

Presentation

Operator

Good morning, everyone, and welcome to the Delta Air Lines June quarter 2026 Financial Results Conference Call. My name is Matthew, and I'll be your coordinator. At this time, all participants are in a listen-only mode until we conduct a question-and-answer session following the presentation. As a reminder, today's call is being recorded. [Operator Instructions].

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

Julie Stewart, Vice President of Investor Relations & Corporate Development

Thank you, Matthew. Good morning, everyone, and thanks for joining us for our June quarter 2026 earnings call. Joining us from Atlanta today are our CEO, Ed Bastian; our Chief Operating Officer, Dan Janki; our Chief Commercial Officer, Joe Esposito; and our Chief Financial Officer, Erik Snell.

Ed will open the call with an overview of Delta's performance and strategy. Dan will cover the operation, Joe will provide an update on the revenue environment and Erik will discuss costs and our balance sheet. After the prepared remarks, we'll take analyst questions, and we ask that you please limit yourself to one question with a brief follow-up so that we can get to as many of you as possible.

As a reminder, 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 materially differ from forward-looking statements. Some of the factors that may cause such differences are described in Delta's SEC filings. We'll also discuss non-GAAP financial measures and all results exclude special items unless otherwise noted. You can find a reconciliation of our non-GAAP measures on the Investor Relations page at ir.delta.com.

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

Ed Bastian, Chief Executive Officer

Thank you, Julie. Good morning, everyone. We appreciate you joining us today. This morning we reported our June quarter results, and it's clear that Delta's brand and industry position are stronger than ever. We generated record revenue which grew 14%, increasing more than \$2 billion over last year. This reflects sustained strength in demand and momentum across our diversified business.

We delivered pre-tax profits of \$1.4 billion, earnings of \$1.56 per share and an operating margin of 9%, all better than the guidance that we provided at the start of the quarter. Return on invested capital was 11%, well above our cost of capital. So, through the first half, we've generated \$1.4 billion of free cash flow, fortified our investment grade balance sheet and announced a 15% increase to the dividend. And most importantly, we kept investing to make travel safer, easier and more enjoyable for our customers.

Our people are what truly set Delta apart. Their efforts delivered industry-leading performance across key operational metrics and also earned Delta recognition from The Points Guy as the best US airline for the eighth consecutive year. Our people are our number one competitive advantage, and I want to thank the Delta team for their commitment to delivering for customers every day, particularly during the busy summer travel season. In May, we announced a 4% pay increase, and we've accrued nearly \$500 million towards next year's profit sharing payout through the first half of the year. Both reflect our long-standing commitment to sharing success with the people who drive it.

Turning to the current environment, the US economy remains resilient, supported by strong employment, rising household incomes and significant wealth accumulation. Our customers are prioritizing experiences and investing in the moments and connections that matter most to them, driving sustained strength and demand for air travel. These

trends align well with Delta's strategy, demonstrating the loyalty that we are seeing across customer segments, empowering high-margin diverse revenue streams that enhance the resilience of our business.

Our Delta-American Express partnership is a clear example of the strength of our loyalty ecosystem. Card spend has grown double digits for the past seven quarters, with particular strength among our premium reserve cardholders. With continued momentum in both new card acquisitions and spend, we expect remuneration of \$9 billion this year, up 10% over 2025.

As I stated in April, high fuel prices have proven to be the most powerful catalyst for change in our industry and this year that has once again been the case. Coming into the recent fuel spike, most US carriers were already struggling to earn their cost of capital against a backdrop where industry airfares have meaningfully trailed inflation, costs have reset higher, and consumer preferences have evolved. And as we predicted, structural change has accelerated, enabling the industry to recapture this year's fuel cost inflation at the fastest pace of any recent cycle.

Even after recent fare increases, airfares remain 10 to 15 points below overall inflation since COVID. With continued fuel volatility and much of the industry still earning returns below its cost of capital, we believe current revenue momentum should remain sustainable even if fuel prices moderate. That is an important step towards improving the industry's financial health and earning sustainable returns over time.

For Delta, we are executing on our strategy from a position of strength, and with continued revenue momentum, measured capacity, and a more stable fuel environment, we expect to return to earnings growth on double digit operating margins in the second half of this year. For the full year, we are affirming the guidance that we set at the start of the year even with a multibillion-dollar fuel headwind. Our outlook for earnings of \$6.50 to \$7.50 per share represents growth of 20% year-over-year and our free cash flow outlook of \$3 billion to \$4 billion brings our three-year cumulative total to over \$11 billion.

Looking beyond 2026, we are confident in our long-term financial framework and path to mid-teens margins and return on invested capital. The strength and consistency of our results give us the ability to keep investing and innovating to extend Delta's lead, elevating the experience and creating a more seamless and personalized travel journey. As we invest in the areas that customers value the most, loyalty to Delta continues to grow.

Last month we opened our second Delta One Lounge at LAX, bringing the Delta One Lounge network to five locations and expanding the industry's largest club and lounge footprint. Our Delta Amex co-brand card continues to lead the industry and our recent portfolio enhancements are strengthening the value proposition for both existing and prospective cardholders. We are also making the journey more seamless through Delta Concierge, our AI-powered digital assistant, which is now available to more than half of Fly Delta app users with a full rollout later this month.

In the year, we continue to set the standard for connectivity. Fast, free Wi-Fi is already available to members across nearly our entire fleet with satellite upgrades coming online in the months ahead to deliver even faster speeds and broader global coverage. And starting in '28, Amazon Leo will unlock the next generation of onboard connectivity, reach and personalization.

In closing, our performance now reinforced the durability and the differentiation of the Delta business model and our investment thesis. Looking ahead, I am incredibly optimistic about Delta's future and our opportunities to deliver even better performance for our employees, our customers and our owners.

Now, Dan, will cover off on our operational results.

Dan Janki, Executive Vice President & Chief Operating Officer

Thank you, Ed, and I want to begin by thanking the Delta team for the outstanding service they provide our customers every day. Operational excellence is core to the Delta brand, and it's an experience our customers expect. Our culture of continuous improvement, that spirit of keep climbing, drives us to get better every day.

This, combined with the continued investment in technology and data, better positions our people to run a great operation, improving reliability, and efficiency. During the quarter, we extended our industry leadership in on-time arrival and departure performance, while strengthening operational metrics across our system. Completion factor improved through the quarter. We expect continued progress into the second half as targeted actions we have taken to improve resilience gained further traction.

