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Delta Air Lines, Inc. (DAL)

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MANAGEMENT DISCUSSION SECTION

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Great. So kicking off the airlines content for today. We are very happy to welcome back to Laguna Delta Air Lines and friends of Laguna, Glen Hauenstein, President; Dan Janki, EVP and CFO; and Julie Stewart, VP of IR and Corporate Development.

Team, thanks so much for being here. Julie, over to you.

Julie Stewart

Vice President-Investor Relations & Corporate Development, Delta Air Lines, Inc.

Yeah. So I'll just do a quick disclaimer here. As a reminder, today's presentation contains forward-looking statements that represent our expectations about future events. All forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that may cause these differences can be found in our SEC filings.

So, Ravi, thank you for having us. This is always one of the highlights of the year and to get us started now, I hand it over to Glen for a couple of remarks.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Perfect, Glen.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Yeah, Ravi, thanks again for having us. What a nice conference. And I hear it's a record attendances.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

It is.

Glen William Hauenstein

President, Delta Air Lines, Inc.

And I think record attendance means probably more people flew here on business.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Correct. We try our best to make that.

Glen William Hauenstein

President, Delta Air Lines, Inc.

So...

Daniel C. Janki

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

We like that.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Yeah. We like that. And just maybe start with the current environment that's kind of in line with what we're seeing. We're seeing very strong domestic corporate demand into the fall, which we're very excited about. We actually had our highest post-pandemic corporate sales number for any day in any week in this September. So looking like the fall is going to be quite solid in terms of the booking demand for corporate as well as high yield leisure. Both of those segments are doing incredibly well.

A little bit of backing up now into the summer and what this quarter's about and how we see the fourth quarter maybe coming into focus is that domestic inflected into positive territory early in the quarter, which was great. And we see that continuing to happen in – through the end of the year. So we can put probably a checkmark in that that we've seen the industry rationalize its capacity. We've seen and then we see the corresponding increases in demand that you see in the TSA numbers. And we've seen a lot more pricing power as we head into the fall. So that's a great environment for us to be in domestically.

Internationally, I think we've got a couple of different things going on. We have noticed over the past few years and I think we've talked about it in other conferences and calls is that July and August have not been the peak months that they once were in terms of high end leisure into Europe. And so that's an opportunity for us as well as a challenge for this year. It was our worst performing entity in the third quarter, although very profitable still. But we were always creating that church for Easter Sunday for June, July, August, and putting all we had in terms of the widebodies out into the marketplace for those peak months. So this allows us, as we move forward to spread that out a little bit more.

As you think about it, October has become actually a peak month and we're heading in a transition from where August is less peaky to October being peaky. So you'll see a big sequential improvement in transatlantic as you

move out of the summer and into the shoulder – what's historically been the shoulder season. So opportunity for us to again tailor capacity to demand and future summer schedule seasons. And so we're excited about that. We're a bit disappointed in terms of the transatlantic results. But even digging a little bit further into those, it was all in main cabin, premium products across the board continuing to perform. So within every entity, premium is leading in terms of unit revenues.

Loyalty, amazing story continues with our loyalty program. This will be a record remuneration year for us and we have spend up double digits in the quarter. And with August being the strongest month within the quarter. So we see our cohort, which is tends to be at the upper end really in a strong financial position as we move into the fall. And then just optimistic about the improving trends across the other international entities. I think Latin and Pacific have been less challenged than the transatlantic through the summer and we see that continuing to build into the fall. So shifting our gears from summer now in the rearview mirror and to looking at fall, we're really optimistic and we're very encouraged about all the signs we're seeing that the industry is moving, continuing to move in the right direction. Capacity rationalization domestically has occurred and we see trends improving as we head out of the summer.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it. That is a very helpful update. And you guys put out an update this morning as well. So lots of follow ups for you. But I did want to start with a few high level questions. So just to kind of set the stage, maybe, Dan, I'll start it with you. It's...

Glen William Hauenstein

President, Delta Air Lines, Inc.

Oh, I think Dan have some comments.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Well, [indiscernible] (00:04:54).

