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# Delta Air Lines, Inc. (DAL)

Q4 2022 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, everyone, and welcome to the Delta Air Lines December Quarter and Full Year 2022 Financial Results Conference Call. My name is Matthew and I will be your coordinator. At this time, all participants are on a listen-only mode until we conduct a question-and-answer session following the presentation. As a reminder, today's call is being recorded. [Operator Instructions]

I would now like to turn the conference over to Julie Stewart, Vice President of Investor Relations. Please go ahead.

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### Julie Stewart

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

Thank you, Matthew, and good morning, everyone, and thanks for joining us for our December Quarter and Full Year 2022 Earnings Call. Joining us from Atlanta today 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 analysts' questions. We ask that you please limit yourself to one question and a follow-up so we can get to you as many 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 measures on the Investor Relations page at [ir.delta.com](http://ir.delta.com).

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

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### Edward Herman Bastian

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

Thank you, Julie. Good morning, everyone. We appreciate you joining us today. Earlier, Delta reported our full-year results including our December quarter earnings per share of \$1.48 on record revenue that was 8% above 2019 levels. We generated a 12% operating margin, our third consecutive quarter of double-digit operating margins, pointing to the strength of our recovery. I want to sincerely thank the 90,000-strong Delta team for their outstanding work in delivering these results and serving our customers during a very busy holiday travel season. In my opinion, 2022 was the most difficult operational year in our history and was capped off by severe winter storms over the holidays. I am grateful to our employees for their great work to recover the operation while keeping our customers and each other safe. They are the reason our brand and customer loyalty is at the top of the industry.

Our December quarter earnings per share and margins exceeded guidance, marking a strong close to a year where we made significant progress regarding restoration of our financial foundation. For the full-year, we reported earnings of \$3.20 per share on \$46 billion of revenue. We delivered pre-tax income of \$2.7 billion, an improvement of more than \$6 billion over 2021. Delta's profitability led the industry and in our nearly 100-year history, 2022 was our seventh highest result, even with a \$1 billion loss in the first quarter.

We were pleased to report positive free cash flow for the year, which funded \$6 billion of capital invested back into the business and we repaid close to \$5 billion in gross debt. Sharing our success is a long-standing pillar of Delta's culture and I'm proud to announce that we'll be paying our employees \$550 million in well-earned profit sharing come Valentine's Day. 2022 came in ahead of our plan on revenue, earnings and cash flow demonstrating strong execution in the first year of the three-year plan we laid out at the 2021 Capital Markets Day. I'm incredibly proud of the team for rebuilding the world's best-performing airline, and importantly, we're not just building back, we're continuing to improve and extend our competitive advantages. Delta's brand continued to strengthen in 2022 with record performance from our loyalty and co-brand card programs, and customer satisfaction scores consistently perform above pre-pandemic levels.

Through the year, we've hired and trained 25,000 new employees, now representing over a quarter of the total company. Our teams show their operating talent and resilience as we retained our number one position in completion factor and on-time arrivals amongst our peer set, despite having so many new team members. The Delta brand is centered on our safe, reliable and exceptional service and our operational excellence was recognized by Cirium last week, which named us yet again the most on-time airline in North America.

We fortified our international partnerships in 2022, positioning us for a profitable international growth in the years ahead. As detailed last month, expanding our international margins to domestic levels is an important opportunity for Delta in the years to come. We have invested in the customer experience at every stage of the travel journey; from the continued refresh of our fleet with next-generation, far more fuel-efficient aircraft, to generational airport rebuilds and technology investments that are providing our employees better tools and our customers a more seamless experience. And we continued to attract and partner with leading brands to grow our SkyMiles ecosystem and further enabled customers to use their SkyMiles during travel and beyond.

Heading into 2023, our momentum continues. At the Consumer Electronics Show in Las Vegas just last week, we unveiled the next phase in our vision to connect the sky. Starting February 1, Delta will be the first major US airline to provide fast, free, unlimited Wi-Fi to all through its free SkyMiles account. This will be available on nearly 80% of our US system to start and growing every week. By the end of next year, we expect to deliver this service seamlessly throughout the rest of our international and regional fleets.

And we've debuted Delta Sync which will create personalized experiences and engagement opportunities on the free Wi-Fi portal. We're partnering with great brands like T-Mobile and Paramount+ as well as building on our long-standing relationship with American Express to bring to life our vision of a more connected and personalized travel experience. As a trusted consumer brand, Delta continues to differentiate the premium flying experience, building loyalty and supporting our ambition to transcend the industry.

Moving to our outlook, at our investor event last month, we provided full-year 2023 guidance for revenue growth of 15% to 20% year-over-year, earnings of \$5.00 to \$6.00 per share and free cash flow of over \$2 billion. We're affirming that guidance today and introducing our March quarter outlook which Glen and Dan will provide in detail.

For the March quarter, we expect to deliver a 4% to 6% operating margin and improve our pre-tax income by more than \$1 billion compared to the same period last year. Importantly, we are embedding the assumed impact of all labor cost increases throughout our guidance metrics. We are pleased to have reached an agreement in principle with our pilots but out of respect for the process, we will not be discussing the details of the agreement on today's call.

As I outlined last month, I've never seen a more constructive backdrop for the industry. Demand remains strong as passengers return to the skies and industry returns to the long-term trend to GDP, all while supply constraints continue. I believe our industry will see tens of billions of dollars of incremental demand in the next few years coming out of the pandemic.

As the industry-leader with a proven strategy and strong execution track record, Delta is well-positioned to build on our momentum in the New Year. We're confident in our ability to deliver significant improvement in earnings and free cash flow in 2023, consistent with the plan we laid out last month and we are on track to deliver our 2024 targets of more than \$7.00 of earnings per share and \$4 billion of free cash flow. As always, we remain mindful of the macroeconomic trends and have demonstrated that we have the tools to effectively manage a changing economic climate.

In closing, Delta delivered in 2022, outperforming our plan and leading the industry operationally and financially. We are uniquely positioned to grow earnings and cash flow in 2023, 2024 and beyond. The power of our premium brand continues to grow, and with the very best people in the industry, I couldn't be more excited about what's ahead for Delta and our customers.

Thank you again. And with that, I'll turn it over to Glen.

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## Glen William Hauenstein

*President, Delta Air Lines, Inc.*

Thank you, Ed, and good morning, everyone. I couldn't be prouder of what the Delta people accomplished throughout 2022 and I want to congratulate our teams on their much-deserved profit sharing payout they'll be receiving next month. For the full-year, we generated revenue of \$46 billion, a \$19 billion improvement year-over-year. We delivered record December quarter and full-year unit revenues, sustaining our revenue premium to the industry of more than 110%. For the 12th consecutive year, Delta was named the number one corporate airline in Business Travel News survey as we continue to invest in our network and product offerings. And through the year, we made significant progress on our long-term commercial strategy to deepen our network advantages, expand premium revenues, grow our loyalty ecosystem and further diversify our revenues.

