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# Delta Air Lines, Inc. (DAL)

## Q3 2024 Earnings Call


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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, everyone, and welcome to the Delta Air Lines September 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 we conduct a question-and-answer session, following the presentation. As a reminder, today's call 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 & Corporate Development, Delta Air Lines, Inc.*

Thank you, Matthew, and good morning, everyone. Thanks for joining us for our September 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, 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. After the analyst Q&A, we will move to 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. Please note that page 2 of the earnings release today outlines the impact of the CrowdStrike-caused outage on our Q3 profitability and unit metrics consistent with our initial disclosure on August 8.

Now I'll turn the call over to Ed.

## Edward Herman Bastian

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

Thank you, Julie. Good morning, everyone. We appreciate you joining us today.

Before we begin, I want to provide a quick update on Hurricane Milton. The safety of our people, customers, and communities is always paramount, and to that end, we've issued a fee waiver and implemented fare caps to those who need to change their travel plans or fly out of the storm's path. We've also added additional flights and upgauged aircraft into Florida this week to accommodate those evacuating the state. Between yesterday and today, we have canceled approximately 600 flights in total, but we'll have a better sense of the impact as we learn of how our airports fared overnight. Our hearts are with all those in the Southeast, who have been affected during this storm season.


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Now turning to our earnings report. Earlier this morning, we reported our September quarter results consistent with our latest guidance. On an earnings per share basis, our results would have been at the high end of initial guidance excluding the $0.45 impact from the CrowdStrike-caused outage. Delta continues to lead the industry operationally and financially, while delivering on our 2024 plan. Year-to-date, our on-time performance is best in the industry, and our completion factor leads the network carriers even when including the impact of the outage.

Financially, we have delivered double-digit operating margins with nearly $3 billion of free cash flow year-to-date. And following the Fitch upgrade in July, our balance sheet now has two investment-grade ratings, and our dividend yield is in line with the S&P 500. Delta's year-to-date profitability is expected to represent 50% of the industry's total profits for the double-digit return on invested capital that is more than twice the industry average, reflecting the durability of our business model.

I'm incredibly proud of the Delta people for delivering these results. I want to thank them for their outstanding work during this busy summer period and their dedication to providing best-in-class service for our customers. Sharing our financial success with our people is a long-standing pillar of our culture. With this quarter's financial performance, we've accrued nearly $1 billion year-to-date towards next February's profit sharing. We expect this will be among our top profit sharing payments in Delta's history and more than the rest of the industry combined.

The combination of our industry-leading reliability and best-in-class service from our people has firmly established Delta as the premium airline of choice, empowers our brand momentum. The new Delta One Lounge in JFK has been an incredible success with very high customer satisfaction. Building on this momentum, this morning we opened our new Delta One Lounge at LAX, and we will be opening our third Delta One Lounge in Boston this December, and the fourth in Seattle early next year.

By year end, Delta will have over 700,000 square feet across 55 Sky Clubs and 3 Delta One Lounges, a one-of-a-kind position across many of the largest airports in the country. Onboard, we are enhancing the customer experience with a rollout of our popular Delta Sync product to more than 330 aircraft, offering SkyMiles members, a personalized experience that provides a smart TV on the seatback screen. More than 90% of our domestic mainline network now offers fast, free Wi-Fi, and this summer, we began introducing fast, free – excuse me, fast, free in-flight Wi-Fi on long-haul international flights.

Across the network, Delta's advantages continue to build. Core hubs are nearing full restoration as we close out the year, and we are harvesting the investments we've made in coastal gateways to improve margins and support profitable international growth. Around the world, we're continuing to develop our JV partnerships and leveraging our strengths. Our recently announced summer 2025 Transatlantic schedule will build on our strong performance in our largest and most profitable international region.

As brand preference continues to grow, we are driving deeper levels of engagement and our SkyMiles membership is attracting a younger consumer. We have seen a significant evolution in our active member base post-COVID with 3 million more active members under 40 years of age, more than doubling member engagement with non-air partnerships, allowing us to earn a higher share of wallet. Deeper engagement with Delta drives higher customer satisfaction, reinforces loyalty, and creates greater lifetime customer value.

Turning to our outlook, consumers are continuing to prioritize premium experiences, and our core customer base is in a healthy financial position, with travel remaining a top spend category. Corporate travel continues to improve, and Delta is well positioned as the business carrier of choice. And importantly, domestic supply growth continues to rationalize. Across much of the industry, there has been an accelerated pace of change, and we are encouraged by the actions the industry is taking to improve profitability and returns.


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In the December quarter, the improved revenue trends we saw in the month of September are continuing, and we expect to grow earnings 30% over last year with pre-tax income of $1.4 billion, which would mark one of the best if not the best fourth quarters in our history. With this, our full year outlook for earnings is expected to be around the midpoint of our initial $6 to $7 EPS guidance from the start of the year, excluding the $0.45 impact from the CrowdStrike-caused outage.

