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Delta Air Lines, Inc. (DAL)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Delta Air Lines June Quarter 2022 Financial Results Conference Call. My name is Cody, and I'll 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 Julie Stewart, Vice President of Investor Relations. Please go ahead.

Julie Stewart

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

Thank you, Cody, and good morning, everyone. Thanks for joining us for our June Quarter 2022 Earnings Call. Joining us today from Atlanta are CEO, Ed Bastian; our President, Glen Hauenstein; our CFO, Dan Janki. Ed will open the call with an overview of Delta's performance and strategy. Glen will provide an update on the revenue environment. And Dan will discuss costs and our balance sheet. After the prepared remarks, we'll take analyst questions, and we ask that you please limit yourself to one question and a brief follow-up so we can get to as many of you as possible. After the analyst Q&A, we will move to our media questions.

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'll also discuss non-GAAP financial measures, and all results exclude special items, unless otherwise noted. You can find a reconciliation of our non-GAAP measure on the Investor Relations page at ir.delta.com.

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

Edward Herman Bastian

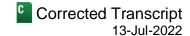
Chief Executive Officer & Director, Delta Air Lines, Inc.

Well, thank you, Julie and good morning. We appreciate everyone joining us today. It's been a challenging operating environment for the entire industry and I want to thank our customers for their patience and understanding as we restore the reliability that you've come to expect from Delta.

I'll speak more to the operation in a moment, but the good news is that we're making great progress to deliver the best-in-class experience that our customers deserve, and I'm pleased with our July performance to-date.

This morning, we reported June quarter earnings per share of \$1.44, with \$1.4 billion of operating income and a 12% margin on revenues that were close to 2019 levels. Results improved throughout the quarter, with revenue in the month of June 4% ahead of the June 2019 number, with a June month operating margin of 16.5%. So, it's only 3.5 points lower than June of 2019, despite a near doubling in fuel prices and our schedule, only 82% restored.

Q2 2022 Earnings Call



We generated \$1.6 billion in free cash flow in the quarter, which brings us close to \$2 billion year-to-date, reflecting the robust demand environment and enabling further de-levering as we work to regain an investment-grade balance sheet.

June quarter performance represents an important financial inflection and resulted in a profit-sharing accrual for our employees. These results are a validation of the dedication of our people who have done an amazing job under the most difficult of circumstances imaginable over the past two-and-a-half years. We're happy to have been able to reward eligible employees with a 4% raise on May 1 and we're looking forward to Delta people celebrating well-deserved and meaningful profit-sharing payouts for years to come with our return to profitability.

Rebuilding Delta's operation during an unprecedented surge in customer demand has been a remarkable feat, and I'm grateful to our people for everything they do on a daily basis. While the demand and revenue landscape is the best we've seen, the operational environment for the entire industry remains uniquely challenged. I'd like to sincerely apologize to those who have been impacted by cancellations, delays, and long wait times over the last two months.

This quarter's operational performance has not been up to our industry-leading standards, and restoring operational excellence is our top priority. Steps we've taken include the strategic direction to hold capacity at the June month level for the remainder of this year, as well as additional investments to restore operational integrity, including earlier boarding procedures and operational buffers.

We are pleased with the progress, and July is off to a very good start, with a 99.2% completion factor through the first 11 days of the month, which is exactly on par with the same holiday period in 2019. In fact, over the last seven days of this period, we've had only 25 cancellations worldwide on over 30,000 departures. Over this period, 84% of our flights have arrived on time as measured within 14 minutes of scheduled arrival.

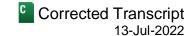
Since the start of 2021, we've hired 18,000 new employees, and our active head count is at 95% of 2019 levels, despite only restoring less than 85% of our capacity. The chief issue we're working through is not hiring, but of training and experience bubble. Coupling this with the lingering effects of COVID and we've seen a reduction in crew availability and higher overtime. By ensuring capacity does not outstrip our resources and working through our training pipeline, we'll continue to further improve our operational integrity.

While our actions delay the improvement we expect in non-fuel cost, we know the best path to driving a competitive cost structure is running a high-quality operation. And the most important point I'll leave with you is that the issues we're facing are temporary. We're already seeing significant improvement and operating in line with our record-setting performance levels of July of 2019.

Turning to the revenue environment, strong demand and pricing trends are continuing into the September quarter. We expect revenue to be up 1% to 5% versus 2019, with an 11% to 13% operating margin. Consumer demand continues to maintain strength as we look to the fall, and we're seeing steady progress in the return of business and international travel.

Like all consumer businesses, we're closely monitoring consumer behavior and have yet to see any meaningful pullback in demand. However, if demand were to weaken, I'm confident we have the tools and resources to remain profitable through the cycle. The last time an economic recession hit our business was in 2009. And absent fuel hedge losses at that time, which we no longer utilize, Delta was profitable that year.

Q2 2022 Earnings Call



Comparing then to now, Delta's business has structurally evolved in significant ways over the last decade, building a trusted and premium consumer brand with proven competitive advantages, within a much-improved industry.

Our revenues are far more diversified, with much larger contributions from our premium product offerings and high-margin Loyalty business, as well as our growing MRO and Cargo businesses. And our balance sheet and access to capital are much stronger as proven during the pandemic. We've recently made major customer enhancements that will strengthen our brand for years to come, including recent openings this quarter of world-class airport facilities at LAX and New York's LaGuardia Airport, two largest markets for travel in the country as well as new Delta Sky Clubs in key markets.

We spent over a decade building our reputation as the most reliable airline globally, and we're not only determined to deliver that same standard of excellence, but are investing to bring it to an even higher level. In the face of the pandemic, financially, we've been profitable over the last 12 months, with margins this summer beginning to approach 2019 levels despite meaningfully lower capacity and a doubling in fuel prices; in my opinion, a pretty remarkable turn in performance.

With our results in the first half of the year, we remain confident in our 2024 targets for earnings per share of over \$7, more than \$4 billion in free cash flow and a return to investment-grade metrics.

Now, I'll turn it over to Glen to talk about the revenue environment.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Thank you, Ed, and good morning, everyone. I want to start by thanking every one of our employees for the professionalism and the care they deliver to our customers every day. We are pleased with the return of demand across all categories and regions. Momentum accelerated through the June quarter, enabling the recapture of higher fuel prices. Looking forward, we are seeing demand and pricing strength carry into the late summer and fall as demand remains strong.

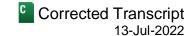
The success of our customer-focused strategy and strength of the Delta brand is evident in strong June quarter results across our diverse revenue streams, including premium product outperformance and a record quarter for both AMEX remuneration and Cargo.

We generated \$12.3 billion of revenue in the June quarter and achieved a total unit revenue that was 20.5% higher than 2Q of 2019. Revenue compared to 2019 progressed from down 15% in the month of March to up 4% in the month of June, resulting in quarterly revenues that were 1% below 2019 levels.

We've seen broad-based demand and yield momentum with each region generating positive unit revenue growth. Premium product revenue continues to outperform and is at 10 point higher than 2019 domestically, outpacing the growth in Main Cabin.

Domestic consumer revenue remains healthy, and is ahead of 2019 levels. International consumer revenue showed significant improvement during the quarter as travel restrictions eased and many countries removed testing requirements, including the United States. Latin America and Transatlantic exceeded 2019 levels in June, and the Pacific is accelerating as Korea and Australia have reopened and restrictions are easing in Japan.

