10-Apr-2024

Delta Air Lines, Inc. (DAL)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Delta Air Lines March Quarter 2024 Financial Results Conference Call. My name is Matthew, 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. [Operator Instructions]

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

Julie Stewart

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

Thank you, Matthew. Good morning, everyone, and thanks for joining us for our March quarter 2024 earnings call. Joining us from Atlanta today are our CEO, Ed Bastian; our President, Glen Hauenstein; and our CFO, Dan Janki. Ed will open the call with an overview of Delta's performance and strategy, and Glen will provide an update on the revenue environment. Dan will discuss costs and our balance sheet. After the prepared remarks, we'll take analyst questions. We ask you to 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, and good morning, everyone. We appreciate you joining us today. Earlier this morning, we've reported our March quarter results, posting pre-tax earnings of $380 million or $0.45 per share, a $0.20 improvement over last year on revenue that was 6% higher and a new record for first quarter.

Free cash flow was $1.4 billion, and we delivered a return on invested capital of nearly 14%, putting Delta's returns in the top half of the S&P 500. We are delivering industry-leading operational reliability and have widened the gap to our competition.

Last summer, we made forward-leaning investments in the operation. And since then, our teams have delivered operational performance that is among the best in our history with mainline cancellations down 85%, setting new records for completion factor in both the fourth quarter and the first quarter. I'd like to sincerely thank Delta's 100,000 people for your dedication, professionalism and hard work in delivering these outstanding results.

In February, we've recognized the efforts of our people with $1.4 billion in profit sharing, more than the rest of the industry combined and continuing Delta's long-standing philosophy to reward industry-leading performance with

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industry-leading compensation. Reflecting our People First culture, Forbes ranked Delta the Fifth Best Large Employer in America, and Delta was recently named the 2024 Global Airline of the Year by Air Transport World for our outstanding commitment to safety, operational performance and premium customer service.

While airline travel and transportation is what we do, it's the experiences on Delta that set us apart as a leading consumer brand and why Delta was recognized as number 11 on Fortune's list of the World's Most Admired Companies. Exciting customer-facing enhancements are on the near horizon, including the opening of new Delta One lounges in JFK, Los Angeles and Boston, the continued introduction of modern and fuel-efficient aircraft, new premium cabin service offerings, upgrades to the Fly Delta app and the international expansion of fast, free Wi-Fi across our fleet. The rollout of Wi-Fi and Delta Sync continues to be a tremendous success.

Since launching last year, customers have logged more than 45 million free streaming quality sessions onboard and millions have joined the SkyMiles program through this channel. Recognizing our investment to ensure the future of travel is connected, we took the number two spot in the travel category, of Fast Company's List of the Most Innovative Companies, the only airline to be recognized in the ranking.

Loyalty to our brand has never been stronger. We continue to set new records with our remuneration from American Express, our most important commercial relationship and are well on our way to our long-term target of $10 billion. On February 1, we announced enhanced and refreshed benefits for our Delta SkyMiles American Express cards, providing more direct value and the customer response has been very positive.

Turning to our outlook, with strong first quarter performance and visibility into the strength of summer travel demand, we remain confident in our full year guidance for earnings of $6 to $7 per share, free cash flow of $3 billion to $4 billion and leverage of 2.5 times, the three main guideposts that we shared with you in January.

For the June quarter, we expect to deliver the highest quarterly revenue in our history of mid-teens operating margin and earnings of $2.20 to $2.50 per share. Our forecast for pre-tax profit of approximately $2 billion is on par with 2019 and just shy of last year due to higher fuel prices.

Demand continues to be strong, and we see a record spring and summer travel season with our 11 highest sales days in our history, all occurring this calendar year. Spending on services recently surpassed goods for the first time in five years and there is further runway to return to their long-term trends.

Delta's core consumers are in a healthy position and travel remains a top purchase priority. Generational shifts and evolving consumer preferences are driving secular growth in premium experiences. And business travel demand has taken another meaningful step forward this year with growth accelerating into the mid-teens over last year.

When you put this level of demand strength together with the industry's increased focus on improving financial returns, this may be the most constructive backdrop that I've seen in my airline career.

Our industry-leading performance continues to demonstrate the strength of Delta's differentiated brand and returns-focused strategy. And with our disciplined approach to capital investment and focus on free cash flow, Delta is exceptionally well positioned to further strengthen our balance sheet and deliver significant shareholder value.

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In closing, the momentum in the business continues to build. We are focused on delivering excellent reliability, elevating the customer experience and improving efficiency across the company to support growth in our earnings and cash flow.

I am excited for Delta's opportunities ahead, and we'll talk more about that and provide new long-term financial targets at our Investor Day, which we are scheduling for November 19 and 20 in New York City. Please put that on your calendar.

