

14-Mar-2023

Delta Air Lines, Inc. (DAL)

J.P. Morgan Industrials Conference

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MANAGEMENT DISCUSSION SECTION

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Okay. Good morning, everybody. My name is Jamie Baker. I work at JPMorgan. I cover the US airlines and aircraft leasing companies. I am joined by my good friend and colleague, Mark Streeter. And it's our pleasure to welcome you to what I believe might be the 18th Annual JPMorgan Industrials Conference, which, in fairness, started out as a treasurer credit afternoon under Mark's watch, and hopefully has grown into one of the better, if not the best industrials events. We hope to make good use of your time today. We certainly respect that you're here to see the companies and not me and probably not Mark, but why don't you add to that and then we'll kick off the show.

Mark Streeter

Analyst, JPMorgan Securities LLC

You're probably all wondering why we're not on the second floor. That space is under renovation. The new building opens up in summer of 2025. So if you stick around for March of 2026, we'll be across the street. By next year, we should be back in our old space. Thanks, everyone, for coming.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

And somebody asked me this morning why Delta usually has the privilege of going first. And I explained it's comparatively simple. As an airline, you need to generate half of the industry's profit. You have to pay out more in profit sharing than every other US airline combined, and then you get the opening slot. So that's my challenge to Delta's competitors of anyone would like to have the opening slot next year, go for it.

So with that, I will turn it over to Julie Stewart for the Safe Harbor above. But we'll be joined momentarily by Ed Bastian, Dan Janki and Glen Hauenstein, will be joining us up on stage. And I'm very eager to get an update on the Delta story. Good morning, everybody. Thank you.

Julie Stewart

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

Good morning. 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 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. And we'll also talk to non-GAAP financial measures, please see the appendix of today's presentation, at ir.delta.com for more information.

Now, I'll turn it over to Ed.

Edward Herman Bastian

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

Well, thank you, Julie. Good to be here, and Jamie, I agree with you. This is, in my opinion, my humble opinion, the premier industrial conference that we get to present at each year, so thank you and Mark, and your teams for putting together a great lineup, giving us great access to some high quality – many high quality investors and being able to tell the story as an industry, not just as an individual airline.

So, with that, let's get going. Julie, you said that really quickly, that's a lot of words.

Julie Stewart

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

I practiced that.

Edward Herman Bastian

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

A lot of lawyers have been hard at work on that page, I could tell. Well, it's good to see everyone. Thank you for coming. 2023 is off to a strong start for our airline. We'll be talking a lot about 2023 over the course of today. But before I do that, I wanted to spend a second, letting you know that we're on plan with our three-year plan. We're on trajectory now about this time, about – I guess about 15 months ago, we laid out a three-year plan at our Capital Markets Day, December of 2021. And when you think about all that's happened in the intervening 15 months, things that could have thrown us off track to be able to say that almost halfway through that three-year plan that we're on track, 2022 performance was ahead of what we were planning in that three-year plan and our 2023 targets and forecast and guidance is right in line, if not, slightly better than we were thinking and we're expecting 2024 to be the same. It's a real testament to the strength of the operating system at Delta. The people at Delta and what we've created as the world's best airline.

It all starts with people. I always lead off each one of my presentations thanking the Delta team. We have the best people. We were at an investor dinner last night and I got asked the question just how do you guys consistently deliver top tier performance when everybody else has many of the same attributes, the same equipment, the same stations, the same route networks. And the only thing that really separates us from our peers are the people of Delta Airlines. And their quality, their consistency, their focus on service, the culture of performance is something that we take great pride in. And our people are leading the way. They are our greatest strength.

We were pleased to be able to offer, as Jamie said, the largest profit sharing in the industry. In fact, our profit sharing payout for employees this past year was \$550 million, which was greater than all of the other airlines put together in terms of their profit share payout. So, you see a great alignment of the rewards together with the hard work and sacrifice. That alignment with our owners as well as our customers, and the management team is really the glue that holds this whole thing together.

