**Delta Air Lines Inc 3Q 2026 EARNINGS** ***(Proofread Transcript)***

## Call Participants

### EXECUTIVES

**Operator**

**Julie Stewart**
*Vice President of Investor Relations & Corporate Development*

**Ed Bastian**
*Chief Executive Officer*

**Joe Esposito**
*Executive Vice President - Chief Commercial Officer*

**Dan Janki**
*Executive Vice President & Chief Operating Officer*

**Erik Snell**
*Chief Financial Officer*

# Presentation

**Operator**

Good morning, everyone, and welcome to the Delta Air Lines September Quarter 2026 Financial Results Conference Call. My name is Matthew, and I'll be your coordinator. At this time, all participants are in 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 September 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 operations, 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. [Operator Instructions]

Today's discussion contains forward-looking statements that represent our beliefs or expectations about future events. All forward-looking statements involve risks and uncertainties that could cause the actual results to differ materially from the forward-looking statements. Some of the factors that may cause such differences are described in Delta's SEC filings. We'll also discuss non-GAAP financial measures, and all results exclude special items unless otherwise noted. You can find a reconciliation of our non-GAAP measures on the Investor Relations page at ir.delta.com.

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

**Ed Bastian, Chief Executive Officer**

Thank you, Julie. Good morning, everyone. We appreciate you joining us today. Our results demonstrate the structural durability that we have built and the strategic decisions that we have made over many years to reduce earnings volatility and enable us to navigate today's high fuel costs. In the September quarter, revenue grew 16%,

and we delivered pretax profits of $1.5 billion, consistent with last year, while absorbing $1.6 billion of higher fuel costs. Earnings were $1.72 per share on an operating margin of 9.4%.

Our earnings are continuing to translate into strong cash generation and attractive returns for our shareholders. Year-to-date, we have generated $1.9 billion of free cash flow. And our return on invested capital is 11%, well above our cost of capital. These results reflect disciplined capital allocation and the durability of our business model. Operationally, Delta delivered another quarter of industry-leading performance across key metrics, including on-time and customer satisfaction. We continue to strengthen the resilience of our operation with good progress on weather recovery despite a challenging operating environment this summer. We expect to further improve recovery performance through the end of the year and into 2027.

I want to thank the 100,000 members of the Delta team. They remain our greatest strength and deservedly are the most awarded aviation professionals in the world. Most recently, their efforts were recognized by the Skytrax World Airline Awards, where customers named Delta the Best Airline Staff in North America for the fifth consecutive year. And consistent with our philosophy of sharing our success, we've now accrued $900 million towards next year's employee profit-sharing payout. Looking at the current environment, demand remains strong, supported by a secular shift in consumer behavior.

The top 40% of US households, which make up the majority of Delta's customer base, are nearly $40 trillion wealthier than they were just a few years ago and increasingly prioritizing experiences, including travel. At the same time, air travel remains one of the best values in the consumer economy, with airfares still well below cumulative inflation over the last several years. That demand is evident across leisure and business travel and across all cabins. Premium growth remains robust, and main cabin trends are continuing to improve, reflecting our measured approach to growth and broader industry actions to reduce unprofitable capacity. This year's fuel spike has accelerated change across the industry. Resilient demand and greater focus on profitability are enabling the industry to recover higher fuel costs more quickly.

Even when fuel prices eventually moderate, and they will, we believe our underlying revenue strength is sustainable, given strong preference for the Delta brand, and the diversity of our high-value revenue streams. Regardless of the next move in fuel prices, the forces reshaping the US airline industry will continue, with many carriers struggling to earn their cost of capital well before the run-up in fuel. Against this backdrop, Delta is operating from a position of strength. In the December quarter, we expect revenue momentum to continue and non-fuel cost performance to improve, supporting pretax profits of $1.2 billion, even with fuel prices expected to double over last year. For the full year, we expect to deliver pretax profits of roughly $4.5 billion, fairly close to last year's profitability, even with our fuel bill expected to increase by 60% or $6 billion.

That's a picture of structural durability you have not seen in prior cycles or fuel spikes within this industry. We also expect to generate $2.5 billion of free cash flow, funding more than $2 billion of debt reduction and bringing our three-year cumulative free cash generation to over $10 billion. These results are expected to lead the industry by a good margin. The consistent strength of our financial performance allows us to keep investing in our people, products, and partnerships, compounding Delta's differentiation and extending our lead. Our growing loyalty ecosystem is one of the most important drivers of our structural durability.

The Delta American Express partnership continues to deliver strong momentum. And we now expect remuneration of more than $9 billion this year on the way to $10 billion. The strength of the co-brand portfolio was recently reflected in J. D. Power's customer satisfaction survey last week of all airline co-brand cards, where the Delta American Express SkyMiles card swept the top three positions with our Reserve card ranking number one. Hats off to our collective teams, what a remarkable achievement. We are also bringing more value to our customers through partnerships with leading brands. During the quarter, we announced a new strategic relationship with Hyatt, bringing together two leading premium brands. Customer response has been strong ahead of the launch later this year. At the same time, we're investing to extend the reach of the Delta brand through global network. We recently announced new service to the Philippines and expanded service to Tokyo, Paris, Athens, and Venice from key US gateways.

Our investments are elevating the customer experience throughout the travel journey, with connectivity an important point of differentiation. Delta pioneered fast free Wi-Fi on a global scale four years ago and established it as the standard that the industry has been required to adopt. Today, fast free Wi-Fi is available across virtually our entire fleet, far more than any other airline currently offers. We continue to work closely with Viasat and Hughes on meaningful enhancements to service, which we will see this quarter, and are excited to launch Amazon Leo beginning in 2028. In closing, the durability that we've built is differentiated and difficult to replicate. We are delivering industry-leading returns today and are confident in our ability to deliver strong growth in earnings and cash flow in the coming year.

