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Delta Air Lines, Inc. (DAL)

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

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J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

MANAGEMENT DISCUSSION SECTION

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

All right. Good morning, everyone, and welcome to Bernstein's 38th Annual Strategic Decisions Conference. My name is David Vernon. I cover the transportation and airline sector for Bernstein. We are more than happy to be joined this morning by Ed Bastian, CEO of Delta Airlines. We're going to go through a little bit of Q&A. You should have access to a QR code that you can get to a thing called Pigeonhole where if you'd like to promote, demote or ask a question, you can do that, we'll be trying to process that as much as we can. I can't guarantee you I can juggle all these things, but we'll do the best we can to incorporate whatever feedback you guys have into the conversation.

So Ed, thank you so much for joining us again, this conference here today. Welcome back, everyone, to a live conference. It's glad to see that the toughest part of this is not having that being able to wear shorts and flip flops, you have to actually put on a suit again, it's different. But we're thrilled to have you here. So why don't you kick us off with some early remarks on the state of the business.

Edward Herman Bastian

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

Well, thanks, Dave. And it's good to see everyone. And it's even good to see people wearing ties, it's – they're coming back, so hopefully we'll all get back to our normal patterns and behaviors here real soon. But it's good to be back. Excited to be here, even more excited not just to be with you, but what we're doing this afternoon, we're opening the new LaGuardia Airport, the new Delta terminal at LaGuardia. We're cutting the ribbon with the governor this afternoon, and it's stunning. Words find it hard to describe.

I spent couple hours walking it last night. It's impactful when you see the scale and the efficiency and the light and the clean and it's really going to be a marvelous, marvelous facility. And it's going to further cement our lead here in New York. We're already number one airline in New York, facilities like that, we're going to be adding the last expansion on the JFK. We should be done with that sometime early next year, added to that – or late next year. It's going to continue to make this, the market with the infrastructure, the airline of choice for New Yorkers.

Relative to our business, our business is doing well. We filed an update this morning, investor update. Revenues are coming in above expectations. The demand has been phenomenal for the industry and especially for Delta. We're going to wind up with, in the second quarter of this year, total revenues restored to where we were in 2019 second quarter despite the fact that we only have 82% of our seats in the market and we actually have fewer seats in the market even when we thought we were going to – we took about 2 points of capacity out and increased revenues on top of that. That gives you a sense of the strength.

We're seeing the margins still hang in there despite the fact that fuel prices continue to climb. We're going to come in the top end of our operating margin guide, somewhere close to 14%, operating margin for the quarter. And free cash, which is really important to this base of constituencies, is very, very healthy. We're going to generate over \$1.5 billion of free cash in the quarter, almost \$2 billion of free cash for the first half of the year. And that's while funding roughly \$3 billion of CapEx. So, the business is in a very strong position. The recovery is exceeding my expectations, I think probably all of our expectations, and the challenges we have now are on the other side of the house, the operations in terms of getting all the tools and the resources and the capabilities to serve the demand the way we need to.

QUESTION AND ANSWER SECTION

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

So you mentioned the recovery's happening a little bit faster than you had expected. Is this just a function of the planes are full with leisure and demand, they're pricing sensitive traffic and the business side is starting to come back and you're just getting being able to take advantage of that, or is this really about just the aggregate level of demand and the industry's inability to provide capacity?

Edward Herman Bastian

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

I think demand is coming in every constituent, its coming with leisure, it's coming with premium consumer, it's coming with businesses, coming with international. It doesn't matter what the category is, the demand is off the charts. And the only thing we can do in this environment in order to protect seats and protect inventory is pricing. It's the only lever you have, candidly in this market or else we'd sell everything out. Pricing is also very, very healthy. We expect pricing this summer to be up probably somewhere between 25% and 30% on average. And that's – we've never seen anything, anything of that scale. The markets that we're seeing that are opening internationally, we're seeing the same experience that we're seeing domestically.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Okay. And I guess as you think about bringing the network back, Delta has been taking a more measured approach I think than peers. And up until this weekend I think you've had very good success in terms of maintaining a high completion factor, and that was paying dividends. What are the factors that drove your decision to kind of keep the foot off the gas? And what does that say about the ability to generate future like operating leverage from this level?

Edward Herman Bastian

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

Yeah. At Delta we like to play for the long game. We're not here to try to win the current month or the current quarter in the current year, we're here to win the long-term and continue to stay focused on the long-term. And if you go back and you look over the pandemic who matched supply to demand most carefully, it was Delta in a most disciplined manner. And it was hard because the pandemic had a lot of spikes and peaks and surprises and stops and starts and stops and starts and it's kind of really hard to say that.

We didn't want to put our people through that, our resource planning kind of chasing traffic, which by the way was not quality demand over the last couple of years. And so we took the measure of blocking the middle seats for example, we blocked middle seats for 14 months because we knew the people that we wanted, our targeted customer, wanted to have their space and they wanted to have the quality of experience that they needed to in terms of traveling during the pandemic.

