

14-Dec-2022

Delta Air Lines, Inc. (DAL)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Julie Stewart

Vice President - Investor Relations, Delta Air Lines, Inc.

Good morning and welcome on behalf of Delta. It's so wonderful to see all of you in person. 2022 has been quite an eventful year since. It seems like not that long ago we were all together at the stock exchange, it was almost 12 months to the day. We're looking forward to updating you on our progress on our three year plan that we laid out last year.

Earlier this morning, we issued a press release and a presentation, which can be found on ir.delta.com. There is a summary of the guidance that we provided today in the appendix on slide 34. Today, we will hear from Delta's CEO, Ed Bastian; President, Glen Hauenstein; CFO, Dan Janki. And prepared remarks will run about an hour and then we'll have about an hour for Q&A concluding at noon.

Before we get started, I'd like to give a special thanks to the Investor Relations team and the Delta's events team for their hard work and putting today together. As a reminder, our discussion today will contain forward-looking statements that represent our beliefs or expectations about future events. All forward-looking statements involve risks and uncertainties that could cause the actual results to differ materially from the forward-looking statements.

Some of those factors that may cause such differences are described in our SEC filings. We'll also talk to non-GAAP financial measures and a reconciliation of those measures in our SEC filings are available on ir.delta.com.

And with that, it is my pleasure to introduce our Chief Executive Officer, Ed Bastian.

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

Well, thank you, Julie. And it's great to see you all and those of you that are on the webcast, welcome. Hopefully future sessions will have more opportunities to see you live as well. Before I get started, I do want to clarify. This is more of a financial update than a broader strategic update for the company. So I know there's so many exciting things going on in the company around the customer experience, around our international partnerships, around sustainability and some of our ESG initiatives. We're going to hold that discussion to June and we're going to set up a day and a half. Julie, we're still figuring out the logistics. Julie, I think she's got a date – a calendar date, she's already looking to plan on, so you can go twist her arm and she'll kind of give you that date, if you're comfortable, Julie. But that's when we're going to talk about the larger Delta, the longer term vision. So this is very much focused on how we're doing on the three-year plan that as Julie said, we were here a year ago and updated you on that.

So it's going to be a bit of a more condensed, little tighter financial discussion that we're going to have. That said, I could not be more proud of the team in terms of how we performed this year. Remember, a year ago, for those of you who were there, were down the stock exchange. And I think literally, a week prior, Omicron appeared on the scene. And I teasingly tell people, I may have been the only CEO in the country happy to see Omicron take the place of the other virus in terms of name because I was so tired of hearing every Delta, Delta, Delta, Delta, Delta.

I would turnaround, every half hour, I hear something about Delta and I'd have to pay attention to what was going on at the virus. We're through that. But there was a lot of uncertainty as to how Omicron and it was very much a stepping back because I think when we were here at the start of this year, people were starting finally to travel, finally getting back into the office and everything got delayed one more time.

Of course, we saw the terrible breakout of war in Europe and Ukraine and what that did not just to the geopolitical uncertainty for already a fragile European continent, but what it did to commodity prices, what it did to energy prices. We saw this year the highest jet fuel prices in our history this year. So it wasn't just the commodity. It was the crack on jet fuel prices. We saw labor continuing to escalate in terms of pricing, in terms of the constraints of staffing. And fortunately, we saw the return of travel finally come all at the same time without any big warning. It just showed up, and we went from our planes at the start of the year being we were able to about 50% full. By March, we're 100% full and the stress and the strain that put on the entire aviation system.

So, against that backdrop, all of which were kind of pretty tough to plan for given the nature of these items to deliver the plan that our people did hit the \$2.6 billion pre-tax estimate that we announced this morning and not only on plan, but even slightly ahead of plan. I think it's really been a great job by the team. In addition to that, obviously, the staffing situation, we did this with 25,000 new people.

Literally, one out of every four Delta employees are new within two years. This is a highly technical, highly sophisticated, challenging industry that we operate in. And so when you see that, on the one hand, it's great to have the new generation coming rapidly to the company. We have great talent that we've brought in. At the same time, the experience set speaks to the leadership quality of the team. This team has great leadership and it has a great operating principle and practice and mindset to be able to bring that many new people in quickly and generate industry-leading reliability as the Delta team did throughout the year, I thought was pretty impressive.

Pretty much since the July 1st, this company has been running darn close to our historical operational reliability metrics. Our on-time rates are 90% or better. Our reliability in terms of completion factor are 99% plus and they've been virtually every day, post the July 1st. Our baggage handling scores, we always call mishandled bags, not lost bags. We eventually find them. We just misplace them from time to time. But we had the lowest scores of mishandled bags in the industry throughout the entire summer through the end of September. We don't have the October numbers yet from DOT, but I expect we're going to be number one when we see those again.

And the investments we made, the generational investments in the business, in the airports, you see it here in New York-LaGuardia, you see it in LAX if you've been out there. You see it in Salt Lake City. You see what we're doing at JFK to continue to finish it. Generational investments made and opened this year during the course of recovering from a pandemic technology investments. Just across the board, we've put so many new opportunities to not just having weathered the storm for the last three years but actually coming out of it stronger as a result of that.

Our international partnerships that we retained and we're coming out even better positioned as a result of having weathered this together really strong and the management team that we have here at Delta, some new leaders that we brought in to the company over the last few years that have brought some great new talent. But, as a team, I don't – I know there's not a better team in this industry than the leadership team, the management team of Delta. And I dare say, I've never worked at Delta – and I've been here for 25 years and have been CEO now, finishing my seventh year, I've never worked with a management team collectively that's more talented than the team here at Delta. So, the momentum that we have is we're exiting 2022 going into the new year is very, very palpable. And hopefully, you saw that with our guidance upgrade in terms of fourth quarter performance and what we're looking at for 2023 that we issued this morning.

Against that backdrop, in my 25 years at the company, I also – while it was the most challenging environment I ever saw in 2022, I've never seen a more constructive industry backdrop than we have today. And you're all familiar with many of these factors, the constraints that we have around supply chain, around the OEMs, the capacity challenges that this industry always struggles with is a very different outlook than ever before.

You see the unique demand drivers. I'm going to spend some time talking about these this morning in terms of – it's not just pent-up demand. I think this is sustainable, strong demand that we're going to see for an extended period of time like never before. When you look at the new travel patterns, everyone is hyper-focused on corporate travel, everyone wants to know what's your corporate travel number, and our corporate travel number is around 80% return. By the way, we've said all through the pandemic, we never expected to come back as it left in 2019. We may only get to 80% to 90%, and that's okay because we have so many new forms of travel by those same individuals, because mobility means you can actually work wherever you are. It doesn't mean that you have to be in the office to do it, and we find so many new ways in which people are traveling.

And the pandemic lessons that were learned over this course of time. We are all – as I said, we're all running a pretty good industry right now and the numbers I mentioned at Delta, I'm pleased to say our competitors are also doing a pretty good job on that. But it's fragile because we all have new people, we all have new processes, and the risk of overshooting your capabilities is too high for anyone to take. And so we are not going to continue to grow into these operational opportunities until we're confident we have the skills, the experience and the talent in place.

So while you've heard across the industry many of the forecasts for industry growth, we're all looking to restore, we're all looking to get back, I'd say that's largely aspirational as compared to substantive. Hopefully, we'll be able to get there by summer, but I'm not certain – it's not something I worried about. We're not going to grow there until we're confident we can deliver against that.

And finally, that leads into strength in financial momentum. And before I get into the financial numbers, I know you all want to know what's going on, does this include new pilot agreement, does it not, how are we thinking about this. We've embedded in our key financial metrics the assumption that the AIP does go and gets ratified. Of course, that's up to the pilots, and I'm not going to talk about the AIP for that reason, out of respect for the process, we'll let our pilots decide what's best for them. But the assumption is that the agreement that was made, the AIP with the negotiating committee of ALPA is embedded there.

So, the EPS guide that you see growing next year from \$5 to \$6 from \$3 in 2022, assumes that the deal is approved and it's in that number, as well as a 2024 number. The double-digit operating margin that you see in these materials assume that the pilot deal is approved. Our leverage metrics assume it's approved. And free cash flow also assumes it's approved with one slight caveat is that the signing bonus, the up-front payment, we're going to treat as an off item, as a nonrecurring, because it relates to an unusual factor. It's not in the normal operating course. So put that aside, that's what you'll see the free cash flow numbers, north of \$2 billion that we're providing.

But that's about as much detail as we're going to give you. Okay. So, don't ask Janki about what it means to CASM, or Glen, what it means to revenue. We understand the questions. We'll answer the questions when we know if we have a deal or not. But the metrics that really matter that we want you focused on profitability, leverage, margins, and cash that's embedded in these assumptions.

I'm going to spend most of my time this morning, and I won't spend 30 minutes, I promise you, so this is going to move. Glen and I already have a private bet what my over-under is going to be.

Talking about the industry, okay, because – yeah, we have a great story here at Delta and I'm going to leave most of the discussion of the great Delta story to Glen and to Dan to describe. But I want to step back and look at the industry, because we all operate in a large ecosystem and there's factors at play that I think people are still having a hard time either coming around learning about this industry for the first time where they forgot or they kind of dialed out during the pandemic and there some reasons why, first and foremost, the top question that many of you have is to how sustainable this revenue/demand picture is. We think it's sustainable.

This is a picture that many of you have seen over time. This portrays how much air travel spend is of GDP on an annualized basis and it goes back for the last 40 years. And there is one number that jumps off the page. Actually, it's 1.3% and that's the average year-in and year-out of air travel spend and it's domestic travel, it's international travel into our country, out of our country, so it's not just the US airlines but it's all travel related to our country is of total GDP. It was 1.3% through the 1980s, it was 1.3% through the 1990s, it broke on 9/11 for obvious reasons but came back relatively quickly. You see a little bit of a downtick in 2009/2010, that was the recession that we had. You saw it overcorrect in the out years. In fact, for the last decade, the average number was 1.4%, it wasn't just 1.3% and there's various reasons why it might have ticked up just a touch.

But if you look at the last three years in terms of what the inherent demand for travel would have been, absent the pandemic, what people wanted to do and what they actually could do in terms of travel, there's a massive gap. There's \$300 billion of missing demand that we've had over these last three years. And when people say, where is the strength coming from, is this just pent-up demand or people going to – when they're going to get tired of going on trips and when is this going to run out? I don't think it's going to run out for an extended period of time, and I'm saying that based on history. We all have our views. We got our crystal ball. But candidly, our crystal ball is not much better than the next 90 to 120 days, and Glen will talk about that, and it looks pretty good.

But as you look out over the course of next year and I think for several years to come, this \$300 billion of missing demand, not all of this coming back, obviously, but some of it will, and it's going to be a big number, whatever that number eventually turns out to.

And just in 2022, if you look at what the gap is to 2023, and we're making the assumption for 2023 that there is a flat GDP picture in the US. I'm not sure if that's conservative or not but that's the assumption we used in this model. There's \$30 billion just for 1.3% of travel spend in an incredibly hot market for travel. That's \$30 billion that will come in next year for the industry.

Delta is 15% to 17% of these numbers. So you can do your math for Delta. But that's assuming no catch-up, just travel demand consistent with past practices. So this has sustainability and this is one of the – I think, the core reasons why people are looking at what's going on here and why is this different? Well, this chart is different because people love to travel, and this is part of our behavioral opportunity going forward to continue to capture not just the travel but the premium and the higher end portion of that travel.

Secondly, there's a lot of discussion on capacity. And you all hear us, as I said, aspirationally talking about bringing our – we're aspirationally planning to get back by summer to a 100% of 2019 capacity. And people rightfully say, wow, this is – the airlines doing some of their old bad habits, starting that good times and they grow too fast and it turns into bad times. This is not the case, okay.

Look at this chart. This chart is a depiction of where we were at the end of 2019, basically the start of the pandemic. What the analysts, forecasters – there's a couple analysts here, I can't read small print as to who we use but whoever you are, thank you for contributing your report. But at the end of 2019, the expectation was the industry by the end of 2022 would have grown capacity to 116% of 2019 level, so a 16% growth.

Where we actually are because we're at 91% of 2019 in 2022. It's a 25-point gap between what expectations were and by the way where demand is because demand based on GDP is 18% to 20% higher than 2019 and where actual capacity sits. And you say, okay, well, how quickly is that going to close? When you look at the constraints we have, these constraints are substantive. And as I said on the Squawk Box interview this morning, we tried, we tried to grab it and we broke the spring. I mean, it just – we just can't move faster than we are. We're all working. So pilot constraints obviously being the chief of those.

