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Delta Air Lines, Inc. (DAL)

Cowen Global Transportation and Sustanable Mobility Conference

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CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

Helane Becker
Analyst, Cowen and Company

MANAGEMENT DISCUSSION SECTION

Helane Becker
Analyst, Cowen and Company

Well, good morning, everybody; and thank you very much for tuning in this morning. We're here. So I'm Helane Becker. I'm Cowen's senior airline analyst, I guess, for lack of a better title. This is our 14th Annual Global Transportation and Sustainable Mobility Conference. And this morning we're going to kick off the conference with Ed Bastian, CEO of Delta Airlines; and Dan Janki, CFO of Delta Airlines.

And before we have Ed's opening remarks, I'm just going to turn it over to somebody everybody knows really well, Julie Stewart.

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

Thanks, Helane, and thanks for having us. 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. Please note we filed an 8-K today with an investor update that is available on ir.delta.com.

Over to you, Ed.

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

Well, thank you, Julie; and Helane, thank you. Always good to be with you and your team and all the investors that are logged in, welcome. Thank you for joining us as well. I'll be brief in my opening comments then I'll kick it to you, Helane, for a – I guess, a Zoom chat, but I call it fireside chat for some strange reason, but a Zoom chat I guess with Dan, our new CFO. Happy to have him on the team and this will be his first investor conference in the airline space. It'll be great to hear from him as well.

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The story for the quarter, while everyone at the moment is myopically focused on the very end, the story for the quarter really has been about the amazing surge in demand that we've witnessed this quarter from people wanting to travel, people want to get out. And once it's safe, once people are comfortable, they're [indiscernible] (00:01:57) By the way, through the recent weeks with the variant at a pretty high level, people are still traveling. So, it's not that people have turned away from travel. It's been a remarkable return to travel.

And that's been our single-minded focus here at Delta is, restoring our business, getting the quality of service, the customer expectation is met, our people in place with the right tools, staffed accordingly, and running by far the most reliable airline in the industry. Everyone's been well aware of the challenges the industry's had this summer; staffing issues, cancellation issues, reliability issues. I'm glad to say, that's not at Delta. Delta has run by far the most reliable and put the most reliable product and service out there in the industry.

We're staffing. We've hired over 6,000 people this year. Reservation has been one of the places that we really needed to bulk up, with all the questions people are coming to us with and the team's doing that. The airports are full and our team is ready to handling them and they are handling them. The variant has caused a bit of a pause on some segments of our business, particularly our business travel.

We were anticipating as we got into the post-Labor Day period seeing another step-up in business travel particularly domestic, as businesses were scheduled to return to office. Many of those have pushed those back into the latter part of the year or early start of next year. And so, it's probably about a 90-day pause in return to travel for that next leg up that we were expecting to see. But it's coming. We haven't seen any pullback in business travel. We're still in that 40% range that we were in the early part of July. It's been holding pretty steady. It's up and down a little bit, but it's holding pretty steady.

And the other thing that we were anticipating seeing was more international borders opening and, of course, with the variant the US has not opened its borders to international travel and that's another thing that we've been wrestling with trying to get international borders open again. But that all said, I'm pleased to say that we're still going to come within the revenue guide that we provided the Street at the beginning of the quarter. We'll be in the lower half of that guide, but we will be within the guide.

And I'd estimate, when I look at it we're probably 1 to 2 points away from the revenue target we had internally that we set for ourselves at the start of the quarter. So, team's done a really good job in managing a choppy, choppy environment. And as we're starting to see the variant starting to recede, particularly here in the south, we're going to see the return coming back again and people getting back out on the road once they feel it's safe and not having to do these Zoom conferences, and Helane was sharing with us her frustration on not being able to do this live. And we share that frustration, but we will be doing this live soon.

So with that, Helane, I'm going to turn it to you to take us through your questions. But great to be with you and thank you for hosting us.