As we approach the end of our three-year plan that we laid out in late 2021, we have delivered consistent financial performance, restoring our financial foundation while navigating ever-changing macro and industry environments from a position of strength. Our performance is a testament to the durability we are creating at Delta, built on years of investing in our people and our product while continuing to restore our balance sheet strength.

Delta has built unmatched competitive advantages and structurally improved our business for the long term. Next month, at our Investor Day, we will introduce an updated long-term financial framework that builds on our durability and reflects the opportunities that we see ahead to create sustainable long-term value for our owners. As we approach our 100-year anniversary next year, I've never been more excited about Delta's position and the opportunity that lies ahead.

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 all of our employees for their hard work during this busy summer travel season. They are the Delta difference.

Delta delivered September quarter revenue consistent with our latest guidance, despite the impact from Hurricane Helene. During the quarter, unit revenue improved sequentially in all geographic entities, reflecting the strength in travel demand and an improving industry backdrop. In the month of September, unit revenue inflected to positive in both Domestic and Transatlantic.

Domestic industry seat growth moderated significantly from the peak in June, with the industry now growing seats in line with demand. Transatlantic benefited from ongoing strength in US point of sale and a rebound in Paris demand as soon as the Olympics ended. Corporate travel sales were up 7% during the quarter, led by double-digit growth in coastal hubs with broad-based strength across sectors.

Delta is the clear industry leader and offering premium experiences and more choices for our customers with significant investment across the travel experience over the last 15 years. Our new Delta One lounges in New York and LA with dedicated check-in and private TSA security truly differentiate Delta's premium offering in the two largest revenue markets in the United States. We also introduced Delta Premium Select on transcon flights between JFK and LA, and we'll expand this offering to all daily frequencies next month.

Similar to our international rollout, the initial customer reception to Delta Premium Select has far exceeded our expectations. Consistently delivering elevated experience that customers value is driving outperformance in premium products across geographies. During the quarter, premium revenue growth outperformed the main cabin by 9 points. At the same time, Delta is growing SkyMiles membership and deepening our customer engagement.


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The success of our strategy is best illustrated by our unit revenue premium relative to the industry, the growing loyalty of our brand and our increasingly diversified revenue base. Year-to-date, 57% of our revenue has been generated outside of selling main cabin seats, underpinning Delta's financial leadership and supporting durable performance that significantly outpaces the industry.

Loyalty revenue was up 6% versus last year, with growth in our SkyMiles membership and strength in our American Express co-brand portfolio. American Express remuneration for the quarter was $1.8 billion, up 6% year-over-year, delivering solid performance in a backdrop of moderating inflation. Cargo revenue was 27% higher than last year with double-digit growth across all international regions. I am encouraged by the results and the opportunity to better leverage our increasingly cargo-capable fleet.

Looking forward, demand for travel on Delta remains healthy with continued preference for our premium offerings. Our recent corporate survey indicates a positive outlook for business demand with 85% of respondents indicating they expect their travel spend to grow in 2025. For the December quarter, we expect total revenue to increase 2% to 4% over prior year on a 3% to 4% higher capacity level. The improved unit revenue trends we saw in the month of September are continuing into the December quarter with healthy bookings for the holidays.

As we've seen historically, domestic travel demand is impacted in the weeks surrounding the election, resulting in an expected 1-point impact to system unit revenue for the quarter. With favorable industry capacity dynamics and a strong demand set, we are well positioned as we close out the year and head into 2025. Our industry leadership and differentiation has never been greater, creating the foundation for us to unlock the value of our trusted customer brand and further diversify our revenue base.

In closing, I'm excited about our opportunities ahead, and I look forward to sharing more with you at our Investor Day next month. And with that, let me turn it over to Dan.

## Daniel C. Janki

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

Thank you, Glen, and good morning to everyone. Operationally, our teams delivered through a busy summer travel season. Year-to-date, Delta has achieved 60 days of zero cancellations, nearly twice all of last year. Today, we reported another quarter of strong financial performance with $1.3 billion of pre-tax income for the September quarter.

On non-fuel unit costs, performance was in line with our expectation. Unit costs grew 5.7%, including a 3.2-point impact from the CrowdStrike-caused outage and a 0.5-point impact from the decision to reward employees with travel passes for their hard work through the summer. Now, fuel prices declined 9% over prior year, averaging $2.53 per gallon for the quarter, including a $0.03 loss from the refinery. Fuel efficiency improved approximately 1% year-over-year.

During the quarter, we took delivery of nine next-gen Airbus aircraft and retired six aircraft. We continue to expect our fleet growth to be less than 2% this year with 20 net aircraft additions, as half of our new deliveries are replacements.

Operating cash flow year-to-date was $6.2 billion. After reinvesting $3.6 billion back into the business, we generated free cash flow of $2.7 billion. Strong cash generation has supported debt repayment of $2.4 billion year-to-date, including $900 million of early repayments. Gross leverage ended the quarter at 2.9 times.


