13-Oct-2021

Delta Air Lines, Inc. (DAL)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Delta Air Lines September quarter 2021 Financial Results Conference Call. My name is Jenn, and I will be your coordinator. At this time, all participants are in a listen-only mode until we conduct a question-and-answer session following the presentation. As a reminder, today's call is being recorded. I would now like to turn the conference over to Ms. Julie Stewart, Vice-President of Investor Relations. Please go ahead.

Julie Stewart

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

Thank you, Jenn. Good morning, everyone, and thanks for joining us for our September quarter 2021 Earnings Call. Joining us from Atlanta today are CEO, Ed Bastian; our president, Glen Hauenstein; our CFO, Dan Janki. And, Ed will open the call with an overview of Delta's performance and strategy, Glen will provide an update on the revenue environment and our brand momentum and Dan will discuss cost, fleet and our balance sheet.

Similar to last quarter's call, we schedule today's call for 90 minutes to make sure we have plenty of time for questions. For analysts, we ask that you please limit yourself to one question and a brief follow-up so we can get to as many analysts as possible. After the analyst Q&A, we will move to our media questions, after which Ed will provide a brief closing statement.

Today's discussion contains forward-looking statements that represent our beliefs or expectations about future events. All forward-looking statements involve risks and uncertainties that could cause the actual results to differ materially from the forward-looking statements. Some of the factors that may cause such differences are described in Delta's SEC filings. We also discuss non-GAAP financial measures and all results exclude special items unless otherwise noted. You can find a reconciliation of our non-GAAP measures on the Investor Relations page at IR.Delta.com. And with that, I'll turn the call over to Ed.

Edward Herman Bastian

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

Well, thank you, Julie, and good morning, everyone. Appreciate you joining us this morning. The September quarter marked another important milestone in our recovery. We achieved our first quarterly profit since the start of the pandemic with a pre-tax result of $216 million and a pre-tax margin of nearly 3% despite still missing one-third of our revenue base compared to the same period in 2019. We saw a full return of domestic consumer travel to 2019 levels as our customers safely returned to the skies and our people delivered industry-leading operational performance through a very busy summer.

Once again, showing why they are the best in the business. I want to thank every member of the Delta team for your hard work and dedication during the truly historic summer where we faced the challenges of standing up our operation after such unprecedented disruption. I'd also like to recognize the Delta teams who played a central role in transporting 10,000 Afghan refugees that were evacuated from harm's way in Afghanistan over the last couple of months and delivering needed supplies. It was an amazing effort that involved everyone from Delta's flight crews, to operations control, to government affairs, to our charter and fleet team.

Our revenue recovery in the September quarter reached 66% of 2019 levels, progressing from 51% in the June quarter and just 25% at the start of this year. This was led by strong consumer demand, growing improvement in business and international travel, and reflected the resilience of some of our diverse revenue streams which are already back to or higher than pre-pandemic levels. While the recovery and business travel paused in August and early September as case counts increased, demand has picked up since Labor Day.

Last week was our top corporate revenue booking week since the start of the pandemic and with the announcement that US borders will open in November, bookings from Europe and Brazil to the US are rapidly improving. The third quarter results reflect Delta's differentiated position in the industry and a continued focus on executing our customer-centric strategy. The strategy is rooted in providing best in class service to our customers, strengthening preference for our brand, and while at the same time creating a simpler, more efficient operation. At the heart of our brand promise is operational reliability.

Restoring our operations safely and reliably with a strong commitment to cleanliness remains our top priority and we're proud to be leading the industry in all key operational metrics through the summer as well as year-to-date. One important indicator is what we call Brand Perfect Days. Those days when we don't experience a single cancelation across our mainline and regional operations. I'm happy to report that we have delivered 116 Brand Perfect Days in 2021 which are on par with pre-pandemic levels as our people are delivering outstanding reliability.

We're delivering on our commitment not just to return our service levels to pre-pandemic performance but to exceed those levels by the end of this year. A key component is staffing. And we have added 8,000 people to the Delta team this year. This new talent is helping us build the airline of the future, which includes a focus on improving diversity and representation across all levels of our workforce. Our culture of putting our people and our customers first is building stronger preference for the Delta brand. At its core, the Delta brand stands for connection, creating unique relationships with our customers, driving strong engagement, higher loyalty, and a sustained revenue premium to the industry.

More customers are engaging with Delta than ever before, driving record downloads of our Fly Delta app and record signups for our SkyMiles loyalty program. Our Delta American Express co-brand program continues to show strong resilience with card acquisitions nearly 95% restored and card spend 115% recovered to 2019 levels. As a result, remuneration from American Express in the September quarter exceeded 2019 levels totaling just over a billion dollars in the quarter, demonstrating the durability of our brand preference as we continue to deepen our customer relationships.

Our revenue premium and our customer satisfaction have not just endured but have strengthened through the pandemic with both above 2019 levels. These outcomes are a true validation of our customer-centric strategy and people-first approach. At the same time, we're also building a simpler, more efficient airline as we re-scale the operations and refresh our fleet, we will unlock efficiency gains while also improving our product and customer experience. Dan will speak more about our fleet strategy and cost outlook shortly.

As we look ahead, it's clear that the recovery will continue to be choppy, but we see a number of encouraging trends. Restoring the remaining one-third of our revenue base is dependent on further business and international demand improvement. In the September quarter, domestic corporate volume was 40% recovered, up 10 points from the June quarter. With the spike in case counts delaying office re-openings, we did not see the progression we had expected at the start of the quarter particularly after Labor Day. But as the variant recedes, business travel has picked up over the last month with volumes now reaching the highest level we've seen in the recovery. In the last week, our domestic business volume was close to 50% restored.

We expect continued improvement as offices reopen at the start of the new year and we anticipate meaningful acceleration in business travel starting at that point. We hear regularly from our corporate customers that they're ready to get back to travel, see their clients face to face, to renew business relationships, and develop new ones. That sentiment is coming through loud and clear in our most recent corporate surveys. More than 90% of our respondents mentioned that they expect travel volumes in the December quarter to either be the same or outpace September quarter.

Nearly 60% of our accounts are telling us that they've already reopened their offices with an additional 10% expected to open their offices before year-end. We are also seeing improving trends internationally, spurred by the decision to lift 212(f). This decision marks a critical moment in our road to international recovery and we thank the Biden administration and our supporters in Washington for their work to reopen travel to the US. Thanks to this important policy change, many families are going to be reunited this holiday season for the first time in almost two years.

Against this backdrop, we anticipate our revenue momentum to show good progress through the December quarter, finishing the months of November and December combined at a 75% recovery. This 10-point improvement from current levels is driven by offices reopening, international restrictions easing, and our expectation that consumer strength continues into the holidays. So putting the year in context, we started at only 25% of our business restored, total business for the company, and we'll end the year at 75% restored. While choppy, there is a clear underlying momentum in our company that gives us optimism as we go into 2022.

As those fundamentals improve, we also see fuel prices continue to rise, which will pressure our ability to remain profitable in the December quarter. At present time, we're expecting a modest loss in the fourth quarter with crude prices driving that up nearly 60% year-to-date and more than 15% just over the last month. While we operate in a volatile and uncertain environment, I have the utmost confidence in our return to sustained profitability as the recovery progresses into the new year. As we continue to restore our airline, our actions are guided by three near-term priorities, first, to deliver for our customers providing the great service excellence they expect from Delta. We have worked hard to get our staffing levels in place, reducing wait times at our reservation centers, improved self-service options, the return of food and beverage options on board, upgraded Wi-Fi, and in-flight entertainment and the full re-opening of our Delta Sky Club network in July of 2021.