And so when you get – you kind of take that forward, it positioned us most cautiously going into the spring and summer when we saw the demand spike. We've added seats to address that. We're at the point now where we're not going to grow anymore probably through the end of this year with the existing seats that we have in market. There were reports out there that we were canceling about 100 flights a day into the summer. It's probably not accurate. We're not canceling flights as much as we're just not growing. And that was some of the growth that we had embedded in the future few months, because we don't want to outstrip our resources or our capabilities.

We know our customers deserve a reliable experience. We like to think of ourselves as the gold star in providing the best customer care and quality of experience. And we're not going to jeopardize that trying to chase this historic high demand for a couple of months. We want to continue to get focused on the resources, the plan in getting people positioned and grow as our resources are available to grow.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

So I imagine the operating performance for the weekend was below your expectations?

Edward Herman Bastian

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

A

Absolutely.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

Below Delta standard?

Edward Herman Bastian

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

A

Yes.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

As you think about those scheduled tweaks through the rest of the summer, what kind of cost are you going to have to like absorb because of that lower level of activity? And what kind of investments are you making to ensure that you don't have a repeat of [indiscernible] (00:07:40)?

A

Edward Herman Bastian

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

So we also updated our cost guidance, our non-fuel cost guidance for the quarter today, and we're going to come in about roughly 4 points above where we thought for the quarter. Half of that full 2 points is due the fact that we have less capacity, 2 points less capacity. Also due the fact that we have much higher revenues, we have probably 7, 8 points of additional revenue that we didn't think we were going to have, so the cost of that revenue is also factoring in the cost. But there's another couple of points of cost because of the investments in reliability and putting the schedule in a position where our resources are capable of delivering.

Month of June coming up, we've made some fairly significant changes to the schedule and we've added new buffers for our crews, both our flight attendants and our pilots so we have breaks during the day. So if flights are running delayed or if there's issues in the system, they're not eating into another flight or forcing another flight cancellation. We are de-peaking Atlanta because of the spiking nature of demand as it came back, kind of found itself in a bit of a peaked schedule over the course of day. We're de-peaking a little bit, [ph] couldn't let that (00:08:51) demand flow more sequentially. And many, many things like that, and so it's going to add to our availability of resources.

We also need to recognize at the same time, it's not entirely within Delta's control. Air traffic control has had their challenges, the weather patterns this weekend contributed, particularly up here in the Northeast. It was a bit of a blustery weekend from a weather standpoint. South Florida also had weather. TSA has challenges staffing. So everyone in the ecosystem is struggling. And by the way this is not an airline phenomenon, hotels are having this challenge, restaurants are having this challenge. Anyone that is a high intensity service experience is having a challenge getting the right level of resources to the demand in a volatile environment. But we're getting through it. We won in 2021 the Cirium, that's the consultancy, I'm sure you're familiar with this kind of probably the premium – premier airline kind of consultancy. They are gold standard, they named us the top airline for reliability in the world. So we didn't get them overnight. We know what we're doing. And this weekend was disappointing, but we're on it.

Q

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Okay. Excellent. And then as you think about those costs that you're adding in, it sounds like a little bit of buffer on the flight crews, buffer on the pilots, as you think about the ability to kind of maybe take the brakes off of growth from 2022 into 2023, assuming the demand is there, should we be expecting you to then come back to historic levels of staffing or are you going to be maintaining those costs kind of going forward as you think about the level of resourcing you need to [indiscernible] (00:10:25)?

A

Edward Herman Bastian

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

We're going to build our supply and our resources to where demand is. Demand continues to be healthy. We're sort of looking into the third quarter. I know there's a lot of questions as to how long this historic level of demand can continue. We see it continue because if you think about the recovery we saw in March, we were only about 85% back. April was better. May was better again. June, we were well north of 100% recovered. As we look into to the July, August, September, all those trends continue an upward trajectory going into the third quarter and beyond. So we're going to continue to make sure that we're providing the resources we need to meet the demand out there.

Q

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

So one of the – I want to drill into that a little bit, because one of the points of pushback we sometimes get from investors is, okay, it's – well, actually, the first set of pushback was pricing is never going to get there to meet the level of capacity it's growing. Now looks like capacity is going to be more constrained because of the industry issues you mentioned, and the sector set up is actually pretty good. But the bear case is now moving towards, well, pricing is good now, but what happens when there's a recession? What happens when demand comes down? How do you think about how the industry would react in that kind of scenario? And what do you think about the pressures that COVID has put on the business and how that might impact sort of industry behavior broadly if we end up in a weaker demand environment?

A

Edward Herman Bastian

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

Well, first and foremost, we're not seeing any evidence of that now, so the demand out there it continues, despite all the concerns in the marketplace around the health of the consumer. Our consumer is quite healthy. One of the reasons our consumer is healthy, in addition to just the health that they acquired during the pandemic, the trillions of dollars of savings and wealth creation that they maintained, is that there's been a significant migration of spend which has been well-documented from goods into services.

If you remember during our Capital Markets Day at the end of last year, we forecast that this was going to happen, that there was going to be a shift. And services have lagged through the pandemic, goods were way outside their normal trajectory and there's just so many lounge chairs or so many TVs that one can acquire, people are now taking that spend and they're not putting it there as retail has seen some of, and they're saying we're trying to get out of our house, we're trying to get away, we want to go somewhere. So part of the question around the health of the consumer is a real one. But what we're seeing is that they're prioritizing travel at the top of their list in terms of where they're spending their money. And they're taking that out of other areas that they have been spending on.