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For the year, we expect to repay nearly $4 billion of debt, bringing our cumulative debt paydown to more than $12 billion over the last three years. As we retire secured debt and pay cash for our aircraft, our unencumbered asset base is expected to grow to $30 billion by year end. Our financial foundation continues to strengthen. We achieved a meaningful milestone during the quarter with our balance sheet receiving an upgrade to investment-grade from Fitch. Delta is now investment-grade rated at Moody's and Fitch, and one notch away at S&P with a positive outlook.

Now moving to guidance. For the December quarter, we expect to deliver 2 points of margin – operating margin expansion and earnings growth of 30% compared to the prior year. Fuel prices are expected to be $2.20 to $2.40 per gallon, more than 20% lower year-over-year, including a few cent impact from a modest loss at the refinery. Unit costs are expected to be up 3% from last year as capacity growth moderates to the 3% to 4%, keeping our full year outlook for non-fuel costs in line with our initial guidance of up low-single-digit.

With hiring and training normalizing, we are growing into our resources and gaining traction on efficiency and initiatives, helping fund continued investments in our people and brand. December quarter earnings are expected to be $1.60 to $1.85 per share on 11% to 13% operating margins. We are focused on finishing the year strong, delivering industry-leading performance with a return to earnings growth and margin expansion positioning us well as we head into 2025.

Delta's differentiation has never been greater. Our brand and financial performance are transcending the industry, and we're generating a return on invested capital that is 5 points ahead of our cost of capital and better than half of the S&P 500. Looking forward, we remain focused on delivering durable earnings in cash generation that enable us to further strengthen our balance sheet and create long-term value for our shareholders.

I look forward to sharing more details with you at our Investor Day next month. In closing, our performance is a 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.

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

## Julie Stewart

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

Thanks, Dan. Matthew, can you please go to the first analyst question?


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# QUESTION AND ANSWER SECTION

**Operator**: Certainly. [Operator Instructions] Your first question is coming from David Vernon from Bernstein. Your line is live.

**David Vernon**
*Analyst, Bernstein Institutional Services LLC*

Q

So Glen, first question for you on the election. Can you just help us get comfortable with how you're separating out that impact with what you're seeing internally and maybe talk to what gives you confidence that this isn't just a weakness in the consumer that's showing up in some of the forward revenue data? Thanks.

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

A

Absolutely. I think it's a – if you were looking at our internal numbers, it's really obvious to see the trend lines, where you have markets that are performing incredibly well with positive momentum in October. And then again as soon as the week after the election is complete and on into December and really all the way into January. So if you took a trend line, you'd see these two weeks just being way off trend. And I think, it's a – we said in the comments that it's domestic, but it's also short-haul Latin. It's pretty much across the board that those two weeks are underperforming the trends before and after those weeks.

**David Vernon**
*Analyst, Bernstein Institutional Services LLC*

Q

Okay. And then maybe I just – Ed, can you talk at a high level about how Delta is thinking about domestic capacity kind of going forward? Lower cost airlines cutting capacity. Does that make you think about share any differently here?

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

A

Well, David, that's a great prelude into next month's Investor Day, where we'll be giving you our perspective on that.

**David Vernon**
*Analyst, Bernstein Institutional Services LLC*

Q

We try to help.

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

A

We did, as you know, file our summer schedule last week, and Atlanta is one of the markets where we are finally at a position to be at, if not better than pre-COVID levels in capacity. So very excited about that.

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


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

Q

Oh, thanks. And good morning, everybody. Couple for Glen. So Glen, when I think about the phenomenon of tightening domestic capacity, my assumption has always been that the first routes that are called provide the greatest uplift to RASM. From there, RASM benefits still accrue over time but at – sort of a declining rate of improvement. Is that the right way to be thinking about it that the benefits are front end loaded? Or is the reality something different?

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

A

Well, Jamie, I'm trying to understand whose perspective you're looking at that from. Are you looking at it from the perspective of the people who are cutting the capacity or the people who are the beneficiary of those capacity cuts?

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

Q

The latter, the beneficiary. So Delta, in this case.

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

A

I would say, if you think about how – if just normal course of business, and this is just hypothetical that if you're cutting capacity, you're cutting your worst routes first. So the upside accrual from that to the remaining capacity is actually the least. And as you move through and go up to better and better capacity cuts that more and more accrues to the remaining capacity.

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

Q

Okay. All right. That's very helpful. And then second, on corporate demand, I'm curious what sort of recovery you're thinking about for 2025. But more importantly, does it influence how you think about the network? I mean, hypothetically, you know, I'm not arguing that this would happen, but if we saw a full restoration to where corporate trends would be, had COVID not occurred, would you need to rebalance the network much? Or would it simply be an exercise of potentially allocating less capacity to lower fare buckets? Thanks in advance.