Q2 2022 Earnings Call



Business travel continues to improve. During the June quarter, domestic corporate sales were 80% of 2019 levels on a 65% recovery in volume. International corporate sales improved 30 points during the quarter to 65% of 2019 levels, led by the Transatlantic, where the recovery is now on par with domestic.

Our recent corporate survey results show positive corporate expectations for business travel in 3Q, with several of the least-recovered sectors conveying strong optimism for increased travel this fall. As the recovery progresses in these sectors, we expect an outsized impact on our coastal hubs. Our corporate customers expressed increased plans to travel internationally in the second-half of the year given the elimination of the pre-departure test requirement for flights returning to the United States.

Similar optimism was reflected in Morgan Stanley's recent global corporate travel survey, where respondents indicated travel volumes would reach 84% of 2019 levels in the second half of 2022. This is 20 points above the June quarter volumes and over 90% by 2023. As the leading carrier for business travel, with the best-in-class product in the air and on the ground, we will benefit disproportionately as the business community continues to reconnect in person.

For the September quarter, we expect revenue versus 2019 to be up 1% to 5% on capacity that is 15% to 17% lower, with total unit revenues versus 2019 improving sequentially. For the full year, we expect capacity to be 15% lower than 2019. This is a 5% reduction from our initial guidance.

As we move to the back half of the year, we expect stronger corporate and international trends to offset seasonally lower customer demand. With this strong brand and diversified revenue base, Delta is positioned to consistently deliver a revenue and profitability premium to the industry. We expect more than 60% of revenue will come from premium products and non-ticket revenue sources by 2024.

Premium continues to lead with load factors and yields higher than 2019. And as we increase the mix of premium seats in our fleet, improve the display in sales channels, and see progression in the recovery of business, premium will continue to grow. A structural shift to premium is key to managing through inflation and economic cycles. Historically, more price-sensitive products like Basic Economy, which is currently less than 10% of our sold fares, have struggled to keep up with inflation while high-value premium offerings perform much better and have proven to be much more resilient through the pandemic.

Loyalty to the Delta brand is growing at record levels. We acquired another record number of new SkyMiles members in the quarter and achieved record spend and acquisitions on our AMEX co-brand card. More than one in four new cards acquired were Platinum and Reserve cards. Our premium tier is providing another proof point on the growing demand for premium products and brands.

AMEX remuneration of \$1.4 billion was 35% higher than the June 2019 quarter. And to put this in context, that is more than the remuneration for the full year in 2009. We're on track to receive over \$5 billion in remuneration this year from American Express and we remain confident in our 2024 target of \$7 billion.

The de-commoditization of our business combined with diversifying revenue through the growth of Loyalty, MRO and Cargo, have improved our financial resiliency and cash generation. We entered the second half of the year ahead of many of our commercial goals set at the Capital Markets Day, and we're excited about the opportunities to elevate our performance by extending our advantages and leveraging the Delta platform.

Delta has been the most disciplined in restoring capacity and will remain nimble depending on the environment, while staying true to our core competitive advantages.

With that, I'll turn it over to Dan to talk about the financials.

Daniel C. Janki

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

Thank you, Glen, and good morning to everyone. For the June quarter, we delivered earnings per share of \$1.44, operating income of \$1.4 billion, and \$1.6 billion of free cash flow. Our non-fuel unit cost was 21.8% higher than 2019, largely because our network is 18% smaller.

Our operating margin was 11.7%. It came in below our most recent guidance as operational disruptions impacted both revenue and fuel prices moved higher. Operating cash flow of \$2.5 billion was driven by solid profitability and a sequential build in the advanced ticket sales. Quarterly, gross CapEx spend was \$864 million.

With nearly \$2 billion of free cash flow in the first half of the year, we repaid \$2.4 billion of gross debt, ending June with \$13.6 billion of liquidity and \$19.6 billion in adjusted net debt.

Our first half financial performance puts us ahead of our initial expectations at the start of the year, supporting our outlook for meaningful profitability in 2022. The exception to this outperformance is our non-fuel unit cost. At Capital Markets Day in December, we laid out a progression to return our non-fuel unit cost structure to within a few points of 2019 by 2024.

The actions that Ed spoke about have changed the pace of our unit progress, cost progression but not the destination. The primary drivers are slower capacity restoration and additional investments to deliver the operational excellence. The biggest impact is in the third quarter, where we expect non-fuel CASM to be up approximately 22% versus 2019 on capacity that is 15% to 17% below 2019.

For the full year, we now expect non-fuel unit cost to be approximately 8 points higher than we initially guided. The level of capacity restoration accounts for the majority of this increase as we are largely carrying the full cost of the airline with only 85% of our flying restored. As a result, we are not fully utilizing our assets.

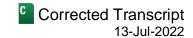
For example, third quarter aircraft utilization is about 10% lower than 2019. And while we have over 95% of the employees needed to fully restore capacity, we have thousands in some phase of hiring and training process. The remainder of the increase is driven by investments to support the operation along with smaller items like higher maintenance and inflation.

Actions related to reliability include added operational buffers and overtime. Premium pay and overtime is expected to total over \$700 million this year. This is 50% higher than 2019. While we're delaying our unit cost recovery, it is pace-dependent and within our control. We remain confident in our ability to meaningfully improve our unit cost as we rebuild capacity, improve efficiency and run our operations in line with the Delta high standard.

Now, moving to fuel, second quarter fuel expense increased nearly 60% sequentially on higher prices and volume, with an adjusted fuel price per gallon of \$3.82. The refinery continues to provide a hedge to historically high cracks, accounting – contributing \$269 million of operating income during the quarter. This resulted in a \$0.31 benefit to our adjusted fuel price per gallon.

For the September quarter, we expect adjusted fuel price per gallon between \$3.45 and \$3.60, including a \$0.27 per gallon contribution from the refinery based on the forward curves as of last Friday. We expect fuel efficiency to be about 5% better than 2019.

Q2 2022 Earnings Call



Based on our September quarter outlook for revenue and cost, we expect operating margins to be between 11% and 13%. Gross CapEx is expected to be approximately \$1.8 billion as we take more aircraft deliveries. We've seen some delays in deliveries, and it's possible this trend continues.

Debt reduction remains a key priority. We expect to end third quarter with adjusted net debt of approximately \$20 billion. Our goal is to reduce net debt by \$5 billion through 2024, bringing us back to investment-grade metrics. We remain confident in our ability to meet this goal, unlocking significant equity value for our shareholders.

In closing, we have made meaningful progress in restoring our financial foundations. With this progress, our opportunities ahead and the resilient demand for air travel, we remain confident in our 2024 financial targets.

In closing, I'd like to thank the Delta people for their hard work, the service they provide our customers day in and day out. Our people will always be the Delta difference.

With that, I'll turn it back over to Julie for questions.

Julie Stewart

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

Cody, can you please remind the analysts how to queue up for a question and start the Q&A?

QUESTION AND ANSWER SECTION

Operator: Absolutely. Thank you. [Operator Instructions] And we'll take our first question from Jamie Baker with JPMorgan. Please go ahead.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

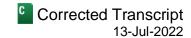
Hey. Good morning, everybody. Yeah. So, Dan, building on the prepared remarks, what needs to happen in order to achieve the 2023 capacity plan being flat with 2019? You're running well below right now, which you [ph] concede (00:21:37). Training bottlenecks presumably ease at some point, but the pilot shortage seems more acute than at Capital Markets Day, regionals cutting back. You mentioned delivery delays. Maybe there's a utilization issue that I'm not modeling for. I'm just trying to assess the feasibility of getting back to 2019 capacity next year, and given the implication that that would have on ex-fuel CASM.

