06-Dec-2023

Delta Air Lines, Inc. (DAL)

Morgan Stanley Global Consumer & Retail Conference
CORPORATE PARTICIPANTS

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

Glen William Hauenstein  
President, Delta Air Lines, Inc.

OTHER PARTICIPANTS

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Great. Morning, everyone. Welcome to Day Two of the Morgan Stanley Consumer Conference. I'm Ravi Shanker, Morgan Stanley's Airlines Analyst. One of the most enduring parts of the consumer in 2023 has been travel, and we're very excited to kick off day two here with arguably the best premium franchise in the US airline industry, Delta Air Lines, our top-ranked stock within our coverage. And we're very happy to have with us CEO, Ed Bastian; and [ph] COO, (00:00:33) Glen Hauenstein. Gentlemen, thanks so much for being here.

Before I turn the stage over to Ed for some opening remarks, I want to remind everyone that disclosures related to Morgan Stanley's relationships are available at morganstanley.com/researchdisclosures. And obviously, if you have any questions, please we'll have a Q&A towards the end of the session. And with that, Ed, do you want to take us off?

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

Thank you, Ravi. Cool. Thank you, Ravi, and it's very good to be here. Let's enjoy the opportunity to talk about our company and our brand. We need to remind ourselves that this is webcast. So we filed an 8-K this morning, which confirms our fourth quarter guidance, which we had presented, I guess, mid-October, which is a sigh of relief for some given how the year has been. It's been an interesting year in our industry.

One of the things that has struck me is, and we're talking before we came up, is that this is the first time that we've been present at this conference as a consumer – at consumer conference. And you usually find us presenting at all the leading industrial conferences and having a widespread following there.

But Delta is one of the leading brands, one of the leading consumer brands in our country, with passionate consumer loyalty that is transcending the industry, reflects the hard work we've done over the course of the last 15 years to differentiate our brand, to decommoditize our brand to move into the premium sector. And as a result
of that, we're not just the leading brand in the airline industry, we're one of the leading brands in Corporate America, in the consumer marketplace as a whole. And this slide on the first page gives evidence of that. Some interesting facts, if you haven't seen this.

Delta is the fifth largest US eCommerce retailer in our country, following some pretty impressive names like Amazon, Walmart, eBay, Apple and then Delta. Interesting, people are not cognizant of that in terms of the impact we've had with our direct distribution, where 50% of our sales are direct-to-consumer at this point in time.

We were named, as we're typically named one of the most admired brands by Fortune this year. We're the 12th Most Admired Company in the US, which also is a strong reflection of the health of our brand. Both The Wall Street Journal, Business Travel News, many, many, many leading publications and travel sites have named Delta the leading name.

Business Travel News just a couple of weeks ago named us Number 1 for Corporate Business Travel 13th year in a row. To do anything 13 years in a row is pretty hard, but we continue to motivate to keep it going strong. Wall Street Journal, we've been named the Number 1 Airline for Travel in the US, five out of the last six years, and the list goes on.

Finally, on our cobrand side, we've got a strong partnership, as many of you know, with American Express, a great franchise, a great brand. We are the leading card within the entire American Express portfolio across their enterprise. And the spend on our cobrand card is approaching 1% of total US GDP. So if there's any question as to why Delta and airlines here presenting at a consumer conference, I think this slide should give you a pretty good indication of the strength and the relevance and the scope of what we're doing.

Consumer brands have been, I know question has been asked for the better part of the last year is the health of the consumer. I'm sure that was spent a lot of conversation on that yesterday and there will be a lot of conversation on that today. We get a lot of conversation on it. I can stand here and tell you that our consumers are doing very well. They're resilient. They're continuing to prioritize travel. One of the trends that we have seen and it's not new, we've been talking about it for the last two years, is the return to some level of normalcy of consumption within consumers where when the COVID crisis hit, everyone stayed home and lockdown and everybody bought stuff. And now, they're investing in things, investing in themselves and investing in experiences.

And the experience economy, which is Delta, is one of the leading brands in the experience economy is doing very, very well and still has quite a ways to go. This year, we expect the service economy to grow 8% in our country and that is not just outpacing GDP. We see that there's room to grow. You can see in this chart there's room to grow to continue to catch up to more of the normalized patterns and trends which we expect we'll see over the next several years.

