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Delta Air Lines, Inc. (DAL)

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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

Excellent. Hello. Good morning, everyone, and welcome to Day 2 of the 12th Annual Laguna Conference. Again, another long track of airlines and transportation content here in this room. So get comfortable again and very happy to kick off today's festivities with our top pick in US Airlines, Delta Air Lines. Joining us today, Glen Hauenstein, President; CFO; Dan Janki; and Julie Stewart, Vice President of IR. Team, thanks so much for being here.

Daniel C. Janki

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

Thank you.

QUESTION AND ANSWER SECTION

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

So maybe a good place to start would just be obviously it's been a fairly up and down year for the entire industry and quarter as well. You put out an update just a few minutes ago, so maybe you wanted to walk us through what you're seeing in 3Q So far?

Daniel C. Janki

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

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Why don't you start? With the commercial backdrop.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Commercial backdrop is demand is solid. We've had very solid demand throughout the year and we had a little bit excess capacity the industry was producing over the peak summer months of June and July. That started resolving itself in August and heading into the fall, the off-peak season. So had a good first quarter, had an excellent second quarter, I think. And then as we headed into third quarter, we really have two things happening. One is the inflection of unit revenues in two of our largest entities. That's domestic, of course, which in the month of September moved to positive, as well as Transatlantic, which was a very welcome development for us.

We had a challenging Transatlantic peak summer because of the lack of demand to Paris during the Olympics, and I think we called that out. As soon as the Olympics ended, demand to Paris returned. And so now that entity is solidly in the positive momentum category. Really having a great year in the Transatlantic just if you – do one thing, the exaggerates and then of course being the Olympics and how large we are in Paris, given the partnership with Air France. So, really good in the fall. We've got also solid demands in the Transpacific and we're improving demands in Latin America. So as we look to close out the year in the fourth quarter, I think we see the demand picture being quite solid.

Daniel C. Janki

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

A

Yeah. So with that demand backdrop, commercially, the operations continue to run very well. Delta remains the industry leader. If you look across all on-time performance metrics, we lead all carriers in that position. On completion factor, we're number one related network carriers, and that's even with a tough five days that we had as a tech outage in July...

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Daniel C. Janki

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

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...for that position. And – but that was tough on our customers, tough on our employees but very proud of Delta team managed to return us to industry-leading position. In early July, we disclosed the financial or early August, we disclosed financial events of that.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Right.

Daniel C. Janki

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

A

There's no change to those impacts. So I think financially, moving to financials is always important to look at it, ex that impact. So that you really can understand the underlying business and we're really pleased with the drivers. If you go back to initial guidance and you look at where we sat from a \$1.70 to \$2 a share with the high end, the drivers associated with that, Glen talked about the importance on the commercial side demand in that inflection and where we are from capacity. Fuel has been favorable all quarter has marched down, right, at a low point here, where we sit in the quarter, we're sitting just outside the bottom end of the guidance range that we provided on fuel. As it is related to non-fuel with the operation performed fairly well, we had given guidance between 1% and 2%. We're sitting at the high end moving up from the midpoint. We had some weather disruption in early July, particularly in August the first nine days, we had irregular operations driving that.

And we also in the quarter made a decision to reward our employees with travel passes, much deserved for the hard work and dedication they deliver – to deliver that industry-leading performance, and that has about 0.5 point impact. So we expect to see quarter to be up 2.5% year-over-year as it relates non-fuel, excluding the impact from the tech outage and we're benefiting as it relates to non-op, we exited. So back to clear half our position related to that now benefit lower non-op and we continue to see benefit – from interest expense. So the underlying drivers are quite good. We're pleased with the performance of the business in the quarter. When you couple that with the first half of the year and the industry leading position we had delivering \$2.4 billion of earnings. And in that period of time that really puts us in a good position year-to-date, still early as it relates to fourth quarter. We'll give you a more detailed update as we get to earnings. But with that demand backdrop that Glen talked about, where we're sitting with fuel favorability, feel really good about the year.

