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Delta Air Lines, Inc. (DAL)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Delta Air Lines June Quarter 2024 Financial Results Conference Call. My name is Matthew, and I'll be your coordinator. At this time, all participants are in a listen-only mode until 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

Thank you, Matthew. Good morning, everyone, and thanks for joining us for our June Quarter 2024 Earnings Call. Joining us from Atlanta today are 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. Glen will provide an update on the revenue environment, and Dan will discuss costs and our balance sheet. After the prepared remarks, we'll take analyst questions. We ask that you please limit yourself to one question and a brief follow-up so that 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 the 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 reported our June quarter results, posting pre-tax earnings of $2 billion, or $2.36 per share on record quarterly revenue, up 5.4% over last year. These results are the second highest quarterly earnings in our history. We achieved a 15% operating margin and generated $1.3 billion of free cash during the quarter, bringing our first half free cash flow to $2.7 billion.

With strong cash generation, we continued to progress our balance sheet back towards investment-grade metrics and announced a 50% increase to our quarterly dividend. We delivered a return on invested capital of 13%, 5 points above our cost of capital and in the top half of the S&P 500.

Delta's leadership is increasingly being recognized alongside some of the world's best companies. Just last month, Delta was ranked fourth in the Fortune 500 ReturnOnLeadership by Fortune and Indiggo, just behind NVIDIA and Microsoft.

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Through the year, our teams have delivered industry-leading operational performance month in and month out, with Delta leading across all key metrics, including completion factor, on-time departures and arrivals. This performance builds on our long-standing position as the most reliable airline in the US, and I'd like to thank all 100,000 members of our team for their exceptional work taking care of our customers each and every day. They are truly the best in the business.

Recognizing the extraordinary skill and care of our people, Delta was named the 2024 Global Airline of the Year by Air Transport World at the recent IATA Annual Meeting, and for the sixth year in a row, The Points Guy ranked Delta as the best US airline. Delta was also recently named the top-ranked carrier across all premium cabins in J.D. Power's North American Airline Satisfaction Study.

Sharing our success with our people is core to our culture, and we are at the forefront on total rewards for our employees. We provided a 5% pay raise on the 1st of June to eligible employees, and we have accrued more than $640 million in profit sharing through the first half of the year. I am confident our profit-sharing payout next February will continue to lead the industry by a wide margin.

Our people are the foundation that enables Delta to deliver elevated experiences to our customers. To further differentiate our service excellence, we are making high-return investments that make travel more seamless and connected, including generational airport rebuilds, the most comprehensive lounge network in the industry, expanded premium offerings, and fast free Wi-Fi on-board. Just a few weeks ago, we opened our new Delta One Lounge in JFK, the first of its kind. It offers a variety of world-class amenities for our customers from fine dining to spa treatments. And later this year, we'll open Delta One Lounges in Boston and Los Angeles and in Seattle early next year. We're also enhancing existing Delta Sky Clubs with the recent expansion of the Miami and LaGuardia clubs.

On-board, we have upgraded service in our Delta Premium Select cabin and will expand this popular product to select transcontinental flights this fall. We recently released the most comprehensive refresh of the Fly Delta app in the last five years. Updates to the app added new features and functionality to save customers' time and manage their travel even when the unexpected happens. Since the launch, a record number of customers have visited the app, with self-service usage during periods of disruption up 5 full points, improving the customer experience.

And more and more customers are joining our SkyMiles loyalty program and deepening engagement beyond flight, with about 30% of our active members carrying a Delta SkyMiles American Express credit card in their wallet. New card acquisitions are skewing younger and the overall portfolio continues to shift to a more premium mix, positioning us well to achieve our long-term remuneration goal of $10 billion.

Finally, just this week, we were excited to announce an exclusive partnership with Riyadh Air, a new global carrier that will begin service in Saudi Arabia next year. Riyadh Air will be the premier international airline for Saudi Arabia and this partnership will expand connectivity and premium travel options for both airlines across North America, the Kingdom of Saudi Arabia, and beyond.

The agreement comes amid large scale investments in the region that are rapidly transforming the Kingdom of Saudi Arabia into a popular destination for leisure and business travel, with tremendous opportunity for growth.

All of our continued investments across the travel ribbon strengthen Delta's trusted brand and build on our long-term journey to elevate the travel experience and increase our financial durability.

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Delta's industry leadership has never been greater, and while demand for air travel remains strong with record TSA travel volumes up 7% from last year's levels, domestic industry seat growth has accelerated through the summer months, impacting yield performance in the main cabin.

As the carrier of choice with a diversified revenue base, Delta is the most insulated from this dynamic. We are delivering double-digit margins and strong returns in this environment, with Delta expected to generate 50% of the industry's profitability in the first half of the year, despite only representing 20% of the market capacity.

That said, we are encouraged by the actions the industry has taken. Seat growth is decelerating, and there appears to be increased focus on improving financial performance. While our returns are strong, I'm confident that we'll see an even more constructive industry backdrop through the back half of the year and into 2025.

