

CONVERSATIONS WITH MIKE MILKEN



Ed Bastian
CEO, Delta Air Lines

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Mike Milken: Ed, thank you for joining us.

Ed Bastian: Pleasure to be with you Mike.

Before the coronavirus, Delta was visiting 50 countries or more, 800 airplanes serving 200 million passengers on an annual basis, with 90,000 employees. You've adjusted that footprint dramatically during this coronavirus. Let me start with a simple question that I know you think about every day. When can consumers fly again with confidence and safety?

In my opinion, consumers can fly with confidence and safety today. In fact, we are flying currently 45,000 to 50,000 customers a day on our network. We have taken extraordinary measures to improve the overall quality of the experience. The planes are sanitized. They are fogged before every flight. We have cap[acity] load factors at 60% to provide for distance or space on board our planes, and we've made that a hard commitment. We board from the back to the front so people don't need to worry about passing in front of people. We've really adjusted a lot of the amenities and we're requiring masks on board our planes. The reason I go through all those steps is that security and safety is our DNA. That's our core of our franchise. We are taking the same

This interview has been lightly edited for clarity and readability.

measures towards the personal safety of our customers on board our planes, just as we do the flight safety of the experience. Multi, multi layers of protection for the safety of the flight and multi, multi layers of protection for the safety of the customer.

You had 90,000 employees in January. How many employees do you have today?

I'm proud to say, Mike, we still have 90,000.

Obviously, your first effort here was not only the safety and convenience of passengers, but the safety of your own employees. How have you interacted with them as you've kept all your employees in place during the last few months?

The reason we've been able to keep our employees in place was the incredibly strategic decision-making that our federal government leaders displayed when they approved the CARES Act. The president, his administration, Secretary Mnuchin and bipartisan support

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on the Hill, they saw the importance of the airline industry to the restart of our economy. We're a country that is based on mobility and freedom of movement, and we need to make certain that the airlines are in position when the economy is ready to start back up again. They gave us the funding in the payroll-support program to be able to keep our employees in place for the next six months, and not to take any pay rate reductions for the next six months. To have

time to understand the full scope of the pandemic: what the advances will be on the scientific side and the vaccines, and what the duration of this will be so that we don't make any knee-jerk decisions or reactions to the fact that our revenues are at historic lows.

We're operating today at maybe only about 10% of our normal revenue stream. The employees are appreciative of the government support. They're appreciative of the airline, what we're doing to keep them engaged. Many of them actually have taken voluntary leaves of absence while they're still employed with the airline. About 40,000, almost half our staff, have taken voluntary leaves without pay for anywhere from 30 days to a year, realizing that we are in a cash crisis despite the payroll-support program, which is a finite amount that will run out at some point. Our team is doing an amazing job. We always like to say, we've got the best employees in the industry, and this crisis is certainly showing us that.

You have created an unusual relationship with your employees by making them partners. If I remember correctly, the employees receive 15% of the profits of the company. It's based on what happened the previous year. 2019 was a great year and the employees were due a great deal of money in the first quarter. What happened? Why did you set up that arrangement? How have the employees responded? Has it worked for you?

Oh, absolutely. After 9/11, which we all thought was the great crisis of our lifetime, little did we know the pandemic was going to make that look like a relatively modest speed bump to our industry. The U.S. airline industry was in fairly deep trouble and many of the airlines went through a restructuring process, including Delta, in the early two thousands. We had to take some pretty significant pay reductions. There were significant job losses across the board. We made the commitment at that point that when we got our company back on its feet and we started to make profits again, the people who made the biggest sacrifice, which were the employees themselves, would receive the first fruits and the returns on those efforts. That's when we put in the profit-sharing plan in 2005.

When we got the business turned around a couple of years after that, we were able to generate substantial sums through the profit-sharing arrangement. We always pay it on Valentine's Day, and this past February we paid our 90,000 employees \$1.6 billion. It was the equivalent of a 16% bonus. That goes only to the frontline workers. None of the management members participate in that. We celebrated that day; it seems like it's a long time ago at this point, but you know I still smile when I think about that. It was the biggest profit-sharing payment in our history and the airline industry history. Candidly, we've not found a bigger one in corporate America. It's been running in that range – \$1 billion to \$1.5 billion each of the last four or five years. The employees know that when we're in a difficult time now, we're not going to pay profit sharing this year. When times are good, we celebrate; when times are tough, we sacrifice together.

