15-Apr-2021

Delta Air Lines, Inc. (DAL)

Q1 2021 Earnings Call

Copyright © 2001-2021 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

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

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

Glen William Hauenstein
President, Delta Air Lines, Inc.

Gary Lee Chase
Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

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

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

OTHER PARTICIPANTS

Duane Pfennigwerth
Analyst, Evercore ISI

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Helane Becker
Analyst, Cowen and Company, LLC

Hunter Keay
Analyst, Wolfe Research LLC

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Matt Roberts
Analyst, Raymond James & Associates, Inc.

Andrew G. Didora
Analyst, BofA Securities, Inc.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

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

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

Sheila Kahyaoglu
Analyst, Jefferies LLC

Joseph William DeNardi
Analyst, Stifel, Nicolaus & Co., Inc.

Myles Walton
Analyst, UBS Securities LLC

Leslie Josephs
Reporter, CNBC LLC

Alison Sider
Reporter, The Wall Street Journal, Inc.

Mary Schlangenstein
Reporter, Bloomberg News

David Slotnick
Reporter, The Points Guy, LLC

Robert Silk
Reporter, Travel Weekly

John Biers
Reporter, Agence France-Presse

Elliott Blackburn
Reporter, Argus Media, Inc.

Copyright © 2001-2021 FactSet CallStreet, LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Delta Air Lines March Quarter 2021 Financial Results Conference Call. My name is Travis, and I will be your coordinator. At this time, all participants are in a listen-only mode until we conduct a question-and-answer session following the presentation. As a reminder, today's call is being recorded.

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

Julie Stewart

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

Thank you, Travis. Good morning, everyone, and thanks for joining us for our March Quarter 2021 Earnings Call. Joining us from Atlanta today are CEO Ed Bastian; our President, Glen Hauenstein; and our Interim Co-CFO, Gary Chase. Ed will open the call with an overview of Delta's performance and strategy, Glen will provide an update on the revenue environment, and Gary will discuss costs, fleet, and our balance sheet.

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

Today's discussion contains forward-looking statements that represent our beliefs or expectations about future events. All forward-looking statements involve risks and uncertainties that could cause the actual results to differ materially from the forward-looking statements. Some of the factors that may cause such differences are described in Delta's SEC filings. We'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.

Thank you, Julie. Good morning, everyone. Thanks for joining us today. It's been a little over a year since the onset of the pandemic, and our customers are gaining confidence in air travel and beginning to reclaim their lives. Reflecting on what has been in a year like no other, I'm tremendously proud of the progress that we've made and the agility that we've demonstrated.

I developed an even deeper appreciation for Delta's strengths and firmly believe that the pandemic has served as a catalyst for us to find new and better ways to serve our customers and our communities. Thanks to the incredible dedication and sacrifices of our people, Delta has weathered the storm with our culture, our brand, and our values stronger than ever before, and I want to thank every member of the Delta family for your incredible efforts over the past year. Collectively, you've carried us through and shown that unique spirit that we call the Delta Difference.

Copyright © 2001-2021 FactSet CallStreet, LLC

I also want to thank the administration and Congress for continued payroll support which has protected thousands of airline jobs throughout the industry and will help speed the US economy in the recovery. Thanks to that support, we have been able to return our people to full work schedules despite running an operation that will be at 65% to 70% of 2019 levels in the June quarter.

The first quarter had two distinct periods, with the first half feeling very much like an extension of 2020 as demand was slower than expected. But as case counts declined and vaccinations accelerated, demand picked up meaningfully later in the quarter, allowing us to achieve $4 million of daily positive cash generation in the month of March, the first positive cash generation since the onset of COVID-19. This marks a critical milestone in the path to restoring our financials.

It is truly a great accomplishment, especially considering that our middle seat block limited the inventory that we're selling and business and international travel remained muted. It's also important to note that this metric takes into account all expenses that we're incurring as we rebuild our business. [ph] To have (00:03:48) turned a true net positive cash flow position within a year of the biggest crisis ever seen in the history of this industry is a real testament to the resilience of the company that we have built.

Consumer confidence in air travel continues to increase, with the pace of vaccinations in the US rapidly accelerating and predictions of herd immunity as soon as this summer. We said throughout the pandemic that one of the most important objectives was to restore confidence in air travel. We are now seeing more normal booking behavior as customers make plans for spring and summer travel. In fact, our daily net cash sales in March were twice what they were in January.

As volumes grow, keeping our employees and customers safe and healthy will always be our top priority. We've taken a science-based approach to cleanliness and are being guided by our own Chief Health Officer, Dr. Henry Ting, as well as by medical experts at the Mayo Clinic and Emory. And earlier this month, the CDC confirmed that it is safe to travel within the US for those who have been fully vaccinated, an important step forward for the recovery of our industry.

We are aligning with the recommendations of health professionals and government officials who continue to ensure the safe and effective distribution of vaccines and listening to our customers. Based on our survey work, 75% of our customers expect to be vaccinated by Memorial Day. With improving demand and vaccine trends, we announced that we'll start selling middle seats May the 1st, providing a powerful tool for improving our financial performance.

We also launched other customer experience and loyalty enhancements to increase confidence in travel and maintain the trust and loyalty that we've built over the last 12 months. Looking ahead, and assuming that these recovery trends hold, we expect to cut our pre-tax loss by more than half in the June quarter to between $1 billion and $1.5 billion, and we see a path to returning to profitability in the September quarter.

Delta's resilience has helped us navigate the worst days of the pandemic, driven by the competitive advantages that are core to our DNA. Those advantages; our people, our brand and loyalty program, our reliable operations, our network, and our balance sheet, will be even more important as we accelerate through the phases of recovery. These moats were tested like never before, and I'm proud of the resilience that they've demonstrated.

Our people and our culture of service remain our most strategic asset. Loyalty to the Delta brand has never been stronger, thanks to the outstanding service that our people provide. They are truly the best professionals in the

Copyright © 2001-2021 FactSet CallStreet, LLC

business. This is evident in our domestic customer Net Promoter Scores which have been in the low 70s throughout the pandemic, a full 20-point increase over 2019.

We've also seen our customers continue to invest in the Delta brand using their American Express co-brand cards, demonstrating the resiliency of this unique revenue stream. Despite a large reduction in T&E categories, March co-brand spend on the card overall was up relative to March 2019 levels.

Our operational performance remains strong. During the quarter, we led the industry in all on-time metrics including [ph] A zero, D zero (00:07:02) and completion factor which was more than 99%. And our network rebuild leverages the strength of our core hub structure and our international partner gateways. At the same time, we are renewing and simplifying our fleet, improving the customer experience, driving efficiency and reducing emissions as we push toward our carbon-neutral goals.

And finally, the strength of our balance sheet enabled us to manage through the worst crisis in our history with no dilution to our shareholders other than warrants related to the Payroll Support Program. This is something that continues to set us apart in the industry. We've begun our journey of de-levering, and by the end of the June quarter, we will have reduced financial obligations by nearly $10 billion through a combination of paying down debt and accelerating pension funding since last fall.

This reflects an unprecedented turnaround in the health of our pensions over the last decade, securing the future of our retirees. Later this year, we expect to make one final contribution to the plan of up to $1 billion, which should enable our pension to reach fully funded PPA status by the end of this year, largely mitigating the need for any additional cash contributions going forward.

And finally, as we look toward the future, it's important to acknowledge that the commitment we made last year to achieving carbon neutrality is as strong as ever. The only future for Delta and our industry is a sustainable future. This is why we're accelerating our fleet renewal and balancing near-term needs for verifiable offsets with long-term investments in sustainable aviation fuels, carbon sequestration advancements, and clean propulsion technology. And because we can't do this alone, we are collaborating with corporate customers as well as large energy producers in order to address aviation emissions together and work to scale up sustainable aviation fuels.