Turning to our outlook, travel remains a top purchase priority and Delta's core customers are in a healthy position. The secular shift in consumer spend to prioritize experiences align perfectly with Delta's strategy and premium focus across our global network. Air travel demand is at record levels, with this past Sunday marking Delta's highest ever summer revenue day.

For the September quarter, we expect continued demand strength, a double-digit operating margin, and a pre-tax profit of approximately $1.5 billion. Glen and Dan will provide more details on our third quarter outlook.

With strong first half performance and good visibility into the second half, we remain confident in our full year guidance for earnings at $6 to $7 per share, free cash flow of $3 billion to $4 billion, and leverage of 2.5 times.

In closing, as we approach our 100th year anniversary in 2025, Delta is in a stronger position than ever before. Our industry-leading performance reflects the strength of Delta's differentiated brand and returns-focused strategy. And with our clear prioritization of free cash flow and debt reduction, Delta is exceptionally well-positioned to deliver significant shareholder value.

We look forward to sharing more about our long-term strategic and financial goals at our upcoming Investor Day in New York this November. 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 their hard work and dedication. They are the Delta difference.

Revenue for the June quarter increased 5.4% year over year to a record $15.4 billion. Total unit revenue was down 2.6% compared to last year, below our guidance due to three dynamics. First, domestic industry seat growth accelerated into the summer months beyond normal demand growth. This has impacted main cabin unit revenue trends through the summer. With scheduled seat growth decelerating into the fall, June and July will be the low point, with unit revenue trends expected to significantly improve in August and beyond.

Second, we are seeing about a $100 million impact on travel to Paris for the Olympics from June to August. Outside of this temporary event, summer travel demand to Europe is strong and consistent with our expectations.

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And lastly, as Ed noted, we ran a great operation with a high completion factor. Premium continued to outperform and differentiate our results. Premium revenue was up 10% over prior year, with positive unit revenue growth. We have runway ahead as we continue adding more premium seats to our aircraft, improving our retailing capabilities, and further segmenting our products.

Loyalty has also outperformed, with revenue up 8% as our SkyMiles member base continues to expand. Spend growth in our co-brand card portfolio is expected to continue outpacing the credit card industry. American Express remuneration for the quarter was $1.9 billion, up 9% year over year.

Cargo revenue was 16% higher than the previous year, a significant improvement from the last 12 months, and we are encouraged by the trends we're seeing. Diverse revenue streams generated 56% of total revenue. These valuable revenue streams led by premium and loyalty are continuing higher growth and margins, underpinning Delta's industry-leading financial performance and increasing our financial durability.

Domestic passenger revenue was up 5% over the prior year and international passenger revenue grew up 4% over last year's record June quarter. As the business carrier of choice, Delta benefited from double-digit volume growth in this high-value segment with broad demand and growth across all sectors.

Looking forward, demand for travel on Delta remains robust. Our core customer base is healthy, and demand for premium products continues to outperform the main cabin. We expect the strong growth in business travel to continue, with 90% of companies in our recent corporate survey saying they intend to maintain or increase travel volumes in the back half of the year.

International demand is strong and continues to benefit from demographic shifts, US point-of-sale changes, and an extension of the leisure travel season. As our international network and core hubs approach full restoration and we return to a more normal cadence of retiring aircraft, Delta's capacity growth decelerates into the second half of the year.

For the September quarter, we expect capacity growth of 5% to 6% and revenue growth of 2% to 4%. Total unit revenue is expected to sequentially improve each month. In domestic, we expect an inflection to positive unit revenue growth in the month of September. We also expect Transatlantic unit revenue trends to improve into the fall. And in Latin America, we expect unit revenue trends to progressively improve through the back half of the year.

Lastly, in the Pacific, we are continuing to restore our network and are very pleased with the early results from our new service to Taipei and the success of our partnership with Korean Air. Pacific margins are sustaining at a meaningfully higher level than pre-pandemic due to our multi-year restructuring, driving sustainable profitability.

For the full year, we expect to deliver a sustained unit revenue premium, double-digit margins, and returns well in excess of our cost of capital. Our ability to deliver these outstanding results, while the industry works to reestablish equilibrium, reflects Delta's growing differentiation and leadership.

In closing, I want to congratulate the Delta team for an outstanding first half of 2024. We are well positioned to continue our momentum through the second half and for years to come.

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

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Daniel C. Janki

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

Thank you, Glen, and good morning to everyone. For the June quarter, we delivered pre-tax income of $2 billion on a 15% operating margin. Earnings of $2.36 per share was in line with our guidance and in line with 2019 despite fuel prices that were more than 25% higher. Non-fuel CASM was up 0.6% year over year, more than 1 point better than guidance, primarily on stronger completion factor.

A great operation is the foundation of a competitive cost structure, and in the June quarter, we delivered a 99.5% system completion factor, including 13 cancel-free, brand-perfect days. For the first half, Delta has delivered 39 brand-perfect days, more than all of last year combined.

Fuel prices averaged $2.64 per gallon for the quarter. This included a $0.06 benefit from a refinery profit of $60 million. Fuel efficiency was 1.1% better than last year, benefiting from the continued renewal of our fleet and running a great operation.