And this morning, we reaffirmed that we'd be within the \$6 to \$7 a share with and without the impacts of the tech outage. So that industry-leading position has also allowed us to generate a lot of cash that's back in the company. We are very pleased this quarter to get the upgrade from Fitch that puts us in investment grade. So continuing to strengthen financial foundation of the company.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it. That's great to hear. Maybe just to start with the tech outage, obviously kind of a one-time event, but any learnings from that? I think, investors want to make sure that there's not going to be lingering impact spent through multiple quarters there.

Daniel C. Janki

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

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Yeah, that was as I mentioned, that was a tough five days for our customers in our teams. The teams have gone back and really like any event, whether it's winter season, summer season, an event like this, you go back and

you do a hard look and reflection in regards to where you can get better things that you can do differently. There's definitely a set of learnings related to all elements, people, process, policy...

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Daniel C. Janki

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

... as it related to technology. No change, I mean, we've been investing billions in technology since 2016 and on the strong beat to modernize that we have over 90% of our applications in a cloud. We're going to complete that journey by the end of the year. So no change as it relates to investment around that. We will prioritize differently like we do any quarter and any year, especially as we go through the fall here, we'll take those learnings and think about how do we prioritize as it relates to applications and improvements and things that we want to do from a technology perspective. But the annual CapEx, OpEx related to technology will be very consistent going forward.

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Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it. And on the commercial side, kind of NPS total scores, bookings have all kind of come back to normal after that event.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

Absolutely.

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Daniel C. Janki

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

Yes.

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Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it. So just kind of moving along kind of on the demand side, obviously, kind of a lot of focus on the consumer out there and so far, travel demand has been extremely resilient and appears that is still the case. Any further color you can share with us kind of what are you seeing in terms of travel intent especially on the premium end, the corporate side, kind of what would you say to people who are concerned that consumer may be slowing?

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

Well I think everybody knows that we have an affluent consumer at Delta, generally speaking. And our consumer is strong. Our consumer is very strong. And demand for premium products continues to outpace demand for main cabin products. So that's what we've seen all year long. That's what we've seen in a multi-year journey and that's what we're continuing to see as we move forward here, is that, premium products are driving unit revenue improvements. As far as the subcategories, business travel is quite strong on a year-over-year basis, up high single-digits as well as double-digits. And that appears as though it's accelerating as we head into the fall. So excited about business travel with the continued return of corporate travel. Of course, business travel in totality is already way above where it was pre-pandemic levels. But managed corporate travel has been a laggard but is

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really approaching well is at 2019 levels and now going beyond that so enthusiastic about that, enthusiastic about our continued products that we're putting in place to make our premium products have more of a moat. And I think, yeah, yesterday we had the opportunity to tour the new LAX Club, the Delta One Club in LAX. And I think for customers in New York, how many of you are here from New York? Raise your hand. Hopefully you've had the opportunity to visit the Delta One lounge if you haven't yet. I highly recommend doing that. It's an incredible lounge, I think.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Yes, I was there on the way over here and it was absolutely incredible. I will validate that really objectively.

Glen William Hauenstein

President, Delta Air Lines, Inc.

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And when you think about building premium products that are moats, I think you have to think about what the experience will be on JFK-LA for us and for our customers. So in JFK, which is, by the way, the largest revenue market in the United States. So if you think about JFK, most of the pieces are there. At the end of October, we will be opening the dedicated security line just for Delta One customers. So never we walk right through the airport. You won't have to worry about being early to the airport from security purpose. And then when you get to L.A., it's the same thing. It's this dedicated security line for – dedicated check-in, dedicated security lines and into the Delta One lounge, which of course features fine dining on premises and then experience on to the airplanes, which are mostly wide-bodies. And then free Wi-Fi and a real experience that we think sets us apart from all the competition in the most competitive markets in the country.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Understood. I want to follow up on your comments on corporate travel. What have your recent corporate surveys been saying kind of? So, you did mention that total business is well above pre-pandemic levels, managed corporate is there as well. What is the future of corporate travel both managed and non-managed? Kind of where – how big do you think that can get?

Glen William Hauenstein

President, Delta Air Lines, Inc.