And we're also pleased that we received strong ratification from our pilots on our new contract, our new four year agreement that's done. Our pilots – it was a well-deserved increase. It was a long period of time to have the negotiations over. And we're now focused on the marketplace. We're no longer focused on how to get the contract done. We're now focused on winning together. And that's a great thing as well.

For the rest of our employees, we have maintained the premium place they sit within the industry on pay. And we've already announced that starting April 1st, all of our other employees, the pilots union, if you don't – if you're not that familiar with Delta is the only union, main union we have on property already kicked in at the start of this year. The rest of our employees will be getting a 5% increase starting April 1. That's already in our guidance. That's in our forecast. That was in the plan for the year. And so, all of our labor costs are in the numbers. They're not just in the numbers. They're known by our people and it's taken a big uncertainty off the table for our investors.

For our customers, the work that our team delivers is top notch. You can see on the bottom of the slide as many of our awards, we are humbled by the awards, the recognition that we continue to receive. But one of the awards – two of the awards I'll talk about for a second that's really driven by our people and our operational excellence was in 2022, which in my opinion, was the most difficult and challenging environment in US aviation history as we tried to bring the airline systems back up against unprecedented demand. People were just ready to go and they didn't matter where they were going or how much they were paying. They just wanted to get out. And our resources clearly were not in position to be able to satisfy that large amount of demand. Our people still won the award by Cirium, which is the top consultancy that that looks after global airline performance as the most reliable and most on-time airline of the year in 2022. Quite a statement in the most difficult period ever.

Also quite a statement is the fact that one-fourth of our total team of 90,000 are new within the last two years. So having a strong base of new talent joining us that you can see how culture matters in terms of bringing that operating performance to light.

Innovation in digital technology is something that we're spending a lot of time. We spent a lot of time over the course of the pandemic investing in digital engagement. Increasingly, that's one of the reasons our customers are choosing Delta. And the strength of our brand is the quality of the digital engagement, the self-service, in your hand with the Delta app. Three years ago, when I was at Consumer Electronics Show, I described a future where you would have a red coat, a famous Delta red coat by your side, not necessarily in-person, but in the form of virtual of your app of Delta. Be able to take care of any need you have as your plans change, as you want to manage your schedule, as you want to book a trip, as you want to wayfind and navigate your journey with us. We now have that technology in the app and it's one of the best travel apps in the industry. And we continue to make it better.

You witnessed the announcement we made at CES this year about offering free Wi-Fi on all of our fleet. It's fast, it's free, it works, and there's no charge. It doesn't matter where you're sitting on the plane, it works. Just great and there's no cost to our customers. I'll talk a little bit why we did that in a second.

And then finally, the SkyMiles penetration, the co-brand acquisitions continue to have double digit year-on-year growth. We've talked a lot about our targets for 2023 to get to \$6.5 billion contribution with American Express. And we're on track to deliver that, and hopefully, even a bit more as we progress over the course of the year.

And then for our owners, what does that mean? That means high end performance within our industry. We get a lot of questions around demand. I get, you know, everyone's worried about it. I know, I saw the announcement and people are trying to figure out with United what's going on, I can't talk to that. I know Scott's going to follow me, so you can ask him those questions. But I can tell you, at Delta, our demand is strong and getting stronger.

In the last 10 days, or excuse me, in the last 30 days, we've had the 10 highest sales days in our company's history, 10 highest sales days in our company's history in just the last 30 days. So, if anyone's looking for weakness, don't look at Delta. I mean, we're seeing great, great strength. Acknowledging part of that is a little bit of consumer behavioral shift. People remember last spring and summer how hard it was to get those trips that they wanted to go on. So we've seen a little bit of a pull forward in terms of the advance bookings, but that's modest relative to the strength of the underlying demand while we look at, you know, the price points, the yield that we're seeing on a global scale, not just on a domestic scale.