We delivered record baggage performance led by our largest hub in Atlanta where performance has improved meaningfully from last year's strong baseline. Supported by enhancements to our baggage handling system and processes and our patented baggage AI technology.

Delta's continued to lead large US carriers in domestic Net Promoter Scores, improving over last year. This was driven by outstanding service of the Delta team, with people interaction scores reaching all-time records across this global system. This includes year-over-year improvement across airport customer service, reservations and care, flight attendants and our pilots. This performance reflects the focus of our people, reinforces how we're making travel easier and more reliable to every customer.

We are continuing to invest in technology while empowering our people to deliver more proactive communication directly to customers. We're also enhancing digital tools with a simplified rebooking process, expanded self-service and continued rollout of Delta Concierge. Our customers are noticing. This has driven more than a 25 point improvement in NPS during periods of irregular operations.

A more reliable customer experience starts with a more reliable fleet and our Delta TechOps team is central to that. Key fleet reliability metrics, including aircraft out of service levels, maintenance related delays and cancellations all improved versus prior year, benefiting from predictive maintenance capabilities and the investments we've made in fleet resilience over the last few years.

Beyond supporting our own operation, the TechOps represents an exciting operation to further diversify our revenue through growing our third-party MRO business. This year we remain on track to generate approximately \$1.2 billion in revenue, up nearly 50% from last year, with low-double-digit margins. And over the next several years, our technical capabilities, coupled with our strong customer relationships and record backlog, position us to more than double MRO revenue while expanding margins.

Now I'll turn it over to Joe to cover our commercial results and outlook.

Joe Esposito, Executive Vice President & Chief Commercial Officer

Thank you, Dan. June quarter results reflect strong execution and our clear prioritization of managing for margins. Total revenue of \$17.7 billion was at the high end of our expectations, up 14% over prior year on approximately 1% capacity growth driving total unit revenue growth of 12.4%.

We are focused on continuing this revenue momentum to fully recover this year's fuel cost pressure and improve margins as we move through the back half of the year. Domestic led unit revenue growth, up 12.4%, driven by higher yield, with international growing 8% over prior year led by Latin. Importantly, main cabin trends improved through the quarter, with main cabin unit revenue growing mid-teens in the month of June.

Across corporate sales, all sectors posted double digit growth. Performance was strong across core and coastal hubs, where sales rose more than 20% versus prior year. Diverse revenue streams represented 61% of total revenue in the quarter, up two points over last year, with premium and loyalty revenue both up nearly 20%. Cargo revenue grew 39%, primarily on volume. And MRO delivered revenue growth of more than 30% year-over-year, driven by legacy engine platforms.

Now turning to outlook. Demand remains strong and broad-based. Cash sales improved through the quarter across the entire booking curve in both premium and main cabin products. These trends, combined with our measured approach to capacity growth, support the sustainability of yield strength. We expect September quarter revenue to grow mid-teens versus last year. Total unit revenue growth is expected to improve sequentially even against more challenging prior year comparisons.

And while it remains early, December quarter bookings are coming in strong, giving us confidence that this revenue strength will extend through the fourth quarter. Capacity for the third quarter is up 1%, while fourth quarter planned 2% to 3%, led by international.

Our integrated commercial strategy is how we will continue to deliver our revenue and margin premium to the industry. We are expanding our global network through new routes and JV partnerships, while continuing to renew our fleet, enabling us to grow the network more profitably. We are also improving the product and giving customers more choice. The rollout of basic, classic and extra offerings in Delta Comfort is now complete and will be expanded across all premium cabins this quarter. These offerings increase flexibility for customers while driving improved revenue performance.

Loyalty remains one of Delta's most valuable assets. SkyMiles membership growth is outpacing capacity led by double digit gains among Gen Z members. That engagement is translating into durable revenue, best illustrated by our industry-leading co-brand performance. In closing, these investments reinforce our competitive advantage and give us more ways to grow revenue, deepen loyalty and expand margins over time.

I'll now hand it to Erik to discuss our financial performance.

Erik Snell, Chief Financial Officer

Thank you, Joe. I want to start by recognizing the Delta team for delivering strong 2Q results. We generated \$1.4 billion of pre-tax profit with an 8.8% operating margin despite the highest fuel costs in our history, reflecting the structural advantages we felt in the business.

Total fuel expense was \$4.4 billion, up nearly \$2 billion versus last year. Fuel price per gallon averaged \$3.93, including an \$0.11 refinery benefit net of a \$0.05 impact from a temporary outage. Fuel price came in better than guidance as lower crack spreads more than offset the reduced refinery benefit.

Refinery is a strategic advantage for Delta, providing a meaningful offset in a high-crack environment, and we expect 2026 to be one of its most profitable years. Non-fuel unit costs increased 6.8% over prior year in the June quarter, reflecting higher crew and revenue-related costs on capacity growth several points below our initial plan.

Through the first half, we generated \$4 billion of operating cash flow and \$1.4 billion of free cash flow after \$2.6 billion of reinvestment. The investments we are making are further compounding our advantages. The durability of our performance allows us to invest year-after-year in our employees and in elevating the customer experience, all while continuing to pay down debt. Our balance sheet is the best in Delta's history with investment grade ratings from all three major credit agencies and a substantial and growing base of unencumbered assets and secured borrowing capacity.

We ended the quarter with adjusted net debt of \$13.6 billion, down from year-end, while much of the industry raised additional capital. Debt reduction remains a top priority, and we expect gross leverage to reach 2x by year-end. As we move toward our long-term target of 1x, we remain committed to increasing shareholder returns.

Turning to our outlook, we expect September quarter non-fuel unit cost performance to improve modestly with further progress in the December quarter as operational investments continue to gain traction and capacity growth begins to normalize. This puts us back on a path toward our long-term framework of low single digit unit cost growth. Our outlook assumes an all-in fuel price of approximately \$3.15 per gallon, including a \$0.05 refinery benefit. Total fuel expense is expected to be about 40% higher than last year.

Combined with our mid-teens revenue growth outlook, we expect a 3Q operating margin of 11% to 13% and earnings per share of \$2 to \$2.50, up meaningfully from \$1.70 last year.