We're excited about the progress that we're making to combat climate change and enable a cleaner, more sustainable world. These steps are vital to Delta's long-term future, and we owe it to the next generation of customers and employees to continue down this path. The time for action, not talk, is now, and I'm proud of the steps our team is taking.

As the recovery takes hold, glimmers of hope are now optimism for the future. Demand for air travel is accelerating in a meaningful way, and we are well-positioned to build a stronger Delta as demand recovers to pre-pandemic levels in the next few years. With our competitive advantages having been fully tested, we have built a platform to extend Delta's leadership position in the years to come. More than ever, I am confident in the future of Delta and our people. Over the last year, we've taken meaningful actions to become a better, more sustainable, more inclusive company driven by our mission to connect the world.

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

Glen William Hauenstein

President, Delta Air Lines, Inc.

Copyright © 2001-2021 FactSet CallStreet, LLC

Thanks, Ed, and good morning, everyone. As Ed mentioned, the pace of demand recovery accelerated over the course of the quarter. With growing confidence, customers are now buying tickets for travel further out, speeding our cash recovery. In the month of March, daily new bookings improved 50% from the January and February average, well ahead of its normal seasonality. As customers are now buying tickets for travel further out, our booking curve has extended and our air traffic liability has grown for the first time in three quarters, up more than $800 million from December.

On our January call, I outlined three distinct phases to the year and our levers for each. To progress to the second phase, we need to see higher vaccination rates, easing travel advisories, and growing consumer confidence, all of which are now evident in the United States today. Approximately 50% of the adult population in the US have now received at least one dose of the vaccine, and by May, all states will have lifted mandatory domestic quarantine restrictions. Pent-up demand is also evident with domestic leisure bookings 85% recovered to 2019 levels, and Latin leisure markets more than fully restored.

Beyond our own bookings, we see encouraging data points in the broader economy. This includes accumulated savings, restaurant dining, credit card spend, hotel occupancy rates, web search data on travel, and corporations announcing more concrete office re-opening plans. In response to these developments and the reduction of COVID-19 cases, as well as accelerating vaccination rates, we will sunset our middle seat block as of May 1. That provides us with a very powerful lever to add capacity in a cost-efficient way and generate meaningful margin tailwind.

Removing our middle seat block results in our sellable capacity increasing from 46% of 2019 levels for the month of April to 67% of 2019 levels for the month of June. And with this increase coinciding with strong customer demand for our product, we expect our passenger unit revenue to improve by 20 to 25 points over that period. With this added capacity and a continuation of the leisure recovery heading into peak season, we expect our June quarter revenues to improve by approximately $2 billion from the March quarter.

The corporate travel recovery has been slow but steady. Corporate volumes in March were nearly 20% recovered, up from 15% at the end of 2020. Small and medium enterprises continued to outperform other corporates by about 5 points, and given our investments in the customer experience, we've been able to grow our domestic corporate share lead which is now significantly higher than pre-pandemic levels.

To progress to the next leg of the recovery, we need corporate travel to return in earnest. While we expect continued improvements to business travel through the summer, we anticipate the significant increases will occur after Labor Day as we enter the more traditional business travel season. That will happen as vaccinations become even more widespread and offices continue to reopen.

We continue to expect operational and sales-related travel to lead, with travel to large conferences and internal meetings likely the last to recover. Our views on corporate demand recovery are consistent with what we've heard in our most recently quarterly corporate survey where one-third of our accounts expect to increase travel volume in the June quarter, and a majority of our corporate customers expect to return to office in the second half of the year. Vaccine distribution and lifting of government travel restrictions remain the top two drivers of corporate willingness to travel.

International travel remains muted, with long-haul international booking volumes at only 15% to 25% recovered. We're seeing some early signs of life in Europe, with Iceland opening to travel to vaccinated US citizens and increased demand for Israel and leisure destinations this fall. That said, Europe lags the US, and Pacific is

Copyright © 2001-2021 FactSet CallStreet, LLC

expected to be the last region to recover. We do not anticipate meaningful international demand improvement until later in the year when borders reopen.

Once the recovery of those segments are underway, we'll expect they also prove to be a powerful cash and profitability lever for our business, considering our operating leverage improvements in those segments will be cost effective and highly margin accretive, a dynamic that is very similar to what we expect from lifting our middle seat blocks and one that I am very enthusiastic about. In the meantime, we'll continue to benefit from the strengthening demand environment in the domestic and short-haul Latin regions and from our non-ticket revenue streams which have proven more resilient.

Our cargo revenues in the March quarter improved 5% sequentially and were up 12% versus the March quarter of 2019. The performance of our loyalty is indicative of Delta's strong brand affinity and our customer aspirations to return to travel. As Ed mentioned, co-brand spend in the month of March was higher than 2019 levels. This was a result of solid growth in non-T&E spend and continued momentum in T&A which is now down 35% in March from down approximately 55% in December.

Card acquisitions are also rebounding nicely and our attrition rates are below pre-pandemic levels. For the month of March, co-brand acquisitions were over 60% recovered, with less than half of our customer base flying. Our long-term partnership with American Express combines two strong consumer brands enhancing customer loyalty while also providing a higher margin revenue stream that has proven its resiliency.

We have driven stronger engagement through our digital channels, resulting in more direct relationships with our customers and record-high digital satisfaction scores. Over the last year, we've created a more flexible and enhanced experience for our direct channels, increasing self-service and making it easier for our customers to do business with Delta.

Digital adoption is on the rise, and direct channels like delta.com and the Fly Delta app account for 66% of our sales in the March quarter, up 15 points from 2019. While we expect that will normalize, especially as corporate travel recovers, direct channels will continue to be preferred particularly among Medallions and young customers.

As we restore our business, we're rebuilding our industry-leading network with a simpler, younger and more fuel-efficient fleet. At the same time, we have preserved optionality with levers to flex our capacity restoration in either direction depending on the shape of the recovery. We are also capitalizing on the industry's best domestic hub structure with the highest return profile.

The combination of our strong core hubs and coastal positions provides us with a unique opportunity to leverage cost efficient gauge with large narrow body aircraft providing meaningful efficiency and scale advantages. In addition, we now see the opportunity to significantly improve our international returns from pre-pandemic levels, driven by an improved competitive position, a stronger cargo business, the acceleration of our fleet renewal, stronger partnerships, and an improved product offering.

Reflecting on what has been the most difficult 12 months in the company's history, I could not be prouder of what our teams have accomplished, so I want to thank them for their commitment and continue to put the customer in the center of what we do every day. Looking forward, I'm optimistic about Delta's bright future. We have a powerful brand, loyalty program that's proven their resiliency, we continue to improve our customer experience both in the air and on the ground as we've accelerated our robust array of airport projects. Our focus on health and flexibility has won the confidence of our travelers, and we're being well served by our younger, more ecofriendly fleet and leaner cost structure.

Copyright © 2001-2021 FactSet CallStreet, LLC

With that, I'd like to turn the call over to Gary.

Gary Lee Chase

Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

Thanks, Glen, and good morning, everyone. I'm excited to see our recovery begin to take root and our focus shift from stabilizing the company's financials to creating value by returning to profitability, generating cash, and restoring our financial position to its pre-COVID strength. Let me start with some highlights from the quarter, then I'll address the upcoming quarter, our fleet strategy, and the beginnings of our deleveraging journey.

Our first quarter pre-tax loss of $1.5 billion includes a $1.2 billion benefit related to the Payroll Support Program. Net of this benefit, restructuring items and extinguishment charges associated with the prepayment of debt, we reported an adjusted loss of $2.9 billion. Our people out in the operation, along with the commercial and finance teams, came together nicely to produce great cost performance. Adjusted operating costs of $6.3 billion were 33% lower than 2019, slightly higher than we anticipated at the outset of the quarter, with half due to higher fuel expense and the other half due to recovery and COVID-related items.