Thank you again. And with that, let me hand it over to Glen for more details on our commercial performance.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Thank you, Ed, and good morning. I want to start by thanking our employees for providing the best service and reliability in the industry to our customers every single day. 2024 is off to a great start, and we're delivering on our commercial priorities to optimize our network, grow higher margin revenue streams and invest in our future.

Revenue for the March quarter increased 6% year-over-year to a record $12.6 billion on capacity growth of 6.8%. This result is at the high-end of our initial guidance with upside driven by industry-leading operational performance and strength in close-in bookings.

Since the start of the year, we've seen a sustained acceleration in business travel. Managed corporate travel sales grew 14% over the prior year with technology, consumer services and financial services leading that momentum. We delivered positive unit revenues in our two largest entities, Domestic and Transatlantic, reflecting the continued optimization of our network.

Total unit revenue growth improved three points sequentially to down 0.7%, including nearly a one-point headwind from Cargo and MRO. Domestic revenue grew 5% with record March quarter unit revenues, up 3% over the prior year. The more than seven-point improvement from 4Q to 1Q reflects strong demand trends and improving industry backdrop.

International revenues grew 12% on a unit revenue decline of 3% as unit revenue growth in the Transatlantic was muted by capacity investments from the continued rebuild of our Latin and Pacific franchise.

Diverse high-margin revenue streams generated 57% of total revenue, differentiating Delta and underpinning industry-leading financial performance. Premium revenue was up 10% over prior year, and we have runway ahead as we continue adding more premium seats to our aircraft, improving our retailing capabilities and further segmenting our products.

Total loyalty revenue grew 12% on continued strength in the American Express co-brand portfolio with record quarterly remuneration of $1.7 billion. Following the refreshed co-brand benefits, we saw card applications reach new records as we are seeing the highest premium acquisition mix in our program's history.

Turning to our outlook. Consumer demand is robust and premium trends remain strong. The outlook for corporate travel is positive. 90% of companies in our recent survey intend to maintain or increase travel volumes in 2Q, putting us back on track to deliver record corporate revenues in the back half of this year.

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For the June quarter, we expect revenue growth of 5% to 7% on capacity growth of 6% to 7% with unit revenues flat to down 2% from last year's very strong performance. Similar to the March quarter, 2Q faces a headwind from the normalization of travel credits.

Domestically, we expect unit revenues to be flattish over prior year with growth focused on restoring our core hubs where departures and seats are not yet fully restored. The final stage of our core hub restoration will be the full return of regional flying.

Pilot hiring has stabilized, increasing the capacity we expect to fly over the summer. We expect progressive improvement through 2025, driving higher asset utilization and improving our profitability.

In the Transatlantic, we are looking forward to another strong summer with record revenues. 2Q unit revenues are expected to be similar to the last year as we lap record performance and benefit from the healthy demand for our premium cabins and improved corporate trends.

In Latin America, profitability remains solid. Unit revenues are expected to be down double-digits due to pressure in short-haul leisure markets. These markets are expected to see healthy improvements in the second half of the year as supply and demand comes back into balance.

Our flying into Deep South America, we are very pleased with the results. We are increasing capacity about 40% with minimal impact to unit revenues, as we continue to deepen our ties with our JV partner, LATAM.

We expect Pacific unit revenues to be in line with the prior year on 30% growth in capacity, driven by strong demand for Korea and Japan, offsetting lower unit revenues in China. Profitability is expected to set a record, as we continue to harvest the benefits of our multiyear restructuring.

In closing, I'm pleased with how we have started 2024. Delta is continuing to lead on all fronts with industry-leading margin and returns, highlighting the strength of our trusted brand and differentiated commercial strategy.

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

Daniel C. Janki

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

Great. Thank you, Glen, and good morning to everyone. For the March quarter, we delivered pre-tax income of $380 million, an improvement of $163 million over last year, earnings of $0.45 per share was at the upper end of our guidance as great operational performance and strong demand more than offset higher-than-expected fuel prices. Operational excellence is central to Delta's brand promise, and I couldn't be prouder of how our teams are delivering record reliability for our customers.

A strong completion factor drove a 1 point of higher capacity and non-fuel unit cost favorability. Non-fuel CASM was 1.5% above last year and ahead of guidance. Fuel prices averaged $2.76 per gallon, $0.16 higher, than the midpoint of our guidance range. The refinery provided a $0.05 benefit generating a profit of $49 million. This was down $173 million from last year on more normalized refining margins.

Fuel efficiency was 1.9% better than last year, benefiting from the continued renewal of our fleet and running a strong operation. Operating margin of 5.1% was 0.5 point higher year-over-year. Our pre-tax margin improved over 1 point, benefiting from reduced interest, pension expense and higher earnings from our equity investments.

