13-Jul-2023

# Delta Air Lines, Inc. (DAL)

## Q2 2023 Earnings Call

# CORPORATE PARTICIPANTS

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, everyone, and welcome to the Delta Air Lines June Quarter 2023 Financial Results Conference Call. My name is Matthew, 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. [Operator Instructions]

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, Matthew. Good morning, everyone, and thanks for joining us for our June quarter 2023 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 analyst questions. We please ask that you limit yourself to one question and a brief follow-up, so we can get to as many of you as possible. And 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.

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

## Edward Herman Bastian

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

Thanks, Julie. Good morning, everyone. We appreciate you joining us. Today, thanks to the great work of our team, we announced record revenue and earnings, reflecting the strength of demand for and momentum of Delta's differentiated brand. During the June quarter, we generated earnings of $2.68 per share, a 90% increase over last year. This marks the highest quarterly earnings result in our history, an achievement that moves Delta beyond recovery and firmly on a great path forward.

Revenue was 19% above last year, and we achieved a 17% operating margin. This resulted in operating income of $2.5 billion, bringing our operating profit over the last 12 months to $6 billion. We generated over $1 billion of free cash during the quarter, bringing our first half free cash flow to $3 billion. We continue to repay debt, and we reinstated a quarterly dividend, signifying strong execution on our three-year plan and creating value for our owners.

At Delta, transportation is what we do, but experiences are what we deliver, and that's made possible by the exceptional service provided by the industry's best employees. The 90,000 Delta people continue to deliver for our customers during this busy summer season. Over the 4th of July weekend, our people delivered a great operation, completing over 21,000 flights with a 99.5% completion factor, an industry-leading on-time performance. The Delta people continue to be recognized. During the quarter, The Points Guy ranked Delta as the best US airline for the fifth year in a row with consistently high scores for reliability, customer experience, network and loyalty.

Sharing our success with our team is core to Delta's culture, and we continue to maintain a position of industry leadership on pay. During the quarter, eligible employees received a 5% pay increase on the 1st of April, and year-to-date, we have accrued over $660 million in profit-sharing, in fact more than the total profit-sharing paid out for full year 2022. We expect our profit-sharing payout next February will continue to lead the industry by a wide margin. We will always be guided by our values of putting our people and our customers first. They are the driving force of our success. I want to thank our entire team for all they do for Delta and our customers.

As I've recently noted, the industry backdrop remains constructive. Air travel demand is strong and the consumer is in good financial shape, particularly the premium consumer base that we target. After years of spending on goods, consumers want to travel. It's their number one big ticket purchase priority and they desire premium experiences. No one provides this better than Delta. At the same time, aviation infrastructure is still fragile and the industry continues to face multiple constraints across the supply chain, aircraft delivery delays and training needs. As a result, we see a significant gap between the supply that is in place and what demand could sustain, and we expect this gap will remain for an extended period of time.

Turning to our outlook, with our first half performance and visibility into the back half of the year, we are raising our full year outlook and now expect earnings of $6 to $7 per share. For the September quarter, demand momentum continues. We expect to deliver double-digit revenue growth, a mid-teens operating margin, and earnings of $2.20 to $2.50 per share. Glen and Dan will provide more details on the components of our outlook. As we move to 2024 and beyond, our path forward is clear. The strategy that we shared at our Investor Day just a few weeks ago positions Delta incredibly well for the future.

Our long-term priorities are to run the world's best airline, unlock the power of our brand, transform through digital, and deliver long-term shareholder value. That strategy is underpinned by a commitment to financial performance with a focus on free cash flow, return on invested capital and earnings durability. We are currently executing ahead of our three-year financial plan and are well positioned to achieve our 2024 earnings target of over $7 per share. On free cash flow, we introduced a new goal to generate over $10 billion of free cash flow from 2023 to 2025. Strong cash generation will enable us to return our balance sheet to investment grade metrics while consistently reinvesting in the business.

In closing, thanks to the outstanding work of our people, Delta continues to set itself apart. We have unique opportunities to grow earnings by leveraging our powerful brand, extending our durable competitive advantages and accelerating our digital transformation. One other point I'd like to add. While our team has been hard at work returning the level of excellence to the skies that our customers deserve, we have not let go of our commitments to our community. Our team was recently recognized as the number one corporate blood drive donor to the American Red Cross for the sixth consecutive year with record units of blood collected. To me, these types of achievements are as rewarding as the great financial and operational results that we are publishing today and what makes this company truly great.

