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 Delta Air Lines, Inc. (DAL)
 J.P. Morgan Industrials Conference
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MANAGEMENT DISCUSSION SECTION

Jamie N. Baker
Analyst, JPMorgan Securities LLC
Hey, good morning, everyone. My name is Jamie Baker, and I cover the US airlines and aircraft leasing companies on the equity side here at JPMorgan. I'm joined by my colleague of 19.9 years and my very good friend, Mark Streeter.

And it's a real privilege to welcome you back to 383 Madison. I think it's only fitting that Mark and I be the first two faces of JPMorgan to welcome you back since we were the very first two analysts to oversee the first JPMorgan virtual conference two years ago. So, entirely appropriate that we're the first ones to return to normalcy here in New York.

When I was thinking about the conference about five or six weeks ago [indiscernible] we have been doing it for...

Mark Streeter
Analyst, JPMorgan Securities LLC
[ph] It feels like five or six (00:01:09).

Jamie N. Baker
Analyst, JPMorgan Securities LLC
...three times that duration. When I was thinking about it, I was like, this is going to be great, it's probably going to have a really celebratory feel to it. Obviously, fast forward to today and it's a much more somber geopolitical backdrop that we're facing war in Europe, the humanitarian crisis in Ukraine and, of course, what's happened in recent weeks in terms of fuel prices.
That said, having already met with several of the managements and seeing the disclosures this morning, I'm increasingly confident that all of you will leave here today with a new appreciation for just at the moment how unrelentingly robust current demand trends are and the success that the industry is currently having and putting higher fuel prices to customers in the form of revenue management and capacity cuts. So, I think the early narrative today is a positive one.

I know none of you came here to listen to me stammer, so let me turn it over to Mark Streeter. And then, we'll kick things off as we customarily do with Delta Air Lines.

Mark Streeter
Analyst, JPMorgan Securities LLC

Thank you, Jamie.

Good morning, everyone. Mark Streeter here. Jamie referenced 19.9 years. Well, it's his 20-year anniversary basically this month at JPMorgan. And the story I like to tell is when Jamie first joined JPMorgan 20 years ago, I sort of accosted him in the hallway and said we're going to be spending a lot of time together. I actually have this little aviation conference we've been doing for a few years. It's now called the Industrials Conference, but this is what it's grown into. And it's been a pleasure working with Jamie. So, congratulations on your two decades with JPMorgan.

Jamie sort of referenced sort of the unprecedented period that we're in and so forth. We actually have a watershed moment just overnight with Putin basically confiscating $12 billion worth of Western jets. So, stick around tomorrow for the aircraft leasing day. That's going to be very interesting.

Today, though, I think we have some better news from the airlines in terms of their guidance this morning. As Jamie mentioned, we want to keep this very interactive. Jamie and I will be upfront asking questions, but we'll pass the mic around. Very much pleased to have Delta with us.

Jamie, let you introduce the Delta team.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

You bet.

All right. Two faces on the stage that you're very familiar with: Julie Stewart, the VP of Investor Relations; and Glen Hauenstein who is Delta's President. Also welcoming to the JPMorgan event for the first time, Dan Janki, who joined from GEE as the CFO of Delta last summer.

So, let me kick it over to the team.

Glen William Hauenstein
President, Delta Air Lines, Inc.

Hi.
Jamie N. Baker  
*Analyst, JPMorgan Securities LLC*

Thank you for being here.

Glen William Hauenstein  
*President, Delta Air Lines, Inc.*

Thank you.

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

Thanks, Jamie.

I’ll start with a quick Safe Harbor. So, 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 forward-looking statements. Some of the factors that may cause such differences are described in our SEC filings at ir.delta.com. We’ll also talk to non-GAAP financial measures, and those reconciliations are in the appendix of the presentation.

Over to you, Glen.

Glen William Hauenstein  
*President, Delta Air Lines, Inc.*

Well, thank you, Julie.

And thank you again, everybody, for being here today. It’s so fantastic to see people in person and to be out on the road again. And I’m going to talk a little bit about that and how people are getting back on the road in just a few minutes.