Daniel C. Janki

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

Well, I'll add some. Absolutely on that. No, I share Glen's view on the constructive nature of the industry and what we're seeing commercially from demand and from a supply perspective. When you step back and look at us operationally and financially, we continue to lead the industry and the operational performance of the team year-to-date, I want to thank the Delta team for that, that performance and leading our network peers related to that. And that's through a pretty challenging environment. And if you've looked at third quarter and the operating stats, they continue to extend that leadership position with that. So we've continued to make that investment. That's a brand promise for us in that operational performance.

With that, we do see in the third quarter that our non-fuel costs will be flat to slightly up versus flat to down that we initially guided. We're on track for the year of low single digit, and I think that's an important anchor as you continue to see that performance that we committed to at the beginning of the year, even with the capacity reductions in the back half of the year. Financially, we're on track for the third quarter and total year earnings and that's underpinned by a franchise that's delivering double-digit margins, double-digit returns, and we'll generate free cash flow of \$3 billion to \$4 billion within the long-term framework that we laid out. So, think of the year as we

talked about, really that it's unfolded differently than what we thought, but it's really demonstrated Delta's differentiation and durability.

So in a year where the industry is going to be down significantly on earnings, we're going to be right around that \$5 billion mark. And with that – that's pretty much on par with last year. And we're going to continue that investment back in the business. So, capital allocation, focus on reinvesting back into the franchise to strengthen those competitive positions, continue to focus on our number one priority of strengthening the investment grade balance sheet, paying down debt. It was nice again this quarter to see another marker Fitch out taking us from stable to positive, another sign that us continuing to make progress on that and differentiating that way. So, overall different year, but a very good year for us.

QUESTION AND ANSWER SECTION

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Got it. Maybe I'll just follow up right there then. So obviously you guys took your revenue guide up to the high end of the range...

Daniel C. Janki

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

A

Yes.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

...but you left your EPS unchanged. Kind of – is that cost – the change there the reason why or can you just walk us down the same?

Daniel C. Janki

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

A

No, I think we wanted – we knew that in this environment that the real focus was on the inflection on the demand side.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Yes.

Daniel C. Janki

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

A

So we wanted to make sure that we were clear on what we were seeing on that, that's the rationale in regards around adjusting that number. We wanted to be really clear in regards to the trends that we were seeing.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Sounds good. So maybe kind of exactly to your point, the focus, like virtually all my incoming from the investors has been on the demand side and where are we going here and then the state of the consumer, right? And it has been a very strange year for the consumer this year. So, kind of – so you gave us all of the symptoms, if you will, or the evidence you're seeing, but if you just kind of went back to the route here, what do you think the state of the consumer looks like right now relative to what we saw in the beginning of the year?

Daniel C. Janki

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

A

The consumer is steadily improving. It was one of those years where they started with a lot of confidence. We saw the step-back in late spring and you saw that erosion in both consumer and corporate confidence. You saw that translate into TSA volumes going from positive to negative 1% in the May, June timeframe. And then you've seen the steady improvement in both the consumer and the corporate confidence as we move through the mid-summer and into the fall. And as Glen talked about the outlook as we see it in the fourth quarter, and you're seeing that in TSA volumes that are inflected to 1% now – 1% to 2% and the underpinning. And we also feel good about the Delta consumer.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

I think that's the difference, is there's a lot of consternation, I think, at the bottom end for consumer who's lost income relative to inflation, has lost income in terms of as student loans come on, as interest rates reset. And they've been under a lot of stress. And I think you've seen that manifest itself in the airline business, that the companies that cater to that cohort are not doing as well as the companies that cater to a higher income bracket. And we're at the very top, we believe, of the income bracket. So, our average consumer is well over \$100,000 a year. So we're at the top end. And that seems to be good. And I think one of the biggest indications we have of how strong that is, is continuing to break records in terms of card spend.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it, which is actually a great segment to my next question, which is like one of the biggest debates in the space since the pandemic is whether this time is really different with a bunch of the trends you've seen so far, right? So – and you just spoke about the difference between the Delta consumer and the broader consumer. So, for airlines, what in your view, five years removed from the pandemic is unequivocally structurally different versus what is still in debate?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Do you want to take a shot?