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

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Thank you, Ed. September quarter results demonstrated sustained demand strength, clear preference for the Delta brand, and the benefits of our measured approach to capacity. Revenue grew $2.4 billion, up approximately 16% over prior year on flat capacity. Total unit revenue growth of 15.4% accelerated three points from the June quarter with gains in domestic and international. A key highlight was main cabin, where unit revenue grew high teens, marking the third consecutive quarter of improvement. Domestic unit revenue grew 16%, driven by healthy yield growth on load factors that were 1 point higher than last year as we closely align our capacity growth with demand.

International unit revenue grew 12%, led by growth of 22% in Latin. Transatlantic unit revenue growth accelerated 4 points sequentially to 11%. Corporate sales were strong across all sectors, cabins, hubs, and entities, with each growing double digits over last year. The week after Labor Day was the highest corporate sales week in our history, underscoring the strength of business travel. Our diversified, high-margin revenue streams remain a defining strength of Delta, enhancing the quality and durability of our earnings. Diverse revenue represented 61% of total revenue, with premium and loyalty each growing nearly 20% over prior year.

Cargo and MRO revenue both grew nearly 30%. Our loyalty ecosystem is growing in scale and value. SkyMiles membership is growing faster than capacity, and members are engaging more with Delta in the air and beyond the flight. That deeper engagement is driving growth across brand partnerships such as Uber and Starbucks, in addition to travel products and our industry-leading co-brand card portfolio. Card acquisitions and spend both grew double digits, keeping us on track for a fifth consecutive year of 1 million new card acquisitions and double-digit growth in AMEX remuneration this year.

Now turning to outlook. Demand remains strong and broad-based as we enter the final quarter of the year. That strength is reflected in forward cash sales, which grew nearly 20% during the September quarter. The highest quarterly growth since 2022. These trends support our outlook for December quarter revenue growth of approximately 20% year-over-year on roughly 3% capacity growth. With seat growth below 2%, including a year-over-year reduction in main cabin seats, our capacity positioning supports another sequential improvement in unit revenue growth as we continue to cover higher costs. This approach keeps our capacity decisions focused on margins, returns, and cash generation.

Our results and outlook reflect an integrated commercial strategy that is extending our leadership. Investments in our fleet, global network, customer experience, and loyalty ecosystems are strengthening our revenue premium, deepening engagement, and creating long-term value. Los Angeles is a clear example of our integrated strategy driving profitable growth. Over several years, we have built a leading position through investments across the airport, network and customer experience. We're also expanding our global reach from Los Angeles, adding service to the South Pacific, Hong Kong, and Manila while enhancing connectivity across key US markets. This has been enabled by generational airport investments at L. A. to create a modern connected complex with additional gate capacity and seamless access to the international terminal.

We now have the most premium ground experience with a dedicated curb-to-lounge path for Delta One customers. Together with our leading position at L. A., two Delta One Lounges, and our award-winning Sky Club, these investments are strengthening customer preference in this high-value market and further opportunity ahead of the L. A. '28 Olympics.

Now I'll hand it to Dan to discuss our operational results.

**Dan Janki, Executive Vice President & Chief Operating Officer**

Thank you, Joe. Running a great operation is foundational to Delta's brand, and I want to thank the Delta team for the outstanding service they provide our customers every day. With a culture of continuous improvement and our investment in data and technology, our people keep raising the bar, strengthening reliability and driving efficiency while delivering better outcomes for our customers. Over the summer, we widened our industry leadership in on-time performance and delivered record baggage results and better disruption recovery. Those results were meaningfully important given persistent weather and ATC delays that our people navigated during the quarter. More than twice the number of disruption days compared to historical averages. These targeted investments are strengthening our resilience and recovery.

In September, we delivered our best mainline completion factor month of the year, and we expect further progress through the fourth quarter and into 2027. We are scaling new technology and process improvements across the operation to strengthen reliability, accelerate recovery, enhance the customer experience. Atlanta is an important

example where these investments are driving record baggage performance, improving connection, and making our largest, most profitable hub even more reliable and efficient.

The Delta people remain our most important differentiator. New tools, technology, giving them more time to do what they do best, care for our customers. We are pairing these technology investments with new training, that equips our people to deliver even more consistent and personalized service. One example is a new hospitality certification program across our network of 60 lounges and clubs, the only program of its kind offered by a US carrier.

Today, operational reliability, people, and technology deliver better outcomes for our customers and support Delta's leadership in Net Promoter Score. Domestic NPS continues to strengthen, driven by record interaction scores with our people, expanding digital capability, and more proactive customer communication, particularly during disruptions. During the quarter, we further expanded self-service options in the Fly Delta App and completed the rollout of Delta Concierge to all SkyMiles members. Customer adoption is growing, and new capabilities are scaling rapidly. Our operational expertise also creates value beyond the core airline. I'm proud of the TechOps team for delivering $1 billion of maintenance, repair, and overhaul revenue year-to-date, an increase of nearly 60% over last year, while expanding margins and growing our customer base. And over the next several years, we are positioned to more than double MRO revenue while expanding margins.

Now I'd like to turn it over to Erik to cover our financial performance.

**Erik Snell, Chief Financial Officer**

Thank you, Dan. I want to start by recognizing the Delta people for their commitment to our customers through a busy summer travel season. In the September quarter, we delivered earnings of $1.72 per share and an operating margin of 9.4%. Pretax profit of $1.5 billion was in line with last year, even with a $1.6 billion increase in fuel expense. That was more than $500 million higher than guidance. For the quarter, our fuel price averaged $3.61 per gallon, including a refinery benefit of $0.13. With our refinery now fully online following the temporary outage discussed on our July call, we expect a greater benefit in the December quarter at roughly 3x the September quarter level. Non-fuel unit costs increased 7.3% over the prior year on flat capacity. The primary drivers were higher crew and revenue-related costs on capacity growth several points below our original plan, and nearly 1 point of impact from the disruptions that Dan spoke about. We generated free cash flow of $460 million during the quarter, bringing the year-to-date total to $1.9 billion.