Daniel C. Janki

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

Yeah, certainly. We can talk about the feasibility of getting back in and really the progression of non-fuel CASM. Maybe I'd start with the framework when you think about the total year with the 8 points. We had originally guided 7 to 10 points. Pick 9 points as the starting point, you add the 8 points, that's 17 points. And when you think about that, we did that on capacity that was 85% restored. You assume you step up to that 100%, that's 15 points of capacity restoration. That drives 12 points improvement in that as you get that utilization of your resources and your capability.

Q2 2022 Earnings Call



Now, as I talked about in the prepared remarks, it's not about the hiring, as Ed talked about, it's really, we have 95% of the people. We'll be substantially complete with that hiring and training as we move through the second half by year end, so we will be well positioned for that 100%.

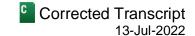
Additionally, there's 2 points in there of rebuild that we're incurring to do that, to bring those employees on, to hire them, to train them. And as I talked about, we're running overtime in premium 50% higher than 2019. And that was a level that was already elevated. So, you take that out, that's another 2 points. So, that's 14-point improvement by just better leveraging your infrastructure, utilization and the sunsetting of that rebuild off that 17 points.

And that along with – we're certainly going to continue to invest back in the airline. We laid out at Capital Markets Day around the airports and that capability. We continue to have that marker in there as it relates to escalation around our workforce and the components around that and managing our supplier inflation. That really puts you in that single-digit level for 2023 on a run rate basis. So, it really comes back to we're building it to be fully restored. We'll have those assets on. It's really then dependent on bringing that capacity online.

Jamie N. Baker Analyst, JPMorgan Securities LLC	Q
And that's fully restored on a full year basis or fully restored by the fourth quarter of 2023?	
Edward Herman Bastian Chief Executive Officer & Director, Delta Air Lines, Inc.	A
Hey, Jamie. This is Ed. Let me jump in here for a moment.	
Jamie N. Baker Analyst, JPMorgan Securities LLC	Q
Hi, Ed. Thank you.	
Edward Herman Bastian Chief Executive Officer & Director, Delta Air Lines, Inc.	A
Good questions. I thought Dan did a good job laying out [indiscernible] (00:24:25). This is entirely within control, if there is an underlying sentiment that we kind of lost something in the operating prowess, I dor at all. It's not a full year number of 2023 in terms of capacity. We're going to pace it to demand.	
Daniel C. Janki Executive Vice President & Chief Financial Officer, Delta Air Lines, Inc. Yes.	A
Jamie N. Baker Analyst, JPMorgan Securities LLC	Q
Okay.	
Edward Herman Bastian Chief Executive Officer & Director, Delta Air Lines, Inc.	A

I think, in my opinion, by summer of 2023 would be our target to get back to 100%. I think we could do it maybe a little earlier or a little later depending on what we see in the economy, what happens as the last phases of the

Q2 2022 Earnings Call



restoration of the industry comes together, but I think we have all the piece parts together. We just are very careful that we not incur any of the disruptive influences and elements that we saw during that six-week period from mid-May to June, and we're going to stay within our capabilities. So, I don't think there's anything that's outside of our control here.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Okay. Thank you for that, Ed. And just a real quick follow-up for Glen, the strength in premium, any changes in how consumers are purchasing premium products? Is the percent sold at initial ticketing and the subsequent percent sold pre-departure, is that staying the same? I'm just wondering if the inflationary backdrop is causing any changes in the buying patterns of premium? I realize the aggregate outcome remains very encouraging.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Right. No. We had record paid load factors in every one of our premium cabins during the quarter. We had record yields. And the travel patterns are pretty sustainable in terms of most of it is still being purchased at time of purchase. Actually, the encouraging factor is the continued momentum in corporate authorizing premium travel for their employees who are traveling frequently. So, as we move into September, we expect that to continue as we get back into a more seasonal business travel market.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

That's great. Thank you to all three of you. Appreciate it.

Operator: Thank you. We'll take our next question from Andrew Didora with Bank of America.

Andrew G. Didora

Analyst, BofA Securities, Inc.

Hey. Good morning, everyone. First question for Glen. So, it seems like the June trend is continuing into 3Q here. But can you comment a little bit on what you're seeing into your September bookings and kind of how you view the pace of unit revenues throughout the quarter? I would think you're baking in September that is probably lower than July, August. And am I right on that? And then any thoughts that you could provide around how you're thinking about the corporate and leisure recovery come the fall would be helpful as well. Thanks.

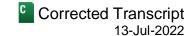
Glen William Hauenstein

President, Delta Air Lines, Inc.

Well, our thesis is really what I outlined in my comments that, as we get towards the end of summer, into the more traditional business travel season, that we're going to see an uptick in corporate travel. And that's been reinforced by a couple of surveys. The Delta survey, which really just closed last week, had some very encouraging statistics in it that our customers are expecting that travel will pick up meaningfully as we get to the fall.

I think the other piece is the international and the rebound of international and that was delayed and came later than the rebound of domestic. And as we look out to September, we have some really very, very strong data points in terms of travel for international for September. As a matter of fact, September, what we have on the books today, which is about 60% of the total bookings for international, is at record levels, much higher than what we experienced in June. So, that piece, which we already have in our books is very, very strong. And then we're

Q2 2022 Earnings Call



just anticipating that there is a shift from high, high-demand leisure to a little bit better mix of corporate versus leisure demand in the fall.

Andrew G. Didora

Analyst, BofA Securities, Inc.

Q

Got it. Makes sense. And then, look, obviously, everyone's trying to find the cracks out there in services spend. Obviously, you have a big partner in AMEX that has kind of a wealth of data around this. How are you working with AMEX to maybe identify potential areas of weakness in the consumer? And what are they telling you about how consumers could behave in the back half of this year?

Glen William Hauenstein

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President, Delta Air Lines, Inc.

AMEX is our closest and best partner, and we talk to them constantly. And they're not seeing any indications yet, and I think we're all looking for it. But as of now, I think we're enjoying the very, very robust demand that's not only in our airline spend but in our whole portfolio, AMEX portfolio spend as well.

Edward Herman Bastian

A

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

Hey, Andrew, this is Ed. Let me add to Glen's comments. I spoke to some of the media last night and this morning about this as well. There's such pent-up demand for our product. You've got to remember, people have not had access to our product for the better part of two years, many, particularly business and higher-end consumers. And we're not going to satisfy that quench, that thirst in a space of a busy summer, period. So, there's a lot in there that is yet to come. That is our thesis, as Glen mentioned.

And yes, the data supports what we're seeing today, but we also acknowledged that our crystal ball is only about three to four months right now, and it doesn't go all the way as far as people like us to think. But everything we see tells us that we've got to run. The only fly in the ointment, in my opinion, is that we don't run the quality operation, I mean, that will keep people from the product. And, and that's why we are so focused on delivering a high-quality operation, which is exactly what our team is delivering and that we'll continue to deliver.

And the second thing, and it's been talked about in the industry and we talked about it last Investor Day, is not just the move from goods to service spend because our economy is a lot larger today than it was in 2019 regardless of whatever you think that GDP is, whether we're already into the technically mild recession or not at the present time, I think by most estimates our economy is about 15% higher than what it was in 2019, and our industry is only about 90% to 95% restored. That's a pretty big cushion or delta or hedge depending on your point of view in terms of where the demand strength will be supported. And for Delta it's even lower, because we're only about 85% restored.