And that's enabling our ability to generate strong cash flow. We're expecting to generate over \$2 billion of free cash this year for our business while investing close to \$6 billion back into the business. I know a lot of airlines are either investing heavily in CapEx or just don't have free cash flow or they have free cash flow because they're not investing heavily in the business. At Delta, you get both. We're doing both, and we're proud of that.

So, this is a slide from our investor deck in December when we gave an update, and it speaks to the unmet demand that this industry has experienced over the course of the pandemic. As you can see on the slide, going back into the 1980s, there is a very, very tight correlation between GDP in a given year and the amount of spend on airfare, airline travel, whether it be on US airlines, within the US or international airlines in and out of the United States. It's 1.3%, 1.4% on a consistent basis.

It's broken a couple of times. 9/11, it broke and it bounced straight back. The recession at the end of last decade, broke and bounced right back. Then obviously, the pandemic, it broke, and people are still looking at what the trajectory back means. The amount of unmet demand that consumers had for air travel relative to what they actually spent and were able to spend because of the pandemic, that gap is \$300 billion, by our estimate. And we anticipate clearly the \$300 billion isn't going to come back. But we are going to overcorrect on that historical relationship of 1.3% to 1.4% of GDP. And that's why you see despite all of the challenges that the world is talking about on the health of the consumer economy, airfare and air travel continues to be right at the top of the list as a priority for consumers.

We've talked a long time over the last year-and-a-half that we're going to see a flip between the good sectors and the service sector. Indeed, we've seen that over the course of the last year. In the service sector, our business is an experience business. We're part of the experience economy, not just the services. We're part of the experience economy. And what people – why they use our product is because of the experience that they're going to experience that they're enabling or that we're enabling for them. That is the premium part of the overall service ship that you see coming back and roaring with great strength.

So, I anticipate over the course of the next several years, not just the next several quarters, you're going to see the continued out delivery of that historical 1.4% of GDP for our industry. Just the gap in 2022 alone between where we were at 1.4% historically and the actual spend is somewhere in the \$30 billion to \$40 billion range. And that's what you see continuing to drive the strength. That's one of the reasons. In fact, that's the main reason why

we have had the 10 highest sales days in our history within the last month. That core demand is really, really strong. And it's our job to make sure we're delivering it in great execution manner.

So, at this year's Consumer Electronics Show, we went and we were one of the keynote presenters. I had the opportunity to do that in Vegas. It was a lot of fun being back on stage in Vegas, and we made a pretty simple announcement. Wi-Fi is free basically everywhere you go, but air travel. In fact, I was giving a presentation a week ago to a group and the opening slide I had in my presentation was with all the innovation and investment in air travel and our industry over time, there's one unmet question that still remains to be solved is why does in-flight Wi-Fi suck so bad?

And the reality is, it's hard. It's a tough thing. It's great when you're sitting on the ground and you're able here in this room to call up anything you want and be connected to anywhere in the world you want. You go up in the sky and you're traveling at 500 miles an hour, it's a little more difficult. So this is hard stuff that we've done. But we have enabled and partly because of the pandemic, we were able to make the improvement and the progress both in the equipment that we're carrying, as well as changing our service provider, moving to Viasat, create an opportunity for customers to experience free, fast Wi-Fi wherever they go.

We're already up and running. 80% of our US domestic seats have that service capability today. And we're seeing people use it. And we're seeing no deterioration in the quality of the performance despite the massive amount of pipe that we've now opened. International is not yet open. That'll be open by the end of next year as we bring the international fleet up. But, you know, there's a lot of reasons why we did this.

First and foremost, it's part of the core experience. We are in the business of connecting people. And it was always ironic to me and I've talked about this for years, how – we're in the experience business we're in the connected world, the only place you're not connected is in the sky. And now some people like that, they don't want to be found by their boss, they don't want to be bothered by their spouse or whatnot. I mean, they – we've ruined it for them, so my apologies. But the vast majority of us need to stay connected.