Our financial performance allows us to continue investing while making meaningful progress on debt reduction. We ended the quarter with adjusted net debt of $13 billion and plan to pay down more than $2 billion of debt this year, positioning us to end the year with gross leverage of 2.2x. Delta's balance sheet is a strategic asset. We are investment grade at all three credit rating agencies and recently received a Fitch upgrade to BBB-. We also ended the quarter with a $3 billion pension surplus and a substantial and growing base of unencumbered assets.

Turning to our outlook. Based on the forward curve as of October 2, our all-in fuel price for the fourth quarter is projected to be $4.25 per gallon, including a refinery benefit of approximately $0.40 per gallon. With slightly higher capacity and continued operational efficiencies, we expect non-fuel unit cost growth to improve 1 to 2 points sequentially. Looking to next year, we remain on track for low single-digit unit cost growth as capacity normalizes, operational improvements continue, and we lap higher costs in our baseline. Combined with our revenue outlook, we expect fourth quarter earnings of $1.15 to $1.65 per share and an operating margin of 7% to 9%. For the full year, we now expect earnings of $5.10 to $5.60 per share with free cash flow of approximately $2.5 billion. Our outlook includes a refinery benefit of more than $700 million, underscoring its unique value.

Delivering this level of performance despite a roughly $6 billion increase in fuel expenses this year reflects the power of Delta's strategic advantages and demonstrates financial durability that is meaningfully stronger than in prior cycles and differentiated from the industry. Looking ahead, our focus remains on profitable growth and achieving our long-term financial targets. High-value revenue growth, fleet renewal, and a more efficient cost structure provide a clear path to expanding both margins and returns to the mid-teens. Our capital allocation priorities remain unchanged: reinvest in high-return opportunities and continue strengthening the balance sheet. As we move toward our long-term gross leverage target of 1x, we remain committed to increasing returns to shareholders.

Now I'll turn it back to Julie for analyst Q&A.

# Question And Answer

**Julie Stewart, Vice President of Investor Relations & Corporate Development**

Thank you, Erik. Matthew, can you please allow for analysts to now queue up for questions?

**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 Andrew Didora from Bank of America. Your line is live.

**Andrew Didora, Analyst, Bank of America**

Hi, good morning, everyone. Thanks for taking the questions. Erik, I guess just on the fourth quarter CASM, we were modeling some more sequential improvement than you guided to just given the IROP issues this summer. I know capacity is not where you want it to be, and you've been investing back in the operation, but can you maybe just help us quantify why CASM-Ex continues to deviate from that low single-digit target as we end the year here?

**Dan Janki, Executive Vice President & Chief Operating Officer**

Yeah, hey Andrew. There are thee buckets of investment versus low single digit. Number one is operational investments and improvements that we're making. Number two is capacity discipline, and number three is we're seeing higher revenue-related costs. And on our operational investments and capacity discipline, these have been deliberate choices and the right decisions.

**Erik Snell, Chief Financial Officer**

We're improving reliability and supporting revenue quality. And the third is just a function of stronger revenue that Joe and team are delivering. We're managing the business for profitable growth and returns. And as capacity normalizes, and we continue to see the improvements in our operational reliability, specifically controllable completion factor, we have a path back to low single-digit cost growth.

**Andrew Didora, Analyst, Bank of America**

On that, just in terms of 2027 on that low single-digit cost growth, but if we're in an environment where maybe fuel stays higher for longer and maybe capacity takes longer to normalize, how should we think about the CASM in that type of environment?

**Erik Snell, Chief Financial Officer**

Thank you. Well, we'll continue to be disciplined on capacity, and we're going to manage the business for margin. We'll take out costs that we can if capacity wanes, but we'll be focused on continuing to elevate returns.

**Operator**

Thank you. Your next question is coming from Savanthi Syth from Raymond James. Your line is live.

**Savanthi Syth, Analyst, Raymond James**

Hey, good morning, everyone. Maybe the acceleration in the year-over-year revenue and RASM is quite impressive here based on the guide, especially given that you have some tougher comps and the industry capacity stepping up. Could you talk a little bit about what's driving that strength and your confidence around that outlook?

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Yeah, hey, Cathy. Good morning. Thanks for the question. Yeah, when you look at where we are in closing the third quarter, we saw a very strong demand from our customer base. When you look at the fourth quarter on the sequential improvement and 20% revenue growth. We're already greater than 60% booked for the quarter. Our demand in premium products continues to be high teens, and that's leading us also to our corporate– polling our corporate travelers, we see no cracks in that demand for the fourth quarter. And the economy is really strong. So we're set up for a really strong fourth quarter. And I think the improvement in unit revenues and revenue is well within our reach.

**Savanthi Syth, Analyst, Raymond James**

That's helpful. And Joe, if I might ask on the loyalty program, that has been really strong loyalty revenue within that revenue guide. It's been stronger than past years and stronger than some of your peers. Curious, what's driving that

and the ability of that momentum into 2027?

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Yeah. You've got fares that have gone up. You've got greater engagement from our customers. When you look at how they engage through not only our own SkyMiles program but the AMEX and partnerships and products, you're really seeing a very strong ecosystem of spend in all categories. Especially in premium products from our loyalty program, our capacity in premium was up 6% to 7%, and our load factors actually were up almost 2 points, where you've got really strong engagement in premium cabins and products.

**Savanthi Syth, Analyst, Raymond James**

Got it. Thank you

**Operator**

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

**Michael Linenberg, Analyst, Deutsche Bank**

Oh yeah, hey, just one question here, multi-part to Joe, just on competitive capacity. What are you seeing in the domestic market? And as energy prices rise, do you anticipate further cuts by your competitors? And if you can touch on international, because I think one of the things we're watching closely is that hedge books are rolling off from many of your international competitors and likely to see changes on the capacity front there? So overall, just kind of what you're seeing capacity, both domestic/international from competition? Thanks.