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QUESTION AND ANSWER SECTION

Helane Becker
Analyst, Cowen and Company

Q

Well, thanks very much, Ed. And I'm really sad that we're not in person, but I will look forward to seeing you in December at your Investor Day in person. So, that will be something – that will be hope. I think I have a bunch of questions, but you and I had talked early on. The one thing that you talked about was hope. That's what travel is, right? It gives you hope for the future versus this whole idea of being caught up in your various paradise prisons, as I refer to my house like. I love being home, but not that much.

So pulling back a bit, and thanks by the way for that update, but let's talk longer term and just ignore the pandemic and kind of go back to maybe thinking ahead. What do you see as the key differentiators for Delta on how you've managed through this whole pandemic?

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

A

Well, when the pandemic started, I guess this is 18 months now officially, I sat down with Frank Blake, who's our Chairman, and we were beginning to strategize what this was going to mean and obviously none of us had any idea, in early March of 2020, what was about to unfold. But the piece of advice he gave me which I've carried through every decision I've taken since is that, this crisis will reveal the character of Delta Airlines. Its people, its management team, its values.

People in time of crisis think that's what builds character, you're going through a crisis. If you don't have character, you're not going to make it through the crisis. The crisis will rebuild the character of our airline. And as a result of that, the focus we've had around protecting our people, our customers, our liquidity, our financial position and also just as importantly our future, was paramount right in the early days, right. We set out that summary that that was going to be our philosophy on how we manage through this difficult time. And we've done that. We've seen our brand strengthen during this period of time.

We won the J.D. Power Award as the Best Airline in North America in the face of a pandemic. The decision to block those middle seats for an entire year was not easy, but we did it because we cared about protecting our people, our customers and it spoke to who we are as a brand. We've invested smartly. We've invested in new technologies. We're going to the cloud. We didn't use the pandemic to back away from our future; we actually accelerated our path into the future.

So, new technology platform being built with AWS. We've got airports that were opening. We opened the brand new Salt Lake City Airport last fall. We've got La Guardia and LAX scheduled for big openings next year. And cut, by the way, several years off the timetable for those projects and billions of dollars of savings as a result to get them done sooner. And we've simplified our company. We got rid of a lot of our older planes, our subscale fleets. We've given a lot of our people opportunities to step up into new leadership positions. A lot of our people retired. We had almost 20% of our entire staff early retire and that's given us opportunities for new people to step forward.

So, it's a new company coming through this. We're going to be stronger. The brand's going to be stronger. Our Net Promoter Scores throughout the entire pandemic were at record levels. And while the huge surge in demand that we saw this summer obviously pulls some of those NPS scores down a bit as everyone's back into crowded airports and lines and full airplanes, we already are on – we saw a bottom-out at the highest level we'd ever been

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at and we're already on the climb back up again. So, team's done a great job and our brands never been in better position.

Helane Becker
Analyst, Cowen and Company
Q

That's great.

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

And by the way, our financial position also was in really good shape going in. And it enabled us to get through this crisis without having to tap our owners for any equity. We've been able to manage this ourselves which is an important factor, and also not have to furlough a single employee. Whether it was going to be the CARES Act or not, we [ph] are told to our people we're not (00:09:32) going to furlough. So, those are things people will remember for a generation about how we handled this crisis.

Helane Becker
Analyst, Cowen and Company
Q

They'll be writing cases about this crisis and how well I think Delta came through it actually in business school – in business school cases to do that study. So, thank you. That was very detailed and thank you very much. Dan, so you're two months into the CFO role at Delta. What are your initial observations that you could share with us?

Daniel C. Janki
Executive Vice President & Chief Financial Officer, Delta Air Lines, Inc.
A

Yeah. Certainly, well, thanks for having us and great to be with you. First of all, the one that really stands out, and Ed alluded to it, is the people and culture. Coming in from the outside you had a sense of it as a customer, as a longtime resident of a land and being around the Delta community. But certainly, once you get inside the collegiate nature of the team, the inclusiveness, the just real depth of industry expertise, just really talented individuals, especially when you get also out on the front line and interact with the teams, just the passion for what they do every day, it is just awesome feeling. So, that certainly is something that I've been impressed by and has really stood out.