And particularly younger generations of travelers really want to be connected. I talk about the fact that at Delta, we carry 200 million people a year in terms of aggregate number of consumers, and within that number, 50 million of those are unique customers. And many customers fly as many times a year. We have 200 million people a year with us, on average, 3 hours a session, and we even have them seatbelted in and all facing forward. They can't move and they're bored out of their minds. And this to me has always been the gold mine is, as to how we could figure out a way to create value for our customers first and foremost, but also for our owners, by having that captive audience. And what can you do, to create a better experience for them?

Well, Wi-Fi is the answer to that, because Wi-Fi can only – you can only get to those consumers if you come through our pipes. People cannot connect on Wi-Fi in the air unless you're connected through the airline system. So, that's why Delta kept the system. That's why we've invested over \$1 billion in the last three years in creating this opportunity. And we're there along with partners. So, it's not just Wi-Fi that's for free. Starting in April, we're going to have several partners that are on that Wi-Fi portal that we call Delta exclusive Sync, where we're going to have T-Mobile providing exclusive opportunities for customers together with SkyMiles opportunities to make offers of interest to customers if they decide to look at it, but they'll have the opportunity to be present on that. Paramount+ is providing their full library of content to our Delta Wi-Fi portal users.

Historically, we would pay, and we still pay for the in-flight entertainment product that you see on our seatback screens. Starting in April, that content's going to be free for Paramount+ on that Wi-Fi portal. In fact, they'll pay us for the opportunity to be able to provide that content. And, of course, we have American Express as well that's

also with us. So, we're three lanes of opportunities with – when we also have The New York Times Puzzles, we have Atlas Obscura that's going to be on the site. So, we want Wi-Fi not just to be about Wi-Fi. We want Wi-Fi to create an opportunity in entertainment channel to create engagement.

Also, the fact that we have so many of – I talk about the 50 million individual unique users we have, only half of those are members of our program today, the SkyMiles program. So, we have 25 million customers that travel on Delta a year that we don't know who they are really. And the only ask that we make in order to access the portal is that you be a member of our program. Doesn't cost anything. It's free. It's great, and provide us opportunities to personalize service to you and build better connectivity with our customers.

And we've seen the success. It's amazing. We started soft launch in November. We went to full launch in February, full meaning 80% domestic. We're still not even into international, and we already have had over 300,000 people sign up to be SkyMiles customers that were already our customers, that were already on board our flight signing up to say, yeah, I want to be part of this movement that you're creating. And the average age of that customer is 32 years old. The average age of our SkyMiles portfolio in total, the demographic is 38 years old. So, we're getting the desired effect in terms of younger people that want to be connected.

And we know that we're building loyalty that's going to last generations by doing this, which is another reason why it's free. We want those customers to stay with us because when customers come to Delta, they tend not to leave us. We're very sticky as a brand. So, this is, I think, generation building for years and years and decades to come and that's why we're pleased to launch this. And we're going to continue to be very aggressive in pursuing this avenue for the future. That's our next step in digital. But there's many more aspects to digital than simply that.

The financial outlook is strong. This is the guidance that we presented at the Capital Markets Day in December. It stays intact. Our full-year, 2023, we're looking at revenue growth in the 15% to 20% range, a operating margin of 10% to 12%, EPS of \$5 to \$6 per share. That's almost double from our 2022 EPS to 2023. And free cash flow of greater than \$2 billion, which is helping us reduce the leverage that we carry. The leverage ratio we're targeting for this year is by the end of the year between 3 times and 3.5 times. 2024, which is the last year of the three-year plan, we're on track. We're targeting a mid-double-digit operating margin between 13% and 15%, EPS of \$7 a share or greater, and free cash flow of over \$4 billion for next year. And all signs are good.

With respect to the current quarter, we're on track with our guidance. We're going to be profitable this quarter. One of the few airlines that will be profitable in the first quarter, this will be the fourth quarter in a row that the airline is profitable. So on a 12-month run rate, we've crossed all those hurdles. And now we need to figure out in the first quarter [indiscernible] (00:21:17) how to be profitable every month of the first quarter, which will be our next task for next year, but I'm confident we will get there.

