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Delta Air Lines, Inc. (DAL)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning everyone, and welcome to the Delta Air Lines March Quarter Financial Results Conference Call. My name is Jake, 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 Jill Greer, Vice President of Investor Relations. Please go ahead.

Jill Sullivan Green

Vice President, Investor Relations, Delta Air Lines, Inc.

Thanks, Jake. Good morning, everyone, and welcome to our March quarter earnings 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'll also discuss non-GAAP financial measures. All results exclude special items unless otherwise noted. And you can find a reconciliation of our non-GAAP measures on the Investor Relations page at ir.delta.com.

And with that, here's Ed.

Edward H. Bastian

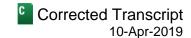
Chief Executive Officer & Director, Delta Air Lines, Inc.

Thanks, Jill. Good morning, everyone. Thanks for joining us today. Earlier today, Delta reported an \$832 million pre-tax profit, or \$0.96 per share. The core business performed well, and we saw nice upside from our contract renewal with American Express.

We grew our earnings per share by 28%, expanded our operating margin by 150 basis points, and delivered an after-tax return on invested capital of 14.5% over the last 12 months. This performance demonstrates how we are translating our unique brand, unmatched competitive advantages and pipeline of initiatives that drive earnings growth, margin expansion and solid returns for our owners. This also underscores our confidence that we have in our future, which is one of the reasons why we accelerated our share repurchases, returning \$1.6 billion to our shareholders this quarter.

We achieved 7.5% top line growth, as demand for our product remained strong. Our ancillary businesses delivered double-digit growth, and we extended our leadership in delivering great value for our customers. This starts with industry-leading reliability as the world's best-run airline. We delivered the best March quarter

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completion factor in our history at 99.06% despite a very difficult winter weather. Reliability and our culture of service underpin the strength of our brand and allow us to build lasting customer relationships.

Domestic Net Promoter Score has averaged 50% this year, up 7 points versus last year. This is the reason we sustained the best revenue premium in the industry, and it's not just our customers who noticed. Earlier this week, Delta topped the Airline Quality Rating and was the only airline to improve in all categories.

Just as important, we continued to execute on cost discipline. Non-fuel unit cost declined slightly, marking the third quarter in a row of cost performance below inflation and giving us good line of sight to achieving our full year non-fuel unit cost expectations of 1%. The combination of revenue momentum and cost discipline drove a 1-point improvement in our pre-tax margin, a successful step in our path to improve margin performance for the full year.

And our earnings per share growth of 28% in the March quarter should be in the top 10% of companies in the S&P 500. At the heart of this performance are the Delta people. Their hard work and focus on the customer is what sets Delta apart. And I want to thank them and say congratulations for starting the year with \$220 million towards next year's profit sharing.

During the quarter, there were exciting developments in loyalty, our Maintenance Repair and Overhaul business, and fleet that ensure we build on our earnings momentum, strengthen our strategic advantages, and further diversify our revenue streams. 55% of our revenue now comes from premium products and non-ticket sources, up from less than 40% in 2011. The growing revenue streams from loyalty and our MRO are a major component of the \$3 billion to \$4 billion in free cash flow that we expect to generate this year.

Our long-term agreements give us better visibility and even more confidence in the sustainability of this level of cash generation. Importantly, they are decoupled from air fares and provide stability in any economic environment. Last week, we were pleased to announce a contract renewal with American Express, extending our agreement through 2029.

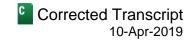
Delta and American Express are two great consumer brands, and our shared passion for service and innovation is at the foundation of our long-term partnership. Our American Express partnership is our most important commercial relationship, and I appreciate the confidence that Steve Squeri and the rest of the Amex team places in Delta.

While our Amex contract wasn't set to expire for several years, the early renewal accelerates momentum by providing certainty in a platform for mutual growth and investment. We expect the new agreement to enable substantial growth in the Delta SkyMiles credit card portfolio, setting the stage to create not just the industry's most valuable co-brand program, but one of the most valuable consumer co-brands on the globe.

Delta's benefit is expected to grow to \$7 billion by 2023, up from \$3.4 billion last year, and just \$1 billion at the start of this decade. This growth trajectory demonstrates the strength of the Delta brand and the growing attractiveness of our value proposition to our customers. As the largest MRO in North America, we also expect to generate double-digit growth, reaching more than \$800 million in revenues this year. And we are growing this business by developing new capabilities and securing long-term partnerships.

During the quarter, we completed construction on the world's largest engine test cell. The test cell opens the door to new, larger engine testing capabilities, including those in our agreements with Rolls-Royce and with Pratt & Whitney. As we continue to invest in and grow our maintenance business, we expect the MRO top line to reach \$2 billion over the next five years.

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And finally, we continue to transform our fleet. While we have made substantial enhancements to our fleet over the last number of years, we expect substantial efficiency benefits are still ahead for us, supporting revenue growth and contributing to Delta's sustained margin advantage. With more than 80 new deliveries this year, 2019 will be an important year for this initiative.

We had a milestone this quarter with the first flights on our state-of-the-art Airbus A220. This innovative aircraft sets a new standard for the domestic narrowbody product. Our customers love it, and we're finding them booking specifically to be on the Airbus A220. We have 90 deliveries of this product alone scheduled over the next several years. So, 2019 is off to a real solid start.

The core business performed well during the quarter which, combined with the upside from the American Express renewal, gives us increased confidence in our full-year plan of strong top line growth, margin expansion, and double-digit earnings growth.

The business has momentum, and there are significant opportunities ahead of us. We have a strong foundation with our strategic advantages, which are our culture, our leading operational reliability in unrivaled network, our loyalty program and relationship with American Express, and an investment grade balance sheet. These advantages combined with a great brand powered by the very best professionals in the business, provide the engine to drive long-term value for our owners.

