finally, Delta will invest \$1.9 billion for a 20% stake in LATAM through a public tender offer at \$16 per share.

With that ownership position, Delta will receive representation on LATAM's board of directors. Delta's partnership strategy, a combination of joint ventures and equity ownership, is unique in the industry and creates a tighter, more effective alliance within our portfolio of premier global airlines. The equity investments support capital efficient growth in attractive markets.

Our profit sharing JV model incentivizes each carrier to generate value for the partnership. And finally, our board participation further strengthens and aligns the relationships. We are grateful for the eight-year partnership that we've enjoyed with GOL. Moving forward with LATAM means that we will regrettably be exiting our partnership with GOL. We will support GOL through an orderly transition.

So, to summarize, we expect this new agreement with LATAM to provide significant benefit for all of our stakeholders, our people, our owners, our customers and the communities we serve. For our people, the agreement furthers our long-term international growth strategy and gives Delta, a leading position, in South America creating opportunities to bring very exceptional service to more of the world. For our customers, we will offer them expanded travel choices in the region with a more consistent and seamless travel experience.

Together, the partners will serve 435 destinations worldwide and carry more passengers between North America and South America than any other partnership. This partnership will also create additional competition in the region ensuring that our customers have more options for their flying across the Americas. For our owners, the partnership will drive long-term revenue, earnings and cash flow growth. And as we've seen in our other partnerships, we also expect to realize additional benefits from sharing of best practices, fleet optimization, maintenance and ground handling savings, joint procurement and loyalty program synergies.

Putting all that together, we expect the transaction will be accretive to earnings over the next two years and provide meaningful benefit to both Delta and LATAM. I expect over the next five years, this will represent roughly \$1 billion and make incremental revenue growth to Delta.

At the same time, we're maintaining all of our existing shareholder commitments, including free cash flow and shareholder returns while remaining comfortably within our targeted leverage ratio of 1.5 to 2.5 times adjusted debt-to-EBITDAR.

As is always the case, we all need to seek government approvals, including anti-trust immunity, which will take 12 to 24 months to achieve. We're committed to keeping you informed as we move through this process. And let me

close by thanking the entire Delta team for making this agreement possible, this opportunity simply would not exist without their hard work.

With that, I'd like to open the call for any questions any of you might have at this stage.

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] We will now take our first question from Savi Syth with Raymond James. Please go ahead.

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**Savanthi Syth**

*Analyst, Raymond James & Associates, Inc.*

Q

Hey, good morning. It sounds like a really good deal, but I was wondering if you could provide a little background on how you arrived at the \$16. It appears to be kind of 20 to 30 times over the next couple of years. So just kind of curious if the kind of the EPS accretion shows up immediately and that's how you're kind of justify that kind of high valuation?

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**Edward H. Bastian**

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

A

Hi, Savi, thanks. The \$16 value was a negotiated value, as you could expect. This is a price that we are paying as a strategic investor, not as a financial investor. The commercial value of the relationship for us is strong, access to the revenue pool that I was talking about that we've historically not had access to is a meaningful part of the return scenario.

\$16 is what we expect is a full price is clearly a significant premium. The stock has traded anywhere from \$5 to \$30 over the last decade. \$16, it was there not within the last couple of years. And we anticipate as the region, macro is improving as our participation as a meaningful stakeholder at LATAM, we're going to feel very comfortable with the price we received.

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**Savanthi Syth**

*Analyst, Raymond James & Associates, Inc.*

Q

That makes sense. And just a clarification on the EPS equation, does that require the government approval or does that show up right away with the codeshares?

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**Edward H. Bastian**

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

A

The EPS where we say over two years obviously there's going to be a regulatory period of time that we have to monitor that's unknown in terms of how quickly we'll get through this. We think 12 to 24 months is a good estimate of that timeframe. Obviously, as we work through the transition that LATAM has to move over to Delta, it's going to take some time. So there are some uncertainties but the EPS estimates that we have internally are certainly within two years, it will be accretive.

