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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to today's webcast presentation as part of the JPMorgan Industrials Conference. My name is Lisa and I'll be your coordinator. I would now like to turn the conference over to Jamie Baker of JPMorgan. Please go ahead.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Hey. Good morning, everybody. Jamie Baker, JPMorgan. Before we get started, Mark Streeter and I wanted to welcome everybody to the now virtual JPMorgan Industrials Conference. Clearly, this is a time of significant strain for our clients and, of course, the airlines. So, we really do appreciate everybody still coming together to discuss the environment and the solutions that the airlines will pursue in response to the significant global decline in passenger demand. Obviously, the decision to take the conference virtual is not an easy one. I do want to give a quick shout-out to the JPMorgan Conference team for helping facilitate this endeavor.

Before turning things over to Delta, I do want to remind investors, and some of you have heard me say this already, the current downturn most certainly has the potential to reshape global aviation. But remember, North America is one-fifth of the world's airline capacity, but nearly two-thirds of its profit. Ours include the most profitable entities in the world and this lead is only expected to widen, considering fuel hedging unfortunately remains very much part of the international playbook. Already, annualized savings here in the US are in the \$12 billion range. That's going to offset the first 8% to 9% of demand destruction, sadly for airlines elsewhere, particularly those in Europe that are as much as 90% hedged. Well, we'll let them try and explain that to their stakeholders.

My point is not that North America is somehow immune, but we did enter the crisis with some of the best balance sheets, some of the highest margins and, in many cases, some of the strongest managements in the world. And that's probably a good segway into my first introduction of the day, that being Ed Bastian, CEO of Delta Air Lines.

Ed, with everything going on, we're exceedingly grateful that you're still taking your customary opening slot for our conference. So, let me turn it over to you and the team that you've assembled there in Atlanta. Thank you very much.

Edward H. Bastian

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

Well, thanks, Jamie. And as with any investor presentation, we'll be talking about forward-looking statements and risk factors that may impact those; and you can find more information about those in our SEC filings and on our website at ir.delta.com.

Today's discussion will primarily be about the actions we're taking in response to COVID-19. The environment is fluid and trends are changing quickly, but we are well-positioned to manage this challenge. I agree with your opening comments, Jamie. In its 95-year history, Delta has never been on more solid footing. We have a strong global franchise and a great brand, powered by the best people in the business and supported by competitive advantages that are unmatched in our industry.

Over the last 10 years, we've transformed Delta by strengthening the balance sheet, diversifying our revenue streams, and enhancing our operational and financial flexibility. And while the demand impact from COVID-19 is significant, this is not without precedent. We have an experienced team that knows how to manage adversity. We're coming at this from a position of strength, and we're taking aggressive actions to maintain Delta's leadership position and strong financial foundation.

As the situation has evolved, our first priority has been protecting the health and the safety of our customers and our employees. Our team has significantly increased resources to ensuring our aircraft and facilities are clean and exceed our already high safety standards. While our year had gotten off to a strong start, in fact, being ahead of plan for the first two months, two weeks ago, our revenue trajectory changed dramatically as the virus spread meaningfully outside of Asia. Since then, we have seen a 25% to 30% decline in net bookings and are prepared for it to get worse. We expect demand erosion will continue in the near term and a built-up plan that prioritizes free cash flow generation and preserves liquidity.

Besides the safety of our employees and customers, our overarching goal during this time is cash preservation. We are targeting a minimum \$5 billion in liquidity, staying free cash flow-positive, and maintaining our investment-grade balance sheet. And we're taking a number of actions to address the financial impact.

First, the biggest lever that we have is capacity. We are actioning system capacity reductions of at least 15% down versus our plan. We are taking international down 20% to 25% and domestic down 10% to 15%. Importantly, we're prepared to do more as the situation evolves. Second, we're implementing cost reduction initiatives and are taking out \$1.8 billion of expense versus our plan. This includes capacity-related expenses as well as incremental cost initiatives that include a hiring freeze, offering voluntary leave options, and lowering maintenance expense by temporarily grounding aircraft. We have also had the benefit of approximately \$2 billion of lower fuel expenses. Jet fuel prices have dropped significantly since the start of this year.