Operating cash flow in the first half was $4.9 billion. And after reinvesting $2.3 billion back into the business, we generated free cash flow of $2.7 billion. Strong cash generation has supported debt repayment of $2.1 billion year-to-date, including $900 million of early repayments. Gross leverage ended the quarter at 2.8 times.

We remain on track to repay $4 billion of debt this year and are committed to further strengthening our balance sheet with a focus on returning to full investment grade.

Delta is currently investment-grade rated at Moody's and BB+ at both S&P and Fitch, with all agencies with a positive outlook. With strong results and cash flow through the first half, we announced a 50% increase in our quarterly dividend. This puts our annualized dividend yield at just over 1%, in line with the S&P 500.

Now, moving to the September quarter guidance, combined with our outlook for top line growth, we expect an operating margin of 11% to 13%, with earnings of $1.70 to $2 per share. Fuel prices are expected to be $2.60 to $2.80 per gallon, including an approximately $0.05 contribution from the refinery. Refinery margins have normalized and profits are expected to be $60 million lower compared to the third quarter of last year.

Non-fuel unit costs are expected to be 1% to 2% higher than last year on 5% to 6% capacity growth. With normalized growth and consistency in delivering a great operation, we are making progress in driving efficiency and growing into our resources.

On maintenance, the investment in fleet health we made since last summer are paying off, with maintenance cancelations in the first half down 77% over prior years. We continue to expect full year maintenance expense to be up $350 million over 2023 as we progress through elevated volume of heavy airframe and engine checks and continue to manage industry-wide supply constraints. The majority of this increase was in the first half of the year, with second half maintenance expense expected to be similar on a year-over-year basis.

Total non-fuel unit costs in the second half are expected to increase in the low-single digits as we fund investments in our people and brand and capacity growth decelerates.

For the year, our fleet growth is expected to be less than 2%, including approximately 40 aircraft deliveries and 20 retirements. Our unencumbered asset base is expected to grow to $30 billion by year-end as we continue to pay cash for our new deliveries.

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We remain confident in our full year outlook of earnings of $6 to $7 per share and free cash flow of $3 billion to $4 billion, with full year CapEx expected to be $5 billion.

With the continued focus on margin and returns to drive sustained cash flow generation, Delta is well-positioned to improve our balance sheet to investment-grade metrics and deliver shareholder value.

In closing, Delta's industry-leading performance is a direct result of the hard work of our employees. I want to thank the Delta people for continuing to go above and beyond for our customers and each other every day.

And with that, I'll turn it back to Ed for a final remark.

Edward Herman Bastian

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

Thank you, Dan. And before we begin to Q&A, I want to personally recognize and congratulate Helane Becker on a very accomplished career as an analyst covering this industry for four decades. Helane, I have a great amount of respect for you and for all the work that you've done through the years. And while I know you'll be continuing in an advisory role, we will miss working with you and wish you all the best. May the golf gods be good to you.

Operator, please begin the Q&A.

QUESTION AND ANSWER SECTION

Operator: Certainly. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Your first question is coming from Conor Cunningham from Melius Research. Your line is live.

Conor Cunningham

Analyst, Melius Research LLC

Q

Hi, everyone. Thank you. And yeah, congrats, Helane. Good luck on the golf game. In terms of the comment on September for the US domestic market, can you just help bridge the gap there? My guess is that you're pretty minimally booked for September, so is it just an industry supply getting better? Just given the discounting that's happening right now, it's just a little hard to wrap my head around, so just any thoughts there would be helpful. Thank you.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Sure, Conor. I wouldn't say we are minimally booked. We probably have about a third of September bookings domestically on hand, so we have a good base. And the base we have is substantially better than the base we had going into July and August at minus 60 days. So, we see a much better base. And then, of course, the core economics of the industry's capacity coming – continuing to come down and going back into a more normalized business season, where business tends to pick up from August to September.

So, I think when you think about one of our core strengths being business, July and August, that's not ever been peak for business, so as we move back into the business season, given the trends we've seen in business demand, we think that'll be another uplift. So, really confident about our September numbers and really confident that not only is domestically improving substantially but international is also improving dramatically.

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Conor Cunningham
Analyst, Melius Research LLC

Q

Helpful. And then maybe bigger picture, the issue that we've been grappling with is just like the overall structure of the industry over the next couple years. I get the idea that the current state of industry margins need to change outside of you and United, but can you just give us how confident are you that there will actually be structural changes going forward? Because the pushback we get is that this is kind of just the same old industry that just continues to oversupply the market from time to time, so just any thoughts on the bigger industry picture there? Thank you.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, I'll just – I'll comment on the capacity and then let Ed take the broader question. On capacity, I do think, listen, this is an industry that's always challenging itself for how much capacity can it be in the marketplace. And I've been doing this for 40 years and I've never seen the industry react so quickly to an oversupply. So, we've really only been in an oversupply situation for a couple of months here and the industry's already reacted and I think that's very different than it was years ago, where it would stay for prolonged periods of time. So, I'm really excited about how the industry is behaving at this point.

And for the broader question, I'll turn it back to Ed.