When we had 2,000 pilots at Delta retire in the summer of 2020, we knew at that point it's going to take us three years to get back. We were okay with that because we didn't know how long this was going to take and we'd rather be cautious and disciplined. We knew it would take us to the summer of 2023 just to get back to where we were in 2019. It's proving largely to be the case. We'll see if we can get there. As I say, it's a bit aspirational, hopefully we can do it. And you have – but you have that same issue all across the industry. And the further downstream you go within the industry, the more challenging this is because the musical chairs and pilots continue to jump. You see the – you saw what our AIP was in terms of price. That price – the size of that price tag just grows, the further down the chain you go for the regionals and some of the lower fare carriers in terms of their ability to hold on to their pilots because they're all making moves for the future.

You think about the hiring and training needs, not just for our pilots but for all of our staff, our mechanics, our reservationists, our airport workers, our flight attendants. We're still hiring flight attendants. It's a significant gap between where we need to be and how quickly we can move and where we sit today. You look at the rising input costs. With the fuel volatility we've seen going from the highest jet fuel prices we'd ever seen back down and there's a pretty significant amount of volatility that we're seeing in our input cost, labor, fuel, inflationary pressures, all of which tell you to be cautious. There's red flashing lights. Be disciplined as to how you're thinking about this. And then, of course, the impact on industry infrastructure. We've all heard the discussions that's going on, on air traffic control and do we have enough staffing and is the system working? And it's a challenge.

So the industry is very fragile. Next couple of years, hopefully, we'll all be in a much healthier place to kind of start to absorb some growth. But for the next couple of years, this gap's not going to close a whole lot and demand growth I think will continue. And the ability to supply it will be strong. This is unique. My 25 years, some of you have been around a lot longer than me, never seen anything close to this. This is real.

And the third chart I want to depict, which is a little different message, is that there's a lot of old tapes that haven't died yet. And one of the old tapes is growth in the airline industry is bad. And, just as a general theme, growth is – can be good, growth can be bad. But if you're not disciplined, it is bad. Look at what this shows for the last 30 years. Where did the growth in this industry, how was it sourced? It was sourced from better utilization of assets, not just growing for the sake of growing. In 1991 – some of us remember this, I'll admit, I was a business traveler back in 1991, I remember this – 60% was average load factor, 60%. In 2000, it was 70%. It wasn't until we got to north of 80% did we actually have a sustainable business model. Okay. And I'll give you just Delta's numbers on that.

In 2010, we were about a breakeven, profitability. By the way, it didn't have – yes, there was a recession going on. There was a merger going on. But put that aside, we were about a breakeven business. The latter half of the decade from 2015 through 2019, our average operating margin was 14.5%. You ask me why, yeah, we did a

bunch of things. The main thing we did was we utilized the assets heck of a lot better and we no longer have that overhang of seat capacity that continues to suppress the pricing in this industry.

So this is a factor, again, as you think about the other side of this, we are just trying to get back to that plus 30%. And these are seats, by the way, not capacity. As Glen always reminds me, we don't sell ASMs, we sell seats. These are seats. We're just trying to get back to that 30% by the end of 2023. And that revenue picture that I showed you for 2019 is even higher in terms of that demand picture.

So to the extent that we bring back our assets and we return to service, I think it's the right thing to do and certainly what Delta's going to do. But it's going to take us a while to get there. But we're adding those seats into a highly – high asset utilization model that is the crux of the strength of our pricing model. So you put those three charts together and you say, wow, well, I think this could be interesting few years for this industry. And these are some of the thoughts and the discussions we've had internally as we've developed the plan that we're showing you relative to 2023 and to 2024.

So in 2022, I already mentioned, hard year, challenging year. I can say in my 25 years working this industry, I've never seen an operating environment like 2022, just absolutely crazy. You say, well, you were around for 2020 and 2021, they were pretty – yeah, they were tough but it wasn't like 2022. I mean, 2020 was a tragic year with the COVID and the loss and we were just trying to protect people. In 2021 you had a lot of stops and starts and the vaccine coming and not and trying to – it was kind of – it was a frustrating year. 2022 was a hard year – it was a good year but it was a hard year. And the team did a magnificent job. Best performance in the industry, profitability wise. Best performance in the industry, reliability wise. We had our best customer satisfaction scores in our history in 2022. We've gained 5 points of Net Promoter Score in 2022, even against the crazy backdrop we've been through versus where we were in 2019. As we exit 2022, our Net Promoter Scores are in the mid-50s.

Our premium products continue to outperform. The diversity of our revenue streams continue to expand. The investments that we're making in our people are great. The investments that we're making in our facilities, investments we're making in our technology. When the pandemic hit, we didn't pull back, we pushed forward and we've taken years off the development cycle. A lot of the long generational investments that you see this company making and the reason why it's all showing up this year, that wasn't the plan, it was because we move fast. We had confidence in the team that was making this happen.

The strength of the financial performance, Dan will talk about that. While we are ahead of plan, certainly, there's cost pressures that we experienced that are one of the things that didn't go as we anticipated. Dan will talk about that bunch of reasons why. But when you think about the overall revenue environment, the cost backdrop, the margin performance, we think that 2022 is a great table setter for 2023.

This is a picture of our operating margins and income over that period of time. And you can see that for the last three quarters, and this is updated for the guidance that we just issued for the fourth quarter, we're operating back to a double-digit operating margin in a recovery year with a lot of challenges attached to it. You can see at the bottom that we've narrowed that gap to 2019 performance from 6 points below 2019 down to 1.5 points below in the fourth quarter. And this is something that we're going to take again into 2023 as we continue – look to grow that operating margin.

The outlook for 2023 and 2024 are on this page. These are the key metrics that we're going to embed and speak to. One of the things that's critical to 2023 for our company is that we move out of this hiring, training, kind of continue to push resources around, into a production mindset. And we're there. We have the assets to deliver this 15% to 20% revenue goal. Yes, we have some planes on order, and whether they all show up or not, I can't be

sure, but I think the majority of them will. But we have the people, we have the assets, we have the capabilities. Can we pull this off is going to be really a question of confidence in execution. But 2023 for us is going to be a year of slowing the hiring, we're starting to move more into production. You're going to see that cost profile starting to come in. You're going to see the productivity levers continuing to return. You're going to see people that will now have two to three years under their belts. They've seen the hardest time they'll ever see. It's just going to continue to get better from here. And that's not just true on our frontline side. That's true on our leadership front as well.

The operating margin guidance that we're expecting in 2023, the midpoint of that, 11%. That's about a 300-basis point improvement over where we were – we came out in 2022. EPS of \$5 to \$6 per share. That's almost double because we're closing 2022 with little over \$3 a share, close to double that in 2023. And again, that embeds the assumption that we – that the pilot deal was ratified and that those costs are included.

Free cash flow, one of the differentiating factors of the business plan you're seeing today Delta versus many of the other airlines in the industry is the return of free cash currently. We're not waiting to sometime. We're delivering that now. We committed to you a year ago that we're going to have in excess of \$2 billion of free cash flow in 2023, and we're continuing to reiterate that commitment to you this morning. And by the way, \$4 billion in 2024.

We have – yes, we have assets, we're managing our CapEx to somewhere between \$5 billion and \$6 billion a year. As I tell our team, there's a lot of things in this industry you can't control, CapEx you can control, actually. And we're going to manage that because that we know is a key factor in making sure we hit these free cash goals, which will drive the leverage ratios down to – by the time we get to the end of 2024, we're going to start to be spitting distance from investment grade metrics, which is our plan.

And finally, you've heard me talk many times about Delta's competitive strengths, its advantages, I call them our moats. So, our lawyers don't like that. So I've started to call these our superpowers. But this is what makes Delta who we are. And this is the same slide I showed you five years ago and I'm showing you today. And when you think about the power of the moats, they've never been more tested than going through a pandemic. I got asked a question on the set this morning, can you save for a rainy day? It's kind of a silly question. Of course, you can't. But what you have instead is you have really strong moats that protect you and get you through tough times.

The people of this airline are the reason why we are as good as we are. Their service ethos even with the 25,000 new people we have. They love this airline. They love the purpose of the airline. They're working hard to continue to deliver the productivity, efficiency, the service levels that's known in this industry. And it takes time to learn what that is. But we're on the path to get there.

The operational prowess of this company is legendary. And while we move different people into different roles, that operational prowess is back, number one in on-time arrivals for the year, number one in completion factor, number one in mishandled bags throughout the summer. These are numbers that are going to continue to only get better looking forward. Glen's going to talk a lot about what we did with the network. We are so thrilled with the approach we took – I'll say I'm thrilled around the network, particularly making certain that any growth you see coming into next year is coming into basically our backyard into our strength markets, our core hubs.

We deliberately went out and put our capacity the last couple of years in the most competitive markets New York, L.A., Seattle, wanted to build up those investments we had made in the coast, kind of once-in-a-generation opportunity to really establish and we're number one now in many of those markets. But this is the year we come back home. We come back to Atlanta. We come back to Minneapolis. We come back to Detroit. And this is where

we make our money. And they bring more growth in. It's just going to have the opportunity to continue to grow the performance of those.

The JVs I talked about, we have awesome JV partners, all of whom went through a tough time, all of who have emerged, I think, in pretty good shape that we're going to continue to invest in. Loyalty, the brand is strong. Our American Express relationship is powerful. I think the co-brand spend is over 40% up versus 2019 levels on that card. I think we're looking at \$5.5 billion contribution from Amex. A year ago, remember, I brought Steve Squeri, and there was a lot of questions – can Delta get to \$7 billion? He said not only can they, I want them to. And we're on path to get there by 2024, if not hopefully exceed that.

And the financial foundation is we took bullets, we took water in during the pandemic. But one thing we did not do is dilute our equity holders. And I'm proud of that. We were able to borrow. We took on about \$10 billion of net debt. But our equity holders, people that stood by us, we didn't think it was right to dilute. We were able to get through this without doing that. Hopefully, it will be a testament that you will find on the other side of this was one of the things Delta strategically did that was very, very important as to a statement as to who we are.

So you put that whole picture together. You've got a company, I think, that's really poised. And listen, I've just been through a pandemic. I'm not coming at you. I sound like a little bit of rose colored glasses. I'm a born optimist, I appreciate. But this company really is poised for some great growth. I think the demand picture is healthy. Glen is going to talk about that. I think the cost opportunities are real. I think the performance in terms of the brand, performance of reliability, performance of the airline, what matters to customers that drive the connection that we have, it's just going to continue to grow over the next year or two or three. And this is going to be a great opportunity, very unique in terms of industry macros generally. But sometimes when you're different, it's time to pay attention. I think this is one of those times.

So thank you for that. And I'm going to turn this over to my good friend, Mr. Glen Hauenstein.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Well, good morning, everyone. And I'd like to add my thanks to all of you for being here today, whether you're virtual or here in person. It's great to see everybody and it's great to tell our story of 2022 and what we see shaping up for 2023. It was really, as Ed pointed out, an incredibly challenging year. And if you go back and think we were here, while we were down at Wall Street, but we were here on stage telling you what we thought 2022, our next three-year plan would be. And we didn't know how bad Omicron would be. We didn't know how bad fuel price would be. We didn't know that we have 30% of our regional fleet sitting on the ground. We didn't know that we'd miss our production targets by 5 points to 6 points. We didn't know a lot of things that were going to get thrown at us.

But to be here today and to be coming in at the upper end of our revenue range and being able to sit here and come at the upper end of our guidance, I think, is a really exciting and it proves the durability and the flexibility of the model in general and Delta in particular.

So I want to call out the team. I know they're watching at home, and I want to make sure that I thank them, too, because they did an incredible job. And they did an incredible job producing the products. They also did an incredible job forecasting the revenue. So I'm here to call out the revenue team. I got a lot of questions this morning because some of our competitors have been talking about maybe a weaker-than-expected December and how that rolled in. And I will say that back in September when we were looking at guidance to issue for the fourth quarter, of course, this is always a discussion, because these are numbers we see 30 days out or 90 days

out, and that's a little bit of some guesswork there. But the team had, from the very beginning, said that December was going to be the off-trend month and that has relating to the calendar. And I think they did a fantastic job forecasting that early in the curve.

And so as we sit here today, I think being above the midpoint of guidance and talking about where we see first quarter revenues, the December month was the off-trend month as we go to – into January. January will be significantly better than December. February, we think, will be better than January. And March, we think, will be better than February. And that's all versus 2019.