Starting with our network strategy, we focused on solidifying our positions in coastal gateways while protecting our core hub shares. We secured the leading positions in both Boston and Los Angeles while increasing local market share in our core hubs. Premium led all year with paid load factors higher than 2019 and yield growth outpacing Main Cabin, while Basic Economy made up less than 5% of revenue, half of the 2019 levels. We expanded our Delta Premium Select rollout during the year. Customer response has been positive and the cabin performed better than our initial expectations. Our rollout continues in 2023 and we will have this product on 84% of our international widebody fleet by this summer.

Our loyalty program continued to exceed our expectations with record SkyMiles acquisitions in 2022, 42% higher than 2019. As Ed noted, we're partnering with leading companies to expand our loyalty ecosystem, increasing the value of our program for customers and deepening customer engagement with Delta. With an expanding ecosystem and free, fast Wi-Fi, we expect continued growth in our loyalty base. Our partnership with American Express delivered record results with full-year remuneration of \$5.5 billion, ahead of our initial target and positioning us to deliver over \$6.5 billion in 2023 and over \$7 billion in 2024. Cargo revenue was a record in 2022 and we expect to grow cargo revenues in 2023 as increased capacity offsets the cargo yield environment.

With strong execution across our business lines, a record 55% of revenue was generated by premium products and diverse revenue streams. We're confident in our path to exceed 60% by 2024. While not without challenges,

2022 was a strong year for Delta and we exited the year with momentum. During the December quarter, we generated revenue of \$12.3 billion, 8% higher than 2019 on 9% less capacity. We saw revenue recapture at the end of December that offset the impact of weather disruptions in our system around Christmas.

Fourth quarter unit revenues were 19% higher than 2019 with strength driven by consumer demand throughout the quarter. Corporate travel demand was steady through the quarter with corporate domestic sales 80% recovered to 2019 levels. We expect March quarter revenue to be up 14% to 17% higher versus 2019. On capacity approaching full restoration, we expect March quarter unit revenues will be up 15% to 17% compared to 2019, including a 2-point impact from higher stage.

Based on how we're deploying our network, our stage length is expected to be up 5 points compared to 2019, resulting in a higher restoration of ASMs than seats. This is a temporary dynamic that is unique to Delta among major carriers. Stage will begin to normalize relative to 2019 and relative to the industry as we rebuild our core hubs later this year.

For 2023, we expect to grow revenues 15% to 20% year-over-year as we fully restore our network and further diversify our revenue streams. Consumer demand remains healthy with advanced bookings significantly ahead on both yield and load factor for each month of the March quarter compared to 2019. And in our recent corporate survey results were positive, with 96% of respondents expecting to travel as much or more in 1Q than 4Q, led by financial services. In the New Year, bookings reflect the survey optimism and are accelerating.

International revenue continues to be led by the Transatlantic. We are seeing robust demand across our expanded footprint in Europe and expect the spring and summer to set new record revenues. Latin America is performing very well, led by Mexico, the Caribbean and Central America with a recovery in Deep South America now accelerating.

And we are pleased with the early results from the launch of the LATAM JV and I'm excited about the opportunities for us in 2023 and beyond. In the Pacific, we're expecting record first quarter profits in both Australia and Korea as our multiyear international transformation delivers on anticipated results. Japan is also building momentum and we expect a very strong summer there. And lastly with China indicating its reopening, we expect to rebuild capacity in-line with demand starting later this year.

In closing, we delivered on our key commercial priorities in 2022 supporting a significant improvement in our revenue while strengthening our competitive advantages. We have started the New Year with great momentum and are well-positioned to extend our leadership position in the years ahead.

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

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## Daniel C. Janki

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

Great. Thank you, Glen. In 2022, we made significant progress restoring our financial foundation. We delivered earnings of \$3.20 per share with pre-tax income of \$2.7 billion, ahead of our plan. Operating margins of 7.8% was driven by three quarters of double-digit margins. We improved profitability and had strong advanced bookings. We generated \$6.2 billion of operating cash flow, enabling continued investment in our people, our fleet, our partners and technology.

After gross CapEx of \$6 billion, we generated \$244 million of free cash flow. We ended the year with liquidity of \$9.4 billion and adjusted net debt of \$22.3 billion. Our adjusted debt-to-EBITDAR was 5 times and our after-tax

return on invested capital was 8.4%. We finished the year strong, reporting a \$1.4 billion operating profit on a margin of 11.6% for the December quarter. Our non-fuel unit costs were 13.4% higher than 2019, in-line with guidance excluding a 1-point impact from the severe winter weather in late December.

Now moving to guidance. As Ed mentioned, we are including all expected labor rate increases in our guidance metrics including non-fuel CASM. As it relates to our pilots, if they vote to ratify the proposed agreement by March 1, pay rates would be retroactive to January 1. This results in a 3-point impact on our non-fuel unit costs for the year and in each of the quarters. Including this in the full-year guidance we gave last month brings our 2023 non-fuel unit cost decline to 2% to 4% on a year-over-year basis. Delivering a competitive cost structure is a key financial priority. Delta has led the industry in investment in our people and our customers and this is embedded in our outlook, as is a full reset of regional costs and inflation. As we move through the year, scale and efficiency will drive a decline in 2023 non-fuel CASM versus 2022.

While approaching 2019 capacity provides scale benefits, we are still bearing the cost to fully restore our network to the peak summer levels with a continued emphasis on operational reliability during this ramp-up. We expect to complete our rebuild by the second-half with the majority of our flex fleet reactivated and training levels for our pilots reverting to historical levels. This will allow a significant shift of resources from training to production, giving us the confidence in our ability to deliver a fully restored network during the peak summer period while enabling our operating teams to drive efficiency in the back-half of the year.

One unique item within the year is the pacing of our core maintenance as we prepare to step up the network for summer flying with the first-half year-over-year higher and then lower in the second-half of the year. While these dynamics is impacting the early part of the year, we expect 1Q non-fuel unit cost to increase 3% to 4% on a year-over-year basis. We expect the year-over-year unit cost to progressively improve through 2023 as we complete our rebuild and elevated maintenance activity while driving efficiency across our operating groups. This cadence is consistent with our full-year outlook for non-fuel unit costs to decline 2% to 4% year-over-year.