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

A

Yeah, Conor, to Glen's point, the law of economics or physics, whatever you want to say, is going to have to work. You cannot – if you're on the lower end of the industry's food chain continue to post losses, particularly given the health of the demand set we've all seen over these last couple of years. So, I don't know what form that will take, but I guarantee you and you're already starting to see, capacity is usually the first thing that you – lever you have available but there will be more levers available as well.

The health of the industry broadly is in pretty good shape. Now, I recognize what I just said, the lower half is struggling. But if you look at where we all need to go as an industry is that we need to continue to better differentiate and provide value to our customers. Value in this industry for many years was defined as having the lowest fare in the market. That's changed. That's changed dramatically.

The experience economy that we've seen, that's taken hold, that's driven the high demand set that we are seeing and continue to see and even with the third quarter revenue "disappointment", it's still going to be record set of revenues that we're going to see this quarter, I'm convinced, across the industry is rewarding those that are providing real value, meaning a better quality experience, better value for money in terms of the product we're offering, and reliability.

Couple that with the higher cost of entry, higher than we've ever seen, whether it's labor, whether it's the constraints in the environment, the infrastructure, OEM, engine supply, this is turning into an industry that is going to be needing to return its cost of capital or it will not be – those that don't will not be given the opportunity to continue to run the business models they have.

So, I realize I'm talking my own book and I appreciate that there's a lot of other work that others need to lift. Listen, we're driving 50% of the overall industry profitability here at Delta. There's only so much more we can do on our own. And as things get better, Delta's only going to be a beneficiary.

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Conor Cunningham
Analyst, Melius Research LLC

Q

Great. Thank you.

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, everyone. Just, I think kind of the Boeing challenges are well understood, but the update from Airbus a few weeks ago was surprising. I wonder if you could talk about how you're managing through supply chain issues. And any early thoughts on how you're thinking things evolve in 2025 in terms of just managing the operation but also in terms of kind of planning for growth.

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

A

Savi, this is Ed. I'll take that. Airbus, like Boeing, continues to have certain delivery challenges, obviously nowhere close to the challenges that Boeing has experienced. And as one of Airbus' largest and best customers, Delta again is insulated somewhat from that.

We're going to take largely the delivery schedule that we anticipated for the year. Yes, some may slip, but you're talking about slip meaning in terms of weeks and months, not years of delay. And as long as we have, as we do have, pretty good notice of where the delays in delivery are coming, we'll be just fine. In 2025, I don't anticipate us having any problems with the aircraft that we're going to need for the capacity we'd would like to fly.

Savanthi Syth
Analyst, Raymond James & Associates, Inc.

Q

And I'm guessing then on an operational standpoint maybe not expecting any improvements either, just having just extra buffers will continue?

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

A

Well, we have a large fleet and our maintenance capabilities continue to improve. The challenge we face on the maintenance front tend to be more parts supply than anything else as well as the – all these new engine platforms that are out there from the GTF to the LEAP to the Trent stabilizing, but they continue to get better. And I think the opportunities for us, as things stabilize and as parts become more available and as new aircraft continue to deliver, will be for us to resume the retirement of our older fleet, which we indicated in the release we're already starting to do and which will create even more part availability back to our maintenance team.

Savanthi Syth
Analyst, Raymond James & Associates, Inc.

Q

That's helpful. Thanks, Ed. And if I might, Glen, ask about on the LATAM side, you mentioned kind of encouraged by what you're seeing there. I was kind of curious on the unit revenue pressure, is that still coming from short haul with like in long haul still largely flattish even despite the growth, or how – and where are you expecting the improvement as you go through.

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Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Actually, long haul south has inflected to positive and it's remaining solidly positive throughout the third quarter here, so we're pretty excited about those results. And, yes, still not lapping the reduction in capacity in the leisure short haul portfolio, but that is in play and it looks that the industry is going to be much more disciplined in terms of capacity levels this winter versus last winter. So, we're looking at really positive momentum of that moving forward and that continuing.

Savanthi Syth
Analyst, Raymond James & Associates, Inc.

Q

I appreciate it. 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

Oh, good morning, everybody. So, Glen, this concept of unbundling the front cabin is one that I've been thinking about in part because unbundling and segmenting the rear cabin has been such a success for Delta and a few others. I want to be careful about asking about future pricing and all that, but I'm curious what the pros and cons are in terms of possibly going down this path, or is one price for all how we should continue to think about the [ph] D1 (00:29:32) cabin?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think you're going to have to come to Investor Day to hear more about that. We've talked conceptually about that. I think we'll be giving you more details as we get but we're not ready to talk about the details of those plans moving forward. I think Investor Day this year should be very exciting.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

I'm confident I will work it into my schedule. And then, maybe for Ed or for Glen, but at a high level, it seems that those airlines that are currently under duress are sort of beginning to lean into premium. And maybe premium is too strong of a term, but some of the more punitive ancillary charges, change fees are disappearing, there's an option of a empty middle seat, Southwest has said they're looking at some sort of enhancement to their product. I'm just curious if this is something you and the team think about. The conventional wisdom is that premium spoils belong to Delta, but what we're seeing today is that Delta is not entirely isolated from low-end overcapacity. I'm just thinking down the road if we could find Delta isn't as isolated from, let's call it, pseudo premium overcapacity. Any thoughts there? Thanks in advance.

