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Delta Air Lines, Inc. (DAL)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Delta Air Lines June Quarter 2021 Financial Results Conference Call. My name is Katie, and I will be your coordinator. At this time, all participants are in a listen-only mode until we conduct a question-and-answer session following the presentation. As a reminder, today's call is being recorded.

I would now like to turn the conference over to Julie Stewart, Vice President of Investor Relations. Please go ahead.

Julie Stewart

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

Thank you, Katie, and good morning, everyone. Thanks for joining us for our June quarter 2021 earnings call. Joining us today from Atlanta are CEO, Ed Bastian; our President, Glen Hauenstein; our Interim Co-CFO, Gary Chase; and our entire leadership team will be available for Q&A. Ed will open the call with an overview of Delta's performance and strategy. Glen will provide an update on the revenue environment and our brand momentum, and Gary will discuss costs, fleet, and our balance sheet.

I'd also like to welcome our incoming CFO, Dan Janki, who is with us in the room today but will not be participating in the Q&A.

Similar to last quarter's call, we scheduled today's call for 90 minutes to make sure that we have time for plenty of questions. For analysts, we ask that you please limit yourself to one question and a brief follow-up so that we can get to as many of you as possible. After the analysts' Q&A, we will move to our media questions, after which Ed will provide a brief closing statement.

Today's discussion contains forward-looking statements that represent our beliefs or expectations about future events. All forward-looking statements involve risks and uncertainties that could cause the actual results to differ materially from the forward-looking statements. Some of the factors that may cause such differences are described in Delta's SEC filings.

We'll also discuss non-GAAP financial measures, and all results exclude special items, unless otherwise noted. You can find a reconciliation of our non-GAAP measures on the Investor Relations page at ir.delta.com.

And with that, I'll turn the call over to Ed.

Edward Herman Bastian

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

Well, thank you, Julie. Good morning, everyone. I appreciate you joining us this morning. As we speak, we're well into the summer travel season, and if you've been to the airport in recent weeks, you've seen firsthand how travelers are reclaiming their lives and returning to the skies. This increase in demand drove a better-than-expected revenue outcome for us in the June quarter with revenues down 49% versus 2019, resulting in a \$6.3 billion total revenue. This was an impressive 76% sequential improvement from the March quarter.

More encouragingly, the momentum is continuing as we exited June with the demand environment that's accelerating. Domestic leisure demand and yields are above June quarter 2019 levels, and we see clear signs of business and international demand recovery heading into the fall. Through the crisis, we've earned an unprecedented level of brand loyalty and trust, thanks to the world-class service, operational reliability, and innovation that drives the Delta difference. And our commitment to safety, cleanliness, and wellness is as strong as ever.

The people at Delta are our strongest competitive advantage, powering our resurgence and running the best operation in the industry. It is because of our people's incredible work that Delta was honored as the number one airline for 2021 by J.D. Power. I want to thank every member of the Delta family for the professionalism, spirit of service and warmth you show to our customers every single day.

I'd also like to thank our crews and operations teams for continuing to put our customers and their safety first as we restore our business. We are now in active recovery of our business, and the challenges of getting our airline fully back to the service level our customers expect and deserve is daunting in light of the huge surge in demand that we are experiencing. But we're taking all the right steps, primarily through increased staffing levels at both Delta and our contract service providers to service this demand without compromising on the standard of care and cleanliness that our customers have become accustomed to on Delta throughout the pandemic. And even with these challenges, our team continues to run the very best airline in the industry, leading on all key operating metrics for the month of June and year-to-date.

For the June quarter, we narrowed our pre-tax loss to \$881 million. This was meaningfully better than initial expectations driven by demand strength. Importantly, we achieved significant financial milestones during the quarter, these include returning to profitability in the month of June with a pre-tax margin in the high-single digits despite still missing 40% of our prior revenue from June of 2019, generating \$1.5 billion of free cash flow, and nearly \$200 million of adjusted free cash flow in the June quarter.

Achieving solid profitability and generating meaningful free cash flow a little over a year from the start of the worst crisis in this industry's history is an impressive statement about the resilience of our business and the great work of our people. And showcasing the value of the commercial partnerships that we've developed, leveraging the Delta brand, we have created almost \$1 billion in investment value this year through our partnerships with Wheels Up and CLEAR, and I want to point out that \$1 billion is against a zero-cost base.

I want to give a big shout-out to Kenny Dichter and the Wheels Up team as their listing on the New York Stock Exchange goes live today. We're proud to be Wheels Up exclusive commercial airline partner and largest shareholder, with a stake valued at over \$500 million.

Also, congratulations to Caryn Seidman Becker and the CLEAR team on their successful IPO. Our investment in CLEAR is worth approximately \$340 million.

And finally, I want to congratulate Sir Richard Branson and our team at Virgin Galactic for making history last weekend and completing their first fully crewed space flight. It was exciting to watch Richard break new barriers once again, this time commercial space travel.

I take the time to mention these relationships because of the much-larger ecosystem that Delta operates and attracts, and these opportunities to create value will continue to be nurtured as we extend our brand beyond traditional airline boundaries.

With June profitability in the books, we're now in the restoration phase of recovery and focused on harnessing the power of our differentiated brand and our resilient competitive advantages to drive sustainable profitability in the second half 2021, and enable long-term value creation.

Specifically, for the September quarter, we expect a mid-single digit pre-tax margin as demand continues to improve with the return of corporate travel and gradual reopening of international markets. We are starting to see signs of a resurgence of business and international travel, both of which are supporting the next leg of the revenue recovery. And we're well-positioned to take advantage of both, with leading domestic corporate share and a strong global network.

Around the country, more and more offices are opening and people are reconnecting to their businesses and to each other. With 72% of our employees vaccinated, we officially reopened our own offices last month in June. And as I interact with other CEOs, I'm encouraged to hear about their own plans to accelerate their return to office. That sentiment is coming through loud and clear in our most recent corporate survey, with almost 95% of our accounts indicating they will be returning to their offices by the end of this year.

Domestic corporate volume grew from 20% base in March of this year – the March month that is, to 40% recovered in the June month, and we expect it to be close to 60% recovered by September based largely on these re-openings. I'm also encouraged by the strength that we're seeing in international. While we know international demand recovery will be very choppy and uneven, we're seeing strong bookings to Europe when countries open their borders.

From our experience in the US, we are seeing the impact that widespread vaccinations have on reopening the economy. We know the same will be true for the rest of the world over time, but are mindful of the risks that new variants pose to the pace of recovery and our team will stay very disciplined in restoring international capacity.

As the recovery builds steam, we are making the required investments, including hiring frontline and reservations employees, and investing ahead of the full recovery of the airline in places like maintenance and training. This will allow us to continue to provide industry-leading service levels and prepare the airline for success in a stronger than previously expected demand environment. These investments are key to the execution of our strategy to win, which is defined by providing best-in-class service to our customers and leveraging the brand while creating a simpler, more efficient airline.

The power of our brand has come through the crisis stronger than ever, and we're seeing evidence of this across the business. The resilience of our American Express co-brand credit card program is a great testament to the increasing brand affinity that we have. Card spend on the Delta American Express portfolio in the month of June was 115% recovered to 2019 levels for the same month, despite travel purchases still being off by 25% in that same period.

We're continuing to renew and simplify our fleet, and yesterday we announced that we're opportunistically adding 7 Airbus 350s and 29 737-900ERs that will enter service over the next 12 to 24 months. These are current vintage to the aircraft that we operate in our existing fleet, and we're adding these pre-owned aircraft for substantially less than the cost of new planes. These aircraft align with our fleet strategy that's focused on simplification, scale, size, and sustainability, and create optionality for future growth or replacement in a capital-disciplined manner. These transactions accelerate our recovery plans which also began with the exercise of 25 Airbus 321neo options in April. The A321neos, which will start to deliver in 2022, offer the lowest seat cost in our fleet and will strengthen Delta's gauge advantage relative to our competitors.