But before we start, I’d just like to acknowledge what Jamie did, the emerging crisis that’s unfolding in Ukraine, the humanitarian crisis, and just comment that the entire Delta family stands in support of the people of Ukraine. And to assist in those efforts, Delta has contributed over $1 million to Ukrainian humanitarian efforts. And as you know, we’ve also suspended our alliance with Aeroflot and all of our business in Russia. As a global brand whose job it is to connect the people of the world, we join the entire international community working to support a swift end to this crisis. It really is something that we’re all, I think, in this room very much together on.

So, great to be back here in person for the JPMorgan Conference after two years, as Jamie said. We’re really pleased to be here. And I think it’s really a great opportune time for us to talk about what’s going on in the industry. The last two years has been a very, very difficult time for the entire industry including Delta, and we had a lot of objectives during that period. But the one thing that we had an eye on is as the crisis ends, we wanted to emerge in a stronger relative position. And I think as I walk through our comments today, I think you’ll see that we’ve done a lot of things to reposition the airline in the emerging world and that, for the time being anyway, the pandemic seems to be emerging into an endemic and we’re seeing an increase in demand that is really unparalleled.

I was driving in from the airport yesterday with Dan and the team, and Dan asked me in my long – unfortunately long, illustrious career here in the airline industry, have you ever seen demand turn on this quickly? And I had to
think about it a little bit. It had never been really phrased to me that way. But I have to tell you that we have never or I have never, and I don't think our revenue management team has ever, seen demand turn on so quickly as it has after the Omicron. When you think back, I think that we all knew that there was pent-up demand in the industry. We all knew that people wanted to get out and fly. And through the crisis, what we saw was that when people felt safe that they flew to places that they felt safe in. And as we sit here today, I think we're seeing safe, feeling safe and turning fear into confidence. And confidence in the traveling public, confidence in reopening offices, confidence in taking masks off and that is all leading to a surge in demand.

And that surge couldn’t come at a better time with fuel prices running up. I think a lot of industry observers have questioned whether or not the industry will be able to pass on the higher cost of fuel to the end consumer. We, at Delta, given our demographics and our average client, feel that that is something that we can easily achieve and that we will achieve in the second quarter as fuel prices fluctuate rapidly here. We need to recapture somewhere between $15 and $20 each way on a ticket on an average ticket value of about $200. So, somewhere under 10%. And I’d say, we’re well on our way to recapturing that and we feel very confident that we will capture it in the second quarter, which is usually in advance of when we would recapture usually at 60 to 90 days, given the advance booking curves of the airline industry. But given the fact that those curves have moved in and given the fact that demand is so strong, we are really able to use all of our tools available, whether it’s pricing changes, whether or not it’s inventory control, or whether it’s capacity on the margin to ensure that we achieve those goals.

So, we’re really looking forward to a very robust travel season. We see really a broad-based increase. Last week was our highest cash sales day in the 100-year history of Delta Airlines. So, I think that’s a testament, over 100% restoration of sales last week, with about 87% of capacity restored. As many of you know, we have been below the industry and capacity restoration. We will remain below the industry through the summer by at least a few points. And as we head into the fall, we’ll take another observation of what the demand environment is and I think it’s too early to prognosticate as to what fall demand looks like. We have the capability of getting to 100% of capacity restoration back starting in September and beyond. But we’ll see, as we get in the next 60 to 90 days, how we see the particularly business demand evolving.

Speaking of business, business is, of course, rebounding nicely. And as many of you know, be here in person, a lot of us flew in and we’re seeing more and more return to the offices. High correlation, we’ve seen in the past between office openings and business travel. Hard to go meet with clients when they’re not in the office, when they’re at home on a Zoom call. But as we see more and more businesses getting back into the office, we’re very confident that the business trends that we’re seeing will continue into the second quarter.