Finally, we've also undertaken \$3 billion of cash flow and liquidity-enhancing initiatives including CapEx deferrals, delaying voluntary pension contributions, and suspending share repurchases. By taking these actions now, we can mitigate the impact going forward. Unfortunately, there's little we can do to impact the March quarter which we currently expect will see a mid- to high-single-digit decline in unit revenues for the quarter. We are also withdrawing our full-year guidance until we have more clarity on the duration and severity of the current situation.

And with that, I'll turn the call next to Glen and to Paul to walk through the details of our actions. But with the work we've done over the past decade to build operational and financial flexibility and securing Delta's financial foundation, I'm confident we're well-positioned to meet the current challenge. Glen?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

Thanks, Ed. With customer demand impacted by virus-related fear of travel and corporates implementing a significant travel restriction, we've seen load factors under pressure. For the first seven days of March, domestic load factor was 77%. With bookings softness and increased cancellation rates, we expect our March full-month domestic load factor will be closer to 65% to 70%. This would be down roughly 20 points over last year, but people are still flying.

To better serve our customers during this uncertain time, we have extended our broad-based change fee waiver for existing bookings for travel through April 30, as well as all new bookings made in March no matter the travel period, and are remaining flexible as the situation evolves.

But with these types of load factor declines, we must rationalize our capacity to adjust to the new level of demand. In the near term, we are reducing system capacity by at least 15 points versus what we previously scheduled. This reflects a 20% to 25% reduction in international flying with the biggest reductions in the Pacific. Our Pacific franchise is now down by 65% including full suspension of flying to China and significant reduction in both Japan and Korea.

The trans-Atlantic will be reduced by 15% to 20% with the biggest production to Italy. Suspension of JFK-Tel Aviv and cuts to leisure market which are expected to see weakness throughout the summer. While Latin has been the least affected so far, we are monitoring closely and trimming weak demand flights.

Finally, domestic is where we have the most uncertainty as booking trends have worsened materially over the past week. We are currently targeting a 10% to 15% reduction in planned capacity. Domestic capacity reductions are primarily accomplished in high-frequency markets and through the removal of utilization flying.

Initially, when the outbreak was limited to Asia, we redeployed wide-body aircraft to unaffected regions. But with recent deployments – I'm sorry, with recent developments, we are parking both wide-body and narrow-body aircraft and are evaluating early retirements of older, less efficient airplanes. Importantly, we continue to have significant flexibility on capacity, allowing us to react quickly as trends change and they are changing quickly.

Paul will now review our financial flexibility and specific actions we are taking to reduce expenses and prioritize cash flow. Paul?

Paul A. Jacobson

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

Thank you, Glen. We have a number of levers to mitigate the financial impact of COVID-19 in order to protect and enhance our cash flow and liquidity. Over the long term, our cost structure is roughly 60% variable. In the short term, our cost structure is more fixed, but by making these proactive capacity decisions, we're better able to take out non-fuel costs beginning in the June quarter. This amount of lead time gives us the ability to get the optimal savings out of the aircraft we're parking and the capacity we're reducing.

With a high correlation to macro trends, oil prices have provided the natural offset at times like this and we have full participation in market declines. Fuel represented roughly 20% of our cost structure last year and additionally, our employee profit sharing program also contributes to a more variable cost structure.

As Ed referred to earlier, we've identified \$1.8 billion of cost reductions for the remainder of this year. This is on top of the approximately \$2 billion of expense relief provided by these recent fuel price declines. The portion of that \$1.8 billion will be achieved through the capacity reductions Glen just outlined. We also expect to see significant maintenance savings from parking these aircraft due to the reduced flying.

Additionally, we're implementing a number of other cost initiatives that Ed referred to, including freezing all hiring, offering voluntary leave packages and deferring lower-value projects. As Ed said, our highest priority right now is on cash flow and liquidity preservation. We expect to have over \$5 billion of liquidity at the end of the quarter. And for the year, we will target maintaining this level of liquidity, staying free cash flow positive and maintaining our investment-grade balance sheet.

To accomplish this, we've identified over \$3 billion of cash flow and liquidity enhancing initiatives, including the deferral of approximately \$500 million of capital expenditures previously planned for 2020, deferring our planned \$500 million voluntary contribution to the pension and the suspension of our share repurchase program.

Delta's investment-grade balance sheet remains an important advantage that provides ready access to the capital markets into bank financing. We're in the market last week and priced at \$1 billion EETC at a blended rate of 2.09%. We intend to use the proceeds to refinance our \$1 billion unsecured maturity later this week. Our leverage ratio began the year at the low end of our targeted adjusted debt to EBITDAR range of 1.5 times to 2.5 times and we have approximately \$20 billion of unencumbered assets, including \$12 billion of aircraft value.