Nonfuel CASM was up sequentially as expected on 10% higher capacity as we restored our employees to full work hours and incurred costs to prepare for the recovery. Adjusted fuel price of $1.91 per gallon was 33% higher than 4Q, driven by market prices and losses at the refinery which drove a $0.23 per gallon headwind in the quarter. On the consumption side, we realized a 12% fuel efficiency gain compared to 2019, with nearly half of that a direct result of our fleet renewal.

Daily cash burn averaged $11 million in the quarter, improving from $12 million in the December quarter despite stepped-up expenses. Improved receipts in March drove $4 million of daily and positive cash generation. We ended the quarter with $16.6 billion of liquidity and adjusted net debt of $19.1 billion, roughly flat with the December quarter though above where we expected to be due to aircraft financing decisions.

Let's now look forward into the June quarter. We expect a nearly $2 billion improvement in our pre-tax result. If the recovery progresses in line with our expectations and fuel remains at current levels, we expect to narrow our pre-tax loss to between $1 billion and $1.5 billion, with progressive improvement through the quarter to break even in the month of June.

A key driver of improvement will be the sunset of our middle seat block, increasing our inventory available for sale at minimal cost. We also expect continued strong performance on our nonfuel costs and still target levels below 2019 by the fourth quarter. In 2020, the teams delivered strong cost performance by baselining aggressively. In 2021, we are focused on driving cost leverage as we rebuild the network and revenue returns.

We are seeing that leverage materialize in the June quarter, with a small increase in costs on a 20% increase in capacity driving a 12% to 15% improvement in nonfuel costs sequentially. Compared to the same period in 2019, nonfuel CASM is expected to be 6% to 9% higher, including 3 to 4 points from rebuild items. Adjusted fuel price is expected at $1.85 to $1.95 per gallon, and fuel efficiency for the quarter is expected to remain better than 2019 by more than 10%. Bringing these items together at the midpoint of our guidance, June quarter total operating expense is expected to be down approximately 35% from June quarter 2019. We expect daily cash generation in the June quarter as demand further improves.

Now let me comment on our fleet strategy, a key enabler of our cost performance. Our accelerated fleet transformation drives more than $400 million in annualized cost benefit relative to 2019, driven by fuel efficiency,

Copyright © 2001-2021 FactSet CallStreet, LLC

simplification and gauge. These benefits have enabled excellent cost performance and will support further inflection in our financials as the demand recovery accelerates.

Since the pandemic began, Delta has taken a measured approach in matching supply with demand. That discipline, combined with the great work of our fleet and tech ops teams, have positioned us to capture fleet efficiencies while preserving optionality on upside capacity levels for the future that will utilize flex fleets if demand warrants additional capacity. As Glen said, we have the ability to flex capacity in either direction based on the demand. The teams have plotted a path to invest in our fleet with maintenance that will either support higher flying levels if warranted or largely offset costs we'd otherwise incur in the future.

Let me now move to the balance sheet. With our cash flow and earnings close to inflection, we've begun to reduce our debt levels and chip away at our $4 million daily interest burden. In the March quarter, we set in motion our first phase of debt reduction. Using $3 billion of our liquidity, we are paying down debt, funding our pension, and acquiring aircraft in the June quarter with cash. Combined, these initiatives drive $240 million of annualized savings and free up $2 billion of lending capacity.

On April 1, we contributed $1 billion to the pension. This accelerated contribution, along with strong returns produced by our pension team, positioned the funds to be more than 95% funded by year end under the Pension Protection Act that determines cash funding obligations. On a GAAP basis, we expect to be more than 85% funded by year end.

We are now assessing an additional contribution of up to $1 billion to achieve fully funded PPA status by year end. It is really exciting to see our long-term pension vision crystallize. The combination of contributions and strong returns over time now position us where we expect no material contributions to the plan beyond 2021, freeing up an average of more than $1 billion annually of our cash flow.

Adjusted net debt is expected to be $19 billion to $19.5 billion in the June quarter as we draw down liquidity to fund the pension plans and pay cash for aircraft deliveries in the June quarter. We expect normal amortization of debt including the $600 million unsecured maturity in April to be approximately $850 million in the June quarter. We're also working on a longer term vision to restore and improve upon the strong financial position we enjoyed pre-COVID. Our financial foundation has greatly helped us to weather this crisis while investing in our future and avoiding dilution for our owners.

In closing, I am proud of what the Delta team has accomplished over the last year. The Delta Difference that Ed mentioned has never been more important nor has it been more pronounced, thanks to all 75,000 of you for protecting each other, our customers, and our future. We have exciting opportunities ahead.

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

Julie Stewart

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

Thanks, Gary. Travis, we are ready for the analyst questions, if you could give the instructions on how to get into the queue.

Copyright © 2001-2021 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: Yes, ma'am. [Operator Instructions] Our first question comes from Duane Pfennigwerth, Evercore.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Hey. Good morning. Thanks. I wanted to ask you about restart bottlenecks. As we travel more, it feels like staffing levels are very tight, and that's just not an airline observation but really across service providers, hotels; car rentals. It feels like there's understaffing right now relative to demand, and I think there's been some anecdotes about a hard time filling open positions. Obviously, the airline industry is in a different position given PSP, but I wanted to ask you, as you gain confidence in the demand recovery, what are the bottlenecks in getting spooled back up? Are you short staffed today relative to any of your work groups, or is it really just a pilot training exercise?

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

A

Hi, Duane. I think the issue you talk about in the broader hospitality sector is an issue, I don't think it's an issue for the airlines, but I know the hotels, the rental car providers that you say are having a difficult time getting staff back, given the level of unemployment and other stimulus that's been provided into the general economy, we're not experiencing that issue at all here at Delta. Our people have been at work throughout the entire time.

I'd say the biggest bottleneck – two bottlenecks that we face, which I feel very good about where we're at, is clearly getting our pilot training and our pilots into the right categories and ready to fly. And secondly, maintenance, making sure that we got our aircraft and our engines and all the work ready for a pretty quick rebound.

We had some cancelations on Easter Sunday a couple weeks ago, about 100, in the business, and we've noticed that's been a trend on some of the holiday weekends. But for the last few holidays, certainly President's Day and Easter, not nearly the challenges that we experienced earlier in Thanksgiving and Christmas. And it's because our business is dealing with the tension between making sure that we've got as many costs out and saved and people on – whether it's voluntary leave or some other alternative plan, and being ready to respond to demand as it comes back.

I feel pretty good about where we sit for the coming spring and summer. We spend an awful lot of time understanding that. You also need to appreciate that in certain parts of the country, the virus is growing at a faster rate than others. We've had vaccinations moving and that's impacted a little bit on the pilot availability because pilots need to sit for a couple of days once they – every time they get a shot. But all in, I think our team is well-positioned and ready for the rebound that we see coming this summer.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Thanks for that, Ed. And then just for a follow-up, and I think Gary touched on it, but how do you think about the range of outcomes on June, whether it's capacity or revenue? What ability do you have here in 2Q to flex up if demand plays out better than what your guidance assumes? Thanks for taking the questions.

Copyright © 2001-2021 FactSet CallStreet, LLC

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

A

Well, the biggest flex lever we have is the middle seat, which comes available May the 1st, and you're going to see a significant capacity bump from April to May because of the seats. So we're not anticipating a significant amount of schedule, additional schedule requirements. Probably the biggest question mark we have is the international space, and we're working closely with international authorities to be ready to fly when they enable travel, particularly in the transatlantic markets. But I'm not contemplating us having a big challenge getting seats in the market for June.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Thank you.

Operator: Our next question comes from Brandon Oglenski, Barclays.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Yeah. Thanks for taking my question. Gary, you walked through a lot of changes on the balance sheet there, but I think you said you're going to end the quarter, Q2 that is, with about $19 billion to $19.5 billion in net debt. And I guess, could you just talk to again the priorities on the fleet and the pension paydown as well as, like, where you'd like to see that net debt number by the end of the year and then maybe a longer term goal around the balance sheet?