With our outlook for revenue, we expect the March quarter operating margins to be 4% to 6% and earnings of \$0.15 to \$0.40 per share. For the full-year, we are reiterating our outlook for earnings of \$5.00 to \$6.00 per share and operating margins of 10% to 12%, delivering a 2- to 4-point expansion of margins, including over-1-point impact from higher profit sharing. We expect the full-year free cash flow to be more than \$2 billion with gross CapEx of \$5.5 billion. In 2023, non-operating expense is expected to be \$470 million higher year-over-year. This results from non-cash pension expense increasing over \$550 million year-over-year due to the broad market declines, more than offsetting the reduction in the interest expense from repaying debt. We plan to pay cash for our \$2.4 billion in debt maturities while opportunistically reducing debt with excess liquidity which will bring our leverage to 3 to 3.5 times target for 2023 and remaining on track for 2024, adjusted debt-to-EBITDAR to be 2 to 3 times. Returning to investment grade metrics by 2024 while continuing to reinvest in the business remains our focus for capital allocation.

In closing, I want to add my thanks to the Delta team and people for their hard work this year. We outperformed the first year of our three-year plan and we entered 2023 on track to generate a significant improvement, both earnings and cash flow. We remain confident in delivering on our 2024 target of over \$7.00 of earnings per share and generating over \$4 billion of free cash flow.

And with that, I'll turn it back to Julie for our Q&A.

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## Julie Stewart

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



Thanks, Dan. Matthew, can you please remind the analysts how to queue up for questions?

## QUESTION AND ANSWER SECTION

**Operator:** Certainly. [Operator Instructions] . Your first question is coming from Catherine O'Brien from Goldman Sachs. Your line is live.

**Catherine O'Brien**

*Analyst, Goldman Sachs & Co. LLC*

Q

Good morning, everyone. So good to be back. So maybe I'll start with a question on the capacity bottlenecks that you mentioned in your prepared remarks, Ed. So I know Delta itself has made a lot of progress on hiring and getting through a large wave of training. But there are other constraints outside of the airline industry's control with aircraft delivery slower than planned and aviation infrastructure still fairly strapped to airports and the FAA.

Now I know the answer will be different for Delta than some of your peers who are further behind in their pilot hiring but how do you think about the timeline to remove some of these bottlenecks across the industry that aren't directly in the airline's control? And I guess really what I'm asking is do you expect there to be continued tension between supply and demand over the medium-term? Just how do you think about those rolling off? Thanks so much.

**Edward Herman Bastian**

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

A

Well, thanks, Catie, and welcome back. Yeah. I think you summed it up well and I'd mentioned at the Capital Markets Day last month that while we at Delta and I think the industry broadly provides you our capacity expectations, I think expectations have quotations marks around them and they do feel still a little bit more aspirational than – because there are a number of things that are outside our control.

We're doing our very best to get our people in place. The hiring is strong. We have the team assembled. We need to get them through, principally our pilots through the training, the limited training devices and schoolhouse that we have available to us. We expect by the summer that we will be in position to have not just – to get through most of that bottleneck but then the large resource drain that it takes with respect to all of the training that our existing team has to do to train our new employees, whether that's pilots or flight attendants, mechanics, the airports, reservations, it doesn't matter where in the system you sit, that's hard to see. I can appreciate that. If you're sitting in your chair but it's very meaningful here on the airline. And then by summer we hope at Delta that we'll be able to be back 100%. I also used the term fragile last month when speaking about the aviation system as we continue to return to the skies. And I think we've seen, just in the last few weeks, a couple of illustrations of that fragility. So we're going to continue to do our best to make sure we don't fly in excess of our capability so that we can deliver a great product for our customers and provide all the tools and support for our employees.

**Catherine O'Brien**

*Analyst, Goldman Sachs & Co. LLC*

Q

That's great. So helpful, Ed. And if I could maybe just, for my follow-up, Glen, I know 75% of this year's growth is out of your core hubs. Can you help us think about RASM performance at your core hubs versus the rest of your network, or even better, since we know it's lower-cost capacity, can you help us think about the margin differential of adding capacity in core hubs versus competitive coastal hubs? Thank you so much.



**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

Sure. I think we outlined that at the Investor Day. And core hub is about 10 points higher than coastal hubs and – 10 points in margin...

**Edward Herman Bastian**

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

A

Yeah.

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

...and about 20 points in terms of RASM. And I think as we continue to build our core hubs out, we will see that's one of the things we're counting on is the acceleration of profitability in those core hubs and driving efficiency through getting them back to scale.

As we mentioned in our Investor Day, we are already at-scale in our coastal cities. That was our priority just because we thought it was a once-in-a-lifetime opportunity during the pandemic and so that was our priority to ensure that we came out in a good position there. I think we're very happy with the positions we've established there and now it's back to the core where we think it's actually easier lifting.

**Catherine O'Brien**

*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you very much.

**Operator:** Thank you. Your next question is coming from Ravi Shanker from Morgan Stanley. Your line is live.

**Ravi Shanker**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you. Good morning, everyone. Ed, you said in your prepared remarks that you've never seen a more constructive industry backdrop. Black swan events aside, what do you see are probably the biggest risks or things to watch out for for the industry in 2023? Is it your previous response on kind of infrastructure and things that's outside of your control or kind of what are you looking at?

**Edward Herman Bastian**

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

A

Well, thanks, Ravi. That's right. I think the most important thing at Delta we can do is to continue to restore confidence back to the traveling public. We know the public wants to travel in outsized amount that we see continuing and we have to do our very best not to disappoint them as they return to the skies. I think 2022 was very difficult in that regard. Demand clearly exceeded our ability to supply it for lots of ways, including in the service levels with the exceptional degree of service that we want to provide our customers. And I think we all in the industry owe it to our customers to make sure we don't fly in excess of our capabilities. So I think that's the single biggest thing that we all need to pay attention to. And – so I wouldn't call it a black swan risk other than just trying to stay within our capability.

**Ravi Shanker**

*Analyst, Morgan Stanley & Co. LLC*

Q

Understood. And maybe as a follow-up, maybe for Glen, can you just unpack your thoughts on corporate in the near-term a little bit more? I think that's obviously one of the big focus areas for investors right now. You said 96% of corporate in your survey say that they're going to be kind of flat to up in the near-term but obviously macro is really choppy. We saw some of the hotel data kind of coming into January take a bit of a step-down. What are you seeing in terms of your booking curve, kind of any signs at all on cracks in corporate demand given where macro is?

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

We've had our highest post-pandemic days in terms of corporate booking over the last week or 10 days, so we've seen a very strong post-holiday demand set. We're in a kind of a strange period right now because year over 2019, this is an MLK weekend. MLK weekend was next weekend. So I think once we get past MLK, we'll give you a better view. But we're counting on it to stay in that roughly 80%. The survey would indicate that it's better than that. So I think that, if it does materialize as better than that, that's upside for our forward-looking forecast.

**Ravi Shanker**

*Analyst, Morgan Stanley & Co. LLC*

Q

Very helpful. Thank you.