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

A

Yeah. I would suggest it's the latter.

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

Q

Okay.

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

A

As we pointed out that premium products are really doing much better currently than coach. And as we move through the next couple of schedule changes and adjustments heading into the tail end of the year, we expect that momentum to pick up as the carriers that have primarily coach products begin rationalizing capacity. So I


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think we always have room for our business customers onboard our network. And clearly, if certain companies pick up business or start new factories, we're always talking to our clients to see where they might need additional capacity. But generally, I think we're in a very good spot.

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

Q

Got it. Thank you very much.

**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. Glen, I was wondering if you could give a little bit more color on how you're thinking about kind of the unit revenue projection in, in the fourth quarter by entity is, and the – just kind of the trends beyond the election?

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

A

Yeah. I got a – something is wrong with your phone there. But so you're asking about trends after the election by entity?

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

A

Or unit revenue?

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

Q

Kind of what your expectations are?

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

A

Right. I think we certainly said that Domestic and Transatlantic are leading the way, and I think that will continue as we head into the back half of the year. Actually, I'm most excited about this winter in the Transatlantic, where we have done some capacity adjustments and underperforming capacity last year, and we see really encouraging signs of where we have allocated that capacity along with robust demand in the off season. So really looking forward to the Transatlantic results.

Pacific, we had some more – some additional capacity, and as we head out of this year, I think, it's – Japan looks strong. The south Pacific looks strong. China is looking stronger as we lapse the big increase or lapsed the big increase in capacity last year. And we're seeing a little weakness in South Korea but nothing major. So we'll keep an eye on that. And then Latin is continuing its improvement as we move through the quarter, and hopefully, we can inflect that into positive as we move into January and beyond. So I think we're sitting in a pretty good spot with all entities as we head out of this year and into 2025 and very encouraged by the trends, when you look beyond the election.


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

Q

Very helpful. Thank you. And if I might, just on the follow up on the Hurricane Helene, you called out impact of $0.03. I know, it's really early days. I'm just kind of curious, if you have kind of an impact of Hurricane Milton in your guidance and how you're thinking about it?

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

A

It's too early to give you that Savi. We have to see what happens. If we're fortunate and it's moved out quickly, it'll be modest. But we really have to see.

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

Q

Understood. Thank you.

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

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

Q

Yeah. Hey. Two here, Glen. I recall, I want to say this was either the last conference call or maybe it was a conference, where I think you were asked about where organic demand was relative to the fact that we were seeing demand up 7%, 8% in the summer. And I think you had indicated that actually a lot of it was promotional – driven by promotions, and that organic demand was maybe closer to about 4% domestically. When I heard you talk about in the comments, in your script talked about domestic, where it seems like supply and demand are now in sync, and if I look at where domestic supply is right now, it is about 1.5%, 2%, are you sort of indicating that maybe domestic demand organically is around 2%? Are we running a little bit better than that? Can you give some additional color on that?

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

A

Yeah. I think, we haven't gotten there yet. So it's really impossible for me to say. But I think we are still in that kind of 4%-ish. So we'll see. If capacity is up 1.5% or 2% as we get through these next few months and we see continued positive momentum in yield, that will tell. And I think that's what we're encouraged about, and that's what we're excited about as we head to the end of this year, as we think this balance has not been this good in quite some time.

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

Q

Great. And then, just my second question. I think, on the distribution front, it does look like, I believe, correct me if I'm wrong, you may have recently sort of renewed your agreements with all of the GDSs, and I know that you've been moving more into sort of the – on the NDC side with respect to distribution. How should we think about your cost of distribution? Is that going to be maybe a potential tailwind as we head into 2025? Thanks for taking my question.


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

A

I think our strategy is really, one, we want to meet customers where they want to be. And if they want to use OTAs, if they want to use GDS, we want to have the best suite of products in each one of those. And over time, I think you've seen a decrease in distribution costs, and will that continue? I don't know. That's what consumers want to do. And I think our job is to make sure that we have best-in-class products on the shelves at all of our distributors.

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

Q

Great. Thank you.

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

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

Q

Hi, everyone. Thank you. Really outside of you guys and United, the industry continues to try to reinvent itself through product and network changes. When you think about the opportunity that presents to you, just how aggressive do you, like, pretend that – like, thinking – or thinking about being just given the turmoil and others? Like, you're already deepening your moat, like, in real time, and I'm just trying to understand how deep it is or how deep you can get it from here. Thanks.

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

A

First, I think we'll have much more to talk about that at Investor Day because that really goes to the strategy in the next three years. But I think our strategy is consistent to develop free cash flow, pay down our debt, and not to be a great moat in the long term. So maybe I'll turn it over to Dan to talk about that.

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

A

I think, as you – Conor, as you – we want to build off of our success that we had. And if you look at it even over the last decade, but even over the last 18 months, that durability of earnings to be double digit when the industry's been down and to deliver double-digit margins over that period of time, I think, continue to speak to the durability of the franchise and ability to create the profitability but generate the cash.