I think the other one that you really feel is the [ph] NordStar (00:11:04), the customer and our people. And whether you're in a business review, whether you're in the Starbucks cafe on campus, whether you're in a town hall, whether you're in a hallway discussion, it's really clear in everything that we do that the customers, people are at the center of that decisioning and actions that you take every day. And if I had to pick two things, I'd say, those have been the two most impressive things that have stood out in the first 60 days here.

Helane Becker
Analyst, Cowen and Company
Q

Okay. And you're also new to the industry, so [ph] there you go (00:11:38) for that and a heck of a time to join, right? You joined at quite an interesting time. How are you thinking about your priorities near term and then longer term as Delta's CFO? So there's maybe, what, two questions in there, near term and longer term?

Daniel C. Janki
Executive Vice President & Chief Financial Officer, Delta Air Lines, Inc.
A

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Yeah. A couple of things. Near term, being around industrial companies, being around financial service companies, I'd certainly tangentially seen the airline industry been a customer of it. But the first and most important priority in the near term is just the immersion and learning of the business, the operations, the customers front to back, really getting in and seeing and [ph] feeling (00:12:21) those operations; seeing it through the eyes of our employees and really paying attention to the details of those operations. So whether it's every day, every week, every month, there's a significant amount of [indiscernible] (00:12:33) just dedicated to that. So, that's the number one priority here.

Number two, the team that I'm responsible for and that directly, whether it's the core finance team, whether it's a fleet team, the fuel, supply chain and procurement strategy, it's getting to know those teams, understanding the operating rhythms of them. But most importantly, ensure that we're aligned to the business priorities and that we're clear on our allocation of resourcing and we're executing on behalf of the business and then we're delivering on that weekly, monthly set of deliverables and executing well.

And I think really to maybe the second part of your question, longer term, it's – working with Ed and the leadership team and all the operators here to say, ensure that we stay true to the focus of the company that we're focused around those priorities, that we're allocating the right amount of human capital and physical capital to those priorities that we're executing against them. But ultimately, that we're delivering for our people, for the customers and for our stakeholders in creating value and generating the returns that we expect on those investments.

Helane Becker
Analyst, Cowen and Company

Q

Thank you. Let's go back to Ed for a revenue question and you might have actually answered part of this in your prepared remarks. I think business traffic has started to come back a little. And I know I've started traveling again for business and I'm not going to stop, just FYI, just in case you thought I might, I'm not. But then, companies started postponing return to office and I think you said that maybe it stalled out a little bit, so maybe you could speak to what you're seeing.

And then, does the variant change your view on the recovery of business travel over the next few years? Like, do you think the longer this goes, there will be a permanent change in business travel habits, because I don't. I think people will always travel for business maybe not as often, but I do think you need to travel to see each other and to do the handshake or whatever we're doing these days, if we're not doing handshakes, if we're doing fist bumps or elbow touches or whatever ridiculous thing, we're supposed to do. That's politically correct. But anyway, what are you thinking in that regard?

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

A

So, I don't think the variant has changed – changes anything other than delays, the return to office that we talked about already. And that delay is in the 90- or 120-day timeframe. I don't think it's a substantial delay. All of our companies, all of our big companies and especially our smaller companies are all out traveling. There is no traveling in the volumes necessary yet to get our business back to where we needed to be. As they're waiting for the variant to subside, as they're waiting for offices – their customers to open for them to go [indiscernible] (00:15:38) conferences like we were going to go up to Boston for, et cetera.

So I don't think that the variant changes much of anything. If anything, Helane, that's kind of interesting, the variant is forcing us all to realize this is a serious disease virus that we have to deal with and we're dealing with it probably on an even faster pace in terms of getting people vaccinated. The mandates that are coming out, we [ph] should our own (00:16:08) requirements getting our people vaccinated. People are – I think you're starting to

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see a big tick up now across this country. And those [indiscernible] (00:16:16) they're not going to be vaccinated unfortunately are getting the natural antibodies and immunities.