Daniel C. Janki

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

A

Why don't you start first? You've seen the decade plus here.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

I think what's incredible is how we've been able to diversify our revenue streams and not be reliant on the coach products. And this really goes probably even before pre-pandemic as we were on that path before, but it

accelerated through the pandemic. And now with well over 50% of our revenue is not tied to the main cabin, tied to premium products and services, ancillary revenues, card spend, so we've got a diverse revenue stream now that we never had. And I'm speaking for Delta here, not the industry. And I think that's served us well. I think we've wanted to create something that's differentiated and durable, and we've worked very hard on reengineering the entire company to be focused on that. And I think it's delivering and I think it's unequivocally delivering and we're able to get through what I consider to be a challenging period where industry capacity was up and TSA employments were down.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

Really with still excellent profit numbers. So I think that's differentiated, that's durable and that is really a proof point of all the work we've done to try and reengineer the way airlines sell tickets.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it. Dan?

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

Do you want to...

A

Daniel C. Janki

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

No, I think that is well said. And I think you saw a lot of the themes when we talked last November at our Investor Day, right? Yes. It's – I mean, as Glen said about the last 5 years, but it's really the last 10 to 15 years of the strategy and that consistent investment and execution for that period of time that has differentiated Delta.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it. So the next step of that is, what does this mean for the industry? And kind of does the industry look materially different 10, 15 years from now than it does today, right? So in your view, if you just extrapolate these trends to their natural destination, what does the industry look like in 10 or 15 years and not necessarily kind of share shift through consolidation, but share shift through attrition or just share changes kind of – do we see the same structure that we have right now?

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

Oh, it's hard to believe over the long-term if you're not producing your cost of capital that you can sustain.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

And I think we've seen that in, particularly right now, it's pronounced in the bottom end that's very dependent on main cabin. And so I think you're watching in real time a change.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Yes.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

I think if you forward back to these were carriers that were growing quite quickly and they were marginally profitable and now unable to sustain that. And then I think the question as well, do people backfill that capacity? And I would suggest to you that if it's not working at their cost structure, it's not going to work at anybody's cost structure. So a lot of this will probably be out for a prolonged period of time. And so I think that it's changing and will continue to change. Do I have a crystal ball where I know what it's exactly going to look like? No. I do know that those carriers that are not earning their cost of capital and have not earned it for years and years and years are going to be much more challenged moving forward than those that are.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Understood. So, maybe if we kind of just shift to current trends and kind of maybe follow up on your opening remarks here. So can you just give us a little bit more of a detailed color on what you're seeing, especially in domestic cabin, because that's been the big focus area all year, especially the forward booking curve that you're seeing through holiday season kind of – what does that look like from where you're sitting?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Well, again, now that we're less reliant on main cabin, we don't need main cabin to be positive, to post positive returns. And indeed, that's what we're seeing now. The main cabin is still negative.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Okay.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

And it's being driven by the premium products and services in the market that is overcoming the small negative numbers in the main cabin. I say that because I think it's huge upside at some point that has to rationalize and so that's still to come on our forward-looking view is there will be rationalization of main cabin capacity. You're seeing that real time. I believe it has to continue. And that should over time improve the main cabin results.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Yes.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

And so if you can put that together with the continuing acceleration of premium, you get a very nice future that we're very excited about.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Moving to corporate, I think earlier this year you described corporate travel as choppy. Your update like a few minutes ago it sounded much better than that. So what do you think is driving that transition kind of is there a particular end markets where – what innings question, but what inning are we in that corporate recovery?

Daniel C. Janki

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

A

Well, I think you're seeing the strength in the segments that we've talked about banking, financial service, technology leading the way. It's still choppy in areas like industrials, manufacturing, those areas. But there's real momentum and strength there. And you're seeing on both volume and yield. So very constructive in moving forward and quite optimistic about it as we move into the fall here.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

And this is both domestic and international on the corporate side?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

I'd say it's more domestic than it is international.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Yeah, okay.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

International is positive, but it's not as robust as domestic.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And you guys do these kind of industry standard, kind of corporate surveys, which I don't know if you'll do before the earnings call, but what are these corporates telling you? Are they telling you they're actually optimistic about the future, which would be a slightly different message than what you've heard Laguna yesterday? But kind of – or does it feel like this is sustainable going into 2026 or is it still pretty choppy?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

I think one of the things you have to recognize is we're still not back to corporate at pre-pandemic levels, right.