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

A

Well, Jamie, that's a good question. It's certainly something that we all look at. Premium is more than just putting more seats – or excuse me, more room in seats, and it's the overall experience, right? And yes, I think all of those experiments that we hear about, some of the lower fare airlines or the discount airlines are considering, you can't blame them. I would, if I was them, consider some of those as well.

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But premium is also based on a foundation of overall reliability and service, first and foremost. And that's what we have focused on and specialized and done better over the last 15 years than any airline and we continue to get better. In fact, the operations we've run this year are the best in the industry across every measure, every month, month in and month out. That gives you then freedom to actually deliver true premium experience as compared to somewhat maybe more superficial experience.

And that to me is what we're best at. That's why business travelers choose Delta. That's why we have the opportunities internationally that we do. That's why American Express, the top credit card provider in the world, in my opinion, chooses Delta as their exclusive partner.

So, I think there's room for more, and I would – the industry needs to continue to find better ways in which to manage the higher cost that they're facing. Remember, the cost to serve has gone up for everybody, but especially for the discounters, and the only way you can cover that is providing a better experience.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

That's great, Ed. Thank you very much for that response. Take care. See you at Investor Day.

Operator: Thank you. Next question is coming from Tom Fitzgerald from TD. Your line is live.

Thomas Fitzgerald
Analyst, TD Securities (USA) LLC

Q

Hi, everyone. Thanks very much for the time. So, sticking with the premium cabin for a little bit, would you mind just unpacking just some of the trends in the first half and outlook in the second half, just among the different buckets, like [ph] D1 (00:33:08), Premium Select, domestic first class and Comfort+, payload factors, booking, anything else notable you'd call out? Thanks.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

That's a lot. I think what we're very excited about this year is this is the first year that we have ubiquity in Delta Premium Select. And that program has exceeded our internal expectations with load factors in the mid to high 80s and fare structures that are more than 2x what coach fares are. So, really great margins there, great margins continuing in [ph] D1 (00:33:44), domestic first leading the pack in domestic industry.

We're really excited to start rolling out DPS in the transcons this fall with all of our JFK-LA – for those of you who follow this industry, the largest revenue market in the country is JFK-LA and having a full suite of products in that marketplace we think will be very accretive. And we're out selling it now and September, October advances already look very strong there. So, I think continuing that elevation, the margins continue to be really in sequence with the best products continuing to have the highest margins and the main cabin coach having the lowest margins.

Thomas Fitzgerald
Analyst, TD Securities (USA) LLC

Q

That's really helpful. Thanks for that color, Glen. And then just quickly, if I may, one for Dan. How should we think of – and this is a topic for the whole industry I think, but just how are you and the team thinking about the PSP loans resetting to a variable rate, I think it's SOFR plus 2% in 2025 and 2026 and just in the context of the broader deleveraging story? Thanks again for the time.

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

A

Yes. As you know, we continue to focus on deleveraging. We've made a lot of progress since October of 2020. $24 billion of debt. So, deleveraging will continue to be at the forefront.

When you think about those particular tranches, our first one doesn't come due, it's April of second quarter of next year and then we have another tranche in first quarter and second quarter of 2026. We'll look at market conditions at that point in time, where we are on short-term rates versus long-term rates and whether that would be a long-term part of the capital structure, it makes more sense to put in other types of debt and refi that out and those will be things that we'll probably talk more about in detail as we get closer, especially at Investor Day, but as we get to the end of the year and the beginning of next year.

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

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Oh, hey. Good morning, everyone. I guess this is a question to Dan and even the team. It's always very helpful when you guys call out where your air traffic liability is and how much it's up at least since year end. I sort of think we're at a point in the year, where, over the next few weeks, that's going to shift the other way and I think it's going to be a bit more pronounced for some of those who maybe have a more seasonal Northern Hemisphere type route network.

When I think about, maybe Glen, you talk about the extension of like Transatlantic and also the strength that you're seeing to deep South America and how that's going to improve in the back part of the year combined with corporate, how should we think about your swings in your air traffic liability? I mean, in the past, it used to be a much bigger hit to cash. And I still think for some carriers, it's going to be a bit of a wake-up call as we get into the back half of the year, but I think for you guys, like, how should we think about it and maybe some of the measures that you've done to sort of mitigate that? Thanks. And I have a follow-up.

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

A

Through the first half, it is up. You can see it is up $2.4 billion. It's up a few hundred million dollars over last year and where it sits, it supports our revenue forecast for third quarter. As you get into the back half of the year, certainly the elongation of the tattled season helps as it relates to balance that as you go through third quarter and into fourth quarter. And also the fact that corporate continues to outgrow consumer, that is also bringing it back into what I'd say is more normalized curve as it relates to historical perspective.

When you look at it year over year, you still got the oddity of last year, you had multiple years of travel credit. So, this is the first year that it's much cleaner as we go through and create a better base as you think about it for 2024 and 2025 and start to evaluate it.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Great. And then just my second question, I think Ed or Glen, you talked about capacity cuts being one of the first levers that we'll see from other carriers. As we think about where they cut back and maybe certain airports in particular, is there an opportunity maybe for you to pick up additional gate space in some of your bigger airports? I

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sort of think of some of the cutbacks coming back potentially in Atlanta, Orlando, opportunities where things are tight, you'll get additional real estate. Any thoughts on that? Thanks.