So, I think we're going to be in a position in the next 30 days where we're going to be very much back to where we were several months ago before the variant appeared on the landscape. And yes, there's going to be more variance that the media is going to love to talk about, the new variants that are going to be coming out there. But there's also going to be booster shots and we're all going to continue to manage our ability to stay well and stay safe through this period.

Your question about how business travel is going to fare in the future, I completely agree with you. I think business travel, if anything, is people are going to appreciate business travel and the opportunity to be with people more than ever because we took it all for granted, jumping on a plane and doing day trips wherever you wanted to go. It will change. No one can go through a period like we've all been through and not have behavioral changes of some sort. So I think there'll be some forms of travel that maybe reduce those red eyes, those overnights, one night stay in Europe and back again. And maybe some of those will be limited.

There'll be substitutions on video technology and calls [indiscernible] (00:17:40) for the way people do business. But at the same time, the thing I've been struck with is people think for some reason video technology enables everyone to stay home and stay in their office and do their job. Actually, video technology enables mobility because you can take your office with you. Your office now is wherever you are. I'm in Utah today, right? And I'm with you and I haven't skipped the beat. I was able to travel out here and spending the week working from here.

And you no longer have to fear that you're going to miss that important meeting or a need to get that calendar on the road [ph] while filled up that (00:18:17) sometimes inhibits business travel waiting for schedules to get completed. You can actually be more present wherever you are. And so, I think there's probably as many positives as negatives.

The other thing that – I've talked to a lot of people on this question, particularly a lot of business people and running businesses, business development people, consultancies, because of the technology, people have been able to meet more people and new people than ever before at a faster clip. But they don't have the human relationship. So all they know are people and screens now. And they're going to want to advance their business and get out and see these people and cement those relationships.

You're not seeing many transactions being conducted over Zoom unless it's absolutely, there's no other option. People want to be together, look each other in the eye, get their teams to know each other, and start moving their businesses forward. I think at this period of time I think you're going to see a lot of people getting out and seeing new people and developing new opportunities faster than ever because of what we've all been through here.

Helane Becker
Analyst, Cowen and Company

Q

That's really insightful and very, very helpful. Thank you. So Dan, there's been a couple of – maybe more than a couple, A321neo option exercises and some opportunistic aircraft announcements this year. Can you talk a little bit about the broader fleet strategy and how those aircraft are going to fit into it and maybe include orders that are growth versus replacement?

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

A

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Yeah, certainly. Couple of points on that. I think our fleet strategy, the fleet team, really is focused around four pillars as we think about our fleet. First, simplification. Second, scale with simplification within those fleet types that we have scaled that when utilizing size competitively, as we talk about especially the neos and large narrow bodies. And then lastly, efficiency, sustainability that the aircraft that we're putting in place have higher efficiency than what we've replaced by a significant amount.

So, those are our four pillars. There's no doubt the actions that we've taken both on the neo and the actions that you've seen us take [ph] in the gently used (00:20:37) market related to the 350s, the 737s, have right aligned to that strategy of simplification, scale, size and efficiency as it relates to that. So, right aligned with that strategy and the elements of it.

Second piece of that really about growth and replacement. As you know, it took up a lot of action to accelerate our fleet strategy last year with the retirement of 227 aircraft. So, most of this as we focus here is replacement and the restoring of the airline as we move forward. We obviously maintain the flexibility to flex that fleet as we've talked about, whether it's 717s or 767s. We also have a number of options out there for additional neos in A220s that give us flexibility for growth as we move forward. But it'll be a few years until we get back to the fleet count that we had in 2019. We'll continue to stay disciplined. We're going to invest in the business, but we also want to restore the balance sheet.

Helane Becker
Analyst, Cowen and Company

Q

Got you. And then, as you think about modernizing the fleet in these aircraft orders and so on, how should we think about fleet financing and CapEx going forward?