Daniel C. Janki

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

Yeah.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Right.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

So everything else is far ahead in that space. But it warms my heart to know that this is a record attendance at conferences like this.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

People are back in the office. The companies – the country's open for business. And I think a lot of the hesitation that occurred when tariffs were first introduced is starting to unwind. And so I think we could see a very, very solid performance moving forward and into 2026 and our corporates are always telling us they're going to spend more. It's that how much are they going to spend? And it's near all-time record highs we'll see in this next survey. But the previous survey was near an all-time record high in terms of people who thought they were going to spend more moving forward.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it. Hopefully you guys start to call out the Laguna conferences as a positive seasonality event on your 3Q calls.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

Absolutely.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

So maybe just shifting gears a little bit and talking about premium. Premium revenues have outpaced main cabin revenues, as you pointed out, kind of ever since the pandemic. How is that trending or – are you starting to see maybe some diminishing returns there and kind of what do you think that looks like for the end of the year?

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

We are not seeing diminishing returns there. As a matter of fact, we are increasing the percentage of seats that we have. So next year will be a record number of premium seats in 2026 and actually main cabin domestic will be

A

flat to slightly down. So we're continuing to invest there. Every one of the returns is continuing to accelerate. And so, we see no stopping of that. And as you think of ways people can get there in different combinations, whether or not it's your corporation and I'm very excited that Concur, for example, finally has put the premium products on display to the agencies. It's a pretty new occurrence. We've been working with them for years on. And as soon as those products are displayed in the right way, we see a 30-point increase in their consumption. So, I think we've talked about opening the aperture over time to make premium products more accessible. And I think we've done a great job, but we're still, I'd say, in the mid innings of making sure that the whole industry is focused on displaying what exactly the product is, which is very different than the way we started, which was a commodity grid.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes. Got it. So, obviously, you pointed out that main cabin still is somewhat weak. Premium is very strong. The big kind of thesis for Delta is you're kind of upgrading people – not upgrading, but getting people to move up the cabin, right? Does this kind of stall that a little bit or does it actually accelerate because the people who can jump from the back are making that leap? Kind of how do we think about the shift in trends between the front and the back of the plane?

Glen William Hauenstein

President, Delta Air Lines, Inc.

Well, I'd say, we're not done making premium products more accessible. And this fall, we'll be announcing tests of different products and services so that we can ascribe value to fare paid. And I think if you go back in the industry 20 years ago, the problem with it was that there was no – you paid a higher fare and you got no value, right? So, when you were going to a cocktail party 20 years ago, you would say, how much did you pay to go to Florida this year, people would say \$79 and they'd be proud of it. And I think that's because the industry didn't put value in paying more than \$79. And you've seen those conversations shift to I fly Delta and I fly these classes of service. And as we continue to bring more classes of service, more ways to get there, this is an evolution, and it's going to – it's taken – we're mid-innings in this.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Glen William Hauenstein

President, Delta Air Lines, Inc.

And we have a lot to go to continue to provide value to customers for higher fares.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it.

Daniel C. Janki

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

I think that's allowing in the demographics also, right? They're engaging earlier in the loyalty programs, engaging earlier with Amex and the card that's skewing younger at times and in certain elements and that's providing the fuel for that product.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it. That was literally my next question, which is premium is not just on the plane itself, it's also kind of on the way to the plane and off the plane. So, is that business somewhat countercyclical even and kind of what are the trends you're seeing with loyalty, with co-brand, with kind of demand for some of the other kind of non-aircraft premium services?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Well, I think what's interesting in our own loyalty program, in terms of card acquisitions, we've seen a really robust demand for the premium cards, similar to the airline. The more premium it is, the more consumers seem to want it. And so, we've had really great successes with our high end cards and working now to reengineer to inject value into the lower end cards so that people can life cycle through those. But right now, most of the acquisitions in terms of the spend are coming at the very top end.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Moving to capacity. So, you like the rest of the industry, obviously have adjusted your capacity for the back half of the year. I don't think you're quite done with fourth quarter just yet. So can you just talk about kind of the changes you've made so far, what you're looking ahead to and kind of what might potentially happen for the fourth quarter?