Gary Lee Chase
Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

Yeah. Well, Brandon, we're not going to comment on where we'll be by the end of the year. What we've been very clear about as a long-term goal is that we want to be back to an investment grade quality balance sheet. If you think about it simplistically, our net debt is up about $8.5 billion since the end of 2019. So one easy way to think about what we need to do is get that back down to the $10 billion range. In terms of near-term priorities, you noted one, we did make beyond the quarter, on April 1 we made $1 billion contribution to the plan. We've discussed in here the potential for up to another $1 billion to achieve that fully funded PPA status.

The other things that you should expect to see from us would be, we're going to continue to pay cash for our aircraft, which not only prevents us from incurring debt but it obviously builds our unencumbered collateral base. And then we have ongoing debt maturity. So in this quarter alone, in fact on Monday, we will pay a $600 million unsecured maturity. Over the course of the rest of the quarter, we'll have another roughly $250 million of regularly scheduled amortization, and another $400 million of that across the second half. So you'll continue to see those debt levels work down for all of those reasons.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Appreciate that. And has the pandemic made you rethink your minimum liquidity threshold that you're comfortable carrying going forward?

Gary Lee Chase
Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

Copyright © 2001-2021 FactSet CallStreet, LLC

Well, we've looked at this a number of different ways. We're thinking about it on an interim basis. We've looked at it a number of ways, and they're all kind of pointing to the same zip code. So we sketched out about a $10 billion to $12 billion interim floor for liquidity that we want to see. I think it's important to note, though, that we don't have that thought process in isolation. And I'll just repeat, one of the things that you see us very deliberately doing is consciously building the unencumbered collateral base as we go. So in addition to thinking about where we want to be with liquidity, our mind is also on continuing to build that unencumbered asset base so that we've got the flexibility.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Appreciate it.

Operator: The next question comes from Jamie Baker, JPMorgan.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Hey, good morning, everybody. First question for Ed or maybe for Glen. I appreciate the endorsement of the third quarter profit. From a high level, can you expand on what it's going to require? I mean, can you get there solely on domestic leisure recovery, or do you need some percentage of international reopening or corporate to improve from down 80% to down 60%, that sort of thing?

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

A

Hi, Jamie. Obviously, there's still a ways to go between here and there to get to the third quarter. Clearly, the number one dependency is the vaccination rate and getting to herd immunity in our country. And all the experts we talked to, including our own doctors, tell us that early summer is when we should expect our country to be in some form of early herd immunity, and that will continue to inspire additional travel.

Yes, we're working on reopening international corridors. I think the one that is most likely to be opened for the third quarter hopefully is the US/UK travel corridor, and we're spending a lot of time with the authorities both here in the US as well as the UK as to what's going to be required to get that done. And hopefully, early summer that we'll see the corridor open, which will then bring some pressure I'm sure on other markets to follow similar suit and protocol.

The middle seat opening is another huge leverage point. The fact that we've been carrying such a significant amount of our capacity deliberately not selling is going to be a big add-on there. So when you think about all these factors and you think about the additional scale that we have from better utilizing our fleet, our fleet is still somewhat probably 10% to 15% underutilized as we're operating it today. These are the types of things we look at to give us some real optimism that there's a pathway to get into profitability this summer.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Okay. That's helpful. Second question for Gary, and I suppose this builds a little bit on Brandon's question, but you cited the build in the ATL in the release, in the prepared remarks. That was helpful. Thank you. A competitor of yours has said that one of their most important lessons learned from the downturn is you just can't count on the ATL anymore. Is that consistent with how you're thinking and how it ties back to how you manage liquidity going forward?

Copyright © 2001-2021 FactSet CallStreet, LLC

Gary Lee Chase
Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.
A

Jamie, I think I'll answer it this way, there are a number of factors that we put into the thought process about liquidity. It is safe to say that, that was one of the stress points that we consider.

Jamie N. Baker
Analyst, JPMorgan Securities LLC
Q

Okay.

Gary Lee Chase
Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.
A

So it wrapped into the analysis I was describing that has us kind of landing in that $10 billion to $12 billion zone.

Jamie N. Baker
Analyst, JPMorgan Securities LLC
Q

Got it. Okay. I appreciate it. Thank you, gentlemen. I look forward to seeing you next month. It's good to be getting back to in person.

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

We look forward to it, Jamie.

Operator: Our next question comes from Helane Becker, Cowen.

Helane Becker
Analyst, Cowen and Company, LLC
Q

Thanks very much, operator. Hi, everybody, and thank you very much for your time. So two questions. Ed, you referenced – and you and I talked about this last month too, [indiscernible] (00:36:23) sustainability and the things that you're doing with respect to carbon sequestration and I think you mentioned other changes in the fleet. Now, I'm just kind of wondering, how should we think about getting us to net carbon zero by 2040 and the costs involved in that? And if you think that, that helps your corporate market share going forward.

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

Sure, Helane. As I mentioned in my opening comments, sustainability is a real issue for us, for our business, and it's a problem now and it can't wait till later to be addressed. We're doing, as we've committed to, invest in verified carbon offsets with the highest certification which are the only real solution in the marketplace right now. And we appreciate there's a lot of concerns about efficacies, and we are concerned also, and that's why we're so specific in terms of what we're investing in. But there is real evidence they have a clear impact, and we can't wait for those longer term investments to start paying off to reduce the footprint in the meantime.

We're working with a lot of providers, whether it's in the energy arena or other technology providers seeking solutions to decarbonize our operations and our footprint. We've committed $1 billion over this decade towards investments along these lines. And as you see this become a increased importance to the current administration,

Copyright © 2001-2021 FactSet CallStreet, LLC

in their priorities, we'll hopefully going to get some support from our government, particularly in the areas of sustainable aviation fuels which is critical.

We don't have as an industry a clear roadmap to net carbon zero by 2040 at the present time, but it's important that we have the mindset that we're going to do what it takes to continue to invest in a better future for all.

Helane Becker
Analyst, Cowen and Company, LLC
Q

That's really helpful. Thank you. And then, just on another subject, when we were down there for Investor Day in 2019, one of the things that we saw was the Delta tech ops and the maintenance operation and so on. And I'm just wondering how you guys are thinking about that business going forward given the huge reduction in older aircraft that exist out there in the world now and your non-Delta customers and how they're thinking about renewing contracts or whatever and how you're thinking about that business.

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

So we're excited about the...

Helane Becker
Analyst, Cowen and Company, LLC
Q

Thank you.

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

Sure. Helane, we're excited about the MRO and its future, and you're right, in 2020 there was a dip in volumes as airlines pulled back, not just flying levels but retired on a global basis some of the older fleets. But our MRO revenues are not down nearly in line with what where flying levels have come down to. And as we look to the pipeline of opportunities, there's still a pretty good backlog to dip into.

So, team is doing a great job over there, first and foremost, taking care of the Delta fleet, but looking for opportunities to expand going forward. And I think as the earlier question that Duane answered – or asked around pipeline blockages or obstacles to getting our businesses back, the MRO is going to be key for us not just helping Delta but also helping some other airlines around the world get their businesses back up and running as quickly as they can.

Helane Becker
Analyst, Cowen and Company, LLC
Q

Great. Thank you very much.

Operator: Our next question comes from Hunter Keay, Wolfe Research.

Hunter Keay
Analyst, Wolfe Research LLC
Q

Thank you. Good morning, everybody. With so much liquidity and demand improving, is there a better than zero percent probability, Ed, that you do not participate in PSP3?

Copyright © 2001-2021 FactSet CallStreet, LLC

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

A

I'm sorry, Hunter. You said with the liquidity – let me rephrase it. With the liquidity we have, will we be participating in PSP3? Is that your fundamental question?