And I'm going to point that out here. I don't know about you, but we're all getting really tired of this 2019 number. It's getting to be quite stale. And if you think about our year, as we went through the year to get to the \$2.6 billion profit that we are talking about today and having lost almost around \$1 billion in the first quarter, that means the third – the last three quarters of the year we produced about \$3.5 billion. So when we get to the end of the first quarter and we get past Omicron, we're going to sunset our relationship to 2019 and we're going to move it to 2022. So I think we'd give an applause to 2019. It's been a very good benchmark year. But we are all looking forward to retiring 2019 as our benchmark.

And then, last before we leave this slide is that we are in the middle of our corporate survey. I know many of you were asking me this morning about what are we hearing from corporates. We have about – usually, we get about 400 surveys back. We launched it last week. We have about 200 back today -as of today or as of yesterday when I last checked. And what we see is a 93% response rate that they expect to spend more in 1Q than they did in 4Q, which is the highest number in sequential that we've had all year. So that's another very exciting point we want to hit on that – that what we're seeing from corporates is we're expecting a very good step-up as we head into 1Q.

I talked about 2022 being a very difficult year, but I think it really does prove out the real competitive advantages that Ed talked about, deepen network advantages. I'm going to talk about that in another slide or two. But we are committed to our long-term strategy that we outlined last year and I think it's paying big dividends. And I think it's going to pay dividends not in 2023, but in 2024 and beyond. And I'll talk a little bit about that.

Exceeded all our commercial goals. We have Dwight James in the room here. I'm going to give my applause to his loyalty team. Let's give them a round of applause. They did an amazing job and we had another year of record acquisitions. We crossed 1.1 million acquisitions. I have a slide on that later. So I'm going to save the rest of that punch line. But expanding premium revenue, we, of course, put more premium seats into the marketplace. We're going to do that again in 2023.

And as we've talked all along, premium has led the recovery. And I think if you asked us in the beginning, how would premium do in a pandemic, I don't know that any of us in this room would have thought that that was the leader in terms of profitability and in terms of getting us out. But it's been very, very resilient. It's been very resilient not only with the corporates, but with leisure. And it's very, very sticky. I'll talk a little bit about that later.

Once you start sitting up there, you tend not to go back. And I think we all – we have all experienced that. Once you're sitting upfront and traveling upfront, hard to go back into the coach product. And then, increase revenue diversification, that's been one of our key themes. I think we've made a lot of great progress this year, but we've got a long ways to go still and a long runway.

So with that, I'll talk a little bit about our capacity restoration here. And this is a really exciting story. We when we – we knew we would be constrained, when we were coming out of the pandemic. And the question is, well, what did

you want to service and what were your goals. And I think our goals were that we wanted to maintain our share in our core hubs. And as we look through the second quarter DOT data, we have increased our share and our hubs.

I'm going to talk about that in the next slide, because that was a little tricky thing to do. And so when we think about where we need to go from here, it's about restoring back to 2019 levels. And what I want to talk about is that fact that Ed talked about is ASMs versus seats. A lot of you in this room have historically used ASMs as the precursor – and I used to give this example to our team is if we had one flight to India, we had about 1% of the ASMs and we had like one-tenth of a percent in seats or one-one hundredth of a percent in seats.

And so, really filling up those 200 or 300 seats, if you had something very long haul, it's very different than filling up more seats in the domestic or North American marketplace. So if you look at the key slide here, I think this is even more important that our seats in 2022 were only 86% restored. And in 2023, we will not get back to full seat restoration for the year.

So we will be selling 2% fewer seats in our most current estimates than we sold in 2019. So still not getting to the number of seats we had in 2019. Now that is a very different by quarter. And by fourth quarter, we hope to be actually slightly ahead. But throughout the first three quarters of the year, we will be below our seat counts in 2019. And then, of course, departures being way down. And I'm going to use the next slide to talk about the efficiency of the fleets.

The last thing I want to point out is the comment I made earlier about our regional jet fleet being underutilized. We have between 80 and 100 regional jets out of our 325 two-class RJs that are now underutilized or are not being utilized. And so that is one of the things that we're going to carry through most of 2023. We do not think that this is going to resolve itself until 2024; in other words, that the regional jet pilot shortage will be with us throughout this entire year and we're expecting it to start to loosen up. And we look at how many people are coming through the schools and what the demand is at the major carriers.

And then, the last thing I want to hit on this slide is, of course, fleet efficiency, and I'll get to that in a few minutes. But I have a very exciting factoid for those of you who fly on us. And I know most of you in this room do fly on us. So thank you for your business. But we will be the first carrier in the United States, we believe, this summer to be the only airline with first-class on every seat, every flight, every day – every seat, every flight, every day. That deserves a round of applause. That took us a long time to get to, but I think we'll be very appreciated. We think America deserves a first-class airline, and we think that first-class airline is, of course, Delta.

I want to talk a little bit about how we restored the network and what we accomplished and what we have still to go. When we knew we would be constrained coming out of the pandemic, we had two things that we wanted to accomplish. We wanted to take advantage of a generational opportunity to solidify our positions in our coastal gateways. And our coastal gateways include Boston, LaGuardia, Seattle, Los Angeles. And we wanted to maintain our core hub share.

And if you look at the previous slide and you say you had 86% of your seats restored in 2022, and we were actually larger in terms of seats in every one of our coastal gateways except New York, which was pretty much flat, but a large expansion in Boston, a large expansion in Los Angeles, and a moderate expansion in Seattle, then what happened to the core? The core had really constrained seats. So Minneapolis, Detroit, Atlanta, in particular, Salt Lake being a little more restored than those three. But our core engine, the core engine that fuels the profits of Delta was the least restored. So if you take the 86% and you say the coastals were restored at 100% or more, that meant that your coastals were below 80%, well below 80%.

And then they said, okay, if you're actually actively managing your revenue management systems to favor the local because the reason local was important to us is we didn't want to cede our most loyal customers and open up opportunities for low-cost or ultra-low cost in our hub markets. And so we needed to maintain that and we did. We have actually gained 2 points of local market share throughout the pandemic for where we exited versus where we came in in 2019.

So that meant somebody didn't get on the airplane. And the people that didn't get on the airplane were the people who were in the outstations, who saw fares that were significantly above our competitors' fare structure. And these are high-yield customers. And we saw this not only in our traffic numbers, but we saw it in our corporate shares. We gained corporate shares in our hubs. We gained corporate shares in our coastal gateways. And we lost corporate share in key business markets across the Southeast, in particular, in the Upper Midwest.

And so as we look to rebuild our network back in 2023, people this morning had asked me, well, why do you think yours is easier. And everybody says theirs is easy, right? Nobody's going to say theirs is hard. But what I think we did, we did the heavy lifting during the pandemic. It would have been much easier for us to say, let's shrink the coastal cities and we'll concentrate on our core and we'll drive the maximum profitability through 2022. We chose not to do that. We chose to take a longer view and say we wanted to maintain and increase our shares in the coastal gateways, because without that, our opportunity for growth in the future is somewhat limited. And so we wanted to do that and we wanted to make our core was maintained.

So this year is about three things. It's about increasing gauge, getting those customers back, and then ensuring that we have adequate capacity in the coastal cities. And I think that is a much easier setup for 2023 and beyond than had we done it the other way, and that this year we were starting to build back Los Angeles or Boston. We didn't go into the recession or the pandemic with the number one share in revenue in Boston. We went in with a distant number two. We didn't go in with a number one share in Los Angeles. We came in as number two. Coming out of the pandemic we're number one in those two key cities, which are both, of course, Los Angeles being the largest single airport revenue market in the country and Boston being in the top 10. Those are really important for not only today, but for tomorrow's development as well.

So I'm really proud of the team. We set those objectives up. We executed on them. When we look back in the rearview mirror, we can put a big checkmark on having accomplished what we set out to do, and really I think setting us up incredibly well for 2023 and 2024.

Another thing I just want to point out is that we have a relative revenue headwind by doing what we did. Our coastal gateways have a lower RASM and our interior hubs have a 20% higher RASM when you take that. So as we look towards 2023, we'll be looking at getting some of that RASM premium. We still have the highest RASM in the – of network carriers, but getting some of that premium back that we had in 2019.

So that's my thesis on why ours might be easier or should be easier than our competitors, mostly being driven by gauge and frequency in the core hubs.

Of course, we also had a lot transpire with our global network and our partners over the pandemic period. And I want to stop a little bit and say how excited I am with where we sit with our partners. And I think the most exciting one, I'm going to go to LATAM right away because this is new. In 2019, we announced it right before the pandemic, and it took us through the entire pandemic.

And thanks to Peter and the team for getting us the ATI; we got that a couple of months back; and we are hitting the ground running with LATAM. And of course, this is the region that we had – we had the number three position

historically and we really with our previous partners and goal, we really didn't have a way to get to be number one. We like to be number one. We think there's a lot of benefit in that in terms of distribution and presence. And so switching to LATAM and getting that approved is a great, great accomplishment for things that we did during the pandemic and we're hitting the ground running. We actually have a meeting with them in Miami this Thursday where we're going to celebrate the initial wins. I think we've – our teams have been together for the last two-and-a-half months creating checklists and work plans and we see some great opportunities to continue to expand our number one position in South America as we move forward with LATAM.

The other one I'd like to talk to which also transformed during the pandemic was Korean. Korean, of course, as you know was the largest Trans-Pacific carrier in and of itself and they're now able to join forces with Asiana, that's in the process of being approved globally now. But once you put them together, they will have by far the largest hub in Asia, and one that we can connect to and really funnel most of our Asia traffic that we're not going to serve non-stop over their hub. And for those of you who have used it and hopefully you have, if you travel at all to Asia, we believe by far, it is the best customer experience and the best connecting complexes. And those are only going to get better over time.

So really, something that's transformed during the pandemic. Of course, our industry-leading relationship with Air France and KLM continues and we expect to have a very, very strong 2023 with them. I'm sure in questions and answers, we're going to get a lot of questions about how we see European demand shaping up. But also – I'll give you the teaser on it. We see it very good through the winter and accelerating as we get into the – back into the peak season of spring and summer.

And then, last but not least, Aeromexico. Not to mention that of these carriers, both LATAM and Aeromexico had to go through a bankruptcy restructuring because they got little, if no government support, so but they're both out. They're both in very strong positions. And Aeromexico are now producing consistent profits and very robust. And we're hopeful.

The one thing we have to get to with Aeromexico is for those of you who track this, Mexico is a Category 2 country right now, which prohibits expansion between the two countries. They're meeting this week, so we're hoping that those – that gets resolved in the first half of this year and we can go back to a Category 1 and continue to grow that franchise with them.

Last but not least, I'm just going to say, we were not without challenges in 2022. Ed pointed out to a lot of them, and I want to acknowledge that our European hub partners both had very, very difficult years in terms of getting the staffing right, in terms of getting those models right. And we've been working very hard. Alan and the team have been doing a great job and I think we feel very confident that we will not repeat some of the issues with connecting travel or even local travel and Amsterdam and de Gaulle that we had this coming – this past summer. So great plans are in place to improve that moving forward.

As we think about our opportunities internationally, and I talked about leveraging our partners a little bit. But I think the other is, well, how are you going to get your returns up in the international arena in the medium and long term, and we've been very honest with you and with ourselves that we have lagged internationally in terms of international returns versus our historical domestic returns. And this slide is just illustrative of it.

And I think there's a theory, even internally at Delta is that the next flight that we serve, the next market that we serve, whether or not it's Papeete or whether or not it's Cape Town, that's going to reverse our fortunes. And the reality is that on the margin, those are very small percentage of our total international marketplace. And so what

we really need to do is to do better in the 95% of the core that was flying in 2019 that's flying today, and that's going to be flying tomorrow.

And I think when you think about what we've done domestically and maybe we've been a little bit ahead of this domestically in terms of our investments in domestic fleet renewal or in terms of domestic premium products. Now, we're really focused on international and the international rebuild and flying the same things and getting better returns. And you say, well, how do you do that? Right. That's – how do you do the same thing you did last year and do better? And it's really the same theories that we've used domestically, and it's improving premium product revenues.

And that's really been a highlight of 2022, not only domestically but internationally. And so what are the key levers that we're going to pull there? And that is the full implementation of Delta Premium Select, the upscale coach product, the returns on those. We're getting fares that are generally double what we get for a regular coach product. And it's a – if you haven't tried it, it's a fantastic – if you're a company or you don't want to spring for the flatbed and the Delta One, and it's a really great alternative.

And you think of where we started back just in 2018, your choice was flatbed, direct aisle access or coach, right? And we weren't really satisfying very well the needs of different customer bases. So now, this year, we have basic economy, of course, just similar to what we have domestically and non-refundable, non-changeable limited bags. We have Main Cabin, which is the traditional coach. We have Comfort+. We have Premium Select. This year, will be on all Trans-Atlantic and all Trans-Pacific by the end of the year, and then, of course, Delta One.