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Yeah, thanks. When you look at the domestic system, quite a bit of capacity has come out as carriers have worked to improve their own margins and operations. In our hubs, competitive capacity is actually positioned down, and we're not seeing any impact from capacity in other airlines' hubs across the domestic network. So all in all, very, very positive. And Atlanta is down in competitive capacity, Detroit is down. And you've seen the lower end improving quite a bit.

On the international front, you're right. Hedges will start coming off. And I think, while we've had a strong international performance this quarter, I think that's only going to get better as we see carriers globally have to manage their businesses for margins as well. So I see the competitive environment in a really positive light as we go into the fourth quarter.

**Ed Bastian, Chief Executive Officer**

Mike, this is Ed. If I could add one other data point to Joe's summary, as we were pulling our materials together, one data point really stood out for me. The importance of generating a proper return in this business, and ROIC is probably the most important measure that we all should be held accountable to. ROIC, as I mentioned earlier, is 11%, well above cost of capital and moving towards 15%, which is our goal here for the business. If you look at the rest of the domestic industry ex-Delta, that number is 3%.

**Michael Linenberg, Analyst, Deutsche Bank**

Oh, wow!

**Ed Bastian, Chief Executive Officer**

That means every day there's a fair bit of the industry that continues to destroy its shareholders' capital, and that cannot sustain. So when you ask about competitive capacity, it's great to have little skirmishes in other people's markets, but in a high-cost environment, you cannot grow your way out of it. You must actually take action. And we've seen some action, but there's obviously more to come, particularly next year.

**Michael Linenberg, Analyst, Deutsche Bank**

Great. Thanks for that, Ed. Thanks for that, Joe. Thank you.

**Operator**

Thank you. Your next question is coming from Conor Cunningham from Melius Research. Your line is live.

**Conor Cunningham, Analyst, Melius Research**

Everyone, maybe piggybacking on that answer there, Ed, I was hoping we could just take a step back and talk a little bit about the long-term targets. Over the past couple of years, obviously earnings has been range-bound. There's been a ton of talk of the structural change in the industry, but macros obviously eroded some of that. So as you look into the future, what changes do you see that give you confidence in this mid-teens framework going forward? Thanks.

**Ed Bastian, Chief Executive Officer**

Hi, Conor. I think the biggest one is a bit what I just referred to, and what we have seen over this last year, the ability of the industry to get much greater value for the product that we offer. And unfortunately, it took a fuel spike to, in a short order, move people in that direction. But as we see the customer response, candidly, the limited amount of resistance that we see, the fact that our product continues to be seen in a consumer basket as reasonably affordable, even at a 20% price increase, which largely we have taken this year. I think that's a very good sign for the future.

Fuel prices will recede. Now, how much, how fast, I don't know, but they will. And the test for us at Delta, and I think for the industry, is to ensure that we sustain the revenue that we have created. And I don't see any reason why we shouldn't. And so I think that, and as we said in our remarks, that, that's masking today. High fuel prices are masking some of that inherent margin improvement, but it's really hard to show margin improvement when fuel prices are doubling on you. But we'll get to the other end of this, and I think you're going to see a different environment, and I think you'll see structural changes that will continue to occur because there's no other option here. But carriers are going to have to justify why they're putting capacity and supply out into the marketplace.

On the other hand, we have a lot of things that are within our control. We've invested heavily in getting our reliability and our resilience back. That's been costly. And the changes we're making operationally, the investments we're taking both in technology and in people and process are going to make a difference. So I think you're going to also see a more sustainable non-fuel cost from us too. The last year has been a bit painful. And I know we're at the peak of that, and we're going to start coming down. So those are two of the things I see over the next several years that give me reason to believe that mid double-digit margin target and 15% ROIC for Delta is a framework that we should hit.

**Conor Cunningham, Analyst, Melius Research**

Right. And then maybe, Joe, I was hoping you could talk a little bit about the importance of striking a balance between load factors and yields. I suspect you're going to be one of the few, if not the only one, with the load factors flat to up. So if you could just talk a little bit about how you view that and just, do you think it's important for the industry to make the right choice on protecting yields right now rather than going after load factors in general? Thank you.

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Yeah, no, I think, thanks. Yeah, it's always a balance. And I said we're managing the business for margins. And I really think that if you keep centered on that, your supply and demand, then we'll come in as how we look at the markets. And I think it's also where we're supplying the marketplace. We're supplying it in premium seats, not main cabin seats, getting even improvements higher than average improvements in the main cabin average fares and load factor. So I think it's also where you're supplying it when we're flattening capacity for the third quarter.

I think the outcome was really favorable for us of how we managed through it. So we absolutely have to look at where it's going for the future. And running an 86% load for the quarter, we still have a little bit of room to put people on our planes as well. I think we've struck the right balance between yield and capacity. And even when you look at the fourth quarter with 3%, I still think when you look at real absolute seats, that's below 2%. And half of that capacity is going into long-haul international, which has been very resilient as well.

**Conor Cunningham, Analyst, Melius Research**

Awesome. Thank you very much.

**Operator**

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

**Tom Fitzgerald, Analyst**

Hi, everyone. Thanks very much for the time. I'm curious if you could speak to how you're thinking about the mix across your cabins next year in terms of premium seats and main cabin seats. And just any impact of the delivery schedules on how the mix could change next year?

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Yeah. Thanks, Tom. We'll see a very similar balance between the premium cabins and main cabin. We're not announcing any capacity yet for next year, but that balance of growing premium and keeping main cabin at a modest level will be similar to how we go into the future. And we'll see where deliveries are right now. We're always flexible and those move around, and we have a pretty good line of sight as to what's being delivered next year.

**Tom Fitzgerald, Analyst**

Okay, thanks. That's really helpful, and then just as a quick follow-up for Dan. You mentioned MRO doubling over the next several years. I'm just curious, any early color on how you're thinking about the MRO business in 2027? Thanks again for the time.