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

Thanks, Mike. Listen, all I can say on that is we're always interested in serving under-served communities.

Michael Linenberg
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. Very good.

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, we've talked a lot about just the overall industry capacity outlook, but I want to try and get a little bit of Delta color, right? So, your capacity was up 8% in the second quarter, you're saying 5% to 6% in the third quarter. I guess, any color you can share on your capacity plans entering 2025, just to help get the industry supply demand more in balance. Do you anticipate getting to a GDP or sub-GDP type capacity growth, or do you think you – as you plan for Delta specifically, do you think you stay above GDP?

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

I think we're not going to give capacity growth for 2025 at this point. We've got a lot of runway left in this year. I would point out one thing that I think is really important that we ought to just note is that the difference between seats and ASMs. And many of you work your models on ASMs. Others work on seats, and I would think when you're looking within an entity, it's really the seat count that is most important because we don't sell ASMs, we sell seats. And when you think about our capacity growth, although it was 8%, we only grew our seats at about 5% or less. So, there's a stage length difference and our stage length is actually a little bit longer than we had in the plan because we saw some opportunities on some of the longer haul flying as people restructured through the year.

So, I call it back to let's not talk about ASMs. Let's talk about seats within theater. So, I think that's a much better representation of what the industry is facing and one we ought to all key in on as we move toward in trying to figure out where the industry is going. So, too early for 2025 in terms of capacity. That will be clearly over the back half of the year, we'll reveal more about that. But secondly, try to think about seats as our measure domestically is what we're trying to sell.

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

And the thing I'd add onto that, Glen, is that 80% of that domestic capacity growth is going into our core hubs and to Glen's point, important point on seats, as we get into the back half of this year and fourth quarter is the first time we'll have our core hubs restored to levels that they were from a seat perspective versus 2019.

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

Right. Still versus 2019, we are the least restored in terms of seats.

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

A

Yes.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Okay. And then, Dan, I just want to – when I think about the guide, right, if I just take the midpoint of the Q3 guide and then the midpoint of the full year guide, it basically implies fourth quarter earnings, just absolute earnings, pretty similar with the third quarter, and that's pretty atypical, right? It's usually – we usually see a step down. Any color on how to think about that dynamic this year might be different?

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

A

Yeah, well, fourth quarter on last year was the only quarter we were down year over year. You also had very high fuel in the fourth quarter last year of $3. The current – we'll have to see where that plays out, but the current forward of that is much lower, so you get that benefit. And I think it's also with regards to the components that Glen's talked about is the inflection in unit revenue as you exit September moving positive and the elongated travel season and that strong international demand.

Scott H. Group
Analyst, Wolfe Research LLC

Q

Thank you, guys. Appreciate the time.

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, and thank you, guys. Maybe just taking the last two questions and putting it together, your Q4 guide is a bit wide, and how do you think about the industry capacity issues? Does it get better? Does it get more rational? Or does it get worse in 2025 if Boeing gets the delivery cadence back?

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

A

Hey, Sheila. Hi. This is Ed. I just want to be clear. We haven't given explicit Q4 guide. So, I appreciate your models driving us there. We still have our full year guide with a pretty wide range, as you noted in there.

You may recall last year at this time when things were really starting to look promising, we upped our full year guide and we got punished a few months later as the fuel gods worked against us. So, we're confident we'll end up in a good point within the full year range but I don't really want to get into trying to figure out what Q4 is.

Sheila Kahyaoglu
Analyst, Jefferies LLC

Q

Can you maybe comment on how you think about Boeing's delivery cadence improving next year and how that impacts the industry?

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

Well, as I mentioned, we're confident in our Airbus delivery stream. We have no Boeing aircraft coming over the next handful of years, I anticipate. I think it will take some time before Boeing gets their cadence back. I know they're slowly starting to improve, and we'll see.

Sheila Kahyaoglu
Analyst, Jefferies LLC
Q

Okay. Thank you.

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

Duane Pfennigwerth
Analyst, Evercore ISI
Q

Hey, thanks. Good morning. Just to follow up on corporate travel into September and beyond, can you remind us what the headwind was in the fourth quarter of last year from strikes in the auto and entertainment industries?

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

So, if you recall, yes, we were heading into the writers' strike right about this time last year and we were in the auto in the – really in October timeframe at its peak. So, that was a – I believe we think that's about $100 million in terms of a headwind for us or a tailwind this year as we come into the fourth quarter.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

Thanks. And, Glen, maybe just to stick with you, can you talk a little bit about your outlook for Transatlantic in 3Q overall, maybe overall and ex-Paris, any bookings commentary you could point to post the Olympics? Appreciate you taking the questions.

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

Yeah, well, ex-Paris, we were positive. And so, for those of you who follow by bet with Ed, I lost my bet because Paris was a little bit bigger than we thought, so actually...