“[In 2005], we made the commitment that when we got our company back on its feet and we started to make profits again, the people who made the biggest sacrifice, which were the employees themselves, would receive the first fruits. This past February we paid our 90,000 employees \$1.6 billion; it was the equivalent of a 16% bonus. When times are good, we celebrate; when times are tough, we sacrifice together.”

In the late sixties, early seventies, we initiated the creation of what was called Airline Equipment Certificates, which were modeled after the railroads. If a company got into

financial trouble, you still had your asset – a large percentage of all the railroads in America had gone bankrupt in the 1940s, fifties, and sixties. It helped finance that industry. Harold Geneen, who had built a company called ITT and became a management guru in the process, often said leadership can make a lot of mistakes, but one of the mistakes they cannot make is running out of money. I know you and your team have done a number of things to shore up the financial position of Delta, to make sure that not only you sustain yourself but you can come back to full operations. How has that process worked internally over the last three to four months?

Second only to the protection of the safety and the wellbeing of our people and our customers, the next area that we focused on is the protection of our cash and our liquidity. Fortunately, as we went through the last decade, we were very disciplined on our financial strategy. We made certain that we paid our debt levels down. We were able, in 2015, to regain investment-grade status again after going through a bankruptcy less than 10 years earlier, which is quite a feat. I think there is only one other investment-grade airline in the country – that's Southwest Airlines – which has been able to maintain it. We had earned back credibility on Wall Street and the confidence that the business plan and the management team executing the plan were running it with the proper set of financial objectives. We went into this crisis that we're now in in a strong way as a result. We were able to raise over the last 60 days, probably close to \$10 billion, in the markets and fresh money, as well as draw down credit lines.

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We are still actively raising some additional funds in the current quarter. At the end of June, we anticipate having about \$14 billion in the bank. It sounds like an awful lot of money, but the reality is our cash burden has also been significant given that we don't have a lot of revenue coming in the door. We're going to stay ahead of this crisis. You know, Mike, the time you don't want to be raising money is when you need it. So we're going to raise as much as we can before we absolutely need it. We want to make sure we go through the winter with plenty of cash in the bank and get out the other side when the virus is at a level that's contained and people feel confident they can start to travel and move at scale.

It's going to take undoubtedly two to three years before you'll see air traffic get back to anything close to what we saw last year, because there will be a lot of damage in the

airline industry as a whole. But this is a time when airlines' decisions matter for the long-term. We're going to be prudent. We're going to be cautious. But we're also going to be aggressive and making sure that we're protecting our future, so when customers are ready to travel you can be certain that Delta is going to be ready to take them.

Ed, we hope that you'll be back to normal much quicker than two to three years. I myself, and the entire 10 centers in the Milken Institute and our medical foundations around the world, are working very hard, as is the entire bioscience community, to have a solution for this virus as soon as possible. One of the things that I don't think people realize is that it's quite possible from a financial standpoint that Delta was in the strongest position it had ever been in its history ending 2019. That not only allowed you to put yourself in this position to raise capital and make sure you have financial resources, but that financial strength allowed you to deploy safety measures to benefit both your own family of workers and customers.

One of the things that happens during these crisis is a chance to look at how you operate, what you're doing? If you have the financial wherewithal, can you accelerate plans? And how have your own employees contributed to your innovation going forward, as to how you're going to run your operations?

“The state of the country's airports are overcrowded and underinvested in historically. We are in the middle of a massive \$15 billion reinvestment. We are taking advantage of all the businesses at a lull to accelerate the investment. Hopefully by the end of 2022, early 2023, you'll have a completely new airport experience.”

I've talked about protecting our people and our customers, protecting our cash. The third P in our strategy is protecting our future and looking for areas where we can actually pull our future forward. One of the challenges we have in our industry is infrastructure. The state of the country's airports are overcrowded and underinvested in historically. At Delta, we are in the middle of a massive re-investment of \$15 billion to rebuild LAX, LaGuardia, Salt Lake City, Minneapolis, Detroit and Atlanta. We've got massive investments going on, but the challenge

with doing all those builds is that we're having to build and operate at the same time we're at peak capacity. We are taking advantage of all the businesses at a lull to accelerate the investment in the airport infrastructure space. We can actually pull the timelines in to get those airport projects complete. LAX desperately needs better facilities. We thought we would take five to six years to get it done. Hopefully by the end of 2022, early 2023, you'll have a completely new airport experience terminal – terminal 2, terminal 3 at LAX will be state-of-the-art. It's going to be fabulous. We're

doing the same thing at LaGuardia airport. Not only are you pulling your future forward, you're able to cut a lot of cost out because in construction time is money. That's one area that we're spending a lot of time accelerating and not pulling back from, but actually stepping into our future.