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

A

Yes. Couple of things on that. We've predominantly been an honorary aircraft, about 75% are owned, 25% are leased. That's certainly has served Delta well, as Ed talked about. We came [indiscernible] (00:22:09) with a strong balance sheet. Those unencumbered assets allowed us a lot of flexibility as we navigate the last couple years.

We're certainly in a unique position now with the sheer amount of cash that we have, so we're paying cash for the airplanes. But we'll be opportunistic, you saw it on A350s. As you looked at them, those leases were highly economic. They fit the fleet strategy. They had good returns. So we'll be smart about how we utilize that. You see our CapEx for the year is $3.2 million. We're going to balance that.

Again, it's about investing in a business, making it stronger, but ensuring that we pay down that incremental debt that we took on and we restore to strong investment-grade credit parameters. And we'll talk more about that in December when we get together for the Capital Markets Day and the pace of that over the years to come.

Helane Becker
Analyst, Cowen and Company

Q

Great.

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

A

No, Helane, if I could add on to some...

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Helane Becker
Analyst, Cowen and Company

Q

Absolutely.

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

A

...of Dan's comments there. Crises create opportunity also. We talk about all the negative things that crises present us with. They create opportunities. And they've created us with a great opportunity to accelerate our fleet development, not just retire a lot of old inefficient planes, but acquire a lot of new – not just the A321neos and the like, but going out into the used markets which we're not afraid of tapping into with some amazing bargains, that will be around as a capital-friendly decision for years to come.

But in the next couple of years, you're going to continue to see us do some things where there's opportunities. I think this opportunity is just going to stay out there; I don't think this is going to disappear anytime soon. But when we present at Capital Markets Day in December, we're going to give you a three-year look at what we see on the fleet, on the capital allocation structure of the balance sheet.

It's key to us to get back our investment-grade rating. And certainly, the first thing you have to do is get your investment-grade metrics in place and then hopefully your investment-grade rating will follow. But we'll take our investor community through that. We're spending a lot of time on that now. So rather than focusing on any one point in time in this current year which is kind of an unusual year for us, looking over a three-year horizon will give you a pretty good sense of how we're thinking about that.

Helane Becker
Analyst, Cowen and Company

Q

I think that will be very helpful too. I think it helps. The problem with thinking one year at a time is, the years go by so fast that you don't really get a chance to implement everything because you also have to react to things as they're happening as well. So, I think three- to four-year time horizons maybe work better.

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

A

Yeah.

Helane Becker
Analyst, Cowen and Company

Q

And actually to follow up that, nobody expected a 90% decline or maybe more. I think the worst was actually [indiscernible] (00:25:02) you guys reported earnings April – I want to say April 14th or April 16th of 2020, that was probably the absolute bottom...

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

A

It was.

Helane Becker
Analyst, Cowen and Company

Q

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...in terms of the number of people who traveled. And you actually said on the earnings call, this is probably as bad as it's going to get, and then it gradually started to climb from there. But you took the airline down quickly and then you had to rebuild the airline. And I feel like, we called it a jailbreak. We expected a jailbreak over the summer that people would want to travel because they were tired of being home and so on. So, how did you do that? How did you rebuild the airline without the problems that some of your peer group had, and then continue to balance your priorities?

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

Well, thank you, Helane. A few things in there. You're right. We'd never done this before. We never put our airline to bed and we never woke it up all at once and with everyone starting to fly. One of the unique aspects to how we've done this is, remember, we've blocked those middle seats...

Helane Becker
Analyst, Cowen and Company
Q

Right.

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

...through the end of April. So, we timed the resell of those seats in May, probably as much luck as being smart at that point in terms of timing. But we had one-third of our seats already available for customers as that jailbreak was occurring, as people were coming back. So we were already flying the seats. So, it was actually operationally much less stressful for us to get people into those seats than it was for other airlines that actually start-up new planes and get new staff and a large number of other complications.

Second thing is that, we were determined right at the onset that we're going to be pretty disciplined about not trying to get too far ahead of ourselves in anticipating the revenue environment. I know a number of other airlines went for market share and decided to go all in and take whatever they could, and you've seen the consequences of that. There was not much buffer for error in some of those businesses as a result. We were much more cautious and disciplined. We're still 30% down in the current quarter on capacity relative to 2019.