In closing, the affirmation of our full-year outlook from the start of the year and ability to grow earnings despite a nearly \$4 billion increase in fuel cost reinforces that Delta's durability continues to improve relative to prior cycles and to the industry. Delta's differentiated strategy and consistent execution across dynamic environments give us confidence in delivering our long-term financial framework, and creating sustained value for our owners.

We will now move to Q&A. Julie, please open the line for analyst questions.

Julie Stewart, Vice President of Investor Relations & Corporate Development

Matthew, can you please remind the analysts how to enter the call queue?

Operator

Certainly. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] We do ask that all Q&A participants please limit to one question and one brief related follow-up question. [Operator Instructions]. Your first question is coming from Conor Cunningham from Melius Research. Your line is live.

Question And Answer

Conor Cunningham, Analyst, Melius Research

Hi, everyone. Thank you. Joe, I was hoping to start with you. Can we just talk a little bit about the progression in unit revenue throughout the second quarter? I'm just trying to get a sense from the difference between the revenue production that you saw in April versus June just given the mix dynamic, as you were more exposed to the higher fares. Again, not asking for monthly, just trying to understand the spread a little bit as we get a little bit more comfortable with the second-half outlook on revenue. Thank you.

Joe Esposito, Executive Vice President & Chief Commercial Officer

Yeah. Good morning, Conor. It's one of the things that gives us confidence as we go into the back half and especially the third quarter. Our exit rate on TRASM was significantly higher than our entry rate and that goes to how our fuel recapture strategy moved through the quarter. I forget, we started it in March and in April we were already 70% booked. And so, each month you get more and more of new revenue, new priced revenue that comes through the system. So, again, it was significantly higher as the exit rate for both premium and main cabin. And that's what gives us towards our guide for third quarter and our confidence in the back half of the year.

Conor Cunningham, Analyst, Melius Research

Okay, thank you. And then maybe bigger picture. A lot of comments around, if we boil it down, it seems like you guys view the industry being a little bit different on how they price going forward just given the changes that we've seen out there. So, I mean, you didn't explicitly guide to fourth quarter, but rough math suggests that you expect pricing to remain firm from here. So I'm just trying to understand what gives you confidence in that. I know you've talked a little bit about it. But I was hoping to broaden out the conversation a little bit more. Thank you.

Joe Esposito, Executive Vice President & Chief Commercial Officer

Yeah, Conor, I think it gives us a lot of confidence in the fact that we're going to hold on to the pricing environment and the revenue momentum. The industry has no other choice. The inflation that's going through both on fuel and non-fuel is significant, and fuel prices are still elevated. So that's why we have confidence in holding on to the revenue under a modest capacity increase as well. So that would imply good confidence in the back half.

Our forward cash sales, when you look at both cash and bookings, are higher than our close-in. And that's what we want to see when we think about confidence for the back half for the greater than 90, greater than 120 days. And then, as you get into fall, for Delta's network, we're much more of a business-oriented network in a post-summer environment, not only for domestic but for international, so that's where our confidence comes from in the back half.

Conor Cunningham, Analyst, Melius Research

Great. Thanks.

Operator

Thank you. Your next question is coming from Mike Linenberg from Deutsche Bank. Your line is live.

Michael Linenberg, Analyst, Deutsche Bank

Yeah. Hey, good morning, everyone. Hey, Ed, this one's for you. I think, by all measures of market share, it does look like the low-cost, low-fare carrier group, I guess, what I would call it, is in a bit of a secular decline. Look, you've been around for some time, thoughts about that.

And the reason I'm also bringing it up is that, as we think about the industry's ability to hold on to fare increases, I think one of the concerns among investors is that it's going to be carriers from that group that come in and undermine the structure maybe as energy prices come off. Just your thoughts around that?

Ed Bastian, Chief Executive Officer

Sure, Mike. Thanks for that. What we've seen is not just this quarter, it's been building for the last several years is that we've seen some fairly significant structural changes to the overall industry landscape. Probably the last time that we saw the element of fuel moving around with a lot of volatility was maybe 9, 10 years ago.

And back then, the low-cost carriers were the darlings of the industry. They had the highest margins, they had the highest growth rates. They looked at fuel as a competitive advantage because they had lower cost in other areas. Some of them, such as Southwest, had fuel hedges in place which they used to try to take market share. None of that exists any longer. All that world has changed completely. Entirely. No one has fuel hedges of any note.

The cost of production, not just for fuel, is up, but the cost for labor is up. The cost for airports are up. Cost for technology is up. Planes you can't get, and if you can get them, their costs are higher. And so, what that tells you is that you need to figure out a change to the business model that will enable you to build resilience in your pricing durability. And that's what we've done over time.

And that includes not just getting higher airfares, that includes the diversification of the revenue stream. That's why our American Express relationship is so important to us. That's why our corporate, the leader for the last 15 years in business travel across the United States, is important to us. That's why our international growth has been important to us. That's why the MRO and cargo are important to us. All of which are growing double digits.

So we've been building this. And you wrap that around an experience that is substantially better in terms of the premium experience that we offer today versus 10 years ago and the opportunity now that we have with technology to become true world-class merchandisers and retailers. 10 years ago we were a blunt instrument. We had just a couple, handful of price categories on the shelf. Today we're continuing to add to that.

So, what we're seeing here is no surprise to Delta. The fact that you've got others in the industry following our lead is no surprise as well. But I mentioned a point on the call this morning that even with the improvements we've seen in pricing for the industry, the low end of the market still has to increase fares by another 5% by our estimate just to get to break even at today's fuel environment. And there's nothing to be gained by trying to grow in that environment. The opportunity has to be in finding ways to secure higher revenues, not higher market share.

Michael Linenberg, Analyst, Deutsche Bank

Very helpful, thanks. Just a quick one on to Dan. Dan, you talked about committed actions that you were taking to improve the ops, and you talked about how the numbers had improved to the quarter. I know, I saw that there was some talk about maybe on the staffing side, anything there or on the fleet side, any particular fleet giving you problems this quarter?

Dan Janki, Executive Vice President & Chief Operating Officer

Mike, thanks for that. I would say, on the fleet elements, you just have to be systematic across the board about continuing to invest and put resiliency in it. And our teams have gotten, continue to get better. We have an opportunity to get better on that front.