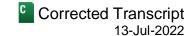
So, when you put all those factors together, it gives us confidence that we're going to see continuing strength. We also see some seasonal shift, as Glen mentioned, but I don't think the season will be as pronounced as it's been in the past. And we expect as long as we run a high-quality operation, which we are doing and we'll continue to do, we should be well positioned.

Andrew G. Didora

Analyst, BofA Securities, Inc.

Great. Thank you, everyone.

Q2 2022 Earnings Call



Operator: Thank you. We'll take our next question from Scott Group with Wolfe Research.

Scott H. Group

Analyst, Wolfe Research LLC

Hey. Thanks. Good morning, guys. Dan, can you help us on the 22% CASM in third quarter going to around 10% in Q4? Can you help us sort of bridge to that? And then as I look out to the 2023 CASM guide you gave at Capital Markets Day, I understand the impact of – we'll see how much capacity we can add back, but if I look this year, CASM is 8 points worse on 5 points less capacity, so there's, call it, 3 points of sort of underlying cost. Should we just take that 3 points and add that to 2023 or could some of that go away as well?

Daniel C. Janki

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

Yeah. Two pieces. Let me bridge it first to fourth quarter and the step-down. We're going to come out, as Ed talked about, and run capacity at our June levels as we go progress through the back half of the year. As you do that and you run that consistently, you get relative restoration in the fourth quarter. So, capacity was to be stepped up to be 94% restored, a 10-point step-up from the midpoint of our range. So, when you do that, that's where you get that relative improvement, as it relates to capacity and efficiency and utilization, relative to 2019. That along with a step-down in some of the rebuild expenses in the quarter, that gives you your – over your 10-point improvement, really gets you to that 10% level as we go into – as we go and execute through fourth quarter. So, that was the first one.

The second one, when you think about that, yes, there are – we're building ahead, so some of that cost that you're seeing of those 3 points are costs that were occurring ahead related to it. Some of it is the additional point that I talked about in rebuild. We're incurring more overtime and more premium to run the airline this year, so you'd expect that one – those costs to come out. So, it's both making the investments and those rebuild costs that will diminish that you'll see improvement in.

One of those costs is we put cost in in regards to our boarding practices and the changes associated with that. Yes, that's an increase, but that's going to create efficiencies for us throughout our network in regards to how we run and operate that throughout the system. And we did a lot of work, the operating teams did a lot of work to test that, validate that, and we know we'll get the efficiencies as we go forward.

Scott H. Group

Analyst, Wolfe Research LLC

Okay. Thanks. And then just second question just more about the third quarter guide. So, sounds like June had revenue up 4% and margins of 16%. And I'm sure there was some impact from operational issues, sounds like that's getting better and fuel's coming down. Just I'm trying to understand the 11% to 13% margin guidance for Q3 relative to that 16% in June. So, any thoughts there would be great. Thank you.

Daniel C. Janki

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

See, you have the -

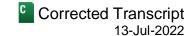
Edward Herman Bastian

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

Talking about for the month of June.

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Q2 2022 Earnings Call



Daniel C. Janki

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

For the month of June. As you think about it – let me...

[indiscernible] (00:35:08)

Daniel C. Janki

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

July will be a lot like June, and then you step down as you progress through. So, the June and July, you get that momentum, but then you get the seasonality and the step-down that Glen talked about regarding the top line as you progress through the rest of August and September. And then the other element in there as you think about guide, we also – so that – and underneath that, remember, we're coming off at June capacity rate, so we have underlying volume growth associated in that, about 7% to 8% associated with that, so you're getting bridge on that.

Edward Herman Bastian

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

I think the other thing, Scott, this is Ed in there, that we have a pretty significant profit-sharing accrual...

Daniel C. Janki

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

Yeah.

Edward Herman Bastian

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

...also in the September quarter. In June, most of the results were offset by the loss in the first quarter of the year, so we have profit-sharing accrual, but it's modest. I think we're looking at close to another \$200 million, plus or minus, at these guidance levels of additional expense for profit-sharing, which also affects a little bit of the trend there.

Scott H. Group

Analyst, Wolfe Research LLC

Okay. Very helpful. Thank you, guys. Appreciate the time.

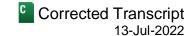
Operator: Thank you. We'll take our next question from David Vernon with Bernstein.

David Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Hey. Dan, just to kind of stick on the cost outlook here, so we're looking for up low-to-mid singles, we're ending 2022 up [ph] 18%, I guess, or 15%, 18% (00:36:38), whatever the number is, a little bit worse than we were before. Just can you help us kind of understand, like, are we still looking up to low-to-mid single-digits off the costs that have been pulled forward? Or should we be expecting that to moderate a little bit?

Q2 2022 Earnings Call



And then as you think about the overtime and the costs that have been put in ahead of the demand recovering, is there going to be some sort of deceleration in some of that cost even kind of independent of the volume as we kind of think about the back half of this year? Or is that going to also be pushed into 2023?

Daniel C. Janki

A

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

Yeah. You see that step down slightly in fourth quarter on that, and then it really starts to sunset as you flip the calendar and move into 2023 related to that. So, you certainly do. The first part of the question, I missed the very beginning of it.

David Vernon

 \mathbb{Q}

Analyst, Sanford C. Bernstein & Co. LLC

Oh. So, as you look at – we were – I think, the guidance from the Capital Markets Day was up low-to-mid singles on unit cost. Should we be kind of moderating that because of the 2022 sort of outperformance on cost? Or is it still sort of in that same kind of range from a directional standpoint?

Daniel C. Janki



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

Yeah. I think it's – again, as we talked about, the destination 2024 hasn't changed in regards to it. It will be pace dependent. As Ed talked about, it's in our control, putting the costs in ahead. It will be really when that capacity comes in and the pace of that capacity that comes in that will dictate that as we progress through 2023.

So, we'll have to – as we get to the end of this year, we're going to look at that capacity and how we bring it on, and that will pace how the calendar falls out associated with it. But we expect that the leverage that we're going to get in the incremental CASM to be right in line with where we're expecting it, so yes, no change in leverage.

David Vernon



Analyst, Sanford C. Bernstein & Co. LLC

And then – and Glen, maybe just to kind of shift gears for a second and talk about corporate. As you think about the way corporates are buying, are you seeing a return to sort of close-in travel? Or has that changed a little bit, the booking windows being a little bit more elevated? And how does that think of – and how does that change the load factor you want to be running your operation at? Or does it have any impact on that?

Glen William Hauenstein

Δ

President, Delta Air Lines, Inc.

What we've seen is a little bit of an elongation of the booking cycle. I think that is also dependent on the relaxation of the cancelation fees. I think one of the things that we didn't talk about is when you look at our quarterly results here, remember, we have no change fees, and that was \$1 billion that we had to overcome in the bottom line. So, I think we're all learning what the new world is without change fees, and we're seeing some change in travel patterns in terms of APs and in terms of stays. But I think we've got that well managed, and we are going to run load factors that I think are very similar to 2019 levels throughout the rest of the third quarter and likely into 4Q.

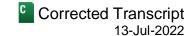
Operator: Thank you. And we'll take our next question from Sheila Kahyaoglu with Jefferies.

