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Delta Air Lines, Inc. (DAL)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Delta Air Lines' March Quarter 2022 Financial Results Conference Call. My name is April, and I will be your coordinator. At this time, all participants are in a listen-only mode until we conduct the question-and-answer session following today's presentation. As a reminder, today's call is being recorded.

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

Julie Stewart

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

Thank you, April, and good morning, everyone. Thank you for joining us for our March Quarter of 2022 Earnings Call. Joining us from Atlanta today are our 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, fleet, and our balance sheet. After the prepared remarks, we'll take analyst questions. Please 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'll 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.

Well, thank you, Julie. Good morning, everyone. We appreciate you joining us today. Before we begin, I want to acknowledge the humanitarian crisis in Ukraine. We are proud to have raised the Ukrainian flag at our global headquarters in Atlanta in solidarity with the people of Ukraine. At Delta, we've provided meaningful financial and operational support to assist the people of the region in connection with our partnership through the international Red Cross.

This morning, we reported March quarter results, marking another important step forward in our recovery. We generated $200 million of free cash flow in the quarter and a 10% operating margin in the month of March. Our revenue recovery in the March quarter reached 79% of 2019 levels, 5 points ahead of the midpoint of our initial guidance. As expected, January and February generated operating losses. As Omicron receded, we saw a surge in demand, supporting an inflection to a solid profit in the month of March.

Delta continues to provide best-in-class operational, customer, and financial results in a dynamic environment. This results from the dedication, professionalism, and hard work of Delta's more than 75,000 people worldwide. Restoring capacity during a period of rapid demand recovery has proven challenging for all of us in the industry, but Delta people continue to lead the way.

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I want to thank our customers for their patience and understanding as we navigate the challenges of ramping up operations into the peak travel period. And I know our teams have been working incredibly hard and I want to thank all of them for what they're doing, for our customers, and for each other. We rewarded our people with a special profit-sharing payout in February based on the second half of 2021 profitability, and announced a 4% pay increase that's going to be effective May 1st. These actions align with Delta's long-standing values of shared success with our people.

With the rebound in demand, the month of March was the best cash sales month in Delta's history, outpacing our prior record from spring of 2019 despite offering 10% fewer seats. In March, we had our first month in two years of positive unit revenue compared to 2019, and we achieved record co-brand acquisitions, co-brand spend, and cargo revenue.

Domestic consumer revenues are exceeding 2019 levels and the recovery in business travel. Revenue has accelerated as offices reopen and business travelers rebuild face-to-face relationships. Demand for long-haul international is growing as travel restrictions lift led by the Transatlantic. To-date, we have not seen an impact to travel demand from the conflict in Ukraine, but we of course are monitoring this closely. Nearly all European countries have now removed entry testing requirements for vaccinated customers. We continue to join the rest of the US travel industry in urging the US government to lift predeparture testing requirements.

As we prepare for the peak summer season, we continue to be very focused on operational readiness. With 4,000 new members joining the Delta team already this year, we feel good about our staffing and our ability to meet demand as we continue to restore the airline. Our customers are seeing benefits of our ongoing investments to improve the travel experience. This spring, we are opening new modernized terminals in Los Angeles, LaGuardia, and Seattle. These generational investments enhance Delta's already leading positions in key hubs and provide an elevated ground experience for our customers.

We continue to upgrade our fleet, recently taking delivery of our first Airbus 321neo (sic) [A321neo]. This state-of-the-art aircraft is scheduled to begin service May 20th from Boston to San Francisco and features our new domestic first class seat design. With nearly one-third of the seats in premium cabins and improved fuel efficiency, these will be the best aircraft we fly for our customers and generate the highest returns for our owners. Our strategic decision to accelerate investments in our airports, our fleet, and our technology during the pandemic will benefit Delta and our customers for years to come.

As COVID shifts from a pandemic to a manageable seasonal virus, there are clear signs of pent-up demand for travel and experiences as consumers' spending shifts from goods to services and experiences, travel restrictions lift, and business travelers continue to return to the skies. Against this improving backdrop, we are building momentum in the June quarter with expectations for a 12% to 14% operating margin and strong free cash flow despite higher fuel prices. Our revenue recovery is expected to reach 93% to 97% of 2019 levels, with double-digit unit revenue improvement.

We are successfully recapturing a significant portion of the run-up in fuel. This is occurring almost in real-time, given the strong demand environment, as well as Delta's growing brand preference, our premium product focus, and measured approach to capacity. While we are confident in summer demand and the capacity plans that we have in place, given macro uncertainty, we will remain nimble on capacity for the second half of the year and continue to prioritize sustained profitability.

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I'd like to pause and put that Q2 guidance into perspective. At 12% to 14% operating profit, we are only 4 points behind our June 2019 quarterly operating margin, and that's despite fuel prices being up 50% from that time period and our capacity only 85% restored. So, we are greatly encouraged by the momentum we are seeing, and we remain confident in our outlook for meaningful full year profit for 2022.

As we take note of these achievements, I'm pleased with the progress we're making across the three core priorities we laid out at Capital Markets Day last December. First, we continue to fortify our trusted consumer brand, demonstrated by loyalty and record engagement with our customers. The strength of our brand has never been greater and has been recognized by The Wall Street Journal, Fortune, Business Travel News, and many, many others. And our customers are taking note that our Net Promoter Score's consistently above 2019 coming out of the pandemic. We intend to build on the momentum we gained over the last two years.