A lot of that is just capturing your data, more predictive maintenance, staying out in front of it and continuing to work it. And we've seen that. And I talked a little bit about those stats that we're seeing improvements in. But we want to continue to make progress there.

And then the other one that we've talked about is the actions that we're taking around the resiliency and capability around our crew resourcing and continue to put more people, process technology around that and get better utilization out of those resources. And we continue to make progress on that front.

Michael Linenberg, Analyst, Deutsche Bank

Great. Thank you.

Operator

Thank you. Your next question is coming from David Vernon from Bernstein. Your line is live.

David Vernon, Analyst, Bernstein

Hey, good afternoon or good morning, and thanks for fitting me in here. So, I guess, one question I have for you with regards to the CASM ex-outlook. Obviously, you made some comments in the prepared statements around cost moderating as you get to more normalized growth.

Can you talk about what that means for 4Q, maybe beginning of next year ASM growth, where in the network you're looking to maybe add capacity? And maybe just stepping back from that, where do you see in the marketplace an opportunity to put capacity to work that is compensatory just given the state of affairs and where oil is. Thanks

Ed Bastian, Chief Executive Officer

Yeah. David, it's premature to be out giving guideposts for '27, and I know that's not what you're asking. But we've come through a period here over the last quarter, certainly the third quarter, looking forward with muted capacity. It was an obvious response to the fairly dramatic fuel spike that we saw. Fuel continues to stay elevated. Fuel today is 50% higher than where we started the year at.

I think you're going to find the crack spreads are going to continue to be sticky. I think they will come down, but I think it's going to be sticky. Coming down, given the questions that sit out there in the Middle East and other parts of the world about what kind of damage was done to the refineries and the value, the amount of production capability that you can find. So I would anticipate that in the fourth quarter, for Delta, you'll see us return to a little bit more of a normalized capacity run rate, that 2% to 3% that we've historically looked at. It keeps us around on par with where economic growth is.

And then as we go forward to '27, there's probably the mindset that we've had. You guys follow us well, and you've seen how this team thinks about this stuff. We try to stay in our lane in terms of our strategy. We're not out there trying to compete on someone else's strategy. We're a focus on Delta strategy.

The growth that we're seeing here for the back end of the year, going into the next couple of years, will largely be in two areas. It will, first of all, obviously be focused on profitable growth. But it'll be upgauging. We've taken a holiday over the last couple of years from upgauging, as we've had some fleet resets here. We'll get back in the next year or two as we take delivery of MAX 10, and some additional narrow-body opportunities to get an upgauge going. It's a very efficient way to grow.

And secondly, international. And international areas we are growing are in line with our strategies going into some new markets in the Middle East, such as Riyadh, bringing Tel Aviv back, as well as expanding in Asia. But that's kind of the outlook for growth as I see it, for the next year or so.

David Vernon, Analyst, Bernstein

All right. That's helpful. And then maybe just a quick follow-up. You mentioned the MAX 10 being out there, and MAX 7, it sounds like we're getting a little bit closer to the end of the tunnel. Do you think that the delivery of some of those aircraft that have been constrained can upset what is a better structural environment? Or does that not factor into your consideration?

Ed Bastian, Chief Executive Officer

Oh, it absolutely does add to the structural changes. The fuel that powered the low-cost evolution was being able to grow faster than your costs were, where all the aircraft availability from both Airbus and Boeing on the narrow-body side. That has dramatically changed. And by the way, it's not the question of whether Boeing and Airbus can even produce the aircraft as much as the engine producers. And the lack of durability that we've seen in the quality of the new engine technologies isn't anywhere close to the pre-existing technologies that we had previously.

So I think availability of aircraft is a fairly significant constraint as well. And for us, we're looking forward to getting the MAX 10. We expect to see that in Delta colors next year, which will be great to have, but it's also going to enable us to release some older narrow bodies and whether it's 717s and 757s that it will be a replacement.

David Vernon, Analyst, Bernstein

Thanks, Ed.

Operator

Thank you. Your next question is coming from Andrew Didora from Bank of America. Your line is live.

Andrew Didora, Analyst, Bank of America

Hi, good morning everyone. So Joe, just a question on international, just curious if we were sitting here in March, how much of your 2Q international was on the books versus 3Q? I just asked, because international and particularly the Atlantic maybe a little bit below what we had thought, but I feel like it could be something with the booking curve. So should we be expecting a better sequential improvement internationally because of that dynamic? And any thoughts you can provide on the international geographies would be helpful.

Joe Esposito, Executive Vice President & Chief Commercial Officer

Yeah, good morning. Yeah, that's exactly right. Typically, your long haul international has about 15 points of bookings more than domestic does. So when you were in March, April was very much booked and customers booked their travel, especially transatlantic for the summer. They actually start in January and February with that booking curve where domestic's closer in. So yeah, you will see sequential improvements as we go through the next quarter and into the fall in terms of that. So that's a good thing.

And then, also, business improved significantly in the transatlantic as you get into September and October in the off season. So around the world, transatlantic for us will still have a very solid summer. Demand has been very strong. As we've been talking about in past, our foreign point of sale has been a little bit softer, but we've transitioned to more of a US point of sale, where we're over 80% now for US point of sale in the transatlantic. And that falls back to our strengths. The fares are higher and the strength of our brand in the US is much higher.

So the transatlantic will have a great summer. The good thing about the transatlantic is it's smoothing out. The seasonality has been flattening, which is good for us. And people are moving their trips more into the shoulders and

into the traditional off season.

Pacific has kept up with capacity. We're actually growing the Pacific. So unit revenues were up about 8% on similar capacity. And you've seen us with two new markets this year, Hong Kong, and we're annualizing Melbourne and Los Angeles, Shanghai and Salt Lake City, Incheon, Asia and the Middle East will be the focus for the next couple of years.

Latin is a little bit of two different stories. South America has been very strong this year and for the past, really, 18 months and the forwards look really good, based on our partnership with LATAM, aligning ourselves with their connecting bank structures in South America. Mexico had been a little bit weaker as the incidents, the violence earlier this year. So Mexico had been a little bit softer as well as short haul. But we'll expect to see improvements in that as we get into the fourth quarter of this year.