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Well, the recent survey, which we talked about on the last call, I think it was 80 some odd percent of customers expected to maintain or increase their spend. That wasn't quite a record, but it was much higher than the norm. So, we expect continued demand strength through the fall. We also have two exogenous things that occurred last year. One is the writers' strike, of course, which is from May through November. And then, next week we will start to lap the auto strike. And of course, having a hub in Detroit that was pretty impactful to us there. So we've got some good events in our corner as we head into the fall. But demand seems to be continuing to improve.

And I think what we've decided and we talked a little bit about this yesterday for a few minutes is that we want to attach ourselves not only to the corporation and not only to the travel management company, but we really want to work on that relationship with the end consumer. Because in the end, the end consumer is the one who really chooses what flight they want to be in and what airline they want to be on. And historically, our sales teams were geared to just make sure we had the right agreements with the corporation and we had the right agreements with their travel management company to ensure that Delta was in the mix.

I think moving forward, we realize that loyalty resides more at the personal level than at the corporate level. So how – when you're flying for corporate, do we offer your products and services that make you want to fly us not only when you're on your corporate, but when you're on your leisure. Because when we look back at who the customers are on our airplanes, when you're honest for corporate, your probability of being on us for leisure is extremely high. And there's been a convergence with the premium products of what corporate fares are and what high-end leisure fares are, and the people who are buying the higher-end leisure fees, tend to be the people who are buying the corporate fares. So there's a synergy, and getting that synergy to work better for Delta and better for you is something we're very, very focused on and ensuring that it's not only B2B, but it's B2B2C.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

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Understood.

Daniel C. Janki

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

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Ravi, look at your event. It's great to see so many people have robust. It is great – you put on a great product and a great location. But attendance wise...

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

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Thank you. It's a great point to shout out that attendance is up 25%.

Daniel C. Janki

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

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25%.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

This was not coordinated. A couple of questions on international, if I may. So you mentioned that obviously the Olympics were an air pocket, as they usually are, but things have normalized since. How do we kind of think about that in detailed terms, do people bias going to other parts of Europe during the Olympics and/or – is there pent-up demand on both sides of it kind of? How do you think about that overall Transatlantic travel on both sides of it?

Glen William Hauenstein

President, Delta Air Lines, Inc.

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Well, sure, some people who are going to go to Paris as a first choice decided to go elsewhere. Some people just put off the trip. And so it's always a combination of what actually occurred. So we had high teens year-over-year decreases in unit revenues to Paris, where it disproportionately impacted because, of course, we're partners with Air France and we fly from the US to a lot of places in the United States, I mean, from Paris to the US. So we were disproportionately impacted there and I'm sure when they decided to go elsewhere, some came on us, some went out of their carriers, but it was really the impact for June and July and then as soon as the Olympics were over in August, it was like turning a light switch on and everything went back to the trends that we had pre-Olympics and that of course moved the Transatlantic back into positive territory, which is great for us to see, as we head into September, October and November, which are historically shoulder seasons, but have continued to strengthen.

I think from somebody, who travels a lot to Europe, September and October, my favorite times to go and I think people who don't have the requirements of being out of school or having vacation are discovering that September and October are amazing times in Europe and US demand, we think this year is going to be at record highs. So we had everybody knows the amazing year we had last year in the Transatlantic and I think people were doubtful, we could replicate that. And I think had we not had the Olympics, it would have been even better on slightly more capacity. And as we sit here planning next summer, we are going to – we're anticipating another really robust demand set from US to Europe.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it. I'm just going to add a higher level, coming right out of the pandemic obviously, we massively over indexed to domestic because international was closed and then it felt like the pendulum swung in the other direction in the last kind of 12 months, 18 months or so. Do you think it swings back toward some kind of balance between domestic, international like 2025, 2026 and of what the right equilibrium compared to where we are right now?

Glen William Hauenstein

President, Delta Air Lines, Inc.

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I think the US consumer and it's really comprised of the younger people who want to see Europe on their own and a lot to do with the baby boomers retiring and this incredible disposable income. If you look at the people, who are sitting in the Delta One product right now on the Transatlantic, the average age is probably 50, 55. And that's skewed right? There are people in their 30s and 40s, but there are people in their 60s and 70s. And I think that demand from this retirement is going to carry us really, really well through the next few years here as the baby boomers continue to retire. So I think we've got a lot of things going on in Europe. We've got business which has been strong and continuing to grow in the Transatlantic as well, with maybe the exception of Germany.