Before I turn the call over to Glen and Paul, I'd also like to take a minute to introduce Tim Mapes, who will become our Chief Marketing and Communications Officer, starting next month. Tim has more than 25 years of experience with Delta and has been a leading force behind the Delta brand. Tim is assuming this role, because our good friend, Ned Walker is heading off to a well-earned retirement. Ned, you leave behind an incredible legacy of leadership and service to Delta and the industry. And on behalf of the entire Delta family, thank you.

And now, I'll turn the call over to Glen to discuss the revenue environment.

Glen W. Hauenstein

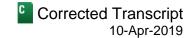
President, Delta Air Lines, Inc.

Thanks, Ed; and good morning everyone. I'd like to start by thanking the Delta team. The unmatched service they provided is the foundation for our increasing customer satisfaction. This enabled us to generate record revenues of \$10.4 billion in the March quarter, up 7.5% over last year. We made good progress on our long-term priorities to drive top line and earnings growth by leveraging our network, premium offerings, our co-brand agreement with American Express, and our ancillary businesses.

Starting with our top line. Corporate revenue remained healthy, increasing 8% for the quarter. In our most recent corporate travel survey, 90% of travel managers expect to maintain or increase their travel spend in the second quarter. This is a record for our June quarter survey.

During the first quarter, 55% of our revenues came from premium products and non-ticket sources. Premium product revenues were up 8% to more than \$3 billion in the March quarter on a 4% increase in premium capacity. Looking forward, premium revenue growth should accelerate through the year, as we introduce more aircraft with a full suite of products and improve our ability to sell all of our premium products on delta.com as well as in external channels.

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Cargo revenues declined 5% in the quarter. Similar to what you've heard from freight companies, we are seeing challenges from softer volumes and currency headwinds. Our MRO business is performing well with revenues up nearly 40% on new customer volume and heavier work scopes from existing customers. The growth rate will moderate in the June quarter, but will still be up double digits over prior year.

Total loyalty revenues grew [to] \$1.2 billion, up 21% with a little more than \$100 million of the improvement driven by the new contract with American Express. Demand for SkyMiles as a currency is stronger than ever. Mileage redemptions grew 12% in the March quarter, as we provided customers more opportunity to use their miles. Enhancing customer loyalty and trust is at the heart of our business, and we are finding innovative ways to reward our customers for their loyalty.

Increasingly, customers are using miles for products and services beyond just award tickets, as we expand miles as a form of payment. During the quarter, we rolled out miles as currency to mobile, offering SkyMiles members the opportunity to upgrade to a more premium experience through our app. We saw an overwhelmingly positive response with revenue in the March quarter already exceeding our original full-year estimate.

On average, there are already 4,000 customers upgrading with miles every day with more than half of those transactions coming via mobile. This drove nearly four points of redemption growth in the quarter.

Our goal is to provide customers the ability to use miles for products and services across the entire spectrum of the Delta ecosystem. We plan to deliver significant additional functionality as we move through 2019.

Our close relationship with American Express is a source of true competitive advantage. The co-brand credit partnership provides a unique revenue stream to Delta by extending our engagement to a broader consumer spend, not just travel on Delta. This is reflected in a new quarterly record for acquisitions of SkyMiles American Express cards. Our partnership with American Express is an increasingly important driver of our business that is growing faster than the core airline. Co-brand card spend continues to outpace the industry with double-digit growth.

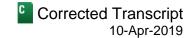
In 2019, our total contribution from American Express relationship will be over \$4 billion, up from the \$3.7 billion we previously expected. Over the next three years, we expect continued solid growth with a more significant step-up, starting in 2023, that will drive our total contribution to nearly \$7 billion, double what we achieved last year. We expect the revenue benefit to Delta in 2019 will be approximately \$500 million, driving about 1 point of unit revenue impact for the year.

Turning to specifics on unit revenues. Unit revenue grew 2.4% on 5% higher capacity. Our record completion factor added 1 point of capacity in the quarter. While this was very good for our customers, our brand and our profitability, the additional capacity weighed on unit revenues by roughly 0.5 point. Even with that pressure, we are above the midpoint of our initial TRASM guidance and the new American Express agreement adds another point of benefit.

Passenger unit revenues grew 0.6%, but were pressured by higher capacity, currency, Easter timing and the government shutdown. Despite these headwinds, we expect to maintain a healthy unit revenue premium to the industry of more than 110%.

Domestic revenues grew 6.9% in the quarter on a roughly 1% improvement in PRASM. Growth in the business revenue outpaced leisure in the quarter, with corporate revenues improving 10% on strong volumes and a 2% improvement in corporate average fares. Leisure trends were choppy, but improved as the quarter progressed.

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Atlantic unit revenues fell 2.6% with a 2-point headwind from currency and the Easter shift. We saw pressure on Europe point of sale leisure demand, which weighed on main cabin performance. Corporate and premium revenues were both up over prior year.

In the Pacific, unit revenues declined 2.8% as strong demand was not enough to offset a 9% increase in stage and a 1 point currency headwind. Korea posted the best performance with a 2% improvement in unit revenues as our joint venture synergies continue to ramp with Korean.

China revenues grew by more than 25% on 30% higher capacity, moderately pressuring unit revenue growth. Our capacity growth to China will decelerate in the second half of the year as we annualize the additional flights added to the market during 2018.

In Latin, revenues grew 2.4%, the second consecutive quarter of positive unit revenue growth, driven by improving demand and yield trends in Mexico and the Caribbean.

Looking forward, June quarter total revenue is expected to increase 6% to 8%, including 1 point of benefit from the agreement with American Express. We expect unit revenue growth of 1.5% to 3.5% on 4% to 4.5% higher capacity.

In domestic, corporate demand is strong. Leisure continues to strengthen as we approach the second quarter peak demand. We expect Atlantic to return to unit revenue growth as demand shifts to U.S. point of origin in the summer season and corporate trends remain strong.