Sheila Kahyaoglu



Analyst, Jefferies LLC

Q2 2022 Earnings Call



Hey. Good morning, guys, and thank you. As we think about the overtime pay in the \$700 million range for the full year, how much of that was incurred in the first half? And how do we think about it for the remainder of the year, just given the operational adjustments you've made?

Daniel C. Janki

A

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

Yeah. It's pretty balanced. I would say second and third quarter were the highest with it stepping down slightly that we anticipate in fourth quarter as we stabilize and run the operation.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Okay. Great. And then as a follow-up to that, I appreciate you guys have the hardest job on the planet here, but how do we think about flex options as we think about labor and salaries, just the number of employees you guys have in 2023 just given the potential different economic scenarios we might have next year? How are you guys planning for that?

Edward Herman Bastian

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

A

Sheila, this is Ed. Let me take a stab at that. Obviously, we haven't given 2023 specific guidance. We've given you ranges and direction, but we haven't given you guidance, so I'm going to defer on getting into any detail as to labor in 2023, what the cost implications are.

We mentioned that in the Capital Markets Day that we do have a long-term cost growth built into our model, and that is true for all of our work groups. We'll see how the year progresses. Obviously, we're in the midst of a pilot contract negotiation, which I'm not going to speak to publicly. So, we'll learn more as we go, but I don't see anything that leads me to believe that the core elements of what we described back in December are going to be that much different when you get to 2024, what the trajectory is.

And one other thing, I know Dan's been getting a lot of the questions on cost, which I fully understand, but thinking about it from our seat, the last two years, we've been all about trying to drive down costs. And I think our team has done a really good job. In fact, we, for the better part of the pandemic, we had over 50% of our cost out, which was unheard of, showing unforeseen flexibility, which we're going to avail ourselves to once we get the operations stabilized. And my direction has been to stabilize and drive reliability. And now that we have demand like we haven't seen ever before as well, all hands are on deck to support and serve that demand.

We're going to get to equilibrium over the course of the next 12 months, where cost and revenue and everything are going to be in balance. I'm confident we're going to end up in a better net spot on it all. But when you have revenues at or already surpassing 2019 levels, it's hard for the operations to make sure we have enough staff on hand and the focus there. So, there's also a lot of costs that are embedded within the system that are hard to tease out but are a function of a very, very intense period of time that we're under.

Sheila Kahyaoglu

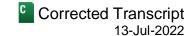
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Analyst, Jefferies LLC

Okay. Great. Thank you so much.

Operator: Thank you. We'll now take our next question from Brandon Oglenski with Barclays.

Q2 2022 Earnings Call



Brandon R. Oglenski

Analyst, Barclays Capital, Inc.

Hey, Ed. Maybe expanding on that answer, obviously, it was a challenging operational period in 2Q, but you mentioned it yourself, your employment levels are close to 95% recovered. I think your own disclosure of pilot head count is actually kind of flat with where you were in 2019. So, can you speak more to maybe what unfolded? What's changed in July? And thinking about it from a brand perspective and a premium revenue perspective, obviously, if you incur a lot more cancellations and queuing at Sky Clubs and things like that, doesn't that erode that ability in the future? So, how are you, I guess, protecting that moving forward?

Edward Herman Bastian

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

Well, it absolutely does erode that into the future. That's the risk, Brandon, I agree with that. What we've seen in July as compared to that last six weeks at the end of the second quarter is it some different scheduling practices that we've taken within all of the work categories, including our pilots but our flight attendants and others. We've made schedule adjustments as well. We've taken any growth out. We're positioned not just for the next month or so, we're positioned for the balance of this year to kind of stay where we're at. And that level of stability gives the operations the capability to focus on the task at hand rather than the continuing to invest and build on growth at the same time.

We'll build, we're going to have the capacity to grow when we're ready, but we want to make sure we're focused on serving what we have. And it's really remarkable being in this business for 25 years now, you run a better airline, everything runs better, and the efficiencies just start to materialize. The overtime goes away on its own. The lines start to move quicker. And we can also accelerate the training and the experience of our team.

When you think about the fact that we've got 18,000 new people that have joined us, many of them over the last 12 months, there's a lot of experience that they're gaining. And that experience and scale is going to pay off. But you don't step into these jobs and you learn it overnight. There's a significant learning factor that we're also going through, and that's whether it's in the airports with what you guys see or what's going on behind the scenes in tech ops or in reservations or in all categories of employment, even technology.

So, you see behind the scenes all of the moving parts, how much new folks, new leadership we have in place, it's breathtaking, and I'm optimistic they're doing a really good job. But there's a pretty big learning curve, which is hard to put a dollar amount against but I know it's going to really pay off as we move forward.

Brandon R. Oglenski

Analyst, Barclays Capital, Inc.

I appreciate that. I'll just keep it to one.

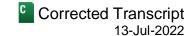
Operator: Thank you. We'll go ahead and take our next question then from Helane Becker with Cowen.

Helane Becker

Analyst, Cowen and Company LLC

Hello, and thanks very much, operator. Hi, everybody, and thank you very much for the time. So, my one question is related to when you add time, which is what I assume you're doing in changing the boarding process, you're adding time between flights. Does that exacerbate pilots and flight attendants running out of time? Does it help

Q2 2022 Earnings Call



baggage handling? Like, how should we think about that? I think, Dan, you already talked to the cost side, but how should we think about that from the actually day-of-operation side?

Edward Herman Bastian

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

I'll take that. It doesn't, Helane. Obviously, it's a fact that you got to look at the full impact on overall utilization. Obviously, utilization comes down a touch, so it's embedded into the aircraft utilization, Dan talked about our aircraft utilizations already having been down versus 2019, and we're capitalizing a little bit on that to take advantage of some boarding time. But the fact of the matter is, is that we were running with the large narrowbodies in the domestic system too hot in the airport environment. We didn't have enough time for our customers.

And this is just recognizing the reality of the operation which we're already running, which enables everybody to get in position ahead of time. And yes, we're tweaking show-in times, report-in times and when the actual assets are being operated, but it doesn't really change a lot in the dynamics. It's going to give our people a little more time to board promptly. It's also giving us the opportunity, which we haven't been able to fully take advantage in the past to actually depart early when ready. And we're seeing that in meaningful ways. It's improving baggage performance.

I think the only pinch point we're seeing that we analyze is making certain we have enough time to get the cleaners off the planes because we're not going to compromise on cleaning either. And so, this has been worked on for the better part of the last year. It wasn't something we thought of overnight. And I think we're fully plugged in across all the operating groups. And it's going to be a better customer experience. It's going to be a better employee experience, and behind that, it's going to be a better brand experience as well.

Helane Becker

Analyst, Cowen and Company LLC



That's very helpful. And then just for my follow-up question is on what kind of technology can you use to speed the boarding process? I know you were working with biometrics and doing some of that leading-edge stuff prepandemic and then even during the pandemic. But can you accelerate your IT spend to speed the process up and help day of operations, I wonder?

Edward Herman Bastian

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

We're doing that. We're certain a lot of that's on the front end coming through security, and you may have seen that we've added additional biometric processes and face ID and helping working with CLEAR and TSA to get customers through the security queues faster. Boarding at the moment, I don't see any magic bullets to get physically the number of people that we have on the plane and seated with their bags stowed that much sooner, but we're trying to make it more comfortable process. I don't think it's going to be faster, but hopefully it'll be more comfortable.