As we close out this quarter, we’re looking at about a 65% corporate and I’m going to talk about it the difference between corporate and total travel for business. If you think about business, we have two components. One is corporate contracted, those are mostly the Fortune 500, the larger corporations with generally about $5 million more sales that we do have corporate agreements with that control pricing for those corporate clients. But more than half of our corporate business is actually small and medium sized enterprises whose purpose of travel is business not leisure, and that represents the other 50%. Throughout the entire crisis, that has run between 5 and 10 points above what corporate travel; corporate travel has lagged. But where we sit today, we have corporate travel at about 65% revenue recovered, and that’s a component of a little bit over 60% in terms of passengers and the yield that is favorable to 2019. And I think that’s a very important distinction.

I think a lot of people were questioning whether or not the industry would come through this pandemic and when it did finally subside, would yields have been destroyed and where the pricing structure be below where it was in 2019. And I’m happy to report that yields for business corporate travel are positive on a year-over-three-year basis. So, very exciting development for that.
We closed the quarter with 83% revenue restoration. That ties almost exactly to our capacity. And so, March will be the only – the first month since the pandemic that we have a flat unit or a flat TRASM to 2019 levels, and I think that’s an exciting start point. And we see positive momentum there as we move into the second quarter. We expect every month in the second quarter to be positive versus 2019. Of course, if you think about that, we need it to be positive to cover the fuel price increase.

And I want to talk a little bit about our customer base and our go-forward plans in terms of how we see our customers evolving and what it is that we’re out to achieve. The hallmark of Delta brand has been to be a superior airline. And I think throughout the pandemic, whether or not it was the middle seat block, whether or not it was operational performance in very challenging environments for the entire industry, we have continued to focus on customer loyalty and we’ve continued to focus on on-time performance and completion factor. And here, you have the statistics for year-to-date through 2022 and you see Delta, of course, leading the pack here in terms of on-time performance.

And on the bottom, I think even more importantly is completion factor. We’ve seen – whether or not it’s Omicron, whether or not it’s shortages in labor, we’ve seen probably more disruptions in the first part of this year than we have in previous rebuilds. And so, leading the industry in completion factor is something we’re very proud of and something we’re very focused on. We will not overschedule the airline and we will not risk completion factor – lower completion factors than we have had historically in the summer months, peak summer months. So, when you buy a ticket on Delta, rest assured that we are working hard to ensure that we can actually fulfill that, but not only the time we arrived, but that we actually arrive.

And then, on the net promoter score, I think this is a really great testament to the team. One that maybe you wouldn’t expect because we haven’t restored all the service levels back yet. I’m excited to say that where we sit today, we are about 6 points above where we ended in 2019 without full service restoration. So, I think its continued focus on the customer experience, continued improvements in the fleet and, of course, all backed up by what we know are the best people in the industry who’d deliver superior service every day.

So, higher net promoter scores and I’m also excited to say that we are bringing back a lot of the historical services that you’re used to. Last week, we started hot meals on domestic first class. As of today, as a matter of fact, the full Delta One services go back on all of the international flights. So, we are expecting as we head through the summer that we can continue to take the momentum that we’ve built through the pandemic and produce net promoter scores that are even higher.

I think that’s really important because we are really trying to create an ecosystem where people prefer Delta. And when people prefer Delta, they go out of their way to fly us. And I think there are some very, very key metrics in this arena that I just want to share with you. One is that during the first quarter of this year, we will close out with historically high acquisitions of SkyMiles members. Despite the fact that we are only 87% restored in terms of seats, we will have the number one quarter in our history of SkyMiles acquisitions. And we will be almost fully restored in the quarter on Delta co-brand cards with American Express. And that, of course, has been one of the lynchpins of our success to-date. And one of our lynchpins of our success moving forward is more loyalty, more co-brand cards and better services, all moving together simultaneously.

So, we have had really the two most challenging years in our history. I think we were all – at the end of 2019, we started 2020, the first two months exceeding our 2019 numbers and we were feeling very robust about our future. We were feeling very confident. And for those of us who have been in the industry a long time, we thought we’ve seen it all. They can’t throw us a curve ball we hadn’t haven’t seen. We’ve been through 9/11; we’ve been through...
a financial crisis; what could possibly happen? Well, unfortunately, I think we found out what could possibly happen, and it was very humbling for all of us. But where we sit today, we are very, very encouraged by, A, getting through it and, B, emerging as an even stronger carrier coming out of the pandemic.