Secondly, we've been for the last decade, you know as well David, we've been focused on the premium experience, the premium consumer. And we continue to grow to the point where about one-third of our demand is coming in the premium sectors. And that's been growing over time. We've built our product, our service levels in the premium sectors. And that we have seen, particularly during the pandemic but we see it continuing, is relatively resilient compared to the most price sensitive customers out there, in which there's many of in the industry. We have fewer of those, we have a higher premium. So I think it's a more durable, more resilient base.

One evidence of that, I'll tell you about our American Express relationship. One way we look at loyalty and the health of our product and our loyalty mix is what we see going on the card, the co-brand card with American Express. Current run rates are up 140 – they are 140% indexed to 2019 run rates on that card. And so consumers are spending, they're spending on American Express and they're using their Delta card saying that that's how I'm prioritizing. So all these indications give you a sense that we're managing this differently than we've ever seen a recession, a potential recession. We've got to be careful we don't talk ourselves into a recession, right, so because we would wind up there if we talk too much about it.

Q

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Yeah.

A

Edward Herman Bastian

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

So that that's changing. The other thing, having been around this industry for a long time, we've been through a number of recessions. And the other side of the recession for the airlines is that also winds up bringing fuel prices down significantly. As demand comes down, fuel prices will eventually start to fall as that supply starts to catch up to demand. And airlines are geared heavily on the margin side to fuel price reduction. And fuel prices today are at, again, historic highs. And so even though we're seeing historic level of fuel price increase, I think they're up 70-some odd percent versus 2019 today, we're still only a couple of margin points, a few margin points off of our performance in 2019. So we're covering through pricing that fuel price spec. So you kind of look at all those set ups and you say, okay, I think individual items can move as you forecast the future, but the overall setup is pretty strong.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

So I think the point on premium is more something I definitely want to drill into, because I think one of the most fascinating ideas is that you're actually changing the nature of the product, the nature of the inventory and you're actually creating a way for consumers to want to give you more money, whether it's for the Delta Comfort upgrade or whatever it is. When you think about seeing the headline numbers, the census numbers around whatever, 20% inflation, 10% inflation, running numbers, how much is air travel actually changing on a same-store basis inside a Delta versus how much – the actual cost of a ticket versus the cost of getting – versus the impact of buy-ups and stuff like that? I'm just trying to get a – like, how do I think about relating the headline levels of inflation we're seeing on ticket prices to what's actually affecting sort of consumers in that basic product or that standard economy products? Are those fares at the low-end really coming up and that's something we have to worry about or is it really more you're pushing more the mix towards the premium side of it?

Edward Herman Bastian

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

A

All fares are increasing, the premiums are increasing more than the base fares. And that's due to the fact that the product is – the demand for the product is at an all-time high. One of the interesting things we saw through the pandemic is that the premium products led the way. They were anywhere between 5 to 10 points stronger on a comparative scale than our other products that we sell. And again, this is not like other – unlike other industry, I mean you've got that going in premium categories across various sectors.

Those people, once you go into the premium category, they're not leaving, they don't go back in our business. And while a lot of businesses may not have been traveling a lot during the pandemic, their employees were traveling and they were traveling. And businesses now are having to fight their way back onto the airplanes because of the premium consumers that we have, all of that is creating a lot of pricing momentum in our business.

Our business share is doing well, our business share would be actually doing even better if they weren't having to fight towards trying to get onto the airplane, which is a unique experience and I think it's a pretty good sign that we're going to have a pretty good healthy run here for some period of time, as long as we maintain the discipline as to how we manage the business the way we are.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

And you mentioned you were working on the premiumization of air travel as a service for the last decade, and being a Delta flier, I've seen it on the airplanes, in the Delta Comfort cabin, in the change in the product with Delta

One suite. How much more sort of runway do you have on the physical product itself to kind of change the attributes of the experience where you can kind of drive more premium revenue from here?

Edward Herman Bastian

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

A

Every plane we take, [indiscernible] (00:18:05) we're retiring other planes or increasing the overall premium mix of the plane. The most recent plane we just brought to service, the Airbus A321neo, has almost one third of the seats on the plane were in the premium category. We have 150 of those coming over the next five years. And so you think about all the old 737s, the older – the old 320s, 76s and 75s that they replaced, significant opportunities to increase that. Doing the same thing internationally as we take more 350s, we've got more 330s coming, increasing the overall mix.

We put a chart out at our Investor Day and I can't remember what the mix, but that mix we – improvement, we see several points just in the next couple of years of continued growth there. The other thing when we talk premium, it's not just the premium experience on the plane itself, the premium – the airport experience is growing. We've seen a phenomenal explosion of interest around our clubs, our airport expansions. This afternoon we're opening the new LaGuardia. I will argue that, that will be not just the best airport in this region, it'll be one of the best airports in this country. And people have never heard LaGuardia talked about in that...