And Glen picked up on a word there which is consistency. You're just going to consistently see us do it, whether it's how we execute commercially, where we put our aircraft, the amount of aircraft that we're taking, the investment back in the business. We're just – that consistency of executing the strategy has always been core to Delta and will continue to be core.

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

Q

Okay. That's helpful. And then, we're starting to hear a little bit more or see the products that the other domestic leisure carriers are offering. And when you look at Delta Comfort+ and that offering and compare it to what the


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industry is announcing, you talked a little bit about Delta Sync, but what else is there to kind of – to widen that gap to the new products that are already out there – or that are being announced, I should say? Thank you.

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

I hope you're available in November to come to our Investor Day because I think we'll have a lot of exciting things for you to take a look at it.

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

Becoming a theme today.

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

All right. Okay.

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

Yeah. Hey, Conor, this is Ed. And Glen is right, we'll be spending a lot of time talking about that next month. But this is a platform we've been on for 15 years, right? So, I understand how others are now looking to adapt. It's really hard to change course and to try to catch what is a train that's moving at a pretty good speed. I should say a plane, really, moving at a pretty good speed here, whether it's the investment in the lounges that you're seeing and the Delta One experience, the free Wi-Fi. And I know everybody wants to do free Wi-Fi now. We've been on this for years. And so, we'll continue on the pace we're on. We're not going to change course. If anything, we're just going to continue to accelerate.

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

See you in a month. Thank you.

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

**Duane Pfennigwerth**
*Analyst, Evercore Group LLC*
Q

Hey. Thanks. Good morning. Just on seasonality, obviously, there's a lot of – or a bit of noise right now in the baseline with hurricane impacts and with holiday shifts here in October. But as we look at volume growth for the industry, it looks like trends are following much more 2019 baseline than they are really last year. And so, I wanted to ask you, do you see seasonality changing on the leisure side or on the corporate travel side? And was there anything about this time last year that was an anomaly?

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

Well, you mentioned one, it was the shift of the Jewish holidays into October versus September. Of course, the hurricanes. But I think if you take a broader longer-term vision, we have seen really August, in particular, but to a slightly lesser extent, July become less peaky, particularly in long-haul international, and that September and


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October are becoming prime travel months. And I think that's something that will continue, as schools continue to go back earlier in a lot of the country. And the weather in Europe in August is really hot, and that people who have choices when they can take their vacations are moving into, let's call it, more temperate months. Corporate, we haven't seen much change year-over-year, but I think it's continuing to shift travel to Europe, in particular, from July and August peak to a September and October peak.

**Duane Pfennigwerth**
*Analyst, Evercore Group LLC*

Q

That's helpful. And then just – thanks, Glen. Just for my follow-up, as you think about more modest fleet growth, less training investment, less maintenance investment, maybe there should be a question mark at the end of that one, going forward, what inning are we in for productivity recovery at Delta and what metric should we be watching on that front? Thank you.

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

A

We are – thanks, Duane. Yes, we're still in the early innings of where we and we're pleased with the progress if you look at how we ended last year and the last six months, and you look at this year up low-single digits. We expect to be up 2% (sic) [3%] for the year on non-fuel cost. You're starting to see that.

I think one of the proxies that we've always talked about is that we put the workforce in ahead of the operation and growth and that you'd see efficiency come off of that. So if I point you to something, look at third quarter workforce year-over-year. It's up 1.5%. And the network's up over 5%, right. So you're starting to grow into those resources and drive that efficiency across your work groups.

But as I've talked about, different parts of our operation are different journey. And we're just starting. As you know, this year we've made an incremental investment in maintenance that we talked about on the 350. That's having the impact that we wanted. Maintenance cancels are down 75% year-to-date – year-over-year. And so – but that part of the productivity will start as we get into next year and the year beyond and the year beyond, as we make progress against that. Same with our crews.

And so you're seeing it in operations that have already started. Airport operations, our customer care operations, making good progress on efficiency, and more will kick in as we go through next year. And we'll get the benefit of the full year of having our core hubs restored, which are a low cost. That will be the full impact next year, and we're going to continue to get utilization out of the fleet and better utilization out of the regional aircraft, will be by next summer 100% restored on those, and continue to get better wide body utilization as we get this extended flying season and counter-seasonal flying. So all those are – the things that you saw started today are things you're going to hear us talk about at Investor Day and you're going to hear through 2025 and 2026 just be components that we can build on.

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

A

And Duane, technology also plays a big role in that continued productivity opportunity. And as we now have our team fully up to speed and the development, the experience that where we want it to be, we'll be able to leverage those tools a little better going forward.

**Duane Pfennigwerth**
*Analyst, Evercore Group LLC*

Q


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Great. Appreciate the thoughts.