The high income consumer is our target audience. 75% of all US travel is spent by consumers households, having household earnings of $100,000 or more a year. That's about 40% of the households in our country constitute 75% of the overall travel spend, with Delta being a premium brand. Arguably, our numbers are much higher than that in terms of the strength of our – and the health of our consumer. And it also is the highest priority purchase for high-income households.

One of the things that the Fed recently put out, something that we've been talking about for some time, is that cohort has accumulated over $30 trillion of household wealth since 2019. So our consumers not only have the opportunity to travel now, they have the desire to travel and they have the wealth to make it happen. And that's what's fueling the strength of our travel sector.
Another slide that indicates this is when you look at long-term in our industry, the relationship between travel and the GDP. Our industry is an interesting one and it's got a tremendous amount of volatility and variability and exogenous factors that influence us. But if there's one thing that is pretty consistent over time within travel is that it's a relationship between the size of the economy and the amount that spent on travel. Air travel specifically is about 1.3%.

You can see, this goes back to 1980. Year in and year out, there's a couple of things. You can see what happened during the economic crisis in 2009. It dropped to 1.1%. It was already back over that number by 2012, certainly broke in 9/11 in 2001 for a couple of years and back. The only time it's meaningfully broken in our modern history of US travel is the COVID crisis. And you can see from the period of 2020 through 2022, there was about $300 billion of missing demand.

When you look at the size of the economy, the wealth of our consumers, and the actual fact that customers could not travel but they had the desire to travel, the substantial amount of demand that was missing. And when people talk about revenge travel and the fact that people are now getting back on the road and are spending whatever they want to spend to just to get out and see people and see things, that's a piece of what we're seeing.

But interestingly, this year, we're only back to trend. Though the fact that people look at our industry saying, well, how long is this going to continue, we're only on trend and we haven't even really made a dent into that $300 billion. So I think over the next several years, we'll continue to see a healthy, strong economy going forward for our sector, certainly and resiliency.

And this is the final slide, I'll show before we go into the Q&A with Ravi. How did Delta get here? How have we created the industry-leading position within our industry, but also within the marketplace as a whole? There's five competitive moats that we've invested in at Delta. Historically, over time we've been strong in but certainly in the last decade, we've invested hard in making certain that these are sustainable, competitive advantages that will stand the test of time. Certainly withheld us during a pandemic and I think they should be enduring advantages, we'll see through any economic cycles.

First and foremost, it's our people, our culture of service. The heart of this company is about people. Many of you are loyal travelers. I thank you for your business on that. And you understand what I mean when you say that, when you enter a Delta plane, it's different. When you step, you're welcome, it's warm, it's caring, it's elevated the experience. People are there to serve. We're not there to transport. We're there for you to have a great experience with us.

Second, the operational reliability. What enables us to have that caring service is we produce the best airline product in the sky, the reliability we've led the industry for well over a decade. We're yet again this year number 1 in on-time arrivals. This quarter, we're running at 99.9% completion factor. The Thanksgiving holiday had media all out there getting people scared, saying it's going to be another travel storm as everyone's heading back to the skies.

At Delta, for the 10-day period of the Thanksgiving period, we operated over 50,000 flights. We had less than 20 cancellations on 50,000 flights. So we're back and we're stronger than ever on the reliability front.

Our network is strong. People think about Delta. They obviously know Atlanta. They know Minneapolis, Detroit, Salt Lake City, our core traditional hubs, all of which are strong and powerful in their own right. But people don't necessarily appreciate the number one and number two travel markets in this country, New York and Los
Delta Air Lines, Inc. (DAL)
Morgan Stanley Global Consumer & Retail Conference

Angeles. Delta is number one now in both LA as well as in New York, in addition to our traditional strengths, we're number one in Boston, we're number two in Seattle. And we're continuing to invest to grow not just the franchises internationally with our partners, but also investing in our facilities.

And you all hopefully have seen our new LaGuardia facility. We're finishing out JFK. This is going to be another one of these enduring competitive advantages. There's not going to be another LaGuardia built in probably 50 years. We've got the best facility in the leading marketplace up here in New York.

Loyalty. I mentioned already our American Express relationship, the strength of our brand, the importance of that relationship, having a premier exclusive relationship with a leading car provider, the leading loyalty provider, coupled with Delta Airlines. That's where magic occurs.