I know we'll get questions during the Q&A on some of the guideposts within the quarter. So, the numbers have moved around just a touch to get there. But the EPS, the guide that we gave is solid and it's unchanged as we see the business.

So, in conclusion, you can tell hopefully from our presentation, the short presentation, that we've got a lot of enthusiasm and excitement for our future. And we really do believe that Delta is uniquely positioned to continue to perform and lead the industry. With the best-in-class people, service and operation supported by a consumer brand that's gaining strength as a premium airline, Fortune magazine last month named Delta the most admired airline in the world, first time that we ever had that honor, as well as the 12th most admired company, period.

And if you think about it, an airline getting that level of recognition coming through a pandemic, it's a real testament to the team and the people of the company. We have the world's leading international joint ventures in our business; we have great investments with LATAM airlines, not just JVs, but investments with LATAM. Korean Air, both of which are the two leading franchises in South and Latin America, as well as in Asia, that we really haven't even started to scratch the surface on, that we're now getting at as everyone is coming through the pandemic. And just a great set of partners in Europe with Virgin Atlantic, Air France and KLM. So, we feel great and, of course, Aeromexico on our southern border.

So, we have great partnerships, great, great team, and the pandemic candidly brought us a lot closer together as we went through the fire, and we stay tight through this. We've got a great management team. Glen, Dan, Julie, are representative of that, we're a team that's been together for a long time. We've been through it, we've been through 9/11 together, we've been through recessions together, we've been through mergers together, we've been through bankruptcies together, we've been through the pandemic together, okay, so this is a tested team. And that's why when you saw how we performed over the course of the pandemic. That disciplined approach, we weren't jumping around, we weren't trying to grab market share here and be opportunistic there. We kind of – we've been have a very steady hand as to the strategy we're deploying. And it's working, and it got us back to the top.

The industry is constructive. I think everyone is familiar with that. The supply constraints that are in place, the training requirements to be able to bring pilots and other staff in are unique. Consumer spend is shifting towards this experience sector. And while we always get the question, I'm sure we will today on where's corporate travel, corporate travel is somewhere in the mid-80s back, traditional corporate travel. But as I tell many of my CEO friends across the industry and outside the industry, I know where your employees are. They may not be in the office, but you can find them on my airplanes. And that's because of the new way of work, the new hybrid, new mobility. And I don't think that's changing. I think that's going to be something that stays with us. Anything, anything that enhances mobility, in my opinion, enhances our opportunity to succeed and grow and provide greater value to our customers.

And finally, I just covered the financial momentum that continues to build. We're feeling good about that EPS guide of \$5 to \$6 and double over the 2022 EPS performance. And we're feeling very, very good as we're going into the heavy spring and summer season when I mentioned that the amount of cash that we're building and the demand that is off the charts in terms of any kind of precedent.

So I present to you Delta Airlines. I thank you. As for those of you that are owners of the stock already for your support of us, your encouragement. It's been a tough three years. This is the first time personally I've been back, Jamie, I think since 2019, since as you mentioned last night you were the first to cancel or go virtual rather on the conference and you were the first also back out. I wasn't able to come here last year at this time, but it was glad to be back. It feels good and it's great to be here, by the way. Thank you.

QUESTION AND ANSWER SECTION

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

We have the audience Q&A. Just for those of us that didn't get a chance to really dig into the 8-K, I know the guide for the first quarter was affirmed, but you alluded to some of the guideposts having moved around. How did the quarter develop relative to the plan that you laid out on January 12 or whenever it was?

Edward Herman Bastian

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

A

It's – and Glen and Dan can provide a little more detail – it's largely played out as we thought. One thing that we have experienced this winter, particularly in the Northern tier of our country, really disrupted weather. So our capacity is not able to come. We're going to be shy on capacity a touch. I don't know. The number is less than a point, but it's a meaningful point of capacity relative to the plan we had. And so that's got a cost impact in terms of non-fuel cost. So, we guided in the quarter our non-fuel unit cost to be up 3% to 4%. So it's going to have a four handle on it as compared to a three handle on it. But it's not out of control, it's within the general range. And the gross amount of revenues might be, I think we're going to be pretty close, but the TRASM might be helped a bit. So on balance, we're kind of right down the middle in terms of the guide.