Second, we are restoring our financial performance. As revenue improves and we regain a competitive cost structure, we're returning to profitability, generating strong free cash flow, and making progress on debt repayment. And our third priority is building a better future for our people and our planet, including our ongoing commitment to creating a sustainable future for aviation. We are continuing to invest in the physical, emotional, and financial well-being of our people, while prioritizing diversity, equity, and inclusion at all levels of the company.

Our mission of connecting the world has never been more important than it is today, and I'm as confident as ever that we'll achieve our ambition for our leading consumer brand to transcend the industry and deliver financial outcomes that create significant and resilient long-term value for all of our stakeholders. It's been an encouraging period of recovery and it's exciting to see our customers returning to the skies.

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

Glen William Hauenstein

President, Delta Air Lines, Inc.

Thank you, Ed, and good morning, everyone. With robust demand, growing preference to the Delta brand, and quick actions to recapture higher fuel prices, we achieved significant milestones in the month of March and have momentum as we head into the summer. None of this would be possible without our people, and I couldn't be prouder of the Delta team and the results that they are delivering. A huge thank you to all.

During the March quarter, we generated $8.2 billion of revenue. This was approximately $500 million higher than our initial guidance in January, resulting in a revenue recovery of 79% compared to 2019. We continue to execute a disciplined approach to keeping capacity in line with demand. For the quarter, capacity was 83% restored versus 2019 and at the low end of our initial guide and below the industry.

The quarter was a tale of two halves. While Omicron depressed demand in the January and early February, we saw an unparalleled demand recovery from President's Day on. Our revenue recovery versus 2019 progressed from 70% in January to approximately 80% in February to 85% in March, with momentum building into April.

March was the first month in two years of positive unit revenue compared to 2019 with PRASM up 1%; and TRASM up 3%. Premium products once again led the way with domestic premium revenue approximately 100% restored to March of 2019 levels. We also achieved our highest-ever monthly cash sales, as Ed mentioned, our highest direct sales, highest co-brand acquisitions, highest co-brand spend, and highest cargo revenue in the month of March.

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Business travel volumes reached the highest post-pandemic levels we've seen, and importantly, in March corporate fares inflected to positive versus 2019 for the first time. This drove an acceleration in the recovery of business revenues with improvement in both corporate contracted customers, and small and medium-size enterprises. As we exited the quarter, domestic corporate sales improved to approximately 70% recovered versus 2019, and our recent survey results show that 90% of our corporate accounts anticipate travel volumes to increase in the June quarter as offices continue to reopen.

Additionally, we are seeing more corporates implement changes to travel policies. For example, domestic travel restrictions have been completely removed for all of our top corporate accounts; and, increasingly, corporates are allowing upsells to premium cabins and refundable products.

Strength in cash sales and seasonality drove a $2.8 billion sequential increase in our air traffic liability. The increase in advanced ticket sales outpaced normal seasonal trends, resulting in an ATL balance of $9.1 billion at the end of March, up from $6.6 billion in March of 2019. We expect the ATL will continue to build in the June quarter, albeit at a slower rate than what we saw in the March quarter.

For the June quarter, we expect revenue recovery versus 2019, as Ed mentioned, to improve to 93% to 97% on 84% capacity restoration. This reflects a low double-digit TRASM growth versus 2019 with all entities expected to post positive unit revenues compared to 2019 except for the Pacific. We expect April yields to be up double-digits compared to 2019 with further strengthening as we approach June, positioning us to successfully recapture a significant portion of the higher fuel prices in the June quarter.

Geographically, domestic and Latin revenues continue to lead the recovery, and fewer restrictions in major international markets are unlocking demand for long-haul travel. We expect a very strong summer in the transatlantic based on demand trends; and, in the Pacific, we are encouraged by the opening of Australia, South Korea, and other countries in Southeast Asia.

When countries reopen, we see a rapid restoration of demand. For example, following South Korea's border opening on April 1st, we expect load factors to improve from the low 50s in March to the low 90s by June. We expect that heavily-restricted regions such as China and Japan will continue to put pressure on overall Pacific unit revenues until borders fully reopen.

A few months ago at Capital Markets Day, we outlined three commercial strategy pillars, and we've made strong progress across each of these with (sic) [for the] start of this year. First, our premium products continued to lead the recovery, and the introduction of Delta Premium Select to the transatlantic marketplace has been a success with early returns far exceeding our expectations. By this summer, we will have expanded Delta DPS to 80% of our transatlantic flights.

Over the next few years, we expect premium seat growth to continue to outpace main cabin, and we're confident in the consumer shift towards higher-quality products is here to stay. To-date, premium recovery has been led by consumer, and we see further upside as more and more business travelers return to the skies.

Next, growing loyalty is evident across several key metrics. Our Net Promoter Score remains above 2019 even as volumes increase; and, during quarter, we acquired a record number of new SkyMiles members, and our co-brand spend continues to far outpace 2019, up 39% in the month of March.

Loyalty is an important driver of our third pillar, increasing our revenue diversification. Other revenue was fully recovered to 2019 levels during the March quarter, led by loyalty and cargo. Renumeration (sic) [Remuneration]

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from American Express during quarter of $1.2 billion was 25% higher than 2019, a new quarterly record that keeps us on track for our full year goal of more than $5 billion in renumeration (sic) [remuneration].

Cargo had an exceptional quarter, up 51% compared to 2019, with the month of March marking our best-ever cargo month in the company's history. MRO revenues were 22% below 2019 as supply chain issues slowed our engine throughput. MRO margins remain healthy and we are excited to scale this business over the next few years as the installed base of next generation engines continues to grow.

By leveraging the Delta platform, we are further diversifying our revenue mix. In the March quarter, premium products and non-ticket revenue sources generated 58% of total revenue, up 3 points from the same period in 2019. This improvement gives us a high level of confidence in achieving our goal of more than 60% by 2024 as we laid out in Capital Markets Day.