**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 I know, Glen, you don't typically talk much about like monthly trends, but just directionally, just so we understand, can you maybe give some color, like is October, in your view of December, right, if we eliminate the November and the elections? Are October and December positive on unit revenue?

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

A

Yeah. We're not going to give that level of detail, but I would say that October and December are significantly better than November.

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

Q

Okay. Fair enough. And then, Dan, can you just maybe talk about some of the puts and takes to be thinking about for CASM next year? I know we'll probably get more of a guide at Analyst Day, but directionally just puts and takes to be thinking about?

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

A

Yeah. I'd say, building off of – thanks, Scott. Building off the previous question, and we will share more at the Investor Day, but the context is again consistency, right. Things that you saw this year, we're going to continue to invest back into our workforce, continue to invest back into our brand, and you're going to see those consistently. But at the same time, you're going to have benefits of efficiency growing into that workforce. You've got the elements that I talked about with maintenance. We know we put the incremental investment in, we'll start to get those elements back, the crew, the other components associated with that. And then, as Ed mentioned, longer term technology. You start to get it next year, but that will come for years to come. The industry is built for it, and we're built for it.

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

Q

Okay. All right. Thank you, guys.

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

A

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


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Hey. Good morning, and thanks for taking my questions. So Ed or Glen, you guys did volunteer it, so maybe I'll try to pry a little bit of a preview of Investor Day out of here. But you did talk about Atlanta being up in the summer schedule next year. I think you even have a news article out saying, flights could be up high-single-digit levels. Can you maybe specifically speak to that aspect of the strategy as you look forward without maybe giving too much away?

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

A

Well, sure. We have really wanted, as we said earlier, in the coming out of COVID to solidify our positions in the coastal cities. And I think as you look at where we are today, clearly the leader in Boston, we asserted ourselves as the leader in New York, made an incremental improvements in Seattle and widened our lead in Los Angeles. So I put a check mark on those, at the – to the detriment of the core hubs, because we just didn't have enough assets to do it all at once.

So we're really focused and we'll talk much more about this next week. Next year is really about some incremental adds, of course, that are key to continuing our journey in the coastal gateways, but a vast majority of that going back into our core hubs as the regional jets come back to full utilization as we can push utilization up. And I think if you take a long-term view of Atlanta over the – not just last year or the year before, but where we've come, it's really about driving efficiency through our core hub, which represents about 30% to 35% of our total unit revenues that flow through here.

And really driving efficiency through that with larger gauge, with actually fewer frequencies still than we had in 2019, but seats that will be above that level. So another push through gauge through Atlanta as well as then taking those smaller airplanes and feed – building our feed network back in Detroit or Minneapolis. So we're really excited about where we're going to go next year. We're going to have much more details about that all next month, but we're pumped about where we're headed for 2025.

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

Q

Really appreciate that, Glen. And then Dan, maybe just as a quick follow up on that, I mean, does this have broader implications for your airport costs? Because those seem to be part of the inflationary pressures and the industry at whole. Going back to your core hubs, does that have a positive impact looking ahead?

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

A

Yeah. When you look at that airport line, you see it in the SEC filings, right. For the quarter and year-to-date, it's up over 20%, and one-third of that is these investments we made that we're making in these generational assets. And as Glen always reminds me, they're always the most expensive on day one, and you grow into them over time. So the opportunity in front of us is to grow in and get better utilization out of those assets that we've invested in over this period of time. And you see it throughout the network. It's all the places that Glen talked about in regards to the New York markets with both LaGuardia, JFK, LA, Salt Lake City, but also the investment we consistently make year in and year out through Atlanta and continue to make that the flagship of Delta. So that will give us continued leverage.

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

A


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The thing I would add, Brandon, is that the bulk of those investments are behind us. And as we see what's going on in the industry, we know there's other airports, not necessarily Delta core hubs that still have work to go. So this is something that we're going to be able to leverage over next few years, having made the investment and starting to drive better efficiency, and I think it will be a unique opportunity for us.

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

Q

Thank you.

**Operator**: Thank you. Your next question is coming from Tom Fitzgerald from TD Cowen. Your line is live.

**Thomas Fitzgerald**
*Analyst, TD Securities (USA) LLC*

Q

Thanks very much for the time. This past summer, United launched an advertising network, depending on the success of that, is that something you'd look to be a fast follower on?

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

A

This is Ed. We'll have to see what it is. There's a lot of advertising and promotion being talked about. There's not a lot of doing on that front. We're very comfortable with where we sit in that space with the free Wi-Fi and Delta Sync and the continued investment in personalization. We're not looking to push ads or try to monetize our customers as much as provide greater value to them. And I think that's the sustainable strategy over time.

**Thomas Fitzgerald**
*Analyst, TD Securities (USA) LLC*

Q

Thanks very much. And then just if I may, a quick modeling question, does your fuel guide include a refinery or assume a refinery benefit or a refinery headwind? Thanks again for the time everyone.

