

# DELTA AIR LINES, INC.

## **FORM 8-K** (Current report filing)

Filed 12/14/17 for the Period Ending 12/14/17

Address	HARTSFIELD-JACKSON ATLANTA INTL AIRPORT 1030 DELTA BOULEVARD ATLANTA, GA, 30354-1989
Telephone	4047152600
CIK	0000027904
Symbol	DAL
SIC Code	4512 - Air Transportation, Scheduled
Industry	Airlines
Sector	Industrials
Fiscal Year	12/31

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT  
Pursuant to Section 13 OR 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 14, 2017

DELTA AIR LINES, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation)

001-05424  
(Commission  
File Number)

58-0218548  
(IRS Employer  
Identification No.)

P.O. Box 20706, Atlanta, Georgia 30320-6001  
(Address of principal executive offices)

Registrant's telephone number, including area code: (404) 715-2600

Registrant's Web site address: www.delta.com

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)  
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)  
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))  
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR 230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR 240.12b-2).

☐ Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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**Item 7.01 Regulation FD Disclosure.**

Delta Air Lines, Inc. ("Delta") issued today an Investor Update which is furnished as Exhibit 99.1 to this Form 8-K.

Delta today will host a conference for investors that will also be webcast. Materials to be used in conjunction with the conference are furnished as Exhibit 99.2 to this Form 8-K.

*Statements in this Form 8-K and the attached exhibits that are not historical facts, including statements regarding our estimates, expectations, beliefs, intentions, projections or strategies for the future, may be "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. All forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from the estimates, expectations, beliefs, intentions, projections and strategies reflected in or suggested by the forward-looking statements. These risks and uncertainties include, but are not limited to, the effects of terrorist attacks or geopolitical conflict; the cost of aircraft fuel; the impact of fuel hedging activity including rebalancing our hedge portfolio, recording mark-to-market adjustments or posting collateral in connection with our fuel hedge contracts; the availability of aircraft fuel; the performance of our significant investments in airlines in other parts of the world; the possible effects of accidents involving our aircraft; the restrictions that financial covenants in our financing agreements could have on our financial and business operations; labor issues; interruptions or disruptions in service at one of our hub, gateway or key airports; breaches or security lapses in our information technology systems; disruptions in our information technology infrastructure; our dependence on technology in our operations; the effects of weather, natural disasters and seasonality on our business; the effects of an extended disruption in services provided by third party regional carriers; failure or inability of insurance to cover a significant liability at Monroe's Trainer refinery; the impact of environmental regulation on the Trainer refinery, including costs related to renewable fuel standard regulations; our ability to retain management and key employees; competitive conditions in the airline industry; the effects of extensive government regulation on our business; the sensitivity of the airline industry to prolonged periods of stagnant or weak economic conditions; uncertainty in economic conditions and regulatory environment in the United Kingdom related to the likely exit of the United Kingdom from the European Union; and the effects of the rapid spread of contagious illnesses.*

*Additional information concerning risks and uncertainties that could cause differences between actual results and forward-looking statements is contained in our Securities and Exchange Commission filings, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Caution should be taken not to place undue reliance on our forward-looking statements, which represent our views only as of December 14, 2017, and which we have no current intention to update.*

**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits.

Exhibit 99.1 [Investor Update](#)

Exhibit 99.2 [Presentation](#)

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DELTA AIR LINES, INC.

By: /s/ Paul A. Jacobson

Paul A. Jacobson

Executive Vice President and Chief Financial Officer

Date: December 14, 2017

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
Exhibit 99.1	<a href="#"><u>Investor Update</u></a>
Exhibit 99.2	<a href="#"><u>Presentation</u></a>

# Investor Update

December 14, 2017

• *Note: Information for the December quarter 2017 in this investor update is adjusted for the reconciliations below. Prior year cost and margin comparisons are normalized for the portion of the pilot contract expense recognized in the December quarter 2016 attributable to the first nine months of 2016, if not otherwise noted.*

## Overall Commentary

- Delta expects a December quarter operating margin of ~11% as strong unit revenue performance was offset by higher fuel prices during the quarter.
- December quarter is producing strong revenue trends with positive unit revenues in all geographic entities and unit revenue guidance tracking to the high end of initial guidance.
- Delta expects non-fuel unit costs including profit sharing to be up 5.0 – 5.5%, driven by continued investment in our people and product combined with accelerated depreciation of aircraft retirements.
- December quarter capacity now expected to be up 2.5 – 3.0%. Delta's coverage of Virgin Atlantic flying in the trans-Atlantic is capacity neutral within the JV, but resulted in higher December quarter capacity at Delta.
- Delta returned ~\$540 million to shareholders through dividends and share repurchases in the quarter, for a total of \$2.4 billion in 2017.

## Guidance

	<u>December Quarter 2017</u>
Operating margin	~11%
Cargo and other revenue	~\$1.65 billion
Average fuel price per gallon	\$1.92 - \$1.97
Profit sharing expense	~\$250 million
Non-operating expense	~\$150 million

	<u>December Quarter 2017 vs. December Quarter 2016</u>
Passenger unit revenue	Up ~4%
CASM-Ex including Profit Sharing	
As reported	Down 1% - flat
Normalized	Up 5.0 - 5.5%
System capacity	Up 2.5 - 3.0%

### Fuel

Delta's expected fuel price of \$1.92 - \$1.97 includes taxes, transportation, and refinery results.

### CASM-Ex

Delta excludes fuel and certain other expenses from its unit cost guidance. Other expenses include the costs associated with third-party Maintenance Repair and Overhaul, Delta Global Services, Delta Vacations, Delta Private Jets, and refinery cost of sales to third parties. Delta expects to record roughly \$475 million of other expenses in the December quarter. The revenue associated with these expenses is included in Delta's guidance for cargo and other revenue.

## Profit Sharing

Through September 30, 2017, Delta's employee profit sharing program for its ground and flight attendant employees paid 10% of the company's adjusted annual pre-tax profit up to the prior year's adjusted annual pre-tax profit and 20% above that amount (adjusted pre-tax profit for 2016 was \$7.2 billion). Delta's employee profit sharing program for its pilots paid 10% up to \$2.5 billion in adjusted annual pre-tax profit and 20% above that amount. Profit sharing expense is accrued at a blended rate based on the company's estimated profitability for the full year.

Effective October 1, 2017 all eligible employees now participate in the same profit sharing plan which will pay 10% up to \$2.5 billion in adjusted annual pre-tax profit and 20% above that amount.

## Taxes

Our December 2017 quarter results will reflect a ~35% tax rate. There will be no material impact to cash as Delta's net operating loss carryforwards will largely offset cash taxes.

## Share count

Delta expects approximately 710 million diluted and approximately 707 million basic weighted average shares outstanding.

## Forward Looking Statements

Statements in this investor update that are not historical facts, including statements regarding our estimates, expectations, beliefs, intentions, projections or strategies for the future, may be "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. All forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from the estimates, expectations, beliefs, intentions, projections and strategies reflected in or suggested by the forward-looking statements. These risks and uncertainties include, but are not limited to, the effects of terrorist attacks or geopolitical conflict; the cost of aircraft fuel; the impact of fuel hedging activity including rebalancing our hedge portfolio, recording mark-to-market adjustments or posting collateral in connection with our fuel hedge contracts; the availability of aircraft fuel; the performance of our significant investments in airlines in other parts of the world; the possible effects of accidents involving our aircraft; the restrictions that financial covenants in our financing agreements could have on our financial and business operations; labor issues; interruptions or disruptions in service at one of our hub, gateway, or key airports; breaches or security lapses in our information technology systems; disruptions in our information technology infrastructure; our dependence on technology in our operations; the effects of weather, natural disasters and seasonality on our business; the effects of an extended disruption in services provided by third party regional carriers; failure or inability of insurance to cover a significant liability at Monroe's Trainer refinery; the impact of environmental regulation on the Trainer refinery, including costs related to renewable fuel standard regulations; our ability to retain management and key employees; competitive conditions in the airline industry; the effects of extensive government regulation on our business; the sensitivity of the airline industry to prolonged periods of stagnant or weak economic conditions; uncertainty in economic conditions and regulatory environment in the United Kingdom leading up to and following the exit of the United Kingdom from the European Union; and the effects of the rapid spread of contagious illnesses.