Our recent actions on fleet enhance efficiency throughout the cost structure. Gary will talk more about this shortly and will highlight the progress that we're making on our balance sheet and journey back to investment-grade metrics.

As our recovery path becomes clearer, so does our future as a carbon-neutral airline. In 2020, we committed to our airline's carbon neutrality and we're taking actions today that are critical to our future. This includes the reduction in emissions that we're achieving with our fleet renewal, investments in sustainable aviation fuel, together with many corporate partners, and the evaluation of long-term investments in carbon reduction and removal technologies.

During the quarter, we released our inaugural 2020 ESG Report which expands on the Corporate Responsibility Reports that we have issued in the past. You'll be able to hear more about our ESG commitments as well, importantly, as our multiyear financial targets and vision moving forward at Delta's Capital Markets Day which we will be holding in-person in New York on December 16. This event will give everyone an opportunity to hear from our management team, which over the past year we've strengthened by bringing in outside perspectives and promoting our deep bench. That includes Allison Ausband, who during the quarter I'm pleased to announce was named our Executive Vice President and Chief Customer Experience Officer. In addition, John Laughter, who I'm also pleased we announced as our new Executive President and Chief of Operations. Allison and John are Delta veterans who bring deep experience and unmatched expertise to their roles.

In addition, our incoming CFO, Dan Janki, brings extensive business and financial skills to his role as well as a broad global perspective and operational experience that will serve us well in the recovery and beyond. Dan's background makes him the ideal leader to advance our efforts to restore Delta to our pre-pandemic financial position. You'll hear from him briefly before Gary delivers the financial update.

With this great team of servant leaders, we're building an airline that's positioned to drive long-term value for all our stakeholders; our people, our customers, our owners, and our communities where we live, work, and serve. I could not be more excited about our future.

And now, I'd like to turn it over to Glen.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Thanks, Ed, and good morning, everyone. Sixteen months after the start of the pandemic, I'm encouraged by the pace of the recovery and excited about our future. Delta is well-positioned with a powerful brand, strong competitive advantages, and a differentiated customer experience, all of which are increasingly driving deeper customer engagement.

During the quarter, we saw consumer demand for travel return at an accelerated rate as pent-up demand drove an increase for air travel. As customers return to the skies, Delta is their airline of choice given our industry-leading service that's provided by the best employees in the industry. This resulted in a more than \$2.7 billion improvement in revenue from the March quarter.

Compared to 2019, revenues were 49% lower, beating our initial guide on 39% less sellable capacity. Bookings in domestic and short-haul Latin leisure markets recovered to nearly 90% of 2019 levels, and during the quarter we began experiencing strength in demand to select European countries as they reopened.

Domestic business travel is on an improving trajectory with corporate volumes 40% recovered in the month of June, doubling from the 20% recovery rate in March. Small and medium-sized enterprise volumes continued to outperform corporates by 10 points and are now 50% recovered. I'll talk more about the encouraging trends we see in corporate in a few minutes.

From April to June, passenger unit revenues improved by 25 points with both load factor and yield strengthening through the quarter. This was a great accomplishment considering that we had the middle seat blocking in place for the month of April, which when lifted on May 1 resulted in a 45% increase in sellable capacity with minimal incremental costs. So, kudos to the Delta team for managing through this transition period and driving these outstanding results.

I also want to congratulate our cargo team for an outstanding quarter with cargo revenues up 35% compared to the June 2019 quarter, despite running a much smaller operation. We are also seeing momentum in daily bookings and net cash sales. Our average net cash came in 20% higher than forecast, doubling relative to the March quarter. Importantly, in the month of June, our average net cash sales are 70% restored to corresponding 2019 levels. That's running about 10 points ahead of revenue recovery as customers are making travel plans out into the future.

As Ed mentioned, we're exiting June with a demand environment that's much stronger than just three months ago. Since the start of the year, we've seen a sequential revenue improvement from 35% recovery versus 2019 in the first quarter to 51% in the second quarter. That trajectory is continuing, and we expect our September quarter total revenue to be 65% to 70% recovered on capacity that's 70% to 72% recovered when compared to the same quarter in 2019. This positions us for another significant sequential improvement in unit revenues.

At the midpoint of our guidance, this represents another \$2 billion sequential increase in revenue on approximately 10% higher capacity. We expect strong leisure demand to continue through the fall and winter, and we're starting to see the next leg of the recovery take hold with improving trends in business and international travel. Delta is well-positioned to take advantage of both, with leading domestic corporate share and a strong global network.

Corporate travel volumes accelerated in May and June, with almost 95% of our accounts booking travel in the month of June. We're also beginning to see a return of consulting and sales-related travel and higher volumes in traditionally business-heavy markets like New York City and Boston.

Our recent corporate survey results show that over 90% of our corporate accounts anticipate travel volumes to increase in the September quarter, up from just 33% in the March quarter. In addition to these survey results, our close engagement with customers gives us increased confidence of the acceleration of business travel, especially as we move towards the post-Labor Day period as schools and offices continue to reopen.

We expect domestic corporate volumes will recover between 55% and 60% to – of 2019 levels by the end of the September quarter, up from 40% at the end of the June quarter. Despite volatility in global COVID recovery trends, international travel is accelerating, with capacity and load factors increasing as we head into the fall.

When we spoke last quarter, only two European countries had reopened for US citizens. Today, more than 15 European countries are open, and we're seeing strong bookings follow as border closings lift. We are also hopeful that 212(f) restrictions prohibiting inbound travel to the US will be significantly reduced in the September quarter.

The recovery in short-haul Latin exceeded 2019 levels, but in long-haul Latin, demand remains muted as many countries are still closed. Pacific demand remains low and will likely be the last region to recover.

Delta has a strong platform internationally due to the structural changes in the landscape, but more importantly, because of elements unique to Delta. First, we will have the number-one joint ventures in each entity and our international partners will emerge from their restructuring efforts more competitive than before. We look forward to continuing our valuable strategic relationships with all of our global partners as they navigate through the COVID-19 crisis and as they position themselves to emerge from their restructuring processes. We are confident these strategic relationships will accelerate our international recovery in the years to come.

Second, our hubs are powerful, offering extensive and efficient global coverage. The strengths of our global hubs resemble those of our core domestic hubs, namely strong presence and local share and the ability to connect traffic efficiently.

Third, our wide-body fleet renewal will be instrumental in our recovery and path to higher margins. Adding the seven A350s announced yesterday builds on our long-term fleet plan efforts. Our wide-body fleet renewal program improves our product offering, enhances our cargo capability, reduces our unit costs, and is more efficient – fuel efficient, contributing to a more sustainable future.

As we rebuild the airline, we're optimizing the network for the return of business in international travel and are building on the strengths of our core and coastal hubs where we've been able to improve our local share by 3 points from pre-pandemic levels. We also continue to put the customer at the center of everything we do, creating an enhanced premium experience. This is successfully de-commoditizing air travel on Delta, providing customers with the products and flexibility that they value most.

Premium products are demonstrating resilience where demand is strongest with domestic and short-haul Latin premium revenues outpacing main cabin by 5 to 10 points. We believe this will be reflected at the system level as premium revenue and other entities improves with the return of business in international travel at scale.

We're also seeing increases in customer engagement and brand momentum. This is evident in SkyMiles acquisitions, which set an all-time record in the month of June, outpacing the prior record achieved in July of 2019. These acquisitions allow us to bring new customers into the Delta ecosystem.

Engagement is also coming through with the performance of our co-brand credit card program as customers are increasingly seeing the value proposition and continue to aspire for travel, status, and premium experience.

For the quarter, co-brand spend was 110% recovered to 2019 levels driven by improving T&E spend, indicating customers' desire to explore the world and reconnect with friends and family. We exited the quarter with co-brand spend around 115% recovered for the month of June. New co-brand account acquisitions improved more than 75% sequentially and were around 90% recovered to 2019 levels for the quarter. In addition, we're seeing more customers moving into premium co-branded cards given the value proposition for those products.