Helane Becker

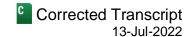
Analyst, Cowen and Company LLC



Great. Thank you.

Operator: Thank you. We'll now take our next question from Mike Linenberg with Deutsche Bank.

Q2 2022 Earnings Call



Michael Linenberg

Analyst, Deutsche Bank Securities, Inc.

Oh. Yeah. Hey. Good morning, everyone. Hey, Glen, I want to go back to the point that you made where you talked about some of the revenue segments that you focused on, to some extent a hedge against inflation. You talked about Basic Economy being under 10%. How has that progressed over, say, the last few quarters as inflation has picked up and presumably some of the more price-sensitive passengers are just getting crowded out by your premium customers? Can you give us sort of a sense of how that's trended?

Glen William Hauenstein

President, Delta Air Lines, Inc.

Well I think you just described what's happened is, as fares came up and as inventory controls went into place, while the fares for Basic Economy were filed, they were not readily available as they were squeezed off by higheryielding customers. So, our target has been, and really these are soft targets, but to have less than 20% of our capacity available in Basic Economy, that's our - a very soft kind of macro target that we have. And that's come down to a low 10% or right around 10% as the high demand through the summer has really displaced those customers. That's a result, not an intent.

Michael Linenberg

Analyst, Deutsche Bank Securities, Inc.

Okay. Great. And then can you give us a sense, if we go back to 2019 and we looked at sort of how many points of load factor on domestic flights connected to international and sort of where we are today, because I would think that there's probably some decent upside there as you start to turn on more of Asia, for example? You are a fairly big connecting airline. Where were we then? And maybe where are we now?

Glen William Hauenstein

President, Delta Air Lines, Inc.

So, domestic portion of international journey is generally about 10% of our total capacity or a bit less, and that's about – it's right now in the high-single digits, so that's a couple of points of load in the domestic system.

Michael Linenberg

Analyst, Deutsche Bank Securities, Inc.

Okay. Well [indiscernible] (00:51:47), all very high-margin, I presume, as it comes on.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Absolutely. And the recovery has really been led by domestic premium. And now what we're really seeing is the acceleration of international premium as we move into the late summer and [ph] early (00:52:05) fall, so very exciting for us.

Michael Linenberg

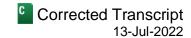
Analyst, Deutsche Bank Securities, Inc.

Operator: Thank you. We'll now take our next question from Savi Syth with Raymond James.

Very good. Thanks, everyone.



Q2 2022 Earnings Call



Savanthi Syth

Analyst, Raymond James & Associates, Inc.

Hey. Good morning. I noticed the kind of used aircraft, just used aircraft purchases this quarter, and I was wondering if you could kind of take a step back and as you look to 2023-2024 kind of plan and maybe even a little bit beyond, guessing that the small RJ reduction in your fleet is probably faster than you had expected back at Investor Day. I'm just kind of curious what holes you have in the order book. Essentially, what do you need in terms of growth or replacement compared to what you have in the order book today? Like, what could we expect in terms of additional either used or new aircraft that needs to be added to your outlook?

Edward Herman Bastian

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

Hey, Savi. This is Ed. We're reasonably good place with the order book. Obviously, we have opportunity in the next three to five years of delivery for some additional narrowbody, large narrowbody acquisitions, and that's something that we're always talking to Airbus and Boeing about and whether that's used or whether that's new. There's opportunity there. On the widebodies, we have focused a lot of our energy the last few years on the widebody, and typically the A350 and the A330, and we're pleased with the used A350s that we've acquired. And we've got a pretty healthy stream of widebodies coming, so I'd say the focus in the back end of the five-year period is on the large narrowbodies.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

All right. Helpful. I'll leave it at that. Thank you.

Operator: Thank you. We'll take our next question from Stephen Trent with Citi.

Stephen Darrell Trent

Analyst, Citigroup Global Markets, Inc.

Good morning, everybody, and thanks for taking my question. Just one quick one here, when we look back earlier this year, there was this ongoing noise about these 5G towers getting installed in airports. That all seemed to quiet down. And in that sort of general theme, are you seeing anything from other industries or maybe government proposals that are causing some concern at the moment? Or have these conversations with other industries, with Secretary Buttigieg, not giving you any sort of concern like that?

Peter W. Carter

Corporate Secretary, Chief Legal Officer & Executive Vice President, Delta Air Lines, Inc.

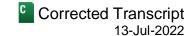
Steve, hi. It's Peter Carter. Thanks for the question. We have a very, I would say, direct and open dialogue with the administration, with the Secretary and the FAA. And we don't see any, I'll say, storm clouds with respect to any of the initiatives that the government has been talking about. You may have seen that the Secretary proposed a Bill of Rights for passengers traveling with disabilities last Friday. That was just a restatement of existing regulations that Delta has been following. And obviously, we do everything we can to make sure that our disabled passengers are taken care of every step of the journey.

Stephen Darrell Trent

Analyst, Citigroup Global Markets, Inc.

Okay. Really appreciate the color. And I will leave it at that. Thank you.

Q2 2022 Earnings Call



Operator: Thank you. We'll take our next question from Duane Pfennigwerth with Evercore ISI.

Duane Pfennigwerth

Analyst, Evercore ISI

Hey. Thanks. I almost fell asleep. Nice to speak with you both. Ed, with a longer-term view that operations will kind of normalize, and clearly, there's a lot of non-recurring in the baseline this year, that your unit costs will normalize into 2023, what sounds like a constructive view on demand, meaningful free cash flow generation this quarter, how do you and the board think about your stock here in the 20s? I think the plan was to stick to your knitting on deleveraging but are you shocked with where your equity is trading? And is there any increased emphasis or increased thought on buyback with your stock down here when the restrictions come off?

Edward Herman Bastian

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

Thanks, Duane. Yeah. I think we're all surprised with where the stock is, for the industry, by the way, it's not Delta-specific, is trading at. And I think it's a function of all the distractions or noise, whatever you want to call it. We've got a lot of moving parts in the industry as we get through the last phase of this pandemic and we see the whipsaw effect, whether it's extraordinarily high revenue or high cost to serve that revenue and fuel prices. So, there's a lot of moving parts there.

We can't do anything at the moment with respect to CARES Act limitations, so I can't provide you any specifics on that. But we talk over the long term that we've got a responsibility to all constituencies, to our customers, to our employees, and importantly to our owners as well as our communities. And our owners shouldn't be forgotten about, and we didn't forget about them during the pandemic. We did not dilute our owners, one of the only airlines that didn't do that. So, it's an important point to us, but at this point in time, I really can't speak much about that.

Duane Pfennigwerth

Analyst, Evercore ISI

Okay. And then maybe just one last one on Transatlantic, some constructive comments from Glen, but can you talk about recovery sort of US point-of-sale versus Europe point-of-sale and how you see that sort of changing over the balance of the year? Thanks for taking the questions.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Right. Well, I'm glad I got this question because I actually [ph] request (00:58:05) for it, so thank you for the question.

Duane Pfennigwerth

Analyst, Evercore ISI

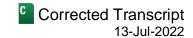
You're welcome.

Glen William Hauenstein

President, Delta Air Lines, Inc.

I think one of the issues is with the euro approaching parity is what are we seeing in terms of EU point-of-sale and EU demand set. And what I'd say is that right now, the difference between EU point-of-sale and US point-of-sale in terms of referencing back to 2019, they are almost identical in terms of the fare increases that we've realized.