**Operator:** Thank you. Your next question is coming from Scott Group from Wolfe Research. Your line is live.

**Scott H. Group**

*Analyst, Wolfe Research LLC*

Q

Hey. Thanks. Good morning. So, Glen, if I look at the RASM guide for Q1, down about 6% just in absolute terms from Q4, that's worse-than-normal Q4-to-Q1 seasonality, any color on that? And then when do we really start to see this hub tailwind show up in RASM?

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

Right. Well, quarter-over-quarter, we have a 2-point increase in domestic stage, so -and that again is unique to Delta, and we think that's about 1 point of pressure from the 19 points down to the 16 points. There's another international mix linked to [indiscernible] (00:29:27) changing internationally as well. So that's another point. And so then we're thinking about this as really being sequentially about 1 point difference to get from a 91% restoration all the way up to 99% restoration.

So for core same-store sales, we're actually seeing first quarter being stronger than fourth quarter and with that sequential improvement from February being better than January and March being better than February. So I think we're sitting in a pretty exciting place right now as we look at how 2023 is starting.

**Edward Herman Bastian**

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

A

And then the rebuilding of the core?

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

The rebuild of the core, we wish we could do it sooner. Again, I think our priority has been to make sure that we can sustain industry-leading operations and so that's going to work throughout the year. I think when we talked about it in Investor Day, we didn't really give you color that this is not a first quarter event. While there's some rebuild domestically in the core, our major rebuilds we expect, for example, Atlanta, which was about 85% last year in terms of seats, to be close to 95% by summer and then 100% by fall, with Minneapolis close to Atlanta and then Detroit a little bit behind.

So we're working on that. That's our priority and we will get there, we believe, by fall. But it really doesn't impact significantly the first quarter's quarter.

**Scott H. Group**

*Analyst, Wolfe Research LLC*

Q

Okay. And then just for Dan, just help bridge us from CASM, up 3% to 4% in Q1 to down 2% to 4% for the year. You mentioned maintenance. How much does that hurt Q1? How much does that then help the back-half? Any color here? Thank you.

**Daniel C. Janki**

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

A

Yeah. Certainly. There's two pieces in there, maintenance being one. It's about a 2-point headwind in the first quarter and first-half and it's driven by engine induction levels and scope of work related to that. As you get into the back-half of the year, that's a 2-point to 3-point benefit year-over-year, so a 5-point progression from beginning to end.

And then the second piece of that is related to the completion of our rebuild and those rebuild costs stepping down. Most of our rebuild, over 85% of that cost is in the first-half of the year. We don't have that in the back-half of the year. And as Glen just talked about, one of the enablers to that efficiency is as we restore the core hubs, these low-cost hubs, low-CPU, most cost-competitive. As we put that capacity in, that drives efficiency of our assets and our workforce. That is 5 points.

So the 5 points related to that and the 5 points related to maintenance is a 10-point progression as you go through the year from the beginning to the end. And that drives that continuous cadence improvement as you go through the quarters.

**Scott H. Group**

*Analyst, Wolfe Research LLC*

Q

Helpful. Thank you guys.

**Operator:** Thank you. Your next question is coming from Sheila Kahyaoglu from Jefferies. Your line is live.

**Sheila Kahyaoglu**

*Analyst, Jefferies LLC*

Q

Thank you and good morning, everyone. First, I wanted to maybe ask about just profitability levels. You finished the year with 8% margins and are guiding to Q1 with 4% to 6%. And given the full-year guide, how do we think about margin progression throughout the year?

**Daniel C. Janki**

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

A

Well, part of it is tied to the cost progression and as you see that progression being up, and I said that you've got about a 10-point improvement in cost from beginning to end, that will drive your expansion of margins throughout the year as you progress along with what then Glen talked about, which was the commercial rebuild related to the core. So you'll see this progression. Certainly, year-over-year, the improvement versus the comp that we're coming off of drives a material improvement here in the first quarter, over \$1 billion pre-tax, a big part of the step-up in earnings year-over-year but you'll also see improvement as we go through the year.

**Sheila Kahyaoglu**

*Analyst, Jefferies LLC*

Q

That's helpful. And then just maybe one follow-up related to that, just margin progression. I think Ed you mentioned high-margin Pacific routes opening up. I think it was Australia and Korea. What are one to two items we should watch for as we see that international recovery help margin momentum?

**Edward Herman Bastian**

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

A

Our international recovery is well underway, and if you think about Europe, we'll actually be bigger in the Transatlantic this year than we were in 2019 by about 8 points in terms of seats. Early advanced bookings for that are incredibly strong, so we're very pleased with how that's developing. And so what's really left to reopen is China. And that's – we're not going to get ahead of ourselves in terms of capacity to China. We're going to be very mindful to see how demand warrants and how this opens up. But that's the big question mark I think in terms of international demand for 2023 that we don't know yet. I think the others we're very confident that we have a good path forward that will get us back to 2019 with bigger – better margins.

**Daniel C. Janki**

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

A

And I think as we talked about at Investor Day, the multiyear progression on international, the structural elements here, the next-generation of fleets that we're at, reconfiguration of more premium seats with DPS, better cargo capability, stronger partner network. All those are systematic drivers not only in this year but really on a multiyear basis.

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

And if you go back in our history, not to go into too much detail but we had a multiyear restructure of our Asia capacity and that has been a drag on earnings for many years leading up to the pandemic. And now as we come out of that, we feel like our restructuring has really done in earnest, and so we should see really good improvements in Pacific profitability moving forward.

**Sheila Kahyaoglu**

*Analyst, Jefferies LLC*

Q

Great. Thank you very much.

**Operator:** Thank you. Your next question is coming from Jamie Baker from JPMorgan. Your line is live.

**Jamie N. Baker**

*Analyst, JPMorgan Securities LLC*

Q

Hey. Good morning, everybody. Glen, it's been a while since we visited the topic of domestic and international RASM premiums. We know what those metrics were pre-COVID. There's obviously been quite a bit of international upheaval since then, a bit of domestic change. And of course the premium market at least is stronger than what I was anticipating in 2019. How should we think about the magnitude of Delta's RASM premiums going forward and any related timing?

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

Yeah. I think right now we're sitting probably at a low point relative to the industry given our stage length and the way we rebuilt the airline, and I would expect to gain a couple, 2 to 3 points domestically back as we get towards the back-half of the year on how we rebuild the airline. So that's how I view it. At a macro level or at an individual flight level, I'm pleased with where we are. When you add it all up, the sum total looks like we're taking a step backwards but I think it's really the way we've done it rather than a structural look away from Delta or anything that we're losing customers. So I think we're in a good spot for that.