Lastly, on pension, our funded status stood at 75% at the end of 2019, a significant improvement from 2012. From a funding perspective, we have unique flexibility with airline relief under the Pension Protection Act of 2006. We have no required contributions until 2025 because of our stewardship with our previous voluntary contributions.

As a result, we're deferring the planned \$500 million contribution we had previously identified for the June quarter. We will continue to prioritize return of cash to shareholders through our dividend, which remains unchanged.

Now, I'd like to turn the call back over to Ed.

Edward H. Bastian

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

Thanks, Paul. In closing, our conviction that Delta is a compelling investment opportunity is unchanged. This demand disruption, like all others, is temporary. The reasons that people fly have not changed. And more importantly, our brand strength and our structural advantages are enduring. The lesson that we all learned in 2009 is that while the demand drop is sharp, so will be likely to recover. That being said, we are taking a conservative view of how the situation will evolve.

The Delta team has a proven track record of executing in volatile environments. Our success has always been defined by our people and our culture and I'm proud of how we're tackling this challenge. We are coming together, taking the actions necessary while prioritizing our customers, our communities and our shareholders. I'm confident that Delta will continue to demonstrate its leadership given how far the industry has come.

With that, I'll turn the call back to you, Jamie and Mark, for any questions you may have.

QUESTION AND ANSWER SECTION

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

That's great. Thank you, gentlemen. I'll kick things off. And as a reminder to investors, feel free to e-mail Mark and I with any particular questions, no guarantees and we're happy to handle it ourselves.

I do want to start with a question for Glen and I know we're still comparatively early in this, but how is the demand decline differing between corporate and consumer? When I think back to the lessons learned in 2009, there were pretty stark differences. That was really a corporate recession where the US consumer held on not great, but comparatively well. Are we seeing those two goalposts as far apart from each other right now relative to 2009?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

I think as you point out, 2009 was a very different animal. Here, we have an event that's triggering a decline in both business and leisure; and the declines have been across the board in both. We have some interesting factoids I'll just share with you is the demographics of who's traveling and who's not traveling. Millennials tend to travel much less with much less impact than people over 55. The West Coast is more impacted than the East Coast. So, this is a really event-driven thing till now, and we'll monitor it as we go through. But they're really – unlike 2009 which had liquidity issues and corporate implications, this is more of an event-driven than a full-blown recession in the corporate environment at this point.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

And a follow-up on demand stimulation. Four, five weeks ago, the debate that Mark and I were having with others in the industry was when the 737 MAX returned, would passengers be fearful of that? We were of the view that discounting wouldn't work. If you were afraid to fly the 737 MAX at \$150 a ticket, you'd probably still be afraid at \$100 a ticket. Switching gears to today, I am seeing stepped up promotional activity at some airlines, again, coming at a time when people are fearful to fly. I'm not asking you to comment on future pricing, but is it the Delta view that you can potentially stimulate people to overcome their health trepidation?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

Probably I would just say I think that kind of stimulative pricing is probably better on the back end of this when people are starting to travel again. And as you just point out, in the behavior of customers, if you're scared of flying, you're probably scared at any price.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

Yeah.

Edward H. Bastian

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

A

Jamie, this is Ed. If I could weigh in on that. This clearly is not an economic event. This is a fear event probably more akin to what we saw in 9/11 than necessarily what we saw in 2009. I think you're seeing a suspension of activities, whether it be corporate activities, group activities, events where people get together in large numbers; all of which impact our demand set. So, I think it's really premature to try to be drawing too many corollaries. With that said, we do believe, on the other side of this, that people – there's no fundamental reason why people don't want to travel or are afraid to travel once the virus issue is contained.

Jamie N. Baker*Analyst, JPMorgan Securities LLC*

Q

That's helpful. Thanks, Ed. Question for Paul. In the long run, oil costs are variable. But if we think about sort of the next six months and setting fuel to the side, how should investors think about the fixed versus variable cost relationship as you pull capacity down? Also, if you could discuss how that has evolved over time. Clearly we've seen improvement since 2001, but is the relationship any different than in 2009, for example?