**Dan Janki, Executive Vice President & Chief Operating Officer**

No, I think if you just look back, the last ‘24, ’25, '26, accelerating revenue growth and margin expansion. And when we think about the team, we always want to run it where we believe with their backlog at record levels and what our commercial pipeline has, you should see really good double-digit revenue growth and a continued focus on steady margin expansion. We'd like to always see at least 100 basis points in a year. We're getting an outsized amount this year. Some of that's a little bit depending on your customer and engine mix that you're dealing with in any given quarter or year, but that's the focus with an eye to the long-term that this really has the opportunity to double and then keep growing from there.

**Operator**

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

**Duane Pfennigwerth, Analyst, Evercore ISI**

Hey, thank you. Good morning. Just a short-term and a longer-term one for me. First, as you think about the fourth quarter playing back last year, mid-November had a pretty big headwind from the government shutdown, forced cancellations, lots of crazy media coverage around that. Can you speak to maybe the acceleration that you expect to see, and more interestingly, maybe exit rate on RASM relative to the guide that you're giving for the entire quarter?

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Yeah. Thanks, Duane. For the noise we had last year, we had said it was about 2 points of headwind for the quarter. So, we expect to have unit revenue progression from third quarter to fourth quarter, even net of that headwind. So as we exit– so November will obviously be a very strong month as we lap the government shutdown. We saw a pressure from the government shutdown, went from October 1st to mid-November, really at the top of November as we– as the cancelations went into place. So we'll see some good exit rates for the end of the month of October and into November.

**Duane Pfennigwerth, Analyst, Evercore ISI**

Great. And then longer term, I know it's always tricky to use a term like algo, but if we think about the growth of non-ticket overall, things like travel products, MRO, which has come up a few times on this call, your increasing non-airline partnership revenue. How do you think about the growth of these buckets overall relative to capacity? And is there any way to link that to say, maybe a point or two of RASM expansion independent of what PRASM might be doing? Thanks for taking the questions.

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Yeah, I think you're seeing that today. Right now we're 60% higher than 60% of our revenue is coming from diversified revenue streams. We call that premium and other, and main cabin is now at 39%. And those revenue streams have grown high, very high teens that we're going through. When you look at cargo up 29% and loyalty up 18% in this quarter, insurance, while it's a small amount of money, those are growing at much higher rates than capacity. So I think you're seeing that embedded this year in our revenue performance as we continue to diversify

those streams and get even stronger as you keep bringing better partners and products into the fold in the ecosystem.

**Ed Bastian, Chief Executive Officer**

And Duane, it's important to note that those revenue streams that Joe mentioned all come at much higher contribution margins, not just RASM to the business so that's also very important for us.

**Duane Pfennigwerth, Analyst, Evercore ISI**

Thank you.

**Operator**

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

**John Godyn, Analyst, Citigroup**

Hey, thanks for taking my question. On capacity, you guys used the phrase normalized for capacity growth next year. I'm just hoping you could talk a bit more about the contours around that given how depressed it was this year, and you guys did a great job reacting quickly to the market, that normalized for next year could be interpreted as a pretty wide range if we're catching up on two years of growth. But I don't think that's what you're suggesting. So maybe anything you can clarify there would be great.

**Ed Bastian, Chief Executive Officer**

Hi, John. It's Ed. Normalizing in an abnormal environment is hard to make too many comments around. Obviously, we're running the business for margins, and so that's always one of the first considerations. So we'll have hopefully a better view in a few months' time as to the direction of oil prices. I think that's a really important part of our deliberations, and to the extent that these product prices are here with us for longer than we were thinking. You can expect our capacity is not going to be normal by past measures, but it's going to be adapted to the environment.

We're going to continue to pay close attention to the underlying health of our consumer, the health of the economy. We're going to be mindful of looking at the international picture. I think you're going to probably see more of our growth international than domestic. And of course, going forward, you're going to hopefully not beginning of next year, but mid to late next year, you're going to start to see some gauge return to the domestic system, which will be welcomed because that's the most efficient capacity that we can create. So you put those things into the hopper. I think in the environment we're in, we're going to be adaptive to what we're seeing happen. We're hoping that things will normalize. And then you'll get back to a rate of growth from Delta that you could look at historically is pretty much tied to GDP. But we're going to be cautious, I'd say, going into the next year until we see the all-clear sign, particularly on fuel.

**John Godyn, Analyst, Citigroup**

It's great to hear that. And if I could just ask one more, you alluded to some of the capacity hotspots that are out there. You've been able to avoid those. But now in Seattle, your Seattle-based competitor is talking about quite a lot of growth, product investment, international expansion, sort of channels the battle for Seattle themes from 10-plus years ago. I was hoping maybe you could just plug us into Delta's long-term plan in Seattle and how you see this developing.

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Yeah, thanks. We've been very pleased with Seattle, especially the business atmosphere of the Pacific Northwest, corporate environment. Our products sell very well up into the marketplace. And Delta, we do our own strategy in Seattle. It has both a domestic purpose as well as a great transpacific gateway. So we're going to continue to invest in that marketplace, not only from capacity, but also in the products we put out. We have a Delta One Lounge. We have two Sky Clubs, and continuing to focus on that premium traffic for Seattle is really our northern star. And we're going to continue to add in international because it's a great gateway for us.

**Ed Bastian, Chief Executive Officer**

And I would, John, I wouldn't suggest there's a battle for Seattle. Seattle is a big and growing market. It's certainly a market that is large enough for us and our principal competitor up there. And when you see the changes they're announcing, I think they're smart. I think that's where the future is going. But we don't have to own every market we fly in. I think you can cohabitate a little bit too. And I think that's about being disciplined.

**John Godyn, Analyst, Citigroup**

Great color. Thanks, guys

**Operator**

Thank you. Your next question is coming from Chris Wetherbee from Wells Fargo. Your line is live.

**Chris Wetherbee, Analyst, Wells Fargo**

Hey, thanks. Good morning, guys. I maybe wanted to get your updated thinking on the stickiness of the fare increases we've seen so far this year. Obviously, fuel has been elevated and maybe will be for a period of time from here. But I guess as you think about the gains you've gotten versus what other parts of the leisure market look like, generally speaking, how do you think about that in 2027, assuming at some point, Ed, like you said, we do get normalization of fuel?