**Jamie N. Baker**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you. And second for Dan, as we think about the order book, particularly on the widebody side, considering the OEM backlogs that Catie, welcome back by the way, mentioned in her question, how should we be thinking about the cadence of CapEx in coming years? We tend to model you on a normalized basis, but one of your competitors is on a CapEx holiday, another right now is on a CapEx bender. I'm just trying to assess whether 2024 represents a potential peak in cash flow in light of future aircraft needs.

**Daniel C. Janki**

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

A

It get steady as it goes. We've been very consistent and very deliberate, very disciplined related to CapEx. We certainly had this period where this past year in 2022 there were some catch-up in there. We're continuing do that here in 2023 for what was deferred for a couple years. But I think as you exit 2024, you're normalized now. At the same time, we're getting bigger as an airline and growing from that perspective but I think it's a good foundation for us as it relates to where we're stepping off in 2024.

**Edward Herman Bastian**

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

A

Yeah. Jamie, this is Ed. I'd agree with Dan's comments. Don't forget we are exclusively taking Airbus equipment over the last couple of years, the next couple of years, pretty much and we'll be back with the MAX starting in 2025. So we did not have any supply interruption of any note over the last couple of years through the pandemic, this year or the years going forward. So there's a consistency and I'm confident you're not going to see any jumps or any significant declines. We're ensuring that we're staying right within our sweet spot here on the fleet.

**Jamie N. Baker**

*Analyst, JPMorgan Securities LLC*

Q

Just the answer we were looking for. Thank you everybody. Take care.

**Operator:** Thank you. Your next question is coming from Duane Pfennigwerth from Evercore ISI. Your line is live.

**Duane Pfennigwerth**

*Analyst, Evercore ISI*

Q

Hey. Thanks. Good morning. And thanks for the time. Maybe just start with Glen on Transatlantic. Typically this is a pretty quiet time of the year but it appears the industry is sort of doing less seasonal shaping or kind of de-seasonalizing Transatlantic, which probably makes sense in light of rebuild for the summer. Can you just talk about what you're seeing in Transatlantic, less about the summer and more about getting from here to there?

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

Right. Well, there's not a lot of room between here and there. We're seeing really robust bookings for March and beyond. So it's really – if I look at how we view the Transatlantic, there's – April through October is peak spring IATA. March is getting to be a peak month these days. So that leaves you really the non-holiday weeks in November and the non-holiday weeks in January and February as really your lull periods. And so how we've shaped it this year is we've had a bigger Transatlantic than 2019.

We had some operational issues in Amsterdam. Excluding those, we were very pleased with the results in the off-peak season and it's setting up really well because I think one of the things that you forget about building up for the summer is the first few weeks for the high point of sale US travel are always throwaway weeks because you've got significant amount of outbound traffic and very light inbound traffic. So, getting those out of the way earlier in the season and really allowing the summer peak to be even more robust than it has been before is I think how we're shaping. So I don't know if I answered your question but I would say we really like what we saw. There are things we're going to do differently next year. There are learnings from this year that we can improve on, so we're excited about those learnings and then really excited about the summer peak season here. We think this is going to be a record-breaker.

**Duane Pfennigwerth**

*Analyst, Evercore ISI*

Q

Thank you, Glen. And then just on fuel, maybe this is Ed or Dan. You own a refinery. Can you talk a little bit about your outlook for jet fuel? And I'm not asking for guidance. We can obviously see that. But just with respect to the unusually high crack spreads and refining margins which week-to-week look like we're going to get relief and then that relief sort of goes away. Obviously, you have a hedge in that regard but I wondered if you could talk kind of intermediate term about when we see sort of refining margin relief?

**Daniel C. Janki**

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

A

Yeah. No. You saw it, a constrained market throughout 2022 stayed elevated, certainly was disrupted significantly in the second quarter particularly. We don't anticipate it being at those levels for the current year, giving back. But I would say for the next 12 to 18 months, I think you're at least in a period where you're structurally constrained. The global flows for both oil and refined product have changed. Things that used to revert both gasoline, diesel and jet coming out of Europe into the US aren't taking place. Utilization of refineries are high.

And you get disruptions. You've seen it as the winter storms came through in December at incredibly low temperatures. Refineries were impacted and you're seeing the rippling effect here in January and the unusual nature even in the last seven to 10 days where the physical market is short. Jets, many times throughout 2022, it



was diesel and you see a spike. And then as the refineries get the utilization back up and optimized, you get a balancing but they're still tight and we expect them to stay elevated.

**Duane Pfennigwerth**

*Analyst, Evercore ISI*

Appreciate the thoughts.

Q

**Operator:** Thank you. Your next question is coming from Savi Syth from Raymond James. Your line is live.

**Savanthi Syth**

*Analyst, Raymond James & Associates, Inc.*

Hey. Good morning. Glen, could you talk a little bit more about what you're seeing on the corporate demand side across the international entities? And just as you get to the summer, I realize it's early days but where do you expect kind of capacity to be restored across these entities?

Q

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

Yeah. I think we talked a little bit about that in the previous question. We expect the Transatlantic to be about 108% restored to 2019 levels. So we'll be bigger than 2019. Most of that is gauge as we bring in the newer, more efficient fleets so we have some exciting departures. We haven't loaded our entire summer schedule yet. That will be announced over the next eight to 10 days. There are a few more things we need to put back in. Then in the Pacific, absent of China, we are more than rebuilt in Australia, we're more than rebuilt in Korea and we are about 75% rebuilt in Japan. We expect to be somewhere between 75% and 100% rebuilt in Japan if we do or don't receive slot waivers. If we do receive slot waivers, we're probably seeing that 75%. If we don't, we'll go back to 100%. And then China is the big question mark as I mentioned earlier. We just don't know what's going to go on there with demand. So we're not going to get ahead of that and publish a China schedule for the summer that we don't know if we can fly and we don't know if the demand will be there. So, we'll let demand drive what we're going to fly in China.

A

And then last but not least in Latin, we are very close to fully restored in Latin right now with Deep South really starting to turn on with our partners in LATAM, and getting some really, really positive early results on that. So I think other than China, we are fully restored internationally and we see international restoration where countries are open and that's very similar to domestic at about 80%.

**Savanthi Syth**

*Analyst, Raymond James & Associates, Inc.*

Appreciate that. And just kind of a quick follow-up, just on the kind of change fees and the revenue that you're seeing here, the dropping of the change fee, what kind of an impact is that having as you kind of think about the network or the revenue and will it be different once things are fully restored versus where it is today?

Q

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

Yeah. Change fees accounted for almost \$1 billion of revenue in the pre-pandemic world. And we were on a path, even absent of the pandemic, to change change fees. They had become onerous. People didn't like them. And trying to give customers what they want, we were on a path to a different approach. That got accelerated and I think we're very happy with where we are today, giving customers choice in how they want to fly. And I would say

A



we're counting on about half of that \$1 billion to be replaced by people who want flexible, fully refundable at time of purchase which is an option that they're choosing as opposed to it being imposed on them. And the rest of that is then coming from a higher share of total customer base and upsells, more than covering to produce the record revenues that we expect this year.