In closing, Delta has emerged in a stronger relative position by staying true to our core competitive strengths and our commitment to our customers and employees. And as the final phase of demand recovery takes hold and preference for our brand continues to grow, I am more confident than ever in Delta's path to exceed 2019 financial performance by 2024.

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

Daniel C. Janki

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

Great. Thank you, Glen, and good morning, everyone. Starting with the highlights of the March quarter, our operating loss was $793 million was better than our expectation. As anticipated, we saw losses in January and February due to Omicron and seasonal weakness, and we inflected to a solid profit in March with a 9.4% adjusted operating margin.

Fuel expense was $2.1 billion and increased 32% sequentially from the December quarter. Fuel price per gallon averaged $2.79 for the quarter. This included a $0.07 per gallon benefit from the refinery. Nonfuel costs rose 6% sequentially with nonfuel CASM up 15% compared to 2019 on 17% less capacity.

We generated operating cash flow of $1.8 billion. We reinvested $1.6 billion into the business, resulting in free cash flow of $200 million. Delivering a profit in the month of March and positive cash flow for the quarter were important achievements, especially considering the impact of Omicron and higher fuel prices.

We ended the quarter with adjusted net debt of $20.9 billion. This was more than $1 billion better than our initial expectations due to strength in cash receipts that Ed and Glen spoke to. We repaid $1.4 billion of gross debt, ending March with nearly $13 billion of liquidity.

Now, turning to the outlook, we expect the June quarter nonfuel CASM to be up 17% compared to 2019. The 2-point increase from the March quarter is driven by higher selling-related costs on expected 45% sequential increase in revenue and our anticipated step-up in maintenance costs on a similar level of capacity restoration. With the first half nonfuel CASM in the mid-teens, which is 2 points higher than planned on lower capacity, we expect to be closer to the high end of the full range of up 7% to 10%, implying the second half will improve up to the mid-single digits.

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This improvement is driven by continued capacity restoration from the low- to mid-80s in the first half to the mid-90s by the end of the year. The resulting scale and efficiency will drive the step-function change in our nonfuel CASM.

Now, let me give you a little context on how we get this improvement. The recovery in international travel enables us to shift our widebodies from our domestic to our international where we get better efficiency from gauge and stage and improve staffing. Narrowbody utilization will improve with a 10-point increase expected by the end of the year, giving us combined benefit of higher capacity and more efficient allocation of our fleet.

Further, as we fill out our schedules and we create greater stability in our operations with more consistency and depth in both the domestic and the international network, this is enabling efficiency gains in our facilities and productivity of our workforce. We remain confident in our multi-year cost framework laid out at Capital Markets Day.

Regaining the competitive cost structure is critical to our success. At the same time, we will continue to remain nimble on capacity as we manage for profitability in this higher fuel price environment. On fuel for the June quarter, we expect an adjusted fuel price per gallon of $3.20 to $3.35. This includes a $0.20 benefit from the refinery, and these are based on the forward curves as of last Friday. Our Monroe refinery provides a unique benefit, acting as a partial hedge to elevated cracks. This is especially true with New York Harbor jet cracks where our production at Monroe provides 100% offset.

Based on our June quarter outlook for revenue and costs, we expect operating margins to be between 12% and 14%. With the expectations for solid profitability and further build in our air traffic liability, we expect to generate another quarter of positive free cash flow after investing $1.2 billion in the business, and expect to end the June quarter with adjusted net debt of approximately $20 billion.

As we achieve sustained cash generation, we will continue to opportunistically manage our balance sheet, reducing debt to return to investment-grade metrics and making progress towards our $15 billion adjusted net debt target by the end of 2024.

For the year, our CapEx outlook of $6 billion is unchanged, with our reinvestment primarily driven by the continued renewal of our fleet. We expect to take delivery of approximately 70 new and gently-used aircraft this year, including 26 A321neos. This large-gauge aircraft fits well with our upgauging strategy and will be our most fuel-efficient aircraft in our fleet with the lowest seat cost.

We also continue to accept delivery of new A220s, A330-900s and A350-900s. These aircraft are expected to contribute to the full restoration of our capacity and to our goal of using at least 7% (sic) [6%] less fuel per ASM in 2022 when compared to 2019. In addition to the financial benefits, improved efficiency is an important step in our journey to a more sustainable future.

During the quarter, we announced actions to scale and advance sustainable fuels. We signed an offtake agreement with Gevo for approximately 75 million gallons of SAF annually over seven years. We anticipate to start in mid-2026, progressing us towards our 2030 10% SAF commitment. We also announced a collaboration with Airbus on the research and development of hydrogen-powered aircraft and the infrastructure it requires.

So in closing, we are executing against our priorities laid out at Capital Markets Day, and I'm encouraged by the momentum in our financial recovery. I would sincerely like to thank the Delta people for everything they do every day. Our people will always be our most important competitive advantage.

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

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

Thanks, Dan. April, can you please remind the analysts how to queue up for a question and then go to our first question?

QUESTION AND ANSWER SECTION

Operator: Absolutely. [Operator Instructions] And we'll first hear from Mike Linenberg of Deutsche Bank.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Oh, hey. Good morning, everyone. Fantastic outlook. I guess, I want to focus on capacity, so my question is to Glen. Look, you operated 83% of 2019 in the March quarter, and things have obviously gotten a lot better for the June quarter. I mean, I just sort of think about the Omicron impact in January and February, it was pretty impactful, and yet, we're just moving up 1 point sequentially, 83% to 84%.