And our financial foundation is strong. We came through the pandemic in a better shape than any of our competitors. We went into the pandemic, the strongest of many of the major airlines, and we came out of it quicker as a result of that. Two things I was most proud of going through the pandemic. One was the fact that Delta was one of only two airlines in the world that did not furlough a single employee.

So when you think about loyalty, loyalty is also on the employee side in terms of service to our customers. We were also one of the only airlines in the world that did not dilute its shareholders, its equity holders. We did not raise equity. We could have, but we decided not to because it's important the fact that we stay loyal to you. Our investors stayed loyal to our employees. We stayed loyal to our customers.

So with that, Ravi, thank you for the opportunity and we can open the Q&A.

QUESTION AND ANSWER SECTION

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Great. Great. As I said, I'll get to your seat. I thought that was really impressive, the stat that always gets me is the co-brand spend is 1% of GDP, that's going to take some time to kind of wrap...

[indiscernible] (00:12:10)

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

People love to travel. And we saw it accelerate during COVID. You know, if there was ever a time people say, well, I'm not sure if I'm going to travel [indiscernible] (00:12:19) the acquisition of the cards stays healthy, the spending on the cards grew at even faster clip than they were pre-COVID.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Got it. So people love to travel. We saw that recently. I think, Thanksgiving Day was a record TSA travel day. Can you just give us an update on the current demand environment right now, how fourth quarter is trending? You obviously reiterated your guidance earlier this morning, but a little more detail on what demand is like right now?
Edward Herman Bastian  
Chief Executive Officer & Director, Delta Air Lines, Inc.

Sure. As you said, we reiterated our guidance this morning. And I think we’re very confident as we have. We had a record Thanksgiving, record revenues over that period. Christmas is shaping up to be a very, very strong close to the year. And then, we’re off to the races back in January.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Got it. And across the board, like is that leisure, is that corporate, kind of [indiscernible] (00:13:05)

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

Absolutely. I think we’ve had – we had a plateau again with business travel in the early fall and the Thanksgiving and post-Thanksgiving, we’ve seen another uptick. Part of that is because of the settlement of these big strikes we had in Los Angeles. Of course, we’re a big carrier there in Detroit. So we’ve seen those start to recover at different paces. But that’s good to have behind us. And we’ve seen a nice uptick in corporate travel year-over-year as we close out the year and head into 2024.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Got it. To your point, Ed, when you talk about the demand thing, I think a lot of people have been kind of concerned about a potential demand [indiscernible] (00:13:43). Is this sustainable? Is that sustainable? Are you surprised by the resilience of this kind of travel strength you’ve seen kind of despite all the macro pressures you’ve seen in headlines?

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

I’m not surprised at all. And that’s the reason I showed that one slide that you can go back to when the industry was deregulated in 1980...

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Yeah.

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

...and you look at [indiscernible] (00:14:03), at one point, it has a clear stat that go up and down all over the place. Within the year, even rate and fuel prices and things are changing in our economy, in our industry. But the resilience of the demand, the interest in travel relative to the size of the economy is one of the things that doesn’t change.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

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

And so we knew once consumers could travel that there was going to be this big surge and we were – do our best to make sure that we got out in front of that to capture as much of that as possible. And you've asked me, we've been asked that question for the better part of almost a year and a half now. So when does this finally get caught up?

I don't think we're going to get caught up. I think – and by the way, while corporate and other parts of the travel rhythm may be down a little bit, there's other new forms of travel that have come in and substituted when you think about hybrid work opportunities and the fact that people can take their offices now with Zoom with them on the road and work from where they want to work, not just in the office...

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Right.

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

...on a regular return basis.

So I think the incentive to travel is as strong as it's ever been in certainly my 25 years in this industry. And I expect it to continue to be strong. I see nothing that's going to slow it down. And by the way, it's also governed by the fact that the industry also has a lot of constraints around in terms of how much – because if we had more aircraft, we had more supply available to us, you'd see those numbers even higher.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Right. I thought it's interesting you showed in the chart that we only back to a trend level in terms of GDP spending on travel and that $300 billion of like the pent-up demand hasn't even started yet...

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

Effectively.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

...then people think that we have actually used up all the pent-up demand. So in the coming years, have you think that this is resilient and structural? Do you think that we can kind of stay at that 1.3% or maybe even overindex above that...