So getting better at selling those, improving the selling proposition, improving the value proposition, getting paid for the premium products, introducing the premium products. And I'll tell you these things. I hate to say this because they're flying off the shelf. We don't have to try really hard to sell them. They're selling themselves. And as we continue to bring them and continue to refine our models, get better at the pricing, the relative pricing between those, I think we have incredible upside there.

Then the second is improving the cost structure, right. So we got to improve the revenue base. The revenue base is going to get improved by improving their premiums. We don't see a whole lot of momentum in coach, and that will be based on supply and demand, but really focusing on premium products driving the upward momentum in unit revenues, and then having the fleet drive our costs down. By this time next summer we will have 30% to 40% of our capacity in new-generation airplanes, lower fuel burn, more eco-friendly, much lower carbon emissions and more premium products on those airplanes, and just generally a significantly lower cost structure similar to what we've done domestically with a slight upgauging. So every time we retire a 767 and replace it with an A330-900, that is many margin points in terms of CASM that we improve.

And then last but not least, well, I have two more actually, is our cargo performance. We did a self-assessment and I think it's – we came to the obvious conclusion that we have historically underperformed in cargo. And for long-haul international, this is a key component of profitability. One way we know, we're going to have I think as we close 2022, you'll see significant relative improvements, and in 2023 and beyond, I think we're going to get even better. And that goes back to the fleet improving as well.

One of the reasons we weren't as good of a cargo carrier and there were many reasons, but not the least was we had the least cargo capability because the 767 is not a very cargo-capable airplane. And every time we replace them, not only did we get more premium seats, but we get a lot more cargo capability. And the more you have of anything, the better you are at selling it. So, we have a lot of opportunities we think as we move forward in the cargo space.

And then last but not least, counter-seasonal flying. I think one of the things that we did that is underappreciated is we did a huge international fleet restructuring during COVID, and coming out, if you think about having 17 777s, which was the number we had pre-COVID, getting rid of subscale fleets that we didn't have a future in. And if you think about how we flew the 777 fleet, we flew it every – we had one spare, we flew – of the 18 airplanes, we flew 17 of them in the summer. In the winter we were flying 11 or 12. And having your crew sit home, having your maintenance done in winter, we just weren't getting production and cost structure out of those small fleets. So, flushing the small fleets, getting into fleets that we can have scale on, and then working to create counter-seasonal opportunities. Has anybody in this room been to Papeete? All right, okay. Hey, did you enjoy it? Yes. Okay. So markets like Papeete that peak in the winter and counterbalancing them with Europe so that we create full year round airplanes that are much more flexible and can have us get better – drive better asset utilization not only in the short run, but in the long run as well.

I've talked a lot about premium products internationally, but this really illustrates the difference in, a, where we're growing, how we're growing and the margin and how we're approaching this. We want to be America's first-class airline. We want to be known as the best-in-class. We worked very hard operationally to get there. We worked very hard in terms of the amenities that are on the plane. We know we have the best people, but continuing to feed that as we move forward. And if you look since 2009, almost all of our seat growth, and this is a slide that went back to last year, has occurred in the premium product space, which has driven the differential and the improvement in our margins as we move forward and continue down this path.

Our latest – the latest arrival, even in the narrowbody space, the 737-1000, which we have on order for arrival in 2025 and beyond, will have the highest component of – for premium seats as a percent of total of any fleet. So you'll see us continuing to move down that path, eliminating one class 50-seat airplanes. Those are the kinds of things that we're continuing to evaluate as we move forward. 15,000 more daily premium seats in 2023 versus 2019, growth in 2024 continues. Premium will represent 30% of seats and a higher percentage of our revenue, we'll get to that slide in a minute.

And people always ask, where do we feel that we are in the middle in terms of the innings, right? Are you at the end? Are you at the beginning? And I think we continue to see opportunities. And I think one of the things that is really underappreciated by investors is that these are relatively new products. And the way we brought them to market is not really best-in-class yet. So if you look at what underpins our premium offerings, it's an infrastructure that has been kind of put together and not really organized for sales or for servicing. And as we think about the integration of how do these products price against each other, how do these products avail themselves in the market? Are all your distributors selling them the way you want? We have so many more opportunities to continue to open the aperture and the relative value of the products versus each other, even within Delta. So really excited about what we have coming over the next several years and the opportunities that that presents.

A little bit about SkyMiles and – not a little bit, because SkyMiles is one of our superpowers. Is that what you're calling it? Superpowers.

Unverified Participant

That's what lawyers say.

Glen William Hauenstein

President, Delta Air Lines, Inc.

That's what the lawyers say, one of our superpowers, and when we said Ed was the one who set the \$7 billion goal back in 2017 or 2018, and we all looked at each other and thought, oh, my gosh, are we going to get there? And through a lot of hard work and a lot of value creation, I think that I would be really upset if we missed any of these numbers. I think there's upside to every number in the future on this chart.

And really the question that we have to ask ourselves and one that I'd be asking us if I were you, well, okay, you're going to make the \$7 billion in 2024, what's next? And I think we owe you that is – and we're doing that internally is we're saying, okay, how far can we take this? And I think one of the things that I'll point out here is that only 29% of our SkyMiles members hold the card today. And that's been our most fertile ground for how we grow the Sky – grow the card program is through SkyMiles acquisitions and one of the reasons we were continuing to get record numbers of SkyMiles through the front door, because not only is it great economically, but the more you're engaged with Delta, the higher your NPS scores are.

And so, if you're a non-member, you have a score. And then if you have SkyMiles, you have a score that's higher than that. Then if you have – and all the way up to is if you're a SkyMiles member and a diamond or – and the Medallion, with the card you have the highest NPS scores. So the more we can engage you, the more we can actually surprise and delight you, please you, and engage you as a customer and have you be a part of our ecosystem. And so it's got so many benefits to continue to drive that acquisition for SkyMiles and for the card moving forward.

So we have a lot of exciting things we'll be talking about in early 2023 and when we get to Investor Day in June – see, I gave the month anyway, when we get to our Investor Day in June, we'll have a lot more details for you about where we take this next. But I think it's very exciting, big things are coming in 2023. And investing in customer value, I think we've just started scratching the surface on things like small business where we've gotten incredible traction with American Express, non-air partnerships, right. These are things I was looking out the window here. If you look out the window, it says Delta Fashions, well, that's not our next one. But we have a lot of things on the travel ribbon. We will sell next year \$0.5 billion of car rentals through on the site, all right, \$0.5 billion of car rentals, so \$1 billion of vacation packages, and continuing to grow those ecosystems. So there's a lot more to do here.

We talked about our success of our premium loyalty. We talked about expanding the ancillary businesses, cars, cruises, vacations. But our goal here is to continue on our journey for revenue diversification. And I think we laid this out pretty well in last year. And I just wanted to give you the update of where we sit today with 55% of our revenues to be premium products and non-ticket. And by 2023, 57%, our goal is 60%-plus. And when you think about it, and this is one that I think continuing to make the airline more premium we think is resilient not only in good economic times, but in challenged economic times as well. I think when you think about what we're facing right now with inflation and we see who – where the savings sit, who's planning on traveling more, we see that the premium sector is the one that is the most resilient, the people who have a lot of wealth in this country plan on continuing to travel next year.

And when we look at what our mix is, we have really not that many seats for the lowest and the commoditized. And if we go back to 2019, we had probably 10% to 15% of our seats were sold in basic economy. Today that's less than 5%. Less than 5% sold at the commodity side of the business. And everything else is a value-add to that. Everybody else is selecting something that is not at the bottom end of the spectrum, and I think that just demonstrates that we are continuing to move our products and services to be designed for those customers who are willing to pay for something other than just a seat.

And we do think that through the pandemic, through recession, through off-cycle, all parts of the cycle that this will be the more resilient. And they may pay for it differently, but we're indifferent to that. I think the model that we're creating is that you can get into those premium products many different ways, right. If you're wanting to – once you get there, 70% intend to repurchase, so pretty sticky. And, say, you're a little bit strained on your budget, but you've got a bunch of SkyMiles and you want to get to sit domestically first, okay, you buy the ticket in coach, but then you use your miles to upgrade. So we've created an ecosystem that we think is resilient and that we're indifferent to. We don't care whether you use your SkyMiles or whether or not you're buying in cash, because it's the same transaction to us in terms of revenue base.

And last, I think we've done a great job. This year we had some really big announcements with partners like Starbucks, Instacart, and of course, our historic partner, Lyft, but continuing to grow our ecosystem. I think other big brands like Starbucks are seeing value in partnering with Delta and the SkyMiles team for us to drive more revenue to them and for vice versa. So, I think we're in a very exciting position. We have a lot of upside in this space. And really, it's about our future here.

So with that, I'd like to turn it over to my good friend, Dan Janki, to run you through what does that mean to our financials.

Daniel C. Janki

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

Yes. I didn't get to see his timer, Ed. I think he hit me over. So, well, welcome. It's great to be here with you again a year from when we were last time together. What I want to do is take you through our financial framework, our progress on that as it relates to our three-year plan. Really want to focus on three key items. First, cost, cost execution; two, the opportunity in front of us as it relates to margin expansion; and then cash, cash generation and the capital allocation and being disciplined about reinvesting back in the business, but also driving down towards our leverage goals while enhancing the return on invested capital. Those will be the three primary focus.

But let me start with how we're closing out the year. We're really pleased and proud of how the Delta team is performing here as we close out the year ahead of our initial guidance, operating margins of 11%, earnings per share \$1.35 to \$1.40. That puts us for the total year over \$3 as the first year of our three-year plan, as Ed talked about, three consecutive quarters of double-digit operating margins and continuing to close that gap to 2019. Now, it certainly didn't go as we expected and as it came out, but strong results. We lived in environment of elevated input costs both as it relates to fuel and non-fuel costs that I'll talk about. So, feel like the momentum is building here at Delta, first year of the three-year plan on track, the third year of having EPS greater than \$7 per share.

So I want to start with cost. Talk a little bit about where we are, where we're going. As we talked about throughout this year, our non-fuel costs were higher than we anticipated or higher than our plan. There are three primary drivers to that. One was the pace of restoration; two, the intensity of the rebuild effort; and then the third one was broad-based inflation. So let me first start with rebuild.

Hired over 25,000 people here, tremendous amount of resources that consumed, that was effort both formally and also informally related to that, and it also created a lot of inefficiencies. As we talked about on the third quarter earnings call, we're carrying over \$1 billion of excess costs in 2022 related to this rebuild and related to those inefficiencies. The second driver was the pace. And as Ed talked about, we made intentional decisions in the second quarter to slow the pace, intentional investments to protect our operations, ensure that we run it at industry leading, what we expect of ourselves, but more importantly, what our customers expect of us. That resulted in our capacity being five points lower than we planned.

The third one, industry-wide inflation, predominantly in two areas related to our purchased goods and services, more on the service side than on the goods side, contracted labor was a key driver there. And then the other one was the reset that we're seeing in the regional industry as it relate to regional cost drivers. So those were the drivers that kept us above plan. Those costs, you can see on a comparison basis 2019 peaked in the summer period. As we run this reliable operational performance, it's allowing us to put in relative capacity restoration. You see the step-up in capacity of being in the low-90s versus low-80s, and you also then see the benefit that we get sequentially as it relates to scale and efficiency here and as we close out the year.

So, 2022, the work's not done, it was a heavy lift year, took a lot of effort and intensity as we built the capabilities to fully restore with an eye to the summer of 2023. So, as we get into 2023, it's about a year of growing into that infrastructure that we've built and completing the final components of rebuild in the first half of the year. We expect our non-fuel costs to be down 5% to 7% on a year-over-year basis. Certainly this is predicated just like what Glen talked you through as relates to the commercial strategy and we're going on running industry-leading operations. That enables both the commercial strategy. It also enables the ability to drive cost and cost efficiency. Cost comes from three categories, first the scale and growth. Glen walked through a lot of components of that. I'll also share kind of where we're doing that, how we're doing it, and why it's cost effective.

Second piece is on efficiency. Starting to make progress, but the real marker that we have as we go through the year is to have our operating groups at or near their historical productivity levels as we execute through the back half of the year. And then the other one is completing the rebuild. We will have rebuild costs down \$350 million year-over-year, 2022 to 2023. And the rebuild that we do have left to do will be substantially completed in the first half of the year.

So maybe if I just give you a few examples, give us confidence both in the capacity, but also the drivers of our efficiency and the completion of the rebuild. First, crew resources, pilot, this past year, hired record levels, 2,500. We completed over 6,000 qualification events, both of those at historical levels. As we progress through and into the second quarter, that May time period, those will revert back to historical levels. That allows us to take 1,000 resources out of training and put them into production. That's two things, one, it gives you the confidence and ability to deliver a fully restored network in the summer, but also it completes the rebuild and reduction of those rebuild costs.