And our capacity also reflects that. We were down 7% in Latin America with most of that in the short haul category. And we'll bring that capacity back based on demand. And it's not assured it comes back. It's slowly coming back, but we should see a strong winter for leisure travel. And again, South America has really been the bright spot.

Just getting back to domestic. Again, that had been the lead in unit revenue performance and really strong performance as you exited the quarter on unit revenue versus when you enter. And it's good for the participation of all the carriers that have come in on fuel recovery, the fastest in the domestic system and the fastest we've ever seen historically. So domestic is on a really good trajectory, especially with corporate sales traveling in the US. And a couple of bright spots that, while we said 20% for corporate, big cities like Los Angeles and Boston were actually closer to 30%. So really good progression in the domestic system.

Andrew Didora, Analyst, Bank of America

That's great. Very, very helpful. And then, as a follow-up, actually just wanted to ask about the cabin segmentation you announced earlier this week. I know you've teased a bit about wanting to give your customers a little further choice. But I'm just curious on how far you think this can go. Are there further opportunities to continue to maybe expand this À la carte option? And just any comments on how you view those options over the next three to five years would be helpful. Thank you.

Joe Esposito, Executive Vice President & Chief Commercial Officer

Yeah, thanks. We're really still in the early stages of segmentation, and we've gone through main cabin several years ago. We just recently expanded into Comfort+ and right now we're launching into our premium products. And I think it's a great benefit for the consumer. It's a great benefit for revenue upgrades. It gives the choice to the customer.

And I think what you can see, and I think you're in the early stages, because I think what you can see for the future is how do we retail all of our products in those categories and actually reward our best customers, put better and better products into those categories for the future. Today, it looks very much like a typical revenue management type merchandising, but I think with all the great brands that we're associated with, you can see a world where you're merging the retailing with it.

Andrew Didora, Analyst, Bank of America

Thanks so much.

Operator

Thank you. Your next question is coming from Tom Fitzgerald from TD Cowen. Your line is live.

Tom Fitzgerald, Analyst, TD Cowen

Hi, everyone. Thanks very much for the time. Just curious on cargo. I was wondering if you could unpack some of the strength in 2Q. I don't know if that was just -- obviously, spot prices have surged and there's fuel charges. But with some of your fleet investments, there's a cargo angel to that as well. And then, I don't know if we should expect that cargo number to decelerate into the back half or continue to show some pretty good strength?

Joe Esposito, Executive Vice President & Chief Commercial Officer

Yeah, thanks, Tom. Most of what we saw for cargo revenue -- it was a great quarter, we're really proud of the team -- was on volume. And you've had some rerouting of cargo that typically goes through the Middle East and other areas that we've been able to recapture.

But it's also the structural improvements we've made internally depending on where we're expanding. Asia is one of the largest cargo markets from the US, and we've been expanding in the Asia market. We've been getting greater capability of our airplanes that we've been investing in. And we've got a lot of internal restructuring in how we approach cargoes, and made it much more of a priority.

So we will see strength throughout the year in cargo. Probably not the 39%, but we're going to have a really strong back half in our cargo sector and that'll play a bigger role as we continue to invest in international. Cargo is a big part of international and goes towards the profitability of our international entities.

Tom Fitzgerald, Analyst, TD Cowen

Okay, thank you. That's really helpful to hear, really encouraging. And then, I guess, just maybe on the MRO side, would you mind just reminding us your latest thinking on the kind of margin trajectory of that business in the back half and in the next couple of years? I know your longer-term target of mid-teens, but seeing some nice growth year-over-year in the first half. Thanks again for your time.

Dan Janki, Executive Vice President & Chief Operating Officer

Sure, Tom. What we've talked about is that, mid-teens is the target. We expect to expand a couple 100 basis points a year. The first half of this year was better than that. We got a lot of volume leverage given the revenue growth that we expected.

But I would, as you think about this business going from 10% to 12% to the mid-teens with the double-digit revenue growth, that would be the progression that I'd look at. And so we've been out there, we believe, and the team believes that they got the backlog, that they got technical capability to market position, not only grow the top line but to grow to margins double digit. And I would expect about a couple 100 basis points a year.

Operator

Thank you.

Julie Stewart, Vice President of Investor Relations & Corporate Development

Matthew, we can now go to our next question.

Operator

Certainly. Your next question is coming from Jamie Baker from JPMorgan.

Your line is live.

Jamie Baker, Analyst, JPMorgan Chase

Hey, good morning. Probably for Ed. So I'm curious what internal analysis you've done to assess what peak pre-tax margins might look like for Delta in coming years? Obviously, that analysis would have to make a number of industry assumptions as well. I mean, hypothetically, the industry was doing a 30% pre-tax margin. You see a new round of startups and that sort of thing. And I'm not expecting that outcome.

But my point is, there's bound to be some structural peak as to what Delta margins can accomplish. So I'm curious what sort of thought and analysis you've put into this and what you're willing to share.

Ed Bastian, Chief Executive Officer

Well, thanks, Jamie. I am not sure what peak looks like. We're not there yet. But our framework that we brought to investors a couple years ago outlined a pathway to mid-teens margins and sustainably mid-teens margins. So, arguably, a peak environment might be a little bit higher than that. But when you think about what had to happen when we laid that scenario out, a lot of what we made assumptions around is you're seeing happen.

The structural change in the industry being the most important part of it with respect to the discipline that the industry needs to take in light of high cost, whether it's fuel, whether it's labor, whether it's aircraft availability as well as the cost of aircraft, whether it's the airports themselves, an incredibly high cost business.

Second, you think about the value proposition that we're creating for consumers. We're no longer competing on price as much as we're competing on value and experience and service, and that's where Delta wins. That's where Delta has always won. We're going to continue to lean in there.

You look at the efficiency opportunities that we know we have sitting in front of us. Upgauging was a key unlock back last decade to getting out of the small regional jets and introducing the 321neos and the upgauged narrow-body strategy. We've got a long ways to go there still on upgauging opportunities and fleet efficiency, which, candidly, is the only way you can grow in the domestic network given how much congestion there is. So it'll be tempered, it'll be modest, but I think it'll be very profitable.

And then also, you think about where the world is. And while there will be ups and downs and bumps along the way, the sustainability of what we're building, because we're building it through a greater experience, and consumers having an affiliation for the Delta brand is going to be far more durable than anything this industry ever saw.

I tell groups all the time. I started here almost 30 years ago. You were asking, you were there, you know.