Thank you again. And with that, let me turn the call over to Glen and Dan to go through the details of the quarter.

## Glen William Hauenstein

*President, Delta Air Lines, Inc.*

Thank you, Ed, and good morning. I want to start by recognizing our people for their exceptional work during the always challenging peak summer travel period. Thank you. Delta produced record June quarter revenue of $14.6 billion, up 19% over last year. Revenues were ahead of our initial expectations with momentum in June. June 30 was a new record for industry volume and our highest summer revenue day in history.

Total unit revenues were up 1.3% over prior year on improved yield and load factor. Consumer demand strength continues to be the primary driver of our revenue growth. Business travel in the quarter improved year-over-year, primarily driven by international. Overall, international passenger revenue grew 61%, led by the Transatlantic and Latin America. Domestic passenger revenue was 8% higher on a similar capacity increase. Premium revenue grew 25%, supporting growth in unit revenues and continuing to outperform main cabin.

Delta Premium Select is now offered on over 80% of our wide-body fleet, and customer response to the product has been terrific with returns outpacing our expectations. Total loyalty revenue was up 20% versus last year with continued momentum in our American Express co-brand portfolio. Remuneration of $1.7 billion was 22% higher year-over-year. With $3.4 billion through the first half, we are firmly on track to exceed the $6.5 billion target for this year and focused on reaching our new long-term goal of $10 billion.

Turning to the outlook, for September quarter, we expect total revenue to be similar to 2Q, increasing 11% to 14% year-over-year. On capacity outlook of 16% growth, unit revenues are expected to be 2% to 4% lower. While a deceleration from the June quarter, this is consistent with historic performance between 2Q and 3Q when factoring in the holiday shifts and tougher international comps as we lap the removal of restrictions.

Domestically, demand remains robust and our core hub rebuild is advancing, with growth focused in Atlanta. In our coastal hubs, we are leveraging facility investments and progressively improving margins. On international, demand strength is continuing and we are confident in delivering record profitability and margins across all three international entities. System bookings for travel beyond Labor Day are encouraging into the fall. On corporate, we expect steady improvement in demand. Our recent corporate survey shows businesses expect to increase travel in the second half, with several of the least recovered sectors conveying optimism for increased travel in the fall.

Similar optimism was reflected in Morgan Stanley's recent Global Corporate Travel Survey, where respondents indicated travel was expected to grow 9% year-over-year in the second half and 8% into 2024. Delta's capacity growth will normalize to mid single-digits in 2024, enabling us to further improve reliability, optimize the network and drive efficiency to reduce unit costs and support margin expansion.

With an integrated and proven commercial strategy and the best people in the industry, we have significant opportunity ahead. In closing, I'm so proud of the team for delivering a great first half of the year and excited about the momentum we are building.

And 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.*

Great. Thank you, Glen, and good morning to everyone. In the June quarter, we delivered earnings of $2.68 per share and an operating margin of 17%, ahead of our guidance and a significant improvement over last year. Our non-fuel unit costs were up 2.4% year-over-year. Fuel prices for the quarter averaged $2.52 per gallon, including a refinery benefit of $0.04. We generated operating cash flow of $2.6 billion, and after reinvesting $1.6 billion into the business, free cash flow was $1.1 billion.

Liquidity ended the quarter at $8.8 billion, with adjusted net debt of $19.8 billion. During the first half of 2023, we repaid $3 billion of debt, including $1.4 billion of early repayments with a focus on our high-cost debt. For the year, we expect to repay over $4 billion of gross debt, resulting in interest costs over $100 million lower than our initial expectations. Our leverage ratio improved to 3.2 times on a trailing 12-month basis, and this is down from 5 times at the end of the year. During the quarter, we announced the reinstatement of a quarterly dividend, opening the shareholder base to yield-focused investors.

Now, moving on to guidance for the September quarter and full year. We expect mid-teen operating margins and earnings of $2.20 to $2.50 per share in the September quarter. Non-fuel unit costs have reached an important inflection point. We expect non-fuel unit costs decline 1% to 3% year-over-year in the September quarter. This is consistent with our expectations for a low single-digit decline in the second half of 2023.