So I guess, Glen, is this as much driven by the fact that it's all about maintaining operational reliability and really just running the best schedule that there is, and that will drive not just the revenue premium but overall revenue and less re-accommodation costs? And I guess as a sort of corollary to that question, are you watching what's going on over in Europe and seeing how several European carriers are being forced to cancel because of the spread of this other variant, and so you guys want to make sure that you're just well-prepared and well-reserved?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think it's all of the above. I think you asked and answered your own question there. You did a great job of articulating our viewpoint as the priority is to operate reliably, and the other priority is to not get ahead of demand. So, this is a very recent demand increase that we've seen. The uptick just started about six to eight weeks ago in late February and March. And so, as we get through the year if these demand trends continue, we have the opportunity to take another take-up or we could pivot in a different direction if warranted.

But I think Ed has made it very clear to us that being nimble until we get to the very end of this is the key to our success. And I think we've done a very good job as a company being nimble in our offering throughout the pandemic and really been closest to actual demand if you look back at what demand was.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Great. We and investors love the discipline. Thanks.

Operator: Next, we'll hear from Catherine O'Brien of Goldman Sachs.

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

Q

Hey, good morning, everyone. Thanks so much for the time. So maybe first a bit of a follow-up to Mike's question. I've been hearing from some of your peers and other industry folks that labor supplies continue to weigh down on the ability to ramp-up capacity. And as we enter 2Q, labor might be actually a little bit tighter than we thought at the beginning of the year, given Omicron driven training delays and higher attrition rates. I guess, first, are you seeing the same at Delta, and if so, did that impact your 2Q capacity plans versus your plans back at Investor Day at all? Thanks.

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

A

Hi, Katie. This is Ed. I'll take that. We've been at this for the better part of the last 18 months, getting ahead of it. And we hired over 10,000 people last year. We've hired another 4,000 people already this year. So, we've hired 15,000 people and we are largely where we need to be on staffing. Yes, pilots have a training pipeline and it will take some time before pilots are fully in-category and where we want them positioned. It will probably take another year or two.

Flight attendants, likewise. We're hiring flight attendants and there's a queue as to how many people we can put through the training pipeline. But that's not where the real congestion is. It's in the airports, it's on the ground experience, it's making sure we have our suppliers ready and positioned.

One thing we did last year, really, almost two years ago now, is we took over a lot of the functions at the airport that had been outsourced; catering, cleaning, wheelchair pushing. And we have Delta people in position and we've hired Delta people to do it to make certain that we get the best experience for our customers. And, you know what, not only are our people doing a much better job at it, we're also doing it much more efficiently and effectively and customers are appreciating it.

So, the labor situation, you're right, has changed pretty dramatically over the course of the last two years. We've been out ahead and that's why you look at our operational stats over that timeframe, we've led the industry consistently.

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

Q

That's great. And maybe just a quick one for Glen. The Amex remuneration has been a bright spot again this quarter, but would I be correct to think maybe Omicron created some noise at the start of the Q, and maybe we see that accelerate even further as we move through the year? I know you just reiterated your goal that you said at Investor Day for $5 billion-plus contribution this year, but if we do see an acceleration from 1Q, we might see some upside to that? And thanks again for all the time. Congrats.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Yeah, I think we're always hopeful for upside. I think what we're excited about when we dissect the spend is that you can really see the spend moving from goods to services, and particularly increases in airline spend on the card. So, those are very encouraging statistics for us to continue to monitor as we move through the year. But I think you're really seeing that as the movement away from goods and the movement towards experiences and services.

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Operator: Anything further, Catherine?

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

Q

Oh, that was it for me. Thank you so much for the time.

Operator: Next, we'll hear from Brandon Oglenski of Barclays.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Hey, good morning, and thanks for taking the question. Glen, you provided an update, I think you said domestic corporate travel 70% recovered and international 50% in March. Can you just give us some insight into how those bookings are shaping up here early in 2Q. And then, second to this question, how much do you think the international testing requirement is holding back trips across the Atlantic right now?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

First, I'll answer the second first. I think that is the next leg up that we see in the demand set and we think we have very – quite robust demand, but there certainly is, in the minds of some consumers, some hesitancy to go abroad and risk being caught not being able to get back because of catching COVID. So, hopefully we can see that roll back in the next few weeks here. I think we are hearing good signs from Washington. We'll see hopefully that comes out here and that would be one of the final things that we would need in place for us to really say that COVID is in our rearview mirror. So hopefully that happens.

And then your second question was what? I'm sorry.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

You were talking about I think domestic corporate travel at about 70%, international at about 50% in March. Could you give us any insights into how that's improving in 2Q?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Absolutely. And I think the one that we're really excited about right now is transatlantic business which for the first time last week crossed domestic restoration in terms of volume. And so, that was a big improvement from where we had been just six or eight weeks ago. So, it does look like transatlantic business is returning robustly, and that's very exciting for us.

And I think what we're also excited about is this survey we just got back that said 90% expect to travel more in 2Q than they did in 1Q. So, I think when we report to you next quarter, we'll see both of those numbers continuing to move up. And of course the big question mark is when will Japan and China reopen, and that's probably not in this next quarter, and hopefully sometime this fall, but that's a little bit further out.

What I would say is when these countries are open, business returns quickly. So, to Korea, to Australia, we've seen very rapid increases in business demand as those countries have opened.

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Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: Next, we'll hear from Helane Becker of Cowen.