Daniel C. Janki

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

A

I think we – in the back half, we've talked about it. We've adjusted capacity where the weakness in demand has been. So, it's in the off-peak, it's in the shoulder periods and where we can in main cabin, we've made those adjustments. For 2026, it's still early. We're in the planning process, but the planning philosophy is always to ensure that capacity is aligned with demand and the demand set and ensure that that's aligned.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Yeah, I will just say, usually 1Q looks a lot like 4Q.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Yes. Well, let's hope this 4Q doesn't look like 1Q. But are you happy with what you're seeing from the industry so far or do you think others still need to...

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Well, I think that's really a question for the capital markets, do they do they really want to continue to invest in carriers that can't return their cost of capital. And at some point, if you can't do it, as difficult as it is to get rid of airplanes and get rid of people, if you can't justify retaining them, you have to get rid of them.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Daniel C. Janki

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

I mean we've said it earlier, when you've talked about the structure of the industry, right, you got the industry not earning its cost of capital, right? You got two carriers that are making over 100% of the industry profit and they're the only two that are above their cost of capital. We're fortunate Delta have double-digit return on capital, but I think the one thing that you go back to in time is always you have to have that supply in line with demand, and that's the only way to improve that return on capital.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it. Again I want to go back to your comments on Europe and the changing seasonality there. I think you alluded to this on your 2Q call as well, where you talked about less peaky peaks and kind of the shoulder periods kind of taking up some of that slack. What does this mean for long-term planning? Like you said kind of it does smooth it out and kind of make it easier for to manage the peaks as well. How do we think about international profitability between the summer and the fall? Not necessarily for this year, but just kind of going forward kind of given the dynamic?

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

Well, summer – peak summer has become less profitable relatively, and spring and fall have become more profitable. That's – airline networks planners dream that the seasons last longer. I mean you can rotate the airplanes easier and you don't have to create that peak of peak for Easter Sunday because a lot of those costs you carry for the whole year. So the number of pilots we have in any particular fleet is usually driven by the number of hours we're going to fly in July because that's the peak of the peaks or historically has been. And our ability to now smooth that out should give us better pilot utilization, for example, on a year round basis. And so that's the part – this isn't by design. This is, by the way, consumers are reacting to the realities of what they see.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

But it's a benefit. I think in the medium- and long-term to airlines.

A

Daniel C. Janki

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

Yeah.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it. Just to confirm the net impact of the less profitable peak and the more profitable...

Q

Daniel C. Janki

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

Better economics overall, when you...

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

So it's a net [indiscernible] (00:24:00) coming out of that.

Q

Daniel C. Janki

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

Yeah.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it. And just kind of tapping on all your years of experience, why is this an international only thing? Is it just because like Europe is fun in the fall? Kind of why is this is not showing up in domestic?

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

Well, I think they're very different consumers, right.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Okay.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

Is that – I think there's a lot of things that go on in August. First of all, in Europe, there is no business component...

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Sure.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

...in August, for example. You're competing for the hotels with the Europeans that are also off. And so the rates are much higher. And so that discourages some travel. So I think there's many factors in play here, but I think the net-net is that this is an interesting new development in the way we think about scheduling the transatlantic in particular.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it. Before I move on, any questions in the audience?

Q

Q

Can you talk a little bit about the kind of change in the consumer and the demographics that you guys are catering towards? I know you've had a lot more technology and you have like the younger consumer probably with a bigger wallet share. So just maybe some of the changes you've been seeing in that space and maybe premium in general, like what you're doing to attract a younger more like tech focused clients?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

I think we are always looking to attract a younger cohort, and we have a lot of programs in place that are specifically designed for that and trying to understand the life cycle of our consumer. And usually they don't start in the premium products, they start in coach and I think that's why it's very important for us to make sure that we have best in class products and services across the whole spectrum, not just at the top end, because we need you to fly us when you're young and that money is much more important and harder to come by, that we have the best products and services and fly to where you want to fly. You enroll in our programs. The average age for a Delta One customer is 61.