Jamie Baker, Analyst, JPMorgan Chase

Yeah.

Ed Bastian, Chief Executive Officer

Ask someone why they picked a specific airline. At least 80% of the time is whoever had the lowest price. Today, if you ask a consumer why did they choose Delta? They'll tell you, because it's Delta. And those are the changes. And I think those are durable advantages. And yes, there will be more unexpected surprises ahead, which is also why our balance sheet strategy is so important here to continue to pay down debt and enable us for the first time, maybe in our history to play offense once in a while when deficits and challenges occur, rather than always having to play defense and get our debt levels down to much lower levels than they are today.

So that's the view and that's what -- yeah, there's other things as well. But those are the reasons why I think that mid-teens -- and the last one I was trying to think, I knew there was one, this technology with AI. And I don't know that technology is going to enable us to grow our business. I think that's probably true across most businesses, they'd tell you today. But it's certainly going to enable us to be more efficient and smarter about how we do business. And we already see some early signs. And while it may take us another year or two before you really start to see a meaningful imprint from that. That's coming. And that's not going to be small. I think that's going to be pretty large.

So those are the reasons why I think getting to that mid-teens level is durable and sustainable, and it's led also in the marketplace. You look at our domestic main cabin performance. I saw a stat recently that if we grow, kind of get our margins anywhere close to where they were back in 2019, that's easily two to three points on the overall margin for our business. So it just gives you a sense of the leverage we have here to the opportunity.

Jamie Baker, Analyst, JPMorgan Chase

Very, very helpful color, Ed. And then just a quick follow-up question on segmenting DPS and D-One. Obviously, one thing that made basic economy such a success was that the majority of corporations forbade consumption by business travelers. I think it was Glen once said, something like 90% of your managed corporates had walled off basic economy. I know it's early in terms of unbundling the premium cabins and I haven't actually had time to check how JPMorgan is going to handle this. But do you expect a similar broad-based corporate response in terms of walling off the basic premium fares -- of that product predicated on corporates doing so.

Joe Esposito, Executive Vice President & Chief Commercial Officer

Yeah. Well, when we rolled it out to Comfort+ we did exactly that, what we did with main cabin. And we're moving that through the other categories as well. So we do expect that to be very similar. And all those fares won't be allowed on every single flight that we have either. So we'll use that based on where demand is by flight and by market. So I would expect this to be a positive for the top end consumer of first class as you get more and more flexibility, because the basics still, even in the premium cabins are restrictive and that doesn't really work with our corporate customers.

Jamie Baker, Analyst, JPMorgan Chase

Precisely. Yeah. All right, very helpful. Thank you gentlemen. Appreciate it.

Ed Bastian, Chief Executive Officer

Thank you, Jamie.

Operator

Thank you. Your next question is coming from Brandon Oglenski from Barclays. Your line is live.

Brandon Oglenski, Analyst, Barclays

Hi, good morning, everyone, and thanks for taking the question. So Erik, maybe this one's for you, because I think if we just translate your RASM in the fourth quarter, and obviously, expectations for low single digit CASM, we're getting close to that mid-teens operating margin goal that you guys had long term. But, obviously, you want to hit that annually. So, how do you think about unit cost inflation in '27 and beyond? And how are you going to manage through new labor contracts and things of that matter?

Erik Snell, Chief Financial Officer

Well, thanks, Brandon. Appreciate the question. Yeah, we'll continue to have progress on unit costs as we go forward. We're expecting modest progress mainly on some of the actions that Dan has talked about and getting our resilience better. We saw exit rate in the quarter, some improvement there. So feeling good about modest progress there and then into the fourth quarter. And as we get back to normalized capacity growth and see those operational improvements, that's when we'll hit our long-term framework of low single digits. So it'll depend on the setup next year in terms of where our capacity is.

The other thing I'd say is that, we have all the costs in our baseline. We're top of the industry in our pay scales. We've got our generational airport improvements in our baseline. So, our ability to outperform going forward, we think, is going to be strong as we get back to the low single digit CASM.

Brandon Oglenski, Analyst, Barclays

And Erik, just a really quick follow-up there, because I think you guys have talked about resiliency and staffing this year. I guess is that potentially a tailwind as you look into '27?

Erik Snell, Chief Financial Officer

Yeah, I think it is. We certainly put in quite a number of actions. Some of those take some time to mature. We're seeing the fruits of that labor, but it's not just in our crew resilience. We've got efficiency actions across our system. And as we continue to gain growth, you'll see that leverage, right.

During the second quarter with growth below our plan, we were about flat in terms of our resources versus growth. You start to gain really real leverage. And I'd expect two to three points of our ability to leverage the resources we have and the investments we've made under the growth that will be coming our way.

Brandon Oglenski, Analyst, Barclays

Thank you, Erik.

Operator

Thank you. Your next question is coming from Ravi Shanker from Morgan Stanley. Your line is live.

Ravi Shanker, Analyst, Morgan Stanley

Great, thanks. Morning everyone. Dan or Joe, can you give us some color on load factor by cabin and how you're thinking of balancing load factor versus preserving RASM as we go into the back of the year?

Joe Esposito, Executive Vice President & Chief Commercial Officer

Ravi, load factor just in terms of where it's come out, or sort of what you are asking?

Ravi Shanker, Analyst, Morgan Stanley

Both for how it trended through 2Q as well as how you think that trends into the third quarter, kind of maybe given some of the seasonal changes in Q3 versus Q2?

Joe Esposito, Executive Vice President & Chief Commercial Officer

Yeah, well, we're going through peak summer, so loads are -- these are the highest for the year. And if you break it down by premium versus main cabin, our premium paid load factor has been very strong and growing. And through this time period, some of the big bright spots has been our paid premium load factor, while main cabin is fairly

consistent in what it was last year. So our capacity that we're putting out, we're seeing load factor improvements through that. So we kind of break it up by both cabins.

And, of course, we're going into peak summer, as we said. Transatlantic is peak summer. As we get into September and October, load factors generally moderate as your business traffic replaces leisure. And then you've got higher load factors as you're going through the holiday season. So we expect our load factors, where we're putting seats and creating seats.

Don't forget our capacity in premium is up low single digits. Our capacity in main cabin is actually down 2% to 3%. So that mix is changing. And the great thing about the mix changing is we're actually able to sell a higher load factor in our premium cabins.