**Ed Bastian, Chief Executive Officer**

I'll start, Chris, and I'll turn to Joe for additional color. Our consumer is really healthy, and yes, fuel has been the impetus for the industry to move quickly to adjust the pricing environment. But given the fact that the market has accepted these price points, and we still consider in the overall basket of consumer product and service, that air travel is reasonably affordable, certainly below the rate of inflation going back either pre- or post-COVID that you've seen in the consumer economy more broadly. The health of our targeted consumers, the thing we mentioned about top 40% of US households have accumulated $40 trillion of wealth, and travel is one of their very top priorities. I think where we're at is very sustainable.

We'll work at it, but when you think about loyalty, when you think about growth in experience economy, when you think about the opportunities that we have to continue to invest to make the product stickier and the relationships even more powerful, I think we're going to be fine as you look forward. Hopefully, we will see fuel recede into the next year at some point, and that's when I think you'll see the real earnings power of this franchise be amplified.

**Chris Wetherbee, Analyst, Wells Fargo**

Very helpful. Appreciate that. And then maybe just a quick follow-up on the CASM-Ex commentary, particularly as you think about next year, the operational investment they're making this year. Is this something where we could see the absolute cost come down as we think about '27, or is it you maintain the cost and so the growth rate is normalized next year?

**Erik Snell, Chief Financial Officer**

Yeah, I think we're certainly seeing improvement. We're at the peak of our CASM right now, but we'll begin to lap the investments we've made. These investments and costs are in our baseline, so I would be planning on a low single-digit number for now as we continue to make the right investments to take care of our customers.

**Ed Bastian, Chief Executive Officer**

I don't think you'll see the absolute number of cuts that you're talking about, but I think you'll see CASM come down, that'd be pretty hard. But I think you'll see the utilization of that absolute dollar value in terms of efficiency and productivity certainly have a hopefully an outsized impact.

**Chris Wetherbee, Analyst, Wells Fargo**

Appreciate the time. Thank you.

**Operator**

Thank you. Your next question is coming from Michael Goldie from BMO. Your line is live.

**Michael Goldie, Analyst, BMO Capital Markets**

Good morning. Just the one question for me. Corporate continues to be very healthy. Can you talk a bit about where the corporate franchise sits today in respect to the Trans-Pacific and how you think of that opportunity, but also competitive intensity for business travel to Asia as you expand in the region?

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Yeah. Thanks, Michael. The corporate demand has been very resilient, and it's great to see that there are no cracks in it as we go into the future. And the economy is very strong. So business wants to travel. And I think when you think about the Trans-Pacific, there has been quite a few economies that we don't participate in. So that corporate piece, and there's our customers are forced to take other airlines in that space in the corporate side. So as you add these economies on, that moves that corporate traffic to Delta. And we've seen really good – our corporates move over to us when we go to markets like Taipei and Hong Kong and continue to expand. That's what our corporates are asking for. So it's good to be able to make sure we offer the biggest economies in the world.

**Operator**

Thank you. Your next question is coming from Jamie Baker from JPMorgan. Your line is live.

**Jamie Baker, Analyst, JPMorgan**

Oh, hey, good morning. So, Ed, our estimates, if Air Canada's loyalty program is valued at $10 billion, I'm sure you saw the recent transaction there, then given Delta's size, scale, and margins, SkyMiles is, and I don't know, let's call it a number, more than $75 billion, okay? Any new thoughts here on why it does not make sense to pursue some partial monetization? I haven't asked you about this in a couple years, but Air Canada has gotten us thinking about this topic again.

**Ed Bastian, Chief Executive Officer**

Hey, Jamie. Yeah, I haven't heard that in a bit, so I have to pause before I respond here. The most important thing that we have is the brand premium that we deliver to the marketplace, and it comes from lots of avenues, whether it's the reliable service, great service of our people, or the strength of our commercial network and technology. And one of the other things, as you know, that's really important to us is that the loyalty itself arrangement with principally American Express, but we have other partners that we are increasingly building out a bigger ecosystem of experiences as well.

And if you think about that question just back a few years ago and whatever values were being discussed, my guess is the value that was ascribed to the Delta loyalty plan was meaningfully less than it is today, which means we've grown the franchise, both our own market cap as well as the value of loyalty. And we'll continue, I think, doing that going forward. I'm really reticent to put a third party, a financial investor between us and our best customers and preference.

And when you think about the world of AI, about the agentic economy, where, to me at some level, it sounds like the OTA is returning to the scene here trying to commoditize your product and your premiums. I think it's even more important that we hold tight and continue to ensure that we're focused on premium, we're focused on service, and not getting distracted by trying to cash out along the journey. At some point in time, this company very well may consider that as the best opportunity for shareholder value creation. But we're doing a pretty good job, I think, to date of shareholder value creation. We see a lot of controllable improvements that we can make to get to our framework. And should we get to our framework, in the next couple of years, as I hope we will, I think that this question will answer itself, that we've made the right decision to keep that in-house.

**Jamie Baker, Analyst, JPMorgan**

Okay, perfect. Thanks for revisiting that topic. And then just quickly for Joe, a geeky pricing question. I've noticed that some of your international competitors are beginning to levy different fuel surcharges based on the day of the week. So, higher surcharges on peak travel days, one, I'm just curious if you consider this to be widespread. And two, and I'm not asking about future Delta pricing, but at an industry level, does this represent another pocket of untapped pricing power? I just don't recall seeing this in the past. Thanks in advance.

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Hey, Jamie. No, I don't recall seeing it in the past. And it's a rather new phenomenon on peak days, fuel surcharges. We haven't moved in that direction. So I think we'll see where the industry moves on it, but it would be something very different than what's happened in the past.

**Jamie Baker, Analyst, JPMorgan**

Okay. Thanks for that.

**Operator**

Thank you. Your next question is coming from Atul Maheswari from UBS. Your line is live.