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

I certainly never talked about [indiscernible] (00:19:27).

Edward Herman Bastian

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

A

And I look forward to sharing it with you because you'll see what I mean. Number one air travel market in the country is LA in terms of the highest demand. We just opened the new LAX airport last month. And when you go through that, you're going to see another huge improvement in the premium service level of that airport. By the way, for all categories, travelers, not just the highest end, but the highest end you have clubs, you got the premium lanes, you got the – it's just a – it's a better experience. We opened a new international facility in Salt Lake last – Seattle last month, we opened the new Salt Lake City Airport last year that we're going to continue to grow to. So whether it's the ground experience, the air experience, the operational prowess of the airline, the network of partners that we have around the world, all these are designed going towards a level of premium, a level of durability, a level of resilience that's going to feed the premium. And because you can't have premium unless you have a high-quality credible infrastructure and service level that customers come to expect.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

And is it right to think that you actually took advantage of lower flight activity during the pandemic to pull forward a lot of those investments? I understand – I know your boarding is faster, right?

Edward Herman Bastian

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

A

LaGuardia is opening two years earlier than we were thinking because we closed whole swaths of LaGuardia to get it done while people were traveling. And not only are we getting it done sooner, we're getting it done cheaper because we were financing these airport expense. We're financing LaGuardia, we're financing the new JFK, we're financing a good bit of LAX on our own dime, so we're getting it done cheaper. We've locked into lower rate

structures on the financing side during this period of time. And so everything about the ground experience is going to be a new process and a new experience for many of our consumers as they return to travel.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC



And how does that – I mean, is that more just like a consumer experience thing or does it also have cost implications for you? I've noticed the last time we came down to see you guys last fall in Atlanta, they had moved towards the fully automated inspection tunnels that were for TSA and it was just a lot faster. Is that same infrastructure? Is that kind of the vision for the rest of the [indiscernible] (00:21:42)?

Edward Herman Bastian

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



That infrastructure has continued to be improved or moving more to biometric, self-serve capabilities. A lot of our customers like to serve themselves, particularly going through a pandemic. They don't like someone touching their bags or having their screen. So, they're managing their experience better. The TSA lanes at the new LaGuardia that we're opening up this weekend, so if you're traveling this weekend you'll get a chance to experience, is a consolidated security experience with a dozen lanes, all clean or latest x-ray technology, going through a really well coordinated security experience, which is LaGuardia is anything but that on the security side. And the club you'll go on to LaGuardia to go through that will be our largest club in the system.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC



Okay. So, you mentioned earlier that the card spend on Delta co-brand cards is up 140%. And obviously, a lot of swing in and a lot of inflation is probably showing up there as well. Is there anything you can see out of the Delta Amex program or through your own experience around the level of corporate activity in terms of like, was that spending going towards travel or is it just people going out to eat more? Like, how do you...?

Edward Herman Bastian

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



Well, and again, we see it everything. The [ph] TNA (00:22:53) component of the Amex spend on the card is up.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC



Is it indexing above that level or below?

Edward Herman Bastian

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



It's above 2019 levels.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC



Okay.

Edward Herman Bastian

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



And so, we're seeing it all levels of the service economy.

Q

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Okay. Looking at international, obviously, the reopening in the Transatlantic has been happening, Asia's a little bit slower. What markets are you more or less optimistic about and what are you sort of looking at in terms of the rate of reopening? What are the variables that should drive kind of what we're thinking about [indiscernible] (00:23:24)?

A

Edward Herman Bastian

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

I think, Dave, I think you will see the same experience of return to travel internationally that we're seeing domestically here. As soon as people are allowed to travel, the restrictions have come off, the masks are coming off, people are being encouraged to move, they're going because there has been such a pent up demand for that experience. Europe this summer is on fire, wherever you want to go, if you're planning to go Europe this summer I encourage everyone to get their tickets booked, to get their hotels locked up and their rental cars, whatever their experience is going to be, secured because it's – the demand is very, very strong. I think we're seeing early signs in Asia as it's opening, Korea is opening – has opened, Japan's opening this month. Same indications, the demand is really strong to go to Asia, Australia the same thing. Latin America has been very close to a US based model through the pandemic. The Caribbean and close in line with South America is slowly starting to open again. We're starting to see those same effects.

So I think the human spirit wants to travel. It's hard to keep it bottled up and they've lost almost three years of experience during the pandemic. And I think this – I don't think this is going to be something that's going to be this summer or just this year, I think that this run rate while the demand – it's hard to keep that sustained momentum going at the current pace, I think it's going to settle out at a higher level of activity than we were in 2019 and I think that's going to be due to the fact that people travel – or that travel – will no longer take it as for granted as they did in the past, and they're going to want to invest in that experience going forward.

Q

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

So as you think about the impact, obviously prior to COVID you had made a number of investments in foreign airlines, some of those airlines weren't as successful in terms of managing through the pandemic, didn't have the government support, what have you.

A

Edward Herman Bastian

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

Right.

Q

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

And obviously, those have been marked down to a degree, diluted down, whatever you want to think about. How do you think about that strategy in a post-pandemic world? Where does the allocation of capital towards those foreign partnerships rank in the Ed Bastian sort of order of importance as you think about the next two to five years down the road?