Q2 2022 Earnings Call



Now, one of the things I historically never understood is most things in Europe are more expensive than they are in the US on a dollar-adjusted basis. Airfares in Europe to the United States were never one of those, so we've gotten some leverage here where we've gotten some nice fare initiatives and structures in place that are taking some of that disparity out of the US point of origin versus the European point of origin.

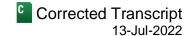
So, I think we like where we sit. I think the one concern is right now we are in a high US point-of-sale. Everybody likes to go to Europe in the summer. And as we shift to the fall, late fall, certainly that extends throughout the October [indiscernible] (00:59:12) season. But as we get into the November through February, I'd just like to point out it would be a great time for you to go to Europe. And the after-Christmas sales would be very good, and you'd be – your dollar would go further than ever. So...

Duane Pfennigwerth Analyst, Evercore ISI	Q
[indiscernible] (00:59:27).	
Glen William Hauenstein President, Delta Air Lines, Inc.	Α
we will keep a close eye on that balance as we move in, given the fact that the euro has weakened substantially, but that's something I think we can accommodate through capacity offering.	
Duane Pfennigwerth Analyst, Evercore ISI	Q
Okay. Thank you very much.	
Operator: Thank you. We'll take our next question from Ravi Shanker with Morgan Stanley.	
Ravi Shanker Analyst, Morgan Stanley & Co. LLC	Q
All right. Thanks. Good morning, everyone. Question for Glen or Dan. What percentage of your corpora contracts right now are still grandfather contracts, i.e., pricing from pre-pandemic levels, where there copotentially be an opportunity to renew at much higher yields?	
Glen William Hauenstein President, Delta Air Lines, Inc.	A
Well, most of our contracts are based off of published fares and inventory that's available in those public so it floats. And so, I think what we're seeing and when we look at 65% recovered in terms of volume ar [ph] incurred (01:00:26) in terms of sales, you see that we're getting a lot of yield momentum on the cor side as well. So, hopefully, as we get into the fall and corporate continues to return, we can realize thos increased fares that are in the market today.	nd 80% porate
Ravi Shanker Analyst, Morgan Stanley & Co. LLC	Q
Got it. Thanks for the clarity. And maybe just one follow-up. Obviously, thank you for all the commentaryou expect 3Q to pan out, but just wanted to confirm that based on the visibility you have in the booking	-

right now, which I think should give you at least three months of visibility, you are not seeing any drop off in

domestic leisure demand post Labor Day beyond normal seasonality. Is that a fair comment?

Q2 2022 Earnings Call



Glen William Hauenstein President, Delta Air Lines, Inc.	
That's fair.	

Analyst, Morgan Stanley & Co. LLC Great. Thank you.

Λ

Julie Stewart

Ravi Shanker

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

We'll now go to our last analyst question.

Operator: Thank you. We'll take our final analyst question from Chris Stathoulopoulos from Susquehanna Financial Group. Please go ahead.

Christopher Stathoulopoulos

Analyst, Susquehanna Financial Group LLLP

Good morning, everyone. Thanks for getting me in here. So, Ed or Dan, there was some news out recently about Boeing, perhaps, getting close to doing a sizable [ph] end order, and (01:01:38) I understand if you don't want to comment on, we might hear more in Farnborough in two weeks. But that would — I think if I understand, that would put that first delivery in 2025. And I'm just trying to understand, if there's a pilot shortage out there, the consensus view out through mid-decade, which is a gating factor for domestic ASMs, could you just sort of frame what is the peak year, if you will, for retirements for your current pilot workforce?

Edward Herman Bastian

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

A

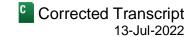
So, you raised a lot of speculation in your question, so I'll be careful to just speak to what I can. We don't have a massive reduction or retirement bubble in the Delta pilot or we have pilots retiring each year over the next handful of years. We were the only airline that offered a significant retirement inducement for our pilots and close to 2,000 of our pilots took them back in the summer of 2020.

And it's easy to have revisionist history and wonder whether we should have done that or not should have done that. But you put yourselves back in summer of 2020 when the total revenues were probably less than 20% of 2019 levels, there was no knowledge of what a vaccine could do, when it would be found, the effectiveness, et cetera, and how the world was going to start to reunite, so I don't look back with any regret at all about those decisions.

That said, when you take out 2,000 pilots, and you could imagine most of them are – were at the senior-most levels of the company, that causes churn at a much higher level at Delta than other airlines because you effectively wind up training everybody at some point there over the following couple of years because everyone will have an opportunity to move up and move to different categories and the like. So, we've done a good job of bringing in the next 2,000. We have many of them hired. We still have some to go, but we're through much of that.

I don't see any pilot shortage issue for Delta at all. It is the place pilots want to come to. And certainly, by the period of time that you were speculating on, the latter part of 2025, 2026, 2027, I think we'll be in a great spot with respect to our pilot staff.

Q2 2022 Earnings Call



Christopher Stathoulopoulos

Analyst, Susquehanna Financial Group LLLP

Okay. Appreciate that. Just the follow-up, so your survey work, I think you mentioned in your prepared comments, is fairly constructive post Labor Day and your answer to Ravi's question echoes that. But in your survey work, I know you do a lot of very detailed survey work, have you looked at travelers that have not yet flown during the pandemic and, for those that have, the frequency? Just trying to get a sense here for kind of look at this sort of pent-up demand from another angle using some of the survey work from the leisure side that you've done over the last few months. Thank you.

Edward Herman Bastian

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

Yeah. The survey work Glen mentioned was largely around corporate travel that we spend an awful lot of time with. We also survey SkyMiles customers, and we have an active survey dialog going on there. And there's still pretty – some meaningful pent-up demand there. And it's not just people that haven't traveled. It's volumes of trips that we anticipate people will take looking forward as they start to catch up on all the experience and all the opportunities that they lost.

When you think about this pent-up demand, it feels – it sounds very impersonal, it actually is very personal. It's people investing in themselves to go see friends and family and have life experience that they haven't had time, like I can't put how many weddings are being held now, and all the reasons why people travel have not gone away. They've just been deferred, and now they're being accelerated in the next period of time, so whether it's the next 12 months, 18 months, 24 months, there's a lot of catch up to be done. And every data point we look around indicates that.

People aren't fearful of traveling. I mean, there's still some, but it's a significantly shrinking number. But there's a lot of people that once they're now out on the road, they want to get back on the road and the only inhibitor that I see that I hear about is running a quality operation. And we're taking that off the table as a risk factor for our customers.

Christopher Stathoulopoulos

Analyst, Susquehanna Financial Group LLLP

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 and Communications Officer, to start the media questions.

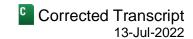
Tim Mapes

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

Thank you, Julie. Cody, if we could, as we thank the analysts for their time this morning and transition to questions from the media, just remind the members of the media what our process is. And we'll try to get four or five questions answered while we have time here.

Operator: Absolutely. Thank you, sir. [Operator Instructions] We'll take our first question from Alison Sider with the Wall Street Journal. Please go ahead.

Q2 2022 Earnings Call



Alison Sider

Reporter, The Wall Street Journal

Hi. Thanks so much. Just wondering if you could talk a little bit about what you're seeing with fares. And the CPI data came out this morning, and it seems to show some softening. Does that – have you seen that? Does that reflect any softening in demand or more resistance to higher fares? Or is it just fuel prices coming down?

Glen William Hauenstein

President, Delta Air Lines, Inc.