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

A

Sure, Jamie. I think the power in this is the decision that we reached with the increase in cancellations and the decline in bookings to bring capacity down meaningfully versus what we and the industry were doing was really just kind of doing this over 30- to 60-day increments, which is where it gets harder to take out some of those fixed cost components here. You have a scalable decline in capacity that's expected to last for a while as we get through this, and potentially could get even bigger if we see deterioration.

And as a result of that, we can be proactively addressing it. So, the hiring freeze is about making sure that ultimately, the organization is set up on a big scale for less growth or shrinking capacity through the summer because we can manage that through retirements. The voluntary leave helps to get some of that costs down as well.

So, as we think about structurally, we don't want to do anything to damage the long-term prospects of the enterprise, but rather right-size the expense base for what we're flying and we think we can do that faster than what we've done in the past; and that's reflected in the \$1.8 billion that we mentioned in our prepared remarks.

Jamie N. Baker*Analyst, JPMorgan Securities LLC*

Q

Thanks for that. Let me allow my colleague, Mark, to jump in with a couple of his questions while I review some of the investor questions that I'm beginning to get hit with on e-mail. Mark?

Mark Streeter*Analyst, JPMorgan Securities LLC*

Q

Okay. Thanks, Jamie, and good morning to the Delta team. Paul, maybe we can just drill down on the \$500 million of CapEx deferrals. Are those airport projects? Are they aircraft-related? Technology? Just a little color around that, please.

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

A

Yeah. Sure, Mark. First thing we got to do is take a look at the aircraft deliveries and how we're scoping out against the capacity of the plan, but also looking across the board at discretionary projects that we're committed to or planned in an environment where we expect it's materially higher cash flow.

So as we look through the organization ground and information technology is all in that bucket. What I would suggest is that the larger-scale projects, like LaGuardia and LA are going to continue on with the view that this too shall pass, and we need to make sure that we're making progress against those larger structural projects.

Edward H. Bastian

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

I would also add, Mark, is that...

A

Mark Streeter

Analyst, JPMorgan Securities LLC

Go ahead.

Q

Edward H. Bastian

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

...this has only been 10 days.

A

Mark Streeter

Analyst, JPMorgan Securities LLC

Right.

Q

Edward H. Bastian

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

So \$500 million is clearly no regrets, things that we can easily suspend for a period of time. Should the environment get worse, we'll certainly go deeper than that. And there's nothing now to suggest that there's not going to be a recovery by the back end of the year. But if we don't see it, we'll go deeper.

A

Mark Streeter

Analyst, JPMorgan Securities LLC

And so, you've touched on my follow-up, which is have there been phone calls made to Toulouse about the Airbus order book, for example, in terms of how much flexibility do you have there to take that \$500 million number a lot higher? You implied that you do. I'm sort of wondering if we can get a sense for how much you really could squeeze out over the next 12 months, for example, if things got worse.

Q

Edward H. Bastian

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

I think it's premature to be assessing that, Mark. Our friends in Toulouse are great partners, and they understand we're all together on this.

A

Mark Streeter

Analyst, JPMorgan Securities LLC

Okay, great. And then, just talking about another one of your good partners, American Express, is it still too soon for you to make that phone call to talk about maybe selling some SkyMiles forward in order to bring in some more cash flow?

Q

Edward H. Bastian

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

We haven't considered doing anything like that, no.

A

Mark Streeter

Analyst, JPMorgan Securities LLC

Okay. Great. And then, just talking a little bit about the unencumbered number, the \$20 billion. A little bit higher than I think what you disclosed at year-end, and then you had done the EETC. So I'm just wondering maybe, Paul, you can talk a little bit about the math behind that. Just maybe getting the breakdown of what else is in there besides the \$12 billion of aircraft that you mentioned as well?

Q

Paul A. Jacobson

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

Yes. So, we disclosed at year-end that it was about \$17 billion. This is a comprehensive look, so this takes into account all the equity investments, all the property and facilities, et cetera, which is why we're over \$20 billion. But we call out the aircraft specifically because that's the sort of industry expected norm for what can be easily financed. But we believe that a significant portion of the entire \$20 billion could be financed if it ever came down to it.

A

Mark Streeter

Analyst, JPMorgan Securities LLC

Is there a number that you ascribe to routes, slots and gates?

Q

Paul A. Jacobson

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

There is some in that, too, but we haven't disclosed that specifically.

A

Mark Streeter

Analyst, JPMorgan Securities LLC

Okay. But it is in the \$20 billion?