Hunter Keay
Analyst, Wolfe Research LLC

Q

I guess, yeah, I'm just wondering if there's a chance that you turn down PSP3 if things continue to improve like this. Not to participate in it.

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

A

Yeah. We don't anticipate turning that down, no.

Hunter Keay
Analyst, Wolfe Research LLC

Q

Okay. Thank you. And then, Glen, as you talk to the corporates, I know it's early, but when you think about 2022 spending, are you starting these conversations from 2019 spend and working it down, or are you starting at zero and sort of building it up?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Yeah. I think we're looking at what we have today and building it back up again. And we don't know the outcome or when, what we do see is that slow and steady build and we think as we get to the end of the summer as we said in the script, as the vaccination rates continue to improve and offices continue to return, that we will see an acceleration as we head into the fall.

And I think, still unknown where we'll wind up this year and where we'll wind up in summer of 2022, and that's I think where we're going to work on the flexibility of our fleet to flex up or down depending on what we see in the market at different points in time.

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

A

To add to Glen's points, we did update the corporate survey that we commented upon last quarter, and the numbers continue to look favorable, 36% of – and this is many of our large corporations participated, 36% expect to be fully back travel to pre-COVID levels by 2022 and another 16% by 2023. So 52% say they're anticipating getting back to full levels. Only 8% of the corporations that we survey say they will never get back to pre-COVID levels. And there's 40% that are unclear as to what level of additional flying that they anticipate.

So if you take a fairly conservative view on the 40% uncertain and the 8% that never get fully back and say that only 50% of that returns, then we're looking at 75%, 80% of our corporate revenues coming back over the course of the next couple years, which I continue to think is conservative and we're working hard as people feel confident getting back out to the sky to get that business volume back to where it was.

Hunter Keay
Analyst, Wolfe Research LLC

Q

Copyright © 2001-2021 FactSet CallStreet, LLC

Thank you, both.

Operator: Our next question comes from Ravi Shanker, Morgan Stanley.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Morning, everyone. Two questions for me, one near-term and one longer term. In the nearer term, how would you characterize the current competitive environment out there? Obviously, early days yet and everyone is trying to obviously add capacity to places that people wanted to go, but are you encouraged by what you're seeing right now and do you think it gets better or worse as we open up more?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think there's really two things that we would talk about and they're different scenarios. One is, internationally, coming out of the pandemic, I think we see a vastly improved competitive scenario with a lot of the ultra-low cost or low cost players in each region coming out of this much weaker or gone. And so, as we see Europe come back, as we see Latin and the Pacific come back, I think we're going to see a much improved environment for many years ahead of us.

And domestically, I think you characterized it quite well. People are traveling differently than they were pre-pandemic, and while we are back at 85% of demand, that 85% is going different places than it was pre-pandemic. So you see a lot more capacity from the industry in places that people are interested. Basically the West, the wide open spaces, the Florida markets, the Latin leisure markets, and so we've put our capacity where people want to fly, and I think that's where we'll continue to focus. And I see – ultimately, I can't tell you what our competitors are going to do with capacity, but I think we feel really comfortable about how the US arena is developing.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

Great. And just looking at it longer term, I don't know how much of your time is spent thinking about 2022 and even 2023 at this point, but everyone is looking at 2019 as a baseline, but given the huge pent-up demand and the huge amount of excess savings with the consumer, do you think there's a likelihood that we significantly surpass 2019 levels of travel in 2022, 2023, and beyond? And if so, do you have the ability to service that without bringing on significantly more resources? Thanks.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Ravi, I wish I had a crystal ball that was that clear to know with some degree of confidence. Certainly, there's enormous pent-up demand. Consumers have built up a lot of wealth over the pandemic. People have really lost the connection that they look to recreate and get back together, whether that's for leisure purpose or business. And I think over the course of the next 12 to 18 months, we're going to see a strong surge as markets reopen for different categories as well as different borders.

Looking out into the next couple years, does that mean we'll be beyond 2019? I think it's possible. We have flex in our fleet and our order book to address that. We're not going to be limited. If there's demand out there, we're going to be positioned to be able to serve it.

Copyright © 2001-2021 FactSet CallStreet, LLC

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: Our next question comes from Savi Syth, Raymond James.

Matt Roberts
Analyst, Raymond James & Associates, Inc.

Q

Hey. Good morning. This is actually Matt on for Savi. Thanks for the time. A couple quick ones for me. [ph] Being that we're just (00:46:40) on the international topic, in terms of leveraging your international partners, how do you plan on positioning your domestic network for that? Are there any changes necessary or priorities to your coastal hubs?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think one of the things we're excited about as we come out of this pandemic is the strength of our international partners. As I mentioned earlier is international has taken much more of a reshape than domestic given the fact that a lot of international carriers didn't receive government support through the pandemic and are going to either be much smaller or not be there as the pandemic way eases off.

And so we are very encouraged about continuing to leverage our partner hubs as the first wave of pre-pandemic international travel comes back. And that's really what we've done so far. And I think, yes, there will be opportunities for us to reshape our domestic to better feed our internationals coming out of this than we had going in. But we'll deal with that as it occurs as opposed to anticipating it.

Matt Roberts
Analyst, Raymond James & Associates, Inc.

Q

Got you. Thanks, Glen. And then one quick one on the fleet. The fuel efficiency is impressive. It seems like that's taking hold, but do you expect that level to hold when you're back to full utilization? Thanks again for the time.

Gary Lee Chase
Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

Yeah. Well, as we said, about half of the 12% improvement that you saw in the quarter versus 2019 is really structural change driven by the fleet renewal that we've been talking about. So you can think of the remainder as conditional on where we are on the system. We did say, however, that as we look into the second quarter, we expect at least a 10% improvement on where we were for the same metric in 2019. So do expect continued fuel efficiency, certainly through the June quarter of significance.

Matt Roberts
Analyst, Raymond James & Associates, Inc.

Q

Okay. Thanks for the clarification there.

Operator: Next question comes from Andrew Didora, Bank of America.

Copyright © 2001-2021 FactSet CallStreet, LLC

Andrew G. Didora
Analyst, BofA Securities, Inc.

Q

Hi. Good morning, everyone. Glen, just curious on your booking curve commentary in terms of how it continues to lengthen. Are there any data points you can put around this, maybe how much of your 2Q budgeted revenues are already on the books versus how that typically compares to normal times? And anything you can help quantify that for us?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, through the pandemic, the booking curve had compressed, and starting about middle of last month, for the first time ever we saw advance bookings outside of the 60-day window was actually surpassing the percentage of bookings that were in that category in 2019. So hopefully that can give you some context that people are feeling much more comfortable booking further out in the curve.

And I think we're looking at several things, one is, I think in the US, they're feeling much more comfortable in domestic flying knowing they'll get their shots, knowing they'll be able to travel. Still waiting for more and more events to open and places to open [ph] and I think that's kind of (00:49:57) one of the things that continues to accelerate the domestic demand, and then really waiting for the internationals to reopen in earnest.

I think people are now looking out at the fall and making some speculative bookings that Europe will be open in the fall. They're not a great number of those out there yet, but certainly there's interest out there. And I do believe that in the next month or two, we'll see at least some of the European countries attempting to reopen, and that will hopefully put pressure on the others to figure out ways to reopen their markets.

Andrew G. Didora
Analyst, BofA Securities, Inc.

Q

Got it. Makes sense. And then, my second question here just for Ed, I guess more bigger picture here. Coming out of the pandemic after past downturns that meaningfully affected the industry, there have been some pretty big changes out there, right, but this time around we really haven't seen that. There's plenty of liquidity. Everyone survived. No consolidation. No hub closures. Has any of this surprised you? And why do you think a lot of these have not happened this time around?