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**Savanthi Syth**

*Analyst, Raymond James & Associates, Inc.*

Q

Got it. Thank you. Sounds like a great deal.

Edward H. Bastian

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

A

Thank you.

**Operator:** Thank you. We'll now take our next question from Mike Linenberg with Deutsche Bank. Please go ahead.

Michael Linenberg

*Analyst, Deutsche Bank Securities, Inc.*

Q

Oh, hey. Good morning, Ed. The the 20%; should we view that as kind of initial position in LATAM when we think about the equity stakes that you've taken in other carriers and the fact that kind of unique situation since I don't believe there's actually, in fact, any restriction on foreign ownership. You technically could go all the way up to 100%. So, is the 20% of first flight [indiscernible] (00:09:53) labor agreements that would prevent you from going maybe north of 20%?

Edward H. Bastian

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

A

Hi, Mike. Thanks. No. We are not anticipating going north of 20%. 20% is a meaningful stake. As you know, in each one of our investment participations, we have different levels from 4% in China Eastern all the way up to 49% in Aeroméxico and Virgin Atlantic. I think 20% is the right level for Delta. I do not anticipate any increase about that level. The Cuetos are the main owners and they will continue to be the main owners of the group, which we are – is very important to us that they be there, and there's obviously a meaningful public participation as well down there as well as the Qatar interest. So, now we're very comfortable that 20% is the right threshold for Delta.

Michael Linenberg

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. Great. Here's the quick follow-up either to you or [indiscernible] (00:10:49) in the press release, you call out five major markets that Delta will now be the leading carrier in with LATAM. Presumably, that doesn't include Mexico that you specifically call LATAM. What are those five markets that will now be in a leadership position post this transaction? Thank you.

Gary Chase

*Senior Vice President and Chief Strategy Officer, Delta Air Lines, Inc.*

A

It's Chile, Colombia, Peru – Mike, it's Chile, Peru, Argentina. I'm missing one. The major market...

[indiscernible] (00:11:24)

Gary Chase

*Senior Vice President and Chief Strategy Officer, Delta Air Lines, Inc.*

A

...Colombia.

Edward H. Bastian

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

A

It's all the major markets. It's Brazil, Argentina, Chile, Peru and Ecuador.

Michael Linenberg

*Analyst, Deutsche Bank Securities, Inc.*

Okay. Great. Thank you.

Q

**Operator:** We will now take our next question from Duane Pfennigwerth, I'm sorry if I said your name wrong, from Evercore.

Raymond Wong

*Analyst, Evercore Group LLC*

Good morning, everyone. This is actually Ray on for Duane. I guess, I probably should've used my more pronounceable last name. So we understand that your long-term CapEx still remains unchanged as you stated. But how does the wide-body order fit into your overall longer-term aircraft CapEx plans?

Q

Edward H. Bastian

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

Well, we certainly have long-term needs for a wide-body aircraft. And as we've been very public, we've looked at whether we're going to continue to expand our A350 fleet or our Boeing fleet. This gives us an opportunity to expand the A350 fleet, which we have a relatively subscale amount of it, 15, today and it's right in line with our expectations.

A

Raymond Wong

*Analyst, Evercore Group LLC*

Awesome. And in terms of timing of the deal, why is now the right time?

Q

Edward H. Bastian

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

Well, the deal presented itself. And when you have opportunities and you have the capability to move, you move.

A

Raymond Wong

*Analyst, Evercore Group LLC*

Sounds good. I'll hop back in the queue. Appreciate it.

Q

Edward H. Bastian

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

Thank you.

A

**Operator:** [Operator Instructions] We'll now take our next question from Hunter Keay with Wolfe Research. Please go ahead.

Hunter Keay

*Analyst, Wolfe Research LLC*

Hi. Good morning, everybody. How many of the \$30 million LATAM loyalty program members are also members of SkyMiles? And if you can't answer that specifically, can you talk broadly about how loyalty fits into this deal?