A

Edward Herman Bastian

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

Well, the good news through the pandemic is we maintained our relationships as we move through internationally in each of these structures. We have a differentiated model, we believe differently in terms of how you work with international partners by having a seat at the table, being inside the boardroom is important from a customer standpoint to make the efficiency of travel better and more seamless for your customers. You have to be inside to influence the experience of your partners, which is what led us to the investment strategy that we've been on also for the last decade. We are to a point now that the airlines are starting to come back. None of the airlines internationally receives the level of support of the government, their governments that we saw here in the US. As a result of that, some of them went through bankruptcy. There's been – not just our partners but international airlines together.

And as a result of that, their returns to service have been somewhat delayed as they're trying to get resource, trying to get planes. But the airlines that we've worked with, our partners, are doing just fine. They're working through it. And we play the long game. We know over time international growth is going to surpass domestic growth. And it may not happen in the next few years, but it's certainly going to happen over the next decade and beyond because we live here in our country in a relatively congested market. There's not new markets to fly to in the US. We're pretty much at capacity, we're slot restricted in just about any key market that you want to fly into. We're building bigger airplanes but not new places to fly them.

International is where the growth is going to be, and with our partnerships and investments and our on the ground leadership with Virgin, with Air France, KLM, with Korean Air, with LATAM, Aeromexico and beyond. I mean, you see us building the infrastructure for the future through the partnerships we maintain today. And because we stood by our partners during the pandemic, those bonds are even tighter today than they ever were. So it's deeper than just an investment now, we're forged through the fire, yeah, and that's going to hold up tight.

We don't have meaningful investments needed to be made into the future. We protected what we had. So in terms of capital allocation, no, I don't think there's going to be a big call on capital going to international partners into the future. First call on our cash is going to be to make sure we're paying our debt down, paying cash for any of our CapEx and paying our debt levels down, which is why I'm really happy about the \$2 billion of free cash that we generated this first half of the year. That's all going to pay down debt, including the \$3 billion of CapEx that we funded through cash. And we're going to continue on that path until our debt levels get back to the investment grade status that we were. We hope to get there over the next couple of years. We've got a target to get to the \$15 billion adjusted net debt. We said we'd get there by the end of 2024, but I'm hoping we'll get there sooner than that if we continue the run rate on cash that we're seeing.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

So if you think about international, and you mentioned kind of coming through the fire, it seems like the US industry has done better than global peers. How do you think about that? What position does that put the US industry in, in terms of leading the redevelopment of international air travel? And how does that impact how you think the competitive dynamic might be or the competitive landscape might look three and four years from now in the international market?

Edward Herman Bastian

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

A

Well, there's no question, we're going to be able to move a little faster because we're in a healthier position than some of the other international airlines around the world. We know international margins tend to be a little less than the domestic margins at Delta, we think that's a real opportunity for us to improve our own international

margins because we'll be able to provide the experience international customers, not just US-based but foreign-based customers, are looking for in travel.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

And what do you think about the return of the – or the potential return of low-cost new entrants in the international marketplace?

Edward Herman Bastian

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

A

Have you looked at fuel prices?

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

Sure.

Edward Herman Bastian

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

A

It makes it really hard.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

Makes it really hard. All right.

Edward Herman Bastian

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

A

It's always been hard, but fuel prices make that much harder.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

Yeah. I mean, this is actually a bigger picture question from [indiscernible] (00:30:13) standpoint, there's always been this view that chaos creates opportunities for new entrants to come in, and we do see some – Breeze and a couple or so of smaller airlines that are out there, Avelo, that are trying to think about maybe trying to work their way into the US market, and there's another Norwegian company that's been – they're really trying to do long haul, low-cost. What's different about this, the state of the industry today, that makes that old saw that, when there's a downturn, new capacity comes in and we sort of restart the cycle?

Edward Herman Bastian

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

A

Well, one of the things that funded the old pattern of recycled capacity and new airlines starting up in fresh business plans is that the industry has gotten through the pandemic in a reasonably healthy condition. Now, we all had a debt, a bunch of people diluted their share. We did not, our shareholders. So there's -what funded a lot of those startups were the liquidations and the bankruptcies of other airlines are the people that are riding the bus and the boom. You're here in the US with a much more stable, disciplined industry that manages and is investing in better customer experience, not just at Delta, I think across the board, much more reliable service, much closer opportunities to stay with customers. A very cost competitive product, when you look at it over time. Airline costs,

while in the current year they're up a lot, over time they're still a bargain relative to almost any other experience you could buy. That's what's keeping, I think, a serious threat in the low cost marketplace from starting to get into a significant fashion.

So I think it's a very different industry setup that we have. You look at the other governors around that, you look at fuel prices, really hard. It's hard on all airlines when you see fuel prices at historic levels. I can't remember us – I think our current guide is about \$3.60 a gallon. I can't remember that. I have to go back sometime just to think about if we've seen a price that high before. But we have a higher quality customer. We have a premium customer that can afford that. And we're able to pass on that customer that price real-time right now. Other airlines are going to have more challenges in that respect. And you think about one of the other governors that's received a lot of discussions, pilots. How are you going to attract pilots and the pilots are a constraint in the system right now, and I think they'll be a constraint for a bit of time here.