We continue to deliver on the need for flexibility with policy changes and extension of Medallion Status and SkyMiles benefits into 2023 to give our most loyal customers more flexibility as travel resumes. Our next priority is to rescale our airline efficiently and reliably. We're remaining disciplined about how we're rebuilding our network, prioritizing operations and matching our supply with demand. A measured approach to restoring capacity is critical to delivering for our customers and to managing through an environment of rising fuel prices. Finally, we're preparing for the future to position Delta for success in the next leg of the recovery and beyond while restoring capacity in a measured way, we are growing share in key markets with high-value customers.

We're making smart investments in our business to elevate the customer experience. That includes technology to enable efficiency and improve our digital capabilities while accelerating construction projects in key airports like LAX, LaGuardia, and JFK. On the balance sheet, we're focused on returning to our investment-grade metrics having experienced firsthand just how important it was to have a strong balance sheet as we entered the pandemic. We're advancing our fleet renewal and opportunistically acquiring aircraft while maintaining flexibility, drive engage and efficiency that we expect will improve our long-term cost structure and our carbon footprint.

Our commitment to being a carbon neutral airline globally differentiates us as we know that customers are choosing brands that they believe in and employees are looking to work for a company that's dedicated to a sustainable future. Carbon neutrality is a fundamental part of our mission and a meaningful step that we can take right now to protect our world for generations to come.

We've recently announced our commitment to work with a science-based targets initiative to set a net-zero 2050 target and an interim emissions intensity target for our airline operations, in line with the Paris Agreement. This quarter, Delta also announced a 250 million gallon offtake agreement for sustainable aviation fuel on our road to a 10% SAF consumption level by 2030. We also announced plans to join several coalitions, including the LEAF Coalition, the World Economic Forum's Clean Skies Tomorrow (sic) [Clean Skies for Tomorrow] (00:12:44) and the UN-led Race to Zero. You will be hearing more about all of these efforts at our Capital Markets Day on December 16 in New York.

The power of our purpose-driven brand, our people and our strategy position Delta incredibly well for the future. We're building on a strong foundation to extend Delta's leadership position in the years to come and drive long-term value for all of our stakeholders, our people, our customers, our owners, and our communities where we live, work and serve.

And with that, I'll turn the call over to Glen.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Well, thank you, Ed, and good morning, everyone. Generating a profit for the quarter even with a third of our revenues still to come is a great achievement and is another important milestone as we continue down the path of recovery. Through the last 18 months, we have stayed true to our core strengths and our commitment to the customer. From improving our position in key markets, to growing affinity with our high-value customers, to driving outperformance in premium products and diverse revenue streams, we are extending our competitive advantages. The September quarter started out strong, and consumer demand environment remained robust throughout the quarter. We had a profitable summer in Europe, as vaccinated US tourists were welcomed back to the continent. With the variant taking hold in early August, we saw temporary pause in demand, especially business travel, as many companies delayed office reopening plans.

Despite the variant's impact, we remained within our initial guidance range, with revenues coming in at down 33.8% versus 2019 or two-thirds restored. This represented a $1.9 billion sequential improvement in total revenue to $8.3 billion. Total unit revenue improved 17% versus the June quarter on an 11-point improvement in load factor and a 4% improvement in yield. Since Labor Day, we've seen improvement in demand with daily cash sales growing each week. Domestic consumer revenue remains fully recovered to 2019 levels, and we are seeing continued improvement in domestic corporate sold revenue, which as Ed mentioned, is at the highest level we've seen during the recovery. We expect continued improvement throughout this quarter.

On the international front, we continue to see positive trends led by Latin, with passenger revenues 84% recovered versus 2019, a 20-point sequential improvement driven by leisure traffic to beach markets. Transatlantic recovery improved by 20 points versus the June quarter to 35% recovered versus the September quarter of 2019, with corporate sales in this entity now nearly 30% restored. We are also encouraged by the administration's recent decision to lift 212(f) restrictions. Following the announcement, Europe point of sale bookings for November and December are more than six times what they had been pre this announcement.

As we progress through the last few months of the year, we expect strong results for Thanksgiving and Christmas. The month of October is impacted by the lingering impacts of the variant, resulting in an expectation that revenue will be approximately 65% recovered. But as we move into November and December, the sunset of

212(f) and a higher mix of consumer traffic, we are expected to support revenue recovery of the 75% range to 2019 levels. With these monthly trends, we expect a percentage of revenue recovery in the low 70s for the December quarter. Consistent with our disciplined approach of matching capacity to the emerging demand environment, we expect our December quarter capacity to be approximately 80% of 2019 levels.

Balancing the restoration of our capacity with demand remains a strategic priority for Delta and is more important than ever given the uneven recovery and the increase in fuel prices. While fuel is a near term headwind for our results, we expect to recapture higher fuel in the medium to long run as we return to a more historical correlation between fuel prices and revenue. As we look to 2022, we plan to progress our network restoration in line with demand. We have the ability to achieve 2019 capacity levels by the second half of next year.

In addition to this quarter's financial results, there are several other accomplishments that we are very proud of. Our premium products continue to outperform. During the quarter, premium revenue in domestic and short-haul Latin outperformed the main cabin by approximately 10 points, as paid load factors in Comfort+ and First Class cabins exceeded 2019 levels. This is a great validation of our premium strategy especially given the higher mix of consumer demand.

Our diverse revenue streams remain resilient. Other revenue in the quarter was 91% recovered to 2019 levels. Within that category, loyalty revenues are more than 80% restored, supported by strong card spending and acquisition trends. Cargo revenue, which we expect will continue to grow and enhance our future international profitability, was nearly 40% higher despite flying less than half of our wide body international flights compared to the same period of 2019. And MRO revenue was more than 90% recovered on increased engine volume.

Our conservative approach to restoring capacity combined with the strength of our premium products and the resilience of our diversified revenue streams resulted in a unit revenue premium relative to the industry throughout the pandemic. As we close the books on September quarter, we expect that trend to continue with a unit revenue premium relative to the industry exceeding our highest third quarter on record, even with business and international less than 50% recovered.

This result validates a basic but powerful premise. Putting the customer at the center of everything that we do and pursuing diverse revenue streams translates into a sustained revenue premium. As consumers return to the skies, we've been focused on increasing stability and trust. We are also reducing friction points by eliminating change fees, enhancing self-service options and developing our flex product that provides full refundability for those that value flexibility the most. We're progressing towards a fleet that is more cost efficient and fuel efficient and one that offers even better onboard experience with a higher mix of premium seats and enhanced Wi-Fi and IFE products.

Enhancing the customer experience doesn't stop onboard or aircraft. It also extends to the experience on the ground. We're accelerating investments in our airports and continuing to innovate. In Atlanta, we're launching digital ID, allowing customers to rely on facial recognition to create a seamless airport experience from check-in to boarding. And we're investing in our Sky Clubs, including two of our largest clubs in Los Angeles and LaGuardia, scheduled to open in March and April of 2022.