Q

Edward H. Bastian

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

A

Sure, Hunter. I'll start and then Glen can follow. Well, it's very minimal overlap. I don't have the exact number for you. But as you can appreciate, since we don't participate in those flows in a meaningful way today, there would be very minimal Delta loyalty, and certainly, this is one of the opportunities to grow value.

Glen W. Hauenstein

*President, Delta Air Lines, Inc.*

A

Yeah. I think that's one of the exciting things we see about this is we need to have scale in order to have an attractiveness to our market. And this really provides us the base scale that we will need to really make some more inroads into the US-Latin market. But that's certainly was one of the considerations is what does this do for our ability to continue to grow the frequent flyer and the card portfolio.

Hunter Keay

*Analyst, Wolfe Research LLC*

Q

Okay. And what are you losing with GOL that you think you can recreate with LATAM and does this involve any, I know, it's early, but any prospects of building a new hub somewhere in Brazil or just from a network perspective have lots of GOL fold into this. Thanks.

Edward H. Bastian

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

A

Well, GOL has been a wonderful partner and it is with deep regret that we are moving away from that relationship but we have no choice when the LATAM opportunity presented itself. GOL today is, as you can appreciate, really only covers Brazil for us domestic Brazil. We get some codeshare feed that will certainly be replicated quickly from LATAM within Brazil and with LATAM's improved distribution capabilities, we expect to grow that Brazil feed meaningfully going forward.

Hunter Keay

*Analyst, Wolfe Research LLC*

Q

Thanks.

**Operator:** Now take our next question from Jamie Baker with JPMorgan. Please go ahead.

Jamie N. Baker

*Analyst, JPMorgan Securities LLC*

Q

Hey. Good morning, Ed and everybody. If the relationship with LATAM was currently ramped up to the level that you're envisioning for say, I don't know 2025, would you be able to operate all of the envisioned JV flying under the current scope clause? If not, could you articulate what additional scope relief you might need?

Edward H. Bastian

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

A

You're talking about scope relief from our pilots.

Jamie N. Baker

*Analyst, JPMorgan Securities LLC*

Q



Yes. In the wake of some of the recent angst over JV flying across the North Atlantic, I thought it would be a reasonable question to ask.

Edward H. Bastian

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

A

Sure. No, there's a – part of this deal is that there is equitable growth for both parties. So the growth going forward we can – absolutely we'll – all the growth anticipated will be part of and well within our scope discussions with our pilots. Today LATAM operates, I think close to, the proposed JV would be 70/30 today, LATAM to Delta, based on existing baselines going in, that number over the next few years we'll start to get closer as we – the ratios as we both have equitable growth and shared growth opportunities going forward.

Jamie N. Baker

*Analyst, JPMorgan Securities LLC*

Q

But I guess the answer is just not clear to me. Did that require incremental scope relief as part of the next contract or is the current scope sufficient?

Edward H. Bastian

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

A

No. There's no need to get any incremental or any kind of scope relief from pilots.

Jamie N. Baker

*Analyst, JPMorgan Securities LLC*

Q

Perfect.

Edward H. Bastian

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

A

The deal we announced today is entirely consistent with the existing contract. And I think our employees, including our pilots should be and will be very happy, because it's not only the opportunity for meaningful Delta growth, we also have additional aircraft coming alongside.

Jamie N. Baker

*Analyst, JPMorgan Securities LLC*

Q

Perfect. Second question from LATAM's perspective, you know as the Oneworld feed that they currently enjoy wind down and the feed with Delta begins to ramp-up. If there's any mismatch, any deficit there, who is burdened with that loss? Is that part of the \$350 million that you've set aside? Is that LATAM's problem, is that Delta's problem, where does that show up?

Edward H. Bastian

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

A

Sure. That is contemplated in the overall \$350 million investment over the initial timeframe. While LATAM is exiting Oneworld, their goal is to remain unaligned and so they'll hopefully maintain, if not, grow existing relationships into the future. So, that is a part of the way we arrived at the \$350 million.