[indiscernible] (00:15:49)

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

I think we'll overindex on it. One of the things about that 1.3% in the current year, don't forget, our economy is about 20% larger than it was in 2019. So we've already seen a pretty big uptick in terms of demand. Yet the
actual capacity in the industry is only back to 2019 levels, effectively, a little bit higher in certain markets. But by and large, it’s pretty much back to 2019. So that gap is going to be, I think, the staying power that we’re going to see going forward.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Got it. Just switching gears a little bit, again, I thought your first line of results are really impressive, kind of putting yourself up against those other brands, consumer brands that people would normally think of and very, very powerful brands was a great place to be. How has Delta established itself as the brand of choice in the industry?

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

Well, we have to go back almost 15 to 20 years when we decided that we were going to stake out this for ourselves, and it started really in 2008-2009 when we were the first to start the consolidation move in our industry. The biggest challenge this industry had over time was it was subscale, there were many, many airlines. If you go back 20 years or more competing, none of whom had enough scale or enduring strength to actually invest in the quality of the experience.

We decided when we bought Northwest in 2009 that was our opportunity to take that scale and actually turn it into an enduring advantage. And we knew that if consumers were – we got consumers what they needed, which is reliable air service, good quality, quality onboard service, as well as in air and in airports service that that would be the baseline for us to start to build a brand.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Right.

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

Because the industry was commoditized...

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Right.

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

...up to that point in time and Delta being a global carrier, being a premium service carrier, commodity is a bad place to be in that space. So, we invested a number of years in improving the quality of the experience. And once our employees could actually have the tools to do a great job to provide that extra caring service onboard that makes Delta unique and differentiated when you’re onboard a Delta flight, that then was the magic that that enabled everything doesn't start to pop and started to gain followership. It was the investments we made here in New York and the airports, investments that we’ve made in other parts of the world with our international partnerships that continue to build and layer on top of that.
Got it. You mentioned the C word. I think there has been a view that air travel had become commoditized, obviously, flying on Delta as anything. But again, is it a case of build it and they will come? And do you think that there is enough enduring demand for a premium product in the skies that people will...

[indiscernible] (00:18:39)

I do. I do. I think one of the things, again, we saw during the pandemic is that people started to once again reflect on their choices and who they were investing with. And you saw not just in our space, but in other spaces, premium brands started to attract a higher percentage and higher differentiation in the marketplace. And our brand, when you're traveling and particularly when you're traveling during a pandemic, you absolutely cared about what airline you are in.

You wanted to be on the airline that blocked the middle seats throughout the pandemic as Delta did. No other airline did it to the extent that we did. You wanted to make certain that you were with people that were just going out of their way to make certain that people were comfortable in their experience. And so we actually saw our brand tick up meaningfully during the pandemic. Our Net Promoter Scores and all the affiliation scores around the brand, even though we were so far below our historic pattern.

So again, when travel started to return, when people felt comfortable getting back in the sky, that's when that big surge came towards Delta. And that's why we – this year, which is pretty remarkable, we'll be 15% higher than our historic all-time high revenues, [ph] which is in (00:19:48) that 10% to 15% range even though we're just three years removed from having almost no revenue.

Right.

So it's pretty remarkable.

Right. Just kind of on that note. What do you think of the premium consumer kind of both across the economy and in the airline industry and kind of how do you think their behaviors may have changed post-pandemic?
You know, I think this is really a story of evolution. When we started on our journey, that said back probably even before 2008 and 2009, in re-engineering what our strengths and weaknesses were, we realized we couldn’t be a commoditized industry. We had to get a premium and the whole infrastructure for selling airline tickets was not geared to sell premium products, and it still is morphing into something that is better at selling. So we've been working with a lot of our distributors over time. We've lowered the price of using the premium products to attract more people in and we've changed the whole core economics.

It used to be that our front cabins were our loss leaders. Now, our front cabins are our profit centers. And that's a huge paradigm shift and I think people underappreciate the transition that the industry has gone through in distributing those premium products after years of just racing to the bottom on the commoditization, and we’re still not done with that. We still have more innings left. And I think that's what's so exciting about the next few years is not only do we have more opportunities there but we are continuing to invest in our products.

Next year, we'll have LaGuardia finally finished, we'll have – LA is just finishing up now, we have Salt Lake fully opened almost. And those combined with international free Wi-Fi, the things that we're bringing to market are going to make our brand even stronger and make those premium products even more valuable.