Rebuild costs are substantially behind us and capacity is returning through our most efficient core hubs. July marks our peak ASM production for the year and capacity seasonally declining in the fall and winter. As our capacity growth normalizes, it enables our operating teams to drive efficiency. We have over $1 billion opportunity from initiatives across the enterprise as hiring and trainings slow and our workforce gains experience. Improving our non-fuel unit costs is an enterprise-wide priority and remains within our controls.

On fuel, we expect the September quarter fuel price to be between $2.50 to $2.70 per gallon. This includes a $0.04 refinery benefit. As part of our routine maintenance done once every five years, the refinery will undergo a turnaround in mid-September that will continue through November. With production offline during this period, we expect the refinery to break-even during the second half of the year.

With our second quarter performance and our third quarter outlook, we now expect the full year earnings to be $6 to $7 per share and an operating margin greater than 12% and free cash flow of $3 billion. Delivering these financial results also positions us to reduce our leverage ratio to 3 times by the end of the year and significantly improve our return on invested capital. For the full year, we expect our return on invested capital to be approximately 14%, a 6-point improvement versus last year.

In closing, we're ahead of plan in 2023, and in 2024 remain confident in delivering earnings per share of over $7 per share while generating over $4 billion of free cash flow and achieving our investment grade metrics. As we shared at Investor Day, we see significant opportunities beyond 2024, as we build on the strength of the core airline, leverage our existing capital base to grow high-margin revenue streams and deliver durable earnings through a full economic cycle. We couldn't do this without the hard work of our employees, who are delivering for our customers every day. I'd like to thank the Delta people for all they do.

Now, with that, I'd like to turn it back to Julie for Q&A.

## Julie Stewart

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

Matthew, can you please remind the analysts how to queue up for a question?

# QUESTION AND ANSWER SECTION

**Operator**: Certainly. [Operator Instructions] Your first question is coming from Helane Becker from TD Cowen. Your line is live.

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**Helane Becker**
*Analyst, TD Cowen*

Q

Thanks very much, operator. Hi, team. Thanks for the time here. I just have a point of clarification and then my question. The point of clarification is, Dan, did you just say that you're going to do more than $4 billion in free cash flow for this year and is that an official guidance update? And then, my question really has to do with, as you think about your digital footprint and the technology investments that you have to make, how are you thinking about what's customer-facing versus what's back-office and the cost to invest in both? Thank you.

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

A

I'll start with the first one. And as it relates to free cash flow for this year, 2023, at Investor Day, we [ph] raised our guidance (00:17:21) from $2 billion to $3 billion. $3 billion is the number for this year, and we expect as part of our three-year plan, we said that we'd be at $4 billion or greater in 2024. And Ed talked about the three-year collective plan that we're working towards, which is over $10 billion for the cumulative period of 2023 through 2025.

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

A

And Helane, on your question regarding digital, I think I mentioned a couple of weeks ago at our Investor Day, I consider this one of the most important activities and investments that we are making in the company. On the one hand, we're far along. We've been working on this for a while. But clearly, we have a lot to go as well. And most of the work that we are doing is clearly within the run rate, our CapEx run rate. I don't anticipate any increase in capital as a result of that. If anything, a lot of the work that we should start sun-setting by the end of 2024 in terms of moving our infrastructure to the cloud will start to dissipate, and that'll create even more capacity within the existing spend level for digital.

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**Helane Becker**
*Analyst, TD Cowen*

Q

Thank you. That's very helpful.

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

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**Ravi Shanker**
*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you. Good morning, everyone. Glen, you commented on the fall. Any chance you can expand on those comments a little bit more, especially US domestic? I think you spoke about corporate a little bit. I think most folks are focused on what the demand looks like beyond the summer, which is obviously very, very strong right now.

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

A

Right. We see strong demand both domestically and internationally as far as we can see, and we can see internationally probably to the end of summer IATA in October and see very, very strong results there. And domestically, we've seen some very positive trends. I think that was one of our increases in the June quarter we talked about in the earnings, and we've seen some inflection in terms of [ph] close-in build (00:19:36) where it's starting to look better as we move later in the summer, and we're very encouraged with those trends as well.