Helane Becker
Analyst, Cowen and Company LLC

Q

Thanks very much, operator. Thank you for the time, everybody. So, just a couple of questions on the cost side of the equation. I know there's not a lot you can do about fuel, but on the labor cost side, to attract people, I mean, I think, Ed, you said you're not going to have to hire that many more people this year. But to retain people, are you finding that you have to raise salaries more than the 4% that you've already slated for May 1st?

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

A

Hi, Helane. No, we're not. One of the great things about our brand is, throughout this period, we've been able to attract and bring in the 15,000 people I talked about with fundamentally not having to change the scales. We've used in select high-price markets some sign-on bonuses very judiciously. But fundamentally, no, our scales are intact, and the 4% increase May 1st helps.

Helane Becker
Analyst, Cowen and Company LLC

Q

That's very helpful. Thank you. And then my other question is kind of unrelated, but I think I feel like it was Glen who mentioned that you saw a record cargo number in March, I want to say. So, I'm thinking about what you're carrying and what you're seeing in air freight rates and why you think it was so strong, and whether that can continue into the second quarter and if it's meaningful. Like, 18 questions in there, Glen.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Right. Well, clearly, we know about supply chain is trying to catch up, and clearly, air freight has been one of the ways to relieve that pressure. And so we've seen air freight rates continue to move in the favorable direction. I'd say though, the one caution I have right now is the closure of China. And China has been of course a very strong, strong market for us in the cargo area. And with Shanghai closed and we're literally not flying to China right now until Shanghai reopens. So, that's going to weigh a little bit on cargo revenues as we move forward.

But as that does reopen, then you can see that pent-up demand for goods that need to get shipped out of China and potentially even another leg up. So, I'd say we're in a temporary pause right now because of the issues in China, but I expect as China comes back online – and I don't know that exact date, I don't think anybody does – but we could see an even stronger demand coming out of that.

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

A

Off a good year last year.

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Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Yeah. Off a great year last year.

Helane Becker
Analyst, Cowen and Company LLC

Q

That's helpful. Thanks, team. Very helpful.

Operator: Conor Cunningham, MKM Partners.

Conor T. Cunningham
Analyst, MKM Partners LLC

Q

Hi, everyone. Thanks for the time. You've really invested in the operations over the years and just the customer experience in general. Maybe this is a follow-up to what Mike was getting to. Just, there's been a lot of meltdowns around you, and I'm just curious on how you as Delta go after those customers that have maybe been displaced by another airline? I'm thinking about like Boston this past weekend, just curious on how you attract them and make them permanent Delta passengers?

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

A

Well, thanks, Conor. I think, again, throughout the pandemic, we have, as Glen said, been the most disciplined in the return of supply and probably have a better match to demand than anyone else. And it's been interesting to watch because a lot of airlines have taken different approaches over the course of the last two years. Fundamentally, our commitment, our promise to our customers is to give them a great, safe, on-time, reliable experience; and we continue to invest more and more in the premium categories of our aircraft, of our service elements, and the quality of the service that our people drive. And it speaks for itself.

We take very humbly the various awards we've won over the course of the last couple years. I think we've expanded our leadership during COVID. We had the most to lose and I think we gained the most over that timeframe, candidly. And [indiscernible] (00:37:36) we've got some really nice momentum as we're bringing and opening new airports. We've got the new LaGuardia opening in June which you all will be very pleased to be the new LAX that we cut the ribbon on with the mayor a couple weeks ago, and the new international facility in Seattle and continued expansions in Salt Lake and improvements in Minneapolis, many other places. So we're going after the customer experience on the ground, as well as in the air with a heightened focus on premium. That's about all we can say.

Operator: Myles Walton, UBS.

Myles Walton
Analyst, UBS Securities LLC

Q

Thanks. Good morning. There are some concerns about looking forward potential consumer softening through the course of the year, and obviously you're not seeing that in 2Q. But I was wondering, Ed, if you're looking for signals of softening in your business, do you think it would start to show up first in a lower uptake of premium products, show up first in maybe leisure routes, demand drying up there, or somewhere else? Maybe you can just talk to what you'd look for in your watch tower.

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

A

Well, you're right, Myles, we're not seeing it, but at the same time we acknowledge our crystal ball is only as good as the next 60 to 90 days whatever we have in terms of kind of a decent build of bookings on hand. And certainly, the next 60 to 90 days look good as evidenced by our guidance, so we expect a very strong summer coming through that. Consumer, the health of the consumer is something we spend a lot of time talking about and watching and looking at, but there's other elements at play here with respect to the consumer. One is that consumers have not been traveling over the last two years.

So, this is a category that they are prioritizing as they're looking at where their spend is going into travel. You see it in credit card data, you see it all across-the-board, and this is not just true at Delta, this is true within our industry. Hotels are seeing it, rental car companies, et cetera. People are looking for experiences. You're seeing a pretty significant shift coming out of goods and retail and to experiences and services, and that's not just the fact that people haven't traveled; they've also saved money as they've accumulated some meaningful cash and discretionary income for what they have been doing over the last couple years.

So we feel pretty strongly that we're going to continue to see the strong demand extend beyond just the normal summer surge, but into the fall. At the same time, we're watching it. I think the place we'd be looking for is pricing resistance. When we start to see pricing particularly with high input costs like fuel starting to challenge our demand and supply assumptions, then we'll take the next step. But for now, we're feeling cautiously bullish about the summer.

Myles Walton
Analyst, UBS Securities LLC

Q

Thanks. Great. Thank you.