The improving trajectory resulted in cash remuneration from American Express in the month of June exceeding 2019 levels. We expect remuneration will continue to remain at or above 2019 levels into the second half, with significant growth opportunities in the years ahead.

In closing, the foundational building blocks for our long-term success are in place. With the industry's best domestic and global network, renewed and efficient fleet, a de-commoditized product, and a highly-valued brand

and the industry's best employees, we continue to extend our commercial and financial lead. Combining that with our efficient cost structure puts us on a path to improve on our pre-pandemic margins and generates sustainable free cash flows, allowing us to reinvest in the business and restore our balance sheet strength.

Delta's future is incredibly bright. And with that, I'd like to take this opportunity to welcome our Incoming CFO to Delta. Dan, I'm looking forward to working with you.

And now, I'll turn the call over to you for a few minutes.

Daniel C. Janki

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

Thank you, Ed and Glen, for the warm welcome. Certainly pleased to be here and begin working closely with Ed, Glen, and the entire executive leadership team to ensure that we continue to establish clear priorities, deliver on our commitment, and build a more resilient, valuable Delta.

There's no doubt it is an interesting time to join, but what really drew me to this opportunity at Delta is the unique culture, industry leadership, and growing brand strength with customers. It's a combination like no other in the industry. It's really clear that there's a great deal of talent in the finance organization. I'm humbled and honored to lead this organization forward through this pivotal time.

A key guiding principle for me will be open and transparent communication with the financial community. I look forward to speaking to all of you and getting to know key stakeholders in the coming weeks and months, including many of you on the call.

Now I'll turn it over to Gary for the financial update.

Gary Lee Chase

Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

Thank you Dan, and on behalf of the entire finance team, welcome to Delta.

Good morning to everyone on the call, and thanks for joining us. Delta people shined and carried our brand to new heights during the crisis. Those efforts, combined with the strong demand recovery Glen described and the benefits of operating a simpler, more efficient fleet, are enabling us to cross a number of key milestones on our journey to return to, and exceed 2019 performance.

Let me quickly review the second quarter, then provide color on our second half cost outlook. I'll wrap with a discussion of our capital outlook and balance sheet.

Starting with highlights from the quarter, we reported an adjusted pre-tax loss of \$881 million, a more than \$2 billion sequential improvement, and generated a solid June month profit despite revenues for the month of June still 40% below 2019.

Non-fuel costs rose 6% sequentially on 21% higher capacity as the teams continued to rebuild our network efficiently. Non-fuel CASM was 9% higher than 2019. We realized savings from tax credits and third-party rate reductions that were offset by rebuild expenses and maintenance and pilot training, and a non-cash expense for employee flight passes awarded to our employees in recognition of winning the J.D. Power Award.

Adjusted fuel price per gallon of \$2.12 was 11% higher than the first quarter, including a \$0.23 per gallon impact from refinery losses. We realized a 7.1% fuel efficiency gain versus the June quarter of 2019, with the majority driven by fleet renewal. Demand momentum fueled cash sales across the booking curve, driving \$1.5 billion of growth in our Air Traffic Liability to nearly \$7 billion, now \$300 million higher than the same period in 2019. With the strength that we see in the demand environment, we expect our Air Traffic Liability to remain above 2019 levels into next year.

Daily cash generation was substantially positive for the full quarter. More importantly, we generated nearly \$200 million of free cash flow excluding our \$1.5 billion pension contribution and \$2.5 billion in PSP grant proceeds. We are transitioning now away from daily metrics to focus on regular free cash flow, the best measure of value creation as we turn the corner on profitability and look to restore our financial strength.

As we head into the second half, we're excited to shift our focus to returning to profitability, generating cash, and restoring and exceeding our pre-COVID results and financial position. With continued recovery and limited cost growth, we expect to be profitable in both the September and December quarters at current fuel prices.

Regarding the cost outlook, I'm very happy with the team's performance in the first half as we continue to rebuild the network efficiently. We remain on a path to achieve non-fuel CASM below 2019 levels by the fourth quarter, though the strength of demand recovery is creating some welcome cost pressure in the form of higher rebuild and selling-related expense. We have also experienced inflationary pressure from vendors and our operating teams have accelerated hiring of frontline employees to ensure we maintain excellence in operations and service levels as we rescale.

Despite these pressures, we will see continued leverage in key areas. For example, we expect an approximate 8% head count growth through the end of the year on a nearly 15% increase in ASM production. We'll see our fleet utilization rise from 2Q levels approximately 15% below 2019 to approximately 5% in the fourth quarter. Our airports will also see better utilization, particularly our coastal hubs as they move from 70% to more than 90% restored.

As we accelerate maintenance and training in the higher potential capacity in 2022, rebuild expenses are stepping up in both the third and fourth quarters to a 5 to 6 point cost headwind versus 3 to 4 points in the first half. September quarter we'll see non-fuel costs grow sequentially at roughly the same rate as capacity due to the higher rebuild and revenue-related expenses I mentioned. With these factors, September quarter non-fuel CASM is expected to be 11% to 14% higher than 2019.

We expect to close the gap to 2019 non-fuel CASM in the fourth quarter through continued volume leverage as capacity remains essentially flat from the third to fourth quarters, instead of the more normal seasonal decline of approximately 15%. Adjusted fuel price per gallon for the third quarter is expected at \$2.05 to \$2.15. The fuel efficiency for the quarter is expected to remain better than the September quarter 2019 period by approximately 5%.

On the capital outlook, we now expect gross CapEx of approximately \$3.2 billion in 2021, up from our original guidance of \$2.5 billion, driven by our aircraft announcements. Hats off to our fleet and technical supply chain teams for landing these compelling opportunities that meet three key criteria. These transactions are opportunistic and take advantage of attractive economics in the used market. These aircraft types are currently active in our fleet and entirely consistent with our fleet simplification strategy. In addition, these aircraft, along with the 321neo options we exercised in April, will support the potential for up to 7 points of additional capacity restoration at compelling marginal economics by 2023.

We have a lot of additional optionality in our fleet plan to flex capacity up or down at low cost, depending on the shape of the recovery. Our Boeing 717 and Boeing 767 fleets are our largest levers. We're still flying these fleets at scale today and could retire additional units or reactivate parked aircraft to meet higher demand scenarios.

Let me now move to the balance sheet. With improving financial performance and a strong liquidity position, we're using cash to reduce leverage and non-operating expense while rebuilding unencumbered assets and managing our debt maturity profile. During the quarter, we prepaid \$450 million in aircraft-related debt in addition to normal amortization of \$875 million, and contributed \$1.5 billion to the pension plans. Additionally, we paid cash for all but three aircraft deliveries.

Since October, our debt reduction initiatives have totaled \$11 billion and freed up \$6 billion in collateral. With the additional funding this quarter, we do not foresee the need to make any material pension contributions in the future. By yearend, we expect the plans to be fully-funded on a Pension Protection Act basis and 90% funded on a GAAP basis. With this level of funding and the plans frozen to new participants, we are now reducing the investment risk of the portfolio to protect our funded status.

The great work of our pension and treasury teams over the last decade in funding this obligation frees up roughly \$1 billion in annual free cash flow that can be used in the future to further delever or otherwise create value.

Adjusted net debt is expected to be approximately \$19 billion at the end of the September quarter, modestly increasing from where we ended June as we paid cash for aircraft deliveries. As we turn the corner on profitability and look to the future, we're excited to shift our focus to restoring our business and delivering long-term value for our owners. Restoring our financial foundation remains a top priority as we position for the future, and we look forward to sharing more of our long-term vision with you in December.

Let me conclude by congratulating the 75,000 people who make the Delta difference a reality every day. These excellent results are your scorecard and a reflection of all you do to delight our customers.