So, with that, I'd like to turn it over to my good friend, Dan, to walk you through some of the financials.

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

Great. Thanks, Glen.

Jamie, Mark, it's great you're hosting and have us back here in New York City. It's great to be with you.

Certainly, picking up where Glen left off here, this operational excellence and focus on the customer really does set Delta apart. Our teams are, as Glen talked about, executing well. Certainly, in this dynamic environment, they have to be resilient and agile and they are in that. And after a very disruptive beginning of the year, for the teams to stabilize operations and lead in these operational metrics as we progress through the first quarter is real testament to what they do every day.

With that, a few things as it relates to the financials in the quarter. We expect to be free cash flow-positive in the first quarter, and I'll talk about the operating cash flow dynamic underneath that. Additionally, we expect to be profitable in the month of March with that. Glen talked about the demand environment, so the operational cash is really being driven by the air traffic liability build that we see from the December quarter. As we close out here March, we expect that to be up over $2 billion. So, that's driving that free cash flow positive. All the other components are intact and regards to what we expected related to that.

Certainly, as it relates to our guidance, we expect to be on the low-end of capacity at 83%. We have flown more domestic short-haul, less Asian Pacific routes that you'd expect over this period of time. We also have trimmed regional capacity given some of the constraints with the regional carriers. As it relates to revenue, Glen talked about being 78% restored. That's 4 points greater than the midpoint, $350 million higher – over $350 million higher than that midpoint where we stood.

From where we sit today in the quarter, we think fuel will be right around $2.80 a gallon. It certainly has, as you've seen, progressed throughout the quarter and increased as we've gone through the quarter outside our guide. That's on just under – we'll consume just under 750 million gallons in the quarter related to that. Certainly, it's a dynamic environment out there, as you're seeing again today. But as Glen talked about, we're prepared for higher fuel and confident in our ability to recapture it.

As it relates to non-fuel CASM, our guidance was 15% and we're sitting squarely at that. The teams have executed well. That's [indiscernible] (00:18:29) when you consider being on the lower-end of capacity at 83% restored and also absorbing some higher selling-related expenses given the performance with revenue and being over $350 million above our midpoint, as it relates to revenue.

So, I thought maybe also spend a little bit of time as it relates to total year non-fuel cost. The framework that we laid out in December and we talked about in January earnings call, we're on track. We're confident in our ability to deliver related to that. Certainly, we have different dynamics, as you see in the first half is different than the second half. First quarter and second quarter, we expect to look a lot alike to be up in mid-teens versus 2019. And then, as we progress through the second half, you go from being restored in the low-80s to the low-to-mid-90s, and that leverage of over 10 points really drives the both the scale and the efficiency. And also in the second
half, a lot of the rebuild in transition costs start to wind down as we move through that period and sunset as we go into 2023. So, still a lot to unfold as it relates to demand and capacity. But from where we sit today and our outlook, we're confident in regards to the framework.

When we spent time with you in December on Capital Markets, we talked about three pillars as it relates to the financial foundation, certainly progressing not only this year but on a multiyear basis, ensuring that we have that competitive cost structure that we put in place while keeping the customer focused. As Glen talked about, we want to restore capacity in a disciplined way where we can deliver that industry-leading operational performance, serve our customers, but also that intense focus around managing margin, unit revenue and unit cost. Maximizing margins over time, the progression of margins to mid-teens, we're really driving that strong operational cash flow that then allows us to not only invest back in the business but we know in our commitment to restoring the balance sheet. Getting back to strong investment grade, and then we're laser focused on taking an adjusted net debt over this – the next two to three years down below $15 billion at that. So, ultimately, with a progression here of returning our return on invested capital to the mid-teens.