[indiscernible] (00:44:59)

Duane Pfennigwerth
Analyst, Evercore ISI
Q

I didn't want to remind you of it, but – on the call, but glad you brought it up.

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

Thank you. That was...

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

A

We all have.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

That was an expensive miss from me, so good for the employee care fund, though. And so, as we look at past the Olympics, we see a very robust fall demand for Transatlantic and we're too early to say that it's inflected to positive yet because we have – but it could very well inflect to positive. I would be disappointed if it didn't. But that's a personal opinion, not a guide, an official guide.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Thank you.

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, everyone, and thanks for taking my question. Ed or Glen, if I can come back to Scott's first question, thinking about things you can control especially as margins aren't at your target yet, Ed, I know you talked a lot about industry capacity coming down into the fourth quarter, but maybe beyond your own capacity and the seats discussion, what are other levers you guys are pulling behind the scenes here to help drive improvement?

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

A

Well, I think there's quite a bit. Clearly, as the demand set that we see in our specific customer base continues to look healthy, we're going to continue investing there. We've got a pretty robust set of new offerings coming in in the premium space, and Wi-Fi is going to be free and fast and fully available, and largely fully available in the Transatlantic by the end of this summer, which is a big deal for us.

On the cost side, we had really good cost performance in the first half of the year. I anticipate that we're going to continue to hold that. I realize the third quarter guide is a touch larger than what we saw in Q2 but we're going to work hard to get that back down. I think we've all talked about the opportunities this year on the cost front to continue to grow into our larger head count. We're not there yet. We still have more growth opportunities to get there.

So, I think across the board, Brandon, we have opportunities and we are certainly not sitting back waiting for the industry to fix itself. If that was the case, we wouldn't be delivering the outstanding level of profitability that we are and – but we hope that that's going to be another tailwind for Delta.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

I appreciate that response. And maybe, Dan, as a follow-up, can you talk about head count trends into next year and if you're seeing efficiencies as you restore your core hubs?

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

A

Yes, we are. And just this year alone, we will have head count that will grow – our resources will grow just under 2% while we're growing the network in mid-single digits and I think – and that's been the case even versus the trailing 12 months, we're up only 3% on our resources versus the growth that we've demonstrated and I think that – and delivered. So, I think that is kind of the leading edge of us, the step here, first few steps here of us growing back into those resources and those capabilities. And it's just not people, right? It's the aircraft and the utilization of the aircraft. It's growing into the airports and the investment that we made. Glen always reminds me the most expensive day is the first day that you open it, so it's across the board.

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

A

And one other thing, Brandon. This is Ed again. Don't lose sight of the free cash we're throwing off. This year, we'll throw off between $3 billion and $4 billion. I'm confident in that guide, which we gave at the start of the year. I expect at least as good next year again, compounded effect of all that cash and we'll continue to delever the balance sheet is once again going to differentiate Delta within this industry.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Thank you, both.

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

A

Thank you.

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

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Morning, everyone. I just want to follow up – a couple of follow-ups here. One is on the international commentary. You guys said a couple of times international is looking pretty strong through the fall. Is that just spillover, like from the air pocket for the Olympics kind of spreading to other periods? Are you seeing an acceleration there in any particular geographies? If you can just unpack that, that would be great.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think generally we see the season extending as a whole group of people, whether or not it's retirees, whether or not it's people with double incomes and without children who don't have the school concerns, it's actually a better time to go to Europe in September and October than it is potentially in July and August when the weather is so hot and everything is so packed. So, we are really seeing an extension into September and October and really into through November that European demand across the board is remaining strong. So, that's very exciting for us.

The same thing is happening in the leisure markets in the Pacific. Interestingly enough, Japan has turned into a US point-of-sale leisure market with the yen hitting at ¥160, so we have really record numbers of US tourists

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heading to Japan, which is such a great destination. And that, again, that has a very strong fall season. So, really looking at US origin, high-end leisure extending the season through October and into November.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC
Q

Understood. That's great color. And maybe a follow-up on the previous discussion on the premiumization of the industry, kind of as the lower cost carriers push towards premium, I just wanted to kind of clarify your comments. Are you saying that there's more opportunity for you guys to kind of push up kind of as the bottom comes up and but kind of do you have a sense of how high it can go? Or I mean [ph] there was also (00:50:55) some concern as others premiumize, there's going to be more competition for a fixed set of premium demands. How do you see that playing out?

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

I think it's both. We have and we continue to have opportunities to grow premium. Premium's growing double-digit for us and we don't see that slowing down. So, Delta, on its own right, continues to grow there. And what will happen is as others, if they do choose to continue to upgrade their products, it's going to force them to also upgrade their price points, which will help our main cabin revenues as well.

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

That was the point I think we should continue to reinforce is when you take away revenue streams, you have to replace them with other revenue streams, and so as the ULCCs look to make their product more value, they have to increase their base fares just to remain constant in terms of revenue. And I think that is a – maybe a missed point here is that's actually good for the industry.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC
Q

Very helpful. Thank you.

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

We'll now go to our final analyst Q&A.