In the Pacific, currency, capacity, growth and stage will continue to pressure unit revenues in the June quarter, but we see profitability continuing to improve as we execute on our long-term vision for Asia.

Our fleet is becoming more efficient, our product is improving, we have the right partners. And with these building blocks in place, we have returned to growth for the first time in seven years. Performance is on track or exceeding our expectations.

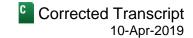
Latin is expected to remain the best-performing entity as strength continues in Mexico, the Caribbean, and Brazil improves. We expect Brazil to show year-over-year RASM improvement in the June quarter for the first time in a year.

Sequentially, in the June quarter, we expect a 1 point improvement in passenger revenue per ASM with sequential improvement in all entities. On a traveling basis, however, this improvement will be somewhat tempered by other revenue pressure due to lower growth rates in ancillary businesses.

Importantly, for our passenger unit revenue trajectory in the back half of the year, the rate of domestic capacity growth is expected to decelerate by approximately 2 points. This gives us increased confidence on our full year unit revenue trajectory.

As we think about our network opportunities, we have leveraged our first-mover advantage to build our number one or number two positions in our coastal gateways. Later this year, we begin refocusing our growth into our higher-margin core hubs through more efficient, larger-gauge aircraft. We continue to increase our scale while maintaining our revenue premium and improving our margins.

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With about 1 point of incremental capacity driven by our record operating performance and increased gauge and stage length, we now see our full-year 2019 capacity outlook to be in the 3% to 4% range. However, we are always mindful of our operating environment and will take the necessary actions we need to do if we see sustained higher fuel prices or economic uncertainty impacting our margin expansion.

The slightly higher capacity combined with \$500 million in additional revenue from benefit from American Express renewal, support total revenue growth of 5% to 7% in 2019, up from the 4% to 6% initial guidance given at Investor Day.

In closing, the strength of the March quarter results and the contract renewal with American Express further reinforce the confidence and conviction we have in both our near-term and long-term strategy.

With that, I'll turn it over to my good friend, Paul.

Paul A. Jacobson

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

Thank you, Glen; and good morning, everyone; and thank you all for joining us. At our Investor Day, we reiterated our commitment to consistently delivering superior financial results. For us, this is about creating value through top line growth, margin expansion, and free cash flow generation through prudent capital allocation.

Our March quarter results provided a solid start to the year across each of these priorities and give us increased confidence in our full-year outlook. This is the first quarter we have expanded margins on both an operating and pre-tax basis in nearly two years. Our March quarter operating margin of 10% is 1.5 points higher than last year and flat to 2017, despite market fuel prices that are approximately 20% higher this year.

For the March quarter, our non-fuel unit cost declined 0.2 point, marking another quarter of strong cost performance. This was better than our initial guidance due to record operations that resulted in about 1 point of additional capacity, some shifts in expense timing to the second and third quarter, and continued good cost control momentum throughout the organization, carrying forward from the second half of last year.

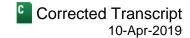
Fuel prices are trending higher, so maintaining a disciplined cost trajectory is a top priority for us, as we continue to drive to full-year margin expansion. I want to thank the entire Delta team for their continued commitments in this effort.

For the June quarter, we expect non-fuel unit cost growth of 1% to 2%. It is important to note that with the efficiency gains we've made through our fleet transformation, we expect to accelerate the retirement of our MD-90 fleet. Our June quarter cost guidance includes about 0.5 point of impact for this decision. Our results combined with our ongoing fleet transformation and work through One Delta keep us on track to achieve our target of 1% non-fuel unit cost growth in 2019.

This year is important for us in our fleet transformation journey. We are optimizing how we deploy our existing fleet through One Delta, continuing to retire older aircraft with nearly 40 MD-88s exiting the fleet this year and introducing next-generation engine technology with two new aircraft types. These new aircraft generate substantial efficiency benefits and enable revenue growth, both through higher premium seat mix, as well as improved customer satisfaction, supporting our industry-leading revenue premium and margin advantage.

In February, we launched the A220. By the end of the year, we will have 28 of these aircraft, growing this fleet to 90 aircraft by 2023. A220 deliveries enable retirement of smaller regional aircraft, the least efficient and highest-

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cost aircraft in our fleet. We are also the North American launch customer for the A330-900neo. This aircraft will join our fleet this summer, enabling more efficient flying in the Pacific with a best-in-class product that is expected to generate a 5-point to 10-point margin improvement versus the aircraft that it's replacing.

New engine technology aircraft also give us the ability to structurally shift our cost curve down, while gaining benefits from higher gauge and a better product. Our order book allows for replacement of 35% of our mainline fleet through 2023, allowing us to continue to optimize the simplification and efficiency benefits to drive further margin improvements.

Total fuel expense increased \$87 million in the quarter versus prior year. Refinery profits were pressured due to lower gas crack spreads, driving a loss of \$34 million or about \$0.04 per gallon in the quarter. For the June quarter, we expect our all-in fuel price to be \$2.10 to \$2.20 per gallon, in line with last year, and up modestly from the March quarter. These results include a slight profit at the refinery for the quarter.

Importantly, our re-fleeting and One Delta initiatives drove a 2.1% improvement in fuel efficiency during the March quarter, double the rate we saw in the same quarter last year and indicative of the efficiency we expect to generate in 2019, furthering our environmental sustainability goals and lowering our cost. Non-operating expenses for the quarter were \$69 million higher than prior year, due to pension pressure and lower equity partner earnings, each of which are expected to repeat in the quarter.

Looking to the June quarter, expected top line growth of 6% to 8% combined with 1% to 2% growth in our non-fuel unit cost and a slight moderation in fuel prices over prior year, supports our expectation for continued margin expansion and another quarter of double-digit EPS growth.