Operator: Next, we'll hear from Duane Pfennigwerth of Evercore.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Hey, thanks. Good morning. Glen, if I could, on your commentary on yields improving sequentially through the balance of 2Q, I assume that is based on what you're seeing in advanced book yields. Can you just comment on like when you add it all up, not just advanced book yields, but also bookings, how would you characterize kind of your visibility into May-June versus a normal time? Is it also running ahead? I mean, it's not as snarky as the question as it sounds. I guess my question is, as you offer higher fares out into the future, are you seeing any pushback or are you seeing hesitancy?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, I'd say absolutely not. As a matter of fact, we've been trying to catch up to this robust demand, and our quest in the revenue management team who I think has done an excellent job in managing this surge is to not run out of seats as we get towards the peak summer travel season. So we want to have reasonably-priced offers in-market right up to day of departure and we don't want to be running out of seats.

Having said that, we are running ahead in terms of absolute bookings domestically in the rest of the quarter, and so we're actively managing that down a little bit so that we don't run out as we get very close to departure date.

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So, I hope that gives you some color as to what we're looking at right now, but we're right now in the mode of trading traffic for yield.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

That's helpful. And then I don't know if we've seen enough of kind of an off-peak environment yet here in 2Q, but can you contrast for us how are you seeing sort of peak yield improvement relative to 2019 versus off-peak yield improvement? Are you starting to see any, I guess, torque on off-peak? Thank you.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

No, as a matter of fact, when you look at where we're booked ahead, we have had the offer slightly ahead in peak days and peak travel periods versus off-peak. And we've seen the consumer demand that you would expect; travelers moving into the off-peak period, but at higher yields. So, really, really encouraged by what we see as we head into late spring and summer and we'll see how it actually materializes. But everything we see right now points to a very, very robust travel through the remainder of spring and summer.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Thank you, Glen.

Operator: Next, we'll hear from Jamie Baker of JPMorgan.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Yes. Good morning. Glen, a question on premium revenue. What percent is sold at the initial time of ticketing as opposed to during the window between ticketing and departure, and how has that changed over time?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

We have moved more and more to ticketing, time of ticketing. So I'd say, and I don't have these numbers, I can follow-up with you, but my guess is that they're around 70% is done at time of ticketing and about 30% post-purchase.

Operator: Andrew Didora, Bank of America. Andrew, your line is open. If you can release your mute function.

Andrew G. Didora
Analyst, BofA Securities, Inc.

Q

Hi. Can you hear me?

Operator: We can hear you now.

Andrew G. Didora
Analyst, BofA Securities, Inc.

Q

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Glen, I know it's really early on in the corporate travel recovery, but we've been hearing from some hotel companies that the corporate booking curve has just shortened tremendously. I think they've been mentioning under two weeks versus normally 30 to 45 days. Are you seeing a similar shortening in the corporate booking curve? And I guess are you beginning to see any other changes to the way corporates behave here as the recovery unfolds? Thanks.

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

Yeah, I would not say that we're seeing that same phenomenon. Our corporate bookings seems outside of 21 days now seems to be trending similarly to inside of 21. So, I'd say we're seeing very normal booking curves in terms of business. And I think what we're seeing, and this is more anecdotally than you see in the type of transaction you have, but people's reason for traveling for business is slightly different. We're seeing an increase in meetings...

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

Yeah.

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

...an increase in groups, and I think that may be why hotels are seeing further out APs because it's harder to get big blocks.

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

Yeah.

Andrew G. Didora Q
Analyst, BofA Securities, Inc.

Thank you.

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

April, can we please go to the next question?

Operator: Savi Syth of Raymond James.

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

Hey, good morning, everyone. Just a quick follow-up to I think Brandon's question earlier. So just if you look at the 2Q guide, what's the level of demand recovery that's reflected in that guide, business demand?

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

The business demand is in the low-70s.

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Savanthi Syth
Analyst, Raymond James & Associates, Inc.

Q

Okay. Got it. And then just switching a little bit to the regional airline segment. You started a transition in that segment dating back to I think 2012 and it kind of accelerated here during COVID. I'm just curious if you kind of view the pilot supply issues the regional industry are facing. Are those transitory, or is there a need to revisit the regional airline strategy at Delta?

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

A

Thanks, Savi. Yes, there's certainly a challenge to the business model that the regionals are experiencing, and you're right, we've moved pretty aggressively to transition out of the lower category, the 50-seat regional jet over the last 10 years. So as a result of that, we have less lift coming out of the regional in terms of aggregate shells and pilot requirements and staffing obligations than some of our other competitors in the industry. We're down to less than 150 seat regionals, probably meaningfully less at the present time, and we don't intend to grow that. It's going to continue to drop.

It's a reset period. I think everyone is dealing with their partners in a certain way. Certainly, it's driving up cost on the pilot side to keep the pilots in the regional category until we're ready to bring them up to the mainlines. But fundamentally, it's still a good business for us. We've got a considerable investment in it, and we're going to do our best to continue to grow it, but not at the lower category. We're happy with our 76-seat product, and to the extent we can get more of those, we would.

Operator: Next, we'll hear from David Vernon of Bernstein.

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

Q

Hey, good afternoon – or good morning. Dan, appreciate the color on the incremental cost guidance. I think we can back into what that number looks like in absolute dollar terms. Could you give us some sense of what are the risks – upside, downside risks to achieving that cost guidance? Do we need international to really kind of reopen on some set schedule, or do you feel pretty good about where we're going to be?

And then as a follow-up, as you think about 2022 to 2023, given that we've hired ahead as Ed had mentioned, resourcing the network, bringing the people in, getting the training up, how should we think about that incremental cost in absolute dollars for the next 5% of capacity relative to what we're seeing in the back half of this year? Not looking for guidance, just trying to get a sense for how we should be thinking about that cost build from 2022 to 2023 given the hiring ahead of this demand recovery that we've seen at Delta.