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We generated free cash flow of $1.4 billion. This was after paying $1.4 billion in profit sharing to our employees and investing $1.1 billion into the business. Debt reduction remains a top priority. Our leverage ratio improved to 2.9 times. During the quarter we repaid $700 million of debt, including $400 million of scheduled maturities and $300 million of additional debt initiatives. We expect to repay at least $4 billion of debt this year, and continue to be opportunistic in accelerating debt reduction.

We are currently investment-grade rated at Moody's and BB+ at both S&P and Fitch, with all agencies now on positive outlook following updates from Fitch and Moody's during the quarter.

Moving to the June quarter guidance, combined with our outlook for top line growth, we expect an operating margin of 14% to 15%, with earnings of $2.20 to $2.50 per share. Fuel prices are expected to be $2.70 to $2.90 per gallon, including a $0.10 contribution from the refinery. At the midpoint of this range, our all-in fuel price is expected to be over 10% higher than last year.

Non-fuel unit costs are expected to be approximately 2% higher than last year, consistent with our full year outlook of low single digits. Growth is normalizing, and we've entered a period of optimization with a focus on restoring our most profitable core hubs and delivering efficiency gains across the enterprise.

The investments we made in fleet health and reliability in the second half of 2023 are paying off, supporting industry-leading operational performance. As we discussed with you in January, these investments are expected to continue through 2024, as we complete an elevated volume of heavy airframe and engine checks while managing through industry-wide supply chain constraints.

The intensity of hiring and training has moderated. The teams have good momentum in delivering on our efficiency goals for the year. This will help fund the investment in our people, in our operations and the customer experience that support our revenue premium.

In closing, we continue to be confident in our full year outlook of earnings of $6 to $7 per share and free cash flow of $3 billion to $4 billion. Our industry-leading operational and financial performance is a result of the hard work and dedication of the Delta people. I'd like to thank each of them for what they do every day.

With that, I'll turn it back to Julie for Q&A

Julie Stewart

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

Thanks, Dan. Matthew, can you please remind the analysts how to queue up for questions? And go to the first analyst question from Duane Pfennigwerth.

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QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Your first question is coming from Duane Pfennigwerth from Evercore ISI. Your line is live.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Hey, good morning. Thank you. Just on the improved cost execution, you just touched on in the script there, Dan, but can you speak to maintenance expense and the outlook relative to your expectations? The tone sounds like you're turning a corner on maintenance. And how do you think about that line into the second half and perhaps into next year?

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

A

Well, maintenances is – Duane, thank you. Maintenance is on plan and performing as we expected as we talked to you at the beginning part of the year, maintenance, we expect it to be up year-over-year $350 million. We expect that for the full year, the first quarter was on plan, and the team is executing well. And those investments, as I mentioned, that we made in fleet health will continue as we go through this year, those proactive visits along touching the aircraft. You're seeing the impact. Cancellations from a maintenance perspective year-over-year were down 80% sequentially, they improved 30%. So team is doing a good job. They're on plan and as expected.

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

A

Duane, if I could add on to that, I want to congratulate the TechOps team, John Laughter, whose leadership over there in terms of helping to make that turn. We are seeing a renewed set of confidence back in the team. It's been a tough few years on the rebuild. Too early to declare victory. We know the supply chain continues to have a tremendous amount of constraint in it. But I'm confident that we're on a good journey. It's a good path here.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Appreciate those thoughts. And then maybe more of a conceptual one for my follow-up on corporate and the continued recovery in corporate you're pointing to. I assume that's generally close in. And I wonder if you could comment on if you're seeing a decrease in average trip length. So maybe more trips but fewer days on the road per trip. Any commentary on those trends?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

No. I'd just say we're seeing both. We're seeing some shorter, and we're seeing some longer where people are blending the leisure trip with the business trips. And generally, they're purchasing a little bit further out than they had. And I think that's related to not having change fees any longer. So we've seen some changes in the booking curve, but really encouraged by what we see in terms of corporate bookings as we look forward through this quarter and as we look forward into the next couple of quarters.

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Duane Pfennigwerth
Analyst, Evercore ISI

Q

Thank you very much.

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

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, good morning, everyone. Glen, I just – I want to get back, you talked about the normalization of travel credits and how that still represents a bit of a headwind. Can you quantify what that impact is on June TRASM?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think we said in our previous that we faced headwinds in up to two – a couple of points. And I think we're not going to go into the details of that. But that's generally what we've disclosed in the past. Yeah.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. And then just my second question to Ed. Ed, can you just give us an update on the status of the – I guess, it's an appeal process with the DOT on Aeromexico. How does that play out? Or I should say, what is the time line of that? And any milestones we should look forward with respect to that? Thanks.