Another place you can look as it relates to those operating metrics of getting efficiency is where we're putting this capacity. Take our airport operations. They're effectively staffed. And on most days we're staffed to the peak to ensure operational reliability at the peak. As we add this capacity in, we're adding it into those – giving it breadth and depth into those morning banks, into those valuable afternoon banks that Glen talks about, both for local traffic and for connecting traffic. That allows our hours per departure to be down mid-teens year-over-year, thus creating those types of efficiencies.

That is the drivers of the operating leverage, you get to scale, you get to efficiency, you get to completion of the rebuild and reduction and rebuild cost. That operating leverage more than offsets the costs that we have in here as it relates to the increase in supplier. We expect another year where we'll take some inflation related to our supply base. It also anticipates a full year run rate related to the step-up and reset of the regional flying cost. And it has our traditional Delta labor escalation in there for our workers. But as Ed pointed out, it does not include the agreement in principle that we have with our pilots. And continue to make those investments that we talked about last year as it relates to our SkyClubs, our airports, technology and Clean. So we certainly know what it takes to deliver this improvement. We expect to improve in 2023 and then again in 2024.

So, this is a little bit about how all this ties into exactly what Glen talked about. It's where do we get that efficient low-cost growth, what are the drivers of it. Part of it is the how. That's the increase in the utilization of assets that we already have in place. This is getting the utilization out of our fleet. You see it returning close to 2019 levels. We're doing that with greater gauge and fewer departures, making it more cost effective. The other piece of this is we're rebuilding, and Glen went through details as we go through the international piece. That's low-cost flying that we're putting in place as we restore that network. We're also doing it with the next-generation aircraft that he talked about and its competitive advantage versus the current fleet.

And then the third piece of this really ties into the next component, which is the domestic element of this, where over 75% of our growth is going into those competitively advantaged core hubs that are extremely cost-efficient, higher margin than the coastals, and why is that? That's scale, right. High local passenger share, 6 out of 10 passengers connecting through that and those are our lowest cost per enplanement hubs that we have, lowest cost in the system and also competitively advantaged versus our peers.

The other thing that gives me confidence is almost half of that growth is going into Atlanta. That's our biggest, most profitable hub, deep operational capabilities, got a deep team and advantage from it. So, not only does this work from a commercial strategy, but it enables the cost and the cost efficiency associated with it. And this is what drives the improvement in 2023 year-over-year.

So with that, we run the business, as you can hear everyone talk about, for margins. We certainly look at the unit revenue and we look at the unit costs, but you always put them back together as it relates to where are we as it relates to margins. To execute that commercial strategy that Glen talked through, whether it's premium, loyalty, where we're putting the growth, how we're putting it in with the operating leverage that we get from scale, efficiency and the completion of rebuild, that coupled with the fleet renewal, allows for three-point step-up as it relates to operating margins next year, 10% to 12%, significant, and then additional step-up as we go into 2024.

And this is important here because I think Ed had that slide that showed what has transpired over time. And this isn't new to the Delta team. When you look at what the Delta team did from 2009 to 2019, it was foundational to that, efficient growth, but with efficiency, with expanding margins to the mid-teens, outpacing the industry by 400 basis points. So, team's got a track record of it. This is the focus. This is what drives the earnings power and the cash flow of the company.

So, first year, over \$3 a share here as we close out the year, on path for the \$5 to \$6 next year and greater than \$7 in 2024. Certainly, as I talked about margins it's the fuel that drives that earnings growth, but also importantly, it drives cash. And that cash is what allows us to not only generate free cash flow, it allows us to invest back in the business, be disciplined about it, around fleet in the air, on the ground, our ground capital, our airports, but at the same time continue to drive this journey of deleveraging, strengthening the balance sheet. We expect to end this year at 5 times leverage. Next year we'll be at 3 to 3.5 times. Well on our way to where we want to be a strong investment grade of 2 to 3 times. Maybe a couple of points to talk about related to that. One, that's not all intuitive is it relates to the pension, too, over this period of time. About the pension, from where it was, you could go back a decade, but you can also go back three years and you can look at it on a cash funded status. It's just around 90%. Today it's over a 100%. 2019, 2020, if you added that to your debt metrics, you'd be adding in \$5 billion to \$6 billion of liability. Today where we sit, it's zero.

So, pension adjusted, our leverage number without the pension 1.7x in 2019, with the pension 2.3x. We'll be within one turn next year of that. And we've done that as Ed talked about. We didn't dilute shareholders during the pandemic. So this is, again, [ph] heated (01:16:13), disciplined capital allocation, continuing to build a strong balance sheet for the future.

Now with that, when you do that, you have efficient growth, drive productivity, expand margins, power earnings, powers cash, right. You grow return on invested capital. All those elements work. That's what we're focused on. I'm excited. I see – I'm confident in the future in regards to where we're going as a company. It's certainly mindful that the economic environment we set here last year, a lot of things ended up happening differently than we expected. I'm sure that will be the cases. Ed and Glen remind me, there's always punches in this business. But we will be nimble, we'll be agile, and adjust to it and continue to deliver for our customers, our employees, and importantly, our shareholders.

So with that, we're going to convert the stage here a little bit, I think, set up the chairs, and we're going to go to an active Q&A. So, thank you.

QUESTION AND ANSWER SECTION

Michael Linenberg

Analyst, Deutsche Bank Securities, Inc.

Q

Thanks on a very comprehensive presentation. It's Mike Linenberg here from Deutsche Bank. I have two questions. I guess, first one to Dan. It's great to see that your pension is fully funded, but few years ago it was a \$5 billion or \$6 billion headwind, so you're that much closer to the investment grade metrics that you aspire to get to. Is that benefit a function of a step-up in the discount rate this year or have you yet to do that? And as we think about pension expense next year, it seems like almost every asset class has had a negative return unless [ph] you were along Brazil or (01:19:32) something, or cash. When I think about the returns in your pension versus that discount rate, like how should we think about pension expense in 2023 and the cash versus non-cash component?

Daniel C. Janki

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

A

Yeah. I'd say the – it's not just about this year as it relates to the pension performance. If you put this up 10 years and look at what John and the team have done regards to how they've managed it and managed the returns over time, along with the company's commitment to putting cash in [indiscernible] (01:20:00) leading up to 2019 and during the pandemic contributed cash to it, that is really what happened. And if you go back and just look at last year, that net liability was just below \$2 billion. So it's continued improvement. Certainly rates help as it relates to liability side.

As it relates to pension expense, pension expense will be up year-over-year. It's a function of the returns in the current year and the asset base you snap at once at the end of the year and it will be up between \$500 million and \$550 million. I remind you that's non-cash as it relates to that. Also in the other item, you have interest expense down and others down about \$150 million. So in that non-op piece, you can expect it to be up about \$400 million, and that's in what we've laid out for you.

Michael Linenberg

Analyst, Deutsche Bank Securities, Inc.

Q

Okay, great. And then just my second question now to Glen, I think we've had what, about a year, year and a half now of no change fees. I think now it's both domestic, international, I think maybe it's across your entire network. How do you think that has influenced customer behavior and also the fact that now you're that much more

competitive against some of the carriers out there with maybe the lowest fares, but they have still pretty significant change fees? If you can just talk about how things have evolved on that. Thank you.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Well, I think we had to do it in the pandemic is that we needed to get confidence back in travel, and with the spikes and the different strains, people needed to feel secure that if they booked that they were not going to get put in a bad position. And I think what we have seen is that we don't want to be punitive, right, is that – that was one of the genesis. We were on a process to morph them anyway because they had just become punitive. And what we want to do is we want to give people choices at booking. So whether or not it's the flex fares that we offer today that are fully refundable on top of just about any fare except for basic that you can buy or whether or not it's the products that we sell, that we want to better meet the needs of our customers, and that's our driving force between all these decisions.

And so, as we look, we think that we've been able to make up a good chunk of that, but still it creates churn that is not what we would want ultimately. So I think on the margin, we're looking at things that could slow or prevent churn, but never a change fee again. We've crossed that bridge, and look at how well we're doing without it. So why put that annoyance back into the purchase path and lack of confidence. So it's more now to create things that people want to buy rather than things that threaten them if they change their mind or want to make changes.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

Hi. Good morning, guys. Sheila Kahyaoglu from Jefferies. In terms of your cost guidance, maybe Dan for you, in 2021 you gave some buckets that are contributing to the increasing CASM-Ex, whether that was investments, inflation, how do you think about that breakout with the 10% to 12% non-fuel costs and some of the pilot assumptions you have embedded in there?

Daniel C. Janki

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

A

Well, just to be clear, we said the pilot AIP is not in the cost guidance. When you go back and as it relates to CASM, you think about the same elements, right. As we think about going from 2022 to 2023, that scale and efficiency that gives you the vast majority of the driver, right, of the improvement. That's 11 points of your improvement if you compare it to 2019, somewhat similar on a year-over-year basis, the rounding might be a little bit different. And then that – and that's all from the scale and efficiency. You get the benefit of your rebuild, your transition being down one, and that's in that 11 points, right. And then you have the four points going against you, which is what you'd expect. It's the element of our Delta-specific investments. We're talking about airport Sky Clubs technology that we laid out in those buckets. Plus, the inflation, the inflation and labor escalation which is the supply base, the regional reset and then also the component with the non-pilot Delta wage increase escalation in there.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

And then just on international, as you think about your international playbook, how do you think about what regions and partnerships are contributing most of that and the biggest opportunities?

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

You want to take that?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Well, clearly the Transatlantic is our largest entity by far, and so that we're planning on having a very solid summer. And I think a lot of questions this morning I got at breakfast were about a recession in Europe. I think for all intents and purposes, we're in a recession in Europe. How bad it gets? I don't know. But we're already there. And we have seen the travel patterns have held up well during off-peak, and advance bookings for peak summer travel which are 80% US-based anyway. So, the winter is the one that's more European. So if we make it through the winter as we see which is a positive in terms of our total capacity, positive in terms of our unit revenue, I think that sets up really well for our summer peak.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Thanks. It's Scott Group from Wolfe. Can you guys maybe just start, just to clarify I think, Dan, you said that the pilots excluded from CASM, I thought Ed, you said that was included in earnings, so I'm not...

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Yeah, just to be clear, we're not going to discuss pilots now. So I'm going to head off your question. But what I'll clarify is I said in the big earning, the guidepost in our margin, in our EPS, in our leverage ratios that it embeds the assumption that the pilot contract is approved. We've not drilled that into revenue. We're not drilled that into the cost lines, and so we just want to be clear on that.

Scott H. Group

Analyst, Wolfe Research LLC

Q

Okay. That helps. And then just one more clarification then, Dan, the pension headwind you just talked about, that's below the line, that would not be impacted in CASM?

Daniel C. Janki

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

A

Yes, so it's below operating margin, above pre-tax, yeah.

Scott H. Group

Analyst, Wolfe Research LLC

Q

And then you had a slide showing the path for international to go from high singles towards I guess teens margins, what's the timeline to get there and how much of that you get in the 2023-2024 margin update?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Yeah, I think we should be fully there by 2025. So it's between now and the end of 2024.

Brandon R. Oglenski

Analyst, Barclays Capital, Inc.

Q

Hi. Brandon Oglenski from Barclays. Thanks for doing this today. So, [indiscernible] (01:26:51) I think called out real GDP being flat in 2023. And obviously [indiscernible] (01:26:56) Omicron in the first quarter, so revenue being

up quite a bit, but how conservative of an assumption is that on the demand outlook? And I guess, what is the tolerance of margins or demand doesn't hit plan, what are some levers that you can point? Now, I asked one of your competitors the same question, but it seems like the industry is very focused right now on rebuilding, getting back to where they were. So, what do you do if the economic forecast doesn't come to fruition?

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Well, maybe let me start there and Glen and Dan, you could jump in if you want. Listen, I think GDP is a bit anyone's guess. But I can also tell you that this is a company that's just come through a pandemic. So we are very sensitive to the economic outlook here and we have a lot of levers that we're willing to pull. The capacity you have in here, I do describe as aspirational. So, assuming we hit the core economic underlying growth that we're assuming even in a flattish environment. But to the extent we're not seeing it, we're not going to bring it back, we're going to adjust it. We're going to do different things with the assets. I think we have a lot of levers in that.

Then your question really to me is more on the strength, the revenue strength, and that's why I spent the time at the start of the presentation looking at, we think there is sustainable macro trends impacting our industry that are going to be greater than any one individual airlines initiatives or plans, it's going to continue to supply a lot of growth. And I think that unmet demand is going to stay around for quite an extended period of time.