Additional information concerning risks and uncertainties that could cause differences between actual results and forward-looking statements is contained in our Securities and Exchange Commission filings, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Caution should be taken not to place undue reliance on our forward-looking statements, which represent our views only as of December 14, 2017, and which we have no current intention to update.

## Non-GAAP Reconciliations

### Non-GAAP Financial Measures

Delta sometimes uses information ("non-GAAP financial measures") that is derived from the Consolidated Financial Statements, but that is not presented in accordance with accounting principles generally accepted in the U.S. ("GAAP"). Under the U.S. Securities and Exchange Commission rules, non-GAAP financial measures may be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. The tables below show reconciliations of non-GAAP financial measures used in this update to the most directly comparable GAAP financial measures.



**Operating Margin, adjusted.** We adjust for MTM adjustments and settlements to determine operating margin, adjusted, as described below. Adjusting for this item allows investors to understand and analyze our core operational performance in the period shown.

**MTM adjustments and settlements.** MTM adjustments are defined as fair value changes recorded in periods other than the settlement period. Such fair value changes are not necessarily indicative of the actual settlement value of the underlying hedge in the contract settlement period. Settlements represent cash received or paid on hedge contracts settled during the period. These items adjust fuel expense to show the economic impact of hedging, including cash received or paid on hedge contracts during the period.

	(Projected) Three Months Ended December 31, 2017
Operating margin	-12%
Adjusted for:	
MTM adjustments and settlement	~(1)%
Operating margin, adjusted	~11%

**Non-Fuel Unit Cost or Cost per Available Seat Mile, Including Profit Sharing ("CASM-Ex").** We adjust CASM for the following items to determine CASM-Ex, for the reasons described below:

**Aircraft fuel and related taxes.** The volatility in fuel prices impacts the comparability of year-over-year financial performance. The adjustment for aircraft fuel and related taxes (including our regional carriers) allows investors to understand and analyze our non-fuel costs and year-over-year financial performance.

**Other expenses.** Other expenses include aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations and refinery cost of sales to third parties. Because these businesses are not related to the generation of a seat mile, we adjust for the costs related to these sales to provide a more meaningful comparison of the costs of our airline operations to the rest of the airline industry.

**Pilot contract impact, normalized.** Delta's new pilot contract was ratified on December 1, 2016 and was retroactive to January 1, 2016. As a result, Delta recognized \$380 million in retroactive wages and other benefits in the December 2016 quarter that were related to previous quarters.

	(Projected) Three Months Ended December 31, 2017	Three Months Ended December 31, 2016
CASM (cents)	14.81 - 14.91	14.37
Adjusted for:		
Aircraft fuel and related taxes	(2.94)	(2.54)
Other expenses	(0.75)	(0.58)
CASM-Ex	11.12 - 11.22	11.25
Year-over-year change	Down 1% - flat	
Adjusted for:		
Pilot contract impact, normalized	-	(0.65)
CASM-Ex, adjusted for pilot contract impact, normalized	11.12 - 11.22	10.60
Year-over-year change	Up 5.0% - 5.5%	

**Average Fuel Price Per Gallon, Adjusted.** We adjust for MTM adjustments and settlements to determine average fuel price per gallon, adjusted for the same reason described above under the heading Operating Margin, adjusted.

	(Projected) Three Months Ended December 31, 2017
Average fuel price per gallon	\$ 1.84 - 1.86
MTM adjustments and settlements	0.08 - 0.11
Total fuel price per gallon, adjusted	\$ 1.92 - 1.97

**Pre-tax Income, Adjusted, Excluding Profit Sharing.** We adjust for MTM adjustments and settlements for the same reason described above under the heading Operating Margin, adjusted, and we adjust for Virgin Atlantic's MTM adjustments to allow investors to understand and analyze the company's core financial performance in the periods shown. We record our proportionate share of earnings from our equity investment in Virgin Atlantic in non-operating expense.

(in millions)	Year Ended December 31, 2016
Pre-tax income	\$ 6,636
Adjusted for:	
MTM adjustments and settlements	(450)
Virgin Atlantic MTM adjustments	(115)
Total adjustments	(565)
Pre-tax income, adjusted	\$ 6,071
Profit sharing	1,115
Pre-tax income, adjusted, excluding profit sharing	\$ 7,186







# INVESTOR DAY 2017

KEEP CLIMBING



## Safe Harbor

Statements in this presentation that are not historical facts, including statements regarding our estimates, expectations, beliefs, intentions, projections or strategies for the future, may be "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. All forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from the estimates, expectations, beliefs, intentions, projections and strategies reflected in or suggested by the forward-looking statements. These risks and uncertainties include, but are not limited to, the effects of terrorist attacks or geopolitical conflict; the cost of aircraft fuel; the impact of fuel hedging activity including rebalancing our hedge portfolio, recording mark-to-market adjustments or posting collateral in connection with our fuel hedge contracts; the availability of aircraft fuel; the performance of our significant investments in airlines in other parts of the world; the possible effects of accidents involving our aircraft; the restrictions that financial covenants in our financing agreements could have on our financial and business operations; labor issues; interruptions or disruptions in service at one of our hub, gateway or key airports; breaches or security lapses in our information technology systems; disruptions in our information technology infrastructure; our dependence on technology in our operations; the effects of weather, natural disasters and seasonality on our business; the effects of an extended disruption in services provided by third party regional carriers; failure or inability of insurance to cover a significant liability at Monroe's Trainer refinery; the impact of environmental regulation on the Trainer refinery, including costs related to renewable fuel standard regulations; our ability to retain management and key employees; competitive conditions in the airline industry; the effects of extensive government regulation on our business; the sensitivity of the airline industry to prolonged periods of stagnant or weak economic conditions; uncertainty in economic conditions and regulatory environment in the United Kingdom related to the likely exit of the United Kingdom from the European Union; and the effects of the rapid spread of contagious illnesses.

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In this presentation, we will discuss certain non-GAAP financial measures. You can find the reconciliations of those measures to comparable GAAP measures on our website at [delta.com](http://delta.com)



## **Built to Last**

Ed Bastian

Chief Executive Officer

## Delta Delivers Again in 2017



### OUR PEOPLE

- Strong culture and employee engagement with over 88% of employees "proud to work for Delta"
- Earned \$1 billion+ in profit sharing for 4<sup>th</sup> consecutive year for delivering great results for our customers and owners



### OUR CUSTOMERS

- Industry-leading operational reliability
- Driving record customer satisfaction levels – net promoter scores up in every region
- Named one of Fortune's 50 Most Admired Companies and "Best Airline" by Business Travel News for 7<sup>th</sup> consecutive year



### OUR PARTNERS/ COMMUNITIES

- New/expanded joint ventures or equity stakes with Air France-KLM, Aeromexico, Korean and WestJet
- Returned over \$40 million back to the communities we serve



### OUR OWNERS

- ~\$5.5 billion pre-tax income, 3<sup>rd</sup> straight year at or above this level
- ~14.5% operating margin, consistent with guidance given in December 2016
- 3<sup>rd</sup> investment grade rating

## Investing For Delta's Future



### AIRPORTS

- More than \$12 billion in facility projects planned over next decade including ATL, LGA, LAX, SEA and SLC - focused on improving customer experience
- Building "Airport of the Future" - anticipating future trends and technology, with flexibility to change to meet our needs



### FLEET

- Ordering 100 A321neo for delivery in 2020-23 - aircraft are a win on all fronts - improved customer experience, higher gauge, better fuel efficiency
- Taking delivery of ~60 new aircraft in 2018 - part of re-fleeting that will renew ~30% of mainline fleet by 2020 and drive some of the greatest efficiency gains in Delta's history



### INTERNATIONAL PARTNERS

- Cumulatively created \$2 billion asset through our equity stakes
- Building the leading joint ventures in every entity - next phase is driving additional value through deeper integration with our partners



### TECHNOLOGY

- Necessary investment in reliability and disaster recovery - successful stand-up of new data center
- Going forward - focus shifts to digital transformation which will unlock our ability to deliver personalized service, further strengthening brand and revenue premium



## A Solid Finish to Delta's Transition Year

### December Quarter 2017 Forecast

Passenger unit revenue change year over year	Up ~4%
Fuel price	\$1.92 - \$1.97
CASM-Ex including Profit Sharing, change year over year, Normalized	Up 5.0 - 5.5%
Operating margin	~11%

*Note: Adjusted for special items; non-GAAP financial measures reconciled in Appendix*

DELTA

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## Setting Up Well For 2018

Note: Forward-looking non-GAAP financial metrics. See additional information in Appendix.