With that, I'll turn the call back over to Julie to begin the Q&A.

Julie Stewart

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

Katie, can you please remind the analysts how to queue up for questions?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Thank you. Our first question will come from Helane Becker with Cowen.

Helane Becker

Analyst, Cowen & Co. LLC

Q

Thanks very much, operator. Hi, everybody, and thanks for your time. Welcome, Dan. So here is my questions. My first question is, I was wondering if you could talk about – maybe, Glen, this is for you, how you expect the non-US recovery to look by the different regions over the next say 6 to 12 months, if you can?

And then my other question is, I think, Glen, you might have talked a little bit about this in the ATL line are you seeing that people are booking further out? And I don't know if you can talk to like after Labor Day bookings or even holiday bookings how they're comping to previous levels? Thank you.

Gary Lee Chase

Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

So, Helane, first about the entities a little bit. We're seeing a US-based demand recovery to the open countries in the transatlantic, and we expect our loads to move – to be close to historical levels running probably in the low-to-mid 80s by the August, September, October period.

Again, you know that 212(f) restricts Europeans from coming to this country, so I think we focused on those countries that generally have high US outbound demand, and as we move forward, we will be adding a little bit of capacity, but essentially keeping our levels flat where we would normally pull-down in the September-October timeframe and focusing on our European hubs and distributing traffic through them.

So I'm pretty optimistic about how the results could play out in the transatlantic, and that's really we have 35% to 40% of our travel still missing with the European origin piece not open for sale and with business really not recovering at the same level as leisure. So pretty optimistic about where we can get to on this leg, but there's a lot more to come in the transatlantic.

In Latin, it's really the tale of two markets. One is the close-in US point of origin leisure market as well as Mexico business. Both of these are actually exceeding 2019 levels, so short-haul Latin is doing quite well and we continue to expect that to be very, very strong as we move into the more traditional leisure season in the late fall.

And then the Pacific which I think Ed has talked in the past, we expect this to be the laggard and due to low vaccination rates and continuing outbreaks over – and restrictions in the Pacific, and we really don't see any impetus for that to be lifted now. I think we're looking at 2022 at the earliest probably, we're at significant recovery in the Pacific. So Atlantic, clearly the furthest along. That's great for us because 65% of our international revenues are in the transatlantic, so we're excited about what we see in terms of US demand there.

Domestically, post-Labor Day, this is – every month that we look from August to September and October, clearly as you move out, you have fewer and fewer bookings, but we have about a third of our September bookings on the books now and we have as it sits today and we expect to give some of this back, but we have positive yield in every one of the entities. We have sequential improvements in RASM. So I think we're seeing very strong

indications of demand through the post-Labor Day period. Of course, those are initial indications. We have a long way to go as we move closer and closer to those departure dates.

Helane Becker

Analyst, Cowen & Co. LLC

Got you. That's very helpful. Thank you.

Q

Operator: Thank you. Our next question comes from Sheila Kahyaoglu with Jefferies.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Good morning, everyone, and thank you for the time. Maybe just on cost related questions. On CASM, they're expected to remain fairly elevated in Q3. How do you think about the delta in driving CASM from up 11% to 14% in Q3 versus 2019 levels to flat in Q4? Again, about half of that is rebuild cost, but maybe what's the bridge and the moving pieces, and more broadly how do you think about cost headwinds and inflationary pressures?

Q

Gary Lee Chase

Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

Well, Sheila, we talked about the major drivers. The key is really leveraging the continued build to the network, and as I was describing in prepared remarks, generally when we move from the third into the fourth quarter, we have a pretty big reduction in our activity levels. This year, we expect that to be relatively flat. That gives us the opportunity to leverage the things that I was describing to get some good incremental leverage on our people, some good incremental leverage on our asset utilization, and it's just a natural outcome of the way that capacity progression is moving.

A

In terms of how we see the bigger pieces, they don't change that much between the third and the fourth quarter. We expect that rebuild expenses will still be at elevated levels in that 5 to 6 point range in both quarters. And one of the things I mentioned on the last call from a mix point of view, both the second and third quarters, we've got about a 5 point drag from not having anywhere near as much of our long-haul international flying, which is just structurally very low CASM, long-stage length flying. As we move into the fourth quarter, it's still a headwind. It's not quite as much. It's about 3 points. So that's the color that I would add.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Thank you.

Q

Operator: Thank you. Our next question comes from Conor Cunningham with MKM Partners.

Conor T. Cunningham

Analyst, MKM Partners LLC

Hey, everyone. Thank you. It's great to hear that corporate continues to improve as people return to the office. I will – I do have to ask, like your competitors are now pushing to replicate some of your success that you've had with large corporates, so I was curious if you could talk to the moats that you built around that franchise and how you anticipate strengthening that segment in the face of potential competition?

Q

Edward Herman Bastian

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

A

Well, thanks, Conor. It's a very important segment for us, and we have won, as I think you know, Business Travel News Airline of the Year for 10 straight years, and we expect to hopefully win it again this fall as well. Our team does a magnificent job of servicing the accounts, providing the technology, the access, the insights to make their job as travel on Delta as easy as possible, and that's supplemented by the great product and service that our people put forward every single day.

We're the leading operational airline in the industry, so when you marry up the investments we've been making, particularly in the premium product sector, which our corporates are a main consumer of, with the great service our sales and commercial team provide and the product and operational integrity of the business, it's a very, very strong moat.

We have gained share over the pandemic, a meaningful amount of share that we have gained, and the one thing that we have seen is when customers come to Delta, they don't leave. And so we're going to continue to expand upon that.

Conor T. Cunningham

Analyst, MKM Partners LLC

Q

Great to hear. Thank you.

Operator: Thank you. Our next question comes from Hunter Keay with Wolfe Research.

Hunter Keay

Analyst, Wolfe Research LLC

Q

Hey, thanks. Good morning. I got two questions for you. The first one is for you, Ed. How do you feel about deleveraging the balance sheet if it hurts your ability to maintain market share?

Edward Herman Bastian

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

A

Good morning, Hunter. I'd have to ask you first, are you sitting on a rocking chair asking that or no?

Hunter Keay

Analyst, Wolfe Research LLC

Q

Actually, I am.

Edward Herman Bastian

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

A

I'll rock back in my chair as I answer to you...

Hunter Keay

Analyst, Wolfe Research LLC

Q

I really am.

Edward Herman Bastian

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

A

...that's good. That's good. Deleveraging is important to us. It's something that – first of all, we're the same team that's been here for over the last 15 years. We believe in de-risking our balance sheet and paying down debt, and we also know that we can do that while also driving a premium product and service offering in the markets that we see as being critical to Delta.

We were able to do both – to both of those things over the last decade, and we'll continue to do that. The level of debt that we took on over the pandemic candidly it's a meaningful amount, but it's not an overwhelming amount. It was about \$8 billion of net debt that we took on during the pandemic. And when you think about, as Gary mentioned, we're basically done funding our pension plan with no more pension contributions required.

As I think you also know that we've been averaging over the last several years close to \$3 billion, \$2 billion to \$3 billion a year in stock repurchases, which clearly, we won't be doing in the next – certainly in the next two to three years until we get our investment-grade metrics back, and another \$1 billion on top of that of dividend distributions that we'd been making.

There's a substantial amount of free cash that is available to us as we reclaim investment-grade for Delta, and we'll be sharing our longer-term metrics at the Investor Day in December and showing you the path forward, but we can do all this and have plenty of headroom to compete hard and effectively in the marketplace.

Hunter Keay

Analyst, Wolfe Research LLC

Q

Okay. That's super helpful. Thank you. And then Gary, if you would just clarify, I think you said something about 7% capacity. Are you saying that the current plan for 2023 system capacity is to be 7% above 2019, but you can take that higher or lower if you need to? Am I interpreting that correctly?