**Savanthi Syth**

*Analyst, Raymond James & Associates, Inc.*

Makes sense. All right. Thank you.

Q

**Operator:** Thank you. Your next question is coming from Conor Cunningham from Melius Research. Your line is live.

**Conor Cunningham**

*Analyst, Melius Research LLC*

Hey, everyone. Thank you for the time. Just on the question that Scott talked about, the bridge on the cost side. I don't think you mentioned gauge or asset utilization improving it throughout the year. Can you just provide some color around where you expect those two metrics to kind of be meaningful tailwinds as you move throughout the year? The only reason why I ask is that there's a lot of changes on the regional side. I would think that that would be a pretty big tailwind from you.

Q

**Daniel C. Janki**

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

Yeah. The mainline asset utilization increases about mid-single-digit, about 5%, as we progress through the year, so we get the benefit associated with that. And as we talked about in Investor Day, we continue to get the benefit associated with gauge?

A

**Conor Cunningham**

*Analyst, Melius Research LLC*

Okay.

Q

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

Related to regional flying, as you know we have about a third of our regional flights that's flying that is not being flown today and that's also one of the disparities between seat restoration and capacity restoration. We're not expecting a significant increase of that until the end of 2023 and into 2024, so we're going to be carrying that.

A

**Edward Herman Bastian**

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

We're carrying that underutilization...

A

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

...the utilization...

A

**Edward Herman Bastian**

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

...in our regional network, absolutely, and our run rate. So...

A

**Conor Cunningham**

*Analyst, Melius Research LLC*

Okay. Okay. That makes sense. And then on the Amex targets, I'm a little surprised that those aren't being revised up, from \$6.5 billion from \$5.5 billion. I mean that's basically mirroring the capacity growth year-over-year and I would just think that there would be some outperformances given the fact that that portfolio has grown a fair bit.

Q

Can you just talk about like what you need to see to push those targets up? Or did you just see a lot of pull-forward in consumer spend that kind of inflated the 2022 number? Just trying to unpack that a little bit. Thank you.

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

Well, we're pretty excited about hitting a \$6.5 billion number. Hopefully, there's upside to that. I think – it's January, we don't want to commit to that but we're ahead of our long-term goals for that and we continue to find ways to accelerate our long-term goals. And I think next year or maybe even in June we're going to give you what's beyond the \$7 billion because our first marker was how do you get the \$7 billion. And when we said that I think it was a daunting task for us, it was a daunting task for the team. We're there. And I think the question really for us and if I was an investor is, okay, you're at the \$7 billion, what's next? And that's what we've got to be working on showing you that we're not done here.

A

**Edward Herman Bastian**

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

Yeah. And the other thing, Conor, is that this is not driven by capacity, as you can appreciate. It's driven by the spend on the portfolio. So that's a pretty sizable increase in portfolio spend as well.

A

**Conor Cunningham**

*Analyst, Melius Research LLC*

Good problem to have. Thank you guys.

Q

**Operator:** Thank you. Your next question is coming from Helane Becker from Cowen. Your line is live.

**Helane Becker**

*Analyst, Cowen & Co. LLC*

Thanks very much operator. Hi, team. Thank you. Sort of a question about TechOps. Pre-pandemic, you guys were building that business out. It was going to be a more than \$1 billion revenue business at some point. How are you thinking about that coming out of the pandemic and into sort of the middle part of this decade into the end? Or is that something that's another focus? Or is that being supplanted by the other revenues that you're talking about?

Q

**Edward Herman Bastian**

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

A

Hi, Helane. How are you? This is Ed. We are...

**Helane Becker**

*Analyst, Cowen & Co. LLC*

Hi, Ed.

Q

**Edward Herman Bastian**

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

...incredibly excited about your question and the MRO. And, in fact, we made great progress during the pandemic to continue to accelerate that vision when we signed a deal to acquire the LEAP as part of the MAX deal. So we now have basically all the new engine technologies on our platform with exclusive arrangements and opportunities for third-party work that will extend over the next 20 years.

Obviously in the short-term, our focus is on, to whatever extent, we have labor and we have supply challenges, focusing on the Delta metal and continuing to get the airline itself back up and running. So, the MRO has taken a little bit of a backseat over the short-term but we continue to make the investments. We've got the commitment from all of our partners on the engine side. And this is something you're going to hear a fair bit about in June when we look at the strategic discussion that we're looking to helping to create.

**Helane Becker**

*Analyst, Cowen & Co. LLC*

Right. In June. Okay. That's going to be really helpful. And then Ed, can I please ask you in June if you will also update us on your diversity and inclusion targets? We talked a lot about that pre-pandemic and then during the pandemic you've obviously hired 25,000 new people. You mentioned that in your prepared remarks. Can you also, at some point, update us on how that's going and whether you're meeting your own internal goals? You don't have to share those with us but if you can share with us how it's coming along that might be helpful.

Q

**Edward Herman Bastian**

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

We will certainly do that and that was already in the plan Helane to go through that in June. The good news is that we are making great progress and we will share our targets because we share them publicly.

**Helane Becker**

*Analyst, Cowen & Co. LLC*

That's awesome. Thanks so much team.

Q

**Edward Herman Bastian**

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

Thank you.

A

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

Thank you.

A

**Daniel C. Janki**

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

A

Thank you.

**Operator:** Thank you. Your next question is coming from Andrew Didora from Bank of America. Your line is live.

**Andrew G. Didora**

*Analyst, Bank of America Merrill Lynch*

Q

Hi. Good morning, everyone. First question for Glen. I guess, based on my math, it seems like you're assuming PRASM could start to decline sort of in that high single-digits year-over-year as you move through 2023 to kind of get to your 15% to 20% revenue outlook. What drives that assumption, particularly given kind of the above RASM benefit you should have from your Mid-Con and growth strategy?

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

I think when we looked at the progression through the quarter, we had some very extenuating circumstances, last second quarter and early third quarter with fuel running up over \$120 a barrel. And as we think about how we do fuel recapture on the way up, we also, as inflation cools down and as fuel comes down, we're not going to keep all of that. We're going to keep as much of it as we can and we're not anticipating that big bubble in fuel which is driving the sequential decrease. So we'll see how it actually rolls out and hopefully it's better than that but that's how we're thinking about how the year progresses in terms of absolute unit revenues.

**Andrew G. Didora**

*Analyst, Bank of America Merrill Lynch*

Q

Got it. That makes sense. And then I'd just ask you kind of strategically here Glen, as you've seen the revenue environment continue to show this strength pretty much since kind of almost a year ago, are you seeing any changes in behavior from any of your competitors that may show that they're acting differently today than they would have pre-pandemic? Thank you.