- **Revenue-driven earnings growth**
  - 2018 EPS: \$5.35-\$5.70
  - 10-15% higher than 2017 on 4-6% top-line increase
- **Prudent capacity profile**
  - 2-3% system capacity growth
- **Addressing non-fuel costs**
  - Non-fuel unit costs up 0-2% ex. profit sharing
- **Investing for the future**
  - Benefitting from previous investments in partnerships, technology and fleet
  - Expecting \$4-5 billion in free cash flow



## The Right Combination Of Strategic Advantages



### Culture

At the core of Delta – passionate and determined professionals with an innate sense of caring for our customers



### Domestic Network

Best connecting hub complex – including the world's most efficient hub in Atlanta – enhanced by investments in New York, LA and Seattle



### Operational Reliability

America's best-run airline, consistently delivering industry-leading operational results and driving further improvement and efficiencies through innovation



### Customer Loyalty

Delta's ascending brand and strong partnership with American Express combine to produce high-value loyalty program



### Investment Grade Balance Sheet

Solid foundation with lower interest expense, more cash flow flexibility and access to higher quality credit markets for future needs



## **Culture is Delta's Foundation**

Joanne Smith

Chief Human Resources Officer

## The Top 15 Most Relevant Brands

Number 11 Will Surprise You



"... Palpable culture of commitment to employees."  
Peter Horst  
Contributor, Forbes

"The airline makes the cut in large part due to the incredibly strong showing from employees as they discuss life at Delta, the operating culture and company values."  
Peter Horst  
Contributor, Forbes

### MOST RELEVANT COMPANIES IN AMERICA

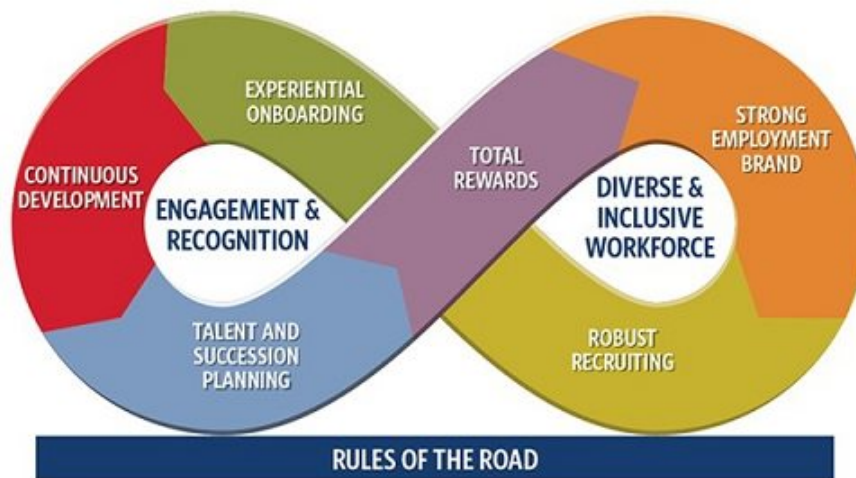


## Engaged Employees Drive Greater Customer Loyalty



*"When you take care of your employees, they will take great care of your customers, who then reward you with their business and loyalty. Every major business decision we make at Delta is based on that philosophy, and it has been very successful for us." – Ed Bastian*

## Perpetuating Our Unique Culture







# **Power of a Strong Brand**

Tim Mapes

Chief Marketing Officer

## The Power of a Strong Brand



- Powers growth that transcends the broader market
- Conveys values, attributes that lead customers to choose Delta
- Measure of customer loyalty via willingness to buy more and pay more
- Central to increased top-line revenue



## Focusing on Tomorrow's High Value Customers Today

- Given rapidly evolving customer expectations, we benchmark Delta experiences relative to world's other strongest brands

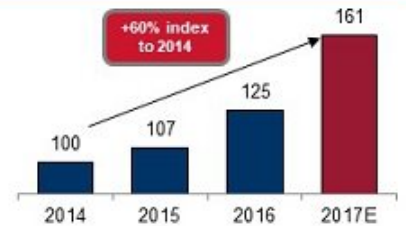


- Strategies transcend the airline industry
  - Transforming mobile, digital and social experiences
  - Building direct relationships with customers
- Preference for Delta among Millennial frequent travelers increasing
  - #3 among top 10 most innovative brands; Bizbash June 2017
  - Top 10 "Most Improved Brands Among Millennials"; YouGov June 2017

### Delta U.S. eHVC Preference YTD

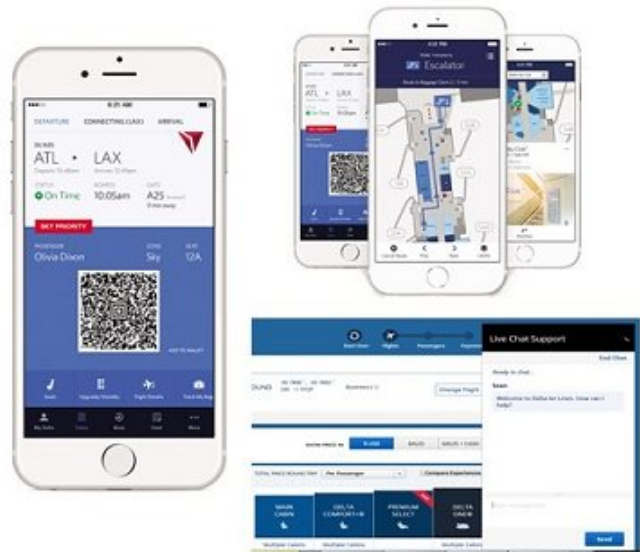


### SkyMiles Member Enrollment



## Enhancing Mobile, Digital & Social Capabilities

- “Best Global Airline App” in *Global Traveler’s* Reader Survey Awards
- Record iPhone App Store rating (4.8 out of 5)
- Industry-leading Auto Check-In on Fly Delta app
- Airport wayfinding across major domestic and international hubs
- Launched delta.com chat solution and piloting virtual chat bots, enabling improved digital self-service



## Increasingly, A Brand With Purpose

- 1% of net profits donated to key nonprofits in education, wellness and military/veterans causes
- +\$3.7 million contributed to hurricane and earthquake relief efforts
- Partnered with Aeromexico to build Habitat for Humanity homes in Mexico in 2017 and working with China Eastern in 2018



**\$40M to Charities in 2017**

## Growing Loyalty Enables a Durable, Increasing Revenue Stream

Ascending brand, leading partnership with Amex driving growth in high-margin revenue

- Delta's brand and product initiatives have stimulated additional demand for SkyMiles as a currency
- American Express co-brand spend has grown 12% annually since 2013
  - 2017 another record year with ~1 million card acquisitions
- Delta is the largest co-brand partner for American Express and their only U.S. airline card partner
  - \$3 billion 2017 contribution, up 50% since 2014 and set to grow another \$1 billion through 2021
  - Co-brand revenue stream largely tied to consumer spending trends vs. solely airline ticket sales

Delta-Amex Co-Brand Spend



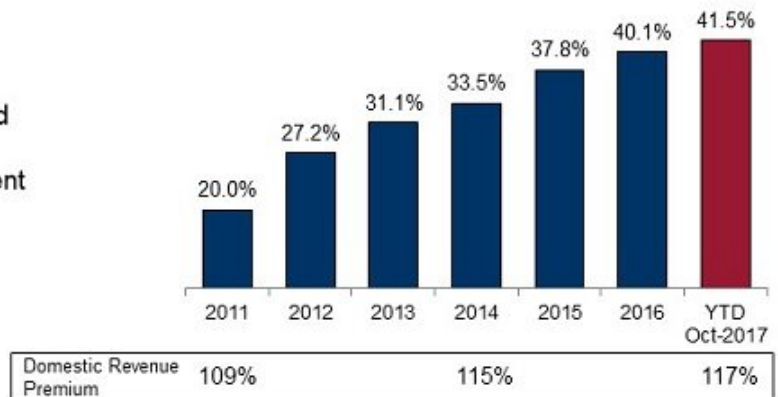
Delta-Amex Co-Brand Contribution



## Delta's Approach is Working

- Delta's ascending brand is reflected in consistently increasing net promoter score over the past several years
- Year-to-date 2017 domestic net promoter score at 41.5%, a new record
- Operational reliability, free entertainment and upgraded snacks behind 2017 improvement
- Free text messaging, gate/boarding improvements will drive further growth as we enter 2018

