

THE ECONOMIC CLUB

O F W A S H I N G T O N, D. C.

**Excerpts from the Signature Event featuring Oscar Munoz, Chief
Executive Officer, United Airlines**

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“*[The public seems to dislike the airline industry for] a couple [reasons]... [P]rices since ... deregulation ... are actually lower. Schedules are increased. We have much farther reach. But the customer has evolved as well. And, again, [w]e have 150 million of you wonderful people every year. And you all have opinions on various aspects... [N]ot everyone dislikes things, but people that fly very infrequently – so, for instance, luggage and a fee around luggage. If you haven’t flown in a few years and now you have to pay it, you get angry. And so, things have evolved. Good thing is that the air industry is generally profitable, where you used to hear about us in bankruptcy every other day. We have to balance that history of providing everything you want all the time at a low price, to still having a relatively low economic price but also adding all the product and value and schedule and efficiency that we’ve been able to do. ... It’s just something that we own and have to work through.”*

“*[C]onsolidation [of the airline industry] has helped [profitability]. I mentioned my railroad experience. And I think if you look at their history I think the airline has closely followed the same evolution of less folks vying for the same amount of customers, certainly is part of it. I think some discipline around how we invest, how much product we offer, how we price, and more importantly, how we’re efficient. You know, the Boeing and Airbus folks are usually around in these rooms. Incredible products that they’re building. ... So, it’s a combination of all of those things. But underlying it all, I can never forget the fact that all this product is supported by the human beings that run the airline every single day.”*

“*[S]afety is, by far, our top priority. Interesting, safety and security has been an increasing focus. So, there’ll be things that you as customers don’t enjoy, you don’t like a lot of different reasons... [A]t this day and age, safety and security have to be our topmost concerns. Sometimes that gets in the way of the customer service you’d like or wish. But I think we’ll all agree that safety and security are paramount... [F]rom a safety perspective, the industry has an incredible, incredible record. And while people certainly do agree, and concern themselves with it, it is not something that we take lightly.”*

“*[The incident where a customer was dragged off of a United airplane is] one of the dark moments in our time. And usually the question is, are you glad that’s getting behind you or something? And I always say, no, I’m happy to be reminded of it every day, and so is our company, because it’s important to know how quickly things can go sideways on us. And so, the circumstances that led up to that, all of the different policies and procedures, because safety and security and operational efficiency becomes so focused and it’s important that we do that, the rigor and discipline around safety, security, and operations doesn’t necessarily apply to the comfort and the equality and the emotional connections as a human on customer service. ... [Y]ou can’t put always rules and procedures on how you treat another human being, which is why we started over the last year something we call Core4. It’s four principles that are in order. [If an employee has] any concern or any question about how to act, you deal with safety first.*

And number two, and this is a big change for us, it's caring. What does that mean? It can mean a lot to a lot of people, but it doesn't mean shutting the door. It doesn't mean yanking someone off the plane. It doesn't mean any of those things. And then you get to dependable and efficient, which are important. But they are four. They're simple. But caring is number two."

"[United] ... understands how important pets are to folks ... we flew three times as many animals for people all over the world, because no other airline really was doing that. So, we were doing it as a customer aspect. When you open up the arms to that many animals across a lot of things, you introduce risk into it. [W]hat we've done is we've de-risked the situation. We just brought that things back down as to what kind of dogs we could carry, animals, that's very aligned with the rest of the airline world. And unfortunately, we're leaving a lot of people behind. I'm making special exceptions. When you think about who are these people that need this? Well, you think of military families that are going out to Guam. You know, it's a young family with their pet, or they adopt a pet while they're there and they want to bring the dog home, and they need a way to do that. So, we're going to make sure we cut out some of those things."

[On the issue of flight cancellations:] "We have an alert system, and we have a whole bunch of algorithms about what rises to what level at any point in time. ... [T]he airline is always going through some issues. So, we have a morning and an afternoon recap of what's going on. It's usually weather. ... [T]here's so many things out of our control that we have to monitor and manage and communicate to you... [R]eliability is something you want because, 'get me where I need to be' is the first issue. And we've been working on that. And we have great records on that. The other two are harder. One is communication. When something breaks or is about to break, can you please let me know, right? If I'm here and my flight's going to be delayed, can I know before I head to the airport? So, we're working on all this wonderful digital stuff to get better communication. Then there's flexibility, which is the hardest thing for us because we fly so many people, we're so structured, we have so many aircraft in the air, it's hard for us to hold the plane for anybody The combination on flexibility, reliability, and communication are our three big mantras."

Primarily one of the issues that we have [with profitability] is... there's a revenue and a cost line. And generally, you want to make the revenue higher than the cost. And the airlines historically have forgotten a little bit about that. I think the new leadership in the industry gets that big time. I think for us at United over the past – since we merged *[with]* Continental *[we have gone]* on a cost-cutting spree, which as you need to be efficient – but we forgot the revenue aspect. And if you think about our business, the way we generate revenue is we fly... So, we've been expanding our top-line growth capacity. It's not always well-received by investors, because historically when you have too much capacity and not enough demand that's when the bankruptcies kind of came into play. It's a new market. We're flying smartly. We have some

uniquely United sort of strategic reasons to grow. We've been growing our top line, while being efficient and managing our costs. And that's how our margin has been improving."

"Wi-fi, that's a huge focus for us. It's probably an area where we need the most improvement. There's so many different technologies that have been involved. We merged two giant companies with different products. ... [T]o try to integrate and harmonize all these things takes some difficulty. Some of the technology is evolving. Some of it's better than others. And so, we have a mishmash. [R]emember, you're not in your living room streaming Netflix. You're 35-40,000 feet in the air flying at 600 miles an hour. We forget that sometimes. And it is inconsistent, which is the worst thing that we can do to you as a customer. So, we're working on that. But it takes some time."

"We had a big debate as an industry versus the government with regards to *[air traffic control]* in the last authorization bill and trying to work on what we call modernization. It's not privatization, it's not anything, it's just an antiquated system that a lot of the world already operates in and the U.S. has been slow to approach. We do have a project that the government has been working it's just been, frankly, slow. And we've had this debate back and forth. They argue that it's going faster. We argue that we're not seeing the benefits. So, we've suggested some ideas... So now we're in the process of developing a new plan of how we can go forward, because it is an issue."

"We have in this industry some of the best jobs in America... [P]ilots make a very nice wage. Our tech ops people, the people that maintain our aircraft, that's an incredible job that pays upwards of \$50 an hour. And the benefits that we provide as an industry are great. There are some significant jobs that we, the industry, keeps hiring for as we grow the business. So, we don't get a lot of credit for that kind of ability... So those are two meaningful really high-paying jobs, along with everything else that we do in the businesses. But we're a great place to work."

[On what the biggest change will be in the future of the airline industry]: "[D]igital, on the communication side, is going to be great. *[In terms of safety]*, the TSA folks are working wonderfully with our industry... *[We]* have biometric scanning *[to identify]* known travelers. So, you're going to see a whole broad aspect of evolution so it's more digitally oriented."