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

A

Yeah. So, when you think about it related to it, the biggest risk, when you think about the step-up and step-function change that we talked about an opportunity ultimately comes back to capacity, and it's the ASMs that we fly. And so that is the – and you saw that as we talk about the first half, we're 2 points lower on capacity and that translates us to being higher than where we thought we'd be.

So put that out there, that's the biggest element of it. That's two-thirds or three-quarters of it. The other quarter of it is driving the efficiency. It's the efficiency in the aircraft, it's the efficiency in the airports and the facilities, and the

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people. But the biggest one is related to the restoration of ASMs. We're building this to be back-restored and it's a progression of that.

So, we think we're – when we said the multi-year framework, if you go back to that Capital Markets, we said where we'd be this year would be 7% to 10%, we'd be low- to mid-single digits as it relates to 2023, and then very low-single digits as it relates to 2024, that again has you stepping up to being 100% restored in that period of time. So, you really have at that point in time all that transition expense that we've talked about now has been sunset. You pull-through the restoration, now you're getting the real benefit of running it at 100%.

Operator: Ravi Shanker of Morgan Stanley.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Good morning, everyone. Just a follow-up on the previous commentary on the 1Q to 2Q transition. Obviously, your 2Q guidance is pretty strong. Is it fair to say that the kind of extreme peaks that we saw in the back half of 2021 juxtaposed by extreme troughs between it, kind of that is in the past. So, when you think of a spring break to summer travel transition you're not going to see as much of a trough in between those peaks? Is that because of corporate or, kind of, what does that mean for your network reliability and your ability to run the airline?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, I think one of the issues is moving out of COVID. We probably will not run the peaks as peaky as we had in the past in order to create more efficiency in the network on a year-round basis, and I think we've instituted a lot of plans in that space to try and ease out some of the peakiness of our operational schedules.

And I'll give you an example, is historically, pre-COVID, we operated at about 20% more widebodies in the summer than we did in the winter. So, when you think about the way that we utilized our pilots or our flight attendants in those categories, that they had very easy rosters in the off-peak and very tense rosters in the peak. And what we've been really working on during COVID is to come out of this with a more de-seasonalized network so we can improve the asset utilization, flatten out the peaks, and build up on the troughs. And we spent a lot of time thinking about that and creating it. And I think as we get to the fall and winter schedules, you'll see how we've dealt with that. I don't want to talk about that right now in detail, but I think those are the real things that we're looking at doing.

Operator: Next, we'll hear from Sheila Kahyaoglu of Jefferies.

Sheila Kahyaoglu
Analyst, Jefferies LLC

Q

Hi. Good morning, guys, and thank you for the time. It's Sheila Kahyaoglu from Jefferies. Can you maybe talk about your pricing strategy in this inflationary environment, how you've managed it, how that's changed, and then how these seem to impact to load factors? I think you said in an earlier question demand hasn't changed, but obviously for Q2 the guidance for capacity is still 16% below 2019 levels. So maybe can you talk about how you're managing all that, Ed.

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

Yeah, I mean, we don't talk about future pricing as a rule, so we'll stay away from that subject, and I'd just say when you have stronger demand you clearly have opportunities on the margin to improve the offer in the marketplace and see if consumers respond to that. And that's really what we've been doing as fuel prices have continued to run up and demand continues to remain strong. So, those levers alone have gotten us to where we feel very comfortable about the 2Q revenue environment.

Sheila Kahyaoglu
Analyst, Jefferies LLC
Q

Thank you.

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

Sheila, did you have another question? I'm sorry. That will wrap-up the analyst portion of the call. I'll now turn it over to Tim Mapes, our Chief Marketing and Communications Officer, to start the media questions.

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

Good morning, everybody. April, if you wouldn't mind reminding everybody about how to ask a question. And we have a lot of energy in the room. If we want to keep the pace of these moving, we'll try to knock out as many of these as possible.

Operator: Sure. [Operator Instructions] And we'll first hear from Leslie Josephs of CNBC.

Leslie Josephs
Reporter, CNBC LLC
Q

Hi. Good morning, everybody. I was wondering if you could talk a little bit about the union drive of your flight attendants? There's been a lot of attention on other companies like Amazon and Starbucks. Do you expect your flight attendants to be unionized this year, and what is the impact on Delta? Do you think it helps or hurts your recruiting? And then my second question, are you still charging $200 a month additional for unvaccinated employees' health insurance? Thank you.

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

Well, Leslie, on the question with respect to labor and union, this is not new at Delta. The unions for many, many years are looking at the Delta employees and have been actively seeking their support. So we, on the one hand, absolutely support our employees to make the best decision that's in their best interest; but at the same time, we know historically that the employees of Delta have been best served by having the direct relationship with our leadership.

So, we don't – this is not anything new or different. It's really more of the same. So, I wouldn't read too much into what's going on at Amazon or Starbucks or other places and try to equate that to Delta. It's a very different situation. And we've dropped as of this month the additional insurance surcharge given the fact that we really do believe that the pandemic has moved to a seasonal virus, and any employees that haven't been vaccinated will not be paying extra insurance costs going forward.

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Leslie Josephs
Reporter, CNBC LLC

Q

Thank you.

Operator: And next, we'll hear from Alison Sider of Wall Street Journal.

Alison Sider
Reporter, The Wall Street Journal

Q

Hi. Thanks so much. Just curious what your take is on all the discussions of consolidation among some of the midsize airlines. Without asking to comment any specific deal that may or may not happen, just how would that sort of change the competitive landscape if you did start to see more consolidation among some of these carriers?

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

A

Ali, that's a really good try, but we're not going to bite on that either.