Anything you guys want to add to that?

Daniel C. Janki

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

A

Actually, really good about where we sit on margins and EPS and cash is coming in better than expected. We had \$500 million of debt maturities in the quarter, but we're doing more proactive liability management in the quarter in the open market and chipping away at debt reduction, and reduction in interest expense.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

And then, Ed, so you may not remember this, but a few years ago, this was pre-COVID clearly. One of my competitors on the American call, asked Doug Parker at the time. I believe the question was, are you an airline or are you a marketing company? And I think those people and certainly, Doug, they just kind of brushed the question aside. But I didn't think it was that off base. And when I listened to your presentation today, I mean, it really seems I mean I know that RASM, CASM fuel, it's always going to lie at the root of what you do connecting people. But are you a consumer brand at this point? Should investors be thinking about you differently than just the traditional nuts and bolts of flying?

Edward Herman Bastian

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

A

I think so, Jamie, and it's – very much think so. And we talked last night and we used to target being a high-quality industrial. I'm not sure what people know what that means but people do know what a premium consumer brand means because we're direct to consumer. Yes. What we operate, it's capital intensive. It's got long cycle, the big scale. But at the end of day is to deliver a consumer experience. And consumers, what we've learned during the pandemic more than ever, value that experience. They value the – not just the cleanliness and the comfort and the care that we take of them, which was evidenced by whether we blocked the middle seats for a year-and-a-half

or whatever we approached it. It's the on-time performance, it's the reliability, it's the consistency of execution, the friendliness of our team. When you're on board Delta, we want our customers to feel like they're halfway home when they cross foot on board our aircraft.

And the investment we're making in the airports that are consistent, whether it's the new LaGuardia, whether it's LAX and many, many more that we're in process that we continue to finish out. It's the technology, you know, that in the digital. One of the things that has changed a lot over the last decade is that our overall direct-to-consumer sales on our website were over 50% of the actual bookings we take is direct to Delta. That's more than tripled in the last decade. And so the world of the OTAs controlling pricing and commoditizing the sector, at least at Delta, that's changed meaningfully, and customers trust us. And so, they give us, you know, they may shop separately, but they know they'll get the best value on Delta and a personalized opportunity.

And the more and more which we can continue to drive to our employees as well as our investors that this is a brand that matters, you don't get the ranking of 12th most admired company by Fortune if you're not a brand that matters to consumers. It's a – I think it'll pay dividends for how we'd look at our business, the investments we're taking going forward, and hopefully how investors will start to see where that multiple gap and the opportunity for value that creates both on the cash side, the American Express partnership, probably one of the leading, if not the leading commercial partnership period in the Delta and American Express card, what we're doing on the clubs just across the board. It's a different company, very different company that we accelerated during the pandemic.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

And maybe you can take us on a journey around the world. You mentioned your international JVs. And I'm just sort of wondering with your major partnerships, just where we are maybe thinking about which inning we're at in South America versus transatlantic, versus Asia, because it seems like the US is more recovered and that the margin upside in the US, we're getting close. But in international, there might be more upside. So, when I'm thinking about your 2024 guide for EPS and so forth, how much of that is driven by that further recovery in international with those partners versus ongoing recovery in the US?

Edward Herman Bastian

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

A

I think you're right. I'll turn it to Glen, get him to give his perspective. He's got the best perspective in the industry on that.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Sure. Thanks for the question. I think we're really excited about international returns this year and the development of the international partnerships. If I start with the Pacific, which – it's fully recovered really with the exception of China as we all know, I think, we don't know where the China relationship with the US is going and we're all restricted to very few of the pre-pandemic. So put China aside, the Pacific is fully restored and we're coming back into a position of strength here because for years we didn't have an anti-trust ATI-enabled joint venture with Korean and now we have that. And so really leveraging that and having Korea drive our presence into Southeast Asia. So we believe the Seoul hub is the best hub for connections in Asia and we're really exploiting that. And we're seeing very, very strong returns in Asia.