As Ed mentioned, we are seeing strong consumer engagement and growing brand preference. More customers are choosing our digital channels, which are highly effective selling and self-service platforms. For example, our Fly Delta app downloads reached a record in the September quarter, up 25% versus 2019, with monthly downloads now surpassing 1 million for the first time ever. Higher digital engagement is fueling growth in our SkyMiles program, which secured the number one spot against all global airlines in the US news ranking of all airline loyalty programs. Congratulations to our customer engagement and loyalty team on this great accomplishment. Customers are joining SkyMiles at a faster rate than the passenger recovery. For the quarter, our SkyMiles acquisitions were more than 100% recovered relative to 2019.

And finally, our co-brand program continues to show resilience and drive tremendous value for both our Delta and our partner, American Express, and importantly, to our highest value customers. We're seeing more demand for our premium co-brand credit cards, with both new and existing cardholders, as more customers are increasing seeing the value proposition. Our well-defined and proven strategy of focusing on the customer positions Delta well for many years ahead. Key to our success is the fact that we have the best people in the industry, delivering on our brand promise to our customers every single day.

And with that, I'll turn the call over to Dan.

Daniel C. Janki

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

Great. Thank you, Glen. The team's world-class capability and continued commitment to delivering best-in-class service and reliabilities certainly sets the foundation for our financial success. And this quarter was no exception. The Delta people continue to execute well through a dynamic environment. Across our teams, we are focused on preparing the operations for the next leg of the recovery, taking the steps required to position Delta for the future, where we build upon our industry leadership position in years ahead.

Let me start with a few highlights for the September quarter. Even with the pause in the pace of recovery, we achieved our goal of profitability for the quarter with earnings per share of $0.30, pre-tax profit of $216 million and margin nearly 3% on revenue of $8.3 billion. Total third quarter operating expense was $7.8 billion. That was a 12% increase from second quarter, driven primarily by nonfuel costs from the continued restoration of the airline. Fuel expense, $1.5 billion, increased 5% sequentially, as lower fuel prices partly offset by 11% increase in capacity versus second quarter.

Adjusted fuel price per gallon was $1.94, was 8% lower than second quarter, driven by refinery contribution versus a loss in the second quarter. We realized 4% fuel efficiency versus same period in 2019 as we continue to capture benefits of our fleet renewal. Nonfuel costs of $6.3 billion increased 14% sequentially. That was on revenue growth of 30%, driven by higher capacity, double-digit improvement in load factors. We saw a step-up in costs in the quarter to support the operational performance, higher revenue and passenger volumes while we position for further demand recovery. The impact of these costs combined with a network that was 30% smaller resulted in September quarter nonfuel CASM 15% higher than 2019.

Now, moving to cash flow and the balance sheet, the September quarter operating cash flow was $151 million. We ended September with $19.3 billion of adjusted net debt. The pause in the pace of the recovery, along with seasonality as we transitioned out of the peak summer, resulted in a sequential decline in our air traffic liability balance of $562 million to $6.4 billion. We expect the air traffic liability will begin to build as we enter 2022, as travel restrictions ease and more customers begin to make plans for the spring and summer season.

Balance sheet management remains a priority, as we chart a return to investment grade metrics in the coming years. During the September quarter, we used excess cash to reduce gross debt and interest expense while rebuilding unencumbered assets and managing our debt maturity profile. This includes the execution of $1 billion tender offer, paying cash for the majority of our aircraft and commencing $500 million of incremental debt reduction initiatives. Over the last 12 months, we've reduced our financial obligations by $12 billion. These actions drive interest savings, fund our pension and smooth our debt maturity profile.

Now, turning to capital and fleet. We invested nearly $620 million of CapEx in the September quarter. That was below our guidance of $800 million due to timing of used aircraft delivery. Our full-year 2021 gross CapEx is unchanged at $3.2 billion. On the fleet, we continue to build on our progress to transform and up-gauge our fleet to be simpler and more efficient, being opportunistic, while maintaining flexibility to adjust to the shape of the recovery is a priority. In 2020, we accelerated our fleet renewal with retirement of over 200 aircraft and elimination of two fleet families.

We also deferred deliveries worth more than $5 billion, resulting in lower planned CapEx in 2020 and 2021. To capitalize on the recovery, and replace retired aircraft in a capital disciplined manner, we converted a total of 55 A321neo options to firm orders, with delivery scheduled between 2022 and 2027 and opportunistically entered into agreements to acquire 38 gently used aircraft at compelling economics, two of which we announced today.

Our decisions are guided by a fleet strategy focused on simplification, scale within our fleet types, higher gauge and sustainability. The simplification and revitalization of the fleet drive a permanent change in our cost structure, with benefits estimated to be around $400 million in 2021 and around $650 million in 2022. This is compared to 2019. These savings will continue to scale in future years, as we take the delivery of next generation aircraft, restore flying volumes and further simplify the fleet.

With these actions, we are unlocking efficiency gains while also improving the product and customer experience. By next summer, nearly half our narrow body seats will be produced by large gauge aircraft, our most profitable fleet category. This is an improvement of 10 points versus 2019. Our wide body fleet next generation aircraft will make up 25% of our fleet by next summer, a 15-point improvement versus 2019 that will drive efficiency gains, premium product enhancements and expanded cargo capability.

Now, turning to the fourth quarter. We expect a modest loss, as a recent rise in fuel prices will pressure our ability to remain profitable in the current quarter. Adjusted fuel price per gallon is expected to be between $2.25 and $2.40. This represents an increase of nearly $0.40 per gallon from the September quarter, as market prices have moved up sharply. Just to remind you, a $0.05 movement in fuel equates to roughly $40 million of expense. Fuel efficiency is expected to be approximately 4% better than the December quarter in 2019. Nonfuel costs are expected to increase 2% to 4% sequentially, as we incur people-related costs to prepare our operations for the acceleration in demand recovery in 2022.

Nonfuel CASM is expected to be 6% to 8% higher than 2019 in the fourth quarter. When comparing to 2019, our nonfuel cost profile is impacted by the cost required to restore our operations and how we're flying our network. As we rebuild, additional maintenance and training costs are required to prepare our fleet and our crews to fly a larger schedule next summer. These costs will continue into next year. The size of the network and the deployment of the fleet are also contributing factors. From a scale perspective, our network is 20% smaller in the [ph] fourth quarter (00:28:49) compared to 2019.

Our mix that we're flying is also different. We have less long-haul international capacity, which is structurally low CASM given the long stage length nature of that flying. Until we are more fully restored, we expect nonfuel CASM to be above 2019 levels. As our operations normalize, I'm confident in our ability to drive operating leverage and recognize the benefit from our fleet renewal.

As we look to 2022, we are optimistic about the continued demand recovery and are prioritizing driving margins, profitability, and restoring our balance sheet. I look forward to building on the team's strong track record of financial discipline and balanced capital allocation and sharing more with you on our long-term expectations and goals at our Capital Markets day in December in New York. In closing, as I continue to spend time with the Delta people, my conviction in our future only grows stronger. During my first 90 days, I've been most impressed with the team's resounding commitment to our employees and our customers which comes through in every action I have across our operations.

It's clear to me that there's something truly special about the Delta family. I want to echo Ed's and Glen's sentiment, thank all my Delta colleagues for everything that they do to carry out our mission to bring people together and connect the world. With absolutely the best employees in the business, a clear focus on the customer, and continued financial discipline, I'm confident we are positioned to create long-term value for all our stakeholders.

Now, with that, I'll turn the call back over to Julie to begin Q&A.

QUESTION AND ANSWER SECTION

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

Thanks, Dan. As a reminder, please limit yourself to one question and a brief follow-up. Jenn, can you please remind the analysts how to queue up for questions?