Jamie N. Baker

*Analyst, JPMorgan Securities LLC*

Q

Okay. That's great. Thank you, Ed.

Edward H. Bastian

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

A

Thank you.

**Operator:** We'll now take our next question from Joseph DeNardi with Stifel. Please go ahead.

Joseph William DeNardi

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Thanks, Ed. Good morning. Ed or Glen, could you just provide a little bit more detail or granularity around those \$1 billion over 5 years or what's that composed of and maybe the timing of how that gets realized?

Glen W. Hauenstein

*President, Delta Air Lines, Inc.*

A

Sure. Sure. It's got several components and I'd say the first several years until we receive ATI will really be about bringing more connectivity to the existing marketplace. So when we land, for example, from Atlanta into Lima today, that's an endpoint on our network. And so, we would expect as we can start putting those codeshares on and begin cooperation that our core markets will see significant expansion that will come through first gauge and then over time, frequency.

And then, of course, when we have ATI, we can get into a much more coordinated and planning growth scenario where we can leverage each other's networks and really plan the network out together. So it's a multi-step process. It begins right now. We'll be heading down south here to Chile to start working on work plans next week and see how far we can get before we get certain government approvals and start that process along. But we feel very comfortable that the \$1 billion is very achievable.

Joseph William DeNardi

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. And then just two quick ones just kind of confidence in that and you'll be able to get the approval that you need given what happen was American, and then how much debt are you going to raise to finance it? Thank you.

Peter W. Carter

*Secretary, Chief Legal Officer & Executive Vice President, Delta Air Lines, Inc.*

A

Joe, it's Peter. Our networks are complementary as Ed had said, and together are going to generate substantial consumer benefits. So we don't anticipate any regulatory issues. You may know that American and LATAM had a number of overlaps that created issues with the Chilean regulators, and we just don't have that here.

Joseph William DeNardi

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

And then just on the debt?

Paul A. Jacobson

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

A

Yeah. And Joe, good morning. It's Paul. We're going to take a look at the markets. We've anticipated financing substantially all of it. As Ed said in his comments, we can do that and remain very comfortably within our 1.5 to 2.5 times, and we don't see that load as being material on the company's performance.

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

Q

Thank you.

**Operator:** We'll now take our next question from Dan McKenzie with Buckingham Research. Please go ahead.

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

Q

Hey. Thanks. Good morning. Hope you can hear me okay. I also wanted to focus on the \$1 billion in incremental revenue over the five years. I'm wondering if you can give some perspective on how it enhances the degree of Delta's profitability in the region. So if we kind of look at margins today, is South America below system average margin that could migrate to average or above average? Just trying to put some color around the \$1 billion number over five years.

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

A

Yeah. I think there is – when we think about our Latin franchise, we think essentially other than Brazil where we have a great partner today in GOL, these are endpoints on our network today. And so we don't really have point-of-sale strength in Chile, we don't have point-of-sale strength in Peru, we don't have point-of-sale strength in Colombia and we really don't connect to any networks or any beyond segments down there. So, the natural thought is that that produces a return that's below your average return when you add all those things up.

And in fact, while GOL has many great partners, they really have not had access to be able to generate beyond traffic in Brazil to us. So, as you know, they have a different distribution network that is not really symmetric to the more traditional carriers like Delta. So between adding the networks, between access to corporate travellers and high-yielding travellers and between improved access in Brazil itself, we think that we can take this from below average returns to a superior returns over the 5-year period.

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

Q

Yeah. Perfect. Second question here. In the back of my mind, I always thought that Alitalia would be the next airline of interest. I'm just wondering if you might be able to update the interest in Alitalia at this point?

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

A

Dan, we've been public in our support for Alitalia through their restructuring process. We remain supportive. We've indicated our willingness to support that with a roughly 10% stake in their exit from their current administration process in restructuring which should be about \$100 million in euro and but there's no update. Obviously, there's been changes in the government over the last month over there. There's some changes within the consortium that people are – have some new players at the table. And when the consortium is ready to go, we will be as well.