We expect earnings per share to be in the range of \$2.05 to \$2.35, up more than 20% versus prior year at the midpoint, and well above S&P earnings growth expectations. This equates to a pre-tax margin of 14% to 16% compared to last year's results of 14.1%.

Turning to cash flow and the balance sheet, we generated \$2 billion of operating cash flow in the quarter, with improvement over prior year on higher profits and timing of our voluntary pension contribution. We re-invested in the business with \$1.3 billion in CapEx, resulting in free cash flow of \$760 million.

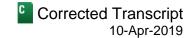
The March quarter result and incremental benefit from Amex give us increasing confidence in achieving the high end of our full-year free cash flow guidance of \$3 billion to \$4 billion compared to \$2.3 billion last year. In fact, we expect to produce nearly that level in the first half of this year alone.

For the full year, our free cash flow conversion is expected to improve to around 80% of net income, with tailwinds from strong top line growth including the added the benefit from American Express and an improved cost trajectory. This is up 33% from an average of around 60% each of the last two years.

Our strong cash generation and a healthy balance sheet enable us to consistently return cash back to our owners. With the confidence this management team has in the sustainability of Delta's earnings power, market volatility created an opportunity to accelerate our buyback plans within the year. We repurchased \$1.3 billion in stock at an average price of \$50.55, retiring 26 million shares in the quarter, while also paying out \$233 million in dividends.

Our repurchases were funded by a \$1 billion seasonal working capital loan, \$300 million of which we have already repaid. The remainder is expected to be repaid by the end of this year. We still expect to return approximately

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\$2.5 billion to shareholders in 2019 through dividends and buybacks and remain staunchly committed to returning 70% of free cash flow to shareholders annually. In the first week of April, we contributed \$250 million of our voluntary pension funding for the year, and we expect to contribute the remaining \$250 million later this year.

Leveraging our strong balance sheet, we recently refinanced \$500 million of scheduled debt maturities. The completion of our \$500 million EETC refinance is approximately one-third of our 2019 scheduled maturities at a 3.2% blended rate, saving us approximately \$9 million annually on our interest expense. With debt levels comfortably within our leverage ratio target of 1.5 times to 2.5 times adjusted debt to EBITDAR, we will continue to utilize a variety of funding sources to refinance debt maturities, or take advantage of market conditions, and refinance higher-cost debt.

Our after-tax return on invested capital on a trailing 12-month basis is 14.5%. This is up nearly 200 basis points over prior year on improved profitability and tax reform benefits. We are on track to deliver a 15% after tax ROIC in 2019, consistent with our expectations at Investor Day.

Looking forward, we have solid momentum and are on track to deliver strong top line growth, margin expansion, and double-digit EPS growth for the full year. This performance is a validation of our commitment to reinforcing the Delta difference. The combination of our powerful brand and our unmatched competitive advantages continue to deliver industry-leading results and will drive long-term value for our owners.

And with that, I'll turn the call back over to Jill to begin the Q&A.

Jill Sullivan Green

Vice President, Investor Relations, Delta Air Lines, Inc.

Thanks, Paul. Jake, we're ready for questions from the analysts. If you can give them instructions on how to get in the queue.

QUESTION AND ANSWER SECTION

Operator: Of course. [Operator Instructions] We will hear first from Joseph DeNardi with Stifel.

Joseph William DeNardi

Analyst, Stifel, Nicolaus & Co., Inc.

Hey. Good morning. Ed, in 2018, you guys received \$3.5 billion in cash from selling miles and reported about \$1.5 billion in marketing fee. You're on track for \$2 billion in 2020. If you can get to \$7 billion in 2023, you'll be doing \$3 billion to \$4 billion in marketing fee. How could you possibly not break that out as a separate business unit? Not talking about spinning it or selling it, just segmenting it out. What are your thoughts there?

Edward H. Bastian

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

Well, my thoughts are, that's a good problem to worry about, Joe. First of all, we're pleased and thrilled with the new renewal. Amex is an awesome partner. And our two brands line up so well strategically, and with our customers and our people.

As we grow our loyalty program, you're right, there will be a question of disclosure in terms of providing better insight from an ownership perspective and a governance perspective into the drivers of our profitability into the future. And whether that's in a segment or whatever disclosure format, I'm not sure what it will take, but it's something that we've been giving greater disclosure to, as you know, and we'll continue to consider that.

Joseph William DeNardi

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. That's helpful. And then Glen just – or Ed, if you can just talk around some of the assumptions behind getting to the \$7 billion. It seems to imply continued really strong growth in card acquisitions and spend on the card. So, what gives you confidence that you can continue to do that? And then, Glen, you mentioned another significant step up in 2023. So, I mean, can you talk about what the total value of the agreement could reach by the end of it?

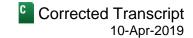
Glen W. Hauenstein

President, Delta Air Lines, Inc.

Well, we continue to see it grow significantly beyond 2023. And really one of the great reasons that we have for accelerating the renewal of the contract is that we can continue to invest in new products and services for consumers that we think will make the card relatively more and more attractive and drive continued acquisition. And that was really one of the main reasons to go ahead and do that at this point in time. So we are excited about the future of that.

As I pointed out in the earnings call, we did have another record acquisition – in the script. We had another record acquisition quarter in the first quarter. And as we start off the second quarter, acquisitions remain very strong. And I think if we can continue to provide the kind of value to customers that they want to acquire the card, which we have a great plan for with American Express, we will meet or exceed those expectations by 2023 and beyond.

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Joseph William DeNardi

Analyst, Stifel, Nicolaus & Co., Inc.

Thank you.

Operator: [Operator Instructions] We'll now move to a question from Joe Caiado with Credit Suisse.

Joe Caiado

Analyst, Credit Suisse Securities (USA) LLC

Hey. Thanks very much. Good morning. Ed and Paul, you're generating a lot of cash flow this year. That was already the case prior to the renewal of the Amex agreement. The outlook for cash flow is now even better.