Q

Ravi Shanker
 Analyst, Morgan Stanley & Co. LLC

Got it. Before we kind of completely move away from the demand side and the premium customer, Glen, I'd love your views on just international travel. I think there's been a lot of focus on the consumer potentially overindexing towards international in 2023, and kind of people, you've seen that in passport issuance data [indiscernible] (00:21:50) all-time high in 2023. What are you seeing in terms of international demand, kind of, how enduring do you think that is?

A

Glen William Hauenstein
 President, Delta Air Lines, Inc.

So, international really is – we, of course, have the Trans-Atlantic, Latin America and the Pacific. So, maybe I’ll do a little bit on each of them. The Trans-Atlantic had the most phenomenal summer ever. We achieved record profits and record margins in the Trans-Atlantic. We do not see that abating. We are in what is arguably the very lowest part of the season now heading into January and February, and advanced bookings are quite strong and then pick up even further as you head into March and the shoulder season.

So, we're really optimistic that we'll have another great run at the Trans-Atlantic. Our capacity is up mid-single digits in the Trans-Atlantic, where it was up 20-some-odd percent, almost 30% last year. So, we're moderating our growth and we see very, very strong demand in the Trans-Atlantic. The trans-Pacific has a couple of different stories going on, and I'd say the most pivotal part for us is our hub with the Korean in Incheon Airport, which is really a phenomenal asset, best connecting times from the US to secondary cities in Asia, and really doing phenomenally well as is Japan. Japan is doing very well.

China is very small, as you know, about a 10th of what it was pre-pandemic, but strong results. And then the South Pacific, where we're now heading right into season and it looks like it's going to have a very strong season in the South Pacific, where we've grown a lot since pre-pandemic. And that leads us to the last, which is Latin America and very exciting things going on there, particularly with LatAm, we were just with our partners down in Chile last week. And the integration between the two carriers is progressing ahead of plan. We're achieving record results in terms of revenues. And margins are a little bit stressed right now as we grow capacity pretty dramatically by connecting all these – connecting complexes in the hubs. That should moderate as we head through 2024 and really be a profit center for us.
Ravi Shanker  
*Analyst, Morgan Stanley & Co. LLC*

Got it. And I want to switch gears a little bit and talk about the Amex relationship, because again, that really is a pillar of your revenue growth and kind of what you've achieved with the consumer. For those who are new to the story, can you just talk about the history of the Amex relationship, and kind of maybe some of the drivers of recent success that you guys have had?

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

We've been partners with Amex for approximately 30 years and – but it’s really been in the last 5 to 10 years that the thing has really started to differentiate like we’ve had with respect to the entire brand. And I’m sure there’s a corollary there. There’s a reason why.

Ravi Shanker  
*Analyst, Morgan Stanley & Co. LLC*

Sure.

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

Amex is the premier card provider in terms of consumers in this country. And when we started our partnership years ago, I don’t think they were necessarily investing in Delta. We [ph] thought that this as more of a transactional commercial relationship when we started to understand the power that we could bring together, because we’re both targeted as being consumers, so there was always, I think, a question mark between the two companies as to whose consumer it was, was it American Express customer? Or was it a Delta customer?

But when we finally decided, and I give the leadership of Amex, Ken Shimota and Steve Squeri tremendous amount of credit. [indiscernible] have been closest partners you could imagine with those guys. No, they are our collective partners and what we can do to make the pool bigger rather than arguing about who gets what size of the slice, things really started to expand and explode. And again, it hit right along at the same time that our brand started to really differentiate in the marketplace.

So this year, to give context that people that don’t – aren’t as familiar, we’ll generate $7 billion of revenue from that relationship, just that one relationship. I don’t know of a commercial partnership on that scale in the country that has that level of power and growing double-digits year-over-year and we expect into the next several years we’re going to continue to see double-digit annualized growth on that portfolio because travel is what we do. Travel is one of the main benefits of the card. It’s one of the reasons why our consumer is the same consumer.

Ravi Shanker  
*Analyst, Morgan Stanley & Co. LLC*

Got it. And can you talk about how that – again, you said the $7 billion of revenue going to – what are kind of other opportunities to monetize that or kind of where do you think that can go over time?