**Ravi Shanker**
*Analyst, Morgan Stanley & Co. LLC*

Q

Great. And as a follow-up maybe to Ed or Dan kind of you're going to hit your long-term EPS target of $7 at the high-end of your guide, this year, which obviously is very, very impressive. But I think – what's the next bar here or what's the next step? Are you looking at $10? I mean, obviously, [ph] you just gave us kind of the long-term outlook at the beyond (00:20:02) Analyst Day in terms of initiatives out there. But what are we thinking in terms of kind of financial targets for the long-term?

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

A

Hi, Ravi. We're going to – we need to get to $7 first before we talk about what's next.

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

A

We're only halfway through our three-year plan.

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

A

Yeah. And we've already just increased the current year guide. We will most likely, some point next year, hopefully in the first half of the year, have our updated long-term plan conversation, where we can talk about where we see the long-term financial targets for the company going. But right now, we want to focus on – we're in a very busy part of the year. We want to deliver a great operation for our customers, and we'll talk more over the course of the next 12 months as to how far the EPS can get.

**Ravi Shanker**
*Analyst, Morgan Stanley & Co. LLC*

Q

It's a very high-quality problem to have. Thanks, all.

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

A

Thank you.

**Operator**: Thank you. Your next question is coming from Catie O'Brien from Goldman Sachs. Your line is live.

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

Q

Hey. Good morning, everyone. Thanks for the time. So, yesterday, we had a pretty sizable month-over-month step-down in airfare CPI. I did some quick analysis that shows that that data isn't very correlated to the industry's RASM or yield historically, but it doesn't feel quite right to fully ignore a data point like that. I guess did you see anything similar to that step-down in your own data, maybe on domestic or lower end of the fare spectrum? I know you're guiding to a decel in 3Q versus 2Q, better than what myself and the Street was forecasting, but a deceleration. Is it as simple as that or are there flaws in how that CPI data is calculated where it's relevant to Delta? Thanks.

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

A

Well, the methodology is a sample of a sample. And so, we're not seeing same, and it's a different data point than what we have and what we're seeing. So, I'll leave it to that. If you want the definition, which I think explains why there may be a big variance to what you're seeing, we can forward that to you.

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

A

Yes.

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

Q

Great.

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

A

Yeah. One thing for the call, because I know a lot of people had this question. Just think about where we were last May and June. Demand had just turned on in a crazy-hot way. Supply was really low. People didn't care where they were going or how much they spent. They just wanted to go someplace, and we were seeing fares of up 30%, 40%, 50% in a lot of – particularly in a lot of the domestic markets where they could travel to. That's obviously not sustainable, and that's the comp set that you – it's in the data that's being compared to as well. So, we're now at a much more normalized level of stability in the fare environment, particularly domestically. And I think that it's really a poor comparison to try to draw what that one CPI print was off of a survey of a survey and how that relates to Delta for the future.

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

A

Yeah.

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

Q

I very much agree. Maybe one more for Dan too. Dan, you're well on your way on your $3 billion free cash flow target. Understand fuel has been volatile. Let's see how the ATL shapes up in the back half of the year. But if your free cash flow was to come in better, would there be upside to that $4 billion-plus debt pay-down you spoke to? Is that at all capped by your level of prepayable debt or you're happy to pay prepayment penalties if it means you take down that interest cost burden faster [indiscernible] (00:23:33) business? Thanks for all the time.

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

A

Certainly. As we've talked about, paying down debt is a priority here, generating cash, paying down debt, the two hand-to-hand. Any additional cash that we generate, we certainly would pay down debt with it. I think you'll see us – even in the back half of this year, we will be over that $4 billion that I talked about of gross debt pay-down. And our team's been – Ken and the team out there have been really good about doing what we've done year-to-date. We've done it actually through open market repurchase and other activities, and we're just going to continue to work down the debt.

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

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

Yeah. Hey. I just want to touch back on I think, Ed, you talked about summer being strong. Maybe Glen also added to it for international – wait, not summer, but international being strong, extending into the fall. And I did note that for many of your seasonal European markets, it does look like you've extended the season into November, December, and instead of restarting in April or May, it seems like they're coming back in early March or maybe even February.

Is there a secular shift that is going on here where you're just picking up more and more international? It's a longer season. Maybe these markets are becoming more mature on one hand. And my follow-up would be when you look at your domestic, what's the load factor points that are being driven by international? Is it 5 points of load, 8 points of load factor that are on a connecting itinerary? Thanks for answering my questions.