**Atul Maheswari, Analyst, UBS**

Good morning. Thanks a lot for taking my questions. Two questions, one long-term, one short-term. First, the longer-term question, Ed, I wanted to follow up on your recent comment that you made in an answer to one of the previous questions about the emergence of these AI-powered shopping assistants. This has become a bit of a topic in the investment community. What is your overall take on it? Do you think this is a net positive or a net negative for airlines? And how do you ensure that you are present in that space if needed while also protecting the Delta brand that your customers love?

**Ed Bastian, Chief Executive Officer**

Well, you will say I think it's early days, but you probably gather from my comments we're going to be a little cautious about who we give access to our inventory. We have, I think, done a good job of getting out ahead of it. We built Delta Concierge that we announced 1.5 years ago, and it's fully up and running today, which is our agentic solution to taking care of our best customers. And we've got a lot of work still to go to make it even more adaptable and more useful to our customers, but letting our customers engage with our agents to handle their needs and have the agent at our customers' footsteps.

I do think this question of brand will be very important in the agentic economy for the future and brand loyalty, and preference is going to be one of the ways in which the strong will stay strong. And the agents who are looking to shop you. And continue to try to compete us all against ourselves will be a danger that we need to be mindful of. And I think you see it across many aspects of the consumer economy, and I think all companies of our size and focus are looking at it and being careful. I think there's opportunities when you're working maybe in the corporate space directly with our corporate customers where it's a known agent to provide access and provide opportunity. But broadly speaking, I'm not a big fan of the idea, and we'll be very cautious as we think about it in the future.

**Atul Maheswari, Analyst, UBS**

Got it. That's very helpful. And then as my second question, Joe, if you can provide some color on what you're seeing out there for the early 1Q bookings, that'd be very helpful?

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Yeah, thanks. Like I said, fourth quarter is booking very well. Early indications from 1Q are very similar to 4Q. And so we're continuing to see good strength. We're assuming the economy is strong, and it is, and our corporates continue to book. So we'll be very – we feel very good about forward bookings. We have good visibility probably for the next 90 to 120 days, which gets into the first quarter, and all indications are very positive.

**Atul Maheswari, Analyst, UBS**

Got it. Very helpful, and good luck with the fourth quarter.

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Thank you.

**Operator**

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

**Brandon Oglenski, Analyst, Barclays**

Hi, good morning, and thanks for taking my question. I guess I wonder if I could follow up on the operational reliability issues this year and the cost that you guys are adding into that baseline, especially as you think into 2027. It sounds like maybe you're having more reserve crews, but I'm not quite sure what's driving that baseline increase.

And then maybe as a follow-up to that, in the longer term, maybe this is for you or Ed or Dan, but as we think back to the last round of negotiations with labor and specifically your pilot group but others as well, that's been pretty consequential here for airline cost inflation, which for the industry has been pretty much above average across the economy. So I guess, how do you balance the need for service, for employee pay, as well as getting margins back in line, especially in light of the CASM?

**Dan Janki, Executive Vice President & Chief Operating Officer**

Yeah, Brandon, good to hear from you. Good morning. As it relates to operational reliability and that resilience, and Erik mentioned it, that controllable completion factor has been the focus and certainly been investing and taking actions across the system, but the real focus has been on that crew resiliency. How do we ensure that we improve that, and we improve it, especially in periods of disruption? So it's been a focus around investing around the process, the technology, the data, and the resources associated with that so that you ensure that you more effectively manage the demand and the churn in resources as you go through those operational disruptions and you better marry it with supply. And the actions that the team has been taking, you're seeing consistent improvement in second quarter from first quarter, then again in third quarter. We anticipate that transpiring here as we go into fourth quarter and next year related to that. So that's been the primary element of the investment and the areas of focus for us and the teams.

**Ed Bastian, Chief Executive Officer**

And on the question of negotiations, obviously we're not going to comment on that, Brandon. But I can tell you our priority is getting the resilience that Dan mentioned and the reliability of the crews back. And it's hard for us to even think about getting too far out into a contract negotiation until we have the baseline of reliable operation that we have confidence in established.

**Brandon Oglenski, Analyst, Barclays**

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 start with a bit of a follow-up to Savi's question. So, loyalty revenue growth has really stood out the last couple of quarters. And you noted that engagement, particularly in premium cabins, is driving a part of that. But I was just wondering, could you provide some further color on how, maybe changes in the card portfolio or some of these partnerships are also factoring in, or how market share gains, maybe an uptick in wallet share might be contributing? Just trying to get a more detailed look at what's driving this growth and how sustainable these trends are, or if we could even expect further acceleration? Thanks.

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Yeah, thanks, Catie. No, I think when we start out with talking about the strength of the consumer as the foundation for this and how much wealth they have, we've seen great spend on the AMEX card. And when you look at the awards of being one, two, and three on the most valued card, there's a lot of value in what we're offering our consumers. And that relationship comes back to their spend, which has been incredibly strong this year. When you think about the environment everybody's in, with over double-digit spend and really strong remuneration back to Delta. So the engagement with the customer has never been stronger.

And I think, when you add up any individual one is good, but when you put the portfolio of partners we're working together, now adding Hyatt, those are just – those are really concrete products and partnerships that drive that ecosystem even faster. So not only are we providing the right level of capacity in the cabins they want to spend, but also wrapping it around great partnerships. And so the wealth, the spend, the engagement with us is really what's driving an outsized growth in the loyalty program.

**Ed Bastian, Chief Executive Officer**

Catie, if I could add to Joe's comments, one of the things about loyalty that's really important, and I think it's changing as we go, is that we're trying to broaden the aperture across all demographics. And obviously very focused on our younger generations, Gen Zs and millennials, and those that look to loyalty aspirationally. And in doing that, I think you're going to see a move afoot. I know certainly at Delta, and I think, maybe other leading consumer brands, to be more – at least as focused on the experiential as the transactional. Because loyalty historically has been very transactional, it's been very commercial, and that's important, and I don't see that changing.