Technology is another area where we run large volumes of people, 200 million customers a year, through big technology applications. While the usage of the technology is down, it allows us to get a lot more technology development, implementation and faster in our digital experience.

On the other question you asked about, our people, I've got an open door with my employees. I hear from my employees constantly, whether it's email or text, as well as customers or anyone else. I don't try to hide from them. I actually embrace their feedback. I had a flight attendant about a month ago sent me a note, 'shouldn't we board the planes from the back first?' My initial reaction was well that doesn't make a lot of sense. We only have a handful of high-paying customers and I don't want to upset those that we've got left. But as I thought about it through her lens and through the lens of customers and safety, I said, she makes absolute perfect sense. I met with my management team that next morning and we talked about it, and we implemented it the next day. Now what you see is all the airlines have followed our lead because of that one flight attendant that sent me that email. Everybody's boarding from the back of the airplane to the front in order to avoid people walking by and coming in contact with people sitting in front and actually board our first class cabin last. Just a very simple illustration of how we take employee feedback and we put it to use; it's changed how an industry is operating. Now that's not going to last forever, but certainly it's going to last for the next year or so until we were to a position where our business is fully back to normal.

In terms of your interaction with other airlines, has there been increased interaction? In the bioscience area, biotech, pharma, academic research centers around the world, you have an environment really that has never existed before. Companies open their patents to allow others to manufacture their product. Generic manufacturers, you've seen that with Gilead. Partnership on chemical compounds that are held by different pharma biotech companies. Cooperation, such as the vaccine developed in Oxford University where AstraZeneca announced they would manufacture 30 million doses. And now the United States BARDA [Biomedical Advance Research and Development Authority] is also participating. What has the cooperation been like between companies in the industry? And it's not just the airlines you interact with. Obviously, you're interacting with hotels, ground transportation and rental car companies. Has this interaction increased as people continue to look for solutions, not only to make their own employees save, but also so that the traveler will feel safe?

That's a great point. I'm constantly struck by the time we're living in; that as we are supposed to be isolating in place and keeping our distance from one another, I think it has brought so many people closer than ever. You talk about the great work and collaboration going on in the scientific field, and it really warms my heart to hear that. We're doing the same thing in our industry. The airlines together are trying to make as

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many of these safety protocols and measures uniform. We don't compete on safety in our business. We share learnings, we share details. None of us can afford to have anything go wrong. Something that happened at one of my competitors could impact my customer's perception of the safety of our product.

We think about the difference between the airlines and the automotive companies. The autos would compete around safety and quality and that's something we decided years ago we

wouldn't do. As a result, you see the safety of our experience. The safest form of transportation in the world is within the U.S. aviation system of any form of transportation. We're taking that same basis to this crisis. First thing we did is that all the CEOs spent an enormous amount of time in March together. We were on the phone many times a day, every day.

We're now working with TSA as to how to accommodate the distancing requirements, going through a security screen. When you think about TSA, it was an agency born after 9/11. There will certainly be agencies and protocols born from this pandemic. But one of the things that TSA does is they run everything counter to social distance. Their role in life is to slow people down, to scan them, to touch them, pat them down, to make certain there's nothing that's going to challenge the physical security of the people or the flight. But in a world of a pandemic, they have to do it little more sensitively and rethink how they're screening to make certain that they're not scaring people or making people not want to fly. We've been working closely as an industry with the TSA administrator and making changes and trying to help him through the process because that has big impact on our customer's confidence in travel.

One of the things that we recommended just last week is temperature screens. While there's a lot of debate as to the efficacy of temperature screens – if that's going to be a detector or if it's already too late for the virus – the reality is if someone has a temperature or fever they shouldn't be flying. I think we can all agree on that. Trying to

screen out whomever there is, and then have that as part of the TSA process without going through a big manual effort, I think they could do it pretty rapidly and pretty consistently.

So we're working well as an industry. We all made the same statement to require masks on board our planes a couple of weeks ago. Unprecedented that the industry stood forward as one on a public hygiene standard like that. And we'll continue. We stay in close touch with each other to make certain that anything that we do can re-inspire travel, not just within the airline industry, but across the hospitality sector. [We're] talking a lot to the hotels, to Disney, to the casinos, to the theme, parks, to the cruise lines, because we realize no one's going to travel just for the sake of travel. They're going to travel to get someplace and do something. We need to make certain that the hotels are treating the customers in the same way we're treating them. We can learn from each other because they're the same customers going through a travel experience, whether at restaurants or cruise ships. We're all very, very close to the hospitality sector, realizing that we're learning from each other. It's everything from the new standards of cleaning to how we're getting it done in the most efficient process. Together, we want customers to feel confident that we're going to collectively take the very best care of them. Because people want to move; people want to get out. There's a cabin fever that's starting to come across the world and we want to make sure we're serving it safely.