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

A

Sure. On the seasonality, we have extended – a lot of those seasonal deferrals were because of the way we did maintenance in the past, and we're adjusting that. I think what we want to accomplish for most of our markets is at least a full season of summer IATA, which is of course [indiscernible] (00:25:32). So, you've seen a lot of extensions into that period.

We've seen travel patterns emerging post-pandemic to Europe that tend to see that Southern Europe has a longer season than it has had historically. And so, we're taking advantage of that, while Northern Europe does have a much shorter season, and so trying to work both of those issues to create a network that produces the best returns on a year-round basis. And we have a lot of improvement. We're going to have a really great summer, and our goal is to have a great winter as well. So, that's [indiscernible] (00:26:11).

And on the domestic portion of international journey, I think in the last call, we said it was about 10%, and I think that's about where it's staying. And again, that depends whether you call domestic portion of international journey to the long-hauls or to the short-haul including the Caribbean and Mexico. And so, the number I'm giving you includes the Caribbean and Mexico, which is really part of North America. If you took the truly long-hauls out of that, it would be a lower number.

**Michael Linenberg**
*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. Okay, thanks [ph] very much (00:26:40).

**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. Good morning, guys. And great quarter on profitability. You raised the margin guidance for the year with 12% for 2023. That implies 100 basis points of improvement in the second half. How much of that is coming from fuel and non-fuel costs? You mentioned that down 1 to 3 points. Is it all just cost benefits or are you assuming some continued [ph] yield strength in the Atlantic (00:27:12) like we were just talking about and benefit from domestic hub restorations?

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

A

Yeah. When you think about it first half to second half, couple of things to think about. Certainly, non-fuel is the biggest driver there. We were up in the first half from a down low single-digits in the back half. That's your real benefit related to that on that basis. The other benefit you have is when you think about the halves, you really have a [ph] second quarter (00:27:38) pretty similar, where you have a fourth quarter versus a first quarter performance in that half performance. And when you put all that together, that also drives that margin performance first half versus second half.

**Sheila Kahyaoglu**
*Analyst, Jefferies LLC*

Q

Great. Thank you. And then, if I could just ask a follow-up on cash. The CapEx assumption, does it still remain $5.5 billion? And should we think about the skyline at 43 aircraft for the year, given you mentioned some delivery constraints?

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

A

Yes. We've held our – even as we updated our free cash flow for the year from $2 billion to $3 billion, we've held our CapEx at $5.5 billion. We're still holding right around that 42, 43 aircrafts for the year. That can always move around as it has here by a few.

**Sheila Kahyaoglu**
*Analyst, Jefferies LLC*

Q

Thank you.

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

**Scott H. Group**
*Analyst, Wolfe Research LLC*

Q

Hey. Thanks. Good morning. Glen, you said that the third quarter RASM would have been in line with seasonality if you make a few adjustments. Can you just maybe give a little bit of color on the adjustments you're sort of thinking about? And then, just – I don't know if I heard it yet, so, maybe just share domestic versus international RASM expectations for the third quarter.

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

A

Yeah. On the seasonality between 2Q and 3Q, we had some of the days shift. The outbound 4th of July was in 2Q, which is some of the best days of summer, as we pointed out in this. So, if you take that and adjust for that, we're about 1 point off than normal, and hopefully, we can make that 1 point up in the quarter. But if you look back to last year, I think that's the more important comp when you see the deceleration from [ph] 1 point to – on a midpoint of minus 3% (00:29:24).

Last year's international RASM went – between 2Q and 3Q, was up 16 points, as the restrictions – travel restrictions went off in 2Q. So, that had that big surge in demand on a limited capacity last year. So, I think we're really – we're looking at a 2Q to 3Q that's really right in line with what we think the seasonal norms are.

**Scott H. Group**
*Analyst, Wolfe Research LLC*

Q

Okay, helpful. And then, Dan, I don't know if I'm getting a little ahead of myself. But when I think about the inflection in CASM in the back half this year, that's still with a pilot deal. So, as we look ahead to next year, I know you've already said down low single-digits, but am I wrong in thinking that the first half is going to be better than that?

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

A

Well, the pilot deal you have throughout this year. And as we've talked about, you have it in every quarter and it's about 4 points, along with the wage increase overall for the entire Delta workforce that came through for the year.