Gary Lee Chase

Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

No, Hunter, that's not what I was saying.

Hunter Keay

Analyst, Wolfe Research LLC

Q

Okay.

Gary Lee Chase

Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

What I was saying is that the fleet actions we've taken give us the potential to add 7 points to our capacity profile by 2023, but I was also noting the flexibility that we continue to have with some of the flex fleets to go up or down, and I think the teams have positioned us really well to react to what comes at us in terms of the demand environment.

Hunter Keay

Analyst, Wolfe Research LLC

Q

I see. Okay. Thank you, Gary. Thank you, Ed.

Operator: Thank you. Our next question comes from Jamie Baker with JPMorgan.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

Hey, good morning, everybody, and just apologies off the bat that my colleague, Mark, isn't joining us but he is on one of your aircraft on a JPMorgan-sponsored business trip, so I guess we're all better off.

Glen, is there a way to tell what portion of summer domestic revenue is driven by reallocated international demand? You know, for example, could you look at SkyMiles behavior this summer, identify what portion of those travelers would have historically been in Europe or Asia instead?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Yeah, I think domestically we see a redistribution towards domestic from long-haul international. That's a natural occurrence. I think people are ready to get out. The exact quantification I think would be difficult, but we do see that if those leisure destinations are open, there's significant demand for that, and that includes the transatlantic where it is open. And if you think about running load factors in the mid-to-high 80s in the shoulder season as we head to the end of the summer here, just on US origin travel, there's some pretty strong demand trends that we're seeing, and so if it is open, people want to get there.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

Yeah, definitely. Thank you. And you know, Gary, just to follow-up on the ATL, and you know I haven't historically obsessed about the Air Traffic Liability until we all sort of had to. Ordinarily, the second to third quarter sequential decline for Delta would be somewhere around, I don't know, \$750 million, \$800 million. If we continue to get international reopening, particularly for inbound US, could we model for something closer to a flat outcome next quarter? So staying in the \$6.5 billion range that sort of thing, or would that just be too ambitious? I know you said it would be above last year's levels, but that still leaves a lot of room.

Gary Lee Chase

Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

Yeah, Jamie, obviously there's still a lot of uncertainty around that. Our thinking right now and that's embedded in how we're thinking about net debt is for a slight decline in that, but we don't expect that you're going to see the normal seasonal pattern as we move through the remainder of this year, for all the reasons you just highlighted.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

Okay. Perfect. Thank you, everybody. Appreciate it.

Gary Lee Chase

Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

Thanks, Jamie.

Operator: Thank you. Our next question comes from Stephen Trent with Citi.

Stephen Darrell Trent

Analyst, Citigroup Global Markets, Inc.

Q

Hello, everybody, and thanks very much for taking my question. Just a quick one from me. You know, when we think about in certain pockets in the United States that we are seeing some difficulty with new variants and low vaccination rates, do you see any scenario in which Delta could trim capacity to some of these regions or reinstate on some routes blocking off middle seats?

Edward Herman Bastian

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

A

Good morning, Steve. I don't. As we've been monitoring our bookings and clearly we're mindful of the risks around COVID and the new variants and the continued information that CDC provides us with. We have not seen any reduction or drop in demand looking out over the next 60 to 90 days, which is about as far as our crystal ball can go right now.

We know our customers are largely vaccinated. Our people are largely vaccinated. We have over 72% of Delta people are vaccinated, and the vaccines work, and they are giving people the ability to get back to their lives. So no, we're not anticipating any changes at this time.

Stephen Darrell Trent

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Appreciate that, and thank you and looking forward to seeing you guys in December 15 I believe you said. And thanks again.

Gary Lee Chase

Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

December 16.

Edward Herman Bastian

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

A

16.

Stephen Darrell Trent

Analyst, Citigroup Global Markets, Inc.

Q

16. Excuse me. Thank you.

Gary Lee Chase

Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

You can fly down and see us on the 15 too, if you want.

Operator: Thank you. Our next question comes from Myles Walton with UBS.

Myles Walton

Analyst, UBS Securities LLC

Q

Thanks. Good morning. Ed, I think at the beginning, you mentioned commercial partnerships and creating \$1 billion of value from Wheels Up and CLEAR from a zero-cost base. I'm curious of your view on the eVTOL market

given the moves by American as well as United on that front and the way that fits in your portfolio of investments and operations over the medium-term?

Edward Herman Bastian

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

A

Thanks, Myles. As you can appreciate, every one of the proposed manufacturers has been after Delta. We've heard from many of them. We're studying this space and we will continue to get smart in this space. I think it's at a very, very early stage right now, and I think a lot of the plans that we've seen are a bit premature, candidly. But it's not anything that we are unaware of, and I guarantee every one of those manufacturers would love to have Delta colors on their plane. So hard to predict the timing, but we're in the marketplace having lots of conversations.

Myles Walton

Analyst, UBS Securities LLC

Q

Okay. And then maybe, Gary, just a clarification. The CASM-Ex questions, I'm just looking in absolute dollars, it looks like sequentially 3Q looking for the same unit cost ex and fourth quarter the same and the improvement was really just about comps in 2019. Is that right? And then for 2022, how much of these rebuilding costs go away and we get the tailwind of those 6 points? Thanks.

Gary Lee Chase

Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

Yeah, I'm not sure I would characterize it exactly that way, but it is about having more scale relative to 2019. So, sequentially I think that what you outlined is roughly accurate and that is what we expect. As we go into 2022, your question was about the sustainability of the rebuild?

Myles Walton

Analyst, UBS Securities LLC

Q

Yeah, what goes away from what you're doing?

Gary Lee Chase

Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

Yeah, we definitely expect those to moderate. A lot of that is going to depend candidly on how the demand environment develops. What I would say is what we've articulated is driving to levels below 2019. We're not excluding rebuild expenses. This year they happen to be particularly high. As we get into 2022, we expect those to be more normal and it's part of the thought process on what we've got to accomplish.

Edward Herman Bastian

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

A

Myles, if I could speak to that for a second. We, at Delta, our number one task is to safely get our business stood back up with the service levels that our customers deserve and expect at Delta. And given the huge surge in demand that we've seen over the last 90 days, the entire industry is challenged with that, that's not a unique Delta position. And we're going to do everything we can to get ahead of it, and that includes staffing levels, providing whatever support we need to the service providers, the service contractors, training, maintenance, because we realize that this is about protecting our brand and our long-term customer base rather than trying to manage costs for an individual quarter.

We will hit the cost targets that we mentioned to you, but one of the things that we learned a lot about Delta over the pandemic is our ability to manage down labor cost is really unique in this industry and we have a whole lot more – many more tools and flexibility I think than we ever really appreciated. And so we shouldn't think about labor, which is the biggest part – a big part of the rebuild cost. As a fixed cost, that's not going to stay. So the productivity, the efficiency, the ability to work closely with our people, we'll be in really good shape on the cost front next year and we'll protect it, our customers experience, at the same time and the revenue base which is the most important.

Myles Walton

Analyst, UBS Securities LLC

Thanks.

Operator: Thank you. Our next question comes from Savi Syth with Raymond James.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

Hello. Good morning. Competing on product is kind of good for the consumer and the industry, but one of your competitors plans to grow like first class and extra leg room seats by about 10% a year through 2026, and just kind of curious if that level of growth is something you'll see at Delta because it's part of some kind of structural trend or if that has any implications to Delta's premium revenue leadership or how Delta is set up to kind of compete against that.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Sure. Well I'd first like to say we're proud that we started the de-commoditization process many, many years back and we're well along, and I think we're objectively maybe the furthest along in terms of exploiting that opportunity. There's probably more space out there for other carriers given the appetite we've seen for these products that have been sustained through the pandemic, so I'm not going to articulate on anybody else's plan.