So when you think about how long it takes from when I start flying with Delta to when I'm actually buying those most premium products, there's a 30, 40-year cycle in there that you have to have value all across that spectrum and continuing to make sure that we're doing relevant things. And I think things like the Uber partnerships, I think those Starbucks partnerships, things that you can use these SkyMiles every day in transactions and other brands that you love and putting that together to have a comprehensive everyday experience.

Daniel C. Janki

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

A

I think you add that – those partnerships with the technology experience that you referenced, right, the onboard experience with free Wi-Fi, the interactive nature of it, when you start putting that together, you see that that draws the younger consumer in. And the joining of Sky – of members of SkyMiles members is younger as it relates to one signing up with free Wi-Fi and you're engaging them differently and earlier.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Glen, do you have that age 61 stat, what it was before the pandemic?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Oh, it's probably even older.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

It's coming down.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yeah.

Q

Daniel C. Janki

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

It's skewing down.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it. Any more question? Yes sir.

Q

Q

hey, I had a quick question. On main cabin, did your guidance or forward guidance for next year, do you contemplate much of an improvement in main cabin or the trends that you're seeing in main cabin are as you expected? And what we can assume was in the guidance?

Daniel C. Janki

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

When we talked last November when we were out from – in our investor framework, we talked a lot about the things that Delta controls, right. The opportunities that we have in front of us as it relates to growing earnings over time and a lot of that comes from the high value, high margin revenue activity that Glen talked about. He talks about the items that we have to drive efficiency from our infrastructure, from new aircrafts to the airport leverage that we get along with technology. And those are things that are in our control and we believe we can drive those forward both for margin growth and earnings growth for the airline. And then we've always said that if main cabin were to improve, that would only be in addition to that.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Any more questions? Maybe kind of piggybacking off of that, so obviously, today you pointed to the high end of your revenue range for the quarter. When you think of your full year EPS guide, kind of what are some of the puts and takes that you think get you to the high versus the low end of that range?

Q

Daniel C. Janki

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

I think on the high end, you'd have to say that – you'd have to see acceleration from demand from where we sit today.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Okay.

Q

Daniel C. Janki

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

A

That is really the real leverage point.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it. And obviously, it's opposite to the low end I'm sure.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Yeah.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Obviously, you guys have done a great job of generating free cash flow, \$3 billion to \$4 billion for 2025. Can you just remind us again what the capital allocation priorities are? Obviously, you guys are very opportunistic with launching a buyback earlier this year when the sector was selling off. So how do you think about tactically allocating capital between the different uses?

Daniel C. Janki

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

Yeah. Delta has got a long history in regards to the discipline and focus around capital allocation. About half of operating cash flow goes right back into reinvesting in the company and invest in the business around the key strategic priorities that we lay out and the consistency of that strategy...

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Daniel C. Janki

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

...investing in the brand, the aircraft, the airports, et cetera and that sets the foundation. So, that's first. Then with the free cash flow, the number one priority is strengthening the financial foundation through paying down debt. And you've seen us continuously every year chip away at that. We'll continue to do that. Taking our gross debt down to low teens and we believe leverage at 1 times and we feel over the next few years, we'll accomplish that. And then we've always had a track record of consistently returning capital to shareholders. We started that through the dividend a couple of years ago. We continue to grow that and you'll continue to see that as we go forward, maintaining that yield in line with the S&P 500.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it. Just kind of going back to the earlier comments about how you are seeing that it's not sustainable for airlines to not earn their cost of capital anymore. So it does feel like there's going to be this perpetual squeeze at the kind of that end of the industry, if you will. What does that mean for Delta, right? I don't know if that's – if you're just going to constantly keep seeing a squeeze in the low end, how does that translate into better returns for you guys? And maybe you kind of – maybe this is a margin question, right? So where do you see your margins going long term?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Well, I think in the long-term, all the sectors have to produce returns. And right now, you have the high end producing returns and you have the main cabin really essentially not producing returns that are acceptable. And so, that's got to write itself over time, which is I think the upside to our margin is that when all cabins are producing similar returns, you have a much more robust structure than we do today. And that allows the bottom end, I think, to create value and profitability. So, how do you get there from here? It's never a straight line, as you would think, but over time I think it always works as if you're not returning cost of capital eventually something happens.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Yes.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