So, as we wrap up here, a few things. We're certainly confident in our path ahead. [ph] Journey had (00:20:58) the competitive strengths of Delta continue to extend those positions, focused on that customer-trusted customer brand, elevating the customer experience. And Glen talked about the services that we're bringing back, that operational liability, that operational excellence, which ultimately underpins the financial foundation of financial success of Delta, driving the margin, driving the cash flows, disciplined capital allocation, improvement on investment, return on capital and ultimately the restoration of the balance sheet as we go forward.

So, with that, Jamie and Mark, I turn it back to you and we'd love to take questions.

**QUESTION AND ANSWER SECTION**

**Jamie N. Baker**  
*Analyst, JPMorgan Securities LLC*

I'm going to start with the rumor [indiscernible] (00:21:43) so don't be shy. So, I'll raise my hand.

**Glen William Hauenstein**  
*President, Delta Air Lines, Inc.*

Yeah Break the ice.

**Jamie N. Baker**  
*Analyst, JPMorgan Securities LLC*

I guess I don't need a microphone. So, Jamie Baker with JPMorgan. So, I'll start with a non-demand, non-fuel question probably for Dan. I mean, on the fourth slide, you said the operational integrity completion factor, and I'm trying to square that with the narrative that's coming from the pilots union at the moment. And I followed airlines for a long time. We try to understand the unique dynamic. We've had difficulties at this conference with people showing up and protesting up at front, but that's never really been part of the Delta story. So, I guess, it's a two-part question. How do I square the operational integrity that you're achieving with the increased volume from the pilots union? And then, how do we fix the overall pilot issue at the industry level?
Glen William Hauenstein  
*President, Delta Air Lines, Inc.*

Well, maybe I'll take a stab at it.

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

Yeah. No, no.

Glen William Hauenstein  
*President, Delta Air Lines, Inc.*

And then, you're more than welcome. First of all, I'd like to say that we firmly believe that we have the best pilots in the industry...

Jamie N. Baker  
*Analyst, JPMorgan Securities LLC*

Yeah.

Glen William Hauenstein  
*President, Delta Air Lines, Inc.*

...bar none, and they have been with us the entire time. Through the rebuild, clearly, there have been opportunities where we've called on our pilots to fly more than they would potentially like to fly, and we are committed to bringing those levels down over time. And I think that's the exciting part for us and know that this isn't where we want to be. We don't want our pilots feeling like they have to work more than they want to. We'd like them to have as much flexibility as we can afford with them. But they have been with us. We have been able to complete. I think the proof is in the pudding here. If they weren't with us, you'd know it. So, we appreciate their support. We appreciate really their resolve to get that. And we're resolved with them over time as early as we can, maybe even as this fall, as we try to get ahead of the curve in terms of training and get them the amount of time off and the flexibility that we know that they've been used to and want once again. So, yeah I think...

Jamie N. Baker  
*Analyst, JPMorgan Securities LLC*

And the commitment to hiring, right?

Jamie N. Baker  
*Analyst, JPMorgan Securities LLC*

Yeah. We are hiring 200 pilots every month and we're putting them through training, and that will continue to the beginning part of next year. So, as soon as we can, we are going to get this airline staffed the way we want it to be, not only in the pilot ranks...
...but across every work group has probably worked more in the rebuild than they'd like to, and we're committed to getting the staffing levels right over time as soon as we can.

Jamie N. Baker  
Analyst, JPMorgan Securities LLC

Yeah. That was well said.

Mark Streeter  
Analyst, JPMorgan Securities LLC

I'll jump in. It's Mark Streeter. You mentioned the ATL air traffic liability of the $2 billion inflow this quarter. How should we think about in this unique period where we're recovering from COVID and we have the seasonality and obviously the summer curves booking up and so forth? How much more is to come, if you will, and how do we think about that typical seasonality if we look back pre 2019 and so forth? And has it changed? Should we expect the same level of seasonality going forward? Are we still in such that sort of rebuilding mode that we're not going to see necessarily the fall-off that we might see?

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

Yeah. Certainly, the rebuild has broken some of the traditional trends that you saw. And yeah, I think you saw that in the fourth quarter related to how it performed. So, I think what you'll see is it continued in the first half, both first and second quarter build, as you would expect. And then, as you get more towards fully restored, I think you will then see many of those seasonalties return. But right now, they're being buffered because of the restoration and influenced by the restoration.