But we think that there's continued growth in our fleet evolution as we continue to up-gauge the airline over the next several years. Our percentage of seats that are in the premium cabins continues to increase, and we think given the fact that we are still in the early stages of being able to distribute those products and services to all of our customers through all of our channels, that there's plenty of opportunity for us to continue to grow that space in the next years – next several years.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

That makes sense. Thanks, Glen. And maybe a quick follow-up for you, Glen, as well. Just appreciate the color on the domestic corporate demand recovery. I know that's around volumes. Is that RPK? And curious what that looks in terms of revenue. I'm guessing volumes have to recover first, and then revenue comes back, but I was just wondering if it's similar or if there's a disconnect there?

Glen William Hauenstein

President, Delta Air Lines, Inc.

Yeah, those are passengers, and yields on domestic leisure are up. Yields on domestic corporate are down, but we see trajectory in domestic corporate, and we expect that, as you say, to continue as we move forward.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

Makes sense. Thank you.

Q

Operator: Thank you. Our next question comes from Mike Linenberg with Deutsche Bank.

Michael Linenberg

Analyst, Deutsche Bank Securities, Inc.

Yeah, hey, good morning. I guess two projection-related questions for Glen. On Amex, over the last year, you sort of had backpedaled on when you would get to the \$7 billion of contribution, obviously because of the pandemic. The fact that, I guess, the month of June or the June quarter we were 110% and 115% in the month of June, Glen, can you update us? Are we now not on just track but maybe at a pace that will get to that Amex bogey prior than the previous forecast?

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

Yeah, well I think that's something you'll have to come to our December Investor Day to see. I don't think we're ready to disclose the exact date yet, but suffice it to say that we're feeling much better about making up some ground that we lost during the pandemic today than we sat six or nine months ago.

A

Michael Linenberg

Analyst, Deutsche Bank Securities, Inc.

Okay.

Q

Edward Herman Bastian

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

Yeah, I would – Mike, this is Ed. If I chime in, I would say that we are thrilled with the relationship with American Express. Our team, their team, I was with Steve Squeri last Friday, and I think we have the best performing card in their entire portfolio. Delta, even though we're the highest-value that we create, I think we're also the best performing on top of that, so in terms of growth. So it's really been a great relationship, and that's still without a lot of travel spend that's missing, international and business yet from the card, so we're excited.

A

Michael Linenberg

Analyst, Deutsche Bank Securities, Inc.

Great. And then just sort of a second projection question, Glen, I mean, to watch you go from 20% of corporate volumes to 40% and 60% and yet even recently I think we had a survey from US Travel and even the GBTA talking about US corporate travel getting back to, I don't know, 70%, 85% by 2024, it just feels very conservative. I mean it seems like we're running well ahead of that. Is that the case, or is there just something different at Delta where you guys are outpacing the industry?

Q

Edward Herman Bastian

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

Mike, this is Ed. Let me chime in on that one too because I've got the numbers right here in front of me. We've done our own survey, talking to our clients, the biggest companies in the world. I know a very large number of them, and I couldn't make heads or tails out of what the GBTA was speaking to either. Let me give you the most

A

recent survey, and this is as of last week, updated; 36% of our big corporates expect they're going to return fully to pre-COVID levels no later than next year, 2022, its 36%. Another 21% says fully back no later than 2023.

Interestingly, only 5% of our big corporates say they will never return to pre-COVID levels, 5%. That had been 8% in previous surveys. It's now down to 5%, while 38% indicate it's still unclear as to what their levels, not that they're not getting back, it's just the level of flying and the timing is still somewhat uncertain, which is understandable.

So if you take the 2022-2023, that's 57% no later than 2023, and you assume say 75% of those unknowns, the 43%, that gets you actually to 90% back over the course of the next couple of years. And frankly, I think it's going to be even better than that. So this is one of the things that as we have seen, there's enormous pent-up energy and demand for travel.

Also in that survey, 93% of our customers said they're going to increase travel in Q3 over Q2, and many of those by meaningful amounts. So I think that the surge is coming, and just as we've seen it on the consumer side, we're getting ready for it on the business side, and once you open businesses, offices, and you get international markets opened, I think it's going to be – it's really – it's going to be a very good run over the next 12 to 24 months.

Michael Linenberg

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Great insight, gentlemen. Thank you.

Operator: Thank you. Our next question comes from Duane Pfennigwerth with Evercore ISI.

Duane Pfennigwerth

Analyst, Evercore Group LLC

Q

Hey, thanks. Good morning. Ed, you have a good Board in my opinion, lots of experience driving real value in consumer industries, maybe arguably easier consumer industries. Can you give us some insight into debate at the Board level regarding balance sheet improvement as a priority right here and now versus investment? Are there differing opinions on investment rate versus balance sheet improvement? And I guess longer-term, is investing half of your operating cash flow how we should be thinking about 2022 and beyond, or have we kind of moved away from that?

Edward Herman Bastian

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

A

Well, thanks, Duane. We do have a great Board. I agree with that, and there is a lot of good insight that we garner from that Board. This is largely the same Board that's been with us over the last decade. It was the Board that was involved in how we delevered coming out of the financial crisis in 2009, how we managed the – to lead the industry in getting back to investment-grade metrics over five years ago, while delivering a premium product and service level and expanding internationally at a rate probably faster than anyone, particularly with the investments that we've made.

So the Board knows the strategy that we're on. We've talked a lot at the Board level about needing to get our debt down off the balance sheet to get those investment-grade metrics back. We'll give you some very specific guide posts on that when we have our Capital Markets Day in December so you know what to expect from us. And at the same time, we're also investing meaningfully into the business with opportunistic purchase of Airbus 350s and

737-900s that are current vintage. They'll plug and play and we'll continue to be able to grow the business accordingly. So the strategy actually is not that different from where we've been, and I think it's going to – we're going to stay very focused to get in the investment-grade back and growing the business at the same time.

Duane Pfennigwerth

Analyst, Evercore Group LLC

Okay. Appreciate the thoughts.

Q

Operator: Thank you. Our next question comes from Joseph DeNardi with Stifel.

Joseph W. DeNardi

Analyst, Stifel, Nicolaus & Co., Inc.

Thanks. Good morning. Ed, in response to Mike's question, you said I think based on your time with Steve that the Delta card is Amex's highest-value, like what do you mean by that? Are you trying to say that it's a very profitable card for Amex as well or their most profitable card?

Q

Edward Herman Bastian

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

No, I don't know if it's the most profitable. I hope we are. You'd have to ask Steve that. But what I can tell you is it creates the highest overall level of spend and growth in the portfolio, and it's been that way for some time and it continues, and we both continue to invest to keep it that way.

A

Joseph W. DeNardi

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. Okay. And then, Gary, you said the fleet actions would allow you to add 7 points to ASMs by 2023, so what level of ASM production are you on track to kind of achieve in 2023? I know there's a lot of flexibility, but does the current fleet support 100% of 2019 capacity in 2023, 105%? Like, where are you now with that? Thank you.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

Yeah, Joe, we'll talk more about that and what our long-term capital needs will be in December with you. What I was pointing out was the portfolio of decisions that we've made gives us 7 points of additional capacity that we can bring in that timeframe and just continue to point out that the team has positioned us with a tremendous amount of flexibility to go either up or down depending on how we see the demand environment. But we'll have more color on that with a bigger picture about how some of the other components play into it as well.

A

Joseph W. DeNardi

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. Thank you.

Q

Operator: Thank you. Our next question comes from Chris Stathoulopoulos with Susquehanna International.

Christopher Stathoulopoulos

Analyst, Susquehanna Financial Group LLLP

Q

Good morning. Thanks for taking my question. So, your marginal cost per mile in 3Q was just under \$0.04, and it's ticking up sequentially significantly, and I realize that as you said you're spooling up capacity here, but I was wondering at what point whether it's in ASMs or revenue, where we could expect to see this operating leverage or the costs that you've taken out over the last year or so more clearly show up in results?