Brandon R. Oglenski

Analyst, Barclays Capital, Inc.

Q

I guess, as a quick follow-up, things that have changed since the last time we were doing this a year ago, interest rates are up quite a bit, so how does that change your capital allocation strategy because CapEx staying about the same, obviously you guys didn't come with an \$11 billion plan, but can you talk about the need for replacement versus higher interest rates?

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Again, I could start. We're not going to comment on some other competitor's CapEx. But we don't throw moon shots out there. We don't do once in a generation. We see other airlines do that occasionally. We've been very disciplined about doing it on an annualized basis. And we're always looking out relatively to our order book, three to five years out, and we buy aircraft all the time. We don't wait. But we always want to maintain the flexibility and the agility because we do have a volatile industry in which we operate in and subject to a lot of different economic forces.

Could we flex down that CapEx? Yeah, we could on the margin, absolutely. But we're really wanting to make certain that we're in good shape to catch the demand that we have confidence in. And a lot of that CapEx is going to be not growth, it's going to be replacement. And by definition, it's going to have a lot of efficiency even in an economic downturn. But we're pretty much looking at three to five years. We're always looking at three to five years. And we'll have – OEMs are always interested in getting Delta business.

Daniel C. Janki

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

A

And we're funding that with the operating cash flow, so we're paying cash for these assets. And while over this period of time of 2023 and 2024, we're also deleveraging not only with the normal maturities, but also in a way reducing the debt.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.



Hey, it's Savi Syth from Raymond James. Could you talk a little bit about the MRO side of things, just what you're seeing from third-party and even just on Delta, the things that you maybe just do for your fleet, and your kind of confidence in kind of keeping reliability and getting the fleet that you need given the supply chain issues we've been seeing?

Daniel C. Janki

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



Yeah, I certainly – we're fortunate, one is we have a great team at TechOps and a really deep team, both on the operating side, but also on the technical side, the engineering groups. We work really closely with the OEMs, both the airframers, the engine makers, the component makers. And certainly there are constraints in the system. Every day it is changing as it relates to what part, what material whereabouts it is. We've been – our team has done a better job about getting out in front of, I still remember at the beginning of 2022, we were with one of the engine makers, we started to talk about we could give them longer forecasts related to material and regards that then they could align. So, the teams have been systematically doing that with their own, so that they get better transparency to our demand, and then we're able to manage it. So, the real focus has been ensuring that we can take care of the Delta's needs and that we're lined up for that. And we continue to do that on the MRO side where our customers are – were coming off. So we're not yet back to where we work on the business, and part of that is because we're really busy at Delta with the full amount of aircraft that we've done and the induction into service and the repair of our own fleet and ensuring that we can fully restore.

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.



Yeah, it's certainly one of the businesses that we didn't slow down, we maintained what we have, but we wouldn't push investment, because we needed to take care of our own. There was labor shortage, and obviously the labor pushed towards the Delta side. Next year we took care of our own needs. It will be a topic we'll discuss in June, because I think it's – to me it's still a \$5 billion external, you know, additional revenue source. So, today's it's around \$1 billion. And so I see massive growth opportunities over the remainder of this decade in that business. And we've got all of the deals in place. We've got all of the – we've got the pipeline of orders in place. And now it's just up for us to kind of get the focus on the management team and the resources to go execute.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.



And then if I might ask, just ask on the regional side. And, Glen, you mentioned some of the changes that you're making. I'm curious what the changes you're making kind of near-term versus maybe as this kind of gets resolved, what you might return to, like what that component within Delta looks like? And just curious if in the cost guide if you're assuming in 2023 like a full pass-through to your regional partners or is that something that kind of continues to go up as contracts come up and they get renewed?

Glen William Hauenstein

President, Delta Air Lines, Inc.



So you have a couple of questions there. The first thing is we've experienced a dramatic increase in the labor rates at the regional carriers in 2022. And that was in hopes of stabilizing the supply. I don't know the exact impact on that, but it's going to take a while for that to really flow through, and that's why we're not counting on it coming back until 2024. I guess, the question that you have is we will not be – as I said, we'll exit our commitment on flying our own 50-seat regional jets by the summer. We may have some prorate, but if they want to prorate

with us, they're going to have to have two classes of service on that airplane. But we will be out of the 50-seat business. So that's about 50 to 100 airplanes that we had in 2019 that will not be coming back. We have a 325 limit on the two-class RJs with our pilots and we haven't made total commitments on how many of those we intend to fly. But clearly with the escalation of costs there, the number is going to be biased towards smaller, as this comes back, not larger.

So that wasn't one of our big pilot negotiations. It was could we have more two class RJs that's kind of something that we've passed in terms of the importance of them in the total network. And I think we were first in de-emphasizing Ed – when Ed came back to Delta, we had 500 50-seat regional jets in the network, 550.

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

Yeah.

A

Glen William Hauenstein

President, Delta Air Lines, Inc.

So that's been a long transition. And I think we're ahead of the curve and we need to stay ahead of that curve.

A

Daniel C. Janki

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

And the cost guide does have what we believe is the full reset of those costs. Won't comment on whether it's a full pass-through, but our teams [indiscernible] (01:35:54) but it's what our view is today. But for those changes in rates, we've also made sure that we have the flexibility as it relates to being able to sit down aircraft related to those agreements, so that we can keep driving the utilization over time.

A

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Hey, good morning. Jamie Baker with JPMorgan. Two for Glen. First, you cited some corporate survey work that suggests a healthy step-up in the first quarter. What sort of businesses does that skew towards? And I only ask because the headlines coming out of the tech sector are grim at best, and speaking for the investment banks, probably not much better?

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

Right. Well, the ones that are skewing towards are the consultant firms. And they've been, of course, one of our biggest users, and they essentially were not travelling in 2022 and they're looking forward to travelling in 2023, as well as financial services, which – well, you may be shrinking your total workforce, I think if you look at your work calendar next year, you're probably going to travel more than you did this year.

A

And I think when you have to think of it in terms of the more macro thesis is that New York is going to get better. I think one of the great things about coming and seeing you all again this year versus last year is the streets are a lot more lively this year than they were last year. And I think we're all feeling a sense of confidence. New York has been a laggard in terms of return, and seeing New York take that next leg up is going to – is really one of the key drivers. But really excited about those numbers we're seeing back from across all spectrums.

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

And if I could add, just supplement Glen, it's the professional service firms, not just the consultancies.

A

Glen William Hauenstein

President, Delta Air Lines, Inc.

Yeah.

A

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

And one of the big factors that we are seeing is that people are returning to office more frequently and with longer duration. It's what inspiring the professional service firms to get out, because they can't go visit clients if they're not in their office. And so the – there's a pretty significant move we've seen over the balance of this year in terms of people starting to get back to office for various reasons. That's driving the law firms, that's driving the consultants, driving the accountants and all the professional service providers. I think that's got a nice leg to go there.

A

Jamie N. Baker

Analyst, JPMorgan Securities LLC

And second, it's a bit of a follow-up to Savi's question on the regional front, given the upheaval there, what we're seeing with rates, cessation of service to smaller communities, keep hearing that the A319s to the new RJ. How does this play right at the industry level? Does this create more opportunity for Delta or do the returns accrue to your discount competitors? Thanks.

Q

Glen William Hauenstein

President, Delta Air Lines, Inc.

I think we are uniquely positioned with the A220 fleet as well as the 717 fleet. And so if you look at what we've done in a market like Asheville, because we have larger local markets and we're in big city hubs, we're able to up gauge those frequencies and sustain forward momentum. So Asheville, for example, used to be served seven or eight times a day on two-class RJs, now served six times a day on 717s. Revenues up, margins are up, relative positioning is up.

A

So I think there's opportunities in here. It's now without its challenges for every airline. I'm not going to speak to them, I'm going to speak to us. And it clearly does have its challenges, but it also has its opportunities.

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

And as you know, Jamie, the A220 and the 717s are unique assets only, Delta has amongst the majors.

A

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

Yeah, we have...

A

Daniel C. Janki

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

We have – we've got 65 flying, we've got – on the 717s, and we've got the ability to flex up from there.

A

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

We're going another...

A

Daniel C. Janki

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

Grew another 15.

A

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

...up to 80 and – up to 100 A220s.

A

Glen William Hauenstein

President, Delta Air Lines, Inc.

Yeah. And..

A

Jamie N. Baker

Analyst, JPMorgan Securities LLC

[indiscernible] (01:38:35) correct?

Q

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

Is that, okay, yes.

A

Glen William Hauenstein

President, Delta Air Lines, Inc.

Yeah.

A

Jamie N. Baker

Analyst, JPMorgan Securities LLC

[indiscernible] (01:38:40)

Q

Duane Pfennigwerth

Analyst, Evercore ISI

Hey. Good morning. Duane Pfennigwerth with Evercore ISI. Thanks for hosting today. Ed, just to follow up on a comment you made earlier in Jamie's question on corporate. It was the first I'd heard you sort of – it felt like a hedge, but maybe you could just expand on it a little bit. We never expected corporate to come back all the way. We're at 80%. Clearly, there's some constructive commentary about early 2023 that it continued – it can continue to grind higher.

Q

So was that a statement that we don't need it to get to 100% to hit your financial targets, or has there been some rethinking, learning along the way to make you think that we can't get back to – again all your GDP slides, GDP is bigger than 2019, not really sure why corporate at some point wouldn't be well north of 2019 as well.

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

I think it could be, Duane. And it wasn't a hedge as much as – that I think that's – we're still learning as we go. We're prepared for not to come back to a classic business return pattern. And by the way, we don't need it to come back because a lot of those people are on our planes doing different things, traveling more – through mobility as compared to on their classic business [ph] patterns (01:39:54). They're living in different cities and different regions of the country.

They're traveling into offices for the first time as compared to living in a city. So, I think it's something we're continuing to learn. But I don't think that the pattern of 2019 for corporate travel is going to look like what we're seeing into the future. And like everything else, I think it's going to be in over rotation for a while. And for some period of time, in the next couple of years, people are pushing out because in a recessionary environment, what's the first thing that gets chopped is corporate travel because it's easy, it's discretionary. This is not a recession where you could do that. This is a recession you have to grow your top line because they already have the cost out of it. So the incremental reduction of travel spend is not going to matter relative to getting back out with your customers.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Could I add one comment to that? Is that – I think the differential between high demand leisure, high yield leisure and business has converged over time. And so the trade-downs aren't as pronounced as they were historically, which I think is a great shock absorber for us.

Duane Pfennigwerth

Analyst, Evercore ISI

Q

Okay. Thanks. That's helpful. And my follow-up is just on the refinery. I know there's been kind of an on-again/off-again over the years. My guess is this summer, in June and July, you might have sent Richard a thank-you note on having a refinery. It looked like a really good thing to have. So I just wonder, what's the future, how do you think about it, is this something that you're going to look to kind of simplify over time?

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

We've said over time that we would be interested in enlisting a strategic partner at the refinery, given the pretty significant capital requirements that we are looking at. This year, we're going to make \$700 million to \$800 million net cash at the refinery, so that funds the CapEx for some period of time, takes a little bit of that pressure off of it in the interim. But we'll continue to manage it. It's a valuable asset that in this environment with high-fuel prices, high cracks particularly as – really the environment which we bought it 10 years ago is for that environment.

Duane Pfennigwerth

Analyst, Evercore ISI

Q

Thank you.

Helane Becker

Analyst, Cowen and Company, LLC

Q

It's Helane Becker with Cowen. So just a question on growth that you're planning to do at the hubs, is – are the facilities able to keep up with you, are there enough airport personnel provided by the airports themselves,

infrastructure, runway issues? Are you able maybe parse out what percent is restoration and what percent is actually growth?

Glen William Hauenstein

President, Delta Air Lines, Inc.

Sure. I think all of them, it's restorations.

A

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

Yeah.

A

Glen William Hauenstein

President, Delta Air Lines, Inc.

So I think if you take Atlanta, which is our largest hub, in the summer of 2019, we were running just under 1.1 million seats a week through the hub. As we look at this summer schedule, we're running probably just at best right around 1 million seats. So the facility is sized for something much larger. And we're doing it on a fewer departures because the gauge is way up. So the runways are not constrained and – so then, do we have the personnel on the airports? Absolutely, because we're filling in the valleys, not the peaks or – and the very beginning and end of the day are the anchors.

And then, the time throughout the day is – are the times we'll be filling up. And so that, I think, not only is it more efficient throughput for us, it's more efficient throughput for the airports. Not the airports, but TSAs is really the...