So it's a very different setup coming out of the pandemic. I think people were curious as to how the airlines were going to survive and whether the low cost guys were going to get an advantage. I don't think so. I don't think they did. Those who tried to move fastest to try to take share were going to get advantage, we haven't seen that happen. That's just been disruption in other schedules. It's kind of a disciplined structure approach that's leading the way, and I think that resiliency that we have is going to really protect Delta for the future.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Let's spend some time on the pilot shortages because we're trying to model that out. And as we think about the demand or supply of available pilots, what's your view or what's Delta's view on the industry's ability to produce new pilots? So I guess on an annual run rate, like how many pilots are we actually capable of producing in the country today?

Edward Herman Bastian

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

Yeah. I don't think we – first of all, every airline has its own view of whether there is a pilot shortage. At Delta we don't have a pilot shortage. I think the industry is challenged for pilots. At Delta, it's more about we have a training bubble that we're in. When we went through the pandemic, one of the things that Delta did differently, and I think we'll stand back and say, maybe we did a little too much of it, but we're going to be a better airline on the other side of it, is we had a very large early retirement plan. We had 20% of all of our people leave in the summer of 2020. And we made it a good experience for them to depart. Obviously, a lot of the experience of the airline including 2,000 pilots. If you take 2,000 pilots at Delta off the top end – and no airline had anywhere close to that in terms of retirements the way Delta had, take that off the top end, that means everybody, the other 12,000 pilots underneath it all had opportunities to move up. So we're having to train the entire pilot workforce as well as recruiting in from the bottom.

Delta is the number one airline pilots want to come work for, and so we're not having any problem recruiting applicants, it's getting them through the training cycle. And that training cycle has probably got another probably good 8, 12 months to go until it really stabilizes and we start to feel confident and bring in more and more of our capacity back. But that's a good thing. We're going to have pilots that are going to be a bit younger. They're going to have a lot of great growth opportunity, they're going to be well set for the future.

Downstream at other airlines, whether it's the regionals, whether it's some of the smaller airlines, they're going to have problems to recruit in those categories. And what's going to happen, it's going to drive up costs for them, they're going to have to compete with all categories of airlines trying to seat pilots and whether that's private by

the way, whether that's other forms of air transportation, there's going to be a lot of demand and so it's going to increase the cost and it's going to make changes to their business models.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

And how reliant are you on the regionals' ability to kind of attract pilots on your behalf? How important is that for your growth algorithm going forward? Are you going to be constrained in some ways in some [indiscernible] (00:36:03)?

Edward Herman Bastian

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

Not really. Not really. We're seeing it just like everybody else's. We've got a number of regional jets on the ground at the present time because now we have fewer regional jets than the other guys because we've gotten out of the 50-seat regional jet largely. We've got I think about 50 of those left. We set 500 a decade ago, we're down to only about 50 left of those. So it's just the two class regionals that we focus on.

We own our biggest regional carrier Endeavor. That's about 50% of the regional lift we have is our own. So we're working very closely with the management of Endeavor and the pilots of Endeavor and giving them opportunities for flow through to Delta. So we've got those pilots in the categories and then the seats and we've been able to – we're seeing attrition early on, but we've been able to now stem a lot of that attrition there. So it's not affecting us the way it might be affecting others, but everyone's being impacted somewhat.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Okay. And as you think about ways to fix this, obviously gauge of aircraft, you [ph] give more credits to the air pilot (00:37:01). What about sort of – what's your view on training changes or the certification requirements 1,500 hours, whatever it is, do you think that that's – do you think relaxing those rules is the right way to start thinking about how to address this issue from an industry standpoint, or is that not...?

Edward Herman Bastian

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

I don't think this is something that you go in and you start to lower the bar. I think you just have to continue to work through it. So, no, I'm not an advocate for that.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Okay. Excellent. So what about the other parts of running an airline that are short in supply right now? Have we seen any – obviously, you guys on the Delta tech ops and you're able to manage that part of it. But are there any other sort of constraints that are developing that maybe you cut back too deep on? You mentioned pilots creating training issues. I'm just wondering, is there maintenance that was reduced that you're now having an issue kind of getting parts or...?

Edward Herman Bastian

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

I think we're seeing some of the parts shortages, but they're manageable. And just like everyone in the MRO or the tech ops spaces, we're seeing inflationary cost being proposed by some of our vendors in that space. Labor is

a big part. Contractors continues to – getting the right number of wheelchair pushers or caterers or cabin cleaners or fuelers. It's a constant grind. And again, the only way you can deal with it is you're having to raise the price of entry into those categories for your contractors.