Meaning, normalizing for the change in your marginal cost per mile from the second to the third quarter as you spool up here, what kind of a more accurate run rate looks like and that would also – assuming corporate does return as you expect by the end of the year?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Well, Chris, on an underlying basis, we still have in our experiencing a lot of leverage even as we move into the third quarter. That will be the case for a good bit here. The guidance we have in the third quarter, we're still operating 28% to 30% below where we were in 2019, so there are parts of the system where we were under pressure, as Ed described, and we're absolutely meeting the needs there, but there are also lots of opportunities for us to drive that leverage.

Some of what you're seeing in terms of the moving pieces are at least I think unrelated to that. A big cost pressure as we've moved from the second to the third quarter at least a couple points is just selling-related expense, we're obviously thrilled to be seeing, and it's just a function of the demand recovery that we're experiencing.

Normally when we're in a typical year, we work very hard to not be maintaining aircraft during the peak summer months. For obvious reasons, we want them flying and generating contribution. This year we've got a maintenance step-up as we move from the second to the third quarter. In fact, I think when you look at third quarter maintenance; it'll be comparable to, if not even slightly ahead of where we were in 2019, instead of the down 30-ish percent that you've been seeing over the last few quarters. So it's a year with a lot of unique features in terms of how they play out on the cost side, but the fundamental leverage that we've been describing is there.

Julie Stewart

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

A

And now, we'll go to our final analyst question.

Operator: Thank you. Our question comes from Andrew Didora with Bank of America.

Andrew G. Didora

Analyst, BofA Securities, Inc.

Q

Great. Good morning, everyone. Just kind of want to go back to costs. Obviously, the labor market is very tight right now and I think your last base pay increase was in October of 2019. So Gary, is there anything in your 3Q or 4Q CASM expectations for a wage increase? And I guess, Ed, how are you thinking about the need for one right now?

Edward Herman Bastian

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

A

Thanks, Andrew. We don't preannounce what we're doing on our labor strategy and cost, and obviously our people are working really hard and delivering great value. We're still losing money. We need to get the company stabilized first before we start talking about wage increases.

Andrew G. Didora

Analyst, BofA Securities, Inc.

Q

Okay. And then last one for Ed. Not sure if you're going to have any comment on this, but the – kind of last week, the President issued an Executive Order and he just called out [indiscernible] (01:07:05) administration as one of its objectives. What do you think this means just given your position in a pretty [ph] spot (01:07:13) constrained market here in New York? Just love to hear if you have any comments on that. Thanks.

Edward Herman Bastian

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

A

I really don't. We'll study; we'll talk to the Administration and Department of Transportation and Secretary Buttigieg, and many individuals about it. We have a long history of driving great value for our customers. It's expensive to drive great value and we're making the investments to drive great value. There's no question when you think about the level of service, the quality of service, the reliability, the affordability, everything's moving in the right direction, so we're thrilled to be able to show them the actual results of what we're doing.

Andrew G. Didora

Analyst, BofA Securities, Inc.

Q

Thank you.

Julie Stewart

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

That will wrap-up the analyst portion of our call. I'll now turn it over to Tim Mapes, our Chief Marketing & Communications Officer, to start the media questions.

Tim Mapes

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

Well, good morning to all of the members of the media. Thank you for your time this morning. We're grateful for that. And Katie, if you wouldn't mind reiterating for the members of the media the rules of asking a question with one follow-up, please?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Thank you. Our first question will come from Mary Schlangenstein with Bloomberg News.

Mary Schlangenstein

Reporter, Bloomberg News

Q

[audio gap] (01:08:54) planning for the rest of the year, if you can talk about the numbers versus the percentage increase that that will be? And then also if you'll comment on whether you're having any trouble finding enough people to hire?

Edward Herman Bastian

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

A

Mary, this is Ed. We missed the first part of your question. Could you repeat that?

Mary Schlangenstein

Reporter, Bloomberg News

Q

Yes. I wondered if you could say how many employees you're going to add, the number versus the percentage increase?

Edward Herman Bastian

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

A

Over the course of this year, we're in the process of hiring between 4,000 and 5,000.

Mary Schlangenstein

Reporter, Bloomberg News

Q

And are you having any trouble finding applicants for those jobs?

Edward Herman Bastian

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

A

We are not. The Delta brand is a very strong hiring brand. We're having great success. The challenge as I mentioned on the call is the training, the time it takes to get people in position, whether it's on the phones, in reservations or in the airports. It takes a few months. And the demand has come back at such a fast clip, it's taken us all a little bit of time to catch our breath. But we'll be fully back over the next couple of months and providing – we've been providing great service, but the service levels that customers should expect and deserve, you'll be getting that from Delta in the next couple months.

Mary Schlangenstein

Reporter, Bloomberg News

Q

Okay. And have your flight operations been affected at all in terms of lack of flight crews?

Edward Herman Bastian

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

A

Not at all. Not at all. We've been managing the best completion factor in the industry and it's not even close. Our team is doing a good job. We've been at this for over a year, managing the training queue and the training pipeline, and our pilots and our maintenance team are doing great.

Mary Schlangenstein

Reporter, Bloomberg News

Q

Great. Thank you very much.

Operator: Thank you. Our next question comes from Tracy Rucinski with Reuters.

Tracy Rucinski

Reporter, Thomson Reuters

Q

Hi. Good morning. I was wondering if you have any updates on your plans for the Trainer Refinery, and particularly on the outstanding liability on the biofuel credits?

Edward Herman Bastian

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

A

Tracy, we don't have anything, any news, in that regard. We continue to operate Trainer. The team does a very nice job there. We said in the past that there are opportunities to pull another strategic partner in. We'd be open to that.

Relative to the question around RINs, we are fully accrued. So I know there's been some discussion in the press about whether we pulled away from acquiring RINs. We just know the pricing of RINs is not a market-based price at the present time and we're not going to spend good cash chasing a fairly – a marketplace that isn't transparent. So we've accrued the costs, but we have time to decide as we settle those obligations over the next couple of years.

Tracy Rucinski

Reporter, Thomson Reuters

Q

Okay. Thank you.

Operator: Thank you. Our next question comes from David Koenig with The Associated Press.

David Koenig

Reporter, The Associated Press

Q

Oh, hi. Well, Mary asked my question, but if I could kind of follow-up. I know, Ed, you said that it's too early to raise wages, but what about starting pay? Are you having to raise starting pay to attract people or do anything else out of the ordinary to find those 4,000 to 5,000 folks?

Edward Herman Bastian

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

A

You know it's interesting, Dave. We've looked at potentially hiring bonuses and other incentives, and largely we haven't needed to resort to that. People look at the Delta brand as a place they want to be long-term and they see this as an opportunity to get inside Delta. So no, we haven't had to make any changes to scale. We always watch it. We're very competitive in the market. We pay well, our people we take great care of them, but no, we haven't had to adjust our salary scales in any meaningful way.

David Koenig

Reporter, The Associated Press

Okay. Thank you.

Q

Operator: Thank you. Our next question comes from Dawn Gilbertson with USA TODAY.

Dawn Gilbertson

Reporter, USA TODAY

Hi. Good morning. My questions are about the customer service wait times. You know, they still are as long as six hours, at least as recently as yesterday. So I'm wondering from a traveler's perspective, is there any end in sight? I've also noticed that you guys have temporarily suspended help through Twitter DM, which is a frequent recommendation I and other travel reporters give. So is there any end in sight? And what's your best advice for people to reaching Delta, especially with last-minute travel questions? Thank you.

Q

Edward Herman Bastian

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

Well, thanks, Dawn. This is Ed. We are hiring a couple of thousand people into reservations. We've already hired at least half that number. We've got more to go every single week. More and more people are getting on the phones. We've reached out to many of the people at reservations who have retired as we had separation packages and voluntary departure packages over the last year. We have a fair number of them that have returned. They're on the phones, and we have people working from home.