A

Daniel C. Janki

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

Yeah. So much.

A

Glen William Hauenstein

President, Delta Air Lines, Inc.

...and CBP are the – but I think we have a very solid plan for that. And at none of the hubs are we running seats that are below or above our peak summer of 2019. So we're below at all the major hubs except Salt Lake, which is different because they have all the new gates.

A

Daniel C. Janki

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

All the growth, yeah.

A

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A lot of bigger [ph] gauge (01:43:32). And don't forget that these hubs are major profit centers for these communities, these cities. And so they want to invest in the resources locally to help us grow. So it's good for – all the way around.

A

Helene Becker

Analyst, Cowen and Company, LLC

Q

Okay. And then, just as a follow-up question, and I heard you this morning talk about return of capital and you were not planning on doing that. And you said in the last earnings call, too, I think that the goal is to pay down debt and reduce leverage. But is there a point in – at some point in the next maybe year to 18 months where the board says we've accomplished our goals, and at this point, let's revisit a dividend or share repurchase program.

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Yeah. So we will revisit it at some point. We're not ready to revisit it currently. Certainly not share repurchases until we get back to that investment grade like debt structure. And even then, it will be a question as to whether that's good enough to start a share repurchase. Dividend is a little different. It's smaller. It's a little more manageable. But in the near term, I would not count it. But we'll talk with our board at every meeting and the topic comes up. But until we get a better fix on the business, until we hit those 2024 and have confidence on those 2024 goals, I think that's a luxury to come.

Helane Becker

Analyst, Cowen and Company, LLC

Q

Great. Thank you.

David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

Hey. Good morning, guys, up here in the front. David Vernon from Bernstein. Glen, I want to ask you a question about the revenue outlook for 2023. You laid out some pretty exciting things like the growth of the core hubs being at a higher RASM, the growth of Premium coming in, the Card program performing pretty well.

But if you look at the guide, you've got ASMs growing faster than unit revenues. Can you talk about some of the thinking behind what went into the construction of the guide, the puts and the takes, trying to figure out how do we think about this as being a conservative outlook or a not-so-conservative outlook because it would seem like there's enough stuff going on in there from a Premium standpoint and everything else where it might be – it can be a little bit better but...

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Right. I think the quarter, again, we know the most about is the first quarter and we're very optimistic versus last year or versus 2019. That was continuing to show forward momentum. I think in the second – in the back half of the year, it's really related to fuel price and fuel price recapture that the forward curves are significantly lower. And we had a big fuel price spike last year. And fuel is a great unknown.

So I'll pass it over to Dan here because it's really – that's the big driver is what is fuel going to be in this year and the industry has had a pretty effective recapture on fuel. So I think that's what's driving our...

Daniel C. Janki

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

A

Yeah, that is it.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

...our unit revenues down is really but fuel is multibillion dollar good guy.

David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

All right. Then maybe just as a quick follow-up. 2022 to 2023, the 300 basis points of margin expansion utilizing the assets you hired ahead of demand. I think I get that. 2023 to 2024, same rate of margin expansion. What are the levers that you guys are expecting to pull because it would seem like 2022 to 2023, just given the fact that your staff for 2019 flying and are way below would be a little bit easier than maybe going 2023 to 2024 with an additional 300 bps. If you could just kind of talk about high-level what's embedded in your thinking there?

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

So just think about these years are points of time.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Yeah.

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Right? But we're continuing to make progress every quarter as we push forward. So let's talk about 2023. 2023, first quarter of 2023 is going to be real easy to comp versus first quarter of 2022 with on the ground. So Glen is talking about revenue, but that was – the real question on revenue is going to come the summer when you're starting to comp a more – much more robust picture.

But the same things on the cost side as you continue to push forward, every quarter, we should get healthier as we go in operations, the demand picture, the durability of that. There'll be some ins and outs on fuel and there'll be some ins and outs in terms of where the overall capacity [ph] comes versus supply (01:47:31). But where our assumption is, is that there's going to be some pretty strong revenue demand. As we measured, that's not going to be a kind of a one and done, kind of [indiscernible] (01:47:44) the pandemic is behind us. Now, we get back into some normal travel behaviors. I think it is going to continue to stay strong.

I think the growth, the capacity growth in here is probably the best we could do. [ph] I'd say, (01:47:55) over or under, I'd say, we might come in a little less on that. And that's going to continue to be a push for 2024. And I think international is a big contributor to – going from 2023-2024. International is still not up really and it's just starting in Asia. Latin – turning on LATAM is going to be a big contributor. We're just starting there physically now. These things will have a lead time and they take time. So I think those are some of the things, David.

Don't forget, also profit sharing is a difference here. We'll have a higher profit sharing payment next year versus this year, and got to kind of recalibrate for that just for that. So those are some of the factors, but the single biggest one is also that pension, \$0.5 billion noncash versus 2022 that we're having to cover in that. So you put that all together, and obviously, we feel a lot better about the 2023 than the 2024. We haven't done the 2024 detail plan, but we see the momentum continuing to push through the year.

David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

Thanks. It's helpful.

Conor Cunningham

Analyst, Melius Research LLC



Hi, everyone. Conor Cunningham at Melius. Hi. Glen, hi. Just on the coastal hub – the core hub versus coastal hub strategy in the 2023, I totally get why you would be like restoring all the capacity in the core markets that make sense, but it's hard – you show a difference in profitability at core versus coastal. I would imagine longer term, you want to make the coastal hubs more profitable than what they are now.

Do you need to restore the core markets before you can get back to focusing on coastal hubs again? And is there an international component on itineraries that maybe there's a long tail wind there that could be a nice one for you?

Glen William Hauenstein

President, Delta Air Lines, Inc.



Right. I think the – one of the key reasons we love the coastal hubs is they tend to be in the biggest international markets. So having that as the platform for furthering international growth in our years is going to be really key. If you think about our hub networks and how they structure for Europe, for example, having Boston, and New York, and Atlanta on the East Coast is a really strong portfolio of US origin. Similarly, Seattle and Los Angeles on the West Coast are quite important as well.

So those are really long-term things. We said we want to preserve our opportunity, and yes, our aspirations are to continue to improve margins there and continue to ensure our presence there. It's just a priority of when you do it right.

And so this year, the priority in coming out of the pandemic in 2022 was in the coastal gateways to make sure that we preserve that platform for future growth. This year is about restoring the coastal hubs and really into 2024, because if you think about it, at a 101% restoration of ASMs and 98% restorations of seats which is what we showed you today with the coastal hubs being fully restored over a 100%, that means we still haven't gotten the interior hubs back to full restoration throughout 2022. So we have a little more work as we head into 2024 with that and then we can go back to a more balanced approach of how we indifferently assign the next airplane into the network.

Conor Cunningham

Analyst, Melius Research LLC



Okay. That's helpful. And then, on – there is some talk about pilots, I get that, you guys don't want to talk about that. That's fine. On the other employee side, you're not unionized there. There are – other airlines are going through contract negotiations as well, so there's likely another step-up on that side. Can you just talk about your – any headwind to the cost structure that that may have on 2023? Is it included already? And maybe just the benefit of being able to talk direct to your employee base relative to some of the other airlines as well.

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.



So one of the advantages of being non-union is that we have full flexibility in terms of keeping our employees, our non-unionized employees top of their profession. And in each category, whether it's a flight attendant, mechanics, airport agents, technologists, you name it, they are at the top of their scale. We've maintained it and actually have grown that over the course of the last few years.

So we're now facing step-ups. They're actually trying to catch Delta, the other guys, versus what we are. We have embedded in the plan another increase in the first early part of the new year that we think is – will be a meaningful but also important investment in our people, but it's not just scale. We – you saw what we did early this year about boarding [ph] pay (01:52:33) with our flight attendants. It's huge. It was a good cost investment in our people, but it also drove a whole lot of reliability on the plane and it gave us an opportunity to manage the operations better.

I always tell people that the most important job I have is to take care of our people and that's what we do and that's why we have the best service, we have the best performance, we have the best rewards. We have the best profit sharing. The model works really well.

Conor Cunningham

Analyst, Melius Research LLC

Thank you.

Q

Daniel McKenzie

Analyst, Seaport Global Securities LLC

Hey. Good morning. Dan McKenzie here from Seaport Global. A couple of questions. And Ed, your remark that international demand is really where US demand was and I think you said March or April. And so the question on the international side, just given the revenue leverage opportunities on the corporate side, I'm wondering if corporate demand – if it's 80% recovered in the system, in the back of my mind, I'm thinking maybe it's only 50% recovered on the international side. So I'm just wondering if you can elaborate a little bit more on the corporate long haul and how that's expected to perform in 2023?

Q

And then, related to that is LATAM we know how the JVs have worked to Europe. LATAM is kind of a newer opportunity. How do we think about Latin America? Is it – is that growth opportunity really a GDP opportunity? Or is there a chance or an opportunity to expand the network on that entity?

Glen William Hauenstein

President, Delta Air Lines, Inc.

Well, I'll start with your last question first. I think it's a little of both. I'll take Santiago which is our linchpin LATAM is headquartered in Santiago. And we upgraded – we historically flew 767 from Atlanta to Santiago. And I'd say, it wasn't one of our best performers. Now, with the LATAM agreement, with LATAM supporting us, and this is the early days. We upgraded that initially to an A350, and the A350 is producing better returns already than the 767 did in arrears.

A

So I think those are the kinds of opportunities. And using the LATAM presence for the South Florida market, which they serve almost all the markets to South Florida, using Atlanta as the connection point to the interiors of the US for LATAM customers, I think there's a lot of upside for us, and it'll be a combination, a few new flights, a lot of gauge, but really working on improving our margins together. And I think there's a lot of upside for both carriers.

On the second question is – listen, different geographies are in different stages. I'd say Europe's the furthest along in terms of corporate recovery followed by Latin. But Latin has been a recent trend and that's still evolving. And then last, the Pacific, where Japan just opening and China still closed. So, a little bit of everything in the international arena.

Daniel McKenzie

Analyst, Seaport Global Securities LLC

Q

Very good. Second question is for Dan. The \$700 million to \$800 million on Trainer is a really big number. And the way – it was something we haven't really talked about for a long time. But is this an entity that where the return on invested capital was simply tied to the crack spread, and are the returns sustainable in this this particular operation? Or is the value in this really more strategic, the ability to negotiate so that if you don't earn a return invested capital, you still – it still makes you sort of a stronger from a supply chain perspective?

Daniel C. Janki

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

A

Well, certainly, it's got to earn its keep on its own, right? And in this environment, it is extremely profitable and exactly why both on availability, but also on margin. I mean, there were times where even the New York Harbor market was tight from supply and we had certainty for ours.

The other piece I would say, though, is I think by having it – at least coming in and serving over the last 18 months, I think we're better at fuel management because of it. We – our team, when you – before these aren't – like came out of running airports, they've actually run pipelines. They've been a part of refineries, they've been in the oil and gas industry. And a big part of our fuel is the self-supply out of Trainer into the northeast, but we also – about another 30% we self-supply through the management and getting it actually physically to the airport. And the teams do a great job with that. I do think that gives us a position because of the expertise that we've built over time of people rotating through and working more deeply as it relates to that industry.

Daniel McKenzie

Analyst, Seaport Global Securities LLC

Q

Thank you.

Christopher Stathoulopoulos

Analyst, Susquehanna Financial Group LLLP

Q

Thanks. Chris Stathoulopoulos, Susquehanna International Group. So, Dan, on slide 27, the unit cost drivers on the operating leverage piece. Just if you could give a little bit more detail on two of those three items. On the efficiency side, if you could talk to how we should think about utilization or block hours per day and really if that's going to be second half-weighted for next year? And then on the low-cost capacity growth, is that really just adding seats or inventory into your core domestic hubs or is that coming from someplace else?

Daniel C. Janki

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

A

Yeah. As it relates to the low-cost growth, that is just – that's the incremental capacity that we talked about is both international and domestic coming in related to that. And the efficiency – I'm sorry I missed a part of your question on the efficiency.

Christopher Stathoulopoulos

Analyst, Susquehanna Financial Group LLLP

Q

Just on the – if you could help frame how we should think about utilization...

Daniel C. Janki

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

A

Well, utilization...

Christopher Stathoulopoulos

Analyst, Susquehanna Financial Group LLLP

Q

...or block hours per day or how you measure that and whether that's second half-weighted sort of outcome mix?

Daniel C. Janki

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

A

Yeah. Well, no, I think we – we have the – you see it in the – that utilization slide that we put up as it relates to the aircraft, right, and closing the gap to 2019 as we go 100%, that's as we put the capacity and certainly that gets the benefit of the summer, where we're fully utilizing the fleet. But it also talks to the components that Glen talked about how we're using the aircraft throughout the year and deploying them into other markets that's increasing that. And that's – we're getting that benefit as it relates to the mainline operation.