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

A

Hey, Mike, it's Peter Carter. Thanks for the question. That was a tentative order, and I think, as you know, our strong view is the DOT really struck out on that one. They're typically a great partner. But this was an example of regulatory overreach, which is why we've challenged it. It's bad for consumers, it's bad for competition. It's bad for the local economies that those flights have served. We are currently engaged with the administration and discussing, I'll say, less punitive solutions than the tentative order that was proposed.

And I would say we've had hundreds of our, I'll say, allies with respect to the connection between Mexico and America weigh in, in support of this joint venture. So we think this is going to take some time before the DOT issues a final order a number of months, but we're cautiously optimistic that they're going to come up with a better solution.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks for that Peter. Thank you.

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

Scott H. Group
Analyst, Wolfe Research LLC

Q

Hey. Thanks. Good morning. So, Glen, when I think about the original guide for the year three months ago, I think it was sort of flat RASM for the year. So we're down slightly in Q1, midpoint of guide for Q2, down slightly. So

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what's your visibility to second half RASM inflection? I guess ultimately, at this point, do you see more upside or downside risk to that flat RASM? And maybe just with that, like the travel credit headwind, is that bigger or smaller in the second half?

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

No, I think it's pretty – first, on the travel credit headwinds, it's consistent through the year. But what I would say, is that we're ahead of our internal plan to get to flattish for the year and the comps get easier as we move through the year. And if you look at the back half of guidance as well as what people have loaded in their schedules, it looks like industry capacity is reaching a peak in 2Q. So I think we see a great setup for the back half of this year and we're on plan or ahead of plan from where we sit right now.

Scott H. Group
Analyst, Wolfe Research LLC
Q

Okay. And then I just want to follow-up just on RASM a little bit. So if you just – last year, your absolute RASM in second quarter just meaningfully outperformed seasonality. And then you underperformed in Q3, right? If you look this year, you're guiding again like to really outperform like pre-pandemic seasonality. I'm wondering, do you think that there is a seasonal shift from Q3 into Q2 relative to what we used to see? And does that help in Q2? Does it potentially hurt Q3? I'm just curious your thoughts on that.

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

I have thoughts some very – yes, it has changed, and it's related to schools coming back in the south, in particular, earlier and earlier into August. As a matter of fact, here, I believe, schools in Georgia, go back the first week of August now. And so that has materially changed, I think, over the years, making the second quarter stronger and making the third quarter a bit weaker. But I think we – as we think about how we plan that now, we're incorporating that into our capacity plans moving forward.

Scott H. Group
Analyst, Wolfe Research LLC
Q

All right. Thank you, guys.

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

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC
Q

Thanks. Good morning everyone. So, it looks like your leverage is getting to be in a pretty good place. When do you think you can start flexing the balance sheet for other use of cash kind of CapEx, cash return kind of over the next 12 months?

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

Well, thanks, Ravi. We're not in a position yet to make any comments or any decisions around that. We still have more debt than we're comfortable with, and that continues to be the first call on cash to continue to take risk off the table. Interesting, I was looking at some numbers preparing for this call. If you look at our target for the end of this year and you factor in that we actually have eliminated the pension obligation, which we had at the end of

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2019. We're actually pretty close to the leverage ratio we were at the end of 2019, entering the pandemic. So we have made a lot of progress. That said, we'll be talking a bit about that at our Investor Day in November. But the first call will be and will be for some time to pay down the debt.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

Got it. That's helpful. And maybe as a follow-up and a little bit of a nuance detailed question here. Kind of obviously, with the Paris Olympics kind of being a pretty big catalyst for Transatlantic travel in this summer kind of – are we thinking of that potentially bringing on some noise towards end of 2Q, early 3Q? Kind of is that something that you would caution us in terms of modeling cadence versus seasonality?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, generally, the Olympics are not good for airline revenues. And this year, I think, is no exception to that. So while we see a very favorable backdrop for Europe in its totality, there are some challenges for Paris as generally business travel ceases to and from the local markets as the Olympics approach. So, I wouldn't say that, that's going to be a windfall. It's actually going to be a bit of a headwind for us in the numbers we've shared with you.

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

A

That said, we are very excited as sponsor Team USA for the Paris Olympics and we'll get through it.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

Very helpful. Thanks guys.

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

Helane Becker
Analyst, TD Cowen

Q

Thanks very much operator. So, hi team. I just have two questions. In the first quarter, your landing fees seemed a little bit higher than I would normally expect to see for a first quarter. Is that maybe you can explain that rather than me suggesting what it could be?

And then for my follow-up question, one of the issues that American Express cardholders have, of which I am one is acceptance rate, especially in Europe. And I'm wondering if you're starting to see an improvement in that area as well? Thank you.

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

A

Yeah. On landing fees, when you look at it year-over-year, yes, they're up. Volume, one; two, related to the cut in as it relates to our generational redevelopment projects you're picking up some of that expense. And then I would say the third item, airports across the country in 2022 and 2023 benefited from CARES. And as those have now gone away, they're adjusting their rates and you're seeing that come through.