Two-part question here. I know you're committed to returning 70% of free cash flow to shareholders, but you've also gone above that level periodically. So I'm curious how you're thinking about prioritizing the deployment of that incremental cash flow that you're getting this year?

And then the second part of the question is, Ed, since you talked about the confidence this gives you and the sustainability of your cash flow, I'm curious if you have a target for annual free cash flow conversion going forward?

Paul A. Jacobson

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

Well, good morning, Joe. I'll start with that and Ed can follow up. Obviously, the American Express agreement provides us with increasing confidence about our performance throughout the year and, in part, helps to convey that confidence through my comments about coming in at the top end of the free cash flow range for the year.

It is still early in the year and we are facing increasing prices, and we're cautiously optimistic about that. We have said with the announcement of the first quarter buyback acceleration that we maintain the optionality to give back more. So consistent return of capital back to shareholders is obviously a big priority for us, and we expect to continue that into the future.

Edward H. Bastian

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

Joe, to add on to Paul's comments. I agree with them. I think it's a great start to the year. We're excited with how the first quarter came, but I think it's still early to be raising full-year expectations whether it's in guidance, or for profitability, EPS or cash flow. We do face a lot of volatility in oil prices. And while demand's been solid, I'd like to at least get through the second quarter before reassessing those full-year expectations.

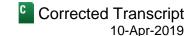
So, from my perspective, I'd say we're cautiously optimistic. We'll be in the top half of the guidance range that we gave you, both on EPS as well as on free cash. But we're not ready to raise those ranges or expectations right at this moment.

Joe Caiado

Analyst, Credit Suisse Securities (USA) LLC

That's fair. I appreciate that. And then a second question, if I may, for Glen. I would just love to get your thoughts, kind of big picture, on the booking curve and what you're seeing. It feels like perhaps we're seeing some more

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heavy discounting on longer-dated bookings, but better close than offsetting. Just love your thoughts there. Thanks.

Glen W. Hauenstein

President, Delta Air Lines, Inc.

I don't think that's what we see at all. As a matter of fact, forward yields for every month out through the second quarter are in positive territory on higher bookings. So we see relatively robust leisure demand as we enter the second quarter.

Joe Caiado

Analyst, Credit Suisse Securities (USA) LLC

Great. Thank you.

Operator: Our next question will come from Hunter Keay with Wolfe Research.

Hunter Keay

Analyst, Wolfe Research LLC

Good morning.

Edward H. Bastian

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

Good morning.

Hunter Keay

Analyst, Wolfe Research LLC

Hey, Ed. Putting aside the issues, Boeing's current issues with the MAX, how does the potential aftermarket work and your relationship with the engine OEMs factor into how you're thinking about buying the NMA?

Edward H. Bastian

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

Well, I'd say it's premature to be speculating on the NMA. Boeing has not even approved the release of it for sale. So I think we're a little early here. We consider all components of the aircraft and the revenues and the opportunities that it brings, as we evaluate a new fleet family.

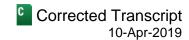
It was an important consideration in making decision on the 321neo, which product we went to with the Geared Turbofan, as well as the MRO benefits that provided. It will certainly be in the consideration set as we think about the NMA. But I think trying to get down to that level of speculation probably is way too early.

Hunter Keay

Analyst, Wolfe Research LLC

Okay. And then, how does the Amex agreement factor into how you view the lifecycle of a customer? Is there a construct to where you're willing to subsidize a few years of price-sensitive consumption fares or even losses or low margins to potentially strategic customers in exchange for like a 25 to 50-year long-term relationship, with increasing spend as that customer builds wealth?

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Edward H. Bastian

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

Well, that's a question obviously for Amex as well as for us. When we think about Amex and our relationship, we think for the very long term. We don't think in terms of contract periods and renewal extensions. Amex, one of the real attractive components to Amex is the presence it has and the opportunity it creates in some of our high-value segments.

So, yes, if you're asking do we invest in acquiring high-value potential customers early in their life, absolutely. And it's one of the reasons, I think, our brands align so well because we have similar strategies in terms of how we think about our brands and how we think about consumers.

Hunter Keay

Analyst, Wolfe Research LLC

Very good. Thank you.

Operator: And now, we'll hear from Duane Pfennigwerth with Evercore ISI.

Duane Pfennigwerth

Analyst, Evercore Group LLC

Hey. Thanks. Good morning. Just to come back to Amex for a second, can you comment on the underlying drivers of that \$7 billion contribution by 2023? How much of that is contractual rate, how much of that is customer spend and how much of that is new customer acquisition, if you would?

Edward H. Bastian

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

Duane, we are under contract confidentiality, obviously, with American Express that you can appreciate. I can tell you it's all of the above. And as we get further into the new contract, I think some of your questions will start to answer themselves.

Duane Pfennigwerth

Analyst, Evercore Group LLC

Okay. We'll wait for that to be revealed. And then, Glen, you touched on mobile briefly. Can you talk about mobile more broadly? What does it represent as a percentage of your bookings today? How large is that revenue stream, and how quickly is it growing?

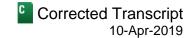
Glen W. Hauenstein

President, Delta Air Lines, Inc.

Mobile is, by far, the fastest-growing, and it's about 20% of our direct bookings – 20% to 25% of our direct bookings. And it seems like every week and every month, it moves on. Mobile becomes a bigger and bigger chunk of our total bookings.

So, that's really the place that we see an incredible amount of growth. And that's where consumers are seeming to want to go in order to book delta.com or book directly with Delta. So, very exciting, and we have lots of great new releases coming this year, which we think will continue to enhance the customer experience, with more and more utility that you can have in the palm of your hand.

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Duane Pfennigwerth

Analyst, Evercore Group LLC

Thank you very much.