Delta Domestic Net Promoter Score



## Positioned to Win: Now & Over Time

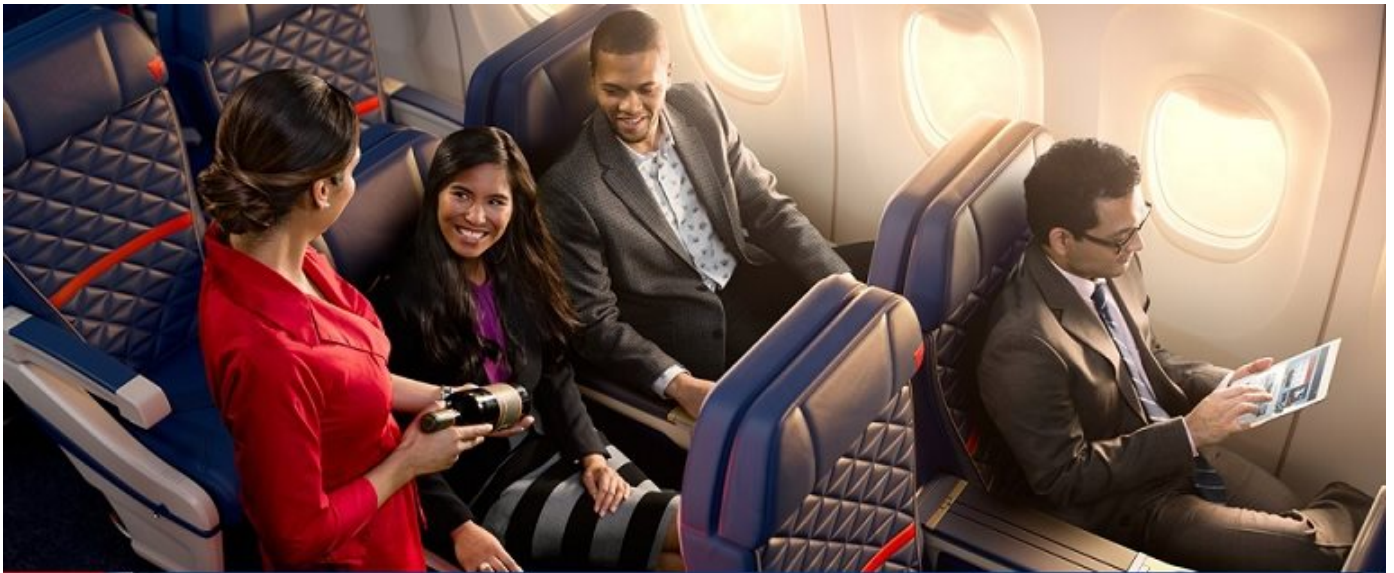
- Strong brand, founded on operational reliability and service excellence
- Delta benefitting from return on prior product investments as we target new areas of emphasis in 2018
- Delivering superior experiences customers value and are willing to pay for central to top-line revenue growth
- Continuing to make Delta the airline brand high value customers want to fly will deliver that growth

### MOST RELEVANT COMPANIES IN AMERICA



Source: Forrester, November 2017





## **Driving Top-Line Growth**

Glen Hauenstein  
President



## The Elephant in the Room

- For the first time in five years, all geographic entities are growing unit revenue in the December quarter
- Demand and pricing remain robust, and we are raising our 4Q unit revenue guidance to ~4%
- Entering 2018 with best revenue momentum we have seen in years – expect to generate positive PRASM in every quarter



## Driving Top-Line Growth

Delta's leadership in segmentation, uniquely positioned domestic network and a world-leading franchise of global airline partners combine for a sustainable competitive advantage

### Unrivaled Network

- Revenue growth fueled by higher yields and modest capacity growth
- Upgauging to continue into the next decade with large narrowbody aircraft, our most profitable assets

### Revenue Premium

- Continuing segmentation leadership by investing in premium products, our highest margin opportunities
- Growing, high-margin loyalty revenue stream from American Express co-brand relationship

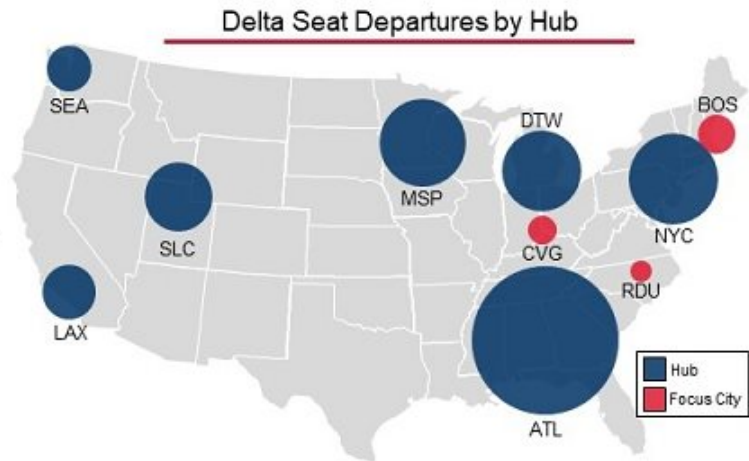
### Globalization

- We have expanded across the globe in 2017, with new/larger joint ventures and investments, expected to yield hundreds of millions of dollars in financial benefits

## An Unrivaled Domestic Network

Delta's network combines a focus on the most desirable markets with interior scale to leverage increasing fleet gauge

- Network is optimally structured to capture premium revenue
- Balanced footprint between East and West coasts
- Unique hub network has driven increased relevance in key focus cities
- ~60% or greater share in all four interior hubs
  - Atlanta is world's largest hub, within 2 hours of 80% of U.S. population
  - Minneapolis/Detroit cover northern U.S.
  - Salt Lake City complements coastal hubs of Seattle and Los Angeles
- Delta is #1 or #2 in 55 of top 100 cities
- Largest carrier in New York City

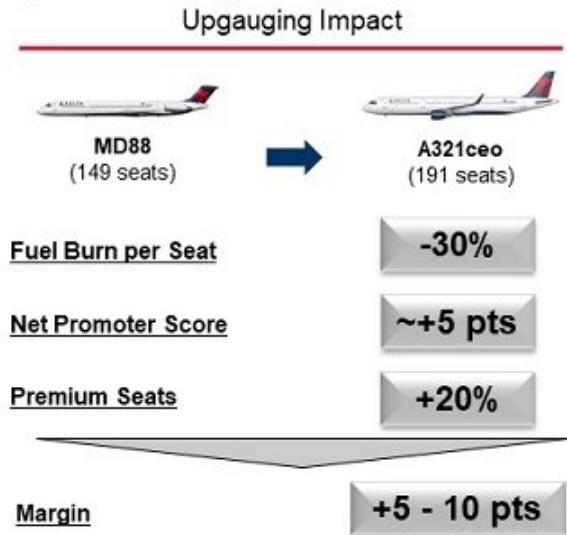


Note: Circle size denotes number of seat departures

## Upgauging: A Proven Strategy for Delta

Upgauging can raise already strong domestic margins while improving customer satisfaction

- Delta's network restructuring and product investments have already produced domestic margins among the best in the industry
- Best domestic network for upgauging
  - Scale allows more efficient handling of flow traffic
  - Hubs sufficiently spread out to avoid overlap
  - Low airport cost per enplanement
  - Strong local market position
  - High operational reliability
- Measured fleet investment has set up a unique opportunity to benefit from newer-generation aircraft
- Large narrowbody aircraft offer significant margin advantages