And I don't predict when or how or I think we saw the double Chapter 11 at Spirit at the bottom end. And that those are the struggles you see and how they try and reengineer, whether they succeed. Those were all things that I think we have to watch.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Just kind of on that point about triggering growth in all the cabins. Obviously, you guys have done exceptional job of creating a very, very premium, first class product. Is there room to differentiate in main cabin as well or does that need to be relatively comparable across airlines just by definition?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Well, I think we have – if you think about the coach product, adding Comfort+ which – and we're going to iterate on Comfort+ and that's the one we're focused on next year to not only expand it but to bring more options to customers. And I think, yeah, absolutely is that we did the front first because it was the easiest. And as we continue to reengineer how we think about selling tickets, you'll see us come up with more creative solutions here that try and value what consumers value so that when they pay a higher ticket price, they know they're getting more value.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Q

Got it. To that end, kind of you recently kind of did launch tiers for first class and for premium economy, kind of how has that gone down with customers? And what's the reception to that have been?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

It's great. I think there's more room to go there. We're working very hard and we're going to be very diligent. I think one thing we don't want to do is we've got such a great brand right now as we don't want to get sideways with our existing base.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

So this is going to be a test and learn project and it's going to be over time and it'll be a gentle test and learn and see what customers like. And then if we see positive reactions to it like we have with the other tiers is to continue to evolve those. And so that's what we're pretty excited about over the next five years is being able to really what we call internally merchandising 2.0 is we – all we did was sell a train ticket 20 years ago, now we want to sell experiences, we want to sell value and that we're on that journey. There's a lot of room to go.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Got it. How do you figure out what the limits of that – lots of room to go are? I mean, obviously, we saw one airline try to build a resort. It didn't go very well. So, kind of, what's the limits to how kind of where Delta will spread its wings and brand for the experience?

Q

Daniel C. Janki

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

You're not going to be building resorts, are you?

A

Glen William Hauenstein

President, Delta Air Lines, Inc.

No, no. Still working on better clubs.

A

Daniel C. Janki

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

Exactly.

A

Glen William Hauenstein

President, Delta Air Lines, Inc.

No. But – Dan, do you want to take that?

A

Daniel C. Janki

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

No. I think the things that you've seen us continuing to do, I think clubs are a great point. What a differentiator we now have with the Delta One experience and hopefully many in the room have been able to experience it. But being able to go curbside through the club almost like it's private, right, and right up into the club experience and into the plane is just a real differentiated level of service and we're going to continue to find ways of continuing to do that segmentation and that investment in the brand and premium over time.

A

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

It warms my heart and I'll share some internal factoids with you is that, we now have, of course, Delta One on both sides with the private security lanes in LA and in New York, our most profitable market last month was JFK, LA and it's increased. Despite the fact that those costs are now embedded in it.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

The profitability has increased substantially over last year. And I think when you think about what do consumers really want, they want the best, right.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

And when you produce the best, you can tell and they react. And so, we have a lot of work to continue to do. We're always striving to be better. And consumers have historically reacted incredibly well to that and we're going to continue on that path. They'll tell us when they're done.

A

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Yeah. Fair enough. On that note, any closing remarks from any of you?

Daniel C. Janki

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

No, thank you for having us. We feel good about the year, and it is truly a year that's different than what we thought, but one that truly differentiates and really that differentiation and durability.

Ravi Shanker

Analyst, Morgan Stanley & Co. LLC

Very good. Glen, Dan, Julie, thanks so much for being here.

Julie Stewart

Vice President-Investor Relations & Corporate Development, Delta Air Lines, Inc.

Thanks, Ravi.

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