A

It's not a question of not providing the staffing. We're doing everything we can. The volumes are beyond anything we've ever seen. They're beyond the high point of 2019, and the handling times are substantially longer as people have more questions, as travel has changed, as their first time back. So we're incredibly sensitive to it. The number you mentioned is not the average number at all. Yes, there are – there are rare occurrences of that. We have the callback features in place. We manage every one of the queues whether it's the general SkyMiles queues, the premium queues, the non-member queues, and we're all at the longest, the average we're seeing is in the one-hour timeframe. But which is by the way, way too long, and by September we expect to get that back down to normal levels.

Dawn Gilbertson

Reporter, USA TODAY

Could somebody comment or get back to me on the Twitter DM, because you guys appear to be the only one of the major airlines that's temporarily not responding via DM.

Q

Edward Herman Bastian

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

Yeah, I'm not sure about that. We'll get back to you.

A

Dawn Gilbertson

Reporter, USA TODAY

Thank you.

Q

Edward Herman Bastian

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

A

And by the way, people email me every day, every hour, and that's a good way. So if somebody needs help, just send me a note. I'll take care of it.

Operator: Thank you. Your next question comes from Leslie Josephs with CNBC.

Leslie Josephs

Reporter, CNBC

Q

Hi. Good morning. Thanks for taking my question. For the employees that are coming in now that you're hiring, are they on average at lower wages than some of the people that left with a lot of senior people took retirement? And then also, for the 28% of employees that are not vaccinated, are there certain work groups that that's concentrated in and are you doing anything to increase vaccination rates across the company?

Edward Herman Bastian

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

A

Your first question, Leslie, yes, the starting rates of people joining the company are clearly lower than the rates that people retired at as they left the company after 25, 30, 40 years of service. So we are getting a juniority benefit in the scale. We're giving a lot of people a lot of our – particularly our young managers are having opportunities to take on more responsibility and grow in their careers and that's all very, very healthy.

Your question around vaccinations, the 28%, could you repeat that?

Leslie Josephs

Reporter, CNBC

Q

What are you doing to increase that vaccination rate across the company? And is that – do you see that it's concentrated in any one work group or geography [indiscernible] (01:16:58) access or information?

Edward Herman Bastian

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

A

Listen, 72%, candidly we're proud of it. It beats any national average by a meaningful amount. We do have pockets within the company in certain regions and certain demographics that are below 72%, and we are doing everything we can to continue to encourage and incent.

We provided \$1 million last month in total awards to vaccinated employees through drawings. We had 40 different drawings at \$25,000 apiece and that we had one more drawing today that we have of anyone that's just been newly vaccinated within the last month to win \$25,000. We've given away free travel to employees, through drawings, that can get vaccinated and we continue to describe the risks to individuals if they're not vaccinated from the variant. So I don't know a company that's doing more to get its team vaccinated than Delta.

Leslie Josephs

Reporter, CNBC

Q

Thank you.

Operator: Thank you. Our next question comes from Alison Sider with Wall Street Journal.

Alison Sider

Reporter, The Wall Street Journal

Q

Hi. Thanks so much. Just curious what you are hearing about the mask mandate on planes, if you think it will be lifted in September? And I guess how you feel about that, if you are hoping it will be lifted earlier or if you'd like to see it extended?

Edward Herman Bastian

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

A

Hi, Allie. I don't know what's going to happen. It's up to the FAA. It's not really up to the airlines to make that decision. We'll be in conversations clearly with the FAA. I think it's important that medical experts make those decisions, not airline professionals, as we've learned through the pandemic. They're the ones who have all the insight and the information in keeping people safe. I can appreciate people not wanting to wear the mask. I don't like wearing the mask when I'm onboard either, but it's something that we need to do to keep each other safe.

And I figure that your question about what's going to happen in September, it really depends on where we are in the recovery phase. If the variants are continuing, I think people are going to be a little more careful about lifting the masks. If international borders are not yet opened, I'm not sure lifting the mask is going to help opening up those borders. So there's a lot that goes into that, and I think there's many pros to taking the mask requirement off as there are to keeping it on at the present time.

Alison Sider

Reporter, The Wall Street Journal

Q

Thanks.

Operator: Thank you. Our next question comes from Madhu Unnikrishnan with Skift Airline Weekly.

Madhu Unnikrishnan

Reporter, Skift Airline Weekly

Q

Hi. Good morning. Thanks for taking my call – or my question. I had a question about the federal payroll support and whether based on the arguments Delta management made last year if you still believe that the support was facilitated with faster recovery protected jobs? And the second part of my question is what happens after October 1 and whether – and what the burning off of – the expiration of support will mean for Delta's earnings?

Edward Herman Bastian

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

A

Well the – I think it's without debate that the federal support was critical to keeping our industry afloat and keeping our employees employed and being in position for the recovery. As we talked on this call, one of the biggest challenges we're having now is getting everything fully stood up, even though we've kept all of our employees, so you can imagine if we had to actually let many, many people go and abandon those individuals the challenges we'd be facing in our country of getting travel moving again. So I think it's been an incredible success.

I think one can debate the length of the PSP2 and PSP3. I see no interest in going beyond what we have at the present time with PSP3, and we expect to be profitable in Q3 and beyond without any PSP support, yes.

Madhu Unnikrishnan

Reporter, Skift Airline Weekly

Q

Thank you.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Katie, we have time for one final question, please.

Operator: Thank you. Our final question comes from David Slotnick with TPG.

David Slotnick

Reporter, The Points Guy

Q

Hi. Good morning. Thanks for taking my question. I'm wondering if you could talk a little bit about what you've seen in the last few weeks with unruly passengers. Has there been any upward or downward trending in incidents of that, and do you have any thoughts on just what's been causing this sort of surge this spring and early summer?

Edward Herman Bastian

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

A

You know, David, we haven't seen any meaningful shifts. It's been something we've been dealing with over the course of the pandemic. I know some people want to relate it to having to wear masks. I'm sure that's a piece of it. I don't know that's the main piece.

I think the bigger challenge is that we've got a lot of individuals that have been impacted; their emotional well-being had been impacted during the pandemic. And as people are coming back out into society you see challenges in all walks of life, not just in our industry. You see it happening in other places as well in society.

So obviously, social media amplifies that and puts it on a stage. That's not our experience. That's not our normal experience by any means. They're rare. Our crews are trained and they are incredibly professional in managing the conditions when we have someone who doesn't want to follow instructions of the crew, and unfortunately that's something we've become good at. And I look forward to the return of our business and patterns of normalcy so that we can start to manage our business without having to worry about these effects.

David Slotnick

Reporter, The Points Guy

Q

Patterns of normalcy is a good way to put it. Thank you.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Thank you for the question, David. And thank you to all the members of the media for your time this morning. As we wrap-up, we'll turn it over to Ed for final comments.

Edward Herman Bastian

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

Well, I thank you all for joining us. It's been an hour-and-a-half. We spent a fair bit of time with you, but hopefully you've learned a lot as to why we're encouraged and as we power our plan for the post-pandemic future why that I am and our team is as optimistic as ever for the journey that we're on.

US travelers are returning, and it's really a tribute to the incredible work of our scientific community in developing effective vaccines and that's going to be key to opening the world. Our return to profitability in the month of June is a major milestone; a solid profitability close to 10% speaks to the strength of our brand and the great work of our team worldwide. And as we move past this inflection point from crisis into restoration, the people of Delta will be front and center, serving our customers and our communities.

Our mission of connecting the people of the globe is a noble one. It's an important one. It's got great purpose, and the social good that's generated by travel will be essential in the month and years ahead as our world heals.

So I thank you all for your time today for joining us. And one more time I want to say a special thanks to all the Delta people worldwide for their great work over the course of this last 16 months in getting our business to a point where we're looking to bright skies ahead. So thank you all.

Operator: This concludes today's conference. Thank you for your participation.

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