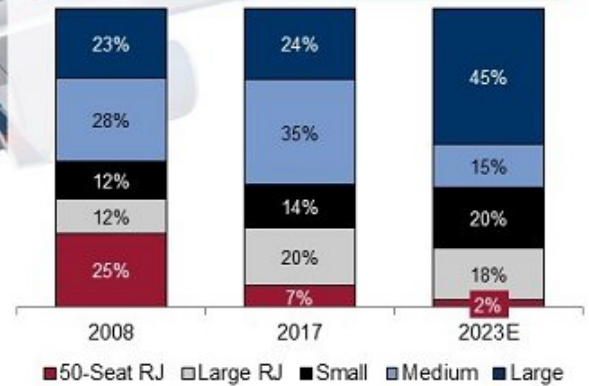


## Taking Upgauging into the Next Decade

- 100 A321neo aircraft to be delivered from 2020-2023, building on Delta's large narrowbody advantage well into the next decade
- New engine technology and larger gauge results in 40% fuel savings over existing MD88s
- Advantageous Pratt maintenance deal offers additional value



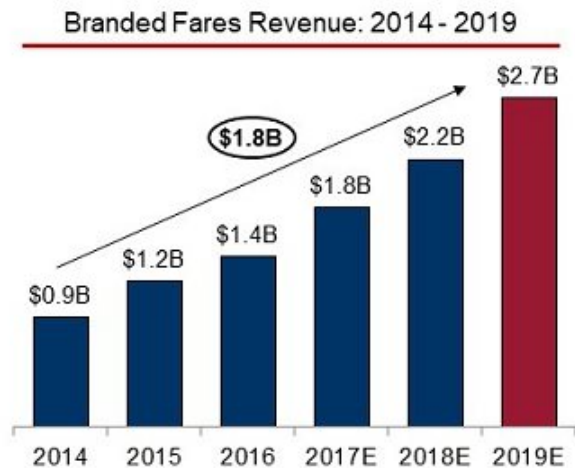
Domestic Seat Departures by Aircraft Type



## Leading the Industry in Offering our Customers a Tailored Travel Experience

Continuing to execute on the five-cabin strategy

- On track for \$2.7 billion in segmentation revenue by 2019
  - \$400 million of incremental benefit in 2018
- Expect First Class and Comfort+ seats to grow mid-single digits for next several years
  - Premium cabins produce 5 – 8 point higher average margin than Main Cabin
  - Comfort+ revenue is growing ~30% in 2017
- Basic Economy to be available across the entire system by end of 2018
  - Continuing to optimize the offering domestically
  - Basic Economy available on more than 50% of Delta flights from North America to Europe
  - Air France-KLM introducing similar product



# Taking Segmentation to the Next Level

## Premium Select gives Delta more flexibility and capital efficiency

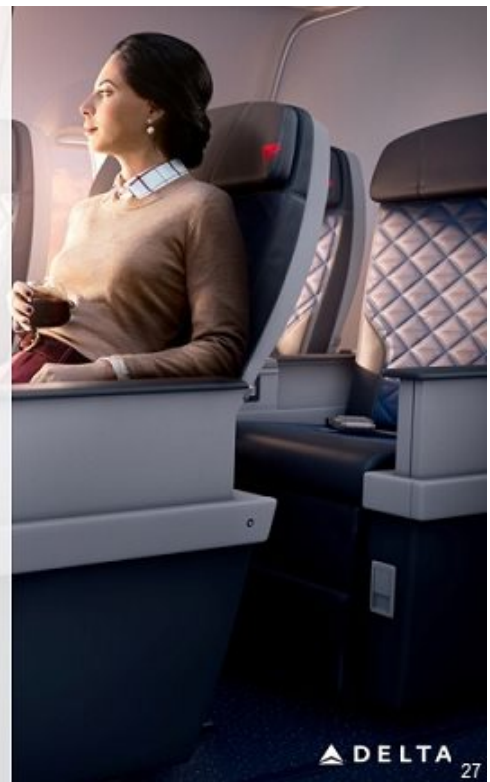
Previous

Current

Outbound: JFK-KEF	
New York Kennedy, NY to Reykjavik, Iceland	
Delta Price: \$4,000   \$500   \$5,000 + CASH	
SORT BY: Best Match   TOTAL PRICE (ROUND TRIP)   Per Passenger   Compare Experiences	
Saturday, October 06, 2018 1 Passenger Round trip price includes taxes and fees. Additional baggage fees may apply.	
9:04 AM - 6:45 PM Sun 10/07	1503 <sup>00</sup>
1503 <sup>00</sup>	1,912 <sup>00</sup>

Outbound: JFK-KEF	
New York Kennedy, NY to Reykjavik, Iceland	
Delta Price: \$4,000   \$500   \$5,000 + CASH	
SORT BY: Best Match   TOTAL PRICE (ROUND TRIP)   Per Passenger   Compare Experiences	
Saturday, October 06, 2018 1 Passenger Round trip price includes taxes and fees. Additional baggage fees may apply.	
9:04 AM - 6:45 PM Sun 10/07	1503 <sup>00</sup>
1503 <sup>00</sup>	1,912 <sup>00</sup>

The same seat is now marketed as First Class domestically and Premium Select internationally, enabling greater fleet flexibility





## Building a World-Leading Network of Carriers

Delta has the best partner network in the top U.S. international markets, giving our brand greater relevance and our customers more choice

- Makes Delta the #1 or #2 carrier in 8 of the top 10 international markets from the U.S.

Top 10 Markets from U.S. by Industry Revenue



## Leveraging the Power of Commercial Relationships: An Example

Through our joint venture with Korean Air, Delta will gain greater Asia coverage than ever before, using fewer aircraft than six years ago

- Profit sharing joint ventures align economic incentives across carriers
- Customers can connect through Seoul Incheon, the most efficient connecting hub in Asia, as Delta and Korean work to provide a seamless experience
- Joint venture with Korean will provide greater access to Asia with fewer aircraft committed by Delta



2012

10 Asia Destinations  
36 Delta Aircraft  
Served from Delta's Tokyo Narita hub



2018

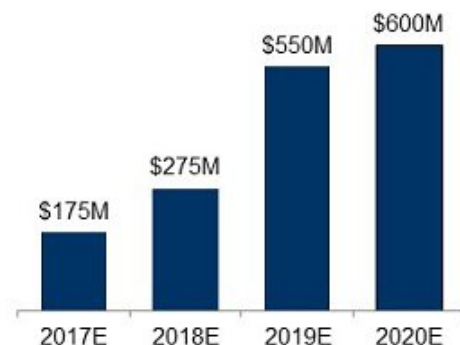
80 Destinations Beyond Seoul  
32 Delta Aircraft  
Served in Joint Venture with Korean Air

## Delta's Partnerships Create Tangible Value

Leveraging our global relationships to create value for all stakeholders

- Delta expanded its international franchise in 2017
  - Implemented a joint venture and completed the purchase of 49% of Aeromexico
  - Signed a JV agreement with Korean Air and announced plans for a joint venture with WestJet
  - Invested in JV partner Air France-KLM and working toward a single Atlantic JV between Delta, Air France-KLM and Virgin Atlantic
- With investments made, we are set to reap the benefits for years to come
  - \$2 billion balance sheet asset in addition to commercial value
- Continuing to build new relationships and deepen existing ones to create value beyond 2020
  - Product harmonization (e.g. GOL + Conforto)
  - Leveraging joint technology (e.g. Air4)

Alliance Benefits (vs. 2016)



## Driving Top-Line Growth

Building  
Customer Loyalty

Investing In  
Product and Service

Better Customer  
Segmentation

Superior  
Domestic Network

Leading Partners  
Around the World

+

200M Customers



Culture of Service



Sustainable  
Competitive  
Advantage  
and Revenue  
Premium



## **America's Best Run Airline**

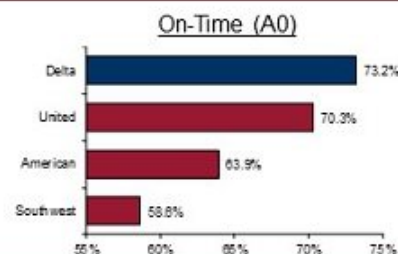
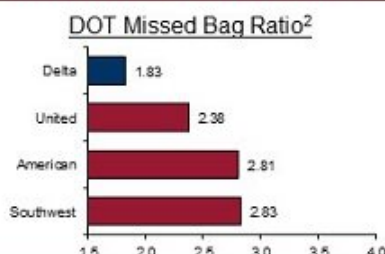
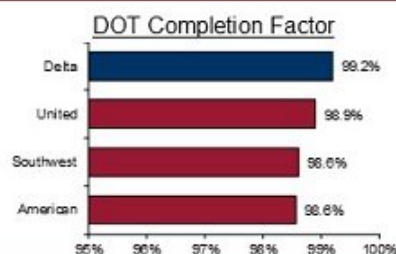
Gil West