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

A

Yes, Tom. It has a few cent lost, so a headwind, as it relates to the guide.

**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

Great. Thanks. Good morning, everyone. You guys were pretty vocal on the 2Q call that the industry had to take out capacity in 3Q and 4Q. From where you sit right now looking at 1Q capacity, and how do you feel about that? Do you feel like it's in a good spot? Do you think there's more to come out? Or kind of how does that evolve?

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

A

I don't think we want to comment about any individual, but in aggregate, I think we're encouraged by where the industry is finishing this year and likely that the way things have been loading into the schedule availability tapes, that there's probably more to come out of the first quarter. But that's a hypothesis, not a fact.


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

Q

Understood. Maybe as a follow up for Dan, congrats on the investment-grade here. Obviously, kind of big change from the pandemic time. Where does that leave the balance sheet kind of going into 2025? And how do you think about continued debt pay down versus cash return?

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

A

Yeah. That's another one we'll spend time within the next month. So stay tuned on that. But again, back to consistency, we're going to continue to be focused on cash generation, consistent reinvestment back into the business, and with primary focus on debt and debt pay down, continue to strengthen the balance sheet, and effectively returning capital that way to investors through the accretion of the equity value of enterprise value.

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

Q

Understood. Lots to unpack next month. Looking forward to it.

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

A

Yeah.

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

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

Q

Hi. Good morning, Ed, Glen, Dan. Maybe two questions on premium. So if you look at premium cabin, its outperformed main cabin by 9 points over the past two quarters versus the previous trend of about 5 points. So first, I guess, can we talk about the spread? How long does that continue? Does main cabin catch up, or does premium have more to go?

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

A

I'll take a stab at it. And, Dan, feel free to add your comments. I think it's a little bit of both. I think we've got main cabin underperforming, and that was really what drove capacity rationalization, I think, by the industry. Because if all you have is main cabin, you need to fix supply so you can get your unit revenues moving in the right direction. So I think we've seen that occurring right now and through the end of the year as those incremental cuts, capacity cuts, come into play. So I would assume that main cabin as we exit this year is starting to improve on the margin, but we also think there's more to go on the premium products.

And I think, not to keep harping in on saying, come next month and join us for our Investor Day, but I think we'll be able to unveil why and how we think those can continue to improve over the medium and long term.

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

A

Yes. Agree with both.


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

Q

And maybe the second question on that same topic. How do we think about the margin implications that the benefit in the main cabin catch up, which is clearly underperforming? Does it have a lesser impact on margins as we head into 2025? Or do you see premium and main continuing to grow at the same rate?

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

A

Well, I think – yeah, I think that's a – hard to say that we parse that out at this point in time. But I think what we're seeing is a much more constructive backdrop in both, whether or not it's the continued increase in business travel, as well as better distribution of our products and services in the premium cabins, or whether or not it's the better supply/demand balance in coach. But I think all those are coming into play as we head towards the end of this year.

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

A

Yes.

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

Q

Thank you.

**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. Most of my questions have already been asked. But I know I've kind of asked this on some past calls, but as we prepare for Investor Day next month and we think about the long-term free cash flow generation potential at Delta, Dan, can you just give us a sense of kind of when you become a cash taxpayer? And I think when you were a cash taxpayer pre-pandemic, your cash tax rate was in the low to mid-teens. Does that still hold? Any color around that would be helpful. Thank you.

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

A

Certainly, I'm happy to talk about cash taxes. It's a pleasure to actually be in a position, where [ph] in a planner (00:46:43) horizon, we will be a cash taxpayer. We expect to start paying some cash taxes next year as we've burned through the deferred tax asset positions that we've had, and we'll step into that over the next three years. And as you think about the stabilized cash tax rate, it really depends also on where tax policy goes, legislation goes, but think of it as it will progress to the high-teens, maybe the low-20s, but we still have many years in front of us related to that.

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

Q

Got it. That's helpful. And then maybe just a second one for Glen, just from – Transatlantic commentary seems very positive, seems like competitive capacity there looks pretty constructive from what we can see in schedules.


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How would you rank the potential for Transatlantic revenue generation amongst all of your entities as we head into 2025? Thank you.

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

A

Yeah. I think Domestic is going to be quite strong given the capacity levels that we're exiting the year from, and I think Transatlantic will follow right behind. We have a lot of lapsing in Pacific in terms of capacity that we've added this year that I think will be better next year. So we had some uplift there. And then, there's been – again, we haven't talked about it much on this call, but there's been a significant amount of capacity rationalization in the leisure markets in Latin America, which I think should serve us well. So hopefully, we're looking at all of them turning into positives sometime next year, but I'd say, probably Domestic and Transatlantic being the strongest of the two.

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

Q

That's great. Thank you.

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

A

Of the four. I'm sorry.

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

A

Matthew, we'll now go to our final analyst question.