Alison Sider
Reporter, The Wall Street Journal

Q

Okay. Fair enough. Thanks.

Operator: Next, we'll hear from David Koenig of Associated Press.

David Koenig
Reporter, The Associated Press

Q

Hey, good morning. Glen, you said you were hearing good signs as you put it about Washington perhaps rolling back the predeparture test requirement. What exactly are you hearing and from whom, and I guess I'd ask the same question about the mask mandate.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Maybe I'll turn that over to Peter, our Chief Legal Officer.

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

A

We're obviously engaged throughout the administration, and I will tell you that we are getting a strong indication that the testing, the predeparture testing, will be phased out in the near future, which is of course quite encouraging.

Operator: Dawn Gilbertson, USA Today.

Dawn Gilbertson
Reporter, USA TODAY

Q

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Hi. Good morning. Two questions. First, for Glen, there are a lot of questions about pricing resistance, and just a quick check of your fares for a July trip shows $1,500 round-trip from Atlanta to Maui, $750 from LAX to Orlando. Are a lot of Americans going to be priced out of vacations this summer, and do you fear any backlash? That's my first question.

And the second one is, Ed, you mentioned at the top of the call about travelers' patience. Where are you still seeing issues, and how long before – I mean, how long will travelers put up, say, with long waits on the phone and other ways to reach you guys? Thank you very much.

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

A

Sure. We haven't seen a lot of resistance to the price points that we have in market, and our goal is to have reasonable price points in market up to day of departure. And as we head to the peak, there are going to be constraints on peak days. And so as you shop around, if you're looking for lower fares you have to be flexible in terms of which days you'd be willing to fly.

But as we sit today, we have a load factor cushion versus where we sat in 2019. So, we have a higher percentage of our total seats already booked which is of course putting a little bit of pressure on the ones we have remaining to sell in terms of increasing the offers on the margin. So, look, my advice to travelers is to book early and be flexible if fares are your most important attribute. But what we're seeing more and more is that, that is not the only attribute, that quality of service and that level of service counts more and more. So hope that answered your question.

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

A

And, Dawn, on the question to reservations specifically, if that's what you were asking. We have continued a very, very aggressive drumbeat of hiring in reservations to the point we're now over 50% of our total employees in reservations have been hired just within the last couple of years and we're continuing to grow that. And as our people are getting more experience and more comfortable, the service levels continue to improve.

And we've also invested aggressively in our digital self-service options, where several years ago, maybe only 20% of the reasons people would call us. They could actually manage it digitally through self-service channels. Today, that's over 60% of the reasons people call us can be handled digitally and people are continuing to expand, and the adoption of self-service is growing substantially.

Obviously, as demand has surged, that continues to put more pressure on the phones. As international is opening, that puts more pressure on the phones. But on balance, our phones are generally even – and we allocate based on the level of service and the medallion category they get responded to the quickest; but on average, the wait times on the phones are less than 30 minutes.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I'd just make one. The number of transactions that you could actually complete on digital is in the low 80s. The adoption rate is in the low 60s, so continuing to push people and since you have a direct line to the consumer is encouraging, continue to encourage them to seek a digital answer first rather than calling and waiting on the line, because most – only very complicated transactions now can't be handled digitally.

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

A

With that, April, we have time for one final question before we turn it back over to Ed, please.

Operator: Absolutely. Our final question will come from Niraj Chokshi of New York Times.

Niraj Chokshi
Reporter, The New York Times Company

Q

Hey, thank you. I just had two questions on fuel. First, I was wondering if you could speak to the effect of the higher cost of fuel that could have on fares. And the other is that, if there's anything more you could add about the role the refinery is playing in helping to offset that.

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

A

I'll take the first question. Dan can talk to the refinery. It's really a function of demand. To the extent we continue to see very, very strong demand for our product, our ability to push on not just the increased cost of fuel but all of our cost inputs. We're shortening the time lag between when we experience that cost and when it's in the pricing structure, and but it's really a function of demand more so than any decisions that we take on our own.

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

A

And then related to the role of refinery as it relates to managing fuel, 20% of the refinery production is jet and that jet fuel goes to our New York operations. So it is a direct hedge as it relates to the spreads associated with that. So, it's really 100% hedged as it relates to how we run our operations and what it provides. The rest of the 80% production is diesel and gasoline, as you go through that process. And so, that provides a partial hedge related to the correlation of diesel and gas to jet. And so by and large, the refinery when you think about it in aggregate relates to spreads, it's about a 40% to 50% hedge as it relates to our fuel cost.

Niraj Chokshi
Reporter, The New York Times Company

Q

Thanks. And just on fares, last month at the JPMorgan conference, Glen had given an estimate that Delta would need to recover I think it was $15 to $20 each way on a $400 round-trip average. Are you able to kind of provide any update on that kind of figure given the higher fuel cost now?

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

A

This is Ed again. Fares are all over the place. They move every day and fuel prices move every day, so we're not going to track to any specific comment. I think you heard in our remarks that we're actually seeing in pricing today real-time coverage for where fuel costs are.

Operator: And at this time, I'll turn the call back over to our presenters for any additional or closing comments.

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

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Well, I want to thank you all for joining us. We are thrilled with the performance of our team, the progress we've made in terms of serving the demand that is returning. We've been waiting for two years to say this, and we're ready to go. Customers are ready to go, and we look forward to a very, very strong spring and summer season, and look forward to speaking to you all in July when we can report on the second quarter results. So, everybody, have a good day. Thanks for joining us today.

Operator: That does conclude today's conference. Thank you all for your participation. You may now disconnect.

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