Chief Operating Officer

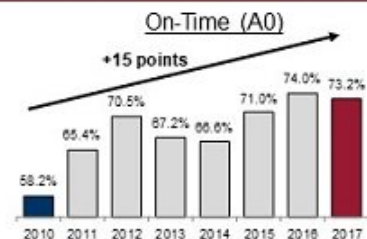
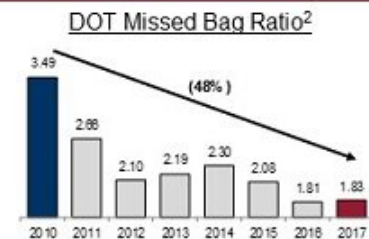
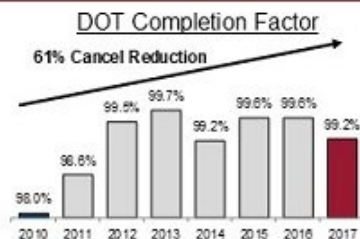


# Delivering Top Tier Performance and Continuous Improvement

## November YTD Performance<sup>1</sup>



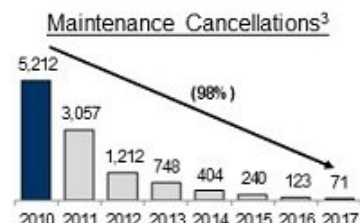
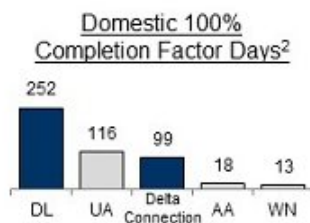
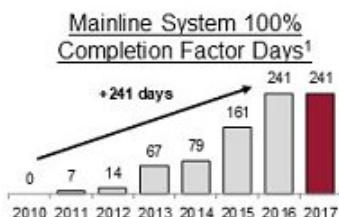
## Long Term Trends<sup>1</sup>



1. Preliminary 2017 figures; actual results pending. DOT Completion Factor and On-Time (A0) from FY 2010-2016; YTD November 2017.  
2. DOT Missed Bag Ratio from FY 2010-2016; and YTD October 2017.

## Continuing to Set the Bar

- Achieved new records in 2017 for consecutive cancellation-free days for both mainline system (50 days) and maintenance (84 days)
- Managing complexity through investments in innovation and reliability
  - IROP recovery / constraint management
  - GA Tech development center
  - Superior execution, skill and flexibility
  - Big Data / predictive maintenance
  - Vertical integration within maintenance (e.g. MRO)



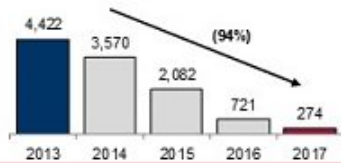
1. FY 2010 – 2016, FY 2017 based on YTD November actuals and December projection  
 2. Domestic 100% CF days LTM September 2017  
 3. FY 2010 – 2016, YTD November 2017 results

## Raising the Bar for Delta Connection

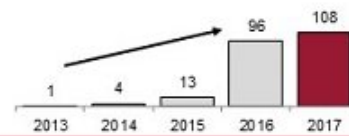
- Leveraging innovation to drive improved performance for Delta Connection
  - Enhance technology to support predictive maintenance
  - TechOps spare parts inventory management
  - Tactical use of crew rest and duty period buffers
  - Expanded IT infrastructure audits to reveal risks that could pose threats to Delta operations



Delta Connection Maintenance Cancellations<sup>1</sup>



Delta Connection 100% Completion Factor Days<sup>2</sup>

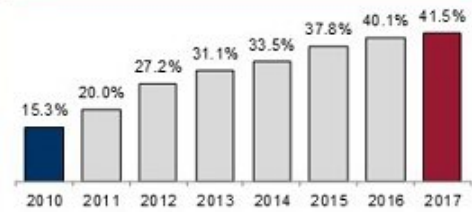


1: FY 2013 – 2016, YTD November 2017 results  
2: FY 2013 – 2016, FY 2017 based on YTD November actuals and December projection

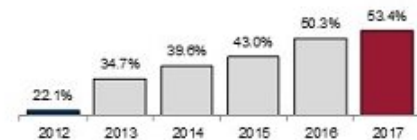
## Investments in Customer Experience Driving Results



### Domestic Net Promoter Score<sup>1</sup>



### Flight Attendant Interaction NPS<sup>1</sup>



1: FY 2010 - 2016 and YTD October 2017 results

## Driving Continuous Improvement Through Innovation



### People

- Maintaining a culture of safety
- Investing in core customer curriculum focused on customer-centric view, based on behavioral approach
- Transitioning from rules based to values based culture
- Giving back to the communities we serve



### Process

- Maximizing A0 opportunity
- Optimizing IROP performance and developing solutions to improve Service Recovery
- Driving block and turn time efficiency
- Enhancing Delta Connection performance to Mainline standards



### Technology

- Modernizing the airport experience with biometrics, RFID expansion, CLEAR, TSA innovation
- Invest and develop modern database to optimize operation
- Expanding machine learning and artificial intelligence
- Enhancing onboard experience: 2Ku Wi-Fi and meal pre-selection





# Generating Leading Shareholder Returns

Paul Jacobson

Chief Financial Officer

## Generating Leading Shareholder Returns

Disciplined cost structure and balanced capital deployment are the foundation for long-term, sustainable financial results

### Disciplined Cost Approach

- Investments pressured costs in 2017, expected to drive benefits in 2018 and beyond
- Non-fuel unit cost growth is expected to be below 2% over the long term

### Investing for the Long Term

- Reinvesting ~50% of operating cash flow to support fleet, product and technology initiatives
- Investments are high return opportunities to drive long-term value for shareholders

### Balanced Capital Deployment

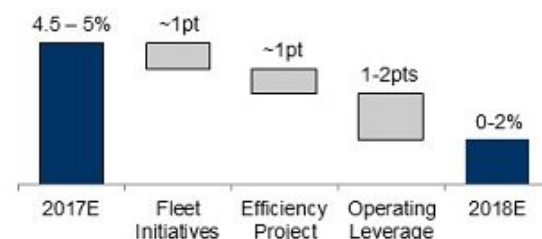
- Harnessing the power of investment grade balance sheet
- Committed to returning 70% of free cash flow to shareholders

## Addressing Non-Fuel Costs Should Bring 2018 Growth Below 2%

Targeted investments, capacity actions put heightened pressure on 2017 costs

- 2017 unit cost growth driven by targeted investments, but unsustainable long term
  - Pressures from employee investment (1.5 pts), fleet initiatives (1.5 pts) and product investment (~1 pt)
- 2018 unit cost growth expected to return to more normalized 0-2% as investments drive productivity benefits
  - Fleet initiatives expected to drive savings in maintenance, depreciation and aircraft rent
  - Cross-divisional project focused on doing business more efficiently to drive \$200 million in 2018 and \$1 billion annually by 2020
  - Operating leverage benefits from 1-2 points higher growth than 2017
- Nearly all non-fuel expense growth occurs in first half of year
  - Annualization of 6% employee wage increase in 2Q
  - Maintenance timing driven by summer schedule
  - Lapping accelerated depreciation on fleet