We are – we don't really generally talk about future fares, so I'd like to stay away from that. What we see is a very robust demand set and our ability to harness that through both pricing and inventory in the future. So, I think we expect that very strong demand set to last through the remainder of the summer and into the fall. And as Ed indicated in his previous comments, we do believe there's a lot of pent-up demand for people who maybe didn't make it in the summer or got priced out of the summer who would be able to travel in the fall [ph] and winter (01:08:11).

Alison Sider

Reporter, The Wall Street Journal

Okay. And then just also curious if you're seeing any issues with replacement parts, including engines. Are you seeing any lack of availability of spare parts? And is that causing any operational issues?

Daniel C. Janki

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

Certainly, when you think about the supply chain as it relates to aviation, it has been – it certainly has been challenged. It's been well documented from that perspective. We certainly have seen disruptions. It's forced us to think about how we – the inventory levels that we carry. We're fortunate that our team has deep expertise and has been doing this for years where they're able to navigate that, where it hasn't impacted in anyway entry into service or availability of aircraft in a material way. It's allowed us to fly what we wanted to fly, but it's certainly ongoing.

We certainly see those disruptions. We feel them. We work closely with our OEM partners on that, and to ensure that we're at the top of the list, but we're working proactively with them to increase the flow. But it's day to day.

Alison Sider

Reporter, The Wall Street Journal

And especially engines or other parts that have been particular challenge?

Daniel C. Janki

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

It cuts across both engines and components.

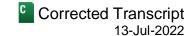
Operator: Thank you. And then we'll move on to our next question from Mary Schlangenstein with Bloomberg News.

Mary Schlangenstein

Reporter, Bloomberg News



Q2 2022 Earnings Call



Hi. I wanted to try to follow up really quickly on Ali's question with the CPI report showing the fares fell in June after three straight months of double-digit increases. So, I know you don't want to comment specifically on fares, but could you just comment on is that a signal now that being able to continue to increase fares across the industry is likely being limited? And a second quick question. I wanted to see if you'd comment on the report that you're close to a deal for a dozen or so new A220s with Airbus. Thank you.

Edward Herman Bastian

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

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Hi, Mary. This is Ed. I think Glen answered it well. I didn't look at the CPI report yet that came out this morning, but I think that measure is kind of going from month to month. And when you think about our selling season, we're selling now into the latter part of the summer, early fall already, which seasonally is a little less amount of demand than what we've seen on the front end of the spring and summer surge. So, the fare environment, it continues to be healthy. It's not something that we would talk about, but it is – you could see in our guidance for Q3, the demand is quite strong.

On your question relative to future acquisitions, as you know, we don't comment on such matters.

Mary Schlangenstein

Reporter, Bloomberg News

Thank you.

Operator: Thank you. We'll take our next question from Leslie Josephs with CNBC.

Leslie Josephs

Reporter, CNBC LLC

Hi. Good morning. Thanks for taking my question. On the training and experience backlog, can you provide a little more detail on how that affected you financially, operationally? And also where are you in the hiring? Do you still – do you have any hiring goals for this year? Or do you think that the pace is going to start to slow? Anything surrounding your plans would be helpful. Thanks.

Edward Herman Bastian

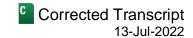
Chief Executive Officer & Director, Delta Air Lines, Inc.



Yeah. On the – a lot of it's in training, and I'll talk about pilots. We have an enormous amount of pilot activity and training going on. I'm not sure of the exact number, but at any one point in time, we have 1,500 or more pilots in training, which is much larger than we would normally carry. And by the way, it's not just the training, because you have pilots waiting to be trained that are sitting on reserve, so there's a backup there as well in the process. So, it really impacts your overall productivity and efficiency that will eventually sort itself out as we move through it, move the snake – the bubble through the snake here and we get to the other end of that.

It's going on with technicians, with mechanics. It's experience we see with our vendors, our contractors, their ability to repair parts. They're having some of the issues with experience the same way we have of new people learning. So, it touches every part of our operation. And the good news is that we've got all our folks, and so we're at peak with respect to "training", and I wouldn't call it inefficiency but the cost of efficiency. And every month that goes by, it's going to get better.

Q2 2022 Earnings Call



Leslie Josephs

Reporter, CNBC LLC

All right. And in terms of the hiring numbers, do you expect the pace of hiring to slow for the rest of the year whether you're being full or...

Edward Herman Bastian

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

Yeah. We're at – as I mentioned in my remarks, we're at roughly 95% of 2019. There's more hiring to be done in pilots. There's more hiring to be done in flight attendants, in mechanics. The big areas that we're hiring at much larger numbers previously were in the airports and in reservations, and in those two areas we are largely where we need to be. Some additional staffing certainly, but that is largely resolved.

Operator: Thank you. We'll take our next question from Dawn Gilbertson with Wall Street Journal.

Dawn Gilbertson

Reporter, The Wall Street Journal

Hi. Good morning. Ed, you gave some really good statistics on the nascent turnaround here in July. I wondered if you or Glen or somebody could talk about the baggage handling situation. I'm just hearing anecdotal evidence, not just with Delta [indiscernible] (01:14:02), on some baggage handling issues, lost bags. Can you share, I mean, how is Delta doing in baggage handling and, if there are trouble spots, where they are and how you're addressing them? Thanks very much.

Edward Herman Bastian

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

Sure, Dawn. As you can imagine, when you hit a rough patch in your operations, the bags are going to be affected probably even more so than customers. And indeed, that's what we saw happening in May and June. That said, in July month to-date, we're actually ahead of goal that we had set for ourselves in terms of baggage performance. It's early, but it's a good indication. We missed our goal by a relatively modest amount in June, the month of June, but one of the things I was impressed with is the Atlanta airport, which is our biggest baggage center and our biggest customer point, was actually ahead of goal for June.

So, the baggage issues for us are not domestic. Domestic, our operations are running in a really great place. It tends to be more on the European side, where the airports – the European airports don't have the staff, and they haven't had the ability to invest ahead of time the way we've had here in the US. We're working with our airports, with our partners, people on the ground. We've gone as far as, recently, we had a separate charter just to repatriate bags back to customers that had been stranded because of some of the operational issues the European airports were having. And we did that on our own nickel just to reunite our Delta customers to their bags as quickly as possible.

Dawn Gilbertson

Reporter, The Wall Street Journal

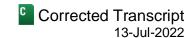
Thank you very much.

Tim Mapes

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

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Q2 2022 Earnings Call



Thanks, Dawn. Cody, we have time for one final question, and then we'll turn it back over to Ed for closing comments. Thank you.

Operator: Absolutely. Thank you. We'll take our final question from Rajesh Singh with Reuters.

Rajesh Kumar Singh

Reporter, Reuters

Hi. Thanks for taking my question. We are told that Delta is in talks with Airbus to expand the existing order for A220s and a deal could be signed next week. Is this accurate? And if it is, can you please share the details? Thank you.

Edward Herman Bastian

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

We don't comment on upcoming decisions that have yet to be taken, so I'll leave that at that.



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

Well, I thank you all for joining us today. There's been a lot happening in our industry and in our business, and it was a very active second quarter. I'm proud of the work our team did to deliver a great financial result, a real inflection point, as we coined it. And we look forward to a strong third quarter ahead. We'll keep a close eye on the operations and encouraged with what we're seeing, and we expect to report even better results when we get to the Q3 report in October. So, thank you for joining us and hope you have a good rest of your summer.

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

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