Ravi Shanker, Analyst, Morgan Stanley

Got it. That is very helpful. Maybe as a quick follow up. Forgive me if I missed this. But what is the current status of the refinery, of the outage? And if it's not fully back up yet, what's the timing for that?

Erik Snell, Chief Financial Officer

Hey, Ravi. Yeah, the refinery had an outage about a couple of weeks ago. There was a \$0.05 hit to us in the second quarter. We're back up to now approximately 75% throughput of the product that goes through the refinery. But there still will be a tail of the outage into the third quarter, that's going to be a \$0.05 to \$0.07 hit on the third quarter. Net of that, we still expect the refinery to have a \$0.05 benefit in the third quarter and based on where the forwards are now, that benefit would increase into the fourth quarter.

Ravi Shanker, Analyst, Morgan Stanley

Very helpful. Thank you.

Erik Snell, Chief Financial Officer

Yeah, thanks.

Operator

Thank you. Your next question is coming from Duane Pfennigwerth from Evercore ISI. Your line is live.

Duane Pfennigwerth, Analyst, Evercore ISI

Hey, thanks. Good morning and nice results. Resumption of the guide, et cetera. Just a question on, if you think events like the World Cup are benefiting the domestic entity disproportionately, do you think it kept more demand in the US this summer, including maybe some premium demand? And then longer-term, understanding, it's very, very early, as you think about next summer, what entities are best positioned in your view?

Joe Esposito, Executive Vice President & Chief Commercial Officer

No, the World Cup, like, there's lots of events that occur throughout the year. World Cup is obviously pretty big. We're the beneficiary of World Cup. That's not significant enough to make a huge difference to the quarter, but we see it flight by flight. It depends, obviously, where the games are. And now that you've got unscheduled games, you'll see closer in demand as people are trying to get to that specific city for the game. And I'm sorry, your second part was, where the bright spots are for next year?

Duane Pfennigwerth, Analyst, Evercore ISI

Yeah, just if you think it tilted demand more to the US and how you think that might play out next summer?

Joe Esposito, Executive Vice President & Chief Commercial Officer

No, I don't think it's going to make a significant difference in how we deploy capacity next year. We really didn't deploy a lot of capacity this year for World Cup. We'll do some additions, but it's actually very small in the grand scheme of the size that we are.

Ed Bastian, Chief Executive Officer

I would put an addendum to Joe's comment there. At a much higher level, though, I think the US has done a wonderful job of showing what a great country we are in welcoming visitation and getting the international inbound back again, both visually, because as everyone has watched, you couldn't have asked, I think, for a better advertisement to come to the USA. And I do think it'll have an impact on the mix in terms of having greater inbound participation in the next year. And while it may not change our specific market choices, I do think it'll enhance the mix.

Duane Pfenningwerth, Analyst, Evercore ISI

Thanks for that, Ed. If I could sneak just one more in on the co-brand card acceleration that you noted. Can you talk about the drivers of that and is there any sort of geographic push behind that acceleration? Thanks for taking the questions.

Ed Bastian, Chief Executive Officer

You want to take that, Joe?

Joe Esposito, Executive Vice President & Chief Commercial Officer

Yeah. I think, American Express is a, is a great partner, and we're very aligned on our strategic vision about where we grow. And when we go to market, wherever we're expanding, American Express is a critical part of that ecosystem. And so the growth in cards and the growth in spend is very complementary to how we're both growing.

And both for experiences, whether we're expanding internationally or Los Angeles or Boston or wherever or Austin, we're bringing that part with us. It's not just the transactional, it's really a true commercial partnership. So we're happy to get, another million cards per year that should be in our sites this year as well as \$9 billion of remuneration. But it goes with a very tight partnership of Delta and American Express approach the marketplace.

Ed Bastian, Chief Executive Officer

I think one of the wonderful benefits of our relationship with American Express is we're two companies that are, first, exclusive with each other, and two of the leading consumer brands in the country who have the exact same strategy, the exact same demographic in terms of who we're looking to reach. Incredibly complementary and building on each other's strengths. And that's why you see the compounded effect year after year after year.

We're not just the largest contributor to the overall distribution of Amex product and cards as well as revenue spend. We're also their fastest growing. And they are our number one partner in the world, and we are theirs. And the value you create when you have like mindedness in the marketplace, it's really powerful. And you see that continuing, and whether you put out new benefits as we did with replatforming some of the cards earlier this year or other opportunities to leverage lounges back and forth, it's a wonderful, wonderful strategy. And we love our partnership and I know the Amex people feel the same way about Delta.

Duane Pfenningwerth, Analyst, Evercore ISI

Thank you.

Operator

Thank you. Your next question is coming from Catherine O'Brien from Goldman Sachs. Your line is live.

Catherine O'Brien, Analyst, Goldman Sachs

Hey, good morning, everyone. Thanks for the time. I just wanted to dig in a bit on the corporate strength you've been seeing. I think back in January, you were seeing a little bit of a pickup in corporate volumes, following what felt like a really long period of pretty stable volumes post-pandemic recovery.

Can you break down how much of the double-digit corporate sales is fare growth versus volume? And if we were to see volumes pick up, like, how meaningful could that be to premium cabin pricing, given there's been continued strong demand from high-end leisure travelers for these products since the pandemic. Thank you.

Joe Esposito, Executive Vice President & Chief Commercial Officer

Yeah Hi, Catie. Most of what we saw in the 20% has been on the fare side. We've seen some improvement in passengers. A lot of it has been in international, depending on the specific city that we're focused on. Some cities

are growing faster than others, but most of it's been through the fare environment. So there is lots of upside for the future on additional volumes. But it's been great to see the resiliency of the corporate demand.

Catherine O'Brien, Analyst, Goldman Sachs

Okay, great. And just maybe a quick follow-up on premium and main cabin trends. I guess first, you've given us some color on the seats. But could you just tell us what premium versus main cabin RASM growth was in 2Q? And then given the tougher comps and premium and the reduction in low-cost capacity over this year, are you anticipating main cabin RASM could outperform premium underlying your 3Q guide? Obviously, I know Delta's been cutting main cabin seats. That maybe looks a little bit different than the rest of the industry. Any additional color there would be helpful. Thanks so much for the time.