Operator: Helane Becker with Cowen will have the next question.

Helane Becker

Analyst, Cowen Securities

Thanks very much, operator. Hi, everybody; and thank you very much for the time. Just on the MRO business, you said it was \$800 million in revenue this year, and you want to grow it to \$2 billion over some timeframe going forward. Can you just talk about the CapEx that you need to get to that level; or with the new large test cell, is that built out now?

Edward H. Bastian

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

Well, Helane, the good news in that is a lot of the growth that we need is now contractually provided for, with our relationships with Rolls-Royce on the Trent, as well as on the Pratt & Whitney in the Geared Turbofan.

As those products come to market, the Geared Turbofan is still early in its introduction as well as some of the new Trent products. You will see that the revenue ramp towards the back end of that period had a higher clip than you'll see in the front part of that five-year period. This year, we're doing well. We're looking for double-digit growth, top line as well as margin improvement from the MRO, but it really starts to take-off, pardon the pun, over the next couple of years.

Helane Becker

Analyst, Cowen Securities

Okay. That's really helpful. Thank you. It's okay. I get those puns too. When you think about – I want to ask this question, but you're not going to really answer the whole question, because you're starting negotiating with your pilots.

And when, you think about your go forward CapEx and the growth of the airline, the replacement cycle and so on, how do you manage their expectations in terms of growing the non-ticket revenue or main cabin revenue that's 45% of your total revenue, with what their demands are for what they expect their future income to be?

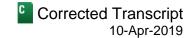
Edward H. Bastian

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

Well, you're right. We're not going to talk about our discussions with our pilots. It has just begun, and it's going to take quite some time to reach a productive conclusion.

When we think about our company, we think about all the constituents that are important to our company, all of our employees, not just our pilots, that they'll create the opportunity and the value that we've already created and as well as the future. We think about the investment needs that we have to make in our – continued in our product and our growth. We think about the investments we need to make in our customers, the investments we need to make in our owners.

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So in that context I'm certain we'll reach a good, fair conclusion of our pilot negotiations, but we're not going to do it publicly. And it's far premature to even begin to speculate on any construct there.

Helane Becker

Analyst. Cowen Securities

Okay. That's totally fair. Thanks for your help. Have a nice day.

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

Thank you.

Operator: And our next question will come from David Vernon with Bernstein.

J. David Scott Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Hey. Good morning, guys. Maybe Glen or Ed, could you just kind of talk in simple terms, like what Delta actually needs to do to get this incremental sort of \$3.5 billion of revenue? Is this just a function of pricing on a mileage basis, a new card issue? Could you kind of break through the drivers of what actually Delta needs to do to kind of secure this revenue benefit?

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

David, it's a good try. I'll give you the same answer I gave last time. We're under confidentiality, and we can't give you those specific drivers in terms of – but it is all the above.

Obviously, we are going to be investing alongside Amex in new cardholder, not just acquisitions, but development, in terms of spend and portfolio size, and range and the opportunities to expand in that regard. Economics of the card obviously have improved itself in terms of coming back to Delta. So, I'd say, those are a couple of the main drivers.

J. David Scott Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Yeah. I mean, I guess, it's hard to sort of handicap the certainty to which – to put that number to a model without

really kind of understanding the drivers of kind of...

Edward H. Bastian

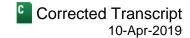
Chief Executive Officer & Director, Delta Air Lines, Inc.

Let me suggest that we have pretty good optimism on getting to the \$7 billion in that timeframe we gave.

J. David Scott Vernon Analyst, Sanford C. Bernstein & Co. LLC

Okay. All right. And may be just as a follow-up topic on a different subject. Transatlantic, when you mentioned that Europe is looking like it's firming up a little bit as we get into the summer months, there's a lot of speculation that there's going to be some new capacity added into that transatlantic market.

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Can you talk a little bit about kind of Delta's experience on the yield curve when other sort of low-cost entrants may be kind of came into that transatlantic market? And help us think through what some of the puts and takes for Delta could be, if we do hear an announcement that another carrier may be flying to transatlantic soon?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

Well, as you know, we faced and have faced significant competition from low-fare and ultra-low-fare carriers in the transatlantic for quite some time, so this is not something new. And we're sitting in a very good position, we think, with our partnerships in the transatlantic, and with our core products and services that we'll continue to improve over the next months and years. So, we feel very secure.

And as you look at transatlantic capacity, there are always new entrants coming; and there always entrants leaving, if you will. So, we'll see what the supply and demand balance is, but we've had a very good couple of years in the transatlantic, and we expect that to continue.

J. David Scott Vernon

Analyst, Sanford C. Bernstein & Co. LLC

C

But did you see a material impact as sort of maybe Norwegian came into the market a few years ago or was it sort just part of the noise?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

А

As you know, last year was one of the best years we've had in many years in the transatlantic. And this year is shaping up to be another great year. So, I think the data points would suggest that we're in a very good spot.

J. David Scott Vernon

Analyst, Sanford C. Bernstein & Co. LLC



All right. Appreciate the added color. Thanks guys.

Operator: Next question will come from Jamie Baker with JPMorgan.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Hey. Thanks. Good morning, everybody. Glen, sort of an arcane one to start. Could you give us a summary of interline agreements with U.S. and Canadian competitors? I realize it's a small part of the business. But to the extent that MAX cancellations continue, it would help to understand, which airlines can send passengers over to you. Also, if and when somebody does, is the fare you receive what the passenger paid fare was or is it something more akin to like the ID75 off your full fare?

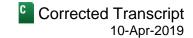
Glen W. Hauenstein

А

President, Delta Air Lines, Inc.

I don't think we want to disclose the details of our interline agreements with our partners. But it is not the fare that the customers paid, we'll say that. And we do have interline agreements with two major U.S. carriers that are our competitors. And that's two of the three that are experiencing those small cancellations.