But I think the consumers of tomorrow and the people that are attracted to loyalty and preference want to feel that they have some level of ownership in the experience and the relationship at a deeper level, which is why we're

bringing more brands to the table, and we're creating more opportunities for our loyalty members to not just experience the brands but utilize the brands of those. And by the way, include Starbucks, include DraftKings, include many other brands that are within our ecosystem. It's one of the reasons why Amazon is really important to us out into the future.

So, the core loyalty and Jamie's question in terms of the value of our portfolio, I don't dismiss the notion that our loyalty plan could be $75 billion or higher. That's really important that we continue to grow that. And so it's not just pumping out more cards, it's actually the quality of the experience that our customers are getting. And that's what we're very, very focused on here at Delta. So it's kind of a higher-level consideration set, but I think you're going to see that play more and more into our thinking as we roll out new partners and opportunities.

**Catherine O'Brien, Analyst, Goldman Sachs**

That's really interesting. Thanks for that. Thanks for that color, Ed. And maybe just one last quick one under the wire here. But you've got a number of commercial initiatives, including the loyalty discussion we're just having underway, aircraft deliveries over the next couple of years that should drive further benefits to the P&L. You're always evolving the network. Just high level, as we look into 2027, could you walk us through what you see as the key puts and takes on margin progression from here? Obviously, fuel is a huge question mark, maybe putting that aside if we can.

**Ed Bastian, Chief Executive Officer**

Yeah, we have a lot of tools in our arsenal for '27. And no, we're not going to do a walk for next year's margin. I'd love to, but I'm not going to, but the biggest thing is trying to get to the other end of this volatility that we've seen in fuel and see where that normalizes. I do believe it's going to recede. I don't know at what level it recedes or the pace. I think we all hope it happens sooner rather than later, but that's going to be the overarching question on '27 margins, and I think for that we don't have any crystal ball better than you do or anyone else does.

But when we start to see a break there, I think the value of the revenue and the new baseline that we've established and sustainability is important, we intend to hold that. And whether it's upgauging, whether it's new fleet efficiencies, whether it's operational improvements with crews, there's a long list of opportunities within our control that we are working regardless of fuel that will also help our forward view. So I'm bullish about hitting our long-term framework of double-digit operating margin, mid double-digit. And you can see the threads really starting to come into alignment,

**Catherine O'Brien, Analyst, Goldman Sachs**

That's great. Thanks so much

**Operator**

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

**David Vernon, Analyst, Bernstein**

Hey, good morning, guys, and thanks for having me on here. So, Joe, can you maybe talk about how paid premium demand and the premium main cabin fare differential is evolving as you are adding more premium seats into the mix? I'm just trying to see if you've seen any evidence that the premium for departure is having an impact on buy-up?

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Yeah, thanks for the question. Overall, we've seen very strong demand in premium. As we said, as we're growing capacity 6 to 7, our loads went up almost 2 points, and fares were going up as well. We weren't discounting fares, so fares continue to move in the right direction and the value that we're offering, I think, has been well received in the marketplace, especially when when you're rolling out merchandising not only in the main cabin but also into the first class and Premium Select and Delta One. The upgrade take has been very positive, especially what they perceive as the value that we're offering for the Extra and Classic off of our basic fares. And we're really in the early stages of that upgrade revenue. So it's been very positive overall, and it's also now as we've merchandised all of the cabins, we'll continue with that and annualize it as we get into 2027.

**David Vernon, Analyst, Bernstein**

And as you think about load factor, when a passenger buys the main cabin and goes to main cabin extra, does that all stay in main cabin or does the portion of that go into premium? I'm just trying to get a better understanding of

how the math works on what you consider premium versus main cabin? And what is a true premium sale versus an upgrade sale?

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Yeah, all main cabin, all three merchandising sets stay in main cabin for recognizing that revenue. So the premium is clearly a different cabin.

**David Vernon, Analyst, Bernstein**

Thank you.

**Julie Stewart, Vice President of Investor Relations & Corporate Development**

Matthew, we'll now take our final analyst question.

**Operator**

Certainly. Our final question is coming from Dan McKenzie from Seaport Global. Your line is live.

**Dan McKenzie, Analyst, Seaport Global**

Oh, hey, good morning. Thanks for squeezing me in, you guys. Joe, if I could go back to your commentary around the upsell revenue, it seems like a really big revenue bucket, but I'm wondering if you can provide some perspective of putting some size around, is it 10% of total revenue? Is it 20%? It just seems like a fast-growing segment, of course.

**Joe Esposito, Executive Vice President - Chief Commercial Officer**

Thanks for the question. It is a fast-growing segment, and we're really early in this process of understanding the cabin. So I'm going to stay away from giving you an exact number, but it is very powerful, and the early indications on the premium side of upgrading has been very strong. So we're really pleased with it, and we really have only started the premium side only this past quarter and getting into full scale by the time we get into the first half of next year.

**Dan McKenzie, Analyst, Seaport Global**

Yeah. Okay. A second question here on the cost side of the business. It's really Delta as an IT company. It's a Delta as an IT company question. Is there a cost savings opportunity to say update legacy systems or potentially to go in-house with some of your outsourced software needs? And I guess I'm just wondering if that's something you're looking at, and if so, what those savings might look like two years from now? Of course, software has been a big topic in the market, and of course, AI and programming – self-programming software is a big topic.

**Ed Bastian, Chief Executive Officer**

Dan, this is Ed. We moved to the cloud a few years ago, and so that has been a very significant source of savings in terms of efficiency and productivity on our software development and technology. We do work with outside contractors and development companies, and we have partners in that space. So the key, I think, in this AI generation is to continue to drive faster speeds and more efficient and effective solutions, and our team's doing a good job of that.

**Dan McKenzie, Analyst, Seaport Global**

Okay. Thanks, guys.

**Julie Stewart, Vice President of Investor Relations & Corporate Development**

All right, well, thank you. That will wrap up today's call. I hope everyone has a great day. Appreciate you joining.

**Operator**

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

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