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

Q

Very good. Thanks.

**Operator:** We will now take our next question from Joe Caiado with Credit Suisse. Please go ahead.

Joe Caiado

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi. Good morning, everyone. The question on the funding of the 20% equity stake and you said that most of that is going to be debt...

Edward H. Bastian

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

A

Joe, you're breaking up. We can't hear you. Could you repeat your question?

Joe Caiado

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hey. Sorry. Is that better? Can you hear me now?

Edward H. Bastian

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

A

Yeah. We could.

Joe Caiado

*Analyst, Credit Suisse Securities (USA) LLC*

Q

[indiscernible] (00:23:59) to fund the deal.

Edward H. Bastian

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

A

Try it again. We can hear you now.

Joe Caiado

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Apologies, I'm on the road. You made it clear that your financial commitments were unchanged. You expect to stay [indiscernible] (00:24:11-00:24:18)

Edward H. Bastian

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

A

Joe, I'm sorry, I'm sorry. You're breaking up. We can't hear your question.

Joe Caiado

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Move on to the next question. Sorry.

Edward H. Bastian

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

A

Okay. We tried. Sorry.

**Operator:** All right. We'll now take our next question from Brandon Oglenski from Barclays. Please go ahead.

Brandon R. Oglenski

*Analyst, Barclays Capital, Inc.*

Q

Hey. Good morning, guys. I'm sure he's got T-Mobile phones. Look, a \$2 billion investment is not insignificant. And I guess just what have you learnt from your prior investments in the others carriers, I guess the control or the help that you tried to exert with them and what have you learned there, and I guess how did that help you moving forward with LATAM?

Edward H. Bastian

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

A

Thanks, Brandon. You're right, \$2 billion is a very meaningful investment. In fact, this is the biggest investment that we've made in the business and ever since the Northwest merger 10 years ago of Delta and Northwest and we're going to take a very disciplined and concentrated focus to make sure the returns on the \$2 billion show up in the same way they showed up at Northwest.

We have a lot of experience in managing the relationships in regions around the world. I'd start by saying that the LATAM team is world-class. You've gotten to know the Cuetos and Roberto and Ramiro and some of the leaders there, and obviously, we've not had full access. It's been a short process in the period of time, and I'm just impressed. They're very disciplined. They're very focused. They share a lot of the values that we share at Delta around service and experience and making a difference on a global map.

And so, I think our cultures, which is the most important thing that you always look at in relationship and investment this size, match up very, very well. They match up very well with our network of partners as well.

We look at the opportunities that would pose for us in Mexico. Aeroméxico is a major part of this in terms of the long-term strategy for the Americas, sitting where they're at. And they'll drive value [Technical Difficulty] (00:26:28-00:26:36) level. The Cuetos have been very clear. They want Delta's views and what we can do and where we can go to help them improve their business.

And by the way, we have been equally clear that we want the same type of insight and perspective from the LATAM management team as to how we can be better providers of service into the South American region. So, there's a tremendous amount of value. We're requiring it roughly 1 times sales which I think over time is a pretty good proxy of the value that resides within the LATAM Group and we're excited. We've got a lot of work ahead of us, but there'll be a big impact that this investment decision will have on Delta. This is the biggest one we've done on the investment international partners, and I think it'll be the most meaningful.

Brandon R. Oglenski

*Analyst, Barclays Capital, Inc.*

Q

Okay. I appreciate that. And I guess, what does this mean looking forward for the alliances? Because I think you've been in the past saying that SkyTeam hasn't delivered everything you thought it would. What is the path forward as you see the future?

Edward H. Bastian

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

A

Well the alliances need to make certain they have relevance to the member carriers, as well as, to the customers. And they certainly have – they provide value. I didn't mean to suggest they don't, reciprocity and frequent flyer

access, to the extent that they can build on some of the technology initiatives to make access and travel more seamless across the member airlines. There's enormous value to be attained from that.