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I think, now, most of them have taken those out. So, they're trying to get proactive and get way ahead of the reaccommodation. So, we don't expect a significant number of day of departure re-accommodations from that.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Okay. And second, probably, for Ed or Paul. On Amex, how far ahead of the industry curve do you think that Delta is with the new terms, or actually – no, no, no. Scratch that, because I don't think you'll answer. Let me try it differently.

If you were to rank the contributions to your margin premium – so if you have to rank the contributors to the margin premium, and I gave you the categories of loyalty economics, domestic RASM premium, MRO, fleet, and CASM, would those be the top five? And what would be descending order of contribution be? Again, those categories are loyalty, RASM premium, MRO, fleet, and CASM? You have 30 seconds.

Edward H. Bastian

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

It sounds like a 30-minute game show, Jamie. Listen, we were clear in our comments that we – this contract extension will lead us to our goal of being not just the most valuable card in the industry, but one of the most valuable cards in consumer cards in the world.

I don't know that we're number one at this moment, as we sit here within our industry, though I certainly expect over the next few years, we should be number one. Relative rank, and I'd have to give some thought to how you'd want to – what kind of cost you'd like to allocate to all those revenue categories that you gave us.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Okay. I guess, we'll send you with the home version of the board game then. I appreciate the answers all the same. Thank you, everybody.

Edward H. Bastian

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

Take care, Jamie.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Take care.

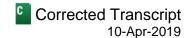
Operator: Now, we'll move to a question from Mike Linenberg with Deutsche Bank.

Mike Linenberg

Analyst, Deutsche Bank Securities, Inc.

Hey. Good morning, everyone. Hey. Just two quick ones here. Hey, Ed, on the MRO, I recall a time, it was a few years back, when Delta used to provide, on a segment basis, the profitability of your MRO. And I think the operating margins were in the mid-teens. Is that consistent with the profitability of that business today?

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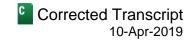


Edward H. Bastian Chief Executive Officer & Director, Delta Air Lines, Inc.	Δ
Yes, it is.	-
Mike Linenberg Analyst, Deutsche Bank Securities, Inc.	C
Okay. Great. And then, just my second question. And Ed this is back to you, just the headlines out about possibility of tariffs on Airbus equipment. Would there be a distinction if for Airbus aircraft maybe narrowbod aircraft coming out of Alabama that are built by American workers? Any thoughts on that? I know it's early.	dy
Edward H. Bastian Chief Executive Officer & Director, Delta Air Lines, Inc.	Д
I don't know, Mike. Obviously, the aircraft that we're going to be taking next year out of Mobile you would the should be exempt from a potential tariff issue, but we'll wait-and-see.	iink
Mike Linenberg Analyst, Deutsche Bank Securities, Inc.	C
All right. All right, great. Thanks.	
Jill Sullivan Greer Vice President, Investor Relations, Delta Air Lines, Inc.	Δ
Jake, we're going to have time for one more question from the analysts.	
Operator: And that question will come from Dan McKenzie with Buckingham Research.	
Daniel J. McKenzie Analyst, The Buckingham Research Group, Inc.	C
Hey. Good morning. Thanks, guys. Going back to the use of free cash flow this year, Delta has done strate investments really well. And without comment to what you may or may not do, I wonder if you can at least comment on whether there are any interesting opportunities that you're currently evaluating?	gic
Edward H. Bastian Chief Executive Officer & Director, Delta Air Lines, Inc.	Δ
Such as?	
Daniel J. McKenzie Analyst, The Buckingham Research Group, Inc.	C
Strategic investment perhaps in another partner, or at least a bigger investment in an existing partner?	
Fdward H Bastian	Λ

Dan, as you know, we're not going to speculate on future strategic investments on the call. The one that's out there that we have indicated we're in discussions with is Alitalia. And I've confirmed that several times publicly that we are talking to the rail system of Italy FS, as well as with the Alitalia leadership and the Italian government about potentially making an investment. But it's not the size that I think would warrant us getting into a discussion

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

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of what that means for our use of free cash flow. I think that will be an investment that's somewhat limited. And we certainly haven't made a decision in terms of timing on that.

Daniel J. McKenzie

Analyst, The Buckingham Research Group, Inc.

Understood. Second question just regarding the move to maintain the full-year EPS. There is some macro noise around Brexit Part B and some slower growth worries out of Europe. And I appreciate the positive revenue commentary on the Atlantic. But on the UK piece of this, what are you seeing today? And can you just remind us what the UK component is to the overall revenue pie here, just given the JVs?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

Well, UK is about 20% to 25%, if you include the Virgin piece, much less for us. And what we are seeing is actually fairly decent summer travel to the UK, both in business and in coach. So the second quarter we're expecting UK unit revenues to be flat to up slightly.

And so, while we have waited for years for the impact of Brexit on air travel, it has not yet materialized. And we'll keep a close eye on it. And if we have to make adjustments, we will. But I think there's so much uncertainty around what it actually is. It's hard for us to action it at this time.

Edward H. Bastian

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

And to be clear in Glen's comments, that 20% to 25% is of the transatlantic JV, not of Delta. So it's obviously a much smaller part of Delta.

Glen W. Hauenstein

President, Delta Air Lines, Inc.

25% of the transatlantic.

Daniel J. McKenzie

Yeah, understood. Okay. Thanks for the time, you guys.

Jill Sullivan Greer

Vice President, Investor Relations, Delta Air Lines, Inc.

Analyst, The Buckingham Research Group, Inc.

That's going to wrap up the analyst portion of the call. Before we turn it over to media, I just want to say, on behalf of the entire IR team, Ned, you have been a fantastic partner for us.

Ned E. Walker

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

Hey, thank you very much, Jill.

Jill Sullivan Greer

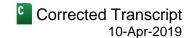
Vice President, Investor Relations, Delta Air Lines, Inc.