Q

Paul A. Jacobson

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

Sure.

A

Mark Streeter

Analyst, JPMorgan Securities LLC

Okay. Great. And then, just one more for me, I'll turn it back over to Jamie, Paul. Obviously, you have an investment grade balance sheet now. I'm sure you've redone most of your credit agreements. Any sort of MAC clauses or covenants or any issues like that, that we should keep our eye on?

Q

Paul A. Jacobson

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

We just have a small fixed charge coverage ratio covenant, but that we don't believe that's at risk at all in this. And obviously, we maintain very strong relationships with our bank group should conditions worsen materially.

A

Mark Streeter

Analyst, JPMorgan Securities LLC



Great. And then, let me just squeeze in one more here too. I know you had been considering bringing in some aircraft on operating leases or doing sale leasebacks or anything. Any change in your approach to that side of the market in terms of any flexibility there? Maybe you're planning to do so some operating leases that you're no longer going to do or any early returns of aircraft to lessors or anything along that line that could contribute positively to cash flow?

Paul A. Jacobson

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



No. We're sticking with the plan that has worked for us as it relates to new aircraft, certainly, as we think now, which includes a portion of our new deliveries to be leased, as they have been. We do that for longer-term operational flexibility. But certainly, the leasing market, we believe, could provide additional liquidity should we need to tap that. But as Ed mentioned, this plan is – the sort of Phase 1 and the initial reaction, we have a lot of flexibility and contingency plans if it gets worse.

Mark Streeter

Analyst, JPMorgan Securities LLC



Okay. Great. I'll turn it back over to Jamie. Appreciate it.

Jamie N. Baker

Analyst, JPMorgan Securities LLC



Hey. Thanks, Mark. Not sure who wants to field this, but without naming names, when we think about your alliance partners and particularly your JV partners around the world, how concerned are you about the contribution or lack thereof from those investments or possibly losing some of your partners all together given the global pressures that are out there?

Edward H. Bastian

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



Jamie, this is Ed. I'll take a crack at that. Again, I think this is all unfolding very rapidly. I don't see anything in the environment that indicates this is going to cause a long-term reduction in our international ambitions. Certainly, it will defer growth. It will change structurally how we go to market somewhat, but we're proud of our partnerships. We think we've got some of the very best airlines in the world that we are investors in and we'll continue to support them through this.

Jamie N. Baker

Analyst, JPMorgan Securities LLC



Appreciate that. Gosh, I feel like somewhat of a hypocrite for asking this next question. We were very supportive publicly of guidance changes that Delta has made in recent years, particularly the clawing back of monthly data that the equity market, well, was somewhat challenged in terms of trying to digest even basic concepts like holiday shifts.

I believe it was Continental in the aftermath of 9/11 that began to disclose monthly RASM trends. And look, it took 18 years to break that addiction. Has there been any consideration in terms of affording your owners more booking granularity, revenue granularity as this goes forward? And I totally get that suspension of EPS guidance

for the full year, but is there now an argument, and I can't believe I'm asking, that more would be better in terms of assuaging investor concerns?

Edward H. Bastian

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

A

Again, Jamie, I think it's premature to be considering that. No, we have no desire to go back to providing monthly RASM or that level of hand-holding, if you will. That said, in this environment, there's going to be some increased visibility to how we're doing. We'll figure out the best way to comment on that. But, right now, no, we're not going to make any backtracks with respect to the changes that we've made last night.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

Okay. Cross-border consolidation, for the most part, is impossible. As regulators around the world grapple with how to potentially save service in some of their countries, is this one barrier to consolidation that might be lifted? Have you given any thought to how regulators may respond to this crisis globally and whether we could see a broader shift in terms of raising foreign equity stakes and what have you or again is it too early? We're hearing more and more about globally possible government intervention. I'm wondering if this is one form that it could potentially take.

Edward H. Bastian

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

A

Yeah. I think there's no question we're going to see government intervention globally, but I think the timeline on this issue hopefully will be a situation where this thing will start to see some light at the end of the tunnel before massive structural changes like you're implying, come about. It could be on the back end, given the limited financial capacity in certain markets, but I don't see cross-border consolidation changing anytime soon. I do see local government intervention probably being required in a number of markets.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

Okay. That's helpful. I think Gil West is also in the room with you there. Gil, just from an operational perspective, a passenger perspective, anything that they should know about catering, cleaning of aircraft, anything like that to help people get over their aversion to commercial air travel at this point?