Operator: Thank you. [Operator Instructions] . And we'll go first to Jamie Baker with JPMorgan.

Jamie N. Baker Q
Analyst, JPMorgan Securities LLC

Hey. Good morning, everybody. First question goes potentially to Glen and Dan. So pre-COVID I had asked Paul about the amount of time that it would typically take Delta to recalibrate the higher fuel prices. I'm not staring at the transcript but his estimated time was four to six months which was an improvement from historic levels. So my question I guess for Glen is whether the booking curve is steep enough right now that you might actually be able to recapture the top line more quickly than that? And similarly for Dan, whether there's anything we should be thinking on the cost or operations side that could accelerate the process? I'm basically just trying to understand whether four to six months is still the right estimate for us to be using?

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

Well, I would just comment I think we're a bit in uncharted territory here as the recovery continues. And while I think it might be difficult in the very short run despite the fact that the booking curve has moved in a bit, that I would estimate that that four to six months is about right because we believe that demand and capacity will fall back into very good equilibrium by next spring, which would put you inside that window.

Jamie N. Baker Q
Analyst, JPMorgan Securities LLC

Okay. All right. So no structural changes that you can identify that would greatly alter it one way or the other then?

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

No. I think – I would think that that would be where we would expect it to manifest itself in the same window.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Okay. Okay. And then second question just as it relates to the international demand that you're seeing from Europe since the Biden announcement, can you say how skewed the improvement is to the European point of sale? I'm just trying to reconcile some data that we have here that largely excludes Europe point of sale. So trying to get a feel whether it's 70/30, 60/40, 80/20, something like that.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

That time of year is actually – the winter season is more European sale than the summer season. So we're talking probably about more of a normal split if that's what you're asking. 60% US origin, 40% European origin. And the interesting part about this is that we have seen an uptick in both sides, not just European sales. The assumption there is that there are a lot of Europeans in the US that were worried about getting back, so very nice uptick as we get to November and December beyond the 212(f) being lifted.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Okay. Very helpful. Thank you, Glen.

Operator: We'll go next to Duane Pfennigwerth with Evercore ISI.

Duane Pfennigwerth
Analyst, Evercore Group LLC

Q

Hey. Thanks for the time. So in terms of the cost guidance, which is where we're getting a bunch of questions this morning, can you just bridge from the early September commentary that you [ph] miss being down year over two (00:34:08) by a little and today where you see it up [ph] 6 to 8 (00:34:13) on a unit basis. What are the main buckets? What changed over that call it five, six weeks?

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

A

[ph] Bingo (00:34:23). What I'd say is first, number one, capacity as we pull down the schedule in the fourth quarter was the driver. And then also the pace as it relates to the rebuild and preparing for demand for 2022. Those were the two factors that led to that.

Duane Pfennigwerth
Analyst, Evercore Group LLC

Q

Okay. And then on fleet restoration, would you put some numbers to that perhaps what is that in 2021 and what do you expect that to be in 2022? And do you have a sense for when we cross over from sort of fleet restoration investment to the benefits we were hearing about a while ago from fleet simplification? And thanks for taking the questions.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Yeah. The restoration when you think about bringing aircraft into service, through 2021 to 2022, we'll bring back into service 160 to 170 aircraft. And that's really the element that vast majority of that rebuild is focused on bringing those aircraft back. And then as we restore to more fully restored capacity levels to 2019, that will dissipate and trail off and be transitory in nature from that perspective.

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

A

Duane, this is Ed. If I could add a couple points on the overall cost outlook. We are committed to our long-term guide and we'll talk more in December at the Capital Markets day as to where we see costs going over the next couple of years. Clearly in our business, there's a race to try to capture the available demand and standing our business back up after an unprecedented level of disruption and ensure that we are not experiencing any kind of operational limitation in our ability to get our service levels and customer expectations met. So we put the pedal down to get the staffing in place, to get our service levels back, to get the quality of performance that drives the brand premium that this company stands for. And it may take us a few extra quarters to get down to that 2019 and below levels but that's still our goal.

Duane Pfennigwerth
Analyst, Evercore Group LLC

Q

Okay. Appreciate the thoughts. Thank you.

Operator: We'll go next to Brandon Oglenski with Barclays.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Yeah. Good morning. And thanks for taking the question. And, Ed you kind of answered it there, but I guess, Dan, is it still right to be thinking 2019 costs are the benchmark here, especially just given all the wage inflation that we're seeing across the economy?

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

A

Yeah, it's certainly a clear marker for us. We believe as we restore this airline, we'll be at or better than 2019 cost levels.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

And so is that just literally a function of the network getting back to where you were utilizing it pre-pandemic especially with the longer haul flying coming back?

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

A

Yeah. Certainly as we transition through this and we restore and get through the rebuild, that will dissipate. You bring back the capacity, you get that leverage. You also get the balance between the domestic and international. And then when you think about the more structural element, the elements related to fleet simplification start to come through and you get those benefit related to that both in fuel and fuel efficiency and also in our operating costs.

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

Brandon, this is Ed. I can echo what Dan is saying. We've taken the opportunity over the last year to rebuild this airline back piece by piece and we're learning a lot more about what we want to keep forward and retain and what parts of the business that we don't need to be retaining and some of the cost structure. And so there's efficiency whether it's in catering, whether it's in our operational performance, literally every part – our G&A, every part of our operations. Hard to see when our capacity is still only at [ph] 80% or more below (00:38:22) – excuse me, at 2019 levels. But we are very determined to make certain that we retain the value for the period of time we've just been through and that efficiency will show through. Just going to take a little bit longer and that's why it will be really important in the Capital Markets day that we show you the pathway to get there.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.
Q

Thank you.

Operator: We'll go next to Catherine O'Brien with Goldman Sachs.

Catherine O'Brien
Analyst, Goldman Sachs & Co. LLC
Q

Hey. Good morning, everyone. Maybe just one last follow-up on the cost outlook. So I think you guys have made the point clear that we probably need to see more of an ASM recovery not only in total amount of capacity deployed but of course on the network allocation as well as you restore some of the longer haul wide body flying. But I guess just if we could talk a little bit more about pace, like, do we need to get to a full restoration for that to occur, or like going from 90% to 100% recovered? Do we suddenly see like a real acceleration in the leverage you're going to get across the business? Just any high-level comments on how to think about pacing as we approach that? Thanks.

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

We'll give you certainly more color and put a pin on it as we go to Capital Markets Day, give you the outlook and also get more into specifics around 2022 guidance when we give you that. The real thing I think to look for is the two elements. It's going to be bringing back – bringing down that rebuild cost related to the fleet and when we get that restored and that's going to really pace pretty closely with the return of capacity. And then obviously the incremental leverage. So I think on that piece you're going to get it throughout that period of time, but it's really getting that fleet rebuild component down. And that will happen as we progress through that period.

Catherine O'Brien
Analyst, Goldman Sachs & Co. LLC
Q

Okay. Got it. And then maybe just one more international. So Ed, on CNBC this morning you noted that the company saw tenfold increase in international bookings following the announcement on the US borders a couple weeks ago. Can you just help us frame when we really start to see that momentum build in revenue? It sounds like there's some of that hitting in November, December timeframe driving your more optimistic outlook on those months versus October. But are there also any early indications maybe for next spring or summer? Would love just to hear when you think we're going to start to really see that show up in revenue a bit more? Thanks.