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Helane Becker
Analyst, TD Cowen

Q

Okay. That's very helpful.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

And on American Express global acceptance rates, we worked very hard years back with American Express on improving the domestic acceptance rates. And right now, they're at all-time highs in terms of the number of merchants that you can use American Express that domestically. And they are also doing that internationally. So particularly places that were strong, and we worked with them on prioritizing those places that Americans like to go for vacations.

Helane Becker
Analyst, TD Cowen

Q

Okay. Well, that's very helpful. Thank you guys.

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

Andrew G. Didora
Analyst, BofA Securities, Inc.

Q

Hey, good morning, everyone. So Glen, I had a question just with regards to your capacity. How are you thinking about the cadence as we move into the back half of the year obviously, with the first half capacity up north of six, 3Q schedules are still sort of above your 3% to 5% original guide. How should we think about your growth as we move through the back of the year because it would imply based on 3Q schedules that 4Q would be down. I kind of find that hard to believe. But just any thoughts there would be helpful. Thank you.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think we're going to – first of all, thanks for our operating teams who have given us such exceptional completion factors that accounted for even higher than we had planned for. So I'd say, if those continue, which I imagine they will or hope they will, that we would be at the high of the 3% to 5%. And I think it's a bit early to say, but I think that we will be right at that 5% depending on how the completion factor comes in.

Andrew G. Didora
Analyst, BofA Securities, Inc.

Q

That's helpful. Thank you. And then I think in your prepared remarks, you spoke to MRO headwinds in the ancillary revenue line in the quarter. What is driving that? I just sort of thought given everyone's elevated maintenance expense, it would have been a little bit more of a tailwind? Any thoughts there? Thank you.

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

A

Yeah. I'd say two things. One is, as it relates to our third-party activity, it's just – we're always – we're constrained by what the industry is constrained by, which is material and ability to generate that output. And as we talked about our TechOps team, John and the team are focused on the Delta fleet. But I would say the constraint continues to be material in turnaround times associated with it.

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Andrew G. Didora
Analyst, BofA Securities, Inc.

Q

Understood. Thank you.

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

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Thanks. Good morning, everybody. A couple for Glen. First, on the topic of RASM premiums, pre-COVID, you were running, what, at 20% domestic premium to the industry, and I think you were roughly flat on international. You and I spoke on one of the earnings calls as to what that – what the path to achieving an international RASM premium might look like. Can we revisit that topic? Where is Delta currently both domestic and international, and where do you see that heading from here in the post-COVID world?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, thanks for the question, Jamie. I think right now, we believe we are running international RASM premiums that have primarily been driven by higher load factors on the fleet. But as the fleet continues to evolve and we continue to put more premium seats in the mix, we believe that is one of the key drivers for us to continue to accelerate our relative performance to our industry peers. So, I think we're on a journey there, and I think we are now generating premiums consistently. And hopefully, we can accelerate those over the next several years as we execute on our plans to differentiate Delta.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

And as a follow-up, Glen, on premium. So premium revenue was up 10% in the quarter, Main Cabin was up 4%. What can you tell us about the constitution of that 4%? For example, what's the trend with basic economy? What percent of Main Cabin passengers are SkyMiles members compared to the premium cabins, that sort of thing? I'm just trying to understand where the 4% is coming from. Are those new customers? Are you taking share from discounters? That sort of thing. Thanks.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think in the quarter, we ran a record domestic load factor in the first quarter. So, what I believe drove that was the incremental traffic that we took over historical levels, so pretty excited about doing that in the first quarter. As you know, the first quarter is the most challenging in terms of loads, and for us to come through that quarter with the premiums that we took, I think, really is a testament to the strength of our brand. And of course, as we get through the year, there'll be less and less discounted seats available as you get towards peak. But generally, we're most open in 1Q.

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

A

Yeah.

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Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Okay. Very helpful. Thank you everyone.

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

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Hey. Good morning, and thanks for taking the question. So Glen, I guess I wanted to come back to domestic growth this summer, because it looks like you're jumping up to 6% or 7% from about 2% in the first quarter. In the context around this, I think investors were a little bit concerned that, that growth could lead to lower RASMs, but obviously, you're guiding to flat. So can you dig a little bit deeper on your domestic network priorities and maybe a little bit more on regional expansion?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think there – what we've said in the past, and I would like to go back to is, we kind of coming out of COVID, we had to allocate the resources we had available. And those resources went to our once-in-a-lifetime opportunities to take leading positions in places like Boston and Los Angeles at the expense of rebuilding our core hubs, and we're still not done building our core hubs. And so, our ability now to go back and to put seats back into our core where our cost structure is most advantaged and where our profitability is highest is where we're focused for the rest of this year.