At Delta a lot of what we've done is we've insourced. We've taken that work back in-house because we have found that those – we're a better employer of choice for those potential employees, and that our people tend to do those jobs a lot better than – you clean your own house better than cleaning someone else's house. And as a result of that, we're seeing a lot of efficiency and effectiveness and we've grown our workforce. But it's not net new growth, it's we've reduced contract spend and controlled our outcomes from that. So I'd say labor and parts are probably the two biggest areas, other than fuel of course.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

Yeah. And as you think about the outlook on the fleet side of the house, you guys did take some actions to reduce the number of aircraft platforms [ph] through (00:39:15) pandemic. Can you talk a little bit about those actions and how that impacts the – or reduces the training requirements or [indiscernible] (00:39:22)?

Edward Herman Bastian

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

A

Yeah. So we retired 200 aircrafts, which were a lot, we had 1,200 at the start of the pandemic, we took 200 out that we retired to DC – not the DC, I was going to say the old DC9s, the MD-88s, the MD-90s, we have a bunch of 717s, 777s, [ph] 747s, 776s (00:39:40), etcetera. Virtually any aircraft that was coming up within five years of retirement we made a decision right up-front to retire those. But we didn't shrink. We kept – then we started investing in new aircraft. The neo I talked about the 321, the 220, 300s that we're now starting to take from Airbus, the 330s and the 350s. So, we're continuing to accelerate, and every plane that we bring into the fleet is coming in about 25% more fuel efficient than the planes that we're retiring. They're larger, they got a better customer experience, it's – net-net these are trade-ups that we're making and we're paying cash for this.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay. And any rule for the MAX in the fleet outlook for you guys or no?

Edward Herman Bastian

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

A

I think there is. I think there is. We've been trying to get a deal done with Boeing on that. We're keeping our eye on that and hopefully we'll be able to figure that out.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay. So switching gears a second, you mentioned fuel efficiency, and I do want to talk about ESG as a topic because obviously it's top of mind in a lot of investors' minds. The industry seems to have a goal of getting to net zero, call it, 2040, 2030, 2050, depending on who you talk to. How is that practical? How is that possible?

Edward Herman Bastian

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

A

Well, I think the industry goal is 2050. I know that's our stated goal at Delta as well. Based on today's technology, it's not – this is a aspiration. We don't have the tools or the resources or the research in place to get there. But that doesn't mean you don't set a big ambitious goal and you continue to work hard to try to get there. There's a lot of elements to getting there, as you know the biggest footprint that we create is with jet fuel. It's over 90% of our footprint is jet fuel based. So a big part of it is finding new sources of propulsion. As an industry, we have a goal to get to, by the end of this decade, 10% of our fuels being of a sustainable aviation form. That's a big stretch goal. 10% doesn't sound like a stretch goal.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC



Not so much.

Edward Herman Bastian

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



But that's billions and billions of gallons that don't exist today. And people have heard me say this, that if Delta were to go out and acquire all the sustainable aviation fuels that exist today in the industry, that's enough for us to fuel our planes only one day a year and no one else gets any, right? So, I mean, that gives you the size of the gap that we're looking at. That doesn't mean that it's only sustainable aviation fuel and synthetics. We're looking at hydrogen, we're looking at all forms of propulsion over time, but it's new engine technologies. As I said, every plane that we take, new plane, the neo that we're taking is up to almost 40% more fuel efficient than 757s that we are retiring.

So there's a lot we can do within the existing bubble and funding that. But until we, as an industry, start to attract capital, the way that I use the autos as a goal that we should be looking at, you think about EV and how long it took the autos for that to start to become mainstream, which is now knocking on the door of being mainstream and cool to be in the EV market, we need to create. It's not going to be an electrified aircraft, but we need to create that same level of momentum with government, with industry partners, with research, that capital can start to invest in to create the experience for the future.

Because, as energy providers, if you're Chevron or if you're BP or you're Exxon, we talk to them all the time, they want to be helpful in this. They want to invest themselves because they see the opportunity but they ask the airlines, how are you going to pay when the cost of this is three times higher than what you're already paying, which is an elevated price? And we said, we can't, we've got to find ways to kind of bring the price down.

So, there's a lot of people that need to come to the table. The administration is very interested in this. There's blender tax credits and other forms of subsidies that are available for the energy producers to start to go into, to create sustainable aviation fuels. I think the future is, particularly around biofuels, I think that's going to move pretty quickly into synthetics. And looking at new research around synthetic fuels, hydrogen is probably 10 to 20 years out. We're doing the work now in research. But we're working with our OEMs. We're working with our engine producers. We're working with our energy partners. We need to work with our hotel providers. Everyone that's around the travel ecosystem needs to come together and figure out this challenge because if we can't create a sustainable future for aviation, it's not going to be in anyone's best interest.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC



So, as we think about – you mentioned sustainable aviation fuels, but if we step back and say, what can the airlines do? Obviously, increasing the gauge, getting the newer aircraft with the newer engine technologies, that's

going to give you a little bit of a tailwind in terms of driving fuel efficiency. Are there other things that you can do in terms of the way you run the operations, the way aircraft are scheduled, the way the FAA maintains distances between planes like, how much potential there is in the operation...?