Edward Herman Bastian  
*Chief Executive Officer & Director, Delta Air Lines, Inc.*
Well, [indiscernible] (00:26:11) speaks to the loyalty proposition that we continue to expand. It's one of the reasons why we launched this year free Wi-Fi, high quality, high speed Wi-Fi for consumers. That work is to continue to build a bigger pool for individuals that aren't yet into our loyalty program, that could expand.

We've had since the start of the year and these – and the interesting thing to me is that these are consumers we already have, just people signing up on the planes already. We've had 2 million new members of SkyMiles that we already had. We just didn't know who they were but joined us.

And so now that they're once into the ecosystem, these tend to be younger. They tend to be consumers that haven't yet made a choice around air travel or deciding because of connectivity. That's one of the things they want. And no one can provide it with not just the fact that it's free, but it's also fast and it works. And then we expand the next year or two to internationally, it's going to be strong.

So continuing to build on loyalty, build on the franchise, on...

Ravi Shanker  
**Analyst, Morgan Stanley & Co. LLC**

Yeah.

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

...the brand health, and then Amex is underneath that. They're one of the sponsors actually providing that and supporting us in that effort.

Ravi Shanker  
**Analyst, Morgan Stanley & Co. LLC**

Right. But clearly build it and they will come.

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

Well, we're doing it.

Ravi Shanker  
**Analyst, Morgan Stanley & Co. LLC**

So maybe kind of switch gears a little bit, kind of how do you target those customers, particularly young customers? Kind of can you talk about your digital initiatives and kind of what you're doing to with the brand outreach?

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

We think digital continues to be a great opportunity for us. We know in our industry that we've been a leaders – leader over time in terms of our platform and the dotcom site, which is now, as I mentioned earlier, 50% of all of our consumers are buying on dotcom, which is probably doubled in the last five or six years or maybe even more than that in terms of the growth rate there. And because they have something on the website or on the app that they want in terms of being able to have control over their experience, be able to get unique products and offers, and they're guaranteed to get the best pricing. There's no need to go looking at the OTAs because...
Ravi Shanker  
**Analyst, Morgan Stanley & Co. LLC**

Right.

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

...you co-directed and filled the relationship with the brand, that's what our younger consumers are starting to discover as well, because they want to be members, they want to have status, they want to feel like they're part of something. And the one thing that we have seen with our brand over time is that once people come into the Delta ecosystem because we are the leading provider, they don't tend to – they tend to stay and build a lifetime of loyalty. So that's really the opportunity going forward is as we continue to build our digital strength, the digital capabilities, giving people more opportunity to use that app for self-service and control of the experience.

On the other side of the house, operationally, we have tremendous operational opportunities that digital provides. Part of it is we got to make certain that we continue to get our own infrastructure ready for it. We're in the midst of a massive migration to the cloud with AWS and we'll be concluding that by the end of 2024. So, we'll have all of our apps ready, they'll be refreshed, they'll be updated. And then you can bring whether it's AI, which is the latest thing everybody wants to talk, I'm sure you're going to ask me question about that or just classic digital capabilities bring you technology to solve complex issues with a lot of data and a lot of moving parts. We're a perfect industry.

I just step back and I say this to our team all the time. This company, we have over $40 billion of assets that we've invested in this. If digital and AI just can increase the value of that just by 2%, 3%, 4%, you're looking at billions of dollars of opportunity over time that's available for us. And I think there's still a lot of low-hanging fruit available.

Ravi Shanker  
**Analyst, Morgan Stanley & Co. LLC**

Got it. I will ask you an AI question. Kind of where do you think it might serve you and your customers best? Is it customer service? Is it the back end? I'm sure you're doing stuff already with AI and ML. So kind of what are you doing already and what are you exploring for the future?

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

I think the initial foray into AI is on the customer service side. It's we're working with our reservations team to try to help our reservations agents parse the historical policies and questions and things that you might – you may call into a res agent when you – if you're traveling with a pet or you've got a specific issue or specific question, and there may be an answer in some policy part of the – of their procedural manual that they have to get answers to. And you can – that's why people go on and you're on hold for five minutes waiting for an answer. They should only be on hold for five seconds getting an answer. That's what AI, and that's one of the first applications that we're deploying and we're using AI already to build. But I think the – I think there's a lot of interest in the short term for what AI is. I'm more interested in the long term.