2017 versus 2018 Year-over-Year  
Non-Fuel Unit Cost Growth

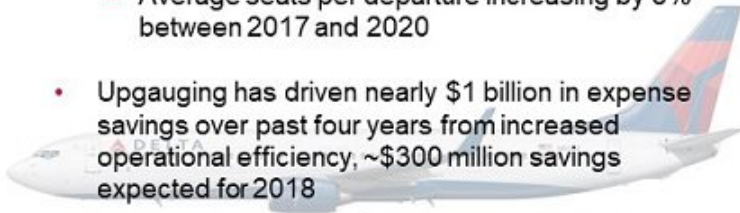


Note: Adjusted for special items; non-GAAP financial measures reconciled in Appendix

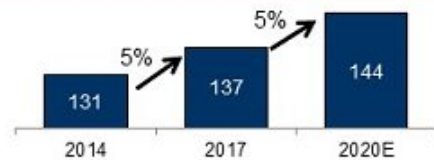
## Fleet Transformation Will Drive Substantial Efficiency Gains

Delivery of ~60 new aircraft in 2018 enables significant savings

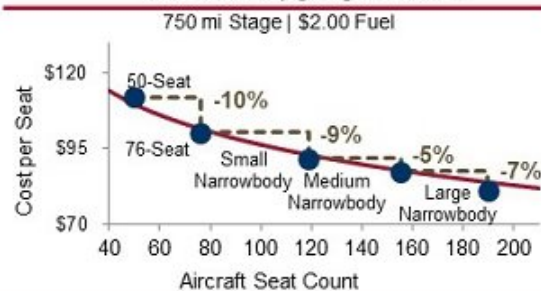
- Efficient capacity production drives margin expansion and unit cost productivity
  - Average seats per departure increasing by 5% between 2017 and 2020
- Upgauging has driven nearly \$1 billion in expense savings over past four years from increased operational efficiency, ~\$300 million savings expected for 2018
  - Expected to drive \$200 million or ~2% fuel efficiency gain – replacing 747s, 50-seaters and MD88/90s with fuel efficient A350s, A321s and 737-900s



Average Aircraft Gauge



Unit Cost Upgauge Benefit





## Driving Enterprise-Level Efficiency

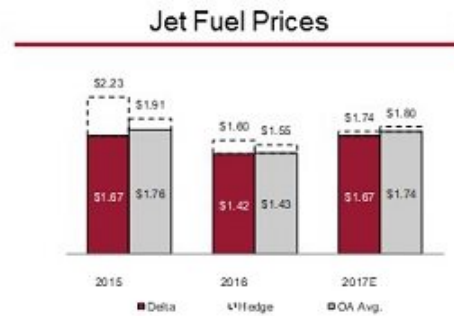
- Opportunity to drive greater efficiency across \$26 billion non-fuel cost base
- Cross-divisional initiative will reduce complexity and create better experience for customers at a lower total cost for Delta
  - Effort expected to reduce expenses by \$200 million in 2018 and \$1 billion over long term
- IROP task force formed following April storms provided test case
  - Additional opportunities including training, hotel/transport, logistics and network-related expenses



## Fuel Prices Driving 2018 Pressure But Remain Relatively Stable

Leveraging refinery and inventory management strategies to drive relative fuel price advantage

- Market jet fuel prices expect to remain range bound between \$50-\$65 per barrel with forward curve flat into 2018



- Delta currently has no fuel hedges
  - Relative fuel price advantage at refinery has been masked by now expired legacy hedge losses
  - This advantage has averaged ~5¢ per gallon – equates to \$200 million or 0.5 margin points

Note: Adjusted for special items; non-GAAP financial measures reconciled in Appendix

## Continuing Balanced Capital Allocation in 2018

Balancing cash flows between investment in business, balance sheet and shareholders

### Reinvest In The Business

- Capital spending targeted ~50% of operating cash flow
- Allows for replacement of ~30% of Delta's mainline fleet from 2017-2020
- Provides for continued investment in technology improvements

### Strengthen The Balance Sheet

- Investment grade rating from all three ratings agencies
- \$500 million per year in voluntary pension funding through 2020
- Balance sheet progress will allow Delta to shift cash from debt and pension funding to pay cash taxes
- Maintain investment grade balance sheet

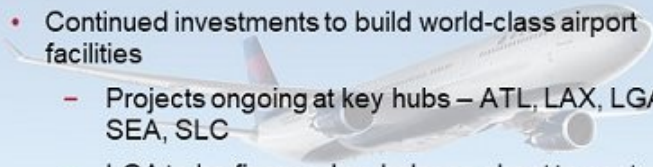
### Return Cash To Shareholders

- Expect to return 70% of free cash flow to shareholders
- Delta has now returned \$10 billion and repurchased ~16% of the outstanding shares of the company since 2013 while reducing debt
- Long-term target to return 20-25% of free cash flow to shareholders through dividends

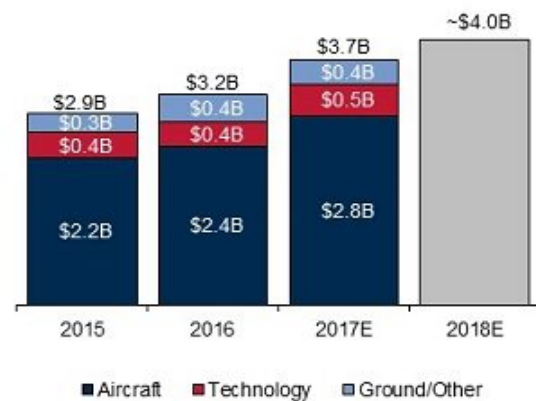
## Investing in the Business for the Long Term

Core capital spending targeted at ~50% of operating cash flows

- Capital investments in 2018 will focus on refueling, product upgrades and seat density
- Continued investments to build world-class airport facilities
  - Projects ongoing at key hubs – ATL, LAX, LGA, SEA, SLC
  - LGA to be financed on-balance sheet to capture improved economics; capital expenditures will be separately reported
- Investing \$450 million in technology infrastructure to improve operational reliability and grow digital footprint
- Flexibility built into ~50% of planned non-aircraft capital spending



Capital Spending



Note: Adjusted for special items; non-GAAP financial measures reconciled in Appendix

## Harnessing the Power of an Investment Grade Balance Sheet

Stronger balance sheet provides access to lower cost financing, more business flexibility

- Provided path to \$2 billion earnings-accretive accelerated pension funding
  - Issued unsecured debt in March at 3.3% blended rate
  - Proceeds have produced double-digit returns, further improving funded status
  - Completed all minimum required funding through 2024, increasing cash flow flexibility
- Issued \$450 million in unsecured debt in November at 2.6%, 78 bps over Treasury
- Improving vendor terms creates incremental \$300 million of working capital
- Building an unencumbered asset base – Delta currently has ~\$10 billion of readily financeable unencumbered assets

Total Adjusted Net Debt



Total Unfunded Pension



*Note: Adjusted for special items; non-GAAP financial measures reconciled in Appendix*

## Balance Sheet Strategy Precursor to Resuming Cash Taxes

Debt and pension flexibility allows for resumption of cash taxes while preserving shareholder returns

### Debt Target

- Remain committed to debt reduction and maintaining investment grade balance sheet

### Pension

- Pension expected to be greater than 80% funded by 2020
  - \$500 million voluntary contribution per year 2018-2020, but no minimum required funding through 2024

### Cash Taxes

- Cash taxes expected in 2019 after exhausting remaining NOLs
  - Cash tax rate ~10 points lower than book rate
  - Tax reform, if enacted, will provide a significant benefit

### Shareholder Returns

- Continue to target returning ~70% of free cash flow to owners



## Implications of Tax Reform

Both House and Senate proposals would have a significant positive impact on Delta

- Current proposals are expected to result in the following:
  - Delta's all-in book tax rate would reduce to 22-24% including state tax
    - Potential to increase 2018 EPS by \$1.00 - \$1.25
  - NOLs could extend through 2019 with payment of cash taxes in 2020
    - Cash tax rate would be ~12-15%
  - One-time charge of \$150 - 200 million to tax expense

### Rate Impact

- Permanent reduction of corporate tax rate from 35% to 20%

### Increased Expensing

- Immediate expensing of capital investments could extend NOLs into 2020

### Interest Deductibility

- Material limitation on deductibility of net interest expense is not expected

- Right Combination of Strategic Advantages
- America's Best Run Airline
- Revenue-Driven Earnings Growth in 2018
- Consistent Financial Performance



**BUILT TO LAST**

## Non-GAAP Reconciliations

# Non-GAAP Reconciliations

## Non-GAAP Financial Measures

Delta sometimes uses information ("non-GAAP financial measures") that is derived from the Consolidated Financial Statements, but that is not presented in accordance with accounting principles generally accepted in the U.S. ("GAAP"). Under the U.S. Securities and Exchange Commission rules, non-GAAP financial measures may be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. The tables below show reconciliations of non-GAAP financial measures used in this presentation to the most directly comparable GAAP financial measures.