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

A

And seat growth is about 1 point below [indiscernible] (00:35:02) yeah.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Okay. I appreciate that. And then, Glen, on the Latin differentiation, I think you were talking separately about short-haul and long-haul. Can you unpack that a little bit more for us?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, we are really pleased with our South America performance. As I said in the prepared remarks, our capacity is up in the 30% to 40% range, and we're doing that with minimal degradation of our unit revenue. So, we're really off to a great start with LATAM, and I think we have a really great future working with them to continue to evolve as the leading carrier between the United States and South America in our joint venture. So put that aside and then say the particularly leisure destinations, there was an oversupply in the first quarter. I think in first quarter of 2023 the industry saw historically higher returns.

And so when there are historically high returns, everybody wants to do more of it. We did considerably more of it. The industry did considerably more of it. And listen, it was quite profitable for us, but at the expense of unit revenues. And so as we move through next year, I'd say there's going to be probably a moderation of capacity as there always is when those things happen as well as easier comps as we get to next year. So I'm looking forward to actually next year's comps in Latin America.

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Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Okay. Thank you.

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

Conor Cunningham
Analyst, Melius Research LLC

Q

Hi, everyone. Thank you. Just if we play back the performance in the US domestic market in 1Q, it was pretty fantastic when you started off saying just expecting to inflect positive in March and you saw some improvement in quarter then an outcome of plus 3%. You've highlighted corporate momentum and premium. But I think there's a disparity in just your hub performance. Can you just talk about coastal gateways versus core hub rebuild and kind of how things are playing out there just in general? Thank you.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, I think we're very pleased with our coastal gateways and really, they're moving in a pretty tight band right now with more capacity going to our core hubs and our core hubs generally having a higher unit revenue base than our coastal gateways that should have a positive inflection on total revenues. And I think that gets accelerated in the second and third quarters. Again, we had probably a little bit more in Boston than we had planned on because there were some opportunities there for us to move airplanes in. But generally, we're really pleased with where we sit today and how the back half of this year should play out for us.

Conor Cunningham
Analyst, Melius Research LLC

Q

Okay. And then it seems like there's a potential for regulatory oversight to potentially pick up your – when you have conversations with the FAA, what are some changes that they're talking to you about just given the operating environment? And maybe what are you asking them in general? It just seems like it could be a wildcard to potential growth, maybe medium to long term. So, just any thoughts there would be helpful. Thank you.

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

A

Hey, Conor, this is Peter. So just I'd say fundamentally, with the FAA, we're working very closely with them around staffing models because, as you know, there's an air traffic control shortage. And we're also engaged in Washington trying to help solve some of those, I'll say, more structural challenges around infrastructure. You probably have seen that the industry has made a request of the FAA to extend the New York slot waiver another season. And that's what I would call responsible partnership with our regulator in light of the staffing challenges they've had. So, great relationship, deep partnership with them.

Conor Cunningham
Analyst, Melius Research LLC

Q

Okay. Thank you.

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

Savanthi Syth
Analyst, Raymond James & Associates, Inc.

Q

Hey, good morning. Just a follow-up to Jamie's question on the premium revenue. Just kind of curious if you could share how much of that 10% is coming from volume versus yield and I think you've mentioned continuing to grow the premium offering. So just curious what the trend might be?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Right. I would say right now, the premium is probably 50-50 split between traffic and yield.

Savanthi Syth
Analyst, Raymond James & Associates, Inc.

Q

That's helpful. And then in terms of the volume growth in offering, how should we think about that?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, I think we've said that if you look at the longer-term trends that we really haven't been adding coach seats into the domestic arena over the past 10 years. And so all of our growth has been in the premium products and services. I think on Investor Day, we're going to talk a little bit more about where we see that going, but I think we see a long runway for that in the coming years.

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

A

Yes. Premium product outpaced Main Cabin all the way as you look at our fleet deliveries through 2030.

Savanthi Syth
Analyst, Raymond James & Associates, Inc.

Q

Helpful. And if I might, on another follow-up, just on the domestic capacity growth with building back the hub, is that then where the capacity comes a lot in this kind of regional type markets? Or should I think of it as kind of growth in regional then shift some of those aircraft onto kind of other bigger markets that you could use those aircraft?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think a little of both. We've been very short on our regionals. We still have probably at least 50 regionals, either not flying or underutilized probably almost 100 when you include the underutilization. So that's a lot of seats and a lot of departures that we need in our hubs, and we're missing a lot of the core feeds from the regional feed in the local vicinity. So right now, some of that's being done by mainline and those planes could gravitate out. But mostly, we'll be adding frequencies back and that historically have been there from feeder markets into our core hubs.

Savanthi Syth
Analyst, Raymond James & Associates, Inc.