Glen William Hauenstein  
President, Delta Air Lines, Inc.

All right. Could I talk just a moment about eCredits?

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

Yeah. Yeah, please do.

Glen William Hauenstein  
President, Delta Air Lines, Inc.

The air traffic liability we still have – I think the number is somewhere around $2 billion still...

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

Just over $2 billion, yeah.

Glen William Hauenstein  
President, Delta Air Lines, Inc.

Just over $2 billion of eCredits remaining, which is different than maybe some of our competitors who have their first wave of eCredits that expire. We've chosen to be much more flexible with our customers. It's one of our hallmarks is to try and listen to what customers want from us and trying to deliver on that, and it's our intention to really have those be out and never expire, just like SkyMiles never expire. So, we'll work on how to account for
that and we'll work on breakage. But I would think that there's going to be some noise between people who are expiring them now versus people like Delta who have taken a much more customer-focused and said, you can have, I think, our expiration is nowhere after the end of 2024. That's only a limitation of when you can book. We intend to keep those out and let people have them until they want to use them.

Mark Streeter  
**Analyst, JPMorgan Securities LLC**

Maybe just a question on aircraft and fleet. If you can talk a little bit about your experience, mostly with Airbus right now in terms of getting the aircraft that you want. where you stand with your order book. And I know you were active in the used aircraft market. You took in some LATAM A350s and so forth. But just how has your experience been because there is a lot of noise out there obviously about delays and so forth? Obviously, Russia, everyone's wondering what's happening? And those 500 aircraft, I don't think that impacts you all that much. But just maybe just talk about on the fleet side, any developments there?

Glen William Hauenstein  
**President, Delta Air Lines, Inc.**

Yeah. As you know, during the crisis, we restructured our fleet, retired 200 of them; we're rebuilding that this year. We have deliveries — we expect deliveries of 70 new aircraft, 13 widebodies, the rest narrowbodies. First quarter is one of our larger delivery quarters. We have CapEx just around $1.6 billion that we expect just over 20 deliveries of aircraft. I would say, by and large, certainly moving around as you normally would as it relates to partners, but no material change in that delivery schedule. Certainly, things are sliding a month there or two weeks there related to that, but good partnership with all the OEMs as it relates to the delivery. We're certainly a preferred customer and, at this point, still staying on track for the year.

Mark Streeter  
**Analyst, JPMorgan Securities LLC**

Anything you were looking to do in the used aircraft market that you haven't been able to do?

Glen William Hauenstein  
**President, Delta Air Lines, Inc.**

I think Delta has always had a history here of being opportunistic. Certainly, what we were able to do with the 350s and the 737-900s, they were opportunistic. First, they have to fit our fleet strategy. That commitment are into the four prongs of that fit in just both the efficiency, the scale, what we want to do and how we want to do it. And if they fit in there and that there's we – see opportunity where they're at good price, I think Delta's always been opportunistic in regards to how we've managed that. So, we certainly always out in the market looking, but we are happy with what we've done.

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Just a question on the [indiscernible] (00:29:33) costs, you said that part of the driver of lower ex-fuel cost in the second half of the year is more capacity. I guess, is that based on the assumption that fuel prices will decline in the second half of the year? Are you looking at the forward curve or do you think that you can ramp – keep yields high in ramp capacity in the second half of the year, even with higher fuel?

Glen William Hauenstein  
**President, Delta Air Lines, Inc.**
I think what we're looking at is how do we continue to expand margins and where are the trades. And so, we don't know enough about the fall to know what the exact capacity plan is, but what we're going to work on is adjusting capacity to make sure that we can maximize our returns given whatever demand environment we see emerging as we get to the fall.