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

Sure, Catie. Yes, we're going to see it in November and December. We're looking at a 10-point recovery improvement just going from October to November. October we're estimating at the 65% restoration level which is where we've been for the last couple months and we'd see a big jump up in November and December. International is a piece of that, it's not the only driver of that. Business travel is an important piece of that as we see that continuing to improve. We see in our bookings, I mentioned, I think, on the CNBC piece this morning that just in the last week our cash sales were up 9% week over week and that's a trend we've been seeing here for some period of time, steady growth.

So I think you're going to see it then. I think like we saw here in the summer, there's going to be a mad rush for those that want to travel, that need to travel to get out and travel. You may see a little bit of a pause as you get into the January/February timeframe, but I think spring and summer is going to be another tick back up at an even higher level. And my view is that you're going to see particularly for Europe which is the biggest part of our international base, spring, summer next year that look very much like the spring summer we've just been through here in the US.

Catherine O'Brien
Analyst, Goldman Sachs & Co. LLC
Q

Great. Thanks for that.

Operator: We'll go next to Hunter Keay with Wolfe Research.

Hunter Keay
Analyst, Wolfe Research LLC
Q

Hey. Good morning. Glen, these surveys that you cite, are you asking corporate travel managers these questions or the travelers themselves? And also how are you contingency planning if we get into late next fall and business travel is up only 80% of what it was pre-COVID? What sort of contingency plans do you guys have in place?

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

Well, first I'll answer the first part of the question. That is a survey that goes out to travel managers. So that's their reply. Second, and we do other surveys that go through our SkyMiles program for frequent travelers and their return to travel, and I would say those surveys are pretty well in sync. Clearly consumers feeling much more confidence than business travelers in terms of what they expect to fly more. But more and more we're seeing the business component accelerate. So that's pretty exciting for us. And then on contingency plans, I think we are committed to remaining incredibly flexible. We know we're not fully out of the woods yet and we know there's going to be more chop. It's not going to be a straight line out and there will be twists and turns, whether it's fuel, whether it's whatever it is.

That's part of our business here. And we're always managing to the sum of all the inputs. As it relates to business travel, what I would say we're super excited about is the fact that we were able to report a profitable quarter despite 60% of our business travelers still not traveling, and we know that number is greater than 60% for next year. We don't know whether it's 90%. We're thinking it's somewhere between ending next year between 80% and 100%, but if you look underneath the hood there, I think the point that we're trying to point out is that demand for premium products is actually exceeding our coach products with the business traveler out. So I think the big epiphany for us was there's a much broader demand for this than just business travelers, and if we have to pivot to demand sets for high-end leisure to fill those seats, that is a trade-off we'll make. And I think one that we can be quite profitable with under any scenario.

Hunter Keay
Analyst, Wolfe Research LLC

Q

Okay.

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

A

Hunter, if I can echo some of Glen's comments there. None of us know what the classic business travel volume is going to come back. Obviously in our industry, we're bulls. We're optimistic that it's going to come back plus. But I think it's also safe to say it's going to come back differently. And there's going to be some level of demand erosion, no question about it. Some element of behavioral change, no question about that. But there's also new opportunities to travel. Hybrid for one gives you a very different outlook in terms of where people work, how they work.

I've spoken a lot publicly over the last number of months that video technology not just force you to stay in your home, it actually allows you to take the office with you when you are out on the road and stay connected better. And many, many other reasons. So we're going to talk about that in December because we know that's a big question on a lot of people's minds as to what the future of business travel is. And I see as many bright spots coming out of this recovery as some of the demand destruction elements, video technology and other things and behavioral change has reaped during this pandemic period.

Hunter Keay
Analyst, Wolfe Research LLC

Q

Okay. And then I've always thought that the lack of unions wasn't so much a cost advantage for Delta but a service advantage. Is there a way that you can maybe get a little bit more creative next year to maybe push that a little bit harder to drive some favorable CASM without sacrificing the frontline morale, if you follow me?

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

A

I'm not going to comment on the benefits or lack thereof of unions. We have a union, we have a great relationship with our pilots, and we have a lot of our employees that are non-union and we have great relationships and great productivity from them as well. What I would tell you about our people is that they're incredible. The reason we have the revenue premium we have is not that we're necessarily smarter than anyone else, we provide the best service, the best reliability, the best product in the sky. And it's not a cost game. It's a performance game.

And it drives better revenues. It also drives more productive cost-efficiencies. We talked a lot over the last few quarters here about the need to get our staffing levels back. We mentioned this morning that we're bringing back 8,000 people, brought back 8,000 people this year. Don't forget we had 17,000 net retired at this time a year ago. So we are getting significant flexibility and productivity from the team as we get out to the future. And our people will continue to lead the way.

Hunter Keay
Analyst, Wolfe Research LLC

Q

Okay. Thank you.

Operator: We'll go next to Conor Cunningham with MKM Partners.

Conor T. Cunningham
Analyst, MKM Partners LLC

Q

Hi, everyone. Thanks for the time. One issue I think people struggle with is just the baseline for capacity given the fluidity and the demand environment. You mentioned all the headwinds to revenue and higher fuel. I'm not asking for a number unless you want to give one, but how has the thought process changed towards first half capacity over the past couple months? I heard – and I also heard that you made the comment about 2019 capacity being – potentially being achieved in the second half. Is that your expectation right now?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think we've remained very fluid throughout the entire crisis and that's our commitment to remain very fluid until we get back to full restoration. We don't know exactly when that's going to be, and we put the marker out there right now if we wanted to be bigger than we are, quite honestly we couldn't be. We could be a little bit maybe but not much bigger without risking the operational performance issues like you've seen at some of our other carriers. So we want to stay where we're confident that we can actually fly the schedules that we put out there.

We think those – and we talk about rebuild costs and getting people back and getting planes back. We're doing all that now in the background with the capability of achieving 100% of 2019 sometime in the back half of next year. Whether or not as we get closer we actually use that flexibility up or down, we'll give you more color on what those decision points are at Investor Day. But the name of the game for us right now is maintaining flexibility. And as Dan alluded to, even in the quarter we're in we're slightly below where we thought we'd be in terms of revenue production just about 8 to 12 weeks ago.

Conor T. Cunningham
Analyst, MKM Partners LLC

Q

Yeah. Great. Okay. And then to follow up on Hunter's question, the premium products continue to perform really well. And I guess in retrospect it makes sense with pent-up demand and just the consumer being flush with cash. But how do you think about the premium cabin as demand starts to normalize? Do you think the changes are now, like, structural or is it really just too early to tell and it kind of depends on where the demand environment is later on down the road?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

We believe they're structural. And we believe that through the pandemic, we've created kind of a new class of customer which is high end consumer that wants these products that maybe didn't have as much access to them because they were given to the business customer earlier in the booking process. So that's one of the things we're wrestling through as we – how does our fleet accommodate the higher levels of demand, I think these are things we'll be discussing more with you at Investor Day but we do think that there's a higher level of demand for those products moving forward.

Conor T. Cunningham
Analyst, MKM Partners LLC

Q

Okay. Thank you.

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

A

And, Conor, I don't think it's only pent-up demand and consumers being flush with cash. Consumers are looking at travel differently and they're looking at a lot of things differently in a post-pandemic world and the quality of their provider, the care which their provider takes of them, it doesn't matter whether you're an airline, you're a hotel, restaurant, whatever you are, it's continually going to drive preference and drive influence at a higher level than ever before. And we consider ourselves the premier provider of service in our country. We're going to continue to gain hopefully an outsized part of that share going forward.