**Forward Looking Projections.** While we are able to reconcile forward looking non-GAAP financial measures related to 2017, we do not reconcile future period measures (i.e., beyond 2017) because mark-to-market ("MTM") adjustments and settlements will not be known until the end of the period and could be significant.

## Pre-Tax Income, Adjusted

We adjust for the following items to determine pre-tax income, adjusted, for the reasons described below:

*MTM adjustments and settlements.* MTM adjustments are defined as fair value changes recorded in periods other than the settlement period. Such fair value changes are not necessarily indicative of the actual settlement value of the underlying hedge in the contract settlement period. Settlements represent cash received or paid on hedge contracts settled during the period. These items adjust fuel expense to show the economic impact of hedging, including cash received or paid on hedge contracts during the period. Adjusting for these items allows investors to understand and analyze our core financial performance in the periods shown.

*Virgin Atlantic MTM adjustments.* We record our proportionate share of earnings from our equity investment in Virgin Atlantic in non-operating expense. We adjust for Virgin Atlantic's MTM adjustments to allow investors to understand and analyze the company's core financial performance in the periods shown.

(in billions)	(Projected) Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
GAAP	~\$5.8	\$ 6.6	\$ 7.2
Adjusted for:			
MTM adjustments and settlements	(0.3)	(0.4)	(1.3)
Virgin Atlantic MTM adjustments	—	(0.1)	—
Total adjustments	(0.3)	(0.5)	(1.3)
Non-GAAP	~\$5.5	\$ 6.1	\$ 5.9

# Non-GAAP Reconciliations

## Operating Margin, adjusted

We adjust for the following items to determine operating margin, adjusted, as described below. Adjusting for these items allows investors to understand and analyze our core operational performance in the periods shown.

*MTM adjustments and settlements.* MTM adjustments are defined as fair value changes recorded in periods other than the settlement period. Such fair value changes are not necessarily indicative of the actual settlement value of the underlying hedge in the contract settlement period. Settlements represent cash received or paid on hedge contracts settled during the period. These items adjust fuel expense to show the economic impact of hedging, including cash received or paid on hedge contracts during the period.

*Refinery sales.* Delta's refinery segment provides jet fuel to the airline segment from its own production and from jet fuel obtained through agreements with third parties. Activities of the refinery segment are primarily for the benefit of the airline. However, from time to time, the refinery sells fuel by-products to third parties. These sales are recorded gross within other revenue and other operating expense.

	(Projected) Year Ended December 31, 2017
Operating margin	~15.0%
Adjusted for:	
MTM adjustments and settlements	(0.7)%
Refinery sales	0.2%
Operating margin, adjusted	~14.5%

	(Projected) Three Months Ended December 31, 2017
Operating margin	~12%
Adjusted for:	
MTM adjustments and settlements	~(1)%
Operating margin, adjusted	~11%



## Non-GAAP Reconciliations

### Average Fuel Price Per Gallon, Adjusted

We adjust for MTM adjustments and settlements to determine average fuel price per gallon, adjusted for the same reason described above under the heading Pre-Tax Income, adjusted.

	(Projected) Three Months Ended December 31, 2017
Average fuel price per gallon	\$ 1.84 - 1.86
MTM adjustments and settlements	0.08 - 0.11
Total fuel price per gallon, adjusted	\$ 1.92 - 1.97

	(Projected) Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Fuel purchase cost	\$ 1.67	\$ 1.42	\$ 1.67
Airline segment fuel hedge gains	—	0.07	0.23
Average fuel price per gallon	\$ 1.67	\$ 1.49	\$ 1.90
MTM adjustments and settlements	0.07	0.11	0.33
Total fuel price per gallon, adjusted	\$ 1.74	\$ 1.60	\$ 2.23

# Non-GAAP Reconciliations

## Non-Fuel Unit Cost or Cost per Available Seat Mile ("CASM-Ex")

We adjust CASM for the following items to determine CASM-Ex, for the reasons described below:

*Aircraft fuel and related taxes.* The volatility in fuel prices impacts the comparability of year-over-year financial performance. The adjustment for aircraft fuel and related taxes (including our regional carriers) allows investors to better understand and analyze our non-fuel costs and year-over-year financial performance.

*Other expenses.* Other expenses include aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations and refinery cost of sales to third parties. Because these businesses are not related to the generation of a seat mile, we adjust for the costs related to these sales to provide a more meaningful comparison of the costs of our airline operations to the rest of the airline industry.

*Pilot contract impact, normalized.* Delta's new pilot contract was ratified on December 1, 2016 and was retroactive to January 1, 2016. As a result, Delta recognized \$380 million in retroactive wages and other benefits in the December 2016 quarter that were related to previous quarters.

	(Projected) Three Months Ended December 31, 2017	Three Months Ended December 31, 2016
CASM (cents)	14.81 - 14.91	14.37
Adjusted for:		
Aircraft fuel and related taxes	(2.94)	(2.54)
Other expenses	(0.75)	(0.58)
CASM-Ex	11.12 - 11.22	11.25
Adjusted for:		
Pilot contract impact, normalized	—	(0.65)
CASM-Ex, adjusted for pilot contract impact, normalized	11.12 - 11.22	10.60
Year-over-year change	Up 5.0 - 5.5%	

	(Projected) Year Ended December 31, 2017	Year Ended December 31, 2016
CASM (cents)	13.72 - 13.82	12.98
Adjusted for:		
Aircraft fuel and related taxes	(2.64)	(2.38)
Other expenses	(0.56)	(0.47)
CASM-Ex	10.52 - 10.62	10.13
Profit sharing per ASM	(0.42)	(0.44)
Change excluding profit sharing	10.10 - 10.20	9.69
Year-over-year change	Up 4.5 - 5%	

# Non-GAAP Reconciliations

## Capital Spending, Adjusted

Delta presents capital spending, adjusted, which in 2016 includes the proceeds for sale of E190 aircraft because management believes investors should be informed that these proceeds effectively offset the cash paid for these aircraft earlier in the year.

(in billions)	Year Ended December 31, 2016	
Flight equipment, including advance payments	\$	2.6
Ground property and equipment, including technology		0.8
Proceeds for sales of E190 aircraft		(0.2)
Capital Spending, Adjusted	\$	3.2

## Adjusted Net Debt

Delta uses adjusted total debt, including aircraft rent, in addition to long-term adjusted debt and capital leases, to present estimated financial obligations. Delta reduces adjusted debt by cash, cash equivalents and short-term investments, and hedge margin receivable, resulting in adjusted net debt, to present the amount of assets needed to satisfy the debt. Management believes this metric is helpful to investors in assessing the company's overall debt profile. Management has reduced adjusted debt by the amount of hedge margin receivable, which reflects cash posted to counterparties, as we believe this removes the impact of current market volatility on our unsettled hedges and represents the continued progress we have made on our debt initiatives.

(in billions)	(Projected) December 31, 2017	December 31, 2016	December 31, 2014	December 31, 2009
Debt and capital lease obligations	\$ 9.0	\$ 7.3	\$ 9.7	\$ 17.2
Plus: unamortized discount, net and debt issuance costs	0.1	0.1	0.2	1.1
Adjusted debt and capital lease obligations	\$ 9.1	\$ 7.4	\$ 9.9	\$ 18.3
Plus: 7x last twelve months' aircraft rent	2.4	2.0	1.6	3.4
Adjusted total debt	11.5	9.4	11.5	21.7
Less: cash, cash equivalents and short-term investments	(2.4)	(3.2)	(3.3)	(4.7)
Less: hedge margin receivable	—	(0.1)	(0.9)	—
Adjusted net debt	\$ 9.1	\$ 6.1	\$ 7.3	\$ 17.0