Q

Helpful. Thank you.

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Operator: Thank you. Your next question is coming from David Vernon from Bernstein. Your line is live.

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

Q

Maybe just following up on that point, I thought there, Glen. As you think about the improvements in the regional utilization, is there also some room for improving utilization to prior pre-COVID levels on the narrowbody fleet as well? Or is this primarily just a regional issue?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I would hope so. If we look at our widebodies, we're now at or above where we were in 2019 in terms of annual utilization.

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

A

Yes. They are.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

And this is going to be a game of working with our operators to improve asset utilization across the network, whatever they are, planes, airports. And that's the game we're playing. That's the long game, and I think that's a really exciting challenge for us all.

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

A

Yeah.

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

Q

Okay. And then I guess as you think about the yield management problem sort of through the summer months, you didn't have a lot more premium capacity into the mix, does that change the way you guys go about sort of the day-to-day and in managing pricing? Are there opportunities in there that you see to continue to kind of work the segmented cabin differently than you may have done in the past? I'm just trying to get a sense for as this new sort of model is being marketed at a higher level of volume and a greater distribution of the number of seats you have in these aircraft, is that changing sort of the upper frontier on what you might be able to get out of yield management?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, I think what we said is that, what really pushed us to do this journey several years back was the fact that on the premium products and experience aside, we controlled more of our destiny than we did on the commodity side. And so absolutely, that's been our journey is to continue to play the game against ourselves as opposed to playing against the lowest common denominator.

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And I think we'll have a lot again on our Investor Day to talk about what we see the next evolution. But we see a lot of runway, just not to tease it out, but we see a lot of runway in taking this even further and using new tools and using things that we'll be talking about in November that I think will be very exciting for our investor base.

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

Q

And then last one for me is that you mentioned something about sort of improvements in retailing. Could you elaborate a little bit around what you're talking about there?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, I think that that's the Holy Grail is why did we wind-up in a commoditized environment was because we couldn't distribute products and services. We weren't – the industry was not geared to this and this has been our long journey.

And every day, I think we get better and better and better at it, whether or not we're working internally to improve our own internal displays where we're 65% direct-to-consumer right now or whether we're working with online booking tools, to improve their display of products and services and making progress on that front as well. So this has been a very, very long journey. And every day, we're working on improving it.

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

Q

All right. Thanks very much for the time Glen.

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

Sheila Kahyaoglu
Analyst, Jefferies LLC

Q

Good morning everyone. Thank you for the time. Maybe just a follow-up on Latin America, the large capacity growth there in partnership with LATAM obviously magnifies the unit revenue decline.

But you've, of course, talked about making these investments profitably. So maybe can you talk about where you are at today relative to your expectations in Latin America? And how you expect that profitability curve to shape up in the coming quarters and years?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Yeah. I think we still see opportunity. We've got a lot of the opportunities now in our baseline. And we'll continue to work with LATAM to refine that moving forward.

But I don't think you'll see this kind of dramatic growth in the out-years as we'll be more focused on turning that into more of a harvest mode as opposed to an investment mode as we continue to work on bridging the two networks together.

Sheila Kahyaoglu
Analyst, Jefferies LLC

Q

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Okay. And then maybe one on cost, just to sum it up, Q1 CASM performance was really good, Ed, and you talked about completion factors and just operations helping that.

So the Q2 guide seems a bit more normalized, putting you guys at 2% cost growth. So is it just fair to think about that run rate in the context of the year with a low single-digit guide? And what are the moving pieces, as we think about head count, maintenance costs and any other noise you've highlighted throughout the year?

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

Yeah. I think the 2% is in line with the low-single digit. I think when you think about the variables inside of that run, it starts with running a great operation; when you run a great operation, that sets the foundation. You get those frictional costs out. And it really allows the operators. And you're seeing it in two quarters in a row to have the confidence and it really lean in and continue to drive not only better improvement in the operation, but also get after those efficiencies.

And as you do that, we said that we're carrying head count higher than historical for what we ran in 2019, about 10%. And we'll grow into that. And that drives the efficiency associated with that, and no change to maintenance.

Maintenance is as we expected. But we'll continue to manage the supply chain. It's going to be the one that is – has the largest constraint still associated with it as we execute for the year.

Sheila Kahyaoglu
Analyst, Jefferies LLC
Q

Great. Thank you.

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

Matthew, we'll now go to our final analyst question before moving to the media.

Operator: Certainly. Your last question is coming from Stephen Trent from Citi. Your line is live.

Stephen Darrell Trent
Analyst, Citigroup Global Markets, Inc.
Q

Good morning, everybody, and thanks very much for squeezing me in. Just a follow-up question to Sheila's, if I may. When we think about probably a bit across the industry, fleets getting older, could you give us a high-level sense about how valuable Delta TechOps is going to be for you guys over the next 10 years, for example, and that competitive advantage you have versus your legacy competitors? Thank you.