Edward Herman Bastian

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

A

There's still a lot of controllable factors that will get us nowhere close to net zero, but they'll start to make a sizable difference. At Delta, if you benchmark us against 2019, our planes today are somewhere between 5% to 6%, in total, more fuel efficient than they were in 2019. And that's huge. In just a few short years with – particularly with the pandemic, being stuck in the middle of that, we're working at our ground fleets. We have a goal by 2025 to have over 50% of our entire ground equipment electrified. If you go out and you look outside the airplane window, and when you're on the tarmac, you see all kinds of movements and tugs and trucks and all sorts of vehicles moving around, we're going to have over half of those electrified by the end of the decade, hopefully almost 100% of them electrified, makes a difference.

We're taking plastics off. We've already taken plastics off our cabin experience and getting rid of all form of plastics. Next time you go to Europe and you're sitting in that Delta One suite, we've got a nice new blanket in the kit for you, all of that's been made out of [ph] recycled PET bottles and whatnot (00:46:19). It's a beautiful blanket, fully recycled. So there's a lot that we're doing and there's – it's going to be the sum of everything that we're going to need to take in order to set these – coming anywhere close to these aspirational targets we all talk about.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

So speaking of targets, you guys brought us together for a Capital Markets Day in December, since then we had Omicron, a shooting war in Europe, oil jump into \$120, \$130, crack spreads widening out. How do we feel about the targets you set at the Capital Markets Day in December from where you're sitting today?

Edward Herman Bastian

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

A

I feel great about it.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

You feel good about still being able to live through that.

Edward Herman Bastian

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

A

I not only feel good about them, we're ahead of them. Which is, again, kind of remarkable when you lay out that series of events that we're ahead of plan. And we're ahead of plan because the demand is so strong, because people want to travel, and that's enabling us to cover the cost, the higher cost of fuel, that's enabling us to continue to manage the investment back into the experience. We're sitting above plan. I mentioned the cash numbers that we're generating, it's healthy.

It looks – you look at the sustainable competitive advantages that Delta's at, I call them our superpowers, our culture, our people, our operational prowess, our network, our loyalty and our financial foundation, all of those arguably improved during the course of the pandemic. We're coming out of this stronger than ever. We're coming out of this more modernized. Our people are younger. Yes, there is an experience factor and there's some

hiccupps along the way, but we're getting through this. We've got a younger fleet. Our fleet is two years younger than it was pre-pandemic, even though we've all aged two years.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

Four actually if you're [indiscernible] (00:48:08).

Edward Herman Bastian

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

A

Our fleet is actually – at least two, right? We are actually coming out younger. Our airports, brand new airports in many of our largest markets that are coming through this. We've got technology that's improved. We got Wi-Fi experience that's improved. You look at all those factors, the American Express relationship has never been stronger, never been healthier. We're looking at a company that has faced the toughest challenge in its history and maybe almost any industry's history and you're actually outperforming where you thought to be. We're only a few margin points in the second quarter of where we were in second quarter of 2019, which was an all-time high, and that's when fuel price is up 70%.

So, you put that all together. Yes, I understand there's a lot of uncertainty and there's a lot of questions out there and we've been humbled by the virus and we're managing the virus well, but I feel really bullish about our ability to get through this thing. And by the way, all of that's against only 82% of our capacity being restored. Just think when we bring the scale back – that we already own, we don't have to go buy, we already own, what that opportunity could create.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

All right. So we're coming down to the last couple of seconds here, and I do want to give you a chance to make the pitch. What do you think is the most overlooked factors about Delta? Why should investors be looking to say, I want to put money to work at Delta within the airline sector?

Edward Herman Bastian

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

A

Sure. Well, when you think about where we – well, I just mentioned in terms of how we've come through the resiliency of our competitive advantages, it's quite remarkable. You go through it – and I appreciate I'm on the inside and I can see it maybe a little clearer than the investors can look it from outside in, but we're coming out of this really, really healthy. And that disconnect that we often kind of bang our head against in terms of the investor perception sometimes versus the fundamentals that we're seeing, I think that disconnect is probably larger than it's ever been. You've got a company that is generating the same level of revenue on a much smaller capacity base and covering fuel prices real time, and I think that trend is going to continue.

I don't think fuel prices are going to stay at this level forever, I think that's going to be – there's a large – a big chunk of that's in the crack, it's not in the crude prices. I think that crack, as that crack starts to moderate a little bit, I think that'll help us because I think the demand is not really tied to the crack spread. The demand is tied to people wanting to travel. You think about international, our opportunities with our international partners is just starting to open. Business travel, which is just starting to get back. We're about 80% back on business travel as a system. Good opportunity to go high-end margin opportunities. And you think about where we can go in terms of deploying capital, we're already generating free cash flow real time just six months out of a pandemic, I think the setup is pretty strong.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

All right. Well, Ed, I want to thank you and Julie and Dan, the rest of Delta team for coming out and supporting the conference.

Edward Herman Bastian

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

Thank you, Dave.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

It's great to see you live. And I also learned a lot speaking with you.

Edward Herman Bastian

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

And everybody go out to LaGuardia and see that it's seeing is believing.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

I would love to go out today, let's just cancel the [indiscernible] (00:51:19).

Edward Herman Bastian

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

Okay. Thank you.

J. David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

All right. Thanks, guys.

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