Wayne Gilbert West

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

A

Yeah. Thanks, Jamie. I mean, from a big picture perspective, first of all, as you know, we've managed through difficult events in the past: SARS; MERS; Ebola, so the team's well practiced. And we've established a command center in our operational customer center infrastructure, as you've seen in the past. So that gives us the ability to really coordinate and manage through this event. We're, of course, in constant communication with the CDC, the TSA, the FAA, local health authorities. And really, were focused on what actions we can take to mitigate the spread of the virus. And we, of course, go well beyond the regulatory requirements.

So the way I would describe it, in the airport infrastructure, we've got disinfectant wipes on the gatehouses prior to boarding. In most stations, we've got our counters, podiums. We're going well beyond from a sanitizer wipe, increase frequency, and sanitizing stations at the check-in areas and the gates.

But on board, we have an enhanced turn cleaning process that we've implemented with a chemical that's called, Matrix 3. It's an EPA-approved antiviral chemical that kills the COVID-19 virus. We've implemented that post-SARS. So, we've got a lot of experience with the chemical. And we're hand-wiping the interiors of the aircraft, the seats, the seat back pockets, the common areas, like the galleys, and the lavs and the floors.

But we've also implemented a electrostatic fogging procedure. And this is a procedure that our technical operations group [indiscernible] (00:31:23). It's got an anti-viral chemical that adheres to all the surfaces of the aircraft. And we do the fogging process on our international turns coming through the US. And we're in the process of expanding that through all domestic overnights, so that's a very effective process. And then we've got kits on board for our flight attendants, and of course, continue to emphasize the personal hygiene aspect to both our people and our customers.

Jamie N. Baker*Analyst, JPMorgan Securities LLC*

Q

Thanks for that, Gil. Sorry about all the noise in the background on my end. A question from the audience – or question via e-mail. And probably to Glen, what are your thoughts on still accelerating capacity development in Latin America, particularly, as you're getting the LATAM relationship off the ground? Also, in your prepared remarks, you know, you cited a bit more demand resilience. Anything driving that? Anything different in Latin America?

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

A

Well, we hadn't planned to grow Latin America for the summer to begin with, so our capacity levels right now are sitting at flat to slightly down. And as you know, these take a long time to get all the approvals in place, and all the processes, and all the back-end work. We're working very hard. All the teams are getting those in place. We've made a lot of progress.

But, really, I think we'll see the full spectrum of benefits from LATAM coming next year, and that will hopefully work well with the virus being in the rear-view mirror. So still doing all that work and still working together with them to get all those pieces in place. But what we want to create with them is the best customer experience. And to do that, that takes time, and we're working on all those systems and processes right now.

Jamie N. Baker*Analyst, JPMorgan Securities LLC*

Q

Thanks. Another one from a shareholder. When we think about your regional expenses, they tend to be significantly lower than some of your competitors. I realize accounting may influence that. But how does that impact your relative cost advantage, and how should we think about the regional airline contribution to the cost-cutting efforts, to the capacity decline? What role are those captive suppliers anticipate a decline?

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

A

So, Jamie, what I would suggest is as we go through and map out all these of capacity reductions, we would expect a systematic reduction in the capacity-related costs for the regional capacity that comes out as well. So there are no areas of the business that are immune to what we have to do. And everybody has to react across the board.

Edward H. Bastian

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

A

Yeah. Jamie, one of the reasons why our costs are a bit lower is that we own our largest in Endeavor. And so, certainly, we have no contractual third party that we need to go through to start to implement the changes we need. With respect to Endeavor, Endeavor is a great airline and they will certainly be a part of this cost saving exercise.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

That's great. Clearly, a competitive advantage. Mark, I think you had another couple you wanted to jump in with here?

Mark Streeter

Analyst, JPMorgan Securities LLC

Q

Yeah, Paul. Just a couple of people are pinging me on trying to understand the walk from the \$17 billion in unencumbered assets at year end, you had \$1.5 billion or so rounding of collateral that went into the EETC, so that brings you down to about \$15.5 billion. The jump to \$20 billion, I think you referred to that as mostly maybe some real estate? Just want to make sure we're all clear on that.