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

Yes, we can. I think it is a unique advantage. That, along with our fleet, our fleet has actually gotten younger over the last few years. But we've also given the constraints in the industry around the OEMs have leaned in, so we've restored the network into our flex fleet. So flying MD-80, Boeing 717s, flying the Boeing 757s longer than we anticipated. And that puts demand on our TechOps team and their ability to ensure that we have those aircraft that are reliable is – really allows us to flex and be more nimble.

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And as we go through this period and it gets more normalized, we're in a period of more normalized growth and more consistency around equipment. It's also going to allow us to go into a period of more natural retirements. We haven't retired any aircraft in 2022 and 2023. We'll start that at the back half of this year and that's really where our team has always shined, the ability to naturally retire, but then recoup that equipment and reuse that used material and run out the fleets and they did it with the MD-88 and MD-90s. They've done it for a decade, and they have that history. And that's really what we have in front of us.

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

A

Steven, if I could add on the back end of Dan's comments, two things. In the first quarter, our overall mainline reliability and completion factor was the strongest first quarter in our history. And that's quite a statement given where we've been through in supply chain constraints that still exist. And I attribute a lot of that to the maintenance team, the TechOps team, having the product ready every day and responding to the opportunities that we see in front of us. So that's going to continue to be positive green arrow forward as we move forward these next couple of years, as Dan was saying.

Second thing is the MRO, while we've taken, I'd say, a pause given that we've had to focus our energies on our own fleet as compared to our customers' fleets going forward in the next couple of years that's going to start turning back on again. And that growth rate that we've talked about is still there, it's just waiting for us. And I'm very, very excited as to what you know you talk about a five- to 10-year timeline on that. That business is, I think, is going to be – our ability to capture that business is going to be even stronger than we were thinking pre-pandemic given what we've been all through. So hats off to the TechOps team, a lot more work to go, but we are absolutely on the right path.

Stephen Darrell Trent
Analyst, Citigroup Global Markets, Inc.

Q

Well, thank you, Ed and Dan. I appreciate the time.

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

A

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

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

A

Thank you, Julie. Matthew, if you don't mind, as we transition from the analysts to reporters, could you repeat the instructions for one question and a follow-up, please.

Operator: Certainly. At this time, we'll be conducting a Q&A session for media questions. [Operator Instructions] Your first question is coming from Leslie Josephs from CNBC. Your line is live.

Leslie Josephs
Reporter, CNBC LLC

Q

Hi, everyone. Thanks for taking my question. On operations, just wondering if you saw any benefit from the fact that a lot of your hubs this past winter got rain and not blizzards. It seems like if it was 10 degrees, 15 degrees cooler, we've been talking about grounding the airline for a little bit at those hubs. And then separately, on the

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mechanical issues that some airlines have been having recently, have you reminded your employees or put out any kind of communication just to ensure that they're following all protocols and just kind of reemphasize safety at Delta? Thanks.

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

Hi, Leslie, it's Ed. With respect to weather, we certainly have had a nice run of weather broadly across our system, candidly across our country. And that certainly has helped with respect to the overall operational performance. But what we like to do is neutralize for weather events, and we see the performance of the airline weather adjusted within our own system, and we're outperforming our prior performance, even weather adjusted. So the improved weather just adds a nice icing to the cake. But the fundamental of the core is running at a much, much better clip. And as communications, safety is job one at all times every single day. We don't send out special messages around safety. Every day is safety day around here.

Leslie Josephs
Reporter, CNBC LLC
Q

Thank you.

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

Mary Schlangenstein
Reporter, Bloomberg News
Q

Thank you. Good morning. I wanted to ask on the request for an addition of the slot waiver through another year. Have you seen any improvement at all in the ATC issues in the New York area? And does the slot waiver extension also include the D.C. area?

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

So Mary, thanks. It's Peter Carter. It does traditionally include the D.C. area. That's the way the FAA likes to view it. And we still have a shortage of ATC controllers, so it's still an incredibly challenging environment.

Mary Schlangenstein
Reporter, Bloomberg News
Q

Have you seen any improvement at all in terms of the waivers?

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

Well, we've had the waivers in place. So of course, with those waivers, there would be improvement because there's a less capacity in that marketplace. But absent the waiver, I think we'd have some as an industry, some real challenges in New York.

Mary Schlangenstein
Reporter, Bloomberg News
Q

Great. Thank you very much.

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Tim Mapes

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

Thank you for the question, Mary. Matthew, I believe that wraps up our time if you want to close out the call.

Operator: Certainly. Thank you. That completes our Q&A session. And everyone, this concludes today's event. You may disconnect at this time, and have a wonderful day. Thank you for your participation.

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