So a strong core business demand, real high demand for the premium products. And then talk about Delta Premium Select. This was the first summer we really had ubiquity in Delta Premium Select and introducing that cabin has been highly accretive to our Transatlantic. But I think, as we continue that product's really only one and a half, two years old as we head out – into our third season there – we'll do even better with that product as people understand it and people enjoy it and we've been working to improve it. We listen to the feedback of our customers in year one and they saw places that we needed to add value and we did in this past year and the response has been very positive.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Let's shift gears a little bit and talk about obviously capacity across the industry. This is not necessarily a Delta issue, but it is an industry issue that and there may be some indirect influence on you guys as well. You said that you are seeing capacity start to come out. How far towards where we should be do you think we are, kind of how much more work do you think that the industry need to do to normalize demand versus supply going into the back half of the year?

Glen William Hauenstein

President, Delta Air Lines, Inc.

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I think we're there. I think when the – when you have fuel heading down and you have revenues heading up, that's a pretty good indication that the airline industry is in a good spot.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Right. So to that effect, right, I was always telling kind of both management teams and investors kind of coming out of 2Q earnings that if your RASM is not inflecting positive, you don't have – you still have more capacity to cut, right. So the fact that you're seeing RASM inflect and virtually every other airline that's put out an update in the last few days has said they're seeing that, that is the kind of smoking gun, if you will, that we are seeing.

Daniel C. Janki

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

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The good news.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

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The good news. Yes, yes, the good.

Daniel C. Janki

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

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With a good, consistent demand backdrop. And you see that in the TSA throughput recently through the year.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And so I think historically or maybe in the last couple of years, I think the industry has said that there's a pretty strong correlation between RASM and jet fuel. Does that kind of necessarily have to hold in both ways or how do you think about that – as jet fuel starts to maybe come down and hopefully stays down? Does that put pressure on RASM in the coming quarters or do you think that, just given other cost inflation, like you guys can hold on to some pricing here?

Daniel C. Janki

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

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I think the industry, you can see, needs to take action, right. Overall, and I think we were talking about a little bit, over dinner last night with the idea that you're seeing the industry take that action related to capacity regardless of where fuel is, right. They have to get revenue up, unit revenue up to deal with the step function change that we've seen in cost over the last couple of years on non-fuel and you're seeing those actions take place. I think lower fuel just helps move you forward on that journey. But across the industry, you've seen the carriers take the action.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it.

Glen William Hauenstein

President, Delta Air Lines, Inc.

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If you had said fuel is going to be a multi-year low, would that be a good time for the industry to take a fair increase? Historically, you'd say, no. That just happened.

Daniel C. Janki

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

Yeah.

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Glen William Hauenstein

President, Delta Air Lines, Inc.

So I think there's evidence there that people are trying to cover their non-fuel costs, which, as you know, half the industry isn't making any profits and the only way for them to make profits is to grow revenue.

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Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Absolutely. I mean, structurally, that's a good sign for industry, earnings. Let's talk about premium. I know you addressed this a little bit kind of been talking about the Delta One Lounge and such. But specifically, obviously, you would consider yourself to be the premium leader with good reason. But the rest of the industry is turned to premium as you're now seeing ultra-low cost carriers with a business class equivalent product. What does this mean for Delta? Kind of, there's a fact that the premium tide is rising across the industry, kind of lift your boat as well. Does it feel like others are catching up? Kind of what's the opportunity here?

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

Well, I just say to truly produce premium, it is not cheap. And so if these carriers want to produce premium, which many of them are indicating they do, that's going to come at a cost and the cost is going to be higher non-fuel unit cost to produce that product and largely lower density so that you can get people more room that their premium product requires. On top of that, you've got club access, you've got all these things and it's just a – it's a monumental task to think how a carrier that has been really about unbundled barebones product, transition themselves into having premium products and services without adding an incredible amount of cost to their profile.