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

Yeah. We don't really talk about how our competitors behave. I think what we've seen is we've seen a very big shift in how and why people travel and trying to stay ahead of that in our own planning and make sure that we are capturing where people want to go and what products they want to buy and that's really our continued focus. And it's been a very interesting journey. And as we look at individual market levels, we're very different sizes than we were pre-pandemic based on where our customers want us to take them these days.

**Andrew G. Didora**

*Analyst, Bank of America Merrill Lynch*

Q

Great. Thank you.

**Operator:** Thank you. Your next question is coming from Mike Linenberg from Deutsche Bank. Your line is live.

**Michael Linenberg**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Oh! Hey. Good morning, everyone. Hey, Glen, just a quick question sort of following up on Conor's on loyalty. It feels like with the free Wi-Fi, this is going to be a banner year for SkyMiles. I think last year, 8.5 million. How do

we think about the conversion of number of SkyMiles to ultimately those who uptake on the credit card? I think this last year it was like an 8-to-1 ratio. Is that kind of what it's been historically?

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

Yeah. I think that's about right. That's one of the – we see the more engaged the customer is with Delta, the higher their satisfaction is. And so that's really part of that ecosystem that we're really trying to grow is SkyMiles as an entry point. Of course, as everybody knows, it's free. And now they have an incentive to do that because there's an immediate benefit to join because you get the free Wi-Fi. And so how do we translate that ultimately into more loyal customers who eventually will wind up getting some of our other products. And that's really what our flywheel is right now, how we're going to continue to press forward in terms of the loyalty.

**Michael Linenberg**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Great. Very good. And then just second question. Dan, you talked about non-op, the \$470 million headwind, obviously non-cash pension expense, maybe there's some other items. How do we think about through the year? Is that ratable? Is it just lumpy? And what tax rate should we be using March quarter or full-year? Thank you.

**Daniel C. Janki**

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

A

Yes. \$1.3 billion for the year. The first quarter, think of it being closer to, if it was ratable, it'd be about \$330 million a quarter. First quarter will be a little bit higher. We think about it as \$360 million to \$365 million associated with it, and tax rates continues to be a consistent in that 24% to 24.5%.

**Michael Linenberg**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Great. Thank you.

**Julie Stewart**

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

A

And we'll now go to our final analyst question.

**Operator:** Certainly. Your next question is coming from Brandon Oglenski from Barclays. Your line is live.

**Brandon R. Oglenski**

*Analyst, Barclays Capital, Inc.*

Q

I'll keep it to one as well. Dan, can you talk about your normal amortization this year which I think is about \$2.5 billion relative to the \$2 billion of free cash flow that you guys are anticipating? And what are your options here, especially in the higher interest rate environment and how does that change your capital priorities in any way?

**Daniel C. Janki**

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

A

Yes. We have normal maturities at \$2.4 billion. We had \$1.8 billion this past year and we ended up retiring \$4.5 billion of debt. Ken and the team were opportunistic in regards to debt that we can take out with the entire cost and has good economic payback associated with it. And given our liquidity position as we progress through this year, we'll continue to look at those options. There are certainly a number out there that are targets for us but we'll

either do it through how we've done it through tenders but also just as you go open market repurchases and being smart and going after the higher cost debt, that's priority. We want to drive down that non-op interest line over time and the team's good at it. They've done it. Did it for a decade. They'll continue to do it.

**Brandon R. Oglenski**

*Analyst, Barclays Capital, Inc.*

Q

And I guess Dan how does the higher interest rate environment here change your capital priorities, if at all?

**Daniel C. Janki**

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

A

Well, about changing it, I think it does when it may change in regards to how you look at some of your debt, some of them that are off of LIBOR or from floating have become more attractive to retire in certain situations, so...

But we're continuing to be focused on, as you know, reinvesting back into the business but also this path to deleveraging. So continuing to strengthen the balance sheet, reduce debt and drive down those leverage ratios.

**Brandon R. Oglenski**

*Analyst, Barclays Capital, Inc.*

Q

All right. 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. And, Matt, if you don't mind, could we reiterate, for the members of the media, the practice for getting in the call queue. And in addition to thanking each of them for their time this morning, just to remind everyone around one question and one follow-up, so we can get through as many of these as we could please. Thank you.

## QUESTION AND ANSWER SECTION

**Operator:** Absolutely. At this time, we'll be conducting a Q&A session for media questions. [Operator Instructions] . Thank you.

Your first question is coming from Claire Bushey from Financial Times. Your line is live.

**Claire Bushey**

*Reporter, Financial Times*

Q

Hi. I was wondering what needs in your opinion to happen at the FAA, so that what happened on Wednesday doesn't happen again?

**Edward Herman Bastian**

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

A

Hi, Claire. It's Ed. I missed the first part of your question. Your question is what does the FAA need to do in order to ensure we don't see a repeat of Wednesday?

**Claire Bushey**

*Reporter, Financial Times*

Q

Correct.

**Edward Herman Bastian**

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

A

Well, if you saw my comments this morning on CNBC, I think it's very clear that there has to be a call to action amongst our political leaders; the Congress and the White House, to fund and properly provide the FAA the resources they need to do the job. We've long talked about the need for modernization of our air traffic control systems. I think this is a crystal-clear example of the challenge the FAA has faced when you have aging systems that aren't as resilient as they need to be. You have tools and technologies that are somewhat outdated and staffing levels not where they need to be.

So the FAA I know is doing the very best they can with what they have, but we need to stand behind the FAA and we need to take them off the kind of year-by-year funding it seems like they go through that's caught up in political negotiations and realize the importance of having a strong aviation infrastructure and the importance of that to our economy as well as our public.

**Claire Bushey**

*Reporter, Financial Times*

Q

Thank you.

**Operator:** Thank you. Your next question is coming from Alison Sider from Wall Street Journal (sic) [The Wall Street Journal]. Your line is live.

**Alison Sider**

*Reporter, The Wall Street Journal*

Q



Hey. Thanks so much. I guess sort of a related question. But I'm just curious how much do you think that the infrastructure and air space issues are likely to be a constraint on growth for the industry overall, whether it's the vulnerability of technical systems and lack of redundancy or just controller staffing or what-have-you? How impactful do you expect that to be going forward?

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**Edward Herman Bastian**

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

A

Well, it's a current constraint on our ability to grow as an industry. You see the length of flight times they are taking to complete missions. You see some of the challenges the air traffic controllers have when you get into congested space in the Northeast or down in Florida. There's been a lot – it's just even during the pandemic itself, some real challenges that we have experienced. So there's no question that the investment in a modernized air traffic control system will drive a tremendous amount of efficiencies as well as growth which will mean better service for the American public.