But to-date, they have not fulfilled some of those promises. And so, we are not going to sit around and wait for the alliances to develop their technologies. We're working with them. But it's also important that Delta take control of our customer experiences into our own hands as best we can. So we're building on a bilateral basis. Many of those improving the touch points and eliminating the seams of travel between our respective partners.

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Brandon R. Oglenski

*Analyst, Barclays Capital, Inc.*

All right. Thank you.

Q

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**Operator:** We'll now take our next question from Helane Becker with Cowen. Please go ahead.

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Conor Cunningham

*Analyst, Cowen & Co. LLC*

Hey, guys, it's actually Conor Cunningham in for Helane. Just curious on how you guys weighed investing in a region like Latin America versus other markets like Asia or India. I realized you have investments in Korean and in China Eastern, but it seems like there's additional opportunities there, is it really just as simple as being opportunistic with LATAM right now?

Q

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Edward H. Bastian

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

Well, part of it certainly is opportunistic, when the opportunities come. You need to evaluate them. But much more important to add, this is, to us, the region of the world that we've been focused on for a number of years and we think has easily the greatest growth potential of the best return potential or the most efficient deployment of capital.

A

We're not looking at taking any stakes in India. We're just only starting to fly back to India later this year. It's not a place that we're looking to invest and grow. We have a great partnership with Korean Air, very excited by how that JV has really blossomed over the first couple of years and it's going to be cemented with the 10% stake that we've recently closed with the management team there. And I think that's going to be again from an Asian standpoint, a big marker for our growth is going to be over Seoul.

And I don't see any further development on the Asian front that would make interest to Delta anywhere close to the interest that we have in the region that's much closer to home like South America.

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Conor Cunningham

*Analyst, Cowen & Co. LLC*

Okay. And then just on the A350s, how much did they play into decision to invest in LATAM or there's something that you wanted right off the bat or did the negotiations evolve to include them after the fact. Thanks again.

Q

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Edward H. Bastian

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

A

It wasn't the main driver, but certainly it was an opportunity because we were looking to grow our subscale fleet on the Airbus side and they had an opportunity to help us accelerate that. So I think it was a nice add-on but it wasn't the main driver of the deal.

Conor Cunningham

*Analyst, Cowen & Co. LLC*

Great. Thank you.

Q

**Operator:** We'll now take our next question from David Vernon with Bernstein. Please go ahead.

Ran Yang

*Analyst, Sanford C. Bernstein & Co. LLC*

Hi. This is Ran Yang speaking on behalf of David Vernon. We just want to circle back to the value creation problem a little bit. So based on Delta's experience transferring practice to other partner airlines, we wonder where will Delta have the most impact at LATAM?

Q

Edward H. Bastian

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

Well, we're going to have impact all over. I think that the value creation is great in this investment. I've mentioned the current flow of traffic that LATAM brings of \$1.6 billion between South America and the US is a traffic pool that we largely do not participate in today. Corporate relevance to corporate partners is huge. Delta does not have a meaningful role to play in bringing corporate travel, particularly US corporate travellers into South America since we don't have – we haven't had the access that this is going to provide.

A

It's going to provide us greater relevance in South Florida. It's going to provide us opportunities to expand our growth for the future. You mentioned \$1 billion over the next five years. So value creation is going to be not easy. There's a lot of execution that's going to sit alongside that. But I think the opportunities are great.

Q

And also just to follow up, is there like a way to conceptually break down the value of the deal between the revenue synergy and also the improvements at operation at LATAM, like the \$1 billion...

Edward H. Bastian

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

No, no. We're not ready to share that data yet. This is still too fresh.

A

Got it. Thank you.

Q

Edward H. Bastian

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

Thank you.

A

**Operator:** We'll now take our next question again from Joe Caiado with Credit Suisse. Please go ahead.

Joe Caiado

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hey, team, we're going to try this again. Sorry about earlier.