Joe Esposito, Executive Vice President & Chief Commercial Officer

Yeah. Well, actually in the second quarter, our unit revenue in main cabin did exceed premium, because we are down in capacity and the industry has removed significant amount of unprofitable capacity. If you look at the ULCC category, that capacity is down about 30%. So, main cabin has gotten significantly healthier this year. I mean, last year it was one of our biggest objectives to improve the main cabin.

And also we're not growing main cabin seats. This is a multi-year, several years in a row that we haven't grown this cabin. We won't be growing it next year either. But our premium revenue has been up 17% and unit revenues below main cabin. But our growth in that category has been up high single digits, while revenue is outstripping the capacity and premium revenue. So I think we're getting into a really good balance between main cabin and our premium cabins.

Operator

Thank you. Your next question is coming from John Godyn from Citigroup. Your line is live.

John Godyn, Analyst, Citigroup

Hey guys, thanks for taking my question. Ed, you're the longest tenured CEO in the industry. You've seen a lot over that time. So I know that you don't take guiding to what will be a historic and record 4Q earnings number lightly. And if you hit that guidance, I think the bigger idea is we'd be set up for a major 2027 breakout year, just based on the simple math.

So I know people have come at this in different ways on the call, but just to kind of have everything in one place, can you talk about how the slow and consistent changes in the industry and at Delta compounded to set this situation up? And why should we all have confidence that this inflection we're seeing isn't a head fake and is sustainable beyond the end of the year?

Ed Bastian, Chief Executive Officer

Sure, John, thank you for that. The results you're seeing here and the forecast into the back half of the year, '27 and beyond, is entirely consistent with what we have previewed to the Street over quite a few years. And we talk about creating, getting out of the commodity cycle many years ago and the pathway to doing, I think we used to call it decommoditization. Today we're up to premium strategy and maybe tomorrow we'll find a more elegant term for it in the future.

But it's about building a sustainable business model that generates great returns for all its constituents, great rewards for its customers who are loyal to the airline, great value to its employees through profit sharing and the rewards of working at Delta and working for the world's best airline. Great for the community and certainly great for our investors.

And, this is a pathway that I see continued growth. I don't think we're anywhere close to where we will eventually stabilize at. And even when we get to stable, there's always going to be a next beyond that. So I think the consistency of the strategy, the alignment, the fact that you've got a leadership team who's been here for, not just me, but everyone around this table has been here for a lot of years. We all think alike. 100,000 people at Delta understand the strategy and they're all focused on service.

And it's about what you can do when you put people first and you make service your goal. It's not about trying to outsmart somebody on some network strategy or trying to undercut somebody on a lower price point. This is about who serves best and who creates the best experience. And that's Delta. And it's Delta, objectively, not just that. I'm

obviously biased. And that's what generates the returns, that's what generates the premium revenues and that generates our opportunities to continue going. And I don't see any end in that.

John Godyn, Analyst, Citigroup

Well, that's fantastic. I think we might be at the end here. So I don't want to hold up the call. I'll leave it at one. Thanks.

Ed Bastian, Chief Executive Officer

Thank you, John.

Julie Stewart, Vice President of Investor Relations & Corporate Development

Thank you, John. We'll now go to our final analyst question.

Operator

Certainly. Your final question is coming from Savi Syth from Raymond James.

Your line is live.

Savanthi Syth, Analyst, Raymond James

Hey, good morning. Just to clarify with your focus on international over the next few years, just taking a longer term view, how do you see the capacity growth in the domestic market versus opportunity in the international markets? Wanted to put a finer point on that, as you think longer term?

Joe Esposito, Executive Vice President & Chief Commercial Officer

I think longer term, the domestic market moves with the economy. And International for us will grow faster than average, just because there's a lot of economies that we still don't serve. And we'll grow faster than the domestic market. And so I look at our domestic. We think about becoming more efficient.

On the capacity, a good part of capacity for the future in domestic will be efficiency. As Ed said about gauge growth, and getting back to a positive gauge growth, because we don't have a problem with demand. So larger airplanes make us more efficient and give you that extra capacity. I think there's going to be parts of the US that we're focused on where it grows faster than average, where we can find premium markets like Raleigh, Durhams, and Austins, and Los Angeles and places like that, that we can continue to enhance the ecosystem for domestic. So I see a lot of efficiency in domestic based on our utilizing our current hub structure.

International, most of it's going to be Asia and Middle East as we continue to add economies that we don't serve. And a lot of it is, looking at our customers have a high demand to go to those destinations we don't fly to, like Hong Kong that we just started or Melbourne or other places in South Pacific and Southeast Asia. And we've got a great anchor partner in Asia with Korean Air that allows us to expand ourselves through 70, 80 destinations through Asia, and now we have access from all of our hubs. So I think you'll see international grow faster than average. Domestic, the theme will be much more of efficiency.

Savanthi Syth, Analyst, Raymond James

That's helpful. Just to follow-up on that. So does that put Europe and Latin America somewhere in between?

Joe Esposito, Executive Vice President & Chief Commercial Officer

I see Europe also as efficiency. When you think about the aircraft we've got coming online with the 787. You think about a 787 that replaces a 767, that's a significant amount of efficiency and margin. Premium, you're going from 30% premium seating in a 767 to over 50% in a 787. It can handle twice the cargo. So I think the continent of Europe falls into the bucket of domestic -- of efficiency, but on the wide-body side, which actually is a multiplier on gauge in long haul international because of fuel burn and top line revenue that you can generate. So I put the continent of Europe in the domestic bucket.

South America, we still have some opportunities with LATAM. They've got fantastic hubs that they're developing, like Lima, Santiago, São Paulo, Bogotá, that we're working. And we're in the early stages with LATAM and Korean on our development of our hubs. But, typically, our JV partners is the foundation of our profitability and our strategy in those regions, and we've got great partners to launch, to work with.

Savanthi Syth, Analyst, Raymond James

Appreciate the color, squeezing me in. Thank you.

Joe Esposito, Executive Vice President & Chief Commercial Officer

Thanks.

Julie Stewart, Vice President of Investor Relations & Corporate Development

Okay. With that, that will conclude our second quarter earnings call today. Thank you everyone for joining us and have a wonderful weekend.

Operator

Thank you. That concludes today's conference. Thank you for your participation today.

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