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So I think it's good. I think that within each category there are people who want better than average and I think it's going to be a great event that the industry is finally realizing that quality matters and the more we can produce a product that people want to buy as an industry, the better that's going to be for our industry and so I'm very bullish on everybody getting on the bandwagon. I think, you'll see different products in the end, but our choice is good.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Right. And within your planes itself and what is your ideal mix of first-class versus premium economy versus main cabin?

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Daniel C. Janki

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

Well, we're working on that. Stay tuned for our Investor Day...

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Glen William Hauenstein

President, Delta Air Lines, Inc.

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A little plug for November, but I think we're going to have some interesting announcements now that we have many years – in the beginning when we went started on this journey, we didn't sell the premium products. We gave them away.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

And that caused the biggest money losing cabin to be the premium cabins and after years of re-engineering and years of changing policies and moving distribution, improving distribution, now those are the most profitable cabins on the airplane. And we always said that, our first line of defense was to maximize pricing, maximize but then we always said at the end, we could always change the low, but if demand exceeds supply.

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Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

And I think we're getting to their point with these products being five, six, seven years old and knowing that we still have more channels to open up where people can actually see what they're buying, better improve the distribution experience that we see demand for these products continuing to accelerate in the coming years.

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Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Understood. A couple of questions on the loyalty side. Obviously, SkyMiles is one of, if not the strongest loyalty program in the industry. How do you continue to monetize that kind of what are the opportunities there, kind of at both ends of the age spectrum, if you will.

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Daniel C. Janki

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

Glen, yeah.

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Glen William Hauenstein

President, Delta Air Lines, Inc.

Well, I think one of the things we're most excited about is the growth in SkyMiles, because if you think about SkyMiles as a barometer of who you're bringing into your net, your travel net, if you will, we've never had more people coming online and we've never had a more youthful demographic than we have today. So we've been growing the demographics and we've been making them younger. And I think that's really important when you think about how the lifecycle of a traveler is in the beginning, you're probably not going to buy the premium cards because you just can't afford them. You're probably not going to fly in Delta One because you can't afford it. So we want to be sure that we're best in every class. So if you're starting out your journey and you just got out of college and money is important, or you've just got out of school and you're starting a trade and money is

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important that we want to have the best products and services and with the free Wi-Fi and the free snacks and I think we have best-in-class in that category.

And so that allows us to bring in young people. Then the question is, how do you monetize that over time? Because as people get older and older and accumulate more wealth, their tastes change. Just like we were talking about yesterday, my first car is a lot worse than the car I drive today. And I think that's the same thing for air travel. Your first experience is on your own. After your parents stop buying, your tickets are going to be probably your lowest, unless you're a trust fund baby, which I wish I was, but I can't. I can't go back and change that. So now you're in our program and now we have to continue to get you to do the things we need to do to bring you along the life cycle of our journey. And that includes downloading the app. When you download the app here your Delta experience, you get a 20 point pop in your NPS score just by downloading the app. So we've got to get them download the app. We've got to get them to join the frequent flyer program.

And then, we've got to get them over time to buy the card that's right for them and have different cards with different access and different perks for different people. And so I think that's really been the success of the American Express card. The main source of that card is people using Delta who already are SkyMiles members and the fact that we have this giant young wave who has not entered that period of their travel where they're attaching at a higher rate and with higher products, including credit cards, that's exciting for us because we're talking about a pool of people that is multiples of the pools that we had 5 years or 10 years ago. And so we think that's going to be a really on our journey to \$10 billion we think that's going to be one of the key drivers.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Free Wi-Fi for the win that was a really good move there. But we did hear a few weeks ago the DoT is looking at loyalty programs across the industry. Can you just talk about your conversations with them, kind of what may have precipitated this in terms of where we go from here?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

I would say maybe we haven't had any conversations with them over that.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Okay.

Glen William Hauenstein

President, Delta Air Lines, Inc.

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So this was we kind of got this letter and we thought, what? Yeah. This is a surprise. But these are giveaway programs and they're very popular and so we're looking forward to it. These are the most popular loyalty programs of any industry and people are joining at record numbers. And so I'm sure, we'll figure out how to best comply with their request. But I think it's hard to say nobody paid anything to get this benefit how are you going to.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Glen William Hauenstein

President, Delta Air Lines, Inc.