Ravi Shanker  
**Analyst, Morgan Stanley & Co. LLC**

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

And I think it's really important that large companies such as Delta ensure that when you deploy AI, you have your house in order, that you have these policy questions streamlined, you have your data clean, you have your networks built so that, otherwise, if you let the computers control the information flow with a dirty structure, you're going to get with – you're talking about hallucinations, you're going to get hallucinations on steroids, right? So we're being very disciplined about how we roll it out. But I think the opportunity is enormous. This is probably a five-year journey. But I think it's enormous.

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

If I might add to that, we are starting experiments just in the last month on AI for pricing. And really the amount people are willing to pay for the premium products relative to the base fares, having the machines show us what do they think we should be doing and having the analysts then look and see what are the machines recommending, it takes a lot of time and a lot of effort how the feedback loops. And it really automates. It streamlines and accelerates our ability to move faster. So, really exciting on a whole host of fronts. But from the commercial side, that's one where we really think has some great power for us.

Ravi Shanker  
*Analyst, Morgan Stanley & Co. LLC*

Right. Okay. We spoke a lot about the premium customer. It's been a lot about the leisure customer. Ed, you also mentioned that obviously you are a corporate travel airline of choice. So wanted to get your views both in terms of what the corporate demand right now is like and how you see that kind of trending into 2024.

But also kind of coming out of the pandemic and the one thing that people were very convinced about was that corporate travel was never coming back, right? And that has been probably more emphatically disproven than anything else we've seen so far in this industry. What's the long-term trend in that as well?

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

Sure. The long-term trends are we're not quite back to where we started in terms of volumes, but we're getting there, right, as there were in the now high-80s, low-90s. So largely restored. That's in the corporate. That's in the top Fortune 500 companies. But what we've seen is this incredible growth in unmanaged business and small and medium-sized enterprises that's more than offset that shortage.

So if you think about who is sitting in our front cabins, it's actually the same person, but just for a different purpose. So what we had hoped when we went into COVID was that premium products, people who had gotten used to them, would continue to buy them. And we've seen this incredible stickiness, 70% in [indiscernible] (00:33:37) purchase once you're there. So, essentially, once I've been flying from here to Chicago at first class, when I go to my house in Palm Beach now, I'm not sitting in the back. I'm sitting at first. So people are getting used to it. We're trying to keep it affordable, keep it in budget so that they can actually afford to do it, whether they're traveling for business or for leisure. And that's what we've seen as the people who got used to it for purposes of travel and now leisure, which has been the accelerating part coming out of COVID, they're buying the premium products.
Edward Herman Bastian  
Chief Executive Officer & Director, Delta Air Lines, Inc.

I think one of the things, Ravi, that was – I'll never forget Bill Gates saying that it's never steady – never coming back 50% [indiscernible] (00:34:14). I still smile because I didn't believe it then. I still don't. And still obviously, clearly it was wrong in that big time. The thing that they didn't get was that the video conferencing tools, those applications for technology just enhanced mobility.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Yeah.

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

Anything that enhances mobility is going to enhance the value of our brand, the reasons people travel. And that's what people didn't understand. They were just so mesmerized by the technology. They didn't understand the power of this it actually makes us be able to connect from wherever we are, however we choose, and wherever we go. And that's why you've seen the country change. You've seen people move to different parts of the country, yet still maintain their connectivity back. And you got a whole new sector of travel where people have joined new organizations, moved to different parts of the country and now have to travel back just to come into their office.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Right.

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

Right. I mean, it's really an interesting experiment. So we'll get back to corporate travel. I think it's going to say it in a different way, it'll be well over 100% of where it was. But the classic corporate travel continues to take steps forward. And it's been kind of a step by step by step and I think next year we'll see another step up. And your surveys had suggested that as well.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Yeah.

Glen William Hauenstein  
President, Delta Air Lines, Inc.

If I might add, just one thing is the flexible workweek has also added much easier way to take a four or five-day weekend...

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

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

...which we’ve seen in the travel results, is that people are now leaving on Thursday, coming back on Tuesday. So entirely different travel patterns and much more opportunity for people to be mobile.

Ravi Shanker  
*Analyst, Morgan Stanley & Co. LLC*

Yeah. In my experience, I think video conferencing replaced phone calls. Like everyone thought video conferencing would replace in-person meetings, then said replace phone calls but people are still doing the in-person meetings, so...