Christopher Stathoulopoulos

Analyst, Susquehanna Financial Group LLLP

Q

Thank you. And a follow-up question. Glen, I think this was a follow-on to Scott's question on the international market. You said that you expect to be there by 2025, which is a pretty significant step-up from where we are today. So if you could help, how much of that is coming from gauge, your order book or just a different configuration, and how much of that is just the unlocking and now recovery in your international partners? Thank you.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Yeah. I don't really know that we have an exact recovery. I'd say if you looked at the two key drivers, which are efficiency of the airplanes themselves, so gauge driving lower unit cost as well as the premium products, it's pretty evenly split between the two, right? The premium products which, for example, the Delta Premium Select, which is not even one full year into the marketplace, the maturation of that and getting that out and is available for sale as well as having a higher component of [ph] D1 and C-plus (01:59:31) seats, that's really one key driver. The other is the fleet efficiency, which comes in over time between now and 2025. And we're not at the – we're not done at 2025, right, we want to take this beyond. And so right now we're looking to 2025 and that's what we see between now and then. I think there's more upside beyond that.

Stephen Darrell Trent

Analyst, Citigroup Global Markets, Inc.

Q

Good morning. Steve Trent from Citi. Thank you very much for taking my question. I had a question on loyalty. From what I can see, you guys have been such a good counterparty for Amex, and maybe it also goes somewhat the other way. Do you sort of reach a point sort of medium or a longer term in the program where maybe you go back to them and there's wiggle room to negotiate better economics? I mean, I'm sure you already have a good view on that, but just...

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

We are always working together collaboratively. There's always points of – I wouldn't call them negotiations. We're not negotiating the big umbrella contract, but there's individual initiatives and opportunities for them to invest deeper, for us to invest deeper. This is a living, breathing partnership. That is the most valuable partnership

we have. It's the most valuable partnership they have. And so it gets my attention. It gets Squeri's attention. It gets our leadership team, Dwight, Glen. It runs through the operations. So we can see we're all incented to continue to grow it.

And I think Glen said on the presentation, while the contract that we designed back in 2017, I think – 2018, in that timeframe that we signed it, had a \$7 billion target by – five years, whatever that – those numbers are. That's not the stop. I mean, that was just kind of a near – that was just another checkpoint, but we see continued growth certainly as our companies become even more valuable to each other.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

And even more integrated.

Stephen Darrell Trent

Analyst, Citigroup Global Markets, Inc.

Q

Very helpful. And just a quick follow-up, kind of a follow-up to Dan's question earlier. When we think about the LATAM side and the opportunity for non-ticket revenue, I think I heard one of you gentlemen say \$500 million from [ph] Rent A Car (02:05:10). Could we see maybe some expansion of these opportunities? For instance, as you know, an eventual joint business agreement spools up with LATAM.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

I think with all of our partners, I think it's all a matter of priority, right? And I think what's great about the loyalty space is we see a lot of opportunities. And it's our ability to execute, and clearly executing with partners is more difficult than executing on your own. But I think that's – when you look at what we need to do over the next couple of years, there probably isn't about going to market with LATAM or any of our partners, but that's another thing in our journey. And our journey has a long runway. And the more we can bring our partnerships together over time, the more powerful we'll be together. And so those are our tenets. And I think it's just really a matter of, well, there's a natural bandwidth, everything, and what you don't want to do is deprioritize, so you get unfocused.

Christyne McGarvey

Analyst, Morgan Stanley & Co. LLC

Q

Hey. Christyne McGarvey, Morgan Stanley. Ed, earlier in the presentation, you noted some industry kind of aspirational growth, which was well noted that there are some external supply constraints going. But how do you think about that transitioning to more internal discipline as a term – in terms of kind of capacity growth as we go forward rather than just external kind of supply [ph] constraints (02:03:13) for the industry?

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Yeah. I think the most important governor that we will have speaking for our company as compared to the industry, but I think the industry largely feels the same way, is making certain that we don't overshoot our capabilities. We all saw what happened this spring when we saw a massive demand bow wave. We didn't have revenue in two years. We all ran anything we could fly or operate and it wasn't a good outcome. And we pulled up quickly. Others pulled up quickly. And I think – as I say, I think the system where we stand today, again speaking for Delta again I think it's not different than others, we're a bit fragile. We're kind of – we manage it every weekend. We're kind of making certain that the cancellation rate is low or below low and what the pilot availability

is, the flight attendant availability is, the maintenance availability is, and it's going to continue to stay that way for some period of time.

So that's why I described the overall industry numbers [indiscernible] (02:07:52) larger numbers, including from Delta, by the way, are a little bit more aspirational assuming we get all – everything goes well. We don't live in a world where everything goes well. Things will happen and move around. It's making certain that the experience set of our employees continues to gain, that we get through the pilot training, continues – that continues to move efficiently and that we have the assets. We own all the means of production, we own the aircraft, we own the people, we own the technology. But this is still probably another year before we can hopefully by the end of next year say, okay, I have confidence of what we're going to produce in 2024 or 2025. I don't have as much confidence in 2023, but we gave you our perspective of what it could be.

A

Any additional questions?

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

Any other questions? Duane?

A

A

Duane.

Duane Pfennigwerth

Analyst, Evercore ISI

Thanks. Appreciate the opportunity and the overtime. Specifically on the international JVs and international investments, I'm wondering if that's in the free cash flow or in the CapEx guidance out over this time horizon. If you could just comment on what level of investment you'd expect to make over 2023 and 2024 in international partnerships. And if that's – if that's included here.

Q

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

I think we're largely there. I don't – we don't have any new partnerships contemplated. We've been able to get through the restructurings and the reinvestment at a lower level in these partnerships. So I don't think there is a remaining number. I think we're good to go on that front.

A

And – so, now, we turn all of our attention to how we turn that into real value. I mean, I think the other thing Glen was just talking about the opportunities internationally. Don't forget, the landscape internationally is also different. And the competitive intensity of the marketplace four years ago, it's very different than what it is today. And I think that's going to benefit us and our JVs as well.

Duane Pfennigwerth

Analyst, Evercore ISI

Q

And since I have the mic, you may take a pass at this one. Just with respect to costs and capacity next year, any high level views on first half, second half, how much of that full year CASM guidance is sort of back half weighted?

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Well, I think, as I say – we don't look at the calendar as kind of a point in time. It gets better...

Duane Pfennigwerth

Analyst, Evercore ISI

Q

It gets better.

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

...as we go through the course of the calendar, the CASM, the cost guidance gets better. Back half of the year, we start to have a little more capacity in place. The revenue guide – in terms of unit revenue brings down – we take it down a couple of notches because of that to balance the capacity growing in. But when you put them together, I think the second half of the year is going to be a stronger margin performance than the first half of the year. But we give you a kind of a full year, but two different paths to the year.

Duane Pfennigwerth

Analyst, Evercore ISI

Q

Thank you. Great.

A

Just one last one on margins, if you don't mind, Glen, given that international opportunity is about 1,000 basis points relative to domestic margins. How do you think about that opportunity? Is it more focused on RASMs or CASMs? And are there regions where the competitive dynamics just don't allow that?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

I think it's half and half, right?

Daniel C. Janki

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

A

I suppose. Yeah.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Half comes from the fleet and half comes from the premium revenues.

Daniel C. Janki

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

A

Yeah.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

And so fleet is CASM and also is RASM because you have more premium products. RASM is selling the greater number of premium seats that you have in the marketplace.

David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi. Dave Vernon up at the front again. So a question for you, Dan, on the non-aircraft CapEx outlook for the next couple of years. Glen, we were talking a little bit this morning about the money that you've put in to the different airports within the system. Are there additional big buckets of CapEx that you need to spend on the airport side? Maybe you could talk a little bit about how the return on that investment has been paying off and how you're thinking about, what is the new LaGuardia terminal – what impact is that actually having on your financial performance? If you'd kind of relay that for us, that'd be great.

Daniel C. Janki

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

A

Well, we're getting through the final stages here. So we still have CapEx related to the airports as we complete LAX and LaGuardia in there and the work that we're doing with the – but we're also then making investments in Sky Clubs and other facilities. These are long term – these are certainly generational in nature. The opportunity that's in front of us both LaGuardia and LAX and Salt Lake City and the other ones there, you're going to see the growth, but you're going to see the growth over time, right? And you can talk about – we're thinking about from LaGuardia in each of those. So, outside of that airport piece, the other place we're investing is continue to invest in ground capital, the electrification of our ground capital, on track for 50% of that by 2024, continue to just ship away at that, modernizing that as it relates to it. And a continued commitment around technology and the backbone of our infrastructure, but also delivering better products for our employees, but also for – and more importantly for our customers.

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

On the airport side, specifically, Dave, we're basically done, not done-done, but you've got the big numbers behind us as LaGuardia finishes, as LA finishes this year, as JFK, should be pretty much finished by the end of next year. But the real value in that, is that the ability for us to manage the projects, manage the construction. We went fast, at other times, others went slow during this pandemic to get these projects done because we had control of the project. And that's going to save us in the long term an enormous amount of value that others will be subject to rate increases by the various municipalities that we've now got locked down and depreciation, having moved faster and we've got a fixed cost base at a much lower rate that we can leverage. So, I think – I think that return decision is going to pay off in multiple ways...

Daniel C. Janki

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

A

Many, many times over.

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

...over the next decade.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Could I just finish with one thought? These are 40-year assets, so the next LaGuardia will be built after I'm gone, and the most...

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

We'll put you back for the...

[indiscernible] (02:10:32)

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Don't put me back for the tear down of LaGuardia. But being a 40-year asset, you don't build it for [ph] day one (02:10:41), we build it for growth. And so the highest CPEs is the day it comes online and then over 40 years, the CPE comes down. What I like to point out is that the high CPEs are in the 2023 numbers and this only gets better over time as we continue to build back into the size of the facility that we built.

David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

Thank you.

A

We have time for one final question. Conor?

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

A

Conor [indiscernible] (02:11:09).

Conor Cunningham

Analyst, Melius Research LLC

Q

Yeah, keeping here longer. Just on distribution in general. You talked a little bit about it, but just how does your direct to consumer strategy – how's that evolved in the pandemic? Is there a goal that you want to be able to sell a certain amount of seats direct and start to not push out?

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

We have no goal per se is that we want to meet people where they want to buy us in the channel they want to buy us, but with the best products and services. And so, to the extent that a distributor is not presenting our products and services the way we need them to, we continue to work with them to improve those displays, so that customers get a full array. We think that the array that we have on our direct distribution is how we'd like those products to be displayed and talked about to the customer base.

And we've got a lot of adoption in process, whether or not it's here today but – whether or not it's Expedia, or whether or not it's any of the other distributor – online distributors, whether or not it's the retailers through travel agencies that need and want better displays from their online distributor. So, we're working with that whole ecosystem. And I think when we say that we're in the middle innings of improving – improving product distribution, part of that is not only improving Delta, but also improving the other retailers as we move forward.

Conor Cunningham

Analyst, Melius Research LLC



Thank you.

Edward Herman Bastian

Chief Executive Officer & Director, Delta Air Lines, Inc.

Okay. Do you want me to wrap up? I'll be wrapping up really quickly because we're already way over time. Our apologies for that. Thank you for being here. Hopefully you got a good perspective of all the different moving forces, factors, opportunities, challenges as we move forward. Hopefully, you've picked up from us a real sense of optimism of renewed confidence in the business, having our hands more firmly on the dials of this business than we were over the last several years. And hopefully, it's a marked difference from a year ago's presentation to now. It was a great year for our company, to be able to hit all of our core targets in the midst of unprecedented uncertainty and challenge and operational disruption. And I think this thing's going to continue to do very well. The demand environment stays strong, hopefully you get a sense for the macro why we think that's going to stay in place operationally. The cost opportunities as we bring scale back and as Glen rightfully points out, as the airports start to mature and we continue to grow into them are going to be good opportunities for us well and the international landscape is to come. There's a lot of international out into the future in the next several years.

We hope you all come visit us in June in Atlanta when we take you through some of the really incredible excitement that we have going around on the consumer experience. We're going to be back on stage. We're back on the main stage of CES first week of January. I'm back there and will be great opportunities to talk about our customer and our technology and where we're going. But next year is just a lot of excitement in the pipeline of Delta and for us to be able to deliver those opportunities and double the earnings power of this franchise in 12 months. It's going to be a big year for us but I've got a lot of optimism for it. So thank you for being with us and hope you all have a good holiday. Thank you.

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