Conor T. Cunningham
Analyst, MKM Partners LLC

Q

Appreciate the thoughts.

Operator: We'll go next to Savi Syth with Raymond James.

Savanthi Syth
Analyst, Raymond James & Associates, Inc.

Q

Hey, good morning, everyone. Just a quick follow-up on Conor's question to start with. As you think about the capacity restoration, is there a difference between your narrow-body and wide-body fleet ability just given the fleet changes?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, the answer is, yes, there's a difference. I don't know what the question is on the difference. What I would say and we'll explain this a little bit more as we have our Investor Day, but where we sit today and the inefficiencies of our wide-body fleet, we are flying a significant number of wide-bodies at a stage length that they weren't designed to fly. So, for example, if you fly between Atlanta and Salt Lake City today, all of our flights are flat bed, all of our flights have premium products, and all of our flights are on planes that weren't designed to go 1,200, 1,500 miles. Not only is it driving the opportunity of not flying that long-haul, but it's driving a higher cost structure in the existing domestic environment, which will normalize as those planes get retrenched.

Now, if you ask why they're there, they're there because when we were in the earlier parts and we were in the cash mode, we wanted to use the planes that didn't have maintenance requirements, that had available pilots in them. So now as we work to the rebuild, these are all part of the rebuild costs that we've got to identify and explain a little better. But this should have a double whammy impact improvement because you get better cost structure in the domestic environment and a heavier weighting for the lower cost international. And they're really two distinct components that are synergistic with each other.

Savanthi Syth
Analyst, Raymond James & Associates, Inc.

Q

That's helpful. And if I might, you've announced quite a few, Boston – new markets out of Boston. I was just wondering if you could provide a little color on the growth out of Boston. And just are those plans kind of in line with the kind of pre-pandemic strategy or is it something different or like newer or different opportunity that you see out of Boston?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

No, I think we were clear about our intentions to be Boston's preferred airline pre-pandemic. If you go back and listen to the calls then, it was something that was our intent. And we saw some opportunities in the pandemic that availed themselves, and we're believing that next summer is going to be a relatively robust demand set to Europe. So we wanted to fill out some of the big demand international markets from Boston and then some of the opportunistic markets in the pandemic for Boston business. So very happy with our – we have a great team in Boston. They do a phenomenal job. We have a great facility in Boston, best in class up there. And I think when you put the suite of our products and services, it really is a winning hand for Boston.

Savanthi Syth
Analyst, Raymond James & Associates, Inc.

Q

Makes sense. All right. Thanks, Glen.

Operator: We'll go next to Chris Stathoulopoulos with Susquehanna International.

Christopher Stathoulopoulos
Analyst, Susquehanna Financial Group LLLP

Q

Hey. Good morning. Thanks for taking my questions. So as we look at the second half of next year and the expectation that you can recover to 2019 capacity levels and drive the nonfuel CASM-Ex below 2019, could you just help us and again, this might be more of an Investor Day question, but if we think about efficiency I think you cited about $1 billion off of 2019. But if we think about efficiency, fuel initiatives and then also the change in the network with some of these longer haul markets that you're adding, two come to mind, Athens and Tel Aviv out of Boston, just how we could kind of put some color around those buckets as we think about your CASM-Ex into the second half of next year? Thanks.

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

A

Chris, this is Ed. It's way premature to be getting into 2022 CASM-Ex, I appreciate the interest level. We're going to give you that in a couple months in December. We need to have a better handle first on how the recovery shapes in 2022. And that's going to drive our plan. But I will confirm that our goal is to get at or below 2019 levels, once we have our scale back and once we get the operations restored to where we want it to be.

Christopher Stathoulopoulos
Analyst, Susquehanna Financial Group LLLP

Q

Okay. And just a follow-up. What is the timing to restart some of these international flights with the easing of I think it's inbound from UK, EU and a few other areas? Is it a few weeks? Or is that – should we think about that more as a first quarter event? Thank you.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, on the margin, we're adding back some flights into the winter schedule. But as you know, winter is never the peak season for Europe travel. So what we're really thinking is given the lifting of these embargos, it's going to make for a great spring and summer season next year. And so a lot of our rebuild costs and a lot of the things we're preparing for are to have our European largely intact by summer.

Christopher Stathoulopoulos
Analyst, Susquehanna Financial Group LLLP

Q

Thank you.

Operator: We'll go next to Dan McKenzie with Seaport Research.

Daniel McKenzie
Analyst, Seaport Global Securities LLC

Q

Thanks. Good morning, guys. I guess first question is for Dan. Referencing some of the balance sheet investment-grade commentary, big picture, I'm just wondering if you could put a finer point on the timeframe for achieving that. In the past, Delta has been able to fix its balance sheet over a five-year period. Should we be thinking five years to get to that or could you potentially get there sooner?

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

A

Yeah, we're going to talk about the multiyear outlook, as we've talked about, at Capital Markets Day. Certainly the balance here between investing in restoration of the balance sheet are going to be key priorities. That will be multiyear. And I do think that you've referenced Delta's historical track record there. They've shown real discipline if you look over that period of 2010 through 2019 of paying down debt while still building and investing in airline. And those philosophies will be true as we think about this going forward. And that will be certainly part of our outlook of how we balance both that investing and restoring the balance sheet and the pace of that as part of Capital Markets Day.

Daniel McKenzie
Analyst, Seaport Global Securities LLC

Q

Okay. Understood. And then I guess, Glen, on corporate travel being nearly 80% to 100% recovered by year end 2022, just looking at where we're at today, can you just help us connect the dots on the various buckets of spend? So in the fourth quarter here, how are the small and medium sized businesses behaving versus say the large corporates? And then if you could just help us slice that a little bit differently, internationally versus domestically? So areas of corporate travel that are laggings the recovery here versus areas or segments that are in line or doing a little bit better.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, certainly on the positive side, the unmanaged travel for corporate for business is running between 5 points and 10 points ahead of managed corporate travel. So the smaller, hungrier companies out there hitting the road sooner than maybe some of the bigger multinationals. And of course, it's more heavily weighed for domestic now, but we've seen a huge uptake with the 212(f) restrictions being lifted. Europe was about 15% restored through second and third quarter for corporates. We've seen that double to 30% just in the last couple of weeks. So a nice uptick there.

As well as deep South America, which was pretty much nonexistent for the long-haul South America is starting to show some signs of life. And then the laggards, of course, have been the Pacific, which is still largely locked down, so. But we are expecting those to improve significantly as we move through here, as the vaccination rates in important places for us like Korea and Japan are now approaching between 70% and 80%. So hopefully, we get some good news out of that region of the world starting in the next few months here. And that's really all the color I have at this point.

Daniel McKenzie
Analyst, Seaport Global Securities LLC

Q

Sure. Thanks for the time, guys.

Operator: We'll go next to David Vernon with Bernstein.

David Vernon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hey, good morning, guys. Thanks for taking the time. I wanted to ask the last question slightly differently. The capacity is supposed to be down 80% for 4Q. Can you give us a sense for where the operating resources are relative to 2019 in the fourth quarter? I'm just trying to think about how many [ph] crews and pilots and staff (01:00:17) do we have that were working to produce the 2019 schedule in relation to this capacity being down sort of 20% level? Is it down in line with that? Is it down less than that? Can you help us kind of frame the productivity issue?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I'm not sure I fully understand the essence of the question in regards to are you asking where the workforce is relative...