When you think about next year and you think about [ph] the (00:30:33) what we've talked about as the low single-digits, really [ph] we're out there (00:30:36) with mid single-digit capacity growth, you get that benefit. And then, as you get into the scale and efficiency on rebuild, that is another element that we'll benefit from. So, you get efficiency, you won't have the repeat of the rebuild that we had this year, and then the offset to that is the continued movement as it relates to a couple of points when you think about pilots and wages into next year. And that's what gets you to low single-digits is the general framework associated with the drivers there.

**Scott H. Group**
*Analyst, Wolfe Research LLC*

Q

Okay. All right. Thank you, guys.

**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. So, Glen, does your third quarter RASM guide assume any share pick-up at the expense of any competitors that may be alternating their distribution strategy or rethinking their Northeast footprint?

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

A

There's two questions in there, and the first question is, I think, our third quarter is based on what we see in the second quarter and moving forward and there haven't been any changes to distribution strategies in the quarter. So, I'd say it's what we see today, just moving forward from there. And on the cessation of the NEA, listen, we compete well in New York. We've had a long history of competing well in New York, and we're really confident on that – as it evolves, that we'll be able to continue to win in New York, which has been our long-term strategy for 10 years, and we're not deviating from that, so.

**Jamie N. Baker**
*Analyst, JPMorgan Securities LLC*

Q

Thank you. And on the corporate survey work, any shifts in how individual sectors are responding? For example, is the messaging from your tech customers unchanged from what it's been, that sort of thing?

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

A

No, I think we pointed out that the laggards are the ones that are most encouraged as you get to the fall. And I think Ed's always said, and I agree with him 100%, that propensity to travel is directly related to whether or not you're in the office. And as we see more and more offices trying to reopen or reopening and people trying to get back into – the corporations trying to get people back in the office, I think that's a great constructive backdrop for us as we head into the fall and the post Labor Day period.

**Jamie N. Baker**
*Analyst, JPMorgan Securities LLC*

Q

That's great. Thanks for...

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

A

Jamie, I'd like to add one additional comment there. All these comparisons in terms of corporate travel unfortunately are still all made to 2019.

**Jamie N. Baker**
*Analyst, JPMorgan Securities LLC*

Q

Yeah.

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

A

And we lose sight of the fact that our economy is 20% plus or minus larger than it was in 2019. So, what you're talking about actually is there is a lot of room to improve for corporate America on travel, and I think that's part of the underpinning why we think there's going to – you're going to continue to see some steady improvement here this fall, and you're hearing it from the travel managers as well.

**Jamie N. Baker**
*Analyst, JPMorgan Securities LLC*

Q

Good. We happen to agree. Thank you, everybody.

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

**Conor Cunningham**
*Analyst, Melius Research LLC*

Q

Hi, everyone. Thank you. Just to follow up on Jamie's question, so you do sound a bit better on corporate travel recovering in the back half. But I'm just – like just to be clear, is that in your guide or is that additional upside if those things do come in a little bit better?

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

We have a continuous slow and steady build in our guide. If it was to accelerate beyond what it's been doing, that would be upside.

**Conor Cunningham**
*Analyst, Melius Research LLC*
Q

Okay. That's helpful. And then, just on the domestic RASM, I think you guys are going to be one of the best in the industry, if not the best. I was just curious if you could unpack what was the outperformance. Is that purely just your core hub rebuild and coastal investments kind of coming in at higher unit revenues? Just trying to understand, maybe back to Catie's question, like the differences between regular economy seats and what Delta kind of offers out there. Thank you.

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

Well, I think we said that it's been continuing to be led by premium products and services, and that our domestic rebuild has, as we've spoken about earlier, initially focused on the coastal gateways and right now moving back into the core. And so, we have the lapping of the investments we made in the coastal gateways coming out of COVID now producing very good returns for us, as well as the investments in the core, which of course come in at higher unit revenues. So, I think it's a combination of those two factors moving together.

**Conor Cunningham**
*Analyst, Melius Research LLC*
Q

Thanks, again.

**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.*
Q

Hey. Good morning. Just curious on the international capacity. It's been growing at a faster pace than domestic, given that that's where the restoration has been to a greater degree. I was curious like how long you expect international capacity growth to kind of continue to outpace domestic here?

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

Well, as capacity trends down as we head out of restoration into a more normal growth cycle, I think you'll see a pretty even distribution between domestic and international as we head into 2024. We really haven't given any guidance on that yet, and internally, we haven't even completed our 2024 plan yet. But I would expect it to be very similar split between domestic and international.