And we look forward to working with Tim. And we've been lucky to work with and learn from one of the best. So we'll hand it over to the media team.

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Tim Mapes

Chief Marketing Officer & SVP-Marketing, Delta Air Lines, Inc.

Great, Jill. If we could, as we transition to the questions and answers from the members of the media, if you wouldn't mind just repeating the instructions and a reminder that we just like to keep the questions themselves as succinct and short as possible with one follow-up to allow us to get to as many of these as we possibly could.

Operator: Of course. [Operator Instructions] And we will hear first from David Koenig with The Associated Press.

David Koenig

Reporter, The Associated Press

Hi. Thanks for giving me this chance. I did have a question, a follow-up to one of the analyst questions on the MAX cancellations and the interline agreements. Are those customers coming over on interline agreements? How profitable are those? And I'll include my follow-up here. Do you have any forecast yet as to how many additional passengers you might see because of MAX-related cancellations at your other airlines?

Edward H. Bastian

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

David, this is Ed. The MAX, it represents a really small part of our industry's market share at this point. And we're not going to get into any specific details relative to interline arrangements we have with some of our partners that may be flying that product.

David Koenig

Reporter, The Associated Press

Does that mean you do not expect many passengers to come over on those?

Edward H. Bastian

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

I would expect the numbers are not going to be material to Delta.

David Koenig

Reporter, The Associated Press

Okay. Okay. Thanks.

Operator: We'll now hear from Tracy Rucinski with Reuters.

Tracy Rucinski

U.S. Aviation Correspondent, Thomson Reuters

Hi. You indicated that the size of any Alitalia stake would be limited. How large of a stake is Delta willing to take and what has held up a deal so far?

Edward H. Bastian

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

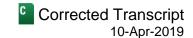
We are not going to speculate on either the size of our investment other than what we've already said, or the time it's going to take to bring that to a conclusion.

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Operator: Anything further, Tracy?	
Tracy Rucinski U.S. Aviation Correspondent, Thomson Reuters	Q
No. That's it. Thank you.	
Operator: Thank you. Moving to Edward Russell with FlightGlobal.	
Edward Russell Americas Finance Editor, FlightGlobal	Q
Hi. Yes. Paul, you mentioned that Delta is accelerating the retirement of the MD-90s. Could you outline when does Delta plan to remove the MD-90 fleet?	how –
Paul A. Jacobson Executive Vice President & Chief Financial Officer, Delta Air Lines, Inc.	A
Well, what I mentioned in my comments is that we're considering that. We expect to make that announce the quarter, at which point, we'll provide more details on exact timing, replacement, et cetera.	ement in
Edward Russell Americas Finance Editor, FlightGlobal	Q
Okay. And then a second question on premium products. How is Delta viewing – and you're shrinking y business cabins on some of your new aircraft, the A330-900, the 777-200. I mean how do you view predemand when your upfront cabins are shrinking on these widebodies?	
Glen W. Hauenstein President, Delta Air Lines, Inc.	A
Well, we don't look at it as reducing the number of premium seats because we're introducing an entirely cabin on the airplane. So what we're trying to do is best match the consumer demand with the products services that we have. So if you look at the total premium seats on those airplanes, they're actually increwe introduce Delta Premium Select to the international marketplace. And that will be complete, but on a international widebodies by 2021.	and easing as
And we're very excited with the initial returns that customers are selecting that. I think when we look bac customers wanted to buy from us years back we had coach and then we had a flat bed. And there were opportunities to satisfy consumer demands in between. So now having all five cabins available, I think wery comfortable with the size of each one of those.	so many
Edward Russell Americas Finance Editor, FlightGlobal	Q
Thank you very much.	
Tim Mapes Chief Marketing Officer & SVP-Marketing, Delta Air Lines, Inc. Jake, we have time for one final question.	A
dano, we have time for one final question.	

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Operator: And that last question will come from Elliott Blackburn with Argus Media.

Elliott Blackburn

Senior Reporter, Argus Media

 \bigcirc

Good morning, and thanks. I've squeezed in again. I just hope to get an update on the progress Delta's made on efforts to find a partner at the Trainer refinery?

Paul A. Jacobson

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

A

Sure. As we stated in January, we continue to work through that. It's been a long process because it's been a complex one. We still do that. We have no update to that guidance at this point.

Elliott Blackburn

Senior Reporter, Argus Media



And I guess, if there's any kind of outlook, you can give on the role of that refinery within Delta going forward, does it take on any greater or lesser importance as we see kind of forecast for higher distillate prices next year and kind of a general rising jet fuel environment? What's kind of your longer-term outlook on that facility?

Paul A. Jacobson

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



Sure. The refinery has always been a strong asset for Delta. And the process that we outlined was in an effort to try to find ways to strategically enhance that value to Delta. But as we look at both the forward curves out, and the out years, the potential prospects of increased prices of jet fuel as it relates to IMO 2020, there's obviously a forward view of profitability at that refinery, which will serve as a very effective, counter-effect to increasing fuel prices.

Not only the direct production from the refinery, but also the fact that we've been able to use that production to lower our prices throughout the country and throughout all the sites where we purchase jet fuel. That's created a sustainable advantage for Delta, and we don't expect that to change under any circumstance.

Elliott Blackburn

Senior Reporter, Argus Media



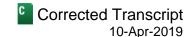
Thanks very much.

Tim Mapes

Chief Marketing Officer & SVP-Marketing, Delta Air Lines, Inc.

With that, we would like to close by thanking everybody for their time today. Particularly thanking Ed, Glen, and Paul for their comments. I'll add my personal thanks to Ned for his help during these weeks of transition and thank everyone again for your time. And we will see you on July 11 for second quarter.

Operator: And, everyone, that does conclude today's conference. Thank you for your participation today.



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