Edward H. Bastian

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

A

Good to have you back, Joe.

Joe Caiado

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Thanks. The first question is for Paul. You've made it clear that the financial commitments to shareholders are unchanged. You expect to stay inside of the leverage ratio. But after this transaction, should we expect the deleveraging, well maybe move a little bit higher in terms of the capital deployment pecking order moving forward?

Paul A. Jacobson

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

A

Joe, first of all, glad you're back and safe. As we were projecting our full year, we've been trading at the lower end of our 1.5 to 2.5 times range which was with the maturities that we have coming up over the next few years, a trend where we expect it to stay. So this adds a couple of tenths to that if we do the entire amount. And I think through the regular amortization process, we'll be able to manage that consistently in the low end of that range without any material changes to capital allocation at all.

Joe Caiado

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. Appreciate that. And then for my follow-up, on the revenue opportunity that you described, does that contemplate and maybe the potential for a convergence in terms of the products for LATAM to maybe move closer to something like your branded fare strategy, like some of your other partners have done? And is that contemplated in the revenue opportunity you laid out or would that be incremental?

Glen W. Hauenstein

*President, Delta Air Lines, Inc.*

A

We have initial thoughts on that, and we've discussed them preliminarily with LATAM who I think is already moving in that direction. And so we will be sinking those ideas up over the next weeks and months with our goal being to create a product that is as seamless as possible.

Joe Caiado

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. So it sounds like that would be incremental to the opportunity that you laid out.

Glen W. Hauenstein

*President, Delta Air Lines, Inc.*

A

I think we could say it's incremental.



Joe Caiado

*Analyst, Credit Suisse Securities (USA) LLC*

Okay. Appreciate it. Thanks, everyone.

Q

**Operator:** And I'll take your next question from Catherine O'Brien with Goldman Sachs. Please go ahead.

Catherine O'Brien

*Analyst, Goldman Sachs & Co. LLC*

Good morning, everyone. Really appreciate the time. But just to follow up, over the course of this call, you've mentioned a couple of times, maybe a more consistent product and the addition of this international feed you're going to get with LATAM. Should we think about any implications from the switch from GOL to LATAM and maybe the fact that you never really move to a joint venture relationship with GOL but you are looking to at LATAM? Are there just – should we read into implications of future potential JVs that these relationships really work better with a more traditional hub-and-spoke carrier that might have like a dual-class cabin on international, a little bit more international feed or am I reading too much into that? Thank you very much.

Q

Edward H. Bastian

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

Hi, Catherine. I don't think you should read too much into this. This was a great opportunity for Delta. It was a great opportunity for LATAM. It's an opportunity for us to move from our current position in US-South American flows that we're number 4, together with LATAM and the JV that we'll be putting together, we'll be number 1 in the region across the flows between South America and the US. There's great opportunity to plug into Aeroméxico in a more meaningful way with the other two carriers.

A

I think it's a – certainly traditional – where you have traditional models makes it a little easier in distribution and technology. But, we're very sorry to lose our relationship with GOL. They were great partners, great friends and we've been through a lot together. But, we're equally excited to grow the franchise in a meaningful way in big new markets in the region.

Catherine O'Brien

*Analyst, Goldman Sachs & Co. LLC*

And just to – so really more about the connectivity than the difference in business model?

Q

Edward H. Bastian

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

Yes. Exactly.

A

Catherine O'Brien

*Analyst, Goldman Sachs & Co. LLC*

I appreciate that. Thanks for the time.

Q

Edward H. Bastian

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

Sure.

A

**Operator:** That's all the time we have for questions. At this time, I'd like to turn the conference back over to Ms. Julie Stewart for any additional or closing remarks.

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## Julie Stewart

*Managing Director-Investor Relations, Delta Air Lines, Inc.*

Thank you so much for your participation today and please feel free to reach out to the Investor Relations team if you have additional follow ups. Have a nice weekend.

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

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