**Savanthi Syth**
*Analyst, Raymond James & Associates, Inc.*
Q

Got it. And if I might just ask on the Latin entity, Glen, just could you provide a little bit more color on what you're seeing, especially broken out between kind of near international, which recovered first, and kind of the South America markets?

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

A

Yeah. Of course, we've been really thrilled with the results with LATAM and the improvements in our South America revenue base. So, South America is moving at a great clip, and again, the short and medium-haul Latin America markets were some of the first to recover and they're still continuing to be strong, but not posting those great giant gains they did in the early part of the recovery.

**Savanthi Syth**
*Analyst, Raymond James & Associates, Inc.*

Q

[ph] Thanks, Glen (00:37:01). Thank you.

**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. Good morning and congrats on these strong results. On your Transatlantic JV, I just wondered if there is any new approaches, maybe any learnings through the pandemic that will change the way you operate going forward versus maybe what you've done in the past, how much each side flies, things like that.

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

A

We have a great Transatlantic joint venture. It was the first one and the most integrated and one that we think has huge customer benefits. And it's always evolving, and that's the great – and we have great partners that want it to evolve. So, we're continuing evaluating how we approach the marketplace together. You've seen some swaps from the fall from things that we have flown to things that our partners are now going to fly. And so, I don't think there are any huge headline changes, but it's always evolving.

**Duane Pfennigwerth**
*Analyst, Evercore ISI*

Q

Okay. And then, maybe just for my follow-up on seasonally shaping capacity. It looks like nominally, ASMs peak in July. They step down a little bit in August, and they step down a little bit again in September, which seems to make some sense. Not all your peers are kind of taking that approach. In some cases, August is bigger than July, et cetera. So, is this just getting back to kind of your view on normal seasonality or is this more operationally driven?

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

A

No. Absolutely, it's more normal seasonality. Of course, in the South, you have the schools going back earlier and earlier. This year, for example, schools go back in Georgia the 1st of August. And so, we're through the summer travel period in the South, whereas the North tends to go back after Labor Day. So, if you look more granularly, you'd see the Southern – the Atlanta hub and the South trends down in the second half of August, and we keep the Northern tier operating a little bit longer and then pull that down after Labor Day. So, we are actually getting much more back to where we want to be, as we say we come out of restoration to a much more normal seasonality.

**Duane Pfennigwerth**
*Analyst, Evercore ISI*

Q

That's helpful. Thank you.

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

A

We'll now go to our final analyst question.

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

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

Q

Hey. Thanks for letting me ask one here. Glen, so I guess the – and I know we're not guiding to 4Q here, but implied revenue in 4Q maybe feels a little bit softer from 3Q for the full year – just given your full year guidance, sorry. Is that conservatism around the off-peak periods like [ph] what you're (00:39:49) talking about back in 1Q with booking trends that have just changed and cancel fees that – or the lack of cancel fees that have changed consumer behavior?

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

A

Yeah. I just think we know the least about 4Q right now. And so, as we get towards the end of this quarter, I think we'll have a much better view that we could share with you on the October call.

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

Q

Okay. I appreciate that. But I guess can you talk maybe structurally, how are you approaching the off-peak period differently than earlier this year?

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

A

Well, I think what we have left to go in the year is we have to get through Labor Day, of course, and I think we have good visibility through Labor Day. Then, we have October, which is historically a very strong travel month for business, so, we'll see how that unfolds. And then, we have the holidays, which are the peak holidays. That's all that's really left in the year, and we have good bookings for the holidays. We have good visibility on that. So, it's really going to depend on – and I think it's potential upside, as you said earlier, is does business travel return more than we expect. And if so, then we have some good upside for the back half of the year. If not, we're going to trend where we see today.

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

Q

Okay. I appreciate it. Thank you.

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

That will wrap up the analyst portion of the call. I'll now turn it over to Tim Mapes to start the media questions.

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

Thank you, Julie. Matthew, if you would, please just remind the members of the media about queuing up for the call, and we'll jump in with members of the media.

**Operator**: Certainly. [Operator Instructions] Your first question is coming from Alison Sider from Wall Street Journal. Your line is live.