On a positive note or a more hopeful note is that business continues to return. That would be a positive indication where we would want to have higher level of restoration of capacity, that Asia starts to open. We've gotten a lot of great indications that after over two years, well, that Korea is finally going to open for travel in and out as of April 1 this year which is, of course, our main Asia hub is in Korea. China is going to be a long way off, we know that. So, we're going to have to, again, be flexible as we've been throughout this entire pandemic to see what's moving, what's not moving, and where do we maximize our returns in the environment that exists. And as choppy as fuel has been and as strong as demand has been right now, we hope that continues. We hope that fuel tames down and that demand continues to recover, but we have several months before we have to make those calls.

Just a couple questions on fuel. So, in this environment, what do you think your ability to impose fuel surcharges would be? And secondly, on the $2.80 fuel guide that you gave there, has the Monroe facility helped you kind of contain those costs? And does that $2.80 correlate with like a certain level of oil price?

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

Let me comment first on Monroe, and then we can talk about demand recapture related to that. We expect Monroe, the refinery, to contribute about $0.05 to $0.10 within that $2.80. And it certainly is benefiting from the environment of expanded cracks. As you know there, we not only have gasoline, we have diesel and we have jet, and the gasoline and diesel certainly benefiting from the environment that we're in. So, it will be another quarter where we expect to be operationally profitable there and contribute to our fuel performance related to that. We don't have a lot to go. We only have about two weeks ago in the quarter, so that's why we're kind of picking around $2.80. Certainly, there's – we have some lag. We still have to price for the final two weeks, so we'll see how that plays out related to that.

Glen, do you want to talk about...

Glen William Hauenstein
President, Delta Air Lines, Inc.

Yeah. On fuel surcharges, I think in the presentation, we said that we were confident that we could recapture the entire cost as the fuel price run up in the second quarter, which is ahead of where normal cycles would put us in terms of fuel recapture. So, fuel surcharges are only in the international arena. You don't have fuel surcharges domestically. And they've, of course, been a component but it's really been the strong demand, better pricing environment and the ability to revenue management, what fares are getting on your airplanes that, in totality, have had allowed us to more than offset the fuel quite quickly after the run-up.
Can you just revisit how the competitive environment changes in these higher fuel prices with low-cost carriers? And just how is that going to change it? Crude above $100 or jet fuel up to $80 to $90, how does that – where you compete out?

Glen William Hauenstein  
President, Delta Air Lines, Inc.

Right. Let me give you my view on this because we spent a lot of time thinking about it. Of course, this is the view from [ph] Arnott Hall (00:33:43), and you’d have to ask the ULCCs how they see it. But when we look at our target audience, when we look at our demographics, when we look at our average fares, we see the increase in fuel that we’d have to pass through as something that is very, very achievable for the demographics that we have without demand destruction. And so, the real question is, if you're catering to a lower fare environment and people who are more fare-sensitive, even though you have more seats on your airplane and you're able to have a lower increase on a per-seat basis, the increase as our percent of the fare itself is very much more dramatic for them than it is for us. And you might think that in an inflationary environment that their target audience is probably more pressured in terms of higher cost at the pump and other inflationary environment issues than our target customer.

So, I think you can listen. I mean, we read all the reports that people put out, and there's some very cavalier reports about the ULCCs who talk about, well, on a per seat basis, we have the lower fuel increases on a per seat than to our full-service competitors. But I think that that's in a static demand environment, I would think that their customers are going to be more challenged in this environment than ours will be to pay for these fare increases. So, we'll see how this plays out. That's the view from [ph] RC (00:35:13), but I think we're feeling really good about that. We're feeling really good. We haven't actually found the breakpoint yet. We continue to increase the hurdle rates as we move into the summer up to the point where we know we can cover the cost of fuel and we are still booking positive in terms of 2019 bookings. So, really good environment for us as we head through the summer when we're very confident, and we'll see what happens in the fall.

Were there any reconfigurations of planes that you'd done over the last two years that perhaps you’d be looking to reverse given the change in the fuel dynamics?

Glen William Hauenstein  
President, Delta Air Lines, Inc.