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

Absolutely.

Ravi Shanker  
*Analyst, Morgan Stanley & Co. LLC*

...that probably works best. So again, we have a few minutes left and we spend a lot of time so far kind of quite rightly focusing on the brand and the demand side of the equation. But I also want to shift gears and talk about the other side of the house, right, because I think investors' biggest industry concern over the years has been kind of oversupply. And I think we’ve seen a little bit of a dip in unit revenues recently, especially on the domestic side of the house. And so that's kind of spectrum is kind of raised again. But you've heard from virtually all the management teams on 3Q conference calls that they're taking a very close look at growth plans for next year and beyond. Obviously, we saw the headlines from this weekend on M&A as well. What is your view on the overall health of the industry and the ability to maintain, let's say, an equilibrium between demand and supply in 2024 and beyond?

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

I'll let Glen take a first stab at it [indiscernible] (00:36:59).

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

Sure. I think we've seen a very constructive fall and winter evolve. So if you think about where we were back in October domestically in particular, we had just under 11% more seats than we did in the previous year. That goes to zero in January, and that is one of the biggest drops in total capacity that I've seen in my long history as the industry adapts to a slower growth model and works to catch up.

So I think we're sitting on the verge of a very constructive beginning to next year in terms of domestic, international. As we mentioned before, the demands seem to keep rising and keep pace with the incremental capacity that's in there, but a real shift in terms of the domestic supply/demand imbalance and one that's much more constructive as we head out of 2023 and into 2024.
Got it. We've spoken a lot and I think you addressed earlier in your comments about some of the external constraints on capacity [indiscernible] it's pilots or plane availability, ATC capacity and such. Can you talk about some of those constraints and kind of how they are evolving as well?

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

Well, I think, again, our demand set is really strong, again it's relative. We've talked a lot about it. And honestly, if we were all capable of flying more, we would giving the help of, but whether it's pilots, whether it's air traffic control constraints, whether it's infrastructure challenges, whether it's supply chain, whether it's engine issues, whether it's the cost of traveling and both fuel as well as labor, as well as parts all showing double-digit year-on-year increases over time. This industry is probably at its capacity limit.

So while Glen talks about a productive, constructive backdrop as we look forward, it's been a pretty constructive backdrop all along here over the last year-and-a-half to two years, which I think is going to continue to stay and actually be even more constructive potentially going forward as those carriers on the lower end of the sphere spectrum really are struggling with not just get those constraints, but also how do they get their pricing to match the higher cost of service.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Right.

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

Again, it feeds back to the strength of our brand as the strength of the premium provider, those that can pass on and actually use that to gain strength and gain share are going to win.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Got it. Any last question from the audience? Yeah, one on the back.

Our competition.

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

Fortunately, they're all looking at us.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

And I think as the kind of industry evolved and kind of becomes more premium, I think we're seeing some others kind of talk...
Edward Herman Bastian
Chief Executive Officer & Director, Delta Air Lines, Inc.

Yeah.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

...about the same things. But to your point, kind of...

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

Yeah. No, listen, there is one other that has a strategy that's very much looking to as a model Delta-like. I think they're smart.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Great.

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

The thing that they can't match that none of the airlines can match our people. That's the one thing in our industry that is unique and can't be replicated, it's the quality of the service because it's the people, it's a service led as compared to any of the hard goods that they invest in. It's the soft goods that are real — where the real difference that Delta shows.

Okay. [indiscernible] (00:40:19-00:40:26).

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

In 2015?

Yeah.

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

2015, you had – your prices that had dropped substantially in the marketplace and you wound up seeing a lot of supply jump in. So a lot of travel was encouraged. It was also a period of time where the industry was consolidating and you actually were starting to see some of the benefits of that consolidation. Carriers were starting to grow – grow faster again. So I don't know that there's anything specific to 2015 relative to other points in time, but I think it was more of that. There was a sweet spot where carriers were having lower fuel prices, labor hadn't grown as much, and airlines were actually tempted to grow even faster maybe than they should have.
Edward Herman Bastian  
Chief Executive Officer & Director, Delta Air Lines, Inc.

I like your optimism.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Great. And Glen, thanks so much for joining us.

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

Ravi, thank you. I appreciate it. Thank you.

Ravi Shanker  
Analyst, Morgan Stanley & Co. LLC

Sure.