Of course, in South America, when you put LATAM and Delta together, we go from number three position is Delta to a number one position from US to South America and we're gaining share as we speak. We, during the

pandemic, gained, of course, ATI-enabled joint venture with our partners in LatAm and we have great plans moving forward. Deep South, Latin America was one of the last to restore but it is – it's gaining momentum now and it's on par with the rest of the internationals.

And then lastly, in Europe, where we have our most mature joint ventures in place. Last year was a tough year, particularly in Amsterdam, where we had a lot of cancellations. We had a lot of reductions in service and we had really a customer experience that needed improvement. And we've been working very, very hard with KLM and the Dutch authorities to make sure that that is not a repeat this year. And we feel very confident as we move into spring and summer. That was a real drag on earnings last year and we think that's back in play and that we should have a great summer to the Netherlands this year.

So around the world, I think we're very, just what you see is, is we're very optimistic. We're the last to recover y but now business recovering in all entities. It's really interesting to see domestic, Pacific ex-China, Latin America and Europe are all in that mid-80s recovery and within a few point band of each other, which people wouldn't think on the surface. But it's really progressing quite nicely.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

Is there a structural reason why international margins can't be the same as your domestic margins?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

You know, that's our long-term goal, and I think we'll achieve a good portion of that this year. We're really expecting to have our highest margins ever. My commitment to Ed is we'll have our highest margins ever this summer out of season in the Transatlantic. Yeah. And so...

Daniel C. Janki

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

A

Maybe the structural nature during the pandemic restructured the fleet penetration of next generation, the growth in premium products on the international's DPS, Double Premium Select, the counter seasonal flying along with better cargo. When you put all that together, those are the underpinnings in addition to what Glen talked about that drive margin improvement.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

And we forget the history here is, last April, we were still testing to go back and forth to Europe. So, people were reticent to go over there thinking they might get stuck. So, this year is going to be a very different year. We think a very robust year for all of the international entities.

Edward Herman Bastian

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

A

And I think a couple of other things in addition is that these number of our carriers, LATAM, Aeromexico, Virgin, went through some very difficult restructurings and wound up cleaning up their balance sheets meaningfully, they're getting their cost structure down. They're going to be in strong condition to continue to start to build and grow in the future alongside us. So, there's a lot of optimism on the international front. And I really do believe that when you talk about the strength of the demand bouncing back, it's outsized international because in the domestic market, we could still get around somehow. We didn't feel as confined. But people meaningfully lost time

internationally in terms of trips, adventures, business, family, host of reasons. And we see that component of our business probably the strongest demand we have, period.

Jamie N. Baker*Analyst, JPMorgan Securities LLC*

Q

One more for me and then hopefully we'll take a couple from the audiences in the time we have left. So, I personally am uncomfortably bowled up about the industry construct right now for a lot of reasons that you identified. And anybody who reads my research will understand. And it just makes me feel I don't know, I wouldn't say dirty inside. But it's just not natural for me to have such...

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

A

We don't stand prosperity well, do we?

Jamie N. Baker*Analyst, JPMorgan Securities LLC*

Q

Yeah. Well, I mean, the question there has – I can't accept that every aspect of COVID led to improved structural positioning for Delta. There has to be something that is impaired in your franchise specific, idiosyncratic to Delta as a result of COVID. There just has to be. What am I missing?