David Vernon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Yeah, so like productive capacity. Like, if you had 100 people producing 100% last year and now you're producing 80%, do you have like 85% of the resource from 2019 producing that 80%? Like, I'm trying to understand the deleveraging that's happened because of the pull-down of capacity.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think as we – the way to think about it is when you think about productivity measures by group, as you restore, you're getting those productivity levels back and moving closer or beyond 2019. So that's whether it's in the airport, whether it's with catering or other types of activities, those progress as you bring that back. There's also situations where we're hiring ahead to ramp up. So those are the unproductive people. That's where you're training them. You're scaling them before you inject them into the operation. And that's...

[indiscernible] (01:01:39)

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

...associated there with the rebuild.

David Vernon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Yeah, I guess I was just trying to get a sense for if you could help us frame how – the negative impact of the productivity loss.

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

A

Let me take a stab at this, David. We have a lot of premium pay overtime, the lack of "productivity" given where we sit with a rapid rebuild of the airline, getting people in position, getting people ready for the future, as Dan said, just covering the operation. And so you have not only just more people than capacity relative to where we're eventually going to end up once our business is restored, but on top of that, you've got a higher level of added cost going into the current funnel to ensure that you're delivering great service and building for the future at the same time on a reduced base of capacity.

So that's a big part of it. You also have the restoration cost and maintenance and training and other elements that are another layer. And I appreciate you can't see that in the numbers broken out as clearly. But again these are things we're going to talk about in December at the Capital Markets Day to show you the trend line. None of us have ever been through something like this, as disruptive as this. And as it builds back, I can appreciate the questions. But we see it maybe a little more clearly over a longer period of time than looking at it in the existing quarter.

David Vernon
Analyst, Sanford C. Bernstein & Co. LLC

Q

That's helpful. Thanks. If I could squeeze one more in there. Glen, as you think about when we should be getting back to prior period load factors, are you expecting the airline to kind of get back to that high 80s level in 2022, 2023? How should we think about load factor recovery?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Yeah, I think this summer we were running load factors that were within a couple points of 2019 levels. So I would expect by next spring and summer that the industry would be back in that zone.

David Vernon
Analyst, Sanford C. Bernstein & Co. LLC

Q

Great. Thanks very much, guys.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Thank you.

Operator: We'll go next to Mike Linenberg with Deutsche Bank.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, good morning, everyone. Dan, can you just walk through kind of the primary elements on the net debt going from $19 billion to $22 billion Sept Q end to December quarter end? I guess seasonality probably plays a role there.

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

A

When you think about it, there's really three components related to it. One will be, you work right through the elements of free cash flow and the movements, right? It's earnings, it's ultimately the movement of working capital, which is the air traffic liability, and then it's ultimately CapEx. So you have the guidance framework as it relates to the earnings framework. CapEx we've told you is $3.2 billion for the year gross CapEx. We're $2 billion year-to-date so that implies $1.2 billion in the fourth quarter. And then you also have the working capital movement, which is really the air traffic liability. And normally in a period of time like this, when you think about that, that would be – that might move in a more seasonal traditional time in the low teens. But as we've talked about throughout this call, we're not necessarily in traditional seasonal periods of time. So we would expect that to be slightly more muted than that as it relates to movement from it. But those are really the drivers there.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Very helpful. And then just second question to Glen. What percent of your revenue is actually tied to government contracts? I mean, I know we have – we have the GSA City Pair program. And then obviously you recently moved the Afghan people. I realize maybe the revenue number is a small component I guess when you think about some of the good press that you've gotten from some of your government services. You sort of have to weigh that as well. So sort of a multi-pronged kind of ask on that piece of your business. Thank you.

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

A

Hey, Mike. This is Ed. I'll take a stab at that...

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, Ed.

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

A

...since I was asking the same question the other day. And you got to look at it at a 2019 level not necessarily at today's level because government travel is way down given where – Federal Government is largely not open. When you go to DC, a lot of the offices, people aren't out on the road yet. But it's collectively in the hundreds of millions of dollars for Delta on an annual basis. When you consider charters, you consider all the Federal workers that do travel on Delta, we have a pretty significant share of those. When you consider the US mail that we carry, it's a pretty large revenue base.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Very good.

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

A

We'll now go to our final analyst question.

Operator: And we'll go to Ravi Shanker with Morgan Stanley.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks for putting me in. A couple of follow-ups here. The 75% recovered for November and December, I just want to understand if that's what the booking curve is telling you now or is that a number that you are extrapolating based on the current rate of improvement? I'm just trying to understand kind of if things continue to get better here over the next six to eight weeks if you can end up with a better than 75% recovered number for November and December?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Clearly it's both. It's what we have on hand and what we expect to get. So it's the combination of those two.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Got it. And just a follow-up on the strong mix that you're seeing in the premium cabin, you said that that was structural. A, kind of do you see that evidence in the surveys you're doing with people post flying? Kind of like what's the evidence of that? And, B, once corporate and international fully come back, let's say this time next year, do you expect to be flying more premium seats than in 2019 if this bounce you're seeing is truly structural?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Yeah, I think both of those we're intending on answering at Investor Day as to show you how we see this evolving and show you all the research behind why we're confident that more premium seats is the direction we want to head.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you.

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

That will wrap up the analyst portion of the call. I'll now turn it over to Tim Mapes, our Chief Marketing & Communications Officer, to start the media questions.

Tim Mapes
Senior Vice President, Chief Marketing & Communications Officer, Delta Air Lines, Inc.

Well, good morning, everybody. Thank you to each of the members of the media who are gathered here today. We have about 20 minutes to wrap these if we could. Just remind you one question and a quick follow-up. We'll try to cover as many of these as we can. And, Jenn, if you could remind everyone how to access their question?

QUESTION AND ANSWER SECTION

Operator: Yes, thank you. [Operator Instructions] And we'll go first to Alison Sider with Wall Street Journal.

Alison Sider
Reporter, The Wall Street Journal

Q

Hi. Thanks so much. Just wondering, just given the 212(f) restrictions coming off in I guess you're saying early November, what do you have to do sort of between now and then, if anything, to spool up the international operation? What sorts of preparations do you have underway?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, we have – a lot of the airplanes are still in the desert. So we're working on getting those all already. We're also doing a lot of interior work. I think one of the exciting things that we want to talk more about next year is by next summer, all of our long-haul international will have our new premium economy. So that's another thing we're working on. And premium economy is really a new class. We started it in 2019. We didn't get very far with it. But by the time we come out of the pandemic in 2022 to most – all of Europe will have the new premium economy seats which is something along the lines of a little bit better than domestic first class and a class that we're really excited about.

So getting that configuration redone. Our airports are another key thing. We've been working very hard on our airports, whether or not it's Seattle with the international terminal, whether or not it's Los Angeles, which should be largely complete by next summer. There's a lot of work going back into the rescaling, and it really is – it's all across the airline.

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

A

And, Ali, obviously we have a lot of seats for sale too, a lot of empty seats as we've been really only carrying close to 50% loads for much of the last year across Europe. So there's a lot of work going on, as Glen mentioned, but there's also lot of seats that already exist in the marketplace.