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

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

Q

Good morning, everyone, and thanks very much for taking my question. Just wanted to dig in a little more. You mentioned your technology investments. I think I recall seeing Delta TechOps is using drones to help with equipment inspections. And could you mention maybe sort of broadly thinking how you may deploy innovative solutions across your business. Thank you.

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

A

Sure, Stephen. Again, we'll talk a little bit about this next month. But we have, I think, great opportunities with the technology foundation that we've built. We are in the very early stages of understanding the potential of AI for our business, and there's no question that there are some really interesting applications to drive better predictive modeling and opportunities, whether that's on the revenue front or on the efficiency in the cost front. And the thing with AI is that you need to, especially as you scale it, you need to make sure that your foundation is clean and reliable. And that's what we've been working on doing. So big opportunities to come, and stay tuned.

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

Q

Super. Well, I'm looking forward to November. And thank you very much for the time.


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

That will wrap the analyst portion of the call. I'll now turn it over to the 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, while we transition from the analysts to members of the media, if we could repeat the instructions and – for the call queue, please?

**Operator**: Certainly. [Operator Instructions] Thank you. Your first question is coming from Leslie Josephs from CNBC. Your line is live.

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

Good morning, everyone. Thanks for taking my question. Just curious on the shoulder season you mentioned, Glen, I just wanted to clarify, you said that September and October are more like the previous July and August because of the weather changes? And then also wanted to ask about your premium product offerings. You've been investing a lot, obviously the LA and New York Delta One Lounges and just lounges in general. What do you thinking about for hard products, specifically Delta One? And what are the features that customers are asking for that maybe you're not offering now? Or what are some of the areas that you'd like to improve there in the cabin? Thanks.

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

Well, Leslie, what I think I said was October and December are the better months, and November is the one that's off trend because of the election. So I think that's what I said on the earlier call. Yeah. September, too. That October looked a lot like September.

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

Okay. I thought you mentioned something about the heat in Europe. I wasn't sure if that's like that permanent shift...

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

Oh, no. That was the Transatlantic demand profile is switching from July and August being super peak to more of not having as big a peak in July and August and moving that travel into September and October. So it's an interesting change.

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

Got it. It is hot. And then on the hard product, what is your thinking there especially for the front of the cabin?

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


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I think we have a whole Investor Day next month that we want to talk about it. So I don't think we don't want to unveil it here on this call, but hopefully, you have time to join us. And we'll talk a lot about where we want to take premium products in the next four to five years at that meeting.

**Leslie Josephs**
*Reporter, CNBC LLC*

Q

Okay. Thanks.

**Operator**: Thank you. Your next question is coming from Alison Sider from Wall Street Journal. Your line is live.

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

Q

Hey. Thanks so much. Curious, had an air traffic control airspace question. Curious what you're seeing in New York, if the shift to Philadelphia is kind of how that's working out for your other New York operations, if you're seeing the hope for benefits or if you've had any problems there?

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

A

Hey, Ali. It's Peter Carter. So we were with the FAA about a week ago talking about all of this, and what I would say is that the N90 shift seems to have gone well. But we still have the same constraints in the New York airspace that we've had for the last couple years. So as we all know, there's a shortage of air traffic controllers, and I think the FAA is obviously engaged in trying to solve that. But it's going to take some time.

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

Q

And is New York kind of still the major – that airspace kind of like the major bottleneck in the system? Like how much does that ripple out to the rest of the country?

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

A

It's New York. Florida we're seeing some constraints as well.

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

Q

Thank you.

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

A

Thanks, Ali. Matthew, we have time for one final question, please.

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

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

Q


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Thank you. Earlier when you were talking about the rebuilding the core hubs and you made a reference to getting all of your regional feedback up, can you give just sort of an overview of what's happened with your regional feed since the pandemic and how that – like maybe what level it dropped to and how it's rebuilt?

### Glen William Hauenstein

*President, Delta Air Lines, Inc.*

A

Certainly. As you know, pilot constraints, as the majors were hiring early in the recovery period, put a lot of strain on availability of pilot crews for the regional carriers, all of them. And we've been working very closely with them. And now that the industry growth are – patterns are back to more normalized requirements or next year, we think the industry will generate about 5,000 new pilot jobs, which is about what it did in 2019. So returning to more normalized pilot hiring across the industry. That the dearth of capacity in terms of pilots available for regionals is dissipating very quickly. And so in the beginning, we probably had only 35% to 40% of our capacity available. Most recently this past year it's been more like 65% to 70%, and by next summer, we think that will be back to 100% of the capacity that we had available in 2019.

### Mary Schlangenstein

*Reporter, Bloomberg News*

Q

Thank you.

### Tim Mapes

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

A

Thank you, Mary. Matthew, that will wrap us up on the media questions, please.

**Operator**: Certainly.

### Julie Stewart

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

Thank you for joining the call today, and we'll look forward to talking to you again in January and seeing many of you next month at our Investor Day. Thank you very much.

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


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