Well, that's a great question and one I'd love to talk about because what I think is contrary, given the fact that business is still less recovered than leisure. You might think that our premium products would be more challenged than our coach products. And the exact opposite has happened throughout the pandemic. And as we sit here today, we are more – our unit revenues in premium are very positive in terms of paid and set load factors, and have been running about 10 points ahead of main cabin throughout the pandemic and continue. So, I think what we've found is that we had originally thought that people would only pay if their company was paying for these products and services, kind of the conventional wisdom. And what we found in the pandemic is there is a wide appetite from consumers who want to sit in the better products and services. And if anything, we would look over time to continue to expand those rather than contract those. The margins are significantly higher in the premium products, and that's really where we're heading as an airline.

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

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And the fleet strategy has supported that. From what we've done and where we're going here over the next three to four years.

**Glen William Hauenstein**  
*President, Delta Air Lines, Inc.*

Right. We have – of the three big US carriers, we have the highest average gauge by a wide margin. And we're continuing to expand that by bringing on larger airplanes, with more premium products and better fuel economics. That's really the name of our game over the next several years.

Are there any capacity cuts planned due to higher fuel prices? And if so, what markets you think would be impacted?

**Glen William Hauenstein**  
*President, Delta Air Lines, Inc.*

As I indicated earlier, we are very, very confident of our ability to recapture over 100% of the fuel price run-up in the second quarter and through probably the end of the summer. And we will continue to evaluate capacity rationalization if need be as we head to the more declining demand fall environment and early winter. But right now, we're very confident. We are the least restored of any US carrier, even with some of [indiscernible] (00:38:00) we saw in this morning's [ph] AK's (00:38:02) had announced small capacity reductions, but we are still below they are – where they are after their capacity reductions as we head through the summer. So, we are really, really confident that we are in a good spot.

I wonder whether hybrid work has generated sort of a new category of travel weekly or semi-monthly commuters, and I don't know whether that's business or personal travel? And whether maybe new fare structures have called for some kind of commuter fare structure or whether that fits into the existing fare structures easily?

**Glen William Hauenstein**  
*President, Delta Air Lines, Inc.*

Clearly, that's one of the benefits we think of the pandemic in the long run is that people don't have to live in the cities that they work any longer. And it's too early for us to tell on these commuters because their offices quite honestly have not yet all been open to see how many times they have to go back. But those are emerging trends that we know are there and we'll continue to report on as we move forward here. We are confident that there is a new type of travel and it's really business-related because you have to get back to your office. You can live wherever you want. I don't know if some companies will offer to pay or give an allowance for those commuters; others will say that's on your own dime. And so, we'll see that we can discern from travel patterns and what new products and services that we can put in place to accommodate that new segment of travel that was not there or was there a little bit pre-pandemic but we think it will be much larger in a post-pandemic world.

**Jamie N. Baker**  
*Analyst, JPMorgan Securities LLC*

I'll squeeze one last short one in; just on the topic of corporate recovery because that's received so much – the topic of corporate recovery has received so much attention from the earliest days of the downturn. And you cite
the obvious cadence: return to work, return to office, and then an uptick in business travel. For the large corporates and I realize you may not have a ton of granularity on the return to office momentum, but what's been the average lag time? So, a business reopens, how long is it before you see a corresponding uptick? Is it a two-week lag? Is it a two-month lag or is it just case by case?

Glen William Hauenstein  
President, Delta Air Lines, Inc.

It is measured in weeks in the aggregate...

Jamie N. Baker  
Analyst, JPMorgan Securities LLC

Okay.

Glen William Hauenstein  
President, Delta Air Lines, Inc.

...so not in months. And so, it is a really quick uptick. And of course, different travel markets have different components of business. New York having a higher component of business; San Francisco, Chicago, and they have been laggards in the recovery. But you start to see them really building quite quickly now as we move into the hopefully the next leg of the recovery here.

Glen William Hauenstein  
President, Delta Air Lines, Inc.

So, I just like to close with thanking everybody. We really appreciate you being here. We appreciate being invited. We appreciate seeing everybody in person. And we are very, very excited about the spring and summer that's ahead of us. And so, thank you so much.

Mark Streeter  
Analyst, JPMorgan Securities LLC

Yeah. Thank you, Delta.

Jamie N. Baker  
Analyst, JPMorgan Securities LLC

Thank you.