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

A

Well, I'd say I agree with you. And while we share your bullish optimism, if not even more bullish than you, which is a strong statement, we also understand that we're not fully back to where we need that [indiscernible] (00:36:58) – we're not where we want to be at. It's not about going back. It's about going forward. An example that I mentioned, one out of four employees of Delta is new, are new to the company over the last year or two. There's a tremendous amount of experience that we've got to reclaim and we've got to invest in, in terms of the productivity, the efficiency, the service standard, the culture of performance of Delta that we have as a system with so many new people into the management, as well as the front lines of the company has taken us, you know, catches our breath a little bit longer, this training and the continued bringing people to a different level of performance. Even, by the way, many of the 25,000 people that joined us came from other airlines. They always wanted to have a chances to get inside there. And then we're having to say no – there's, somebody else may do it this way, but we do it this way and just kind of keeping that. So, I'd say that's certainly one of the things that's holding us back a bit. Coupled with, you know, the overall fragility of the aviation infrastructure, whether it's air traffic control and going through some of those same challenges of resources and experience and our people. So, we'd like to fly more, we'd like to kind of push when the demand is so hot. We'd like to be able to push our revenue and our supply even faster, we can't, we're not going to go through a summer like last summer ever again. We're not going to outstrip our resources. So, I'd say that's one.

I'd say another one is that culture, I mean, it's – I started by saying our people are everything to us. They're the reason we have the premiums, they're the reason we have the leading standing within the industry. And when you have so many new people, the culture is something that you've got to fight for, you got to continue to ingrain in, and that's why I'm on the road almost every day, different places with our people, as many of the management team as they're continuing to bring them along and understanding what it's like, profit sharing, it's great to have profit sharing this, this past year, but it's still not what it was. And so, it's taken some time to coach people up and get that experience set, where it needs to be. So, I'd say that's probably the thing that's changed about the

pandemic. There's certainly been other changes that we've gone through, but I'd say those are some of the big ones.

Mark Streeter

Analyst, JPMorgan Securities LLC

Questions in the room?

A

Q

Thanks, Mark. Ed, what are the biggest constraints facing the airline? Is it shortage of pilots? I'm hearing young people are not attracted to becoming pilots like they used to be and that the buyouts of the senior pilots had a big impact on the industry. Is that one of the biggest constraints facing you?

Edward Herman Bastian

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

I'd say there are several. I'd say pilots are certainly still a constraint for the industry generally. Delta a little bit less so because we've been at this for three years. We've hired several thousand pilots over the last couple of years. And now, it's just getting them through training and into the cockpit and into the proper seat and the proper growth. And it's not just the fact that we have so many pilots that we've hired and trained. There's over a thousand of our pilots that are experienced that are involved in the training of those pilots. So, the vacuum that it creates, you know, the ability to fly and push your schedule is meaningfully constrained. It's impacted us at the regionals, at the lower level. That's where we sourced a lot of our pilots. I think this is something the industry – it'll take a number of years for the industry. So I don't think it's people are – they're unwilling to enter the profession. I think it's just the nature of the beast, the challenges of accumulating the hours, getting the experience. It's an expensive profession to get into, and you'll see that improve together with the new pilot contracts that Delta signed, and I expect number of our peers will be signing soon.

A

OEM performance, whether it's on the engine side, whether it's on the manufacturer side, the airplane side, is something that has taken a huge hit during the pandemic. Boeing's inability to get their certifications that they're expecting, that's taken years out of the pipeline in terms of growth for our industry. As an investor, some would say maybe that's good, but it's a constraint that we still see in this not just with Boeing, it's with Airbus, too, but it's increase in loss of the engine production, the engine manufacturers, the supply chain, the Tier 2, 3, 4 suppliers that they're still having to stand up and create a level of performance that we need to be able to take delivery. I'd say those are two. There are several others. I mean, I think the volatility in the environment, the geopolitical environment, are constraints that gives us pause as to how hard to push, international growth going into China, say, are going into other parts of the world.

So those are some of the constraints that we see. Manageable. But I think it will create an opportunity for us all to be very disciplined about how we manage our existing resources and couple that with the health of the demand environment should create a very, very good margin opportunity for the industry, not just for Delta.

Mark Streeter

Analyst, JPMorgan Securities LLC

Great, Ed. And thank you.

Edward Herman Bastian

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

Thank you, all. Good to see everybody.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Thank you.

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