Let me approach it from a different standpoint. In the restaurant industry, you're seeing people increasingly go to intermediaries, technology companies, Open Table, etc. The amount of money [businesses] have to pay when a reservation comes in through another source or a delivery is required, makes it very difficult for them to sustain themselves with the reduction in the number of patrons. In your case, you have large companies, multibillion dollar companies now, that are very active technology-wise in travel. What has happened with your direct relationship with people that might travel with Delta during this period of time versus coming in from intermediaries? Do you think that will change in the future?

I think it will. We've already been seeing change happen over the last five or six years as our digital capabilities and offerings have expanded to our consumers. We find more and more of them coming direct to Delta. In fact, using 2019 as a baseline, we sold almost 50% of our tickets direct to consumers. Compared to five years ago, that number was probably half of that, maybe 25%. There's been a massive shift online to Delta. One of the reasons for that is that as we know our consumers better and we can provide them better offerings to meet their needs. We've got their information, we've got their loyalty. We have a great partnership with American Express, which gets embedded, and consumers trust Delta. They will still go out and check. We offer lowest-price guarantees as well on our website, but they will check with some of the intermediaries. But

increasingly, the intermediaries are taking a smaller and smaller part of the business. It's one of the reasons you've seen a lot of consolidation amongst the intermediaries; they're the ones that are losing a lot of share. Consumers want more information, they want to have that direct relationship with the airline itself. While the virus is going to slow down, [and] some of our consumers have slowed their travel patterns, we are well-positioned to continue on that digital journey once consumers are ready to travel again.

Ed, when I saw what you had done with people that had bought tickets and giving them the right to exchange to the future, that's gone a long way to creating that relationship.

Yes, it has.

In closing Ed, I'm sure what you're thinking about is, how the consumer is going to make the decision about increasing flying going forward. As you've thought about that, is

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there anything that surprised you that's come up or is it pretty much the decisions that we would think you would be making?

We're still learning. It's a great thought to close on. We're still learning about changes because I think right now consumers are uncertain about travel. They don't know if it's safe, they don't know what their risk to contracting the virus is. The government has done a great job of keeping everyone in their homes and figuring out how to slowly start to build confidence back into the system.

The one thing that we do know because we continue to pulse our customers – we continue to talk to them and we continue to hear from them – the 40,000 or 50,000 that are flying Delta every single day is that the strength of the brand is more important than ever. When you think about safety, when you think about an experience, when you think about the company, most of the airlines have not taken this step that we have to cap load factors that 60%. Those are statements that will define this period of time in consumer's minds: who was willing to make the sacrifice?

There's great incentive to put more people on the plane as you know. But we've made the conscious decision not to, and to bring more planes back rather than have people jeopardize the concern as to their safety onboard a plane. All of those decisions are in

Delta's sweet spot. Our brand has been known as a premium brand, as having a different set of expectations from consumers as compared to many airlines out there. This is a time where customers are not trying to always find always the cheapest price, but who's going to get them there in the most reliable, safe manner with a set of expectations that they know, and Delta has the best chance of not just meeting, but exceeding in their opinion. That's our hallmark, that's our calling card. That's our DNA: the quality of the experience; the quality of the service. I think consumers are going to make choices coming through this process.

It's difficult for the airlines to come out and tell consumers to fly, that it's safe. There's going to have to be an awful lot of word of mouth and people are going to have to be discussing it, and we know they are, to try to get people confidence back in the experience. When we entered this crisis two months ago, the one statement I said to our team is, 'people look at crises and sometimes they think that crises build character.' I tell them my experience, and I've been through a number of crises in the airline industry over my career, they don't build character. They define character; and our character will be defined by the actions we take every single day in our customer's eyes and our fellow colleague's eyes. We will use this opportunity to not just further distinguished Delta, but define its future. It's an honorable mission that we deploy and it's one we're proud to serve.

Ed, I want to congratulate you and your management team and your employees for how you've led during these three-to-four very difficult months and the months ahead. Thank you for joining us.

Thank you. It's been a privilege to be with you. Thank you for your kind words and I will share your comments with our leadership team. Coming from you, that means a lot to all of us.