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

A

Sure, Andrew. No, it doesn't surprise me at all, and it's primarily because of the government support that the US airlines have received in terms of PSP. When you think about the significant levels of support and ensuring that, that support goes to retaining employment across the industry as a national priority, there really isn't a lot of change, structural. You use that money to try to get your business back up which is what they were intended to do.

Certainly on an international level, you're seeing a lot of change. There's been a lot of international restructurings, bankruptcies, liquidations, changes, which I don't think we really fully appreciate the full extent of that. It's going to take some time yet to play out. I think it will help and benefit the US industry because we're going to be competitively stronger than in the international landscape than we were previously. So we'll see how that plays out.

Copyright © 2001-2021 FactSet CallStreet, LLC

Andrew G. Didora
Analyst, BofA Securities, Inc.

Q

Great. Thank you.

Operator: Our next question comes from Mike Linenberg, Deutsche Bank.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Good morning, everyone. Hey, just two here. The first one to Glen. Glen, have you come up with an estimate of what you think the net revenue hit that you incurred because of the middle seat block? And I would be most focused on the month of March where you actually had pretty good demand and were probably still in traffic.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Yes, we've looked at that, and I think maybe for the month of March in particular, and clearly as we got to the end of – or as the traffic continued to rise [indiscernible] (00:52:44) and confidence returned, it got to be a more expensive proposition. So for the month of March, it was probably between $100 million and $150 million of gross revenue that we left on the table [ph] not blocking (00:52:56) the middle seat.

But really ensuring that demand came back and ensuring that our brand came out of this very strong. And I think had we had the choice to do it over again, we would do it in a heartbeat because I think it's something that really set Delta apart through this pandemic is putting consumer confidence and the confidence and health and safety first was a very important part of how we've invested in our brand through this pandemic. So I think that's when we see this real confidence returning in the April, May time period, that was also one of our big cues to say it is time to let that go away.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks for the color there. And then just my second question to Gary. On the $1.85 to $1.95 fuel guide, is there an embedded refinery loss in there? What is it, if there is, on a per gallon basis? And sort of a part two to that, as I recall I believe the voluntary participation in the CORSIA program was supposed to commence I believe in 2021. In fact, is that true? And where is that going to show up on the Delta P&L if in fact that does kick in this year? Thank you.

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

A

Good morning. It's Peter Carter. So from the CORSIA perspective, this is the year where we benchmark. So this is the year where our use will be determined for future years.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Okay.

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

A

Copyright © 2001-2021 FactSet CallStreet, LLC

And it is completely voluntary.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Okay.

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

A

But of course, we are fully participating.

Gary Lee Chase
Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

Yeah. Mike, on the first part of your question, the $1.85 to $1.95, it does contemplate a loss at the refinery. It's not as substantial as what we experienced in the first quarter. The fuel curve that we're using is generally what you see out there. Crude in the low 60s and crack's in the $5 to $6 range.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Very helpful. Thanks, both. Thanks, everyone.

Operator: Our next question comes from David Vernon, Bernstein.

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

Q

Good morning, guys. Couple questions for you on the contours of the revenue environment. If we look at kind of where average fares are sort of trending based on some of the ARC data and other sources out there, it looks like the average fare level is lower than we were in 2019. Can you talk to how much of that is sort of mix and loss of business travel demand and what may be a like-for-like leisure yield would look like today versus 2019?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Maybe I'll take a stab at that is – and give you a little bit of a forward look is we have clearly in the month of May we're calling May a transition month because we are putting the middle seats back in which gives us a substantial increase in our capacity levels. And we're expecting that May will come in and with an absolute load factor of 75%.

As we get into June and the more peak travel season and with those seats being absorbed into the marketplace, we believe that we will move from the 70s into the mid-80s. That gives us a little bit of an opportunity to start to manage yield a little bit more than we have in the past. And so structurally, we think we're in a pretty good space in terms of the structure of leisure travel and fares being within the range of where we were in 2019. And so as we head into the summer, we believe that the real pressure on domestic yields will come primarily from the lack of business travel, not from the structure themselves or not for leisure travelers paying significantly less than they did in 2019. Does that help answer your question?

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

Q

Copyright © 2001-2021 FactSet CallStreet, LLC

It does. I guess, and maybe just as a follow-up, as you think about getting the yield management sort of levers to work and the revenue optimization systems, how long do you think, from a domestic standpoint, like, when do you think you'll actually be at a level where you're not just starting that process but you're kind of more at a run rate of getting that full benefit of managing up yields?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, remember that the way the yield curve works is we're always saving for the last minute business traveler who's – there are not that many of them out there this year or there's substantially less than there were for 2019. So you won't see I think the full impact of yield management flow into the revenue equation until a little bit later, probably early fall. So summer is going to be about managing leisure demand, and there's a little less opportunity in terms of saving that last seat for the business customer. So as we move through the year, I think we're going to get, say September, October, to really be in a much better position to manage yield through the traditional RM systems.

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

Q

Great. Thank you.

Operator: Our next question comes from Catherine O'Brien, Goldman Sachs.

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

Q

Good morning. Thanks so much for the time. So a little bit of a shorter term take on Ravi's question earlier. Regarding your plan to get to 75% of 2019 capacity in the fourth quarter, is that the structural maximum based on your fleet and crew retirements? And if we do see that wave of pent-up demand you discussed on your CNBC interview this morning, Ed, would you consider sourcing additional aircraft to be able to add more capacity back sooner, or is that capacity plan that's really in line with your views on the pace of the recovery through year end? I realize there's a couple questions in there. Thank you.

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

A

Thanks, Catie. We certainly have in the very near term for this coming summer limitations to how much demand we can serve. And it is decisions that are taken 6 to 12 months in advance in terms of getting pilots into the right categories. That said, with the significant amount of capacity we're adding through the middle seat being returned to service, I don't think it's going to be a substantial impact on our ability to serve the demand that we see out there.

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

Q

Got it. And then maybe one on the cost outlook. You previously announced expectation that the company can achieve 2019 CASM on just 75% of 2019 ASMs. I guess first, is that still the expectation? And then second, is inflation contemplated in that figure, or is that a like-for-like figure assuming 2019 labor, maintenance costs and the like that typically do see some annual inflation? Thank you.

Copyright © 2001-2021 FactSet CallStreet, LLC

Gary Lee Chase
Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.
A

Catie, that's a number that we expect to hit this year, and I would say I'm really pleased with where we are. I mean, we are on the trajectory. The 6% to 9% as I mentioned that we're achieving in the second quarter, I mentioned the 4 points of rebuild that are included in there. But you heard Glen talk about some of the international flying that we're not doing now. Our international mix is down quite a bit. In particular, we're not flying a lot of the long-haul international network yet. If you look like-for-like and what you're seeing in the second quarter, that's also about a 5-point headwind.

So kudos to the team here. Everybody has really embraced it and they've just done a great job. The whole company really has come together around it. As I mentioned in 2020, it was really about aggressively attacking the cost base. We understand the mission this year is really getting that incremental leverage as the network rebuilds. And you're really seeing it in the second quarter if you take a look at how the ASMs are coming on and the cost incurred to do that. It's really nice operating leverage. So very happy with where we are and fully expect to be on that 2019 number by the time we hit the fourth quarter.

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

Great. Thank you.

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

Catie, one other thing I'd like to add to the point. People probably don't appreciate the fact that for the last couple of quarters, Delta has actually been flying the most scheduled service of anyone out there. So when people worry whether we're were going to have the capacity and the seats in the market to fill it, we're flying more scheduled service because we're blocking so many of the seats on the individual airplanes. As we open that inventory up, we're going to be [ph] right (01:01:20) with anybody in terms of being able to provide service and strength into some of our key hubs and markets domestically. So we're not concerned in the short-term that we're going to be short of aircraft or short staffed.

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

Okay. Great. Thanks for additional color, Ed.