Operator: Certainly. 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. Thanks for squeezing me in here. Maybe, Dan, helpful commentary on the 2% fleet growth this year, and I know you aren't prepared to give the 2025 capacity growth now, but can you maybe help us think about the 2025 fleet or seat growth based on kind of where you see deliveries and expected retirements over the next 18 months?

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

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Yeah, I think you – as we're taking about 40 deliveries this year, as I mentioned, give or take one or two and how it falls out, on average when you look forward into next year, it's around 50. We're right in that 40 to 50 range associated with that and you're going to continue to see a steady drumbeat of retirements probably in the mid-20s as we go through 2025. We'll finalize that as we get through our final plan and tweak that in regards to what it is but it's older fleets, right, the [ph] 75s (00:52:59), starting to see some of the [ph] 76s (00:53:02) and the 320s.

And as we've all talked about, those – as we've been trying to grow, we haven't been able to retire it, what we're used to. This is the first time we're actually meaningfully retiring aircraft over the last two to three years and that then benefits us, right, because that then is a material stream back into our TechOps operation, maintenance operations that can use that material and take improved efficiency which they've been so good at through the years when you look at the last decade.

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

Got it. That's actually very helpful. And just as my follow-up, Ed, I know you mentioned on the last call that you felt like you still have more debt than you're comfortable with. Is there any framework you can outline in terms of just give us a sense of how you think about the proper level of debt that gets you to a much more comfortable place? Thank you.

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

Andrew, I think that's a perfect question for November. We'll answer that at that time.

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

Great. Thank you.

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

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

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

Thank you, Julie. Matthew, if you don't mind, as we transition from the analysts to the members of the media, if you could please repeat just the instructions for getting into the call queue, please?

Operator: Certainly. At this time, we'll be conducting a Q&A session for media questions. [Operator Instructions] Thank you. Your first question is coming from Leslie Joseph (sic) [Leslie Josephs] (00:54:46) from CNBC. Your line is live.

Leslie Josephs
Reporter, CNBC LLC
Q

Hi. Good morning, everybody. Just a couple of questions. For Premium Economy, are you seeing most travelers buy that at the onset of – or the outset of their booking, or are they doing buy-ups after? And is that still the most profitable part of the cabin? And then on Wi-Fi, when do you expect the entire main line fleet to have the fast and free Wi-Fi for SkyMiles members? Thanks.

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

Do you want to take that, [ph] Ed (00:55:14)?

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

You take the first one, [ph] I'll take second (00:55:13).

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

So, the question was on Delta Premium Select?

Leslie Josephs
Reporter, CNBC LLC
Q

Yes.

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

Premium Economy, we're just Premium Select?

Leslie Josephs
Reporter, CNBC LLC
Q

Yeah.

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

So, that is mostly being bought like all of our products at initial purchase. And as you know, we design that to be flexible so people could do it post-purchase and they could do it with multiple forms of payment including miles as they upgrade for people whose companies might not allow them to buy those that they could use their miles to upgrade into those. But still over 80% come at initial booking.

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

And on the...

Leslie Josephs
Reporter, CNBC LLC
Q

And is it still the most profitable cabin?

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

Delta Premium Select, I think, in terms of profitability, it is the third most profitable, right? Our Delta One is the most profitable. It really goes down domestic first and then Delta Premium Select. So, really in terms of the hierarchy, the more premium the product, the higher the margin.

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Leslie Josephs
Reporter, CNBC LLC

Q

Okay. Delta One, first class domestic, and then Delta Premium Select, on all routes.

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

A

And, Leslie, on the Wi-Fi question, we are continuing to roll it out, making good progress. The focus right at the moment is getting our international fleet equipped. We'll have largely the Transatlantic pretty well fully up and running by the end of the summer, over the next couple of months. And our remaining focus after that is getting the regionals as well as our any remaining domestic aircraft, which is principally the 717 fleet up and running over the next 12 to 18 months. So, we're getting there. Certainly on a passenger count level, we're well over 50% at the present time.

Leslie Josephs
Reporter, CNBC LLC

Q

Perfect. Thank you.

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

Mary Schlangenstein
Reporter, Bloomberg News

Q

Hi. Thank you. I wanted to see if you could just give us a little more detail on the Japan situation that you mentioned. Is that just primarily leisure, or what is your business travel looking like between the US and Japan as well?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

US and Japan business is quite strong. It has been since the end of the pandemic. And what we've seen is really a new Japan as a destination market. I think when the yen was ¥83, it was very difficult to be able to afford to go see Japan and all the great things that Japan has to offer. With the yen at ¥160, it's a very different world for US travelers and they seem to be taking great advantage of that.

Mary Schlangenstein
Reporter, Bloomberg News

Q

And what about on the business side?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Business continues to remain strong.

Mary Schlangenstein
Reporter, Bloomberg News

Q

Okay. And the other question I had was you all haven't talked for some time about the refinery and whether you're still in any sort of discussions to develop a partnership or sell the refinery. Can you give us an update on that?

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

A

We're not, the refinery has been running very well. The team's doing a great job. It's a key part of Delta.

Mary Schlangenstein
Reporter, Bloomberg News

Q

Great. Thank you.

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

A

Thank you, Mary.

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

With that, Matthew, we're right at the hour. We'll conclude the call.

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

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