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**Alison Sider**

*Reporter, The Wall Street Journal*

Q

Thanks. And I guess can you talk a little bit about sort of what sort of systems or backup or zone redundancy Delta has, look, if there was another outage of the NOTAM system like we saw earlier this week? Is that something that Delta can kind of deal with or work around? Or is that something you just need to have, or...yeah. If there's anything you could share on that?

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**Edward Herman Bastian**

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

A

The NOTAM system that went down is an essential system and no airline would fly without having that capability. Interestingly, at Delta, we had and have a long – a fairly old backup technology that does see that and we were able to keep some of the NOTAM information flowing to Delta. So, we probably had a little bit better opportunity to fly during this stoppage as compared to anyone else. But out of deference to the FAA and making certain that we gave them the ability to make the decisions, we didn't utilize that backup system. But it's an important part of our resiliency and redundancy.

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**Alison Sider**

*Reporter, The Wall Street Journal*

Q

Thank you.

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**Operator:** Thank you. Your next question is coming from Kelly Yamaguchi (sic) [Kelly Yamanouchi] from The Atlanta Journal-Constitution. Your line is live Kelly Yamaguchi (sic) [Kelly Yamanouchi], your line is live.

Your next question is coming from Mary Schlangenstein from Bloomberg News. Your line is live.

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**Mary Schlangenstein**

*Reporter, Bloomberg News*

Q

Hi. Thank you. I just wanted to see if I could get you to talk a little bit more about your comments about business bookings remaining steady. It seems like the 80% recovered level in the December quarter is what you had been saying previous to that. And I wanted to see if you've got any sort of an outlook beyond the March quarter that gives you confidence that that corporate recovery is not going to stall at some level?

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

We do those corporate surveys and that's why we do them to see what our corporate partners are thinking about in terms of future travel. And it was actually the last one we did, which is for a future travel, was the best survey we've had since pre-pandemic in terms of their enthusiasm that more people would be flying in future months than were flying in current or past months.

As I said in the call, we're not counting on that in our current revenue forecast because sometimes that doesn't come to fruition but there's a sense of optimism from this pent-up demand for business travel that we see could potentially offset any weakness in the general economy. And we're taking a very cautious look but – and we're counting on it being stable and not growing dramatically but it looks like people think it will grow.

**Edward Herman Bastian**

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

A

Mary, this is Ed. You see in our country a lot of businesses struggling to get their employees back into the office and I think this is tied to that. As companies return and employees return to office, you're going to see another step-up, in my opinion, of return to more normal trends including improved business travel. If you think of a lot of the big accounts we serve are consultancies, legal firms, accounting firms, it's tough for them to get out on the road if they don't have the offices opened of their clients and their customers.

So I think that's a little bit of the choppiness that Glen was referring to, is that companies are intending to open and there's been some stalls going on there. But I do think as we progress over the course of the year, you're going to see more and more of business being done like it used to be done than ever before.

**Mary Schlangenstein**

*Reporter, Bloomberg News*

Q

Okay. And if I can just follow-up. I understand about your survey but are there bookings that you can see at this point beyond the March quarter that gives you any idea of whether this will continue?

And then when you said you're counting on that corporate demand being stable but not growing dramatically, that's a change though from what you had been seeing, is that correct? You had been seeing growth but now you're seeing it more stable?

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

Clearly, in the early parts of the pandemic recovery, we saw some accelerated growth. I think we've been pretty consistent over the past couple of quarters saying we see some stability in the booking curve at about 80% of booked revenue. So, as you know, business travel usually has the shortest advanced purchase windows and it is mostly close-in. So we would not have any further visibility beyond the next 60 to 90 days that would be of any significant help in charting that water.

**Mary Schlangenstein**

*Reporter, Bloomberg News*

Q

Okay. Thank you.

**Operator:** Thank you. Your next question is coming from Edward Russell from Skift. Your line is live.

**Edward Russell**

*Reporter, Skift*

Q

Hi. Thank you for taking my question. I wonder if you could comment on if Delta saw any benefit from Southwest Airlines' operational issues in December? Was there an uptick in bookings, people buying last-minute tickets on Delta? Any color would be great.

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

Sure. As you know, we had our own weather operations during the peak Christmas holiday travel period. And we saw, after that, when we were fully recovered and Southwest was still not back in full swing, that we had an uptick in our bookings. That's trended in – highly competitively with Southwest markets, a little bit into January but we think that will resolve itself over the next [ph] six or so weeks (01:07:37) weeks.

**Edward Russell**

*Reporter, Skift*

Q

Thank you.

**Tim Mapes**

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

Thank you, Edward. Matt, we have time for one final question, if we could, please?

**Operator:** Certainly. The last question is coming from Robert Silk from Travel Weekly. Your line is live.

**Robert Silk**

*Reporter, Travel Weekly*

Q

Yeah. Hi. When you talk about getting back to full pre-pandemic capacity in your major hubs, are you talking about seats or flight numbers?

And then what percent of gauge up, let's say, in Atlanta? Will it be up this summer? And anything about managing crowds as you increase gauge and bring your flight numbers back up to where they were or beyond?

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

Right. We will probably not, for the next couple of years, see the flight numbers we did in 2019. We will get seat capacity restoration to 100%, which means that gauge will go up significantly. When you look at our fleet evolution, that was always our plan, was to continue to grow, not by additional departures but by larger airplanes, more efficiency, less fuel burn, better products and services. And so that's really what we're intending on doing. The pandemic accelerated that. And so we've got our average gauge up by double-digits right now. That's partly because we keep taking larger airplanes but partly because the regional fleets are less restored.

**Edward Herman Bastian**

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

A

Yeah.

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

And we think that will normalize out over the next 18 months but we will probably, not for the foreseeable future, get back to the flight levels although we will match or exceed by the end of the year the historical levels in terms of seat capacity.

**Robert Silk**

*Reporter, Travel Weekly*

Q

That clear. Is there any – with the higher gauge, do you end up with more crowded banks in terms of number of passengers? Or is that assuaged by having less flights? And if you do have more crowds...

**Glen William Hauenstein**

*President, Delta Air Lines, Inc.*

A

No. I think that's why we've done these generational builds across our network is that we knew that bigger gauge was coming and we needed to accommodate it. And even, for example, here in Atlanta, we've worked closely with the city to reconfigure the D Concourse to be wider than any of the other concourses to accommodate that increased gauge. So we've got short-, medium- and long-term plans to accommodate those gauge, but a lot of that was in our generational builds across the network and we don't think that it's going to be more crowded than it was in 2019 or feel more crowded.

**Robert Silk**

*Reporter, Travel Weekly*

Q

Okay. That's great. That's helpful. Thank you, Glen.

**Tim Mapes**

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

Thank you, Robert. Matt, that will wrap our call for today. We're grateful for everyone's time and participation.

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

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