So we'll see.

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Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

That is interesting. Any questions in the room?

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Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Since the global IT outage like, have you seen any slowdown in near-term bookings or any impact on bookings for 4Q?

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Glen William Hauenstein

President, Delta Air Lines, Inc.

We saw for the first week or two it was pretty short. We track our revenues versus the industry and through surrogates data and we thought we saw what was it.

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Daniel C. Janki

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

Just really in the July period, once we kind of cleared to August and...

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Glen William Hauenstein

President, Delta Air Lines, Inc.

August, it was it was a very nominal number for August. And in September, I think we normally run a premium to the industry, which we ran in August. So normally it's 2.5 to 3 points. We ran 2.5 point load factor premium to the industry in August. And so we would say mostly that's closed during the month. So no lingering.

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Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

No lingering, yeah. Got it. So maybe the few minutes you have left this to bring us home, Glen, Dan, I think obviously very, very good story, very strong brand kind of especially with the loyalty program going up almost annually, like revenues, demand looks really good. What do you think the market's missing? Kind of sell side analyst kind of. I keep getting off all the time. I ask the question all the time. If you were to send a message out there to investors, what do you think the market's missing on the stock?

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Daniel C. Janki

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

I'll start. It's – when you really reflect back on the 15 to 20 years of change and the accumulative impact that that's had on the strength and really the durability of the business model. And it is the company to be able to produce double digit margins returns that will be approaching here mid-teens and that provides a consistency of cash flow that allows us to invest back in the company from about 8%, 9%, 10% of revenue consistently and also throw off \$3 billion plus of annual free cash flow that allows you to return capital via strengthen the balance sheet and debt reduction back to investors consistently with a dividend yield.

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Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Daniel C. Janki

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

And when you put all that together that's quite powerful in your earnings, returns on capital that are mid teens and the upper half of the S&P 500. And so it's been a 15 to 20 year plus journey. But and we still have a lot of opportunity in front of us and as Glen mentioned, we look forward to share that when we get to November. But we still got a long ways to go.

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Glen William Hauenstein

President, Delta Air Lines, Inc.

And I would just add to that, I think we gave guidance at the beginning of the year, which was \$6 to \$7 a share. A lot always happens in a year you don't know what's going to happen, right. And we certainly didn't have CrowdStrike. But if you isolate CrowdStrike out of it, we would have come in at the top half of that. We went through the period where the industry had too much domestic capacity producing solid returns.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

The industry had to rationalize around that. So now we're heading into a better back half of the year. And I think that's one of the things that we appreciate. We didn't take our targets down or absent of -- our profits this year will be roughly the same...

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

...as they were last year. And to do that without CrowdStrike embedded in a \$500 million or \$380 million...

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

, I think it shows that this is a more durable model and I think that's one of the things that we're really proud of, is creating a model that's more durable and I think one of the – you have to go through a different litmus test. And I

A

think the litmus test we went through this summer is can you still make good returns while the industry has too much capacity at the bottom end. And you'd have to put a big check mark in that column.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

And I think that's underappreciated in the long run.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it.

Q

Daniel C. Janki

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

I think comments are sending tremors.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

No, I'm saying -- I was going to make a Delta's on solid ground versus shaky ground joke. Yeah. But very quickly, kind of does it encourage you to I mean, the industry scored a little bit of an own goal in 2Q with this capacity stuff. But the response to that encourage you to the fact that everyone owned up and.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

And I think we mentioned that on the on the call because in the second quarter we said we see -- we saw the industry acting more responsibly with capacity as we headed into the third quarter and I think that's a big driver in the ability not only we were profitable through the entire year, but some of these other carriers, we're now we're not profitable being able to say they're underserved.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Understood. I think we're just out of time. Glen, Dan, Julie, thanks so much for the time. May I recommend the Delta One Lounge in JFK at your next Investor Day venue is -- I think, it's big enough to host all of us.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Absolutely. I would just say not only do we have L.A. and but later this year, Boston will also open. So anybody from Boston, a great experience there. And then early next year, Seattle will also open. So we've got a slew of really great products and services coming and come back to Investor Day we'll tell you about a lot more.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Very good. Thank you so much. Thank you.

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