Alison Sider
Reporter, The Wall Street Journal

Q

Thanks. So I guess, I was just curious how you're thinking about sort of your pipeline of pilots longer term over the next year. What retirements are looking like and sort of what the competitive landscape is for pilot hiring going forward?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, we're going to be hiring over the next several years. I think at the present time we're looking at hiring a couple thousand pilots over the next 18 or so months, to that question. At the same time, we had a pretty considerable number retire a year ago, about 2,000 also. So we've got this mapped out pretty effectively. We obviously need to forecast where the international demand is going to go to ensure that we're able to supply it and have pilots in the right spot. But we're, I think, doing a pretty good job of keeping our pilots and our staffing availability for crews in line with how demand is shaping up.

Operator: We'll go next to Leslie Josephs with CNBC.

Leslie Josephs
Reporter, CNBC

Q

Hi. Good morning, everyone. Just two quick things. On your hiring, are you seeing lower average salaries now? And do you expect that to continue compared with 2019 as you ramp up? And then on the premium – paid premium cabin, what are those paid load factors? And is this – was September a record? And where are things trending now?

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

A

I'll handle the first, and Glen can handle the second question, Leslie. On overall labor cost, yes, we're getting a nice juniority benefit as we bring in a whole new generation of employees at essentially every level of the company. We had close to 20,000 people retire a year ago. So the top end of our most experienced – many of our most experienced employees have chosen to retire. And that's opened up opportunities for younger people. So there is a benefit to that. We have not changed our hiring wage scales in order to bring people in. We're able to bring people in at our current scales and not having any issue locating great talent.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

And as it relates to the premium seats, we're selling 10 points higher than we did pre-pandemic. And we always run relatively full in terms of [ph] sat load (01:13:20) factor but a lot of those are complementary upgrades. But what we're seeing is people are willing to pay us for those seats. And that's why we want to create more over time. I'm not going to give away what we're going to talk about at Investor Day, but making sure that we have enough to satisfy both demand so people who are willing to pay us for them as well as having an adequate supply of complementary upgrades for our most valuable customers.

Leslie Josephs
Reporter, CNBC

Q

Okay. Thanks. And do you have any number on how many people you want to hire in 2022?

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

A

We haven't put that number out yet, but we'll certainly be hiring pilots. We'll be hiring flight attendants and mechanics, I'd say, will probably be the three main areas we'll be hiring next year.

Leslie Josephs
Reporter, CNBC

Q

Thanks.

Operator: [Operator Instructions] We'll go next to Ted Reed with The Points Guy.

Ted Reed
Reporter, The Points Guy

Q

Hi. Thanks for taking the question. I want to ask first about Boston, your goals there. Do you have goals beyond the top 10 Atlantic and the top 20 domestic destinations? And in line with that, as for your competitors, if you're growing in Boston, don't they need to grow too? And wouldn't that be part of their case to the Justice Department that they also need to grow?

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

Well, Ted, I think you know us well enough to know we're not going to comment on what we think our competitors should or could do. But I think what we see is our products suit the Boston market quite well, being a premium carrier and having Boston be a very affluent city with a huge component of corporate travel. We think that we are best suited to deliver the best products and services to the customers of Boston. And we're going to, as I said in previous calls, we don't want to be the biggest, we just want to be the most loved and the most profitable.

Ted Reed
Reporter, The Points Guy
Q

All right. Thank you. And I need to ask about the vaccine. Do you think you can get where you need to get in terms of vaccines without having a mandate at Delta without threatening firing? Can you get where you need to?

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

Yeah. Well, that's our goal, Ted. The goal here is to get people vaccinated. And we are on a plan to get people vaccinated. And I think it's one of the reasons the order came out from the administration was they were uncomfortable that not enough companies had plans to get their people vaccinated. And we already have a plan. And the plan's working well. We're at 90% at the present time, vaccination. We expect to get to 95% as we get into November. And there'll be some exemption requests. So there undoubtedly will be a small number of people that will not be vaccinated. I think it's going to be in the 1% to 2% range, relatively small amount of people. And we'll have to assess that when the time comes. But right now, I think we're fully aligned with the intent of the EO.

Ted Reed
Reporter, The Points Guy
Q

All right. Thank you.

Operator: We'll go next to David Koenig with The Associated Press.

David Koenig
Reporter, The Associated Press
Q

Hi. Somebody, I think it was Les, who already asked about the pay for new hires which I was interested in. What are you seeing in terms of how many applicants you're getting per job? And how does that compare to pre-pandemic as some of your competitors have commented on that?

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

Hey, Dave. We're getting great interest in new hires coming to Delta. The flight attendants, as an illustration, we just opened up 3,000 new jobs for flight attendants. We had I think 35,000 to 40,000 applicants. We had to turn off the application portal within a week because we had so many applicants coming in for those opportunities. So we're not having issues in terms of attracting great talent. I'd say the rate of interest is comparable. Obviously, it depends on work category. Some jobs are more technical and we're having to go deeper into some pools to locate talent, but broadly speaking we're doing a great job bringing people to the company.

David Koenig
Reporter, The Associated Press

Q

Well, that's what I was also interested in. For some of those, the technical jobs, for example, you're not having to raise pay to attract people in this labor market?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

We're not. We're not.

David Koenig
Reporter, The Associated Press

Q

Okay.

[indiscernible] (01:17:53)

David Koenig
Reporter, The Associated Press

Q

Thank you very much.

Tim Mapes
Senior Vice President, Chief Marketing & Communications Officer, Delta Air Lines, Inc.

A

Thanks, Dave. Jenn, we have time for one final question, please. Then we'll turn it over to Ed for closing comments.

Operator: We'll go to Robert Silk with Travel Weekly.

Robert Silk
Reporter, Travel Weekly

Q

Hi. Thanks for taking my question. I'm wondering if you all have received any – government – what's the date for the reopening of Europe and these other countries, Brazil, so forth? Have you gotten any sort of guidance on that? How important is it to get that specificity soon?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, I think we have a lot of intelligence on that, and it varies by country and it varies by region. So we're monitoring that very closely. And that's clearly a key component to getting international business travel back, but you know what I would say is that when people are able to travel, even with the tighter protocols such as testing and documentation requirements, we are seeing significant uptakes in corporate travel. And I point to Europe, which is not yet reopened, yet our corporate bookings have doubled since the announcement of reopening. And we'll see exactly how that plays out as Europe does reopen in early November, how much further recovery we see there. But very encouraging. People want to travel. And as soon as they're capable of traveling and they have some certainty around it, I think we've seen it doesn't matter whether it's business or leisure, they want to get out and travel.

[indiscernible] (01:19:24)

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

...we don't have an exact date as to when the 212(f) is lifted [indiscernible] (01:19:31) it's early November.

Robert Silk
Reporter, Travel Weekly

Q

Okay. Is it important to get that date?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Important to get the date, absolutely. We've been asking every day.

Robert Silk
Reporter, Travel Weekly

Q

Thanks.

Tim Mapes
Senior Vice President, Chief Marketing & Communications Officer, Delta Air Lines, Inc.

A

Thank you. With that, we'll turn it over to Ed for final comments.

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

Well, I want to thank everyone for joining us this morning. A lot of questions, a lot of good questions. And we look forward to taking you through our longer term strategy as we get into the Capital Markets Day in December and outline for you where we're taking this company and this brand. And I think it's a very exciting future.

Also want to thank the people of Delta for the great work and the spirit of service in terms of how you took care of customers and each other over the course of a very, very challenging summer. Our team is truly the Delta difference, and we continue to be inspired by the accomplishments of the entire Delta team in this environment.

So thanks to everyone for joining us today. We look forward to seeing you in New York at the New York Stock Exchange on December the 16th.

Operator: That concludes today's conference. Thank you for your participation today.