Operator: Our next question comes from Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu
Analyst, Jefferies LLC
Q

Good morning, everyone, and thank you. I guess somewhat related to the last question, how are you thinking about international markets coming back [ph] after you gave (01:01:57) relatively upbeat guidance on international capacity for summer 2021? How are you thinking about that in terms of geographically? Are you seeing any dispersion in bookings so far?

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

Copyright © 2001-2021 FactSet CallStreet, LLC

Well, on the reopening of international borders, I think there's still more – many more questions than are answers. We are focused on trying to get the US/UK travel corridor open. I think that's the most logical, it has the greatest value to us and I think those are the markets where we'll start to see demand grow quickly when we can get that open and we're working with our partners at Virgin from the UK standpoint, as well as across not just the airline industry but within the broader travel and hospitality sector to figure out how we can get it open for summer. And we're making progress in that regard.

When you think about other parts of Europe, there may be some occasional markets open this summer based on southern Mediterranean leisure traffic that people will be interested in, but I don't think you're going to see continental Europe opened in any meaningful way till later in the year. We'll probably unfortunately miss much of the summer for most of continental Europe.

On the other end of the extreme, I think Asia is going to be the long pole in the tent. I think that could take a year or more to start travel back up at scale. When you think about China and Japan and many of the other Pacific markets, the one market that we will be spending a lot of time trying to support is Korea, with our partner at Korean.

And South America is going to be somewhere in the middle. It's really going to be based on the success they have in trying to get the virus under containment in their countries, which we all know right now is a very difficult spot that they sit in. So that's probably late this year into the winter when you'll start to see South America open up.

Sheila Kahyaoglu
Analyst, Jefferies LLC
Q

Thank you for that color. And then, how should we think about progression of yield particularly given that you guys have been successful in doing so? You mentioned summer is all about leisure and limited capacity. So how are you thinking about that progression on yield?

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

I think we're really focused on the unit revenues, and I think we outlined the progression, and of course there's a yield traffic trade-off that we're always monitoring. But when you think about getting 20 to 25 points of unit revenues sequentially between the end of March and June, that's a huge improvement and one that I think is indicative of what we'd be looking at for summer travel. And I outlined earlier, we think that the traffic will be in the mid-80s for peak summer domestic and that presents opportunity to manage yield.

Sheila Kahyaoglu
Analyst, Jefferies LLC
Q

Thank you.

Operator: Our next question comes from Joseph DeNardi, Stifel.

Joseph William DeNardi
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Good morning. Thanks for squeezing me in. Maybe Ed or Gary, just looking at the fleet pre-COVID, you guys had talked about NMA as an option for 757 replacement. I'm wondering if that's still the thinking or maybe kind of what the updated thoughts are with that. Are there new options kind of out there on the used aircraft side that changes

Copyright © 2001-2021 FactSet CallStreet, LLC

the approach or how are you all thinking about that? And maybe, kind of when do you need to order something for that?

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

Hey, Joe. It's Ed. As you probably have seen or read, the NMA is not being actively discussed at Boeing at the present time, but they certainly do have alternatives and new designs that they're thinking about. We're engaged with those conversations. Nothing imminent or on the short horizon here, but we are looking at the longer term opportunities with our friends in Seattle.

Joseph William DeNardi
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Okay. And then, you talked about March co-brand spend being up versus 2019, seems very bullish to me. Can you talk about the longer term target and your ability to get to the $7 billion that you talked about pre-COVID? Can you do better? And then specifically, how sensitive is that to corporate demand or not? It would seem more tied to leisure, but just interested in your thoughts there. Thank you.

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

So clearly, the co-branded cards are an array of purpose including a lot of small and medium sized enterprises where we're seeing a lot of success with the cards right now. And so I think we feel very, very confident that we can get to the $7 billion, and clearly the crisis has put a little delay on that and we're sizing up how significant that delay is and how we can shorten that delay by new and innovative programs to stimulate demand for the card. And I think we feel confident coming out of this that the card performed at or above our expectations of how it would do in a scenario – a recessionary scenario. And so we think a very bright future for that card.

Joseph William DeNardi
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Thank you.

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

Now, we'll go to our final analyst question.

Operator: Our next question comes from Myles Walton, WBS (sic) [UBS] (01:07:15).

Myles Walton
Analyst, UBS Securities LLC
Q

Great. Thanks. Ed, maybe a reflective question. Given the level of government support and assistance the US airline industry has gotten in the last 12 months, does it reframe how you and others in the US will look at subsidization of international carriers? That was clearly a complaint pre-crisis. And is there a potential for almost a turning of the tables as they look at us and the level of support we've gotten in the US?

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

Copyright © 2001-2021 FactSet CallStreet, LLC

That's an interesting question, Myles, and certainly we've depended upon the support from our government here to be able to sustain an essential service for our economy. I don't know what that means in terms of long-term. Clearly, the Middle Eastern subsidies were not there as a support tool for essential service. They were there to grow their economies and grow their businesses, so I think fundamentally the nature of the intervention, not just in the US but around the world, that we've seen over the last year is of a very different character, and we'll see on the other end of this where the international markets land and the level of subsidies that continues.

So, yes, we've been appreciative of that, but no, I don't think it changes the character of what our issues were in the past.

Myles Walton
Analyst, UBS Securities LLC

Q

Okay. And maybe, Glen, the shape of the quarter in June, obviously 1Q was January/February versus March, is April, May, June more linear in the recovery profile?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, clearly the big step up is from April to May as the seats get released, and then June is just sequentially better. So more of a traditional seasonality moving from May to June. And really, it's about the capacity absorption of that middle seat is the story of the second quarter. Clearly, in the first few weeks of that, people have to leave to come back, so there will be some imbalances, and so we see the first two weeks of May being a little bit lighter and then the second two weeks as you get into Memorial Day, and then more traditional peak leisure period should be much stronger.

Myles Walton
Analyst, UBS Securities LLC

Q

Okay. Thanks.

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

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

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

So, Travis, if we could, just repeat the instructions as the members of the media line up in the queue. And just as a reminder, one question and one brief follow-up and we'll try to get to as many of those as we can.

Copyright © 2001-2021 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: Yes, sir. [Operator Instructions] Our first question comes from Leslie Josephs, CNBC.

Leslie Josephs
Reporter, CNBC LLC

Q

On the pilot training issues, how much of that is contributing to your costs? Same question for the maintenance issues you discussed before, the kind of the ramping up. And do you expect to hire pilots at all this year?

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

A

I think, Leslie, we mentioned that in the cost guidance for the second quarter, the rebuild, the maintenance as well as in training is probably in the 3 to 4-point range of the 6% to 9% growth that we're seeing over 2019 levels. So it's a meaningful amount that we're investing to get the business back. We've not made a decision yet with respect to hiring, but I do anticipate if we see the recovery continue to gain strength that before the end of the year we could very well be in the market for both pilot and flight attendant hiring again.

Leslie Josephs
Reporter, CNBC LLC

Q

Thank you.

Operator: Our next question comes from Alison Sider, Wall Street Journal.

Alison Sider
Reporter, The Wall Street Journal, Inc.

Q

Hi. Thanks so much. Yeah. I was wondering if you could talk a little bit about what you might be seeing at some of these leisure destinations that are proving to be really popular. Are there any constraints on any airports that you're looking at or that you've been talking to, or are any of those airports starting to get really crowded?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

We haven't encountered that yet. So we've been able to fly schedules that we wanted to fly to all those leisure destinations.

Alison Sider
Reporter, The Wall Street Journal, Inc.

Q

Got it. And I just am curious if you're thinking about or planning to do any more point to point flying, flights that overfly some of your hubs as some of your competitors have. Is that something that you're looking at ramping up for the summer?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

We have very, very strong performance from our core hubs and our coastal gateways, so we're going to stay focused on them.

Copyright © 2001-2021 FactSet CallStreet, LLC

Alison Sider
Reporter, The Wall Street Journal, Inc.

Q

Thank you.