So we're building our airline back, hiring the people. We are not waiting for our contractors or service contractors to find people. We're going out and putting Delta people in jobs, pushing wheelchairs, cleaning planes, work in the catering kitchens, doing whatever it takes. And those are jobs that are probably going to stay with Delta for a long time to come. Because we've created a whole new generation of new employees just this year alone, building the new airline that we're creating. So there's a lot of pride in that that's being done by Delta. And the teams, the operation teams, the commercial teams have stayed in really, really close coordination.

A couple of things on that obviously. There's some cost pressures that we've experienced and that are going to be in this quarter. We're going to be probably a couple of points higher than we thought at the start of the quarter because of that, as we want to put our people in position to take care of all that demand that was coming quickly. And we're going to get to, by the end of the year – we're going to stay with this philosophy. The priority is to get this airline fully stood up, exceeding customer expectations by the end of the year.

There's some cost attached to that. I know we have put out an early goal to try to bring our fourth quarter of this current year cost of below the fourth quarter of 2019. We're probably going to miss that by a little bit – not by a lot, but by a little bit. But it's all for the right reason because we've got our people, we've got our costs, we've got our

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brand to worry about, we've got a lot of revenue to serve. And next year, we'll fill out that schedule as we bring scale back to the airline. And I think our cost structure is going to look really, really good next year.

Helane Becker
Analyst, Cowen and Company

Q

That's good, actually good to hear. I think we only have about a minute left and I still have like a zillion questions. But could you just broadly talk about your hiring plans over the next say three to five years, especially in the context of seeing a lot of pilots retire and maybe some senior flight attendants retiring?

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

A

Yeah. So, we are hiring flight attendants. We're hiring pilots. We're hiring mechanics. We're hiring reservation agents. We're hiring airport workers, mechanics, you name it. We're going to hire this year and we've already hired close to 6,000 people this year already. And so, we're already ready for the return. We're not waiting for people to – we're not having some hiring pressures that you may be seeing in other businesses. Our brand is incredibly strong now.

We announced a few weeks ago that we needed to hire, I think it's 1,000 and 2,000 flight attendants and we got 35,000 applications in one week, right. And we had turned off the applications, because it was just too much. So the brand is strong, it's a great hiring brand. People want to work for the airline. Pilots, again, we're not having any problem hiring pilots. It's the airline that pilots want to work for. We'll hire about 1,000 pilots probably a year over the next several years. So you could see several thousand pilots hired over the next two to three years as we get back by 2023, which is our goal to the revenue production that we had in 2019. We're going to need pilots and flight attendants and mechanics.

But we're getting out in front of this stuff. We're not waiting and trying to time the return of revenue to the class. We want, as customers come back to travel, say Delta, I missed you and you're actually better than you ever were, and that's our goal. And there's a cost to that, but it's the right cost to pay because the revenue that we generate from that, the brand strength that we retain is massive.

Helane Becker
Analyst, Cowen and Company

Right. Exactly. So unfortunately, gentlemen, we're out of time. I could sit here and talk to you all day if I could. But Ed, I have to let you get back to maybe taking a nap since, if you...

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

Thank you. One thing I did not mention, Helane, that I think is important; my team kill me if I didn't. We're going to be profitable this quarter – this third quarter despite the challenges that we've seen with the variant and some of the revenue reductions. We set as a goal for ourselves that we'd be profitable in the third quarter. And I just want to affirm that we will be profitable this quarter.

Helane Becker
Analyst, Cowen and Company

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Even better news. It's even better. Okay. Well, I sadly have to let you go. But I look forward to talking to you on the October earnings call and then seeing you guys in December. And again, thank you very much for supporting our conference and for being here with us today.

Edward Herman Bastian

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

Thanks, Helane. Great to be with you.

Daniel C. Janki

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

Thank you very much. Pleasure.

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