**Alison Sider**
*Reporter, The Wall Street Journal*
Q

Hey. Thanks so much. Yeah. I wanted to ask about Viasat yesterday reported it had a deployment issue with its recently launched satellite. Just curious if that causes any potential problems for Delta's free Wi-Fi plans, either for what's currently in place or for the future roll-outs, and if you have to consider any kind of alternatives?

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

Hi, Aly. Obviously, we were disappointed, as Viasat was, with the news yesterday, but we're committed long-term and they will get through this. We see no meaningful impact to where we stand currently with our domestic capacity, and we're working closely with them to make sure the domestic performance maintains what we've been seeing, which has been great. I think if anything, it may cause a delayed roll-out on some of the international markets. But it's too early to tell.

**Alison Sider**
*Reporter, The Wall Street Journal*
Q

Okay. Thanks. And I also wanted to see if Delta has any view on some of the proposals that Congress is considering around simulator training counting towards pilot experience hours, if that's something you view favorably or if Delta would have any plans to offer a training program of its own if the Senate proposal goes through or how you're thinking about that.

**Peter W. Carter**
*Executive Vice President-External Affairs, Chief Legal Officer & Corporate Secretary, Delta Air Lines, Inc.*
A

Hey, Alison. It's Peter. Delta has not weighed in on those particular proposals. We think the way pilots are trained is obviously incredibly effective and it's important to maintain those type of training requirements.

**Alison Sider**
*Reporter, The Wall Street Journal*
Q

Thank you.

**Operator**: Thank you. Your next question is coming from Leslie Josephs from CNBC. Your line is live.

**Leslie Josephs**
*Reporter, CNBC*
Q

Hi. Good morning, everyone. Also wondering if Delta has any view on raising the pilot age potentially to 67, if not beyond that, at some point. And then also with the affirmative action ruling from last month, is Delta reviewing or looking at its current DEI policies and expecting any changes that it has to make? Thanks.

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

Leslie, I'll take the first. No, we don't have a point of view on that. I think that's something that – within the pilot community, there's a lot of different opinions around. So, we'll stand by and observe and watch how that discussion unfolds. Peter will touch on the affirmative action.

**Peter W. Carter**
*Executive Vice President-External Affairs, Chief Legal Officer & Corporate Secretary, Delta Air Lines, Inc.*
A

Yeah. Hello, Leslie. I will tell you, at Delta, we continue to be fully committed to our DE&I objectives. And also, we don't have an affirmative action program at Delta. We always hire the very best.

**Operator**: Thank you. Your next question is coming from Mary Schlangenstein from Bloomberg News. Your line is live.

**Mary Schlangenstein**
*Reporter, Bloomberg News*
Q

Hi. Good morning. Thank you. With your expectation that the corporate travel recovery is going to slowly continue during the fall, will that step-up enough that it'll make up for any decline in leisure travel after schools return or do you not expect to see that historical dip in leisure travel this fall?

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

Well, I'd just give you a view of what we do see, because domestic demands, of course, come a little bit later on. But for international travel post Labor Day, we see very robust leisure demand continuing through the October period. And so, combine that with – hopefully, we'll get some upside surprise on the increase in business, but we're not really counting on anything more than what we see today.

**Mary Schlangenstein**
*Reporter, Bloomberg News*
Q

Okay. Thank you very much.

**Operator**: Thank you. Your next question is coming from David Slotnick from TPG. Your line is live.

**David Slotnick**
*Reporter, The Points Guy*
Q

Thanks very much. Good morning, everyone. I wondered if Delta has any contingency planning or views surrounding the legislation potentially affecting credit card fees and charges. I know that would probably have a significant impact on your Amex revenue. Are you planning for if that works its way through or how to make up for that or anything else? Thanks very much.

**Peter W. Carter**
*Executive Vice President-External Affairs, Chief Legal Officer & Corporate Secretary, Delta Air Lines, Inc.*

A

Hey, David. It's Peter. Obviously, that's legislation that we're watching carefully. And if in fact it becomes the law, we will adjust accordingly. But we don't really think it has a good opportunity to be ultimately signed into law.

**David Slotnick**
*Reporter, The Points Guy*

Q

Thank you.

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

A

Thank you, David. Matthew, I think that'll wrap it up for questions from members of the media.

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

All right. Thank you everyone for joining us and hope you have a great rest of your summer. And we'll talk to you in October.

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