Operator: The next question comes from Mary Schlangenstein, Bloomberg News.

Mary Schlangenstein
Reporter, Bloomberg News

Q

Thank you very much. We saw Southwest yesterday increased the number of Rapid Reward points that it's going to take to redeem an award. They increased it by about 6%. I'm wondering if you can comment at all on whether that's something that Delta might be considering or we might see you do down the road here.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

No, we're not considering that, and we're very excited about the value we're bringing to customers through our program. And we've actually used the program to stimulate a lot of demand with really some very attractive offers that we've had in market across the US. And hopefully, our frequent flyers are enjoying the benefits associated with those attractive features.

Mary Schlangenstein
Reporter, Bloomberg News

Q

And can you talk about how you've seen the buildup point? I mean, very few people are traveling, especially internationally as we all know. But [indiscernible] (01:13:43) keep up your level of points being built? Was it credit card use? Did that surpass travel, or can you comment on that at all?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, if you think about it, unfortunately there weren't very many people traveling on the airline which is about the majority of the points that we issue. And on the credit card side, clearly that had a much more sustained. So we don't feel that there's a huge imbalance coming out of the pandemic, but difference between what points have been accrued versus what we anticipate being able to supply in the marketplace. And we're pretty excited about people returning to use their points.

Mary Schlangenstein
Reporter, Bloomberg News

Q

Great. Thank you very much.

Operator: Our next question comes from David Slotnick, TPG.

David Slotnick
Reporter, The Points Guy, LLC

Q

Good morning, everyone. Thanks for the call and the question. I want to go back to what we were talking about before. You pointed out the likelihood of a UK/US tunnel is seemingly growing. Just curious if you can shed some light on what kind of demand you're expecting there and how you would plan to capture that demand, especially if

Copyright © 2001-2021 FactSet CallStreet, LLC

it's a last-minute re-opening kind of thing, without being – having aircraft and crews overcommitted to some of the domestic and regional leisure markets.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, clearly what we've seen is, when customers can travel internationally, they are willing to and excited about it. And I think when you think about the places that you can go today whether or not it's the Caribbean or the Latin, we have said that there's more than 100% of the demand restored to those places. So we're over-indexing already versus where we were in 2019.

So as those open, we will be able to supply and as you think about it, there's still a significant number of our places that will be closed. So if the UK were to open, we'd be able to satisfy as many seats as people needed to fill the demand. I think we're excited about that, and we'll see how it goes. But one thing I would have a take away is Americans want to travel and they want to travel abroad.

Operator: Our next question comes from Robert Silk, Travel Weekly.

Robert Silk
Reporter, Travel Weekly

Q

Yeah. Hi. Where is Delta at as far as digital health passport development? And also, how much impact do you see digital health passport has been able to have particularly when you talk about on a global scale interoperably across nations versus simply the vaccines and the end of the pandemic being really what brings back international demand?

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

A

So we're spending a considerable amount of time building an open source platform. As you probably know, there's a lot of different marketing technologies for digital health credentials, which I think is probably the more appropriate, versus passport, which gains a lot of negativity calling them passports.

The challenge we face is every government around the world is looking at their questions uniquely and we need to start looking collectively at answers. So that will be important. For example, as we reopen the US/UK border as to what technology will be available to actually evidence vaccination, if indeed the regulators even require a vaccination. It's not clear that that's been – that that's even going to be a requirement.

So we're working to try to keep as open a framework as possible, working with health providers, technology providers, and our customers to ensure that when they need to show that they've been vaccinated or have been tested, they can do it in as efficient manner as possible.

Robert Silk
Reporter, Travel Weekly

Q

Okay. Thanks.

Operator: Our next question comes from John Biers, AFP. Hello, John, your line is live. If your phone is on mute, please unmute it.

Copyright © 2001-2021 FactSet CallStreet, LLC

John Biers
Reporter, Agence France-Presse

Q

Thank you. Hi. It's John Biers at Agence France-Presse. I wanted to ask, there was the whole controversy about the Georgia election law and there was a – briefly there was a boycott Delta hashtag that went viral and so forth. And you came out strongly against the law after it passed. I wondered if you had seen any impact from customers either positive or negative, and [ph] if you could (01:18:35) discuss whether you think there will be any lasting impact on your brand with the public.

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

A

No, we haven't seen any significant impact from the different discussions that have been going on in Georgia.

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

A

With that, Travis, we have time for one final question before we turn it back over to Ed for his closing comments, please.

Operator: Yes, sir. Our next question comes from Elliott Blackburn, Argus Media.

Elliott Blackburn
Reporter, Argus Media, Inc.

Q

Hi. Good morning. Thanks for making the time for me. I just hoped you could talk a little bit about, especially in light of Delta's decarbonization goals, how does the Trainer Refinery fit into Delta and how are you guys looking at that facility going forward now?

Gary Lee Chase
Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

Well, it fits in as it always has. It's an offset to our exposure to jet cracks, and that's one of the things that we are seeing. We had some questions about impact at the refinery and one of the primary drivers of that – there are two – but the first primary driver is just the fact that jet cracks right now are very low. I mentioned they were in the $5 to $6 range. We've seen them historically in the $15 to $20 range. The other contributor to the near-term performance is there's been a huge escalation in the cost of [ph] rims (01:20:11), which have gone towards the end of the fourth quarter they were in the $0.60 to $0.70 range and they're well north of $1.00 now. That's a market dislocation that we just don't see as sustainable.

Elliott Blackburn
Reporter, Argus Media, Inc.

Q

Given that, especially with the [ph] rim (01:20:30) uncertainty and also with your interest in SAF, are you guys looking at possibly converting that refinery to renewables or would you change operations at that refinery going forward?

Gary Lee Chase
Co-Chief Financial Officer & Senior Vice President-Business Development and Financial Planning, Delta Air Lines, Inc.

A

So, again, I think it's safe to say we're always evaluating all our options. What we're not going to do, though, is let some of these short-term dislocations guide our actions. This is an asset that has contributed a lot to the company

Copyright © 2001-2021 FactSet CallStreet, LLC

over the last – in the time that we've owned it, which is the better part of the last decade. We've got a world-class team there operating it. They're operating it safely. They're operating it efficiently. They're operating it cost effectively. And as I mentioned, it is serving the purpose that we've always had for it, which is an offset to the crack exposure that we have.

Elliott Blackburn

Reporter, Argus Media, Inc.

Q

Thanks very much.

Tim Mapes

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

With that, we'll turn it over to Ed for final closing comments. And thank you, everybody, for your participation today.

Edward Herman Bastian

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

Yeah. So I'd like to thank you all for your participation and joining us this morning. As we sum up the call, it's clear that at Delta we've reached an important inflection point as we navigate the pandemic and move into the recovery phase of 2021. As the pace of vaccinations accelerate, our customers are reclaiming their lives. Air travel will be central as people reconnect with loved ones and business colleagues, replacing their screens with real human touch points as they venture out of their homes and communities to experience the world again.

Looking forward, with customer demand steadily rising, there is a lot of runway ahead of us as we open our middle seats to bookings and corporate and international begin to recover in earnest. And once the recovery of those segments are underway, we expect they'll prove to be a powerful cash and profitability lever to get our business back to where we need it to be. The strength of our balance sheet has been critical and I'm excited that we're shifting our focus to de-levering, which will also be an important accelerator in our recovery.

So with all of this, I have great confidence that Delta is well positioned to lead the industry in the months and years ahead. I thank all of the people at Delta for your tremendous job, particularly over these last 12 months, in positioning us for success, and we look forward to welcome all of you back aboard our flights in the days and months to come. Thank you, all.

Operator: Thank you, ladies and gentlemen. This concludes today's teleconference. You may now disconnect.

Copyright © 2001-2021 FactSet CallStreet, LLC

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.

Copyright © 2001-2021 FactSet CallStreet, LLC