Paul A. Jacobson

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

A

No. What I said was we're looking at a more comprehensive list. Obviously, in terms of this, you want to make sure you've got all sources tapped. So we're looking at real estate, we're looking at other investments that we're holding, as well as routes, gates and slots, as you mentioned.

Mark Streeter

Analyst, JPMorgan Securities LLC

Q

Okay. So, in that year-end number then, there were some routes, slots and gates that weren't in that year-end number that were added into the \$20 billion number? Is that part of the difference?

Paul A. Jacobson

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

A

No. It's just – I'm just giving you a comprehensive list of everything that we've got at this point.

Mark Streeter

Analyst, JPMorgan Securities LLC

Q

Okay. That's fine. And then, just on the decision to sort of target \$5 billion of liquidity right now, you mentioned the success with the EETC financing, 2% and change right now. That deal was pretty well-received. Have you thought about targeting even more liquidity out of prudence? You clearly have these \$20 billion worth of assets. The markets are still open to you in that regard. A lot of debate about the \$5 billion or you feel like with the \$40 billion plus sort of revenue top line, \$5 billion is still – I'm just wondering if the old rules apply in terms of how you're thinking about liquidity in the current state of the market here.

Paul A. Jacobson

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

A

Well, if you recall, I tended to reject the old rules of liquidity as a percentage of revenue, because it ignores the value of positive free cash flow and where we stand. So I think, as we're going into the year, we feel very comfortable with that \$5 billion level. But as with all of this, this is a fluid situation and we could change that over time. But as we look at where we were going into this and as we look at the initial phase of things that we're implementing, we're very, very comfortable with that \$5 billion.

Mark Streeter*Analyst, JPMorgan Securities LLC*

Q

Okay. Thanks, Paul. Appreciate it.

Jamie N. Baker*Analyst, JPMorgan Securities LLC*

Q

Hey, Paul, another one from the audience, the virtual audience, and a follow-up to the dialogue or the conversation that you and I had before about fixed versus variable. When we think about the removal of a single ASM from the model, what percentage of costs are removed in the short run?

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

A

Of a single ASM?

Jamie N. Baker*Analyst, JPMorgan Securities LLC*

Q

Well – or the first 10%. I'm sorry. It doesn't have to be a single ASM, but basically, as you remove costs in the short run, a client is asking for a little bit more specificity, what percentage of operating expenses are removed as part of that exercise and fuel consumption, maintenance, that sort of thing and what percentage stays behind?

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

A

Yeah. So, I think if you're looking at the expenses that are immediately variable, you're looking at items like passenger commissions, passenger service items, credit card fees across the board like that. That obviously all comes out right off the top. And when you add that to fuel and you also incorporate profit sharing, you're looking at well over 40% that comes out right out of the gate.

You've got structural elements around the maintenance of the fleet that doesn't necessarily follow the pure path of an ASM that when you're making bigger capacity and longer-term capacity than just month to month, you can realize some more of those savings across the board. So that's what you're seeing here in terms of ramping up in the June quarter and ultimately, achieving that \$1.8 billion through the full year.

Jamie N. Baker*Analyst, JPMorgan Securities LLC*

Q

Okay. Helpful. Another one from the audience, when you talked about the decline in RASM that you're anticipating seeing in the March quarter, that was a year-on-year impact or was that a sequential description that you were giving earlier in the call?

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

A

Would you repeat the question, Jamie?

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

Yeah. Your commentary in the prepared remarks about the March quarter unit revenue decline, somebody just asking to clarify that, that was a year-on-year measure as opposed to quarter-on-quarter.

Paul A. Jacobson

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

A

Year-on-year.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

Yeah. That's what I thought. Well, I think our time is about used up here. I'm just double checking to see if there are any other audience questions. Mark, have you gotten pinged with any other additional ones?

Mark Streeter

Analyst, JPMorgan Securities LLC

Q

I think we're good for now.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

All right. Well, listen, I'll turn it back over to management. But I, again, just want to echo our gratitude that we were still able to stick to the original schedule. And we appreciate the disclosive nature of your presentation. I realize that's not an actual English word, but over time, hopefully, it will be.

Back over to Delta for any concluding remarks.

Edward H. Bastian

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

Thanks, Jamie. We appreciate, despite the virtual nature of this, you continued to hold the conference. And we certainly will look forward to taking any questions from any of our investors as follow-ups and as the day goes on.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Thanks again, everybody. You can disconnect at this time. Next up will be American in a little bit. Take care.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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